

1 Auctions – the place to pick up a bargain

‘The main advantage to me of buying at auction has got to be the price. Compared with the prices going through high street estate agents I paid 33% less.’

Don Lee, buyer of a residential property at auction.

The UK is awash with bargains

In two recent auction sales the following properties sold for prices that would not be found in any estate agent’s window:

- A tenanted shop in Manchester sold at a yield of 55 per cent.
- A one bedroom flat in Penge sold for £55,000.
- A vacant shop in Anglia Square, Norwich sold for £18,000.

These results demonstrate that there are plenty of bargain properties out there, if you only know where to look and how to go through the auction process.

What you will learn from this guide

In the following pages you will be shown:

- how auctions work;
- where to find auctions;
- how to spot a bargain;
- the price you should bid up to;
- the costs of buying at auction;
- how to handle the legal aspects of the purchase;
- how auctioneers operate;
- the best bidding tactics;
- how to sell at auction;
- what the pitfalls are;
- how to avoid losing a lot of money.

Auctions are full of mystique, but with the help of this guide, you will be taken inside how the auction process really works. It will enable you to have a clear idea of how to approach a property auction and it gives you the opportunity to pick up a

bargain, saving you thousands of pounds compared with making a purchase through conventional channels.

Auctioneer’s Anecdote: Repossessions at rock-bottom prices

Many building societies use the auction room to dispose of their large portfolio of repossessed houses and flats. At the end of the ‘90s, most auction houses were reporting successful sales of between 60 per cent and 75 per cent of the properties they were offering, but certain auctioneers publicised that they were having virtually a 100 per cent success rate in the sales of properties they were offering for one particular leading building society. To experienced auction dealers, this meant that many bargains were available and the reserve prices were set at attractive levels.

What types of auction are there?

Auctions fall into four categories according to their size:

- large composite
- medium composite
- smaller composite
- single lot.

Table 1.1 on the following page lists the relative sizes, the number of lots to expect, the size of the audience and where they may be held. A composite auction is one where a collection of different types of property are sold at the same auction.

Large

Over the last 25 years there has been a move towards large and composite auctions, run not only

Table 1.1 Size of auctions

	Number of lots	Likely audience	Likely venue
Large composite	100+	300+	Hotel/conference centre, theatre, meeting rooms
Medium composite	5–100	200–500	Hotel/conference centre
Smaller composite	2–5	10–100	Hotel, church hall, pub, restaurant, sale room
Single lot	1	10–75	Hotel, church hall, pub, restaurant

in London, but also in the larger financial cities outside the capital. The auctions are generally run by one auction house although, on occasion, several firms may co-operate. These composite auctions run frequently on a regular published calendar and may contain up to 50 lots offered in just a morning or an afternoon right through to 300 or 400 lots offered over several days. The sales may be restricted to a special type of property, for example vacant possession houses, residential investments, retail investments, shops, factories, warehouses or land, or a blend of any or all of these types. Where there is a mixture, the different categories of property tend to be offered in consecutive lots, sometimes with intervals between the various categories.

Advantages of composite auctions

Bringing together a number of lots in a composite auction produces economies of scale for the auction house. But from the seller's point of view a composite auction frequently generates more interest, a larger audience, more extensive marketing and generally a cheaper entry cost. If you are attending an auction for the first time, the scope of the catalogue and the size of the audience may seem somewhat

'Subject to planning'
 – Where a property has development or redevelopment potential but there is no actual planning consent granted for that work then a buyer will need to obtain such a consent afterwards. It may or may not be forthcoming. An intending bidder may, by discussion with the development control officer at the local planning authority, be able to resolve any doubts he may have.

forbidding. But by following the steps in this book, you will be able to refine your interest down to only a few lots and will learn how to exercise your presence as a bidder at the vital moments in a crowded room.

Auctioneer's Anecdote: For any given lot, the higher the price the slower the bidding

Large composite auctions need to take place in rooms of sufficient size to cope with the expected audience which will probably exceed 300. For this reason, auction houses usually choose to use hotel or conference centres, theatres or meeting rooms which can be laid out in theatre style seating facing a single rostrum. A public address system with sufficient amplification is normal.

Medium

The medium composite auction is a smaller version of the larger composite auction, where either the lots will be restricted to a particular category, for example repossessed vacant houses and flats on behalf of finance houses or, alternatively, a mixture

Thursday 11 February at 2.30 p.m. at <i>The Sachas Hotel, Tib St., off Market St., Manchester.</i>		
LONGDEN & COOK COMMERCIAL (061-236 1114)		
Bristol - Rent charges 375 collections. Total income £3,987 68 p.a.		w
Manchester - Vacant Land at Moston Rd., Middleton Junc'n Area 5.30a 1,468 sq yds with Ind'l Redev. Pot suitable for B1, B2 or B8 users	F P	w
Reddish - Land at Wayland Rd Sth., Gtr. Man. Site 16.4a apx with Pot for apx. 7.7a Res. Dev (subj. to planning) Part occupied at a rent of £338 32 p.a.	F P	w
Oldham - Land at Oaklands Rd., Greenfield, 2.74a vacant Land (3,599 sq yds) PP for Res. Dev. refused	F P	9,250
Lower Darwen - Land at Fairfield Drive, Milking La., Lancs. Site with PP for 10 s-d d-h's.	F P	w
do Land at Milking Lane, approx. 8.5 acres with PP for 80 Res. units and pot. to increase the density	F P	w
Manchester - Bracken House, Charles St. Mostly vacant modern City Centre Office Bldg. 31,060 sq ft on 8 fls Pt. grd flr let 25 yrs from 1988 at £7,750 p.a.	F P	w
Stockport - Redhouse La., Disley, Gtr. Man. Commercial Invest 4,160 sq yds comprising Goods Shed & Garage. Income from tenants £13,300 p.a.	F P	pvt. 125,000
Hyde - Land at Railway St., Gtr Man. Site area 1a. 3,484 sq yds. Income £15,000 p.a. 7 yrs UT Planning prepared for Res. use with adj. 2.4a site	F	w
Huddersfield - Vacant Land at Manchester Rd., Linthwaite, West Yorks. Area 0.9a (4,356 sq yds)	F P	n.o.
Bolton - Vacant Land at Greenwoods La., Hardy Mill Rd., Harwood, Gtr. Man. Agr. or amenity land with potential. Apx. 8.5a and adjoins existing Res. Devel.	F P	29,500
do Land at Cox Green Rd., Dimple, Egerton, Apx. 45a Agr. Land let on yr to yr agr. ten. £50.00 p.a.	F	pvt. 22,000

Illustration 1. Extract from *Under the Hammer*

of lots from a single geographical region covered by the auction house. This can be a suburb where the auctioneers specialise or a regional city such as Birmingham, Manchester, Liverpool or Edinburgh where there is a source of mixed lots available, but insufficient lots on offer at regular intervals to produce larger composite auctions.

This size of sale can still produce an audience of between 200 and 500 people depending upon the popularity of the lots being offered and the amount of marketing that has taken place. Therefore the auctioneers will need to choose a venue similar to that necessary for large composite auctions with similar facilities.

Small

There are occasions when a smaller number of related lots are appropriate for being auctioned consecutively at the same place and at the same time. This may be a number of adjoining building plots, or retail or domestic investment properties, or land and agricultural property in a particular vicinity.

Look out for special themes

Thus the small composite auction will generally follow a theme. It may contain lots which result from the ‘break-up’ of an individual estate.

Examples of this are:

- A large agricultural investment estate where the owners have decided that the best prices can be obtained by offering portions of the estate in small lots.
- The owners of a portfolio of residential investments in one particular suburb or of a row of shops in a particular centre may decide that they will obtain the best price by offering the properties individually.

In such cases it is logical for the auction house to bring together its marketing and advertising and produce a single brochure, one set of advertisements and run just one auction session. The number of people attending is likely to be fewer than those attending a larger auction and therefore there is no need for the auction house to organise a sale in a large venue. The auction room may well be a smaller hotel, church, village hall or similar sized building.

The single lot

If a vendor (also called the seller) chooses to offer a single lot, it is often because the auctioneer believes there will be a tremendous demand for the property.

The costs of promoting a single lot sale will be considerably higher than for a composite auction. This extra cost must be justified by the belief that the property is one for which there is a spectacular demand. The audience may only be between 10 and 75 people and the auction room will need to be of a corresponding size.

What properties are offered for sale by auction?

Thatched cottages

Some rural and suburban firms of auctioneers specialise in offering for sale by auction country cottages of which the ‘thatched cottage’ is the prime example. These are usually sold in single lots and occasionally in small, themed sales. Even when other types of auction during the 1950s were unpopular, the ‘thatched cottage’ sales were still held quite frequently, as both vendors and auction houses believed that considerable competition could be engendered between would-be buyers, by offering this type of property for sale by auction. That belief was furthered by the belief amongst valuers that it was almost impossible to judge precisely what price such a property would realise. From the owner’s point of view, therefore, the possibility of a crowded auction in a hotel or public room one evening with bidders fighting to buy was irresistible. Although the romantic cottage exemplifies the type of property which vendors feel are best offered for sale by auction, it should not be forgotten that other types of property that are particularly attractive, for whatever reason, may also benefit from the ‘thatched cottage’ syndrome, and realise a high price in the auction room as a result of exceptional competition.

Why not pick up an exceptional property?

Other properties that might benefit from exposing themselves to exceptional competition include:

- houses that are unique because of their historical associations or their exceptional position;

- building or development prospects that are in pockets of exceptional interest or demand;
- investment properties of a type that are particularly in vogue at the time;
- plots or buildings that hold the key to development or profit-making prospects;
- sites or buildings appropriate for uses that follow fashions of the time. (Over the years these have included post offices, launderettes, petrol stations, food take-aways, nursing homes, bowling alleys, multi-screen cinemas and docklands, to name a few.) Dealers and entrepreneurs who have spotted the next trend or vogue will already be combing the auction rooms for their future stock.

Properties that are almost unsaleable

The auction route has often proved more successful than the private treaty sale method in the disposal of properties that are nearly unsaleable. Presumably this is because at auctions there is an element in the audience who are able and willing to ‘chance their arm’, particularly if they feel that a lot is apparently a bargain.

The sale rooms have seen the successful disposal of various properties that have been:

- derelict;
- subject to compulsory purchase orders;
- subject to major disrepair or fabric failure;
- subject to local authority repair notices;
- subject to closing orders;
- offered with unsatisfactory legal titles;
- sold without access;
- sold with major fencing, paving, drainage or other similar responsibilities;
- sold subject to easements, covenants or restrictions which prevent their satisfactory use;
- in derelict or unpopular areas.

Auctioneer’s Anecdote: Read the particulars carefully

There is a long-standing joke in the auctioneers’ profession that those auctioneers who sold land on behalf of Railtrack needed long thin catalogues because of the long thin pieces of land which they had to offer. One particular piece, first offered by their Property Board, was near one of the conurbations and was three-quarters of a mile long but only several yards wide. It was disclosed in the

catalogue and in the title for sale that the land had no access other than through other people’s land, was being sold with no access from the railway line and the purchaser had to erect a new fence along the entire three-quarter mile length adjoining the line. These factors did not inhibit some enthusiastic bidding when the property was offered. No doubt the bidders felt that around the £1,500 mark they could ‘not go wrong’. Three months later the auctioneer was approached by the successful buyer to re-offer the land because it had no access and because the fencing covenant was about to be enforced. The land sold a second time at a slightly lower price at auction. Over the next two years, the auctioneer was instructed to offer and succeeded in selling the land no fewer than five times in total and not always at steadily reducing prices. Presumably, the only parties to whom any of the transactions gave a satisfactory result were Railtrack and the auctioneers.

Reposessed houses

Unfortunately for their previous owner-occupiers, this category of property continues to feature considerably in many auctioneers’ catalogues in the waves of repossessions that occur from time to time. Whilst feeling for those that have been dispossessed, there is no doubt that auction houses, speculators,



A London bargain. Lot 30, a one-bedroom flat in Penge which sold for £55,000.

builders and new owner-occupiers all benefit from such situations. The losses registered by the finance houses and the insurers may only be the result of a drastic domestic property revaluation or may also have been occasioned by the surfeit of vacant houses offered in the sale rooms because of a high level of repossessions at any one time.

But there is no doubt, there are some very good value-for-money properties to be purchased at auction. ‘Repossession’ is not to be considered synonymous with ‘bargain’. You should still thoroughly research your target property.

Investment properties

Properties that are owned for the benefit of the income they produce are frequently included in auction catalogues. Investors cover a range of buyers from large pension funds and commercial investors at one end, through to medium-sized investment companies and smaller private pension funds, right down to individual investors, looking for a satisfactory return on their money.

The range of properties includes:

- office investments;
- shop investments;
- domestic investments (single houses, blocks of flats and portfolios of houses);
- ground and chief rents;
- investments in land;
- investments in easements;
- reversionary investments (where the investor is concerned with long-term income or growth in it).

What affects the price of investment properties?

Prices paid for investments depend on many factors which include:

- security of the covenant of the payer of the rent;
- the quality and position of the property;
- the potential growth or variation of the income collectable;
- the frequency of rent reviews;
- the investor’s view of the future of the money market and future interest levels;
- the investor’s view of the yield that is appropriate for the type of property;
- the nature and responsibilities of the landlord;

- the nature and responsibilities of the tenant;
- other factors which could affect the future income of the property favourably or adversely.

A portfolio of lots being sold by property dealers

You should be aware that occasionally the same properties feature in different auctions at different times. A tenanted shop in Liverpool may first of all sell at an auction in that city and then some time later reappear at an auction in London. A vacant repossessed house may be sold at an auction just outside the capital and subsequently reappear in the hands of a local auctioneer in the town in which the property is situated. A portfolio of domestic investments may be offered ‘en bloc’ in the capital, appear in another auction in that city six months later broken up into smaller units and then perhaps 50 per cent of that portfolio will be represented in individual lots in, for example Manchester, Birmingham or Liverpool 12 months later.

Do not be totally discouraged from being interested in these dealing lots, but do watch out for them by combing auction advertisements frequently. If you see a property that interests you, approach it with care and only after thorough research.

The auction houses

The principal firms of property auctioneers are listed in Appendix 5, with a great many firms offering their services throughout the country. There is no way you can monitor all their auctions, their results and their withdrawn lots.

Select firms that cover your area

You will have to select the firms you examine acknowledging there are:

- i) varieties of specialist firms who only deal with particular types of property and who are generally London-based;
- ii) other auction houses in the capital who cover a wider range of properties, generally in composite auctions but occasionally in specialised ones as well;
- iii) London-based firms who deal with property

throughout the UK, sometimes only offering it in the capital but occasionally running sales in the regions;

- iv) auction houses based upon the larger cities and towns throughout the country who run regular composite auctions, generally specialising in properties in their area rather than specialising in particular types of property; and
- v) local firms who run smaller auctions on demand.

Within these broad divisions, as you become acquainted with the auction field, you will discover that there are certain specialisations and subspecialisations which various firms have developed through design or their past history and it is only by research that you will establish which auction houses to patronise, as a buyer or as a seller.

How to choose which firms to follow

- 1 Visit a few local auctions of any kind.
- 2 Decide upon the type of property in which you are interested.
- 3 Decide upon the geographical area you propose to cover.
- 4 Research auction advertisements in the property and local press.
- 5 Respond to those advertisements with specific requests for specific properties in which you are interested.
- 6 Subscribe to the mailing lists of firms who specialise in your type of property in your area.
- 7 Start visiting the auctions of your chosen firms on a regular basis.

By and large you will find that the sales of the majority of the firms are conducted in a similar manner. British auction houses are relatively traditional in their manner of offering with only minor variations in style, speed of selling, presentation and marketing.

'From a purchaser's point of view, I would have said you were going to get quite a good deal at auction, particularly in this climate.'

Michael Kirby, Chartered Surveyor.

KEY POINT: *Whether you are a dreamer or a speculator, an entrepreneur or an investor, a would-be owner-occupier or a developer, an intending purchaser of many lots or only one, good luck in your hunt for bargains. Remember they will only come with thorough research and plentiful experience. Follow the advice that follows and you should not go wrong.*