

Auctions



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OF PROPERTY
INVESTING

Auctions

You've probably seen TV shows and YouTube videos about buying property at auction and have a certain, perhaps rosy idea of how simple the process looks. The final edit is designed to maximise your viewing experience so don't be fooled by the seeming simplicity of the process.

There are different types of auctions, depending on where you live in the country. Auction rooms can range from being small affairs with maybe 10 or 15 people in them, to the big kind of London auctions, where you might have 500 people in the room. And these can often go on for the whole day.

There are some great deals to be found within auction houses for property investors, but always remember that the buying process is swift and legally binding. So you have to work backwards before you enter the bidding suite.

Once you've identified a property that is of interest and fits your strategy, make sure that you do your due diligence. Find similar properties in the area, both in done-up condition and in a distressed condition. Compare the prices and work out how much is it likely to cost you to renovate the auction property.

When you go into an auction room you need to look for the hidden dangers. Is there anything potentially wrong with the property? Remember when the hammer comes down, you're the legal owner and you are committed to buy. There can be severe penalties if you don't complete the purchase within the typical 28 day time period.

It is very easy to get caught up in the moment at an auction so make sure that you give yourself a budget and stick to it. Resist the urge to become competitive or think you are in Vegas. Stick to your guns and don't go over your budget. Professionals should always walk away from the auction room if the property goes over their pre-determined price

One of the common mistakes with amateurs is they bid with their heart or their ego. They fall in love with the property, and although they have done their due diligence, they decide to go a little bit over the agreed price, overpaying for a property because they don't want to lose. Professionals will always buy with their calculator and stick to their numbers.



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And whatever you do, don't revenge buy. Revenge buying is when you've lost out on your deal and you think you need to go away with something from the auction. Don't be tempted to bid on a property that you haven't done your due diligence on, just because you think it looks like a good deal. If you're going in looking for a specific three-bedroom house, stick to your plan, don't compromise.

There's a lot going on in an auction room. So pay attention, position yourself at the back of the room so that you can see what your competitors are up to. And don't be afraid to introduce yourself to people. You never know who you might meet while sitting in one of the bidding chairs. You will often find builders, other investors, people who know about the local area. Every auction is a networking opportunity. There are other more creative ways to make money in an auction. One such example would be trading a property by securing paperwork. That means you can buy a property, secure the planning permission on it, and then flip it on through an auction room, thus making money without actually ever building anything.

More experienced investors buy property at auction, and do absolutely nothing to it. They put it back in another auction and sell it at an increased price, thus making a profit without spending a penny. Ker-ching!

As soon as the hammer falls you own the property. It's really important that beforehand you go through the correct set of procedures and processes.

First off, it's vital that you physically view the property before thinking about putting in an offer at a live auction. Often you will view auction properties with other investors - another good opportunity to network. Work out how much the refurbishment is going to cost. Consider going along with an architect or trusted builder.

Secondly, decide what you are going to do to the property. How much will that cost? What will the final value of the property be? Work out your accurate maximum buy price.

Understand why are you viewing the property. What is your intended use for it? And how are you going to make this into a deal afterwards? Are you buying the property to refurbish and sell? Are you buying the property to refurbish and hold? Who is your end market? And what is your strategy?



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Every auction property has what's called a 'legal pack', and it's imperative is that you get a legal professional to read it. Download it and you send to your solicitor.

Unless you're a solicitor, don't try to make head or tail of it yourself, there will be something in there that you may miss, that you may not understand, and you can end up buying yourself a dud property or worse a property that's going to end up losing you thousands of pounds. When it comes to property, don't cut corners, pay for professional experience.

Work out how you are going to finance this property purchase. Remember when the hammer falls, within a minute or two, the successful bidder is normally obliged to put 10% down there and then. And the deposit must be transferable from a bank account or with a banker's draft. You also need to know where the rest of the purchase money is coming from. Make sure you have arranged your finance in advance because you must complete within 28 days.

If bidding exceeds your maximum bid price, don't be afraid to walk away better, better to be alive and ready to bid in the next auction to keep your powder dry.

Buying at auction is exciting and can be very rewarding but as with any property purchase, you have to be prepared. As your knowledge and contacts grow, you can really pick up some fantastic, quick turnaround below market value deals, particularly if you are a cash buyer.

But always remember, there is no such thing as a free lunch. Nothing is ever too good to be true and whilst you can definitely make a healthy profit on some properties bought at auction, don't fall into the trap of buying a dud property that is going to cost you more in the long run.



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