

7 THINGS TO DO BEFORE YOU BID AT AUCTION

BY AUCTION SPECIALIST **SIMON DUCKWORTH**

Buying at auction can be overwhelming when you first start, as the process is so fast and there are so many things to get right. But once you've got the hang of it, it's pretty straightforward and you may be able to bag yourself a great deal.

Before you even enter the auction room, there are seven key things to do, according to auction specialist Simon Duckworth from Triangle Property Solutions. As he says, "It's all about preparation and knowing exactly what you're getting into."

Here are the seven things he suggests:

1 SET YOUR INVESTMENT CRITERIA

As with any property purchase, you've got to start by identifying your own investment goals and then set appropriate criteria for your property search. Each investor's criteria are personal to them and what might not be a deal for you might be the perfect deal to someone else.

Knowing exactly what **you're** looking for is key to the process as this will help you be selective when navigating the auction catalogue. It will also stop you getting led down the wrong path when you see something that could be exciting but is way out of your league (believe me, that's easily done).

When setting your criteria, start with the following:

- **Funds available** – The amount of money you have available for the purchase and the associated works will help you understand straight away what type of project you can aim for. For example a budget of £160,000 for the purchase and £40,000 for the refurbishment could be enough to get you a three-bed semi in need of a full renovation in West Yorkshire, but you'd need significantly more funds to do the same project in London or the surrounding areas.

- **Refurbishment works** - The level of refurbishment needs to be something you're comfortable with. Look at the scope of the refurbishment and your experience and weigh up whether this is doable at this time or not. It's no good taking on a complete wreck riddled with problems as your first project, as this would just be opening yourself up for unnecessary stress and potential disaster.

Always put the necessary buffers in place – 10% contingency on a smallish project you've done plenty of times before, and 20% on a bigger refurbishment you've never tackled before.

- **Location** – Knowing your area is really important, so you need to do thorough due diligence on your local areas to understand exactly what can be achieved. What properties are available? What's the demand for these types of properties – to buy or rent? What type of tenant or homebuyer do they attract?



What prices do they bring? What's the capital appreciation been like for the last year or two? What's the forecast?

Remember, there can be huge differences between streets just next to each other, so you really need to drill down to understand the particular street you're looking at. The neighbours, amenities, demand, prices etc can all affect your end value and your chance of being able to rent or sell it.

- **Exit** – Know your exit and plan accordingly. If you're buying to hold and rent out you may be able to spend a little more to buy the property, as putting it on a buy-to-let fixed mortgage could weather any storm, if you need it to. Flips have to be tighter as the numbers have to work in six or seven months' time when you put the house on the market. As always, plan for multiple exits just in case the market changes and Plan A doesn't work out.



"Knowing exactly what you're looking for helps to avoid overwhelm"

2 TARGET MULTIPLE PROPERTIES IN THE CATALOGUE

The auction catalogue can contain anything from 25 to 250 properties depending on where you are in the country and the auction house you decide to use, so it can be quite overwhelming when you first look at it. Once you've got your clear criteria in your head you can approach the catalogue in a structured way, by simply looking at the properties that match your requirements. This might sound obvious, but it isn't usually what people do!

When starting out many people go into the auction room having done numbers on just one property. I don't recommend this, as the chances of you leaving disappointed are very high. Instead, it's advisable to run the numbers on all the properties that match your criteria (or at least three or four) and then approach auction day with an order of preference in mind.

Targeting specific properties means you can instantly cut your search criteria down from, say, 30 to 15 properties. Some of those might immediately be out of budget, leaving you with five or six to investigate further. So you can pretty quickly identify those you want to do your detailed due diligence on. This not only gives you less work to do, but it also gives you more purchase options on auction day and you'll be more likely to walk away with a deal.

"Target multiple properties that match your requirements to give you more purchase options on auction day"

3 UNDERSTAND THE PRICING AND WHAT'S EXPECTED OF YOU IN TERMS OF BIDDING

Guide Price

The Guide Price is the price you see in the catalogue. There are two types of guide: a fixed price guide (eg £80,000) and a bracketed guide (eg £80,000 to £90,000).

Reserve Price

The Reserve Price is the least amount of money the seller wants to sell the house for. This is usually set at 10% above the Guide. So if the Guide is £80,000, it would have a maximum Reserve of £88,000. If the Guide is bracketed the Reserve will be within the brackets, usually towards the higher figure (but not above it).

In effect, this means the owner won't sell the property unless the bidding reaches this figure, but it all depends on the demand on the day. If the reserve isn't met there's always the opportunity to negotiate the sale post-auction (we'll look at this in detail in a future feature).

4 GO THROUGH THE LEGAL PACK WITH A FINE-TOOTHED COMB

The legal pack is a set of documentation prepared prior to the auction by the seller's solicitor. A good pack contains everything you need to know about the property, including everything from land registry information and local searches to special conditions of sale, management documents, planning permissions and leases etc. Not all legal packs contain everything though, so ***it's essential you fully read through it to understand everything you can about the property and highlight any gaps that need further investigation.***

Look for things like title register and plan, leases, covenants, what current position the title is in, if there are any charges that need removing, if leases need extending, if there's any debt filed against the property, flood risk report, local searches.

Always read the special conditions of sale and the contract too. These documents contain all the applicable fees that you don't want to miss. They are often the last documents to be added to the legal pack, sometimes as late as the morning of auction day, so you need to keep an eye out for them.

It can be really useful to get a solicitor to look through the legal pack for you and there are specialist companies that do this for under £100. The solicitor will highlight any areas of concern and come back to you with recommendations for what needs investigating further. This can be really useful, but isn't always financially feasible, especially if you're looking at six or seven lots, so use your own judgment, but be thorough.





5 CALCULATE THE NUMBERS, SET YOUR MAXIMUM BID AND DON'T FORGET THE FEES

With auction purchases it's all about the numbers, and getting them wrong can be the difference between making a profit or ending up with a problem property that gives you a big headache and costs you money. We all want the former, so this stage of the process is where you need to spend the most time.

Start your purchase analysis with the end in mind. Input all the numbers you already know from the legal pack – the professional fees, buying and selling fees, legal fees etc. Make sure all of them are accounted for. Look out for numbers written in words rather than numbers, as these can sometimes catch you out, if you haven't checked properly.

Once you've got all that information you can start to gather the other numbers needed through detailed due diligence (DD). *How much is it going to sell, rent for? What will the post-refurbishment value be? How much are you going to spend on the refurbishment? What's your contingency? How much profit do you need to make?*

The end valuation or sale price is key to helping you understand what your profit margin will be and how much you'll have available to spend on the refurbishment, so **spend time researching your market** to get a really secure understanding of this, as this will inform everything else.

By the time you've done all the research and input all the figures into your spreadsheet,

“Always start with the end valuation or sale price as this will inform everything else”

you'll end up with a maximum figure you can afford to pay. And the project either works or it doesn't. It can be painful when you've spent ages on your DD to realise it's not going to work and it can be tempting to play around with the numbers until it does. Definitely don't do that. Let the spreadsheet do the talking and eliminate it from your list when it says a firm 'No'.

“Let the numbers do the talking – bid with your head, not your heart”

I often see properties sell for more than they should have and it's certainly not uncommon for people to win a property and instantly regret it, knowing they've squeezed themselves too much. So you have to be disciplined with your maximum bid.

On some occasions you might think it's okay to go £1,000 or £2,000 higher than you were prepared to, just to secure it. And sometimes that can be the right move, but it depends on several factors, such as your knowledge of the market and how much contingency you really need. Sometimes the cost of missing out can outweigh the extra cost of buying it for slightly more than you had planned.

Right now, we're in a rising market so, in theory, paying a little more now shouldn't matter in a few months/years. If the value of the property could increase by 3% - 5% in six months' time, when your flip goes on the market, then perhaps you can afford to pay the extra now?

Use your knowledge of the market to steer you on the day, but only use this if you really need to.

Download the audio to listen in to our conversation with Simon.

<https://bit.ly/3vewYiK>



6 GET YOUR FINANCE IN PLACE WELL BEFORE YOU BID

I can't stress enough how important it is to get your finances in place before you even think about bidding, or you can soon find yourself in a bit of a spin trying to pay for the property on time. Most people buy using cash (with their own funds or investor funds) or bridging finance. You can buy with a mortgage, but it's a little bit more problematic to do so and needs a lot of setting up to meet the tight deadlines. I don't recommend buying with a mortgage for this reason, but it can be done.

Important milestones to be aware of:

- **Contracts are exchanged on auction day, when you'll be expected to pay 10% of the purchase price & the auction fees.**
- **The balance is due to be paid in full four weeks (usually 20 working days) later (on rare occasions it can be two weeks so check the pack carefully). Late fees apply for late payment, but with a bit of negotiation you can sometimes get an extension of two weeks.**

7 BE PREPARED, BE DISCIPLINED AND BE PATIENT

In the current market, where demand is high and competition is quite fierce, you may find you've done thorough due diligence on several properties and you don't win any on the day. This can be disappointing, but it's just the nature of the game unfortunately. You just have to repeat the process on the next catalogue until you get the property or properties you want. The more you follow the process, the easier the due diligence process will become and the more your confidence will grow. The deal will come. You just need to be patient.

CONTACT

Simon Duckworth is a property developer and consultant, specialising in auction purchases and high-quality refurbishments. Simon works with like-minded investors to create outstanding flips and HMOs that tenants and homebuyers love, as well as offering consultancy services to help other investors buy successfully at auction.

For help buying at auction or to discuss investment opportunities, contact Simon at simon@trianglepropertiesolutions.co.uk or find out more at www.trianglepropertiesolutions.co.uk

NEXT EPISODE: Join Simon next time for top tips on scoping and planning your refurbishment project