

TOP 10 POTENTIAL RED FLAGS

AND HOW TO TURN THEM GREEN



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Interview and words: Heidi Moment



When buying auction property we often come across red flags or warning signs that can send many investors running for the hills. But with a bit of experience and some detective skills we can easily turn those flags green. You just need to know what to investigate to satisfy you that it's safe to proceed. [Here's my top 10 ...](#)

1 No viewings – eek!

Why could this be a problem?

I would never recommend buying a property without looking at it first, as sometimes what you're expecting and what you get are two totally different things. Plus, ideally you want to get inside so you can scope the refurbishment works. But sometimes auction properties can't be viewed, as it can be difficult for the auction house to organise viewings for one reason or another.

How do you investigate it?

There are a few things to do in this scenario so you can explore the building properly. The main thing is to ask questions and try to gather as much information as you can from the auction house in charge of the sale. You can also visit the property to check it out externally and look at the surrounding area.

The photographs are also extremely important. You want to make sure you're looking at very recent images so you can

get a true reflection of the state of the property.

I recently sourced six flats in Wakefield city centre for one of my clients, Alyson. She had recently loaned some money to her sponsoring company from her SSAS and was looking to invest it. We've worked together several times before and when I saw this property I knew it would be right up her street. The building had previously been used as offices but was converted into six flats in 2015. They looked great and were in a fantastic location, but when I started my due diligence I immediately came across a stumbling block – no viewings.

“ The valuer wants to get a win-win for seller and buyer, so they'll work with you to ensure you have all the information you need ”

Not being able to view the property meant I had to really lean on the relationships I have with the valuers at the auction house. Luckily they had taken some photos just weeks before and were able to answer all my questions. I've done plenty of transactions with them over the years so I have 100% confidence in what they tell me.

The valuer is your friend

The valuer is the person at the auction house who has the relationship with the seller and the most information about the property. They're the ones who do the original appraisal of the property, so they know the property really well and they know the sellers' desires too. They're aiming for a win-win and to foster repeat custom from you, so they will help you as much as they can.

It's expected that interested buyers will call the office to speak to the valuer, so don't hesitate to make that call if you have any questions.

2 Reason for sale

Why could this be a problem?

The reason someone is selling a property is one of the first things to find out when doing your due diligence. Ideally you need to avoid anything that's being sold because it has a big problem that can't be solved.

Reasons that would raise red flags for me would be if the property is a poor performing rental or has a problem tenant. I'd want to know why and if this could be rectified. Problems in the area that could affect rental demand, such as anti-social neighbours or a new development about to happen, would also be a cause for concern.

How do you investigate it?

Start by asking the valuer, and if you need to explore further you can also speak to the managing agent or even the tenant themselves. I always find neighbours to be extremely helpful at dishing the dirt, so if there's a problem you're sure to uncover it by talking to them.

The owner of the flats was a large real estate firm that owned big blocks with upwards of 40 units. This wasn't their usual stock and they were offloading it so they could purchase a bigger block. This seemed reasonable and after a quick check on Companies House to verify the company I was happy this made sense.

3 Freehold or Leasehold?

Why could this be a problem?

Flats can either be freehold or leasehold and both can come with their own set of issues. If you're getting a block it's a good idea to look for freehold as you will be in charge of the ground rents and lenders will be happy to lend on the entire building. You can also split titles if this hasn't been done yet. You may find lenders aren't as happy to lend on single freehold flats (although these are quite rare) due to a question mark around responsibility for maintenance/communal aspects etc.

With leasehold flats it's important to understand the length of the lease, plus ground rent and service charge responsibilities. Short lease lengths (anything less than 80 years) can be expensive and time consuming to extend (you usually can't extend until you've owned the property for two years). Ground rent and service charges can also be increased, reducing the profitability of the asset as well as the viability of financing them.

How do you investigate it?

The legal pack usually contains the basic information required, but it's always a good idea to double check the information yourself, and this can be done easily on the Land Registry website for £3. You may also need to speak to your lender to establish if you can get the necessary funding.

If the property is leasehold always check your solicitor is happy with all the conditions regarding the leases, titles, ground rents and service charges. If the lease is short (less than 80 years) it's a good idea to get the seller to extend the lease, so you don't have to wait the two years.

4 Structural Issues

Why could this be a problem?

One of the common concerns with auction properties is if there are structural issues, such as severe cracks in walls, subsidence, broken drainage, roof issues etc. Structural issues can be costly to fix and they can also make the property unmortgageable. But not all structural issues need to be avoided and it's possible to bring an unmortgageable property back to life without spending large amounts of money – it all depends on your expertise and the funds you have available.

How do you investigate it?

The good thing about auctions is that structural issues are usually detailed in the auction particulars, but, not always. You can investigate it further by visiting the property with your builder or structural engineer to identify the issues and get advice on how to fix them.

5 Check previous building work permissions

Why could this be a problem?

A lot of properties you see in the auction have had work done, but the question is, have they been signed off? Before you can proceed you need to know the work has been done to the required standard, planning permission was obtained (if required) and the work was signed off by building control, otherwise you may have to reapply for permission retrospectively or redo works once you own the property. Unfortunately this is more common than you might think.

How do you investigate it?

You will get all the answers to your questions on the local council planning and building control portal.

If you've ever been on it you'll know it's not a very user-friendly portal and it can take some advanced searching to find the information you need. If you can't find what you're looking for it's often worth calling the planning or building control department and they'll happily help you free of charge.

My detective work was pretty straightforward on this one. The building was a salon to the ground floor with offices above. Planning was applied for in 2014, permission was granted and the conversion was done and signed off in 2015. All green here.



6 Energy Efficiency

Why could this be a problem?

As we all become increasingly concerned about the environment and finding ways to consume less energy it's a good idea to know what your current EPC rating is and to know if and how you can improve it, if you need to. Ideally you're looking for a good rating of at least D. If the property has a rating of G (inefficient) this would raise a flag, as the property would be unrentable and you'd need to do something (or a few things) to improve it.

How do you investigate it?

The EPC register is easy to access (see link at the end). Be aware that several things on the EPC are often assumed, as they can't be checked, such as cavity wall insulation, so it's not set in stone. Always check through the report carefully and make a note of things you know to be different so you can immediately update it when you own the property & have made improvements. Also it's important to note, there can be some quick wins to improve your EPC rating such as TRVs on radiators, adding a thermostat if there isn't one, LED bulbs etc, and it's also worth looking out for grants or green deals via your local council.



8 Your competition

Why could this be a problem?

Knowing who else is interested in the property can be really beneficial. You don't want to be up against a lot of serious contenders in the room, as this will just push your price up.

How do you investigate it?

The valuers and other members of staff at the auction house will have some understanding of interested parties and if you have a good relationship with them they can give you a bit of a steer towards the kind of price the seller is expecting.

7 Rental amounts / return on investment

Why could this be a problem?

If the property you're buying is tenanted, the return on investment or rental amounts are usually advertised in the property particulars, but don't just take this as read. Rents can and do change, so you need to know what you will actually be getting if you win the property. It's a good idea to get a sense of how often rents are paid and if there are any ongoing arrears – this could be a potential stumbling block, as you don't want to take on a bad-paying tenant.

How do you investigate it?

The best way to do this is by checking the AST agreements, which can be obtained from the seller or their managing agent. If you have any questions you can speak to whoever is managing the property, the housing association or the seller, all of whom should be happy to speak to you.

“Visiting the tenant & introducing yourself as their new potential landlord can pay dividends to your investigative work”

The Wakefield flats were all currently let and the details were in the legal pack, so I could see what was going on straight away. As an extra safety net I also visited the property to speak to the tenants and suss them out a bit. I spoke to three of the six tenants, who were all really nice people. They agreed they were really happy with the landlord and the accommodation and they also confirmed the photos were an accurate representation of the property, which was enough for me to turn this one green.



9 Check the contract

Why could this be a problem?

The contract is the key document when buying at auction. Here you'll find all the details of costs and requirements, so it's here that you'll identify anything that might cost you additional money.

How do you investigate it?

Always read through the contract with a fine-toothed comb at least twice, and if you're not familiar with these kinds of documents, get a solicitor (who's used to doing auction transactions) to cast their eye over it too. A biggie here is to look in the 'special conditions' section, as this is where additional fees can often be hidden (written in words, rather than numbers), as these can bite you if you're not aware of them.

10 What is it worth?

Why could this be a problem?

Last but by no means least, you need to know the value of the property in its current state, as this will inform your offer price. Getting this part wrong could be the difference between making and losing money so definitely spend some time getting this right.

How do you investigate it?

There are a few things to look at here:

- **Use online portals to find out what was paid for the property previously, which should help you to gauge whether the asking price is valid or not. It may also show you previous images that will show you how much work has been done over the years.**
- **Calculate your refurbishment, using notes from the viewing, or in this case photographs and conversations.**
- **Calculate the cost per square foot, in its current state and post refurb (if you're doing a refurb).**
- **Find like-for-like sold comparables on online portals.**
- **Check tenant demand and find like-for-like rental comparables online and by talking to agents.**

The guide price on the flats was £340,000. Usually the reserve is around 10%, so I knew I needed to be in the ballpark of £374,000. Refurbishment work needed was minimal – two of the flats needed sprucing up with some decoration and carpets but other than that the flats were fine.

There's no shortage of flats in Wakefield city centre to get good comparable data from. My research indicated the value could be anywhere between £60,000 and £90,000 per unit depending on size/spec.

The particulars stated that the flats had an annual income of £28,000 and my research confirmed current rental values on like-for-like units was around £430-

"Working with Simon to assess the property prior to purchase helped me to mitigate the risk I was taking, which gave me the confidence to buy the units. This is the third property I've bought from auction using Simon's services and I'm looking forward to seeing what he brings me next."



£595 per month depending on size/spec, so that box was ticked. Speaking to local agents and checking rental portals also satisfied me that there was plenty of demand for flats in this area and even scope to consider making a price increase at some point in the near future (which Alyson actually did once she became the owner).

As a cash buyer, based on a purchase price of £374,000 this put the profit at £24,300. So once all the other flags were turned green I knew this would make my client a really good deal. We negotiated the offer with the seller pre-auction and agreed a price of £380,000. The seller was happy because they had met their reserve and Alyson was happy because she knew she'd paid the right price for it.

Alyson got a bit of a shock when five of the six tenants moved out shortly afterwards due to unexpected lifestyle changes (job change, moving in with partner, etc) and one of the flats was left in a complete mess. Unfortunately it meant she had to spend more on the refurbishment than planned. But it enabled her to do the works without the tenants being in situ and she could also increase the rents sooner than expected, increasing the annual income to £37,000 - an increase of £12,000! The management company has also been taken out of the loop now so there'll be cost saving from self-managing too. Happy days.

The takeaway

There are plenty of boxes to be ticked or red flags to turn green on auction properties but knowing what to investigate and how to do it in the short space of time you have could help you to bag a good deal. Being able to lean on the professionals you've got to hand, as well as the many online resources available will help you to make sure all the information checks out and your questions are all answered. There can be a few head-scratching moments and quite a paper trail by the time you've finished, but it's totally worth it to be able to buy a deal like this with confidence.

Contact

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For help buying property at auction with confidence or to discuss investment opportunities, contact Simon at

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Useful websites

EPC:

<https://www.gov.uk/find-energy-certificate>

Land Registry:

<https://www.gov.uk/government/organisations/land-registry>

Planning / building control: **See local council website**

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