Buying at Property Auctions: The Process and Pitfalls

By **Azid Gungah**

Given the upheaval in the property market of late, with interest rates the highest they've been for over 15 years (currently BTL rates are averaging 6% at time of writing), I am inundated with questions about property auctions and whether it's still worthwhile buying under the hammer – although these days it can be more 'virtual' and more of a timer than a hammer – and what should people look out for.

Therefore, in this month's article, I want to set out how to be successful at property auctions and what pitfalls you should avoid. The article is laid out in the following sections:

- **How to find properties at auctions**
- **What to do once you have found properties ('lots') you are interested in**
- **What you need to do to be ready to bid at auction**

How to find properties at auctions

My advice to you is to start by making a list of all the property auctions in your area. Add to the list the major national ones like Savills, Barnard Marcus and Allsop as they sell properties (referred to in auctions as 'lots') across the country.

In addition, check out the EIG property website as they have a list of all the auctions that use their platform (next month's listings are always included in YPN magazine).

Next, register with all the relevant auction houses so that when their auction catalogues are released, you get a notification in your inbox.

What to do once you have found lots you are interested in

Once you have identified the lots you may be interested in, based on the property strategy you are pursuing – whether that be HMOs or multi-unit freehold blocks – make a note of these lots by date and by auction house.

Identifying the lots

If, like me, you focus on buying multiple properties at a time through following the title-splitting multi-unit freehold block strategy, then you will, of course, be looking for Multi-Unit Freehold Blocks of flats (MUFBs). So go through all the websites/auction catalogues and make a list of all the MUFBs that may be of interest to you.

What to look out for during the identification process

Pay particular attention to the following information. (NB: this is not an exhaustive list as lots are so varied, but it should help to guide your due diligence process.)

1. **Read the main description** by the auctioneers to see what is actually for sale.

2. **The Legal Pack.** Download and ***read all the attachments*** of the individual lots you are interested in, to gain a better understanding of the property for sale. Here are some of the types of information you can expect to find in the legal pack, if available. If they have not been provided you can safely assume that the 'lot' does not come with them.

   i. EPC certificate
   ii. Gas certificate
   iii. Electrical Installation Condition Report (EICR) certificate
   iv. Local searches report
   v. Land Registry Copy of Titles
   vi. LPE1 information if there are leaseholder disputes if the lot is a flat
   vii. Environmental Searches report
   viii. Block insurance certificate (if applicable)

3. **Special Conditions of Sale.** You must pay particular attention to the 'Special Conditions of Sale' document. This is the main document that summarises all the details of a particular lot and will have all the critical information such as:

   a) Who the seller is – sometimes redacted
   b) The address of the property for sale
   c) The agreed completion date
   i. This is crucial information for you to learn, as it may vary from two to eight weeks or sometimes even longer. The standard completion dates tend to be four weeks, which means 20 business days. This is important if you need to arrange finance as it will take a few weeks.
   d) Is the lot being sold vacant or with tenants in-situ?
   e) Is the lot being sold as a freehold or a leasehold?
   f) What the deposit amount upon exchange is (usually 10% of the purchase price).
   g) Any costs that the seller wants to charge the buyer.
   i. This is also a very important section as a lot of the time, sellers' solicitors advise their clients to add fees in this section, which can be thousands of pounds on top of the final purchase price.
   *ii. Some solicitors connivingly add these figures in written words and not in numbers, making it easier for readers to miss when reading sometimes hundreds of pages of legal documentation. For example: 5% of the purchase price will be added to compensate the seller for costs incurred will be written as '**five percent** of the purchase price….."*

So be prepared as you have been warned!

Hopefully this will give you an idea of the importance of going through all the documents within the legal pack to get a real understanding of the lot you want to bid on.

If it's too good to be true … it probably is!

Remember that there will be very good reasons why a lot is being offered at auction and not via the traditional method of selling through an estate agent, which may fetch a higher price but take much longer. Whilst there could be a perfectly legitimate reason for choosing an auction setting, it is quite possible that the seller wants to guarantee the sale, or perhaps needs a speedy transaction and to complete in two weeks.

There are plenty of times when properties are put through property auctions because of some inherent issues. These 'issues' range can include:

- *defective leases*
- *presence of subsidence or Japanese knotweed*
- *selling with tenants in-situ but without all the necessary tenancies in place*

Detective work

It is our job to be the detective and try to identify as many of those issues as we can.

I am always apprehensive about bidding and buying if I have not satisfied myself of at least one or more reasons as to why this property is being offered at auction.

I would advise potential bidders to seek professional advice from a solicitor to review the legal pack and, if necessary, instruct a surveyor to inspect the lot prior to auction. In addition, contact a broker to discuss what financing mechanism would be available. (Connect with us at Quiddity Group Ltd on social media or email, details at the end of this article, and we should be able to help you further)

Once your due diligence is complete, you can then make a judgement call as to whether you want to take on the challenge of fixing any issues you have identified with the lot.

Margin call

It's all about the margins for investors. If the margins are sufficiently adequate for you to buy and fix the issues with the property, then it's game on!

What should you do prior to the auction to be ready?

Visit the lot/property

- Look at structure of the building and try to identify if there are any obvious major cracks.
- Make sure there is an actual access to the property you are buying!
- As you walk through the property, try to compute a mental estimate of the cost of repairs and refurbishment to bring it back to a decent standard.
- Are there any issues in the garden, such as Japanese Knotweed? It is usually flagged up in the legal pack if there have been signs of this aggressive weed.
- Estimate how long it may take you to completely refurbish the space. This is critical, especially if using bridging finance.
- What type of tradesmen will you need to engage?

Before the day of auction

- Ensure you have worked out your maximum bid (ie, the maximum price you will pay for the 'lot')
- Your maximum bid should take into account the following:
  - What will be the final valuation (GDV) of the property once you have refurbished it?
  - How much you will need to spend (labour and materials) to get it up to that valuation?
  - How long will it take?
  - What is your cost of finance for the estimated period?
    - Most people overestimate what they can achieve in the short term. Don't fall foul of that urge. Be realistic, otherwise it may cost you your profit margin.
  - What is the size of the profit (£££) you want to make on this deal?
  - Add all the figures (costs and profit margin) together.
  - Deduct the total cost and profit figure from the final GDV figure.
  - This will give you your maximum bid price.

Example
Here is an example with some numbers to help.

Guide price	**£200,000**
Reserve price *(This is what the seller will accept as the minimum and is usually 10% off the guide price). NB: This figure is not known to us prior to the auction.*	£220,000
GDV post refurbishment	£325,000
Purchase price under the hammer	£225,000
Deposit (you have to put down)	£56,250
Cost of finance (based on 75% of purchase price – £225,000)	£168,750
Bridging cost per month *Bridging Loan Interest Rate for 6 months at 1% per month of the loan amount. Total cost of bridging circa 1.5% per month, when including all other fees such as arrangements and legal.*	£2,531
Total bridging cost for 6 months	£15,187
Legal costs to buy and refinance	£2,000
Stamp Duty *including 3% investor surcharge*	£6,750
Refurbishment costs	£ 30,000
Anticipated profit mrgin	£40,000
TOTAL	**£93,937**
Actual profit realised if you sell at GDV value of £325,000. *This is the profit margin we wanted to achieve (£40,000) + the difference between the new value created of £100,000 less the costs (£93,937) incurred to achieve that = £6,063.*	£46,063

Above everything else you ***must*** remain disciplined and stick to your maximum bid figure.

Remember there will always be another auction and another good deal, so don't overpay.

ABOUT AZID

Azid worked in the Pharmaceuticals Industry for 20 years, holds an MBA and an Msc in Economics from The London School of Economics (LSE). He remains an aggressive and active property investor even after 24 years and is a Property Expert on Sky Tv as well as a contributor to several property magazines.

He focuses on buying below market value multi-unit freehold block of flats and title splitting them to create value to recycle all of this capital out to re-use. He also coaches investors on a 1-1 basis.

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The next title splitting course is 24-25 November. See website for details:
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Author of two books, available on Amazon:
Grow your Property Wealth with Title Splitting
Scale your wealth through Properties