

# Homes Under the Hammer

## Introduction into Land and Property Auctions

**Britain's housing market is still failing after the 2008 crisis, with many people not able to buy and some not even able to rent a decent house or flat. Despite help-to-buy schemes, larger funds for housing, and more new builds available, buying at auction is still popular. The auction is a unique opportunity to acquire property cheaply and quickly, not only by investors but also by residential buyers. The time and price are lower due to the reasons the property was put for sale at auction. Mainly it is the disposal of the assets after death, the sale by landlords or property portfolio owners, or the need to sell quickly due to bankruptcy, repossession, or to clear debts that are the reason a property owner would take advantage of the ease of selling at auction. Most of the properties at auction are in need of improvement, but there are also newly built homes or flats. Many residential properties are sold subject to an existing tenancy.**

Auctions feature the guide price and a reserve price, but it does not guarantee that buyer will get a price below the market value. In reality, an attractive property might cost more at auction than when bought through an estate agent. The guide price is often less than the final bid, while the reserves are set to ensure that the property will not sell under value. The costs connected with buying at auction are the administration fee, the stamp duty, solicitors' and survey fees, and often, a buyer's premium to the auction house or arrangement fees for the loan. The process of buying at auction starts with browsing the auction houses' catalogues in desirable areas. Some auction houses specialise in commercial or residential properties, but there are many that offer rural land plots or farms. After a property is found, it is essential to check for how much similar properties have been sold in the area. It is

also prudent to obtain a copy of the title register and plan for the property from the Land Registry or the Local Authority, which usually show the previous price paid for the property.

The auction houses provide legal packs, which contain title deeds, land surveys, structural surveys, and other documents that allow potential buyers to identify covenants related to restrictions on the use of the property, provide some rights to previous owners or neighbours, or describe the rights of maintenance. Moreover, the legal checks and searches upon the property will confirm the legal title and use of the property or land. Solicitors will also help to verify the lease documents if the property is purchased as a leasehold or to run the chancel check to ensure that all restrictions on land use are apparent. The buyer has to be made aware of service charges, peppercorn rents, or some

restrictions that can be connected with the use of water, drainage, or electricity. If the property is bought on a mortgage, lenders will require a survey, so another step is to arrange a viewing of the property and the surveyor. Most auction properties have a timetable published online by the auction house for viewing the property. It is essential to decide the highest bid to pay for the property, and these funds have to be available before the day of the auction, which might require the arrangement of a mortgage with the confirmation that it will be finalised within three weeks from the sale date to avoid losing the deposit. There is also the possibility of submitting an offer before the auction start, and the vendor will decide whether the pre-auction offer is acceptable. It is worthwhile attending several auctions as an observer to become familiarised with the environment and procedures.



### The Traditional Method

At the auction, the auctioneer will briefly describe the lot and the general conditions of sale and begin the bidding. The bidder has to acknowledge if there are any addendums. Usually, the auctioneer will process approximately 25 lots per hour. Only one person may bid, including the auctioneer (the telephone or proxy bid). The bidding process is straightforward, and if the intending purchaser is successful in his or her bid, then, firstly, the Memorandum of Sale will have to be filled in. Secondly, the deposit will need to be paid plus a fee to the auction house. Deposits can be taken in the form of a bankers' draft, building society cheque, or personal cheque. The purchaser, as the property owner, will be responsible for arranging the adequate insurance policy as soon as possible. The remaining balance is typically required within 28 days

unless otherwise stated. Penalties will apply, and the deposit will be lost if the sale not completed on time. If no bids for the property are accepted due to the reserve price, the lot is withdrawn from the auction. However, it may be possible to agree on a deal later on.

### The Modern Method

The Essential Information Group (EIG) monitors all auctions in the United Kingdom and provides comprehensive information about every property. From their analysis in October of this year, 162 auctions and 3,266 lots went under the hammer. The market has slowed down since 2014, especially in the residential sector. Residential purchasers often prefer more relaxed time scales and are put off by worries they might lose their deposit. Due to such requirements, many auction houses offer a modern method of

auctions using online platforms. All properties are offered for sale until the deadline date, and once a bid is successful or an offer is accepted, the reservation fee has to be paid within 48 hours. When the Memorandum of Sale is issued, the buyer is given a maximum of 28 days to exchange the contracts, pay the deposit, and agree on a completion date, which takes place within another 28 days. Property auctions are not for everybody, but they are worth a look due to the speed of the sales and the certainty, value, and transparency. The traditional method is more appropriate for investors or property portfolio holders. The process of the modern auction is more residential client-friendly, allowing a longer period for exchange and completion of the sale so as to give the buyer more time to arrange financing.