

### **Some tips for buying at residential auctions from Richard Blanco**

*Please note: this is a landlord/developer's perspective, you should always seek professional advice on legal, financial and surveying matters. Details correct in December 2017.*

The advantages of buying at auction are that it is a good place to find development opportunities, there is a fast turnaround, you don't have to haggle via estate agents and you can - sometimes - get a bargain. The disadvantages are that properties may have problems that are not obvious and there may be a degree of uncertainty around legal issues and their condition. There may also be uncertainty about whether you can borrow money secured against the property. Viewings are normally at set times, so you will need to be free then or may not be able to view. The biggest disadvantage is that you are pitted against all your competition on the auction day: lots of developers also looking for a good deal and often somebody determined to buy the lot you are interested in at any price.

There are numerous auction houses across the UK. In London the main ones are Savills, Barnard Marcus, McHugh & Son, Allsops, Andrews & Robertsons and Strettons. They usually hold auctions at central London venues bi-monthly and you can check their websites for more details. A good central information source, where you can even watch auctions online, is [www.eigroup.co.uk](http://www.eigroup.co.uk).

Most residential stock offered for auction is in need of repair or modernisation. It may be a run down ex rental property or probate where an older person has passed away or a landlord or housing association off-loading stock. The adage "if it's in the auction, there's usually trouble" is often true, because if it were easy to sell, it would be offered via an estate agent through private treaty. There are often structural issues such as subsidence and damp or a conveyancing problem, for example land with no access, lost deeds, a divided property with no planning permission or a title with a caution on it.

The kind of development opportunities that are offered at auction might include land, advertising hoardings, freeholds with a ground rent, a property with a regulated tenant, a 'wreck' with planning permission or a house with potential to divide into flats. Note that often properties with tenants are difficult or impossible to view. Some properties are reposessions and might have been neglected by a bankrupt landlord, others will be flipped by a developer who has managed to pick up a property cheaply via an industry contact.

The way it works is first you pick up a catalogue or view online. You need to plan ahead and put auction dates in your diary to avoid resorting to telephone or proxy bidding. You'll need to attend group viewings, organise finance and get advice from a lawyer and maybe a surveyor. On the day of the auction, you'll need ID and 10% of the purchase price sitting in your bank account as cleared funds. If you bid and succeed, you will have exchanged contracts on the fall of the gavel. You'll need to insure the property immediately and usually complete with 28 days.

There are four main challenges. The first is you could be doing endless viewings. So you need to establish clear criteria. What type of property are you interested in, what type of condition, how much trouble are you prepared to deal with, what is your budget and what are your plans post works? Secondly should you commission a survey? If you did this for every property you're interested in you'll be looking at a hefty bill. There is a big chance somebody else will buy it on the day or it might get withdrawn. So I recommend you develop your own surveying knowledge. Good books for this are: *The Construction of Houses and Understanding Housing Defects* by Duncan Marshall and Derek Worthing. You might want to get a builder to view and quote for work, but you will ultimately need to develop your own ability to work out ballpark figures for refurbishment.

Thirdly, should you involve your solicitor? If you have a good relationship with them, they may look over the paperwork for you without charge. It's usually available on the auctioneer's website. The more you go to auction, you'll get used to the sorts of issues that come up: unregistered titles, cautions and restrictions and matters in the special conditions. The fourth challenge is getting a mortgage. Many bidders are cash buyers for a reason. Most auction properties will fall outside of mainstream lenders criteria, because if they do not have a bathroom and kitchen in workable condition they will be deemed uninhabitable. If that's not an issue, then damp will put many mainstream lenders off and if there is evidence of subsidence or legal problems, then forget it. Remember that the lender will have to process your application within 3-4 weeks, which many can't do. You will also have the six month rule to contend with, where most lenders will not offer a mortgage on a property within less than six months of it being purchased or if the vendor has owned it for less than six months. So once you've bought it, you will not be able to apply for a remortgage from most lenders until you have owned the property for six months. Note that you will only be able to get basic FLEA insurance on a property that is vacant and/or in need of works.

So how on earth do you finance an auction purchase? There are a range of options: commercial lenders, short term funding and light refurbishment loans. Saffron is one of the few traditional lenders that offer light refurbishment loans, where they advance a further loan once works are complete. Commercial loans were traditionally offered by high street banks like Barclays, Lloyds and Bank of Cyprus. But this space is being increasingly occupied by specialist lenders like Shawbrook, Axis, Fleet, Landbay, Precise, Aldermore and Kent Reliance. A good place to scour the market and see what is available is the online quotation system on NLA Mortgages. Typically you can borrow up to 70% of the value of the property with a 1-3% arrangement fee at anything from a 3-6% mortgage rate. Some specialist lenders also offer refurbishment products. If you are unable to get commercial finance – possibly because lenders can't turn the application around quickly enough – then you will have to resort to short term finance, which used to be called bridging. Commercial Acceptances offer the most competitive terms with no arrangement or exit fee and 0.75% per month up to 50% loan to value or 0.85% up to 65% loan to value. Note that at those sorts of rates you will want to re-finance on to a cheaper deal as soon as you can. Some lenders won't allow you to refinance until you have owned the property for six months so make sure you can meet the high payments for at least that period of time and only go into short term finance if you have a clear strategy for exiting.

Are you ready to buy? You will need to go into the room knowing about the legal and structural issues, the rough cost of any works, current value of the property and post works value, rental valuations and demand in the area and how you're going to finance your purchase. Having made a well informed decision whether you want to buy, you must decide the maximum you are prepared to pay. You should also position cleared funds.

Now you're in the room, think about your tactics. Remember the guide price may have been set low to entice people to go and view the property. A confidential reserve price will have been set that is the lowest the vendor will sell for. Sometimes it is possible to do a deal before the auction or afterwards if it doesn't sell. There may be telephone or proxy bids, I personally prefer to be in the room to get the feel of the bidding. Stand where you feel comfortable and can see what's going on. Start your bidding low and go up slow. Or go in at the end and try and knock out the last bidder. Don't be intimidated by the auctioneer who may try to humiliate you. Know your limit and stick to it.

There are some post purchase issues. If you fail to complete on time, you will pay a daily penalty and will ultimately lose your deposit. If the property is squatted, completion will be delayed. Remember properties have been openly viewed and may be subject to theft and vandalism between exchange and completion. There may be access problems if the vendor doesn't allow you to have keys until completion, on the other hand some vendors allow works to take place in this period because in effect you will be the contracting purchaser.

If you want to dip your toe into the auction world, get some catalogues or have a look online. Go to some viewings and talk to people about their experiences. This will also help you get a feel for the types of properties you're interested in. Do a dry run: imagine there is a property you want, do the figures, go to the auction and observe what happens. You can then do it for real next time. A colleague of mine says to succeed at auction "you need nerves of steel." I'm not sure it's quite that bad, but it can be stressful, so you certainly need to do your research and have your wits about you.