

# Buying property at an auction

An auction is a gathering of potential buyers who publicly bid for a property. It is usually conducted by an estate agent, acting as an auctioneer and governed by strict rules. Buying property at auction is very different to other property purchases. The bidding process is public and if the hammer falls and you are the highest bidder, you have to sign the contract right there and then. This means you must be sure you are bidding on a property that you can buy.

Become informed on key things to know before you start bidding.

## Auction language

Understand the following auctions terminology:

- Reserve price - before the auction, the vendor (seller) will set a price with the auctioneer that is the minimum price they will accept. If the reserve price isn't reached during bidding, the auctioneer will privately ask the vendor if they will sell at a lower price.
- Passed in - if bids do not meet the vendor's reserve price, the auctioneer will seek more bids. If bids still do not meet the reserve, the property may be 'passed in' or 'withdrawn from auction'. The highest bidder then gets first right to negotiate with the seller.
- Fall of the hammer - towards the end of the auction, the auctioneer will call for any final bids. Once there are no more bids, the auctioneer will count down the 'fall of the hammer', which will signal the end of the auction. No bids can be made after the fall of the hammer and the highest bidder is legally obliged to sign and exchange contracts.

## How does an auction work?

To participate or bid at an auction, potential buyers must register with the vendor's agent and be given a bidder's number. The auctioneer oversees the bidding process. They take bids from potential buyers and keep track of the current bid price. Before auctioning a property, the seller will nominate a reserve price, which is usually not advertised. If the bidding continues beyond the reserve price, the property is sold at the fall of the hammer. If you

are the successful bidder, you must sign the contract of sale and pay the deposit on the spot (usually around 10 per cent of the purchase price).

## Difference between an auction and private sale?

Auctions differ from private sales as there is no cooling-off period:

- after the seller and buyer exchange contracts
- if contracts are exchanged on the same day as the auction after the property has been passed in.

If you are bidding at an auction, you must be ready to exchange contracts and complete the sale. Otherwise, you will lose your deposit and may be liable for any damages suffered by the vendor.

## What happens on the day of auction?

On the day of the auction, the property may be open for inspection, usually half an hour before the auction starts. Use this opportunity to take a final look at the property, the contract and auction rules.

Agents must give all potential bidders a copy of the *Bidder's guide* before the auction. The *Bidder's guide* contains important information you need to know, such as how you register to bid and what kind of identification you must provide to register. It is important to know how to register as you cannot bid if you are not registered. Agents are also required by law to have a list of the following auction conditions clearly visible for all potential bidders:

- the highest bidder is the buyer, subject to any reserve price
- the auctioneer is entitled to make one bid only on behalf of the seller
- before the auction, the auctioneer must announce that the auctioneer is permitted to make one bid on behalf of the seller
- the auctioneer must announce immediately before, or in the process of making the bid, that he/she is making a vendor bid

- the auctioneer can refuse a bid that is not in the interest of the seller
- the auctioneer has no authority to accept a late bid (a bid after the fall of the hammer)
- if there is a disputed bid, the auctioneer is the sole arbitrator and makes the final decision
- the successful buyer's name must be given to the auctioneer as soon as possible.

Attend a few auctions as a spectator to become familiar with the auction process. If the price is getting too high, you need to be able to walk away. This may be one of your biggest decisions, so it is worth making the right one, and being as well prepared and informed as possible about buying property.

### Pre-auction offers

Sometimes the vendor agrees to consider pre-auction offers, which you can make through an agent before the auction. The negotiation process is the same as buying by private sale. If your offer is accepted less than 3 clear business days before the auction date, you do not get a cooling-off period.

### What can I do to prepare for an auction?

Before you bid at an auction, consider the following:

- Do I know the market?  
Research, research, and more research. When you have decided on the type of property you want, and what areas you are looking in, inspect as many similar properties as you can. Look at recent sales of similar properties. Go to auctions for similar properties. There are many upfront costs for preparing for an auction (eg. building report, strata report, pest inspection report). Research will help you better anticipate a property's likely sale price. This will help you avoid investing money upfront in checking a property's condition if you can assess that the property is likely to sell for a price outside of your range.
- What kind of property am I buying?

Understand the differences between owning a house, and owning a property in a strata or community scheme. Each has different ongoing costs and obligations.

- Am I ready to go ahead with the purchase?  
If you are the highest bidder, you have to sign the contract, and there is no cooling-off period. If you cannot complete the contract you will lose your deposit. Before you bid at an auction, ensure you have:
  - your finance unconditionally approved (not just pre-approved). Confirm with your lender the maximum amount you can borrow.
  - enough money on hand to give a cheque for the deposit (this is usually 10%).
  - thoroughly inspected the property and know the property's condition. This includes obtaining professional building inspection and pest reports and reviewing any strata reports (if the property is in a strata scheme).
  - reviewed the contract with your solicitor/licensed conveyancer and are comfortable with its terms.
- What is my maximum purchase price?  
Before you go to an auction, you must know exactly what your maximum purchase price is. If you go over it and need to borrow more, you may have to pay for lender's mortgage insurance. This will affect your repayments and could go beyond your budget.
- Is this a property I really want and can buy?  
Be sure that the property meets your requirements and is one you can afford. Consider whether it is close to the amenities you need, any repair work needed, noise levels, if there is enough space, and if you can afford the repayments.

Help inform your decisions by reading information in the Buying property section on the Fair Trading website, covering the process from start to finish.