

## EXPLODING THE AUCTION MYTH

It is a long-held myth that public auctions outperform controlled negotiations as a selling method. Sure, on very rare occasions when there is a bidding frenzy in a strong market and two or more buyers are determined not to be outbid for the property, a stunning price in excess of the expectations may be achieved.

Could a better result have been achieved with less stress and risk though? Almost certainly, yes.

Whenever you have the fortunate situation of having more than one buyer trying to buy your home, the worst thing an agent can do is disclose the competing offers to each of the interested buyers. If you do, the buyers bids then become incremental, whereby a buyers next bid is governed by the previous buyers last bid.

At public auctions, each bidder's focus is on outbidding the competing buyers with bids of \$1000 or \$5000. As the reserve price is met, buyers minimise their bids as opposed to offering the highest price they are prepared to pay for the property.

Merely selling to the highest bidder, as opposed to selling to a buyer who offers their highest walk away price, is why almost all auctions fail to achieve the best price possible for home sellers.

For example, if one buyer is prepared to pay \$1.1 million to buy your home and the under-bidder is only prepared to pay \$1 million, it is mathematically impossible for a public auction to attain the best price by drawing the additional \$100,000 from the winning bidder. It might draw \$5000 or even \$10,000 extra, but that will be it. The seller missed out on \$90,000 because the auction's bidding process failed them.

In today's turbulent market, many agents push the auction process as the best method of finding out the true market value of your home.

In reality, an auction achieves the second best price plus one bid. A public auction that achieves a sale under the hammer will stall at the underbidder's highest price. In effect this leaves the best buyer in a position to buy the home with a measly \$1000 bid.



Gallingly, even though they were prepared to bid significantly more, if required.

Home sellers are told the auction deadline will pressure buyers into offering more. However, as the auction deadline draws closer, the pressure is often transferred back onto the seller by the agent. They pressure their vendor to drop their reserve price. Agents call it 'meeting the market'.

This especially damages the price of your home if the property is passed in because of a bargain hunter's low bidding on auction day. Any chance of a high price is destroyed when your home is passed in for a low price, in front of a big crowd. The best buyers in the market place will wonder what is wrong with your home given it failed to sell on the big day.

Further evidence that auctions don't attract the best price can be found in the success many vendors achieve by passing their home in and holding out for a higher price. It is extremely common for a property to be passed in at auction, only to sell for a higher price a week or two after the auction.

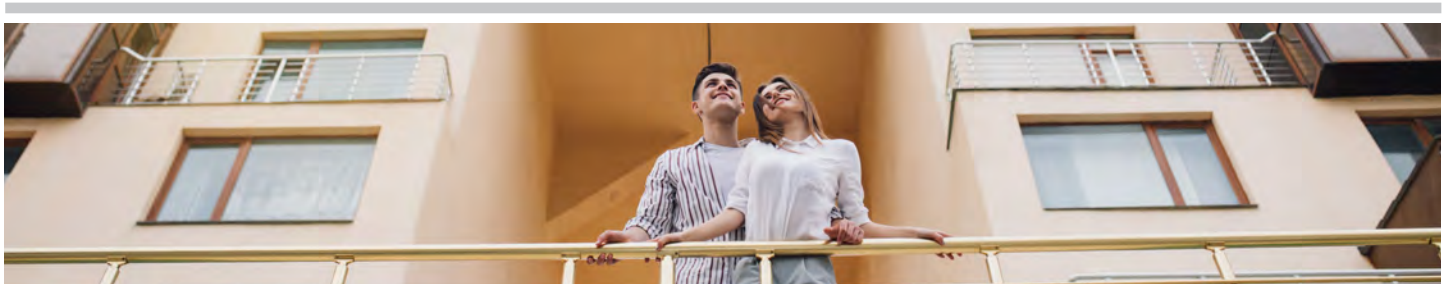
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# BUYING AN APARTMENT?

## THESE SIMPLE TRICKS CAN HELP SAVE YOU THOUSANDS

The defects apparent in apartment buildings are dominating the news and has done so since the Opal Tower story broke last Christmas Eve. However, don't mistake the current news cycle as new news when it comes to the build quality of apartments.

Admittedly, the seriousness of the issues does seem to be escalating. We have compiled a list of some basic issues to look for when buying an apartment. Whilst we don't promise the points raised below are all encompassing, they will assist you in the marketplace if you heed the advice.

**Historical records** – many people take comfort in the strata report. Whilst you should read the strata report (don't delegate it to your lawyer), understand a strata report covers fairly recent issues. By understanding the building's full history, you are better placed to make a purchasing decision.

**Car park and fire exits** – for some reason, anecdotally, the quality of a development is often reflected down in the car park where the pipes and infrastructure are on display. High quality buildings are obvious at first glance in the car park. Poorly built or poorly run apartment blocks will often have leaking pipes, decaying concrete, rusted support and the like on display. The cheap quality of the imported materials used in construction have become apparent over time. This is a flashing red light that you should adhere to.

**Neighbours** – whether buying a house or an apartment, speaking with the neighbours to get the 'local goss' is a hugely underrated element of buying a property. Rest assured, the neighbours will tell you what the agent won't.

**Common areas** – how well maintained are they? The state of common areas and fixtures is a telling indicator as to how proactive and responsive the strata manager is or isn't.

**Building inspector/engineer** – many people mistakenly believe they don't need to or should not get a building inspection or engineer to inspect their proposed

purchase. Going forward, having a professional inspector offer a detailed condition report on the subject lot and the complex at large will become the norm for buyers. As it should have been all along. Don't just rely on the written report, attend the property at the same time as your inspector to gain a practical assessment where you can also ask the inspector questions.

**Builder/Developer/Architect** – who built the property and are they credible? As outlined in the recent *Four Corners* story on apartments, watch for the overuse of a renowned architect's name. The story highlighted how some developers use a high profile architect for initial plans but then use a cheaper third-rate option to finish the plans and construction phase off.

**High rises and conversions** – unfortunately they both now fit into the high-risk category for apartment buyers. Before brand new high rises became the unwanted face of apartment defects, factory and warehouse conversions were the most common area of defects and building issues. It is not to say don't buy these apartments, rather be extra careful.

**Age** – the newer the build, the less everyone knows about its durability and vice versa. There is much to be said for purchasing a building that is over 10 years old. Any issues are far more likely to have come to the surface. The goal is not to find the perfect building but to avoid a disaster block and/or have a sense of issues before buying rather than after buying (when it's too late).

**Cheap build, expensive fittings** – many developers bamboozle buyers with high quality appointments. A Gaggenau oven or Miele dishwasher won't do you any good if the entire building has plumbing leaks.

**Off the plan** – buying an apartment off the plan is the equivalent of buying the developer's promise. Therefore, we won't even attempt to address the risks that exist in this space in this article.



# THE SPRING MARKET

As the property market continues to recover this spring, buyers and sellers are well advised to focus on 5 key areas that will largely shape the market's performance. Leading into spring, the market conditions seemed to be improving week to week.

The recovery to date has not been linear across market segments. Some niche markets such as inner-city houses have rebounded strongly whilst apartments in suburbia continue to struggle. Generalised commentary such as 'Sydney house prices' won't help a Birchgrove home buyer nor will 'inner city apartments' assist someone looking to downsize to a waterfront apartment.

**Stock levels/days on market** – vendors benefited whilst buyers were left frustrated by the historically low stock levels over winter. Market pessimists claimed the economic fundamentals were weak – but when there are more buyers than sellers, vendors hold the advantage regardless of the fundamentals. Sometimes the market can play the other way – whereby the fundamentals are healthy but the market is over supplied with stock, giving buyers an advantage. The recovery in Perth will look this way when their State economy shows strong improvement, the housing market will initially lag until excess stock levels are cleared.

**Core Logic monthly index** – normally, you would not suggest an index would influence the performance of a market. It is normally the other way around; the market shapes the index's reading. The Core Logic monthly index accurately tracked the downturn and has quickly become the most credible source of the market performance. In recent months, the index has shown the market tracking positively which then feeds into buyer confidence.

With money being cheap and readily available, buyer confidence is the final requirement for the market recovery to really take hold. We have already seen many sales that suggest the market recovery is becoming more aggressive and reflective of early 2017 and The Core Logic monthly index is where many commentators, forecasters and buyers will take their cue.



**Rental market** – the inner west rental market is falling, across the housing and apartment market. This is likely to impact the market in one of two ways. Firstly, demand will be muted as investors are less likely to be interested in buying a rental property at a time of falling income.

Secondly, existing landlords may be tempted to sell by the higher sales prices on offer, at a time of lower rental returns. This could potentially add to stock levels (supply). We have already seen this trend over winter as a disproportionately high number of landlords opted to sell rather than re-let their property as it became vacant.

**Bidders per property** is without doubt the best metric to measure market depth. During the downturn, finding one fair and reasonable offer was a feat for vendors. This is why many properties were either 'Sold prior to Auction' or were simply 'Withdrawn'. When faced with an environment of one or no buyers, trying to engineer a competitive auction is optimistic.

In recent times, the number of bidders has increased enormously. We are regularly seeing up to 5 or 6 bidders per property, highlighting depth in the market which will ultimately push prices higher.



**The apartment market** has copped an absolute shellacking since the Opal Tower cracked last December. Interestingly, buyers have still shown a propensity to purchase apartments, albeit with added caution. If there is one common denominator in the few instances of building defects, it is high rise apartments less than 7 years old. This will inadvertently make older, established apartment blocks more appealing to home buyers. A complete loss of buyer confidence in the apartment market would be catastrophic for the market and the economy. Hopefully this can be avoided.

## Competence Doesn't Just Happen A message from our mentor - Gary Pittard



Let me introduce you to Joan Carter, who retired on 30 June 2018, ending a successful twenty-four year career in real estate sales.

Before real estate, Joan was a school teacher. Throughout her career, she was often in the Top Ten Salespeople in the Pittard rankings. She was part of a very impressive pool of winners whose results far exceed typical industry averages. Joan was often in the top three. Throughout her long career, Joan set a standard to which many people would never have the guts to aspire. She was a shining example of everything a real estate salesperson should be – a person of character who'd never lie or stretch the truth to make a sale. She was a winner who wrote high figures consistently from the beginning to the end of her career. Joan was no 'one-hit wonder'.

I've heard salespeople say things like, "I've been in real estate for thirty years" as though it's supposed to mean something. What does it matter if you've been in real estate that long if your results are poor?

These people will say, "I don't need to prospect – I get plenty of referrals". But they have seldom nurtured their networks and the truth is they don't get that many referrals. Some of these self-appointed superstars write little over \$130,000 in fees per annum.

Competence doesn't just happen. Time in the industry is no guarantee of competence or high results. Nor is it a guarantee that you have joined the ranks of true professionals.

Champion cyclist, Anna Meares once said, "True success is measured in longevity". This certainly sums up Joan Carter, who enjoyed a long career with high results and happy clients.

Not a person to cruise toward retirement, Joan decided to finish with a bang. In her last year in real estate, she produced \$815,327 in fees, all in a country town with a population of 3,800 people – that's people, not properties. In her last quarter she produced \$188,446 in fees. Now that's a winner!

Ask Joan the secret of her longevity and success and she will tell you that she is a product of consistent training, dedicated practice and large amounts of competent action. Joan was never too busy to attend training and never once uttered the famous loser line, "Been there, done that" when referring to training.

The reward for competence is high levels of client satisfaction, trust, and a high income. It's worth working for – competence doesn't just happen.

### TAKE ADVANTAGED OF OUR FREE BOOK GIVEAWAY

'Exploding the auction myth' is **Chapter 33** of **Real Estate Uncovered** by **Peter O'Malley**.

Secure your **FREE**, No Obligation copy, by contacting **Harcourts West Ryde** now and we will send it out to you within 24 hours



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