

How to make a pre-auction offer

Negotiations Buyers need to know the unwritten rules, writes **Duncan Hughes**.

Property sellers are increasingly negotiating a deal before a public auction because of fears that slowing markets will mean a lower price, say buyers' agents who claim one in three of their deals are made in the final days leading up to the advertised sale.

But "flying blind" by pitching a pre-auction offer without understanding the unwritten rules of engagement between real estate agents and their clients can end disastrously, according to Cate Bakos, vice-president of the Real Estate Buyers' Agents' Association, a peak industry body for buyers' agents.

Bidders' offers can be lawfully revealed to other buyers who might have expressed interest in the property during the pre-auction, bidding up the price and potentially exposing a sellers' best price, says Bakos.

Lack of transparency, lax regulation and notoriously different terms of engagement between competing agencies means that buyers are vulnerable to being played along by the seller and their agents, who are paid by commission based on the final sale price.

"There is no legislation that defines how agents must present a competitive pre-auction sales campaign, other than that they are bound to be honest and present all offers to the vendor," says Bakos.

For example, 18 agents in NSW have been charged with under-quoting in the first two months of this year, compared to 47 for all of last year, according to NSW Fair Trading.

Agents claim non-compliance is widespread and that low fines and patchy monitoring emboldens many to risk breaking regulations.

Kanada and Ryan Earles recently bought a family home in the western suburbs of Melbourne by making an offer after the vendor's first deal fell through after an auction.

"We are so green with property [that we opted to go with a buyers' agent]. We felt very vulnerable because we did not understand the way it worked," says Kanada.

"We had no idea about the terms, technicalities and, having previously rented property, little understanding that the real estate agents were representing the seller and are paid by commission based on the property's sale price."



They used a buyers' agent with experience in the local market to finalise negotiations.

Some agencies set out the rules of engagement, some base them on the number of competing buyers, while others have what are euphemistically called "individual preferences", which can mean they make up the rules as they go along.

Real estate agents claim that buyers and sellers are often in a better position to negotiate away from the pressure of a hard-fought public auction.

But buyers need to be aware of their bidding options and attempt to set some rules at the outset.

"That way you can decide whether it is a good or terrible idea because they don't suit every buyer," Bakos says. She estimates about one in three of her deals involve some form of pre-auction negotiations.

"Not all competing processes suit all buyers, so making the decision that is right for you is vital."

In Victoria and NSW, agents provide vendors with a "statement of information" that includes a "reasonable" indicative selling price based on recent comparable sales, the median price for that suburb and details of three comparable property sales within two kilometres of the property over the last six months.

Agents can quote a price range but there cannot be more than 10 per cent between the

Cate Bakos says buyers need to choose a competing process that is right for them.
PHOTO: ELKE MEITZEL

bottom and top price. Some agents get around it by claiming there are no comparable sales, according to industry specialists.

Some buyers' agents, like David Morrell, a director of Morrell and Koren, advises caution because a bid can be used to leverage a higher price by revealing to all bidders what each is offering.

He claims real estate agents attempt to grab the high ground by keeping buyers in the dark about the price, the number of bidders and sellers' readiness to do a deal.

"Too many buyers mistakenly think that by making a pre-auction offer, theirs will be the only offer presented to the vendor," Bakos adds.

One of the following strategies is usually used in a pre-auction offer.

Boardroom auction

This involves competing buyers meeting in a room, typically an agent's boardroom, and bidding against each other.

Meeting face to face limits the risk of being bluffed about the number of other bidders or their intentions.

"While it feels like an auction, auction rules might not apply," warns Bakos.

For example, cooling-off periods might not be available.

Sellers might also not accept conditional offers that make the bid subject to finance, inspection or the buyer selling their existing property.

Round robin

These are usually by phone, or an agent communicating between bidders.

The assumption is the winning bidder will sign the sale contract. But the successful bidder is not legally bound until the deal is signed.

Buyers are usually relying on the integrity of the agent in being the go-between.

It's imperative to remember that selling agents are acting on behalf of the vendor to get them the highest price.

Best and highest

This involves a secret ballot where buyers are set the same deadline to submit their "best and highest" offer.

"A buyer can sometimes get lucky and buy at their best and highest price when they would most likely have been outbid at an auction," says Bakos. "But in most cases it ends in remorse and disappointment."

Lack of transparency means buyers might overpay by a large amount.

"Buyers usually don't like flying blind or 'guessing' prices," she adds.

Dumb reasons to say no to apartment solar

Flat chat



Jimmy Thomson

This month a new online tool was launched, allowing you to calculate how much solar power you could generate from your rooftop.

The SunSpot platform has already attracted media interest with stories about its benefit for residential and commercial roof spaces. One statistic that leaps out is that if the roofs in Sydney's CBD were "solarised", it could save businesses 14 per cent of their electricity usage.

So why are apartment and office blocks so reluctant to embrace the technology? It could be a mixture of not knowing and not wanting to know. But electricity demand is not going to diminish any time soon. Air-con usage will only grow with global warming and soon your building may have to provide charging stations for electric cars and mobility scooters.

So here are five dumb reasons we've actually heard – and one valid one – for saying "no" to solar.

1. The technology is still being developed

Well, that's true and great strides are being made in the development of photovoltaic efficiency. But you shouldn't let perfection be the enemy of good.

If most potential mobile phone users had waited until there was no possible improvement in the technology, we'd still be using payphones.

2. It only works during daylight hours

Correct. But what about all the interior lobby and car park lights and lifts that operate all day. And if there's any excess, you can sell it back into the grid or store it using rapidly improving battery technology.

3. It will damage the roof membrane

Really? Do you think professional installers have never encountered an apartment block roof before?

4. It might blow off the roof and kill someone

See the previous answer then talk to your insurer.

5. It would cost more to pump the water on to the roof than you would save

Seriously, this objection was once raised by a committee chair who couldn't tell the difference between photovoltaic cells and a domestic hot water booster when it was suggested his building might boost its swimming pool heating through solar panels.

There are as many other daft responses to the potential of solar as there are committee members who just don't want to know. But there is one fairly compelling argument too.

Looking at ways you can save money and cut down on greenhouse gases from the generation of energy, some basic housekeeping might be explored before you turn your roof into a power station.

Using motion sensors in garages and public areas to turn on, preferably, LED lighting, represents a massive energy saving. Then there's water conservation. A few dripping taps boost electricity demand because the water in your block has to be pumped up several floors just to get it into your system.

And, as the greenstrata.com.au website explains, once you've taken care of wastage, the need for solar generation is less of an economic imperative and more of a socially responsible idea.

Jimmy Thomson edits the strata living advice website flat-chat.com.au. Different states have different strata laws.

Pick of the bunch

Top 5 mortgages v what's on offer from the big banks for a \$500,000 home loan*

Standard variable owner-occupied loans

Institution	Product	Interest	AAPR	Upfront fees	Ongoing fees
Reduce Home Loans	Stellar Home Loan	3.39%	3.37%	\$1,270.00	Nil
Mortgage House	Pure & Simple Summer17 Special-OO	3.44%	3.44%	-	Nil
Easy Street Fin Services	Standard Var Rate Home Loan - P&I Special	3.49%	3.50%	\$500.00	Nil
Homestar Finance	Owner Occupied P&I Variable 150-749k 70%	3.49%	3.50%	\$638.80	Nil
Freedom Lend	Freedom Variable PI 500k+ 80%	3.49%	3.51%	\$730.00	Nil

Major banks

CBA	Extra P&I	3.99%	4.00%	\$200.00	Nil
ANZ	Variable P&I 80%	5.20%	5.23%	\$760.00	\$5mth
NAB	Tailored Variable - P&I	5.24%	5.28%	\$600.00	\$8mth
Westpac	Rocket Repay Home Loan P&I	5.24%	5.28%	\$750.00	\$8mth

Standard variable investment loans

Institution	Product	Interest	AAPR	Upfront fees	Ongoing fees
Reduce Home Loans	Investor Rate Buster High Lend	3.74%	3.73%	\$930.00	Nil
Freedom Lend	Investment Freedom Variable PI 500k+ 80%	3.74%	3.74%	-	Nil
Homestar Finance	Investment P&I Variable 150-749k 70%	3.74%	3.75%	\$638.80	Nil
Pacific Mortgage Group	Investment Variable P&I	3.79%	3.79%	-	Nil
Aussie	Inv IQ Basic Variable PI 70%	3.89%	3.90%	\$363.00	Nil

Major banks

CBA	Inv Extra P&I	4.44%	4.45%	\$200.00	Nil
Westpac	Rocket Investment Loan P&I	5.79%	5.83%	\$750.00	\$8mth
ANZ	Investment Variable P&I 80%	5.80%	5.83%	\$760.00	\$5mth
NAB	Investment Tailored Variable - P&I	5.80%	5.84%	\$600.00	\$8mth

*Rates correct as at April 13, 2018. The search results do not include all home loan providers, and may not include all features relevant to you. AAPR: Average Annual Percentage Rate; actual rate of loan including interest rates, fees and other costs.

