

# MODERN METHOD OF SALE... OR LAZY ESTATE AGENCY?

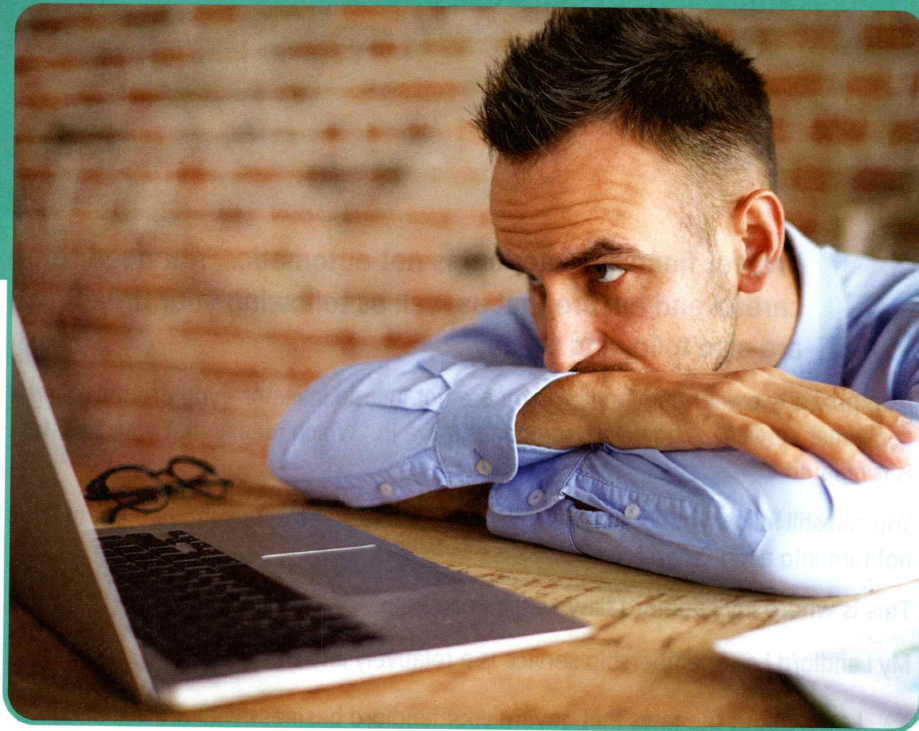
By **Graham Kinnear**

**L**ast month we discussed the due diligence that should be undertaken by people who are considering purchasing at auction; this month we are going to look at the types of auctions being utilised for the disposal of property.

The traditional property auction is likely to be the format with which you are familiar. Under traditional methods, the fall of the hammer following competitive bidding either in person, over the telephone or online, constitutes exchange of contracts and you are obliged to complete the purchase normally within 28 days of the auction.

The clear advantage to this method is that there is certainty for both buyer and seller that the property has sold. The auction fees for the seller are slightly higher than via the traditional estate agency route, but generally appear reasonable given that a speedy and certain sale has been undertaken following a fairly short (typically three-week) marketing period. For the buyer, they typically pay an auction admin fee of around £1,200. In addition, the auction method ensures best price is achieved given that competitive bidding is encouraged by the auctioneer. Crucial, if best price is needed to be achieved as is the case in respect of divorce or receiver sales.

More recently, the auction process has evolved moving from traditional in-person bidding to more modern methods driven by technology. A "Modern" method of property auction has been introduced and is promoted by Estate Agents. It works on the basis that the seller places the property in a Modern Auction and buyers submit bids online. Neither the start date nor the timescale of the auction is fixed, and the auctioneer can "sell" the lot whenever they like. The fees charged to the successful buyer are, in my opinion, fairly eye watering. One property I recently purchased via this method was sold to me at £120,000 and I was charged a fee of £6,000. Another I purchased at £207,000 was subject to a reservation fee of £10,000.



This Modern method for me is not really an auction at all. When the price is agreed and the reservation fee is paid by the buyer, this does not represent an exchange of contracts. There is merely the intention of the parties that the matter will exchange and complete in 56 days. Indeed, I know of situations where the seller has withdrawn from the sale and there must be examples where the buyer has also. So without the certainty of sale how is it beneficial? I believe that the prudent buyer will factor the very high reservation fees into their maximum bid price so the seller will be shortchanged as a result. The only advantage I can see is that it may open up a pool of bidders who require funding and find the traditional auction route too time pressured to raise a mortgage, but these people could surely buy via the traditional private treaty route.

My view is that the modern method of sale is flawed and that a competent estate agent could achieve a better price for a vendor – and possibly in the same timescale.

The other type of auction I have come across recently has a bidding period of three days rather than live bidding over a period of a few minutes. This is a slightly odd approach given virtually all of the bidding action takes place in the last 10 minutes of the auction. I cannot see the advantage in an extended auction duration unless it is for underbidders to reflect on their disappointment and be in

essence given a further opportunity to return to the bidding. That said, the winning bid does represent an exchange of contracts, as is the case with the traditional live auction scenario.

Change is supposed to represent progress, but I cannot help feeling that the original auction method is still the only one which works entirely satisfactorily.

I'm not saying that you should avoid the Modern Method of auction, but just be aware of the non-refundable reservation fees you are to pay and be mindful that your winning 'bid' is not binding on the seller. If you are planning on selling, then selecting the best auction method will depend on your circumstances. If you want to repair a broken chain or need the cash urgently, the traditional auction is more definite and binding. If your estate agent suggests you consider the Modern Method, ask yourself whether they are seeking to avail themselves of a fee which is likely double that of a traditional private treaty estate agency sale, or whether they believe that such a sales method will result in your achieving a higher price.

**As always, I am happy to assist YPN readers and can be contacted on 01843 583000 or [graham@grahamkinnear.com](mailto:graham@grahamkinnear.com)**

