Chapter 1 – Introduction to BAP

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EIGroup – The Leading Name in UK Property Auctions providing Members with the very latest information & up-to-date data needed to make buying auction property less risky & more profitable. Special Membership Rates available to BAP Readers. ***Whether "Thinking About It" or a "Regular Buyer" at Auctions, EIG Membership is Essential From The Start – David Humphreys.***

Hi, and welcome to Buying Auction Property (BAP), The Complete Guide that I have been writing for two years. Everytime I thought I was ready to publish, more relevant content surfaced so this edition, the first, will be followed each year with an annual free-to-reader updated e-book.

To give you a little background, I have been buying properties through auctions for over 25 years specialising in buying distressed property in need of fix-up, principally because, fixing up a distressed property should result in an immediate profit on sale or capital gain if let then sold and, subject to certain criteria, tax-free rent.

Because it should be possible to borrow some of the profit, No Money Left In, NMLI, or even Cash-Back becomes a possibility, more on these points throughout the book.

I also happen to like auctions, the pace & theatre. I was brought up on a farm and regularly went to auctions to both buy and sell farm animals. I found the auctioneer's patter fascinating and I'm reminded of it by a popular 1962 song by Leroy Van Dyke - The Auctioneer, click & listen or maybe try the more amusing version by Mrs J!

My "ideal" property is a terraced house which hasn't been touched for maybe 50 years and, even though it is capable of being let, or should I say lived in which is probably still stretching a point, needs completely renovating to bring it up to today's standards to meet both the discerning tenant and buyer's expectations.

Over 20,000 residential properties are sold each year through the auctions in the UK and the majority of these properties are distressed to a greater or lesser extent with plenty of terraced to choose from. I lean towards the heavily distressed end rather than properties requiring a light makeover, though both are available, because there is less buyer competition and greater letting and sale profits when renovating these properties, but you do need experience and a good power team.

Even buying a "nice" property at auction is not for inexperienced amateurs because in virtually every auction you will find properties that appear to be "bargains" but turn out to be lemons and large ones at that. It is important to remember that once the hammer falls in your favour you have bought the property, warts and all.

There is a lot of interest in auctions as is evidenced by one of the most popular daytime TV programmes, Homes Under The Hammer, but this program is entertainment, albeit well presented by a very knowledgeable property person in Martin Roberts.

Get it right and the profits can be substantial both in £ & % terms. On the profit side hammer prices are generally at least 20% less than market value and fixing up a distressed property should yield a net profit of at least 25%. If letting, it is possible to split the fix up costs between revenue and capital when any positive cash flow can be tax-free for a considerable number of years. I will cover this strategy in detail later in BAP.

Get it wrong and your losses can be substantial, way in excess of the cost of the property, the hammer price, because you risk a claim for costs and damages. I will cover this downside in detail later as well.

BAP should help you to both recognise and avoid the lemons in auctions, resulting in only buying true bargains on which you can make a profit, both in the short-term (flip) and long-term, fix, let & flip.

I am always surprised by the number of experienced investors who, for various reasons, don't buy at auction, even though they recognise and accept that real bargains can be bought.

I regularly deliver property investment lectures and seminars and once asked a group of 60 students, about 20 of which were actual investors with properties, how many had bought a property at auction and the answer was zero, nil, nobody.

One person had bought an auction property, but after the auction, post-auction. They hadn't got involved in bidding for the property. Only one other person had even been to a property auction, enjoyed the experience but was still very nervous about the whole process so if this trend continues you are not going to have a lot of competition from the ever-increasing number of buy to let investors.

So, what scares people, certainly the prospect of buying a lemon looms large, coupled with the difficulty of sorting the good from the bad in the relatively short period of time between catalogue publication/release and auction day, about three weeks, and yet, if you are able to develop the necessary skills, and I have developed those skills along with the supporting software, there are golden nugget opportunities in auctions virtually every week of the year at prices to suit virtually any budget from a few £10’s to £100’s of thousands.

A great deal is made today of working hard on developing a territory to buy BMV using leaflets, and yet every 1 to 2 months auctioneers will send you, in the comfort of your home, a catalogue of BMV properties being sold by highly motivated vendors. So instead of walking the streets on cold winter days poking leaflets through letter boxes let the auctioneers do the hard work for you, whilst you do something you really enjoy. If that "something" is leafleting then do both.

With every aspect of property investment if you are going to be successful and safe you need to carry out a substantial amount of due diligence. About the only difference between buying at auction and buying through estate agents is the timescale. At auction you have approximately 3 weeks from catalogue release to auction day. Through estate agents the timescale is virtually unlimited because an exchange of contract date has not been set when the property is first put up sale.

Auction properties exchange contracts on the day of the auction, when the hammer drops, and that date is set when the property is first marketed through the auctioneer’s catalogue.

So where do you, the novice investor, start, and it is not sitting at home watching Homes Under The Hammer (HUH) every morning, however nice the coffee, as that does not constitute any part of due diligence!

Though if coffee is a must first thing, and for many, including me, it is, read up on current market conditions, including auctions, by subscribing to magazines like the long standing Property Investor News (PIN) & more recent Landlord Investor. Both are BAP Sponsors and I regularly write auction related articles for them. In any event coffee or no coffee I strongly advise you to put the time aside each month to read and absorb the content of both these magazine newsletters.

Staying up-to-date on all aspects of the industry is vital to your success. Those aspects extend from law & regulations which, in the case of HMO Licensing can change between Local Authorities, to changing market conditions creating Hot Spots or just lukewarm.

Next decision is where, the location. Where are you going to base your property investment business. My advice is to start with a single location and not multiple locations across the UK. Successful investors are expert on their investment locations knowing every aspect that can contribute to their success, and every sinkhole as well. With the best will in the world it takes time (years) to amass the knowledge you need and keep it current.

The first driver is almost always money, cash. How much have you got to spend on the property and how much can you afford to spend on fixing it up, most properties will need fixing up to a greater or lesser extent. But remember, in the case of property, less is more. The fewer properties you buy the more you should make. The principle reason is the high transaction costs you have to pay for every property bought, which are not a fixed proportion of cost/value.

In both cases, buy and then fix-up, a substantial amount can be borrowed. In the case of the property up to 70% of the initial cost, the hammer price, can be borrowed through bridging companies so the cash cost of a £50,000 hammer price could be £15,000 plus transaction costs. Please note that properties often sell at auction for even less than £50,000, I'm using this sum for ease of calculation purposes.

Three Leading Brokers, Auction Finance, Closed Bridging Finance & Positive Property Finance are recommended for Bridging Finance, all are known to David Humphreys. You will find more information on Bridging Finance in Chapter 12, Raising The Cash.

Fix-up can be handled a number of ways.

Employ a single builder/contractor who will oversee all aspects of the job, and hopefully deliver the finished product on time and to cost.

Go DIY, employ the individual tradesmen, including the family, and buy the materials through trade suppliers at cheaper than retail prices. A lot of investors go DIY because they enjoy the business, from knocking down walls to the final paint. It starts off as a hobby but can grow into a business, even an obsession, particularly if you are good at it. Then there are cash-rich time-poor investors who will want to talk to you.

If you have limited funds, the DIY route is probably the cheapest but will involve you in a lot of work, probably more than you anticipate at the start, but you will gain very valuable experience which will help you avoid some of the dreaded lemons. Also you will gain knowledge that will prove invaluable as the "building" aspect of your investment business grows and you effectively become a full-blown builder. Prior to the credit crunch, I had over 20 men covering all trades, fixing up the rundown properties I was buying at auction.

In a later chapter I will look at assessing & fixing up distressed auction properties, but for the moment assume a fix up cost for a really rundown, but structurally sound, property of £20,000 (not South-East) and split that 50-50 between labour & materials. If you can pay for all the materials on completion of works, the cash cost of buying and fixing could be £25,000, £15,000 property deposit plus £10,000 labour refit, to fund a £50,000 property + £20,000 fix up project. These figures do not include any associated transaction costs and assume using quality branded materials.

So assuming that you have a total of £25,000, the next question is where can you buy a property that needs fixing up for £50,000 and here it's login to EIGroup, the chapter sponsors.

EIGroup is a membership site costing about £450 per year, (special terms are available for BAP Readers). Through EIG you can carry out a substantial amount of the due diligence associated with buying at auction, including identifying locations plus type and condition where properties can be bought for £50,000 or virtually any other sum that fits with your strategy. Most of the data figures quoted in BAP are courtesy of EIG.

So back to the question, where can you buy a property that needs fixing up for 50K? Believe it or not, there are many locations across the UK.

The Hot South East. Virtually every month, studio & one-bed flats are sold through the south-east auction rooms at prices below 50k and occasionally renovation & development of opportunities arise between 50 & 75k but a more realistic hammer price would be around 100k which, by using Bridging Finance @ 70% LTV, would still limit the required cash to around 50k.

Go West, once again, if you restrict your hammer price to 50K you are looking at studio and 1 bed flats unless you want to dip into land & garages. The moment you include "unmodernised" or similar in your criteria, expect the hammer price to rise towards 150K around Bristol, even for one-bedroom apartments/flats.

If Wales and The Valleys excite you then, with 50K, you are potentially a wealthy investor with plenty of choice.

Paul Fosh Auctions sold this 4-bed terraced house requiring modernisation and close to the centre of Ebbw Vale in their October 2015 auction for the possible bargain price of £47,500. Interestingly, this was the 1st lot in the auction and early lots can often prove to be bargains, more on this point later. Interestingly, the next-door sold for 46K in 2002.

In the same auction, the following lot No 2 a 3-bed 3-floor terraced house "in need of upgrading" went for 29k.

This would be a cash purchase unless you took out a personal loan because 70% LTV for a Bridging Finance Loan would be 20k which is well below the minimum mortgage loan amount of 25K, more on this point later.

Finally, same auction, Lot 3 requiring "full modernisation" went for 18.5k, prices still going down!

Interestingly this lot is described as a property, not a house or flats, though it has been historically split into flats, with a guide of 4k+. Hammer price was a bit more than the recommended 10% variable! Fosh are generally more accurate in their values!!

But in any event, 3 properties, possibly the start of a portfolio, and change from 100k! The ability to buy multiple properties meeting pre-set criteria (needing work) on the same day in the same area is one of the reasons why I like auctions.

I say "possible" because there is no indication in the auction results of the cost of fix-up or the final value following fix-up. Both come under the heading of due diligence prior to the auction.

In simple terms the hammer price plus fix-up costs should be less than the final value and if you want to withdraw all your cash after fixup, NMLI, hammer price plus fixup costs should be no more than 75% of fixed up value.

Move north to West Birmingham and in October 2015 Bigwoods sold this 3-bed terraced house in Wolverhampton for 49k, "in need of some upgrading".

Best recent price (2014) 70k so, at first sight, this lot doesn't look particularly exciting given that prices peaked around 85k before the credit crunch.

As you move further north, the availability of suitable (distressed) property with hammer prices at or below 50k increases dramatically as is evidenced by the “50% Av Ham K” Column in the table below.

Also you will find an increase in the number of auction properties already let with AST’s plus small portfolios, 4-5 properties, and even whole streets being auctioned either on a single or multiple basis.

If you are looking to buy at auction, it is essential that you are fully prepared before you even start the viewing process. Best to trial/test your expertise through at least 2-3 auctions before buying, which should show up any weaknesses in your processes & due diligence because the whole process of buying at auction is time sensitive with very little, if any, flexibility and mistakes can prove very costly.

The figures in the table below show the average hammer price by region over the three-month period Jul-Sep 2015. Heavily distressed property sells for well below the average hammer price and often you can buy at 50% of the average hammer price which also includes higher-value properties.

I have included in the table below the maximum cash required assuming either 70% LTV Bridging (Brdg), or 75% LTV mortgages (Mtg), and, as you can see, relatively little cash (last cols) is required to start investing using the auction route and loans.

This table is updated in the BAP Quarterly Bulletins and includes the previous year stats for comp purposes.

Buying Auction Property

by David Humphreys
Property Auction Expert

Essential INFORMATION GROUP

Jul-Sep 2015	OFFERED	SOLD	% SOLD	% UNSOLD	UNSOLD	UNSOLD MONTHLY	Av HAM K		Cash Req @ 70% LTV K	50% of Av Ham K	Min Cash 70% Brdg K	Min Cash 75% Mtg K
EIG Regional Analysis Order	2015	2015	2015	2015	2015	2015	2015	Ch%	2015	2015	2015	2015
1 East Anglia	194	144	74%	26%	50	17	139	27%	42	69	21	17
2 East Midlands	625	451	72%	28%	174	58	109	3%	33	55	16	14
3 London	642	509	79%	21%	133	44	386	1%	116	193	58	48
4 North East	730	507	69%	31%	223	74	71	-2%	21	35	11	9
5 North West	1182	892	75%	25%	290	97	84	7%	25	42	13	10
6 North West Home Counties	265	224	85%	15%	41	14	290	19%	87	145	44	36
7 Northern Ireland	178	78	44%	56%	100	33	67	13%	20	34	10	8
8 Scotland	167	106	63%	37%	61	20	123	158%	37	62	18	15
9 South-East Home Counties	825	683	83%	17%	142	47	211	17%	63	105	32	26
10 South West	494	363	73%	27%	131	44	202	16%	60	101	30	25
11 Wales	501	384	77%	23%	117	39	81	2%	24	40	12	10
12 West Midlands	827	646	78%	22%	181	60	103	9%	31	51	15	13
13 Yorkshire & Humber	687	516	75%	25%	171	57	85	4%	26	43	13	11

You will find a small degree of repetition throughout BAP because sometimes I include a brief comment on an ancillary subject rather than refer you to another chapter where it is covered in depth. Personally I find the "see X" which involves constantly thumbing backwards & forwards through a book, annoying. For example, throughout BAP there are numerous references to bridging finance, which are made when it is relevant to the main point of the chapter. But Chapter 12, Raising The Cash, is all about finance and puts bridging finance under the microscope.

In the next Chapter, 2, I look at 12 reasons for Buying at Auction followed by Developing your Auction Strategy, and then we return in Chapter 4 "Analysing Regional Results", and look at the relevance of all the information in the table above, a vital part of understanding the auction process.

In the meantime if you require any assistance with auctions or any aspect of buy to let please don't hesitate to contact me, David Humphreys, (07970) 028539, e-mail David@propertyauctionexpert.com.