

# **BUYING AND SELLING PROPERTY AT AUCTION**

## **A GUIDE FOR CLIENTS**

### **A. L. HUGHES & CO.**

**SOLICITORS & COMMISSIONERS FOR OATHS  
ESTABLISHED 1950**

#### **IMPORTANT:**

**This is a brief guide for clients issued by A. L. Hughes & Co. It is not intended as a detailed exposition of the law, and in all cases you are advised to take specific advice on any particular transaction or property.**

### **BRILLIANT BARGAIN OR HIDEOUS HEAP?**

Auctions do make people excited. All that tense bidding with the cathartic falling of the hammer has been known to turn quite sensible people into raving nutters for the few seconds needed to commit them to a purchase of property known to them only by a blurred photograph and sketchy details.

The great thing about auctions is that once the bidding is finished, if the property is knocked down, that's that. No "subject to contract", gazumping, or waiting for chains.

On the other hand, if you've bought somewhere at auction, there's no wriggling out of it or you will lose your 10% deposit and be liable to further legal action.

### **INFORMATION, INFORMATION, INFORMATION.**

The key to buying at auction is information. You must make sure you know enough to make a sensible decision as to whether to bid at all, and how far to go.

You must ensure that the following areas are covered.

| <b>Area</b>                    | <b>Steps to be taken</b>                            | <b>Possible pitfalls</b>   |
|--------------------------------|---|--|
| The condition of the property. | You need a structural survey to be undertaken.      | Flats in blocks may face major repairs bills in the future.<br>Hidden structural faults. |
| Special Conditions             | These should be checked carefully by your Solicitor | Hidden charges.<br>VAT clauses.<br>Obligations to do works.<br>Short completion periods. |

|                      |   |   |
|----------------------|---|---|
| Title                | The title should be checked carefully by your Solicitor.  | Missing rights (such as rights of way) to the property.<br>Onerous restrictions.<br>Defective leases.<br>Hidden charges.  |
| Planning             | Your Solicitor should be instructed to check that the property can be used for what you want it to be used for.   | Missing planning and building regulations consents.<br>Agricultural ties.<br>Conditions on planning permissions.<br>Houses in multiple occupancy.   |
| Local Search         | This should be commissioned. If time is short it may be possible to obtain a search undertaken by a search agent, which may not be acceptable by a mortgage lender. | Planning Contravention Notices.<br>Environmental Health Notices.<br>Notices under the Building Regulations.<br>Financial Charges for default works.<br>Improvement Grants.<br>Restrictive designations. |
| Environmental Search | These can be done over the Internet fairly quickly.   | Contaminated land.<br>Nearby pollutive uses.  |
| Costing              | You should cost the project very carefully and have regard to whether you intend to retain the property or to sell it on.   | Overspending.<br>Costing in curing legal or planning defects.<br>Not taking into account interest costs.  |

## **MONEY**

Make sure you can complete the purchase. If you are reliant on a mortgage you must ensure that the lenders are happy with the condition of the property and that your solicitor has undertaken all necessary searches prior to the auction. Commercial lenders also frequently have additional requirements. If they are instructing their own Solicitors, those Solicitors will have to be satisfied as well.

## **DISCIPLINE**

Before you get on the bus to the auction, make sure you can answer "Yes" to all of these questions:

- Am I satisfied with the physical state of the property?
- Have I costed out all the works that I need to do to it?
- Has my Solicitor explained to me the legal implications of my purchase?
- Have I set an absolute maximum price beyond which I will not bid?
- Can I afford to complete the purchase?

If you cannot do this, our advice is to stay at home and tend your cats. Even if they scratch, the pain will not be as great.

## HOW WE CAN HELP YOU.

The more time we have to look at papers and investigate a property the more information you will have which will assist you in setting your maximum bid price. If we find out bad news this may enable you to avoid getting caught; good news may allow you to bid more than those without any information.

## HOW MUCH IS IT ALL GOING TO COST? (A ROUGH GUIDE)

|                                   |   |
|-----------------------------------|---|
| Survey expenses                   | £400-£500 + VAT   |
| Solicitors' costs                 | £350-£500+VAT up to the auction, another £250-£450+VAT for the additional work after the auction.   |
| Stamp Duty                        | 1% from £125,001 to £250,000<br>3% from £250,001 to £500,000<br>4% above £500,000<br>5% above £1,000,000 for residential properties only. |
| Land Registry Fees                | Sliding scale.<br>Examples: £60,000 - £80<br>£180,000 - £200<br>£300,000 - £280   |
| Searches and other legal expenses | £150-£300   |

## SELLING AT AUCTION

Again, the more notice we get the better. We like to prepare a package of information for prospective buyers. The more information they have, the more likely it is that you will have a number of competing bidders at auction. We recommend that a Local Search and a Water Search is included in the package.

Costs for selling by auction are in line with normal sale costs, with the cost of the Local Search and Water Search the only additional disbursement.

We can draft auction conditions to deal with special cases, such as squatters, tenants in arrears with their rent, or defective titles.

Don't forget that if you do sell your property at auction, once the hammer goes down, you've sold it, and cannot back out of the deal!

When you appoint auctioneers to sell your property usually you also give them sole selling rights to sell your property for a fixed period before and afterwards. So they will be entitled to commission even if there is a private sale or to a buyer introduced by another agent.

## SOME OF THE AUCTIONSPEAK

|                                |  |
|--------------------------------|--|
| Reserve Price                  | The minimum price at which the Seller will sell. This is not usually disclosed to anyone before the auction starts.  |
| Guide Price                    | Auctioneers will give out a Guide Price which used to be a fair assessment of their expectation from the sale. But in many cases the Guide Price is set at a figure (sometimes even below the Reserve) which is sufficiently low to interest Buyers.   |
| VAT is applicable to this lot. | VAT will be payable in addition to the purchase price unless you are registered for VAT and manage to agree with the Seller that the sale can be a sale "as a going concern". This must usually be done before the auction.  |
| Section 5 Notices              | Where the sale is of a property subject to long residential leases and/or protected tenancies the Seller must give them the right of first refusal. If the property is sold by auction after they have indicated their willingness to buy the property, they have the right to buy at the auction price. So any purchase at auction of such property is subject to this right not being exercised. |

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Our contact details:  
A L Hughes & Co.  
Solicitors  
340 Streatham High Road  
LONDON SW16 6HH

DX 58457 Norbury

Telephone: 020 8769 7100  
Email: [Laurence@ALHughes.co.uk](mailto:Laurence@ALHughes.co.uk)