

Property auction houses, what are they and how do they work? Your questions answered in #TABU podcast season 2, episode 8

Podcasts

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We invited [Andrew Binstock](#), director and auctioneer at [Auction House London](#), and [Jordan Phillips](#), associate director at Auction House London to join Kartina Hindley and Sam Morris - lending associate at TAB

They told us about the role of the auction house, how it works from both a buyer and vendor perspective as well as providing insight into what happens on auction day.

The top five questions asked on this week's podcast are:

1. What is an auction house?
2. How can I buy a property at auction?
3. How can I see my property through an auction?
4. What are your roles within the auction house process?
5. What happens on the day of the property auction?

Question 1: What is an auction house?

It's a place where people go to buy properties that are being sold at an auction. There are two ways of selling property in the UK. One is for estate agents and private treaties, the other is through auctioneers. They are completely different models, but ultimately the end result is the same - a buyer walks away with the house or flat.

So you said there are two options, estate agent - we understand that. How does the property auction work?

So the property auction side of it is very fast. It's basically a concept whereby you market very quickly. Typically we will launch a catalogue with 180 odd lots. You have two and a half weeks to show those to as many people as want them, buyers get the opportunity to register their interest, download legal packs, view them, do whatever, and ask any questions.

And then they all have to turn up - typically in the old days into an actual auction room or nowadays they just literally log in online. They watch me screaming and shouting numbers at them for a few hours. And they literally/metaphorically put their hand in the air and either win it or don't - the whole thing super quick.

And if they do win it, they have to put their money down there and then. Four weeks later they get the property. It's that fast. It can take five weeks tops between the very first hearing about the building and having the keys in your hand.

You said you can get up to 180 lots. Are they all or auctioned off at the same session?

Jordan: All on the same day and we hold nine auctions a year. The most we have ever had in one auction is 215, in December last year!

How do you go about sourcing properties for auction? Do people come to you saying, look, I've got a property for auction, or is there an element of you going out and sourcing on the market?

That's a great question. Where does all the stock come from? Typically it comes from a variety of sources. You have what we would call our regulars. So as the company's grown over the last sort of, 12 years or so, our regular database of sellers who come back over and over and over has grown.

Jordan looks after a lot of our serious, big hitter clients. And then we get loads of people who just probably go online, run a search for 'how do I sell my house on an auction?' Luckily as the algorithms have pushed us higher and higher and higher up the rankings, so our name pops up and people will then call us in and go, "What's my house worth?" And then the journey starts from there. But like with any business, how good you are depends on how many other people want to use you. So we've had to make sure we're pretty damn good at what we do so that other people start wanting to get in on that action

The types of property you sell on auction, can it be anything?

Anything with a legal title, we can sell it. The most obscure we've had definitely ranges. You can have a £1,000 little garage in the middle of Timbuktu, all the way up to a £4.5 million probate that we sold in St John's wood and anything in between. In terms of obscurity, we've probably sold things like public toilets and God knows what. We've sold a few boats as well.

What is the reserve price?

The reserve price is the minimum that the property can be sold for on the day of the auction. So you have a guide price and a reserve price. We don't disclose the reserve price to the public, and the guide price has to be within 10% of the reserve price.

Question 2: How can I buy a property at auction?

You would start by looking at our catalogues. When we launch for the next auction, you'd find a property that you like and on our website, you'll find the legal pack for the property, which has got all the normal documents that go between solicitors during a normal estate agency sale, it's all put into one pack to be downloaded by the borrower from our website. Because it's an immediate exchange of contracts on the day, you need to make sure you've done all your due diligence beforehand.

There are also viewing times as well online. You can go have a look at the property and a lot of people like to get solicitors to have a look through the legal pack. So that's advisable to do that just in case you miss something in there. You would then go view it, read through the legal pack, do all your research into it, and then you'd register to bid for the auction, and then start bidding on the day and hope you get it

So you said I need to register to bid for an auction - do I need to have anything, do you go through any checks of that person who's registered, given the speed of it?

We take all basic information from you, like your address, and contact details, you need to upload your ID - two forms of ID. So we know who you are. And then there's also a payment bit of security. You have to put in your card details where we hold a small amount of money, just in case. If you try to run away after the auction.

You asked earlier, how can you buy a property at an auction. So for your listeners who are just getting into this, you don't have to wait until the auction. If you are somebody who really likes the look of a house just off and out, there is a, in a lot of cases, an ability to buy it now.

We call it sold prior, but for those that have never done it before, that's a kind of a more 'eBay-esque' version of what it is. And the reality is some vendors will go, "Great, I don't need to wait three weeks. Let's do this deal right now. Right here. Put your 10% down and we'll exchange today!" Or they'll say, "No, I wanna run it to the room. Let the guys do their thing and I'll take my chances on the day." So, you don't have to always wait, but some vendors will force you to wait.

Is it true that I can get a house at auction, cheaper than in the normal market?

Yeah, you can. But it's about finding the right...You need to bid on a lot of houses and a lot of properties to be able to get a good deal. Because some go for more than market value, some go for less, some sell at market value. It varies. So you need to look at a lot of properties, know what you're doing and yes, the truth is you will find a deal. There is, I'd say, in every auction, there are a few deals in there that people pick up that they could sell for a lot more the next day, but it depends, most stuff goes for good money on the day of the auction.

What are the risks involved with an auction of me buying property on auction - obviously you can go above. Is there anything else people need to be aware of?

Yeah. You need to make sure you read through the legal package, which is number one. The seller can charge fees to the buyer - so they can ask for their auctioneer's fees, and their solicitor's fees to be reimbursed to them on completion. If you don't read through it, you might buy a house for £400,000 and then on completion, you get a completion statement then with an extra 2% charge on top of that, and if you haven't read through the documents. Is about doing the research beforehand. You know, having a look at the property. Some people want to bring a surveyor down to the property to check whether it's got subsidence or anything like that. A lot of people do it and we'd probably advise you to do it just to be careful.

You could do as much checking as you want. I mean, there's no rule. We don't forbid you from doing all your checks. A prudent buyer might decide, 'actually I don't want to spend loads of money and then not win the house in the first place', but an equally prudent buyer might say 'I'm not gonna even risk the concept of spending half a million pounds of my money and not know exactly what I'm

getting.' Nothing is forbidden.

The old days of caveat emptor are long gone. 'Buyer beware' used to be the rule of thumb for an auction - that's all finished. Now it's full disclosure, the vendor is not allowed to hide anything - he just touched on subsidence - a great example. If you know your house has subsidence, you must tell everyone you can't just go, 'oh, I've just hidden it with boxes and hope no one sees that it's lopsided like that.' It doesn't work. Japanese knotweed - anything that's bad must be disclosed, buyers can take comfort in that.

Question 3: How can I sell my property through an auction?

What would you do? Well, first of all, you'd go to [auctionhouselondon.co.uk](https://www.auctionhouselondon.co.uk), you'd fill in an online form, or call us up, and a real quick, no obligation chit chat with one of the sales team, which Jordan runs. First, it's an informal conversation. "What's my house worth?" "I think this" "No, I want that." "All right" "Bye". Or, "Yeah, we're in the same sort of ballpark here." There's no heavy duty stuff you've got to jump through. Once you're on the same page as us, then we start to go through the process of right - we need to photograph it. We come out, we chat about this, we chat about that. We need to write the property up. The initial conversation is very relaxed and it's a completely no obligation starting point.

We also do an auction appraisal, and we'll look at comparables. Let's say you've got a block of flats. They're all two beds and you look online and you could see all these two beds are selling for roughly, £230 to £250. And someone says, "Oh, I want £280 for my two bed flat." You know it's a non-starter already because we'd need a discount from market value anyway. We would be looking at a reserve around the £200, £210 mark, something around that sort of level. The low reserve price tends to attract a lot more interest and gets a lot of people bidding.

What are some of the reasons that people will talk to you [Auction House London] about selling their property?

There are two types of vendors. There's the corporate sellers, the clients I look after, which is much smaller now, and certainly less than the amount Jordan's taking care of. They have to be seen to be selling in a public auction. Why? Because then there's no argument as to what the price was achieved was not a fair price.

When you are selling on behalf of beneficiaries, assets for banks, there has to be a process whereby the agent that's disposing of that property can put their hands in the air and go, "There you go. I've got you a fair price." I look after quite a few of those people and those always end up in a public auction room and those are great because there's no emotional attachment. The seller is typically just somebody who's looking after a case file for someone else.

What Jordan deals more with is, and these are much harder sellers, as you can imagine, is trying to convince somebody who has been told by a high street estate agent, "Your house is worth £350" even though it's only worth £300. And we are saying, no, don't listen to them. It's only worth £250 so that we can try and get you the £300 if all the things go well. That's a much harder sell, and this is what we spend a lot of our time doing.

What if no one's there for it. What if it doesn't sell? What if no one wants the property?

Well, okay. If one person turns up, they win it on reserve - that's the dream for the buyer and the nightmare for the seller. If there's no one there, it just doesn't sell. If it doesn't reach reserve, the auctioneer will just simply disclose it as, "Sorry, we've not sold this. We haven't reached our reserve price."

And in the event that someone does bid, but they don't manage to complete the sale on time, or they actually don't even pay the deposit to exchange contracts at the sale. What happens in these sorts of scenarios?

There are two situations. One is the purchaser has put down a 10% deposit, but for whatever reason between that date and the four weeks later, it doesn't complete, they drop their deposit. Seller is typically quite happy with that situation. Assuming there was other interest in the building. If there was a competitive bidding war, it's gone for say £460. The person's dropped £46,000 because they've just decided for whatever reason, personal or whatever, they don't want to go through with it. Seller keeps £46,000, maybe less a few costs, and then gets to go again and sell it at £458 the next time around, delighted, what a result for that seller.

When there's only one bidder and that scenario happens and maybe the seller's not so happy. What's happening now in the Covid world of course is because we're not doing real auction live 'theatre' productions we are reliant on the purchaser being nice and good and doing what they're told and wiring us a deposit within 48 hours of winning the property. What happens if they tell us to get lost

between the moment that gavel's down and the physical wiring and the money is a new concept that we are only having to deal with recently.

And that unfortunately then boils down to a seller's commercial appetite for going after people. 'Can I be bothered to chase some person who probably hasn't got any money around the world for my 10% deposit or do I just write it off as a bad experience, turn around to Jordan and say, find me another buyer?' And I think, you can argue this one, 98% of the time they'll turn around to Jordan and the sales team and just say, "I can't be bothered with this. That's very annoying. But go and sell it to somebody else."

Question 4: What are your roles within the auction house process?

Jordan: I'm the associate director. My main role is valuing properties, bringing on properties, selling properties. It's my job to make sure that there is business happening, basically, that we've got a big auction. We've got lots of properties going in there and we're getting them all sold.

You look at the people who download the packs and can you get a feel for the houses that are being more popular. Do you track visits and views?

Yeah, you've got loads of data to go by prior to the auction. That's something that's great these days now that we're online is we can see how many people have registered to bid for each individual property. If there's no registered bidders on a property, you can just withdraw it before the auction and you're not going to end up offering it to no one on the day and it goes unsold. That's a lot more helpful. You can see all the people who have downloaded the legal pack, so you can gauge, there's been a hundred people who have downloaded that pack and there's only five people who have downloaded that pack. You know that the one that's got a hundred people on it is gonna fly. The other one might not.

Is that information you disclose to a seller?

We give weekly marketing updates to our sellers, and we would send them a list of how many people have viewed it, how many people have downloaded the legal pack. And then the registered bid doesn't really come until about five days prior to the auction that we even open the bid of security.

Andrew: Human behaviour is just, people are lazy. So ultimately if you've got a deadline of doing something by Friday lunchtime, you're going to do something on Friday lunchtime! Very rarely will somebody want to show their hand too early. And secondly, we see it all the time, if we've got one and a half thousand people registered to bid on our last auction, I'd say 500 of them did it the evening before/morning of the auction, within the last 12 hours or so.

And just going back to what's your role within the auction?

Andrew: Well, I co-own the business. I founded the business with my partner, Jamie, I'm the auctioneer. I make sure the whole thing grows, turns and keeps happening, and now obviously I make sure that we've got good people in the building like Jordan, who's been with us pretty much from the start who are, how can I put it, driving the ship for us? You know, without Jordan, we would have half the catalogues we have. The company has grown to a level now where there are people doing very niche and specific roles.

So obviously you guys are providing an amazing service to both vendors and the purchasers, but who is paying you? How do you guys make your money?

Both really. You have any property that's bought in the auction, a buyer has to pay a buyer's fee to us which is £1,000 plus the VAT for anything that's bought. And then the seller, when they instruct us on the property we agree a sale commission of usually a percentage of what the purchase price is.

The client is the seller. Let's be absolutely clear. The seller is the client of Auction House London, but we have a duty of care to all our buyers as well, because a) we don't want them to have a bad experience, and b) as Jordan correctly says they are also parting with a sum of money, much less than the seller is, to facilitate a purchase in our action.

So you touched on buyer's fees as well, are the buyers paying to bid at the auction?

Not to bid, to win a bid. To register to bid we put a hold on their card, just like if you were going to a hotel, they don't actually take the money, but you can't go and spend the money if you're not serious about it.

Question 5: What happens on the day of a property auction?

What does auction day look like? Let's go through auction house, seller, buyer...

We always get into the office about half seven on auction day. It's an early start to make sure that all of the registered bidders are 'across the line' as we like to say. We have to 'accept' everyone. They upload their IDs, put in their card details, put all their details, but they can't bid until we've gone...

If you've got 800 signing up the day before...

Exactly. It's a lot of pressure of making sure that all of those people are across the line and ready to bid on the day of the auction. And then also just going through reserves is a big thing that me and Andrew have to do at the morning of the auction. A lot of my clients don't like to give me their reserve prices until the night before the auction, which drives me crazy. Usually we are there to get the first thing, just double checking every single property. Because if you mess up a reserve price, that is a massive mistake!

So what time does the auction day start?

9:45am is the very first lot under the hammer, and it goes on until about 8:00pm.

It's crazy how long. When we were back in the room, we used to start at 12:00pm, finished by 5:00pm. We've got a lot more lots these days, so it's probably double the size of the catalogue now. For some reason it takes a lot longer. I'd say we have better lots as well these days which means there are more bidding wars and you might be on one lot for 15 minutes!

I guess you can't time it because you don't know how it's going to be perceived on the day, because well, you get an idea, but suddenly you might just...

The other thing is, as well Katrina, is that ultimately I can't see what's going on at home. In the old days there would be two people going full blast in their bidding war, and I can tell just by looking at one of them, either they've got up and left the room or they just say, "No, I'm done, leave me alone, stop coming back to me".

Now there's just a screen I'm staring exactly like this - I'm staring into a camera. And I'm shouting numbers. 401, 402, 403! Now I don't know when one of them's just gone and left and just stood up and put their laptop down. So it takes longer.

And there's a sense of, are you gonna come back? Are you still there, Mr. A? Are you still involved in this? And it's a long, long, long day. And there's not much we can do to speed it up other than my voice, trying to say the words as quick as I can. but a vendor doesn't want you to rush their lot.

If you're looking to sell a property at auction, please call [Auction House London](#) on 020 7625 9007.

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