



Exploding the Auction Myth

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It is a long-held myth that public auctions outperform controlled negotiations as a selling method.

Sure, on very rare occasions when there is a bidding frenzy in a strong market and two or more buyers are determined not to be outbid for the property, a stunning price in excess of the expectations may be achieved.

Could a better result have been achieved with less stress and risk though? Almost certainly, yes.

Whenever you have the fortunate situation of having more than one buyer trying to buy your home, the worst thing an agent can do is disclose the competing offers to each of the interested buyers.

If you do, the buyers' bids then become incremental, whereby a buyer's next bid is governed by the previous buyer's last bid.

During public auctions, each bidder's focus is on outbidding the competing buyers with bids of \$1,000 or \$5,000. As the reserve price is met, buyers minimise their bids as opposed to offering the highest price they are prepared to pay for the property.

Merely selling to the highest bidder, as opposed to selling to a buyer who offers their highest walk-away price, is why almost all auctions fail to achieve the best price possible for vendors.

For example, if one buyer is prepared to pay \$1.1 million to buy your home and the under-bidder is only prepared to pay \$1 million, it is mathematically impossible for a public auction to attain the best price by drawing the additional \$100,000 from the winning bidder.

It might draw \$5000 or even \$10,000 extra, but that will be it. The vendor missed out on \$90,000, possibly \$95,000 because the auction's bidding process failed them.

In reality, a public auction achieves the second-best price plus one incremental bid. A public auction that achieves a sale under the hammer will stall at the underbidder's highest price.

In effect, this leaves the best buyer in a position to buy the home with a \$1,000 bid, gallingly, even if they were prepared to bid significantly more.

Home sellers are told the auction deadline will pressure buyers into offering more. However, as the auction deadline draws closer, the pressure is often transferred back onto the seller by the agent. They pressure their vendor to drop their reserve price. Agents call it 'meeting the market'.

This especially damages the price of your home if the property is passed in because of a bargain hunter's low bidding on auction day.

Any chance of a high price is destroyed when your home is passed in for a low price, in front of a crowd. The best buyers in the marketplace wonder what is wrong with your home, given it failed to sell on the big day.

Further evidence that auctions don't attract the best price can be found in the success many vendors achieve by passing their home in and holding out for a higher price.

It is extremely common for a property to be passed in at auction, only to sell for a higher price a week or two after the auction.

If you're considering selling your home, let Iron Bridge Real Estate guide you towards a more successful sale. Contact us today to discuss your options and maximise your property's value. Don't let myths hold you back!