

## Buying at auction

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Buying a property at auction may seem daunting and there are undoubtedly a number of pitfalls that any purchaser needs to be aware of. However, the process can be relatively simple if you carry out all the necessary research, due diligence and preparation well in advance of the auction.

### Why are properties sold at auction?

There are a number of reasons why properties are typically sold at an auction, classic examples include:

- properties being sold by a mortgagee due to borrower default or insolvency;
- properties being sold following the death of the owner;
- unusual or unique properties that are difficult to value;
- straight forward “vanilla” properties which tend to be attractive to a large pool of potential buyers; or
- properties with issues, where things such as planning or access are not quite in order.

### Preparation – Buyer beware

Knowledge is key - it enables risks to be identified, traps to be avoided and unavoidable risks and costs to be mitigated.

The well known principle of ‘buyer beware’ applies to auctions sales as it does to any other type of property sale. The shortened time-frames of auctions and sometimes limited property information available in the auction pack, however, means auctions are

naturally more high risk for buyers than private treaty sales.

Set out below are some helpful tips and guidance for anyone thinking of purchasing a property at auction.

### Instruct a surveyor

In addition to viewing the property themselves, buyers should instruct surveyors to inspect and, if possible, survey the property prior to bidding. A surveyor can also advise you on the value and the wisdom of the proposed investment.

### Instruct an accountant

Instruct an accountant to advise on the best investment vehicle through which to purchase, and on any associated tax matters. By way of an example, in order to ensure that no VAT is payable on certain commercial property transactions a buyer may need to have been registered for VAT, have exercised the option to tax in relation to the target property and have posted notification to HMRC of that option to tax all before the auction.

### Have appropriate finance in place

Not having a mortgage offer in place after being successful at an auction may leave a buyer with a funding gap. If the buyer cannot obtain a mortgage after the auction and the funding gap is insurmountable, then the buyer may be unable to complete, and risks losing their deposit and/or other claims by the Seller.

It is also important to note that some high street lenders may not lend on an investment or buy-to-let property unless the

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## Buying at auction

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seller has owned the property for at least six months. It is therefore important to find out how long the seller has owned the property when buying at auction to avoid any potential issues.

### Instruct a lawyer

A buyer will need time to instruct a lawyer who in turn needs time to review and report on the documentation and make as many additional enquiries and searches as is possible in the time available.

The role of the lawyer will be to identify any issues which may affect the property or the buyer's ability to use or occupy the property. When reviewing an auction pack it is often what has not been included that is of concern.

The auction pack should always be checked carefully before bidding on a property. Each pack will contain vital information and will help the buyer make an informed decision on whether or not to proceed and how much to bid.

By way of an example, an auction pack may contain a copy of a freehold register and title plan; this will provide adequate information, so long as the title register fully sets out any rights and obligations or other matters affecting the property. However, the title register often refers to other documents which contain these details and those documents are not in the pack. Copies will therefore need to be obtained from the Land Registry and reviewed.

### Additional costs payable

It is vital for buyers to be aware that the 'hammer price' is not all that has to be paid when they make a winning bid. There may be a number of different fees and costs when buying a property at auction and, in some cases, these additional costs can add a considerable amount to the total cost of the purchase. Examples include:

- Stamp Duty Land Tax ('SDLT') – a duty payable to HMRC;
- buyer's administration fee – charged by auctioneers;
- buyer's premium – a percentage of the 'hammer price' charged by auctioneers;
- contribution towards the seller's legal fees; and
- costs of the searches provided by the seller in the auction pack.

### Further information

If you would like to discuss the information included in this Information Sheet further, please contact Alex Lewsley on 01322 623700 or email at:

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