

RealEstateNews

INFORMATION TO HELP YOU WHEN BUYING OR SELLING

PASSED IN

Why Failing to Sell At Auction is Bad for your Wealth

As a property seller, it is extremely disappointing when the price interest in your home falls short of your hopes & expectations. Failing to achieve your price target will happen in one of two ways – private failure or public failure. Failing privately means the agent submits the current buyer's price interest/offers on your property to you and you decline the offers. You then decide to continue looking for another buyer or you withdraw from the market. Either way, your business remains your business.

When this happens at a public auction, whilst you may be disappointed, the failed campaign has more than likely damaged the value of your property. Your business is now the neighbour's business and when the result is picked up by the newspapers, it basically becomes everyone's business. It becomes common knowledge that you tried to sell at auction and failed. Even more damaging, the price that you declined to sell for becomes the published price in a multitude of publications and media outlets.

When faced with this logic, most agree that failing to sell at auction is not a good look for the seller. But what is often overlooked is that no one has ever paid upfront advertised fees, booked an auctioneer for 5 Saturdays time and expected the auction to fail.

Everyone who has ever embarked on an auction campaign has done so because they expected their property to sell. So you have a scenario where 100% of people who have signed up to sell by auction, do so in the knowledge a failure to sell will reflect poorly on the property.

The auction clearance rate across Adelaide was around 41% in February.

Therefore, 59% of all properties that went under the auction hammer failed in front of the interested buyers & the neighbours. As if the auction was not traumatic enough, the homeowners could read about their failed auction in the Sunday paper.



Where does the auction stop?

It is shaping up as a market reality that there is not going to be a boom to begin 2011. The market finished 2010 in a sluggish mode and has opened up as such in 2011, besides the odd sale that exceeds all expectations.

A wonderful question to ask yourself in a cooling market is – how do you have an auction with 1 buyer? The answer is you can't. That is a fairly simple question to answer though.

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Letter from the Editor



What is the market doing? - Interpreting the numbers

In our feature article this issue we look at the damage caused to your wealth if your property happens to fail or get passed in at auction. Auction clearance rates are promoted heavily and positively by media outlets and many real estate agents who want to encourage 'other would be home sellers' to do the same.

But look between the lines- what is the real clearance rate?

A glimpse at a recent four week period showed a clearance rate of only 41.6%. If you were purchasing any other item and it had a 58.4% chance or more of being faulty, would you go ahead and purchase it?

Do your homework. You have to understand public auctions to know why you as a seller, should avoid them.

I trust that the articles in this edition are of some interest and benefit to you.

Best wishes,

Kevin Walter

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Why Failing to Sell At Auction is Bad for your Wealth

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The second question that many people don't ask is what happens if a cashed up emotional home buyer and a bargain hunter are the two bidders for your home? The answer is the emotional home buyer will stop one bid above the bargain hunters last bid. Due to the fact the bargain hunters last bid is likely to be well below the seller's reserve price, the property will then be passed in to the emotional home buyers.

The auction has stopped

The emotional homebuyers have just been alerted to the fact that they were about to pay more for the property than anyone else in the open market is prepared to pay. In this situation, if the emotional home buyer was prepared to pay \$50,000 more than the bargain hunter, the seller stands to unwittingly lose up to \$49,000, as a lack of competition stalls the auction. This is the practical reality of public auctions – they require multiple bidders all prepared to pay above the seller's reserve price to work. The romantic notion that 10 bidders will turn up to bid at every auction is more fiction than fact.

Lets say the seller hangs tough though. The auctioneer will sometimes disclose the sellers reserve to the market/crowd, usually in the form of a vendor bid.

The emotional home buyer cannot believe their luck – the reserve price is lower than they were originally going to pay for the home.

Sold

And the sellers are then told by their agent what a great result and how lucky they were to sell on the day in "this climate".

Only the emotional buyer knows that the public failure of the auction drove the final selling price down. The seller will never know and the agent does not want to know.

Market Conditions

In a buoyant environment where multiple emotional home buyers are turning up to outbid each other at auction, the risk of public failure does not loom as large. The question of whether you sell for the highest price or a high price then comes into play.

It can be an achievement finding one good buyer for your property at present, so why choose a strategy that requires at least 2 good buyers?

If the public auctions continue to flounder, sellers are putting the sale of major assets through the most risky sale process available. The advertising money is at risk, the highest bidder's confidence in the property is at risk, achieving the best price is at risk and the public deadline (that was meant to pressure the dozens of buyers to act) now hangs over the sellers, pressuring the one party it wasn't meant to.

During the GFC which was one of the most challenging periods to sell real estate, many sellers gave agents simple instructions – "if you can sell our home to a buyer for a price that we are satisfied with, we are happy to pay your commission. If you cannot do that, we don't want to pay anything"

Why wait for a crisis to issue those simple instructions to an agent?

As a seller determined to achieve top dollar, you want to know the highest price every buyer will pay for your property not the highest bidder. For further assistance on getting the Highest Price for your property with a Risk Free Sale call us today. Walter & Irvine Real Estate (08) 8272 9277 www.walterirvine.com.au



Parkside	Suburb Snapshot		
	2000	2005	2010
Median House Price	\$237,000	\$440,000	\$710,500
Median Unit Price	\$166,750	\$290,000	\$515,000
Highest House Price	\$524,000	\$1,180,000	\$1,450,000
Highest Unit Price	\$310,000	\$423,250	\$610,000

Source: RP Data

Buying - Strata vs Torrens

What Performs Better?

It is one of the major questions most buyers face during their property search - do we buy a house or a unit?

There are pros and cons to both Strata and Torrens title living. The key is to understand your rights and obligations before purchasing. Every strata plan has its own set of By-Laws that buyers need to make themselves aware of. Pets in strata plan living are often a point of contention.

There is a wide spread belief that houses perform much better over a longer period of time than apartments. Many quote the saying that, "land appreciates while buildings depreciate" therefore houses are a much better investment than apartments. There is merit in this point of view, but not a universally correct position to hold.

As an investment, you cannot overpay for a house and expect it to still perform better than an apartment that is bought at market price. This seems like an obvious point, but many buyers overlook this point in the heat of the moment when buying. Also, an apartment in a desirable blue ribbon location may still outperform a house in a

lesser location.

Holding Costs

The running and holding costs differ with units and houses. Many units will offer a superior GROSS rental return than houses. However, the strata fees usually absorb the extra income and therefore dilute the NET

rental return to the owner. Buildings with gyms, lifts, pools, saunas etc usually have higher strata fees, but they do also attract a higher quality tenant. The tradeoffs need to be weighed up on a case-by-case basis.

It is a matter of understanding what the strata fees cover and the rental return the property is likely to provide, prior to buying so there are no surprises down the track. Before buying a unit, it is imperative that you or your solicitor comb through the books of the strata plan in question to identify any issues.

There are some extra costs such as insurances that are paid from the strata fees that still need to be covered off with the ownership of a house. Generally, maintenance and renovation costs tend to

be higher with houses.

The key to securing the right type of property for you is to take your time initially to get all the facts and then move decisively on the property that meets your criteria.

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Walter & Irvine would like to wish you and your family a happy and safe Easter.

Holiday Dates:

Good Friday - 22 April

Easter Sunday - 24 April

Easter Monday/ Anzac Day - 25 April

Easter Tuesday - 26 April

WIN

Join us on Facebook for your chance to WIN 1 of 3 Haigh's Chocolate Easter Hamper* valued at \$100 each!

**To enter visit: www.facebook.com/walterirvine
Hurry entries close 5pm 20th April 2011**



Buying - Strata vs Torrens

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“Torrens Title”, “Strata Title”, “Old System Title” - What do they mean? What are the differences?

In the first instance the Title, regardless of type, defines a property parcel. Anything that affects the quality of that title is recorded in the Certificate of Title - the document that will bear your name when the property is legally yours. This includes financial “encumbrances” such as mortgages and caveats and also any easements, rights of way or covenants that either benefit or disadvantage the property.

Procedures for the conveyancing of Torrens and Strata titles are often uncomplicated.

Company title and the small percentage

of the remaining original form of title, Old System title, require special care.

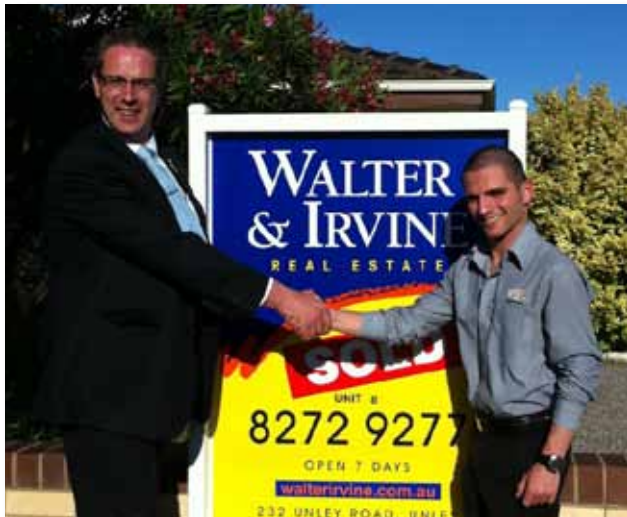
The most common types of title include:

- Torrens titles overcame most of the problems of “Old System title” with the issue of a single, guaranteed certificate of title. Generally, only items including names, mortgage details and easements registered on the certificate of title have legal standing.
- Old System titles - also known as common law or general law titles - are a series of documents consisting of a chain of title, tracing the ownership of the property from a good “root of title”, and must be meticulously examined every time the property is sold. Although it’s unlikely, an unknown party may have a legal but unregistered interest in the

property. Old system titles can be converted to Torrens title.

- Strata titles are a system of ownership of property based on the horizontal and vertical subdivision of air space of a building into lots with separate titles where rights of transfer, lease or mortgage are unrestricted.
- Company titles are an older form of title for home units where owners are usually shareholders in a private company. Shareholders have exclusive possession of their unit (and car space if applicable). The approval of the majority of shareholders is required if you wish to lease, sell or transfer your shareholding.

**From House Hunting by Jerry Tyrrell
Published by Allen & Unwin, 1997**



“

Robert, I would like to sincerely thank you. When we first met, I knew that I was dealing with an agent that was very genuine and honest. Even more than just giving me information that I required, you showed compassion and understanding. You made me feel at ease through the whole process. Robert, if there were only more people in the world of business that share some of your qualities, life would be so much simpler”.

Michael Scarfo

”

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