

0% Fees by Auction - Real or False Saving ?

'Modern Method' or 'Traditional' ?

Be careful as these auction methods can be as different as chalk and cheese.

The relatively new method of auction known as 'modern method' or 'conditional' is being offered by some agents these days, often in conjunction with a **0% fee offer** for sellers. Sounds tempting doesn't it?, but it can be very misleading and in many cases not really in the best interests of either the seller or the buyer, only the agent.

On the other hand, the 'traditional method' of auction is time-proven and binding on both seller and buyer, and the seller usually pays a more reasonable fee for the service, with binding exchange of contracts occurring on the fall of the gavel.

The 'modern method' is nowhere near as reliable or professional. Quite punitive auction conditions are often forced on bidders and the successful bidder is really only buying a period of exclusivity, often around two months, within which to exchange contracts. Failure to exchange within this period usually results in the bidder forfeiting to the agent, not the seller, a substantial 'reservation fee' which is often a hefty 4.2% or a minimum of £6,000!

That alone can be enough to deter many bidders rather than encourage them. In addition, the buyer usually has to pay for the cost of the Buyer's Information Pack.

Many bidders end up forfeiting a large 'reservation fee' to the auctioneers and in some cases more than one large fee can be forfeited on the same property! All monies usually go to the agents/auctioneers, not the seller. No wonder some agents are keen on this new idea.

An RICS regulated agent, however, is duty bound to put the interests of its clients first, as you would expect. However, if it is the buyer who is paying the fee, it begs the question 'who really is the client, the buyer or the seller?' and in turn whether there is a conflict of interest.

Criticisms on how the 'Modern Method' is being 'sold' to sellers

The agents often claim that the main requirements for a successful sale by auction are a motivated seller combined with good marketing exposure. No mention is made of fair and reasonable auction reservation terms because they know this is not the case.

Marketing often only lasts around a month, which is not very long in uncertain economic times or holiday periods. Some might even call it a 'forced sale' these days and we all know that a forced sale does not achieve the optimum price.

Bids are usually not binding bids to purchase the property, merely bids to buy a period of exclusivity within which to try and exchange or otherwise forfeit the reservation fee/deposit.

Some agents are claiming that the modern method enables a quick sale for the maximum price and all without having to pay any agency fees. We believe that is **very misleading** to potential sellers.

The maximum price can only be achieved after proper marketing, and we believe a month is often not long enough. Maximum price certainly can't be achieved where many buyers are deterred by punitive fees and reservation terms and conditions.

There is no such thing as a free sale commission. You cannot buck the market. A buyer who is forced to pay your fees will simply discount his/her best bid by the amount of those fees. **Sorry, but the seller will effectively end up paying in the end**, and at a much higher fee level than would otherwise have been the case.

Our Conclusion

Our view is that a seller will, in many cases, be able to achieve a better and less complicated sale outcome **simply by choosing to sell by normal private treaty method** using a good, reputable agent who will ensure a thorough description of your property, with pricing at around the same auction price guide and encouraging prospective buyers to bid competitively, just as they might do by on-line auction.

Should the level of competitive bidding be high, the sale can always be finalised by way of 'informal tender', sometimes referred to as 'full and final offers', or even in some cases via a 'traditional' auction. Auctions are really only suitable for the right property in the right market, and unfortunately too many sellers are being lured by the illusion and attraction of 0% agency fees.

If you own a property where the modern method of auction has either failed you or disappointed you, and you would like to revert to the normal private treaty method at an attractive asking price, and with a better and fuller description, and with no confusion as to who the paying client really is, please get in touch to see if we can help.

Call 01302 322121 to speak to one of our friendly advisors for more information.

Until more people become aware, it is down to those who know the difference to help make as many sellers aware of the potential pitfalls of 0% fee offers, BEFORE they commit.

We are not saying all of the above apply to all firms offering auctions . Please make your own enquiries, read the small print thoroughly and ask questions before you decide which method is best for your sale.