

# **R** *THE REAL ESTATE* **ROUNDAABOUT**

*VZ Real Estate Publication - Issue Forty*

## **The Silent Auction**

Getting the best price in a rising market

**As a seller determined to achieve the highest possible price in the market, one thing you should never do is let your interested buyers know what other offers you have received.**

When buyers' competing offers are disclosed at an auction, bidders will never focus on offering the highest price they are willing to pay. Their focus is on beating the competition and winning the auction. When you line up all your interested buyers next to each other and shout at them with a pointed hammer (as happens at a public auction), you invariably end up with a series of \$500 or \$1000 bids to close out the sale.

But what happens if the final bidder was prepared to pay \$50,000 more than the second highest bidder? In that case, as often happens at public auctions, the seller loses \$49,000 they could have pocketed if they hadn't chosen that selling method.

Every Saturday across Australia, sellers sell their homes for less than the buyer was prepared to pay for it. It amounts to silent pain for the seller and silent gain for the buyer. Never allow your interested buyers to know what other offers you have received, whether it be by public auction or



**A Silent Auction saw 3 Bowers Rd, Everton hills exceed expectations after just one weekend on the market.**

Dutch auction. A Dutch auction is where agents personally negotiate the sale but continually disclose competing offers to each of the interested parties. It is done in a futile and incompetent attempt to force buyers to leapfrog the competing bids. A Dutch auction is worse for a seller than a public auction because buyers usually refuse to partake in the process given its grubby nature.

As a seller, never have your agent put buyers through a Dutch auction process because you will probably lose your best buyer on principle.

### **Competition**

Negotiation experts (and card players) all agree that you should never let the other side know what your position is. During a hand of poker, have you ever seen a card player turn their cards up for everyone at the table to witness and ask the competitors for advice?

As a property seller, why let the buyers see your cards? Agents often talk homeowners into an auction as the best way to 'create competition'. What

*Continued on page 3*

### **In this issue :**

- **The silent auction**
- **Market preview for 2014**
- **Free highest price book**
- **Trial move**

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# Letter from the Editor

Dear Readers

Welcome to the latest edition of The Real Estate Roundabout.

The team at VZ Real Estate would like to wish you the best for 2014!

In each month in The Real Estate Roundabout, we cover the North West property market to identify emerging trends and sales of interest. We aim to keep you totally updated and informed with the marketplace.

I hope you find the following articles of interest:

Best wishes

Franco Zaini



1/8 Dallas Parade  
Keperra Qld 4054

**Phone: Sales (07) 33551777**

**Rentals (07) 33551811**

**Fax: Sales (07) 33555677**

**Rentals (07) 38552577**

**Email:** sold@vzrealestate.com.au  
rent@vzrealestate.com.au

**Web:** www.vzrealestate.com.au

Disclaimer: this publication is intended for general information only. Verstandig Zaini Real Estate accepts no liability for any actions taken by any persons acting on any information contained within this document. There are many issues involved with buying and selling real estate so it is important that you get specific advice prior to making any decisions on your next real estate transaction

# Market Preview for 2014

After a stellar year in 2013, many people are keenly awaiting the start of the 2014 property market. The big question is whether the gains of 2013 will be improved upon or whether prices will simply hold at current levels. There is only a low expectation that prices will fall.

There were some conflicting signals late in 2013 as the auction clearance rate pulled back a bit and signs of buyer resistance to vendor's asking prices began to emerge. Overall though, prices in Brisbane were up.

Interest rates and employment will be the key determining factors for the market in 2014. While interest rates and unemployment both remain low, the real estate market should perform relatively well. It is fair to expect that the first quarter will see a great deal of activity as limited supply over the Christmas/holiday season causes pent-up demand.



However, demand from local investors is likely to cool off as prices have risen and rents have dropped in pockets of Brisbane. Any pullback from investors probably won't show up until the second quarter as owner occupiers absorb the early New Year stock.

If the Australian Dollar (AUD) continues to fall or even remains as low as it is now, it will assist the real estate market in 2014. Expats and Chinese buyers are the two major groups of potential buyers likely to be inspired to act by a low AUD. In 2013, the AUD peaked at 0.6952 against the GBP and finished the year

around 0.54. A whopping 22.5% drop. Similarly the AUD dropped 16% against the USD and 17% against the Chinese Renminbi. Such falls in the AUD make quality Australian real estate that much more affordable to expats and overseas investors. Developers in particular will benefit from a lower AUD, as overseas investors are encouraged to buy brand new dwellings by the Foreign investment Review Board.

Affordable yet conveniently located properties with easy access to transport, infrastructure and the CBD will perform well as Sydney continues to struggle with traffic problems.

Prestige real estate (over \$2 million) had a good year in 2013, but still underperformed compared with the broader market. If the share market performs well in 2014, this will flow across to the prestige end of the property market. More and more in

recent times there has been a link between share market performance and prestige real estate.

A rising interest rate and/or rising unemployment pose the greatest risk to the market in 2014. In 2013, the Brisbane real estate market rose as the broader economy deteriorated. This is unlikely to happen two

years in a row as the Reserve Bank of Australia (RBA) will not be able to cut interest rates by the same degree. Ultimately, the performance of the real estate market will mirror the economy in 2014.

In summary, prices should hold and may even rise modestly for vendors whilst buyers will struggle to find bargains. The big upward shift in prices has probably already happened. There is no obvious catalyst for continued aggressive price growth in 2014.

*No Lies, No Deceit, Just Honesty, Integrity and Results*

# Selling for more with silent auction

is often overlooked is that buyers are competing for the property and are not bothered by the process used to sell the property. Interested buyers will compete for the home, regardless of which sale process is used.

Bidding at a public auction is not competitive — it is comparative. If a bid of \$1,000,000 is made at an auction, the next bid will likely be \$1,005,000, or \$1,010,000. It won't be \$1,200,000. Many buyers who are the under-bidders at an auction make an off-hand comment that they stopped bidding because the other party was just going to keep going. What the bidders are actually saying is: 'I let the other buyer have it cheaper by dropping out.'

If we cannot compete with that buyer, why make them pay more for it?' This regularly happens at public auctions but would never happen using the silent auction process.

## Campaign

Public auction campaigns focus mainly on maximising the number of interested buyers and setting a deadline for those buyers to act. Yet this is what all agents should do regardless of the sale process chosen by the vendor. Having a publicly known deadline creates just as much pressure for the seller as it does for the buyer.

Agents orchestrate this scenario to ensure that a sale is made. Remember that at a public auction, getting a sale on the day in front of the crowd is the agent's main priority.

## Silence is Golden

In Scotland, when agents are ready to close out a real estate transaction all the interested buyers submit their best and final offer in a sealed envelope for the seller's consideration. Some call this a 'silent auction'. In most, if not all cases, the owner sells the property to the party with the highest offer.

Scottish people do enjoy a quid. The Scottish know that if you let a \$1 million dollar buyer know that the next best offer you have received is only \$900,000, you will only be offered \$910,000 from the buyer who was prepared to pay \$1 million. How could the seller justify asking for that extra \$90,000?

One real estate firm which regularly conducts silent auctions in Australia explains below how the sale of a prestige family home in Sydney achieved the highest possible price using a silent auction. Not only did it achieve the highest possible price, it achieved a price that would have been mathematically impossible using a public auction where bidding is transparent.

This is how it worked: The property generated enormous interest in a short period of time so a deadline was set. This date was not advertised because it may have pressured the

buyers, and this also saved the seller from a public failure should the best offer fail to meet the reserve price.

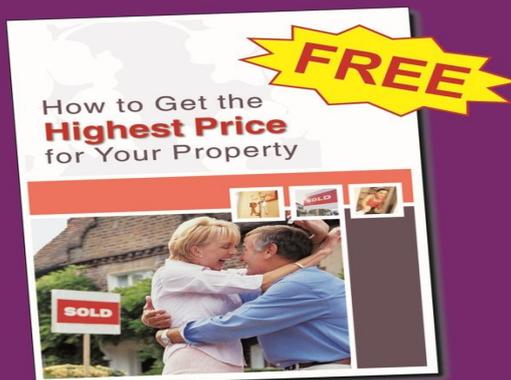
The homeowner set their private reserve at \$2 million. All four interested buyers submitted their best, highest and final offer on or before the deadline. Each offer was submitted on a binding contract with a deposit cheque. The offers came in at \$1,950,000, \$2,050,000, \$2,150,000 and \$2,210,000 respectively. Contracts were exchanged for \$2,210,000 providing the owners with a \$55,000 windfall that a public auction would have failed to achieve.

If the property had sold at public auction, many people would have understandably left the auction mightily impressed. The newspapers would have reported how the property sold for a whopping \$155,000 above the reserve price. The \$55,000 left in the buyer's pocket would be a silent victory for them when it would have appeared to everyone that the owners had a public victory.

Most of the positive marketing components in play at a public auction work equally well for a silent auction.

It is the silent auction method's ability to determine the highest price in the market without pressuring sellers or producing spectacular public failures that makes it an elegant solution.

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# TRIAL MOVE Whereby you lease before buying

Buying and selling is a stressful and expensive process. There is no doubt. There is the stamp duty, legal fees and selling costs, amongst many other costs, that all eat into your equity.

In most cases, one makes a move to improve their personal circumstance. But what if it does not? What if the move is a mistake? The transaction costs are non-refundable. Furthermore, you could be faced with the unfortunate situation whereby you either transact again (burning more equity) or stay in a property that you are unhappy in.

As many baby boomers make the decision in the next decade to downgrade from the family home, many will face the challenge of making the right move.

Changing from the large family home to an apartment and/or a new location entirely can be an exciting frontier. Or it can be a regrettable mistake.

There is a wise proverb that states "never test the depth of the river with both feet". But when you sell the family home to buy in an unknown situation, that's exactly what you are doing – diving in and hoping it all works out.

Whether it be baby boomers downgrading to an apartment or a young family starting afresh in a new suburb, there is one solution to ensuring the right move that is often overlooked – The trial move.



The trial move is whereby you lease before you buy. You trial your new conditions prior to being locked into a purchase and/or sale. Whilst you are leasing a property similar to one that you have considered buying, you lease your existing property out. If the move to the new location or apartment living is a success, then you can consider actually locking your position in by buying and selling. You can now happily sell your home knowing that you are going to a better future.

Most importantly though you have a contingency plan should the new property not meet your expectations. There are countless stories of those that could not wait to escape the city in retirement and head for the hills or the beach – to only find the solitude from

family and friends depressing. Or those that find moving from a house to an apartment to claustrophobic. Alternatively, others have fully embraced such lifestyle changes.

If you are unsure how you will handle major lifestyle changes, maybe a trial move is something to consider.

If you decide on the trial move as opposed to the "sell/buy and hope for the best" method, there are still challenges.

A trial move means that you are likely to move house at least twice, maybe three times before you eventually get settled. But at least you won't have burnt 8 to 10% in transaction costs. And you won't feel locked in to an unsatisfactory circumstance.

## The agent carries the risk, not you.

Will you sell your property? If so, I would appreciate the chance to offer my services as your estate agent.

The service you will receive is very different. For instance, we offer you a **'RISK FREE'** sale. What this means, for you, is simply this:

*The agent carries the risk, not you.*

There are many people who are *interested in real estate in your area*. Many are ready to buy now.

If you think you might like to sell - even at some time in the future - please consider the price you could get. By all accounts, the price should be high. And, if not, you lose nothing.

That's what **'RISK FREE'** selling is all about.

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at anytime  
most convenient for you.



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