



GUIDE TO PROPERTY AUCTIONS AND BRIDGING LOANS

2019

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MFS' GUIDE TO PROPERTY AUCTIONS AND BRIDGING LOANS 2019

Bridging loans are an increasingly popular form of finance for brokers who have property investors as their clients. Free from the more stringent regulations and lengthy application process imposed by high street banks, bridging lenders like Market Financial Solutions (MFS) are able to deploy funds within days of an enquiry being received.

From residential and buy-to-let purchases through to refurbishments and commercial investments, MFS is regularly the first port of call for brokers handling the specialist finance needs of their clients.

Over the last few months, we have seen a noticeable rise in the number of brokers coming to us with clients seeking finance to support a property purchase at auction. Given the competitive nature of the real estate market, the rising popularity of auctions should come as no surprise. Not only are transactions immune from gazumping and gazundering tactics, there is also a set completion period of just 28 days once a 10% deposit has been paid.

The figures are telling – in 2018, more than 26,000 homes in the UK were purchased at auction, which equated to £2.89 billion worth of sales. With auctions rising in popularity, it is vital for brokers to understand the nuances that come with buying a property at auction so they can effectively advise their clients. That is why MFS is pleased to announce the launch of the MFS' 2019 Guide to Property Auctions and Bridging Loans.

Having consulted with some of the UK's leading property auction figures, as well as our own in-house team of finance professionals, this guide provides timely insight into what buyers and brokers need to be aware of when it comes to auctions.

In **2018**, over **26,000** homes in the **UK** were purchased at auction, equating to **£2.89 billion** worth of sales



THE PROPERTY AUCTION CHECKLIST

Those who have never taken part in an auction can find the process complicated and risky. The success of a transaction depends on a number of factors, such as quick access to finance, which need to be sorted ahead of the actual bidding taking place. So what do homebuyers need to consider before, during and after a property auction?

We called upon **Stuart Elliott** from **Network Auctions** to hear what he considers to be the quintessential property auction checklist.

Having worked in the property industry for nearly 30 years, Stuart has seen first-hand the changing nature of real estate auctions. As a Fellow of the National Association of Valuers and Auctioneers, Stuart believes that when it comes to successfully bidding on a property, buyers need to follow a six-point checklist:

1. Always view the property

– you would be surprised how many people do not, he says.



4. If finance is required to purchase the property,

inform the lender of the timescale required for the funds to be deployed. Remember, the purchaser must provide a 10% non-refundable deposit on the day of the auction, and complete in 20 working days.



2. Do your research

 and understand what the market value of the property is by consulting with agencies and online property portals.

5. Successful bidders are charged

 an administration fee by the auction company so be sure to check the amount. This typically sits around £750 (plus VAT).

3. Always download a copy of the 'Legal Pack'

 from the auctioneer's website. Read it, or if you are new to auctions, instruct a solicitor to check the legal pack on your behalf. This contains all the legal information relating to the property and any additional costs that the purchaser will be liable for. These additional costs will be stated within the 'Special Conditions' of the legal pack. Purchasers should be aware that it is their responsibility to read it as the contents are legally binding.

6. Have a maximum price

 you are prepared to bid to on the day of the auction and stick to it.

BUDGET

UNDERSTANDING HOW PROPERTY AUCTIONS CAN WORK FOR YOUR CLIENTS

To make sure brokers are well equipped to support their clients at property auctions, MFS spoke with Phillip Arnold of Phillip Arnold Auctions to hear his thoughts on the common pitfalls of auction purchases, and the benefits of bridging loans.

He stressed that while auctions have become a popular avenue for seasoned investors looking to expand their portfolio, there are also many common pitfalls facing buyers who have not undertaken the necessary due diligence. Indeed, of all the risks involved when buying a property at auction, Phillip believes there's one challenge that stands above the rest:

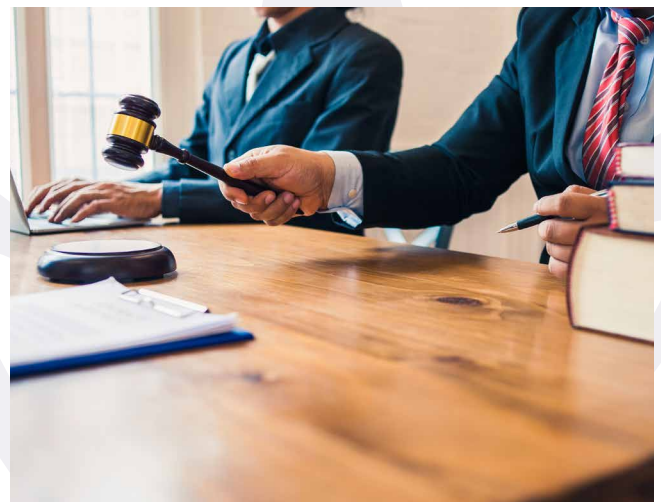
"In all my years working in the industry, you would be surprised to find out just how many buyers do not do sufficient research before bidding on a property. And this is despite the strong advice given by lenders, brokers and auction professionals to do all the necessary research and background checks."

So, what can brokers do to make sure their clients are adequately prepared?

"Legal packs hold all the necessary information the buyer should need. It is also important to check local house prices so that when it comes to bidding, they do not end up paying beyond the actual value of property."

When it comes to financing an auction property purchase, a lot of buyers can be caught out by the fact that contracts need to be completed within 28 days of the gavel falling. This makes it extremely important for brokers to understand the different finance options that can be used. And of those available, Phillip recognises the benefits of bridging loans due to the speed and flexibility with which funds can be deployed.

"Bridging loans are a good choice for those hoping to buy at auctions. A pre-approval gives the buyer added peace of mind; he or she knows they can bid, and if successful, complete within the 28-day cycle. In other words, it gives the buyer time to purchase a property while at the same time work on the longer-term finance."



BUSTING THE BIGGEST PROPERTY AUCTION MYTHS

Importantly, a lack of knowledge about auctions can lead to misconceptions about how property purchases through this medium are handled. To tackle these misconceptions, MFS consulted with its experienced team of underwriters and business development managers to find out what they considered to be the biggest property auction myths.

Myth 1: Auctions are too complicated and risky

Property purchases are by their very nature a complicated process, and buyers can fear the prospect of bidding, paying a deposit and exchanging contracts all within a 28-day window.

In reality, auctions are transparent and significantly reduce the risk of a buyer being gazumped or gazundered at the critical closing stages of a sale. Once the highest bid has been placed and accepted by the seller, there is no risk of the sale collapsing as a result of the seller pulling out. It also gives the buyer the assurance that the deal will not be delayed beyond 28 days.



Myth 2: Auctions are only for buy-to-let investors

It is certainly true that auctions are popular amongst buy-to-let investors seeking to purchase and renovate a derelict or run-down home. Typically they do so with the objective of putting it back on the market to sell or rent. However, while our underwriters regularly encounter this situation, it is important not to think auctions are limited to this type of investor.

For example, first-time buyers are able to purchase a property at auction; however, given the limited timeframe it is extremely important for them to have their finances in order. Bridging loans are positioned to help first-time buyers – lenders like MFS can value a property a buyer intends to bid on prior to the auction, and once determining the market value, can issue a bridging loan.



Myth 3: Auctions are only for run-down properties

Following on from this point, there is similarly a perception that auctions are only suited to investors looking for derelict and run-down properties. While it is true auctions are commonly used to sell repossessed and derelict homes, prospective buyers are in-fact able to buy a whole host of different properties. This can range from commercial and semi-commercial developments to luxury properties and traditional residential homes.





TAKING ADVANTAGE OF BRIDGING FINANCE AT PROPERTY AUCTIONS

Property auctions are becoming a popular option for all types of buyers. The speed with which transactions are handled means investors are able to act confidently, while the nature of the price being determined on the day means there is always a chance of getting a property at well under market value.

However, the ultimate success of a property purchase at auction depends on the buyer having the necessary finance at their disposal. Arranging a mortgage within the 28-day time frame can be a risky process, whereas bridging loans are better placed to ensure funds can be deployed within days of the bidding taking place.

If you want to find out more about MFS and how bridging finance products can support you or your clients purchasing a property at auction, speak to a member of our team by emailing enquiries@mfsuk.com or calling 020 7060 1234.

Alternatively, you can [download a copy of MFS' bridging loan product guide](#), which has more information about our services and products.



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