

Private Investor & Auctions

The auction room is the best barometer of market value

■ Sustained activity despite recent turbulence is reassuring indicator of what lies ahead in resi auction sector

Gary Murphy

I am often asked about the state of the residential auction market and how it is likely to behave in the near future. Well, the first bit is easy given the current state of uncertainty. The second is a lot harder.

There is no doubt that sales volumes are down across the country. According to Essential Information Group, the numbers of residential lots offered and sold across the sector in July fell by 7.3% and 4.8% respectively. Receipts totalled £107.1m, down 4%. The stats show that activity is down, but does that translate to values?

Accurate analysis of trends in auction prices is almost impossible in the absence of perfect sample sets - by nature every auction catalogue is different from the last. So my answer to these questions is largely based on our experiences in the room and feedback from our clients and bidders.

Since the start of the year, Allsop has raised £220m - reflecting a 76% success rate - from the sale of residential property at auction. This is in contrast to the £256m raised in the first half of 2018, which reflected a success rate of 79%. However, looking back over the three sales held so far this year, some common trends have been identified.

The market is active. Despite political chaos, economic uncertainty and the threat of a no-deal Brexit, bidders are still keen to do business. Our rooms are still full and the level of registrations for remote bidding is up 79% on last year.

There is price sensitivity on both



sides of the deal. Many of those owners who have the choice to wait until market confidence is restored are postponing their decisions to sell. Supply is supported by those who need not wait. These are the vendors with a duty to sell at 'best price'. They include mortgagees, housing associations, local authorities and government bodies.

Traders who are able to buy off-market at forced sale values are able to turn a decent profit using the multi-channel competitive tension created by an in-room auction.

Realistic reserves enable attractive guide pricing and generate the highest receipts. That said, where figures are on the optimistic side, in-room activity will swing from deals under the hammer to a race for available stock immediately after the auctioneer's announcement that a lot is unsold. Paradoxically, prices achieved during this frenzy will often be over reserve.

Lot sizes have not been limited by the prevailing market uncertainty. Allsop's highest-value sale under the hammer this year was an unbroken freehold building on Eton Avenue in Hampstead, London. Offered to

the market for the first time in 20 years, it was arranged as seven self-contained and six non-self-contained flats. Mainly let and producing £181,000 a year, it sold for £4.66m.

Values are stable

My gut feeling is that auction values are pretty stable. This is based largely on the level of competitive bidding over reserve for lots sold under the hammer - and the stand-off between buyer and seller on unsold lots, which seldom results in a deal below reserve.

Now for the harder bit. Writing market forecasts as an auctioneer is tricky - not least because nobody knows with any clarity whether we will survive a no-deal hard Brexit, whether we will face a hard-left Labour government or whether there will be a 'Boris bounce'... but also, because I have always been aware of trying to balance realistic commentary with the interests of our clients and the sentiment of our bidders.

So, without wishing to spook

anyone, here goes: there will no doubt be buying opportunities over the second half of this year. Until certainty is restored, prices will, at best, remain static; volumes at auction are likely to continue on their present trajectory as less desperate sellers hold firm and postpone sales; and success rates will dip for those auction houses that are willing to compromise on aspirational reserve prices in order to sustain lot numbers.

Ultimately, the delivery and proof of 'best price' will become paramount for fiduciary sellers opting for auction as a route to market.

The new-build market is one to watch. Prices are inflated artificially due to increased demand generated by Help to Buy. New-build flats are a little like new cars. On resale they will be secondhand (and not eligible for Help to Buy) and worth less than the fresh stock against which they are competing in the market. Unless house price inflation comes to the rescue, which is unlikely, a new sector of negative equity could emerge from Help to Buy.

What is clear is that the auction room will remain the most reliable test of market value and buyer sentiment. There is no better barometer. Sustained activity over recent turbulence is a reassuring indicator of what lies ahead. It is ultimately down to the ability of the auction houses to appraise correctly and price realistically.

Gary Murphy is an auctioneer at Allsop

