



the final word - JOHN JOHNSTON CEO

IS NON-GENUINE BIDDING AT PROPERTY AUCTIONS RIGHT?

When 'dummy bidding' was formally outlawed some years ago, property auctioneers were left with the still legal forms of non-genuine bidding such as vendor and auctioneer bids to fall back on. Many made the decision to make these a standard part of their auction process. Was that a mistake?

'Non-genuine bidding can reduce bidder participation'

It is logical to conclude that a prospective buyer for any property going to auction will be far more interested and inclined to attend or bid if they know that the process is going to be transparent and the competing bidding is going to be genuine. When buyers are safe in the knowledge that they are going to be treated fairly, their mind is freed up to concentrate on winning the right to own the property. Applied to multiple prospective buyers, auction participation greatly increases, competition to buy increases, and the optimum outcome is achieved (which is how an auction is supposed to work).

For auctions where there is to be non-genuine bidding, interested buyers uncomfortable with the process are often loathe to attend, and where they are still able to be convinced to attend, often they choose not to bid. This leads to reduced bidding or no real bidding at all. The buyer or buyers who previously had genuine interest in the property then start to believe that there must be something wrong with the property otherwise obviously someone would have bid. The result is that the buyer or buyers who may have been prepared to buy the property at its full current market value, now believe it to be worth less or are no longer interested in it at all.

'Non-genuine bidding can encourage unrealistic reserve prices'

When the lack of potential registered bidders for an upcoming auction is relayed to a seller prior to the auction, they often choose to counter the unfolding disappointing situation by adding in a buffer to the reserve price as a means of protecting their long term interests. They logically feel that there is little to be gained in revealing their bottom price now if there isn't going to be any genuine bidding. The agent, faced with a lack of bidders and an unrealistic reserve then loses heart in the property and the process. They can even start to believe themselves that the property is worth less than what it is given the current lack of interest in bidding at the auction and the seemingly lack of interest in the property generally.

'Non-genuine bidding' can slow bidding down'

On auction day, because of the reduced buyer participation, the auctioneer may revert to vendor or auctioneers bids far too early. When such bids are introduced, they must by law be clearly announced. Such announcement unfortunately is normally interpreted by the public as a sign that the property has reached its current market value. Buyers are quite aware that they are the market and very few have any interest in bidding against themselves to drive up the price they may have to pay for a property. After an announced non-genuine bid, any real bidding usually either slows right down or stops completely. Anyone in the crowd who may have intended bidding but who hadn't yet, is left questioning what the property might really be worth. With no further bidding, the property gets prematurely passed in, this before any of the buyer versus buyer competition that is designed to set market value even gets started.

'Non-genuine bidding can cause more properties to be passed in at auction'

The result is that too many auctions where non-genuine bidding is used are passed in, even in situations where entirely realistic reserve prices may have been set. The seller is disenfranchised because there was not the level of bidding that there might have been had the buying public been more trusting of the process, and suitable contenders for the property who might normally have paid fair market value for the property either prior to or at the auction (at the time when buyers are most excited and when best prices are usually paid), now with evidence of a lack of interest in the property, start to believe that there is either something very wrong with the property or it is overpriced. From there these buyers rarely choose to pursue the property further. They go cold and it thereafter becomes very difficult to get them or anyone else to show interest unless there is a strong financial inducement to do so (i.e. a large price reduction). The property starts to go stale in the marketplace and the seller is left with the hard decision to either sell the property for less than its true potential worth, or simply to keep it.