



### SELF CHECK QUESTION 3

*A small auction catalogue has been printed by your firm around eight weeks prior to the auction. There are 12 lots to be sold. When the auction catalogue was printed, your firm had arranged the lots carefully, thinking that the properties likely to generate most interest had been placed in the catalogue as lot 1 and lot 12. During the eight week marketing period, it has become apparent that there is little interest in lot 1 and most interest in lot 12 (as expected) followed by lot 5 and then lot 9.*

*Would you decide to vary the order of sale, and if so in what order would you present the lots?*

*Compare your answer with the one given at the end of this section.*

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## 4.3 GUIDE PRICE AND RESERVE PRICE

One of the advantages of an auction for the seller is that, unlike in private treaty sales, no price has to be given. A further advantage is that once the bidding starts, the bidding will only push the price higher, whereas with private treaty sales the asking price is usually seen as a ceiling price that is open to negotiation to a lower figure.

### Guide Price

Although it is possible to put a property up for auction without any price, it is usual to give a **guide price** so that potential bidders do not waste their time if the expected price is well above what they can afford to bid. Usually, the guide price is set at a figure close to the expected sale price.

In the past, this has not always been the case. During the depression in property prices in the early 1990s, an American firm new to the UK auction scene tried to break into the market. One of their tactics was to announce price guides at a fraction of the expected selling price. This was done to stimulate interest so that bidders would have the hope or possibility of picking up a bargain, but was seen by established auctioneers as misleading and not good practice. Fortunately, the firm did not stay in the UK market for very long.

The tactics of the American firm outlined in the last paragraph is a direct breach of the Auction Guidance Notes. It would also be seen as deliberately misleading and it would be open to potential bidders to take action through the civil courts for misrepresentation (see Unit 2 where misrepresentation was covered).



#### SELF CHECK QUESTION 4

*Can you think of any other way in which the setting of a deliberately low guide price could be a problem for the auctioneer?*

*Compare your answer with the one given at the end of this section.*

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Potential bidders at an auction have to be sure that they want to buy a property before they bid, because if they are successful there will be an exchange of contracts at the fall of the hammer and hence a commitment to buy. This means that they will have to arrange finance, have a survey or other inspection carried out on their behalf and have their legal representative complete legal formalities up to exchange of contract stage. All this work will have to be paid for and by the time the bidder attends the auction they will have paid out a lot of money. This is why guide prices need to be realistic and not to be misleading.

#### **Reserve Price**

The **reserve price** is the price below which the auctioneer is not allowed to sell the property. It is the minimum price that the seller will accept for the property. If at the auction the bidding finishes below the reserve price, the auctioneer will not be able to sell and the property will be withdrawn unsold. If the reserve price is reached, the auctioneer will sell the property to the highest genuine bidder.

A property can be sold without any reserve price, although this is unusual. There is also some danger for the seller. A property being sold without reserve will be sold to the highest bidder. If on auction day there is little interest in the property, in theory the property could be sold for a very small figure.

The reserve price is kept secret between the seller and the auctioneer. It is not revealed to bidders. However, the existence, but not the amount, of the reserve is notified to bidders. Bidders then know they have to bid at or above the reserve or the property will be withdrawn unsold.

The other reason for revealing that the property will be sold subject to a reserve price is so that the auctioneer can bid on behalf of the seller. You will remember that this also needs to be notified to bidders, usually in the conditions of sale (see Unit 2).

The reserve price is a very important figure for both the auctioneer and the seller. It is recommended that this figure should be confirmed to the auctioneer in writing by their seller client. Remember that for some clients, the decision-making process can be slow so sufficient time needs to be left for the final decision on the reserve price to be communicated to the auctioneer.