



30 January 2007

THE POWER OF THE VENDOR BID (1)

G'day team,

In conducting auctioneering training over the last few weeks in the USA, NZ and here in Australia, sooner or later the subject of "vendor bids" and their use (or lack thereof) arose.

Vendor bids are allowed in all three countries, although not universally due to varying state legislation. What does vary, however, is the number of bids that can be made and how the placing of the bid is announced to those present at the auction.

Having listened and watched attendees place these during training, my opinion is that the NSW legislation, which allows one only bid only and which must be announced as a vendor bid, is spot on.

Mind you, it was created to combat "dummy bidding" (which it hasn't - but that is a separate issue) and in the process has created probably the most powerful tool we have been given in marketing real estate by auction.

PROVIDED THAT!

And that provision is?

That the vendor bid is based on market opinion, not what the vendor wants as their reserve or what the listing agent believes "it's gotta be worth".

What we think it is worth has nothing to do with it. As those markets that are now in decline (to a lesser or greater degree) have and will continue to show, often the listing agent's opinion of worth has been higher than what the property sold for. How many times over the past 12 months have you or your associates overestimated a properties sale price?

Probably many and that is why the stock boards in office after office are full of over-priced property. On the other hand, those who have listed auctions have invariably seen 90% of those listings sold with the vendors moving on and the agent banking the commission !

What I saw time after time in the training was auctioneers having numerous vendor bids as the auction progressed then stopping at some stage, invariably that being called the "run to" figure.

My question is - "why run the risk of annoying buyers by continually belting them with a vendor bid when, *provided it is placed correctly (see above)*, a single vendor bid placed will gain the same result of positioning the property?".

Last Saturday was a great example of this when I conducted an on site auction for the Ray White Lindfield (Sydney) office with Sally James and Megan Tozer as the listing agents.

When I arrived, I spoke to Sally and the vendor and from this I established:-

- 58 people through with probably four bidders, one of whom had offered \$588,000 which had been knocked back.
- We had a reserve (flexible) of \$700,000.
- Market opinion was from \$580-680,000.
- We decided to place the vendor bid (if need be) at \$650,000.

Come auction time, I read out the Terms and Conditions, gave a spiel on the property and called for bids.

No reply from the apartment full of people (including 7 registrations) so it was a case of "tell you what ladies and gentlemen, we'll go with a vendor bid of \$650,000 and see how we travel".

No movement.

Then one bidder went \$660,000, the rabbit had shot out of the burrow, other bidders entered the auction and bidding climbed to \$788,000, \$88,000 over reserve and guess who the buyer was?

The man who had offered \$588,000 - "no more, that's it" he had said to Sally when making that offer!

My point here is that I had the one bid, placed it correctly (which was due to Sally's excellent pre-auction work and intelligence gathering and as she has attended our *FAA Signup to Sale* course, it was doubly pleasing) and the result had flowed.

Most others, in Queensland, Victoria, NZ and some USA States, would probably have started way back at \$550,00 or just above it, "to get people involved" and whilst in this particular case it probably would have worked because there were 4 bidders, what if there had been just one?

Market Opinion is the axle on which the auction wheel turns and gaining that accurately is what much of what our *FAA "From Signup to Sale"* course is all about.

Courses this year will be run both in central capital city locations and, as the latter part of 2006 showed us through agency enquiries, in agent's offices. If you want some information about us running a course for you, please do not hesitate to contact us at academy@fountainandco.com.

The money you invest will be repaid many, many times over this year and it may well be the smartest move you have yet made, business wise, in 2007.

Carpe diem

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