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Residential sales by auction: A property type or geographic consideration

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Abstract

The sale of residential property by auction is a preferred sale method by real estate agents, but not always preferred by some vendors and most residential property buyers.

In many residential property markets, the performance and measure of residential property market activity is based on the number of properties offered for sale by auction, auction clearance rates and the number of properties sold prior to auction.

However, in many specific residential property markets, sale by auction may not be the preferred or supported method of sale.

This paper will review the type of residential property sale within the Sydney residential property market and track the auction sales and clearance rates for Sydney over the past 5 months and compare these results in relation to clearance rates, passed in sales, and properties sold prior to auction

This will provide a breakdown of real estate agency sale practice over a large metropolitan region to determine the impact of geographic location and socio-economic factors on the auction of residential property.

In addition the paper will analyse the weekly auction sales in the Sydney residential property market to determine what areas of Sydney have the greatest number of house auctions and the performance of the auctions in relation location and socio economic factors.

Sale of residential Property by Auction

The sale of residential property in Australia can be carried out by a number of sale methods. Property can be sold privately by the owner or the services of a real estate agent can be employed. If a real estate agent is contracted to sell the residential property the main selling methods will be private treaty sale, sale by auction or sale by tender (Davis and Wills, 2003)

In relation to real estate agency sales, there are benefits and disadvantages for each of the various methods of residential property sale methods, in respect to the agent, vendor and purchaser

Although residential property sales by auction are the least preferred by house purchasers, they are often seen as the preferred sales method by both the vendor and the real estate agent, especially in periods of booming residential property markets.

Where the main advantage of auction sale to the vendor is the increased competition and emotion in the auction sale process, with the resultant potential higher price achieved for the property, the additional benefits to the agent include:

- Shorter selling period if the auction is successful
- Payment of advertising and promotion costs upfront by the vendor
- Agency agreement allowing private treaty sale if auction is unsuccessful
- Limited dealings with perspective purchasers
- Ability to develop buyer databases at open houses

The use of auctions to maximise sale price in the US has been questioned in relation to property in falling or depressed markets, but can be very effective in reducing the sale time in those market conditions (Quan, 1994; Vandell and Riddiough, 1992). However, a study by Dotzour, Moorhead and Winkler (1998) based on New Zealand auction sales data did confirm that in some cases the use of auctions to sell residential property will result in a premium sale price, but in no cases in this study did the sale of a residential property by auction result in a lower price compared to private treaty sales in the same location. These findings are also supported in the study by Stevenson and Young (2002), which also found that in Dublin, Ireland, auction sale of residential property resulted in a higher premium than private treaty sales, which was to some extent due to speculative behaviour at auctions.

In many cases the perceived benefits of auctions, overall success for the vendor and benefits to the buyer are based on “newspaper” comment or reports and information provided by professional bodies representing real estate agents (CPM Research, 2005; Sun Herald, 2005; Maher 1989). These comments have rarely been backed by empirical research.

Sales of residential property in NSW are covered under the NSW Property Stock and Business Agents Act 2003, which stipulates the guidelines for vendors, purchasers and agents in the auction process. Several of the ethical and misconduct issues identified in the auction system in studies by Reed and Robinson (2005) and Findlay and Gibb (1998), have been addressed in the current NSW legislation in relation to the sale of residential property.

All potential buyers at residential property auctions in NSW have to be registered and provide photo identification before they can bid at auction, the vendor can only place one bid during the auction and this bid has to be advised to the auction participants by the auctioneer, when such a vendors bid is made (NSW Office of Fair Trading, 2005).

Despite the obvious benefits of an auction sale for both the vendor and the real estate agent, the analysis of auction results in larger residential property markets show that actual sale clearance rates for residential property sales by this method can vary considerably, with a monthly clearance rate rarely being 100% (CPM Research, 2005). Actual numbers of residential properties that are sold by auction in major residential markets are more common in areas that tend to have greater housing variety (Rossini, 1998).

A review of monthly residential real estate sales by auction in Sydney from February 1999 to December 2005 shows a highest clearance rate for residential property in NSW of 82% in April 2002, and a low of 47% in June 2004 (CPM Research, 2006).

These results show that the sale of residential property by auction is not as successful as some real estate agent advice would suggest. However, these overall statistics may not be representative of all the various residential property sub-sectors in the total residential property market.

Based on Australian Bureau of Statistics (2001) census, there are 1,295,000 residential properties in the designated Sydney region and in an average year approximately 7.7% of this stock will be sold each year (Eves, 2005).

This equates to an average of 100,000 residential properties sold in Sydney each year, by auction, private treaty sale or tender. Table 1 shows the number of properties offered for sale in Sydney each year for the period 1999-2005. Adopting Sydney dwelling numbers, as at the 2001 census date, this represents an average of only 13% of houses sold in the Sydney residential property market being offered for sale by auction. Table 1 also shows that only 8.8% of residential properties sold in Sydney in an average year are actually sold at auction, ranging from a low of only 5.6% of housing sales in 2005 and a high of 12.8% of sales in 2002.

Table 1: Sydney Residential Property Auction Market: 1999-2005

Year	Properties Offered for Auction	Properties Sold by Auction	Volume (\$mills)
1999	15521	10629	\$5,593
2000	10307	6372	\$3,653
2001	12761	9487	\$5,990
2002	17783	12824	\$8,671
2003	16426	11024	\$8,822
2004	11219	5895	\$4,742
2005	10366	5622	\$4,449
Average	13483	8836	\$5,989

(Source CPM Research)

These figures indicate that the sale of residential property by auction is actually very minor, compared to the sale by private treaty, when the total Sydney residential market is analysed, but these figures do not indicate if this trend in residential property sale methods is consistent across geographic or socio-economic locations.

Research Methodology

Weekly data for all residential property auction sales has been collected for the period August 1, 2005 to December 31, 2005. This data represents all residential property auctions in Sydney for that period, as compiled by Australian Property Monitors Pty Ltd and published weekly by Fairfax Press. The basic data has allowed a more detailed comparison of the residential property auction market, in particular to the more general auction clearance rate statistics.

The initial data has been sorted to determine:

- Number of properties offered for sale by auction
- The number of properties sold before auction
- The number of properties sold at auction
- Value of residential property sold per month
- Highest and lowest auction sale prices for both houses and residential units.
- Overall clearance rate
- The number of properties withdrawn from sale
- The number of properties passed in at auction
- The number of properties passed in at auction with no bid or only the single vendors bid

These results have been grouped on the basis of geographic location and socio-economic areas. Table 1 shows the various geographic regions and their applicable socio-economic ranking

Table 2 Data Subsets

Sydney Geographic Location	Socio-economic Ranking
Eastern Suburbs	High
Lower North Shore	High
Northern Suburbs and Beaches	High
Inner West	Middle
St George/Cronulla	Middle
North West/Hills District	Middle
Western Suburbs	Low
South West Suburbs	Low

All weekly sales data has been combined to provide monthly details of all auction sales in these specific areas of Sydney.

In addition to the sales data, the ABS census data for 2001 has been reviewed to determine the number of residential properties for each of these regions, as at 2001.

This dwelling data has been used to determine the percentage of auction sales to private treaty sales for each of the areas of the study.

Discussion in this paper will focus on the socio-economic areas and the differences in auction outcomes within these various socio-economic property markets.

Research limitations

This is an on-going research project, with additional data being included on a weekly basis. The short time period for this study is considered to be a very limiting factor, as it only covers a very brief period in the Sydney residential property market cycle. However, this data set does provide an interesting interpretation of the residential auction sale market in a flat period of the Sydney property market cycle.

As the time period increases and more data becomes available, this research project will provide a useful basis for analysing the Sydney residential property sales market.

The comparative data based on dwelling stock numbers and the number of properties offered for sale in each location is based on previous Sydney residential property studies (Eves, 2005; Adair and Eves, 2005) and ABS data from the 2001 census, which is the most recent census data available for comparison purposes. Although these data sources are not current to 2005, they do provide a useful average annual figure that can be used across all areas in the study.

Results

Residential property sales by auction sale, in total, are not a significant component of the Sydney residential property market, however due to the size of this property market the overall number of properties sold by auction and the value of these sold properties is significant.

Table 3: Sydney Residential Auction Results: August to December 2005

Month	Value Sold(\$000)	Average Sale Price(\$000)	High House Price	Low House Price	High Unit Price	Low Unit Price
August	235,276	571	3,950	180	1,005	110
September	274,061	523	7,600	156	2,700	215
October	355,232	547	7,250	175	3,325	165
November	377,620	565	8,080	290	1,750	221
December	204,182	438	7,400	188	2,600	157
	1,446,371	532				

During the short period of this study (5 months), the total value of residential property sold by auction in Sydney has been AUD\$1.45 billion, with prices for houses sold at auction ranging from \$8.08 million to a low of \$156,000. During the same period the highest price paid for a unit in Sydney at auction was \$3.3 million, with a lowest unit price at auction of \$110,000. This suggests that sale by auction is not restricted to higher value areas or higher value property types (Refer to Table 3)

Tables 3 and 4 also show a significant variation in the number and value of properties offered for sale in Sydney each month. Although this data does not cover a full 12 month period, it is interesting to note the stronger auction sale trends during the spring months compared to late winter and early summer sales at auction.

Summary statistics on the Sydney residential property market for the period August 2005 to December 2006, shows a monthly auction clearance rate (properties sold both at auction or sold prior to the scheduled auction date) of 49.8% (refer to Figure 1 and Table 4).

Figure 1: Sydney Residential Auction Clearance Rates: August to December 2005

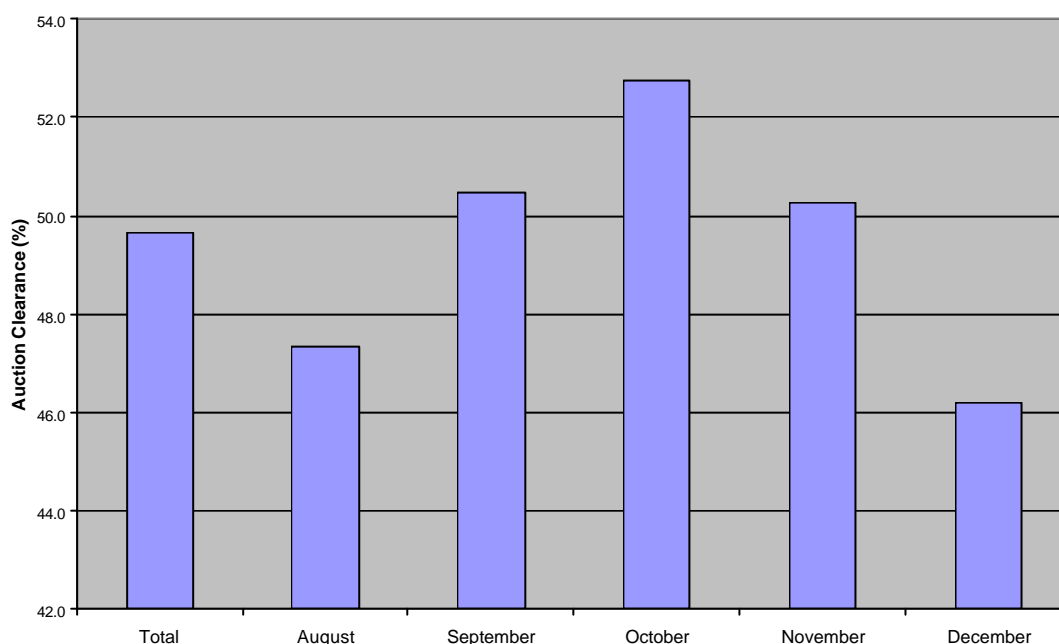


Figure 1 shows that over the short period of this study, the monthly auction clearance rate has ranged from a low of 46.2% in December to a high of 52.6% in October.

Table 4: Auction Result Summary: August to December 2005

Month	On Offer	Passed In	Sold Prior	Withdrawn	No Bid/ Vendor Bid	Sold
August	870	258	132	84	116	412
September	1038	278	159	111	125	524
October	1232	354	183	91	137	650
November	1329	360	206	154	147	668
December	1009	274	125	163	106	466
Total	5478	1524	805	603	631	2720

Table 4 also shows that although November 2005 has the most residential properties on offer for sale by auction, these statistics also show a high number of properties being withdrawn from sale (11.6%), and 27% of properties on offer being passed in at

auction below the reserve price. A further 11.1% of residential properties offered for auction sale did not attract a bid or only the vendors bid, indicating a limited interest in the property.

The summary data only provides a general view of auction sales in the Sydney residential property market. As discussed in the research methodology, the data used in this study comprises all auction sales that have occurred in the Sydney region since August 2005. These auction sale statistics have been sorted into the ABS statistical regions and then grouped on a socio-economic basis for this analysis, as per Table 1.

Table 5 and Figures 3, 4, and 5, break down the summary data provided in Table 4 for each of the identified socio-economic regions of Sydney on a monthly basis and as a percentage total for each of the socio-economic classifications.

Table 5: Residential Auction Details: Socio-economic Basis

Month	On Offer	Passed In	Sold Prior	Withdrawn	No Bid/Vendor Bid
August	870	258	132	84	116
HSE	480	142	94	46	36
MSE	294	86	38	32	50
LSE	96	30	0	6	30
September	1038	278	159	111	125
HSE	562	141	91	56	57
MSE	386	102	61	47	54
LSE	90	35	7	8	14
October	1232	354	183	91	137
HSE	619	172	110	46	61
MSE	483	126	70	40	60
LSE	130	56	3	5	16
November	1329	360	206	154	147
HSE	729	189	142	94	69
MSE	470	118	59	55	42
LSE	130	53	5	5	36
December	1009	274	125	163	106
HSE	456	98	70	88	42
MSE	401	110	46	65	34
LSE	152	66	9	10	30

Table 5 shows that the majority of auctions are carried out in the higher socio-economic regions of Sydney, with this location accounting for than 50% of all houses offered for sale by auction.

However, Table 6 shows that not only do the higher socio-economic areas of Sydney have the greatest number of auction sales, but also the highest percentage of residential property sales in relation to total property sales.

Table 6: Summary of Dwelling Numbers and Sales

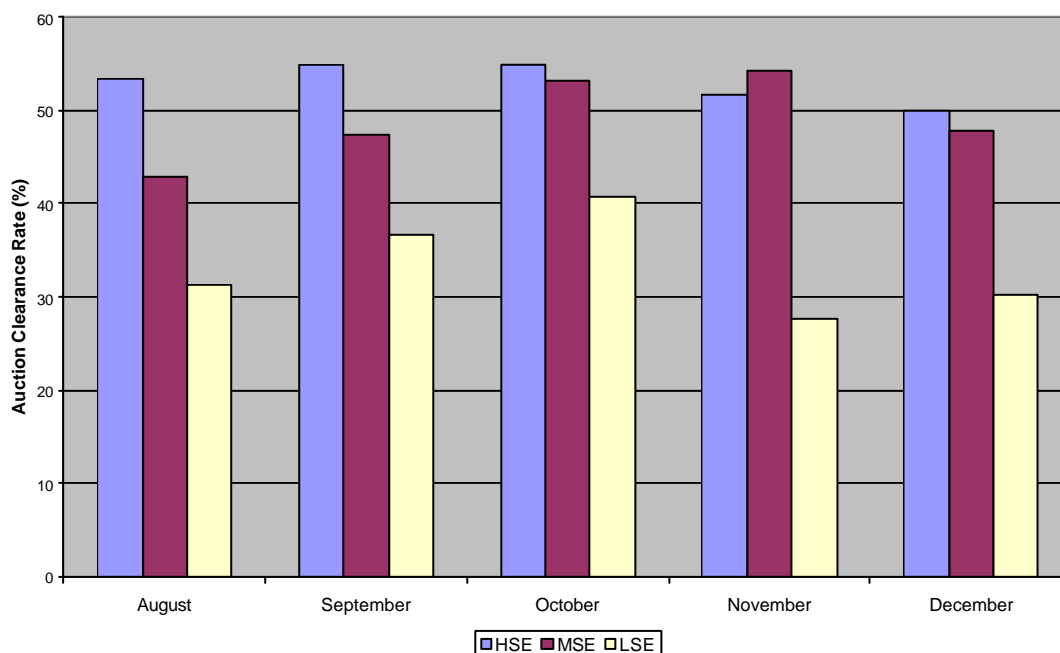
	Total Properties	*Average sales (Aug-Dec 2005)	Offered for Auction (Aug-Dec 2005)	Percentage of total sales (Auction)
High Socio-economic	324,500	11,898	2846	23.9
Middle Socio-economic	447,000	12,293	2034	16.5
Low Socio-economic	523,600	16,796	598	3.6

In the higher socio economic areas the sale of residential property by auction represents on average 23.9% of all residential property sales. Although there are a far greater number of residential sales in the lower socio-economic regions in Sydney, less than 4% of these sales are initially by auction. Although the middle socio-economic areas of Sydney had a greater number of residential properties sold during the study period, only 16.5% were offered initially for sale by auction.

These tables show that on average less than 14% of all properties offered for sale in Sydney are initially offered for sale by auction, with private treaty sales representing over 86% of all properties offered for sale.

Figure 3 represents the actual auction clearance rate for all properties offered for sale using the auction sale method.

Figure 3: Auction Clearance rates: Socio-economic Areas: August to December 2005



This figure shows that of the 5,478 residential properties offered for sale by auction in Sydney, over the study period, the highest level of auction sale success was in the high socio-economic areas, but this auction clearance rate was very low, with a maximum clearance rate of 55% in September and October and a low of 50% in December 2005.

In November 2005, a greater percentage of properties offered for sale in the middle socio-economic areas sold at auction, with a higher clearance rate compared to both the higher and lower socio-economic areas of Sydney. However, in all other months the clearance rate was lower compared to the higher socio-economic areas. This figure also shows that the auction clearance rate in the lower socio-economic areas is considerably lower than both the higher and middle socio-economic areas. The highest auction clearance rate in the lower socio-economic areas in Sydney was 40%.

The actual number of properties sold in Sydney by auction would be less than the number offered for sale by auction due to less than 100% clearance rate at the auction sale, since 1999, the highest annual auction clearance rate in Sydney has been 74% in 2002. As a majority of properties passed in at auction are later sold on a private treaty basis, the actual average annual number of properties sold by auction would be well below the 14% that are actually offered for sale by auction.

Figures 4 and 5 provide a break-up of actual auction results for the study period. Actual auction clearance rates comprise both those properties that are initially offered for sale but sell before the scheduled auction date and those properties that sell on auction day.

Figure 4: Auction Sales: Comparison of Sale Results: August to December 2005

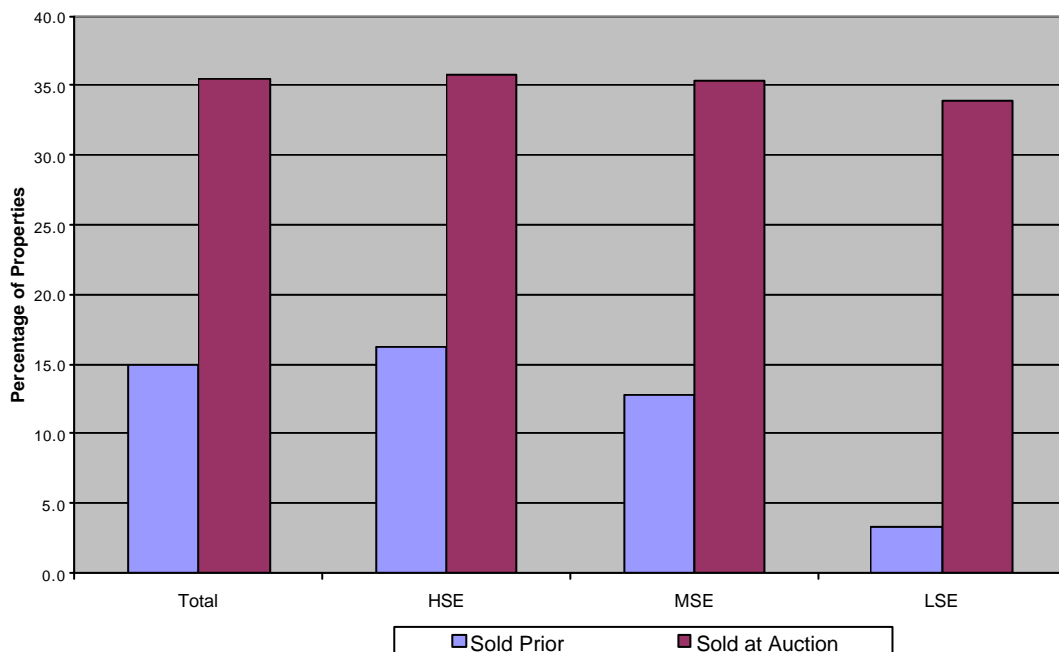


Figure 4, provides details on the percentage of residential properties that are sold prior to the auction and the percentage of properties that are sold at auction. This data is represented on both a total and a socio-economic area basis. This figure shows of the 49% of residential properties sold by auction 14% are sold prior to auction and the remaining 35% are sold at the auction. On a socio-economic area basis over 16% of properties offered for sale by auction in higher socio-economic areas sell prior to auction, but only 3% of residential properties offered for sale by auction in lower socio-economic areas sell before the scheduled auction date.

Figure four also shows that while there is a significant variation in the overall auction clearance rates across the three socio-economic areas, the actual percentage of properties that sell on the day of the auction is relatively similar, ranging from 35.8% (HSE), 35.04% (MSE) and 33.9% (LSE). This indicates that the overall difference relates more to properties sold prior to auction rather than actual auction day results.

Figure 5: Auction Sales: Comparison of Non Sale Results: August to December 2005

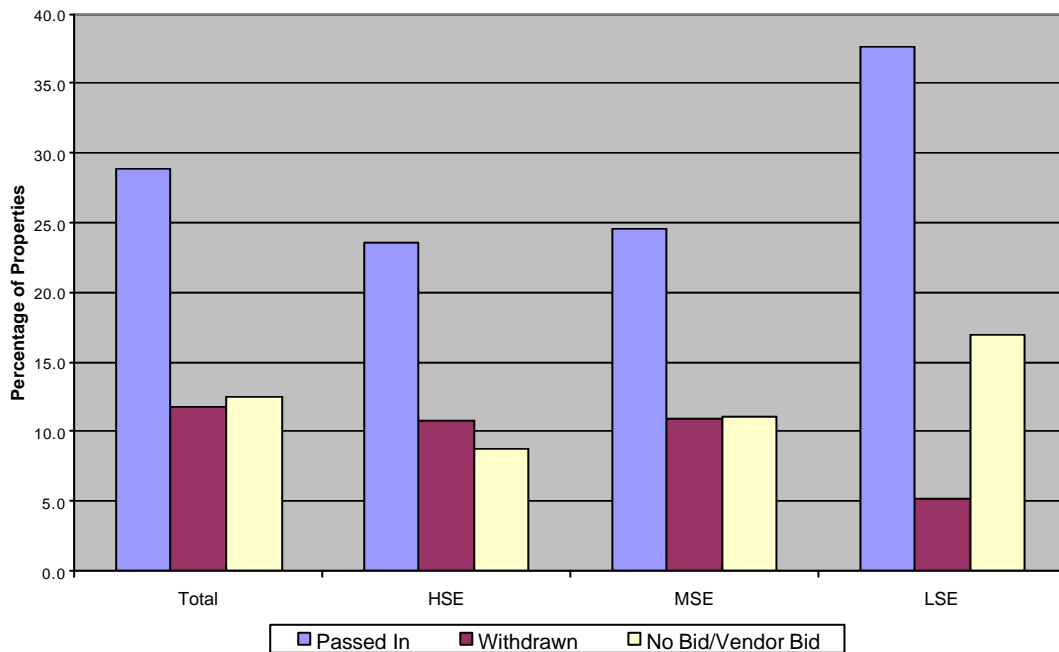


Figure 5 compares the number of properties that have been passed in during the auction process, the number of residential properties that are withdrawn from auction sale prior to the scheduled auction date, as well as the percentage of properties that were put to auction and did not receive a bid or the only bid made for the residential property was the declared vendors bid. These results have been presented both as a total figure and also based on the three socio-economic areas.

This figure shows that during the study period 28.9% of all residential properties offered for sale by auction, did not meet the reserve price set by the vendor and were passed in at auction. The high and middle socio-economic areas, the percentage of passed-in properties were 23.6% and 24.5% respectively. However, in the lower socio-economic residential areas of Sydney 37.6% of properties were passed in at auction, failing to meet the vendor reserve price

In relation to properties withdrawn from sale prior to the scheduled auction date, the greatest percentage was for the high and middle socio-economic areas (10.8% and 11.0% respectively). However, it is interesting to note that the number of residential properties withdrawn from sale before the auction date in the lower socio-economic areas was a low 5.2%, This is somewhat offset by the higher number of properties passed in at auction, which suggests that property vendors in the higher socio-economic areas will withdraw a property from auction sale if there is limited interest shown during the marketing period, whereas vendors in the lower socio-economic areas will keep their property on the market even if interest is low.

The final comparison in Figure 5 relates to the percentage of properties that are auctioned but do not attract a single bid at auction or the only bid was the vendors disclosed bid. Across all socio-economic areas the percentage of no bids/vendor bids was 12.4%, with the lower socio-economic residential areas recording the highest percentage of no bids/vendor bids at 16.9% compared to the high and middle socio-economic areas at 8.7% and 11.1% respectively.

Conclusions

The sale of residential property in Sydney by auction accounts for less than 14% of all residential properties initially offered for sale and on average would only account for less than 10% of all actual residential property sales.

Although the actual percentage of residential properties offered for sale in Sydney by auction is less than 14%, this figure varies across the city. In the higher value areas such as the eastern suburbs and lower north shore the percentage of properties offered for sale by auction is 23.9%, but in the lower value areas such as the south west suburbs and western Sydney the percentage of properties offered for sale by auction is only 3.6%.

The auction clearance rate across Sydney varies depending on location and subsequent socio-economic area. In the higher socio-economic areas the auction rates for the study period were higher than the clearance rates for both the middle income areas and the lower socio-economic areas. However, when the pre auction sales were isolated, the percentage of residential properties sold at the scheduled auction was very similar across Sydney.

The percentage of properties withdrawn from sale prior to the scheduled auction date was greatest in the Higher and middle income socio-economic areas and significantly lower in the lower socio-economic areas. However, the low withdrawal rate in the lower socio economic areas was offset by a higher percentage of no bids or vendor bids in the lower socio-economic areas compared to the higher and middle socio-economic areas.

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