

# Auction Jargon Buster

Scott Hendry, New Business Manager at Auction Finance Limited presents a guide to some of the common terms that can confuse new bidders...

## **AST**

'Assured Shorthold Tenancy' – The most common form of tenancy in the private rented sector with a fixed term and specified rent days.

## **BMV**

'Below Market Valuation' - The price that every auction bidder hopes to buy a property for!

## **Bridging Finance**

A short term loan, usually over 12 months at most. It is used when funds are required quickly, yet only for a limited period of time. For example, when a purchaser wishes to secure a new property and there is insufficient time to set up a conventional mortgage.

## **Covenant**

A restriction on the title of a property, which usually means a condition of purchase or ownership which the buyer must adhere to. For example a property could have a covenant in its title deeds in favour of an adjoining property which prevents the building of an extra floor. Always check the legal pack!

## **Disbursements**

Disbursements are the expenses incurred by the solicitor on behalf of the purchaser. These include search fees, Land Registry fees etc.

## **ERV**

'Estimated Rental Value' - The estimated achievable rent if a rent review or new letting of a property were to take place immediately, on market terms.

## **FSV**

'Forced Sale Valuation' - Also known as a 90 Day Valuation, it is the price that could be achieved if a property had to be sold quickly within a limited time frame.

## **Ground Rent**

Payable on most leasehold properties, this is a rental charge that is paid to the freeholder or superior lessee. Ground rents are commonly bought and sold at auctions, often by specialists who view them as a long-term investment.

## **Guide**

Each Auctioneer will define their meaning of the guide price in their catalogue. Generally, it is an indication as to where the reserve will be set and the property could be sold but the final sale price will depend on the bidding in the room and the vendor's final instruction. The guide price should not be relied on as to what the property will sell for, or its market value.

## **Investment Property**

Investment property is where the property being offered is subject to a tenancy.

## **Land Registry Documents**

Found in the auctioneer's legal pack, these should be consulted to check for outstanding charges or financial overhangs on the property. They define in legal terms what is being offered for sale.

## **Leasehold**

Residential leases are normally granted for a period of either 99 or 125 years, though longer or shorter terms are granted in some cases. Generally at auction the unexpired term will be offered for sale, unless the particulars specifically state a new lease will be granted on completion. It is important therefore to confirm the unexpired period that is being offered for sale as mortgage lenders are often reluctant to offer finance where there is less than 70 years to run on the lease.

## **Listed Status**

Properties that are listed are of architectural or historic interest and will have restrictions on their use and development. It is important to understand what you can and cannot do with the property. Consult the local council or a solicitor before bidding.

## **LTV**

'Loan To Value' - This is the size of a loan/mortgage as a percentage of the value of a property. For example, a property is valued at £50,000 with a mortgage of £30,000; the LTV is 60%.

## **NHBC Certificate**

Also known as Buildmark Insurance or a Buildmark Warranty, you should ensure that the documents are provided for any new build property under 10 years old. Many mortgage lenders will not consider new build properties that do not have an NHBC Certificate or similar insurance.

## **OMV**

'Open Market Value' – The estimated value of the property if sold by private treaty in the current market.

## **Proxy Bidding**

Proxy bidding is where you authorise the auctioneer to bid on your behalf up to a maximum amount set by you. It will be necessary to give the auctioneer your instructions in writing and the deposit prior to auction using a form normally found in the

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catalogue. It is advisable to contact individual auction houses for specific information on proxy bidding at their auctions. Where a third party is bidding as your agent they should normally clear this with the auctioneer first.

## **Regulated Tenancy**

This type of tenancy gives the tenant, and in some cases their heirs and certain relations, rights to occupy the property for life. As landlord in virtually all cases, you have no right of possession, and this will only happen either by negotiation or the death or vacation of the property by the tenant. Regulated tenancies generally sell at a discount to vacant possession value, and the level of discount will depend on the circumstances of the tenant and the property itself.

## **Reserve**

This is the price below which the property will remain unsold. It will not be disclosed.

## **Statutory Periodic Tenancy**

When an AST expires and the tenant remains in residence they revert onto a Statutory Periodic Tenancy. This is subject to similar conditions as an AST.

## **Title Plan**

Found in the legal pack. This is an important document to check, especially if you're purchasing land. It will tell you where the property's boundaries lie and may indicate what rights the owner and other parties have. These can affect the potential usage of a site.

## **Yield**

The rent a property generates in one year expressed as a percentage of its value or purchase price.



# Essential Stats

By *David Sandeman*

Welcome to the November statistics, which give a view of activity in the month of October. I am pleased to report that the proportion of lots sold has crept up another percentage point over the past month, bringing it back to the levels experienced prior to the traditional August lull. Let's look forward to another strong month in November.



## Total

|                     | Last Month   |              |          | Last Quarter      |                   |          | Last Year           |                     |          |
|---------------------|--------------|--------------|----------|-------------------|-------------------|----------|---------------------|---------------------|----------|
|                     | Oct 2009     | Oct 2008     | Increase | August - Oct 2009 | August - Oct 2008 | Increase | Nov 2008 - Oct 2009 | Nov 2007 - Oct 2008 | Increase |
| <b>Lots Offered</b> | 3,038        | 3,608        | -15.8%   | 6,995             | 8,714             | -19.7%   | 30,669              | 37,647              | -18.5%   |
| <b>Lots Sold</b>    | 2,187        | 2,316        | -5.6%    | 5,033             | 5,627             | -10.6%   | 22,563              | 24,192              | -6.7%    |
| <b>Percent Sold</b> | 72%          | 64%          | 12.1%    | 72%               | 65%               | 11.4%    | 74%                 | 64%                 | 14.5%    |
| <b>Total Raised</b> | £420,076,876 | £348,943,343 | 20.4%    | £769,622,765      | £767,181,589      | 0.3%     | £3,342,778,157      | £4,154,022,717      | -19.5%   |

## Residential

|                     | Last Month   |              |          | Last Quarter      |                   |          | Last Year           |                     |          |
|---------------------|--------------|--------------|----------|-------------------|-------------------|----------|---------------------|---------------------|----------|
|                     | Oct 2009     | Oct 2008     | Increase | August - Oct 2009 | August - Oct 2008 | Increase | Nov 2008 - Oct 2009 | Nov 2007 - Oct 2008 | Increase |
| <b>Lots Offered</b> | 2,304        | 2,810        | -18.0%   | 5,680             | 7,263             | -21.8%   | 25,235              | 30,682              | -17.8%   |
| <b>Lots Sold</b>    | 1,641        | 1,778        | -7.7%    | 4,047             | 4,660             | -13.2%   | 18,507              | 19,281              | -4.0%    |
| <b>Percent Sold</b> | 71%          | 63%          | 12.6%    | 71%               | 64%               | 11.0%    | 73%                 | 63%                 | 16.7%    |
| <b>Total Raised</b> | £241,736,676 | £221,990,250 | 8.9%     | £548,098,815      | £565,507,279      | -3.1%    | £2,261,254,770      | £2,728,570,845      | -17.1%   |

## Commercial

|                     | Last Month   |              |          | Last Quarter      |                   |          | Last Year           |                     |          |
|---------------------|--------------|--------------|----------|-------------------|-------------------|----------|---------------------|---------------------|----------|
|                     | Oct 2009     | Oct 2008     | Increase | August - Oct 2009 | August - Oct 2008 | Increase | Nov 2008 - Oct 2009 | Nov 2007 - Oct 2008 | Increase |
| <b>Lots Offered</b> | 734          | 798          | -8.0%    | 1,315             | 1,451             | -9.4%    | 5,434               | 6,965               | -22.0%   |
| <b>Lots Sold</b>    | 546          | 538          | 1.5%     | 986               | 967               | 2.0%     | 4,056               | 4,911               | -17.4%   |
| <b>Percent Sold</b> | 74%          | 67%          | 10.3%    | 75%               | 67%               | 12.5%    | 75%                 | 71%                 | 5.9%     |
| <b>Total Raised</b> | £178,340,200 | £126,953,093 | 40.5%    | £221,523,950      | £201,674,310      | 9.8%     | £1,081,523,387      | £1,425,451,872      | -24.1%   |

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