

Powering Your Property Tree

Perspectives From A Seasoned Mortgage Professional

Yip Woon Lye

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This book is dedicated to my late mother, a strong believer in education, who always gave me strong encouragement and support in the many things I did in life and now, her heavenly guidance, love and blessings.

This book is also dedicated to my family for their encouragement and unconditional love in my pursuits in life.

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Many thanks to my publisher Mr and Mrs Fong Hoe Fang and Mr Wee Chong Jian for their unwavering support.

About the Author

I have walked many paths in my career in banking – from conducting research on banking systems for wholesale and retail banking to banking operations. I had a short stint in the wedding business, engaging in the wedding franchise of a renowned European brand and organising “The Bride of the World” beauty pageant.

I headed the mortgage loans business of a local bank. There I acquired a handsome load of knowledge and vast experience in properties financing. My forte includes delivery of public talks to consumers as well as those in the trade – mortgage bankers and property agents. My most recent public talk on the property market and property financing was delivered in April 2013, representing the Association of Banks, Singapore, in an event organised by the Council of Estate Agencies, Singapore. I have also partnered many

local developers to present talks on the changing trends of the property market to consumers.

During my years as Head, Mortgage Sales, I successfully trained and led many key managers and bankers to become industry champions. In particular, on an individual-salesperson score basis, a few top mortgage bankers even broke industry records. On the mortgage platform front, I attained industry best for monthly mortgage sales records. My great passion for the property segment had led me to being branded as “the property person” and the go-to person whenever there was an enquiry on property in the establishment where I worked. To this day, as I set up my own consultancy firm, YWL Consultancy Pte Ltd, knowledge and skill in property mortgages are still very much a part of me.

On the consumer front, through the many rounds of changing rules and policies of the property and mortgage business, I relentlessly helped many consumers to understand the

implications of these changing rules and policies and helped them make informed decisions on their property investments.

I hold a BA in Human Resource Management with Financial Management with Distinction. My extensive experiences in banking have given me vast opportunities to hold many key positions in both the retail and wholesale banking segments as well as partner management consultants to improve banking systems and work processes. Through this book, I hope to share my knowledge on the Singapore property market and hope this will benefit consumers like you.

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Foreword

Representing the seller, I had interacted on countless occasions with Woon Lye in the past decade. She was deeply intense and passionate about residential real estate. Having facilitated thousands of transactions first hand, Woon Lye would have seen and discerned how end users and investors sized up opportunities and made decisions, both good and less good. She has had valuable insights, available to few, on how minds work on buying and selling residential real estate.

This is a useful book for starters and a reminder for seasoned investors in the Singapore residential real estate which is now surrounded by domestic policy measures intended to facilitate a stable and sustainable market. With an increasingly globalised and interconnected world, investors should also bear in mind external conditions impacting real estate trends, whether short or longer terms.

I believe readers will benefit from the sharing and reminding by Woon Lye on the practical aspects of buying and selling of residential real estate in Singapore.

Happy reading!

Chia Boon Kuah

Why I Wrote This Book

When I decided to call it a day after more than 35 years in the banking industry, with 16 of those years in a local bank in Singapore as Head of Mortgage Sales, I was persistent in not letting my knowledge and experience go to waste. This was especially so considering that I had held many sessions and talks on the property market for the mortgage platforms of banks and directed managers and mortgage bankers in the business. Naturally, I also spent considerable time on property presentations to members of the public over the years. This book is my way of sharing my wealth of knowledge and experiences in the property market.

My key strength lies in my years of experience in analysing and dissecting the complicated and ever-changing rules and policies of the mortgage business and communicating them to all my layman clients.

I ensured that they fully understood all the implications and I helped them to make the best decision based on their specific scenarios. These experiences and achievements have provided the groundwork for this book.

Much is discussed in this book, from the choice of properties and their prices to issues of convenience, personal preferences and affordability vis a vis the diverse needs and wants of individuals that will mould the future trends of the property market in Singapore.

Introduction

Buying property – for investment or stay. This is what you, the consumer, must know before you make your property purchase.

In Singapore, property is never far from any investor’s mind – be it a Singaporean or a foreigner. This may be for stay, with the prospect of capital appreciation or as an investment to generate immediate or future income upon its sale. It could also simply be an investment that generates regular yields from rental income.

Having a comfortable roof over our heads is a key and basic living need. Many regard Singapore as a “property country”, with housing occupying a prominent place on everyone’s mind. This focus has undoubtedly been largely influenced by the scarcity of land in Singapore and the historically upward-riding trend of property prices. The popular mindset in Singapore is that property

values will invariably and infinitely head north. Is this mindset of profiting from each other's hard earned, or perhaps easy money, a rising phenomenon that will go on and on? Or is it just a myth after the authorities have stepped in to prevent this mindset? To understand, we have to consider the factors that are conducive to property purchases and what drive real estate. They are:

- High employment rate
- Low interest rate environment
- Government tools to match the evolving needs of Singaporeans such as public housing supply, land sales policies, stamp duty & taxes
- Favorable population growth policies
- Support from the locals and foreigners in property purchases, which forms market demand
- Good liquidity in the region
- Positive future potentials of the city state, in particular, its master planning, township development, etc, to attract foreign investments

Basically, it is these financial considerations of rental yields with respect to mortgage loan repayment; inflation and loan interest rates; government and developers' land bank figures; recent transacted prices of similar properties and the population growth policy that contribute to the ups and downs of the housing market.

In reality, the simple pre-empt is for every buyer/investor to anticipate the diverse needs and wants of people who potentially buy or rent your property. However, we need to ask these probable questions:

- What are the growing and evolving trends of everyone's needs and wants?
- How do these evolving trends impact property selection?
- What do we look for when selecting a property?
- Which location interests us and so on?

Selecting a Property

Before selecting a property, we need to do a fair bit of homework. It is important to know the prominent developments in the vicinity. Another major consideration is the population make-up. These include the demographics of the people staying there, the dynamics and the impact on the population density such as the available amenities, the type of employment, and even the living style which can predominantly contribute to the culture prevalent in the area. All these factors will impact the rate of affordability in that area. These forces will drive property demands that have to match the diverse needs and wants of residents in the area.

In order to determine the price level and palatable lifestyle standards in the location, it is important to identify the income level of people working there and the type of jobs available vis-a-vis the industries that are present in the particular location. This helps to gauge affordability and determines job prospects.

Depending on demographics and the range of income streams, the major occupations, and concentration of age groups -- these will drive and propel affordability. These considerations are important, whether the property you intend to purchase is for owner-occupation or investment returns.

In addition, we need to know whether the residents in an area are Singaporeans, new migrants or foreigners. Do they have intentions to plant roots in Singapore and why do they choose this particular vicinity? Basically, we need to know what it is that attracts them to reside in this area.

We need to understand what the needs are of these new Singaporeans or foreigners vis-a-vis the jobs they hold, what they can afford and their general age groups.

All these will indicate the preferred lifestyle needs of the potential buyers relative to the type of facilities and amenities available that match these needs. The dynamic interplay of all these

factors will drive property demand and the prospects of a property project in the area.

Affordability and Sustainability

This is another important aspect to consider for a successful property purchase to be concluded. A property purchase is a long term commitment. It's a roof over your head that you must be comfortable with – it's both physical and fiscal.

Generally, the affordability ratio, that is, the monthly repayment amount with regard to the monthly income, must match the financing requirement of Banks in Singapore. This will be discussed later on in this book.

We need to understand what makes up people's monthly incomes, which have become more complex with Singapore being an increasingly globalised country.

With the emerging complexities of each person's earnings, there are people with regular salaried incomes, people who are semi-commission earners, and people paid purely on commission or even on a project basis. There are also individuals working overseas, foreigners/PRs working in Singapore with overseas income, and investors coming from abroad to invest in Singapore, etc. We need to explore and understand what the financiers' requirements are, especially in conjunction with the guidelines and policies instituted by the country's authorities.

Another important factor for the prospective purchaser to explore is whether there are other available sources of funds that can be used for property purchases in Singapore, e.g., the Central Provident Fund (CPF). This available fund channel must be well analysed, assessed and explored with the CPF Board to obtain optimum usage as each individual's financial considerations, situation and requirements are unique.

Most importantly, understanding the amount of available funds we intend to set aside for the portion to be paid upfront for a property is key to the purchasing decision.

Again, we have to ask a few fundamental and practical questions before embarking on a property purchase:

- Have we provided for rainy days, our children's education and our family's lifestyle, medical needs, and appropriate insurances?
- What are the other commitments, for example, car loans and other insurances, etc?
- Are we stretching too much financially?
- What happens if one day, we are out of employment?

We should conduct stress tests given the fast evolving environmental and economic changes affecting loan interest rates, which is the key factor that influences affordability.

Investment Returns

Investment return can be the crux and may often be the primary objective of property purchases. Typically, this objective may be in the form of eventual capital gains or immediate investment yields through rental income derived monthly from the property.

Assessment of the property potential in terms of the generation of income and wealth derived is top of mind of any property purchaser. Many regard property purchases as a spinner for present or future passive income and a great hedge against inflation. This has so far been true in most instances.

A simple analysis shows that no-frills public-housing 3-room flats in most areas, purchased some 20-25 years ago, have in fact appreciated very much in value. This appreciation can be as much as 300 per cent. It is no wonder many consumers plunge their hard-earned money into property purchases.

In private housing, the pace of appreciation in value is even faster. A condo unit purchased just 6 years ago has now appreciated at least 50%. A typical transaction of \$1 million some 6 years ago has now fetched \$1.5 million. And this difference could be even wider in some high-demand areas.

Singapore has emerged as Asia's medical hub, financial hub, education hub and Asia's most livable city to live, work and play in, according to the 2012 Mercer Quality of Living Survey. This has spurred many to plant roots here. The Singapore government's projected population growth to 6.9 million by 2030, based on an estimated 2.5% growth per annum, will add to housing demands for at least 700,000 new homes. This consistent and insatiable demand for housing will only further market prospects and possibly drive Singapore's property market to newer heights.

As you read this book, you will learn that the following factors have the potential to significantly drive the real estate market:

- The extent of home ownership
- Government's objectives and policies in public housing supply, land sales, stamp duty & taxes
- The country's strong infrastructure, and an extensive transport network that provides superb connectivity throughout the city state
- Strong economic fundamentals of the country
- Political stability of the country
- A strong and stable Singapore dollar
- The attractiveness to foreign investors as the country transforms into a "Wealth Centre"
- The country's transformation into a thriving and vibrant tourist city

This book aims to provide consumers with some practical ideas, as well as the comprehensive financial considerations and factors impacting a property purchase. It also serves to provide better insights into selecting a property and aims to help the reader make practical, informed decisions on their property purchases. The various financial options and considerations are also discussed to

provide buyers with a clear analysis of their needs and wants with respect to affordability, bearing in mind the financial expenses and commitments. There are also illustrations of investment yields and capital gains to allow readers to deliberate and to arrive at an informed decision on the intended property purchase.