

Things to Consider Before Buying Your Next Property

It's here, the next property bubble. The market is reviving, and analysts are optimistic about the new life breathed into otherwise stagnant bricks. If you're thinking about entering the market, here are some personal things you need to seriously consider before making your next move to owning a private property.

1. Are you a home owner?

Regardless of whether you're already a home owner, property purchases are subjected to Buyer's Stamp Duty (BSD), the exact amount of which depends on how much your new property costs. If you already own a place and are thinking of getting a second place, you will need to pay 7% Additional Buyer's Stamp Duty (ABSD) on the purchase price of your second property. If you intend to sell your current home to purchase another home, you will incur the Seller's Stamp Duty (SSD). The current SSD rates are 12% for selling your property within the first year of owning it, 8% for 2 years and 4% for 3 years.

When getting a home loan, banks look at whether you're already a home owner. If you don't own a property yet, you will be able to get the maximum loan possible of 80%, assuming all other criteria are met. If you already own a property, banks will loan you a lower percentage of the valuation price (of the new property you are purchasing), and this percentage decreases with each property you currently own. Because of this, some purchasers sell their property before buying a new one. If you intend to do the same, you'll need to plan for the transition in between, including your bank's early loan repayment penalty, if any.

You definitely need to take the above points into consideration, as well as the commission to your engaged property agent (if you're selling). Make sure you get professional advice wherever appropriate.

2. Your financial status.

After paying your loans every month, do you still have spare cash? Are you conscientious about your monthly spending? What are your current debts and are you struggling to pay them off?

Your financial status is the most important thing to consider when thinking about purchasing property.

Here's a realistic scenario of someone who can afford a private property:

You don't currently own a home, your take-home salary is \$15k a month, you spend \$1.5k on your car loan and another \$1.5k on credit card loans. Assuming you intend to purchase a new uncompleted private 2-bedder at \$1m, you'll need to have savings of at least \$50k cash and \$150k in your CPF OA, and be able to pay off a monthly home loan of \$3.3k (using the interest rate of 1.7%). Your total monthly loan repayment will add up to \$6.3k, which is less than the 60% Total Debt Servicing Ratio (TDSR) maximum threshold.

Do note that other loans can come into play, such as your child's education or past renovation loans that have not been fully paid for. Although in the scenario given, your TDSR is below 60%, you need to make sure other miscellaneous expenditures (year-end holidays, luxury bags etc.) don't put you at risk of ever needing to sell your home.

Ensure that you also have an emergency fund because things can and will happen unexpectedly all the time, like the death of a pet or hospitalisation due to a ski accident (and not covered by insurance). Setting aside some funds that can sufficiently cover these to a reasonable extent first, before using your leftovers to buy a property, is the best way to go about it.

3. The reason for buying a property.

Most people buy property for any of the reasons below:

- own stay
- investment
- as a retirement home
- passing down to future generations in the family

Depending on your reason of purchase, your fund allocations will shift because your priorities in life will also change to match your goal. These reasons will also affect the type of property you end up buying, its location, its tenure and more. We'll cover this in another article but for now, be very sure of your reason for buying a home.

Making a property purchase is a huge step for many Singaporeans, and it requires a whole lot of planning and commitment. Avoid buying a place just because it seems like everyone else is also buying one. The first step to making any purchase is always to make sure that you have the financial means to afford it and still live life comfortably while paying off your home loan.

Always seek professional advice and guidance when it comes to a big purchase like this. Feel free to contact me via Whatsapp (+65 9047 0416), Facebook (<https://www.facebook.com/roxannechiarealty/>) or email (roxannecera@gmail.com) for a non-obligatory consultation.