THE SINGAPORE PROPERTY BEGINNER'S GUIDE

WHAT YOU MUST KNOW ABOUT THE SINGAPORE REAL ESTATE MARKET

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Introduction

The Singapore Property Beginner's Guide was written to help the absolute beginner understand the Singapore property market. Buying a home is the biggest purchase most of us will make in our lives, yet many people do not have the basic knowledge they need to make an informed decision.

I've written this guide to change that. It comprises the most relevant posts on my blog for those just starting out. Hope you find it useful and good luck on your property journey!

To wisdom and beyond,

Mr. Propwise

About Propwise.sg

Propwise.sg is a Singapore property blog dedicated to helping you understand the real estate market and make better buying, selling, renting and investing decisions – minus all the hype and misinformation.

If you haven't done so already, don't forget to head over to www.propwise.sg and sign up for our newsletter to get our free reports and updates.

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Types of homes

What are the different of housing options available in Singapore? We can broadly split the options into Public/Quasi public and private housing.

Public housing (HDB)

Housing and Development Board (commonly known as HDB, a statutory board of the Ministry of National Development) flats are regulated and maintained by the government. They are meant to be an affordable housing option for Singapore residents, and government subsidies are available for the purchase and financing of these. They are typically located in self-sufficient clusters known as housing estates where a concentration of HDB blocks are supported by amenities such as supermarkets, food courts, coffee shops, clinics, malls, parks and a good public transportation network (via trains and buses).

More than 80% of Singaporeans live in HDB flats, with more than 90% of them owning the home they live in. To buy an HDB flat, you need to meet a number of eligibility requirements, the primary one being the possession of a Singaporean citizenship or Permanent

Residence (visit www.hdb.gov.sg for more information).

Types of HDB flats

Studio apartments

Studio apartment sizes range from 377-484 square feet, and are meant for senior citizens who want to live independently. They are renovated with elder-friendly features and are sold on 30 year leases, making them more affordable than other options.

2-room flat

2-room flats are usually under 500 square feet and contain a master bedroom, kitchen, living area and storeroom. They are meant for lower income households. They are the private housing equivalent of a one bedroom apartment.

3-room flat

The floor area of new 3-room flats range from 646 to 700 square feet and they come with one master bedroom, one common bedroom, a kitchen, living area, common bathroom and storeroom. They are the private housing equivalent of a two bedroom apartment.

4-room flat

4-room flats are typically under 1,000 square feet in size, and have a master bedroom, two common bedrooms, a kitchen, living area and storeroom. They are the private housing equivalent of a three bedroom apartment.

5-room flat

5-room flats are around 1,200 square feet and have a master bedroom, two common bedrooms, kitchen, a separate living and dining area, and storeroom. They are meant to provide a larger living space for extended families of 4-5 members. They are the private housing equivalent of a larger three bedroom apartment.

Executive flats

Executive flats are typically around 1,400 square feet in size, and have a master bedroom, two common bedrooms, a kitchen, separate living and dining area, storeroom, and space for a study room. Some executive flats come with a balcony as well. They are the private housing equivalent of a 3+1 or four bedroom apartment.

DBSS flats

Design, Build and Sell Scheme (DBSS) flats are built by private developers who have to bid for the land, design and construct the flats. They usually come with minimal finishings and look more like private housing but without the facilities. The HDB provides housing loan and conveyancing services to eligible buyers. The income ceiling to buy DBSS flats is also higher at $10,000 instead of the regular $8,000.

Quasi public

Executive Condomniums

Executive Condominiums are a hybrid between public and private housing. They were introduced by the HDB to cater to young graduate and professional Singaporeans who wanted higher quality housing but could not afford private property. They are built by private developers and have condominium facilities, and the income ceiling to buy them is $10,000. But they also have restrictions such as the Mininum Occupation Period of 5 years before they can be sold, and from Year 6 to 10 can only be sold to buyers who meet HDB's eligibility requirements. From the 11th year all restrictions are lifted and they can be bought and sold freely, even by foreigners.

Private housing

Private housing can broadly be categorized into non-landed and landed property.

Non-landed

Condominiums

Condominiums are high rise residential developments that usually come with facilities such as a swimming pool, gym, security, BBQ area and so on. Technically a development is only called a condominium if it sits on a site that is larger than 4,000 square meters (43,056 square feet).

Apartments

Apartments are medium to high rise residential developments that are situated on a smaller plot of land than condominiums and typically have fewer facilities.

Landed

Terrace

These are houses that share common walls with neighbours on both sides, unless at the end of a row.

Semi-detached

These houses share one wall in common with a neighbour.

Detached/Bungalows

These houses do not share a wall with other houses and are located on their own piece of land.

Good Class Bungalow

Good Class Bungalows are an exclusive category of detached homes with a minimum land plot size of 1,400 square meters (15,070 square feet) in prime landed areas such as Nassim Road, Cluny Road, Tanglin Road, Duchess Road and King Albert Park.

Shophouse

A unique architectural feature to Southeast Asia, shophouses are terraced rows of low rise buildings with narrow frontages but deep rears, and typically have shops on the ground floor with accommodations on the upper floors (hence the name).

Districts and Planning Areas

While there are no longer any official district codes used in Singapore, many people will often refer to a property being in a specific district when buying or renting. These codes were originally used for the postal districts, but were replaced by the 6-digit postal codes a number of years ago. Here are the general areas the district codes refer to:

01 - Raffles Place, Cecil, Marina, People's Park

02 - Anson, Tanjong Pagar

03 - Queenstown, Tiong Bahru, Alexandra

04 - Telok Blangah, Harbourfront, Sentosa, Keppel, Mount Faber

05 - Pasir Panjang, Buona Vista, Dover, West Coast, Clementi New Town

06 - High Street, Beach Road, City Hall

07 - Middle Road, Golden Mile, Bugis, Rochor

08 - Little India, Farrer Park, Serangoon Road

09 - Orchard, Cairnhill, River Valley

10 - Ardmore, Bukit Timah, Holland Road, Tanglin

11 - Watten Estate, Newton, Novena, Thomson

12 - Balestier, Toa Payoh, Serangoon

13 - Macpherson, Braddell, Potong Pasir

14 - Geylang, Paya Lebar, Eunos, Kembangan

15 - Katong, Joo Chiat, Amber Road, Marine Parade, Tanjong Rhu, Meyer

16 - Bedok, Upper East Coast, Eastwood, Kew Drive, Chai Chee, Siglap

17 - Loyang, Changi

18 - Tampines, Pasir Ris, Simei

19 - Serangoon Garden, Hougang, Punggol, Sengkang

20 - Bishan, Ang Mo Kio, Braddell

21 - Upper Bukit Timah, Ulu Pandan

22 – Jurong, Boon Lay, Tuas, Lakeside

23 - Hillview, Dairy Farm, Bukit Panjang, Choa Chu Kang, Bukit Batok

24 - Lim Chu Kang

25 - Kranji, Woodgrove, Woodlands

26 - Upper Thomson, Springleaf

27 - Yishun, Sembawang, Admiralty

28 – Seletar, Yio Chu Kang

While there are a total of 28 districts, you'll mostly hear references to districts 9 (Orchard, River Valley), 10 (Bukit Timah) and 11 (Newton, Novena) as the traditional high end housing areas, and to districts 1 (Marina Bay), 2 (Tanjong Pagar) and 4 (Harbourfront, Sentosa) as the new up-and-coming luxury areas. For a more relaxed and lower density lifestyle districts 14

(Eunos, Kembangan), 15 (Katong, Marine Parade, Tanjong Rhu) and 16 (Upper East Coast, Siglap), broadly known as East Coast, are also popular.

"District creep"

Do note that there is some ambiguity around the borders of these districts so one area could cover two or more districts. In fact in recent years as the property market has heated up I've noticed a phenomenon I call "district creep", where properties in a less prestigious area are marketed as being in a more prestigious one nearby.

So for example properties in Newton are advertised as being in Orchard, properties in Novena as Newton, and those in Balestier as being in Novena. This is probably a result of developers wanting to push up the prices they can charge by increasing the stature of their development, and of status conscious Singaporeans wanting to showcase their home as being in a more prestigious district but not being able to afford one!

Urban Planning Areas – The Master Plan and Concept Plan

Distinct from the concept of districts that are commonly used in the property market, the Urban Redevelopment Authority (URA) has divided Singapore into 55 urban planning areas, which are organized into five regions – Central, East, North, North-East and West. The URA puts together two urban plans, the Concept Plan and Master Plan, which can significantly affect the value of the real estate when any changes to the plan take place.

The Concept Plan is the long term strategic land use plan which guides Singapore's development over a forty to fifty year period. Reviewed every ten years, it provides for sufficient land to meet long-term population, economic and quality of life goals. The last Concept Plan Review was in 2001, and the next one will be completed in 2011.

The Master Plan is the medium term statutory land use plan which guides Singapore's development in over a ten to fifteen year period. Reviewed every five years, it renders the broad strategies of the Concept Plan into detailed plans that show the permissible land use and density for developments in Singapore.

The last Master Plan was in 2008, and the next one will be completed in 2013.

Major players in the property market

The property market in Singapore is driven by four major groups of players – the government agencies, developers, property agencies and banks.

1) Government ministries and agencies

The government ministries and agencies in Singapore shape policy changes that can significantly affect sentiment in the property market and hence real estate prices.

The ministries coordinate policies to control or support property prices depending on their view of the level of speculation and asset price stability. For example, a broad round of property measures that affected the new and resale HDB market, taxes and bank lending was jointly announced by the Ministry of Finance (MOF), Ministry of National Development (MND) and Monetary Authority of Singapore (the MAS is Singapore's central bank and financial regulator) on August 30 2010.

While the ministries come up with the big picture policies, the statutory boards under the ministries are generally responsible for issuing the detailed guidelines and implementing policies.

The key statutory boards include:

Building and Construction Authority (BCA)

The BCA is a statutory board under the MND whose role is to provide guidelines for buildings, structures and infrastructure so as to "shape a safe, high quality, sustainable and friendly built environment."

Housing Development Board (HDB)

The HDB is a statutory board under the MND and the public housing authority. Its mission is to provide affordable quality homes for Singaporeans by planning and developing vibrant public housing towns with great amenities and cohesive communities. It also publishes statistics on the public housing market including a quarterly Resale Price Index.

Singapore Land Authority (SLA)

The SLA is a statutory board under the Ministry of Law focused on land resource optimization. In its developmental role, it oversees government land sales, leases, management of state land and buildings, acquisitions and allocation, developing and marketing land-related information and maintaining the national land information database. In its regulatory role, it acts as the national land registration authority and manages and maintains the national land survey system.

Urban Redevelopment Authority (URA)

The URA is a statutory board under the MND, and the national land use planning authority. It prepares medium and long term strategic and local plans for land use in Singapore, and helps to implement them. At the macro level, the URA controls residential development in Singapore via use of the plot ratio and building height. At the micro level, it develops guidelines on housing type and form. It also publishes updates on the private property market including price indices and individual transactions.

2) Developers

The basic role of the real estate developer is to convert raw land into a completed property and lease or sell it. To do so they have to orchestrate a range of activities: buy land, finance the deal, work with architects to design the project, obtain approvals from the government, engage a construction company to build, work with agencies to market and sell the property etc.

You'll often hear news of developers bidding for land that the government has put up for tender. Developers need to constantly buy land to maintain their landbank, the pipeline of projects that they have under development. The price they pay for land is also a good indicator of their view on the market further down the line, and will give you a rough idea of the price they have to launch the project for sale in order to make money.

Prominent property developers in Singapore include Capitaland, Centrepoint, Far East Organization, City Development Limited, GuocoLand, Keppel Land, Wheelock Properties, Allgreen Properties, Ho Bee and SC Global.

3) Property agencies and agents

Property agencies and agents are businesses or people that arrange the selling, renting or management of property. They act as the intermediary ("middleman") between the buyer and seller – they try and match sellers who wish to sell with buyers who wish to buy, and take a commission for any successful matches.

Typically in Singapore property agents will charge a commission of 1-2% to the seller of a private property, and 1% to the buyer and 1-2% to the seller for HDB flat transactions.

As of mid-2010, there are an estimated 25,000 property agents and 1,700 agencies in Singapore. Some property agents are full-time professionals while others are just moonlighting as part-timers. The large agencies include Propnex, ERA, HSR, DTZ, Knight Frank and Dennis Wee. Many of the agencies are one or two man operations.

For a long time the reputation of the industry was tarnished by the actions of a small group of unprofessional real estate agents, with many calling for greater government regulation. Thus on September 15th 2010, the government introduced the Estate Agent Act and set up a new statutory board called the Council for Estate Agencies (CEA) that will regulate agents and the agencies. There are also new entry criteria and a mandatory exam that all agents must pass by the end of 2011. These requirements are expected to reduce the number of agents and agencies by 30%.

4) Banks

Bank provide the “petrol” that drives the whole real estate machine – money. They fund the property projects of real estate developers, and extend mortgages to qualified buyers so they can purchase a property. Their aim is to make a “spread” (the difference between the interest rates they charge to lend money, and the rates they pay for your deposits), and minimize the risk of any losses (e.g. from people defaulting on their loans).

The top local banks in Singapore include DBS, UOB and OCBC. The active foreign banks include HSBC, Citibank and Maybank, amongst many others.

Together these four players drive the functioning of the property market. The government sets guidelines and provides land for development. Developers buy land and transform it into property. Agencies and their agents help to market and sell this property, and banks provide the funding that makes it all happen.

Phew, this is a long article, but I hope it provides you with a high level perspective of how the market works!

Know your property lingo

The property market has its own jargon and acronyms that can be confusing to the beginner. No fear, the terms below will cover the most commonly used jargon you will hear when people talk about the market, and will encounter if you are buying a property.

CSC

The Certificate of Statutory Completion (CSC) is issued by the Commissioner of Building Control once the building works have been completed and all requirements have been complied with. It denotes legal completion and is usually given after the Temporary Occupation Permit is issued.

Downpayment

This is the initial upfront portion of the total amount due when you purchase a house. The downpayment can usually be paid partly in cash and partly using your CPF.

En bloc

En bloc is the collective sale of a number of owners of separate units in a private residential or commercial building. Units sold in an en bloc sale usually fetch a higher price versus what the market price would be, as the developer needs to offer a premium to convince all the owners to sell.

Freehold

Freehold is a form of property tenure where you own the property for an indefinite period of time.

Leasehold

Leasehold is a form of property tenure where one party buys the right to occupy land or a building for a given length of time. Common lengths of the lease for residential property are 99 years and 999 years.

LTV

Loan To Value (LTV) is the mortgage quantum divided by the total appraised value of real property. LTV is one of the risk factors that lenders assess when qualifying borrowers for a mortgage.

OTP

The Option To Purchase (OTP) is a right given by the vendor of a property to a purchaser to buy the property at a specified price within a specified period of time (the validity period of the option). The purchaser must pay a booking fee to obtain this right, and has to exercise the OTP within its validity period if he decides to buy the property.

MOP

The Minimum Occupation Period (MOP) is the length of time a buyer of an HDB flat has to stay in it before he can sell it.

Plot ratio

The plot ratio is the total covered area on all floors of all buildings on a certain plot divided by the area of the plot. The plot ratio tells the density of the development on that piece of land.

Psf

Per Square Foot is a unit of measurement of area, and $/psf is the total price of the property divided by the land area (in square feet).

SIBOR

The Singapore Interbank Offered Rate (SIBOR) is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other banks in the Singapore wholesale money market (or interbank market). It is similar to the internationally used LIBOR (London Interbank Offered Rate).

Strata title

Strata title is a form of ownership typically used for apartment blocks or condominiums. Typically a project is divided into lots (units or apartments), and each lot will have a share of the entire project. This is distinct from landed property where typically the owner will have title to the land.

TOP

A building can only be occupied by the owner or tenants when it receives the Temporary Occupation Permit (TOP), which is granted by the Commissioner of Building Control once certain requirements are met.

The 10 Step System to Buying a Property in Singapore

Buying a home is the biggest purchase most of us will make in our lives. Yet many people rush to buy a property with less preparation than they would planning a holiday. This can have financially disastrous consequences, especially in light of the measures announced by the government on August 30th 2010, which have created a lot of uncertainty in the market's direction.

Follow the steps I've laid out below when buying a property and you will be much less likely to make an expensive mistake.

Step 1 – Decide whether you want to rent or buy

Buying a home is often an emotional decision. That's fine – just make sure it's a rational one too. Honestly ask yourself if you need to buy a home, and whether renting might be a viable option.

Step 2 – Calculate how much you can afford

First look at how much money you currently have, including cash and CPF. Note that based on the government's property measures, if you already have at least one loan outstanding, your minimum cash outlay will increase from 5% to 10%. Next figure out how much you can borrow, taking all your outstanding debts into account. You can work with a banker, or use the affordability calculator available on Loanguru. Most banks will only lend up to a 35-50% Debt Service Ratio (your total debt payments divided by your monthly income).

Step 3 – Figure out what sort of home you want

What are your current and future needs for housing? For example, a newly married couple that buys a studio or one bedroom might find within a year or two that they need a two or three bedroom apartment once a baby is on the way. Would you prefer HDB or private property, if you can afford it? Which districts or areas do you prefer to live in? What are the amenities and public transportation options you want?

Step 4 – Build a list of options

You can choose to either use a buyer’s agent and/or go DIY. Look at both offline (e.g. classified ads in the newspapers) and online (property websites) sources to get the largest pool to choose from. Based on what you’ve figured out from Steps 2 and 3 above, come up with a list of potential projects to consider.

Step 5 – Do market research and narrow down your choices

Check the recent transacted prices of these projects from the URA website. Compare prices there with surrounding projects. Compare the transacted prices with the asking prices. If you are buying for investment, look at the market rents and rental yields. Eliminate the projects that do not look attractive.

Step 6 – Go for property viewings

Based on this smaller list of projects arrange viewings of at least a few different units in each project. It’s helpful to take photos and notes to help you remember what you saw. Visit each project at different times of the day and night to see if it is noisy or otherwise unpleasant. Narrow down your list to your top few units and do a second viewing if necessary.

Step 7 – Get indicative valuations and your mortgage pre-approved

Don’t miss this critical step! Before you make an offer ensure that you have gotten an indicative valuation from a bank and an in-principle approval for a mortgage. You can approach the different banks yourself or use a mortgage broker to save time. Based on the new measures, if you already have an outstanding loan your Loan To Valuation (LTV) limit has been lowered to 70% from 80%, so you’ll need to cough up more cash.

Also, banks will only lend to you based on the LOWER of the valuation limit or purchase price, so if you are buying above the bank’s valuation you will need to pay the difference in cash. If you are selling your existing home to purchase a new one and hope to borrow at 80% LTV, you now need to present proof to qualify (in the form of a signed purchase agreement for your current home and certification showing that stamp duty for your existing property has already been paid for by the buyer).

Step 8 – Make an offer and negotiate the purchase

Once you get the indicative valuations and at least one pre-approved mortgage from the banks, you can then make an offer knowing you can borrow what you need. There have been a number of unfortunate cases of buyers who have lost their deposits because they realized later that banks would not finance their purchase. When negotiating the purchase price, it helps to have a number of options on hand so you are not forced to overpay due to a lack of options.

Step 9 – Sign and exercise the Option To Purchase

If the seller accepts your bid, typically you have to put down a 1% deposit to get the Option To Purchase (OTP), and have 14 days to exercise it, by which time you will have to pay another 4% of the purchase price. Make sure you have the funds on hand to do so. Once you get the OTP liaise with your conveyancing lawyer and mortgage banker to settle the procedures.

Step 10 – Complete the sale and collect the keys

Before the completion date, do an inspection of the home to confirm that all agreed on fixtures and items are still around. On the date itself, collect the keys and check that you have a complete set. Congratulations! You are the owner of a new home. Time to think about renovation and furnishing…

I've put together a detailed checklist with sub-steps for each of the steps above. You can download it at www.propwise.sg by entering your email address in the form on the right.

Go through these steps when buying a home – it will save you tears and money!

How to Choose Your Mortgage

Choosing a mortgage can be confusing. There are so many options to think about: fixed or floating interest rates, loan term, lock-in periods, subsidies, penalties and other special features. There isn't one "best" mortgage out there – it all depends on your needs and preferences.

If you'd like to compare loans online and even get free cash rewards if you take up a loan, check out http://www.propwise.sg/moneyiq/.

Here are the main options you need to consider when making your decision:

1) Loan amount

The local banks usually give a loan of up to 80% of the property value for first time homebuyers, but the actual amount will depend on their assessment of your ability to repay the loan. They typically look at a debt servicing ratio of 35-50% as a ceiling. To calculate this ratio, they sum up your long-term liabilities (including the potential mortgage payment) and divide that by your monthly income.

Also note that the bank will only lend you up to 80% of the LOWER of your purchase price or their own internal valuation. So if your purchase price is above their valuation, you will have to top up the difference in cash. As a best practice, you should always get an indicative valuation and in-principle approval from a bank before you commit to a purchase.

2) Loan term

The loan term is the duration of time that you take to completely repay the loan. Loan terms usually range from 10 to 35 years. The longer your loan term, the smaller the monthly repayment you need to make, but the higher the total amount of interest you will eventually pay.

Also note that your age may be a limiting factor – banks will typically cap the maximum term up to the age of 65. So if you're 50 years old, you may only be given a loan term of up to 15 years. Young buyers looking to maximize the amount they can borrow will usually select a 35 year loan term.

3) Fixed or floating rate

Fixed rates offer the borrower security and stability as the rate does not change over a certain period. As interest rates are currently very low, if they rise you will be protected from upward adjustments of your monthly mortgage payment. But this comes at a price – fixed rate packages usually charge higher interest than floating rate packages.

Borrowers who believe that interest rates will fall or remain low for a long period of time can go for floating rate packages as they can get lower interest rates up front and their monthly payments will fall if interest rates fall.

For floating or variable rate packages, they are typically linked to either of the two major benchmark rates: Sibor and the Swap Offer Rate (SOR). These rates are mainly affected by US interest rates and Singapore banking system liquidity. But do not assume that they will always stay at the lows they currently are at (e.g. the SIBOR is around 0.5% now) – in 2007 they were as high as 3.6%! As a rule of thumb, you should look at your monthly payments using rates of 4% to make sure you can still service your mortgage in case rates spike up.

4) Other special features

Some loans have an interest offset feature, where deposits at the bank can be used to offset the loan amount so you only pay the interest on the difference. For borrowers with large amounts of cash that they want to keep available for other uses at a moment's notice (e.g. investing in the stock market) this could be a good option.

Some banks also offer interest-only packages, usually on a case-by-case basis. For these loans, you only pay the interest amount for a specified period of time, and after that the loan will revert to a normal interest plus principle loan. This option may be suitable for investors who want to minimize the cash outflow during the interest only period.

5) Subsidies, lock-in period and penalties

Most loans come with some subsidies including the legal, valuation and fire insurance fees. When comparing mortgages, borrowers should check what the various fee subsidy amounts are. For example, there is usually a cap of $2,000-2,500 on the legal fee, and if your legal fees exceed those you will have to top up the difference.

The lock-in period you should choose depends on your expectation of when you will sell the property and also on your view of where interest rates are going. Typically the shorter the lock-in period, the higher the interest rate. But if you repay the mortgage within the lock-in period, you typically have to pay a penalty of anywhere from 0.75% to 1.5%, which is substantial. Some banks can waive the penalty if you are selling your house (as opposed to just repaying the mortgage), so make sure you check if they will include this clause.

Here's a tip to save you money – sometimes the bank can give you an additional discount off their advertised interest rates, especially if you've been a longstanding customer. Just ask! I've known people who have gotten a 0.05% discount – that adds up to some serious money.

If you feel overwhelmed by all the different options above, you can also consider engaging the services of a mortgage broker, who will help to filter the right packages for you based on your requirements. You should not have to pay them any fee as they will get a commission from the bank if they can successfully arrange a loan for you. Happy mortgage shopping!

To compare loans for free and get cash rewards if you take up a loan, check out http://www.propwise.sg/moneyiq/.