5 Top Tips When Buying Your First Property

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Buying your first property? Read this guide to make sure you don't end up paying more than you need to and Save Money!

Buying your first property be it for own stay or for investment can be very intimidating yet exciting at the same time. This is not unusual for most of us as buying a house will probably be one of the single largest purchases you would make in your lifetime, and along with the mortgage required for it, getting the whole process right will be one of the biggest ways to Save Money.

In this guide, we will look at ways to Save Money on securing the property itself, for this we want to share with you the Top 5 Tips that you ABSOLUTELY need to be aware of when buying your first property!

Tip 1: Defining Objectives

One must be crystal clear of your objectives when buying your property. The two main objectives are:

(a) For Own Stay

When it comes to buying your first home, it's very easy to get carried away with finding the perfect home. Sorry to burst your bubble, but perfection does not exist. So be prepared to compromise. You need to be realistic with what you can afford given your budget. So make sure you have a BUDGET and STICK TO IT.

(b) For Investment

If you are buying for investment, you then need to be clear if you are investing for Capital Appreciation (rising price of property) or for Rental Returns.

As a general rule of thumb, if you are still young with high future earnings potential, you should focus on properties which are likely to provide the highest Capital Appreciation. But if you are approaching retirement, you should be looking at properties which will preserve its value yet give good Rental Returns to fund your retirement.

If you are buying for Capital Appreciation, one would usually go for off-plan properties (Properties which are sold before they are complete). However, things have changed in the past few years especially in the Klang Valley, where there is currently an oversupply situation therefore making it very tricky to 'flip' properties (Flipping is a common term used to describe buying a property on a short-term speculative basis) immediately on completion.

An advantage of buying properties off-plan is that developers usually have very attractive Developer Interest Bearing Schemes (DIBS), making it very affordable for buyers. Under the DIBS, the buyer only has to pay the 10% downpayment on signing of the Sale & Purchase Agreement (or 30% if you already have 2 outstanding loans), and nothing else until you get the keys to your unit. So you don't have to make any progressive payments during the construction period (Progressive payments are payments made to finance a housing loan during the course of construction. Typically, you only pay the interest element of your loan during the construction period).

The public should be aware that although this scheme seems to be very attractive, never forget that the developer would have factored in their finance cost during the construction period into the pricing of the property. Other advantages of buying off-plan is that developers will usually give a lot of 'freebies' such as free legal costs for your Sale & Purchase Agreement and sometimes even for your Loan Agreements too. This will help reduce your initial capital outlay.

If you are buying for Rental Returns, it is advisable to buy properties from the secondary market where the rental yield is likely to have stabilized. Imagine this, if you have bought a unit off-plan which takes 2 years to complete, you will be faced with a lot of competition to let out your unit during your first year. Aside from that, for an off-plan property, you won't be able to collect any rent during the construction period.

Historically, condominiums and apartments have given superior rental yields* as compared to landed properties. However, yields are currently being squeezed as compared to 10 years ago where supply of condos and apartments were relatively scarce. 10 years ago, it was possible to find properties giving yields of 8 – 10% a year. In the current market conditions, you would be lucky to get 7% a year! Given the current market conditions, SaveMoney.my reckons there are two strategies that one can pursue in search of high rental returns. The first being LRT, LRT, LRT. Properties located close to an LRT station have historically enjoyed better capital appreciation AND better rental returns. And this doesn't just hold true in Malaysia, as it's a trend that is obvious in other countries too. Being within walking distance to an LRT station also gives you a higher chance of finding a tenant sooner. The second strategy is to go for properties catered to the masses i.e. properties priced below RM300,000 in reasonably central locations. Such properties have a real rental demand so finding a tenant will be relatively easy and yields of about 8% is very achievable. The only real risk with this strategy is collection of rent from your tenants given lower priced properties may come with a higher risk of non-collection of rent because of the lower income level of tenants..

*Rental yield is calculated as Annual Rental / Market Value of Property in percentage terms. So for example, if the monthly rent for your property is RM2,000 per month, the Annual Rental is RM24,000. If the market property is RM400,000, the rental yield on this property is 6% (ie 24,000/400,000 x 100%).

Warning! Don't forget to deduct items such as service charges, yearly repairs and maintenance costs and letting agent fees if you are calculating your net rental yield calculations!

Tip 2: Loan Application

Most people will look for the property first, then seek for financing. This is WRONG! And this is a major NO NO! One should always find out how much you are able to borrow from the bank FIRST before going out to look for the property.

Let's just say if you don't know what you can afford, you are more likely to screw up. You can do this by walking in to most banks and SaveMoney.my recommends you walk in to several to build the relationship with several Loan Officers as they will come in handy when you need to check the valuation of your property (see below). Also, never apply to just one bank. You should always spread the risk (in case that one bank rejects your application) and applying to many banks will help you get a more competitive rate. Don't be afraid to let your Loan Officers know what rates the other banks are offering you, because this keeps them competitive too. Some banks are known to undercut others but this has to be done before the formal Offer Letter is being issued.

Tip 3: Valuation

When you have found the property of your choice, you are usually required to pay a holding deposit of 2 – 3% of the purchase price to take the property off the market. However, making an offer and paying the holding deposit does not necessarily equate to acceptance. Until the Seller signs the Letter of Offer, nothing is confirmed. Usual conditions on the Booking Deposit receipts (sometimes also known as the Letter of Offer to Purchase) include:

The Sale and Purchase Agreement (SPA) to be signed within 14 working days from the date of acceptance by the Seller. Extensions on SPA signing are usually granted at the Seller's discretion.

You, as the Buyer shall bear your own portion of the Stamp duty and legal fees incurred in relation to the execution of the Sale and Purchase Agreement whilst the Seller will also bear his or her own legal fees.

The Offer to Purchase is subject to the acceptance of the Seller and if and when it is not accepted, the holding/earnest deposit shall be refunded in full to the Buyer without any interest and legal recourse.

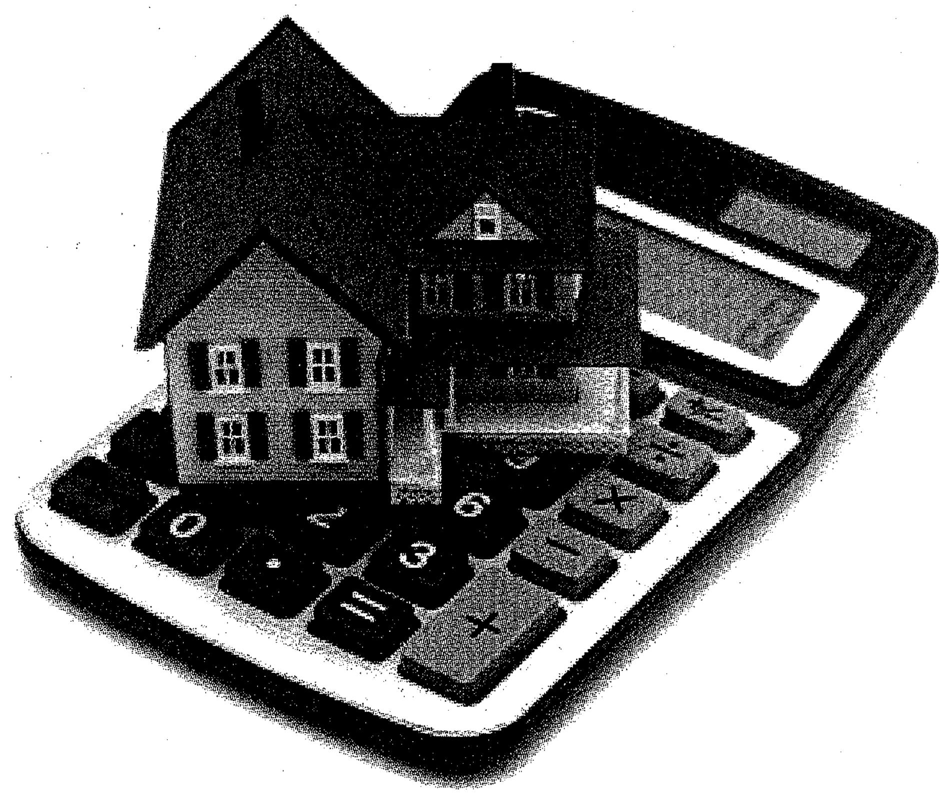
As the Buyer, you should always add in a clause to say 'Offer is subject to the confirmation of the actual square footage of the unit' in the Offer Letter. Reason being you don't want to be caught out in a situation whereby the agent tells you it is 1,200sf when it is actually only 1,000sf, which would mean you would be paying much more per square feet. Your lawyers will then be able to confirm this for you whilst in the process of drafting the SPA.

Before you pay the holding deposit (also known as Earnest Deposit), make sure you do the following two checks:

(a) Valuation of Property

If the price that you have agreed to pay for the property is RM400,000, and you are looking for a 90% loan from your bank, you need to check with your bank that the valuation is 'up to mark'. Reason being, if the banks' valuers only values your property at RM350,000, the bank will only be willing to lend you 90% of RM350,000 and NOT 90% of RM400,000. What this basically means is that, if you really wanted to buy the property, you will need to fork out the difference from your own pocket i.e. RM85,000 [RM400,000 – (RM350,000 x 90%)] rather than RM40,000 that you thought you would need.

One way to mitigate this risk is that you ensure there's a clause written in your Booking Receipt which says that you are entitled to get back your Holding Deposit in the event you are unable to obtain a



loan. This is not a standard clause in the Booking Receipt, but don't be afraid to insist on this even if it means penning it yourself on the Booking Receipt.

Also, don't rely on just one valuation. Ask a few Loan Officers to get a more accurate reading of the valuation of the property. This will reduce the risk of you being caught out in the scenario above.

(b) Check up on your Estate Agent

Before paying your Earnest Deposit, be sure to also check up on your Estate Agent to make sure they are legit. You can do a search to see if the company that they work for is registered with the Board of Valuers, Appraisers, and Estate Agents of Malaysia.

Also, only issue cheques to the Realtor's Company and never to an individual name.

Tip 4: Secondary market – Getting a deal!

This is a little trick that you can use to find undervalued properties. If you have been following the property market i.e the Classifieds be it online or in print, avoid buying from real estate agents who are regularly advertising for a specific area or for a specific development. Reason being, they are more likely to be working with a lot of owners in that area and are more inclined to want to maintain high selling prices to protect the interests of all these owners.

SaveMoney.my recommends finding the 'one hit wonders' of the real estate agents / negotiators where they have little to no experience in selling properties in that area or development. Reason being, these type of agents are more likely to want to go for a quick sale and is more likely to be able to convince the owners to sell at a lower price.

TheStar Property, Mudah Classifieds, iProperty and HomeGuru are good ways of finding 'Urgent' and 'Below Market' properties. These are simple keywords which you can use on these online property aggregators to find great deals.

Tip 5: Transaction Cost is MATERIAL

When budgeting, be sure to factor in the transaction cost for your purchase (between 3 – 5% of purchase price) as you will need to have cash in hand to pay for these things.

Some banks allow you to include your legal fees (and the Mortgage Reducing Term Assurance (MRTA) premium - MRTA is an insurance to protect against a borrower's untimely death or total permanent disability as it settles the outstanding loan amount so your family won't have to worry about the outstanding home loan with the bank) in your loan amount which helps ease the burden as you won't have to pay these potentially huge amounts upfront in cash. So be sure to ask your Loan Officer at time of application if this is what you prefer.

**Caitlyn Ng is an Investigative Journalist of SaveMoney.my, an online consumer advice portal which aims to help Malaysians save money through smart (and most of the time painless) savings in their daily banking, technology, and lifestyle spending habits.*