

## Should You Buy or Rent a Property in Singapore?

By [iCompareLoan Editorial Team](#)



Many factors come into play when deciding between buying or renting a property in Singapore. The booming rental and sales market in the island suggest that people are always on the search for living spaces. What then are the factors that property buyers should consider when choosing between the two?

### Level of commitment

Renting a house as opposed to buying provides people with more freedom to relocate. The moment the rental contract expires, you can move. Any move before that is possible, but that will mean the forfeit of your deposit.

At times you may find your neighbourhood or neighbours to be unsuitable, renting allows you to uproot easily.

For some people, renting is a lifestyle option because it gives them the flexibility of changing their

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living environment and homes every now and then.

In contrast, buying a house requires more commitment as people are unlikely to move every few years due to the cost of selling and buying. For example, if you are financing your house with a loan, you have to incur a penalty for early repayment. Not to mention the agent fees and administration costs involved. Most importantly, there may be capital losses if you are selling during a property slump!

Nevertheless, having a place you can call your own brings with it benefits. You can experience pride in being the proud owner of a beautiful house. You also have every right to renovate it as your taste dictates and your pockets allow (or let it fall into a decrepit state if you so wish!).

### **Down-payment**

Besides intangible considerations, the more practical concern for most is the financial aspect.

A housing purchase is a major financial commitment. Most people have to spend their entire working life, or even beyond, to pay off their mortgage.

But even before being eligible for that housing loan, you have to come up with the down-payment.

If you opt for a HDB flat, unless you are eligible for a HDB concessionary loan, you will have to pay 5% or 10% of the purchase price in cash. Using of CPF fund to pay for this component is not allowed. Do note that when buying a HDB flat, whether on the open market or a direct purchase from HDB, not everybody is eligible for a HDB concessionary loan. Hence, taking a loan from a private financing institution becomes the next alternative.

For private properties, mortgage financing by a private institution is the only choice. Identical to a



purchase for a HDB flat using a private loan, you will have to stump up a cash component for the down-payment. With no existing home loan, this will be 5% or 10% (if the loan tenure exceeds 30 years or extends beyond age 65) of the purchase price. With an existing loan, it jumps to 25%.

Raising the cash component of the down-payment proves to be a stumbling block for many, particularly for younger people.

Thus, renting becomes an option when you want to have a place to live in, but you are unable to stump up the cash for the down-payment to buy a house.

In another scenario, you have the means to pay for the down-payment, but you have a more lucrative investment compared to a housing purchase. As a result, you prefer to rent instead of buying. In such a case, you will have to carefully weigh whether your investment will reap you a higher capital gain than a house.

### **A concrete illustration of the cost of buying vs renting**

To compare the cost of renting and buying, we will proceed to use real data; namely the median rental and sale price of Beacon Heights at Mar Thoma Road.

**Table 1: BEACON HEIGHTS**

	Period	S\$ psf	(Assuming a size of 1000 square feet) S\$
<b>Median Selling Price</b>	Sept' 12	851	851,000
<b>Median Rental</b>	3Q12	3.796916	3,797

Source: URA Real Estate Information

Using the median S\$ psf from URA, we assume a 1000 square feet apartment to work out the



median selling price and rental.

#### Cost of renting

**Table 2: Renting a 1000 sq feet unit at Beacon Heights**

	<b>3Q12 Median Rental (S\$)</b>	<b>+ 30% (S\$)</b>	<b>- 30% (S\$)</b>
<b>Monthly Rental</b>	3,797	4,936	2,658
<b>Monthly Maintenance Fee</b>	400	400	400
<b>Total Annual Cost</b>	45,963	59,632	32,294

As rental changes over time, we include the scenarios when it rises or falls by 30% .

#### Cost of renting over a 3-year period

**Table 3: Renting a 1000 sq feet unit at Beacon Heights for 3 years**

	<b>3Q12 Median Rental (S\$)</b>	<b>+ 30% (S\$)</b>	<b>- 30% (S\$)</b>
<b>Total Cost</b>	137,889	178,896	96,882

#### Cost of buying

**Table 4: First-Year Cost for Buying a 1000 sq feet unit at Beacon Heights**

	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>
<b>Price (S\$)</b>	851,000	851,000	851,000
<b>Down-payment (S\$)</b>	170,200	170,200	170,200
<b>Stamp Duty (S\$)</b>	15,024	15,024	15,024
<b>Loss of Interest on Down-payment and Stamp Duty</b>	1%	1%	1%



<b>A - Opportunity Cost (S\$)</b>	1,852	1,852	1,852
<b>Loan Quantum (S\$)</b>	680,800	680,800	680,800
<b>Interest Rate (p.a.)</b>	1.5%	2.5%	3.5%
<b>B - Annual Interest Payment (S\$)</b>	10,212	17,020	23,828
<b>C - Annual Maintenance Fee (S\$)</b>	4,800	4,800	4,800
<b>D - Owner-occupier Property Tax* (Estimated) (S\$)</b>	1582.56	1582.56	1582.56
<b>Total Annual Cost (S\$) (A + B + C + D)</b>	18,446.56	25,254.56	32,062.56

\*To learn the computation, go [here](#).

### Cost of buying over a 3-year period

**Table 5: Buying a 1000 sq feet unit at Beacon Heights for 3 years\***

<b>Interest Rate (p.a.)</b>	<b>1.5%</b>	<b>2.5%</b>	<b>3.5%</b>
<b>Year 1 Interest Payment (S\$)</b>	10,212	17,020	23,828
<b>Year 2 Interest Payment (S\$)</b>	9,940	16,207	22,532
<b>Year 3 Interest Payment (S\$)</b>	9,515	15,414	21,283
<b>Total Interest Payment (S\$)</b>	29,667	48,641	67,643
<b>Total Opportunity Cost (S\$)</b>	5,556	5,556	5,556
<b>Total Maintenance Fee (S\$)</b>	14,400	14,400	14,400
<b>Total Property Tax (S\$)</b>	4,747.68	4,747.68	4,747.68
<b>Grand Total (S\$)</b>	54,370.68	73,344.68	92,346.68



\*Assumes that interest rates are fixed for the 3 years

Savings from buying a house versus renting (3-year horizon)

**Table 6: Cost saving from buying (3-year horizon)**

Interest Rate (p.a.)	1.5%	2.5%	3.5%
A - Rental (S\$)	137,889	137,889	137,889
B - Total Buying Cost (S\$)	54,370.68	73,344.68	92,346.68
Savings (S\$) (A-B)	83,518.32	64,544.32	45,542.32

So it would seem that there will definitely be savings from buying a house compared to renting. Is that really the case?

If property prices stayed stagnant, that would definitely be the case. However, prices of properties tend to fluctuate.

Currently, the asking price for units at Beacon Heights range between S\$1,000 to S\$1,300. Hence if you happen to buy at S\$1000 instead of S\$851, the cost saving will be substantially lower.

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## References

URA, “Real Estate Information”, Web  
[https://www.ura.gov.sg/real\\_estate/main.jsp](https://www.ura.gov.sg/real_estate/main.jsp)

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