



Things You Should Be Aware of in Commercial Property Purchases

By [iCompareLoan Editorial Team](#)



With the host of cooling measures rolled out in the residential market by the Singapore's government to avert a property price bubble, investors are gleaning more investment potential in commercial properties. This segment of properties is exempted from Additional Buyer's Stamp Duty (ABSD), Seller's Stamp Duty (SSD) and restrictions on foreigners' ownership – all of which affect the residential market.

In Singapore, there are two ways to buy a commercial property:

- As an individual or;
- As a corporation [via private limited or limited liability partnership (LLP)]

The subsequent sections proceed to highlight key points a budding investor in the commercial property landscape should take note of.



No utilisation of Central Provident Fund (CPF)

If you are making the purchase as an individual, do bear in mind that you cannot dip into the savings in your Ordinary Account of the Central Provident Fund to settle the downpayment or monthly loan instalment for the commercial property.

This means the downpayment has to be wholly funded by cash.

For the loan repayment, you will have to be prepared to incur cash outlay if the rental yields are inadequate (assuming that you are planning to lease out the property).

Property tax

Same as for a second residential property, or an only residential property that is wholly rented out or left vacant, the tax is a flat 10% of the annual value of the property.

But if you fail to lease out the commercial space, you may apply for a vacancy refund of the property tax. This vacancy refund also applies to a residential property.

Goods and services tax (GST)

Unlike for residential properties, the buying of commercial spaces from a GST-registered company is subjected to a 7% GST. An individual making the purchase will have to bear the GST himself.

However, if you are a GST-registered company - all companies with a turnover exceeding S\$1million have to register for GST – you can make claims for the GST incurred on your



purchases. Thus shrewd individual investors may set up companies expressly for a financial transaction, termed as Special Purpose Vehicles (SPVs), to circumvent the GST payment.

For companies with turnovers below S\$1million, GST-registration is on a voluntary basis, subjected to certain requirements. Do note that being GST-registered comes with responsibilities. Check out what these are at IRAS.

Notably, the GST cannot be financed by the property loan. Buyers will have to stump up cash for this.

Rental yield and capital gains opportunities

It is estimated by Colliers Internationals that the yearly average gross yield of commercial spaces approximates 5%, compared to 2-3% for residential property. However, this higher gains can be offset by the steeper maintenance cost and renovation works generally required by tenants.

Generally, the maintenance charge for a commercial unit is expected to be higher than for a residential property. Also, more may need to be splurged on basic setup, particularly for shop units leased out for business.

An exception are HDB shops with their lower maintenance fees of S\$170 to S\$250. But these properties tend to come with more restrictions such as the type of businesses permitted.

Applications must also be made for renovation.

Still, small supply and strong demand can drive up the asset value of strata commercial property, making them worthwhile buys.

In land-scarce Singapore, strata-titled shops/offices are in limited quantity because most of the

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commercial spaces are owned by real estate investment trusts (REITs), and many of these REITs are in turn owned by the Government through proxies. As of 4Q2011, the supply of strata-titled offices in Singapore is estimated to be of 11.05 million sq ft, making up 14.2% of the total office stock (*Bright Spot in Singapore Property Market: Strata-titled Office*, Colliers International, pg 2). The stock of strata-titled shops also faces a similar small supply.

In addition, the slew of regulations in the residential market has diverted investors' attention to the commercial sector. Together with today's low interest rate environment, the two have fuelled demand.

Thus investors can make capital gains through direct sales.

Some investors are also looking toward en-bloc sales to make profit. In April 2012, in collective sales, strata office units at Parkway Centre and Burlington Square sold for \$1,043 per sq ft and \$1,318 per sq ft, respectively.

Besides capital gains, investors maybe hoping to profit from rental yields. However, official statistics on the occupancy rates for strata-titled shops and offices are not available. This makes reliable estimation of rental demand in the past, present and future difficult. Hence investors should be cautious if they are looking to profit from this avenue.

All in all, with more supplies coming on-board - either from strata or non strata developments - downward pressure on property values and rental is possible. Hence, only selective buys are recommended.



Tenure

Commercial/shop spaces in Singapore usually comes with 30-, 60-, 99-, or 999-year lease. Some may be freehold. For 99-year and shorter leasehold units, buyers should be mindful that financing institutions may quote a lower loan quantum for units running low on their lease.

Loans

Borrowers for commercial properties are allowed to take a loan-to-value ratio (LTV) of up to 80%, even with outstanding residential mortgages. The maximum loan tenor typically stands at 30 years. However, loans for commercial property tend to command a higher interest rate relative to residential property loans. Like the latter, these loans come in

- Fixed Rate Package
- Variable (Floating) Rate Package

The requirements for a commercial loan, however, are more stringent. For example, the LTV ratio is contingent on whether the property is for owner-occupation or investment, with the latter subjected to stricter criteria by some banks. The next section explains the approval conditions in greater detail.

Credit worthiness and approval for commercial loans in Singapore

For purchases made under your name only your income, outstanding debts and credit history will be assessed. The maximum LTV ratio for a commercial mortgage is set at 80%, even with existing housing mortgages. But financing institutions will take a holistic approach in deciding whether to grant you a 80% loan.



For purchases made under a private limited or LLP company, the financiers will evaluate if the company has a cash flow record over the past few years that is sufficient to fund this investment.

For instance, a company earning a monthly profit of S\$15,000 deposits it into the company's account in a timely manner, the lenders can, thus, lend up to 60 to 80% (typically) of this S\$15,000.

In other words, you can obtain a loan up to 60 to 80% of the debt servicing ratio (DSR). This is much higher than the DSR for residential property bought by an individual.

Conversely, buying under a private limited or LLP company without adequate cash flow or profit (or if the companies are special purpose vehicles), may result in the banks requiring that the directors guarantee any loans taken by the company under their individual capacity. The directors may also need to be Permanent Residents or Singaporeans. In many cases, these directors will need to furnish documentary proof that most of their incomes are derived from that company. If they earn their income from elsewhere, some banks will not grant the loan even with them as guarantors.

While others may.

From time to time, credit officers of the financiers will impose new rules and conduct additional documentation checks. Often, credit officers may ask for more supporting documents if they want to do tighter cross checks.

For advice on a new loan, go [here](#).

For refinancing advice, go [here](#).



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References

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