



PROPERTY

# The Dollar Value of Your Business Property Purchase

## *Doing the Sums – Purchasing a Business Property*

**W**ith all the rage about rising prices in commercial and industrial properties, small and medium enterprises (SMEs) have started to scramble to buy property of their own in the hopes of cutting down expenses on rent. This can often be a confusing process, with the insurmountable load of advice and information being thrown to them.

When in search of property, there are two groups of people - one group who prefers to research the market themselves, and the other group who prefers less self-research, instead, relying on friends who have gone through the process, or depending on the expertise of property agents.

Often, most business owners may leave it to “fate”, hoping that the right property falls conveniently into their laps so that they avoid the seemingly tedious process. Securing one’s commercial and industrial property for business use is a journey.

In our earlier article in the November-December 2013 issue of the *Entrepreneurs’ Digest* issue, we discussed the 5Ws - *What, Why, Who, Where and When*. That was an overview leading up to your property buying

decision. In this article, we will uncover the financial considerations before deciding on your purchase.

To determine the type of property you will need, such as the location, size, and when you would need the property (as you may have a running lease), the following are questions that will help you in your decision-making-process.

### **How much can you afford monthly?**

When you purchase a property, you will need to pay monthly instalments, monthly maintenance and property tax. One has to be careful that this recurring cost may actually add up to become more than your current monthly rental costs. Your contractual rent could actually be lower than buying your own property, especially if you signed the lease some years back at a rate that you may never get in the open market today. However, if this recurring cost is a burden to your operational cost, then you should review the size of the rented property or choose a more affordable location, while weighing the impact on staff turnover.

### **How much upfront cash do you need?**

When considering a purchase, one often frets about the portion that is not financed by the bank. You have to fork out about 10 – 12 per cent on top of the purchase price to cater for payments that require upfront cash



### **How much do I have to spend to take possession?**

Are you buying new, old, or renovated property? Besides the upfront cash needed for the property transaction, you have to consider the costs for the property to be readily functional as your business space. The renovation considerations vary a lot with the different types of properties (office vs industrial vs retail).

### **What are the costs if I exit the purchase prematurely?**

Many buyers get excited and rush to a decision, especially when faced with a tempting new property launch. However, one may be disappointed when the actual unit turns out to be less space efficient (i.e. the space includes car park lots, void area in the strata floor area). Some may even find themselves stuck with property that does not suit their business requirements if their business expands while waiting for the property to be completed, necessitating a larger space. You may end up making the decision to

keep the property for rent or even sell it off. Depending on the market, you may sell at a gain or a loss. However, do take note that you are liable for seller's stamp duty ranging from 5 - 15 per cent (applies to industrial properties), if you sell the property within three years from your purchase date.

Your real estate business needs change over time. The differing needs of a start-up business, to a SME, and some day, a large company, mean that you have to review your property decision from time to time. One of the best decisions for your business could be purchasing business property that can help you curb rent, with room to re-finance in times of cash flow needs, and perhaps eventually even sell at a profit. After all, a property can be an asset if you manage it well with the help of a business cum real estate consultant. **E**

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such as Goods & Services Tax (if you purchase from GST-registered sellers), conveyancing & mortgage legal fees and stamp duty, and buyer agency fee (if any). If your purchase price is higher than your bank's valuation price, you may have to consider the upfront cash for the top-up.

