

Freehold Vs Leasehold: Which is Better?

SINGAPORE COMMERCIAL SPACE

Getting Started

When it comes to choosing commercial property in Singapore, investors/buyers have the choice between a freehold and a leasehold building. Now, how do you know which one is right for you? Here, we look at the key differences between freehold and leasehold properties and discuss how renters/buyers need to make an informed decision.

What is Freehold Property?

Freehold Property is one where the buyer gets complete ownership of the building and the land it stands on. In Singapore, own freehold property for an indefinite period until you decide to lease or sell the land to someone else.

What is Leasehold Property?

A Leasehold Property refers to temporary ownership of the Property. Here, the person leasing the property only gets ownership of the property for a temporary period. After the lease period is over, the property reverts under the ownership of the lender- in this case, the Singapore Government

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In Singapore, real estate is governed by the Land Acquisition Act, which states that all land is ultimately owned by the Singapore Government. This act came about post-independence and was made to facilitate developmental projects in the country.

Today, private buyers/investors may still purchase freehold properties and take complete ownership of all freehold lands and properties. However, these properties can be claimed back by the Government at any point in time, and the owner will have only a percentage of interest in the land.

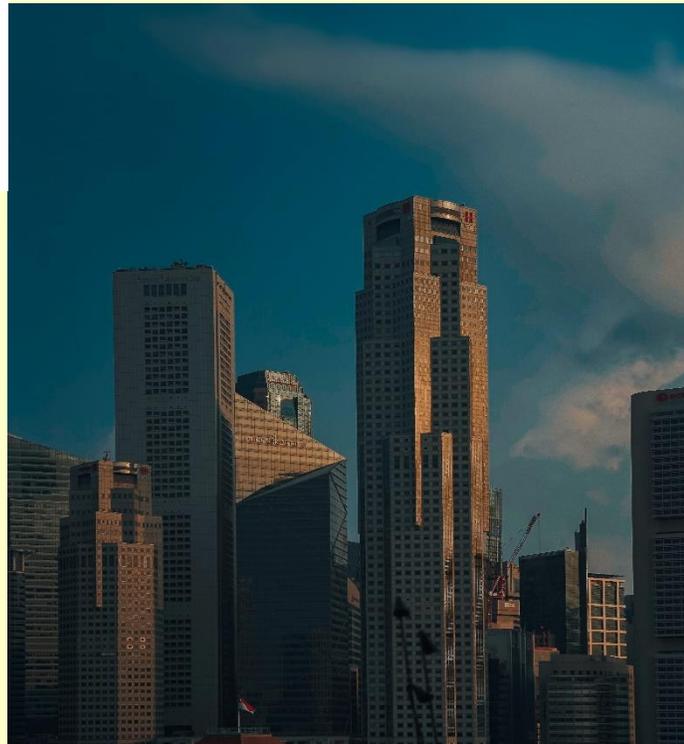
When it comes to leasehold properties in Singapore, the two conventional types of leasehold properties are – the 99-years lease and the 999-years lease. However, lease holdings are becoming more flexible, and you can also find leases that range between 30-years and 110-years. Once your lease expires, the ownership of the property is transferred back to the Government.

When it comes to deciding which type of property is better, there are a few considerations:

- **Property cost**

Given the long ownership duration of the freehold property, all freeholds in Singapore are charged significantly higher than leaseholds. On average, freeholds are priced 25% higher than leaseholds that are comparable in features and structure. However, this price difference can go up by 35% as well, in some cases.

The only leasehold property that is comparable in price to the freehold is the 999-years lease, and that too because of its long holding period. But this type of lease is very rarely available these days, and you will most likely get a 30-years, 60-years, or a 99-years lease.



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- Location

The overall value of any property is determined by its location as well. While you may get many benefits by purchasing a freehold property, such property will lose its value if it's located on the outskirts of the city.

However, a 99-year leasehold that is located near an MRT station or in a Central Business District (CBD) region like Raffles Place, Downtown Core, Museum Planning Area, Marina East, Marina South, River Valley, Newton, Rochor, Orchard, Outram, Singapore River, or Straits View will be a prime candidate for capital appreciation. It will be worth more to you than the freehold because of its excellent accessibility, and if you're planning to give it on rent, you'll certainly get better rental yields.

Overall, the expenses associated with the leasehold become worth because of the property's location.

- Rental yields

While we're on the topic of rental yields, it's important to note that freehold properties yield a lesser rental value than leaseholds.

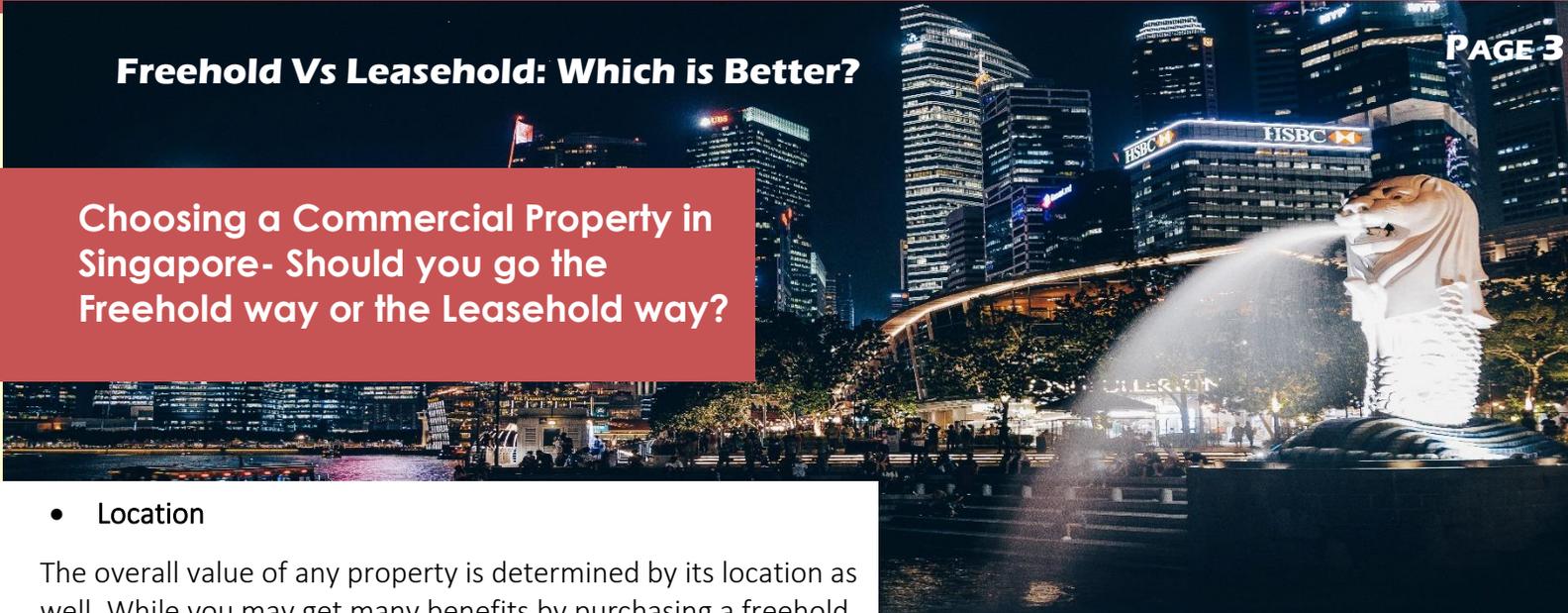
Rental yields are calculated using the below formula:

$$\frac{\text{Annual Rental Income}}{\text{Total cost of the property}}$$

The rent charged on a property, whether it's freehold or leasehold, is the same and is determined based on on-site facilities, location and accessibility to prime amenities.

So, if you are planning to give your freehold property on rent, it will yield you a significantly lesser rent compared to leasehold, because the cost of acquiring the property will have been very high.

However, it's easier to recover leasehold costs within a few years because of the low cost of acquisition.



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- **Value**

When it comes to the overall value in the market, a freehold will be of higher value compared to the leasehold.

Although the freehold building/unit depreciates fast, the land appreciates simultaneously. This can offset losses to an extent. Additionally, as a freeholder, you have the option of upgrading your property and increasing its market value as time passes.

However, with leaseholds, it's been found that leasehold properties begin to depreciate faster after the 21-year mark and still quicker after the 40-year mark. So, by the lease expiry date, the leasehold property may be worth very less. This is especially true if your landlord doesn't upgrade your property with the time and the leasehold is at risk of becoming outdated.

- **Property Grades**

In Singapore, the value of the property depends a lot on the Grade.

Grade A builds developed in the CBD and other premier districts in Singapore possess state-of-the-art amenities, premium-quality finishing, have great accessibility to MRT stations and have a high rental range. (Example, Prudential towers & SBF Centre).

Grade B builds are located in areas where rents are in the middle-of-the-market range. They have good finishing, amenities and facilities, but they may be older. In terms of accessibility, they are not close to the CBD, but not too far on the outskirts either. (Example, International plaza & Oxley Tower).

So, irrespective of whether you purchase a freehold property or a leasehold property, you will be paying very high for Grade A properties. But, at the same time, the value you receive on sale or renting of the property will also be tremendous when you have a Grade A property.



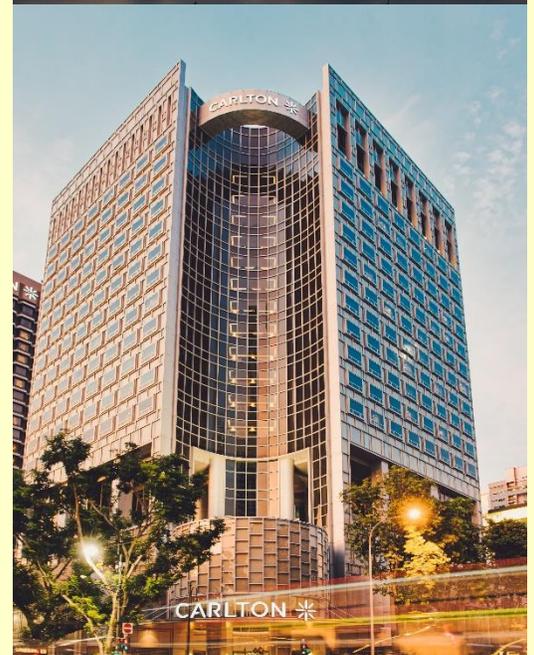
So, which is better if you're planning to invest in Singapore Real Estate?

At the end of the day, as an investor/buyer, you will need to consider what is important for you.

If the primary reason for investment is to rent out the property later, leaseholds are better. Rental yields are much higher in leaseholds. Additionally, the leasehold process in Singapore is similar to other countries, and there will be much less hassle in leasing the property.

However, if you are looking to invest in a property that will appreciate and which you may want to dispose-off in an en bloc later, then a freehold property is much better.

Either way, whether you choose a leasehold property or a freehold property, it's important to look for a property that is located in or closer to the Central Business District (CBD). This will place you in a more favourable position in the long run.





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