
Property Wealth Planning 101
WHEN SHOULD YOU EXIT A PROPERTY INVESTMENT?

When Should You Exit A Property Investment

When analysing a property investment, 2 key factors are of utmost importance on investors' minds - **Capital growth potential and rental returns.**

When a property loses the potential to generate a reasonable capital growth or rental return, an objective and savvy investor will know that it is time to move on and exit the investment.

Such signs of decelerating potential can be derived from data points such lagging growth and rental trends, age of property, end or absence of growth drivers etc. and can serve as a signal to exit your property investment.

Let's take a look at some examples.

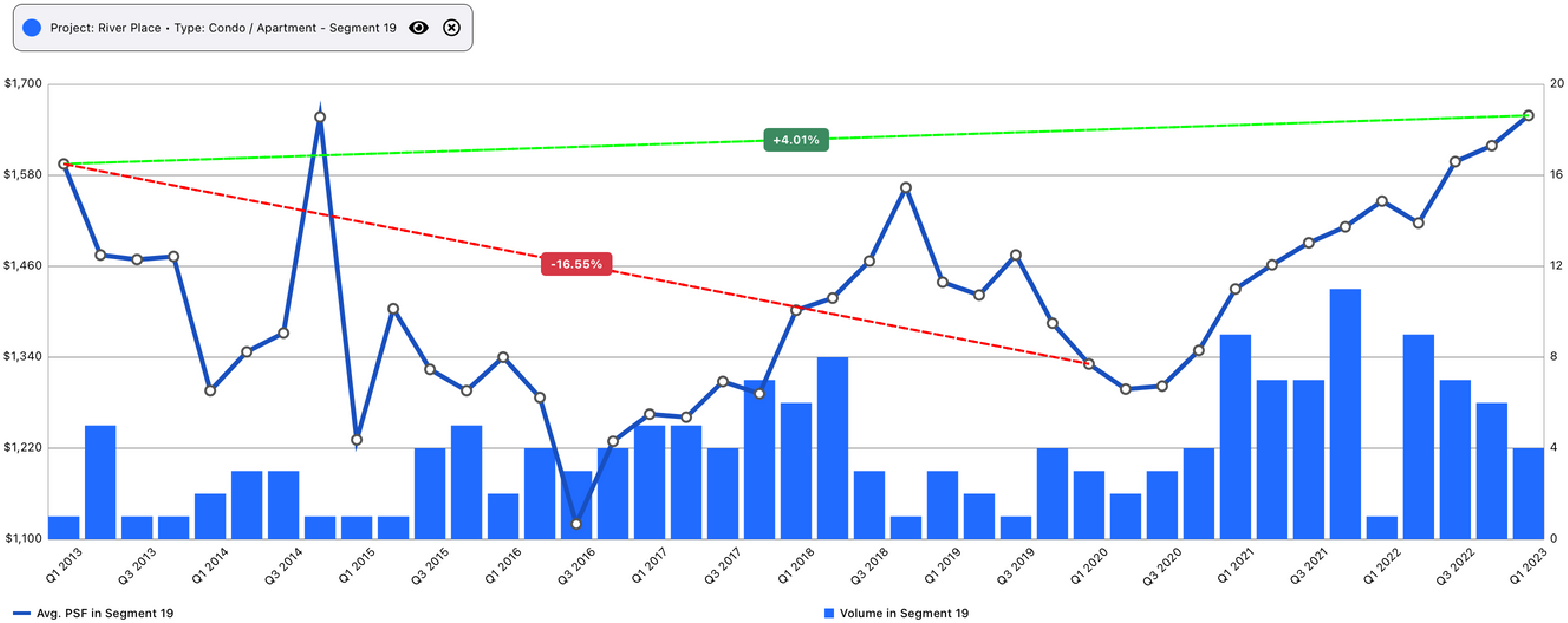
When CPF Interest Costs Exceeds Property Price Growth

Most property buyers use their CPF Ordinary Account Balances to pay for their downpayment and monthly instalments.

Using funds from your CPF O/A account has a cost as you will be losing 2.5% interest that you should be earning if you had not touched it (Cost of funds concept).

Hence, an ideal property investment should **grow at or more than 2.5% per annum** to ensure your retirement funds are growing in tandem with the rising costs of living.

Example: When CPF Interest Costs Exceeds Property Price Growth



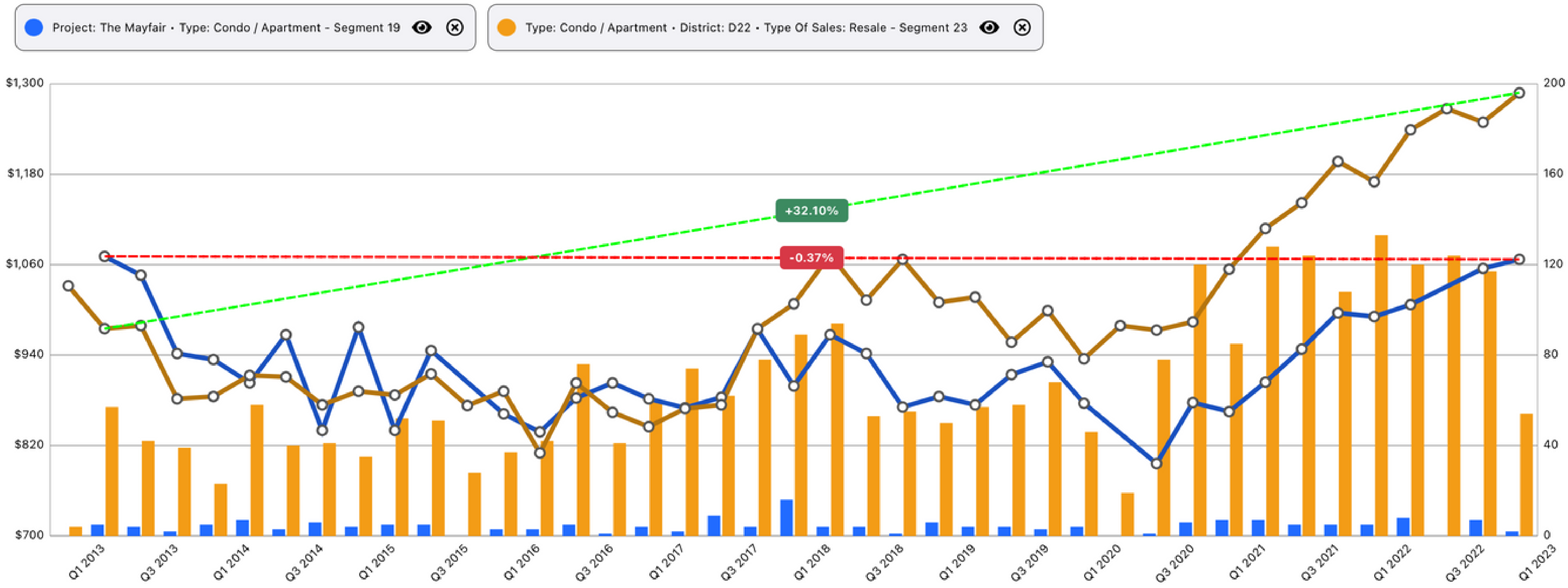
In this example, you can see that an owner of River Place has only enjoyed 4% compounded growth over the last 10 years, which is much less CPF O/A's 10 year compounded rate of 28%.

Effectively, they are losing purchasing power as their funds locked in the property are not growing sufficiently to keep pace with long term inflation expectations.

More concerningly for owners of such properties; had there been no COVID effect, they might not even have seen any growth in the last 3 years.

Owners of such properties should move on as soon as possible to a higher potential asset.

When Project Performance Lags District Growth Trend

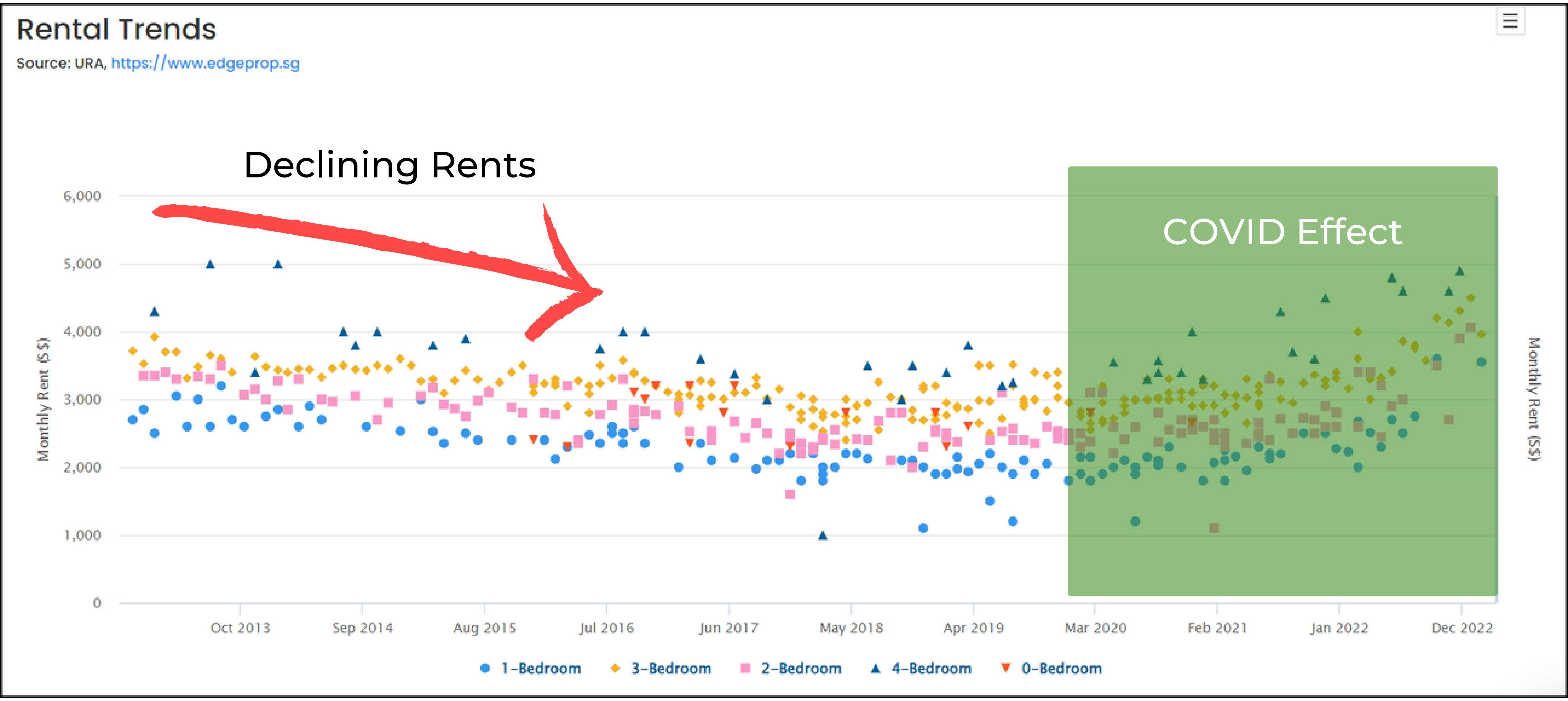


In the example above, we compare the price trends of The Mayfair condominium with District 22 resale price trends over the past 10 years.

Despite the inflationary COVID effect, The Mayfair has still depreciated by 0.37% over the last 10 years as compared to +32.1% growth of resale condos within D22.

The price trend alone can tell us a story but underlying that, it is often due to other factors such as age, layout, condo maintenance issues, declining rents etc.

When Rental Yields Are Declining

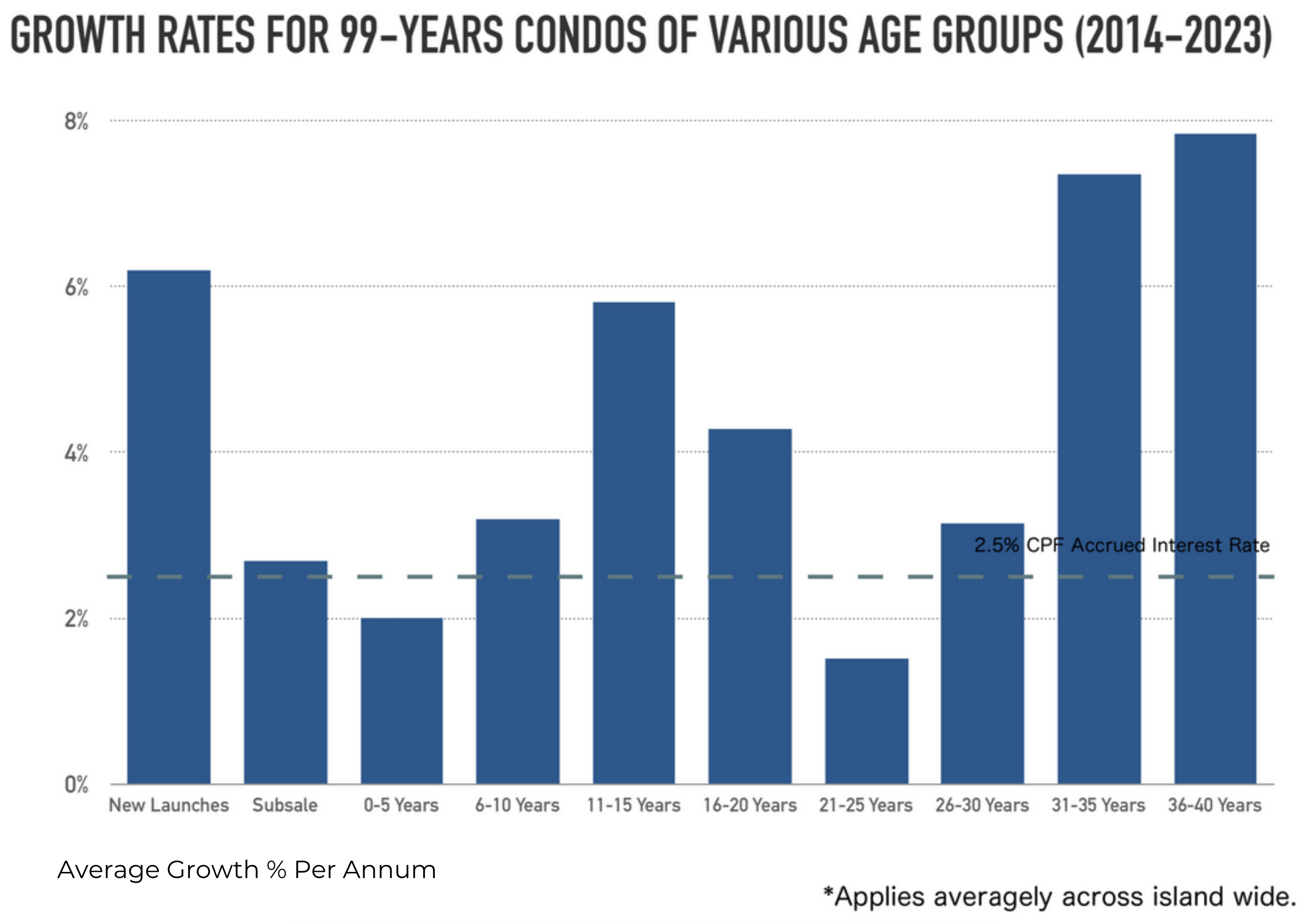


Rental yields affect whether an investor can cash out to the next investor willing to pay a higher price.

The above rental trends for The Mayfair show a corresponding period of rental decline which may have contributed to the project's lacklustre performance between 2013 - 2019.

Investors whose property rents are declining or lagging their neighbourhood can choose to exit and recycle funds to a higher potential property.

When Remaining Tenure's Affects Growth Rates

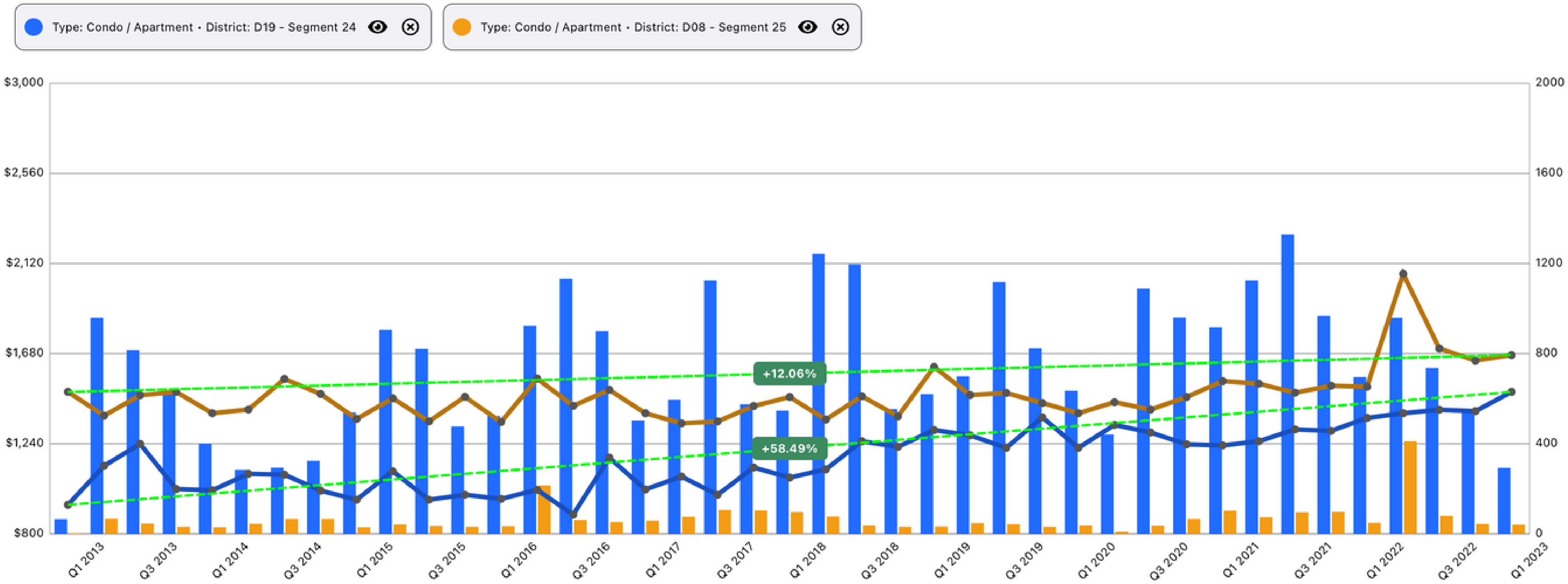


In a recent Feb 2023 study done by NAVIS Research, the age-band of condos correlates to the average capital appreciation of a property.

We observed that the **worst growth years of a property were in their 21-25th years followed by T.O.P to 5th year**. In both baskets of age bands, returns were less than the cost of CPF O/A interests.

Owners with properties in these age bands can choose to exit before or at the point of entering such age bands and **swapping for those in the best age bands.**

When There's A Lack of Growth Drivers



In the example above, we compare the growth trends of District 8 and District 19 over the last decade.

District 19 has experienced very high growth of 58% due growth drivers such as the URA Masterplan's Punggol Digital District and a high supply of MOP HDB upgraders.

District 8, on the other hand, has seen prices grow barely 12% over the same period as it is a mature neighbourhood with much less growth drivers.

Owners of properties in mature estates without much "growth drivers" can opt to recycle their capital into areas where URA has announced major infrastructure rejuvenation in, such as the Greater Southern Waterfront, Beauty World etc.

In Summary

These are some common examples of when to exit a property investment.

There are more factors that may affect the investment potential of a property and deciding when to exit requires a deeper examination on whether further capital growth and rental returns can still be achieved by holding on.

Investors should consider an annual portfolio check up with their realtor to diagnose whether a property in their portfolio is 'past its prime' and no longer an attractive proposition to hold on to.

This way, they can remain nimble and increase their returns by shifting their funds towards higher potential assets.