

PROPERTY INVESTOR GUIDE

# Your guide to buying an investment property



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**FOR  
RENT**

## Finding the right property to invest

The hunt for an ideal investment property can take much time and effort. Then, when you finally find a great deal, you might want to leverage on other people's money to increase your investment returns. At CIMB Bank we understand the power of leveraging to multiply your investment returns and we hope this booklet will be a useful guide for you to make successful investments and build long term wealth.

### How to calculate return on investment

There are two components of returns - rental yield per annum and capital gain.

**Rental yield** per annum is the percentage return based on rental income from the property less expenses incurred to maintain the property versus the total purchase price of the property.

Here is a simple method to calculate the rental yield on property investment.

Assuming you purchase a property for RM650,000 inclusive of legal and other related costs, receive rental income of RM3,800 per month, and in turn, incur total expenses of RM5,400 per year to maintain the property.

The **Gross Rental Yield** would be calculated as follows:

$RM3,800 \times 12 = RM45,600$  per annum rental income  
 $(RM45,600/RM650,000) \times 100 = 7.02\%$  per annum

The **Net Rental Yield** is computed as

$(RM45,600 - RM5,400)/RM650,000 \times 100 = 6.18\%$  per annum

Assuming you take an interest-only loan of RM500,000 to finance the property purchase, and the financier levies an interest cost of 6% per annum fixed for the entire financing tenor. The loan will be repaid on maturity of the financing facility or when the property is sold if it's earlier. The annual interest cost is RM30,000

**Net Leveraged Rental Yield** takes into account your property financing in calculating the rental yield. In this scenario, your capital cost is the difference of purchase price and your borrowing (ie, RM650,000 - RM500,000).

$(RM45,600 - RM5,400 - RM30,000)/RM150,000 \times 100 = 6.80\%$  per annum

**Capital gain**, on the other hand, is a one-time gain (or loss) when you sell your property. It is calculated by subtracting your original purchase price from the selling price.

Following the same example above, if you were to sell the property 5 years later for RM850,000, the **capital gain** would be:

$RM850,000 - RM650,000 = RM200,000$  one-time gain, or  
 $(RM850,000 - RM650,000)/RM650,000 \times 100 = 30.77\%$  over the original purchase price

Taking in to account the leverage (borrowing) effect, the **Leveraged Capital Gain** would be  $(RM850,000 - RM650,000)/RM150,000 \times 100 = 133.33\%$  over the initial capital

The **total return yield** from an investment property is the rental yield plus the capital gain over the investment tenor. Using the preceding example to illustrate,

|                              | Personal Fund(s) | Leveraged |
|------------------------------|------------------|-----------|
| Rental (Net) Yield per annum | 6.18%            | 6.80%     |
| Total Return per annum*      | 11.11%           | 23.52%    |

\* Total Return comprises net rental income and capital gain over the five year investment horizon; computed using the internal rate of return formula

*Caution: Do note the example above does not take into consideration taxation. You should consult your tax accountant to determine any potential tax liability deriving from such property investment.*

### What to look for in an investment property – location, type, rental returns

A great investment property is one that meets your investment objectives such as your target rate of return, investment time horizon and any other criteria you might have.

Main determinants of property value include:

- ▶ Location - this should be assessed with the target market in mind to determine whether there will be demand by the target market for this location. Also research the historical rate of property value appreciation in that particular location for similar properties.
- ▶ Property type and size dimension- residential and commercial properties each have their peculiarities, and dependent on the location, attracts different tenant profiles.
- ▶ Rental Returns - find out how much rent the property can fetch by researching the rental values of similar properties in the area, and ascertain the estimated costs to own and maintain such property.
- ▶ Cash flow - evaluate the property's potential to generate income as against cash outflows. Obvious preference is to have the investment property cash flow positive as soon as possible.

### **Buying your investment property**

The buying process will involve the following activities and decisions

- Determine the type of property to invest - Commercial, residential, land, etc
- Assess financial and borrowing capacity, determine budget and price of property to invest in
- Find your investment property
- Negotiate on purchase price
- Sign Offer of Purchase & place earnest deposit / booking fee
- Complete and execute Sales and Purchase Agreement (S&P)
- Pay balance of deposit
- Apply for bank financing, if required
- Appoint valuer to conduct valuation of the property
- Sign financing facility agreement
- Pay balance of the purchase price
- Get keys to the property
- Renovate
- Source for tenant
- Receive rental income!!

### **Get an ideal loan for your property**

#### **How to finance your investment property – your current cash flow and debt position**

When assessing your financing application the Bank will need to see if you have the income to service the facility and if you were to default, how much of the financing amount can be recovered by force-selling the property. To maximise your financing amount and the number of investment properties for which you can obtain financing you should show that each of these properties are capable of generating rental income that is sufficient to cover the loan instalment amount and other related expense. It is useful to prepare a projected cash flow statement that reflects the timing of your cash outflows and inflows to be sure that you will always be in a position to service your loan on time. Also, potential increase in the market value of your property will reflect a more manageable debt position as your total asset value increases compared to your total liabilities.

### Types of loans to suit every need

At CIMB Bank we look forward to help you achieve your investment goals by providing the finances you need. The loan you apply for will depend on the type of property you are investing in. For example, BizLoan is available for commercial properties only whilst residential properties can be financed by the various Home Loans available such as HomeFlexi, HomeLoan, and Variable Home Financing-i.

If you plan to expand your property investment portfolio further then a flexible financing facility like HomeFlexi or an overdraft type facility will suit you as these facilities offer you the freedom to pay more into your account when you have excess funds and withdraw excess payments from your account when you need extra cash. Extra cash will be useful when you find the next great investment property!

### Property financing packages offered by CIMB Bank

**HomeLoan** - a traditional term loan facility that offers the certainty of paying a fixed amount each month, enabling better control of your monthly expenses. In addition, part of the financing facility can be in the form of an overdraft to provide added flexibility. The Bank offers a high margin of financing and no processing fees.

**HomeFlexi** - a home loan combined with a current account. Suitable for those who have variable incomes and can save more money at different times. With this loan package, you will be able to use your savings to reduce your loan outstanding balance. So the more you save in your account, the more you will be able to reduce your interest. It also allows you to withdraw excess payments which you could use for any purpose.

**Variable Home Financing-i** - a home financing package which is developed based on Islamic principles. The home that you wish to acquire will first be purchased by the bank and subsequently sold to you at a mutually agreed price with a profit margin for the bank. You then pay this price to the Bank via fixed monthly instalments throughout the financing period. The Bank offers a high margin of financing and no processing fee.

**BizLoan** - a traditional credit facility to finance the purchase of commercial properties and offers fixed monthly instalments. In addition, part of the financing facility can be in the form of an overdraft to provide added flexibility. The Bank offers a high margin of financing of up to 90% of the property value.

**BizFlexi** – a business premises loan that offers flexibility in repayment. You can pay more to save interest and yet be able to redraw the excess payment in times of need. The Bank offers a high margin of financing and lower interest as compared to an overdraft facility.

## Managing properties and cash flows

### How to manage your investment property – select an estate agent or do it yourself

Evaluate whether you will manage your investment property or whether you will outsource this task to a real estate agent. Areas that will need to be managed include:

- ▶ Tenants - finding and interviewing new tenants, following up for payment, communicating/negotiating rental increases, and evictions in unavoidable circumstances.
- ▶ Maintenance and repairs - assessing maintenance and repairs required, finding contractors to perform the required work, and following up with inspection and payment for the contractors.
- ▶ Periodic inspection - ensuring tenants maintain the property in good condition
- ▶ Accounting - keeping track of income generated from and expenses incurred for the property.

### Managing cash flow

- ▶ It is most crucial to expeditiously get into a position where the property is in a 'cash flow positive' state. That is, the rental income is sufficient to meet all outgoing expenses related to the property. This would be ideal as the property would be self funded.
- ▶ Cash flow needs to be managed on an ongoing basis to ensure rental income is collected on time and outflows are managed to avoid or minimise incidents of negative cash position.
- ▶ Timely payment of financing instalments is also important to avoid incurring penalties / unnecessary late interest charges, and to maintain credible credit history.



## Factoring in the element of investment risk

The total return and projected cash flow from the investment can be adjusted to factor in the risks associated with property investments. Investment risks such as non-payment of rental by the tenant, increase in property maintenance/management costs and whether or not these can be passed on to the tenant, economic downturn adversely affecting property value and increase in interest rate, etc.

### Financial Risk

The major risk in property investment is the non receipt of rent for a prolonged period due to tenant issues or economic downturn, which may also adversely affect the property value. The worst case scenario is a sharp decline in property value resulting in negative equity of the property ownership, coupled with non receipt of rent. Negative equity is a situation where the property value is lower than the amount owing to the financier.

You could mitigate such risk by having other income stream or holding some fund reserve to cover your monthly loan instalments. In addition, balance such financial risk by lowering the margin of finance on the property financing to reduce monthly instalment and reduce the exposure to the risk of negative equity.

## Managing your tenants

### How to manage your tenants

Tenants should be managed firmly, fairly and professionally. You might decide you have the time and energy to manage the tenants in a handful of your investment properties but if you have a large portfolio or properties in various towns, cities, states, or even countries then it might be more feasible to appoint a real estate agent to manage the tenants for you.

A critical starting point in managing tenants is the selection of a tenant. The area which your property is located will attract certain types of tenants. You should interview prospective tenants. If possible, obtain reference checks from their past landlord(s).

Another key area of tenant management is in the area of following up for payment. You should be firm and professional about this. If the tenant misses the payment due date then immediately call the tenant to follow up for payment.

### The tenancy agreement

The tenancy agreement should state the name, address and identification of both the tenant and the landlord, indicate the address of the property for rent, state the monthly rental amount and advance deposit, and state the start and end date of the tenancy. The agreement should also clearly state the condition of the property which you expect the tenant to leave it in when he/she moves out and if this is not done then the agreement should refer to the withholding of a deposit amount. You should consult your estate agent and legal counsel before signing the tenancy agreement.

## Jurisdiction and tax implications

Taxes that relate to property investors include, among others, income tax, stamp duty and assessment tax (cukai pintu). You should be aware of the tax laws of your country of origin/citizenship as some countries impose a tax on income and capital gains originated from property investments in foreign countries.

### Regulatory requirements on disclosure, tax requirements

Income generated by your investment property is taxable and comes under the description of “rent, royalties and premium”. It is the duty of a taxpayer in Malaysia to submit a full and complete return of income every year and to pay any income tax liability arising from this income. To do so you need to know what type of income is taxable and what expenses can be deducted in calculating tax liability. A general test of deductibility is to ascertain whether the expense is wholly and exclusively incurred for the purpose of earning the income concerned and is not an expense of a personal or private nature. Examples of deductible expenses are property management fees including real estate agent charges to collect rent, assessment tax and quit rent, repairs and maintenance, insurance premiums for the property, and cost of utilities which are packaged into the rental amount.

In addition, interest on monies borrowed to finance the acquisition of an income producing property is a deductible expense.

Maintaining complete records is crucial to ensure proper submission of tax returns each year.

You are advised to consult your tax accountant for details of taxation requirements and potential tax liability specific to your circumstances.

## Realising investment gains

### When is it a good time to sell?

It could be argued that it is rarely a good time to sell if you are investing in property to build long term wealth. Over time, the rental income generated by good investment properties should help repay the loan which means you can leverage on this property again to increase your investment capital. Having wealth creates more wealth.

There might be times though when you decide you need to realise your investment gains by selling the investment property. In such situations you should calculate your overall return on investment to be sure you have met your investment objective. See earlier section on 'How to calculate return on investment'.

Plan in advance of 12 months or more if you intend to sell your investment property. Selling under pressure of time will always be a disadvantage for the vendor.

## How to sell

When you sell your investment property you will want to do so at the highest price possible. With this in mind, consider from the prospective buyer's perspective what he/she is looking for in the property. If the prospective buyer is looking for an investment property then it is important to have a tenant in your property that is paying rent at no less than the market rate. An investment property with a paying tenant is worth more than a vacant property. You might also want to enhance the property in a cost effective way to make it more attractive.

## Selling your property

| What to expect                                 | when selling                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Search and find</b>                         | ➤ Proactively search for a buyer through real estate agents, advertising in newspapers and online, putting a “for sale” sign on your property, and word-of-mouth.                                                                                                                                                                                                                                              |
| <b>Appoint Valuation Company</b>               | ➤ As mentioned above, consider appointing a valuer to make a formal valuation to validate the price you are asking for.                                                                                                                                                                                                                                                                                        |
| <b>Redecorate</b>                              | ➤ You might want to touch-up, repaint and freshen-up the existing property before you put it up for sale. This may help you fetch a better price and/or help you sell the property faster.                                                                                                                                                                                                                     |
| <b>Negotiate on purchase price</b>             | ➤ Have a price range to work with when negotiating and be clear on the minimum price you are willing to let go of the property.                                                                                                                                                                                                                                                                                |
| <b>Making the offer</b>                        | ➤ Sign the offer of purchase and take the earnest deposit from the buyer.                                                                                                                                                                                                                                                                                                                                      |
| <b>Sale &amp; Purchase Agreement (S&amp;P)</b> | ➤ Appoint a lawyer experienced in property transactions or one that is on the Bank's panel to manage all the legalities and documentation associated with the S&P. The buyer's lawyer will communicate with your lawyer requesting for various documents e.g. redemption letter (if your loan has yet to be settled), various letters of undertakings, confirmation of differential sum settled, and so forth. |
| <b>Receive balance of deposit</b>              | ➤ There should be a specified timeframe to receive the balance of the deposit from the buyer e.g. date of signing the S&P.                                                                                                                                                                                                                                                                                     |

|                                          |                                                                                                                                                                                                                                                                                          |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Bank financing</b>                    | <ul style="list-style-type: none"> <li>➤ The outstanding loan balance that you owe the bank, if any, will need to be settled before the property can be legally transferred to the buyer.</li> <li>➤ The buyer's lawyer will liaise with your lawyer to redeem your property.</li> </ul> |
| <b>Receive balance of purchase price</b> | <ul style="list-style-type: none"> <li>➤ Follow up with your lawyer to confirm payment is received from the buyer's lawyer.</li> </ul>                                                                                                                                                   |
| <b>Transfer of tenancy agreement</b>     | <ul style="list-style-type: none"> <li>➤ If applicable, the S&amp;P shall include a clause to transfer the tenancy agreement to the new owner and assign the tenancy agreement to the new owner.</li> </ul>                                                                              |
| <b>Release the keys</b>                  | <ul style="list-style-type: none"> <li>➤ Prior to handing the keys over to the buyer you should receive full payment for the sale.</li> </ul>                                                                                                                                            |

Fees and charges that you might encounter in the selling process include real estate agent fees, valuation fees, advertisement charges, legal fees for the S&P including stamp duties and other related 3rd party charges if these are not borne by the buyer, and contractor's charges for renovations made.

## If you are a foreigner

### **Additional requirements for foreigners - additional information, financing limits & regulatory requirements**

Foreigners who plan to set up a home in Malaysia can purchase residential property valued at RM250,000 and above, without needing to obtain approval from the Foreign Investment Committee (FIC). If the property value is below RM250,000 then approval must be obtained from the FIC. CIMB offers financing to foreigners residing in Malaysia to purchase their homes and foreigners who do not reside in Malaysia but wish to invest in a residential property in Malaysia. At CIMB Bank we also offer the Malaysia My Second Home (MM2H) Financing package which is available to foreigners who participate in the MM2H programme\*. The MM2H Financing package is for completed residential properties with Certificate of Fitness at minimum prices of RM250,000 and offers loan tenures from 5 years to 20 years or up to 70 years of age, whichever is earlier, with a margin of financing of up to 85%. To apply, bring the completed application form (available from [www.cimb.com.my](http://www.cimb.com.my)) together with your passport, letter from the Ministry of Tourism certifying participation in the MM2H programme, S&P and income plus employment documents, where applicable, to your nearest CIMB Bank branch.

*\*For more information about MM2H programme visit [www.mm2h.gov.my](http://www.mm2h.gov.my).*



## Face to face with our CIMB Home Loan Consultant

### How to contact CIMB Bank to discuss your financing needs - what you can expect

A face to face discussion with our CIMB Home Financing Consultant gives you the opportunity to have all your detailed financing questions answered. To prepare for the discussion you should print and fill up the property financing application form (downloadable from [www.cimbbank.com.my](http://www.cimbbank.com.my)) and bring this together with the required supporting documents. Documents required are photocopy of NRIC, latest 3 months bank statements, latest EA Form/Form B with proof of tax payment/EPF Statement, sales and purchase agreement or booking receipt or copy of the title deed, valuation report (if available) and latest loan/financing statement (if refinancing). On top of that, if you are a salaried applicant, you must also present your latest 3 months' salary slip and letter from employer. On the other hand, if you are self-employed applicant, additional documents that you need to provide are profit and loss statement and business registration A&D or Forms 24 & 49.

## How to apply

### Here's how you can find out more:

- ▶ Visit any of our CIMB Bank branch and speak to our sales staff.
- ▶ Visit [www.cimbbank.com.my](http://www.cimbbank.com.my)
- ▶ Call **1 300 880 900** from 7 a.m. to 11 p.m. daily including holidays, for enquiries about our financing facilities and other products.
- ▶ Call **1 300 880 900** or visit [www.cimbbank.com.my](http://www.cimbbank.com.my) to arrange for our CIMB Bank Home Financing Consultant to meet with you.

Property financing application forms can be downloaded from [www.cimbbank.com.my](http://www.cimbbank.com.my), obtained at your nearest CIMB Bank branch or from any of our CIMB Bank Home Financing Consultants.

### Important Notices

*This booklet provides general information current as at the time of production. The information in this booklet is intended as a guide only; it is not intended to be a substitute for professional advice and should not be relied upon as such.*

*All application for loans are subject to CIMB's normal credit approval criteria. Terms and conditions, fees and charges apply.*

*This material does not take into account your personal need and financial circumstances and you should consider whether it is appropriate for you.*

