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## Q&A: Should I invest in the property or just leave my money in the bank?



**Dr Peter Yee** started out as an educator. Along the way, he attained a long list of degrees including a Doctorate in Business Administration (DBA) from Golden State University, USA, majoring in Investment Management, a Master in Business Administration (MBA) from the University of Dubuque, USA, a Diploma of Computer Education from Hyogo University, Japan and a Bachelor of Science (Hons) in Chemistry from the National University, Malaysia.

Over the years, he became a management training consultant, stock broker/remisier, restaurant owner, property investor and property investment coach. Today, he is financially free and has "retired" from full-time work. Yee is the author of property investment books titled, *You Can Become Rich in Property* and *The Certain Way to Life's Riches*.

He runs *How to Make Money from Residential, Commercial and Auction Property* workshops in Malaysia. For more information on upcoming workshops, SMS < Your Name > to **017-2491077** or visit **www.balancelifesuccess.com**

Hi,

I have bought a double-storey house 2 years ago and have been servicing the bank loan for 15 years. I managed to pay up 2/3 of the purchasing price up to now. Recently, I came across an apartment in a quite strategic area that costs RM150,000. The rental can fetch up to RM850 for unfurnished and RM1,300 for fully furnished.

Meanwhile, my monthly installment will be only around RM700, which means that I still will earn extra, no matter if I rent it out unfurnished or fully furnished. Since I have extra money in bank which is just enough to pay for the down payment, legal fees and etc, and since I don't see that I am in need of using this money in this period of time, do you think it is appropriate for me to invest in this property rather than just leaving my money in bank?

Do you think this is a good investment, seeing that the 3 newly completed blocks will have 1,020 units.

I am not sure whether the unit can be rented out or not. Please advise.

TQ.

Regards,  
**Kevin**

Dear Kevin,

*We are guessing that you are staying in the double-storey terrace/link house as your own home, as there was no mention of rental or a tenant. Good job that you have managed to pay up 2/3 of the purchase price within 2 years and still have savings for the down payment for an apartment which you intend to buy for RM150,000. By doing so, it implies that you are probably a highly paid and prudent person.*

*In general, landed residential property in Klang Valley has appreciated in the range of 20 to 30% within the last 2 years. Would it be true to say that your double-storey landed residential has also appreciated in price? If you wish to become a property millionaire by building on what you already have, here are my suggestions:*

*Firstly, pull out as much equity from the double-storey house by restructuring the house loan to a flexible loan. Stretch the loan as long as possible, provided that the monthly loan repayment is less than 30% of your total income. For your case, you probably will be able to take out approximately RM100,000 equity from the double-storey link house. You may consider restructuring your loan to a flexible loan which includes an overdraft (OD) loan. For example; RM100,000 loan, it may be in the form of RM50,000 fixed loan (BLR - 2%) and RM50,000 OD loan (BLR - 1.6%). Please consult your mortgage broker or banker for the latest loan figures and amount that you are entitled to.*

For the OD portion, you only pay interest when you use the OD loan. The OD loan's interest can be reduced by putting all your savings into the OD account. The OD account can be used as "emergency funds" as well as investment opportunities. As the interest rate of the OD loan is higher than the fixed loan, it will motivate you to reduce the OD loan by being a better money manager, spending less on unnecessary consumer products and putting your surplus into the OD account to reduce interest payment.

Do not be overly concerned about the interest from extending your loan tenure. For a landed residential property, the capital appreciation is faster and much more than the increase in interest. From my experience, I bought my first double-storey terrace home for RM99,000 and sold it for RM180,000 after 10 years. My second bungalow home was bought for RM365,000 and sold for RM640,000 after 10 years. One of my workshop participants bought her bungalow for RM150,000 and sold for RM5 million after 30 years.

The extra cash of about RM100,000 that you pull out from restructuring your loan can be used for the down payment for a few apartments, as long as each unit is a 'positive cash flow' property. Whatever you OWE today will be what you OWN when your loan has been settled. Your tenant is helping you to pay off the loan. Borrow to the maximum, learn how to invest effectively and manage your tenant efficiently. Eventually, you will become the next property millionaire!

With regards to your e-mail about investing in the RM150,000 apartment, an unfurnished unit with a monthly rental RM850 will provide a gross yield of 6.8%. For a furnished unit with renovations costing up to RM50,000, if the monthly rental is RM1,300 then the gross yield will be 7.8%. Something that you should consider (even though a furnished unit may have a higher yield) is the loss of rental income during renovation and your time in managing the renovations. From my experience, for investment in apartments, the lower rental of an unfurnished unit is easier to rent out than furnished units. Furniture and fittings spoil over time due to wear and tear. I prefer investing in unfurnished apartments because of the lower purchase price and relative ease in renting out these types of units.

For a newly completed apartment block of 1,020 units, we can estimate that 30% (or 306 units) are bought by investors. Therefore, in the first few years, you may have to compete with other investors to rent out your apartment, thus the rental may not be as good for the first few years.

From my experience, it is better to purchase a ready-built apartment in a mature area that is about 10 to 20 years old, where the occupancy rate is already more than 90%. The high occupancy rate is important to ensure a consistent return from your investment.

Happy investing and I hope that you will become the next property millionaire!

Cheers,  
Dr Peter Yee

Do you have a property-related question? Send an email to [contents@starproperty.my](mailto:contents@starproperty.my). Selection of question(s) to be answered is at the sole discretion of StarProperty.my.

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