

# Counting Down to Zero: Are There Alternatives to VERS?

A Workers' Party Working Paper on HDB resale prices



# Foreword

In excess of 80% of Singaporeans live in HDB flats, with the overwhelming majority relying on their CPF ordinary balances to pay the mortgage of these 99-year properties. In time, some Singaporeans go on to upgrade and purchase private property. The majority, however, either remain in the HDB cycle of upgrading or downgrading within the public housing market, or re-purchase public housing by the time they retire.

With many Singaporeans entering their golden years, the knowledge of their HDB flats steadily losing value before reaching zero can become a significant source of mental stress and insecurity.

Are there alternatives to better preserve or retain the wealth locked up within older HDB flats so the Singaporeans that reside within them are able to have better peace of mind?

This working paper takes a look at the evolution of Singapore's housing policies over the decades. Thereafter, it proposes the principles that ought to underpin a robust public housing policy for Singapore in the decades to come, and considers what can be done about falling HDB resale prices.

Without the insights and information available to national development policymakers, alternative housing options can prove challenging to develop. The Workers' Party Policy Team consulted with real estate experts, industry professionals, members of the public and organized a panel discussion on housing before drafting this working paper.

In raising alternative proposals, the team consciously sought to consider alternatives and proposals that ought not to portend uncertainty and wild fluctuations in the property market. We thank everyone for your contributions and aim to fine-tune and improve this paper.

We look forward to your feedback and suggestions.

Workers' Party Policy Team

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# Introduction

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"85 percent of Singaporeans are living in HDB flats and we intend to keep the values of these homes up. It will never go down."

Mr Lee Kuan Yew, 19 March 2013<sup>1</sup>

"In fact for the vast majority of HDB flats, the leases will eventually run out, and the flats will be returned to the HDB, who will in turn have to surrender the land to the State. As the leases run down, especially towards the tail-end, the flat prices will come down correspondingly."

Mr Lawrence Wong, March 2017<sup>2</sup>

Singapore's housing policies are a key pillar in the official narrative of the country's post-independence history.

This narrative extols the fact that 80 percent of Singaporeans are housed in good quality public housing, with an overall 90 percent home ownership rate. Homes serve as a "nest egg" for retirement, one that is hedged against inflation.

Our country's housing success is sometimes compared with other countries, where most citizens rent their homes. This can be seen as placing them at the mercy of landlords, without the opportunity to enjoy the asset appreciation and autonomy that is associated with home ownership.

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<sup>1</sup> Singapore, Redwire. "Lee Kuan Yew Promised in 2013: The Value of HDB Flats Will Never Drop." *RedWire Times Singapore*, May 18, 2018, <https://redwiretimes.com/singapore-in-brief/lee-kuan-yew-promised-in-2013-the-value-of-hdb-flats-will-never-drop/>.

<sup>2</sup> "Don't Assume All Old HDB Flats Will Become Eligible for Sers, Cautions Lawrence Wong." *The Straits Times*, March 24, 2017. <https://www.straitstimes.com/singapore/housing/dont-assume-all-old-hdb-flats-will-become-eligible-for-sers-cautions-lawrence-wong>.

However, in recent years, it has become apparent that while there are many positive elements about the current housing system, there is a growing realization of its shortcomings and gaps. This has prompted many Singaporeans to consider other models or approaches towards public housing in Singapore. This engagement is to be applauded.

- Since the inception of the HDB, the prices of new HDB flats have risen against median incomes.<sup>3</sup> The bulk of this money paid for new flats (approximately 60 percent nowadays) is ultimately paid back to the state for the use of the land.<sup>4</sup> This land sold by the state to HDB was largely cheaply acquired by the state in previous decades.<sup>5</sup> Revenues from these land sales are locked up in national reserves, and only a small portion of these monies are directly usable by the government of the day via the Net Investment Returns framework.<sup>6</sup>
- 99-year leases mean that resale values will decline over time until they reach zero. This tendency is heightened by a longer-term supply-demand gap – BTO flats are built at a steady pace for new families but the older flats are still in existence. These older flats will increasingly be sold as the population ages. Since the total population is not growing substantially, this structural imbalance will tend to push resale prices down over time. This prospect is reinforced by the fact that only a tiny proportion of HDB blocks will be selected for the Selective En-bloc Redevelopment Scheme (SERS).<sup>7</sup>
- HDB flat owners cannot initiate collective sales as their legal status is akin to tenants of the HDB, without strata titles.<sup>8</sup>
- Mortgage loans for the purchase of HDB flats tend to be financed out of Central Provident Fund (CPF) Ordinary Accounts (OA). Linking mortgages to the CPF leads to insufficient CPF pay-outs upon retirement for some Singaporeans.
- Having to service a large mortgage loan for their HDB flat exposes lower and middle-income Singaporeans to several risks. The foremost risk is insufficient retirement adequacy, as described above. Second is the possibility of their flats being repossessed (or subject to a forced sale) should they become unemployed and unable to service their loan. Third is the risk of negative equity should resale prices plunge and/or interest rates rise. These risks may weigh

<sup>3</sup> Ho, Fiona. "HDB Home Prices Then and Now." *Yahoo! Finance*, August 8, 2018. <https://sg.finance.yahoo.com/news/hdb-home-prices-then-now-130000490.html>

<sup>4</sup> "Lawrence Wong on Land Cost in Developing BTO Flats." *Channel NewsAsia*, January 15, 2019. <https://www.channelnewsasia.com/news/parliament/videos/january/lawrence-wong-on-land-cost-in-developing-bto-flats-11124954>.

<sup>5</sup> Wei Neng Wu, *Land Acquisition and Resettlement: Securing Resources for Development*, First edition, Urban Systems Studies (Singapore: Centre for Liveable Cities, Singapore, 2014), <https://www.clc.gov.sg/docs/default-source/urban-systems-studies/uss-land-acquisition-and-resettlement.pdf?%20Pg%2016-18>, p. 29.

<sup>6</sup> Only up to 50% of net investment returns on past reserves can be used by the government, under the Net Investment Returns framework.

<sup>7</sup> Chua, Louis, and Teh, Nicholas. "Singapore Property Sector - Opening the HDB Pandora's Box", *Credit Suisse*, September 18, 2018, p. 11.

<sup>8</sup> This may be changed by the new VERS policy, the full details of which are not yet available.



on Singaporeans and make them too risk-averse to address the challenges of the 21st century economy, which increasingly calls for calculated risk-taking for the sake of reskilling, transitioning to new industries, innovation, and entrepreneurship.

- The government's solutions to these problems are varied and many. These include the Lease Buyback scheme, "right-sizing" of flats with Silver Housing Bonus (SHB), and the possibility of renting out flats or rooms. In recent statements, the government has moved away from the notion of HDB flats as an ever-appreciating asset. Instead, it has announced a new scheme to allow some owners to opt into early redevelopment, also known as VERS.
- Assessing these developments, we wish to start a conversation about whether the existing housing policies and the recently announced tweaks best serve the needs of Singaporeans; and if not, how can they be improved.

Some economists argue that the current policy emphasis on HDB asset enhancement encourages an unhealthy over-consumption of housing,<sup>9</sup> resulting in some of the side effects described above.

Have Singapore's housing policies evolved sufficiently to meet our changing needs? In this 21st century, our country faces new circumstances and fresh economic challenges. Our people's aspirations have naturally evolved. Our Total Fertility Rate (TFR) has stubbornly remained one of the lowest in the world, an existential issue facing the Singaporean nation.

In the next phase of our housing story, what is to be done? In this working paper, we review our current housing policies, introduce the guiding principles that govern our view towards housing policy reform and offer a number of potential approaches that seek to consider the problems generated by the current policy approaches to housing. These ideas are offered as a contribution to the conversation that Singaporeans must have about the future of housing in light of the fact of HDB lease decay.

We welcome public feedback, including the policy options that are preferred or suggestions for other options.

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<sup>9</sup> Jin Meng, Tan. "Commentary: An over-Emphasis on Home Ownership Can Come at a Cost to Society. Time for a Review of Public Housing Policy." *Channel NewsAsia*, June 17, 2018. <https://www.channelnewsasia.com/news/commentary/emphasis-home-ownership-hdb-lease-review-of-public-housing-10423116>; Abeyasinghe, Tilak, and Jiaying Gu. "Lifetime Income and Housing Affordability in Singapore." *Urban Studies*, vol. 48, no. 9, July 2011, p. 1888. [https://tsaofoundation.org/doc/2011lifetime\\_income\\_housing\\_affordability.pdf](https://tsaofoundation.org/doc/2011lifetime_income_housing_affordability.pdf); Ong, Andrea, and Maryam Mokhtar. "Asset-Rich, Cash-Poor Retirees Speak Up," *The Straits Times*, December 3, 2013, <https://www.straitstimes.com/singapore/asset-rich-cash-poor-retirees-speak-up>.



# Our public housing journey: the history of post-independence housing

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Housing a nation is a tremendous public policy challenge. Before we begin to think about tackling this challenge, we have to look at Singapore's history of public housing post-independence.

## Housing a nation: 1960 to 1990

Singapore faced a multitude of challenges in our founding years as an independent nation. We faced a chronic housing shortage coupled with an immature private home sector.

### The measures

The foundations of our housing policies were laid in the 1960s by three key events. These were:

- (1) The establishment of the Housing and Development Board (HDB) in 1960;
- (2) The introduction of the Land Acquisition Act (LAA) in 1966; and
- (3) The expansion of the role of the CPF Board to become a housing financing institution in 1968.

The Singapore Improvement Trust (SIT), created in 1927 by the colonial government, built a mere 21,000 dwelling units from 1947 to 1959, housing only some 8.8 percent of our population. In comparison, the HDB built 31,317 flats within three years of its inception in 1960.

HDB flats were initially available only for rental. Only in 1964 were HDB flats available for sale on 99-year leases, under a "Home Ownership for the People" scheme.<sup>10</sup>

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<sup>10</sup> Lee, Kok Fatt. *Singapore's Fiscal Strategies for Growth: A Journey of Self-Reliance*. (New Jersey: World Scientific, 2017), p. 137.





The Land Acquisition Act (LAA) in 1966 allowed the state to acquire land for any public purpose or for any works that were of public benefit, utility, or interest, at pre-set levels of compensation payments. An amendment passed in 1973 set payments independent of market conditions and the landowner's purchase price. Between 1973 and 1987, the compensation for the acquired land was assessed at the market value as at 30 November, 1973, or the date of gazette notification, whichever was lower.

Government land acquisition at below market values in the 1970s greatly facilitated the state's industrialization and housing programs. State ownership of Singapore's total land grew from 44 percent in 1960 to 76 percent by 1985.

In the words of founding Prime Minister Mr Lee Kuan Yew:

“When we were confronted with an enormous problem of bad housing, no development, overcrowding, we decided that unless drastic measures were taken to break the law, break the rules, we would never solve it. We therefore took overriding powers to acquire land at low cost, which was in breach of one of the fundamentals of British constitutional law – the sanctity of property. But that had to be overcome, because the sanctity of the society seeking to preserve itself was greater. So we acquired at sub-economic rates.”<sup>11</sup>

With HDB and the LAA acting on the housing supply front, the introduction and gradual relaxation of CPF rules for housing finance since 1968 provided a demand side push for ownership.

## The result

HDB's housing stock increased rapidly from 120,138 units in 1970 to 574,443 units in 1990, which housed 87 percent of the resident population at the time. The homeownership rate for the resident population increased from 29 percent in 1970 to 88 percent in 1990.

Once again, the motivations and strategic directions for homeownership policies in our founding years may best be inferred from these words of founding Prime Minister Mr Lee Kuan Yew:

“My primary preoccupation was to give every citizen a stake in the country and its future. I wanted a home-owning society. ... I believed this sense of ownership was vital for our new society which had no deep roots in a common historical experience.”<sup>12</sup>

“First, that no private landowner should benefit from development which had taken place at public expense; and secondly, the price paid on the acquisition for

<sup>11</sup> “Housing a nation, building a city.” *Public Service Division*, <https://www.psd.gov.sg/heartofpublicservice/our-institutions/housing-a-nation-building-a-city>. Accessed January 25, 2019.

<sup>12</sup> Lee, Kuan Yew. *From Third World to First: The Singapore Story, 1965-2000*. 1st ed., (New York: HarperCollins Publishers, 2000), p. 117.



public purposes should not be higher than what the land would have been worth had the government not contemplated development generally in the area.”<sup>13</sup>

“Later, I further amended the law to give the government the power to acquire land for public purposes at its value on a date fixed at 30 November 1973. I saw no reason why private landowners should profit from an increase in land value brought about by economic development and the infrastructure paid for with public funds.”<sup>14</sup>

Under the leadership of Mr Lee Kuan Yew, our housing policies in the first 30 years after independence achieved exactly what they set out to do—putting an affordable roof over the heads of Singaporeans. Housing conditions and housing prices grew in tandem with improving wages, thus raising the living standards of most Singaporeans.

## Populism and Popularizing the Asset Dream? 1990 to 2004

By 1990, homeownership was hovering above 85 percent. The focus of housing then shifted to questions of quality. There was a demand for better quality housing, both private and public.

A marked increase in Government Land Sales (GLS) helped fulfil private housing demand, with a corresponding relaxation of HDB resale regulations to allow for housing mobility. This was also when housing policies became more about owning and growing an asset, rather than just acquiring a home. New measures included deregulation of the HDB resale market by introducing housing loans for resale flats, facilitating mobility. HDB estates also underwent physical upgrading, and more demand-side subsidies in the form of CPF grants were given. These, amongst other factors, caused the rapid escalation of flat prices in the early 1990s.<sup>15</sup>

Coupled with good economic performance and the liberalization of financial markets, the early 1990s were a period of euphoria in the property market. Investments in property were seen as sure bets, and prices soared. The housing price index more than tripled between 1990 and 1996.

<sup>13</sup> Singapore Parliamentary Reports, June 10, 1964. [https://www.parliament.gov.sg/parliamentary-business/official-reports-\(parliament-debates\)](https://www.parliament.gov.sg/parliamentary-business/official-reports-(parliament-debates)).

<sup>14</sup> Lee. *From Third World to First*, pp.118–119.

<sup>15</sup> Phang Sock Yong and Kim Kyunghwan. “Singapore’s Housing Policies: 1960-2013,” *Frontiers in Development Policy: Innovative Development Case Studies*, Research Collection School Of Economics., [Workshop, Seoul, November 21-22], p. 136.

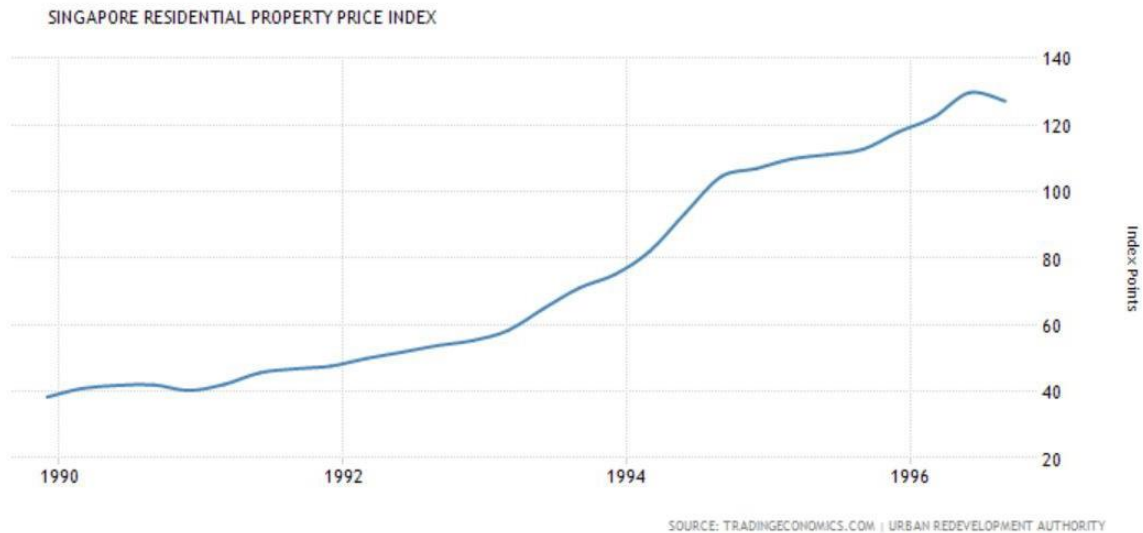


Figure 1. Singapore Residential Property Price Index. Source: Urban Redevelopment Authority

The type of HDB flats available also grew in variety, shifting towards larger flats with better finishing and aesthetics.

Housing policies were introduced to raise the quality and asset value of HDB flats. These policies included:-

- (1) HDB upgrading
- (2) The Selective En-bloc Redevelopment Scheme
- (3) The Executive Condominium scheme

Due to the private property boom, the value of land rose. This had a knock-on effect on new HDB flat prices, since these prices included the price of land, as paid by HDB to the Singapore Land Authority (SLA). This, together with general inflation and construction cost inflation, led to rising prices for new and resale HDB flats.

It was in this context that the HDB flat became seen as no longer simply a home and a stake in the country, but also as an investment asset with an ever-appreciating value. Buzzwords such as “asset enhancement” helped perpetuate the notion of a home as an investment.

The market corrected sharply with the Asian Financial Crisis in 1997. This led to a substantial proportion of the vast HDB housing stock sitting vacant across the country. This experience of unsold flats appears to have left a deep impression on policy makers.

With more than 17,500 unsold new flats in early 2002, the HDB suspended its ‘Registration for Flat’ queuing system, diverting new and remaining applicants to its Built-To-Order (BTO) program, where flats were built only when there was sufficient demand.



The highs and lows of this period marked the beginning of our nation's digression from its founding principles in public housing. <sup>16</sup> Public housing policies moved away from the original focus on affordable housing towards the musical chair dilemma of asset appreciation in the context of an inevitable tendency for resale prices to fall due to fixed term leases.

Established on 1 February 1960, the Housing and Development Board (HDB) was formed for the primary function of managing new and existing buildings, the clearance and redevelopment of slums and urban areas, and the development of rural and agricultural areas for resettlement. These tasks were previously undertaken by the Singapore Improvement Trust (SIT). At the time, the HDB's most urgent task was to provide low-cost public housing to a growing population, particularly low-income groups who lived in high-risk, dilapidated housing structures with overcrowded, unsanitary living conditions. Singapore's rate of natural population increase then was 4.3 percent, that is, about 60,000 citizens added to the population each year. A major focus of the HDB was to provide affordable housing for low-income families. The government rented out HDB flats at \$20 per month (estimated to be no more than 20 percent of the average wage earner's monthly income) to address this need.

The introduction of the BTO scheme to deal with the vast HDB flat stock sowed the seeds of a housing supply policy that was less able to anticipate or co-ordinate future housing demand surges.

## Chasing Tails – 2004 to 2015

When Mr Lee Hsien Loong became Prime Minister in 2004, Singapore's housing market and the economy were weakened by the Asian Financial Crisis, the dotcom crash in 2000 and the SARS outbreak in 2003. Reacting to past experiences, the supply of new HDB flats was curtailed. The number of HDB dwelling units increased by a mere six percent over a ten year period between 2000 to 2010, while the total population increased by around 26 percent in the same period.

<sup>16</sup> "The Housing and Development Board Is Established - Singapore History," *HistorySG*, August 2015, <http://eresources.nlb.gov.sg/history/events/208d33cc-23c8-4d52-865b-c045d156ff69#1>; "Housing a nation, building a city" (Public Service Division, 2015), <https://www.psd.gov.sg/heartofpublicservice/our-institutions/housing-a-nation-building-a-city>.



**Table 3: Housing Stock, Housing Supply, and Homeownership Rate, 1970–2015**

	Population ('000)	Total Housing Stock	HDB Housing	Private Housing	Persons per Dwelling Unit	HDB Dwellings as Proportion of Housing Stock	Resident Home- ownership Rate
1970	2,075	305,833	120,138	185,695	6.8	39%	29.4%
1980	2,414	467,142	337,198	129,944	5.2	72%	58.8%
1990	3,047	690,561	574,443	116,118	4.4	83%	87.5%
2000	4,017	1,039,677	846,649	193,028	3.9	81%	92.0%
2010	5,076	1,156,732	898,532	258,200	4.4	78%	87.2%
2015	5,535	1,296,304	968,856	327,448	4.3	75%	90.3%
<b>% Change</b>							
1970–1980	16%	53%	181%	–30%	–24%	84%	100%
1980–1990	26%	48%	70%	–11%	–15%	15%	49%
1990–2000	32%	51%	47%	66%	–12%	–2%	5%
2000–2010	26%	11%	6%	34%	14%	–5%	–5%
2010–2015	9%	12%	8%	27%	–3%	–4%	4%

HDB = Housing & Development Board.

Sources: Data from Singapore government publications and websites.

*Figure 2. Housing Stock, Housing Supply, and Homeownership Rate, 1970-2015.*

*Source: Housing Policies in Singapore, ADBI Working Paper Series No. 559 March 2016*

The seven years after 2004 saw the launch of the two casinos, Resorts World Sentosa, and Marina Bay Sands. It also saw a rising population due to an increase in immigration into Singapore.

**Table 1.1 Singapore Population Size and Growth by Residential Status**

Year	Number ('000)					Average Annual Growth <sup>1</sup> (%)				
	Total Population	Singapore Residents			Non- Residents	Total Population	Singapore Residents			Non- Residents
		Total	Citizens	PRs			Total	Citizens	PRs	
1990	3,047.1	2,735.9	2,623.7	112.1	311.3	2.3 <sup>2</sup>	1.7 <sup>2</sup>	1.7 <sup>2</sup>	2.3 <sup>2</sup>	9.0
2000	4,027.9	3,273.4	2,985.9	287.5	754.5	2.8	1.8	1.3	9.9	9.3
2010	5,076.7	3,771.7	3,230.7	541.0	1,305.0	1.8	1.0	0.9	1.5	4.1
2011	5,183.7	3,789.3	3,257.2	532.0	1,394.4	2.1	0.5	0.8	-1.7	6.9
2012	5,312.4	3,818.2	3,285.1	533.1	1,494.2	2.5	0.8	0.9	0.2	7.2
2013	5,399.2	3,844.8	3,313.5	531.2	1,554.4	1.6	0.7	0.9	-0.3	4.0
2014	5,469.7	3,870.7	3,343.0	527.7	1,599.0	1.3	0.7	0.9	-0.7	2.9
2015	5,535.0	3,902.7	3,375.0	527.7	1,632.3	1.2	0.8	1.0	-	2.1
2016	5,607.3	3,933.6	3,408.9	524.6	1,673.7	1.3	0.8	1.0	-0.6	2.5
2017	5,612.3	3,965.8	3,439.2	526.6	1,646.5	0.1	0.8	0.9	0.4	-1.6
2018	5,638.7	3,994.3	3,471.9	522.3	1,644.4	0.5	0.7	1.0	-0.8	-0.1

Notes: (a) '-' denotes nil or negligible.

(b) Data from 2003 onwards exclude residents who have been away from Singapore for a continuous period of 12 months or longer as at the reference period.

<sup>1</sup> For 1990 and 2000, growth rate refers to the annualised change over the last ten years. From 2010 onwards, growth rate refers to the change over the previous year.

<sup>2</sup> Growth rate is computed using population estimates based on *de facto* concept (i.e. the person is present in the country when enumerated at the reference period).

*Figure 3. Singapore Population from 1990 to 2018. Source: Statistics Singapore.*



The sharp increase in population was not matched by a proportionate increase in housing stock. The same period saw a surge in the HDB resale price index, which doubled from 2005 to 2013.<sup>17</sup> This spike in resale values priced out many potential buyers, leading to surging demand for BTO flats, demand that could not be met in the short term as new units needed a three to five year window for construction.

From independence, home ownership affordability has always been a very visible symbol of the government's "ability to fulfil its promise to improve the living conditions of the entire nation."<sup>18</sup> However, with a supply and demand mismatch, low interest-rates, and the assumption that a HDB flat is an ever-appreciating asset, HDB resale prices saw a sharp rebound which in turn led to increasing BTO prices, given the linkage between BTO and resale prices.

In 2007, amendments were made to the Land Acquisition Act, where the use of a historical statutory date for computation of compensation was removed by Parliament. Instead, compensation was pegged to full market value.

The 2011 General Election saw the beginning of a reversal of policies by the government. The perceived unaffordability of housing, one of the key grievances aired prior to the election, led to changes in several areas. Two key measures were noteworthy:

- (1) the decoupling of BTO prices from resale prices in 2013; and
- (2) the increase in new housing supply.

Since 2011, HDB tried to catch up with the demand for flats with an expedited pace of HDB BTO launches.

Another growing concern was the increased focus on retirement adequacy as the population continued to age. The notion of "asset rich but cash poor" surfaced as early as 2002 through the government's Economic Review Committee. A typical household in Singapore would have invested a large portion of its wealth in housing. According to one analysis, the average worker in Singapore is likely to be "asset rich and cash-poor" with 75 percent of his retirement wealth in housing assets upon retirement, with the assumption of stable or rising home values.<sup>19</sup> With a high homeownership rate and aging homeowners, there was a need for pathways to monetize their housing assets.<sup>20</sup>

This gave birth to the Lease Buyback Scheme, introduced in 2009 to aid qualifying seniors residing in three room HDB flats to monetize their flat. This scheme was enhanced in 2014 to include four room HDB flats and enhanced further in 2018 to include five-room and bigger flats. However, due to

<sup>17</sup> "HDB Resale Price Index," *Data.gov.sg* (Data.gov.sg, November 8, 2019), <https://data.gov.sg/dataset/hdb-resale-price-index>.

<sup>18</sup> Chua, Beng Huat. *Political Legitimacy and Housing: Stakeholding in Singapore*. (London ; New York: Routledge, 1997), p. 139.

<sup>19</sup> McCarthy, David, Olivia S. Mitchell, and John Piggott. "Asset Rich and Cash Poor: Retirement Provision and Housing Policy in Singapore." *Journal of Pension Economics and Finance* 1, no. 03 (November 2002). <https://doi.org/10.1017/S1474747202001130>.

<sup>20</sup> Sock Yang, Phang. "Monetizing Housing for Retirement in Singapore." *Research Collection School Of Economics*, 2015. [https://ink.library.smu.edu.sg/soe\\_research/2128/](https://ink.library.smu.edu.sg/soe_research/2128/).

qualifying restrictions and protracted pay-outs, among other factors, the LBS scheme take-up rate was and remains low.

In short, the approach towards housing after 2004 under Prime Minister Lee Hsien Loong allowed HDB resale prices to rise amidst a rapidly growing population in the late 2000s, which was often justified with reference to retirement adequacy and capital gains.<sup>21</sup> This became joined to another key policy just after the 2011 General Elections, whereby BTO supply was increased, but BTO prices reduced through grants, decoupling them from resale prices.

However public concerns about the sustainability of HDB resale flat prices surfaced after remarks by the Ministry of National Development (MND), Lawrence Wong in March 2017. To address these, two new schemes—HIP 2 and VERS —were announced at the National Day Rally in August 2018.

Growing the BTO supply with flats at 99-year leases while population growth is slow and the society is aging tends to lead to a tipping point when HDB resale prices start to decline, eroding retirement adequacy and bequest values while generating capital losses for some.

In the next chapter, we shall examine the problems and tensions inherent in the current housing policy.

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<sup>21</sup> "Are Rising Home Prices Bad for Singapore?," PropertyGuru, April 6, 2011, <https://www.propertyguru.com.sg/property-management-news/2011/4/48605/are-rising-home-prices-bad-for-singapore.>;

"Statement by Minister for National Development Mah Bow Tan on Workers' Party's Comments on Public Housing" (Ministry of National Development, April 25, 2011), <http://www.mynewsdesk.com/sg/pressreleases/statement-by-minister-for-national-development-mah-bow-tan-on-workers-party-s-comments-on-public-housing-621320>; Yak, C. H. "TODAYonline | Voices | Asset Values Are Not Everything," De Leviathan @ SG (blog), May 9, 2011, <http://de-leviathan.blogspot.com/2011/05/todayonline-voices-asset-values-are-not.html>

# The Inherent Shortcomings

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“For example, one misconception that should be broken in the minds of our young people is the old adage about real estate being the best hedge against inflation. This statement is true only if residential demand and supply are in balance, and everything else is kept constant (as the economist would say). In Singapore’s current environment, vacant private residences and Executive Condominiums (ECs) number more than 33,000 island-wide and rentals are falling across all residential segments such as dormitories, HDB flats and private residences. Residential prices will continue to drop even while inflation climbs with healthcare, utilities, education and other costs.”

Ku Swee Yong, Real Estate Academic, 2017

The recent public concerns over lease decay reflect deeper problems within the current housing policy framework. HDB flat owners are in fact lessees with no strata title to their homes, unlike private condominium dwellers. Hence they cannot initiate collective sale. The VERS scheme, due to be launched in 20 years, does not fully remedy the issue, as not all blocks will qualify and compensation will be fixed by the government using a formula that is less generous than that used for SERS.

There is an inevitable tendency for resale prices to decline as we approach the end of the 99-year lease. This tendency is amplified by an aging society, low total population growth, and a steady supply of new BTO flats, with only a tiny minority qualifying for SERS.

Lower- and middle-income Singaporeans with a huge share of their net assets tied up in their HDB flat value face difficulties converting this value into money for retirement expenses because of the perceived disadvantages associated with both the Lease Buyback Scheme and the option of renting out rooms or the whole unit. Selling (or “rightsizing”) the flat is at odds with the wishes of many older



Singaporeans to leave behind a house for their children. Selling is also risky, given the tendency of resale values to decline. Moreover, selling is not a viable solution across the board, since most aging flats were built within a short space of time in the 1970s/early 1980s and a bout of mass selling based on flat age would tend to crash resale prices.

Hence HDB flat “ownership”, while providing a roof over our heads, may not continue to be a hedge against inflation and a retirement nest egg, as it has been touted to be. On top of this, the current system does not provide for orderly, transparent and predictable urban renewal of old blocks. The speed at which older estates were built in the 1970s means that vast swathes of these older estates may end up being repossessed by the state within a single, short time window when their leases run out, which would lead to sudden market changes.

## Tenants, lessees or owners?

	HDB flat lessees	Private property lessees
Legal title	Title deed describes HDB flat lessees, when a couple, as “co-tenants”	Owners have strata titles which give them legal title to the strata under the Land Titles (Strata) Act
Ability to monetise lease through collective sale	Cannot initiate collective sale to developers. The new VERS proposal, slated to take effect in 20 years, will allow this, but details of how many blocks will be eligible, what is the voting threshold, etc are unclear	Able to initiate and take part in collective sales to developers

In his National Day Rally Speech in August 2018, Prime Minister Lee Hsien Loong said: “HDB lessees have all the rights over their flats that owners of such leasehold private properties have. You can live in it, you can transact it, you can bequeath it to your children—it is yours.”

However “owners” of HDB flats are not owners in the traditional sense. HDB flats are sold on 99-year leases. Their owners are therefore, in legal terms, tenants who own these long-term leases.

HDB titles deeds describe the “owners” as tenants or co-tenants, with the HDB as proprietor. HDB flat lessees do not have strata titles with the ability to undertake collective sale to developers, unlike private property owners.

While HDB flat owners appear to have ownership rights to their flats, they ultimately do not have full autonomy over their property, and no way to address the lease decay of their asset through options such as en-bloc redevelopment.<sup>22</sup>

This is one factor behind why some analysts expect that the price premium of private leasehold properties over HDB flats will widen in coming years, since private property owners can use their ownership of strata titles to carry out collective sales to developers. This may also lead to a growing share of private property in Singapore's residential sector.<sup>23</sup>

A recent study suggests a lower rate of depreciation of leasehold HDB flats versus leasehold private developments.<sup>24</sup> Both classes of property would not, however, exhibit the same tendency towards price decline as freehold properties, other things being equal.

## Widening gap

The HDB resale price index has been declining since 2013, while the private residential property price index has been rising since it bottomed out in 2017



Figure 4: Gap between HDB and Private Property Price Performance.  
Source: *The Edge*, Singapore<sup>25</sup>

<sup>22</sup> Chua, Louis, and Nicholas Teh. "Singapore Property Sector - Opening the HDB Pandora's Box", *Credit Suisse*, September 18, 2018, p. 1.

<sup>23</sup> "HDB Resale Flats to Become Less Attractive, as Buyers Look for Better Store of Value: Credit Suisse Report." *TODAYonline*. September 19, 2018. <https://www.todayonline.com/singapore/hdb-resale-flats-become-less-attractive-buyers-look-better-store-value-credit-suisse>.

<sup>24</sup> Lee Meixian. "A Question of Time: The Great HDB Lease Decay Debate," *The Business Times*, April 6, 2019, <https://www.businesstimes.com.sg/brunch/a-question-of-time-the-great-hdb-lease-decay-debate>.

<sup>25</sup> Tan, Jeffrey. "Harder to Upgrade from HDB to Private Property with Recent Home Price Trends." *The Edge Singapore*, June 11, 2018. <https://www.theedgesingapore.com/harder-upgrade-hdb-private-property-recent-home-price-trends>.; For Q2 2019 versus Q1 2019, the URA's private property price index rose 1.3% following a drop of 0.7% in the previous quarter; while the HDB's resale price index fell by 0.2%, following a decline of 0.3% in the previous quarter. "Release of 1st Quarter 2019 Public Housing Data - Housing & Development Board (HDB)" (Housing Development Board, April 26, 2019), <https://www.hdb.gov.sg/cs/infoweb/press-release/release-of-1st-quarter-2019-public-housing-data>.; "Flash Estimate of 2nd Quarter 2019 Resale Price Index - Housing & Development Board (HDB)" (Housing Development Board, July 1, 2019), <https://www.hdb.gov.sg/cs/infoweb/press-releases/flash-estimate-of-2nd-quarter-2019-resale-price-index>.; "URA Releases Flash Estimate of 2nd Quarter 2019 Private Residential Property Price Index" (URA, July 1, 2019), <https://www.ura.gov.sg/Corporate/Media-Room/Media-Releases/pr19-28>.

## Inevitability of asset depreciation

The value of HDB flats must depreciate to zero at the expiry of the lease. This creates an inexorable long-term tendency for resale prices to decline over time, though in the short-term that tendency can be counteracted by countervailing tendencies such as, for example, short-term market stimulus brought about by credit loosening; or population growth that outstrips housing stock growth.

In the 1990s, the government emphasized the appreciating value of HDB flats on the resale market. During the 1997 General Election, the government promised to upgrade flats in Peoples' Action Party (PAP) wards first, in spite of the fact that voters in Opposition-held wards paid the same taxes as those in PAP wards. The narrative of appreciating HDB resale values thus became entwined with partisan politics.

However since March 2017, there has been widespread public recognition and discussion of the fact that HDB flat values will inevitably decline to zero and the only question is when the tipping point towards a sharp price decrease will come.

In March 2017, National Development Minister Lawrence Wong attempted to cool speculation around particular precincts being selected for Selective En-bloc Redevelopment by writing, "...only 4 percent of HDB flats have been identified for SERS since it was launched in 1995."

He confirmed what analysts, but not necessarily home-buyers, already knew - that SERS is a scheme that affects only a tiny minority of HDB flats. It is incapable of significantly mitigating the long-term tendency of HDB resale prices to fall.

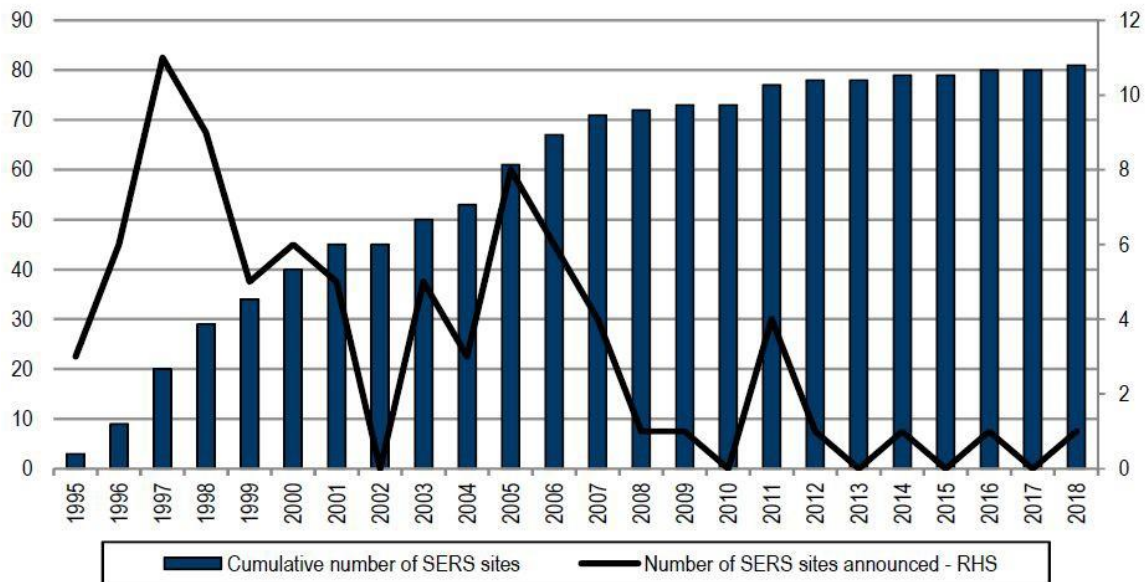


Figure 5: Only 81 SERS projects have been announced since inception.  
Source: Credit Suisse report, *op cit*<sup>26</sup>

The National Development Minister went on to write:

“In fact for the vast majority of HDB flats, the leases will eventually run out, and the flats will be returned to the HDB, who will in turn have to surrender the land to the State. As the leases run down, especially towards the tail-end, the flat prices will come down correspondingly.”

This spurred much public discussion and concern, as HDB lessees and market participants seriously considered the inevitability of HDB resale prices declining either gradually or sharply after a tipping point.

As one analyst said: “It could be that in the past, the age of a HDB flat may have a mild negative effect on prices. However, recent market chatter concerning the treatment of decaying HDB flat leases may have inflamed that factor. This has taken on a much greater influence on HDB resale prices.”<sup>27</sup> One report even cited a HDB flat seller who lowered her asking price as a consequence of the public concern around the Minister’s blog post.<sup>28</sup>

<sup>26</sup> Chua and Teh. “Singapore Property Sector - Opening the HDB Pandora’s Box”, p. 11.

<sup>27</sup> Tan, Jeffrey. “Harder to Upgrade from HDB to Private Property with Recent Home Price Trends.” *The Edge Singapore*, June 11, 2018. <https://www.theedgesingapore.com/harder-upgrade-hdb-private-property-recent-home-price-trends>.

<sup>28</sup> Wong, Pei Ting. “The Big Read: No Easy Answers to HDB Lease Decay Issue, but Public Mindset Has to Change First.” *Channel NewsAsia*, June 5, 2018. <https://www.channelnewsasia.com/news/singapore/big-read-hdb-lease-decay-public-mindset-change-homeownership-10361572>.

However, in a subsequent post in April 2017, Minister Wong attempted to correct the previous emphasis on declining HDB values in the long-term by stressing the possibility of stable or even appreciating HDB resale values in the short-term:

"The general point is that the HDB leasehold flat is not only a good home, but also a nest-egg for future retirement needs."<sup>29</sup>

Going even further, at a dialogue session in September 2018, Co-ordinating Minister for Infrastructure Minister Khaw Boon Wan seemed to talk up the price appreciation potential of HDB flats, even those that are 70-years-old in future.

"If you buy a 70-year-old flat, there is still appreciation potential especially because this government is prepared to continue to invest in it through Home Improvement Programme (HIP) II and the Voluntary Early Redevelopment Scheme (VERS)," Mr Khaw said.... "When will that turning point be? Year 80? Year 70? Year 90? I don't know," he said. "There are no market statistics for it."<sup>30</sup>

This would appear to mark a departure from the note struck by Mr Khaw in 2013. "That year, then National Development Minister Khaw Boon Wan spoke of the need to "re-examine some old assumptions". Among the questions he asked: Should Housing Board flats continue to be an appreciating asset or return to being treated simply as a social need—as a home, first and foremost?"<sup>31</sup>

However the realization that HDB flats eventually depreciate to zero was not lost on stakeholders, nor Members of Parliament (MP). In the Parliamentary debate on the President's address in May 2018, PAP MP Mr Alex Yam said:

"So, this reaction to this decay has perhaps taken a life of its own. Ultimately, we all know that housing is fundamentally a depreciating asset in the long run. But for such widespread concern I think some clarity from the Ministry and the government is called for at this point in time. Because we cannot on the one hand say that home ownership offers a tangible stake but at the same time have homeowners wondering how stable and lasting that stake will be for them."<sup>32</sup>

A number of analysts have attempted to project the tipping point for HDB resale prices, although these projections were made before the latest announcements of changes to housing policies.

<sup>29</sup> Ng, Jun Sen. "HDB Flats Are Still Nest Eggs for Future Retirement Needs: Lawrence Wong." *The Straits Times*, April 12, 2017. <https://www.straitstimes.com/singapore/housing/hdb-flats-are-still-nest-eggs-for-future-retirement-needs-lawrence-wong>.

<sup>30</sup> Leong, Grace. "Price of 50-Year-Old HDB Flat Can Appreciate over the next 10 Years: Khaw Boon Wan." *The Straits Times*, September 2, 2018. <https://www.straitstimes.com/singapore/housing/price-of-50-year-old-hdb-flat-can-appreciate-over-the-next-10-years-khaw-boon-wan>.

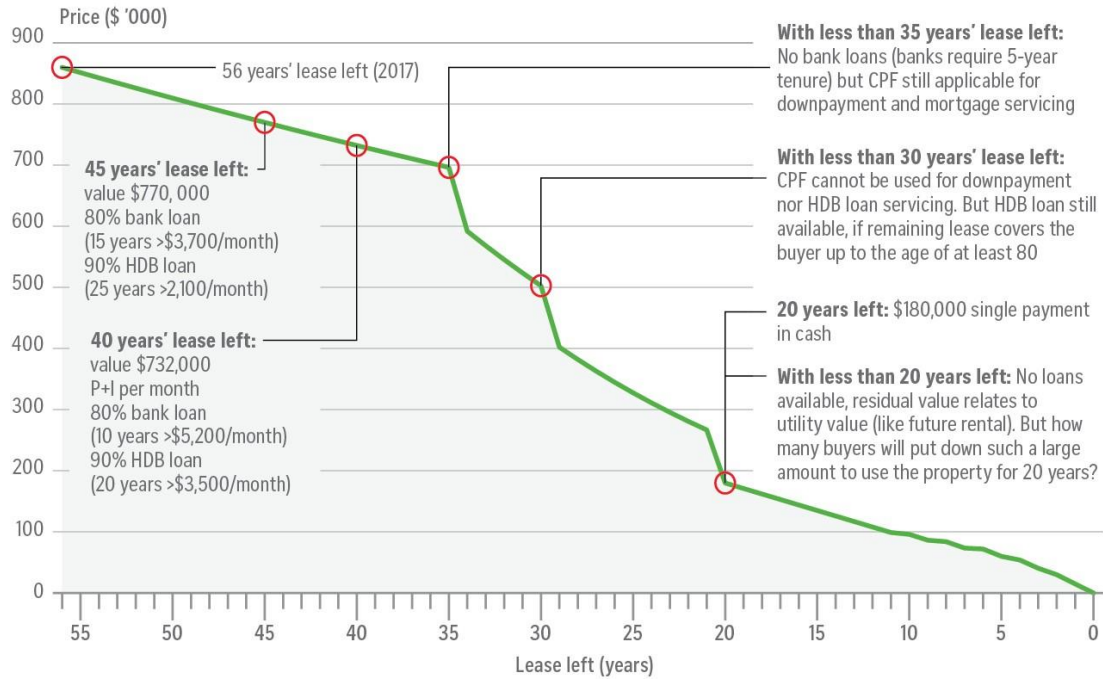
<sup>31</sup> Heng, Janice. "Stagnant Housing Prices: Cause for Cheer or Gloom?" *The Straits Times*, December 10, 2016. <https://www.straitstimes.com/singapore/housing/stagnant-housing-prices-cause-for-cheer-or-gloom>.

<sup>32</sup> Singapore Parliamentary Records, May 7, 2018, <https://sprs.parl.gov.sg/search/sprs3topic?reportid=president-address-36>.

Figures 6 and 7: Simulated resale prices of a HDB flat over the lease tenure.

## How a HDB flat might depreciate over time

Assume HDB 5 room flat, bought for \$860,000 in 2017



Source: INTERNATIONAL PROPERTY ADVISOR, SOH YUN YEE STRAITS TIMES GRAPHICS

Figure 6. How a HDB depreciates over time.

Source: Straits Times Graphics, International Property Advisor Soh Yun Yee





**Figure 52: Limited upside for current purchasers of an HDB flat with 55 years of lease remaining, even assuming underlying asset inflation**

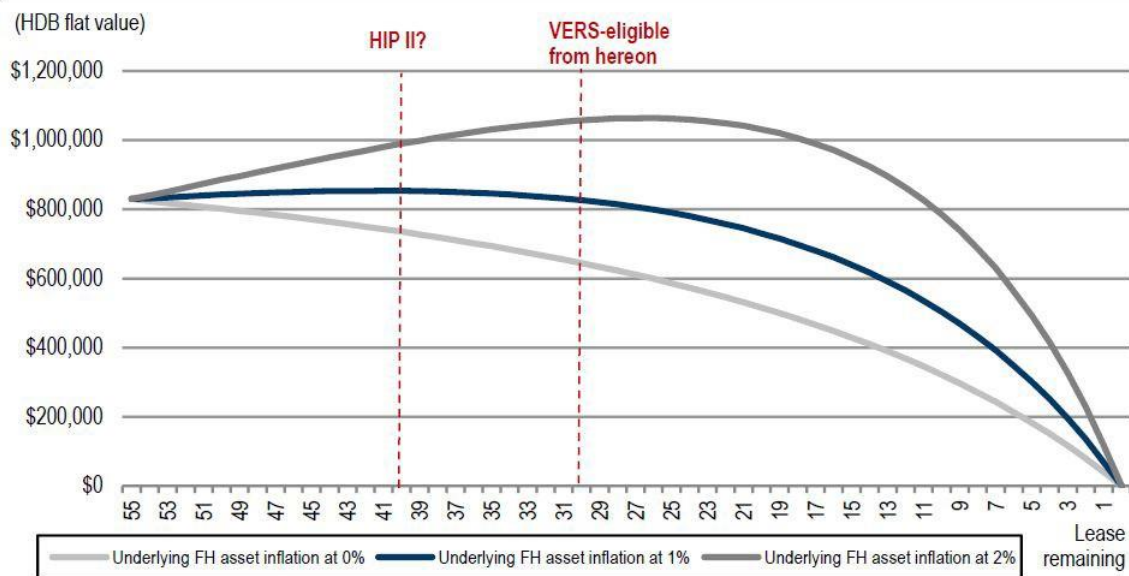


Figure 7. Limited upside for current purchasers of a HDB flat with 55-year lease remaining.  
Source: Credit Suisse report, op cit

As one analyst expressed it:

“HDB resale prices will soon decline due to the escalating supply of resale flats resulting from an increased number of citizens passing away and having to dispose of their HDB flats, and the decreasing number of younger residents who will be able to purchase them. The decline will be gradual but the speed will certainly accelerate...Furthermore, as the 99-year lease tenure continues to shorten, value will depreciate, which will compound the price decline. We estimate that more than 400,000 HDB flats will have a remaining lease of less than 59 years by 2031, ie many of the resale flats will be old and of lower value. The increasing number of old flats will add pressure and push housing prices downwards.”<sup>33</sup>

The announcement of VERS and a second round of HIP by the Prime Minister at his National Day Rally in 2018 was the government’s attempt to clarify policy, and perhaps reverse downward price pressures in the HDB resale market.

Under VERS, owners in flats aged 70 years and older can vote for the government to buy back their homes before their leases expire if their precinct is selected for VERS, though compensation has been described to be less than that associated with SERS.<sup>34</sup> Details of which blocks will be eligible, when,

<sup>33</sup> Ku Swee Yong. *Preparing for a Property Upturn Trends and Pitfalls in Real Estate Investments* (Singapore: Marshall Cavendish International Asia Pte Ltd, 2017), p. 27.

<sup>34</sup> Singapore Parliamentary Records, September 10, 2018, <https://sprs.parl.gov.sg/search/sprs3topic?reportid=oral-answer-58>.

with what threshold of majority voting, and at what compensation tag have not been forthcoming from the government.

Under HIP II, flats at 60 to 70 years of age will be eligible for another round of HIP, although what upgrades will be introduced is unclear. With the announcement of HIP II, the government has pledged that every HDB flat will be upgraded twice in its lifetime.

Nonetheless, it is not clear to what extent these two schemes will mitigate the long-term tendency of HDB resale prices to fall as units age.

In Parliament in September 2018, Minister Lawrence Wong said:

“SERS is limited to precincts where there is high development value to be unlocked. Because of the value unlocked, we share this value with residents through generous compensation, and the acquisition can be made compulsory. In the case of VERS, we expect more flats to be eligible, as the intention is to space out the redevelopment of the town. But the compensation terms for VERS will be less generous than SERS, because we will be redeveloping land that is more built up. Hence, VERS will be offered on a voluntary basis and residents will get to vote. We have outlined the broad concept of VERS. But there are still many details to work out, and we will need time to do so. For residents who do not get VERS for their flat, or who do not poll in favour of VERS, they will continue to live in their flats that would have benefitted from two rounds of upgrading. If they need a place at the end of the lease, the Government will help them get another flat to live in. It could be a new flat from HDB for those who are eligible; a resale flat on a shorter lease; or a 2-room flexi-flat for retirement. So, we will have various options to cater to diverse needs.”<sup>35</sup>

From this and other government statements, several conclusions follow.

It is far from clear that the majority of (let alone all) flats will be eligible for VERS at the 70-year mark. It is also notable that SERS has been increasingly sparingly deployed over the past 9 years. Only 7,200 flats from 10 sites qualified for SERS between 2009 and 2018, versus 53 sites between 1995 and 2004 – a tiny proportion of the 1.02 million stock of HDB units.

It is unclear how VERS compensation will be funded should all or most blocks that reach 70-years in age opt for VERS at the same time. What is clear is that VERS will be funded significantly by the state and by extension the taxpayer.

VERS will be subject to voting, and it is likely some VERS deals will fail, limiting the applicability of the scheme and consequently affecting current day pricing. Failed voting is not improbable. For example, over 50 en-bloc private sale sites failed to secure a buyer in the first eight months of 2018, due to gaps

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<sup>35</sup> Ibid.



between sellers' and buyers' expectations. The voting threshold is one factor that would determine the likelihood of success or failure of VERS deals but this has not yet been announced.

Consequently, it is unclear if HIP II and VERS will substantially mitigate the effect of an accelerating rate of depreciation for leasehold properties as the end of the lease period draws nearer. This accelerating depreciation effect is reflected in the relationship between leasehold and freehold values published by the SLA, known as "Bala's table." It shows an accelerating trend of decline.

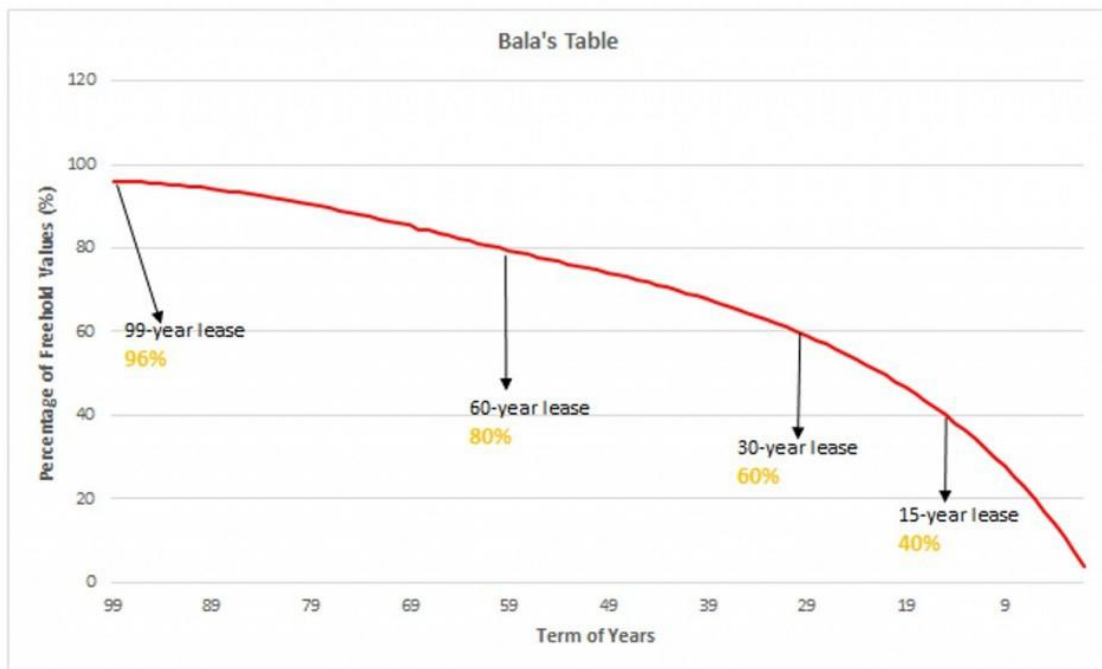


Figure 8: Bala's table showing the relationship between leasehold versus freehold values.

Source: SLA

Singapore is a rapidly aging society, and this adds to a poorer long-term outlook for HDB retail prices, other things being equal. One estimate places Singapore as the fastest aging country in the world alongside South Korea, taking 19 years to transit from "aging" (seven percent of the population aged over 65) to "aged" (14 percent aged over 65). In contrast, France is projected to take 115 years to make this transition, and Japan, 26 years.<sup>36</sup>

<sup>36</sup> "Singapore: A Super-Aged Country?" *Population.SG*, August 15, 2016. <https://www.population.sg/articles/singapore-a-superaged-country>.

According to a 2015 research paper from the Institute of Real Estate Studies (IRES), property prices are negatively correlated with old age dependency ratios. In other words property prices tend to decline when there are proportionately more senior citizens in the population.<sup>37</sup>

Ku argues how this would operate in Singapore's HDB resale market context:

"The pressure from additional death-related resale supply will build up over the next 10 to 15 years. At the same time, demand will reduce due to a shrinking youth population. The widening gap between supply and demand will lead to a decline in resale HDB values."<sup>38</sup>

Therefore, while returns to investment in HDB lease-ownership may have historically exceeded (and been less volatile than) returns from investment in shares on the Singapore stock exchange and from private home ownership, and notwithstanding recently announced measures (see below)<sup>39</sup>, it is far from clear if this will continue to be the case as HDB blocks age.<sup>40</sup>

In fact, the government itself acknowledges this fact in its policy design - a minimum lease requirement of 20 years (down from 30 years) will still apply to ensure "prudent use" of CPF funds, according to a joint announcement in 2019 from the Ministry of National Development and Ministry of Manpower.<sup>41</sup> This is an implicit recognition of the inevitability of resale price decline as year zero approaches.

**In other words, a firm price floor or anchor for older HDB flats is missing. The later the effects of artificial inflation of prices wears out, the steeper would be the price depreciation to zero.**

Finally, one drawback of VERS which has been discussed publicly and in Parliament is its potential to create acrimony amongst HDB lessees and the risk to the rights of the minority who vote unsuccessfully against a VERS deal.<sup>42</sup>

<sup>37</sup> Yumi Saita, Chihiro Shimiz, and Tsutomu Watanabe. "Aging and Real Estate Prices: Evidence from Japanese and US Regional Data," Center for Advanced Research in Finance, Faculty of Economics, The University of Tokyo, CARF F-Series, CARF-F-334 (2013).; Ku, *Preparing for a Property Upturn: Trends and Pitfalls in Real Estate Investments*, p. 17.

<sup>38</sup> Ku. *Preparing for a Property Upturn: Trends and Pitfalls in Real Estate Investments*, p. 17.

<sup>39</sup> Rachel Au-Yong. "Higher Grants, More Choice for First-Time HDB Flat Buyers," *The Straits Times*, (September 10, 2019), <https://www.straitstimes.com/singapore/housing/more-first-time-hdb-flat-buyers-to-get-higher-grants-income-ceiling-for-eligible>.; See Kit Tang, "New CPF, HDB Loan Rules Give Buyers Flexibility, May Make Older Properties More Attractive: Analysts," *Channel NewsAsia*, May 9, 2019, <https://www.channelnewsasia.com/news/singapore/new-cpf-hdb-loan-rules-may-make-older-properties-more-attractive-11519468>.

<sup>40</sup> Sock-Yong Phang et al., "Housing Policies in Singapore: Evaluation of Recent Proposals and Recommendations for Reform," *The Singapore Economic Review* 59, no. 03 (June 2014): 1–14, doi:10.1142/S0217590814500258.

<sup>41</sup> "More Flexibility to Buy a Home for Life While Safeguarding Retirement Adequacy" (Ministry of Manpower, May 9, 2019), <https://www.mom.gov.sg/newsroom/press-releases/2019/0509-more-flexibility-to-buy-a-home-for-life>.

<sup>42</sup> Singapore Parliamentary Records, August 10, 2018, <https://sprs.parl.gov.sg/search/sprs3topic?reportid=oral-answer-58>.



In recent months in the course of 2019, the government has announced various measures on the housing front. These include:

- relaxing loan restrictions for older resale flats – even for flats with less than 60 years left on the lease and as long as the remaining lease covers the youngest buyer to the age of 95, home buyers are now eligible to take an HDB housing loan of up to the full 90 per cent Loan-to-Value (LTV) limit;
- introducing the Enhanced CPF Housing Grant (EHG) for both BTO and resale flats; and
- raising the household income ceiling for the purchase of HDB flats (both BTO and resale) from \$12,000 to \$14,000 and for Executive Condominiums (EC) from \$14,000 to \$16,000.

Taken in totality, these measures are expected to provide price support for both older flats and BTO flats via demand sided measures. However in our view, these short term measures do not address the systemic issue raised in this paper, namely the inevitable tendency for resale prices to decline as flats near year zero. On the contrary, these measures represent a doubling down on the asset dream fallacy that would shepherd more citizens to committing a greater proportion of their CPF savings into what is ultimately a depreciating asset. “Kicking the can down the road” measures would only delay the inevitable tipping point and make the inevitable price decline more acute.

As discussed in this paper, a huge share of our citizens’ retirement nest-egg is parked in public housing by virtue of policy design. The concern about retirement adequacy amongst most Singaporean is real. There is an urgent need to recalibrate our policy fixation on channeling more CPF (a retirement fund) into housing on 99 year leases (a depreciating asset).

## Artificial inflation of prices due to SERS and now VERS?

For most of Singapore’s history, HDB resale pricing has maintained a broad upward trajectory. This is partly due to a fairly long period of remaining lease available. To some extent, this may be fuelled by an assumption that there will be state intervention to reset the lease clock.

In fact, these assumptions may have driven prices beyond fundamentals in mature city fringe estates, a phenomenon that may have prompted the cautionary statement by the Minister of National Development in March 2017.<sup>43</sup>

<sup>43</sup> “Don’t Assume All Old HDB Flats Will Become Eligible for Sers, Cautions Lawrence Wong.” *The Straits Times*, March 24, 2017. <https://www.straitstimes.com/singapore/housing/dont-assume-all-old-hdb-flats-will-become-eligible-for-sers-cautions-lawrence-wong>.

That statement, coupled with increased financing restrictions implemented over the recent years and a general high injection of new BTO units, resulted in a situation where some owners of older HDB flats found it difficult to offload their units and faced downward price pressures.<sup>44</sup>

In fact, resale volume growth diverged significantly between private and HDB from Q2 2015 till Q1 2018.

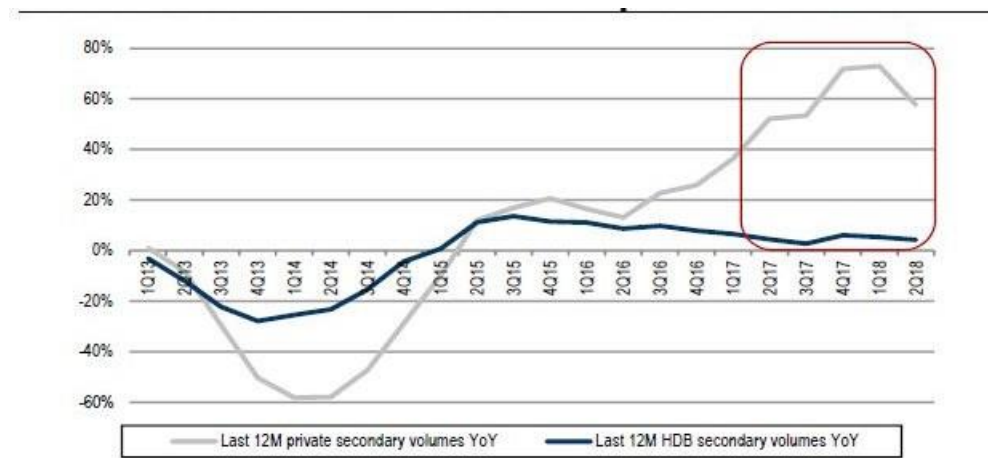


Figure 9: Widening gap in resale volume growth reflective of sentiment between private and HDB. Source: Credit Suisse, *op cit*<sup>45</sup>

It is too early to understand the effect that VERS and HIP2 will have on HDB resale prices going forward. However, if these new policies fuel speculation and froth in the HDB resale market, it will make the inevitable price drop more painful.

Sociologist Tan Ern Ser said: “I reckon the years of experiencing asset enhancement and social upgrading have been deeply ingrained in the Singaporean psyche. Moreover, they also believe that at some point, the expiring lease would be reset via en bloc.”<sup>46</sup>

What would happen if VERS were to replace the role of SERS in the public mind, to reinforce the old narrative of ever-increasing HDB flat prices?

Rampant property speculation generates a host of negative side effects, from triggering prohibitively high housing prices (as has been seen in other contexts, such as, some would argue, the UK and

<sup>44</sup> Fig 4 and Fig 9 show the trend of weak and declining HDB resale prices (from 2013) and HDB resale price volumes (from 2015) to end-2017.

<sup>45</sup> Chua and Teh. “Singapore Property Sector - Opening the HDB Pandora’s Box”, p. 25.

<sup>46</sup> Wong Pei Ting. “The Big Read: No Easy Answers to HDB Lease Decay Issue, but Public Mindset Has to Change First.” *Channel NewsAsia*, June 5, 2018. <https://www.channelnewsasia.com/news/singapore/big-read-hdb-lease-decay-public-mindset-change-homeownership-10361572>.

Australian housing market in recent times,<sup>47</sup> to the downside repercussions of burst bubbles when the crash inevitably comes.

In fact, while this is not the subject of this paper, the expectation of substantial capital gain from property can have a negative effect on the psyche of the country, diverting energy and attention away from more productive pursuits such as innovation and entrepreneurship.

## Are HDB BTO and resale flats priced affordably?

The question of price stability begs the question of the affordability of HDB flats, an issue which has been keenly debated over the years.<sup>48</sup>

National Development Minister Lawrence Wong explained in Parliament on 15 January 2019, in an oral reply to Workers' Party MP Faisal Manap, that land cost accounted for 60 percent of the HDB's cost in developing new flats in 2016 and 2017. In an earlier reply to a Parliamentary Question about the land cost filed by MP Faisal Manap on 19 November 2018, Minister Lawrence Wong replied:

"The key consideration in the pricing of HDB flats is to keep public housing affordable. That is why new HDB flats are priced substantially below the prices of comparable resale flats. In particular, the average monthly instalment to income ratio for first-timer families buying new flats in non-mature estates is less than a quarter of applicants' monthly income. This means that homebuyers will require little or no cash outlay. The selling prices set by HDB for new flats cannot cover their development costs, which include construction and land costs. That is why HDB incurs significant deficits every year in its home ownership programme. On top of the subsidised selling price, HDB also provides housing grants of up to \$80,000 to give more help to lower and middle income families buying their first home."

In theory, BTO flat prices should and would influence resale prices. However, until relatively recently, resale prices were determining BTO prices since the latter were pegged to the former.

In what can be described as a retreat from the market, new HDB flats have since 2013 been offered at prices that are "delinked" from market prices. In 2013, the Minister for National Development

<sup>47</sup> Pettifor, Ann. "Why Building More Homes Will Not Solve Britain's Housing Crisis." *The Guardian*, January 27, 2018. Opinion. <https://www.theguardian.com/commentisfree/2018/jan/27/building-homes-britain-housing-crisis>; Australia's booming property market, which saw surging property prices in large cities over the past few years, has corrected in 2018: Pearlman, Jonathon. "Aussie Property Boom May Be over as Sydney Prices Fall." *The Straits Times*, February 5, 2018. <https://www.straitstimes.com/asia/australianz/aussie-property-boom-may-be-over-as-sydney-prices-fall>.

<sup>48</sup> One instance of public debate on this question was occasioned by a statement by then DPM Tharman Shanmugaratnam in 2012: Jeanette Tan. "Online Uproar over DPM Tharman's '\$1k Flat' Statement," *Yahoo! News*, March 2, 2012, <https://sg.news.yahoo.com/blogs/singaporescene/online-uproar-over-dpm-tharman-1k-flat-statement-132522414.html>.

announced that he aimed to bring down BTO prices from about 5.5 times applicant households' median annual income to 4 times their median annual income.<sup>49</sup>

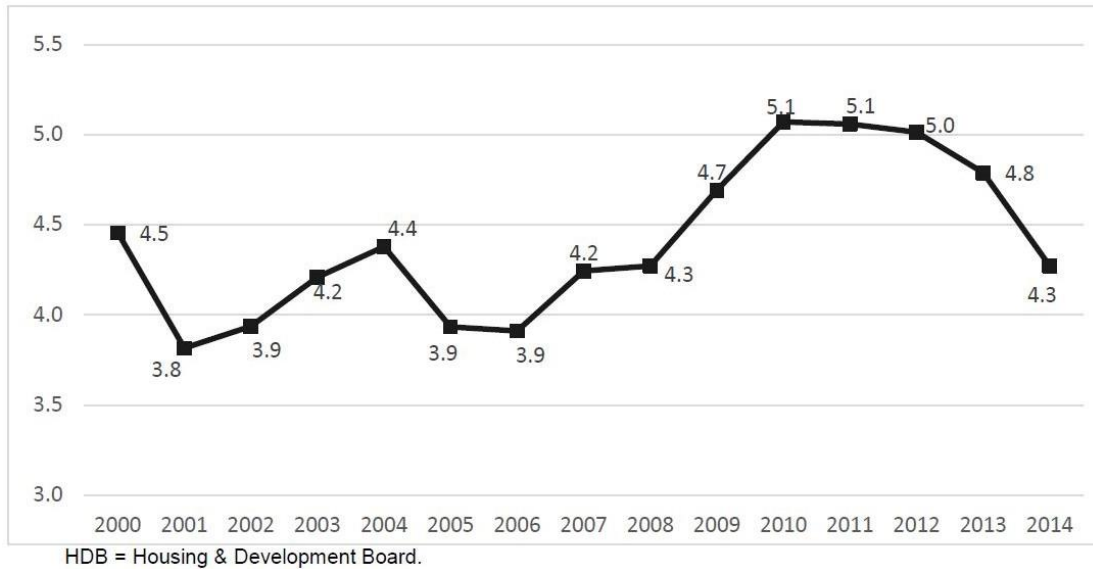


Figure 10: Median HDB 4-Room Flat Resale Price to Median Household Income Ratio.

Source: Asian Development Bank Institute

While the anchor to resale market prices has since been abandoned through delinking BTO from resale prices, BTO prices overall remain close to the high water mark that had been previously set, as can be seen from Figure 11 below.

<sup>49</sup> Heng, Janice. "New HDB Flats More Affordable Now." *The Straits Times*, November 17, 2014.  
<https://www.straitstimes.com/singapore/housing/new-hdb-flats-more-affordable-now>.



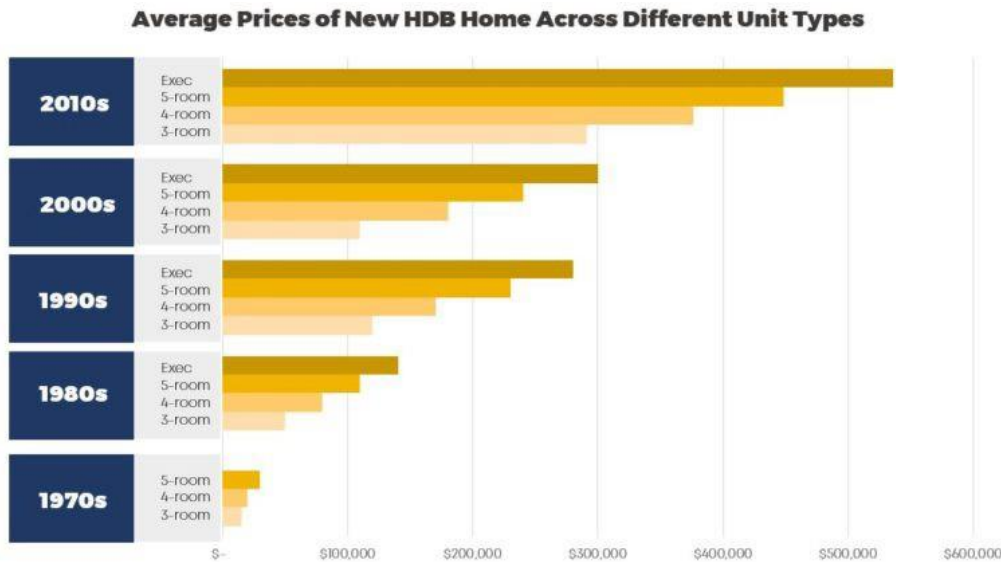


Figure 11: Changes in new HDB flat prices over the decades. Source: HDB, EdgeProp.sg<sup>50</sup>

## Does today's HDB system ensure retirement adequacy?

Most middle and lower income Singaporeans have a considerable portion of their net assets locked in property as opposed to liquid assets such as cash bank deposits, financial instruments, and so on.<sup>51</sup>

As the Prime Minister discussed at the National Day Rally in 2013, there are three monetization options for unlocking the value of HDB flats for post-retirement expenses.

- Renting out the whole flat or a room/s;
- "Right-sizing" or downgrading to a smaller home by selling the flat; or
- Using the Lease Buyback Scheme.

For option (a), while rental income is generated, it also imposes costs because the HDB flat lessee has to find alternative accommodation, incurring costs or increasing the occupancy level for other family homes. A 2012 MND report cited in the media found that while 93% of HDB flats belonging to those

<sup>50</sup> "How Much Have HDB Prices Risen Over The Decades?" *IMoney Learning Centre* (blog), October 9, 2018. <https://www.imoney.sg/articles/hdb-home-prices-then-and-now/>.

<sup>51</sup> "Wealth and Liabilities of Singapore Households" (Singapore Department of Statistics, March 2003), p.5, <https://www.singstat.gov.sg/-/media/files/publications/economy/op-e24.pdf>; "Quarterly Household Sector Balance Sheet" (Singapore Department of Statistics, October 2012), p.26, <https://www.singstat.gov.sg/-/media/files/publications/economy/ip-e41.pdf>; "Global Wealth Report 2018" (October 2018: CreditSuisse), p. 27, <https://www.credit-suisse.com/media/assets/private-banking/docs/uk/global-wealth-report-2018.pdf>.

aged 55 and above qualified to sublet their units, only 10% of lessees took up the sub-letting option, primarily citing privacy, space and security concerns.<sup>52</sup>

Option (b) carries costs as well, since the cash for post-retirement expenses that is unlocked would be diminished by the need to pay ancillary expenses such as broker's fees, moving, renovation expenses, and so on. Cash may not be readily freed up, due to the need to repay money for the housing loan into the CPF with interest, as well as the need to repay resale levies for selling the previous subsidised flat. Moreover, there may be intangible costs borne by older Singaporeans being uprooted from their traditional neighbourhoods, where they have formed bonds of habit, emotional attachment and social relationships. The social capital created in local communities, underpinned by networks of friendship among residents, may thus be eroded.

As for option (c), as at end-2018, only around 3,100 units have signed on for Lease Buyback Scheme or LBS.<sup>53</sup> This means that the overwhelming majority of eligible, elderly Singaporeans have not used this avenue to monetize their HDB flat.

Experts believe that this is likely due to a combination of two factors: the unattractive features of the scheme (its irreversibility, the cash compensation ceiling and lack of access to cash if half the CPF minimum sum has not been reached); as well as the bequest motive (the wish to leave behind an asset for one's children after death). The reasons for the low take-up for LBS will be more fully discussed in a later section in this paper.

Another monetization option found in other developed countries is reverse mortgages. However reverse mortgages are not readily available in the Singapore market at present and attempts to introduce such products have thus far not succeeded, as has been discussed in Parliament.<sup>54</sup>

Hence, the current HDB leasing system creates potential problems for middle and lower income Singaporeans that have a large share of their total net assets locked in their HDB flat. They may struggle to find sufficient post-retirement income since the use of CPF for housing tends to deplete CPF retirement accounts (see table below from CPF Board);<sup>55</sup> and since the pathways for monetizing their HDB flat later in life may not yield adequate income and also carry downside costs.

<sup>52</sup> Yong, Charissa. "1 in 10 Elderly Flat Owners Rent out or Sublet Their Flats for Additional Income: MND Study," *The Straits Times*, June 6, 2013, <https://www.straitstimes.com/singapore/1-in-10-elderly-flat-owners-rent-out-or-sublet-their-flats-for-additional-income-mnd-study>.

<sup>53</sup> Sim, Fann. "3,100 Households Have Taken up Lease Buyback Scheme; Mostly 3-Room Flats: MND," *Channel NewsAsia*, October 1, 2018, <https://www.channelnewsasia.com/news/singapore/3-100-households-have-taken-up-lease-buyback-scheme-mostly-3-10775596>.

<sup>54</sup> A recent Parliamentary exchange on this topic cited low demand as the reason why financial institutions ceased offering reverse mortgages in Singapore. Singapore Parliamentary Records, February 6, 2017, [https://sprs.parl.gov.sg/search/topic?reportid=044\\_20170206\\_S0015\\_T0019](https://sprs.parl.gov.sg/search/topic?reportid=044_20170206_S0015_T0019).

<sup>55</sup> Withdrawals for housing purposes account for a disproportionate share of all CPF withdrawal types – 44% of all CPF withdrawals in the Jan-Mar 2019 quarter for example: "CPF Statistics - Housing" (CPF), accessed November 24, 2019, [https://www.cpf.gov.sg/Assets/common/PublishingImages/CPFStatistics/Sub\\_Housing.jpg](https://www.cpf.gov.sg/Assets/common/PublishingImages/CPFStatistics/Sub_Housing.jpg).





## Housing

### Housing Schemes

Year	Public Housing (HDB flats)				Private Housing			
	No. of Members ('000)	Net Amount Withdrawn (\$m)	No. of Members ('000)	Net Amount Withdrawn (\$m)	No. of Members ('000)	Net Amount Withdrawn (\$m)	No. of Members ('000)	Net Amount Withdrawn (\$m)
	(within period)		(as at end of period)		(within period)		(as at end of period)	
2006	730	4,957.6	1,275	78,758.9	n.a.	3,398.1	227	45,185.0
2007	729	4,679.0	1,286	82,827.3	n.a.	1,188.9	226	45,860.3
2008	719	4,500.0	1,301	87,037.1	n.a.	1,347.0	226	46,956.6
2009	728	4,067.9	1,317	90,931.9	145	1,768.6	237	48,442.3
2010	740	4,006.9	1,331	94,924.8	148	845.9	243	48,994.9
2011	750	5,464.3	1,368	100,344.6	154	1,346.7	255	49,994.9
2012	753	5,703.1	1,415	105,993.7	165	2,290.6	273	51,911.9
2013	743	5,841.3	1,455	112,017.4	173	2,500.2	290	54,486.5
2014	734	6,892.3	1,466	119,017.6	177	2,706.0	301	57,175.9
2015	731	7,069.9	1,494	126,277.7	189	3,310.6	314	60,468.1
2016	740	6,971.9	1,514	133,515.0	202	3,905.5	330	64,398.0
2017 Q1	~	1,873.9	1,519	135,456.1	~	861.4	334	65,282.5
2017 Q2	~	1,734.8	1,526	137,259.7	~	1,037.1	339	66,348.9
2017 Q3	~	1,785.0	1,534	139,144.5	~	897.3	343	67,309.1
2017 Q4	769	1,981.5	1,540	141,215.4	218	921.0	348	68,302.2
2018 Q1	~	1,828.5	1,546	143,155.4	~	685.7	351	69,073.3
2018 Q2	~	1,199.8	1,550	144,542.2	~	647.1	354	69,855.5
2018 Q3	~	1,600.6	1,556	146,249.0	~	732.0	357	70,683.3
2018 Q4	755	1,589.7	1,562	147,941.3	228	776.6	359	71,498.9
2019 Q1	~	1,666.6	1,569	149,647.2	~	709.4	359	72,273.7

#### Notes:

- For Public Housing (HDB flats) and Private Housing, figures within period include all withdrawals within period while figures as at end of period refer to members who withdrew and still own property.
- May not tally due to difference in definition.
- ~ Figure only available as at year end.
- n.a. = Not available

Figure 12: Net Amount withdrawn from CPF for housing. Source: CPF

The very real possibility of HDB resale prices hitting a tipping point in coming years when they start to spiral downwards further erodes the value of the current HDB lease system as a basis for retirement adequacy.

## Is today's housing system delivering mass urban renewal?

Due to the urgent need to house our population in Singapore's early nationhood, mega estates and large HDB towns were built in a short time-span. For example, Marine Parade was built within three years (1974-76) while Ang Mo Kio and Bedok were built in a space of six to seven years (1975-81).<sup>56</sup>

From the 1980s, for greater efficiency in town planning and cost of construction, the batch building approach was continued, albeit at a smaller scale. However fast mega town construction went back

<sup>56</sup> Chua and Teh. "Singapore Property Sector - Opening the HDB Pandora's Box", p. 17.

into overdrive for the creation of Punggol 21. A similar approach can be seen for upcoming projects such as Tengah Eco Town.

While the benefit of such an approach to public building is clear, it also portends downstream strains on urban renewal requirements when flats enter their twilight years in very large numbers.

In this vein, a phased early urban renewal is crucial and necessary to prevent negative externalities such as huge fluctuations in the housing stock as flats become repossessed by the state in huge numbers within a short space of time.

There is therefore a need for orderly urban renewal to replace aging blocks in a phased manner, unlike how many of the blocks were constructed.

How do we achieve orderly urban renewal? The government has clarified that only a tiny proportion of flats will qualify for SERS. It is not clear how many flats will be eligible for VERS and at what time. If the timeline for VERS is staggered, it may generate hostility from residents (particularly elderly residents) who are denied the opportunity for an earlier VERS exit. Nor is it clear if VERS will be embraced by residents and successfully implemented through voting – there is no fixed timeline for publishing the compensation terms and majority voting threshold which would allow such a determination to be made.

In the next chapter we examined the rightful principles behind housing policies and then survey various options to address the issue of HDB lease decay.

# Realigning Our Bearings: The Vision and Values Behind Housing Policies

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“I should have known that it does not pay to yield to popular pressure beyond our capacity to deliver. Yet I was party to a similar mistake in the early 1990s. As property prices rose, everybody wanted to make a profit on the sale of their old flat and then upgrade to a new one, the biggest they could afford. Instead of choking off demand by charging a levy to reduce their windfall profits, I agreed that we accommodate the voters by increasing the number of flats built. That aggravated the real estate bubble and made it more painful when the currency crisis struck in 1997. Had we choked off the demand earlier, in 1995, we would have been immensely better off.”

Mr Lee Kuan Yew, “From Third World to First”<sup>57</sup>

Having reviewed the inherent issues in our current public housing model, we believe it is necessary to re-examine the fundamental values and philosophies that should underpin policy formation.

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<sup>57</sup> Lee. *From Third World to First*, p. 121.



A key pillar in our current understanding of our HDB flats is that they store value and can facilitate capital appreciation, thus forming a good retirement nest egg.

Yet, how does this set of assumptions square with reality? There are limitations and downsides to monetizing HDB flats to unlock retirement funds, due to:

- a) resale market uncertainty,<sup>58</sup> with HDB resale volumes potentially facing a weak long-term volume and pricing outlook, due to the combination of increasing HDB stock through BTOs and weak long-term population growth;
- b) the limitations of the Lease Buyback Scheme, which to date has attracted only a tiny proportion of eligible elderly HDB lessees;
- c) the real probability that the commercial rental market will remain weak or weaken further, due to an excess of supply over demand in the context of much slower population growth; and
- d) the fact that cost of living pressures continues to be felt, particularly in view of the impending GST hike, the recent increases in charges for electricity, water, gas, parking and ERP charges; as well as in the healthcare space, where cost pressures (reflected in Medishield Life premiums) have recently and substantially outstripped inflation.<sup>59</sup>

If we dig deeper, it is possible to unpack the assumptions underlying the current HDB paradigm into a few discrete baskets of questions about societal values.

## Does the expectation of HDB flat capital gains breed an unhelpful speculative mindset?

Anecdotal evidence suggests that the prospect of capital gains from a HDB flat tends to exercise an out-sized role in the thinking of many Singaporeans. Rumours surrounding possible estates slated for SERS have become fairly widespread, a development that contributed to Minister Lawrence Wong's Facebook post in March 2017. Some refer to a "lottery mindset among [HDB] buyers."<sup>60</sup> The deeper question underpinning this is: is it wise for Singapore to continue the rhetoric and expectation that its citizens can reap significant capital gains from selling their HDB flats?

<sup>58</sup> With HDB resale units facing a weak volume and pricing outlook, especially in comparison to private homes, due to the lack of strata titles.

<sup>59</sup> Ng Ren Jye, "Singapore 2018 Healthcare Cost Inflation Hits 10%, 10 Times the Economic Inflation Rate: Mercer Report," *The Business Times*, June 10, 2019, <https://www.businesstimes.com.sg/government-economy/singapore-2018-healthcare-cost-inflation-hits-10-10-times-the-economic-inflation>.

<sup>60</sup> Yeo, Sam Jo. "Curbing 'lottery Gains' of Flats May Backfire: Experts." *The Straits Times*, October 16, 2016. <https://www.straitstimes.com/singapore/housing/curbing-lottery-gains-of-flats-may-backfire-experts>.

Some economists have argued that existing housing policies already breed a tendency towards over-investing in property, among both households and local enterprises.<sup>61</sup> Would this risk detract from entrepreneurship and innovation? Would this endanger the work ethic and the interest among citizens in productivity and excellence at work, since greater monetary gains (so the narrative goes) can be reaped from just timing the property market? Would the perception of ever-increasing property prices also attract talent away from other value-creating industry sectors whose development is necessary for healthy economic growth?

In a media report from 2016, it was cited that in “Our Singapore Conversation” housing dialogues in 2013, many also agreed that the priority for housing policies should be meeting housing needs, rather than ensuring appreciating assets.”<sup>62</sup>

Interestingly, Mr Lee Kuan Yew once opined that home ownership tended to breed more conservative decision-making in another arena – the political one.

“My primary motivation was to give every citizen a stake in the country and its future. I wanted a home-owning society....I had seen how voters in capital cities always tended to vote against the government of the day and was determined that our householders should become home-owners, otherwise we would not have political stability.”<sup>63</sup>

In light of these considerations above, we propose the following principles that should guide any responsible attempt at HDB policy reform. These principles serve as the Terms of Reference for the solutions proposed in the next chapters.

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<sup>61</sup>Jin Meng Tan. “Commentary: An over-Emphasis on Home Ownership Can Come at a Cost to Society. Time for a Review of Public Housing Policy,” *Channel NewsAsia*, June 17, 2018, <https://www.channelnewsasia.com/news/commentary/emphasis-home-ownership-hdb-lease-review-of-public-housing-10423116>.

Abeyasinghe and Choy observed that increasing housing prices led to a substantial secular drop in the average propensity to consume: Tilek Abeyasinghe and Jiaying Gu. “Estimating Bubbles and Affordable Housing Price Trends: A Study Based on Singapore,” *SCAPE Working Paper Series* 2013, no. 01 (February 2013), p.3.; Donald Low. “Rethinking Singapore’s Housing Policies,” *IPS Commons*, June 3, 2013, <https://www.ipsccommons.sg/rethinking-singapores-housing-policies/>.

<sup>62</sup>Heng, Janice. “Stagnant Housing Prices: Cause for Cheer or Gloom?” *The Straits Times*, December 10, 2016. <https://www.straitstimes.com/singapore/housing/stagnant-housing-prices-cause-for-cheer-or-gloom>.

<sup>63</sup>Lee. *From Third World to First*, pp. 116-17.



## Our guiding principles for housing policy reform

- I. HDB flats are primarily an affordable home, as compared to private property.
- II. Next to the objective of creating affordable homes, the resale value of HDB flats should act as a form of wealth protection for retirement and legacies.
- III. Wealth appreciation (if any) should be in line with economic growth and be inter-generationally fair, i.e. fair to both citizens and the State, as the custodian of the interests of future generations.
- IV. More housing options beyond owning HDB flat 99-year leases should be made available to allow Singaporeans to make informed housing choices that suit different needs at different stages of their life.





# Policy Proposals for Housing Reform

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Having explained our guiding principles for housing reform, we can now move on to consider various policy options for housing reform. We offer these as possible means to translate the principles described in the last chapter into reality.

In offering these suggestions, we hope to stimulate a public conversation about both the ends and means of housing policy in Singapore.

We are cognizant that the issues facing the HDB flat market are complex and defy simple, “magic bullet” solutions.

Therefore, we present a list of policy proposals as potential options for housing policy reform. These proposals are not mutually exclusive. We welcome all feedback and policy suggestions.

# Policy proposal: Voluntary Early Redevelopment Scheme (VERS)

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The Voluntary Early Redevelopment Scheme was announced by PM Lee Hsien Loong at the National Day Rally (NDR) in 2018<sup>64</sup>. In his NDR speech, he mentioned that the Government has good reason to renew flats before the full 99-year lease is up. In particular, he noted that an orderly and progressive renewal over 20 – 30 years was preferred rather than executing hasty estate rebuilding programs.

## What we know about VERS

Details on the scheme are still scarce, but it is known that the pay-out terms will be less generous than SERS, because there will be less financial upside for the Government to take on, regardless of the social benefits. The scheme is voluntary, and residents in the precinct will have to vote for VERS, just like for HIP. If the residents vote yes, the Government will buy back the whole precinct for redevelopment, and residents can use their proceeds to help pay for another home. If the residents vote no, then they can continue to live in their flats until their leases run out.

What has been disclosed about VERS, including in the course of Parliamentary debate in 2018, is described on earlier pages of this paper.

## What we do not yet know

By the PM's own admission, there are details about VERS that are yet to be worked out, such as the process of the selection of the precincts, the pace and schedule of VERS-related redevelopment, the specific terms of the Government's offer, the majority threshold for voting and the financial burden on state coffers for reacquiring flats under VERS, among others.

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<sup>64</sup> Singapore, Prime Minister's Office. "PMO | National Day Rally 2018." Prime Minister's Office Singapore, December 27, 2018. <http://www.pmo.gov.sg/Newsroom/national-day-rally-2018>.

# Policy Proposal: Universal Sale and Lease Back Scheme

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The existing Lease Buyback Scheme (LBS) was introduced in March 2009 as a tool for senior residents to monetize their flats while they age in place.

The intent of the scheme was as an added option for Singaporeans. However, the take up of the scheme has been lacklustre. Since its introduction almost a decade ago, only approximately 3,100 lessees have taken up the scheme.

Anecdotally, it would appear that several factors inhibit take up of the LBS, even after some of the conditions were relaxed in April 2015 to broaden the relevance of the scheme:<sup>65</sup>

- Many HDB lessees want to bequeath property to their children, a decision where the environment of rising property prices relative to median wages over the past few decades may play a critical role, since middle and lower-income residents may be concerned that home ownership may be unaffordable for their children in the future.
- The bequest motive was explained by some HDB flat lessees quoted in a media report: "It is definitely something we are interested in," said Mr Wong. "But we might still hold back so we have the option of leaving the flat to our grandchildren." Other residents, such as taxi driver Tan Ah Tee, also voiced the desire to hold on to their flats as their children's inheritance. "It is very expensive for my son to buy a new flat," said Mr Tan, 65, who lives with his wife, eldest son and daughter-in-law in a four-room flat in Bedok North. "I wish to leave it to my children and the future generations."<sup>66</sup>
- HDB lessees who opt for the LBS cannot receive the full cash value of the balance of flat leases they have sold. They will need to channel the money into their CPF accounts from where they will receive CPF Life payments and can only withdraw the amount above the

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<sup>65</sup> "What You Need to Know about the Enhanced Lease Buyback Scheme." 99.co, December 17, 2016. <https://www.99.co/blog/singapore/what-you-need-to-know-about-the-lease-buyback-scheme/>.

<sup>66</sup> Yeo, Sam Jo. "HDB Lease Buyback Scheme Changes: More Cash a Draw, but Some Prefer to Bequeath Their Flats." *The Straits Times*, September 4, 2014. <https://www.straitstimes.com/singapore/housing/hdb-lease-buyback-scheme-changes-more-cash-a-draw-but-some-prefer-to-bequeath>.

prevailing Minimum Sum (MS). After April 2015, the requirement for LBS was changed. The CPF needed to be topped up only until the level of half the MS if there were two or more owners. However, the quantum of LBS that could be withdrawn as cash was capped at \$100,000. In contrast, selling one's HDB flat enables the seller to obtain cash, after returning to the CPF whatever was removed with interest.<sup>67</sup>

- “Not all units are eligible for the LBS; a flat must have at least 10 years of lease to sell to the HDB for it to qualify for the scheme. Additionally, for 3-room flats, the remaining mortgage must be S\$5,000 or lower. All owners have to occupy the flat for at least five years and should not hold any concurrent ownership over a second property.”<sup>68</sup> Moreover, the age of the youngest owner has to be at minimum 65 to obtain approved LBS status.

One analyst opined: “We believe the stringent restrictions for LBS participants might have been a reason for the low take-up, such as the inability to sell the flat on the open market and the requirement to first use proceeds to top up owners’ CPF Retirement Accounts, rather than receive cash proceeds.”<sup>69</sup>

The principle underlying the LBS is valid. Given the fact that a huge share of lower and middle-income Singaporeans’ retirement-purposed net assets are tied up in the value of their HDB flat, there should be a meaningful alternative to enable monetization of HDB flats to generate post-retirement income.

We believe that the principle behind the LBS scheme can be expanded with the following ends in mind:

- Creating a more attractive option for monetizing HDB flat leases, beyond renting and reselling, both of which have their downside consequences such as uprooting older Singaporeans from the communities where they have sunk roots and built social capital.
- Generating greater predictability about monetization options vis-a-vis resale decisions.
- Generating greater flexibility in terms of sale of leases and also purchase of leases or renting from the HDB (HDB rental options are now limited to those who meet certain very specific criteria).

Without a widespread redevelopment plan through SERS and the non-universal application of the proposed VERS (which is not likely to apply to all blocks) and LBS (which applies only to some lessees), there is inadequate price support for older HDB properties. The older the unit, the more likely it is that owners needing to sell their properties will be unduly disadvantaged into fire sales, reflecting

<sup>67</sup> “How It Works - Housing & Development Board (HDB).” *HDB*. Accessed January 22, 2019. <https://www.hdb.gov.sg/cs/infoweb/residential/living-in-an-hdb-flat/for-our-seniors/how-it-works>.

<sup>68</sup> *Ibid*.

<sup>69</sup> Chua and The. “Singapore Property Sector - Opening the HDB Pandora’s Box”, p. 16. It should be noted that the CPF top-up requirement was made less onerous in 2014 – only half the CPF minimum sum would need to be topped up with two owners.

the realities of a public housing market where there is a continuous new supply of BTO flats while low total resident population growth and lease decay limits the “resellability” of older flats.

**To provide market support and an avenue to residents needing to sell their aged HDB property, there can be a complementary scheme to the existing LBS, the thrust of which is described here. We term it Universal Sale and Lease Back (USB), with the following terms:**

- The USB would be extended to all HDB property types and all HDB lessees after the Minimum Occupancy Period (MOP) and at least 80 percent of loan repayment; and provided the lessee does not own any private property at home or overseas.
- HDB Flats lessees can opt for the USB at any time after their unit reaches 30 years of lease tenure left.
- Compensation for the USB is to be determined via a published formula that is pegged to the 10 year moving average for rentals at the time of USB application, pro-rated by lease tenure and taking into account the time value of money (see below for details of proposed pricing mechanism). The formula has been drawn up to ensure greater stability in pricing, to deter attempts to make gains by shrewdly timing the market. However an alternative formula can also be considered that is based on inflation and GDP growth, which is also described below.
- Lessees exercising the USB option can choose to receive compensation either by way of monthly payments or by way of a lump-sum dispensed in full but with repayment of loans from the CPF still being required, as with any resale transaction. Aside from topping up for CPF OA withdrawals, compensation need not be paid into the CPF unless the lessee chooses to do so. There will be no cap on cash payouts.
- The government would use flats purchased under USB to provide HDB flats for rental, for resale under Sale of Balance Flats (SBF) exercises or for sale of shorter lease lengths. This will create a market for shorter leases. It will also create a market for HDB rental flats at price points in between those of the HDB public rental scheme for the low-income and HDB open market commercial rentals today. We believe that this richness of housing options can be positive for Singaporeans, as it will better enable Singaporeans to match their housing choices to their income, risk appetite and life stage. For example many young working adults may choose to rent flats from the HDB at more affordable rates before they are married, as would many entrepreneurs starting up a new business.

## Proposed Pricing Mechanism

We propose the adoption of an income method of valuation to determine the compensation for the USB scheme. In brief, the value of the flat is determined by the discounted income expected from rental receivables over the remaining lease period, but at a further discount tied to prevailing interest rates. The discount to the payout would be assessed when the date approaches. If rentals are too high and may create a situation where there would be large and unsustainable demands on state coffers, a further discount could be applied to the formula above.

**Valuation = Net Present Value (Expected rental returns less vacancies & holding expenses)**

The USB pay-out would thus create a price floor that would serve as a bulwark against a massive resale price drop spiral as the flat nears year zero.

## Is there a better way to determine USB payouts?

In a thoughtful article, academic Ku Swee Yong suggested pegging the buy-back formula from HDB to a fixed lease depreciation formula that would be stable and tied to publicly available data sets.

“HDB can fix the price-formula for buying back flats from lessees by basing the future value of the flats on lease depreciation, inflation rate, GDP growth rate and household income growth rate. This way, a new HDB lessee buying a flat today will know the value of his HDB flat if he sells it in, say, the year 2040. The price can be fixed into a formula such as:

Price in 2040 = Today's purchase price – depreciation of X% -inflation factor + GDP growth factor + Household income growth factor.”<sup>70</sup>

There are merits to taking such an approach. The down-side would be that the approach may be less intuitive and transparent to the average HDB lessee as opposed to simply using a future rental income stream. However the advantage of this formula is that it is less subject to changes in the rental market. Hence this is a viable alternative approach to calculating USB pay-outs.

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<sup>70</sup> Ku. Preparing for a Property Upturn: Trends and Pitfalls in Real Estate Investments, p. 39.



## Would the compensation for USB be less or more than under LBS?

LBS compensation is tied to recent HDB resale transaction prices for units with similar characteristics as the unit for which LBS is being applied but adjusted based on factors such as an expectation for how the lease value will decline over time and the time value of money.<sup>71</sup>

LBS compensation levels can also be expected to come down as the resale prices of flats fall towards the end of its lease. Moreover, due to the fundamentals that have been discussed in earlier sections (fixed 99-year leases, an aging society, continual new BTO flat launches, slow population growth etc), LBS compensation will also fall going forward.

In contrast, the USB compensation is tied to future imputed rental income or a formula based on GDP and household income growth.

Comparing the realities and fundamentals behind the current LBS model and the USB model, there is no basis to say that the one would definitely lead to higher or lower compensation than the other. Both have upside and downside potential.

The purpose of both schemes is also different. LBS aims to create a monetization option for elderly Singaporeans who wish to unlock cash from their HDB flat lease. The USB aims to be a tool to support HDB resale prices, to mitigate against the inevitability of a severe price decline spiral as the lease works its way towards 99 years. The USB would also create a new source of supply of HDB flats on the market that can be (a) sold as balance flats of different flat types and lease lengths; or (b) rented to Singaporeans at rates that are in between HDB Public Rental rates (which are provided for needy citizens) and current open market rentals.

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<sup>71</sup> The formula for calculating LBS proceeds was discussed in Parliament in 2014. Then Minister for National Development Mr Khaw Boon Wan said: "Madam, the Lease Buyback Scheme (LBS) proceeds is the market value of the flat with its full remaining lease, less the value of the first "X" years of lease retained by the household and any outstanding housing loan. So, there are two components. First, what is the market value of the flat with its full remaining lease; and then secondly, how many years of lease that the owner would like to retain and what is the value of that portion of the retained lease? First, a professional valuer from HDB's Panel of Private Valuers will assess the market value of the flat with its full remaining lease after a physical inspection of the flat and then reference to recent comparable market transactions. Second, the value of the lease to be retained by the owners is, in turn, determined from the market value of the flat based on established industry-accepted standards and valuation practice. Adjustments are also made to reflect the restrictions placed on the LBS flat, namely no subletting of whole flat and no resale." Singapore Parliamentary Reports, September 8, 2014, <https://sprs.parl.gov.sg/search/sprs3topic?reportid=oral-answer-706>

## Benefits of Universal Sale and Lease Back

The current government's proposals and schemes (HIP 2 or VERS) are premised on the assumption that if a HDB flat is kept in reasonable condition with redevelopment, there would always be a ready buyer on the resale market. This is untested in the context of huge numbers of flats with short remaining leases, slow or no population growth and an aging society.

**The benefit of a Universal Sale and Lease Back (USB) scheme is that it ensures liquidity to HDB flat owners needing to sell their property, with the HDB serving as the buyer of last resort. More importantly, the existence of a universal buy-back scheme serves as a back-stop to mitigate the inevitable price drop for HDB resale flats.**

Precisely because of its wider applicability the USB thus serves to create a floor price for HDB resale prices by providing price support at the 69-year mark, supporting resale prices and counteracting the inevitable price decline.

The power to initiate the USB scheme is also given to individual residents (upon entering the qualifying lease period) as opposed to waiting for the announcement of whole blocks or precincts being selected for SERS or VERS and then being subject to a voting process.

**Other residents who do not wish to adopt the USB can continue to stay at their units unaffected, without feeling pressured or displaced by collective votes, which is a significant advantage vis-à-vis VERS.**

## Treatment of the units retrieved under the USB scheme

Units purchased by HDB through this USB scheme would be reutilized by the HDB through the following means:-

- I. Resold under the SBF scheme, but with the crucial difference that various options for lease length would be provided, catering to different risk appetites, financial situations, personal aspirations and life stages;
- II. Refurbished and rented out as commercial HDB rental units (see next section). These would include 3-room, 4-room and 5-room flats, going beyond and 1 and 2-room HDB rental flats that are now provided to low-income Singaporeans under the various HDB public rental schemes to



help needy Singaporeans.

- III. A third option, which can be considered depending on the fiscal situation of the state and the fiscal impact of USB at the time, is to combine the USB-purchased units and securitize these into a financial instrument akin to a Real Estate Investment Trust, which can be sold to the private sector.

A quick comparison table of the two policy options to tackle the lease decay issue compared across different dimensions is as follows:

	<b>Universal Sale and Lease Buyback (USB)</b>	<b>Voluntary En-bloc Redevelopment Scheme (VERS)</b>
<b>Is the scheme universal to all HDB owners?</b>	Universal right accorded to every HDB lessee when their flat reaches 69 years of lease	Not universal, subject to HDB selection of block/precinct and voting
<b>How does the scheme get triggered?</b>	Activation of USB is triggered by lessee	Activation of VERS is triggered by HDB and subject to voting
<b>How is the scheme executed?</b>	Lessees can exercise USB without a vote within the block or precinct	Lessees can only realise VERS if a majority in their block of precinct vote for it
<b>Is there the right to opt out?</b>	Lessees who choose NOT to activate the USB can continue to stay in their HDB flats until the lease run-out date	Lessees who voted no to VERS will still need to relocate if the majority vote for it
<b>Is there still SERS eligibility for flats?</b>	Lessees who choose not to activate USB may still be eligible for SERS	Lessees who voted no to VERS will need to relocate and will not be eligible for SERS
<b>Is the compensation formula clear and concise?</b>	The formula for determining the USB compensation is transparent, creating resale market price support	Details on the compensation formula for VERS or which blocks are eligible for VERS are not yet known

# Policy Proposal: Urban Renewal

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## More widespread SERS

Analysis of key clusters of aging HDB estates reveal that many of these areas fall within city fringe areas, such as Toa Payoh, Bedok, and Marine Parade. This is unsurprising. The initial batches of flats were built near the city centre to facilitate the commute of workers to and from the city centre.

Many of these estates are relatively low rise and of low density with huge redevelopment potential. Furthermore, their favorable locations are ideal for rezoning into higher value commercial/industrial mixed-use plots.

Nevertheless, the pace of SERS has slowed down dramatically over the years.

## Making SERS available to more households

One potential option for accelerating the pace of urban renewal is for the pace of SERS to be accelerated.

It may be argued that in times of slow or negative economic growth, and shrinking government revenue, reduction in SERS projects is justified due to lack of funds in the short-term.

However, what is key is that the revenue gained from the land sales at a higher plot ratio is likely to exceed, or at least not be substantially less than the funding required to implement the SERS project.

Financing for SERS projects can also be raised through bonds, syndicated loans and other financing instruments – a direction which the government has increasingly embraced in recent years. In fact, the government announced in 2018 that it is considering providing state guarantees for long-term infrastructure-linked borrowings by agencies and statutory boards, so as to lower financing costs.<sup>72</sup>

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<sup>72</sup> Chia, Yan Min. "Singapore Budget 2018: Lowering Infrastructure Financing Costs." *The Straits Times*, February 20, 2018. <https://www.straitstimes.com/business/companies-markets/lowering-infrastructure-financing-costs>; "Government Bonds to Finance Infrastructure Projects." *Ministry of Finance*. Accessed January 25, 2019. <https://www.mof.gov.sg/Newsroom/Parliamentary-Replies/government-bonds-to-finance-infrastructure-projects>; Sen, Siow Li. "Singapore Budget 2018: Infrastructure Bond Financing Could Turbo-Charge Singapore Debt Market." *The Business Times*, February 21, 2018. <https://www.businesstimes.com.sg/government-economy/singapore-budget-2018/singapore-budget-2018-infrastructure-bond-financing-could>.



Moreover, we do note that given the broader tendency for resale values to decline over time, the compensation payable under SERS and thus the drain on state coffers will decline over time. This make an accelerated pace of SERS more feasible for the state.

Further, urban redevelopment endeavours are inherently long-term plans and should not be drastically swayed by economic cycles. There is a need to make provisions for phased urban renewals to ensure good management of both quality and quantity of housing stock despite short-term economic fluctuations.

It could be argued that considering a moderate to low rate of total population growth, there may be insufficient demand for properties sold after SERS redevelopment. But this neglects the potential for redeveloping older estates near the city centre to accommodate more people, which will free up land in outlying areas that can be zoned for other uses.

### SERS Plus

One of the key reasons cited for the slow pace of SERS is the need to identify a suitable replacement site in proximity to the affected units. This entails a protracted phased process of having to clear out and build up the replacement site before affected residents can move in, after which the vacated units will be redeveloped for the next batch of residents.

Hence, the introduction of another form of SERS scheme may be needed, which we can term SERS Plus. In this alternative scheme, there is no prerequisite for the government to have a secure proxy site before the launch of SERS. Affected residents of SERS Plus would be given priority and guaranteed placement of units under existing BTO and Sale of Balance flat (SBF) exercises – or would be given the option to buy shorter lease flats or rent government flats (see proposals outlined elsewhere in this paper).

On top of the pay-outs stipulated within the SERS compensation framework, affected residents under SERS Plus will be given an added relocation bonus to facilitate their move.

The purpose of this new SERS Plus option is to speed up urban renewal of the identified clusters to ensure that more residents benefit from the SERS scheme.

### Affording informed decisions

For market clarity, HDB can consider publishing estate SERS plans (including SERS Plus) in five to ten year blocks. This would complement the master plans published by the Urban Renewal Authority (URA).



Sellers and buyers would then be able to make informed decisions with a reasonable understanding of whether the unit being transacted is likely to undergo a SERS exercise, and if so, what type of SERS and when.

Certainty of redevelopment plans would aid in reducing rumour-driven, speculative behaviour and market “froth”, improving price stability and predictability, other things being equal.

It could be argued that such pre-announcement would act to increase the “lottery effect” of raising the resale price of SERS-affected blocks ahead of time, which would be iniquitous. However, this is better than not pre-announcing, which induces market players to act on unsubstantiated rumours and information leaks, leading to price fluctuation, which is equally if not more, iniquitous.

Nevertheless, there are clearly reasonable views on both sides of this particular issue and we welcome public feedback on this point.

## Eligibility for SERS

We recognize that a 100 percent commitment to redevelopment of all HDB blocks under SERS is not feasible. For one thing, there are limitations on how many construction projects can be run in any economy at any one point in time without “overheating” that economy. Certain blocks would have to have their lease run out before HDB repossesses the units.

In view of this, there should be other measures to safeguard the interest of residents who are ineligible for any redevelopment schemes. Hence the earlier suggestions for schemes such as USB to provide resale price support for HDB flats running out their leases.

## Calibrating the construction of new BTO estates

Resident population growth has been approximately 30,000 a year since 2010 and 2011. Assuming an average household size of 3.3, this would mean that around 9,000 or so new dwelling units are required annually. Completions within the same time period have far exceeded the resident population growth. Private vacancies have only started to inch down, but there are still around 12,000 private units completing up to 2022. Will the HDB have a vacancy rate problem, compounded by a still steady stream of 16,000 to 17,000 BTO units in the last few years, which will continue to increase supply up to 2022?

BTO projects should continue, but, rather than creating too many new towns, planners would do well to consider, in future, partly meeting demand from new family formation by selling balance flats in mature estates acquired under the Universal Sale and Lease Back scheme or USB (see previous chapter). This would help advance urban renewal in the mature estates where many Singaporeans desire to live, since these are nearer to the city centre.

# Policy Proposal: Creation of a viable public rental market

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“One other possibility is the trend of homeownership being thrown in reverse. Even as private property is becoming less affordable and HDB flats are becoming a less certain investment, a new generation of Singaporeans are emerging with a very different set of priorities. Millennials are entering the workforce with a “you-only-live-once” and “gig economy” mindset, making it hard for them to commit to purchasing a home, says Ku Swee Yong, CEO of International Property Advisor. “Who would dare to commit to a home loan [when they do not have a permanent job]?” he says.”

The Edge Singapore<sup>73</sup>

## Stocktaking of the Existing Model

When the HDB first started building flats in the early 1960s, it sold rental flats.<sup>74</sup> These were 1-, 2- and 3-room rental flats. A subsequent push towards home ownership by the government in 1964 saw the HDB selling 3-room rental flats to existing tenants (the 3-room rental flat register was closed in 1982).<sup>75</sup>

<sup>73</sup> “Harder to Upgrade from HDB to Private Property with Recent Home Price Trends.” The Edge Singapore, June 11, 2018. <https://www.theedgesingapore.com/harder-upgrade-hdb-private-property-recent-home-price-trends>.

<sup>74</sup> “In Pictures: Public Housing in Singapore through the Years,” The Straits Times, February 22, 2017, <https://www.straitstimes.com/multimedia/photos/in-pictures-public-housing-in-singapore-through-the-years>.

<sup>75</sup> “HDB Begins Selling Flats under Home Ownership Scheme - Singapore History,” HistorySG, 2016, <http://eresources.nlb.gov.sg/history/events/2ab696d3-d9f5-4970-9108-e0f95919cc98>.

When the HDB resumed building rental flats in 2007, only 1- and 2-room flats were built.<sup>76</sup> There are about 60,000 existing HDB rental flats (ie flats rented to tenants by the HDB itself) under three schemes, and as of August 2018, another 3,000 units are being built.<sup>77</sup> These HDB rental flats are intended to provide housing to low-income or needy Singaporeans.

## Public Rental Scheme (PRS)

Flats under the PRS in its current form are heavily subsidised to cater to Singapore Citizen (SC) households who have no other housing options. As the number of rental flats under this scheme is limited, one must fulfil certain eligibility criteria to apply for a rental flat, under either the Family Scheme, or the Joint Singles Scheme.<sup>78</sup>

There is a waiting time from the time of application to obtain a vacant unit under these schemes. Various factors impact the waiting time, such as the household's locational preferences; the quotas under the Ethnic Integration Policy; and the setting aside of vacant flats to house existing tenants whose rental blocks are due for redevelopment.<sup>79</sup>

Successful applicants are required to pay a 1-month rent deposit when the tenancy agreement is signed. Rents vary based on monthly income, flat type, and whether the applicants are applying for a first or second time.<sup>80</sup> A detailed breakdown is as follows:

Monthly Household Income		Monthly Rent	
Applicant Type		1-Room	2-Room
<b>\$800 or less</b>	First-timer	\$26 – \$33	\$44 – \$75
	Second-timer	\$90 – \$123	\$123 – \$165
<b>Between \$801 and \$1,500</b>	First-timer	\$90 – \$123	\$123 – \$165
	Second-timer	\$150 – \$205	\$205 – \$275

<sup>76</sup> Singapore Parliamentary Records. August 6, 2018. <https://sprs.parl.gov.sg/search/sprs3topic?sittingdate=6-8-2018&reportid=id:oral-answer-7057&contenttype=oral-answer>

<sup>77</sup> Ibid.

<sup>78</sup> "Eligibility - Housing & Development Board (HDB)." *HDB*. Accessed January 22, 2019.

<https://www.hdb.gov.sg/cs/infoweb/residential/renting-a-flat/renting-from-hdb/public-rental-scheme/eligibility>

<sup>79</sup> Singapore Parliamentary Records. July 9, 2018. <https://sprs.parl.gov.sg/search/sprs3topic?sittingdate=9-7-2018&reportid=id:written-answer-3078&contenttype=written-answer>

<sup>80</sup> "Rents and Deposits - Housing & Development Board (HDB)." *HDB*. Accessed January 22, 2019.

<https://www.hdb.gov.sg/cs/infoweb/residential/renting-a-flat/renting-from-hdb/public-rental-scheme/rents-and-deposits>

## Interim Rental Housing (IRH)

The IRH was launched in 2009 by MND as a pilot. The scheme—which houses over 800 households with around 1,000 flats—allows cash-strapped families to live in vacated HDB blocks slated for demolition, while they work out permanent options. It was designed to house families temporarily for about a year.

## Parenthood Provisional Housing Scheme (PPHS)

As part of the enhanced Marriage & Parenthood Package, the PPHS helps to temporarily house families as they await the completion of their new flats. Over the years, the scheme has been extended to include more family types. Rents are between \$600—\$900 for 3-room flats, and \$1,500 for 4-room flats, depending on location.

## Limitations of the existing rental model

The existing model for renting flats directly from the HDB has the following gaps.

### 1. A lack of flexibility

While there are about 60,000 rental flat units under the three schemes (around six percent of the total HDB stock), access to these rental flats is limited by total household income. This means that those families deemed not to have a household income that is low enough have to seek resource on the commercial rental market, where prices are high.

### 2. Short tenancy agreement leading to lack of permanency.

The PRS has tenancy agreements of 2 years, while residents in IRH have found themselves needing to stay beyond the 1-year period the scheme was designed for, leading to appeals for extensions.

### 3. Stigmatisation of families

Anecdotal evidence suggests that families in rental units sometimes feel stigmatised, a symptom of growing class-consciousness forming around the axis of economic inequality. This is a factor the government has recognised as well, as Minister Lawrence Wong noted in a 17 May 2018 speech in Parliament.

“Our housing and urban plans must continue to push back against the growing pressures of inequality and social stratification. We cannot just leave things to chance, but we must deliberately plan for a more equal and inclusive society. That’s why we have been building more rental flats with newer, better designs, alongside the sold flats in various HDB towns. This means that families grow up in the same neighbourhood, and the residents share the same common areas and facilities. Now we are going one step further to integrate rental and sold units within the same HDB block itself.”<sup>81</sup>

## Potential Solution – Public Rental Market (PRM)

A reworking and expanding of the current patchwork of schemes into a **Public Rental Market (PRM) is possible**, in conjunction with a strong legal framework that draws on the experience of the German housing model that prioritises the protection of tenants to ensure permanency.<sup>82</sup>

Germany’s rate of home ownership, now at approximately 50%, has historically been low among developed countries. The roots of this can be found in Germany’s early approach to housing, which was to encourage the building of new homes after the war but in a context where few Germans were able to buy homes. This saw the introduction of policies like regulation of rents and not allowing homeowners to deduct mortgage-interest payments from their taxes. This led to a large supply of privately built housing units that were rented out. However more recently, the low interest rate environment, among other factors, has led to a rise in home buying.

PRM flats would be flats rented out by the HDB on commercial terms. The pricing principle we propose is that rental rates be set by taking reference from PPHS rates but reflecting a discount to recent HDB flat commercial rentals in the vicinity.

**This recognises the reality that commercial HDB rentals may not fall when demand is weak, since flat lessees may simply decline to rent out units if the market rentals fall below basic levels needed to compensate for the inconvenience of renting out the unit or room.**

The extent of the discount can be based on several factors, such as:

- The desirability of the location, based on proximity to the city centre.

<sup>81</sup> “Speech by Minister Lawrence Wong at the Debate on the President’s Address” (Ministry of National Development, May 17, 2018), <https://www.mnd.gov.sg/newsroom/speeches/view/speech-by-minister-lawrence-wong-at-the-debate-on-president%27s-address>.

<sup>82</sup> Cornelius, Julia. “Tenant’s Rights Brochure for Germany.” Accessed January 22, 2019. [https://www.tenlaw.uni-bremen.de/Brochures/GermanyBrochure\\_09052014.pdf](https://www.tenlaw.uni-bremen.de/Brochures/GermanyBrochure_09052014.pdf).

- The gap between the prevailing HDB commercial rentals and the PPHS rents. If commercial rentals are far lower than PPHS rents, then the discount may be waived altogether.

Commercial rental rates for a 4-room HDB flat as at 4 July 2019 range from \$1,700 to \$2,700 per month.<sup>83</sup> On the other hand public rental rates for needy Singaporeans range from \$26 to \$275 per month.<sup>84</sup> In between these two levels of rental lies considerable room for a type of pricing option that would serve as another option for would-be renters who are unable to rent HDB flats at either end of this spectrum.

PRM flat rents would be priced at levels in between current HDB public rentals and HDB commercial open market rentals today. Hence they would attract tenants from varied backgrounds who would like a rental solution for a certain number of years and who are not eligible for HDB public rentals while not wanting to take up what is available (in terms of price, location, etc) on the open market for HDB rental.

The scheme would be designed so as to strongly promote the integration of rental with leased units. This would also foster integration of Singaporeans from different socio-economic strata, life situations and life stages, recognizing that diversity has advantages in breeding the right attitudes for nation-building.

This integration could be facilitated by the USB proposed in this paper (see earlier section). This would provide the HDB with a stock of flats to either sell as balance flats or rent out under the PRM scheme.

Where there is excess demand, allocation of PRM flats would be based on balloting, as is the case with the allocation of BTO flats. This may lead to some Singaporeans having to rent commercially rather than on preferential PRM terms and pricing, but this is not significantly different, in principle, from the bifurcation between buying HDB BTO flats (according to balloting) and buying HDB resale flats.

PRM flats would be restricted to Singapore citizens.

If PRM demand proves to be strong and sustainable, the government may consider the option to even construct PRM flats in the long-term future to meet demand that cannot be catered to by renting out flats acquired via the USB scheme.

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<sup>83</sup> "Rental Statistics - Housing & Development Board (HDB)" (Housing Development Board), accessed November 21, 2019, <https://www.hdb.gov.sg/cs/infoweb/residential/renting-a-flat/renting-from-the-open-market/rental-statistics>.

<sup>84</sup> "Rents and Deposits - Housing & Development Board (HDB)" (Housing Development Board), accessed November 24, 2019, <https://www.hdb.gov.sg/cs/infoweb/residential/renting-a-flat/renting-from-hdb/public-rental-scheme/rents-and-deposits>.



## Potential Benefits of PRM

As Singapore enters the next stage of its housing story, we recognise that, while the home ownership model served our nation well in the past, more flexibility can be injected into today's housing market.

The PRM is a realistic proposal to expand the universe of options for rental for those Singaporeans who want this option for a certain number of years. It is not a proposal that would foist rental on all residents or undermine the viability of the resale market for those who prefer to own leases.

Easier availability of commercial rental flats, at rates which are less than what is available in the current open rental market, will provide an option for those who want to avoid:-

- the burden of sizeable mortgage payments (even if these are funded from CPF, since the CPF may be insufficient and CPF housing loans may hamper retirement adequacy while also creating an onerous need to repay the CPF “loan” when the flat is sold later in life);
- the risk of negative equity (where the resale value of the flat falls below the mortgage amount, which may mean that the borrower has to top up cash in case he or she cannot service the mortgage to its completion). It should be noted that in an environment of resale flat prices that are trending downwards, the risk of negative equity rises, other things being equal.

To flourish in the 21st century global economy, we need to encourage Singaporeans to take calculated risks – to take time off for education or retraining; to take jobs in new and disruptive industries and not only in established fields like banking or the civil service; to encourage Singaporeans to create new value by becoming entrepreneurs.

While many if not most Singaporeans may still choose to buy their homes, fostering a housing ecosystem with more meaningful rental options will cater to those Singaporeans who wish to treat housing as an expense rather than an asset, for whatever reason.

## Would these proposals lower commercial rental rates at the expense of older HDB lessees?

By increasing the supply of commercial HDB rental units, open market HDB whole unit rents may see a tendency to decline, assuming a stable rate of population growth. It could be argued that this reduces the income that HDB flat owners could gain from renting out their rooms and units. However this neglects a few factors:



- a) Only a small minority of HDB lessees currently rent out their flat. As cited above, in 2012, 93% of HDB flats belonging to those aged 55 and above were qualified to sublet their units, but only 10% of lessees took up the sub-letting option, primarily citing privacy, space and security concerns.<sup>85</sup>
- b) The availability of a PRM option at a price point between the current HDB rental schemes for low-income homes and open market HDB rentals may help create more rental demand from younger singles, those who are temporarily on low incomes due to studies, entrepreneurs at the start-up stage, older singles, older couples who wish to have more flexible housing options, freelancers facing some income security and other groups. This injection of HDB rental supply from the PRM scheme may help create demand for HDB open market rental units as not all would-be renters would be successful in obtaining a PRM flat. Those who are less price-sensitive may take up open market HDB rental in such a climate, albeit at a lower rental rate due to the price pressure of lower rentals from the PRM scheme overall. In other words, the PRM scheme would generate more demand volume, and this may act to inject liquidity into the current HDB commercial rental market, albeit at lower rental prices.
- c) the USB creates a more stable and attractive monetisation option for HDB flat lessees and hence a price anchor for resale prices, due to features like the pay-out formula. With USB, HDB flat lessees will have less need of the rental monetisation option (which, after all, generates loss of privacy).

## Fiscal implications of PRM

It could be argued that offering public flats at sub-commercial rentals would generate an opportunity cost for state coffers. However this should be set against the substantial state subsidies currently given for BTO flat purchases. Moreover it should be recalled that the cost paid to HDB lessees to acquire their flats under the USB scheme is tied to the future estimated flow of rental income. This would reduce the fiscal outlay from the PRM scheme.

<sup>85</sup> Sumita Sreedharan, "Elderly in S'pore Not Keen on Using HDB Flats to Make Money," *TODAY*, June 7, 2013, <https://eresources.nlb.gov.sg/newspapers/Digitised/Issue/today20130607-1?ST=1&AT=advanced&K=chang+airport+mrt&KA=chang+airport+mrt&DF=&DT=&NPT=&L=&CTA=&P=613#>.

# Policy proposal: New flat pricing and other measures

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There can be other measures that would help to move the housing market towards a focus on affordable public housing for those who need it, a greater variety of options and less potential for HDB resale prices to collapse.

## Peg BTO prices to median incomes, disclose and rethink land pricing to HDB

Returning to a point made in our GE2015 Manifesto, we believe that pegging HDB BTO prices to median incomes will encourage a stable relationship that controls the extent to which BTO price growth can significantly outstrip median wage growth.

It is the principle of pegging that is the crux of this idea. As BTO flats are a form of public housing aiming to provide affordable housing to those that need it, and since the government has significant power to control pricing as the largest customer for the construction sector and the largest owner of land, the way BTO prices are set should reflect the goal of keeping housing prices within a reasonable range of median income. The pegging should result in BTO prices being literally defined by a formula that links back to incomes.

Coupled to this, we call for transparency in the pricing of land sales to HDB. The land sale component should be made transparent to HDB BTO flat buyers. Past Parliamentary replies suggest that land pricing is undertaken by the Chief Valuer on the basis of multiple factors. The details of the approach taken are not fully transparent.<sup>86</sup> To help the public understand the pricing, HDB should give each buyer the breakdown of land sale costs, developmental costs and subsidies.

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<sup>86</sup> Singapore Parliamentary Reports, February 13, 2019, <https://sprs.parl.gov.sg/search/sprs3topic?reportid=oral-answer-1917>.



The government has room to rethink the pricing formula for selling land to the HDB so that it enables the HDB to sell flats at a reasonable price relative to wages. Such a price would, after all, almost certainly be higher than the historical prices at which the bulk of land in the government's land bank was acquired.

It could be argued that changing the formula for land pricing in sales from SLA to the HDB amounts to a raid on the reserves. However, such a policy would not deplete the reserves, only slow its rate of growth. The reserves would not be depleted and would still grow from HDB land sales albeit at a slower rate, other things being equal.

Another criticism could be that this would not be fair to earlier generations who had to pay higher HDB prices with a less favourable land cost pricing. However, as the country matures and wealth accumulates, the country can afford to better utilize advantages accumulated by previous generations not only for the betterment of future generations but also to ensure that there are enough people in future generations – a challenge we need to meet, given our chronically low TFR.

## Shared responsibility mortgages

In conventional housing mortgages, the home (mortgage) owner bears all the risk for housing price fluctuations. Mortgage payments may remain the same even in a scenario of sharp house price corrections during economic downturns. This may lead to negative equity in cases where owners find that the proceeds from the sale of their mortgaged house are insufficient to repay the outstanding loan amount. This reduces the ability of homeowners to downgrade or “rightsize” their properties, especially in times of financial need which often coincide with economic downturns.

In a shared responsibility mortgage model, the principal balance and interest payments can be adjusted downwards by the same (or a similar) percentage fall seen in the house price. There would, however, not be an upwards adjustment to principal balance and interest payment if the reverse occurs. In exchange for protection against house price decline, homeowners would part with a percentage of capital gains during the sale of the property.

More equity-like mortgages such as the Shared Responsibility Mortgage would help to stabilize the housing market and protect homeowners against economic downturns. The benefits would accrue to citizens as well as to the entire economy.<sup>87</sup>

**The government can study and, if justified, promote such shared responsibility mortgages.**

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<sup>87</sup> Atif Mian and Amir Sufi. *House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent it from Happening Again*, (Chicago, IL: University of Chicago Press, 2014).

# Conclusion: Working towards a mature housing market

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Our housing policies have changed together with the needs of Singapore. However, at times in Singapore's post-independence history, policies have been out-of-synch with prevailing realities.

In the 1990s, flat prices and sales volumes surged unsustainably, only to crash with the Asian Financial Crisis in 1997, leading to large unsold stocks of HDB flats and painful capital losses for many. In the first decade of the 21st century, Singapore saw spiralling BTO and resale prices, which created insecurity for many lower and middle-income Singaporeans starting a family. In the past few years, the HDB resale market has seen relatively weak volume and price performance versus private homes, partly on jitters around the prospect of end-of-lease – leading to retirement adequacy worries.

For all our successes in public housing, it is time for a recalibrated approach. The challenge of reforming our housing system is not an easy one. Past policies have created an entrenched mindset in some quarters that HDB flats should be an ever-appreciating asset class – a belief that, in the final analysis, cannot be reconciled with the reality of 99-year leases. Yet, crashing resale prices would hurt those who have made decisions premised on this notion and have the bulk of their net assets for retirement tied up in their homes.

We at the Workers' Party are consulting Singaporeans on the best way forward. In this light, we have listed our guiding principles:-

- I. HDB flats are primarily an affordable home, as compared to private property.
- II. Next to the objective of creating affordable homes, the resale value of HDB flats should act as a form of wealth protection for retirement and legacies.
- III. Wealth appreciation (if any) should be in line with economic growth and be inter-generationally fair, i.e. fair to both citizens

and the State, as the custodian of the interests of future generations.

#### IV. More housing options beyond owning HDB flat 99-year leases should be made available to allow Singaporeans to make informed housing choices that suit different needs at different stages of their life.

We have also described a number of policy proposals for evaluation, including proposals drawn from the government and third parties:-

- a) VERS.
- b) a Universal Sale and Lease Back Scheme or USB which all HDB flat lessees can use at their flat's year 69, which will act as a price support for HDB resale flats as leases wind down, reducing the risk of a sharp collapse.
- c) a more rapid pace of SERS for responsible urban renewal in a fiscally sustainable way; introducing SERS Plus.
- d) the establishment of a viable commercial Public Rental Market (PRM) scheme as an alternative housing option, at rental levels in between current HDB Public Rental schemes and what is now available on the open market.
- e) pegging BTO flat prices to median incomes and rethinking the way land sales to the HDB are priced, to ensure the affordability of HDB flats to Singaporeans.
- f) testing the concept of shared responsibility mortgages.

In conclusion, we believe that our guiding principles return us to the starting point of what HDB flats were originally meant to be—a liveable home that every Singaporean can afford.

We invite all readers to share your viewpoints as part of this consultation exercise.



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# Glossary

**HDB – Housing and Development Board.** The Housing & Development Board is the statutory board of the Ministry of National Development responsible for public housing in Singapore. It is generally credited with clearing the squatters and slums of the 1960s and resettling residents into low-cost state-built housing.

**GLS – Government Land Sale.** To facilitate implementation of the Concept Plan and Master Plan, State land is released for development through the Government Land Sales (GLS) Programme. GLS sites are released either through the Confirmed List or Reserve List.

**PRM – Public Rental Market.** This is a policy suggestion to expand existing Public Rental Scheme operated by HDB to create a viable housing option for qualifying Singaporeans. The existing Public Rental Scheme is limited in supply and only available to qualifying low-income household / qualifying Singaporeans.

**LBS – Lease Buyback Scheme.** This is a monetization option introducing by HDB since 2009 to aid qualifying Seniors Singaporeans HDB flat owners to unlock their housing equity to address retirement needs.

**USB – Universal Sale and Lease Back Scheme.** This is a policy suggestion to create an opt-in scheme that allows qualifying owners of old HDB units to sell their units back to HDB at published rates with option to lease back the said unit as rental units.

**SERS – Selective En-bloc Redevelopment Scheme.** This is an urban redevelopment strategy employed by the Housing and Development Board in Singapore. Only four percent of HDB flats have been identified for SERS since it was launched in 1995. All residents displaced by the redevelopment works are offered a new 99-year lease in new flats constructed nearby.

**TFR – Total Fertility Rate,** which is a standard demographic indicator used internationally to estimate the average number of children that a woman would have over her childbearing years (i.e. age 15-49), based on current birth trends.

**VERS – Voluntary Early Redevelopment Scheme.** This is an urban redevelopment strategy mooted by Prime Minister Lee Hsien Loong during National Day Rally 2018. Details of the scheme are not announced as yet.