Public Housing in Singapore: Turning Constraints to Opportunities

Led by the Housing Development Board (HDB), public housing development is a key pillar of Singapore’s social and economic development. According to the Department of Statistics, 78.4% of Singapore’s resident population lived in public housing apartments while 88.9% of households in Singapore owned their homes as of 2022. These policy outcomes have been driven by the government’s long-term development strategy and its extensive investment of resources. According to the HDB’s Annual Report 2020/2021, 17,400 new Build-to-Order (BTO) flats and 5,200 Sale of Balance flats were launched in 2021. The Report also revealed that more than 7,100 BTO flats were completed and 6,200 homeowners received their flats in 2021.

Singapore’s public housing programme is therefore intrinsically tied to its socio-economic development. Upon attainment of self-government in 1959 and independence in 1965, Singapore faced the immediate challenges of providing jobs and housing for its rapidly growing population. Housing was a particularly urgent issue, given that in 1959, approximately 250,000 of Singapore’s resident population lived in slums while another 300,000 lived in squatter settlements. This gave rise to other problems such as the spread of infectious diseases and, most notably, a major fire in the Bukit Ho Swee squatter settlement.

It was within this context that the HDB was set up in 1960 to plan and build high rise public housing units known as HDB flats. Unlike social housing in other countries however, Singapore’s placed a strong strategic focus on home ownership in its public housing programme. This was evident in the introduction of a Home Ownership Scheme in 1964 that allowed eligible households to purchase 99-year lease hold flats at subsidised prices.

As such, Singapore has one of the most successful public housing programmes in the world. Taken together, these two figures – homeownership rate and proportion of population living in public housing apartments – highlight the abundance and affordability of Singapore’s public housing. This housing programme has also contributed to Singapore’s economy by enhancing household wealth and driving Singapore’s domestic housing loans sector. As will be discussed in the remainder of this case study, these are driven by the HDB’s public housing policies and housing finance arrangements.

Public Housing Policy

At the heart of Singapore’s public housing programme is the HDB, which functions as Singapore’s public housing agency. Housed within the Ministry of National Development (MND), the HDB plans and develops

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Singapore’s public housing estates, upgrades and transforms towns, and provide commercial, recreational, and social amenities in these towns. Also operating within the MND’s oversight are the Urban Redevelopment Authority (URA) and the Singapore Land Authority (SLA). While the URA is in charge of land use and urban planning, the SLA releases land for public and private developments through periodic land sale exercises.

As the parent ministry, the MND therefore provided strategic direction and resource allocations for urban and infrastructural development in Singapore. These were then implemented through the roles of the SLA (land sales and allocation), URA (urban planning) and HDB (public housing) (Exhibit 1). From the perspective of public housing, the MND provided strategic direction and resources to support the government’s public housing strategies. Through zoning, the URA determines which land parcels are meant for residential developments. The SLA then sells the allocated land to the HDB for developing public housing estates.

Exhibit 1: MND and various public sector agencies

Importantly, the HDB was endowed with both the financial resources and legal powers to achieve its goals. The most significant of the HDB’s legal powers is the Land Acquisition Act, which will be discussed next.

**Land Acquisition Act**

Enacted in 1966, the Land Acquisition Act granted the government broad powers to acquire land for any public purpose or any undertaking which is of public benefit, public utility or public interest. While compensation levels for the acquisition of land was initially fixed at a statutory date, this would be removed by Parliament in 2007, with compensation becoming pegged to full market value since this amendment.

The rationale behind the Land Acquisition Act was very much driven by Singapore’s severe land constraint, with the government reasoning at that time that its ability to provide affordable public housing and sufficient public infrastructure depended upon the availability of inexpensive land. The Land Acquisition Act played an important role in maintaining public housing affordability by allowing the government to acquire land at inexpensive rates, prior to 2007 at least, for the public purpose of developing public housing.

Public buy-in for the Land Acquisition Act was achieved through the provision of alternative accommodations for all businesses and persons affected by the government’s land acquisitions. In the early stages of Singapore’s urban development, squatters were given priority allocation of new HDB flats, further driving Singapore’s public housing programme. As a consequence of the Land Acquisition Act as well as the
government’s land reclamation efforts, state ownership of land, as a proportion of total land, rose from 44% in 1960 to 90% in 2005.\(^5\)

Furthermore, the Land Acquisition Act contributed to the ‘nationalization’ of large parcels of land, much of which was previously held under individual or fragmented ownership, that could allow for the development of large HDB estates. Aside from urban planning considerations that favoured the colocation of amenities with HDB blocks, this ability to secure large land parcels also allowed the HDB to scale up its public housing programme significantly and reduce the unit costs of public housing development.

**Financing Public Housing**

Singapore’s approach to housing finance has been characterised as comprising two crucial components:

- Supply side: Resources required for the government to develop public housing
- Demand side: Funds required by residents to purchase public housing

On the supply side, government finance for public housing ensured that the costs of building and developing public housing could be kept low. On the demand side, household-level instruments of public housing finance provided residents with the financial tools and arrangements necessary for purchasing a flat.

**Government Grants**

In Singapore, finance for public housing is allocated directly from the government’s budget. However, the allocation of finance to public housing is not a straightforward process. Two distinct steps can be identified in the government’s public housing financing arrangements. First, the HDB purchases land from the SLA before developing and constructing the HDB flats that are eventually put up for sale to eligible buyers at below-market prices. This is complemented by the disbursement of housing grants to eligible households who purchase new and resale flats for the first time. The culmination of these activities typically results in the HDB accruing an annual deficit.

The second step of public housing financing comes in when the government disburses a grant to the HDB to cover the entire amount of this deficit. The HDB also receives a second grant for preserving the capital gains attributable to past governments on disposal of protected assets. According to the HDB’s Annual Report 2020/2021, the cumulative amount of government grants disbursed to HDB since 1960 amounted to $42.97 billion.\(^6\) For instance, HDB’s Annual Report 2020/2021 showed that the agency had incurred a deficit of $2.35 billion, with gross income of $1.62 billion and net operating expenditures of $3.97 billion. Of this deficit, $1.95 billion was used to fund the HDB’s homeownership schemes.

As the Financing of Public Housing section of the annual report shows, this deficit was covered by a government grant of $2.35 billion, which is exactly equal to the deficit incurred. In short, the HDB incurs losses from building HDB flats and providing grants to eligible buyers. These losses are subsequently covered via a direct government grant to the HDB. Incurred through the sale of HDB flats at below market prices as


well as the provision of market subsidies, the HDB’s annual deficits therefore represent the amount of government resources required for ensuring public housing affordability.

**Issuance of Bonds**
The HDB also receives financial support through the issuance of bonds, although proceeds from these bonds are used to finance specific projects rather than the construction of HDB flats or the provision of housing grants. For instance, the HDB issued 5-year Fixed Rate Green Notes totalling $1.2 billion in October 2022, with the Notes paying out a coupon of 4.09% per annum. Net proceeds of the Notes were expected to be used for financing or refinancing eligible green projects under the HDB’s Green Finance Framework, specifically green buildings. Overall, the Annual Report 2020/2021 showed that the HDB had issued $25.8 billion worth of bonds in financial year 2020.

**Encouraging Homeownership**
In order to encourage homeownership, the HDB provided mortgage loans to purchasers of HDB flats. This began in 1964, when the government launched a homeownership scheme that allowed purchasers to take up a HDB loan that covered up to 80% of the sale price of a flat over 5, 10 or 15 years at 6.25% interest. The homeownership scheme would be replaced by the Central Provident Fund (CPF) Approved Housing Scheme 1968, establishing the crucial link between the CPF and homeownership. This alignment between HDB and CPF would be further enhanced in February 1986, when the HDB’s fixed mortgage interest rate of 6.25% was replaced by floating rate that was pegged at 0.1% above the prevailing CPF Ordinary account rates. As of 2022, the CPF Ordinary Account rate was 2.5% while the HDB mortgage interest rate was 2.6%. The HDB loan was particularly crucial during periods of high interest rates. For instance, high inflation in 2022 caused mortgage interest rates from commercial banks to spike unexpectedly.

Another related policy is the Ethnic Integration Policy (EIP) introduced in 1989 to ensure that HDB estates maintained a balanced mix of ethnic groups with the aim of promoting racial harmony. The EIP applies to the sale and purchase of all new and resale HDB flats for all ethnic groups, and is implemented by setting quotas for various ethnic groups at the block and neighbourhood levels. In practice, some homeowners could face additional difficulties selling their flat under the EIP, and the HDB has stepped in, such as by relaxing the EIP limits in certain cases. More recently, the HDB has offered “buyback assistance” by directly buying back flats from such homeowners.7

**CPF**
The CPF is a mandatory retirement savings scheme which required workers and their employers to respectively allocate 20% and 17% of the worker’s monthly salary to his or her CPF account. The worker, also known as the CPF ‘member’, can only withdraw parts of their CPF monies at age 55 and the remainder at age 65. CPF contributions are allocated into three separate accounts for each member: an ordinary account, a special account and a Medisave account. The special account comprises funds that can only be drawn down upon retirement at 65 while the Medisave account is earmarked for medical needs.

An important catalyst for homeownership in Singapore came in the form of a 1968 amendment to the CPF Act which allowed members to withdraw funds from their accounts to finance the down payment and mortgage payments for HDB flats. The subsequent creation of the three aforementioned CPF accounts would mean that the financing of down payments and mortgage could only come from a member’s ordinary account. This arrangement applies for both HDB flats and private property.

Through this amendment, workers are able to finance their homes out of their CPF savings rather than cash holdings, significantly increasing household liquidity. This is a crucial point, since households were now able to purchase their homes without experiencing significant impacts on their short-term liquidity or quality of life. Working in tandem with this arrangement was the HDB’s role in providing mortgage loans for homeowners.

**Grants and Subsidies**

In order to further encourage homeownership, particularly among married couples and young families, a variety of schemes were to first-time buyers of HDB flats. The HDB’s Enhanced CPF Housing Grant provides up to $80,000 to families who are applying for their HDB flats for the first time, subject to eligibility requirements such as a gross monthly household income cap of $9,000 as well as requirements prohibiting the ownership of private properties. For first-time buyers purchasing a resale HDB flat, the CPF Housing Grants for Resale Flats provides up to $50,000, subject to eligibility conditions. To encourage flat buyers to live with or near their extended families, the Proximity Housing Grant provides grants of up to $30,000 for buying a resale HDB flat to live with, or near (within 4 km), their parents or child. As its Annual Report 2020/2021 shows, the HDB incurred a deficit of $1.95 billion from its home ownership schemes, which includes these grants and subsidies.

**Summary**

In sum, public housing finance in Singapore is driven by two sets of processes (Exhibit 2). On the supply side, the government disburses grants to the HDB for building HDB flats and estates. These grants are typically equal to the annual deficit that is incurred by the HDB for funding public housing developments and providing home ownership grants. On the demand side, public housing affordability is ensured though the sale of HDB flats below market prices and the provision of CPF grants to first-time homebuyers.

Exhibit 2: Supply-side and demand-side of public housing finance
Moving forward, Singapore will face several challenges in public housing finance. First, the fragmentation of households in Singapore has resulted in strong demand for public housing from singles and small households. This means that the HDB will incur larger deficits as it seeks to address this growing demand for public housing. While these deficits will be offset by government grants, public housing expenditures by the Singapore government will continue to grow, placing greater fiscal constraints on the government. Second, this heightened demand for public housing and rising inflation have caused the prices of HDB flats to rise. This has significant impacts on public housing affordability.

While property cooling measures that tightened housing loan requirements and restricted the ability of private property owners to purchase HDB flats were introduced in September 2022, the HDB had indicated that it was still exploring other ways of maintaining public housing affordability. Moves to tighten housing loan requirements were driven in particular by high inflation and high interest rate environment that Singapore faced in 2022, with interest rates for private home loans rising substantially. In light of this, the HDB will need to ensure that interest rates for HDB loans remain low.