

## Time for a relook at housing policies: Researcher

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Dr Tan Meng Wah says that Singapore's public housing achievements, on most counts, are enviable. But success can create its own problems too. Indeed, for some years now, concerns have been aired about its affordability, due to current high public housing prices. -- ST FILE PHOTO: CAROLINE CHIA

Singapore's public housing achievements, on most counts, are enviable. But success can create its own problems too. Indeed, for some years now, concerns have been aired about its affordability, due to current high public housing prices.

At the core of such concerns is whether public housing is more a "public and a consumption good" or a "private and an investment good". This is not just academic.

If the role of the Housing Board is sole provider of public housing as a public good, then its monopoly allows it to more effectively acquire and allocate limited land parcels and achieve economies of scale. Home buyers get reasonably priced quality housing.

But if public housing is deemed to be a private good and prices set are based on market forces, then HDB's monopoly and the absence of competition work to the detriment of home owners. To maximise its return locked away in the form of reserves, the Government will, at least in theory, have every incentive to price land at the highest possible market price.

Such ambiguity over the HDB's role saw many early home owners - having bought their homes at low prices - benefit handsomely from rising property prices over the past decades. But later buyers have had to contend with high prices. Hence, a

fundamental relook at the existing public housing policies is warranted, given that domestic and external conditions can affect future prices.

### ***No longer a safe bet***

It should not be assumed, for example, that "investing" in an HDB apartment will continue to be a safe bet, given the already high resale prices.

In a prolonged depressed market, home owners may incur losses. Indeed, HDB resale prices were depressed for 13 years between 1996 and 2009 before prices recovered to their 1996 high.

Given current HDB home prices, high mortgage payments also raise the risk of default in, say, a recession, or when structural unemployment rises. More households are in mortgage payment arrears: from 4 per cent in 2002 to 7.9 per cent in January 2009. From 2002 to 2006, 360 households surrendered their flats after defaulting on their mortgage loan repayments.

It is also risky to assume that young Singaporeans will enjoy the current favourable economic conditions and hence high income growth in the next three decades. The risks from future adverse economic conditions are not limited to the low-income earners.

Among the unemployed, the proportion of those who are managers, professionals and technicians has been rising steadily, from 14.7 per cent in 1991 to 27.8 per cent in 2001 and 36.2 per cent in 2011. There is also a rise in the number of jobless older workers. The share of workers in their 50s and above among the unemployed tripled from 7.3 per cent in 1992 to 22.4 per cent in 2010.

These trends suggest that high mortgage commitments may drive default rates up in the future as the workforce continues to age and earning power wanes.

While policymakers should strive for public housing prices to rise in value in tandem with economic growth to reflect their true market value, asset enhancement should not remain the predominant tenet guiding policy.

### ***Public or private good?***

ONE solution is to tackle head-on the issue of whether public housing is a public or private good. New flats can first be treated as a public consumption good at the point of purchase from HDB and then as a private investment good at the point of resale.

In other words, new flats are to be sold by HDB at cost-based prices; and priced differently depending on location. The land value is announced but is omitted to keep selling price affordable.

After the minimum holding period - now five years - when a home owner decides sell the HDB flat in the resale market, HDB will have the first right to reclaim the predetermined land value from the capital gain of the flat: the resale price minus the original purchase price. But if the capital gain is less than the land value, the shortfall will be borne by HDB.

### ***A case study in savings***

TAKE, for example, a new \$410,500 four-room HDB apartment in a mature estate for a prospective home owner buying his first HDB apartment at the age of 25. Under the current scheme, a \$369,450 loan stretching over 30 years at HDB's subsidised loan rates would entail a monthly instalment of \$1,480 and a total interest payment of \$163,350.

Under the proposed new pricing model, the payment for the land price is deferred to the time of resale. Suppose, conservatively, the land value is 50 per cent of the selling price. Given the lower selling price, the flat buyer will need a loan of only \$184,725 repayable over 15 years with a monthly payment of \$1,241. Total interest payment will only be \$38,655. He saves \$124,695 in interest, compared to the current pricing scheme.

If the home owner sells his first unit and buys another four-room apartment 15 years later, the new scheme again allows him to enjoy interest savings, of \$208,395.

If he chooses to retire in his second home, he can put off paying for the land value of \$265,250 until after he dies and the unit is sold.

All in, his savings from the purchase of the two HDB apartments amount to \$598,340 comprising \$333,090 from the lower interest payment and \$265,250 from the deferred payment for the land value of his second apartment.

The savings from the proposed pricing scheme may vary depending on the various assumptions made. Notwithstanding, the benefits from the lower loan amounts and shorter loan periods are obvious regardless of the figures used.

First, lower risks for the home owner. This is because of the lower monthly mortgage payments and the shorter repayment period of 30 years for two HDB loans instead of 60 years.

Even if he has to take a job that pays less in his later years, the second 15-year loan mortgage would likely have been fully repaid by the time he is 55. If not, the low mortgage sums may be easily taken care of by healthy Central Provident Fund (CPF) savings.

Next, under the proposed scheme, home owners end up with a cushy nest egg - from not having depleted their CPF retirement funds on housing - to fund their retirement without having to downgrade their flats.

This is a stark contrast to the current pricing model which sees "asset-rich and cash-poor" Singapore households having as much 75 per cent of retirement wealth locked in housing assets upon retirement, compared to the 20 per cent for average American elderly households.

Finally, and importantly, lower public housing prices will unshackle younger Singaporeans from oversized housing loans during their early and more productive years and free them to either procreate sooner - and have more children - or to embark on entrepreneurial and other pursuits.

To further boost savings for retirement, more of the monthly CPF contributions can be directed to the Retirement Account, given the lower mortgage payments.

Any capital gain from the sale of the HDB apartments bought under the proposed pricing model can also be mandated to go into the Retirement Account.

This will also remove the incentives for households to cash in their apartments during periods of high property prices.

To prevent the system from being abused, current restrictions limiting young Singaporeans to the purchase of only two apartments directly from the HDB should stay. To promote family formation, singles can be limited to only three-room apartments, while childless couples can own four-room apartments. Only families with children can upgrade to five-room or bigger apartments.

Grants for low-income households can still be disbursed to achieve redistributive or other social goals.

### ***Decoupling new and resale flat prices***

FOR the public housing market as a whole, the decoupling of selling prices between new and resale HDB apartments will likely break the mutually reinforcing price spiral between the two sectors.

Resale prices may adjust to a more realistic level. But a drastic fall is unlikely since resale prices are determined more by the state of the economy, the supply of resale flats and demand from buyers, including permanent residents excluded from buying new units directly from the HDB.

As for the Government, since proceeds from land sales go into the reserves, the deferred payments will have limited fiscal impact. More importantly, given that housing represents the largest expense for households, the low mortgage payments leave households with higher savings in their CPF accounts and empower them to take care of their own long-term needs with minimal handouts from the Government. There may be less need for extensive redistributive fiscal measures over time.

Declaring the land valuation and various costs upfront also enhances transparency. Property investment is essentially a one-way wealth transfer to an economically unproductive asset. Erecting a firewall around public housing helps to insulate the HDB home owners from the vagaries of speculative activities driven more and more by liquidity instead of real housing need.

As economies become more intertwined, Singaporeans are likely to face more economic shocks from domestic and external factors. When times are uncertain, it is the Government, not the people, who should absorb the larger share of risks. Otherwise, families will be left feeling unable to cope.

The proposed pricing model that treats public housing as private investment goods only at the point of resale helps to substantially lower both the burden and risks borne by home owners. This is done without adding to the short-term fiscal burden of

the Government. It may even help to moderate the Government's long-term fiscal outlay with reduced need for redistributive transfers.

The proposed pricing model here is a win-win solution that helps to put public housing on a more sustainable and equitable trajectory for both the home owners and the Government.

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