HDB flats more affordable despite shorter loan tenures

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Despite the shortening of maximum loan tenures, housing affordability — as measured by the Housing and Development Board (HDB) — has improved over the last three years, with first-time buyers of new flats in non-mature estates last year using less than a fifth of their monthly income on average to repay their housing loans.

The debt-servicing ratio (DSR) — which looks at the proportion of monthly income used to pay off a mortgage — has fallen from 24 per cent in 2013 and 22 per cent in 2014, to 19 per cent last year, a HDB spokesperson said in response to TODAY's queries.

HDB attributed the falling DSR to new flat prices being kept stable and the enhancement of housing grants, such as the Special CPF Housing Grant. Experts TODAY spoke to noted other factors, including rising wages due to a tight labour market. They reiterated that more data need to be made available - including the DSR for various income groups and flat types — in order to provide a more comprehensive and accurate picture of housing affordability.

Internationally, a DSR of between 30 and 35 per cent is considered affordable. The HDB's spokesperson noted that a ratio of less than a quarter means that households with regular Central Provident Fund (CPF) contributions "should be able to service most, if not all, of their loan instalments using CPF".

Over the past three years, eight out of 10 first-time buyers of new flats in non-mature estates serviced their monthly instalment entirely using their CPF savings, without any cash outlay. In 2013, the maximum loan tenure for HDB loans were reduced from 30 years to 25 years to encourage financial prudence.

On the falling DSR, ERA key executive officer Eugene Lim pointed to the Government's de-linking of resale and Build-To-Order prices — a policy in place since 2011. He suggested that the DSR be kept around 20 per cent as "anything above that will be a strain if we take into account other (household) debts".

Agreeing that new flats have become more affordable, National University of Singapore economics don Tilak Abeysinghe said the falling DSR could be attributed to rising income levels and more subsides from the Government. Official statistics showed that median monthly household income from work grew 3.8 per cent per annum in real terms — from S$6,342 to S$8,666 — between 2010 and last year.

Still, Mr Ku Swee Yong, chief executive of Century 21 Singapore, noted that the cost of new flats in non-mature estates vary according to location. For example, in the BTO exercise in November last year, the price of a three-room unit at Seng Kang started from S$89,000 while a similar flat type cost at least S$103,000 in Punggol. The falling DSR could be partly because a larger proportion of units were offered in recent years in less expensive locations, he said. Also, buyers could be borrowing less and opting for higher downpayments, or they could be buying smaller units instead due to the economic uncertainty, he added.

Institute of Policy Studies senior research fellow Christopher Gee said more data - including the DSR in previous years, as well as the ratio for different income groups and flat types - would be useful to determine housing affordability. In 2008 and 2010, the DSR was 21 per cent and 23 per cent, respectively. “The HDB (also) needs to be cognisant possibly of potentially unmet demand and not just the applicants that (it has),” he said. For instance, to encourage people to marry earlier, the HDB has to consider whether current prices are affordable to the target groups who have yet to apply for flats, he said.

Both Mr Ku and Assoc Prof Tilak also suggested looking at how the proportion of monthly income used for mortgage payments in the context of other household expenses such as education and transport. Noting the need for Singapore to set its own DSR benchmark, Assoc Prof Tilak said: “When you take 30 per cent of the income for example (to repay housing loan) and you are left with 70 per cent, is that enough to buy other things?”