

# HOUSING POLICIES IN SINGAPORE

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# Housing Policies in Singapore

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# Introduction

- In 2015, Singapore's population was **5.54 million**, of which **3.38 million** were citizens, **0.53 million** were **permanent residents**, and **1.63 million** were **foreigners**.
- **One-fifth** of its land area of 719 square kilometers (km<sup>2</sup>) comprised **reclaimed land** (Table 1).

**Table 1: Population, Land Area, and Density of Singapore, 1970–2015**

Year	Land Area (km <sup>2</sup> )	Population Density (per km <sup>2</sup> )	Total Population	Singapore Residents	Proportion of Foreigners (%)
1970	586	3,540	2,074,507	2,013,563	3
1980	618	3,906	2,413,945	2,282,125	5
1990	633	4,814	3,047,132	2,735,868	10
2000	683	5,897	4,027,887	3,273,363	19
2010	712	7,130	5,076,732	3,771,721	26
2015	719	7,698	5,535,002	3,902,690	29

km<sup>2</sup> = square kilometer.

Source: Government of Singapore, Department of Statistics.

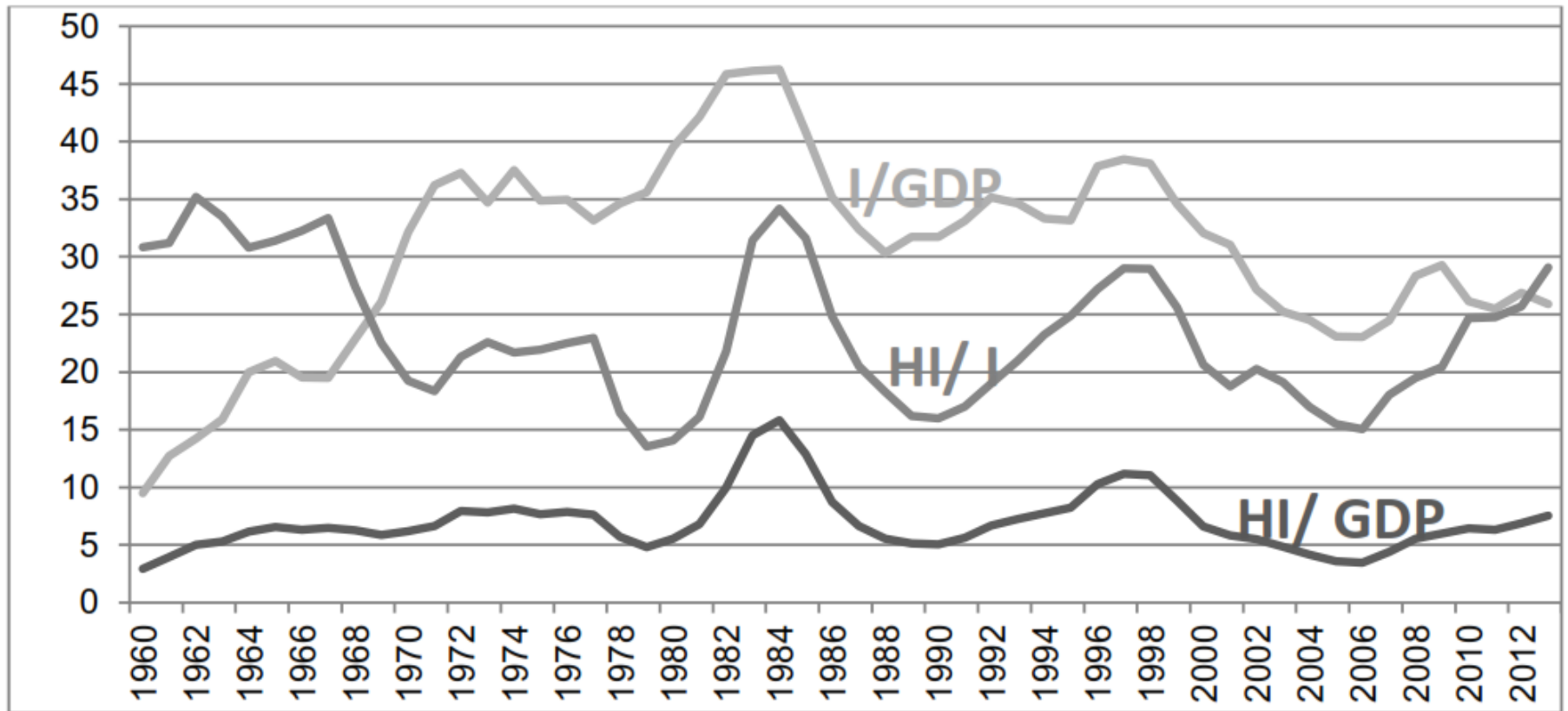
# Introduction

- The **homeownership rate** for the resident population has been **above 90%** since the early 1990s.
- Among resident employed households, the 2014 median household income from work was S\$8,292 per month, or **S\$99,504 per year**.
- The median house type is a **four-room** (approximately **90 m<sup>2</sup>**) flat sold by the **Housing & Development Board (HDB)**, the government housing agency, on a **99-year leasehold** basis.
- The median **house price** (market values) to annual **household income ratio** for 2015 was estimated at **5.0**.

# Introduction

- The **unique housing system** has **75%** of the housing stock in 2015 classified as “**public housing**” built predominantly by the HDB; **82%** of the resident **population live in HDB estates**, of which **79% lived in HDB-sold flats**.
- **Demand for homeownership** is driven by the housing pension fund system introduced in 1968 when **Central Provident Fund (CPF) savings** were allowed to be **used for down payment and mortgage payments** for HDB flats.

**Figure 1: Housing Investment Ratios in Singapore, 1960–2013**  
(%)



GDP = gross domestic product, HI = housing investment, I = total investment.

# Introduction

- Between 1960 and 2013, the **ratio of housing investment** to gross domestic product (GDP) **averaged 7%**, with the ratio of **housing investment to total investment** averaging **23%** (Figure 1).
- These ratios are **high by international standards** and reflect the policy attention and resources channeled into the housing sector.
- HDB rental and direct purchases (one unit per household) are restricted to citizens, with current monthly gross **household income caps** at **S\$1,500** for rental and **S\$12,000 for direct purchase**, respectively.
- The **Executive Condominium** scheme, a hybrid public–private housing scheme for citizen households, has a **household income cap** of **S\$14,000**.

**Table 2: Resident Households by Dwelling Type and Household Income in Singapore, 2014**

Dwelling Type	Resident Households	Average Monthly Household Income from Work among Resident Employed Households (S\$)
<b>Total</b>	<b>1,200,000 = 100%</b>	
<b>Total HDB</b>	<b>80.4%</b>	
1- and 2-room flats	5.3%	2,313
3-room flats	18.3%	5,805
4-room flats	32.2%	8,293
5-room and executive flats	24.4%	11,606
<b>Private House Types</b>		
Condominiums and other apartments	13.5%	19,843
Landed properties	5.8%	27,363

HDB = Housing & Development Board.

Note: Average HDB flat sizes estimated from 2015 resale transaction data: 1-room 33 m<sup>2</sup>; 2-room 45 m<sup>2</sup>; 3-room 73 m<sup>2</sup>; 4-room 96 m<sup>2</sup>; 5-room 115 m<sup>2</sup>. Private housing has much wider variation in sizes and amenities.

Source: Government of Singapore, Department of Statistics (2015).

# Lessons learned for other Asian Countries

- Singapore, a former British colony, held its first general elections as a **fully self-governing state** in **1959**, joined the **Federation of Malaysia** in **1963**, and became an **independent republic** in **1965**.
- The housing situation prior to independence was one of **acute shortage**, resulting in **overcrowding**, misery, **slums**, and squatter settlements.
- It was during such a period of political uncertainty and housing crisis that legislation and amendments for urban and housing sector transformations were passed.

# The Land Acquisition Act, 1966

- The Land Acquisition Act, enacted in 1966, gives the state broad powers to acquire land:
  - (a) for any public purpose;
  - (b) by any person, corporation or statutory board, for any work or an undertaking which, in the opinion of the Minister, is of public benefit or of public utility or in the public interest; or
  - (c) for any residential, commercial or industrial purposes.

# The Land Acquisition Act, 1966

- Landowners **cannot object to the decision**, and **appeals on compensation** can only be made to an Appeals Board and **not to the courts**.
- Initially, almost all legal owners appealed the compensation awards and, in 1973, the concept of a statutory date was introduced.
- In the words of the Prime Minister (K.Y. Lee 2000, 118–119):  
*“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.”*

# The HDB–CPF Housing Framework

- **State land**, as a proportion of total land, grew from 44% in 1960 to 76% by 1985, and was about **90% by 2005**.
- A significant portion of the increase in state land can be attributed to **land reclamation**.
- **Land acquisition** was an **important step** in **Singapore's housing policies**.
- However, it meant that existing owners had to be expropriated.
- In most other countries, such clearance would have encountered strong resistance by dwellers.

# The HDB–CPF Housing Framework

- The HDB is the **key pillar** of **Singapore's housing system**.
- The HDB began operations on 1 February 1960.
- In its **initial years of operation**, the HDB followed the British public housing model of providing **only rental units**.
- It began offering housing units for sale on **99-year leasehold** basis from 1964 under its Home Ownership for the People scheme.
- The **HDB priced housing units affordably** for households with incomes not exceeding S\$800 a month and offered loans such that **owners paid less** in **monthly mortgage** payments than they **would have done in rents**

# The HDB–CPF Housing Framework

- Price subsidies and housing grants are given to eligible households at the point of purchase and not deferred.
- **Government support** for the HDB is in the form of:
  - (i) **annual grants** from the current budget to cover its **deficits incurred for development**, maintenance, and upgrading of estates
  - (ii) **loans for mortgage** lending and long-term development purposes
  - (iii) **land allocation** for HDB housing and comprehensive HDB town planning.

# The HDB–CPF Housing Framework

**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.

# The HDB–CPF Housing Framework

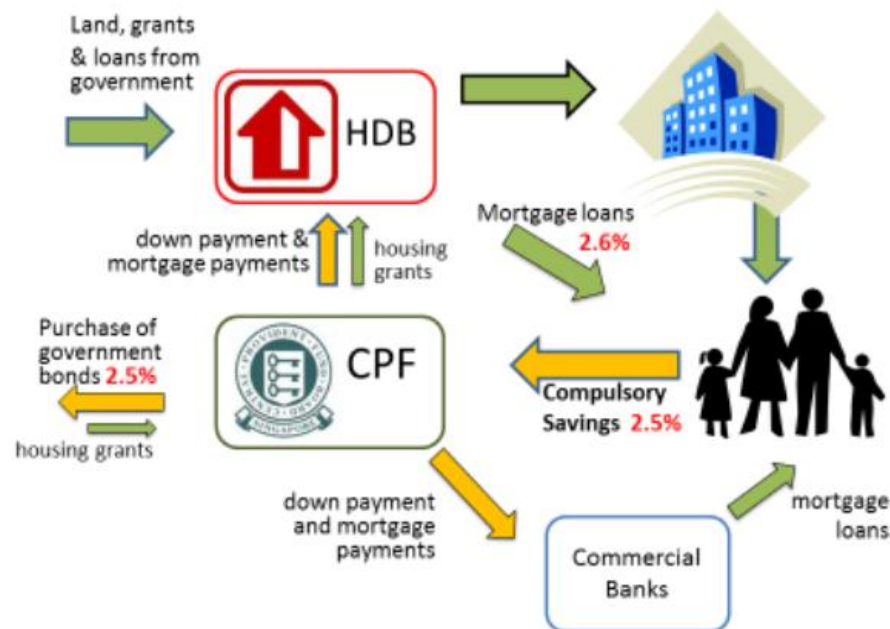
- A **major policy innovation** in 1968 was for the government to utilize the **CPF** as a vehicle for housing finance.
- In 1968, a new law was introduced to allow withdrawals from the fund to finance the purchase of housing sold by the HDB.
- Both **employers** and **employees contributed** a certain percentage of the **individual employee's monthly salary** toward the employee's personal and portable account in the fund.
- When the CPF was established in 1955, the contribution rate was 10% (5% each by employees and employers) of the monthly salary.
- With the new law in 1968, the contribution rates were raised steadily, and by 1984, they were 25% of wages.
- The **contribution rates in 2016** are **20%** of **wages** for employees and **17% of wages for employers**, up to a monthly salary ceiling of S\$6,000.

# The HDB–CPF Housing Framework

- Between 1968 and 1981, **CPF savings** could only be for payments related to the **purchase of public-sector-built housing** (such as down payment or stamp duties).
- At the beginning of the 1980s, the scheme was **gradually liberalized**, allowing for withdrawals for other, non-housing-related purposes, such as medical expenditures.
- The interest rate on CPF Ordinary Account savings yields a minimum of 2.5%.
- The **HDB receives government loans** to **finance its mortgage lending** and pays interest at the prevailing CPF savings rate.
- The HDB uses the loans to provides mortgage loans and mortgage insurance to buyers of its leasehold flats (both new and resale).
- The typical loan represents **80% of the price** of the flat.

# The HDB–CPF Housing Framework

- The maximum repayment period is **limited to 25 years**
- **Every household** can apply for a maximum of **two HDB loans**.
- The **mortgage interest rate** charged by the HDB is **pegged at 0.1 percentage point above the CPF ordinary account savings interest rate**.



# The HDB–CPF Housing Framework

**Table 4: CPF Assets, Contributions and Withdrawals by Purpose, 2014**

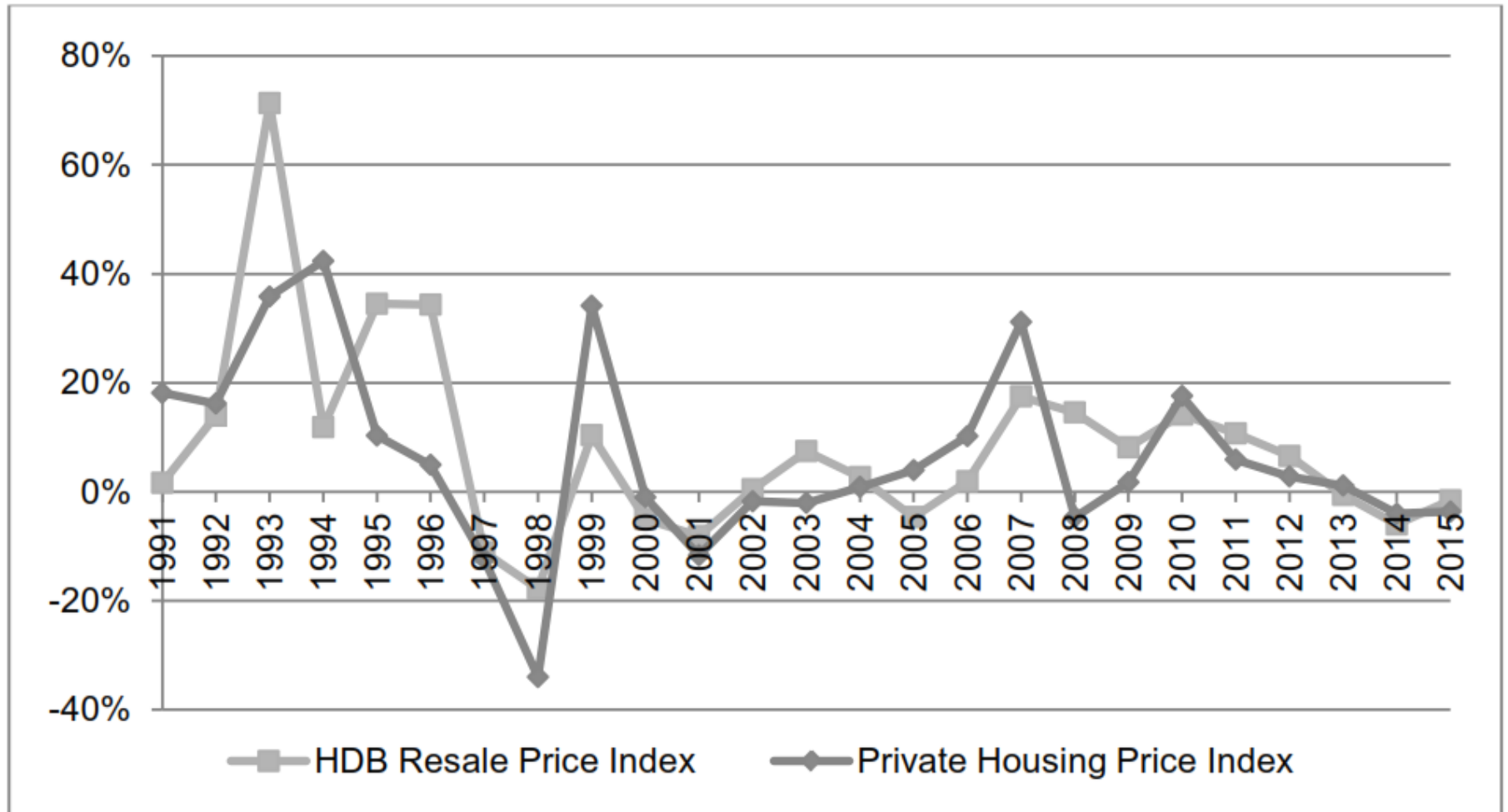
	S\$ million	% of GDP
GDP	390,089	–
Resident households' outstanding mortgage loans with financial institutions	179,578	46.0
Resident households' HDB mortgages	37,178	9.5
CPF net assets	277,778	71.2
CPF contributions by members	27,917	7.2
CPF total withdrawals (net of refunds)	17,298	4.4
<b>Purpose of Withdrawal</b>	<b>S\$ million</b>	<b>% of CPF total net withdrawals</b>
HDB housing	6,892	39.8
Private housing	2,706	15.6
Attained the age of 55 years*	4,266	24.7
Medisave and medical insurance	2,162	12.5
Purchase of life-long annuity	2,069	12.0

CPF = Central Provident Fund, GDP = gross domestic product.

# The Role of Markets

- The HDB resale **prices rose** after the introduction of **CPF housing grants in 1994**.
- The government **reacted by an increase in the HDB supply** of new housing, the introduction of a new Executive Condominium scheme, as well as an increase in government land sales for private housing development.
- However, the housing **prices continued to soar**, with HDB resale price increases much higher than private housing price increases in the 1993, 1995, and 1996.
- To **bring prices down**, the government **introduced a package of anti-speculation measures** on 15 May 1996.
- These measures included **capital gains taxes** on the sale of any property within 3 years of purchase, **stamp duty** on every sale and subsale of property, **limitation of housing loans** to 80% of property value, as well as **limiting foreigners to non-Singapore-dollar-denominated housing loans**.

### Figure 3: Changes in Housing Price Indices, 1991–2015



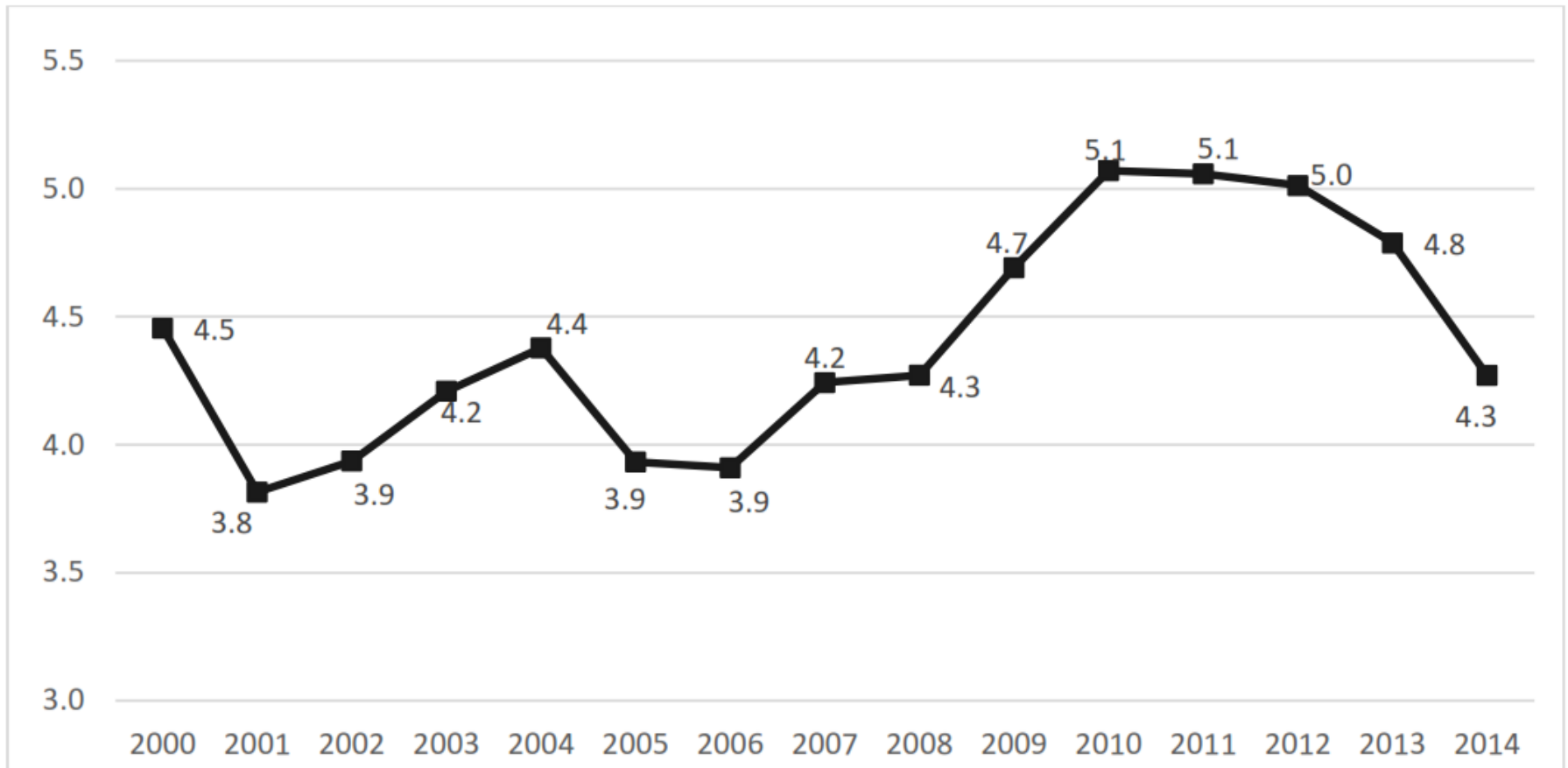
# Supply-side VS. Demand-Side Interventions

- During **the global financial crisis of 2008**, HDB prices were remarkably **resilient** and continued to increase while private housing prices fell.
- In the post-2008 global financial crisis period, **limited supply, rapid population increase**, the low interest rate environment, and high global liquidity led to **accelerated price increases** of Singapore property.
- The continuous upward trend in prices and the economic and political **risks of a housing bubble** and increasingly **unaffordable housing compelled** the **government to intervene**.
- Since 2006, the Government of Singapore has announced several **consecutive rounds of “cooling” measures** to curb investment demand for housing.

# Supply-side VS. Demand-Side Interventions

- Over the same period, to enhance housing affordability, **housing grants** which allowed the HDB to better **price-discriminate based on household incomes** became a feature of the HDB pricing policy.
- As eligibility for HDB **new subsidized flats** and CPF Housing Grants (of S\$40,000) extended to over **80% of Singapore citizen households**, subsidies needed to be **better calibrated to household incomes**.
- The Additional CPF Housing Grant (AHG) was introduced in 2006 (and enhanced in 2007 and 2009) to allow families with **lower incomes** to receive a **higher grant amount** which could be used for either a **new flat** or a **resale flat**.
- Households with monthly household incomes less than S\$5,000 are eligible for the AHG.
- The AHG ranges from S\$5,000 (for households with incomes from S\$4,501 to S\$5,000) to S\$40,000 (for households with incomes below S\$1,500)

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



HDB = Housing & Development Board.

# Supply-side VS. Demand-Side Interventions

- Homeownership affordability has always been a very visible symbol of the government's “**ability to fulfill its promise to improve the living conditions** of the entire nation”
- The ratio of the price of a new **HDB four-room flat** to **median household income** was generally **4.0 or less** prior to 2005.
- **HDB resale prices** are generally **higher than new flat prices** as they are **market-determined** and there is no waiting period for construction to be completed.
- Figure 4 shows the ratio of the median HDB 4-room flat resale price to median resident employed household annual income.
- The ratio was generally below **4.5 prior to 2008** and rose to **above 5.0 from 2010 to 2012**.
- As prices in the HDB resale market rose, new HDB flat prices followed a similar trend, outstripping income growth.

**Table 5: Price Affordability of HDB Flats in 2014**

<b>HDB Flat Type</b>	<b>Average BTO Price</b>	<b>Average BTO Price after Grants</b>	<b>Applicants' Median Annual Household Income</b>	<b>Ratio of Price (after Grants) to Income</b>
2-room	\$110,000	\$55,000	\$19,200	2.86
3-room	\$187,000	\$137,000	\$30,000	4.57
4-room	\$295,000	\$265,000	\$50,400	5.26
5-room	\$386,000	\$386,000	\$72,000	5.36

BTO = build-to-order, HDB = Housing & Development Board.

Note: BTO refers to HDB flats. Prices are for BTO flats in non-mature estates.

**Table 6: Progressivity of Housing Purchase Taxes and Subsidies**

<b>Residency/Incomes/Housing Types</b>	<b>Additional Buyer Stamp Duty (+) Price Subsidy (-)</b>
Foreigners	15%
SPR investors	10%
Singaporean investors	7%
SPR homeowners	5%
Singaporean high-income homeowners	0%
Executive Condominium	-10%
HDB 5-room	-12%
HDB 4-room	-20%
HDB 3-room	-35%
HDB 2-room	-50%

HDB = Housing & Development Board, SPR = Singapore permanent resident.

Note: Estimates of price subsidies based on difference between resale market prices and new flat prices.

# Supply-side VS. Demand-Side Interventions

- 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 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**.
- In 2014, after grants, **three-room BTO flats** cost **4.57 times** the annual median applicant households’ annual income (Table 5).
- **Four- and five-room flats** were at prices that are at **5.26 times** and **5.36 times** applicant households’ annual incomes, respectively

# Lessons Learned for Other Asian Countries

- **Housing's contribution to economic development:** The housing and housing finance sectors can contribute **positively** and significantly to the **economic and financial development of a country**. Singapore's macroeconomic environment has been one of **high savings and income growth, low unemployment, inflation and interest rates**, and **government budgetary surpluses**, as well as **exchange rate appreciation**. Housing policy has also been used to promote racial integration, which, in turn, has contributed to **social stability** and **economic growth**.

# Lessons Learned for Other Asian Countries

- **Urban governments**: In urban areas, governments can greatly **facilitate the speed of urban development** and **redevelopment** through appropriate legislation, regulations, and institutions that enable increases in housing supply for a growing population.
- **Housing subsidies**: The short- and long-term implications of housing subsidies, explicit or implicit, supply- or demand-side, within the entire system, need to be **fully understood** and **periodically reviewed** for sustainability and **effective housing market intervention**.
- **Governance**: The need for **strong legislation** and **sound governance** of housing agencies and financial institutions cannot be overemphasized.

# Lessons Learned for Other Asian Countries

- **Macroprudential regulation:** The government has deployed multiple mitigations in parallel to **reduce the risk of housing** becoming a **source of financial sector instability**. Housing markets are carefully segmented and carefully regulated. **The main source** of capital for housing finance comes **from domestic savings**. That these are in the form of **compulsory savings lowers default risks**.
- **Monetizing housing assets:** The CPF system has been used to **mobilize pension fund savings** for **housing mortgage payments** by young households. With an **aging population**, it is also necessary to **design instruments** for elderly homeowners to **monetize housing assets** for **retirement financing**.