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Are HDB flats affordable?

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by Mah Bow Tan

Recently, the Housing and Development Board was conferred the UN-Habitat Scroll of Honour Award - the most prestigious human settlements award in the world. In recognising Singapore's achievement, the UN-Habitat Chief of Information Services said: "It's really quite impressive for a country to provide adequate shelter and home ownership for so many."

Ask most housing experts and observers, and they will say that HDB flats remain within reach of the majority of Singaporeans. After all, HDB builds and sells flats at heavily-subsidised prices to ensure affordability. This has made it possible for an average of 15,000 young couples every year to join the ranks of homeowners.

Most of these couples buying new flats use just 20 to 25 per cent of their monthly income to pay for their flats. With their CPF contributions, few have to pay any cash for their mortgage payments. In total, more than 80 per cent of Singaporeans live in 900,000 HDB flats today. Yet, people still worry that HDB flats are not affordable. Why are there such sentiments?

Indeed, housing affordability - whether a flat is within financial reach - is not a straightforward issue. Different people have different notions of what is "within reach". Some argue that a 30-year housing loan is too long for a flat to be considered affordable. Others say that flat prices are much higher compared to their parents' time. The debate is further complicated by rising aspirations - whether housing is "within reach" also depends on what we aspire towards.

For a meaningful discussion on affordability, we need objective and commonly accepted yardsticks. So, what are the measures of affordability? How does HDB ensure that flats remain within reach of Singaporeans?

MEASURES TO ENSURE AFFORDABILITY

Focus on first-timers. To ensure that first-time buyers have access to affordable housing, we do several things. First, HDB prices its new flats below market value, taking into account the income of homebuyers. Hence, first-timers enjoy a substantial subsidy when they buy new flats from HDB.

Next, for first-timers who cannot wait for a new flat or wish to buy a specific flat in a specific location, HDB provides a CPF Housing Grant of $30,000 (or $40,000 if they stay near their parents) to buy a resale flat. Beyond that, new and resale flat buyers can apply for a concessionary loan. For a $200,000 loan over 30 years, the interest subsidy amounts to about $30,000.

Help according to income. For households earning $5,000 or less a month, an Additional CPF Housing Grant of up to $40,000 is provided for their purchase of new or resale flats. In other words, a family earning $1,500 can get as much as $80,000 in housing grants. Families earning more, between $8,000 and $10,000, can now buy new flats under the Design, Build and Sell Scheme (DBSS), in addition to Executive Condominiums, and enjoy a CPF Housing Grant of $30,000.

MEASURES OF AFFORDABILITY

I have been discussing affordability in layman's terms. Let me now get into the technical stuff. In particular, how do experts determine housing affordability? There are a few generally accepted benchmarks.

Income affordability. One is the housing price-to-income ratio (or HPI), which compares median house price to annual household income.

In a Straits Times article in February 2010, two NUS professors, Tu Yong and Yu Shi Ming, noted that Singapore's HPI for resale flats in non-mature estates is 5.8, compared to Hong Kong's 19.8 and London's 7.1. That means Singaporeans generally need 5.8 times of their annual household income to buy a resale flat in non-mature estates, whereas a Hong Kong resident needs more than three times that amount.

If we take Department of Statistics 2009 data on the median income of younger households - those aged between 25 and 35 years old - who are likely to be first-timers, their HPI is even lower, at 4.5 for resale flats and 3.8 for new flats. This is because they have higher incomes than average households.

Financing affordability. While the HPI is relatively easy to understand, it does not consider factors like loan availability and financing costs, which are important for many deciding to buy a flat. Therefore, another widely-accepted measure is the debt-service-ratio (DSR), which looks at the proportion of the monthly income used to pay mortgages.

The DSR for new HDB flats in non-mature estates, based on an industry norm of a 30-year loan, averaged 23 per cent this year. This is well within the 30-35 per cent international benchmark for affordable expenditure on housing.

Depending on flat type, the DSR ranged from 11 per cent for standard flats to 29 per cent for premium projects like the Punggol Waterway Terraces, which cater to higher income households.

We must also remember that CPF savings can be used for the initial downpayment and monthly instalments. Hence, more than 80 per cent of new flat buyers pay for their housing loans entirely out of CPF, without having to touch their take-home pay.

Whichever objective measure we choose, it is clear that there are enough HDB flats within reach of today's homebuyers. They range from smaller, no-frills flats in non-mature estates to premium flats in mature estates, catering for different aspirations and budgets (see table above). I hope buyers choose carefully, taking into account their budgets and aspirations. Housing affordability is decided not just by the options offered by HDB but also the choices of homebuyers.

BALANCING HOMEBUYER AND TAXPAYER INTERESTS

I can understand the anxiety among young couples wanting to buy a flat of their choice, within their budget, and as soon as possible. HDB has ramped up supply significantly and recently introduced more measures to temper excessive exuberance in the market and to moderate prices.

HDB also regularly reviews its subsidies to ensure affordability. But I must caution that there are limits to how much we can increase subsidies, without compromising other interests.

In other words, we must also consider affordability from a national standpoint. If we increase housing subsidies, what would we have to give up? The quality of education for our children? Healthcare services for our parents? Or do we impose a higher tax burden on Singaporeans?

There are no easy answers. Ultimately, we need to balance the interests of affordability for homebuyers and the burden on taxpayers.

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