



Public housing flats in the southern part of Singapore. Part of our insecurities around housing might stem from a "fear of missing out" created by Covid-19, says the writer. The pandemic disrupted supply chains and created a severe labour crunch in the construction sector, which caused delays in many public and private housing projects. ST FILE PHOTO

A home is still affordable in S'pore unless you expect a luxury house

A closer look at metrics that measure affordability reveals some surprising statistics

Sing Tien Foo

The Singapore residential property market has defied gravity over the past two years. Despite the circuit breaker halting most activities from April to June 2020 and severely impacting most sectors across the economy, the property market chugged on.

In-person viewing, transactions and the taking of possession of homes were suspended. But creative real estate agents shifted online to conduct 360-degree virtual tours using new virtual reality technology, e-marketing tools and Zoom.

Stories such as that of Mr Fawzi Jaafar, who stepped into his newly bought three-room Housing Board flat for the first time in August 2020 after relying solely on virtual viewings to inspect his potential home, have been commonplace.

Housing activities increased steeply after restrictions were eased in June 2020. Resale HDB transactions rebounded quickly from the low of 424 units in April 2020 and 363 units in May to average monthly sales of more than 2,350 units from June 2020 to December 2022. A similar pattern was seen in private non-landed housing transactions.

The demand surge triggered a robust pickup in housing prices over the past two years. Urban Redevelopment Authority and HDB indexes measuring the pulse of the private and public housing markets grew for 11 consecutive quarters between the second quarter of 2020 and the fourth quarter of 2022 by about 22 per cent and 25 per cent, respectively.

HOUSING AFFORDABILITY UNDER THE SPOTLIGHT

Judging from recent headline-grabbing news, one is tempted to conclude that homes will fly off the shelves like hot cakes. The launch of AMO Residence, a private condominium project in Ang Mo Kio Rise, saw 98 per cent of units sold on the first launch day in July 2022. With average prices exceeding \$2,100 per sq ft, this is peculiar for a non-landed private home in the rest of central region.

A similar narrative has played out in the public housing market. A five-room resale HDB flat in Dawson Road went for an eye-popping \$1.418 million in July 2022. Over 340 million-dollar flats were sold in 2022.

However, zooming out to get a macro view of the housing market should calm nerves. These million-dollar transactions make up less than 2 per cent of the total of 19,900 four-room and bigger flats transacted in the resale HDB market in 2022.

With aims to cool the market, the Government also swiftly intervened in September 2022 to impose tighter borrowing rules and require private housing owners to stay out of resale HDB markets for 15 months after selling their residential property.

Perhaps in increasing the interest rate floor for HDB loans to 3 per cent when computing loan eligibility, the authorities had also hoped to signal the possibility of interest rates rising beyond the current concessionary rate of 2.6 per cent, and nudge home buyers to price in those projections.

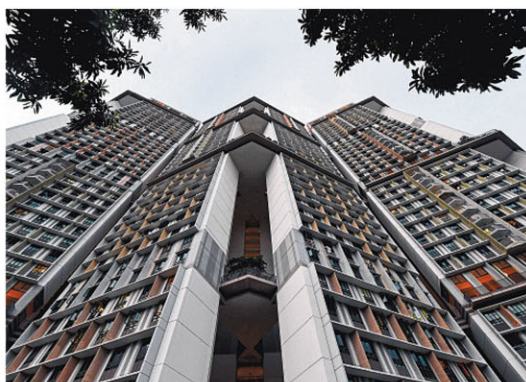
Still, news of housing price indexes ticking upwards over the past two years amid a steep rise in mortgage interest rates has not dampened sales. On the other hand, public fears over the rising costs of home ownership have created concern that HDB flats will be priced out of the younger generation's reach.

ASSESSING AFFORDABILITY BASED ON INCOME

Many people tend to fixate on sensational headline prices and episodic cases suggesting that residential property prices continue to skyrocket. But having a clearer picture of housing affordability demands a greater resolution of the situation and that we avoid relying on snapshots of outrageous sales.

Academics commonly use the median housing price-to-income ratio (PIR) which benchmarks transacted prices of various housing types against income levels to get a broader view of whether housing price increases are outstripping income growth.

The PIR in Singapore in the last 20 years for Build-To-Order (BTO) and resale HDB flats has



Across neighbourhoods, the most expensive five-room flat – at SkyVille @ Dawson in Queenstown – sold for \$1.42 million, \$1 million more than the lowest price of \$373,888 for a five-room flat in Woodlands in 2022. ST PHOTO: DESMOND FOO

remained relatively stable. It comes in under 5, meaning the average HDB flat costs five times the median annual income of Singapore citizens. Indeed, this metric suggests housing in Singapore remains affordable, with affordability enhanced if housing grants are factored in.

The PIR for private non-landed houses is 12.7 as at 2021, though the number is slightly lower than the last peak of 14.1 in 2014. This falls in the severely unaffordable PIR range of above 5.1 set by the Demographia International Housing Affordability.

The Demographia report is published by North American public policy think-tanks Urban Reform Institute and the Frontier Centre for Public Policy. The study assesses housing affordability in eight markets (Australia, Canada, China, Ireland, New Zealand, Singapore, Britain and the United States).

Still, Singapore's private non-landed homes remain more affordable than those in Hong Kong (with the highest PIR of 23.2) and are on a par with those in Sydney (15.3) and Vancouver (13.3).

LOOK AT PRICE DISPERSIONS, NOT JUST PRICE INDEXES

A second common practice adopted is for people to look at the price indexes to discern if housing is becoming less affordable. Indeed, a quick glance can give the impression that housing prices have risen dramatically.

Prior to Covid-19, private

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non-landed homes were transacted at a median price of \$1.3 million in 2019, compared with \$1.62 million in 2022. The average prices were higher at \$1.62 million and \$1.96 million for non-landed transactions in 2019 and 2022, respectively.

The average prices were close to the 70th percentile of all transacted prices in those respective categories, meaning that seven in 10 private non-landed housing buyers pay below the average price for homes in their categories.

In other words also, the average prices were skewed by the most expensive houses in the 30 per cent price range, mostly located in the city centre.

The story gets more interesting when we break down price

dispersions across housing types. In the HDB markets, prices were less dispersed than in the private market. Four-room or bigger resale flats sold in 2022 saw an average price of \$616,000 and a median price of \$580,000.

But we tend to focus on extremes. Across neighbourhoods, the most expensive five-room flat – at SkyVille @ Dawson in Queenstown – sold for \$1.42 million, \$1 million more than the lowest price of \$373,888 for a five-room flat in Woodlands in 2022.

Prices are even less dispersed for BTO flats, perhaps reflecting the Government's approach to regulating their pricing to ensure affordability for young couples. The average and median prices for four-room and bigger BTO flats were about \$474,000 and \$456,000, respectively, in 2022.

Looking at polar ends here can similarly lead us to lose focus on this bigger picture. A five-room BTO flat near Ang Mo Kio MRT station was priced in the upper range of \$878,000 in a 2022 BTO exercise, whereas five-room flats in non-mature estates such as Yishun, Bukit Batok and Punggol were priced in the upper range of \$450,000 that same year.

Price distributions like these imply that housing affordability is a relative question involving the sorting of households with different income levels.

To comfortably afford the \$1.42 million resale HDB flat at Dawson, and keep the PIR at 5, the new owners must earn more than \$23,000 a month or have huge savings to keep the monthly mortgage repayments low. However, the PIR approach does not consider savings and monthly mortgage payments.

The question of affordability also becomes irrelevant if this family intends to explore more inexpensive options in non-mature estates instead.

For households making less but aspiring to live closer to the city centre, the new prime location housing model provides options that come with trade-offs, including a longer minimum occupation period, a clawing back of profits during the resale and strict qualifying conditions.

HOUSING COSTS AND MONTHLY MORTGAGE PAYMENTS

The housing expenditure or costs to income (HCI) ratio is a third benchmark used by

intergovernmental organisations, such as the Organisation for Economic Cooperation and Development, to measure housing affordability. The OECD defines housing as "affordable" if households do not spend more than 30 per cent of their gross income on housing costs, which is also known as the mortgage servicing ratio (MSR).

A similar approach has been adopted by the HDB, which has put out advertorial illustrations in local newspapers to explain how most eligible families do not even need cash to pay monthly instalments, in a bid to show that public housing remains affordable.

How does Singapore's HCI ratio compare? Assuming the HDB's concessionary interest rate of 2.6 per cent per year, a loan term of 20 years, a loan-to-value (LTV) ratio of 80 per cent, and an MSR of 30 per cent, median-income families earning \$9,520 a month will be able to afford a BTO flat costing no more than \$667,600. At this price, the monthly mortgage payment comes up to \$2,856.

Choosing a commercial bank loan with the same interest rate, a longer loan tenure of 30 years and an LTV cap of 75 per cent would allow this same couple to buy a more expensive BTO flat or a resale flat of up to \$951,200 and stay within the 30 per cent MSR, assuming they had enough for the remaining 25 per cent down payment.

But if this interest rate ticks up to 4.25 per cent (the current rate for a DBS five-year fixed rate mortgage package), the couple should buy a flat costing no more than \$774,000.

STIFF COMPETITION FOR NEW FLATS

Part of our insecurities around housing might stem from a "fear of missing out" created by Covid-19. The pandemic disrupted supply chains and created a severe labour crunch in the construction sector, which caused delays in many public and private housing projects.

First-time application rates for BTO flats increased from 2.2 in 2018 to 4.1 in 2021 – meaning that for every available BTO flat, there were 4.1 first-time couples applying. Competition has been stiff, with the success rates for first-timers in their first BTO applications hovering between 20 per cent and 24 per cent, Minister for National Development Desmond Lee revealed last November.

Unsuccessful applicants likely looked for substitutes and aggravated demand in the resale HDB and private non-landed markets.

Plans by the authorities to ramp up the supply to 100,000 new BTO flats between 2021 and 2025, coupled with the change in policy to give first-time applicants a higher chance of securing a BTO flat in non-mature estates, should ease the demand overhang for young couples, though it will not immediately eliminate the BTO queue.

First-time applicants vying only for BTO flats in mature estates will continue to face stiff competition, given their popularity. In the August 2022 BTO exercise, four-room flats at Central Weave @ AMK and at Sun Plaza Spring in Tampines were oversubscribed by 7.9 times and 16.1 times, respectively.

THE BOTTOM LINE

So is housing affordable and accessible? Yes, if you choose an HDB flat that suits your income level. Public housing policy interventions through increasing supply, restricting downgrading private home owners from buying an HDB flat immediately and setting aside more BTO flats for first-timers have insulated HDB buyers against more sharply rising prices in both the BTO and HDB resale markets.

Yet we tend to fixate on the outliers, on million-dollar HDB flats and private condominiums, which comprise a small part of the market.

In fact, these findings beg the question of whether when Singaporeans discuss housing affordability, they already have a type of house in mind – luxurious private residential homes, which remain out of reach for the average household and go against the need to be prudent when housing is a long-term investment.

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