

The asset-rich, cash-poor have a housing dilemma



Many middle-aged and retired home owners, usually referred to as the asset-rich, cash-poor segment, are more concerned if their homes will preserve their value, even as they stew over whether they can meet their financial needs in old age. Dealing with the issue of housing for asset-rich, cash-poor seniors will differ greatly from the approach for younger residents living in ageing flats. ST PHOTO: LIM YAOHUI

The elderly might not downsize and monetise their homes for retirement income. Their concerns centre on preserving the value of their flat and ageing in place.

Sing Tien Foo

Are homes nest eggs for retirement? It turns out the answer is not straightforward.

Delivering his National Day message this week, Prime Minister Lee Hsien Loong highlighted the Government's desire to refresh its approach to public housing, with a special effort on adapting Housing Board estates and flats to serve a rapidly ageing population.

Although he had referred to physical infrastructure, community spaces and active ageing centres, he also highlighted the importance of retirement adequacy. More details will be announced at the upcoming National Day Rally, he said.

AGEING POPULATION, AGEING HOMES

PM Lee's remarks are timely. By 2030, one in four Singaporean residents will hit 65. Today, only one in three in this age group is employed. We should technically see more monetising their homes to fund their retirement.

In Singapore, the HDB has two schemes by which elderly home owners can unlock the value of their homes – the Silver Housing Bonus (SHB) and Lease Buyback Scheme (LBS).

SHB incentivises eligible households to right-size their homes. If they downsize to a three-room or smaller HDB flat, use the proceeds of the sale of their home to top up their Central Provident Fund (CPF) Retirement Account (RA) and join the CPF Life lifelong annuity scheme, they can receive a cash bonus of up to \$30,000.

Similar to a reverse mortgage, the LBS allows seniors aged 65 and older to sell the tail-end of the lease to HDB while continuing to live in their homes.

The proceeds will go to their CPF RA and CPF Life, with the home owner receiving a monthly income for life.

Recognising that the LBS holds the key to helping more Singaporeans unlock the value of their homes in their old age, the scheme, which was introduced in 2009 for those living in three-room and smaller flats, was subsequently expanded to include residents in all HDB flat types.

But is this thinking one-sided? Based on the 2022 population statistics of the 547,598 HDB dwellers aged 65 and older, and assuming that each household comprises two such dwellers, about 274,000 households are eligible for LBS. However, as at December 2022, only about 9,700 households – or 3.5 per cent of the estimated eligible households – have taken up the scheme.

The low response rate for the LBS betrays the popular sentiment among elderly Singaporeans that may become a problem for retirement adequacy: People seem unwilling to trade their homes for retirement income.

THEY ARE ASSET-RICH BUT CASH-POOR

Instead, many middle-aged and retired home owners, usually referred to as the asset-rich, cash-poor segment, are more concerned if their homes will preserve their value, even as they stew over whether they can meet their financial needs in old age.

This is a problem because policymakers have long assumed that most Singaporeans purchase homes for capital appreciation, with the wealth accumulated to be freed up in old age.

In this housing life-cycle model, which has a hump-shaped curve, one accumulates wealth with age as the value of a house appreciates and the mortgage is paid off. But as homes age and begin to decline in value, the

home owners must at some point sell off the property or find some way to monetise the asset, so that they can live reasonably comfortably in their golden years.

Depending on the amount drawn down, home owners can still bequeath the remaining lease to a loved one. Else, the value of the home is exhausted when its lease runs down to zero.

PERSISTENT ACCUMULATION OF HOUSING WEALTH

Why aren't Singaporeans monetising their homes? The uncertainties associated with life expectancy, bequest motives and medical expenses in old age may encourage many to keep a housing asset intact.

Data of about 154,000 HDB resale transactions from 2007 to 2012 with information on HDB resale flats, including housing prices, building age and the age of home buyers, bears this out.

Buyers bought more expensive homes with age, as expected, up until 40. However, home buyers older than 40 did not buy cheaper houses as expected. In fact, there was no clear observable relationship between housing prices and age for buyers above 40.

Some bought more expensive flats, instead of cutting on housing consumption to preserve their savings for retirement. The sample revealed that buyers aged 51 to their 70s bought flats at an average price of \$360,547, compared with buyers aged 31 to 40 who bought flats at an average price of \$376,527.

DESIRE TO LEAVE BEHIND A HOME FOR THE NEXT GENERATION

One also expects home buyers to right-size their leases over their lifespan. Public policy certainly attempted to encourage so, with rules on CPF withdrawal for housing purchases and HDB loans reviewed in May 2019.

The new rules removed previous restrictions on the use of CPF savings for an HDB loan to purchase a flat with a remaining lease of fewer than 60 years. Buyers have since been allowed to use their CPF savings for an older flat as long as they can live in it for life, with the age of the youngest buyer and building age adding up to at least 95 years.

However, the 2007 to 2012 resale transactions show a positive relationship between building age and buyer age only for buyers aged up to 50, with no clear relationship for older cohorts. Some older buyers will buy a newer resale flat with a lease outstripping their 95th birthday, so they can bequeath it to their children as a quid pro quo in return for supporting them in their old age.

If, contrary to the housing life-cycle model's prediction, older Singaporeans consume more housing and continue accumulating wealth well past their prime working years, or if they buy flats with longer leases that outstrip their life expectancy,

The vertical retirement village model at Kampung Admiralty, with amenities including a polyclinic, senior daycare centre, hawker centre and supermarkets co-located, could be extended to more neighbourhoods and integrated into other surrounding blocks to reap scale economics.

they deplete much needed savings and lock up funds in housing, when they need cash most in old age.

The problem is especially acute for the 114,000 private property dwellers aged 65 and above, with over 59,000 living in non-landed private homes and over 54,000 living in landed properties.

Commercial banks do not offer reverse mortgage options. However, DBS Bank offers a Home Equity Income Loan scheme that allows home owners aged 65 and above to borrow to top up their CPF RA to enjoy higher CPF Life payouts. Borrowers then pay back the lump sum loan amount at the end of the term, usually by selling their properties.

PRESERVING THE VALUE OF HOMES

Should people continue to live in their homes for life and leave the remaining value for their children, the role HDB should play may be less of facilitating monetisation but in aiding to preserve their value and slow their decay.

Research on the relationship between the building age of HDB resale flats and their selling price carried out by myself, Professor Sumit Agarwal and Dr Zhang Xiaoyu at the NUS Business School shows that, fortunately, the physical depreciation of HDB flats occurs at a slower rate after 30 years compared with private non-landed properties.

Various HDB programmes, such as the Neighbourhood Renewal Programme, Home Improvement Programme (HIP), the Lift Upgrading Programme and others help preserve housing values much better. A second round of HIP, known as HIP-II, and the Enhancement of Active Seniors (Ease), which involves the installation of slip-resistant tiles, amps and grab bars, make the living spaces of older flats more elder-friendly.

All this does not negate needing to deal with the conundrum of preserving the value of homes past their halfway mark, after which the asset will begin to depreciate in value. The litmus test is whether the announced Voluntary En Bloc Redevelopment Scheme (Vers) can help ease such concerns of seniors living in older flats built in the 1970s and 1980s.

Still, Vers is insufficient in and of itself. The issue will also require careful relocation and sensitive management, as ageing home owners may eventually need more assisted living support and services, such as those offered in the Community Care Apartments (CCAs) in new Build-To-Order projects at the Harmony Village @ Bukit Batok launched in February 2021 and Queensway Canopy launched in November 2022.

Whatever housing options seniors choose – whether to age in place or to monetise and downsize to a smaller flat – providing care support, such as assisted living in CCA flats, or enabling changes so flats are more elder-friendly, such as through the Ease programme, are necessary and must be twinned with the proposed Vers and HIP-II policies.

The vertical retirement village model at Kampung Admiralty, with amenities including a polyclinic, senior daycare centre, hawker centre and supermarkets co-located, could be extended to more neighbourhoods and integrated into other surrounding blocks to reap scale economics.

Residents from nearby blocks can use the shared facilities and amenities, participate in senior activities and build strong social bonds with seniors there. Better connectivity can also strengthen these social networks of seniors, encourage more community activities and support active ageing goals.

Dealing with the issue of housing for asset-rich, cash-poor seniors will differ greatly from the approach for younger residents living in ageing flats. Perhaps we will get a glimpse of what is to come at the National Day Rally.

• Sing Tien Foo is the Provost's Chair Professor at the Department of Real Estate, NUS Business School, National University of Singapore. The views in the op-ed are the author's and do not represent the views of NUS and its affiliates.