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For people with young children in school or elderly parents in need of regular medical check-ups, a car offers convenience. ST FILE PHOTO

What's really driving COE premiums and the price of cars in Singapore

In land-scarce Singapore, COE premiums and affordability of cars rest on the interaction of numerous factors.

Raymond Ong

At some point in time, many Singaporeans may wonder if they should own a car, and there are indeed plenty of reasons why a car can come in useful.

For people with young children in school or elderly parents in need of regular medical checkups, a car offers convenience. For those who need to be always on the move to meet clients and clinch deals, a car can increase efficiency. A car could also be a status symbol.

No matter their reasons, the reality is that any aspiring car-owner in Singapore would have to deal with the cost of a COE.

In 2023, we saw record high COE premiums exceeding $100,000 for Category A (comprising non-fully electric smaller cars with engine capacity of up to 1600cc and maximum power output of up to 97Kw as well as electric cars of up to 110kW of power) and around $150,000 for Category B, comprising larger and more powerful cars.

Cooling measures such as the "cut and fill" approach adopted by the Land Transport Authority (LTA) – which brings forward additional quota from guaranteed future deregistrations – increased the COE supply and moderated premiums. In the past month, these dropped to $94,000 for Category A vehicles and $106,000 for those in Category B.

But despite the relative stability in premiums in recent months, many aspiring car owners believe this state of affairs won't last. They are worried that high COE revalidation numbers over the first five months of 2024 will reduce COE supply. There are also those who wonder if the current electric vehicle subsidy policy has driven up COE demand, resulting in rising premiums. And we should not forget that car leasing companies, which bid for private hire vehicles, are often blamed whenever COE premiums rise.

Are these credible drivers of high premiums? Perhaps more importantly, is car ownership getting increasingly unaffordable?

SUPPLY AND DEMAND

The cost of COE premiums is the result of market supply and demand. To put it simply, it is determined by the quota made available for the bidding cycle versus the number of aspiring car owners who bid in that cycle.

We have seen that upon introduction of "cut and fill", the COE supply for Cat A vehicles increased by 40 per cent from the third quarter of 2023 to the second quarter of 2024. Cat B vehicles experienced a similar increase.

Despite the growth in supply, the number of bids in recent months for Cat A vehicles remained about 50 per cent higher than the vehicle quota in that category. This suggests that there remains pent-up demand.

One may be quick to point the finger at private hire car owners and leasing companies for this increase in demand.

But individual car buyers who are Singapore residents secured more than nine in 10 Cat A and B COEs in February 2024, the transport minister said in response to a query in Parliament. Car leasing firms won just 3 per cent of Cat A and 2 per cent of Cat B COEs.

If car leasing companies are not to blame, what about subsidies for electric vehicles (EVs)? The claim is that by making EVs more affordable, the subsidies may have created additional demand, which in turn pushed up COE premiums.

But this is unlikely because an aspiring car owner typically first makes a decision to buy a car, before deciding whether to opt for a petrol, hybrid or electric car. Having made the decision, an aspiring owner would likely compare the overall cost of car ownership and the different options available. The EV early adoption incentive and the enhanced vehicular emission schemes merely even out the cost of an electric vehicle to that of a petrol car, and nudge the aspirants towards a cleaner option.

Given that the decision to enter the COE market has already been made by the would-be buyer, the decision to purchase an EV or a non-EV vehicle should not affect premiums significantly.

UNCERTAINTY PRINCIPLE

Stability in COE supply is good for the market in general. That being said, the system is not immune to uncertainty arising from policy changes.

One example is the phenomenon where the Cat A COE premium dropped from $85,000 in the last bidding exercise of 2023 to $65,010 in the first exercise of 2024.

Much of this may be attributed to policy changes from Jan 1, 2024, including the reduction of incentives under an EV early adoption scheme and the switch to a more rigorous test regime for new passenger cars and taxis. These changes led to uncertainty in the market, and some aspirants may have chosen to adopt a wait-and-see approach.

The sudden drop in COE premiums created another consequence where the cost to renew a Cat A COE (determined by the prevailing quota premium or PQP) fell from $93,952 in January to $78,482 in April. The PQP is determined monthly based on the average COE prices of the preceding three months.

Where the PQP is lower than the current COE premium, car owners may find it more economical to renew their COE than to deregister their car and bid for a new COE. As a result, in periods where PQPs are significantly lower than the current COE premium, as was the case from March to May, it should not be surprising that renewal (or re-validation) rates increase and deregistration rates correspondingly decrease.

With the PQP currently stabilising at similar levels to the current premiums, the high re-validation numbers we saw in the first five months of the year are unlikely to persist unless there is another sharp and significant drop in premiums.

But what should be clear is that whether an existing car owner bids for a new COE to get a new car or renews his current COE to use his current one for a longer period, it does not alter the overall balance between COE supply and demand.

That said, changes in policy do impact the market. Looking ahead, agencies should perhaps consider a phased implementation of policies that avoids sudden spikes or drops in COE premiums.

Recently, the possibility of making cars expensive to use instead of expensive to own has been brought up in debate as a way to allow more Singapore residents to have one. But the reality is that even if we can significantly control usage, having more cars in Singapore will mean that precious land has to be allocated for carparks and associated facilities. This will also mean a higher carbon footprint that accompanies an uncontrolled vehicle population.

IS THE COE INCREASINGLY UNAFFORDABLE?

Having ascertained what's driving the demand for cars, the question really is: Is the COE becoming more unaffordable?

To put things into perspective, we should look at COE premiums in the broader context of household income.

In 2013, the annual average Cat A COE premium was $74,690 while the median monthly income of households was $7,872. This means that it would have taken about 9.5 months of median household income to cover the Cat A COE premium.

In 2023, when the 10-year tenure of COEs registered in 2013 would have ended, the annual average Cat A COE premium was $94,538 while the median monthly household income was $10,869. It would have taken about 8.7 months of median household income to cover the premium. In fact, if we look at the average Cat A COE premium for the first seven months of 2024, it has come down further to $85,871. In other words, a household with income in the median range in 2023 is likely to find it less costly to buy a Cat A car than one 10 years ago – the greater affordability having come from the saving of almost one month's worth of income needed to pay for the COE.

In short, yes, COE premiums may have risen but incomes have risen too and more than made up for the higher COE premiums.

MORE EQUITABLE CAR OWNERSHIP?

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When the Electronic Road Pricing (ERP) system was first implemented in 1998, the Government released an additional 5,000 Cat E COEs on top of the allowable vehicle growth rate.

With ERP 2.0 put in place, it may become possible for the Government to consider a further one-off increase in our total vehicle population, accompanied by carefully phased higher usage-based charges to prevent traffic congestion.

Nonetheless, it should be expected that we will continue to need both ownership and usage management policies to effectively manage traffic congestion in Singapore. As we optimise road usage with the additional tools, any increase in vehicle population will have to be carefully calibrated so that we do not over-burden our scarce land resources, bearing in mind competing national needs.

PUBLIC TRANSPORT THE KEY

While aspiring car owners may benefit from a calibrated increase in the vehicle population with additional usage charges, the focus must continue to be accessible and affordable public transport and shared services.

Point-to-point services by private hire cars and taxis and car-sharing options that are reliable, affordable and of high service quality are still the keys that can persuade people that they need not own a car to have access to one.

A highly accessible and affordable public transport network coupled with an extensive pedestrian footpath and cycling network could make it much more convenient for Singapore residents to move around, to the extent that one might not even think about owning a car.

As such, our dream to own a car (or to even have that dream) would be heavily reliant on how well we do on these three things: car ownership costs, car usage costs, and having viable alternatives such as an efficient point-to-point public transport system, shared mobility services with competitive prices and public bus and rail services that are affordable, reliable and backed by excellent first and last mile connectivity.

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