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Headline: The evolving narrative on home ownership in Singapore

One of the Government's recalibrated messages on home ownership and HDB flat values is that new HDB flats, which are sold at subsidised prices, will appreciate in value, in tandem with economic growth. This creates a reasonable expectation that the HDB flat is indeed an asset, and is expected to increase in value in the first one or two decades. ST FILE PHOTO

The evolving narrative on home ownership

PM Lee's National Day Rally speech should recalibrate HDB home owners' expectations of their home as an ever-appreciating asset.

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For The Straits Times

The recent announcement at Prime Minister Lee Hsien Loong's National Day Rally may have given owners of Housing Board flats with shorter remaining leases a lifeline.

But what is clear is that the grand narrative of public housing is undergoing subtle shifts.

This is by no means unusual, as the meaning of what an HDB flat represents can be said to have evolved over the decades.

The home ownership ideal was conceived in the 1960s. The idea was that helping people buy, not just rent, a roof over their heads could strengthen social cohesion and national bonding.

HDB laid its first pile in Stirling Road within a month of being formed in 1960. By 2010, it had built its one millionth flat. Today, 80 per cent of Singaporeans live in HDB flats and nine out of 10 of these own their flats.

Since the 1980s, the Government and HDB flat owners have regarded the flats as possessing tangible pecuniary value that can appreciate in value and be monetised.

Various HDB upgrading programmes, awarded to voters living in precincts who strongly supported the ruling party at the ballot box, added to this wealth-seeking imperative.

Through the 1990s and early 2000s, HDB flats were thus viewed as tradeable assets. This shifted the focus from ownership to commoditisation, by which quick profits can be made by flat owners when they live in their flat for the minimum occupation period – currently five years – and then resell it to others, usually for a profit.

When HDB flats changed hands for more than a million dollars, it was celebrated, although some wondered about market overexuberance.

But as the 2010s arrived and many HDB flats built in the 1960s and 1970s reached their fourth or fifth decade, questions began to be raised over whether and how these flats could retain their value as their leases ran down towards the 99-year term.

Concerned by couples paying high prices for ageing flats in anticipation of a windfall should they be selected for redevelopment, Minister for National Development Lawrence Wong wrote in a blog post in March last year that very few flats would be selected for the popular Selective En bloc Redevelopment Scheme, or Sers, and that most flats would be returned to the state when their 99-year leases run out.

Since then, the matter of decaying HDB leases has caused much angst and anxiety. Enter Mr Lee and the National Day Rally announcement.

Mr Lee announced two new programmes to keep ageing HDB flats as a good store of economic value, well into their middle age and beyond.

Most HDB flats will be upgraded twice in their lifetime – once at around 30 years of age, and a second time when they reach about 60 years to 70 years – to tide them over till the end of the lease.

And then, as flats reach about 70 years old, the Government may offer a Voluntary Early Redevelopment Scheme (Vers) so flat owners can sell them back to the HDB, which will then redevelop the land. These sellers may buy another flat on new 99-year or shorter leases.

The latest announcement goes some way towards soothing concerns that the value of the flats will taper off to zero towards the end of the 99-year leases.

The recalibration of expectations that should ensue after the National Day Rally speech is welcome. The Government's message on home ownership and the value of HDB flats is also more nuanced – and realistic.

Its main messages are: First, new HDB flats, which are sold at subsidised prices, will appreciate in value, in tandem with the economy's growth. This creates a reasonable expectation that the HDB flat is indeed an asset, and is expected to increase in value in the first one or two decades.

Second, the Government has long committed to rejuvenating older HDB precincts and maintaining the value of older flats.

The first Home Improvement Programme (HIP) upgrading will take place when flats are about 30 years old. But the scale of these programmes will depend on the state of the economy, and also on whether the government of the day continues to believe in such estate renewal.

If upgraded, HDB flats will keep their value, thanks to government-funded maintenance and good governance overall.

Third, as the flats reach 60 to 70 years, the Government's HIP II and Vers programmes provide a guarantee that acts as a price floor for very old flats.

Rather than have the flat depreciate to zero, the Government can offer to buy back flats at the age of 70, and offer flat owners a reasonable compensation.

Of course, the level of compensation will determine how much of a financial safeguard families will have. But at least with this one intervention, the Government is keeping its implicit promise to HDB flat owners that it will take care of the interests of the HDB-owning majority.

The Government also announced last week that the Lease Buyback Scheme will apply to five-room flats. It also said it would look at the use of Central Provident Fund monies for the purchase of older HDB flats.

While the recalibration of the HDB-as-asset message is welcome, I feel that more could have been done to raise some hard truths.

The promise that "every HDB flat can expect to be upgraded twice during their lease" is a bold one given the huge costs involved.

But how will this be funded? Vers may affect most HDB blocks and will entail recurrent expenditures, unlike one-off big-ticket items like the Pioneer and Merdeka Generation packages.

Can an ageing population and a shrinking workforce foot the hefty bills for such HDB renewal?

Similarly, given the huge expense, how can inter-generational equity be dealt with satisfactorily? It does not make sense to offer generous compensation to today's Merdeka Generation by selling flats to the millennial generation at very high prices.

I feel that Mr Lee could have gone further to "right size" the dominant narrative of the HDB flats as appreciating assets. The new schemes help retain fair value for ageing flats as they reach 70 years old, but they do not change the fundamental reality that, at some point, HDB flats switch from being appreciating to depreciating assets. More starkly, they are still likely to revert to the state at zero value at year 99.

Hence, until there is more clarity on the amount that HDB flat owners will get under Vers, or the lease buyback terms, concerns over the decaying lease issue are likely to remain.

At a book launch last Friday, Mr Lee said the longstanding approach is to have a home owner take responsibility for his property, think long term, and do his best to protect its value directly and "indirectly by upholding the society and system on which the value of his home depends".

This is correct. But how will this abiding self-interest in growing one's wealth through the appreciating value of one's home be squared against the fundamentals of social equity – that is, what is fair and sustainable?

This requires a conversation that is open and honest, and has ample details and facts and figures.

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