

Promoting Social Equity

THROUGH PUBLIC HOUSING

Singapore's public housing authority, the Housing & Development Board, has won numerous accolades for its work in providing high-quality yet affordable housing. This case study elaborates on the policies and subsidies that have encouraged Singaporeans, including low-income families, to own their homes, contributing towards greater social equity in the country.

The Challenge

When Singapore attained self-governance in 1959, the new administration was confronted with a rapidly growing post-war population, high unemployment and a critical shortage of sanitary housing. Overcrowded slums with no sanitation, water or basic facilities were home to more than half a million people. These squatter colonies were breeding grounds for disease and crime, and were vulnerable to fires. Such dismal living environments fuelled social disharmony and frustration among the different communities.

Something had to be done quickly, and so the Housing & Development Board (HDB) was set up in February 1960 with the formidable task of providing sanitary and affordable housing for the population. Within 10 years of the HDB's formation, we managed to resolve the severe housing shortage. But

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Singapore

housing a nation was a long-term challenge, with various social and economic objectives.

HDB flats began as rental units let out to low-income families at affordable rates. However, in 1964, the government started encouraging citizens to purchase their flats instead to promote a sense of ownership not just for their homes, but also for their country. With nation-building, community development and racial harmony in mind, the government introduced leasehold ownership flats with the Home Ownership for the People Scheme.

At that time, many of the lower-income households were unable to obtain bank loans to finance the purchase of their flats because of their poor credit standing. To address this, the HDB took on the role of mortgage financier. Still for many, owning an HDB flat seemed to be just out of their reach until a watershed policy in 1968 allowed Singaporeans to use monies from their Central Provident Fund (CPF) – a comprehensive social security savings plan introduced by the government for all Singaporeans – to make the downpayment and service their loan instalments. This enabled them to own homes with minimal impact on their disposable income, and home ownership in Singapore took off.

In the early 2000s, Singapore's economy was hit by the global downturn and the outbreak of the deadly SARS virus. Gradually, the global markets recovered in 2004 to 2006, restoring Singapore's economy.

While 2006 data showed that continual growth offered some respite with more people finding jobs and household incomes rising, the wages for the lowest 10th to 20th percentile saw little improvement.

Singapore needed an effective way to remain competitive amidst globalisation while ensuring that its people benefited from the country's progress. Home ownership offered a tangible way of sharing in Singapore's prosperity. Besides being a home, HDB flats had also come to serve as a store of value that could be used to build a better life for Singaporeans. Owning a home is a means of social mobility, giving lower-income households a helping hand to rise above their circumstances. Hence, the HDB needed to explore how to enhance its allocation of housing subsidies to give everyone a more equitable chance of owning a home.

⁰¹ Squatter settlements in Singapore's earlier days.

More Help to Buy 3- and 4-Room Flats

“ A family today, if you are earning \$1,000, you should be able to afford a 2-room flat. If you are earning \$2,000, you should be able to afford a 3-room flat. If you are earning \$4,000, you should be able to afford a 4-room flat and that is completely possible. ”

Prime Minister Lee Hsien Loong,
National Day Rally 2013

How is this possible?

Take a look at the example of 3- and 4- room flats
at Fernvale Riverwalk in Sengkang

3-Room Flat		4-Room Flat	
\$2,000	Household Income	\$4,000	
\$170,000	Selling Price	\$285,000	
\$17,000	10% Down Payment from CPF/Cash Savings	\$28,500	
AHG: \$35,000 SHG*: \$10,000	Existing Grants	AHG: \$15,000	
\$10,000	Extra Grant*	\$20,000	
\$4,000	NS Recognition Award	\$4,000	
\$59,000	Total Grants and Awards	\$39,000	
\$94,000	HDB Loan Granted (less 10% down payment of selling price, grants and awards)	\$217,500	

What about monthly instalments?

This would be the monthly instalments payable over 25 years for an HDB loan

\$427		Monthly Instalments	\$987	
CPF contribution	Cash outlay		CPF contribution	Cash outlay
\$427	\$0		\$920	\$67

* SHG will be applicable for premium and standard 2-, 3- and 4-room BTO flats in non-mature estates.

The Solution

In 2005, Prime Minister Lee Hsien Loong set up the Inter-Ministerial Committee on Low Wage Workers to address these challenges. This resulted in a package of workfare measures introduced in 2006. The new Additional CPF Housing Grant (AHG) was among these measures and aimed to level the playing field so that low-wage Singaporean workers could purchase their first HDB flat as a tangible and lasting reward for their hard work.

The AHG would be given on top of an already generous level of existing housing subsidies available for first-timer buyers of HDB flats, and is calibrated to give lower-income households a larger subsidy.

Prior to the AHG, there was no specific subsidy scheme targeted at assisting the lower-income groups. The AHG was enhanced twice, in 2007 as well as 2009, and is now offering higher subsidies to an expanded income range, and a larger pool of residents such as young middle-income couples looking to own their first homes.

To further help low-income families buy their first HDB flat, the HDB introduced the Special CPF Housing Grant (SHG) in 2011. Unlike the AHG (which is applicable across all HDB flat types), the SHG could only be used to purchase new two-room and three-room standard flats in the non-mature estates.



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The SHG was also tiered such that those with lower household incomes received a larger subsidy. One in four citizen households were expected to benefit from the SHG, which was disbursed on top of the regular housing subsidy for new flats and the AHG. The SHG was enhanced twice, in 2012 as well as 2013.

In 2013, the HDB revised the eligibility criteria such that the SHG would also benefit middle-income households earning not more than S\$6,500 (US\$5,097) per month buying flats that are no larger than the four-room flats in the non-mature estates. Today, the AHG and SHG are also extended to eligible Singaporean singles wanting to buy an HDB flat as their first home.

As with any official subsidy, it is natural that those affected would desire more and feel that they deserve the most they can get. However, the government has limited resources which are shared among other programmes/schemes and agencies. Hence, the HDB has a responsibility to ensure that our programmes are financially sustainable in the long term.

At the same time, we recognise that there is also a small percentage of the population who are not yet able to own a home at the moment. Currently, public rental flats make up about 5% of the public housing in Singapore. For these families, the HDB gives them a helping hand through our heavily subsidised public rental housing, while they work at improving their financial circumstances. Monthly rents are from as low as S\$26 (US\$20) for a one-room flat.

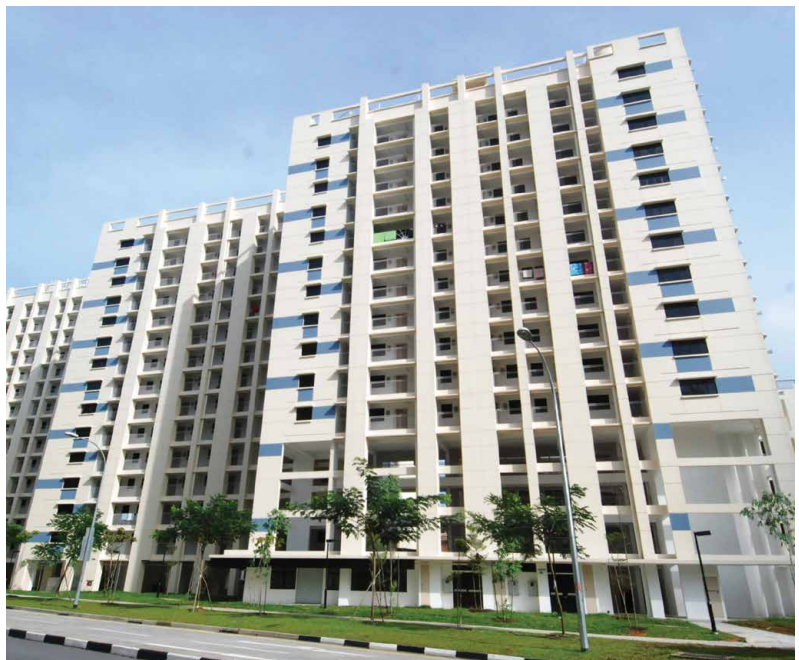
With the generous subsidies that encourage home ownership, we are happy to have seen about 1,100 former tenants progress to become HDB flat owners in the last three years.

01 More help for Singaporeans to buy flats (information current as of Sep 2013, from www.hdbspeaks.sg)

02 Home ownership is the mainstay of the HDB's public housing programme. This year, the HDB commemorates 50 years of the Home Ownership for the People Scheme.

03 Those who are not financially ready to own a home may rent a flat from the HDB. Photo of Rental flat at Teck Whye Cres.

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The Outcome

The HDB is committed to making home ownership affordable to the vast majority of citizen households, especially first-time buyers and low-income families.

Today, the numbers speak for themselves. Since its introduction, the AHG has benefited over 60,000 households while the SHG has benefited over 1,500 households. Besides giving subsidies, the HDB also offers a wide range of flats of different sizes and locations to cater to buyers with varying needs and budgets.

To further help low-income families, the HDB maintains a lower income ceiling for eligible buyers of new two- and three-room flats to prevent competition from higher-income households. In this way, although some may take a longer route, virtually everyone has a more equitable chance at home ownership.

Indeed, the HDB has a highly successful home ownership programme. More than 80% of the country's resident population live in HDB flats, and nine in 10 HDB dwellers own the flat they live in.



As CEO of HDB, **Dr Cheong Koon Hean** oversees the development and management of some one million public housing flats. She is concurrently a Deputy Secretary at the Ministry of National Development. As CEO of the Urban Redevelopment Authority (2004 - 2010), she spearheaded the transformation of areas like Marina Bay. Dr Cheong sits on the boards of HDB, Jurong Port, National University of Singapore, Civil Service College and the International Federation of Housing and Planning, and served in various international expert panels. She was conferred Singapore's silver, gold and meritorious public service medals, and a Doctor of Architecture honoris causa and Convocation Medal for Professional Excellence from the University of Newcastle.

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01 The HDB is committed to making home ownership affordable to the vast majority of citizen households. Photo of Punggol Breeze Build-to-Order (BTO) Development.