Singapore's unique housing finance system

SINGAPORE is an unusual, if not unique, economy — a small island state that occupies only 620 square kilometers with a population of a little over 2.5 million. It has a thriving economy with a GNP per capita and living standards that put it well above its neighbours in South East Asia. Indeed, if the experience of the past 10 years continues then Singapore will rapidly be joining the OECD countries in terms of wealth.

In respect of housing and housing finance, Singapore has its own distinct pattern. Where public housing and high rise housing throughout the world have often been failures they are seen as being a success in Singapore. The island has also made extensive use of social security funds to finance housing.

The Housing and Development Board

Housing in Singapore is synonymous with the Housing Development Board (HDB), a public sector body. HDB was established in 1960, and by the end of 1961 had 200,000 units housing 10% of the population of Singapore. The number of units and the proportion of the population housed has risen relentlessly since that time. By 1976 half the population were housed in HDB flats, and by March 1986 84% of the population lived in 558,000 flats.

Housing Development Board Balance Sheet, March 1986

Liabilities	$m	%	Assets	$m	%
Government loans	13,381	37	Fixed assets	18,704	51
Bank loans	62	—	Properties under construction	8,124	22
Other current liabilities	5,864	16	Mortgage loans to purchasers of flats	6,818	19
Capital reserve	17,249	47	Other loans	241	1
			Current assets	2,669	7
Total	36,556	100	Total	36,556	100

Residential Units under Management

Type of properties	March 82	March 83	March 84	March 85	March 86
One-room flats	64,664	65,257	60,646	60,283	60,105
Two-room flats	47,056	48,634	48,562	48,462	48,565
Three-room flats	167,283	191,063	209,714	229,759	244,635
Four-room flats	57,080	66,041	87,619	118,248	141,556
Five-room flats	21,739	26,930	32,728	40,968	45,765
Executive flats	—	—	2,333	5,484	8,722
HUDC flats	—	2,732	3,214	4,842	8,007
Other residential properties	61	61	61	257	257
Total	357,883	400,718	444,877	508,303	*557,612

*Includes 61 landed properties

HDB has continued an extensive housebuilding programme. The number of homes completed began at a modest 682 in 1960 and rose steadily to peak at 30,406 in 1977. There was then a downturn until 1981 when the figure was 16,366. Subsequently there has been a sharp increase with the figure reaching 70,345 in 1984 and 50,348 in 1985.

All HDB units are flats rather than houses and many are in high rise blocks, which seem to work successfully in contrast to the position in a number of industrialised countries.

Initially, HDB provided flats for rent, but in 1964 there was a change in policy with a home ownership scheme being introduced. The emphasis is now very much on home ownership rather than renting. In March 1986 HDB had a waiting list of 32,000 people wanting to buy with just 3,000 wanting to rent. Both figures show a marked reduction on those for March 1985.

By March 1986 HDB had sold 420,000 units so that 75% of its properties under management were in fact owner-occupied rather than rented. The Board makes loans to those buying their flats at a rate of interest which is pegged marginally above the Central Provident Fund interest rate, and which was 5.88% in 1986. The rate is reviewed half yearly.

The Board's development programme is funded by government loans, most of which are repayable over 60 years. The loans have varying rates of interest; new loans carry a rate 2% above the CPF interest rate.

The government has an overt policy of subsidising housing. In 1985-86 rental income of $73 million was less than half the expenditure on rented flats of $163 million giving a deficit of $90 million. Service and conservancy income was $212 million while expenditure was $314 million, and a substantial deficit was also incurred on the sale of flats below cost. A total government subsidy of $1,173 million was paid to the Board.

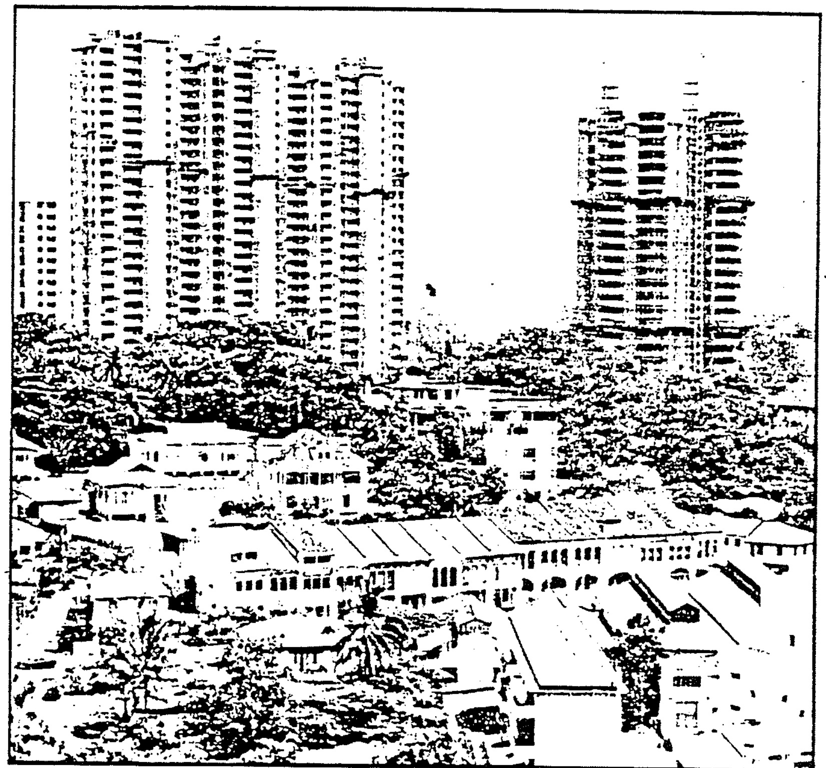
The Central Provident Fund and Home Ownership

Most HDB flats are sold in conjunction with withdrawals from the Central Provident Fund. This was established in 1955 and is a compulsory savings scheme with the objective of providing retirement benefits. At the end of 1985 it had no fewer than 1,892,000 members, and total balances of $26.83 billion, that is, some $10,700 for each person in Singapore.

The contribution rate has been a very high 25% of salaries for both employees and employer, albeit with a ceiling. However, for a two year period the employer's contribution has been reduced to 10%.

In the mid-1970s the Fund made direct loans for house purchase, but in a switch of policy people were enabled to withdraw their savings in order to pay for housing, both the initial deposit and remaining monthly instalments. Over 600,000 members have used their savings to buy their own homes. In 1985 withdrawals from the fund amounted to $3,017 million and of this total $2,204 million was withdrawn by 302,000 members to help pay for HDB flats.

Someone purchasing an HDB flat, at a discount, may well have a package made up of withdrawals from his Central Provident account and a loan from the Post Office Savings Bank, which is the major retail financial institution in Singapore, accounting for well over half of the personal sector deposits. Notwithstanding its name, it now has little to do with the Post Office, but, rather, operates through 279 branches and has 2.87 million savings accounts — more than the number of people in Singapore.



Old and new housing in the Orchard Road area of Singapore.

Conclusion

Singapore has chosen to spend much of its rapidly rising wealth on an ambitious public housing programme. It has also chosen to provide for people's retirement through the Central Provident Fund and has allowed people to draw on that fund to finance the purchase of a house which can be seen as an alternative method of saving for retirement.

Singapore is renowned for its efficiency. In many countries a combination of a public sector housing board, public sector savings bank and a government run provident fund would not make for an efficient housing or housing finance system. However, it is apparent that this unlikely combination has produced very satisfactory results in Singapore. ■

Central Provident Fund

Year	Contributions $bn	Members' balances $bn	Membership millions	Withdrawals for housing schemes $bn
1981	3.01	12.15	1.65	0.69
1982	3.90	15.66	1.73	0.80
1983	4.49	19.50	1.78	1.12
1984	5.39	22.67	1.85	2.69
1985	5.99	26.83	1.89	2.57

All figures in this article are in Singapore dollars. There are about 2.1 Singapore dollars to the US dollar and 3.1 Singapore dollars to the pound.