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A CPF key to unlocking values of older homes

By KUAN WEN-MEI EILEEN AND SING TIEN FOO

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The new CPF rule increasing the limit of the combined balance lease and youngest buyer age from 80 years to 95 years encourages the buying of a home for life, say the authors.

In May, the Government announced significant changes to financing rules on the purchase of properties.

Essentially, buyers of resale Housing and Development Board (HDB) flats with leases that expire before they turn 95 will be able to use less of their Central Provident Fund (CPF) savings and take out a smaller HDB loan.

But older couples can now draw more from their CPF savings and get a larger HDB loan for older resale flats. Those buying private property will also be affected by changes to the rules on CPF use.

What is the significance of these changes and how will they affect the value of HDB flats and private properties with depleting leases?

First, the current sharp drop of values of 99-year-leasehold properties that just cross the 40-year-old mark will ease.

Previously, buyers of properties with a balance lease less than 60 years are only allowed to finance the purchases using partial withdrawals from their CPF savings, subject to the condition that the age of the youngest buyer and the balance lease must add up to 80 years.

This does not apply for properties with less than 30 years' lease left, whose buyers cannot tap their CPF monies for the purchase at all.

Taking the clue from this, most commercial banks are reluctant to grant mortgage loans up to the maximum 80 per cent of the asset value for properties with less than 60 years' lease.

The loan practices have had significant impact on resale prices of leasehold homes that are over 40 years.

The difference between two similar flats — one with 60 years of lease left and one with 59 years of lease remaining – can be tens of thousands of dollars, even though technically, they should be of the same value.

While the CPF rule has existed for a long time, few buyers or industry experts, if ever, have questioned the rationale of setting the lease cut-off at 60 years.

The new rules that kicked in from May 10 will now allow a buyer to use his CPF monies to buy a property at its full valuation limit if the property has at least 20 years of remaining lease and covers the youngest buyer until at least the age of 95.

If these conditions are not met, the use of CPF savings for the purchase will still be pro-rated based on the extent the remaining lease can cover the youngest buyer to the age of 95.

This is a radical move that could ease the price cliff at the 40-year mark of housing age. It would also give a new lease of life to properties with balance leases of between 21 years and 30 years, since the previous rules disallow the use of CPF savings to pay for them.

Second, the new CPF rule increasing the combined balance lease and youngest buyer age limit from 80 years to at least 95 years is notable.

The net effect could be a more efficient matching of housing needs to buyers' ages.

For instance, properties with a balance lease of 30 years will appeal more to buyers of 65 years and above, and those with 40 years' lease left to buyers of 55 years and above and so on.

What this may also mean is that as buyers age, they will increasingly see their property purchases more as a consumption decision rather than an investment.

Of course, there are other factors that may drive housing choice in additional to the age of houses, which may not lead to such a clean sorting outcome in reality.

In announcing the changes in the CPF usage and HDB housing loans, the Government said that the rules have been updated "to provide more flexibility for Singaporeans to buy a home for life, while safeguarding their retirement adequacy."

Based on the Department of Statistics' 2018 life expectancy figure of 83.2 years, providing housing needs for up to 95 years gives a safe buffer for the majority of Singaporeans.

The 95-year rule is also used as the reference point in other monetisation policies introduced by the HDB. In the Silver Housing Bonus scheme, buyers could right-size by buying a 2-room flexi studio apartment with leases that could last them up to 95 years of age.

The Lease Buyback Scheme is another that requires existing homeowners to keep a lease that will cover them until they are 95 years old. The convergence in these policies to the 95-year mark may have some implications on the housing consumption and investment motives for both younger and older buyers.

Consumption needs may outweigh investment motives in housing purchase when buyer age increases. However, for younger buyers in 30s and below, their housing purchase cycle may be divided into two or more phases depending on the time interval between the moves.

For example, a typical young couple in its 20s or early 30s are likely to buy their first homes in the form of HDB Built-to-Order flats with fresh 99-year leases to meet both consumption and investment motives.

When the house appreciates in value over time, and if they are in their 40s or early 50s, they are likely to sell the house to realise gains; and use the proceeds to upgrade to a bigger house or a private condominium.

If they sell their house at the age of mid-50s or 60s, they are actually better off buying another older house that lasts them till the age of 95 years and use their CPF savings to pay for it.

The CPF policy changes are indeed quite comprehensive and consistent with current other housing policies targeting at ageing households (such as Silver Housing Bonus scheme and Lease Buyback Scheme) in Singapore.

A higher withdrawal limit will encourage older buyers to consider buying houses with balance leases of less than 60 years in the resale markets.

At the same time, the new CPF rule increasing the limit of the combined balance lease and youngest buyer age from 80 years to 95 years could protect four in five households from outliving their homes. The policy encourages the buying of a home for life, and at the same time, safeguards Singaporeans' retirement adequacy.

In sum, the latest CPF rules will ease financing constraints for buyers of older houses, and, in the way help unlock values of older houses that were artificially depressed by the previous CPF rules.

ABOUT THE AUTHORS:

Kuan Wen-Mei Eileen and Sing Tien Foo are respectively senior research associate and director at the Institute of Real Estate and Urban Studies, National University of Singapore.