



THE PERSPECTIVE

ARE RISING HDB PRICES
THE NEW NORMAL?

Introduction

The Singapore economy contracted 5.4% last year, as the Covid-19 pandemic disrupted various industries worldwide. The economic recession was one of the worst since Singapore’s independence.

However, the public housing resale market sailed through 2020 relatively unscathed by the recession. Last year, the HDB resale price index increased 5.0% year-on-year (yoy) while the number of resale transactions rose 4.4% yoy to 24,748 flats.

This was not the first time that the HDB resale price index was unaffected by an economic recession.

HDB Prices Did Not Always Fall During Recessions

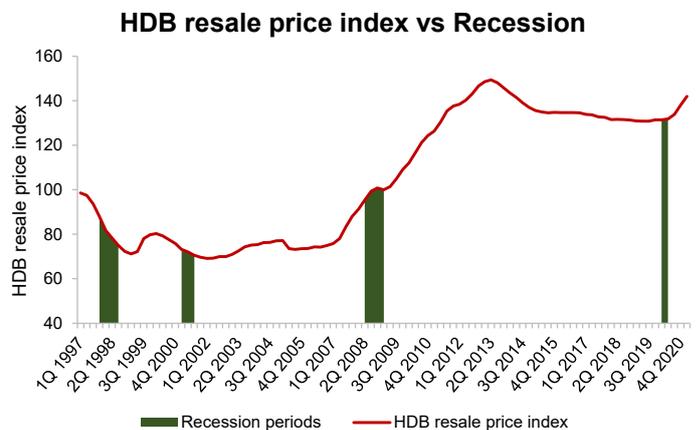
In the past thirty years, the Singapore economy suffered four recessions, which is defined as at least two consecutive quarters of contraction in quarterly real gross domestic product (GDP). In the past four recessions, the HDB resale price index declined during two of the four recessions, which were the recessions caused by the Asian Financial Crisis in 1998 and the 2001 recession. The public housing prices appreciated in the other two recessions, which were caused by the Global Financial Crisis in 2008 and Covid-19 pandemic in 2020.

One of the reasons for the resilience of the HDB housing market is that public housing is a basic necessity and the most affordable type of housing in Singapore. Therefore, the demand for public housing is unlikely to evaporate even during economic recessions. On the contrary, some private homeowners may even downgrade to public housing when they are affected by financial hardship during economic downturns, thereby contributing to the demand for HDB flats.

Another reason is the regulations and restrictions governing the ownership and trading of HDB flats. If an individual can own several units of a certain asset which could be easily traded with minimal restrictions and transaction costs, the price of that asset is likely to fluctuate widely during market booms and bust. An example of such an asset is securities listed on a stock exchange.

On the other hand, the ownership and transaction of HDB flats are more regulated. Only Singaporeans and permanent residents could own HDB flats. Each resident household could own only one HDB flat, which will be their primary place of residence. This would limit the ownership of HDB flats.

Figure 1: HDB resale price index and economic recession



Source: Housing and Development Board, Department of Statistics Singapore, ERA Research and Consultancy

Furthermore, each flat owner must live in his flat for a minimum of five years before he could sell the flat. This regulation restricts the trading of HDB flats. There are other rules and regulations to ensure that HDB flats are treated as a home rather than a trading asset, which contribute to its price stability.

The third reason is that the Singapore government could exercise a relatively high degree of influence over the public housing market compared to the private housing market. The government is the monopoly in the HDB primary market as it controls the supply and prices of new HDB flats. The government could also influence the resale market through government regulations, policies and subsidies.

However, the degree of government influence over the HDB resale prices and demand is affected by the speed that the effects of the policies are filtered through the housing market.

HDB Resale Market Remained Buoyant During Pandemic

The HDB resale price index even outperformed the private housing price index last year. In 2020, private residential property prices grew 2.2% yoy, which was only half the growth rate of the HDB resale prices.

The HDB resale price index has been expanding steadily since 3Q 2019, only pausing temporarily in 1Q 2020 when the index remained unchanged from the previous quarter. In the fourth quarter of 2020, the price growth of HDB resale flats accelerated to 3.1% quarter-on-quarter (qoq). This was the highest quarterly rate of price growth since 3Q 2011 where HDB resale price index grew by 3.8% quarterly.

A total of 24,748 HDB resale flats exchanged hands in 2020, 4.4% more than the annual transaction volume in 2019. Despite the ongoing pandemic, the HDB resale transaction volume in 2020 was still 13.5% higher than the annual average of the previous 5 years from 2015 to 2019.

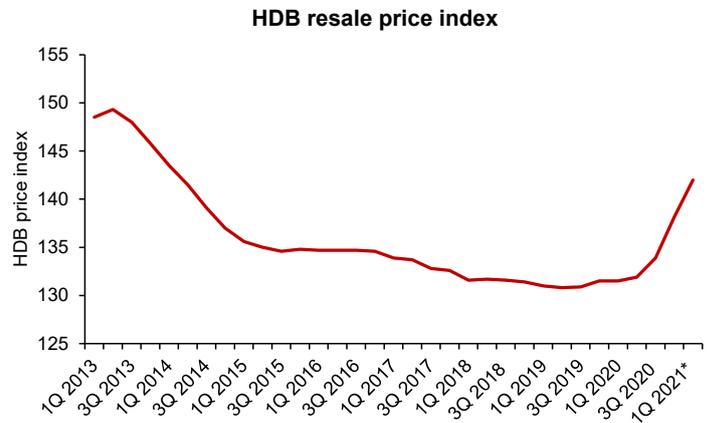
Among the various HDB towns in Singapore, the largest increase in the number of HDB resale flats transacted in 2020 occurred in Punggol, where the resale volume increased 50.9% yoy to 1,750 flats. This is followed by Pasir Ris and Hougang with 45.1% and 29.3% yoy growth in resale transactions respectively.

Table 1: Top 10 HDB towns with the highest growth in transaction volume

HDB Towns	No. of HDB resale flats transacted in 2019	No. of HDB resale flats transacted in 2020	Percentage change (% yoy)
Punggol	1,160	1,750	50.9%
Pasir Ris	585	849	45.1%
Hougang	967	1,250	29.3%
Bukit Panjang	937	1,143	22.0%
Clementi	479	584	21.9%
Sengkang	1,795	2,160	20.3%
Tampines	1,413	1,700	20.3%
Queenstown	563	653	16.0%
Bedok	1,147	1,316	14.7%
Bishan	417	448	7.4%

Source: Housing and Development Board, ERA Research and Consultancy

Figure 2: Price index of HDB resale flats



* Based on flash estimate

Source: Housing and Development Board, ERA Research and Consultancy

Impact of Younger Resale Flats

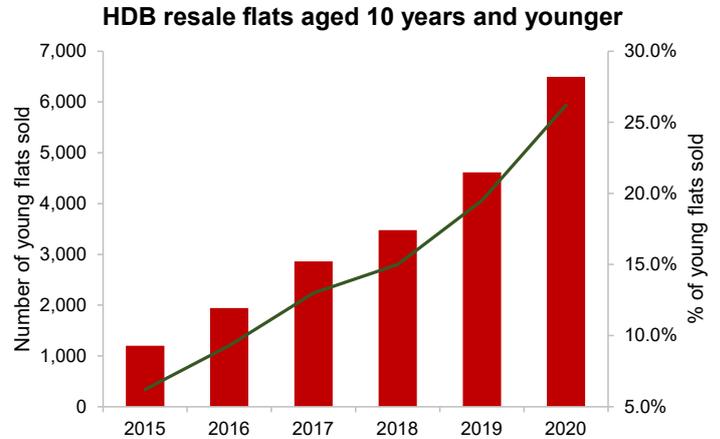
From 2011 to 2014, the Singapore government drastically increased the supply of new HDB Build-to-Order (BTO) flats in response to the strong housing demand. These flats were constructed within three to four years. As a result, the number of HDB flats that reached the end of their 5-year Minimum Occupation Period (MOP) and could potentially be sold in the resale market increased sharply in 2019 and 2020. The robust supply of such new flats is expected to continue to 2023.

In 2019, there were 29,678 HDB resale flats that had reached the end of their 5-year MOP. Last year, another 24,513 new HDB flats became eligible for resale, almost double the annual 5-year average of 12,600 newly eligible flats from 2014 to 2018.

In this report, a “young flat” is defined as a HDB resale flat that is between five and ten years old. The remaining lease of a young flat is typically at least 89 years. The increasing number of such young flats being sold in the resale market could be one of the driving forces behind the rising HDB resale prices in 2020 as these flats could command higher prices than the older flats. These young flats are newer and have longer remaining leases compared to the older flats. Furthermore, some of these newer flats have modern designs that are integrated with shops, car park and recreational facilities that bring conveniences to the residents. As a result, the young flats could fetch higher resale prices.

In 2020, a total of 6,493 of such flats were sold, which was 40.7% higher than the number of young flats sold in 2019. In addition, the young flats are also expanding their market share. In 2019, 20.8% of the transacted HDB resale flats were young flats. That number increased to 27.8% of the total number of HDB flats sold in 2020.

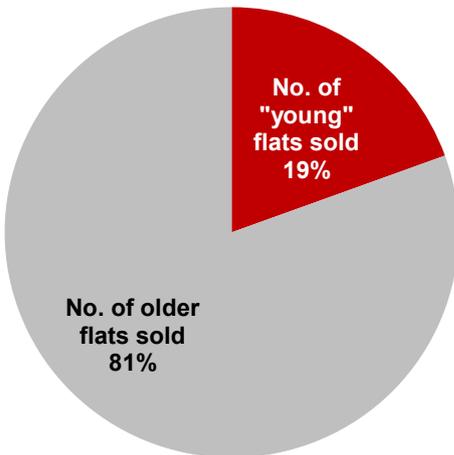
Figure 3: Resale volume of young HDB flats as percentage of total HDB resale volume



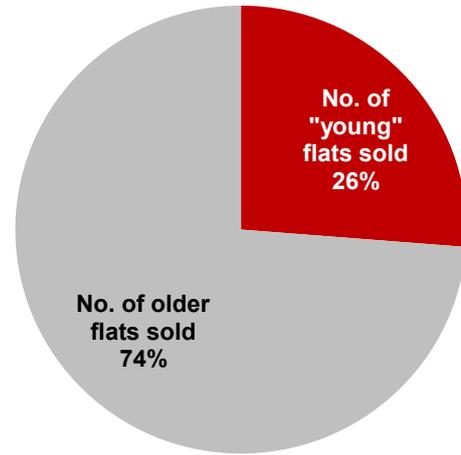
Source: Housing and Development Board, ERA Research and Consultancy

Figure 4: Proportion of young flats sold in 2019 and 2020

HDB resale flats sold in 2019



HDB resale flats sold in 2020



Source: Housing and Development Board, ERA Research and Consultancy

Half of the total number of transacted young flats were located in three HDB towns namely Punggol, Sengkang and Yishun. Punggol has the highest number of young resale flats sold in 2020, numbering 1,358 flats, or 20.9% of the total number of young flats transacted islandwide.

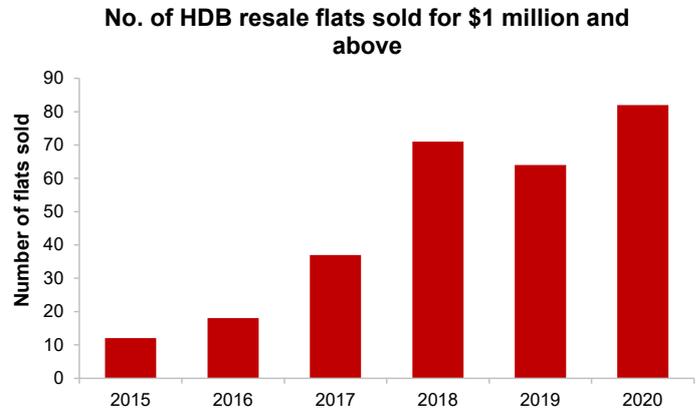
This was because the Punggol HDB estate had the largest number of flats reaching the end of their 5-year MOP last year. In 2020, 6,839 flats in Punggol reached the end of the MOP, which was 27.8% of the total number of newly-MOP flats last year. This was followed by Sengkang with 4,430 5-year old flats and Choa Chu Kang with 2,797 of such flats.

The Rise of Million-Dollar Flats

In recent years, a growing number of HDB resale flats were transacted at eye-watering prices of one million dollars or more. In July 2012, a 150-sqm Executive flat along Mei Ling Street was the first public housing flat to be sold for a million dollars. In that year, only two HDB resale flats were transacted at \$1 million or more. The other million-dollar flat was a 163-sqm Executive maisonette in Bishan.

In 2020, a record number of 82 HDB resale flats exchanged hands at \$1 million or more each, which was 28.1% more than the number of million-dollar flats sold in 2019. Eighty-two percent or 67 of the 82 million-dollar flats transacted in 2020 were 10 years-old or younger illustrating that the growth in the population of younger flats contribute to the rising number of million-dollar flats.

Figure 5: No. of million-dollar HDB flats



Source: Housing and Development Board, ERA Research and Consultancy

The majority of these million-dollar flats are located in the Central Area, Queenstown, Bukit Merah and Bishan. The increase in number of million-dollar flats was due to several HDB projects located in city fringe areas that reached their 5-year MOP and were released into the resale market in 2020. These projects include SkyVille @ Dawson, Sky Terrace @ Dawson and Boon Tiong Arcadia. Buyers are willing to pay a premium for these flats due to the retail amenities and MRT stations in the vicinity. In addition, it takes less than 20 minutes to travel by train from the locations of these flats to the Central Business District.

Unexpected Boost in Demand For Resale Flats

The pandemic caused an unexpected boost for the HDB resale market. When the coronavirus swept through workers' dormitories last year, construction activities came to a halt for months. Although the construction at some HDB Built-To-Order (BTO) projects had resumed, the completion dates are still expected to be delayed.

As a result, some homebuyers turned to the HDB resale market, leading to an increase in the demand and prices of resale flats.

Moreover, the housing grants that were announced by the government in September 2019 are still in place. Together with other housing grants, eligible buyers could receive up to \$160,000 in grants for resale flats. Therefore, the demand for resale flats could be cushioned against the impacts of the pandemic by such government assistance.

In the past few months, the demand for HDB resale flats were so robust that some agents claimed that some HDB flats were sold within one to two months after they are put up for sale.

Outlook

The outlook for the HDB resale market remains bright in the near future as the positive factors outweigh the negative ones.

The factors that exerted upward pressure on HDB resale prices in the past 9 months could persist for the rest of this year. These factors include the uncertainty due to the delay in the completion of new HDB flats which would increase the demand for HDB resale flats. The government had announced in a written parliamentary reply in early April that about 85% of the HDB flats that are under development would face delays and about 43,000 households would get the keys of their new flats about 6 to 9 months later than initially expected.

This year, 26,000 HDB flats would reach the end of their MOP, and they would be followed by another 35,000 flats in 2022. Some of these new flats would be sold at relatively higher prices leading to a boost for the average HDB resale prices. There is hardly any risk of a glut as not all of these new flats would be offered for sale.

Singapore has the capacity and capability to vaccinate the entire population by the third quarter of 2021. As at 8 March 2021, there were 392,620 people that have already received their first dose of the Covid-19 vaccine.

The vaccination is expected to aid the economic recovery, especially for sectors that were badly affected by the pandemic. When the employment market and wage level improve, they would provide a shot in the arm for the entire property market, including the HDB resale market.

Therefore, in the absence of any government intervention, the prices and transaction volume of HDB resale flats would continue to head north this year.

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