

(This article appeared in The New Paper on 29 July 2002)

ASK DR MONEY

Give up HDB flat for condo?

It might make better economic sense, says Dr Money

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Q: I CAN'T figure out how the new CPF rules will affect housing prices. Can you help?

A: YES! The table below shows the outlook for property prices.

THE BIG PICTURE: The recent CPF rule changes will lure people from HDB to private housing.

This is because the cash component of the down payment has been lowered for private properties from Sept 1.

But it will increase for the many HDB buyers who do not qualify for the board's concessionary interest rates. These market rate buyers comprise 37 per cent of HDB loans.

BOTTOM LINE: The new cash requirement makes buying more difficult for many prospective HDB buyers (37 per cent) while, at the same time, making it easier for private home purchases.

This will push down prices of HDB flats and push up prices of private houses. In the short run, however, look for HDB resale prices to rise, as buyers rush in to beat the new cash deadlines. (See table below.)

DR MONEY'S CRYSTAL BALL SAYS...		
Forecast	Short run (1 yr)	Long run (5 yrs)
HDB resale	Up	Down
HDB new	No change	Down
Pvt housing	Up	Up

For HDB, here are the important details:

1) There is no change in rules for the 63 per cent of HDB home buyers with concessionary interest rates. These are people who qualify for HDB loans at 2.6 per cent interest.

2) The new rules apply only to the 37 per cent of HDB home buyers who do not enjoy concessionary interest rates. These people now pay market rates averaging 3.75 per cent. And from Jan 1 next year, these loans will come from banks rather than the HDB.

They will also have to follow a new rule that only half of the 20 per cent down payment may come from their CPF accounts. The other 10 per cent must be in cash. The cash down payment will be phased in starting with 2 per cent from Jan 1, 2004 and increasing to 10 per cent from Jan 1, 2008.

3) A second cash requirement for market rate HDB loans is that only 150 per cent of the valuation limit (the lower of the purchase price or the valuation of the property) may be paid from the CPF ordinary account. The balance must be paid in cash.

This falls from 150 per cent to 120 per cent from Jan 1 next year to Jan 1, 2008. That translates to a cash payment of just over 20 per cent of the purchase price, which may be paid over the term of the loan.

4) Some HDB buyers already pay up to \$30,000 cash, based on the selling price in excess of valuation. These buyers will be less affected by the new cash requirements since they already put in a lot of cash.

For private property, here are the important details:

1) Factors pushing up prices are the improving economy; the declining inventory of new private homes; half the down payment (10 per cent) now permitted from CPF funds (effective Sept 1); and the harsher financing requirements for market rate HDB borrowers, which pushes them toward private property.

2) A new CPF rule that will push prices lower is the requirement that, from Sept 1, no more than 150 per cent of the valuation limit may be paid from the buyer's CPF ordinary account.

This limit will decline to 120 per cent by Jan 1, 2008, which is equivalent to a cash requirement of just over 20 per cent of the purchase price.

This cash portion may be paid over the term of the loan. As the economy improves, higher interest rates will boost this cash requirement.