Competitive Bidding for Government Lands in Singapore

By Zhi Dong and Tien Foo Sing

In Singapore, more than three-quarters of lands are state-owned. Given the scarcity of lands, the government uses land supply as a policy tool to influence urban growth, and indirectly stabilize prices in housing market. As shown in Figure 1, the government increased land supply hoping to cool the overheating market in the two boom periods in 1994-1996 and 2010-2011. It also suspended the land sales after the two major financial crises in 1997 and 2009. Singapore Land Authority (SLA), the custodian of state lands in Singapore, appoints Housing Development Board (HDB) and Urban Redevelopment Authority (URA) to administer the government’s sale of sites programs (SOSP). URA covers the sales of residential lands and other commercial land parcels across Singapore; whereas HDB usually sells lands located within public housing estates. In this study, we collected a sample of 409 parcels of residential development lands (landed and non-landed) sold by the two agencies over a sample period from 1990 to July 2011. A total of 9.38 million square meters of lands have been sold during the sample period. URA sold 64% of the residential lands in the sample.

The public lands sold in the SOSP come in different size with the smallest plot of 406.50 square meters for landed units, and the largest plot of 125,913.40 square meters for strata-titled (non-landed) developments. The average land size was 11,706 square meters. The lands were sold by the first-price sealed bid method, and 2673 bids were received for the 409 land parcels sold, and out of which 534 (18%) were joint bids submitted by two to four parties. A total of 554 firms and individual participated in the past SOSP tenders, and the participation rate was by firms listed on Singapore Exchange was 45% on average. Far East Organization, a private developer, was the most active bidders submitted 330 (unweighted) bids, both single and joint bids, in the past tender exercises. It has succeeded in 119 (unweighted) of the bids submitted. The time interval between the auction launch date and the land award date averages at 3.69 months. The average number of sealed-bids received for one site was 10.21. The highest number of 34 bids was received for a landed site located at near Kew Drive, in the North-East region of Singapore.

Developers can possess competitive advantages in an urban land market via acquisition of advanced technology, established track-records, strong business networks with various clients and service providers, and/or exploitation of market power. This study examines the effects of the developer’s attributes on their competitive bidding behavior in the government’s SOSP. We found that in addition to location attributes, the bid prices for lands were significantly influenced by the developers’ past experience and participation in the tender exercises. More experience bidders are likely to bid more rationally; whereas the bidders who have already acquired lands in the past tenders are expected to be more cautious in their bidding strategies. The results show that the bidders submit a more aggressive bid when they join-hand with other firms, but the average bid prices reduce when the number of bidders in the joint-bid increases.
The past winning experience will have significant influence on the current bid prices. If developers’ propensity of winning the bid increases, the developers were less likely to be induced to submit “aggressive” bids. The results imply that the bidders in the winning bids could self-select to bid less aggressively for the lands, which as a result, reduce the winners’ regrets (spread between the highest and the second bids) in the bid process. For large land parcels that are more than 10,000 sqm in size and with bid prices above $50million, we found that the bid prices were higher relative to smaller parcels, because of the self-selection by few developers to bid in the large land parcels. The results affirm the hypothesis that developers’ past experience in the bidding explain significant variations in competitive bid prices for urban lands.

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Figure 1: Government Land Sales and Residential Property Market Price Changes

The vertical bar figure shows the quarterly time trends of cumulative supply of lands sold through the Government’s land sales programme, and also the blue line represents the historical quarterly return of the URA Private Residential Price Index.