Is $8,000 income ceiling too low?

GALLS for the Housing Board to revise its $8,000 household income ceiling have been getting louder as resale flat prices soar.

The most strident cries come from the “sandwich class” who earn too much to qualify for public housing benefits but find it hard to enter the red-hot private property market.

For a household earning not more than $8,000 a month, the benefits are significant – it can buy a new subsidised flat from the HDB, or is entitled to a housing grant of up to $40,000 to buy a unit on the resale market. Those with a monthly income of not more than $5,000 enjoy an additional grant on top of that.

With all things being equal, there are grounds to suggest the effect of the $8,000 income ceiling is being diluted by rising incomes. The ceiling was last revised in 1994. Between 1994 and 2005, the proportion of resident households earning $8,000 and above every month almost doubled. This means the proportion of Singaporeans receiving housing subsidies has dropped.

But National Development Minister Mah Bow Tan has rejected calls for a revision, on the grounds that the income criteria already captures some

Income ceiling distorts buying decisions

What remains unspoken is that raising the ceiling at this point will introduce even more competition for existing subsidised home-seekers, who are already complaining about high prices.

But perhaps the greater question is whether it should be raised, but whether it should be lowered.

In a study released in July this year, National University of Singapore associate professors Fu Yuming and Lum Sia Kim found that the $8,000 income ceiling distorted households’ buying decisions.

Households whose incomes were near the $8,000 income mark or who would likely breach this ceiling in future purchased bigger homes than similar households who did not buy directly from the HDB, knowing that they would not be eligible for subsidies later on in their lives.

In economic terms, they were “over-consuming” housing early in their life-cycle, which may place a far greater financial burden on themselves than their peers whose buying decisions were not distorted by potential subsidies.

Often, these overconsuming households comprised young couples just starting out in their careers.

E-mail, SMS your insights

SHOULD private property owners be allowed to buy resale Housing Board flats?

Do you think the $8,000 income ceiling should be lowered to prevent “buying distortions”?

Should the HDB adopt a different way of pricing its flats?

E-mail your views to stop@spb.com.sg or send an SMS to 9837-7914. For SMS messages, type stop followed by space, your name and then your message.

Additional statistics obtained by insight appeared to corroborate the finding. Between 2007 and September this year, an increasing proportion of first-time buyers opted for bigger resale flats. Just 20 per cent of them bought five-room flats in 2007, and that figure climbed to 30 per cent in September. The same was true for executive flats, where the equivalent figure grew from 15 per cent to 23 per cent.

The NUS study found that the buying distortion did not exist among the lower-income groups. Unlike higher-income households, they bought homes which matched their needs.

Seen in this light, housing subsidies may not be achieving the intended effect of easing housing costs for the upper middle-income groups.

The study did not suggest an alternative method of allocating flats, but a clear question arising from latest developments is whether the $8,000 income ceiling is still meeting the needs of those it was intended to serve.

Should the HDB, perhaps, be scaling back its focus, to subsidise only the lower-income groups?