
Cash-Over-Valuation for HDB

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I read in the newspaper today that HDB resale flats "cash-over-valuation" keeps on rising. In one case, it was mentioned that a resale 5 room HDB flat cost \$730,000 with a COV of \$85,000! On average, the median COV from Q3 to Q4 rosed by 150% - 200% depending on location. I find this to be excessive and unreasonable.

Due to the 99 years leasehold nature of HDB flat, the long-term value of HDB flat could only depreciate due to limited life. If anyone would to pay off their HDB loan completely, they will receive the Title Deed which shows that the "owner" is only leasing from HDB. The owner does not have a permanent legal ownership over the property. Thus, putting so much money into an asset with no long-term value is silly. Some people thinks that they have no wish to hold on the HDB flat for long term stay and so they want to "ride" the property wave. I find this reasoning very silly too. Property transaction is expensive and logistically a burden. Moreover, you cannot "flip" a HDB property. There is a minimum holding period implying that there is generally a lack of liquidity for the initial period after purchase.

People who put so much money to purchase into a HDB flat are actually destroying their own wealth. Why? If you put \$730,000 into an asset with a long-term value of zero, it implies that you are actually getting poorer if you hold on to it. Every year, the market has to factor in the depreciation cost. If the general market does not rise sufficiently enough to offset the depreciation, the value of the property decreases. What is very sure is that on 99th year, the value of the property is zero. Some people have very short term sight. They felt that they will not live long enough to see their property. However, they are not prudent. They should think about their children. Because HDB flat has no long-term value, it is likely their children will get to inherit a small and insignificant value of the property despite the parents putting so much money into it. As a result, children will grow up borrowing huge amount of money just like what the present generation is doing. So every generation ends up in debt and having poor standard of living.

Another reason why putting so much money into a HDB is unwise is because there are just too many government rules related to HDB. For example, if you are retired and in need of money and your only asset is the HDB (which has already fully paid), do you know that you cannot use your HDB as collateral to borrow money from the bank? What this means is that the value of the HDB as an asset is difficult to unlock. You have to sell and buy another property in order to "unlock" the value. This switching (selling and buying) incurs huge switching cost which only benefit everybody else except the seller. I find this rule of not able to refinance very silly but it is one of those silly government rules that people don't know and don't care. Another way to "unlock" the value is the lease buy back arrangement. But this means a shorter lease period which is the source of problem in the first place.

Here is my advice: Get a property that is reasonable and good enough to stay. Do not overpay for it especially if it is a 99 years leasehold. If you have any surplus cash, invest in liquid and simple investments with long-term prospect of appreciation. Avoid assets that destroy your wealth on a long-run especially those that comes with rules that changes almost on a yearly basis.

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