THE STRAITS TIMES

2017 Yearender: Housing

Understanding what happens at the end of a 99-year lease

Nearly 10 per cent of today's public housing will face lease expiry in 50 years

Calling for a reality check on surging resale prices for ageing 99-year leasehold properties, National Development Minister Lawrence Wong raised eyebrows in March when he reminded Housing Board residents that the Selective En bloc Redevelopment Scheme (Sers) will not apply to all flats, only a few.

This led to a discussion on what it means to have the value of leasehold homes depreciate to zero.

With 70,000 of the total stock of one million HDB flats at more than 40 years old, nearly 10 per cent of today's public housing will face lease expiry in 50 years.The owners of 60-year leasehold private terrace houses along Geylang Lorong 3 got a taste of the process earlier this year.

For the first time, Singapore Land Authority officers had to explain the lease expiry process, which means that owners have to vacate their property - in this case, by Dec 31, 2020 - with no compensation.

While some owners had asked about the possibility of lease renewal, the authority said that, as a general policy, the land will return to the State upon lease expiry.

Of course, informing the owners of 191 affected homes - of which only 39 were owner-occupied - is a vastly different affair from a hypothetical scenario affecting tens of thousands of HDB flats in half-a-century's time.

For home owners forking out high amounts for ageing flats in the hope of cashing in on Sers - widely considered a windfall, with its compensation based on current resale prices and the option to buy a new 99-year lease flat in the vicinity - Mr Wong's blog post in March was seen as a cautionary note.

He reminded HDB dwellers that Sers remains a highly selective scheme, with only 4 per cent of HDB flats, or 80 sites, chosen since the scheme started in 1995.

The conditions are strict: It is granted only to HDB blocks on sites with the potential to be redeveloped - where typically the land has not been well utilised. Suitable replacement sites for residents must be available. The Government's financial resources also have to be considered.

The message was loud and clear: For most flats, the land will return to the State at the end of 99 years.

But the implications for HDB dwellers are less certain: What happens when the steady and steep depreciation of these HDB flats threatens to wipe out what many count on as a retirement asset?

In a subsequent post, Mr Wong assured home owners that leasehold properties are still a good store of asset value, so long as one plans ahead and makes prudent housing decisions.

But no one should be under the illusion that the value of an HDB flat will increase ad infinitum. After all, Central Provident Fund usage and HDB loans are restricted to the purchase of flats with a remaining lease of less than 60 years.

Then there is a sharp fall in value when an HDB flat crosses 64 years of age - when the lease remaining is less than 35 years and bank loan restrictions kick in.

And when the flat reaches 69 years, CPF savings cannot be used to finance the mortgages. So even though the oldest HDB flats - located in Jurong East, Geylang and Queenstown - turn 99 only in about 50 years' time, home owners must plan ahead now. In particular, Mr Wong advised young couples to buy a home "that covers you and your spouse to age 95".

In the near term, observers are keeping an eye out on whether ageing flats nearing particular milestones will see price fluctuations due to would-be owners factoring in their depreciating value.

And for owners looking to buy a home in 2018 and the years ahead, they can avoid making painful mistakes - and being left without a roof over their head - by remembering that the 99-year lease is, for the most part, guaranteed: Nothing more and nothing less.