

SINGAPORE'S IMMINENT EXPIRATION OF LAND LEASES: FROM GROWTH AND EQUALITY TO DISCONTENT AND INEQUALITY?

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ABSTRACT

Haila described Singapore as a laboratory for a social scientist given the multiple ways land is used, managed or treated as a source of public revenue. Phang explains how housing has given the bottom 50 per cent of households, wealth equating to the level advocated in Piketty's 'ideal society'. As fixed-term leases expire, people who own apartments on public land will see their values fall to zero. Inequality will return, challenging the otherwise stable polity. Using both qualitative and quantitative methods, this paper explores how and why this unique land regime was created, and expose how theoretically inconsistent policies and their ad hoc, pragmatic application has created several rent leakages to a minority of the population who continue to hold freehold land. It offers some alternative strategies better informed by land rent theory, that might be adopted to preserve the benefits enjoyed for now.

Key words: land rent theory; Singapore; inequality; lease expiry; housing tenure

INTRODUCTION

Singapore became an independent nation in 1965 led by a powerful and charismatic leader, Lee Kuan Yew, first elected in 1959. The government formed by the People's Action Party (PAP) set about a programme of land reform through a series of new Planning Laws. Lee was determined to develop Singapore, to create the conditions for economic growth, and give its citizens an opportunity to improve their circumstances, to leave poverty, subjugation and inequality behind.

A self-declared socialist he created a unique political economy. His unconventional combination of low-personal taxes with high-public revenue from land rents, together with an economy open to foreign direct investment yet with high levels of state involvement and ownership in key sectors survives to this day (Paiva-Silva 2022). His social compact offered

stability in a region dominated at the time by revolution, nationalism, civil war and periods of dictatorship.¹

The article will trace the origin of Lee's approach to land use, alongside an historical narrative of public land acquisition. While his policies resemble a public collection of land rent to avoid poverty alongside progress (George 1879) Lee did not follow George's prescribed path: the direct taxation of land values.

In his autobiography he wrote: 'My primary preoccupation was to give every citizen a stake in the country and its future. I wanted a home owning society' (Lee 2011, p. 95). Today 90 percent of the population own their own homes, albeit, for Housing Development Board (the state-owned development corporation or HDB) owners (79% of the population), it is only a lease that is owned. As a result, the owners of 10 percent of land left in private

freehold ownership continue to enjoy private accumulation of land rent, and have formed a new oligarchy.

Singapore's spectacular economic growth is well known and gathers pace as international companies move to the city from Hong Kong. The green, clean and efficient city is admired, particularly its programme of public housing (Weder di Mauro 2018). Anne Haila's book 'Urban Land Rent: Singapore as a Property State' (Haila 2016) offers a compelling argument as to why Singapore is the best example of a capitalist economy where at least some of the publicly created uplift in land value after development is captured for public revenue, and has been used to transform the lives and aspirations of its people. She claims that by resolving the land question (through state acquisition) Singapore 'created the conditions for resolving the housing question' (Haila 2016: p. 104). This is relevant to the issue of inequality, given the growing share of real estate assets in calculations of net worth. In a recent report by the McKinsey Global Institute: 'two-thirds of global net worth is stored in real estate and only about 20 percent in other fixed assets, raising questions about whether societies store their wealth productively' (Woetzel *et al.* 2021: p. vi).

The article offers a more critical perspective on whether Singapore solved the problems of housing and inequality. The relationship between ownership of assets (mainly housing), their rising prices and streams of rent is a key driver of inequality in developed economies, see Langley (2021) and Adkins *et al.* (2021). A high level of home ownership in Singapore has temporarily created a more equitable distribution of wealth, but the consequence of Lee's partial approach allowing the private accumulation of rent for a select few might, in the coming decades reverse this position and destabilise the polity. Two proposals are offered to forestall rising inequality: the introduction of annual ground rent for all land use, together with the creation of perpetual leaseholds to resolve the problem of lease expiry.

A mixed method approach was used. Quantitative analysis of public revenue and household wealth was undertaken, collected from the National Accounts and Census statistics, the Annual Reports of selected Government

Statutory Bodies, and budgeted income and expenditure reported to Parliament to establish the factual picture. This was followed by qualitative analysis of policy development and implementation over the period, from Policy Documents, Parliamentary debates, Political Manifestos and speeches, and processes detailed on Government departmental web sites, together with interviews and responses from written questions posed to relevant officials.

The article comprises five sections. The first describes the origin of the idea to bring land into public ownership, and the policies and mechanisms adopted to ensure that any uplift in value was captured by the state. The second analyses how wealth became more widely distributed through ownership of public housing. The third points to the inconsistencies in application of the land regime principles, which have led to greater inequality in recent years. The fourth indicates the potential for these policies to unravel: if the trends identified here continue, the wealth distribution in Singapore might revert to the levels evident in many countries, and Lee Kuan Yew's vision of equity will disappear. The fifth offers potential policy solutions, to avoid a collapse in Singapore's otherwise stable social compact, combined with some reflections on land rent theory to better inform any policy innovation elsewhere.

The Conclusion crystallises the theoretical argument, offering an opportunity for other jurisdictions to address housing affordability.

THE LAND REGIME AND ROBIN HOOD

In this section, the evolution of Singapore's land regime after independence is outlined. Key to Lee's strategy was to engage the population in the enterprise, if you were going to ask the people to work hard, to build the nation, they would need rewards: quoting Lee:

What we have attempted in Singapore is asset enhancement, not subsidies. We have attempted to give each person enough chips to be able to play at the table of life. (Han *et al.* 2015: p. 159).

This is, no doubting, the path of Singapore from colonial backwater to Global City: control of land and its use (Spar 2015). Providing land for industry, commerce, and a home for all has created the nation and identity of its citizens.

Haila refers to Singapore 'almost as a laboratory for a social scientist' (Haila 2016: p. 2), while she sees a study of Singapore as an opportunity to 'show that by analysing Singapore's land regime we can understand and explain land-related problems and injustices in other cities' (Haila 2016: p. 17). Shatkin, describing Singapore, refers to the 'interlinked relationship between the built form of the city, nation building, social and economic change' a transformation involving 'the subjugation and co-optation of civil society to the interests of the state' (Shatkin 2014: p. 135).

Through state ownership of land, a good proportion of the economic rent of land is collected by the state to facilitate this transformation. The method used, while deviating from that recommended by the Classical Economists: taxing ground rent (Smith 1776), land value (Ricardo 1817) and (George 1879) its increment (Mill 1848), or land nationalisation (Marx *et al.* 1981), illustrates the benefits, both for the health of the public finances, and the distribution of wealth in Singapore. It shows how the rental value of land can be collected without discouraging economic activity, and how other more distortionary taxes can be reduced or abandoned altogether.

This is an almost unique public revenue regime, which usually rely more heavily on income from conventional sources such as payroll and consumption taxes. Haila included Hong Kong in her concept of the 'Property State' (Haila 2000) with significant revenue from land values (lease sales, lease

modification premiums and Government Rent), while China's Municipalities have relied on revenue from the sale of land use rights to fund new infrastructure and development for decades (McCluskey *et al.* 2022: pp. 118–119). There is insufficient space here to detail a comparative analysis, which has been presented elsewhere, for example (Chi-Man Hui *et al.* 2004; Purves 2019). In addition, the dynamics operating in Singapore are different to those operating in Hong Kong (Poon 2011; Goodstadt 2013; Yau & Choi Cheung 2021). In particular, the availability of affordable housing through the HDB (Phang 2007), together with the steady acquisition of land by the state since independence, justify this exclusive case study.

And yet, the failure to collect all land rent as public revenue, not only gave a temporary fillip to the wealth of leaseholders, but left a significant part for ongoing private accumulation through residual freehold ownership of land. Rising levels of land rent from rising land values in a developing and growing economy is well known (Rognlie 2015; Knoll *et al.* 2017). The Singapore model illustrates all too clearly how fluctuating levels of public/private accumulation over time have first of all promoted greater equality of wealth, but with looming lease decay shows how inequality will return.

Once land was purchased by the state (90% of land is now in public ownership – see Figure 1), it was sold on a leasehold basis by the Singapore Land Authority (SLA) to the Statutory Boards created by the government.

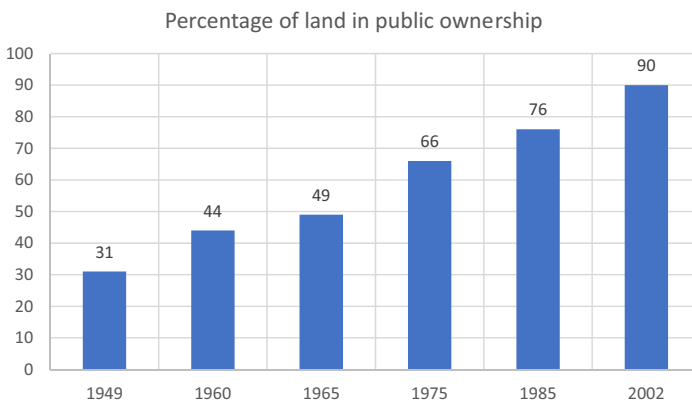


Figure 1. Percentage of land in public ownership, Singapore, 1949–2002, Sources: Mohta and Yuen (1999); SLA home page retrieved 2002 (Haila 2016: p. 73).

The HDB was tasked from 1960 with building large numbers of affordable apartments which were sold to citizens on non-renewable 99-year leases. The Jurong Town Corporation (JTC) from 1968 developed land and buildings for industry, while the Urban Redevelopment Authority (URA) took responsibility for master planning, including office development in the CBD, and designating land for private apartments.

Leases for this land are auctioned to developers, with the premiums paid classified as past reserves and invested by the Monetary Authority of Singapore (MAS) and the Government Investment Corporation (GIC). Up to fifty percent of the investment income, goes into government operating expenditure through the Net Investment Return Contribution (NIRC) in the annual budget.

The income from these sources (as well as profits from public utilities and state-owned enterprises) has proved sustainable over a 30-year period. To illustrate, over the last twenty years, the amount of revenue generated from Investments, dividends from Temasek (a state owned holding company invested in banking [mortgages] 25%, property development and management 17%, ownership and operation of port facilities 16% [Temasek Review 2019 2019: pp. 5, 54–55]) and Capital Receipts from land sales has varied from 22 to 39 percent of total receipts, as shown in Table 1. First reported in 2003, the total \$8643 m, rose consistently to \$32,018 m in 2017, with some fluctuation along the way. Total receipts include operating revenue from conventional taxes, fees and charges, which are also shown. Operating revenue in 2017 was \$75,814 m. The additional \$32,018 m of Capital Receipts is a significant bonus. While these sources are unconventional, far from a land value tax, there is no doubting their significant origin in land values.

In consequence, a question arises: why did Singapore develop this model for public revenue based on income from land values? In Lee's autobiography (Lee 2011), while at University he refers to attending lectures at the London School of Economics given by the Fabian Socialist Harold Laski, in whose writing there are many references to the iniquities of property distribution in the UK: 'Liberty in short, is incompatible with the present system of property.

(Laski 1997: p. ix) (preface to volume III), and owners are: 'not entitled to levy a permanent tax on social effort'. (Laski 1997: pp. 186–187). By 'permanent tax' I take Laski to mean the private accumulation of land rent. Lee later wrote:

I saw no reason why private landowners should profit from an increase in land value brought about by economic development and the infrastructure paid for with public funds (Lee 2011: p. 97).

It is not possible to trace a direct link from Laski's words, nor those of the Classical Economists to Lee's policies. However, an expert report conducted under the United Nations Development Programme written by the Norwegian Town Planner, Erik Lorange (1962), was perhaps more immediately influential in transforming the built environment of Singapore.

The report stated that 'the necessary legislative basis for compulsory acquisition of land for all kinds of planning purpose must therefore be secured' (Lorange 1962: p. 27). In paragraph 49, he recommends that land already owned or purchased by the state should not be sold to private developers, but leased for 99 years, with phased payment of the premium, and an annual ground rent of 0.5 percent of the freehold value of the land. The leasehold system was adopted in Singapore for all government land sales after acquisition, although the idea of a ground rent was dropped. The Singapore government already owned 44 percent of land, a legacy of its days as a colony and British naval base, but acquisition accelerated after independence in 1965.

Three Planning Laws had most impact on Singapore's land regime during the transition from colonial rule, enabling the acquisition of land at a reasonable price. First, the 1960 Land Titles Act required all land to be registered. Second, the 1964 Foreshores (Amendment) Ordinance, ruled out any compensation as of right to owners of land affected by land reclamation. Third, the 1966 Land Acquisition Act, allowed acquisition of land for any public purpose. The act precluded any potential challenge in law to the acquisition. The matter of compensation was settled by Tribunal.

The smooth passage of these draconian land Acts may seem surprising to scholars

Table 1. Total receipts—Singapore operating revenue 2000–2018, also showing capital receipts and investment income as a percentage of the total, and actual NIRC as a percentage of the possible contribution (see note below). Compiled by author. Singapore dollar has purchased between 70 and 75 US cents over the past 5 years

S\$ m	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Tax revenue	25,630	24,170	21,500	21,501	23,798	25,686	28,826	36,630	37,708	36,616	41,847	46,076	50,118	51,145	54,109	55,647	58,699	66,362	66,203
Fees and charges	5,650	4,130	3,810	3,492	3,366	2,246	2,202	3,629	3,212	2,765	3,986	4,699	5,279	5,624	6,404	8,673	9,759	9,075	7,106
Other	160	190	160	321	304	238	259	114	165	164	225	301	416	250	323	502	505	377	430
Operating revenue	31,440	28,490	25,470	25,314	27,468	28,170	31,287	40,373	41,085	39,545	46,058	51,076	55,813	57,019	60,836	64,822	68,963	75,814	73,739
Investment and interest			6,137	7,392	8,413	8,130	10,633	13,503	7,226	7,431	7,431	7,376	7,117	7,729	9,134	9,420	9,546	16,144	14,670
Capital receipts			2,497	2,850	6,664	8,499	14,728	9,716	4,033	16,301	22,866	18,435	17,549	14,926	15,541	12,514	15,874	14,592	
Sub total (pool for NIRC)			8,634	10,242	15,077	16,629	25,361	23,219	11,259	23,732	30,242	25,552	25,278	24,060	24,961	22,060	32,018	29,262	
Investment/capital receipts as a % of Total			25	27	35	35	39	36	22	34	37	31	31	31	28	28	24	30	28
Total receipts			33,949	37,712	43,248	47,918	65,736	64,306	50,806	69,793	81,320	81,367	82,300	84,898	89,785	91,025	91,025	107,834	103,001
Net investment income	2,290	1,380	3,680	1,900	3,043	2,777	4,340	7,010	7,352	7,916	7,352	7,916	7,870	8,290	8,740	8,940	14,580	14,720	16,410
NIRC drawn as a % of possible contribution			22	30	18	0	0	19	62	31	26	31	31	33	36	36	66	46	56

Tax revenue, fees and charges, other form the operating revenue.

Investment and interest income are generated by GIC and Temasek, plus bank interest.

Capital receipts are mainly land sales revenue.

Up to 50% of investment income and capital receipts can be drawn as net investment return contribution in any given year, except with the special permission of the President of Singapore. The final row shows the percentage that has been drawn in each year, for example, only 22% in 2003, 66% in 2016. 2003 is the first year to show investment/interest income and capital receipt.

of planning and property law in other jurisdictions. An explanation for the lack of any significant opposition could be due to the popularity of socialist ideas in the region at the time, or Lee's strength of character and control of the PAP.

During the first reading of the Land Acquisition Bill on 10/6/1964, in response to a question about the cost of land acquisition, Lee Kuan Yew said:

I stated two broad principles (Singapore Parliament 1963 column 653) which would guide the Government in amending legislation on the acquisition of land, namely, first, that no private landowner should benefit from development which had taken place at public expense: and, secondly, that the price paid on the acquisition for public purposes should not be higher than what the land would have been worth had the Government not contemplated development generally in the area. I said then that I would introduce legislation which would help to ensure that increases in land values, because of public development, should not benefit the landowner, but should benefit the community at large. (Singapore Parliament 1964 column 25).

The Act was eventually passed on 26 October 1966, with little opposition, and several speakers in support:

In a socialist country, it is fit and proper that every inch of land should be put to the best possible use to yield the best advantage for the benefit of the people and make a very effective contribution to the development of the country. Lim Guan Hoo, (Singapore Parliament 1966 column 416).

Decades later, in a wide-ranging speech, Lee referred to land acquisition:

Things have to be done which are unpleasant. I changed the acquisition laws and cleared off compensation for sea frontages so that we could reclaim the land, then we've got East Coast Parkway. Fire sites – I reclaimed and acquired the right to acquire as of occupied status. It was Robin Hood but I succeeded in giving everybody their own home. (Han *et al.* 2015: p. 341).

In 1965, 49 percent of land was under state ownership, the remainder comprising a mix of leases of varying length, as well as freehold or landed property. By 2002, 90 percent of land was in state ownership. The compensation paid to previous owners was fixed to

historical annual valuation dates, which gradually changed over time: 1973, 1986, 1992, and 1995. While annual values changed every year for the purposes of property tax, the compensation valuations lagged. Eventually after 2007, compensation was paid at open market rates (for existing use).

Much of the land acquired was in the so-called Kampongs – areas of informal housing – often overcrowded and at risk of fire. These low density, marginal lands provided the space to build 22 New Towns by the URA and HDB, with JTC providing land for the employment opportunities of a growing population.

Lee's determination to pay existing use value aligns with the principles behind the Law of Rent (Ricardo 1817) the unearned increment (Mill 1848), and the injustice of private land value capture as a major source of inequality (George 1879) albeit with no evidence that he had read any of these works.

However, he failed to foresee how an inconsistent application of the principle to capture any uplift in value from development would in the long run contribute to rising inequality. The balance of land remaining in private ownership is 10 percent of the total. The majority of this land is in the high-value commercial and residential areas of old Singapore. Naturally, as the economy has grown, the value of such land has risen. Without the restraining influence of the 99-year lease, the owners of this land are excluded from the process of value capture by the state. The consequences of this anomaly are laid out in the next section.

WEALTH DISTRIBUTION

What is the current distribution of wealth in Singapore? The wealth Gini coefficient for Singapore is 73.3 (WEF 2018: p. 18), higher than China's at 70.2, but lower than Thailand 84.6 or the Philippines 83.7.

The World Inequality Database (WID), reports the top 10 percent of the population owning over 60 percent of assets, while the bottom 50 percent own less than 5 percent.² However, the population figure used (5.8m) includes foreign workers, (totalling

1.3m)³ the majority of whom are unable to acquire assets in Singapore. The WID methodology appears to rely on income data alone (Atkinson & Piketty 2010: Chapter 5) and also indicates the lack of publicly accessible data for Singapore.⁴

The economist Sock Yong Phang (2018) therefore estimates the distribution of wealth for Singapore Citizens⁵ from statistics detailing the ownership and value of housing, and HDB flats in particular. Using a combination of the distribution of the size of flats among citizens and residents, together with the average values of those properties, and the share of housing wealth between HDB and landed ownership, she concludes:

assuming that the bottom 50% of households live in 4 room or smaller HDB flats, their share of Singapore's gross housing wealth in 2015 was estimated at 25% (Phang 2018: p. 145).

This compares with the USA at 2 percent, and France less than 4 percent (from Piketty), and then:

To quote Piketty, 'To my knowledge, no society has ever existed in which ownership of capital can reasonably be described as 'mildly' inegalitarian, by which I mean a distribution in which the poorest half of society would own a significant share (say one fifth to one quarter) of total wealth... Of course, how one might go about establishing such an 'ideal society' – assuming that such low inequality of wealth is indeed a desirable goal – remains to be seen' (Piketty 2014: p. 258) Based on the above estimates, Singapore's housing policies have resulted in gross housing wealth distribution approximating capital ownership distribution in Piketty's ideal society (Phang 2018: p. 145).

What are the implications for wealth distribution in the future given the different land tenures and lease conditions?

One danger lies in the divergence of property price growth: the Singapore Property Exchange calculate a Singapore Property Index (SPI) from transactions across the three main categories of tenure: landed (freehold), non-landed (private leasehold) and Housing Development Board (HDB) (public leasehold). The proportion of property in each category is 5, 16 and 79 percent, respectively – see Table 2. Adopting,

approximately the financial crisis of 2009 as a base year, where in each tenure, the index stood at 100: landed property now stands at 225, non-landed (private) at 205, with HDB at 150 (SRX 2022). Compounding this divergence in price growth, some HDB fixed term 99-year leases are beginning to fall in value, as they near their halfway stage, threatening the balance of wealth distribution.

It may seem contradictory to assert that a 99-year non-renewable lease equates to property ownership. Perhaps the upfront payment of a single premium rather than an annual rent creates the illusion, but this seems to be what Singaporeans believe. Perhaps they expected the government to resolve the contradiction sometime in the future, by offering lease extensions. The perception of ownership is also confirmed by the ability of HDB lease owners to sell their leases in the open, or so called 're-sale' market, where prices can achieve a significant premium over the original purchase price.

Land values rise as population increases, benefiting from both public and private investment in infrastructure and businesses to serve the population, which in turn creates a higher demand for property in particular locations. The elements that create that value are not simply tangible goods and services, but include many intangible benefits, 'norms of civility and trust, cultural institutions, good restaurants, job opportunities, ... and all the other working parts that make a city... a place in which people want to live' (O'Neill & Orr 2018: p. 164). In respect of public investment, 'The ultimate beneficiaries of the provision of better public goods are not the residents in the city, but the landowners.' (Stiglitz & Rosengard 2015: p. 842). Given these drivers of value creation, who would not want to be a landowner?

The main categories of property in Singapore are: First, HDB developed leased apartment: small, standardised designs, although recent developments are more sophisticated. Second: privately developed leased apartment or Executive Condominium (EC, a higher quality HDB developed category) on public land. Third: private landed house (freehold) or flat – where the flat owners have a share in the freehold. Table 2 sets out the number of properties in each category, and average prices, first some definitions and explanations:

Table 2. *Property numbers in Singapore, by tenure and average price Compiled by author; sourced from HDB, propertyguru.com.sg marketing review, Singapore Yearbook 2019, and (Fesselmeier et al. 2022: p. 336)*

Category	Tenure	Term	Possibility for lease exchange/extension	Typical price per sqm, S\$	Number of properties 2018
HDB (new)	Ownership of 99-year lease	Fixed (6% are short term rented)	Only by SERS (or VERS?)	28–37	1,043,300 (all HDB) 79% of total
HDB (resale)	Ownership of remaining term of the 99-year lease	Fixed	Only by SERS (or VERS?)	46–74	n/a
HDB EC	Ownership of 99-year lease	Fixed	Only by SERS (or VERS?)	74–95	Not known
Private flat on public land	Ownership of 99-year lease	Fixed	Only by Collective Sale	111–139	210,300 (all private flats) 16% of total
Private flat on private land	Ownership of lease of varying length	Extendable. Leaseholders may also own share of freehold	By private treaty with freeholder	111–139	Not known, but assumed to be less than 50% of the total
Landed houses (freehold)	Freehold ownership	Perpetuity	n/a	139–279	67,900 5% of total

1. The majority of the population (79%), (citizens and permanent residents [PRs]) own (or rent) HDB apartments, 16 percent own (or rent) private apartments, and 5 percent own (or rent) landed houses or apartments
2. Therefore, 79 percent of the population live in a depreciating asset – not just due to dilapidation, but as the years remaining on the lease falls – unless the block is selected for redevelopment (intensification) through the Selective *en bloc* Redevelopment Scheme (SERS). 94 percent of HDB apartments are purchased on a 99-year lease, while 6 percent are rented.
3. Leaseholders of private flats on public land, theoretically also own depreciating assets however, there is often an opportunity for Collective Sale (CS) and redevelopment, where the owner agrees to sell to a developer, or exchange their existing lease for another in the new development. This process is explained fully below.
4. Prices escalate significantly between tenure types, with a large gap between HDB and private housing

Permanent Resident (PR) refers to foreigners given the right to settle in Singapore. SERS

has been applied to a small number of HDB developments where higher density development is possible, about 4 percent of the total to date. Resale refers to HDB or EC apartments sold in the secondary market, where their prices reflect market value more closely than sales for new apartments by the HDB. Resales are allowed after a five-year minimum occupancy period (MOP), and are subject to a levy of between \$15,000 and \$55,000 depending on the size of the flat. The recently announced Voluntary *en bloc* Redevelopment Scheme (VERS) has as yet, no defined terms, and will not come into effect until 2038 (Lee 2018). The significance of this scheme will become clear below.

Taking data from the 2022 (Q3) Household Sector Balance Sheet, (Department of Statistics 2022) total Assets are valued at \$2869bn of which residential property assets are \$1260bn, of which \$707bn (56%) are in private tenure, the balance being HDB. Combining these figures with the proportion of housing in private tenure (21%) from Table 2, we can conclude that property tenure

type and the conditions attached is a key determinant of wealth distribution in Singapore, notwithstanding Phang's analysis.

Housing wealth is of course only one element of Household wealth, but there is limited data on the distribution of other (mainly financial) assets. One indication can be inferred from Central Provident Fund (CPF) accounts. The CPF is a compulsory retirement saving scheme for Singapore citizens. The Annual Report for 2019 (CPF 2020: Annex H) shows that 9 percent of members hold 36 percent of total balances in the Fund, a distribution not inconsistent with figures in the preceding paragraph. The Household Sector Balance Sheet indicates that total assets held in the CPF are \$540bn. Levels of inequality are of course determined by a combination of income and wealth, but given the constraint of space, the focus here has been on wealth not income distribution.

AN EMERGING INCONSISTENCY

Clearly, house prices vary significantly according to location and quality of finish, or amenities in all countries. However, owners in most countries usually hold an appreciating asset (dilapidations notwithstanding), which can be passed to subsequent generations, subject in some jurisdictions to inheritance tax. In Singapore, this is not the case; the majority of homeowners (who own fixed term leases) are discriminated against in this respect. The value of their lease will fall to zero as its term expires.

It would be near impossible for all citizens to graduate from HDB lease ownership to private lease ownership – without a wholesale demolition of existing HDB apartments in favour of more private landed apartments and houses. But the government are committed to ensure affordable housing for all citizens via the HDB. Relatively small numbers of leaseholders have benefited from SERS.

In contrast, during the preparation of the 1998 Masterplan, detailed proposals for 55 new districts were prepared in Development Guide Plans. By way of these Plans, many districts were re-zoned for more intensive development – higher buildings or plot ratios.

Developers can force a Collective Sale (CS) agreement, on private developments if 90 percent approval from owners is achieved for buildings less than 10 years old, or 80 percent for buildings more than 10 years old. In one example from 2020, 14 apartments at No. 8, Lorong 25A Geylang, Advance Apartments (on freehold land), the developer bought out the existing leaseholders for \$26.5 m; the government received \$1.5 m Development Charge (DC); the developer will demolish the existing building and has permission to build 34 new apartments on the site.

Between 1995 and 2017, there were more than 500 CS transactions exceeding \$36bn in value (Phang 2018: p. 79); this market driven process offers leaseholders of private developments an opportunity to profit from the increase in land value over time which is denied to HDB leaseholders, even though, for a few leaseholders, the windfall may be involuntary.

Meanwhile, owners of private flats with a share of freehold and landed houses hold appreciating assets in perpetuity.

So called 'landed' properties in the residential sector are owned by only 5 percent of the population. To illustrate, there are less than 3000 so called 'good class bungalows' in Singapore.⁶ These typically sell for tens of millions of dollars, while the average price for landed property is \$5m. There is no inheritance tax in Singapore, so these high-value properties will be passed down to future generations, thus preserving inequality.

WILL THE LAND REGIME UNRAVEL?

This disparity in wealth distribution according to tenure type lies at the heart of the question posed in the title of this paper. Today, on paper, 90 percent of the population hold an asset (housing) which has given them a significant share of wealth. The wealth distribution for the bottom half of the population compares favourably against the distribution in other developed economies, so the land regime in Singapore can be seen to have been a success. However, many of the HDB leases are now reaching their mid-term, and beginning to decline in value. This process will only accelerate. The HDB publish a Resale Price

Index (RPI) for all HDB resale properties, suggesting this is 'good news' for all homeowners, however, the catch-all index hides multiple distortions. Utilising the research by the property agent 99.co (Leung 2020) we can see that the headline RPI for Q3, 2020 is reported by the HDB as rising by 1.5 percent. Focusing on two residential areas, Clementi and Ang Mo Kio, Leung reported that some 4 room apartments built in 2011–2013, have been sold for more than \$1m, a good premium on their original price. However, older HDB flats (built in the late 1970s, with around 55 years on their lease) in the same road have fallen in value by 19.6 percent between 2013 and 2020, despite being closer to the MRT station.

Meanwhile owners of freehold property continue to see the value of their property rise. This elite, are becoming a self-perpetuating oligarchy. Bridging this gap will become increasingly difficult. Adkins et al., have shown how in Sydney, 'it is housing, more than any other asset class, which is driving both the dramatic increase in net wealth among high-income households and stagnant levels of net wealth among the poorest' (Adkins et al. 2021: p. 551), a situation which is replicated elsewhere, while Singapore illustrates a specific case.

To be clear about the Singapore government's intentions around expiring leases, the Geylang Lorong 3 story is illustrative. Comprising 2.5 hectares, the site was leased for a term of 60 years in 1960; 191 insubstantial terrace houses were built. In 2017, the government confirmed that no lease extension or compensation would be offered, and appointed officers from the HDB to help existing tenants to find alternative accommodation. The whole exercise of eviction in 2020 appears to have been conducted peacefully. HDB lease expiry (there are over a million apartments) will surely become a hotter topic as more leases lose their value by 2059 and beyond.

This is perhaps why the government has announced its intention to introduce VERS. Is this intended to deflect criticism, and reassure citizens that the government will find a new solution to the declining value of their real estate assets?

From the outset, the government envisaged the HDB programme as one of wealth creation.

In 1995, Prime Minister Goh Chock Tong referred in a speech at the completion ceremony of an estate upgrade programme of a transition from emergency housing provision to an 'Asset Enhancement Programme' (Goh 1995). Lee Kuan Yew in 2012 commented in a speech at a tree planting ceremony that 'all boats rise when the tide rises' in reference to rising property values (Lee 2012), and that this had been the plan from the beginning. By March 2017, the narrative had changed: Lawrence Wong, then Minister for National Development warned that buyers of resale flats, or existing homeowners could not rely on automatic SERS programmes to preserve asset values (Chua 2020).

In his 2018 speech, Lee Hsien Loong, Prime Minister, explains why longer leases or freeholds were not granted, in terms of equity for future generations:

Those not lucky enough to inherit a property would get nothing. So our society would split into property owners and those who cannot afford a property. I think that would be most unequal, and socially divisive.

While the HDB system of 99-year fixed term leases will allow the government to offer subsidised home ownership to future generations, it has a problem explaining to current leaseholders why their homes are falling in value. Chua describes 'the management of these problems (as) a marathon race without end' (Chua 2014: p. 531).

POTENTIAL SOLUTIONS AND REFLECTOINS ON LAND RENT THEORY

Several proposals to resolve the conundrum of falling values of HDB flats have been offered – summarised here. Whilst new freeholds are most unlikely, removing HDB flats from the resale market would be possible, but unpopular. Straightforward lease extensions would be popular, depending on the level of premium charged, and assistance could be given to affected leaseholders. However, conversion to a system of perpetual lease is not only practical, but theoretically consistent and palatable if applied universally.

Christine Li, a property professional in Singapore, proposed a novel solution to the problem. In an extended Commentary in

the Straits Times on 20 January 2019 she acknowledges that 'Freehold HDB is a no-go, but what about selling a freehold flat with strings attached?' – proposing instead a 'Feco' Freehold with an Embedded Call Option, giving the Government the right, but not the obligation to buy back the freehold at market value. The HDB responded in a written reply on 23 February, saying 'while this is an interesting idea, it will be fiscally challenging to implement' given that the freehold flats would attract a higher price, making them unaffordable for first time buyers without significant subsidies (Chan 2019).

In contrast, the opposition Social Democratic Party in April 2019 proposed a sales scheme of non-open market (NOM) flats for the HDB sector, whereby land cost would be excluded from the price. Naturally, prices would be significantly lower, but resale in the open market would be prohibited; instead, flats would have to be sold back to the HDB. Prices on sale back to the HDB would be the purchase price less depreciation. Existing owners of HDB flats could convert their lease from an Open Market (OM) lease to a NOM, in which case the HDB would repay the cost of land to the owner (SDP 2019). This option would remove any element of private accumulation of rent from resales.

In official recognition of the problem of private rent accumulation, Ravi Menon, Managing Director of the MAS, discussing the issues of social mobility and inequality of wealth, suggested that the primary factor driving the wealth gap is property investment. Richer Singaporeans make 'larger investments in real estate' and the prices rise 'proportionately faster... in the private residential market' while the rich also make 'multiple property purchases' compared to those on lower incomes, whose choice of purchase is usually in the HDB market (Menon 2021). He suggests that wealth taxes such as a property gains or inheritance tax might be considered to ameliorate the situation.

The difficulties generated in this story of Singapore's attempt to give people a stake, to ensure some equity in wealth distribution, come back to the design of its system of tenure, and a failure to appreciate the difference between land or location value and amenity, or building value.

The reader will recall that an annual ground rent for a lease was recommended by Erik Lorange, albeit at a very low rate, but not adopted. Instead, a capital valuation was paid at the outset. To explore these dynamics, we can separate land value from building value – which of these determines house prices? Land value does not enter the house price in the same way as the cost of producing the building (Hodgkinson 2007: p. 161). As long as there is a competing demand to occupy a particular location, a higher price will be paid for proximity to external amenities such as a good school or transport facilities. The level of advantage on one site relative to another is measured by its land rent, which will change over time: Ricardo's 'peculiar advantages of situation' (Ricardo 1817: p. 35). The price paid for a new building on the other hand must cover at least the cost of production, but the value of the building is limited to its useful material life.

Could a separation between land and building value at the time of future purchases or renewal offer a solution to the conundrum? At the point of expiry of a lease, a new contract is offered. If the building is in need of renewal or upgrade, a premium can be sought to cover the cost. Meanwhile, an annual ground rent can be introduced in return for the extension of the lease. There is no need to define the lease term, it could continue so long as the owner pays the annual ground rent, re-assessed on an annual basis. There is a model for this proposal in Hong Kong. From the foundation of Hong Kong as a British colony in 1842, all land was placed in government ownership, and offered on leasehold terms to potential occupiers. The early leases were issued with fixed rents, with new premiums for lease extensions. As the handover of Hong Kong to China in 1997 approached, traditional lease extensions were no longer possible. Instead, a system of perpetual leasehold was adopted in 1973, see (Nissim 2008: pp. 15 and 42–44). A new variable Government Rent applied to expiring leases at 3 percent of rateable value per year.

The price for new leases in Hong Kong are among the highest in the world, mostly reflecting the value of land. I referred above to the high percentage of real estate in estimates of global wealth – much of that value is actually in

land. In the UK, the Office for National Statistics estimates that land value accounts for 60 per cent of the nation's net worth (Nguyen & Johannsson 2022). A higher rate of Government Rent, say 30 per cent would significantly reduce prices, by recognising this value distribution.⁷ Nonetheless, even at 3 per cent, the revenue from Government Rents has tripled from HK\$4.2bn in 1999 to HK12.5bn in 2022⁸ while the Hong Kong Government expect some 30,000 more leases to become subject to Government Rent before 2047 (McCluskey *et al.* 2022: p. 141), offering a growing source of public revenue, and a small check on rising prices.

If Singapore adopted a similar policy, two issues could be addressed. Allowing the creation of perpetual leases, with an annual ground rent (for both HDB and private apartments on public land), would solve the issue of lease terminations. Adopting the ground rent for all landed property at the same time, would reduce the unfair advantage to these owners. If introduced at an escalating rate, prices for these properties might gradually deflate. As soon as such a scheme is advertised, decayed lease values would be restored. Reductions in other taxes could be implemented in tandem, to compensate.

These two policy innovations, more in line with Classical land rent theory than the ad hoc procedures in Singapore, would address the issue of rising inequality. Leaseholders would no longer face the loss of their apartment at the end of the lease term; descendants could keep the apartment, as long as they pay the new annual ground rent, and periodic maintenance charges for the building. The value of landed property would fall, relative to leasehold, whose value would at least be maintained. The level of ground rent applied should be determined by land value only, and re-assessed on a regular basis (ideally annually). Economic efficiency would be enhanced in line with Optimal Tax Theory (Ramsey 1927; Mirrlees *et al.* 2011: p. 29). Political stability may be ensured.

CONCLUSION

We must conclude that Lee Kuan Yew's fulfilment of his aspiration to address inequality is time limited, due to the falling values of HDB

leases. Unless new ways are found to manage the end of term lease conundrum, political stability could also be challenged. The PAP suffered in both the 2011, and 2020 elections, losing their share of votes, and seats. Reforms were introduced after 2011 to subsidise those on lower incomes and retirees with insufficient pension income, while stamp duties became more progressive to contain house price growth⁹.

A new phase of the Singapore experiment may ensue if these policies were adopted, and it might take another 30 or 40 years to assess the uncertain outcome, for as Thomas J Sargent warns in the Foreword to Phang's book on housing in Singapore, 'an ancient Chinese proverb asserts that while a government has strategies, citizens have counterstrategies' (Phang 2018: p. vii).

What, after all, is 'buying' a fixed term, 99-year lease, if not a rental agreement, albeit of 99-year duration. Equally, what is the price paid for a freehold property, except the capitalised value of its annual rental value, which is paid off for most people over the term of a mortgaged loan, where the interest paid is an additional heavy premium on the agreed purchase price. It might be preferable to pay an annual rental charge to the government for the occupation or use of land, and agree a lower price to own the building on it. If such a policy was accompanied by revenue neutral reductions in other taxes, growth and productivity would increase.

While these policy innovations are particular to the Singapore case, the general direction taken by Singapore since independence serves as a proxy for the benefits of collecting a significant proportion of land rents for public revenue, in line with the theoretical arguments presented by the Classical Economists outlined in the first section of this article: the value of an annual land rent can be collected with no distortionary effect on behaviour or economic output (see this article for a contemporary discussion [Doucet 2022]) while Stiglitz has demonstrated:

(Thus), as Henry George (1879) argued long ago, land taxes can be an important instrument for increasing equality. He explained how such a tax was non-distortionary. But in many of the models presented here, we obtain a stronger result:

a land tax actually leads to higher wages and a higher level of national output. (Stiglitz 2015: p. 19).

Such extensive land ownership and control of productive commercial enterprise to deliver public revenue, allowed the government of Singapore to subsidise those on low incomes to purchase a home, while taxing income, and consumption less.

In contrast to the neoliberal consensus which advocates privatisation of state-owned enterprises and the sale of public land, Haila identified an alternative paradigm. The economy of Singapore was transformed over a period of 50 years, offering some equity, suggesting the validity of her assertion that its land regime can help resolve injustices in other cities. I have in turn highlighted some limitations, and inconsistencies, together with potential solutions. New challenges will no doubt emerge during any new transition, which would be subject to further research.

Other jurisdictions seeking to reduce the cost of housing could apply a similar Government Rent to land use, thus reducing the amount potential owners could pay to acquire their homes. Ownership of land is not the key part of the equation. Land values can be taxed without taking ownership, as George asserted: 'we may safely leave them the shell, if we take the kernel' (George 1879: p. 352).

Endnotes

- ¹ For an overview of the political history see (Barr 2019), and (Chua 2017).
- ² <https://wid.world/country/singapore/> viewed 3 January 23.
- ³ <https://www.mom.gov.sg/documents-and-publications/foreign-workforce-numbers> viewed 3 January 23.
- ⁴ <https://wid.world/document/dina-update-for-asia-world-inequality-lab-technical-note-2020-08/> viewed 3 January 23.
- ⁵ NB: Foreign Workers are excluded from this analysis. While making up a significant percentage of the population (25%), and undoubtedly treated unfairly, their plight is outside the scope of this article.
- ⁶ <https://www.99.co/singapore/insider/good-class-bungalows-gcb-singapore/> viewed 11 July 2022.
- ⁷ Activist investor David Webb, based in Hong Kong, theorised the effect of a new lease with a 30 percent annual ground rent, which he called GR30, in contrast to what would be GR3 (a 3% annual ground rent). He calculated that the "land premiums in current auctions would be between 32 percent and 40 percent lower for GR30 leases than for the current GR3 leases" (Webb 2010).
- ⁸ <https://webb-site.com/dbpub/govac.asp?t=0&g=0&i=35> viewed 5 January 23.
- ⁹ Their fortunes were restored in the 2015 election in part a response to the sentiment and nostalgia surrounding the death of Lee in the months before the election.

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