

## HDB Resale – Agree Prices then do Valuation – Disaster?

By [Paul HO](#)

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On 10<sup>th</sup> March 2014, Ministry of National Development (MND) issues new rules on HDB resale procedures. As it has often been the case, the headlines is the always almost the same, “[A Stable housing market, better homes for all](#)”. How apt is this headline!

We waited 1 to 2 months to take in views from the market before commenting on it.

For those who are not constantly updated on the Singapore property market, here is an overview of the past practices and current update.

### **Before 10<sup>th</sup> March 2014: -**

Property sellers obtain valuation report.

Property buyer & seller agree on price based on (Cash over valuation, at valuation or Under valuation).

For example a unit is valued at \$350,000, if buyers and sellers agree on \$20,000 above valuation, the transacted price will be \$370,000.

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Pays for an Option to Purchase (OTP) and exercise option.

#### **After 10<sup>th</sup> March 2014: -**

Property transactions must use the [new OTP form](#).

Property buyer and seller agrees on the price.

Property buyer pays a deposit for the Option to Purchase (OTP).

Once an OTP is obtained, buyers and sellers can seek a valuation.

#### **What is the impact of such a measure?**

Cash-over-valuation was previously criticized as it gives the impression that the valuations of HDB is micro “managed”.

For example, how would valuation be correct if the Cash-over-valuation (COV) or Over-valuation is consistently different from that of valuation by a large margin and for extended period of time? Would it not make sense for valuation to eventually catch up based on large COV premiums or under-valued discounts? If valuation did not catch up, would it not give the impression that the valuations are somehow managed? But by who, if it was managed?

So the question is; Would it not make more sense that the valuations should catch up with actual transacted prices, thereby eliminating the need for COV totally?

Based on this, we support MND's stand of removing Cash-over-valuation or Cash-under-valuation as a mechanism for determining property price.

#### **HDB to provide recent 2 years Transacted prices of HDB flats**

In its place, HDB will announce the recent [2 years transacted prices of HDBs](#) more frequently. So property buyers can then make a more informed decision.

However, we understand that the market is chaotic which runs counter to the aim of “A Stable housing market, better homes for all”. This is because many HDB buyers are not even sure what the prices should be. Worst still when they approach a Seller agent who will sometimes discourage the property buyer from Co-broking, citing prices may become higher if they engage a buyer agent. So



what then is an appropriate price to offer?

### **Market Practice of Singapore Private Property transaction**

Whilst it may not be the proper valuation practitioner's process, asking for a “desktop” valuation for a property is the market practice. This serves to ensure that the buyer can find a bank that back up the valuation of the property and agree to the [home loan financing](#).

If seller offers to sell at \$500,000, you agree on it. Then you go to seek a valuation, only to find out that the valuation is \$450,000. The buyer will have to find CASH for this \$50,000. This is effectively a Cash-over-valuation. If the buyer is not prepared for this surprise, the buyer will have to lose their option-to-purchase deposit.

This only serves to create doubts for buyers and artificially halt demand in the form of regulatory impediments to the market. However this type of mechanism is a brute force measure which does not solve the imbalance of supply and demand issue of HDB flats.

### **A black market develops**

Property sellers and buyers may then be encouraged to enter into private agreements to alter the Option-to-purchase by redoing the OTP or by making private arrangements and adjustments in prices. This is potentially even more dangerous and fraught with potential monetary losses and frauds. This does nothing to create a stable and sustainable housing market.

### **Proposals for a Stable and Sustainable Housing market**

Another way is to keep the previous process, but allow the valuations to be based on 3 months or 6 months moving average, such that over time, the valuations will rise to close the gap between asking prices.

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## About Paul HO

He holds a Masters of business administration from a reputable university and has distinctions in finance and economics. He is editor of [www.iCompareLoan.com](http://www.iCompareLoan.com) and also writes for Stproperty, iProperty, ShareInvestor's Blog, Propwise amongst many others. His writings has also been featured on Yahoo. He is passionate about helping people enhance their wealth and in making money work harder for them.

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