ABSTRACT

HDB's 2-bid tender system is an interesting variation from the popular first-price sealed-bid auction. Under this tender system, each bidder is required to submit two instead of one bid. If both the higher and lower bids of a bidder are higher than the bids of all the other bidders, the bidder will be awarded the tender at the lower of his 2 bids.

Using the tender bids for 178 shops in 8 HDB's new generation neighbourhood centres (NCs) under the 2-bid tender system, the empirical study carried out has found that HDB shop tenants' bidding behaviour is consistent with the independent private-values paradigm. Under this information structure, each bidder will bid at an amount less than his private estimate and he will bid closer to his private estimate as the competition increases. In relation to this, an analysis of the "spread of the 2 bids" has found evidence that does not support Goh (1994)'s suggestion that if a bidder is to bid under the first-price sealed-bid auction, he will submit a bid equal to the lower of his 2 bids under the 2-bid tender system.

In addition to the above, the empirical study has also analysed the impact of designation of trades on tender bids. The results revealed that for shops designated for specific trades, the tender bids will vary significantly with the types of trades the tenants are allowed to operate. In other words, the designated trade is as important a factor as the location and other shop attributes in the determination of the shop rental. Furthermore, it is also
found that on aggregate HDB’s decision to designate the trades of the shops has resulted in lower returns for HDB. In view of this and because there is a high possibility that the designation of trades will lead to less than optimal trade mix in NCs, it is recommended that HDB undertakes a review of its policy on designation of trades for its new generation NCs.

Key Words: Information structure Bidding environment
Private estimate Independent private-values framework
Designation of Trades Common-value framework