



Overview of options for the housing market

In the run-up to the forthcoming elections in the Netherlands, last week the Netherlands Bureau for Economic Policy Analysis (CPB) published an analysis of the various election programmes (Keuzes in Kaart [Charted Choices])¹. This document maps out the effects of the respective election platforms for the economy. In this Special Report we begin with an outline of the recent policy interventions in the housing market as contained in the 'Spring Agreement'. Subsequently we describe the plans of the political parties and the ramifications of these as estimated by the CPB. We conclude with our view of the likely and most desirable outcome of the coalition talks.

Starting point: Spring Accord

The Rutte cabinet has adopted a number of measures in relation to the housing market, including those contained in the Spring Agreement. These measures have shaped the CPB's base scenario for analysing the effects of the various parties' election programmes.

Non-rental sector

- From 1 January 2013 new mortgages (only) will have to be repaid on an annuity (capital repayment) basis at least, in order to be eligible for tax relief on interest payments.
- Mortgages based on savings products as a vehicle to repay the capital, will remain in place for existing cases.
- The maximum mortgage amount will be reduced in increments to 100% of the value of the house.
- The reduction of transfer tax (stamp duty) to 2% will be made permanent.
- Previously, no stamp duty was payable if the home was re-sold within 6 months. From

1 September 2012 vendors who re-sell their house after 6 months and within 3 years will only have to pay stamp duty over the additional value. This measure is not included in the base scenario of the CPB calculations.

Rental sector

- 25 extra points (house quality points which determine the maximum rent) may be allocated to homes in the 10 COROP-areas (groups of neighbouring municipalities) with the highest average official valuation (WOZ value). This will raise the threshold of the maximum permissible rent.
- For tenants with an income of between 33,000 and 43,000 euro, rents may be raised by 1% point above inflation from 1 January 2013.
- If a tenant's income is over 43,000 euro, the rent may be increased by 5 % points plus inflation.
- The additional rental income will be taxed for 13 million euro by a 'landlords tax' in 2013.
- The above regulation will be expanded from 2014. A levy on rental income is then expected to generate 750 million euro annually.

Impact of the Spring Accord

The reduced stamp duty and the fact that revenues from the curtailment of mortgage interest relief will not occur until the future means, the net tax subsidisation of home ownership will temporarily rise in 2013 from 25% to 28% of the rental value. However, restrictions on mortgage interest relief will eventually reduce this subsidy to 17%. This will in turn reduce the incentive for home ownership and will result in a one-off drop of 4% in house prices.²

¹ CPB (2012) "Keuzes in Kaart 2013-2017 Een analyse van tien verkiezingsprogramma's" [Charted Choices 2013-2017: An analysis of 10 election programmes]

² CPB (2012) "Juniraming 2012: De Nederlandse economie tot en met 2017, inclusief Begrotingsakkoord 2013" [Short-term forecasts, June 2012: The Dutch economy through 2017, including the budget accord of 2013]

The CPB has not calculated the impact on the rental market; however it has included the savings generated in the 2013 budget.

Plans submitted to the CPB

Below is a brief summary of the plans that the various political parties have submitted to the CPB. This is followed by an analysis of the effects of the various proposals. Table 1 contains a summary of the plans of the eight largest parties.

Figure 1: Summary of plans

	Spring Agreement	Mortgage relief ⁷	Stamp duty ⁸	Hillen Law	Maximum mortgage	Rent	Systeem
VVD		↑	↓		↑	↑	Points
PvdA		↓	↓	×		↑	WOZ
PVV	×		↑↑	×		↓	Points
CDA		↓			↑	↑	WOZ
SP		↓	↓	×		↓	Points
D66		↓	↓			↑	Points
GL		↓	↓	×		↑	WOZ
CU		↓	↓			↑	WOZ

- × Abolishment
 - ↑ Extending or heighten
 - ↓ Restrict or lowering
- ⁷The size depends on the amount of the adjustment
⁸Number dependent on starters and movers

Source: CPB, Data processing: Rabobank

VVD (centre-right liberals): non-rental sector

The VVD has added a number of proposals to the Spring Agreement. It proposes that the period during which a mortgage should be repaid in order to be eligible for tax relief should be extended for first-time buyers by five years to 35 years. Thus, loan redemption would not be obligatory in the first five years. Moreover, the VVD wants to raise the loan-to-value ratio from 100% to 104%, as well as abolish stamp duty for first-time buyers from 2013. Finally the party wants banks to have the scope to take account of projected income and to apply age differentiation requirements.

VVD: rental sector

For tenants with an income ranging between the rent subsidy limit and 43,000 euro, rents may be increased by 3% plus inflation. The VVD also proposes to raise 0.8 billion euro in 2014 by increasing the levy for landlords over and above what is contained in the base scenario.

PvdA (labour): non-rental sector

The PvdA's proposals are likewise based on the Spring Accord. This party wants to further restrict mortgage relief by gradually reducing the eligible tax bracket from 52% to 30% by 2042. Moreover, the amount to which the tax deductibility applies will be reduced over 30 years to the average house value. Stamp duty for first-time buyers will be abolished. In addition, both mortgages based on balance guarantee insurance on the capital and bank savings mortgages will be phased out over a thirty year period. This party also proposes to abolish the so-called Hillen law³ Finally, the ceiling for the higher rate of home-owner's property tax will be reduced from 1 million to 600,000 euro by 2040.

PvdA: rental sector

The maximum permissible rent will in future be capped at 4.5% of the WOZ value of the home. This would overturn the proposed measures to raise the number of rental points. As a result of the measure, there will be more scope for increasing rents. The PvdA aims to use this scope by raising rents by 1 percentage point. Finally, the party proposes to introduce an additional levy on rental income, in order to generate 200 million euro in 2013 (to be increased to 750 million from 2017).

PVV (Freedom Party; anti-euro): non-rental sector

The PVV aims to reverse a number of the proposed measures. It would keep the mortgage relief facility in its present form and raise stamp duty back to 6%. It also proposes to abolish the Hillen law.

PVV: rental sector

This party will reverse the allocation of extra housing points in COROP areas, as well as overturn the rent increase for incomes above 33,000 euro. Moreover, it will not introduce the

³ The Hillen law permits an additional tax deduction if the amount of home-owner's property tax is higher than the interest paid on the mortgage.

proposed levy on rental income. Finally, the PVV would reverse the restrictions on rent allowance.

CDA (Christian democrat): non-rental sector

The CDA bases its proposals on the Spring Accord, with the following additions: First-time buyers will be permitted to redeem their mortgage on an annuity basis over a 35 year period. And the loan-to-value ratio for first-time buyers with good income prospects may be higher than 100%. Finally it proposes the introduction of a flat tax of 36.5%. This means that this new rate will also apply to the mortgage interest relief and the home-owner's property tax.

CDA: rental sector

The points system in the rental sector will be replaced by a system in which the maximum rent is based on 4.5% of the WOZ value. The extra rent that landlords accrue would have to be used to compensate tenants with a rent allowance for the higher rent. This is intended to reduce the payments of rent allowance by the government by 1.6 billion euro. Landlords will be compensated for these extra costs by the abolition of the additional levy of 0.8 billion euro which is contained in the base scenario.

SP (socialist party): non-rental sector

The SP aims to expand the scope of the Spring Agreement by having the new measures apply to existing cases as well. They would give existing home-owners a year to change their mortgage. The SP also wants to reduce the maximum mortgage amount eligible for tax relief on interest payments to 350,000 euro in 2022; and the eligible tax bracket would be reduced to 42% during a ten-year period. Stamp duty is to be increased again temporarily. To compensate for this, a first-time buyers' deductible will be introduced amounting to 0.5 billion euro in the period 2013-2016. Finally, the SP intends to abolish the Hillen law, and to reduce the ceiling for the highest rate of home-

owner's property tax to 500,000 euro by 2040.

SP: rental sector

The SP intends to overturn a number of the Rutte cabinet's measures. For instance it would abolish the extra points to be allocated to regions where there is a housing shortage. It would also do away with the levy on rental income and the possible extra rent increase. Finally, the SP would adopt temporary measures to stimulate construction of both rental and non-rental housing. The party has allocated 0.9 million in total for this from 2013 to 2016. On the other hand, an open-space levy should raise 0.3 billion euro.

D66 (social liberals): non-rental sector

This party wants the tax relief curtailment contained in the Spring Agreement to apply to existing cases as well. For the transitional period, D66 has earmarked 0.1 billion in 2015 and 2016. The maximum tax bracket eligible for interest rate deduction is to be reduced from 52% to 30% over a 22 year period. After this, the taxpayer's home would be transferred from box 1 to box 3 (wealth tax) in the income tax system. D66 also plans to limit the rate of home ownership property tax. It proposes to abolish stamp duty for first-time buyers in 2013 and to phase it out for existing home-owners by 2017.

D66: rental sector

D66 intends to reduce the rent allowance, yielding savings of 0.3 billion euro. It also wants to stimulate energy savings and inner-city development. An open space levy is also proposed which would generate 0.2 billion.

GroenLinks (Green-left): non-rental sector

GroenLinks (GL) aims to transfer the taxpayer's home from box 1 to box 3 in the income tax system during a 25 year period. This would ultimately mean a tax on 4% of the house's value, taxable at a flat rate of 30%. An exemption of 150,000 euro would apply for all tax-

payers. The Hillen law would also be abolished as would stamp duty for first-time buyers. From 2017 stamp duty would also be phased out for existing home-owners wishing to move along the property ladder. This party also intends to introduce a temporary measure to support households that purchased a house after 2000 and are struggling with debt overhang. Under this measure, repayments of this debt should be deductible from income in box 1 for tax purposes. Finally, tenants with an income of less than 33,000 will be able to purchase their home at 50% of the WOZ value.

GroenLinks: rental sector

The Green Left party also wants to have the maximum rent determined by 4.5% of the WOZ value. Rents will subsequently be raised by 2 percentage points plus inflation annually. Households with a lower than median income will be compensated by an increase in rent allowance. This will in turn be covered by an extra levy on lessors' rental income. The party also proposes the introduction of an open space levy and a land tax which should generate revenues of 3 billion euro annually.

ChristenUnie (Christian Union): non-rental sector

The ChristenUnie supports the Spring Agreement in the main, but wishes to further restrict mortgage interest relief. It proposes to reduce the eligible tax bracket from 52% to 30% by 2029. This party would also reduce the maximum eligible mortgage amount from 1 million in 2013 to 500,000 by 2022. Finally, it plans to abolish stamp duty for first-time buyers.

ChristenUnie: rental sector

The maximum rent would be based on 4.5% of the WOZ value. This would leave room for an annual rent increase of 1%. However, housing corporations would be permitted a certain amount of flexibility in this. The party proposes to offset the higher costs of rent subsidisation by increasing the landlords' levy. Finally, the ChristenUnie plans to stimulate inner-city

development, which would be funded by means of the open space levy.

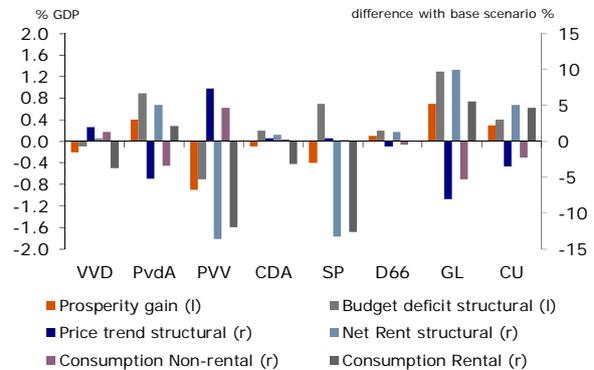
Effects of the various programmes

The assumptions used for calculating the effects on the housing market are that:

1. A curtailment of mortgage interest relief leads to a better functioning of the residential property market because it reduces the disturbing effect of government intervention.

Both the PVV and the VVD aim to increase the subsidy on home ownership above what is contained in the Spring Agreement (Figure 1). This would result in consistently higher house prices than those assumed in the base scenario (Figure 2). If mortgage interest relief is curtailed - as is proposed by the other parties - this will lead to a consistently lower price level, and hence to permanent wealth loss.

Figure 2: Effects on the housing market



Source: CPB

Nonetheless, a reduction of the subsidy on home ownership yields the greatest prosperity gain⁴ The higher house prices will be nullified by a greater government deficit and/or higher taxes. Furthermore, increasing the subsidy will perpetuate the disruptive influence of mortgage interest relief. Finally, the assertion that

⁴ This is calculated on the basis of a utility function. The basis premise is how many households can afford to lose income without their utility being compromised as a result of policy changes. CPB (2010) "Hervorming van het Nederlandse woonbeleid"

mortgage interest relief will not be further curtailed is improbable and leads to stagnation on the housing market. In the short term this will have a negative effect on both prices and sales.

Likewise the assertion that existing cases can be exempted is rather doubtful. If newcomers to the housing market should be treated differently in the tax system than existing homeowners, this would prevent movement on the property ladder. And if this should lead to lower prices, this would also affect current homeowners, despite their more generous scope for deductibles. By contrast, a price drop across the board would be a once-off event, after which the underlying trend would take over. On balance, the extra subsidy and the structural price rise would not compensate for the deterioration of the housing market, the larger government deficit and/or the higher taxes.

2. Rationing the supply of rental housing hampers the working of the housing market.

Six of the eight parties want to increase rents. However, the effects of this differ for the respective parties. In the case of the CDA and the VVD the rent increase would be insufficient to pay for the levy on rental income, which means lessors would have less money available to increase the housing supply. In the proposals of GL, D66, PvdA and the CU, the higher rents would be greater than or equal to the additional levy. This creates more scope for landlords to increase the rental housing supply, which would lead to shorter waiting lists and fewer people living in homes that are either too expensive or too cheap in comparison to their income level.

The two parties that want to lower rents (PVV en SP) achieve the same effect as the VVD and the CDA. Reduced rental income means landlords won't increase the supply, leading to more shortage on the rental market.

Restricting mortgage interest relief and increasing the supply of rental housing would lead to a more efficient housing market in the long term, and hence to greater prosperity.

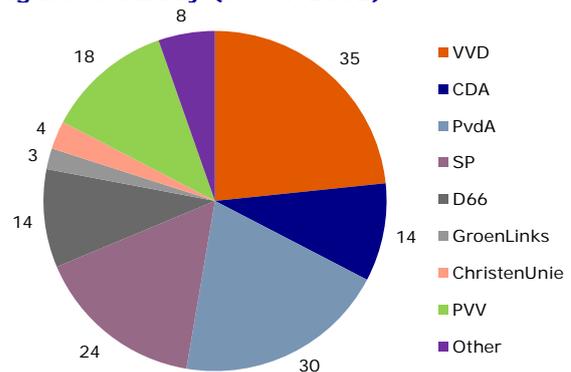
The parties whose proposals would increase prosperity are GL, PvdA, CU, CDA and D66. Increased prosperity does not necessarily mean financial gain for individual households. The profits could also end up in the hands of the government or the landlords.

Expected outcome

In this section we will attempt to project the various parties' housing market plans beyond the elections, based on their political views and the survey conducted by Ipsos-Synovate on 3 September last. With regard to the issue of mortgage interest relief, the parties can be divided into three categories:

1. Overturn the Spring Accord (PVV)
2. Make little or no changes to the Spring Accord (VVD, CDA)
3. Further curtail mortgage interest relief (PvdA, SP, D66, GL and CU)

Figure 3: Survey (03-09-2012)



Source: Ipsos-Synovate

According to the Ipsos-Synovate survey, the parties that want to further restrict mortgage interest relief have 75 seats in parliament (Figure 1 and 3), meaning that at least part or possibly all of the new cabinet would be in favour of this measure. One obvious possibility is that the interest rate eligible for interest rate deductibility would be low-

ered, and that the maximum sum eligible for interest rate relief would be reduced. Another possibility is that politicians would decide to take over (parts of) real estate and property rental associations - the so-called Wonen 4.0 (Housing 4.0) plan.⁵

Despite the fact that none of the parties has adopted all elements of the plan, nonetheless their proposals are often in line with its content. In Housing 4.0, mortgage interest relief would be phased out over a thirty year period and rents would move at market rates. In exchange for this, income tax rates would be reduced and a housing allowance would be introduced for the benefit of lower incomes. The advantage of this initiative by several stakeholders (VEH, NVM, AEDES and Woonbond) is that it enjoys considerable support at population level.

If the CDA and/or the VVD are also part of the cabinet, then the outcome will be uncertain. The coalition negotiations, the allocation of seats and possible exchanges of portfolios will play an important role.

The parties are less divided about the rental market. Almost all parties want to increase rents. However, there are differences in the reasons for doing so and how this should be done. Some parties want to use the additional revenues to increase the supply of rental housing; others see it as a austerity measures. Four parties wish to keep the current points system, while four others would prefer to determine the maximum rent on the basis of the WOZ value.

In our view, whichever government is formed should aim to bring about a system in which mortgage redemption is encouraged, the working of the housing market is restored and the sustainability of government finances is improved. If no changes

⁵ Aedes, Woonbond, Vereniging Eigen Huis and NVM (2012) "Wonen 4.0", 12 april 2012

are made to mortgage interest relief, government finances will become much more vulnerable to any rise in mortgage interest rates.⁶ This would make the current system unsustainable. Equally, all home-owners should ultimately be treated the same for tax purposes. Otherwise, movement on the property ladder will be impeded. Finally, reform of both the rental and non-rental markets should be tackled simultaneously. Housing 4.0 will ensure that this happens and therefore deserves broad support.

Conclusion

The Director of the CPB, Coen Teulings, made the point during the presentation of 'Charted Choices': "voters have a lot to choose from". This is also true for the housing market. Some parties want to keep the current tax treatment of mortgage interest, while others want to abolish it. Opinions are likewise divided about the rental market: should rents be raised or lowered?

Despite these differences of opinion, there is a strong likelihood that after the elections, a substantial section of parliament will want to curtail mortgage interest relief. In our view, it is good news that virtually all parties support reform of both rental and non-rental sectors and that minor cut-backs on a large number of themes are not on the agenda. We also endorse the emphasis placed by all parties on a system that encourages mortgage redemption. It would be good for the housing market and for the economy if the housing market were at last to undergo convincing and sustainable reform.

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⁶ A 1% point rise in mortgage rates costs the exchequer about € 1.5 billion extra over time. S.G. Grob (2005), *Hypotheekrenteaftrek in perspectief*, [Mortgage interest relief in perspective] ESB, 90th annual issue, no. 4455, March 2005.