

Logo
Makelaar

LEASEHOLD ANALYSIS

Voorbeeldstraat 123

5 juli 2019



PREFACE

- The ground under your home is owned by the City of Amsterdam. For the use of it, you pay an annual rent: the canon.
- In 2019, you are faced with major decisions:
 - 1. Adopting perpetual leasehold?
 - 2. How to make the switch? Multiple options.
- Leasehold is considered complicated, with both juridical and financial aspects
- We explore the future under various scenarios. These offer you a clear insight into your options and financial consequences.
- The insights provided in this report should be combined with your personal finances. These are not part of our analysis.
- This report is independent. Our leasehold calculations are based on our own valuation models. As such, our analysis may also be used as a check on the figures set by the City of Amsterdam.
- This report is for informational purposes only and contains no advice of whatever nature

CONTENT



Your current leasehold contract

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YOUR CURRENT LEASEHOLD CONTRACT



Characteristics of 'continued leasehold'

- Your current leasehold contract started in 1960. Timeslot has a duration of 75 years and ends in 2034.
 - On your contract, Algemene Bepalingen (General Provisions) 1955 are applicable
 - You currently pay a canon of 1.250 Euro per year. This is (when conditions are met) tax deductible.
 - This canon will be kept constant until the end of current timeslot (no indexing for price inflation)
 - You have the option to buy off the current timeslot. This would cost 13.876 Euros (non tax deductible).
-
- Two years before the end of the current timeslot (2034), the canon revision will take place (CHET)
 - City of Amsterdam sets level of the new canon. You may instead ask for an independent expert taxation.
 - The new timeslot has a duration of 50 years. AB 2000 will be applicable at that moment.
 - Future level of the new canon is unknown. This constitutes a financial risk for you as a homeowner.
 - In order to take away this uncertainty, it is now possible to switch to perpetual leasehold (AB 2016)

MAIN FINDINGS



Paying canon	Buy off	Canon or buy off?
• At the end of the current timeslot (2034), the canon will be revised • The canon will go from 1.250 to 3.915 Euro per year (plus inflation) • Locking in 2019 seems favorable, as waiting may increase future expenses • Slides 8 and 9	• It is possible to buy off the future canon 'at once' • In 2019, the perpetual timeslot can be bought off for 107.869 Euro • Reasonable alternative: locking in 2019 and buying off at a later moment • Slides 11 and 12	• An early buy off saves money. On the downside, expenses are advanced. • Separate choices can be made for current timeslot and perpetual leasehold • Income tax effects Own money or mortgage Pricing of buy off amount Financial risks of canon • Slides 16 - 19

Adoption of perpetual leasehold in 2019 seems favorable. This can take place by locking the canon or a buy off.

THE NEW CANON



THE NEW CANON

We start with an exploration of the canon, basis for the leasehold system. Any buy off amount is based on a pattern of future canon payments.

On the next slide, we present a development of the canon, in case of locking in 2019:

- In the current timeslot, this relates to current canon with or without a periodic indexation (depending on the applicable provisions)
- Followed by perpetual timeslot, in which the canon be indexed annually with Dutch CPI. Indexation also applies in the waiting period.

For graphical reasons, we show a horizon of 50 years. Perpetual canon will continue afterwards.

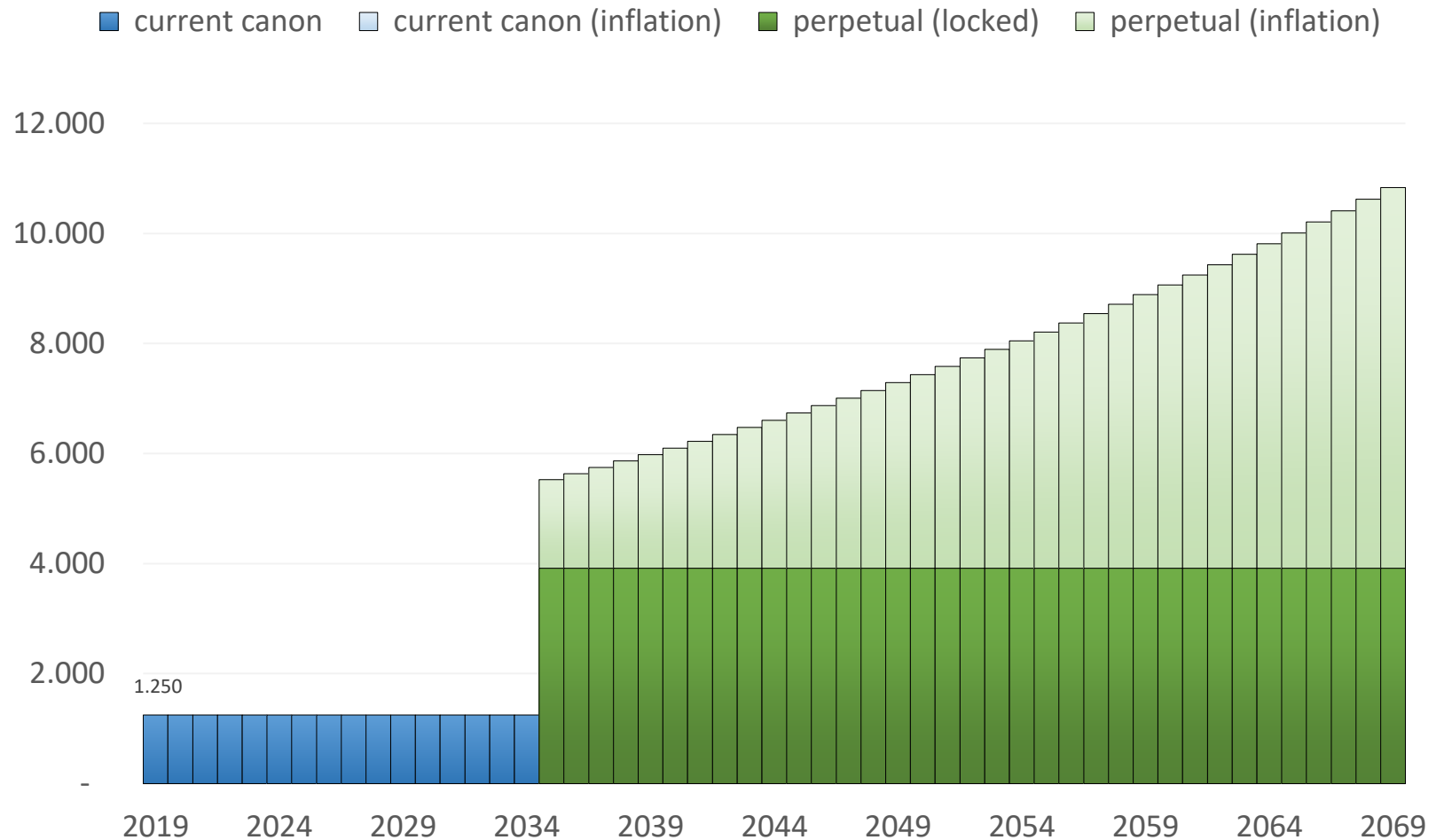
On subsequent slide, we compare 3 scenarios:

1. Shift to perpetual leasehold in 2019 by locking the canon
2. Shift to perpetual leasehold in 2020 by locking the canon
3. No shift to perpetual leasehold. Level of future canon unknown. Adoption discount not applicable.

We will take as a perspective the moment at which perpetual timeslot starts. We will show a split into the locked part and future inflation.

CANON PROJECTION (LOCKING IN 2019)

- Future development of the canon, based on 2% annual price inflation
- Purchasing power of future canon is locked at moment of switch
- This means that the canon is indexed with CPI each year
- Indexing takes place in waiting period as well

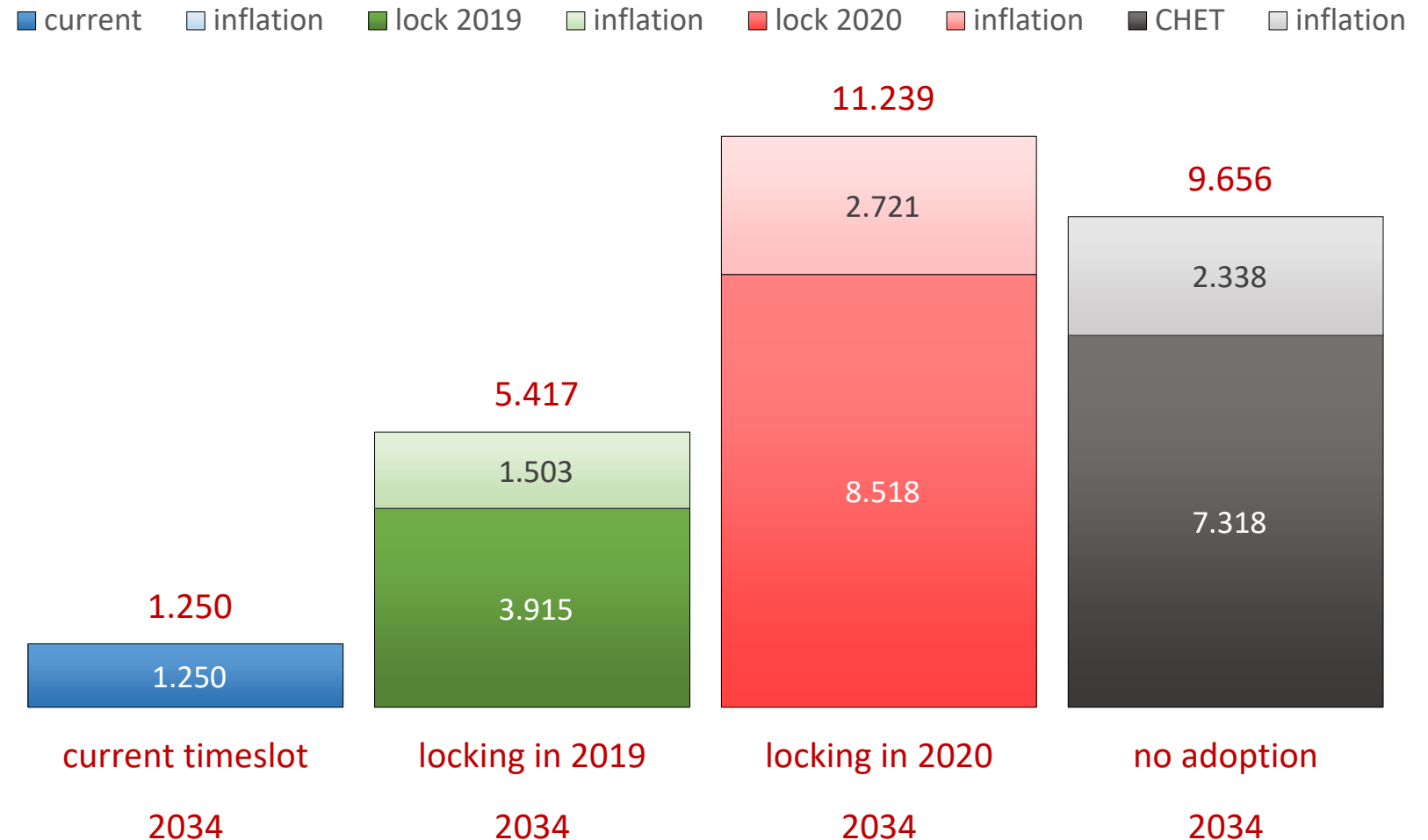


CANON SCENARIOS (MOMENT OF RENEWAL)



- Comparison of canon at the moment of renewal, at end of current timeslot. Start of perpetual leasehold.
- When locking in 2019, level of new canon is limited to green bars (locked + inflation)
- When locking takes place in 2020, the new canon will be at the level of the red bars (locked + inflation)
- Canon in case of staying with continued leasehold unknown until end of current timeslot. Indication based on valuation policy currently applied by City (actual price level + inflation).

Eventual canon may be lower after expert taxation.



BUY OFF SCENARIOS



BUY OFF SCENARIOS

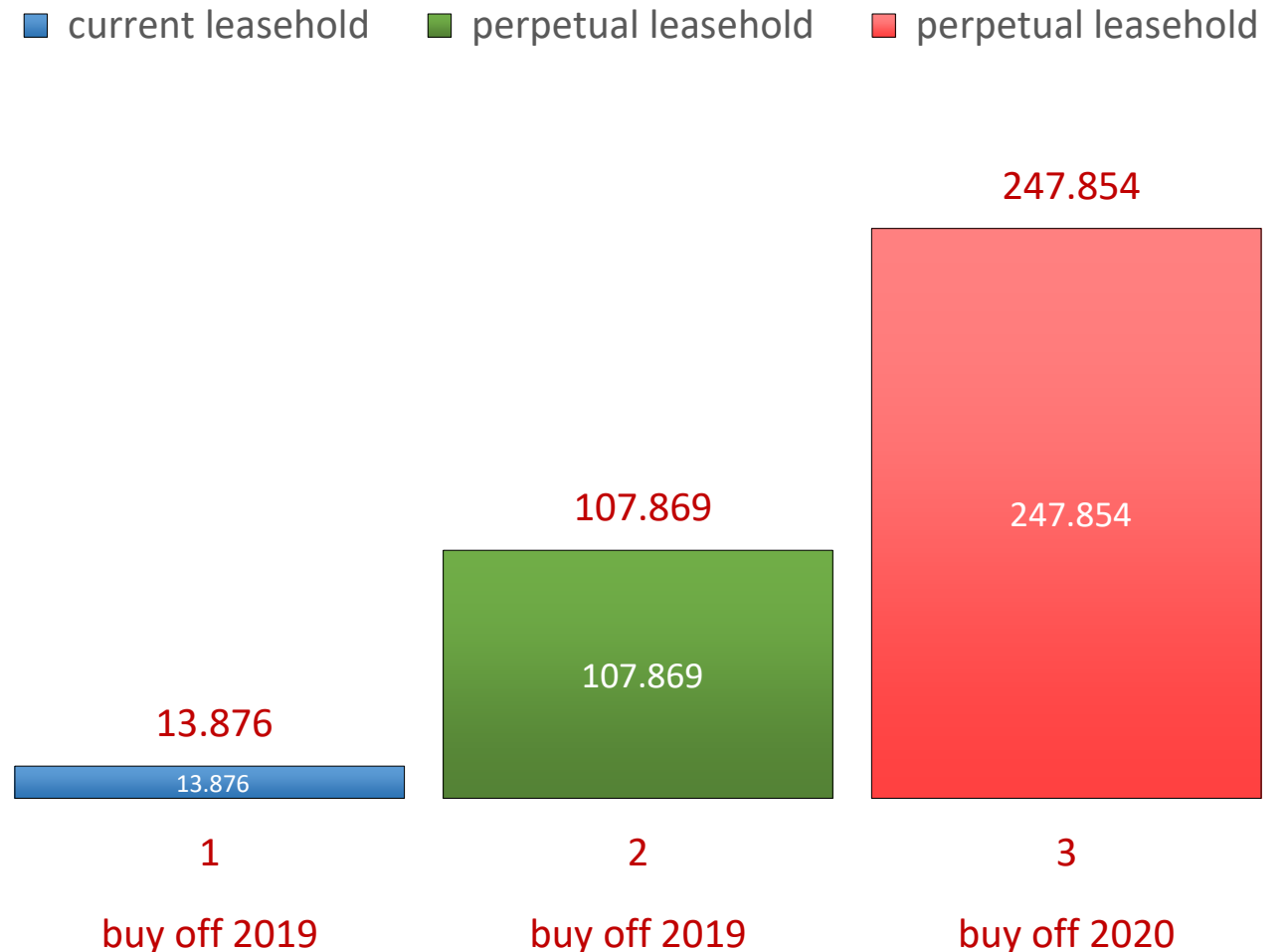
With the adoption of perpetual leasehold, it is possible to buy off future canon payments at once. Current timeslot can be bought off as well (optional).

Buy off amount depends on:

- Level of canon
- Start date of canon payments
- Length of period (duration)
- Indexing of canon (applicable or not)

Buy off amounts at right. Scenarios 2 and 3 are applicable to perpetual leasehold.

1. Buy off in 2019 of current timeslot
2. Buy off in 2019 of perpetual leasehold
3. Adoption/buy off perpetual only in 2020



CURRENT TIMESLOT: COST DEVELOPMENT

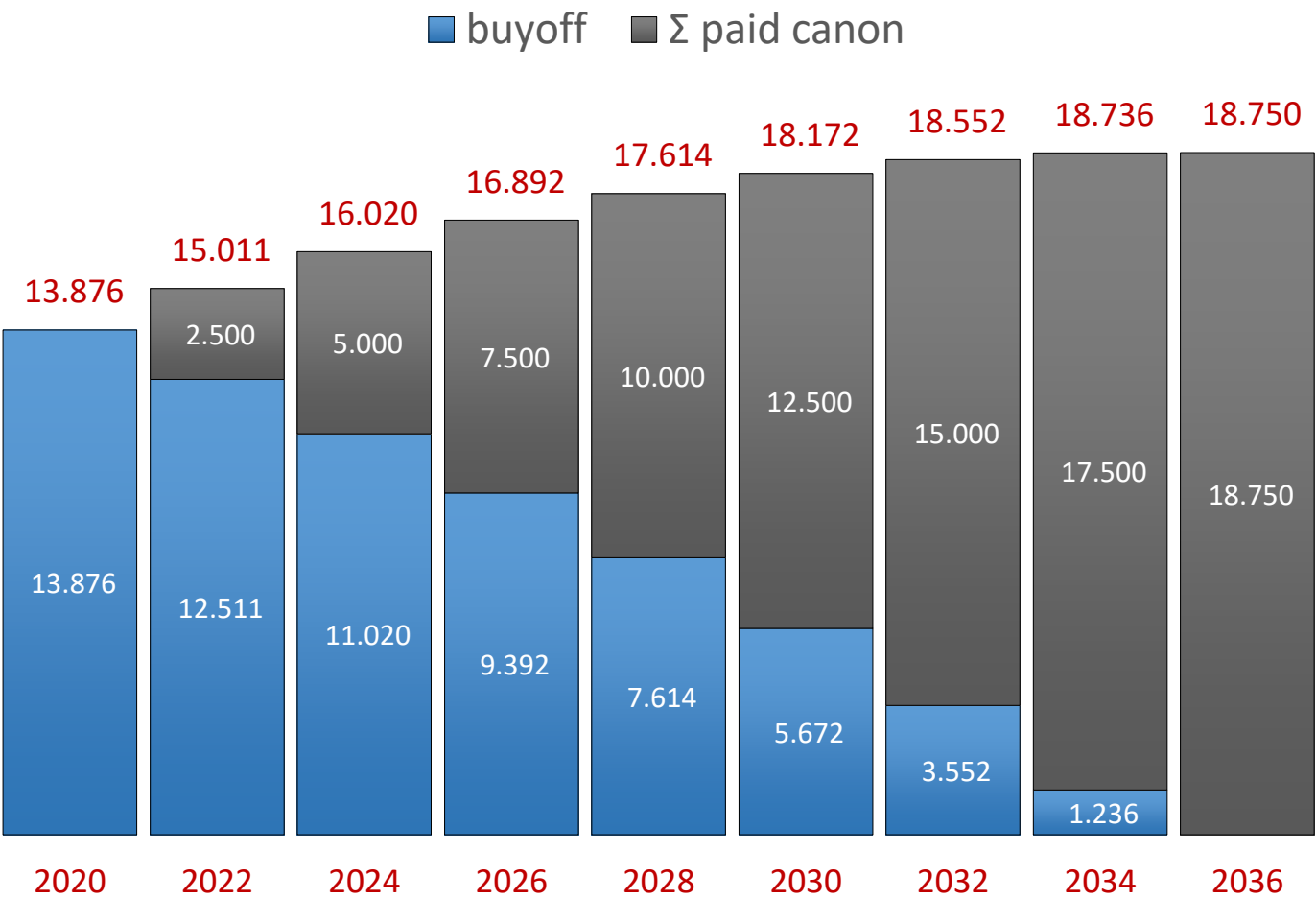
Previous slide shows, among other things, the buyoff amount for the current timeslot

This amount has been determined at present, taking into account remaining (semi-annual) canon payments

On the right, we present the expected development of the buyoff for current timeslot (blue columns). It decreases as the end of the period approaches.

As long as you do not buy off, you pay the canon. Gray columns show the sum of canon payments (starting at present).

As you pay earlier in case of a buyoff, you will receive a discount on the canon to be paid (discounting with interest)



PERPETUAL: POSTPONED BUY OFF (LOCK IN 2019)

Previous slide shows that waiting with adoption until 2020 is not favorable.

Alternative for a buy off in 2019:

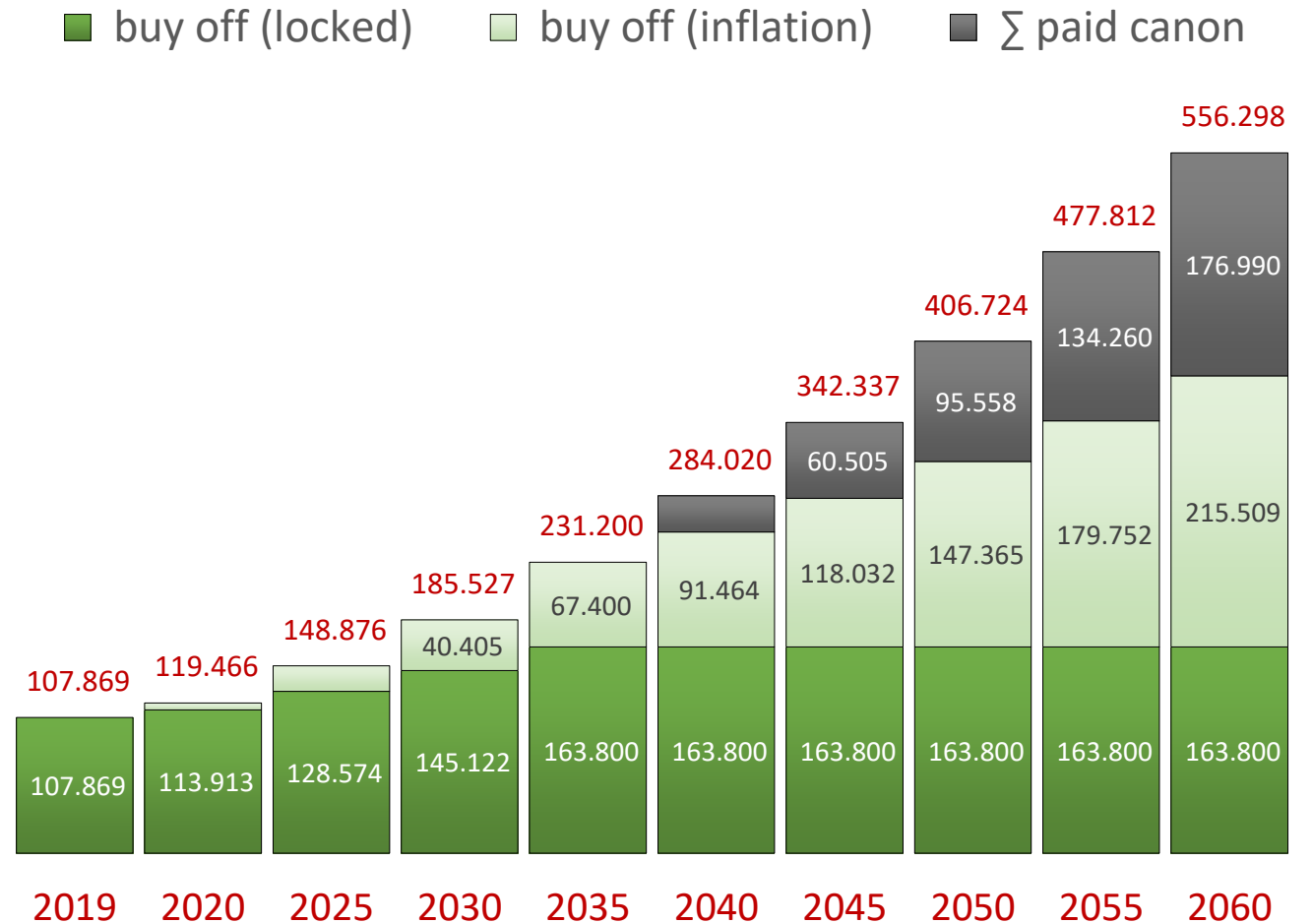
- Locking the canon (in 2019) first
- Buy off at a later moment

Buy off amount increases each year. Until canon revision, annual increase estimated at 4,5% (2,5% interest + 2,0% inflation).

From that moment onwards, buy off amount only further increases with inflation. By then, total cost comprises canon payments as well.

Remarkable increase from 2019 to 2020. This is due to the fact that buy off amount until end of 2019 is fixed at measurement date 1 Oct 2017.

It should be noted that, in case of considerable increases in long term market interest rates, future buy off cost may be (substantially) lower.



PAYING CANON OR A BUY OFF?



PAYING CANON OR A BUY OFF?

- Up to now, we have explored canon and buy off separately
- In this section an integral approach: paying canon (locking) or a buy off?
- With a buy off, you advance the expenses. At some point in future, the sum of canon payments exceeds initial buy off amount.
- We assume a CPI of 2% per annum, with which the perpetual canon will be indexed
- We translate future payments into present money, by discounting them year-on-year against a rate of 3.5%. Present value is below the level of the future payment itself.
- We compare scenarios where the buy off is financed with own money and scenarios where it is financed with a mortgage
- We assume a 30 year annuity mortgage, with a mortgage interest rate of 3.5%
- Tax effects: we reflect outcomes both with and without income tax relief. Not everyone is entitled to a tax relief. More information on this matter can be found on following slide.
- Separate comparison for current and perpetual timeslot (freedom of choice)

FISCAL ASPECTS

- Tax deductibility of leasehold has strong similarities with a mortgage
- The paid canon is deductible in *box 1 (work and home)* when you are the homeowner and it relates to your main residence
- You should be aware that the maximum tax relief in box 1 will decrease to 37% in 2023
- Besides, there is the so-called *eigenwoningforfait*. Due to *Wet Hillen*, this is considered taxable income. It is ceiled at the level of your tax deductibles (interest on mortgage, canon).
- As such, in case of no or small mortgage, the *eigenwoningforfait* may still be significant due to the fact that a canon is paid
- A buy off does not qualify as a deductible for income tax, as amortizations on your mortgage are not deductible either
- On following slides, we reflect the leasehold cost including and excluding tax deduction
- We assume a maximum deduction of 37%
- We have not verified to what extent this applies to you. The tax saving (gross / net) is therefore only indicative.
- You can not derive any rights from this
- Excluded: any wealth tax effects (box 3)

CURRENT TIMESLOT: HOW PAYING?

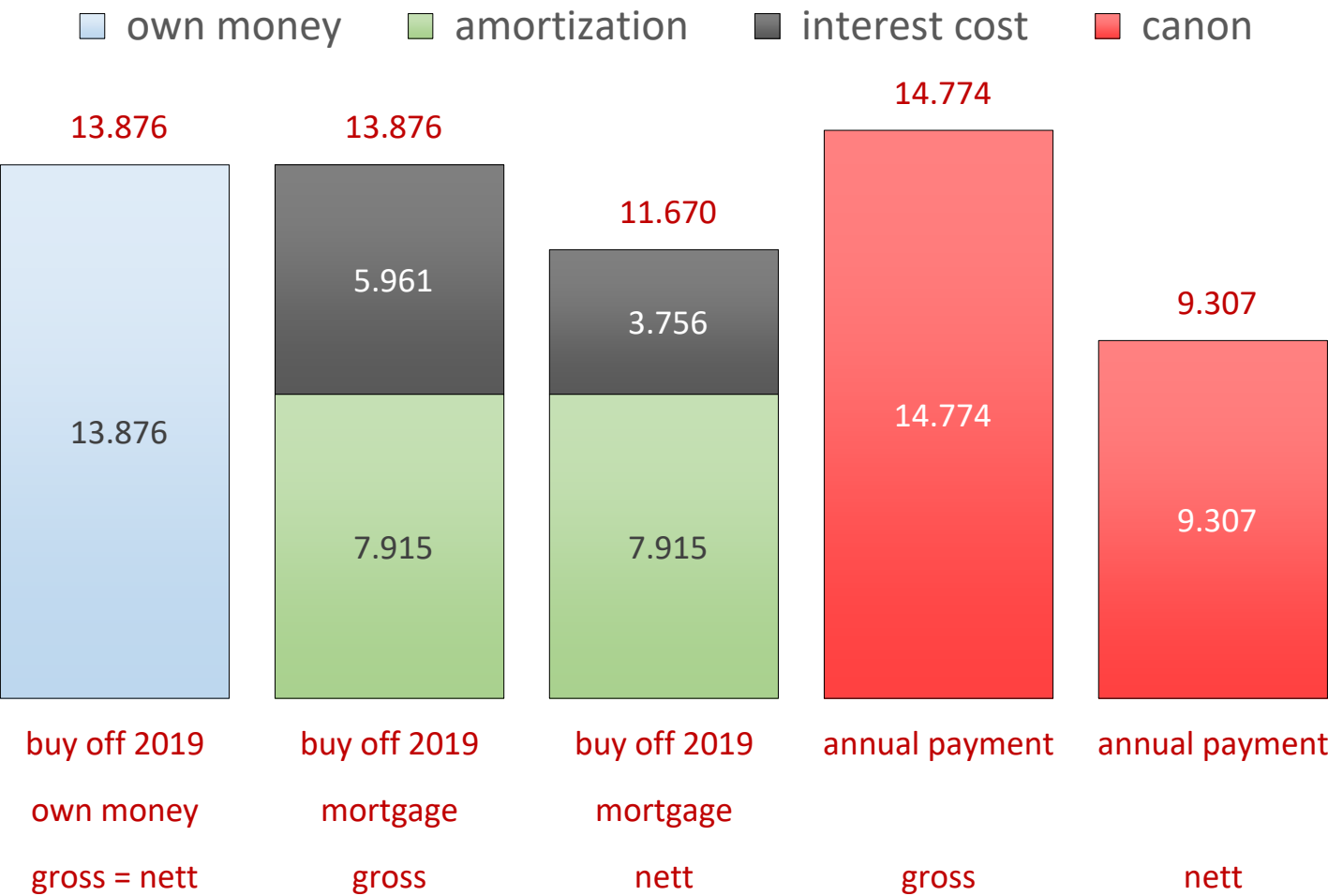
1st column: the buy off amount set by the City is paid with own money. Direct cash outflow.

2nd column: buy off is financed with mortgage. Amounts relate to net present values of amortizations and interest payments that take place the coming 30 years: how much money should be set aside today to be able to make the required payments, assuming an annual return of 3,5%?

3rd column: maximum tax advantage of 37% on interest payments

4rd column: how much money should be set aside today to pay the canon?

5th column: maximum tax advantage of 37% on canon payments



PERPETUAL TIMESLOT: HOW PAYING?

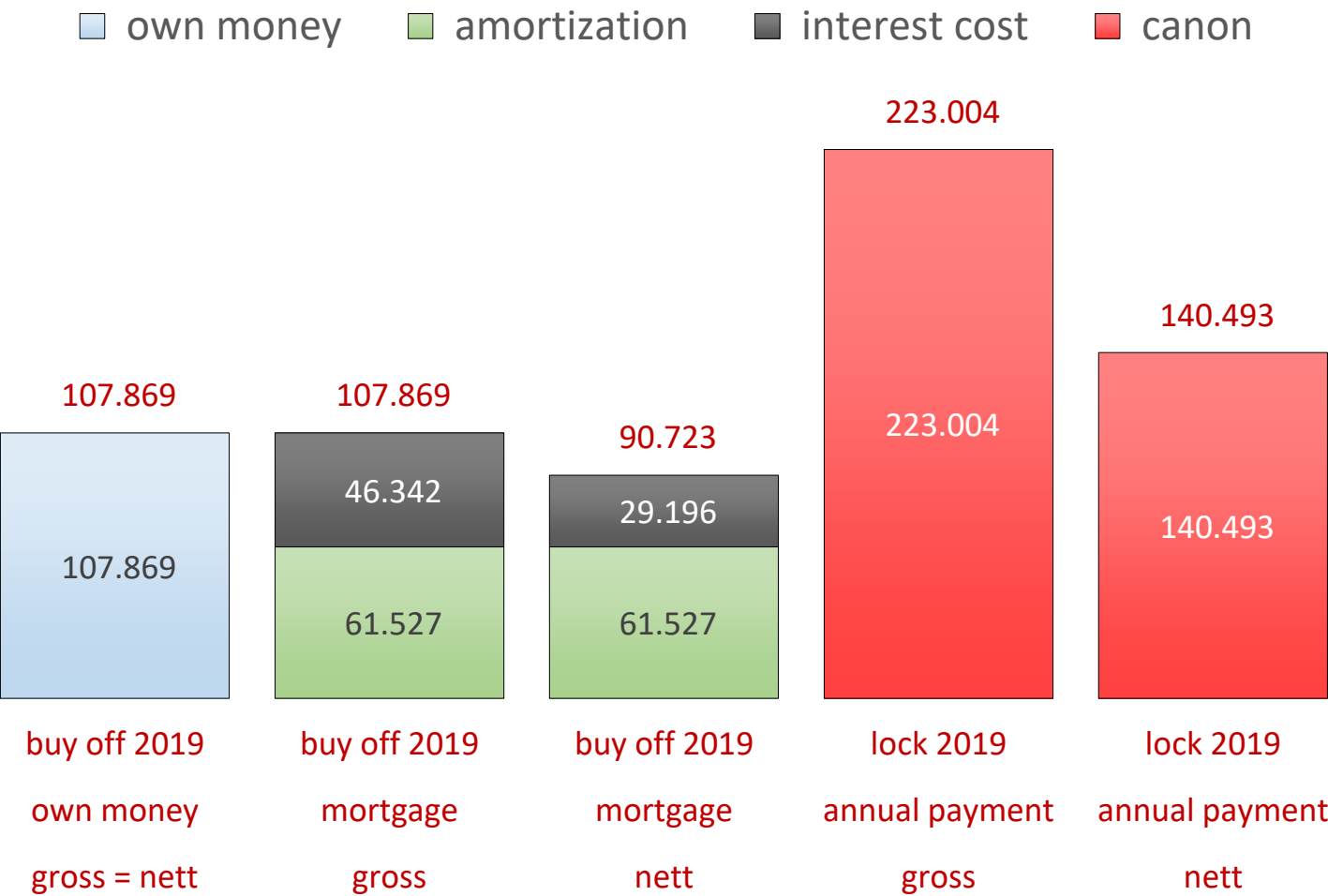
1st column: the buy off amount set by the City is paid with own money.
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5th column: maximum tax advantage of 37% on canon payments



PERPETUAL TIMESLOT: WHEN PAYING?

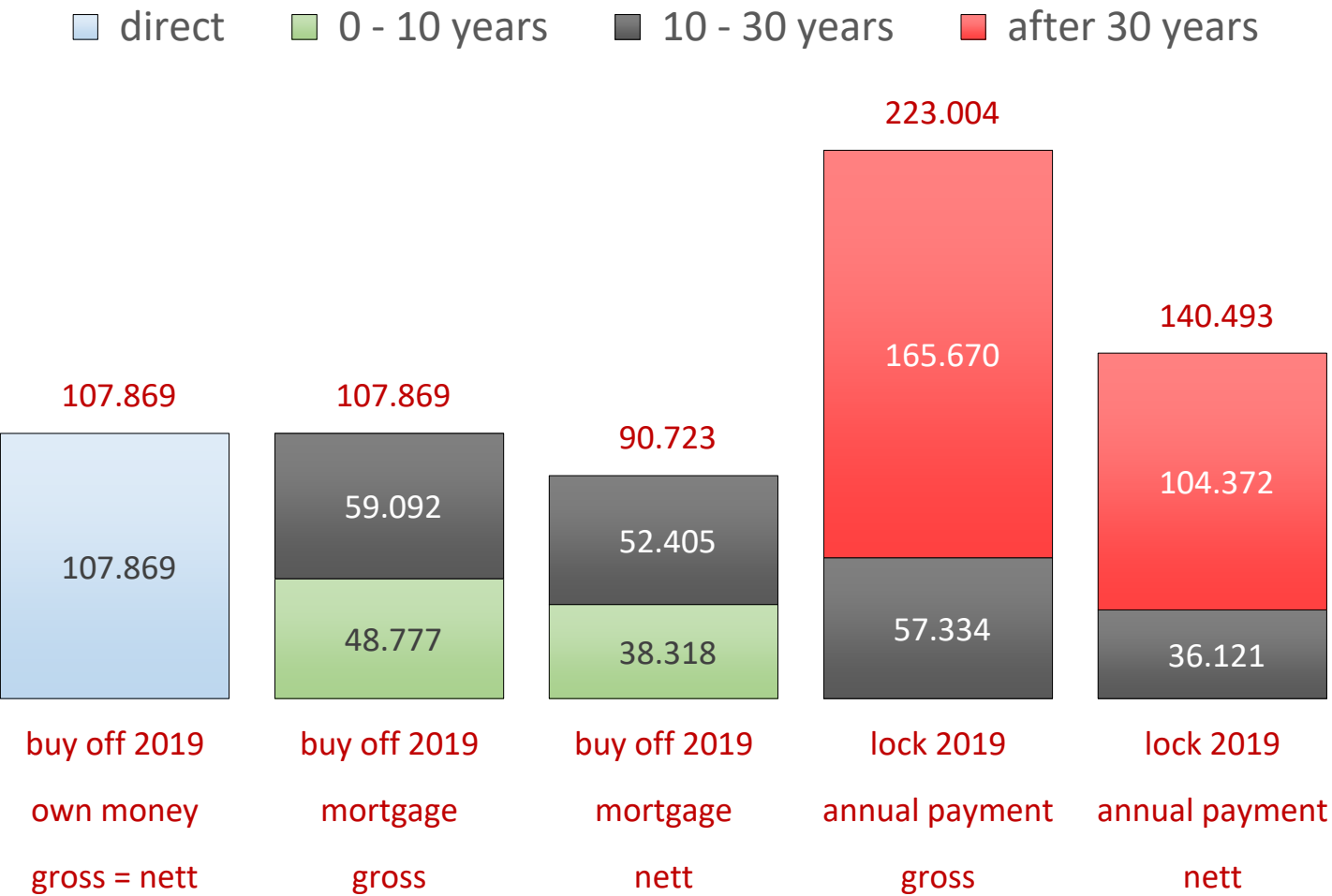
1st column: the buy off amount set by the City is paid with own money.
Direct cash outflow.

2nd column: buy off is financed with mortgage. Amounts relate to net present values of amortizations and interest payments that take place the coming 30 years: how much money should be set aside today to be able to make the required payments, assuming an annual return of 3,5%?

3rd column: maximum tax advantage of 37% on interest payments

4rd column: how much should be set aside today to pay perpetual canon?

5th column: maximum tax advantage of 37% on canon payments



ARGUMENTATION



LOCKING THE CANON (IN 2019)

PROS	Clarity on future canon <i>Purchasing power is locked, increase only for price inflation</i>
	Favorable switching regime (in 2019) <i>WOZ-value 2015, NSQ 2017, 35% discount</i>
	No high cash out on short term <i>Canon will only be payable on long term and step-by-step</i>
	Canon is (under constraints) income tax deductible <i>Depending on personal situation</i>
	Future buy off cost (after lock in 2019) may turn out to be lower <i>Only in case of considerable increase in 10-yr NL interest rate level</i>
CONS	Inflation risk with leaseholder <i>See appendix for more information</i>
	Strong annual increase in buy off cost <i>Expected annual increase: 4,5% (at 2% price inflation)</i>
	Risk that perpetual buy off will no longer be possible <i>Depending on political decision making</i>
	Two times to notary <i>First time at locking in 2019, second time at (later) buy off</i>
	Position banks at future requests for mortgage loan <i>Banks may become more reluctant in case of leasehold liabilities</i>

BUY OFF (IN 2019)

PROS	Released from (future) leasehold liabilities <i>Highest form of certainty</i>
	Favorable switching regime (in 2019) <i>WOZ-value 2015, NSQ 2017, 35% discount</i>
	Favorable pricing of buy off cost <i>Discount rate of 4,5% and reference date 1 October 2017</i>
	Various tax effects (depending on personal situation) <i>Tax deductible mortgage interest payments, savings on wealth tax</i>
	City council investigates desirability of perpetual buy off <i>This may be just a temporary option, that will be taken out in future</i>
CONS	Advancing payments to short term <i>Potential pressure on cash position</i>
	Buy off cost itself is not tax deductible <i>This may be different for interest payments on mortgage loan</i>
	Market value of house may not increase 1-on-1 <i>Depends on how leasehold will be perceived and priced in future</i>
	Political decision making? <i>We cannot exclude the scenario of a more favorable offer in future</i>
	Future buy off cost (after lock in 2019) may turn out to be lower <i>Only in case of considerable increase in 10-yr NL interest rate level</i>

CLOSING REMARKS



CLOSING REMARKS

- Adoption of perpetual leasehold is a choice. As long as you don't switch, you will stay in the current system of continued leasehold.
- It is not possible to predict whether or not politics will in future decide on a more favorable change in the leasehold system. This constitutes a decision risk for you as a home-owner.
- We provide insight in a conceivable cost development under different scenarios. In doing so, we use valuation assumptions, that may not (exactly) come into practice.
- It is important that the base data that are used as an input are correct. We ask you to check figures and other data from this report, where possible, with information provided by the City of Amsterdam
- Politicians can adjust valuation rules with significant impact on canon and buy off amount
- New council investigates the desirability of the perpetual buy off. This option may be temporary.
- With perpetual buy off, no transfer tax is levied. Tax authority has made this clear in October 2018.
- You need to decide before the end of 2019 whether you want to switch to perpetual leasehold and how. Don't wait until the last moment.
- You can apply for a formal request to switch to perpetual leasehold via the online portal of the City.
- *This document contains no advice, but is intended to increase the insight into the leasehold dynamics*

APPENDICES



APPENDIX 1: LEASEHOLD IN AMSTERDAM

- Today, a system of continuous leasehold applies in Amsterdam
- This means that after the end of a 50 or 75 year timeslot, ground lease continues including an unknown revision of the ground rent (canon)
- Starting October 2017, Amsterdam offers the possibility to switch to perpetual leasehold. This can take place in the form of locking future canon or a buy off.
- In the event of locking, future canon payments (that will take place after expiry of the current timeslot) are set on a level depending on adoption date. This amount is indexed annually with Dutch CPI.
- Buy off involves two steps: (1) locking perpetual canon in accordance with the above; (2) present value calculation of future payments. This present value (lump sum) must be paid at once.
- You have the option to either buy off only the perpetual leasehold, or the total of remaining canon payments (current timeslot + perpetually)

APPENDIX 2: BASE DATA AND ASSUMPTIONS



Base data

Address	Voorbeeldstraat 123
Postal code	1077XX
General provisions	AB 1955
Start of current timeslot	1-1-1960
End of current timeslot	31-12-2034
Ground value at issuance	20.000
Current canon	1.250
Current canon (character)	fixed

Adoption in 2019

WOZ-value (2015)	700.000	<i>as at 1-1-2014</i>
Street quote (2017)	40%	<i>as at 1-1-2014</i>

Most recent data

WOZ-value (2019)	1.100.000	<i>as at 1-1-2018</i>
Street quote (2019)	48%	<i>as at 1-1-2017</i>

Valuation assumptions

Discount rate	4,50%
Price inflation	2,00%
Real interest rate	2,45%
Canon rate	2,39%
Street quote (adoption in 2019)	40%
Street quote (adoption in 2020)	48%
Adoption discount (in 2019)	35%
Adoption discount (as of 2020)	25%

Measurement date for buy off

Current timeslot	1-1-2020
Perpetual	1-10-2017

Discount rate, price inflation and canon rate are valuation parameters set by City of Amsterdam

APPENDIX 3: NEW CANON AND BUY OFF

Canon (current)

Amount	1.250	<i>per annum</i>
Applicable until	31-12-2034	<i>ending date current timeslot</i>
Character	fixed	

Buy off (current)

Current canon	1.250	<i>fixed</i>
Remaining period (years)	15,00	<i>reference date: 1 January 2020</i>
Net present value factor	11,10	<i>based on period and discount rate</i>
Buy off (before treshold)	13.876	<i>current canon x factor</i>
Treshold	4.000	<i>prorata share of gv at issuance</i>
Buy off	13.876	<i>highest of both</i>

Canon (perpetual)

WOZ-value	700.000	<i>lower of 1-1-2014 and 2015</i>
Ground value	280.000	<i>40% of WOZ value</i>
Leasehold ground value	252.000	<i>90% of ground value</i>
Canon (2017)	6.023	<i>2,39% x LGV</i>
Discount (35%)	-2.108	<i>adoption discount 2019</i>
Canon (2017) after discount	3.915	<i>base for buy off cost</i>
Canon (2019) after discount	4.025	<i>incl. index 2018 and 2019</i>

Buy off (perpetual)

Canon (after discount)	3.915	<i>reference date 1 October 2017</i>
Remaining period (years)	17,25	<i>reference date 1 October 2017</i>
Postponement factor	0,66	<i>based on remaining period</i>
Net present value factor	41,84	<i>perpetuity that would start now</i>
Buy off cost	107.869	<i>canon x postp. factor x NPV factor</i>

APPENDIX 4: SETTING CANON (COMPARISON)

Scenario	Perpetual leasehold		Continued leasehold (CHET in 2034)		
	adoption in 2019	adoption in 2020	price level today	price level CHET	
WOZ value	700.000	1.100.000	1.100.000	1.451.427	
Street quote	40%	48%	48%	48%	
Ground value	280.000	528.000	528.000	696.685	WOZ value x street quote
Leasehold ground value	252.000	475.200	475.200	627.016	90% of ground value
Canon percentage	2,39%	2,39%	1,54%	1,54%	see comments
Canon	6.023	11.357	7.318	9.656	L. ground value x canon rate
Adoption discount	-2.108	-2.839	-	-	(35% / 25% / not applicable)
Canon (after discount)	3.915	8.518	7.318	9.656	

increase of 118%

Adoption in 2019

- WOZ-value 2015
Ref. date 1 January 2014
- Street quote 2017

Adoption in 2020

- WOZ-value 2019
Ref. date 1 January 2018
- Street quote 2020
Not yet known; shown: SQ 2019

Continued leasehold (CHET)

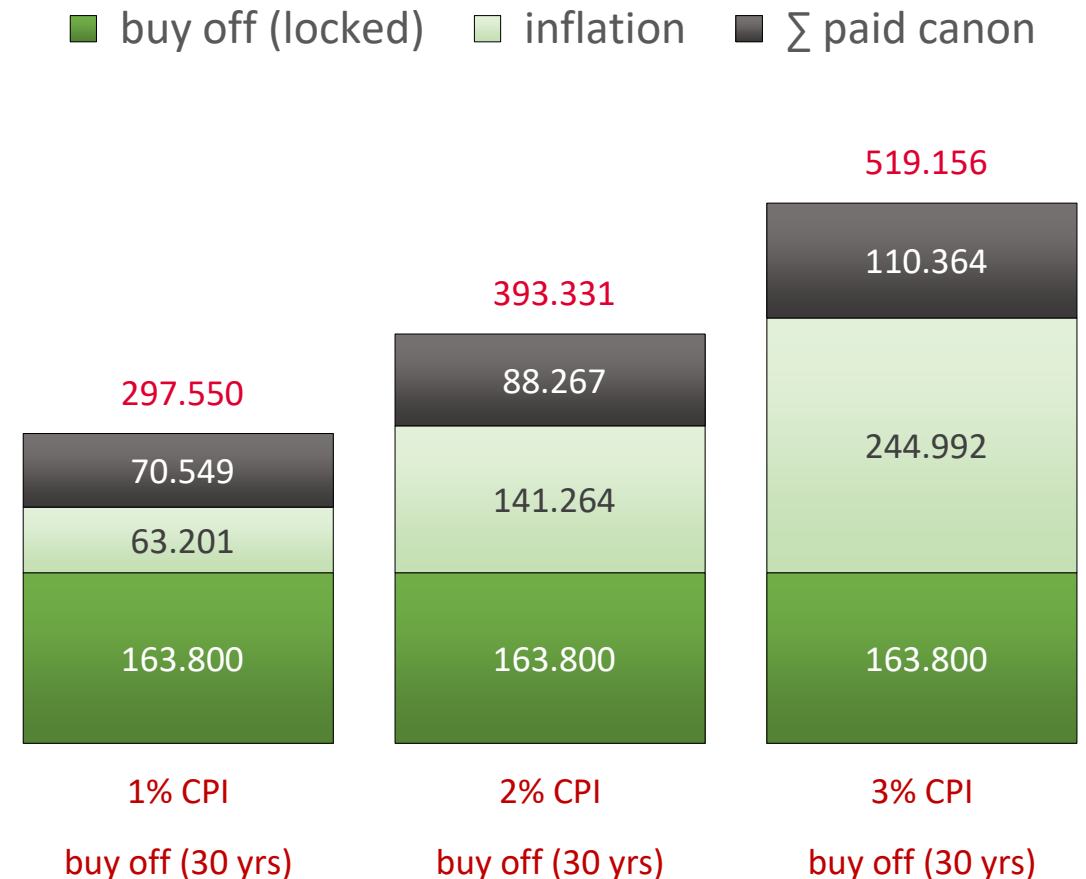
- Canon revision end of timeslot
Shown: policy of City of Amsterdam
- Adjusted canon percentage
1,94%: current policy; index CPI minus 1%
1,54%: effective; purchasing power

APPENDIX 5: RISKS ASSOCIATED WITH LOCKING



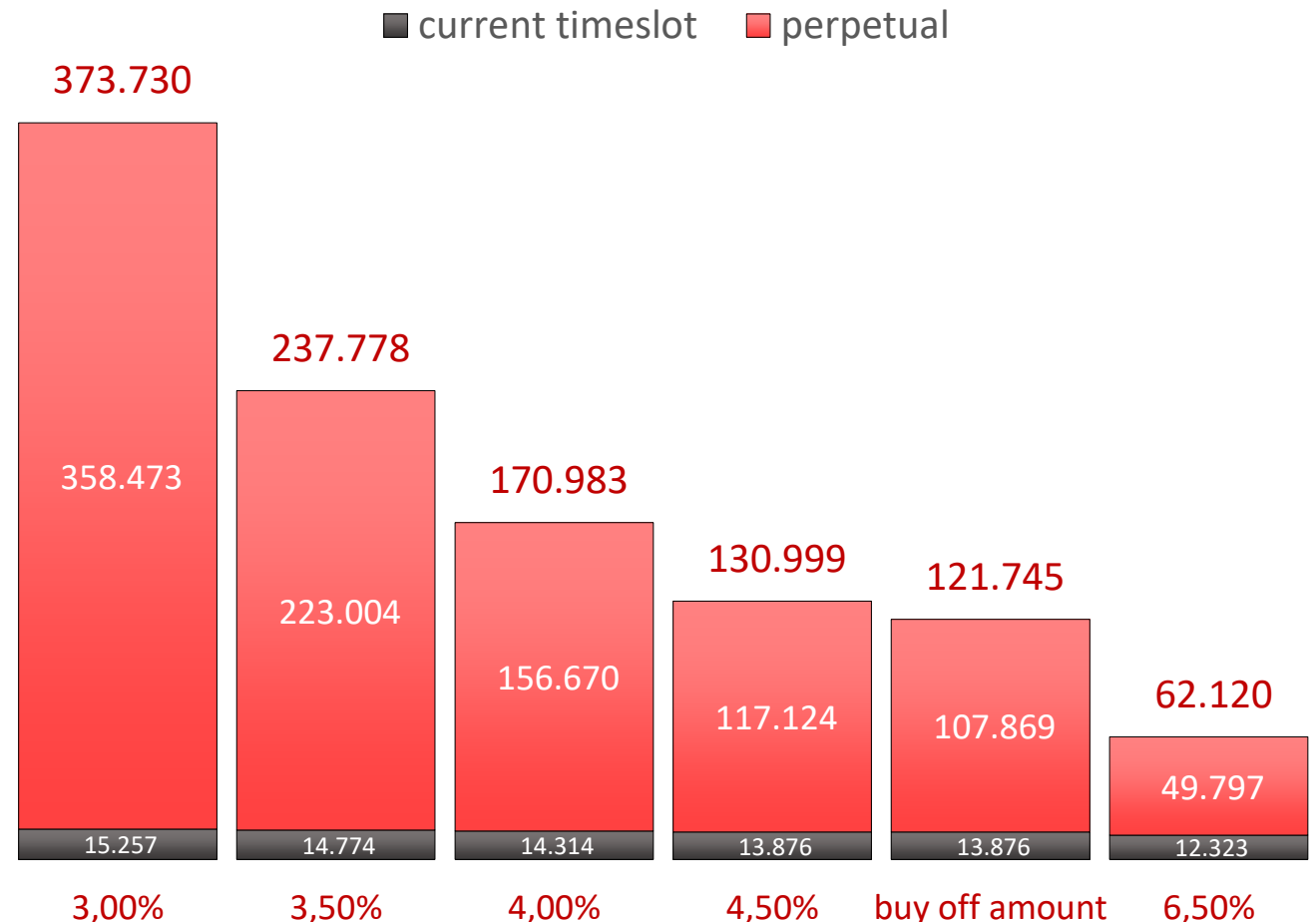
INFLATION RISK

- The word *locking* suggests security
- The 'locked' character relates to the real level of the future canon. This means purchasing power is locked.
- The canon amount is revised annually with Dutch price inflation, as measured over the previous year
- Where (pension) income is not (fully) indexed, it becomes increasingly difficult to continue paying the canon. Locking offers in that case false security.
- In this example, after 30 years there will be a buy off. Buy off amount is based on level of perpetual canon at that moment. As such, CPI is key driver for buy off cost.
- At the right side, we show the cost of a buy off and (if applicable) sum of perpetual canon payments for coming 30 years at an annual CPI of 1%, 2% and 3%



PRESENT VALUE OF CANON PAYMENTS

- Locking future canon creates an infinite payment obligation that is indexed annually with CPI
- The question we address here is:
How much money should be set aside today in order to be able to pay the canon infinitely?
- The level of this amount, depends on assumed investment return to be made in the future
- At a higher future investment return, less money needs to be set aside today
- At present, buy off amount is based on 4,50%. In case of large market interest rate increases, future buy off cost may be based at max 6,50%.
- Any potential tax effects (deductibility canon, wealth tax) are not included in this analysis
- In case option to buy off perpetually is taken out, the market may start valuing the leasehold obligations on a home in this way

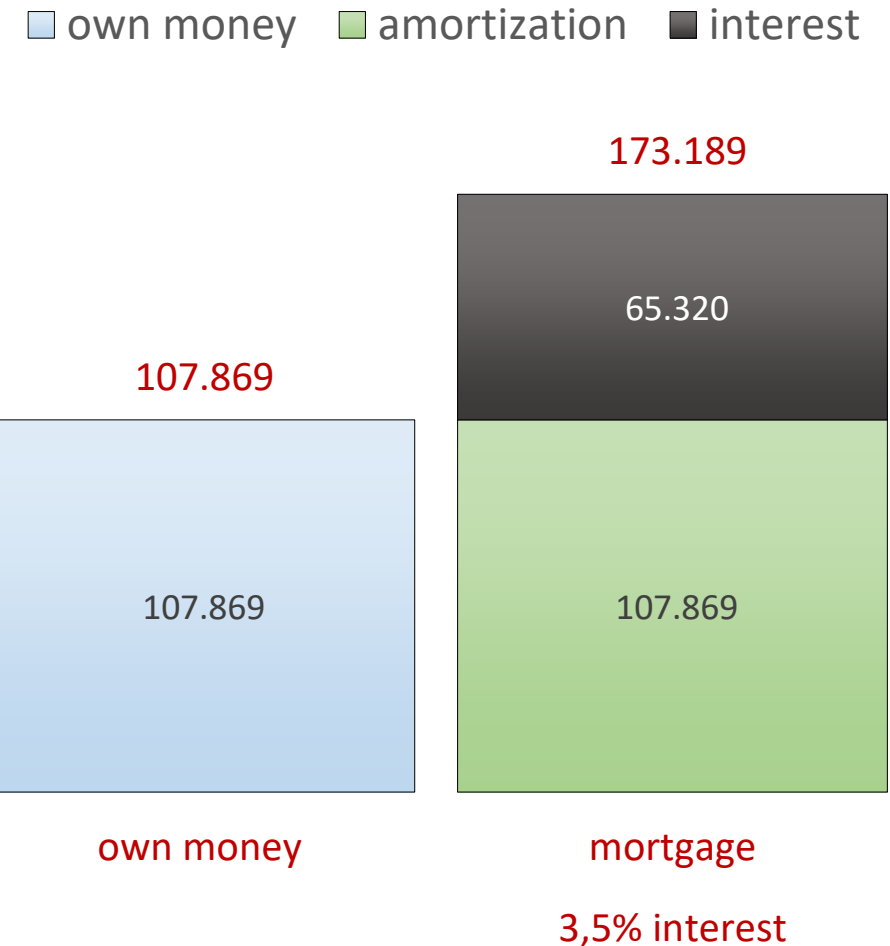


APPENDIX 6: MORTGAGE LOAN



MORTGAGE LOAN (PERPETUAL LEASEHOLD)

- Depending on the cost implications reflected above, you may prefer to buy off the perpetual canon
- Many homeowners will not be able or willing to finance this amount with their own money. Alternative is a mortgage loan.
- At right, we show the cost for an annuity mortgage, with amortization period of 30 years and a mortgage interest rate of 3,50%. Cost components relate to amortizations and interest payments.
- Any potential tax impact and administration cost for taking on the mortgage are not reflected
- All information we provide on mortgages is of general nature and has the sole purpose of making you familiar with this option. By no means, it should be considered as a recommendation to take a mortgage. For a tailored advice on whether a mortgage is a suitable financial product for you, type of mortgage and providers, you should contact a recognized mortgage advisor, who acts under a permit of the AFM (Authority Financial Markets).

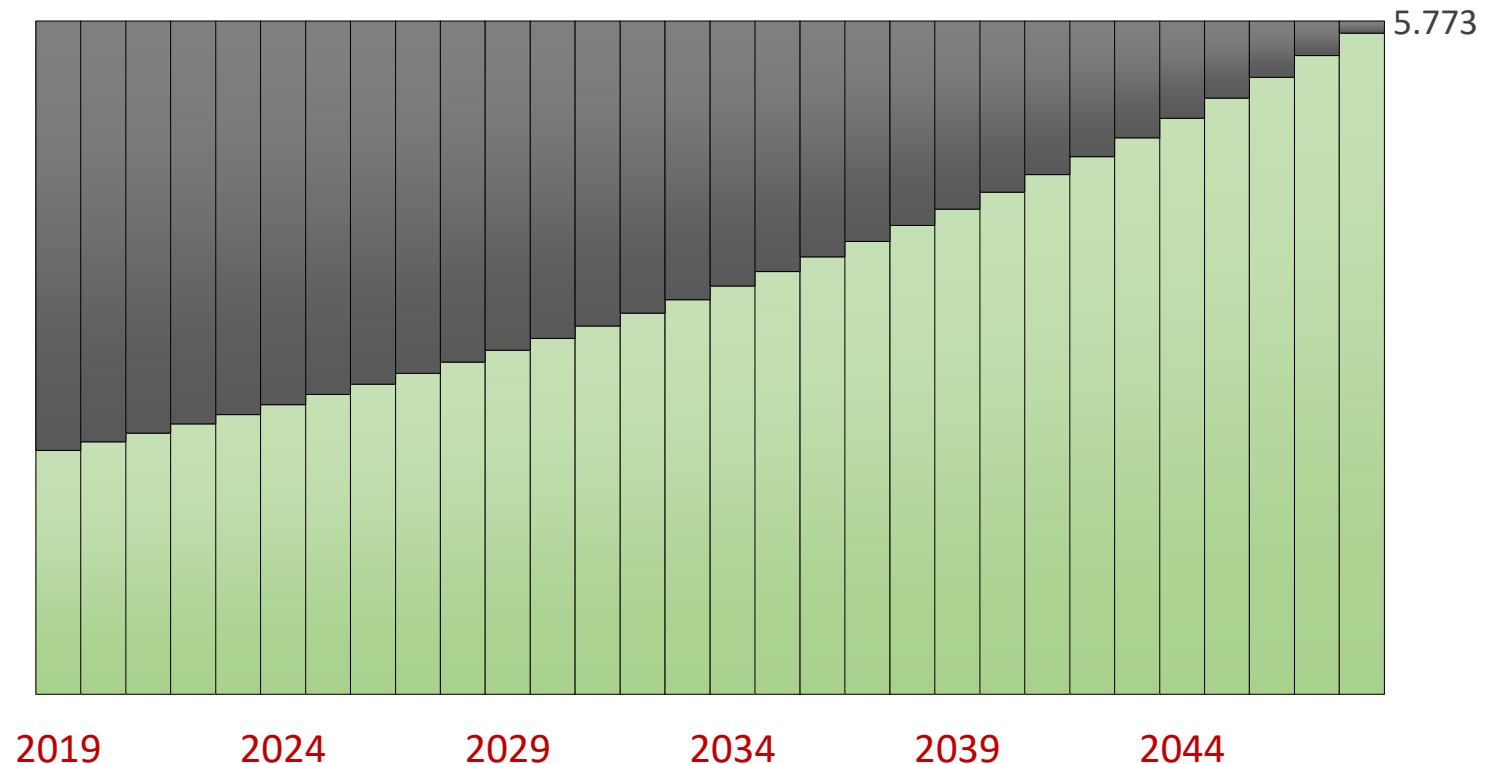


MORTGAGE LOAN (YEAR ON YEAR)



■ amortization ■ interest

- Annuity mortgage that is amortized (repaid) in 30 years
- Total annual payment consists of sum of amortization and interest payments
- Total annual payment remains constant as long as mortgage rate level is not revised
- Indication (right) on base of mortgage interest rate 3,50%



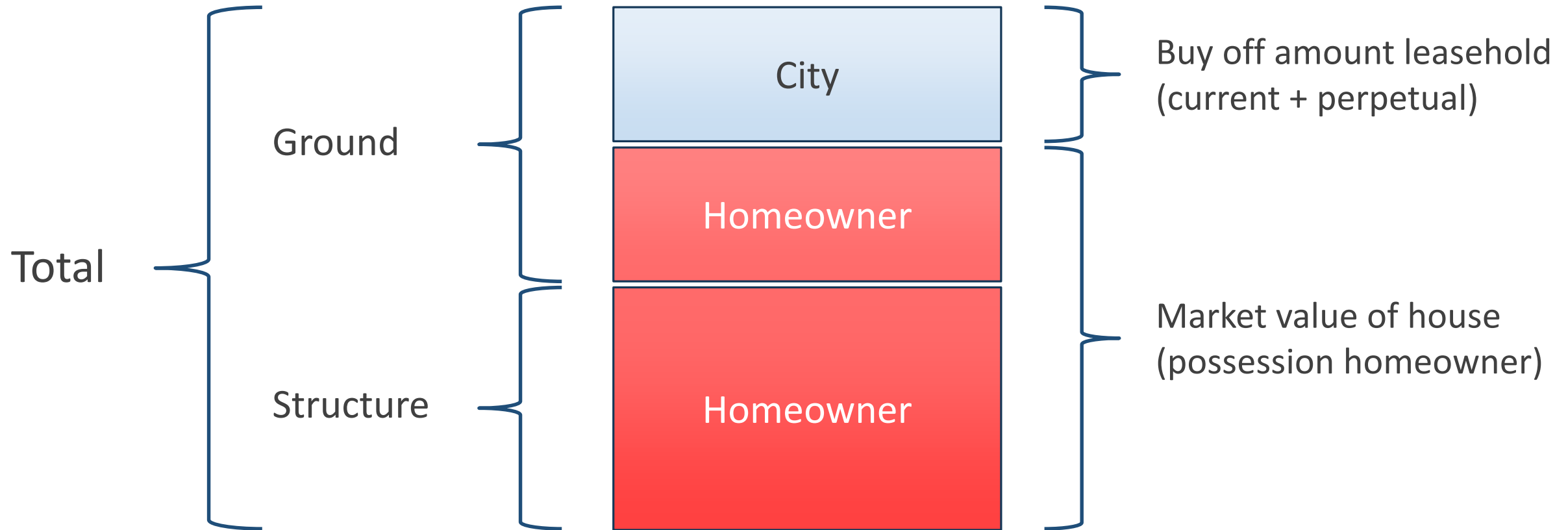
APPENDIX 7: HOUSE VALUE



RELATION WITH HOUSE VALUE

- As a leaseholder, you do not have the full ownership of the total of house and ground
- This is because the ground comes with a (future) obligation to make payments to the City, the eventual owner of the ground
- From the perspective of a merchant, the economical value of the ground (or so you like: the total of house and ground) is split between homeowner and the City
- The share of the City can be valued at the level of the buy off amount(s) of all future canon payments
- Hence, after such a final settlement, the City will no longer receive any further payments. The economical value of the City's claim on the ground (and house) will be zero.
- The homeowner's share of the ground value increases after (perpetual) buy off to (roughly) full ownership
- In a well informed market, the value of your home (ground included) will increase after (perpetual) buy off
- Alternatively, it would be in favor of the market value of your home, when future canon payments are lower. Therefore, locking canon in 2019 would be preferable to locking in 2020.
- We are making *no* claim that (perpetual) leasehold will translate 1-on-1 into an increase in market value. Earlier research demonstrates that buying off a timeslot only partially increases the market value of your house.
- It is difficult to predict how this will be in the future. It is the expectation though, that the market will be valuing leasehold obligations more explicitly than before.
- Perpetual leasehold may be considered as a gamechanger for this matter. Now for the first time, the question can be answered at what cost house can be equal to own ground.
- As a reference, we show the theoretical impact in some conceivable scenarios. The market may respond differently!

RELATION WITH HOUSE VALUE



RELATION WITH HOUSE VALUE

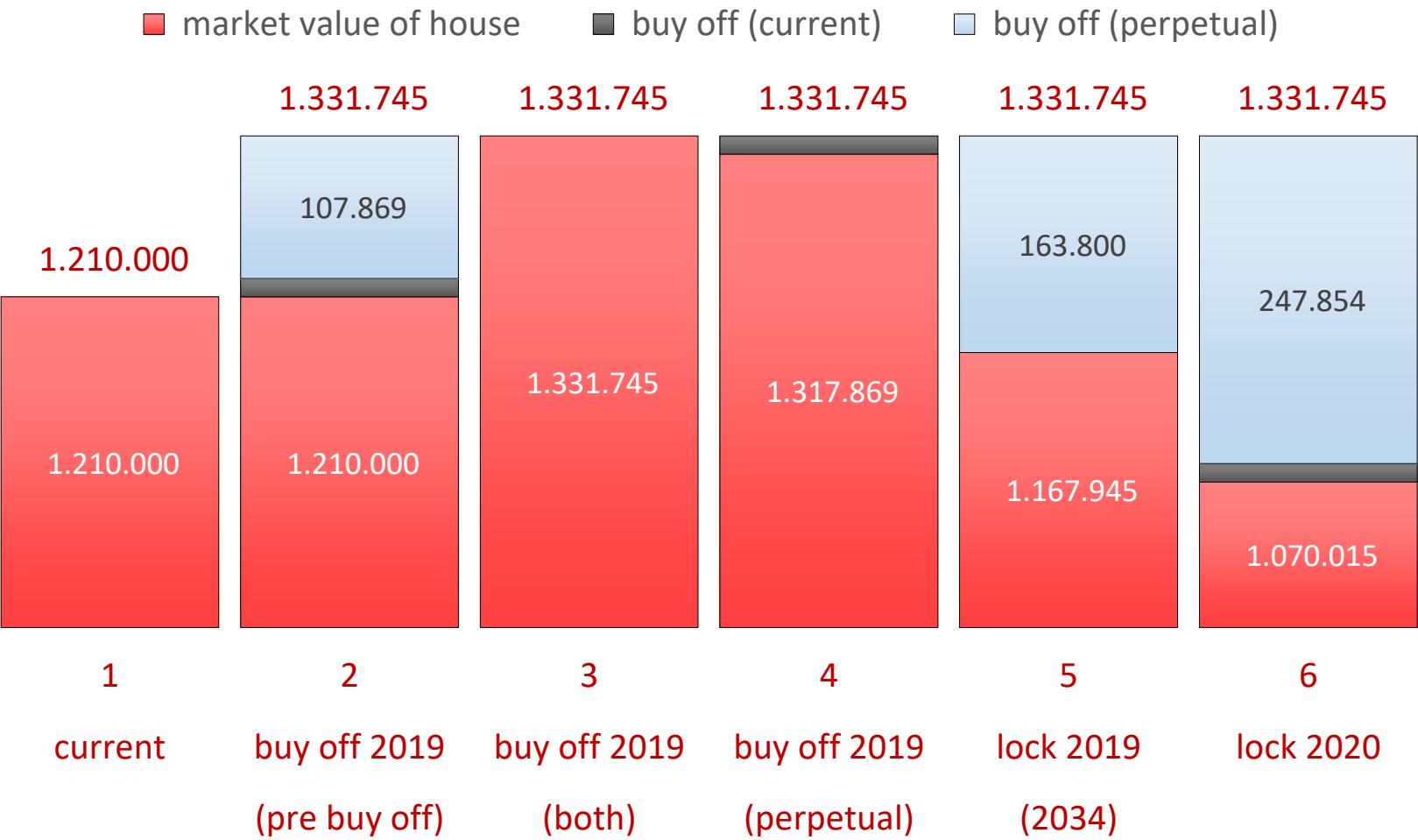
- Homeowners wonder whether buying off is sensible with regard to a sale at a later date
 - Fear is that buying off does not entirely translate into a higher house value
 - In an efficient market, buyers and sellers have complete information and act accordingly
 - Under this assumption, a direct relationship can be identified between the cost of buying off (see section buy off scenarios) and the house value
 - We provide six reference points:
1. Current situation, leasehold applicable
House value is assumed at WOZ 2019 + 10%
 2. The cost of a full buy off in 2019 (current + perpetual) is added to current house value
 3. After a full buy off, house value would be based on an own-ground perspective.
This theoretical value remains applicable on all further scenarios
 4. Buy off in 2019 of only perpetual leasehold
 5. Lock in 2019 without buy off. Fast forward perspective as at end of current timeslot.
Canon current timeslot is not reflected, but has effectively been paid!
 6. Adoption in 2020 with higher buy off cost

RELATION WITH HOUSE VALUE

Shown market value is not based on taxation. Real market value may deviate substantially.

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Leasehold has a downward impact on house value. At right we show the theoretical impact for a range of scenarios.

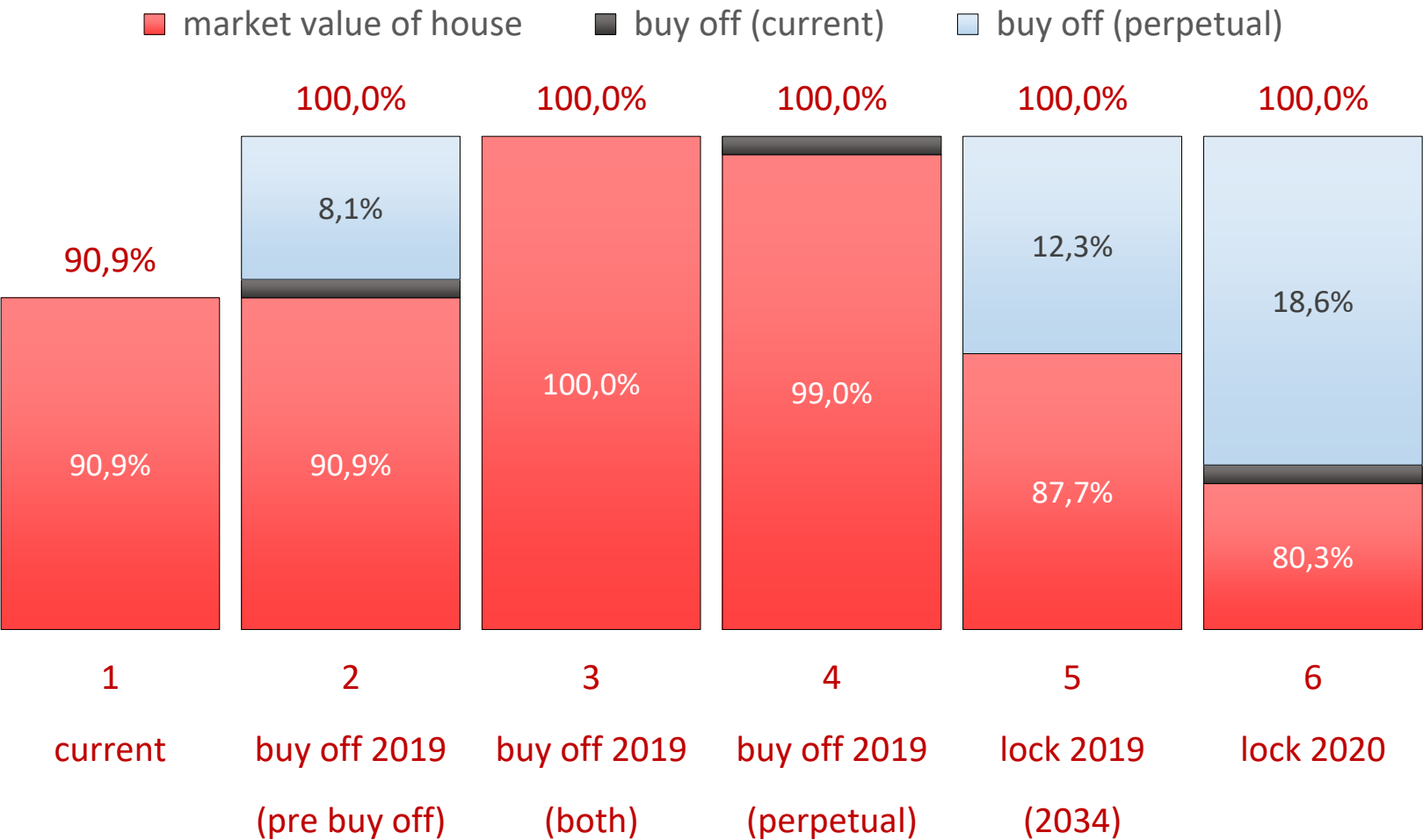


RELATION WITH HOUSE VALUE (%)

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Leasehold has a downward impact on house value. At right we show the theoretical impact for a range of scenarios.



APPENDIX 8: INFORMATION AND RESTRICTIONS



Information

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