JRI Research Journal

Japan Research Institute

https://www.jri.co.jp/en

Vol.6 No.6

July 4, 2023

Housing assistance measures amid rising interest rates and a declining population

— Financial support to encourage the accumulation of assets by prospective homeowners and the utilization of existing housing stock —

Yusuke Shimoda*

shimoda.yusuke@jri.co.jp

<Summary>

- In Japan, a mortgage tax credit and other measures to support homeownership are in place, with assistance mainly targeted at middle- and low-income groups who are relatively young in age. However, there are some challenges: 1) households have become more dependent on debt amid historically low interest rates, and 2) the housing stock (i.e., the number of existing homes) already exceeds the number of households due to preferential treatment for new construction in support programs.

- On the other hand, the housing market and the homeownership environment for households are on the verge of turning a corner, as the following changes in the financial, economic, and social structures are currently taking place:
  - With the Bank of Japan looking to revise its large-scale monetary easing policy, interest rates may rise, increasing the burden of mortgage repayment. While a modest increase in interest rates would have limited impact on households, there is concern that the burden would be greater on middle- and low-income groups, the core of the homebuying population, as they have less disposable income to cover the higher repayments.
  - As the population continues to decline, the number of households is expected to peak in 2023. The gap between the housing stock and the number of households is likely to widen further. Issues such as the increase in the number of vacant houses could become serious social problems.

- Given the above, the government needs to redirect the financial support measures it offers households to help them purchase homes as follows:

* Senior Economist, Financial Research Center Economics Department, JRI

1) Pivot from debt repayment burden reduction to asset accumulation

Interest rates have long been close to zero, but interest is likely to become a reality again soon, so homeownership support measures should encourage households to accumulate assets, so that, for example, they can make down payments at the time of purchase, thereby reducing their dependence on debt.

2) Shift from preferential treatment of new construction to utilization of used homes

Steps should also be taken to promote the use of existing homes, the deal number of which is much less than new homes, as high-quality properties worth living in, and homeownership support measures for households should be designed to ensure that equal assistance is provided for the purchase of both new and used homes.

◆ Looking overseas, the Lifetime ISA scheme in the U.K. has many aspects that can serve as reference points for designing housing support measures for Japan that would encourage households to build up their assets and promote the use of existing homes.

● **This is a English version of "金利上昇と人口減を踏まえた住宅支援策とは — 住宅取得希望者へ資産形成とストック活用を促す金融サポートを —" in JRI Research Focus (The original version is available at https://www.jri.co.jp/MediaLibrary/file/report/researchfocus/pdf/14061.pdf)**

1. Introduction

Housing is the foundation for people's economic and social activities, and support measures to facilitate the acquisition of quality housing are of vital importance. Nevertheless, changes in the financial and economic environment and social structure are building pressure for change in the way housing policy is implemented, as Japan is beginning to see a shift away from its long-standing loose monetary policy and entering a phase of rapid population decline. And for households, the impact of policy on housing acquisition-related expenditures grabs their attention because of the large sums of money involved.

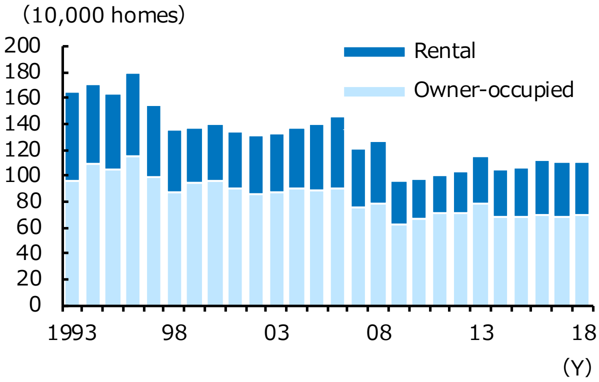
This paper therefore summarizes the current state of the housing market, analyzes the impact of emerging environmental and structural changes on the housing market and homeownership, and examines the direction in which government housing support measures must take in the future as means of providing financial assistance to households.

2. Current state of the housing market

(1) Supply and Demand

First, let us look at the current state of the housing market from the supply side. The number of housing units (new and used) sold each year in Japan, which was around 1.4 million in the 2000s, slumped during the financial crisis triggered by the failure of Lehman Brothers, and has since remained flat at a little over 1.1 million recently (Figure 1). Breaking this down, the figure for owner-occupied homes sold is about 700,000 units, while that for rental homes is about 400,000 units, so owner-occupied homes account for more than half of the total number of homes sold.

Figure 1. No. of Homes Sold

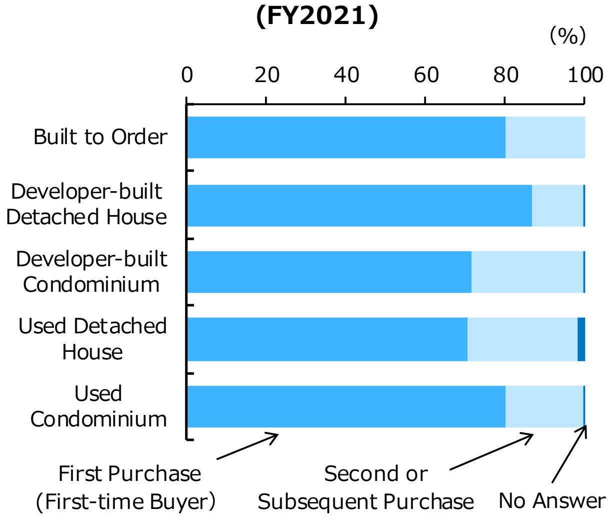


Source: Prepared by JRI based on Ministry of Internal Affairs and Communications, Housing and Land Survey and Ministry of Land, Infrastructure, Transport and Tourism, Housing Starts Statistics, Invigoration of Used Housing Market (https://www5.cao.go.jp/keizai-shimon/kaigi/special/reform/wg6/20200507/pdf/shiryou3.pdf, accessed February 16, 2023
Note: Figures for owner-occupied are new construction + used. Figures for rental are new construction (rental, salary). Figures for used for 1998, 2003, 2008, 2013, and 2018 are annualized data for January-September.

In addition, property prices have been rising recently, especially in urban areas. The national average price for new condominiums in 2022, as compiled by the Real Estate Economic Institute, was 51.21 million yen, a record high for the sixth consecutive year, and for new detached houses, the price in the Tokyo metropolitan area was 45.23 million yen, the highest price for two straight years since the survey began, according to Tokyo Kantei. The same upward trend can be seen not only in new builds, but also in the prices of used properties.

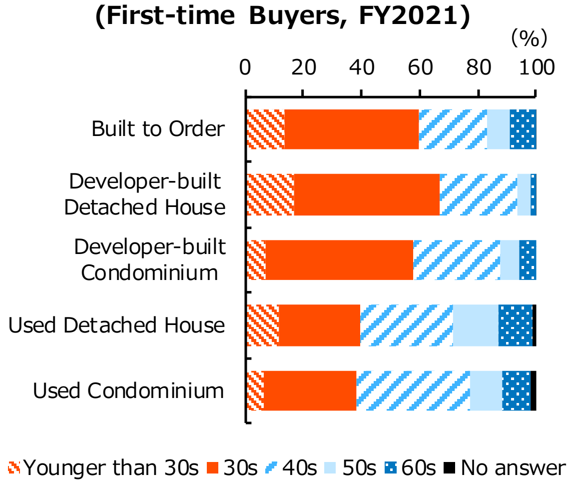
Next, let us turn our attention to the demand side and look at the characteristics of the buyers actually purchasing housing under these circumstances. According to the Ministry of Land, Infrastructure, Transport and Tourism's survey of housing market trends, 70-80% of homebuyers are purchasing for the first time (first-time buyers), so the market is still dominated by customers *making the biggest purchase of their lives* (Figure 2). Looking at the breakdown of first-time buyers, around 60% of buyers of newly-constructed homes and 40% of used-home buyers are in their 30s or younger, which shows that many property purchasers are from the younger generation (Figure 3). As for annual household income of first-time homebuyers of the same generation, households with incomes between six and eight million yen make up the volume zone for newly-built homes, though households with relatively low incomes of less than six million yen account for a similar share (Figure 4). In addition, the volume zone for used homes is households with annual incomes of less than 6 million yen. In recent years, as the number of double-income households has increased, the purchase of homes by so-called "power couples [1]" has attracted attention. For example, among first-time buyers, the share of buyers that are households with annual incomes of 10 million yen or more is 17.8% for developer-built, 10.8% for built-to-order, and 15.0% for used homes. These shares are smaller than for households with annual incomes of less than six million yen, so the presence of these power-couple households in the overall buying population can be said to be limited.

Figure 2. Types of Home Acquisition (FY2021)



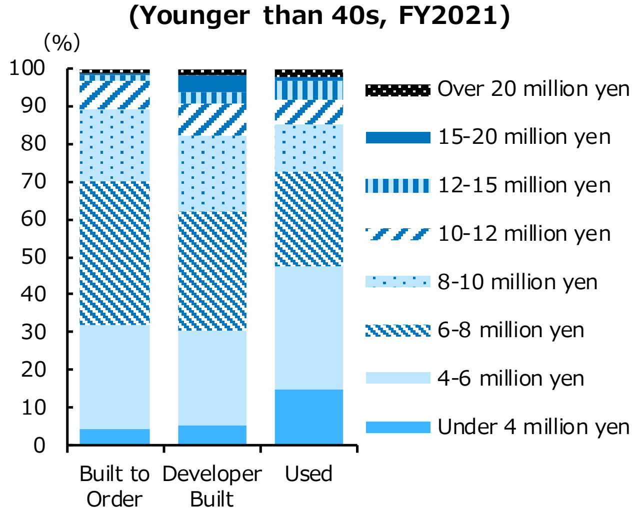
Source: Ministry of Land, Infrastructure, Transport and Tourism, Survey of Housing Market Trends

Figure 3. Age of Head of Household Purchasing Home (First-time Buyers, FY2021)



Source: Ministry of Land, Infrastructure, Transport and Tourism, Survey of Housing Market Trends

Figure 4. Annual Household Income of First-time Homebuyers (Younger than 40s, FY2021)



Source: Ministry of Land, Infrastructure, Transport and Tourism, Survey of Housing Market Trends

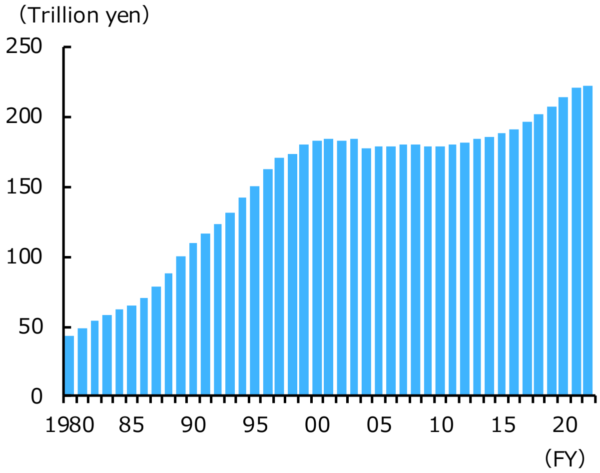
[1] Households in which both spouses have high incomes. There is no clear definition, and the term is used to refer to various situations, such as each spouse having an annual income of seven million yen or more, or the household having an annual income of 10 million yen or more, with one spouse's annual income being six million or more and the other's being four million yen or more.

(2) Factors driving home acquisition

Why then is it that even as housing prices continue to rise, homes are being purchased mainly by relatively young middle- and low-income earners in their 30s or younger? Two background factors can be pointed out.

The first is historically low mortgage interest rates. For example, rates for Flat 35, Japan's leading fixed-rate mortgage, continued to decline until 2016, when the Bank of Japan (BoJ) embarked on its negative interest rate policy, and have remained more or less the same for an extended period since then. In addition, variable interest rates (after incentives) are in the 0.3-0.4% range, even lower than fixed rates. These historically low mortgage rates have made it possible to keep debt service burdens low[2].

Figure 5. Housing Loan Balance



Source: Bank of Japan, Flow of Funds Statistics
Note: The figure for FY2022 is for the July-September, the most recent quarter.

The second is the government's measures to promote homeownership, which are centered on the mortgage tax credit. The ability to enjoy a reduced burden thanks to tax breaks even as property prices rise is thought to have created incentives to take full advantage of mortgages and purchase homes.

As a result of these factors, home acquisition by households has caused their debt to balloon. In fact, household mortgage loan balances have expanded against the backdrop of falling and subsequently low interest rates since the 2010s and subsequent, and currently amount to over 200 trillion yen[3] (Figure 5). In addition, a higher percentage of households than in the past are taking out the biggest loan they can without making a down payment, in order to take full advantage of the low interest rates and tax breaks[4].

(3) Housing market as seen from the perspective of housing stock

Finally, looking at the housing stock situation, we find that the number of housing units in Japan has increased continuously from about 18 million in 1958 to around 62 million now (Figure 6). This is due to the fact that initially, the acquisition of owner-occupied dwellings was encouraged to alleviate the postwar housing shortage and to cope with population growth, and the government also helped households through policy support, a trend that has continued to the present day.

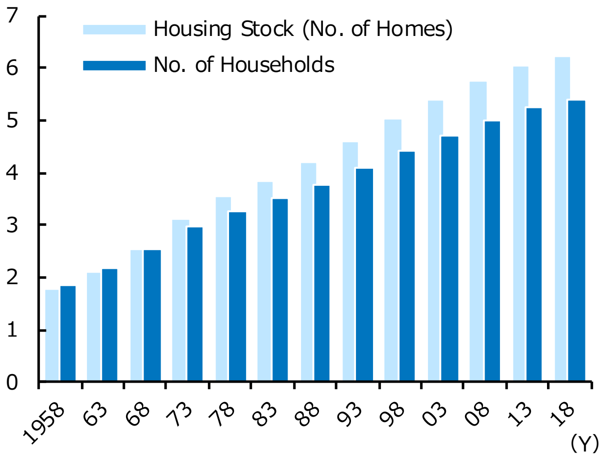
Looking at Figure 6, which presents data on the housing stock and number of households, respectively, it can be seen that the housing stock remained at roughly the same level as the number of households until the 1960s,

[2] According to a survey by the Japan Housing Finance Agency (JHF), the proportion of mortgage borrowers choosing variable interest rates has been increasing since the late 2010s and has recently reached about 70% of borrowing households.
[3] As for the ratio of outstanding mortgage loans to total household debt, the most recent figure, for the July-September quarter of 2022, was 61.9%. Though still low compared to Western countries, this is the highest level ever recorded.
[4] From Recruit's 2022 Capital Region New Apartment Contract Trends Survey and 2021 Capital Region New Detached House Contract Trends Survey.

but since the 1970s, the housing stock has been growing faster than the number of households. In 2018, the housing stock was 15.6% greater than the approximately 54 million households, so in terms of quantity, there is plenty of housing[5].

One of the reasons the housing stock has come to exceed the number of households is the powerful incentives for new construction that current homeownership support measures provide. The core support measure is the mortgage tax credit, and though eligibility has been expanded to used homes, the incentives for new construction are still greater, as the maximum loan is larger and the deductions are available for a longer period[6]. In addition, the mortgage tax credit has become more of an economic stimulus measure, and support for the construction and acquisition of new housing, which is more likely to boost GDP, seems to have become central to the policy.

Figure 6. Housing Stock and No. of Households



Source: Ministry of Land, Infrastructure, Transport and Tourism, Housing and Land Survey

3. Japan's housing market and homeownership environment are turning a corner

Against this backdrop, the housing market and the homeownership environment for households can be said to be turning a corner, as changes in the financial, economic, and social structures are taking place. Below is a list of the specific changes and a discussion of how they will affect the market.

(1) Increased mortgage repayment burden due to rising interest rates

① Pressure from rising interest rates is intensifying

One financial impact is an increase in the burden of mortgage repayment due to higher interest rates. Against the backdrop of a series of interest rate hikes by the central banks in the West and other jurisdictions due to global inflation, the BoJ decided at its Monetary Policy Meeting last December to increase the allowable range of long-term interest rate fluctuations from about ±0.25% to about ±0.50%. And even going into this year, upward pressure on interest rates remains strong, with the yield on new 10-year JGBs, the benchmark for long-term interest rates, temporarily exceeding 0.50%.

These developments have caused some mortgage rates to rise. Looking at fixed rates, the mode for Flat 35 rates rose 0.2 percentage points in February from the previous month to the highest level since 2013 (Figure 7).

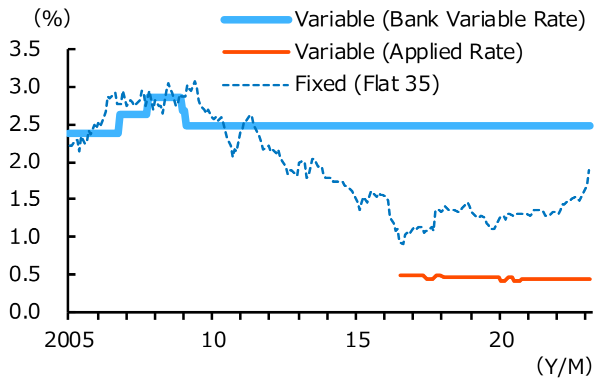
[5] Incidentally, the bulk of the difference between the two figures is vacant houses (8.49 million units). Of these, 4.33 million units, or nearly half, are vacant houses that currently have no renters, while some of the other 3.49 million units is the kind that has drawn attention as the emblematic of so-called vacant house problem, namely houses that have had no occupants for a long time.

[6] The maximum amount that can be borrowed when the mortgage tax credit is applied for occupancy in 2023 is 30 to 50 million yen for the purchase of new builds and 20 to 30 million yen for used homes. Furthermore, the period during which the deduction can be claimed is 13 years for new builds and 10 years for used.

However, many financial institutions have left variable interest rates unchanged. The difference between the two is that fixed rates are linked to long-term interest rates, while variable rates are based on OTC rates (base rates) linked to the short-term prime rate, which is influenced by the BoJ's monetary policy. The BoJ's modification of its loose monetary policy at the end of last year expanded the range of permissible fluctuations in long-term interest rates, but left the policy rate, which applies negative interest rates, unchanged.

Incoming BoJ Governor Kazuo Ueda, who is set to take office in April, has praised the BoJ's policy up to now, which involves large-scale monetary easing, but has stated that yield curve control "has undeniably caused various side effects[7]." Therefore, after assuming his post, he may reconsider yield curve control in light of the outcome of the *shunto* spring wage negotiations and the deterioration of market function due to current monetary policy. On the other hand, if the inflationary pressures that have recently emerged and corporate wage hikes become sustainable, the BoJ may make bigger changes to its monetary policy and alter course toward a full-scale overhaul of its large-scale monetary easing, which could include the scrapping of negative interest rates. In light of the above, mortgage rates, including variable rates, which are currently unchanged, are likely to remain subject to increasing upward pressure.

Figure 7. Mortgage Interest Rates



Source: Prepared by JRI based on data from the Bank of Japan, Japan Housing Finance Agency, Diamond Real Estate Research Institute, "What are the trends with mortgage rates (132 banks, 1,000 products)? Typical rates by interest rate type and explanation of how to choose a mortgage" [March 2023 latest version] (https://diamond-fudosan.jp/articles/-/127188, accessed March 14, 2023)
Note: Variable rates are based on SBI Sumishin Net Bank's full-period discounted plan, and figures from when data was available are shown. Fixed rates are the minimum rates for Flat 35 with a borrowing period of 21-35 years.

② Impact of increased mortgage repayment burden on households

If interest rates were to rise substantially, by how much would the burden of homeownership on households increase? Here I have estimated changes in loan repayment burden by income class, given that the size of mortgages and repayments varies greatly depending on the household's income status.

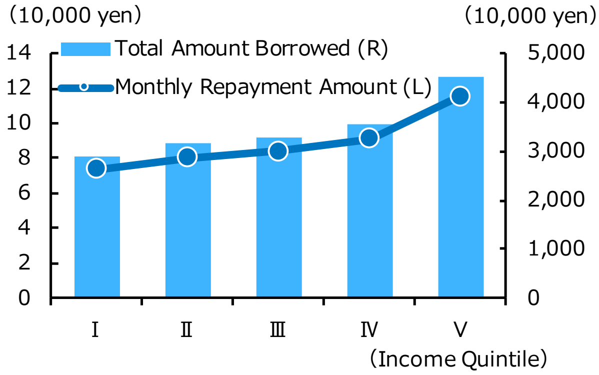
The Ministry of Internal Affairs and Communications' Family Income and Expenditure Survey includes an income/expenditure category called "Repayment of loans for house & land purchases." Based on the average monthly expenditure under this category, I estimated how much households in each income class had borrowed at the time of home purchase. For households with two or more workers, the figure for the lowest income class I was about 28.8 million yen, and it gradually increased to about 31.5 to 35.6 million yen for classes II-IV, and about 45 million yen for the highest class V (Figure 8).

Based on these estimates, I then considered the impact of rising mortgage interest rates. First, I estimated the impact of the increase in long-term interest rates that has already occurred, i.e., the increase in fixed mortgage

7 This statement was made at a hearing in the House of Representatives on February 24, 2023 (*Nihon Keizai Shimbun*, February 25, 2023 morning edition).

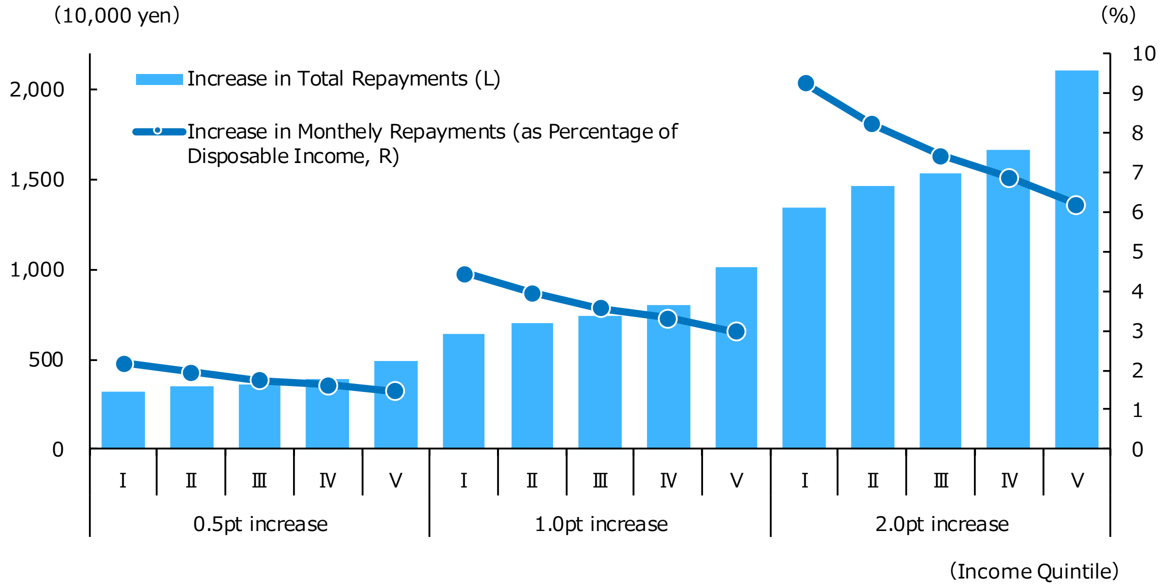
rates. Specifically, I calculated the increase in the burden on households if the borrowing rate for Flat 35, a fixed-rate mortgage, were to rise by 0.5 percentage points, 1.0 percentage point, and 2.0 percentage points above the current level, based on the assumption that households would borrow the same amount as the housing loan amount by income class in Figure 8 to purchase a new home. As a result, I found, for example, that a 0.5 percentage point increase in interest rates would increase the total repayment amount by 3.16 million yen for income class I and 4.95 million yen for income class V, so households in the higher income classes, who are able to take out larger loans, would be repaying more (Figure 9). In terms of monthly repayments as a percentage of disposable income, if interest rates rise by 0.5 percentage points, the increase in repayments will be limited to the mid-1% to low-2% of disposable income range, while if interest rates rise by 1.0 percentage point or 2.0 percentage points, repayments will be in the mid-3-4% range or over 6-9%, respectively. So repayments will squeeze disposable income substantially.

Figure 8. Housing Loan Repayment Amount and Total Amount Borrowed by Income Class (Estimates)



Source: Prepared by JRI based on Ministry of Internal Affairs and Communications, Family Income and Expenditure Survey
Note: Households with two or more workers. Repayment amount is assumed to comprise repayment of principal and interest on a mortgage with a repayment period of 35 years and a variable interest rate (0.4%), which is the type of loan that 70% of households with mortgages have taken out.

Figure 9. Increase in Burden on New Home Purchase due to Rising Fixed Mortgage Rates (Estimates)



Source: Prepared by JRI based on Ministry of Internal Affairs and Communications, Family Income and Expenditure Survey
Note: Households with two or more workers.

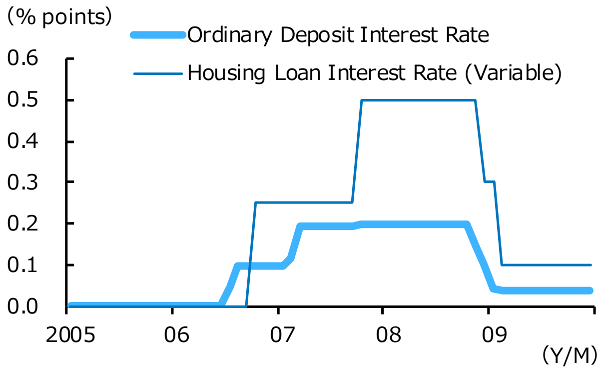
What is noteworthy here is the differences in the level of impact by income class. For example, if the interest rate rise is 0.5 percentage points, the increase in monthly repayment as a percentage of disposable income will be as high as 2.2% for the lowest income class I, but lower for the upper classes (higher income earners), and stand at just 1.4% for the highest class V. In other words, households with lower incomes will have less disposable income to cover the increased repayments, which will intensify the repayment burden for them. And, as discussed in section 2, since the majority of households that purchase homes are in the middle- and low-income brackets, from the point of view of the impact on each household, there is a danger that the number of households saddled with a greater repayment burden due to higher interest rates will increase.

If there is a phase of substantial rises in interest rates, with the BoJ hiking its policy rate and causing variable mortgage rates to rise, as in Figure 9, the lower income classes will tend to be more severely affected by the higher repayment burden resulting from rising interest rates.

③ Expected impact on interest income and wage increase during a phase of rising interest rates

However, during a phase of substantial interest rate rises, income from a number of sources can be expected to increase, easing the increased repayment burden caused by higher mortgage rates. One example would be higher interest income from deposit accounts and the like. However, in a phase of rising interest rates, the pace of increase in mortgage rates is usually greater than that of deposit rates, so the net interest burden rises. In fact, such a trend was observed during the previous phase of rising interest rates (2006-2008) (Figure 10), and a calculation based on household surveys and other data that uses a person who purchased a condominium in the Tokyo metropolitan area in 2008 as an example reveals that while their annual repayment amount increased by 42,000 yen as mortgage rates rose, the rise in their interest income from savings accounts increased was just 1,000 yen per year, resulting in a net annual increase in interest payments of 41,000 yen.

Figure 10. Changes in Deposit Interest Rates and Housing Loan Interest Rates during Previous Phase of Rising Interest Rates (Compared to January 2005)



Source: Prepared by JRI based on Bank of Japan, Financial and Economic Statistics Monthly and other data

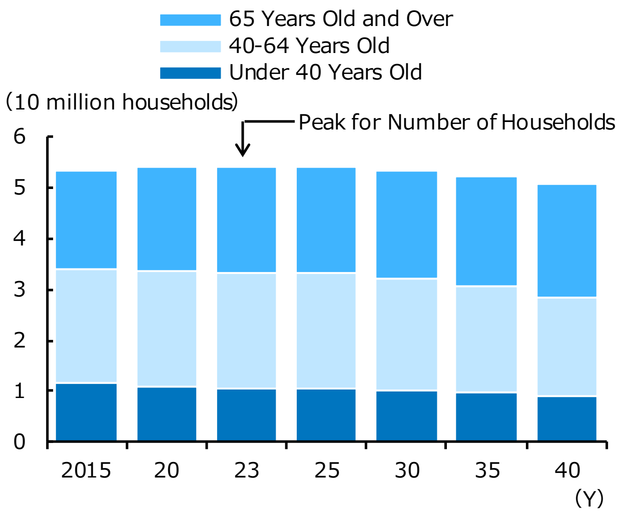
In addition, any decision by the BoJ to raise policy rates is expected to be premised on higher wages, which means that higher labor income should ease the burden of mortgage repayments. However, since a phase of rising wages is also a phase of rising prices, the increase in labor income will be allocated to spending on other goods and services, so the mortgage repayment burden reduction effect will probably be limited.

(2) Declining necessity of new home incentives due to decreasing households

Demographic changes also indicate that it is time for a housing policy rethink. As mentioned in section 2, Japan's housing stock now exceeds the number of households, so in quantitative terms, there is already ample housing. And amid these circumstances, the number of households itself is about to enter a phase of decline.

According to the National Institute of Population and Social Security Research's Household Projection for Japan, the number of households in Japan is still rising slightly due to an increase in the number of households headed by elderly persons aged 65 and over, keeping the total number at approximately 54 million households (Figure 11), although the number of households headed by someone under 40, the main age group for home acquisition, is already decreasing. However, the overall number of households is expected to peak in 2023 and then begin to decline. And from the 2030s onward, the number of households headed by people aged 40-64 is also projected to fall, accelerating the pace of overall decline.

Figure 11: Household Projection for Japan (2018 estimates)



Source: National Institute of Population and Social Security Research, Household Projection for Japan

As the number of households begins to drop substantially, it is highly probable that the housing stock and the number of households will further diverge. Roughly speaking, if we assume that the housing stock continues to grow at the pace of recent years and the number of households changes in accordance with the aforementioned future projection, in 2023 the number of surplus homes, i.e., the housing stock less the number of households, is approximately 17 million (31.3% divergence). This surplus has risen by around 8.6 million homes (+15.7 percentage points) compared to five years ago. Given this situation, it can be concluded that the need for Japan to incentivize new construction in its homeownership support measures will fade rapidly in the future.

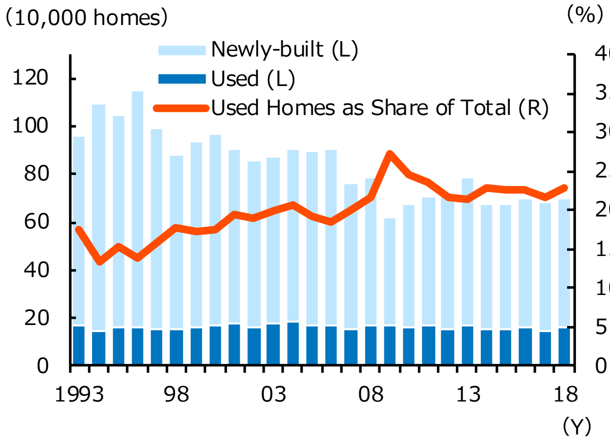
4. Direction required for homeownership support

In light of the financial changes discussed in the previous section and the impact of demographic changes such as the decline in the number of households, the government needs to alter its financial support measures for households wishing to acquire a home. Specifically, it should move in the two directions described below:

First, it should pivot its approach to support from *debt repayment burden reduction* to *asset accumulation*. A substantial rise in interest rates resulting from a departure from the long-standing loose monetary policy will increase the repayment burdens of households, and could cause housing demand to slump to some degree, but policy changes always have consequences, and this does not mean they should be rejected out of hand. The problem is that households have become more dependent on debt when purchasing homes due to the prolonged period of loose monetary policy and the current system of mortgage tax breaks. And, as pointed out in section 2, home purchases in Japan tend to be made by relatively young middle- and low-income earners in their 30s or younger, and attention needs to be paid to the fact that the negative impact of interest rate hikes is greater for households in this group. With interest likely to become a reality again soon, the main focus of policy support should be ensuring that households systematically prepare money for home purchase through long-term investment, and that it is not easy for them to increase their dependence on debt.

Second, it should broaden its support from *preferential treatment for new construction* to also encompass *utilization of used homes*. With the housing stock already sufficient in quantitative terms, the number of households will soon enter a phase of decline, and the need for policies that incentivize the acquisition of new housing will diminish in the future. If preferential treatment for the purchase of new homes continues, the housing stock will increase to a level far higher than the number of households, and large numbers of vacant houses could emerge as a social problem. To forestall such a situation, the government should improve the quality of used homes that are well worth living in even if they are old, facilitate and optimize real-estate agency services for such properties, and improve financial support to households to ensure that equal assistance is provided for the purchase of both new and existing homes. Of all the homes sold in Japan, used ones account for only a tiny proportion. In the case of owner-occupied homes, the number of newly-built ones sold each year is slightly over 500,000, while the number of used ones sold is only around 150,000 (Figure 12). It will be necessary to create an environment in which *living in a quality used home* becomes a common option when choosing a home.

Figure 12. Newly-built and Used Owner-occupied Homes Sold



Sources: Ministry of Internal Affairs and Communications, Housing and Land Survey and Ministry of Land, Infrastructure, Transport and Tourism, Invigoration of Used Housing Market (https://www5.cao.go.jp/keizai-shimon/kaigi/special/reform/wg6/20200507/pdf/shiryou3.pdf, accessed February 16, 2023
Note: Figures for newly-built homes are from new housing start statistics (owner-occupied). Figures for used are the numbers of used homes sold, and figures for 2003, 2008, 2013, and 2018 are annualized data for January-September.

5. Future housing support measures - learning from the U.K.'s Lifetime ISA scheme

(1) U.K.'s Lifetime ISA - Asset-accumulation scheme for home purchase

Turning our attention to homeownership assistance programs overseas, the U.K. offers the Lifetime ISA as one of its ISA schemes. Lifetime ISAs were introduced in 2017 to help the next generation build up assets over the long term for homeownership and retirement.

Looking at the specifics (Figure 13), we see that an account can be opened between the ages of 18 and 40, so the scheme targets young to middle-aged people, and contributions can be made from the time the account is opened until age 50. The maximum amount that can be contributed per year (tax-free investment limit) to be saved/invested is 4,000 pounds (642,000 yen[8]). Although small compared to the amount that can be contributed annually to a typical ISA (20,000 pounds, or 3,209,000 yen), the Lifetime ISA differs significantly from the typical ISA in the U.K. and the NISA in Japan in that it provides an incentive in the form of a tax-free matching contribution from the government worth 25% of the enrollee's annual contribution. In other words, if you contribute the maximum amount of 4,000 pounds, you will receive a matching contribution of 1,000 pounds (160,000 yen) from the government. A total of 160,000 pounds (25.67 million yen) comprising 128,000 pounds in contributions plus 32,000 pounds from the government's matching contribution can be invested tax-free during the investable period, which lasts until the enrollee turns 50. However, there are restrictions on withdrawals not found in traditional ISAs and NISAs. The tax exemption applies only to withdrawals made at the time of first home purchase regarding home ownership support, and to withdrawals made after reaching 60 years of age in terms of retirement planning. Furthermore, withdrawals made for other purposes before age 60 are subject to penalties such as repayment of the government's matching contribution.

Figure 13. Overview of U.K.'s Lifetime ISA

Eligibility	18-40 years old
Investment Vehicles Available	Shares, Mutual Funds, Deposits, Insurance, etc.
Annual Tax-free Investment Limit	4,000 pounds (approx. 642,000 yen)
Lifetime Tax-free Investment Limit	160,000 Pounds (approx. 25.67 million yen) (investment amount of 128,000 pounds + matching contribution of 32,000 pounds)
Period during which contributions can be made	18-50 years old
Withdrawal Restrictions	Withdrawal possible at time of first home purchase or after reaching 60 years of age
Other Features	The government makes matching contributions worth 25% of the amount contributed Assets cannot be sold outside the withdrawal periods

Source: Prepared by JRI based on various data
Note: Japanese yen amounts for the tax-free investment limits etc. are based on the exchange rate as of March 16, 2023.

(2) Designing Japanese Lifetime ISA

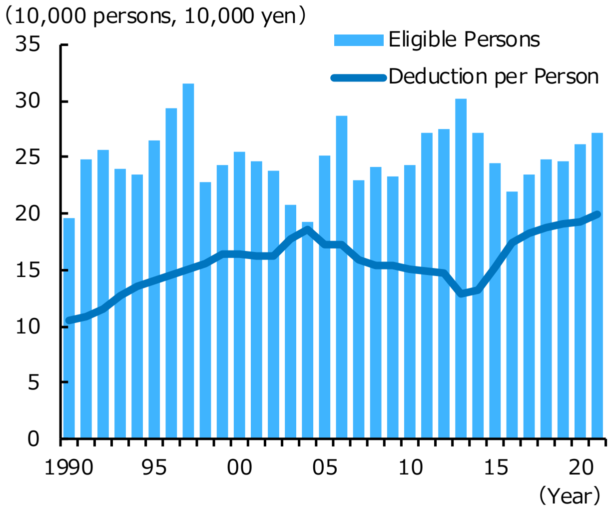
The Lifetime ISA in the U.K., with its unique characteristics, can serve as a useful reference for Japan as it designs homeownership support measures for the future as asset accumulation and promoting the use of existing homes become increasingly important. It would be worth considering the introduction of a "Japanese Lifetime

[8] Translated at the rate as of March 16, 2023 (same below).

ISA" (below, "Lifetime NISA) to support homeownership as a supplemental program to the NISA, which is set to undergo a major expansion. Below are some of the key points to consider when designing the Lifetime NISA.

The first is to offer government subsidies (incentives), similar to those of the Lifetime ISA in the U.K. Given the challenging fiscal situation in Japan, it would be difficult to provide subsidies on the scale offered through the U.K.'s Lifetime ISA, which can amount to over five million yen per enrollee. On the other hand, according to the National Tax Agency's Sample Survey for Self-Assessment Income Tax, in recent years the mortgage tax credit has provided tax breaks of approximately 200,000 yen per person (Figure 14), and the total amount would be approximately 2.6 million yen if the credit were applied for 13 years, the maximum period it is currently offered. It would not be unrealistic to grant a subsidy equivalent to this amount throughout the period during which contributions can be made.

Figure 14. Persons Eligible for Mortgage Tax Break and Amount of Deduction per Person



Source: National Tax Agency, Sample Survey for Self-Assessment Income Tax

The second is to establish a transition period for the changeover from the current mortgage tax credit, or to make it possible to use both schemes at the same time. For the transition from the current mortgage tax credit to the Lifetime NISA, a reasonable transition period will be necessary given that there is a segment of the population that has not accumulated enough money to purchase a home, and is basing their financial plans on the assumption that they will be able to take advantage of the mortgage tax credit. Also, as indicated in the first point, if the total amount of homeownership support per person is specified, and managed using "My Number" personal identification numbers, for example, so that individuals can choose whether to receive assistance in the form of government matching contributions under the Lifetime NISA or tax breaks under the mortgage tax credit, it would allow for more flexible financial planning.

The third is to treat new and used homes equally with respect to eligibility for tax-exempt disbursements. In addition, application should be extended beyond the purchase of homes to also cover renovation and surveying expenses associated with the purchase, thereby encouraging the use of the existing housing stock, which will significantly exceed the number of households as the latter is expected to decrease in the future.

The fourth is to expand eligibility for tax-exempt disbursements to times other than the time of home purchase. In Japan, many people acquire a home by the time they are in their 30s. Therefore, if asset accumulation begins at the age of 18, the investment period until disbursement for home acquisition would be 10 to 20 years, which is shorter than the investment period for preparing for retirement, and so the ability to reap the benefits of long-term investment would be limited. Therefore, if application is extended beyond the time of home acquisition to also cover subsequent loan prepayment or lump-sum repayment, the money would be invested for a longer period, enabling households to enjoy both investment gains and tax exemption.

Finally, a guaranteed principal product, such as a time deposit, should be added to the financial instruments that can be purchased. In the case of asset accumulation for home acquisition, the amount of money invested is large, so it is likely that households will want to keep a certain portion of their portfolio in low-risk products for which there can be no erosion of principal. Given the premise that the Lifetime NISA will be a homeownership support measure offered during a phase of substantial interest rate rises, it is expected that deposit interest will no longer be at ultra-low levels, which will allow households to prepare funds for home acquisition in a more flexible and systematic fashion.

6. Conclusion

In Japan, the end of the long period of low interest rates is in sight, and the number of households is expected to start declining soon due to the shrinking population, and this could affect the economy and society in various ways. In the housing sector, the mortgage tax credit, which forms the core of financial support for home acquisition, has the potential to further increase repayment burdens as households take on huge debts, while the preferential treatment given to the purchase of newly-constructed homes has the side-effect of reducing the use of existing housing stock.

For most households, their home is the biggest purchase they will ever make. It is therefore desirable to revise homeownership support measures in line with the changing times and environment so that households wishing to purchase a home can put together financial plans that do not leave them overstretched, benefit from a post-purchase repayment burden that is as low as possible, and consider buying a used home as an alternative to a newly-built one.