

THE AUSTRIAN SYSTEM OF SOCIAL HOUSING FINANCE

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CONTENTS

ABSTRACT	3
1. INTRODUCTION	4
2. BASIC INFORMATION ON THE AUSTRIAN HOUSING SECTOR	5
2.1. Housing stock	7
2.2. Institutional framework	8
Public bodies	8
Private bodies	9
3. SOCIAL HOUSING	10
3.1. The system of limited profit housing in Austria	10
3.2. Subsidies	11
3.3. Land	14
3.4. Capital market Instruments	14
4. EVALUATION AND POLITICAL SIGNIFICANCE	17
4.1. Efficiency	17
4.2. Steering effects	20
4.3. Critical remarks	21
5. CONCLUSION	22
6. REFERENCE LIST	24

ABSTRACT

There is a very good overall housing situation in Austria in terms of household housing expenses, living space, quality of the housing stock and low regional segregation. So far, Austria has not followed the general European trends in housing policy and also still attributes an important role to the social housing sector. In this paper we give an overview of the framework within which the social housing sector operates and how it is financed. We evaluate the economic and social efficiency of the system of limited-profit housing associations in Austria and their position between state and market. The institutional and legal framework, public subsidies and new methods in capital market financing play a decisive role in their success. Through competition with the private sector, the social housing sector has a price-containing influence on the general housing market prices. We regard major aspects of the Austrian model of social housing finance applicable for CEE and SEE countries.

Austria, housing policy, social housing, market financing instruments

1. INTRODUCTION

Countries all over Europe are in a process of reorientation of their housing policy guidelines by means of applying new instruments, reducing housing policy expenses or introducing more targeted and market-oriented subsidies for the sake of efficiency and social policy goals (Balchin, 1996; Priemus, 1997; Priemus & Boelhouwer, 1999; van der Heijden, 2002, Gibb, 2002). Until now, Austria has not joined these general policy trends but rather maintained fundamental post-war housing policy elements. Yet, Austria's housing situation is considerably better than the EU average with the largest part of the population having access to affordable housing and public expenses for housing policy being with 1% of GDP below OECD average. Why is Austria's housing policy so successful even though it disregards general European developments and reorientation principles? By introducing the Austrian model of social housing finance into the international discussion we hope to provide an alternative to the general policy reorientation throughout European countries and especially countries in transition. After all, there have to be certain things Austrian housing policy has done right.

In the face of the highly diversified and interdependent structure of the Austrian housing policy and a complex bundle of applied instruments, this paper tries to identify specific elements in Austrian housing policy that can be shown to have a decisive beneficial influence on the overall housing situation: These are in particular the role of the Third Sector in housing policy, the methods used for its funding, as well as the implementation of market mechanisms in specific domains of housing policy.

In the international discussion on housing finance plenty of contributions are made on the system of mortgage backed securities (MBS) as practiced in the USA, on the contract saving scheme ("Bausparkassen") as a basic housing financing model in Central Europe, and little on alternative models as the Canadian mortgage insurance scheme or the Danish Mortgage Bank (for an overview see Struyk, 2000; Stephens, 2003; UN Economic Commission for Europe, 2005). However, rarely any discussion is taking place on the widely unique Austrian model of housing finance, despite of its fairly persuasive results, as shown below. The method of financing housing in general and social housing in particular greatly depends on the institutional, legal and political framework within a country. Therefore it is necessary to touch as different fields as law, finance and political economy, when dealing with the subject. The complexity of the Austrian model, as a result of an ongoing process of improvements, is one of the reasons for its success. But of course, it is also a reason for the difficulty to put the model forth to international discussion. We therefore want to describe the Austrian way of financing within a wider housing policy framework.

Even though we focus on the cost-determined rental sector - for which the term social sector and social housing will be used in accordance with the literature - an important aspect has to be borne in mind: a "social" element is included in a much larger proportion of the Austrian housing stock. After all, subsidies are not restricted to the rental sector operated by municipalities and limited profit housing associations. As will be shown later on, the universality of the subsidy mechanism plays an essential part in influencing the price formation in the entire housing market, preventing the cost-determined

rental market of becoming residual. This correlation has to be considered when applying the term "social housing" as is usually done exclusively to the rental market segment formed by public and limited-profit bodies.

According to our goals this paper is structured in the following way: In the first part we will locate Austria within the European context, mentioning the particular elements we regard as important in Austrian housing policy. We will provide general data on the Austrian housing sector and its institutional framework. The second part of this paper focuses on the role of limited profit housing associations (in the following: LPHA) and their position between state and market. Subsidies and new capital market instruments are key elements for their funding. In the last section we will assess the economic and social efficiency as well as the political significance of these elements of Austrian housing policy.

As this essay is basically an explorative attempt, the method used will be mainly descriptive and analytical in the sense that we propose important elements in Austrian housing policy to which we ascribe a key role for the success of the system.

2. BASIC INFORMATION ON THE AUSTRIAN HOUSING SECTOR

Taking a look at the general European trends in social housing policy which have been identified (McLennan et al., 1997; Gibbs, 2002; Priemus & Dieleman 2002; van der Heijden, 2002; Whitehead, 2003) it is easy to see that the peculiarity of Austria lies partly in the fact that it has not followed suit.

There is an obvious trend towards owner-occupation in many European countries with an increased promotion of this type of tenure also for households of limited income. This development goes hand in hand with the rental sector losing importance and accounting for constantly decreasing shares in new construction. In Austria, on the other hand, rental house building still forms a high proportion of new housing construction: In 2002 - as Ball (2005, p. 28) states - 48% of completed dwellings were for the house proprietor's own use, 18% were condominiums, and rented dwellings accounted for 29%. A large enough proportion to keep the rental housing stock constant over time. A major part of the rental stock is endowed with a right to buy. This privilege was established in the mid 90s as a trade-off between lobbies who plead for a growing share of owner occupation and such who plead for continuous importance of the rental sector. Today it seems that only a relatively small number of households will redeem this right. Also in general there is no predominant trend towards owner-occupation on the demand side of the housing market: Especially in inner city areas and with younger households, renting still constitutes the preferred housing form. (Ball, 2005, p. 26; Bauer, 2005, p.10). The experience of house price declines in the second part of the 90s contributed considerably to this behaviour.

A tendency towards a reduction in state housing expenditure in combination with increasing household expenses for housing consumption is also visible throughout Europe. In Austria a large share

of required housing construction capital is still provided by the public. The funding of housing policy measures is to a large degree independent of the short-term budget situation of the state bodies as it is predetermined for a period of four years. This highly contributes to the stability and continuity of housing policy expenditures.

While many European countries have shifted subsidies towards the demand side of the housing market, Austria ascribes only small importance to subject side subsidies: Targeted housing allowances granted by public bodies in Austria account for only around 200 mill. euro annually, and represent around 8% of total direct and indirect public housing expenditures. Austria kept up extensive object-side subsidies, and grants housing allowances predominantly only for rent regulated and non-market housing. Housing allowances for private market housing are today available in four out of the nine provinces.

As social housing policy throughout Europe is increasingly targeted at low income households, means-tested housing benefits are predominantly regarded as the most efficient instrument. The social rented sector as well is increasingly reserved for people considered most in need and thereby develops the characteristics of a residual welfare measure. Austrian housing policy does not restrict policy measures to low income households. Subsidies are granted to large parts of the population and different kinds of tenure.

Another feature of Austrian housing policy to which we assign particular importance, is the continuity of an efficiently functioning social housing sector in the sense of cost-determined rental dwellings. State regulation created a framework of well-balanced rights and obligations within which the social sector was put to work. To an increasing degree it has developed market-based methods of finance and remained competitive with the private market. It is this position between state and market which accounts to a large extent for the efficiency of housing policy in Austria.

Matznetter (2002) applied Esping-Andersen's theory of different welfare state regimes to Austrian housing policy and found that several characteristics of the conservative welfare state can be distinguished. For our analysis we find it more useful to apply Kemeny's (1995; et al., 2001) classification of different types of rental markets to the housing policy performed in Austria: According to Kemeny some countries have dual rental markets, where the state successfully shields the social sector from competition of the private market. The social sector is reserved for low income households and functions as a residual safety net. The private market, on the other hand, is characterised by high rents and insecure rental contracts. A second group of countries, in which Austria can be included, is distinguished by a unitary rental market, where the rent level is determined by competition between private and social housing providers. The limited-profit sector does more than "housing the poor" and is directed towards larger population groups, preventing a marginalisation of its tenants. As limited-profit housing therefore functions as a substitute to private renting, a unitary rental market in terms of rent level and contract conditions is created.

Förster's (1996) contribution to Balchin's (1996) book was the first proposal to attach special importance to the functioning and structure of the social sector for Austrian housing policy. The

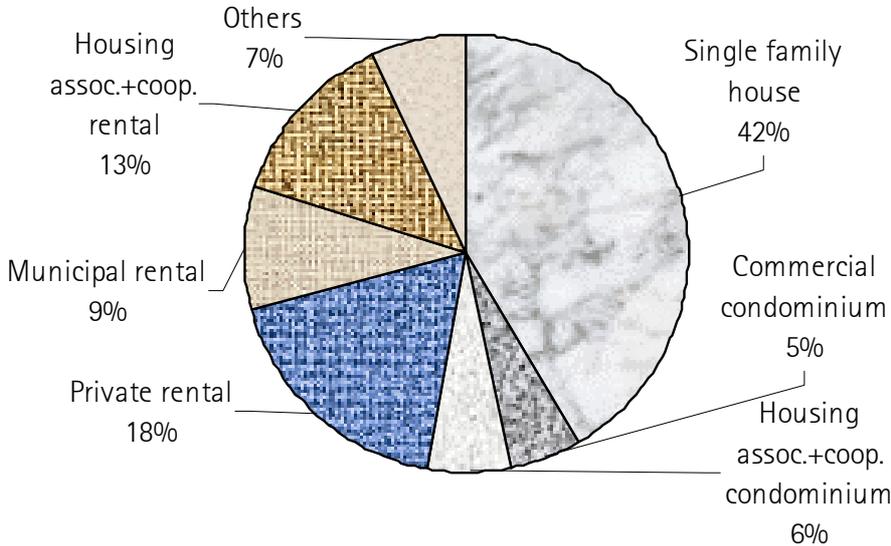
following sections will show that the importance of the social sector in Austria even increased since that year and confirms the existence of a unitary rental market in Kemeny's sense.

2.1. HOUSING STOCK

Austria has some 8.1 mill. inhabitants, or rather approx. 3.4 mill. households (2003). Taking only main residence into account the average household has 2.4 members. These 3.4 mill. households have access to 3.8 mill. dwellings.

The composition of the Austrian housing stock is depicted in Figure 1. Some 53% of households live in their own property: 11% in condominiums in multi storey buildings and 42% in single family houses. The percentage of single family houses ranges from 80% in some provinces (Burgenland) to only 4% in the capital. 40% of all households live in the rental sector, which is divided in three sections. Private rental flats used to be the major part with approx. 600 000 units (18%), but in the recent decade have been overtaken by the social housing sector. There are some 300 000 municipal dwellings (9%) in Austria, the majority of which (some 220 000 dwellings) is owned by the municipality of Vienna and originates mainly from the 1920ies and the decades from 1950 to 1970. Housing associations and cooperatives manage 435 000 rental flats (plus 200 000 condominiums). In total some 22% of the housing stock may be regarded as social housing rental stock.

Figure 1: Structure of Austrian housing stock (main residents, 2001)



Source: Statistics Austria, IIBW

2.2. INSTITUTIONAL FRAMEWORK

PUBLIC BODIES

The housing subsidy scheme was shifted to the authority of the provinces („Länder“) in the late 80s. Nevertheless the other levels in the federal structure of the state (federal, local) still play important roles in housing policy (Amann, 1999a).

FEDERAL STATE:

The Federal State is mainly responsible for legislation and tax revenue. Even though the "Länder" have got the legislative authority on the housing subsidy scheme the major part of housing legislation is in the hands of the Federal State, as it is mostly civil law. There are altogether four matters of housing law:

- Tenancy law: Some general regulations are applicable for all rental dwellings. But the core regulations, mainly regarding the limitation of rent rate, are in force only for the relatively small sector of private rental dwellings built before 1945. Rent regulation and protection against foreclosure are, non the less, the hot spots of any political discussion on housing law.
- The condominium law regulates the relations between flat owners , the terms of maintenance, etc.
- The limited-profit housing law regulates the activities of the LPHA, conduct and control, the calculation of rent (cost rent), the terms of the "right to buy" as well as terms of maintenance.
- Civil Code: A part of the housing stock, mainly rented single family houses, has been taken out of the tenancy law regulations recently. Now, contracts for this segment are regulated only by the Civil Code.

"LÄNDER"

Nine "Länder" constitute the Federal State of Austria. Vienna itself is one of the "Länder", as well as it is a municipality of its own. In the context of housing the "Länder" have legislative competence on the housing subsidy schemes, supervision of the LPHA, social welfare, regional planning and building codes. Defining the housing subsidy mechanisms within their regional area of responsibility is a core aspect of policy making at the level of the "Länder". The housing policies of the "Länder" differ a lot, since the following aspects may be decided autonomously:

- the schemes of subsidies: new construction, refurbishment, allowances, others (renewal of village centres, subsidies for second-hand buyers etc.),
- definition of recipients: privates, municipalities, housing associations, commercial builders, etc
- form of subsidies: subsidised loans, interest rate subsidies, annuity grants, housing allowances etc.
- the terms of subsidies: interest rate, pay back, tenure of loan, income limits etc.,
- financing aspects: maximum rent, minimum equity of builder, maximum equity of tenants, limitation of capital market interest rate, limitation of construction cost etc.,
- quality standards: today mainly aspects of energy efficiency and ecology.

MUNICIPALITIES

In the context of housing municipalities are altogether a receiving partner. They are supposed to support social housing by providing land or abating property tax. In any case they determine the demand for social housing and in some "Länder" allocate dwellings to households with needs.

COOPERATION OF AUTHORITIES THROUGH FINANCIAL CONSTITUTION

Federal states as Germany or Switzerland assign high proportions of taxes to the hands of provinces and municipalities. In Austria some 93% of tax revenues are collected as federal taxes or common taxes of the Federal State and the "Länder". These taxes are divided between the state levels according to a legal contract between all concerning public bodies, the "revenue equalisation", which is concluded for a period of four years. The most recent such contract was negotiated in summer 2004 and will cover the years 2005 to 2008. By negotiating the financial consequences, it is a core instrument for the division of political tasks between the authorities of the state. A significant point in the negotiations is the funding of the housing subsidy schemes of the "Länder".

A very important aspect of the revenue equalisations is their timing in relation to legislation periods. Negotiations and enactments of these legal contracts are rarely at the same time as campaigns for regional or national elections. As a result the tasks decided in these contracts hardly become a topic of campaigns. It seems that this aspect is mainly responsible for the continuity in the field of housing policy in Austria.

PRIVATE BODIES

In addition to the limited-profit housing associations which will be treated in the next section, the following private bodies can be distinguished in Austrian housing policy:

COMMERCIAL DEVELOPERS AND THEIR LOBBIES

Commercial housing developers have in some of the "Länder" (e.g. Vienna) access to housing subsidies even for social rental housing. For this stock they are bound to some parts of the limited-profit housing law (cost rent). Their interests are represented by the Federal Economic Chamber and private lobbies.

PRIVATE BUILDERS

Almost half of new residential construction are single family houses built by private builders. The vast majority of them has access to subsidised loans.

3. SOCIAL HOUSING

According to Priemus & Boelhouwer (1999) who conducted an analysis of social housing finance in seven countries of western Europe, there are several important elements which have to be considered when assessing a nation's social housing sector and its position within general European trends. We try to follow their example and include these aspects in our analysis.

3.1. THE SYSTEM OF LIMITED PROFIT HOUSING IN AUSTRIA

LIMITED PROFIT HOUSING ASSOCIATIONS

The LPHA comprise altogether 200 housing cooperatives, private limited companies and public limited companies with a total housing stock (rental dwellings and condominiums) of some 700 000 units (approx. 19% of total, 2001). The LPHA are responsible for 28% of new residential construction. That is more than half of all multi storey housing construction. For this task they are assigned some 33% of total expenditure on housing subsidies. The housing associations are owned by public authorities, charity organisations, parties, unions, companies, banks or private persons. To avoid moral hazard, it is prohibited for construction firms to own one.

In short, the limited profit housing system is characterized as follows:

- Legal basis: limited-profit housing law.
- Control: Self control through umbrella organisation, supervision through provincial governments.
- Social functions, therefore they benefit from company income tax relief and preferred access to housing subsidies.
- Cost coverage principle: the obligatory calculation of rents based on construction costs in combination with rent limitation defined by the subsidy schemes guarantee a low and continuous level of rents (3-5 €/m² net).
- Orientation on demand: to get a subsidy demand has to be proved.
- Limited field of action: the housing associations have to focus on housing construction, refurbishment and housing management. In fact it is an important aspect for long term success of the system that housing associations in general manage the houses they have produced before. They are allowed to develop additional commercial space. Since recently they are, under strict conditions, allowed to go abroad.
- Binding of property – limited profit: Housing associations ought to make profits. But these profits have to be reinvested: in purchase of land, refurbishment or new construction. A limited part of the profit (max. 2% of registered capital) may be divided to the owners or shareholders.
- Obligation to build.
- Right to buy for tenants: Tenants, who contribute to the construction cost with their equity (>50€/m²) have, after 10 years, a right to buy.
- Very strong legal position of the tenants, established by tenancy law as well as non-profit-housing law.

The close ties given by the non-profit-housing-law, the supervision through the provincial authorities and the fact that many housing associations are owned by semi-public bodies have as a result, that housing associations are regarded as the "lengthened arm of housing policy". They work on private market economy basis for goals strongly influenced by the public.

UMBRELLA ORGANISATION OF HOUSING ASSOCIATIONS:

The umbrella organisation of housing associations ("GBV") is an important institution in the overall framework. Its assignment is to supervise and audit the single associations (self control) and to represent the interests of the group in the legislation process.

The system of limited profit housing associations is therefore imbedded into an efficient structure of checks and balances with the umbrella organisation controlling the system from the inside, and regional governments functioning as external supervisors. The importance of an efficient supervisory structure has frequently been emphasised (Priemus & Boelhouwer, 1999; Gibb, 2002, p. 333) and can be confirmed for the Austrian case: It is regarded as a success story that within the previous fifty years not a single customer of housing associations has lost his or her money because of bankruptcy or moral hazard. This fact contributes considerable to the creditworthiness and rating of the LPHA, as will be shown below.

The functioning of the LPHA is based on the access to resources such as subsidies and land and on the implementation of efficient capital market instruments.

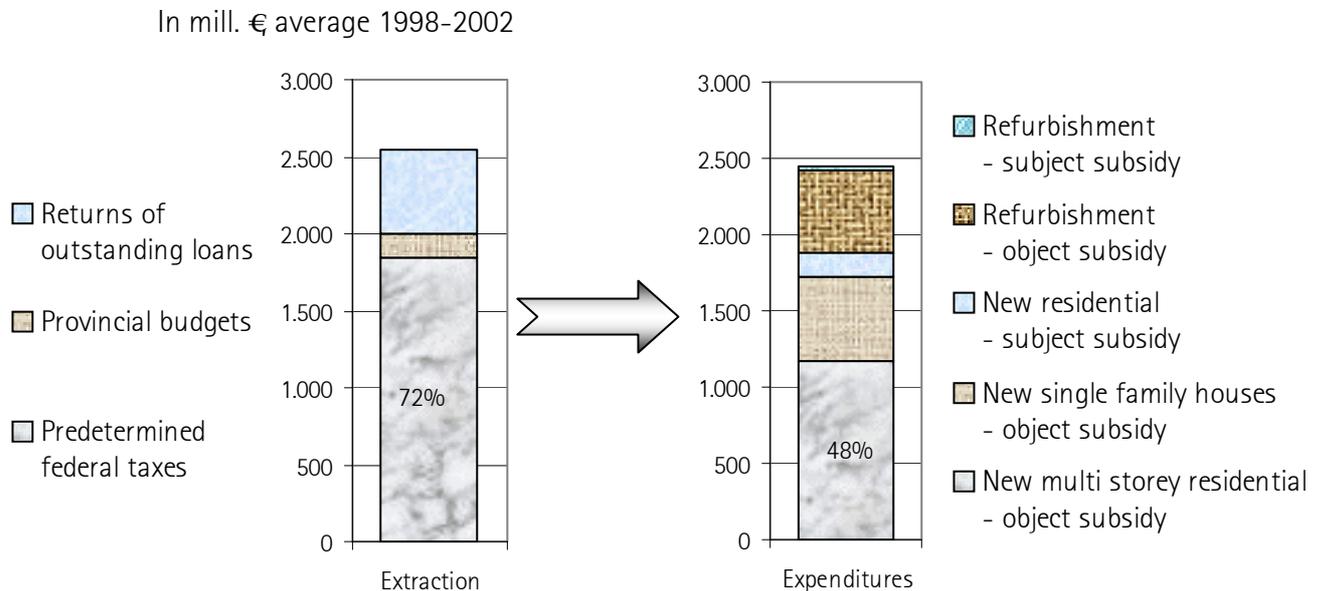
3.2. SUBSIDIES

Before determining the subsidies that go to LPHA a few words about the general subsidy scheme are necessary. Similar to countries like Denmark or Singapore, Austria follows an extended understanding of "social housing", as we already pointed out. There are fairly generous income limits for the access to housing subsidies: Therefore, on average only 10-20% of the population is excluded from this scheme of transfer and a very large part of new construction is co-financed by the public. Housing subsidies do not cover the major part of construction cost, but still are, for most builders, an indispensable part of financing. This is the case for private individuals who build their own homes, for housing associations, commercial developers and municipalities. Altogether some 80% of all new constructed housing units is co-financed by the public. Only second homes and the top segment of housing construction are not eligible for subsidies.

Of course, such an engagement of the public is costly. In total (average 1998-2002) the Austrian "Länder" spend 2500 mill. euro per year on their housing subsidy schemes (see Figure 2). The largest share of the money (72% = 1780 mill. euro) comes from the division of common taxes as stipulated in the revenue equalisation between Federal State and "Länder" (see above). These funds are earmarked for expenseses on housing construction, refurbishment, measures to reach the Kyoto-goals and

infrastructure. The second largest part is provided by returns from outstanding loans (22% = 550 Mio Euro). Only small contributions come from provincial budgets (6% = 155 Mio Euro).

Figure 2: Funding and expenditures of housing subsidies by "Länder"



Source: Statistic Austria, FGW

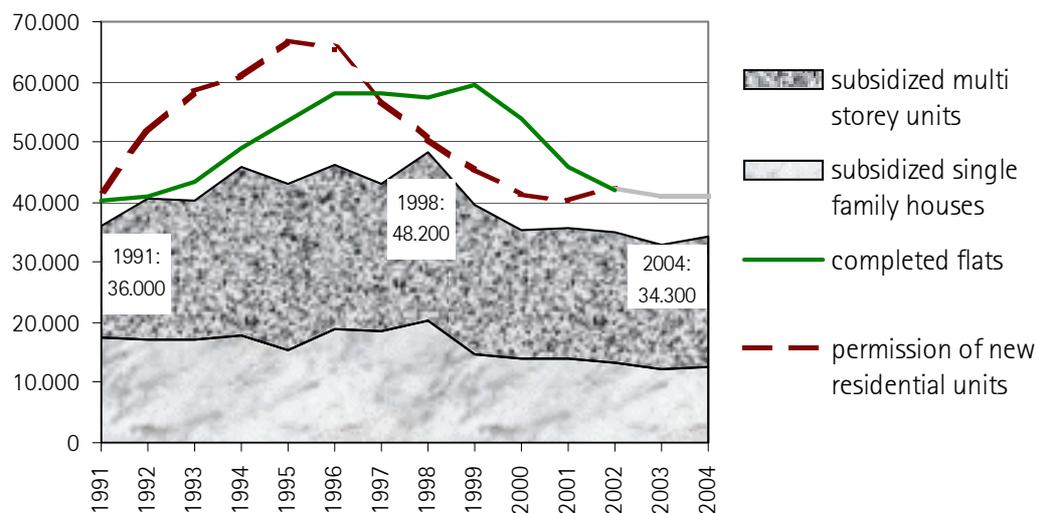
In the negotiations about the revenue equalisation in 1996, the assignments to the "Länder" were fixed at the nominal level of that year and have remained there since then. Consequently, as they form the major part of housing policy funds, this led to a decline in expenditures in real terms since 1996. Yet, the arrangements of the "revenue equalisation" guarantee that a further decline will be slow in the following years.

Apart from the funds channelled through the housing subsidy schemes of the "Länder", there are only little indirect expenditures on housing which represent less than additional 10%. Altogether, total housing expenditures amount to around 1% of GDP (2003). Comparing this figure with other European countries shows that this value is below average. (Ball, 2005, p. 29). Even the USA spend a higher share on housing promotion.

There is a striking explanation. Almost all the money (92%) in Austria is attributed to object-side subsidies. As can be seen in Figure 2 expenditures concentrate on new construction: 48% on multi storey housing (1,170 Mio Euro), 23% on single family houses (550 Mio Euro), 22% on refurbishment (540 Mio Euro) and only some 8% on housing allowances (200 Mio Euro). That is to say that the construction ("bricks and mortar") and not the individuals are subsidized. As stated earlier, many countries increasingly place emphasis on demand side subsidies. Priemus & Boelhouwer (1999, p. 632) pointed out that in some countries a high rise in subject side subsidies led to considerable price increases.

In Austria, rather than subsidising the demand side of the housing market, main emphasis is being placed on promoting a high level of new construction. The idea is, that object-side subsidies produce affordable dwellings for a large part of the population. A high supply of cost rent dwellings put pressure to the price level of the private rental market as well (see below). Low income households have additional access to housing allowances, but the broad supply of affordable housing has as a result that no more than 5% of population require housing allowances.

Figure 3: New residential construction and subsidies
units per year



Due to changes in data collection no valid data for completed flats and permission of new residential units is available for 2003 and 2004.

Source: Statistics Austria, IIBW

In the late eighties the crisis in Ex-Yugoslavia, the fall of the Iron Curtain and demographic aspects caused a shortage on housing markets in Austria. Consequently housing construction was strongly promoted. In the mid-nineties some 60 000 units per year were completed, with high proportions of subsidised flats within total (see Figure 3). In recent years the level of new construction declined to some 40 000 dwellings per year. This is around 5 units per 1 000 inhabitants per year and around the European average. This quantity should be enough for sustaining an equilibrium of supply and demand on housing markets. Dwellings are co-financed by the public by means of low interest loans which make out no more than 30-40% of the necessary capital. Therefore, it is affordable for the public to subsidise 8 from 10 new dwellings.

As Table 1 shows, nearly half of all completed flats in a ten year average are built by private individuals, 28% by housing associations, 19% by private housing developers and 2% by municipalities. Around one third of total subsidies go to housing association and cooperatives.

Table 1: Completed flats and subsidy permissions

	housing stock ¹	completed flats ²	subsidies ³
Housing associations and cooperatives	19%	28%	Ca. 33%
Commercial builders	18% ⁴	19%	Ca. 16%
Municipalities	9%	2%	Ca. 50% ⁵
Private	54% ⁶	49%	

Source: Statistics Austria, IIBW

3.3. LAND

Municipalities are legally encouraged to contribute to social housing by providing land for affordable prices. This is not always the case. In some housing subsidy schemes there are limitations on land prices. As housing associations have a strong position in multi storey housing they mostly succeed in free competition on the land market. In villages and small cities there is only little competition with commercial builders for multi storey housing anyways. It happens frequently that new construction takes place in the outskirts, whereas the village centres are in danger of depopulation.

In larger cities different strategies help housing associations to acquire land for social housing. First many of them are strong in equity. Second they have privileged access to housing subsidies. Dwellings for middle income groups would not be marketable without subsidies. Third high land prices are sometimes compensated with higher density.

In Vienna the municipality used to monopolise land acquisition for social housing in the 80s, but stopped this strategy after a few years. Still the City of Vienna is owner of large estates, mainly in the outskirts. These estates are now systematically linked to public infrastructure such as subways etc. For inner city developments housing associations follow the same strategies as elsewhere.

3.4. CAPITAL MARKET INSTRUMENTS

In addition to the public subsidy schemes of the "Länder", as described above, capital market funding is provided by means of two major instruments.

¹ 2002.

² Average 1991-2002.

³ New construction and refurbishment; Average expenses 1991-2002.

⁴ Private rental.

⁵ Most of this share goes to private builders because the importance of municipalities in new construction is marginal

⁶ Single family houses and owner occupied dwellings.

"BAUSPAR" (CONTRACT SAVING) SCHEME

More than 5 mill. Austrians have saving contracts. This is quite a lot, accounting for the 8.1 mill. inhabitants in total. For a saving period of six years the customers get a modest premium by the state. It is a medium profitable but very secure investment. Having paid off the contract the customer has the right to a low interest loan. Even though the interest taken is with today approx. 4.5% hardly more beneficial than capital market mortgage loans, the "Bauspar" loans are very popular because of their long tradition, security and long term low interest rate. They are mainly used for financing single family housing.

"WOHNBAUBANKEN" – HOUSING BANKS

This special finance vehicle was designed ten years ago. In aim to raise money for housing construction housing banks issue special housing construction convertible bonds (HCCB), which enjoy preferential public treatment in two ways: First, a capital income tax relief is granted for the first 4% of returns. Therefore, HCCB can be issued below market rate as yield after taxes stays competitive. They save mortgage borrowers around .75% in interest costs (Ball, 2005, p. 29). Second, an incentive to the demand side of the market was designed by considering HCCB purchase a special expense in assessing income tax. In addition to these privileges, a tight legal framework for the operation field of housing banks was created: Money raised through the issues of HCCB has to be attributed to new housing construction programmes which are eligible for additional object-side subsidies by the Länder. Also, funds raised have to be appointed to Austria-based construction projects within a period of three years. This way private funds raised by the housing banks may be channelled to projects which the public considers worth funding. A leverage effect is thereby created.

The six housing construction banks operating in Austria today have been very successful in raising construction money, as total issuing volume reached over 1 800 mill. euro in 2004. Throughout the ten years of their existence they have issued more than 8 000 mill. euro in total. In a recent study (Amann, et al., 2005b) we conclude, that virtually all multi storey housing within the housing subsidy scheme, as well as a considerable part of refurbishment, is co-financed by housing banks. These are some 18 000 units per year.

Typical holders of the HCCB are private investors, trying to spread risk by investing into a very secure and long term asset, or municipalities.

COMMERCIAL BANKS

Mortgage loans are, as anywhere, an important product of commercial banks. For the following reasons, conditions are rather favourable today:

- Financing housing projects by housing associations is a low risk investment for banks (see below).

- For multi storey housing within the housing subsidy scheme the commercial banks refinance themselves from housing banks.
- The subsidy regulations contain interest limits even for the part of financing, which is funded by the capital market.
- A growing number of customers start financing in foreign currency, mainly in Swiss Franks, formerly in Japanese Yen as well.
- There is strong competition between banks. Many of them are savings banks, which operate under less harsh profit-maximising conditions as general commercial banks. Therefore they are able to offer lower mortgage rates.

Housing construction by LPHA with high creditworthiness is today financed as low as Euribor + 4 BP.

As a matter of fact, the Austrian markets for commercial banks seem to be limited to such an extent that they were strongly motivated to go abroad. Today several of them have very good market positions in CEE- and SEE-countries.

FINANCING OF A TYPICAL SOCIAL HOUSING PROJECT

A typical social housing project, let us say 30 rental dwellings in a medium size town, may be financed as follows:

Table 2: Financing of a typical social housing project

▫ Capital market loan: 20 years, < 3% floating	30-50%
▫ Housing subsidy: 30 years, 1% fix	30-40%
▫ Equity of developer (mostly for land purchase)	ca. 10%
▫ Equity of future tenants	0-10%
Total	100%

Source: IIBW

In comparison to other European countries, new social housing construction relies heavily on the developer's own assets. Only Germany and Belgium have comparably high shares of the social landlords' own funds (Priemus & Boelhouwer, 1999, p. 640). Borrowing from the capital market has gained importance, especially through funds raised by the housing banks. Almost the entire share the LPHA raise at the capital market today originate from the housing banks. LPHA are regarded as low risk borrowers due to several reasons we already mentioned: First, due to cofinancing by housing subsidies, capital market financing has a good L/V-ratio and very low risk. Public bodies act as external supervisors controlling the financial situation of the LPHA accurately. Furthermore, ownership constellations are very favourable to their creditworthiness. Third, their size and asset base is taken into account. These factors amount to a structure of implicit public guarantee for the loans taken out by the

LPHA. Yet, no formal public underwriting or guarantee fund had to be established. This condition differs considerably to the majority of other countries. (Foundation Homeownership Guarantee Fund et al., 2004; Priemus & Boelhouwer, 1999; Whitehead, 2003). Therefore, the guarantee-like functioning of the housing subsidy scheme in all its complexity – financial support as well as control and supervision – is responsible for the very good conditions LPHA face on the capital market.

In addition to capital raised by housing banks, public loans (or other forms of subsidies) still constitute an essential element in funding new housing construction (see above). In Austria long-term loans are still applied as the fundamental subsidy instrument, which marks a distinction to many countries in the European Union, where other subsidy instruments – e.g. interest subsidies – are preferred. (Priemus & Boelhouwer, 1999, pp. 633 and 637). True enough, total amount of subsidy expenditure has been reduced over the last ten years, but not to an extent as in other European countries. Therefore, Austria belongs to the few nations where the general trend to more market based financial instruments and the professionalising of the voluntary sector (Gibb, 2002, p. 331) did not go hand in hand with a reduction in government commitment. The share of subsidies in construction finance decreased, but definitely not the influence of the public nor the steering effects. Also, as a result of competition between the "Länder", the subsidy schemes grew substantially more efficient.

FINANCING OF UNTYPICAL DEVELOPMENT PROJECTS

In Vienna during the previous ten years a number of ambitious development projects were realised, such as Donau City, Gasometer City, Millenium City. Most of them were financed in a similar way. Even though offices and shopping malls are predominant they contain a large number of subsidised rental dwellings, mostly realised by housing associations. The commercial developers went into this cooperation not only because of the low risk, but because of financing concerns. Including 200-400 subsidised dwellings the total cost of the development will be covered for some 15-20% by subsidised loans. Vienna municipality agrees to have these loans collateralised on the second rank behind the commercial loans. Only with this commitment of Vienna municipality this kind of large scale development projects became bankable.

4. EVALUATION AND POLITICAL SIGNIFICANCE

So far, we have evaluated several of the aspects of social housing and its financing: institutional structure, public financial support, public control and guarantees, and the sources of funding.

4.1. EFFICIENCY

When assessing the LPHAs' efficiency and their function within the housing policy framework, price and cost development should be mentioned. In a detailed study Bauer (2005) assessed household expenditure on housing and housing related proponents over time using data from national accounts

and micro-census. She found that even though housing consumption increased considerably since the mid 1960s, the annual rate of increase since the mid 1980s was far below the European average. While household expenditure on housing in Austria represented 15,5 % of total consumption, this share increased only to 18,6 % in 2000 (Bauer, 2005, p. 7) and still does not exceed this number today (2004). By analysing the annual percentage change of the macro housing cost-income ratio from 1985 to 1995 Priemus and Dieleman (2002, p. 194) confirmed the comparably low growth of housing expenses in Austria.

This development can be attributed to in the European context relatively moderate increases in the rent level, as can be shown by rent price indices. Also, rent increases in the LPHA stock were much lower than in the private rental stock. (Bauer, 2005, p. 13). This evidence is also supported by Czerny (2001, p. 15) who conducted an analysis of changes in the rent level. She found that during the 90s the rent level in the social rental sector increased considerably less than in other European countries during that decade.

Obviously, as rents in the social housing stock are basically cost-determined, low building cost inflation had a beneficial influence on the evolution of the rent-level. In a very recent study based on micro-census data comparing construction costs of municipalities, commercial builders and LPHA, evidence was provided that the social sector builds considerably cheaper than the private sector: Comparing same quality newly built rental buildings private construction costs lie around 20% above LPHA. (Amman & Götzl, 2005, p. 27). There are primarily two explanations for this observation: LPHA hold a strong market position on the market for construction materials and services which is used to their benefit and public subsidies are granted independent of costs so that a strong incentive towards efficient production is implemented.

A very important aspect of the Austrian social housing sector is the diversity of its occupants: According to van der Heijden (2002, p. 333) all over Europe the share of low-income families living in the social sector is increasing. Czasny (2004a, 2004b, 2004c) studied the concentration of low income households and ethnic minorities in bad housing quality segments and the social rental sector within the EU. By calculating the degree of overrepresentation of the lowest income quintile in the cheapest social rental stock, he found that Austria was within nine countries of the EU the one with the lowest share. (Czasny, 2004a, p. 57; Czasny, 2004b, p. 41). A residualisation of the social sector and a regional segregation of low income families in poor housing quality stock is prevented due to several reasons: First, an attraction of the social sector to middle income households is assured through the high quality of its housing stock. Second, many low income families live in the private rental market segment, due to historic rent-regulated contracts with unlimited tenancy. Third, the price and cost reducing effect of competition between private and social market segments and the general public policy towards price reduction lead to affordable general housing prices.

There is strong evidence of a price-restraining influence of the social rent level on the overall market rents which points to the existence of a unitary rental market in Kemeny's (1995) sense. Contrary to the

general European trend where rents in the social rental sector are being raised to the level of market rents (van der Heijden, 2002, p. 335), an opposite effect is visible in Austria. Price formation on the private rental market is strongly influenced by the competition out of the cost-determined rent level of the social sector. It is difficult to measure this effect accurately, because we do not know how the private rent-level would have developed in the absence of the social sector. Nevertheless, the following observations support our reasoning:

First, social housing in new construction has a high market share. Some 80% of multi-storey new construction is co-financed by the public and therefore bound to some kind of cost rent principle. This is all over Austria more than 20 000 units per year. In rural areas and small towns the supply of new social rental flats is predominant compared to other rental market segments. In big towns and particularly in Vienna the share of cost rent flats in the rental market is smaller. Unfortunately the total turnover of the housing market in Vienna may only be estimated. Regarding the 1990ies the market shares (number of new contracts) of subsidised new construction was estimated at 20% and of old flats from the social sector at 20% as well (Amann, 1999b). A market segment with this volume is able to influence heavily the market as a whole.

Second, private and social rental flats largely compete for the same group of costumers. As mentioned above income limits exclude only a small part of the households from the supply of LPHA. At the same time new construction and the housing stock of LPHA is quite attractive, in terms of quality and location. Cost rent is not particularly cheap but moderate and tenants have to contribute with their own equity. LPHA especially address households with long term perspectives and stable incomes. As a result the LPHA concentrate on a customer group, which is well served in other segments as well, in particular by the single family housing market in the outskirts of the cities and by a specific segment of the private market.

Third, only the top market share of private rental flats is aimed at a different costumer group with higher incomes and often with short term perspectives: Those flats are smaller than average and increasingly characterised by fixed-term rental contracts. They face no competition out of the LPHA stock and showed the highest price increases in the total rental market throughout the last years.

Ultimately, increases in the rent level occurred whenever competition out of the LPHA stock was weak: Strong dynamics of the private rent level were seen in the early 90ies, when low housing production and unexpected demographic development caused a serious housing shortage. The late nineties were, quite in contrary, characterized by a very high output of subsidised housing, declining demand and stable rents. In recent years the new construction of LPHAs decreased again. And, not surprisingly, private market rent levels revived.

According to this evidence, the social housing sector is indeed able to depress the rent level in the private market. Preconditions for this interference are a large social housing sector directed at large population groups and a financing model, which produces social rents at a level, that private providers can cope with.

4.2. STEERING EFFECTS

In addition to these considerations about the efficient functioning of the social sector, we would like to draw special attention to the substantial steering effects enabled by an object-oriented subsidy scheme of the social housing sector and housing policy in general. It is important to state that thereby several policy goals in addition to redistribution can be achieved.

- In economic policy:
In single family housing the subsidies promote extensive private investment of the builders. They may stimulate the construction economy and the labour market. Effective regulations cause a slowdown of construction costs and financing costs. The subsidies work as substitution of equity and therefore help smaller developers to succeed. This is of particular importance facing "Basel II", the new European regulations on equity requirements for credit allocation. Subsidies also represent an important economic impulse to regional economies.
- In social and integration policy:
The housing subsidy schemes prove to be efficient instruments against poverty and social exclusion. Unlike the main part of social transfers which represent net flows from the younger to the older generation, housing subsidies especially benefit younger households. (Deutsch, 1999, p. 334).
- In environmental policy:
Austria agreed to fairly ambitious Kyoto-goals. There is little hope for a reduction in traffic or emissions from industry. The third big source of emissions is air condition. With housing subsidies as incentive it is possible to reduce energy consumption in this field substantially. Today almost all new construction has low energy standard and a growing number of projects work without heating at all. The provision of subsidies is bound to distinct quality standards. Thus a vast improvement of quality standards in the housing stock was achievable.
- Urban and regional development:
As mentioned, the housing subsidy scheme has great impact on the development of urban projects. It is crucial for city renewal and the stabilisation of settlements in less advantaged regions.

In the process of European integration the power within a federal state tends to shift to the Federal State level (despite of all commitments to subsidiarity). For the federal system in Austria the housing subsidy scheme as described is an important instrument to keep this division of authority alive.

In reference to the good performance of housing policy in Austria as seen by the overall good housing situation, the "Länder" succeeded in defending the present system of housing finance in the negotiations for the latest tax revenue equalisation between the "Länder" and the Federal State. Yet, some critical topics were brought up, which ought to be discussed in short.

4.3. CRITICAL REMARKS

The overall costs of the housing subsidy scheme are heavily discussed in public, proposing that public money might be spent more beneficially in other areas, e.g. in new technologies. This argument ignores the fact, that none of the industrialized countries can do without a housing subsidy scheme and that alternative models are hardly less costly. Cutting subsidies for bricks and mortar, and focusing on demand side subsidies to the lowest income groups has several disadvantages. One result is a growing pressure to support the middle classes as well, preferably by tax relieves. There are several examples that a change to this direction would increase the costs of the model instead of lowering it.

The biggest part of housing construction in Austria is under strong influence of the state, which is criticised by some experts. In this aspect, again, it is the question, whether we can expect better results from an alternative approach. Even though state involvement in Austrian housing markets is stronger than just the setting of a legal framework like in most other policy fields, the mayor players are non the less the markets. The LPHA act as private enterprises. The banks are without any doubt market driven. And the same is true for the construction industry. Comparing the situation with other countries it seems that in this system market forces are employed quite efficiently.

The system described does not react to changes in the market situation very fast. The housing shortage in the early 90s caused a chain of reactions from political discussions to an increase in housing production. Altogether it took some seven years, until additional supply became visible on the market. As housing is a special product, characterised by a very long production period, even perfect markets could not react at once to changes in demand. For this kind of products market economy has a strong tendency to pro-cyclical effects. That is to say, additional supply reaches the market, when demand starts to decline and vice versa. Therefore it is accelerating the ups and downs of the market. Housing production influenced by the public has a similar tendency, but production numbers are, in general, more stable than in free markets. So it is a question of continuity versus (not so) fast reaction.

A large share of subsidised dwellings is inhabited by people, who could cope without public help. However, integrative co-existence of people of different social and income groups may be regarded as a valuable good in terms of social cohesion. As a result there are no problems with segregation or ghettos in Austria. In this respect as well the moderate public expenditures for housing promotion is a striking argument.

We would also like to draw attention to some tendencies in the last years which may jeopardise the functioning of the Austrian housing system as a whole: The increase of land costs in many metropolitan areas within the last years tends to push new social housing construction to the outskirts of towns and can be considered a threat to the provision of stable rents. Low quality private rental stock at low prices has decreased substantially during the last years due to renovation and the liberalisation of rent regulation of high standard private rental flats.

Vulnerable groups have therefore become more dependent on the social rental sector. Housing policy has to pay particular attention to prevent the residualisation of the social housing sector and at the same time secure adequate housing for lowest income households. If housing allowances are expanded, still the mixed subsidy system of object- and subject-subsidies should be preserved.

Also, overall social policy has to adopt measures to prevent an alteration of the general income distribution, which has become more uneven throughout the last years. (Guger & Marterbauer, 2005).

5. CONCLUSION

The following observations on the overall housing situation in Austria can be made:

- The total expenditure on housing subsidies are 1% of GDP. This is lower than the European average.
- Austrians enjoy a very good housing provision with 41m² living space per capita, 90% of the housing stock in A-standard (minimum size, central heating, bathroom). The bigger part of the housing stock is in good or very good condition.
- Despite of the high standards in quantity and quality the average expenses on housing is no more than 18% of household incomes. This figure is below European average.
- There is almost no segregation, no ghettos, high social quality of settlements, almost no homelessness.
- Last but not least, housing provision shows a high level of equality in housing cost, quality and available space.

In our analysis we showed that there are certain elements in Austrian housing policy which have decisive impact on the quality of the overall housing situation. The Third Sector in housing, as mainly represented by the LPHA, operates efficiently within a tight framework of rights and obligations. The methods used for its funding include a high reliance on object-side subsidies which are granted in accordance with incentive considerations. The housing banks play an important part in providing the capital market share of the funding of social housing. The HCCB act as an efficient instrument that helps to provide good conditions for the capital market funding of social housing projects. The high ratings of the LPHA on the credit market also result from the efficiency of the supervisory structure and the guarantee-like mechanism of the overall institutional framework, within which the LPHA operate.

The social housing sector in any country is placed within a highly influential legal, political and economic framework. When assessing the efficiency of social housing provision and finance this context has to be considered. The interdependencies of the social and private housing market segment have to be taken into account. In Austria, the price containing influence of the social housing sector on the general price level leads to a unitary rental market in Kemeny's sense, where competition between

the private and social segment fosters overall efficiency. Also, it prevents the social housing sector of being reduced to the simple function of "housing the poor."

Studies on successful housing finance systems have concentrated on comparing owner-occupation financing methods. It seems to be the implicit agreement that especially countries in transition have to be provided with effective techniques to keep up or even escalate their already extreme owner-occupation rate. (UN Economic Commission for Europe, 2005; Struyk, 2000). By putting the Austrian model of social housing and its financing forth to international discussion we also hope to provide an alternative for future policy measures in Central and South Eastern European countries.

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