Privileged but Challenged:  
The State of Social Housing in Austria in 2018

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Abstract: On the one hand, Austrian social housing is stronger than ever due to the growing importance that social rental apartments play on the housing market. The volume, price, and quality standards of this housing are competitive with what is found in other sectors of the market and the social housing sector also helped to mitigate the effects of the Global Financial Crisis (GFC). On the other hand, pressure on the rental housing market has increased because demand for cheap housing has grown more than supply. The social housing sector thus has to address the vital question of how to increase targeting on low-income households and vulnerable groups and at the same time to maintain social mix and public support. In this paper I argue that the sector, in spite of its strong position, is facing some common European challenges that will redefine its role in the future. Yet, the social housing sector is overburdened if expected to solve many problems that have arisen due to non-housing issues.

Keywords: social housing; Austria; GFC.
A strong position

Good news up front: Austria is in the privileged position of having maintained and even escalated the importance of social housing in the overall distribution of tenures. Historically, public intervention in the housing market has been a major element of Austrian housing policy since the early 20th century (Matznetter 2002; Reinprecht 2014; Kadi 2015). Housing production was, and still is, strongly influenced by public supply-side subsidies, distributed mainly, but not exclusively, to special limited-profit providers for the supply of affordable, long-term rental housing. Nowadays, these limited-profit housing associations (LPHAs) manage a stock of 908,000 units (GBV 2017). They construct around 15,000 units per year, which is between a quarter and a third of all new housing construction in Austria (Amann et al. 2017).

As a consequence, the importance of the social rental housing sector in Austria has received substantial academic attention in recent decades. Matznetter (2002) analysed it within the context of Esping-Andersen’s typology of welfare state regimes. Mundt and Amann (2010) used Kemeny’s classification of different rental market structures in nation states as a starting point for their analysis. There is particular interest in the elements of financing from which the limited-profit housing sector benefits (Tsenkova 2010; Deutsch and Lawson 2012; Nieboer et al. 2012). The ‘Vienna model of housing’ (Förster and Menking 2016), where the large LPH-stock is complemented by the 210,000 municipal rental apartments, has gained international recognition and is studied by housing policy practitioners worldwide.

Building on this heightened interest, this paper presents an up-to-date picture of the state of social housing in Austria in 2018. It will add an interesting country case study to the two big waves of country reports on the state of social housing published in the last two issues of Critical Housing Analysis. This paper summarises recent findings and data sources with a focus on the challenges that have arisen since the Global Financial Crisis (GFC). While the overall position of social housing in Austria is excellent by international standards and its position is characterised by ongoing public support, I argue that Austria is facing similar challenges as other countries with a long history of social housing, particularly a trend towards residualisation, a stronger market-orientation, and increased state-level discordance (e.g. Netherlands, Sweden, Denmark, France, see Poggio and Whitehead 2017a, 2017b). The social housing sector in Austria will have to find solutions to these challenges and must do its share to solve the affordability problem that has recently arisen in some of Austria’s urban rental housing markets. Likewise, I argue that we are expecting too much from social housing if we overlook that the main challenges have their origin in policy areas that must be addressed by more general initiatives than mere social housing measures.
Even if later the focus turns to possible shortcomings and areas for reform in Austria’s social housing, previous achievements should be made visible in an international comparison and ought not be overlooked. There are three main areas:

1. **Subsectors and volume of social housing**

The tenure distribution in Austria, especially the low ownership rate, has been relatively stable since 1981 (Mundt and Springler 2016). The only clear trend since then is the increasingly strong position of the LPHA rental stock. While the rental market as a whole kept its relative size, the LPHA-stock grew in importance compared to the private rental and also municipal housing stock.

Austria’s large rental-market sector is accompanied by a comparatively low ownership rate. From an international perspective, the small share of owner-occupied housing in Austria is similar only to Germany and Switzerland (OECD 2018). Only around half of all main residences in Austria are owner-occupied (Statistik Austria 2017). Private and commercial rental apartments account for 16%, while some 10% are other tenures (e.g. living free of charge in dwellings from family members). The social housing sector, as it is most commonly defined (Mundt and Amann 2010; Reinprecht 2014), is formed by two segments of administratively allocated rental dwellings with below market prices:

- First, the limited-profit rental housing stock owned and managed by the approx. 190 LPHAs (16% of all main residences, all across the nine Austrian regions).
- Second, the municipal rental housing stock (8% of all main residences, strongly concentrated in Vienna).

When looking at rural-urban differences, the social rental sector is more important in Vienna and other larger cities than in rural areas.

While most European countries with a historically strong social housing sector have curtailed their growth in recent decades, Austria has continued to support its step-wise expansion. The continuous support goes back to the decades after the Second World War and, since the devolution of responsibility from the federal state to the nine regional governments, continues mainly in the form of regional housing subsidy schemes. In sum, the regions spent some € 2.3 bn in 2016 (Amann et al. 2017). Since most of these subsidies are provided in the form of repayable, long-term low-interest loans for new housing construction, the decade-long existence of the system has produced a revolving-fund component: nowadays (in many regions), repaid loans can be used to finance new construction and therefore decrease the financial burden on regional budgets. This is the main reason why, with around 0.9% of GDP spent on housing policy measures altogether, Austria still has a less costly housing subsidy framework than many other countries that rely heavily on housing benefits or indirect, tax-based housing-market support (e.g. the Netherlands, UK, Spain; see Mundt and Wieser 2014). Since 2010 (Mundt and Amann 2010) the solidity of the LPHA sector, as measured by equity capital of LPHAs, has increased even further. This has encouraged stability and a good standing of LPHAs on financial markets for additional market loans.
2. Quality of the stock, prices and spatial distribution

While in many European countries the social housing stock suffers from a substantial backlog in refurbishment, the Austrian LPH-stock is often of better construction quality and is better maintained than the commercial rental stock. In the existing stock, a special component in the calculation of rents ensures that there are sufficient funds for building maintenance and refurbishment (Amann et al. 2012). This component is a mandatory mark-up on cost-rents and increases with the age of the building to ensure there are sufficient funds for periodic renovations. In the private rental stock, there is no such mandatory reserve fund and some older apartment buildings are in bad shape. The Viennese municipal housing stock, on the other hand, has received targeted refurbishment subsidies to modernise the large inter-war housing stock. In new construction, the competitive tender procedures connected with construction and the social aspects of housing ensure that the quality of new buildings is high. An internationally well-known example of this are the housing development competitions in Vienna (Förster and Menking 2016). The legal requirements for the environmental standards of the subsidised stock are very strict. Therefore, social housing providers still tend to be ‘at the forefront of energy efficiency’ (Amann et al. 2012).

In an international comparison, Austrian housing-market outcomes, as measured, for example, by housing quality and affordability or by the comparatively low house price volatility, are favourable (OECD 2015, 2018; Eurostat 2018). Gross rents (including overhead building expenses and taxes, but not energy costs) in the municipal housing stock, at 6.3 €/m², are still the lowest rents on the market. LPHA rental apartments cost 6.6 €/m² and private rentals 8.6 €/m² (Statistik Austria 2017: 41). LPHA rents are based on the historical costs of construction and financing, which profit from long-term low-interest regional loans. They do not include a profit component and they decrease with the age of the building as the financing costs get lower. Overall rental housing costs are strongly influenced by the social market segment which has helped to dampen price dynamics in the private segment in the past.

Housing costs as a percentage of household incomes are still very low in Austria. Looking at EU-SILC comparisons of housing-cost-overburden rates across Europe, Austria ranks in the bottom quintile of countries (Pittini 2012; Eurostat 2018). Austria is still guided by ‘an extended understanding of social housing’ (Mundt and Amann 2010: 38) in the sense that access is open to a large part of the population. Income limits are set rather high, even though there are regional differences. In general, some 70-80% of the population have access to limited-profit housing (Reinprecht 2014: 69). For the municipal housing stock, new allocations are more strictly targeted at households in acute need of social housing and at vulnerable groups.

The spatial distribution of social housing in Austria is a clear asset. Since it originated in the 1920s, the Viennese municipal housing stock has followed the goal of being dispersed throughout the city (Levy-Vroelant and Reinprecht 2014; Kadi 2015). In Vienna there is social housing throughout all 23 districts. This has helped to mitigate spatial inequalities and ethnic spatial concentration and to create a “locally balanced social structure” (Gutheil-Knopp-Kirchwald and Kadi 2017: 188).
3. Stabilising effects

House prices have been relatively stable in Austria for several decades. Many OECD countries, on the other hand, witnessed strong price increases before the GFC, followed by sudden corrections. Austria, on the other hand, was not hit by these volatile swings in house prices. As Mundt and Springler (2016) point out, Austrian housing finance was not very strongly affected by the GFC compared to international developments. The most important structural features of the Austrian housing market that ensured its resilience to outside shocks are the low homeownership rate, conservative lending standards, and the well-developed rental market (Schneider and Wagner 2015).

Especially the social rental housing market has been shown to be a decisive element in the strong stability of the Austrian post-war housing model (Matznetter 2002; Kadi 2015). As such, the sector of social rental housing acts as a cushion to prevent excessive house price cycles. Fiscal measures are used to influence housing construction and react to surges in apartment prices and rents. The political reluctance to let house prices skyrocket is due to the large rental housing sector. As Gstach (2007) shows, especially in countries with large rental housing markets, house price trends and their impact on rent dynamics have a significantly negative impact on aggregate consumption and outweigh the wealth effect that might stimulate the economy through the higher housing wealth of owner-occupiers. Furthermore, Matznetter (2002) indicates that Austrian housing policy has been directed at keeping rental costs low and stable to allow for lower wage increases for workers and employees.

The ability of a well-developed social housing sector to act as a buffer against house price swings, and thereby to increase economic and social resilience, is a less investigated advantage of this sector, but it is now becoming the focus of comparative investigations. Norris and Byrne (2017) argue that the provision, funding, and structure of social housing have actively helped to weaken housing-market cycles in Austria and to mitigate the impact of the decline in private-housing construction during the GFC. It has also helped to prevent marginal home ownership, that is the expansion of homeownership towards households that cannot afford it without high-risk mortgages. In many countries, a rapid expansion of homeownership proved to be risky and exacerbated housing-market volatility.

Headwinds: Current and future challenges

While social housing has acquired a strong position in the housing sector and clearly helped to cushion the immediate effects of the GFC on the economy and the social fabric, now, a decade later, the environment has changed and some of the challenges already visible in 2010 have become more pressing (Mundt and Amann 2010). At the heart of the current problem lies an affordability crisis that has arisen because the demand for social and affordable housing has outgrown supply.

First and foremost, demand has increased due to a deteriorating economic situation, a considerable increase in unemployment, and stagnating or decreasing incomes of households in the lower half of the income distribution (OECD 2015). There is an overall trend towards more part-time jobs and precarious forms of employment, and towards more vulnerable
household types – for example, single-parent households or low-income early retirees. In recent years, there has also been a strong influx of refugees, who initially often depend on state support before they are positively integrated in the labour market. A large share of EU and third-country immigrants are low-income earners and in need of affordable housing options.

Simultaneously, labour market and pension incomes have become more unequal in the last decade. State redistribution is playing a much more pronounced role to counterbalance unequal primary incomes (Rocha-Akis et al. 2016).

As for the housing market, notwithstanding the high stability of housing prices in the past, real estate prices and rental costs in Austria have been rising more strongly since 2007, and, in some segments, continued to rise during and in the aftermath of the GFC. This counter-cyclical price development (compared to most of Europe) was not fuelled so much by a surge in mortgage finance but by the redirection of savings into real estate (Mundt and Springler 2016).

In the field of affordable rental housing, there is a general disequilibrium between supply and demand in recent years. This has led to concerns about deteriorating housing affordability. While other housing indicators, such as overcrowding, have improved over the same period, housing-cost-overburden rates have increased slowly but continuously since 2005 (Mundt 2017).

The insider-outsider problem and residualization

While many sitting tenants still benefit from long-standing contracts and historically low rents, new market entrants are confronted with much higher market rents and less secure contracts. There are three factors in particular that aggravate this insider-outsider problem in the housing market: First, private rents in the market have ballooned in recent years. The increases were particularly pronounced in Vienna and its surroundings, as well as in regional capital cities of Graz, Innsbruck, and Salzburg. Second, the differences between market segments become larger, because in the private market, some older buildings are still rent controlled, while the new built stock follows market dynamics. Sitting tenants with long-term rental contracts benefit from the fact that yearly rent increases are often linked to inflation, which is below the dynamics of market rents. Third, poorer quality but affordable apartments have disappeared almost completely during the past few decades due to widespread renovations and consolidation of small units. This reduced viable housing alternatives for low-income households. As a consequence, those households with restricted means or insecure residential or employment status (young people, migrants, one-parent families, part-time employees etc.) face enormous barriers to access cheap and long-term rental market segments (Levy-Vroelant and Reinprecht 2017: 312).

As for social housing, supply is high but demand is higher still, even if many regions have stepped up their subsidised production in response to the affordability issues. Vienna, on average across the last four years, put 7,400 subsidised units on the market (Amann et al. 2017). While social housing supply is strong in new construction, there is little movement in the existing stock, because older social units are much cheaper than newer units and there is reluctance by social tenants to move out. In the LPHA segment, the older stock has lower cost-
rents because financing costs decrease with the age of the building. In the municipal stock, even though there were strong adaptations to market levels in the last years, long-term tenants still benefit from especially low rents. There is no legal obligation to move out because income limits are only checked when moving in and not afterwards.

In new social housing construction, increased construction costs and land scarcity contribute to high cost-rents leading to more need for demand-side subsidies such as housing benefits and larger capital contributions by future tenants (Mundt 2017). Capital contributions are a deposit charged from future tenants and used to co-finance new social housing construction. They consequently reduce future cost-rents. The deposit loses 1% p.a. of its value and the rest is paid back to the tenant when moving out. Even though in some regions (especially Vienna) special targeted loans are available to substitute these capital contributions, they can be very high in those localities where building land is particularly expensive. They can exacerbate accessibility to the social rental stock considerably.

Summarising these trends, the question arises if social housing in Austria is not sufficiently targeted, or if there is a trend towards residualisation. On the one hand, Austria might be faced with a Dutch scenario in the coming years, switching from a nearly universalistic model to a much more targeted approach (Hoekstra 2017). On the other hand, the question of a clear tendency towards the increased residualisation of social housing is being discussed across Europe, especially in countries with historically large social housing sectors. There is a risk of an accumulation of social problems amongst social tenants and in social housing estates and of increasing spatial segregation among low-income and vulnerable households.

Current EU-SILC data can be used to address this question for Austria. Figure 1 shows how the inhabitants of different housing market segments can be divided into three income groups. Municipal apartments focus strongly on low-income households, while LPHA rental apartments also cater strongly to middle and higher incomes. The private and commercial rental stock, on the other hand, has segments for high-income as well as low-income earners.

**Figure 1: Income groups across tenures 2016**

Source: EU-SILC 2016: Statistik Austria, 2017: 84, figure by the author.
When comparing these findings with 2010, it is striking that low-income earners have increased significantly in number and percentage (from 12 to 14%). The income group with incomes below 60% of the median grew by roughly 200,000 people between 2010 and 2016. This explains the overall strong increase in demand for affordable housing linked to the unfavourable income dynamics mentioned above. The share of low-income households in the LPHA rental and the private rental housing stock has increased substantially, while the share of such households in apartment ownership has decreased (likely due to the strong price dynamics since then). In Vienna, the LPA-stock is directed more at middle-income households than in other regions, even though this has become less so between 2004 and 2011 (Gutheil-Knopp-Kirchwald and Kadi 2017: 180). In sum, there is a clear tendency towards a more targeted allocation, but LPHA housing is still far from being a residualised form of tenure.

Austria is thus facing a dilemma similar to that in other European countries (Whitehead 2017): How can the LPHA housing sector be more focused on vulnerable groups and low-income households without jeopardising one important cornerstone of Austrian social housing, which is social mix? This is a major challenge, but some ideas come to mind. First, the trend towards more targeting should be a coordinated and slow one, not a radical change. A switch to income-dependent social rents could lead to an exodus of higher income earners and a sudden surge in residualisation. New LPHA housing should be steered towards lower cost-rents, e.g. by providing cheaper and smaller units. This trend is already visible in Vienna. Yet, new construction can only very slowly have an impact. New allocations of the existing stock should be more targeted at very low-income earners and vulnerable groups. There needs to be an element of rent-pooling across the LPH-stock to address strong segmentation. It would be advisable to have more incentives for sitting tenants with high incomes to move out and vacate the apartment for new, more targeted allocation. Extended rights to pass on LPHA and municipal dwellings to relatives should be curtailed.

**Privatisation and re-commodification**

In the mid-1990s a new tenure arrangement was introduced in the newly built LPH-stock. After a period of ten years living in an LPHA rental apartment, sitting tenants have the opportunity to buy their apartment. This delayed right-to-buy is granted to all tenants who paid high capital contributions to the construction of their building (in 2018 more than approx. € 70/m²). Nowadays, since capital contributions have risen strongly, most of the newly built housing stock features this delayed right-to-buy. It will only become apparent over time whether sitting tenants choose to buy their apartment, which will then be lost to the long-term social housing stock. Until now, the percentage of sitting tenants who have opted to buy has been lower than expected, but the better and larger units are bought more frequently. The remaining stock tends to be of poorer quality and has tenants with lower incomes, which may result in residualization. If many units are bought by residents, the social rental sector could shrink in the future.

There are also some other tendencies of re-commodification and marketisation in social housing. First, market forces have led to increased building plot prices in the main Austrian cities. Through the cost-rent idea such dynamics are passed on to the social housing sector. Ambitious expectations for construction quality and environmental standards have raised the
costs of social housing construction to such a level that the standards are often higher than in new commercial construction.

Second, there is a clear tendency of LPHAs to channel their engagement towards free market activity. As they cannot find land at prices that meet the subsidy stipulations, i.e. land cheap enough to qualify for regional subsidies, many LPHAs have switched to unsubsidised new construction. According to an estimate based on construction data (GBV 2017), around 10-15% of new LPHA construction is now a market-financed activity, up from around 7% in 2012. The share varies by region and is probably highest in Vienna. Cost-rents still apply, but because such cost-rents depend on market finance (which is more expensive than regional loans), they have become too high and unaffordable for low-income households, let alone vulnerable groups on the housing market.

Third, there is a (still very small) trend towards abandoning the original idea of long-term social housing in Austria. In Vienna, a special subsidy scheme in addition to the existing regional schemes was introduced in 2011. This ‘Viennese building initiative’ encourages new construction in the mid-price range, granting financial benefits to LPHAs and commercial providers in exchange for limited-term social obligations concerning rent levels and access criteria. In contrast to the open-term social obligation of LPHA cost-rent housing, this new scheme is similar to the general approach to social housing followed in Germany, where social housing is ‘social’ always only for a defined period (Kofner 2017). Commercial developers in the new Viennese scheme will be allowed to raise the rent level after 10 years (only for new tenants), possibly to a higher market level. Unlike in Germany, however, it is only an additional scheme and not the standard approach.

LPHA housing construction has thus become more of a market commodity in recent years, while the resulting prices are not in line with what many households can afford.

Uncertain commitment and state support

The volume and commitment to long-term state support for new social housing construction in Austria is still on a level barely rivalled by other OECD countries. Yet, austerity has also taken its toll on Austrian housing policy expenditures, with a clear downward trend in the regional budgets allocated to housing subsidy schemes (Amann et al. 2017). Social housing output was higher in the mid-1990s than it is today.

The extent of co-operation or tension between the different levels of governance is one factor that influences the development of social housing in many European states (Poggio and Whitehead 2017b: 6). A systematic look at Austria’s different levels of government and their position on social housing reveals mixed results:

The regions are the main authorities for subsidising new social housing construction. While there is an overall downward trend in budgets allocated to social housing, some regions still show very strong support. Fortunately, this is the case in Vienna, though it is being challenged by particularly strong growth in demand. The general leeway for social housing subsidisation
by the regions is strongly influenced by the fiscal transfer arrangements between regions and the federal government.

How will the new federal government, in office since December 2017, handle the social housing sector? The new government is formed by the conservative and the right-wing party that in the past has criticised the social housing sector and, although in a rather unsystematic way, has called for privatisation and greater reliance on private provision. No clear strategy can be discerned, but public finances, especially at the federal level, will be curtailed. This might have repercussions on the regions’ ability to finance economic and social programmes such as new social housing construction. However, a clear national strategy for resolving housing issues is still missing, even though some of the most important emergent housing issues, e.g. the reform of the rental act and LPHA legislation, belong to the federal sphere and are as yet unresolved. Equally important, the federal level plays a crucial role in influencing the demand side of social housing by providing adequate income, labour market, and migration policies.

Municipalities, the local level of government, will play an essential part in enabling future social housing construction. It is a trend common in many European states that the lack of available land to build on is the main impediment to social housing playing a larger role. The success of social housing in the future will depend on whether governments have the capacity and commitment to make land available at below market value (Whitehead 2017: 18). Also in Austria, land provision by municipalities is central to the success of large-scale social housing projects and to newer, smaller initiatives of collaborative housing (Lang and Stöger 2018). There is a need for more audacious policy instruments to increase building land availability and mobilise land-banked plots in the hands of individuals and investors.

Conclusions

Austria has been too self-confident in thinking it has been spared the challenges common to the rest of Europe and the effects of the GFC, which have arrived with a delay. The social housing sector in Austria is larger than in other countries and is directed towards lower- and middle-income households. Especially in Vienna, the LPH-stock is steered towards middle-income earners, while the still important municipal stock caters strongly to low-income households and vulnerable groups. Nevertheless, Austria is increasingly facing challenges similar to those in other European nations with a long history of social housing (Poggio and Whitehead 2017a, 2017b). The main question to be addressed is how to concentrate more strongly on the neediest, while keeping sustainable, mixed-income, culturally diverse housing estates. This should not be a radical change, but a continuous and careful process. The existing stock needs to play a larger role than new construction.

Is social housing in Austria in jeopardy? Not at the moment, because the volume, price, and quality of social housing make it competitive with private housing. The social housing sector represents a well-balanced social asset that many other European countries now unfortunately lack. While reforms to the social housing sector are clearly necessary, a main concern that needs to be addressed on the federal and regional level is to curtail the increasing demand for social housing that originates from the demand side. Social housing alone cannot make up for
insufficient income, social, and labour-market policies. Municipalities, on the other hand, have to step up their engagement to solve the problem of building land scarcity in the cities.
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