

Hypostat 2021

Austrian Housing and Mortgage Markets

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SUMMARY BULLET POINTS

- After a decline in real GDP of 6.7%, the Oesterreichische Nationalbank (OeNB) expects the economy to grow by 3.9% and 4.2% in 2021 and 2022, respectively.
- Residential property proved to be more resilient than other sectors of real estate. Rental markets depend on regulated sub-markets which were hardly affected by the crisis. For commercial rents, a slight decrease is expected.
- Real residential construction investment fell by 4% year-on-year in 2020. In contrast, the number of real estate transactions increased by 5.1%.
- The year-on-year growth in home loans to households grew by 6.0%.
- Subsidized housing continues to be significant in multi-apartment new construction although below 50% in recent years. Financing mainly relies on the housing subsidy schemes of Austrian Länder (“Wohnbauförderung”). Despite this state expenditure on housing is below 0.5% of GDP.
- As in the Global Economic Crisis of 2008/09, subsidised and limited-profit housing worked as a shock absorber during the pandemic.

MACROECONOMIC OVERVIEW

The withdrawal of containment measures and vaccination progress, will lead to strong growth in the economy in mid-2021. After a decline in real GDP of 6.7% in 2020, the OeNB expects growth of 3.9% and 4.2% for 2021 and 2022, respectively. The catch-up with pre-pandemic output levels will be completed in 2023 and economic growth will move towards the long-term average growth rate of 1.9%. The HICP inflation rate is forecast to rise to 2.0% in 2021 and decrease to 1.8% in both 2022 and 2023. The budget balance is predicted to be -6.9% of GDP in 2021 and will improve to around -2% of GDP by 2023. After a further increase in 2021 (85.1% of GDP), the debt ratio is expected to decline again from 2022 onwards and to just below 82% of GDP in 2023. Exports are expected to grow by 7.1% in 2021, by 6.4% in the next and 3.4% in 2023.

The re-opening in mid-May 2021 largely lifted the supply-side restrictions on consumption. As a result, a strong recovery in private consumption and a rapid decline in the sharply increased savings rate are expected. After a notable decrease of 9.4% last year, private consumption is expected to grow by 4% in 2021 and by 5.8% in 2022. The pre-crisis level of consumer spending should be reached in the first half of 2022. The savings rate is forecast to decrease from its high of 14.4% in 2020 to below 8% in 2023. The unemployment rate is expected to fall from 5.2% in 2021 to 4.6% in 2023, only slightly above the pre-crisis level.

HOUSING MARKETS

The growth of residential property prices has accelerated further, reaching an annual rate of 12.3% in the first quarter of 2021, after 10.0% in the fourth quarter of 2020. In Vienna, year-on-year price growth was similarly strong at +10.9% in the first three months of 2021 (fourth quarter 2020: 9.4%). Considered altogether, prices in the remaining provinces rose by 14.0% in the same period compared with the previous quarter (10.7%). The overall pickup in prices was above all due to the pronounced increase in single-family house prices since the onset of the pandemic, which might be related to the implementation of telework schemes and the lockdowns in general. The OeNB fundamentals indicator for residential

property prices reached 18.8% in the first quarter of 2021, signaling an increasing overheating of the residential real estate market in Austria.

The residential property sector has shown to be more resilient during the pandemic than the commercial property sector. The significant stock of social and affordable housing – municipal housing, limited-profit housing associations (LPHA) and rent-regulated private apartments - represent one third of the total housing stock and three quarter of all rental apartments and was not affected by the public health crisis, as rent increases are linked to the CPI.

MORTGAGE MARKETS

After the onset of the pandemic, the growth of bank lending to households subsided slightly. In the twelve months to March 2021, the annual growth rate of bank loans to households slowed from 4.3% to 3.9% year on year (adjusted for reclassifications, valuation changes and exchange rate effects). This moderation reflected uncertainties among households about the impact of the pandemic on their disposable income and employment prospects.

Moreover, as in the corporate loan segment, reduced repayments due to moratoria for persons who suffered substantial cuts in incomes as a result of the health crisis supported outstanding loans to households and thus growth rates. In line with the decrease in consumption of durables and the extraordinary fall in consumer confidence in 2020, consumer loans were down 5.4% in the year to March 2021. Other loans, which include loans to sole proprietors and unincorporated enterprises (which were eligible for loan guarantees), rose by 1.4%. As in past years, the main contribution to loan growth came from housing loans, not only because the latter are the most important loan category for households – accounting for more than two-thirds of the outstanding volume of loans to households – but also because they registered the highest growth rate of all loan purposes, reaching 6.1% year-on-year in March 2021.

Due to supervisory measures, foreign currency loans have declined further. By January 2021, the volume of outstanding foreign currency loans extended to domestic households had fallen to EUR 11.4 billion, down by 13.7% year on year and exchange rate adjusted. Most (96%) of these loans are denominated in Swiss francs. The share of foreign currency loans in total loans to households shrank by 1.5 percentage points year on year to 6.6%. (for more details see Financial Stability Report 41, June 2021)

MORTGAGE FUNDING

According to data from the first quarter of 2021 60.2 % of loans to nonbanks are secured by mortgages. Almost half of the loans to the corporate sector were granted to companies active in the real estate sector (construction, real estate and housing). More than half of the loans (54.4 %) to the nonbank sector are used for financing real estate projects.

HOUSING POLICY

The key characteristics of Austria's housing policy are still its focus on regulated rental housing and its financing tools. The Limited-Profit Housing sector continues to flourish, with more than 19,000 completed apartments in 2020 (2.1 units per 1,000 inhabitants), the highest rate for the past 20 years. A new trend is seen in municipal housing, with Vienna reviving its own construction activities after more than 20 years of no new construction of social housing. Initiatives to liberalise private rental markets seem to be postponed. Social housing supply follows a generalist eligibility approach with high income limits. Hence Austrian housing policy still promotes integrated rental markets.

Financing of affordable housing mainly relies on the housing subsidy schemes of Austrian Länder ("Wohnbauförderung"), who spent approx. EUR 2.0 bln in new construction, refurbishment and housing allowances in 2020. Other tools, such as tax subsidies, a minimum income scheme, subsidies on financing products or for green investments, play a subsidiary role. The financing system of the "Wohnbauförderung" gains its efficiency through the close interaction with the system of limited profit housing construction and tailor-made capital market financing instruments. Altogether, public expenditure on housing is below 0.5% of GDP,. Nevertheless, the results are significant in terms of the quantity and quality of housing, affordability and aspects of social integration.

A COVID19 act from April 2020 also included housing policy measures, amongst them a temporary ban on evictions for non-payment of rents, or suspended prosecution for default payment of utilities. Similar to the Global Economic Crisis of 2008/09, subsidised and limited-profit housing worked as a shock absorber during the CORONA19 crisis.

Housing is well positioned in the political agenda. The main pillars of housing policy are supported by basically all political parties.