



HYPOSTAT 2019



HYPOSTAT **2019** | A REVIEW OF EUROPE'S MORTGAGE AND HOUSING MARKETS

European Mortgage Federation
September 2019

Austria

By Dr. Karin Wagner¹, OeNB,
and Dr. Wolfgang Amann, Associate Professor, IIBW

IN A NUTSHELL

- Construction investment is one of the principal contributors to the growth of gross-fixed capital formation favouring economic growth.
- House prices in the Austrian market continued growing but at a slower pace.
- Residential mortgage lending growth stays stable along 2018.
- The share of variable interest rate loans continues decreasing.
- The policies focused on the housing market have had important results on terms of affordability.

MACROECONOMIC OVERVIEW

The hardly dynamic international economy is slowing down economic growth in Austria, but the sustained domestic demand is holding up the economic performance. Compared with the two booming years of 2017 and 2018, when economic growth was 2.7% each, GDP growth will nonetheless noticeably slow down to 1.5% in 2019. For the next two years, the OeNB expects a slight improvement, with real GDP growth at 1.6% each.

The unemployment rate will fall slightly from 4.8% in 2018 to 4.7% in 2019 and then remain unchanged until 2021. HICP inflation will fall from 2.1% in 2018 to 1.7% in the current year and will remain at that level in 2020 and 2021. The general government budget balance will increase from +0.1% of GDP in 2018 to +0.5% of GDP in 2021. The debt ratio will improve from 73.8% of GDP in 2018 to 65.2% of GDP in 2019.

Private consumption has been developing strongly since 2016, supported by dynamic employment growth, rising gross wages and income tax measures. The boom experienced in 2017/2018 led to higher wage settlements for the current year compared to previous ones. The rise of wages together with the introduction of a fiscal “family bonus” will further boost private consumer demand in 2019.

In addition to private consumption, the domestic economy is being driven by growth in gross fixed capital formation. In this context, construction investment contributed significantly above the long-term average to total gross fixed capital formation growth, trend that will continue until the end of the year. This further extends the investment cycle, which is already more than average by historical standards. Overall, investment growth of 2.7% in 2019, 2.0% in 2020 and 1.7% in 2021 is expected. Furthermore, the investment ratio will be 24.3% in 2019, being the highest value since the early 2000s.

HOUSING AND MORTGAGE MARKETS

HOUSING MARKET

House prices in Austria have increased steadily and at fast pace for already one decade. In the early 2010s, price dynamics were one of the highest all over the EU, but since half a decade, several northern and eastern European countries have outperformed Austria. Dynamics are still strong but have smoothed in the first months of 2019. Both in Vienna and in the rest of Austria, the growth rates of residential property prices were lower than in previous years. Viennese real estate prices rose by 5.5% in Q1 2019, prices in the rest of the federal states rose by 4.1%, and overall Austria's growth reached 5.0% (year-on-year comparison). While in Vienna in Q4 2018 the price increase for new condominiums was 7.6%, at the beginning of 2019 predominantly existing condominiums were responsible for the overall price increase (5.8% compared to new apartments which grew at 5.1%, year-on-year).

In the first quarter of 2019, the OeNB fundamental indicator for residential property prices for Vienna went up slightly up to 23.2% from a potential overvaluation (22.1% in the fourth quarter 2018). For Austria as a whole, the indicator remained the same (13.2% in Q4 2018 and in Q1 2019).

Investment has been a major pillar of the boom over the past three years – its contribution to GDP growth was just under one percentage point. In the past two years, the investment cycle has been increasingly driven by construction investment, while equipment investment momentum has slowed down. The favorable financing conditions, which are due to the low interest rate environment on the one hand and the excellent internal financing options on the other hand, have boosted companies' investment demand in recent years. The investment ratio rose to 23.9% of GDP in 2018. Besides being the highest level since the early 2000s it is the sixth highest in the EU (Euro area: 21.0% of GDP, EU: 20.5% of GDP).

Construction investment contributes significantly to investment growth since 2017. Both residential and non-residential investments posted above-average growth. However, the cycle of housing investment is coming to an end. Building permits are a leading indicator (with a lead time of about two years) compared to the number of completions. After strong growth rates in 2016 and 2017, these fell by 13% in 2018. For 2020 and 2021, the growth of housing investment is expected to smoothly subside.

MORTGAGE MARKET

Market dynamics

Residential mortgage lending growth to households was largely stable in 2018. Growth figures remained largely stable at the beginning of the year, standing

¹ Opinions expressed by the authors of studies do not necessarily reflect the official viewpoint of the Oesterreichische Nationalbank or of the Eurosystem.

at 4.6% in April 2019 compared to the previous year. Although credit standards for residential mortgage lending tightened slightly in the first quarter of 2019, lending rates for new mortgage loans continued to decline until recently, at 1.72% in April 2019, 12 basis points lower than a year before. The share of variable rate loans (1-year fixed interest rate) on new lending averaged 42.8% over the last 12 months to April 2019, decreasing from 50.0% one year before. The foreign currency share of housing loans stood at 11.0% in April 2019, down 1.4 percentage points from a year ago.

Non-market led initiatives

The key characteristics of Austria's housing policy are still focus on regulated (i.e. limited profit) rental housing and its financing tools. In 2018 the main emphasis was also put on state and regional supply-side subsidies, which aim at fostering affordable housing. Public subsidies accounted for around 0.6% of GDP, including a wide range of policy tools. The most important is the "Wohnbauförderung" of the Austrian provinces, with a focus on subsidies on bricks and mortar and subsidiary housing allowances. The financing system of the "Wohnbauförderung" gains its efficiency through the close interaction with the system of limited profit housing construction and additional capital market financing instruments. Social housing supply follows a generalist eligibility approach with high income limits. Hence Austrian housing policy still promotes integrated rental markets.

Other subsidy tools are a minimum income schemes coming from regional social budgets, subsidies for "Bausparkassen" and "housing bonds", very limited fiscal subsidies and a reduced VAT rate for rental housing. The overall state expenditure on housing is below most other European countries, such as UK, France, Netherlands or Germany. At the same time the outputs are quite remarkable, taking quality of housing, affordability and aspects of social integration.

Housing is well positioned in the political agenda and is subject to most election campaigns on regional and federal level.

	AUSTRIA 2017	AUSTRIA 2018	EU 28 2018
Real GDP growth (%) (1)	3.0	2.7	2.0
Unemployment Rate (LSF), annual average (%) (1)	5.5	4.9	6.8
HICP inflation (%) (1)	2.2	2.1	1.9
Outstanding Residential Loans (mn EUR) (2)	107,354	112,934	7,251,189
Outstanding Residential Loans per capita over 18 (EUR) (2)	14,812	15,494	17,404
Outstanding Residential Loans to disposable income ratio (%) (2)	49.2	50.1	77.2*
Gross residential lending, annual growth (%) (2)	38.1	-0.1	2.34
Typical mortgage rate, annual average (%) (2)	1.9	1.8	2.5**
Owner occupation rate (%) (1)	55.0	55.4	69.3*
Nominal house price growth (%) (2)	3.8	6.9	6.3

* The aggregate EU figure is from 2017

** Please note that this value is the simple average of the typical interest rate of the EU 28 countries

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2019, Statistical Tables.

AUSTRIA FACT TABLE

Entities which can issue mortgage loans:	Mortgage lending is mainly financed via banks and Bausparkassen.
The market share of the mortgage issuances:	Not available
Proportion of outstanding mortgage loans of the mortgage issuances:	Bausparkassen hold the biggest proportion of residential mortgages in Austria. In combination with the Saving Banks Group, Bausparkassen represent the largest market share of the mortgage market.
Typical LTV ratio on residential mortgage loans:	According to Oesterreichische Nationalbank's 2014 Financial Stability Report, the average LTV of private households is around 60% (based on survey data).
Any distinction made between residential and non-residential loans:	Not available
Most common mortgage product(s):	Both variable rate loans and foreign currency loans are common mortgage products in Austria, but variable rate loans remain the most popular choice. However, there is a falling trend in their share in total loans over many years (in 1Q2019 around 11% of mortgage loans were foreign currency loans and around 45% of new issued mortgage loans were variable rate loans).
Typical maturity of a mortgage:	Mortgages typically have a maturity rate of 25 – 30 years.
Most common way to fund mortgage lending:	Mortgage funding in Austria is mainly deposit-based. According to the IMF covered bonds only made up 7.1% of the outstanding mortgages in 2008, meanwhile securitisation as a way of funding is even less popular making up only 3.1%.
Level of costs associated with a house purchase:	In addition to the cost of borrowing, one should add a mortgage fee, VAT, notary fees and taxes. In total, around 10% of the purchase price are to be added as costs at the house purchase.
The level (if any) of government subsidies for house purchases:	Government housing subsidies accounted for 0.6% of the GDP in 2018. The subsidy scheme of the "Länder" predominantly supports supply side. i.e. low interest loans, grants and guarantees to housing developers, mostly Limited Profit Housing Associations. They provide rental, rent to buy and a small share of affordable owner-occupied apartments. Additionally, refurbishment is subsidized and housing allowances are granted.