



The Austrian Model of Affordable Housing

January 2024

Prepared for the Austrian Ministry of
Climate Action

 **Bundesministerium**
Klimaschutz, Umwelt,
Energie, Mobilität,
Innovation und Technologie

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1 THE AUSTRIAN MODEL OF LIMITED-PROFIT HOUSING

1.1 HISTORIC BACKGROUND

Limited-Profit Housing Associations (LPHAs) in Austria date back to the late 19th century and have their origins in the cooperative movement. They have steadily grown in importance since the 1950s. The main idea today is to build up a long-term social housing stock at below-market cost-rents for large sections of the population. In particular, social housing in Austria is rooted in an ideological background that stems from both the socialist idea of solidarity and the Catholic social doctrine. For a long time, the LPH sector was mainly driven by the two dominant parties of the time, the People's Party and the Social Democratic Party. Today, it is supported by all parties represented in parliament.

1.2 MAIN CHARACTERISTICS OF THE BUSINESS CASE

The LPHA business case is defined in detail in the Limited-Profit Housing Act (*WGG, Wohnungsgemeinnützigkeitgesetz*, BGBl. Nr. 139/1979), which is a federal state responsibility, and a number of directives, issued by the Ministry of Economy as the line ministry for the sector.

a) Legal definition

The LPH Act describes LPHAs as enterprises whose activities are directly geared towards the fulfilment of the common good in the field of housing and residential matters, whose assets are dedicated to the fulfilment of such tasks and whose business operations can be regularly reviewed and monitored. However, regardless of this orientation towards the common good, limited-profit housing associations are nevertheless private and independent entities. As such, they represent the Third Sector in the field of housing.

Cooperatives and companies are allowed to act as such if they are recognized as LPHA and become subject to this law. Rescission of this status is hence the most serious sanction for misconduct, including serious economic consequences.

The LPH Act defines a number of principles for the business case, with the most important of which are as follows:

b) Limited business activities

LPHAs must primarily engage in business activities that fall within their primary legal scope: housing construction (including student housing and housing for the elderly), maintenance and renovation, in their own name or on behalf of another LPHA. Other activities are possible, but to a lesser extent (e.g. construction of garages, offices) or require the explicit approval of the governments of the provinces (Länder) as a supervisory body. Such "other activities" concern, for example, social infrastructure for municipalities (UNECE, 2021).

c) Cost coverage principle

The system is based on the principle of cost coverage, both for rental and for owner-occupied housing. This applies even to LPHA activities without subsidies. Cost coverage is calculated on estate-level, and there is no rent-pooling at the LPHA level.

One might suggest that a cost coverage principle leads to higher production costs. In fact, the contrary is true, as described below (chap. 1.4.3).

Rents and purchase prices may not exceed the LPHA's own costs, but may not be less than these costs, i.e. it is legally prohibited to base calculations on social rents that do not cover costs. Allowable costs are defined by law and include a few components on which the LPHA may make a profit (e.g., a construction supervision fee, lump sum fees for planning services or for the management of the housing). For investing its own equity in a housing project, the LPHA can charge up to 3.5% interest (in practice often less). The most important income comes from amortized dwellings, for which an exemption from the cost coverage principle is provided (for details see chapter 1.4.2.). Revenue-generating components are part of cost-covering prices. In the case of LPHA, however, these are clearly defined by legislation and supplementary regulations, which set upper limits.

The revenue components are designed as incentives for economically rational behavior. To this end, they have been adjusted in an iterative process with each reform of the LPH law. The principle is also linked to a special surcharge for periodic renovation and maintenance work (*Erhaltungs- und Verbesserungsbeitrag*, see chap. 1.6.2).

d) Limitation of profit – obligation to reinvest in housing

The legally defined revenues of LPHAs are intended to strengthen their equity base, to support their financial maturity and their market power vis-à-vis the construction and finance industries (see chap. 1.4.2). For this reason, profits must be reinvested in housing-related assets, such as construction financing, early repayment of (subsidized) loans, refurbishment, and land acquisition. As a result, many LPHAs have been able to build up substantial land reserves. As major players in the land market, they are able to purchase large tracts of land at discounted prices. Groups of LPHAs and commercial developers often work together on large deals.

A strictly limited portion of the profits may be distributed to owners or shareholders. It is set at 3.5% of the original capital invested. Since this is a historical value that is not adjusted over time, in many cases only a negligible amount goes to LPHA shareholders. However, private investment in LPHAs is attractive, as described in 1.3.5.

e) Obligation to build

The obligation to build is a driving force to keep the sector busy, because for an LPHA with a sufficient number of amortized dwellings, it may be easier to stop building and only manage the stock. With a recent reform (2019), deep renovation has been defined as equivalent to new construction. This is intended to ease the situation of small LPHAs with regard to the obligation to build.

f) Tie-up of assets

The LPH Act stipulates that in the case of mergers and acquisitions of LPHAs, the seller will receive no more than the original capital invested (with interest usually paid out on an annual basis by way of limited profit distribution). Thus, any possibility of cashing out the dormant assets of an LPHA is prevented. This is a critical rule of the LPH scheme, as the real value often exceeds the nominal value of an LPHA's assets by a factor of 20 or more. Stricter protection of LPHAs from liquidation was one of the main issues of the recent reforms of the LPH Act.

This principle can be described as revolving funds (UNECE, 2021). Equity capital is permanently tied up for limited-profit purposes and surpluses are continuously reinvested. This is ensured by limiting the distribution of profits among the owners and by the obligation to reinvest surpluses in housing on a regular basis. In addition, shares in a limited-profit housing association may not be sold for more than the nominal value of the initial investment.

g) Rent-to-buy

Since 1994, the LPH Act contains a right-to-buy for tenants who contribute a certain amount of their own funds to co-finance the costs of land and/or construction when they move in (currently around 85 €/m² upfront payment). After a period of 5 years, tenants of these newly built apartments have a right-to-buy. This form of tenure was introduced as a compromise between lobbies in favor of a growing share of owner-occupied housing and those supporting the social rental sector. However, although this form of tenure accounts for a large proportion of new LPH construction (see Figure 1), only a minority choose to buy only the minority decide to buy. The proportion is higher for row houses, dwellings attics and in favorable urban areas, but lower for all others.

The main reasons why tenants choose to rent rather than buy are as follows: Rental tenure in Austria is very secure and in the LPH sector usually offers unlimited-term contracts. Adult children and spouses have a right to step into the contract. LPHA rents are moderate. According to the cost rent scheme, rents will even decrease after the refinancing period. Finally, LPHA have proved to act highly professional in housing management. This contributes to a slightly growing rental share in Austria as opposed to owner-occupation.

h) Personnel restrictions

LPHA must be independent from the construction industry to prevent tie-in deals to the detriment of tenants. This applies particularly to the functionaries of LPHAs. The salaries of functionaries may also not exceed statutory limits (UNECE, 2021).

1.3 INSTITUTIONAL SETTING

1.3.1 OWNERSHIP STRUCTURE

Today, 182 LPHAs operate in Austria, about half of them as co-operatives, the others as limited-liability companies or stock corporations, but under a common legal regime and supervisory structure. Cooperatives are owned jointly by their members while capital companies are owned by local or regional public authorities, charities, political parties, trade unions, companies, the financial industry, foundations or private individuals.

1.3.2 MARKET FAILURES ADDRESSED

The main advantages of the LPHA system unfold in comparison with housing policy systems in other countries around the world. At the lower end of the income scale, municipal, public, or social housing serves the needs of vulnerable households. For better-off households, markets seem to provide sufficient and appropriate supply. But around the world, market prices have risen faster than incomes in recent years. There is a growing gap for middle-income households that do not qualify for social housing but cannot afford market housing. The Austrian LPH model appears to be an appropriate response to this market

failure. LPHAs provide affordable housing in market segments and regions where commercial housing providers would not be active. In this respect, the LPH sector relieves pressure on the commercial sector. This may explain why the commercial real estate sector in Austria is hardly opposed to the LPH system.

1.3.3 AUDIT AND SUPERVISION

LPHAs must be registered and are closely monitored. There is a very strict system of auditing and supervision of LPHA activities and expenditures by independent auditors. The audit monitors compliance with the law, including efficient use of resources and capital, and sound management of the organization (see chap. 1.4.7).

LPHAs are both self-auditing and publicly regulated. The regional governments are auditing authorities for the LPHA active in their territory, but the LPH sector itself carries out the auditing procedures.

All LPHAs have to join the common Audit Association (*Revisionsverband*), which is organized together with the lobbying organization of the Sector (*Verband der gemeinnützigen Bauvereinigungen, GBV*). The LPHA audit goes much deeper than the usual year-end audit of capital companies. It also includes a detailed assessment of compliance with all legal requirements, including the purchase of land, the setting of rents, the tying up of property and the remuneration of management.

The LPHA supervision system has its origins in the cooperative sector. However, recent reforms have brought it closer to banking supervision, particularly with regard to fit & proper-regulations. The LPHA audit also functions as a form of economic supervision and is used to provide qualified information and assistance to member enterprises to improve productivity and competitiveness.

If deviations are detected, the regional government has a series of measures at its disposal to enforce correction, starting with a notice to correct, then the threat of exclusion from new subsidies for a certain period, and finally the threat of revocation of the LPHA status. In the latter case, the LPHA shareholders would be compensated only with the capital originally invested and all dormant assets would be transferred to another non-profit organization.

This arrangement has proven to be an effective tool in preventing misconduct. The tight operating framework provided by the LPH Act, the supervision by the regional authorities and the fact that many housing associations are owned by semi-public bodies have resulted in housing associations being seen as the "lengthened arm of housing policy".

1.3.4 REPRESENTATION OF INTEREST

The Austrian Federation of Limited-Profit Housing Associations (GBV) is responsible for representing the interests of all LPHAs. It is not only successful in positioning of the sector in public opinion, but is also well equipped with legal experts, who, together with responsible officials in the Ministry of Economy, influence reforms of the LPH Act.

1.3.5 SHAREHOLDER'S INTERESTS – TRADING OF LPHA SHARES

A frequently asked question concerns the interest of private investors in investing in the LPH sector. As a matter of fact, the demand for private investment in the sector is lively, although the sector is extremely

illiquid. The trade of LPHA shares is restricted not only by price regulations (nominal value only), but also because it would trigger the real estate transfer tax on the entire housing stock of a company.

LPHA shareholders benefit from their engagement for several reasons: they can offer affordable housing to their clients (e.g. trade unions), there is little downside risk, there are several opportunities for side businesses (e.g. for the finance industry). In any case, most LPHAs are solid businesses with significant economic and social impact. They have everything that makes an investment valuable except fungibility. It is not possible to cash out the dormant assets of an LPHA.

1.4 PERFORMANCE INDICATORS – ECONOMIC SUSTAINABILITY

1.4.1 VOLUME OF THE LPH SECTOR

The managed housing stock of 660,000 rental dwellings, 300,000 owner-occupied apartments and 40,000 units managed for municipalities, together 1 million units (2022, GBV data) represents 24% of the total housing stock in Austria and almost 40% of all multi-apartment dwellings (primary residences).

The sector employs more than 9,000 people. The 97 cooperatives have around 550,000 members. The total assets of all LPHAs according to the balance sheets amount to approx. 60 bn. EUR (Amann & Struber, 2023). However, the real value of the assets is two to three times higher (IIBW estimate).

1.4.2 ECONOMIC MATURITY

Despite the cost rent principle, the LPH Act defines a number of activities that allow LPHA to make profits. These include fees for organizing construction or refurbishment projects, flat-rate fees for housing management, interest on invested equity, or rents from fully amortized buildings. These components provide stable and predictable income. However, equity ratios vary widely across the sector. A number of LPHAs with older and therefore amortized rental housing stock are now economically quite mature, with equity ratios in some cases exceeding 50%. On the other hand, there are younger LPHAs with a focus on owner-occupied housing or more rural markets that show a much worse performance (Amann & Wieser, 2015). Nevertheless, LPHAs have very rarely gone bankrupt, and for decades not a single buyer or tenant has lost money as a result.

1.4.3 ECONOMY OF COSTS

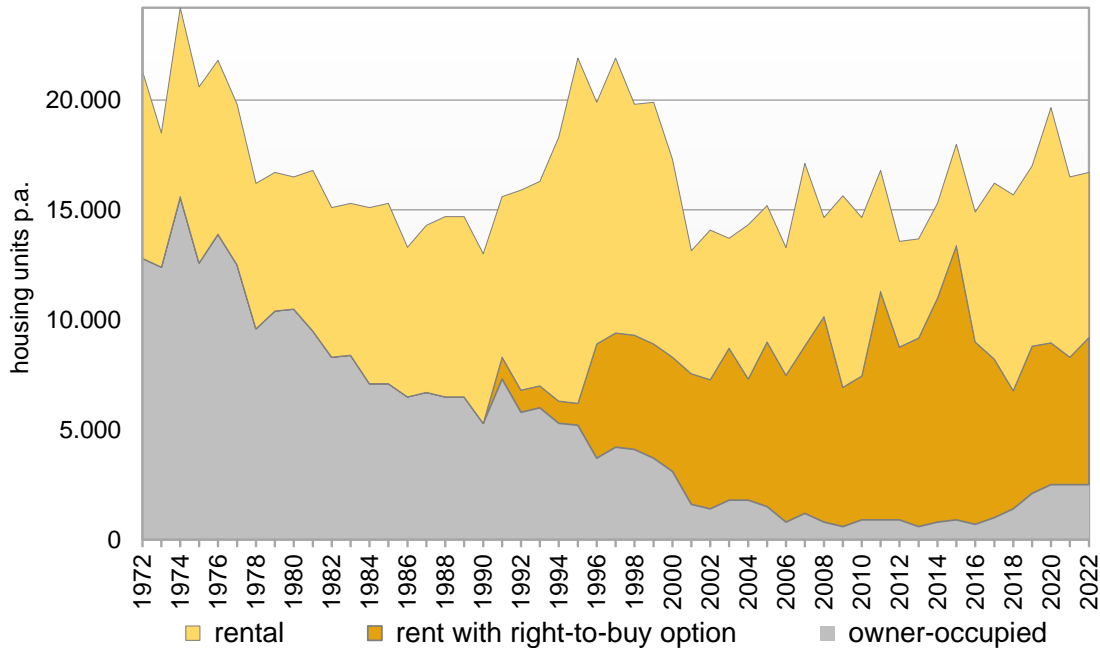
Due to a number of measures on the part of the LPH Act and the subsidy systems, the overall costs are significantly lower than in the commercial sector. Some of those measures are described in chap. 2.5. Another important aspect is the system of audit and supervision (see chap. 1.3.3), which assesses all levels of business conduct in terms of appropriateness and economic efficiency using a set of performance indicators. Finally, LPHAs enjoy extremely good financing conditions, as a result of a default rate close to zero.

1.4.4 NEW CONSTRUCTION WITH SUBSIDIES

Over the past century, the LPHA sector has delivered a total of more than 1 million housing units. The output is around 17,000 dwellings per year (5-year average 2018-2022, see Figure 1) at a rather stable level. This represents 28% of total new construction (completed housing units), i.e. 42% of multi-apartment units. The LPHA share in total new construction was even much higher during the construction slump in the 2000s.

LPHAs now build mainly rental units, about half of which are right-to-buy. Affordable owner-occupied housing was a predominant product of the sector until the early 1990s. But with the introduction of the rent-to-buy scheme, this product lost its importance. LPHAs have understood that in the long term, rental housing generates much higher returns than owner-occupied or right-to-buy housing. For this reason, many of them have taken advantage of the good capital market situation to restructure their financing schemes in such a way as to avoid the right-to-buy, i.e. they reduce the tenants' contributions below the limit of 85 €/m² in order to avoid the obligatory right-to-buy.

Figure 1: Completed apartments by LPHAs



Source: Amann & Struber, 2023; GBV data.

1.4.5 NEW CONSTRUCTION WITHOUT SUBSIDIES

In urban areas, particularly in Vienna, some LPHAs are now building without subsidies but with market financing. If these activities are carried out by the LPHA itself, the cost-rent principle still applies. In some cases, LPHAs have established commercial subsidiaries that can operate outside the cost-rent regime (Pech, 2014).

1.4.6 SPECIAL DEVELOPMENT SERVICES

There are a few LPHAs specialized in student housing. Many LPHAs realize elderly housing and assisted living (*Betreutes Wohnen*). Increasingly important are services for municipalities related to social and municipal infrastructure, but these activities will always remain subordinate due to legal restrictions on business activities (see above).

1.4.7 PERFORMANCE AS HOUSING MANAGERS

All LPHAs manage their stock individually or collectively. Many municipalities have contracted with LPHAs to manage their public housing stock. As a result, some have grown into very large housing management enterprises. Some of the larger ones have become highly professional service providers based on advanced IT tools. AI tools are also being developed.

The LPH Audit Association assesses the efficiency and adequacy of housing management and provides feedback based on sector benchmarks. The legal requirement for LPHAs to manage their own housing developments is a strong incentive for high quality construction and social balance in their buildings.

1.4.8 PROCUREMENT APPROACH

LPHA are considered to be private sector companies, even if they are owned by public authorities. The main reason for this view is their full economic independence and the takeover of all business and construction risks. For the procurement implications of subsidies, including cost and quality incentives, see chap. 2.5. Conflicts of interest are avoided because the construction industry is not allowed to have a controlling stake in an LPHA and therefore cannot exert a dominant influence. Conflicts of interest are also avoided by strict auditing and monitoring of all LPHAs. There are no limitations regarding stakes held by the financing industry.

1.4.9 SERVICE PROVISION TO CITIES AND MUNICIPALITIES

There is a strong link between local authorities and LPHAs active in the region (see chapter 2.1). LPHAs can only become active if there is a proven need for housing. This evidence is provided by the municipalities. In some cases, municipalities support the construction of affordable housing by providing building land at a reduced cost or as a land lease. In most Länder, zoning regulations allow for a category of "subsidized housing" aimed at LPHA multi-apartment housing. There are also many cases of institutional linkage, as municipalities are stakeholders in LPHAs or are represented on LPHA boards.

Municipalities face major challenges in decarbonizing their building stock, both residential and non-residential. LPHAs would be very well suited as service providers. But currently they can only do so with special permission from the supervising authority.

1.4.10 LPHA AS ECONOMIC "SHOCK ABSORBER"

The LPH sector, in interaction with housing subsidy schemes, has a strong impact on stabilizing housing and construction markets (Klien & Streicher, 2021). This was particularly evident in times of crisis, such as the global financial crisis of 2008. While housing and construction markets collapsed all over Europe, the shock in Austria lasted only a few weeks. It quickly became clear that building and financing are still possible and necessary. It is expected that the housing model will also help to overcome the current economic crisis.

1.5 PERFORMANCE INDICATORS – SOCIAL SUSTAINABILITY

1.5.1 AFFORDABILITY

Due to the cost-rent principle, the affordability of newly built LPHA housing is highly dependent on the subsidy schemes of the Länder. For the stock as a whole, LPHA rents are about 25% below market rents. The gap can be wider for new tenancies in urban areas, while it can be narrower in rural areas.

In most provinces, LPHA supply covers housing needs from very low income to around the 8th income decile (see chapter 2.4.4). In Vienna, the supply for the lowest income groups is mainly covered by municipal housing. Therefore, LPHAs in Vienna tend to focus on middle income groups.

The general strategy can be described as providing housing for low and middle income groups through the LPH sector and housing subsidies. Low and very low income households have additional access to income-based, means-tested housing benefits. Because of the relatively low cash value of the object-side subsidy (usually such low-interest provincial loans cover less than 20% of the total production cost) and the large volume of new LPHA construction, it seems appropriate to also serve those households that could, in principle, be housed without public support. This "misallocation" is therefore considered acceptable, and necessary to achieve social inclusion.

1.5.2 HOUSING ALLOCATION

Income limits for the allocation of LPHA dwellings are mainly derived from subsidy regulations (see chap. 2.4.4) and vary from province to province. In addition, they have to consider the urgency of housing need and household composition. They have to prioritize victims of violence and prefer Austrian and EU citizens (and equal status) over migrants from third countries. The sector has also adopted a Corporate Governance Code, which includes a commitment to take income into account when allocating housing, including for non-subsidized housing and for amortized housing after the financing period.

Net rents in amortized LPHA dwellings fall to a level of below 2.- €/m² (*WGG Grundmiete*). For a part of this stock of amortized dwellings, a special regulation allows the *Länder* to define criteria for re-allocation. A new regulation is under discussion on how these very affordable dwellings can be allocated in a more socially targeted way.

LPHA rental contracts are usually of unlimited duration. Overall, tenants in Austria have extensive rights regarding security of tenure, prevention of eviction and succession of the rental contract to spouses and children.

1.6 PERFORMANCE INDICATORS – ENVIRONMENTAL SUSTAINABILITY

1.6.1 ENERGY PERFORMANCE, DECARBONIZATION OF THE HOUSING STOCK

The improvement of the energy efficiency of LPH buildings is mainly driven by the housing subsidy systems of the *Länder*, both for new construction and for renovation (see chap. 2.6.2). Nevertheless, the LPH sector has long been at the forefront of low-energy and passive house standards (Amann et al., 2012). The majority of new buildings have a much better performance than required by building codes. The average heating demand is 29 kWh/m².a in new buildings and 44 kWh/m².a after deep renovation (2021; BMK, 2022).

Since the early 2010s fossil fuel heating systems in new construction have played only a minor role and are being phased out. Notwithstanding, decarbonization of older buildings is a major challenge, as 35% of the stock is heated with oil or gas (GBV, 2023). In order to achieve the government's target of complete decarbonization by 2040, additional legislation is considered essential.

1.6.2 HOUSING MAINTENANCE SCHEMES

While in many European countries the social housing stock suffers from a considerable refurbishment backlog, the Austrian social housing stock is often of better construction quality and better maintained than the commercial rental housing stock or the owner-occupied housing stock.

The entire sector has a refurbishment volume of well over 1 bn. EUR per year (GBV data; Amann & Struber 2023). This includes the deep renovation of up to 10,000 housing units per year, as well as many smaller maintenance activities. Although the LPHA housing stock is younger than all other housing sectors, the refurbishment rate is above average.

The cornerstone of the successful maintenance regime in the LPH sector is a special mark-up on net rents for periodic renovation and maintenance (*Erhaltungs- und Verbesserungsbeitrag, EVB*). It is mandatory and increases with the age of the building from 0.56 to 2.22 €/m² per month. Neither in the private rental stock nor in owner-occupied housing, there is a mandatory reserve fund of this volume. However, in a recent amendment to the Condominium Act introduced a mandatory minimum reserve fund (90 cent/m² per month) with reference to the provisions of the LPH Act.

The LPH Act is more advanced than the legislations of other housing sectors not only in terms of mandatory maintenance fees. Unlike other sectors, the LPH Act also provides regulations on how to use reduced heating costs for financing deep renovations. It provides incentives to LPHAs to invest own equity for this purpose, and it classifies certain decarbonization measures as maintenance rather than improvement measures which simplifies certain procedures.

Some large LPHAs have created specialized daughter companies for building maintenance and facility management.

1.6.3 REGIONAL/URBAN DEVELOPMENT AND ARCHITECTURE

LPHAs are key players in urban development projects in small and large cities. Municipalities often rely on them because their performance can be influenced beyond zoning and building permits. In particular, LPHAs are used to integrate affordable housing into new neighborhoods. However, affordable housing is often built on greenfield sites due to low land costs. This can affect the spatial development of neighborhoods. Despite the high cost pressure, the LPHA sector is known for its high architectural quality. An outstanding example is "Seestadt Aspern" in Vienna. Architectural competitions are the norm.

1.7 KEY PLAYERS

LPH legislation is in the responsibility of the Ministry of Economy (www.bmaw.gv.at). The frequent reforms are always conducted in close cooperation with the LPH representation of interest (*GBV Verband*). Both bodies are characterized by a remarkable continuity of personnel. Most LPHAs operate in only one province. But several key players have established daughter LPHAs in other *Länder* to extend market coverage. Below, the most important LPHAs in the provinces are listed:

Vienna:

- Sozialbau AG (www.sozialbau.at): Group of cooperatives and companies; the biggest LPHA with a stock of approx. 60,000 units; under control of VIG – Vienna Insurance Group.
- Österreichisches Siedlungswerk (www.oesw.at): Group of companies, privately owned.
- Gesiba (www.gesiba.at): Owned by the City of Vienna; also has founded a joint venture with *Wiener Wohnen* to revive municipal housing.
- Wien Süd (www.wiensued.at): Cooperative, group of companies in several other *Länder*.

Burgenland:

- OSG – Oberwarther Siedlungsgenossenschaft (www.osg.at).

Lower Austria:

- WET Gruppe (<https://www.wet.at>): group of cooperatives and companies.
- Alpenland (www.alpenland.ag): Cooperative.

Upper Austria:

- LAWOG - Gemeinnützige Landeswohnungsgenossenschaft für Oberösterreich (www.lawog.at).
- OÖ Wohnbau GmbH: Group of companies (also commercial) under control of Raiffeisen Oberösterreich (<http://ooewohnbau.at>).

Salzburg:

- GSWB - Gemeinnützige Salzburger Wohnbaug.m.b.H. (www.gswb.at).
- Salzburg Wohnbau GmbH (www.salzburg-wohnbau.at): group of cooperatives and capital companies.

Styria:

- ÖWG/ÖWGES - Österreichische Wohnbaugenossenschaft / Wohnbaugesellschaft (www.oewg.at).
- Wohnbaugruppe Ennstal (www.wohnbaugruppe.at)

Tyrol:

- Neue Heimat Tirol GmbH (www.neueheimat.at): Joint venture of the province of Tyrol and the regional capital Innsbruck.

Vorarlberg:

- Vogewosi GmbH (www.vogewosi.at): owned by the province of Vorarlberg.

1.8 LPHAs IN INTERNATIONAL COOPERATION

LPHAs are allowed to operate internationally through their own commercial subsidiaries. In the early 2000s, a handful of them were active in neighboring countries (Czech Republic, Slovakia, Hungary) and the Balkans (Bulgaria, Bosnia-Herzegovina). However, due to the lack of success, the willingness to engage internationally is low today.

1.9 ENDURING BASIC PRINCIPLES – FREQUENT ADJUSTMENT OF IMPLEMENTATION RULES

In the past, the LPH Act has been reformed much more dynamically than other housing legislation. For this reason, the legal framework of the LPH sector is much more “modern” and effective than that of other housing sectors.

The stable basic principles of the LPH Act, as described in this chapter, combined with the frequent adoption of implementation rules create sustainable legal standards and bring credibility to this institution.

2 STRUCTURAL ASPECTS OF THE HOUSING SUBSIDY SYSTEM

Building on an intricate framework of housing subsidy schemes, the nine Austrian *Länder* have been able to establish a large and internationally acknowledged social rental housing sector (see e.g. Lawson et al., 2010; Marquardt & Glaser, 2020; OECD, 2020, 2021, 2022, 2023; UNECE, 2021; PBL, 2023).

The efficiency of the housing subsidy system is enhanced by its close interaction with the LPH system and additional capital market financing instruments. Access to social housing follows a generalist eligibility approach with high income limits. Thus, Austrian housing policy promotes integrated rental markets.

2.1 RESPONSIBILITIES IN HOUSING

Due to the federal structure of the Austrian state, the competencies are divided between the federal state, and the nine federal provinces (*Länder*), and only to a small extent to the municipalities.

The main responsibilities of the federal state in the context of housing are:

- Legislation, particularly civil law, i.e. rental law, condominium law, LPH law, but also banking regulations, consumer protection regulations, tax law etc.
- The collection of taxes is basically in the hands of the federal government, the distribution to the provinces and municipalities is determined by a financial equalization agreement, which is usually renegotiated for a period of 6 years. It is a decisive and unifying factor of the housing subsidy schemes of the *Länder* (see chap. 2.3.1).
- The federal state runs subsidy programs in addition to the subsidy schemes of the *Länder* for renovation and housing decarbonization.

The main responsibilities of the *Länder* in respect to housing are:

- Housing subsidy schemes and supervision of LPHAs.
- Social welfare.
- Regional planning.
- Building regulations.

Municipalities have minor responsibilities in housing, the main area being land zoning. In some *Länder* they are responsible for allocation of subsidized housing. In some cases, municipalities provide building land at favorable terms (below market price, land lease) for social/subsidized housing. A special case is Vienna with its huge municipal housing stock of about 210,000 units.

2.2 ORIGINS

The modern housing subsidy system was established by a law in 1954. It is worth noting that initially, economic interests took precedence over social interests.

At that time, the housing subsidy system was under the authority of the federal government, but since then it has gradually been transferred to the *Länder*. Initially, the subsidy schemes were mainly aimed at new construction. In the 1960s, they were supplemented by regulations on subsidies for renovation and income-dependent housing benefits. Since the 1990s, the focus has been on ecological aspects. In the early years, subsidies consisted only of very long-term low-interest loans (up to 100 years); later, grants, interest and annuity subsidies, and guarantees were added. Until the 1990s, subsidies went equally to rental and owner-occupied housing in multi-apartment buildings and to single-family homes. In the 1990s,

a right-to-buy scheme was introduced in parts of the subsidized multi-family rental stock built since then. This scheme, where tenants have a right-to-buy after some years, has gradually replaced subsidized apartments for direct ownership (see Figure 1, p. 9). For a long time, rental housing subsidies were targeted at municipal construction and LPHA. Later, most Länder began to include commercial developers.

Apart from the Länder housing subsidy schemes, there are only rudimentary other subsidies for housing: In the early 2010s, a general social assistance scheme for the lowest income households was introduced, including benefits to cover housing expenditure. Fiscal incentives are of minor importance (tax deductibility of few housing-related expenses, exemption of LPHA from corporate income tax). Rents are taxed with a reduced VAT of 10%. The purchase of used apartments is exempt from VAT. There are low state contributions to a contract saving scheme in place.

2.3 FINANCIAL PERFORMANCE

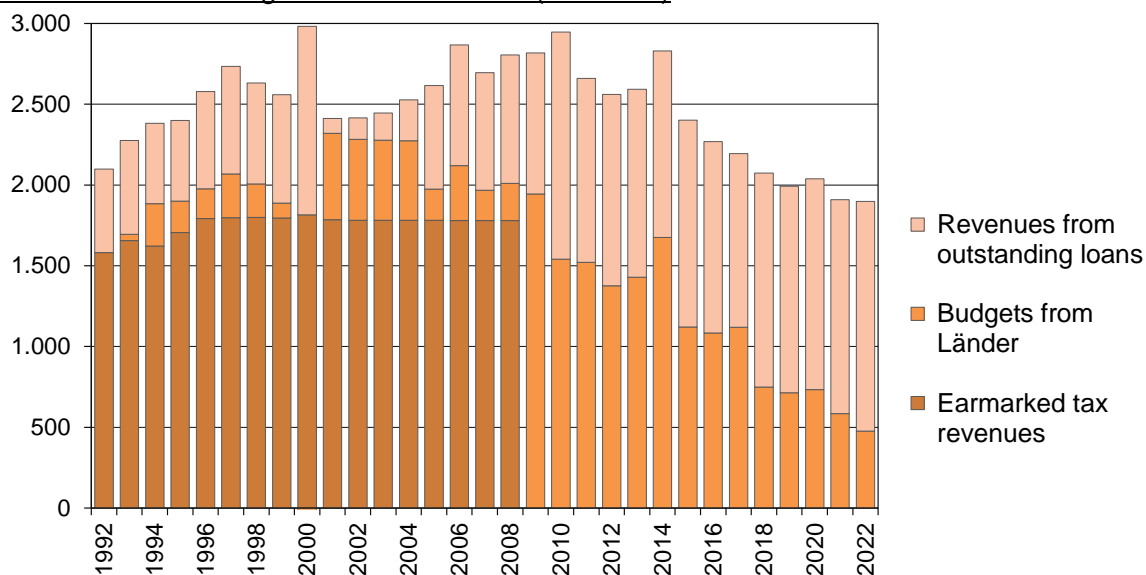
2.3.1 FINANCING TOOLS

The predominant instruments are object-related subsidies to producers of housing (“bricks and mortar” subsidies) with subsidiary subject-related subsidies (housing benefits). This housing strategy contrasts with the drift towards more demand-side strategies to achieve housing goals in other European countries.

The *Länder* apply different financing tools:

- Soft loans: mostly with 0.5-1.0% interest rate, in some *Länder* with gradually increasing interest rates of up to 3%; different maturities of often >35 years; annuities mostly follow a fixed plan with gradually increasing monthly payments; few *Länder* apply schemes with annuities growing in line with the CPI (e.g. Vienna).
- Annuity grants, interest grants: repayable and non-repayable; sometimes variable in time or according to different performance indicators; mostly for shorter periods compared to loans.
- Grants: Sometimes used as an alternative to annuity grants with a lower cash value.
- Guarantees.

Figure 2: Sources of housing subsidies of *Länder* (mill. EUR)



Source: Statistik Austria, IIBW.

Several studies (e.g. IIBW, 2002; IIBW, 2007) have shown that, taking into account all the different effects, none of the instruments is clearly more efficient than others. However, efficiency depends on the individual design of the subsidy schemes and the objectives achieved. Loans were recommended as an efficient instrument for several reasons, such as the fact that they are not classified as government expenditure according to the EU Maastricht Criteria and that they contribute to sustainable budgets in the sense of revolving funds.

2.3.2 FUNDING

Figure 2 shows the different sources of financing of the housing subsidy systems of the Länder and their development over the last three decades:

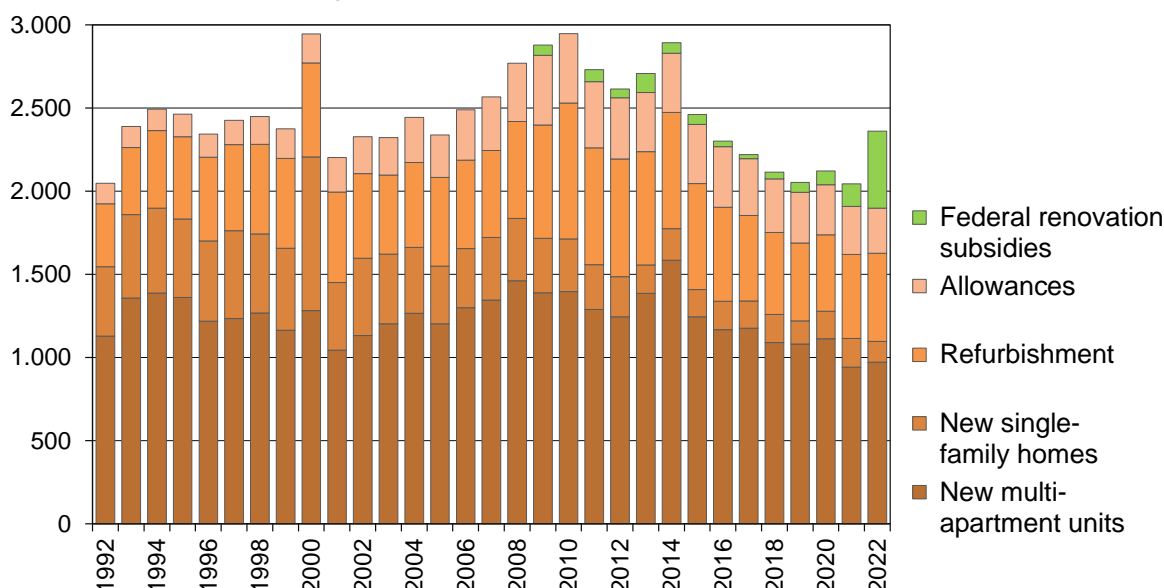
- Until the late 2000s, earmarked tax revenues played an important role in the financing of housing subsidies, including some supervision by the federal state. With the Financial Equalization Act of 2007, the earmarking of these tax revenues was abolished, and they became unconditional transfers from the federal government. Thus, this funding component became a normal contribution from the Länder budgets. Since then, the financing of the housing subsidy schemes has been the full responsibility of the Länder.
- Contributions from the Länder budgets have declined sharply since the beginning of the 2000s.
- In contrast, revenues from outstanding loans are gaining importance. A growing number of Länder are now able to cover the cost of new subsidies from this source alone.

The total budget of the housing subsidy schemes of the *Länder* remained remarkably stable (in nominal terms) between the mid-1990s and the early 2010s with a volume of 2.5 to 3.0 bn. EUR per year. Since then, budgets (expenditures) have been declining.

2.3.3 SUBSIDY EXPENDITURES

In total, the nine Austrian provinces spent 1.9 bln. EUR on their housing subsidy schemes in 2022, supplemented by an additional 460 mln. EUR subsidies of the federal state for renovation and decarbonization

Figure 3: Expenditures of housing subsidies (mill. EUR)



Source: Statistik Austria, IIBW.

(Figure 3). Well above 50% of *Länder*-subsidies are directed to new multi-apartment construction, below 10% to subsidies of single-family houses, some 15% are demand-side subsidies mostly in the form of housing benefits and almost 30% are refurbishment subsidies.

These figures show that it is the construction ("bricks and mortar"), rather than the individuals, that are predominantly subsidized. The idea behind this is that building subsidies produce affordable housing for a large part of the population for the entire life of the building. A high supply of low-cost rental housing also puts pressure on prices in the private rental market (Klien & Streicher, 2021). These "bricks-and-mortar" subsidies are allocated to all tenures, but LPHAs predominate as recipients in multifamily housing.

Despite the large share of subsidized housing in total housing construction, Austria has spent only about 0.5% of its GDP on housing subsidies in recent years. This is in the lowest third of all EU countries and suggests an efficient system for taxpayers. The high stability of housing investment over many decades is also noteworthy.

2.3.4 REGULATIONS ON COMPLEMENTARY CAPITAL MARKET FINANCING

Subsidy schemes of all *Länder* also include capital market financing components. In some *Länder*, conditions on capital market financing (duration, maximum interest rates) are directly regulated. In others, only the maximum subsidy and the maximum net rent level are fixed. This is an effective economic incentive for the landlord to achieve the lowest possible construction and financing costs.

2.3.5 COMPATIBILITY WITH EU STATE AID RULES

Housing policy is the responsibility of EU Member States. However, there is a clear tendency for EU legislation to have a more general impact on housing issues. In particular, this means that housing policy measures must be in line with EU state aid and competition legislation, as laid down in the Treaty, in subsequent Commission decisions and in rulings by the European Court of Justice. The EU's influence is seen as critical towards unitary rental markets, as seen so far in the Commission's investigations into Swedish and Dutch housing policy.

Nevertheless, there are certain mechanisms that protect Austria from criticism of possible violations of EU state aid and competition law: Income limits controlling access to social housing, although generous (see chapter 2.4.4), guarantee a selection of households that corresponds to a definition of public services, especially as the policy objective of social mix and prevention of residualization comes into play. Supply-side subsidies do not distort the market because they do not subsidize companies but must be fully passed on to consumers through cost-rents and cost recovery. The scope of LPHA's activities is clearly defined and strictly controlled. There is a clear separation of commercial and limited-profit activities and accounts. The activities of the LPHA are clearly defined as services of general economic interest (SGEI, Art. 16 and 86 (2) of the EU Treaty and other regulations). Subsidies are therefore exempt from the EU ban on state aid.

2.4 OUTPUT

2.4.1 NEW CONSTRUCTION

In the five-year average from 2018 to 2022, all *Länder* together spent 1.31 bn EUR on subsidies for new construction. In the same period, 16,600 dwellings were subsidized, compared to a total of 41,100 building

permits in multi-family houses. Including single-family homes and new apartments in existing buildings, the ratio is 22,800 subsidized units to 76,000 total housing permits. This equates to 2.6 subsidized dwellings per 1,000 inhabitants on a five-year average, an astonishingly high figure compared to any other EU country. The number of subsidized dwellings was fairly stable until the end of 2010, but has declined in recent years.

2.4.2 HOUSING RENOVATION

The federal government aims to decarbonize the building stock by 2040. Subsidies for housing renovation are key to achieving this goal. In the five-year average from 2018 to 2022, all *Länder* together have spent around 500m EUR on subsidies for housing refurbishment, supplemented by strongly increasing subsidies from the federal government (additional 460m EUR in 2022).

An early peak was reached in the early 2010s. Since then, the number of renovated dwellings has declined and remained at a low level until recently. From 2021 onwards, the number of subsidized renovations increased again, especially with regard to the climate-friendly replacement of heating systems (mainly heat pumps and district heating). Austria had a renovation rate of about 1.5% in 2022 (share of deep renovations in the total housing stock). More than half of this was subsidized. To reach the climate goals, the rate must increase to 3%. This requires better and more subsidies, but also better legislation, institutional and technological progress.

2.4.3 HOUSING BENEFITS

Demand-side, income-dependent housing benefits complement supply-side subsidies described above. In the five-year-average from 2018 to 2022, all *Länder* together have spent approx. 300m EUR on housing benefits (IIBW, 2023). In the past, housing subsidies were targeted at dwellings built with supply-side subsidies. Since the early 2000s, most *Länder* have also introduced housing benefit schemes for the commercial rental housing sector. In addition to housing benefit schemes, there are minimum income social assistance programs, some of which also cover housing-related expenses for the lowest income groups (Mundt & Amann 2015).

2.4.4 INCOME LIMITS

As housing policy in Austria is based on a unitary approach, the majority of the population is targeted by housing policy measures. The generalist model of social housing aims at a diverse composition of residents, thus avoiding residualization and stigmatization of the social housing segment.

For this reason, the Austrian *Länder* have set high income limits for both municipal and subsidized housing. A 3-person household may have an annual net income of up to 80,000 EUR to be eligible for subsidized or social housing (in detail: IIBW, 2023). What is included in the calculation of household income varies from province to province. Some provinces require a minimum income for access to subsidized housing (to ensure long-term affordability of cost-rents). Income is only assessed at the time of signing the rental contract for subsidized housing. Increases in household income do not affect rents or the tenant's right to occupy the dwelling.

2.5 PROCUREMENT IMPLICATIONS

2.5.1 COST INCENTIVES

The provision of subsidies does not imply the application of public procurement rules for construction contracts. Pressure on construction costs is exerted by various subsidy models. Often, both the resulting net rents, the volume of subsidies and other aspects (duration of financing, tenants' own contributions, etc.) are fixed. These output indicators can only be achieved with comparatively low construction and financing costs. As a result, subsidized housing tends to have lower construction costs than commercial housing.

Some developers award general contracts to construction companies, while others have their own technical departments and procure each construction service individually.

2.5.2 QUALITY INCENTIVES

In new construction, the competitive bidding process associated with construction and the social aspects of housing ensure that the quality of new construction is high. An internationally known example of this is the housing development competitions in Vienna (Förster & Menking, 2016).

The housing subsidy schemes of the Austrian provinces have developed over time into a quality assurance system with regard to thermal and ecological standards, planning quality, and social integration. For this reason, we are faced with the peculiar situation that subsidized housing has, on average, higher quality standards than most private market products.

2.6 EFFECTIVENESS OF THE AUSTRIAN HOUSING SUBSIDY SCHEME

2.6.1 SOCIAL EFFECTIVENESS

- The housing subsidy schemes of the *Länder* are an integral part of the social system in Austria.
- Much of Austria's housing stock has been subsidized. This has contributed to the fact that housing costs for Austrian households are well below the EU average.
- Austrian cities as a whole are characterized by inclusive settlement structures. Subsidized housing has played a key role in this.
- The system benefits above all middle-income groups. But also for low-income groups the housing supply reaches EU average indicators.
- The high income limits allow for a necessary degree of social mix and include households that would not need subsidies.
- Social housing is an important pillar in the fight against homelessness.
- The LPH sector is an important pillar for the social sustainability of the system.

2.6.2 EFFECTIVENESS IN ENERGY TRANSITION AND ENVIRONMENTAL ASPECTS

- The housing subsidy schemes of the *Länder* have been decisive for the rapid strong improvement in the energy performance of residential construction. Subsidized housing performs better than comparable commercial housing.
- The subsidy schemes are also a strong driver for other ecological and environmental aspects, such as healthy construction products and indoor air quality, renewable energy and renewable building products.
- Housing subsidies ensure high quality housing renovations.

2.6.3 EFFECTIVENESS IN REGIONAL AND URBAN DEVELOPMENT

- Subsidized housing is an important part of the toolbox of public authorities in urban development. It provides affordable housing integrated into new neighborhoods.
- The housing subsidy system was key to high quality housing provision in rural areas. This has contributed to economic strength of rural areas throughout Austria.
- In contrast, subsidies for single family homes have encouraged urban sprawl in many regions.
- There is space for improvement through better integration of subsidy schemes with regional planning instruments and building codes.

2.6.4 EFFECTIVENESS IN MARKET INTERVENTION AND STABILIZATION

- The housing subsidy schemes of the *Länder* have been very effective in stabilizing construction output and costs, and improving quality standards.
- The housing subsidy systems improve competition between housing developers (for profit and LPHAs) and contributes to lower and stable housing costs also in the commercial sector.
- In the current crisis, the system is struggling to maintain this economically beneficial effect.

2.6.5 ECONOMIC SUSTAINABILITY

- Housing subsidies have been declining as a share of GDP over the long term. In the 1990s they amounted to around 1.3% of GDP, but today they are down to 0.5%.
- For a long time, the checks and balances between the federal and *Länder* governments contributed to stable and secure budgets for housing subsidies. This has deteriorated.
- With soaring construction costs, rising interest rates, and the challenge of decarbonizing the building stock, budgets for housing subsidies should increase and be secured over the long term.

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