

Dublin Economic Workshop 2018

Austrian Housing Policy

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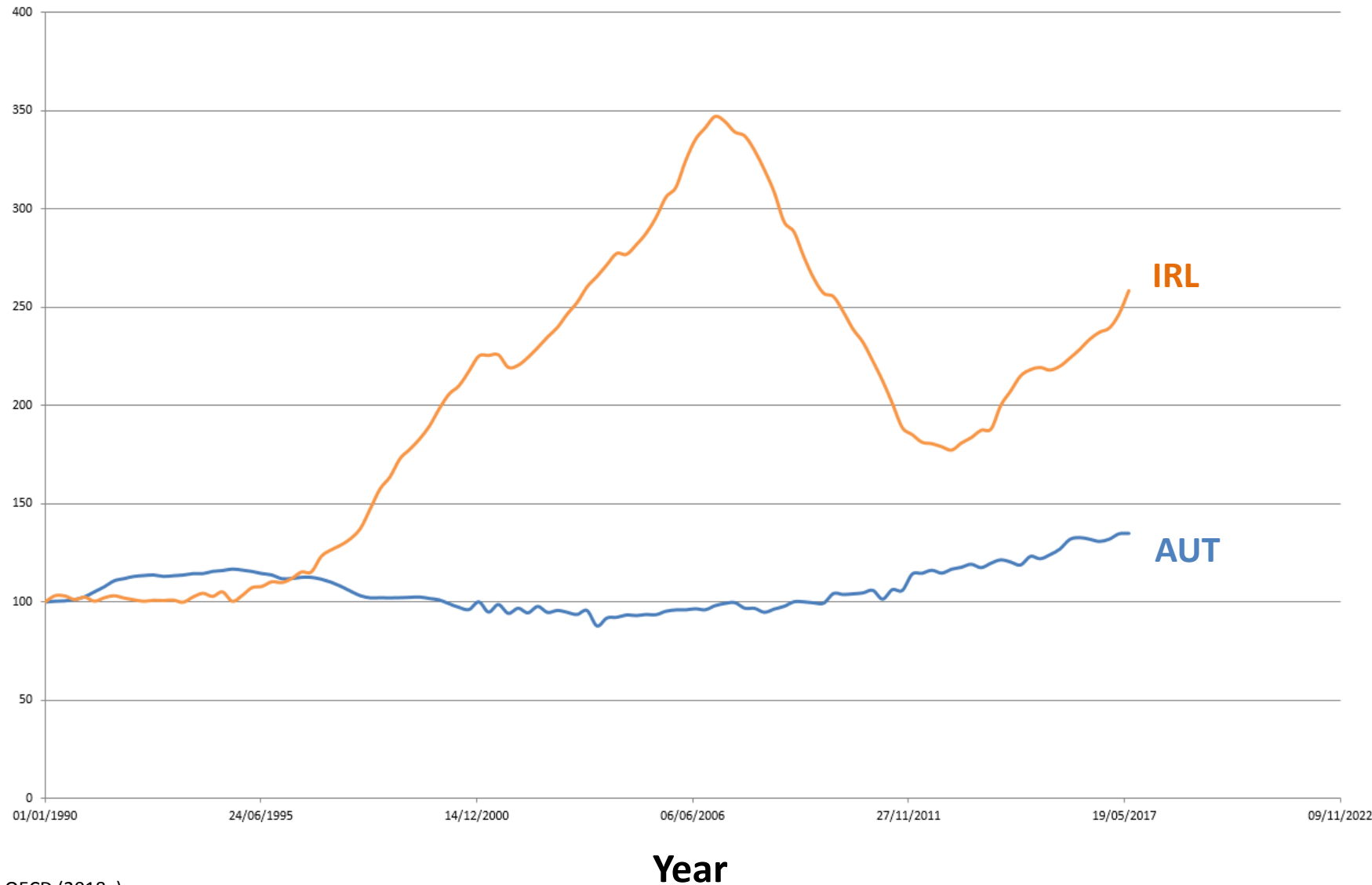
Main Issues

- How to maintain **steady output** in the construction sector?
- How to bring **price stability** to the housing market?
- How to bring **affordability** to the housing market?
- What interventions in the housing market are most **cost-effective for the Exchequer**?



Price Stability: Real House Price Growth

January 1990 = 100

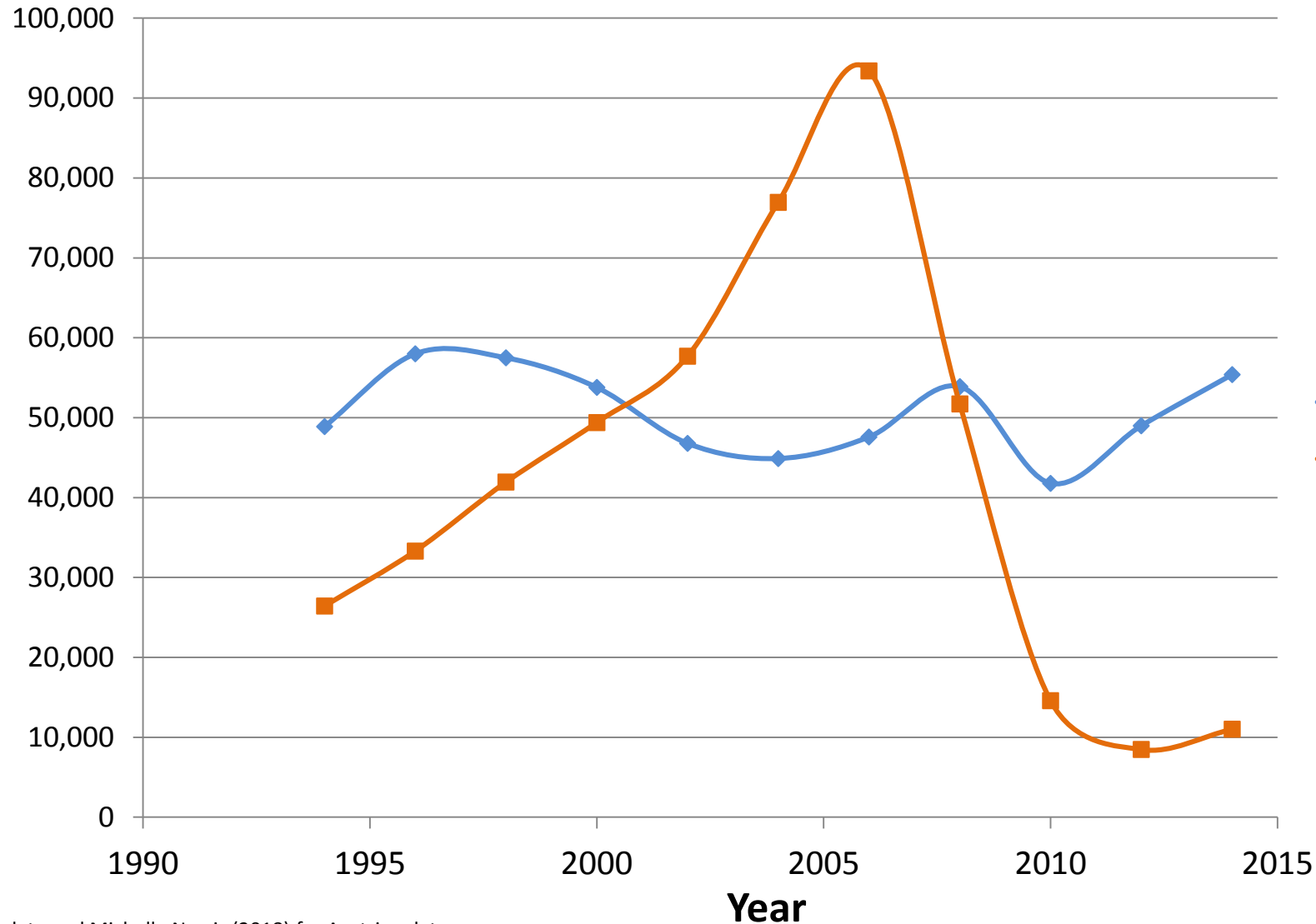


Austria did not experience a marked boom and bust in house prices post-2000



Steady Output: Home Completions

No. of New Dwellings



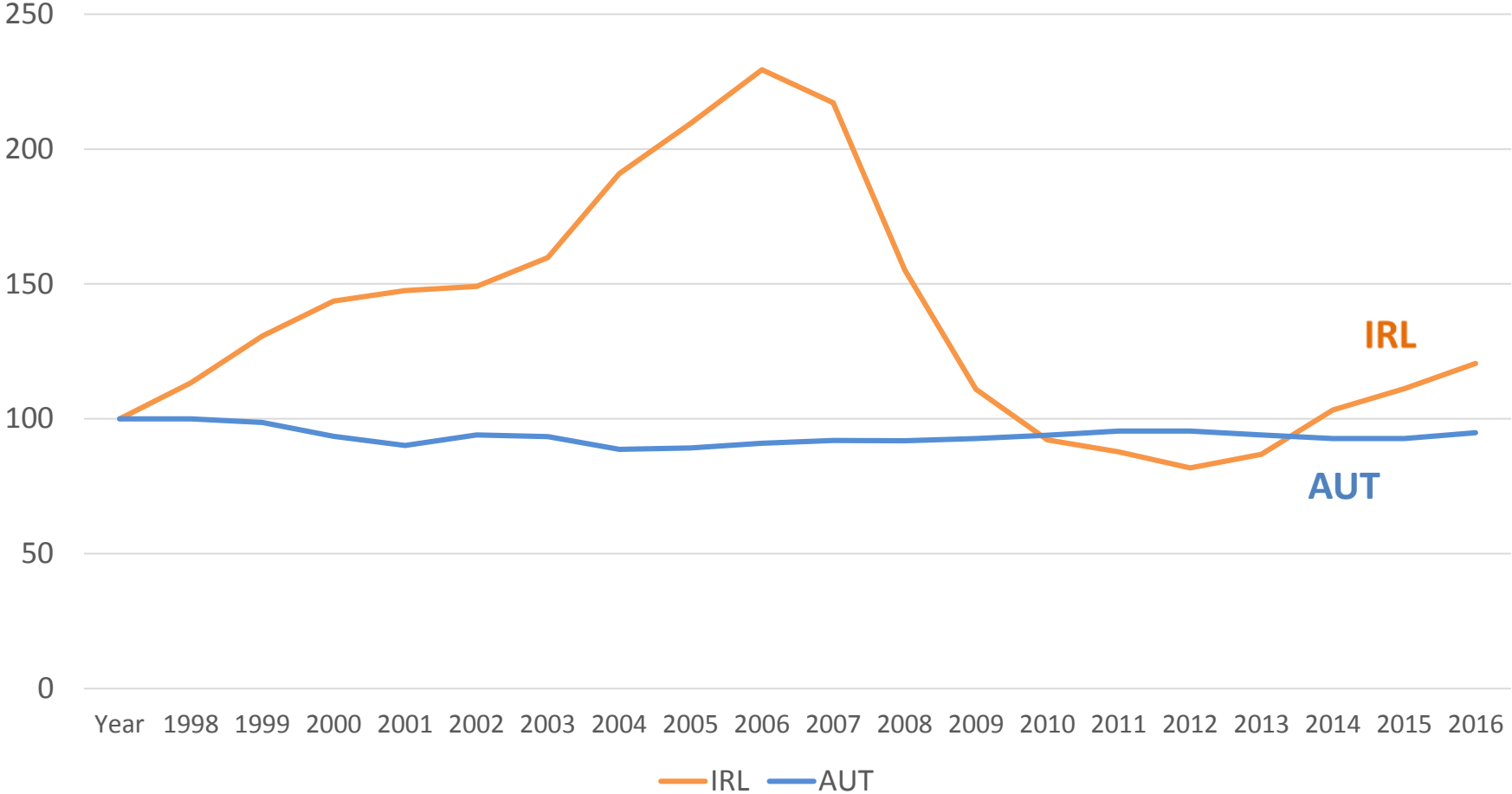
Resilience of output during the 2007-2009 Financial Crisis

—♦— AUT
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Steady Output: Construction Sector Employment

January 1998 = 100

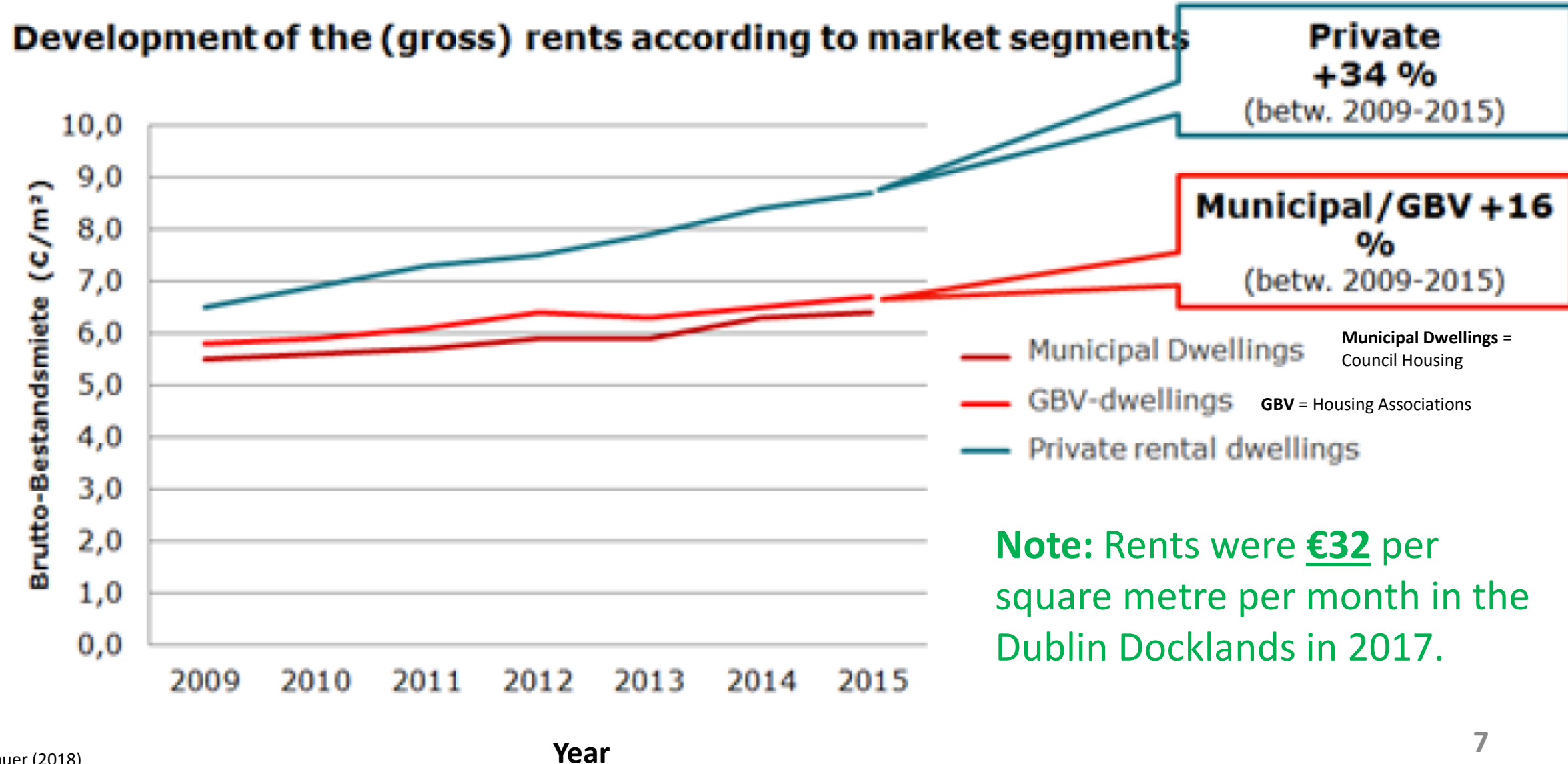


Year



Source: OENB (2018) for Austrian data and CSO (2018) for Irish data

Monthly Rents in Vienna



Comparison of Housing Systems

Country	% of GDP (Gov. Spending on Housing)	Social Housing (% Households)	Household Spending on Accom. (Avg. %)	Average Size of New Homes	Household Debt (% of Disposable Income)
UK	2.00% ^A	18% ^B	27.0% ^D	76m ² ^F	153% ^E
Ireland	0.74% ^C	9% ^B	23.5% ^D	88m ² ^F	171% ^E
Austria	0.90% ^A	24% ^B	22.4% ^D	96m ²	92% ^E

Do we want to follow the same policies as the UK?



A: Norris & Byrne (2018) - data for 2014
 B: Amann & Mundt (2009)
 C: Kilkenny & O'Callaghan (2018) – data for 2018
 D: Eurostat (2017)
 E: OECD (2018b)
 F: Evans & Hartwich (2006)

Key Aspects of Austrian Housing Policy

1. Social Housing

- a) Bulk of housing subsidies goes towards capital investment
- b) Developed housing association sector
- c) Cost Rental
- d) Tenant Equity

2. Private Housing

- Bausparen (in English “*Building Savings*”) are Government subsidised savings accounts and mortgages in Building Societies



1a. Government Capital Investment in Housing

Country	Capital Spending (% Government Housing Budget)
UK	15%
Ireland	55%
Austria	92%

The balance being current expenditure

- Subsidies are typically provided in the form of a 30 year **low interest loans** from the regional governments fixed between 0% and 2%
- Housing associations are ultimately assigned 33% of these low interest regional government loans
- 80-90% of private dwellings receive some level of construction subsidy.

1b. Developed Housing Association Sector

Country	Housing Association Output as a % of New Homes
UK	18%
Ireland	9%
Austria	28%

- Housing Associations are the anchor of the system in Austria.
- Austria has 200 housing associations which manage 700,000 dwellings Each housing association manages an **average of 3,500 dwellings**
- Ireland has 270 housing associations which manage 33,000 dwelling (**122 dwelling average** each).
- Northern Ireland has 20 housing associations which manage 49,401 dwellings (**average of 2,470 per each housing association**)

1b. Developed Housing Association Sector: Quality and Energy Efficiency

- **Double Lock Auditing System:** Housing associations are audited each year by their own umbrella organisation (the Austrian Federation of Limited-Profit Housing Associations) and their regional government.
- There is no government guarantee of housing association borrowings, but their regulatory framework is seen to be so robust that the sector has a **very strong credit rating** and can borrow from commercial lenders at very low interest rates
- In Vienna, land for new housing estates is acquired by the city-owned Housing Fund. In order to develop higher-quality housing and to stabilize building costs, the city introduced **Developer Competitions**, based on an four-pillar system: each subsidised housing project—some 7,000 to 13,000 apartments annually—are judged by an interdisciplinary jury along four sets of criteria: (1) social sustainability, (2) architecture, (3) ecology, and (4) economics.



**Social 'Passive Houses'
in Vorarlberg**



Upgrading and Insulation of Older Buildings

Dieselweg, Graz (built: 1950)



Pre-Retrofit



Post-Retrofit

Wissgrillgasse, Vienna (built: 1899)

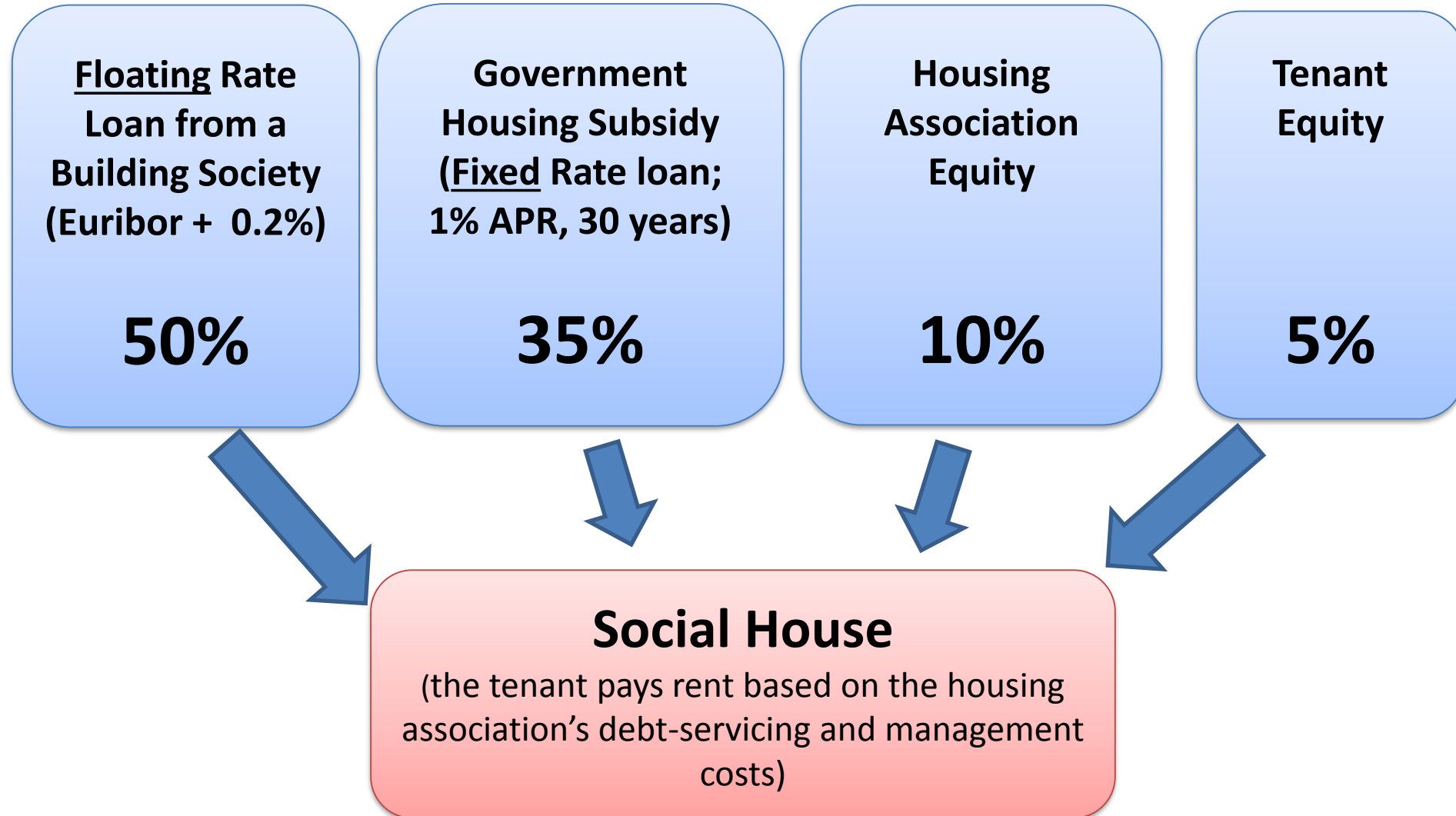


Pre-Retrofit



Post-Retrofit

1b. Austrian Housing Associations: How does project financing typically work?



Note: Majority of funding is from private sources

1c. Tenant Equity

- Prospective social housing tenants typically make an equity contribution of €50-60 per sq. m (circa €2,500 to €5,000 per home).
- If tenants live in a social house for over 10 years they have a right to buy it. If they did not contribute equity before their tenure began they do not have a right to buy.



1d. Cost Rental

- Unlike Ireland, rents in the social housing sector are not based on the tenant's income level
- Requirement to balance costs and revenue at the level of the individual development. i.e. the costs (net of subsidies received) of each development are covered by the rents charged.
- Prospective tenants need to demonstrate that they have ability to meet rents
- Delivery of housing for a much larger segment of the population (24% of households) - the main users are young families and those on lower/middle incomes
- Average monthly rents for a social home are **€433**

Note: Low income tenants who cannot afford their rent have access to a means tested rent subsidy. 5% of households receive a housing allowance which is similar or rent supplement in Ireland or housing benefit in the UK.



2. Bauspar Savings Account

- Links a saving phase to the right to receive a mortgage loan, 6 years saving period, 20 to 30 years loan term
- Max. deposit is €1,200 per year
- 5.0/8.1 mil. Austrians have a Bauspar Savings Account
- These accounts are only available at building societies and not banks.
- During a saving period of 6 years the customers earn a modest premium (i.e. subsidy) by the state (the sovereign interest rate + circa 0.8%).
- While the Bauspar Savings Account is only slightly more profitable than products available on the private market, it is seen as a very secure investment.
- Similarities with the SSIA scheme in Ireland from 2001 to 2007



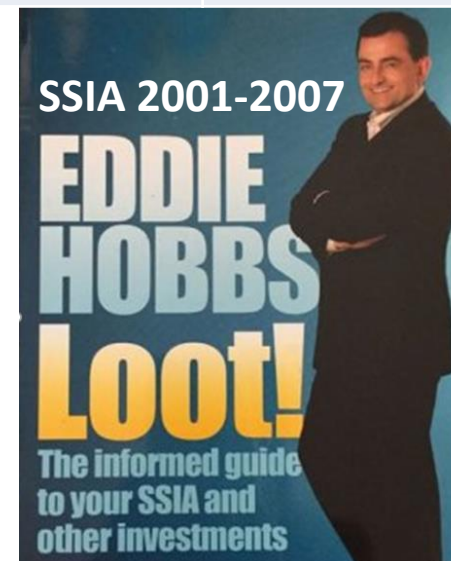
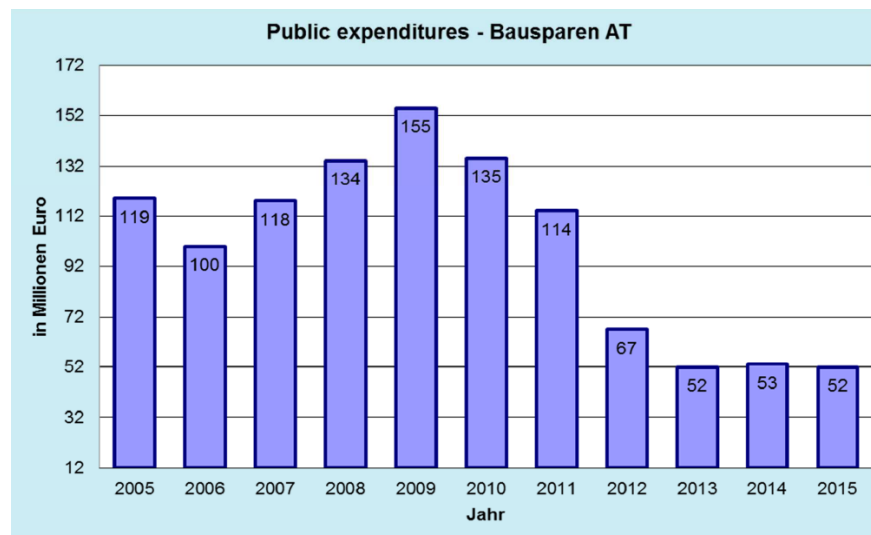
2. Bauspar Mortgages

- Having participated in the 6-year Bauspar Savings Account contract, customers then have the right of avail of a low interest loan.
- 20 to 30 year loan term
- Maximum mortgage loan amount is €180,000 per person, max for two persons
- The Bauspar Loans are very popular because of their long tradition, security and long term low interest rate.
- All of the money saved in the Bauspar Savings Account and repaid via these Bausparen Mortgages must be reinvested (by the building society) back in lending for mortgages or social housing – it provides a relatively cheap closed circuit of financing for housing
- 18% of mortgages in Austria are Bausparen
- Some similarities with the Rebuilding Ireland Home Loan



2. Bauspar: Is the SSIA-style subsidy expensive for the Austrian Government?

Country	Max. Annual Contribution	Return	Term	Available at banks?	Annual Cost to the Government
Ireland (SSIA)	€3,048	<ul style="list-style-type: none"> The State guaranteed minimum return of 25%. Banks paid interest on top of the principal and the government return. 	5 years	Yes	circa <u>500 mil.</u> per annum
Austria (Bauspar)	€1,200	<ul style="list-style-type: none"> Sovereign interest rate + (circa) 0.8% 	6 years	No	circa <u>50 to 150 mil.</u> per annum



Concluding Points

Policy Recommendations for Ireland:

1. Focus on capital subsidies (rather than current subsidies)
2. Amalgamation of small Housing Associations
3. Cost-based rents for social housing tenants
4. Active land management by Local Authorities
5. Bauspar savings/loan system





Thank You

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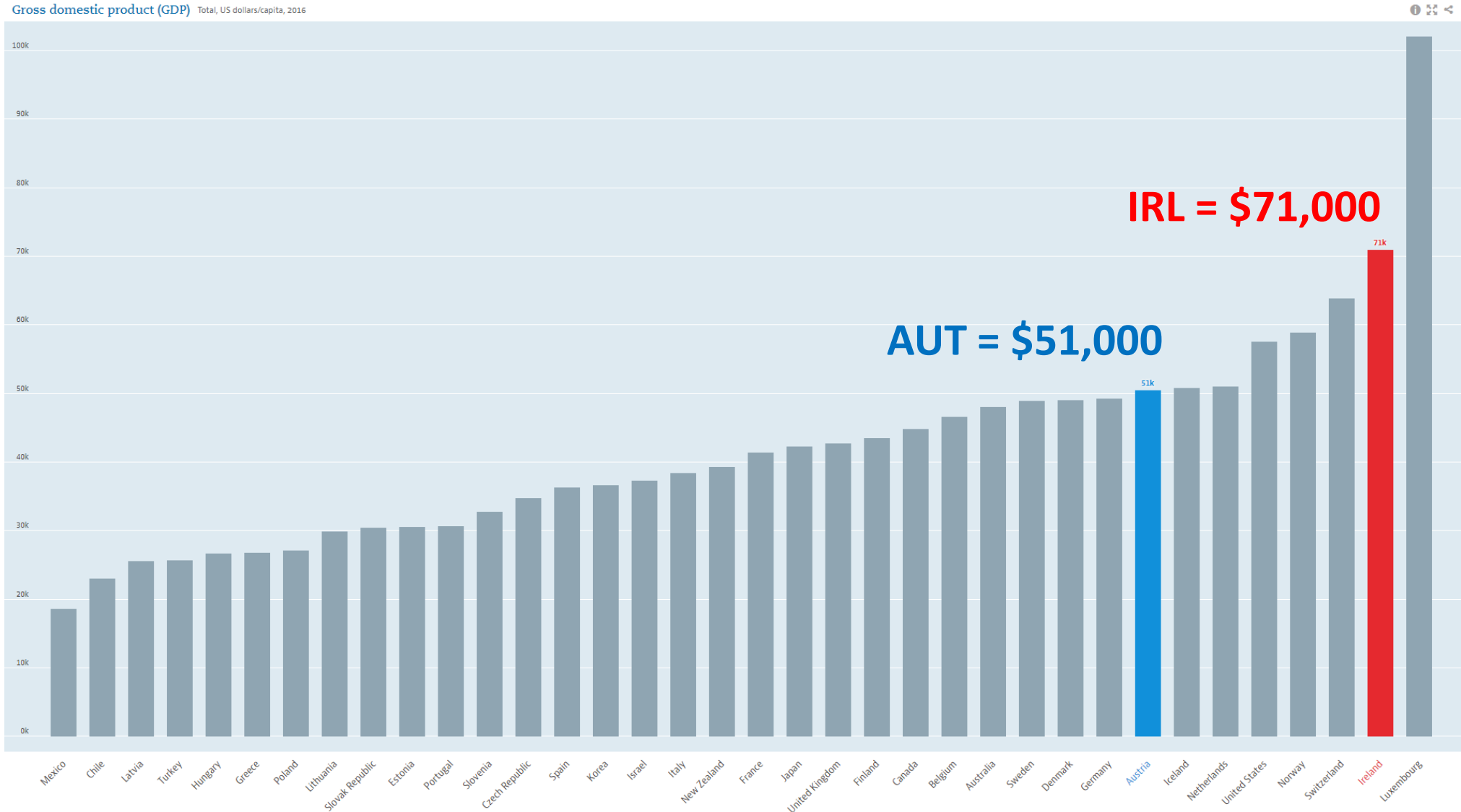
Annex 1: Bauspar Loan Typical Process

Typical process:

1. Bauspar Bank grants an Intermediary Loan which covers the value of the own funds and the value of the future Bauspar Loan (e.g. €300,000)
2. The equivalent of the future Bauspar Loan (e.g. € 180,000) is getting transferred to the client and the equivalent of the own funds (e.g. € 120,000) is getting transferred to the Bauspar Savings account.
3. At maturity of the Bauspar Contract (e.g. three years) the contract gets allotted which means
 - a.) the balance of the savings account becomes available and serves to partially redeem the Intermediary Loan and
 - b.) as the Bauspar Loan gets available at the same time it serves to redeem the rest of the Intermediary Loan
4. After the Bauspar Loan has been granted the client starts to redeem the loan by monthly payments.

As an effect this means that the client can immediately receive the money he needs for his housing purpose without separately coming with his own funds beforehand. During the Intermediary Loan phase the client pays only interest.

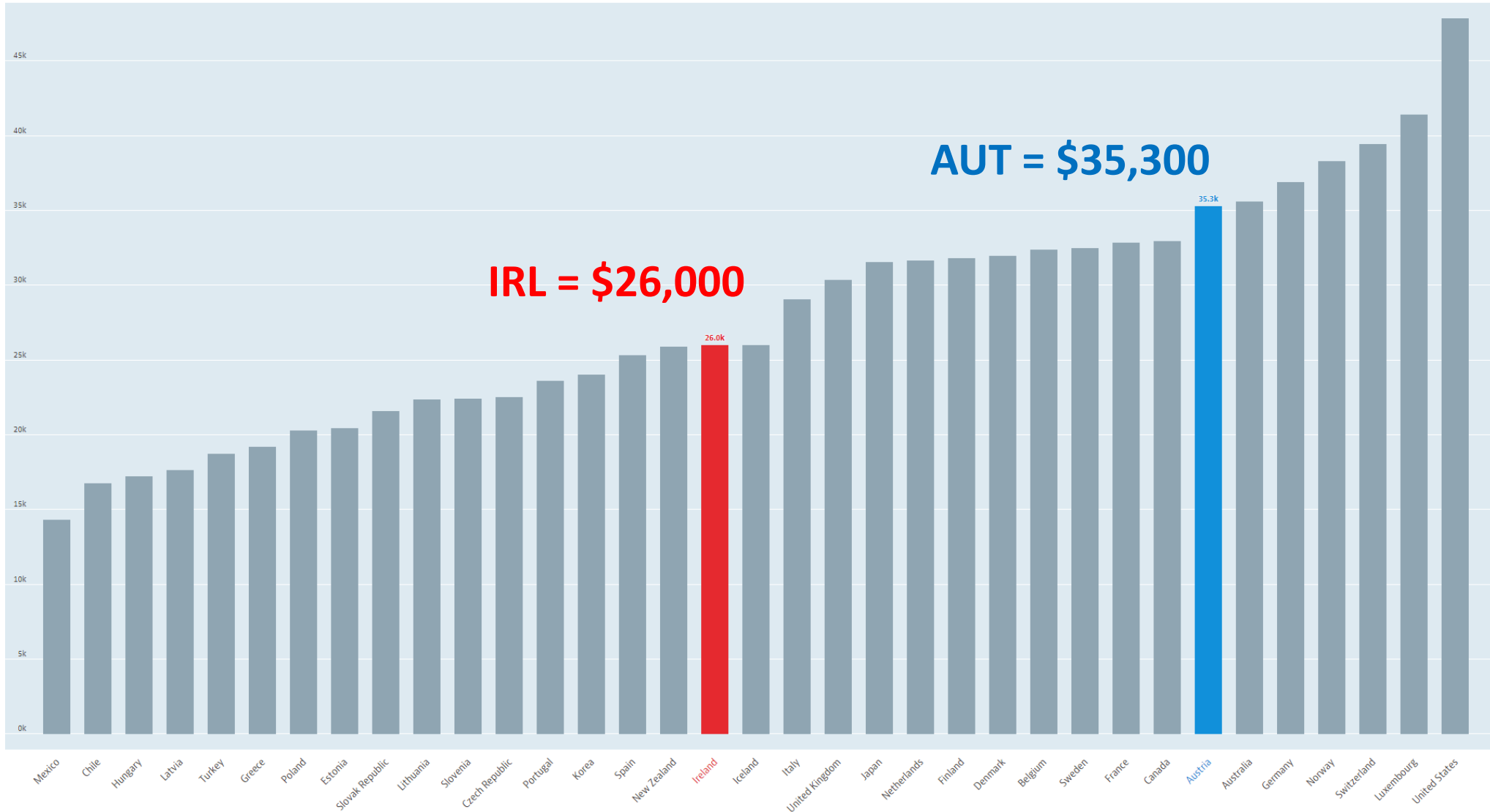
Annex 2: Gross domestic product (GDP), US dollars/capita, 2016



Annex 3: Household disposable income

Gross adjusted, US dollars/capita, 2016

Household disposable income Gross adjusted, US dollars/capita, 2017 or latest available



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