



## Does social housing actually work?

### Setting the record straight on the Vienna Model

**Tobias Peter** – Co-Director, AEI Housing Center ([Tobias.Peter@AEI.org](mailto:Tobias.Peter@AEI.org))  
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Over the past few years, Vienna’s social housing model-- where about 60% of residents live in municipally owned or supported apartments at subsidized rents--has been portrayed as a success of socialism over market forces in numerous news stories. For example, the New York Times recently called Vienna a “[renters’ utopia](#)”; the Financial Times “[a success story 100 years in the making](#)”; and NPR in 2020 reported “[how European-style public housing could help solve the affordability crisis.](#)”

Even policymakers have taken notice of Vienna’ reputed success. A US Department of Housing and Urban Development (HUD) [journal article](#) describes Vienna’s social housing system “as an effective and innovative model for providing superior, affordable housing to the city’s residents,” and in Hawaii, local politicians have [touted](#) the social housing model.

However, while progressives may wax eloquent about the Vienna social housing model-- particularly its low rents and ample supply-- the merits for this system are far overblown. More critical newspaper reports and academic studies from neighboring Germany or Switzerland have been ignored entirely in US-based discussions of Vienna’s social housing. However, their findings demonstrate how Vienna is a poor model for duplication, calling into question the rave reviews of the mainstream media and US politicians.

### **What is Vienna’s social housing model?**

Vienna’s social housing model is extremely complex and opaque. In-depth information and analyses are hard to come by. Some of this is by design: The main arm of the city’s social housing is not obligated to report its accounts to the public and stopped communicating even basic results in 2013. This report uses reporting in various German-language newspaper articles or various historical sources.<sup>2</sup> The main source, however, is the most comprehensive evaluation of Vienna’s social housing system that has been published by German academics Prof. Dr. Harald Simons and Constantin Tielkes. In their 95-page study of the Vienna social housing model, the micro census data and extremely limited public information available paints a

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<sup>1</sup> The views expressed are those of the author alone and do not necessarily represent those of the American Enterprise Institute or of any individual who provided comments. The author thanks Hannah Florence for her outstanding research assistance.

<sup>2</sup> See for example, <https://www.stern.de/wirtschaft/immobilien/wien-gilt-als-paradies-fuer-mieter---doch-so-ganz-stimmt-das-nicht-9123286.html>, <https://www.spiegel.de/wirtschaft/studie-zum-wohnungsmarkt-wien-ist-kein-vorbild-a-d74f2cbc-7ffb-4429-9057-2e2141713bc5>, <https://www.nzz.ch/wirtschaft/in-wien-leben-60-prozent-in-einer-gefoerderten-wohnung-dennoch-ist-die-stadt-kein-vorbild-in-der-wohnungspolitik-ld.1480080?reduced=true>, or <https://www.nzz.ch/wirtschaft/ld.1746389?reduced=true>.

picture of Vienna's social housing model as "expensive, insecure, conflict-prone, bureaucratic, not transparent, [and] socially unjust" and where "rents [are] not lower than in German big cities."<sup>3</sup>

### History

The idea for social housing dates back to the era of "Red Vienna" (1918-1934), when social democrats in power sought to improve the living conditions of the working class through investments in social services and public housing. These efforts resulted in the construction of large municipally owned apartment complexes across the entire city (known as *Gemeindebauten*) such as Karl-Marx-Hof (see Figure 1) with almost 1,400 total units (known as *Gemeindewohnungen*). Most of these apartment complexes still exist today.

Figure 1. Karl-Marx-Hof



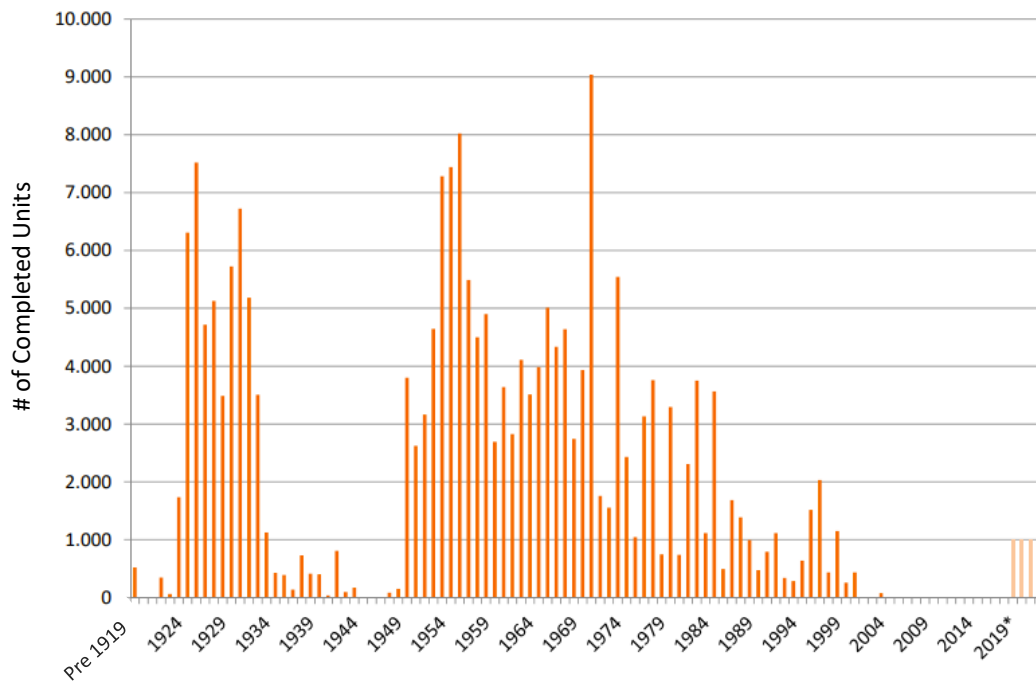
Source: Google Maps.

These efforts were truly massive and quickly became ingrained in Vienna's public imagination. By 1935, about 11% of Vienna's population lived in about 400 *Gemeindebauten* totaling over 64,000 *Gemeindewohnungen*. The municipal building of these social housing units continued after the Second World War until the 1980s. The total number of social housing units peaked in 1991 with approximately 223,000 units, and currently stands at around 209,000 units in use today (see Figure 2).

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<sup>3</sup> The report is in German and has been translated by the author. See: Simons, Harold, and Constantin Tielkes. *Wohnungsmarkt Wien – Eine wohnungspolitische Analyse aus deutscher Sicht*. Berlin, Bundesarbeitsgemeinschaft Immobilienwirtschaft Deutschland, Jan. 2020. Empirica Institut, [www.empirica-institut.de/fileadmin/Redaktion/Publikationen\\_Referenzen/PDFs/Bericht\\_Wien\\_2019050\\_endbericht-rev.pdf](http://www.empirica-institut.de/fileadmin/Redaktion/Publikationen_Referenzen/PDFs/Bericht_Wien_2019050_endbericht-rev.pdf).

Figure 2. Vienna's Gemeindewohnungen by year built



Source: Simons and Tielkes (2020)

\*as planned with completion date until 2022.

In the 1950s, the city started to supplement its social housing efforts with government-funded cooperatives or non-profits (known as “Genossenschaftswohnungen”). Today, all new social housing construction is done through these entities, which are generously supported by the state or city. In contrast to *Gemeindewohnungen*, these co-ops can select up to two-thirds of their tenants themselves, with the rest of the spots being reserved for the city to fill.

### Vienna's housing market today

Today, about 31% of renters live in *Gemeindewohnungen*; another 26% of renters live in *Genossenschaftswohnungen*. The rest of Vienna's renters—40% of renters across the city—live in private units, which are tiered based on their tenant protections. The majority of these renters still enjoy limitations on the maximum allowable rent, rent increases, and right to continue renting almost indefinitely. Only 10% of renters live in truly private units. Furthermore, only about 20% of Vienna's housing units are owner-occupied, which is exceptionally low even by Austrian standards. By comparison, Austria as a whole has a homeownership rate of about 51% (see Figure 3).

Figure 3. Vienna's housing market by type of building and tenant protection: 2016

Housing Market Sector	Count	Share of the Housing Market	Share of the Rental Market
Gemeindewohnungen	213,035	24.7%	30.8%
Genossenschaftswohnungen	178,548	20.7%	25.8%
Private	299,330	34.7%	43.3%
Full tenant protection	233,477	27.1%	33.8%
Limited tenant protection	65,853	7.6%	9.5%
Owner-occupied	171,000	19.8%	-
Total	861,913	100.0%	100.0%

Source: Simons and Tielkes (2020)

### How does it work?

In *Gemeindewohnungen*, tenants are assigned to openings based on a waitlist. Rents for new contracts follow the city's guide system, where rents are raised every two years by the rate of inflation. Tenants that moved in before 1994 are still subject to the prior guide systems and could therefore be paying less. These rents are generally low (even after factoring in utilities and taxes) and contracts are indefinite with various rights to hand the unit over to relatives. In *Genossenschaftswohnungen*, rents are calculated to cover the cost of operations and are slightly higher than in *Gemeindewohnungen*.

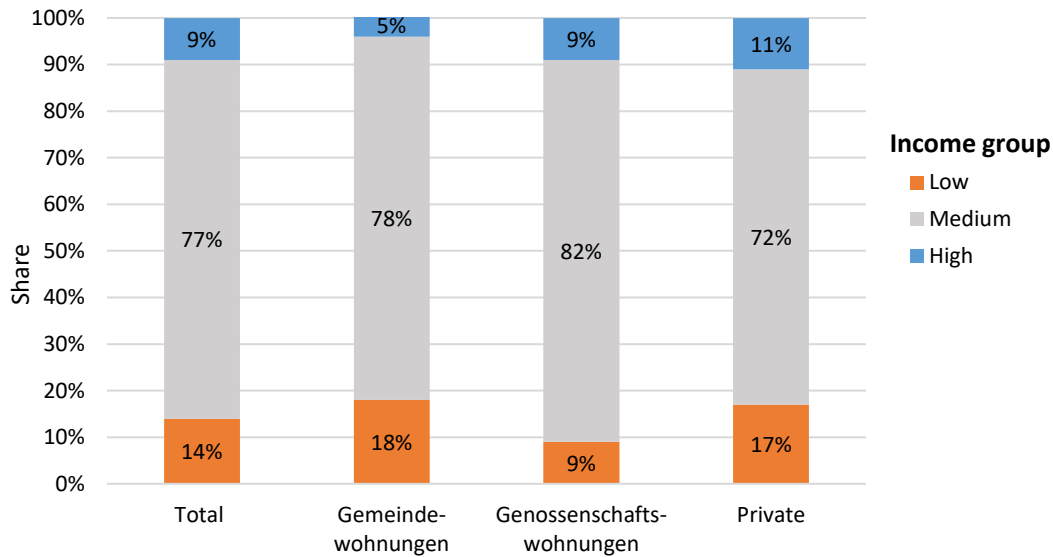
Vienna has so far avoided the concentration of poverty that characterizes public housing in the US. In 2013, 18% of lower income households and 5% of higher income households in Austria lived in *Gemeindewohnungen*, while 9% of each lived in the slightly more upscale *Genossenschaftswohnungen* (see Figure 4).<sup>4</sup> While these shares are roughly similar to those seen in private units, researchers have also observed a growing segregation by income over recent years (more below).

The range of socioeconomic levels among residents of Vienna's social housing is possible because its subsidized units are minimally means-tested. It is estimated that 90% of people qualify for social housing, and since income is only verified upon move-in, tenants can benefit from subsidized rents as long as they want to stay. Since over half of households live in social housing, it has generated a wide spectrum of support that minimizes the stigma around public housing that exists in the US.

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<sup>4</sup> As noted, these estimates are for all of Austria since data for Vienna alone are not available. However, since about 73% of *Gemeindewohnungen* are in Vienna, this segment should be representative.

Figure 4. Income types by housing sector in Austria: 2013



Note: The medium income group is defined as those with an income of 60-180% of median income.

Source: Simons and Tielkes (2020)

## The beginnings of Vienna’s social housing model

Despite the apparent success cited in media coverage, Vienna’s social housing model has not been replicated, even in neighboring countries. This is because its emergence largely owes to Vienna’s unique historical conditions during the 1910s and 1920s, while a massive population decline over the following decades helped sustain it.

### *Historical context:*

As the economic and political hub of the Austro-Hungarian Empire, Vienna’s population boomed from 1870-1913 due to rapid urbanization and industrialization. With the onset of WWI, living conditions quickly deteriorated due to food shortages, inflation, falling wages, and an influx of migrants from the fringes of the Empire fleeing the war. Many prior advances for workers’ rights were curtailed such as the right to go on strike, unionize, and have Sundays and holidays off of work. Housing, which was scarce, often substandard, became a heightened issue as private capital shifted towards the war effort, rather than new construction.<sup>5</sup>

In an effort to stave off revolutionary impulses from worker parties and unions, the Empire passed its first round of tenant laws in 1917 freezing rents at pre-war levels. The unintended consequence was that frozen rents coupled with hyperinflation quickly discouraged private investment into housing. Social Democrats, who won absolute power in Austria’s 1918 election, subsequently identified housing as an effective way to improve living conditions for the working class.

<sup>5</sup> See for example, [https://www.geschichtewiki.wien.gv.at/Rotes\\_Wien](https://www.geschichtewiki.wien.gv.at/Rotes_Wien) or <http://www.rotes-wien.at/start.html>.

To start with their grandiose plans for social housing, the Social Democrats needed land— preferably cheap land— to build on. In 1919, they implemented land use policies, or “Bodenpolitik,” that heavily taxed vacant land.<sup>6</sup> The combination of strong tenant laws, hyperinflation, and *Bodenpolitik* quickly encouraged private owners to sell vacant parcels to the city, often at very steep discounts (10-15% of peacetime values of 1914). Through its effective monopsony power, Vienna was able to expand its land holdings from less than 1% in 1922 to over a quarter of buildable land in 1931.

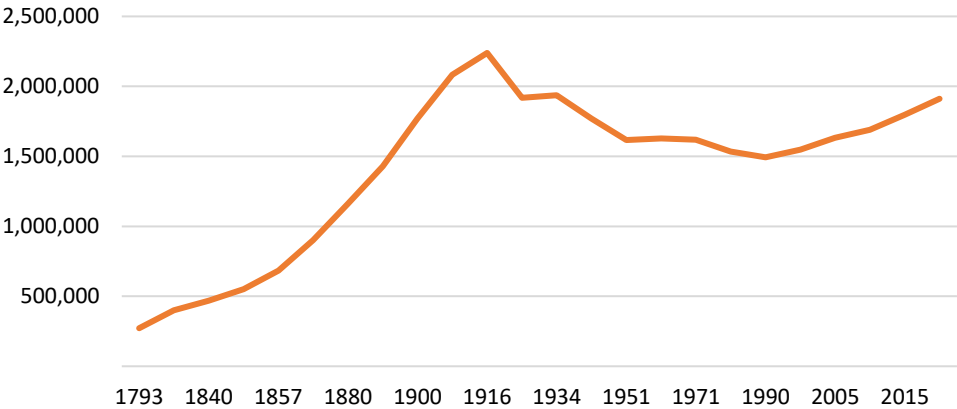
This availability of cheap land enabled Vienna to construct housing at lower cost, but the city still needed money to finance it. Hence, the city imposed two new taxes: The first one, a residential construction tax, known as “Wohnbausteuer,” was levied progressively on the construction of larger, mainly private, housing units.<sup>7</sup> The second one, a luxury tax, was levied primarily on luxury goods and services such as cars, hotel rooms, leisure activities (like coffee shops, nightclubs, etc.), and capital gains.

*Vienna’s population decline*

While the political and social upheavals of WWI undoubtedly played a major role in the establishment of Vienna’s social housing system, Vienna’s steep population decline in the seven decades that followed the war greatly helped to sustain it. From 1914 to 1988, Vienna’s population declined from 2.1 million to 1.5 million. Particularly from 1945 to 1988, Vienna added about 160,000 new social units – or about 40% of its stock today -- while its population fell from 1.7 million to 1.5 million (see Figure 5).

The ability of Vienna to provide housing for thousands of residents at low rents without relying on the private market was only possible because Vienna’s population was shrinking—reducing demand pressures that have sent land prices soaring in many other major European and North American cities.

*Figure 5. Vienna's population: 1973-2020*



Source: Austrian Census Bureau as cited in Wikipedia.

<sup>6</sup> See for example, <https://www.geschichtewiki.wien.gv.at/Bodenpolitik>.  
<sup>7</sup> See for example, <https://www.geschichtewiki.wien.gv.at/Wohnbausteuer>.

## Vienna's social housing model: Renter's paradise for some, ticking time bomb for the rest

Vienna's social housing model has endured for 100 years, but cracks have emerged and are beginning to widen.

### *Fairness and cronyism*

While the New York Times calls Vienna a “renter's paradise,” it is only for some. Ultimately, the system is inherently unfair as it creates winners and losers.

Many tenants that have lived in social housing units have benefited from decades of subsidies. Since housing (and rents) can be bequeathed to children, grandchildren, and other relatives in the case of a death or a move, certain groups benefit for generations. This can lead to perverse outcomes, where rents for identical units vary by longevity of the tenant. (The existing rent for *Gemeindewohnungen* is estimated at 6.84 EUR per sq. meter, whereas new it is 8.00 EUR per sq. meter, see Figure 6). This creates a system where single doctors or lawyers with large earnings, who live in handed down units, may pay lower rents and live in larger units than families with children, who just moved in.

Figure 6. Vienna's rents by building sector and type of contract: 2018

Building Sector	Existing Rents (EUR/meter <sup>2</sup> )	New Rents* (EUR/meter <sup>2</sup> )
Gemeindewohnungen	6.84 €	8.00 €
Genossenschaftswohnungen	7.41 €	8.60 €
Regulated old building apartments	10.05 €	10.82 €
Privately financed apartments	12.07 €	12.90 €

\* New Rents in the period 2015-2018

Source: Simons and Tielkes (2020)

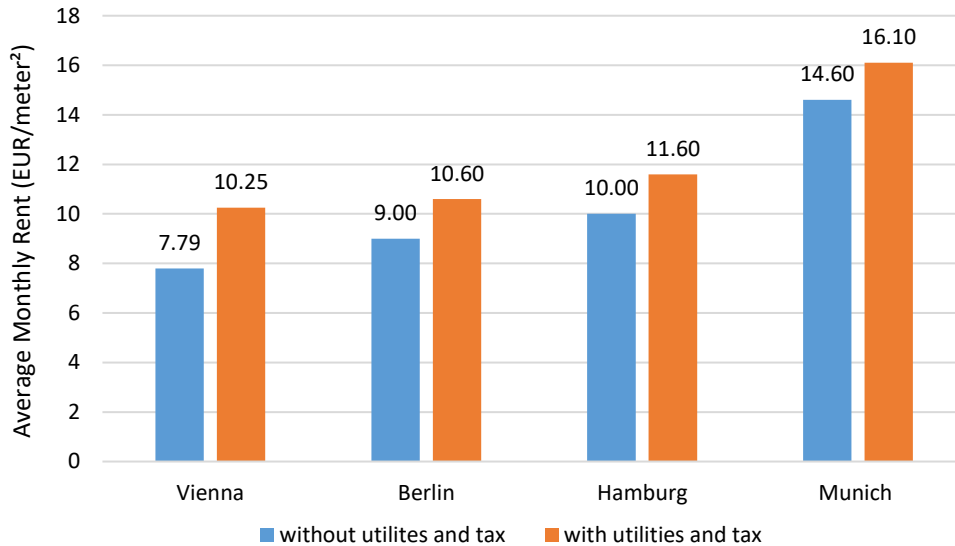
The system also favors politicians, who can dole out benefits to friends and family. It is generally well-known that the long waiting list (currently at about 21,000 households) can be skipped with the right connections. The system is also prone to corruption and fraud. Over the years, there have been multiple media reports of contractors overcharging, costing the city multiple millions of euros.<sup>8</sup>

Despite the NYT's claim that in Vienna's social housing “[r]ents are much cheaper than in comparable larger German cities,” this is not the case for recent contracts, if one factors in utilities, repairs and maintenance, and taxes. Rents are taxed at 10% in Austria, but at 0% in Germany. Utilities can be expensive for Austrian renters because they are responsible for most maintenance and upkeep including the HVAC and heat, which is often not the case in Germany. Once these added expenses are properly accounted for, rents for recently concluded tenant agreements in all of Vienna (which includes social housing) are only marginally lower than in major German cities. Rents are 13.4% higher in Berlin than in

<sup>8</sup> See for example: <https://www.vienna.at/wiener-wohnen-fehlverrechnungen-von-handwerkern-in-millionenhoehe/3591009>

Vienna when exclusively looking at avg. monthly rents, but when you include utilities and taxes, the difference shrinks to 3.3% (see Figure 7). This is hardly the “renter’s paradise” described in the media.

Figure 7. Average monthly rent per square meter for new rental contracts by city: 2018



Note: New rents for 2018.

Source: Simons and Tielkes (2020)

Furthermore, new entrants, especially low-income families or immigrants, face significant obstacles to entering the social housing system. For example, moving into a 750 sq. ft. *Genossenschaftswohnung* typically requires an upfront fee of 35,000 EUR (about \$38,250), charged to help offset the cost of housing construction. While it is true that the tenant can recoup some of that sum at move-out, it still represents a steep entry fee.

But there is more. Since tenants “own” their own maintenance and improvements in social housing units, moving in requires compensation to the prior tenant, who leaves these improvements behind. A recent study shows that around a quarter of tenants are affected, and that the median cost was between 2,000 to 3,000 EUR (\$2,186 to \$3,278), which may be an underestimate due to sample bias.<sup>9</sup> An older study from 1985 showed that about 80% of renters had to compensate the prior renter at a median sum equivalent to 4 to 7 years of rent.<sup>10</sup> The compensations can be far-reaching and can include unnecessary and trivial improvements such as the installation of waterbeds.

For many newcomers that can’t break into the social housing system, private housing represents the only viable alternative, albeit a much more expensive one. Vienna’s rents from 2008 to 2016 increased 20% for social housing, but increased 60% for private housing. Due to the European Central Bank’s low interest rate policy and a worsening housing shortfall in Vienna, these numbers are likely even more extreme

<sup>9</sup> Institut für empirische Sozialforschung; Mietkostenbelastung junger Arbeitnehmer/innen in Wien, Studienbericht erstellt von der Ak Wien, Wien, 2018.

<sup>10</sup> Czasny, Karl; Kaufmann, Albert; Erfassung des Wohnungsangebotes, Institut für Sozialforschung, Wien, 1985



today. While half of high-income households (those with 180+% of area median income) live in rent-subsidized social housing due to low income eligibility thresholds, others are frozen out.

### *Budget shortfalls*

Another cause for concern is the mounting costs of Vienna's social housing—and whether it is even sustainable. Austria spends about 0.25% of its GDP on social housing – the third highest in the Organisation for Economic Co-operation and Development (OECD) and about 4 times as much as Germany.<sup>11</sup> These efforts are financed through a 1% tax on wages confirming that social housing (73% of which is located in Vienna) is not free and that lower rents for some are supported by everyone else.

While the city does not make a detailed budget available to the public, researchers have uncovered that Vienna's *Gemeindewohnungen* appear to have a serious liquidity problem and are losing money. In 2016, the shortfall was estimated at 827 million EUR (\$904 million) or about 1.6 times the annual intake on rents. While this is only a best guess, it represents a very large number that would eventually have to be made up through general revenue.

These shortfalls have created other complications for the city. Rather than rely on the existing structure of *Gemeindewohnungen*, the city has created a new government entity to build additional social housing. It may also be why the city has only in 2015 resumed housing construction activities, despite a 30% increase in the city's population from 1991 on.

Its liquidity problems are also preventing Vienna's *Gemeindewohnungen* from maintaining or upgrading existing units, many of which are a hundred years old and may have deferred maintenance from a long-term tenant. About one-third of *Gemeindewohnungen* either lack central heat or a bath within the unit. While Vienna's housing authority deems these units to be acceptable; Germany's housing authority deems any unit lacking its own separate bathroom to be unacceptable to those receiving social assistance.

The growing list of maintenance and quality issues is self-perpetuating, where an estimated 7% of *Gemeindewohnungen* are vacant, not earning any income for maintenance or improvements. Due to the high cost of entry for *Genossenschaftswohnungen*, yet the low quality of *Gemeindewohnungen* observers are seeing an increasing bifurcation along income for these types of buildings, which will likely only worsen.

### **Should the Vienna Model be adopted in the US?**

As one professor has quipped, Vienna's one true accomplishment is its ability to sell its social housing model as an unabashed success to the world.<sup>12</sup> To achieve this feat, the city of Vienna has its own international marketing department dedicated to its housing model and has taken it on the road by hosting as many as [14 exhibitions](#) across the world including in Washington, DC, New York City, Baltimore, and Los Angeles.

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<sup>11</sup> See <https://www.oecd.org/els/family/PH4-1-Public-spending-social-rental-housing.pdf>

<sup>12</sup> This is reminiscent of Fannie Mae's self-aggrandizement efforts worldwide of the late-1990s and early-2000s, which came to an ignominious end when it entered conservatorship in 2008.

Vienna's social housing model was implemented in response to the upheavals of WWI. For a long time, Vienna's social housing model also benefited from population decline in the city and its unique access to cheap land. Further, it is unlikely that any other major city would be able to amass the amount of land that Vienna officials were able to 100 years ago at such a minimal price without immense consequences or costs.

When researchers have critically evaluated the model, the system has shown to be under increasing strains from mismanagement, segregation by income, and budget shortfalls. Ultimately, there is no free lunch and Austrians are paying for their experiment with higher taxes that in some cases benefit very wealthy individuals.

As the city has actively discouraged private building through its policies over the years to ensure its grip on housing and political power, Vienna's low homeownership rate may be part of the legacy of its social housing project. If replicated, such an approach would represent a very severe trade-off for the homeownership-focused US.

Increasingly, even the city of Vienna may come to recognize that its model is unsustainable. The city appears to be shifting from being a developer and landlord to exploiting its monopsony and monopoly powers to achieve favored outcomes. According to Simons & Tielkes (2020), the city of Vienna is profiting handsomely from acquiring land at below-market rates and re-selling it to public-private partnerships at a hefty markup.<sup>13</sup> Since the city is also the only seller of buildable land, it can extract concessions from builders. For example, the city passed a new building law that mandated two-thirds of all new units are set aside for social housing.<sup>14</sup> While similar policies in the US would undoubtedly disrupt and severely slow the roughly 600,000 units per year in new construction sales, the more pressing question is if so much power were concentrated in the hands of government, what would be the unintended consequences? There is a historical precedent here. The 1968 Housing and Urban Development Act created the Urban Renewal Neighborhood Development Program and a 10-year plan for the elimination of all substandard housing in the United States. The resulting destruction of a multitude of neighborhoods in American cities, especially black ones, is documented in *Cities Destroyed for Cash: The FHA Scandal at HUD*.<sup>15</sup>

Researchers and journalists that have more critically evaluated the model have generally concluded that Vienna's housing model is overhyped by an unquestioning media and aligned academics, and that it should not be replicated elsewhere. As Simons & Tielken (2020) sum up, Vienna's social housing model is "expensive, insecure, conflict-prone, bureaucratic, not transparent, socially unjust, and rents [are] not lower than in German big cities."

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<sup>13</sup> The markups on land can be twice as much for poor, four times as much for medium, and up to nine times as much for prime locations. In this regard, Vienna is not that different from Singapore, which is also sometimes hailed as an example for its social housing model. However, similar to Vienna, the Singaporean government owns 90% of the land and it can acquire private land at low cost, which it uses to cross-subsidize its housing.

<sup>14</sup> See for example, <https://www.tagesspiegel.de/wirtschaft/ein-paradies-fur-mieter-4630708.html>.

<sup>15</sup> See for example, Brian D Boyer, *Cities Destroyed for Cash: The FHA Scandal at HUD* (Westchester: Follett, 1973)

While there is an obvious housing affordability problem in the US, the Vienna social housing model is not something the US, any state, or even any local jurisdiction should copy.

### **What should the US do instead?**

In the US (and many other places), high home prices and rents are a self-inflicted wound stemming from a lack of supply brought about by misguided government policies such as single-family detached zoning and many environmental regulations.

Local governments have a similarly embarrassing record in establishing and maintaining public housing or doling out tax credits (such as LIHTC) that often concentrate poverty in low-income neighborhoods.<sup>16</sup> It is little wonder that in the US, public housing is not supported by the majority of the population.

A far better solution would be to allow the market to respond to price signals and create abundant and naturally affordable housing. This could be achieved by states and localities implementing by-right Light-touch Density (LTD), which allows for moderately higher density, or even higher by-right density in already dense places following the Tokyo model.

As demonstrated through various case studies, the new housing would be largely owner-occupied, allowing more people to build wealth – something they are unable to do through renting. The new housing would be moderately priced, allowing a more diverse set of buyers to afford homeownership, and the housing would be mixed with different types, enabling the socioeconomic integration found in Vienna, but also other places such as [Charlotte, NC](#). We estimate that over 10 years, LTD could add between 2 to 8 million new housing units (depending on the allowed density) if allowed by-right across the country.

To achieve housing affordability and a more integrated society, the US does not need to rely on a socialist model fraught with problems, instead it should unshackle the free enterprise system to bring about superior outcomes.

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<sup>16</sup> US housing authorities, which have an embarrassing track record marked by persistent mismanagement and deteriorating living conditions. In Washington, D.C., about a quarter of public housing units were found to be vacant. Meaning in one of the most expensive housing markets in the country, where hundreds of people sleep outside on any given night, one out of four publically-subsidized housing units set aside those in deep poverty are not being used. An audit from HUD in Oct. 2022 found D.C.'s housing authority had failed to provide "safe, decent, and sanitary" housing and were plagued by high levels of crime as well as the growth of black mold.

### Further readings:

- Light-touch Density: <https://www.aei.org/light-touch-density/>
- Light-touch Density and Filtering Down: City of Seattle Case Study: <https://www.aei.org/research-products/report/light-touch-density-and-filtering-down-city-of-seattle-case-study/>
- The Tokyo Model of Housing Affordability: <https://www.aei.org/research-products/report/does-our-solution-lie-in-tokyo/>
- How Government Policy Made Housing Expensive and Scarce, and How Unleashing Market Forces Can Address It (forthcoming in HUD's Cityscape in November 2022)