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Case Study – The Austrian System of Social Housing

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CONTENTS

A. THE AUSTRIAN HOUSING SECTOR

A.1 HOUSING POLICY

Due to the federal structure of the Austrian state, the competencies are divided up between the federal state, and the nine federal provinces (*Länder*). In the context of housing, the federal state holds legislative competence regarding Rent Law, Condominium Law and Limited-Profit-Housing Law. The Länder have legislative competence on the housing subsidy schemes, supervision of the limited-profit housing associations, social welfare, regional planning and building codes. As a result of this division of competences, housing policy differs to some extent between the Austrian provinces. Tax collection is basically in the hand of the Federal State, disbursement to federal provinces and municipalities is ruled by a financial equalization act. Until the late 2000s, a substantial part of those tax earnings dedicated to the Länder was earmarked for housing with some supervisory function of the Federal State. Since then, funding of the housing subsidy schemes lies fully in the responsibility of the Länder.

Within the framework of housing subsidy schemes, the nine Austrian provinces were able to set up a large and internationally acknowledged social rental housing sector. The predominant instruments are object-related subsidies towards producers of housing ("subsidies on bricks and mortar") with subsidiary subject-side subsidies. This housing strategy contrasts with the drift towards more demand-side strategies to achieve housing goals in other European countries (see Wieser, Mundt & Amann, 2013; Mundt & Wieser, 2014). The bricks-and-mortar subsidies are allocated to all tenures, but in multi-apartment housing Limited-Profit Housing Associations predominate as recipients (Mundt & Amann, 2010). Formerly, subject-related housing benefits were only targeted to dwellings, which were constructed with subsidies. Over the previous decade, most provinces have introduced allowance schemes also for the commercial rental housing sectors. This was necessary, because the private markets decreasingly offered affordable dwellings, resulting from advanced refurbishment activities. Until 2010, a massive spending increase in housing benefits could be observed, but shows a decline since 2011, due to a more restrictive allocation and the coverage of rental expenses within a new scheme of social assistance (*Bedarfsorientierte Mindestsicherung*). Including these payments, subject-related housing expenses have remained more or less stable since 2010. Fiscal incentives to boost homeownership such as reduced VAT rate, deduction of housing investments or non-taxation of sale of own property are of minor importance for housing policy in Austria compared to the volume of direct supply-side subsidies. Recently, indirect subsidies were cut due to the elimination of tax deductibility of housing bond purchases and a reduction of the state premium for contract saving. The trend of reducing indirect tax subsidies started back in the early 1990s.

As housing policy in Austria has a unitary approach, the majority of the population is targeted by the housing policy measures. The universal model of social housings aims at a diverse composition of residents and thus, avoids residualization and stigmatization of the social housing segment.

A.2 PERFORMANCE INDICATORS

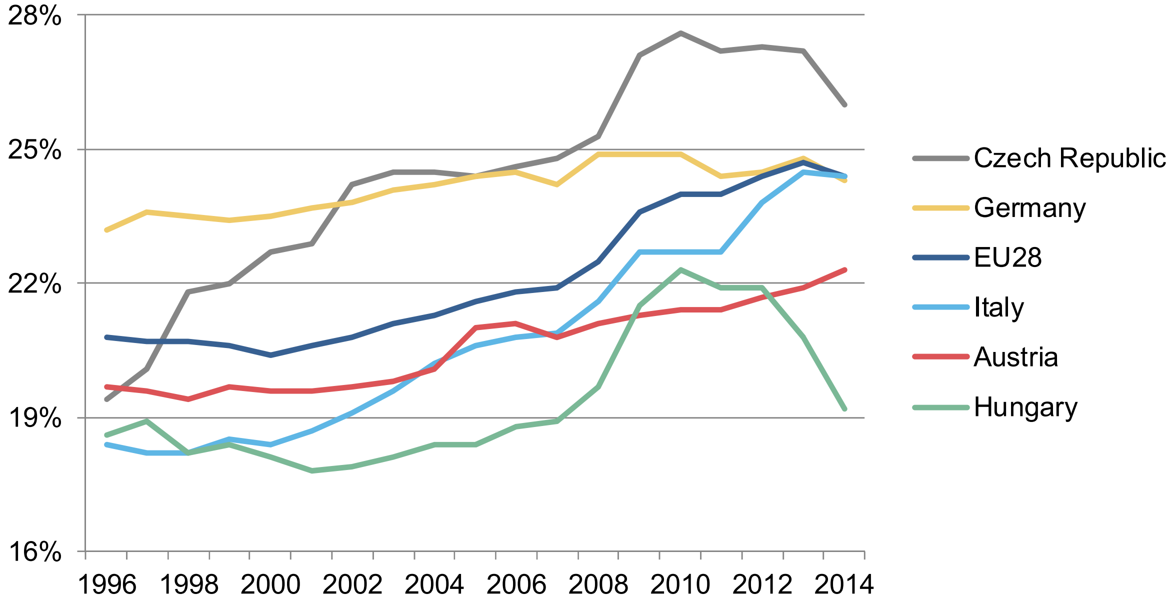
The number of dwellings (main residences) all over Austria is, according to micro census data, 3.8 million (2015). Out of these some 38% are single-family houses, the rest are dwellings in apartment buildings (approximately 11% are owner-occupied dwellings, approximately 42% are rented dwellings, and the remaining 9% consist of other forms of tenure). Thus, the total home ownership rate reaches some 49% and with 42% of rented dwellings is the rental market segment one of the largest in Europe.

Despite of the strong focus on supply-side subsidies and high share of subsidized housing on total housing construction, Austria spent only approximately 0.9% of GDP on housing subsidies in 2011, whereby 0.6% was spent on supply-side subsidies, 0.2% on housing benefits respectively on tax advantages and concessions. This is below the average of Western Europe and suggests an efficient system for tax payers. Noteworthy, too, is the great stability of the investment in housing for many decades, also in the years of the Global Financial Crisis 2007/08. In comparison, in 2011 the Netherlands spent 3.2% of its GDP on housing, France 2.2%, UK 2.0% and Spain 1.1% (Wieser, Mundt & Amann, 2013). Especially the impacts of the Global Financial Crisis has shown that the housing subsidy scheme is – despite limited budget resources – a successful instrument of social, employment and labor market policies.

The following analysis regarding housing quality and quantity illustrates that there was and is no direct link between the amount spent on housing and the quality and diversity of housing stocks (for more detail see Wieser, Mundt & Amann, 2013). Austria has relatively low expenditure, but performs well in terms of quality and quantity, when compared to the housing outcomes of other European systems, particularly in terms of housing costs and stability of housing production. Housing in Austria is treated as a 'consumption good' as opposed to an 'investment good'. For that reason continuity and stability of prices and production are a political priority (Mundt & Springer, 2016).

The general housing cost level is relatively low; in 2014, household expenditure on housing was only 22.3% representing significantly less of a burden than in most other European countries. On EU average, 24.4% of private consumption within national accounts was spent on housing (see Figure 1). Consequently, there is a relatively low proportion of households that see their housing costs a heavy burden (15.6% as opposed to the EU28-average of 36.9% in 2012).

Figure 1: Development of housing cost ratio (national accounts) in Austria and selected neighboring countries

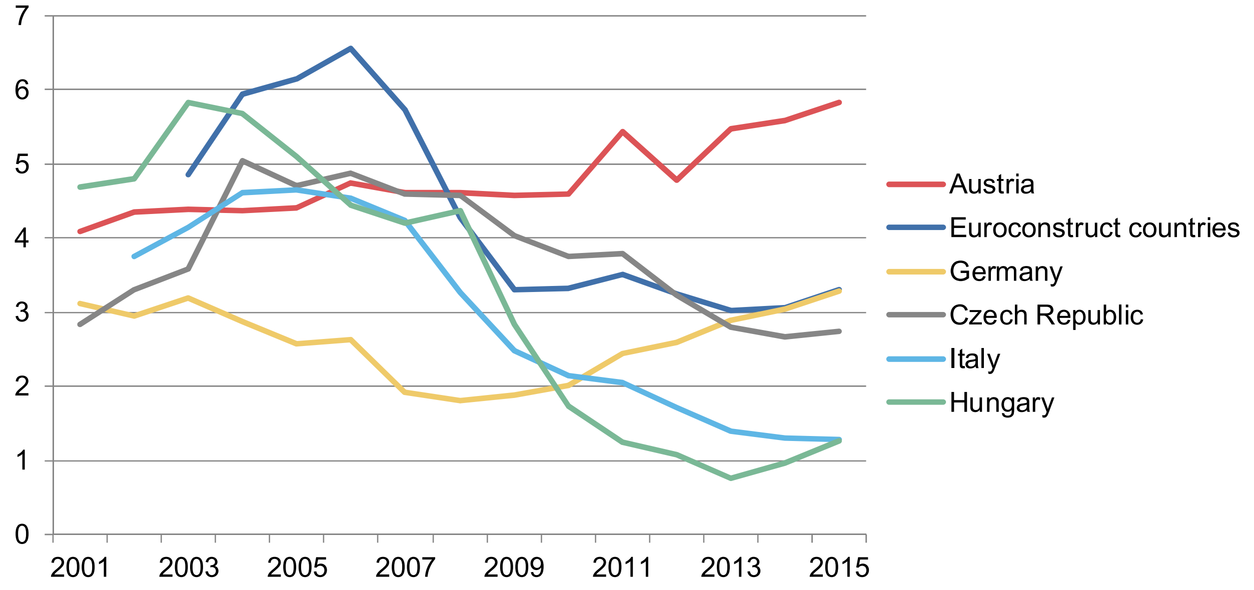


Source: EUROSTAT, IIBW

The housing cost ratio in Figure 1 includes a number of components, particularly rents, maintenance costs and household energy. Internationally, costs for household energy decreased significantly since 2013. Representing a much higher share of total housing costs in CEE countries, this led to strongly decreasing total housing costs in Czech Republic and Hungary, but had minor effects in Western European countries. In Austria, revived dynamics on the housing market had stronger effects on total housing costs. Whereas in the 1990s and early 2000s, market rents have increased below the inflation rate and at much lower pace compared to the Euro zone (ECB 2009), this has changed thereafter. Particularly in urban areas market rents increased strongly in the late 2000s and early 2010s, e.g. in Vienna by around 5% in the average of 2009 to 2012. In recent years rent market dynamics has flattened again. Strong institutional interrelations and the large social rental housing sector have contributed to comparatively smooth market rent increases throughout most of the last decades.

As an indicator for the stability in the housing construction the number of housing permits can be considered (Figure 2). New construction is on a stable and relatively high level of 4.4 to 5.8 permits per 1,000 inhabitants for the past decade (2005-2015), compared with a much higher volatility or a much lower level in most other European countries. While the Global Financial Crisis has hit the construction industry in several Western countries hard, with decreases of up to 90% in Ireland and Spain, the social housing construction in Austria clearly functioned as a shock absorber and stabilizer against rapidly dropping private and commercial housing construction. Housing completions are developing at a similarly stable rate with 5.1 units per 1,000 inhabitants in 2015; in comparison, the average of the Euroconstruct countries was at 3.1 units per 1,000 inhabitants.

Figure 2: Housing permits per 1,000 inhabitants



Source: Euroconstruct, IIBW

B. Social Housing in Austria

In Austria, there is no official definition of social or affordable housing but there are different forms of housing provision other than the private market. The different forms of social housing include rental housing provided by municipalities and housing by limited-profit housing associations (LPHAs) which have access to public subsidies. 16% of all dwellings in Austria (600,000) are owned by LPHAs. Additionally, LPHAs have constructed a big number of subsidized owner-occupied apartments, which may also be attributed as social, and usually remain in the management responsibility of the LPHA. They sum up to another 7% of the total housing stock (300,000). In total, LPHAs manage around 900,000 housing units (2015, Amann/Lugger, 2016).

Another 8% of the Austrian housing stock is owned by municipalities. Together the both groups of social rental housing make up 24% of the total housing stock in Austria which is approximately 10 percent points above EU-15 average. Moreover, social housing is primarily situated in multi-story buildings and consequently in urban areas. Social rental housing comprises 42% of all housing units in multi-story buildings (Reinprecht, 2014). The municipal housing stock in Austria mainly belongs to the municipality of Vienna, where municipal housing makes up 23% of the total housing stock (approximately 220,000 housing units).

B.1 The Model of Limited-Profit Housing Associations (LPHA)

LIMITED-PROFIT HOUSING ASSOCIATIONS

Limited-profit housing associations (LPHAs) in Austria date back to the early 20th century and have continuously gained importance since the 1950s. The foundation of the first housing associations is closely linked both to the housing question and the social question. The main idea today is setting up a long-term social housing stock at below-market cost-rents directed at large parts of the population (Mundt & Amann, 2010). Notably, social housing in Austria is rooted in an ideological background which stems both from the socialist idea of solidarity and the catholic social doctrine.

LPHAs are regulated by the Limited-Profit Housing Act of 1979 (*Wohnungsgemeinnützigkeitsgesetz*) which is a federal state responsibility. The legal definition of the Limited-Profit Housing Act describes limited-profit housing associations 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 part of the private sector. In short, the system of LPHA created by the Limited-Profit Housing Act can be characterizes as follows:

- Cost coverage principle: A minimum and a maximum allowable rent are defined based on the Limited-Profit Housing Act. The minimum is determined by the costs; remaining under the cots is not allowed. The definition of costs includes repayment and interest for (mortgage) loans as well as interests for own funds. A special mark-up for periodic renovation and maintenance works is considered. Cost rents are calculated at the estate level, there is no rent pooling at the LPHA level.

- Limitation of profit: Housing associations ought to make profits. But these profits have to be reinvested in the purchase of land, refurbishment or new construction. A tightly limited part of the profit may be divided to the owners or shareholders.

- Tie-up of assets principle: There is no way for owners of LPHAs to cash out dormant assets represented in the quickly growing number of rental apartments. In the case of merger and acquisition of LPHAs the seller will get no more than the originally invested capital (appropriate interest is usually disbursed on yearly basis on the way of limited profit division).

- Limited filed of action: The housing associations have to focus on housing construction, refurbishment and housing management. In fact, it is a strong incentive for high construction quality and social balance if housing associations function as long-term managers.

- Obligation to build: Any interruption in building activity requires the expressed permission of the respective regional government.

Since 1994, the Limited-Profit Housing Act contains the right to buy to tenants who contribute a certain amount of their own funds to co-finance the costs of land or/and construction. After a period of 10 years (since recently 20 years), tenants of these new-built apartments have a 5 year time-frame to exercise their right-to-buy. This new form of tenure was introduced as a compromise between lobbies in favor of a growing share of owner-occupation and those supporting the social rental sector. However, even though the majority of LPHA new construction can be attributed to this form of tenure, only a relatively small part of tenants decide to buy. For the future, Mundt et al. (2009) have estimated that only about 20% of the affected rental stock will be sold.

Big parts of tenants decide to rent instead of buying for a number of reasons. Rent tenure in Austria is very secure and in the LPHA sector usually unlimited. Adult children and spouses have a right to step into the contract. LPHA rents are rather cheap. After the cost rent scheme of the refinancing period, rents have to be further reduced. Finally, LPHA have proved to act highly professional in housing management. This results in a stable and even slightly growing rent ratio in Austria.

INSTITUTIONAL SETTING

Today, 187 LPHAs are active in Austria, differing in their legal status and owner composition. Cooperatives are owned jointly by their members while the capital companies (limited-liability companies, joint stock companies) are owned by local or regional public authorities, charity organizations, parties, unions, companies, the financing industry or private persons. This multifaceted picture of housing providers reflects the fact that housing associations are intertwined with the Austrian political landscape. A driving force behind political support for LPHA was given by both parties that in Austria formed a hegemonic coalition for the main part of the post-war period. The LPHA concept which revived after the war was strongly promoted by both ruling parties and the political ideology behind. While subsidized owner-occupied apartments were the favorite product of the Conservatives' housing policy, subsidized public and limited-profit rental housing was on the Social Democrats' housing agenda (Matznetter, 2002, p. 273).

As a federal republic Austria assigns high proportions of taxes to the hands of provinces and municipalities. The basis of the fiscal federalism is the financial equalization (*Finanzausgleich*) that provides for the distribution of taxation rights and tax revenues. As the Federal Act on Financial Equalization has a limited term of validity, it needs to be renegotiated between representatives of the federal, provincial and municipal levels at regular intervals. A significant point in the negotiations is the funding of the housing subsidy schemes of the Länder. In the most recent financial equalization negotiations (2008) the earmarking of housing funds was abolished, leaving future housing policy commitments to the discretion of the regions. Negotiations for a new agreement are currently in progress and a re-introduction of the earmarking of housing funds is discussed.

In the context of housing, municipalities are supposed to support social housing by providing land or abating property tax. In any case they determine the demand for social housing and in some provinces allocate dwellings to households with needs.

Audit and control

There is a very tight system of control over LPHA activities and expenses: LPHA are both self-auditing and publicly regulated. A supervisory board is mandatory for every LPHA and all LPHA have to join the umbrella organization (GBV). Its function is twofold: On the one hand it acts as a lobbying organization in the interest of its members and represents them in negotiations with the government; On the other hand it incorporates the Audit Association (*Revisionsverband*) which is responsible for the annual auditing. In addition to the general auditing procedures, the Audit Association examines whether the provisions of the Limited-Profit Housing Act are observed, in particular, the calculation of rents and the tie-up of property. The audit is also understood as a form of economic supervision and is used to offer limited-profit housing associations with qualified information and assistance to improve the productivity and competitiveness of the member enterprises. The auditor's report has to be made public (short version) and must be presented to the regional governments which act as external supervisors and have a number of possible sanctions, such as the withdrawal of public subsidies or the rescinding of the LPHA status.

This arrangement has proved to be an effective tool to avoid misconduct. The tight operational framework given by the Limited-Profit Housing Act, the supervision through the regional authorities and the fact that many housing associations are owned by semi-public bodies have as a result that housing associations are regarded as the "lengthened arm of housing policy".

Economic maturity

Despite the cost rent principle, the Limited Profit Housing Act defines a number of activities which allow profits to the LPHA. This is e.g. fees for organizing building or refurbishment projects, lump sum fees for housing management, interests on invested own equity or rents of fully amortized buildings. This provides for stable and predictable incomes. Nevertheless the equity ratio differs substantially over the sector. A number of LPHA with elder and hence amortized rental housing stocks are today economically quite mature with equity ratios of up to 50%. On the other hand there are younger housing associations with a focus on owner-occupied housing or more rural markets, which have a much poorer performance (Amann & Wieser, 2015). But very rarely LPHA went bankrupt; and for decades no single buyer or tenant lost money for this reason.

Quality and State of Preservation of the Housing Stock

The housing subsidy schemes of the Austrian provinces has developed over time to a quality assurance system in terms thermal and ecological standards, quality of planning and social integration. For this reason we face a peculiar situation that LPHA housing has on average a higher quality standard than most private market products. Additionally, legal regulations on the LPHA sector allow for higher maintenance fees and endowments to refurbishment funds than the private market or owner-occupied housing. This is why this sector has a significantly higher refurbishment rate than all other housing sectors.

B.2 Subsidies

Direct housing policy expenses in Austria are in the responsibility of the Länder. Since 2009, the Länder have received unconditional transfers from the federal government. Thus, they no longer have to dedicate a defined share of revenues towards housing subsidies. Nevertheless, all of the nine Länder spend a large part of their funds on housing policy measures and, nowadays in contrast to most European countries, with a strong focus on supply-side subsidies to new construction in the form of soft loans or annuity grants. Altogether, the nine Austrian provinces spent € 2.9 billion on their housing subsidy schemes in 2014. Close to 60% of these expenses are directed to new multi-apartment construction, well below 10% to subsidies of single-family houses, only 12% are demand-side subsidies in the form of housing benefits and 20 to 25% are direct refurbishment subsidies. These figures show that the construction ("bricks and mortar") and not the individuals are predominantly subsidized. The idea behind this is that object-side subsidies produce affordable dwellings for a large part of the population for the entire life-span of the buildings. A high supply of cost rent dwellings put pressure to the price level of the private rental market as well.

B.3 Capital Market Instruments

In addition to the public subsidy schemes of the Länder, capital market funding is provided by means of two major instruments, namely the Contract Saving Scheme and the Housing Construction Convertible Bonds of the Housing Construction Banks.

Contract Saving Scheme ("Bausparer")

As in Germany, contract savings schemes have a long tradition in Austria. Since the 1950s there have been tax advantages for contract savings and loans. In 1973, the premium to contract savings was capped to counter regressive distributional effects. Contract savings are encouraged by state premiums and, despite repeated cuts to the premium, still enjoy considerable popularity. The finance raised has to be invested in housing, long-term care or education. Even the payback of these loans is earmarked for these tasks in order to create a long-term closed circuit of finance for housing construction. Outstanding loans at the end of 2013 were around € 19 bn (€16.4 bn of which were housing loans) (Mundt & Springer, 2016).

Housing Construction Banks ("Wohnbaubanken")

Taking up activity in 1994, the main task of Housing Construction Banks is to provide developers of affordable housing with medium to long-term low-interest loans. Housing Construction Banks refinance themselves by the issuance of Housing Construction Convertible Bonds (HCCB) directed at private investors. These bonds benefit from tax advantages and are highly popular due to security of investment. Placing of the bonds continuously increased between 1994 and 2004 and peeked in 2004 and 2007. Since the Global Financial Crisis, HCCB have lost some appeal and new emissions bottomed in 2012, gaining importance again in 2013. Finance raised by HCCB has to be invested in subsidized housing projects. Most subsidized housing projects were therefore co-financed by these funds. At the end of 2012, the volume of outstanding loans was around € 14 bn. There are six Housing Construction Banks active in Austria today (Mundt & Springer, 2016). According to the European Central Bank (2009), the presence of the HCCB has promoted stability in Austrian mortgage markets by narrowing the gap between deposits and long term loans on the balance sheets of banks and reducing interest rate spreads for housing loans.

B.4 THE SOCIALE MANDATE

The question 'cui bono' has always accompanied debates about social housing. Similar to most Scandinavian countries and the Netherlands, Austria follows a universalistic understanding of social housing. There are fairly generous income limits for the access to social housing. On average only 10-20% of the population is excluded from this scheme of transfer and subsequent salary increases are not taken into account (Reinprecht, 2014, p. 69). Taking the total LPHA housing stock, middle income households are over-represented and lower-income households are under-represented (Kunnert & Baumgartner, 2012). This has caused some discussion about the proper allocation of social housing and efficiency of social targeting of public subsidies. Reasons are not only the quality of supply and the high income limits of beneficiaries, but also the low mobility of households. Newly allocated LPHA dwellings, both new construction and from the stock, mainly target at young households with usually under-average incomes. But over time their financial situation improves. For reasons of social integration and difficult administrative handling, no later income examination is applied.

Indicators on social targeting confirm this picture. Average households have a housing cost ratio significantly below EU average (Figure 1). Only half as many as in EU average suffer from overburden housing costs: 6 vs 12% of households have to spend more than 40% of disposable incomes on housing (EU-SILC). But for households in threat of poverty (below 60 percent of median income) both indicators are much closer to EU average.

The allocation of apartments is carried out according to waiting lists. Certain types of households or housing situations (e.g. single parents, disabilities, overcrowded) receive preferential treatment, but this varies across municipalities. The allocation is usually done by the LPHA. Municipal administrations however have allocation rights to some shares of the LPHA housing stock. For instance, in Vienna half of newly-built social dwellings and one-third of re-let social dwellings are allocated by a special municipal housing agency.

Since the social housing sector is accessible for a very broad range of social groups, the limited-profit sector and the free market sector compete with each other and households choose the better price-quality-bundle. If the limited-profit housing sector can provide high quality rental housing at a lower price, for-profit landlords will have to lower their rents in order to stay competitive. Thus, the limited-profit sector is also able to act as a damper on the general rent level and influences market prices of commercial projects. Merit effects of housing subsidies contribute to a more egalitarian society. Today, most parties agree on keeping up the universalistic approach towards social housing as a kind of public good in terms of social cohesion and thus avoiding socio-spatial segregation and social ghettos.

Limited-profit and for-profit housing providers do not only compete on the level of rents, but tenure security play a decisive role in attributing a leading role to LPHA over private rental stock. LPHA rental contracts in general are open-ended and tenant participation is high.

The diversity of its occupants is a very important aspect of the Austrian social housing sector. Yet, especially in the new-built LPHA housing stock of high quality, cost-rents are comparatively high and the required tenants' down payments function as barriers for low income households. The most important factors influencing the down payment requirements, especially in Vienna, have been raising land prices and high quality standards in recent years. In order to counter act the rising construction costs, there has been a growth in demand side assistance (covering both rent and down payments), which is now provided by most but not all, provincial governments in Austria.

Low income households have access to housing allowances, which are fine-tuned to the individual income situation. Households with incomes below the minimum pension of currently around € 900 for a 1-person household are expected to afford no rent costs at all, i.e. all approved housing costs will be covered by allowances. The reasonable housing cost ratio increases in small steps and fades out at an income of around the double minimum pension. Only around 5% of Austrian households are in need of such allowances (Mundt & Amann, 2015).

Social targeting of housing subsidies should always be judged in the context of total public expenditure on housing, which is relatively low in Austria, compared to other European countries (see A.2).

B.5 CURRENT CHALLENGES

Austrian housing policy is strongly affected by the austerity policy in the EU. Public budgets earmarked for social housing trend to decrease. This determines many LPHA, particularly those active in urban areas, to develop housing without subsidies. Even though such developments are still subject to LPHA regulations, they target at higher income groups than the core business of the sector.

There is an ongoing debate about the high quality standard of subsidized housing. The LPHA sector argues to reduce standards and hence construction costs and focus more on affordability issues.

Affordable housing is threatened by the strong price increase of building land, particularly in urban areas. If in the past affordable housing was realized throughout the cities, this is less and less possible today. Affordable housing is increasingly pushed to the outskirts of cities. The future will show whether new limited-profit housing projects will be able to continue the successful anti-segregation strategy of the past. Increased competition to acquire land is the major challenge for the future regarding the spatial structure and location choice of social housing schemes.

LPHA housing is challenged by the recent mass immigration of asylum seekers. A number of initiatives have been launched to provide for low cost housing for lowest income groups.It is clear, however, that this challenge cannot be carried out by the LPHA sector alone.

C. LESSONS LEARNT AND TRANSFER OF AUSTRIAN EXPERIENCE

Austrian housing policy has maintained many features of the post-war housing policy scheme, especially the large and growing importance of limited-profit housing associations, the focus on supply-side subsidies and a broad understanding of social housing. As was pointed out at the beginning, Austria performs well regarding housing policy outcomes, particularly in terms of affordability and stability of housing productions. The limited-profit housing sector has developed to a very efficient tool for the implementation of housing policy targets. Affordability has been promoted by reducing the costs of housing through low interest public loans and grants to ensure appropriate supply outcomes and relies far less on demand assistance than other systems.

The price containing influence of the social housing sector on the general housing price level leads to a unitary rental market, where competition between the private and social segment fosters overall efficiency. The universalistic approach towards social housing avoids residualization and stigmatization of the social housing segment and its tenants.

Regulation plays a strong and prescriptive role in the Austrian model. The limited-profit sector operates in a tight framework of rights and obligations concerning the setting of costs, rents, restriction of activities, re-investment of profits and supervision of activities.

The Austrian model of financing housing is suitable for adaptation in countries seeking to reform, reinvigorate or establish new social housing systems. It is particularly relevant when combined with the business model of limited-profit, cost-capped housing and may well serve the urgent needs of many countries to provide rental housing in substantial quantities, serving the needs of middle and lower income groups.

To achieve a high level of social housing provision, instruments which combine the strengths of the state with market instruments are needed. Beside state subsidies capital market instruments have proven their effectiveness. This mixed approached has promoted higher levels of housing production over time and has enabled LPHAs to play a strategic role in the housing market. Regarding the long-term management and maintenance, the establishment of a feasible rent revenue regime covering operating and capital costs as well as the requirement for building-up of equity and for the setting of funds for maintenance are significant. Subsidies play a supporting role to ensure affordability. Limited-profit housing associations are private sector enterprises that are geared more towards fulfilling the demand than on generating profit, but which nevertheless act in an economically rational manner.

A distinct benefit of the Austrian social housing model is that it does not restrict policy measures to low-income households and thus, competition between the social housing sector and the private segment of the rental market influences the general price level and fosters overall efficiency in the housing market.

Housing models similar to the Austrian one play an important role in many Western and Northern European countries. Nevertheless hardly any implementation in transition countries succeeded. There have been few trials e.g. in Poland, but almost as many errors. It remains an open question, why such beneficial schemes hardly serve those countries, which turned to marked economy only in the late 20th century.

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