

# AUSTRIA: Vienna Offers Affordable *and* Luxurious Housing

*Vienna has figured out how to offer high-quality apartments with low-cost rent and renters' rights that would be unheard of in the United States. Advocates say it's a model worth examining.*

BY: Ryan Holeywell | February 2013

**Back in 1996, residents of Vienna were clamoring to live in a coffin factory.**

The apartment building -- a redevelopment that kept the original structure's chimney -- already had more than half of its 100 units rented out before construction was complete. Known as Sargfabrik, the development featured stunning amenities, including a restaurant, a swimming pool and even a Finnish sauna. It also had many popular "green" features, such as a parking area for car-sharing and plenty of storage for bicycles. Tenants were allowed to offer input throughout the development process on how the building would take shape -- even on their individual floor plans.

In the United States, Sargfabrik might resemble a high-end condo. But in Vienna, it's a subsidized housing project. And it's not unusual.



Social housing in Vienna; Sargfabrik

A unique system nearly a century in the making has created a situation today in which the city government of Vienna either owns or directly influences almost half the housing stock in the capital city. As a result, residents enjoy high-quality apartments with inexpensive rent, along with renters' rights that would be unheard of in the U.S. The Viennese have decided that housing is a human right

so important that it shouldn't be left up to the free market. Advocates for the Vienna model say it's something U.S. policymakers should examine closely.

Vienna's highly regulated approach to housing, known as social housing or subsidized housing, is largely the result of what the city experienced in the late 19th century: deplorable living conditions in the wake of rapid industrialization. At the time, many Viennese resided in housing that was unregulated, uncomfortable and cramped. It wasn't unusual to have 10 people living in a small studio apartment -- in addition to even more who would sublet the same unit during the daytime while the primary tenants worked. The overwhelming majority of apartments didn't have private bathrooms or sinks. Rents could be increased at any time, and one-month leases were common, resulting in unstable families and communities.

That started to change in the 1920s when the country's socialist government rose to power in the wake of World War I. It made housing, along with jobs and social services, a high priority during the period known as "Red Vienna." The goal was to create aesthetically pleasing housing complexes that would provide the working class with the sort of accommodations that had previously only been accessible to the well-to-do. "It was important that people in the housing felt they were enfranchised citizens of the city," says Eve Blau, an adjunct professor at Harvard's Graduate School of Design who has studied and written about the architecture of Vienna's public housing complexes.

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There was also an economic reason to push for the public housing expansion. By subsidizing housing costs, rent would be kept low. That, in turn, meant wages could be kept low too -- without negatively impacting living standards. Low wages allowed Vienna's industrial sector to be more competitive internationally. There was a political aspect to the effort as well: The new government expected improved living conditions would engender loyalty from citizens. The push for housing was so expansive that today, nearly 100,000 of the city's 220,000 city-owned apartment units were built in the 1920s and 1930s.

**The idea that everyday citizens should have access to not just affordable apartments but also attractive ones** -- and that it's the city's responsibility to provide them -- continues to this day. There's a mind-set that housing is a way to link residents to their communities and the larger city through design. "It was never just about housing," Blau says. "It was always about the city. It was about not just providing private living space but also public living space to people for whom they were also providing housing."

**Thus, in Vienna, public space and private space are interwoven.** Case in point: The city's first libraries were part of the housing system.

**Kindergartens and day care**, dental clinics and courtyard parks were all high priorities in the early days of public housing. "It made the division between housing and the city really kind of blurred," Blau says. That trend continues, with the government emphasizing amenities that encourage interaction among residents. Those amenities also happen to be the same type found in high-end American residences. "These places are incredible," says William



Menking, an architectural historian, of the city's subsidized housing. "There are swimming pools and saunas and bicycle parking."

To understand just how pervasive public housing is in Vienna, compare it to a similar city in the U.S. Philadelphia, for example, has about the same population as Vienna. While Philadelphia's affordable housing agency owns and manages about 16,000 rental units, Vienna owns and manages 220,000 units, known as council housing. But the local government's impact on housing extends far beyond those city-owned buildings.

Another 200,000 units are owned and developed privately -- primarily through limited-profit developers -- as part of a process heavily influenced by the city. Combined, the two types of housing represent about 46 percent of the city's housing stock, making Vienna the largest landlord in Austria and one of the largest in Europe. Even within Austria, Vienna's housing is an unusual model.

**Social housing accounts for only about 25 percent of the nation's housing stock.** The pervasiveness of subsidized housing in Vienna makes the city a place where the term "public housing" carries no stigma whatsoever, unlike in the United States.

**Vienna's city-owned council flats, representing about 25 percent of the city's housing stock,** are primarily for lower-income residents and have a **waiting list of about a year.** Residents face income restrictions to help ensure they go to families that are truly in need. But there's also a unique perk for anyone who snags a spot in council housing: **As long as the families meet the income requirements when they first move in, they never have to move out** -- even if their income increases in subsequent years. That in turn means there's a sizable number of middle-income residents in city-owned housing, which is exactly the point -- the buildings don't become ghettos. **The arrangement is only possible because the stock of city-owned units is so large that middle-income residents typically don't crowd out others who need housing.** A special program exists to ensure that those in imminent risk of homelessness get units.

**During the 1980s, the city bought up a larger and larger share of the entire housing market.** Vienna stopped creating its own developments and **began partnering with the private sector.** In part, the city wanted to influence the housing market without dominating it. But the policy switch also freed the city to use more of its resources on renovating its older, existing housing stock from the 1920s and 1930s.

Some of Vienna's earliest housing units are famous -- the Karl Marx-Hof and George Washington-Hof, for instance, are well known for their huge courtyards. While many architects are familiar with those structures, some of the new models warrant attention too. "In the last five or 10 years, they've built an amazing amount of very high-quality housing units," Menking says. "The people who are making the decisions at the top really place an emphasis on architectural standards."



Karl Marx Hof

**The city is able to put those standards in place through the control it has on land supply.** The city government **maintains a fund that aggressively buys up land throughout the city to be used for subsidized housing.** Typically, if an area is suitable for residential development, the city already owns the land, which essentially gives Vienna a monopoly, says Wolfgang Förster, head of the city's Housing Research Department. **Once the city determines it's time to develop residences on a piece of its property, it seeks proposals from various developers, who then present detailed plans that outline a development's architecture, floor plans, costs, proposed rent levels, green features and more.**

**A jury ultimately selects the projects based on four criteria** -- architectural quality, environmental performance, social sustainability and economic parameters -- that are all weighed equally. That means it's just as important for the developers to create a building with a diverse group of engaged tenants as it is to create one that's economical and visually pleasing. "It's a way of avoiding ghettoization," says Mark Gilbert, a Vienna architect who serves as a member of the jury. "It's one of the problems American public housing has always faced."

Vienna's government takes an approach to residential development that's more rigorous and deliberative than many private-sector developers in America. That's because in the U.S., "cost is the No. 1 priority," Menking says. In Vienna, it's just one of four. At the same time, the competition among developers is so fierce -- the result of the city's land monopoly -- that the result is a very affordable development. "We were doing some comparisons of public housing in Los Angeles and public housing in Vienna," Menking says, "and Vienna was cheaper per square foot than L.A."

**The jury's selection of a development triggers two events: First, the city agrees to sell the land at an affordable price, and second, the city agrees to give the developer an extremely favourable loan.** Those loans cover 35 to 40 percent of a project's cost at an interest rate of just 1 percent. Developers have 35 years to pay the loans back, but the clock doesn't start until the last private loan has been paid off.

**In exchange, developers who enter the arrangement must provide half their apartments to the city for rent.** Those units generally go to lower-income Vienna residents -- the same profile as those who are on the waiting lists for council housing. **The other half goes to tenants selected by the developer, who are generally middle-class.** But those units are still more affordable than they'd be in a free market system, since the project has been so heavily subsidized. In many cases, the tenants are selected before construction begins, and they have the right to participate in the planning process by making tweaks to floor plans and internal styling in each unit to suit their lifestyle and budget. As a group, residents can decide what type of communal spots they want, whether it's playrooms for children or conference rooms for professionals.

**How does a city pay for such a massive undertaking?**

**Vienna gets about 450 million euros a year in federal funds earmarked for housing.** In addition, the city contributes its own funding to the effort, upping its total public housing spending to about 600 million euros per year. Vienna officials are quick to point out that they don't spend more than the U.S. on housing as a percentage of GDP. **In addition, there is no mortgage interest deduction as there is in the U.S.** -- Vienna chooses to subsidize developments rather than residents. Consequently, city officials say, they can exert vastly more influence on housing than their American counterparts.

Vienna, like cities everywhere, has luxurious (and expensive) private homes available. Those are developed outside of the subsidy system. But there are also more modest homes, aimed toward middle-class consumers that are developed outside the subsidy system as well. Because public housing is so expansive in Vienna, developers of unsubsidized units still must provide good prices and high quality to prospective tenants in order to remain competitive. **“The city -- without having direct control of the property market -- has managed to keep the cost of new residential property down,” explains Gilbert, the Vienna architect.**

**Indeed, rents across Vienna are low for a European capital.** Families that are solidly middle-class are eligible for social housing, which generally caps monthly rent at 25 percent of a family’s income. Förster of the city’s Housing Research Department says **Vienna’s average rents are almost half the rates in European cities such as Barcelona, Berlin and Zurich.** A recent study from the financial firm UBS backs up his assertion that Vienna’s rents are among the lowest in Western Europe.

Meanwhile, tenants have vastly more rights than they do in the U.S., which is why 80 percent of Vienna residents rent. **Rent typically can’t be increased more than the rate of inflation, and rental agreements can be passed on to a tenant’s descendants.** Renters living in apartments are allowed to make major changes and renovations to their units, often against their landlords’ wishes. Renters also have a sense of ownership for their buildings -- even if they don’t actually have ownership -- **because they pay a portion of the upfront costs of the building to help developers finance construction** (they get the payments back, with interest, upon moving out). Renters have such strong rights that, in many cases, there may not be an advantage to being a homeowner. “European cities have been suffering from the whole shrinking cities thing,” Blau says. “[Helping] people be able to invest in housing actually creates a stable situation.”

But the system is being threatened by economic conditions. Austria’s public housing program is largely funded with federal tax money that is administered at the state level (Vienna functions as a state). In 2008, the federal government made a change to its tax policy. It decided that the payroll taxes dedicated to the state housing program could now be used for other purposes, so that state governments could plug budget holes. Other states did that, but Vienna hasn’t yet. Meanwhile, the city’s public housing budget was cut by nearly 25 percent last year, though it has been returning to its pre-recession levels, Förster says.

Increased immigration, especially from Eastern Europe, is putting a strain on the public housing system as waiting lists are starting to grow longer. “We feel [the uptick] is not dramatic, but theoretically, it could be the beginning of a downward development in the social housing sector,” Förster says. Regardless, there’s still an enormous sense of pride among Vienna’s citizens and policymakers about the system. “In European cities and countries, a lot of the welfare state structure has fallen away,” Blau continues. “This is a remnant of it, and it’s working well.”

Could a similar system be reproduced in America? Gilbert is perhaps uniquely qualified to answer that question. The Vienna architect is an American citizen from Schenectady, N.Y., who went to college in the U.S. but has lived in Vienna so long that today he speaks English with a German accent. He is not particularly optimistic about a wholesale change. “The best thing that could happen to America,” he says, “is that they start examining the possibilities of having some of these programs.”

That means that American lawmakers must first ask themselves about their goals for housing policy. Whatever they are, Gilbert says, the American government is likelier to achieve them through a

Vienna-style system of subsidies than the mortgage interest deduction to homeowners. A Viennese-style subsidy could also mitigate the impact a recession would have on the housing sector. Vienna can increase its level of housing subsidies and release more land for development during recessionary periods, acting as a cushion for the industry during economic swings. The Vienna method could also accelerate green building standards, as Vienna's housing developments have quickly made strides in energy efficiency as a result of city influence.

Still, despite being an advocate for the system, Förster is skeptical that it could take hold in the U.S. or even in cities in other countries. It is the program's history that has helped make it an ingrained part of city life, he points out. "You cannot just duplicate this. Vienna has a long continuity."

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