

Austria

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Macroeconomic overview

Real GDP contracted in Austria by 3.6% in 2009 and stagnated in Q1 2010 compared to the previous year (having increased by a mere 0.2%). According to the June 2010 edition of the Economic Outlook, June 2010, from the Central Bank of Austria (OeNB), the economy is expected to grow by 1.6% in 2010. The recovery of the Austrian economy is fuelled by the rapid upswing in world trade that has been observed since the summer of 2009.

With regard to business investment, plummeting export demand, tighter financing conditions and the general uncertainty amid the crisis had caused investment in plant and equipment to contract by 8.5%, and gross fixed capital formation to decrease as a whole by 7.5% in 2009. Private consumption has had a stabilising effect on the economy throughout the crisis. Even in 2009 domestic consumer demand was rising at a moderate rate of 0.8%, reflecting comparatively high wage increases, gains from income tax reform, very low inflation rates (2009 HICP inflation was 0.4% year-on-year) and as such, low unemployment rates (4.8% in 2009).

Housing and mortgage markets

Austria has a housing stock of 4 million units, in which 3.6 million households live as primary residence (2009). The vast majority of the housing stock (more than 90%) is well equipped with central heating and bathroom facilities. Just over one quarter of the stock was built before 1945, 43% between 1945 and 1980, and one third after 1981. Vienna in particular has a large stock of old housing, which is in a relatively good condition. The predominant housing tenure in Austria is that of a single-family home, accounting for a 45% share of total owner-occupancy. Together with an 11% share of households living in condominiums, the total owner-occupancy rate reaches 56%. The majority of rental stock is affordable housing with approximately 23% (Limited Profit Housing Associations and municipal housing), while only around 18% of rental stock is private rental.

The recent economic crisis has led to a downturn in new construction in Austria. Nevertheless, due to the strong position of subsidised housing, the residential construction activity has proved to be more stable than in most other European countries. There was a peak of building permits in 2006 with more than 47,000 units (equal to 5.7 units per 1,000 inhabitants). In 2009 it was roughly 40,000 units, corresponding to an estimated decrease of 35,000 units by 2012 (4.8/4.2 units per 1,000 inhabitants). Housing completions usually follow the same pattern with some two-year lag. The construction sector is still down, with no signs for a recovery as of yet. Austrian construction investment decreased in Q4 2009 by 6.2% year-on-year (in Q1 2010 by 7.7%). The value added in the construction sector has been declining over the last two years. The Austrian Central Bank (OeNB)'s forecasts for 2010 and 2011 assume that residential construction investment year-on-year growth rates will be -3.9% and 0.1% respectively. Regarding housing transactions, there are only few statistical data available. To summarise, Austrian households show a low housing mobility which is below 5% per year. The weak housing transaction dynamics do not only concern the ownership sector, but are noticeable in the rental sector as well. Extensive tenancy protection allows for tenure security close to ownership.

Only in the 1990s was a new tenure of limited rent contracts introduced, which is steadily growing in volume.

After a slowing trend during 2009, house prices went up in Q1 2010 by 8.7% year-on-year in Vienna and by 4.8% year-on-year in the rest of Austria, with used owner-occupied flats and semi-detached houses increasing the most. Further slight increases in housing prices are expected over the 2010-2011 time period, but there are no signs of any price bubbles or any developments in housing prices that may hamper financial stability at all.

Housing markets in Austria developed smoothly and rather consistently in most parts of the country. The average market rent is as low as EUR 6.30 per square meter in 2009 (excluding taxes and maintenance costs). In the capital city Vienna, average rents are only slightly higher: EUR 7.30 per square meter. Of course, the uppermost market segment is much higher: up to EUR 15 per square meter. The increase in rental prices has been below the consumer price inflation for many years. Only since 2005 has it caught up. Vienna has therefore very low rental prices, compared to other European capital cities. This is partly a result of the integrated housing policy model with competition between the private and the social rental housing sectors. Large cities from western Austrian provinces such as Salzburg and Innsbruck have higher rental market prices than Vienna.

The situation is similar in the owner-occupied sector where the price is on average only EUR 2,500 per square meter for new apartments in Vienna (but above EUR 4,000 per square meter in the uppermost segment with maximum prices of above EUR 10,000 per square meter, close to EUR 3,000 per square meter in Innsbruck and close to EUR 4,000 per square meter in Salzburg).

Concerning housing finance, we refer to the Household Survey on Housing Wealth 2008 (HSHW) commissioned by the OeNB³³. In the following, the term "loans" covers loans taken out to finance house purchase as well as credit for land purchases. Furthermore, it also covers loans granted by employers or by family or friends. Loans taken out to finance home renovation or repairs are not included. According to this survey, 22% of Austrian households have taken out debt to finance housing. Low-income households with outstanding housing debt are particularly vulnerable: their LTV ratios and their debt-servicing ratios as a share of their income are disproportionately high. The median share in disposable income used by Austrian households to pay back loans is 50% in the lowest income sector but only 12% in the highest one. This share is high compared to the average in six euro area countries (Germany, Greece, Spain, Italy, The Netherlands and Portugal), which is only 35%³⁴. Low-income households account for only 10% of all outstanding housing loans and this is the main reason why financial stability risks are rather low. Despite the potential risks involved, foreign currency loans have become very popular in Austria: 29% of all indebted households have at least one outstanding loan in foreign currency.

The housing loan interest rate type is relevant in measuring how quickly monetary actions can affect disposable income: the bulk of housing loans in Austria are variable rate loans (according to HSHW, 66% of households holding loans have at least one variable rate loan, 43% in the euro area). The higher the household income, the lower the LTV ratio: while the LTV ratio is 68% for lowest income indebted households, it is 42% for households in the highest income group. A key characteristic of Austria's housing policy is its focus on regulated limited-profit rental sector and its structured financing arrangements. Also in 2009, the most

³³ See Fessler, P., Mooslechner, P., Schürz, M. and Wagner K. (2009). Housing Wealth of Austrian Households. In: Monetary Policy & the Economy Q2/09, Vienna: OeNB. 104–124; N. Albacete and K. Wagner (2009), Housing Finance of Austrian Households. In: Policy & the Economy Q3/09, Vienna: OeNB. 62–92.

³⁴ See ECB (2009), Housing Finance in the the euro area, ECB Occasional Paper 101.

important role was played by the state and regional supply-side subsidies, which aim at fostering social housing. Public subsidies accounted for around 1% of GDP, out of which around 70% was spent for new construction, 20% for renovation and 10% for housing allowances. Due to the focus on the social rental sector with generous income limits, which are high enough to allow 80%³⁵ of the population to enter the rental sector, a unitary rental market is still promoted.

In addition to these specifics in public funding, the structure and volume of the self-audited and publicly regulated limited-profit housing sector have an impact on the affordability of housing and account for 13% of the housing stock. The 192³⁶ existing limited-profit housing associations, which were active by the end of 2008, manage 750,000 housing units in the country. In addition to the 9% of rental flats held by municipalities, the Austrian social rental housing sector accounts for 22% of total housing tenure. Moreover, the limited profit housing sector covers 6% of owner-occupied flats (data refers to 2008). Despite the existence of interest rate deductions on mortgage loans, the tax incentives to increase home ownership are still of minor importance for housing policy in Austria compared to the volume of direct supply-side subsidies.

Funding

Due to the global recession the development of new mortgage funding decreased sharply until 2009 and remained stable during 2009.³⁷ The softening in lending criteria in Q4 2009 suggests a potential increase in new mortgage funding in 2010. The ratio of foreign currency loans was decreasing slightly in 2009 but still amounted to around 36% of the total new mortgage loans. Foreign currency loans represented around 38% of total mortgage lending compared to around 1% in the euro area, excluding Austria. Building societies (Bausparkassen) contracts play an important role in Austrian housing policy. The number of contracts further increased in 2009. Capital market instruments available for mortgage banks experienced strong fluctuations in 2009. While the volume of the issuance of housing bonds was increasing up to mid 2009 (to around EUR 120 million) after its strong downturn in the end of 2008 (to around EUR 50 million), it decreased again by the end of 2009. The issuance of mortgage covered bonds, which recorded a peak in 2006 (to around EUR 2.2 billion), increased from 1.3 in 2008 to EUR 1.4 billion in 2009.

	EU27, 2009	Austria, 2009	Austria, 2008
GDP growth (%)	-4.2	-3.6	2.0
Unemployment rate (%)	8.9	4.8	3.8
Inflation (%)	1.0	0.4	3.2
% owner occupied	68.2	56.2	56.9
Residential Mortgage Loans as % GDP	51.9	26.2	25.3
Residential Mortgage Loans per capita, EUR thousand	12.37	8.68	8.56
Total value of residential loans, EUR million	6,125,727	72,487	71,346
Annual % house price growth	-6.8	3.0	0.0
Typical mortgage rate (euro area), ³⁸ %	2.71	3.71	5.32
Outstanding Covered Bonds as % outstanding residential lending	23.2	7.3 ³⁹	7.0

Source: EMF, Eurostat, ECB, Bank of Austria, Statistics Austria, Euroconstruct, Austrian Federal Economic Chamber statistics (WKÖ-Immobilienpreisspiegel), IIBW

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Austria=2009

³⁵ Amann W., Lawson J. and Mundt A. (2009), Structured financing allows for affordable rental housing in Austria, in The Housing Finance International Journal, June 2009.

³⁶ Mundt, A. and Amann W. (2009), Indicators of a unitary rental market in Austria, paper presented at the ENHR (European Network of Housing Research) Conference 2009 in Prague.

³⁷ Compared to the following OeNB (2009), Kreditvergabe des Österreichischen Bankensystems, 3, Kreditbericht, November 2009.

³⁸ Please note that the euro area "typical mortgage rate" which is reported in each of the country report tables is the year-end variable mortgage rate which is applied in the euro area (Source: ECB). This is used as a proxy for a European average mortgage rate, which would be misleading if a simple average of national typical mortgage rates was used.

³⁹ Please note that the outstanding covered bond to outstanding residential lending ratios for Austria are estimates.