

SUMMARY

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THE END OF AUSTRIAN "WOHNBAUFÖRDERUNG"

Outlines for a Comprehensive Housing Policy

1 Present Situation

Austrian housing conditions correspond to those prevailing in highly developed industrialized countries. Nevertheless, within this overall picture, pockets of - partly severe - housing deficits remain in various population sectors.

Austrian housing policy tries to reduce these shortcomings primarily by supply-side subsidies for new construction and the upgrading of existing dwellings.

Against the background of rising public debt and of the volume of public funds required, the persistence of those housing deficits raises the question whether the instruments applied can be regarded as efficient and conducive to their elimination.

2 Objectives

The principal aim of this study is the formulation of a comprehensive Austrian housing policy whose different elements are interrelated and adjusted in such a way as to ensure the provision of optimal housing through the smallest possible public expenditure and as much public interference in the housing market, as is absolutely essential.

As a reference frame for all further considerations serves a combination of a market economy with performance-related incomes, of socially guaranteed satisfaction of established needs and of maximum conservation of natural resources as the basis for human life.

3 Procedure

As a starting point for more detailed research, the development of housing stock, housing production, construction costs and their financing, housing subsidies and incomes are presented by federal provinces for the period since 1971.

An evaluation of credit financing within the framework of the traditional compound interest system serves as a backdrop for the analysis of specific financing problems in the field of housing.

The - mainly supply-side - housing subsidies within the Austrian housing policy are then reviewed regarding their economic and social efficiency.

The ratio of subsidy effect to subsidy content is defined as measure in evaluating the efficiency of public financing schemes.

A comparative survey of all 27 public subsidy schemes currently applied by the nine provincial administrations (i.e. for owner-occupied, condominium and rental housing) is presented with their respective flows of payments, public and private loan repayments and subsidy content.

In order to evaluate the social effectiveness of this housing policy, census data from 1981 through 1993 have been specially analysed to obtain a detailed and stratified picture of multi-family housing conditions in Austria. Information on household income, sanitary amenities of dwellings, age of dwellings and occupants, housing expenditure and on the ratio of expenditure to income is presented for household sizes of one to four occupants.

Income strata and dwelling floor areas are then compared with multi-family housing constructed since 1971, practically all subsidized. Presenting each household size independently, income strata are not biased by differences of household size structure.

As a basis for a more general analysis a summary of the relevant discussion on housing policies in Austria since 1990 is provided.

The following specific areas are then analysed by the author: land prices and availability, housing market and housing provision, housing construction and financing, public and private rental housing stock, taxes and incomes.

Using the most recent census data available (1993), the extent of excess occupancy and deficits in (sanitary) amenities of the housing stock are determined, being the primary targets for future public action in the field of housing.

Based on the above guidelines and analyses, the general framework for a comprehensive housing policy is finally outlined, evaluating its likely consequences on public finance.

4 Results

4.1 Recent history

The evolution of Austrian housing stock during the seventies and eighties can be considered as satisfactory both in quantity and quality.

Between 1971 and 1991 the number of permanent residences has increased considerably more than the population, so that the average number of occupants per dwelling decreased from 3,0 to 2,6 over the same period.

Consequently, the average floor area per occupant increased from 22 to 33 m².

The proportion of substandard dwellings (i.e. without WC and/or water) diminished considerably, but some 11 % remained in 1991. (The definition of substandard was somewhat extended for the 1991 census.)

Households of single persons became substantially more numerous during those years, their share rising from 25 % in 1971 to 42 % in 1991.

Housing construction slowed down in the eighties, but has again reached a level of more than 40,000 dwellings per year.

The average floor area of new construction has increased from 82 to 96 m² between 1971 and 1993.

On average, slightly less than half of the total construction costs were covered by equity capital, while the public sector contributed about 25 %.

The predominant instrument of Austrian housing policy, the so-called "Wohnbauförderung" (i.e. supply-side subsidies), has been thoroughly diversified by the provincial governments since 1989. However, its financing still depends mainly on the federal budget, which contributed approx. ATS 22,000 million to a total of ATS 31,000 million in 1994.

Between 1971 and 1991 the number of new subsidized owner-occupied homes per year remained almost constant, whereas the number of rental dwellings varied greatly.

Roughly speaking, the average amounts of subsidized loans per unit of condominium and rental housing were twice as high as those for owner-occupied homes.

Frequent changes in public loan conditions have resulted in widely differing public and private expenditures.

In 1994, more than two thirds of all disposable public funds were allocated to - supply-side - subsidized loans and non-refundable grants, smaller shares to various demand subsidies. About 20 % were used for the upgrading of existing dwellings.

The average increase in household incomes since 1981 almost equals that of construction costs per dwelling.

4.2 Analysis

With rising inflation traditional mortgages result in relatively high real values of initial payments thereby impeding access to financing for lower-income households.

By pegging annual payments to the consumer price index a far steadier ratio between them and income is achieved.

The generally applied compound interest system is not viable in the long run, if inflation and the need for production increases beyond real demand are to be avoided. Real interest incomes on no-risk deposits are independent of any effort by the depositors. Their decrease would result in subsidy-free reduction of financing costs for the borrower.

Construction of new housing produces tax flows amounting to appr. 30 % of net construction costs. However, because of the impossibility to distinguish between additional construction induced by subsidized loans and construction which would take place even without subsidies, it is impossible to define any "threshold of self-financing" of subsidization schemes.

Supply-side subsidies via tax deductions for deposits in special housing banks cannot be considered efficient from the point of view of public finance.

The criterion for economic efficiency of subsidized loan and grant schemes („efficiency factor“) is defined as the ratio between the reduction of total real expenditures (market expenditures less subsidized expenditures) and the real net subsidy of the loan and grant scheme in question.

Assuming a market interest rate of 8.0 % and an inflation rate of 3.0 %, the resulting efficiency factors vary between roughly 3.0 and 4.0 for traditional subsidized loans. Recently introduced financing schemes with varied combinations of loans, grants and refundable interest subsidies show even lower values. The underlying reason for this generally is the insufficient protection of (public) capital against inflation.

A survey of income groups and housing conditions within the Austrian multi-family housing stock in the period 1981 - 1993 produces the following picture:

- Incomes of singles increased somewhat more than average.
- Households with three and four occupants generally enjoy fairly well-equipped dwellings; smaller households, especially of singles, show marked differences in dwelling standard with greater variations depending on income.
- Construction age varies with household size (larger families tend to live in more recently built dwellings), much less so with income.
- Dwelling floor area depends relatively little on income though it increases with family size. Values for small households are considerably higher than needed.
- The average age of occupants decreases sharply from 60 years for singles to 26 years for households with four occupants.
- Lower-income strata with one or two occupants per household tend to live in older dwellings, larger households in more recently built ones.
- The evolution of average housing expenditures corresponds approximately to that of incomes. Expenditures per square metre are largely independent of family size. Previously lower housing expenditures of singles have recently approached the higher levels of larger households. Expenditures per square metre vary little with income.
- The average ratio of housing expenditure to net income remains at relatively low 13 %, but for singles this value rises to 16 %. In this respect, greater differences appear depending on income. Substantially higher ratios for lower income strata are, however, partially mitigated by housing allowances which are not included in the income figures.

A comparison of the multi-family housing stock built since 1971 (basically all subsidized) with the entire stock (without age restriction) yields a different picture:

- Incomes are notably higher in the more recent stock. However, this mostly originates in differing household structure: smaller households - with generally lower incomes - are much less frequent in more recently built (subsidized) dwellings.

- Floor area in this latter group of dwellings varies relatively little with income. The average floor area for singles reaches rather high 60 m². Households with three and four occupants show only small differences with respect to floor areas.
- This indicates that households of singles comprise predominantly the remaining members of previously larger families who, faced with the scarcity or absence of smaller dwellings at relatively lower cost, prefer to stay in their larger quarters at usually quite moderate cost.
- Within the subsidized stock built since 1971 expenditures per square metre amount to a fairly stable ATS 55,- per month. This would, however, cover only about half the comparable cost of financing at market conditions.

As a whole, the Austrian "Wohnbauförderung" gives the impression of a complex system of income redistribution and subsidies, exposed to frequent political shifts and with little social bearing. It is not based on any systematic scientific foundation.

Its principle of "giving (almost) everyone a slice of the cake" means that there is a lack of public funds for those who really need support.

4.3 Overview

A survey of the discussion of recent years among Austrian housing researchers reveals quite similar views on several points:

- The insufficiently restricted use of previously open land by generous zoning and isolated construction is criticized.
- About half of all Austrian households would be unable to acquire new dwellings at market prices.
- One of the main problems of long-term financing of housing consists in the need for long-term deposits.
- Non-profit housing corporations ("building societies") tend towards "profitability".
- The lack of a clear definition of goals impedes the evaluation of the Austrian housing subsidy system.
- Unrealistically low rents in both the private and the non-profit rental sector should be adjusted.
- Financing subsidies for housing via tax deductions increase income inequalities.

An analysis of problem areas related to housing by the author leads to the following conclusions:

- Demands for "lower land costs", "increased land supply" and "sparing use of land" are contradictory.
- Reduced utilization of land is commonly a function of higher land prices.
- The increasing divergence of the interests of buyers/tenants and of (larger) non-profit corporations are moving the latter away from the goals of original housing policies.
- Refinancing of housing construction through private capital would be feasible via pension funds.
- The economic efficiency of financing schemes for public housing can be optimized through the elimination of their net subsidy content.
- The social effectiveness of housing subsidies is best assured by direct allowances to households.
- A long-term effective alternative to the private rental market is best provided by subsidy-free public housing (i.e. at cost rents).
- Risk-less net interest above the inflation rate constitutes depositor income without work.
- An ecologically oriented fiscal system should free labour of fiscal burdens and instead rely on taxing the consumption of resources.

4.4 Perspectives

Accumulated public debt and current budget deficits require a redefinition of Austrian housing policy and a concentration of the available means primarily on those with unsatisfied needs.

For the large majority of the population only an optimized framework without subsidies can (and should) be provided by the government. Income transfers (allowances) are to be restricted to those households which even under the aforementioned condition are unable to meet their housing needs.

The 1993 micro-census yields an accumulated deficit of floor area (because of an excess of occupants) of approx. 4,0 % of the entire stock of floor area and affects about one fifth of all inhabited dwellings. In addition to this, approx. 100.000 dwellings must be considered as inadequately equipped.

Principal elements of a future comprehensive Austrian housing policy should be:

- Definition of minimum densities as part of land zoning
- Constitution of adequate land reserves by local authorities; extended use of land lease contracts
- Replacement of the current land tax by a new land use tax
- Complete taxation of land value gains; supplementary general right of municipalities to substitute buyers in land transactions
- Elimination of cost-plus elements in the non-profit housing sector; subsequently abolition of the current non-profit housing law
- Substitution of the present system of subsidized financing schemes for public housing ("Wohnbauförderung") by a non-subsidized public housing financing fund ("Wohnbau-Finanzierungs-Fonds")
- Refinancing via pension funds
- Provision of adequate rental housing stocks by the municipalities
- Incorporation of the present non-profit rental stock into the municipal rental stock
- Introduction of housing allowances also for the private sector
- Definition of ecological priorities within the tax system
- Taxation of risk-less real capital gains

These measures would provoke several changes in public budgets:

- The need for fresh federal budget money for the housing construction financing fund would gradually be reduced to zero.
- The proposed land use and value gains taxes would provide the government with considerably higher revenues.
- Tax deductions related to investment in new and remodelled housing as well as premiums (tax credits) for savings tied to new construction would cease to exist.
- The extension of housing allowances to the private housing sector would roughly double the required amounts.
- A new capital gains tax would result in markedly higher public revenues, depending on the inflation rate.

Any reorganization of present Austrian housing policies should take place gradually over a period of roughly ten years.

In implementing the above proposals, it is of paramount importance to take into account their interdependence.

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N.B. This English summary is included in the published study, its main body being in German.

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