IUHF
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Winter 2010

HOUSING FINANCE INTERNATIONAL

The Quarterly Journal of the International Union for Housing Finance

Indicators of an Integrated Rental Market in Austria

By Mundt A.[1] and Amann, W. [2]

1. Introduction

At first glance, it appears that post-war housing policies have converged across many European countries towards strategies that rely on deregulated markets and reduced government intervention in the procurement, management and regulation of housing provision. While the directions taken in individual countries have differed in form, extent and impact, common trends in housing policies are indeed discernible. These include strong promotion of individual home ownership, privatisation of the social housing stock, deregulation of housing finance markets and the use of housing benefits to secure affordable housing for lower income households.

Yet, the drift away from social housing and supply-side subsidies has not been universal. Indeed, recent overviews have revealed a more variable picture (Czischke 2005, CECODHAS 2007, Whitehead & Scanlon 2007, Scanlon & Whitehead 2008, Lawson 2009). While some countries, e.g. England and Germany, have sold or demolished large amounts of social housing, there are several countries, such as Austria, France, the Netherlands and Switzerland that continue to exercise more direct influence on new supply, using a range of policy measures. Furthermore, in a number of countries, including Ireland and Spain, a return to the promotion of housing by means of supply-side subsidies is reconsidered in order to stimulate ailing national economies. These recent tendencies make it even more legitimate to take a closer look at countries with pronounced social housing sectors and traditional housing policy elements in order to provide alternatives for future housing policy developments.

Austria, an example of such a country, has shown a very successful housing policy in the past and now manages to keep up favourable housing outcomes by rather low public subsidies of around 1,07% of GDP (Förster 1996, Deutsch 1999, Donner 2000, Matznetter 2002, Amann & Lugger 2006, Reinprecht 2007, Reinprecht & Levy-Vroelant 2008, Deutsch 2009, Amann et al. 2009).

Favourable housing outcomes have importantly been influenced by the two main players in the social rental housing market, i.e. the limited-profit housing associations and the municipalities. Indeed, the Austrian rental market as a whole is formed by the two segments of the social (limited-profit/municipal) rental market and the commercial/private rental market segment. Both of them show a high degree of competition. For this reason, Jim Kemeny's theory of countries of unitary rental markets, i.e. markets characterised by the absence of regulatory barriers to competition between profit and non-profit rental housing providers, offers a good basis for analysing Austrian housing policy and making this country more comparable to other European experiences.

In Kemeny et al. 2005, the comparison of several national housing policy schemes (Switzerland, Sweden and the Netherlands) offers a kind of coordinate system to analyse other countries with unitary rental markets on their way to market integration, i.e. where non-profit housing is competitive, provides good market coverage and therefore shows a rent-dampening influence on the overall rent level. In the following sections we will extend this procedure to the Austrian case and try to show that Austria is close to the ideal of an integrated rental market, as was already indicated by Matznetter (Kemeny et al. 2001).

Why is it important whether Austria can be classified as a country with an integrated rental market? There are two particular answers to this question: First, Kemeny's theory of dual versus integrated rental markets is basically a divergence theory allowing for differing housing policy schemes that do not grow more and more alike across Europe (Matznetter 2006, Malpass 2008). It thereby offers an explanation for the high continuity of Austrian housing policy and at the same time provides an alternative development for other national housing policies, especially in transition countries. Second, Kemeny's classification indirectly wants to carry the point that countries are well advised to enhance an integrated rental market because of the positive repercussions on their housing policy outcomes: "*The advantages of the integrated rental market include tenure diversity, housing choice, low housing costs, and as a buffer against wild and extreme swings in housing prices*" (Kemeny et al. 2005, p. 871). A main advantage is seen in the low general level of housing costs with little differences across tenures.

Empirically, these advantages of unitary rental markets concerning housing and social policy outcomes have so far neither been demonstrated by Kemeny himself nor by many other researchers. Yet, very recently, a study by Czasny et al. (2008) has started to fill this gap by an analysis of the correlation between country-type and household housing costs and satisfaction with living conditions based on EU-SILC data. In a comparison of the 15 "old" European member states, countries with a low share of owner-occupancy (which basically equal countries with unitary rental markets) generally attain better results concerning housing costs, housing quality and household satisfaction with home,

[1] Alexis Mundt, Research Associate, IIBW – Institute for Real Estate, Construction and Housing Ltd., PB 2, 1020 Vienna, Austria ; www.iibw.at

[2] Wolfgang Amann, Director, IIBW - Institute for Real Estate, Construction and Housing Ltd., PB 2, 1020 Vienna, Austria

living environment and standard of living than countries with high owner-occupancy shares.

The effect of a unitary rental market as a dampener of economic cycles has shown its success recently (ECB 2009). The link between extreme house price booms in the past and the current financial and economical crisis in Europe is most visible in Ireland and Spain. Both countries built their economic growth on real estate dynamics and are now experiencing the highest unemployment levels in Europe. These correlations are no coincidence.

The aim of this contribution therefore is not only to identify the elements that classify Austria as a country on an advanced stage from a unitary to an integrated rental market (section 2 and 3), but also to address the retrograde tendencies that might impede such a development (section 4) and thereby threaten positive housing outcomes in Austria (section 5).

2. Kemeny's theory of rental markets

Kemeny (1995, et al. 2001, et al. 2005) has developed a theoretical framework where the structure of the rental sector is a fundamental variable for analysing housing policies in welfare-states. According to this theory, some countries have dual rental markets while others have unitary markets.

In countries with a dual rental market the state successfully shields the private rental market from competition out of the social sector. The social sector is reserved for low income households and functions purely as a residual safety net. The providers of social housing are closely controlled by the state and strict means-testing is applied. The private market, on the other hand, is characterised by high rents and insecure rental contracts. Therefore the two segments (the social and the private) composing the dual rental market do not compete with each other.

In contrast to countries with dual rental markets, other countries have built up unitary rental markets. A unitary rental market – characterised by the absence of regulatory barriers to competition between profit and non-profit providers – is the precondition for the social rental market to enter into competition with the commercial rental market and thereby have a rent-dampening influence on the overall rent level. In countries with unitary rental markets, the social housing segments plays a large role in overall rental housing, is financed by state or federal subsidies, is open to broad classes of the population and is often provided by semi-private or private limited-profit providers. If non-profit renting is allowed to compete with for-profit renting in a unitary rental market and if high quality rental housing can be provided at a lower price, for-profit landlords will have to lower their rents in order to stay competitive: "*This is the main channel through which the non-profit sector is able to act as a dampener on the general level of rents*" (Kemeny et al. 2005, p. 858).

Later on, Kemeny et al. (2005) have shown how a unitary rental market may develop into a truly integrated rental market over time, passing through phases where the non-profit rental sector first influences, then leads and finally dominates the market. At a final stage, an integrated rental market may emerge out of a unitary rental market if the supply of non-profit housing is competitive, provides good market coverage and reaches a sufficient magnitude (Kemeny et al. 2005, p. 861). The evolution into an integrated rental market may be measured by the role non-profit housing providers play in the rental market. In this process solidity plays a key role. The solidity of a housing association may be measured by the ratio of its equity capital to market value. The higher this proportion, the lower is dependence on debt capital on the financial markets, which may lead to lower financing costs. Solidity is supposed to increase over time as both outstanding debt is paid back and the market-value of a housing association increases. Through this process of maturation, i.e. the increasing possibility to rely on equity capital, limited-profit providers will grow more and more able to set lower rents than for-profit providers because they only need to cover their costs.

Unitary rental markets can be found in European countries that have shown a strong commitment to social market policies, the employment of limited-profit or non-profit providers of social services and where German cultural influence has been traditionally strong: Austria, Denmark, Germany, the Netherlands, Sweden and Switzerland. The considerations in the following sections support the view that the Austrian rental market has reached a high level of market integration in Kemeny's sense.

3. The position of Austrian social housing: Indicators of market integration

3.1 Tenure distribution in Austria

In Austria as a whole, there are approximately 3.5 million households with main residence (2008). Some 51% of these households live in their own property: 10% in owner-occupied apartments in multi-storey buildings (including apartments built commercially and by limited-profit housing associations) and 41% in single family houses (see Figure 1). The percentage of single family houses ranges from 80% in some regions (Burgenland) to only 4% in Vienna. 40% of all households live in the rental sector, which is divided into three sub-sectors: Private rental apartments used to make up the major part within the rental market, but they have been overtaken by the social rental housing sector in the last decade. Nowadays there are approximately 20% private rental apartments rented from commercial providers or private individuals. There are some 300,000 municipal dwellings (9%) in Austria, the majority of which (some 220,000 dwellings) are owned by the municipality of Vienna. Limited-profit housing associations (from now: LPHA) supply a rental stock equivalent to 13% of all main residences. In total (municipalities and LPHA) over 22% of all tenures may be regarded as social rental housing. This is approximately 10 percent points above EU-15 average. According to tenure in a European context, Austria therefore is very close to Sweden and Denmark.

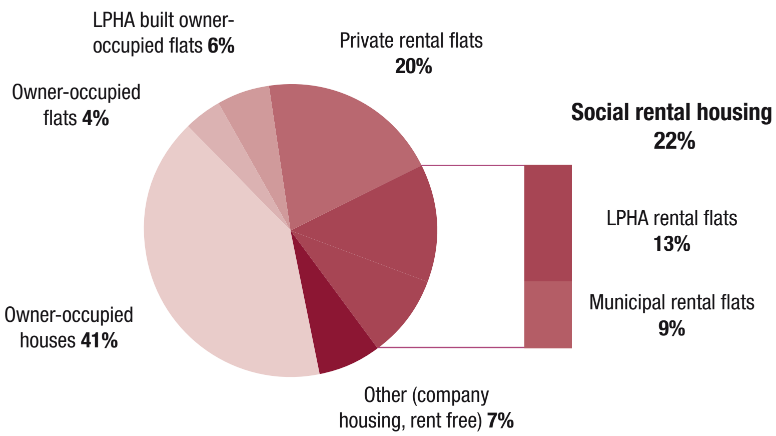
There are strong regional and local differences in this division of the Austrian housing stock: The nationally high percentage of social rental dwellings is due to the importance of Vienna, where 38% of the stock may be classified as such. In other regions, especially where single-family houses are predominant, social rental dwellings represent a much lower share of the overall housing stock. Nevertheless, social rental housing represents a predominant share of all dwellings in multi-storey buildings and in the rental stock in all regions (Amann & Mundt, 2009).

When defining LPHA and municipal rental stock as social housing, it is important to bear in mind that a much larger part of the housing stock was co-financed by the public and may be considered subsidised housing. Especially owner-occupied houses and LPHA-built owner-occupied apartments received large amounts of subsidies.

3.2 Historical Origins and Continuity

Preferential tax treatment of residential buildings has a long-standing tradition in Austria and can be traced back to as early as 1774, when newly constructed buildings were excluded from paying property tax for a period of 10 years. Pieces of legislation throughout the 19th century (Fuchs & Lugger 2008) used the same instrument of preferential tax treatment in order to stimulate new construction and set economic impulses, and at the same time alleviate extreme housing need (Fuchs & Mickel 2008).

Figure 1 **Tenure shares Austria 2008, main residences**



Source: Statistik Austria, Mikrocensus, own calculation

Additionally, in the sense of bottom-up self-initiatives, a certain housing-reformer movement has been evident in Austria since 1848. It was founded on the ideas of early socialist housing co-operatives in the sense of Robert Owen and on housing initiatives of the liberal Germans Victor Aimé Huber and Hermann Schulze-Delitzsch. The first housing co-operatives in Austria were founded as associations around 1850 and later on, when the legal framework was established in 1873, as co-operatives in the legal sense (Ludl 2007). When in 1908 the Emperor Franz Joseph I's government jubilee fund was set up, this led to the first big wave of foundations of co-operatives that now had access to public financing through the fund. Until then, co-operative housing was almost exclusively available for either high rank officials or railroad employees (often through Cottage Associations) – not as in other European countries where philanthropic welfare ideas of low-income housing developed at a much earlier stage. These initial groups of beneficiaries correspond very well to the structure of Austrian social policy, which has followed a corporatist, etatist logic from its very beginning (Esping-Andersen 1990, Unger & Heitzmann 2003, Österle & Heitzmann 2009). With the implementation of the fund lower income civil servants also had access to housing funds and in the years prior to the outbreak of World War I in 1914, some workers' housing co-operatives took up building activity (Lugger 1994).

In the period after World War I there was a second boom in foundations of co-operatives. It remains disputed to how far the implementation of a special housing fund in 1921 was the key driver for this development, or whether the Vienna Settlers' Movement, a mass grass-roots movement, which had its origins in the massive food and housing shortage during and after the First World War and operated since 1918, played a crucial part in establishing the preconditions for a co-operative self-help movement (Patera 1987, Novy & Förster 1991, Ludl 1998). For the first time the co-operative movement encompassed a massive building programme and focused on lower-income households.

The early 1920s, characterised by the rising political power of the social-democratic party first in Vienna then at federal level, was the beginning of municipal housing provision. In Vienna particularly municipal housing provision (*Red Vienna*) moved into the core of the welfare state structure. Over the period of 1923 to 1930 around 64,000 municipal apartments were built in Vienna alone. Co-operative housing was integrated into public funding and control during these years: the bottom-up origins were increasingly transformed into the general top-down structure of housing policy (funding to 90% by joint funds from municipal and federal levels in form of long-term loans or grants to co-operatives, building land provision, coordination and control over special agencies set-up by municipalities). Nevertheless, a certain crowding-out of the co-operative movement took place with a continuous relocation of funds directly to municipal housing provision (Reinprecht & Levy-Vroelant 2008). During the Nazi-regime social housing construction came to a standstill.

After the end of World War II and the setting-up of special funds, the general spirit of reconstruction also led to the third wave of LPHA foundations. Throughout the first decade after the war the stock of co-operative housing grew by a factor of 4.8 (Ludl 1998, p. 338). After the peak of 1955 the number of housing cooperatives declined, but their stock and share in new-construction increased: In Vienna in the year 1973 LPHAs' new construction outnumbered new construction by the municipality. This trend continued: In the early 1990s Vienna municipality stopped building new social rental buildings altogether, leaving the field to LPHA which gained hegemony in new social housing construction in many municipalities.

In summary, with LPHA housing continuously gaining ground in the general housing subsidy schemes, it increasingly became the auxiliary instrument of public housing provision (Sommer 2008). LPHA also provides housing for middle income households, while municipal housing focuses particularly on lower incomes. New social housing construction is now largely in the hands of LPHA contributing to their relative hegemony in the field. Yet, there was no large scale transfer of municipal housing to LPHA. Far-reaching allocation rights of municipalities in LPHA housing stock as well as the public control over bricks and mortar subsidies keeps the public influence on LPHA activity very high.

In Austria both political parties that formed a hegemonic coalition for the main part of the post-war period were a driving force behind the political support for LPHA. The LPHA concept which revived after the war was therefore strongly promoted by both ruling parties. While subsidised owner-occupied apartments were the favourite product of the Conservatives' housing policy, subsidised public and non-profit rental housing was on the Social Democrats' housing agenda (Matznetter (2002, p. 273). This division of political support is still visible in the LPHA scheme today, where almost every LPHA has a strong affiliation to one or other of these parties. Additionally, there is strong individual support for social housing provision in Austria amongst some leading politicians: Werner Faymann, present Chancellor of the Austrian government, used to be chairman of the Viennese Tenants' Counselling, Ewald Nowotny, the current governor of the Austrian national bank, used to be ordinary professor at the Vienna University for Economics and often took a stand as supporter of the Austrian subsidy system for social housing (e.g. Nowotny & Heidl 1994, Nowotny 2006).

For the continuity of housing policy, the high degree of federalism in Austrian policy and the relatively long adherence to Keynesian fiscal policy are also of importance. Fundamental policy changes are more difficult to achieve in countries with substantial federalism than in highly centralised ones (Matznetter 2002). The complex system of responsibilities in a federal state has a tendency to petrify things. The funds attributed to the regions for the fulfilment of housing policy tasks, represent a large part of their disposable funds, and are therefore strongly defended by the regions in the four-year "revenue equalisation negotiations" between federal state, regions and municipalities (Lawson & Dalton 2010).

3.3. Limited Profit Housing Associations: Volume and regulation

At the end of 2009 there were 191 active LPHA in Austria, differing in their legal status and owner constellation. There were 99 co-operatives and 92 limited-profit companies, set-up either as private limited or as joint-stock companies. Co-operatives are owned jointly by their members while the limited-profit companies are owned by local or regional public bodies, religious institutions, trade unions, chambers, associations and parties. Apart from the ownership structures, there are only minor differences in legal status, since all LPHA are regulated by the same law, the *Limited-profit Housing Act (Wohnungsgemeinnützigkeitsgesetz) of 1979*, are embedded in the same supervisory structure and are represented by the same umbrella organisation (*GBV*). LPHA manage around 750,000 housing units.

Taking a look at the general European trends in social housing policy which have been identified (Mclennan et al. 1997, Gibb 2002, Priemus & Dieleman 2002, Van der Heijden 2002, Whitehead 2003, Lujanen 2004, Whitehead & Scanlon 2007) it is easy to see that the peculiarity of Austria lies partly in the fact that it has not followed suit.

Unlike many other European countries, Austria still co-finances a large part of new construction by housing subsidies which are, for most builders, an indispensable part of financing. This is the case for private individuals who build their own homes, as well as for LPHA, commercial developers and municipalities. This explains the very high 80% of housing starts that receive some kind of subsidy.

There is an obvious trend towards owner-occupation in many European countries with an increased promotion of this type of tenure also to households of limited income. This development goes hand in hand with the rental sector losing importance, and accounting for a constantly decreasing share in new construction. In Austria, on the other hand, social rental housing construction gained importance over the last decades. As in Denmark (Scanlon & Whitehead 2007, p. 8), also in Austria, the supply of social housing has increased over the past decades, especially because LPHA are predominant in new construction in the multi-storey stock. While in the 1970s LPHA housing only represented around 20% of housing output, with some 31% it now forms a high proportion of total new construction. That is more than half of all multi-storey housing construction. During the economic crisis, LPHA housing construction clearly functioned as a stabiliser against rapidly dropping private and commercial housing starts. In contrast to other European countries, where the golden age for social housing ended in the mid 1970s (Malpass 2008, p. 18), LPHA in Austria have increased their predominance since then. Additionally, there is no general trend towards owner-occupation on the demand side of the housing market: especially in inner city areas and with younger households, renting still constitutes the preferred housing form (Ball 2005, p. 28; Bauer 2005, p.10; Deutsch 2009, p. 292).

All LPHA activity is governed by the Limited-Profit Housing Act which is a federal state responsibility. By international comparison it is a very tight and detailed law: it determines very clearly what LPHA can do, and what they cannot do.

In short, the system of LPHA created by the Limited-Profit Housing Act can be characterised as follows:

- Cost coverage principle: cost-rents are calculated on estate-level, there is no rent-pooling at LPHA level. A special mark-up for periodic renovation and maintenance works is considered. Due to long term regional subsidies, financing costs and therefore cost-rents are low.
- Limited field 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..
- There is an obligation to build. Any interruption in building activity requires the expressed permission of the respective regional government.
- Binding of property – limited profit: Any profits made by the LPHA have to be reinvested either in the purchase of land, or in refurbishment and new construction. Interests paid on own equity to the owners and shareholders is limited.

In addition to the Limited-Profit Housing Act of the federal state level, since the devolution of responsibility for housing promotion from the federal state to the nine regions in the late 1980s, (Amann 1999) subsidies and requirements to LPHA (quality and ecological standards, income-limits of future residents) are determined by the nine different regional housing subsidy laws.

There is a very tight system of control over LPHA activities and expenses: a supervisory board is mandatory for every LPHA. Additionally, all LPHA have to join the umbrella organisation (GBV). Its function is twofold: on the one hand it acts as a lobbying organization in the interest of its members; 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 auditor's report has to be made public also to the general assembly of housing co-operatives and must be presented to the supervisory authority, i.e. the regional governments. These have a number of possible sanctions, such as the withdrawal of public subsidies or the rescinding of LPHA status. The tight operational framework set down 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, mean that housing associations are regarded as the lengthened arm of housing policy.

3.4. Competition: Access, quality and rent levels

Similar to most Scandinavian countries and the Netherlands, Austria follows an extended understanding of social housing. The nine regional governments use their respective housing subsidy laws in order to determine formal income limits for the access to social housing. These income limits are usually very high and cover around 80% of the population, whereby municipal housing in some regions targets lower incomes than LPHA. For both, income criteria are only checked once and future income developments are not taken into account. For these reasons the term affordable rental housing would be more adequate, but in order to stick with international concepts we used the term social housing throughout this article. The eligibility-check of individual households as well as the allocation of dwellings is usually carried out by municipalities or by the LPHA.

At the same time new construction as well as the existing housing stock of LPHA are quite attractive, both in terms of quality and location. Cost-rent is not particularly cheap but moderate. LPHA principally service households with long-term requirements and stable incomes. As a result the LPHA concentrate on a large customer group which is well served in other sub-sectors as well, in particular by the single family housing market in the outskirts of the cities and by a specific sub-sector of the private market.

Limited-profit and for-profit housing providers do not only compete on the level of rents, but building quality and tenure security play a decisive role in attributing a leading role to LPHA over private rental stock, likewise for the existing housing stock, as for new construction. The existing private rental housing stock (except for the up-market new-built segment) is of lower quality, usually less energy efficient and, other than for the very old rental contracts, determined by shorter terms and less secure tenancy rights. LPHA rental contracts in general are open-ended and tenant participation is high, especially in the co-operative housing stock. Housing quality of the new-built LPHA housing stock is very high because projects are evaluated before qualifying for supply-side subsidies. The evaluation of projects differs between regions, but usually costs of the project, building quality, energy efficiency and architecture are taken into account. Low energy consumption has become a priority of the regions' intervention and accordingly only certain projects qualify for supply-side subsidies. Nowadays, space heating requirements of new buildings have to be under 40 kWh/m².a to be eligible for supply-side subsidies (Amann & Lugger 2007). Austria's world-leading role in the construction of multi-storey *passive houses* is supported by LPHA new construction.

Overall, price determination in the private rental market is strongly influenced by competition from the cost-determined rent level in the social sector. Therefore, increases in the general rent level occurred whenever competition from the LPHA stock was weak. Rent increases in the LPHA stock were lower than in the private rental stock (Bauer, 2005, p. 13). During the 1990s the rent level in the Austrian social rental sector increased considerably less than those in other European countries during that decade (Czerny 2001, p. 15). As for the most recent development, the price index concerning dwellings (rents, service charges, repairs, maintenance, energy) grew much faster than the general CPI in the period of 2005 to 2008. Yet, as Bauer (2008) confirms, this over-average increase can be attributed especially to the strong dynamics of service charges and repairs (waste disposal, water, maintenance) as well as energy costs, i.e. electricity and heating. Rental dynamics, on the other hand, developed under the general price level. While the CPI increased by 5.4% from 2005 to Feb. 2008, rents (without service charges) increased only by 4.7%.

Due to the large array of dwellings varying in size, age and location, and at the same time targeting large parts of the population, social housing providers are able to compete effectively with profit-driven housing companies on the market. There is strong evidence that social housing in Austria not only influences but leads the rental market (Kemeny et al. 2005, Kemeny 2006, p. 5).

3.5. Solidity

Low expenditure on demand-side subsidies (10% in 2008), a social housing stock that can afford refurbishment from its own revenues and a growing stock of affordable dwellings has, over decades, built up a social heritage, which is the major reason for the currently low public expenditure on housing (see below). For the same reason countries like the Netherlands or Sweden were able to reduce their public commitments to social housing in recent years.

In comparison to other European countries, new social housing construction in Austria relies heavily on the developer's own assets. Some LPHA are today very strong in equity, particularly the ones that have produced rental housing for long periods. This is due to an element of divergence from the cost-rent principle allowed by the Limited-Profit Housing Act: after the redemption of capital and state loans (mostly after 35 years), LPHA are allowed to continue collecting rents for dwellings in the matured housing stock, as long as these revenues are used to reduce capital costs or to refinance other projects and stay under a limit of 3.13 €/m² (2010). This element of company-based rent-pooling or cross-subsidisation has a decisive influence on increasing a LPHA's financial room for manoeuvre and in passing on past state subsidies to more recent housing stock. Otherwise, there are only very limited possibilities for company-based rent-pooling and exceptions from strictly project-based cost-rents (Heindl 2008, p. 171). The balance sheet figures of LPHA in sum amount to 31 bn. € (GBV 2008). They have increased more than eight-fold since the year 1970 (Ludl 2007, p. 8).

Long-term loans are still applied as the fundamental subsidy instrument, which marks a distinction to many countries in the European Union, where other subsidy instruments - e.g. interest subsidies - are preferred (Priemus & Boelhouwer 1999, Whitehead & Scanlon 2007). The interest that may be charged on the developer's own equity (mostly for land purchase) and therefore be included in cost-based rents is stipulated by law and revised annually. Since 2003 it has been limited to 3.5%. Future tenants own capital contributions may be collected in the form of upfront payments which consequently reduces the tenants' rental burden. In case of a tenant exchange, these capital contributions will be paid back with a depreciation of 1% p.a. and may again be collected from the new tenant. If tenants' contributions exceed 60 €/m² (2010), a right-to-buy after 10 years is granted (see below in detail).

In addition to the public subsidy schemes of the regions, capital market funding has major significance. Mortgage loans are, as anywhere, an important product of commercial banks. LPHA are regarded as low risk borrowers and due to co-financing by housing subsidies and supervision by regional authorities, capital market financing has a good L/V-ratio and very low risk. These factors amount to a structure of an implicit public guarantee for the loans taken out by the LPHA. Yet, unlike the situation in many other countries (Priemus & Boelhouwer 1999, Whitehead 2003, Foundation Homeownership Guarantee Fund et al. 2004), no formal public underwriting or guarantee fund had to be established in Austria.

Special housing banks issue housing construction convertible bonds (HCCB), which enjoy preferential tax treatment. Money raised through these bonds has to be attributed to Austria-based housing construction programmes which are eligible for additional object-side subsidies by the regions. This way private funds raised by the housing banks can be channelled towards projects which the public considers worth funding (Amann et al. 2009).

As the LPHA sector becomes more mature there are certain tendencies to phase out supply-side subsidies for new construction. Together with the partial withdrawal of financial resources from the sector, there are certain barriers to the development towards a truly integrated rental market in Austria.

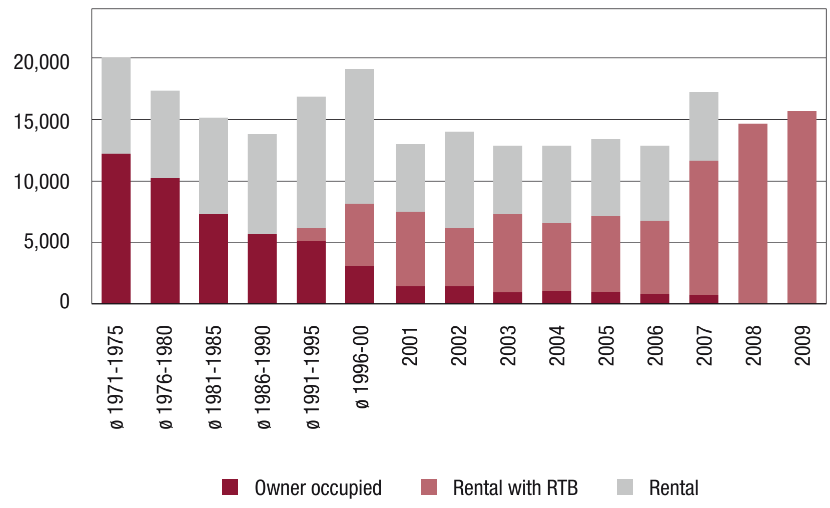
4. Problems and retrograde threats

4.1 Privatisation of social housing stock and RTB

There was a critical moment towards the creation of a large-volume social housing market when in the year 2000 the conservative federal government decided to enable public authorities to withdraw LPHA-status from their own housing associations. This decision led to the situation that 22% of the LPHA housing stock was under imminent danger of being privatised or sold to commercial real estate companies. While regional and municipal governments clearly expressed their reliance on LPHA housing and therefore declined to opt for commercialisation of their own LPHA, federally owned LPHA were partly sold to Austria-based banks, assurance companies and real estate investors in 2004. 58,000 rental apartments lost their LPHA-status in this process, but cost-rent regulation and tenant protection was determined to stay in place for the whole lifespan of the buildings (Mundt 2008). Yet, allocation rights by the state were lost. A sell-off to commercial investors resulted necessarily since only a very limited part of sitting tenants were willing, or able, to buy the apartments that were offered to them for slightly under-market prices. Meanwhile, through increased new construction by LPHA, the loss of social housing stock in 2004 is more than compensated: LPHA now again manage more dwellings than before the sell-off. The sell-off of housing associations owned by the federal state level was motivated by the reconsideration of federal state responsibilities. In 2004, the then centre-right federal government held that managing LPHA was not one of its core responsibilities.

Another example, which theoretically poses a threat to the integrated rental market in Austria, but empirically has not had many repercussions so far, is the introduction of a right-to-buy in new LPHA housing stock since 1994. At the beginning of the housing co-operatives' building activity, only rental apartments were produced. In the 1950s and 60s LPHA started to build owner-occupied apartments which due to public subsidies were cheaper than commercial apartments, and only available for households up to a certain income limit. Throughout the 1970s the share of subsidised owner-occupied housing in new construction outdid the percentage of rental apartments (see Figure 2). From the early 1980s onward, this trend was reversed. Owner-occupied apartments in LPHAs' production declined continuously. Since the mid-1990s, new subsidised rental construction carried out by LPHA is endowed with a right-to-buy. After a period of 10 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 favour of a growing share of owner-occupation, and those supporting the social rental sector. Until now only relatively few households have exercised their right-to-buy. It is estimated that only 20% of the affected rental stock will be bought by tenants (Mundt et al. 2009). Prices for these dwellings do not have to be strictly cost-based but may get close to market prices. For some LPHA this

Figure 2 **LPHAs' new construction by tenure type**



Source: GBV; IIBW, estimates for 2008 and 2009 (tenure distribution unknown).

is an opportunity to increase their equity, which, according to the Limited-Profit Housing Act, has to be reinvested in new construction.

Together with the fact that nowadays hardly any subsidised apartments for owner-occupation are being built by the LPHA (Figure 2), the low percentage of households that actually make use of their right-to-buy confirms the current hegemony of rental dwellings. Yet, the percentage of dwellings with a right-to-buy within new construction is increasing. There is a tendency that the right-to-buy will be exercised mainly by better off tenants, and for very high-quality apartments, contributing to a residualisation of the remaining housing stock.

4.2. Residualisation

The social rental sector in Austria is directed at low and middle income households (*affordable* rental housing). 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. In order to address this problem, there are income-related housing benefits available for the LPHA housing stock in all regions, and means-tested equity substitution loans in some regions.

Nevertheless, many vulnerable households are still lodged in the private rental market in Austria. A truly integrated rental market in Kemeny's sense would lead to an equal distribution of poor and vulnerable households across different tenures. This is only partly the case in Austria. Until now, residualisation of low income households in the social housing stock is still very low as documented by EU-SILC data, describing the at-risk-of-poverty-rate by tenure of dwelling (income less than 60% of median income). While 18% of municipal tenants in Austria are at-risk-of-poverty, this share amounts to 12% in the LPHA housing stock, to 8% in owner-occupied apartments, to 16% in the open-ended private rental stock and to 26% in the fixed-term private rental stock (Statistik Austria 2009, p. 54).

Since older long-term contracts are still rent-regulated to a high degree, some apartments in the private rental market charge the lowest rents on the market. Also, low quality and sub-standard apartments, where they can still be found, only exist in the private rental market. In the past this segment played an important role in housing poor and immigrant households especially in Vienna (Giffinger 1998). In the last two decades, due to renovation works carried out, partly with regional subsidies, the availability of this type of low quality yet cheap apartments has decreased.

Although desirable from a housing quality point of view, this has also resulted in increasing housing expenses for low income and immigrant households. These expenses will in the future be partly financed by growing demand-side housing benefits granted independently of tenure. Also, as access to social housing has improved for foreigners, vulnerable immigrant households will increasingly be taken up by this sector. Access of foreigners and immigrants to social housing is still not universal in all regions, and was allowed only recently, which has impeded a steady integration of immigrants in the social housing stock (Schallaböck & Fassmann 2008, Czasny 2009). It will be a future challenge for the administration to prevent inter-ethnic conflicts, especially in the large-scale municipal housing stock (Reinprecht 2007).

A major threat to this integration process is the still strictly estate-based calculation of cost-rents in the social housing stock. A certain degree of rent-pooling, at least could in the future contribute to prevent residualisation in the old and cheap social housing stock. Threats towards an increasing residualisation in the social housing stock also arise from an alteration of the general income distribution, which has become more uneven over the last years (Guger & Marterbauer 2005). Already one fourth of all municipal tenants in the largest Austrian cities, especially Vienna, are at-risk-of-poverty (Statistik Austria 2009, p. 54).

4.3. Loss of earmarked funds, new financing structure

Considering the last decade, housing subsidies are declining in real terms in most regions. This is the outcome of a process that started in 1996 during which the earmarking of housing funds was gradually lifted. Historically, a 1% housing tax on income, half from employers and half from employees, as well as a fixed percentage of income tax was earmarked for housing policy, and therefore increased continuously with employment and wages. In 1996 the federal share within these earmarked funds was fixed at 1.78 bn. € p.a. and consequently declined in real terms (see Figure 3). Later, the earmarking for federal shares as well as the repayments of housing subsidy loans was abandoned altogether. In the most recent (2008) revenue equalisation negotiations between the federal state and the regions, the earmarking of housing funds was abolished altogether, leaving future housing policy commitments to the discretion of the regions.

As a consequence, the nine Austrian regions hold more and more responsibility for the budgets they grant to housing policy measures and it is already clear that some regions, due to financial constraints, spend less, and divert housing subsidies away from new construction towards energy goals and infrastructure. Likewise, the share of demand-side subsidies, which still is only around 10%, is increasing continuously in some regions.

4.4. The EU-Question

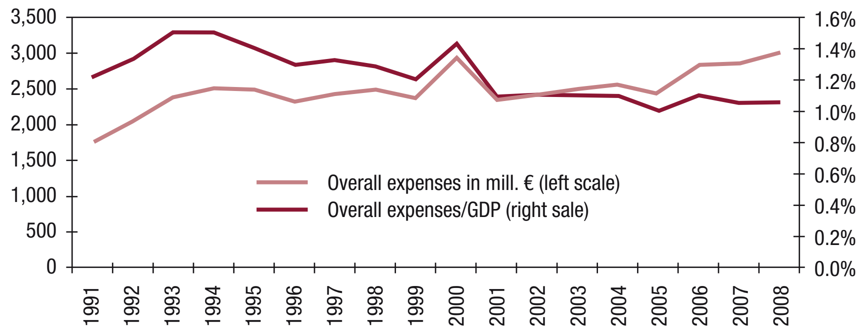
There has been a trend in recent literature to focus on the influence EU competition policy has on social housing matters in the member states (Mundt 2006, Elsinga et al. 2008, Boccadoro 2008, Ghékière 2008, Gruis & Priemus 2008, Amann 2008). As there is no legal basis in the EC Treaty that allows housing policy to be developed at EU level, housing falls within the responsibility of the Member States. Yet, there is a clear tendency of EU legislation at a more general level to gain influence over housing matters. More specifically, this means that housing policy measures have to be in line with the EU State aid and Competition Legislation, as laid down in the Treaty, in later Decisions of the Commission and by rulings of the European Court of Justice. The EU influence is seen to be critical towards unitary rental markets, so far visible in the Commissions investigations into Swedish and Dutch housing policy (Ghékière 2008).

Various elements of this critique can be identified: First, the EU Commission increasingly seems to promote a residual type of social housing provision with targeted allocation, means-testing and a concentration of housing measures on a clearly defined part of the population. The Commission clearly stated "*…that letting homes to households that are not socially deprived cannot be regarded as a public service*" (European Commission Directorate General Competition 14.7.2005, p. 39). Second, there is no similar government involvement for the social and the for-profit rental market as the social rental sector still enjoys special protection and regulation from the government. This selective support of social renting is viable for the formation of an integrated rental market, but according to the EU Commission threatens to distort competition. Third, there are indirect or direct cross-subsidy mechanisms in place through which social housing providers are active in the rental-market with the intention of making profits in order to invest these profits in new social housing construction.

Considering the system of LPHA in Austria, which has been described above, there are certain mechanisms that may render Austria safe from these types of criticism: income limits controlling the access to social housing, albeit generous, guarantee a selection of households that corresponds to a definition of public services, especially as the policy goal to prevent residualisation comes into play. The field of operation of LPHA is clearly defined and tightly controlled. There is a clear separation of commercial and limited-profit activities and accounts.

On the other hand, if the EU demonstrates support for a strongly residual type of social housing provision, and demands a reduction of the social housing stock in general, there will be problems for any European integrated rental market, in Austria and elsewhere.

Figure 3 **Housing policy expenses (only direct)**



Comment: The peak in 2000 is not representative and due to anticipated expenses by the regions in response to a nation-wide stability agreement.

Source: Statistik Austria, housing-subsidy reports of regional governments, own calculation.

5. What is at stake?

Considering housing policy outcomes, Austria performs well when compared to other European countries, particularly in terms of security of tenure, housing amenities, accessibility of infrastructure and habitable space (Czasny 2004, p. 57, Stagel 2004). Satisfaction with living conditions and living environment are equally positive in an international comparison (Czasny et al. 2008, Statistik Austria 2009). In the largest urban areas there has been a decline in ethnic segregation over the last decade (Schallaböck & Fassmann 2008, Czasny 2009).

More specifically, the advantages Kemeny sees for a unitary rental market in comparison to a dual one are clearly visible when considering the Austrian example. One of these advantages is the existence of tenure choice between social renting, private renting and owner occupation. In addition, the unitary rental market avoids the residualisation and stigmatisation of the social rental sector and its tenants, and prevents the spatial segregation of vulnerable groups in social housing areas. While all over Europe the share of low-income families living in the social sector is increasing (Van der Heijden 2002, Whitehead & Scanlon 2007, Scanlon & Whitehead 2008), a very important aspect of the Austrian social housing sector is the still large diversity of its occupants. Czasny (2004) studied the concentration of low income households and ethnic minorities in bad quality housing, and the social rental sector within the EU. By calculating the degree of over representation of the lowest income quintile in the cheapest social rental stock, he found that Austria was within the nine countries of the EU included in the analysis, the one with the lowest share. Rental housing, especially high-quality new LPHA construction, still constitutes a favourable housing form for families, middle income households and new entrants to the housing market. It clearly provides an affordable alternative to home-ownership (Mundt et al. 2009).

Low housing costs are a decided goal of integrated rental markets. Indeed, the general price level in Austria is comparatively low. Household expenditure on housing is only 21.2% (2008), representing much less of a burden than in other European countries (Czasny et al. 2008, p. 89). Consequently, there is a very low proportion of households with rent arrears (2.4% opposed to 9.1% EU25-average). On an individual household basis for 14% of Austrian households housing costs represent a heavy burden, the EU25-average of 29% is twice as high. For single parents the respective shares are 28% compared to 43% (Czasny et al. 2008, p.67).

Another advantage of unitary rental markets and large rental sectors in general are their ability to prevent strong market dynamics (Tutin 2008). Unlike the boom-bust cycles of housing markets of many home-ownership based countries in Western Europe and North America, the smoother Austrian cycle has been far less volatile, even in 2008/09. Price developments have been steadily positive, but low. According to ECB data on house price growth rates between 1999 and 2007, Austria has shown extremely slow growth with annual percentage growth rates of 1.2%, while in the Euro area house prices rose by 6.1% annually (ECB 2009). Consequently, tenancies of different duration exhibit only marginal cost differences in Austria. While rents for new contracts (less than 5 years) are on EU25-average 27% higher than of old contracts (more than 15 years), this difference amounts to only 10% in Austria (Czasny et al. 2008, p. 45). New construction is on a stable and relatively high level, and is expected to stay high despite dropping housing starts throughout Europe. The obvious gain of smoother housing-market cycles is the prevention of negative redistributional outcomes of excessive prices in the boom and, equally important, of sharp corrections in the bust.

6. Conclusions

By analysing Austrian housing policy within the context of Kemeny's distinction of countries with dual, and countries with unitary rental markets, we not only try to provide an adequate framework for explaining the functioning of the social housing sector, but we also try to show the link between pronounced social housing sectors and positive general housing outcomes. If Austria managed to build up a functioning integrated rental market, this model may serve as an example of sound housing policy and may provide positive inputs for CEE and SEE countries that nowadays are experiencing the range of problems an integrated rental market is set-up to prevent: the lack of housing choices, decreasing affordability of market-entrants and vulnerable households and harmful excessive housing market dynamics.

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. Austria's rental market comes close to Kemeny's prototype of an integrated rental market when measured by the legal framework within which it operates, as well as by the solidity and volume of the sector, the rent levels, and competition with the for-profit sector, and the orientation to large parts of the population. In terms of quality, especially from an environmental point of view, the new-built LPHA rental stock clearly leads the market.

With 22% of all tenures, the social housing sector in Austria has reached an adequate volume to strongly compete with the private rental sector in terms of rent levels and customers. Historically, two roots of the social sector can be identified: the municipal housing stock originates mainly from the interwar period and the heyday of Red Vienna. The LPHA stock, on the other hand, gained importance after the war, and its success was founded on the tight legal framework provided by the Limited-Profit Housing Act, the large-scale and continuous supply-side subsidies and, most importantly, the strong commitment by the ruling parties, and its integration in Austrian corporatism and federalism.

For the future, especially two aspects will be of importance for the Austrian integrated rental market in order to keep up and improve its capacities. One is to keep up a balanced social mix and to prevent residualistaion. This will depend on the viability of an orientation to large parts of the population, despite any influence EU legislation may enfold, and its ability to attract middle incomes owing to low housing costs, and high construction quality. The other factor is the social housing sector's ability to enfold a continuous and adequate building activity in a context where public subsidies are likely to decrease. This will depend on the sector's self-sufficiency and the activation of its own equity, as well as on the ability to attract capital market financing by means of new strategies, as already realized by the measures of housing banks and the issue of housing construction convertible bonds. The permission of rent-pooling within the LPHA housing stock of different age and quality would be a welcome refinement.

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