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Milestones in Housing Finance in Austria over the Last 25 Years

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The economic and institutional environment of the last 25 years

Housing finance in Austria used to be dominated by own equity and subsidised public loans. From 1979, commercial banks slowly entered the market for mortgage financing, but throughout the 1980s around 96 percent of bank housing loans still received public subsidies, mostly in the form of interest or annuity subsidies (Url 2001: 85). Additionally, public low interest loans played a major part in housing finance. In 1990 an equivalent of around €34 billion in outstanding housing loans existed in Austria, of which 40 percent were public loans, 26 percent were loans by Contract Savings Banks and around 34 percent were (mostly) subsidised bank loans (Schmidinger 1992: 306; Table 4.1). New construction was largely dependent on own equity (48.5 percent equity ratio), especially with respect to single-family construction, which was largely in the form of self-build by households.

Looking at the situation in 2014, it is evident that there have been some changes, but compared to other OECD countries, these have been less incisive and many traditional Austrian housing finance features are still predominant: the importance of public (now regional) low interest housing loans; the engagement of Contract Savings Banks (and other special purpose housing banks, see next) and the predominance of own equity (savings,

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Table 4.1 Volume and composition of outstanding housing loans, 1990 and 2013.

	1990	**2013**
Sum of outstanding housing loans in billion €	€38 bn	€111 bn
As share of GDP	28%	35%
Composition		
Banks and insurance companies loans	34%	63%
Contract Savings Banks loans	26%	15%
Public subsidised loans (regional subsidy schemes)	40%	22%

Source: OENB; Schmidinger (1992); Url (2001).

inheritance and self-building) in single-family housing construction. Market finance has, however, gained importance over recent last decades and the share of market finance without interest and annuity subsidies has increased considerably. When considering housing finance by commercial institutions (including loans from Housing Construction Banks and Contract Savings Banks) the value of outstanding mortgages was around €88 bn in 2013. Although that is an increase of 100 percent since 2003 it still only represents 28 percent as a share of GDP, which is low compared to many other western European economies (in Germany, the share is 45 percent while in The Netherlands it is 108 percent) (EMF 2013: 89). Foreign exchange loans (FX-loans) were particularly popular during the mid-2000s when interest and exchange rates were favourable. Since 2007 worsening conditions and surging repayment difficulties have led to a restructuring of FX-loans into Euro-denominated mortgages, and new FX-loans have been heavily curtailed by the Financial Market Authority. When considering the whole amount of outstanding housing loans in 2013 (see Table 4.1), its share of GDP is 35 percent compared to 28 percent in 1990. While commercial banks' share rose strongly, public loans and outstanding Contract Savings Banks loans lost importance over the years.

Throughout the period of investigation, there are some important features of the Austrian housing market that help determine the composition of housing finance. First, housing supply characteristics strongly influence the structure of housing finance in Austria and vice versa. Provincial low-interest loans or annuity grants in support of capital market loans are very important in the single-family housing sector and especially in the subsidised multi-apartment stock, which covers more than 60 percent of all high-rise construction. Additionally, there are three types of special purpose banks entrusted with the task to raise money for housing construction: the Mortgage Banks that issue covered mortgage bonds (*Pfandbriefe*), the Contract Savings Banks (*Bausparkassen*) and the Housing Construction Banks (*Wohnbaubanken*) (see next for more detail).

Second, the Austrian housing market is dominated by a very strong rental market segment, which is one of the largest in Europe. Renting is particularly

popular in the capital city Vienna. An increasingly important role in the rental sector is played by Limited-Profit Housing Associations (LPHAs) that build and manage cost rent apartments mainly with the help of regional supply-side subsidies. The market for single-family houses, on the other hand, is strongly dominated by self-building by young households who also receive subsidies as well as relying on family capital contributions. Single-family house building by commercial builders for an anonymous market is very rare. Rather, households buy or inherit adequate building plots and commission builders for tailored projects or turn to the prefabricated housing industry. Internationally, these housing supply characteristics in Austria are quite unusual and explain the relative scarcity of market-oriented, commercial developers that dominate most English speaking countries (Ball 2012).

Third, looking at the tenure mix over recent decades, the owner-occupied housing stock did not increase in size. This in turn has kept household debt in relation to GDP low. Urban housing, which has been the main focus of building activity over recent decades, is dominated by high-rise construction in the form of mainly rental and increasingly owner-occupied apartments provided by LPHAs and institutional investors (Mundt 2013).

Summarising the trends over the last 25 years, it is clear that commercial housing finance gained importance in Austria but in a volatile fashion. Finance by special purpose housing banks acted as a buffer against these swings, for example by filling the financing gap during the Global Financial Crisis (GFC) when banks were reluctant to finance new production. Even the latest price boom was triggered more by the relocation of private household savings than by an increase in debt finance.

Finance milestones

To divide the last 25 years of Austrian housing finance in different phases, it is helpful to look at the development of real housing investment between 1989 and 2014. Housing finance in Austria is strongly linked to financing housing construction and new housing supply.

While single-family housing construction was very stable throughout the whole period, there was still a housing market cycle dominated by multi-storey housing construction (rental and owner-occupied apartments). The first phase between around 1990 and 1998 was a boom period, dominated by demand-led, multi-storey housing construction carried out by LPHAs and commercial providers, with a focus on subsidised loans. The second phase between 1998 and 2003 was characterised by decreasing real investment in housing and declining output numbers. At the same time subsidised regional loans decreased and private housing finance, heavily dependent on Swiss Franc (CHF) and Japanese Yen (JPY) denominated housing mortgages, gained importance. In 2004 housing construction picked up again, as did population

growth and household formation. This phase is still continuing and was only slightly affected by the GFC. In fact, the Austrian housing sector was affected much less than many other European countries by the recent financial turmoil. Austria did not experience strong price increases or an extraordinary construction boom during the early 2000s. Austria rather followed a countercyclical trend of housing market development similar to Germany. Housing price dynamics and construction have been especially strong since 2009, unlike in most other EU countries (EMF 2013: section 2.3). Table 4.2 summarises important milestones in housing finance during these three phases. They will be discussed in more detail in the following sections.

Regional demand-led building boom 1990–1997

In the late 1980s Austria was characterised by comparatively high real mortgage interest rates. In 1988 these were around 8 percent, 2.5 percentage points higher than in Germany in the same year (Mooslechner 1990a: 93). The increase in mortgage interest rates for housing loans in the early 1990s further worsened market conditions for households obtaining mortgage loans (Schmidinger 2007: 419). However, interest rates decreased to approximately 6 percent in 1997 (OeNB). The downward trend was especially visible after Austria joined the European Union in 1995.

In the 1970s and 1980s, all forecasts predicted a stagnating or declining Austrian population, but in the 1990s quite the opposite happened. Large migration inflows (particularly following the Balkan wars) and changes in household formation led to a significant increase in demand for housing services. At the same time, smaller apartments were refurbished and combined, which reduced the housing stock. As demand for housing was strong, these developments called for a significant shift in the institutional settings to enable further housing production. The massive supply response was mainly carried out by LPHAs (see Box 4.1), which became major players on the Austrian housing market and were funded by regional low interest loans. Regional subsidies were strongly increased during this period (Lugger and Amann 2013). Additionally, the system of Contract Savings Banks was amended to provide an adequate legal framework for the operations of such banks. Housing Construction Banks were set up as new special purpose banks for attracting finance for subsidised housing projects.

Housing Construction Banks were introduced in 1993 with the main goals of countering the very high market interest rates on mortgage loans and providing long-term, fixed-interest loans to the housing sector, especially to providers of units for long-term rental (Schmidinger 2007).

Covered mortgage bonds provided by the Regional Mortgage Banks had before been the main method of refinancing for banks (see Box 4.2). Conceptually, those covered bonds were set up with maturities of up to 30 years, but due to interest rate developments their average maturity fell to

Table 4.2 Milestones in housing finance in Austria, 1980s to 2014.

	Institutional changes	Policy changes	Market changes
First phase: housing investment boom of the early 1990s			
End 1980s	Devolution of most housing agendas (especially subsidy schemes) to regions		Increase in interest rates
1980s–early 1990s		Regions develop their own bundle of housing policy measures, funding still from earmarked federal funds.	Liberalisation of the banking sector
1990		Access of commercial developers to housing subsidies in Vienna (competition)	
1993	Contract Savings Banks are restructured in new law (Bausparkassengesetz 1993).	Option to buy after 10 years standardised in LPHA new build if tenant contributions exceed €50/m^2	LPHA rental apartments with option to buy continuously replace subsidised apartments for sale
1994	Housing Construction Banks take up issuing of Housing Construction Convertible Bonds (HCCB) and financing subsidised housing; refinancing by mortgage bonds is slowly replaced.		
1995	EU accession		EU accession leads to strong long-run decrease in interest rates
Second phase: housing production decline 1998–2003			
End 1990s	Municipalities continuously give up own construction and rely on LPHAs	Earmarking of federal housing policy funds is slowly lifted.	FX-loans in JPY and CHF start to gain importance, together with repayment vehicles, in the form of interest-only loans.
2001		1st step: housing related infrastructure may be financed out of subsidy schemes. 2nd step: Redemption of housing loans may be used for non-housing purposes	
Early 2000s	Federal Government reaches agreement to privatise own 60 000 social rental units. Process takes until 2004.	As a result, the share of public funds for housing finance decreases considerably, a trend that continues throughout 2000s.	FX-loans strongly gain importance.

(*continued overleaf*)

Table 4.2 (*continued*)

	Institutional changes	Policy changes	Market changes
Third period: stable increase in housing production 2004 onwards			
2005	Laws concerning mortgage bonds renewed; Contract Savings loans also opened for long-term care and education		
2008			New emissions of HCCB peak in 2008 raising funds for co-financing most subsidised projects.
2008/09		Abolition of earmarking of federal funds for housing policy expenses. Funding passes to regional discretion.	Restriction to FX-loans following repayment difficulties due to exchange rate development. Restructuring into € mortgages.
2010		Tax deductibility of HCCB purchase abolished	Consumer Credit Law 2010 in reaction to EU directive affects mortgages to households (stricter risk assessment, more transparency)
2012		Reduction in Contract Savings premium	

Box 4.1 Limited-profit housing associations (LPHAs)

LPHAs in Austria date back to the early twentieth century and have continuously gained importance since 1945. Their core function is to set up of a long-term social housing stock at below market rents directed at large parts of the population (Mundt and Amann 2010).

At the end of 2012, there were 192 active LPHAs in Austria, differing in their legal status and owner composition (Lugger and Amann 2013: 69). Cooperatives 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 LPHAs are regulated by the same law (the Limited-profit Housing Act of 1979), are embedded in the same supervisory structure and are represented by the same umbrella organisation (GBV). LPHAs have grown more significant and have increased their tenure share through high levels of construction output. The LPHA housing stock plays a crucial role in offering affordable housing choices to many households throughout their housing careers (Deutsch 2009).

The system employs a cost coverage principle. Cost rents are calculated at the estate level, and there is no rent-pooling at the LPHA level. A special mark-up for periodic renovation and maintenance works is considered. Today, LPHAs build frequently without subsidised loans but with market finance; cost rents apply nevertheless. Municipalities often approach LPHAs if they detect a lack of affordable housing in their area. Together they design projects and apply for subsidies from the regional government. Building plots are often supplied at low costs by the municipalities. Some regions have implemented tender procedures and competitions (e.g. Housing Developers Competitions in Vienna). Any profits made by the LPHA have to be reinvested either in the purchase of land or in refurbishment and new construction. Interest paid on own equity to the owners and shareholders is limited (for more detail, see Ludl 2007; Amann *et al*. 2009; Lawson *et al*. 2010; Mundt and Amann 2010).

between five and six years. So a new method of refinancing had to be implemented. Housing Construction Banks started to issue Housing Construction Convertible Bonds (HCCB) that are directed at private investors with a low risk profile. They were tax-privileged in two ways. Investment income tax exemptions amounted to higher after-tax returns of around 0.3–0.4 percentage points than comparable investments (Amann *et al.* 2005), contributing thus to the popularity of HCCB.

The effect of the tax exemption also accrues to the lender of Housing Construction Banks loans. Any funds raised through the sale of bonds have to be invested in high-volume new housing and refurbishment projects. Therefore, finance raised by HCCB is channelled into projects that the public believes deserve preferential treatment and have been chosen to receive subsidies through the various competitive selection processes organised by the regional governments. The system by which Housing Construction banks can raise money was thus deliberately designed as a

Box 4.2 Special purpose banks for housing finance in Austria

There are three important types of special purpose banks for housing finance in Austria. These are Regional Mortgage Banks, Contract Savings Banks and Housing Construction Banks. All of them have specific tasks appointed to them by several laws. Their main aim is to manage special purpose, closed circuits of finance for housing construction or housing purchases (Schmidinger 2007). Special purpose banks are closely monitored by public supervisory authorities. In many aspects they strongly differ from commercial banks, which are the main issuers of individual household mortgages.

Regional Mortgage Banks (Landes-Hypobanken)
Dating back to 1876, Mortgage Banks have the right to give out mortgage loans and refinance by covered mortgage bonds. While Mortgage Banks used to be in public ownership (by the nine regional governments), today they are universal banks and fully integrated with the commercial banking sector. Their focus is still on construction finance and municipal projects, but they also provide private and commercial loans. They operate in Austria and Central and Eastern European (CEE) countries. Covered mortgage bonds were slowly replaced by HCCB offered by the newly founded Housing Construction banks (see next), but they have regained popularity since 2009. Outstanding mortgage bonds amounted to €17 bn at the end of 2013, representing 19 percent of all outstanding mortgage loans.

Contract Savings Banks (Bausparkassen)
As in Germany, contract savings schemes have a long tradition in Austria. Since the 1950s there have been tax advantages for contract savings and loans. In 1973 the premium to contract savings was capped to counter regressive distributional effects. Contract savings are encouraged by state premiums and still enjoy considerable popularity. The finance raised has to be invested in housing, long-term care or education (Bauer 2009). Even the payback of these loans is earmarked for these tasks in order to create a long-term closed circuit of finance for housing construction. Outstanding loans at the end of 2013 were around €19 bn (€16.4 bn of which were housing loans).

Housing Construction Banks (Wohnbaubanken)
Beginning in 1994, the main task of Housing Construction Banks is to provide developers of affordable housing with medium to long-term low-interest loans (supply-side finance). Housing Construction Banks refinance themselves by issuing Housing Construction Convertible Bonds (HCCB) directed at private investors. HCCB are very popular due to their low risk profile and tax privileges. At the end of 2012, the volume of outstanding loans backed by HCCB was around €14 bn (i.e. around 17 percent of outstanding housing loans including regional loans). There are six Housing Construction Banks active in Austria today.

substitute to lesser-regulated private housing finance in order to secure long-term stability and an institutional setting to promote it.

In addition to the funds raised by HCCB, a new finance element was standardised in the LPHA housing system in 1993. If tenants contribute more than €50/m^2 (in 2014, more than €66.68/m^2) to a new project, they

were granted a right-to-buy (RTB) the apartment after 10 years. The contribution takes the form of a loan and is repaid (minus 1 percent depreciation per annum) if the tenant moves out. If the tenant chooses to buy the apartment after 10 years, the contribution is deducted from the sales price. Since the mid-1990s rental apartments with a RTB have mainly replaced subsidised apartments offered for direct sale, thus contributing to the consistently high rental market share.

The major institutional change in the late 1980s was the devolution of housing subsidy schemes from the federal level to the regions. In Austria there are nine provinces or regions, Vienna being one of them. Since the devolution of housing policy in two waves at the end of the 1980s, the regions have been responsible for designing their own housing subsidy schemes. Consequently, nine quite different housing subsidy schemes have evolved in the regions. Nevertheless, to a large extent, supply-side subsidies for new construction still dominate (Amann and Mundt 2013). This institutional shift also marked a change in the composition of housing finance. While during the 1980s around 64 percent of household debt was in the form of subsidised housing loans (Mooslechner 1990b: 161), by the end of the 1980s, the share of federally subsidised loans started to decrease quickly. During the early 2000s some regions sold their outstanding low-interest loans as packages to commercial banks, which further reduced the state share of outstanding housing loans, although favourable conditions for households stayed in place. Since 2008 the regions have received unconditional transfers from the federal government and have financed housing subsidies out of their own budgets (see next).

1998–2003: Surge of foreign exchange mortgages

Landmark economic policy measures within the housing sectors reflect the aim of decreasing the direct role of the state (especially the nine regions) in housing subsidies. Earmarking taxes specifically for housing subsidies was removed gradually in the early 2000s. The redemption of former housing subsidy loans could be used for other regional policy areas other than housing. In turn, housing subsidies lost their predominance in real housing investment.

At the same time, market finance gained importance. Commercial banks continuously increased their role in housing finance by issuing individual mortgage loans. Even though there were no strict legal requirements on commercial housing loans, low loan-to-value ratios (LTVs) of up to 80 percent and low debt-service to income ratios dominated the market. Variable interest rates were usually applied and maturities varied between 15 and 25 years.

While most mortgages were first denominated in the national currency (ATS) and then in Euros, this period of liberalisation of housing finance also

saw an increase in FX-loans. In the late 1980s the proportion of FX-loans (mainly for non-housing investments) in Austria was already comparatively high, because companies used FX-loans to overcome exchange rate risks in international trade (Waschiczek 2002: 89). In the second half of the 1990s, the usage of this form of loan gained momentum starting in the most Western region of Austria, Vorarlberg, which borders Switzerland. Numerous Austrian citizens worked in Switzerland and aimed to hedge part of their exchange rate risks on their income by using mortgage loans denominated in CHF.

The model spread quickly and by 2002, 24 percent of all outstanding loans to Austrian households were FX-loans (Waschiczek 2002: 92). Especially after 1999, loans denominated in JPY became popular with Austrian households. The popularity of FX-loans stemmed from the much lower interest rates in Switzerland and Japan compared to the European Union. In 2003 average interest rates on new mortgage loans were 4.41 percent for Euro-denominated loans and only 1.18 percent for loans in JPY and 1.67 percent in CHF (OeNB). Exchange rate risks were insufficiently considered and FX-loans were strongly promoted by the banking sector and also the Austrian media, because first experiences in the regions of Tyrol and Vorarlberg of the early 1990s were very positive. Early FX-loans in Vorarlberg were rooted in the fact that households gained their income in CHF and wanted to avoid exchange rate risks, but the situation shifted when JPY became prominent and the more eastern regions of Austria joined the trend by embracing FX-loans. Households started to believe in 'auto-amortising' (Beer *et al*. 2008: 121) loans through exchange rate gains over time. FX-loans continued to gain ground with respect to new mortgages and reached a peak of 31.5 percent of all outstanding mortgages in 2008 (Schmidinger 2013).

Interest rates for FX-loans were mostly variable, at around 150 basis points over three months' LIBOR interest rates, and were mostly paid back via a repayment vehicle (e.g. life insurance plans, investment plans into stocks, shares and funds). The system was later criticised for not clarifying the risks to households appropriately.

Private finance gains ground in new housing boom since 2004

Unlike many other European economies Austria did not face a severe housing crisis in the aftermath of the GFC. The whole period from 2004 onwards is rather characterised by a new housing boom with private housing finance playing an increasingly important role in this development.

Important aspects of market change over this time period are the status of mortgage bonds and the reframing of the structure of FX-loans. The interest rate gap between loans denominated in Euros and in CHF diminished between 2004 and 2007, especially as fees for FX-loans were increased in 2004 (Thienel and Schuh 2007: 18). In addition, demand for FX-loans in JPY

lessened due to the increasing awareness of exchange rate risks and many outstanding FX-loans were converted into Euro denominated loans. After its peak value in 2008 the share of FX-loans in all outstanding mortgages started to decline.

Private lending for housing construction and purchase increased throughout the period, as did household debt. The ratio of mortgage debt (only banks and special purpose banks, not regional loans) to GDP rose from 13.8 percent in 2002 to a peak of 27.9 percent in 2010 (EMF 2013). Total outstanding residential loans per capita (for the population over 18 years of age) almost tripled between 2001 (€4580) and 2012 (€12 261) (EMF 2013: 91). Furthermore, Austrian banks were heavily engaged in the extension of credit to the private sector in Central, Eastern and South Eastern Europe and the Baltic states, mainly by FX-loans. This activity was carried out more by their subsidiaries (indirect mortgage loans) than by Austrian banks themselves (direct mortgage loans). Between December 2005 and December 2009 their FX-loan portfolios more than doubled from €31 bn to almost €79 bn (Pann *et al*. 2010: 60). While some banks curbed lending in Central, Eastern and South Eastern Europe before the crisis, it was the intervention of central banks that avoided a prolonged liquidity squeeze and capital losses as a result of foreign currency positions. In fact, a very costly intervention by the Austrian state was required to prevent the bankruptcy of one Regional Mortgage Bank (*Hypo Alpe Adria*) that had accumulated excessive risks by financing real estate deals mainly in Southern and South Eastern Europe and had been protected by extensive guarantees by the region of Carinthia.

Despite the fact that Austrian households had not been directly negatively affected by a housing market crisis, international experience led to increased monitoring of household debt robustness in Austria. Changes were made in how banks were supervised as the high risks associated with repayment vehicles (which are in place for approximately 70 percent of FX-loans) became better understood. In 2007 stronger monitoring of the structure and volume of FX-loans was implemented within the banking supervision system. Additionally, the Austrian banking supervisory authority (FMA) changed the requirements by which households could obtain a FX-loan. New business is today only open to households with the lowest probability of default and income in matching currency. The conversion of outstanding FX-loans into Euro-denominated loans was strongly encouraged. Most remaining FX-loans operate as interest-only mortgages with repayment vehicles based on mixed funds or pension plans. Over the course of the GFC the performance of most repayment vehicles was far below their expected returns (Sellner 2011: 22). This leaves many households with a negative capital-loan gap at the present time today.

Uncertainty is also reflected in the volume of new loans given to households for housing purposes. Lending transactions to households decreased in Austria during the GFC. As the Austrian tenure structure is characterised

by a strong rental market, this decrease in household mortgage financing was not reflected in a slump in housing production. On the contrary, data show a stable increase. Four important developments since 2008 can be summarised as follows:

First, refinancing conditions by commercial banks are today hardly able to adapt the maturity of bank loans to the 20–25 years that are standard for provincial subsidy loans. There is a high risk mark-up on bank loans with maturities of that length (Pilarz 2012). This explains the resurging importance of loans by Housing Construction Banks to provide long-term finance (see Box 4.2). Following strong growth rates between 2000 and 2007, the volume of outstanding HCCBs declined slightly between 2008 and 2012 because new issues were low and many tranches of HCCB from years with high levels of activity expired. Therefore, new projects could only be financed out of repaid building loans (approximately €600 mn per annum) (Schmidinger 2013). This changed in 2013 when yet again bond issues increased and raised some €1.3 bn.

Second, new construction is strongly financed by market loans at the moment, leading in part to a revival of covered mortgage bonds by the Regional Mortgage Banks. Covered mortgage bonds are similar to asset-backed securities but at all times remain on the issuer's consolidated balance sheet, that is, they continue as obligations of the issuer (Springler 2008). Their cover pools are dynamic. Cover pool assets are not included in insolvency proceedings and are therefore considered a very secure investment. The collateral is a pool of mortgage loans with low LTVs (below 60 percent).

Third, in 2012 the state subsidy to contract savings schemes was cut in half (now max. €18 per annum). This did not, however, affect the popularity of the instrument, which in the present framework offers high security. The contract savings scheme was never as costly to the state as it was for example in the Czech Republic since premiums were always heavily capped (Lux 2013).

Fourth, the level of mortgage debt has been stagnating since 2012 at around €110 bn (OeNB). Because of low interest rates many households are even using their saving accounts to pay back mortgage loans.

Impacts and outcomes

Despite the high exposure to FX-loans by Austrian households, the financial stability of housing finance overall seems to not be at risk. Empirical investigations (Beer and Wagner 2012; Fessler *et al.* 2012; Albacete and Lindner 2013) show that the major part of housing finance comes from the savings of individual households (Figure 4.1). While the risk assumed by households might increase because of the high share of FX-loans, the importance of

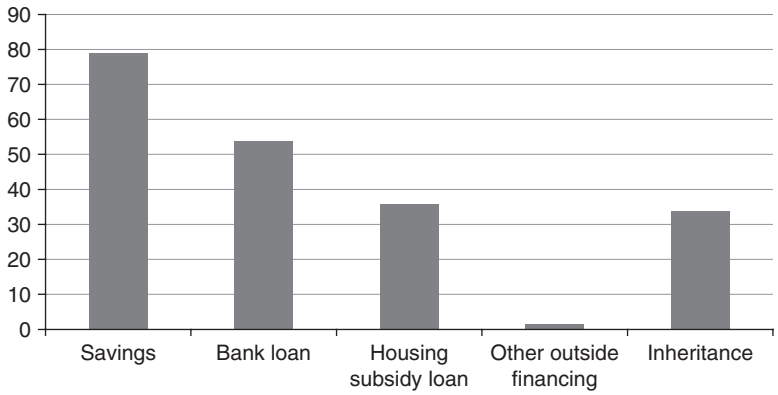

Figure 4.1 Major finance sources of households for housing purchase and self-building, 2012.
Source: Beer and Wagner (2012: 86).
Note: Based on survey data. Percentage of households using source (several sources are possible).

housing subsidy loans and the heavy reliance on inherited wealth point to the robustness of the system.

Housing finance in Austria is shaped by tailor-made financing components that were implemented and adjusted by political involvement and address housing segments and developers selectively. The importance of private housing finance was deliberately kept under control within the overall system. Table 4.3 summarises the financial sources used by various kinds of developers (or homeowners) and makes clear how the different elements work together. For one, the financing of LPHA affordable housing, which involves several tranches of finance with different levels of risk, has been described as an example of *structured finance* (Amann *et al.* 2009).

Why did the housing market in Austria survive the GFC better than other OECD countries? There are several influencing factors that can be identified:

- Mortgage debt exposure of households remains low. Since 2010, Austria's share of mortgage debt to GDP has stagnated at around 28 percent, which is low compared to many other western European economies (it is 45 percent in Germany and 108 percent in The Netherlands) (EMF 2013: 89). As mentioned previously, the low share of commercial mortgage finance for house purchases is the main reason for this. Out of the €164 billion in outstanding loans of the household sector, €110 bn are housing loans (OeNB 2Q 2013). Based on the Household Finance and Consumption Survey (2010), only around 18 percent of households have outstanding mortgage debt (Albacete and Lindner 2013: 60).

Table 4.3 Importance of housing finance elements according to housing segments and developers.

Finance element	LPHA (mostly rental with or without RTB)	Commercial developer (rental and for sale)	Self-building single-family	House or apartment purchase
Own equity	x	xx	xxx (also inheritance, e.g. building plot)	xxx
Tenants contribution (in exchange for RTB)	xxx	–	–	–
Regional subsidies (low interest loans)	xxx	x (possible in some regions)	xxx	x
Capital market loans (partly covered by mortgage bonds)	xx (especially loans covered by mortgage bonds)	xxx	xx	xx (between 1995 and 2008 strongly in CHF and JPY)
Housing Construction Banks loans (raised by HCCB)	xxx	x	–	–
Contract Savings Banks loans	x	–	xx	xx

Key: x = less important; xxx = very important.
Source: Author's presentation, see also: Czerny and Wagner (2003); Amann *et al*. (2005: 22); Beer and Wagner (2012); Schmidinger (2007; 2013); Schwebisch (2008); Mundt (2013).

- LTVs are traditionally low in Austria. The median initial LTV ratio rose from a range of 40–50 percent in the 1990s to around 60 percent in the past few years (Albacete and Lindner 2013: 65). As the size of the homeowner sector is also smaller than in most other countries, experience of financial distress concerning the repayment of mortgages in the light of the GFC remained limited. Nevertheless the debt burden of some income groups has increased in the past decades. Younger homeowners (age group 18–39) tend to have accumulated higher risk financing, with higher LTVs or FX-loans, but also simultaneously hold an above average share of guaranteed loans (Albacete and Wagner 2009: 80). The appreciation of the Swiss Franc has, however, led to considerable financial distress for some households. As a result FX-loans were restructured and curtailed.
- Contrary to many other OECD countries there was no drastic price boom before and price correction in the light of the GFC. Strong institutional interrelations led to comparatively smooth housing price increases and low housing costs throughout most of the last 25 years. Austria is one of the few European economies where overall housing costs (in both owner and rented markets) equate to only around 20 percent of total household income (Springler 2010). The large social rental housing share has contributed to this subdued price development. Even so, since 2008 prices have risen more rapidly, especially in the apartment sector, in Vienna and in most regional capitals (Mundt 2013). Demand is high because of population increases, household formation patterns and investment by private

households. Private households are increasingly relocating their savings into the purchase of real estate, which is considered a very safe asset. In the absence of price corrections in the aftermath of the GFC, which so strongly affected many OECD countries, Austrian households were not confronted with surging debt and negative equity. Also, relatively moderate increases in the unemployment rate combined with a low share of households with repayment mortgages have prevented a surge in repayment difficulties, which so strongly affected other countries. In this light, the high rental share in Austria and the dependence on own equity for single-family housing construction (or purchase) has contributed to the relative resilience of the housing finance system to external shocks.

- On a more general level, housing in Austria is treated as a 'consumption good' as opposed to an 'investment good'. For that reason continuity and stability of prices and production are a political priority. The latest price increases are seen as a matter of concern rather than as a welcome gain to real estate owners. This is a very different view from the one dominant in property-focused societies such as UK, US, Australia or Spain (Schwartz and Seabrooke 2009), where double-digit yearly house price increases before the GFC were sometimes overlooked by policy makers and sometimes greeted with enthusiasm. In Austria recent house price increases that affect the rental market quickly led to the call for higher volumes of social housing provision and the tightening of rent control. Declining rental housing affordability was a major concern in the national elections of fall 2013.
- Refinancing arrangements for housing finance are resilient because of special purpose banks and instruments such as the HCCB, covered mortgage bonds and the Contract Savings Banks. Securitisation of mortgages is not used in Austria. Even though legally possible, the costs involved with the placement of mortgage-backed securities by a financial institution on the capital market would only pay off if large volumes could be achieved (approximately €1.5 bn) (Schmidinger 2007: 404). The low LTVs of around 70 percent contribute to very good refinancing conditions for banks at the European Central Bank (Schmidinger 2013).
- Special purpose banks for housing finance and subsidy schemes from the regions function as a buffer against the volatile involvement of commercial banks in housing finance. The special purpose banks for housing finance have not been static, but have rather continuously adapted to the changing environment (e.g. Contract Savings Scheme).

Regarding the composition of tenure in Austria, there has only been one distinctive trend since 1981: while the rental market segment kept its relative size, the LPHA housing stock gained importance compared to the private rental and also municipal housing stock (Figure 4.2). Private rental apartments used to make up the major proportion of the rental market, but they have been overtaken by the social rental housing sector over the last

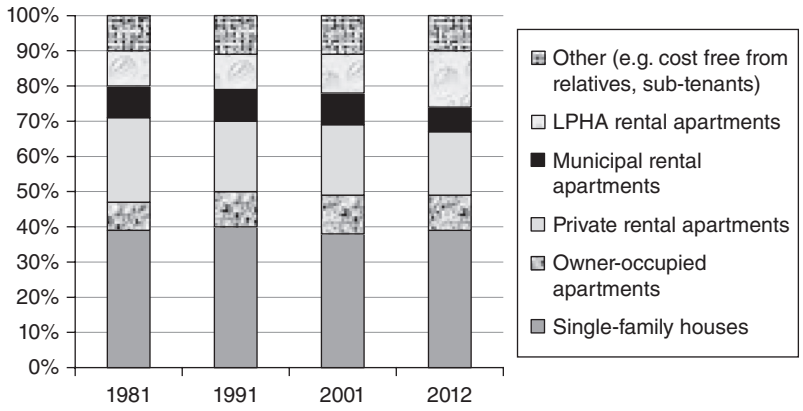

Figure 4.2 Housing tenure in Austria, 1981–2012.
Source: Authors' calculation according to Statistik Austria (2014); GBV (2014) and Janik (2013).

decades (as a result of the construction of cost rent social housing by LPHAs). This trend was encouraged by the availability of regional subsidies to LPHA housing construction and the strong demand for subsidised rental housing, which is not a residualised tenure in Austria, but popular with most income groups and young households (Matznetter 2002; Deutsch 2009; Lawson *et al.* 2010).

Looking to the future

An important objective in the future will be to maintain the strong institutional relationships between the social housing sector and the financial instruments provided by the market. The continuous withdrawal of state intervention and earmarked subsidies seems to be widening the gap between social housing demand and supply and eroding the existing system. As redemptions of housing subsidies now need not necessarily be reinvested in the housing sector, the capital available for future housing production is decreasing. In the current framework of public austerity most regions have reduced their subsidies to the housing sector (Amann and Mundt 2013). This further diminishes the ability of social housing policy effectively to address current needs. Consequently LPHAs rely more on commercial loans for their building activity, which leads to higher cost rents. In 2013, however, the downward trend in HCCB placements by housing construction banks was reversed, which generated additional finance for social housing projects. Additionally, the present boom in covered mortgage bonds might contribute to more housing finance becoming available in the future.

As for single-family housing construction and purchase, private bank mortgage loans have gained importance over the last decades, but to a

comparatively moderate degree. The widespread current availability of low-interest mortgages has reduced the relative advantage of subsidised finance components such as Contract Savings loans and regional housing loans. The latter have also lost appeal due to tight requirements on building quality (energy efficiency and insulation). The availability of private finance seems to have contributed to the current price boom. In any case, own equity and savings increasingly play a smaller role, while mortgage debt is becoming more important. This development is strongly related to the low interest rate climate, which might be reversed in the future. As in the past, the other financing elements seem to be being retained deliberately in case of a change in the economic climate.

Even though the issuance of FX-loans to households is much more heavily restricted today, hidden risks in outstanding mortgages may emerge in the future. Since it will take until at least 2018 for the bulk of outstanding FX-loans to amortise, the eventual performance of the repayment vehicles that have been used in most cases is still uncertain. Preliminary analyses have shown that holders of FX-loans have higher risk buffers (total real estate wealth, household income and estimated potential rental income) than average mortgage holders (Beer *et al*. 2008: 129; Albacete *et al.* 2012; Albacete and Lindner 2013), but the true picture of repayment difficulties will only be revealed in the coming years.

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