

Following a different track: the Austrian system of social housing

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ABSTRACT

The overall housing situation in Austria is very good in terms of household housing expenses, living space, quality of the housing stock and low regional segregation. So far, Austria has not followed the general European trends in housing policy and is still attributing an important role to the social housing sector. In this paper we give an overview of the framework within which the social housing sector operates and how it is financed. We evaluate the economic and social efficiency of the system of limited-profit housing associations in Austria and their position between state and market. The institutional and legal framework, public subsidies and new methods in capital market financing play a decisive role in their success. Through competition with the private sector, the social housing sector has a price-containing influence on the general housing market prices. We regard major aspects of the Austrian model of social housing finance applicable to CEE and SEE countries.

Key words: Austria, housing policy, social housing, market financing instruments, unitary rental market, CEE

1. INTRODUCTION

Over the 1990s countries all over Europe were in a process of reorientation of their housing policy guidelines by means of applying new instruments, reducing housing policy expenses or introducing more targeted and market-oriented subsidies for the sake of efficiency and social policy goals (Balchin, 1996; Priemus, 1997; Priemus & Boelhouwer, 1999; van der Heijden, 2002, Gibb, 2002, Stephens, 2003). Until now, Austria has hardly joined these general policy trends, but rather maintained fundamental post-war housing policy elements. Yet, Austria's housing situation is considerably better than the EU average since the largest part of the population has access to affordable housing and public expenses for housing policy are with only 1.1% of GDP below the OECD average. But why is Austria's housing policy comparably more successful even though it has disregarded the general European developments and reorientation principles?

We believe to have evidence that some of these reorientation principles have not led to more efficiency in housing provision. The sustainable success of the European welfare model is even more evident in the field of housing than it is in other spheres of civil society. Current developments in many European countries show that a stable social housing sector is a valuable asset to face societal changes. It has become evident that the functions of a social housing sector cannot be described sufficiently through narrow market models. Even more importantly social housing is no longer regarded as a typical social-democrat policy model, but it fits into conservative and even market liberal policies as well. In Austria there is a long-standing consensus between all political parties regarding the importance of the social housing sector.

European housing policy is taking a new direction. The EU has with some very recent pieces of legislation defined rules for social housing and its promotion. For the first time in its existence, the Union showed explicit commitment to housing concerns, as the Structural Funds were opened for housing construction and refurbishment in the new Member and Candidate States. In addition some Western countries are now strongly promoting affordable rental housing again. There is a prevalent concern about the sometimes extremely low rental housing shares in many Central and Eastern European Countries, as well as about the absence of models to introduce affordable housing construction (Dübel *et al.*, 2006; Amann & Lugger, 2006; Amann, 2005). One of the most influential housing policy theories in recent years, the publications of Jim Kemeny, shows clear sympathy for a large social housing sector. But is it possible to already speak of a paradigm shift?

With a case study of the Austrian model of social housing we try to contribute to the ongoing discussion. In the face of the highly diversified and interdependent structure of the Austrian housing policy, characterised by a complex bundle of applied instruments, this paper tries to identify specific elements in the Austrian housing policy that can be shown to have a decisive beneficial influence on the overall housing situation. These are in particular the role of the Third Sector in housing policy, the methods used for its funding, as well as the implementation of market mechanisms in specific domains of housing policy.

The goals of the article are threefold:

- Firstly, the Austrian model of Social Housing will be described following the structure of Kemeny's *et al.* article of 2005. According to his classification Austria shows important aspects of a unitary and even integrated rental housing market.
- Secondly, we try to evaluate the efficiency of the Austrian model in comparison to other European countries. This attempt appears to be quite ambitious, as there is no binding set of criteria. We are following theoretical approaches of Kemeny (1995; *et al.* 2005), Priemus & Boelhouwer (1999) and Matznetter (2002). However it should be noted that these sources answer only partially to the need for objective and measurable criteria.
- Thirdly, we conclude with a discussion of the portability of Austrian Social Housing policy elements and structures. Obviously most of Central and Eastern European countries have an urgent need to expand their rental housing sectors. Astonishingly enough, hardly any efforts have been taken in this respect for almost one generation.

2. METHODOLOGICAL BACKGROUND

Contributions about the Austrian system of social housing and Austrian housing policy in an international context are still rather rare or have hardly been taken up in the international discussion (Förster, 1996; Deutsch, 1999; Donner, 2001; Matznetter, 2002; Czasny, 2004a, 2004b; Amann & Lugger, 2006). In Balchin's (1996) famous book about housing policy in Europe, countries are grouped according to their characteristic tenure. Förster's contribution on Austria is included in the section of countries (together with Sweden, the Netherlands and France) where social-rented housing - in contrast to private-rented and owner-occupied - is seen to be the decisive element of housing policy. It is claimed, that the market share of social housing (cost-rent) of the total stock in Austria and particularly in Vienna has played a dominant role in dampening rents in the private sector and has contributed to the overall affordability and good quality of housing after the Second World War.

Matznetter (2002) takes a different approach when he analyses the Austrian housing policy within the theoretical framework of Esping-Andersen's (1990) welfare state regimes. He shows that several characteristics of the conservative welfare state - as which Austria is classified - also have repercussions on its housing policy. Matznetter focuses on the following particularly "conservative" attributes: fragmentation (e.g. housing legislation and subsidy schemes), corporatism (e.g. through a party-related network of non-profit housing associations), familism (e.g. mutual help amongst friends and relatives in self-developed housing) and immobilism (e.g. through sticking to a general structure of post-war object-side subsidy schemes). Some of Matznetter's conclusions are fundamental for the understanding of the Austrian housing policy and its continuity, which will be discussed later on.

In our own study from 2006 (Amann & Lugger, 2006) we have focused the comparative analysis on statistical evidence with altogether rather positive outcomes on the performance of Austrian housing policy. Some of these data found their way into the chapter about the efficiency of social housing policies.

In addition to statistical analysis there are some theoretical approaches to evaluate the efficiency of housing policies, but none of them are entirely satisfying. In their analysis of social housing

finance in seven countries of Western Europe, Priemus & Boelhouwer (1999) apply seven criteria or indicators of evaluation. The first set of indicators uses highly aggregated data to evaluate the social housing sector's overall performance within a broad context of housing and social policy: the macro rentable value quota (trying to measure tenants' housing expenses) and the overall government support to the social rental sector in volume and composition are the two criteria used for this purpose. At the second level of evaluation the structure and the relative size of the social housing sector are analysed, as well as the forms of public control over the sector's performance. The three criteria employed on the third level, which focuses on the micro-level to evaluate social housing providers' efficiency, are the sources of funding (and their closeness to market funding), the risks and guarantees and the relative interest rate advantage of the social housing sector in relation to the financial conditions of the public sector or of private rental housing providers. These seven indicators cover important aspects of social housing markets. Yet, a clear theoretical linkage between the indicators is missing.

Kemeny (1995, *et al.* 2001, *et al.* 2005) has developed a theoretical framework where the structure of the rented sector is the fundamental variable for analysing housing policies in welfare-states. According to this theory, some countries have dual rental markets, where the state successfully shields the private rental market from competition through 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. In contrast to this model, a unitary rental market and an integrated rental market have to be distinguished. A unitary rental market - characterised by the absence of regulatory, especially legal, 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. 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). In consequence, an integrated rental market may emerge from 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). Following this theory, Austria is close to the ideal of an integrated rental market. In Kemeny *et al.* 2005 the comparison of several national policy schemes (Switzerland, Sweden and the Netherlands) offers a kind of coordinate system to evaluate other models. In the following chapters, we will extend this procedure to the Austrian system of social housing employing the same systematic approach as Kemeny.

However we doubt that this approach is sufficient to prove the overall efficiency of a social housing sector or housing policy scheme, for reasons we will elaborate on later in the paper.

3. CHARACTERISTICS OF HOUSING IN AUSTRIA

Austria has some 8.2 mill. inhabitants, or rather approx. 3.5 mill. households (2005). Taking only main residence into account the average household has 2.3 members. These 3.5 mill. households have access to 3.9 mill. dwellings.

3.1. HOUSING STOCK

Some 53% of households live in their own property: 11% in condominiums in multi-storey buildings and 42% in single family houses. The percentage of single family houses ranges from 80% in some provinces (Burgenland) to only 4% in the capital city Vienna. 40% of all households live in the rental sector, which is divided into three sub-sectors. Private rental flats used to make up the major part with approx. 600 000 units (18%), but they have been overtaken by the social housing sector in the recent decade. 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. Housing associations and cooperatives manage 510 000 rental flats (plus 240 000 condominiums). In total some 23% of the housing stock may be regarded as social housing rental stock. This is approx. 10 percent points above EU-15 average.

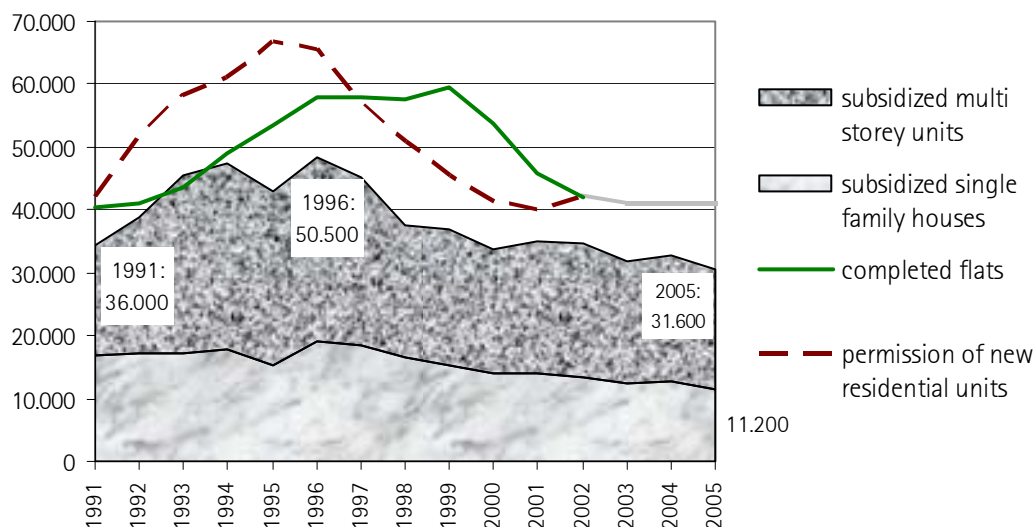
3.2. TENANCY

Taking a look at the general European trends in social housing policy which have been identified (McLennan *et al.*, 1997; Gibbs, 2002; Priemus & Dieleman 2002; van der Heijden, 2002; Whitehead, 2003) it is easy to see that the peculiarity of Austria lies partly in the fact that it has not followed suit. There is an obvious trend towards owner-occupation in many European countries with an increased promotion of this type of tenure 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 constructions. In Austria, on the other hand, social rental housing construction with some 31% still forms a high proportion of total new constructions. This represents a sufficiently large proportion to keep the rental housing stock constant over time, as Ball (2005, p. 28) confirms. A major part of new social rental construction is endowed with a Right to Buy. This privilege was established in the mid-90s as a trade-off between lobbies who pleaded for a growing share of owner-occupation and those who pleaded for the continuous importance of the rental sector. Today it seems that only a relatively small number of households will actually exercise this right. In addition there is no general predominant 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. 26; Bauer, 2005, p.10).

3.3. HOUSING PRODUCTION

In the late 80s the crisis in Ex-Yugoslavia, the fall of the Iron Curtain and demographic aspects caused a shortage in the Austrian housing market. Consequently housing construction was strongly promoted. In the mid-90s some 60 000 units per year were completed including a high proportion of subsidised flats (see Figure 1). In recent years the level of new construction declined to some 40 000 dwellings per year. This is around 5 units per 1 000 inhabitants per year and around the EU-15 average. Taking the demographic dynamic of Austria, which is considerably above the EU-15 average, this quantity does not cover the housing demand entirely.

Figure 1: New residential construction and subsidies
units per year



Due to changes in data collection no valid data for completed flats and permission of new residential units is available since 2003.

Source: Statistics Austria, IIBW

As Table 1 shows, nearly half of all completed flats in a ten year average are built by private individuals, 28% by housing associations, 19% by private housing developers and 2% by municipalities. Around one third of total subsidies go to housing association and cooperatives.

Table 1: Completed flats and subsidy permissions

	housing stock ¹	completed flats ²	subsidies ³
Housing associations and cooperatives	19%	28%	Ca. 33%
Commercial builders	18% ⁴	19%	Ca. 16%
Municipalities	9%	2%	Ca. 50% ⁵
Private	54% ⁶	49%	

Source: Statistics Austria, IIBW

3.4. CLASSIFICATION OF AUSTRIAN HOUSING POLICY

In order to explain the high continuity of the Austrian housing policy throughout the last decades and Austria's aversion to follow common European trends, such as the cut-back of state

¹ 2002.

² Average 1991-2002.

³ New construction and refurbishment; Average expenses 1991-2002.

⁴ Private rental.

⁵ Most of this share goes to private builders because the importance of municipalities in new construction is marginal

⁶ Single family houses and owner-occupied dwellings.

subsidies and the redirection of subsidies to subject-side housing allowances, it is useful to interpret Austria in Esping-Andersen's sense of a conservative welfare state (Matznetter, 2002; Unger & Heitzmann, 2003). In conservative welfare states political arrangements, especially in the field of social policy, have a strong tendency to last.

Unger & Heitzmann (2003) have argued that Austria being a typically conservative welfare state is very slow in adjusting to international trends. Throughout the decades, they argue, social policy reforms were implemented "incrementally, almost silently enacted, in a rather depoliticised fashion, typical of neo-corporatism" (Unger & Heitzmann, 2003, p. 372). Austria was for a long time characterised by a high political stability where for almost 30 years the government was formed by the social-democrat and the conservative party. A strong influence of the social partners, relatively stable political compromises (consensual democracy) and only small and incremental changes in the fundamental guidelines of social policy were cornerstones of this period.

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 be achieved 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 most important housing policy reform in Austria during the last decades - the devolution of many housing policy responsibilities from the federal state to the provinces starting in the late 1980s - on the one hand released the built-up reform pressure and on the other hand increased the stability of the housing policy system as a whole. The amounts attributed to the provinces for the fulfilment of housing policy tasks, represent a large part of their disposable funds and are therefore strongly defended by the provinces in the four-year "revenue equalisation negotiations" between federal state, provinces and municipalities. A very important aspect of those "revenue equalisations" is their timing in relation to legislation periods. Negotiations and enactments of these legal contracts are rarely at the same time as campaigns for regional or national elections. As a result the tasks decided in these contracts hardly ever become a topic of the political campaigns. It seems that this aspect is mainly responsible for the continuity in the field of housing policy in Austria.

Matznetter (Kemeny *et al.*, 2001) points to the strong traditional role of the limited-profit sector and its well functioning political representation. Austrian politicians from various political backgrounds are very aware of the part the limited-profit sector has played in building up an affordable housing supply after the Second World War and in achieving good housing quality indicators in Austria. Other than in Germany, where the breakdown of the limited-profit housing scheme was mainly the result of the economic disaster of one big company ("Neue Heimat"), the maturation of Limited Profit Housing Associations (LPHA) in Austria is well advanced and public control and supervision are additionally contributing to its high stability and good reputation. The ongoing investment of the sector and the progress towards an integrated rental market can therefore also be explained by the high awareness of LPHA contributions to the convincing results of the Austrian housing policy.

Even though the conservative welfare classification of the Austrian housing policy provides a lot of insight into the continuity of the system, the theoretical framework operated by Kemeny is

especially suitable to describe Austrian housing policy, since it takes account of the particular importance of the social housing sector. In the following section we explicitly describe indicators to prove that Austria's rental housing market is on its way from a unitary towards an integrated market.

4. SOCIAL HOUSING IN AUSTRIA

A definition of the term is tricky. Municipal housing, which is targeted at lowest income groups, has a share of 9% of the total housing stock. But there is another 19% managed by LPHA (5% of which is owner-occupied). Moreover, the majority of single occupancy housing and parts of commercial multi-storey housing has been co-financed by the public as well. As the biggest part of the population has access to these market segments, we talk of “subsidised housing”.

In the following we use the term “social housing” for subsidised multi-storey housing as those are mainly in the responsibility of LPHA.

4.1. THE MODEL OF LIMITED PROFIT HOUSING ASSOCIATIONS (LPHA)

The LPHA comprise altogether 200 housing cooperatives, private limited companies and public limited companies with a total housing stock (rental dwellings and condominiums) of some 750 000 units (approx. 19% of the total stock in 2005). The LPHA are responsible for 28% of new residential constructions. That is more than half of all multi-storey housing constructions. For this task they are assigned some 33% of total expenditure on housing subsidies. The housing associations are owned by public authorities, charity organisations, parties, unions, companies, banks or private persons. To avoid moral hazard, it is prohibited for construction firms to even partially own one.

In short, the system of LPHA can be characterised as follows:

- Cost coverage principle: the obligatory calculation of rents based on construction costs in combination with rent limitation defined by the subsidy schemes guarantees a low and continuous level of rents (3-5 €/m² net).
- Limited field of action: the housing associations have to focus on housing construction, refurbishment and housing management. In fact it is an important aspect for the long term success of the system that housing associations in general manage the houses they have built before. Being managers of their own properties is a strong incentive for a high construction quality and social balance.
- Binding of property – limited profit: Housing associations ought to make profits. But these profits have to be reinvested: in purchase of land, refurbishment or new construction. A limited part of the profit (max. 3 to 5% of registered capital) may be distributed to the owners or shareholders. This implies that investors need to act with a long term perspective given that the best part of the returns can only be realised after decades.
- Control: LPHA are imbedded into an efficient structure of checks and balances with the umbrella organisation controlling the system from the inside, and regional governments functioning as external supervisors.
- Very strong legal position of the tenants, established by tenancy law as well as non-profit-housing law.

The close ties given by the non-profit-housing-law, the supervision through the regional authorities and the fact that many housing associations are owned by semi-public bodies have as a result that housing associations are regarded as the “lengthened arm of housing policy”. They work on a private market economy basis for goals strongly influenced by the public. It is therefore a typical model of Public-Private-Partnership (PPP).

Commercial housing developers are – if they realise subsidised rental housing – bound to parts of the LPHA-legislation.

4.2. SOCIAL HOUSING FINANCE: PUBLIC SUPPORT AND MARKET FUNDING

In the context of housing the nine Austrian provinces (Vienna being one of them) have legislative competence over their housing subsidy schemes. These factors may be decided autonomously: subsidy models (loans, grants or allowances), terms of subsidies (interest rates, pay back, tenure of loan, income limits etc.), financing aspects (maximum rents, minimum equity of builder, maximum equity of tenants, limitation of capital market interest rates, limitation of construction cost etc.), quality standards (e.g. minimum energy performance), and even definition of recipients (e.g. inclusion of commercial developers) (Amann, 1999a).

In general and throughout the provinces, Austrian social housing finance focuses on supply-side subsidies. Only some 8% of total expenditures are classified as housing allowances. This focus on the supply-side offers ample spin-off and steering effects (in economic, environmental, social, regional and urban policies). All housing promotion schemes work as mixed financing models, combining own equity, public and commercial financing, utilising the specific strengths of all options.

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, pp. 633 and 637). A typical social housing project may be financed as follows:

- | | |
|--|---------|
| ▫ Capital market loan: 20 years, Euribor + 0-30 BP | 40-60% |
| ▫ Public loan: 30 years, 1% fix | 30-40% |
| ▫ Equity of developer (mostly for land purchase) | ca. 10% |
| ▫ Equity of future tenants | 0-10% |

In addition to the public subsidy schemes of the provinces, capital market funding has major significance. Mortgage loans are, as anywhere, an important product of commercial banks. The conditions are very favourable for LPHA. Today housing construction by LPHA with high creditworthiness is financed as low as Euribor + 0-30 BP.

LPHA are regarded as low risk borrowers due to several reasons: Firstly, due to co-financing by housing subsidies, capital market financing has a good L/V-ratio and very low risk. Public bodies act as external supervisors controlling the financial situation of the LPHA accurately. Furthermore, ownership constellations are very favourable to their creditworthiness. Thirdly, their

size and asset base is taken into account. 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 (Foundation Homeownership Guarantee Fund *et al.*, 2004; Priemus & Boelhouwer, 1999; Whitehead, 2003), no formal public underwriting or guarantee fund had to be established in Austria. This implies that the guarantee-like functioning of the housing subsidy scheme in all its complexity – financial support as well as control and supervision – is responsible for the very favourable conditions LPHA face on the capital market.

For refinancing the commercial banks a special finance vehicle was designed in the early 1990s, the “Wohnbaubanken” – Housing Banks. With the aim to raise money for housing construction housing banks issue special housing construction convertible bonds (HCCB), which enjoy preferential public treatment in two ways: Firstly, a capital income tax relief is granted for the first 4% of returns. Therefore, HCCB can be issued below market rate as the yield after taxes stays competitive. They save mortgage borrowers around 0.75% in interest costs (Ball, 2005, p. 29). Secondly, an incentive to the demand side of the market has been designed by considering an HCCB purchase as a special expense when assessing income tax. In addition to these privileges, a tight legal framework for the operation field of housing banks was created: Money raised through the issues of HCCB has to be attributed to new housing construction programmes which are eligible for additional object-side subsidies by the provinces. Also, funds raised have to be assigned to Austria-based construction projects within a period of three years. This way private funds raised by the housing banks can be channelled towards projects which the public considers worth funding. A leverage effect is thereby created. The housing banks operating in Austria today have been very successful in raising construction money. Virtually all multi-storey housing constructions within the housing subsidy schemes, as well as a considerable part of refurbishments, is co-financed by housing banks. These are some 18 000 units per year (Amann & Bauernfeind, 2003; Amann *et al.*, 2005a).

In Vienna a number of ambitious development projects were realised within the last ten years, such as *Donau City*, *Gasometer City*, *Millenium City*. Most of them were financed in a similar way. Even though offices and shopping malls are predominant they contain a large number of subsidised rental dwellings, mostly realised by LPHA. The commercial developers went into this cooperation not only because of the low risk, but also because of financial concerns. Including 200-400 subsidised dwellings, 15-20% of total costs of the development were covered by subsidised loans. The municipality of Vienna agreed to have these loans collateralised on the second rank behind commercial loans. Only with this commitment this kind of large scale development projects became bankable.

4.3. INDICATORS OF A UNITARY AND INTEGRATED RENTAL MARKET

The following considerations support the view that the Austrian rental market has reached a high level of market integration in Kemeny's sense.

- Volume of social housing and accessibility:

Similar to Scandinavian countries or the Netherlands, Austria follows an extended understanding of “social housing”, as we have already pointed out. There are fairly generous income limits for

the access to housing subsidies. Therefore, on average only 10-20% of the population is excluded from this scheme of transfer and a very large part of new constructions is co-financed by the public. Housing subsidies do not cover the major part of construction cost, but they still 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.

- Competition:

There is strong evidence of a price-restraining influence of the social rent level on the overall market rents. Contrary to the general European trend where rents in the social rental sector are being raised to the level of market rents (van der Heijden, 2002, p. 335), an opposite effect is visible in Austria, where the following indicators show that price formation in the private rental market is strongly influenced by the competition of the cost-determined rent level in the social sector.

Firstly, new construction of social housing following the cost-rent principle has a high market share of some 15 000 units per year in all of Austria. In rural areas and small towns the supply of new social rental flats is predominant compared to other rental market segments. In big towns and particularly in Vienna the share of cost-rent flats in the rental market is smaller. It is estimated that 20% of new flats and another 20% of old flats originate from the social sector (Amann, 1999b). A market segment of this size is able to heavily influence the market as a whole.

Secondly, private and social rental flats largely compete for the same group of costumers. As mentioned above, income limits exclude only a small part of the households from the supply of LPHA. At the same time new constructions 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 and tenants have to contribute with their own equity. LPHA especially address households with long-term perspectives and stable incomes. As a result the LPHA concentrate on a customer group, which is well served in other segments as well, in particular by the single family housing market in the outskirts of the cities and by a specific segment of the private market.

Thirdly, increases in the rent level occurred whenever competition from the LPHA stock was weak. Strong dynamics of the private rent level were seen in the early 1990s, when low housing production and unexpected demographic developments caused a serious housing shortage. The late nineties were, quite in contrary, characterised by a high output of subsidised housing, declining demand and stable rents. In recent years the new construction of LPHA has decreased again. And, not surprisingly, private market rent levels have revived.

In some provinces, amongst them Vienna, the subsidy schemes for social rental housing have been opened to commercial developers, as long as they stick to the subsidy requirements. In 1994 Vienna introduced competitions between commercial developers and LPHA for the biggest urban development projects. The winner was allowed to buy the land and was assigned subsidies. This instrument caused a substantial increase in ecological and design quality and at the same time dampened the construction costs. After ten years it is evident that social housing

is a difficult market with high thresholds to enter. It seems that both groups of developers are similarly competitive. There is only little change in market shares for social rental dwellings.

- Rent levels and allocation of low income groups

Housing costs have shown a stable development during the recent decade. Austria and Germany have followed quite a different trend to the rest of Europe. This development can be shown by different rent and house price indices (Housing Statistics in the European Union, 2005). In the LPHA stock rent increases were even lower than in the private rental stock (Bauer, 2005, p. 13). This evidence is also supported by Czerny (2001, p. 15) who conducted an analysis of changes in the rent level. She found that during the 1990s the rent level in the Austrian social rental sector increased considerably less than those in other European countries during that decade.

Obviously, as rents in the social housing stock are basically cost-determined, low building cost inflation had a beneficial influence on the evolution of the rent-level. In a recent study comparing construction costs of municipalities, commercial builders and LPHA, evidence was provided that the social sector builds considerably cheaper than the private sector (Amman & Götzl, 2005, p. 27). There are primarily two explanations for this: LPHA hold a strong market position on the market for construction materials and services which is used to their benefit and public subsidies are granted independently of costs so that a strong incentive towards efficient production is implemented.

- Solidity

In comparison to other European countries, new social housing construction relies heavily on the developer's own assets. Only Germany and Belgium have comparably high shares of the social landlords' own funds (Priemus & Boelhouwer, 1999, p. 640). Some LPHA are today very strong in equity, particularly the ones who have produced rental housing for long periods, since rents still have to be paid, even if the loans are amortised. LPHA with a focus on owner-occupation are mostly in a less favourable situation today.

Low expenditure on demand-side subsidies, 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. For the same reason countries like the Netherlands or Sweden were able to reduce their public commitments to social housing in recent years.

4.4. PROBLEMS AND RETROGRADE THREATS

Land costs are increasing more dynamically than incomes or construction costs. As a result, social housing is pushed to the outskirts of the cities. This development may threaten the regional integration of Austrian settlements and the provision of stable rents.

Matznetter (Kemeny *et al.*, 2001) mentions the ban on rent-pooling within the LPHA housing stock and the regionally limited field of action of the LPHA as barriers to further market integration.

Cheap low quality housing supply in the private rental market has almost vanished due to renovation and the liberalisation of rent regulation for high standard private rental flats. Vulnerable groups have therefore become more dependent on the social rental sector. 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 throughout the last years (Guger & Marterbauer, 2005).

It is mostly the well informed customers who take advantage of the housing supply with a good cost-performance ratio resulting from competition between private and social landlords. Less informed people, who are very often the most vulnerable ones, are facing barriers. There is a growing number of commercial new constructions, which is deliberately positioned off the competition with social housing. This top market share of private rental flats is aimed at a different customer group with higher incomes and often with short-term perspectives: Those flats are smaller than average and increasingly characterised by fixed-term rental contracts. They face no competition from the LPHA stock and have shown the highest price increases in the overall rental market throughout the last years.

5. EFFICIENCY OF SOCIAL HOUSING POLICIES

In the previous chapters we have described and positioned the Austrian system of social housing. But we aim to go beyond this analysis to evaluate the Austrian model in comparison to models of housing policy in other countries. Since we believe that Austria has developed efficient instruments, which are worthy of an international discussion and might even be a solution for other countries, we have to prove their efficiency. But the comparison faces some serious difficulties.

Firstly, the housing models are not designed on the basis of identical determining factors. As the starting positions differ, it is difficult to define a measurement to treat all candidates equally. All national systems have been developed independently for decades and decades. Even within the European Union there has been no formal attempt of unification. Changes in housing policy have been the result of overall trends, not of a common policy. In this way housing policies in the Member States aim at quite different targets. Moreover, housing policy schemes are political concepts. Therefore they are not only designed with the objective of scientific efficiency, but reflect quite significantly the political philosophy behind them. Continental conservative welfare models are different in nature from Anglo-Saxon liberal models or Scandinavian social-democrat models of housing policy.

As a consequence any useful evaluation must be equidistant to different philosophic concepts. It is the claim for objectivity in science. But as we all know, this is an escapist stipulation towards scientists as individuals. Any of us is bound to his or her ideological background. There is no objective science, least of all in social science (Feyerabend, 1976).

Secondly, we face serious data problems. We have access only to a very limited set of indicators with sufficient quality and comparability. To get a comprehensive image of the differences

between housing policy schemes we need to include qualitative in addition to quantitative benchmarks.

This - thirdly - is to say that within this article we are only able to accomplish a preliminary approach to an efficiency analysis of housing policy schemes.

5.1. PREVIOUS ATTEMPTS

As mentioned before Priemus & Boelhouwer (1999) have defined seven criteria of comparison and evaluation:

- a) macro rentable value quota (trying to measure tenants' housing expenses);
- b) volume and composition of government support to the social rental sector;
- c) structure and relative size of the social sector;
- d) forms of public control;
- e) sources of funding (and their closeness to market funding);
- f) risks and guarantees;
- g) relative interest rate advantage of the social housing sector compared to the public and commercial sector.

In Kemeny's distinction of contrasting models of rental markets, an implicit evaluation of a nation's housing policy is embedded. Comparing dual and integrated rental markets, a clear preference for countries aiming for an integrated market is enclosed: "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). Also, Kemeny's ideal form of a unitary market is able to dispense with much housing aid: Through the process of maturation – in which the solidity of the non-profit stock increases – in the long run the non-profit sector is able to provide a mature stock of a broad range of dwellings in terms of age, location and quality, catering for the whole population without the necessity of continuous public support. Kemeny's evaluation of a nation's social housing market is therefore based on its closeness to the ideal form of an integrated market, the advantages of which are principally rectified with reference to indicators of the macro and institutional level of evaluation, also applied by Priemus and Boelhouwer (1999).

5.2. A SET OF BENCHMARKS BASED ON AVAILABLE DATA

The first decision about an evaluation scheme for social housing policy may already be controversial. We believe that social housing policy should follow multi-dimensional targets. It should not only aim for social policy goals, but for economic, regional planning or environmental policy goals as well. Therefore multi-dimensional benchmarks should be applied (Amann *et al.* 2005b).

Relatively well-defined are economic policy benchmarks and social policy benchmarks. They have been considered by the main theoretical contributions we referred to throughout this article (Priemus & Boelhouwer, 1999; Kemeny 1995, *et al.*, 2005). It is more difficult to value all the other effects of social housing policy.

The following criteria do seem attractive for a comparison of social housing sectors in different countries, yet they are not applicable as criteria of efficiency.

DUAL OR UNITARY OR INTEGRATED MARKET

Although Kemeny's classification of rental markets is very insightful for understanding social housing, for several reasons it does not seem eligible for the evaluation of social housing policies. Firstly, it mixes description and valuation. It is embedded in a distinct political philosophy and disregards the advantages of other approaches. Secondly, it is not based on a clear set of criteria. Thirdly, the described ideal model of an integrated market does not comply with EU-legislation on social housing, as we will show later on.

SUPPLY SIDE OR DEMAND SIDE SUBSIDIES

In this article we have proven the effectiveness of the Austrian scheme of housing promotion, which is mainly supply-oriented. Nevertheless, the composition of subsidy instruments should not be an assessment criterion. The advantages of one over the other model (Lux, 2006) have to be proven by the results.

RENT OR OWNER-OCCUPATION

The same is true regarding the overriding tenure in housing promotion. Provisions of affordable housing by low public expenditure may be tackled both with rental and owner-occupied housing. Still, there is evidence that extended rental markets are effective in many ways. But the comparative performance has to be proven based on objective data in the individual case.

The selection of benchmarks is based on the following considerations:

- Significance of results;
- Availability of data: benchmarks need to be measurable, therefore comparable data for several countries is needed;
- Selection and weighting of data should not predetermine the results in favour of one political philosophy;
- Data alone hardly give a comprehensive picture of housing policy schemes, it needs precise analysis.

To illustrate the significance of the results, if we have not already done so in earlier chapters, we provide an analysis on some of the benchmarks in which we compare data from Austria with a hand full of other European countries.

5.3. ECONOMIC POLICY BENCHMARKS

PRODUCTION OUTPUT

- a) Data set: Housing construction in relation to housing stock; social housing construction; dwellings per 1000 inhabitants; useful floor space per capita.
- b) Sources: Housing Statistics in the EU (successive editions), national statistical offices; CECODHAS.
- c) Significance: High construction rates are positive only if there is respective demand (dwellings per 1000 inhabitants, useful floor space per capita etc.).

d) Availability of data: Good.

PUBLIC EXPENDITURE

a) Data set: Public expenditure for housing.

b) Sources: RICS European Housing Review (Ball, 2005, and successive editions), PRC Bouwcentrum International, 2005; Lujanen, 2004; de la Morvonnais, 2000.

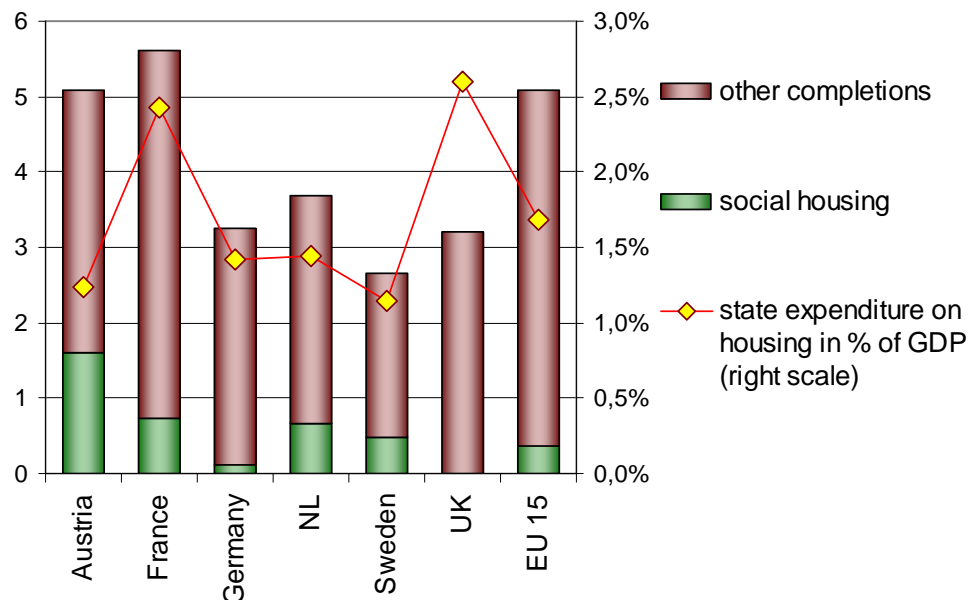
c) Significance: The cost of the systems is one of the core evaluation criteria.

d) Availability of data: There are significant inconsistencies in the existing data sources.

As a matter of fact there is no clear result that policy schemes which focus on demand-side subsidies work cheaper than others. Nor do states with high public expenditures in housing necessarily produce more social dwellings (Figure 2).

Figure 2: Rental housing and state expenditure 2003

Dwelling completions per 1000 inhabitants, Housing expenditure of GDP



Re.: Data on UK from 1997.

Source: Housing Statistics in the EU, 2005; PRC Bouwcentrum International, 2005; Lujanen, 2004

Some countries significantly reduced state expenditure on housing within the previous decade. Denmark and Finland cut some 30% between 1997 and 2003, Sweden even 60%. Finland and Sweden have now reached an expenditure of no more than 1.1% of GDP (Lujanen, 2004). In Austria, some 80% of new housing construction is co-financed by the public, as pointed out earlier. Still, total housing expenditures only amount to 1.1% of GDP (2005). This is below most other western European countries and even the USA. On average in the EU-15 countries some 1.7% of GDP is attributed to public housing finance (Ball, 2005; PRC Bouwcentrum International, 2005; Lujanen, 2004; de la Morvonnais, 2004).

In Austria, public expenditure for housing has remained stable in nominal terms for already one decade, in other words, it decreased as percentage of GDP by around 35% in this period of time. Like other countries Austria followed the trend for more market based financial instruments (Gibb,

2002, p. 331). The share of subsidies in construction finance decreased, this however did definitely not reduce the influence of the public nor the steering effects. Also, as a result of competition between the provinces, the subsidy schemes grew substantially more efficient. At the same time only a small amount of subsidies needs to go towards the refurbishment of the old social housing stock. The maintenance of this stock is covered by a mark-up on cost-rents (up to € 1,40 per sqm per month in older buildings) collected in independent maintenance funds, set-up for individual premises (without cross-subsidisation). Therefore the LPHA stock is in a better condition in terms of thermal refurbishment than average.

UTILISATION OF MARKET FORCES

- a) Data set: qualitative information on the introduction of market mechanisms.
- b) Sources: no statistics.
- c) Significance: The effective utilisation of market forces in housing development and financing proves to be a key factor for total housing policy efficiency.
- d) Availability of data: restricted, only qualitative.

CONTINUITY, STABILISATION OF MARKET FLUCTUATION

- a) Data set: Production output by type of building owner; market indices to prove anti-cyclical effects of housing promotion schemes; long term stability of instruments.
- b) Sources: National statistical offices; market indices.
- c) Significance: Real estate is usually highly volatile. This contradicts with the interests of tenants. Housing promotion schemes may be able to provide an insurance function by stabilising production and cost development.
- d) Availability of data: Good.

The high volatility of real estate is partly founded in the specific nature of the product with its long production period. After changes in demand it takes a long time until supply can close ranks. At that point in time the demand has often enough changed again, so that supply amplifies a cyclic development. As it is hardly possible to forecast the cycles, anticipatory housing policy should avoid reacting to short term changes in demand but instead be pursuing a long-term strategy.

Anti-cyclical Keynesian fiscal policy was practised in Austria for much longer than in other Western welfare states (Unger & Heitzmann, 2003), which helps to explain why object-side subsidies towards the construction and renovation of buildings were preferred to a major shift towards subject-side housing allowances that provide less possibility of applying steering effects through housing policy. In Austria, housing promotion was always regarded as a policy instrument able to attain various policy targets beyond social policy, such as fiscal, environmental and land planning aims.

TENURE DIVERSITY AND CONSUMER CHOICE

- a) Data set: Housing tenure; market indicators.
- b) Sources: Housing Statistics in the EU (successive editions), national statistical offices.
- c) Significance: The benchmark is based on the well-founded assumption that a variety of options on the housing market will lead to higher utility in housing consumption.
- d) Availability of data: Good.

Kemeny (et al., 2005) stresses the importance of a large social rental sector for improving consumer choice. Macro-economic arguments connecting the existence of a rental alternative with increased labour-mobility go along the same lines.

PREVENTION OF MALPRACTICE

- a) Data set: Qualitative information.
- b) Sources: No statistics.
- c) Significance: Control and supervision are crucial aspects of a well functioning social housing sector. They may contribute to sound financing conditions.
- d) Availability of data: restricted, only qualitative.

The importance of an efficient supervisory structure has frequently been emphasised (Priemus & Boelhouwer, 1999; Gibb, 2002, p. 333) and can be confirmed for the Austrian case: It is regarded as a success story that within the previous fifty years not a single customer of LPHA has lost his or her money because of malpractice. This fact contributes considerably to the creditworthiness and rating of the LPHA.

COMPLIANCE WITH EU-LEGISLATION

- e) Data set: Qualitative information.
- f) Sources: No statistics.
- g) Significance: Compliance with European standards is critical for the long-term survival of social housing schemes. The ongoing unification of social housing standards is a great chance to develop the sector.
- h) Availability of data: restricted, only qualitative.

There is fundamental support from EU bodies for social housing policy measures within the Member States (Czischke, 2005) (articles 87-89 of the EC Treaty; decisions of the Commission 209/2001, N 497/01, N 239/02, C 515/02, N 209/01, L 312/69/2005; rulings of the European Court of Justice ECR I-7747 2003).

The provision of social housing can be defined as a service of general economic interest by the Member States, which leads to the possibility of compensating these services by the public. As for the question of the legitimate height of public service compensation, the famous judgement in the "Altmark" case (ECR I-7747 2003) has established a general framework.

The Austrian model of social housing has shown consistency with EU-legislation. With the programmatic orientation of all housing subsidy schemes the public service obligations are approved and clearly defined. The parameters, on the basis of which compensation is calculated, are established in advance within the subsidy schemes. The cost-rent principle allows a clear assignment of the compensation. Through the limited-profit principle it is guaranteed that the compensation does not exceed the amount necessary to cover the costs incurred in the discharge of public service obligations. In some provinces, housing subsidies are distributed in a public procurement procedure.

It has to be underlined, that the ideal model of an integrated rental market in Kemeny's sense would hardly comply with EU-legislation, since a selective public advantage granted to non-profit providers is the precondition of the ideal form of an integrated market.

5.4. SOCIAL POLICY BENCHMARKS

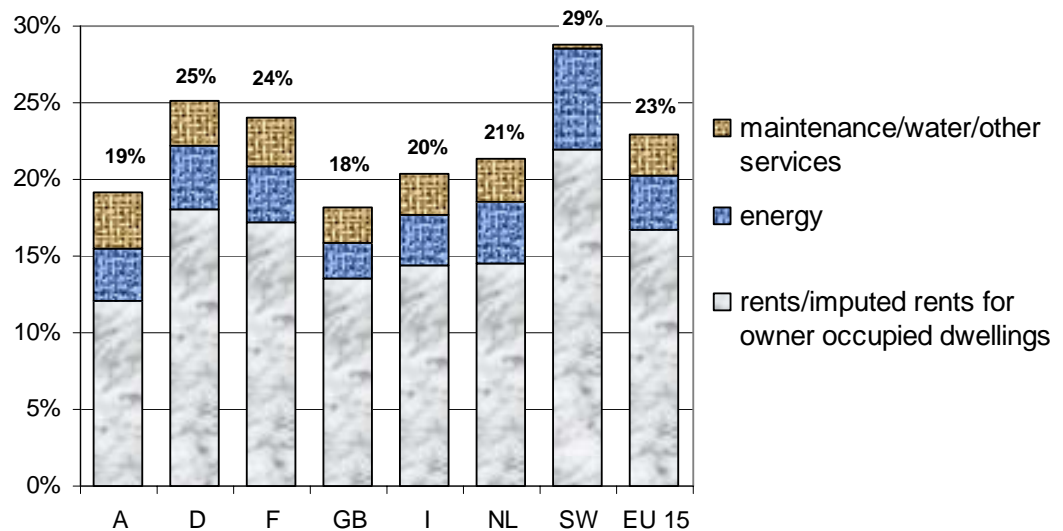
HOUSING PROVISION

- Data set: Useful floor space per capita, quality of the housing stock, dwellings per 1 000 inhabitants etc.
- Sources: Housing statistics in the EU; National statistical offices.
- Significance: All other indicators, as affordability or public expenditure, only make sense, if interpreted in comparison to the housing provision.
- Availability of data: Good.

AFFORDABILITY

- Data set: Private consumption for housing (national accounts); price and rent indices to compare social with private market segments.
- Sources: Housing statistics in the EU, 2005; national statistical offices.
- Significance: Affordability is the raison d'être of the social housing sector. Anticipatory housing policy may use its instruments to attain affordability in all market segments.
- Availability of data: Good.

Figure 3: Housing costs in % of household income, 2003 (national accounts)



Source: Housing Statistics in the EU, 2005

Rather difficult to define are the household expenses for accommodation. A reliable source is private consumption within the national accounts (Figure 3), even though this source is not based on empirical evidence of individual households and their real expenditures. Following this index household expenditure in Austria has been stable for the last decade at slightly below 20%, but recently grew up to 21% (2005). This is still one of the lowest shares in a European wide comparison given that the EU-15 average is ca. 23% (Housing Statistics in the European Union,

2005; Bauer, 2005; Priemus & Dieleman, 2002, p. 194). In an environment of rapidly growing housing costs all over Europe, the stable development within Austria resulted in a substantial decrease of its relative position. Housing costs stood at 6% above EU-15 average in 1995, but decreased to 6% below average in 2002.

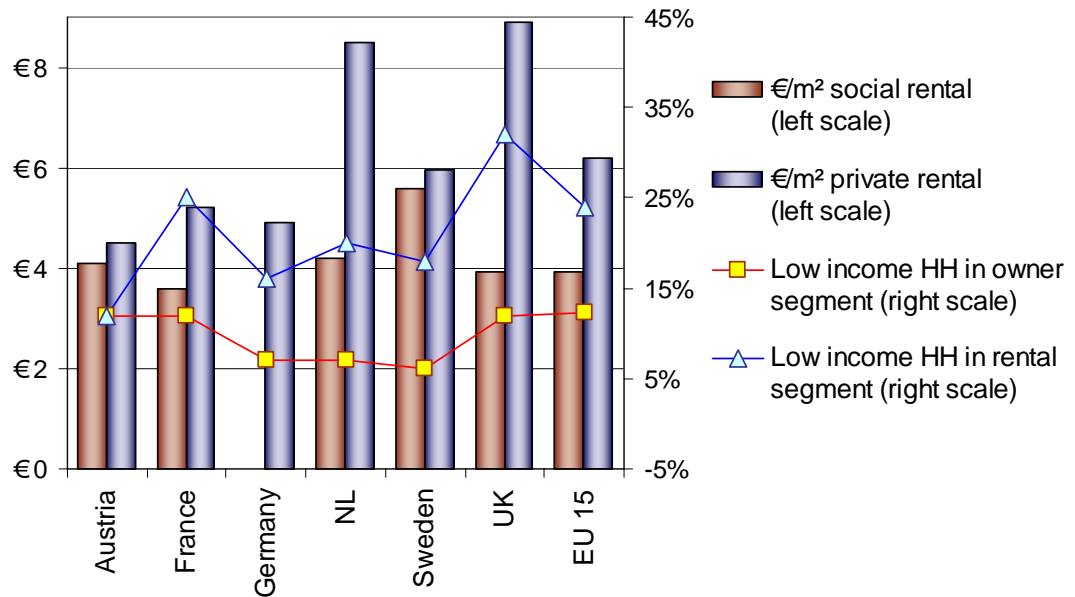
SOCIAL INCLUSION

- a) Data set: Housing provision of low income households; problems with segregation or gentrification; social quality of settlements and environment.
- b) Sources: Housing statistics in the EU, 2005; Czasny 2004a and 2004b; qualitative information on segregation.
- c) Significance: Social inclusion, prevention of segregation and integration of vulnerable groups are unanimous goals of European social policy. Nevertheless, social housing sectors in several countries hardly contribute to these goals but rather seem to be the cause of the problem themselves.
- d) Availability of data: Good.

A very important aspect of the Austrian social housing sector is the diversity of its occupants. According to van der Heijden (2002, p. 333) all over Europe the share of low-income families living in the social sector is increasing. Czasny (2004a, p. 57; 2004b, p. 41) studied the concentration of low income households and ethnic minorities in bad housing quality segments and the social rental sector within the EU. By calculating the degree of overrepresentation of the lowest income quintile in the cheapest social rental stock, he found that Austria was within nine countries of the EU, included in the analysis, the one with the lowest share. A residualisation of the social sector and a regional segregation of low income families in poor housing quality stock is prevented due to several reasons: Firstly, an attraction of the social sector to middle income households is assured through the high quality of its housing stock. Secondly, many low income families live in the private rental market segment, due to historic rent-regulated contracts with unlimited tenancy. Thirdly, the price and cost reducing effect of competition between private and social market segments and the general public policy towards price reduction lead to affordable general housing prices.

Indicators of social inclusion are significant for the identification of dual or unitary markets in the context of Kemeny's theories. Figure 4 shows the rent levels in social and private rental market segments and the share of low income households within the rental and the owner segment. We can easily identify unitary markets like Austria by the small differences between the rent levels of social and private market segments. The low level of private rents in Austria as a result of the competition with social housing indicate an integrated market, following Kemeny's classification.

Figure 4: Rents by market segments, living conditions of low income households, 2003



Source: Housing Statistics in the EU, 2005.

5.5. ENVIRONMENTAL AND REGIONAL POLICY BENCHMARKS

- Data set: Share of thermal insulation in different segments of the housing stock; CO₂ emissions for air condition in housing; regional disparity.
- Sources: Housing statistics in the EU, 2005; Eurostat database; qualitative data on regional disparity.
- Significance: Housing is a major policy field to meet the ambitious goals of the Kyoto Protocol. Important steering effects are given in regional and urban policy as well.
- Availability of data: Medium, partly qualitative.

6. PORTABILITY OF AUSTRIAN EXPERIENCES AND CONCLUSIONS

Studies on successful housing finance systems have concentrated on comparing owner-occupation financing methods. There seems to be an implicit agreement that especially countries in transition have to be provided with effective techniques to keep up or even escalate their already extreme owner-occupation rate (UN Economic Commission for Europe, 2005; Struyk, 2000). By adding the Austrian model of social housing and its financing to the international discussion we hope to provide an alternative for future policy measures in Central and South Eastern European countries.

In our analysis we have shown that there are certain elements in the Austrian housing policy which have a decisive impact on the quality of the overall housing situation. The Third Sector in housing, as mainly represented by the LPHA, operates efficiently within a tight framework of rights and obligations. The methods used for its funding include a high reliance on object-side subsidies which are granted in accordance with incentive considerations. The housing banks play an important part in providing the capital market share of the funding of social housing. HCCB act as an efficient instrument that helps to provide good conditions for the capital market funding of social housing projects. The high ratings of the LPHA on the credit market also result from the

efficiency of the supervisory structure and the guarantee-like mechanism of the overall institutional framework, within which the LPHA operate.

The social housing sector in any country is placed within a highly influential legal, political and economic framework. When assessing the efficiency of the social housing provision and finance this framework has to be considered. In addition, the interdependencies of the social and private housing market segments have to be taken into account. In Austria, the price containing influence of the social housing sector on the general price level leads to a high degree of market integration in Kemeny's sense, where competition between the private and social segment fosters overall efficiency. Furthermore it also prevents the social housing sector of being reduced to the simple function of "housing the poor".

Kemeny's theory is very helpful in describing existing housing policy schemes. It is, so to say, a simple story to describe a very complex reality. To transfer an integrated market to other countries is hardly possible since its emergence takes a long time and faces a lot of difficulties. Yet, there are certain elements within the Austrian housing policy, and especially the way the limited-profit housing sector operates, which could be useful for countries in transition in order to address their rising housing difficulties.

Transferring the Austrian experiences in social housing policy to CEE/SEE could mean:

- In order to encourage the institutional development of limited-profit housing providers, a limited-profit housing law and an integrated housing subsidy scheme should be created. Public support in the form of subsidies and guarantees should be accessible to commercial developers as well, as long as they follow the legal framework (clearly defined services of general economic interest in social housing, subsidies only for the additional efforts, cost-rents, re-investment of profits, separate accounts for social and commercial activities, public procurement procedures).
- Social housing should not be too cheap to avoid the appearance of a dual market, the residualisation of the social housing stock, and the crowding out of owner-occupation or private-rental housing. For low income households additional allowances should be provided. Subsidised rental housing should be introduced at a medium price level, at around 20% of official median household income (net annuity without energy, management costs, reserve and tax). With this amount, a rental flat is still a financial challenge for the tenant, which should motivate him or her to consider other solutions (privately financed ownership). For the developer and the state this results in reasonable calculations with subsidies that do not exceed some 20-25% of total costs.
- The financing of the new social housing stock should be carried out jointly by the state and the market from the beginning. A sound system of control and supervision of the limited-profit housing providers is necessary in order to establish the social housing sector as a reliable investment opportunity for private investors. Financial vehicles such as the Austrian HCCB should assure that private investment capital in housing is not crowded out by public subsidies.

- For reasons of continuity and sustainability, limited-profit housing providers should be encouraged to maintain their own buildings throughout the life-cycle. As timely refurbishment is a problem in many CEE and SEE countries, maintenance funds fed by a mark-up on cost-rents should be established.

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