TECHNISCHE UNIVERSITÄT WIEN
Vienna University of Technology

MASTERARBEIT

Housing Systems in Austria and the UK

A comparison of the developments as well as of the economic, political and institutional structures of two different housing markets

ausgeführt zum Zwecke der Erlangung des akademischen Grades eines Diplom-Ingenieurs

unter der Leitung von
A.o. Univ.-Prof. Dipl.-Ing. Dr. Wolfgang Blaas

E 280-3

Fachbereich Finanzwissenschaft und Infrastrukturpolitik
Department für Raumentwicklung, Infrastruktur- und Umweltplanung

eingereicht an der Technischen Universität Wien
Fakultät für Architektur und Raumplanung

von
Moritz Valeriano, BSc
0625256
Kleine Sperlgasse 7, 1020 Wien

Wien, am 31.05.2012

I would like to thank

Prof. Wolfgang Blaas

Elizabeth Enfield

My family

Abstract

Considering the significance of the housing sector for the economy, the society and politics, as well as the universal need for adequate and affordable housing, the present paper is an attempt to contribute to the understanding of processes and characteristics which are inherent to housing. To this aim it analyzes and compares the housing systems of Austria and the United Kingdom.

Against the background of a chronological analysis of the diverging economic developments of the housing markets, the paper is a study, first of all, of the relevance of macroeconomic fundamentals as well as of factors of supply and demand. Several conclusions on the development of the two housing systems can be drawn from the respective forms of these factors as well as from the various interdependencies between themselves and the housing markets.

Furthermore, the paper addresses the question to what extent differences in the housing systems may be explained by political factors and the structural organization of the housing markets. The explanations put forward in this regard largely concern the political framework and public intervention in the housing market, the view on how the living space should be distributed and what approach should be taken in this process, as well as the systems of housing finance.

Kurzzusammenfassung

In Anbetracht des Stellenwerts den der Wohnungsmarkt in der Wirtschaft, der Gesellschaft sowie der Politik einnimmt, und vor dem Hintergrund der Notwendigkeit eines ausreichenden und erschwinglichen Wohnraums, wird im Zuge der vorliegenden Arbeit versucht dem Verständnis der dem Wohnungsmarkt inhärenten Prozesse und Eigenschaften beizutragen. Zu diesem Zwecke werden die unterschiedlichen Wohnimmobiliensysteme Österreichs und des Vereinigten Königreichs analysiert und miteinander verglichen.

Von der historischen Betrachtung der voneinander abweichenden Entwicklungen der Wohnungsmärkte ausgehend, werden, einerseits, Einflüsse von makroökonomischen sowie angebots- und nachfrageorientierten Faktoren untersucht. Deren unterschiedliche Ausprägungen sowie auch die mannigfaltigen Zusammenhänge zwischen den einzelnen Faktoren und den Wohnimmobilienmärkten erlauben es, Rückschlüsse auf die Entwicklungen der beiden Wohnimmobiliensysteme zu ziehen.

Auf der anderen Seite wird der Frage nachgegangen, in welchem Ausmaß strukturelle und politische Faktoren und Rahmenbedingungen eventuelle Unterschiede zwischen den Wohnungsimmobiliensystemen bedingen und erklären. Die vorgebrachten Ausführungen fokussieren sich hierbei insbesondere auf den politischen Umgang mit dem Wohnungsmarkt und öffentliche Interventionen in denselben, auf die Funktion des Wohnungsmarktes im Hinblick auf die Art und Weise der Verteilung von Wohnraum und auf die Systeme der Wohnungsfinanzierung.

Contents

1 Introduction

1.1 Relevance of the Topic

Modern-day housing is a multidimensional sector; the interdependency of the housing sector with regard to the predominant economic, social and political structures, is the reason why it is so complex. In fact, in the context of capitalist systems, a dwelling holds much more value than can be deduced from its physical function. It is not a mere shelter from weather conditions or a place that provides privacy, but "an integral component in the nation's financial system, its social structure, and its political and policy-making apparatus."[1] This high degree of integration has developed, amongst other factors, because housing property in well-developed regions of the world is frequently perceived as a commodity because of its trading value and only secondarily as a habitat[2].

Especially the far-reaching and different kinds of interrelation between housing and the economy are based on the characteristics of capital formation and the possibility to profit by turning this into a financial asset. It closely links, for instance, macroeconomic aspects, such as house-price cycles and base rates, to housing finance and investment schemes and real estate development which, in turn, affects urban development and the physical environment of daily live. These economic aspects unfold within the frame that is set by either housing and property related policies or else policies from other (economic, social, environmental, etc.) sectors that affect housing, and are embedded in cultural and socio-economic characteristics of the respective societies which, in turn, derive from underlying ideological concepts. In other words, housing is, despite increasing globalization, deeply rooted in the current national settings.

For instance, whether to own or rent a home is not only an economic decision, it is also linked to social and cultural aspects. Apart from accumulating wealth and being a relatively stable investment, ownership can be a socially esteemed status symbol. In some societies and contexts it introduces a certain sense of social consolidation, especially compared with the circumstances of rental tenure that are associated with socio-economic insecurities, and is also seen as a way to become more involved with neighbours, to develop communities and to create positive environments for families and children, as pointed out by Retsinas et al.[3] with regard to the USA. However, the attempt to give less privileged income groups

[1] Vliet (1990). p. xxiii
[2] Marcuse (2012). In: Brenner et al. [ed.] (2012). p. 223
[3] Retsinas et al. (2002). p. IX

the opportunity to afford a privately-owned home by offering subprime mortgages went awry as soon as the expected house price appreciation declined.

The subsequent property crisis came about partially through the failure of the market system and the policy to provide adequate and affordable housing for middle to low-income households. However, expressed in more general terms, regardless of whether the housing system tends to be more strongly oriented towards the market or the State, the provision of adequate housing is a major challenge for every country. Indeed, the instruments and policies used to address these problems differ, as does the aspired sense of justice which becomes manifest in the distribution of housing.

Consequently, each country has its own specific housing system. The differing political interests and views of the decision-making authorities constitute the basis for policies and regulations which result in different concepts for development and structure of the housing sector. Conflicting views, such as a high degree of involvement of the private sector in the housing industry, and a market-oriented allocation of living space versus a developed welfare State that aims to distribute living space in a more socially acceptable way, may result in very different housing structures that could affect the way people live.

Furthermore, some governments link specific patterns of housing tenure to their political and economic ideologies. This was clearly the case, for instance, in the UK during the 1980s, when there was a strong policy towards home-ownership, or in the USA where government-sponsored enterprises, such as FannieMae, subsidized the purchase of private homes. Under these circumstances, the abovementioned commodification of housing becomes greater and consequently implies the development of a specific framework of institutions and regulations that make the value of a house more versatile and easier to trade. The closer integration of real estate and financial markets results in an internationalization of housing investment opportunities and, especially during economic booms, in a capital inflow which does not necessarily mirror the actual demand anymore[4]. For example, the securitisation of mortgages into mortgage-backed-securities transforms the value of an immovable property into a financial product that can be traded on a global level.

To reiterate, the horizontal as well as vertical extent of housing make it an immensely multidimensional and diversified sector. It is affected, on the one hand, by development carried out on different scales, from global to local, and on the other hand by a wide range of factors involving any spheres of life. Hence, a comprehensive international comparison of different housing systems has to include the various areas that are concerned in the analysis.

[4] Heeg (2009). p. 130

1.2 Definition of the Problem and Aim of the Study

Considering the importance of the housing sector to society and the State, as well as the universal need for adequate and affordable dwellings, it is imperative to look into this sector more closely in order to understand it. The present paper is an attempt to contribute to this understanding by analysing and comparing housing situations in different contexts.

More precisely, it focuses on the divergent housing systems of Austria and the United Kingdom. Not only do these countries differ in their structural characteristics, but also in their views on how the living space should be distributed and what approach should be taken in this process. Although both Austria and the United Kingdom are capitalist systems in a western European context and are representative democracies, they differ, amongst other things, with regard to their political orientation towards housing, government relations concerning housing related competencies between national and local authorities, institutions that address housing related issues, the policies and instruments they apply, housing finance as well as their views on subsidized housing.

The contrasting circumstances show up very clearly against the background of a chronological analysis of the economic developments of the housing markets. The different ways in which macroeconomic fundamentals have developed in addition to different supply and demand patterns, both contribute to and are the result of diverse, underlying housing structures. It is the fundamental aim of this study to elaborate on these cases of constant interdependence, to analyze the ways in which these countries differ and to compare them with each another in order to provide a clear insight into two different housing systems.

Thus, the research questions are:

- *How do the recent developments of the UK and Austrian housing markets compare with each other?*
- *What are the determinant structural factors that explain the differences?*

These two questions are closely linked to each other. The first addresses the actual housing situations in the countries in question, whereas the latter is aimed at finding answers concerning the fundamental organization of each of these housing systems, i.e. the economic, political and institutional structures that define the framework that prevails in these two countries.

Although this paper is intended to present a general view of the links between the various fields involved in housing, it cannot claim to cover this topic comprehensively. Cultural and demographic aspects, for instance, are only marginally dealt with although they could significantly affect the housing sector. The decision to focus on the above mentioned

structural factors and market developments result from the author's opinion that these aspects include the most important factors to describe and compare different housing systems, and that they are useful to gain an understanding of how the system is structured.

1.3 Methodology and Structure

The analyses in this paper are based on information obtained from literature and through statistical research, as well as calculations. The information and the data are presented to point out the similarities and differences of the two countries in question in an optimal way.

Generally, comparative analyses of and between nations include both advantages and disadvantages. To begin with "[t]hey force us to take account of cross-national differences, otherwise not uncovered."[5] Furthermore, they help to assess the importance of observations by putting them in relation to different contexts. Developing different perspectives on certain issues may lead to a reconsideration of the validity of previous conclusions, and thus lead to more consistent results. On the other hand, such comparative analyses often deal with different standards of collecting and processing information. In the present context this is the case, as especially the statistical data is, to some extent, compiled in a different way in each country which presents some difficulty to avoid incompatibility and to ensure comparability.

The relevant literature describes several approaches to comparative analyses of and between selected nations that aim to set certain parameters that can be specified in the forefront of the research. Every approach has certain advantages and limitations that have to be balanced to find the most suitable approach. Lynn[6], for instance, points out five possible approaches, of which two are relevant to this paper: The *consistent quality approach* is applied to the statistical comparisons between Austria and the United Kingdom. It "aims to eradicate as many as possible of the between-country inconsistencies"[7], and thereby guarantees a high degree of comparability. However, in doing so, there is the risk that the quality in some parts of the research is reduced because the data, in effect, represents a least common denominator. The other relevant approach is the *maximum quality approach* that, in contrast to the consistent quality approach, gives quality prominence at the expense of comparability and consistency. This approach is used in other parts of this research where a thorough analysis is more important than a direct comparison.

Comparative research on and between nations does indeed raise the question whether nations are the right scale to focus on in the first place. In the housing context the national

[5] Vliet (1990). p. 7
[6] Cp. Lynn (2003). p. 328 f.
[7] Lynn (2003). p. 328

framework is clearly important. National borders define the sphere of influence of specific social, economic, political and cultural aspects which, in specific compositions and combined with the historical national development, melt into a distinct society. And, as previously mentioned, housing is deeply rooted in the national context and intrinsically linked to national characteristics. Therefore nations are a very adequate scale to carry out research on housing systems, albeit not the only one. In fact, to explain statistical comparisons it is necessary to shift the view's focus onto other scales, such as regions or cities. The significance of these different levels often depends on the amount of data available, and thus, essentially restricts the possibilities on administrative or statistical entities. In Austria and the United Kingdom, for example, some aspects of the capital cities, such as house price developments or the facilitation of subsidised housing (especially in Vienna), stand out from the rest of the respective countries. Consequently, if it improves the understanding of the content, some specific aspects in this paper are examined in greater detail on another scale than that on the national level.

This paper is subdivided into two main sections. The first is Chapter 2, in which the housing development in Austria and the United Kingdom is described with the help of the relevant economic factors, i.e. it presents the actual housing context from an economic perspective. To begin with, the chapter presents a general view of the interdependency between the macroeconomic situation and the housing sector (Chapter 2.1) followed by a closer examination of both housing demand, focusing on household related data, such as consumption and debt (2.2), as well as housing supply (2.3). This section is concerned with the first of the above mentioned research questions whereas Chapter 3 addresses the second one. It seeks to analyse the underlying structural differences between Austria and the UK, first of all emphasising the political orientation towards housing and the instruments and policies applied (Chapter 3.1), then shifting the focus onto subsidised housing and its implementation in and effects on the housing market (3.2) and finally addressing housing finance in its different forms with respect to the arrangements of housing tenure as well as its integration into the financial market (3.3). Finally, the paper concludes with a summary and the presentation of its key findings in Chapter 4.

2 Housing and the Economy

Housing is deeply interlinked with the economy. In order to gain an understanding of the national housing structures it is therefore indispensable to take a critical look from the economic perspective on housing. However, looking at it separately should not suggest that this view can be isolated from the political and institutional setup. On the contrary, the reason for addressing it at this point, is that housing market developments are, to some extent, the outcome of the institutional frameworks related to the housing of a country, its policies and regulations. On the basis of a thorough understanding of the Austrian and UK housing market developments, the other relevant aspects of the housing systems can then be analysed within a wider context.

However, developments in the housing market are influenced by external, i.e. international, global circumstances and events that cannot, or only to a small degree, be attributed to local or national structures. During the latest housing boom, for example, large capital inflows from abroad fuelled house-price increases in several countries by keeping interest rates low (even after restrictive policy changes made by the central banks), lowering the awareness of risk and making it easier to raise a mortgage. This led to a boost in housing construction and to a rise in household wealth which, consequently, increased consumption and, in turn, the trade deficit and capital inflows.[8] This self-reinforcing process should have been interrupted by macroeconomic mechanisms, such as inflation, resulting from high demand, or floating currencies, to counter current account imbalances, but "[g]lobalisation has weakened or hindered a number of mechanisms, which could have […] limited unsustainable developments in housing markets."[9]

This example clearly illustrates that there are limits to the extent that States can influence their housing markets. However, these global aspects are largely neglected in the present paper in favour of more detailed analyses of national housing market characteristics.

Interpreting the developments of housing markets and, in particular, evaluating current developments with regard to their divergence from sustainable trends with an adequate extent of certainty, in real time, is difficult. For instance, not every increase in the prices of the houses is followed by a slump. As empirical data shows, one third of the most extensive expansions since 1970 in the housing markets of OECD countries have eluded sharp declines.[10] The difficulty to interpret the developments derives from the complexity of the subject, i.e. the fact that prices are influenced by various parameters and that a significant

[8] Cp. André (2010). pp. 39-44
[9] André (2010). p. 42
[10] André (2010). p. 34

analysis of the development of prices has to be put into a wider economic context. Therefore, it is necessary to look into several macroeconomic fundamentals and indicators of supply and demand which describe the mechanisms of the developments in the housing market.

A relevant factor driving demand for housing is the disposable income of households which is often directly compared to prices in the price-to-income ratio that indicates the costs for households to purchase a home. A rising price-to-income ratio means that it is increasingly difficult to afford a house (assuming that the price is the denominator), which consequently leads to less demand and to a downwards pressure on the prices of houses. Thus, this ratio measures the affordability of housing, and it is also referred to as the affordability ratio. By comparing the current ratio to its past development, conclusions can be drawn on over- as well as under-valuations of the prices of houses.

However, since purchasing a house constitutes a huge investment for most households, additional relevant factors that drive demand are the structure of the housing finance market, and its innovative potential as well as interest rates. The access to financial services that facilitate the acquisition of dwellings may depend on the range and availability of products (e.g. mortgages), on the necessary fees and the amount of collaterals, and on regulations such as loan-to-value (LTV) ratios which describe the amount of a loan compared to the value of a house. High LTVs are commonly a sign for favourable market conditions and they are typically reduced when markets become less liquid, and the likeliness of the default of borrowers rises. Loans of lower amounts of money require that a higher amount of personally owned equity capital has to be invested, which restricts the access to mortgages and consequently lowers the demand for housing. The structure and condition of the housing finance market is typically referred to as the "completeness" of the market in relevant literature.[11] In the past, innovative financial products and lax risk regulations contributed significantly to the level of debt of households and to the number of households with debts. However, higher debt levels make households more vulnerable to income shocks, unemployment, the prices of the houses and interest rates. Interest rates are significant in at least two ways. On the one hand, they determine the financing costs and, on the other hand, they indicate the opportunity costs of acquiring a house, which is relevant if the house serves as an investment vehicle rather than a shelter to live in. In a similar way, the performance and prices of equity, for instance, indicate the yield on alternative investments and may influence the demand of investors for housing. Especially since house price cycles characteristically lag behind business cycles, an economic slump and decreasing

[11] Cp. for instance Catte et al. (2004b). p. 140

returns on equity might increase the upwards pressure on house prices.[12] The financing costs, i.e. the costs that accrue to finance the debt, affect the disposable income of households and, thus, the demand.

Rents serve as a further indicator of the demand for housing because of the role of tenancy as an alternative to home-ownership. The correlation between prices and rents is largely expressed by the price-to-rent ratio. Expensive housing and, at the same time, low rents, i.e. a high price-to-rent ratio, increase the attractiveness of tenancy, which might transfer, to some extent, the demand for housing to the rental sector. For obvious reasons, this mechanism is more noticeable in housing markets, where the two kinds of tenure are more alike in terms of quality, location, public perception, etc. In the same way as the price-to-income ratio, the price-to-rent ratio is used to evaluate the development of house prices in comparison to their long-term trends and contributes to the detection of over- and under-valuations of prices.

Other factors that might influence the demand for housing, but which are not elaborated in greater detail within the scope of the present paper, include, for instance, demographic developments or changes in the size of households.

It comes as no surprise that house prices are indeed also affected by the supply of housing. In particular the flexibility of the housing sector to react to abrupt changes in demand, e.g. owing to changing interest rates, has a determining effect on prices. "If supply is perfectly elastic, house prices will not durably deviate from marginal production costs, which include construction costs, land costs and a normal profit margin of the homebuilder."[13] Conversely, a growing demand in a market with supply constraints may lead to a rise in prices because of an increasing scarcity. In this case, since the change in housing value is not primarily induced by improvements in the quality of housing or an increase in the stock, the house price growth relatively benefits current owner-occupiers at the expense of people who do not own a house, and it may therefore be considered as a transfer of wealth between different groups of the population. As a result of mechanisms which translate these changes in wealth, to a certain degree, into private consumption, macroeconomic effects may arise if the propensity to consume of these groups differs. Two of these mechanisms, which are analyzed in greater detail in Chapter 2.2.1, are the wealth and the liquidity effect. In principle, they describe the tendency of households to consume more if their housing wealth increases by seemingly saving less or borrowing more. Naturally, the extent to which these effects influence private consumption depends on structural characteristics of the housing sector, such as the rate of home-ownership, and the state of development of the mortgage

[12] Hilbers et al. (2008). pp. 7, 10
[13] André (2010). p. 25

market, in particular, the faculty to extract liquidity from the housing market (housing equity withdrawal, HEW).[14]

Supply rigidities in the housing sector may, for example, result from insufficiently available land, planning and zoning regulations, building permits, the costs of land and construction, or from severe competition in the building sector. Another factor that influences the future supply is the investment in housing. An increasing amount of investments satiates a higher demand for housing and, thus, reduces the upwards pressure on the prices. Since housing construction is relatively labour-intensive, it contributes considerably to the level of employment, which is one reason why public investments in the housing sector are frequently applied counter-cyclical to cushion economic downturns. Moreover, it is interesting to note that the amount of residential investment correlates directly proportional to house prices (R^2=0.75) in a sample of 18 OECD-countries.[15] In other words, high and rising prices of the houses seem to contribute to investments in the housing sector which, in turn, affect the building sector, employment and demand for housing. From this it can be inferred that the expectations of future gains from increasing housing values are a relevant criteria for the decision to invest which, however, bears the threat of a cyclical self-enhancing process towards constantly rising house prices, particularly in periods with low interest rates. While the typical long-term average of residential investment throughout OECD-countries amounts to 4 % to 6 % of the nominal GDP, the majority of these countries exceeded this percentage in 2006, in particular, Spain and Ireland reached values as high as 9 % and 14 %, respectively.[16] Two exceptions to the correlation between residential investment and the development of the prices of the houses are the Netherlands and the United Kingdom, where rising prices were not accompanied by higher investments owing, to some extent, to supply rigidities.

Furthermore, the developments of the economic performance and house prices are closely connected, primarily via the channels of "wealth effects, residential construction and the financial sector."[17] The financial sector, i.e. chiefly the mortgage market, plays a relevant role because, depending on its development and degree of completeness, it determines the extent to which households have access to additional liquidity. An easy access to credit spurs private consumption at the expense of higher debt levels, even if incomes stagnate. Moreover, investments in the housing sector are an integral element of domestic demand. Both factors, investments and private consumption, influence the development of the GDP, in fact, empirical research for the period from 1995 to 2003 showed that for twelve

[14] See for example Catte et al. (2004a). p. 16 for an estimation of the effects of housing wealth on consumption.
[15] André (2010). p. 26
[16] André et al. (2008). p. 4
[17] Girouard et al. (2006). p. 29

European countries, as well as Japan and the USA, an increase in the real prices of the houses of 1 % above the average price level of the sample, is accompanied by an increase in economic performance amounting to 0.15 percentage points above average.[18]

Finally, inflation is often listed, in the relevant literature, among the more significant factors with regard to the influence of house prices, even in real terms. First of all, actual inflation, as well as expected inflation, drives households to invest in residential real estate as a hedge "against the risk that inflation might erode their wealth"[19] and because of uncertainties concerning the yields of alternative investments, such as bonds or equities, which, consequently, spurs on the demand for housing. Secondly, and in contrast to the first aspect, the effects of inflation on interest rates imply that increasing inflation leads to less demand for housing. Whereas an inflationary environment, which entails higher interest rates, causes the initial payments on the mortgage to be higher in relation to income and the subsequent payments to decline rapidly, lower inflation decreases the amount of upfront payments but extends the duration of the mortgage. Indeed, the high initial payments in inflationary settings reduce the demand for housing.[20] Moreover, certain levels of inflation may cause responses in monetary policies, which then influence interest rates and the financing costs of housing.

In the ongoing debate in the relevant literature on the role of monetary policy, it is disputed whether it should be applied to counter house price inflation during a house-price boom or rather to "clean up the mess"[21] after the peak with expansionary measures. It is clear that in order to moderate the recent over-valuation of the prices of the houses, which increased significantly in several countries from 1996 to 2007, drastic policy measures would have been needed indeed. However, since housing markets are heterogeneous, monetary policy measures might be too inaccurate to be effective.[22]

The evaluation of developments in the housing markets cannot be based upon *the one* indicator that significantly explains the developments. Instead, it is necessary to draw upon a wide range of interlinked parameters to describe specific processes. However, the difficulty remains to identify the relevance and the causality of individual factors.

[18] Marterbauer et al. (2005). p. 761
[19] Tsatsaronis et al. (2004). p. 72
[20] See Debelle (2004b). p. 55 for an explanation in greater detail.
[21] André (2010). p. 34
[22] André (2010). p. 35

2.1 House Price Developments and Macroeconomic Fundamentals

The economies of countries within the EU are highly integrated and their business cycles synchronised on a high level. "The dispersion of output gaps across Member States has reached historically low levels since around 2002"[23]. This would suggest the house price cycles to be rather similar as well since they tend to follow business cycles, albeit with a certain lag and not without exceptions. One of these exceptions occurred, for instance, in the first few years of this century when the annual change in UK house prices sharply increased, while the economic performance developed rather clumsily (see Figure 1 and Figure 2).

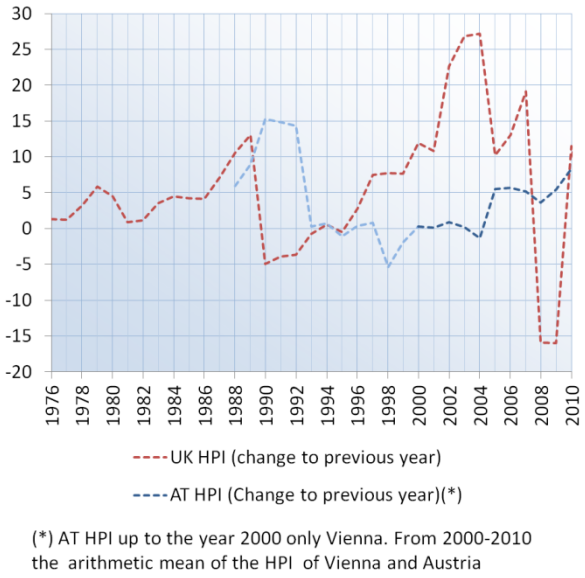
However, trends in the prices of houses in EU countries have differed significantly. This is in contrast to the increasing European integration as well as the international tendency of real house prices to move together across OECD countries[24] and "cannot simply be explained by economic catch-up, since some of the highest rates of increase of house prices have manifested themselves in highly developed countries"[25]. Whereas Spain, Ireland and the UK, for example, have experienced a sharp increase in the prices of houses, countries, such as Austria, Germany and Switzerland, have not experienced this development.

When comparing the housing values of Austria and the UK it appears that from the mid-1990s onwards, they developed in opposing ways. Whereas in Austria prices mostly stagnated or depreciated from 1993 until 2004 and only then began to rise, they appreciated in the UK from 1996 onwards until 2004 when the trend lost momentum and turned negative in the fourth quarter of 2007 (see Figure 1).

In contrast, these different tendencies do not apply to the year-to-year development of the countries' economic performance. The changes in their respective GDPs (Gross Domestic Product) tend to be in line with each other, even from the mid-1990s onwards when their house-prices were not (see Figure 2). Under closer examination, this leads to several conclusions which are presented separately in the following chapters on Austria and the UK.

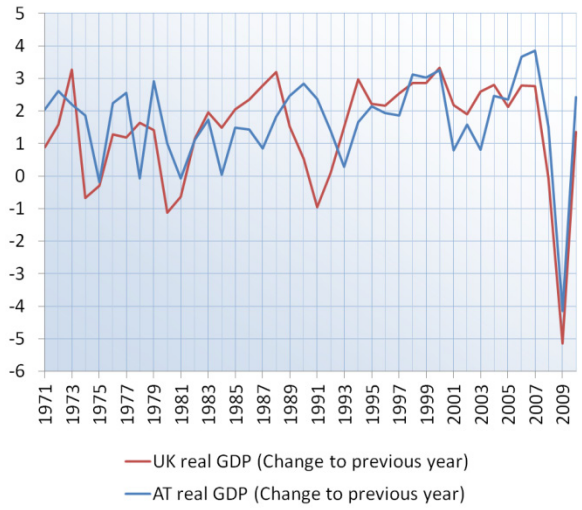
[23] European Commission (2008). p. 51
[24] Cp. Girouard et al. (2006). p. 4
[25] Hilbers et al. (2008). p. 4

Figure 1: House Price Index (HPI) in Austria (AT) and the UK. Annual change registered in the period from 1976-2010[26]



Sources: Nationwide (2011), ÖNB (2011d), author's compilation

Figure 2: Real gross domestic product (expenditure approach) (GDP) in Austria and the UK. Annual change registered in the period from 1971-2010



Sources: OECD (2011c), author's compilation

2.1.1 Macroeconomic Aspects of Housing in the United Kingdom

Since the 1970s there have been several ups and downs with regard to house prices in the United Kingdom. However, two upturns were especially striking because of their intensity, their detachment of the GDP and their deep plunge after the peak.

The first took place in the second half of the 1980s and peaked in 1989 with a year-to-year increase in house prices of 6.43 %[27]. This upswing in the prices of houses was accompanied by an economic boom following a recession extending from the late 1970s to the early 1980s which also entailed a shift in politics and national economics. The Labour Government was replaced by a Conservative Government led by Margaret Thatcher, who brought about a paradigm change away from the welfare state. This new way of governance also led to new forms of housing management. Several legal enactments influenced the housing policy; two of which were the right of tenants in council houses to buy their homes at reduced prices and the possibility for the Central Government to cut council housing

[26] Owing to the lack of publicly accessible house price data, the Austrian HPI is a composition of two different datasets: Up to the year 2000 it is the HPI of Vienna only. From then on it is the average (arithmetic mean) of the HPI of Vienna and of Austria excluding Vienna. In the chart this is marked by the use of a slightly darker blue from 2000 onwards. This circumstance means that up to the year 2000 it can be assumed that the amplitude of the fluctuation would be less, if prices for whole of Austria were included.

[27] Nationwide (2011).

subsidies, which led to a rise in rents[28]. These measures were in line with the general governmental commitment to boost housing ownership at the expense of rental tenure, which increased from a 58 % ownership rate in 1980 to 65 % in 1990[29]. This contributed most likely to the continued rise in house prices even after the economic performance weakened in 1988.

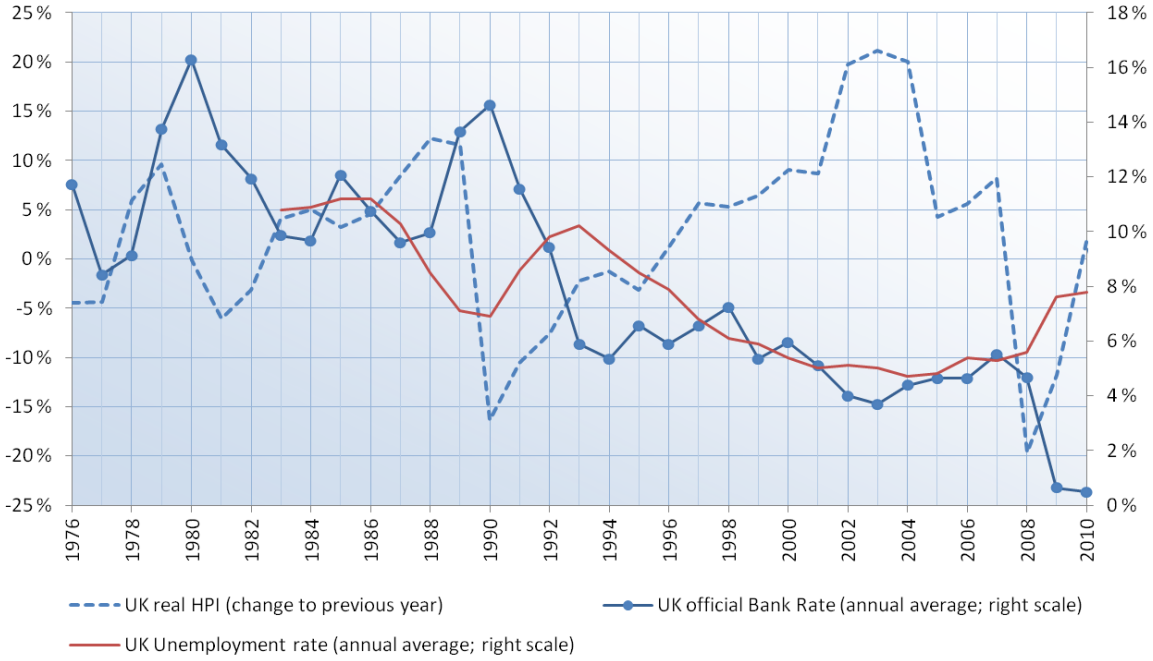
At the same time, from the second half of 1988 onwards, the official Bank Rate of the United Kingdom surged from 7.63 % in May to 12.88 % in December of the same year and continued to climb until November 1989 when it reached its nine-year high at 14.88 % (see Figure 3). The Bank of England, which sets this key rate to which commercial banks can borrow its money, most likely had the aim to restrict the amount of money in circulation to obviate inflationary trends and the threat of an overheated economy, which was its first strategic priority[30]. In doing so, the refinance costs for banks rose, which were then, to a certain extent, passed on to the customers resulting in more expensive financing costs for properties – on the demand as well as on the supply side. The downturn of prices of houses as a consequence tends to be "smaller when interest rates rise less than usual"[31]. In the case of the UK, the slump in the prices of houses was drastic indeed; the 6.43 % rise from 1988 to 1989 turned into a decline of -2.44 % in 1990, the year when the Bank Rate peaked.

Together with other contributing factors, such as a high level of household indebtedness, a rise in the real costs of borrowing (which are addressed in Chapter 2.2.1) and the negative international economic development at that time, the downturn led to unemployment which surged from 6.8 % in November 1989 to 10.4 % in January 1993 (see Figure 3). This is relevant to housing, in particular for systems with a high share of ownership, since housing takes up a substantial share of the household income. Thus, unemployment as well as "[l]abour market conditions, especially levels of remuneration and security of employment, have profound implications for the demand for, and sustainability of, owner occupied housing"[32]. Several factors contributed to the rise in unemployment during the first half of the 1990s, even though their weight is not undisputed in the relevant literature. Malpass[33], for instance, argues that a higher degree of flexibility and insecurity, part-time employment and temporary work, as well as a structural shift away from manufacturing industries in the course of an increasing trend towards globalization led to an increase in unemployment.

[28] Cp. Malpass (2005). p. 102 ff.
[29] Hilbers (2008). p. 20
[30] Bank of England (2011a). p 25
[31] Catte et al. (2004a). p. 10
[32] Malpass (2005). p. 154
[33] Malpass (2005). p. 154 ff.

In a contractionary economic environment, as was the case in the late 1980s and early 1990s in the UK, home ownership may change from a stable investment and a financial security to become a burden for the individual. Flexibility on the labour market often depends on the possibility of mobility. However, selling at an acceptable price and finding an affordable new home may turn out to be difficult, and wealth in the form of real estate can quickly dissolve in a tumbling market. Moreover, declining inflation adds to the pressure on home owners already burdened with a mortgage because it extends its term, or in other words the payments decline less rapidly.[34]

Figure 3: UK house price index, official Bank Rate (1976-2010) and unemployment rate (1983-2010)

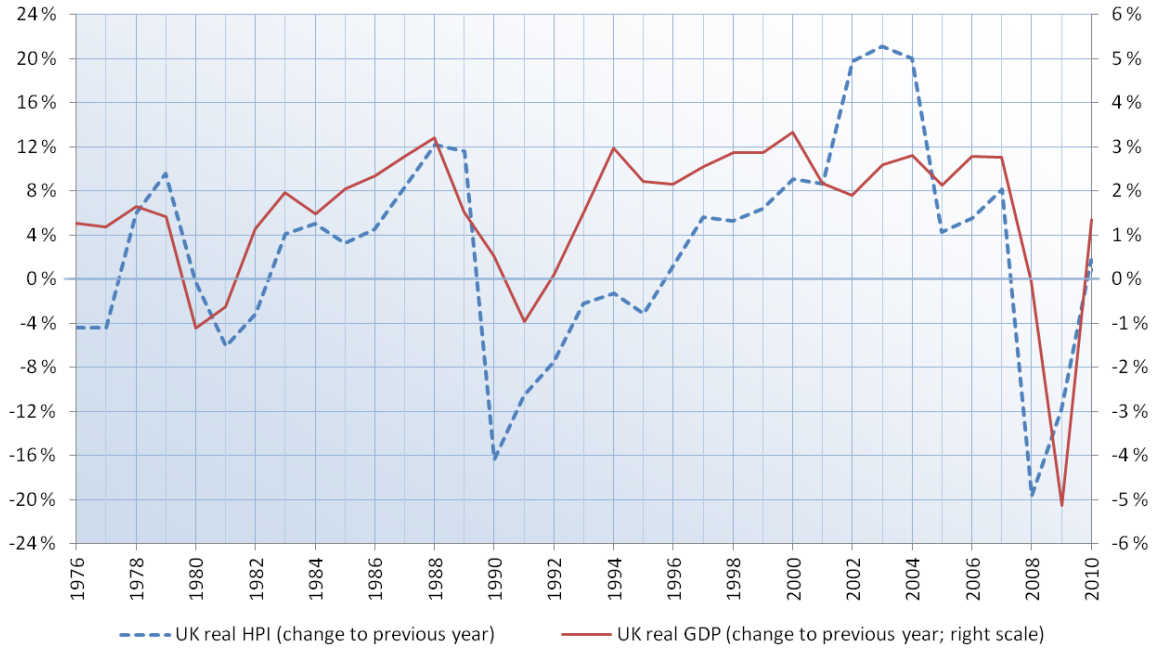


Sources: Nationwide (2011), Bank of England (2011b), Eurostat (2012), author's compilation

The second upsurge in house prices in the UK began in the late 1990s and continued into this century. To be precise, it extended over a relatively long period of over eleven years, from 1996 to 2007 with its cyclical peak in the third quarter of 2007 (Figure 3; intersection of the HPI and the zero line). On average, in OECD countries, a house price cycle lasts traditionally ten years, which is about the same as a business cycle.[35] In contrast, the 47 quarters of this expansion are roughly twice as much as the average 24 quarters upswing throughout the OECD countries. From this particularly long duration it can be deduced that these two cycles have become disconnected from each other. This was especially the case in the beginning of the current millennium when the weakening growth of the output development was accompanied by strong increases in house prices (see Figure 4).

[34] Debelle (2004b). p. 55 f.
[35] André (2010). p. 6

Figure 4: UK real gross domestic product (expenditure approach) and real house price index (1976-2010)



Sources: OECD (2011c), Nationwide (2011), author's compilation

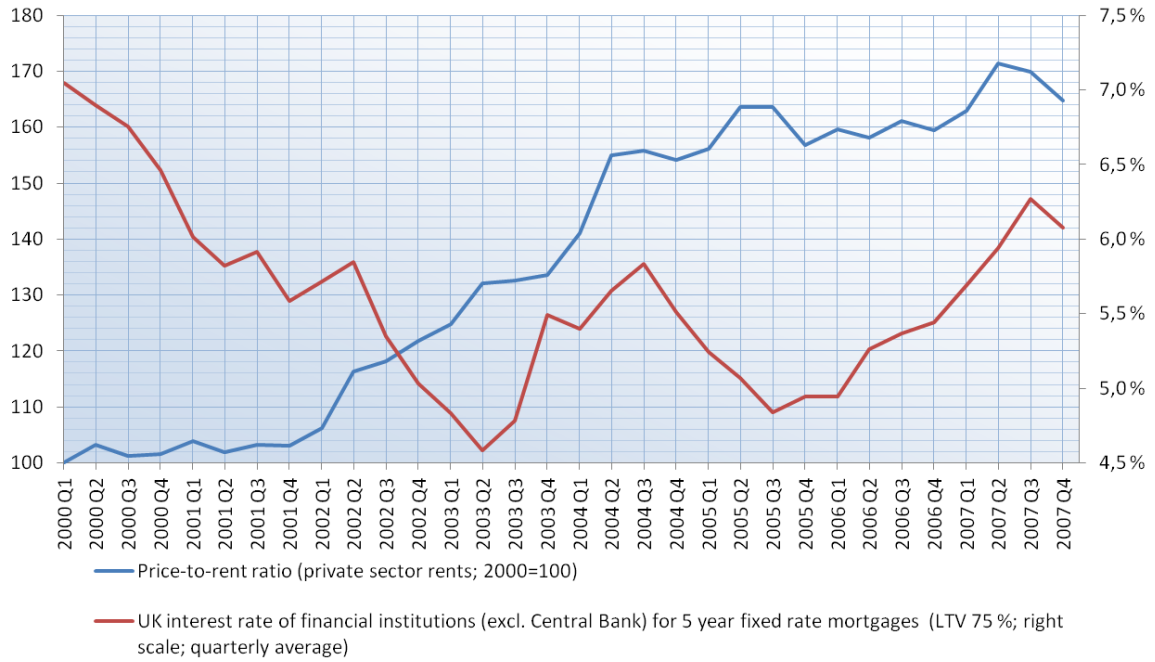
In the course of the property boom, the house prices increased remarkably by more than 250 % from 1996 to 2007, leaving rents far behind. The comparison of house prices with rents describes the costs of home ownership in relation to those of renting. According to OECD calculations, the price-to-rent ratio in the UK during the above mentioned period jumped to over 170 points marking a historic peak[36] (Figure 5). This strong upwards deviation of the price-to-rent ratio suggests an overvaluation of the prices for houses which, consequently, makes renting economically more attractive to households. In theory this increases the downward pressure on house prices, and rents go up. In practice, however, households are reluctant to change from owning to renting a home, and vice versa, for a number of reasons including their personal preferences and the transaction costs that incur.

Although the price-to-rent ratio is a useful tool to analyse housing markets, it should be noted that its development might also be influenced by real estate financing conditions or the regulation of rents and/or prices. In fact, André states, with regard to a selection of several OECD countries including the United Kingdom, that "increases in house prices can be fairly well explained by favourable financing conditions in the early stages of the latest expansion. However, the continuation of the boom after 2004 seems to have brought prices out of line with fundamentals"[37]. The contrasting developments of the price-to-rent ratio and the mortgage interest rates for five years fixed rate mortgages issued by financial

[36] André (2010). p. 12
[37] André (2010). p. 18

institutions in the UK, as presented in Figure 5, underpin this reasoning. From the end of 2003 onwards advantageous real estate finance cannot explain the current high demand in the housing sector.

Figure 5: UK price-to-rent ratio and mortgage interest rate (2000Q1-2007Q4)



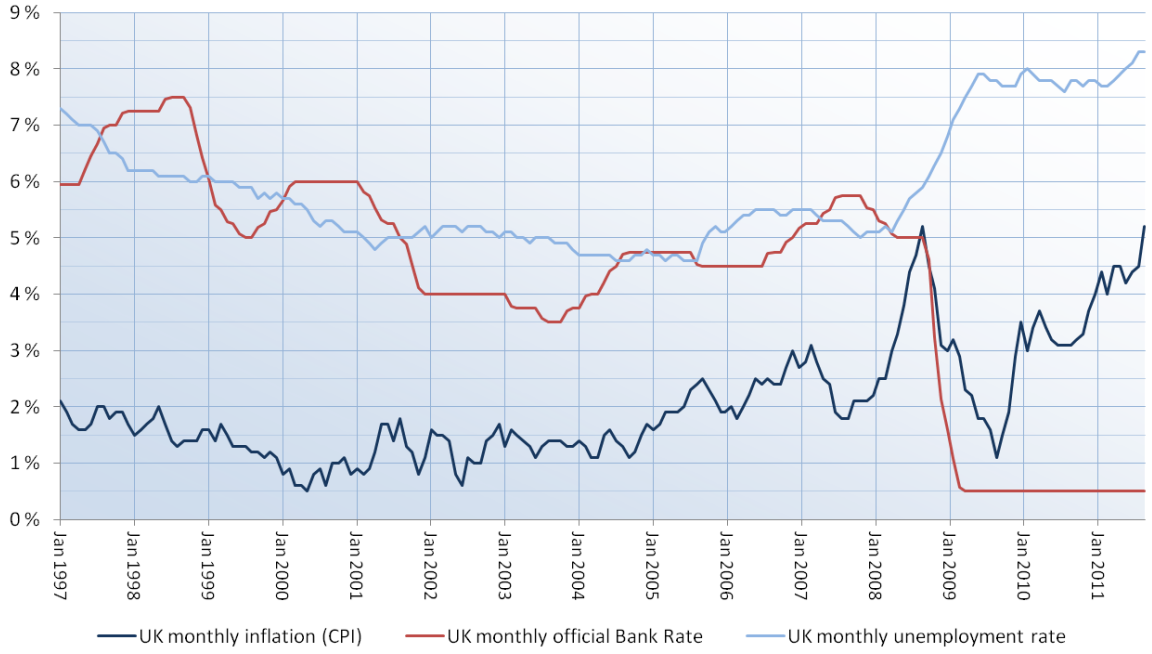
Sources: Department for Communities and Local Government (2008), Bank of England (2011c), Nationwide (2011), author's compilation

Another factor that contributed to the high housing demand, as mentioned above, was the relatively low base rate. For most of 2003 it was set below 4 % (see Figure 6), a historic low at that time, reducing the residential (re-)financing costs, boosting construction and making private consumption appear comparatively cheap. This has also smoothed the output decline at the beginning of this century, and at the same time kept the unemployment rate at very low levels for UK standards[38]. Remarkably, inflation stayed below 2 % throughout the period from the late 1990s up to 2005, despite the low key interest rates and even after the economic performance picked up in 2003. The situation started to change dramatically in 2007 and 2008. Along with a contraction in GDP of -5 % from 2008 to 2009 (Figure 4), inflation rose to above 5 % and the unemployment rate surged to around 8 % in 2009, a thirteen-year high (Figure 6). To emphasize the unusual coincidence of these factors the Bank of England referred to the economic situation at that time in a speech as one of the most turbulent market environments "against which we have had to operate monetary

[38] Cp. André (2010). p. 34

policy."[39] Fiscal and monetary measures were announced to stimulate demand, including a reduction of the official Bank Rate to the lowest value since 1951, 0.5 % (see Figure 6).

Figure 6: UK inflation, official Bank Rate and unemployment rate (January 1997-September 2011)



Sources: Bank of England (2011b), Bank of England (2011d), Eurostat (2012), author's compilation

After peaking with a year-to-year change of 21.13 % in 2003, the upwards trend of real house prices slowed down and turned in late 2007 and deteriorated by just under -20 % from 2008 to 2009. The downwards pressure has still not died down; real house price values in 2011 decreased on average, albeit on a lower level of about 8 % to the previous year. During the upcoming years "[t]he UK housing market is expected to be broadly flat in nominal terms […] while house prices will be gradually eroded by inflation."[40] Especially since the Bank of England recently (March 2012) decided to maintain the Official Bank Rate at 0.5 % and to continue with its private sector asset purchases, which were initiated in March 2009, even though inflation is considerably above the 2 % target set by the Bank of England.[41]

2.1.2 Macroeconomic Aspects of Housing in Austria

The circumstances in Austria have been different in several respects. While the development of the GDP, for instance, was to some extent similar to that of the UK, the house prices developed diametrically. Whereas they appreciated in the UK from 1996 to

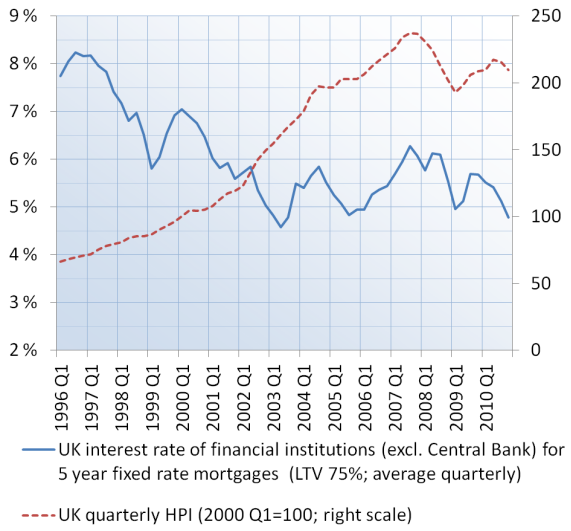
[39] Sentence (2008). p. 2
[40] Global Property Guide (19.3.2012)
[41] Bank of England (8.3.2012)

2007 (see above), house prices in Austria stagnated from 1994 onwards or depreciated, as in 2004, by around -1.3 %. Only then did they gather momentum and rose annually by 5 % on average until 2009, and by over 8 % in 2010, when the housing boom in the UK was already cooling off again. Austria and three other countries, namely Germany, Portugal and Switzerland, were the only ones in Europe where real property prices did not deviate from their historical averages but were instead "hovering around their long-term average levels."[42]

Thus, it seems as if Austria was quite unaffected by the house prise cycle in question, ignoring the boom as well as the bust. One contributing factor to this may be the weak yearly GDP growth around 1 %[43] throughout the first few years of this century which dampened the rise in house prices. The economic performance did indeed weaken also in the UK during the same period, but to a much lesser extent, as mentioned earlier. In this case, private consumption might have played an important role in connection with rising house prices. Households may decide to withdraw equity from the value of their houses or to remortgage[44], which both lead to more financial liquidity for consumption or investments. The motivation to do so is higher in times when house prices appreciate and interest rates decrease, thus both increasing the amount that can be borrowed as well as improving the mortgage terms[45]. Both trends were prevailing in the UK in the period from 1996 to 2006. The mortgage interest rate fluctuated roughly by 3.4 % and house prices increased by 150 % (Figure 7), in contrast to Austria where house prices stagnated and mortgage interest rates fluctuated by about 2.9 % (Figure 8). This means that even though the declining trend in mortgage interest rates was similar, the boost in house prices occurred only in the UK.

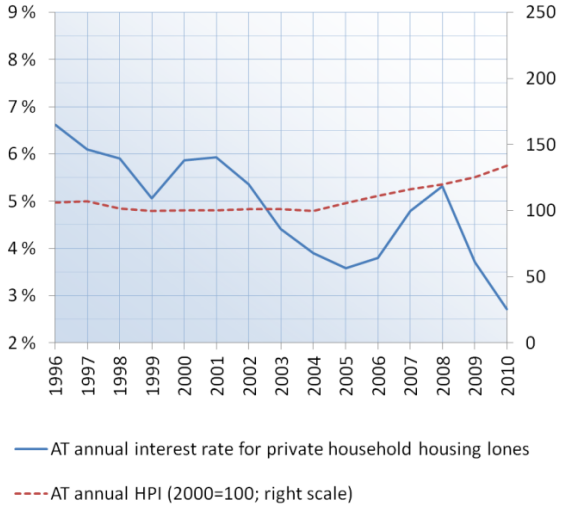
[42] Hilbers (2008). p. 12
[43] OECD (2011c)
[44] "Remortgaging" describes changing the current mortgage conditions without altering the contributions still due, in contrast to "withdraw home equity" which implies exactly this.
[45] Benito (2007). p. 10

Figure 7: Quarterly house price index and mortgage interest rate in the UK (1996 Q1-2010 Q4)



Sources: Bank of England (2011c), Nationwide (2011), author's compilation

Figure 8: Annual house price index and mortgage interest rate in Austria (1996-2010)



Sources: ÖNB (2011d) and (2011e), author's compilation

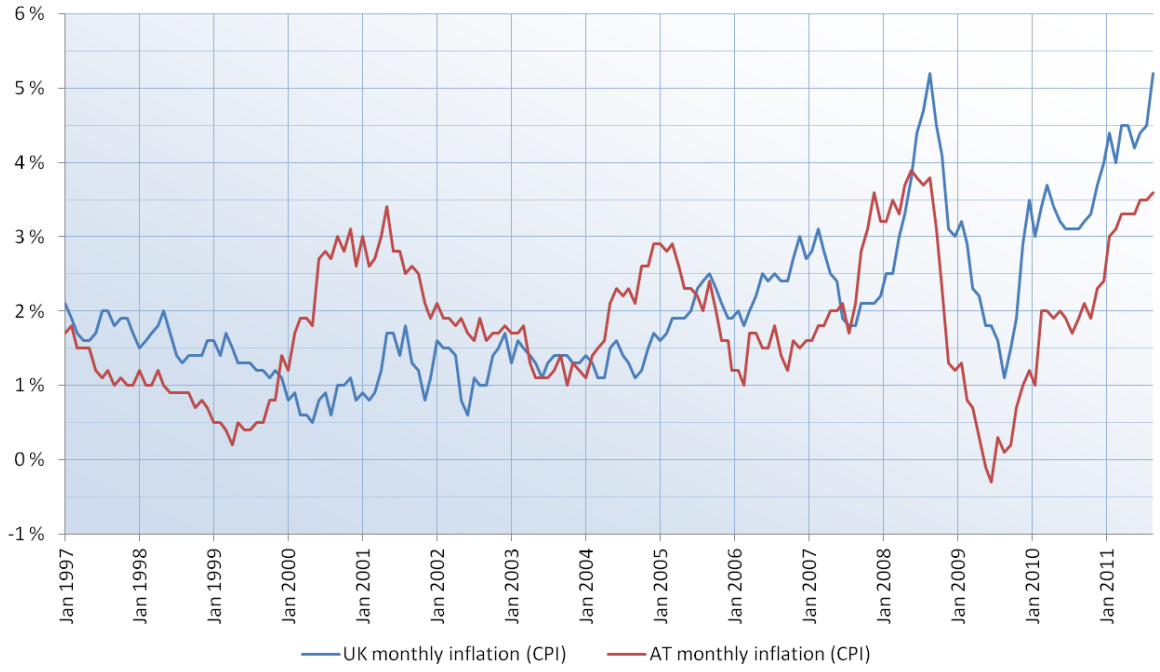
Therefore favourable property financing conditions in Austria did not have the same impact on house prices as in the United Kingdom, even though the benefits of remortgaging for home owners would be more favourable in Austria. Owing to predominantly fixed mortgage rates[46], declining interest rates reduce the servicing costs and, as a result, present a greater incentive to refinance; especially in comparison with the UK where "rates can only be fixed over short periods of time and a large proportion of mortgages are on variable rates."[47] The European Central Bank's (ECB) key interest rate was actually lower than the Bank of England's (BoE) official Bank Rate throughout the whole period from 1998 to the end of 2008, when the UK's Bank Rate dropped drastically by 4.5 percentage points within 6 months to 0.5 % in an attempt to counteract the economic slump. Similarly, the ECB lowered its key interest rate to 1 % in mid-2009 where it stayed until the end of 2011 with an eight-month exception in mid-2011 when it rose by 0.5 percentage points.[48]

Although there was no property boom in Austria from 1996 to 2006 which could have cushioned the weak economy in the first place, it is worthwhile to note that, since housing equity withdrawal is not as widespread in Austria as it is in the UK[49], an increase in housing value does not translate to the same extent into higher private consumption as in the UK.

[46] Scanlon et al. (2004b). p. 44
[47] Benito (2007). p. 10
[48] Bank of England (2011b) and ECB (2011)
[49] André (2010). p. 29

It is interesting to note that inflation, or the threat of expected inflation, cannot be seen as a contributing factor to the differences in the development of house prices. In Austria it was actually higher than in the UK throughout the first five years of this century, or almost equal. Only in 2006 did the Austrian Inflation drop below that of the UK, and has been lower for most of the time since, with an exception in 2007 and early 2008 (Figure 9). When the CPI in Austria went up in 2011 it was, nonetheless, one of the highest recorded in the last two decades. The annual inflation of 3.3 % exceeded the highest value in the current millennium so far (2008: 3.2 %) and was outstripped only in 1993 (3.6 %)[50].

Figure 9: Change of inflation to the previous year in Austria and the UK (January 1997 – September 2011)



Sources: Bank of England (2011d), ÖNB (2011a), author's compilation

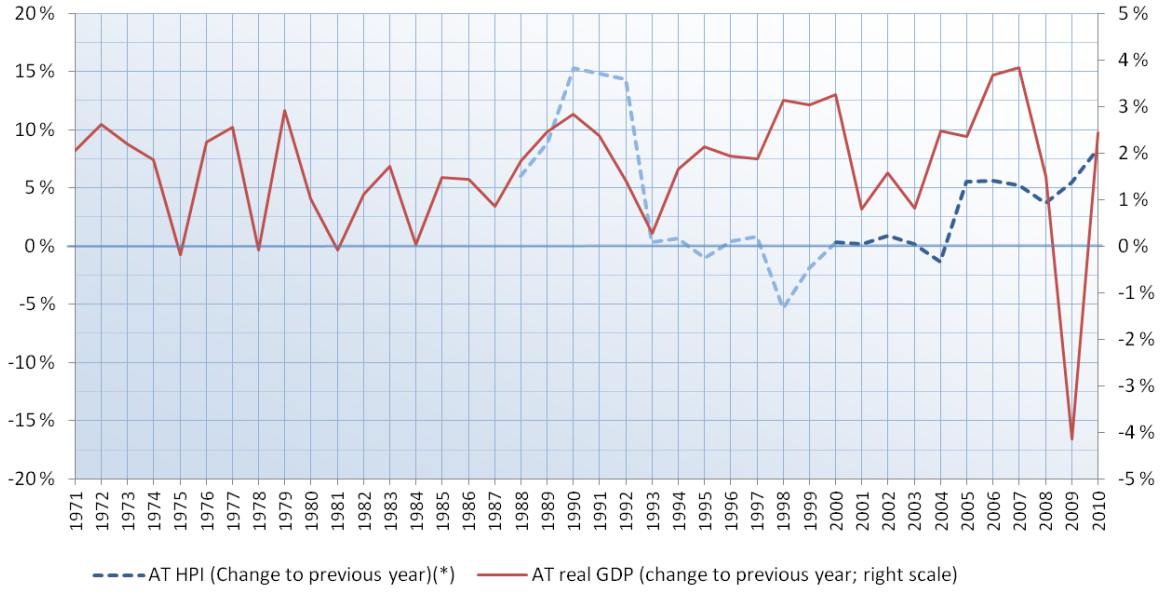
One of the three main inflators is the group "housing, water and energy" (besides "traffic" and "food and non-alcoholic beverages"). However, within this group of expenditures domestic energy, fuel oil and gas in particular, have risen the most, thus, increasing the average share of housing costs of the total household income to 22.4 % in 2010 (2005=21 %)[51]. Rents went up as well (+3.3 %) but contribute less to inflation than the aforementioned factors[52].

A comparison between the Austrian GDP and the house price cycles suggests that both developments are rather in line with each other except for two periods with contradictory trends. While the economic performance increased by more than 3 % in 2000, house prices

[50] ÖNB (2011a)
[51] Amann et al. (2010). p. 43
[52] Statistik Austria (2012a). p. 1

stagnated, in contrast to the development in the UK. Furthermore, when the economy was in a slump in 2009, partially as a result of the international financial crisis, the prices of houses started to pick-up by more than 5 % in 2009 (Figure 10), again in contrast to the UK. The prices of houses in Austria continued to increase in 2010 by approximately 8 %, which raises the question whether there will be once again a detachment of the two cycles or a lagged downturn in house-prices and residential investment following the 2009 GDP slump, with a possible negative impact on economic development. From the development in the UK it can be derived that "residential investment contributed modestly to GDP growth […] between 1995 and 2006. [However, d]uring the downturn, the collapse of residential investment contributed significantly to the contraction in GDP."[53]

Figure 10: Development of the GDP and the house price index in Austria (1971-2010)

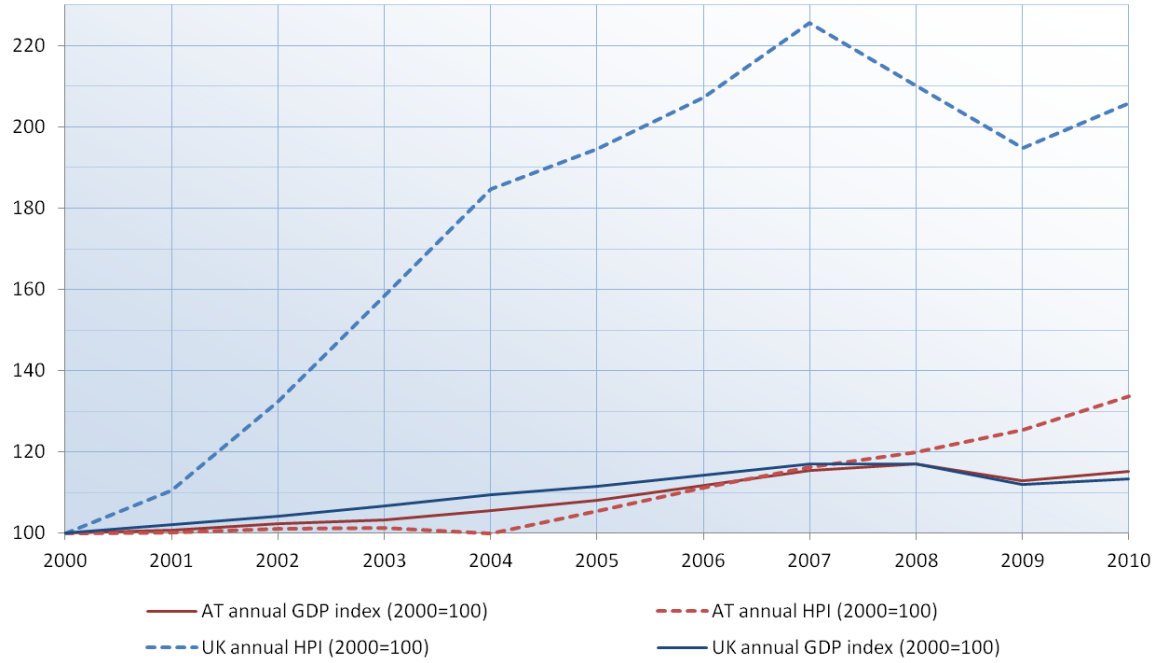


Sources: ÖNB (2011d), OECD (2011c), author's compilation

Under closer examination of the relation between the economic performance and house prices the difference between the two countries in question becomes more pronounced. Whereas in Austria house prices appreciated more slowly than the GDP (from 2000 to 2007 by 16.3 %), they more than doubled in the UK, rising to 225 % compared to the year 2000 and leaving the economic performance far behind (Figure 11). This overshooting can be explained, to a certain extent, by positive expectations of house price developments deriving from past increases. Thus, once the process of appreciation is triggered in a favourable environment, it is indeed self-enhancing up to the point where corrections in housing markets occur.

[53] André (2011). p. 9

Figure 11: Annual development of the GDP and the house price index in Austria and the UK (2000-2010)



Sources: Nationwide (2011), ÖNB (2011d), OECD (2011c), author's compilation

The financing conditions of owner-occupied houses and flats in Austria were comparably favourable throughout the period from 1996 to 2007 with low ECB key interest rates and mortgage costs, very moderate increases in the prices of houses and low inflation (a low rate of inflation does indeed extend the term of existing mortgages, see above, but, on the other hand, reduces the initial payments relative to the household's income[54]). In relation to the renting costs, house prices increased less steeply in the first five years of this century, manifested in a negative price-to-rent ratio (Figure 12).

[54] Debelle (2004b). p. 55 f.

Figure 12: Price-to-rent ratio in Austria (2000 Q1 to 2011 Q1)

Sources: ÖNB (2011d) and (2011b), author's compilation

House prices started to pick up from the 2005 onwards. However, whereas the Viennese house prices appreciated stronger than the rents, those in the rest of Austria have remained in line with the rents.

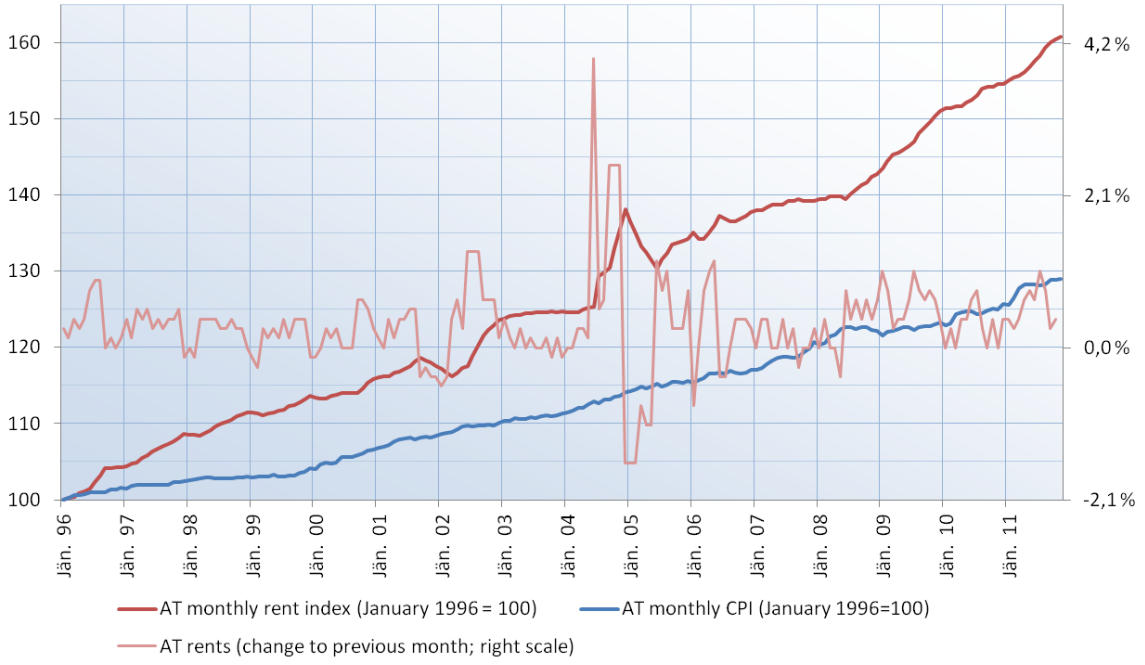
Figure 12 was compiled using the rent index published by the Austrian National Bank (ÖNB)[55], which is based on the harmonized index of consumer prices (HICP) and which includes rents from all over Austria. However, the outcome of the comparison would look significantly different using the rent index published by the Centre of Regional Science at the Vienna University of Technology.[56] According to these calculations, the Austrian rents (excluding Vienna) appreciated from Q1 2005 to Q4 2010 by 45.9 %. This would mean that the spread between the two price-to-rent ratios pictured in Figure 12 increased considerably with the Austrian ratio (excl. Vienna) depreciating stronger.

In a country where 44.3 % of the population on average live in tenancy (in 2010; 79.6 % in Vienna)[57] changes in rents of this magnitude have a significant impact on the households' liquidity and overall consumption (see Chapter 2.2) and it makes home ownership seem more attractive. However, the rent index mentioned above, of the Austrian National Bank, presents a more moderate development even though the cost of rents still increased more than the inflation rate (Figure 13). It should be noted that the rents in Figure 13 include

[55] ÖNB (2011b)
[56] Vienna University of Technology et al. (2011)
[57] Statistik Austria (2011a). p. 27

service charges, as well as costs for repairs and energy. According to Mundt et al. the rents alone increased less than the CPI in the period from 2005 to 2008.[58]

Figure 13: Development of rents and inflation in Austria (January 1996 to November 2011)



Sources: ÖNB (2011a) and (2011b), author's compilation

The constant long-term increase in rents is not limited to Austria; rather it is the case in many OECD countries, including the United Kingdom. Considerable short-term increases exceeding the inflation rate, on the other hand, are more remarkable since the greater number of rented flats in Austria is indexed. Periodic rent increases are linked to the CPI by means of different economic mechanisms which make widely differing developments in the inflation rates and rents unlikely. From Figure 13 it can be inferred that two major detachments have occurred since 1996. According to the relevant literature, the first detachment in 2004 is attributed to new statistical methods and methods of collecting data in the course of the transition to the new micro census.[59] Consequently, the increase in rents was, most of all, a theoretical phenomenon.

The second surge took place in 2008 and 2009. Private rents were particularly affected and enhanced the upswing with a year-to-year increase of 7.5 to 7.8 % (depending on the year when the building was constructed)[60]. Several factors contributed to this development. One of which is a passage in the MRG (act on tenancy law) that allows privately funded rental flats in houses that were built after 1945 (and, thus, can be let to free market prices [see

[58] Mundt et al. (2009). p. 14
[59] Amann et al. (2010). p. 43 f.
[60] Amann et al. (2010). p. 43-45

Chapter 3.1.3]) be indexed to subcategories of the CPI instead of the whole basket, which can indeed increase more than the overall index. Furthermore, the relatively high inflationary increase from 2007 to 2008 first took effect in 2009.

A specific characteristic of the Austrian housing market is the relatively well developed sector of municipal rental flats and limited profit housing associations (LPHA). Its actual percentage varies greatly depending on the region in question. In Vienna, for instance, they both reach their peak at 38 %, whereas the Austrian average is around 22 %[61]. This market segment, which can be categorized as social housing, is not cut off from the rest of the market. On the contrary, Austria is an example of a country with a comparably advanced unitary rental market (see Chapter 3.2.3), which can be defined as one of those "markets in which non-profit providers are sufficiently developed to be able to compete without the need for invasive regulation"[62].

Consequently, a unitary rental market leads to lower overall rents because the low-profit and the municipal sector act as dampers. Against this background the substantial increase in rents in 2008 and 2009 seem even more remarkable, especially since the low-profit sector rose only by 2.7 %.

2.2 Household Related Economic Aspects

This section shifts the economic focus to household related housing aspects. For obvious reasons, private households are a relevant economic entity both for the economy in general, as well as for the housing market in particular. They are important participants in the economic interplay between public entities, enterprises and private non-profit organisations[63]. On housing markets they may act as consumers and/or as investors, thus making use of the duality of residential real property and accounting for a considerable amount of the housing demand and supply.

Various factors influence the demand that drives the housing market. Some of those concerning the macroeconomy have already been discussed in the previous Chapter 2.1, e.g. house price levels, interest rates, etc., while other factors relating to households are addressed in the following.

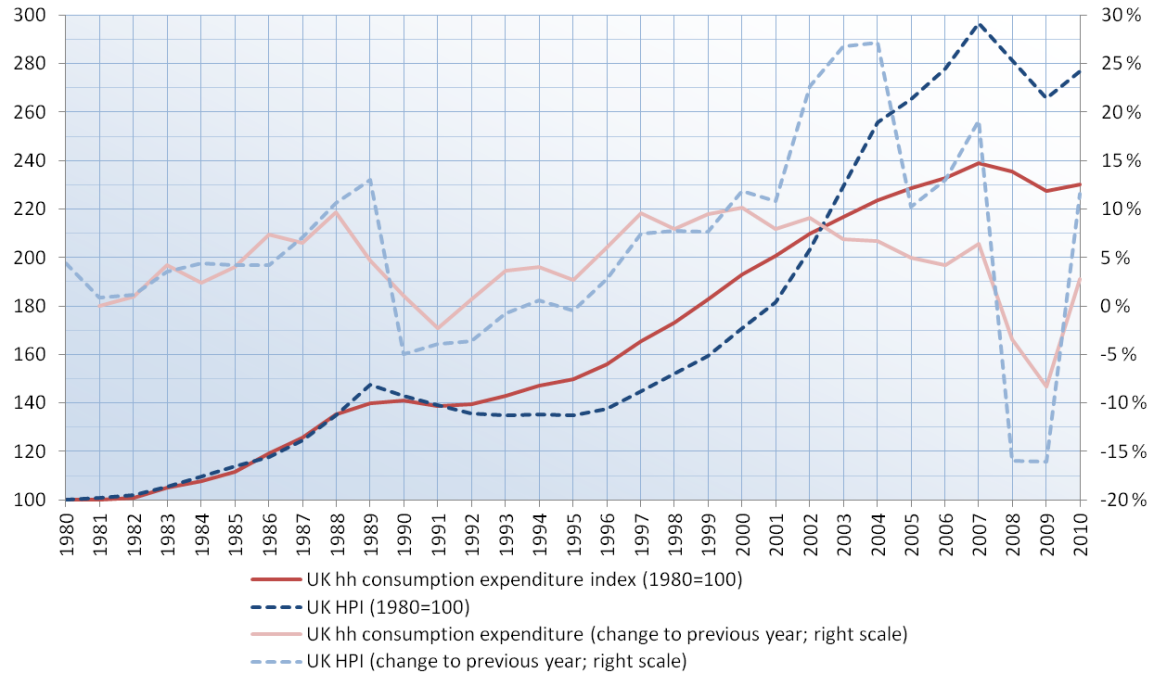
[61] Mundt et al. (2009). p. 5
[62] Kemeny et al. (2005). p. 855
[63] Schönbäck (2009). Studienblatt 0

2.2.1 An Analysis of Household Related Aspects in the UK

Housing accounts for household wealth to a great extent. Especially in countries with a high degree of home ownership, house price fluctuations may have a considerable impact on household wealth which, in turn, affects private consumption. While the correlation between wealth and consumption is widely recognised to be positive, its intensity changes depending on several factors.

To begin with, according to the results of the life-cycle model the link between housing wealth and consumption is more distinct than the link between financial wealth and consumption[64]. The mechanisms that translate increases in house prices to more private consumption can be, on the one hand, a *wealth effect* and, on the other hand, a *liquidity effect*. As for the former, "an increase in the value of household wealth would trigger a reassessment by households of the level of their permanent income and therefore their desired consumption."[65] This is reflected by the actual development of house prices and private consumption expenditures in Figure 14.

Figure 14: Annual household (hh) expenditure and house prices in the United Kingdom (1980-2010)



Sources: OECD (2011f), Nationwide (2011), author's compilation

The annual changes in private household consumption in the period from 1980 to 2010 correlate with the changes in house prices except in those years in which the property boom occurred. Even though the trend of both variables remained positive until 2007, the trend

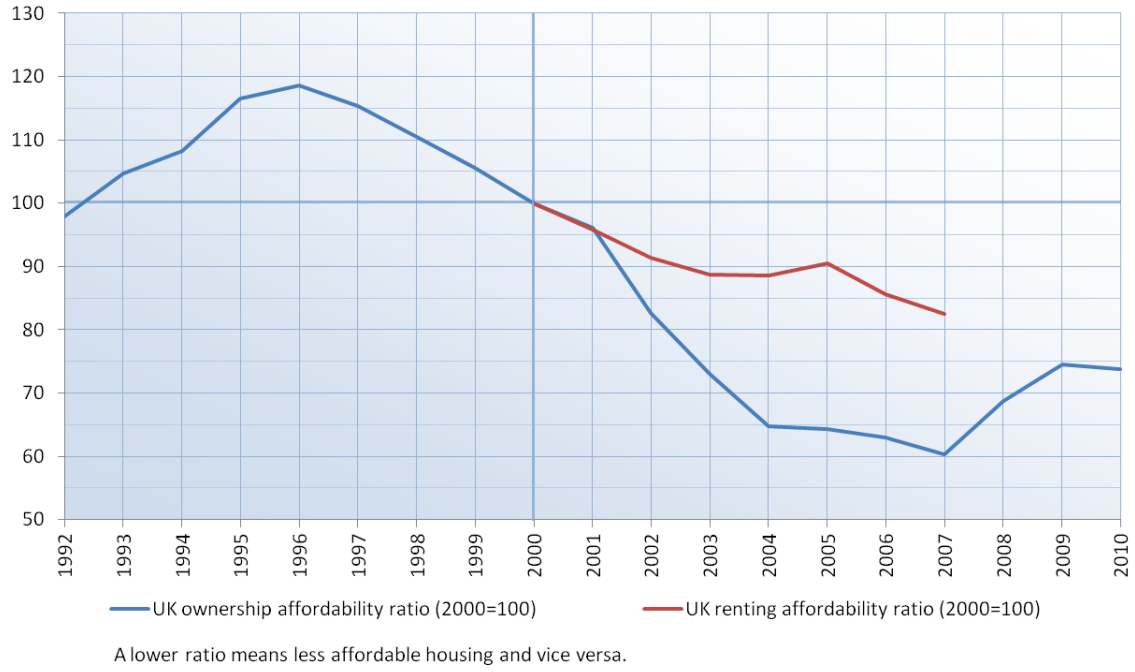
[64] Catte et al. (2004a). p. 16

[65] André at al. (2008). p. 6 f.

towards increased private consumption already lost momentum around 2000 and was not influenced by the further surge in house prices. This suggests that the mechanisms for the transition of housing wealth to consumption were constrained, especially since the household savings rate also stagnated or declined throughout most of the same period. A possible explanation can be derived from the development of the mortgage interest rates which stopped their downswing and stagnated between 5 % and 6 %[66], restricting the positive wealth effects for indebted households and consequently the propensity to consume.

While housing wealth is a crucial aspect in the present context, not least because it has to do with the welfare of the inhabitants, it does not explain the underlying reasons for the housing developments in question. Neither does it provide details on the overall national wealth. An increase in house prices, even if they "simply reflect increased scarcity owing to demand, with no net change in either the quantity or the quality of the services they provide"[67], would rather have an impact on the relative distribution of wealth than on its aggregate level. In fact, house price growth leads to a redistribution of wealth to households of current home-owners at the expense of potential future ones who may then prefer to rent rather than to own. This trend is reflected in the UK in a rising price-to-rent ratio, as mentioned in Chapter 2.1.1, as well as in a declining affordability ratio (Figure 15).

Figure 15: Annual affordability ratio for the UK (1992-2010)



Sources: OECD (2011d), Nationwide (2011), Department for Communities and Local Government (2008), author's compilation

[66] Bank of England (2011c); see also Figure 7

[67] André at al. (2008). p. 6 f.

The affordability ratio compares the relative development of the real household disposable income (defined as the total consumption expenditures of households' plus their savings) to the real house prices and rents, thus, allowing insights into the development of actual costs for households that are incurred when buying or renting a home.

While both the renting and the ownership affordability declined during the years of the property boom, the slump of the latter was much more pronounced, decreasing by more than double the former from 2000 to 2007. Of course, with the collapse of house prices in 2007 and 2008 the affordability ratio increased again, but only slightly, and so it is still far from the levels it had prior to the boom.

According to OECD data the real disposable income of households in the UK increased throughout the period from 1992 to 2010 (the latest available and analyzed data), albeit at an increasingly slower pace, to the point of a year to year change in 2010 of 0.02 %[68]. For 2011, The Bank of England[69] stated that the average real incomes did indeed drop in that year, and there are three combined reasons for this: first of all the rate of unemployment (see Figure 6 above) which remained on a high level throughout 2011, secondly an increase in Value Added Tax (VAT) and thirdly, owing to other measures of fiscal consolidation introduced by the Government.

Even though the degree of affordability is currently slightly more favourable again for home buyers with 13.4 percentage points over the low point in 2007, the number of first-time buyers is still low. Moreover, housing transactions in general also remained rather low compared to pre-2007 levels. This is also owing to the trend of loan-to-value ratios (LTV ratio) that shift to lower percentages[70] making higher deposits or more capital of one's own necessary for property acquisitions. In an environment with already restricted access to credit this leads to an increase in the abovementioned redistribution effect of household wealth in favour of homeowners should house prices go up. Even more so, since "some households have only limited access to borrowing and, even when available, uncollateralised consumer credit tends to be significantly more expensive than mortgage borrowing."[71]

As a consequence, macroeconomic effects may be the result, if these transfers of wealth influence the levels of demand of the relevant groups of homeowners and tenants. To what extent developments in the prices of houses translate into effects on consumption depends to a very great extent on the characteristics of the mortgage market. The possibility to

[68] OECD (2011d)
[69] Kamath et al. (2011). p. 305
[70] Kamath et al. (2011). p. 308 f.
[71] André (2011). p. 11

borrow money against the housing value is particularly important in this context, and is connected with the second of the abovementioned mechanisms, namely the *liquidity effect*.

In this respect, increasing housing wealth is equivalent to increasing collateral which can be used to extract funds from property assets. The term of housing equity withdrawal (HEW) that is commonly used in this context, refers to the extraction of liquidity from the housing market which adds to the outstanding mortgage debt and which is not used for residential investments. In other words, HEW is a way for illiquid households to gain funds in order to support their private consumption expenditures or non-residential investments. According to the calculations of André et al.[72] the marginal propensity to consume out of housing wealth strongly correlates with the HEW as a share of the disposable income (R^2=0.85) which peaked in the third quarter of 2003 at 7.8 % of the after-tax income (Figure 16).

Figure 16: Housing equity withdrawal (HEW) in the UK as percentage of after-tax income (1970 Q1-2011 Q3)

Sources: Bank of England (2011e), author's compilation

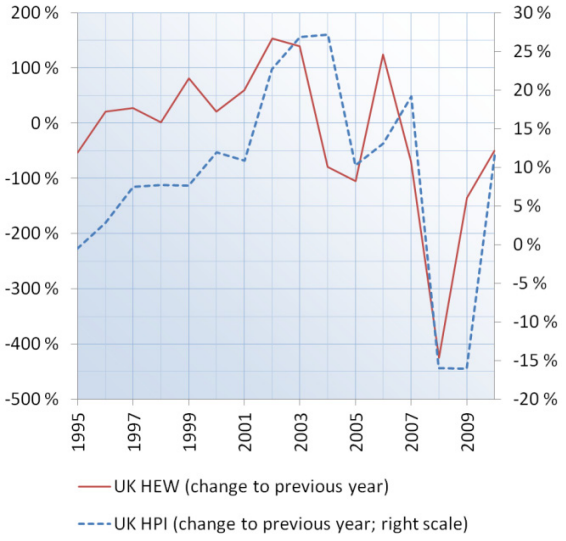
The development of household consumption is similar to that of HEW, which, in turn is similar to the development of house prices (Figure 17 and Figure 18). This comes as no surprise since it has been shown in Figure 14 already, that household consumption and house prices correlate. The analogous development of these three factors, albeit with very different amplitudes, underlines the facts that households in the UK tend to borrow more from their most significant form of collateral, i.e. their housing stock, when its value increases and, similarly, the propensity of households to consume is more clearly perceptible when house prices rise. The highly developed mortgage sector, the integration

[72] André et al. (2008). p. 8

of the financial and the housing market, as well as the high rate of housing ownership in the United Kingdom, create an environment in which the effects on private household consumption owing to changes in the prices of house are comparably pronounced, whether positive or negative.

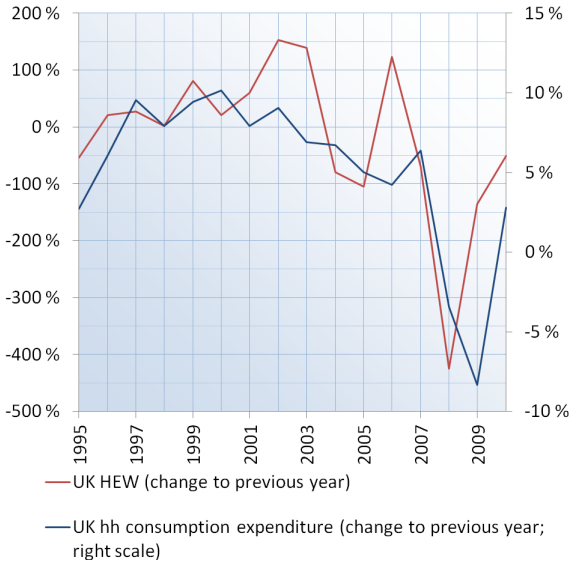
The annual increase of liquidity extracted from the housing sector by UK households since the mid-1990s peaked in 2002 as it gained 153.45 %, which is similar to the development of house prices as they increased the most in 2003. A decrease in HEW, as was the case in 2004/05 and from 2007 to 2010, means that households inject more equity in the housing stock than they borrow, consequently also reversing the boost in consumption. It is interesting to note that the final household consumption expenditure, as shown in Figure 18, did not follow the hikes of the housing equity withdrawal around 2002 and 2006, although the household savings rate stagnated or decreased during these periods. There might be several reasons for this development. Households, for instance, could have used the extracted funds to pay back debts that are not connected to the housing stock, thus, reducing the income available for consumption.

Figure 17: Annual development of housing equity withdrawal and house prices in the UK (1995-2010)



Sources: Bank of England (2011e), Nationwide (2011), author's compilation

Figure 18: Annual development of HEW and household consumption in the UK (1995-2010)



Sources: Bank of England (2011e), OECD (2011f), author's compilation

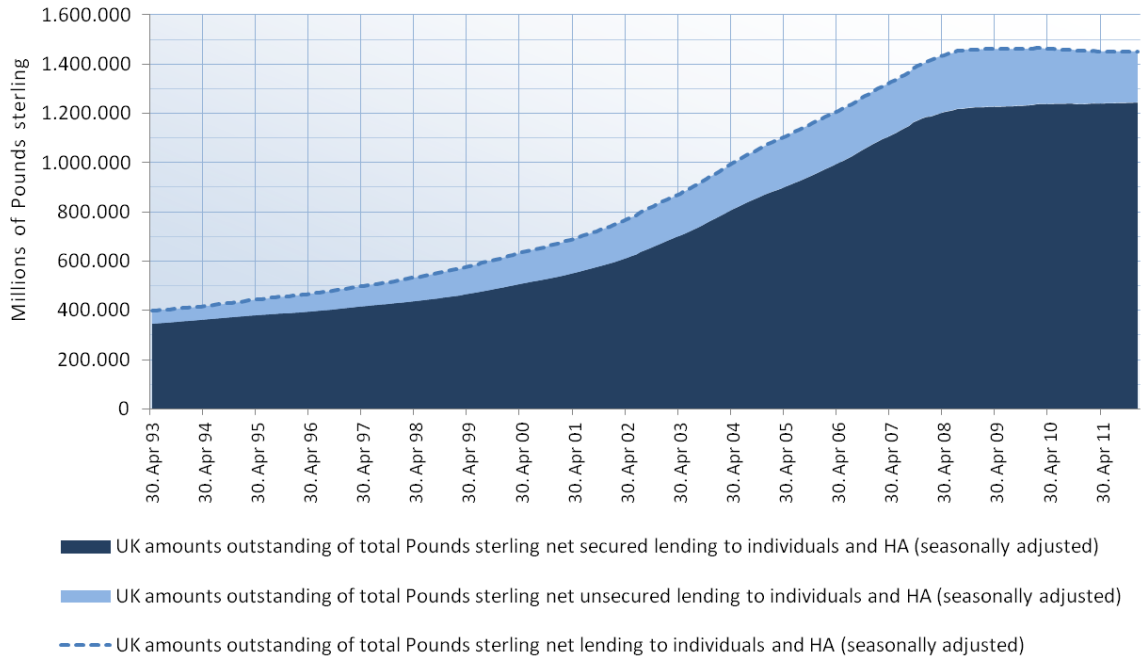
A factor that played a meaningful role in the course of the latest housing boom but per definition cannot be inferred from the HEW charts in Figure 17 and Figure 18 is the cyclical oscillation associated with the extraction of housing equity. The funds borrowed against the increasing house value were to a certain part also reinvested in the housing sector, for example, to purchase additional housing assets "which amplified the cyclical upswing

through a mechanism known as the financial accelerator."[73] This contributed to rising prices and housing wealth which, in turn, could then be extracted.

Independently of how the extracted funds were used, HEW and a general easing of liquidity constraints together with a downward trend in interest rates led to an increase in household debt – of which a substantial amount consists of secured debt, i.e. mortgages. Of the monthly outstanding amounts of total Pounds sterling net lending to individuals (by UK resident banks, building societies and other specialist lenders including mortgage lenders, the Government and the Student Loans Company) in the period from April 1993 to December 2011, secured lending accounts, on average, for 83 % (Figure 19), and thus, shows very clearly that housing debt (also as a result of HEW) is the bigger part of household debt.

The secured lending that is currently outstanding increased most of all in 2004 and 2006/07, i.e. at around 30 % in each of these years which is approximately in line with the development of extracted housing equity. Increases dropped in 2008 to very low levels which left the total outstanding amount at an extraordinarily high level at about 1,500 billion Pound sterling.

Figure 19: Monthly Pounds sterling lending to individuals and housing associations (HA) in the UK (April 1993-December 2011)

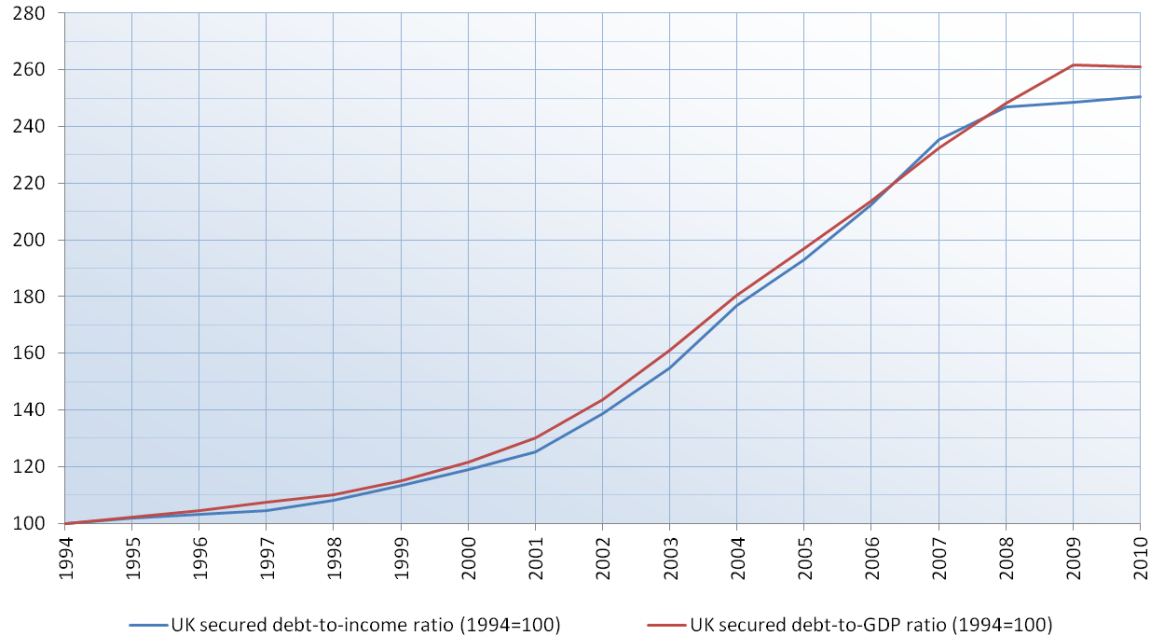


Sources: Bank of England (2012), author's compilation

[73] André (2011). p. 11

Borrowing assists households to keep their consumption stable and at a higher level. André et al., for instance, calculate that countries with a relatively high marginal propensity to consume out of housing wealth tend to be among those with the highest mortgage debt as well. This is also true of the UK where residential mortgage debt reached 78.8 % of GDP in 2005[74]. Since the mid-1990s increases in the secured debt of households have been significantly steeper than those of the economic performance and household income of the UK (Figure 20). It is noticeable that the period in which the upsurge occurred (approx. 2001 to 2007) concurs with the years attributed to the housing boom, suggesting that the boost in house prices played a significant role in providing households with liquidity.

Figure 20: Annual outstanding secured lending to individuals in the UK, compared to income and to GDP (1994-2010)



Sources: Bank of England (2012), OECD (2011c) and (2011d), author's compilation

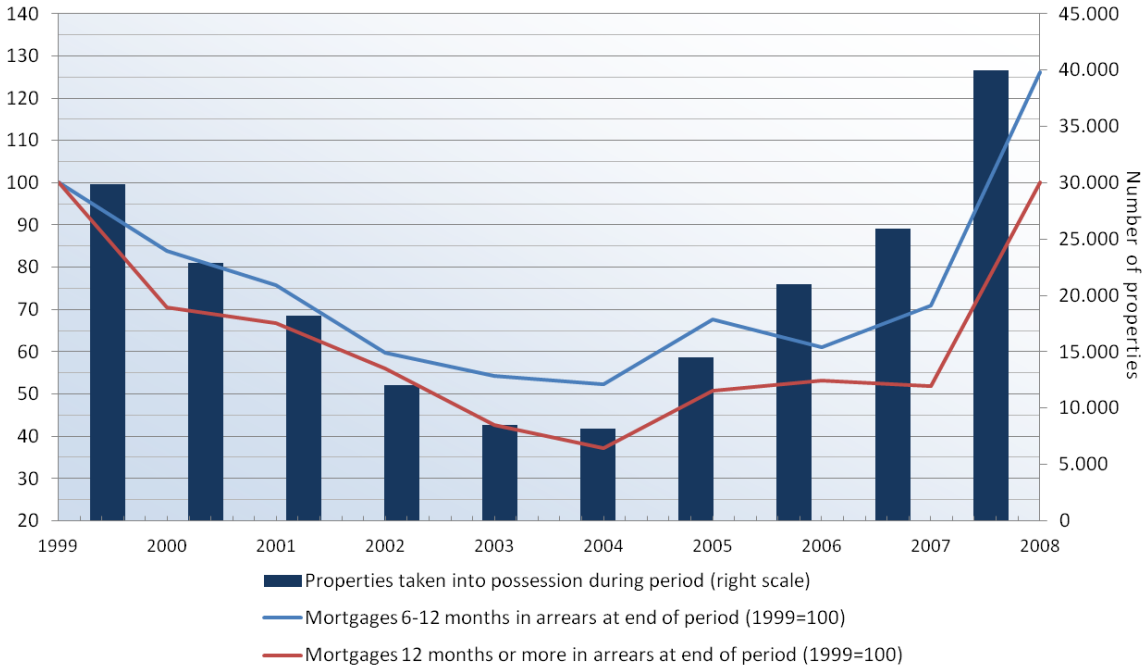
For obvious reasons, and in order to sustain a high consumption level by borrowing money, debt has to constantly rise. However, against the background of a weak economic environment and tumbling house prices, both the debt-to-income and debt-to GDP ratios flattened out in 2008. Gross mortgage lending, i.e. loans secured on dwellings and that are newly advanced, experienced two year-to-year drops of approximately 70 % in 2008 and 2009 (compared with 2001), and thus fell more than 10 percentage points below the level of 2001[75]. These figures emphasize that a significantly lower number of mortgages were raised after house prices peaked in 2007; a fact that negatively influenced household consumption.

[74] André et al. (2008). p. 8, 12

[75] Council of Mortgage Lenders et al. (2011)

However, while borrowing might offer households the possibility to attain a desired level of purchasing power and/or housing standard, there is indeed another (undesirable) aspect to be considered when exorbitant personal debts are made. "[T]he increased indebtedness has heightened the sensitivity of the household sector to changes in interest rates, income and asset prices."[76] In fact, several factors developed in an unfavourable way after the house price boom, including a rise in unemployment (and thus, income insecurities), a drop in house prices and weak economic performance. At the same time, hand in hand with the abovementioned decrease in gross mortgage lending, the number of outstanding mortgages which are already 12 months or more in arrears nearly doubled from 2007 to 2008, and the number of properties taken into possession rose to 0.34 % (40,000 properties) from previously 0.22 % (25,900 properties) (Figure 21).

Figure 21: Mortgages in arrear and properties taken into possession in the UK (1999-2008)



Sources: Department for Communities and Local Government (2010). p. 29, author's compilation

Furthermore, over the past decade the secured debt level has not only risen in absolute terms and relatively to income and GDP, but also innovations in mortgage finance (such as interest-only loans[77], HEW, flexible repayment mortgages)[78] exposed households to their debt to a longer period of time before their debts are paid up. Moreover, in addition to a higher debt ratio and longer exposure to debt increasing homeownership, higher loan-to-

[76] Debelle (2004b). p. 62

[77] IO-loans are a type of mortgages with a set period of time during which the borrower pays only the interest. After this period has ended, the principal has to be redeemed in addition to the interest.

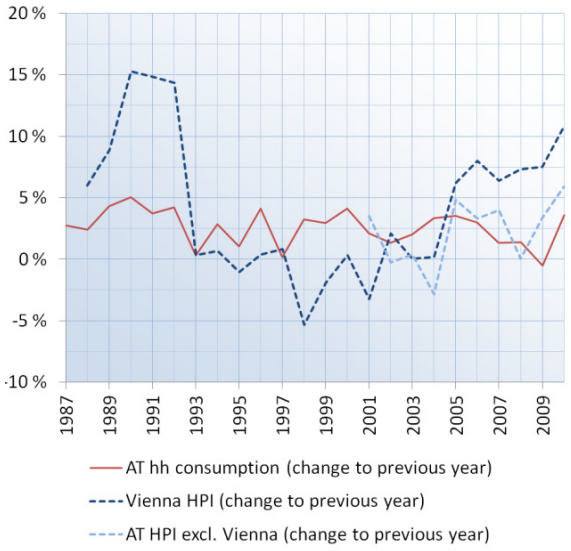
[78] André (2010). p. 33

value ratios accepted by monetary financial institutions and a downwards trend in interest rates increased the number of individuals and households exposed to debt.

2.2.2 An Analysis of Household Related Aspects in Austria

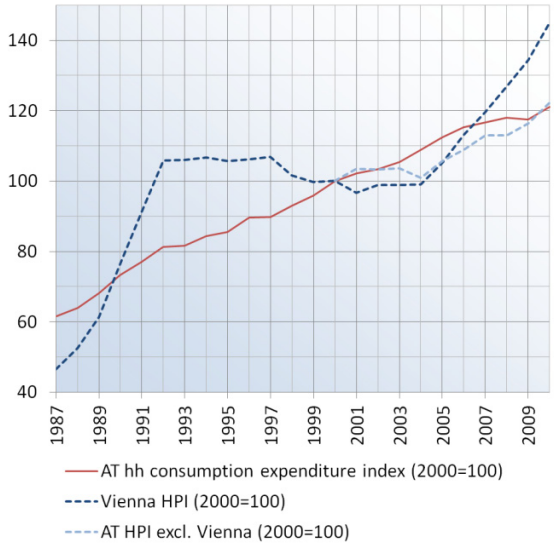
The situation in Austria is different. Since it has a bank-based rather than a market-based financial system, the real estate market is, in comparison with that of the UK, less liquid and less transparent which results in less volatile prices and a slower adjustment of demand for housing to house prices. Moreover, since house prices were predominantly stagnant during the boom phase in the UK, the above mentioned mechanisms that translate increases in house prices to more private consumption, i.e. the wealth and liquidity effects, could not take effect. However, this did not negatively affect household consumption which increased by approximately 25 percentage points from the year 2000 to 2010. Only in 2009 was there a minor reduction by -0.54 percentage points, which is rather insignificant against the background of an otherwise constant – albeit less steep than in the UK – upwards trend since 1987 (Figure 22 and Figure 23).

Figure 22: Annual change in household expenditure and house prices in Austria (1987-2010)



Sources: OECD (2011f), ÖNB (2011d), author's compilation

Figure 23: Annual index of household expenditure and house prices in Austria (1987-2010)



Sources: OECD (2011f), ÖNB (2011d), author's compilation

It can be derived from Figure 22 and Figure 23 that although house prices in Vienna, as well as those in the other Austrian provinces have picked up since the 2005, household consumption has developed independently. This suggests that the links between residential property prices and household consumption are less pronounced in Austria than they are in the UK.

A determining factor is indeed the private investment in housing. Since house prices obviously reflect the supply and demand in the housing sector to a significant extent, the money that flows into this sector is a major determinant to explain house price dynamics. The average private investment in housing from 1995 to 2005 declined by 2.6 % per year; in contrast, it increased by 2.5 %[79] in the UK[80] which can be, among others, ascribed to the completeness of the mortgage market in general and to HEW in particular. For example, economists estimated that HEW accounted for a 2 % boost of household incomes in the UK in 2000[81].

For Austria, the declining private investment in housing is in line with the weak house price development during the same period, after the housing boom "that began in the mid-1980s halted in the first half of the 1990s as the supply of housing increased."[82] A detailed analysis of the supply perspective is given in Chapter 2.3.

A further explanation for a less pronounced link between house prices and household wealth as well as private consumption is the higher spread of tenancy in Austria of 44.3 % in 2010[83]. This percentage seems to be remarkably constant; the share of owner-occupied housing, which can be seen as the inverse to the rental share, has changed only slightly since 1980 when it was 52 % (1990: 55 %; 2002: 56 %)[84]. In this case the amplifying effect, which a widespread home ownership, i.e. housing wealth, may have for consumption, is much weaker and consumption is thus less responsive to changes in property prices. By comparison, the share of homeownership in the UK increased by 11 percentage points to 69 % from 1980 until 2002, which is more than double the increase in Austria, but has been sinking since 2005 as a consequence of a falling number of – predominantly young – first time buyers[85], which the English newspaper *Guardian* labelled "generation rent"[86].

In Austria, fluctuations in rents have a stronger impact, than in the UK, on disposable income of households for other expenditures than rents. However, it is not clear if rising rents lead to an aggregate reduction of consumption. Theoretically, on the one hand, this does indeed negatively affect the demand of tenants for other goods and services and, consequently, also the disposable income of non-tenants, since their income also depends on the demand of tenants. On the other hand, home owners have the advantage of a higher

[79] This is still low compared to other countries where house prices surged at that time. (e.g. Ireland: +10.1; Spain: +9.1)
[80] Walterskirchen (2006). p. 11
[81] Debelle (2004a). p. 26
[82] IMF (2005). p. 8
[83] Statistik Austria (2011a). p. 27
[84] Catte et al. (2004b). p. 138
[85] Cp. Ronald (2008). p. 134
[86] Collinson (27.1.2012)

income if the rents go up because that increases their purchasing power and thus enables them to consume more. Therefore the question is whether the increase in the level of consumption of the home owners can compensate for the decrease in expenditures of the tenants.[87] However, it should be noted that this concerns merely those home owners who rent their properties to other people. For those owners, who also consume the services deriving from their housing assets, i.e. they live in their own dwellings, the property gains are "offset by the higher discounted value of future imputed rents"[88]. In other words, if rents rise together with real asset prices, the property gains for home owners living in their own houses are compensated by today's value of higher rents they are missing out on because they cannot let. The duration of ownership (i.e. whether the property is sold or passed on to future generations) determines the extent of the offset.

Even though the percentage of tenants is significantly higher in Austria than in the UK, the fact that more than half of the Austrians still own a home puts the above mentioned argumentation into perspective. The high tenant percentage alone is no satisfactory explanation for the seemingly low correlation between private consumption and the fluctuation in house prices. Another significant aspect is the completeness of the mortgage market which reflects "the extent to which there are gaps in an individual market's product range, distribution or range of borrowers served relative to those available in other countries."[89] A study which is frequently cited in this regard in the relevant literature was made by Mercer Oliver Wyman (2003). It elaborates on the differences between highly developed mortgage markets, such as that in the UK, and those which are less developed, such as in Germany, which is similar to that in Austria (Austria was not selected for the study). Mortgage market completeness, on the one hand, may be a significant indicator for the availability, distribution and range of specific products, as well as for the effectiveness with which it facilitates homeownership and housing wealth. On the other hand, however, the synthetic completeness indicator does not include any housing services provided outside of the mortgage market, such as rental housing. Thus, the completeness can be seen only as an indication for the prevalent characteristics of housing ownership, but not as an assessment for the housing market as a whole. The fact that the Austrian mortgage market is less complete than that in the UK does not sufficiently reflect how widespread tenancy is.

There are, however, a few factors included in the above mentioned study on mortgage market completeness which offer relevant insights into the availability of financial housing products to households. One of these factors is the loan-to-value ratio (LTV) which specifies the amount a financial institution is prepared to lend in relation to the value of the property.

[87] Gstach (2005). p. 3
[88] Catte et al. (2004b). p. 133 and 151
[89] Mercer Oliver Wyman (2003).p. 23

With an LTV of 100 %, the size of the loan and the property's value would be equal. This ratio is used to assess the issuer's risk, in the case of non-payment, that the mortgage is not covered by the real estate value. In Austria the average LTV can be expected to be approx. 60 % or 80 % at most, which is considerably lower than the LTV in the UK (87 % to 110 %)[90]. This allows for three conclusions: The first is that the range of households that can afford to buy property is smaller in Austria compared with that in the UK, since more personally owned capital is necessary to take out a mortgage. Especially in periods of scarce liquidity, a low LTV adds to the liquidity constraint on the housing market, and it restricts housing purchases to households wealthy enough to have the necessary means available. Secondly, financial institutions are less susceptible to changes in the financial situation of a household that affect its ability to meet its financial obligations. Thirdly, household indebtedness in Austria is lower which makes the owners less sensitive to changes in their financial situation, such as in income, interest rates[91] and house prices. Generally, the repayment periods are longer in countries with higher LTV ratios so as to distribute the payments over a longer time span and to keep the debt affordable. In the case of Austria and the UK, however, this does not necessarily apply. Both loan terms are, on average, 25 years[92].

The total annual secured debt issued by financial institutions active in Austria has increased constantly since 1995, even though the house prices did not appreciate for most of this period and so there was no obvious incentive to invest with expectations of future gains. Nevertheless, the outstanding mortgage debt more than doubled from around 40 billion Euros in 1995 to about 100 billion Euros in 2010 (Figure 24). From The Austrian National Bank[93] data used in Figure 24 it cannot be inferred what share of the outstanding amount consists of mortgages to private households. Other data, on which Figure 25 is based, shows the development of domestic housing loans used for the acquisition and preservation of housing space. Both charts are similar in their essence: housing loans continuously increased even more steeply and tripled from 1995 to 2010 close to 95 billion Euros. It is, however, not clear to what extent these loans were issued for private households and not for companies or housing associations. Moreover, since the amount of secured debt may be used not only for housing purposes, and the housing loans may not always be secured by property, the degree to which both statistics overlap is unclear.

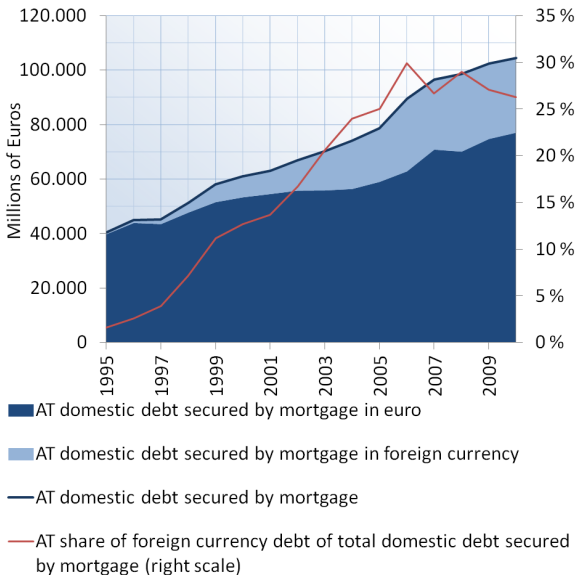
[90] André et al. (2008). p. 12

[91] Interest rates are less relevant in this context since fixed mortgages are prevalent in Austria.

[92] André et al. (2008). p. 12

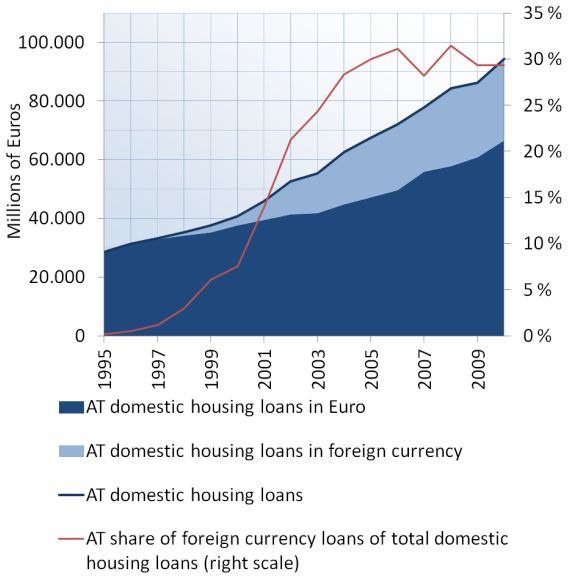
[93] ÖNB (2011c)

Figure 24: Annual secured debt by financial institutions active in Austria (1995-2010)



Sources: ÖNB (2011c), author's compilation

Figure 25: Annual oustanding loans used for investments in housing in Austria (1995-2010)



Sources: ÖNB (2011c), author's compilation

It is clear, however, that, during the period in question, liquidity had been transferred into the housing market both via secured mortgages as well as investments in actual housing structures. Together with the stagnating house prices from 1995 to 2004 this suggests that housing supply was flexible enough and adjusted to the higher demand (see Chapter 2.3.2).

What is striking is the increasing relevance of foreign currencies in loans as well as in secured debt. Although its share in 1995 was close to zero, it sky-rocketed to approximately 30 % in about a decade, again, seemingly without an obvious effect on house prices. Most of these loans are issued in Swiss francs and Japanese yen and finance primarily house purchases or extensions (see also Chapter 3.3.3). Foreign currency loans expose households to several risks (in addition to the risks taken with domestic currency debt) including the exchange rate risk and the double-exposure risk[94]. The former refers to the risk of changing currency rates as was, for example, the case in September 2011 when the Swiss franc strengthened and rose to near parity against the Euro. For Austrian households with loans issued in Francs the increase of the debt burden was very great at that time. On September 6th the Swiss National Bank (SNB) announced its determination to peg its own currency to the Euro at a minimum rate of 1.20 Euro[95] and thus limited the exchange rate risk for Austrian households. The double-exposure risk, on the other hand, is concerned with the correlation "between Austria's nominal effective exchange rate (NEER) and the house price index for

[94] IMF (2005). p. 9

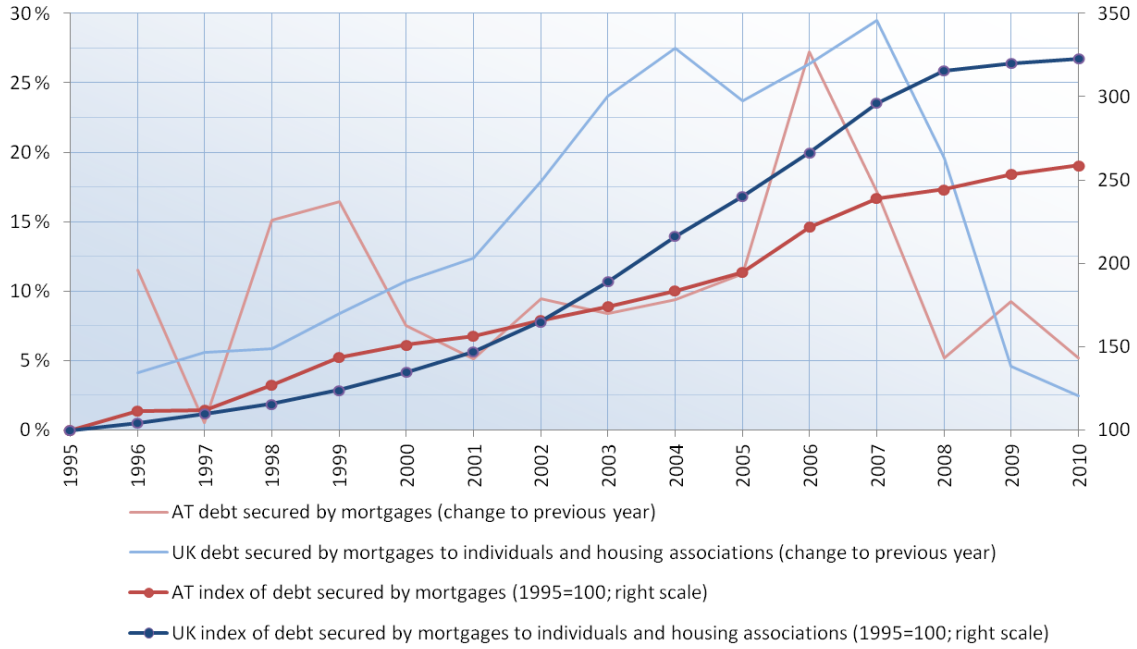
[95] Swiss National Bank (2011). p. 1

1987-2003"[96] with a coefficient of 0.72. This means that households using foreign currency loans to invest in real estate could be affected by the depreciating Schilling/Euro also on the asset side owing to sinking property prices.

Foreign currency loans have been losing their great popularity in recent years – they have been stagnating since 2007 (see Chapter 3.3.3). This is particularly remarkable when compared with house prices which began to rise only shortly thereafter. Moreover, neither the total secured debt nor the total housing loans decreased in the same way.

Compared with the amount of outstanding secured lending in the UK, the amount in Austria has developed in a less volatile way since the year 2000. In fact, this comparison resembles the development of house prices at that time (Figure 26).

Figure 26: Annual development of secured debt in Austria and the UK (1995-2010)



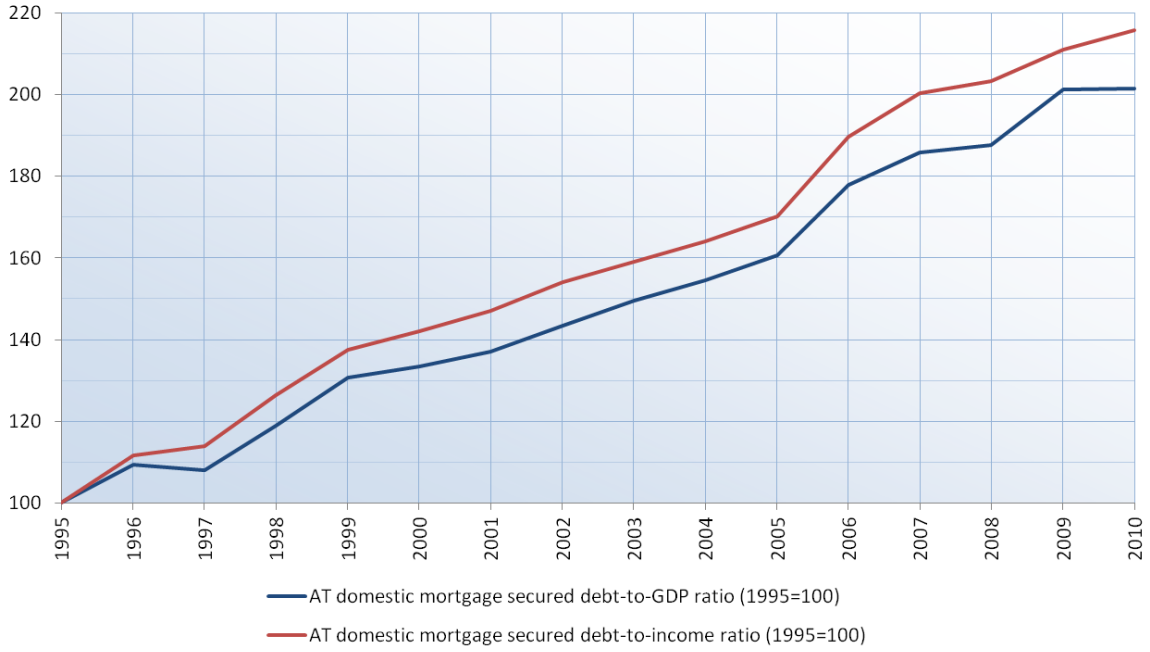
Sources: ÖNB (2011c), Bank of England (2012), author's compilation

Increases in outstanding secured lending in the UK overtook those in Austria in 2000, approximately at the same time when increases in house price became even steeper in the UK. From then on, in Austria, debt increases developed only modestly until 2005, while in the UK they more than doubled until 2004. However, during the economic downturn from 2007 to 2009 the UK debt growth decreased the most even though it never turned negative. So since 1995, secured debt has therefore constantly increased in both countries, albeit with different rates over time.

[96] IMF (2005). p. 9

In order to look into the proportionality of debt increases, it is useful to compare their development with other fundamental data. It can be gathered from the growth rates in Figure 26 that a comparison of debt to GDP and income, respectively, has to result in a function with a positive slope. Thus, Figure 27 shows that there was an extreme and disproportional increase in secured debt in Austria, and much the same in the UK. In the latter the period of the boom in house prices is expressed in the debt-to-GDP/income ratios as a steep upswing flanked by two periods of weaker increases (Figure 20), while in Austria the ratios developed more evenly with their greatest annual increase in 2006, following a boost in GDP and house prices.

Figure 27: Annual Austrian secured debt-to-GDP and to-income ratios (1995-2010)



Sources: ÖNB (2011c), OECD (2011c) and (2011e), author's compilation

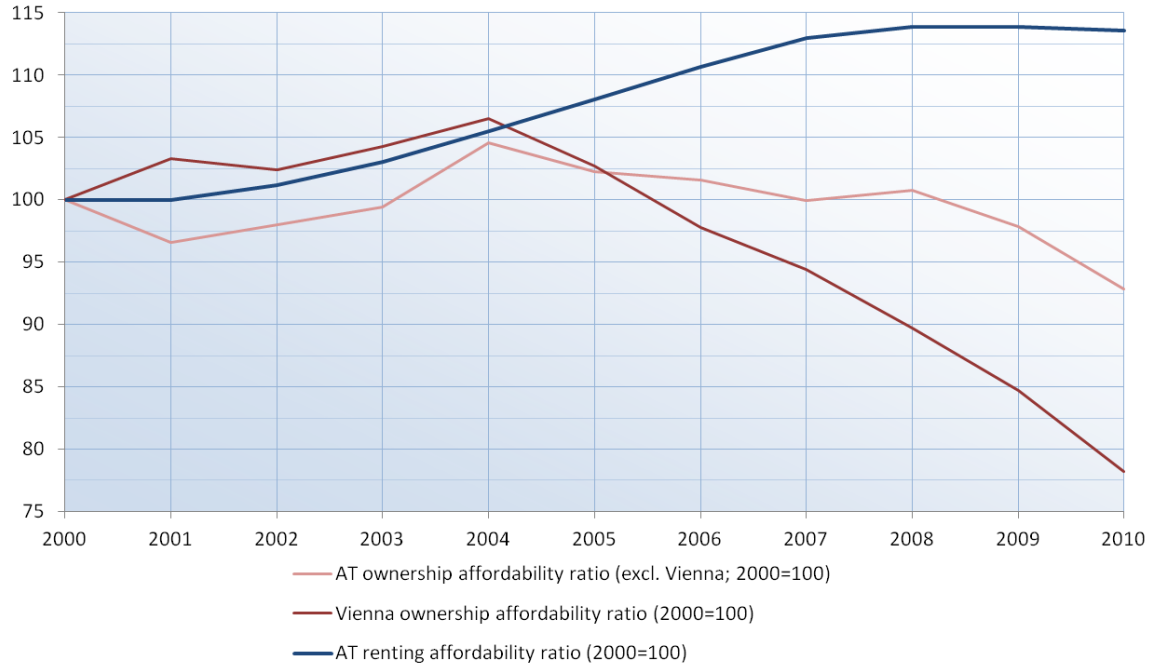
Especially the debt-to-income ratio in Austria maintains its slope also throughout 2010 when the debt-to-GDP and both of the UK ratios became less steep. This derives from a slightly decreasing disposable income for households[97] and domestic secured debt that continues to increase.

The weak increases in real disposable income and minor decreases also negatively influence the affordability ratios, which compare the relative development of Austrian income to that of house prices and rents (Figure 28). Homeownership, both in Vienna and the rest of Austria, is significantly less affordable than tenancy. However, all three ratios deteriorated and turned either negative for the first time (in the case of the renting affordability) or decreased further in 2009/2010. A turning point in the development of the ownership

[97] OECD (2011e)

ratios was the year 2005. The previously rather favourable development of affordability of households turned negative because house prices began to pick up.

Figure 28: Annual ownership and tenancy affordability in Austria (2000-2010)[98]



Sources: ÖNB (2011d) and (2011b), OECD (2011c) and (2011e), author's compilation

2.3 Supply Oriented Indicators

The demand for and the supply of housing are two aspects of the housing market that determine housing dynamics. Several factors that drive the demand for residential real estate have been discussed in the previous chapters, and include interest rates, disposable income, inflation, investments and the completeness of the mortgage market. The present chapter shifts the focus onto the supply factors and provides an overview of starts and completions, dwelling stocks and construction costs in Austria and the United Kingdom.

Housing supply depends indeed on a rather wide range of factors as well, whose interrelations are often characterized by a certain locality. For instance, political agendas, taxes, availability of land and the price for it, infrastructure or building regulations are, for the most part, the local conditions that influence the quantity of housing supply, as well as the faculty to provide adequate dwellings in a timely manner. In fact, house price developments are precipitated by demand fluctuations, such as the changes in interest rates or household income mentioned in previous chapters, essentially depend on supply responses. If supply were perfectly elastic, rapidly adapting to changing demand, house

[98] A lower ratio means less affordable housing and vice versa.

prices would not persistently deviate from fundamentals and their long term average level, as these are based mainly on "marginal production costs, which include construction costs, land costs and a normal profit margin of the homebuilder."[99] Conversely, if supply-rigidities make it impossible or even merely difficult to adapt to demand, house prices will be affected even more by changes in the current housing demand. In the periods when there are house price bubbles, home buyers base their expectation of future gains on past house price increases. An inelastic supply thus significantly amplifies the extent of the bubble and prolongs its duration.

The specific extent to which an inflexible supply contributes to house price volatility, or vice versa, may vary between different housing markets, owing to different local characteristics and mechanisms that cushion the translation from one into the other. In general, price increases are higher in relatively inelastic markets. According to the calculations of Glaeser et al., for example, that dealt with house price developments in the USA during the post-1996 boom, "[r]eal price appreciation averaged 81 % in the relatively inelastic markets and 34 % in the relatively elastic markets."[100] This gap, i.e. the different degree of house price volatility, is an indicator not only for housing wealth and the extent to which it is transferred between owners and buyers but it also affects the building industry and, thus, the use of real resources and the economic value added chain to which it is connected.

However, it is not clear whether house prices fluctuations are predominantly caused by the demand or the supply side. In theory, there are two prevalent concepts that explain the connection between house prices and the demand for and supply of housing, as described by Wieser[101] with reference to the link between house and land prices. On the one hand, and from the perspective of neoclassical economics, increases in house prices result from developments on the supply-side. Land is regarded as one of the input factors for the production of dwellings, together with labour and building materials, etc. Therefore, rising land prices, as part of the production costs, lead to increases in house prices and the main factors driving land prices are, in turn, the result of public land policy.

On the other hand, this view stands in contrast to the concept of land rent attributed to classical economics. It considers changes on the demand-side to be responsible for the price fixed for housing. For instance, as a consequence of changes in interest rates, in disposable income or in demographics, homeowners and investors reconsider their expectations on future gains which then affect house prices. Following this line of argument, land prices

[99] André (2010). p. 25
[100] Glaeser et al. (2008). p. 33
[101] Cp. Wieser (2008). pp. 4-7

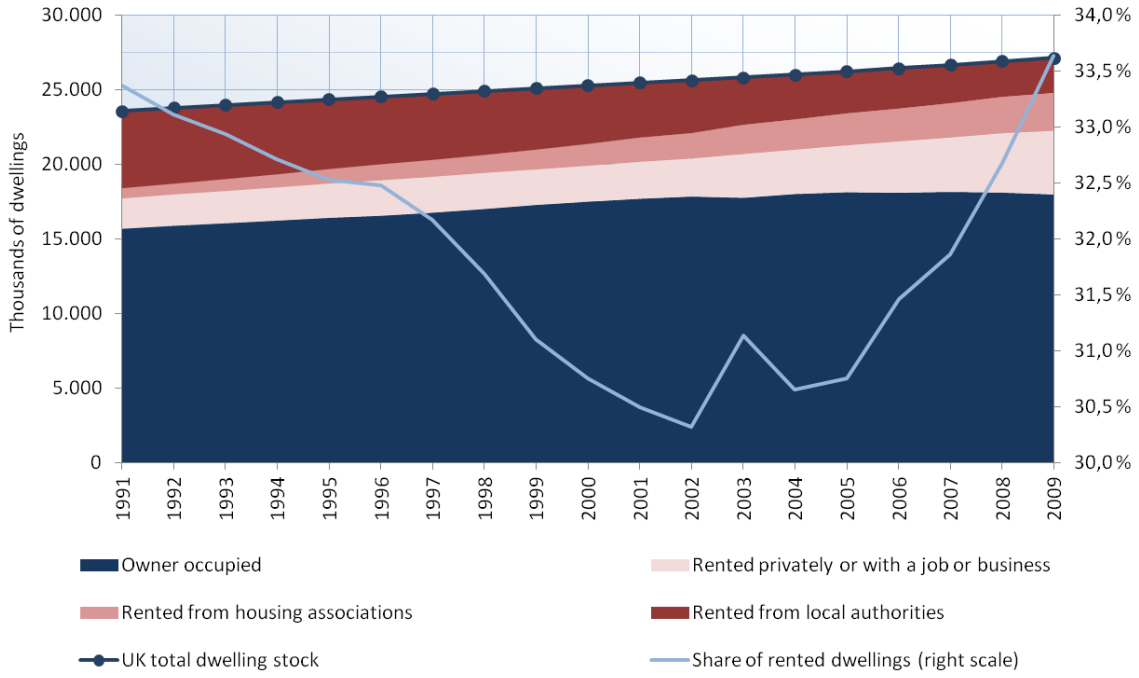
derive from a residual amount which remains after investors detract construction costs and gains from their expected revenue. This residual is the maximum amount land buyers are willing to pay for building sites.

In practice it is most likely that both sides influence prices at the same time, albeit to a different extent. To look into the specific degree of influence helps to gain insights into the underlying processes at work to better understand housing developments.

2.3.1 The Housing Supply in the UK

Although the dwelling stock in the UK has continuously increased since the early 1990s, the reaction to the latest house price boom seemed to be rather moderate (Figure 29).

Figure 29: Dwelling stock in the UK (1991-2009)



Source: Department for Communities and Local Government (2011), author's compilation

It is worth mentioning that, even if the aggregated number of dwellings did not significantly change as a result of house price fluctuations (the annual growth rate has remained stable at around 0.8 % since 1991 with only slight increases in 2007 and 2008) there were shifts between different types of tenure, mainly within the renting sector. Most strikingly, rented dwellings from local authorities decreased mainly in favour of privately rented dwellings as well as those rented from housing associations. The owner occupied stock has decreased from 2005 onwards relative to tenancy, which reached in 2009 the level of 1991, namely

slightly above 33.5 %[102]. In 2008 and 2009, owner occupied dwellings decreased in absolute terms as well, further increasing the proportion of tenancies.

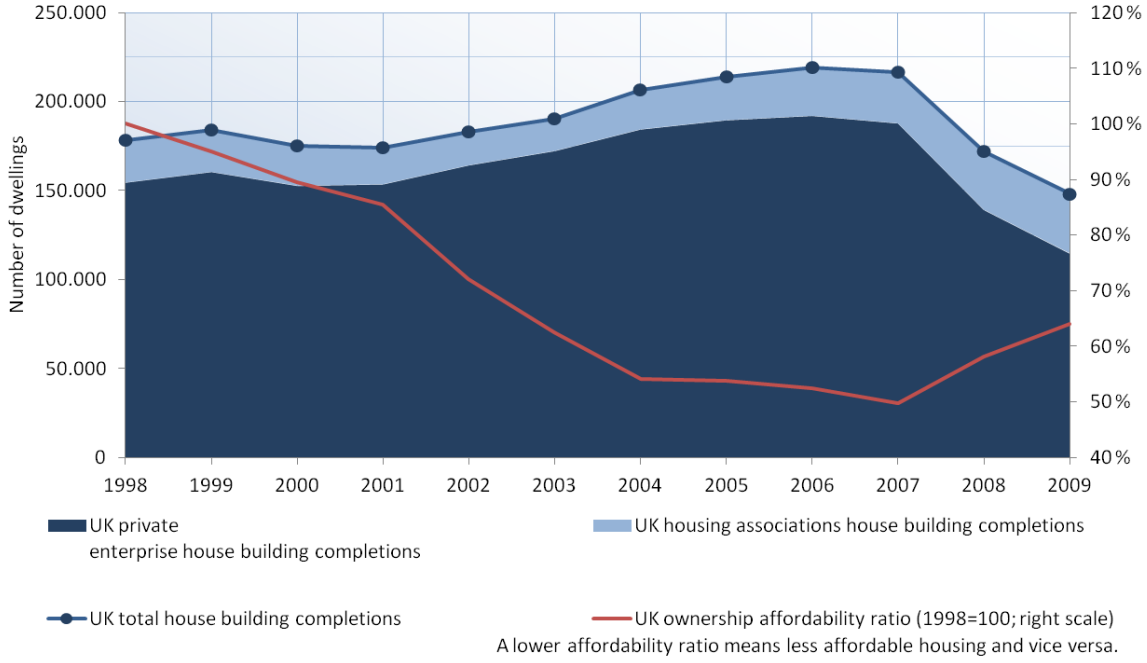
These shifts within the dwelling stock underline the fact that supply is provided not only by the construction of new buildings, but also by the conversion and renovation of previously existing buildings. This is one reason for the diversity of information and data as well as contradictory views to be found in literature on the subject of housing supply and its impact on house prices. Because the data required are mostly interrelated with other data and links to local factors, reliable data are often scarce and analyses difficult to carry out owing to the need of a profound knowledge of local circumstances. In addition to the shifts within dwelling stocks, there are other factors which make it difficult to distinguish between the effects of supply on house prices and those of other influences which include the different kinds of tenure, heterogeneity with regard to quality and location, as well as public policy – all of which have varying degrees of influence within the general framework of housing developments[103].

Independently of the theoretical debate on the direction of causality of house prices and supply, the actual affordability of housing for households decreased throughout the entire period of the boom. It is remarkable, that this development mirrors the development of the number of completed buildings rather than showing a similar progress (Figure 30).

[102] Department for Communities and Local Government (2011)

[103] Cp. Muellbauer et al. (2008). p. 13

Figure 30: House building completions and affordability in the UK (1998-2009)



Sources: Department for Communities and Local Government (2010b), OECD (2011d), Nationwide (2011), author's compilation

Although the number of dwellings completed per year increased from 2001 to 2007, the affordability ratio, by contrast, declined since the "lack of supply in the face of strong demand growth is a major reason for the housing affordability problem"[104]. The environment for home buyers became more favourable thereafter when house prices decreased in 2008 and 2009. Assuming that affordability can be used as a rough indicator of the housing demand of households, Figure 30 suggests that the additional dwellings completed per year (2006: approx. 45,000 dwellings more than 2001) did not significantly influence house prices.

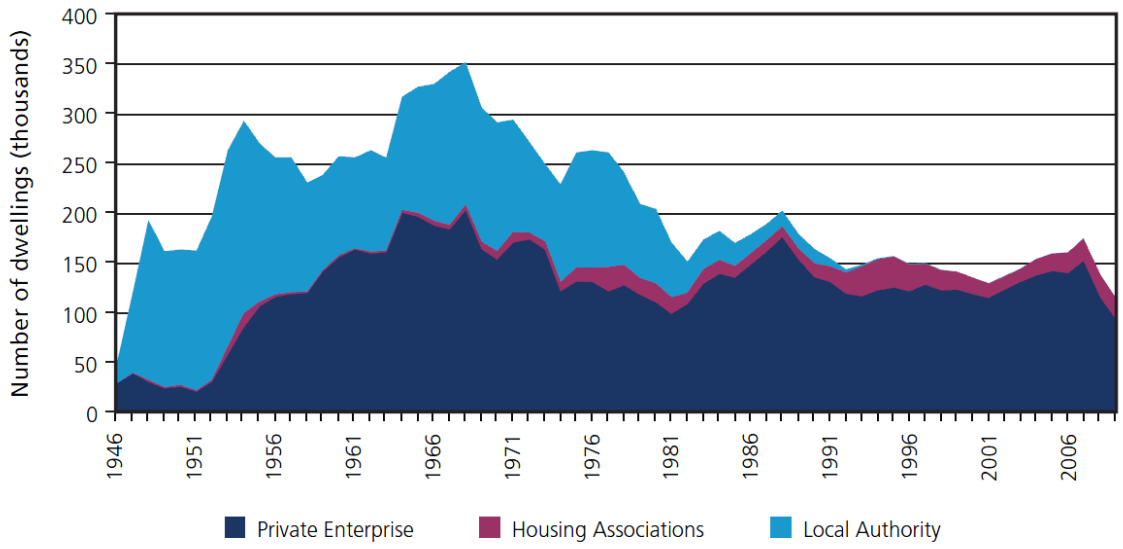
Moreover, it can be inferred that while there was an increase in the number of buildings that were completed for housing purposes by housing associations, notably since 2003, the number of privately built dwellings decreased. In fact, the recent reduction of completed houses can be attributed entirely to the private enterprise sector. Housing associations, on the other hand, increased the number of dwellings both, in relative as well as in absolute terms as this amounted to 22 % of the total dwellings completed in 2009, compared with 9.5 % in 2003[105]. This is in line with Figure 29 and the growing number of dwellings rented from housing associations.

[104] Muellbauer et al. (2008). p. 14

[105] Department for Communities and Local Government (2010b)

The number of buildings completed by local authorities is much lower. Even though it more than tripled to 830 from 2007 to 2008 it is still only about 0.5 % of the total number of buildings completed annually in the UK. The number of new dwellings completed by local authorities has been practically irrelevant at an aggregate level already since the early 1990s. Prior to that, the relative number of buildings completed by private enterprises, housing associations and local authorities was very different, as shown for England in Figure 31.

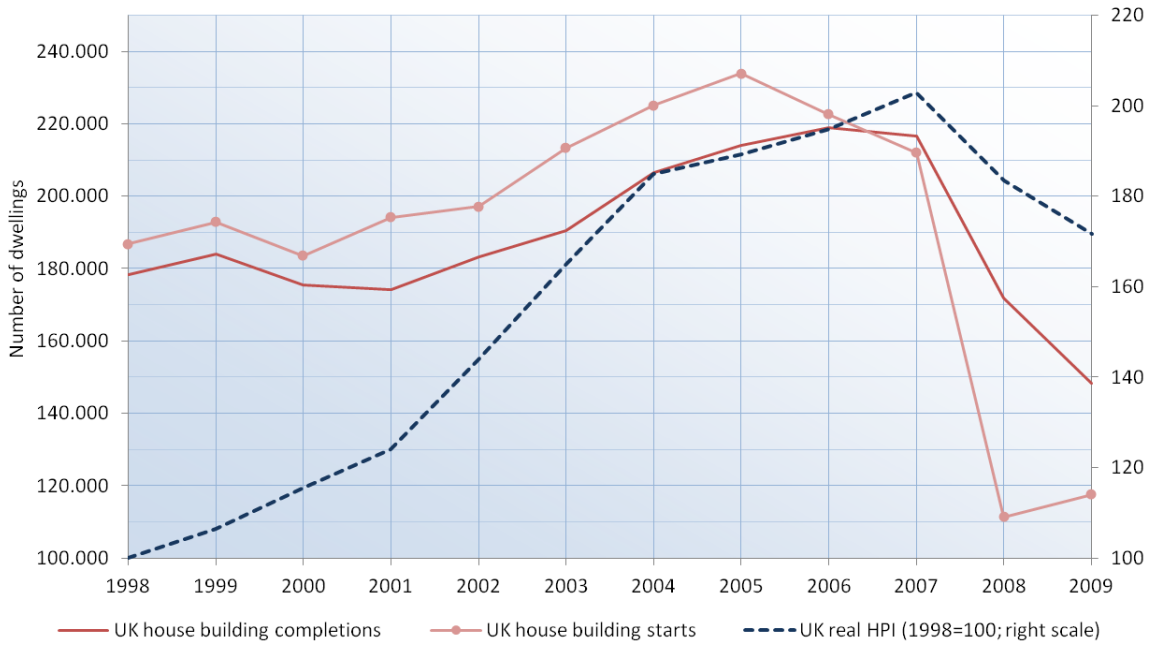
Figure 31: House building: permanent dwellings completed, by tenure, in England



Source: Department for Communities and Local Government (2010a). p. xii

House building starts are another aspect, beside completions, that help to explain supply dynamics. Although starts do not necessarily affect demand as directly as completions, since dwellings generally become valuable and commodified only after their construction has been completed, they may reflect future supply induced effects. More housing completions than starts, for example, may well mean less construction activity in the future which in turn, may lead to a supply squeeze ceteris paribus. This was the case in 2006 when the number of building starts fell below that of completed buildings (Figure 32).

Figure 32: Annual house building starts and completions as well as house prices in the UK (1998-2009)



Sources: Department for Communities and Local Government (2010b), Nationwide (2011), author's compilation

The comparison of the number of house building starts and that of completed buildings to the house price index illustrates the connection these have to each other. House prices started to decline at the same time when the number of buildings that were completed also decreased. Construction starts turned negative already two years earlier, which suggests a lag between changes in construction activity and the actual impact on the housing market as a result of a modification of the housing supply. However, this does not allow inferences to be made with regard to the cause. There are various reasons for decreasing house building starts which presumably were affected by both the demand (e.g. a change in disposable income and housing investments, interest rates and credit availability or demographics) and the supply side (access to and prices of developable land, land use planning or taxes). The difficulty lies in identifying the relevance, weighting and causality of individual factors. However, low additional building completions in line with only a slight increase in average private investment in housing of 2.5 % per year from 1995 to 2005 (as mentioned above and which is little compared to countries with similar housing booms such as Ireland: +10.1 percentage points, Spain: +9.1 or the US: +5.4)[106] and concurrently surging house prices underline the relevance of supply-induced factors and their influence on prices.

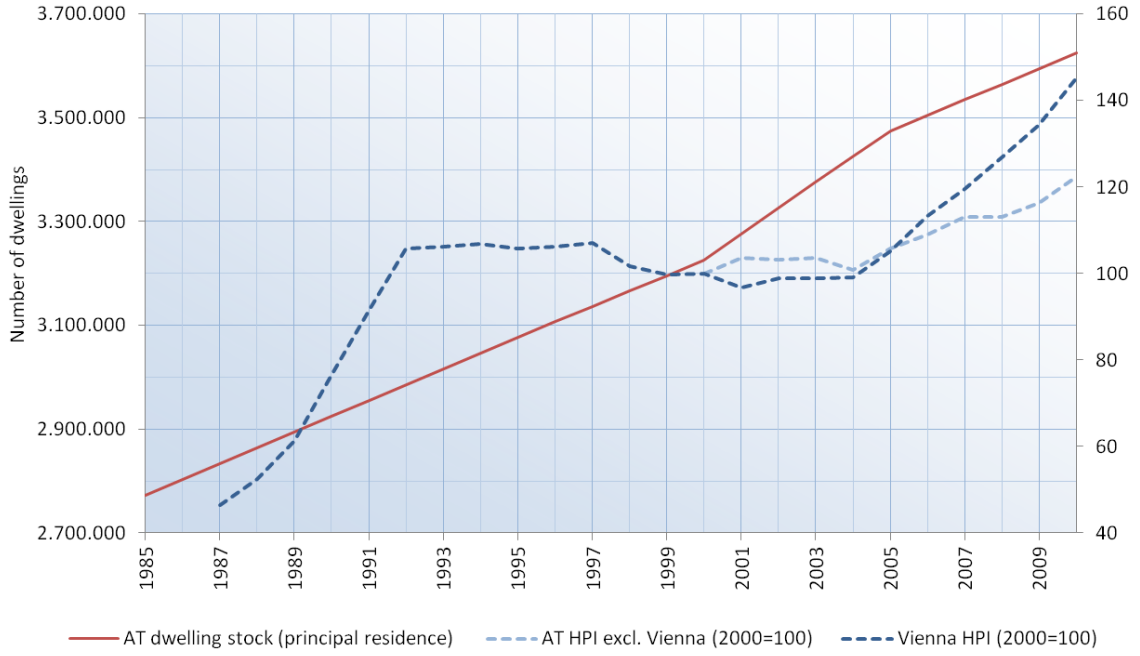
[106] Walterskirchen (2006). p. 11

2.3.2 The Housing Supply in Austria

The housing market in Austria, that has proven to be stable throughout the period of excessive house price increases in the UK as well as the subsequent economic and financial crisis, continues its upswing. Households tend to invest in real assets rather than depositing money into their savings accounts.[107] This trend introduced itself after 2005 and at the same time as house prices started to pick up, since prior to this the average private investment in housing declined by 2.6 percentage points per year from 1995 to 2005 (see above).

The dwelling stock, however, ignored virtually any fluctuation in prices and increased at a constant rate of about 1 % to the previous year from 1985 to 2010. It experienced a slight increase above the long term average from 2000 to 2005 (Figure 33).

Figure 33: Austrian dwelling stock and house prices (1985-2010)[108]



Sources: Statistik Austria (2012b), ÖNB (2011d), author's compilation

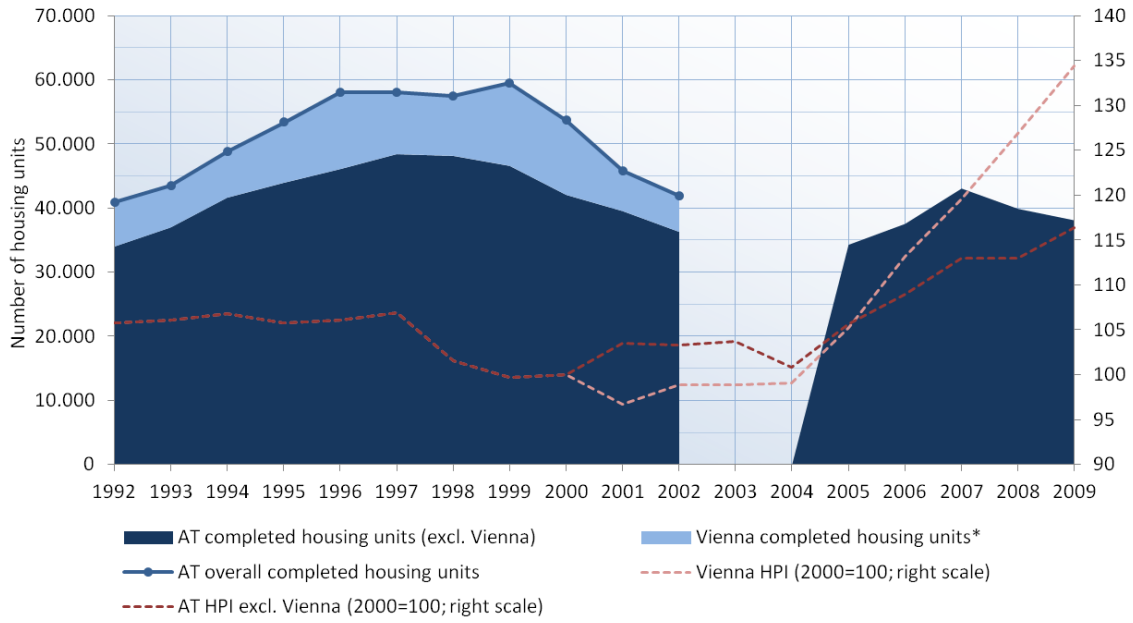
From the historical comparison of changes in the amounts of current dwellings and in house prices it can be inferred that housing supply developed rather rigidly. Independently of the reasons causing the upswing in house prices, the housing supply has not reacted significantly to price fluctuations since 2004. Shifting the view on the number of completed housing units over time it becomes likely that changes in housing supply during the 1990s and the first few years of this century did indeed contribute to rising house-prices together with

[107] Cp. Malloth et al. (2011). p. 2

[108] Data for the Austrian dwelling stock is available for every fifth year between 1985 and 2010 (1990, 1995 etc.). The values in between are interpolated under the assumption of a continuous development. Thus, the dwelling stock in Figure 33 can be considered as trend line.

demand induced factors. To be more precise, the completed construction of housing units peaked in 1999 at almost 60,000 per year, accounting for 1.86 % of the total dwelling stock. Completed units decreased thereafter to annual construction levels equal to those prior to the "major surge in housebuilding [that] started in 1993 when federal and regional authorities responded to the immigration wave from South Eastern Europe."[109] While demand for new housing was low from the mid-1990s onwards owing, amongst others, to immigration restrictions that slowed down population increases[110], population growth, and the low numbers of new dwellings constructed annually between 2002 and 2004 may have contributed to the pressure on house prices from 2004 onwards. Figure 34 illustrates the relationship of completed housing units and house prices; owing to the lack of data relevant to Vienna no comprehensive conclusions can be drawn for the years after 2002.

Figure 34: Annually completed housing units and house prices in Austria (1992-2009)



*Data for Vienna available only until 2002. Data for Austria excl . Vienna is available from 1992-2002 and 2005-2009.

Sources: Statistik Austria (2010a) and (2010b), ÖNB (2011d), author's compilation

The completed construction of houses in all the Austrian regions, except in Vienna, have increased in number since the beginning of the appreciation of house prices in 2004, so that approximately 9,000 more units were built in 2007 than in 2005. Even so, it seems that these fluctuations have not influenced the dwelling stock sufficiently to cushion the current house price upswing. It remains to be seen whether, and to what extent, housing construction will react to the development of house prices and adjust to demand; especially,

109 Ball (2004). p. 20
110 Ball (2004). p. 20 f.

since the housing construction ratio, i.e. the number of dwellings completed in relation to the country's population, has been decreasing since 2007.

At that time, there were 6.49 newly built housing units for every 1,000 inhabitants. This number declined to 5.71 in 2009[111], even though the average Austrian occupies increasingly more floor space and shares this with fewer persons. In 1991, 2.54 inhabitants (2001: 2.38) shared one dwelling unit, 19 years later – in 2010 – this number had sunk to 2.29. In contrast, while the average floor space per person amounted to 38 sq. m in 2001, it increased to 43.3 sq. m in 2010.[112] The reverse development of these two factors, combined with the reduced number of new dwellings, increases the demand for housing relative to the supply of dwellings and thus brings about upwards pressure to prices. Furthermore, detached and semi-detached houses accounted for 68 % of the funds used for the construction of dwellings in 2001. Only 32 % of the funds were invested in buildings with three or more flats. This ratio could increase the need for land, if the difference becomes even greater in the future, because of more space-intensive development. An interesting fact is that the above mentioned 68 % of construction funds for dwellings was used to finance only 51 % of all the dwellings developed in 2001.[113] This statistic indicates that this type of building is significantly more expensive, probably also because of its demand for higher-than-average floor space.

However, it should be noted that, in general, more than 88 % of all the new housing units in Austria (with the exception of Vienna) are to be found within newly developed buildings. The remaining 12 % of the housing units offering new housing space have been produced by conversion, modernization and redevelopment of previously existing buildings[114]. This slightly weakens the line of argument of the demand-sided pressure on house prices as a result of lower building construction, because the 12 % of converted dwellings are not included in building completion statistics although they are new housing space all the same.

A further interesting aspect is the development of construction costs and whether they are in line with the prices demanded for houses. Obviously, higher housing production costs (which include construction costs) and, at the same time, stagnating or even decreasing house prices reduce the financial margin of homeowners, whether they sell or rent their dwellings (assuming that rents adapt to house-prices in the medium to long term[115]). During the period from 1992 to 2001 this was more or less the situation in Austria (Figure 35).

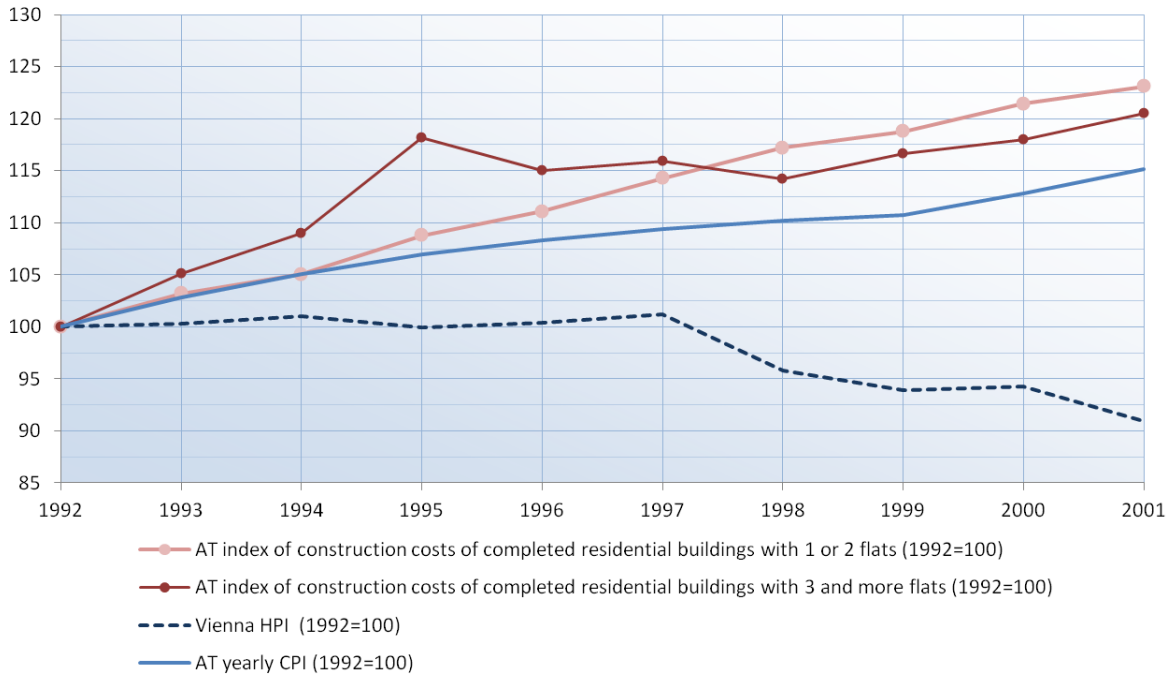
[111] Statistik Austria (2010a); (2010b); (2011b)
[112] Statistik Austria (2011a). p. 37
[113] Statistik Austria (2004). p. 147 f.
[114] Statistik Austria (2010c)
[115] Wieser (2008). p. 2

Owing to the lack of data for Austrian housing prices for this period, the construction costs are compared with the Viennese house price index.

The difference between the construction costs for residential buildings and house prices increased continuously in the 1990s and throughout the first few years of this century. Since it cannot be inferred from the present data what percentage of the construction costs were the main reason for the increase, no detailed statement can be made about its consequences. If, for example, high construction costs were significantly based on rising land prices, they would gradually be substituted for capital or labour. Following the neoclassical notion that land is a production factor, these factors are, to a certain extent, interchangeable in the pursuit of maximizing the profit. For a short period around 1995, the construction costs index of buildings with more than two flats was detached from that of buildings with only one or two flats and increased above the average. Since more of the factor land is needed to produce bigger buildings, this increase may be attributed to a surge in land prices.

Moreover, the detachment of house prices and construction costs in Figure 35 suggests that house prices were undervalued during the period of time in question. Their increase since 2004 may equal, in part, a delayed correction of housing value spurred by other factors such as increasingly cheaper mortgage loans (see above).

Figure 35: Annual indices of construction costs and house prices in Austria (1992-2001)



Sources: Statistik Austria (2004). p. 149, ÖNB (2011d), author's compilation

Reiterating, house prices result indeed from the interaction of demand and supply. The difficulty does not lie in determining prices and quantities in the market but rather in

ascribing specific effects and weights to certain parameters as well as in identifying the actual demand and supply curves on the basis of empirical evidence.[116]

[116] Maennig (2008). In: Schulte [ed.] (2008). p. 336 f.

3 Housing Policy and the Institutional Setup in Austria and the UK

There are several factors that explain the divergent development of the housing markets in the UK and in Austria within the past 60 years or so that can be attributed to different housing policies, and the policies of other sectors as well as certain factors that are not, or only slightly, influenced by public regulations:

In addition to the specific policies and regulations of the housing sector, a wide range of policies from other sectors also influence the housing situation. These can range, for example, from planning and land use regulations that influence the way and extent to which land can be used for housing purposes, over transport policies, such as the commuter tax allowance which may have an effect on the choice of the place of residence, to economic policies including those which concern the labour market. The latter are especially important since income is the main parameter of the wealth of household and this, in turn, is a determining factor with regard to housing investments and demand. These few examples illustrate the complexity of the housing sector and its close integration with other policy areas that should be addressed within the scope of a truly comprehensive analysis. However, owing to the thematic restrictions of this paper and in order to maintain the scientific focus on housing, the present chapter deals mainly with policies specifically concerned with housing, social housing services and housing finance in the two countries in question.

Housing also tends to undergo developments that cannot, or only to a certain extent, be controlled by public authorities within a single country. In addition to the examples regarding global financial trends and circumstances that might affect property markets, which were already presented in Chapter 2 on page 6 (e.g. huge capital inflows) economic developments, such as the rising costs of construction resources on international commodity markets are difficult to counteract by implementing public policies. Moreover, handing over national sovereignty to supranational organizations and institutions, such as the EU, narrows the national political leeway to cope with issues in particular policies since they have to be at least co-ordinated on an international level – although the specific details are often still at the discretion of the individual countries. The "quantitative easing" for Euro zone members, for example, is now centrally carried out by the ECB rather than the central banks of the individual member countries, as was the case in December 2011 and February 2012.

However, the reliance on the market to allocate housing (to a greater or lesser extent) is indeed based on public policies. Although a market-based allocation, even in its purest form, may appear to be devoid of governmental rules, because the State does not intervene, it draws upon exactly these rules to set a regulatory framework within which it can operate. The absence of public intervention is, after all, a political decision. As a consequence, the market-based allocation is the result of public decisions which restrict their very authors from regulating it. In practice, however, housing markets in the UK and Austria operate somewhere in between free markets and planned economies, that is, the State not only subsidizes and co-operates with the market, it also makes use of its functions as an intermediary.

This chapter examines which determinant structural factors explain the differences of the housing market developments in Austria and the UK, respectively, and, in doing so, it creates a link to the arguments presented in Chapter 2. In the context of policies and institutional settings, the role of the State is not to be neglected. The extent to which it provides public housing services and defines housing regulations significantly determines the organization of the housing system. Therefore, the question that arises is – what role does the State play in relation to the housing system?

According to the explanations put forward by Malpass[117], two general approaches describe the relation between the State and the housing system. On the one hand, a narrow view that identifies "all the various ways in which the state is involved in enhancing the wellbeing of its citizens, in this case through interventions that relate directly or indirectly to their consumption of housing."[118] A fundamental aspect in this approach is to no longer view housing as a commodity, i.e. the attempt to emphasize the functional value of a dwelling (as a home) at the expense of its trade value and to distribute the commodity according to criteria other than the ability to pay, such as social need[119], thus, making consumers less dependent on market developments. This view leads to a focus on the provision of social housing and its political promotion either directly or through non-profit or limited-profit housing associations.

However, since this limited view only insufficiently explains processes and structures external to subsidized housing, the second, much broader approach "provides a way of looking at and explaining forms of state intervention that amount to working with and through markets (and other structures of provision such as voluntary and charitable organisations)."[120] In the context of the present paper, this includes not only the regulatory

[117] Malpass (2005). pp. 6 f., 11
[118] Malpass (2005). p. 6
[119] Cp. La Grange et al. p. 2471 f.
[120] Malpass (2005). p. 7

perspective of the public authorities that focuses on state interventions, but also the views on housing markets as providers and consumers of housing services as well as on different tenure types in addition to social housing.

In the following Chapter 3.1, a methodical framework is presented for public intervention in the housing market, as well as an analysis of the housing systems in Austria and the UK with regard to the broader approach, while, in Chapter 3.2 the narrower approach is used as an analytical framework for the study of social housing. Chapter 3.3, in contrast, focuses on the structure of housing finance, its impact on the provision of housing and its ties to the economy in general.

3.1 Housing and the State

3.1.1 Political Orientation and Intervention in the Housing Market

Regardless of its definitive organization, it is assumed that the fundamental aim of any housing system is the provision of sufficient affordable dwellings. The different forms in which this can be achieved may vary; however, there are certain prerequisites for a system to work successfully, including the "efficient organisation of institutions that, singly or in combination, through direct or indirect means, ensure effective and comprehensive functioning of the housing system."[121] Moreover, since the housing system does not exist in a vacuum, as it is rather part of a complex bundle of interacting organizational structures, it also requires other functioning systems such as those for legal, financial and fiscal matters, or a labour market.

The 'functioning' of the housing system which, in this case, refers to the fulfilment of its fundamental aim of providing sufficient affordable dwellings, can be accomplished by indefinite variations of institutional and organizational configurations between two extremes: On the one hand, a purely market-based allocation of living space based on efficiency and the commodification of housing and, on the other hand, a controlled distribution of living space on the basis of certain political criteria, such as social needs.

In a theoretical, free and highly liberalized housing market that functions only according to economic criteria, the public authorities either do not have the possibility – or the wish – to intervene and regulate the development of the market Thus, there are no public objectives and aspired long-term progress; instead, the aggregated housing development is nothing more than individual decisions of market participants who are prepared to pay a certain price for a specific dwelling according to their preferences and after closely considering the

[121] Vliet (1990). p. 44

advantages and disadvantages.[122] The commodity is then allotted to the highest bidder, regardless of social acceptability and possible political objectives. Prices are determined according to supply and demand and reflect the housing characteristics as well as the advantages and disadvantages of location. More favourably situated housing units, naturally, are more expensive, which leads to a form of residential segregation based on the purchasing power of the population.

The location of a dwelling plays an important role in the process of price determination. It is best explained through the concept of the location rent which generally refers to the internalization of external, location-induced effects on the land rent. The latter notion, which was decisively shaped by Johann Heinrich von Thünen[123], is mainly applied to the discussion of land price determination. However, the insights gained through this concept are also relevant in this context. It implies that a significant part of the price is determined by external effects that do not originate from the property itself. Its value increases in the case of positive external effects and decreases if the opposite takes place. Either way, the effects can be seen as "unearned" because there is no arrangement for (positive or negative) compensation. From the perspective of the developer, who also seeks to maximize his benefit, high location rents and consequently high property prices inevitably lead to more intensively used land. In terms of neoclassical economics (see Chapter 2.3, p. 42), the more expensive factor, namely land, is substituted by less expensive factors, such as capital, resulting in higher buildings which cover less ground area. This so-called factor substitution is, amongst other things, the reason for the high correlation between building density and land as well as house prices in a liberalized environment and a housing market based on the allocation of living space according to economic criteria.[124] In his aspiration for maximum gains the developer has to determine the right combination of factors, since high building density not only increases the value of the property, it also decreases the value of each individual housing unit and increases construction costs. Thus, building density increases the profit only to a certain extent.

This line of argument is based upon a set of assumptions and conditions that are necessary for this theoretical, free housing market to function properly and, consequently, to reach and to maintain its market balance[125]. To begin with, all the participants act rationally and seek to maximize their benefits. Moreover, the diversity of the market is ignored and it is assumed that there are no submarkets, thus completely disregarding the heterogeneity of

[122] Cp. Baumberger (2007). p. 164
[123] Cp. Thünen (1910). e.g. Chapter 5a.
[124] Cp. DiPasquale et al. (1996). Chapter 4 for a more detailed discussion of the connection between density and land as well as house prices, and the determination of the optimal density.
[125] Cp. Blaas et al. (1991). pp. 18-27

dwellings deriving from their spatial dispersion and characteristics, such as the year of construction, the infrastructure, etc. However, the many segmented and overlapping submarkets make the housing market as a whole very opaque. For this reason, the assumption that there is a sufficiently large number of market participants who are sufficiently informed with regard to the supply and demand conditions, is often not true. Furthermore, the information is rarely distributed equally amongst the different parties involved, making the acquisition of information on market conditions an integral part of the transaction costs, together with moving expenses and negotiation costs. Yet, in order to ensure market balance, transaction costs should not be incurred. Additionally, there ought not to be any risks involved in the fulfilment of the terms of contract, which is, in reality, almost never the case, particularly when there are information asymmetries.

As a consequence of the aspects mentioned above, a market balance in the housing market cannot be expected because it is likely that one or more necessary conditions are not fulfilled. Therefore an efficient allocation of living space does not occur. For this reason there is an economic rationale for the State to allocate and to intervene in the market and to foster its efficiency.

In addition to this rationale, the concept of the land rent offers a further aspect of public market intervention. Even if the developer referred to above, who seeks to maximize his benefits by means of more intensively used land, were to achieve the optimal density, this would be for a very brief period. In order to include the current land rent in the price determination, it would be necessary to permanently reconsider the relations between locations that mutually influence their value. Because although housing transactions are mostly carried out between two parties, under consideration of the location rent, the behaviour of third parties significantly influence the value of the property belonging to other people. These considerations lead to the conclusion that spatial relations are not compatible with the purely market-based interaction of supply and demand. Since market transactions (as shown above) do not bring about an equilibrium, location rents cause a permanently spinning top of moves which would not stop, even if an equilibrium in the housing market was attained by chance, because the price mechanism is not able to maintain it. This legitimates the use of public regulations, in this case especially land use and development plans, to control and regulate the development of location rents by restricting the possible uses of land.[126]

However, even if the market efficiently allocates living space (with or without public intervention), the allocation might still conflict with socially and politically desired

[126] Koopmans et al. (1957). Cited in: Franck (1992). p. 60 f.

results.[127] Therefore it may be necessary for the public authorities to intervene in the market and to (re)distribute housing resources according to other criteria. The definition of the desired results, that are most likely connected to a sense of justice and more equally distributed living space, is highly political indeed, which means that there is no general answer to what extent and kind of political intervention would be most appropriate. In fact, the degree depends, among other things, on the difference between the free market prices and the economically reasonable costs for adequate housing for the population, which are political decisions. The intensity of the redistribution policies depends on whether it is a socio-political objective that the whole population's housing supply reaches at least a certain lower limit, or not. It also depends on housing market prices and incomes.

A higher degree of intervention in the housing market in favour of more intense redistribution policies is, however, most likely connected with a certain loss of efficiency. Thus, a fundamental question regarding the trade-off between redistribution and allocation objectives is to ask to what extent is it worth abandoning efficiency in favour of more fairness, or vice versa. This, again, is a political decision that depends very much on the definition of fairness and on socio-political objectives. With regard to this Blaas[128] identifies two basic challenges for the public authorities that can be described as central issues for the housing policy. First of all, the difficulty to find the most favourable combination of fairness and efficiency and, secondly, the difficulty to find a combination that is accepted by the population and at the same time economically reasonable.

In what follows, the housing markets and the institutional settings of Austria and the UK are discussed within the previously presented analytical framework and, in particular, with regard to the two central issues of housing policy.

3.1.2 The Housing Policy in the UK

The housing development in the United Kingdom is closely linked to political developments on the national level. Housing policies were often changed according to the political orientation of whatever Party was currently governing the country, making it a plaything for short-term political ideologies. Since the Second World War there have been eight shifts of power, including the most recent elections in 2010 which resulted in the current coalition of Conservatives and Liberal Democrats. In contrast to Austria, where most of the governments since 1945 have been coalitions, all the previous governments in the UK consisted of only one party, which implies that, owing to the absence of political compromise, the shifts of political power had a more direct impact on policies. Moreover,

[127] Blaas et al. (1991). p. 24
[128] Blaas et al. (1991). p. 26

as Donnison, for example, wrote, there are specific subjects that are emphasized by political movements to symbolize their differences. However, "[i]f an issue is treated in that way for many years it becomes impossible to develop consistent, rational policies for dealing with it. Housing has long been one of the issues used in this way by the main political parties."[129]

It is therefore no easy matter to clearly define any periods of consistent and coherent housing policy and housing development since the Second World War in any other way than by categorizing it according to the legislative periods. In the relevant literature there are various approaches which result in different classification systems with regard to the number and the duration of periods, depending on the focus of the studies.[130] In order to identify meaningful phases of housing policy, it is helpful to look at the development of the welfare state as well as at generally accepted ideas and principles concerning the role and activities of the State. These can be seen as a general framework in which housing policies are embedded.

Based on Clarke and Newman's[131] concept of three distinct settlements (the political-economic, the social and the organizational) that describe the welfare state, Malpass[132] argues that the development of housing policies since 1945 can be classified into two broad periods. During the first of these periods, which stretches approximately from the end of the Second World War to the 1970s, the three settlements entailed, first of all, a mixed economy, i.e. a "managed capitalist economy with full employment as a central goal, together with a series of universal services, free at the point of consumption, funded from taxes and insurance contributions."[133] Secondly, the social settlement referred to patriarchal, traditional family patterns and, thirdly, the organizational settlement described the combination of professional and bureaucratic modes of co-operation within public sector organizations. "The bureaucratic method provided a means of ensuring standardisation and impartiality in the delivery of services, while professionalism applied expertise and encouraged progress."[134]

The economic and political crisis during the 1970s led to a reconsideration of many of the post-war economic and welfare policies, which became increasingly difficult to defend against the background of rising unemployment and a shrinking economy in 1974 and 1975 as well as in 1980 and 1981[135]. These circumstances paved the way for the acceptance of

[129] Donnison (1989). Cited in: Malpass (2005). p. 17
[130] Cp. Malpass (2005). p. 17 for an overview of authors and studies that define periods of housing development in the UK.
[131] Clarke et al. (1997). Ch. 1. Cited in: Malpass (2005). p. 9
[132] Malpass (2005). p. 8 ff.
[133] Malpass (2005). p. 9
[134] Malpass (2005). p. 10
[135] OECD (2011c)

altered political and economic principles and, consequently, entailed a change of the three settlements mentioned above. To begin with, the State reduced its willingness to assume responsibility for the wellbeing of its citizens, the extent to which it provides services and managerial economic intervention, which meant the State had an overall smaller role than it had had previously. As far as the social settlement is concerned, the "[o]ld assumptions of the predominance of white nuclear families with male breadwinners and dependent wives and children have had to be revised in the light of higher levels of female employment, increasing ethnic diversity and growing numbers of one-parent households."[136] Finally, the organizational settlement moved away from the basic approach that the major political parties had accepted – albeit with some differences – namely the combination of public and private provision of services[137], and shifted more to the managerial approach. Public services were increasingly provided by a mixture of non-municipal organizations instead of local authorities.

Housing policies are integrated in this general framework and are, consequently, affected by the current characteristics of the settlements. However, applying the periods on housing policies implies neither that the policies were enacted already fully formed nor that they remained unchanged over the whole period. In other words, the relevance of the periods should not distract attention from the dynamic housing development and the dynamic development of housing policies. For instance, the degree of commitment of the Labour Party to social housing changed throughout the first period. It was strong "as long as this tenure provided necessary housing for its core supporters, the more skilled and often unionised working class. But as this group began to move into home ownership in the 1950s and 1960s the Labour party also shifted toward increasingly strong support for private housing […]."[138] Instead, the categorization of housing policies according to the legislative periods is to emphasize the framework of distinct features within which they are contained and which differed in each period.

Ginsburg formed a set of characteristics which applied for the housing policies throughout the first period. Housing policies were based on the idea of a mixed economy. The market provided housing for the great majority of the population, local authorities offered public housing for those excluded from the market, and the State subsidized certain forms of tenancy. Based on this idea Ginsburg worked out four characteristics for this period:

[136] Malpass (2005). p. 10
[137] Cp. Vliet (1990). p. 117
[138] Vliet (1990). p. 115

- "rent control/regulation for private rented housing without significant fiscal incentives or cash support for landlords or tenants
- nationally regulated and subsidised provision of local authority rented housing for the 'respectable' working class
- programmes of Victorian slum clearance with replacement council housing for poor people
- fiscal and general government support for owner occupiers." [139]

While the underlying trend clearly was that housing should mostly be provided by private enterprises and that the role of the State was merely to support it, policy makers were largely indifferent whether it was private renting or ownership. Tax reliefs for mortgaged properties and subsidies for lower interest rates were offered to reduce the ownership costs, rent controls kept the rents relatively low in the private sector and public rents were subsidized. Consequently, many people during this period were not required to pay the full value of their housing situation as it would have been the case on a free market.

In addition to housing policies the relatively advantageous quantitative housing circumstances after the Second World War supported a favourable environment for low housing costs compared with other countries. The number of households only slightly outnumbered those of flats and houses which led, together with the demographic development, to a low demand for new housing – lower than in Austria. [140] A generally low population growth together with a comparably low reduction in household size resulted in a slight increase only in the number of households. Moreover, the already high degree of urbanization in the UK, at that time, limited the influx of new residents in the cities and diminished the pressure on urban housing markets. However, the low demand for new housing was accompanied by an equally low degree of building activity throughout the periods of the first two post-war Governments under Clement Richard Attlee (Labour, 1945 – 1951) and Sir Winston Spencer Churchill (Conservative, 1951 – 1955), respectively, which resulted in an absolute shortage of housing until the early 1960s when the deficit turned into a surplus. [141]

The Labour Government from 1945 to 1951 under Clement Richard Attlee attached great importance to public housing construction with the intention to maintain the provision of housing through local authorities, which was established as the predominant concept during the interwar period. The aim was to provide public housing for a wide range of the population. The following governments, until the 1970s, had public housing still on their

[139] Ginsburg (1999). Cited in: Malpass (2005). p. 19
[140] Czasny (1988). p. 86
[141] Vliet (1990). p. 88

agendas, albeit to a much lesser extent. The Conservatives (1951 to 1964) restricted it to groups of people with special needs, such as those relocated within the scope of slum-clearance schemes[142], and the subsequent Labour Government (1964 to 1970) seemed to accept the concept of public housing as an addition to the market for socially underprivileged classes. In reference to the analytical framework established in Chapter 3.1.1 this means that the degree of public intervention in the housing market was increasingly limited and the idea of a classless housing policy was rejected in favour of a selective allocation.

During this first housing policy period, homeownership was increasingly encouraged with the effect that owning a house replaced private renting as the predominant alternative to public housing. Private tenancy was widespread until the 1950s, when it was the most common form of tenure as approximately 51 % of all households in Great Britain rented privately. It then fell sharply to about 20 % in the early 1970s, and by 1986 it accounted for only 10 %. At the same time owner occupation, pushed by both major political parties, increased from 31 % in 1951 to 50 % in 1971[143] and to 65 % in 1990[144]. As a consequence of the political regimes, namely that of the Conservatives, who were indeed ideologically inclined towards the private sector and who aided the expansion of ownership rather than private renting; and that of Labour, who supported public housing, as well as homeownership, and enacted laws that made private leasing less attractive to investors, the private landlord had become practically extinct by the time the second period began.

Housing policies and the general conception of the role of the State with regard to housing changed drastically in the eighteen years (1979 to 1997) in which the Conservative Government was in power, because Margaret Thatcher and her successor believed that housing should be dealt with privately and that public intervention was becoming increasingly a problem rather than a solution. This perception marked a breach of the previously prevalent idea of the mixed economy and the welfare state and a shift towards those Victorian values which Margaret Thatcher, in particular, was dedicated to. In an interview in 1983 she said: "[…] I want everyone to have their own personal property stake. Property, every single one in this country, that's why we go so hard for owner-occupation, this is where we're going to get one nation. I want them to have their own savings which retain their value, so they can pass things onto their children, so you get again a people,

[142] Slum-clearance programmes were rehabilitation measures for areas with a high degree of old, run-down properties. They started in the 1930s and were continued in the late 1940s after an interruption during the Second World War. After their peak in the late 1960s at 70,000 clearances a year they fell sharply. These programmes entailed the demolition of buildings and the relocation of their inhabitants, to which local authorities were obliged to offer alternative dwellings. (Vliet (1990). pp. 99, 113 and Czasny (1988). p. 100)

[143] Vliet (1990). p. 90

[144] Hilbers (2008). p. 20

everyone strong and independent of Government, as well as a fundamental safety net below which no-one can fall."[145]

Whereas, prior to the second period of housing policies, the tasks of the public housing sector included the provision of good quality housing for the majority of the population, later on the policies focused on moving the better off social groups into homeownership. This was largely made possible by the 1980 Housing Act which entitled public tenants to buy their dwellings at a price below that of the market value (Right to Buy), if necessary with the support of municipal mortgages. There were two negative consequences: first of all, social housing providers incurred losses because of the low prices at which they were obliged to sell. Secondly, even if the relatively low revenues (compared with market prices) could be used in the beginning to maintain the remaining social housing stock, they were outweighed in the long run by increasing maintenance costs, owing to cost degression (according to the economics of scale the maintenance costs per unit increase with a shrinking number of units) and housing stock deterioration, as well as by a devaluation of the housing stock, owing to the sale of higher quality dwellings and the following relative increase of poor tenants[146]. In 1988, Czasny wrote that the average number of housing conversions from tenancy to ownership since the Conservatives took office in 1979 doubled to 60,000 per year.[147] The less well off, on the other hand, were confined to an "increasingly segregated, residualised and stigmatised social rented sector."[148] However, by the mid-1980s it became clear that a certain percentage of the households would always have to pay rent because they would or could not afford ownership. Because of the Conservative's ideological preference for the private market, new policies, enacted in 1987, therefore aimed at shifting council tenants to the private rental sector and, in doing so, revived the private landlord who had been neglected since the 1930s, – as well as a mixture of other private housing suppliers. As a result, since the early 1990s local authorities play only a marginal role in the provision of housing (see Figure 31 on page 46).

Analogous to Ginsburg's housing policy characteristics (see above) for the first period, Kleinman identified four features that hold true throughout the second period:

[145] Margaret Thatcher (16.1.1983).
[146] Mundt (2008). In: Lugger et al. [ed.] (2008). p. 338
[147] Czasny (1988). p. 103
[148] Malpass (2005). p. 21

- "the promotion of owner occupation
- the deregulation of private renting
- acceleration of the trend away from general housing subsidy towards means-tested assistance with housing costs
- the cultivation of the idea that local authority housing was a failed solution and that it had become part of the problem to be solved."[149]

The gradually advancing privatization of living space and the deregulation of specific housing sectors had the purpose to marginalize the role of the State. However, while these political steps did not disengage the State from the housing sector as a whole, because it was obviously still involved in legislative processes and financial transactions (for instance, in subsidies for private housing), these steps did diminish the importance of the State as the direct provider of housing, as this was increasingly carried out by the private market. For the majority of the population the market allocation provides adequate housing conditions, but for the socially deprived who were unable to afford homeownership, even if it was subsidized, the housing situation changed for the worse (see Chapter 3.2).

Naturally, these housing policies were embedded in a broader political and economic objective, namely to "eradicate the last bases of support for the blend of the mixed economy with a fairly extensive 'welfare state' that dominated British society and politics from 1945 to the late 1970s."[150] Thus, privatization in the housing sector was accompanied by privatization in other sectors, such as transportation.

The Labour Party's opposition to the paradigm change in housing policies during the eighteen years of Conservative government had been muted. Its views on such aspects as the deteriorating housing stock or increasing homelessness found little support and moreover, after initial disagreement, it accepted the conversion of public housing to private ownership as a feasible concept. In fact, after taking office in 1997, they continued to sell council houses to private owners and, in doing so, supported the "new" housing paradigm that had been established during the eighteen years of Conservative government. Furthermore, Labour supported private renting, continued to reduce the extent of public housing construction and maintained housing associations, which had been growing since 1974, as the major providers of affordable houses. Although it is questionable to what extent the new social housing supply met the actual demand. Different studies in the 1990s, when the

[149] Kleinmann (1996). Cited in: Malpass (2005). p. 21
[150] Vliet (1990). p. 121

annual average number of dwellings completed by housing associations amounted to around 27,000 units, stated that requirements might exceed 60,000 dwellings per year.[151]

3.1.3 The Housing Policy in Austria

The Austrian housing policy differs from that of the UK in several ways. To begin with, the general framework including political structures, historic circumstances and public perceptions of the role of the State – in which housing policies are embedded – is different. As a consequence, the modes of public intervention and the policies used vary, even though, since 1945, the underlying objectives have, at (certain) times, been similar. Moreover, the housing policy development since the Second World War has been more consistent in Austria in terms of the instruments used and the basic political intentions that were pursued.

In the previous chapter on "The Housing Policy in the UK" three distinct settlements were used to describe the welfare state and to illustrate changes in the welfare regime which had a strong impact on housing policies. Applied to Austria, these settlements draw attention to some of the differences of the prevailing general framework, as described above.

As far as the political-economic and organizational conditions are concerned, "Austria figures consistently as an example of a conservative and corporatist welfare regime, displaying all the attributes of such an ideal type: a strong regulation of the labour market, welfare provision based on fragmented systems of social insurance, a strong role of the family vis-à-vis market and state, and kinship, corporatism and etatism as the dominant mode of solidarity."[152] Other prominent features, partly resulting from the corporative setting, are, first of all, the relevance of the social partnership, secondly, a pronounced fragmentation of competencies, and thirdly, federalism. This is especially valid for housing policies whose legislative and executive jurisdiction is split between several local authorities. This setting demands a consensual political conduct between stakeholders which makes it relatively complex to introduce fundamental political or institutional changes, compared with more centralized, majority democracies, such as that of the UK. Austria's housing policies have been, consequently, more consistent in the long run. Even though the political parties in power since 1945 might have differed in their ideologies, there was no drastic policy change comparable to the policy changes that occurred in the UK from 1979 to 1997. There were, however, limited policy fluctuations because of changing governments, especially with the upcoming popularity of neoliberal notions. Housing policies based on social welfare provision were increasingly questioned in the 1990s and the public responsibility for housing provision was reduced, which became manifest, e.g., in the

[151] Cp. Malpass (2005). p. 138 f.
[152] Matznetter (2002). p. 267

liberalization of the tenancy law, cuts in housing construction subsidies or the privatisation of limited-profit housing.[153]

Similar to the UK, the social settlement changed throughout the twentieth century. Traditional nuclear family patterns gave way to less standardized modes of living together and more single households, which indeed had an effect on the housing demand, namely an increasing interest for specific, less homogeneous types of dwellings at certain, more accessible locations.[154]

One of the objectives of the Austrian housing policy is to prevent housing from being entirely exposed to the forces of the free market. While it may be the case that the policies and laws were more restrictive before the 1980s, in the sense that public intervention and the (re)distribution of housing resources were more pronounced, Austria's "post-war model of social housing has been better preserved than in many other countries of the continent"[155], which can be also traced back to the consistency of the "conservative" political-economic and organizational settlements. However, this continuity minimizes the suitability of the settlements to classify the housing development into phases with different determining political features – as compared with the UK which was less of a problem to categorize as there was less continuity (see Chapter 3.1.2.). Instead, there are other historical reference points which can be drawn upon to classify housing development into two different periods. An approach discussed in the relevant literature is presented in the following.

It bases its classification on the quantitative ratio of supply and demand. During the first two decades after the Second World War there was a very great demand for adequate living space owing mainly to the great number of damaged and old buildings with poor sanitary facilities. In the course of the subsequent two or three decades, housing policies had succeeded in facilitating new or renovated living space of higher quality, so that, "[a]round 1980, housing policy had reached its post-war goal of creating an equilibrium between supply and demand"[156]. This turning point was preceded by the 1970s era in which social rented housing enjoyed abundant funding and, at its peak, accounted for half of all the newly built dwellings. While scientists agree for the most part on what is meant when the post-war reconstruction period is referred to with regard to the Austrian housing development, and when it began, there is some controversy over when this period ended. Bauer[157], for instance, establishes it at around 1970, i.e. ten years earlier than Matznetter (see above). An

[153] Cp. Köppl (2008). In: Lugger et al [ed.] (2008). p. 318
[154] Matznetter (2002). p. 278
[155] Matznetter (2002). p. 267
[156] Matznetter (2002). p. 276
[157] Bauer (2008). In: Lugger et al [ed.] (2008). p. 128 f.

interesting point, however, is that, even if there has been a tendency of the State to withdraw its influence on housing policies in favour of the free market, the fundamental objectives of housing policies did not significantly change after this period, which mainly limits this classification approach to quantitative and qualitative rather than political aspects.

The relative political continuity in Austria is obviously in contrast to the development in the UK, where many of the post-war social and economic policies, including those regarding housing, were reconsidered during the late 1970s and thereafter (see Chapter 3.1.2). Although the demand for a more efficient housing policy (which included neoliberal strategies, such as the sale of social housing, the restriction on social housing and housing subsidies to lower income classes, the liberalization of housing law as well as, in general, a deduction of public funds from the housing sector) was expressed also in Austria, it was not implemented to the same, integral extent. There was an opposition to these ideas that supported the hitherto existing housing policy model. The arguments were that a restriction of subsidies to lower income classes would inevitably lead to acute social friction and conflicts over the distribution of wealth, and it would lead to increasing residential segregation. Also, the existing housing policy was seen as a powerful governing instrument outside the housing policy as well, for instance, with regard to stabilization and employment policy.[158] Furthermore, the more favourable economic performance in Austria at that time surely played a significant role, because it made arguing against the prevailing political regime more difficult; while the UK was amongst the countries that underwent a shift from Keynesianism to monetarist-neoliberal doctrines and was strongly exposed to the first global post-war recession, the transition in Austria was delayed by a distinct political-economic regime, also referred to as "Austro-Keynesianism". Because of the differences between the forms of capitalism of Austria and the UK, their economic performances diverged greatly throughout the 1970s and 1980s, including economic growth and employment which were both significantly higher in Austria[159]. Moreover, the above mentioned principle of consensual politics established in Austria and the fragmented legislative and executive competencies certainly contributed to continuous housing policies.

However, the consistency in housing politics, mentioned above, should not hide the fact that there were indeed some ideological differences between the main political parties, the social democratic SPÖ and the conservative ÖVP, which can be illustrated by the example of rent formation. While the former, for instance, was not in favour of the released price formation of well-appointed apartments, enacted with the first housing law amendment in 1987 (1. Wohnrechtsänderungsgesetz), the latter was unhappy with the rents in the various

[158] Cp. Czasny et al. (2004). p. C-35 f.
[159] Cp. Schulmeister (2005). for a detailed elaboration of differences between Austria's and other country's economic policies and developments.

rent categories that had been valid since the tenancy law 1981 (Mietrechtsgesetz) came into effect.[160] Another result of ideological disparities is the pattern of the distribution of housing construction subsidies in the provinces. Depending on the dominating political party, the focus of support is either on the rented sector if the social democrats govern, or on owner-occupied housing if the conservatives lead. It is the devolution of housing competences, which is discussed in greater detail below, that entails such housing policy differences between the Austrian regions.

During most of the second half of the twentieth century there was another housing political tug-of-war which, however, was not primarily carried out across party political lines but rather between different levels of political authorities. To be more precise, the respective competence of the executive and legislative housing is split between the Austrian Federal Provinces (the Bundesländer) and the Central Government[161], involving several governmental departments, as a result of a power struggle that has been going on since 1945. A prime example that illustrates the federalization of housing-related competence is the development of the housing construction subsidy. The demand of the Federal Provinces for more control over the distribution of subsidies goes back to the 1950s. Since then, every legal amendment on this matter has brought them more competence, for example, the 1968 and 1984 housing construction subsidy laws (Wohnbauförderungsgesetz 1968 and 1984), which transferred executive competence from the State to the Federal Provinces and thus allowed them to distribute funds according to their own preferences. The regionalization of competence was completed in 1988, one year after the ÖVP became part of a grand coalition with the SPÖ after more than 15 years of opposition. The conservatives were obliged to the mainly ÖVP-led Federal Provinces to change, in their view, the unequal political structure and so they achieved the transfer also of legislative competence to the Federal Provinces, which contributed to even more legal complexity.[162] The federal housing construction subsidy laws of the nine Federal Provinces differ, in part to a great extent, not only in technical details, such as the life span of subsidies, their amount or payback modalities, but also in respect of the legal systematic approach that is used, i.e. the different emphasis on laws, regulations or directives. While the Federal Provinces have been able to autonomously make their own decisions concerning their housing subsidies since 1988, the larger share of the financial means for distribution are still federal funds (two-thirds in 2007)[163]. The devolution and fragmentation of housing subsidy laws, but also of housing competence, in general, between the Federal Provinces and the Central Government,

[160] Amann (1999). p. 252
[161] See Amann (1999). p. 11 for a detailed listing of housing competences.
[162] Lugger (1994). In: Korinek et al. [ed] (1994). p. 54 f. And: Amann (1999). p. 250
[163] Institute for Real Estate, Construction and Housing Ltd. (2008). p. 20

contribute to the overall opaqueness of housing, hinder co-ordination between the responsible authorities and are also a hurdle for labour mobility. However, the proximity of legislative and executive decisions to local conditions might allow for a better adjustment to local developments which, in turn, benefit the housing sector which is strongly rooted in the local circumstances.

However, irrespective of the specific fragmentation of competence and ideological differences between the parties in power, three key factors can be identified which have significantly shaped Austria's housing development throughout the second half of the twentieth century:

- object subsidies for housing construction
- a pronounced limited-profit housing sector in addition to public housing
- the protection of tenants.[164]

Various Various factors contributed to bad housing conditions after the Second World War, including a prevalence of substandard dwellings in the housing stock owing to historical developments and a great number of damaged buildings. About 240,000 of the total two million dwellings, i.e. 12 %, were partly or completely destroyed.[165] Therefore, one of the main public priorities after the war was the improvement of the quantitative housing provision. For this purpose the Housing-Reconstruction Law (Wohnhaus-Wiederaufbaugesetz) was enacted in 1948, which established the Housing Reconstruction Fund as a body that granted loans, originally amounting up to 100 % of the reconstruction costs; later on, this percentage was reduced, for example, to 40 % in 1968[166]. In the following decades the construction subsidy regulations were amended, renamed and merged several times. The essential changes include the transfer of legal competence from the State to the Federal Provinces (see above), the shift of focus from the reconstruction of damaged houses to new construction and maintenance, and the inclusion of owner-occupied flats and houses into the subsidy schemes in addition to rented dwellings. A great percentage of the newly built dwellings are publicly subsidized. In 2007 approximately 80 % of the newly built dwellings were subsidized of which an estimated 40 % were owner-occupied dwellings.[167] It is therefore clear, that the objective is to have a wide range of subsidized dwellings in all the different market segments and with all types of tenure. This is in contrast to the UK where subsidized housing was increasingly limited to the lower income segments. The object subsidy towards the construction and maintenance of dwellings

[164] Cp. Czerny et al. (2007). p. 29; Or: Keimel (2008). In: Lugger et al [ed.] (2008). p. 47-51
[165] Bauer (2008). In: Lugger et al [ed.] (2008). p. 124
[166] Doubek (1991). In: Blaas et al. (1991). p. 123
[167] Institute for Real Estate, Construction and Housing Ltd. (2008). p. 20

accounted for the lion's share of the total housing subsidies, namely 71 % in 1997. Subject subsidies, on the other hand, are of only minor importance (16 %), in contrast to the UK where the opposite is the case (object subsidies amount to only 22 %). Although, according to data from 1997, there are other European countries with a higher share of object rather than subject subsidies, Austria is the only one listed with a difference of this magnitude, i.e. where object subsidies are four times higher than subject subsidies. However, in total, (including all direct and indirect housing subsidies) Austria ranks below the average in European cross-national comparisons of the ratio of production subsidies to the GDP. Whereas Austria earmarked 1.3 % of its 1997 GDP for housing subsidies, the UK spent 2.6 %.[168] Nevertheless, in the UK housing is not more affordable than in Austria, as can be derived from a comparison of Figure 15. and Figure 28. Instead, this discrepancy can be explained by the tendency that countries with less object subsidies need to channel more public funds into other housing subsidies (such as housing allowances) to achieve the same social benefits and a similar affordability ratio.[169]

About one third of the housing construction subsidies of the Federal Provinces are transferred to limited-profit housing associations, which are responsible for approximately half of the large-scale new constructions per year and which administer 20 % of Austria's total housing stock.[170] It is therefore evident that the limited-profit sector is of high significance for the total housing provision. Already during the reconstruction period following the Second World War, limited-profit associations played a crucial role in satisfying the backlog demand for housing space. The legal roots of the limited-profit sector as it exists today go back to the Limited-Profit Housing Law 1940 (Wohnungsgemeinnützigkeitsgesetz (WGG) 1940) which was transmitted from German into Austrian law in 1945. Almost 40 years later it was replaced by the WGG 1979, which transferred executive competence from the State to the Federal Provinces, in line with the devolution of housing competence as mentioned above.[171] From an economic point of view, the limited-profit sector stands between the housing provision by public authorities and the allocation of living space in the private market. It is based on the perception that the State has a joint responsibility of housing provision, and on the assumption that the market alone does not satisfy the desired distribution of living space according to social requirements. The limited-profit legislation mobilizes private capital and creates incentives for private housing companies to engage in activities that serve the public good, namely, to provide housing at prices (ceteris paribus) below the market level and to dedicate their proceeds to exactly this

[168] See Matznetter (2002). p. 274 for a comparison of France, Germany, Great Britain, Sweden, Austria and the US.
[169] Bauer (2008). In: Lugger et al [ed.] (2008). p. 132
[170] Institute for Real Estate, Construction and Housing Ltd. (2008). p. 30
[171] Amann (1999). p. 36

cause.[172] In other words, as stated in the WGG, the fundamental objectives of limited-profit associations are to commit their actions, which facilitate public welfare, to housing and settlement; to dedicate their assets to the fulfilment of these actions; and to submit their business to regular assessments and supervision.[173] To be more specific, this means that private companies have to commit themselves to four principles in order to be (upon application) officially recognised as limited-profit associations: (1) the cost recovery principle; (2) a limited realization of profits; (3) a limited transfer and distribution of profits; and (4) asset commitment.[174] Companies that accept these conditions are granted considerable financial benefits, namely tax benefits and remission of fees; they are preferred recipients of housing construction subsidies; and the State takes a stake in their share capital.[175] These state interventions, especially the construction subsidies, allowed for the limited-profit housing sector to become and remain a meaningful provider of affordable housing in Austria. While during the 1950s most of the newly built rented dwellings were still provided by local authorities, in the 1960s the limited-profit associations emerged as new quantitative leaders in the provision of social rented housing.[176]

The protection of tenants plays an important role in the Austrian housing market – both in the private and the social sector. In comparison with other countries, Austria adhered to stringent tenancy protection regulations for private rented dwellings relatively long. As a result, private rents were low, at least until the 1980s.[177] While several aspects are subsumed under the term "protection", including regulations that are supposed to prevent vacancies, or regulations regarding the quality of buildings and urban renewal, the most significant is the social aspect of tenancy protection which, in turn, refers to several policies such as rent regulation, terminability of rental agreements or protection against eviction.[178] The social notion of the protection of tenants has become part of all related laws (Tenancy Law, Limited-Profit Housing Law, Home-Ownership Law [Wohnungseigentumsrecht], etc.) in the course of the second half of the twentieth century and is supported by all major political forces.[179] Even so, when analyzing the tenancy law amendments over the past decades in greater detail, it can be inferred that certain parts on tenant protection are of highly ideological matter indeed. Perhaps most disputed is the matter of rent determination and the seemingly inherent question attached to it, which is whether or not rent determination should be based on the free market. Its introduction, however, was a matter

[172] Korinek et al. (2008). In: Lugger et al [ed.] (2008). p. 53
[173] WGG 2009. Section 1 (2)
[174] Rüsch (1991). In: Blaas et al. (1991). p. 233
[175] Rüsch (1991). In: Blaas et al. (1991). p. 231 f.
[176] Bauer (2008). In: Lugger et al [ed.] (2008). p. 128
[177] Czasny (2004). p. C-7
[178] Brezina (1991). In: Blaas et al. (1991). pp. 151-158
[179] Schwimmer (2008). In: Lugger et al [ed.] (2008). p. 78

of pragmatic necessity rather than the propagation of ideological ideas. The great demand for housing (mainly owing to an influx of fugitives from Eastern Europe) together with a very low private building activity (the labour force was needed in the armaments and food industry) during the First World War clearly led to a seller's market with excessive evictions and rising rents. As a consequence, the first tenant protection was introduced, albeit as an emergency regulation that was of limited duration, to improve the housing situation. It was, however, extended, also through periods of conservative government, as in 1922, and after the Second World War it was even tightened because of the precarious housing situation.[180] The protection of tenants was expanded to include dwellings that were previously exempt. Especially the "*Zinsstoppgesetz*" in 1954 contributed to the expansion by simply freezing the rents of dwellings that were not subject to the tenancy law, for example, because of their late construction date.[181] While the social effects of the tight rent regulation were not to be neglected, there were some negative long-term consequences as well. To begin with, private construction activities in the rental sector stagnated because incentives were lacking. While the limited-profit sector was subject to the WGG, which determined the rents based on the cost recovery principle, low current receipts in the private sector, which just covered current costs, reduced the maintenance to a minimum. The demand for cheap but derelict private rented flats was nonetheless high, firstly because of a general backlog demand in housing, and secondly (and paradoxically) because of higher rents in new buildings in the limited-profit and public sectors. Aside from the prevailing and undesirable housing situation for those residents living in old private rented flats, these circumstances also facilitated the emergence of an illegal conduct of (higher) rent determination which undermined the official rent regulations. These conditions were changed with the Tenancy Regulation Amendment Law (Mietrechtsänderungsgesetz) in 1967 with the absolute majority of the ÖVP. Re-let private dwellings were no longer subject to rent regulations.[182] This meant that new rental agreements were subject to other rent regulations (i.e. free rent determination) unlike the old and current contracts. In these circumstances of a split market, rent regulation is only effective in connection with regulations ensuring protection against eviction – which was, in awareness of the situation, not significantly changed. Otherwise it is possible to avoid the determined rent by terminating present contracts and re-letting the apartments to new tenants.[183] The tenancy law was amended several times in the course of the decades that followed, and two important amendments were made with regard to rent regulation in 1981 and 1994. The Tenancy Law 1981 was passed by the SPÖ with an absolute majority and introduced a new system of determining private rents based

[180] Schwimmer (2008). In: Lugger et al [ed.] (2008). p. 69 f.
[181] Brezina (1991). In: Blaas et al. (1991). p. 159
[182] Cp. Schwimmer (2008). In: Lugger et al [ed.] (2008). p. 72 ff.
[183] Brezina (1991). In: Blaas et al. (1991). p. 159

on different categories, which classified the flats according to their quality and the infrastructural amenities. From an economic perspective, it created incentive problems comparable to the above mentioned lack of incentives to invest in the private renting sector in the 1950s and 60s. The category system reduced the owner's investments to an amount which either maintained the standards of their respective category or which sufficed to improve the quality of the dwelling by fulfilling the minimum requirements to belong to the next higher category. The category system was replaced by the Grand Coalition (between SPÖ and ÖVP) with the enactment of the Third Housing Regulation Amendment Law (Drittes Wohnrechtsänderungsgesetz) in 1994. It represented a compromise that contained aspects of a free market rent determination as well as an upper limit for rents. In other words, the reference rent (Richtwertmiete) accommodates both market mechanisms and price regulations. Its reference values are the land and construction costs of new buildings subject to rent regulations (especially rent caps). Based on this value, various additional fees are added and discounts deducted according to criteria that describe the dwelling's quality, such as location, condition or amenities.[184] The reference rent is valid for all private rented dwellings built before 1945, which means that it affects still the most important, but shrinking, segment of the private market.[185] However, owing to the opaque application of these various fees, the reference rent and the free market rent almost coincide. There is empirical evidence that establishes the difference between the two rents at approximately 7 %.[186] The free market rent is valid for most dwellings in buildings that were constructed after 1945. They can be let at a "reasonable rent" (angemessene Miete)[187], which corresponds to free market prices.

3.2 Social Housing

Based on Malpass' explanations of the relation between the State and the housing system (see p. 54), the previous Chapter (3.1) followed the wider approach to analyze the development of housing policies, public intervention that is not necessarily connected to the direct provision of housing, and the role of the market. This chapter, on the other hand, follows the narrow view and focuses on the public intervention that subsidizes housing and its relevance to the entire housing system. Some aspects in this context were mentioned already in the previous chapter because of their relevance to the general development of the housing sector, such as the limited-profit housing sector, but public intervention that subsidizes housing is now analyzed in greater detail or from a another perspective.

[184] Schwimmer (2008). In: Lugger et al [ed.] (2008). p. 74 ff.
[185] Czasny (2004). p. C-7
[186] Blaas et al. (2004a). p. 17
[187] MRG 2011. Section 16 (1)

To begin with, it is essential to define the term "social housing" and to make a distinction between it and "subsidized housing", especially in the context of international research. The definition of the social sector may vary from one housing system to the other according to the respective function and characteristics they have, such as ownership, who builds the dwellings, the height of the rents compared to market levels, funding and subsidies or its purpose.[188] For example, the definition often used for the social sector, which relates to the ownership of dwellings by local authorities and limited-profit housing associations, is too narrow for the Austrian context because it neglects the public intervention that subsidizes housing, independent of the kind of tenure, such as the construction subsidies for a large number of new dwellings (from 1971 to 2002 about 73 %[189]), which include owner-occupied houses and owner-occupied apartments built by limited-profit associations. Similarly, defining social housing according to the purpose of the housing provision is problematic. While social housing in the UK is mostly provided to low income households that find it otherwise difficult to cover their housing needs, it benefits a much wider section of the population in Austria. There are further aspects which make it difficult to establish a clear-cut definition of social housing that is valid for both countries. Therefore, the following analyses address both; on the one hand, subsidized housing, i.e. public intervention which concerns the affordability and security of housing in general and, on the other hand, the more narrow definition of social housing as "a particular segment of the rental housing stock, supported and/or owned by public or non-profit bodies"[190].

The issues on affordability in the UK and Austria are similar with regard to their basic aims, namely, "how to accommodate very vulnerable households and to limit the extent of social exclusion"[191], but the policies and instruments applied to deal with them are rather different. Of course, the different ways to approach these issues are inherently connected with the political and economic framework in which housing policies are embedded, and result from a distinct historical development. The objectives of social housing provision have not really been questioned since the Second World War, but its concrete implementation, legitimized mainly by social and political reasoning, has increasingly been questioned (see Chapter 3.1). The concrete implementation of social housing provision has perhaps been questioned more in the UK than in Austria, where the perception of the welfare state and the role it plays in the provision of housing were not so drastically challenged. "Since the 1970s, economic criticism has been growing, based on arguments about efficiency, cost, and even equity."[192] This means that while the aims of social housing were still supported, the

[188] Cp. Scanlon et al. (2007). In: Whitehead et al. (2007). p. 8
[189] Blaas et al. (2004b). p. 14
[190] Tutin (2008). In: Scanlon et al. (2008). p. 47
[191] Scanlon et al. (2008). p. 301
[192] Tutin (2008). In: Scanlon et al. (2008). p. 47

critics demanded other ways to achieve them, leading to the question (which is still relevant today) whether or not the problem of affordability should be dealt with through social housing.

However, there are other, purely economic motives for public intervention in the housing market and the support of housing in addition to the (re)distributional aspects of wealth and living space, which are essentially political aspects. This should, of course, not reduce the relevance of the political and social motives, but the strictly economic reasoning is important to counter the critics' arguments, which are often economic in nature. The explanations in Chapter 3.1 illustrate that there is an economic rationale for the State to allocate and intervene in the housing market and to foster its efficiency, and the presented concept of the land rent already points to the importance of externalities in this matter.

To be more precise, external effects are one of the "most important efficiency justifications commonly accepted by economists for public involvement in supplying goods"[193] because they would otherwise lead to market failure. Although the externalities of housing are a complex matter which cannot be comprehensively discussed in this study, there are two important aspects in connection with social housing, namely, the urban and social externalities, respectively. The former refer to the production of neighbourhoods and urban structures that are the basis for the individuals' spatial decisions. The social externalities refer to the importance of housing for the social reproduction of a society and, deriving from this, the relevance of housing conditions for health, education and social cohesion.[194] Other reasons for public intervention because of market failure can arise from asymmetric and limited information as well as risk assumption.

In addition, to counter housing market failures, economic reasons for public investments in the housing sector may also be inferred from the notion of housing as a merit good. In this case, public subsidies create incentives to improve the housing standard and as a consequence increase the overall welfare of the people. Furthermore, investments in the housing sector may counteract macroeconomic fluctuations and thus act as economic stabilization policies. Investments which have a stabilizing effect on housing have gained weight over the past three or four decades together with the increasing integration of financial and real estate markets, which presumably contributed to greater fluctuation in house prices.[195] Social housing can have a stabilizing effect and act to "reduce pressure on

[193] Tutin (2008). In: Scanlon et al. (2008). p. 49
[194] Cp. Tutin (2008). In: Scanlon et al. (2008). p. 50
[195] Heeg (2009). p. 123

prices, to ensure a minimum level of supply in general and to individuals, and to compete with the private sector in terms of quality and productive efficiency."[196]

The following chapters elaborate on the specific characteristics of the social housing sector in the UK and in Austria. Chapter 3.2.1 presents a direct comparison between the two countries and focuses on the structure of the social housing sector in relation to the whole housing sector, followed by a detailed analysis of selected issues in Chapters 3.2.2 and 3.2.3.

3.2.1 The Structure of Social Housing and its Relevance to the Entire Housing Sector

The purpose of social housing is not the same in the two countries in question. Whereas in the UK it focuses on providing living space for low-income households, in Austria it provides housing to most social groups. However, it is important to bear in mind, that most of the building constructions in Austria are publicly subsidized (from 1971 to 2002: 73 %[197]), which means that the number of underprivileged households in subsidized dwellings is comparably low. In fact, in 2001, 12 % of the households in a tenancy (in both subsidized and non-subsidized dwellings) were living below the poverty line in Austria, compared with 32 % in the UK.[198] The Austrian social rented sector "has never been a residual tenure aimed at housing the poor."[199] It serves the less privileged households as well as the middle classes, in contrast to the UK, where socially rented dwellings were bought by their tenants on a large scale after the introduction of the "Right to Buy" by the 1980 Housing Act (see Chapter 3.1.2). Many of those who could afford to do so, switched from tenancy to home-ownership, which increasingly reduced the social rented sector to low income households. "Residents and neighbourhoods have been increasingly stigmatised and social housing has tended to become the tenure of last resort."[200]

Another relevant aspect with reference to the percentage of households below the poverty line living in subsidized and non-subsidized rented dwellings as mentioned above, is that the share of privately rented flats of the total number of rented flats was much lower in the UK than in Austria. This influences the statistical data in favour of Austria because tenants in private rental flats seem to be better off financially (see Figure 36 for UK data).

---

[196] Tutin (2008). In: Scanlon et al. (2008). p. 52

[197] Blaas et al. (2004b). p. 14

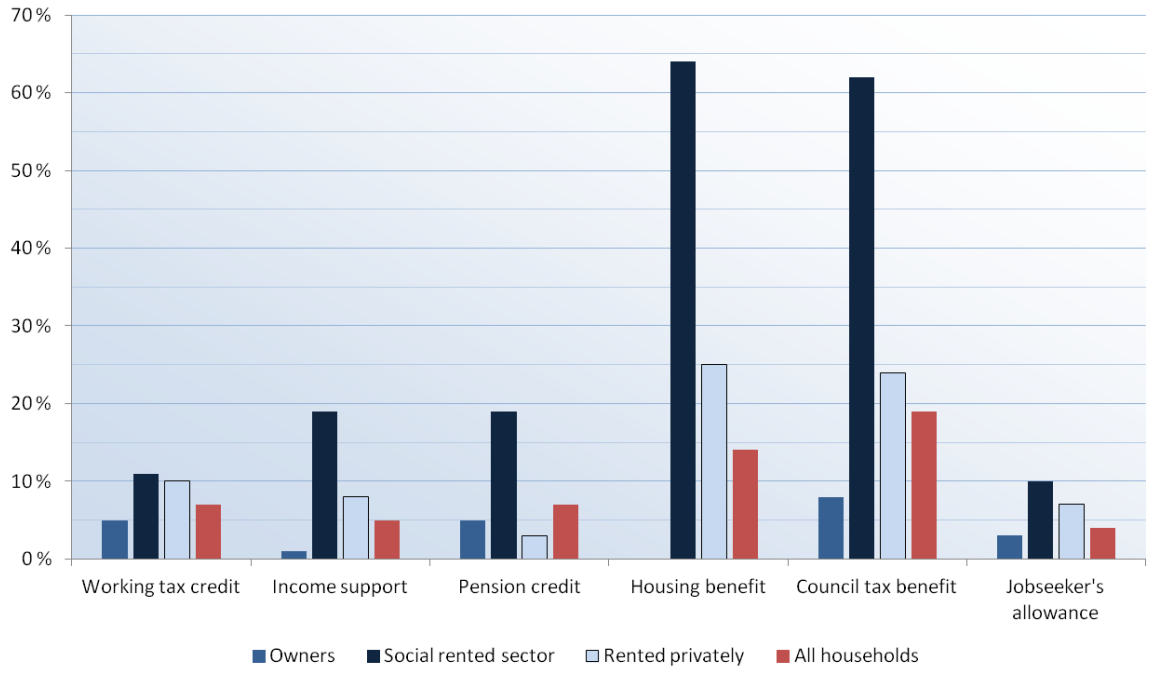
[198] National board of Housing, Building and Planning, Sweden et al [ed.] (2005). p. 70; The poverty line is defined as a household income at 60 % of the median income in purchasing power standards (PPS).

[199] Deutsch (2009b). p. 287

[200] André (2011). p. 28

Another conclusion can be drawn from the percentage of households that lived below the poverty line in owner-occupied dwellings, which amounted to 12 % in both Austria and the UK in 2001[201], namely, that social groups in Austria are more evenly distributed throughout the housing market; low-income households are not limited to the rented sector but are present in the ownership sector as well. The higher discrepancy of the number of low-income households between the different modes of tenure in the UK is confirmed by data on the State support received by households. From Figure 36 it can be inferred that the socially rented sector, which, in this case, includes dwellings let by local authorities and housing associations, comprises a higher than average percentage of recipients of State subsidies than other housing sectors, and it ranks first in all the categories presented in Figure 36. For example, with regard to the council tax benefit, which is a "Social Security benefit administered by the local authority designed to help people on low incomes [to] pay their Council Tax"[202], there are more than 2.5 times as many recipients in socially rented dwellings (plus 39 percentage points) as in the privately rented dwellings, which ranked second.

Figure 36: Households in the UK by tenure and state support receipt (2009/2010)



Source: Department for Work and Pensions (2011). p. 42, author's compilation

Furthermore, the median income (in England) of households living in socially rented dwellings amounted to 10,200 Pounds sterling in 2004/2005, less than half of the average throughout all modes of tenure of 21,000 Pounds per year. This means that, while almost

[201] National board of Housing, Building and Planning, Sweden et al [ed.] (2005). p. 70
[202] Department for Work and Pensions (2011). p. 130

50 % of the households that lived in the social sector earned less than 10,000 Pounds, this applied to only 17 % of the total number of households.[203] Consequently, the sector of socially rented dwellings had the highest percentage of households that received any income-related public benefit, namely 68 % compared with the national average of 24 %[204]. However, not only low incomes are concentrated in the sector of socially rented dwellings, unemployment is higher there as well[205]. It is therefore evident in the UK that such tenants are, on average, less well off than those households which live in the private sector.

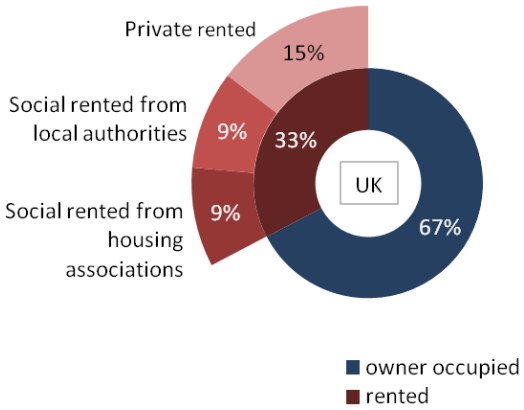
Further interesting insights into the social housing sector can be gained by analyzing the ownership structure and the percentage of the social housing stock in relation to the entire housing sector which, in the UK and Austria, respectively, are similar (see Figure 37 and Figure 38). In 2008, approximately 20 % of the total housing stock was owned by local authorities and housing associations. The latter accounted for the majority of the socially rented dwellings in both countries but, whereas in Austria the difference amounted to four percentage points, it was less than one percentage points in the UK. However, the provision of social housing will most likely continue to shift to housing associations in the future, at the expense of the local authorities. This development has already taken place over a period of several decades in the UK and was especially noticeable in the 1980s. In 1979 the local authorities still owned 93 % of the social housing stock.[206] Almost thirty years later, by 2008, their share had dropped to just under 50 %[207], which means that, for the first time, more than half of social housing is provided by housing associations. However, this shift was already foreseeable against the background of the very low number of newly completed buildings by local authorities, which has been below 1 % of the total number of new dwellings in the UK since 1998[208] (see also Figure 31 and Chapter 3.2.2). This development results mainly from two changes in the housing policies made by the Conservative Government at that time, namely the modifications relating to the subsidy system and the *large scale voluntary transfer* policy, which permitted transfers of the housing stock from the local authorities to housing associations.

The development in Austria was similar, albeit a few decades earlier. Whereas, during the 1950s, most of the newly built rented housing was still provided by local authorities, by the 1960s this ratio had changed in favour of housing associations.[209] The housing associations played an important role in the (re-)construction of buildings in the post war period, not

[203] Whitehead et al. [ed.] (2007). p. 65
[204] Department for Work and Pensions (2011). p. 42
[205] Whitehead et al. [ed.] (2007). p. 64
[206] Whitehead et al. [ed.] (2007). p. 57
[207] Department for Communities and Local Government (2011).
[208] Department for Communities and Local Government (2010b).
[209] Bauer (2008). In: Lugger et al [ed.] (2008). p. 128

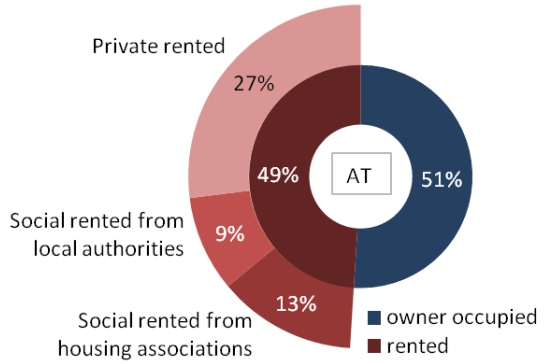
only in the sector of rented dwellings (see Chapter 3.1.3). They were significantly involved in satisfying the demand for new housing as well as in the modernization of the existing stock. Shortly after the Second World War, in 1949, housing associations accounted for approximately 600 new dwellings. Almost twenty years later, in 1967, they completed more than 19,000 dwellings.[210] Perhaps the main reason for this skyrocketing development was the reliance of the State on housing associations to fulfil its policy objectives with regard to the housing supply. The public housing construction subsidies, which were granted mainly to housing associations, facilitated the growth of the latter. Two further reasons for this, to mention just a few, are, first of all, the loss of significance of the co-operatives and, secondly, the expansion of housing associations to other markets in addition to the social sector.[211]

Figure 37: Percentage of housing sectors as a part of the housing stock in the UK (2008)



Source: Department for Communities and Local Government (2011), author's compilation

Figure 38: Percentage of housing sectors as a part of the housing stock in Austria (2008)[212]



Source: Mundt et al. (2009). p. 5, author's compilation

Even though they only marginally concern the social housing sector, it is worth looking into two significant differences between the two housing sectors, which can be derived from Figure 37 and Figure 38: the size of the sector of privately rented dwellings and of the owner-occupied sector.

The low percentage of privately rented dwellings in the UK has its roots, first of all, in the regulations for tenancy protection that were introduced during the First World War and, secondly, in the less pronounced policies for the conservation and modernization of the housing stock, and finally in the political focus on homeownership. As a consequence of the poor prospects of returns, which resulted from price regulations, many of the private

[210] Lugger (1994). In: Korinek et al. [ed.] (1994). p. 60
[211] Cp. Rüsch (1991). In: Blaas et al. (1991). pp. 224-228
[212] The sector of privately rented dwellings includes the category „other" (e.g. company housing), which amounts to 7 %.

landlords either sold their properties and withdrew from the rental market or reduced their maintenance expenses to a minimum and let the dwellings deteriorate. Urban redevelopment measures, in particular during the 1950s and 1960s, in combination with programmes of slum clearance, also reduced the amount of privately rented dwellings. Moreover, the Conservative Government in the 1980s and 1990s supported the notion of private ownership as the desirable type of tenure. Tenancy was reserved for those who could not afford ownership and was, thus, increasingly limited to the sector of socially rented dwellings (see Chapter 3.1.2). The circumstances in Austria were more favourable for private landlords, because of the housing policy measures that facilitated the preservation of the housing stock.[213] Furthermore, even though private homeownership has indeed been subsidized since the 1950s and 1960s and its spread was considered as an essential process of democratization after the Second World War, tenancy was still a respectable type of tenure.[214] The political perception that owner-occupied housing should be preferred to renting was not accepted to the same extent as in the UK, even though promoting ownership was one of the main objectives of the assistance given for housing. This is reflected in the low amount of exercised right-to-buy options on rental dwellings of housing associations that have been built since the mid-1990s. Estimates suggest "that only 20 % of the affected rental stock will be bought by tenants."[215] These aspects result in a sector of privately rented dwellings in Austria which is nearly twice the percentage of the corresponding sector in the UK (compare Figure 37 and Figure 38).

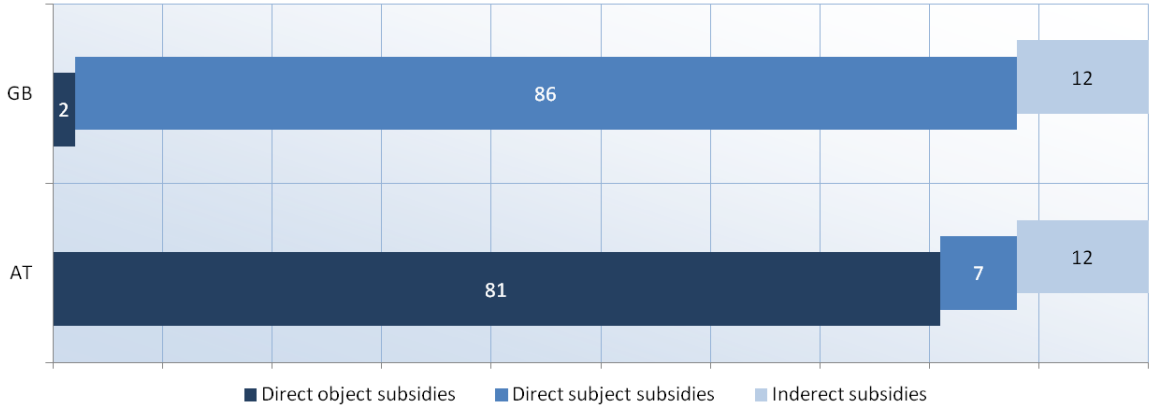
Further differences between the social housing systems in the two countries in question can be found in the way housing transfers are distributed as well as in the amount of the transfers. While the annual funds transferred to the housing system in Austria as a percentage of the GDP is calculated comparably clearly between 1.3 % and 1.7 %, depending on the method of calculation of the source, for example, on whether the transfers are compared to the average GDP of the period of reference from 1995 to 2000 or to more current GDPs (both alternatives are legitimate, since the major part of the housing construction subsidy [70 % in 2002; or approximately 1.8 billion Euro] was frozen in 1996), the percentage of the annual funds transferred to the housing system in the UK fluctuates more distinctly between 1.4 % (taking 1997 as the reference year) and 2.6 % (taking 2001 as the reference year).[216] It is unlikely that the relative amount of housing transfers nearly doubled within three years. However, what can be determined, in spite of

[213] Cp. Czasny et al. (2004). pp. B-80 f., C-6 f.
[214] Keimel (2008). In: Lugger et al [ed.] (2008). p. 47
[215] Mundt et al. (2009). p. 18
[216] Cp. Matznetter (2002). p. 274 and Czasny et al. (2004). p. D-16

the inaccuracies, is that the housing transfers relative to the respective GDP are most likely higher in the UK than in Austria, or about the same.

More significant differences between the two systems of housing transfers, concerning the way housing funds are used, can be derived from Figure 39.

Figure 39: The structure of housing transfers in Austria and Great Britain



Source: Czasny et al. (2004). p. D-16, author's compilation

Both systems of housing transfers are based chiefly upon direct subsidies (88 % of overall housing transfers), however, whereas the emphasis of Austria clearly lies on direct object subsidies (i.e. production subsidies), the transfer system in the UK focuses on direct subject subsidies (i.e. consumption subsidies). The high degree of object subsidies in Austria is rather rare in international comparison. The UK, which also had a distinct production based subsidy scheme with direct object subsidies amounting to 68 % of the total housing transfers in the late 1970s, underwent a shift towards a consumption based system during the 1980s and 1990s, which increased subject subsidies from 10 % to 86 % and reduced object subsidies to 2 %[217]. Accordingly, the amount of funds earmarked for construction subsidies in the social sector fell significantly at that time, and even though it has increased again since the year 2000[218], the transfer system still focuses heavily on the individual subsidy of low-income households.

Alongside the reduction of direct object subsidies, the indirect subsidies were cut as well (mainly owing to the abolition of the Mortgage Interest Tax Relief[219]) in favour of direct consumption subsidies. This shift of transfers, on the one hand, allowed for more accuracy

[217] Czasny et al. (2004). p. B-90
[218] Whitehead et al. [ed.] (2007). p. 60
[219] The Mortgage Interest Tax Relief (MITR) permitted part of the mortgage interest to be deducted from income tax. The MITR is still included in Figure 39, which means that the indirect subsidies in the UK are now lower than presented in the chart.

in targeting underprivileged households but, on the other hand, was accompanied by rising housing costs which led to a higher dependency of households on direct subject subsidies.[220]

The Austrian housing transfer system, in contrast, is still based on object subsidies, even though there is a tendency towards an increasing relevance of consumption subsidies as a consequence of higher rents in the less regulated private sector. Therefore, some provinces have extended the direct subject subsidies to the sector of privately rented dwellings since the 1990s. Nevertheless, the production subsidies still amount to more than 90 % of all direct subsidies in Austria.

An Austrian peculiarity is the great significance of the direct subsidies that are allocated to the ownership sector, which also means that the housing transfer system is not restricted to certain types of tenure as opposed to the UK, where housing benefits are only rarely granted to owners of flats or houses (see Figure 36). In the late 1990s, approximately 62 % of the Austrian direct subsidies were transferred to homeowners, compared with 5 % in Great Britain.[221]

3.2.2 Specific Issues of the Social Housing Sector in the UK

Over the past 50 years the social housing sector has undergone several transitions, including the shift of ownership from local authorities to housing associations, as mentioned above, the development into a dominant ownership sector and the shift from production subsidies to consumption subsidies. These dynamics of the social housing sector had strong effects on housing in general and are closely linked to the political framework and policy decisions described in Chapter 3.1.2. Some selected transitions are discussed in detail below.

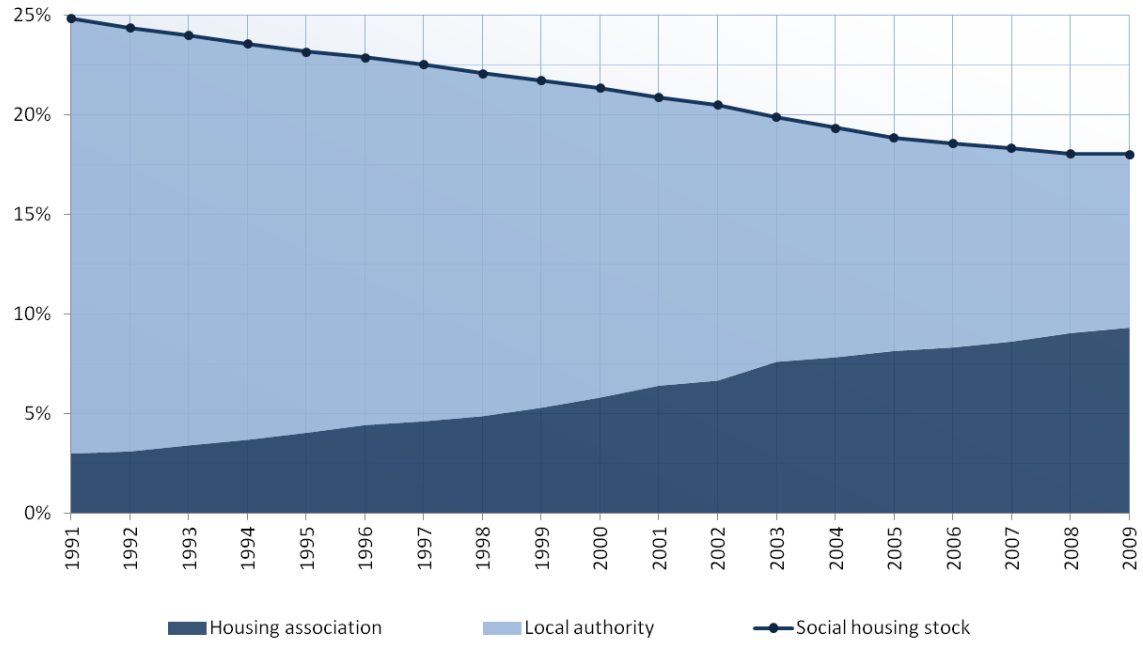
To begin with, the social housing sector as a whole underwent a process of restructuring. While it benefitted a larger share of the population in the period immediately after the Second World War, mainly households with at least one income from an employed member, its size and significance, in terms of social range, diminished over time (see Figure 31). In addition to the quantitative change, there was also a qualitative transformation in the sense that the characteristics of the social groups who live in this sector of housing have changed, and so has the quality of the housing stock and its purpose within the housing sector as a whole.

Local authorities, who accounted for the most of the social housing in the post-war period, have indeed always sold some of their dwellings. However, newly constructed buildings compensated for the sales and resulted in an overall growth or, at least, stagnation in the

[220] Czasny et al. (2004). p. B-86 f.
[221] Czasny et al. (2004). p. D-16

number of social housing dwellings. This changed in the 1980s, as, since then, the social housing supply has decreased every year even though housing associations have emerged as a non-municipal alternative to provide social housing and have contributed substantially to the quantitative development of the social housing sector. Even if the percentage of the dwelling stock owned by housing associations increased in relation to the housing sector as a whole, as well as in relation to the social sector), this was not sufficient to maintain the overall size of the social sector, either in absolute or in relative numbers (see Figure 40).[222]

Figure 40: The socially rented housing stock as a percentage of the entire housing stock in the UK (1991-2009)



Source: Department for Communities and Local Government (2011), author's compilation

In the mid-1970s, nearly all of the socially rented dwellings were owned by local authorities, and housing associations were insignificant both with regard to the number of new buildings they constructed as well as to the housing stock which they owned. Since then, the roles have been reversed: housing associations, which have left council housing far behind with regard to the number of newly constructed buildings, have become the predominant providers of social housing. In fact, municipalities accounted for merely 0.5 %[223] of the buildings completed in 2009/2010 in the UK housing sector. The rise of the significance of housing associations was precipitated by the enactment of two regulations in particular. First of all, the 1974 Housing Act, which greatly influenced the building activity of housing associations. It introduced the Housing Association Grant (HAG), a system that made it possible for housing associations to finance their real estate developments entirely by public funds and with negligible risk. Within this favourable environment during the

[222] Cp. Malpass (2005). pp. 172, 112 f.
[223] Department for Communities and Local Government (2010b)

subsequent 15 years, the associations thrived and managed to accrue considerable real estate portfolios with only little debt. By the time policy amendments forced the associations to resort to a greater extent to private funds, they had migrated already into the centre of the social housing sector.[224]

The second regulation, which supported the growth of housing associations, was not focused on new constructions but rather on existing council houses that could be transferred to housing associations. These Large Scale Voluntary Transfers (LSVT) originally developed as an initiative of the local authorities to elude the newly changed system of public housing subsidies to municipalities, which was unfavourable to many local authorities. However, the LSVTs were institutionalized in 1989 with the enactment of the Local Government and Housing Act, following the political perception that municipalities should have a strategic function rather than being involved directly in the provision of housing. While the privatization of council housing by means of LSVTs, which had amounted to 1 million privatized dwellings by 2005/2006 in England alone[225] (approximately 20 % of the social housing stock at that time)[226], was not undisputed, it was indeed successful in gathering private funds for renovations.[227]

A factor that contributed significantly to the decline of the social housing stock as a whole was the right to buy, which was introduced in 1980 by the Conservative Government. It allowed tenants who had already spent a certain period of time in their dwellings to buy them below the free market value. Discounts ranged from 32 % to 60 % for houses, and up to 70 % for flats, depending on the standing of the contract.[228] From the point of view of the Government led by Margaret Thatcher at that time, the right-to-buy-policy was very successful; in fact, it accounted for most of the growth of the ownership sector, even more than the construction of new dwellings. It has converted approximately 1.8 million dwellings from tenancy to ownership "since 1980 with sales concentrated in the first decade, but still running at between 30-70,000 a year through the 1990s and 2000s."[229] The sales declined thereafter, mainly because of the high prices of the houses (see Chapter 2.1.1) and fewer financial incentives.

The ramifications of the right-to-buy policy went beyond the quantitative transformation of the social housing sector; it also affected its social composition. The right to buy was primarily exercised by economically active households with enough income to afford the

[224] Cp. Malpass (2005). p. 115 ff.
[225] Stephens et al. (2008). In: Scanlon et al. [ed.] (2008). p. 111
[226] Department for Communities and Local Government (2011)
[227] Cp. Stephens et al. (2008). In: Scanlon et al. [ed.] (2008). p. 109 ff.
[228] Malpass (2005). p. 110
[229] Whitehead et al. [ed.] (2007). p. 56

costs of ownership. Even though the price for the purchase was discounted, not all households had the necessary funds for the transition to homeownership which, consequently, led to a selection of the residents based on socio-economic criteria, such as income or status of employment. Better-off households that could afford ownership tended to buy the best dwellings situated in the more attractive areas. In the long term, two direct consequences can be derived from this development, which resulted in a social housing stock that consisted of the dwellings left behind by the households with the higher purchasing power that moved from social tenancy to private ownership.

First of all, the overall smaller number of social tenants is "to a large and increasing extent the economically residualized, marginalized poor and socially excluded"[230] section of the population. For instance, in 2009/2010, only 9 % of the households in this section of the population did not receipt any State support, compared with the national average across all types of tenures of approximately 28 %[231], and merely 38 % of the social tenants counted as economically active, which was 25 percentage points below the national average of 63 %[232]. These statistics emphasize that households living in the sector of socially rented dwellings were considerably poorer than those living in privately owned or rented dwellings. Secondly, the social housing sector shrank not only quantitatively, but it also deteriorated with regard to its quality. On the one hand, the dwellings that were purchased were the more attractive ones, which tended to be also in a better structural condition and, on the other hand, because less public resources were channelled into the sector, with the consequence that even basic maintenance work and improvements could often not be carried out. In 2003, the Labour Government counted more than 1.5 million tenants in the social housing sector living in conditions that did not comply with the "decent home standard".[233]

For the majority of tenants, living in or moving into a socially rented flat has changed since the 1980s from a choice to a necessity, i.e. the social housing sector has been reduced to having the function of a social safety net. This development resulted in an increasing degree of residential segregation, since socially rented dwellings were often concentrated in specific areas. Also the poor standards of housing offered fewer options for those who applied for social housing. Apart from the spatial marginalization, the tenants were also socially marginalized as a consequence of the limitation of social housing for underprivileged households. Public policies, which officially supported the notion that "accommodating the poor and socially excluded is precisely the right role for social housing, and that it has taken

[230] Malpass (2005). p. 174
[231] Department for Work and Pensions (2011). p. 42
[232] Whitehead et al. [ed.] (2007). p. 65
[233] Malpass (2005). p. 174

far too long to redress the mistakes and misallocation of the past"[234], were popular during the 1980s and 1990s when the Conservatives governed and clearly contributed to the process of marginalization. This development continued under the Labour Governments after 1997, which did not reverse the housing policies of their Conservative predecessors; to find a solution to overcome marginalization of the social housing sector was not a priority. The shrinking size of this sector, for instance, continued also throughout the subsequent legislative periods of the Labour Party (see Figure 40 above). However, during the most recent Labour Government, the "government attitude to the importance and role of social housing have changed significantly."[235] The result is an emphasis on policies that deal with the tendency for polarization in the housing sector in terms of the social and economic profiles of the households, and in terms of the quality and attractiveness of dwellings.[236]

3.2.3 Specific Issues of the Social Housing Sector in Austria

It has been shown in the previous chapters already that the national differences between Austria and the United Kingdom can be analyzed on the basis of various analytical frameworks or guidelines (e.g. the on the basis of macroeconomic fundamentals, factors of supply and demand, the development of the welfare state, etc.). One other way to compare the housing systems of the two countries concerns the organization of the rental housing sector and how it operates.

According to the theoretical framework developed by Kemeny et al.[237], countries may be attributed to one of two broad types of rental systems: either to dual rental markets, or to unitary rental markets. The difference between the two types lies mainly in the way how the various providers of rental housing, i.e. on the one hand social housing providers[238] and on the other hand for-profit providers, relate to each other. Both systems have economic and social advantages as well as disadvantages, and the preference for the one to the other depends mostly on the political or ideological stance, especially on the question whether society should develop more equally or with a greater emphasis on the individual.[239] Moreover, it depends also on the stance on whether or not housing subsidies are perceived to unjustifiably distort the free market and the price system. For obvious reasons,

[234] Malpass (2005). p. 175
[235] Whitehead et al. [ed.] (2007). p. 66
[236] Cp. Murie (2008). In: Scanlon et al. [ed.] (2008). pp. 256-259
[237] Kemeny et al. (2005)
[238] The adequate definition of social housing for this line of argument is in terms of purpose and intention, independent of the actual balance. Thus, providers of houses and flats with the aim to maximize profits do not count as social. Owners, by contrast, which offer housing at rent levels that cover merely the costs, and which reinvest any surplus, should there be one, in the buildings, count as social.
[239] Amann (2006). In: Lugger et al [ed.] (2006). p. 25 f.

supporters of this view, such as, for instance, the European Commission on Competition Policy, are in general critical of a unitary rental market.[240]

A determining characteristic of the dual rental system is that there are economic or legal barriers that prevent both types of providers to compete directly with each other. This means that, in general, the purpose of the social housing sector is limited mainly to the function of a social safety net for underprivileged households (with the effects that have been described in Chapter 3.2.2), and the for-profit sector is characterized by a weaker protection of tenants and higher rents. As a consequence of the attempt to elude the high costs of tenancy, a significant percentage of the tenants turn to the ownership market, which is usually very well developed in such dual systems. The willingness of the State to support low-income households to reduce their housing costs is normally limited to the social housing sector because habitation is perceived to be the responsibility of the individual. From this definition, it can be clearly inferred that the UK is an example of a country with a dual rental market.[241]

In contrast, social and for-profit housing providers in the unitary rental market are not shielded from one another. Their direct competition influences the determination of the rent level to a very great extent because, ideally, tenants choose the offer with the better price and quality, and since social providers forego profit to a certain extent and need to cover only the costs, there tends to be a downward pressure on the overall rent level. However, limited profit providers are competitive only if they manage to establish their dwellings as the cheaper alternative to for-profit housing in most of the market segments, with at least a similar quality. This is a difficult task, especially since, in the development of their buildings, social housing providers are prone to suffer the same higher costs as profit providers, which are inherent to the housing business, for example, owing to "higher vacancy rates, rental losses and higher management and housing production costs"[242]. Another relevant factor is the financial costs, which accrue depending on the amount of debt that has to be financed, and their ratio to the market value of the real estate.

In addition to the effect of a downward pressure on rents, which is, in general, precipitated by unitary rental markets, they also dampen inflation and provide for a more integrated rental housing sector. On the one hand, the more equal rents, and the fact that the construction of new buildings is less frequently limited to expensive locations, prevent, to a certain degree, residential segregation and the emergence of areas which are unattractive to live in. In doing so, unitary rental systems provide, on the other hand, also social

[240] Deutsch (2009a). p. 4
[241] See explanations in the Chapters 3.1.2, 3.2.1 and 3.2.2.
[242] Kemeny et al. (2005). p. 857

integration, because the rental housing stock is more evenly accessible to different groups of the population. This increases the diversity within neighbourhoods not only with regard to the types of tenure, but also in terms of social strata, and thus benefits the quality of life, especially of the underprivileged stratum of the population.[243]

Research carried out by Czasny et al.[244] on housing conditions and the satisfaction with housing in Austrian and other EU countries, concludes that countries with a lower percentage of owner occupied housing (which corresponds to the countries with a unitary rental system[245]), i.e. below 60 %, are superior with regard to both housing conditions and the satisfaction with housing. To be more precise, the statistical analyses find that countries of the EU-15 with a lower percentage of owner occupied housing, among which Austria, are on average among the wealthier countries, as well as among the countries with conservative or social-democratic welfare states, which tend to attribute a more pronounced responsibility to the State with regard to the direct provision of new housing and the regulation of the rental sector. Conversely, the larger share of homeownership is predominant in EU-15-countries with a rather liberal welfare state and with a more pronounced market-based housing policy.[246]

It has been shown in Chapter 3.2.1 already that the rental market in Austria, which amounts to 49 % (see Figure 38 above) of the overall housing market, plays a significant role in the provision of housing. Its size has been constant in recent years, and there is currently no apparent trend towards more demand for owner occupied housing.[247] Approximately 45 % of the rented flats are provided by local authorities and limited profit housing associations; their housing stock has been relatively constant in recent years as well, in particular because of the construction rate of limited profit housing associations, which are the predominant providers of social housing. Independent of their owner constellation (as co-operatives, private limited companies or joint-stock companies), limited profit housing associations are subject to the federal Limited Profit Housing Law (see Chapter 3.1.3), which regulates very clearly the various activities of these associations. Indeed, one of their major tasks is to "operate on the housing market in cost-efficient and competitive ways"[248]. In order to do so, some of the regulations concern directly the promotion of competitiveness and are thus relevant to the present context:[249]

[243] Cp. Amann (2006). In: Lugger et al [ed.] (2006). pp. 22-25
[244] Czasny et al. (2008)
[245] Mundt et al. (2009). p. 4
[246] Czasny et al. (2008). p. I ff., 88 f.
[247] Mundt et al. (2009). p. 11
[248] Deutsch (2009b). p. 287
[249] Cp. Mundt et al. (2009). p. 11

To begin with, limited profit housing associations abide by the principle of cost-coverage. This means that the rents must be set according to the construction costs that are incurred, as long as they are within a certain predefined limit. Furthermore, any profits that might accrue have to be reinvested either in the project itself in terms of modernization and refurbishment, in the acquisition of land, or in the construction of new buildings. With regard to the latter it is worth noting, that limited profit housing associations usually manage their own buildings, which is indeed an incentive for the development of projects which, with regard to both social balance and housing quality, function very well. The fact that public subsidies for new constructions are bound to a prior evaluation of the projects, also contributes to the comparably high quality of new buildings. Finally, an additional aspect that may convince tenants to opt for rental flats leased by limited housing associations is the strong and clearly defined legal position of the tenants.

These regulations foster the competitiveness of limited housing associations not only in relation to rent levels, which are, in general, rather moderate than cheap, but also in relation to the quality of the buildings and the long-term security of the tenants. Whereas leasing agreements in the sector of privately rented dwellings are often for a set period of time only, they are usually unlimited in the limited profit housing sector. Therefore, even though from a legal perspective, most flats in the for-profit market could be let at free market prices, or close to them (see Chapter 3.1.3, page 73), the actual rent determination is highly influenced by the social housing sector. Fluctuations in the overall rent level are closely connected to the competitiveness of the rental social housing sector as well as, naturally, to its production of new buildings. Blaas et al.[250] were able to prove that there is a correlation between the number of newly constructed, subsidized dwellings and the level of free market rents: if fewer subsidized dwellings were to be built, the free market rents would rise all the more. It was estimated that a reduction of housing construction subsidies of 10 % would result in a short-term increase in market-based rents of 1 %.

Further interesting insights into the Austrian rental market can be gained by applying an additional aspect of Kemeny's concept, namely the differentiation between a unitary and an integrated rental market. In integrated rental markets "non-profit rental organisations are sufficiently developed and established in a unitary rental market so that they are able to compete effectively with profit-renting without the need for invasive regulation or being given either special protection or special responsibilities."[251] In other words, the integrated market is a more advanced stage in the development of the unitary rental market, in which social housing providers are able to sustain themselves in a competitive environment, with

[250] Blaas, Wolfgang et al. (2004a). p. 1
[251] Kemeny et al. (2005). p. 856

less public support. Merely regulations with regard to the eligibility of tenants for social housing, support for housing in areas that are less attractive to live in or tenant protection may be provided if necessary.

This stage of development has not (yet) been reached in Austria. There are a few factors that threaten the development from the unitary rental sector to an integrated market, three of which are, first of all, policies and political decisions that (could) entail a shrinking social rental sector; secondly, modifications in the way the social sector is financed and, thirdly, an unequal distribution of underprivileged households throughout all kinds of tenure.[252]

To begin with, the coalition of the conservative ÖVP and the right-wing FPÖ, which was elected in 2000, was in favour of the privatization of the limited profit housing stock. While the owners of most of the stock that could have been deprived of its limited-profit housing status, decided to maintain it, the 19,500 dwellings of the federal housing co-operative (the BUWOG) were in fact privatized in 2004[253] (by comparison, the number of social housing dwellings constructed in 2003 amounted to 12,900[254]). Although the number of dwellings that were privatized was rather small and, in 2009, the stock managed by the limited profit housing sector was greater than before the sale, such policy decisions restrict the evolution to an integrated rental system. Furthermore, an amendment of the Limited Profit Housing Law, that was passed in 1993, grants the tenants the right to buy the flat they live in after a period of 10 to 15 years, in return for a down payment that has to be paid at the time when they move in.[255] It is interesting to note that while the percentage of the subsidized construction of owner-occupied flats in the limited profit sector was relatively high in the 1970s, it decreased constantly from then on until 2001, when it settled down at a very low level. Conversely, the construction of rental dwellings with a right-to-buy-option has increased since the mid-1990s and accounted for the majority of the total new buildings of limited profit housing associations in 2007.[256] The right-to-buy policy seems to be a typical compromise in a corporative regime where the two most powerful parties support, on the one hand, a development towards homeownership and, on the other hand, a more pronounced sector of socially rented dwellings. Even though the number of dwellings with this call option increased, it is estimated that merely 20 % of the tenants with this option actually take advantage of it.[257] Two obvious consequences that may hamper the evolution to an integrated rental system derive from this policy: The right to buy, which however in Austria is not compulsory for social housing providers, "undermines the solidity of the

[252] Cp. Mundt et al. (2009). p. 17-21
[253] Whitehead et al. [ed.] (2007). p. 38 f.
[254] Cp. Amann (2006). In: Lugger et al [ed.] (2006). p. 21
[255] Deutsch (2009b). p. 294
[256] Mundt et al. (2009). p. 19
[257] Mundt et al. (2009). p. 18

remaining non-profit stock as well as reducing its market share and strongly skewing the socio-economic composition of remaining tenants towards the disadvantaged."[258]

The concentration of underprivileged social groups in specific kinds of tenure is another reason why the state of an integrated rental market has not yet been reached. Ideally, social groups should be scattered evenly throughout the housing sector. However, analyses of the Statistics Austria of EU-SILC (European Union Statistics on Income and Living Conditions) data from 2007 reveal that this is not the case. The highest percentage of households that are at risk of becoming poverty-stricken (i.e. households with an income below 60 % of the Austrian median income) is located in the private rental stock with limited leasing agreements (26 %), followed by municipal housing (18 %), private rental stock with unlimited leasing agreements (16 %), limited profit housing associations (12 %), and owner occupied flats (8 %).[259] The relatively high convergence in the private sector is a consequence of the fact that this sector still has some low quality and substandard flats with low rents, which do not exist in other rental housing sectors to the same extent. Moreover, since some old leasing agreements in certain segments of the private market are still subject to rent regulations, they are among the lowest in the overall rental housing market.

There have been considerable changes in the last fifteen years in the way social housing is financed, which may hinder the conversion of the unitary market into an integrated market. The changes will be discussed in Chapter 3.3.3 in greater detail; however the essence is that the federal funds reserved for production subsidies for social housing have declined in real terms since 1996 and that it has been gradually abolished to earmark these funds. As a result of this and of the devolution of housing competences alike, it occurs that Federal Provinces divert funds that were originally intended for housing measures to other uses, especially in times of adverse economic conditions. If, in the long term, fewer funds are channelled into the social housing sector, this will damage particularly the smaller limited profit providers with less equity and which are more dependent on public funding. As a consequence, there might be retrograde developments with regard to the diversity of tenure, spatially inclusive supply and housing choice. However, in the course of the current political debate on affordable housing, experts in some of the Federal Provinces, notably Tyrol, recommend that construction subsidies in the limited profit housing sector should be earmarked again.[260]

The division of the rental systems corresponds significantly with the predominant type of housing subsidy. Countries with dual rental markets, such as the UK, use mostly consumption subsidies, whereas unitary rental systems apply for the most part construction

[258] Kemeny et al. (2005). p. 871

[259] Statistik Austria [ed.] (2009). Einkommen, Armut und Lebensbedingungen. Ergebnisse aus EU-Silc 2007, Vienna. Cited in: Mundt et al. (2009). p. 20

[260] Wirtschaftskammer Tirol (2012). p. 1

subsidies. However, perhaps owing to the decrease in funds earmarked for the social housing sector, there is a tendency towards increasing consumption subsidies in some Federal Provinces in Austria, albeit to a low degree. The national average of consumption subsidies still amounts to below 10 % (see Figure 39). Means-tested housing subsidies are necessary in particular in housing systems with only an insufficient provision of affordable living space, which is often the case if the number of newly constructed subsidized dwellings is low and they are restricted to a small fraction of the population. Conversely, housing systems with a unitary or integrated rental market provide, in most cases, sufficiently widespread affordable housing space to cover the demand of most social groups, as in Austria, owing to extensive construction subsidies throughout various types of tenure, to limited profit housing and to a very general perception of social housing.

3.3 Housing Finance

3.3.1 General Considerations on Housing Finance

Finance is a decisive factor for the successful development of real estates besides, for example, technical details, the location or architecture. Housing finance in many western European countries has experienced a profound transformation since the 1970s. The liberalization of financial markets, which included "deregulating interest rates, abolishing credit controls, and lifting restrictions on eligible lenders"[261] and which also entailed the development of international capital mobility on capital markets and a lending boom in housing, spawned a variety of financial instruments that allowed for innovative ways of housing finance. While this development facilitated the access to financial services for an increasing share of the population and a growing number of entities, it also significantly increased the risks for the individual, which come along with an intensified use of globally integrated financial services. The burst of the recent housing bubble in 2007 and the subsequent housing crisis, which contributed to the banking and public debt crises, showed that the risks connected to certain instruments of housing finance, such as subprime loans and their excessive securitisation, were underrated.

Although the systems of housing finance have been developing rapidly in many western European countries, they still differ considerably, for instance, with regard to the degree of deregulation of the financial market or the extent of public involvement in the financing of housing projects. To be more precise, characteristics that describe the organisation of the housing finance system include "the structure and role of the supply side, i.e., the relative

[261] Hilbers et al. (2008). 33

role of general banks, specialized (mortgage) banks, credit unions, brokers, and nonbank suppliers of housing finance; the flexibility of the products offered with regard to maturity, interest rate flexibility, repayment schemes, and refinancing options; the presence and size of subprime mortgage markets; transaction costs (brokers' fees, banks' and legal fees, points, etc.); the existence of a secondary market for mortgages and/or a MBS market; the degree of financial liberalization; supervisory rules and regulations (LTV and LTI ratios, CARs, etc.); and collateral legislation and practices."[262] In order to carry out international systematic analyses, some studies in the relevant literature calculated a synthetic measure from these characteristics, which is also referred to as the "completeness" of the mortgage market.[263] In the study authored by Mercer Oliver Wyman (which has already been cited previously on p. 36), the UK ranked first of eight EU-countries[264] with 86 % mortgage market completeness.[265] While this allows drawing conclusions on the variety of financial products of the respective markets and the share of borrowers served, it is, beyond that, also useful to analyze the organisation and the structure of the housing finance systems in Austria and the UK to gain an insight into these. Since housing finance "has been integrally tied into the broader economy"[266], the differences of its respective organisation draw attention to some interesting aspects on the ways economic effects that emanate from the housing market, translate into other parts of the economy, and vice versa. For example, housing is deemed to be a potential economic motor through at least two channels; first of all through the supply side, i.e. the construction or refurbishment of buildings, which ideally stimulate the labour market and the preceding industries. Secondly, through the consumption of private households that may resort to the value of their houses for financial means (see Chapter 2.2.1. for the discussion on wealth and liquidity effects). This implies that both the percentage of home-ownership and the financial instruments, which facilitate the access of households to additional liquidity through the financial market, are relevant factors for the translation of developments in the housing market into other parts of the economy.

Naturally, the extent to which the developments in the housing market influence the economy (for example, through one of the channels noted above), significantly depends on the specific organisation of the system of housing finance. According to the explanations put forward by Springler[267], housing finance can be classified into four categories. Each category has a certain degree of complexity, the fourth being the most complex.

---

[262] Hilbers et al. (2008). 32

[263] Cp. Catte et al. (2004a). pp. 22-26

[264] Denmark, France, Germany, Italy (last with 57 %). Netherlands, Portugal, Spain, UK

[265] Mercer Oliver Wyman (2003).p. 23

[266] Vliet [ed.] (1990). p. 44

[267] Cp. Springler (2008). In: Lugger et al. [ed.] (2008). p. 282 ff.

The first category is a depository banking system that takes on the role of a financial intermediary between borrowers and lenders, and thus bypasses their different requirements, respectively. Lenders of capital (i.e. savers) are liquid and want to deposit their funds in a safe way, mostly by transferring small amounts over a longer period of time. Borrowers, on the other hand, are generally illiquid and need comparatively large amounts over a long term, which is always connected to a certain degree of risk. Obviously the respective needs differ in several ways, and that is the reason why mediation between the two groups of financial participants is necessary. Financial intermediaries are not strictly necessary for a functioning financial market, but they tend to minimize transaction costs as well as information asymmetries and, consequently, increase the market efficiency. Indeed, it would be highly inefficient if every deficit stakeholder had to find one or more surplus stakeholder(s) on his own initiative in order to conclude a transaction. In particular with regard to the acquisition of residential properties, which usually require large amounts of money, financial intermediation is essential. This system performs several functions in the process of intermediation, namely, size transformation, term or maturity transformation and risk transformation.[268]

The second category is defined as a system of contract saving. It functions in a way similar to the first category except that private long-term saving is contractually agreed upon. Moreover, it may be that public subsidies serve as incentives for the long-term saving commitment, such as in the building societies (Bausparkasse) in Austria.

The third category is the mortgage bank system, which consists of special institutions that issue loans for projects related to housing. There are two distinct attributes to this kind of housing finance. The financial means needed to issue a loan are not taken from the deposits or savings of the customers of the issuing financial institution. Instead, the financial institution issues a bond which it sells to a third party, mostly institutional investors such as pension funds, insurances, etc., and forwards the funds to the customer who takes out the loan. The bonds that they issue are covered, which means that the issuing institution is still liable to the investor with regard to the performance of the loan. In other words, the debt is balanced internally and it is not passed on to the investor. This is a major difference to the fourth category of housing finance.

Lastly, the fourth category is a secondary market system, in which financial institutions trade not only covered bonds, but accounts receivable as well. Similar to the third category, issued loans do not have to be covered by deposits or savings, they can be traded with other financial institutions. However, the difference is that the entire debt (or parts of it) can be sold instead of covered bonds only. This is essential because it means that risks can be

[268] See for example Casu et al. (2006). p. 7 f.

transferred as well. Therefore, it may be that the originator of a mortgage sells the obligations and, thus, all that tied the originator to the mortgage. Moreover, accounts receivables are usually pooled and then restructured (securitized) into mortgage backed securities (MBS), which are, in essence, claims on the payments of the originally issued mortgages, and then sold to investors. However, owing to the various layers of different accounts receivable within each MBS, the guarantees on mortgages are widespread among the investors and do not cover the entire value of the mortgage, unlike the covered bonds which guarantee the entire value of a mortgage. This activity on the secondary market expands beyond mortgage banks and involves, for instance, also conventional banks and savings banks.

Even though in Western Europe there has been a trend towards an increasing application of secondary market instruments over the past years, the systems of housing finance in the various countries still vary considerably, chiefly with regard to the relevance of the secondary market and the role of the banks concerning the transfers of risks and accounts receivable.[269]

In what follows, the systems of housing finance in Austria and the UK are studied and put into context with respect to the four categories of systems that have been previously described.

3.3.2 Housing Finance in the UK

Until the 1980s, the financial system in the UK was subject to many and strict regulations. "There was significant rationing of credit to households, resulting from either direct limits imposed by the authorities on financial institutions in terms of the amount of lending to households or indirect limits caused by ceilings on lending and deposit rates."[270] Prior to the 1980s, housing finance was carried out, to a great extent, by building societies, which corresponds to the second category of systems that have been described in the previous chapter. To grant mortgages, the building societies accessed "the savings of people who aspired to a mortgage once they had accumulated the necessary deposit."[271] This was a largely closed system, since the repayments of current loans were allocated to finance the housing of future borrowers. It was also independent of any form of capital market because the necessary funds were obtained within the savings market.

However, in the 1980s the hegemony of this system of housing finance underwent a profound transformation. By 1987, the building societies accounted for only approximately

[269] Springler (2008). In: Lugger et al. [ed.] (2008). p. 283
[270] Debelle (2004a). p. 30
[271] Malpass (2005). p. 121

50 % of the mortgage market, while banks and insurances, which were rather insignificant at the beginning of the decade, accounted for the other half.[272] The reasons that were decisive for this transformation derived partly from the political agenda at that time and the ideological views of the Conservative Government, and partly also from a changing international attitude towards economics, which supported the deregulation of financial markets. With the growing percentage of home-ownership, which, indeed, was precipitated by the policy agenda at that time (see Chapter 3.1.2), the previously existing closed system of housing finance came under pressure. In this situation, the building societies could not supply the market with the increasingly necessary funds, in part because they deliberately did not "raise their borrowing and lending rates to increase the inflow of funds when they lagged behind"[273], and partially because they were under political pressure not to do so. The transformation of the housing finance system resolved the former problem of a shortage of funds and the subsequent "mortgage queues" that occasionally resulted, which meant that it was in general easier to raise a loan, but it also significantly raised the real costs of borrowing because the financial institutions issuing the mortgages no longer accepted the same low rates.

Three measures in particular contributed to the deregulation of the housing finance system. First of all, the abolition of the exchange controls in 1979, which led to its integration into international capital markets. Secondly, in 1980, the Conservative Government eliminated the regulations, i.e. the "corset", that restrained the banks from competing with existing mortgage lenders. Finally, as a response to the inflow of other banking institutions into the mortgage market, the 1986 Building Societies Act introduced some regulations that enabled the societies to adapt to the new challenges that they were confronted with. These measures of deregulation, and the relaxation of limitations, resulted in more competition, a higher flexibility of the entire market and easier credit constraints. This development is reflected in the percentage of households with mortgages, which rose by 9 percentage points in twelve years to 42 % in 1992.[274] Moreover, building societies were increasingly integrated in the wider market, which meant that they were then allowed to provide other services in addition to mortgages. Conversely, conventional commercial banks crowded into the market of housing finance and competed with the building societies in their mainstay.[275]

One consequence of the new organisation of the housing finance system, which has already been mentioned above, was the rise in rates in this sector, because the level of rates that was used in other financial sectors was gradually adopted. Another effect was a growing

[272] Malpass (2005). p. 122
[273] Vliet [ed.] (1990). p. 101
[274] Debelle (2004a). p. 30
[275] Cp. Muellbauer et al. (2008). p. 16 f.

integration into the capital market. While building societies raised merely 1 % of their funds on the capital market in 1981, this percentage surged to approximately 33 % within five years.[276] The introduction of the secondary mortgage market in 1987[277] and the issuance of the first MBSs, concluded the evolution to the fourth type of housing finance systems, the secondary market system. Today, the UK has a very highly developed capital market finance. In fact, with regard to the entire financial sector, the vast majority of funds, roughly 90 %, are raised in the capital market, as opposed to bank loans that amount to only 10 %.[278]

However, a detailed analysis of the development of the housing finance in the UK over the last decade reveals some weaknesses of the fourth system. Although it is highly integrated into international capital markets and complex secondary market processes are applied, such as the securitisation, with the aim to facilitate financial liquidity and to diversify risks, it may, however, suffer under certain circumstances from a lack of funds. The first decade of this millennium was "characterised by an easing of credit standards [on broad categories of loans] and the reliance on risky funding models"[279]. However, the risks were often neglected against the background of rising house price inflation and low interest rates in the forefront of the housing crisis (see Chapters 2.1.1 and 2.2.1). The mortgage borrowing boomed (see Figure 19 and Figure 20) and was extended to riskier types of loans and to social groups with previously only little access to housing finance, owing to their high debt-to-income ratio[280], to little documentation of their financial situation or to their impaired credit history. Consequently, the outstanding residential MBSs and covered bonds together amounted to 257 billion Pounds sterling in 2007, compared with 13 billion Pounds in 2000 – nearly twenty times as much.[281] This is in line with the findings on the outstanding amounts of secured lending to individuals and housing associations presented in Figure 19, which also rose sharply over the same period. It can be inferred from this, that mortgage lending institutions increasingly turned to investors and especially to the secondary mortgage market to cover their rapidly expanding lending. A high percentage was invested by foreign, mainly US-based, companies. However, with the outbreak of the housing crisis in the US in 2007, and the ensuing collapse of the mortgage market, in part owing to overrated subprime mortgages which had been securitized to MBSs and traded on the secondary market for years, the "investors lost appetite for asset-backed securities, putting

[276] Vliet [ed.] (1990). p. 101
[277] Springler (2008). In: Lugger et al. [ed.] (2008). p. 289
[278] Schulte [ed.] (2008). p. 100
[279] André (2011). p. 30
[280] The debt-to-income ratio reflects the proportion of funds required for debt servicing to disposable income - the higher the rate, the smaller the debtor's leeway for other spending.
[281] André (2011). p. 32 f.

the [UK] lenders that relied heavily on such funding vehicles in a desperate position."[282] The lenders were unable to sell their issued securities of loans they had already granted to customers. As a direct consequence, two schemes were introduced in 2008 to provide temporary financial assistance for the financial institutions that were affected, namely, the Special Liquidity Scheme which was launched by the Bank of England to allow "banks and building societies to swap for up to three years some of their illiquid assets for [more easily tradable] UK Treasury Bills"[283], and the Credit Guarantee Scheme introduced by the Government with a similar purpose.

These explanations illustrate that financial institutions depend on investments in their issued securities in the secondary market in order to be sufficiently liquid to grant mortgages. While this may be an advantage at times of an economic boom, when there is a seller's market, it may pose a risk in adverse economic environments. The capacity of the secondary market to supply liquidity depends on the business cycle conditions.[284] In a similar way, this is also valid for the close integration of housing markets into international capital markets. In secondary market systems, the fluctuations in international financial markets translate to a greater extent into the domestic housing market and into wider parts of the economy. Therefore, it is vital that financial institutions active in the mortgage market adhere to sustainable standards of borrowing, in particular with regard to the affordability of borrowers and risk assessment. In this regard, it is interesting to note the fundamental change in the attitude of the Financial Service Authority (FSA) in 2009, which, historically, had supported a laissez-faire approach in its business of regulating the financial services industry, but then began to argue for a more "intrusive and interventionist style of regulation"[285]. The FSA acknowledged that the regulatory framework that was applied throughout the years of the recent housing boom (especially over the period from 2000 to 2007) was "ineffective in constraining particularly risky lending and unaffordable borrowing."[286]

The way social housing is funded has changed several times over the past 60 years. A combination of several sources accounted for the necessary means to cover the expenditures of local authorities. What changed most in this period was, perhaps, the weighting of the respective sources, rather than the provenance of the funds itself. For instance, in the late 1970s, approximately 40 % of the costs of council housing were covered by both rents and Central Government subsidies, respectively. The residual 20 % was split between local

[282] André (2011). p. 33
[283] Bank of England (3.2.2009). p. 1
[284] ECB (2007). p. 9
[285] Thickett (19.10.2009).
[286] André (2011). p. 31

taxes (10 %) and other various sources (10 %). Five years later, by 1983/1984, rents had significantly increased and public subsidies decreased, so that more than half of the expenditures were covered by rents (55 %) and only 16 % by subsidies (taxes still accounted for 10 % and other sources accounted for the remainder)[287]. With the enactment of the Local Government and Housing Act in 1989 a new financial regime was introduced. The Housing Revenue Accounts (HRA) were ring-fenced and put under the supervision of the Central Government, which then fully controlled the redistribution of the funds transferred into this account by the local authorities. Critics maintained that this system, which nationally pooled the proceeds from right-to-buy sales and rents, was opaque in the way the financial means were redistributed, that it was inadequately short-termed, and that it deprived local authorities of their responsibility and control over the provision of housing.[288] Moreover, the HRA system discouraged local authorities from investing in housing because it obscured the connection between the services they provide and the rents that tenants pay. It may be that this system has contributed to the negligible construction rate of municipalities since the 1990s, which amounted to 2.2 % of the buildings completed in the sector of socially rented dwellings in 2009/2010 (and 0.5 % with regard to the entire housing sector)[289] (see also Figure 31).

However, in April 2012, after more than 30 years in practice, the HRA in its old form was dismantled. The power and responsibility over the municipal housing stock was again transferred to the local authorities. While this devolution gave local authorities full control and more flexibility in managing their real assets and their financial resources, it entailed the transfer of 21 billion Pounds of housing debt from the Central Government to the 171 local authorities that were active in the provision of housing. Whether or not this development will affect the provision of municipal housing is still not evident, however, it is most likely that housing associations will continue to provide the vast majority of the social housing.

Housing associations will have to raise more private funds in the future, owing to reductions in public subsidies which accounted for approximately 30 % of their new construction expenditures. Housing associations will probably fulfil this new need for capital by increasingly issuing bonds, which is an already popular method of finance in this sector that has been carried out with success over the past 20 years or so.[290]

[287] Vliet [ed.] (1990). p. 102
[288] Navigant Consulting (2011). p. 14
[289] Department for Communities and Local Government (2010b).
[290] André (2011). p. 27

3.3.3 Housing Finance in Austria

In the context of the four categories of housing finance systems presented above, the Austrian system belongs to the third category, which means that banks usually refund their mortgages by issuing bonds. Moreover, the system consists of well developed sectors of special housing banks and building societies. Financial institutions do not apply the process of securitization of receivables in the field of residential real estate as a method of risk transfer[291], although it is permitted[292], and investment funds only marginally invest in international MBSs[293]. Therefore, the Austrian housing market is largely unaffected by events on the secondary mortgage market, but not by those on the capital market.

The trend of annual public housing expenses in relation to the GDP is negative, even though the nominal amount has significantly increased over the last two decades. While in the late 1990s approximately 1.3 % of the GDP was spent for housing purposes, this value amounted to just over 1 % in 2007.[294] This includes expenses of the Federal Provinces for housing construction subsidies, subsidies for the savings in building societies, and losses because loans of special housing banks are, to a certain degree, exempted from taxes on capital gains.[295] The quantity of other public transfers is negligible in this context.

At least four ways of financing that are fundamental to the Austrian housing system can be identified[296]. To begin with, the subsidies for housing construction of the Federal Provinces which cover new building in nearly all market segments (rental, owner-occupied, multi-storey, detached, etc.) and are used for refurbishments as well. In the segment of detached houses, the subsidies are often used in combination with mortgages of the building societies; with regard to the construction of multi-storey buildings, it is frequently combined with the capital market finance of special housing banks. However, similar to the overall public housing expenses noted above, real housing subsidies have been declining for the past fifteen years or so. Policy decisions in 1996 contributed significantly to this downwards trend. The State, which was the main contributor to the housing construction subsidies (with 75 % of the total funds, while the Federal Provinces paid the rest), froze the share of the subsidies it had earmarked at an annual amount of 1.78 billion Euro. As a consequence, the funds declined compared with the GDP (see above) and with the federal budget (from 3.3 % in 1996 to 2.9 % in 2003)[297]. Historically, the federal share of the funds for the housing

[291] Springler (2008). In: Lugger et al. [ed.] (2008). p. 289
[292] Ball (2004). p. 23
[293] FMA – Austrian Financial Market Authority (10.8.2007)
[294] Mundt et al. (2009). p. 20
[295] Lugger et al. [ed.] (2006). p. 29
[296] Institute for Real Estate, Construction and Housing Ltd. (2008). p. 33 ff.
[297] Blaas et al. (2004b). p. 5

construction was in part linked to salaries and wages. This was, on the one hand, through the housing construction contribution (Wohnbauförderungsbeitrag), which corresponded to 1 % of the wages, half of which was paid by the employers and the other half by the employees, and, on the other hand, through a determined percentage of the income tax. The earmarking of the difference between these two amounts and the entire federal share of the housing construction funds was abolished in 1997. Within the historical context of the housing construction subsidies this is the continuation of a trend that has, together with the devolution of competences (see Chapter 3.1.3), gradually given the Federal Provinces more and more freedom of scope for the use of the funds.[298] The financial equalization in 2008, which eliminated entirely the earmarking of these transfers, represented just the most recent step of withdrawal of the State from construction subsidies.[299]

Furthermore, in times of adverse economic conditions and austerity packages, the funds of the Federal Provinces, which were reserved for housing construction subsidies, declined. In general, they consist of two sources: the first is the income from past housing construction subsidies, including return flows and interests of loans, revenues of investments and revenues of sold receivables, and the second are housing construction subsidies consisting of additional budget funds of the Provinces. The obvious difference between the two sources is that the first, i.e. income from past housing construction subsidies which is used for new subsidies, remains in the system. These revolving funds are an integral part of a sustainable, self-supporting construction subsidy system. However, since the earmarking of funds became less strict, a number of the Federal Provinces have employed some of the circulating funds for other purposes, such as for the revenues of sold receivables that were partly used for general fiscal adjustments.[300]

The second relevant way of housing finance is indeed through conventional banking means and refinancing by issuing bonds. The mortgages are an increasingly relevant means of finance, owing to the tendency of diminishing public subsidies, as well as to the tendency towards subsidies for annuities, which also benefit the capital market finance.[301] With regard to private indebted households, loans for housing purposes are clearly the most prevalent kind of financial liabilities. Such loans amounted to approximately 60 % of the overall debt in 2006 (the other two categories were "loans for consumption purposes" and "other loans")[302]. However, this percentage also includes housing loans granted by building societies and other financial institutions. Traditionally, mortgages are granted with fixed

[298] Cp. Blaas et al. (2004b). p. 4 f. and Mundt et al. (2009). p. 19 f.
[299] Fröhlich (2012). p. 4
[300] Blaas et al. (2004b). p. 1, 6
[301] Institute for Real Estate, Construction and Housing Ltd. (2008). p. 33
[302] Springler (2008). In: Lugger et al. [ed.] (2008). p. 287

interest rates, but there are also mortgages with adjustable rates which are either used as top-up loans[303] or as "*Kletterdarlehen*"[304]. The latter were introduced in the 1990s after an increase in interest rates and they link the redemption rate to the inflation rate.

The foreign currency loan is a popular way to finance housing. Its steep increase in popularity since the mid-1990s has already been referred to in Chapter 2.2.2. However, owing to the risks in connection with this kind of financial product, the Austrian Financial Market Authority (FMA) imposed a freeze on it in the autumn of 2008. As a result, the volume of outstanding foreign currency borrowings (adjusted for exchange rate effects) decreased by 20.8 % from the third quarter of 2008 to the fourth quarter of 2011.[305] However, from Figure 24 it can be inferred that the development of the foreign currency loans relative to the overall debt secured by mortgages had been stagnating or decreasing since 2006.

The third central instrument for the Austrian housing finance system is the housing banks (Wohnbaubanken). This special type of bank has been designed to carry out financing multi-storey housing projects which are deemed eligible for public funding and, since 2001, also refurbishments. Their legal basis was laid down in 1993 in the Federal Law on Special Fiscal Measures for the Promotion of Housing (Bundesgesetz über steuerliche Sondermaßnahmen zur Förderung des Wohnbaus).[306] Housing banks were considered to be a solution to the preceding period in which housing space was scarce, especially in the cities, owing to increased migration from CEE-countries and the unforeseen consequences of political decisions in the 1980s, which shifted the focus of housing policies to refurbishment and modernization. This caused many adjoining flats to be fused to create larger and more modern flats and thus contributed to the housing shortage. Moreover, the high interest rates during the early 1990s spurred increases in rents and forced the Federal Provinces, to which the main competences for housing subsidies were just surrendered, to spend more money on subject subsidies.[307]

Against this background, the instrument of the housing banks was introduced with two tax advantages for private persons that benefit both the increase of capital as well as the income from capital. First of all, the purchase of bonds issued by housing banks is considered to be a special expense and can therefore be deducted from income tax and, secondly, up to 4 % of the income from interest is exempt from capital gains tax. Therefore, housing construction

[303] Ball (2004). p. 23
[304] See Schmidinger (2008). In: Lugger et al. [ed.] (2008). p. 263
[305] FMA - Austrian Financial Market Authority (7.3.2012)
[306] Czerny et al. (2007). p. 17
[307] Schmidinger (2008). In: Lugger et al. [ed.] (2008). p. 261 f.

convertible bonds (HCCB)[308] issued by housing banks are an attractive form of long-term investment. The duration of 15 to 20 years of these housing bonds was, in fact, one of the underlying reasons for the introduction of housing banks. The aim was to stabilize capital markets and to counter the development of the late 1980s, when the duration of conventional bonds was reduced to as little as seven years. Housing banks, in contrast, provided the possibility of long term investments in convertible bonds that were considered to be safe, even in times of unpredictable economic conditions.[309] The reasons for this consideration are connected with the way housing banks invest their funds. The money raised through the issuance of bonds must be used exclusively to finance residential buildings deemed eligible for the public subsidy scheme. Usually housing banks grant long-term loans to limited profit housing associations at fixed rates below the usual market level. According to explanations put forward by Schmidinger, who is a board member of one of the six Austrian housing banks, the low financing conditions, that were offered to limited profit housing associations, translate directly into lower rents: the amount saved for an 80 square metre flat, fully financed by a housing bank, amounts to 37 Euro per month, and, under more typical financing conditions (i.e. only partially financed by a housing bank), the monthly saving amounts to 21 Euro.[310]

Multi-storey rental housing is financed to a very great extent by housing banks. Approximately 80 % of all the new buildings built by limited profit housing associations since 2006 have been at least partially financed by housing banks.[311] Especially since the early years of this century, their convertible bonds have enjoyed a growing popularity as a form of financial investment, and housing banks have expanded their commitment as financiers.[312] While the unpredictability of capital markets, in particular with regard to the condition of certain banks, led to a decrease in the volume of capital of housing banks in 2008 because the HCCBs were not covered by the deposit guarantees for private savings in case of insolvency, the low interest rates since 2008 (see Figure 8) have diminished the adverse developments.[313]

It has already been noted above that the reasons why investments in HCCBs are considered to be safe are connected to the fact that approximately 70 % of the financial resources of housing banks are used to finance constructions built by limited profit housing associations. Conversely, loans from housing banks, with rates normally as low as Euribor plus 0 to 100

[308] Mundt et al. (2009). p. 17
[309] Czerny et al. (2007). p. 17
[310] Schmidinger (2008). In: Lugger et al. [ed.] (2008). p. 265
[311] Schmidinger (2008). In: Lugger et al. [ed.] (2008). p. 264
[312] Oberhuber (2007). p. 21
[313] Amann et al. (2009). p. 16

basis points[314] (100 basis points equal 1 %), amount to 40 % to 60 % of a typical financing structure of limited profit housing projects. Other necessary financial means may typically emanate from public loans or subsidies (30 % to 40 %), equity of the developer (10 % to 20 %) and upfront payments of tenants (up to 10 %). In some cases, municipalities contribute to the low construction costs by making land available to favourable conditions.[315] Whereas the specific financing configuration may indeed vary between the projects, the essence of the layered structure is that it diversifies the risks of limited profit housing projects and thus contributes to its reputation in the capital market as a relatively safe investment. Further factors, that may emphasize this perception and consequently maintain the financing costs at a low level, include the external supervision and regulation of limited profit housing associations in addition to their internal auditing as well as the co-financing by public loans and public subsidies which offer sound collateral.[316]

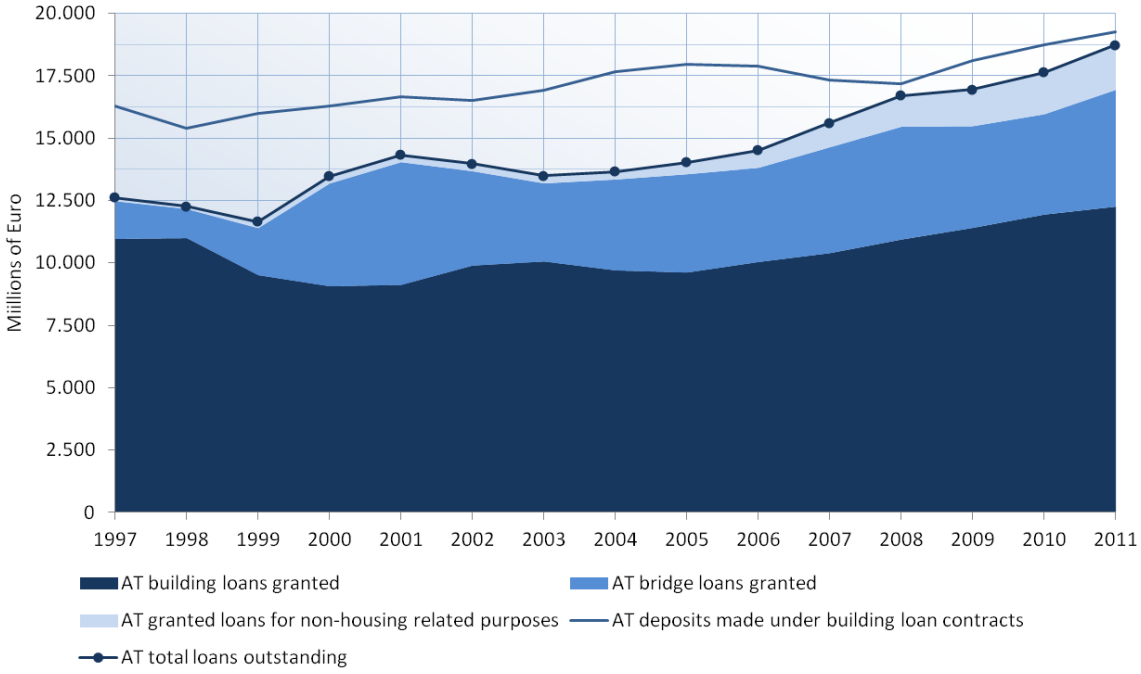
Mortgages granted by building societies, the fourth fundamental way to finance housing, amounted to approximately 25 % of all outstanding mortgages in 2004[317]. However, this proportion decreased thereafter, largely owing to an increase in secured debt by mortgages in credit co-operatives as well as joint stock and private banks.[318] Traditionally, building societies were especially active in the field of owner-occupied housing with regard to both detached houses and flats. However, owing to growing competition they have been allowed, since 1999, to resort to capital markets for funding and they have expanded their fields of business and increasingly financed multi-storey housing as well. Moreover, since 2005, they have started to grant educational and care loans.[319]

Conventional building society loans are largely based on savings contracts over a specified period, such as six or ten years, followed by a loan. The savings (up to a 1,200 Euro per month and person) are publicly subsidized by a certain percentage rate that is determined every year by the Austrian Ministry of Finance. In the course of the recent austerity measures, the rate was reduced to 1.5 % per year as of April 2012.[320] Although building societies do not entirely rely on deposits to grant loans as they can also resort to the capital markets, it is interesting to note that the gap between their deposits and outstanding receivables has narrowed since 2004 (Figure 41). The smallest difference was in 2008, when the deposits exceeded outstanding loans by only 470 million Euros, owing, on the one hand, to a decrease in deposits and, on the other hand, to an increase in outstanding receivables.

[314] Mundt et al. (2009). p. 16
[315] Amann et al. (2009). p. 15
[316] Amann et al. (2009). p. 16
[317] Ball (2004). p. 23
[318] ÖNB (2012)
[319] Institute for Real Estate, Construction and Housing Ltd. (2008). p. 34
[320] See for example sBausparkasse (2012) or Raiffaisen Wohnbausparen (2012)

Building society loans have experienced a growing popularity, in particular the loans for non-housing related purposes, a trend that might continue and compensate for the freeze of foreign currency loans.[321]

Figure 41: Annual volume of deposits and outstanding receivables of building and loan societies in Austria (1997-2011)



Source: ÖNB (2012), author's compilation

[321] Institute for Real Estate, Construction and Housing Ltd. (2008). p. 34

4 Summary

4.1 Aim of the Study

Considering the importance of the housing sector to the economy, the society and the State, as well as the universal need for adequate and affordable housing, the present paper is an attempt to contribute to the understanding of processes and characteristics which are inherent to housing. To this aim it analyzes the divergent housing systems of Austria and the United Kingdom with regard to their economic developments, their structural characteristics, as well as to their views on how the living space should be distributed and what approach should be taken in this process.

4.2 Research Findings

House Price Developments and Macroeconomic Fundamentals

Whereas the economies of countries within the EU are highly integrated and their business cycles synchronised on a high level, trends in the prices of houses have differed significantly. When comparing the housing values of Austria and of the UK it appears that from the mid-1990s onwards, they have developed in opposing ways. Whereas in Austria prices mostly stagnated or depreciated from 1993 until 2004 and only then began to rise, they increased remarkably in the UK by more than 250 % from 1996 to 2007. The upsurge in the UK extended over a relatively long period of over eleven years, roughly twice as much as the average 24 quarters upswing throughout the OECD countries, and left rents far behind. In fact, the price-to-rent ratio jumped to over 170 points in the second quarter of 2007 (Q1 2000=100) marking a historic peak. The low base rate, which was set below 4 % for most of 2003, a historic low at that time, contributed to the high housing demand by reducing the residential (re-)financing costs and by boosting construction. However, from the end of 2003 onwards both the base rate and mortgage interest rates have increased, which suggests that advantageous conditions of real estate finance could not explain the current high demand in the housing sector at that time, and that prices were brought out of line with fundamentals.

Austria, however, was quite unaffected by the house prise cycle in question, ignoring the boom as well as the bust, even though the declining trend in mortgage interest rates was similar. One contributing factor to this development may be the weak annual growth in GDP throughout the first few years of this century, which dampened the demand for residential property. The economic performance did indeed weaken, also in the UK, during

the same period, but the extensive increase in house prices, which translated into more consumption and higher investments through the wealth and the liquidity effects, might have cushioned this development. The fact that the Austrian economy slumped in 2008 and 2009, at the same time when the prices of houses started to pick-up by more than 5 %, suggests that these two effects are less developed in Austria than in the UK. Moreover, owing to favourable financing conditions of owner-occupied houses and flats in Austria, house prices increased less steeply, compared with the UK, in relation to the renting costs in the first five years of this century, which was manifested in a price-to-rent ratio with a negative slope.

Household Related Economic Aspects

The link between housing wealth and consumption is stronger in the UK than in Austria, owing to different structural characteristics of the housing sector, such as the rate of home-ownership, the integration of the financial and the housing market, and the state of development of the mortgage market, in particular, the faculty to extract liquidity from the housing market. Two of the mechanisms, which transmit, to a certain degree, changes in wealth into private consumption, are the wealth and the liquidity effect. They describe the tendency of households to consume more if their housing wealth increases by seemingly saving less or borrowing more. Therefore, macroeconomic effects may arise if the propensity to consume of owner-occupiers and tenants differs.

In the United Kingdom the development of household consumption is similar to that of the housing equity withdrawal which, in turn, is similar to the development of house prices. The analogous development of these three factors, albeit with very different amplitudes, underlines the facts that households in the UK tend to borrow more from their housing stock, when its value increases and, similarly, the propensity of households to consume is more clearly perceptible when house prices rise. In contrast, the household consumption in Austria was not negatively affected by predominantly stagnating house prices during the boom phase in the UK. Moreover, although the prices in Austria have picked up since 2005, household consumption has developed independently. Another determining factor is indeed the private investment in housing, which, in Austria, declined by 2.6 % from 1995 to 2005, whereas it increased in the UK by 2.5 % per year, and thus, contributed to the upwards pressure on prices as well as to an increase in household debt. Since the mid-1990s increases in the secured debt of households in the UK have been significantly steeper than those of the economic performance and household income. In fact, the residential mortgage debt reached 78.8 % of GDP in 2005. After house prices had peaked in 2007, a significantly lower number of mortgages were granted and the number of outstanding mortgages in arrears nearly doubled from 2007 to 2008. Owing to a different organization of the

mortgage market in Austria, such as, in general, lower LTV-ratios, household indebtedness is lower and less widespread, which makes owner-occupiers less sensitive to changes in their financial situation, interest rates and house prices. Nevertheless, the outstanding mortgage debt more than doubled from 1995 to about 100 billion Euros in 2010, which means that during the period in question, liquidity had been transferred into the housing market. From a comparison of outstanding secured debt to incomes and the GDP in both countries in question, it can be gathered that there was a disproportional increase in secured debt.

Supply Oriented Indicators

Although the dwelling stock in the UK has continuously increased since the early 1990s, the reaction to the latest house price boom seemed to be rather moderate. However, even if the aggregated number of dwellings did not significantly change, there were shifts between different types of tenure. Most strikingly, rented dwellings from local authorities decreased mainly in favour of privately rented dwellings, as well as those rented from housing associations. The owner-occupied stock has decreased from 2005 onwards in comparison to tenancy, which amounted in 2009 to slightly above 33.5 %. In 2008 and 2009, owner-occupied dwellings decreased in absolute terms as well, which further increased the proportion of tenancies. This development is reflected by the number of buildings that were completed for housing purposes. While those built by housing associations increased both in relative, as well as in absolute terms, as they amounted to 22 % of the total dwellings completed in 2009, compared with 9.5 % in 2003, the number of privately built dwellings decreased. The number of new dwellings completed by local authorities has been practically irrelevant at an aggregate level already since the early 1990s.

In Austria, it can be inferred from the historical comparison of changes in house prices and in the amounts of the dwelling stock, which ignored virtually any fluctuation in prices and increased at a constant rate of about 1 % per year from 1985 to 2010, that housing supply developed rather rigidly as well. The population growth and the low numbers of new dwellings constructed annually between 2002 and 2004 reduced the housing construction ratio, and may have contributed to the pressure on house prices from 2004 onwards, especially since the average Austrian occupies increasingly more floor space and shares this with fewer persons. Furthermore, detached and semi-detached houses accounted for 68 % of the funds used for the construction of dwellings, but accounted for only 51 % of all the dwellings developed in 2001. This statistic indicates that this space-intensive type of building is significantly more expensive than multi-storey buildings and might increase the need for land, if the difference becomes even greater in the future.

Political Orientation and Intervention in the Housing Market

Housing policies in the UK were often changed according to the political orientation of whatever Party was currently governing the country, making them a plaything for short-term political ideologies. In contrast to Austria, where most of the governments since 1945 have been coalitions, all the governments in the UK prior to the current coalition of Conservatives and Liberal Democrats consisted of only one party, which implies that, owing to the absence of political compromise, the shifts of political power had a more direct impact on policies.

The development of housing policies in the UK since 1945 can be classified into two broad periods. Throughout the first of these periods, which stretches approximately from the end of the Second World War to the 1970s, housing policies were based on the idea of a mixed economy, i.e. the market provided housing for the great majority of the population, while local authorities offered public housing for those excluded from the market, and the State subsidized certain forms of tenancy. However, the economic and political crisis during the 1970s led to a reconsideration of many of the post-war economic and welfare policies, which became increasingly difficult to defend against the background of rising unemployment and a shrinking economy, with the result of an overall smaller role of the State. Housing policies and the general conception of the role of the State with regard to housing changed drastically, in particular in the eighteen years (1979 to 1997), in which the Conservative Government was in power. Social housing and public intervention were perceived increasingly as a problem rather than a solution. Accordingly policies focused on moving the better off social groups into homeownership, as well as on means-tested assistance with housing costs.

Compared with more centralized democracies, such as the UK, the corporative setting, the federalism, and the relevance of the social partnership in Austria entail a more pronounced fragmentation of competencies and demand a more consensual political conduct between stakeholders, which makes it relatively complex to introduce fundamental political or institutional changes. Therefore, there was no drastic housing policy change comparable to the changes which occurred in the UK from 1979 to 1997. Although the demand for a more efficient (i.e. neoliberal) housing policy was expressed also in Austria, it was not implemented to the same, integral extent. Supporters of the hitherto existing housing policy model argued that a restriction of subsidies to lower income classes would inevitably lead to acute social friction and conflicts over the distribution of wealth, and it would lead to increasing residential segregation. Also, the existing housing policy was seen as a powerful governing instrument outside the housing policy as well, for instance, with regard to stabilization and employment policy.

Besides these ideological differences between the main political parties, there was another housing political tug-of-war during most of the second half of the twentieth century, which was not primarily carried out across party political lines but rather between different levels of political authorities, chiefly between the Austrian Federal Provinces and the Central Government, namely the power struggle for executive and legislative housing competence. However, irrespective of the specific fragmentation of competence and ideological differences between the parties in power, three key factors can be identified which have significantly shaped Austria's housing development since the 1950s, namely, object subsidies for housing construction, a pronounced limited-profit housing sector in addition to public housing, and the protection of tenants.

Social Housing

The issues on affordability of housing in the UK and Austria are similar, but the policies and instruments applied to deal with them are rather different. Whereas in the UK social housing focuses on providing living space for low-income households, in Austria it provides housing to most social groups and has never been a residual tenure aimed at housing the poor. While social groups in Austria are more evenly distributed throughout the housing market than in the UK, the percentage of the social housing stock (defined as a segment of the rental market that is owned by public or limited-profit bodies) in relation to the entire housing sector is similar in both countries and amounts to approximately 20 %. However, it is important to bear in mind that this definition of social housing, which relates to the ownership of dwellings, is too narrow for the Austrian context because it neglects the public intervention that subsidizes housing, independent of the kind of tenure (such as construction subsidies).

The social housing sector in the UK underwent a quantitative and a qualitative transformation. While it benefited a larger share of the population in the period immediately after the Second World War, its size and significance, in terms of social range, have diminished over time. Moreover, the characteristics of the social groups who live in this sector of housing have changed, and so has the quality of the housing stock and its purpose within the housing sector as a whole, i.e. the social housing sector has been reduced to assume the function of a social safety net. Additional developments, over the past 50 years, that have affected the social housing sector, include the shift of ownership from local authorities to housing associations, the development into a dominant ownership sector and the shift from production subsidies to consumption subsidies.

In contrast to the UK, which is an example of a country with a dual rental market, Austria possesses typical characteristics of a unitary rental market. Thus, social and for-profit

housing providers are not shielded from one another, and their direct competition influences the determination of the rent level to a very great extent because, ideally, tenants choose the offer with the better price and quality, and since social providers forego profit to a certain extent and need to cover only the costs, there tends to be a downward pressure on the overall rent level. However, there are a few factors that threaten this configuration of the housing market, three of which are, first of all, policies and political decisions that entail a shrinking social rental sector; secondly, modifications in the way the social sector is financed and, thirdly, an unequal distribution of underprivileged households throughout all kinds of tenure.

Housing Finance

The liberalization of financial markets since the 1970s has spawned a variety of financial instruments that have allowed for innovative ways of housing finance. While this development has facilitated the access to financial services for an increasing share of the population and a growing number of entities, it also has significantly increased the risks for the individual, which come along with an intensified use of globally integrated financial services.

The systems of housing finance in Austria and the UK differ considerably with regard to the degree of deregulation of the financial market or to the extent of public involvement in the financing of housing projects. For instance, measures of deregulation and the relaxation of limitations in the UK, resulted in more competition, a higher flexibility of the entire market, easier credit constraints, and a higher percentage of households with mortgages. In addition to the very highly developed capital market finance in the UK, complex secondary market processes (such as securitization) are applied with the aim to facilitate financial liquidity and to diversify risks. While this may be an advantage at times of an economic boom, it may pose a risk in adverse economic environments. In secondary market systems, the fluctuations in international financial markets translate, to a greater, extent into the domestic housing market and into wider parts of the economy.

In contrast, participants in the Austrian system of housing finance do not rely on the process of securitization of receivables as a method of risk transfer. Financial institutions usually refund their mortgages by issuing bonds, which, consequently, makes the Austrian housing market largely unaffected by events on the secondary mortgage market. At least four ways of financing, that are fundamental to the Austrian housing system, can be identified; first of all, the subsidies for housing construction of the Federal Provinces, which cover new building in nearly all market segments; secondly, the finance through conventional banking means; thirdly, the system of the housing banks, which have been designed to carry out

financing multi-storey housing projects, that are deemed eligible for public funding, and which refinance by issuing housing construction convertible bonds; and, lastly, the mortgages granted by building societies.

4.3 Perspectives

Considering the substantial disparities between the housing systems in Austria and the United Kingdom, an analysis of these systems emphasizes the many ways in which housing can be organized. While each way is inherently connected to the political and economic stance of the responsible public entity, and because of the complexity of the topic, there is no paradigm approach that can be followed. However, the outcome of any housing system can indeed be evaluated by the degree to which it fulfils the provision of housing with adequate and affordable dwellings. While it is not the aim of the present paper to draw normative conclusions, it is a basis on which further work may build to carry out such recommendations.

Concluding, it should be emphasized that the evaluation of developments in housing markets cannot be based upon *the one* indicator that comprehensively explains the developments. Instead, it is necessary to draw upon a wide range of interlinked parameters to describe specific processes. However, in several cases the difficulty remains to identify their respective relevance and causality.

5 Indices

5.1 Sources

5.1.1 Literature

Amann, Wolfgang (1999). Kompetenzverlagerungen im Wohnungswesen, FGW-Schriftenreihe 132. FGW-Forschungsgeselschaft für Wohnen, Bauen und Planen, Vienna

Amann, Wolfgang; Lawson, Julie; Mundt, Alexis (2009). Structured finance allows for affordable rental housing in Austria. In: IUHF (06.2009). Housing Finance International pp. 14-18

Amann, Wolfgang; Mundt, Alexis; Lugger, Klaus (2010). Wohnkosten Statistik in Österreich – Methodik, Ergebnisse, Interpretation. IIBW – Institut für Immobilien, Bauen und Wohnen, Vienna

André, Christophe (2010). A Bird's Eye View of OECD Housing Markets. OECD Economics Department Working Papers, No. 746, OECD Publishing.

André, Christophe (2011). Improving the Functioning of the Housing Market in the United Kingdom. OECD Economics Department Working Papers, No. 867, OECD Publishing

André, Christophe; Girouard, Nathalie (2008). Housing Markets, Business Cycles and Economic Policies. Austrian National Bank Workshop – Housing Market Challenges in Europe and the US – any solutions available? Vienna

Andrews, Dan; Sánchez, Aida Caldera (2011). Drivers of Homeownership Rates in Selected OECD Countries. OECD Economics Department Working Papers, No. 849, OECD Publishing

Andrews, Dan; Sánchez, Aida Caldera; Johansson, Åsa (2011). Housing Markets and Structural Policies in OECD Countries. OECD Economics Department Working Papers, No. 836, OECD Publishing

Aoki, Kosuke; Proudman, James; Vlieghe, Gertjan (2002). Houses as Collateral: Has the Link between House Prices and Consumption in the U.K. Changed? In: Economic Policy Review May 2002 pp. 163-177. Federal Reserve Bank of New York

Baldini, Massimo; Federici, Marta (2010). Il social housing in Europa. Università degli Studi di Modena e Reggio Emilia

Ball, Michael (2004). European Housing Review 2004. RICS

Ball, Michael (2011). 2011 European Housing Review. RICS

Bank of England (2011a). Annual Report 2011. Bank of England

Barker, Kate (2008). Planning policy, planning practice, and housing supply. In: Oxford Review of Economic Policy, Volume 24, Number 1, 2008, pp. 145-175

Barnes, Sebastian; Thwaites, Gregory (2005). 'Real-world' mortgages, consumption volatility and the low inflation environment. Working Paper no. 273. Bank of England

Baumberger, Jörg (2007). Zum Umgang mit Dichte: Eine ökonomische Kritik. In: Lumpagnani, Vittorio Magnago; Keller, Thomas K.; Buser, Benjamin [eds.] (2007). Städtische Dichte. Verlag Neue Zürcher Zeitung, Avenir Suisse, NSL, Zurich

Benito, Andrew (2007). Housing equity as a buffer: evidence from UK households. Working Paper no. 324. Bank of England.

Blaas, Wolfgang; Rüsch, Gerhard; Brezina, Brigitta; Doubek, Claudia (1991). Mehr Markt oder mehr Staat im Wohnungswesen – Reformperspektiven für die österreichische Wohnungspolitik. Böhlau Verlag, Vienna

Blaas, Wolfgang; Wieser, Robert (2004a). Einfluss von Wohnbauförderung und Richtwertsystem auf die Mietenentwicklung. AK-Wien, Vienna

Blaas, Wolfgang; Wieser, Robert (2004b). Wohnwirtschaftliche und volkswirtschaftliche Probleme durch Kürzung der Wohnbauförderung. AK-Wien, Vienna

Brenner, Neil; Marcuse, Peter; Mayer, Margit [eds.] (2012). Cities for people, not for profit; Critical urban theory and the right to the city. Routledge, New York

Case, Bradford; Goetzmann, William N.; Rouwenhorst, K. Geert (2000). Global Real Estate Markets – Cycles and Fundamentals. National Bureau of Economic Research, Cambridge

Case, Karl E.; Glaeser, Edward L.; Parker, Jonathan, A. (2000). Real Estate and the Macroeconomy. In Brookings Papers on Economic Activity, Vol. 2000, No. 2 (2000), pp. 119-162. The Brookings Institution

Casu, Barbara; Girardone, Claudia; Molyneux, Philip (2006). Introduction to banking, Band 10. Pearson Education Limited, Harlow

Catte, Pietro; Girouard, Nathalie; Price, Robert; André, Christophe (2004a). Housing Markets, Wealth and the Business Cycle. OECD Economics Department Working Papers, No. 394, OECD Publishing

Catte, Pietro; Girouard, Nathalie; Price, Robert; André, Christophe (2004b). The contribution of housing markets to cyclical resilience. OECD Economic Studies No. 38, 2004/1

Czasny, Karl (1988). Vergleich der Wohnungspolitik in sechs europäischen Staaten – Unter Berücksichtigung der Wohnbedürfnisse sozial Schwacher. Institut für Stadtforschung, Vienna

Czasny, Karl; Bständig, Gerhart; Hajek, Jürgen (2004). Internationaler Vergleich wohnbezogener Transfers. Stadt+Regionalforschung GmbH, Vienna

Czasny, Karl; Feigelfeld, Heidrun; Hajek, Jürgen; Moser, Peter; Srocker, Eva (2008). Wohnzufriedenheit und Wohnbedingungen in Österreich im europäischen Vergleich. Stadt+Regionalwisenschaftliches Zentrum, Vienna

Czasny, Karl; Moser, Peter (2000). Einsatz und Gesamtwirkung der Wohnbauförderungsmittel. Peter Lang GmbH, Europäischer Verlag der Wissenschaften, Frankfurt on the Main

Czerny, Margarete; Weingärtler, Michael (2007). Wohnbau und Wohnhaussanierung als Konjunkturmotor. Austrian Institute for Economic Research (WIFO), Vienna

Debelle, Guy (2004a). Macroeconomic implications of rising household debt. BIS Working Papers, No. 153

Debelle, Guy (2004b). Household debt and the macroeconomy. BIS Quarterly Review, March 2004

Department for Communities and Local Government (2010a). Housing and Planning Statistics 2010. London

Department for Work and Pensions (2011). Family Resources Survey; United Kingdom, 2009-10. London

Deutsch, Edwin (2009a). On Efficient Social Housing Finance. Paper presented at the ISA-Conference in Glasgow, UK

Deutsch, Edwin (2009b). The Austrian Social Rented Sector at the Crossroads for Housing Choice. In: European Journal of Housing Policy Vol. 9, No. 3, 285-311, September 2009, Routledge

DiPasquale, Denise; Wheaton, William C. (1996). Urban Economics and Real Estate Markets. Prentice-Hall, NJ, USA

ECB (2007). Securitisation and the Bank Lending Channel. Working Paper Series No 838/December 2007. ECB, Frankfurt

ECB (2009). Housing Finance in the Euro Area. Occasional Paper Series No 101/March2009. ECB, Frankfurt

EMF (2010). Study on the Cost of Housing in Europe. European Mortgage Federation, Brussels

European Commission (2008). Success and challenges after 10 years of Economic and Monetary Union; European Economy 2, 2008 (Provisional version). Directorate-General for Economic and Financial Affairs

Franck Gerhard (1992). Raumökonomie, Stadtentwicklung und Umweltpolitik. Kohlhammer, Stuttgart

Fröhlich, Gerald (2012). Die Wohnbauförderung der Bundesländer – Ein Vergleich. AK-Niederösterreich, Vienna

Girouard, Nathalie; Blöndal, Sveinbjörn (2001). House Prices and Economic Activity. OECD Economics Department Working Papers, No. 279, OECD Publishing

Girouard, Nathalie; Kennedy, Mike; Van den Noord, Paul; André, Christophe (2006). Recent House Price Developments: The Role of Fundamentals. OECD Economics Department Working Papers, No. 475, OECD Publishing

Glaeser, Edward L.; Gyourko, Joseph; Saiz, Alber (2008). Housing Supply and Housing Bubbles. NBER Working Paper No. 14193

Gstach, Dieter (2005). Der Einfluss steigender Wohnungsmieten auf den Konsum; Eine makroökonomische Untersuchung. AK-Wien, Vienna

Hamedinger, Alexander (2004). The changing organization of spatial planning in Vienna: learning lessons from the organization of planning in the UK in the context of the shift from government to governance? Vienna University of Technology. Paper presented at the EURA/UUA conference "City Futures" in Chicago July 2004

Havel, Margarete; Fink, Karin; Barta, Heinz (1999). Wohnungseigentum – Anspruch und Wirklichkeit; Entwicklung, Probleme, Lösungsstrategien. Verlag Österreich, Vienna

Heeg, Susanne (2009). Was bedeutet die Integration von Finanz- und Immobilienmärkten für Finanzmetropolen? Erfahrungen aus dem anglophonen Raum. In: Heeg, Susanne; Pütz, R. [eds.] (2009). Wohnungs- und Büroimmobilienmärkte unter Stress: Deregulierung, Privatisierung und Ökonomisierung. Frankfurt on the Main, Rhein-Mainische Forschungen, Volume 129, pp. 123-141

Heeg, Susanne (2010). Was wollen wir wetten? Immobilienwirtschaftliche Spekulationen und Stadtentwicklung. In: dérive – Zeitschrift für Stadtforschung, Nr. 40/41 Oct.-Dec. 2010, pp. 11-15.Verein für Stadtforschung, Vienna

Hilbers, Paul; Hoffmaister, Alexander W.; Banerji, Angana; Shi, Haiyan (2008). House Price Developments in Europe: A Comparison. IMF Working Paper, WP/08/211

IMF (2005). Austria: Selected Issues. IMF Country Report No 05/249, July 2005. International Monetary Fund, Washington, D.C.

IMF (2011). Regional Economic Outlook: Europe, Navigating Stormy Waters. International Monetary Fund, Washington, D.C.

Institute for Real Estate, Construction and Housing Ltd. (2008). Kompetenzgefüge im österreichischen Wohnungswesen. Federal Ministry of Economy, Family and Youth, Vienna

Kamath, Kishore; Reinold, Kate; Nielson, Mette; Radia, Amar (2011). The financial position of British households: evidence from the 2011 NMB Consulting survey. In: Bank of England, Quarterly Bulletin 2011 Q4

Kemeny, Jim; Kersloot, Jan; Thalmann, Philippe (2005). Non-profit Housing Influencing, Leading and Dominating the Unitary Rental Market: Three Case Studies. In: Housing Studies, Vol. 20, No. 6, 855-872. Routledge

Korinek, Karl; Nowotny, Ewald [eds.] (1994). Handbuch der gemeinnützigen Wohnungswirtschaft. Orac, Wien

La Grange, Adrienne; Pretorius, Frederik (2005). Shifts along the Decommodification-Commodification Continuum: Housing Delivery and State Accumulation in Hong Kong. In: Urban Studies, Vol. 42, No. 13, 2471-2488. Routledge

Lugger, Klaus; Amann, Wolfgang [eds.] (2006). Der soziale Wohnbau in Europa – Österreich als Vorbild. IIBW – Institute for Real Estate, Construction and Housing Ltd., Vienna

Lugger, Klaus; Holoubek, Michael [eds.] (2008). Die österreichische Wohnungsgemeinnützigkeit – ein europäisches Erfolgsmodell. Manz'sche Verlags- und Universitätsbuchhandlung GmbH, Vienna

Lynn, Peter (2003). Developing quality standards for cross-national survey research: five approaches. In: Int. J. Social Research Methodology Vol. 6, No. 4, 323-336. Routledge

Malloth, Thomas; Edlauer, Georg; Gollenz, Gerald; Otto, Eugen (2011). Pressekonferenz des Fachverbandes der Immobilientreuhänder anlässlich der Präsentation des Immobilienpreisspiegels 2011. WKO, Vienna

Malpass, Peter (2005). Housing & the Welfare State – The Development of Housing in Britain. Palgrave Macmillan, New York

Marterbauer, Markus; Walterskirchen, Ewald (2005). Einfluss der Haus- und Wohnungspreise auf das Wirtschaftswachstum. Austrian Institute for Economic Research (WIFO), Monatsberichte 11/2005

Matznetter, Walter (2002). Social Housing Policy in a Conservative Welfare State: Austria as an Example. In: Urban Studies, Vol. 39, No. 2, 265-282. Sage

Mercer Oliver Wyman (2003). Study on the Financial Integration of European Mortgage Markets. European Mortgage Federation, Brussels

Miles, David; Pillonca, Vladimir (2008). Financial innovation and European housing and mortgage markets. In: Oxford Review of Economic Policy, Volume 24, Number 1, 2008, pp. 145-175

Muellbauer, John; Murphy, Anthony (2008). Housing markets and the economy: the assessment. In: Oxford Review of Economic Policy, Volume 24, Number 1, 2008, pp. 1-33

Mullins, David; Murie, Alan (2006). Housing policy in the UK. Palgrave Macmillan

Mundt, Alexis; Amann, Wolfgang (2009). Indicators of a unitary rental market in Austria. ENHR Conference in Prague

National board of Housing, Building and Planning, Sweden; Ministry for Regional Development of the Czech Republic [eds.] (2005). Housing Statistics in the European Union 2004. Boverket, Sweden

Navigant Consulting (2011). From Self-Financing to Self-Determination – Local Authority Housing Self-Financing in London. Urban Graphics, London

Nuttall, Steve (2004). Household borrowing: impact of interest rate rises. CML, Housing Finance, Spring 2004 pp. 20-33

Oberhuber, Andreas (2007). Der mittelfristige Bedarf an Mitteln der Wohnbauförderung unter Berücksichtigung der Bevölkerungsentwicklung und der Sanierung – Endbericht. sBausparkasse, AK-Wien, Vienna

OECD (2011a). OECD Economic Surveys – Austria, Overview.

OECD (2011b). OECD Economic Surveys – United Kingdom, Overview.

Purdey, Caroline; Pannell, Bob [ed.] (2011). Housing equity: a market update. CML, Housing Finance Issue 01.2011

Retsinas, Nicolas Paul; Belsky, Eric S. (2002). Low-income homeownership: examining the unexamined goal. Brookings Institution Press.

Ronald, Richard (2008). The Ideology of Home Ownership – Homeowner Societies and the Role of Housing. Palgrave Macmillan

Rousová, Linda; Van den Noord, Paul (2011). Predicting Peaks and Troughs in Real House Prices. OECD Economics Department Working Papers, No. 882, OECD Publishing

Sánchez, Aida Caldera; Johansson, Åsa (2011). The Price Responsiveness of Housing Supply in OECD Countries. OECD Economics Department Working Papers, No. 837, OECD Publishing

Scanlon, Kathleen; Whitehead, Christine (2004a). Housing and mortgage systems: how the UK compares. LSE, London

Scanlon, Kathleen; Whitehead, Christine (2004b). International trends in housing tenure and mortgage finance. LSE, London

Scanlon, Kathleen; Whitehead, Christine [eds.] (2008). Social Housing in Europe II – A review of policies and outcomes. LSE, London

Schindler, Felix (2010). How Efficient is the U.K. Housing Market? Centre for European Economic Research (ZEW), Discussion Paper No. 10-030

Schönbäck, Wilfried (2009). Studienblätter zur Vorlesung 'Ökonomische Methoden der Projektbewertung'. Centre of Public Finance and Infrastructure Policy, Vienna University of Technology

Schulmeister, Stephan (2005). Anmerkungen zu Wirtschaftspolitik und Wachstumsdynamik in Österreich seit 1955. In: Frodl, Gerbert; Kruntorad, Paul; Rauchensteiner, Manfried [eds.] (2005). Physiognomie der 2. Republik. pp. 333-365.Czernin Verlag, Vienna.

Schulte, Karl-Werner [ed.] (2008). Immobilienökonomie – Band IV, Volkswirtschaftliche Grundlagen. Oldenbourg Wissenschaftsverlag GmbH, Munich

Sentence, Andrew (2008). The current downturn – a bust without a boom? Speech at the MPR Monetary Policy and the Markets Conference, Chandos House. Bank of England, London

Smith, Susan J.; Ford, Janet (2002). Home-ownership: flexible and sustainable?. CML, Housing Finance, Autumn 2002 pp. 36-52

Statistik Austria (2004). Wohnbautätigkeit – Bewilligungen & Fertigstellungen 2002, Wohnbaukosten 2001. Austria, Vienna

Statistik Austria (2010c). Fertigstellungen – Aktuelle Ergebnisse für Österreich und Wien. Accessed February 21st at http://www.statistik.at/web_de/statistiken/wohnen_und_gebaeude/errichtung_von_gebaeuden_und_wohnungen/fertigstellungen/index.html

Statistik Austria (2011a). Wohnen – Ergebnisse der Wohnungserhebung im Mikrozensus; Jahresdurchschnitt 2010. Statistik Austria, Vienna

Statistik Austria (2012). Pressemitteilung: 10.155-008/12. Statistik Austria, Vienna

Stephens, Mark (2005). Systemic risk and home ownership in the UK. Paper for Home Ownership Workshop, European Network for Housing Research Conference, Reykjavik

Thünen, Johann Heinrich von (1910). Der isolierte Staat in Beziehung auf Landwirtschaft und Nationalökonomie. Reprint by Verlag von Gustav Fischer

Tockner, Lukas (2012). Mietensteigerungen in Österreich und Wien – Auswertungen aus dem Mikrozensus. AK-Wien, Vienna

Tsatsaronis, Kostas; Zhu, Haibin (2004). What drives housing price dynamics: cross-country evidence. BIS Quarterly Review, March 2004

UNECE; WPLA; REM (2010). Policy Framework for sustainable real estate markets – Principles and guidance for the development of a country's real estate sector. United Nations, Geneve

Vass, Jennet (2003). Affordability: have we reached breaking point? CML Housing Finance, Autumn 2003

Vliet, Willem van [ed.] (1990). International Handbook of Housing Policies and practices. Greenwood Press, Westport

Waldron, Richard (2011). The Debt of the Irish: Insights from the 'Boom and Bust' in the Greater Dublin Area's Residential Property Market. Urban Institute Ireland, Dublin

Walterskirchen, Ewald (2006). The effect of house prices on growth. WIFO Autumn Report 2006

Whitehead, Christine; Scanlon, Kathleen [eds.] (2007). Social Housing in Europe. LSE, London

Wieser, Robert (2008). What came first – the egg or the hen? Untersuchungen zum Zusammenhang von Mietwohnhaus- und Wohnbaulandpreisen in Wien, Working Paper Nr.:3/2008. Centre of Public Finance and Infrastructure Policy, Vienna

Wirtschaftskammer Tirol (2012). Innung Bau Tirol legt Vorschläge zur Kostenreduktion im geförderten Wohnbau dar. WKO

5.1.2 Statistics

Bank of England (2011b). Official Bank Rate. Accessed January 21st 2012 at http://www.bankofengland.co.uk/boeapps/iadb/FromShowColumns.asp?Travel=NIxAZxI1x&FromCategoryList=Yes&NewMeaningId=RBASER&CategId=6&HighlightCatValueDisplay=Official%20Bank%20Rate

Bank of England (2011c). Monthly interest rate of UK monetary financial institutions (excl. Central Bank) sterling 5 year (75% LTV) fixed rate mortgage to households. Accessed January 15th 2012 at http://www.bankofengland.co.uk/boeapps/iadb/fromshowcolumns.asp?Travel=NIxSCx&ShadowPage=1&SearchText=Monthly+interest+rate+of+UK+monetary+financial+institutions+%28excl%2C+Central+Bank%29+sterling+5+year+%2875%25+LTV%29+fixed+rate&SearchExclude=&SearchTextFields=TC&Thes=&SearchType=&Cats=&ActualResNumPerPage=&TotalNumResults=1&ShowData.x=55&ShowData.y=15&XNotes=Y&C=EP0&XNotes2=Y

Bank of England (2011d). Measures of annual inflation. Accessed November 18th 2011 at http://www.bankofengland.co.uk/publications/Pages/inflationreport/ir1104.aspx

Bank of England (2011e). Housing Equity Withdrawal. Accessed November January 10th 2012 at http://www.bankofengland.co.uk/mfsd/iadb/fromshowcolumns.asp?Travel=NIxAZxI1xSCx&ShadowPage=1&FromCategoryList=Yes&CategID=6&NewMeaningId=LMEW&HighlightCatValueDisplay=Housing+equity+withdrawal+%28previously+called+mortgage+equity+withdrawal%29&ActualResNumPerPage=&TotalNumResults=3&ShowData.x=68&ShowData.y=14&XNotes=Y&C=MF2&C=IRA&C=ED3&XNotes2=Y

Bank of England (2012). Monthly lending secured on dwellings. Accessed January 21st 2012 at http://www.bankofengland.co.uk/boeapps/iadb/index.asp?Travel=NIxSTxTAx&levels=1&XNotes=Y&A8739XBMX8699X8715X8730.x=3&A8739XBMX8699X8715X8730.y=6&XNotes2=Y&Nodes=X8699X8700X8715X8730&SectionRequired=A&HideNums=-1&ExtraInfo=false#BM

Council of Mortgage Lenders; Bank of England (2011). Gross mortgage lending, nsa. Accessed January 16th 2012 at http://www.cml.org.uk/cml/media/press/3139

Department for Communities and Local Government (2008). Rents, lettings and tenancies: Private Sector Rent Index. Accessed January 16th 2012 at http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/rentslettings/livetables/

Department for Communities and Local Government (2010b). House building starts and completions: UK. Accessed January 29th 2012 at http://www.communities.gov.uk/publications/corporate/statistics/housebuildingq42011

Department for Communities and Local Government (2011). Dwelling stock: by tenure, United Kingdom (historical series). Accessed January 29th 2012 at http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/stockincludingvacants/livetables/

ECB (2011). Key ECB interest rates. Accessed January 21st 2012 at http://www.ecb.europa.eu/stats/monetary/rates/html/index.en.html

Eurostat (2012). Unemployment rate. Accessed January 20th 2012 at http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/main_tables

Nationwide (2011). UK house prices since 1952. Accessed January 19th 2012 at http://www.nationwide.co.uk/hpi/datadownload/data_download.htm

OECD (2011c). Austria and UK gross domestic product. Accessed December 9th 2011 at http://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE1

OECD (2011d). UK country statistical profiles. Accessed February 2nd 2012 at http://stats.oecd.org/Index.aspx?DataSetCode=CSPCUBE

OECD (2011e). Austria country statistical profiles. Accessed February 2nd 2012 at http://stats.oecd.org/Index.aspx?DataSetCode=CSPCUBE

OECD (2011f). Final consumption expenditure of households. Accessed February 2nd 2012 at http://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE5

ÖNB (2011a). National Consumer Price Index, Accessed February 11th 2012 at http://www.oenb.at/isaweb/report.do?report=6.4

ÖNB (2011b). Harmonised indices of consumer prices – Actual rentals for housing. Accessed February 14th 2012 at http://www.oenb.at/isaweb/report.do?report=13.32

ÖNB (2011c). Domestic Debt Secured by Mortgage and Housing Loans – Banking Sectors. Accessed February 14th 2012 at http://www.oenb.at/isaweb/report.do?report=3.19

ÖNB (2011d). Residential Property Price Index. Accessed February 17th 2012 at http://www.oenb.at/isaweb/report.do?report=6.6

ÖNB (2011e). Lending Rates – New Business. Accessed January 24th 2012 at http://www.oenb.at/isaweb/report.do?report=2.10

ÖNB (2012). Domestic Debt Secured by Mortgage and Housing Loans – Banking Sectors. Accessed May 17th 2012 at http://www.oenb.at/isaweb/report.do?report=3.19

Statistik Austria (2010a). Fertiggestellte Wohnungen nach Bundesländern. Accessed February 15th at http://www.statistik.at/web_de/statistiken/wohnen_und_gebaeude/errichtung_von_gebaeuden_und_wohnungen/fertigstellungen/index.html

Statistik Austria (2010b). Neu errichtete Gebäude und Wohnungen nach Bundesländern ausgenommen Wien. Accessed February 15th at http://www.statistik.at/web_de/statistiken/wohnen_und_gebaeude/errichtung_von_gebaeuden_und_wohnungen/fertigstellungen/index.html

Statistik Austria (2011b). Jahresdurchschnittsbevölkerung seit 1961 nach Bundesland. Accessed February 18th at http://www.statistik.at/web_de/statistiken/bevoelkerung/bevoelkerungsstand_und_veraenderung/bevoelkerung_im_jahresdurchschnitt/index.html

Statistik Austria (2012b). Wohnungsbestand (Hauptwohnsitze) 1985 bis 2010. Accessed February 15th at http://www.statistik.at/web_de/statistiken/wohnen_und_gebaeude/bestand_an_gebaeuden_und_wohnungen/hauptwohnsitz-wohnungen/index.html

Vienna University of Technology; Austria Immobilienbörse; EDI-Real Software; ÖNB (2011). Austria Immobilienindex – Mietwohnungen, Stand 30.9.2011. Accessed January 11th 2012 at http://www.srf.tuwien.ac.at/feil/immobilienbewertung/mi%C3%B6.pdf

5.1.3 Newspapers, News Releases and other Internet Sources

Bank of England (3.2.2009). Special Liquidity Scheme. Market Notice. Accessed May 10th 2012 at http://www.bankofengland.co.uk/markets/Pages/sls/default.aspx#top

Bank of England (8.3.2012). News Release - Bank of England maintains Bank Rate at 0.5% and the size of the Asset Purchase Programme at £ 325 billion. Accessed March 19th 2012 at http://www.bankofengland.co.uk/publications/Pages/news/2012/024.aspx

Collinson, Patrick (27.1.2012). The 95% mortgage is back. The Guardian

FMA – Austrian Financial Market Authority (10.8.2007). FMA survey: Austrian investment fund industry only marginally affected by US real estate crisis. Hardly any further suspensions of Austrian funds to be expected. Vienna

FMA – Austrian Financial Market Authority (7.3.2012). Exchange-rate-adjusted volume of foreign currency loans to households noticeably reduced. Vienna

Global Property Guide (19.3.2012). House price falls continue in most of the UK. Accessed March 19th 2012 at http://www.globalpropertyguide.com/Europe/United-Kingdom/Price-History

Margaret Thatcher (16.1.1983). TV Interview for London Weekend Television *Weekend World* („Victorian Values"). Margaret Thatcher Foundation. Accessed March 24th 2012 at http://www.margaretthatcher.org/document/105087

Raiffaisen Wohnbausparen (2012). Bausparprämie. Accessed May 17th 2012 at https://www.bausparen.at/eBusiness/rai_template1/314933534010554625-308247647482728736_311036783461718218-311036783461718218-NA-19-NA.html

sBausparkasse (2012). Bausparprämie 2012. Accessed May 17th 2012 at http://www.sbausparkasse.at/de/sparen/bauspar-praemie

Swiss National Bank (2011). Short statement with regard to the introduction of a minimum Swiss franc exchange rate against the euro. Philipp Hildebrand, Chairman of the Governing Board of the Swiss National Bank, 6th September 2011

Thickett, Robert (19.10.2009). FSA publishes Mortgage Market Review. Mortgage Strategy. Accessed May 13th 2012 at http://www.mortgagestrategy.co.uk/fsa-publishes-mortgage-market-review/1000511.article

5.1.4 Legal

MRG 2011. Mietrechtsgesetz 2009. Bundesgesetz vom 12. November 1981 über das Mietrecht. BGBl. Nr. 520/1981 as amended on BGBl. II Nr. 218/2011

WGG 2009. Wohnungsgemeinnützigkeitsgesetz 2009. Bundesgesetz vom 8. März 1979 über die Gemeinnützigkeit im Wohnungswesen. BGBl. Nr. 139/1979 as amended on BGBl. I Nr. 135/2009

5.2 Figures