The economic impacts of Limited-Profit Housing Associations in Austria / Ökonomische Wirkungen des gemeinnützigen Wohnbaus. Michael Klien, Gerhard Streicher, WIFO - Austrian Institute of Economic Research, March 2021.

Summary of key findings

Research commissioned by the Austrian Federation of Limited-Profit Housing Associations to WIFO – the Austrian Institute of Economic Research, exploring the economic impacts of limited-profit housing associations in Austria

Full report (in German) available at:

https://www.wifo.ac.at/en/news/economic_effects_of_non-profit_housing

Summary written by the Austrian Federation of Limited-Profit Housing Associations

Österreichischer Verband gemeinnütziger Bauvereinigungen – Revisionsverband
Bösendorferstraße 7
1010 Wien

DIE
GEMEINNÜTZIGEN

Intro

There is a growing recognition amongst policy makers of the social and economic benefits of affordable and stable housing markets. Those benefits have been amplified by the ongoing pandemic and the financial difficulties many households are faced with. The value of an affordable, adequately sized, good-quality home has become as clear as ever before. Importantly, long-term stable and affordable housing markets not only benefit individual households but also impact the wider economy. With Limited-Profit Housing Associations playing a key role in Austria's housing market, their Federation has decided to commission the Austrian Institute of Economic Research (WIFO) with the task to examine these effects. The research conducted by WIFO aimed to quantify the economic impacts of Limited-Profit Housing Associations on Austria's economy, both in terms of the impact on housing costs and on purchasing power and GDP. This paper summarises the key findings from the research report.

Infobox: Limited-Profit Housing Associations (LPHA) in Austria

Limited-profit housing associations (LPHA), in German Gemeinnützige Bauvereinigungen or GBVs, are private companies that provide housing for large parts of society. Their business model is based on the principle of serving the common good rather than maximizing profits. To ensure this, LPHA are regulated by the Austrian Limited Profit Housing Act (German: Wohnungsgemeinnützigkeitsgesetz or WGG), as well as by supplementary regulations. As of 2020, there are 185 LPHA in Austria, of which 98 are cooperatives, 77 limited liability companies, and 10 public limited companies.

The Principles of Limited-Profit Housing

The key principles of limited-profit housing are anchored in the WGG, a sector-specific law that only applies to LPHA. In return for complying with the rigorous governance and auditing rules codified in the law, limited profit housing associations are exempt from corporation tax in their main and ancillary areas of business. The main principles are the following:

- **Cost-rent**: LPHA calculate on a cost-basis, which means that rents can neither be set above nor below the costs incurred in the production, financing and management of residential buildings ("cost rent"). Rented homes for which financing loans have been paid off are subject to rent control on a permanent basis, something known as the "Grundmiete", a flat-rate rent which in most cases is below the cost-rent.
- **Limitation of profits**: Revenue generating components are a constituent part of cost-covering prices. In the case of LPHA, however, these components are clearly defined by the WGG and supplementary regulations which set upper limits.
- **Revolving funds**: Equity is permanently tied up for limited-profit purposes and surpluses are continuously reinvested. This is guaranteed by a limitation to profit distribution among owners and by an obligation to reinvest any surpluses regularly in housing construction. Furthermore, shares in a limited-profit housing association may only be sold off at the nominal value of the initial investment.
- **Personnel restrictions**: LPHA must be independent from the construction industry in order to prevent tie-in deals to the detriment of customers. This applies in particular to the functionaries of limited-profit companies. The salaries of functionaries may also not exceed statutory limits.
- **Limited business activities:** Limited-profit housing associations must primarily pursue business activities that are within the main scope as stipulated in the WGG, i.e. the construction, maintenance and renovation of homes, and must do so in their own name. For activities outside of the main scope of business activities, such as the construction of business premises, garages, and community facilities LPHA require the permission of regional governments.
- **Audit requirements:** All limited-profit building associations must be a member of an auditing association and are audited annually by independent auditors. The audit monitors compliance with the WGG, including the efficient and economic use of resources and capital as well as the sound management of the organisation.

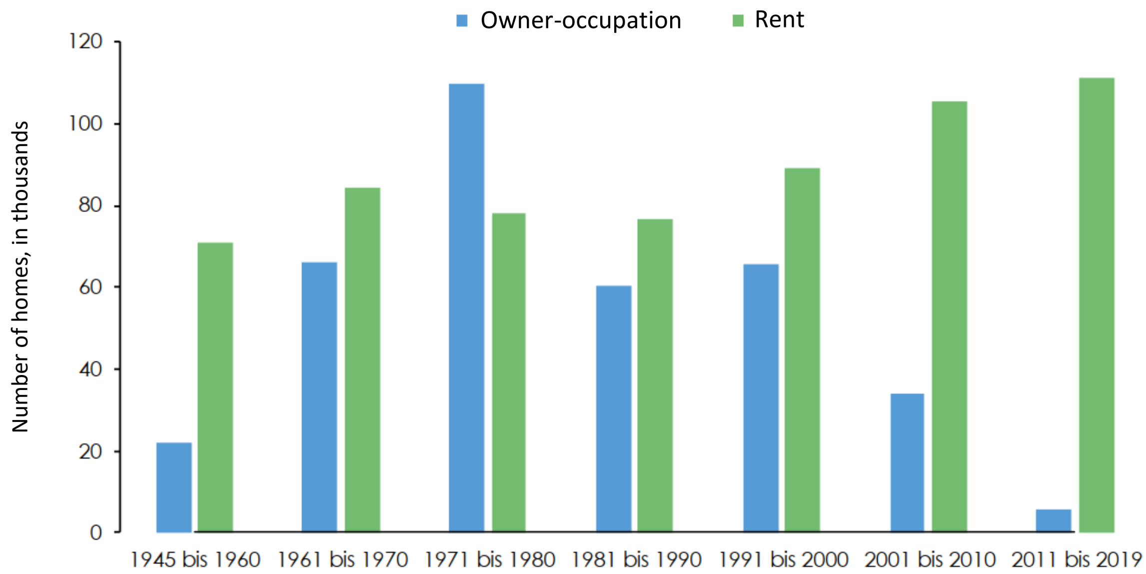
Source: Austrian Federation of Limited-Profit Housing Associations

Summary of key findings from the report

1. The role of Limited-Profit Housing Associations in Austria's housing market

Limited-Profit Housing Associations (LPHA) play an important role in Austria's housing market. The approx. 650,000 rented homes provided by LPHA represent 40% of all rented homes and 17% of the total housing stock in Austria. In addition to rented homes, LPHA also provide homes for ownership. While LPHA completions have been relatively stable over time, their tenure has varied considerably. The years between 1945 and 1960 have seen a focus on rent, which was followed by three decades which saw either a balance between homes built for rent and for ownership or even times when direct sales outweighed rental completions (e.g. in the 1970s). The 1990s have seen a renewed focus on rented homes. Most completions ever since have been rented homes, albeit with the introduction of the right-to-acquire gaining ground since the early 2000s (when the first homes under this scheme were being sold). In total LPHA have constructed 360,000 homes for sale since 1945, bringing total completions (for rent and sale) to over 1m.

Figure 1. Housing completions by tenure and year of construction, in 1,000 homes

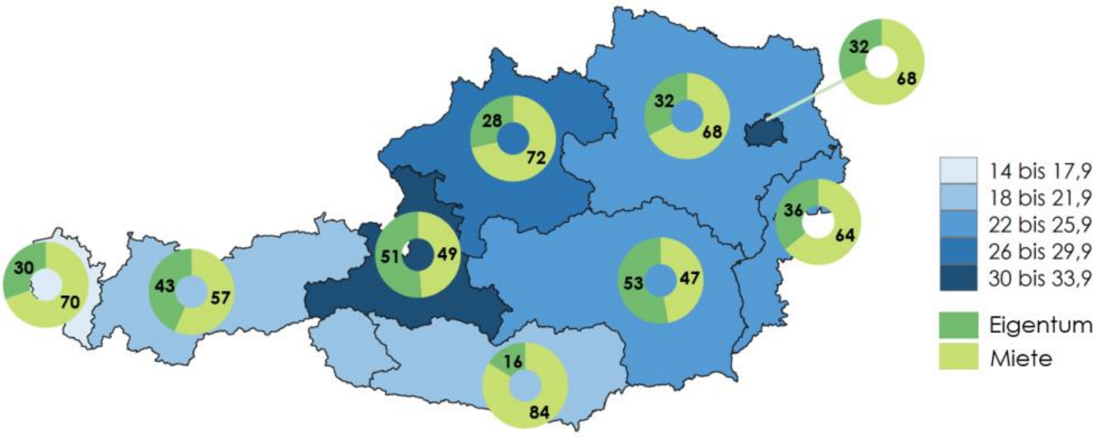


Q: Statistik Austria (Mikrozensus 2019), GBV (Verbandsstatistik 2020). – Mietwohnungen (Hauptwohnsitze) mit Kaufoption sind dem Bereich Eigentum in den Perioden 1991 bis 2000 bzw. 2001 bis 2010 zugeordnet, sofern eine Eigentumsübertragung stattgefunden hat. Eigentum (alle Wohnsitzformen).

2. Regional variations

There are significant regional variations, both in the total number of LPHA homes and in the distribution of LPHA between rent and ownership. The total share of LPHA in the regions ranges from 15 to 18 per cent in Vorarlberg and Tirol to almost a third in Vienna and Salzburg. In six out of nine regions, LPHA homes for rent clearly outweigh LPHA homes in individual ownership. Only in the regions of Salzburg, Styria and Tyrol LPHA homes in individual ownership make up about the same share as homes for rent.

Figure 2. Share of LPHA housing in the nine regions in Austria (blue scale) and share rent and ownership within LPHA stock (green scale: Eigentum=ownership, Miete=rent), percentages



Q: Statistik Austria (Mikrozensus 2019), GBV (Verbandsstatistik, 2020). – *) Mietwohnungsbestand (Hauptwohnsitze) laut Mikrozensus im Jahr 2019; Eigentumswohnungen (alle Wohnsitzformen) kumuliert seit 1945 laut Verbandstatistiken. – Tortendiagramme stellen die Verteilung von Eigentum und Miete von GBV dar.

3. Limited-Profit Housing Associations as representatives of the Third Sector

The report highlights the distinctive role of LPHA as agents of the Third Sector, that is, as housing providers that are neither profit-driven nor state-dependent. Specifically, this role is evident in three broad areas: price-setting, allocation of homes and the use of surpluses.

Price-setting in Limited-Profit housing is cost-based, meaning that LPHA calculate rents based on the costs they incur in the process of financing, constructing, and maintaining their housing stock. The key principles of limited-profit housing, including the price-setting mechanism, are defined in the Limited-Profit Housing Act. Therefore, prices can be seen as administered prices. Conversely, costs in the private (for-profit) sector are market-based, meaning that prices (rents) are set at the maximum level that households are willing and able to pay. In the public (i.e. municipal) housing sector rents are described as administered, that is, rents charged are either based on reference values set in national legislation (i.e. the Mietrechtsgesetz-MRG) or they are set by politicians according to social or economic criteria.

The second criteria used in the report to carve out the Third-Sector role of LPHA is the allocation of homes. While the allocation of homes in the for-profit sector is predominantly left to the devices of the housing market, allocations in municipal housing are organised according to social and eligibility criteria. Allocations in the LPHA sector are a hybrid between market and social criteria. While municipalities or regional authorities have the allocations rights for some LPHA homes, the remainder is allocated by LPHA themselves. The target group of LPHA homes are broad sections of the population, however with preferential access for low-to middle income households.

The third criteria that exemplifies the Third-Sector role of LPHA is the use of surpluses/profits.[1] While there are no restrictions as to the use of profits in the private sector, the use of surpluses for LPHA are clearly regulated and restricted. Moreover, the report also highlights the different role of efficiency savings in this context. While the profit-motive is seen as a driver of efficiency and cost-reduction in the private sector, the authors also describe that efficiency-savings in a cost-based pricing system used by LPHA directly translates into reduced prices for tenants. In the municipal housing sector, the use of potential surpluses is unregulated and goes back into the overall budget.

Table 1. Classification of housing providers by type of provider

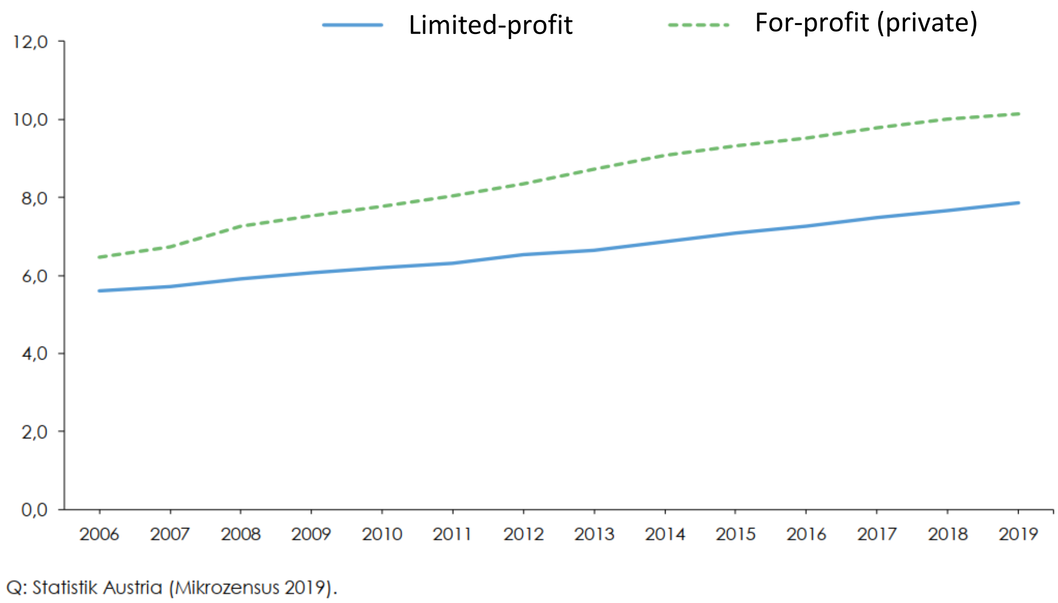
Type of provider	Price-setting	Allocation of homes	Use of surpluses/profits
Private (for-profit) provider	Market-based	via the market	Unregulated
Public provider	Administered / cost-oriented	Social criteria	Unregulated/Budget
Limited-Profit Housing Associations	Cost-based / administered	Social criteria / via the market	Limited

4. Explaining price differences between limited-profit and for-profit housing

There are various factors explaining the price difference between for-profit and limited-profit housing providers. While there are some legal and financial factors enabling LPHA to offer homes at a lower price than for-profit providers (e.g. preferential access to low-interest public loans and public land, exemption from corporation tax) the report clearly states that today the main reason for lower prices in the LPHA are linked to the LPHA business model and in particular to the cost-based pricing of rents. In other words, the main reason why rents in LPHA homes are cheaper than rents in the private sector is the absence of the profit-surcharge. This is particularly true for homes in urban areas and in new builds, where private providers can charge higher profit-margins. After accounting for structural differences in location, housing quality and size LPHA homes are 2.3 Euros per square metre or about 20% cheaper than rents in the private sector. The report also shows that the affordability-gap between the private and the LPHA sector has grown substantially over recent years (figure 3).

[1] Surpluses and profits are used synonymously. While profit implies a for-profit activity, the term surplus is more common amongst non-profit or limited-profit organisations, where surpluses are important for the viability of organisations but not from the lens of profit-maximisation but financial viability.

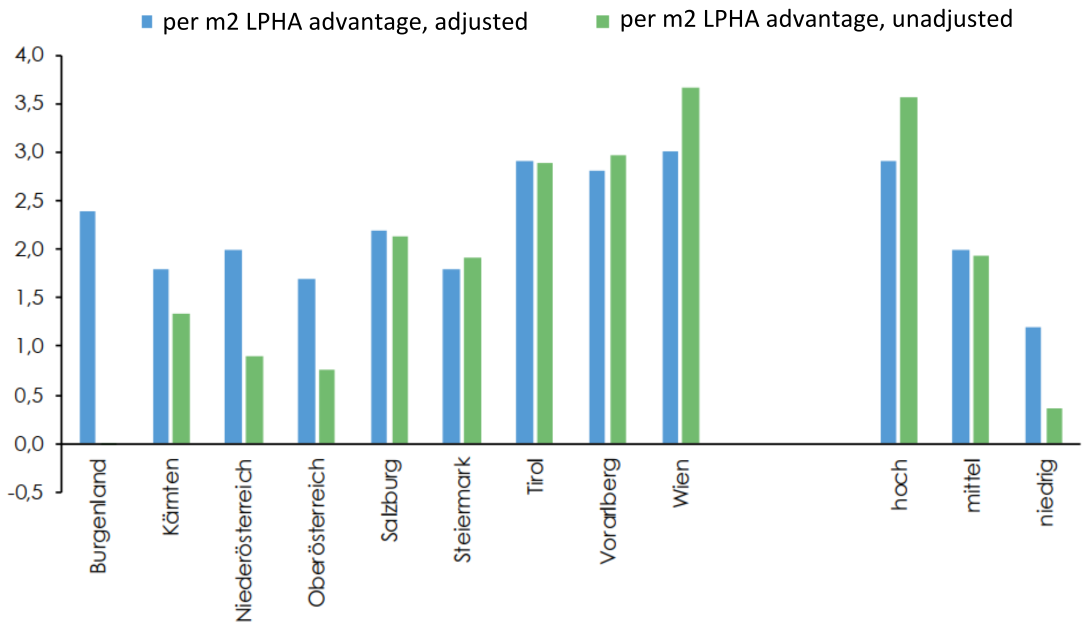
Figure 3. Gross rent per square metre in the limited-profit and the for-profit (private) sector by year, 2006 to 2019



Specifically, for a 70 m2 flat the price difference today (2.3 Euro/m2) amounts to 160 Euros less for LPHA renters than for private renters. The difference is particularly pronounced in new builds, in urban areas and in some regions with higher pressures on the local housing market. As figure 4 shows, the difference is highest in Vienna, Tyrol and Vorarlberg and lowest in Kärnten, Oberösterreich and Niederösterreich. Figure 4 also shows that there are some stark differences between adjusted and unadjusted price differences.[2] This is mainly because in some regions (notably in the province of Burgenland) the LPHA housing stock is much newer and would hence appear more expensive than for example rents in the older (and cheaper) private rented housing stock. The calculations in the report account for these effects.

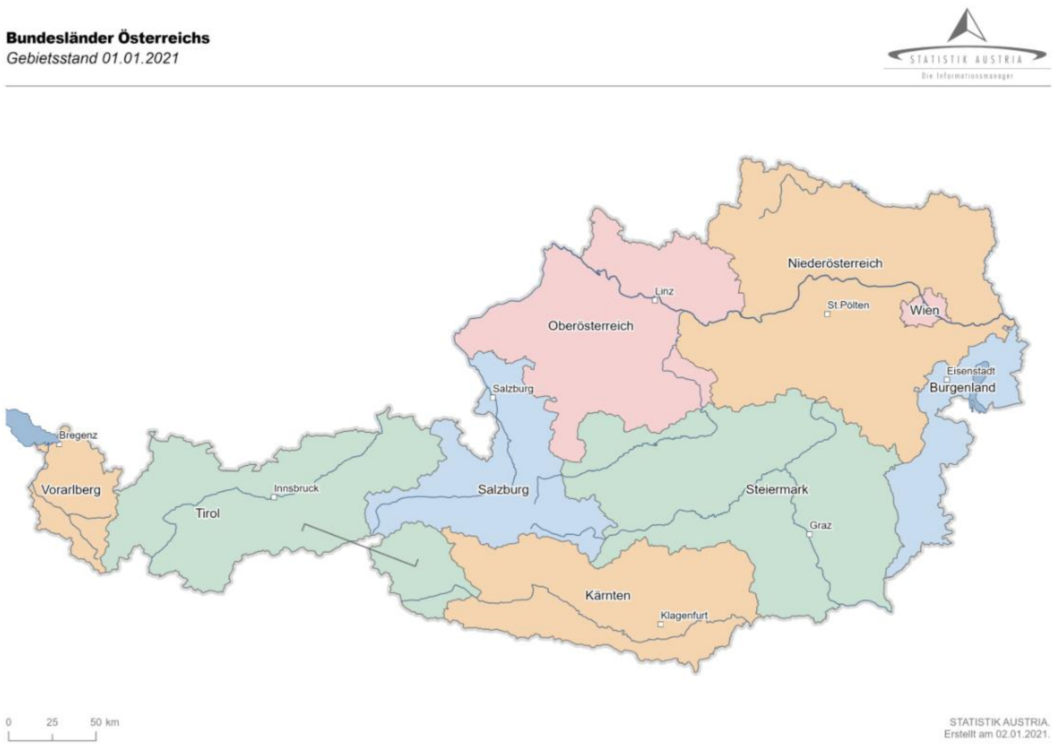
[2] Adjustments were calculated taking into account size, location, year of construction, quality of building.

Figure 4. LPHA price advantage: average amount LPHA below private sector rent (per m2) in the nine regions and by degree of urbanisation, (hoch=urban, mittel=suburbs and towns, niedrig=rural), adjusted and unadjusted for structural differences in prices



Q: Statistik Austria (Mikrozensus 2019). WIFO-Berechnungen.

Explanation – the nine regions of Austria (Wien=Vienna)



Source: Statistik Austria, http://www.statistik.at/web_de/klassifikationen/regionale_gliederungen/bundeslaender/index.html

The report then calculates an estimate for the total savings by all households renting from a LPHA compared to the scenario that these households were paying private sector rents. If all 650,000 households currently renting from a LPHA had to pay private sector rents for the type and size of home they live in, the total additional rent would amount to 1.2 bn Euros. Put differently, affordable rents provided by LPHA save (LPHA) tenants more than a billion Euros per year. Those savings are not distributed equally across the population but are more likely to benefit low- to middle income households. Households in the bottom two quintiles benefit disproportionately from cheaper homes provided by LPHA than households in the top quintile.

Table 2. Distribution of LPHA advantage (rents) across income quintiles, in Million Euros and share per quintile

Income quintile	LPHA advantage (rent) in Mio Euros	Share per quintile
1	274.8	23
2	281.6	24
3	242.2	20
4	221,6	19
5	169,4	14
Total	1,189.7	100

Q: Statistik Austria (Mikrozensus 2019), WIFO-Berechnungen.

Given the significant contribution of LPHA in building not only rented homes but also homes for sale, the WIFO report additionally calculated the total savings in financing costs for households who have bought a LPHA home in the last 40 years (in total: 165,000 dwellings) compared to the scenario of having to pay the full market price. The estimated savings provided in the report amount to 122 million Euros. The amount is significantly lower than the advantage in the rental sector which reflects the lower number of dwellings involved. Contrary to the effects on renters, the savings to owner-occupied households are skewed towards higher income groups, reflecting the higher likelihood of wealthier households to buy their own home. The estimated average reduction per household per month amounts to 61 Euros. The report estimates homes sold by LPHA to be around 12% cheaper than equivalent homes in the for-profit sector.

Table 3. Distribution of LPHA advantage (ownership) across income quintiles, in Million Euros and share per quintile

Income quintile	LPHA advantage (ownership) in Mio Euros	Share per quintile
1	14.9	12
2	20.5	17
3	23.1	19
4	30.7	25
5	32.8	27
Total	122.1	100

Q: Statistik Austria (Mikrozensus 2019), GBV (Verbandsstatistik, 2020), WIFO-Berechnungen.

5. Impacts on the economy: GDP, purchasing power and state expenditure

The study also estimates the economic effects of LPHA activity on the wider economy in terms of GDP and purchasing power. Depending on the assumptions taken in the economic models, LPHA are estimated to add an additional 600 million to 1 billion Euros to Austria's GDP every year. The report develops two different scenarios which compare the hypothetical situation of the situation without and with LPHA in the Austrian housing market. The first scenario only considers the economic effects of LPHA related to lower housing costs but without any additional demand for and investment into housing construction (e.g. as a result of growing demand for larger homes). The second scenario also considers the additionality of LPHA activity on housing output (i.e. LPHA and for-profit providers do not replace 1:1 but both actors complement each other, households show a growing demand for larger/better equipped homes). The impact of LPHA on the economy is described as follows:

a) Increased private consumption: better affordability due to lower housing costs result in additional private consumption between 290m (Sc. 2) and 420m (Sc. 1) Euros per year. The higher amount is the result in the first scenario, where all the effects derive from reduced housing costs.
b) Increased public consumption: the public purse saves money (e.g. due to lower expenditure on housing allowances, higher tax income from other consumer goods) and is able to spend more on other areas, which in turn leads to higher GDP. The report estimates this effect to be in region of 400m (Sc. 2) to 500m (Sc. 1) Euros per year.
c) Increased total investment: higher consumer spending and additional investments into housing are estimated to add between 260m (Sc. 1) and 730m (Sc. 2) Euros to Austria's GDP (depending on the scenario). Total investment is higher in the second scenario, where an additional demand for housing is assumed.
d) Reduced net exports: Housing is a good that is predominantly produced within Austria. Lower housing costs and as result higher expenditure on consumer goods – often produced outside Austria – mean higher imports (or lower net exports). The model assumes the reduction to be in the region of 440m to 530m Euros.

Taken together the economic model arrives at 640m in the first scenario to 980 m Euros in the second scenario which are added to Austria's GDP every year due to economic effects of LPHA activity (and affordable homes provided).

The report highlights the distributional effects of limited-profit housing in Austria, not only in terms of the savings due to affordable rents and purchased homes but also in terms of the distributional effects due to an increased GDP. While the (direct) distributional impacts of reduced housing costs (as described above) are disproportionately skewed towards lower- and middle-income households, the picture looks different for the effects of a higher GDP linked to increased private and public consumption and total investments. Higher income households seem to benefit more from a growth in GDP than lower income households. This effect is however a reflection of the distributional effects of GDP growth more generally than specifically linked to the activity of limited-profit housing associations.

Crucially, the report shows that LPHA are a net-benefit to households, the economy, and the public purse. Contrary to commonly held assumptions about the limited-profit housing sector being a "subsidised sector", the report provides evidence that the activities of limited-profit housing associations in Austria are not only important in terms of providing affordable and secure housing but also add significantly to economic prosperity and economic stability. In brief: LPHA residents benefit from reduced housing costs, which in turn increases their purchasing power (after housing costs), which adds to GDP and reduces the need for housing allowances. The report also makes clear that the continuous expansion of limited-profit housing over previous decades and their ongoing investment into new affordable housing becomes particularly visible now at a time of increased pressures in the housing market. As such, the report describes the nature of limited-profit rent setting, which guarantees affordable and secure rents in perpetuity, as an "insurance" against the unpredictable and volatile nature of housing markets.