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# The economy of cost-based pricing: insights from the Austrian housing market

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# Questions



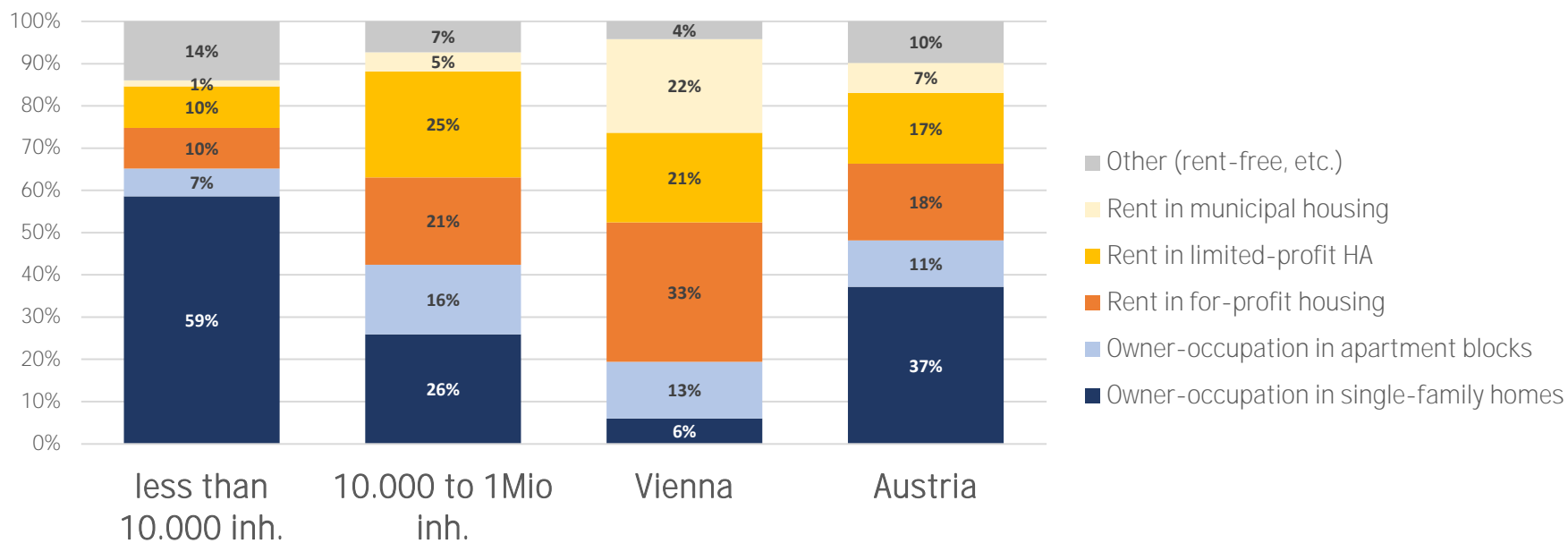
- What are limited-Profit Housing Associations (LPHA) and what is their role in the Austrian housing market?
- What is the economic model of LPHA? What are cost rents? What are revolving funds?
- What is their impact on households and the economy?
- Outlook and potential solutions



# Limited-Profit Housing in Austria

## Housing tenure by degree of urbanisation

Source: Statistik Austria, Mikrozensus 2020



# LPHA as actors of the Third Sector

## 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	Re-invested

Source: WIFO 2021



# Key principles of **Austria's** LPHA



Mission: provision of affordable housing for current and future generations

-> set out in a sector-specific law: Limited-Profit Housing Act

[Wohnungsgemeinnützigkeitsgesetz, WGG]. „Gemeinnützige Bauvereinigung/GBV“ is a status awarded by regional governments

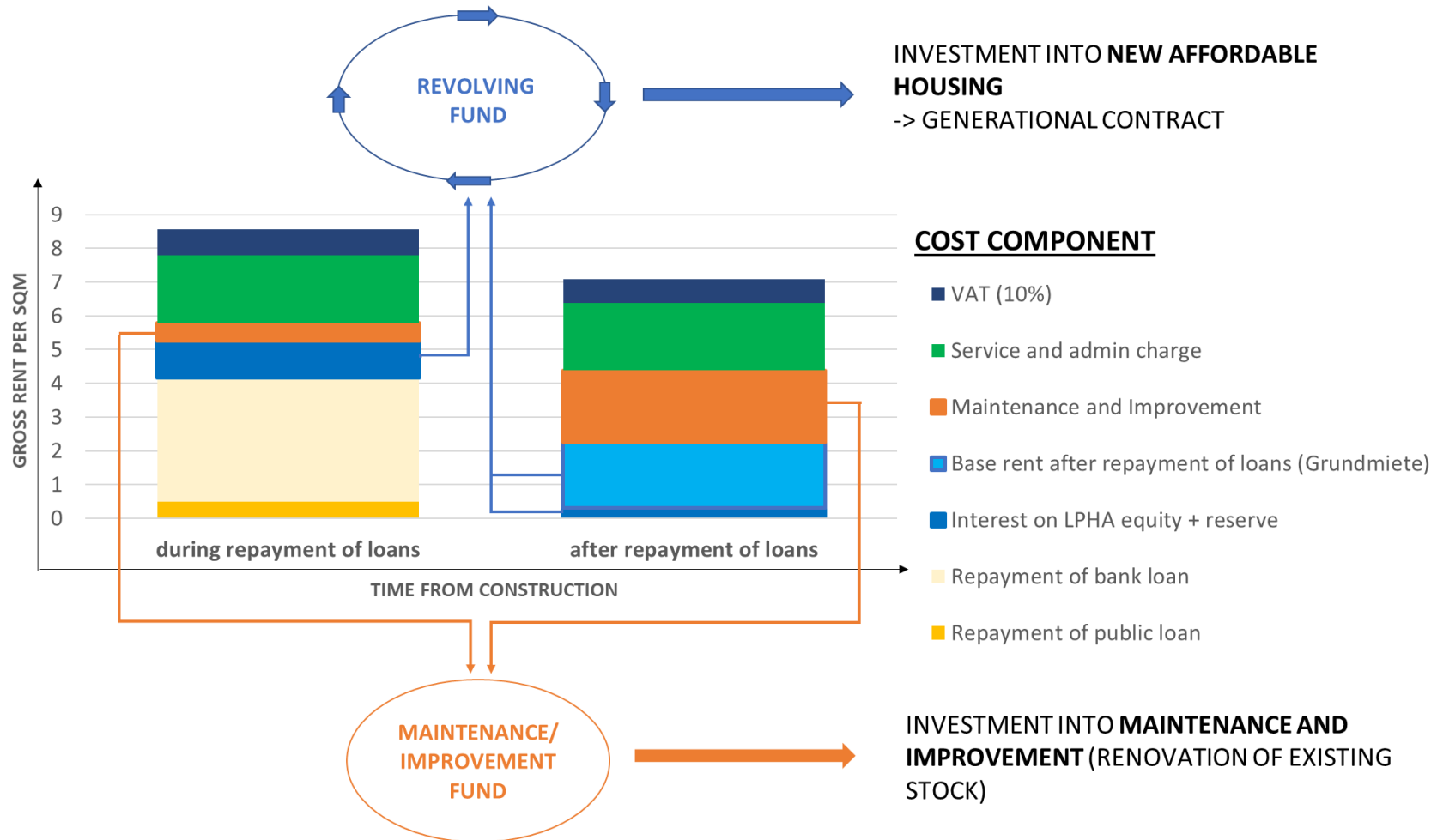
- Exemption from corporate tax for (limited) surpluses
- Cost-based calculation during repayment of loans + lower base rent after repayment
- Limitation of profits and business activity
- Revolving funds (obligation to reinvest surpluses) – „generational contract“
- Two-tier auditing system (Auditing Association + Regional Govt)



# Revolving fund and maintenance/improvement fund for new and existing housing stock



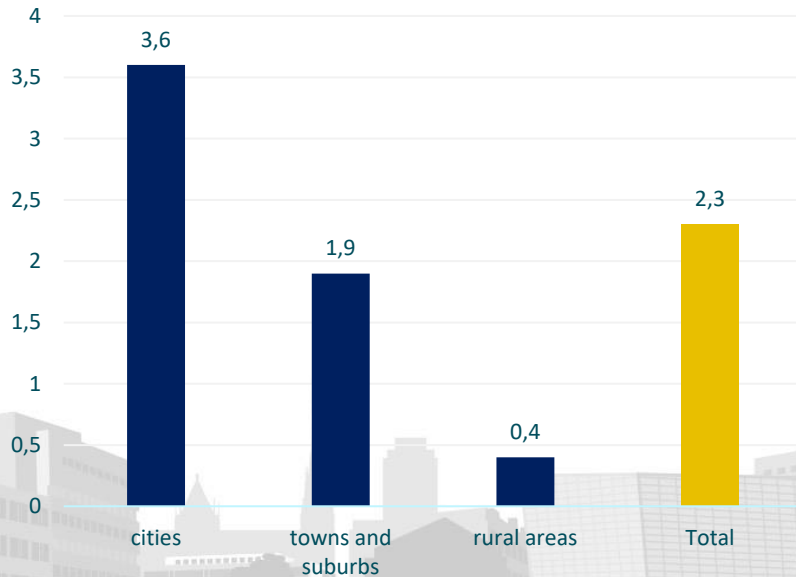
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# The impact of cost-based price setting

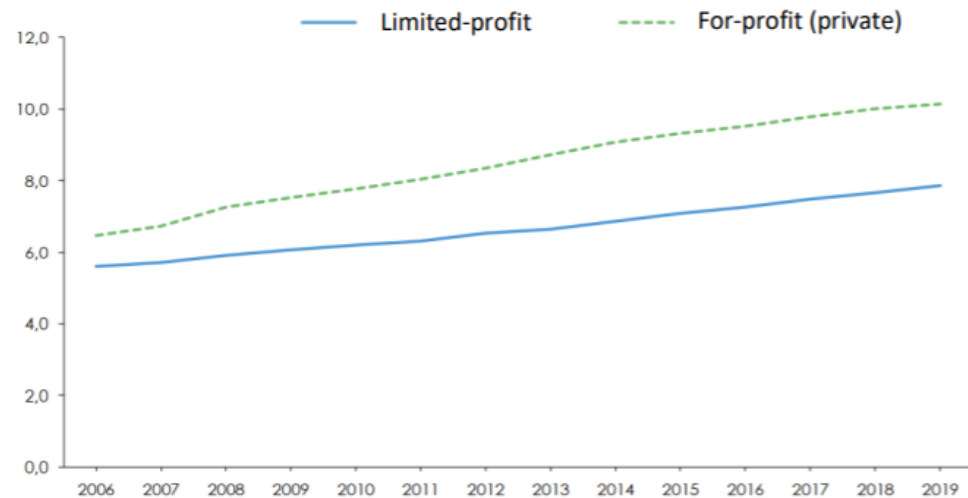
Cost-rents are on average around 20% cheaper than for-profit rents, going up to 50% in some cities

Price gap limited-profit vs. for-profit rents



Source: WIFO 2021

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



Q: Statistik Austria (Mikrozensus 2019).

Source: WIFO 2021

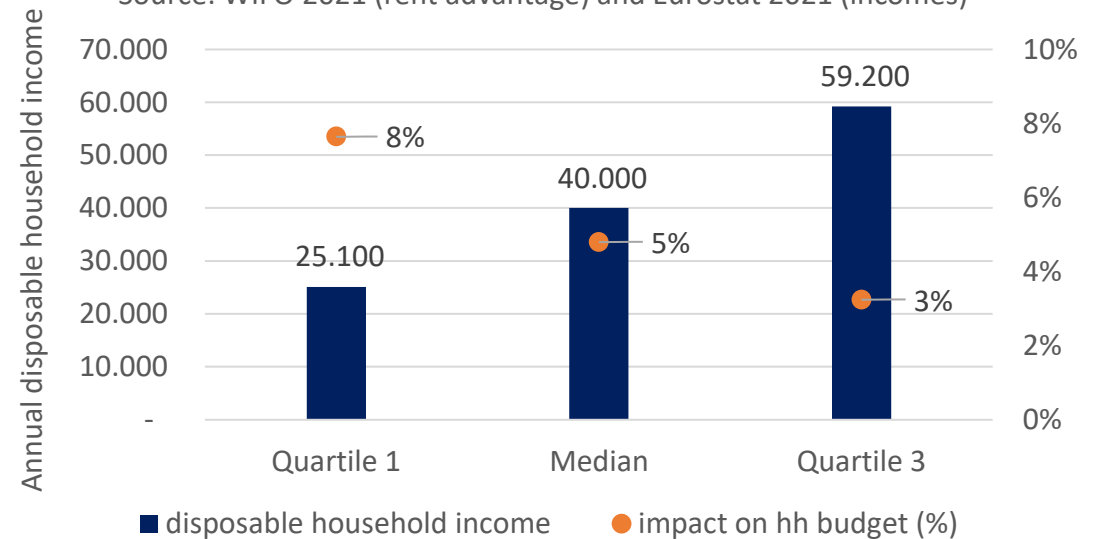
# The economic value of cost-based pricing



- LPHA renters save about 2,000 € per year (160 per month) compared to for-profit renters
- total of **€1,2bn** of annual savings for LPHA households in Austria
- Affordability/stability has economic benefits

## Disposable household income (annual) and impact of affordable rents on hh budgets

Source: WIFO 2021 (rent advantage) and Eurostat 2021 (incomes)





# Economic impact of LPHA



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Increases /decreases economic output	Component in economic model	Reason	Value added
	Increased private consumption	better affordability due to lower housing costs result in additional private consumption	290m – 420m Euros
	reduced public expenditure	the public purse saves money even after taking into account the expenditure for subsidies and tax exemptions (e.g. due to lower expenditure on housing allowances, higher tax income from other consumer or investors activity) and can spend more on other areas or reduce the tax burden, which both in turn leads to higher GDP	400m – 500m Euros
	Increased total investment	higher consumer spending and additional investments into housing	260m – 730m Euros
	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)	440m – 530m Euros
	<b>Total impact</b>		<b>640m – 980m Euros</b>

Source: WIFO 2021



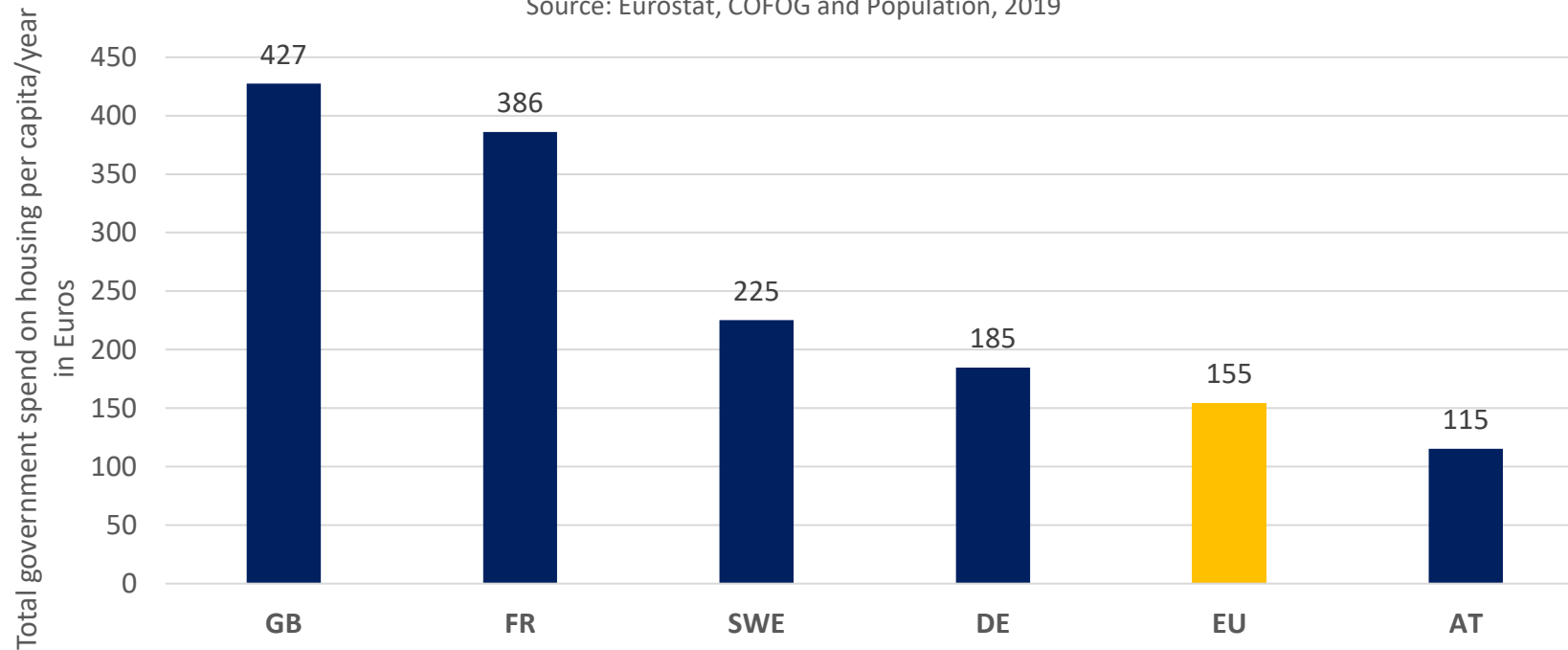
# How much does the Austrian state spend on housing?



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## Total government spend on housing (housing construction and housing allowances) in Euros per capita/per year

Source: Eurostat, COFOG and Population, 2019



# Conclusion

- Non-speculative governance framework leads to reinvestment of surpluses (non-rent seeking)
- Cost-based calculation ensures both affordability and financial viability
- Cost-rents signal „**real**“ cost of housing to the market – dampening effect on general housing market (forthcoming research by WIFO/GBV, 2022)
- Historic investment in LPHA housing stock acts as an „insurance“ against sudden price rises
- LPHA as long-term business model



# Outlook/prospect



- Structural shortages in markets (urban housing, energy, building materials, etc.) are incentives to speculative pricing far above cost instead of higher investment
- Dedicated revolving funds can be an incentive to mobilise market dynamics and henceforth investment
- The Austrian housing system demonstrates the effectiveness when combining these components



# Potential solutions: new affordable housing



- Long-term rent regulation via zoning requirements: for example the new zoning category „affordable housing“ in Vienna
- Obligation to reinvest surpluses into the construction of new affordable housing
- These measures can be implemented either:
  - on a contractual basis (as part of re-/zoning, public subsidies, sale of public land)
  - at an organisational level: governance framework (Limited-Profit Housing Act, Rental Law)
- Both systems are combined in Austria



# Potential solutions: energy supply in existing housing stock

- Reducing fossile energy consumption by centralising gas apartment heating and warm water supply
- Techn. solution: Build up centralised water heating system and connect to heat pump or district heating
- Obstacles: no production capacity – lack of qualified workforce -> increase of costs -> economically inefficient
- measures to be taken by public or mixed economic sector:
  - Formation of limited profit enterprises to build up sufficient capacity operating on a cost-based pricing system
  - Qualify workforce for the private sector
- As a combined measure it strengthens the private production capacity and keeps prices near cost level



Thank you for your attention!

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