Working Paper

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Abstract

Limited-profit housing plays a significant role in Austria's housing market. Around a quarter of all households live in homes owned or managed by a limited-profit housing association (LPHA). These associations are characterised by a distinct business model, based on the premise of cost-recovery and revolving funds. By deviating both from the logic of for-profit housing and from public housing, LPHAs occupy a distinct 'Third Sector' role in Austria's housing market. This paper describes the key mechanisms and principles of limited-profit housing, including how they are financed, how rents are set, what components are included in price calculations and how they use revolving funds to finance future affordable housing construction. The paper also elaborates the impact of the limited-profit business model on rent levels and draws on a recent study to demonstrate their wider economic impacts.

Keywords: affordable housing, cost-rent, revolving fund, economic impact, Austria

JEL Codes: P13, E21, R31

1. Introduction

Limited-profit housing associations (LPHAs) play a significant role in the Austrian housing market, both in terms of new construction and in terms of the overall share of homes. They provide housing to almost a quarter of all households in Austria, either as rented homes or as managed owner-occupied homes. LPHAs occupy a distinct Third Sector role in the Austrian housing market, as they are neither profit-driven nor state-owned but operate under a specific limited-profit governance regime, codified in national legislation. The Limited-Profit Housing Act[1] and supplementary legislation[2] form the basis for the business model of LPHAs, including the way in which rents are set, what types of activities LPHAs can engage in and how their business activity is audited annually. LPHAs have a long history in Austria, with the origins dating back to the 19th century. More recently, there has also been international interest and recognition of their substantial contribution to the provision of affordable housing at times when housing policy in other countries has increasingly shifted to a reliance on for-profit providers. Most notably, the Austrian model of limited-profit housing (or elements of it) have been referenced in reports by the OECD (2020a, 2020b, 2021), Housing Europe (2021) and UNECE (2021).

This paper sets out to describe the key mechanisms and governance principles of LPHAs in Austria, including how prices are set, how their rent levels compare to other tenures and how they are audited. The paper then goes on to discuss the wider impacts of LPHAs on economic output and household budgets. As such, this article aims to add to the understanding not only of the mechanisms of how LPHAs operate but also how Third Sector private (limited-profit and non-profit) actors in the housing market can make a substantial contribution to the provision of affordable housing.

[1] Wohnungsgemeinnützigkeitsgesetz (WGG).

[2] Including for example the Gebarungsrichtlinienverordnung (GRVO) with additional legislation on the conduct of LPHAs, the Entgeltrichtlinienverordnung (ERVO) with additional legislation on rules for cost calculation, the Bilanzgliederungsverordnung (BGVO), with additional legislation on the setup of the balance sheet and the income statement, and the Prüfungsrichtlinienverordnung (PRVO), with additional legislation on the purpose and scope of annual audits.

2. Limited-Profit Housing Associations as actors of the Third Sector in the Austrian housing market

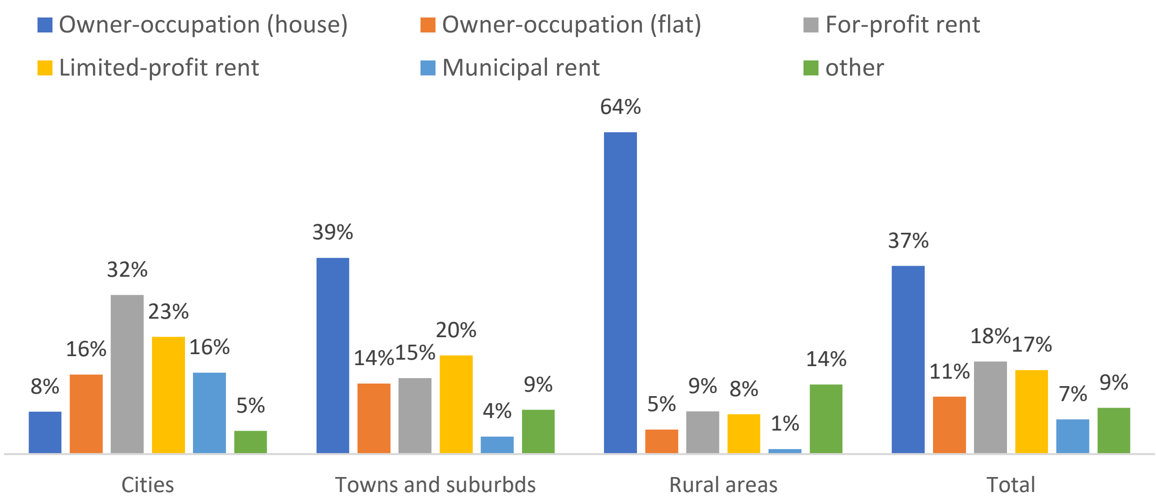
There are 185 limited-profit housing associations (LPHAs) in Austria. Legally speaking, LPHAs are private entities, either organised as cooperatives (Genossenschaft) or limited-liability companies (Gesellschaft mit beschränkter Haftung or Aktiengesellschaft). 98 LPHAs are cooperatives and 87 are limited liability companies. On average a LPHA manages about 5.000 homes, however with significant variations in size, ranging from large organisations with a stock of 50.000 to small organisations with less than 20 homes. Limited-Profit Housing Associations in Austria manage around one million homes in total. Around two thirds of these homes are for rent and a third are in individual ownership but managed and serviced by LPHAs. Given that flats in individual ownership (but managed by a LPHA) are governed by the same legal framework – the Wohnungseigentumsgesetz, or WEG – as any other owner-occupied flats in multi-storey apartment buildings, these two cannot be distinguished in official statistics. The focus of this paper primarily lies on LPHA rented homes.

Around 660.000 households out of Austria's total 4m registered main residences rent from a LPHA, which is about 17% of all households. While LPHAs operate across the entire country, the market share of LPHA renters varies significantly between regions and between urban and rural areas. The highest share of LPHA renters is found in cities, with a share of 23%. This compares to a share of 20% in towns and suburbs and 8% in rural areas. In the capital Vienna, the share of limited profit rented housing in the total housing market stands at 21%.

The urban-rural differences are even more pronounced in the private rented sector (PRS). While the PRS has the highest share in cities (32%), topping all other rented and owner-occupied tenures, the situation is different in towns and suburbs (15%) and rural areas (8%), where LPHAs are among the main providers of rented housing, if compared to the PRS and municipal rented housing. In other words, while the single-family home is the main tenure in rural areas and towns, in relative terms, LPHAs have a higher share in the rental market in rural areas and towns than in cities, where private renting is more widespread.

Municipalities house around 277,000 households, representing a share of about 7% of all households in Austria. While LPHAs play a varying but significant role across the whole of Austria – both in urban and rural areas – municipal rented housing is mainly found in Vienna, where around three quarters (around 201,000 homes) of the total municipal housing stock of the entire country can be found. Despite the differences in the governance of the LPHA and the municipal housing sector, they are typically referred to as the social rented housing sectors in Austria. As such, LPHAs and municipalities provide homes for rent for about 24% of all households. 18% of all households live in the private (for-profit) rented sector. Taken together, this means that 42% of all households in Austria are renters. Nearly half (48%) of all households live in owner-occupation, 37% in a single-family house (found predominantly in rural areas) and 11% in an owner-occupied flat (found predominantly in urban areas). Owner-occupation of a flat (in multi-storey apartment building) is a separate legal tenure with a sector specific law (the "Wohnungseigentumsgesetz or WEG"), in contrast to owner-occupation in single-family houses. The WEG was established in 1948 in order to account for the unique ownership and housing management issues in multi-storey apartment blocks (e.g. the management of commonly owned spaces, major renovation of façade, etc.).

Figure 1. Housing tenure by degree of urbanisation in Austria (main residences)



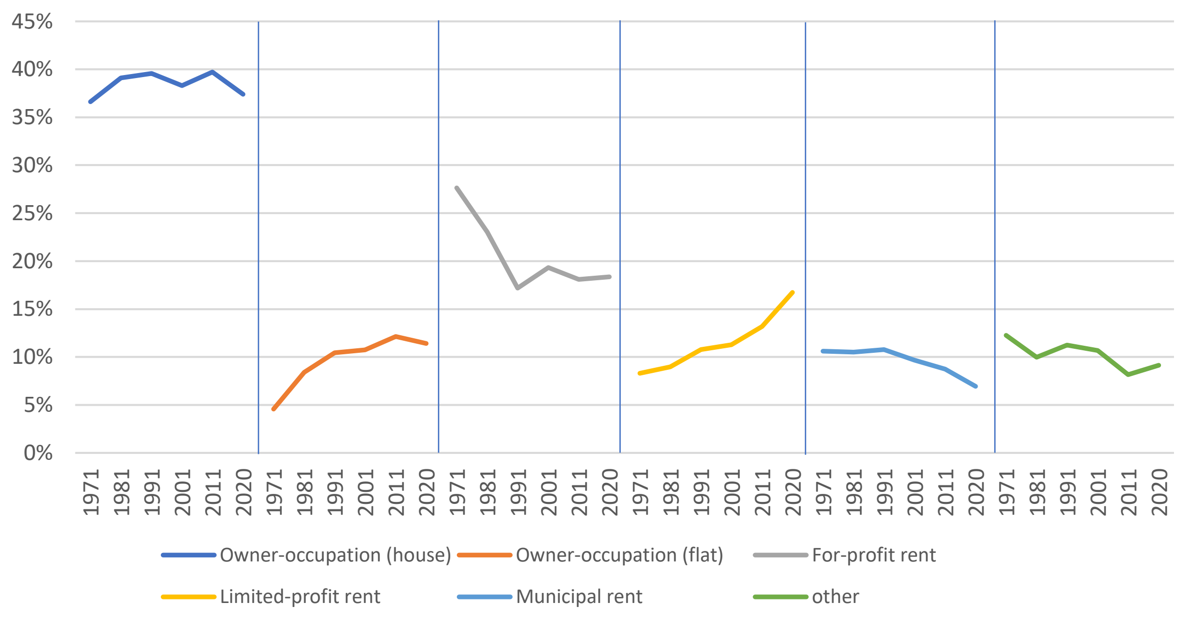
Source: Statistik Austria, Mikrozensus 2020, own calculation.

3. Origins and development of LPHAs

The strong market position of LPHAs in Austria is the result of more than a century of involvement in the housing market. The origins of limited-profit housing can be traced back to three roots, which emblematically show the manyfold interests ranging from individuals, factory owners and the state. First, the cooperative movement, which started in the 19th century and grew out of the idea of self-help and local self-organisation. The second root are (affordable) homes that were built by factory owners to ensure the availability of labour. The third root are arms-length organisations, that is (not-for-profit) organisations that provide housing on behalf of a municipality (see also Bauer 2006). Some of the oldest LPHAs in operation today date back more than 100 years. And while LPHAs have been building homes for over 100 years, it was only in the period post World War 2 that they became more prominent actors in Austria's housing market. Especially in the post war period the construction of LPHA homes served to replace war-damaged houses and to provide homes of better quality than found in the private rented sector, where quality standards were comparatively poor.

In 1971 LPHA rented housing accounted for 8% of Austria's housing stock and the share was set to more than double (17%) in 2020. With an increase from around 200.000 rented homes in 1971 to around 660.000 homes in 2020, LPHAs gradually increased their market share over the last 50 years. In comparison, the share of municipal rented housing has gone down from 11% in 1971 to 7% in 2020. The private rented sector has seen a stark decline between 1971 and 1991, while ever since its share has flatlined and now stands at 18%. Owner-occupation of flats has increased from 5% in 1971 to a share of 11% in 2020. As will be shown, many of these owner-occupied flats have been constructed (and are still managed) by LPHAs. The largest share in Austria's housing market is made up of single-family homes (37%), however with substantial variations between urban and rural areas. Yet, despite a substantial output in terms of the (self-built) construction of single-family houses their market share has remained largely the same over the last 50 years.

Figure 2. Housing tenure historically



Sources: Statistik Austria, GWZ/HWZ 1971-2011, MZ 2020.

4. LPHA completions and changes in tenure

It was noted earlier that LPHAs have increased their market share of rented housing over previous decades. Over the last 50 years (since 1970) LPHAs have completed and put at disposal between 13,000 and 19,000 homes per year, including homes for rent and sale. As Figure 3 illustrates, until 1980 the majority of homes completed by LPHAs were homes for (direct) sale. In the 1980s and thereafter, with the introduction of the right-to-acquire (RtA)[3] in 1994, direct sales were increasingly replaced by homes for rent, either with or without the right-to-acquire.

Right-to-acquire homes are homes that can be bought under certain conditions by sitting tenants after five (previously ten) years of continuous residence.[4] Ever since their introduction, RtA homes account for 40% to 60% of total LPHA completions. Importantly, not all potential RtA homes are sold. Out of the approx. 200,000 (potential) RtA homes completed since the introduction in 1994, about a quarter (48,000) have been sold to tenants, with the remainder remaining in the LPHA rental housing stock.

Figure 3: LPHA housing completions by tenure (average completions per year)

Source: GBV Verbandsstatistik 1971-2020.

[3] This paper uses the term Right-to-Acquire in reference to the "Right-to-Acquire" scheme in the UK, which is the legal basis on which housing associations sitting tenants can buy their home. Right-to-Buy is referred to in the context of council housing in the UK. Another reason why RtA is used is because under the Right-to-Acquire, lower discounts are applicable than under the Right-to-Buy scheme, another similarity to the scheme in operation in Austria, where discounts are very low.

[4] In order to qualify for the RtA, the tenant equity contribution paid at the beginning of the tenancy must exceed 74.17 Euros per square metre (as per 1.4.2021). This value is CPI-adjusted every two years.

LPHAs have therefore not only significantly contributed to the expansion of rented but also of owner-occupied housing. Own estimates[5] based on historic completions data from LPHAs and private developers indicate that around half of all currently existing owner-occupied flats in Austria (in 2020) were constructed by LPHAs. As was shown, while historically a large share of these homes was for direct sale, currently, the majority of managed owner-occupied LPHA homes are homes sold under the Right-to-Acquire.

LPHAs have hence played an important role in the Austrian housing market and have established their position as providers of affordable housing over many years. In 2020, LPHAs managed over 660,000 homes for rent and 280,000 homes (flats) in owner-occupation. After having discussed the position of LPHAs in the Austrian housing market, the next section will describe the institutional setup and governance of limited-profit housing in Austria. A unique feature of limited-profit housing in Austria in international standards is that their governance is not only evident in the various (historical) missions and purposes of operating on a limited-profit basis but in addition, the business model is also codified in a sector-specific national law, the Limited-Profit Housing Act. The next section will hence discuss some of the key governance principles of LPHAs, in particular in relation to the price-setting mechanism of (cost) rented housing.

5. The governance and auditing of LPHAs

One of the key elements to understand the governance of limited-profit housing in Austria is its sector-specific law – the Limited-Profit Housing Act (Wohnungsgemeinnützigkeitsgesetz or WGG – that covers areas including business conduct and auditing requirements, building maintenance obligations but also the rent-setting mechanism and revolving funds, to list a few. LPHA or, Gemeinnützige Bauvereinigung – often referred to as GBV – is a status that can be applied for at a regional government. Whilst LPHAs are exempted from corporate tax for their main and ancillary activities[6], the status of LPHA subjects the organisations to adhere to the regulations set out in the WGG. The main idea

[5] Official statistics do not distinguish between the builders of owner-occupied flats and hence between LPHAs and private developers. Estimates are based on historic LPHA completions figures collected by GBV (Gemeinnützige Bauvereinigung) and on total completions by Statistik Austria.

[6] Main and ancillary activities are clearly listed in the WGG: business activities that are within the main scope as stipulated in the WGG include the construction, maintenance, and renovation of homes. Ancillary activities for example include the construction of business premises, garages, or community facilities. These are allowed under certain conditions but must be secondary in volume.

of “Gemeinnützigkeit” (“common benefit orientation”) is to achieve housing affordability via a (sector-wide) self-limitation of profits in combination with a cost-based price-setting mechanism and a continuous re-investment of any surpluses made (see revolving fund model). These principles stipulated in the Limited-Profit Housing Act are not just codified in national legislation but are also audited annually.

There is a two-tier system of auditing in the LPHA sector. First, LPHAs are audited annually by the Auditing Association (Revisionsverband) and second, LPHAs are also audited by the Regulatory Authority of the respective regional governments (Aufsichtsbehörde). The objectives and content of these audits are clearly defined in the Limited-Profit Housing Act and supplementary legislation[7], and they go beyond the auditing in other sectors of the economy.

The auditing by the Auditing Association includes areas such as the financial situation, business conduct and adherence to the principles and rules stipulated in the Limited-Profit Housing Act (e.g. business decisions and investments must be economic, efficient and expedient). These audits take place on an annual basis, usually at the premises of a LPHA. LPHAs are required to provide all necessary documents to the auditors. When audits are completed, auditors report back to the management board of the LPHA. This meeting also helps clarify issues raised by the auditor. In these meetings a representative of the regional government is present, which guarantees a direct line of communication to this second control-system. Auditors then submit their auditing report to the respective Housing Association, the Auditing Association and to the Regulatory Authority. A summary of the auditing report must also be made available to the public.

The auditing by the Regulatory Authority builds on the reports submitted by the auditors from the Auditing Association. The Regulatory Authority can then decide whether additional auditing is necessary. In addition, Regulatory Authorities are responsible for granting permission to requests made by LPHAs for activities that fall outside the main and ancillary areas of business activities, defined in the Housing Act. Given that regional governments are also providers of public funding, the Regulatory Authority could, in a case of continuous non-adherence to the Limited-Profit Housing Act, withdraw or reclaim funding. As a last resort the Regulatory Authority can withdraw the status of Limited-Profit Housing (Gemeinnützige Bauvereinigung) from an organisation but this is very rare.

[7] See footnote 1.

The key principles of limited-profit housing are summarised in the box below. Some of these principles will be discussed in further detail in the rest of this paper.

Key principles of Limited-Profit Housing in Austria

The key principles of limited-profit housing are anchored in the WGG (i.e. the Limited-Profit-Housing Act), a sector specific law that only applies to GBVs (Gemeinnützige Bauvereinigung). 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: GBVs 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, also referred to as the Basic Rent.

Limitation of profits: Surplus generating components are a constituent part of cost-covering prices. In the case of GBVs, 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 and by an obligation to reinvest any surpluses in housing construction. Furthermore, shares in a limited-profit housing association may only be sold off at the nominal value of the initial investment (the "nominal value principle").

Personnel restrictions: GBVs must be independent from the construction industry, in order to prevent tie-in deals to the detriment of customers. This applies in particular to directors, managers or other representatives (officials) of limited-profit companies. The WGG also sets a limit to the salaries of directors and managers of LPHAs.

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. Other areas of business activity such as the construction of business premises, garages or community facilities are allowed but must be secondary in volume. Some other undertakings require the permission of the respective regional government.

Audit requirements: All limited-profit housing 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: GBV – Limited-Profit Housing Associations, Folder. Available at https://www.gbv.at/english/

The two principles that are of main interest when it comes to the economic impact of LPHAs are the principles of cost-based calculation and how they interact with revolving funds. The next section will therefore explain in more detail the cost-rental system of LPHAs in Austria.

6. Cost-rents in LPHAs

Cost-rent, as understood in the Limited-Profit Housing Act, means that LPHAs charge rents that recover the costs of planning, constructing, financing, and managing a home. It is neither allowed to charge more nor less than the actual costs incurred. The idea behind the cost-rent regime is that it ensures on the one hand that LPHAs can operate in a financially viable manner, as a below-cost approach would risk their long-term financial stability, and on the other hand, that rents are not inflated by profit-seeking motives. Importantly, cost-rents are calculated at a building block level, meaning that each building block is a separate accounting unit and cross-subsidisation between them is not possible. While these principles describe what is commonly understood as a cost-rent regime, the Housing Act goes into a lot more detail of the different cost-components, how they are calculated and what costs can be included in the rent. These cost-components include the various financing sources (mainly loan finance) for construction, administration and management costs for day-to-day operations, as well as money set aside for long-term renovation strategies. Specifically, the cost-rent calculation for Austrian LPHAs consists of the following components, which can vary depending on the financing mix of each individual scheme:

a) **Bank and public loans, incl. interest**
   Loan finance continues to be one of the main sources for funding new housing development, both public loans and bank loans. The average payback-period is 30 to 40 years. In terms of rent-calculation, there is

a clear distinction between the phase when loans are being repaid (cost-rent phase) and the phase after repayment of loans (base-rent phase).

cost-rent (Kostenmiete) phase:
Loan instalments, including interest charged, are one of the main components passed on to tenants as part of the cost-rent. Public loans are provided by regional governments and bank loans from private banks. Interest rates for public loans are set by regional housing promotion laws. The interest rates charged on bank loans have to be defined via tenders and are in general lower than for-profit loans because of the economic stability of LPHAs and the lower risk of vacant stock due to better affordability in the LPHA-sector. Moreover, in the current capital-market situation, interest rates issued on bank loans are equal or sometimes even below interest rates on public loans.

base-rent (Grundmiete) phase:
After loans to finance the construction cost from public authorities and commercial banks have been repaid, LPHAs can continue to charge a flat rate rent of 1.95 Euros per square metre (as per April 2022). This rate is CPI[8]-adjusted every two years. Depending on the maturity of loans, buildings usually enter the base-rent phase after 35-40 years. The base-rent is one of the main components that allows LPHAs to generate surpluses and hence to build up equity which they are then required to re-invest (see discussion on revolving funds in section 7).

b) **LPHA equity + interest on LPHA equity (Eigenkapital + Eigenmittelverzinsung)**
Apart from loans LPHAs also draw on their own equity to finance new housing development. LPHAs can charge a maximum of 3.5% interest on invested equity in their rent calculation. If LPHA equity is used for financing land costs – this is the case in nearly 100% of new developments – LPHAs are only allowed to charge interest on invested equity. If LPHA equity is used for financing construction costs, LPHAs can pass on the depreciation rate and interest to tenants (without CPI-adjustment). Interest on equity is the second major surplus-generating component, which goes into the revolving fund (see discussion on revolving funds in section 7).

c) **Ground rent (Baurechtszins)**
An increasingly common practice of municipalities is the leasing of (public) land instead of selling it to developers (incl. LPHAs). Ground rent payments

[8] CPI = Consumer Price Index.

of LPHAs to freeholders of land (i.e. public authorities) are passed on to tenants as part of the cost-rent calculation.

d) **Maintenance and improvement fund (Erhaltungs- und Verbesserungsbeitrag, EVB)**
LPHAs are legally responsible for maintaining and improving their housing stock. These responsibilities are defined in the Limited-Profit Housing Act. In order to guarantee that sufficient funds are available when works are necessary, ranging from daily repairs to major renovations and improvements, LPHAs are allowed and encouraged to charge tenants for potential upcoming repairs from day one of their tenancies. This is done via the maintenance and improvement fund (the EVB). The EVB is a sinking fund[9] for a specific building, which can be used when needed. The maximum amount that can be charged to tenants is clearly defined in the Housing Act and is CPI-adjusted every two years. The amount varies by building age, starting from 0.53 Euro per square metre for a new building to 2.13 Euro per square metre for buildings older than 30 years. Funds collected from tenants of a particular building can only be used for maintenance and improvement works of the respective building. As with rents, cross-subsidisation is not possible as per the Limited-Profit Housing Act. Moreover, if collected funds are not used within 20 years after collection, they must be repaid to tenants, inclusive of interest for that time-period.

e) **Administration costs (Verwaltungskosten)**
Administration costs mainly consist of the labour costs associated with the management and operation of the activities of LPHAs (e.g. setting up contracts, managing and organising repairs and maintenance). The Limited-Profit Housing Act sets a maximum annual lump sum that can be included in cost-rent calculations. This amount currently stands at 248.16 Euros/flat/year for rented homes and 305.52 Euros for LPHA managed owner-occupied homes (as per April 2022). These figures are CPI-adjusted annually.

f) **Reserve fund**
In order to be able to mitigate business risks, including for e.g. the loss of revenue from vacant homes, LPHAs can charge a maximum of 2% of the total annual expenses covered in points a) to d).

g) **Service charges (Betriebskosten)**
The Limited-Profit Housing Act refers to the national rental law (MRG, Mietrechtsgesetz) in defining the types of costs that LPHAs are allowed to include in the service-charge element of their rent calculation according to

[9] A sinking fund is money set aside periodically for a specific upcoming expense in the future.

the for-profit market. There is a taxative list of items chargeable. These include costs incurred by LPHAs for sanitation and cleaning (water, refuse, canalisation), costs for lifts, lighting of common areas or insurance costs. LPHAs must provide an annual account to tenants for all the service-charges incurred. Whilst billed monthly as part of the rent, any difference between billed and actual service-charges (after end-of-year totalling of all costs) are settled between LPHAs and tenants once a year.

h) **VAT**
Rents for residential homes in Austria are subject to 10% VAT.

After the description of the various cost components that are included in a LPHA rent, the next section will illustrate two typical (fictive) examples how LPHA rents are calculated. These examples will include the rent calculation of a completed building, that is, a building in the first phase where loans are still being repaid (cost-rent phase) and another example, where loans have already been repaid (base-rent phase). Before moving on to these examples, the table below provides an overview of the various financing sources LPHA typically draw on.

Table 1: Financing sources of limited-profit housing in Austria for new construction and renovation

<table>
<tr><td colspan="2">LPHAs draw on a hybrid financing model for new construction. These funding sources include public funding, private loans, LPHA equity, and tenant equity contributions. The financing mix not only varies from LPHA to LPHA but is also different for different schemes. Moreover, public funding – which in most cases is accessible to limited-profit and for-profit developers – additionally varies by region. As it is regional governments who provide public funding, the types of funding (loans or grants), loan conditions and loan covenants are different depending on the region where a developer is building homes. The main funding sources are the following:</td></tr>
<tr><td>Public loans and grants</td><td>Public funding for new construction is provided by regional governments (Wohnbauförderung der Länder), who set out the rules and conditions in respective regional housing promotion laws. Loan covenants usually include minimum quality and energy efficiency standards and income limits for rental housing.

While most public funding is provided in the form of low-interest loans, some regions also use (additional) grant funding. As such, most public funding is repaid to regional governments and, hence, acts as a revolving public fund. Public funding is available to housing providers (LPHA and for-profit) and individual households (in the latter case mainly for the construction of self-build new homes). While most</td></tr>
</table>

	new LPHA homes are built with public funding, it is not a legal requirement to do so. In most cases, public loans are subordinate loans, meaning that capital market loans are repaid before repayment of public loans commences.
Capital market loans	Capital market loans provide an important funding source for new construction. These are accessible to for-profit companies and LPHAs in equal measure.
LPHA equity	LPHAs invest their own equity to finance the construction of new affordable homes.
Tenant contributions	LPHAs can require tenants to make a down-payment at the beginning of their tenancy. The down-payments are returned to tenants when they move out, depreciated by 1% of the nominal value every year. The tenant contribution acts as a rent prepayment and reduces the interest-bearing part of LPHA finance. Tenant contributions hence reduce monthly rent payments.

7. Example of a typical LPHA scheme – from financing costs to cost rents[10]

As noted earlier, the cost-rent calculation is performed at the building-block level. This means that the total costs of a building (including land and construction costs) are divided up by the total usable floor area and weighed by the (square metre) size of each individual home. Rents are hence proportional to the floor area of a given flat. LPHAs may also perform a "use-value" weighting, which accounts for quality differences of flats within the same building (esp. in terms of orientation and location of a flat within the building).[11]

Based on data surveyed from LPHAs in 2020, the average cost of construction of a typical LPHA scheme is about 2,000 Euros per square metres. This includes everything from planning to construction material and labour costs.

[10] Many thanks to Bernd Riessland who has been of great help in putting together the cost-rent calculations.

[11] This means that the number of square metres is additionally weighted by features such as the location of a flat within the building (e.g. in terms of floor level, brightness or orientation). The weighting however only adds to minor variations in price differences between square metre prices. For example, while a bright flat with 70 square metres may have a "use value" of 72, a lower lying flat with less direct daylight but the same size may have a "use value" of 68. Given a square metre cost-rent of 7 Euros, this would result in 504 Euros rent for the first and in 476 Euros rent for the second example (72x7=504, 68x7=476).

The average cost of land paid by LPHA in 2020 was 300 Euros per square metre.[12] In total hence, the average cost LPHA have incurred for developing a home was 2,300 Euros per square metre. While there are significant variations to this average depending on building materials, location, labour costs or the cost of land, the following example provides an overview of how these costs are financed and how they translate into the (cost) rent paid by LPHA tenants.

Table 2: Cost of construction and land

	Per square metre in Euros	Total for 10,000 square metre development
Cost of construction	2,000	20,000,000
Cost of land	300	3,000,000
Total	2,300	23,000,000

Source: GBV member survey 2020.

As noted previously, LPHAs draw on various sources for financing new developments, including loans, grants, their own equity, and equity contributions from tenants. The largest share usually comes in the form of loans, both public loans and capital market loans. The financing mix varies not only across regions, depending on the regional housing promotion schemes but also from development to development, depending on factors like the financing conditions on the capital market or the equity reserves of a LPHA.

The indicative example below presents a typical financing mix in Vienna. In this example the largest share of the development is financed with a bank loan in combination with a loan from the Vienna City Council[13]. Additionally, the development draws on both LPHA equity and on upfront down-payments by prospective LPHA tenants (tenant equity contributions), which are repaid at the end of the tenancy[14]. While LPHA equity typically accounts for about 10% - 15% of construction and/or land cost, tenant contributions vary. In the example given below, tenant equity contributions account for 3% of total financing costs. In the given example, this amounts to 65 Euros per square metre.

[12] When LPHAs receive housing subsidies from regional governments, there is an upper limit for the cost of land LPHAs are allowed to pay in some regions.
[13] Vienna is both a municipality and a region and is hence responsible for housing promotion, the authority of which lies with the regional governments in Austria.
[14] Tenant contributions are depreciated 1% annually. For example, if a tenant moves out after 10 years, they are reimbursed 90% of their initial down-payment.

While tenant contributions can be a barrier for households without savings, there are additional low-interest loans available from regional governments for those who do not have the financial means for a down-payment. Given that tenant contributions reduce the share of loan finance and LPHA equity – both of which include interest payments in the cost-rent – these contributions reduce debt-servicing costs and hence the rent.

Table 3: Typical financing mix in Vienna

	Cost per square metre (in Euros)	Total cost for 10,000 square metre development (in Euros)	Share of total cost
Public loan (1% interest, 35 years)	600	6,000,000	26%
Bank loan (2.5% interest, 30 years)	1,335	12,850,000	56%
LPHA equity	350	3,500,000	15%
Tenant equity (down payment)	65	650,000	3%
Total	2,300	23,000,000	100%

Source: estimates based on GBV member survey 2020.

Based on the above costs, financing mix, interest rates and loan maturities, a LPHA then calculates rent levels per square metre usable floor area[15]. In other words, the rent a household pays is proportional to the size of a flat. All calculations are hence shown in Euros per square metre. In the specific example of a typical scheme built in Vienna, public loans are subordinate and repayment for these loans commences after bank loans have been repaid.

In the first phase of this example, LPHA service debts from bank loans and only pay interest (1%) for public loans. After bank loans have been repaid, the LPHA starts repaying public loans. While the fixed interest rate of 1% for public loans is set in the regional housing promotion scheme (WWFSG), capital market loans are negotiated with banks and can be either fixed or variable loans. Given the low interest rates currently[16] available on the capital market, the assumed interest rate in this example is set at 2%.

[15] No "use-value" weighting is applied in this indicative example. For information on additional weighting of square-metre prices depending on quality indicators, see footnote 11.

[16] At the time of writing this paper, the situation on the capital markets is undergoing significant changes and a rise in interest rates is expected.

Rent calculation during repayment of loans (cost-rent phase)

Given the above financing conditions the net rent amounts to 5.99 Euros per square metre for a scheme with outstanding loan repayments.[17] This includes 3.79 Euros for servicing the debt and interest from a bank loan, 0.5 Euros for paying interest on the public loan, 1.05 Euros for (3.5%) interest on LPHA equity invested. The position "tenant equity contribution" is shown to indicate that the initial down-payment reduces the need for loan or equity finance and hence interest payments. As noted earlier, the maintenance and improvement fund (Erhaltungs- und Verbesserungsbeitrag, EVB) varies over time and increases with the building age. The example below uses an EVB-rate for a recently completed building of 0.53 Euros per square metre. The net rent together with the EVB are the basis for the calculation of the reserve fund, which can amount to a maximum of 2%. In addition to the net rent, which covers all expenses related to financing loans and interest payments, tenants also pay a few other components, mainly items related to the management and servicing of the building.

These remaining two cost-components are administration costs and service charges. While administration costs are based on a flat rate per apartment, service charges are billed annually, depending on actual costs incurred.[18] In 2020, the average service charge for a new LPHA home is 1.7 Euros per square metre (per month).[19] Inclusive of 10% VAT, the total gross rent (excluding costs for heating and electricity, which are billed individually) amounts to 8.78 Euros per square metre per month. For a flat with 70 square metres, this would result in a monthly payable rent of 614.6 Euros.

[17] In Vienna, when homes have been built with public loans the regional housing promotion scheme also sets an upper limit on net rents, which currently stand at 5,11 per month (as per 2021) + interest on LPHA equity invested for land purchase (in this example: 300*3.5%/12=0.88). Cost component 3 in table 4 (interest on LPHA equity) additionally includes the annuity for LPHA equity used for construction costs repaid over 50 years (0,178 Euros/m^2). In total=1.05 Euros/m^2 for LPHA equity.

[18] Any differences between (estimated) monthly service charge payments and billed annual statements are cleared once a year.

[19] Source: own calculation, Bauträgerwettbewerbe, Wohnfonds Wien.

Table 4: Rent calculation during repayment of loans

a) new build project (only bank loans due, public loan interest only)			
Cost component		**interest rate**	**Monthly cost per sqm**
1.	Repayment of public loan, i=1%, maturity of 35 years (subordinate, due after repayment of bank loan)	1%	0.50
2.	Repayment of bank loan, i=2%, 26 years	2%	3.79
3.	Interest on LPHA equity	3,5%	1.05
4.	Tenant equity contribution	0	0.00
5.	Base rent after repayment of loans (Grundmiete)	0	0.00
	Maintenance and Improvement		0.53
6.	Basis for reserve fund (2%)		5.87
	Reserve fund		0.12
	Total net rent		5.99
7.	Administration costs		0.29
8.	Service charges - variable, as per annual service charge summary		1.70
	Basis for VAT (10%)		7.98
9.	VAT (10%)		0.80
	Gross rent per square metre		**8.78**

Rent calculation after repayment of loans (base-rent phase)

After public and capital market loans have been repaid, LPHAs continue to charge “base-rent” (Grundmiete), a flat-rate rent which is set in the Limited-Profit Housing Act and amounts to 1.95 Euros per square metre in 2022. The base-rent is CPI-adjusted every two years. The switch from cost-rent to base-rent depends on loan maturities but usually occurs after 30 to 40 years after completion of a building. The net rent hence only includes the base-rent and interest on invested LPHA equity. The maintenance and improvement fund increases with building age and is assumed to have reached its maximum after repayment of loans, which currently stands at 2.13 Euros per square metre. The remainder of the rent calculation is the same as in the previous example. The total net rent in the example amounts to 5.13 Euros per square metre. The gross rent after repayment as per the example below amounts to 7.94 Euros per square metre or 555.8 Euros for a 70 square metre flat. This means that rent levels usually decrease after repayment of loans, i.e. during the base-rent phase.

Table 5: Rent calculation in project where loans have been repaid

c) project after all loans have been repaid – ‘base rent’ (Grundmiete) phase			
Cost component		**interest rate**	**Monthly cost per sqm**
1.	Repayment of public loan	1%	0.00
2.	Repayment of bank loan	2%	0.00
3.	Interest on LPHA equity	3,5%	0.88
4.	Tenant equity contribution	0	0.00
5.	Base rent after repayment of loans (Grundmiete)		1.95
	Maintenance and improvement		2.13
6.	Basis for reserve fund (2%)		4.96
	Reserve fund		0.10
	Total net rent		5.06
7.	Administration costs		0.29
8.	Service charges - variable, as per annual service charge summary		1.70
	Basis for VAT (10%)		7.05
9.	VAT 10%		0.71
	Gross rent per square metre		**7.76**

Revolving funds

The previous two examples have illustrated how rents are calculated and set by LPHAs. It was shown that the various rent components also vary over time and fulfil different dedicated purposes. An explicit aim and purpose of limited-profit housing is the long-term provision of affordable housing for current and future generations and thereby ensuring intergenerational justice. This aim is codified in the Limited-Profit Housing Act: “LPHAs have to use their equity in order to guarantee a long-term sustainable housing supply for current and future generations” (WGG § 1). One of the key mechanisms to achieve this is that the yearly growing equity is functioning as a revolving fund (Vermögensbindung) within the associations. Put simply, the growing LPHA-equity is being reinvested into new (affordable) housing. This circularity of investment is enshrined in the Housing Act, which ensures on the one hand that surpluses are not paid out to shareholders and on the other hand that these surpluses flow back into the construction of new affordable homes. The build-up of equity is only possible due to a few deviations of the cost-rent principle (as already shown in the calculation before). While generally, cost-rent means that LPHAs can neither charge more nor less than is necessary to recover the costs they have incurred, there are a few deviations from a strict cost-recovery approach that allow LPHAs to generate limited surpluses for future investment and hence build up a revolving fund. Two of the main sources which add to the revolving fund are the collected base-rents and the interest payments on invested LPHA equity. Both are rent components, which are strictly speaking not based on actual costs incurred. These two are hence explained in some more detail.

a) Base-rent (Grundmiete)

The Limited-Profit Housing Act stipulates that after bank and public loans have been recovered via rent payments, LPHAs can continue to charge a defined amount (the so-called “Grundmiete” or “base rent”) instead of loan payments. This usually happens after 30 to 40 years after the completion of a building, depending on the financing conditions of the loans. Cost-rent is hence succeeded by base-rent, which is set according to the Limited-Profit Housing Act. The upper limit for the base-rent currently (April 2022) stands at 1.95 Euros per square metre. Surpluses generated from the base-rent build up LPHA equity, which LPHAs are required to reinvest into the provision of affordable housing. For tenants the switch from cost-rent to base-rent in most cases results in a rent reduction of between 0.5 to 1.5 Euros per square metre (depending on the level of the preceding cost-rent).

b) 3.5% interest on invested LPHA equity

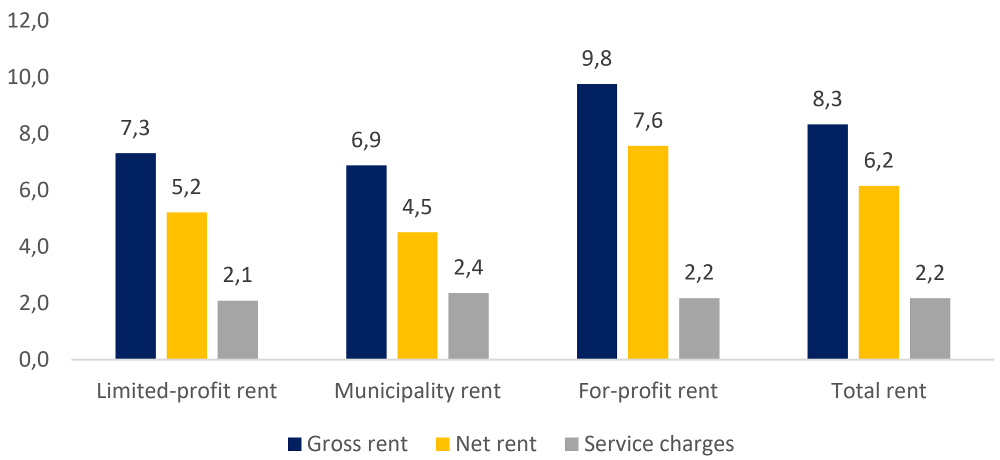
The second major surplus-generating source for LPHAs are interest payments on their invested equity. LPHAs can charge an interest rate of up to 3.5% on their invested capital. LPHAs use their own capital mainly to finance land costs. While surpluses generated from base-rents can be accrued after repayment of loans, interest on LPHA equity is a surplus generating component already after completion of a scheme. According to the Limited-Profit Housing Act this rent component is not CPI-adjusted, which means that the amount charged in the rent calculation loses in value over time (and so does the rent payment). In the base-rent phase, LPHAs are only allowed to charge interest on equity that was used for land costs. The reinvestment of surpluses generated is monitored in annual audits.

After the previous discussion on how rents are calculated, the following section will analyse based on statistical data how LPHA rents compare to rent levels in other tenures in the Austrian housing stock. The section will demonstrate that there are not only significant rent differences between tenures but also within LPHA rents, depending mainly on building age. The section will then discuss the economic impacts of LPHA rents on household budgets, mainly by drawing on a recent study by the Austrian Institute of Economic Research WIFO (2021).

8. Rents paid in LPHA homes

While rents in Austria are commonly indicated as gross rents, net rents are reported too in official statistics. In most cases gross rents include all costs, including service charges[20], except costs for electricity, heating, and water. Utility costs are billed individually to each household, depending on consumption. The average (gross) rent in Austria in 2021 was 8.3 Euros per square metre, consisting of 6.2 Euros net rent and 2.2 Euros service charges including administration cost.[21]

Figure 4: Gross rent, net rent and service charges by tenure type

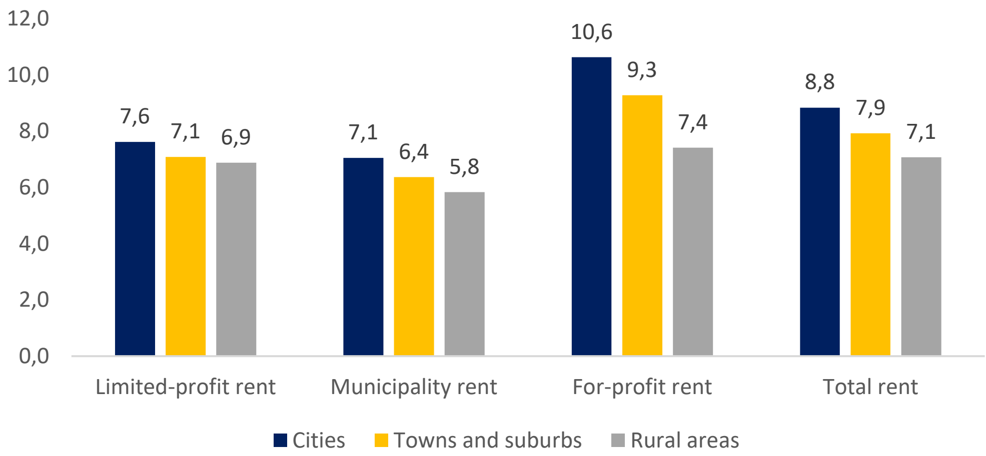


Source: Statistik Austria, Mikrozensus 2021.

[20] For a list of items included in service charges see section 6.
[21] The addition of rounded figures may not appear to produce the correct sum.

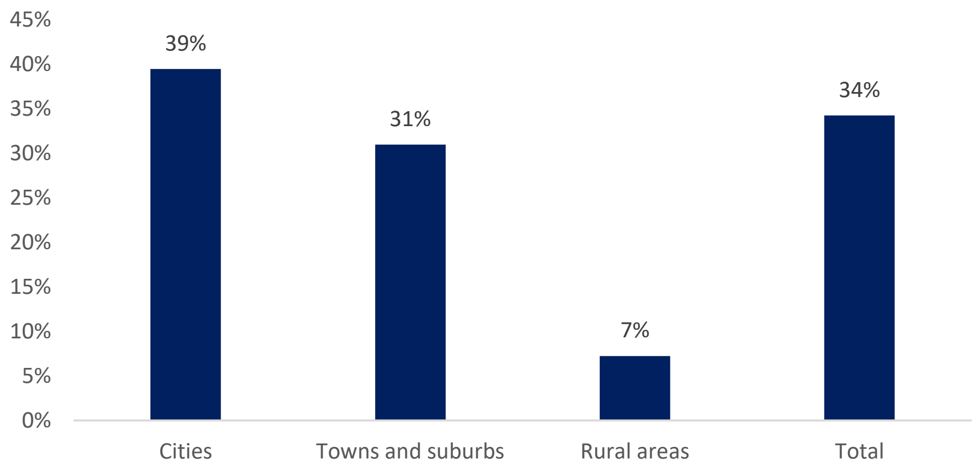
With an average gross rent of 9.8 Euros/m^2 for-profit sector tenants pay 2.5 Euros, or 34% more than renters from LPHAs who pay on average 7.3 Euros/m^2. The difference is significantly higher in urban areas, where the average rent in the for-profit sector is 10.6 Euros/m^2, compared to 7.6 Euros/m^2 in LPHA homes, a difference of 3 Euros, or 39%. There is also a pronounced difference of 31% between LPHAs and for-profit rents in towns and suburbs (9.3 vs. 7.1 Euros/m^2) and even in rural areas – where market pressures are less pronounced – there is still a noticeable difference of 7% (7.4 vs. 6.9 Euros/m^2).

Figure 5: Gross rent by tenure and degree of urbanisation



Source: Statistik Austria, Mikrozensus 2021.

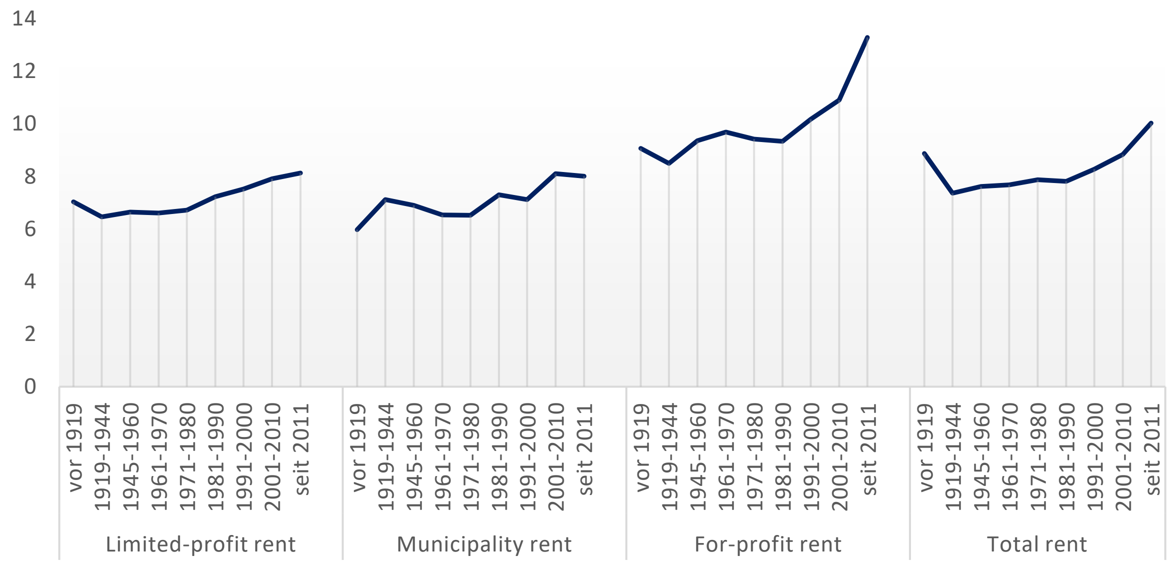
Figure 6: Percent of for-profit rental prices above limited-profit prices



Source: Statistik Austria, Mikrozensus 2021.

In addition to housing tenure, year of construction and length of tenancy play important roles in determining rent levels in Austria. While rents in the private rented sector in multi-storey buildings built before 1945 are regulated, this is not the case in (multi-storey) buildings constructed after 1945. Moreover, there are also significant price differences in the private rented sector between older rental contracts and newer rental contracts. Under Austrian rental law, during a lease, rent increases are regulated (CPI-adjusted annually). This means that changes in market conditions are mainly experienced by households with new rental contracts. These factors explain that rent levels in the private rented sector are particularly high for households living in homes completed since 2011 (12.5 Euros/m^2) and those with new rental contracts, that is, with contracts of less than two years (10.8 Euros/m^2). While rent levels also differ by year of construction in the LPHA sector, the variation is more modest, ranging from around 6 to 7 Euros/m^2 in homes built before 1980, up to 8.3 Euros/m^2 in homes completed since 2011. While the difference in the private rented sector is mainly a result of increased market pressures and supply constraints, the variation between LPHAs reflect different costs involved in constructing and managing their stock. Lower rents in the older LPHA housing stock are also a result of the (lower) base rent in homes where loans have been repaid. The slightly higher rents in the oldest LPHA housing stock (pre-1919) are mainly a result of these homes not being built by LPHAs but acquired from other (private) organisations, where another tenancy law and hence rent regulation applies. These (pre-1919) homes however only account for less than 2% of the total LPHA rented housing stock.

Figure 7: Average gross rent per square metre by tenure and year of construction

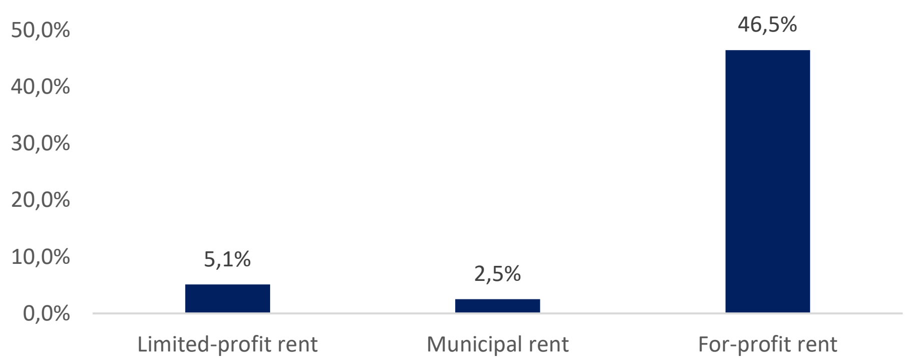


Source: Statistik Austria, Mikrozensus 2021.

Gross rent by type of lease

Another key characteristic where LPHA tenancies differ quite significantly from private rents is the security of tenure. While rent contracts in the LPHA sector are generally permanent tenancies with only some exceptions, it has become increasingly common practice for private landlords to offer temporary tenancies (with a legal minimum length of tenancy of three years). This was enabled by the introduction of fixed-term tenancies in Austria's rental law in 1994. While previously, Austria's rental law only allowed landlords to issue permanent tenancies, rental contracts could henceforth be set up for a minimum of 3 years. Today, while 6% of LPHA and 3% of municipal rental contracts are fixed term, it is 47% in the private rented sector in total and the proportion is 65% among those who have started a rental contract in the last two years (2018-2020).

Figure 8: Security of tenure: percentage of fixed-term tenancies by tenure

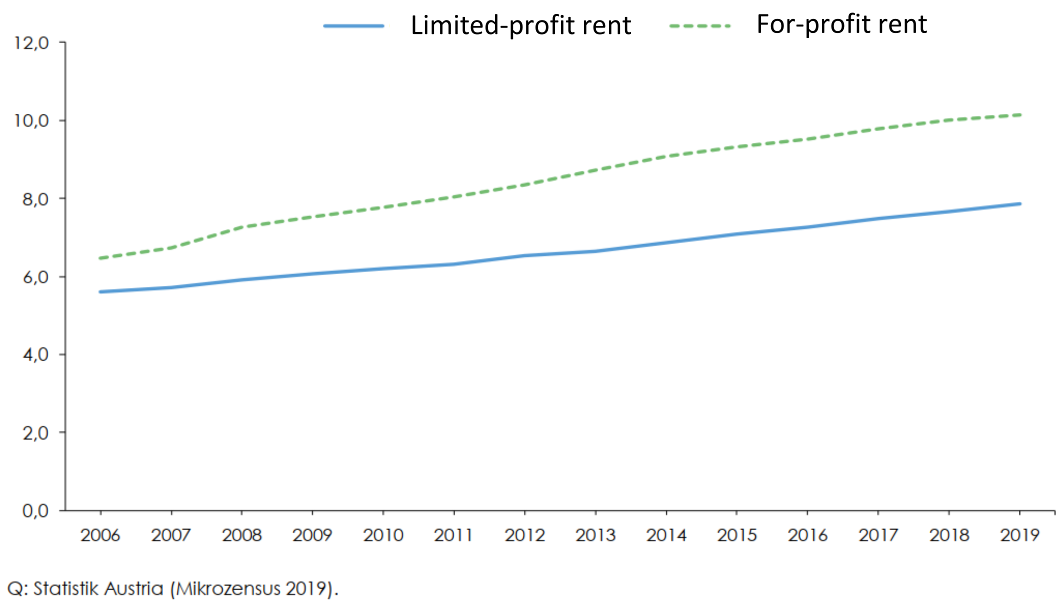


Source: Mikrozensus 2021.

9. Economic impacts of LPHA

The price differential between limited-profit and for-profit rented housing has far reaching impacts on households and to the wider economy. A recent study by the Austrian Institute of Economic Research (WIFO) has quantified these economic effects, including the implications on GDP, purchasing power and state budgets (Klien and Streicher, 2021). There are various factors explaining the price difference between for-profit and limited-profit housing providers. The report states clearly that the main reason for lower prices in the LPHAs are linked to the LPHA business model and in particular to the cost-based pricing of rents (in opposition to profit-maximising prices in the private rented sector) while some other legal and financial factors enabling LPHAs to offer homes at a lower price than for-profit providers play an important role too, including preferential access to low-interest public loans and public land, exemption from corporation tax). 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 buildings, where private providers can charge higher profit-margins. After accounting for structural differences in location, housing quality and size, LPHA rented homes are on average 2.3 Euros per square cheaper than rents in the private sector.[22] The report also shows that the affordability-gap between the private and the LPHA sector has grown substantially over recent years.

Figure 9: Gross rent per square metre in the limited-profit and the for-profit (private) sector by year, 2006 to 2019



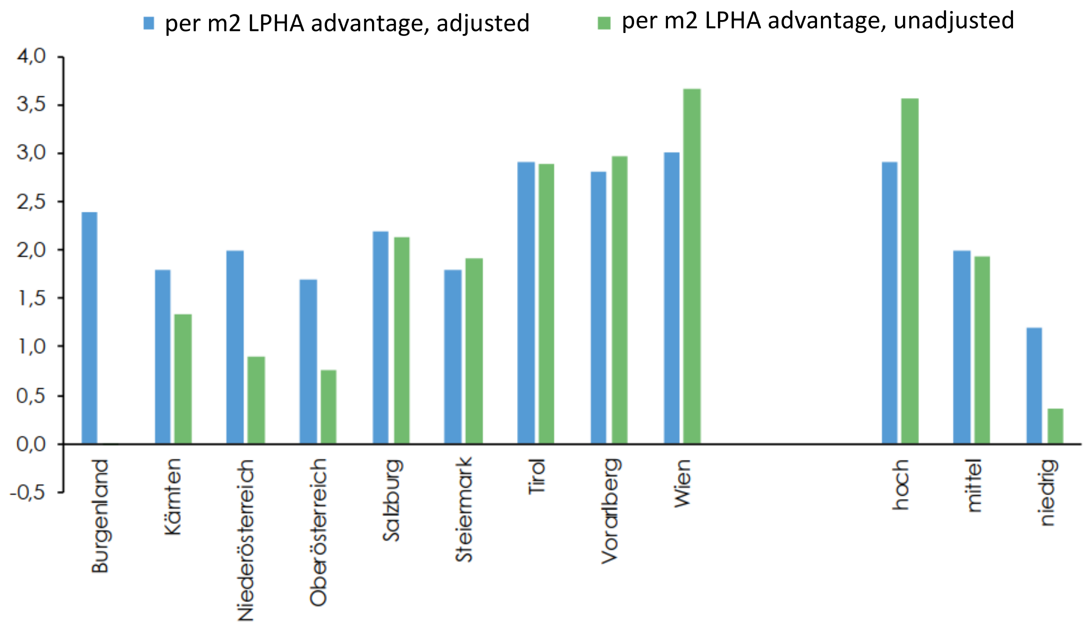
Source: Klien and Streicher 2021.

Specifically, for a 70 m^2 flat the price difference today (2.3 Euro/m^2) amounts to 160 Euros less for LPHA renters than for private renters. The difference is particularly pronounced in new buildings, in urban areas and in some regions with higher pressures on the local housing market. As figure 10 shows, the difference is highest in Vienna, Tyrol and Vorarlberg (regions with

22 The difference to the previously mentioned 2.5 Euros per square metre results on the one hand from the different year of comparison (2019 vs 2020) and on the other hand from the correction for structural quality differences in the housing stock of LPHA and for-profit developers.

higher housing market pressures) and lowest in Kärnten, Oberösterreich and Niederösterreich. Figure 10 also shows that there are some stark differences between adjusted and unadjusted price differences.[23] This is mainly because in some regions the LPHA housing stock is much newer and would hence appear more expensive than for example rents in the older private rented housing stock. The calculations in the report account for these effects.

Figure 10: LPHA price advantage: average amount LPHA below private sector rent (per m^2) in the nine regions and by degree of urbanisation, (hoch/high=urban, mittel/medium=suburbs and towns, niedrig/low=rural), adjusted and unadjusted for structural differences in prices



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

Source: Klien and Streicher 2021.

The report then calculates an estimate for the total savings by all households renting from LPHAs compared to the scenario in which these households would pay 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 LPHAs 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.

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

Households in the bottom two quintiles benefit disproportionately from cheaper homes provided by LPHAs than households in the top quintile.

Table 6: 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
Quintile 1 (bottom)	274.8	23%
Quintile 2	281.6	24%
Quintile 3	242.2	20%
Quintile 4	221,6	19%
Quintile 5 (top)	169,4	14%
Total	1,189.7	100%

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

Source: Klien and Streicher 2021.

Given the significant contribution of LPHAs in building not only rented homes but also homes for sale, the WIFO report additionally calculated the total savings of households who have bought a LPHA home in the last 40 years compared to the scenario in which these households had to buy the same home on the private market. The estimated savings provided in the report amount to 122 million Euros per year. 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 from a LPHA.

Table 7: 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
Quintile 1 (bottom)	14.9	12%
Quintile 2	20.5	17%
Quintile 3	23.1	19%
Quintile 4	30.7	25%
Quintile 5 (top)	32.8	27%
Total	122.1	100%

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

Source: Klien and Streicher 2021.

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 taking in the economic models, the LPHA-effect is estimated to add an additional 600 million to 1 billion Euros to Austria's GDP every year. The report develops two different (hypothetical) scenarios: one with and one without the presence of LPHAs in the Austrian housing market. The first scenario only considers the economic effects 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). The key findings demonstrate the economic impact of LPHAs on the economy and public finances in several ways, as described in table 8.

Table 8: Estimated impact of LPHA activity on economy and state budget

	Economic activity impacted by LPHA	**Estimate in million Euros per year (scenario 1)**	**Estimate in million Euros per year (scenario 2)**
a)	Increased private consumption: better affordability due to lower housing costs result in additional private consumption between 290m and 420m Euros per year.	+420m	+290m
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 400 to 500m Euros per year.	+500m	+400m
c)	Increased total investment: higher consumer spending and additional investments into housing are estimated to add between 260m and 730m Euros to Austria's GDP (depending on the scenario).	+260m	+730m
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 440 to 530m Euros.	-530m	-440m
	Total impact	**640**	**980**

Source: Klien and Streicher 2021.

Taken together the economic model arrives at 640m to 980 million Euros 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 were 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 LPHAs 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 particular in recent years, in a time of low interest rates, the value added by LPHAs is mainly a result of their business model (i.e. cost-rent, profit-limitation, continuous reinvestment of surpluses) and to a lesser extent the result of subsidies (low-interest public loans). Crucially, despite public funding, the WIFO report shows that LPHAs are a net benefit to public budgets because they both raise taxes by increasing consumption and at the same time reduce the need for housing allowances.

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 WIFO report (2021) 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.

10. Conclusion

This paper has provided an overview of the key elements and principles of limited-profit housing in Austria. It was shown that limited-profit housing in Austria occupies a distinct Third Sector role, being neither state nor profit-driven but operating on a cost-recovery basis in combination with a revolving fund which ensures that any surpluses generated stay within the circuit of limited-profit housing. It was argued that this combination is crucial not only in ensuring the continuous provision of affordable housing but also in the associations' long-term financial viability and independence. The limited-profit housing sector dates back to the 19th century and has acquired a prominent role in Austria's housing market, providing homes to almost a quarter of Austria's households, either for rent or in owner-occupation (managed by a LPHA). The cost-base rent model also means that an individual rent can be broken down into several components, ranging from construction costs to service charges. These components are listed in rental statements and allow tenants to understand and have transparency over their rent payments. The comparative advantage of rents paid by LPHA tenants to rents paid by tenants in the for-profit sector are evident and amount to more than 2 Euros per square metre on average and the difference is even higher among those with new rental contracts or those living in new builds. This difference is not only felt by individual households but also impacts on the wider economy, purchasing power and even public spending, as was shown.

The latter point about public spending seems particularly pertinent in the context of debates about the efficiency of housing systems. With many countries having reduced public expenditure on investment into affordable housing, public expenditure in total has in many cases not gone down but was shifted towards housing allowances. In other words, the lack of affordable (rental) housing has meant that households paying expensive private sector rents are often unable to cover housing costs from their own income and are required to resort to housing allowances to cover rent payments. This has led to a growing housing allowances bill across Europe in countries with such schemes, outweighing the reductions in public spending in the construction of (affordable) housing. The Austrian example of limited-profit housing illustrates well that a housing sector whose primary goal is not profit-maximisation, but cost-recovery can make a substantial and long-term contribution to the provision of affordable housing. The example of limited-profit housing in Austria however also shows that this is not something that can be achieved overnight but requires a sustained effort from various actors and requires the right institutional, policy and legal framework that enable long-term strategic thinking.

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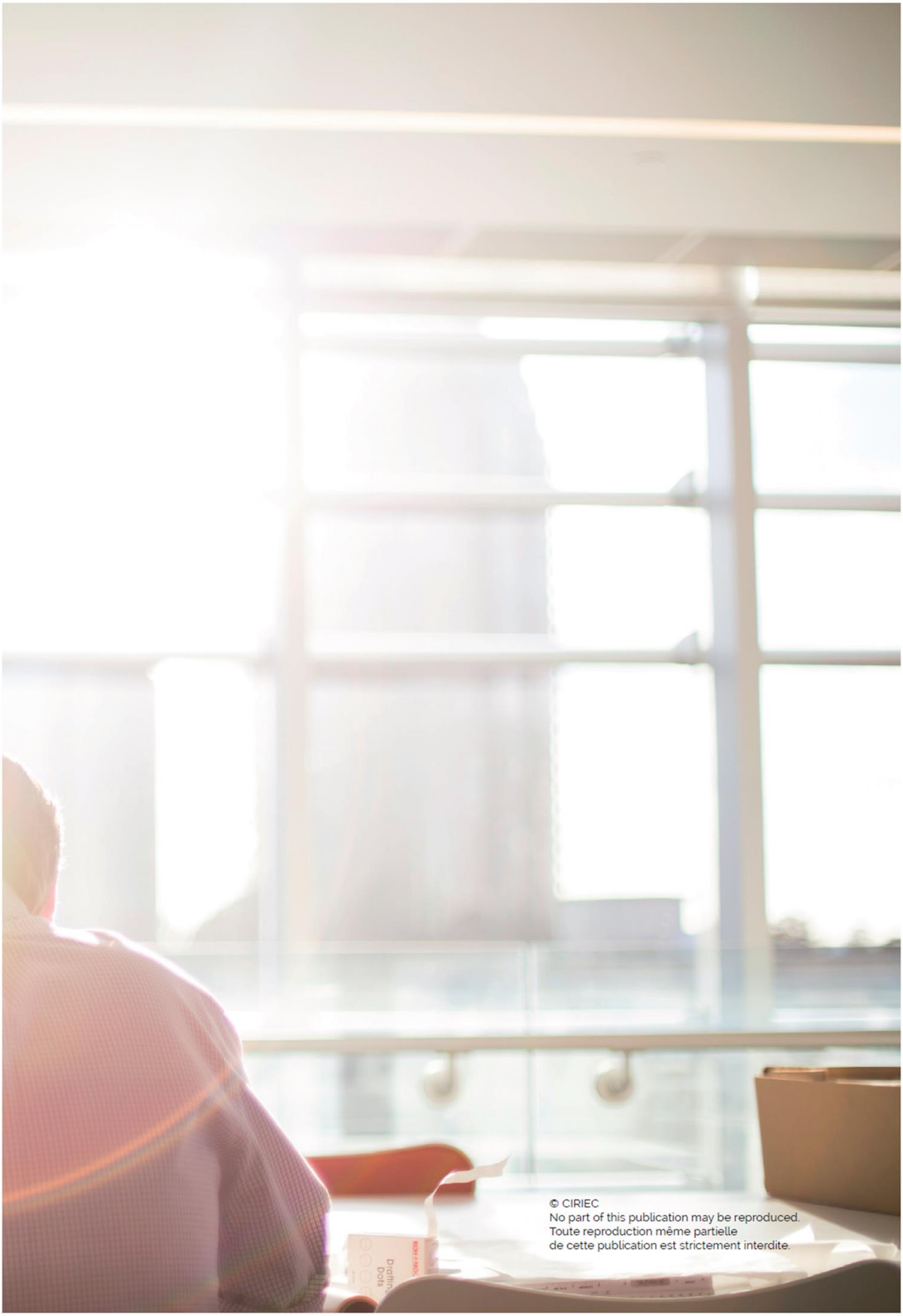

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