

Austria's limited-profit housing system as role model in the OECD

In a recent report on Latvia's housing market, the OECD (Organisation for Economic Co-operation and Development) explicitly refers to Austria's limited-profit housing associations and their legal framework - the limited-profit housing act - as best-practice models to follow. While Austria's system of limited-profit housing associations has already been referred to several times internationally, it is the first time that the OECD recommends implementing specific elements of it. The context of this report is the lack of affordable rented housing in Latvia, which is why the Latvian Government commissioned the OECD to come up with recommendations on how to address Latvia's housing crisis.

Housing crisis despite low housing costs

Latvia's housing stock, along with many other East European countries, still suffers from the rapidly implemented privatisation in the years following Soviet occupation. These homes are mainly found in urban areas. For example, 85% of Riga's population live in homes built between 1945 and 1991. Due to a lack of maintenance and renovation many of these homes are in a very bad condition. Moreover, new housing supply is lagging behind demand and is mainly targeted to higher-income households. Social housing only accounts for about 2% of the housing stock and is targeted only to households on very low incomes. To make things worse, Latvia's economy is also struggling with low income levels, outward-migration of highly-skilled young people, and, as a result thereof, of an ageing population and a growing number of one-person households. While this has meant relatively low housing costs (but also low quality and higher levels of overcrowding) for existing households, it has also suppressed new household formation and residential mobility.

Affordable housing and labour mobility

The lack of new affordable homes in places with (better-paid) jobs prevents labour mobility, with significant knock-on costs to the economy. The problem is particularly prevalent for younger people, who are often not able to afford a home in cities like Riga or other urban areas. In their report the OECD also notes that across the EU home-owners have a lower residential mobility than renters and that the missing affordable rental housing market in Latvia is hence no longer a problem confined to the housing market but impacts the entire economy. In this context of a housing crisis which is compounded by a crisis on the labour market, the OECD makes recommendations by drawing on some elements of Austria's limited-profit housing system.

The Austrian limited-profit housing system as an international best-practice model

The OECD concludes their report with several recommendations to the Latvian government. These recommendations range from renovating existing housing stock to developing an affordable rental housing sector. With regard to the latter, the OECD primarily refers to the so-called "missing middle", that is, low to middle income households that are neither eligible for (the few) social homes or for housing benefit nor able to afford to buy their own home. According to the OECD 44% of all Latvian households fall into the category of the "missing middle". This is where Austrian limited-profit housing associations come in. The prominent role of limited-profit housing associations in the Austrian housing market and their contribution to providing affordable, high-quality rented homes

for a broad range of income groups is highlighted as an example to follow on several occasions in the report.

The report specifically mentions the cost-efficiency and the revolving (circular) nature of capital formation in Austrian limited-profit housing associations. In other words, any surpluses generated as part of their economic activity, housing associations reinvest either into building new homes or renovating existing ones. The OECD also describes the success of Austria's housing associations to draw on both private and public funding sources, mainly in the form of repayable loans. The study concludes that in the long-term this type of housing finance mechanism is easier to sustain than a system dependent on grant funding.

Specifically, the OECD recommends the following:

“In Austria, housing associations are a distinctive third sector in the housing market; they are neither state-owned nor profit-driven. The Limited-Profit Housing Act sets out the key governance principles for the entire sector.”

“Not-for-profit or limited-profit housing providers can become an important additional source of affordable housing, coupled with revolving funds. Not-for-profit or limited-profit providers are usually obliged to reinvest surpluses in new housing developments and maintenance and tend to provide lower rents than private providers. Moreover, they can be a vehicle to channel funds from both public and private sources to support affordable housing, as exemplified by a typical financing of a rental housing development by housing associations in Austria.” (p. 63)

“Set up a revolving fund that could provide cheap long-term financing for new housing developments and maintenance through loans. The fund could finance new developments and maintenance through government-guaranteed loans and private loans. Financing periods can span over 50 years at a lower than-market rate. A share of the rents could be used to pay back the loans. Rents could then be adjusted as the loans are repaid. Even after the loans are repaid, rents could contribute to the fund to help finance new developments and maintenance. A small mark-up could be added to the rents to build savings and maintenance (for example, in Austria housing associations charge a 3.5% interest on equity investment and 2% mark-up for risk mitigation). Operating costs for administering the fund would be relatively limited and included in the rents.” (p. 87)

The full report is available at:

<http://www.oecd.org/economy/latvia-economic-snapshot/>

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