

Austria

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IN A NUTSHELL

- The economy grew by 4.9%, compared to 4.6% in the previous year, while inflation increased to 8.6% (2.8% in 2021).
- Current data for residential real estate sold in the first quarter of 2023 show a price increase of 1.1% y-o-y for Austria as a whole.
- The number of permits issued has fallen to 62,000.
- Subsidised housing continues to be a main pillar of multi-apartment new construction.

MACROECONOMIC OVERVIEW

Since the second half of 2022, according to the recently published forecast of the OeNB, the economy has been in stagflation due to the war in the Ukraine, a less dynamic international environment and the strong increase in inflation caused by energy prices. In the second half of 2023 the economy is expected to return to growth and inflation to slowly decline. There is currently no perceived risk of a recession in 2023.

HOUSING MARKETS

After eight quarters of rising residential property prices by more than 10% in Austria, the data collected by the OeNB, DSS GmbH and TU Vienna for the first quarter of 2023 show a year-on-year increase of 1.1%. In Vienna, prices also stagnated with a rise of 0.8%. In terms of short-term dynamics (measured by increases compared to the previous quarter), residential property prices in Austria declined at the end of 2022 for the first time in several years by 2.0%. In the first quarter of 2023, prices stagnated at the previous quarter's level (-0.4%). In Vienna, prices developed very similarly. Year-on-year for Austria as total an increase of 10.4% was registered in 2022, and for Vienna an increase of 9.7% in 2022. A stagnating phase started at the end of 2022.

MORTGAGE MARKET

Mortgage loans outstanding have been growing faster than total household loans (including consumer loans). New loan origination slowed sharply from August due to rising interest rates, property prices and inflation restricting real estate affordability.

The share of variable interest loans, which was over 80% in 2014, fell to 32% in the first quarter and – in the wake of rising interest rates – went up to 47% in Q4. The proportion of loans with an interest lock-in period of more than 10 years, which was as low as 2% in 2014, increased to 53% in Q2 then decreased to 37% at year end. The share of foreign currency loans decreased further to 5.5% of all outstanding loans in April 2023, 0.8 pps lower than one year earlier.

According to the Euro area bank lending survey, demand for home loans declined further in the first quarter of 2023, though not as strongly as in the third and fourth quarter of 2022. According to the survey, rising interest rates and the uncertain economic outlook are the main reasons for the drop in loan demand. Credit standards for housing loans remained broadly unchanged in the fourth quarter of 2022 and the first quarter of 2023, following a considerable tightening in the third quarter of 2022, which banks had attributed to the risk situation and new regulatory conditions.

HOUSING POLICY

Financing of affordable housing mainly relies on the housing subsidy schemes of Austrian Länder ("Wohnbauförderung"), which spent approx. EUR 1.9 bn in new construction, refurbishment and housing allowances in 2021. In addition, the Federal State has increased its activities for decarbonization of the housing stock substantially, with a budget of EUR 650 mn for the years 2021/22. Other tools, such as tax subsidies (deduction of renovation costs from income tax) or subsidies on financing products (contract saving), play a subsidiary role. The financing system of the "Wohnbauförderung" gains its efficiency through the close interaction with the system of Limited-Profit Housing Associations (LPHA) and tailor-made capital market financing instruments. LPHAs are responsible for around 24% of the total housing stock in Austria and operate at a cost-based basis. A strict system of audit and control contributes to very good performance indicators in this sector. Legally defined components of profit, combined with tie-up of assets and the obligation to reinvest in housing, provide for a long-term advantageous financial endowment of most LPHA. A mostly exceptional credit history makes them sought-after borrowers for capital market loans.

The existing focus on housing decarbonization both with financing tools of the Länder and the Federal State has been accelerating because of the war in Ukraine. Oil heating in new construction has been prohibited for a couple of years. The ban on gas heating is still pending, as the necessary law (Renewable Heat Act) has not yet been passed despite a long debate. Over stages 40% of apartments currently with fossil heating shall switch to renewable alternatives by 2040.

After a long boom, the construction sector, and housing construction in particular, has entered a crisis. This crisis has many reasons: enormous increases in construction prices due to Covid and the Ukraine war, inflation and its impact on household incomes, the sharp rise in financing costs, restrictions on loan-to-value rules for mortgage loans which have reduced access to home ownership, and public sector budgetary restrictions.

As in the Global Economic Crisis of 2008/09, subsidized and limited-profit housing is expected to act as a shock absorber during the current crisis.

Housing is well positioned on the political agenda. The main pillars of housing policy are supported by basically all political parties.

	AUSTRIA 2021	AUSTRIA 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	4.6	4.9	3.5
Unemployment Rate (LSF), annual average (%) (1)	6.2	4.8	6.2
HICP inflation (%) (1)	2.8	8.6	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	54.2	51.4	69.1
Gross Fixed Investment in Housing (annual change)(1)	1.7	-3.3	1.5
Building Permits (2015=100) (2)	115.1	89.8	125.8
House Price Index – country (2015=100) (2)	148.0	163.2	164.6*
House Price Index – capital (2015=100) (2)	137.5	150.9	163.8*
Nominal house price growth (%) (2)	11.8	10.3	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	135,896	142,173	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	18,392	19,142	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	57.5	54.7	71.5
Gross residential lending, annual growth (%) (2)	-2.3	-7.1	-6.5
Typical mortgage rate, annual average (%) (2)	1.2	1.9	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2023, Statistical Tables.

AUSTRIA FACT TABLE

Which entities can issue mortgage loans in your country? Mortgage lending is mainly financed via banks and Bausparkassen.

What is the market share of new mortgage issuances between these entities? Not available

Which entities hold what proportion of outstanding mortgage loans in your country? Bausparkassen hold the biggest proportion of residential mortgages in Austria. In combination with the Saving Banks Group, Bausparkassen represent the largest market share of the mortgage market.

What is the typical LTV ratio on residential mortgage loans in your country? According to the OeNB Financial Stability Report 44 (November 2022), most LTV ratios amounted to around 50% since very rarely are loans granted with LTV ratios higher than 75% and the industry standard requires certain guarantees or an insurance against defaults in the higher LTV brackets.

How is the distinction made between loans for residential and non-residential purposes in your country? Not available

What is/are the most common mortgage product(s) in your country? Both variable rate loans and foreign currency loans are common mortgage products in Austria, but variable rate loans remain the most popular choice. However, there is a falling trend in their share in total loans over many years (in 1Q2019 around 11% of mortgage loans were foreign currency loans and around 45% of new issued mortgage loans were variable rate loans).

What is the typical/average maturity for a mortgage in your country? Mortgages typically have a maturity rate of 25-30 years.

What is/are the most common ways to fund mortgage lending in your country? According to the EMF-ECBC, in 2022 outstanding mortgage backed-up covered bonds amounted to EUR 70 mn, while outstanding mortgages amounted to EUR 142 mn. Beside covered bonds, deposits are the main way of funding. Meanwhile securitisation as a way of funding is even less popular.

What is the level of costs associated with house purchase in your country (taxes and other transaction costs)? In addition to the cost of borrowing, one should add a mortgage fee, VAT, notary fees and taxes. In total, around 10% of the purchase price are to be added as costs at the house purchase.

What is the level (if any) of government subsidies for house purchases in your country? Not available