

Austria

By Dr. Karin Wagner, OeNB and Dr. Wolfgang Amann, Associate Professor, IIBW

IN A NUTSHELL

- Real GDP shrank by 0.8% (seasonally and working day adjusted).
- After 8 quarters of more than 10% y-o-y growth in house prices stabilised.
- Construction deteriorated significantly from the 2022 peak of 77,300 completions.
- Residential construction investment declined by 8.8% in real terms.
- State expenditure on housing remains around 0.5% of GDP, one of the lowest in Europe.

MACROECONOMIC OVERVIEW

With a decline in real GDP of 0.7%, the economy was one of the worst performers in the Euro area. Several factors were responsible: a significant reduction in corporate inventories, falling investment (particularly in residential construction), stagnating private consumption and a cooling export economy. At sector level, this development was reflected in declining value added in agriculture, industry, construction and most service sectors.

HICP inflation was 7.7%, slightly lower than in 2022 (8.6%). However, it fell significantly over the course of the year from 11.6% y-o-y in January to 5.7% by December. This was largely driven by energy prices but also by food and non-energy industrial goods. The decline in energy inflation is also due to fiscal measures such as the electricity price cap and the subsidy for the charge for system losses. Only service inflation remained high and was even slightly higher in December than in January. This is primarily due to prices for hotels and restaurants and package holidays. Core inflation without energy and food was 7.3% in 2023 (2022: 5.1%). After reaching 8.3% in April, the highest level since the start of the monetary union, it fell to 5.9% by December.

HOUSING MARKETS

After 8 quarters of growth in house prices of more than 10% y-o-y, at the end of 2022, there were four quarters of sharply falling prices. At the end of the year prices have stabilised. Data for residential real estate sold in Q4 prices decreased by 2.3% year-on-year for Austria as a whole, after a decrease of -2.9% in the fourth quarter. In Vienna, after falling 4.0% in Q3 prices fell 3.0% in Q4. In the rest of Austria, prices decreased by 1.9% (after 2.1% in Q3). In terms of short-term dynamics – measured by the growth compared to the previous quarter – the decline in Austria as a whole came to -1.4% (after -0.4% in 3Q2023).

MORTGAGE MARKET

Unlike elsewhere in the euro area, mortgage loans have been growing faster than total household loans (including consumer loans). There was a sharp decline in

new loans in August 2022 due to rising interest rates, new lending regulations, rising property prices (which have stabilized more recently) and persistently high inflation restricting real estate affordability. In 2023 there was a decrease in the number and volume of new loans – both for housing and in total.

Interest rate product choice is more variable than is normal in the euro area: variable rate loans, were 86% in 2014, fell to 32% in Q1 22 and then rose to 47% by 3Q 2023. The proportion of loans with a 10 year or more fixed period were as low as 2% in 2014, rose to 53% in 2Q 2022 then fell to 33% at 3Q 2023.

According to the euro area bank lending survey demand for housing loans has stopped declining, it rose slightly in Q1 24 after having fallen sharply for a year and a half. Banks expect demand to increase further in Q2 due to expected falling rates.

The share of foreign currency housing loans decreased further to 5.1% of outstanding in January 2024, 0.8 pps lower than one year earlier.

HOUSING POLICY

Policy continues to focus on regulated rental housing and its financing. The Limited-Profit Housing sector continues to flourish, with 15,600 completed apartments in 2022 (1.7 units per 1,000 inhabitants), slightly below the 10-year average. There has been a return to municipal housing, with Vienna reviving its own construction after more than 20 years. Social housing supply follows a generalist eligibility approach with high income limits. Hence Austrian housing policy still promotes integrated rental markets.

Financing of affordable housing mainly relies on the subsidy schemes of Länder (“Wohnbauförderung”), which spent approx. EUR 1.9 bn in new construction, refurbishment, and housing allowances in 2022. In addition, the Federal State has increased its activities for decarbonization of the housing stock substantially, with expenditures of EUR 460 mn in 2022. Other tools, such as tax subsidies or subsidies on financing products, play a subsidiary role.

In view of the slump in new construction, the federal government adopted a ‘housing package’ in April 2024 with a wide range of measures to stimulate construction. Among other things, it includes subsidies totalling EUR 1 bn for new rental and owner-occupied flats and renovations in the LPHA sector, interest rate support for loans for house builders, the temporary abolition of property fees, a bonus for tradesmen’s services, an expansion of the effective social policy instrument ‘Wohnschirm’ (‘housing umbrella’) and tax measures for the commercial housing industry. Most recently, the federal constitution was also amended to give the Länder more scope to introduce a vacancy tax. The programme is currently being implemented and is not expected to take full effect until the end of the year 2024.

The financing of “Wohnbauförderung” benefits from the close interaction with limited profit housing construction and tailor-made capital market instruments. Altogether, public expenditure on housing is around 0.5% of GDP, one of the lowest in the EU. Nevertheless, outputs are quite remarkable in the quantity

and quality of housing, affordability, aspects of social integration and progress in housing decarbonization.

The existing focus on housing decarbonization with financing tools of the “Länder” and the Federal State has accelerated because of the war in Ukraine. Oil heating in new construction has been prohibited since 2020, gas heating since 2024. However, the challenge of decarbonizing heating systems in existing buildings remains. A law to enforce the replacement of heating systems for residents did not materialize. High subsidies are available to compensate for this.

After a long boom, the construction sector, and housing in particular, has entered a crisis with many dimensions: sharply increased construction prices as a consequence of the Covid pandemic and the Ukraine war, general inflation, which poses great challenges for the low-income and the middle class, energy cost (which is now subsidizing), rising interest rates. The additional restrictions on the loan-to-value rules for mortgages with higher rates has shattered the dream of many young households of owning their own home. The resulting slump in the home ownership market, public sector budget restrictions (due to the costs of Covid), the slump in building permits, and finally the demand crisis in the construction industry all have unforeseeable further negative effects.

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

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

	AUSTRIA 2022	AUSTRIA 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	4.8	-0.8	0.4
Unemployment Rate (LSF), annual average (%) (1)	4.8	5.1	6.1
HICP inflation (%) (1)	8.6	7.7	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	51.4	54.3	69.2
Gross Fixed Investment in Housing (annual change) (1)	2.4	-8.7	-3.1
Building Permits (2015=100) (2)	89.8	66.7	94.0
House Price Index - country (2015=100) (2)	168.5	163.7	170.2*
House Price Index - capital (2015=100) (2)	150.9	148.1	165.1*
Nominal house price growth (%) (2)	10.3	-2.8	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	142,173	138,662	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	15,834	15,230	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	53.1	48.2	71.3
Gross residential lending, annual growth (%) (2)	-7.0	-38.0	-26.6
Typical mortgage rate, annual average (%) (2)	1.9	3.9	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:

(1) Eurostat.

(2) European Mortgage Federation - Hyostat 2024, 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 Oesterreichische Nationalbank's 2014 Financial Stability Report, the average LTV of private households is around 60% (based on survey data).

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? Mortgage funding in Austria is mainly deposit-based. According to the IMF covered bonds only made up 7.1% of the outstanding mortgages in 2008, meanwhile securitisation as a way of funding is even less popular making up only 3.1%.

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? Government housing subsidies accounted for 0.6% of the GDP in 2018. The subsidy scheme of the “Länder” predominantly supports supply side. i.e. low interest loans, grants and guarantees to housing developers, mostly Limited Profit Housing Associations. They provide rental, rent to buy and a small share of affordable owner-occupied apartments. Additionally, refurbishment is subsidized, and housing allowances are granted.