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**Housing Construction
and Renovation as a Tool
of Economic Prosperity**

Summary

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Research assistance: Monika Dusek

May 2007

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Internal review: Gunther Tichy

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Summary

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Medium-term forecasts for greater housing demand due to increased immigration: an additional 10,000 dwellings will be needed annually

Due to changes in population development and increasing immigration, there will be a medium-term rise in housing demand of 10,000 dwellings annually, only a portion of which can be covered by housing stock reserves. Approximately 43,000 residential units are presently being completed annually. In five to ten years' time, production should be increased to approximately 55,000 units annually.

Housing subsidisation as an effective tool of social and ecological housing policy

As is not the case in many other European countries, the Austrian system of subsidising housing construction is an effective instrument, not only from an economic standpoint, but also with respect to social, and above all, ecological aspects and regional planning. The federal government transfers approximately € 1.78 billion of earmarked grants annually to the provinces. Over the last ten years, the expenditures of the federal provinces on housing subsidisation have amounted to approximately € 2.3 billion annually. The subsidisation system encompasses a wide range of measures, which in the future should be implemented with greater frequency.

At approximately 1 percent of GDP, the total cost of financing housing subsidisation in Austria is relatively low. In countries which subsidise for the most part indirectly or through taxes, public expenditures on housing construction tend to be higher than in Austria, where housing subsidisation is, to a great extent, conceived as a mixed system of object subsidisation.

The stabilising effect of housing on the overall economy: increasing the implementation of housing subsidisation as an instrument of economic policy

Housing construction can have a stabilising effect on GDP. Furthermore, the Austrian system of subsidisation has a direct impact on demand. During periods of weak cyclical activity, housing subsidisation could be used as an economic policy instrument.

International developments: Subsidisation programmes help to stabilise prices and investment in housing construction

In countries like Great Britain and Spain, where housing construction activity depends primarily on market mechanisms, interest rates and housing prices exert significant influence. In contrast, the Austrian system of housing subsidisation has a stabilising effect on prices and activity in housing construction.

High employment effects: additional investments in housing construction of € 1 billion create up to 12,000 jobs

Due to its high domestic effects, housing construction is very important to growth and employment in the overall economy. According to the most recent WIFO calculations, additional investments in housing construction of € 1 billion create up to 12,000 jobs. The employment effects of private consumption are 25 percent less, while exports are only half as effective.

The research at hand also identifies other employment effects. These are lower than the average effects, because additional investment in housing construction – made, for example, with the intent of steering cyclical activity – initially increases only utilisation (through overtime). Although productivity rises quickly, the creation of new jobs does not set in until later.

On the basis of various model calculations in the EU, an average long-term view reveals that employment effects of up to +24,000 are possible (EU Focal Point on Housing 2006). The research at hand determines the additional employment effects (marginal effects), which arise when investment in residential construction is also implemented as an economic instrument.

Recommendations for housing policy: Targeted use of subsidisation programmes

New subsidisation programmes will be used as policy instruments aimed at covering demand over the medium term. More attention must be directed towards the adequate provision of

social housing. Furthermore, it will also be important to strive for new and better innovation in housing infrastructure and housing related services. Finding appropriate answers to the ageing of our society, for example with respect to adapting housing subsidisation programmes to the needs of the elderly or promoting the construction of barrier-free buildings (as has been called for by the government), will play a central role.

The provision of accommodations for health care services personnel

In the course of developing new forms of care for the elderly, one possibility could be the creation of accommodations for health care providers in the same buildings as which the elderly live – particularly in social housing structures, but also in privately owned buildings. This concept would enable the elderly to stay in their own homes for as long as possible, while still receiving the professional care they need, as often as necessary. This would considerably improve their quality of life, while from an overall economic standpoint, the costs of medical attendance and care would sink.

Ecological forms of housing construction: Accelerating the spread of low-energy and passive house technology standards – increasing the rate of renovation from 2 percent to 5 percent

Through targeted, incentive-based financing, a new standard for low-energy and passive homes should be set throughout Austria. At the same time, the rate of thermal renovation should be raised over the medium-term from 2 percent to 5 percent. The thermal renovation of one and two-family homes also holds great potential. Here we recommend further subsidisation in the form of tax benefits, complementary to the financial support provided by the provinces. This measure would stimulate private activity in renovation, while at the same time improving the quality of Austrian housing stock, and also have a positive effect on employment, growth and the environment.

Creating a legal framework for "energy contracting" for the renovation of private housing stock

Energy contracting, or the refinancing of investments in energy conservation measures to reduce running costs is not yet anchored in the Landlord-Tenant Law, although it is now part of the Non-profit Housing Law. An according change in the Landlord-Tenant Law would considerably increase the willingness of the private sector to invest in housing construction and renovation.

Increased utilisation of energy contracting and reconstructing in non-profit housing

In the future, the non-profit housing sector should make more widespread use of energy contracting and reconstructing (reaching an agreement with the tenants to tear down old structures and re-build, rather than embarking on an uneconomical renovation).

Privately-owned housing: creating a legal foundation for a minimum reserve of funds earmarked for thermal renovation

There is also great potential for the ecological renovation of privately-owned housing stock (condominiums). Presently, there is no legal framework that would stimulate such investment. A pre-requisite for renovation is the agreement of all owners within a respective building. Legislation demanding a minimum reserve of funding earmarked for investment in energy conservation could prove helpful and create significant incentive (eventually in the form of tax credits) for private investment in ecological forms of renovation.

An export offensive for know-how

Another emphasis of housing policy should be the support of an export offensive for know-how. The growth potential for housing construction is twice as high in the CEECs as in Austria. Presently, only approximately 3 residential units per 1,000 inhabitants are being completed annually; during the next ten years this rate will have to double. As incomes improve, there will also be more willingness to invest in housing renovation and refurbishment, as well as in innovative, energy efficient forms of housing. These developments should be supported, in order to improve the chances of the domestic housing construction sector by means of a targeted export offensive. The current government programme refers explicitly in the chapter "Austria – Partner in Europe and around the World" to the development of a policy directed specifically towards co-operation between Austria and its neighbours in Eastern Europe, which could also include the transfer of knowledge in the realm of housing policy.

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