

The Price Dampening Effect of Non-profit Housing

Michael Klien, Peter Huber, Peter Reschenhofer (WIFO), Gerlinde Gutheil-Knopp-Kirchwald, Gerald Kössl (GBV)

Austrian Institute of Economic Research (WIFO)
Austrian Federation of Non-Profit Housing Associations (GBV)

Reviewer: Werner Hölzl

Research assistance: Michael Weingärtler

WIFO Research Briefs 5/2023

May 2023

Contents

This Research Brief provides an overview of the main findings of the study "The price-dampening effect of non-profit housing". The study examined the impact of non-profit housing in Austria on the for-profit housing segment in a historical and regional perspective. The focus was on rental housing. By analysing micro census and register data from the last 50 years, the study concludes that non-profit housing associations have a significant impact on the overall Austrian housing market, both in terms of quality and rent levels. It has been shown that a 10% increase in the share of non-profit housing associations leads to an average decrease in non-regulated rents of 30 to 40 cents per m². On average, this corresponds to about 5% cheaper rents in the non-regulated rental sector due to the price-dampening effect of GBVs.

The Price Dampening Effect of Non-profit Housing

Michael Klien, Peter Huber, Peter Reschenhofer (WIFO), Gerlinde Gutheil-Knopp-Kirchwald, Gerald Kössl (GBV)

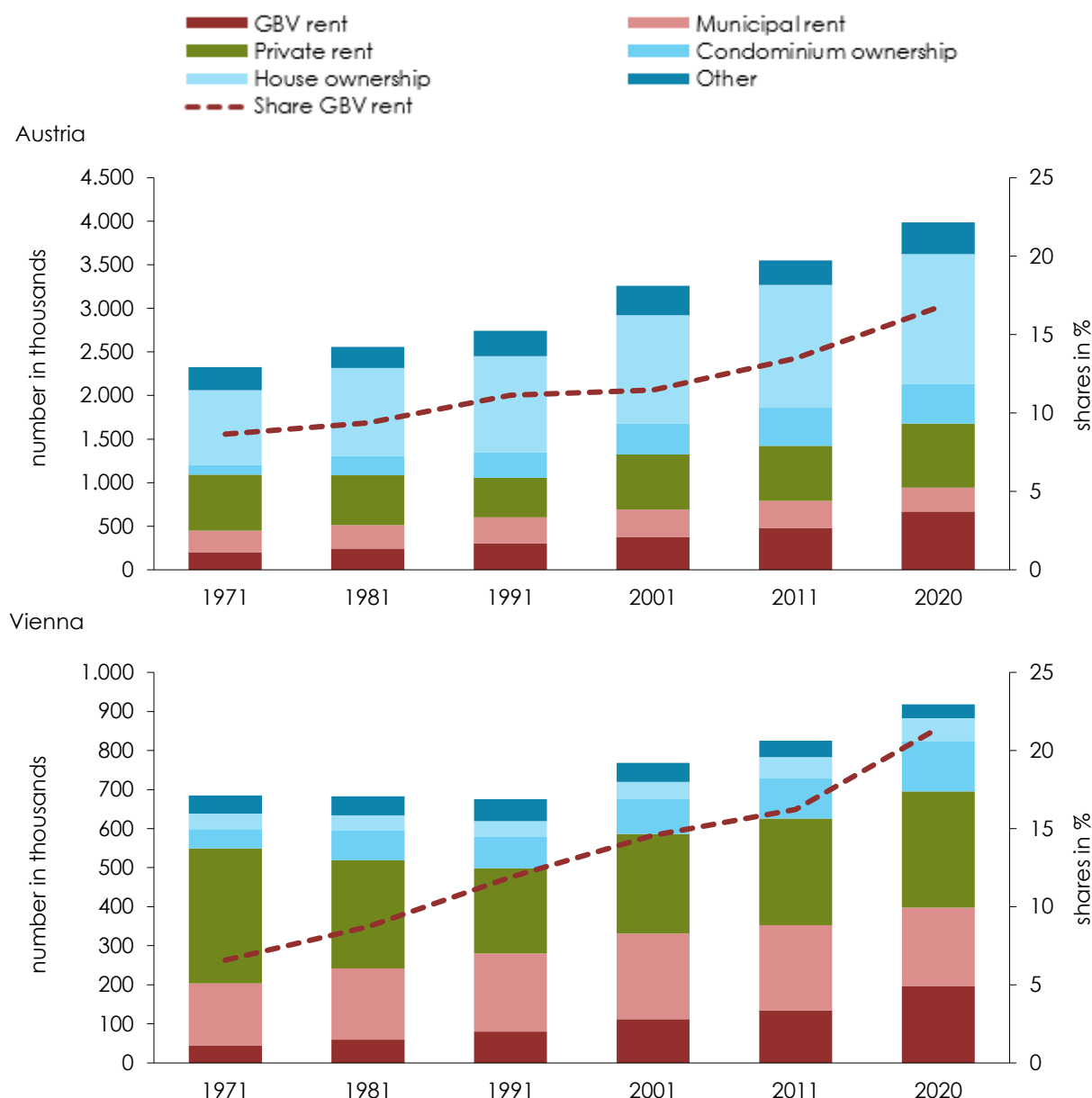
Cost-based rents, as opposed to market rents, are the key differentiator between non-profit (GBV) and the for-profit housing segment. Non-profit housing in Austria has a long history dating back to the 19th century and constitutes a Third Sector between for-profit and the public (municipal) housing. In addition to its own "mission", the activities of non-profit housing associations (Gemeinnützige Bauvereinigungen or GBVs) in Austria are regulated in detail in the Non-profit Housing Act (Wohnungsgemeinnützigkeitgesetz, WGG). The activities of GBV in Austria are therefore not exclusively determined by the typical goals of a non-profit enterprise (e.g. orientation towards the common good or social influence) - as is usual in other areas of typical non-profit activities - but the legal regulations codify the intended behaviour and limit deviations from these.

The self-image and business model of the non-profit housing associations are not oriented towards profit maximisation but provide cost-based housing for broad sections of the population. This is concretised by the following principles laid down in the WGG: Cost recovery, profit limitation, a reinvestment of surpluses (revolving fund), limited scope of business, personnel restrictions, and audit obligation. This business model has historically developed from the three roots of the non-profit housing industry: the cooperative movement, factory housing and out-sourced public housing.

The housing market is economically characterised by a number of market imperfections (e.g. entry and supply restrictions), which is why rents from for-profit providers can be significantly higher than cost rents. Oligopoly models show that non-profit firms in such competitive situations lead to a reduction in market power. Higher shares of GBV are associated with lower equilibrium prices and higher supply quantities. According to this logic, the effect of GBV would be twofold: First, a direct effect through the cost-based rents for households in GBV housing. Second, an indirect effect through the competitive interaction between for-profit and non-profit enterprises.

Non-profit rental housing was one of the fastest growing provider segments over the period 1971-2020. GBV rental housing accounted for 9% of the total housing stock in Austria in 1971. This share increased to 17% by 2020. Although the municipal housing stock increased in absolute terms, it lost market share in relative terms. The share of non-profit rental housing (GBV and municipal housing) increased from 20% to 24% in the period under review. In Vienna, GBVs increased their market share from 7% to 21%. The non-profit rental sector accounted for a total of 43% of all main residential dwellings in Vienna in 2020.

Figure 1: Housing stock by legal form and shares of GBV rentals, Austria and Vienna 1971-2020

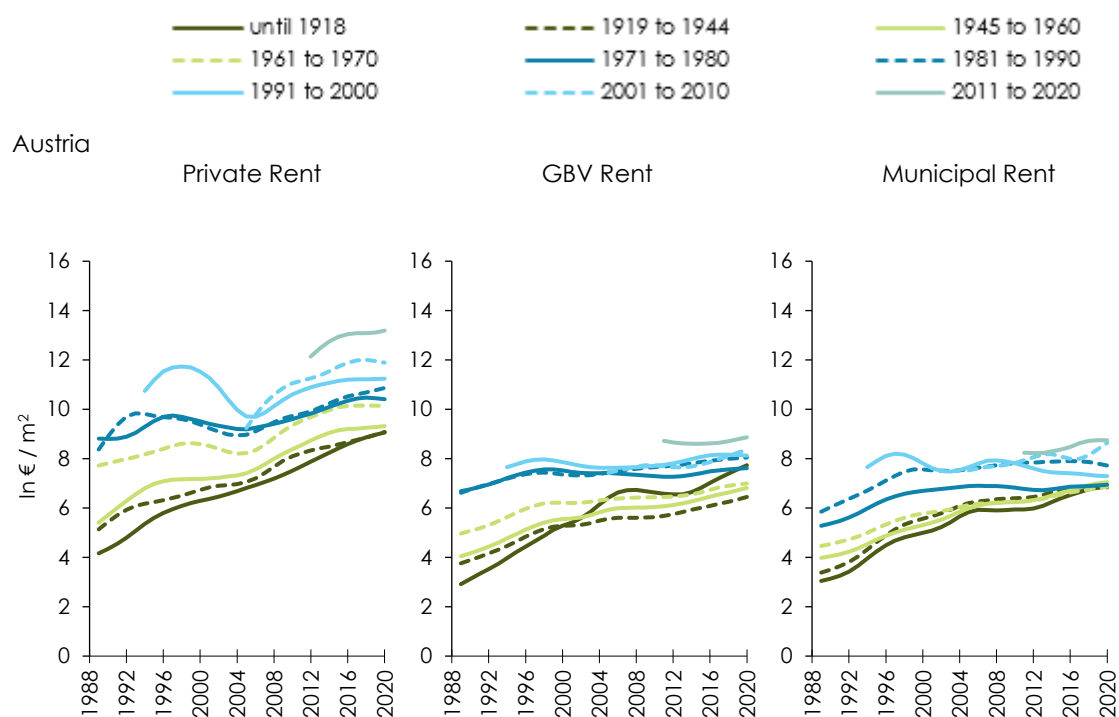


Source: Statistics Austria (2021a, 2021b, 2021c).

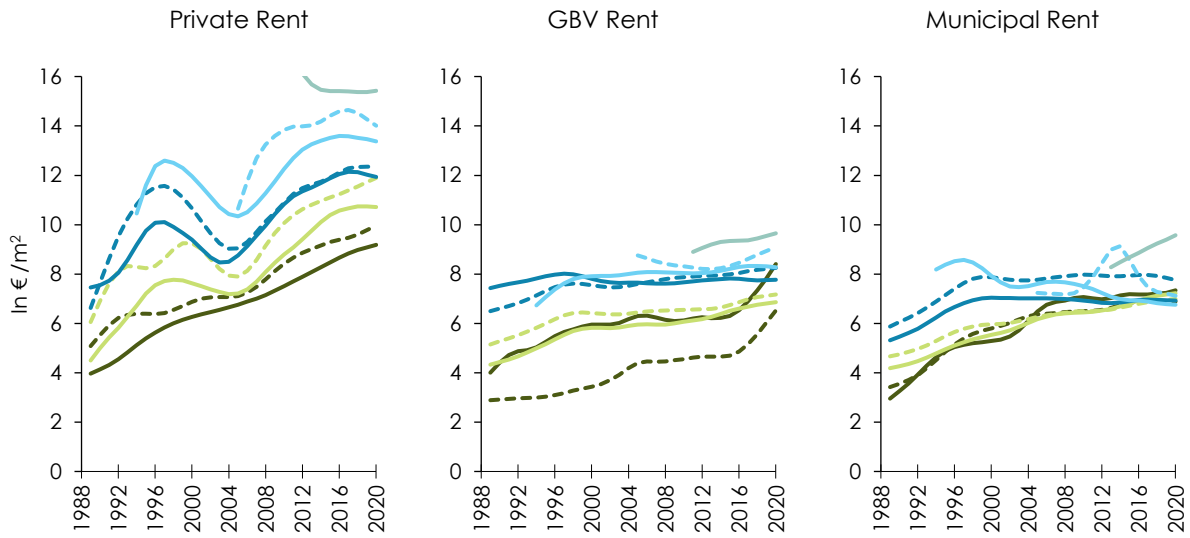
Over the period 1971-2020, the Austrian housing market has undergone considerable changes in terms of the quality of housing. The housing market in the 1970s was characterised by very different qualities of housing supply. Only 70% of all Austrian households and a somewhat smaller proportion of all Viennese households had a toilet in the home. The lowest quality was found in the private rented housing stock. GBV set new standards here and created a higher-quality housing offer for broad sections of the population, both for rent and in ownership.

While the rents of GBV flats show a rather flat development over time, the rents in the for-profit segment are characterised by striking cycles. In addition to the significantly higher level of for-profit rents compared to GBV rents, the former also exhibit significantly higher volatility. Both new construction and existing rents of for-profit providers rise significantly faster in demand-induced housing booms. The picture is completed by (real) declining rents in this segment during downturns. In contrast, GBV rents develop largely independently of the market situation as a result of the cost recovery principle - usually growing in line with the inflation rate, or showing jumps based on the subsidy system.

Figure 2: Rents per m² by year of construction, Austria and Vienna 1988 to 2020, deflated and smoothed with HP filter



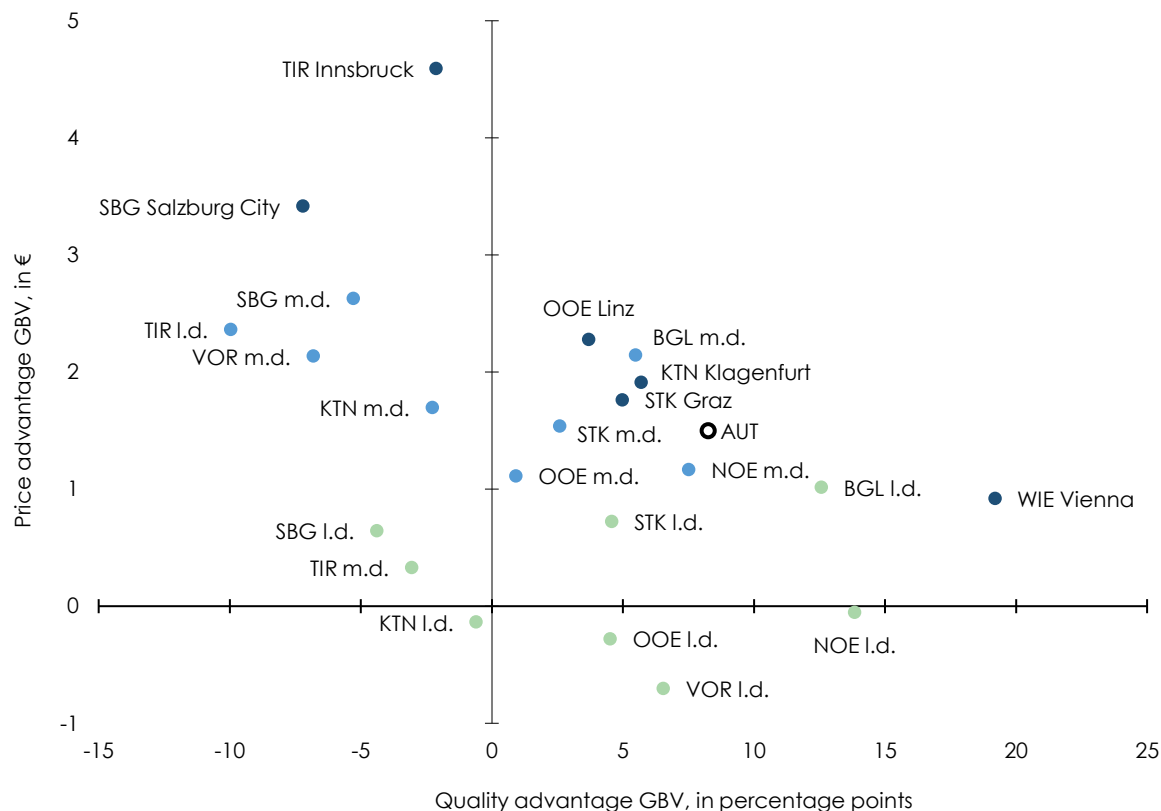
Vienna



Source: Statistics Austria (2021c). - The time series were deflated using the CPI (price base 2020) and also smoothed using HP filters. - Due to the low construction output and the correspondingly small sample with high sampling error, municipal housing construction of the last two construction periods is not shown.

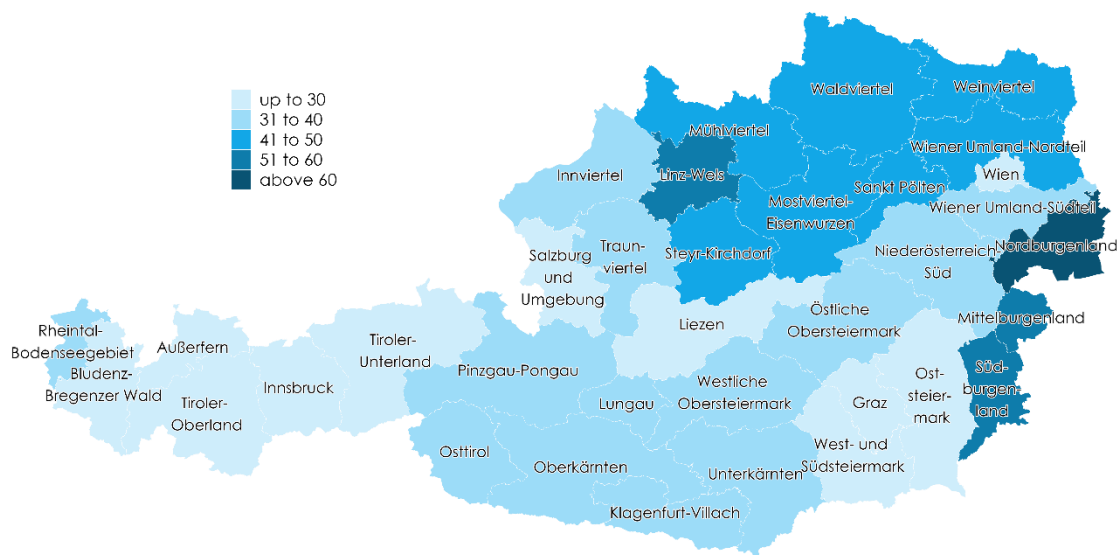
The spatial analysis provides evidence that GBV and private for-profit rent occupy different roles in different regions and housing markets and interact with each other in different ways: In regions with a high GBV rental market share, in sparsely populated areas and in the east of Austria, GBVs tends to score particularly strongly due to their quality advantage thanks to a relatively new rental housing stock. The private rental housing stock is usually only slightly more expensive but tends to be older and of lower quality.

Figure 3: Price difference and quality difference between GBV rent and private rent by province and degree of urbanisation (2011/2012)



Source: Statistics Austria (2021c, 2021d). - I.d. low density, m.d. medium density. Reading examples: (1) In Vienna, the share of well-equipped GBV rental flats (category A) is 19 percentage points higher than that in the private rental sector. At the same time, GBV rents are on average 92 cents per m² lower than private rents. (2) In the Tyrol, in areas of medium population density, the share of well-equipped GBV rental housing (category A) is 10 percentage points lower than that of private rental housing. However, GBV rents are on average €2.40/m² lower than private rents. (3) On average in Austria, the GBV sector has an 8 percentage points higher share of well-equipped flats (category A) than the private rental sector. At the same time, GBV rents are on average €1.50/m² lower than private rents.

Figure 4: **Share of GBV dwellings in the rental housing market, NUTS-3 regions 2011**
Shares in %



Source: Statistics Austria (2021d).

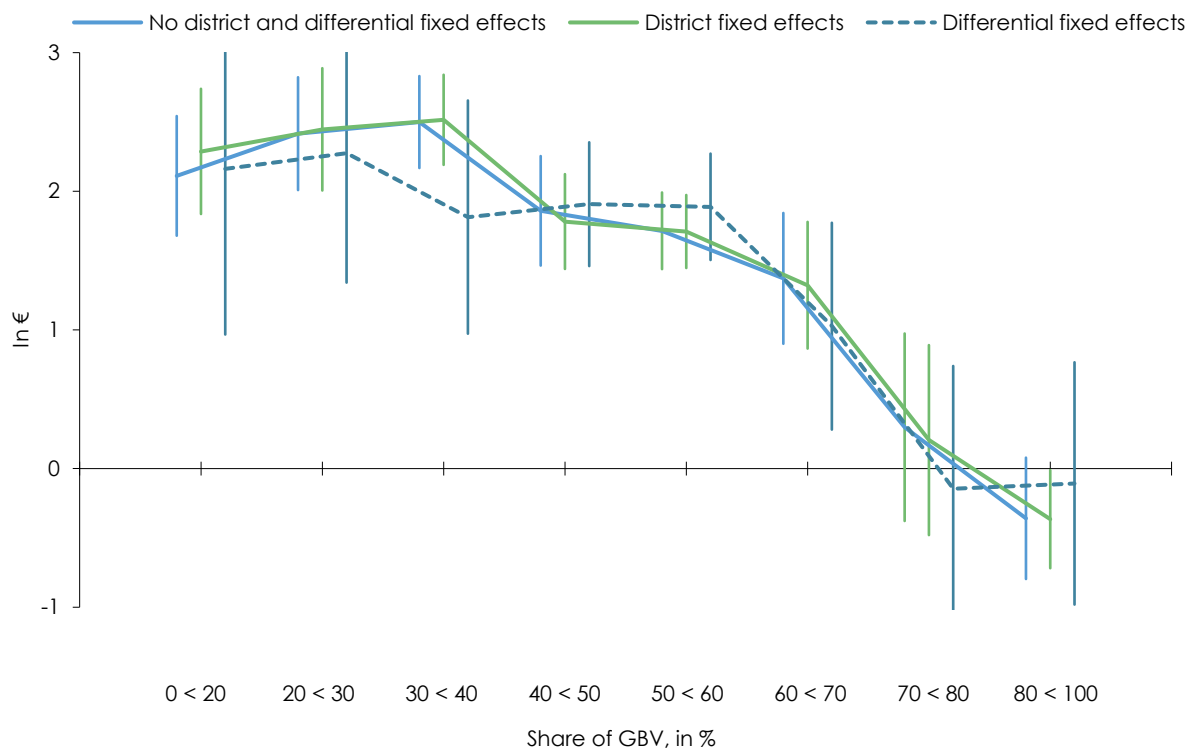
The more urban, the lower the GBV market share and the more westerly a region is located, the more the price advantage of GBVs comes to the fore: GBVs there represent an affordable alternative to the considerably more expensive, albeit rather newer, private rental housing stock. These are predominantly tight markets with high demand and a declining trend in GBV market share. Private rent is significantly higher than in the (small) GBV stock, which is why direct competition between the sectors and the price-dampening effect of GBV is likely to be limited there.

The federal capital Vienna occupies a special position both in terms of settlement and economic structure and according to housing criteria: The rental market is dominating, and this is characterised by the high importance of municipal rent and rent in the older (regulated) private market, despite the recent very strong dynamics of profit-oriented new construction. For several decades, GBVs main task here was to increase the quality of housing and amenities in the rental sector at affordable conditions - they stood out from private rent primarily through better quality. Only in the most recent decade or two has the price advantage become the even more significant differentiating factor.

The econometric estimates confirm the theoretical results that a higher GBV share has a price dampening effect on the private segment. Higher GBV shares thus lead to a decrease in the difference between GBV and unregulated market rents. Depending on the model, an increase in the GBV share of 10% in the rental market leads to a decrease in the differential of 30 to 40 cents per m². The price-dampening effect is evident both in the cross-section (regions with a higher GBV share have lower differentials) and in the longitudinal section (regions with increases in the GBV share record a decrease in the differentials).

An increase in the GBV share shows a stronger effect in regions where GBV already have a substantial presence. The regression results suggest that an increase in the GBV share has a stronger effect when GBVs have high shares or higher shares than the private unregulated segment. Conversely, the price-dampening effects of GBVs are rather weak when the ratio of GBV to private providers is very small. In addition to the evaluations at district level, the analysis of the NUTS3 regions also shows similar effects.

Figure 5: **Rent differentials between GBV and private, unregulated housing - non-linear**



Source: Own calculations.

Several alternative estimation methods confirm the results that regional rent differentials depend on the share of GBV in the unregulated rental housing market. To reduce the risk of spurious correlations, instrumental variable estimations are also carried out. This is to neutralise selection effects, such as higher rents in a region attracting more private providers and thus distorting the GBV share. Although statistical uncertainty increases, instrumental variable estimates are also consistent with the expectation of a price-dampening effect of GBV.

The study demonstrates that the effect of GBV goes beyond the residents of the segment, and households in private rented housing also have lower rental expenses due to a stronger presence of GBV. The effect goes beyond the mere supply (e.g., of private rented housing) and suggests that the structure of the housing supply is also relevant for the rent level. In particular, the fact that the price-dampening effect of additional GBV housing is rather small when the market is dominated by for-profit rental housing providers is an important finding that also raises further questions for housing policy.

References

Statistics Austria (2021a). Housing statistics 1980-2002. STATcube - Statistical database Statistics Austria.

Statistics Austria (2021b). Building statistics 2005-2021 (as of October 2021). STATcube - Statistical database of Statistics Austria.

Statistics Austria (2021c). Microcensuses of the years 1974 to 2020. Vienna.

Statistics Austria (2021d). Census of Buildings and Dwellings 2011 (based on the register census of the Building and Dwelling Register -GWR). STATcube - Statistical database of Statistics Austria.