Rent Control in Austria
best practice and bad practice

TU Berlin
Industry Seminar Berlin
Rent Regulation in Housing Market
- International Perspectives and the Case of Germany

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History of the system

2017: 100 years of rent control in Austria,
1917 : First establishment of rent control in Austria during World War I,
Purpose: Protection of widows and orphans of killed soldiers from exorbitant rents.
• since 1880 Vienna, capital of the old Austrian-Hungarian monarchy, had an enormous migration wave from the countries of the state: Hungary, Czech, Slovakia, Serbia, Galizia, Bukowina etc.

• The available residential buildings were few and an enormous building activity started.
Essentials Elements of the Rental Contracts before 1914

No rent control,

Easy to terminate the lease contract with the tenant, no restriction of the increase,

Usury has been common practice.
First Regulations

• 1917 and 1918 first regulations to curb rentals and rental increases and restrict eviction.
• 1929 and 1931 these regulations were eased for the lessor:
• Distinction between residential and commercial properties.
Friedenskronenzins: historical rent from 1914 in the peace currency „Krone = crown“

• After World war II, in 1951, again the regulations became stricter for the lessor,

• The permissible maximum has been set on 1 Schilling (0,072 cent) per m² per month, respecting one „Friedenskrone“ dating back to 1914.

• This „Friedenskronenzins“, valid for apartments and shops has been practically in force until 1968.
Friedenskronenzins forever?

• One can find today tenants of apartments and old shops, still paying such a unbelievable and uneconomic low rent.
Rents have to be very low

• In the minds of most tenants the attitude that rents must be very low is still prevailing today.
• It has massive support from the left political party in Austria.
Vienna strangely effects rental Austria

• All of Austria is effected by the rental situation in Vienna.
• Vienna is home to 25% or 2 million of the almost 8 million inhabitants of our country.
Vienna, a city of Tenants

• The city of vienna, the municipality, is huge owner of rental apartments.

• Building activity for the municipality was extremely high in the years 1920 to 1938—"das rote Wien"

• and after World War II, in 1949 to 1969.

• The community of Vienna holds about 220.000 apartments, when adding the

• 182.000 cooperative apartment the public housing sector accounts 58% of the stock.
Owner occupied apartments or subleased flats were not included in this calculation.
How do the Viennese live

Wien
890,000 Apartments used in primary residence

Owner-occupied apartments
160,000
18%

Others
36,000
4%

Apartments rented to head tenants
693,000
78%

Social housing: 401,000
Community-owned flats: 219,000
Cooperative flats: 182,000

292,000
Privately owned rental apartments
42%

226,000
Subject to the full scope of the Tenancy Act
77%

64,000 Old lease agreements (before 1994)
28%

141,000 Lease subject to fixed rental caps
62%

66,000
Partially subject to the Tenancy Act/Exempted from the Tenancy Act
23%

21,000 Others
9%

Source: Statistik Austria, Mikrozensus 2015, Sonderauswertung ÖVI
• Therefore the ceilings of rents are always a hot political topic:
The large number of social democratic voters in Vienna - accounting for almost 40% of the voters in Vienna in 2015 – expect from their political representatives: „rent must not be seen as an commercial good“.
• This political motto is still valid today – more than ever.
Austria without Vienna

2,9 Mio Apartments used in primary residence

- Owner-occupied apartments: 1.7 Mio (59%)
- Others: 324,000 (11%)

Social housing: 514,000
- Community-owned flats: 219,000
- Cooperative flats: 182,000

Apartments rented to head tenants: 876,000 (30%)

Privately owned rental apartments: 362,000 (41%)
- Subject to the full scope of the Tenancy Act: 116,000 (32%)
- Lease subject to fixed rental caps: 95,000 (82%)
- Partially subject to the Tenancy Act/Exempted from the Tenancy Act: 245,000 (68%)

Old lease agreements (vor 1994): 16,000 (14%)

Lease subject to fixed rental caps: 95,000 (82%)

Others: 5,000 (4%)

Source: Statistik Austria, Mikrozensus 2015, Sonderauswertung ÖVI
Benchmark Rent

- 1994 a system with fixed rental caps was introduced:
- Thus the rent - so called „Richtwertmiete“, benchmark rent is based on:
  - the date of the construction of the building before 8.5.1945,
  - the value of the land,
  - the location of the building,
  - Plus surcharges - eg for an elevator or a second bath or the location of the apartment in the building,
  - The size of the apartment: between 30 m² and 130 m²,
  - The fixture of the apartment.
- This rent is a subject to indexation.
Tenancy in the East of Austria

• In the east of Austria, primarily in Vienna rental apartments prevail.

• Vienna has an a high share of buildings built before 1945.

• Thus we have some rather absurd facts in the rental situation:

• If the building was constructed or the building permission was granted before May 8 1945, the benchmark rent applies.
Benchmark rent

• The benchmark rent differs from province to province in Austria:
  • Vienna  € 5,58.-/m² /month
  • Salzburg  € 7,71.-/m²/month
  • Vorarlberg  € 8,57/m²/month (most western province of Austria)
• This rates are without running costs, heating and VAT.
• The basis of the benchmark rent in Vienna is very low – a political statement of the city.
Development in the last 20 years

• In the last 20 years many buildings in Vienna, Salzburg, Graz or Linz were renovated at high financial costs.

• Attics were converted to roof-top apartments to achieve higher density of the city.

• New buildings and new converted attics are not subject to rent control.

• Thus it is possible that there are three or four different lease schemes prevailing within the same building.

• To a foreign investor this is totally incomprehensible and actually a hands-off situation.
Termination of Contracts

• Termination of an lease contract is possible:
  • the lessor can limit the contract to three years, and afterwards again to three years and longer, but never for a shorter time.
  • The tenant is able to terminate the contract after 1 year
Right to Succession

• The Austrian Tenancy Act establishes a so called „right to succession“;
• A tenant who benefits from a extremely low rent has the right to pass on the apartment to close relatives – children, grandchildren, life-mates
• The new succeded tenant can rent the apartment for only slightly more than the old tenant.
• Thus prevents a market based rent - even the benchmark rent for another long time.
Fair Rent is not fair

- An apartment with more than 130 m² can be rented by a „fair rent“ and not by the benchmark rent. (section 16 of the Tenancy Act).
- Fair rent: that doesn’t mean free rent.
- Fair rent: The reasonability can be examined by the authorities and they can impose a new, probably lower rent.
New buildings

• Unrestricted rents only for commercial properties and residential buildings built after 1968.
• Limitation only by the legal provision covering usury.
Real Estate Market for historical buildings in Austria

• The market for these historical buildings, even with a low rate of return, is nevertheless a booming market.

• Austrian Investors have learned to focus on the long term gain in asset value.

• The rate of return is starting by 1 or 1,5% in the best locations and ends by 4 % in less good locations.
• Still it is possible to rent out for fix terms – 3 years minimum –
• This nourishes the hope that a better profit is possible in the long run.
Handling with the Rent Control

• Insecurity is always a no go for investors but yet we have learned to handle it.
• In all of Austria there are at best 30 or 40 experts who know the ins and the outs of the game.
• And yet we face a further tightening of rental restrictions and possible elimination of lease agreement with fixed duration.
• The upcoming parliamentary elections always bring uncertainty to people with commercial orientation.

• In Austria we will probably have the elections in 2018 – perhaps earlier.

• Then I will be able to tell you more of the direction this country is taking in real estate, especially in the Rent Control.
Thank you for your attention

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