

# 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

Margret Funk

# 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 m<sup>2</sup> 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

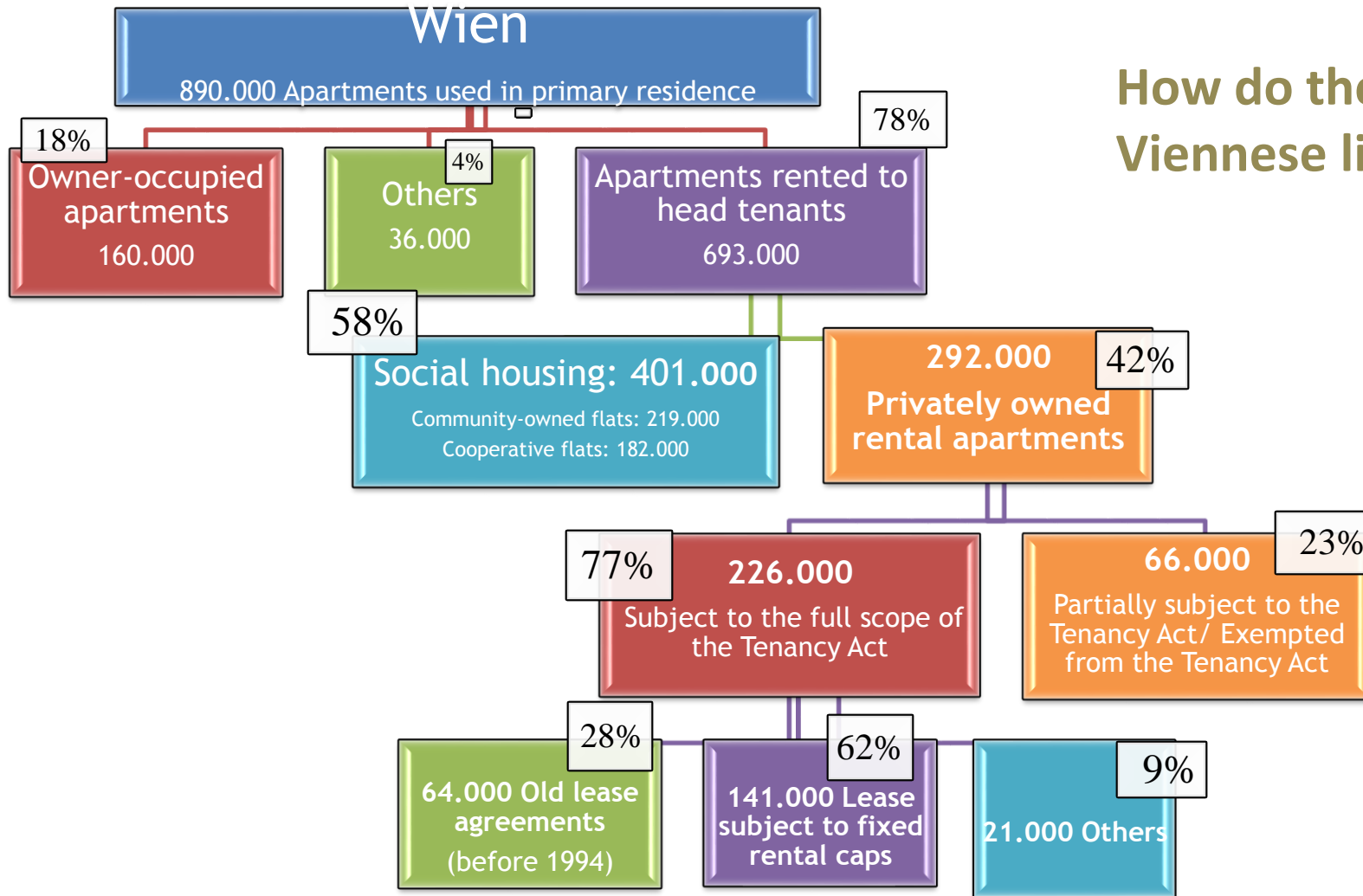
- All of Austria is effected by the rental situation in Vienna.
- Vienna is home to 25% or 2 million of the almost 8 million inhabitants of our country.

# 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

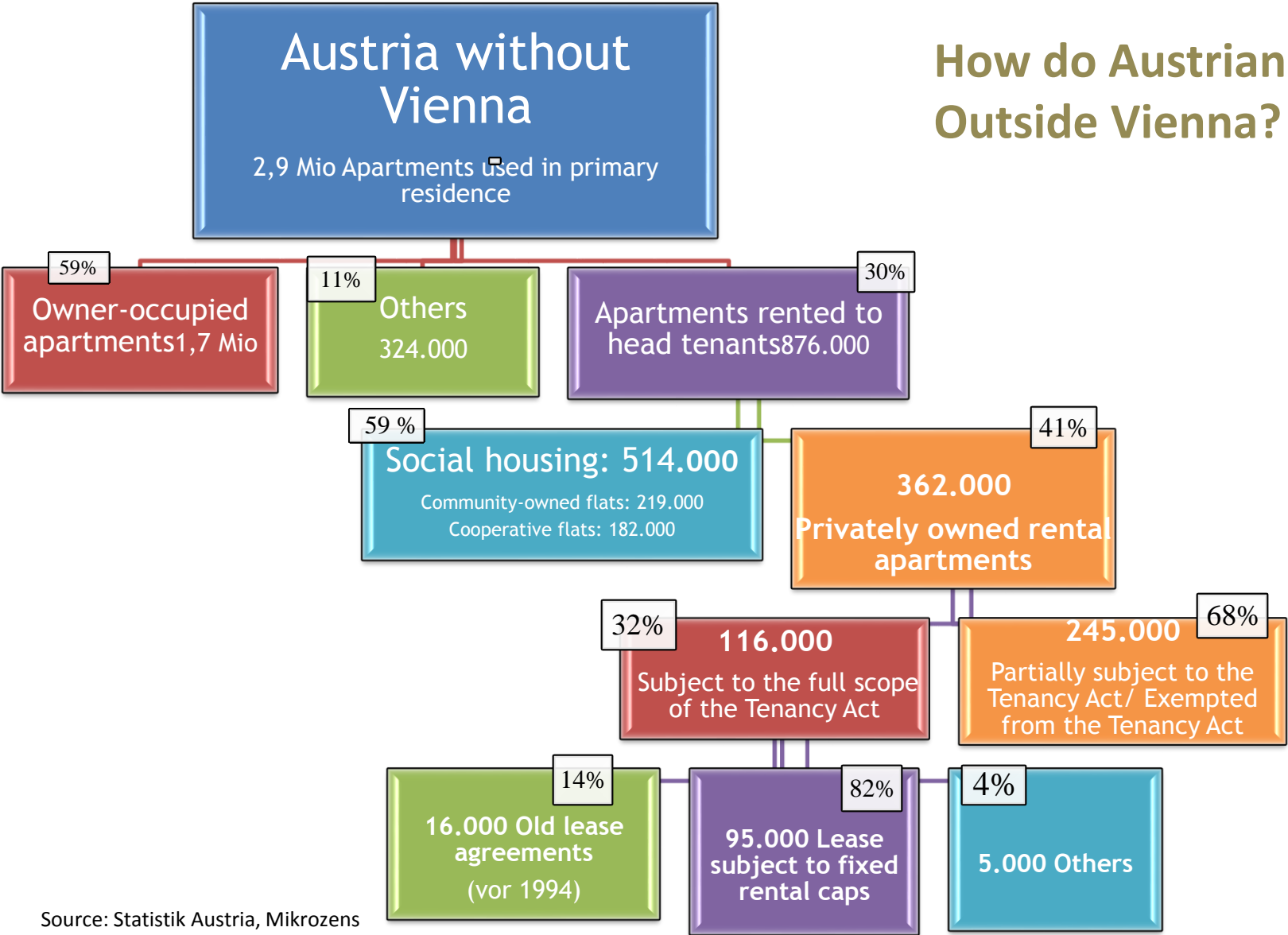


Source: Statistik Austria, Mikrozensus 2015, Sonderauswertung ÖVI

# Political Topic Nr 1

- Therefore the ceilings of rents are always a hot political topic :  
The large number of social democratic voters in Vienna - accounting for almots 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.

# How do Austrians Live Outside Vienna?



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 m<sup>2</sup> and 130 m<sup>2</sup>,
- 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.-/m<sup>2</sup> /month
- Salzburg € 7,71.-/m<sup>2</sup>/month
- Vorarlberg € 8,57/m<sup>2</sup>/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 in to roof-top apartments to achieve higher density of the city.
- New buildings and new converted attics are not subjects 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 succeeded 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 m<sup>2</sup> 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

- Margret Funk
- Professor at the University of Applied Science Wiener Neustadt ,Real Estate Management
- Dr.juris,RICS,REV,
- Court certified valuer in real estate
- CEO and Owner of Dr. Funk Immobilien GmbH Vienna
- Board member of ÖVI, Österreichischer Verband der Immobilienwirtschaft
- Board member of CEPI
- 1010 Wien; Neutorgasse 12;margret.funk@funk.at

