



# The advantages and limitations of the individual rent subsidy introduced in Luxembourg

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HUGO SWINNEN – EUROPEAN SOCIAL POLICY NETWORK

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*An individual rent subsidy Act came into force in Luxembourg on the 1st January 2016. It is a response to the high rent prices and the limited social housing stock in the country. The measure is an important step forward, but as underlined by NGOs and grassroots organisations, some inconsistencies and questionable criteria will most likely create problems for vulnerable people.*

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## Description

Luxembourg has a fast-growing population with a high number of immigrants, among which both highly educated and well paid expats and low paid workers from Southern Europe and third countries. The housing market is characterised by a majority of house owners, a low number of social housing units, and high rent prices. For a number of years now, the government has been encouraging local authorities and private partners to increase the (social) housing stock, but with limited results. NGOs, civil society and grassroots organisations are concerned about the housing cost burden and housing exclusion of low income groups. Local public Social Offices, providing both social and financial support, have to spend about 30% of their annual financial support budget on housing related costs.

In this context, the introduction of a rent subsidy is a long requested step forward in housing inclusion. It goes together with intensified cooperation between national and local authorities to increase the (social) housing stock. The rent subsidy is allocated to low income households, renting on the private market, if their monthly rent exceeds 33% of their net disposable income. The subsidy is subject to a maximum amount of 300€, depending on the composition of the household, i.e. one or two adults and the number

of children. The rent subsidy is means-tested and only available for households with an income of around the minimum wage, increased with an extra amount for a second adult and for dependent children. The existing housing allowance for minimum income beneficiaries and severely handicapped persons continues to be applied for the existing cases, while for new beneficiaries, the new rent subsidy applies.

## Outlook & Commentary

A generalised means-tested rent subsidy is an important instrument to combat the housing cost overburden and thus housing exclusion in Luxembourg. It has to go hand in hand with efforts to increase the (social) housing stock and with effective control of rent prices on the private housing market. To this end, the respective public services should be given sufficient means in terms of both finances and staff. This should also be the case for the Housing Fund, a national public institution with a mission to increase the housing stock by acquiring building land and building housing units both for sale and for (social) rent.

The Luxembourg government has intensified its policy efforts in this field, inter alia by organising conferences with local authorities in order to improve the implementation of the so-called housing pact. These conferences can also be helpful for finding answers to the

pressure of the growing numbers of asylum seekers and refugees for whom it is almost impossible to leave the initial shelters because of shortage of affordable housing. In 2014, the national service for reception and integration (Office luxembourgeois de l'Accueil et de l'Intégration) provided shelter for some 1800 asylum seekers, recognized refugees and other migrants each month.

At the same time, the new rent subsidy Act and its regulations include a number of questionable elements. Some criteria seem to be defined in order to limit the number of beneficiaries, without evidence-based arguments. This is the case for the rule that the rent subsidy is given if the rent exceeds 33% of the household income, whereas experts (and also the government in previous declarations) flag 30% as a correct threshold. The EU uses a 40% threshold to define "housing cost overburden", but this includes all housing costs, and not only rent. NGOs in Luxembourg insist to use the same approach for defining the eligibility for rent subsidy (Caritas, 2015). Also, the income threshold is not based on poverty indicators, but on the minimum wage. In order to limit financial disincentives for taking up a job, it would be preferable to have a threshold higher than the minimum wage. It should be noted also that the net disposable income at minimum wage level for different types of households is only slightly higher than the at-risk-of-poverty threshold (Swinnen, 2015).

Furthermore, the actual rent paid is not used as a reference, but instead a theoretical reference (the average rent). The

Luxembourg Statistical Office calculated that for households at risk of poverty (i.e. income less than 60% median income) the rent reaches on average 31.6% of the net disposable income, which is lower than the threshold of 33%. Also in this respect, including all housing costs for defining eligibility would be helpful to reach all households at risk of poverty with this new instrument. But if the actual paid rent were the reference, the government would also gain more insight into rent levels and could use this information to better organise its control of the private housing market.

Finally, a few regulations linked to previously existing category-based housing subsidies (notably for minimum income beneficiaries and for severely disabled persons) create inequalities and in some cases lower subsidies than before. It would be preferable to use one rent subsidy including the existing cases, with if necessary a supplement for those cases where the new system was less generous than their former rights.

In practice, it is not clear yet if the most vulnerable populations, such as the homeless, will benefit from the rent subsidy. In theory, if they find shelter through a social welfare organisation, they are not formally considered as renting on the private market and thus not eligible. Nevertheless, NGOs in this field supported formal requests for subsidy by their users and are currently waiting for official response.

## Further reading

For the legislation and practicalities, see:

<http://www.ml.public.lu/fr/aides-logement/aides-individuelles-logement/location/Subvention-loyer/index.html>.

Caritas Luxembourg, Pour un meilleur accès aux logements locatifs: Avis concernant la subvention de loyer. Luxembourg: Caritas, 2015.

Swinnen, H., ESPN thematic report on minimum income schemes – Luxembourg. Brussels: European Commission, 2015.  
<http://tinyurl.com/jqjmw5z>

## Authors

[Hugo Swinnen](#), Independent social policy researcher