



The public pension fund invests in affordable rented housing in Luxembourg

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Shortages of affordable rented housing for modest income households are among the major social policy problems in Luxembourg. As a way of increasing investment in such housing, the Luxembourg public pension fund agreed recently to invest in the construction of a building to be rented out as a whole to a social housing organisation working for this specific housing market segment.

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Description

In Luxembourg, the Minister of Housing and the Minister of Social Security recently presented a pilot project of investment by the public pension fund (Fonds de Compensation) in the rented housing stock. The public housing fund (Fonds du logement) will construct a building of 23 apartments. The building will then be bought by the pension fund as an investment and rented out as a whole to a social housing organisation. The rent prices for the apartments will be higher than for social housing, but some 30 to 40 percent lower than the private market rent prices. The investor's annual return is estimated at around 2.5 percent.

This pilot is based on several pillars. The first pillar is the confirmation by the Luxembourg Housing Observatory that there is a growing category of households who are not able to buy a house or to rent on the private housing market because of the high prices, but who have too high an income to be eligible for social housing. The second pillar is the need for extra financial means at the housing fund to respond to the growing housing demand. Finally, the third pillar is the willingness of the pension fund to invest locally in a socially responsible way.

The ambition of the Luxembourg government is to use this pilot as a showcase in order to motivate current

and new partners for developing the system on a much larger scale.

Outlook & commentary

Shortages in the (social) housing stock and, more specifically, shortages of affordable rented housing for modest income households have been among the major social policy problems in Luxembourg for many years.

Back in 2008, the Luxembourg government set up a framework – the “Housing Pact” (Pacte Logement) – for a covenant with local authorities concerning the construction of new housing both for the owners market and for social housing. Since then, several (tax) measures have been developed to support individuals in the acquisition of a dwelling, and to promote bringing unused housing units and building space on the market.

Most of these measures have had a limited impact on the availability of affordable housing for low and modest income groups (Feltgen and Licheron, 2016). The Housing Pact aimed to construct 48,000 dwellings in 10 years. In March 2017, the president of the parliamentary housing commission stated that in the last few years the number of constructions has increased and is now around 3,500 per year, while demand is about twice as high

(L'essentiel, 2017). In spring 2017, the government organised several regional meetings with municipalities to stimulate local activity in this domain.

The initiative described in this Flash Report can be seen as a sign of a paradigm shift from promoting and supporting individual housing ownership towards supporting affordable rented housing for a larger target population than just the lowest income groups. It is also a shift from searching to solve the housing challenge through big interventions, towards implementing various small(er) policy initiatives in different domains.

According to the Housing Observatory, there is great potential in this investment system. The demand for such modest rent prices could be estimated at about one third of the total of 70,000 tenants.

But the success or failure of the government's ambition with the

pilot will depend on the availability of building space and the willingness of other investors to join in. In Luxembourg, some 92 percent of building space is in private hands, mostly small individual owners. The government therefore allows municipalities to use taxation on unused building space and tax reductions on selling for rented housing as leverages to increase the amount of building space. It is not clear yet if these measures will be sufficient to mobilise the amount of building space needed to respond to the demand. As to mobilising other investors, it will depend on the extent to which they will accept a return of about 2.5 percent instead of 3 to 4 percent on the open market. But the pilot clearly shows the willingness of public investors to go that way. Even if this promising initiative is a success, it will obviously not be sufficient to solve the housing challenge in Luxembourg.

Further reading

Feltgen, V. and Licheron, J. Analyse du mal logement et de l'exclusion liée au logement. Luxembourg: LISER, 2016.

L'essentiel, Il faut construire deux fois plus de logements.

Luxembourg: L'essentiel, March 29, 2017. Available at: <http://www.lessentiel.lu/fr/luxembourg/story/Il-faut-construire-deux-fois-plus-de-logements-20395231>

Pacte Logement: <http://www.ml.public.lu/fr/politique-logement/pacte-logement/index.html>

Two documents presenting the pilot project are available at: <http://www.ml.public.lu/fr/actualites/2017/09/PK-Loyer-moderate/index.html>

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