

# New housing initiatives in Luxembourg

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## Description

*Housing is one of the most important social policy issues in Luxembourg. Recent studies show that building land is concentrated in the hands of very few persons and companies, resulting in excessive price rises and thus many people struggling to pay for their accommodation. To narrow the gap between housing supply and demand, the current government programme includes a number of initiatives in the housing sector such as building more affordable dwellings and overhauling existing laws.*

The coalition agreement and the programme of the Luxembourg government, whose mandate took effect in December 2018, include a number of initiatives in the housing sector. The overall objective is to construct more dwellings - in particular, more affordable dwellings and more dwellings for rent.

The Minister in charge unveiled parts of his plans on 14 November 2019 in a meeting of the parliamentary housing commission as well as in interviews with two weekly newspapers in February 2020 (the "Revue" on 6 February and the "Lëtzebuenger Land" on 14 February).

Several laws will implement these new housing policies.

A draft law (No. 7139), already tabled in 2017 by the former government, regarding "building-land contracts" (*Contrats d'aménagement - Baulandverträge*), was held up in the parliamentary process. The Ministry of Internal Affairs is hoping to unblock it before Easter. The principle of the law is that municipalities will be able to conclude contracts with land owners who must start to build on designated building land by an agreed date, otherwise the land will no longer be classified as building land.

A proposal for another draft law (No. 7495), voted on 21 March 2020 in parliament, foresees the creation of a special fund to help finance the construction of dwellings, as well as the buying of land by the State.

In the future, public real estate developers will have to put 30% of properties they build up for sale and 70% for rent, whereas in the past this proportion was the other way round. One of the two public real estate developers was reformed in 2017 and is now enhancing its capacity to build. The other has already tripled its capacity for the construction of rental apartments.

The Ministry of Housing also expects to table a draft law by the summer regarding the Housing Pact 2.0 (*Pacte logement 2.0*). A first Housing Pact law came into force in 2008. It laid down the conditions under which the Central State could conclude contracts with municipalities, in order to encourage them to increase the number of their inhabitants by offering subsidies for newly-needed infrastructures such as schools, crèches, etc. The Housing Pact 2.0 will have three objectives: i) the creation of affordable housing in municipalities (not necessarily by the municipalities themselves, but also by other developers), ii) improved management of building sites by municipalities, and iii) improvement of housing quality (including the surrounding environment).

Another major planned change concerns the general law regulating housing subsidies (the 1979 law). This law will be completely revised and should be tabled by the end of 2020. It will have two parts: individual subsidies for private builders, and subsidies for the "construction of sets of dwellings"

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(*construction d'ensembles*) for rent. On the one hand, the subsidies for owners will be simplified, and other living arrangements (cohabiting, flat sharing, building cooperatives, etc.) will be eligible for such subsidies. On the other hand, subsidies to developers of affordable housing will be totally transformed. Subsidies may also be available to private for-profit developers, subject to a range of preliminary provisions: a definition of "affordable" housing, a new method for calculating rent, the establishment of a national register of all affordable dwellings (in order to allocate these to the neediest applicants on the waiting list), and the creation of the role of "social landlord" (*Bailleur social*), to act as the administrator/ landlord of affordable dwellings.

Future definitions will include:

- "affordable housing" (*logement abordable*): dwellings built to be rented and where the rent will be calculated in relation to the household composition and income, so that the rent does not exceed one third of the household's income (the way the household composition will be taken into account is not yet clear);
- "low-cost housing" (*logement à coût modéré*): low-cost dwellings built to be sold.

Another small change, with great potential, is an amendment to article 29 of the municipal planning law: the requirement to provide 10% of affordable housing in every construction project involving more than 25 residential units, and 30% in major projects (*projets d'envergure*). This is currently not monitored or tracked. It is foreseen that, in the future, the promoter of such projects will have to hand over these 10% (or 30%) of dwellings to the public sector. In addition, the 10% share is also likely to be revised (possibly either increased or staggered).

The rental law will also be changed, improving monitoring of the statutory rent limit (the legal provision that limits the annual rent prices to 5% of the invested capital will be clarified and, above all, monitored), and the functioning of the municipal rental commissions.

One final plan concerns the upcoming tax reform; this will significantly change the taxation of real estate assets, which have been barely taxed to date. It will also aim to combat speculation; however, specific details are still unknown.



## Outlook and commentary

One of the most important issues in Luxembourg social policy is housing. The European Commission 2020 Country report for Luxembourg states that "housing supply and investment are insufficient", that there is an "insufficient supply of social housing" and finally that "soaring housing prices amplify inequalities".

A number of recent publications by the Luxembourg national statistical institute (STATEC) and the Luxembourg Housing Observatory (*Observatoire de l'Habitat*) have revealed an enormous concentration of building land in the hands of very few persons and companies. The overall results are excessive price increases, in both the rental and for sale sectors. Large sections of the population can no longer afford their accommodation, or spend 40% or even more of their income on accommodation.

The government will aim to resolve these problems by increasing the number of affordable dwellings. There is hope that this policy may have the long-awaited results on the housing market.

## Further reading

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