

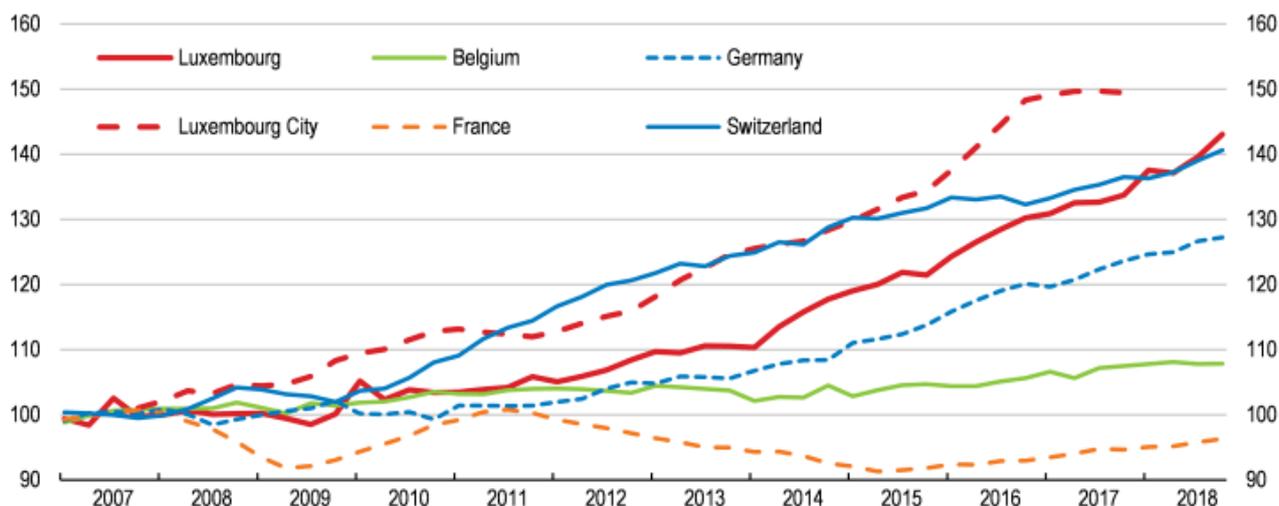
Making access to housing more affordable to all in Luxembourg

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Luxembourg's economy has been buoyant – robust growth has strongly outpaced the euro area average over most of the past decade. However, this success creates new problems, in particular in the housing market, which the 2019 Economic Survey of Luxembourg [\[link\]](#) analyses in detail. Strong population growth, mainly reflecting the number of foreign workers attracted by a buoyant economy, has kept housing demand growing for many years. When coupled with supply-side restrictions, such as limited use of land available for construction and cumbersome zoning restrictions, the imbalance between demand and supply stokes rising house prices (Figure 1). Increasing mortgage debt also raises the debt service burden for a larger share of households than in other countries and a tight rental market impedes housing affordability for poorer parts of the population.

Figure 1. Real house prices are growing strongly

Index 2007 = 100, s.a.



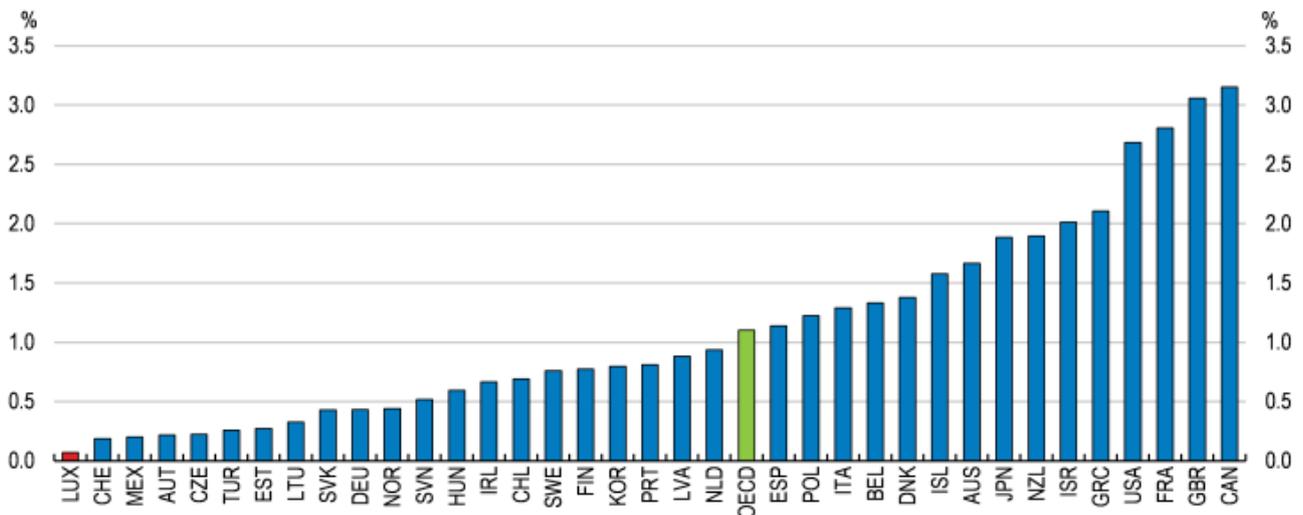
Note: For Luxembourg City, nominal annual values were linearly interpolated and deflated using a house price deflator calculated from the OECD Analytical House Price Indicators database.

Source: OECD (2019), *Analytical house prices indicators* (database); and Observatoire de l'Habitat.

As the housing stock has not expanded in line with growing demand for many years, the essential part of the solution is an increase in construction of new housing. Although the land available for housing construction seems sufficient, it is mainly in private ownership and many landowners do not have a strong incentive to sell or develop their land. In order to reduce the practice of land hoarding, where constructible land is kept undeveloped to capitalise on continuing land price increases, the opportunity cost of holding land for construction should be increased. Possible ways of doing so include introducing land value taxes on land zoned for housing construction or imposing sanctions on landowners and developers for non-use of building permits. Higher recurrent taxes on immovable property, based on up-to-date valuations reflecting the market price of the property, could also

help to incentivise the owners to sell vacant dwellings (Figure 2).

Figure 2. Recurrent immovable property taxes are low
Share of recurrent immovable property tax revenue in GDP, 2016



Source: OECD (2019), *OECD Global Revenue Statistics* (database).

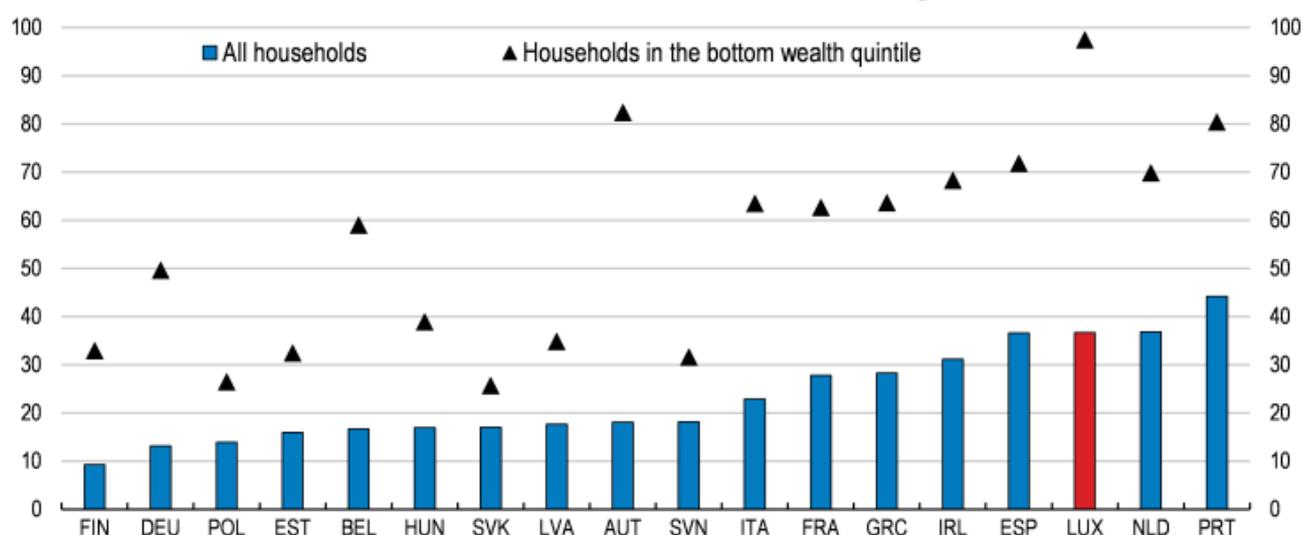
Both municipalities and the central government could improve the situation in this area. Municipal autonomy in spatial planning decisions is high and the current framework has not delivered sufficient supply of housing.

Some instruments exist in the law, but are simply not used. This is the case of an annual tax on constructible land not developed for more than three years, and also of a tax on unoccupied housing. Other instruments, such as a special property tax on building land for residential purposes, were introduced more broadly, but they are based on obsolete cadastral valuations and provide negligible revenues.

Given the high level of urban sprawl, which has important environmental costs, new housing construction should aim at increasing residential density, namely by constructing higher buildings,

in particular around transport hubs. To soften municipal resistance to densification, the targets on new housing construction agreed between the municipalities and the central government in the Housing Pact could be extended to include numerical targets for densification measures or social housing construction. It is clear that a lot remains to be done by the central government, too. For example, a reduction of mortgage interest deductibility could help reduce demand for owner-occupied housing, while financing for new land acquisition by public providers of social housing would help expand the stock of social rental housing. Measures reducing demand for owner-occupied housing would also help reduce the build-up of already high household indebtedness, which creates risks for poorer households (Figure 3).

Figure 3. The share of over-indebted households is high, in particular for those with low wealth
Share of households with debt-to-income ratio exceeding 300%, 2014



Note: Computations of these shares only include households with mortgage on their main residence. The debt-to-income ratio calculates total outstanding debt on main residence divided by annual household gross income.

Source: HFCS database, LWS database, OECD (2019), *OECD Affordable Housing Database*.

The stock of social rental housing is small in international comparison, despite recent efforts by social rental management companies, and often allocated to tenants who are not those most in need. The low stock reflects many factors, including the historical policy of building affordable housing for sale, which could later be re-sold on the private market. This practice has now been phased out and the public housing providers focus on building social housing for rental, rather than for sale. The allocation of social housing also needs to be improved. The admission criteria for social housing are often flexible and with low transparency. Recurrent means-testing should be combined with tailored plans for re-entering the private rental sector, similar to those used by social rental agencies. Housing allowances and rents in the social housing sector could also become more geographically differentiated, reflecting the differences in market rents across municipalities: for example, Luxembourg City has clearly higher market rents than the north of the country.

Reference:

OECD (2019), *OECD Economic Surveys: Luxembourg 2019*, OECD Publishing, Paris.