Luxembourg faces persistent housing supply constraints. Land mobilisation remains limited, due, in particular, to land hoarding, the concentration of land ownership ([405]) and slow activation of planned plots. Combined with strong demographic growth and sustained cross-border labour demand, these factors have long outpaced new construction. In recent years, the slowdown in residential development has been exacerbated by higher interest rates, rising construction and material costs, labour shortages in the construction sector, and lengthy planning and permitting procedures. Against this background, Luxembourg received a 2025 country-specific recommendation (CSR) which called for increasing the housing supply through: (i) adopting a comprehensive land-use policy; (ii) a property tax reform; (iii) developing large-scale district projects on public land; and (iv) strengthening coordination with urban planning and cross-border public transport, and for mitigating risks related to the housing market by phasing out fiscal incentives to borrow and by strengthening the macroprudential framework. While first steps to partially tackle some of these problems are underway, key aspects remain unsolved.

The current tax framework does not appear to be aligned with the 2025 CSR which calls for the phasing out of fiscal incentives to borrow and by strengthening the macroprudential framework. Key demand-side tax advantages, especially mortgage interest deductibility and the permanent increase of the Bëllegen Akt (tax credit for the purchase of a primary residence), remain in place and continue to support borrowing and housing demand (Annex 3).

Pressures are particularly acute in the social and affordable housing segments. Despite policy efforts, the supply of social and affordable housing still fails to meet demand, leading to long waiting lists and limited turnover. High land prices and fiscal constraints weigh on the ability of public authorities and housing funds to scale up supply at the required pace. As a result, access to affordable housing has become increasingly constrained for low- and middle-income households, including key workers, undermining social cohesion and labour market functioning.

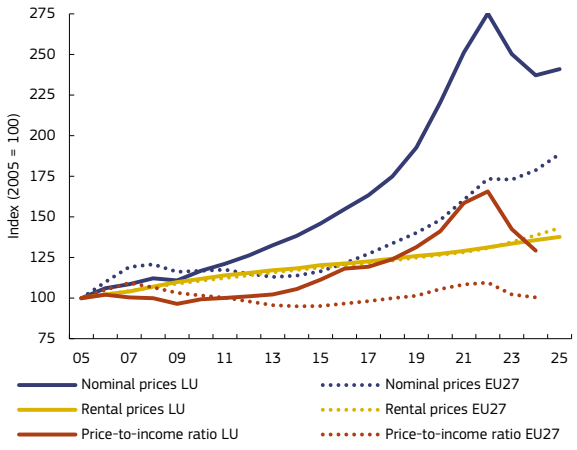
Housing affordability remains a major challenge, in particular, for vulnerable groups. Housing costs in Luxembourg are among the highest in the EU relative to income, absorbing a growing proportion of household expenditure and pushing many households into cost overburden. This affects, in particular, lower-income households, young people and single-parent families, who are facing increased risks of overcrowding, housing insecurity and energy poverty. These dynamics risk entrenching social inequalities, constraining labour mobility and weighing on long-term economic growth, while increasing pressures on social assistance systems and cross-border commuting.

Housing market developments

Despite a decline over 2023 and 2024, house prices continue to be overvalued. After doubling over a decade, house prices started to correct in 2022, falling over 15% in two years. Since late 2024, house prices have started to grow again recording 1.6% year-on-year growth in 2025. Based on the standard European Commission methodology, house price overvaluation peaked at around 40% in 2022. The gap then narrowed but remained at around 10% in 2025. Although the price-to-income ratio, which measures purchase affordability, is decreasing, it was still 9 percentage points above its long-term average in 2025. Moreover, the house price level remains high. In 2022, the average time needed to buy 100 m^2 increased to 16.1 years but fell to 12.1 years in 2025. That same year, 8.9 years were needed on average in the EU.

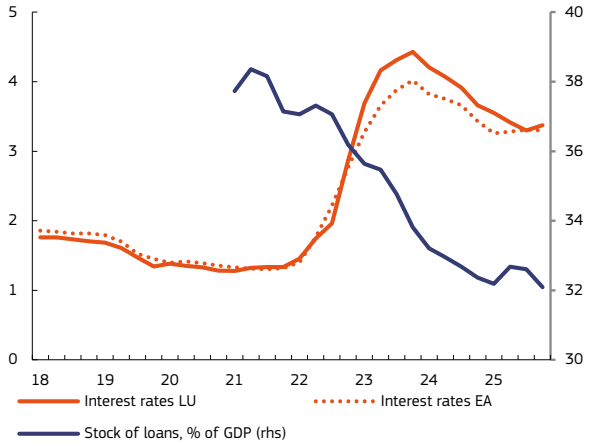
([405])Observatoire de l'Habitat, 'Note de l'Observatoire de l'Habitat n°32', 2023.

Graph A16.1: **House prices, rents and price-to-income evolution in LU and EU27 since 2005**



Source: Eurostat

Graph A16.2: **Borrowing costs and housing loans**



Source: ECB

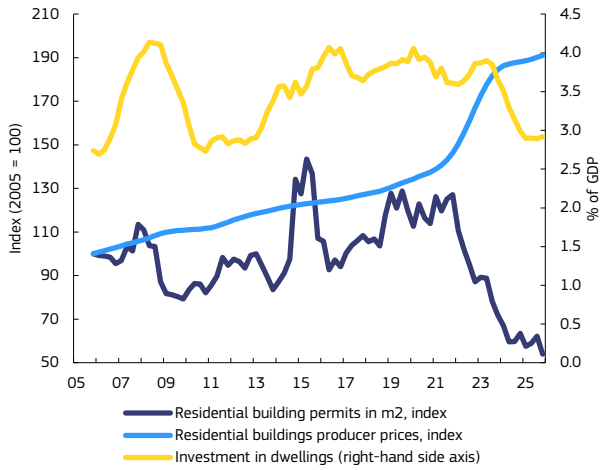
Demand for newly built housing remains relatively low despite rising demand for existing housing. In Luxembourg, there has been a sharp rise in the population. Since 2010, it has risen by around 35%. This is due to immigration, which, together with rising earnings, supports demand for housing. After a decline in prices in 2022-2023 due to the rise in interest rates and falling demand (Graph A16.2), there has been a pickup in demand for household loans and in consumer confidence. This led to a slow but steady recovery in the housing market in 2025. However, the current market improvement is mainly observed for existing buildings. This appears to be linked to two factors: (i) the price of new builds still reflecting the very high land prices from before the cooling of the housing market; and (ii) buyers being wary of the solvency of constructors and unwilling to risk their capital by buying new housing off plan.

The proportion of households renting their home has increased and rents have been rising in recent years. In 2024, 36.5% of households were renting their homes, up from a long-term average of 29%. Rental prices (including standing and new rental contracts) continued to rise. In 2024, tenants in Luxembourg spent 27% of their income on rent, making it the second highest in the euro area for rent costs as a percentage of income. The lack of housing supply alongside sustained demand, supported by a range of tax incentives has fuelled a steady rise in prices, especially since the 2000s, which over time has led to persistent tension in the rental market in Luxembourg.

Building permits are decreasing, implying that the supply shortage is expected to persist. Too few dwellings have been completed in recent years to accommodate the growing population. With permits granted for the construction of 737 m² per thousand people in 2024, permitting remains high compared with the EU average. However, it is falling and is historically low for Luxembourg (Graph A16.3). This leading indicator shows that the housing shortage is not expected to be addressed in the short term. Investment in residential real estate has remained low or has fallen since 2020, influenced by high construction costs, protracted planning procedures and uncertainties surrounding project profitability. In terms of investment needs, 29 432 dwellings are expected to be completed by 2035, while an estimated 133 360 new dwellings will be needed

by that year ([406]). This leaves a predicted housing construction gap of 103 928 dwellings.

Graph A16.3: **House supply indicators in LU since 2005**



Source: Eurostat

Structural policies

The shift from passive planning to more interventionist land-use tools remains limited. Municipalities are entrusted, within their autonomy, to adopt general and specific development plans (PAG/PAP). However, these tools mainly regulate how land may be used, rather than whether it must be developed, despite being legally binding and explicitly encouraging densification. The 2025 CSRs called on Luxembourg to adopt a comprehensive land-use policy. The *Bauvertrag* reform aimed to strengthen the link between planning decisions and actual housing construction implementation. However, none of its most impactful aspects (construction deadlines with sanctions, fast-track PAG amendments, ministerial land consolidation) are in force yet. The bill has remained stalled in the legislative process due to concerns over proportionality, legal certainty and the constitutional protection of property rights, resulting in multiple amendments and prolonged negotiations. In addition, its effective implementation depends on close coordination between the state and municipalities, whose administrative capacity and willingness to enforce such obligations vary (Annex 19). The 2025 CSRs also called on Luxembourg to develop large-scale district projects on public land. While Luxembourg continues to advance ongoing large-scale district developments, while also launching pilot to mobilise private land for the creation of affordable rental housing by partnering with private developers and social landlord ([407]), broader land mobilisation tools are still pending.

Luxembourg has taken steps to improve coordination between housing policy and urban planning and cross-border public transport. Luxembourg received a 2025 CSR on strengthening the coordination with urban planning and cross-border public transport. The adoption of the Article 29bis reform under the 'Pacte Logement 2.0' strengthens the integration of affordable housing requirements into local development plans by mandating a minimum proportion of affordable units in new neighbourhood projects and providing planning flexibilities to support implementation. Nevertheless, the broader structural alignment between land mobilisation, spatial planning and housing delivery remains incomplete. Amendments to the 'Pacte Logement 2.0' that aim to simplify procedures and strengthen support for municipalities were tabled in 2025 and remain under parliamentary consideration. Furthermore, Luxembourg stepped efforts to strengthen cross-border public transport to ease commuting bottlenecks and supporting labour mobility in a context of strong cross-border workforce dependence: expansion and reorganisation of the Régime Général des Transports Routiers (RGTR) on key routes, rail infrastructure investment (Annex 19), preparatory work on fare harmonisation and mobility planning (Luxmobil 2025 survey).

The property taxation reform aims to update valuations and incentivise development, but its implementation remains delayed and uncertain. Luxembourg received a 2025 CSR on adopting a property tax reform. The ongoing reform covers both the land tax and a new tax on the non-mobilisation of buildable land and seeks to address the structural inequities of the existing system, which is still based on outdated unit values, lacks automation and results in uneven taxation across municipalities. The tax on the non-

([406])Balouktsi et al. (2026) Housing investment needs in the EU. JRC Technical Report 144419.

([407])Chronicle.lu, 293 Housing Units Acquired as Affordable Housing PPP Initiative Launched, 2025.

mobilisation of buildable land seeks to address land hoarding by targeting buildable but undeveloped plots by exponentially increasing tax rates to incentivise development, alongside exemptions and abatements for agricultural use. Although the initial bill was tabled in 2022 and extensive government amendments were introduced in 2025, the absence of binding legislative deadlines makes its entry into force uncertain. The indicative timeline envisages implementation in 2028 and fiscal effects from 2030 ([408]). Based on the estimates presented, mobilising approximately 2 400 hectares of land would enable around 125 000 housing units to be developed. The tax on vacant dwellings was decoupled from the original draft legislation to prevent additional delays in the adoption of the land tax reform and the tax on the non-mobilisation of buildable land, all currently under parliamentary scrutiny.

The favourable tax treatment of owner-occupied housing may put upward pressure on house prices and prevent lower-income households from owning property. The deductibility of mortgage interest payments has been in place since 1983 and was significantly expanded in 2017 and 2023. The scheme allows for the deduction of interest payments of up to EUR 3 000 per person annually during the first six years of occupancy, corresponding to EUR 12 000 per year for a household of four. In a context of relatively inelastic housing supply, such tax relief is largely capitalised into higher property prices rather than translating into sustained affordability gains for buyers. By increasing households' borrowing capacity and willingness to pay, the measure puts upward pressure on house prices, with a significant share of the benefit accruing to property sellers. While higher-income households may have easier access to credit and may be less affected by this dynamic, the overall effect is likely to inflate prices, weaken housing affordability and potentially crowd out lower-income households from owning property, while at the same time generating substantial fiscal costs. Reflecting these challenges, Luxembourg received a 2025 CSR to phase out fiscal incentives to borrow.

Housing-related tax support introduced in 2024 was only partially withdrawn in 2025 (Annex 3), **thereby prolonging demand-side pressures in a structurally tight housing market.** Luxembourg received a 2025 CSR to mitigate risks related to the housing market by phasing out fiscal incentives to borrow and by strengthening the macroprudential framework. Although some temporary measures expired, the increased 'Bëllegen Akt' (tax credit of up to EUR 40 000 for the purchase of a primary residence) was made permanent, thereby sustaining demand-side support. Given structural supply rigidities, these instruments are unlikely to expand housing supply in the short term and may instead contribute to higher prices. As such, their continuation may weaken efforts to address affordability challenges and moderate demand pressures. Overvalued house prices, the large share of variable-rate mortgages, and high household indebtedness pose systemic risks. No new macroprudential measures have been introduced.

Despite recent reforms, the private rental market in Luxembourg remains under pressure, reflecting both regulatory frictions and insufficient supply. An increase in the proportion of rental housing could improve the dynamics of the housing market and ease constraints on labour mobility, investment and economic growth. The law on residential leases entered into force in 2024, introducing significant changes to landlord–tenant relationships, including a reduction of the rental guarantee to two months' rent, a formal system for co-tenancy, equitable sharing of agency fees, mandatory written leases and procedural protections for tenants. However, the reform has not fundamentally altered rent-setting mechanisms. As annual rent remains capped at 5% of the capital invested, the framework continues to influence expected returns and investment decisions and thus may limit supply ([409]).

The sharp decline in new housing construction in Luxembourg is primarily driven by a simultaneous deterioration in production conditions and access to finance. Construction producer prices have increased

([408]) Chambre des députés Grand-Duché de Luxembourg 'Présentation du projet de réforme de l'impôt foncier', 2025.

([409]) Kholodilin, 'Rent control effects through the lens of empirical research: An almost complete review of the literature', 2024.

significantly (+30% between Q1 2021 and Q3 2025 ([410])), while financing has become more restrictive, particularly for small and medium-sized developers. Off-plan sales (Vente en l'état futur d'achèvement, VEFA) are often a prerequisite for bank financing, as lenders rely on pre-sales to mitigate risk. Although the required threshold has fallen from around 50% to 30%, securing these pre-sales has become increasingly difficult due to declining buyer confidence, driven by recent developer bankruptcies and concerns over the effectiveness of completion guarantees. At the same time, tighter banking regulation and prudential requirements (including Basel II and European Central Bank standards) oblige banks to allocate more own funds to risky projects, discouraging smaller developments and favouring large players with strong balance sheets. In this context, building permits fell by 26.6% between Q1 2021 and Q3 2025 (a fall of 45% in terms of m^2 of useful floor area), reflecting households' and developers' *ex ante* decisions to defer or abandon planned projects. Investment in dwellings represents only 3% of GDP, vs 5.3% at EU level, and has been falling since 2019 ([411]). This contraction underscores that the current slowdown is less the result of insufficient demand or excessive prices than of weakened project viability and constrained financing conditions, especially for actors with limited balance-sheet capacity.

Vulnerable groups

Housing affordability in Luxembourg remains a concern, particularly for young people and households with modest incomes. With an annual housing price index of 162.50 in 2024, Luxembourg's residential housing prices are roughly 6% higher than the EU-27's average index level of 153.44 (2015 = 100 as the reference year). Luxembourg's standardised house price-to-income ratio was 119.39, significantly above the EU average of 98.89, indicating particularly low housing affordability. The latest Housing in Europe report shows that overall housing costs in Luxembourg in 2024 (including water, electricity, gas and other fuels) remained among the highest in the EU (78% above the EU average) ([412]). The housing cost overburden rate decreased in 2024([413]). While Housing cost overburden has been flagged as a critical issue in Luxembourg for several years, it decreased from 11.5% in 2023 (above the EU average of 8.8%) to 8% in 2024 (below the EU average of 8.2%) ([414]). In 2024, tenants in Luxembourg spent on average 27.0% of their disposable income on rent, compared with an EU average of 22.3%, showing that renting is particularly costly in Luxembourg. Nevertheless, the lower overburden rate since 2023 was particularly pronounced among tenants and can be partially explained by Luxembourg's increase of the rent subsidy by an average of 50% from late 2022, where eligibility is limited to those whose rent is greater than 25% of their net income. At the same time, a recent LISER study ([415]) also highlights an overburden which is almost three times higher for households with modest incomes than for the most affluent ones. Young people are also particularly affected, since the proportion of income which 18-29-year-olds spent on housing in 2023 was 52% (vs EU average of 32([416]) (). Other salient social aspects of housing in Luxembourg include the relatively high proportion of people living in under-occupied homes (57.5% of the total population vs EU average of 33.1%) and the comparatively high percentage of people living in dwellings with structural deficiencies (18.0% vs EU average of 15.6%).

Social housing is still a challenge, despite measures to expand supply. A major obstacle to social housing supply is the difficulty public providers face in acquiring private plots, combined with strong population growth. In 2024, the Société Nationale des Habitations à Bon Marché (SNHBM, a public developer also acting as a social landlord) began building 301 affordable housing

([410])Eurostat, 'Building permits - quarterly data'.

([411])Eurostat, 'Gross fixed capital formation by main asset type'.

([412])https://ec.europa.eu/eurostat/web/interactive-publications/housing-2025.

([413])It should be noted that this indicator is subject to volatility, with breaks in the series from 2020 up to and including 2023. See also Annex 12.

([414])The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

([415])https://logement.public.lu/fr/publications/observatoire/note-44.html.

([416])Eurofound 2025: living conditions and quality of life. Foundational challenges: the housing struggles of Europe's youth.

Graph A16.4: **Selected housing affordability indicators**

		EU27				LU							
	unit	2000-25 avg.	2023	2024	2025	2000-25 avg.	2023	2024	2025	unit	2023	2024	2025
House price to income ratio	*2000-25 avg = 100*	100.0	102.0	100.2		100.0	131.6	119.4		YoY%	-14.0	-9.3	
Rent to income ratio	*2000-25 avg = 100*	100.0	85.1	83.5	84.5	100.0	87.0	84.6	82.5	YoY%	-3.8	-2.8	-2.4
Overburden rate, total	%	9.9	8.8	8.2		6.6	11.5	8.0		PPS/y	2.5	-3.5	
Overburden rate, tenant with market rent	%	23.8	20.3	19.2		21.5	33.0	20.0		PPS/y	10.1	-13.0	
Overvaluation gap	%					0.2	22.0	12.0	10.1				
Deflated construction production price	*2010 = 100*	102.2	112.2	111.8	110.5	104.8	123.8	123.4	122.3	YoY%	8.4	-0.3	-1.1
Building permits	*m^2 per ths persons*	483.5	376.9	362.9	379.9	1475.7	898.5	737.0		YoY%	-15.9	-18.0	
Residential construction investment	*% GDP*	5.5	5.8	5.1	5.0	3.3	3.7	3.0	2.9	YoY%	-5.1	-18.9	-3.3
Share of ownership	%	70.0	69.1	68.4		71.0	67.6	63.5		PPS/y	-6.6	-6.1	
Share of people living in overcrowded homes	%	17.7	16.8	16.9		7.5	7.4	6.8		PPS/y	1.7	-0.6	

Source: Eurostat and European Commission calculations. The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

units, up from 230 in 2023. SNHBM's medium-term objective is around 400 units per year, subject to land availability. The state also buys housing units under construction to add to the affordable stock (e.g. the 2024-2027 VEFA programme, with a target of 800 units). More broadly, the 2025 budget law raised spending for the Fonds Spécial pour le Logement (Special Fund for Affordable Housing) by EUR 130 million compared with the 2024 budget, and a further EUR 2 billion in spending was announced for the development of affordable housing over 2025-2028. Despite these and other initiatives (e.g. the Housing Pact 2.0 and the Affordable Housing Law ([417]), there is still considerable scope to increase the availability of social housing, which represents only 3-4% of the total stock. Around 6 000 households were on the waiting list for social housing in 2025, a number which has almost doubled since 2021.

Affordability and availability pressures disproportionately affect homeless people and those with disabilities. According to a June 2024 census ([418]) there were 300 homeless people in Luxembourg, although this was a point-in-time snapshot, dependent on specific criteria rather than an exhaustive overview, focusing for example on people living in the street (ETHOS ([419]) 1) or in emergency accommodation (ETHOS 2). According to OECD data from 2022 (OECD 2024), the estimated proportion of homeless people was 0.11% of the national population in that year, or about 696 people. The main challenges in Luxembourg are a lack of affordable and permanent housing, the absence of a national homelessness strategy, and limited access to income support and benefits for the homeless. Luxembourg has nevertheless committed to implementing a new housing-led homelessness and housing exclusion strategy, which is separate from the recently published anti-poverty plan. Since 2022, monitoring and data quality have been improved through twice-yearly national homelessness counts and there is a robust supply of NGO-based, largely state-financed, emergency and transitional housing. People with disabilities suffer from an insufficient supply of accessible housing. Legal accessibility requirements for new housing, through the Accessibility Act (2022), require at least 10% of homes in all new collective residential buildings to be accessible. However, this means that many existing homes are inaccessible or expensive to retrofit. People with disabilities are also over-represented among low-income households and consequently face higher housing cost overburden rates. There is also a lack of disability-related data, with no systematic monitoring of housing accessibility, retrofit implementation or the residential autonomy of people with disabilities.

([417])Housing Pact 2.0 (part of Luxembourg's Recovery and Resilience Plan) is a partnership between the national government and the municipalities that provide funding, planning tools and support to increase the supply and quality of affordable housing and mobilise land for development. Luxembourg's Affordable Housing Law (2023) sets up a framework for state-supported creation, financing, allocation, and management of affordable homes to expand supply and ensure rents or prices remain accessible to households struggling to find suitable housing. It also incorporates existing provisions on social rental management as a specific social housing strand.

([418])ESPAN, *The fight against homelessness and its links with anti-poverty policies in Luxembourg*, Jeff Weitzel, 2025.

([419])European Typology of Homelessness and Housing Exclusion