

Public Land Acquisition

From Economic Diversification to the Housing Crisis

Housing has become a central issue in Luxembourg, as skyrocketing prices exclude ever larger segments of the population. Rapidly increasing house prices are not unique to Luxembourg; housing is a safe and reliable asset class in a low interest rate era. The intensity of the phenomena is nonetheless striking; Eurostat reports that prices increased by 90.5 % between 2010 and 2020, the third highest among EU member states. Compared to its neighbours, Luxembourg has very little social housing, a reflection of the country's historical encouragement of homeownership and landlordism through generous tax exemptions and deductions. Without the buffer of public housing, those unable to find affordable housing in the private sector – be it for occupation or for rent – either compromise on quality or move out of the country. Recent work by the Housing Observatory (Note 25) has shown that private renters in the bottom half of the income distribution face the most difficult situation on the housing market. There is a worrying increase in the percentage of the population that spends more than 40 % of its income on housing, the threshold the scientific literature uses to gauge the affordability of housing.

Difficult public access to land

While there has been a recent recognition of the importance of providing public and affordable housing, national authorities face a thorny issue: access to land to build that housing. This is not new. The state of Luxembourg had trouble accessing land when it sought to diversify the country's economic base away from its reliance on the steel industry after World War II. While economic diplomacy and

tax incentives attracted a number of international manufacturers to the country, national authorities lacked access to land near employment centres and transport infrastructure. Rather than confront landowners directly, the state looked for large landowners – both public and private – from which the companies could directly acquire land. Municipal forests became an important source of land. In the 1960s and 1970s, municipalities sold around 250 hectares of forested land to international companies (Du Pont de Nemours, Delphi, Goodyear, etc.). The sale of municipal forests to industrial companies has a long history in Luxembourg; in 1909, the city of Esch-sur-Alzette sold 90 hectares of forest – now the Belval site – to German industrialists. This approach allowed the state to bypass the land deadlock, but through one-off opportunities that anchored economic activity in places that weren't ideal in the long run and at the cost of significant environmental damage.

In the midst of a housing crisis, Luxembourg is once again confronted with its land market, in which residential land is overwhelmingly in the hands of private individuals (72.5 % of the surface) and companies (14.9 %). Levels of landownership concentration are astronomical: in 2016, barely 0.1 % of the country's population owned half of the total value of residential land belonging to private individuals; 75 companies (the top 10 % by the value of their holdings) owned 80.8 % of the value of all residential land in company hands (Housing Observatory, Note 23). The continued dominance of private land ownership is facilitated by the fact that the country has a very low property tax and no inheritance tax on transfers in direct line. This makes it possible for land to be passed down from generation to generation, turning once agricultural families into land bankers and property developers. With sustained economic and population growth, this fiscal framework turns land and residential land especially into

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The European Public Prosecutor's Office

a coveted asset; between 2010 and 2019, residential land prices have increased faster than those of housing (Logement en Chiffres, No. 9). The current explosion of residential land prices has little to do with its scarcity. While the country's territory is undoubtedly limited, there is a significant reserve of land zoned for residential purposes; based on current density levels, there is currently enough residential land in the country to build between 50 000 and 80 000 new dwellings.

Private land-based wealth accumulation

While plentiful, little of the available residential land is actually used to build housing; it's too valuable to be developed. The limited availability of residential land on the market has consequences for the type of housing built, and for its price. Rather than competing on the price of finished apartments, property developers compete in the land market. Whoever manages to secure access to land is in a dominant position locally and is thus able to set both the price and the quantity of the housing it produces. This is compounded by the fact that there are few limits on what landowners can do with their land. For example, in Luxembourg – in contrast to most other comparable countries – private individuals can prepare a binding land-use plan for their own land and manage the sale of serviced plots or housing units. Property owners also have the right to not use their property or to develop extensive projects at a gradual pace. Given the small number of large developers operating in the country, this amounts to a double concentration; when the few people who control the land supply decide not to develop the land themselves, they sell to the large developers who control housing production. The planning system

thus works to facilitate land-based wealth accumulation strategies. Faced with the inertia of national fiscal and planning legislation, municipalities could in theory use a number of strategies to influence housing supply at the local level. By drawing on existing legislation, they could change the regulation of land use and ownership (such as targeting vacant land or dwellings), use their right of first purchase when land plots are passed between private parties, or increase taxes on residential land. However, these strategies are rarely used. In a legal legerdemain, any restriction on private property rights is framed as expropriation, increasing the perceived political cost of these measures in a context in which most of the electorate owns their own home.

Faced with the same land-related constraints as when it sought to diversify its economy from the 1960s onwards, Luxembourg could once again explore interventionist land politics, which would require developing new techniques for large-scale land acquisition. The Kirchberg Plateau, designed to attract European institutions, represented an early attempt to use state resources to acquire land. While it is well known that this acquisition involved using the power of expropriation (for a fifth of the transactions), what remains less discussed is the fact that the land assembly process took over a decade in this very strategic location. In Dudelange, the creation of industrial zones also dragged on for close to four decades, with costly land exchanges being the only way to unlock the necessary land plots. In other parts of the country, where the local hold on property was looser, large-scale land acquisition was able to proceed more quickly. Knowing where it is most efficient to acquire land requires a public infrastructure geared towards land purchases with enough expertise and local networks to outfox property developers.

The situation is clearly more complicated today than in the post-war period, given the much higher land prices throughout the country. The necessity for public land is just as pressing though; while land acquisitions post World War II were designed to keep industrial jobs in the country, they are now required to house those who keep the country running. The previous round of land acquisition created important reserves of publicly managed economic activity zones. It is now time to invest the same energy in the public acquisition of residential land. Drawing on this land, public housing has to become a counterpoint to the private logic that turns dwellings into assets. It's a first step towards the decommodification of housing, a process diametrically opposed to the current drive to accumulate land and housing wealth. It entails putting use values rather than exchange values at the forefront of housing policies. ♦

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