

EXECUTIVE SUMMARY TO MALTA PROPERTY REPORT.

Appendix I indicates that affordable residential property in the Maltese Islands with a capital growth rate of 7.1%pa over the past 20 year period has doubled in price every 10years, with plots doubling in value every 5 years over the same period.

Table 6 shows that the housing affordability index HAI has improved from 74 in 1992 up to 77 in 2002, after having dipped to 65 in 1997 for a 3-bed/r affordable apartment. The same may be said for a 2-bed/r apartment with an HAI of 111 increasing to 116 over the period 1992 to 2002, after having dipped to 92 in 1997. Measures taken over the immediate 5-year period appear to have stabilized the growth of the affordable property market. However, looking into the growth rate for the period 2001-2002 standing at 5.4%, whilst for 2002-2003 presently standing at 12.3%, this may indicate that the property market is again to be subjected to a price hike unless measures taken, outlined in this report are taken with immediate effect.

Table 1 of *Appendix II* dealing in commercial property indicates that warehousing rental values stand at 66.66% of the European average, office rentals at 27% of the European average, with retail outlets rentals standing at 8 ¼% of the European average. The low rental value of Maltese retail outlets as compared is understandable due to the limited turnover of outlets is understandable, as also is the comparable warehouse rentals being at 2/3's of the European average should be of no cause for concern. The low Maltese office rentals at a ¼ of the European average may give rise to concern when leased out to foreign corporate companies, as an opportunity may here be given to these corporate companies to capitalize on these assumedly low rentals.

Appendix III referring to residential and population densities indicates that although Malta is the 2nd most densely globally populated country, its average residential density at 27 units per hectare is still far below Singapore's residential density at 142 units per hectare. This may have implications in revising present planning policies such as allowable storey heights possibly reducing urban sprawl.

Recommendation 1 refers to the healthy state of the construction industry, advocating for the property market to be at a level playing field with other forms of investment. The healthy state of the property market may be gauged from table 17 in appendix I, with the number of immovable contracts standing at 12,394 in 2002, up from a low of 7,091 in 1998. A high had been registered in 1991 at 13,131 contracts, but it appears that the effects of capital gains on property transactions and the euphoria of the local stock exchange in the late 90's are now behind, with property regaining its prominence in Maltese investments.

Recommendation 2 promotes the setting up of a centralised research unit monitoring the property markets. This presently is being done on a haphazard basis, something which ought to improve immensely on the setting up of the Public Registry, as referred to in Recommendation 14. Appendix I deals in residential property facts, whilst Appendix II gives commercial property data.

Recommendations 3,4 & 5 dwell on the various property types available in the Maltese Islands.

Recommendation 3 considers the site coverage for villa developments to be increased to 50%, to reduce environmental impact, whilst creating a greater demand for redevelopment of existing outdated villa developments. This in turn creates a larger proportion of brownfield developments, something advocated in MEPA's Housing Topic paper. The MEPA development fee is to be fixed at a % of villa plot value, catering for the development of an affordable premises.

Recommendation 4 notices the loss of appeal for terraced housing, encouraging more efficient use of these types, by splitting up into more than 1 unit, if necessary. The height relaxation on density grounds, referred to in Appendix III, may act as an incentive to make more efficient use of terraced housing, whilst making for the installation of a lift for improved accessibility more economically viable. Where additional floors are to be approved the present car parking policy is to be relaxed, because as noted this policy is advocating the use of the motor car, thus creating an unsustainable transport problem.

Recommendation 5 encourages the provision of smaller apartments in line with the projected smaller family size and hence producing more affordable properties. The proportion of apartments has increased from the 23.05%, 1995 figure up to 27.4% in 2002.

These recommendations note that from MEPA's database during the period 1994 up to 2000 permissions granted for villa developments have averaged at 3% pa. Terraced house permissions has decreased from 23% in 1994 to 10% in 2000, dipping to 5% in 2001. Maisonette permissions have averaged at 27% pa peaking in 1997 at 31%. Apartment permissions have increased from 52% in 1994 up to 62% in 2000, increasing to 64% in 2001.

Recommendation 6 recognizes an important sector in terms of property markets – older properties, especially those located in Urban Conservation Areas. The reuse of such properties is important not only from a market supply point of view, but also has considerable planning implications related to social, cultural and environmental aspects. This policy encourages government agencies and departments to take a proactive stance in the regeneration of our historic centres.

Recommendation 7 discourages land hoarding and the present high % of vacant property, with positive measures encouraged to be introduced. The annual capital growth of land value at 16%pa referred to in Appendix I, explains the present land hoarding, *whilst* vacant property at 23% of the total building stock is excessive when a surplus of 4% is required for the proper functioning of the property market. These positive measures are

delved further in Recommendations 12 & 17. The development of infill sites are to be given a priority.

Recommendation 8 refers to guarantee from Government that once MEPA approves local plans, road access is provided. By not providing access, restrictions on the supply of land occur reducing the property market efficiency.

Recommendation 9 advocates the transfer of land from the Joint Office to meet the country's most pressing social requirements, in particular social housing, homelessness, educational and cultural purposes. Table 16 in Appendix I refers to a homelessness rate of 1/1750 inhabitants for the Maltese islands, comparable to Portugal Greece & Spain, still a far cry from the Northern Countries, where this rate stands at 10/10,000 inhabitants.

Recommendation 10 deals with incentives via legal provisions to be given to multiple owners of land and property to bring inherited property onto the market.

Presently multiple owners possessing a share exceeding 50% of inherited property may apply to the Inheritance Tribunal for a decision to be taken within 6 months on its disposal via a sale by litigation. On the other hand when the share is less than 50%, a civil case has to be instituted, which may take years for a decision to be taken, possibly followed by an appeal.

Recommendation 11 makes a call for the immediate and comprehensive identification of all landed property in the Maltese Islands. When owners are not identified, inefficiencies are created as properties remain vacant. The creation of the Central Registry presently been delved into by the Authorities is to be set up without delay.

Recommendation 12 urges Government's necessary intervention on being established that owners of property are unknown, as otherwise a restriction on the supply of the property market may occur.

Recommendation 13 invokes Government's responsibility to address any inefficiencies in the property market to provide for the real social cases, whilst working towards buffering the effects of increases in the affordable property market, by providing sustainable developments. This involves mixing households of different tenure and different income levels by integrating social housing with other types of housing and land uses.

The increase in the housing affordability index HAI (table 6 Appendix I) over the last 5 year period from 65 up to 77 for a 3 bed/r apartment and 92 to 116 for a 2 bed/r apartment is encouraging. However, this enthusiasm is dampened when noting that the affordable property capital growth stood at 5.4% for 2002, rising to 12.3% in 2003, as compared to 7.1%pa over the past 20-year period. The 2004 EU accession appears to be having its toll on property prices and this has to be counteracted by a greater provision of units by the HA in the coming years.

This greater provision of affordable units from the same Government revenue is deemed possible via the introduction of private public schemes PPP schemes for the HA developments, outlined further in recommendation 16, together with a commuted sum collected through MEPA via planning gains granted to residential developers.

Recommendation 14 outlines policies regarding foreign buyers as opposed to EU Nationals referred to in recommendation 17. In those areas requiring injection is required due to low local investment, foreign purchasers should be given the same conditions as in the designated areas.

Foreigners should not compete with Maltese Nationals for affordable property. Hence the necessity of setting threshold levels for the purchasing of property by foreigners. These thresholds have again to be revised as Lm30,000 for an apartment and Lm50,000 for a house is again within the affordable field. These thresholds should not apply when purchasing occurs of vacant property in the village cores, as regeneration occurs.

The importance of this market may be gauged from table B, when noting that the average price for a foreign purchaser has increased from Lm12,055 in 1982 up to Lm70,389 in 2002. Also presently the number of contracts in 2002 at 465 is higher than the average for the period since the AIP act has been in force. The multiplier effect on the economy is also to be noted.

Recommendation 15 calls for a much awaited rent legislation review entrenched in the Constitution and acceptable to both sides of the House of Representatives. These rent controls have adverse effects on the maintenance effected to rented properties, longer tenancy rates, a high incidence of vacant properties, higher prices in the uncontrolled sector, together with an aggravation of the social housing problem.

If rent controls are removed studies have found out that rents in the uncontrolled sector would-decrease by 20%, in Malta this may be as much as double. This means that a present monthly tenancy of Lm150 would then have a market value of Lm90 monthly. Presently at Lm150 monthly, no incentive exists to lease out your residence for at that monthly payment a loan amount of Lm27,000 may be secured, whence a similar premises may be purchased.

Measures to be introduced for the gradual phasing out, are the initial revocation of the present practice of the right of the inheritance of the lease tenure. The present restricted rents pegged down at the 1939 level should be factored by 8. This considering the index of inflation as standing at 80 in 1939 and 640 as at 2002. The updated rental amount should be regularly updated on a 5-yearly basis, in line with the index of inflation. Maintenance is to be carried out as stipulated in the Civil Code, unless a lower rent upgrading factor is decided upon, stipulating a different maintenance agreement.

The rental amendments are to be carried out in the residential sector, as well as in the commercial sector as outlined in Appendix II.

Recommendation 16

Although the Public Private Partnership (PPP) scheme has been implemented successfully in various Government Departments, Government still expropriates land for its housing, instead of going into partnership with the private sector.

In a housing scheme if Government provides the land and management, whilst the private partner finances the construction costs, more units may be produced on an annual basis, than if carried out outside a partnership agreement.

Recommendation 17

If the affordable market is adequately catered for then the acquisition of property by EU Nationals may be beneficial to the social and economic fabric of the Maltese Islands.

The term “EU permanent resident” requires a definition, as a permanent EU resident does not abide by the 1974 law, known as the Immovable Property (Acquisition by non-Residents) Act, with a permanent EU resident not requiring authorization under the Act to purchase his first property, together with purchasing premises for his business activities.

Recommendation 18

The collection of capital Gains on property transfers is to be revised, for property to be on a level playing field with other form of investment, by having a much lower initial purchase stamp duty.

To encourage the regeneration of the urban conservation areas a reduction to capital gains should be applied for these developments. This would encourage the utilisation of the present acute vacant property problem.

Recommendation 19

Buyers have to be made aware of the possible future pitfalls of the present low interest rate mortgage market. What happens if and when interest rates rise again? A rise of 2 to 3% over the next years would raise interest costs by 33% to 60%.

Prospective homebuyers should learn the new low inflation housing market game by moderating their borrowings and house price bids, together with taking the longer time horizon associated risks into account.

vRecommendation 20

The Property Market is to consider a greater reliance on renewable sources of energy production, as presently it is imposing a great strain on power generation, with future exponential growth expected.

New developments are to consider future installation of such renewable sources in their constructions, with planning gains being given to developments proposing to be fuel sufficient. Developments proposing large proportions of glazing on their facades should not be considered favourably.

MALTESE PROPERTY MARKETS

PROPERTY WORKING GROUP

DENIS CAMILLERI - Technical coordinator

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BICC PUBLICATION A 98 (11/00) – RESIDENTIAL PROPERTY MARKETS CONSIDERED TO DATE – RECOMMENDATION NUMBERS:

- 1 No measures to be introduced to halt the present healthy state of construction/property industry
- 2 Commercial property facts + research units
- 3-5 Housing types updated
- 6 Regeneration of our historic centres affects also the social, cultural and environmental aspects of these areas
- 7 Land hoarding + vacant property measures to be identified
- 8 Unopened streets – by not providing access, restrictions on supply of land occur

- 9 Joint office – advocates transfer of land to meet countries most pressing social needs
- 10 Incentives to multiple owners to bring inherited property onto the market
- 11 Land Registration – importance being incorporated into Central Registry
- 12 Government's intervention on being established that owners of property are unknown
- 13 Lm1 million Budgeted to H.A. to yield more
- 14 Foreign purchasers – concessions in these areas requiring economic injection, same as in designated areas

- 15 Rent legislation review to include also commercial property
- 16 Mechanics of PPP outlined identifying housing + commuted parking fee
- 17 EU – provided the affordable property market is well catered for, the acquisition of property by EU nationals may be beneficial socially & economically
- 18 An updated Duty on Document Acts to discourage under declaration of property prices, hence obtaining a reduction on Stamp Duty
- 19 Overview of the Mortgage Market
- 20 Greater reliance on renewable sources of energy expected

Residential Property Data of the Maltese Islands

- Affordable housing capital growth (1982 – 2002) 7.43% p.a.
- Upmarket housing capital growth (1982 – 2002) 8.35% p.a.
- Affordable housing plots growth (1982 – 2002) 16.4% p.a.
- Building Cost increases (1982 – 2002) 1.25% p.a.
- GDP per capita growth (1982 - 2002) 5.8% p.a.
- Median wage growth (1982 - 2002) 4.4% p.a.
- Retail price index growth (1982 - 2002) 2.5% p.a.

Homelessness rate is 1 in 1750 inhabitants for Malta, Spain,
Portugal & Greece

As compared to 10 in 1,000 inhabitants in the UK, France &
Germany

Comparing Maltese Commercial Rentals with the European Average

Property Type	Rental range of the Maltese Islands Lm/m ²	European Average Lm/m ²
Industrial	Up to Lm25	Lm37.50
Offices	Lm25 – Lm100	Lm230
Retail*	Lm30 – Lm175	Lm1,250

* Shopping malls as prime retail outlets fetch Lm550/m²

Over the past 20 years the price of property nearly doubles every 10 years with the price of land doubling every 5 years

YEAR	MORTGAGE MONTHLY PAYMENT		MEDIAN FAMILY INCOME**	QUALIFYING MONTHLY INCOME		RATIO OF QUALIFYING FAMILY INCOME		HAI	
	3-bed	2-bed/r		3-bed	2-bed/r	3-bed	2-bed/r	3bed	2bed
1982	Lm60	Lm42	Lm184	Lm240	Lm168	1.3	0.91	77	110
1987	Lm69	Lm49	Lm242	Lm276	Lm196	1.14	0.81	88	123
1992	Lm108	Lm72	Lm320	Lm432	Lm288	1.35	0.90	74	111
1997	Lm165	Lm106	Lm427	Lm660	Lm424	1.55	0.99	65	92
2002	Lm169	Lm113	Lm522	Lm676	Lm454	1.29	0.86	77	116

**the median family income is factored at 1 for 1982, and by 1.35 for 2002 to account for the effect of the 2nd wage earner.

RESIDENTIAL MARKET SECTORS (3-5)

- Development Levy for villa sites to be proportion of the land value or equivalent to an affordable premises
- Height relaxation to be considered in relation to the present low housing densities outlined in Appendix III, together with the legal requirements of street widths
- Where additional storeys granted, the parking policy is to be relaxed, as an unsustainable transport problem is being created

JOINT OFFICE (9)

Apparently property may be given out to the private sector, which then will have no restriction on its use, when the transfer of land here is to meet the Country's most pressing social needs, in particular social housing, homelessness, educational & cultural purposes

INHERITED PROPERTY OF MULTIPLE OWNERS (10/12)

Multiple Owners have a share:

- > 50% may apply to Inheritance Tribunal
- < 50% have to institute a civil case

Government Intervention required when owners unknown

LAND REGISTRY (11)

A central registration unit is expected for efficiency to increase, since presently only 1/6 of Malta is registered

HOUSING AUTHORITY'S IMPORTANCE IS GREATER NOWADAYS (13)

- Due to a greater range in house prices
Lm1,000/m² down to Lm170/m² – affordable
rate Lm270/m² nowadays

This compared to:

Lm170/m² down to Lm45/m² – affordable rate
Lm70/m² in the early 80s

- On the Eve of EU accession Note that
affordable housing has already increased by
over 15% in value
- The above entails a greater provision of
affordable units given the same Lm1 million
revenue with which the housing authority
presently builds 200 units p.a.

HOW CAN THE H.A. ACHIEVE MORE WITH LESS?

- MEPA commuted fees from residential planning gains
(Also MEPA commuted parking fees should be utilized for parking facilities)
- PPP Principle was created for housing (16)

ANALYSIS OF MARKET VALUE

OF AFFORDABLE APARTMENTS IN 2002 (16)

MARKET VALUE		Lm270/m ²
<u>Development costs</u>		
Construction Costs	Lm100/m ² (37.5%)	
Land Value	Lm100/m ² (37.5%)	
	-----	Lm200m ²

Residual amount for Risk, Financing Costs, overheads & Development profit (25%)		Lm70/m ²

FOREIGN PURCHASERS (14)

Over the past 27 years AIP Permits issued have averaged 400 annually

Foreign buyers prior to 1998 purchased properties in the affordable range but presently are going for more upmarket properties.

Property Thresholds are to be revised, as they are presently below the affordable range

The annual residential property permits granted to foreigners

Year	Permits	Average Value	Price/sqm	Median Price/sqm
1982	175	Lm12055	Lm89	Lm70
1987	351	Lm10368	Lm77	Lm91
1992	315	Lm19860	Lm147	Lm150
1997	163	Lm34667	Lm257	Lm220
2002	465	Lm70389	Lm502	Lm270

RESIDENTIAL & COMMERCIAL PRE-1939 LEASES REVIEW (15)

1. Inheritance of leases to be immediately abolished reverting to market levels on expiry
2. Regulated residential leases to be factored by a value of 8 presently updated according to the present index of inflation as compared to 1939 value, and reviewed on a 5-yearly basis
3. Commercial leases to be brought on a level playing field with government leases, immediately updated to market rental levels, taking account of the goodwill obtained.

EU RESIDENT IS GOING TO BE TREATED IN 2 DIFFERENT WAYS (17)

Holiday residents – AIP regulations still apply

1. Permanent EU Resident – same conditions as a Maltese what defines permanency?
2. European companies with no restrictions?

CAPITAL GAINS TO BE REVISED (18)

- A lower initial purchase stamp duty would put property on a level playing field with other forms of investment.
- Regeneration of UCAs may be encouraged by means of a reduction in CGT

MORTGAGE MARKET (19)

Buyers have to be made aware of the present low-inflation era.

Buyers should learn the low inflation market game by moderating their bids.

Buyers should be shown the economic benefits of opting out of the present very long loan periods, being offered

SUSTAINABLE DEVELOPEMNTS (20)

New developments are to consider future installation of renewable energy sources, with planning gains given to fuel sufficient developments.



Property Market Report 2003

Recommendations by
The
BUILDING INDUSTRY CONSULTATIVE COUNCIL

PROPERTY WORKING GROUP

DENIS CAMILLERI – Technical coordinator

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Recommendation 1

Government's intervention in the Property should be minimal, occurring only to be directed at addressing inefficiencies in the market mechanism. Currently it is recommended that due to the healthy state of the construction/property industry no measures are introduced that could halt the smooth running of the property market development. Furthermore it is recommended particular attention be given for the property market to be at a level playing field to other forms of investment.

Government has recently issued data showing the increase in the turnover of the construction industry, together with a hefty increase in the value of the annual property transactions.

The upturn in the construction industry has been helped by the collapse of Stock market, both locally and globally. People have reinforced their feeling that investment in the Maltese Property Market is a solid investment, after this feeling had cooled down for a short 1 ½ year period at the turn of the century due to the highs registered on the local Stock Market, with the resultant bubble burst. These events will surely have a long term salubrious effect on the Construction Industry, as the past indications are that the Property Market appears less volatile.

The present increase in the property transaction turnover on the other hand may be transitory due to the recent repatriation of foreign investments, as a proportion of this money has ended up in the property market.

Recommendation 2

Government, through the BICC, together with MEPA as an interested organisation, is looking with prospect to the setting up of a centralised research unit which monitors the functioning of the property markets. This should not be limited only to residential property markets but should also focus on commercial property.

The BICC in conjunction with MEPA are to finalise an agreement with the Public Registry, whereby details of landed transactions would be available as a data-base.

The commercial property facts have been delved into, listed as Appendix II.

The next 3 recommendations dealing on “Residential Market Sectors”, refer to the following data from Dhalia's records in table A spanning over 2000 – 2002

Table - A

Type of Dwelling	Price Lm-2002	% increase pa.	Price Lm-1999*
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		2000-2002**	
Terraced house	85000	9 (9)	65309
Apartment	52000	9 (15.5)	32529
Maisonette	50000	9 (7.5)	40056
Maisonette S/D	72000	n/a	
Penthouse	120,000	20	
Semi-detached	112,500	6	
Detached	130,000	5	
Converted character	78,000	12	

- * PA housing Topic Paper 2001 – estate agents records.

- ** % increase 1999-2002.

Over the past 20 year period the rate of increase for affordable apartments is taken at 7.10 %pa, whilst for prime apartments is taken at 8.35 %pa (refer to Section 1 Appendix I) . The above rates of increase of 9% pa over a 2 year period coincide with values over a longer time span. The 20% increase for Penthouses and the 17.5% increase for apartments over the 1999-2002 may be explained by sales at the upmarket Portomaso project, which over this particular period had moved the average up.

Recommendation 3

Government should maximise returns from this sub-sector to be used to help other sub-markets. The high amenity areas necessary in such developments is to be ensured by the PA to enhance their market value. Site coverage areas are to be increased where they are less than 50%, thus reducing the villa site size, hence reducing its environmental impact on the Maltese Islands.

The low price rate of increase for Villa developments from table A at 5 ½ % over the past 2 years as compared to the average residential increase at 9% for the same period is interesting. Is it possible that a reduced demand exists for such properties due to high maintenance costs, they are not viewed as safe investments, considering the upmarket property developments being undertaken? The average price ratio of villas relative to the average apartment stands at 2.4. In publication BICC A98 it had been quoted that the same ratio had changed from 2.48 in 1989 to 3.43 in 1999, further demonstrating the decline in popularity over this short period. The NSO Living Space Survey (22/10/02), however confirms that the proportion of villa residences is still the same as per 1995 Census at 8.4%. The PA gives the number of permissions granted for villa sites over the period 1994-2000 as averaging a stable 3% pa, with a low of 2% in 1994 and highs of 4% in 1997 & 1998.

The present development fee at Lm1,500 for a bungalow site is no form of disincentive, when compared to a plot value topping the Lm150,000 mark. The DPF fee should be a

certain % of the current villa plot market values, being equivalent to the cost of an affordable premises. The PA Housing topic paper estimates that in the coming 20 year period 350 villa sites would apply for a building permit.

Probably a better high-tech construction is to be expected of these high amenity areas. The PA should anticipate a considerable number of demolition and re-erection requests in these villa brownfield sites and above recommendations are to be carefully considered.

Appendix III quotes low villa development densities presently. Increasing the site area coverage is to be considered, thus obtaining an increase in the units constructed

Recommendation 4

The efficiency of the terraced house market is to be encouraged, with the upgrading/finishing of vacant properties on condition that such properties be released onto the market within a specific timeframe. Further the more efficient use of these properties, by splitting up into more than one unit is to be encouraged, hence preventing further degradation of the environment by reducing the further land take-up. Where height relaxation on density grounds is to be granted, the parking policy for the additional storeys is to be relaxed.

The increase in market value of terraced housing over the immediate 2-year period, as per table A, at 9% pa, is in the line with market increase over the past 20 year period. . The NSO Living Space Survey (22/10/02), confirms that the proportion of terraced housing has decreased from the 1995 Census figure at 42.54% to 37.6% in 2002. The PA Housing topic paper further confirms that permissions granted for terraced houses has decreased from 23% in 1994 to 10% in 2000,, dipping further to 5% in 2001. It is to be noted that terraced house 2 storey developments are being demolished to construct basement car-parking, a ground floor maisonette with 2 overlying apartments. Amongst other environmental considerations it would make for the installation of a lift, thus improving accessibility to be more feasible. The allowable housing densities outlined in Appendix III, should act as a guide to the impact of height relaxation. The present PA parking policy particularly in sites well served by Public Transport, as pointed out by the Chamber of Architects & Civil Engineers are to be relaxed, as this policy is advocating the use of the private car, creating an unsustainable transport problem.

Recommendation 5

In order to encourage the provision of smaller apartments in line with present and projected household size, Government should offer incentives, whilst property developers should be made aware of the necessity of smaller properties. This however, not at the expense of reducing the living sanitary standards together with the attached amenities. Again where additional stories are to be granted, the parking policy is to be relaxed.

Developers should find no problem in supplying smaller units, as the greater number of units obtained from a development site, the greater the profit. Presently developers are creating a mix of 1,2 & 3 bedrooled premises in their developments. If not as much smaller properties are being supplied, is there a real request for the smaller property? From an affordable point of view, 1st time buyers should request this type of smaller property, but is this the case? Are space requirements gaining in importance for the modern smaller household size?

With the dimensioning family size noted in the PA Policy Guidance 2000, and in the PA Housing Topic paper reference has been made to smaller residential floor areas. This has been guided via the expected family projections over the next 20 year period, where the household has typically one or at most two professional people, no children (or maybe some children who are in the custody of the separated partner, but come back to the other one at the weekends) and some friends and quite a lot of need for workspace. It is further known that people nowadays have much more possessions and much more complex needs for space, than 40 to 50 years ago.

Again height relaxation as mentioned in recommendation 5, could help solve the problem of building to the same size but achieving a greater number of units.

Over the past 20 year period the rate of increase for affordable apartments is taken at 7.10 %pa, whilst for prime apartments is taken at 8.35 %pa (see Section 1 Appendix I). Over the past 2year period, from table A, the rate of increase of 9% pa, coincides with values over a longer time span. The 20% increase for Penthouses over the 2000-2002 period may be explained by sales at the upmarket Portomaso project, which over this particular period has shifted the average up.

The NSO Living Space Survey (22/10/02), confirms that the proportion of apartments has increased from the 1995 Census figure at 23.05% to 27.4% in 2002, whilst the proportion of maisonettes has remained constant at 24.4%. The PA Housing topic paper further confirms that permissions granted for apartments has increased from 52% in 1994 to 62% in 2000, increasing to 64% on 2001, whilst for maisonettes varying from 23% in 1994 to 25% in 2000, peaking at 31% in 1997, however reducing to 18.5% in 2001. The % permits for apartments/maisonettes granted has increased from 75% in 1994 up to 87% in 2000 with an average number of 2962 permits granted annually. The highest number of permits granted in 1995 stands at 4229, whilst 2369 were granted in 2000.

Recommendation 6

Rehabilitation of property in Urban Conservation Areas should be encouraged. Government entities should promote such rehabilitation by focusing their policy on positive discrimination in favour of such rehabilitation. This should apply to most Government entities, from the Tax Department, to the Malta Environment and Planning Authority, to Enemalta Corporation and so on, in order to encourage the true regeneration of the entire area through an increase in market demand.

A trend initiated by foreigners, the rehabilitation of houses of character is now an established form of acquiring first time residential properties. These are old properties located in the urban conservation areas. In land use planning terms, their rehabilitation is the most sustainable way forward, given that of the 23%¹ vacant properties, a significant number of these remain in our historic urban conservation areas. Supply is greater than demand, whilst problems and costs are higher when compared to other forms of development. This market has not yet fully developed and hence needs to be encouraged further by the authorities.

One example of such measures should be the simplification of the transfer of properties through action by the Tax Department. The provisional tax paid on account of capital gains when the deed of transfer is made, should, at the vendor's option be reduced but considered as a withholding tax, as is currently done with interest on bank deposits.

Another example could be affected by the Malta Environment and Planning Authority. Today's realities show that preservation alone is not enough. The concept of conservation has to be applied at the village dimension rather than to the property level only. Again, this is the attitude adopted in the formulation of local plans, but this attitude needs to be taken on board to other levels, for example at the development control level and at local council level. The Planning Authority needs to be more flexible when considering applications in Urban Conservation Areas so that it will be achieving true conservation on a UCA level, rather than preservation of individual properties. Frustration due to too many restrictions negatively affects the demand for such properties, reducing the chances of conservation on the village level. Where redevelopment is a more practical solution, including the introduction of mixed uses, this should also be encouraged where possible. Agreements could also be reached with the various local councils regarding the provision of advice by MEPA on establishment of holistic UCA management practices. This will help Local Councils in the implementation of Local Plan policies.

Yet another example of encouraging the reuse of UCAs, Enemalta could have lower rates for properties in such areas. There are many other examples that each government

¹ Malta Census 1995, Volume 6, Table 24, p. 454.

agency or department can take on board to improve the regeneration of property in UCAs.

Why does discrimination exist with the Designated Areas, Portomaso, Tigne', Cottonera and Chambrey? If foreigners may purchase more than one property and even lease them out in the designated areas, why not in the UCA's, where the turnover of property and use of the vacant properties helps towards re-vitalising these areas? This should be included together with the other positive discriminations in favour of UCA rehabilitation.

Recommendation 7

Land hoarding together with the high % of vacant premises should be discouraged, with measures introduced to encourage the phased release of land & vacant property onto the market, with infill sites being considered a priority. Other recommendations e.g. 12 & 17 in this report encouraging the use of vacant property and land combined with positive measures should also be considered.

Land hoarding is still rife, understandably due to annual capital growth of building land standing at 16%pa over the past 20 year period. Vacant properties at 23% of the total, is equally excessive when the proper functioning of the property market only requires a vacancy provision of 4%. It is inconceivable how such a densely populated island has the highest global residential market vacancy rate.

The PA housing topic paper, 10/02 places emphasis on the development of brownfield sites besides infill sites. Brownfield development is catching up, creating a more sustainable form of property development. One however poses the question. If our building stock with a design life which easily exceeds 70 years, how is it that 30 to 10 year old constructions are now deemed fit for demolition? Our present developments are surely unsustainable as they are not adequately designed with longevity in sight. The large floor areas previously provided for could be cited as a cause for the economic obsolescence of such recent constructions. The above points however should be weighed with the further facts that nowadays a 2-person household may require as much space as a previous 5 person household. Let's beware that the constructions we are now developing will not become again unsustainable in 30 years time.

The NSO Living Space Survey (22/10/02), has also been looked into. The total number of rooms is quoted for a terraced house at 10.3, 7.5 for flats, 7.7 for maisonettes. The average number of rooms quoted appear reasonable, however not the same may be stated for floor areas, which are grossly understated.

The average terraced house is quoted at 130sqm, a villa residence at 127.2sqm, a maisonette at 88.8sqm, an apartment at 85.2. Something is amiss here, for if an apartment of 7.5 rooms is considered at an average room size of 14.5sqm, this works out at 110sqm, something more in line with existing constructions. A villa or terraced

house averaging 130sqm falls well below the anticipated average which should exceed 200sqm.

Recommendation 8

Once the Planning Authority approves local plans, Government should ensure that road access is guaranteed. The Land Acquisition and Land Disposal Acts should be redefined and updated to today's needs.

The subcommittee notes little progress, if any, since the previous 2000 publication, with this recommendation still being very valid. If access to sites is not guaranteed, plots of land within schemes remain undeveloped, thus causing restrictions on the supply of land on the market mechanism.

Recommendation 9

Legal conditions for the transfer of ownership of existing Joint Office properties, together with restrictions on the permitted use of land could make it difficult to include such land and properties onto the land and property markets, resulting in possible unnecessary restriction in supply. However, Government may by transfer of Joint Office property safeguard the environment and the development of agriculture, whilst also meeting the country's most pressing social requirements, such as social housing, homelessness, public utilities, educational and cultural purposes.

The above is according to an extract from Act IV of 1992, which however, forbids such transfer to political parties or to entities not in conformity with the moral teachings of the church. Call for tender, lot or a graduated scale of points shall make the transfer of such property. The provisions of the Disposal of government land act 1976, also holds.

Recommendation 10

Government should offer incentives to multiple owners of land and property within scheme to release such property onto the market, mainly through improvements in legal provisions and procedures.

Many properties in Urban Conservation Areas have problems of multiple ownership. The main reason for this is due to inheritance. As such property may be owned by various relatives, distant or not with some of them possibly abroad, it could be difficult for them to be sold.

The Law Courts presently provide recourse to multiple owners having a share exceeding 50%, who can apply to the Inheritance Tribunal for a judgement within 6 months, whereby no appeal of decision is possible. If ownership is less than 50% than a civil lawsuit may be instituted, which may take years for a decision to be passed, which decision may further be subjected to an appeal. Following any of the above decisions a sale by litigation occurs.

Recommendation 11

The immediate and comprehensive identification of all land and property in the Maltese Islands should be a priority for Government, as such a cadastre will facilitate the efficiency of the market mechanism.

Although the Land registration Act was introduced in 1982, the Maltese Islands still lack a comprehensive property ownership data base. Presently only a 1/6th of Malta is a registration area, making it very difficult sometimes to identify the real owners of mostly older properties. Government and Joint Office landed property in all areas are however, to be registered, following Government Notice 534/2000 which states that the Lands Department, on behalf of the Government of Malta, can register property situated anywhere in Malta, even if outside designated registration areas. Since owners are not identified, properties remain vacant not forming part of the market mechanism, creating inefficiencies due to the unique property of this unusually high permanent vacancy rate tending towards a 1/4 of the whole market. Presently a scheme exists for Valletta, Floriana and The Three Cities areas for compulsory registration, with architect/notary services being undertaken by the Land Registry Department. All that has to be paid is the Lm20 registration fee and if any improvements/refurbishments are undertaken to these registered properties, works undertaken are VAT exempt. These measures are to help towards the regeneration of these areas. However, to date only 500 registrations have occurred. Is this due to weak publicity for the scheme?

It now imperative that comprehensive registration via a Central Registry of the whole Maltese Islands is undertaken, if advantage is to be taken of the Private Public Partnership (PPP) schemes. For this to occur the bill, to amalgamate the Land Registry, the Public Registry and the Civil Registration Department is to be presently undertaken thus establishing one central registration system is obtained. The Public and Land Registries are presently being linked by an exercise of assigning houses with numbers. The Civil Registry currently deals with passports and the registration of births, deaths and marriages, with the issuing of certificates presently done by the Public Registry. The Civil Registry also owns the Common Database, having civil information on individuals. This new law would open the way for a comprehensive property ownership database since it does away with the concept of registration areas and thus any act relating to immovable property situated anywhere in Malta would be registered.

Eventually 2 databases will be established, one dealing with property and the other with individuals, linked via addresses. The new law will lead to 1 application and search for

Land and Public Registries. The law will also include conflict resolution whereby lawyers will offer mediation and resolution instead of initiating court action.

Recommendation 12

Where after adequate research, it is established that the owners of properties are still unknown, Government's intervention is necessary for the supply of the market not to be restricted.

Government should use the powers vested to him in the 1995 amendment to the Land Registration Act referring to unknown owners.

Section 16A gives the Land Registrar the right to register property on behalf of unknown owners and such property would then be administered by the Government of Malta on behalf unknown owners. The law provides that after the lapse of thirty years, the property is then registered by a guaranteed title in the name of the Government of Malta.

Recommendation 13

Government should not be the direct player in the property market, but should assume the responsibility to better monitor such market so as to address its inefficiencies, including housing provision for the real social cases, whilst buffering any increases in the affordable residential market.

The role of Governments is contentious. Indeed any form of state control is delicate, because the volatility of the market makes it extremely difficult to gauge the effect of intervention irrespective of whether policies are in the form of taxation, planning or price controls, they all entail some form of economic or social risk or both. On the other hand "A Housing Policy with a Human Face", should be adopted as leaving the right to shelter to an anonymous market would not be right, nor correspond with the UN recommendations.

The importance of the Housing Authority may be gauged from its past history since the mid-seventies. In the early eighties the distribution of housing plots helped stabilise an affordable housing market. But with hindsight nowadays it is seen to have created unsustainable development in terms of land area with the take up of rural land and the requirements for further private transport provision. The number of road vehicles having nearly doubled from 1985 to 1995. Presently the distribution, by the Housing Authority HA of an average 200 annual subsidised affordable properties, corresponding to approximately 10% of the annual affordable property demand has helped towards the improvement of the quality of life of the Maltese families.

In the early eighties the property price range varied from Lm170/m² down to Lm45/m², with the average affordable property standing at Lm70/m². Then the average housing affordable index (HAI)* was taken at 77 for a 3 bed/r and at 110 for a 2 bed/r (table 8 Appendix I).

Presently the property price range varies from Lm1000/m² down to Lm170/m², with the average affordable property standing at Lm270/m². Now the average housing affordable index (HAI)* is taken at 77 for a 3-bed/r and at 116 for a 2bed/r (table 8 Appendix I).

The present importance of the Housing Authority is to be further stressed noting the greater range in property prices varying from 4 times the cheaper property in the early eighties to the present 6 times range. Again the average affordable property in the early eighties was only 2 ½ times the most expensive properties, whilst nowadays the prime properties are at 4 times the average affordable properties. The present improvement in the HAI from 65 up to 77 over the past 5 years is mostly due to the lowering of the mortgage rates from 8% in the early eighties to the present day average of 4.5% The HAI index is presently back at the 1982 level. If the global economic situation were to shift towards higher interest rates, this would entail a lowering of the quality of life, as present housing repayments would increase. Prospective homebuyers should learn the new low inflation housing market game by moderating their borrowings and house price bids, together with taking the longer time horizon associated risks into account.

The care and repair HA scheme is to be encouraged, as social housing assistance is not to be meted out solely to the pending 3, 000 social housing applicants. It is well known that most assistance goes time and time again to the same family groups, as they are well versed in Government's assistance programmes. There exist households who do not have the drive to seek assistance and these have to be brought forward via the Local Councils, the Parishes and other socially motivated citizens (refer to Section 6 Appendix I).

For a significant minority homeownership is not the case and policies should be focused on encouraging *sustainable home provision*. Sustainability is a difficult challenge. Mixing households of different tenure and different income levels is essential if a community is to feel sustainable. It is vital to avoid heavy concentrations of low-income households, especially if many lack employment. For balanced, sustainable communities, it is vital to integrate social housing with other types of housing and land uses. Some form is required to manipulate the system to ensure affordability.

The Planning Authority should encourage and incentivate developers to provide buildings for affordable housing provision or risk being refused permission. This should lead to mixed-use developments and adequate supply of an appropriate mix

Noting the above the HA has to deliver more with its Lm1 million annual revenue allotted from Central Government. This probably being of greater importance now pending Malta's accession to the EU (Recommendation 19). The property market is governed by the crowd herd mentality. Whether or not there will be a substantial take up of property by EU nationals is not important. If the feeling goes round that EU nationals, true or false, are purchasing property the market is going to react by an increase in the affordable property market. The affordable property capital growth of 12.3% for 2003, as opposed to 5.4% for 2002, compared to the 7.1%pa recorded over the past 20 year period is to be taken note of. This has to be counteracted by the HA by providing more than the present 200 annual units. One way of doing this with the same budget allocation is by going for Private Public Partnership PPP developments as outlined in Recommendation 18. Note that presently each housing lot presentation leaves from 85% to 95% unsatisfied applicants.

The Lm1 million annual revenue to the HA, may also be topped up via planning gains granted to residential developers. The developers may either be requested to provide a specified proportion for affordable housing or better still a commuted sum could be reserved towards the provision of affordable housing.

Housing is not a 'one-department' issue. Housing actually affects more departments, as housing issues cannot be divorced from social security, health, education, crime and even trade and industry. The Authorities are to continue the joined up thinking which housing demands.

Recommendation 14

In formulating policy which affects foreign buyers, as opposed to EU Nationals, Government should be sensitive enough to differentiate between the respective residential property markets. In those areas where injection is needed, due to presently low local investment, foreign purchasers should be given the same conditions, as in designated areas, together with property values not pegged to any level. For up market properties, indirect positive Government intervention, such as facilitating overseas marketing campaigns is recommended.

Since 1974 when a foreigner purchases property in Malta, it has to be registered via an AIP permit. 11,185 permits have since been registered, i.e. an average of 400 permits per year. Table 18 in appendix I gives details of these foreign resident purchases, peaking in 1989 at 899, then plummeting to 155 in 1998.

Table B – No. of AIP permits issued, average price compared to affordable property rate (refer further to Section 15 Appendix I).

YEAR	PERMITS	AVERAGE VALUE	PRICE/SQM	AFFORDABLE PRICE/SQM
1982	175	Lm12,055	89	70
1987	351	Lm10,368	77	91
1992	315	Lm19,860	147	150
1997	163	Lm34,667	257	220
2002	465	Lm70,389	521	270

Table B shows that the number of transactions to foreign purchasers in 2002 is again above the 27 year average at 400 annual permits. Another interesting point is that for the 1st time since 1982, these foreign purchases are well above the affordable price range. In 1987 and 1992, foreigners were actually purchasing properties below the minimum local standards. It appears that the recent upmarket developments are appealing to foreigners. This stresses the point that foreigners should not compete with Maltese for affordable residential properties. Setting price levels below which foreigners should not purchase had catered for this in the past. Price levels had previously been set at Lm6, 000, Lm8, 000, Lm15, 000, and presently at Lm30, 000 for an apartment and for the 1st time at Lm50, 000 for a house. As these levels are within the affordable range updated price levels are now to be set. Rental conditions should also be redefined, as a liberalised rental market could bring presently vacant property onto the market. Again foreigners should not compete in the affordable rental market but limits should be set below which foreigners may not rent out. Mortgages to foreigners could also be looked into as presently a foreigner may obtain a loan of 70% of the property's value over a period of 20 years.

These levels should not apply for vacant properties in the Urban Conservation Cores UCA's, as sales to foreigners here help towards the much desired urban regeneration, as by injecting activity in such areas, their image is improved.

On the whole foreign purchases leave a multiplier effect, strengthening the macro economy, providing employment in the related trades, increasing commercial activity, and providing added value to generally depressed areas. When foreigners compete for upmarket properties, mostly to the credit of very active estate agents and their overseas marketing campaigns, the macro economic benefits exceed any inflationary effects that might be present. It is only when foreigners compete in the affordable market that the inflationary effect can be observed.

Recommendation 15

The present rent legislation should be comprehensively reviewed with the aim of establishing a true residential property rental market, with legislation being acceptable to both sides of the House of Representatives. It is being accepted by Maltese Society that inheritance of a lease is an unjust measure and should be abolished forthwith. Regulated rents still running should have the 1939 rental value immediately updated to the 2002 level according to the index of inflation, updated regularly on a 5 yearly period.

The effects of the Maltese housing market due to rent control since 1939 are well known. These rent controls have been controversial, due to the adverse effects of

- 1/. lower maintenance by owners,
- 2/. longer tenancy rates,
- 3/. vacant properties
- 4/. higher prices in the uncontrolled sector
- 5/. an aggravation of the social housing problem

Table C - % No. of dwellings by ownership (refer further to Section 5 Appendix I).

Year	owned	Free of charge	Rented furnished	Rented unfurnished
2002*	70.0%	3.8%	2.6%	23.6%
1995**	68.0%	3.69%	2.49%	25.82%

* Living Space Standard (2002)

** Malta Census 1995

Although from above table C the rental market accounts for just over a ¼ of the total housing tenure, not more than 2% of the 33,781 rented premises appear to be rented out at market values. Just more than 50% of this amount are rented out at a fraction at less than Lm50pa. This distorted rental market is not producing sufficient rental properties for the market, with the resultant strain on the availability of affordable properties for the 1st time buyers.

From the 1995 Census of the 33,781 leases, 27,015 units (82%), are leased out for less than Lm100 pa, whilst 17,343 units (51%), at less than Lm50 pa. Is it here that the bulk of the 7,731 occupied sub-standard and inadequate dwellings are found? This could further be confirmed when noting again from the 1995 Census of the 7731 substandard and inadequate occupied dwellings 77 ½% are located in the Inner and Outer Harbour Region. In these regions 4/5's of all the leases less than Lm100pa and ¾'s of all the

leases less than Lm50pa are found. An accepted principle is that households should pay around 15% to 30% of their income to secure a rented home. Above rental amounts of below Lm50pa and Lm100pa relate to ¾% & 2% of the median household income respectively.

The 1995 amendments should be entrenched in the Constitution and must be reinforced with the necessary mechanisms. The old residential leases should be gradually phased out, initially by revocation of the present practice of the right of the inheritance of the lease tenure. The index of inflation as standing at 80 in 1939 and 640 as at 2002. The updated rental amount should be regularly updated on a 5-yearly basis, in line with the index of inflation. Maintenance is to be carried out as stipulated in the Civil Code, unless a lower rent The present restricted rents pegged down at the 1939 level should be factored by 8, considering upgrading factor is decided upon, stipulating a different maintenance agreement. Measures should be introduced to encourage the financial institutions to enter the private rented market.

A study carried out in the US, concluded that if rent controls were removed, rents in the uncontrolled sector should fall by 15 – 25%. In Malta due to the long drawn out restrictions, this reduction may be even higher tending towards 50%. The present uncontrolled rental market of affordable properties constitutes only 1 ½% for 1-bed/r, ½% for 2-bed/r and ½% for 3-bed/r affordable premises as compared to the total rental market, according to the 1995 Census.

It is to be noted that in Finland, following regular market deregulation since 1991, between 1992 and 1996 an estimated 50, 000 rented private dwellings came onto the market. This deregulation of rents was motivated, by a desire to expand the private rental sector, so that it could become a true alternative to owner-occupation. Considering Finland's 5 million population and 2 million households, compared with Malta's one third of a million populations and one eight of a million households, Finland's 50,000 extra dwellings would correspond to an additional 3125 extra dwellings for the Maltese islands. The 3125 additional dwellings over a 4-year period are equivalent to 800 annually. Most of these would be provided from the existing vacant housing stock (Section 7 Appendix I).

The answer could possibly lie in that more emphasis has to be on *sustainable affordable provision* as opposed to sustainable home ownership. Home ownership is to be encouraged as long as those who want or need to rent are not discriminated against. The concept that the ideal tenure is homeownership should be discouraged. Home-ownership is the enemy of mobility and leads to wasteful housing fit and unnecessary travel. A healthy rental market would make available an existing housing stock; better utilization and upgrading of rented properties and generally give new life to degraded urban cores and services. It would make considerable state finance available for upgraded services and subsidies to really deserving cases.

To be noted that Malta's membership to the EU would not affect its rent or emphyteusis laws as the EU has no rental laws, with each member state solving its housing problem in its own particular way.

This recommendation should not be limited solely to residential premises, but the commercial market should also be included, as noted in Appendix II.

Recommendation 16

Government should encourage the adoption of the PPP principle in most of its projects, applied via public sector agencies, including Local Councils, Government Departments and Parastatals.

As a concept it can be applied to any scale of project, from the embellishment of a square in a specific locality, on to any multimillion project. It appears to have been implemented successfully to the landscaping of arterial roads.

The main objective of PPP is to combine private and public sector skills to deliver and operate public finance projects more efficiently and for which in return the private sector achieves an income stream while the public sector achieves a more successful project or service.

It is presently not clear how the Housing Authority has not initiated this. The PPP principle does not consist in giving out the Joint Office land to the private developer for him to make a profit, but by entering into partnership with the private sector for the HA's fund to increase the supply side of the market.

The following example explains the above principle.

Analysis of Market Value of Affordable Apartments in 2002

Market Value = Development Costs + Development profit/overheads.

Market Value	<u>Lm270sqm</u>
Development Costs	
Construction Costs	Lm100sqm (37.5%)
Land Value	Lm100sqm (37.5%)

	Lm200sqm

Residual amount for risk, Lm 70sqm (25% of Development Costs)

Financing costs, overheads development profit

In a housing PPP scheme, the private sector provides the construction costs, whilst the Authorities manage the developed land together with obtaining the necessary permits. The Authority's task reduces most of the normal development risks for the private sector, who is thus willing to accept a lower share in the development profit. The Authority's capital expenditure thus relates to the management involved in the building up of the development site, together with acquiring the facilities of a partner for constructing the development. The private partner on disposal of the units obtains his relative share, **calculated as a proportion of the total available according to above %'s at today's date as calculated above reflecting the risk/return relationship of each partner**, with the Authority obtaining the outstanding amount, which it can decide whether it is willing to subsidize a part residence or not on its disposal. As the Authority's expenditure on a particular PPP scheme is thus less than if completed without a private partner, it can thus produce more units in partnership.

To ensure a PPP housing project success, it is to be ensured that the legislative and regulatory framework is in place. This should ensure that parties to such leases are able to enter into a contract under which the tenant/landlord would forego his/her rights to the title of the property in return of a fair compensation and/or partnership arrangement. The necessary agreements need to be drawn up on a developed model contract, as to how the project is to be carried out. A limited liability company is formed with the capital participation of the private interested parties and the Government. Other individuals who may be asked to forsake property rights through land expropriation, may be given redeemable preference shares or bonds as a consideration. Amendments are necessary to the land disposal act and companies' act to enable the Minister to endorse these arrangements and be in a position to issue statutory instruments when a PPP project is approved

Another area where the Public is expecting it to be implemented is in the commuted sums levied by the PA for the provision of public parking. Presently the Kamra tal-Periti has indicated that a possibility exists of this revenue to be shifted onto the Public Transport sector. This is considered to be a wrong principle. If for example the Mosta commercial outlets have contributed for parking to be provided why should not the Mosta square be given over via the PPP principle for the development of a car park?

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Recommendation 17

If the affordable property market is catered for (see Recommendation 13), as not to effect the purchasing power of the Maltese to acquire their own home, then the acquisition of Maltese Property by EU Nationals may be beneficial to the social and economic fabric of the Maltese Islands.

Malta's request granted on the purchase of property by EU Nationals in Malta is to maintain, on a permanent basis, the legislation in place (see Recommendation 16) regarding the acquisition of secondary residences and real estate. This request is dictated by the size of the country, the density of population and the social effects that a substantial increase in demand for property would cause.

Under EU law, all EU citizens have the right to freely purchase property in any EU country. The size of our country and the density population helped Malta's case. Malta's land area is 1/8th that of Luxembourg, the smallest EU nation, whilst its population density at 1,191 persons/km² is 2 ½ times that of the presently densest country in the EU, the Netherlands. On the other hand the density of Sweden & Finland averages 20 persons/km². Malta's concern over EU membership, was that housing should not be less affordable, thus requiring a permanent arrangement not a transitional period.

Malta obtained a derogation, similar to Denmark's (125 persons/km²), in that EU permanent residents may buy a 2nd property after residing in Malta for 5 years. This derogation is to be annexed to the Accession Treaty of Malta, meaning that this legal arrangement may not be altered in future and may not be attacked in a court of law.

The term "EU permanent resident" is to be properly defined, as a permanent EU resident would not abide by the 1974 law known as the Immovable Property (Acquisition by Non-Residents) AIP Act. This means that if an EU citizen wants to buy a holiday home in Malta, then conditions of above Act still hold. On the other hand a permanent resident EU citizen, does not need authorization to purchase his 1st residential property, with no value thresholds applying and may purchase premises connected with his business activities in Malta. On the other hand he will not be able to purchase his 2nd residential Maltese home before he has settled permanently for 5 years. Bank loan conditions would be similar as for Maltese residents. Maltese returned migrants would have no restrictions, as evidently they would have resided in Malta for 5 years before leaving the country and this 5 year period remains sufficient even on returning after several years. On the other hand for Maltese migrants' children with a Maltese passport who have never resided in Malta, the above conditions apply.

Presently foreign purchasers may not invest in commercial property or rent out residential premises except in Market, as long as the property purchased is directly connected to their business in Malta, whether office designated areas. This is only possible presently in upmarket tourist developments. EU Companies on the other hand

would be able to invest in the Maltese Property According to the Department for Citizenship and Expatriate Affairs, to date to acquire a permanent resident permit, it has to be shown that applicant has an annual income equivalent to Lm10,000 or capital equivalent to Lm150,000. It has also to be certified that a minimum income is to be imported into Malta of Lm6,000pa plus Lm1,000pa for each dependent. A flat rate of 15% is charged on all income subject to a minimum payment of Lm1,800pa., whilst purchase of immovables is as per AIP regulations. For EU residents permanent residency conditions would be according to existing derogations.

space and or shop space. EU citizens and companies have the right to set up an Estate Agency in Malta, with the right to purchase property for their business and sell it freely to Maltese residents and to foreigners who do not have a first property in Malta.

On the plus side EU nationals would no longer purchase property for tax purposes, as these really do not reside in Malta. The permanent EU nationals could possibly opt to go for urban conservative areas, thus regenerating these depressed locations.

Recommendation 18

For the property market to be on a level playing field with other forms of investment, the initial purchase stamp duty is to be at a much lower level tending towards 1%, as in the UK. For this to be achieved, the collection of Capital Gains on property has to be totally rethought, giving no leeway for the developer to coerse the buyer into declaring a lower purchase price.

Referring to table 17 Appendix A, the average property contract values varied from Lm5,528 up to Lm7,407 in 1995, the year of introduction on capital gains. What is further clear is that the declared price has been subjected to a substantial change between the period 1995 to 1996, when the average price shot up from Lm7, 407 to Lm13, 580. This coincides with the introduction of Capital Gains Tax on Capital Transfer. Prior to this date under-declaration of the immovable value appears rampant, as the average contract price appears to approximate to 30% of affordable market value. In 1996 this value increased to 50% increasing uniformly to 70% by the year 2000, with the declared contract value now standing at Lm23925.

With regards to foreign buyers it is noted that the property average value has increased gradually from Lm13, 001 in 1989 to Lm72, 115 in 2000, with no jump in value identified over any period.. As noted in Recommendation 14, foreign buyers purchased property below the affordable limit from 1989 up to 1992, but from 1993 onwards foreign buyers appear to be going for more upmarket developments. The above indicates under-declaration to be minimal among foreign buyers.

The under-declaration of Maltese buyers is also reflected in the % of GDP @ current market prices. From 1989 to 1995 this averaged 7%, whilst from 1996 onwards this

averages 12%, ignoring the 1998 figure of 9.4%. If the base-line for the minimum transaction value is to be averaged to the affordable price, then a fairer indication is to be taken at 18% of the GDP.

Truly regulations should be amended not to encourage purchasers and buyers to under-declare their property transactions. When this occurs then the stamp duty on property transfer should be downsized from the present high values of 3.5% up to a value of Lm30,000, with the remaining amount being taxed at 5%. A revision of the stamp duty bands is to be revised to take account of the present affordable housing price, presently taken higher than Lm30000. This will then help to place property on a similar footing when compared with other investments in the Capital Market.

To encourage the regeneration of the urban conservation areas a reduction to capital gains should be applied for these developments. This would encourage the utilisation of the present acute vacant property problem outlined in Appendix A Section 7. Presently 3,219 vacant properties are found in the Conservation Cities, including Valletta, Floriana, the three cities, Rabat, Mdina and Victoria. In the urban conservation villages another 4353 vacant properties are to be found. This total of 7,572 vacant properties in the urban conservation areas is very representative of the 7,760 vacant dwellings mentioned again in Appendix a Section 7, which given the right climate may be brought onto the property market. MEPA has these urban conservation areas clearly mapped out, something that may be confirmed by a purchasers' architect when drawing up a commissioned property report.

Recommendation 19

Buyers have to be made aware of the possible future pitfalls of the present low interest rate mortgage market.

A prime cause of housing prosperity is lower interest rates. One of the most spectacular shifts in interest rate regime occurred in Greece – where between the beginning of 1999 and 2001 mortgage rates more than halved from 12.75% to 6.25% (Ball 2002). In Malta this has been more modest from the highs of the seventies at 8%, down to the present 4.75%. Lower interest rates together with further deregulation in the Banking Sector have also encouraged existing homeowners to re-mortgage. Alternatively they have re-mortgaged to withdraw housing equity to finance some other element of consumption. What happens if and when interest rates rise again? A rise of 2 to 3% over the next years would raise interest costs by 33 to 60% on a mortgage that is currently charged a rate of interest between 5 to 6%. What happens to the personal finances of those who borrowed large sums relative to their income. Furthermore with the present low inflation climate, the monthly paybacks are going to erode far slower than previously in the high inflation era, with a consequent lowering of the household quality of life. Previously the pinch of the monthly payments was felt in the early repayment years, now is this to endure for the 30 to 40 years repayment period, leading

to a new form of lifelong stress, reducing the required improved quality of life? Prospective homebuyers should learn the new low inflation housing market game by moderating their borrowings and house price bids, together with taking the longer time horizon associated risks into account.

Recommendation 20

The Property Market is to consider a greater reliance on renewable sources of energy production, as presently it is imposing a great strain on power generation, with future exponential growth expected. New developments are to consider future installation of such renewable sources in their constructions, with planning gains being given to developments proposing to be fuel sufficient.

The recent high demand for domestic air conditioning units has created peak electrical demands, both in winter and in summer, which our present power distribution system is not capable of coping with. Future exponential growth in demand is to be expected and decisions have to be taken, whether to increase power generation or to go for renewable sources relying less on fossil fuels.

Going for more power generation by not reducing reliance on fossil fuels is to go against EU Directive 2001/77/EC, which states that by 2010, the emission of CO₂ is to be reduced by 20%. Malta presently intends to have 5% of its electricity consumption coming from renewable sources by 2010, primarily through the installation of more domestic solar water-heaters.

Considering the above, the greater use of solar water-heaters is not enough. Should Malta look at other forms of renewable energy sources, such as photovoltaic production? This is presently not considered to be an efficient form of energy production, but as was the case of the RO water plants for Malta, could not photovoltaics be a local solution.

Water solar heaters are presently 50 – 80% efficient, photovoltaics are presently only 12% efficient. For Malta, photovoltaic panels could produce 5KWh/m²/day, at an approximate cost of Lm10, 000. This amount of 6KWh/day approximates to the domestic electrical supply required, excluding air-conditioning and a dishwasher. For these amounts the payback period exceeds 25 years, making the system not economically viable presently. This may change in the future if Malta were to purchase excess emission quotas, if the Kyoto commitments are not reached, from countries not polluting as much.

What does this all mean for the Property Market? Better utilisation & consideration of our large flat roof spaces to take renewable energy devices. Shading devices of our roof structures should be encouraged. In new developments, consideration of sloped south facing roofs on washrooms and stairwells in preparation for future installation of such

energy saving devices. Cross ventilation characteristics to reduce cooling load for new developments are to be considered favourably. Large glazed facades that consume a large amount of power for cooling should not be considered favourably. Large commercial developments proposing to be fuel sufficient should be granted planning gains.

Appendix I - Residential Property Data of the Maltese Islands

1/- Affordable housing capital growth	(1982- 2002) – 7.1% pa
Upmarket housing capital growth	(1982- 2002) - 8.35% pa
Affordable housing plots growth	(1982- 2002) - 15.8% pa
Building Cost increases	(1982- 2002) - 1.25% pa
GDP growth	(1982- 1997) - 6.8% pa
GDP per capita growth	(1982- 2002) - 5.8% pa
Median wage growth	(1982- 2002) - 4.4% pa
Retail price index growth	(1982- 2002) - 2.5% pa

Table 1 - Market Value Rates in Lm/sq m for the median Maltese Apartment (in-house valuations) in areas sought by 1st time buyers.

Year.....	1982...	1987...	1992...	1997...	2002...	2007
Rate.....	70.....	91.....	150...	220.....	270.....	390

Over the 20-year period 1982-2002 house prices in Malta have nearly quadrupled. Upmarket residential developments could even presently top the Lm1,000/m² mark. These are to be compared with such developments in other countries.

Table 2 – Residential Market Value rates to International City Areas.

New York/London/Tokyo	Lm3,300/sqm
Milan/Paris	Lm2,100/sqm
Amsterdam/Dublin/Madrid/Frankfurt/Stockholm	Lm1,300/sqm
Toronto	Lm1,000/sqm
Brussels/Athens	Lm650/sqm
Greek Islands	Lm525/sqm

Source – The Economist 2002.

TABLE 3 – VALUE OF 1 ha of RESIDENTIAL BUILDING LAND in Euro's

COUNTRY	1980	1990	1997	2002
SWEDEN	335,000	485,000		
FRANCE	335,000	335,000		
UK (outer London)	465,000	1,675,000	2,850,000	
MALTA	250,000	675,000	2,850,000	3,750,000

.From table 3 it is noted, that land in Malta in 1980 was the cheapest, but by 1997 was at par with the outer London value. To be noted that the average UK value for residential land excluding the London area in 1997 is given at 1,100,000euro, being 60% cheaper than the Malta value. The inner London residential area for 1997 is given at 4,850,000euro, being 70% higher than for Malta.

The land cost element for housing development is given at 10% for Sweden, 40% for France. A comparison is given for these values in the speculative region for Malta and the UK in table 4. To be noted that whilst the UK % hovers around an average value, this is not the case for Malta. Its low 1970 value at 7%, increased steadily to 50% by 1995.

TABLE 4 - Plot Price as a % of House Price.

YEAR	UK	MALTA
1970	18.7	7.0
1975	15.0	17.0
1980	16.0	18.0
1985	22.5	14.0
1990	26.1	25.0
1995	19.8	50.0*

*this figure appears to have stabilized at 50%, as per 2002.

2/- Housing Markets

The home ownership level has increased from 23.1% in 1948 up to 68% in 1995 & up to 70.1% in 2002, compared with the EU's average for 1995 at 56%. Home-ownership is found to be higher in Ireland, Italy, Greece and Spain with the rate tending towards 80% . The lowest home-ownership rate in Western Europe is found in Germany at 38% and Switzerland at 31%(Ball2002) , with these countries having a total rental market in the 60% region. These countries also have the highest GDP/capita in Western Europe.

From table 5, Malta's housing provision is defined as Liberal Welfare, giving rise to land speculation, whilst its rental system is defined as dual, this unlike a unitary system, where social housing is used in tangent with the private sector. This creates a system whereby renting from a social landlord is not associated with social stigma.

Table 5 - Social Welfare regimes and rental markets & housing tenure (1995) in the EU

Social Welfare Regime	Rental Markets	Countries	GDP \$ per capita 1995	Owner occupied	Tenure %		Other tenure
					Private	Renting	
Social democratic	Unitary	Sweden	23,270	43	16	22	19
	Unitary	Denmark	29,010	50	24	18	8
	Unitary	Finland	20,410	72	11	14	3
Intermediate	Unitary	Netherlands	21,300	47	17	36	-
Corporatist	Unitary	Germany	26,000	38	36	26	-
	Unitary	Austria	25,010	41	22	23	14
Intermediate	Unitary	France	23,550	54	21	17	8
Liberal Welfare	Dual	Ireland	15,100	80	9	11	-
	Dual	UK	18,950	66	10	24	-
	Dual	Malta	8,886	68	19.3	9	3.7
Rudimentary welfare	Dual	Italy	18,400	67	31	2	-
	Dual	Greece	8,400	70	26	0	4
	Dual	Portugal	6,900	65	28	4	3
	Dual	Spain	12,500	76	16	2	6

From the mid-90's above classification seems to be breaking down, as convergence in the EU countries has reinforced that homeownership, unlike many rental tenures operates on a free market basis. A threefold categorisation now seems more appropriate between

- 1/- Germany and Austria still providing large-scale housing production subsidies
- 2/- the Mediterranean seaboard
- 3/- the rest

3/- Housing Affordability Index

The Housing Affordability Index (HAI) table 6 has been calculated for the period 1982 - 2002. For a 3-bed/r median apartment the HAI is presently at the same level as at 1982, whence it had dipped down to 65 in 1997. For a 2 bed/r median apartment the HAI increased from 110 up to 116. Due to the present 15% affordable property price increase for 2003, is this going to translate into a worsening of the HAI for the Maltese?

An HAI of 100 signifies that a family earning the median household income just qualifies for a median residence, whilst with a HAI of less than 100 signifies that the median family has to do away with other necessities. The above HAI values are to be compared to France's which in 1992 stood at 100, increasing to 150 by the year 2000.

Table 6 - Housing Affordability Index for the Maltese Islands - HAI

YEAR	MORTGAGE MONTHLY PAYMENT		MEDIAN FAMILY INCOME **	QUALIFYING MONTHLY INCOME		RATIO OF QUALIFYING FAMILY INCOME		HAI
	3-bed	2-bed/r		3-bed	2-bed/r	3-bed	2-bed/r	
1982	Lm60	Lm42	Lm184	Lm240	Lm168	1.3	0.91	77 110
1987	Lm69	Lm49	Lm242	Lm276	Lm196	1.14	0.81	88 123
1992	Lm108	Lm72	Lm320	Lm432	Lm288	1.35	0.90	74 111
1997	Lm165 Lm106		Lm427	Lm660	Lm424	1.55	0.99	65 92
2002	Lm169 Lm113		Lm522	Lm676	Lm454	1.29	0.86	77 116

**the median family income is factored at 1 for 1982, and by 1.35 for 2002 to account for the effect of the 2nd wage earner.

However, the price earning ratio, presently in 2002 for a median priced 3 bed/r apartment stands at 6.0, the same value as in 1997. These ratios are considered high, as a long term (35 Year) average level of house prices to incomes ratio using the HPE index is about 3.5. (Ms. J. Wayne)

4/- Accommodation Areas

Malta's apartment accommodation area, at 135sqm for a 3-bed/r and 90sqm for a 2-bed/r appears over-sized compared to other countries, except for the US, see Table 6. Malta's rooms/dwelling in 1995 averaged 5.73 compared to the EU range in the same period from 3.7-5.0. Social housing in Germany provides for 1 person -45sqm, 2 persons -60sqm, 3 persons -75sqm, 4 persons 90sqm, and 15sqm each for additional persons.

Table 7

COUNTRY -.. USA.... UK...FRG....GDR....N'LAND....FRANCE
 (Flr area - sqm)... 149.... .89.....99.....63.....101.....105

The minimum apartment sizing except in villa development, as per Policy & Design Guidance 2000, is presently at 36m² for a 1bed/r, 56m² for a 2 bed/r and 76m² for a 3bed/r. The site frontage is to be taken 6m, with the minimum at 4.4m, although it is presently being proposed to allow smaller frontages, however adhering to above floor areas.

The total number of rooms in the NSO Living Space Survey (22/10/02) is quoted for a terraced house at 10.3, 7.5 for flats, 7.7 for maisonettes.

Households were housed at a rate of 1.3 persons/room in 1957, compared with just 1.1 persons/room in 1967, 0.8 persons/room in 1985 and 0.54 persons/room in 1995. The occupancy ratio in the EU for 1995 averaged 0.65 persons/room. The dwellings/household for Malta in 1995 stood at 1.3, compared to an average of 1.13 in the EU countries for the same period. At a household size for Malta in 1995 at 3.12 persons compared to the EU for the same period at 2.1-3.3, the dwellings /1000 population in Malta in 1995 stood at 416 compared to the EU range of 286-475 for the same period. (A. Zammit A&CE).

Table 8 Distribution of private households dwellings according to Census.

<i>Type of Dwelling</i>	2002*	1995	1985	1967
Terraced house	37.6	46.62	45.24	50
Semi-detached	8.4	5.85	2.27	****
Fully detached	**	2.57	2.39	****
Grd floor tenement	24.4	10.78	16.6	13.3
Maisonette	***	13.9	11.4	10.7
Apartment/flat	27.4	18.05	20.2	12.3

Other	1.6	2.23	1.9	1.5
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- * NSO Living Space Standard 2002.
- ** included with semi-detached
- *** included with grd flr tenement
- **** included with terraced housing

Although the modal dwelling type is presently the terraced house, the Planning Authority has noted that since 1993 out of the 4000 dwellings approved annually most types are apartments, with the maisonette increasing in importance over the years. It is to be noted that the number of residential building permits issued by the Planning Authority has decreased to 2,369 in 2000, as compared to a high of 4,229 permits in 1995. Within the period 1993 –2000, the 75% decrease for terraced house applications has been partly compensated by a 25% increase for apartment applications (PA Housing Topic paper 2001). The number of marriages appears to be decreasing in Malta from a high of 2,541 marriages in 1991 to 2,249 in 2002. New separation cases for 2002 stood at 203. The above figures together with the increase in single parent families give an indication of the amount of annual 1st time buyers, most of which have to be catered for by the affordable housing market.

Table 9 – Dwellings - age of construction & by type

YEAR	ALL	Terraced	Villa	Apartment	Maisonette
Before 1920	14.8	20.0	22.9	1.20	19.2
1921-1950	11.0	11.5	11.2	4.60	18.5
1951-1960	10.1	9.30	4.90	9.40	14.0
1961-1976	19.3	14.8	23.9	25.7	17.6
1977-1985	16.9	17.8	18.7	17.7	14.5
1986-1990	15.8	16.2	10.5	23.0	7.8
1991+	11.8	10.4	7.90	18.4	8.4

This table shows our modal residential building stock of 143,169 dwellings to be 30 years old, with the greatest proportion constructed between 1961 & 1976.

5/- Rental Market

Table 10 - Maltese tenure for 1990

Owner Occupied.....	60.1%
Private Rented.....	29.2%
Social Rented.....	10.7%

Table 10 appears to suggest a healthy private rented market at 29.2% of the total building stock.

It may, however, be argued that these rents are all old leases as shown by Table11:

Age of Dwelling	Before 1939	1940- 59	1959- 79	1980- 89
Private sector % distribution	58	22	16	4
Government % distribution	20	18	50	12

Only 4% of rented accommodation has been made available during the years under review 1980 - 1989. The bulk of the leases is prior to 1939 being 58%.

Table 12 - RENTED DWELLINGS DISTRIBUTION BY AMOUNT OF RENT PAID

Rental Value Lm/pa	Up to 30	31-50	51-100	101-150	151-200	200+
% distribution -1995	-	52.8	29.4	6.66	3.3	7.8
% distribution -1990	40.6	17.9	28.6	5.82	2.7	4.4
% distribution -1985	40.1	16.4	28.9	8.20	4.4	2.0

The modern rents for a 2 bed/r apartment are at 22% of the household income, for a 3 bed/r apartment 33%. These are to be compared with the accepted norms that rental amount is not to exceed 25-30% of household income. What people pay for private renting as a % of payments for owner occupation, works out for Malta at 160% for a 2bed/r apartment and 100% for a 3 bed/r apartment. This is to be compared to the respective values of advanced economies countries at 75% & 88%, outlining the inefficiencies of the present rental market. (J. Wayne)

BICC

BUILDING INDUSTRY

CONSULTATIVE COUNCIL

6/- Social Housing Applicants

Of the Social housing applicants in 1999, 2815 have an income less than Lm4000pa, with a median income of Lm1921pa, whilst the remaining 494 applicants have an income exceeding Lm4000pa, with a median of Lm4769pa.

Of the above 2815 applicants, 1298 consist of households with 1 adult, not older than 60 years. Of these 576 are single persons with a median wage of Lm2000pa. The remaining 722single adults with child(ren) representing single parent families have

reported earnings, the majority of cases being between Lm1001-Lm2000pa. The households with an adult aged over 60, totalled 572, with modal income values in the range Lm1000-Lm2500.

Of the 494 applicants earning over Lm4000pa, 40 households had an adult aged over 60years of age. (Dr. Maja Miljanic Brinkworth)

Table 13 – Median incomes of Social Housing Applicants & Family Expenditure for 1-parent households younger than 61 years

<i>Not Married Children</i>	<i>No of Households</i>	<i>Median Income pa</i>	<i>Household Expenditure pa</i>	<i>% Households - Contribute for Housing</i>
<i>0</i>	<i>576</i>	<i>1589</i>	<i>1500</i>	<i>37.5</i>
<i>1</i>	<i>362</i>	<i>1444</i>	<i>2025</i>	<i>13.5</i>
<i>2</i>	<i>228</i>	<i>1655</i>	<i>2370</i>	<i>4.5</i>
<i>3</i>	<i>89</i>	<i>1742</i>	<i>2640</i>	<i>2.4</i>
<i>4</i>	<i>31</i>	<i>1688</i>	<i>3090</i>	<i>3.0</i>
<i>5</i>	<i>11</i>	<i>1750</i>	<i>3495</i>	<i>0</i>
<i>7</i>	<i>1</i>	<i>1750</i>	<i>4425</i>	<i>0</i>

From table 13, of the Social Housing Applicants earning below LM4000, with a median income of Lm1921pa, few would be able to contribute towards their housing. There are 572 applicants with an adult aged over 60, having a median income of Lm1950pa.

Table 14 – Substandard Dwellings & Applicants classified by Region ⁽¹⁾

Region	% Substandard Dwellings	% Applicants
Inner Harbour	44.7	54.4
Outer Harbour	21.8	23.3
South East	10.9	8.3
West	8.7	6.3
North	5.5	6.7
Gozo & Comino	8.4	1

From Table 14, of the occupied substandard dwellings, 44.7% are to be found in the Inner Harbour having 54.4% of Social Housing Applicants, followed at 21.8% in the Outer Harbour again with 23.3% social applicants, 10.9% in the South East, 8.7% in the West, 8.4% in Gozo & Comino with only 1% of social applicants. and 5.5% in the

North. Except for Gozo & Comino a fairly reasonable correlation exists between the number of % applicants and the % of substandard dwellings in the respective regions. To be noted that for the 13,676 reference persons living in substandard dwellings, outstanding social applicants total only 2972.

2.2% of dwellings, or around 3,152 do not have a bathroom or shower (NSO 2002).

7/- Vacant Property

The 1995 Census gives this figure at 35,723 out a total of 155,202 dwellings, i.e. 23% of total. Of these 12,967 are used as holiday homes, thus only 22,756 (15%) are permanently vacant. For the proper functioning of the property market a vacant stock of not more than 5% is deemed necessary. Thus 10% (15,520) of the property market is lying idle. Studies have confirmed that ½ of this amount i.e. 7,760 dwellings are waiting to be released onto the property market given the right climate. This includes confidence in the rental market and real incentives, such as reduction in Capital Gains due. The remaining vacant dwellings are tied down due to inheritance rights/ litigation or idle for future use. The recent 2003 Government Budget in re-introducing succession duty on property did not provide the right climate to see a release of vacant properties, but has the effect of doing the opposite.

Of the vacant property 75% are newly constructed or in a good state of repair, with more than ½ being apartments. Of the vacant property 18.5% require maintenance and 6.5% are in a dilapidated condition of which 55% are in the inner and outer harbour regions. This, in the two regions where 75% of rented accommodation is found, reinforces the view that landlords prefer to leave their premises vacant, even falling into disrepair, in the hope that the future may beckon a brighter investment than the present restrictive rental scenario.



Table 15 gives the 1995 Census information regarding the 35, 723 vacant dwellings.

REGION	% of total	% newly constructed	% good state of repair	% require repair	% bad condition	% summer residence	% non summer residences
Inner Harbour	21.17	8.88	18.43	36.99	38.63	3.83	31.12
Outer Harbour	15.23	13.24	15.19	17.61	15.37	5.52	20.79
South	12.47	10.51	13.83	12.35	9.36	15.50	10.74
Eastern	5.91	4.96	4.50	9.15	10.36	0.50	9.02
Western	28.20	41.10	32.20	8.54	10.75	50.86	15.21
Northern	17.00	21.29	15.83	15.34	15.51	23.89	13.07
Gozo							

The asset value of the usable vacant premises is estimated at Lm540 million, which could generate a rental income of Lm22 million.

A question of AFFORDABILITY not AVAILABILITY exists (A.Camilleri A&CE), but getting property on the market is the crux to the affordability problem.

8/- Homelessness

Homelessness, denying the fundamental right of adequate shelter is perhaps the extreme manifestation of social exclusion. In Malta as pressures exist on the affordability of the housing market, it is likely that the most vulnerable members of our society will be squeezed out of the housing market.

The affordability problem of housing creates an insurmountable strain on the institutionalised sector, numbering 1100 of the population, the alcoholics, drug addicts, the increasing number of single parent families, all create visions of a homeless spectre. Shelter security is purchased mostly in 30-year mortgage blocks, or by entering into a rental agreement, however the very poor do not have the ability to maintain a permanent address, whereby a loss of control on privacy and residential community occurs. The scarcity of a robust and diverse assortment of rental housing units affordable to people receiving incomes less than 80% of the median makes residential security difficult to obtain. The infamous rental restrictions are again helping towards this homeless problem.

Table 16 - HOMELESSNESS RATE

10/1000 inhabitants (France, Germany & UK)

- 2½/1000 inhabitants (US)
- 2/1000 inhabitants (Belgium, Italy, Netherlands)
- 1/1000 inhabitants (Nordic Countries)
- 1/1750 inhabitants (Malta*, Portugal, Greece & Spain)

- *does not include people in institutions*

-

- ½/1000 inhabitants (US)
- 2/1000 inhabitants (Belgium, Italy, Netherlands)
- 1/1000 inhabitants (Nordic Countries)
- 1/1750 inhabitants (Malta*, Portugal, Greece & Spain)

* does not include people in institutions

9/- Household Changes

The Maltese households, enumerated at 117, 177 during the 1995 Census, over the intercensal period 1985 - 1995 has grown at 2.7% pa. Over the next 20-year period it is expected to grow further by 1.2% pa, with the household size falling from 3.1 to 2.7 persons (MEPA Demography Topic Paper). Household expansion puts pressure on housing systems, which could lead to short-term shortages and to pressures on prices and rents.

10/- Housing Subsidies.

The demand subsidies tend to increase house prices. Price ceilings impose artificial prices that curb supply and hence the availability of affordable housing. Government provision of housing creates inefficiencies in the form of a dual housing market.

The solution towards providing a greater quantity of more affordable housing lies with encouraging a more efficient use of the scarce supply resources available. This need not entail subsidy measures. The removal of tax burdens on supply, could work just as well. With improved supply, housing costs fall and housing consumption rises. (Mr. G. Cordina).

As it is the escalating price of land over the past years that have caused an affordability problem, government and contractors should join forces. The former provides land with the latter developing it, for affordable housing to be attained.

11/- Property Annual Contracts

Table 17 deals with Property contracts, average prices, together with annual marriages & separation and annulment cases lodged.

Year	No of annual Contract	Average Price Lm	% of National GDP at current market prices	Sales to Foreign Buyers	Average Price Lm	Sales by Foreign Sellers	Average Price Lm	Annual Marriages	Separations & annulments
1989	9937	5528	8.2	1036	13001				
1990	11705	5528	8.8	790	15632			2498	221
1991	13131	5528	9.0	419	18975			2541	260
1992	11642	5328	7.1	337	19199	172	25623	2377	303
1993	9734	5739	6.0	293	24203	169	25716	2476	252
1994	10794	6123	6.4	367	26355	155	27858	2438	255
1995	11175	7407	7.2	267	30210	155	31045	2317	
1996	10000	13580	11.3	262	32792	117	32684	2370	
1997	9300	17531	12.7	165	34079	107	46012	2414	
1998	7091	18588	9.4	155	42941				
1999	8582	20749	12.2	219					
2000	8426	23925	12.9	295	72115				
2001	12147								
2002	12394			465	70389				

The maximum number of contracts occurred in 1991 at 13131, whilst the maximum sales to foreigners occurred in 1989 at 1036. Since then the number of contracts signed have slid down to 7091 & 155 respectively in 1998. The number of annual marriages has been stable over the years averaging over 2400, whilst the separation & annulment cases lodged averaged 10% of annual marriages over the period 1990-1994, although the actual rate of separated/divorced families is closer to 2%.

The declared value of property transactions as a % of the National GDP at constant market prices varies from 8.2% to a maximum 12.9% in 2000, although this is expected to be again higher in 2002, as per comments in Recommendation 1.

Another interesting feature is the under declaration of property values up to 1995. The average values varied from Lm5528 – Lm7407. These are to be compared to sales to foreigners, over the same period varying from Lm13001 – Lm30210, appearing more realistic values. From 1996 onwards, this under declaration appears less pronounced.

To be further noted that property sold by foreigners appears to be at a higher price, than that purchased by foreigners. In 1992 these average values were Lm25623 as opposed to Lm19199, whilst in 1997 these average values stood at Lm46012 & Lm34079 respectively.

12/- Foreign Purchasers.

Table 18 is the annual residential property permits granted to foreigners, together with average purchase price, compared with prevalent median price/sq.

Year	Permits	Average Value	Price/ sqm	Median Price/sqm
1982	175	Lm12055	Lm89	Lm70
1983	144	Lm12756	Lm94	
1984	147	Lm10914	Lm81	
1985	162	Lm9344	Lm69	
1986	281	Lm9597	Lm71	
1987	351	Lm10368	Lm77	Lm91
1988	671	Lm12480	Lm92	
1989	899	Lm13419	Lm99	
1990	717	Lm16179	Lm119	
1991	368	Lm20580	Lm152	
1992	315	Lm19860	Lm147	Lm150
1993	283	Lm24671	Lm183	
1994	359	Lm26637	Lm197	
1995	256	Lm31218	Lm231	
1996	258	Lm33102	Lm245	
1997	163	Lm34667	Lm257	Lm220
1998	155	Lm33332	Lm246	
1999	219			
2000	295	Lm72115	Lm515	
2001	344			
2002	465	Lm70389	Lm502	Lm270

The above table shows that foreigners over the years up to 1997 had been purchasing residential property, close to the median price, however, they are now going for more upmarket property sales, which from table 17 appears to be contributing towards a higher % effect on the National GDP. Also an increase in the number of foreign purchases is being noted as from 1998, which is averaging the number over the 27 year period at 400 annual permits.

13/- House Borrowings.

The ratio of house borrowing to the National Income has increased from 9% in 1987 up to 20.5% by 2001. This is considered high by EU standards when a high 4.7% in the UK and a low 0.6 in Italy give the average value over the period-1983 –1994 as given in table 18.

TABLE 18 ANNUAL NET MORTGAGE LENDING as a % of NATIONAL INCOME

	Holland	German y	France	UK	Malta	Italy	Spain
1987	2.9	1.1	2.8	5.8	9.0	0.7	2.0
1988	3.5	1.0	2.3	7.5	10.0	0.7	2.7
1989	3.7	1.9	2.0	6.2	11.0	0.8	2.7
1990	3.4	1.9	1.9	6.0	12.0	0.7	2.6
1991	2.5	4.4	1.0	4.8	12.0	0.8	1.8
1992	4.8	2.7	0.3	3.4	12.0	0.8	1.5
1993	6.7	4.5	0.4	3.0	12.0	0.5	1.9
1994	7.1	4.5	0.5	3.4	14.0	0.4	2.3
1995					14.0		
1996					16.0		
1997					17.0		
1998					18.0		
1999					19.0		
2000					18.5		
2001					20.5		

The average housing investment as a share of National Income for 11 EU Countries, over the period 1970 –1994 has come down from 6.5% in early seventies to 4.5% in early nineties. This is to be compared with Malta's value, which exceeds 20%.

Regression analysis between real GDP growth and the average increase in house prices shows that for every one-percentage point increase in house prices in any year, real GDP growth decelerates on average by 0.13% points in the next 3-7 years. It can be seen that the downturn in GDP growth since 1996 can be explained reasonably well by past increases in house prices. There are economically valid reasons for promoting the increased availability of affordable housing: the resources that would be freed up can be utilised to improve the economic well being of the country. (Mr. G. Cordina).

13/- TRANSACTION COSTS

TABLE 19 – TRANSACTION COSTS IN 1995 FOR PROPERTY TRANSACTIONS IN THE EU

COUNTRY	TRANSFER DUTY %	LEGAL FEES %	AGENT FEES %	VAT ON FEES %
Denmark	1.2	0.5	3.5	N/A
Netherlands	6.0	0.5	1.25-2.25	17.5
Germany	3.0	1.0-1.5	3.0-5.0	15.0
Belgium	12.5	0.5-1.0	3.0	20.5
France	19.0	1.0	3.0	18.6
Ireland	6.0	1.0	1.0	21.0
UK	1.0	0.5	1.0	17.5
Malta	3.5-5.0	0.5-1.0	3.5-5.0	15.0
Italy	10.0	0.5	2.0-5.0	19.0
Portugal *	10.0	1.2	3.0	17.0
Spain	6.0	1.0	3.0	13.0

* Portugal in January 2004 is to reduce transfer duty tax from 10% to 6% to boost an ailing residential market.

From table 19 it is noted that the lowest transaction costs exist in the UK, making frequent moves less costly with trading up common. To be noted that further moves in the UK to exempt transfer tax in disadvantaged areas is being hampered by the European Commission, as this State Aid could be providing unfair competition. The transfer duty has the most significant variation with a tax of just 1% in the UK and up to 19% in France. The combined legal and agent's fees vary from a low of 1.5% in the UK to a high of 6.5% in Germany. Malta has transfer duty fees averaging 4.5% and average combined fees of 5%

The insurance costs in Malta for securing a home building policy approximates to 1 ½% of the purchase price. This however, is not part of the initial expenses but is obtained by capitalizing the annual premiums. (Mr. A.Gatt)

Denis H. Camilleri 15/07/03.

Appendix II - Commercial Property Data of the Maltese Islands

Property Working Group – BICC

There does not appear to be a free industrial market as most factories are leased from MDC at the maximum rate of Lm14/m² pa. On the other hand warehousing may easily be obtained on the market from market rates ranging from Lm45/m³ up to Lm80/m³, thus equating to a rental rate of Lm12.50/m² to Lm24/m² pa. These rental rates are to be compared with the average European industrial standing at Lm37.50/m²

The office rental market varies from Lm25/m² up to Lm100/m². These are to be compared with the European prime office rents at Lm650/m² in London, Paris at Lm350/m², Frankfurt and Athens at Lm 225/m², Dublin, Lisbon and Milan at Lm190/m² and Brussels at Lm120/m², Warsaw at Lm 155/m², Prague & Budapest at Lm110/m². Singapore rents are at Lm145/m², whilst rents in Hong Kong stand at Lm250/m². The provincial city rents vary from Reading at Lm200/m², Birmingham and Bristol at Lm175/m², Leicester and Newcastle at Lm100/m² and Hull and Wrexham at Lm60/m².

In the retail sector high street shops in the towns and villages have a rental amount varying from Lm1.50/day up to Lm35/day, for a front retail unit having a 4m frontage with a 9m depth. For internal areas the halving principle applies with rates at 1st flr level being ¼ those at ground level. It is officially known that prime sea-side kiosks are leased out at Lm32.50/day.

The rental rates for shopping malls vary from Lm175/m² down to Lm30/m². Rental values also vary according to the retail type. Department stores and major tenants may be given preferential treatment by paying as little as a ¼ of the rental amount, with specialty retailers paying the higher amounts. Turnover rents in existence vary from an amount equated at 10% to 25% of annual turnover. The higher %'s being adopted for the smaller retail outlets. These rents are to be compared to the European rents at Lm2275/m² for London, with Paris, Frankfurt and Dublin at Lm1500/m², Athens, Brussels and Vienna at Lm750/m², and Amsterdam, Milan and Stockholm at Lm400/m².

The Planning Authority Retail Topic Paper that at over 6400 convenience and comparison goods retail businesses in Malta and Gozo, this works out at more than 170 shops per 10,000 persons. This is comparable with Greece, followed closely by other Mediterranean countries, but 5 times above the level provided for in the UK. Non-shop retail, such as market stalls, hawkers, etc account for 7.5% of consumer retail expenditure, which is considered high as the average value for Europe stands at 5%. Retail spending per capita in the Maltese Islands stands at Lm623 for convenience

goods and Lm508 for comparison goods. This works out at 68% of UK per capita spending on convenience goods and 45% of the UK per capita on comparison goods. The turnover estimate works out at Lm1694/m² for all shops, Lm2322/m² for convenience shops and at Lm1330/m² for comparison goods shops. These figures are presently at 33% of turnover obtained in UK convenience shops and at 44% of turnover obtained in UK comparison goods shops.

A fair annual rental value for convenience shops works out at 5% of turnover, i.e. at Lm116/m², whilst for comparison goods it is taken at 8% of turnover, i.e. at Lm106/m². These average rentals give an indication of the sustainability of the range of rental values quoted above varying from Lm30/m² up to Lm175/m².

The above commercial rental data is summarized in the table below.

TABLE 1 – Comparing Maltese Commercial Rentals with the European Average.

Property type	Rental range of the Maltese Islands Lm/m²	European Average Lm/m²
<i>Industrial</i>	Up to Lm25	Lm37.50
<i>Offices</i>	Lm25 – Lm100	Lm230
<i>Retail</i>	Lm30 - Lm175	Lm1250

Above present open rental data on commercial property should be utilized as a datum for present underleased old commercial leases to be updated over a period of time to the present commercial levels, **after taking into consideration the goodwill achieved by existing tenant, as desired by the Maltese Society.** A level playing field for all **with regards to Government and private commercial leases**, only helps towards making the commercial sector operate in a more efficient manner. **Presently Government leases may be updated annually, whilst existing private commercial leases are pegged down to existing conditions in lease agreements, which are burdening to the owners on most old commercial lease agreements.**

Denis Camilleri. – 15/11/02.

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Appendix III- Residential and Population Densities.

The PA Housing Topic paper gives the results of a Densities Study undertaken, examining population and dwellings densities by local council area. These densities were measured in terms of population divided by the urban area in persons per hectare for population density and dwelling units, including vacant divided by urban area for residential density in dwelling units per hectare.

The PA defines the residential density as low for values lying between 3 – 20, medium 21–30, high at 31 – 40 and very high above 41. Overall densities in Malta are classified on the low side with the average residential density at 27 units per hectare and population density at 65 persons per hectare. The following bracketed values indicate the number of residential units per hectare and the number of residents per hectare.

In the **low range** are found:

Suburbs Pembroke (7,23), Lija (17,47), Mtarfa (14,54), Swieqi (15,38),
. . . Iklin (19,65), Attard (17,58), Floriana (13,29).

Villages (19,41), . . . (14,25), . . .
 .
 Historic cities Mdina (16,38), Victoria (19,51).

Medium range

Seaside towns & cities St. Julians (23,48), Marsascala (23,36), Munxar(including . . .
 . . . Xlendi) (26,27), Xghajra (27,29), Marsaxlokk (21,59),
 . Kalkara (27,88), Vittoriosa (26,58).
 Villages Safi (20,56), Qrendi (20,56), Zurrieq (23,67), Mgarr (23,59), .
 . . Mqabba (24,69), Siggiewi (25,76), Kirkop (25,72), Ghaxaq . .
 . . (25,78), Fontana (24,51).
 Small towns Zebbug (Malta) (24,69), Zejtun (30,88), Luqa (30,103), Qormi .
 . (30,88), Mosta (30,85), Marsa (16,42)..
 Suburbs St.Venera (24,74), Ta' Xbiex (22,60), Balzan (22,59) .
 . San Gwann (30,94).

High range

Towns Tarxien (31,84), Zabbar(33,98), Msida (35,81), Pieta' (38,95),
 . Gzira (37,84), Birkirkara (33,93), Birzebbuga (36,71),
 Sta.Lucija (35,120), Paola (37,92).
 Sea-side town St.Paul's Bay (38,31).
 Historic town Cospicua. (32,74)
 Suburb Fgura (40,120).

Very High Range

Large town Hamrun (43,107)
 Seaside towns Zebbug (Gozo) (including Marsalforn) (47,27), Sliema
 (55,99).
 Historic cities Valletta (43, 86), Senglea (94,221).

From the above the highest density occurs in Senglea with 94 units per hectare and 221 residents per hectare. The lowest density occurs in Pembroke with 7 units per hectare and 23 residents per hectare.

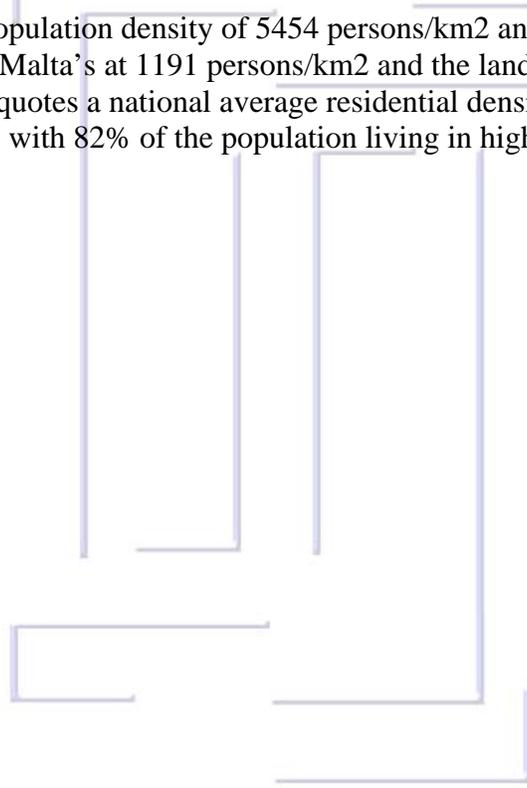
The PA has further subdivided some of the above areas. The following are some of the findings:

Poala Central area (51,133), Qormi village core (48,136), Sliema coastal apartment (67,73), Sliema UCA (80,142), St.Julians (the Gardens) (33,48), Qawra (55,24), Swieqi (terraced housing) (30,67), Ibragg villa area (10,22), Madliena villa area (4,8).

In "Sustainable Cities or Town Cramming", Hall (2001), quotes that it is worthwhile to design urban areas somewhere in the 30 – 40 unit range, translating to 75 to 150 persons per hectare. These densities assume that the maximum distance people are prepared to walk is taken at around 2000m, with the optimum being 800m, a

comfortable 10 minute walk, with shopping developers using 400m as the maximum shopping distance. On the other hand Jacobs & Appleyard do point out that San Francisco achieves superb urban quality with 3-storey row houses above garages at densities as high as 120 units per hectare, translating to 240 – 475 persons per hectare, but they then warn that at densities above 500 persons per hectare, the concessions to less desirable living environments mount rapidly.

In Singapore with a population density of 5454 persons/km² and land area ½ built upon, as compared to Malta's at 1191 persons/km² and the land 1/5 built upon, the PA Housing Topic paper quotes a national average residential density at 142 units per hectare for Singapore, with 82% of the population living in high density housing at 215 units per hectare.



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