

MALTA'S HOUSING AFFORDABILITY

HOUSE EARNING RATIO TAKEN AT 3.5.

From the Household Budgetary Survey 2000 with the median income taken at Lm5000pa, the household poverty line is assumed at Lm2500pa.

From table 1 a total mismatch is obtained from the last column, between type of residences households are presently occupying and their relative declared household income. For the most popular type, the terraced house, occupied by 46.6% of households, considered from an income level, only 3% of households are supposedly able to own such a property. The majority of Maltese households – 68.7% – ought to be residing in affordable apartments of varying sizes according to their means of income, however only 18% avail themselves of such accommodation.

From the above it is concluded that a gross under-declaration of income is occurring, this increasing with the amount of income earned. Not much underdeclaration is considered below a household income of Lm3000pa, as the income tax ceiling for a single person stands at Lm3000pa. This signifies that more than 10% of Maltese households live below the poverty line, not being able to afford their home. (see "Housing & Poverty – an updated valuation model, dhc, BOV Review, Autumn 2000).

The Central Office of statistics had also issued some data regarding the earnings of couples marrying in 1997. Couples reported an average joint income of Lm7551. The average income for the groom

Household Earning as per HBS 2000	% of Households	Affordable home	Type of dwelling	Dwelling Type % as per 1995 Census (bracketed % as per declared income)
>Lm20000	0.6	>Lm70000	Semi-detached	5.85 (0.6)*
Lm18000	0.9	Lm63000	Terraced house	46.6 (3.0)*
Lm15000	1.1	Lm52500		
Lm12000	3.75	Lm42000	Maisonette	24.68 (3.75)*
Lm 8000	11.2	Lm28000	3-bed/r flat	18.05 (68.7)*
Lm 5000	27.1	Lm17500	2-bed/r flat	
Lm 3000	30.4	Lm10500	1-bed/r flat	
<Lm 2000	10.3	Lm 7000		

* from 1995, the trend is for a greater amount of apartments to be constructed, than previously, thus 6 years on these %'s have changed

Table 2 – updated version of "Housing Affordability in Malta", 1999 (dhc) pg 10
Market Value Rates for Apartments over the period 1982 – 2001 in sought after areas by 1st time buyers.

Locality	1982 Lm/sqm	1987 Lm/sqm	1992 Lm/sqm	1997 Lm/sqm	2001 Lm/sqm	% growth rate pa 1982-'01	% growth rate pa 1997-'01
Fgura/ Paola/ Zabbar	45	55	110	175	197	8.1	3.0
M'Scala internal	50	75	160	160	234	8.5	10.0
Mosta/ Naxxar	80	85	125	205	218	5.4	1.6
San Gwann	65	75	110	185	226	6.8	5.0
Sliema inner prime	90	145	190	305	350	7.4	3.5
St Julians	80	100	175	235	290	7.0	5.5
Swieqi	85	105	180	275	311	7.4	3.0
MALTA	70	91	150	220	260	7.14	4.3

is Lm4252 and Lm3396 for the bride. Considering the average wage increase over this period at 3.3%pa, an updated couples earning amount at 2001 is estimated at Lm8600pa. These couples would be able to purchase a premises of Lm30000, at a house earnings ratio of 3.5, without the need for any subsidies. At Lm30000, the standard space for an affordable apartment tends towards 130sqm, this being well above the minimum space standard for a 3/4 person household at 60/75 sqm of floor area.

Table 2 shows that the growth rate for the affordable Maltese apartment has slowed down over the past 4 years. The growth rate over the past 19 years has decreased to 7.14% pa from the previous 7.9% pa over the previous 15 year period. This is due to a low growth rate of 4.3% pa over the past 4 years. Most areas over this period have registered a low growth rate, except for M'Scala internal registering a 10% growth rate, with a low of 1.6% obtained in the Mosta/Naxxar area.

The above low growth rates are unlike the prime apartment areas which over the past 19 year period have been subjected to an 8.4%pa growth rate, increasing from the previous 15 year period which stood at 6.5%. The growth rate for the past 4 years stands at 8.6%. This increase in the market values for prime apartment properties is being attributed to the Hilton Development, as prices moved forward instead of easing up, due to a glut of this type of property.

Housing Affordability Index (HAI)

This is the ratio of median family income to the income required to qualify for a loan on a median-priced existing family residence. Qualifying income is a function of the mortgage interest rate, mortgage terms and lending requirements. It is assumed that a family may spend not more than 25% of its monthly income on housing payments

An HAI = 100 signifies that a median family just qualifies for a median residence

An HAI > 100 signifies that the family may purchase a residence more expensive than the median home.

AN HAI < 100 signifies that the median family has to do away with other necessities

Table 5 – refer to Housing Affordability (HAI dhc, 1999) pg 200

YEAR MORTGAGE MEDIAN QUALIFYING RATIO HAI

monthly payment family monthly of qualifying income income family income

	3-bed/r	2-bed/r	3-bed/r	2-bed/r	3-bed/r	2-bed/r	3-bed/	2-bed/r	
1982	Lm60	Lm42	Lm184	Lm240	Lm168	1.30	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	101
2001	Lm188	Lm133	Lm492	Lm752	Lm532	1.53	1.08	65	92

Considering the above, the effect of the 2nd wage earner has been considered at 10% for 1982, 15% for 1987, 20% for 1992, 25% for 1997 and 35% for 2001. Incorporating the above amounts into the median family income an amended HAI table has been produced.

The Housing Affordability Index (HAI) table 5 has been calculated for the period 1982 – 2001. For a 3-bed/r median apartment it has worsened from a value of 77 down to 65, whilst remaining at the same level for the recent 4 years. For a 2 bed/r median apartment the HAI decreased

from 110 down to 92. An HAI of 100 signifies that a family earning the median household income just qualifies for a median residence, whilst a HAI of less than 100 signifies that the median family has to do away with other necessities.

CONCLUSIONS & RECOMMENDATIONS

Over the past 4 year period, a slow down has been achieved in the capital growth rate of affordable apartments at 4.3%pa, unlike the prime apartment market which has registered a growth over the same period of 8.6%pa. This slowdown in the price growth of affordable apartments may be attributed to the schemes offered by the Housing Authority. Due to the importance of this slow price growth of affordable apartments, some fine-tuning to the HA schemes is being outlined below.

Although a price slow-down has been achieved over this past 4 year period, together with a decrease in mortgage rates from 7/8.5% to 6/7.25%, a corresponding improvement has not been achieved in the HAI. This has remained static at 65 for a 3 bed/r apartment, whilst it has worsened from 101 to 92 for a 2 bed/r apartment. This occurred as wage increases over the past 4 years have decreased to 3.3%pa, as compared to the previous 15 year period wage increases at 8.8%pa.

With the liberalisation of banking services, the HA scheme to reduce mortgage rates appears outdated and confusing, as not all banks benefit from this subsidy. The household income of Lm7000pa to qualify for a HA

subsidy appears high. At this amount of income an affordable apartment of Lm24500 may be purchased without subsidies. At this price tag a 90sqm affordable apartment, may be purchased accommodating a household of 4 persons. To apply for a subsidy the household has to be greater than 4 persons, otherwise the HA would be subsidising a capricious affordability problem. When an income threshold of Lm5000pa is applied, this implies that the affordable accommodation that may be purchased totals Lm17500. At this price tag, this implies that a 75sqm affordable apartment may be purchased, housing 3 persons. For a household with more members, a subsidy is necessary.

The HA should utilize its funds so that the lower stratum of households living below the poverty line would have their housing condition improved by diverting more and more funds into this sector. As outlined above it does not appear that engaged couples have a housing problem, although presently a substantial amount of funds are directed towards this sector. Education is required, in that a young couple engages on accommodation criteria relative to its needs. The new constructions provided by the

HA have to be size conscious providing the household size with the space requirements necessary for affordable accommodation. In that way the public and the private developers are educated in the real requirements of space accommodation.

The PA may also help in obtaining an improvement in the HAI by providing schemes whereby a greater supply of units may be provided within the existing scheme boundaries. Where in a villa development more units are being requested within the same development, the building levy has to be amended from the present Lm500/additional unit provided. The policy that only 2 separate units may be provided in a villa site is to be relaxed. Height limitations should not be based on blanket policies, such as 3 floors, but the existing width of the street is to be taken into consideration, with the building height worked out accordingly.

The PA and HA should further co-ordinate amongst themselves in the preparation of PPP housing schemes in the inner cores of cities, whilst the utilisation of the present 6368 vacant properties which may be utilised over this review period should be seriously looked into.

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