

AMENDMENTS TO THE RENT LAW



To support members of the profession in achieving excellence in their practice of architecture and engineering in the interest of the community

Celebrating 90 years of support to the profession 1920-2010

Kamra tal-Periti

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The Rent Law was amended last year and the amendments came into effect on the 1st January 2010.

In view of this, the Kamra tal-Periti is organising an information seminar to explain these amendments and how these may be interpreted and viewed critically. The valuation of properties for rental purposes is one of the professional tasks Periti are entrusted with so it is essential to remain updated on these issues.

Date: 05 February, 2010

Venue: Dar I-Ewropa, 243, St Paul Street, Valletta

Program:

5.00pm Registration

5.30pm Opening and welcome

Perit Vincent Cassar, President, KTP

5.35pm The amendments

Dr. David Spiteri Gingell, assisted by Dr Ray Zammit LL.D.

6.10pm Upgrading of Market Values due to Rent Laws Act X of 2009

Perit Denis Camilleri

6.25pm A critical view

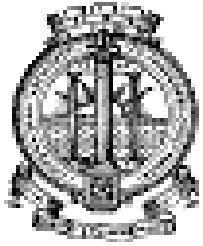
Dr. Patrick J. Galea LL.D.

7.00pm Questions & discussion

7.30pm Closure

Speaker profiles:

- **Dr. David Spiteri Gingell**, assisted by **Dr. Ray Zammit LL.D.** - Dr. Spiteri Gingell was one of the prime movers behind the new Act
- **Dr. Patrick J. Galea LL.D.** - Head of Civil Law at the University of Malta.
- **Perit Denis Camilleri** - a practicing assessor of property value



DENIS H CAMILLERI

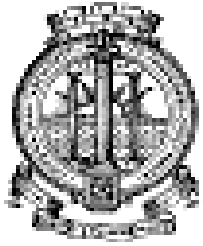
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UPGRADING OF OPEN MARKET VALUES DUE TO THE RENT LAWS ACT X OF 2009 (JUNE 19th)

**Perit Denis H Camilleri
SEMINAR ON RENT LAW AMENDMENTS
KAMRA TAL-PERITI (5/2/10)**

**FEBRUARY
2010**



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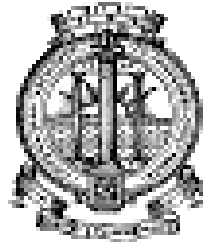
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This Act for leases to be binding is now based on a written contract and relates to:

- ✓ **Main Residences**
- ✓ **Summer Residences & Garages**
- ✓ **Clubs**
- ✓ **Commercial Premises**

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MAIN RESIDENCES - (Security of Tenure)

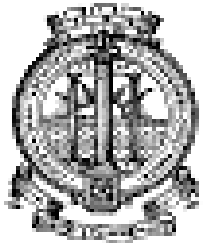
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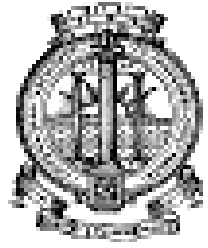
- ✓ **Sitting tenant pre-1st June 1995 lease is defined as the person having title before or on 1st June 2008**
- ✓ **As from 1/01/10 right to continue lease after death of sitting tenant is given as a 1-time right only for the following beneficiaries**
- ✓ **This Act provides for restricted Security of tenure compared to previous 1995 Act**

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2010**



MAIN RESIDENCES- (Rentals)

- ✓ Minimum rental amount imposed at €185 p.a. to increase on a 3-yearly basis according to Index of Inflation
- ✓ A moving average for the 3 yearly interval increases works out at 8%, signifying doubling of rental value every 9 periods. This is below the present open market commercial leases increases, varying from 10% to 15% over a 3-yearly period



MAIN RESIDENCES- (Maintenance)

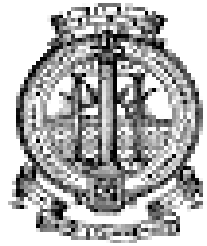
- ✓ External ordinary maintenance to be now within tenant's remit
- ✓ Structural repairs by landlord may now be recouped at 6% instead of 10%, although no doubling restriction in place?

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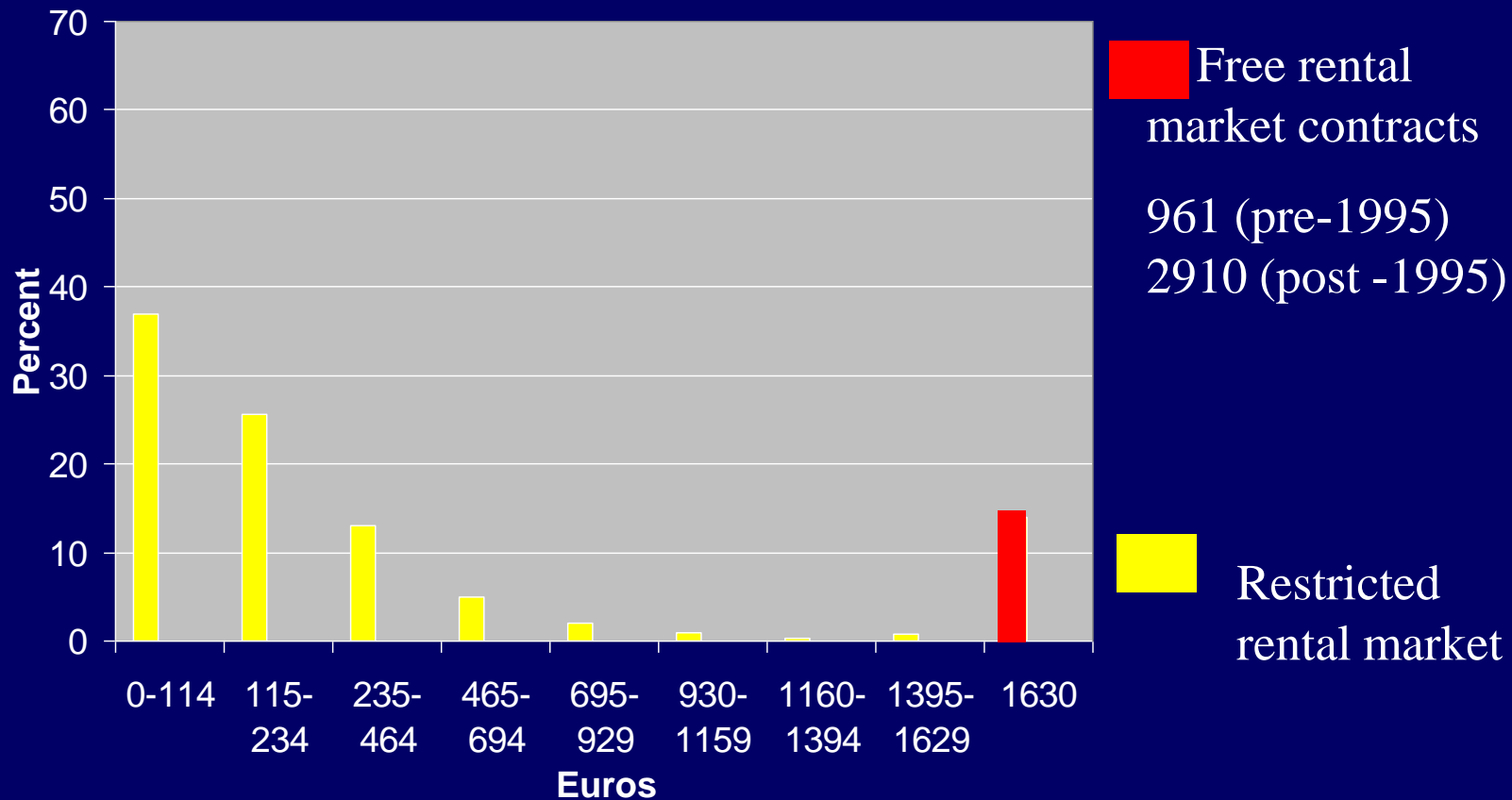
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MAIN RESIDENCES – Rent Paid

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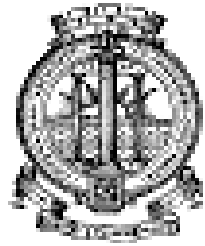
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This min rental of €185 is to effect just over 50% of existing leases given at 28,760 (2005) 33,781 (1995)

Source: Census of Population & housing 2005 Vol 2 Dwellings & Rent Laws pre-submission document

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MAIN RESIDENCE – Lease Levels

- ✓ Present open market values

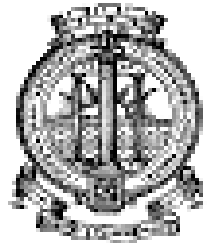
Basic/depressed area 50 sq m @ €225/sq m = €11,250

At a €185 rental rate of return = 1.64%

Fairly Good Area 90 sq m @ €350/sq m = €29,250

At a €185 rental rate of return = 0.625%

- ✓ A Housing Investment is not expected to obtain a much better return than safe investments such as Government Bonds
- ✓ A real return of 4% from capital value rents has long been settled upon



MAIN RESIDENCE

– Open Market leases & Values

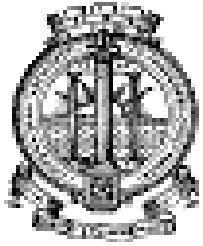
Basic/depressed area €11,250 @ 4% = €450 p.a. (€185)

Fairly Good Area €29,250 @ 4% = €1,170 p.a. (€185)

- ✓ Due to restricted security of tenure, these rent-restricted premises are considered to revert to owners in 25 years' time – thus presently attracting a value less than the present open market value in vacant possession

mainly €11,250

€29,250



MAIN RESIDENCE

– Increase in Market Value

- ✓ The present open market value of these premises is given by **Present Worth of 1 per Period Factor for 25 years**, as well as by reducing the present open market value by the Present Worth Factor over 25 years

- ✓ Basic/Depressed area –

$$€185 \times 18 + (450 \times 100/4) \times \frac{1}{1.04^{25}} = €7,500 \text{ (66.67\%)}$$

- ✓ Fairly Good area–

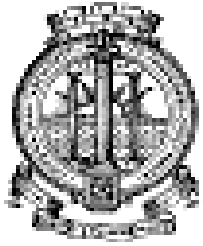
$$€185 \times 23.50 + (1170 \times 100/4) \times \frac{1}{1.04^{25}} = €15,000 \text{ (50\%)}$$

- ✓ Pre 2009 rental amendments – Market Values

Basic - €75 @ 2% **€3,750 (33.33%)**

Fairly Good - €150 @ 2.25% **€6,667 (22.25%)**

- ✓ A doubling in market value is indicated



SUMMER RESIDENCES, GARAGES & CLUBS

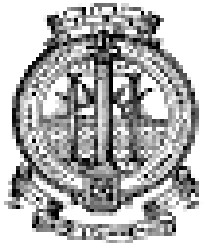
- ✓ Summer residences & garages not connected to leased premises or not considered commercial as from 1/06/10 may be terminated.
- ✓ These premises should be valued at their full open market value unless an agreement exists
- ✓ Clubs (political, social, sports, musical, philanthropic) are to retain their security of tenure.
- ✓ Minimum rental value of €300 p.a. (pittance)
- ✓ No capital appreciation to occur

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COMMERCIAL PREMISES - Lease Amendments

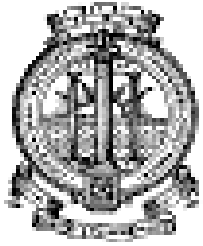
- ✓ Lease contracted prior to 1/06/95, a 20-year period is in place to protect existing tenure
- ✓ Sitting tenant is defined as tenant who had a valid lease since 1/06/08. Hence 20-year period extends up to **31/05/28**.
- ✓ Sub-letting is now not allowed – for prior sub-letting to 1/06/95, lease terminates at **1/06/18**.
- ✓ These old leases are to increase by **15% p.a. for 3 years** and then by **5% p.a.** thereon, unless a rent index introduced by 1/01/14
- ✓ These increases will not apply if other conditions specified in original contract

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COMMERCIAL PREMISES - Revaluation Exercise

- ✓ A premises leased out at 66% of present open rental value, experienced a 50% increase in market value
- ✓ A premises leased out at 25% of present open rental value, experienced a 100% increase in market value
- ✓ Premises leased out at nominal rent experienced a 300% increase in market value
- ✓ Premises leased out at market value but experiencing rental increases over specified period at 1/3 of the market norm experienced a 33% increase in value

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OBSERVATIONS of Capital Growth

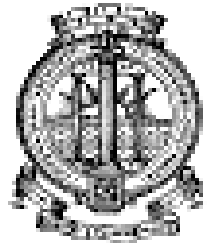
- ✓ Capital values except for clubs to increase
- ✓ This signifies an improvement to the Nation's economic Indicators
- ✓ Low rental level imposed, signifies minimum impact on Affordability
- ✓ Commercial Outlets with low rental levels should use transition period to improve efficiency in their business systems, thus making up for loss in income
- ✓ Government will witness an increase in revenue for succession duty and other property taxes.

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OBSERVATIONS

on the Vacant Property Market

- ✓ With loss of security of tenure, this amendment should entice a proportion of over 30% vacant properties out of a total of 192,314 units available to be brought onto the market – hence reducing the negative impact on the built environment and improving the affordability for 1st time home buyers
- ✓ To be noted:
 - 10,133 listed as holiday or 2nd homes
 - 21.3% of vacant premises require minor repairs
 - 5,274 of vacant premises still in shell form only a small % in dilapidated condition