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RENTING IN AN INCREASINGLY URBANISED EUROPE

The present housing rentals - its effect on Housing Affordability!

DEFINITIONS OF AFFORDABILITY IN HOUSING

Affordable housing is related to the ability to pay. Affordable housing costs should not exceed 35% of gross household income.

This signifies that households spending more than 1/3 of their net income to purchase a starter home are eligible for housing sale at below market value. This would lead onto Affordable Housing!

This method fails the poor miserably, as what is left after paying for housing costs, creates a miserable quality of life – Social Housing!

HOME OWNERSHIP & VACANCY RATES

TABLE 1: HOME OWNERSHIP RATE AS OF CENSUS DATE

YEAR	1948	1957	1967	1985	1995	2005	2011
%	23.1	26.1	32	53.9	68	75.2	77.0

Source: NSO

TABLE 2: VACANCY HOUSING RATES OVER THE VARIOUS MALTESE

YEAR	1861	1881	1891	1901	1911	1921	1931	1957	1967	1985	1995	2005	2011
%	25	29	20	20	22	19.9	19.4	4	14.9	19.2	23	27.6	31.7

Source: NSO

TABLE 3: VACANCY RATES OVER MEDITERRANEAN COUNTRIES

COUNTRY	CYPRUS	GREECE	MALTA	PORTUGAL
% VACANCY RATE	23.1	35.44	31.7	29.5

Source: NSO

TABLE 4: VACANT DWELLINGS

YEAR	QUANTITY	PERCENTAGE
1995	35,723	23%
2005	53,120	27.6%
2011	71,080	31.7%

Source: NSO

TABLE 5: CHARACTERISTICS OF VACANT DWELLINGS - 2011

TOTAL	GOOD STATE	DELAPIDATED STATE	SHELL FORM
41,232	27,306	6,989	6,937
	APARTMENTS	REST	
	21,853	19,379	
SEASONALLY OR SECONDARY RESIDENCE			
29,848			

Source: NSO

Do we need to introduce a Property Tax to entice vacant properties on the market? The World Bank had lauded Malta's property tax system as it had buffered the 2007 property crash!

CHANGING DEMOGRAPHICS OF THE MALTESE ISLANDS

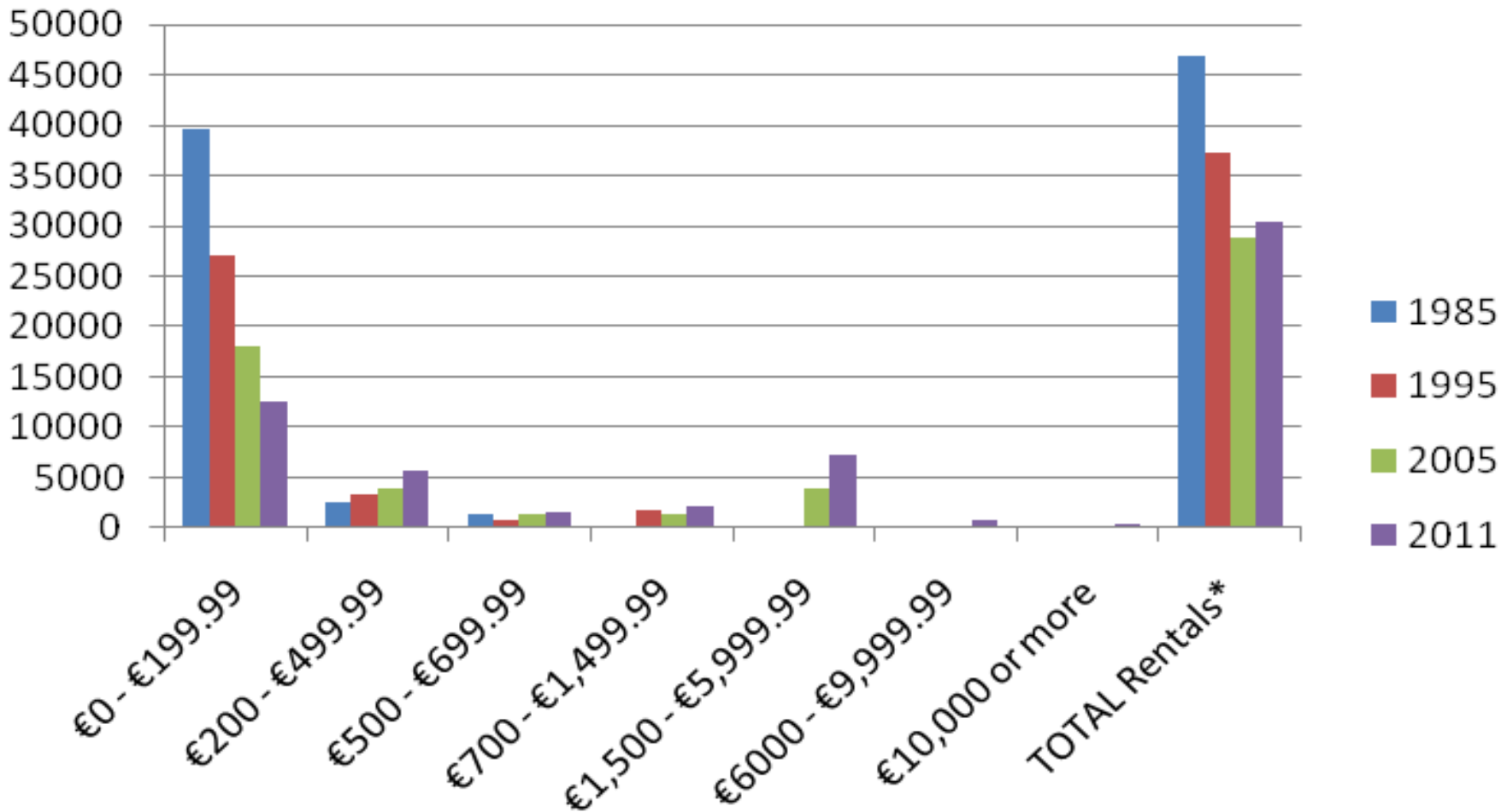
The total population includes both Maltese and non-Maltese nationals. Of the total population of 475,701 (NSO 2018) **36,453, or 8.3%**, are non-Maltese nationals, an increase of 200% over 2005 Census, where the number of non-Maltese nationals stood at **12,112, or 3%**, of the total population.

The number of foreigners residing in Malta in 2015 stood at **30,923**. This comprised nearly 43% being citizens of another EU member state, with third country nationals TCN's standing at 44%.

2017 experienced the highest positive net migration for a decade standing at 14,523 persons.

Tourists now total 2.5M pa - 43% take up private accommodation.

CHART 1: DISTRIBUTION ON RENTAL AMOUNTS WITHIN THE CENSAL PERIODS 1985-2011



MONTHLY APARTMENT RENTALS

TABLE 7:DHI-TOM 2018

	DHI	TOM	DHI	TOM	DHI	TOM
	3 Bedroom		2 Bedroom		1 Bedroom	
2007	€ 491		€ 448		€ 238	
2010	€ 492		€ 422		€ 258	
2012		€ 833		€ 618		€ 137
2013	€ 541	€ 903	€ 522	€ 635	€ 331	€ 458
2014	€ 478	€ 984	€ 393	€ 693	€ 345	€ 490
2015	€ 752	€ 1,023	€ 615	€ 796	€ 493	€ 605
2016	€ 983		€ 723		€ 583	
2017	€ 1,329	€ 879	€ 1,147	€ 663	€ 859	€ 498
2018	€ 1,444		€ 1,289		€ 960	

Source: DHIperiti in-house valuations 2018

Values in green are taken from The Sunday Times of Malta Article (20 August 2017) whose source is the Malta Bid European Medicine Agency.

The above residential/rental information is obtained from Estate Agents web sites. Table above notes the average monthly rent for a 3-bedroomed hovering around €1,450 per month.

According to the Global Property Guide 2018, **Malta's monthly rental rate of €1,540** is to be compared with **London with a rate of €8,213**, followed by Monaco at €7,480, Singapore at €3,498, Hong Kong at €6,445, then France at €3,564, whereas Netherlands, Finland, Austria, Ukraine and Denmark average around €2,380 then Germany and Belgium, Portugal, Czech Rep. come in around €1,447 rounding off with **Cyprus at €786**.

TABLE 8: RENTAL VALUES FOR VARIOUS LOCALITIES AS A % OF MARKET VALUE

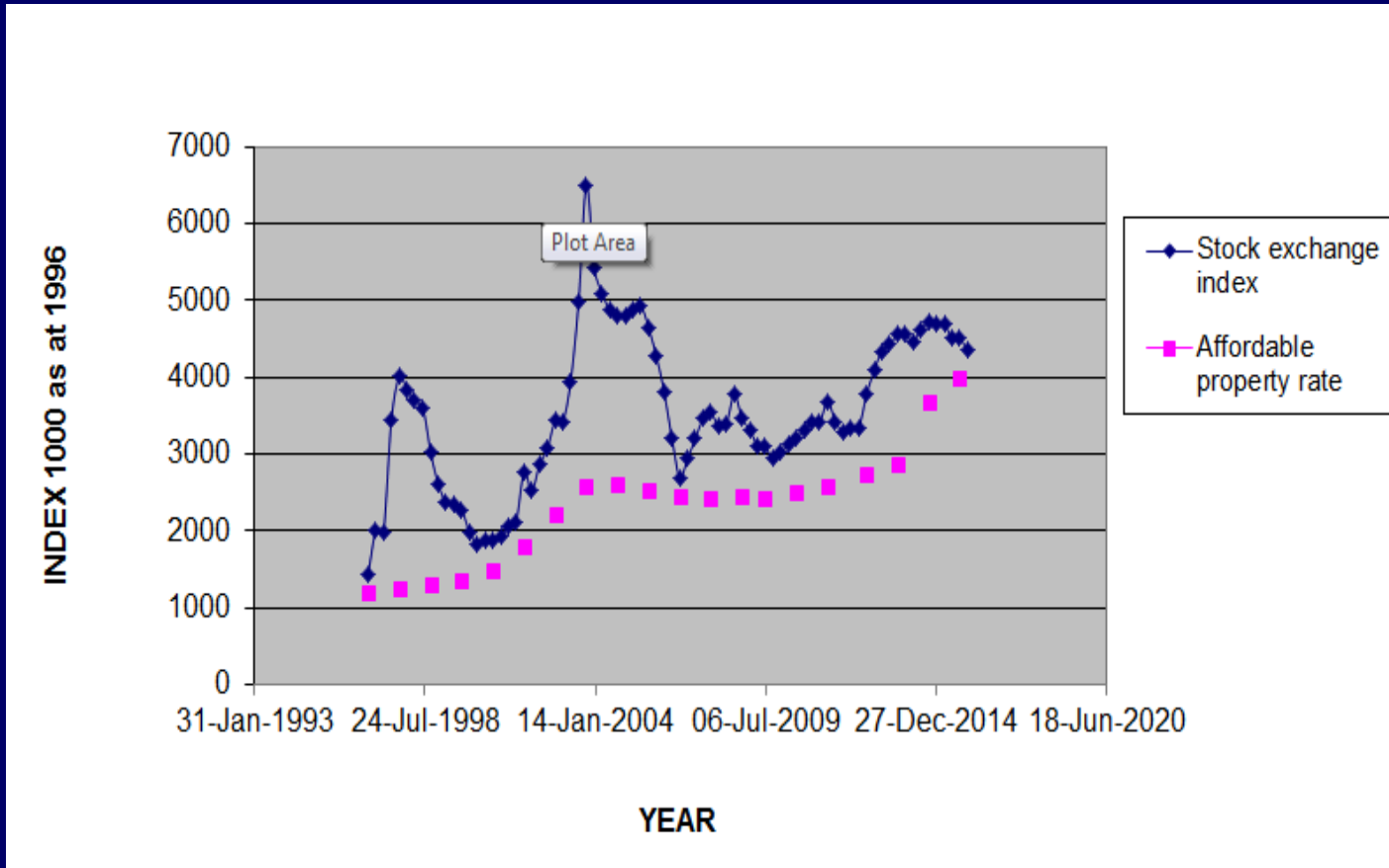
Locality	Rental value as % of market value - 1997	Rental value as % of market value - 2004	Rental value as % of market value - 2007	Rental value as % of market value - 2015	Rental value as % of market value - 2016	Rental value as % of market value - 2017	Rental value as % of market value - 2018
Bugibba-internal	8%	3.60%	3.25%	5.01%	6.32%	5.08%	5.60%
Qawra-internal	8.50%	4.30%	2.75%	4.89%	6.45%	5.93%	5.30%
Sliema front	5.50%	2.00%	3.50%	4.20%	0.00%	3.48%	4.13%
Sliema inner	5.50%	4.10%	4.50%	5.90%	5.60%	5.97%	6.63%
St Julian's	7.50%	3.50%	3.75%	6.63%	9.62%	6.05%	5.45%
Swieqi	7.00%	4.15%	4.18%	5.64%	6.96%	6.70%	4.52%

Source: DHIperiti in-house valuations 2018

A real return of 4% from capital value housing rents has long been settled upon – *property is a hedge against inflation.*

A Housing Investment is not expected to obtain a much better return than safe investments such as Government Bonds.

CHART 2: PROPERTY vs STOCK EXCHANGE INDEX 1996 – 2018



Rate of return on home-ownership

4% (rental) + 3.5% (growth rate) - 0.75% (maintenance costs) = 6.75%

As apposed to 3% Mortgage costs

TABLE 9: AFFORDABLE PROPERTY RATES €/SQM FOR THE MALTESE ISLANDS OVER A 36 YEAR PERIOD

Locality	1982	1987	1992	1997	2002	2007	2012	2014	2015	2016	2017	2018	%growth rate Pa 1982-2018
Fgura / Paola / Zabbar	105	128	256	408	466	987	893	1038	999	1016	1137	1493	7.16%
M'scala	116	175	373	373	505	1001	881	980	992	998	1260	1585	6.48%
Mosta / Naxxar	186	198	291	478	524	1242	1167	1180	1337	1443	1545	1649	6.62%
San Gwann	151	175	256	431	557	1092	962	1076	1022	1152	1558	1742	6.77%
Sliema inner prime	210	338	443	710	883	1373	1402	1457	1720	1756	2459	2303	6.36%
St. Julians	186	233	408	547	687	1321	1186	1311	1369	1447	1998	2360	6.63%
Swieqi	198	245	419	641	785	1473	1443	1376	1535	1539	2070	1864	6.45%
Malta	163	212	349	512	629	1211	1134	1203	1282	1336	1718	1856	6.62%
Trend	173	241	337	471	658	920	1285	1460	1521	1693	1802	1920	6.91%
Gozo					432	857	903	906	1029	1017	1106	1095	2.48%

Source: DHIperiti in-house valuations 2018

Gozo has experienced a 4.32% increase over 5 years, as compared to Malta which experienced a 10.29% increase.

SEAFRONT PROPERTY COMPARED WITH INTERNAL PROPERTY OVER A 12 YEAR PERIOD IN EURO/SQM.

	2006		2007		2008		2009		2010		2011		2012		2013		2014		2015		2016		2017		2018	
Location	front	int	front	int	front	int	front	int	front	int	front	int	front	int	front	int	front	int	front	int	front	int	front	int	front	int
M'Scala	1473	1032	1696	1001	1413	985	1186	918	957	826	2307	948	-	881	802	886	693	980	1492	992	2763	998	2118	1260	2593	1585
Sliema	3246	1383	2602	1373	3296	1380	3428	1322	3311	1263	3086	1398	3706	1402	2381	1361	4591	1457	4063	1720	7417	1756	6728	2459	4931	2303
St Julians	1575	1245	2973	1322	2856	1299	2991	1327	2905	1311	4067	1286	1963	1186	2460	1261	2478	1311	4300	1396	5610	1447	4927	1998	4535	2360
Gozo					1705	841	1484	913	988	988	1462	853	1548	903	459	916	0.00	906	2245	1029	1996	1017	1854	1106	1924	1095
Malta	2098	1220	2424	1232	2522	1221	1088	1189	2391	1134	3153	1211	2835	1157	2420	1169	2587	1249	3285	1249	5263	1249	4591	1906	4020	2082

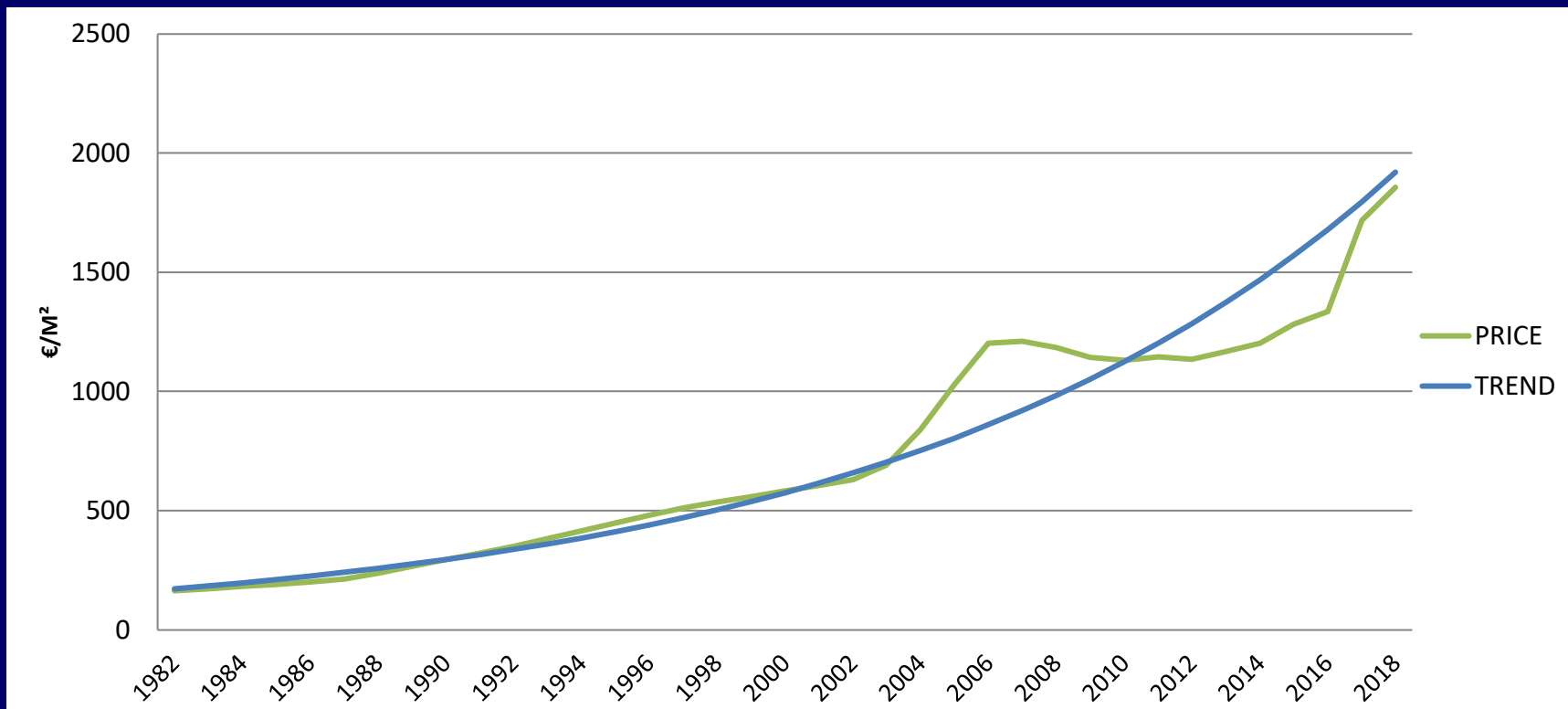
Source: DHI Camilleri in-house valuations 2018

These up-market developments may be compared to similar developments in London at €30,718/sqm, Singapore at €22,055/sqm and Geneva at €20,978/sqm, whilst New York (Manhattan) is at €20,978. /sqm. On the other hand Sydney comes in at €17,918/sqm, Paris is €18,697/sqm, Rome stands at €8,345/sqm, compared with Beijing commanding a €13,031/sqm price tag. Istanbul is at €8,777/sqm. The wealthiest location is still **Monaco at €53,750/sqm**. (Source: Knight Frank – The Wealth Report – 2018)

TABLE 10: Year on Year % Price Change Comparison

COUNTRY	% CHANGE 2013	% CHANGE 2015	% CHANGE 2017	% CHANGE 2018
BRAZIL	-	-7.37	-3.75	-1.11
CANADA	1.61	4.52	11.7	4.20
CROATIA	-17.6	3.8	-	-
DUBAI	5.38	-14.09	-3.69	-6.44
ESTONIA	12.46	4.56	4.76	3.72
GREECE	-9.69	-4.91	-3.13	-
ICELAND	2.00	6.93	16.01	10.14
IRELAND	3.45	6.53	8.91	12.51
ISREAL	5.38	5.17	-0.54	0.45
ITALY	-1.47	-0.93	-0.29	-
LATVIA	-	2.48	5.13	5.72
LITHUANIA	-	3.68	3.56	0.10
MALTA	2.99	6.57	28.59	8.03
NEW ZEALAND	6.4	3.24	7.26	-3.37
NETHERLANDS	-	3.95	7.11	6.92
NORWAY	-	1.99	7.38	-3.01
PORTUGAL	-	3.99	4.18	4.70
ROMANIA	-	7.74	7.61	4.71
RUSSIA	3.46	-15.35	-8.33	0.65
SLOVAKIA	-	1.62	6.61	2.41
SOUTH AFRICA	1.3	0.56	-	-
SPAIN	9.96	-1.71	0.41	2.37
SWITZERLAND	-	1.83	-1.69	-1.11
TURKEY	4.65	14.32	1.84	-
U.K.	1.47	4.36	1.84	0.00
UKRAINE	4.62	-2.76	-5.05	-7.55
U.S.A.	9.31	5.29	3.37	4.58
AVERAGE INCREASE	2.54	1.70	3.99	2.21

CHART 3: MALTA AFFORDABLE PROPERTY IN €/M² OVER THE PAST 36 YEARS



Malta's affordable property annual increases for 2014/15 at 6.6%, 4.2% for 2015/16, 28.6% for 2016/17 & 8% for 2017/18 are to be compared with the past 36-year average at 6.6% pa.

Note the time lag between rental and property price increases.

Property Bubbles

TABLE 11: AFFORDABLE PROPERTY RATES €/SQM FOR THE MALTESE ISLANDS OVER A 36 YEAR PERIOD

Locality	1982	1987	1992	1997	2002	2007	2012	2014	2015	2016	2017	2018	%growth rate Pa 1982-2017
Malta	163	212	349	512	629	1211	1134	1203	1282	1336	1718	1856	6.62%

Source: DHIperiti in-house valuations 2018

A housing bubble is said to occur if:

Real prices have at least doubled during a 5-year period, table 5 above notes that this has occurred for Malta from 2002 – 2007.

Real prices have increased with at least 50% during a 3-year period. Table 5 again demonstrates this to have occurred from 2002 – 2005.

A little property bubble will occur if the price earnings ratio is less than 6 and a serious bubble will occur if higher than 10.

TABLE 12: HOUSING AFFORDABILITY INDEX FOR THE MALTESE ISLANDS - HAI

Year	Mortgage Monthly Payment		Medium Monthly Family Income**	Qualifying Monthly Income		HAI*		House Price: Earnings Ratio
	3-bed/2-bed/r			3-bed/ 2-bed/r		3bed/2 bed/r		
1982	€140	€ 56	€ 229	€559	€ 391	77	110	4.28
1987	€161	€114	€ 564	€643	€ 457	88	123	4.23
1992	€252	€168	€ 745	€1006	€ 531	74	111	5.27
1997	€384	€247	€ 995	€1537	€988	65	101	5.80
2002	€394	€263	€1215	€1575	€1057	77	116	5.60
2006	€606	€429	€1665	€2119	€1500	79	111	7.22
2007	€673	€478	€1738	€2152	€1670	74	104	6.97
2008	€615	€410	€1798	€ 2152	€1435	84	125	6.58
2011	€469	€315	€1959	€1641	€1103	119	179	5.29
2012	€448	€305	€2058	€1568	€1067	132	192	5.05
2014	€472	€322	€2237	€1652	€1127	135	200	4.93
2015	€504	€346	€2325	€1764	€1211	132	192	5.28
2016	€520	€358	€2354	€1820	€1253	130	189	5.44
2017	€668	€453	€2521	€2338	€1585	108	159	6.25
2018	€723	€480	€2653	€2530	€1680	105	158	6.41

* An HAI of 100 according to the US National Association of Realtors' 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 median family income is factored at 1 for 1982, and by 1.35 for 2002 increasing to 1.65 for 2018 to account for the effect of the 2nd wage earner.

THE PRICE EARNINGS RATIO

As Noted in table on previous slide, The Price earnings ratio has increased gradually from 4.28 in 1982 peaking in 2006 at 7.22, before declining to 4.93 in 2014.

These ratios are considered high, as a long-term **35 Year average level of house prices to incomes ratio is given at 3.5.**

The **UNHCS (habitat) indicators** mention the price earnings ratio desirable range to lie between **2 & 6.**

Referring back again to property bubbles, **a little property bubble** will occur if the **price earnings ratio is less than 6.**

A serious bubble will occur if **higher than 10.**

As the highest price earnings ratio stood at 7.22 in 2006, Malta's property bubble is characterized as substantial but not serious.

RESIDENTIAL DEVELOPMENT PERMITS

TABLE 6: RESIDENTIAL UNITS AS APPROVED BY MEPA, TOGETHER WITH COMPLIANCE CERTIFICATES BEING ISSUED:

YEAR	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of total Units	5481	6128	6707	9081	10409	11343	6836	5298	4444	3955	3064	2705	2937	3947	7508	9822
Apartments approved		4548	5265	7539	8961	10252	6184	4616	3736	3276	2489	2062	2221	3019	6316	8513
Compliance Certificates	2552	2719	4975	3884	3400	7169	7796	8055	7784	6438	6314	6703	6948	7358	8452	9250
% Completed	47%	44%	74%	43%	33%	63%	114%	152%	175%	163%	206%	248%	237%	186%	113%	94%

Source: PA

Annual Marriages have hiked from 2500 up to 3072.

Whilst Separations/Divorces also from 500 up to 1350.

Annual property contracts also higher at 15000, from the previous 11500 annual contracts.

Private accommodation for tourists requires another 20,000units.

Total number of annual permits for additional residential units (2018)required:

2500 (marriages) + 1000 (divorcees) + 1500 (2nd homes) + 3000 (foreigners) + 1500(tourists)
= 9500 annual permits

This as compared to that required for 2004 at 5000 permits.

HOUSING AFFORDABILITY:- EDUCATING FIRST TIME BUYERS

In restraining housing requirements to cause less strain on resources, prospective homebuyers should learn the new low inflation housing market by moderating their borrowings and house price bids. Interest rates are not to remain at this low end for long, rises anticipated by 2020.

A rise of 1% to 3% over the next years would raise mortgage costs by:

16%	for a 1% mortgage rate increase,
33.33%	for a 2% mortgage rate increase,
50%	for a 3% mortgage rate increase.

A prospective homebuyer should possibly look out for a price-earnings ratio closer to the long-term average of 3.5 than the present value in the 6 region.

AFFORDABILITY CALCULATION - 1

A household on a salary of €22,000pa, (€1,833/month) by looking at a house-earnings ratio of 4.5, can purchase a residence of:

$$€22,000\text{pa} \times 4.5 = €100,000$$

This market value equates to a floor area for the average Maltese apartment at 82m², with the largest floor area at 102m² (M'Scala) & the lowest at 68.5m² (Sliema).

For the average household income at €2,653 monthly*. The residential price works out at: €2,653 X 12 months X 4.5 = €143,250

This equates to an average residence of 100m², with the largest floor area at (Fgura) & the lowest at 60m² (St Julians).

* This medium monthly family income working out at €30,252 pa (2017) is to be compared with NSO's SILC (2017) survey, where a household income of €29,747 (2017) is quoted.

65,987 persons living in private households, or **15.9%** had an equivalent income below this threshold, and were considered to be at-risk-of-poverty.

AFFORDABILITY CALCULATION - 2

At a mortgage rate, this implies a monthly mortgage payment of:

@ 3.25% €515

@ 4.25% €590

@ 5.25% €670

@ 6.25% €755

Besides Total purchase expenses amount to:

€14,325 (10% down payment) + €2,500 (professional fees) = €16,825

Is this affordable or is the couple looking around to rent in the:

€900 - €1,100 monthly region?

Renting nowadays could also be an option, with the rentals higher than the mortgage monthly payments, but without initial expenses to be undertaken

THE IMPORTANCE OF MANAGING HOUSING AFFORDABILITY

It is not a good measure that all the financial earnings of a household are directed towards settling mortgage dues.

It is best that surplus monies are directed towards the entrepreneurial characteristics of the Maltese households.

This will create a boost to the Maltese economy.

What Next - Affordable Housing Mechanisms!

TABLE 13: MARKET VALUES + CONSTRUCTION COSTS OF OPEN & AFFORDABLE PROPERTY MARKET APARTMENTS

	MARKET VALUE €		CONSTRUCTION COSTS € (€/m ²)	
	OPEN	AFFORDABLE	OPEN	AFFORDABLE
1 BEDROOM ST JULIANS	128580	42860	34360 (640)	30660 (572)
2 BEDROOM MSIDA	143482	47827	48850 (618)	43427 (550)
3 BEDROOM MELLIEHA	183781	61260	57512 (520)	50487 (457)

Source:DHlperiti in-house valuations 2018

TABLE 14: RENTAL & MORTGAGE OF OPEN & AFFORDABLE PROPERTY MARKET APARTMENTS

	OPEN MARKET		%	AFFORDABLE MARKET		BLDG COSTS (€/m ²)
	RENTAL €/MONTH	MORTGAGE €/MONTH 3.25% /10%		affordable/ open	RENTAL €/MONTH	
1 BEDROOM ST JULIANS	623	462	33	208	171	149 (572)
2 BEDROOM MSIDA	695	515	33	232	191	210 (550)
3 BEDROOM MELLIEHA	890	660	33	297	244	245 (457)
3 BEDROOM MELLIEHA	890	462	33	374	307	436(900)
1 BEDROOM ST JULIANS	623	462	60	374	307	149(572)

Source: DHlperiti in-house valuations 2018

THANK YOU

FOR YOUR ATTENTION