

A Conference  
organised by the  
**CHAMBER OF  
ARCHITECTS &  
CIVIL  
ENGINEERS**  
in conjunction with the  
**BUILDING INDUSTRY  
CONSULTATIVE  
COUNCIL**

# Housing Affordability in Malta

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The conference aims at looking at housing in Malta from different perspectives, including the involvement of the private sector, the provision of housing stock to match various income brackets, innovative methods of design aimed at reducing capital/maintenance costs, present public sector housing policies, and implementation of planning constraints on housing development.

It is hoped that the conference will mark the beginning of a process leading up to a comprehensive review of existing legislation and policies in order to achieve better management of our existing housing and land resources.

*Venue: The Coastline Hotel Salina*  
*Date: 4th November 1999*



Chamber of Architects  
& Civil Engineers



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# PRELIMINARY PAPER

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## HOUSING AFFORDABILITY IN MALTA

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### INTRODUCTION

The Property Market, as in all markets depends on an adequate supply. The supply is consists of units for sale, private renting or social housing. If the supply of one of the above sectors is reduced, price increases occur in the other available sectors, making the market work inefficiently. The rental market in Malta is observed in not offering any further units on the market because of the existing rent restrictions, thus forcing occupiers to buy property when they might otherwise have rented.

Table 1 shows the percentage type of tenure of all residential Maltese Island Accommodation since 1948:

	1948	1957	1967	1985	1990	1995	2007
Owner Occupied	23.1	26.1	32.0	53.9	60.1	68	74
Rent	76.9	73.9	68.0	46.1	39.9	32	26
No of Dwellings	69965	76544	75381	101509	N/A	119479	N/A

Table 1 shows that the trend from 1967 onwards has been towards owner-occupation. However, too much emphasis on owner-occupied property is not conducive to a buyer's market. It is interesting to consider whether owner-occupation would be so popular if a sufficient variety of properties were available to rent. If a true choice were available between rental and owner-occupation, the decision to remain within the owner-occupied sector would not then be so clear.

The figures for 2007 were assumed taking into consideration Malta's prevailing high inflation rate and low unemployment rate as compared with those prevailing in the EU countries, and assuming Government's commitment to re-activate the dormant private rental market. Sustainable home-ownership in advanced economies is being assumed at 71% over the next decade (Miles, 1996).

Affordability is generally considered from the household's perspective, but if the required increase in housing supply is to be forthcoming, then housing also has to be profitable from the builder's point of view. Very low priced housing may improve affordability, but if the price implies losses to the builder, no new homes

will be built. By definition, sustainable owner-occupancy has to be consistent with both affordability and profitability.

## RESIDENTIAL HOUSING MARKET COSTS

**Table 2 - market value rates for apartments over the period 1982-1997 in sought after areas by first time buyers**

LOCALITY	MARKET VALUE Lm/m <sup>2</sup> Apartment							
	1982 Lm	1987 Lm	1992 Lm	1997 Lm	% inc. 1982-87	% inc. 1987-92	% inc. 1992-97	% inc. 1982-97
Fgura/Paola/Zabbar	45	55	110	175	22	100	59	290
M'Scala - internal	50	75	160	160	50	113	0	220
Mosta/Naxxar	80	85	125	205	6	47	64	156
San Gwann	65	75	110	185	15	47	68	185
Sliema inner prime	90	145	190	305	61	31	60	240
St Julians	80	100	175	235	25	75	34	195
Swieqi	85	105	180	275	23	72	53	225
MALTA	70	91	150	220	30	65	47	215

*The Malta values are obtained as the arithmetic means for the various localities.*

Table 2 gives the percentage of increase in Market Value over the 15 year periods varying from 290% down to 156%. The average MALTA value calculated at 215% yields 14.50% p.a. A Central Bank of Malta Publication (Demarco, 1995) quoted that the price of apartments from 1980 - 1994 had increased by 186% i.e. 13.25% p.a.

Over the total 15-year period, there does not appear to be such a vast amount of spread for the percentage increases across the various localities. However over the relative five year period, this value varies from 0% up to 113%, with the Sliema inner area having a steady increase over the years, and with the M'Scala area obtaining its overall increase erratically.

An exponential regression analysis was carried out for the market value rates of Table 3 of the form :

$$y = Ae^{rt}$$

when 'y' is market value rate at a particular year 't'

A is a constant obtained from the regression analysis

e is a constant mathematical number

r is the calculated growth rate

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The growth rates for each region and the extrapolated market value rates for 2002 and 2007 are given in Table 3:

LOCALITY	A	r	R	2002	2007
Fgura/Paoloa/Zabbar	40.64	0.095	0.981	273	440
M'Scala - internal	52.35	0.085	0.948	286	438
Mosta/Naxxar	71.00	0.064	0.955	256	353
San Gwann	58.58	0.070	0.972	240	342
Sliema inner prime	91.95	0.079	0.995	443	656
St Julians	76.25	0.076	0.987	347	507
Swieqi	78.84	0.081	0.987	400	600
MALTA	66.72	0.079	0.994	322	477

R is the rate of correlation, being an indicator of the fitness of the regression line. A value of 1 is a perfect fit, whilst a value of 0 is a total scatter. The values obtained being very close to 1, indicates the exponential regression to be a good fit for this property data. The Malta model with an R-value of 0.994 demonstrates the good fit.

## DIFFERENT SCENARIOS FOR THE MALTA APARTMENT MODEL

The regression analysis was carried out with values utilized up to 1992 only, the 1997 value omitted. In this case the growth rate again was 7.9%, however the rate in 2007 was reduced to Lm452/m<sup>2</sup>.

It was then further assumed that due to a slowing down in the growth rate of the property market the market rate in 2002 was assigned a value of Lm250/m<sup>2</sup> as opposed to the estimated Lm322/m<sup>2</sup>. In this case the growth rate reduces to 7.1% with the market rate in 2007 calculated at Lm389/m<sup>2</sup>.

The probability that the estimated value Lm477/m<sup>2</sup> occurs is assessed at 20% that the value Lm452/m<sup>2</sup> occurs is assessed at 35%, whilst that the value Lm389/m<sup>2</sup> is assessed at 45%.

The most probable value for the year 2007, is thus estimated at:

$$0.2 \times 477 + 0.35 \times 452 + 0.45 \times 389 = \text{Lm}448/\text{m}^2$$

This means that the Maltese apartment now priced at:

$$140\text{m}^2 \times \text{Lm}220/\text{m}^2 = \text{Lm}30,000$$

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in the year 2007, is estimated to fetch a price of :

$$140\text{m}^2 \times \text{Lm}448/\text{m}^2 = \text{Lm}62,500 \text{ i.e. a } 108\% \text{ increase.}$$

#### 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 <sup>(5)</sup>

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 4**

YEA R	MORTGAGE monthly payment		MEDIAN family income	QUALIFYING monthly income		RATIO of qualifying family income		HAI	
	3 bed/r	2 bed/r		3 bed/r	2/bed r	3 bed/r	2 bed/r	3 b/r	2 b/r
1982	Lm60	Lm42	Lm167	Lm240	Lm168	1.45	1.00	70	100

1987	lm69	lm49	lm211	lm276	lm196	1.30	0.95	76	108
1992	lm108	lm72	lm266	lm432	lm288	1.65	1.10	61	92
1997	lm165	lm106	lm301	lm660	lm424	2.25	1.40	46	71
2007	lm340	lm241	lm565#	lm1363	Lm965	2.45	1.70	41	58

# The earnings/employee % growth rate is taken at 6.5%, over the next 10 year period.

For a 3-bed/r apartment, this index has slid from 70 down to 46, whilst forecast that over the next 10 year period, it will drop further to 41. The ratio only showed signs of improvement between the 5-year period 1983-1987 with an increase from 70 up to 76.

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For the 2-bed/r apartment, this index also slid from a 100 down to 71, whilst forecasting that over the next 10 year period, it will drop further to 58. The ratio again showed signs of improvement between the same period, 1982-1987 with an increase from 100 up to 108. It appears to be the only period under which 2 bed/r apartments, were affordable for first time buyers.

## HOME OWNERSHIP RETURNS

Housing meets a primary human physical need, being a vital element of people's life, it acts as a shelter for all the members of the family and all the equipment they need for daily existence.

Unlike other investments in stocks and shares, the market is volatile subjected to the compounding effect of slumps and booms. People, therefore, invest and speculate in property way beyond prudent levels. It is difficult to determine what a property is really worth, but rises in boom periods are clearly driven by more than confidence in the economy. Prices in such periods may seem like they come out of some other, richer economy with far higher salaries. No other investments may obtain gearing ratios up of 80-90% of the amount. It is frightening that such a large amount of credit is extended to such an inefficient, illiquid and overpriced market.<sup>(1)</sup>

.The total return from holding property comprises capital value changes and income return. This could be actual through letting or notional, in effect what the owner would have to pay in rent for leasing the dwelling. To the home owner, the question of income return is hypothetical, but in order to make a comparison with other investment media, where say dividends or rental incomes are received, a notional rental value is required. Due to the decline of the private rented sector over a period of years, accurate sources of income return from housing does not presently exist. From the limited data available for furnished apartments given in Table 5 for furnished apartments this varies from 5.5% for the Sliema area increasing to 7/7.5% in the Swieqi/St Julians area. For holiday apartments in Bugibba/Qawra area this rises to 8.5%.

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**Table 5.**

LOCALITY	FURNISHED RENTAL VALUE % OF MARKET VALUE
Bugibba (internal)	8%
Kappara	6%
Qawra (internal)	8.5%
Sliema (front)	5.5%
Sliema (inner prime)	5.5%
St Julians	7.5%
Swieqi	7.0%

Considering that a medium term safe investment yield in Malta is presently 7.25%, the corresponding return from property is normally taken at 2% higher, due to illiquid, bulky form of this investment, together with the inherent tenant risk. Now as the annual returns from rented property, would not be constant, but being a percentage amount of the present value, then an investor is prepared for a lower initial yield from property. A current net return from residential property has shown 4% to be an appropriate rate, as it is accepted that over a long holding period housing is less volatile than other investment markets and therefore does not exhibit undue fluctuations in the yield.



Considering the growth of the average Malta apartment over the past 15 years as being 7.9%, with a 4% rental income, and considering the maintenance rate and depreciation rate at 0.65% of capital value, the gross return works out at :

$$\text{GROSS RETURN } 7.9\% + 4\% - 0.65\% = 11.25\%$$

by decapitalizing at an 8.5% interest rate, purchase stamp duty and fees expenses which approximate to an average of 6.5% of purchase price, this gross return reduces to 10.7%.

Considering the present inflation rate approximating to 4% p.a.,

$$\text{the net return is } 10.70\% - 4\% = 6.7\%$$

Comparing the local housing return over a 15-year period outperforms most investments on the International Market. In the same period on the International Markets, bonds averaged a 4% net return, classified as an average risk. Equities averaged a net return of 9.58% but at a very high risk. Gold, oil and commodities all averaged negative net returns, at a high risk. The EURO DM averaged a net return of 6.49% but classified as a high risk.<sup>(6)</sup> Housing is seen as a low risk investment with equities having the highest risk attached. Eventually this property return may be compared with the local listed securities, the majority

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of which being less than 5 years in existence.

If gearing in the apartment purchase is to be considered, Table 6 gives the following rates of return due which are calculated as per 1997 depending on the date of purchase. Purchase expenses not considered in these rates of return.

**Table 6:**

<b>PURCHASE DATE</b>	<b>AVERAGE MORTGAGE RATE</b>	<b>PROPERTY RETURN</b>	<b>50% GEARING</b>	<b>80% GEARING</b>
1982	8%	11.25	11.87	12.33%

1987	7%	11.25	12.38	13.33
1992	6%	11.25	13.95	17.66
1997	6%	11.25	16.50	32.25%

These values have been calculated from <sup>(10)</sup>

$$e = y - iM$$

$$\frac{(1-M)}{(1-M)}$$

where e is the return on the equity in the property

y is the return in the property

i is the loan interest rate

M is the loan to value percentage.

Table 6 shows that the higher the % of gearing initially, the higher the rate of return. For 80% gearing, premises purchased in 1997 gives a rate of return of 32.23% as against 11.25%, for a purchase without any gearing. However, for a purchase having occurred in 1982, the respective rates are 12.33% just slightly above the ungeared rate of 11.25%. This confirms that borrowing to purchase property raises the return on the capital invested, however risk increases with the greater amount of borrowing.

As an example consider a venture with a 10% expected return, however with the actual return rising by 100%

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Cost of Venture...Lm100...expected at 10%	=	Lm10.....Actual
ReturnLm20.00		
Borrowing.....Lm 70.....interest at 8%	=	Lm 5.60.....Lm 5.60
		-----
Profits		Lm 4.40.....Lm14.40

With the return from the venture rising by 100%, the equity income, mainly Lm14.40, has risen by 227%, from the previous Lm4.40 return. Thus are fortunes built. But the obverse is also true and thus are bankrupts made.

## THE RENTED RESIDENTIAL PROPERTY MARKET

Table 7 suggests that Malta appears to have a healthy private rented market at 29.2% of the total building stock when compared with EU other countries.

Table 7 shows the percentage tenure for various countries, as of 1990:

	USA	UK	FRG	FRANCE	N'LANDS	MALTA
Owner occupied	64	67	40	51	44	60.1
Private rented	33	7	45	26	13	29.2
Social rented (state)	3	26	15	23	43	10.7

It may, however, be argued that these rents are all old leases as shown by table 8:

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 are prior to 1939 being 58%. Since most of the private rented stock is not of recent construction a substantial amount of occupants complain about the inconvenient dwelling layout. As Government leased stock is of more recent construction, less complaints are received from tenants.

Due to the present rent restrictions in general, the rent paid is very low and more than half (52.8%) of rented property is let at less than Lm50 p.a. and 82.2% is let at less than Lm100 p.a.

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Table 9 gives the rented dwellings distribution by amount of rent

Rental Value Lm/p.a.	Up to 30	31-50	51-100	101-150	151-200	201+
% 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	8.2	4.4	2.0

. Table 9 shows that the low rents below Lm100 p.a. have remained relatively static, whilst there has been an increase in rental values above Lm200 p.a. from 2.0% up to 7.8%, with however a reduction in the ranges 101-150 and 151-200. However the 1995 (Malta) Census gives 1% of total rentings as being in LM500 -LM600 pa range, together with a further 1% being within the LM1000 - LM2000 pa range. The maximum range specified is within LM5000 -LM7000 pa at an insignificant percentage of 0.012%.

Due to existing security of tenure there is very little social mobility and a household tends to occupy the same dwelling throughout its lifetime. The existing renting legislation discourages the housing cycle i.e. flats for young couples, suburban for growing maturing families etc. Also a substantial size of the rented stock is size - over standard with respect to the size of the household they accommodate. Economic incentives are required to encourage small households living in large dwellings to exchange places with larger households living in smaller dwellings. At present there is no incentive for the portion which are owner occupied to increase their income by renting their own home and move into a smaller one at a lower rent, nor is there any encouragement for the portion which are tenanted to pay less rent by moving into a smaller apartment.

**Table 10 lists the applicable floor areas adopted in various countries:**

COUNTRY	USA	UK	FRG	GDR	N'LAND	FRANCE
Floor area - m <sup>2</sup>	149	89	99	62.7	101	105

The Social housing in Germany provides for 1 person - 45m<sup>2</sup>, 2 persons - 60 m<sup>2</sup>, 3 persons - 75m<sup>2</sup>, 4 persons 90m<sup>2</sup>, and 15m<sup>2</sup> each for additional persons.

In general the American standard is 150 m<sup>2</sup> with the European Standards being 100m<sup>2</sup>. Malta in case of housing accommodation appears to follow the American standard with floor areas mostly in the 135m<sup>2</sup> - 170m<sup>2</sup> ranges.

In effect rent control and the decline of private land lordism represents a victory of industrial capital over landed property. Landlords have been sacrificed on the altar of capitalist profitability and the explanation for rent control is to be found in the requirements of capitalist profitability for a cheap and appeased labour force.

The staggering depletion of accommodation in the private rented sector is a major cause of concern, but over the years various government have been unable to arrest this decline. No government has been able to achieve simultaneously an adequate return for the landlord and satisfactory rents and protection for the tenant Table 5 gives the rate of return on furnished property as varying from 8.5% to 5.5%. The 5.5% rate is for permanent lettings for apartments in the Sliema area with higher rates applying to sea-side resorts, indicating the inverse relationship existing on less secure lettings and smaller property size. A fair rate, considering annual indexation of rents together with suitable incentives, for unfurnished rented property should work out at 4%.

Table 11 gives the details required for renting or purchasing properties, valued at LM15000 or LM27000. The rental amount is calculated at 4% of value. The down payment is taken at 25% of value. Purchase expenses taken at 3.5% stamp duty for LM15000 property and at 7%, for the amount above LM15000, together with notary and survey fees. Yearly repayment calculated on a 30-year repayment period, at a mortgage rate of 7%, for value below LM15000 and at 8.5% for amount above LM15000. The annual income is calculated on the principle that repayments do not exceed 25% of salary.

**Table 11 - renting vs. purchase**

VALUE	RENTAL AMOUNT	PURCHASE REQUIREMENTS		
		DOWN PAYMENT	EXPENSES	YEARLY REPAYMENT
Lm15,000	Lm600 p.a.	Lm3,750	Lm675	Lm900 p.a.
Lm27,000	Lm1,080 p.a.	Lm6,750	Lm2,580	Lm1,668 p.a.

## RENTAL AFFORDABILITY

The available statistics suggest that in European countries between the 2 World Wars, rents averaged around 1/10 of income, substantially lower than before the 1<sup>st</sup> World War. In the USA on the other hand 20% appears usual.

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During the eighties this figure for the poorest households in Germany was 30% averaging off to 20% for average households and tapering off to 15% for the richest. In France the rent/income ratio after housing allowance deduction was 12.5%, for minimum wage earners it was 17%, whilst for households not receiving housing allowance reached 33%.

Traditionally 25% has been regarded as a reasonable proportion of family income to spend on housing. Great dissatisfaction has been expressed with this rather arbitrary concept of reasonableness. A more flexible definition of reasonable rent burden provides for a sliding scale based on family size and income. This is, larger families with lower incomes would pay a smaller proportion of income, whilst small relatively better off households would pay a higher proportion. In the USA however, a high proportion of very low income earners pay over 50% of their income on housing, in short the operating principle seems to be, the less income a family earns, the more it can expect to pay for housing - which from the standpoint of social need should be quite the other way round.

From the 2 examples quoted previously for renting in table 11 at Lm600 p.a. and Lm1,080 p.a., the 25% principle means that the annual income for the families has to be Lm2,400 p.a. and Lm4,320 p.a. respectively.

An alternative method of determining 'affordability' is the 'market-basket' concept. This approach determines first the cost of the household's other basic necessities, and then finds out how much income is left for housing costs. In this system the 25% income standard is not at all appropriate for many low-income households.

The average income of the Maltese family in 1997 is at Lm300 monthly. Around 60% of the families earn below the average income, whilst 40% surpass this average. Family Expenditure is defined as the amount of money the family deems necessary for ordinary purchases weekly. Extraordinary

expenses include house rent, mortgages bills, hire purchase installments and other extraordinary expenses which at 1997 is estimated at Lm243, leaving a residual amount of Lm58 monthly.

From the previous examples a family with an income of Lm2,400 p.a., i.e. Lm200 monthly earns below the necessary monthly expenditure for subsistence verging on the relative poverty line, not be able to afford any rental payment.

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A family with an income of Lm4,320 p.a., i.e. Lm360 monthly has a residual amount of Lm117 per month. This family might opt for a rental amount of Lm1,080 p.a., i.e. Lm90 monthly instead of purchasing property.

## HOUSING SOCIAL POLICY

A Housing Policy with a human face - to leave the right to shelter to an anonymous market would not be right, nor correspond with the UN recommendations.(4) The Social Housing Policy in Europe (12) varies for Malta and the UK, from the other countries on the continent. Maltese and British policy is ideologically driven, favoring the owner-occupier and the social rented sector. All the other countries subsidize private renting, tenure neutrality being an objective in several countries, especially where the primary aim has been to overcome a housing shortage, by stimulating investment in all sectors. Private renting has been an 'open door' tenure, needed by young single persons, young couples, etc, in contrast to social renting, which has been allocated mainly to families.

.Personal Housing Allowances are available in the UK and the other European countries, to help those on low incomes. In France, Germany and Sweden, these allowances are available to all forms of tenure., with Spain having a small 2% stock of social housing providing no allowances. In the UK this allowance is intended to cover full housing costs for those who qualify, whilst in other countries where general social security benefits are usually more generous, housing allowances are only intended to cover part



of housing costs. The rate at which benefit is lost as other income increases is much less steep than in the UK, meaning that the poverty trap is less severe in other countries. Poverty traps caused by sharp reductions in benefits when an unemployed person finds a low-paid job can be reduced by less sharp targeting. Some countries make it easier for people to work casually by assessing benefits over longer periods and by allowing people on low earnings to retain some income support.

In the Netherlands, a quality reduction exists in disposable income as rent rises. The extra rent is less than fully reimbursed on the principle that the household is buying extra quality housing, and it should contribute to its cost. Once an initial ceiling is reached, there is no further subsidy and the household must pay for all its extra quality. Subsidizing only part of the rent also helps one

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to shop around, as otherwise no incentive exists to shop around for cheap accommodation, negotiate lower rents, or move to smaller accommodation if their present home is larger than they need.

A study in the US - 1993, on the effects of policy changes on affordability of a modestly priced home, with current fixed rate 30 year mortgage being 5% down, a 7.17% interest rate and no subsidy, revealed that decreases in the mortgage interest rate of less than 3%, compared with the prevailing rate, had no significant effect on affordability. A more effective option is a down payment subsidy.

## **SUMMARY & CONCLUSION**

Sustainable home-ownership has to be consistent with the economy's long-run growth rate. Crudely, if we want to raise owner-occupancy rates, then the economy must grow faster. Although subsidies superficially increase affordability, unless they are accompanied by measures to raise housing supply or land, then those subsidies will be capitalized into higher house prices. The important point to stress is that government stimuli to housing

demand are of little value unless there is equal consideration to the supply side of the market <sup>(8)</sup>. The role of governments is contentious, subsidies for first time buyers may boost demand initially for such housing, but end up at least partially self-defeating. 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 <sup>(1)</sup>.

The subsidies provided to the home-ownership market, which have now long over shot their impetus and which in the long term have also been part of the cause of the worsening HAI index, ought to now shift over, at least partly to stimulate a dormant private sector rented property market. The falling quality of life of the Maltese family is to be addressed, which presently to survive by modern standards requires 2¼ median jobs to purchase a 3-bed/r median apartment, with 1¾ jobs required for the median 2-bed/r apartment. These values have deteriorated since 1982, when the respective values were 1½ and 1 median job. As the HAI index is forecast to deteriorate over the next 10-year period to 2½ and 1¾ median jobs respectively, developers should be encouraged to cater for new types of accommodation areas in the region of 60 -85 m<sup>2</sup>.

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These are more affordable to new single family structures and old age couples, who may capitalize on trading their previous residence, leading also possibly to the idea of flexible tenure.

The good returns for the Maltese property for the period under consideration, is helped by the fairly constant mortgage rate over the surveyed period, varying from 7% - 8.5%. This together with reduction in rates applied as subsidies, which has helped to keep the Maltese Property Market less volatile than International Real Estate. It could further be explained by the Maltese obsession for owning property even if it is beyond their immediate means. This is due to the fact that Malta in contrast to Singapore and Hong Kong has exchange control and it is because investment has been limited on the island to buying houses and flats, as cross-fertilization of investments was difficult. With the advent of the recent Malta

Stock Exchange and the relaxation of foreign exchange, investments may be sought outside the property market.

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**APPENDIX - Malta Statistics.**

LM1 = 2.31EURO  
GDP per capita (1997) = 8000EURO  
GNP per capita annual growth rate (1988 -1995) 6.9%pa  
GDP growth (1997) 6%  
Unemployment rate (April 1998) 4.6%  
Retail price inflation (June 1998) 3.8%

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JANUARY 9, 2000

# Housing affordability

## An international perspective

THE CHARACTERISTICS of housing in Malta are distinctive. It is an island state that attracts foreign investors with high investment ability. However, these investors are not in the business of investing in affordable housing. There are a number of features about the Maltese property market which make investing in affordable housing a challenging prospect.

According to statistics compiled by Denis Camilleri there has been a rise in speculative land costs. In 1995 plot price formed 50% of house prices, compared to less than 20% in the UK. While home ownership has increased from 23% to 68% between 1948 and 1995, the relative affordability has declined.

In 1990 the private rented sector formed 29.2% of the market. However, the bulk of the leases (58%) are leases made prior to 1939, with the accompanying limitations in investment yields for landlords. Thus although the size of the sector is significant, rent regulation has a dampening impact on the operation of the private rental market and its ability to provide housing of a decent quality. This is noticeable through the level of vacant or partially vacant dwellings (14.7% and 8.4% respectively) recorded in the 1995 census. Of these, 29.5% are in need of substantial repair and 9.5% derelict.

Not all vacant dwellings are older properties. For example in the Outer Harbour area, 13.24% of vacant dwellings are newly constructed compared to just 4.96% in the Western area. This points to the necessity of understanding the intricacies of the housing market at a local level.

A paper presented by JUDITH WAYNE at the housing affordability conference last November



Another indicator of the operation of the housing market and the impact of housing expenditure on the national economy is included in Table 1 comparing average housing investment as a share of national Income, based on annual net mortgage lending as a percentage of national income. In 1994 this was less than 1% in France and Italy, less than 5% in the UK, Spain and Germany, less than 8% in Holland and 14% in Malta. We need to know the level of home ownership to understand some of the differences. However the examples of Malta and the UK, with comparable levels of home ownership, show the impact of investment in home ownership on the national economy.

This brief *résumé* of housing statistics points to the complexity of the housing situation in Malta, particularly when it comes to developing policies for influencing the housing market to secure decent accommodation for the residents of Malta. In other countries economists, researchers and government policy makers have implemented housing and planning policies to control the workings of the housing market with varying degrees of success. It is to these I now wish to turn.

### Rental affordability

Steve Wilcox (1999) provides a historical overview of UK affordability measures noting that concerns about the inability of lower income

households to meet the economic cost of a "decent" standard of housing have been central to housing policy debates for over a century.

Affordability is about the inter-relationship between incomes, subsidies and housing costs. Contained within the debates are attempts to define a ratio of housing costs to household income. Currently in the UK a 25% rent to income ratio forms a component of affordability policies in the housing association sector (not-for-profit social landlords).

The UK Family Expenditure Survey data for 1996/97 show that 11% of home buyers pay more than 26% for their housing costs includ-

ing mortgage payments and repair expenditure against net disposable household incomes. Of these, 4% had housing costs to income ratios of over 42%.

Material and debate on rental affordability is more readily available than that on the affordability of home ownership.

Generally definitions of rental affordability are about trying to establish a given standard of housing at a rent that is not too large a part of a household's income. Where the cost of housing is above a level deemed affordable, subsidy is given in the form of housing allowance to the person renting, or a supply side supplement to the landlord. Typically, European countries define affordable rents by giving income supplements through the housing allowance system.

Affordability should be related to the quantity and quality of the accommodation on offer, although measures of affordability do not commonly refer to quality standards and internationally housing quality standards differ markedly.

Several European countries specify the proportion of income which households should be expected to

(Continued on page 22)

Table 1 – Annual net mortgage lending as a % of national income

	Holland	Germany	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		

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 per cent in the early Seventies to 4.5 per cent in the early Nineties. This is to be compared with Malta's value, which exceeds 20 per cent.

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(Continued from page 1)

pay for their housing, using rent to income ratios. In many countries there are a whole series of specific rent to income values, depending on household incomes and rent levels in different areas.

Germany is an exception. In Germany the rent to income value is prescribed for different household types (based on family size etc). The housing allowance scheme, *Wohn-geld*, is set so that rent after allowances, divided by net income is not more than 25-30% of the household income, depending on household composition.

In Austria only public sector tenants are entitled to housing allowances. The housing allowance scheme is administered through nine provincial authorities, calculated using a formula based on monthly household income and floor area for the number of persons in the property. Fifty metres squared is the notional size for one person and an extra ten metres squared is allotted for each additional person in the dwelling.

The Dutch housing allowance, the Individual Rent Subsidy system, has a series of rent-to-income ratios for different household types and different income levels. The system is calculated on the basis that as incomes increase, the Dutch government expects households to pay a higher proportion of their income on rent, or live in accommodation with higher rents.

Housing affordability is also an issue in Eastern Europe. In Poland

# Quarterly "Ability to Buy Index"

the public sector is being encouraged to increase rents to 3% of replacement value. This is so that rental income is increased to cover property maintenance costs. However, few local authorities are increasing rents to these levels. There is a housing allowance programme, though only 6.2% of households and 10.5% of tenants in communal housing receive housing allowances.

Eligibility for housing allowances is based on income factors related to minimum pension levels, combined with rigid rules about space standards. In Poland, policy advisers are promoting a more flexible housing allowance programme tied into rental policy reform goals.

In the UK housing allowances are available to tenants in the private sector and the not-for-profit sectors. The not-for-profit sector (i.e. housing associations and other registered social landlords) can attract a supply side subsidy – Social Housing Grant – which reduces the cost of new development and hence the rental income costs.

Since 1988 the supply side subsidy has fallen from 100% to less than an average 50% in England, 56% in Wales and up to 70% in Scotland. The reduction in bricks and mortar subsidy has been seen as one of the reasons why not-for-profit rents have increased nearly to market rents levels. More recently, the not-for-profit regulator, the

Housing Corporation, has defined a rent envelope, that is the amount by which overall rents in the sector should be set, and an annual cap of rents at no more than the Retail Price Index plus one per cent.

In the UK Housing Benefit, a personal housing allowance system, meets up to 100% of housing costs in the not-for-profit sector depending upon the level of household income.

In the private rental sector, housing benefit is paid up to a locally agreed market reference rent. Thus there is a cap on the level of rents which landlords can charge. This was introduced as a result of rising concerns about private sector rents increasing to the maximum housing allowance payable.

As might be anticipated, the UK housing allowance system has had to pay out increasing amounts of personal income subsidy and is under review. The nature of a revised system is unclear, although there is talk of all households having to pay at least a part of their housing costs.

## Owner occupation and housing affordability

In the UK the housing affordability of owner occupation has received less attention than rental affordability issues.

Recent discussions with the European Mortgage Union has revealed that they are intending to carry out research into comparative owner occupation within member states sometime next year. This may be of future use.

The UK Council of Mortgage Lenders, a trade body representing the interests of mortgage lenders such as banks and building societies, provides the best source of data and opinion on the affordability of home ownership in the UK. In Pannell and Williams (1994) affordability, defined as the ability to pay for a unit of housing, is seen as one of the fundamental factors influencing behaviour in the housing market.

Affordability will often play a crucial role in determining whether a household decides to enter the owner occupation market at a specific time. Most measures of affordability focus on initial entry costs, with the most common ratios based on the relation-

ship between house prices or mortgage payments and average earnings or household incomes.

The ratio of house prices to average earnings (HPE) provides a simple measure of affordability. It is seen as a simple measure because it is based on national averages. As within Malta, there are significant regional variations within the UK, both in average earnings and, more markedly, in house prices.

The long term (35-year) average level of house price to incomes ratio using the HPE index is about 3.5. This compares to current ratios in Malta of between 7.6 for a median priced apartment and 12.6 for a terraced house.

Apart from the HPE, there are other measures of affordability, some of which are developed to assist mortgage lenders and house-builders to understand the markets for their business. For example the Halifax (Building Society, now a bank) collects information on affordability based on actual income put forward in support of a mortgage claim rather than using average incomes.

The National House Building Council calculates a quarterly "Ability to Buy Index" for first time buyers. This incorporates three factors seen as important short-term influences on first time buyers' ability to enter the housing market:

- the gross cost of servicing a mortgage in the first year, that is, the average mortgage advance multiplied by the mortgage rate;
- the difference between average price of first time buyer property and the average advance, that is the deposit to be provided by the first time buyer;
- income.

This index showed that house prices became increasingly affordable during a period of low house price inflation, an unsurprising result.

Judged by the type of measure described above, during the 1990s house prices have become increas-

ingly affordable. We now note that in London and the South East of England there is substantial house price inflation, resulting in a revision of this statement for those areas.

Changes in affordability can be seen to be the result of many factors which encourage home ownership: improvements in the macro-economy and improved job prospects are but one element. In the UK the mortgage market is offering a sophisticated range of products, with fixed rate and capped mortgages resulting in greater security over the longer-term costs of mortgages. These developments need to be set against the withdrawal of mortgage income tax relief.

Perception of house purchase as an investment as well as a place of residence has a role to play that is not easily quantified. Likewise, measures of affordability provide at best only partial insights into household behaviour.

An analysis of tenure patterns, household expenditure, tax and subsidy frameworks in a range of different countries provides another set of insights into affordability. Freeman, Chaplin and Whitehead (1997) make an assessment of the links between current tax and subsidy frameworks and tenure mix. This is a useful analysis for assessing the impact of subsidy intervention on the operation of the housing market and thus the potential to influence housing affordability.

The authors collected data for two specified household types: type A, defined as a two-adult household without children with the main respondent aged around 25 years and an average income for the age group; and type B, defined as a two-adult household with two children, the main respondent being around 45 years and an average income for that age group.

The two types of households were intended to represent a household at

**Table 2 – Owner occupiers as a proportion of all households by country**

Country	1945/50	1960	1970	1980	1990	1995
USA	57	64	65	64	64	NA
UK	29	42	49	56	65	68
Netherlands	28	29	35	42	44	47
Sweden	38	36	35	41	42	40
Spain	NA	NA	64	73	76	NA
Japan	NA	71	59	62	61	60
Ireland	NA	NA	71	76	81	NA
Germany	NA	NA	36	40	38	NA
France	NA	41	45	51	54	NA
Finland	56	57	59	65	67	78
Canada	66	66	66	62	63	NA
Australia	53	63	67	71	70	70
Malta	23	–	–	–	–	68

**Table 3 – The size of the private rental sector**

Country	Type A relative expenditure	Type B relative expenditure
USA	82	75
UK	107	110
Netherlands	45	61
Sweden	113	N/A
Spain	93	124
Japan	58	62
Ireland	N/A	N/A
Germany	39	56
France	69	112
Finland	79	N/A
Canada	65	105
Australia	64	94
Average	75	88



an early stage in its housing career and a well established household.

Twelve countries were selected for study, the UK, seven European states, Australia, Canada, the US and Japan. The non-European countries were selected because of their Anglo-Saxon tradition, or completely different background in the case of Japan.

The conclusions of the research show that the level of home ownership in the UK is not unique. The distinguishing feature for the UK is that households become owner-occupiers sooner than in other countries. Because of low down payment requirements and low entry costs, a higher proportion of younger couple households become owner occupiers in the UK than in other countries. Private renting remains relatively small scale.

The relative tax treatment of different housing tenures in the UK favours investment in owner occupation over private renting. Evidence from other countries is that the influence of the tax framework on tenure patterns is not general and conclusive

Spain has the most expensive private rental sector relative to owner occupation, followed by the UK for Type A households. For Type B households, the Netherlands, France and then the UK are the most expensive.

International comparisons suggest that the provision of direct support or subsidy to private landlords, through such instruments as accumulated depreciation allowances or subsidised interest loans is significant in encouraging a larger private rental sector.

The research also shows no observable link between demand side subsidisation of the private rented sector, through housing allowances or income support programmes, and the size of the sector. This is of significance to UK policy makers given the current emphasis on personal housing allowances.

Tables 2 to 4 provide comparative data from this research. Where known, comparable information is provided for Malta.

Table 2: Owner occupiers as a proportion of all households by country

Table 3: The size of the private rental sector

Table 4: What people pay for private renting as a percentage of payments for owner occupation.

It is of value to define a housing affordability ratio based on the proportion of income to be spent on housing costs. It is more difficult however to calculate the rents and income levels for different household types, although this has been achieved in The Netherlands. For owner occupation it is easier to look at affordability in terms of the costs of entry to home ownership rather than longer-term housing costs relative to incomes.

Comparisons can be made between the relative costs of home ownership and private renting and it

may be instructive to make this comparison for Malta. Housing allowances are available for social and in most cases, private renting, whereas subsidies for home ownership, where they exist, are through the tax system. In the UK the housing benefit system has a strong disincentive for its recipients to work, due to the interaction of the allowance system and household incomes.

Personal subsidies have a greater role in making housing affordable than bricks and mortar subsidies, although in the UK these are available for not-for-profit landlords.

It is evident that there are a complex set of factors which influence housing affordability. Interventions in the housing market, whether through the tax system, housing allowances or bricks and mortar subsidies, may have unintended consequences and be hard to change.

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Table 4 – What people pay for private renting as a percentage of payments for owner occupation

Country	Period	Private rented sector as % of all households	Private rented sector as % of all tenant households	Private rental share in Type A households	Private rental share in Type B households
USA	1991	34	94	71	14
UK	1994/95	10	30	20	4
Netherlands	1991	23	51	44	7
Sweden	1989	20	93	37	NA
Spain	1994/5	13	22	16	9
Japan	1993	32	79	78	23
Ireland	1987	9	36	26	0
Germany	1987	47	74	66	14
France	1990	31	64	59	18
Finland	1992	11	47	30	10
Canada	1991	32	85	48	7
Australia	1994	24	76	65	8
Average	–	24	63	47	10
Malta	1995	19	67	NA	NA

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DECEMBER 5, 1999

# The relatively high cost of housing in Malta

## Implications for economic performance and policy

The slightly edited version of a paper presented by GORDON CORDINA, BA (Hons) Econ, M.Phil (Cantab), at the Housing Affordability conference held last month

**H**OUSING IS an essential service as well as a form of investment. If its cost is relatively high, it would divert an excessive amount of resources from other forms of consumption and saving, hampering economic growth.

The current economic slowdown in Malta may in part be due to the increase in housing prices during the first half of the Nineties. At the level of basic policy analysis, demand subsidies and Government provision of housing are counter-productive, tending to increase housing prices without perceptibly affecting acquisitions. Price ceilings impose artificial prices that curb supply, and hence, the availability of affordable housing.

The first-best solution is to encourage a more efficient use of the scarce supply resources available, by removing tax burdens on housing supply and through technical improvements aimed at optimising land and other resource use.

From an economic perspective, the ownership of housing entails a composite commodity. It can be considered as the "consumption" of a service that is necessary for subsistence and that often also satisfies higher personal and social needs. But in this sense, housing

ownership is not akin to a cake, which gradually disappears as it is consumed. Indeed, ownership of housing entails also an investment in an asset that is often expected to appreciate over time.

House ownership is thus perhaps the unique form of expenditure that allows households to save and invest at the same time a non-substitutable and valued service is being enjoyed.

This paper examines the effects of relatively high housing costs<sup>1</sup> on economic growth, employment, prices, interest rates and other macroeconomic variables of interest arising out of the consumption and investment characteristics of housing. In the second part of the paper, some basic policy issues related to increasing the availability of affordable housing are addressed.

### Relatively high housing costs and economic performance

The effects of high housing costs on overall economic performance are assessed by means of a conceptual framework based on the principal macroeconomic relationships (author, 1998). This is shown in a

schematic form in Figure 1.

Within this framework, high housing costs are seen as originating from three factors:

i. *Fundamental characteristics of the housing market.* These include considerations such as from the demand side, demographic developments and consumer tastes and habits, and from the supply side, the availability of land and practices in the construction industry.

ii. *Speculative bubble.* This happens when expectations of higher future prices boost demand, thereby actually raising prices and fuelling a circle of self-fulfilling expectations. In this sense, the investment characteristic of housing predominates over the consumption aspect.

iii. *Government policy.* Government measures aimed at subsidising, by various schemes, the cost of housing often help to boost prices in the private housing market.

The principal impact effects of higher housing costs are also categorised into three aspects:

i. *A reduction in household resources.* This takes place as the cost of housing absorbs a larger percentage of household income.

ii. *The speculative price bubble is fuelled further.* This is an essen-

tial part of the mechanism of self-fulfilling expectations.

iii. *There are pressures for Government subsidies to increase.* But since government subsidies may themselves contribute to higher price pressures in the housing market, these subsidies share some of the characteristics of a vicious circle.

The absorption of household resources into financing the cost of housing would affect household purchasing power, thereby resulting in an overall lower level of consumption. It would also leave fewer resources for households to devote towards saving.

Reduced household consumption demand would depress overall economic conditions and influence adversely productive investment.

The reduction in household saving would have similar effects, albeit through more complicated mechanisms. Lower household saving would in itself mean that fewer resources can be directed

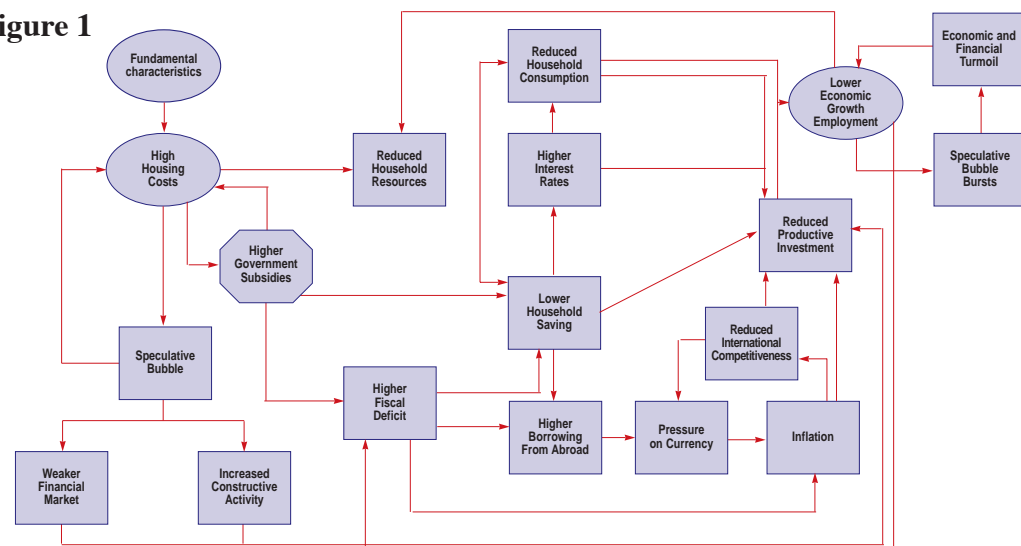
towards productive investment. This obviously compromises economic growth and employment generation.

Furthermore, the drop in domestic saving could create the need for higher borrowing from abroad. There could consequently be pressures on the domestic currency, which, in the event of a devaluation, would provoke inflation. This, in turn, would erode the country's international competitiveness, putting further strains on the currency, and curbing productive investment and economic growth.

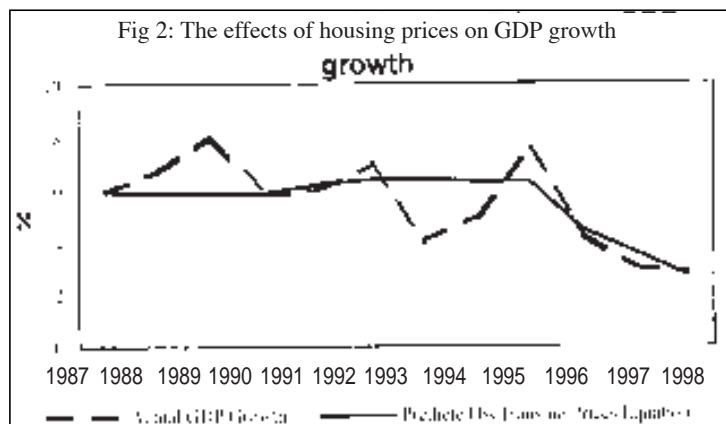
These effects are potentially further reinforced by an increase in

(Continued on page 18)

Figure 1



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interest rates that could ensue in response to lower household saving.

The speculative bubble fuelled by higher housing costs is seen to have two principal effects on the economy. Firstly, it may result in increased construction activity, and

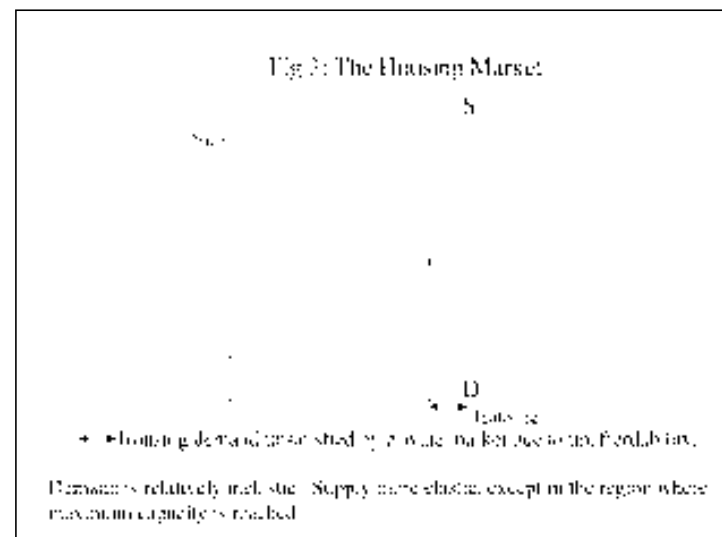
as businesses direct resources towards this sector, other productive export-oriented investment could be crowded out. The speculative bubble would also depress financial market activity, as capital in the economy becomes increasingly tied in the real estate sector. This would leave fewer funds for enterprises to finance productive operations.

Finally, pressures for government

subsidies to increase in the wake of higher housing costs would widen the fiscal deficit. This, in turn, results in lower household saving, higher borrowing from abroad, and increased inflation. The conse-

quences are a reduction in international price competitiveness and investment, and a worsening economic performance.

There are thus a number of channels through which higher housing



costs adversely influence overall economic activity. The situation could be further exacerbated by the feedback effects from weaker economic performance on household resources and on the fiscal deficit, potentially leading economic activity into a downward spiral.

Furthermore, the ensuing depressed economic conditions could cause the speculative bubble in the housing market to burst. Just as a speculative bubble grows on expectations, a speculative bubble could burst because of a sudden reversal in market optimism. This would bring substantial economic and financial turmoil, as economic agents could experience a marked drop in their housing asset wealth, potentially leading their liabilities to exceed the value of their assets.

There are a number of indications that this conceptual scenario may, at least in some of its aspects, be applicable to the Maltese economy. During the past four years, the economy has experienced slower output growth and higher unemployment. Consumer demand has been weak and investment activity was stagnant. The fiscal deficit rose substantially, while the country continued to experience pressures on the external balance of payments. Inflation and interest rates, though declining in recent months, remained generally higher than those prevailing in the EU.

The boom in housing prices during the early to mid-Nineties may be one, though by no means the only or necessarily the most important, factor behind these developments. Regression analysis between real GDP growth and the average increase in housing prices<sup>2</sup> shows that for every one percentage point increase in housing prices in any year, real GDP growth decelerates on average by 0.13 percentage points in the next three to seven years<sup>3</sup>.

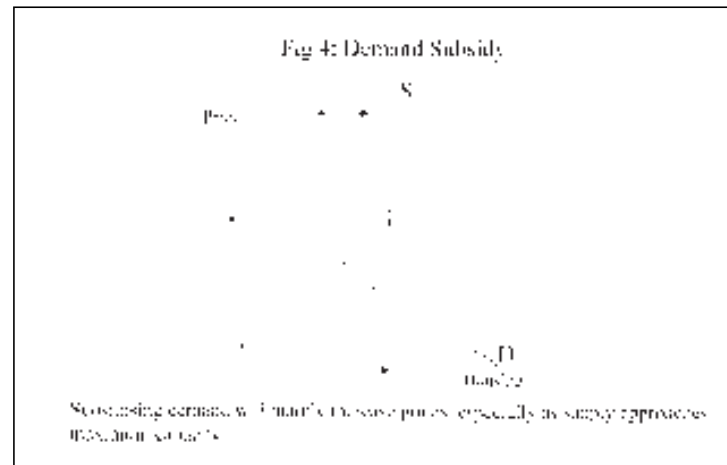
Figure 2 plots actual GDP growth against that predicted by the regression analysis featuring housing prices. It can be seen that the downturn in GDP growth since 1996 can be explained reasonably well by past increases in housing prices, as the solid line tracks the dashed line fairly closely for that period.

There are therefore economically valid reasons for promoting the increased availability of affordable housing: the resources that would be freed up can be utilised to substantially improve the economic well-being of the country. Justifications for promoting the increased availability of affordable housing may also be extended to cover social and moral aspects. The next section discusses from an economic viewpoint the implications of alternative policies that could be envisaged in this respect.

### Alternative policies

Alternative policies aimed at improving the availability of affordable housing are here assessed in terms of their effects on the demand, supply, and consequently the price of housing. The analysis centres around the market for a typical housing unit, the definition of which is here left as wide, and hence as vague, as possible. As a deficiency of this approach however, it is noted that in practice, the housing market is not made up of

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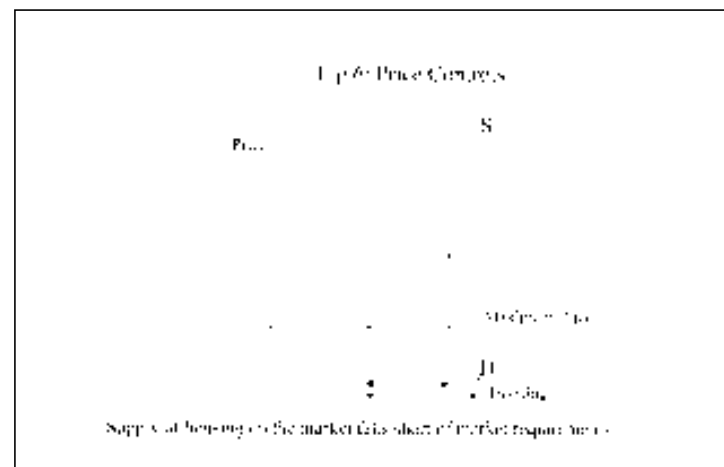
homogenous units.<sup>4</sup> The analysis that follows is further qualified by the fact that it is partial.

Policy measures are evaluated in terms of their effectiveness in improving the availability of affordable housing. Their consequent effects on Government finances as well as environmental considerations are considered to fall outside the scope of the analysis.

To keep the analysis simple, it is further assumed that there are no frictions in the housing market: buyers and sellers can meet costlessly and are fully cognisant of each other, of market prices, and of all factors relevant to their decisions. Furthermore, time lags in the provision of housing are ignored.<sup>5</sup>

A graphical representation of a simple model of the housing market is given in Figure 3. The market is represented by relationships between the price and the amount of housing in the economy. The buyer's side of the market is represented by the downward sloping demand curve (D). This indicates that at lower prices, more demand for housing would be forthcoming. The responsiveness of housing demand to prices is however very weak, due to the fact that housing is a necessity and a certain subsistence amount of housing is always demanded irrespective of price.<sup>6</sup>

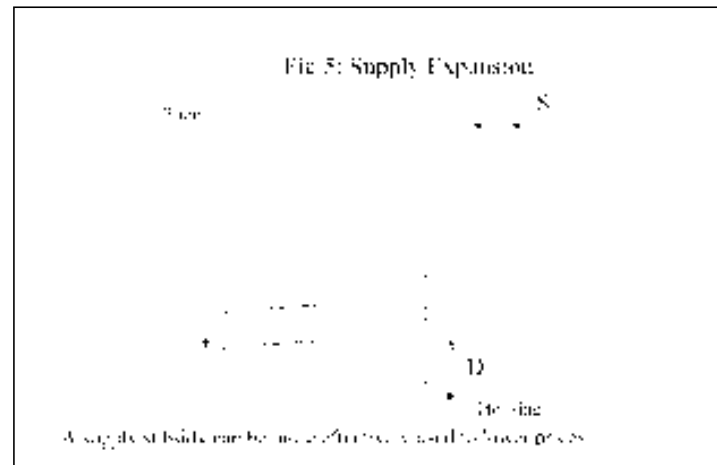
The supply of housing (S) is probably more responsive to price, at least in the long run when the time lag associated with the actual construction of housing expires. There however exists a maximum capacity for housing stock in an economy, determined by considerations such as land area, environ-



mental demands, and building practices that renders the provision of housing insensitive to price changes. Depending on the market, supply could also feature a floor to prices, whereby supply price never falls below a certain positive limit.

Figure 3 derives the amount of housing acquired (H) and the relative price (P) at the intersection of the demand and the supply curves. At prices lower than P, the amount of housing demanded is lower than supply. This puts upward pressures on housing prices, which shall continue as long as demand outstrips supply.

The reverse process is supposed to happen if the price exceeds the market equilibrium level. A further interesting issue raised by this analysis is that the market provision of housing, H, falls short of the total potential housing demand in the economy, represented by



housing:

- b. subsidising private provision, or otherwise encouraging an expansion thereof;
- c. setting price ceilings;
- d. providing housing supply directly.

The likely effects of each of these strategies are considered next.

#### i. Subsidising demand

Housing purchasers can be subsidised in a number of ways, from direct grants to mortgage interest rate subsidies. These schemes usually amount to:

- a. enabling purchasers to pay higher prices for housing, and/or;
- b. enabling purchasers to acquire more housing at each price.

These two options are tantamount to an upward shift of the market demand curve, as depicted in Figure 4. The diagram shows that subsidies are unlikely to affect the maximum potential demand for housing, as this would reflect fundamental characteristics in the economy that are not related to price. Figure 4 shows that a demand subsidy would increase the amount of housing acquired in the economy, with a consequent drop in unsatisfied potential demand.

This effect is however relatively small compared to the hike in prices created by the increase in demand. This is especially the case as supply approaches maximum capacity. This analysis shows that

subsidising demand can solve the problem of an insufficient provision of housing to a very narrow extent. It can however exacerbate further the macroeconomic problems associated with high housing costs. It can also prove to be expensive in terms of government finances.

#### ii. Subsidising/encouraging market supply

This describes measures aimed at:

- a. enabling suppliers to provide housing at lower prices, and/or;
- b. enabling suppliers to provide more housing at each price.

This need not entail active subsidy measures. The removal of tax burdens on supply, such as duties on the transfer of property, would work just as well. Better still, this could be achieved through an improvement in the efficiency of the use of limited housing resources. With this issue in mind, Figure 5 analyses this situation as an outward shift in the entire supply curve, including the maximum housing capacity in the economy.

With the improved supply, housing costs fall and housing consumption rises. This thus addresses both the macroeconomic problems imposed by high housing costs, as well as the issue of sufficient provision from a social perspective.

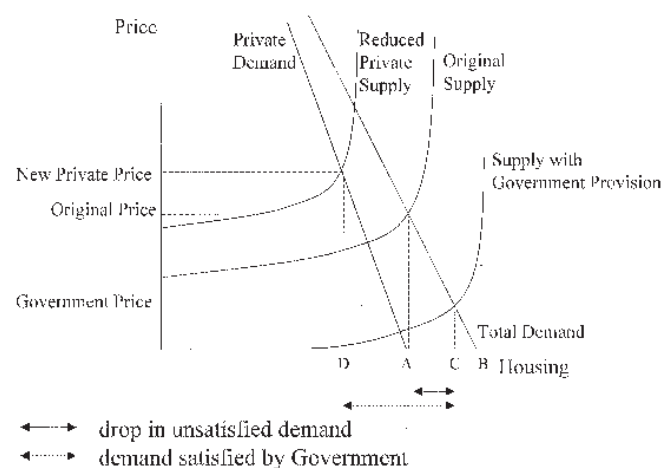
#### iii. Setting price ceilings

Price ceilings are often resorted to in order to improve the affordability of socially meritorious goods and services. These measures are usually entirely self-defeating. Figure 6 depicts a situation where Government sets a maximum price below the market-equilibrium price.

While this measure helps to increase effective demand, it substantially curbs supply such that the amount of housing acquired is significantly lower than that pertaining to the equilibrium price. The shorter arrow in the diagram indicates the drop in housing acquisitions due to the price ceiling. The longer arrow indicates the

(Continued on page 20)

Fig 7: Government Provision of Housing



(Continued from page 19)

resulting unsatisfied potential demand. This situation is found in practice in the dormant housing rental market.<sup>7</sup>

Price controls may thus be viewed to reduce housing costs, thereby alleviating macroeconomic problems to some extent. However, they create significant problems at the microeconomic level by adversely influencing the provision of housing.

#### iv. Government provision of housing

This policy approach is only partially successful, in that it manages to increase the overall availability of housing, but also creates a dual market which ultimately raises prices for non-government housing. This situation is depicted in Figure 7.

The original supply meets total demand, resulting in housing provision at point A. Government may decide to provide housing itself, thereby absorbing some of the private sector capacity. Indeed, while total supply as a result increases towards a potential maximum of B (the maximum potential demand), private sector supply is lower compared to the original level. As a result, private sector housing costs rise, while government furnishes its provision at a substantially lower price.

Overall housing acquired rises from A to C, but due to the hike in private sector prices, the housing market now becomes substantially more dependent on Government. Housing provided by Government amounts to DA, which is more than Government originally planned to provide (AB) with Government actually failing to satisfy the entire potential demand B.

This policy therefore presents mixed results, managing to increase housing acquisitions but at a significant cost to the private sector and consequently, to macroeconomic performance.

#### Conclusions

From the households' perspective, housing is both an essential service as well as a form of investment. If its cost is high relative to incomes earned in the economy, it would divert an excessive amount of resources from other forms of consumption and saving. This could seriously hamper economic growth. There exists evidence pointing to the possibility that the current economic slowdown in Malta is in part due to the excessive increase in housing prices during the first half of the Nineties.

Improving household affordability is therefore desirable, not only to improve economic performance, but also on social and moral grounds. At the level of basic policy analysis, it is found the demand subsidies tend to increase housing prices without perceptibly affecting acquisitions.

Price ceilings impose artificial prices that curb supply, and hence, the availability of affordable housing. Government provi-

sion of housing creates inefficiencies in the form of a dual housing market that becomes overly dependent on Government at the same time that private sector housing prices are pushed up.

The solution towards providing a greater quantity of more affordable housing lies with encouraging a more efficient use of the scarce supply resources available. Measures towards this end include the removal of tax burdens on housing supply and improved architectural and civil engineering management techniques aimed at optimising land and other resource use.

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The author is indebted to Mr Alexander Demarco for useful comments and suggestions.

#### Footnotes

1. Evidence pointing to the relatively high housing costs in Malta is well-documented elsewhere.

2. Computed following the methodology indicated by Demarco (1995).

3. The estimated equation is: GDP growth = - 0.13249 \* Average Price increase in housing prices + 6.72676 (3.36381) between past third and seventh years (13.0545). Figures in parentheses are t-statistics. R Sq 0.5309 R Bar Sq 0.4839 F(1,10) 11.3152 D.W. (1) 1.7553. Estimation is based on annual data for the period 1987-1998. Data available from author on request.

4. Furthermore, the rental market could, at deeper level of analysis, be considered separately from the ownership market. The comments that follow apply generally to both markets.

5. Each of these assumptions can be relaxed in addressing specific issues.

6. This issue hinges substantially on the definition of the housing unit used for this analysis. Housing in the widest sense is not substitutable. However, a specific category of housing may be more easily substituted by another.

7. In turn, supply bottlenecks in the rental market may be giving rise to excess demand pressures in the ownership market.

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JANUARY 16, 2000

# The Maltese housing affordability dilemma

## An insurance perspective

WHEN I WAS approached to give my views on the Maltese Housing Affordability Dilemma, from an insurer's perspective, I was not sure as to how I could integrate the topic with insurance. The main reason for this was that the housing affordability problem is not directly related to insurance.

Insurers do not interfere with individuals in what they do with their money. They do not involve themselves with a person's decision on whether or not to buy a house, what type of house to buy or at what price. Moreover, the insurance industry does not build houses and does not influence the supply and demand or the price markets. So what is the role of insurance, if any, in this problem of Maltese housing affordability?

After giving it some more thought, I came to the conclusion that insurance is involved both before and after a house has been purchased. How?

What is insurance? Everyone nowadays speaks of giving a service. Service is one of the most used words (a buzz-word) world-wide. We read in management magazines that customer service should be the watchword of any organisation. And rightly so. Insurance, besides being a means of protection and security, is a service. It gives a service to many customers. Banks, for instance, would not provide any loans unless there is an insurance policy in force to protect their interests.

Insurance is based on certain principles which are there for the benefit of all, insured and insurer alike. One basic principle that permeates insurance is that of utmost good faith, that is, of openness between both parties. Its major role, however, is that of affording a measure of comfort, both financially and otherwise, in times of difficulties when these arise. It can, therefore, be said that insurance is a funding of loss.

It is a known fact that house purchasing is the largest financial transaction most people make in their lives. It is a long-term investment. It is therefore appropriate that once a house has been bought, this investment is to be protected. How? One of the ways of doing this is to cover the property by insurance. Unfortunately, there are some who, mistakenly, still argue that this means more

expenses on the way! No doubt, you will agree with me that this is an erroneous view when one considers the benefits accruing from an insurance policy.

Is it really expensive? The answer is definitely *no*! I think the house building policy premium is one of the cheapest. Moreover, today there are so many schemes and discounts available that it would be foolhardy not to protect one's assets. I doubt whether one will find a premium higher than Lm37.50 for a sum insured of Lm25,000.

The Home Buildings Policy forms part of a comprehensive policy which incorporates both buildings and contents, although one can opt for one section only. Among the events insured against for loss of or damage to the buildings, one can mention loss of or damage caused by fire, lightning, explosion, earthquake, storm, tempest and floods, escape of water, riots and strikes, malicious damage, theft, aircraft, impact by road vehicles.

Architects' and surveyors' fees necessarily incurred for the reinstatement of the building following a loss are also included. There is also cover for loss of rent receivable or payable and reasonable additional expenses of alternative accommodation if the building is rendered uninhabitable. All these events affect the physical damage to the building.

A cover which is found in most home policies is that relating to the sale of the house. If the insured has signed a promise of sale to sell the house, the person who completes the purchase, the purchaser, is entitled to the benefit of the insurance until the completion of the purchase, provided it is not otherwise insured. This safeguards the interests of both seller and purchaser.

Within the same policy, there is the liabilities section, which as the name indicates, insures the legal liability of the owner of the premises for any damages resulting therefrom. This is an added protection as, sometimes, legal liabilities could be quite onerous, especially if one for-

gets to turn off the water tap! As with all insurance policies, there are always exceptions and so one has to be mindful of them.

This last point brings me to the need for both insurers and insured to understand each other more. It is impossible for all the policy wording to be explained in detail to every individual who comes to insure. Every effort should be made to make the proposer aware of the basic cover and the salient exceptions in the policy. The insured, on the other hand, should understand that there is no policy without exceptions and has the responsibility to read the policy and ask where necessary. A copy is always exhibited at offices.

Caroline Gill, the Irish Insurance Ombudsman, recently expressed her view that while she expects insurers to make the language of their policies simple, she also expects policyholders to take some responsibility by acknowledging they have to read

and understand the relevant documents and the implications of the policy for them.

She said that we should work towards a culture where people don't accept contracts without reading them page by page and they should challenge what they don't understand and read the small print. She concluded that the onus is on both sides to change the culture. One can argue that this could also be applicable to the banking sector.

The banks, in my opinion are very much in the forefront in making a purchase of a house a reality as they are the ones who normally provide the necessary finance. Banks do not give any loans without insurance cover and, thus, they have to work in close collaboration with insurers.

They are to make sure that the sum insured corresponds with the real value of the building and not just the amount of the loan. This

should be carefully explained to their clients so that the latter will not be caught unawares in case of a claim. The banks have devised many schemes and are still doing so to the benefit of house purchasers. I am sure that without their support, there would not be so many property owners today. One must not leave out successive governments which have made housing available to the general public by providing plots and houses and subsidised loans. I am sure further social schemes would be welcome to make housing more affordable.

Architects, too, have an important role to play as prospective purchasers rely heavily on their expertise. Clients normally would not be very familiar with the building trade and there are many things which can escape their attention when a house is being viewed. Thus, for instance, a house in shell form should be carefully checked for workmanship and all possible defects noted and, where possible corrected. If they cannot be corrected, the knowledge of the existence of these defects should

(Continued on page 28)

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# Housing affordability dilemma

(Continued from page 1)

influence one's final decision before a purchase is made. Their continuous supervision on the works during the various stages in the construction of the building is also expected.

One claim which recurs very often in the market is that of damage originating from burst pipes. Although such claims are at times inevitable, however, their incidence and resultant damage could be mitigated if the works were initially carried out properly. Bad workmanship is not something fortuitous or accidental and, therefore, not recoverable. Also, the architect would explain to his clients that the plan of the building should be such as will minimise the risk of damage. It is not only the plan of the building that is important, but also the structural construction.

An issue which is not directly connected with the housing affordability problem but which will have a bearing on it should it come about is the issue of earthquake damage. We have lately witnessed the tremendous havoc caused by the earthquakes in Turkey, Greece and Taiwan. Part of the blame for so much damage was put on the way that the buildings were constructed.

How aware are we in Malta of such risks? What is the situation in our Islands? Are our buildings constructed to withstand strong earthquake tremors? If not, why not? What needs to be done? This is an issue of national interest while it is also of great interest to insurers, as at present, they are covering such risks.

**There should be a property price index by which buyers could be guided**

The architect's advice is necessary when the purchase price is being negotiated. I do not think there is an existing price index by which buyers could be guided, and it could be suggested that a body, with representatives from the Chamber of Architects and Civil Engineers, be set up to take on this issue and propose an index which would serve as a guideline. The issues of supply and demand, type of premises, location and construction should be basic considerations.

This index would then serve as a base on which purchasers could make a reasonable decision. It should be made clear that the purchase price, which includes the cost of the land, building costs and profit, should not be the amount that is insured, as the sum insured must only include the rebuilding costs and other additional expenses in connection with the rebuilding.

Moreover, house rebuilding costs are within the knowledge of the architect, and since nowadays, sums insured under a building policy are based on reinstatement, his advice becomes more appropriate. Otherwise, should a claim arise, insureds might suffer in case of under-insurance.

Again, I do not think there is an existing national institution which provides an index for house rebuilding costs. In the UK one finds a house rebuilding cost index

prepared by the Royal Institution of Chartered Surveyors.

The large number of uninhabited buildings are a source of danger as well as damage. Many claims arise from uninhabited buildings. One meets with water damage emanating from them. Other types of claim which are very common because of the presence of unused dwellings are those of theft and malicious damage. As a result, difficulties are sometimes encountered in finding suitable insurance to cover houses which are next to an unoccupied building or else a larger than usual excess is imposed.

All insurance policies, including the home building policy, have conditions. One of these conditions states that "the insured shall use all reasonable diligence and care for the maintenance and safety of the property insured". The purpose behind this condition is to make policyholders

look after their property by creating this obligation to perform before the policy can respond. The Insurance contract is not a maintenance contract. There are instances when insureds cannot or do not want to understand this. Negligence in maintaining one's property is no excuse and insurers are right in refusing claims of this sort.

Water seepage damage following storms is one of the most contentious of claims. There are insureds who do not regularly maintain their roofs and so with the first rains, roofs tend to leak. It is therefore not unreasonable that insurers turn down claims of this nature. After all insurers are custodians of people's money and cannot spend it as they please or on claims which are not covered by the policy. It is not a matter of the 'small print' excuse,

as insurers are sometimes accused of using.

A service which is provided by insurers is that of risk surveying, although at times, it may be a prerequisite before insurance is effected. If the proposed recommendations are implemented, these will be of benefit to the insured.

Moreover, at the claims stage, the surveyor is able, to give immediate advice on the best course of action to be taken. In instances such as these, this service is invaluable, as claimants are often in a shocked state. Surveyors inevitably seek advice from experts, especially architects and engineers. In this way, the damaged property is suitably restored and the householder can resume living comfortably in the home.

Before I conclude, I must not fail to mention the existence of life assurance cover to assist purchasers in acquiring a house loan. There are

many types of life cover available and it is not my intention to go into any detail. It suffices to be said that there are various policies and schemes which are there to protect the individual as well as the banks or other interested parties.

I have tried to show throughout this short talk the role of insurance in the subject of today's discussion, namely, that insurance acts as a protection and a security. It works in conjunction with all the persons involved in the whole process of house possession. It is not meant to solve the problem of housing affordability in Malta but it is instrumental to some extent in keeping the house affordable.

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# The effects of planning policies on housing affordability in Malta

by Dr Paul V. Mifsud

IT IS GENERALLY believed that planning policies in Malta are the prerogative of the Planning Authority. While it is true that the Planning Authority has, since it was set up some seven years ago, been the instigator and enforcer

of land use planning policies, many other agencies are responsible for policies in matters which have a bearing on land use. In housing, for example, land use apart, Government, government departments, private industry, voluntary organisations

and the public itself have a share, in one way or another, in influencing the formulation of planning policies. The three major goals of the

Structure Plan (1990) were:

1. to encourage the further social and economic development of the Maltese Islands, and to ensure as far

as possible that sufficient land and support infrastructure are available to accommodate it;

2. to use land and buildings efficiently, and consequently to channel urban development activity into existing and planned development areas, particularly through rehabilitation and upgrading of existing fabric and infrastructure thus making further inroads into the undeveloped land, and generally resulting in higher density development than at present;

3. to radically improve the quality of all aspects of the environment of both urban and rural areas.

While monitoring the implementation of the Structure Plan, the Planning Authority has noted definite signs of success in its efforts to fulfil the Structure Plan's major goals.

This paper evaluates the effects that planning policies in Malta have had on housing affordability. It shall not measure the extent of housing affordability, nor shall it proffer any solution to the problem of housing affordability. It shall identify housing affordability indicators and shall try to match them with planning measures that might have been responsible, in whole or in part, for their development. Although preliminary conclusions will be drawn, it will be left to the reader to decide how far planning policies, particularly those regarding land use, have been responsible for the present state of housing affordability in Malta.

For the sake of brevity, examples of dwelling prices will only be quoted for three-bedroomed terraced houses, apartments and maisonettes.

The Planning Authority's seven local plan areas, which are illustrated in Figure 1, will be referred to by name such that the phrase local plan area will be understood. The term Malta will be used for the Maltese Islands.

## The housing affordability scenario

### *Real estate prices*

Using recently published data, average annual income in Malta turns out to be in the region of Lm4,500. To get an idea of the amount that a couple earn together in one year, given that their individual salaries need not necessarily be equal, the average annual income was multiplied by 1.5. In this manner, the average annual income by a couple who are both gainfully occupied was found to be approximately Lm6,750.

Applying this last figure to house loan schemes that are currently in use in Malta, it was possible to obtain the maximum loans that an average couple who are both gainfully occupied could obtain to help them buy their first dwelling for permanent residence. Note was taken that female partners are given a working lifespan of five years and that the outstanding debt is calculated solely on the male partner's annual salary. Distinction was made between people who work on the managerial scale and others.

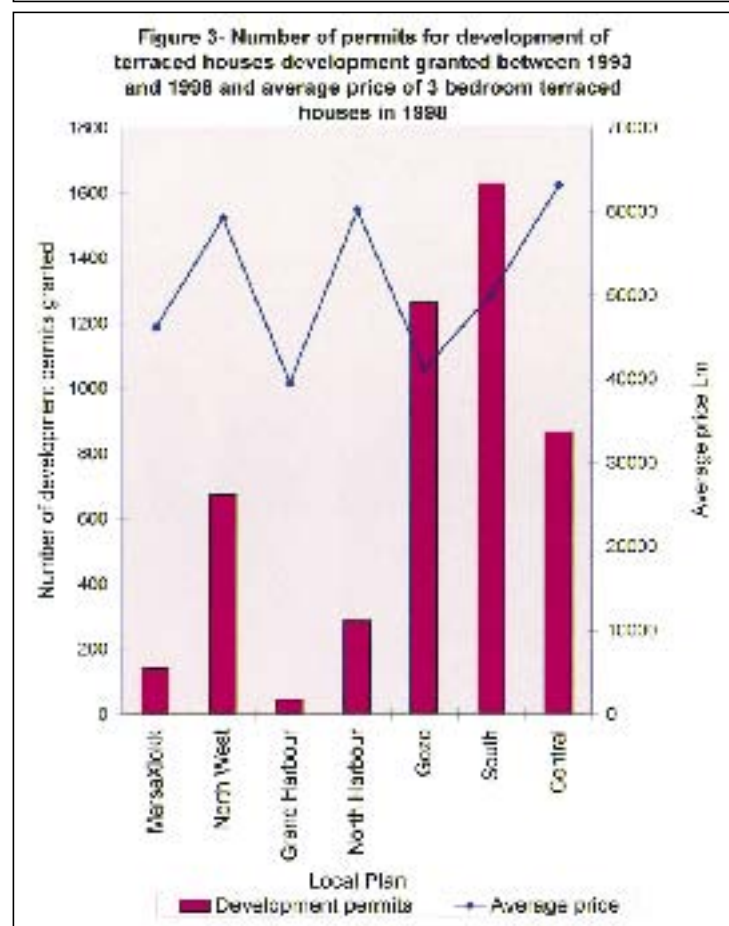
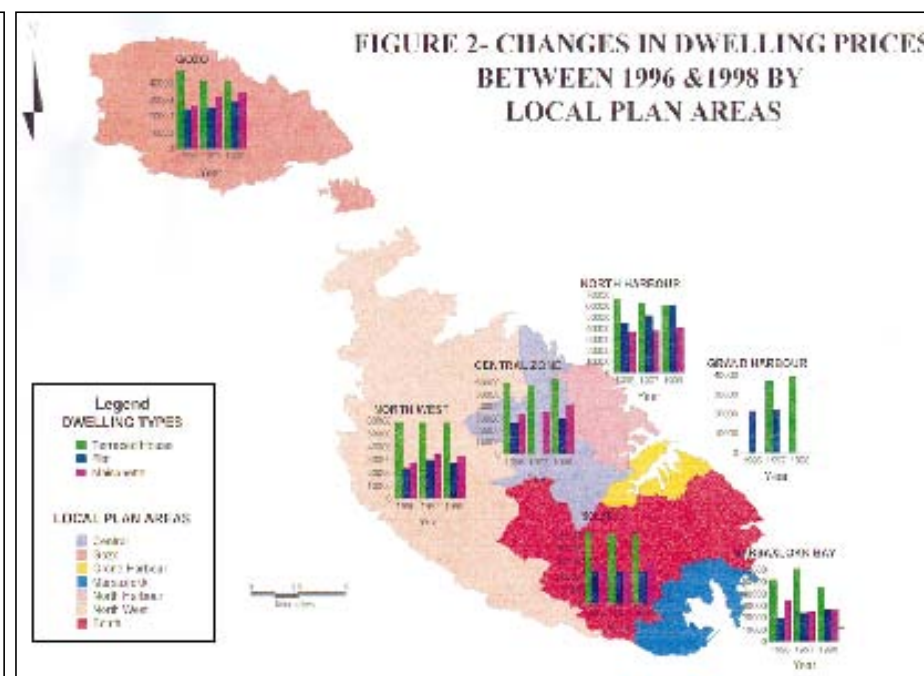
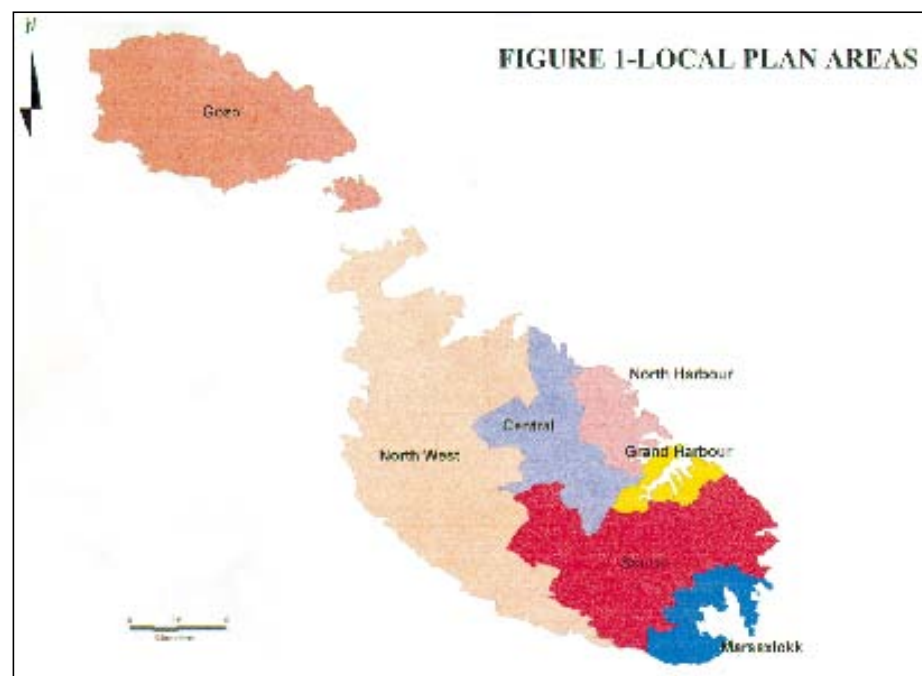
The loan obtained for the average couple on the non-managerial scale was Lm20,600 and the loan obtained for a couple both of whom work within the managerial pay bracket was Lm23,600.

Table 1 gives the average asking prices for terraced houses, flats and maisonettes in 1998 and compares them with annual earnings of the average married couple and the loan that such couples are able to raise for purchasing a dwelling to live in.

Terraced houses appear to be most expensive in the Central Zone and flats are most expensive in the North Harbour. Both terraced houses and flats cost least in the Grand Harbour. Maisonettes, on the other hand, appear to cost most in the Central Zone and least in the South. Thus, in

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the Central Zone, a terraced house costs nine times the combined average annual salary of a couple who are both gainfully employed in non-managerial work and who could obtain a loan that would cover up to 33% of the price.

A couple who live in the Central Zone and are both employed full time on the managerial scale can obtain a loan that would cover up to 37% of the price. In the Grand Harbour, these same couples would find that a terraced house costs six times their weighted annual salary and that they would be able to raise loans that would cover up to 52% and 60% respectively of the price.

*Changes in asking prices: 1996-1998*

The Planning Authority monitors housing asking prices from informa-

tion published in the press. Table 2 and Figure 2 show the changes in the average prices for three-bedroom dwelling units per local plan area between 1996 and 1998. Prices for terraced houses appear to have been stable in the North West and in the South, even though they declined somewhat in the latter.

In Gozo, in Marsaxlokk and in the North Harbour the price of terraced houses has fallen between 1996 and 1998. Only in the Central Zone has the price for terraced houses risen during this period. The price for flats declined slightly in the South but rose everywhere else although we do not have information on the price of flats in the Grand Harbour in 1998.

The price of maisonettes has risen in the Central Zone, in Gozo and in the North Harbour, has fallen in

Marsaxlokk Bay and has fluctuated in the North West and in the South such that by 1998 it had risen over the 1996 level in the former and fallen in the latter. As for the Grand Harbour area, it does not appear that any maisonettes have been offered for sale through the media between 1996 and 1998.

*Development permits and average asking prices*

Figures 3, 4 and 5 try to determine whether there exists relativity between the average asking prices for dwellings in 1998 and the number of development permits granted by the Planning Authority for terraced houses, apartments and maisonettes between 1993 and 1998. In the South, the number of permits that have been

(Continued on page 26)

# Some 1,500 new households provided with 3,755 new dwelling units

(Continued from page 25)

granted for the development of terraced houses and maisonettes far exceeds the number of permits granted for the same type of dwelling in any other local plan area but the relative average price was less than in most local plan areas.

The number of permits for the development of apartments that were granted for the South, though significant, was less than the amount of sim-

ilar permits granted in the North West but the price was lower in the South than in the North West. The price for apartments has been highest in the North Harbour where a lower number of permits was granted than in either the South or the North West. There does not appear to be much relativity between the number of units granted permission for development and the average price of those units. In this case, therefore, planning policies do not seem to have borne any particular

influence on housing prices.

*The price of land*

It is generally believed that the price of land is a very important factor in the determination of housing prices. Some would even argue that supply of land is the most important factor in the formula because the scarcer the land the higher the price and vice-versa. In Figure 6, the average asking prices for housing land per square metre per local plan area as advertised in the media in 1999 have

been juxtaposed next to the amount of land, in hectares, that was allocated for housing per local plan area in the Temporary Provisions Schemes (TPS) in 1988.

The South received the largest amount of TPS land but the lowest average land price is in the Grand Harbour which was allocated the smallest amount of land for housing in the country because, in 1988, there was very little vacant land left to develop in that area.

The average price of land per local plan area is juxtaposed next to the amount of land that has been developed for housing between 1988 and 1998 expressed as a percentage of the land that was allocated for housing development in 1988 per local plan area.

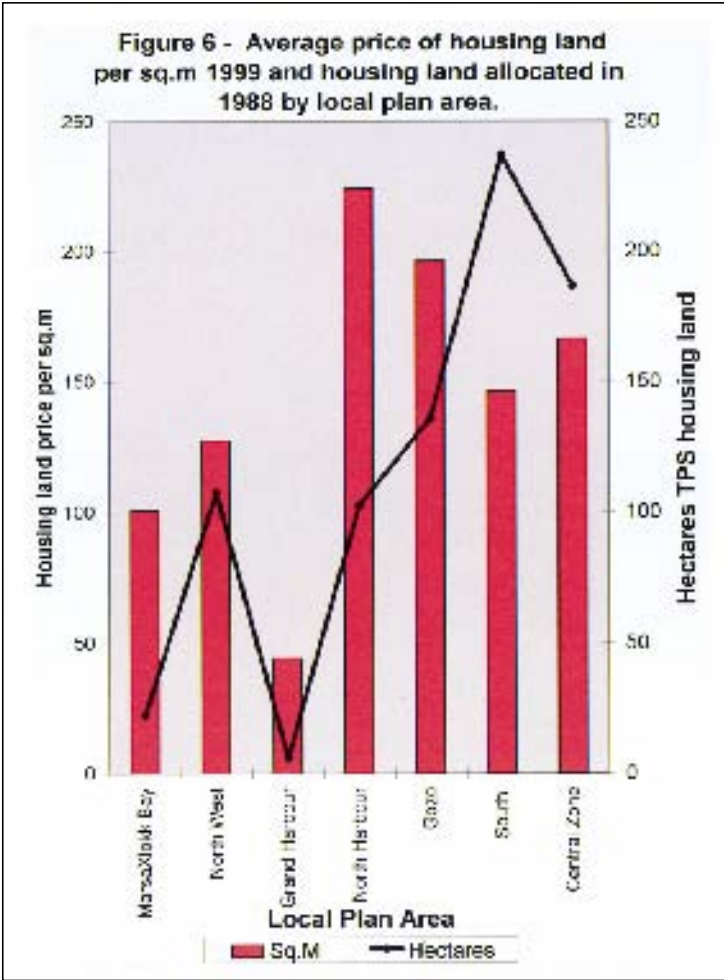
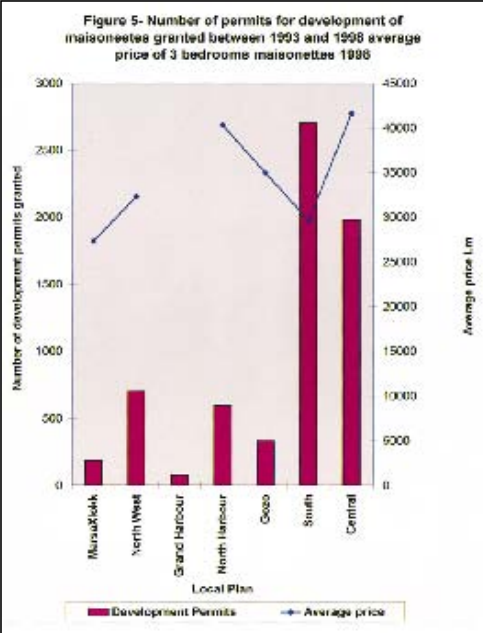
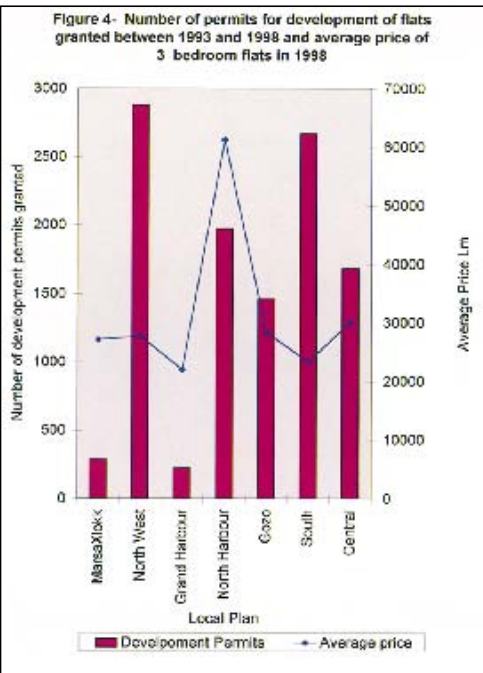
The highest price of housing land is in the North Harbour where, as has been shown earlier, there has been moderate house building activity in the past few years, particularly in development of flats. The lowest price is in the Grand Harbour which witnessed the lowest amount of housing development activity in the same period. It appears, therefore, that the price of house building land rises and falls with the demand for land rather than with the supply of land.

Thus, in Malta, while the number of households increased by 14,737 between 1985 and 1995, the number of permits that were issued by the Planning Authority between 1993 and 1995 for the building of terraced houses, flats and maisonettes amounted to 22,650. On average, therefore, every year, some 1,500 new households are being provided with an average of 3,775 new dwelling units. Even allowing for

those households that get separated and ask for another dwelling for one of the partners, and for single parents who also expect independent accommodation, there still remains a considerable surplus of new dwellings every year.

Left to their own devices, therefore, planning policies would have brought housing prices down through over provision. The fact that housing prices have not come down to any significant level proves that factors other than planning policies have been highly influential in affecting housing affordability.

(To be concluded)



# The effects of planning policies on housing affordability in Malta

**F**IGURE 8 shows that in 1995, 53 per cent of the rented accommodation were rented for less than Lm50 per year, 29 per cent were rented for between Lm51 and Lm100 per year and seven per cent were rented for between Lm101 and Lm150 per year.

This rental scenario represents a situation where rents have been frozen on the 1939 fair rent level for over half a century. New rents were, however, liberalised from June 1, 1995. Since then, the rental prices that have appeared in the media have been high.

A sample of the new rents was taken during June and September (last) year and its results, giving the monthly rental values asked for, are

The second and concluding part of a paper presented to the recent Housing Affordability Conference by **Paul V. Mifsud**

shown in Table 4.\* Table 5\* gives the percentage of their combined monthly income that a married couple, both gainfully employed, have to dedicate for their rents, according to the type and size of dwelling they decide to lease.

It is obvious that in Malta couples who decide to rent accommodation now have to allocate a high proportion of their monthly earnings for rent. Rarely in the table is the percentage within the 25 to 30 per cent bracket of the monthly salary that is

normally acceptable in Europe. Furthermore, not only does the percentage of income spent on rent vary with the size and type of the dwelling, but it also varies from one local plan area to another.

Thus, three-bedroom apartments in Marsaxlokk Bay cost, on average, only 16 per cent of the average monthly income of a married couple, but they cost 57 per cent in the North Harbour and somewhat lesser elsewhere such that, for the country as a whole, three-bedroom apartments

may be rented by a married couple for 33 per cent of their average monthly earnings. The North Harbour definitely holds the highest score with three-bedroom terraced houses being rented for the ridiculously high percentage of 80 per cent of the average earnings.

## Planning policy milestones

In the late 1960s the government, following in the footsteps of other developing former colonies, intro-

duced the Home Ownership Scheme (HOS) which consisted, in the main, of parcelling of government land into building plots and their allocation, free of charge, for home ownership development.

Means testing and non-ownership of housing property were the qualifying denominators. Some 14,000 plots were allocated under this scheme. A similar scheme was issued simultaneously by the Church which resulted in the parcelling of another 2,000 plots on Church land.

The Building Development Areas Act (BDA) of 1983 carved out and acquired for Government eight relatively large pockets of land that

(Continued on page 24)

Figure 8 - Rental Distribution in the Maltese Islands by Value Census 1995

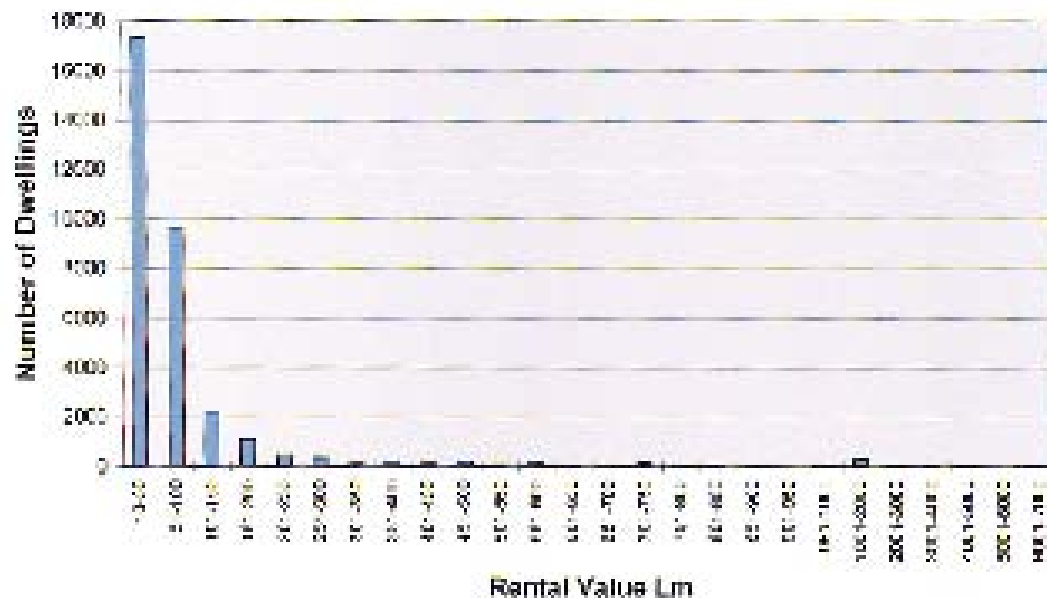
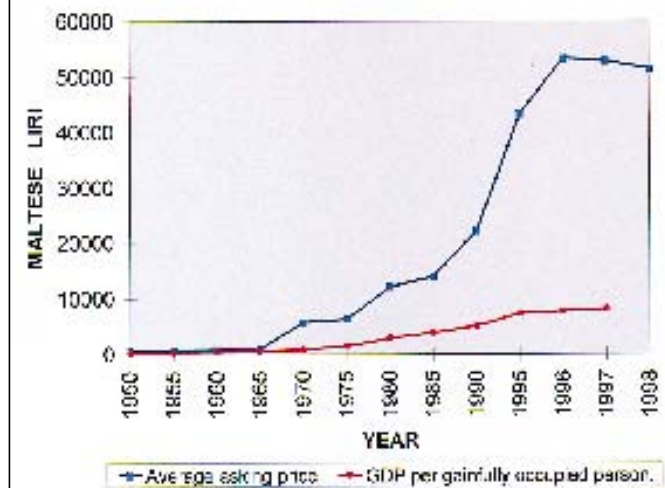
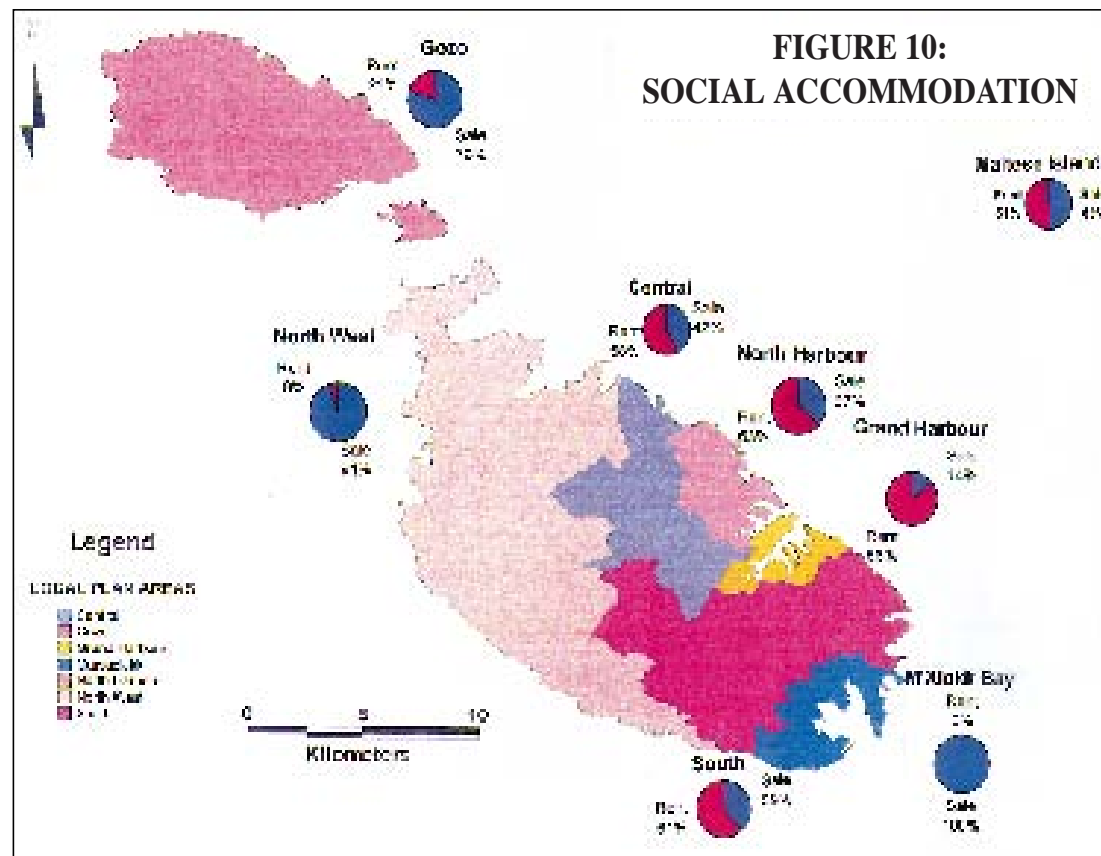


Figure 9 - Average asking price for three bedroom terraced houses and GDP per gainfully occupied person : 1950 - 1998





# Schemes kept housing prices low in the Seventies



(Continued from page 23)

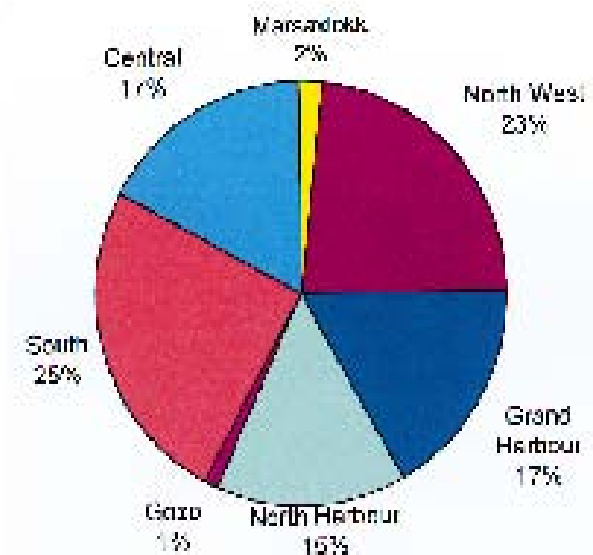
were distant from built-up areas and which the law designated as waste land. All eight pockets were parcelled into densely packed building plots and sold freehold at nominal prices. A total of 1,321 BDA plots were issued.

Figure 9, in which the average asking price for three-bedroom terraced

houses is superimposed on top of the GDP per gainfully occupied person in Malta, identifies little movement in housing prices during the 1970s thus indicating that the schemes, by creating massive development in most settlements, prevented housing prices from rising beyond the normal inflation index.

Act No. X of 1988 replaced the BDA with the Temporary Provisions

**Figure 11  
Provision of newly built social accommodation  
per local plan area 1989-1999**



Scheme (TPS). Henceforth, housing development was to be restricted to zoned areas. By 1990, when the Draft Final Version of the Structure Plan was published, housing prices had embarked on a steep ascent (Figure 9).

The Structure Plan suggested the phasing out of the HOS and the provision, instead, of subsidies for home ownership where rehabilitation and renewal in existing built-up areas were involved.

The wisdom of these proposals became clear once the results of the 1995 census were published showing that 22,756 dwellings, representing nearly 15 per cent of the total stock, were permanently vacant and that another 12,967, or 8.4 per cent, are used in the summer only.

Act No. I of 1992 enshrined the Structure Plan and the TPS on the statute book. The HOS was stopped completely in 1993. As Figure 9 shows, housing prices continued to rise steadily until 1995 but tapered down slightly by 1998. Figure 9 also shows that, although the GDP per gainfully occupied person has increased steadily since 1965, its achievement rose nowhere near to housing prices. It is not clear whether this sudden rise in housing prices was brought about by the imposition of relatively stringent planning policies or by public fear that development land would no longer remain available as a result of the new planning policies.

Social accommodation

The objective behind the provision of social accommodation is to bridge the economic gap that exists between that fraction of the housing burden that families of relatively low income can afford and the rental value of the accommodation that satisfies their needs.

In Malta, this objective has been extended so that it now also attempts to bridge the economic gap between the fraction of the housing costs that the average couple can afford and the market price of their accommodation.

Figure 10 shows that, between 1989 and September of 1999, 51 per cent of the new social units provided have been rented and 49 per cent have been sold. In the country as a whole, therefore, there is practically equal distribution between social housing for rent and social housing for sale. At present, newly built rented social accommodation is allocated to households whose aggregate annual income is less than Lm4,000 and newly built social accommodation for sale is allocated to households whose aggregate annual income is below Lm6,000.

The provision of social housing is not proportionally distributed equally among the local plan areas. Marsaxlokk Bay, for example, being of relatively recent development, has not been given any social housing to let since 1989. Only six per cent of the social housing built in the North West has been rented and in Gozo, where only 34 social housing units have been built in these last 10 years, 21 per cent of them were rented.

It is in the older established local plan areas that rented accommodation dominates. Thus, in the Central Zone, 58 per cent of the social accommodation provided there have been rented, in the North Harbour 63 per cent and in the Grand Harbour 86 per cent.

The Structure Plan (1990) suggested that new government-built residential housing be optimally located within areas designated as existing or new built areas. In effect (Figure 11) Marsaxlokk Bay received only two per cent of the new social housing produced since 1989, the South received 25 per cent and the North West 23 per cent.

Although projections of the number of households in future per local plan area have not been worked out yet, we know that, of all local plan areas, Marsaxlokk Bay has registered the highest rate of household increase since 1957 with the Central Zone and the North West being second and third respectively in order of growth.

The South, which received the highest proportion of social accommodation, is in fourth place in order

of growth in the number of households since 1957. On the other hand, a study of annual earnings per household taken from Census 1995 (Figure 12) showed that the South earned much more than any other local plan area even though it had less households than the Central Zone (Figure 13). Planning policies, therefore, do not appear to have influenced the distribution of social accommodation to any great extent.

This paper, having taken into con-

sideration the major goals of the Structure Plan, has highlighted the degree of housing affordability in Malta. While planning policies seem to have had little effect on housing prices, they have probably been prevented from lowering the prices of land by other factors. Neither have planning policies influenced the distribution of social housing to any great extent.

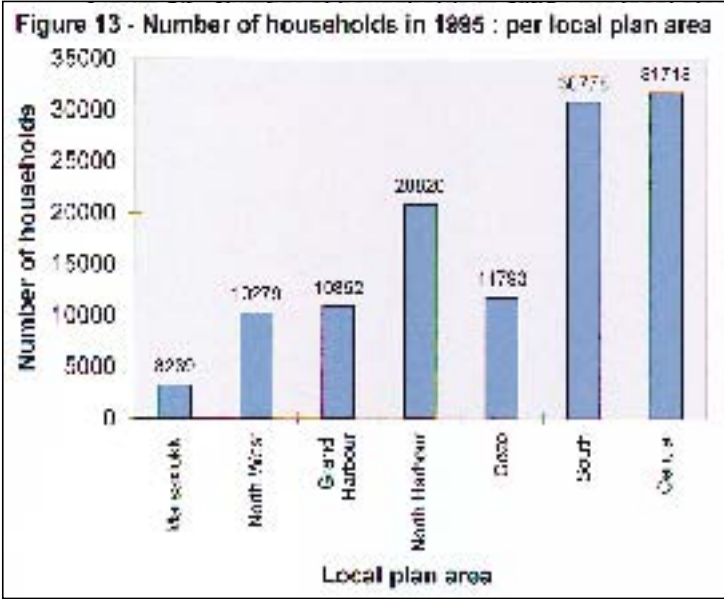
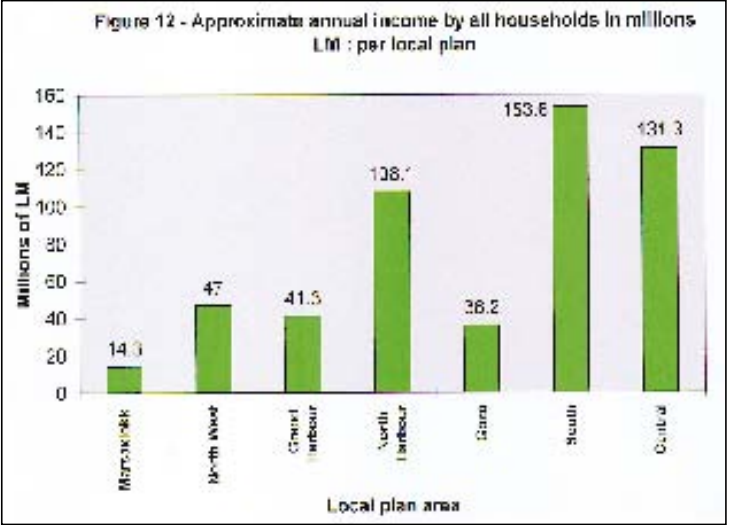
Schemes that provided low-priced and free building plots for housing

have, in the past, prevented housing prices from rising beyond the normal index of inflation. When these schemes were stopped in fulfilment of the Structure Plan's goal to channel urban development activity into existing and planned development areas, particularly through rehabilitation and upgrading of existing fabric and infrastructure, housing prices

increased much faster than the GDP, although this sudden rise in housing prices might not have been brought about by planning policies judging from the big number of building permits that have been issued each year since 1993.

(Concluded)

\* See part 1 last week.



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# Can social housing applicants afford market prices?

by Dr Maja Miljanic Brinkworth, Research and Policy Development Unit, Housing Authority; and Sue Vella, M.Sc.

THE topic – Housing Affordability – implies a complex dualism, namely: life of a household and life of a dwelling. Households get formed, transformed, dissolved and at the end they eventually die. Dwellings also get built, embellished, used, reused, abandoned and at the end demolished.

Somewhere along these two lives, a ‘lucky’ household finds an appropriate dwelling to live in, but some ‘unlucky’ households and dwellings never manage to find an adequate match. Why that is so, we all know. The laws of demand and supply are merciless, particularly if distorted by outdated rental regulations.

This work focuses on social housing applicants and their ability to find matching dwellings on the private property market. It aims at defining a profile of social housing applicants *vis-à-vis* housing affordability. Several basic attributes characterising the material well being of social housing applicants and their stage in the life cycle will be presented in detail in this article. The analysed attributes are: annual income, number of years applying and household type.

Social housing applicants belong to two major income groups with a different stance regarding affordability. The lower income group certainly relies entirely on financial assistance regarding housing since their ability to respond to market prices is limited. The second, wealthier but smaller group could represent potential clients for rental tenure or purchase on the property

market. We will not go into an analysis of market mechanisms in Malta which drive real estate prices sky-high. On the contrary, affordability at present market prices will be considered from the point of view of low- and moderate-income households. The magnitude of that unaffordability is a crucial measure of the urgency of the problem.

Present market prices are very high thus making even the moderately sized and designed property unaffordable to low- and medium income households. This type of property is not widely available in Malta. The concept of a starter home is practically non-existent. Smaller, cheaper and yet appropriate units have not been sufficiently catered for. Also, the lack of starter homes tends to limit the mobility of potential buyers.

## Affordability and how to define it

Although there are well kept records on applicants and dwellings, they cannot completely respond to the needs of a researcher. Aggregation by attributes like gender, type of housing problem or even age is not always possible. The databases on dwellings are not unified and it is difficult to obtain a clear picture on sales and availability of properties on the national level. This creates difficulties in further research of housing affordability.

A person or a household who is in core need of a dwelling should

be considered as a social housing applicant. That is a person whose income cannot cover expenses related to renting or purchasing property available at market prices.

Who should be assisted? Various criteria are applied worldwide. Many of them rely on the ratio of housing expenses to income. Once an income threshold for social housing is established, households in core housing need can be defined as those who must pay a maximum of 30% of their income

The concept of a starter home is practically non-existent

for shelter, as in the case of Canada (Wolfe, 1998). In turn, this maximum indicates a very low income available for all other sorts of consumption.

What are the problems here? Maltese research in this field lacks a unified and accepted measure of ‘affordable housing’. A very liberal interpretation of minimum affordability can be expressed as: the price of a *starter home* that each household would be able to afford. This dwelling should satisfy neces-

sary needs required for healthy and decent living. Starter home as a category does not seem to exist in the housing vocabulary in Malta. Somehow, it does not seem to be fully compatible with the mentality of the Maltese who prefer to buy a ‘life-time’ house.

To make things worse, the starter home type of dwelling is not readily available on the local market either. Without an adequate supply of smaller and still functional dwellings it will be difficult to change mentality of ‘life-time house’ ownership. Some countries have already achieved significant success with their programmes on affordable housing such as “sprout” and “Grow Home” campaigns of small and low cost properties (Wolfe, 1998).

These dwellings are usually built according to criteria such as: 14-foot-wide (4.26 m) house or 90 sq m apartment. Their affordability made them very attractive and the policy gained a great follow-up.

Locally, the house is usually perceived and eventually purchased to last a lifetime. Hence, the very low internal migrativity and mobility of the Maltese. With a lifetime perspective in mind, it is not surprising that initial commitments outpace the actual abilities to finance them.

The *housing affordability index* (HAI) based on mortgage (monthly payment), qualifying monthly income and their ratio, is declining

for both categories of properties, two- and three-bedroom apartments (Camilleri, 1999). The question is to which extent the HAI is going down due to an increase in price of land ownership through property ownership or in other words due to commodification of land through home ownership (Yamada, 1999).

The question to be asked here is whether home ownership should be promoted by further subsidising the interest on home loans, or whether rental tenure will be advocated in order to reduce the financial burden of ownership.

Although home ownership brings a sense of achievement, security and even the feeling of having invested wisely, a high and long-term loan associated with the purchase of big properties, also brings with it a sense of financial obligation, indebtedness, restrictions in overall spending and consequently a sense of insecurity. From the micro perspective, home ownership imposes a heavy toll on some individuals and families. Hence, the second best option becomes renting.

## Social housing applicants: an income profile

The database used for this analysis has been managed by the Social Housing Department. Currently there are some 3,309 social housing applicants. It is important to note that this number might be

(Continued on page 24)

Table 1

## Number of applicants and allocations annually

Year	Number of pending applicants	Number of units allocated	Difference	Percentage of allocated applicants
1996	271	4,772	4,501	5.7%
1997	239	5,091	4,852	4.7%
1998	320	3,163	2,843	10.1%
1999	158(a)	3,330	3,172	4.7%

Source: Social Housing Department  
Data: October 1999

Table 2

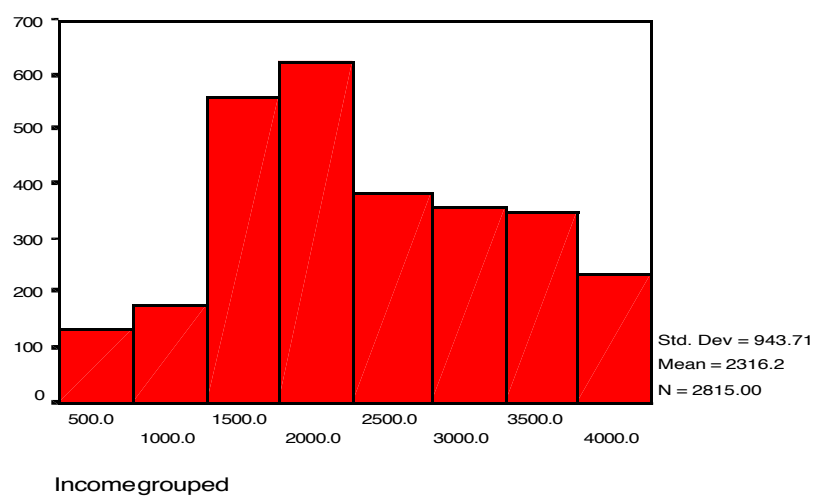
## Social housing applicants by income

Social housing applicants earning:			
	Total	Income less than Lm4,001	Income over Lm4,000
Number of applicants	3,309	2,815	494
Mean income in Lm	2,524.96	2,060.98	5,168.91
Median income in Lm	2,193.00	1,921.00	4,769.50

Source: Social Housing Department  
Data: October 1999

Figure 1

**Social housing applicants, by annual income, income less or equal to Lm4,000**



# Can social housing applicants afford market prices?

(Continued from page 1)

inflated. It certainly does not represent the real number of dwelling units needed. For example, duplication exists in all those cases where engaged couples apply individually, or where persons who have resolved their accommodation problem do not inform the Social Housing Department, where they remain on the list as potential claimants.

Bearing this in mind, the extent of the problem may be gauged by comparing the number of applicants with the number of allocated units. The percentage of resolved cases varies from year to year (Table 1).

In the future, the intensity of the housing problem might increase. There will also be more pressure on welfare funds due to processes such as population aging. Consequently the imperative might be to rely more on private funds. This is already the case in many European countries where privatisation, deregulation and decentralisation have been widely implemented (Salet, 1999).

Government expenditure on housing and community amenities as a percentage of total central government expenditure is 3.5% in the UK, 3.9% in the Netherlands, 1.4% in France, 1.6% in Italy and 8.3% in Malta (1990 data, HSDB4, UNCHS – Habitat). What is the current capability to solve the housing problem privately?

The first attribute analysed is income. An average social housing applicant's income stands at Lm2,525 (Table 2). Here, a certain underestimation of the reported annual income is more likely than an overestimation. This is borne out by much literature dealing with income-related surveys. This paper will not go into details of assigning a correction factor to the collected data.

The current policy is that housing applicants with an annual income of Lm4,000 and less have a priority in terms of social housing.

Their distribution is positively skewed, typical for income, indicating that the mean might have been pulled up due to several cases of higher income.

There are some 2,815 applicants with an annual income below Lm4,001. These applicants represent low-to-moderate income earners. At the risk of generalising, it might be assumed that it is these social housing applicants who would be particularly interested in affordable housing. The mean income of this group equals Lm2,061. One half of these applicants reported earnings of less than Lm1,921. Is there a decent property on the market that they can afford?

Another significant group of social housing applicants represents those who earn over Lm4,000. Their average income equals to Lm5,169. This category comprises 494 applicants who could represent potential clients on the private market. Their income stretches from Lm4,001 to over Lm10,000. Should they all qualify equally for social assistance?

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Table 3 An approximate calculation of affordability: Two bedroom flat			
Locality	Mellieha	Marsascala	Valletta
Price (a)	Lm27,300	Lm23,571	Lm16,875
Minimum deposit	Lm5,460	Lm4,714	Lm3,375
Monthly payment at 6.25% interest rate (b)	Lm134.3	Lm116	Lm83.02
Mean annual income	Lm2,061	Lm2,061	Lm2,061
Monthly payment as percentage of monthly income	78%	67.4%	48.34%
<b>Notes:</b> (a) Estimate provided by a local real estate agent. (b) This is only a rough calculation based on 6.25% interest rate throughout. In reality this rate is applied to the first Lm15,000 only and interest rate of 6.75% is applied on the remainder for one year and further on a rate of 6.725% is applied.			

If social housing applicants intended to own and not rent their dwelling, their income would limit their choice. An apartment would then probably be the most appropriate unit to look at. For the sake of this exercise two types of flats are chosen: two bedroom and three bedroom flats. The former does not usually represent the most popular choice and is often regarded as small. Therefore, the choice of the properties in this category might be to a certain extent atypical due to their small number.

From the moderate range of two and three bedroom flats in three randomly selected localities the following comparative table is compiled (Tables 3 and 4).

What can be concluded from here? First, the private market choices for applicants with an annual income of less than Lm4,001 are extremely narrow. The monthly payment of a house loan for applicants earning less than Lm4,001 exceeds 30% threshold in all selected localities. Second, renting can be another useful option, but the sector is still cautious of pre-1995 rental regulations when it comes to renting to the Maltese. It is usually regarded as the second best option, created out of necessity and not out of choice.

### Social housing applicants: life stage

Life stage represents an important determinant of housing demand. The lack of detailed data in the Social Housing Department database allows only a rough estimate of the life stage of the applicant. Two groups of applicants were distinguished: (a) households with adults over age 60 and (b) households without adults over age 60.

Households without adults over age 60 were taken as proxy for younger families, probably also having children who are not married.

This is a rough assumption particularly in the case of extended families with one adult over age 60 and two young adults.

The box-plot (Figure 2) indicates that the median income fluctuates below and around Lm2,000 for applicants with up to five children and without any unmarried children. Higher median income for applicants with more than five unmarried children indicates possible earners among those children, being adults themselves.

Families with adults aged 61 years and over would represent families at an advanced life stage. Their financial position and overall consumption patterns differ from the first group.

In this category, the income under-estimation is believed to be lesser since the major source of income is pension. Modal values appear in income categories Lm1,000–Lm2,500 indicating again low financial power to solve housing problem at market prices.

From the category of applicants with less than Lm4,001 per annum, some 722 lived in households with one adult younger than 61 years and children.<sup>1</sup> These applicants represent *single-parent families* at early stages in life. The majority of them 362, were families with one unmarried child, and with two children, 228 families (Table 5). Their income ranges in the majority of cases from

(Continued on page 26)

Table 4 An approximate calculation of affordability: Three bedroom flat			
Locality	Mellieha	Marsascala	Valletta
Price(a)	Lm34,580	Lm28,392	Lm22,333
Minimum deposit	Lm6,916	Lm5,678	Lm4,467
Monthly payment at 6.25%	Lm170.1	Lm140	Lm109.9
Mean annual income	Lm2,061	Lm2,061	Lm2,061
Monthly payment as percentage	99.06%	81.4%	64%
(a) Estimate provided by a local real estate agent. (b) See note (b) in Table 3			

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# Can social housing applicants afford market prices?

(Continued from page 25)

Lm1,001 to Lm1,500 followed by category Lm1,501 to Lm2,000 for one-child families.

Similar results were obtained for two-children families the majority of whom were receiving between Lm1,501 and Lm2,000 and followed by those receiving Lm1,001 to Lm1,500. Unfortunately, gender distribution was not possible here, otherwise a clear distinction in earning patterns of female and male parents would have been confirmed.

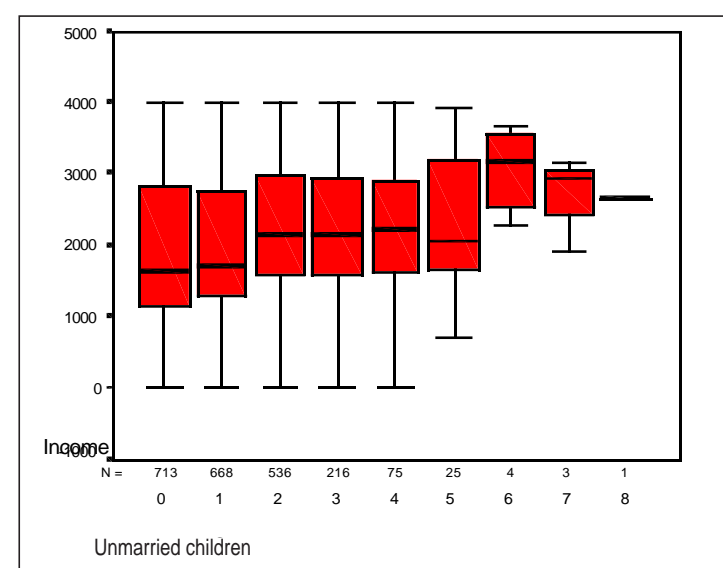
The reported earnings indicate that single parents earning between Lm1,001-Lm2,000 cannot afford market prices and certainly will remain claimants of social housing services.

Another potential target group are *single persons* under 61 years of age.<sup>2</sup> The mean income earned by this category of applicants was Lm2,070 and 50 per cent of these households were earning less than Lm2,000. What are the prospects of purchasing or renting at market prices here? Relatively speaking they are better off financially than single adults with children.

In both income categories, the variable 'number of years applying' underscores the urgency for resolution of the affordability problem. Here the problem of updating this database becomes more difficult. The outliers, i.e. cases where the number of years applying exceeds 20 years, should be

Figure 2

Households with adults younger than 61 years of age by number of unmarried children and income



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looked into individually. They certainly represent an exception rather than a rule. Income does not seem to affect number of years applying, the respective coefficient of correlation is equal to -0.044 for all the applicants.

(To be concluded)

## Endnotes

1. The age of children could not have been determined from the database. Therefore, this variable should be taken cautiously.

2. Engaged persons represent a part of this category.

Table 5

Households with one adult younger than 61 by number of unmarried children

Income grouped * Unmarried Children Cross tabulation								
Count		Unmarried children						Total
		1	2	3	4	5	7	
Income grouped	0-500	22	13	3				38
	501-1000	38	14	8	4	1		65
	1001-1500	136	62	19	7	2		226
	1501-2000	87	81	30	12	5	1	216
	2001-2500	30	34	19	2	1		86
	2501-3000	18	14	8	3	1		44
	3001-3500	19	3	2	2	1		27
	3501-4000	12	7		1			20
Total		362	228	89	31	11	1	722

Source: Social Housing Department  
Data: October 1999

# Can social housing applicants afford market prices?

## Vacant dwellings: a possible part of the solution

The second and concluding part of a paper presented by **Dr Maja Miljanic Brinkworth**, Research and Policy Development Unit, Housing Authority; and **Sue Vella**, M.Sc. at the Housing Affordability Conference last November

THE inaccessible market prices and high demand for social housing cannot be easily met by the existing supply. Can vacant houses offer a solution to the problem? Apart from: (a) the negative legacy of pre-1995 rent laws, (b) the ongoing fear of requisition and (c) legal problems of inheritance, there would not seem to be a valid justification for the existence of vacant dwellings, while virgin and arable land is virtually disappearing beneath concrete. Some of these dwellings are already in a bad state of repair or dilapidated, and also present an eyesore. They are a sign of poor urban policies and as such they are not something that a land-scarce country like Malta, can afford any further.

Bringing some of these properties to the housing market can have two simultaneous effects. Firstly, the problem of depopulation and demographic aging in several localities of the Inner and Outer Harbour region would be decelerated. The worrying element here is who would be the purchasers of these properties, since many individuals facing an affordability problem would not be in a position to refurbish them, let alone to buy them.

Median family income in 1997 stood at Lm3,612 (Camilleri, 1999). Using the same 6.5% annual increase rate this income would go up to Lm4,092 in 1999. How close to this figure is the median income of social housing applicants in the same year? In the group of applicants who earn less than Lm4,001 the median income stands at Lm1,920 per annum. The median of all applicants stood at Lm2,196 annually. This problem is not unique to Malta (Keenan *et al.*,

1999). Here private-public partnership should be seen as a solution.

The second benefit is seen in an actual quality improvement of these cultural and historic sites and prevention of further division of cities. Valletta is an example of a capital city divided in two parts: the residential, lower part and the commercial, upper part. It is also temporally divided: before 7 p.m. and after 7 p.m.; the first being a vital, busy city and the latter being a ghost town, quite unattractive after dusk.

### Data and research

Further research into affordable housing is needed. Several indicators can be used simultaneously to address affordability from different angles. Foreign experience shows various methods of measuring affordability. One of the suggested measures is *demand affordability indicator* (Wolfe, 1998). It calculates the proportion of present tenants (in private and government dwellings) who can afford to buy an average-priced starter house.

The analysis should focus on those heads of households who are 20-44 years of age. This age bracket indicates life stage associated with household formation. Analysis of these households, by gender and age would reveal even further specificity related to affordability.

Another measure would focus on the *resale supply affordability indicator*. To calculate this measure a data flow is needed from real estate agents who keep lists of properties for resale. The ratio between resale properties which are affordable to first time buyers and total resale properties is a measure to which extent resale proper-

ties might remedy the affordability problem (Wolfe, 1998).

Measures like *new supply affordability indicator* calculate the percentage of new dwellings sold at the price which is less than or equal to the maximum affordable price (costs for habi-

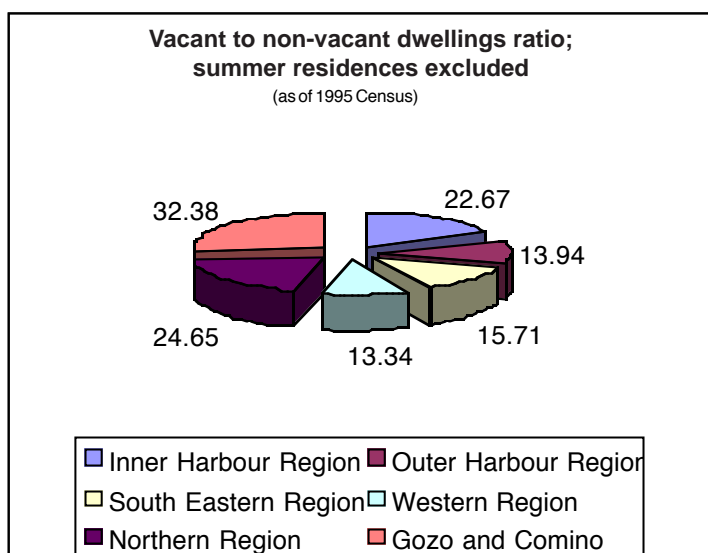
tat) of, for instance 30% of the income earned. This indicator would naturally apply to calculations in those income brackets eligible to apply for social assistance.

Perhaps the *new supply affordability indicator* is not so pertinent, since

lower-and-moderate-income applicants can hardly be in a position to afford new premises on the private property market, unless they are built following the affordability criteria.

These three indicators should be  
(Continued on page 23)

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# 'Starter home' concept should be encouraged

(Continued from page 1)

applied in order to cover multiple facets of the affordability issue. Ideally, a flow of data collected by various parties such as the Social Housing Department, the Housing Authority, the Department of Housing Construction and Maintenance and the Association of Estate Agents should be ensured in order to meet research needs in this field.

The provision of affordable housing for all depends on the ability to reduce costs further. Presently commodification of land represents the greatest contributor to high housing costs.

Another element is the useful floor space standard which in Malta is set at levels by far higher than the respective space standards in wealthier and less land-restricted countries (Camilleri, 1999). Therefore, it is essential to examine the issue of housing affordability through problems imposed by commodification of land. New standards based on smaller, but more affordable dwellings should be encouraged. It is necessary to advocate the 'starter home' concept and encourage housing mobility to satisfy demands borne by 'life stage' cycle.

This paper attempted to offer an overview of social housing applicants with regard to their ability to solve their housing problem on the private market. It is evident that more importance should be given to low-to-moderate-income households when it comes to affordable housing. Changes in financial arrangements and fiscal instruments should be introduced so as to effectively facilitate the demand of these households, whether through the home-ownership or a revitalised rental sector.

Allocated units represent a modest percentage of less than 5% of all requests for social housing assistance. That indicates an enormous need to

tackle the issue of housing affordability urgently. In view of this it is necessary to release the vacant dwelling stock by making it more attractive for the first time buyers and particularly those ready to move in the depopulated and demographically aging areas.

Lastly, it is necessary to stress the need for more research in this field by improving the use of existing databases regarding: dwellings, types of tenure, household characteristics and demographic structures of families and households.

*The authors would like to thank the Director of Department of Social Housing Carmel Esposito for making the data available for this research.*

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JANUARY 2, 2000

# Affordability in Malta: a plea for bipartisan consensus

**T**HE HOUSING problem has been with us in some form or another for the past 50 years. Successive governments have intervened in the housing market through various measures to try to ensure the availability of low-cost housing either through legislative measures (through rent law reform) or through direct intervention (through the development of state-built housing). Yet, here we are today still discussing the subject. How did we get to this point?

## Government intervention

Although housing problems have existed for the past half a century, the nature of such problems has changed over the decades. In the immediate post-war years the top priority was to house the war homeless and thus the reconstruction effort particularly in the Three Cities was the first large scale government intervention in the housing sector.

In an effort to control inflationary pressures on rents, the government pegged rents to the 1939 level and as an emergency measure gave itself the power to requisition property to allocate to applicants for alternative accommodation.

One must recall that at this point, owning one's house was not a common practice and the greatest fear was that there would be a lack of affordable places to rent. Despite the reconstruction effort and government assistance through the War Damage Fund, by the mid-Fifties it had become apparent that the "problem" had not been solved.

The rent law had had the unintended effect of discouraging the construction of new buildings for rent and applications for alternative accommodation to the Housing Secretary (the forerunner of the Department of Social Housing) kept increasing.

In 1959, in an effort to stimulate the construction of private housing, the colonial administration enacted the Decontrol Act, whereby buildings constructed after March of that year could be exempted from rent control and more importantly from the requisitioning powers of the state.

The measure was successful in achieving the desired effect of putting new housing on the market. Yet it was recognised that the private sector alone could not supply enough housing to meet the demand. Although emigration had proved to

A paper presented by Housing Construction and Maintenance director ANTON CAMILLERI, A&CE, at the Housing Affordability Conference last November

be a fortunate safety valve in temporarily alleviating the problem, Government decided to build two satellite towns, namely Santa Lucija and San Gwann. By the late Sixties the concept was extended to include the building of housing estates in every "electoral district".

Direct government intervention in the housing sector reached its peak in the Seventies and Eighties. Instead of removing requisitioning powers (which had been intended to be an emergency measure), the government applied them more vig-

orously and some would even say infamously.

The building of housing estates was taken up with increased vigour and the government even set up the Housing Authority in 1976 to execute housing policies and ostensibly to remove allocation of housing units from allegations of political patronage. More importantly, the government launched the Home Ownership Scheme, whereby plots of land for terraced houses were given on emphyteusis to prospective house buyers. Thus on the one hand

the government was increasing the amount of government-built stock.

**O**n the other hand the government was distributing land (including property acquired forcibly from private landowners) practically for free to encourage the hitherto unpopular notion of home ownership.

Lohombus Corporation was set up to encourage people to build or buy their houses through relatively easy credit and a new generation of home owners was created.

Yet, recognising that a loophole in the law allowed landlords to terminate leases in excess of 17 years, the government reformed the Housing (Decontrol) Act in 1979 making such long leases illegal and giving full protection to tenants against eviction after termination of the lease.

During the early Eighties, with the availability of suitable government-owned land fast diminishing, the government decided to acquire large tracts of privately owned virgin land on the outskirts of various towns and villages on the island. The infamous Building Development Areas (BDA) Act was launched whereby land was not only given out for a pittance but this included areas for semi-detached villas as well.

The total disregard for the nega-

(Continued on page 8)





# Rental market practically killed

(Continued from page 1)

tive impact of such large-scale land consumption led to the formation of the environmental lobby in Malta. For the first time, the shortsightedness of such massive state intervention was questioned openly by the nascent environmental movement. It was true that such large-scale state involvement had flooded the market and ensured low or at least stable prices for the earlier half of the decade.

It was also true that a new generation of home owners had been created and that suddenly most young couples were aspiring to own their own homes. However the social costs of these policies were not being realised.

Ironically, the reform of the rent law in 1979 had practically killed the rental market, thereby increasing the problem of availability of affordable housing. Furthermore the promotion of urban sprawl as a deliberate policy had created some infrastructural problems particularly in the areas of water supply and provision of electricity.

By the late Eighties and early Nineties, the government changed tack. The housing programme was constructed with the same vigour but new government housing was no longer being built away from towns and villages and all new housing was built within the boundaries of existing development.

The BDA Act was abolished and the number of building plots available on the Home Ownership Scheme was reduced until the scheme died a natural death in the early half of the Nineties. More importantly in 1992 the government set up the Planning Authority whose primary aim was to reintroduce planning concepts in a country which had practically ignored such concepts for the better half of the previous two decades.

The Structure Plan was launched

and policies in the housing sector included the elimination of the Home Ownership Scheme (HOS) and the renewal of the rental sector.

The Housing Authority decided to replace the heavy reliance on direct state intervention (through the building of state housing and allocation of HOS plots) by a more indirect approach. New schemes were launched to assist buyers of private property, repairs in private property and even rental subsidies.

Such schemes were almost invariably very popular and yet housing problems not only refused to go away but remained ever evident and close to the top of the country's political agenda.

The elimination of the Home Ownership Scheme, the 1979 rent law together with the creation of the Planning Authority were blamed for a rapid rise in property prices in the Nineties, particularly where building land was concerned.

Ironically, as land and new buildings became less affordable, the 1995 census revealed that there were 20,000 vacant properties on these islands. In an effort to stimulate the rental sector, the government abolished requisitioning powers in 1995 and freed post-1995 rentals from state control. Yet so far these measures have not had the desired effect and the rental market has not been revived.

## The situation today

Thus the main problem today is not really one of housing availability but one of housing affordability. Why are prices so high despite the fact that the market would appear to have 20,000 vacant properties? The cost of construction has not only remained stable in the past two decades but in real terms it has actually dropped, taking inflation into consideration.

The first reason we can do little about: we are fast running out of land for development. In some way

this has also been a godsend, as the aspirations of the Eighties whereby everybody expected to build his own house (a mad concept in such a small country) has mercifully been replaced by a more realistic approach.

The second reason is probably less evident: most of the 20,000 vacant units are not on the market and thus the owners of these properties have to be encouraged to place them on the market. Furthermore, the rental market remains dormant despite the 1995 reforms. So what can be done?

As regards land availability, the government should resist calls for an outward expansion of the Planning Schemes. The effect on the market would be temporary but the visual impact of further expansion would be permanent. The Planning Authority can improve its height relaxation policy in new areas such as Pembroke and building developments of four-five storeys should be allowed to make better use of the limited land which is available.

The Housing Authority can purchase private property itself as it has been doing in the past couple of years. Again this can only be a temporary palliative since such buildings would probably be more expensive considering that they include the cost of the underlying land (whereas government-built housing is theoretically built on land which is free).

For the immediate future government-built housing can utilise land transferred to the government through the Church-State agreement. Still, even this land will only suffice for the next 10-20 years (depending on the rate of development). Thus, ultimately the only long-term solution to the problem of lack of land lies in redevelopment.

Government should explore the possibility of the creation of partnerships with the private sector in the redevelopment of our towns and villages. Nowhere is this more urgently

required than in the Grand Harbour region where the population continues to decline and properties remain vacant and semi-derelict. It is recognised however that this is not an easy solution and requires the creation of new organisations freed from the shackles of the civil service structure to handle such a task.

As regards the utilisation of vacant units on the market, the problem has grown too much for any single administration to handle. Let's start with the revival of the rental market, for example.

It is possible that the 1995 reforms were not successful for two reasons: first because owners feared that a new government would revert to requisitioning powers and reintroduce the protection of tenants from eviction at the termination of the lease. Secondly, tenants possibly saw the law as giving them too little protection since no minimum time scales were set for lease agreements to be valid.

For confidence in this market to be renewed both parties have to state their positions unequivocally. The last Labour administration did state that it would not reintroduce requisitioning powers for example. However the declaration was given very little publicity in the media, and an opportunity missed to set people's minds at rest that such powers were a thing of the past. Two years ago, a bipartisan commission was set up to come up with suggestions on rent law reform.

Unfortunately to date it is not known whether the commission has concluded its findings as its conclusions, if any, have not been made public. If the recommendations of the commission enjoy bipartisan support this would go a long way in restoring confidence in the rental sector. If the government decides to go it alone, or worse, let things be, it is unlikely that this sector can even be revived, however attractive Housing Authority subsidies are made.

The need for a bipartisan approach is even more evident in resolving the thorny problem of bringing vacant properties on the market. Government can decide to either entice owners (through tax breaks) to utilise such properties or penalise them (through a hoarding tax) for holding on to the properties.

While the first measure need not be controversial, if the government decides to go for the second alternative it definitely cannot do so on its own without risking a severe political backlash. Furthermore any reforms in this area should be long-term and hence for such measures to work, bipartisan support is also necessary.

While the recently announced reduction in interest rates and increased competition between the major banks in offering even better credit facilities to prospective home-owners will go a long way in making housing more affordable, it is likely that problems will remain.

The change from the extended family to the nuclear family brought about an increased demand for new units in the past half a century. Other major demographic changes, such as the increase in single-parent households, and the slow but steady rise in the population, will continue to create pressures which eventually might even prove unsustainable.

Nevertheless this should not deter the political powers that be from redoubling their efforts in continuously seeking new solutions to housing problems. This appeal for bipartisan consensus might sound naive and yet it is surprising how much the two major political parties agree on basic issues.

In the interest of the country, it is essential that the maturity and goodwill shown in other areas such as the financial services sector be evident also in the housing sector. The fact is that we really have no alternative.



## RELATED PAPERS

AUGUST 22, 1999

# Maltese housing characteristics in an EU perspective

THE European Union's housing system varies from that of the United States in the supply of low income housing. Since 1920 successive governments in most of Western Europe have been committed to subsidising the production and consumption of low income housing. Conversely housing subsidies in the US are more regressive because they consist primarily of mortgage interest and tax relief, with the market working better for the rich, while the poor have less choice and end up paying more for lower quality.

EU housing policy, based on the principle of subsidiarity, will remain the responsibility of national governments, with the general trend being that governments are less willing to subsidise housing. Subsidies are being geared towards the renovation of the decaying inner cities, as opposed to the housing blocks of the post-war era.

Common themes include a desire for governments to reduce subsidy and switch it away from building to subsidising household rental costs, with home ownership encouraged

by Denis Camilleri, Eur.Ing, A&CE

but with housing available in other tenures. Interestingly nothing in the single market legislation addresses real estate directly. In fact one article mentions that "this treaty shall in no way prejudice the rules in member states governing the system of property ownership".

Household growth has been substantial in many EU countries over the past 20 years. Families have tended to become smaller. There is an increase in single parent households and other forms of households have evolved. Over the past ten years Germany due to unification at 3.8% per annum, has seen the highest increase, followed by Italy at 3% per annum, Austria at 1.8% per annum and the Netherlands and Finland at 1.1% parent.

Similarly Malta over the same period has experienced a household growth of 2.7% per annum, and a further expected growth of 1.2% per annum over the next ten-year period. An exception has been the UK, but is set to see a large increase over the next 20 years.

Many EU countries are experiencing growing housing shortages, caused by increased household formation and relatively low building rates.

The table below classifies EU countries on the basis of their approach to housing provision. The Social Democratic group is based on universal provision for all groups in society, necessitating high public expenditure and taxation. The corporatist group is based on a balance of different social interest groups.

In both these groups social housing is used in tangent with the private sector, with the private rental sector being subsidised to ensure the latter's adequate return on investment. This defined as unitary, creates a system where renting from a social landlord is not associated with social stigma and a wide variety of social groupings live within it.

In the liberal welfare group, the state is less universal and emphasis is put on welfare as a safety net of minimum standards, with the social and private renting serving essentially different markets. The rudimentary welfare group have only limited welfare systems because of a mixture of widespread low income rural activities and a tradition of small scale self help. These groups are defined as forming part of a dualist rental system, where the state only intervenes to provide a safety net for the poor. This creates a stigmatised and means-tested rental sector.

From the table, Malta with its past Anglo-Saxon connections is classified as forming part of the Liberal Welfare group. The EU housing is thus classified into four distinct groups – mainly, the Scandinavia, Central Europe, countries with Anglo-Saxon ties and the Southern fringe of Europe.

The wealthier countries in the Scandinavian and Central European region show a lower home-ownership rate, while having a higher social-rented sector. Germany, the Netherlands and Sweden have less than their housing stock in home ownership, and traditional rural countries like Greece, Ireland and Spain have close to 80% in this sector.

Central Europe has more stable housing systems, that have a limited impact on their macroeconomies. Most are however suffering from housing shortages caused by rapid household growth. The Southern fringe, with its limited mortgage debt and negligible social housing has the worst housing conditions in the EU.

## House prices in the EU

Long term real increases in house prices have not occurred in seven EU countries, namely Finland, Germany,

Ireland, Italy, the Netherlands, Spain and the UK, except for the UK and Italy from 1970 to 1994. Instead of steady rises in house prices, periodic booms have occurred, followed by long periods of readjustment. Spain is the only country which has no recorded boom period, while its property real cost in 1994 is below that recorded in 1970. Finland and the Netherlands have recorded minimal real cost increases over the 1970 period. In Malta boom periods have occurred, but the adjustment periods have had minimal effect on the upward trend of prices over the period.

Over the period 1982-1997 house prices in Malta have more than trebled, compared to the doubling of prices in the UK, a 20% increase in the Netherlands, and a 30% increase in Germany. Dutch and German land prices have grown at virtually the same rate as the economy over this period.

House price volatility is quite low in Germany, Holland, Ireland and Spain, and high in Finland, Italy, Malta and the UK.

## House-building costs

While real house prices may have been limited in the EU, most countries have experienced rising real housebuilding costs. On average, real housebuilding costs rose by a quarter for 11 EU countries between 1970 and 1994. The highest at 46.3% was registered in the Netherlands, followed by Spain at 45.2%. The exceptions showing a decrease were Finland at -7.2% and France at -0.9%. Over the past 15 years Malta has averaged a 1.35% per annum increase in building costs, giving a 22% increase over a 15-year period.

Housebuilding costs are much less volatile than house prices; with Ireland, Spain, Sweden and the UK having higher cost volatilities than elsewhere.

(To be concluded)

Social Welfare Regime	Rental Markets	Countries	GDP \$ per capita 1995	Owner occupation	Tenure %		Other tenure
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

NOVEMBER 28, 1999



# HOUSING:

## Affordability or availability?

by Andrè Zammit

### New president for AEA

MICHAEL DE MARIA, general manager of Cassar & Cooper (Real Estate), last Thursday was appointed president of the Association of the Estate Agents during an extraordinary general meeting. He replaces Frank Salt, who has resigned for personal reasons.

The AEA council for 1999 was confirmed for the year 2000.

A HIGH-POWERED Conference on Housing Affordability in Malta was recently organised by the Chamber of Architects and Civil Engineers in conjunction with the Building Industry Consultative Council. It was attended by representatives of all government, parastatal bodies and market sectors involved, and was addressed by the Environment and Social Policy ministers while the Parliamentary Secretary for Home Affairs made an impromptu contribution.

I enjoyed most of the papers read and the contributions from the floor. The conference chairman, Denis Camilleri (he succeeded me as lecturer in Valuations at University), has been doing a lot of painstaking research on the subject and he has regaled us with a great deal of valuable relevant statistics to which I shall be making liberal reference.

However, I could not help feeling that we were perhaps missing the wood for the trees. Surely it is the availability of housing that we should be addressing. Affordability is beamed at home-ownership, and home-ownership is the least cost-effective way of attacking the

problem. I was mildly amused by a complacent statement that we had one of the highest rates of home-ownership in Europe. Fortunately, it is not quite true, but it reminded me of the wife of a *nouveau riche* who boasted that her husband had the highest blood pressure in all the neighbourhood.

### Home-ownership rate

Contrary to what some people believe, a high home-ownership rate is not in itself a sign of prosperity. If we look at 1995 figures for Western Europe we find that Ireland (\$15,100 GDP per capita) has the highest index at 80% followed by Spain (\$12,500 GDP) at 76%. At the other end of the scale we find Switzerland (\$36,430 GDP) with 31% followed by Germany (\$26,000 GDP) at 38%. The European Union average in 1995 was 56%.

Malta's corresponding figures were \$8,890 GDP per capita and a home-ownership rate of 68%. We are obviously at the wrong end of both scales. Greece is the nearest to Malta with \$8,400 GDP and a home-ownership rate of 70%.

There is in fact a definite inverse correlation

between home-ownership rate and Gross Domestic Product (GDP). As Gordon Cordina, (Central Bank economist), put it to the conference, "housing costs in an economy are high relative to the income they generate... There are valid economic reasons for... reducing the relative cost of housing... Savings resources are freed towards financing productive, job and income-creating investments. A more efficient and effective use of the country's financial resources".

Denis Camilleri backs this up by a table of annual net mortgage lending as a percentage of national income which he summarises as: "The ratio of house borrowing to the national income has increased from 9% in 1987 to 18% in 1998. This is considered high by EU standards where a high 4.7% in the UK and a low 0.6% in Italy give the average value over the period 1983-1994... 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 the early Seventies to 4.5% in the early Nineties. This is compared with Malta's value which exceeds 20%".

In a number of planning circles the resort to home-ownership solutions is considered a desperate remedy and an admission of failure, as these militate against housing mobility and a good housing fit, – apart from the not inconsiderable economic sacrifice. The ideal housing scenario is an adequate market-oriented mix of accommodation sizes and locations, market-priced accordingly, where each household can play "musical chairs" according to its life cycle, job location and economic possibilities. With widespread home-ownership, high transaction costs, capital gains taxes and emotional factors severely discourage such mobility. This is best provided by a flourishing private rental market supplemented by a small sector of social housing for the really poor.

### Maltese housing in European perspective

Before discussing the private rental market let us have a hard-clinical look at the physical context of local housing and put the various

(Continued on page 20)

# Is home-ownership the solution?



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# 18,000 vacant dwellings worth Lm540 million could generate Lm22 million a year

(Continued from page 1)

parameters in a Western European perspective. The recent report (Volume 6) of the *1995 Census of Population and Housing in Malta* comes very handy and Paul Balchin's *Housing Policy in Europe* also gives some 1995 figures. Where possible I am using these two sources.

1. *Population growth.* Between 1945 and 1995 the population of Malta (Maltese Islands) has grown by about 24%. This is on the low side of the Western European range – from 18% for Austria to 65% for the Netherlands – and has obviously been affected by massive emigration in the post-war years. The 1995 population of 372,657 is however higher than that predicted in the Structure Plan.

2. *Population density.* Our present population density is about 1,200 per sq km. This is very high compared to the Western European range, from 11 persons per sq km in Norway to about 370 per sq km in the Netherlands. It is more than 11 times the Western European average of around 105 per sq km and imposes on us the very stringent obligation to make optimal use of our land resources.

3. *Household size.* Our average household size is now 3.12 persons per household. It has been dropping for some time but it is still at the top end of the European range of from 2.1 in Sweden to 3.3 in Ireland and Spain. The figure is likely to drop further which, with an increasing population, will result in a substantial increase in the number of households.

4. *Dwellings per household.* With 155,202 dwellings and 119,479 households we have a ratio of dwellings/household of 1.30. This is at the top end of the European scale where the average is 1.13. It is only exceeded by Spain at 1.43, Greece at 1.40 and Portugal at 1.32 all of them tourist destinations.

At the bottom end we find Luxembourg at 0.93 and the Netherlands at 0.97, which have a deficit. The ratio in the UK is 1.04 and in Italy 1.13. Although we have a massive surplus we have to allow for summer residences and holiday accommodation.

5. *Age of dwellings.* In Malta some 31% of the occupied dwellings in 1995 were built before 1945. These housed about 25% of the population. The corresponding European figures that I have are for earlier dates but when adjusted to 1995 these would show Malta as towards the middle of the range with Greece having about 18% of its housing stock pre-1945 whereas the UK has about 48%.

6. *Number of rooms per dwelling.* The average number of rooms per occupied dwelling (household) in Malta was 5.73. This is way above the Western European values which range from 3.7 in the Netherlands and 5.0 in the UK with an average of 4.25. It shows that by and large we are on the extravagant side.

No official figures for vacant dwellings are available but an article by Ian Zammit in the Structure Plan Newsletter No. 5 shows that a random sample survey had shown that the vacant dwellings were marginally smaller. So that if his figures are used the average number of rooms for all dwellings would come down to 5.41, still a very high figure.

7. *Rooms per 1,000 population.* According to the last census we have about 1,838 rooms per 1,000 population in the occupied dwellings alone, that is ignoring the vacant dwellings. This is the top end of the European scale exceeded only by the UK with about 1,972

rooms per 1,000 population but a smaller household size and a much smaller proportion of vacant dwellings.

At the bottom end there is Greece with some 1,246 rooms while the average is about 1,550 rooms per 1000 population.

The corresponding occupancy ratios (i.e. number of persons per room) would be 0.54 for Malta as against 0.51 for the UK, 0.80 for Greece and 0.65 as the average. Again these figures place us on the extravagant side of the scale, and if the vacant dwellings are included (in both cases) we would be way ahead of the UK.

8. *House conditions.* The census shows the 3.8% of the households in Malta do not have a bathroom. In Western Europe 1% of the dwellings in the Netherlands and the UK and 15% in Austria and in Greece (9.6% average) do not have a bathroom.

In Malta 100% of the households have water and electricity, 95% have a telephone service, 93% have a colour TV set, 98% have a refrigerator, 90% have a washing machine, 92% have an electric fan, 88% have a gas cooker, 85% have a water heater.

On the other hand 51% of households living in rented housing pay from Lm1 to Lm50 a year and 29% pay from Lm51 to Lm100 a year.

### Private rental market

The foregoing factual analysis shows that on average the physical data of Maltese housing are more than very positive. But we all know that averages tend to hide the extremes and that our position is artificial and not sustainable. Those who are professionally involved in the various aspects of housing will agree with me that we have to address the following problems:

- It is practically impossible to find a house to rent.
- We have a considerable surplus of dwellings and rooms.
- We already have an unhealthily high percentage of our national income tied up in housing.
- We have a small fringe of really poor tenants and a bigger fringe of substandard dwellings.
- We have a large number of rented dwellings that are being very wastefully used.
- Neither our economy nor our environment allow us to adopt wasteful solutions and keep on sweeping the dust under the carpet.

It is my contention that the problem is the availability and not the affordability of housing and that the best way to address the above problems is the revival of the private rental market. However, the only way this market can be revived is through the unequivocal and irreversible repeal of our wartime rent laws which are now 50 years obsolete and have become one of the biggest millstones round the neck of our economy.

### The bottom line

Let us look some hard facts in the eye. We have 35,700 vacant dwellings and allowing for 13,000 summer residences and say 4,700 holiday units, that leaves us with some 18,000 dwellings which could be brought into use.

I estimate their asset value as some Lm540 million which could generate a rent of at least Lm22 million a year which through direct taxation, their multiplier effect on the economy and the release of a substantial amount of future mortgage money could mean an equivalent amount (Lm22 million) to the national coffers. I estimate that there are also some 20,000 to

25,000 dwellings which are rent-restricted.

These would probably have an asset value of some Lm560 million and could generate an additional rent of at least another Lm21 million a year. This amount would be taxed directly but would in part represent housing cost replacing consumer spending by tenants, balanced by a somewhat reduced amount of consumer spending by landlords.

However with rehabilitation and redevelopment investment there would be a substantial injection of funds in the economy with something of the order of Lm13 million a year ending up in the national coffers. In all there should be a total revenue gain of the order of Lm35 million a year. Only some 10% of this amount would need to be set aside for social housing and housing subsidies for the really poor, the remainder would be available to reduce the public debt and to invest in productive, job and income-earning initiatives.

With rents becoming proportionate to the size, layout, location and condition of the dwellings, and a substantial number of properties coming on the rental market, there would be a certain amount of moving around until a satisfactory housing fit is achieved. The nightmare of looking for a home or spending all your working life paying for it would end once and for all. Substandard dwellings would be eliminated or rehabilitated and a certain amount of redevelopment would help regenerate the historic centres of our towns and villages. Further overspill in the countryside and urban sprawl would become a thing of the past. Community ties would be enhanced and the cost of community services would stop escalating.

I have been saying this for 30 years and I do not feel that I have discovered anything new. In fact the Italians would tell me *"hai scoperto l'acqua calda"* (you have discovered hot water). The Social Policy Minister has recently said in Parliament that the private rental market has to be revived and the Opposition spokesman has spoken in the same vein.

Way back in 1995 at the National Conference on the Land and Housing Markets organised by the Planning Authority, spokesmen of the two main parties had expressed themselves in full agreement that the rent laws had to be drastically reviewed.

The Planning Authority Director of Planning recently wrote: "Take vacant housing and the need for the revival of the rental sector. We have been talking about it for years; it is one of the policies of the Structure Plan and although the legislation was amended the change was not far-reaching and has not had the desired effect". And yet nothing gets done.

### Consensus

In one of the best papers presented at the conference, Anton Camilleri, housing Construction and Maintenance Department Director made a strong plea for bipartisan consensus. He concluded: "This appeal for bipartisan consensus might sound naive and yet it is surprising how much the two major political parties agree on basic issues. In the interest of the country, it is essential that the maturity and good will shown in other areas such as the financial services sector be evident also in the housing sector. The fact is that we really have no other alternative".

I do not think I should add any more to this.

ADVERT

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NOVEMBER 14, 1999

# Action, please...

by Alison Sammut

**T**HE RECENT conference on Housing Affordability organised by the Chamber of Architects and Civil Engineers in conjunction with the Building Industry Consultative Council (BICC) brought to the forefront a number of issues.

Constructor Angelo Xuereb claimed that today plot prices account for 60 per cent or more of house prices as compared to 50 per cent in 1995. In fact he was proved right by statistics compiled by Denis Camilleri which show that in 1998 the price of land as a percentage of house price was higher than 58 per cent. It is interesting to note that in 1970 this accounted for just seven per cent of the price.

Over the last 20 years there was only a very slight increase in construction prices, Mr Xuereb said. So it is the escalating price of the land and the slight increase in the cost of finishes which have led to the problem of affordability. The only solution to the problem was for the government and constructors to join forces, he proposed. The former would provide the land and the latter would develop it. The resulting homes would be very affordable, Mr Xuereb claimed.

He pointed out that one must keep in mind that land in Malta is very scarce and therefore we should build higher buildings. A topic which was not discussed during the conference was land reclamation. We are facing a huge waste management problem. The ever growing dump at Magtab could vanish and instead the rubbish be dumped in designated areas to build polders as the Dutch have done. It may be an expensive endeavour but I am sure that sooner or later we have to consider this option.

British consultant Judith Wayne attempted to define affordability, claiming that no clear-cut definition exists. She compared the current situation in Malta with that in the UK and other countries. She claimed that the price of land accounted for less than 20 per cent of house prices in the UK. She also spoke of the rental market in Malta stating that it is constrained by the 1939 rent laws which limit investment yields for landlords.

Ms Wayne mentioned the problem of vacant dwellings. She referred to statistics compiled by Denis Camilleri comparing average housing investment as a share of national income. These statistics compiled in 1994 attribute the highest percentage to Malta. Keeping in mind the escalating price of property over the last five years unaccompanied with a similar increase

in wages one can only assume that this percentage is currently higher. In fact last year it was four per cent higher than in 1994.

"Housing affordability is a long-term goal over which there is a broad and growing consensus," Environment Minister Francis Zammit Dimech said. He spoke about the importance of sustainable development and the need for a fair distribution of resources and opportunities between present and future generations, emphasising the need of taking into consideration long term effects.

A deterioration of Malta's envi-

ronment will lead to a deterioration of the country's economy, he said. Dr Zammit Dimech called for energy efficiency in building and better space management and stated that efficiency equals affordability.

Gordon Cordina, a representative of the Central Bank, examined the effects of housing affordability on the economy. He described housing as both a consumption and an investment commodity. High housing costs discourage the consumption of other goods and other forms of saving, thus leading to a depressed economic conditions.

He believes that price controls,

government provision of houses and government subsidies all have a negative effect on the economy and therefore should not be looked upon as solutions.

**M**id-Med Bank's Philip Farrugia gave an overview of the various schemes Mid Med offers to developers and prospective home buyers. The Eighties and Nineties marked an increase in the number of people resorting to a mortgage to finance the purchase of their home, he said.

His competitor namely BOV's Joseph Formosa described the

competition in this sector as healthy and necessary. He emphasised the importance of long-term affordability.

Alfred J. Gatt, representing Middle Sea Insurance, emphasised the importance of taking out a home insurance policy, pointing out that premiums are not expensive and that it is important to protect one's home which is an asset in itself.

He quoted a condition present in most insurance policies, namely that the insured should use all reasonable diligence and care for the maintenance and safety of the prop-

(Continued on page 23)





SOME of the participants at the Housing Authority conference held on November 4 at the Coastline Hotel

# Limitation on height of residences criticised

(Continued from page 1)

erty insured.

Dr Paul V. Mifsud matched housing affordability indicators to planning measures that might have been responsible for their development, concluding that in fact there is little if any correlation.

The Housing Authority's representatives Dr Maja Miljanic Brinkworth and Sue Vella made a second attempt at defining the term affordability. Then they provided those present with a profile of social housing applicants and their households. They went on to analyse the supply of vacant dwellings comparing the situation in Malta to that in the Netherlands.

They pointed out that some of these residences are in a bad state of repair or dilapidated and that besides being an eye-sore they are something which a land-scarce country cannot afford.

Angelo Xuereb spoke about migration out of village cores, stating that the standard of living of residents is negatively affected by lack of car parking facilities and the ambience of the houses most of which have a humidity problem.

The Housing Authority's representatives concluded by giving a number of suggestions for further research and recommending that the reduction of costs should be seen as one of the key factors if the provision of affordable housing is ever to become a reality.

In his intervention Tony Fenech Vella, an architect, said that the Maltese are by nature home owners. He criticised policies that consider plots having a frontage below six metres as substandard and said that there is a need for smaller residences. He also criticised policies limiting the height of residences in new areas to three floors.

Michael Pace, an architecture graduate, made a call for efficient domestic design after yet again attempting to define affordability.

Another contributor was the Director of Housing Construction and Maintenance, Anton Camilleri, who appealed for a political consensus on the basic issues concerning housing. He gave a historical overview of Government intervention in the housing sector. When describing the current situation he agreed with Mr Xuereb that the cost of construction has remained stable in the past two decades stating that in real terms when one

takes inflation into consideration, it has actually decreased. He mentioned the scarcity of land problem and pointed out that most of the 20,000 vacant residences are not on the market. Like others before him he called for a revival of the rental market. He also reiterated Mr Xuereb's call for the creation of partnerships with the private sector.

Among his recommendations there was the relaxation of height limitation policies in new areas such as Pembroke, the short-term solution of using land transferred to the Government through the Church-State agreement and the long-term solution of redevelopment.

Dhalia's George Bonnici represented the Association of Estate Agents. He criticised the fact that no detailed reports on the property market are available. A glance at the increase in average prices according to data compiled by estate agents is enough to cause panic.

An apartment which cost Lm12,186 in 1989 costs Lm32,529 today. Villas and bungalows have gone up from Lm30,307 in 1989 to the current price of Lm111,473. As Mr Bonnici rightly pointed out, the cost of living increase has not risen proportionately to the rise in property prices.

He also criticised delays in the enactment of new policies by Government. Mr Bonnici said that the capital gains tax, the increase in stamp duty and VAT have inflated the price of property making it unaffordable.

He also stated that the buying of property as an investment was dwindling as property is nowadays taking longer to sell and also due to the high asking prices.

In his closing speech Social Policy Minister Lawrence Gonzi referred to the organisation of a National Housing Conference to be held next April. One only hopes that it will not be all talk and no action. Most of the questions posed by Minister Gonzi were discussed during the conference.

Had he been able to attend the whole conference, he would have found many an answer and maybe action could have been taken now.



What's the use of having another conference in April, discussing the same problems, among the same people, (although hopefully with ministers and other policymakers present throughout), when we could start acting now?

The Sunday Times will be contributing by publishing the papers presented at the Housing Affordability conference. This would help create a public forum. Any feedback would be appreciated and will be published in due course.

FROM LEFT: Gordon Cordina, George Bonnici and Angelo Xuereb at the conference

ADVERT

**MAIN FINDINGS OF THE 1999 CONFERENCE  
“HOUSING AFFORDABILITY IN MALTA”.  
Compiled by Denis Camilleri.**

The following are the main findings for improving the housing affordability in Malta, as discussed during the 1-day Conference held at the Coastline Hotel Salina, on the 4<sup>th</sup> November and hosted on the MCB University Press web-site from the 1<sup>st</sup> October up to the 30<sup>th</sup> November. This Conference was organised by the Chamber of Architects & Civil Engineers in conjunction with BICC. Main sponsors were Middle Sea Group plc, Mid-Med Bank plc, with secondary sponsors Air Malta, Commonwealth Association of Architects CAA, and Planning Authority. The papers presented together with further discussions may be accessed at <http://www.mcb.co.uk/services/conferen/oct99/ha-session2/>.

**INTRODUCTION.**

The Conference in Anton Camilleri's A&CE paper, defined the present housing problem as one of affordability and not of availability. Andre' Zammit A&CE, who in his paper considers the present vacant dwellings not presently available due to the outdated rental regulations, challenged this. These outdated restrictions have forced on us a high 68% home-ownership rate, not being a sign of prosperity in itself as shown below.

The 1995 figures for Western Europe give that Eire - 15100\$ GDP/capita, has the highest home-ownership rate at 80%, followed by Spain - 12500\$ GDP at 76%, whilst at the other end of the scale Switzerland with a GDP of 36430\$ has a 38% low. Malta's value stands at 8886\$.

**HOUSING AFFORDABILITY INDEX (HAI).**

This Conference raised the question of different median family incomes according to keynote speaker Judy Wayne and Dr. Paul Mifsud. The previous HAI table was based on the median income of 1 breadwinner.

Considering the present trend, Maltese women stay in full time employment until after marriage. They then resign from the labour force to bring up their children, the drop occurring from after the age of 25 onwards, and then return to a part-time position with reduced hours of paid work, when their children are older. This phenomenon occurs within the 30 to 55 age bracket. So precisely when female full-time employment begins to drop sharply part-time economic activity amongst married women bulges upwards.

The number of females in full employment has increased from 31498 in 1988 to 38909 in 1998, i.e. from 25.2% of labour force to 28.3%. For part-time employment as a primary job the number has increased over the same period, from 2225 to 8637, increasing from 53% to 60.9%. In 1995, 13825 married females had a full time job, whilst 4150 married females had a part-time job as a primary occupation and 666 married females had a part time job, together with a full-time.

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 is Lm4252 and Lm3396 for the bride.

Considering the above, the effect of the 2<sup>nd</sup> wage earner has been considered at 10% for 1982, 15% for 1987, 20% for 1992, 25% for 1997 and 50% for 2007. Incorporating the above amounts into the median family income an amended HAI table has been produced.

**Table 1**

YEAR	MORTGAGE monthly payment		MEDIAN family income	QUALIFYING monthly income		RATIO of qualifying family income		HAI	
	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
2007	Lm340	Lm241	Lm963#	Lm1363	Lm965	1.42	1.00	71	100

# The earnings/employee % growth rate is taken at 6.5%, over the next 10 year period

The Housing Affordability Index (HAI) table 1 has been calculated for the period 1982 –1997. For a 3-bed/r median apartment it has worsened from a value of 77 down to 65. For a 2 bed/r median apartment the HAI decreased from 110 down to 101. 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 importance of the increased effect on household income by the 2<sup>nd</sup> wage earner is noted, as an improvement is expected in the HAI over the next 10 year period.

The price earning ratio, presently for a terraced house in 1997 stood at 10.9, whilst for a median priced apartment is at 6.0. 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. (Judy Wayne)

If the contribution from the 2<sup>nd</sup> household income earner is considered at 50% of main earner, these ratios for 1998 work out at 7.5 for a terraced house, 4.1 for an apartment and 4.9 for a maisonette. (Dr. Paul Mifsud).

The modern rents for a 2 bed/r apartment are at 29% of the household income, for a 3 bed/r apartment 33%, for a 2 bed/r maisonette 30%, for a 3 bed/r maisonette 39%, for a 3 bed/r terraced house 58%. These are to compared with the accepted norms that rental amount is not to exceed 25-30% of household income. The household income has been assumed as the mean wage multiplied by 1.5, to account for the contribution from the 2<sup>nd</sup> wage earner. (Dr. Paul Mifsud)

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 economy countries at 75% & 88%, outlining the inefficiencies of the present rental market. ( Judy Wayne).

The above figures are compared to Canada's. According to Harold Camilleri's paper, the average house/earnings value works out at 4.22 and the monthly rent as a % of income is at 29.83%.

Gordon Cordina in his paper stresses that economically valid reasons exist for promoting the increased availability of affordable housing. He concludes that there exists evidence pointing to the possibility that the current economic slowdown in Malta is in part due to the excessive increase in house prices during the 1<sup>st</sup> half of the 90's. This being due to the absorption of household resources into financing the cost of housing would affect the household purchasing power. This leads to a drop in domestic saving, creating the need for higher borrowing from abroad, eroding the country's international competitiveness, thus curbing productive investment and economic growth.

## **ANOTHER PERSPECTIVE OF AFFORDABILITY**

Michael Pace in his paper "Affordability - long term savings through design", makes a plea to respect the justifiability of the high costs of land in Malta and to consider those processes that are truly the cause of excessive expenditure. This by increasing the efficiency of all processes governing capital outlay and running costs.

On similar lines the Minister of the Environment The Hon. Dr. F. Zammit Dimech called for energy efficiency in building and better space management, noting that efficiency equals affordability.

Although house prices have trebled in the past 15 years, this is due to sharp increase in the price of land, as our building construction has not only not improved but becoming less energy conscious over the years. Our houses are also earthquake resistant suspect. Mr. A. Gatt in his paper has noted the insurance sector's preoccupation regarding earthquake cover for Malta.

It is now acknowledged that the property industry is a key player in global warming and climate change. With increasing build up of green-house gases and in particular carbon dioxide, as the more we consume energy from non-renewable sources, a global average increase of 2 ½ degrees C is predicted in the next century. Alarming, this is half the temperature change that was required to thaw out from the last ice age. An expansion of the oceans accompanies global warming and a rise of ½m in sea levels is predicted.

A 100 years ago, when a farmer ran his own holding, he recycled everything, using manure from his animals to fertilize his fields and eating the produce from the land, doing no harm to the environment. When he closed down, he left everything as he had found it - an environmentally neutral activity.

The saying "treat the earth well, it was not given to you by your parents, it was lent to you by your children," compels us towards sustainable development. Architecture for sustainable development employs natural ventilation, the effective use of natural light and the use of a building's thermal mass to provide comfort conditions in the space provided. The carefully designed shape and orientation of buildings, the arrangement of openings, shading devices, help remove the need for air-conditioning and minimise the amount of electrical light and energy needed. A sustainable building is considered to be one which is energy efficient, healthy, comfortable and flexible in use and most critically designed for long-life. There is financial advantage to producing environmentally responsible property, not simply in terms of basic cost, but also in respect of general marketability.

The property market is becoming a global market, one has to think globally, act locally. A person living in Toronto, purchasing a property in Malta would expect common dwelling performances. Mould growth in walling would not be tolerated, as part of the eternal drying out of the building structure, together with a dwelling, too hot to live in, in summer and too cold and humid in winter.

It is interesting to draw a parallel with the residential property in Eire. Substantial progress has been achieved in Irish housing conditions, when at the beginning of the 1980's, with a maturing housing stock, overcrowding and poor amenities were substantially reduced. During the period 1986-1992 private housebuilding in Eire increased by 22% to over 80%, and accompanying this has been a significant increase in housing quality. The evidence of increased quality is reinforced by the greater use of insulated double walling, increased proportion of double glazing and some type of central heating. The increase in house prices, averaging 9% pa in capital value over a 6 year period, due to a growing economy is unlike Malta, correlated to an increase in quality. The Irish experience of fiscal measures, by means of tax relief for urban regeneration is also an interesting model.

## PROPERTY TRANSACTIONS.

Interesting information has been given in George Bonnici's paper, showing that the peak number of transactions occurred in 1991 at 13131, declining steadily to 7091 in 1998, as shown in table 2.

**Table 2 deals with Property contracts, average prices, together with annual marriages & separation and annulment cases lodged.**

Year	No of annual Contract	Average Price Lm	Sales to Foreign Buyer	Average Price Lm	Sales by Foreign Seller	Average Price Lm	Annual Marriages	Separations & annulments
1989	9937	5528	1036	13001				
1990	11705	5528	790	15632			2498	221
1991	13131	5528	419	18975			2541	260
1992	11642	5328	337	19199	172	25623	2377	303
1993	9734	5739	293	24203	169	25716	2476	252
1994	10794	6123	367	26355	155	27858	2438	255
1995	11175	7407	267	30210	155	31045	2317	
1996	10000	13580	262	32792	117	32684	2370	
1997	9300	17531	165	34079	107	46012	2414	
1998	7091	18588	155	42941				

The maximum number of sales to foreigners occurred in 1989 at 1036, with a minimum also in 1998 at 155.

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%. Considering the fairly constant marriage statistics, the above signifies the lessening in importance of property as an investment, due to the various alternative forms of investment available to the Maltese since 1991, the launching of the Malta Stock Exchange. Increasing marital problems, may in future, as in other countries be of an added problem to the Affordability problem.

This fall in sales over this period, has not witnessed a corresponding fall in property prices, which continued shooting up to 1996, after which a levelling off in prices occurred in some localities, shown in Dr. Paul Mifsud's paper. It is true that transactions change before prices, and that sellers adjust their price expectations more slowly than buyers in response to demand changes. However, a change in transactions with time, act as a signal to sellers that their prices are not in line with the equilibrium price. Normally transactions return close to their base values, whereas prices remain permanently lower, such that demand changes have a permanent effect on prices, but little effect on transactions.

This is not the case for Malta, as shown by the market mechanics over the past 7 years.

Another interesting feature is the underdeclaration 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 underdeclaration appears less pronounced.

Further, 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.

**Table 3 is the annual residential property permits granted to foreigners, together with average purchase price, compared with prevalent median price/sqm**

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	

The above table shows that foreigners over the years have been purchasing residential property, close to the median price, except in 1982 & 1997, with properties of a higher value being purchased .

The number of transactions with foreigners may not be high to apparently effect the property market, however, the perception that settlers generate a high demand has an impact on prices, considerably greater than the real settler demand should cause. Mass psychology plays a major role, that the perceived numbers are of lesser significance than the perceived reality in terms of expected profits and opportunities for speculation.

## **SOCIAL HOUSING.**

In his paper Gordon Cordina has the following to say regarding basic housing policies. 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.



Indeed the role of governments is contentious, subsidies for first time buyers may boost demand initially for such housing, but end up at least partially self-defeating. 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”, is to be adopted - to leave the right to shelter to an anonymous market would not be right, nor correspond with the UN recommendations. In Malta those living on the poverty line have to be identified, as they require housing subsidies, whilst Government intervention is required to achieve Sustainable Housing Tenure for improvements to the gained in the Maltese family quality of life.

This is what the Hon. Dr. L. Gonzi alluded to in his closing speech. Despite the many successes, those most in need are not all being helped. We still have families who live in sub-standard conditions, with the system currently failing some of the poorest members of our society. A Conference for the coming April was proposed on this particular theme, “Social Housing Who is it Really For”. The Minister gave some pointers, many of which had been discussed during the present Conference, but one that should form the backbone of the coming Conference is. “How and where should Government target its expenditure in the field of Social Housing?”

In her paper Dr. Maja Miljanic Brinkworth gives an indication of the financial status of the 3309 Social Housing Applicants. 2815 applicants have an annual income less than Lm4000, with the median being Lm1921pa. 494 applicants have an annual income more than Lm4000, with the median being Lm4770pa.

Of the above 2815 applicants, 1298 consists of households with 1 adult, not older than 60 years. Of these 576 are single persons with a median wage of Lm2000pa. The remaining 722 single 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 60 years of age.

From the 1995 Census out of 119775 households, the poverty line approximates to Lm2000pa. 15% of the population declares to live under the poverty line, whilst 50% declare to earn below Lm4000, although it is known that underdeclaration of income occurs. The heads of households earning less than Lm2000pa are evenly distributed between males & females. In the case of females as the bread winner the probability of having some further side income is minimal. According to the Department of Social Security 1997, of the 5247 persons receiving social assistance, 4274 were female and only 973 male. These 4274 females are either heads of households or single women. For higher incomes there is a male predominance.

These further subdivisions, together with perhaps, some gender division statistics of Social Housing Applicants, could help in identifying which households are really in need of assistance, as their declared income is not likely to be topped up from some other side income.

The Affordability of Social Housing Applicants may be gauged from the family expenditure. This is defined as the amount of money the family deems necessary for ordinary purchases weekly. Extraordinary expenses include house rent, mortgages, hire purchases and other extraordinary expenses. As at 1999 the family expenditure is estimated at Lm275 monthly, ie Lm3300pa.

For the above quoted applicants, earning only their declared income of below LM4000pa, they appear to require total housing assistance. In the case of the remaining 494 applicants with a median wage of Lm4770pa, this leaves them with a surplus of Lm1440pa (Lm4770-Lm3300). If 25% of income is utilised for mortgages or rental this totals Lm1175pa, out of the surplus amount, appearing excessive, as not much left for other necessities.

It appears that Social Housing Applicants earning more than LM4000pa, could afford to purchase an apartment priced at Lm20000. This requires a downpayment of Lm4000 together with transaction costs of Lm1100 and an annual mortgage outlay of Lm1180pa, at the present 6.25% lending rate. It is in these initial costs totalling Lm5175 that the applicant requires assistance, more than in obtaining reductions in interest rates, which have been found to be less effective in combatting affordability.

In Dr. Paul Mifsud's paper it is noted that as from 1989 an equal distribution exists between rented and saleable Social Housing. At present rental accommodation is allocated to families with a household income less than Lm4000pa, with newly built accommodation for sale to families with a household income below Lm6000.

The provision of social housing is not proportionally distributed equally among the local plan areas. It is in the older established local plan areas that rented accommodation dominates. It is 58% of the social accommodation provided there that is rented, 63% in the North Harbour and 86% in the Grand Harbour. Planning policies do not appear to have influenced the distribution of social accommodation, as M'Xlokk with the highest growth of household growth has only been allotted 2% of social accommodation.

## **BANKING AND INSURANCE MATTERS.**

Philip Farrugia in his paper made reference to the present greater competition between the banks helping in easing the Affordability Problem. House loan interest rates have been lowered, ensuring that homebuyers will not only end up paying less interest, but now they have access to more finance which can be as high as 90% of the cost of the property. Statistics show that the average house loan of Lm15251 in 1996, increased to Lm18400 in 1999.

Reference was also made to the recently released Equity release loan, relating to the difference between the present value of one's home and any home loan amount outstanding. Demographic trends show the Maltese population to be ageing. With growing home-ownership, an increasing proportion of older people in the future will find themselves in a situation where they are "house rich and income poor". With possible future reduced pension benefits, a way for improving their standard of living is by releasing part of their house equity, unless they decide to trade down to a smaller house. However with most older people wishing to remain in their present home, this points to the possibility of releasing housing wealth by borrowing against home equity.

The above market liberalization of the Banking Sector, helps towards obtaining the best rates through market mechanisms, making the property market less reliant on state subsidies.

Alfred Gatt in his paper pointed out that insurance is not meant to solve the affordability problem, but helps in securing affordable housing as a long term investment. Customers are to be rightly informed regarding the insurable amount. A plea is being made for a Body to issue some guidance on this matter, for the consumers' peace of mind. An insurance policy helps towards mitigating the risks. The insured has to feel confident that the insurable value is adequate, undue worries only create unwarranted strains. A standard calculation form should be issued, with typical building rates included for various forms of housing. The insured may then arrive by means of a simple calculation of floor areas multiplied by the applicable building rate at the insurable value.

Malta has 23% of its dwellings vacant, with 25.9% of these in need of substantial repairs and 9.5% vacant. Difficulties may arise in finding suitable insurance cover to houses next to an unoccupied building, or else being subjected to a higher excess amount in case of a claim.

An average annual premium of Lm37.50pa has been quoted for an insurable value of Lm25000. For this amount, market value of premises is estimated at Lm37500. If this annual outlay is capitalized at a safe investment return of 6.5%pa this approximates to an outlay of Lm576. This means that a house insurance policy may be secured for a 1.5% amount of the purchase price. However it must be borne in mind that this % is not part of the initial outlay, but is to be paid over the duration of the property ownership. It is the initial outlay amount that is burdening on the housing affordability problem, an insurance policy will help towards achieving a required peace of mind to the majority of people's major life investment.

## **PROPERTY MANAGEMENT EDUCATION**

Although the Conference was attended by a wide spectrum of delegates, the conspicuous absence from the building academics and estate agents was noted. This drives the point home, as has been earlier noted in previous articles, that Malta requires professionals managing this important market. The advent of globalisation means that the place for half guided professionals is out. The importance of this market in our economy may be gauged from the glaring statistic that the value of the residential property market is 13 times the National GDP. If the commercial property market is also to be included, this factor increases drastically in importance. The declared amounts of property transactions carried out in 1998 are 24% of the National GDP. Could the value of 50% be closer to the truth? What is keeping our University from implementing these necessary Courses?

## ▪ CONCLUSIONS

Judy Wayne in her summing up of the 1-day Conference noted that there is lack of statistical information & databases about Maltese housing. Analysis & collection of data would better help in understanding the economics of the housing market. Housing needs to be sustainable in terms of what a family may afford with units of a smaller size being supplied, with its maintenance costs in the longer term, being related in terms of an energy efficient building system. A need exists, as addressed by Anglu Xuereb for the Public and Private sectors to work in partnership. There needs to be an increase in the availability of housing for people in social need, by identifying the vacant properties, which may be released. Understanding the relationship between taxation and the regulation of the housing market, with no unintended consequences, could help in this end. Harold Camilleri in his paper noted the absence of vacate properties in Canada, attributing land tax as one of the reasons.

Andre' Zammit in his paper noted that the asset value of the vacant dwellings stood at Lm540 million, whilst the asset value of the rent restricted dwellings was at Lm560 million, which together could generate an annual rental income of Lm43 million. From direct taxation, and through the effect of the multiplier effect from the rehabilitation and redevelopment investment created, this should create a total annual revenue gain of Lm35 million.

Dr. Paul Mifsud in his paper concluded that schemes that had provided low priced and free building plots had prevented house prices from rising beyond the normal index of inflation. This stoppage of subsidized land, not the planning policies, judging from the big number of building permits issued since 1993 was the reason for house prices to increase faster than the GDP, exacerbating the affordability problem.

Data and comparisons carried out have been mostly linked with those of advanced economy countries. It would be useful that in future comparisons may be carried out with countries having similar land restrictions and high population densities, such as Malta's - examples of such being Hong Kong and Singapore.

Anton Camilleri's A&CE plea for bipartisan consensus on housing matters as shown in other fields by the two major political parties was the conclusion of this Conference.

## Appendix I - Residential Property Data of the Maltese Islands

1/- Affordable housing capital growth	(1982- 2002) – 7.43% pa
Upmarket housing capital growth	(1982- 2002) - 8.35% pa
Affordable housing plots growth	(1982- 2002) – 16.4% 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 1<sup>st</sup> 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/m<sup>2</sup> 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	
<b>MALTA</b>	<b>250,000</b>	<b>675,000</b>	<b>2,850,000</b>	<b>3,750,000</b>

.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.**

<b>YEAR</b>	<b>UK</b>	<b>MALTA</b>
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 % Private Renting		Other tenure
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	-
	<b>Dual</b>	<b>Malta</b>	<b>8,886</b>	<b>68</b>	<b>19.3</b>	<b>9</b>	<b>3.7</b>
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. 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	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 2<sup>nd</sup> 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 36m<sup>2</sup> for a 1bed/r, 56m<sup>2</sup> for a 2 bed/r and 76m<sup>2</sup> 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>	<b>2002*</b>	<b>1995</b>	<b>1985</b>	<b>1967</b>
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

- \* 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 1<sup>st</sup> 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	%		58	22	16	4
Government	%		20	18	50	12
distribution						
distribution						

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)

## **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 722 single 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 60 years 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 <sup>(1)</sup>**

<b>Region</b>	<b>% Substandard Dwellings</b>	<b>% Applicants</b>
<b>Inner Harbour</b>	44.7	54.4
<b>Outer Harbour</b>	21.8	23.3
<b>South East</b>	10.9	8.3
<b>West</b>	8.7	6.3
<b>North</b>	5.5	6.7
<b>Gozo &amp; Comino</b>	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.

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							
Western	5.91	4.96	4.50	9.15	10.36	0.50	9.02
Northern	28.20	41.10	32.20	8.54	10.75	50.86	15.21
Gozo	17.00	21.29	15.83	15.34	15.51	23.89	13.07

*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 Contracts	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	Seperations & annulments
1982	13281	3766	9.7						
1983	10728	4750	10.3						
1984	10331	4710	9.6						
1985	9154	4500	8.0					2549	
1986	8545	5240	8.7						
1987	9388	5230							
1988	10708	4685	8.4						
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			2545	
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.**

<b>Year</b>	<b>Permits</b>	<b>Average Value</b>	<b>Price/ sqm</b>	<b>%-total sales-foreign</b>	<b>Median Price/sqm</b>
1982	175	Lm12055	Lm89	6.5	Lm70
1983	144	Lm12756	Lm94	7.7	
1984	147	Lm10914	Lm81	5.1	
1985	162	Lm9344	Lm69	5.2	
1986	281	Lm9597	Lm71	7.4	
1987	351	Lm10368	Lm77	10.7	Lm91
1988	671	Lm12480	Lm92	14.5	
1989	899	Lm13419	Lm99	22.0	
1990	717	Lm16179	Lm119	17.9	
1991	368	Lm20580	Lm152	10.5	
1992	315	Lm19860	Lm147	10.2	Lm150
1993	283	Lm24671	Lm183	12.5	
1994	359	Lm26637	Lm197	14.5	
1995	256	Lm31218	Lm231	9.7	
1996	258	Lm33102	Lm245	6.25	
1997	163	Lm34667	Lm257	3.5	Lm220
1998	155	Lm44516	Lm330	5.25	
1999	219	Lm48401	Lm358	6.00	
2000	295	Lm72115	Lm515	10.50	
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	Germany	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**

<b>COUNTRY</b>	<b>TRANSFER DUTY %</b>	<b>LEGAL FEES %</b>	<b>AGENT FEES %</b>	<b>VAT ON FEES %</b>
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)