In view of the government commission's call for comments regarding changes in rent legislation, Architect DENIS CAMILLERI takes a look at the property market and what prospective buyers or tenants can afford to pay

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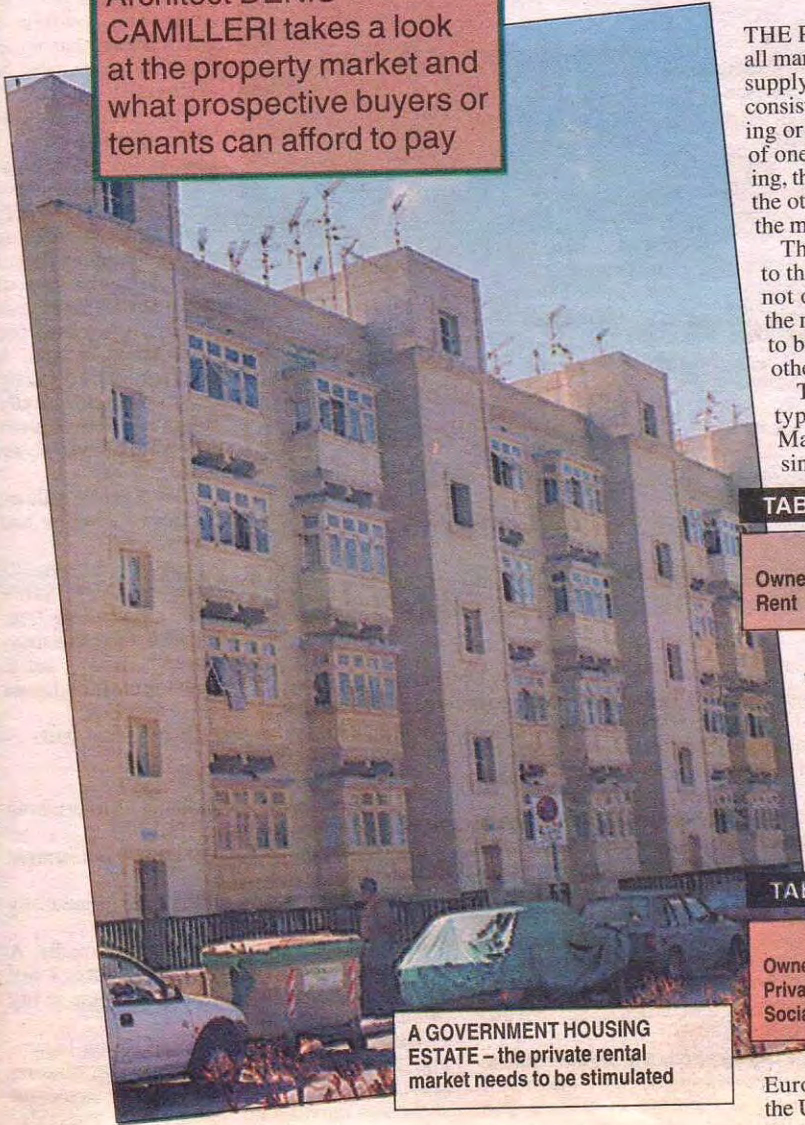

A GOVERNMENT HOUSING ESTATE – the private rental market needs to be stimulated

THE PROPERTY MARKET, like all markets, depends on an adequate supply. In this case the supply is to consist of units for sale, private renting or social housing. If the supply of one of the above sectors is lacking, the price would be pushed up in the other available sectors, making the market work inefficiently.

The rental market in Malta due to the existing rent restrictions, is not offering any further units on the market, 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:

centives are provided to owners of rented property as a healthy rental market is considered necessary, and subsidies to tenants are granted to offset their rent charges.

The social rented content of the EU countries is to be noted. In the Netherlands, for example, with its massive social housing, the financial institutions have moved into rented housing, accounting for 10% of the stock.

At the other end of the spectrum, only 3% are social rented in the US, tending the closest to the free market housing system. This however does not mean that there is no public intervention or public expenditure on housing with a result-

TABLE 1

	1948	1957	1967	1985	1990
Owner occupied	23.1	26.1	32.0	53.9	60.1
Rent	76.9	73.9	68.0	46.1	39.9

This table shows that the trend since 1967 has been towards owner occupation – too much emphasis on owner-occupied property is not conducive to a buyers' market.

Table 2 shows the percentage tenure for various countries, as of 1990:

ing social housing provided by the private sector.

House affordability may be gauged from house/income ratios quoted at 2.2 for Northern Ireland and 3.0 for the UK in 1988. Values rose as high as 4.95 for the UK 1973, with again a 4.2 high value in 1988/89, however dipping to 2.6 in

TABLE 2

	US	UK	Germany	France	Netherlands	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 is to be noted that in European Union countries, except the UK, a healthy private rented sector exists. The governments of these countries do not give incentives only to owner-occupiers. Tax in-

1995.

The present average wage fo Malta is taken at Lm290 monthly. With an annual median income o Lm3,480, the average housing pric assuming an affordability ratio o

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3.5 is calculated at: Lm3,480 × 3.5 = Lm12,180.

The present market value of housing units is well above this limit, possibly varying from Lm18,000 to Lm35,000 for first time buyers. In 1977 the median income was Lm1,500 while with an average apartment unit price of Lm4,500, the affordability ratio then worked out at 3.0. This demonstrates the inefficiency of the present housing market, which has been inflating over the years, as shown in Table 3.

TABLE 3 – Market value for apartments 1982-97 in sought-after areas by first-time buyers

Locality	Market Value Lm/m2 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
Marsacala – internal	50	75	160	160	50	113	0	220
San Ġwann	65	75	110	185	15	47	68	185
Sliema inner prime	90	145	190	35	61	31	60	240
St Julian's	80	100	175	235	25	75	34	195
Swieqi	85	105	180	275	23	72	53	225
Mosta/Naxxar	80	85	125	205	6	47	64	156

From this table it is noted that the percentage increase in market value over the 15-year period varies from 290% down to 155%. The average value calculated at 215% yields 14.5% p.a. According to a recent Central Bank publication the price of apartments from 1980-1994 has increased by 186%, i.e. 13.25% a year.

Over the total 15-year period, there does not appear to be such a vast amount of spread for the percentage increase across the various localities. However over the relative five-year periods this value varies from 0% up to 113%, with the Sliema inner area having a steady increase over the years. The Marsascala area obtained its overall increase erratically. The San Ġwann area demonstrates that this percentage increase has been rising every five-year period, so the trend could suggest further increases for this area.

Rented residential property market

Table 1 suggests that Malta appears to have a healthy private rented market at 29.2% of the total building stock when compared to EU other countries.

It may, however be argued that these rents are all old lease as shown by Table 4:

TABLE 4

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 1980-89, the years under review. The bulk of the leases (58%) is prior to 1939. 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, fewer complaints are received from tenants.

TABLE 5 – Rental dwellings distribution by amount of rent

Rental value Lm/p.a.	Up to 30	31-50	51-100	101-150	151-200	201+
% distribution – 1990	40.6	17.9	28.6	5.8	2.7	4.4
% distribution – 1985	40.1	16.4	28.9	8.2	4.4	2.0

Due to the present rent restrictions in general, the rent paid is very low and more than half (58.5%) of rented property is let at less than Lm50 p.a. and 87.6% is let at less than Lm100 p.a.

Table 5 gives the rented dwellings distribution by amount of rent.

This table shows that the low rents below Lm100 p.a. have remained relatively static, while there has been an increase in rental values above Lm200 p.a. from 2% up to 4.4%, with however a reduction in the ranges Lm101-Lm150 and Lm151-Lm200.

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 percentage of the rented stock are overstandard 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 owner-occupiers to increase their income by renting their home and moving into a smaller one at a lower rent, nor i[s] there any encouragement for th[e] portion which are tenanted to pa[y] less rent by moving into a smalle[r] apartment.

In effect rent control and the de[-]cline of private landlordism repre[-]sents a victory of industrial capita[l] over land property. Landlords hav[e] been sacrificed on the altar of capi[-]talist profitability for a cheap an[d] appeased labour force.

The staggering depletion of ac[-]commodation in the private rente[d] sector is a major cause of concern, but over the years various gov[-]ernments have been unable to arres[t] this decline. No government ha[s] been able to achieve simultaneousl[y] an adequate return for the landlor[d] and satisfactory rents and protection for the tenant. It is needed by young single persons, young couples, etc. It has been an open door tenure, in contrast to social renting, which has been allocated mainly to families.

At present the rate of return on furnished property varies from 9% to 5.5%. The 5.5% rate is apparently for exclusive apartments in the Sliema area with higher rates applying to seaside resorts having a lower occupancy rate. A fair rate, considering annual indexation of rents, for unfurnished rented property should work out at 4%.

This means that a Lm15,000 apartment would be leased out at Lm600 p.a.. If one were to purchase such an apartment one's income must at least be Lm3,500 p.a., one would require a 25% down payment, i.e. Lm3,750 together with expenses due to 3.5% stamp duty, notarial and survey fees totalling another 1%, entailing a further expense of Lm675 and for a 7% loan based on 30 years, a yearly repayment of Lm900.

For a Lm27,000 apartment the lease would be Lm1.080 p.a. The purchase would require an annual income of Lm6,500, down payment of Lm6,750, further expenses also considering stamp duty increase to 7% amount to Lm2,580, while the annual repayment over a 30-year period partly financed at 7% with the remained at 8.5% works out at Lm1,668 p.a.

This table really drives the point home that without a free private rented market, the local property market as mentioned earlier is inefficient and home-buyers are purchasing at inflated prices due to a lack of supply in one sector.

y in Malta

Rental affordability

The available statistics suggest that in European countries between the two world wars, rents averaged around one-tenth of income, substantially lower than before World War I. In the US, on the other hand, 20% appears usual.

During the Eighties this figure for the poorest households in Germany was 30% going down 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%, while for households not receiving housing allowance it reached 33%. In the UK, assured tenants of housing associations pay 24%.

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 that the larger families with lower incomes would pay a smaller proportion of income, while small, relatively better-off households would pay a higher proportion. In the US, however, a high proportion of very low income earners pay over half 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 two examples quoted previously for renting 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 and Lm4,320 p.a. respectively.

An alternative method of determining 'affordability' is the 'market-based' concept. This approach determines first the cost of the household's other basic necessities, and then establishes 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.

According to a study by Dr Charles Tabone, OP, the average income of the Maltese family in 1993 was Lm260 monthly. Around 60% of families earn below the average income, while 40% surpass this average. Tabone's study also assessed ordinary family expenditure. Extraordinary expenses include house rent, mortgage bills, and hire purchase instalments. It was thus estimated that the average Maltese family requires an income of Lm200 monthly, meaning a residual amount of Lm60 monthly.

The 1997 figures are obtained by applying a 3% yearly increase to wages and a 5% inflation to expenditure. The revised figures are now Lm290 and Lm243, leaving a residual amount of Lm47.

Again, 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 and would not be able to afford any rental payment.

Again, a family with an income of Lm4,430 p.a. (Lm360 monthly) has a residual amount of Lm117 per month who might opt for a rental value of Lm1,080 p.a (Lm 90 monthly) instead of opting for home-ownership.

From the above it is clear that the present government housing subsidies are inadequate for a substantial number of first-time buyers. We Maltese deserve a better quality of life – hopping from one job to another to pay our bills is socially wrong. As I have shown, an advantage may be obtained if part of the housing subsidies are directed towards activating the dormant private rental market.

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TABLE 6 – Renting vs purchase

		PURCHASE REQUIREMENTS		
Value	Rental Amount	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.