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## **HOUSING AND POVERTY IN MALTA: AN UPDATED VALUATION MODEL FOR RESIDENTIAL PREMISES<sup>§</sup>**

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**Abstract:** This paper was motivated from the outstanding number of social housing applicants, which is just considered to be the tip of the iceberg. A general overview of poverty and social housing applicants in Malta is given, where an estimate of the poverty line for the various types of households of our modern society is given. The modified valuation model combines the market rates of affordable housing and the household median income together with the dwelling size, to arrive at an affordable home. The question of capricious affordability arises. This leads on to, who is to pay for this extra accommodation. The paper concludes by giving pointers towards the social housing dilemma. Oversupplying the market with subsidised property and interest rate loan subsidies is considered outdated, as an affordability problem is further created. The concept as to whether social housing applicants could be considered to do voluntary work, is questioned? The Public Private Partnership (PPP) schemes for regenerating housing units in the urban cores is considered to be the way forward.

### **Introduction**

Social housing schemes are operated in Malta to serve as a basic social safety net in ensuring the universal availability of such an essential commodity. Over the past ten years, the number of new social housing applicants is estimated to have increased by an annual rate of over 20% (COS, 1999) bringing the stock of applications to 3,309 by the beginning

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of 2000. There however exists an apparent dilemma in that not all persons considered to be subject to poverty and/or living in unsuitable dwellings are actually social housing applicants. Conversely, a number of social housing applicants neither fall below the poverty line nor live in unsuitable dwellings. This gives rise to possible confusion about the functions of social housing in Malta which may be in part eliminated through better defined schemes based on scientific objective valuation of housing needs and provision strategies.

### **The Coverage of Social Housing Applications**

Indicators regarding occupied substandard accommodation, income distribution and social development in Malta point to the fact that the actual number of social housing applicants may fall well short of the true need for social housing provision. Out of the outstanding social housing applicants, 379 are living in dangerous dwellings and 542 in substandard accommodation, making a total of 921. But, the number of occupied substandard and inadequate houses as per the 1995 Census stands at 6,792 and 939 respectively, giving a total of 7,731. Thus, the number of social housing applications could potentially go up by at least 6,810.

From an income distribution point of view, there appears to be consensus (Abela, 1988; Delia, 1999) that on the basis of the 1995 population census and household budgetary survey, the poverty line in Malta stands at Lm2000 per annum being taken as 50% of the mean disposable income. These results suggest that 16% of households live below the poverty line<sup>1</sup>, giving a total of 19,000 households, compared to a total number of outstanding housing applications of just over 3,000.

Global tendencies are no doubt affecting the local social scenario, with increasing single-family households and a greater awareness towards the refugee problem. The housing affordability problem may be further gauged from the 360 separated persons still sharing the same dwelling with their separated partners, whilst 1100 persons in institutional facilities who would like to have a home of their own, not presently on the housing list. The deterioration in the social fabric, the drug problem, the

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1. The greatest incidence falls on women single parents. Abela 1998.

emerging homeless spectre, where youths go to their car not home for the night, all point towards an existing and possible increase in the poverty level in Malta, over-spilling into a social housing problem.

In spite of the fact that social housing applicants do not represent the entire population of the needy, it is not at all clear that all of the applicants are actually in need of social housing. Miljanic Brinkworth & Vella (1999) give an indication of the financial status of the present 3,309 applicants. Of these, 2,815 have an annual income less than Lm4000, with the median being Lm1921 per annum, while 494 applicants have an annual income more than Lm4000, with the median being Lm2000 per annum. Social housing applicants thus do not all lie below the poverty line. Those actually falling below the poverty line are estimated to be around 300 single persons and around 700 single persons with children.

The poverty line measure is but one, and perhaps extreme, measure of the need for social housing. An alternative approach is to gauge the extent of family expenditure, defined as the amount of money needed by a family for ordinary purchases, but excluding payments for house rent and mortgages, relative to income. Tabone (1995) found family expenditure to be Lm200 monthly for the average family size of 4 to 5 persons. Assuming a 5% annual increase, family expenditure is estimated at Lm281 monthly, or Lm3,372 annually, in 2000. The difference between household income and this sum would indicate the need for subsidy in the acquisition of housing.

By this definition, the social housing applicants earning below Lm4000 per annum with a median income of Lm1921 per annum require mostly full housing assistance. A corollary of this is that the potential number of households within the Maltese population in need of assistance would rise well above that indicated by the poverty line measure. Social housing applicants earning over Lm4000 per annum, at a median value of Lm4770 per annum, have a surplus of roughly 25%-30% of income above family expenditure to allocate to housing, which is deemed to be sufficient. The fact that higher income households could be subject to further social hardships, such as medical conditions, hardly justifies the existence of a housing subsidy, calling instead for a specific subsidy to directly address the nature of the problem itself.



These indicators point to the fact that social housing schemes may not be actually reaching the target population as originally intended. Next, we move to some suggestions regarding a possible re-orientation of policy.

## **A Modified Valuation Model**

A modified valuation model is here proposed as a way to use resources more efficiently in the provision of social housing, thereby allowing for a larger target population to be better served. The model is an attempt to derive an optimal provision of housing by identifying real affordability problems as against capricious affordability problems that may divert policy from exercising its intended functions.

The basic starting point is to assess housing affordability. The Housing Affordability Index (HAI) described by Camilleri (1999) can be used for the purpose. 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 index as compiled in Table 1 shows that for a 3-bedroom median apartment affordability has worsened from a value of 77 in 1982 to 65 in 1997. For a 2 bedroom median apartment the HAI decreased from 110 down to 101 over the same period.

The next step is to identify a benchmark for affordability. The international standard in this respect is to define affordable housing at a price of 3.5 times the median income, as in Wayne (1999). From Table 1, the median household income is taken at Lm427 monthly, assuming a 25% contribution from the second wage earner. This gives an affordable dwelling price of 3.5 times Lm5124 = Lm17,934, approximately Lm18000.

Further, one must identify the cost of a median residence. Camilleri (1998) gives an indication of prices per square metre of reasonably affordable housing by geographical region in Malta, as shown in Table 2.

These rates are applicable to “average” accommodation floor areas in Malta, which would be in the region of 110 sqm, but which can be considered as relatively high by International Standards (see Table 3). For smaller accommodation, however, which would be applicable to the

**Table 1**  
**Compilation of Malta's Housing Affordability Index (HAI)**

Year	Mortgage		Median Family Income (Lm)	Qualifying		Ratio		HAI	
	Monthly Payment			Monthly		of Qualifying			
	(Lm)			Income (Lm)		Family Income			
	<i>3-bed/r</i>	<i>2-bed/r</i>		<i>3-bed/r</i>	<i>2-bed/r</i>	<i>3-bed/r</i>	<i>2-bed/r</i>	<i>3-bed/r</i>	<i>2-bed/r</i>
1982	60	42	184	240	168	1.30	0.91	77 (70)	110 (100)*
1987	69	49	242	276	196	1.14	0.81	88 (76)	123 (108)
1992	108	72	320	432	288	1.35	0.90	74 (61)	111 (92)
1997	165	106	427	660	424	1.55	0.99	65 (46)	101 (71)

Note: \* Bracketed value is for 1 wage earner/household existing.

**Table 2**  
**Market Value Rates Lm per sqm. for Apartments over the Period 1982-1997**  
**in Sought after Areas by First Time Buyers**

LOCALITY	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 <sup>o</sup> 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 3**  
**Average Accommodation Floor Areas in Selected Countries**

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

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lower income strata of households, the rate to be paid per square metre is significantly higher. From the limited information presently available on small sized properties a premium amount of Lm6,000 has to be paid on properties having a floor area of 40 sqm or less. This premium is then reduced linearly up to 100 sqm, above which the floor area rate only is applicable.

Taking thus a property of 100 sqm as being the benchmark for an “affordable” property, the cost of a dwelling of an adequate accommodation floor area is valued at 100 sqm times Lm220= Lm22000, compared with an affordable price of Lm18,000. Considering smaller properties does not improve affordability in a commensurate way due to the premium which would have to be paid.

The question of household affordability in Malta is thus intimately linked to that of household size. Are houses unaffordable simply because they are too large? Should the State continue subsidizing capricious affordability or should subsidies be related besides to income and household size also to the quality of the accommodation? On the principle that the household is buying extra on quality housing, the household should not be fully reimbursed. Subsidizing only part of the rent also helps one to shop around, as otherwise no incentive exists to shop around for cheaper accommodation, negotiate lower rents, or move to smaller accommodation if their present home is larger than they need.

One thus needs to consider the extent of the optimal accommodation space serving household needs. Social housing schemes in Germany provide for 1 person – 45 sqm, 2 persons – 60 sqm, 3 persons – 75 sqm, 4 persons 90 sqm, and 15 sqm each for additional person. Also the number of rooms provided, excluding the kitchen, depends on the number of persons in the household, thus 3 rooms for a 3 person household, 4 rooms for a 4 person household and so on.



The following examples define the particular type of affordability problem existing in Malta, and the consequent need or otherwise for subsidies: A single parent household of 3 persons is to be provided with a 75 sqm apartment, comparable to its family size. The income of this household stands at Lm2500 per annum. The apartment is valued at – 75 sqm times Lm180/sqm + Lm2500 = Lm16000. A fair rental amount stands at 4% of this amount, i.e. Lm640 per annum. The family expenditure for a 3-person household works out at Lm2370 per annum. With a surplus amount of Lm2500 – Lm2370 = Lm130 per annum, a subsidy is required towards this rental amount for basic accommodation. In all societies, some households must be assisted financially by the society to fill the gap between what they consider essential and what they can afford.

The following example however describes a different situation. A 4-person family is to acquire an apartment of 135 sqm, which is considered oversized as minimum standards dictate 90 sqm. Family income stands at Lm3500 per annum. The apartment to be acquired is valued at 135 sqm times Lm170/sqm = Lm22950. The basic accommodation is valued at – 90sqm times Lm170/sqm + Lm1000 = Lm16300. A fair rental amount stands at 4% of these amounts, i.e. Lm918 per annum and Lm652 per annum respectively. The family expenditure for a 4-person household works out at Lm2640 per annum. With a surplus amount of Lm3500 – Lm2640 = Lm860 per annum, this family requires assistance to acquire a surplus accommodation standard, but not necessary for the basic space standard. This family has a capricious affordability problem, as otherwise the market may supply it.

## **Implications for Social Housing Policy**

As the number of social housing cases is increasing and potentially understates the true extent of the problem, the authorities are to distinguish between real and capricious housing affordability problems. The public is to be guided into acquiring an affordable home, and only if this fails, would social assistance be forthcoming. From the Canadian experience, the recipients of such assistance should contribute by being assigned voluntary/social work to be carried out. The assistance programme is no longer a grant but becomes a virtual loan. For instance, if

volunteer work was not carried out and the applicant did not repay the assistance that was received future tax refunds from future employment may be withheld. The program works to get those that are lazy back to work, however it fails to help those that are not capable of working and can't fight for their rights, with some of the applicants having a mental/intelligence problems, and not necessarily a lack of work ethic.

The Housing Authority could help towards regenerating housing units in the urban cores by entering into partnership with the private developer, which on completion of the development would have units leased back to it. The Authority could then dispose of these units as deemed necessary, via renting at commercial rates, subsidized rents or even for Social Housing. The possibility of selling these units at commercial rates or a system of shared ownership may be delved into. This hopefully will achieve a mixed household development, aiming at a better end result, than the previous Valletta slum clearance projects.

Two of such areas where this Public Private Partnership (PPP) scheme may be implemented are in Floriana and Senglea, as a present demand for returned households exists, with the probability of a mixed development being achieved. Surveys have been carried out in Floriana, together with consultations with Local Councils. In Floriana a number of blocks had been identified with a land registration order issued. The response however was limited to 10%. This is the crux of the PPP scheme, in encouraging private companies to build on land they would not have previously considered. The private developer expects the Housing & Planning Authorities to combine to reinforce the powers available to them to implement redevelopment housing & improvement projects, whereby agreement is reached with the developer on the planning gain to be achieved. This should be a future role of the Housing Authority, management of the inner city cores. Its incentives are to be based on acquiring these parcels of inner land, where most of the derelict buildings are found, with households living in dangerous conditions. Considering the advanced age of our building stock and their related outdated rental restrictions, imposing repair works on their owners have been self-defeating in the past. Under the present system, our old building stock deteriorates further with the housing problem being compounded further.

The advantages of the PPP system to the developer is a reduction in his risk exposure due to the land element being provided and rental security on termination of development. The advantage to the Housing Authority is that it is involved at the design stage, imposing its requirements, cash saving over the development process, whilst due to the risk reduction of the developer it may negotiate a lower rental rate. It may possibly lease out the units at 3.5 of the development cost less land value, instead of the 4% market rate. The regeneration of the inner cres may be looked upon favourably for eventual acquisition of EU funding.

## **Conclusion**

This paper attempted to identify the groups for whom Social Housing should be made available, and where expenditure should be targeted. The Local Council may be tapped for identifying the genuine cases. The subsidies on capricious Housing Affordability problems are now deemed to be outdated, creating greater social hardships. In the examples quoted, market rents for all types of housing have been given, with subsidies accordingly allocated, depending on the household size and income. Reasonable preferences to persons occupying insanitary or overcrowded generally unsatisfactory housing conditions are to be given.

That main policy implications have been identified. Firstly, social housing resources should be made available to cover real needs. Secondly, the efficiency of the system is to be improved overall by providing incentives to beneficiaries of subsidies. Thirdly working in cooperation with the private sector in providing more reasonably sized smaller housing at more affordable prices is suggested.

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