

# THE MECHANICS OF THE MALTESE PROPERTY MARKETS OVER THE PAST 29 - YEAR PERIOD

# HOME OWNERSHIP & VACANCY RATES

## HOME OWNERSHIP RATE AS OF CENSUS DATE

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

## VACANCY RATES OVER THE VARIOUS MALTESE CENSUSES

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

# AFFORDABLE PROPERTY RATES €/SQM FOR THE MALTESE ISLANDS OVER A 29 YEAR PERIOD

Locality	1982	1987	1992	1997	2002	2007	2011	%growth rate Pa 1982-2011
Fgura / Paola / Zabbar	105	128	256	408	466	987	906	8.5%
M'scala	116	175	373	373	505	1001	948	7.7%
Mosta / Naxxar	186	198	291	478	524	1242	1105	7.3%
San Gwann	151	175	256	431	557	1092	1026	7.7%
Sliema inner prime	210	338	443	710	883	1373	1398	7.0%
St. Julians	186	233	408	547	687	1321	1286	7.4%
Swieqi	198	245	419	641	785	1473	1348	7.6%
Malta	<b>163</b>	<b>212</b>	<b>349</b>	<b>512</b>	<b>629</b>	<b>1211</b>	<b>1146</b>	<b>7.5%</b>
<b>Gozo</b>						<b>857</b>	<b>853</b>	

Source:DHlperiti in-house valuations

2011 Highest : Lowest market rate 1.5:1  
1982 Highest : Lowest market rate 1.9:1

# AFFORDABLE PROPERTY RATES €/M<sup>2</sup> FOR THE MALTESE ISLANDS OVER THE PAST 9-YEAR PERIOD.

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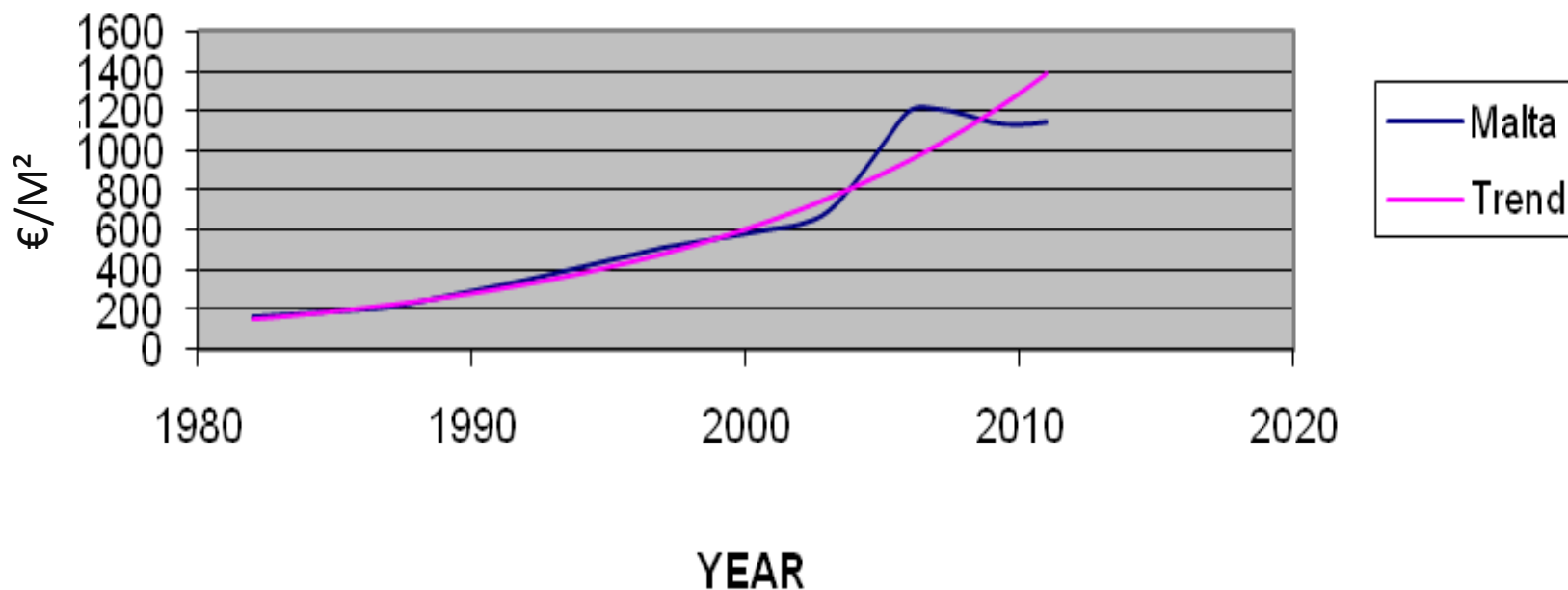
Locality	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	% growth rate Pa 2002-2011
<b>Fgura / Paola / Zabbar</b>	466	575	678	762	928	987	961	948	971	906	7.6%
<b>Sliema inner prime</b>	883	820	929	1316	1381	1373	1380	1322	1263	1398	5.6%
<b>Malta</b>	<b>629</b>	<b>692</b>	<b>841</b>	<b>1030</b>	<b>1202</b>	<b>1211</b>	<b>1183</b>	<b>1144</b>	<b>1130</b>	<b>1146</b>	<b>6.8%</b>
<b>Trend</b>	<b>696</b>	<b>749</b>	<b>806</b>	<b>867</b>	<b>932</b>	<b>1003</b>	<b>1079</b>	<b>1161</b>	<b>1249</b>	<b>1395</b>	
<b>Gozo</b>						<b>857</b>	<b>841</b>	<b>913</b>	<b>988</b>	<b>853</b>	<b>1.5%</b>

*Source:DHlperiti in-house valuations*

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# MALTA AFFORDABLE PROPERTY IN €/M<sup>2</sup> OVER THE PAST 29 YEARS

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Housing Bubble occurs if:

Doubling during a 5 – year period 2002 – 2007

50% increase over a 3 – year period 2002 – 2005

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# SEAFRONT PROPERTY COMPARED WITH INTERNAL PROPERTY OVER A 6 YEAR PERIOD IN €URO/SQM

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	2006		2007		2008		2009		2010		2011	
Location	front	internal	front	internal	Front	internal	front	internal	front	internal	front	internal
M,scala	1473	1032	1696	1001	1413	985	1186	918	957	826	2307	948
Sliema	3246	1383	2602	1373	3296	1380	3428	1322	3311	1263	3086	1398
St Julians	1575	1245	2973	1322	2856	1299	2991	1327	2905	1311	4067	1286
Gozo					1705	841	1484	913	988	988	1462	853
	2098	1220	2424	1232	2522	1221	1088	1189	2391	1134	3153	1211

Source: DH Camilleri in-house valuations 2011

These up-market developments may be compared to similar developments in London at €45,000/m<sup>2</sup>, Paris at €30,000/m<sup>2</sup>. Madrid & Sydney at €8,000/m<sup>2</sup>, Edinburgh & Prague at €6,000/m<sup>2</sup>, whilst Croatia, Ibiza and the Algarve attract the same Malta price tag at €4,000/m<sup>2</sup>. On the other hand, Hong Kong, Singapore and Cyprus attract a €20,000/m<sup>2</sup> market rate. The wealthiest location is Monaco at €50,000/m<sup>2</sup>.

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# MECHANICS OF THE PRICING OF AN AFFORDABLE HOME

*Profit 17.5%                      €200/m<sup>2</sup> \**

*Airspace                              €300/m<sup>2</sup> \*\**

*Development Costs €650/m<sup>2</sup>*

*2011 Value                      €1,150/m<sup>2</sup>*

*\*least 12% €140/m<sup>2</sup>*

*\*\* (1985 €12/m<sup>2</sup>, 1995 €80/m<sup>2</sup>, 2007 €360/m<sup>2</sup>)*

# HOUSING AFFORDABILITY INDEX FOR THE MALTESE ISLANDS - HAI

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Year	Mortgage Monthly Payment		Medium Family Income**	Qualifying Monthly Income		Ratio of Qualifying Family Income		HAI		House Price: Earnings Ratio
	3-bed/2-bed/r			3-bed/r	2-bed/r	3-bed/2-bed/r		3bed/r	2bed/	
1982	€140	€ 56	€ 229	€559	€ 391	1.3	0.91	77	110	4.28
1987	€161	€114	€ 564	€643	€ 457	1.14	0.81	88	123	4.23
1992	€252	€168	€ 745	€1006	€ 531	1.35	0.90	74	111	5.27
1997	€384	€247	€ 995	€1537	€988	1.55	0.99	65	101	5.80
2002	€394	€263	€1215	€1575	€1057	1.29	0.86	77	116	5.60
2007	€673	€478	€1738	€2152	€1670	1.35	1.01	74	104	6.97
2008	€615	€410	€1798	€2152	€1435	1.20	0.80	84	125	6.58
2009	€478	€319	€1872	€1673	€1118	0.89	0.60	112	168	6.11
2010	€472	€315	€1914	€1652	€1102	0.86	0.58	116	174	5.99

*An HAI of 100 according to the US National Association of Realtors' signifies that a family earning the median household income just qualifies for a median residence, whilst with a HAI of less than 100 signifies that the median family has to do away with other necessities.*

*\*\*the median family income is factored at 1 for 1982, and by 1.35 for 2002 increasing to 1.60 for 2010 to account for the effect of the 2<sup>nd</sup> wage earner.*

*Source: updated table Camilleri 2000 Housing & Poverty in Malta.*



# HOUSING DATA 2009 FOR SIMILAR STATES

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	Market Rate €/m <sup>2</sup>	Median monthly household income euro	Mortgage rate	Price: earnings ratio.
Malta	1,350	1,775	3.5%	6.11
Cyprus	1,600	2,000	4.5%	5.13
Hong Kong	4,000	1,050	2.0%	14
Singapore	1,350	2,250	2.25%	4.80

A little property bubble occurs if  $P/E < 6$

Serious property bubble occurs if  $P/E > 10$

Malta's property bubble -

characterized as serious but not substantial  $P/E$  2007 – 6.97

# CONTRACTS, AVERAGE PRICES OF TOTAL AND MARRIAGES/SEPARATIONS

Year	No of annual Contracts	Average Price €	% of National GDP at current market prices	Annual Marriages	Separations & Annulments
1982	13,281	€ 8,772	9.7	2475	
1987	9,388	€ 12,182	8.5	2535	
1992	11,642	€ 12,410	7.1	2377	303
1997	9,300	€40,836	12.7	2370	275
2002	12,394	€70,738	22.2	2240	375
2006	10,252	€82,068	17.1	2536	447
2008	9,033			2482	738
2009	8,734			2353	731

Source: Ministry of Justice and Home Affairs, Annual Reports

# RESIDENTIAL DEVELOPMENT PERMITS

## DEVELOPMENT PERMITS FOR DWELLINGS OVER THE INTERCENSAL PERIOD

YEAR	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>APPROVED DWELLINGS</b>	4229	3351	3411	3004	2273	2369	4180	5481	6128	6707	9081

Source: Malta Environment and Planning Authority

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

YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Number of total Units</b>	3970	4180	5481	6128	6707	9081	10409	11343	6836	5298	4444
<b>Apartments approved</b>				4548	5265	7539	8961	10252	6184	4616	3736

Source: BICC State of the Construction Industry Report 2005

# RENTAL VALUES FOR VARIOUS LOCALITIES AS A % OF MARKET VALUE

Locality	Rental value as % of market value - 1997	Rental value as % of market value - 2004	Rental value as % of market value - 2007	Rental value as % of market value - 2011
Bugibba – internal	8%	3.6%	3.25%	3.45%
Qawra - internal	8.5%	4.3%	2.75%	3.61%
Sliema front	5.5%	2.0%	3.5%	3.07%
Sliema inner	5.5%	4.1%	4.5%	4.03%
St Julian's	7.5%	3.5%	3.75%	5.11%
Swieqi	7.0%	4.15%	4.175%	4.2%
<i>Source: Dhi Periti in-house valuations</i>				

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

A real return of 4% from capital value housing rents has long been settled upon.

# NO OF AIP PERMITS ISSUED, WITH AVERAGE PRICE IN EURO COMPARED TO AFFORDABLE PROPERTY RATE (SLIDES 2 & 3).

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YEAR	PERMITS –	AVERAGE VALUE	PRICE €/SQM	AFFORDABLE PRICE€/SQM
1982	175	€28,080	207	163
1987	351	€24,151	179	212
1992	315	€46,261	342	349
1997	163	€80,752	599	512
2002	465	€163, 962	1,214	629
2003	669	€162,756	1,204	692
2004	705	€145,993	1,081	841
2005	400	€294,130	2,261	1,030
2006	399	€205,753	1,581	1,209
2007	478	€209,783	1,612	1,211
2009	211	€201,514	1,549	1,144

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# COMMERCIAL PROPERTY DATA

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Property type	Rental range of the €/m <sup>2</sup>	Capital Appreciation over 15 years	European best positioned Average rentals in €/m <sup>2</sup>	European Prime Yields
<i><b>Industrial</b></i>	Up to €60	7.50% pa	€80/m <sup>2</sup>	5.25% - 7.25%
<i><b>Offices</b></i>	€7 - €544	6.00% pa	€385/m <sup>2</sup>	4.25% - 6.25%
<i><b>Retail</b></i>	€70 - €400*	6.75% pa	€1,400/m <sup>2</sup>	4.75% -6.75%

\*This value applies for shopping malls, as prime street frontage retail units could fetch a maximum rental amount of €1250/m<sup>2</sup>, even topped up to €3250/m<sup>2</sup> for speciality shopping, where it appears that this amount is paid more for the Company's Corporate image, than based on amount of turnover generated.

# MECHANICS OF THE COMMERCIAL PROPERTY MARKET VIA THE INVESTMENT METHOD

## Office Rentals:

10% of employees earnings who occupy 12m<sup>2</sup> of floor area

Average Malta wage €300/wk

Office rental 10% of €300/wk X 52wks/12m<sup>2</sup> = **€130/m<sup>2</sup>**

Managerial Malta wage = €500/wk

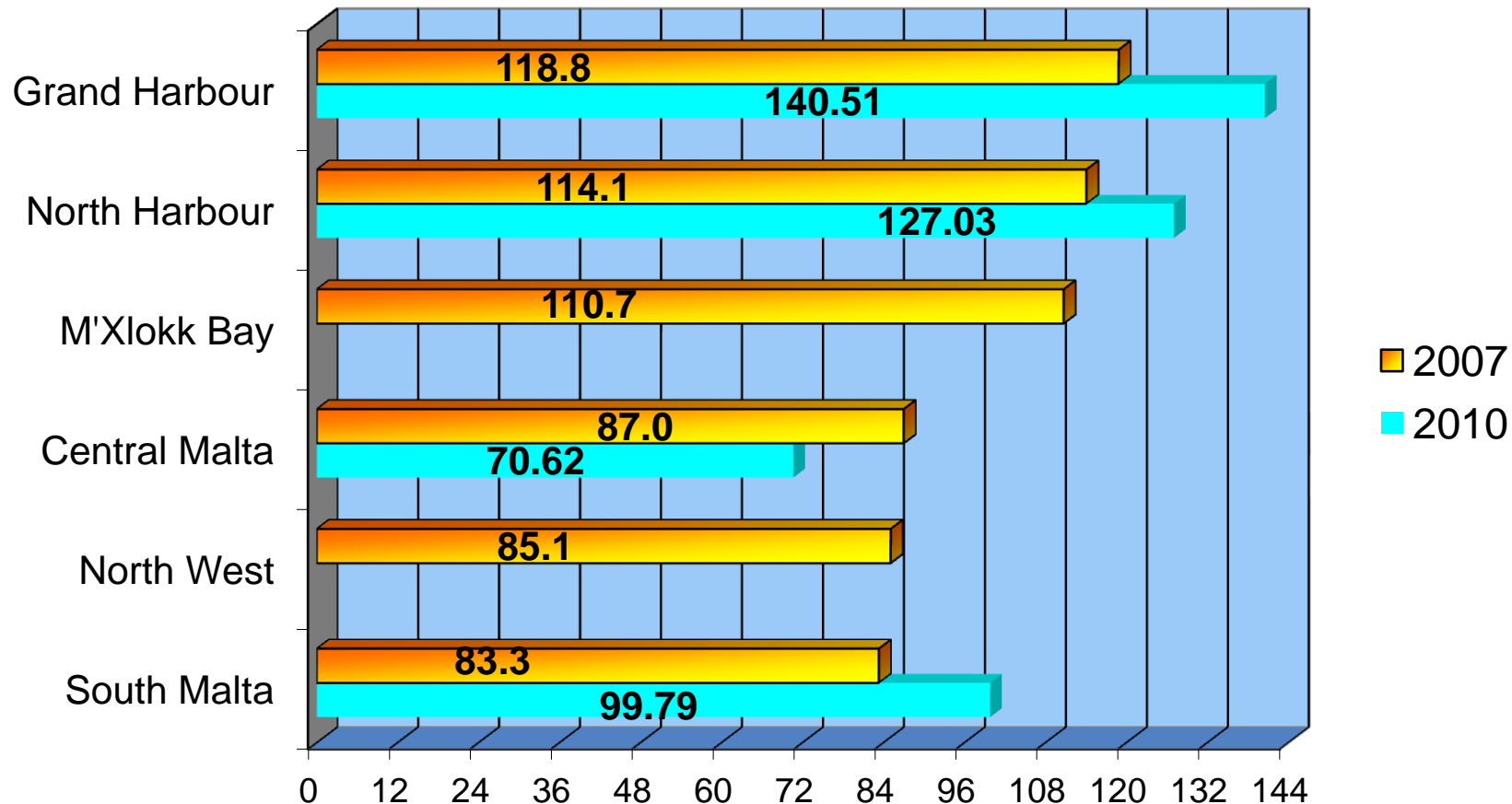
Office rental 10% of €500/wk X 52wks/12m<sup>2</sup> = **€217/m<sup>2</sup>**

## Retail Rental Values:

average out at 7% of annual turnover This again depends on footfall.

# RENTAL RATE AS PER LOCAL PLAN IN €/M<sup>2</sup> - COMPARISON BETWEEN 2007 AND 2010

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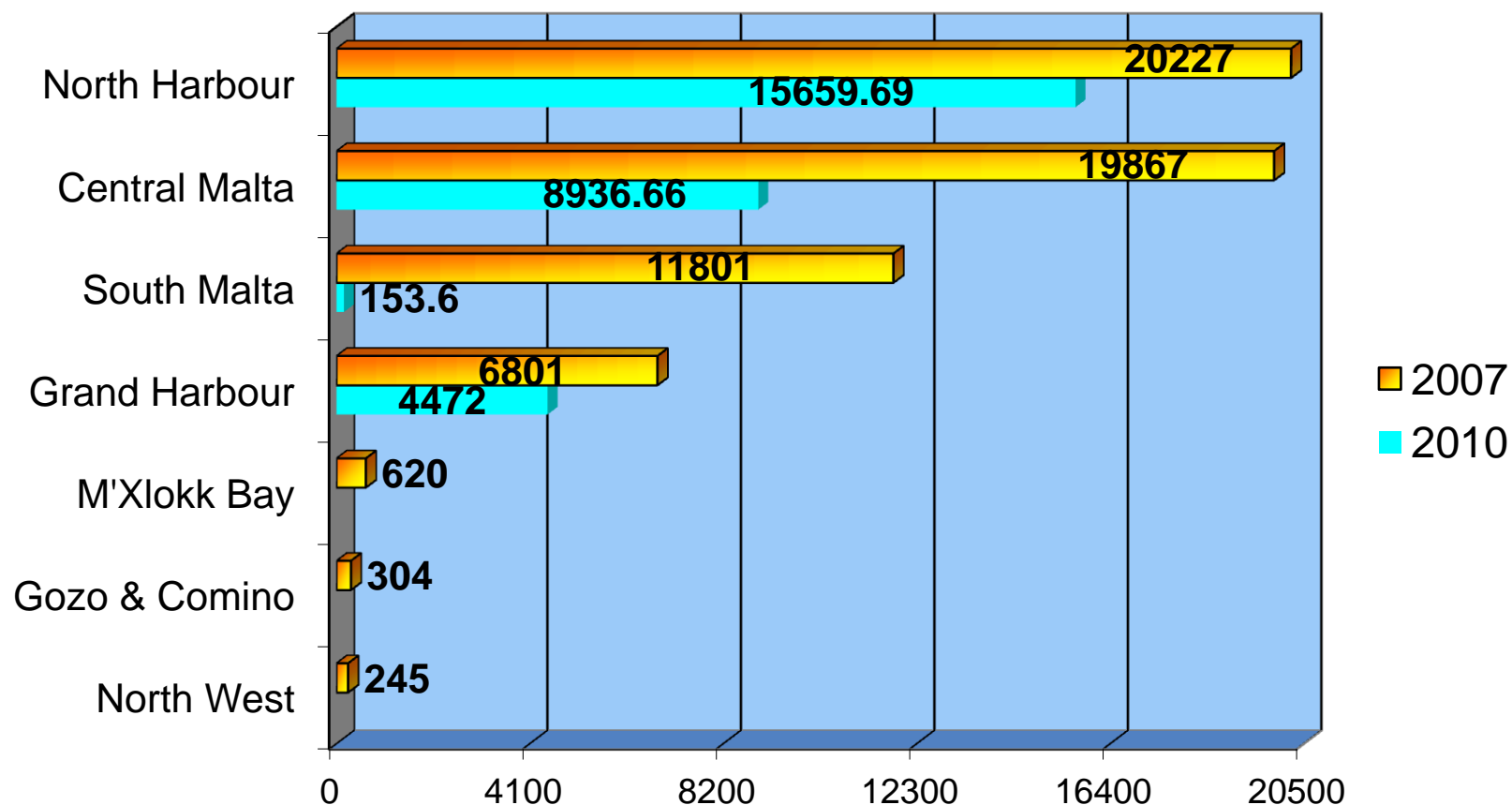


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# TOTAL AVAILABLE FLOOR AREA AS PER LOCAL PLAN IN M<sup>2</sup> – COMPARISON BETWEEN 2007 AND 2010

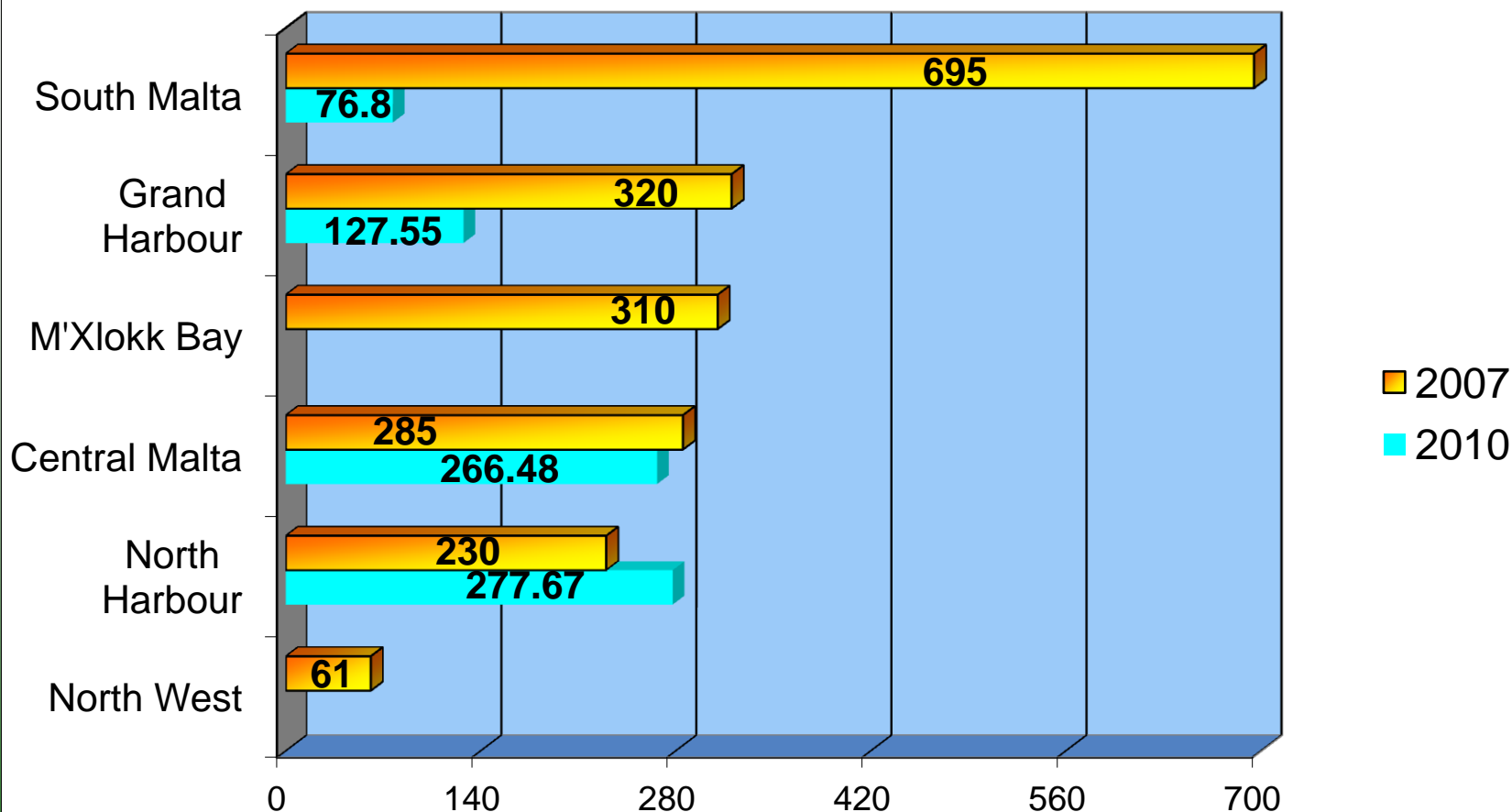
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# AVERAGE FLOOR AREA AS PER LOCAL PLAN IN M<sup>2</sup> – COMPARISON BETWEEN 2007 AND 2010

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# VALUATIONS BASED ON OPERATIONAL PERFORMANCE OF BUSINESS TRADING PROPERTIES

- Hotels
- Petrol Stations
- Private Hospitals/Care Homes

The most important figure to determine in this **Profit's Method of Valuation** is the “adjusted net profit” that the existing premises is capable for producing and then adds back any items that are personal to the individual operator, which includes finance & depreciation charges. This figure is known as EBITDA(earnings before interests, Taxes, depreciation & amortization). This goes beyond the relative simplicity of the cost and the sales comparison approaches by attempting to relate the wealth-generating capacity of the trading property to its value.

# AGRICULTURAL PROPERTY

Land is a very scarce commodity in Malta and thus it is no surprise that agricultural land values have been increasing in Malta at 15% p.a. over the past 25 year-period.

## Range of advertised prices (€/tomna) in Estate Agents' lists

	Advertised Lists	Present Market Values	Bare Agricultural Land
<b>MALTA</b>	€13,000 - €625,000	€6,000 - €70,000	€9,250 (€8.25/m <sup>2</sup> )
<b>GOZO</b>	€7,000 - €435,000	€5,000 - €60,000	€4,500 (€4.00/m <sup>2</sup> )

This farmland in the UK averages out at €1,500/tomna as compared to Malta's bare agricultural land which has been valued at €9,250/tomna. On the other hand the average yield of agricultural leases is taken at 1% for Malta, whilst this is given at 2.3% for the UK

# WHAT ARE THE IMPLICATIONS OF PROPERTY?

## The Case for Property:

Property is negatively related to equity & gilts. Therefore, including property will enhance portfolio returns & reduce risk.

Property offers more opportunities for active management than equity & gilts. The only way to improve performance on the latter 2 investments is to sell & purchase something else. With property you can restructure the lease, marriage value refurbishment & finally re-development

# CORRELATION BETWEEN ASSET CLASSES

## 1987-1995

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	Property Direct	Property Companies	Gilts	Shares
Property Direct	1.0	-0.01	-0.38	-0.09
Property Companies		1.00	N/A	0.80
Gilts			1.0	0.78
Shares				1.00

Note: The correlation coefficient varies between 0 (not strong) and 1 (strong) and may be positively or negatively (- in table) correlated

**However, property companies exhibit high correlation with the stock market and low correlation with the direct property market, capturing only a small portion of direct property market returns.**

# AVERAGE RETURNS & RISK FOR PROPERTY 1987 – 1995

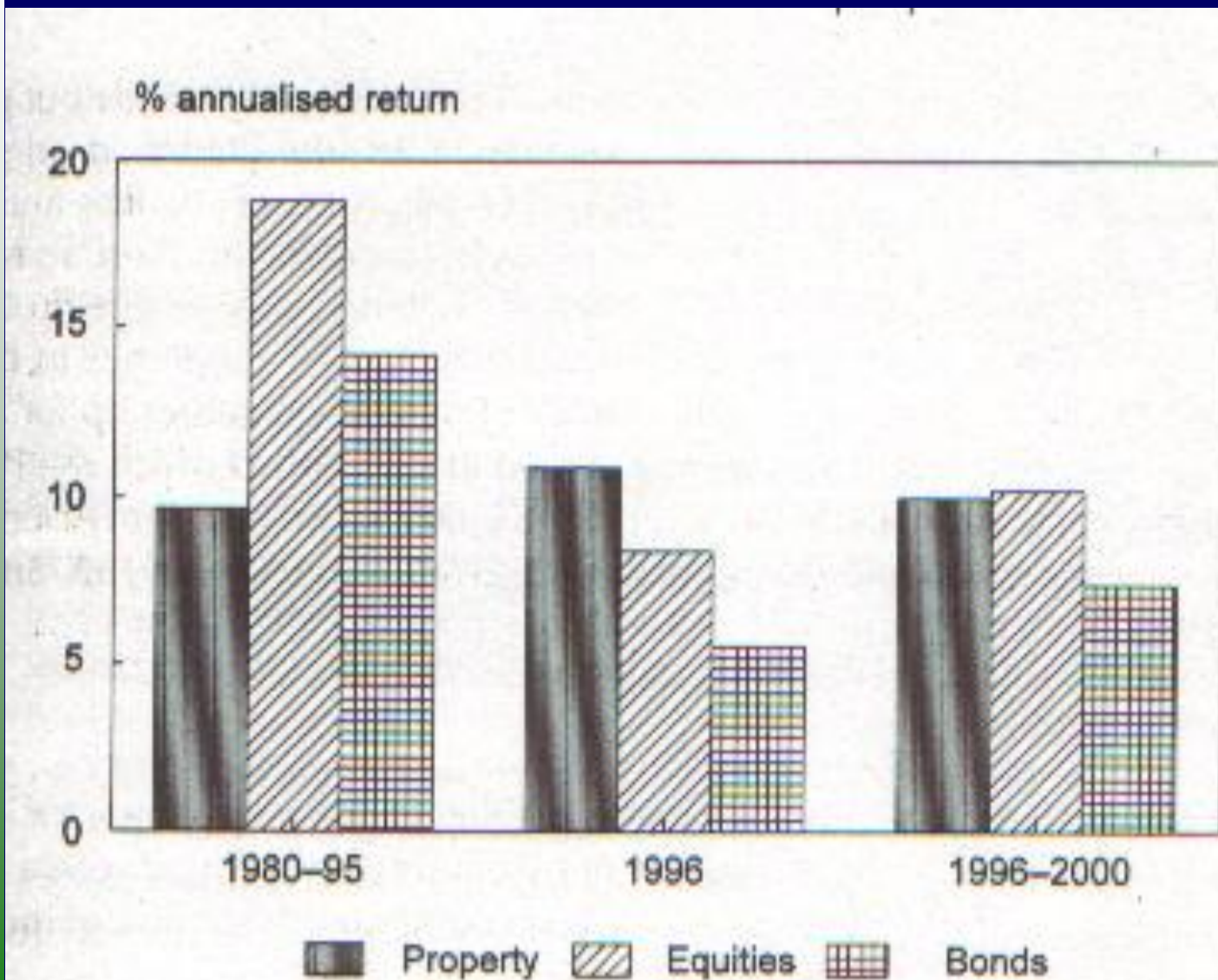
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SECTOR	AVERAGE RETURN %	STANDARD DEVIATION %
Direct Property Total	10	3.64
Offices	8.7	4.56
Retail	9.4	3.13
Industrial	14.2	4.17
Property Companies	13.3	23.57
Equities	15.7	18.71

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# COMPERATIVE PERFORMANCE OF INVESTMENTS

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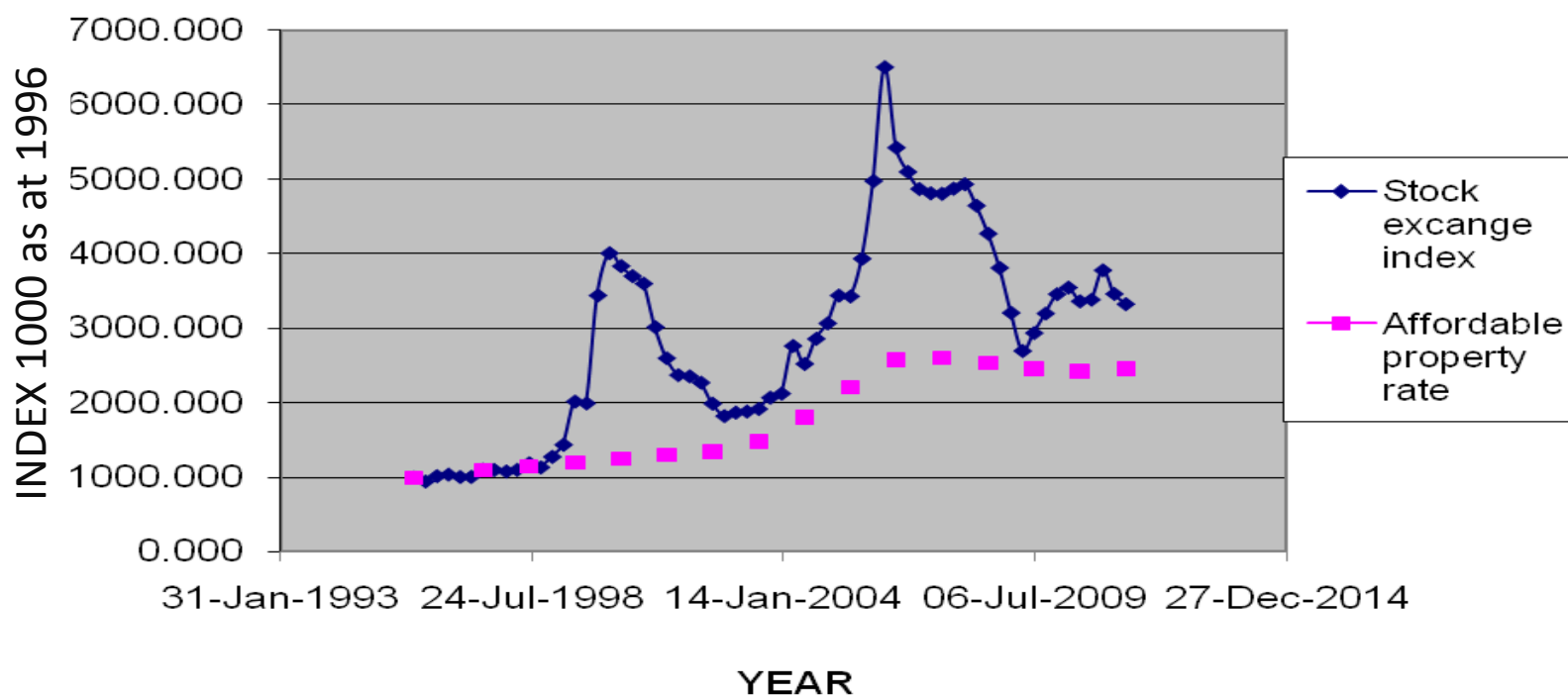


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# PROPERTY vs. STOCK EXCHANGE INDEX 1996 - 2011

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*The Affordable Property Market Index has been compiled from Slides 2 & 3, whilst the Stock Exchange Index has been compiled from the database provided by the Stock Exchange on its website*