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Property market mechanisms of the Maltese islands 2018

MAIN REPORT

Introduction

The total population includes both Maltese and non-Maltese nationals. Of the total population of 475,701(NSO 2018) persons up by 3.3 per cent when compared to 2016, 37,717, or 7.9 per cent, are non-Maltese nationals, an increase of 211 per cent over 2005 Census, where the number of non-Maltese nationals stood at 12,112, or 3 per cent, of the total population. In 2005 the population stood at 404,962. In the last census held in 2011, the population grew by 2.7 per cent to 417,432, indicating a slowdown in population growth with an average annual increase of 1,849 compared to nearly 2,700 evidenced in the previous decennium.*(Source: Census 2011).* The total population of Malta at the end of 2013 stood at 425,384, up by 1.0 per cent when compared to 2012 *(NSO News Release July 2014).* The total population of Malta at the end of 2014 stood at 429,344, up by 0.9 per cent when compared to 2013*(NSO News Release July 2015).*

The number of foreigners residing in Malta in 2017 stood at 37,717. This comprised nearly 43% being citizens of another EU member state, with third country nationals TCN's standing at 44%. From the 30,000 EU nationals working in Malta, Italians top the list at almost 8,000 (of whom about 1,500 are in the catering industry), followed by just under 5,000 from Britain. With over 5,000 foreign EU nationals, the arts, recreation and entertainment industry (i-Gaming predominantly) attract the highest number. 2017 experienced the highest positive net migration for a decade standing at 14,523 persons.

Foreign nationals settling in Malta last year outnumbered the natural Maltese population increase 20-fold. Malta's population in 2013 stood at just over 422,000 with net immigration then accounting for 6,000. Within two years, net immigration rose to 10,000 and reached 14,523 last year, the highest positive net migration for a decade. It is a trend which is set to continue. The NSO further notes that, more males are residing in Malta than females. This is partly due to the 21,543 who immigrated to Malta 58% are noted as males. Similarly for the 7,020 persons who emigrated from Malta 56% are again noted as males. Of these in 2014, 547 were noted as irregular immigrants arriving with 5 boatloads, a far cry from 2008 when this totaled 80 boatloads.

As opposed to population size, Malta by far ranked first among all EU Member States in terms of population density, with an average 1,507 persons per square kilometre, compared with the EU average of 117 persons per square kilometre. The second most densely populated country within the EU was the Netherlands, with 495 persons per square kilometre, whereas Sweden was the least densely populated with an average of 23 persons per square kilometre.

The high density rate was even more pronounced when analysed at regional and locality level. Mainland Malta was more densely populated than Gozo, with an average 1,602 persons per square kilometre, compared with Gozo's 557 persons per square kilometre, as per the 2014 Demographic Review.

Due to its strategic location and its high population density, Malta may be compared to Singapore and Hong Kong. However, this is where the comparison ends, as in its housing, Malta's is largely privately owned unlike Singapore's and Hong Kong's housing.

The Characteristics of the Housing Market over the past 65-year period.

This has been a period of high Homeownership, varying from just over 50% up to 77% over this period. This was not always such a high percentage when in 1948 this registered a mere 23.1 %, as noted in table 1.

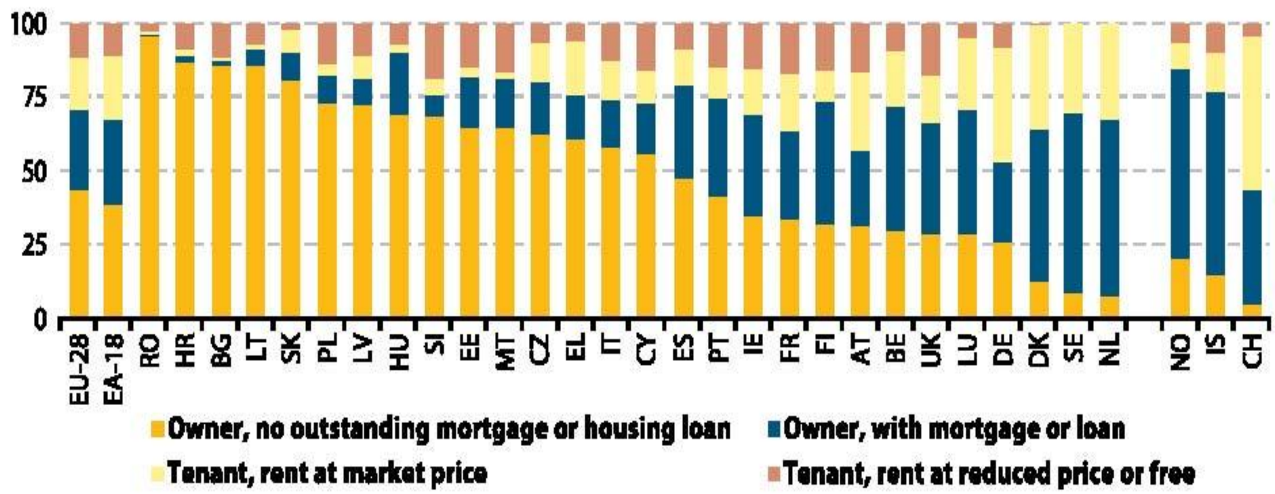
TABLE 1: HOMEOWNERSHIP RATE AS AT CENSUS DATE

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

In 2011, over one quarter (27.6 %) of the EU-27 population lived in an owner-occupied home for which there was an outstanding loan or mortgage, while more than two fifths (43.1 %) of the population lived in an owner-occupied home without a loan or mortgage. As such, just over seven out of every ten (70.7 %) persons in the EU-27 lived in owner-occupied dwellings, while 18.1 % were tenants with a market price rent, and 11.2 % tenants in reduced-rent or free accommodation.

More than half of the population in each EU Member State (see below) lived in owner-occupied dwellings in 2011; ranging from 53.4 % in Germany up to 96.6 % in Romania. In Switzerland, the proportion of people who lived in rented dwellings outweighed those living in owner-occupied dwellings; some 56.1 % of the population were tenants. In Sweden (65.9 %), the Netherlands (59.6 %) and Denmark (52.7 %) more than half of the population lived in owner-occupied dwellings with an outstanding loan or mortgage; this was also the case in Norway (63.0 %) and Iceland (62.7 %). In Malta the population that lived in owner occupied dwellings with a mortgage stood at 20%

CHART 1 - HOME OWNERSHIP RATES FOR EU COUNTRIES



Source: Eurostat (online data code: ilc_lvho02)

This high homeownership was helped by an efficient mortgage market over this period with the mortgage rate varying from an initial stable 8% in a period of high global inflation rates, when similar overseas mortgage rates were above 12%, to the recent low mortgage rate of 3.15%.

A drop in the home ownership rate over the coming years is a possibility, due to prospective households harboring the idea of renting out instead of taking out a mortgage, due to the new affordability issue as revolving around the initial expenses issue. See section on Housing Affordability Index for more details.

The economic importance of the property market is related to the National GDP with a high 8% slice obtained from the Construction Sector due to the multiplier effect as evidenced in 2006, having a beneficial effect on other sectors, whilst the Real Estate sector is only 2nd in the importance of the compilation of the GDP. To date this effect although still important has a reduced effect due to the calming of the property market, especially in the residential sector. Table 2 now notes the importance of the Construction Sector and the Real Estate sector over the period 1980 – 2014.

TABLE 2 – PERFORMANCE OF CONSTRUCTION & REAL ESTATE ACTIVITIES OVER THE YEARS

	CONSTRUCTION			**REAL ESTATE ACTIVITIES**		
	1995	**2004**	**2014**	**1995**	**2004**	**2014**
BREAKDOWN OF VALUE ADDED	6.14%	7.76%	4.03%	5.68%	6.64%	5.59%
BREAKDOWN OF EMPLOYMENT	4.71%	6.37%	5.66%	0.28%	0.31%	0.32%

Source – Grech A.G, The Diversification of the Maltese Economy, CBM – 2015

Table 3 now notes the salubrious effect of both the Construction Sector and the real estate Sector with regard to the multiplier effect and their effect on job creation.

TABLE 3 - VALUE ADDED AND EMPLOYMENT MULTIPLIERS: SELECTED SECTORS*

	Value Added	Employment
Construction	0.8	32
Real estate	1.0	7
Public administration	1.3	39
Education	1.5	56
Financial Services	1.2	32
Computer programming	0.9	18
Gambling & betting	0.6	7
Legal & accounting services	1.1	24
Manufacture of electronics	0.3	7
Manufacture of pharmaceuticals	0.8	12

*The multipliers show the impact on value added and employment of a €1 million increase in exogenous final demand for that sector. For instance a €1 million increase in the demand for electronics would generate a €0.3 million increase in gross value added in the economy and generate 7 additional jobs.

Source: Cassar (2015).

Affordable Housing over the past 36-year period

Affordable Housing is related to the ability to pay. This as opposed to social housing, where the State helps out those, not having the ability to pay for their accommodation. Affordable housing costs should not exceed 35% of gross household income. This signifies that households who would have to spend more than 1/3 of their net income to purchase a starter home are eligible for a housing sale at below market value. To be noted that normally financial institutions do not accept that the borrower pays more than 25% of the household income towards mortgage monthly repayments.

Over the past 36 year period 1982 – 2018, as per tables 4 and 5, it is noted that affordable house prices have increased by 1040%. Doubling in price occurred over the initial 10-year period 1982 - 1992, doubling again in price over the subsequent 10-year period 1992 - 2002 and then nearly doubling again in price over the 5-year period 2002-2007. Over the past 11-year period, the housing price in 2018 is 53% above the 2007 value. On the other hand 8% of this increase occurred over 2017 – 2018, reducing to 6.3% over the trend value. The affordable house price growth over the 36 year period 1982 – 2018, stands at 6.62% pa as per table 4, decreasing to 4.11% pa over the past immediate 15-year period, as per table 5. The above, is to be compared with the gut feeling that growth rates for Maltese properties used to double in value over every 10 to 12 year period. This signifies that doubling of property values over this period will double over an 18 -year period

Table 4 further notes that for 2018 a 58% differential in market rate exists between the most expensive district St Julians and the less expensive is the Fgura/Paola/Zabbar district. This differential has not surpassed 100% unlike last year's value of 116%. This is due to the rise in the market rate for the Fgura/Paola/Zabbar district.

TABLE 4: AFFORDABLE PROPERTY RATES €/SQM FOR THE MALTESE ISLANDS OVER A 36 YEAR PERIOD

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

Source: DHIperiti in-house valuations 2018

Further over the years, the affordable accommodation floor area has been shrinking, with a 3 bed/r apartment in 1982 having an average floor area of 135sqm, reducing by 2015 to 105sqm, whilst a 2 bed/r apartment in 1982 having an average floor area of 95sqm reducing to 80sqm by 2015. The MEPA (DC2014) document notes the minimum floor areas are being proposed from 45sqm to 55sqm for a 1-bed/r apartment, 76sqm to 90sqm for a 2 bed/r apartment & 96sqm to 115sqmfor a 3 bed/r/apartment

Over the initial 5-year period, 1982 -1987 this growth rate stood at a low of 5.4% pa. Over the next 5-year period, 1987 – 1992 this growth rate increased to 10.5%, whilst for the following 5 year period 1992 -1997 it stood at 8% pa, easing off to its lowest in the following 5-period 1997 -2002 to 4.2%pa. Table 4 notes double figure growth rates averaging 20% pa as existing in the period 2003 - 2006. In 2008, a decrease in value is recorded for the first time under this 36-year period. Leveling off in values is noted in the years 2007 – 2012, signifying that the previous 5-year double figure growth rate has now been registered as an overall loss of 6.79%. This is not considered as drastic as residential property losses as registered in America or Europe where drops exceeding 30% - 60% had been noted. It is further noted that as from 2013 property values were again registering increases with the previous 2007 property values, again registered in 2018.

Table5: Affordable Property Rates €/sqm for the Maltese Islands Over the past 15-Year Period

Locality	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	% growth rate Pa 2003-2018	% growth rate Pa 2013-2018
Fgura / Paola / Zabbar	466	575	678	762	928	987	961	948	971	906	893	961	1038	999	1016	1137	1493	3.74%	7.38%
M'Scala	505	601	808	864	1032	1001	984	917	826	948	881	886	980	992	998	1260	1585	3.12%	11.05%
Mosta / Naxxar	524	650	929	967	1149	1242	1176	1147	1154	1105	1167	1196	1180	1337	1443	1545	1649	3.91%	7.37%
San Gwann	557	666	752	969	1251	1092	1100	981	965	1026	962	1111	1076	1022	1152	1558	1742	3.58%	10.45%
Sliema inner prime	883	820	929	1316	1381	1373	1380	1322	1263	1398	1402	1361	1457	1720	1756	2459	2303	5.11%	12.81%
St. Julians	687	724	839	1267	1246	1321	1299	1327	1311	1286	1186	1261	1311	1369	1447	1998	2360	4.63%	13.57%
Swieqi	785	806	948	1058	1430	1473	1378	1367	1418	1348	1443	1399	1376	1535	1539	2027	1864	4.04%	7.71%
Malta	**629**	**692**	**841**	**1030**	**1202**	**1211**	**1183**	**1144**	**1130**	**1146**	**1134**	**1168**	**1203**	**1282**	**1336**	**1718**	**1856**	**4.11%**	**10.29%**
Trend	**658**	**704**	**752**	**804**	**860**	**920**	**983**	**983**	**1130**	**1146**	**1134**	**1509**	**1566**	**1521**	**1695**	**1802**	**1920**	**7.01%**	**5.08%**
Gozo	**432**					**857**	**841**	**913**	**988**	**853**	**903**	**916**	**906**	**1029**	**1017**	**1106**	**1095**	**2.30%**	**4.32%**
Table 3: Affordable Property Rates €/sqm for the Maltese Islands Over the past 16-Year Period																			

Table 5 relating to the period 2003 – 2018, notes the average annual growth of 4.11% pa (Table 5), as reduced from the 36-year registered growth of 6.62% (Table 4). The town of M'Scala offered a lower annual growth over the past 15-year period, with all the other localities witnessing a growth rate higher than 3.5%pa. Most of the regions noted an increase over 2018, however, Sliema and Swieqi prices have dropped by 6.34% and 8.04% respectively from the previous year.

Properties located in the South of Malta have always experienced the lowest property values. Tables 4 & 5 note that up to 2007 the lowest property market rate was located in the Fgura, Tarxien, Zabbar, however since 2008 the lowest market rate is being experienced in M'Scala. According to the 2011 Census Fgura, Zabbar & Tarxien have all experienced nominal population growths over the inter-censal period. However M'scala over this inter-censal period has witnessed an 18.3% growth. This is not surprising as this region provides the most affordable properties.

Malta's affordable property annual increases for 2013 at 3%, 3% for 2014 & 6.5% for 2015, following a total drop in value of 6.36% over the years 2007-2012, is to be compared to what is happening over the globe.To be further noted however, that the affordable property rate in Gozo at €1,095/sqm for 2018 has decreased slightly by 1% over its 2017 value. It is to be noted that Gozo over the past 16-year period has been subjected to a 4.56% pa increase in value, as compared to Malta which has been subjected to a 4.69% annual increase in value over the same period. The Maltese 2nd home market carries a positive outlook on the Gozo property market, with the Gozo market standing at 59% of the Maltese value.

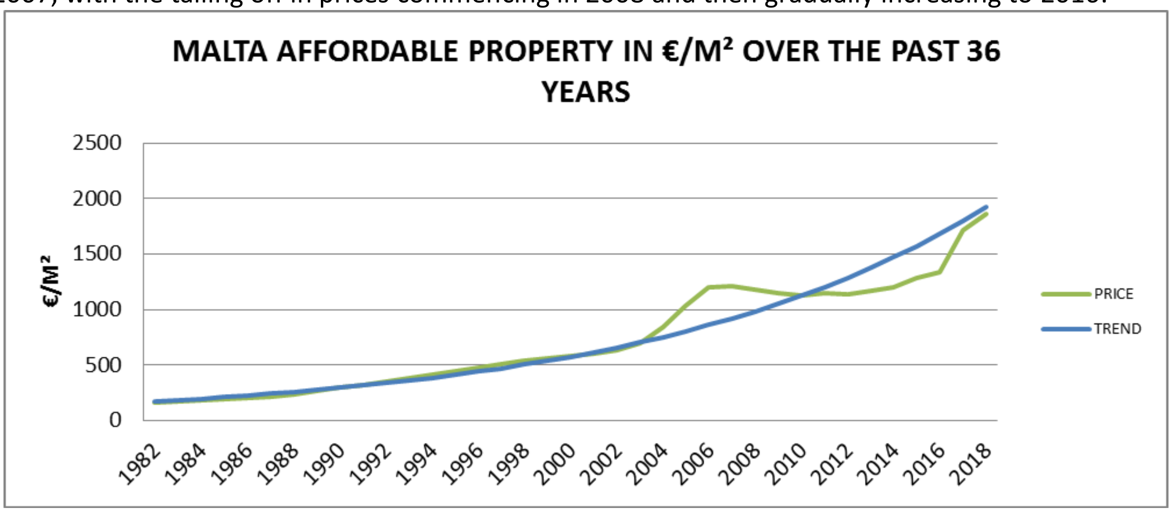
Housing Bubbles & Trend Line.

A housing bubble is said to occur if:

Real prices have at least doubled during a 5-year period, table 5 above notes that this has occurred for Malta from 2002 – 2007.
Real prices have increased with at least 50% during a 3-year period. Table 5 again demonstrates this to have occurred from 2002 – 2005 & again from 2015 -2018.

Thus, Malta's residential market had been subjected to a property bubble as from 2002 up to 2007, correcting it in 2010. On the other is another property bubble presently being initiated in the affordable market? As noted further down in the HAI section, this bubble was not considered too serious, but substantial.

CHART 2 reflects the affordable Maltese property growth rate over the past 36 years, with an average growth rate over this period of 6.6% pa. This figure shows the peak in market prices to have been reached in 2007, with the tailing off in prices commencing in 2008 and then gradually increasing to 2016.



The Trend line plotted over this period as per Chart 2 shows that the property market line coincides in the initial years 1982 – 1997 with the trend line, but underperformed for the period 1997 – 2002 as outlined above. Over the period 2004 – 2008 as per Table 5 the property market had overshot the trend line with the actual value for 2006 standing at €1202/sqm as compared to the expected growth over the past 24 year period, which worked out at €959/sqm. This discrepancy in values signified that a purchase undertaken in 2006 for an affordable property was purchased at a price 36.75% higher than the trend value. On the other hand in 2016 an affordable property is being purchased 21% cheaper than the trend line value as noted in table 5. In 2018 affordable property is being purchased only 3.333% below the trend line. In 2019 it is anticipated that affordable property prices will go above the trend line, thus being more expensive.

Chart 2 now notes that the bust property cycle is again on its upswing, with a housing affordability problem again looming ahead. This will possibly occur in the coming year, if measures are not taken to counteract this Housing Affordability dilemma. (See HAI section on page 11). Discussions are presently ongoing on the provision of affordable housing based on 30% - 60% of the present market values.

The Maltese Up market Housing Market.

This market is defined as those properties which attract a market rate 2.5 X higher than the affordable market.

The above average affordable Malta house rate of €1,856/sqm is to be compared with the up market residential developments that presently average out at €4,747/sqm, with the top end in the €6,422/sqm bracket, whilst the same up market Gozo rate averages out at €1,924/sqm, as noted in table 6. Furthermore, the annual growth rates of these up market developments have been subjected to growth rates varying from 15% pa down to 1% pa, as compared to the comparable growth rate for affordable properties over the same 36-year period at 6.6% p.a.

TABLE 6: SEAFRONT PROPERTY COMPARED WITH INTERNAL PROPERTY OVER A 12 YEAR PERIOD IN EURO/SQM.

	2006		2007		2008		2009		2010		2011		2012		2013		2014		2015		2016		2017		2018	
Location	**front**	**int**	**front**	**int**	**front**	**int**	**front**	**int**	**front**	**int**	**front**	**int**	**front**	**int**	**front**	**int**	**front**	**int**	**front**	**int**	**front**	**int**	**front**	**int**	**front**	**int**
M'Scala	1473	1032	1696	1001	1413	985	1186	918	957	826	2307	948	-	881	802	886	693	980	1492	992	2763	998	2118	1260	2147	1585
Sliema	3246	1383	2602	1373	3296	1380	3428	1322	3311	1263	3086	1398	3706	1402	2381	1361	4591	1457	4063	1720	7417	1756	6728	2459	6422	2541
St Julians	1575	1245	2973	1322	2856	1299	2991	1327	2905	1311	4067	1286	1963	1186	2460	1261	2478	1311	4300	1396	5610	1447	4927	1998	5672	3272
Gozo					1705	841	1484	913	988	988	1462	853	1548	903	459	916	0.00	906	2245	1029	1996	1017	1854	1106	1924	1095
Malta	2098	1220	2424	1232	2522	1221	1088	1189	2391	1134	3153	1211	2835	1157	2420	1169	2587	1249	3285	1249	5263	1249	4591	1906	4747	2466

Source: DH Camilleri in-house valuations 2018

The prime residential property market, with this related to wealth is not subjected to the same market influences as that of the affordable market. The prime market, which is fixed in demand, is influenced by the same trends as in the luxury retailing. In general, over a long time span luxury prices have been rising every year by an additional 2.6%, compared to general prices, confirming the superior growth rates for Maltese prime properties as noted above. Wealth exists in Malta, providing for the need of a prime residential market, whereby growths are above the mainstream growths. As wealth increases, luxury products and services continue to rise in value, as they are more desirable the more expensive they are, with prime property being the ultimate product.

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

Q2 2018: Global house price boom - strong house price rises continue in Europe and parts of Asia

During the year to Q2 2018:

- House prices rose in 25 out of the 39 world's housing markets which have so far published housing statistics, using inflation-adjusted figures.
- The more upbeat nominal figures, more familiar to the public, showed house price rises in 32 countries. House prices fell in only 6 countries and remained stable in 1 country.

Most of Europe continues to experience strong price rises, especially Ireland and the Netherlands. In Asia Hong Kong and Macau have risen strongly over the past year. There have also been notable turnarounds in Thailand, Egypt, and Puerto Rico. But China, Ukraine, and most of the Middle East are experiencing either house price falls - or a sharp deceleration of house price rises.

The strongest housing markets in our global house price survey during the year to Q2 2018 included: Hong Kong (+13.15%), Ireland (+11.57%), Netherlands (+7.24%), Macau (+6.31%), and Mexico (+5.12%) using inflation-adjusted figures.

The biggest y-o-y house-price declines were in Qatar (-16.91%), Kiev, Ukraine (-7.81%), Dubai, UAE (-7.63%), Turkey (-4.21%), and Shanghai, China (-3.51%), again using inflation-adjusted figures.

Momentum. Only 16 of the world's housing markets for which figures are available showed stronger upward momentum during the year to Q2 2018, while 23 housing markets showed weaker momentum, according to Global Property Guide's research. Momentum is a measure of the "change in the change"; simply put, momentum has increased if a property market has risen faster this year than last (or fallen less).

Inflation-adjusted figures are used throughout this survey. In the case of Kiev, Ukraine, the Global Property Guide adjusts using the official U.S. inflation rate since Ukrainian secondary market dwelling sales are denominated in U.S. dollars.

The strongest performing markets:

Hong Kong is now the strongest housing market in our global survey, up from fourth place in the previous quarter. Residential property prices surged 13.15% during the year to Q2 2018, after y-o-y rises of 12.28% in Q1 2018, 12.78% in Q4 2017, 13.41% in Q3 2017 and 19.27% in Q2 2017. Quarter-on-quarter, house prices increased 5.05% in Q2 2018.

The boom continues despite stamp duties being raised for all non-first time homebuyers (November 2016) and allowable loans on residential and commercial properties being cut in May 2017. In addition, Chief Executive Carrie Lam revealed in June 2018 another series of cooling measures, including a tax against vacant flats.

Ireland's economy grew by 7.8% last year. It is not surprising that the housing market is growing at breakneck speed. Residential property prices were up by 11.57% during the year to Q2 2018, after y-o-y rises of 12.4% in Q1 2018, 11.7% in Q4 2017, 11.75% in Q3 2017, and 11.8% in Q2 2017. During the latest quarter, Irish house prices increased 2.22%. Ireland’s surging house prices are being driven by strong demand and supply shortages.

The **Netherlands**' housing market continues to perform very well, mainly due to robust demand, coupled with inadequate housing supply. The average purchase price of all dwellings rose by 7.24% during the year to Q2 2018, slightly up from the previous year’s 6.39% growth. On a quarterly basis, house prices were up 0.85% during the latest quarter.

During 2017, home sales surged 13% from a year ago. However in the first seven months of 2018, home sales dropped more than 7% from a year earlier due to supply shortages.

THE REGIONS:

Most of Europe remains vibrant

European house price rises continue unabated. House prices have risen over the past year in no less than 13 of the 20 European housing markets for which figures were available.

Ireland remains the best performer in Europe, buoyed by its very strong economy. Residential property prices were up by 11.57% during the year to Q2 2018, after y-o-y rises of 12.4% in Q1 2018, 11.7% in Q4 2017, 11.75% in Q3 2017, and 11.8% in Q2 2017. During the latest quarter, Irish house prices increased 2.22%. Ireland's surging house prices are mainly driven by strong demand as well as supply shortages. The Irish economy grew by around 7.8% last year and is projected to expand by another 5.6% this year, according to the European Commission.

The **Netherlands**' housing market remains strong, mainly due to robust demand, coupled with lack of adequate housing supply in the market. The average purchase price of all dwellings rose by 7.24% during the year to Q2 2018, slightly up from the previous year's 6.39% growth. On a quarterly basis, house prices were up 0.85% during the latest quarter. During 2017, home sales surged 13% from a year ago, fuelled by low interest rates and robust economic growth. In the first seven months of 2018, home sales dropped more than 7% from a year earlier to 124,615 units, according to Statistics Netherlands. The Dutch economy grew by 3.1% in 2017, the highest growth since 2007. GDP is expected to grow by another 3.2% this year and by 2.4% in 2019, according to the IMF.

Portugal's housing prices continue to rise strongly, fuelled by surging demand as well as improved economic conditions. Nationwide property prices rose by 4.53% during the year to Q2 2018, from y-o-y rises of 4.7% in Q1 2018, 3.03% in Q4 2017, 4.04% in Q3 2017 and 3.47% in Q2 2017. During the latest quarter, house prices were almost stable.

After more than three years of depression, house prices in Portugal started to recover in 2014. The Portuguese economy is expected to expand by 2.4% this year, after GDP growth of 2.7% in 2017, 1.6% in 2016, 1.8% in 2015, and 0.9% in 2014.

Other strong European housing markets included **Iceland**, with house prices rising by 4.18% during the year to Q2 2018, **Spain** (4.01%), and Riga, **Latvia** (2.68%). All, expect Latvia, recorded positive quarterly growth during the latest quarter. In terms of momentum, only Spain had stronger performance in Q2 2018 compared to a year earlier.

Minimal annual house price rises during the year to Q2 2018 were registered in **Jersey**(1.93%), **Germany** (1.74%), **Slovak Republic** (1.68%), **Romania** (1.66%), Athens, **Greece** (0.66%), **Lithuania** (0.48%) and **Finland** (0.43%). Only Germany, Slovak Republic, Finland and Lithuania saw quarterly growth during the latest quarter. On the other hand, only Jersey, Greece and Finland performed better in Q2 2018 compared to the previous year.

Europe's weakest housing markets

Ukraine's housing market remains depressed, despite improved economic conditions. Secondary market apartment prices in Kiev fell by 7.81% (inflation-adjusted) during the year to Q2 2018, to an average price of US$ 1,071 per square metre (sq. m.) – worse than the previous year's 5.13% decline. House prices fell 1.94% quarter-on-quarter in Q2 2018.

House prices in Ukraine have been falling over the past five years, particularly in 2014 (with prices plunging 37.38%) because of hryvnia devaluation due to the Russian war. Ukraine's economy is expected to expand by 3.2% this year, after expansions of 2.5% in 2017 and 2.4% in 2016, and contractions of 9.8% in 2015, 6.6% in 2014 and 0.03% in 2013.

Turkey's housing market continues to weaken, amidst its plummeting currency (the lira), record-high inflation, and the country's political conflict with the US. Nationwide residential property prices fell by 4.21% during the year to Q2 2018, in contrast with a 1.62 y-o-y rise in a year earlier - the fourth consecutive quarter of y-o-y price declines. On a quarterly basis, house prices dropped 1.99% during the latest quarter.

In June 2018, inflation rose to 15.39%, the highest level since 2004. The Turkish lira plunged to record lows, having shed more than 40% of its value against the US dollar in the past year. The government recently cut its 2018 GDP growth forecast to 3% - 4% from its earlier estimate of 5%.

Switzerland's house prices fell 3.49% y-o-y in Q2 2018, the fourth consecutive quarter of annual price declines and the biggest fall in almost two decades. During the latest quarter, prices fell by 1.28% q-o-q.

After about 15 years of uninterrupted house price rises, the Swiss government's efforts to cool the country's overheated property market have finally succeeded. The Swiss economy is expected to expand by 2.3% this year and by another 2% in 2019, following annual growth of 1.1% in 2017, 1.4% in 2016, 1.2% in 2015 and 2.5% in 2014, according to the IMF.

Other weak European housing markets included **Sweden**, with house prices falling by 1.86% during the year to Q2 2018, **Russia** (-0.81%), **Norway** (-0.73%), and the **UK**(-0.09%). Only Norway and the UK saw quarterly growth during the latest quarter. All, except Russia, performed better in Q2 2018 compared to the previous year.

The Asia-Pacific region remains strong, but China slowing rapidly

Two of the five strongest housing markets in our global survey are in Asia-Pacific, with house prices rising in 6 of the 9 housing markets for which figures were available during the year to Q2 2018.

Sharp housing slowdown in China

China’s housing market is now slowing, with new regulatory and monetary policies impacting developers and speculative buyers. In Shanghai, the price index of second-hand houses fell by 3.51% during the year to Q2 2018, in sharp contrast with a y-o-y rise of 6.76 in Q2 2017. During the latest quarter, house prices in Shanghai fell by 0.81%.

Despite this, the Chinese economy grew by 6.7% y-o-y in Q2 2018, only slightly lower than the 6.8% growth recorded the previous quarter. The economy is projected to expand by 6.6% this year, after expanding 6.9% in 2017 and 6.7% in 2016. China has achieved 27 straight years of above 6% growth.

Middle Eastern housing markets continue to struggle, but Egypt is an exception

The Middle East is now in the doldrums, with two of the three weakest housing markets in our global house price survey: Qatar and UAE. This is not surprising given the region's ailing economy due to low oil prices and the ongoing political and diplomatic crisis. The Middle East's economy grew by just 1.1% in 2017, the lowest level in eight years.

In **Dubai**, residential property prices fell 7.63% during the year to Q2 2018, worse than the prior year’s 2.51% decline, amidst weak economic growth, low investor sentiment, and an oversupply of housing. During the latest quarter, house prices in Dubai dropped 1.33% q-o-q.

Likewise, **Israel**'s decade-long house price boom is now over, with government cooling measures intensifying. The nationwide average price of owner-occupied dwellings fell by 1.21% during the year to Q2 2018, in sharp contrast with the previous year's 4.06% growth. Israeli house prices fell 1.14% q-o-q in Q2 2018.

Egypt is an exception

Egypt’s housing market has risen over the past year, with the nationwide real estate index rising by 4.51% during the year to Q2 2018, in contrast with the y-o-y decline of 5.32% during the previous year. However house prices fell 9.91% quarter-on-quarter during the latest quarter.

Rapid house price rises should be expected in Egypt due to the dramatic inflation unleashed by more-than-halving of the currency's value in November 2016. That house prices have not risen more is surprising.

President Abdel Fattah el-Sisi recently removed the last restrictions on foreign ownership of land and property in Egypt. He also allowed the government, the biggest landowner in Egypt, to use its land for public-private partnership schemes. The economy is expected to grow strongly by 5.2% this year, the fastest pace in a decade, according to the IMF.

The Americas are mixed

The U.S. remains strong but Canada is slowing sharply.

In Latin America, Mexico is strengthening while Chile has rebounded strongly. House prices are still falling in Brazil, despite some improvement.

After five years of strong house price growth, the **U.S.** housing market remains surprisingly vibrant. The Federal Housing Finance Agency's seasonally-adjusted purchase-only U.S. house price index increased 3.67% y-o-y in Q2 2018 (inflation-adjusted), after annual rises of 4.93% in Q1 2018, 4.64% in Q4 2017, 4.68% in Q3 2017 and 4.77% in Q2 2017. The FHFA index rose by 0.07% q-o-q during the latest quarter.

U.S. housing demand and construction activity are mixed. In July 2018, sales of new single-family houses rose by 12.8% y-o-y while existing home sales were down by 1.5%. Building permits authorized for new housing units rose by 4.2% in July 2018 from a year earlier. On the other hand, new housing starts fell by 1.4% y-o-y in July 2018, while completions were slightly down by 0.8%.

The world's biggest economy grew by 4.1% y-o-y in Q2 2018, nearly double the 2.2% growth the previous quarter and the fastest pace since Q3 2014. Growth was mainly driven by consumers spending their tax cuts and exporters rushing to get their goods delivered ahead of retaliatory tariffs. Recently, the IMF raised its 2018 US growth forecast from 2.3% to 2.7% and finally to 2.9%, an acceleration from the expansions of 2.3% in 2017 and 1.5% in 2016.

In December 2017, President Donald Trump signed a landmark tax law (known as the Tax Cuts and Jobs Act or TCJA) considered to be the largest overhaul of the U.S. tax code in over 30 years.

Canada's housing market is slowing sharply, amidst the introduction of more market-cooling measures and rising mortgage interest rates. House prices in the country's eleven major cities rose by a meagre 0.41% during the year to Q2 2018, a sharp deceleration from last year's 13.02% growth. Quarter-on-quarter, house prices increased 1.68% q-o-q in Q2 2018.

The Canadian Real Estate Association (CREA) expects home sales to fall by 11% this year, mainly due to higher home prices and interest rates, supply shortages, and heightened uncertainty. Demand is weak. In July 2018, actual sales activity dropped 1.3% from a year earlier. The Canadian economy grew by a healthy 3% in 2017, the highest growth since 2011. The economy is expected to expand by 2.1% this year and by another 2% in 2019.

The Latin Americas are improving

Mexico's nationwide house price index rose by 5.12% during the year to Q2 2018, up from just 0.73% y-o-y house price rises in Q2 2017. House prices increased 4.89% q-o-q during the latest quarter.

Chile's housing market continues to grow stronger, despite the introduction of a property sales tax in 2016. The average price of new apartments in Greater Santiago rose by 3.39% during the year to Q2 2018, up from the previous year's 2.11% y-o-y growth. House prices fell by 1.07% q-o-q in Q2 2018.

Brazil's house prices are still falling, but the outlook is now positive, amidst increasing construction and home sales, as well as a positive economic outlook. In Sao Paulo, house prices fell by 2.38% during the year to Q2 2018, after a y-o-y decline of 2.15% a year earlier. Quarter-on-quarter, house prices in Sao Paulo fell by 1.22% in Q2 2018

Globally, urban prices are rising at their slowest rate since the third quarter of 2015.

TABLE 7 - YEAR ON YEAR % PRICE CHANGE - COMPARISON							
COUNTRY	% CHANGE 2013	% CHANGE 2014	% CHANGE 2015	% CHANGE 2016	% CHANGE Q1 2017	% CHANGE Q1 2018	% CHANGE Q2 2018
DUBAI	5.38	23.73	-14.09	-1.64	-3.69	-6.44	-7.63
ESTONIA	12.46	20.85	4.56	7.36	4.76	3.72	6.21
IRELAND	3.45	7.8	6.53	8.15	8.91	12.51	11.57
U.K.	1.47	8.95	4.36	3.28	1.84	0.00	-0.09
TURKEY	4.65	7.51	14.32	3.40	1.84	-	-4.21
ICELAND	2.00	6.7	6.93	12.53	16.01	10.14	4.18
ISREAL	5.38	6.43	5.17	5.36	-0.54	0.45	-1.21
ITALY	-1.47	-	-0.93	-	-0.29	-	-
LATVIA	-	4.71	2.48	5.85	5.13	5.72	2.68
LITHUANIA	-	4.62	3.68	5.07	3.56	0.10	0.48
MALTA	2.99	3.00	6.57	4.20	28.59	8.03	
NEW ZEALAND	6.4	3.93	3.24	9.47	7.26	-3.37	4.3
NETHERLANDS	-	3.89	3.95	4.37	7.11	6.92	7.24
CANADA	1.61	3.31	4.52	10.66	11.7	4.20	0.41
BRAZIL	-	3.29	-7.37	-5.51	-3.75	-1.11	-2.38
U.S.A.	9.31	3.08	5.29	3.71	3.37	4.58	3.67
CROATIA	-17.6	2.64	3.8	2.13	-	-	-
SOUTH AFRICA	1.3	1.91	0.56	0.32	-	-	-
PORTUGAL	-	1.86	3.99	3.88	4.18	4.70	4.53
SWITZERLAND	-	1.48	1.83	-0.94	-1.69	-1.11	-3.49
NORWAY	-	1.32	1.99	6.38	7.38	-3.01	-0.73
ROMANIA	-	1.12	7.74	11.01	7.61	4.71	1.66
SLOVAKIA	-	0.42	1.62	6.00	6.61	2.41	1.68
SPAIN	9.96	-4.15	-1.71	0.10	0.41	2.37	4.01
RUSSIA	3.46	-5.68	-15.35	-9.27	-8.33	0.65	-0.81
GREECE	-9.69	-7.08	-4.91	0.03	-3.13	-	0.66
UKRAINE	4.62	-10.45	-2.76	-3.34	-5.05	-7.55	-7.81
AVERAGE INCREASE	2.54	3.66	1.70	3.56	3.99	2.21	1.08

The Global Residential Cities Index, which tracks the movement in average residential prices across 150 cities worldwide, rose by 4% in the year to March 2018, down from 6.4% a year ago.

Although the global economy is performing well, the IMF forecasts 3.9% growth in 2018, increased vigilance on the part of policymakers keen to use macroprudential measures to curb price inflation along with escalating affordability constraints are keeping a lid on urban price growth.

Europe's upward trajectory continues. Eleven of the top 20 cities ranked by annual growth are in Europe. Rotterdam (14.8%), Edinburgh (12%), Porto (11.7%) and Sofia (11.3%) now join long-standing frontrunners such as Berlin (14.9%), Budapest (14.4%) and Reykjavik (11.8%). *(Knight Frank: Global Residential Cities Index)*

Housing property data of the Maltese islands – 2018

MALTA BUCKS TREND OF MODERATE HOUSE PRICE GROWTH

The number of countries experiencing annual house price growth is on the rise even as the average rate of growth moderates.

The Mediterranean island of Malta has moved ahead of Hong Kong this quarter to take the lead in our Global House Price rankings. According to data from the Central Bank of Malta prices increased 17% year-on-year. Supply constraints, combined with a robust economy (6.6% GDP growth in 2017) and a buoyant technology industry is pushing up demand.

Only seven countries and territories (12% of those monitored) registered a decline in prices in annual terms and no market has recorded a double-digit decline in house prices over the last six quarters. Five years ago, 30% of countries were recording a drop in house prices, and ten years ago, in the wake of the financial crisis, the figure was as high as 70%.

Yet despite this improving scenario, at 4.7% the index has recorded its slowest rate of annual growth since Q3 2016. Our analysis confirms that whilst fewer countries and territories are seeing a decline in house prices, where prices are rising, they are rising at a more moderate pace. The rising cost of finance, an uncertain political and economic climate and currency instability in some markets is likely to be tempering demand.

Hong Kong acts a case in point. A city which has led our rankings for price growth on ten occasions since 2009, is expected to cool in the coming months as a result of rising interest rates.

Along with Singapore and New Zealand, Hong Kong has also seen new property market regulations introduced in the last three months (Figure 3).

Central and Eastern Europe is emerging as a region of strong growth. Latvia, Slovenia and Hungary all saw prices accelerate by between 12% and 14% over the year to June 2018 and the region as a whole registered average growth of 8% compared with 5.1% for the rest of Europe (Figure 4). Strengthening economies, improving employment and the wider availability of low rate mortgages are behind the region's strong performance.

Turkey's travails mean that although prices are rising at an annual rate of 11%, according to the latest data from the Central Bank of the Republic of Turkey, when inflation of 16%+ is factored in, prices in real terms are now falling.

With the 10-year anniversary of the collapse of Lehman Brothers approaching on 15 September, a brief look at house prices over this period (where data permits) shows mainstream house prices in 12 of the 57 countries are still below their Q3 2008 level, including those in Spain, Ireland, Italy, Greece and Russia.

Source: Knight Frank: Global House Price Index Q2-2018

Housing affordability index (HAI)

The Housing Affordability Index (HAI) table 8, as defined in the sub-script to this table has been calculated for the period 1982 - 2018. For a 3-bed/r median apartment, the HAI has since 2007 at 74 risen to 135 in 2014, the best year, lowering worryingly to 102 as at 2018. The worst for this period stood in 1997 at 65, coinciding with the introduction of VAT in 1995. However, the declining value in 2018 is due to the buy to let bonanza which due to spiraling rental values is thus increasing the market value of property, which over the period 2016 – 2017, over 1-year increased by 28% in value & easing off to 8.23% for 2017 -2018. This is still higher than the 36-year average annual increases at 6.62%.

Over the years it has always appeared affordable to purchase a 2 bed/r median apartment with the HAI peaking to 123 (1987) and dipping to 101 (1997). In recent years from 2008 onwards up to 2014 it has improved from 125 up to 200 for 2014, dipping to 140 as at 2018.

The above HAI index is to be compared to France, where the HAI was 100 in 1992, increasing steadily to 160 in 1999, then dipping to 140 by 2003.

TABLE 8: HOUSING AFFORDABILITY INDEX FOR THE MALTESE ISLANDS – HAI

Year	*Mortgage Monthly Payment*		*Medium Monthly Family Income***	*Qualifying Monthly Income*		*Ratio of Qualifying Family Income*		*HAI**		*House Price: Earnings Ratio*
	3-bed/2-bed/r			*3-bed/ 2-bed/r*		*3-bed/2-bed/r*		*3bed/2 bed/r*		
1982	*€140*	*€ 56*	*€ 429*	*€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*
2006	*€606*	*€429*	*€1665*	*€2119*	*€1500*	*1.27*	*0.90*	*79*	*111*	*7.22*
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*
2011	*€469*	*€315*	*€1959*	*€1641*	*€1103*	*0.84*	*0.56*	*119*	*179*	*5.29*
2012	*€448*	*€305*	*€2058*	*€1568*	*€1067*	*0.76*	*0.52*	*132*	*192*	*5.05*
2014	*€472*	*€322*	*€2237*	*€1652*	*€1127*	*0.74*	*0.50*	*135*	*200*	*4.93*
2015	*€504*	*€346*	*€2325*	*€1764*	*€1211*	*0.76*	*0.52*	*132*	*192*	*5.28*
2016	*€520*	*€358*	*€2354*	*€1820*	*€1253*	*0.77*	*0.53*	*130*	*189*	*5.44*
2017	*€668*	*€453*	*€2521*	*€2338*	*€1585*	*0.93*	*0.63*	*108*	*159*	*6.25*
2018	*€723*	*€526*	*€2575*	*€2530*	*€1841*	*0.98*	*0.71*	*102*	*140*	*6.61*
Source: DHIperiti in-house valuations 2018										

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

****the median family income is factored at 1 for 1982, and by 1.35 for 2002 increasing to 1.65 as from 2012 to account for the effect of the 2nd wage earner.**

A long-term 35 Year average level of house prices to income ratio is given at 3.5. The UNCHS (habitat) indicators mention the price earnings ratio desirable range lie between 2 & 6.

The affordability for first time buyers over this period has varied slightly as noted in table 8 averaging out at 89.6 for a 3 bed/r apartment and at 130.75 for a 2 bed/r apartment. This occurred, despite the increase in house prices over the period at 6.49%pa, as compared to the reduced wage growth at 3.75% pa over the same period.

The HAI was kept at a relatively stable level over this period, due to the following:
household income being supplemented by the provision of a greater reliance on the: wage of the 2nd wage earner, which in fact signifies 7.1% p.a. increase in the household's earnings over the period. A lower mortgage rate from 8% in 1982 down to 3.10% in 2015, a higher repayment period from 25 years in 1982 up to 40 years in 2015, together with a reduction in the floor area purchased, as noted earlier on.

Over the past 1982-2007 the HAI averaged out at 75.8, a 3 bed/r apartment was unaffordable for the median Maltese household, whilst a 2 bed/r apartment over the same period with an average HAI of 110.8 was affordable. Now the Maltese family is known for its house pride and over this period, the foreclosures are considered minimal. The answer to the above dilemma probably lies in the industrious characteristics of the Maltese worker, who to own his residence over this period worked overtime to cap his wage packet by:

100/75.8 = 1.32 i.e. over this 32-year period an affordable residence averaged 32% more expensive, than could have been purchased by the median wage earner. Table 8 notes this to have been reversed since 2009, when the HAI then reads 112 onwards.

The present low mortgage rate era and decline in property values as anticipated up to 2014 signifies that for Malta, the global credit crunch has been beneficial to the first time homeowners. An improvement in the quality of life of the Maltese family is to occur, as a main job should be sufficient to own one's home.

The price earnings ratio noted in table 8 above, has increased gradually from 4.28 in 1982 peaking in 2006 at 7.22, before declining to 4.93 in 2014. Presently for 2018 this now reads 6.61. These ratios are considered high, as a long-term 35-Year average level of house prices to incomes ratio is given at 3.5. The UNCHS (habitat) indicators mention the price earnings ratio desirable range to lie between 2 & 6.

Referring back again to property bubbles, a little property bubble will occur if the price earnings ratio is less than 6 and a serious bubble will occur if higher than 10.

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

Table 9 gives a comparison between the price per square metre for apartments and the price earnings ratios of island states similar to Malta. Cyprus at 6.51 has presently the best affordable characteristic, however probably marred by the highest mortgage rate at 3.97%. The price earnings ratio for Singapore has varied from 3.6 in 1995 up to 4.8 in 2009 rising over the years to its now high 21.58. Here the Government by possessing most of the land provides most of the housing requirements together with the provision of grants. Malta on the other hand has gone for land speculation via planning measures, considered as having boosted the economy.

TABLE 9: HOUSING DATA 2018 FOR SIMILAR STATES.

	Market Rate euro/sqm	Median monthly Individual income euro	Mortgage rate	Price: earnings ratio.
Malta	**2,341**	**1,106 (1,500)***	**3.68%**	**10.59 (7.8)***
Cyprus	**1,528**	**1,173**	**3.97%**	**6.51**
Hong Kong	**20,254**	**2,134**	**2.34%**	**47.46**
Singapore	**10,719**	**2,483**	**2.06%**	**21.58**

Source: Numbeo (Updated 10th September 2018)

*This Monthly median income is according to NSO SILC 2017

Housing affordability nowadays may be achieved by educating the first time buyer in restraining his housing requirements to cause less strain on his resources. Prospective homebuyers should learn the new low inflation housing market game by moderating their borrowings and house price bids. Interest rates are not to remain at this low end for long, probably stabilizing again at 5% to 6%. A rise of 1% to 3% over the next years would raise mortgage costs by 16% for a 1% mortgage rate increase, 33.33% for a 2% mortgage rate increase, and 52.75% for a 3% mortgage rate increase. What happens to the personal finances of those who borrowed large sums relative to their income?

Furthermore, with the present low inflation climate the monthly paybacks are going to erode far slower than previously in the high inflation era, with a consequent lowering of the household's quality of life. A prospective homebuyer should possibly look out for a price-earnings ratio closer to the long-term average of 3.5 than the present value in the 5 region.

Further to the above mortgage payments, expenses accumulate due to the normal present 10% - 20%+ deposit anticipated, down from the 20% deposit requested in the earlier years. To this deposit purchase expenses are added onto, which includes for stamp duty + notaries and survey fees.

This tallies with the Irish experience as quoted, that by focusing on the costs of mortgage repayments, measures such as 'housing expenditure to income ratio' ignore the deposit, which is often an important barrier to housing affordability. This notes that to accumulate the 10% deposit to purchase the average new house in 2016; an individual must save 88.5% of the median annual household wage, up from 62% in 1989. In Malta's case in 1982 to purchase the 20% deposit + further expenses as outlined, still required 100% of the then average annual wage.

The above, further notes that a new affordability measure has been introduced. Presently the mortgage payback amount appears affordable, what is not presently affordable are the forward payments to be undertaken as noted above. These payments are noted as being a hindrance towards getting onto the property ladder.

The measure to be extended whereby the 3.5% stamp duty for properties less than 150,000euro in price, will again definitely ease the present affordability outlined above, this signifies a 20% reduction in the required forward payment necessary to purchase the 1st time residence. This measure at some point will have to be retracted, for if not it will stimulate an increase in the future asking prices of property, thus nullifying if desired effect of improving affordability.
Renting nowadays could also be an option, with the rentals presently higher than mortgage monthly payments, as noted in Rental Matters section, but without the initial expenses to be undertaken.

Residential development permits

The surge in the number of residential permits issued as from 1995 onwards noted in tables 10a& 10b, being well above the supply required should surely have righted any affordability problem?

TABLE 10a: DEVELOPMENT PERMITS FOR DWELLINGS OVER THE INTERCENSAL PERIODS

YEAR	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
APPROVED DWELLING	4229	3351	3411	3004	2273	2369	4180	5481	6128	6707	9081	10409	11343	6836	5298	4444	3955	2064	2705	2937	3947	7508	9822

Table 10a shows a slowdown over the residential permits issued up to the year 2000. This was followed by a surge from 2001 onwards, as increasing to 11,343 in 2007, Table 10a then notes that the number of permits for 2006 increased to 10,409 permits and then topped to 11,343 permits in 2007, however leveling off to a more sustainable level of 6,836 & 5,298 for 2008 & 2009 respectively as noted in table 10a. From 2010 onwards the number of permits has dropped to a figure below the national supply requirement bottoming out at 2,705 for 2013. In 2014 the number of permits increased to 2,937 permits, which notes an increase reoccurring which is necessary to reach over a period the 4,500-5,000 mark, otherwise a deficit would again stimulate a shortage in the market with spiraling of property prices to re-occur. From 2016 onwards are shortages in supply were halted, whilst in 2017 development permits plummeted to 9822.

TABLE 10b: RESIDENTIAL UNITS AS APPROVED BY MEPA, TOGETHER WITH COMPLIANCE CERTIFICATES BEING ISSUED:

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

Table 10b indicates that the take-up of residential units has fallen from 2/3's of the supply as at 2001 falling to 1/3 of the supply as at 2006. The number of compliance certificates as issued by MEPA as noted in table 10b, gives a further indication of the excess supply being produced in the bubble years 2002-2006. On the other hand from 2007 onwards, the % of compliance certificates issued increased, even surpassing the 100% mark as from 2008 onwards. This is an indication of a take up of the surplus property produced during the bubble years, when the market produced a lower supply than necessary. Over this period of low supply, the previous oversupply aided in keeping the market prices in check, even decreasing over the period 2008-2013, as noted from table 5. This time round as from 2016 onwards, although number of permits issued is noted as high the number of compliance certificates is high, unlike the previous 2004 – 2007 boom period, with the surplus property being produced was not being taken, noted 33% in 2006 as compared to 109% in 2017.

The increase in the number of residential permits was witnessed in the apartment/maisonette types. Apartments had grown from a base of 64% in 2000 to 90% in 2007, whilst terraced housing had decreased from 10% to 2.25% over the same period. On the other hand terraced housing for 2014 increased to 6.95%, whilst apartments decreased to 75.6%. The number of apartments on the other hand in 2014 was a $^{1}/_{5}$ of those granted in 2007.

In 2001, the average number of residential units per permit issued stood at 3.2 increasing to 4.2 by 2005, decreasing again to 3.0 in 2010. The above signifies moving away from the traditional low-density terraced house to the more highly-dense units comprising maisonettes and apartments, although a decrease in apartments/maisonettes due to the present oversupply is being witnessed.

Table 10b indicates that over the past 2003 - 2007 period a higher supply had been provided, with possibly the increase in demand not being matched. This, as evidenced by the number of annual property contracts undertaken, noted in table 11A. This prior to 2014, presently stood below the 12,000 mark, notwithstanding the present property slump which does not appear to have affected the sales market. These annual property contracts include for not only the sale of residential but also commercial premises.

The number of marriages over the period has averaged out at 2250 annually, although a surge in marriages at 3,072 is noted for 2017. This, together with separations/annulments, which presently average at 1326 annually creates a further strain on additional accommodation required. Further the household size has been reducing from 3.12 persons per household in the 1995 census, down to 2.9 persons per household in the 2005 census and to 2.67 persons per household in the 2011 Census.

Considering these figures together with 2nd home and foreign buyer purchases excluding EU citizens in the 870 region as noted from table 16. To these have now increased the net annual migration growth of 10,000persons together with an increase of 500,000 annual tourists being catered for in private accommodation the demand figure does not appear to be too far off from the above supply figure of 10,000 units annually. Thus in the coming years it is anticipated that building permit applications for residential units will be in the 10,000 region.

TABLE 11A: PROPERTY CONTRACTS, AVERAGE PRICES OF TOTAL AND MARRIAGES/SEPARATIONS.

Year	No of annual Contracts	Average Price €	% of Gross National Income 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	7,837	€71,031	12.6	2240	375
2005	10,610	€97,004	20.8	2374	
2006	10,252	€82,068	16.2	2536	447
2007	12,856	€78,714	18.2	2479	
2008	11,505	€77,287	14.9	2482	738
2009	11,904	€69,500	13.9	2353	731
2010	11,620	€72,057	13.1	2596	737
2011	12,246	€73,361	13.5	2562	923
2012	11,845	€77,170	13.3	2823	1,229
2013	11,140	€84,826	13.1	2578	1,206
2014	15,087	€89,189	17.16	2871	1,220
2015	14,942	€102,005	11.0	3002	1,351
2016			4.5	3034	1,326
2017			15.8	3072	

CTD Property counts MOF as from 2007 (NSO News Release)

Table 11A further gives an indication of the bubble that the property market has passed through. The highest average contract price stood at €97,004 for 2005. This then slid down to €69,500 in 2009 and slowly picked up until 2015 where it stands at €102,005. The number of contracts witnessed for 2015 at 14,942 the second highest undertaken over the past 33-year period after 15,087 for 2014, is in sync with Governments 1st buyers' incentives undertaken. The average contract price quoted in table 11A includes for all property types mainly residential, business, garages except for others, which includes for land, redemption of ground rents.

Table 11B now shows the number of building contracts undertaken and average value of Maltese Purchased Property Types over the years 2008 – 2015, a comparison of foreign bought property for the latest year is also included.

TABLE 11B: BUILDING CONTRACTS UNDERTAKEN & AVERAGE VALUE FOR MALTESE BOUGHT PROPERTY WITH A COMPARISON OF FORIEGN BOUGHT PROPERTY FOR THE LATEST YEAR										
YEAR	2008		2011		2014		2015		FORIEGN BOUGHT PROPERTY - 2015	
PROPERTY TYPE	NO. OF CONTRACTS	AVERAGE VALUE	NO. OF CONTRACTS	AVERAGE VALUE	NO. OF CONTRACTS	AVERAGE VALUE	NO. OF CONTRACTS	AVERAGE VALUE	NO. OF CONTRACTS	AVERAGE VALUE
BUSINESS	188	€ 56,459.47	134	€ 88,942.19	216	€ 77,851.24	200	€ 100,621.06	1	€ 325,000.00
GARAGE	2951	€ 17,017.47	2932	€ 17,807.00	3030	€ 21,038.89	2848	€ 23,910.50	115	€ 15,283.46
CARSPACE	138	€ 7,948.92	154	€ 9,926.18	114	€ 8,682.46	105	€ 20,908.00	26	€ 36,220.94
AIRSPACE	729	€ 25,162.47	815	€ 24,093.05	831	€ 36,545.53	993	€ 41,705.56	49	€ 89,287.76
BUNGALOW	12	€ 390,251.11	19	€ 439,944.64	14	€ 317,973.57	18	€ 396,490.36	1	€ 660,000.00
DAR	785	€ 132,412.39	1026	€ 97,633.18	1355	€ 131,039.21	1368	€ 140,898.72	153	€ 292,232.16
FARMHOUSE	42	€ 211,819.75	58	€ 129,461.35	42	€ 173,950.52	60	€ 232,448.28	3	€ 555,000.00
FLAT/APARTMENT	2618	€ 103,904.06	2725	€ 96,631.29	3821	€ 105,931.95	3850	€ 117,727.62	670	€ 252,330.42
MASOINETTE	757	€ 107,520.32	795	€ 99,067.43	1087	€ 114,417.10	1029	€ 115,044.50	89	€ 151,801.91
MEZZANIN	125	€ 50,047.28	153	€ 60,009.81	219	€ 63,505.60	241	€ 73,451.70	4	€ 78,250.00
PENTHOUSE	230	€ 123,186.66	310	€ 117,039.93	438	€ 122,311.06	452	€ 127,110.66	100	€ 275,458.43
PLOT OF LAND	1276	€ 42,888.46	1429	€ 34,368.16	1656	€ 45,915.94	1594	€ 59,111.10	21	€ 79,327.66
SEMI DETACHED VILLA	16	€ 344,317.60	43	€ 325,518.19	38	€ 392,263.24	59	€ 381,707.28	4	€ 544,500.00
TERRACED HOUSE	86	€ 179,275.10	136	€ 159,261.48	208	€ 193,299.90	192	€ 177,315.90	22	€ 228,016.50
VILLA	29	€ 530,173.73	66	€ 327,939.98	90	€ 320,298.90	72	€ 394,330.61	14	€ 851,856.30
Source: Inland Revenue - CTD Property Counts - Jan 2016										

Vacant dwellings

The number of vacant dwellings, as at 2011 (Census), stood at 71,080, of these 41,232 were completely vacant, whilst 29,848 were used seasonally or as a secondary residence, up from the 2005 value of 53,120, and then as compared to the 1995 value of 35,723. In 1995, 23% of total dwellings were vacant, whilst in 2005 this increased to 27.6% of 192,314 units available, increasing to 31.7% of 223,625 total units available.

More than half of unoccupied dwellings (53.0 per cent) consisted of flats, apartments or penthouses, while terraced houses, townhouses, maisonettes or ground floor tenements followed with 26.2 per cent and 15.5 per cent respectively. In addition, half the unoccupied dwellings were in a good state of repair while 6,989 either needed serious repairs or were in a dilapidated form. Another 6,937 dwellings were in shell form.

Table 12 (Census, 2011), shows that over the censial periods from 1861 to the present date, vacant dwellings were always high for the Maltese Islands. The highest stands in 2011 at 31.7%. Double figure percentages exist for all censuses except for 1957, which strangely gives this at 4%, as noted in table 12. This is due to the building devastation as undertaken during the 2nd World War period 1940-1942.

TABLE 12: VACANCY RATES OVER THE VARIOUS MALTESE CENSUS'S

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

Thus, a high property vacancy rate, which is not limited solely to Malta, but is also even noted as being a Mediterranean characteristic as noted in table 13, may be considered to have more of an adverse effect on our surroundings and built environment than on the proper functioning of the property market.

TABLE 13: VACANCY RATES OVER MEDITERRANEAN COUNTRIES.

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

With the hike in the rental market as from 2012 onwards, it is anticipated that at the next census, a reduction in the amount of vacant properties held will be recorded

Rental matters

This is a sorely debated point; has the releasing of a number of rental premises at market rates been beneficial to the better workings of the affordable property market?

TABLE 14: % NO. OF DWELLINGS BY OWNERSHIP

Year	owned	Free of charge	Rented furnished	Rented unfurnished
2011 (Census)	77.0%	3.0%	5.0%	15.0%
2005 (Census)	75.2%	2.7%	3.1%	19.0%
2002 (NSO)	70.0%	3.8%	2.6%	23.6%
1995 (Census)	68.0%	3.69%	2.49%	25.82%

Rental amounts for both furnished and unfurnished housing, as of the 1985 to 2011 census, are given In Table 15 below. It is further to be noted that the % of the rental houses has slid down from 76.9% as per the 1948 census to the 2011 Census percentage at 23.0%.

TABLE 15 - COMPARISON 1985-2011 Census Reports

Census year	€0 - €199.99	€200 - €499.99	€500 – €699.99	€700 – €1,499.99	€1,500 - €5,999.99	€6000 - €9,999.99	€10,000 or more	TOTAL Rentals*	% of total residences
1985	39657	2617	1394	-	-	-	-	46,814	46.1%
1995	27015	3275	808	1766	-	-	-	37,271	32.0%
2005	18015	3890	1,416	1,452	3987	-	-	28,760	24.8%
2011	12,503	5752	1,518	2,191	7,251	824	306	30,345	23.0%
*includes for free accommodation									

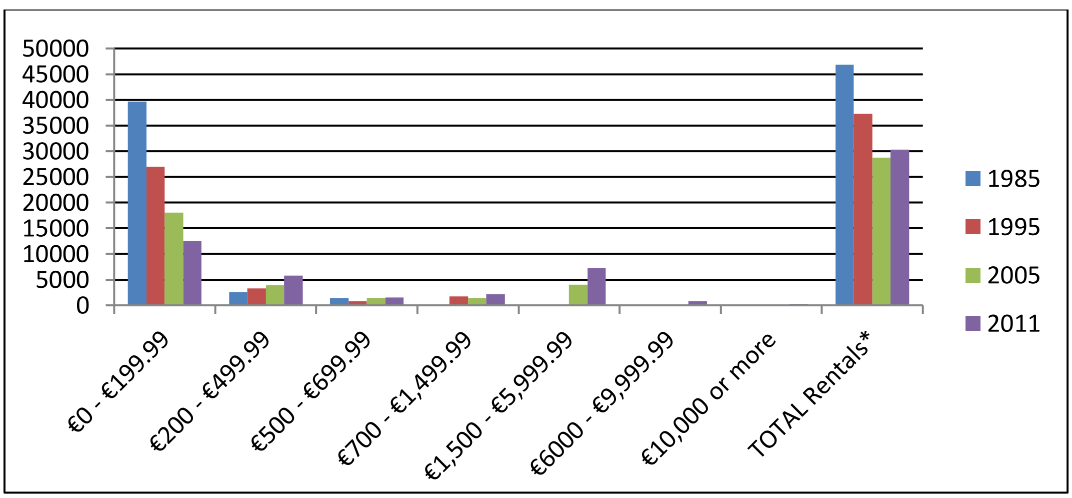


CHART No. 3 – DISTRIBUTION ON RENTAL AMOUNTS WITHIN THE CENSAL PERIODS 1985-2011

*includes for free accommodation

Although from above table 15 the present rental marketing 2011 accounts for under a ¼ of the total housing tenure, The median annual rent paid by those residing in a rented furnished dwelling stood at €3,537,compared to €186 for unfurnished dwellings. Another 25.0 per cent of members paid a rent exceeding €4,800 for their furnished dwelling. In Gozo and Comino, the median rent paid for unfurnished dwellings (€200) was higher than that paid in Malta (€186), while the opposite emerged for furnished dwellings, where the rent paid in Malta (€3,600) was significantly higher than that paid in Gozo and Comino (€2,520).

A total of 141,140 occupied dwellings were located on mainland Malta, while another 11,630 dwellings were recorded in Gozo and Comino. In total, household members in 56,296 dwellings paid some form of rent or empytheusis to a landlord. Of these 71.2 per cent were private landlords, while the rest paid either the government (26.2 per cent) or the Church (2.6 per cent). Further, all rental agreements have now to be undertaken via a written contract, whereby previously even a verbal contract sufficed.

Rent paid varied significantly by locality, with the largest rents for unfurnished dwellings in Malta being observed in Swieqi, St Paul's Bay and Marsaskala while the highest rates for furnished property were recorded in Swieqi, Ħal Lija and St Julian's. In Gozo and Comino, the highest rates for furnished and unfurnished dwellings were recorded in Ta' Kerċem and Qala respectively.

On the other hand, Table 15 outlines the present monthly rents payable for free and unencumbered apartments. The free rental market should be here to stay with the recent Rent Laws Act X of 2009 that came into force on 19 June 2009. This Act has righted Act 31 of 1995, as now all pre-1995 leases over a period will revert to their open market rental levels. This was not the case for the 1995 Act, whereby previous leases to this date were still regulated by the outdated tied rental regulations. This signifies that uplift will occur over a transition period for existing leases to the open market rental of the previously tied rental market. The 2009 Act is further more exhaustive than any previous Acts, as this relates not only to main residences but embraces the whole tied rental market mainly, summer residences, garages & clubs and commercial premises.

A restricted security of tenure is still included whereby a tenant's spouse not legally separated may linger on indefinitely, together with any natural or legal child of the tenant who has been living with tenant as on the 1st June 2008 and continued up to death of tenant, this date also refers to any person living with tenant. In some particular instances a three/five, year lease extension on demise is also possible.

The minimum rental amount is imposed at €202.34 per annum, unless agreed otherwise. The rent shall then be increased on a 3-yearly basis according to the index of inflation, with the next increase being due as on the 1 January 2019. On noting this restricted security of tenure still in existence, it appears that premises may take a further period possibly varying between 20 years and 35 years prior to revering to open market conditions.

An amendment occurring to the repairs and maintenance undertaking, now imposes external ordinary maintenance to be within the tenant's remit. If the landlord undertakes any structural repairs then the rental amount may be increased by 6% of the costs incurred instead of the previous 10%, although a capping in value had previously existed in that the rental amount could not be more than doubled.

Summer residences and garages not connected to a leased premises or not considered a commercial tenement, as from 1st June 2010, unless there is an agreement between the landlord and the tenant may be terminated. Clubs whether political, social, sports, musical or philanthropic are to retain their security of tenure, although amendment presently underway.

TABLE 16A - RENTAL PROPERTY 2018										
	1Bed/r Retail	Rent	yield	2 Bed/r Retail	Rent	yield	3 Bed/r Retail	Rent	yield	Average
Bugibba front		891.67		222,166.67	904.35	4.88	285,000.00	1,092.86	4.60	4.74%
Bugibba internal	120,000.00	596.15	5.96	150,285.71	690.50	5.51	162,500.00	726.56	5.37	5.61%
Qawra internal	137,500.00	665.99	5.81	171,750.00	742.86	5.19	183,975.00	748.57	4.88	5.30%
Swieqi	290,000.00	858.33	3.55	324,825.00	1,329.41	4.91	353,483.33	1,503.57	5.10	4.52%
M'Scala internal	130,000.00	600.00	5.54	155,357.14	756.25	5.84	173,285.71	770.00	5.33	5.57%
M'Scala front	125,000.00			254,100.00	975.00	4.60	262,345.00	1,181.82	5.41	5.01%
St Julians front	521,666.67	1,576.67	3.63	531,666.67	2,322.22	5.24	557,857.14	2,618.18	5.63	4.83%
St Julians internal	277,250.00	977.78	4.23	324,625.00	1,412.50	5.22	337,741.48	1,600.00	5.68	5.45%
Sliema front	549,800.00	1,350.00	2.95	592,666.67	2,307.14	4.67	825,947.37	2,476.32	3.60	4.13%
Sliema internal	184,000.00	1,122.73	7.32	259,692.31	1,453.57	6.72	353,360.00	1,722.31	5.85	6.63%
										5.18%

TABLE 16B - DHI - TOM 2018.						
	DHI	TOM	DHI	TOM	DHI	TOM
	3 Bedroom		2 Bedroom		1 Bedroom	
2007	€ 491		€ 448		€ 238	
2010	€ 492		€ 422		€ 258	
2012		€ 833		€ 618		€ 137
2013	€ 541	€ 903	€ 522	€ 635	€ 331	€ 458
2014	€ 478	€ 984	€ 393	€ 693	€ 345	€ 490
2015	€ 752	€ 1,023	€ 615	€ 796	€ 493	€ 605
2016	€ 983		€ 723		€ 583	
2017	€ 1,329	€ 879	€ 1,147	€ 663	€ 859	€ 498
2018	€ 1,444		€ 1,289		€ 960	

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

The above residential/rental information is obtained from Estate Agents web sites and is then averaged out to present a non-bias valuation. Table 16B notes the average monthly rent for a 3-bedroomed hovering around €1,450 per month. According to the Global Property Guide 2018, Malta's monthly rental rate of €1,540 is to be compared with London with a rate of €8,213, followed by Monaco at €7,480, Singapore at €3,498, Hong Kong at €6,445, then France at €3,564, whereas Netherlands, Finland, Austria, Ukraine and Denmark average around €2,380 then Germany and Belgium, Portugal, Czech Rep. come in around €1,447 rounding off with Cyprus at €786 (*Source Global property Guide 2017).*

According to Malta Bid European Medicines Agency 2017 Report as noted in Table No.16C, rental rates for 3-bedroom apartments in Central Malta stand at €1,169, €775 in the North and at €693 in the South. 2-bedroom apartments stand at €909 in Central Malta, €567 in the Northern area and €514 in Southern Malta. 1-bedroom apartments stand at €700 in Central Malta, €411 in Northern Malta and €382 in Southern Malta.

On the other hand the surge in rental values over the past 7-year period as noted in table 16B has now created a housing problem due to the affordability of rental payments. It is presently noted that the rental amount of €960 monthly for a 1 bedroom apartment, up from €225 monthly as at 2012. With the present incomes at the low end pegged to €600 monthly, the present rentals have created a housing crisis for the lowest income families.

Table 17 then notes the more sustainable residential rental capitalization rates, which since 1997 have shifted to the more realistic market residential annual capitalization rates, as standing at between 4.20% and 6.63% in 2015 & 3.0% - 5.10% in 2011, from the 5.5% - 8.5% highs in 1997. Highs are now being represented in 2017 within a range of 3.48% - 6.70%, flattening downwards slightly in 2018 from 4.13% - 6.63%.

Now the rental market is a better indicator of the housing market, as people will pay the rental amount that is fair. This thus notes that with the high capitalization rates for 1997, this gives an indication that the market was underpriced at that point in time. Corrections to the market price occurred over the period 2004 – 2007. In 2017/2018, it is noted that the capitalization rate is again on the high side having topped the 4.35% range and is an indication of underpricing to the market value of property. A further increase to property prices is anticipated beyond 2019.

TABLE 17: RENTAL VALUES FOR VARIOUS LOCALITIES AS A % OF MARKET VALUE

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

Malta's gross rental yields at 3.37% (as per table 17 at 5.27%) are generally lower than mainland Europe, hovering around the 4.86% mark. To be noted that the ex-Soviet satellite countries together with ex-Yugoslavia countries have yields exceeding 5%, with Moldova at 10%, Ukraine at 9.09%, Montenegro at 7.53% and Ireland at 7.18%. Cyprus has a yield of 5.12%, Belgium at 4.87%, Spain at 4.7%, the Netherlands at 3.72%, Luxemburg at 4.40%, Greece at 4.17%, the Czech Republic at 3.74%, Russia at 3.22%, the United Kingdom at 2.61%, Andorra at 3.16%, Germany at 3.99%, France at 2.79%, Italy at 2.37% and finally Austria has the lowest rental yield at 1.96%. (*Source: Global Property Guide research – 2018)*

Reference to tables 8 & 9, it is presently noted that the mortgage payment for a 3-bedroomed affordable residence at 722euros monthly is presently 100% cheaper than renting calculated at 1,450euro monthly. On the other hand the mortgage payment for a 2-bedroomed affordable residence at 526euro monthly is again presently 140% cheaper than renting at €1,275 monthly. In 1997 it is noted that the mortgage payment for a 3-bedroomed residence equated to the rental due, whilst for a 2-bedroomed residence renting stood at 160% of the mortgage payment due.

Considering the above present residential rental capitalization rate to hover around 4.25%, the net return to the property investor, who also anticipates to achieve a future estimated 4% pa annual capital return and after deducting 0.75% for maintenance costs is seen to receive a net annual return given by:

4.25% + 4% - 0.75% = 7.50% pa

Thus homeownership annual return is superior to a present safe Government 15-year bond issue averaging at around 2.25% pa, as averaged over the past 5-year period.

Malta's Real Estate & the Malta Stock Exchange.

Property has always been a favourite investment medium with the Maltese. With the recent creation of the Malta Stock Exchange in 1995, this has provided a void where the small investor can address his funds, even prior to settling on the property ladder. What are the risk scenarios for the affordable property market vis-à-vis investing in the Malta Stock Exchange?

Chart No. 4 compares the growth of the affordable property market in comparison with the growth of the Stock Exchange Index, since its inception, from 1996 up to 2018. It is to be noted that if trading by an investor commenced in 1996, this investment on the Stock Exchange as at 2007 would have grown by 5 times, whilst investment in the affordable property market over the same period would have only increased by 2½ times. This is half the growth experienced by the Stock Exchange over the same period. Up to the year 2018 the Stock Exchange is noted to have increased by 436% in value, whilst the property market has only grown by 398%.

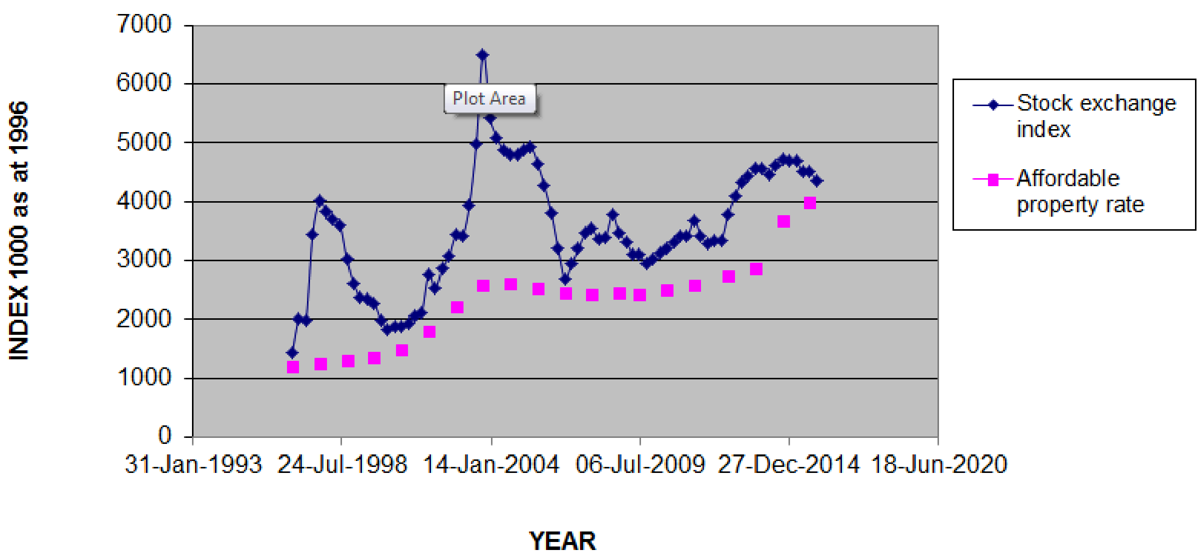


CHART No. 4: PROPERTY vs STOCK EXCHANGE INDEX 1996 – 2018

Source: DHI Periti in-house valuations: Camilleri updated table

The above appears to suggest that trading in the Stock Exchange is superior to dealings in the Property Market. This is the case if the risks involved in both investments are not accounted for. The serrated curve of the Stock Exchange is a clear example of a very volatile market, unlike the Property Market's smooth growth curve. The timing of entry in the Stock exchange is of prime importance.

If an entry had been undertaken in the 1st quarter of the year 2000, the growth up to 2018 in the Stock Exchange would have registered an increase of 8.75% over this 18-year period, whilst over the same period the Property Market registered a +218% growth. On the other hand if one entered the Stock Exchange at its peak during the 1st quarter of 2006, the loss registered on the investment by 2017 works out at -33%, whilst investing in the property market over the same period will have registered a gain of +54%.

Foreign property buyers

Since 1974 when a foreigner purchases property in Malta, it has to be registered via a law known as the Immovable Property (Acquisition by Non-Residents) AIP Act. 13,836 permits have since been registered, i.e. an average of 419 permits per year. These foreign resident purchases, peaked in 1989 at 899, then plummeted to 155 in 1998. These annual foreign contracts are to be compared to the property contracts occurring in Malta exceeding 10,000 annually, as per table 11A. Since 2003, Malta's accession to the EU, EU residents need not apply for an AIP permit.

Table 18A demonstrates that presently, foreign buyers are purchasing property in the up-market range, unlike in the initial years of this study. This signifies that the affordable property market transactions are not being negatively affected from foreign property purchases.

TABLE 18A: NO OF AIP PERMITS ISSUED, WITH AVERAGE PRICE IN EURO COMPARED TO AFFORDABLE PROPERTY RATE (TABLES 4&5).

YEAR	PERMITS – MALTESE ISLAND	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	843	€200,449	1,542	1,211
2008	763	€195,835	1,506	1,183
2009	606	€192,187	1,478	1,144
2010	596	€204,797	1,575	1,130
2011	691	€217,283	1,671	1,146
2012	760	€194,942	1,500	1,134
2013	715	€241,743	1,860	1,168
2014	884	€223,214	1,717	1,203
2015	1131	€249,960	1,923	1,282 *Source: AIP data & CTD property counts MOF as from 2007*

TABLE 18B - VALUE OF PROPERTIES SOLD TO FOREIGNERS OVER THE PAST 4 YEAR PERIOD								
	2012		2013		2014		2015	
District	Number	Price	Number	Price	Number	Price	Number	Price
Southern Hrabour	11	€ 3,020,121	20	€ 3,224,753	21	€ 3,737,720	29	€ 24,534,356
Northern Harbour	112	€ 36,260,476	111	€ 25,972,957	111	€ 40,628,063	148	€ 72,529,586
South Eastern	13	€ 1,910,925	7	€ 626,550	7	€ 2,016,798	11	€ 987,816
Western	8	€ 362,921	4	€ 2,239,000	5	€ 627,000	10	€ 1,499,859
Northern	61	€ 31,253,259	36	€ 13,699,353	36	€ 7,139,338	42	€ 81,913,504
Gozo	39	€ 10,472,277	24	€ 3,974,500	22	€ 4,880,526	30	€ 6,064,821
Unclassified	2	€ 444,500	5	€ 3,129,000	6	€ 9,690,000	10	€ 1,936,692
Total No./ Price	246	€ 83,724,479	207	€ 52,866,113	208	€ 68,719,445	280	€ 189,466,634
Average Price	-	€ 340,343	-	€ 7,552,302	-	€ 9,817,064	-	€ 27,066,662
Average Price table 18A	-	€ 194,192	-	€ 241,743	-	€ 223,214	-	€ 249,960
Rate/sqm	-	€ 2,618	-	€ 58,095	-	€ 75,516	-	€ 208,205
Rate/sqm - table 18A	-	€ 1,500	-	€ 1,860	-	€ 1,717	-	€ 1,923

TABLE 18C - AIP PERMITS - AVERAGE PRICE OF PROPERTIES BY LOCALITY & YEAR				
Locality/Average Price	2012	2013	2014	2015
Southern Harbour :- (Valletta, Cospicua, Zabbar)	€ 274,556	€ 161,237	€ 273,225	€ 846,012
Northern Harbour:- (Birkirkara, Qormi, St. Julans, Pembroke)	€ 323,754	€ 233,991	€ 366,019	€ 490,065
South Eastern:- (Marsaxlokk, Marsaskala, Birzebbugia)	€ 146,994	€ 89,650	€ 288,114	€ 89,801
Western:- (Mdina, Rabat, Attard, balzan)	€ 460,365	€ 559,750	€ 125,400	€ 149,985
Northern :- (St. Pauls Bay, Mosta, Naxxar)	€ 53,332	€ 380,538	€ 198,315	€ 195,032
Gozo & Comino:- (Victoria, Munxar, Nadur)	€ 286,519	€ 165,604	€ 221,842	€ 202,161

Table 18A shows that the number of transactions to foreign purchasers in 2003/4 is well above the 32-year average at 405 annual permits, coinciding with Malta's entry into the EU. It is however, to be noted that from 2003 onwards EU nationals did not require to apply for an AIP permit. It has been reported that over the past 3 years, some 6,000 residences were sold to foreigners, thus many of these foreigners according to table 12 did not require an AIP permit.

Another interesting point is that for the first time in 2002 since 1982, these foreign purchases were well above the affordable price range. Evening out had occurred in 2004, with a surge in the number of premises purchased at 705 occurring, with again the market rate hovering towards the affordable range. A surge in the quality of premises purchased occurred in 2005 at a market rate of €2,261/sqm, with a specification decline following in thereafter. The up-market property rate over the immediate past period has averaged out at €2,680/sqm. In 1987 and 1992, foreigners were actually purchasing properties below the minimum local standards. It appears that the recent up-market developments are attractive to foreigners.

On a regional basis, a higher proportion of non-Maltese nationals reside in the Northern Harbour, South Eastern and Northern Districts. The majority of non-Maltese residents (7,548 or 37.6%) reside in the Northern Harbour, which includes tourist haunts Sliema and St Julians. The next most popular region for foreigners to live was the northern District, with 5,137 non Maltese residents. This district includes Mellieha and St Paul's Bay. Gozo has 1,290 foreign residents out of a total population of 31,143. On a demographic level 52.9% of non-Maltese nationals are males and the average age of foreign residents is 39.5 years. The highest proportion (13.2%) of non-Maltese residents is in the 25-34 age bracket.(Source 2011 Census)

The 2011 Census report indicates that the foreign population has increased by 65% since 2005. Of the total population of 417,432(2011 Census) people, 20,454, or 4.9% are non-Maltese nationals. The number of non-Maltese residents stood at 12,112, or 3 percent of the population in the 2005 census.

Two factors likely to have increased the foreign population are Malta gaining EU status in 2004 and the publication of Remote Gaming Regulations, also in 2004, which enticed many foreign remote gaming companies to set-up offices on the island.

A new residence programme for foreigners (non-EU) was launched on 1st June 2013, replacing the foreign residents' scheme. The Global Residence Programme, as the new scheme is called, will allow people who buy high value property and pay taxes in Malta to benefit from a residence permit. The previous scheme was suspended and initially replaced by the High Net Worth Individuals Scheme. Under the Global Residence Programme, the value of immovable property bought in Malta by foreigners has to be at least €275,000. However, when the property is in the south of Malta or in Gozo, the minimum value can be €220,000. Whereas under the High Net Worth Individuals Scheme. Applicants would also have been eligible if they rented a property for a minimum of €9,600 pa in Malta and €8750 pa in Gozo or the South of Malta.

The minimum tax to be paid in advance is a minimum of €15,000 on income derived in Malta, with further income charged at 15%. Foreign residents under this programme, including their dependants, have to be covered by health insurance. They will not be entitled to Free State health services. (Source S.L. 123.79)

Commercial property data of the Maltese islands – 2018

Prime yields across Europe are contracting with the average yield now 50 basis points lower than the five-year average. Berlin is still recording office rental growth well above the European average. The vacancy rate is the lowest in Europe at 2.0% putting upward pressure on rents.

The average European prime office rent fell by over 6% year-on-year, the steepest fall in ten years. The 30% rental increase in Berlin could not offset falls in Zurich, Geneva and Paris La Defense, where the current prime rent is below the 5-year average. The fall in rents can also be explained by a lack of transactions of prime new-redeveloped properties.

Only Berlin experienced double-digit rental growth (+30%) as a critical shortage of space in the CBD continues to put pressure on occupiers who must absorb the higher rents, move to less desirable locations or move to short-term flexible office spaces. Markets that were previously behind the rental cycle such as Madrid and Prague are experiencing rental increases well above the five-year average and will likely see further rental increases in the upcoming months before stabilising towards the end of next year.

Vacancy rates continue to fall, albeit at a slower pace than previous years. The average vacancy rate across our survey area fell 81 bps to 6.5% with the steepest falls being recorded in Paris La Defense (-290) Warsaw (-280bps), Prague (-170bps) and Dublin (-170bps).

Out of the core markets, Germany, previously the favoured destination for US capital, has seen the greatest fall in investment with volumes down 27% as the ongoing trade disputes between China and the US is leading to increasing caution from investors. On a positive note, the investment volume in France increased 38% year-on-year after a sluggish first half of the year for commercial property in 2017. There is growing interest among investors for core+and value-add assets due to the lack of core products available on the market.

Investment into capital cities versus regional cities appears unchanged from previous years with over 50% of investment being directed to the capital cities. Only the Netherlands, Poland and Spain are seeing investment spreading out of the capital to the regions where there is more availability of product and more attractive yields. After an incredible year in 2017, the industrial sector has seen one of the sharpest falls reaching €11.4bn in H1 2018 compared to €14.14.3bn in H1 2017. With approximately €1.8bn of industrial properties under offer, it is unlikely volumes will reach previous quarters. Office investment volumes in H1 2018 reached €46.8bn which, while down against 2016 and 2017 volumes, is in line with the long-term average.

In the first half of the year, few markets recorded year-on-year yield compression with only Frankfurt, Dublin, Brussels and Amsterdam recording noticeable yield contraction. Over half the markets in our survey area are already recording yields well below their five-year average with little room to compress further. We expect yields to remain stable throughout the rest of the year and into H1 2019.

(Knight Frank European Quarterly Report Q2 2018)

Over the immediate past 14-year period, the number of commercial permits issued averaged out at 834 annually. The lowest number of commercial permits issued was during 2008 - 2009 just surpassing the 400 mark, with the highest number occurring in 2017 at 2,395 permits. This surge in commercial permits also for 2010, as opposed to the drop in residential permits noted in table 10b, notes the above healthy situation of the Maltese economy over the past immediate future.

Table 19 notes a doubling in increase for warehousing, retail and office permits over the past 5 years, this surged on by the Gaming sector, with the possibility of a dent to occur due to the recent money laundering indicators surfacing. This possibly not so, as a further hike is noted in 2017.

This together with a surge of hotel permits noted in 2014, spiralled off by the additional hotel floors policy granted in certain areas. It is further to be noted that totally new hotel developments are in the pipeline, as noted by the 2017 hike, probably new hospitality developments for Valletta.

TABLE 19: DEVELOPMENT PERMITS FOR COMMERCIAL, SOCIAL AND OTHER PURPOSE

Period	Commercial and social								Total permits
	Agriculture	Manufacturing[2]	Warehousing, retail & offices[3]	Hotels & tourism related	Restaurants & bars	Social[4]	Parking	Total	
2003	242	26	181	15	24	91	134	713	3,398
2004	261	31	192	8	25	49	105	671	3,254
2005	293	33	217	16	25	43	103	730	3,710
2006	267	38	169	9	26	30	84	623	3,752
2007	325	27	185	8	14	30	60	649	3,667
2008	182	29	137	6	14	8	66	442	2,917
2009	160	31	123	6	20	23	47	410	2,691
2010	293	55	231	10	46	118	79	832	2,354
2011	192	33	256	4	47	74	49	655	1,720
2012	169	33	247	17	32	87	58	643	1,598
2013	123	33	266	15	49	43	47	576	1,540
2014	124	35	347	29	42	55	78	710	1,631
2015	221	21	403	21	54	77	101	898	1,722
2016	357	23	719	60	213	113	82	1,567	2,124
2017	540	98	974	119	343	137	184	2,395	3,108

Notes:

[1] Changes to the data are mainly due to the Malta Environment & Planning Authority's policy of reassessing permit applications on a continuous basis. Excludes applications for dwellings and minor works on dwellings.

[2] Includes mineral working and industry.

[3] Including the construction of offices, retail services, warehouses, mixed offices and retail outlets, mixed residential premises, offices and retail outlets, mixed residential premises and retail outlets, mixed residential, offices, retail and catering premises.

[4] Including the construction of premises related to the provision of community and health, recreational and educational services.

[5] Including the installation of satellite dishes and swimming pools, the display of advertisements, demolitions , change of use, minor new works and others.

Source: Malta Environment & Planning Authority.

A recent decrease is noted in agricultural permits, which indicates lack of income for this important sustainable sector. This is probably due to drying up of EU funding for this important sector, which has recently been activated. The decrease in the agricultural sector is amplified by tables 20&21. Table 20 notes the gross value added as decreasing by 2% over a 35-year period. Table 21 then notes that over the same period the employment in the agricultural sector has decreased by 5%.

On the other hand a hike is further noted for 2017, probably fueled by the awaited legislation for the medicinal cannabis plantation.

TABLE 20 - SHARE OF GROSS VALUE ADDED BY BROAD ECONOMIC SECTOR 1980

	1980	1990	2000	2004	2014
Agriculture	4%	4%	3%	2%	2%
Industry	39%	31%	27%	28%	17%
Services	59%	65%	70%	70%	81%
Source: *The Diversification of the Maltese Economy Aaron G. Grech CBM Policy Note September 2015*					

TABLE 21 - SHARE OF FULL-TIME EMPLOYMENT BY BROAD ECONOMIC SECTOR 1980

	1980	1990	2000	2004	2014
Agriculture and fisheries	6%	2%	2%	2%	1%
Industry	39%	36%	32%	28%	15%
Services	55%	62%	66%	70%	84%
Sources: *The Diversification of the Maltese Economy Aaron G. GrechCBMPolicy Note September 2015*					

Industrial:

There does not appear to be a free industrial market as most factories are leased from Malta Industrial Parks (MIP) at the maximum rate of €32.50/m^{2}pa but recently an escalation clause is being decided upon to vary as from 3% to 5% every 5 years. On the other hand warehousing may easily be obtained on the market from market rates ranging from €145/m^3 up to €350/m^3, thus equating to a rental rate of €35/m^2 to €82.50/m^2 pa.

These rental rates are to be compared with the prime European industrial standing at €202/m^2, with prime yields averaging 5.72%. Note that the highest rental amount stands at €570/m^2 in London, whilst the lowest at €120/m^2 in Bucharest.

In the past, industrial property had generally offered investors a premium over other sectors, with yields running several % points higher than those of retail and office property. Industrial property yields are moving closer to the levels found in the other property sectors. Prime yields stand between 5 % and 6.5% in most European markets. Converging of yields has also occurred in Central and Eastern Europe with prime yields in Prague at 6.5% and Warsaw standing at 7.5%, whilst Bucharest stands out at 9.5%.

Table No. 22 is the database for warehousing over the past 34-years. As warehousing is a very important sector for the Maltese Islands, note that no drop in value in this sector has been experienced over the past 5-year period. To be noted however, that due to the improved frequent Catamaran Service between Malta & Sicily, the volume of food warehousing has decreased, due to orders being delivered even on a daily basis.

TABLE 22 –WAREHOUSING PROPERTY INDEX 1982-2017

YEAR	1982	1988	1992	1998	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
WARE HOUSE	100.00	110.00	144.00	222.00	256.00	310.15	320.00	354.36	384.00	384.00	418.46	536.68	536.68	562.03	583.16	595.84	608.52	616.97	625.42	633.87	656.6

Growth rates over the past 35-year period recorded at 6.40% pa (indicating a doubling in value every 11.25 years by applying the 72-rule**).**Whereas over the past 10-year period, at 3.26% pa (indicating doubling in value every 22 years), whilst over the past 5-year period sliding down to 1.57% pa with doubling in value occurring every 46 years, as noted in Chart 5, also depicting this steady growth in value. This recent decline in annual growth for warehousing may be explainable, due to the above noted daily deliveries, thus reducing this demand.

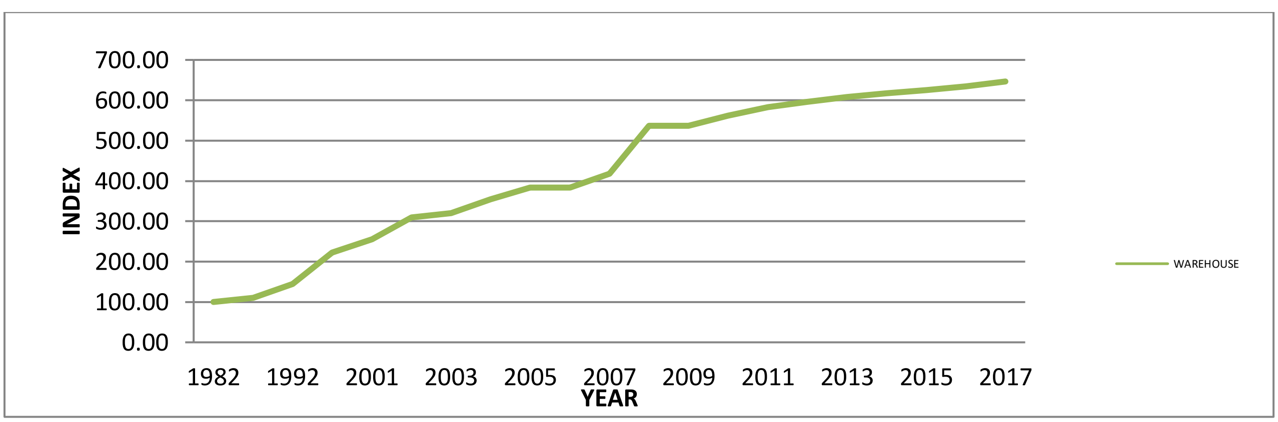


CHART No. 5: WAREHOUSING PROPERTY PRICE GROWTH 1982-2017

Offices:

The office rental market varies from €35/m^2 up to €475/m^2 with Malta's Central Business District average rate standing at €155/m^2.

These are to be compared with the prime European office rents averaging out at €523/m^2 within a range of €1,217/m^2 in London(West End), Paris(CBD) at €830/m^2,Moscow at €693/m^2, Frankfurt at €492/m^2, Dublin at €673/m^2, Warsaw at €288/m^2, Brussels at €300/m^2, Prague at €258/m^2, and Barcelona €270/m^2.

Prime European office yields vary from a low of 3.00% in Paris, Zurich, Berlin and Geneve to a high of 9.75% in Moscow and 7.50% in Bucharest. Most European cities fall in the 3.00% to 4.80% averaging out at a yield of 4.22%.

Table No 23 is the database for a prime multi-tenanted Floriana office block over the past 28-year period. Again, office premises have not been subjected to a property slump in recent years due to the proliferation of the volatile Gaming Industry in Malta.

TABLE 23: OFFICE PREMISES INDEX 1988-2017

YEAR	1988	1993	1998	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
TYPE																				
OFFICES	100	141	203	260	260	233	255	253	278	274	266	281	306	310	320	319	327	350	373	410

Although the database attached is for an office block with Local Companies, this block has still attracted a growth rate of 4.14% over the past 29-year period (indicating a doubling in rental rate every 17¼ years by applying the 72-rule). Over the immediate 5-year period a 3.88% pa growth rate has been achieved(indicating doubling in value every 18.5 years), which is noted to have increased from the past 10-year period given at 5.21%(indicating doubling in value every 13.8 years). As noted in Chart No 6 flattening in price growth rate noted from 2000 onwards.

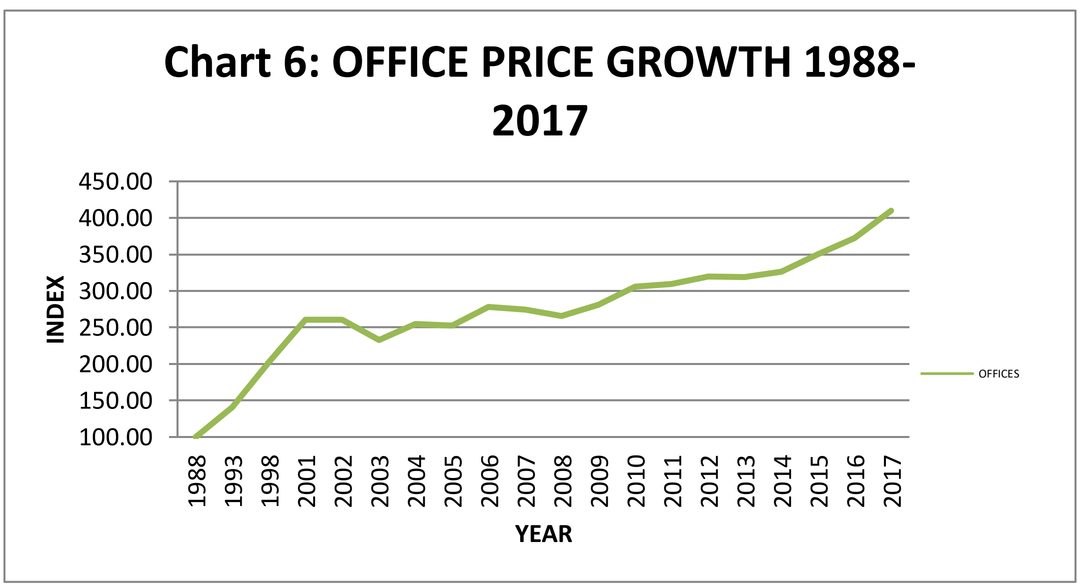


CHART No. 6: OFFICE PRICE GROWTH 1988-2017

Further to above growth rate over the period 2007-2017, this has noted to have increased further in various localities such as Valletta, Floriana & the Strand within a growth band of 0.5% pa up to 4.75% pa, for offices mostly tenanted by local companies.

The above office growth rates have not taken note of the remote i-gaming sector that has continued to grow taking up much of the office space in the Ta' Xbiex/ Sliema/St. Julians conurbation. Chart No. 5 thus excludes these areas. It has been reported that in this locality offices rental rates have increased by 11% pa over the immediate 5-year period, as compared to a 3.25% pa growth rate for Central Malta. Noting this, the i-gaming industry is however being again noted as being a volatile market.

Retail:

In the retail sector high street shops in the towns and villages have a rental amount varying from €12.50/day up to €215/day, for a front retail unit having a 4m frontage with a 9m depth.

The rental rates for shopping malls vary from €950/m^2 down to €150/m^2. Rental values also vary according to the retail type. Department stores and major tenants may be given preferential treatment by paying as little as a ¼ of the rental amount, with specialty retailers paying the higher amounts. Turnover rents in existence vary from an amount equated at 10% to 25% of annual turnover, although this form of rental agreement has lost its appeal over the recent years.

These rents are to be compared to the prime best positioned 100m^2 retail European rents averaging out at €1,799/m^2 within a range of: €5,556/m^2 for London and €3500/m^2 for both Dublin and Moscow, at with Paris at €2,500/m^2, and Frankfurt at €1,560/m^2, Amsterdam at €1,000/m^2, and Stockholm at €851/m^2, Brussels €1,800/$m^2$and Vienna at €1,320/m^2, Milan at €900/m^2,Prague at €1,050/m^2 and Warsaw at €1,800/m^2.

Prime European retail yields vary from a low of 3.75% in Berlin and Munich to a high of 10.25% in Moscow, however most European cities fall in the 4.00% to 5.00% range.

Table No 24 is the database for prime retail outlets over the past 35-year period, as located in Valletta & The Ferries Sliema. Retail premises performance depends on footfall & consumer preferences. Minimal drop in value has been experienced over the past 5-year period.

YEAR TYPE	1982	1987	1988	1992	1996	1997	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
RETAIL	100	109	157	194	232	256	350	373	397	420	425	430	435	440	445	450	455	500	525	550	580	600	630

TABLE 24: RETAIL PREMISES PROPERTY INDEX 1982-2017

Growth rates over the past 35-year period is recorded at 5.40% (indicating doubling in value to occur every 13.33 years by applying the 72-rule). Over the past 5-year period the growth rate has narrowed down to 4.71% pa (indicating doubling in value to occur every 15.3 years), which is an improvement from the past 10-year period at 3.44% pa (indicating doubling in value to occur every 20.9 years). Chart No. 7 notes flattening in growth rate from 2004 to 2011 with steady increases over the past 6 years.

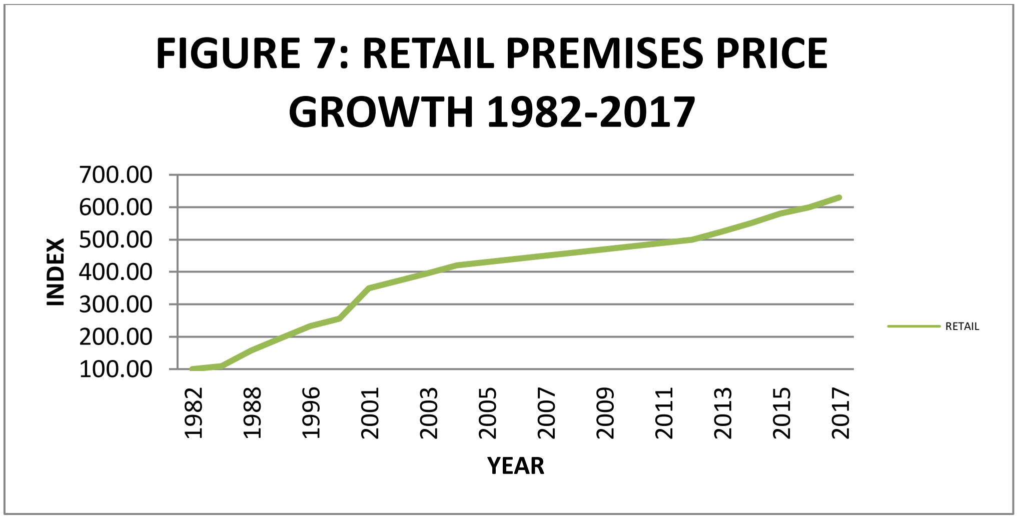


CHART No. 7: RETAIL PREMISES PRICE GROWTH 1982-2017

This subdued growth rate for retail properties as compared to the other market types explained may be related to the subdued footfall of local retail outlets. Over the immediate past period the standard & quality of these retail outlets has leapfrogged, as stimulated by the completion of The Point Complex. This quantum leap has not been validated by a rise in footfall. Malta has not as yet managed to become the regional retail hub of the Mediterranean, notwithstanding even the increase in tourist arrivals over the previous years.

Comparative commercial rental analysis
The above commercial rental data is summarized in the table 25 below.

TABLE 25 – COMPARING MALTESE COMMERCIAL RENTALS WITH THE EUROPEAN AVERAGE.

Property type	Rental range of the Maltese Islands €/m^2	Capital Appreciation over 10 years	European best positioned Average rentals in €/m^2 – (Max)	European Prime Yields
Industrial	up to €82.50	3.26% pa	€202/m^2 (570)	5.0% - 6.5%*
Offices	€35 - €500	3.88% pa	€523/m^2 (1,217)	3.0% - 4.8%
Retail	€150 - €950**	3.44% pa	€1,799/m^2 (5,789)	4.0% - 5.0%

* Moscow excluded
**This value applies for shopping malls, as prime street frontage retail units could fetch a maximum rental amount of €1250/m^2, even topped up to €3250/m^2 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.

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