

#### 40 Years of Housing Affordability in Malta.

The topic of Housing Affordability has lately been flouted profusely on the local media. What impressed is that all reports emphasised that the price of housing in Malta doubled over the past 5-year period. This fact is noted to have been taken negatively by the Maltese public, in that prospective 1<sup>st</sup> time buyers are questioning whether the local property market is still truly worth a life time investment that it has been considered to be. The Money Coach feature of the 9<sup>th</sup> December in The Times of Malta outlined this further in, *A young professional's dilemma when faced with Malta's skyrocketing property market*.

The valuation practice of Dhiperiti has data going back 40 years on housing affordability in Malta. This long term historical data provides further insight into the workings of the residential property market. It is known that residential property doubles in value on average every 10 to 12 years. The final row of the table below notes over the 40-year period residential property values have increased by 16 x times. Mainly these residential values have doubled on average every 10 years. Further over this period the affordable Maltese property had an average growth rate of 6.85% pa, which also works out that the value for this type of property doubles every 10 ½ years.

So why had the residential values doubled over the period 2017 – 2022. This is due to the financial meltdown that had occurred over the period 2007 – 2014. Over this period residential property values in Malta had decreased by 10%, considered minimal to what had occurred in other countries such as Ireland & Spain whereby drops in value of 40% - 60% had occurred. With the Maltese residential rental market subjected to a hike as from 2012 onwards as anticipated, a time-lag as expected, occurred for the residential buyers' market, to come in synch with the investment potential of the rental market.

Although residential property values over this 40-year period had increased 16 x times, the final row of table below also notes that over this same period the median wage has only increased by 7 x times. This whilst the monthly mortgage payment for a 3-bed/r apartment increased 6 x times, whilst for a 2-bed/r apartment 8 x times. Although over this period the median wage had only increased 7 x times, the housing affordability index HAI improved from 77 up to 98 for a 3-bed/r apartment. This signifies that a household nowadays affords to purchase its residence, whilst in 1982 only ¼ of a residential property was affordable.

This improved affordability occurred due to the Bank's mortgage rate decreasing from 8% down to 2.67%, whilst further nowadays there is more than 1 wage earner in a household. This together with the mortgage term having been extended from 25 years to 40 years.

A greater burden occurred in 1982, as the deposit to be paid on the house purchase price stood at 20%, as compared to 10% nowadays. Property purchase stamp duty has mostly stood at 5% of purchase price. Further present savings nowadays occur as 1<sup>st</sup> time buyers are entitled to include for no stamp duty to be paid on the 1<sup>st</sup> €200,000 value, presently even lower in Gozo. It could possibly be even opportune to lower stamp duty even lower for 1<sup>st</sup> time buyers.

The table below notes the HAI as starting off at 77, dipping to its lowest to 65 as at 1997, whilst noting the global economic meltdown having a beneficial effect on Malta, as the best HAI recorded stood at

135 as at 2012. This before dipping down again now presently standing at 98. IMF had commented positively on Malta's stand during the global economic meltdown, attributing this to Malta as not having any property taxes, proving Malta's stance on this issue as correct, stimulating economic growth.

**TABLE 1: HOUSING AFFORDABILITY INDEX FOR THE MALTESE ISLANDS – HAI**

Year	Mortgage Rate - %	market property rate €/m <sup>2</sup>	Mortgage Monthly Payment		Medium Monthly Household Income**	Qualifying Monthly Income		Ratio of Qualifying Family Income		HAI*		House Price: Earnings Ratio
			3-bed/r	2-bed/r		3-bed/r	2-bed/r	3-bed/r	2-bed/r	3-bed/r	2-bed/r	
1982	8.00	163	€ 140	€ 86	€ 429	€ 559	€ 391	1.3	0.91	77	110	4.28
1987		212	€ 161	€ 114	€ 564	€ 643	€ 457	1.14	0.81	88	123	4.23
1992		349	€ 252	€ 168	€ 745	€ 1,006	€ 531	1.35	0.9	74	111	5.27
1997		512	€ 384	€ 247	€ 995	€ 1,537	€ 988	1.55	0.99	65	101	5.8
2002		629	€ 394	€ 263	€ 1,215	€ 1,575	€ 1,057	1.29	0.86	77	116	5.6
2007		1211	€ 673	€ 478	€ 1,738	€ 2,152	€ 1,670	1.35	1.01	74	104	6.97
2012	3.41	1134	€ 429	€ 305	€ 2,058	€ 1,568	€ 1,067	0.76	0.52	132	192	5.05
2017	3.14	1718	€ 623	€ 453	€ 2,521	€ 2,338	€ 1,585	0.93	0.63	108	159	6.25
2022	2.75	2403	€ 818	€ 666	€ 2,836	€ 2,982	€ 2,331	1.05	0.82	95	122	7.77
2023	2.67	2585	€ 868	€ 679	€ 2,941	€ 3,038	€ 2,377	1.03	0.81	96.81	123.75	8.06
2023/1982		16	6	8	7							1.88

Source: DHIperiti in-house valuations 2023

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

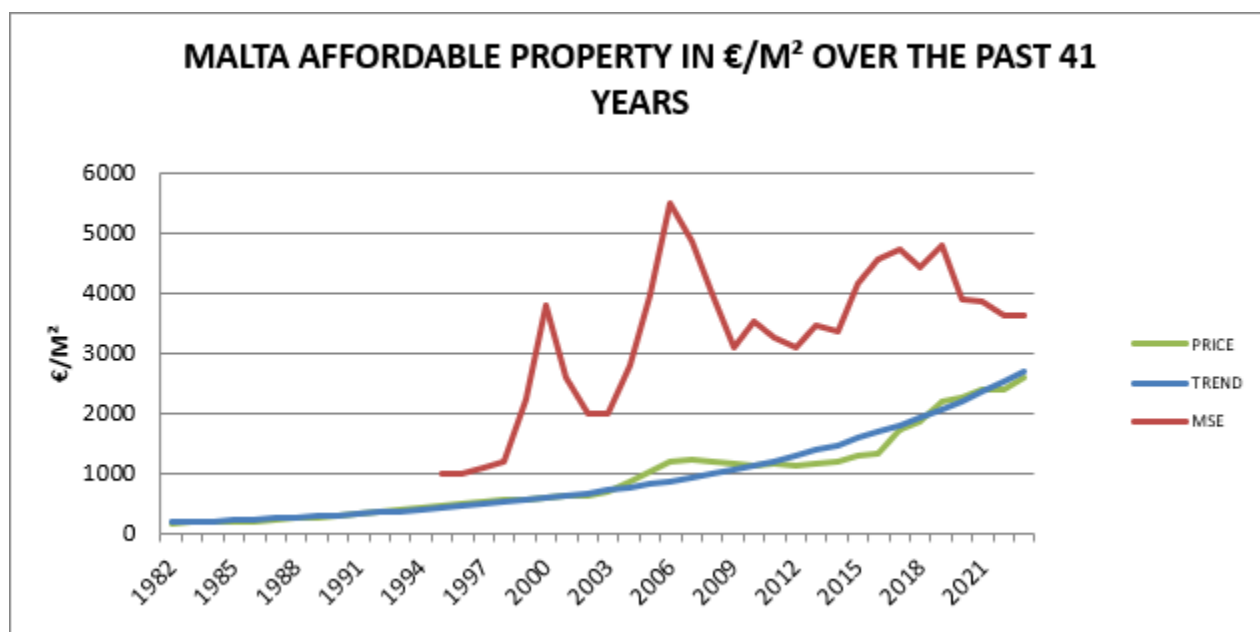
\*\*the median household income is factored at 1 for 1982, and by 1.35 for 2002 increasing to 1.65 as from 2012 to account for the effect of the 2nd wage earner.

CHART 1 below noting the Trend line plotted over this period 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. The MSE index is also charted here noting its serrated curvature, indicative of a volatile investment. Malta's smoother property curve again conforms to another old maxim, in that property investment is a hedge against inflation.

The boom years are reflected in 2002 – 2008 (anticipation prior to Malta's entry into the EU). Over the period 2004 – 2008 the property market had overshoot the trend line with the actual value for 2006 (HAI of 79) standing at €1202/sqm as compared to the expected growth, with the trend value working 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.

The slump years 2008- 2014 (global meltdown) are now identified. In 2016 (HAI of 130) an affordable property was being purchased 21% cheaper than the trend line value.

On the other hand, the overshoot onto the upper portion of the chart for 2019, is indicative that once again the property market was being charted into the unaffordable range, which has been slowed down since 2000 during the COVID pandemic together with the present uncertainty of the ongoing European wars. As at 2023 the affordable property value stands at 3.8% below the trend line.



**CHART NO.1: MALTA AFFORDABLE PROPERTY IN €/M² OVER THE PAST 41 YEARS**

On the other hand the House Price Earnings Ratio as noted in final column of attached table notes this ratio to have increased gradually from 4.28 in 1982 peaking in 2006 at 7.22, before declining to 4.93 in 2014. Presently for 2023 this now reads 8.06, disturbingly the highest value over this 37-year period. 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 to the property bubbles noted, 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. The 8.06 ratio as at 2023 is worrying, but again noted not as disturbing. 250,000

This statistic is not considered disturbing, as building applications are again on the rise following COVID 2000 pandemic. As at 2022 the number of applications for residential units stood at 9599. This up from 2021 at 7578, but below the maximum ever recorded for 2018 at 12885. This notes that residential units are not in short supply, which should not hike up prices unnecessarily.

The permit numbers have now to cater for the revised population of the Maltese Islands. This revised total population of Malta and Gozo at the end of 2022 stood at 542,051, accounting for a 4.2% increase from 2021 census data. The recorded increase in population was driven by a total net migration of 21,798 people, of which 83.1% were third country nationals. Of the total figure, 404,675 people are Maltese citizens while 137,376 are foreign residents, who will mostly lease their place of residence, as most foreign residents' stays average out circa 2 years.

These population counts are to be compared to census year 2011 when the figure stood at 417,432. No wonder the increase in permit numbers witnessed over the years. Notwithstanding a lower population pre-2011 census year, the previous record year for permit applications stood at 2007 with 11,343 permits building up from 2002 onwards, again a reflection of EU expectations. A slump then followed due to excessive numbers & the global meltdown. These were then taken over from 2012 onwards, with the running of an unhindered rental market came into place.

Reverting back to the Money Coach feature of the Times of Malta 9th December, which outlined a 25-year old professional's dilemma, it is noted that he is at the perfect age, as he may utilise a 40-year long mortgage plan. If this is postponed by 5 years whereby he will then be able to undertake only a 35-year mortgage, monthly payments will increase by 10%. On the other hand postponing this further, in that only a 30-year mortgage may be undertaken, monthly payments increase by 20%. If the 1<sup>st</sup> time purchaser delays further that he can only take on a 25-year, then monthly payments increase even steeper to 35%. Hence delaying the time to purchase the 1<sup>st</sup> property makes purchasing even more unaffordable. On the other hand if the mortgagee after a period of years will be in a position to increase his monthly payments, this will aid towards reducing the repayment period.

Regarding the comment that a previous apartment costing €130,000 now starts at €250,000, referring to the property workings over the past 40 years, in 10 years' time could have a value hovering around €500,000. This is how the present baby boomers (born 1946 – 1964) are property rich, as noted in a correspondence piece of the 14<sup>th</sup> November. So the earlier this Gen Z (born 1998 – 2016) get onto the property ladder, the more property rich will they be in their pensionable age!

The above should hold unless the World economy is driven into a deep recession, with the present European wars probably could be one of the issues.