

MALTA'S DECLINING HOUSING AFFORDABILITY – due to rental deregulation?

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This synopsis delves into why Malta's improving housing affordability up to 2014, has deteriorated, with affordable housing besides social housing in place, becoming necessary to reduce the housing burden. This is contrary to what *Camilleri D., 2011*,² had noted in that the then present low mortgage rate era and decline in property values as had occurred up to 2013 had signified that for Malta, the global credit crunch 2008 -2012 was beneficial for first time homeowners.

This loss in affordability was then brought about mainly due to two different causes:

1/- total de-regularization of Malta's rental market, by amendments to the Civil Code in 2009. This followed on the 1995 initial liberalization of leases. It is to be noted that Malta had the strictest security of tenure in place, with tied rentals leased out at 2%-5% of the open market rentals.

2/- the increase in the non-Maltese nationals has had a dire effect on the market rentals, which have increased by over 175%, over the past 5-year period (table No. 1). These non-nationals have in turn tackled this dilemma by living in an apartment rented out to 6 separate individuals, considering their stay in Malta not to be permanent.

TABLE 1: DHI RENTAL MONTHLY DATA

	DHI	DHI	DHI
	3 Bedroom	2 Bedroom	1 Bedroom
2007	€ 491	€ 448	€ 238
2010	€ 492	€ 422	€ 258
2013	€ 541	€ 522	€ 331
2014	€ 478	€ 393	€ 345
2015	€ 752	€ 615	€ 493
2016	€ 983	€ 723	€ 583
2017	€ 1,034	€ 1,008	€ 769
2018	€ 1,179	€ 1,139	€ 859
2019	€ 1,137	€ 1,036	€ 803
2020	€ 1,235	€ 1,032	€ 806

Table No. 2 notes the characteristics of the Maltese Housing Market over the past 70-year period, as a period of high Homeownership, varying from 23% up to 81% over this period.

As at 2018 the population living in owner occupied dwellings with a mortgage stood at 21.4% (*Eurostat – Housing Statistics 2018*). This compared with the majority of the population in each EU Member

¹ ¹ Refer to the paper MALTA'S DECLINING HOUSING AFFORDABILITY – due to rental deregulation? D. H. Camilleri_2021

² Camilleri D., (2011) 'A long-term analysis of housing affordability in Malta', International Journal of Housing Markets and Analysis, Vol. 4 Issue: 1, pp.31-57.

State living in owner-occupied dwellings in 2016, varying between 52 % in Germany and 96 % in Romania, with an EU average of 69.2%. (*Eurostat – Housing Statistics 2016*).

TABLE 2: HOMEOWNERSHIP RATE AS AT CENSUS DATE

YEAR	1948	1957	1967	1985	1995	2005	2011	2018
%	23.1	26.1	32	53.9	68	75.2	77.0	81.6

The proportion of housing tenures in Malta, as at 2011, stood at (*Xerri K., 2018*):³

Social housing 5.1%

Private rent at below market prices 10.1%,

The above 2 total of 15.2% is to be compared to 13.5% at 2015 (*NSO 2016*)

Private rent at market prices 5.3%, compared to 4.6% at 2015 (*NSO 2016*)

Free of charge 2.6%.

As such, 7 out of every 10 (69.2 %) persons in the EU-28 lived in owner-occupied dwellings, while 19.9 % were tenants with a market price rent, and 10.8 % were tenants in reduced-rent or free accommodation (*Eurostat – Housing Statistics 2016*).

Rental Matters

Has the releasing of a number of rental premises at market rates been beneficial to the better workings of the affordable property market? Rent control measures introduced as at 1925, were liberalized in 1995, *Xerri K., 2018*. An earlier attempt had been undertaken during the British Colonial Government who had introduced the Decontrol Ordinance in 1959 on residential premises. This was a legislative proposal to de-restrict rent and to return to the pre-1925 liberal system, requiring a thorough review of the Island's special rent control laws 1931 & 1944, basing their draft on the British Landlord & Tenant Act 1954 & Rent Act 1957, *Mangion R., 2018*.⁴

Camilleri D. H., (2000)⁵ had noted, rent deregulation was urgently required. It would improve the condition of our housing stock and improve the affordability of affordable homes. Regulation increases the rental amount due in the uncontrolled rental market. This has an effect of further increasing prices in the home-ownership market. However this was noted as not being Malta's case, with double figure value increases as occurring over the period 2016–2019 in the residential property market, despite the flourishing liberalized rental housing market.

Table No. 3 now outlines the various forms of home ownership over the censuses period 1995–2011. It is further noted that the % of the rental houses has slid down from 76.9% (table 1 1948 census) to 23.0% at 2011 Census.

³ Xerri K., (2018), '*Renting Residential Property in 21st Century Malta – does the law provide a level playing field*', BDL Publishing, Malta.

⁴ Mangion R., 2018, '*Legislatures & Legislation in Malta, 1914 – 1964*'; Midsea Books Ltd.

⁵ Camilleri D. H., (2000), '*A case for rent deregulation*', The Sunday Times Malta, 26th November.

TABLE 3: % 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%

Chart No. 1 now notes household rental amounts as paid over the various censuses in Malta. It is to be noted that the number of households paying rental annual amounts of €200 has decreased from 39,657 households in 1985 (46,814 total households with rentals) to 12,503 households in 2011 (30,345 total households with rentals).

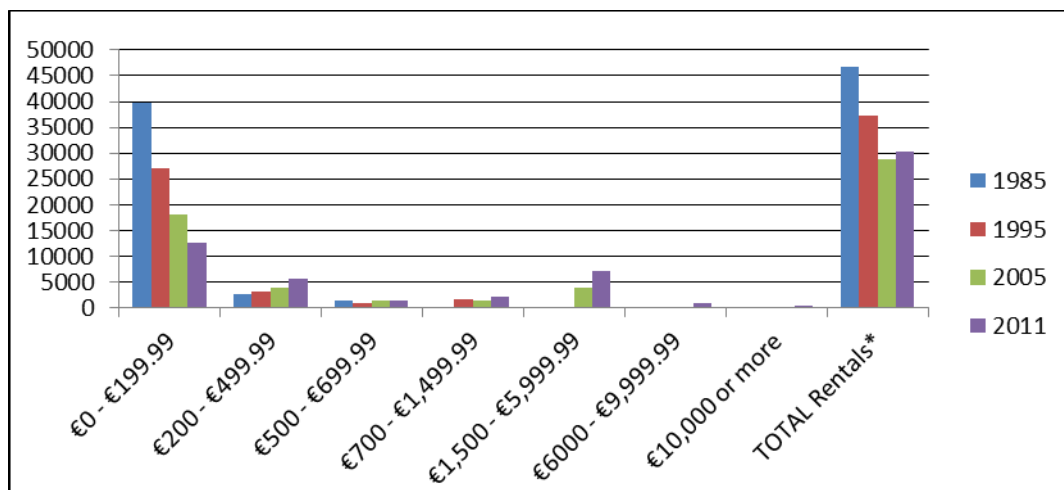
CHART No. 1: DISTRIBUTION ON ANNUAL RENTAL AMOUNTS WITHIN THE CENSAL PERIODS 1985-2011

Chart No. 1 gives a further inkling into the workings of the two legal rental updates as undertaken in 1995 & 2009. 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. It is now noted that Malta has gone full swing in its rental deregulation, unlike most of its European counterparts that have again opted for some degree of rent control, (Xerri K., 2018).

The 2009 rental Act has not truly corrected the minimum rental payable. The minimum rental amount is imposed at €210 per annum, unless agreed otherwise. As per the 2011 census data, there were still 12,503 households paying a rental amount below €200pa. Another Census is eagerly awaited to update data, however it is being quoted that there still exist 20,000 households that require financial assistance for their present restricted rentals in place, to be brought up to 50% of market levels. This as is noted that present legislation in place quotes a 2% capitalisation rate of present market value, to arrive at the rental amount due. Present market capitalization rates in the housing market vary from 3.75% up to 6%.

Concluding Matters

As noted in table No. 4 an improving housing affordability index HAI for the Maltese Islands followed the global credit crunch, as from 2008-2012.

<i>Year</i>	<i>Mortgage Monthly Payment</i>	<i>Medium Monthly Family Income**</i>	<i>Qualifying Monthly Income</i>	<i>HAI*</i>	<i>House Price: Earnings Ratio***</i>
	3-bed/2-bed/r		3-bed/ 2-bed/r	3bed/2 bed/r	
1982	€140 € 56	€ 429	€559 € 391	77 110	4.28
1987	€161 €114	€ 564	€643 € 457	88 123	4.23
1992	€252 €168	€ 745	€1006 € 531	74 111	5.27
1997	€384 €247	€ 995	€1537 €988	65 101	5.8
2002	€394 €263	€ 1,215	€1575 €1057	77 116	5.6
2006	€606 €429	€ 1,665	€2119 €1500	79 111	7.22
2007	€673 €478	€ 1,738	€2152 €1670	74 104	6.97
2012	€448 €305	€ 2,058	€1568 €1067	132 192	5.05
2014	€472 €322	€ 2,237	€1652 €1127	135 200	4.93
2016	€520 €358	€ 2,354	€1820 €1253	130 189	5.44
2017	€668 €453	€ 2,521	€2338 €1585	108 159	6.25
2020	€819 €650	€ 2,690	€2866 €2275	93 118	7.69

Source: DHlperiti in-house valuations 2020

*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.

***a long term House Price Earnings Ratio stands at 3.5, however UNCHR, quotes 6 as satisfactory, however increasing to 10 notes a serious housing bubble in place.

However as from 2013 a new phenomenon appeared, an aggressive buy-to-let residential market, with rentals skyrocketing by 175% over this 5-year period. It was noted that the residential property market reacted late to the aggressiveness of the buy-to-let market, as it was only from 2016 that property was subjected to double figure annual property increases. Hence the HAI came tumbling down from its maximum 135 in 2014 to 93 in 2020, making a residence again unaffordable for the Maltese household.