

## High dwelling vacancy rate and high prices of housing in Malta a mediterranean phenomenon

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**Abstract** Current data from South European countries, especially Malta, indicates the existence of some contradictory forces in the housing market that defy the law of supply and demand and require explanation. In a ‘normal’ housing market, it can be expected that a high dwelling vacancy rate would help keep down the price of housing. In Malta, however, both the vacancy rate and housing prices have been rising in tandem for decades, unabated, even under the recent international market crunch. The government housing policy, which has always stimulated homeownership, is still encouraging new house building. Despite the high number (over 50,000) of vacant dwellings, the authorities issue more than 6,000 building permits annually to the private sector. In this paper we outline and explain the major factors contributing to this unlikely combination. Doing so, we use a welfare-state perspective. We identify and explain the underlying factors that are collectively responsible for such a paradox: the state; the family; the powerful Catholic Church; the underdeveloped Maltese financial market; and the paternalistic culture prevalent in Malta.

**Keywords** Dwelling vacancy rate · Homeownership · House prices · Malta · Rent regulation

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## 1 Introduction

Housing serves simultaneously as a consumption good and an investment opportunity. In a market economy, the price of housing should reflect the characteristics of supply and demand through the availability of land, interest rates, tax laws, mortgage rates, construction costs, demographic demand, etc. (Carreras-i-Solanas et al. 2004; Barot 2001; Kim and Renaud 2009; Englund and Ioannides 1997). Whereas the availability of land is seen as a key factor,<sup>1</sup> most studies on the price of housing give little attention to the vacancy rate. Perhaps it is assumed that a high vacancy rate is a temporary distortion in a well functioning market that will correct itself when an over-supply of housing pushes down the prices and limits the supply of new housing so that the market can return to equilibrium. Yet current data from South European countries, especially Malta, indicates that both the housing prices and vacancy rates have been rising unabated for decades, even under the recent international market crunch. Only since mid-2008 has there been some decline in prices for some housing types, but not all. While the prices of finished flats, villas, and maisonettes in shell form declined by 5.5, 9.6 and 9.1% respectively, the prices of finished maisonettes and townhouses have increased by 6 and 6.1% respectively (Quarterly Review 2009).<sup>2</sup>

The objective of this paper is to outline and explain the major factors contributing to the unlikely combination of a high vacancy rate and the high price of housing from a welfare-state perspective. Malta was selected for several reasons. It is a small country with a homogeneous population, which makes it an ideal living laboratory in which new theories can be tested. There is sufficient data on housing, collected from the 1995 and 2005 censuses. While its housing system shows some similarities to that of the South European welfare-state model, there are also some major differences. For example, during World War II, Malta was repeatedly bombed by the German and Italian air forces (Malta was used as the main British naval station for Europe and North Africa), and a substantial number of dwellings were demolished or damaged (35,000), especially in Valletta and the Three Cities surrounding the Grand Harbour.<sup>3</sup> Further, 160 years of British colonial administration and the British colonial housing policy have had a lasting effect on the housing market. The main observable impact is Malta's sizeable social housing sector (13% of the entire stock).<sup>4</sup> Moreover, Malta has a powerful Labour Party (MLP) with socialist tendencies, under whose administration most of the public housing units were built.

The paper is organized into seven sections. Following the introduction, Sect. 2 places the vacancy problem within the South European welfare-state theoretical perspective. The next section describes the key features of the vacancy problem, identifying variation among some European countries. Section 4 presents detailed information and insights

<sup>1</sup> Malta is a very small country (just over 300 km<sup>2</sup>), grossly overpopulated (over 400,000 inhabitants), and the small size of the islands is a strong psychological factor motivating the Maltese to rush to own a piece of land 'before it is all gone.'

<sup>2</sup> On February 4, 2010, a €140 million mixed-use development started in a coastal town, St. Julian's, to build 126 apartments with garages. On February 13, 2010, work started on the construction of a €22 million project to build a 12-storey tower in Gozo (a sister island) that will contain 150 apartments.

<sup>3</sup> In 1945, the entire housing stock was estimated to be around 65,000 units. Therefore, the damage and loss had depleted over 50% of the entire housing stock. Destruction of housing resulted in massive homelessness, forcing the government to rush through a restrictive rent control provision which (with some minor changes) is still in force.

<sup>4</sup> There are approximately 63 social housing units per 1,000 inhabitants in Malta, compared with zero in Greece, three in Spain, 12 in Portugal and 16 in Italy (for comparative data, see Allen et al. 2004).

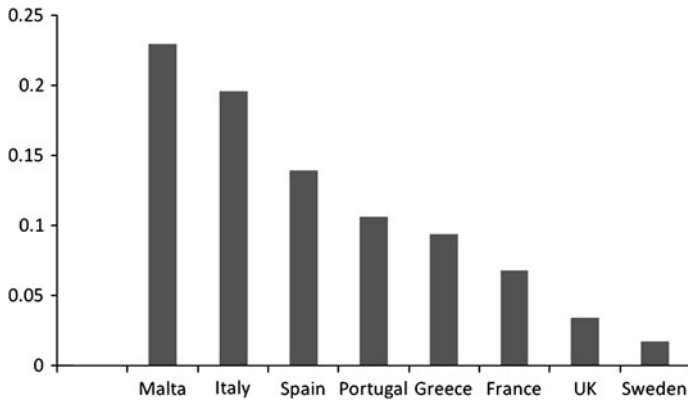
regarding vacant dwellings in Malta. In Sect. 5, we explain the role of the British colonial administration in Malta and sketch the impact on the housing market. In Sect. 6, the major factors contributing to the problem are highlighted and discussed. Section seven consists of some concluding remarks and the bibliography.

## 2 South European welfare state and housing market

Although, with some justification, we can group the South European countries into a single welfare-state model, a comparison of their housing systems is more complicated than it would appear from the literature. Esping-Andersen, in his book *The Three Worlds of Welfare Capitalism* (1990), introduced three ideal typical welfare-state regimes (Liberal, Corporatist and Social-Democratic). The three models differed fundamentally from each other on aspects like the degree of decommodification, the relationship between welfare-state policies and forms of social stratification, and the ‘mix between State, market and the family’ in the design and delivery of welfare services (Esping-Andersen 1990). Ever since this classification was advanced, a heated debate has been raging on how to fit many of the western industrialized countries into certain welfare-state types, entailing an argument for and against the existence of a “South European” or “Mediterranean” model (Esping-Andersen 1990; Leibfried 1993; Ferrera 1996; Trifiletti 1999; Vakili-Zad 2007; Gough 1996; Martin 1996; Flaquer 2000; Allen et al. 2004; Hoekstra 2005). Those who support the existence of such a model have convincingly argued that the South European countries constitute a distinct welfare model comprising extravagant constitutional promises alongside rudimentary social rights and weak public implementation, superimposed on a greater role of the Church, family and hidden economy than in the North (Leibfried 1993). The social security systems of Southern countries are highly fragmented and, although there is no articulated safety net of minimum social protection, some benefit levels are very generous (such as old-age pensions). Moreover, in these countries health care is institutionalized as a right of citizenship, though financed through both general taxation and social contributions. Another important feature is the high level of particularism with regard to cash benefits and financing, expressed in high levels of clientelism. In Malta, the state treats women as wives and mothers, not as workers. And because most of the social services are provided by religious institutions, persons who receive services are treated as recipients of charity and handouts rather than as people claiming their rights. Many large service-providing institutions have no fixed budget and are kept running by ongoing fundraising and donations.

For some, these differences are strong indicators of a distinct model; for others they merely represent an aberration not worthy of a model. Whether or not one is convinced by these arguments, the undeniable fact is that several of the South European welfare-state countries (Spain, Portugal, Greece, and Malta) share some important characteristics that differ in many ways from those in the rest of Europe.<sup>5</sup> But there are enough differences among them to prevent a simple grouping in one model or another. One of the major differences regarding the housing market is the unusually high vacancy rate in some South European countries, to which we refer next.

<sup>5</sup> Esping-Andersen placed Italy in the corporatist model and Malta has not been included in any models (see Vakili-Zad 2007).



**Fig. 1** Dwelling vacancy rate in selected countries. *Sources:* Housing Statistics in the European Union 2004, Sweden, pp. 49–50 & 82; 2005 Census of Population and Housing, Malta

### 3 Vacant dwellings and the welfare state

The South European housing systems and housing markets tend to be characterized by a number of distinct features. According to Allen et al. (2004), they are the following: a high rate of homeownership; an important role for the family in supporting access to housing; a history of strict rent regulation and tenant protection; a high share of second homes; and a strong rural-to-urban migration (Allen et al. 2004).<sup>6</sup> Adding Malta to the list, we suggest some more factors: the existence of a powerful Catholic Church involved in politics; two dominant political parties; shortage of land; and 160 years of experience with British colonial policies. In our opinion, these characteristics have contributed to the over-production of housing, a high dwelling vacancy rate, and the ambiguous relationship between vacancy rate and housing prices that has been the hallmark of the housing market in Malta. Now we can turn to the main subject of this paper: vacant dwellings.

A vacant dwelling is defined as a unit of residential accommodation that is empty at a particular point in time. This includes dwellings that are empty at various junctures: between changes of occupants; while undergoing modernization, repairs or conversion; dwellings that are awaiting demolition; and newly completed but not yet occupied dwellings (Housing Statistics in European Union 2004). As Fig. 1 clearly shows, the vacancy rate in South European countries is high in comparison to that in countries that are placed in the other three models.

It is, however, necessary for a proportion of the housing stock to be empty at any point in time to enable the process of buying, selling and letting to work efficiently. These are known as ‘transactional vacancies’ and most are brought back into use quickly. In Greece, vacant dwellings are perceived as permanent and independent structures consisting of at least one habitable room that is empty on the census day. In Italy, the emphasis is on the occupant of the dwelling, so vacant dwellings are defined as dwellings that have no permanent occupants. In Portugal, the emphasis is on whether the dwelling is available on the housing market, thereby eliminating those vacant dwellings that are kept out of the market. Thus, the number of vacant dwellings in Portugal may actually be underestimated.

<sup>6</sup> Malta is small and the distinction between rural and urban areas is not clear; thus tradition and family connections are more important than distance.

**Table 1** Vacant and holiday dwellings in Malta

|   | Vacant dwellings | %     | Permanently vacant dwellings | %     | No. of holiday dwellings | %     |
|---|------------------|-------|------------------------------|-------|--------------------------|-------|
| Terraced house                                | 13,872           | 26.11 | 13,128                       | 30.45 | 744                      | 7.42  |
| Semi-detached house                           | 922              | 1.74  | 795                          | 1.8   | 127                      | 1.27  |
| Fully-detached house                          | 702              | 1.32  | 606                          | 1.4   | 96                       | 0.96  |
| Ground-floor tenement                         | 3,226            | 6.07  | 2,777                        | 6.44  | 449                      | 4.48  |
| Maisonette                                    | 9,857            | 18.55 | 8,025                        | 18.61 | 1,832                    | 18.26 |
| Flat/penthouse                                | 24,295           | 45.72 | 17,528                       | 40.66 | 6,767                    | 67.48 |
| Suite of rooms forming part of a housing unit | 262              | 0.49  | 249                          | 0.58  | 13                       | 0.13  |
| Total   | 53,136           | 100.0 | 43,108                       | 100   | 10,028                   | 18.9  |

Source: 2005 Census of Population and Housing, Malta

In Spain, the definition depends on three conditions: the dwelling should not be used as a regular residence; it may not be a second or seasonal home; and it has to be in a good state of repair (Housing Statistics in the European Union 2004).

#### 4 Vacant dwellings in Malta

According to the 2005 census, there were 192,314 dwellings in Malta, 10,028 (5.2%) of which are considered 'temporary vacant dwellings' (second homes/holiday homes) whereas about 43,108 dwellings (22%) were permanently vacant.<sup>7</sup> Between 1995 and 2005, approximately 14,379 new units were built.

Although many different conditions are used in the definitions of vacant dwellings in Malta, they all fall into three general categories. (1) A dwelling refers to a permanent, independent structure consisting of at least one regular room intended for human habitation and having the necessary sanitary amenities. (2) There is no major distinction between vacant dwellings for rent and vacant dwellings for sale. (3) A dwelling has to be ready for occupancy on the day of enumeration (census) to be declared vacant, no matter for what purpose the unit was built (thus including summer homes and second homes, etc.), which excludes dwellings undergoing modernization, repair, conversion or awaiting demolition. The exception is a "suite of rooms", usually within an existing unit. The most prevalent type of vacant dwelling in Malta, accounting for over 45%, was the flat/penthouse, followed at over 26% by the terraced house and then at over 18% by the maisonette (see Table 1). However, while only 40% of the vacant flats/penthouses were permanently vacant, over 67% were used for holiday purposes.

The majority (90%) of the vacant dwellings were in a good state of repair or needed only minor or moderate repairs. Although permanently vacant units were spread all over the country, some older cities had the most. In these cities, the housing stock is relatively old, the dwellings are relatively small, and some dwellings lack the amenities that modern life requires and are also in a bad state of repair.

<sup>7</sup> According to the government, the value of the vacant dwellings in 2005 was estimated to be around €9.32 billion (Rent Laws 2008).

## 5 The British colonial administration and housing policy in Malta

Malta was a British colony for over 160 years. Any area of importance, especially financial, was under British administration. In 1812 the first Department of Land Revenue was established, headed by two British officers to monitor the rent collected from the government-owned properties (approximately one-third of all the properties in Malta). After the war, the colonial administration provided Malta with over £3,000,000 for restoration and reconstruction of the war-damaged properties. This was also the time when the building of council housing in England was accelerated to deal with the shortage of housing due to the war.

Early in 1955, Anthony G. Atkinson, a housing advisor retained by the Labour Government, arrived in Malta to study housing conditions, especially the plan for the redevelopment of Valletta and the Three Cities, where damage and destruction was severe. The major obstacle faced by Atkinson was a lack of reliable data. In order to improve the housing conditions and bring them up to reasonably satisfactory standards, Malta needed 10,000 new dwelling units spread over 5 years, as recommended by Atkinson (quoted in Vakili-Zad 2007).

According to Atkinson, an effective housing programme for Malta was to stimulate house building and reconditioning, to encourage local investment in housing, and to raise the efficiency of the building industry. Atkinson also recommended the formation of a Housing Authority with its own technical staff, possibly seconded from the public works department, as well as encouraging the development of building societies (as in England). Although, he was in favour of homeownership, he recommended that the government build social housing and have it managed by housing associations (Vakili-Zad 2007). The new ideas and solutions recommended by Atkinson in the 1950s were products of a policy diffusion process that became, with some small changes, the housing policy in Malta till the present day.

Mintoff implemented two of Atkinson's recommendations. One was the Second Storey Scheme, which proved to be a very popular undertaking. Participants were offered €907 (3/5 of which was by way of a loan at 3% interest payable in equal annual instalments over 15 years) and the rest as a grant. By the end of 1956, more than 831 units had been built under that scheme, at an average unit cost to the government of €3,325. The other recommendation was to build two new communities, one to the north-east and one to the south-east of Valletta. A large tract of land in the Tarxien-Luqa-Gudja area was purchased to plan for a town to accommodate 6,000 people (Vakili-Zad 2007).

In September 1956, Sir George Schuster was invited to Malta to undertake an investigation of the Maltese government budget. Shuster's report suggested encouraging the Maltese to invest their savings (estimated by Shuster to be around £2–3 million, largely in the UK) in property and to channel the savings of the middle class into housing (Vakili-Zad 2007). However, it took almost 50 years for the government to seize the opportunity. In 2003, through the "investment registration" scheme, the government allowed between €676 million and €1.6 billion to be repatriated from foreign countries and invested in the property market in Malta (Vakili-Zad 2007). Furthermore, in 1976 the Housing Authority was formed on the British model and was made responsible for housing policy in Malta. Since the 1990s, the Housing Authority has built and offered for sale approximately 200 units a year. Stimulating homeownership is the major objective:

The Housing Authority provides decent housing, strengthens communities and provides a better setting in which to raise our children. The Housing Authority

promotes and encourages homeownership amongst people with lower and middle incomes (Housing Authority, quoted in Vakili-Zad 2007).

The previous chair of the Housing Authority was educated in England where she had worked for housing authorities. She was the chair of Malta's Housing Authority long enough to continue implementing many of the British housing initiatives.

## 6 Major factors responsible for the housing market paradox

The current housing market in Malta has developed as an outcome of external and internal interlocking forces since the 1950s. The next section outlines and explains the major contributing forces.

### 6.1 The price of housing keeps rising

In spite of such high vacancy rates, housing prices have been rising in Malta since the 1980s. Only since the beginning of 2008 have housing prices shown a decline compared to previous years. Since 1987, the average price of housing had been rising by 10.3% annually. Falzon's study for the Central Bank of Malta indicates that an average flat that had cost €38,094 in 1987 would be worth €201,201 in 2004 (Falzon et al. 2005). Thus, one could understand the motivation of individuals who are attracted to this source of profit. However, the policy of the Malta Environment and Planning Authority (MEPA) in giving a free hand to the developers is reprehensible.

### 6.2 The church

According to Fr. Charles Tabone, sociologist and advisor to the government on family policy:

One can claim that it was the Catholic Church that gave Malta its identity and constructed much of its culture (Tabone, 1994, quoted in Vakili-Zad 2007).

The Maltese Catholic Church is a powerful religious and political institution. It is a major property owner and has thousands of homes rented or given free of charge to individuals and agencies. In 1991, through an agreement with the government, more than 5,000 Church-owned properties were sold to the government, 2,168 of which were dwelling units (the rest were plots of land, stores, garages, etc.) that have a low rent and are let to low-income households. The Church is a strong advocate of homeownership. In the 1960s, the Church forced the Housing Authority to include 'engaged couples' as a target group for government-subsidized homeownership schemes. Housing has always been on the Church's social and political agenda, and Church leaders have often expressed their opinion openly, forcing politicians to respond. In a homily on 20 December 2006, the Bishop of Gozo, Mario Grech, bridged a gap of a few 1,000 years. He made housing a moral responsibility of the government by drawing a connection between current housing conditions in Malta and the housing which was denied to Joseph and Mary.

Nowadays parents and children are being denied proper housing, the same way that Mary and Joseph failed to find proper accommodation. We meet young couples who are knocking on the doors of those who can help, but the price of property is so high

they either have to delay starting a family or get into a lot of debt, which in itself is a burden that's leading to disastrous consequences. This is a social problem that whoever has the family at heart cannot afford to neglect (Mario Grech, Bishop of Gozo, December 20, 2006, quoted in Vakili-Zad 2007).

The Church has always endorsed and encouraged large families and then asked the state to provide them with housing. According to Archbishop Mgr Mercieca, the state needs "to open its eyes wide" to see the problem. The state "has every interest to see that young families are able to set their homes without having to go in for exaggerated costs" (quoted in Vakili-Zad 2007).

### 6.3 The Maltese family

The contentious position of the family in South Europe has been expressed well by Trifiletti:

The family is still centre stage, but in the sense that only certain social risks are covered largely by the welfare state, those against which the family cannot protect itself (Trifiletti 1999).

There is a widely held assumption among the experts that the South European welfare state is characterized by a low degree of decommodification (the welfare state is not very extensive) and a strong degree of familism. It implies that a disproportionately large part of the welfare tasks are carried out within the family, without much interference from the market or the state (Barlow and Duncan 1994; Castles and Ferrera 1996; Allen et al. 2004; Flaquer 2000). Welfare policies [including housing policies] are formulated to complement the essential role of family provision. The South European state can be better understood as a familiaristic welfare state, characterized by *patrimonial* tradition in housing and land ownership and minimal 'proletarianization' of society (quoted in Arbaci 2007). The average household size is larger than in most other countries in Europe and a high percentage of young people in their twenties and even thirties live with their parents. Adult married women are the main providers of the care for children and the elderly, due to the fact that there is neither an appropriate child-care system nor a care system for the elderly. The ultimate outcome of such a caring family is to compensate for inadequate public services and encourage the youth to stay longer in the family and save for the purchase of a home, possibly with financial help from their parents (Flaquer 2000).

Maltese youth usually go through a long engagement process, at least for a few years, before deciding to get married. However, as soon as the decision to get married is taken, the plan to purchase a flat or maisonette starts—the wedding date is often set on the same date the property is purchased. The majority, however, go to live in the home town or village of one parent or the other (Vakili-Zad 2007). At this stage, the two families help either by offering or lending money or their secondary home or by providing professional/skilled assistance if they buy the flat in shell form. Malta is small and the area designated for house building is limited, thus there is a rush among the Maltese to buy a place before it is gone. In fact, in many modern coastal areas, such as St. Julian's and Sliema, there is hardly any vacant land left. The current strategy is to purchase old homes, demolish them and turn the property into several vacant flats, often in shell form.

#### 6.4 The clientelist state and political parties

South European welfare states are ‘clientelistic’ and are often governed by ‘patronage machines’, including straightforward political favouritism, but more typically political clientelism and trading favours for votes. State benefits, cash and subsidies are exchanged for party support, often via trade unions—with strong evidence for this in Italy (Rhodes 1996; Ferrera 1996). Such a view could be easily extended to Malta.

In Malta, there is a strong ideological basis for a system of patronage. The role played by mortal patrons is very similar to those expected from the saints who are seen as intermediaries between man and God. The word for patron in Maltese is *qaddis* (saint). Maltese people believe that one needs an intermediary (*qaddis*) to facilitate one’s entry to heaven. It is a Maltese saying that ‘Without saints (*qaddisin*) you can’t get to heaven’ and ‘You can do nothing without saints’ (Boissevain 1993, quoted in Vakili-Zad 2007). As a true ‘clientele’ state, products and services ranging from bread to buses and from the cost of utilities to the cost of university education are either free or heavily subsidized by the government.<sup>8</sup> People are so used to this that they see the low cost of these services and products as a right. In 2005, the amount of state subsidies was €142 million or 3.6% of GDP, the highest among the EU25 member states where the average aid was 0.59% (Eurostat 2006).

Malta is a rocky piece of land, barren of vegetation, that never managed to produce enough food to feed its unusually fast-growing population, neither during the Knights of St. John period (1530–1798) nor under the British colonial administration (1800–1964). Thus, the family had always relied on the state for almost all its needs. The seeds of paternalism were sown with the arrival of the Knights. As feudal lords, the Knights used their extensive annual revenues coming from their investments in Europe to finance public works; provide cheap corn (imported from Sicily); support charities and pensions; and to provide financing for the water supply, housing, hospitals, education, and other social institutions based on client-patron relationships (Vakili-Zad 2007). As modernization and urbanization proceeded in Malta, the tradition of patron and client relationships and personal contacts that was the hallmark of the Knights administration extended into the twentieth century under the British colonial administration. In order to buy loyalty, the colonial administration ensured that “as in the past, the dependency of almost every section of Maltese society on the government” is maintained. Pirota (2001) describes the relationships between a paternalistic state and a dependent nation as follows:

Historically, for reasons that were sometimes strategic and at other times economic or social, the existence of an extensive paternalistic state and the welfare of the Maltese have always been seen as being inextricably linked (Pirota, G., quoted in Vakili-Zad 2007).

It is argued that clientelism is ingrained in the politics of these countries and is difficult to eradicate, especially when the agents of change—the political parties—remain dependent on client groups for support (Rhodes 1996). The Maltese believe that the most important role of the government is to provide all life’s necessities to its citizens. However, Malta is politically polarized around the two dominant political parties, the Nationalist (NP) and the Labour (MLP). Party loyalty is complete and almost all Maltese openly express allegiance to one or the other political party. Dissent and change of allegiance is

<sup>8</sup> In 2008, the Maltese government spent €20 million on the students’ stipends alone.

rare. Thus, the reliance on the state is grounded in expectations (entitlements) of the party they so loyally give allegiance to in every election (Vakili-Zad 2007).

The origin of the house building boom in Malta, which hasn't stopped yet, goes back to the time of the Labour government under Dom Mintoff (1971–1984) when vast tracts of countryside were opened to development for a new class of settlers who received the government's financial support. Of the entire stock of dwellings enumerated by the 2005 census, more than 35% was built during this period. The Nationalist Party (PN) came to power with Dr. Fenech Adami in 1987 and brought in its own supporters and allowed them to engage in land speculation, which led to a construction frenzy. The newly formed Planning Authority (MEPA) was powerless when faced with applications for mega-projects from large and well connected developers. It was a time when large stretches of the Maltese coast were sold for a pittance to developers who constructed apartments and hotels. The largest project in the early 2000s, in Portomaso (St. Julian's), resulted in the building of a Hilton Hotel, retail outlets, a yacht marina and hundreds of luxury marine apartments that are mostly vacant. Whether the government's interventions in the housing market were on behalf of the developers or citizens, the fact remains that the Maltese government has been playing the most important role in the development of the housing policy.

### 6.5 Rent regulation/control

The government (Nationalist Party) which has been in power since 1998 has been criticized by the opposition and critics in general for failing to reform the existing rent laws, considered by many experts to be the main source of the problem. They argue that landlords do not trust the system and, in many units that fall under the old and archaic system, the tenants pay little or no rent, not even enough to cover repair and maintenance. Therefore, there are no incentives for the private sector to invest in rental housing. Castles and Ferrera (1996) suggest that the rigid rent regulation systems in Italy, Greece, and Spain have resulted in similar 'market distortions' and the development of a two-tier rental sector. One section of the rental market is then let under the old system—it is very affordable but not accessible to new entrants. The other sector consists of vacant dwellings that are kept out of the market due to fear that the tenants may never leave the property or the government may reintroduce the requisition law and confiscate the property (Castles and Ferrera 1996; Carreras-i-Solanas et al. 2004).

The modern rent regulation in Malta started in 1931 in response to the severe shortage of housing and the plight of thousands of homeless families, a result of the damage and destruction of the housing stock during the war. It was followed by two other pieces of legislation, one in 1944 and another in 1949. The government's intention was to regulate the rental market and protect the tenants. As a result, rents in the private rental sector were frozen at the 1939 levels, and landlords were prohibited from evicting tenants, unless the tenant was offered a suitable alternative accommodation. In order to increase the rent, the Rent Regulation Board's permission was needed, which was hardly ever granted. These three Acts provided strong protection for the tenants and have been seen by many as the major culprit behind the large number of vacant units not in the market (Vakili-Zad 2007). The Acts also established the principle that all residential units were subject to requisition by the government. Although the requisition order was repealed in 1998, over 5,000 private properties are still under the requisition order and are let at very low rents to Maltese

families.<sup>9</sup> As these interventions were not enough, the 1979 Amendment granted tenants the right of inheritance of a lease upon the death of a tenant to her/his spouse. In cases where the tenant leaves no widow/widower, the right passes to her/his children and to any brother or sister of the tenant who is not married and who is living with the tenant at the time of her/his death, including any descendant of the tenant who resides with the tenant (Vakili-Zad 2007).

In May 2008, after years of delay, the Maltese government finally released a Housing Reform White Paper on rent reform: *Rent Laws: the Need for Reform*. The report defines the problem as “the dysfunction of the housing market” that the new law will correct. The objective of the proposed rent reform bill was to find “a balanced solution to render vacant properties into productive housing stock.” On May 21, 2009, the Rent Laws (Amendment) Bill was approved with a number of amendments, hoping that if the opposition (MLP) would support the bill it would inspire confidence and restore stability in the housing market. Social Policy Minister John Dalli, in part of his speech at a press conference following the passage of the bill, thanked the opposition for its contribution to the debate and said he was confident that the new legislation had struck a balance between the need for justice for landlords and the need to protect tenants. The new law came into force on January 1, 2010. Among other provisions, the new law establishes an annual minimum rent at €185 and is intended to gradually stop the inheritance of rented properties so that they may revert to their owners. The law also applies to pre-1995 rents. The Rent Reform Law, passed in spite of opposition by some members of the Labour Party, advocates for the landlords and some interest groups like the Chamber of Small Enterprise (GRTU) who were not happy with the section on commercial rental property. There were also some who criticized the bill for failing to protect the rights of cohabiting couples and gay partners in long-term relationships.

## 6.6 Lack of alternative investment mechanism

Malta is one of the most densely populated areas in the world. This makes land in Malta a relatively expensive asset, with houses comprising one of the major vehicles of investment in which a large proportion of domestic equity is traditionally kept (Falzon et al. 2005).

Since banks pay almost no interest, the amount of money that families can save is not large enough to invest in industrial development, and the stock market in Malta is very small and limited. So the only relatively sure area for investment remains property. This preference for investment in property among the South European countries has been noticed by Castles and Ferrera, who attributed it to the “underdeveloped stock market and the inefficiency of the banking sector” (Castles and Ferrera 1996). Only in the late eighties and the early nineties, with the introduction of a more liberal trading regime, the gradual relaxation of exchange controls, and the establishment of the Malta Stock Exchange did any alternative outlets for investment appear. However, it was too late to change the trend that had already been set—a preference for homeownership that found affinity with the Maltese traditional culture of centrality of the family and home. A survey by the newspaper

<sup>9</sup> The National Housing Act of 1949 brought more than 25,000 privately owned units under the government requisition law, which were rented as social housing to low-income Maltese. The units exempt from the 1995 Act were rented at 1939 prices and have remained the source of the problem. More than 48% of these premises were rented at €116.50 or less (annually). The government still owes €46 million to landlords whose properties were expropriated between 1950 and 1994.

*Malta Today* from November 2008 reveals that in spite of the global financial crisis, the Maltese still trust their banks. More than 27% responded that they still regard property as the best investment possible and 36% think that the property prices will continue to increase in the future (Debono 2008).

As in other South European countries (Allen et al. 2004), Malta has a highly developed illicit and underground economy. According to Casa (1999), it was estimated to be around 25% of GNP in 1997. In addition, the Maltese had a lot of undeclared money (cash) that needed to be 'legitimized' and 'laundered' before the Maltese Lira was replaced by the Euro. Thus, those with such money tended to invest in property, thereby fuelling the speculation activities. An editorial in the *Malta Independent* refers to this phenomenon:

The fact of matter is that the run-up to the euro is unleashing a huge tsunami of property speculation as people seek to unload the considerable amount of undeclared funds they hold (the *Malta Independent* 2007).

Kasparova and White (2001) noted that the growth of the Spanish economy always coincides with the growth of housing investment. This is because house purchase is a channel to legitimize money coming from the shadow economy.

## 6.7 Economy and employment

The Malta Environmental and Planning Authority (MEPA), formed in 1992, is the agency responsible for planning and issuing permissions for the construction of all kinds of property, including dwellings. Although the natural population growth and family formation in Malta requires only 1,500 units annually, MEPA has been issuing on average more than 3,000 permits annually since 1994 and more than 6,000 since 2000. As late as March 2009, MEPA gave the final approval for the construction of Metropolis Towers, containing 118 residential apartments and 500 underground parking spaces. If we put aside the fees MEPA receives for these development permits (approximately €3 million in 2006) the major reason for such a policy (never admitted by the government) is to please the big developers who in turn would provide work for the construction industry and the thousands of Maltese families who are dependent on the construction and related industries.<sup>10</sup> In spite of MEPA's generous permission policy, construction-related industries are asking for more. The Malta Chamber of Commerce, Enterprise and Industry and the Malta Hotels and Restaurants Association urge the government to expedite MEPA's permitting procedures so as "to unleash the economic potential of a number of major projects that are already in the pipeline" (*Times of Malta*, January 30, 2009).

Tourism, which is now a major industry in Malta, also encourages home building. Currently, tourism provides employment to 16,705 persons in Malta. Between 1999 and 2005, the government invested more than €99 million in the tourism industry. The Malta Tourism Authority's budget had increased from €9 million in 2000 to €14.2 million in 2005 and the allocation for advertising from €4 million to €5.1 million (Vakili-Zad 2007).

In sum, we conclude that the construction industry responding to these needs plays a very important role in the Maltese economy. Construction is in the hands of the private sector, mainly small companies. Data indicates that the number of people working in this industry grew in 2008 to 8,668. If we add the number of people working in real estate and renting (12,002) to the construction workers, the total amounts to 20,670, which is more than 20% of all the workers in the private sector in 2008.

<sup>10</sup> Private conversations with two MEPA managers.

## 7 Conclusions

Our exploratory paper has shown that the housing markets of South European countries, and especially Malta, are characterized by a specific logic that contradicts a simple economic theory. In such a system, one can easily see contradictory outcomes in tandem. In spite of an unusually high rate of dwelling vacancy, the price of housing has been rising. That has created conditions whereby affordable housing is hard to find and homelessness is on the rise.<sup>11</sup>

Malta is considered a special case for several reasons. Regarding its location and culture, Malta could be justifiably placed in the South European welfare-state model. However, unlike other South European countries, Malta has a sizeable (means-tested) social housing sector (13%) which could be attributed to the policy transfer from the 160 years of British colonial administration. Another possible function of a sizeable social housing sector is that it siphons off potential homeowners among the low-income households, drawing them away from the private rental sector and providing them with an opportunity to save for a home of their own. In spite of its respectable size, the stigma attached to social housing along with its long waiting lists force middle-class professionals, when failing to secure private rentals, to redirect their attention towards the homeownership option. The Catholic Church is much stronger and more powerful in Malta than in Spain or Portugal, and the Maltese have a much higher rate of church attendance than the other European countries. The Church in Malta not only takes an active stance regarding morality; it is considered a political power and can easily challenge the two dominant political parties when its interests are threatened.<sup>12</sup>

Housing policy in Malta did not follow the 'logic of industrialization', economic theories or the law of supply and demand. It was driven by the political considerations of the two dominant political parties (Malta Labour Party and the Nationalist Party), mediated by the powerful Catholic Church, responding to their 'clientelist' obligations, responsibilities, and expectations. The success of the state's overall housing policy of encouraging, assisting and facilitating homeownership is a significant achievement. The rate of homeownership, which was only 28% in 1948, had increased to 75% by 2005. However, the adverse impact of such a policy on the environment and on Malta's natural beauty has been detrimental to the country's future. The Maltese are led to believe that homeownership is the only reliable family insurance against social risks as well as a source of family wealth. This idea has gradually developed into a 'homeownership culture' in which the property sector is the preferred investment outlet and homeownership is the cornerstone of the Catholic family unit. This has led to a situation in which dwellings are constructed and bought for investment reasons or speculation and not for fulfilling housing need, especially when the housing prices keep on rising. Such a development can result in a high housing production rate, with part of the new dwellings being left unoccupied in the hope of reaping high profits in the future. Letting the vacant dwellings is not very attractive for landlords because of the rather strict rent regulation and/or tenant protection and lack of faith in the government. Thus, high house prices go together with a high housing production rate and a high vacancy rate. The familialism of the South European welfare states also influences the vacancy rate in another way. Dwellings are often family possessions that can remain vacant until one of the family members is ready to occupy them.

<sup>11</sup> On homelessness in Malta, see Vakili-Zad (2006).

<sup>12</sup> The Church often sided with the Nationalist Party and in the past has successfully challenged the Labour Party, which has cost it two elections (see Vakili-Zad 2007).

So far, Malta has avoided imposing property tax on homeowners, a taxation system that in many other countries has provided a balance in the housing market. And Malta's piecemeal attempt to revise its archaic rent regulations has failed to convince the private sector to invest in the private rental market. The present situation is problematic because we think that vacant dwellings are a serious issue. They not only lead to an inefficient allocation of resources but also pose a risk for the future functioning of the housing market. Maltese families have made deep investments in the housing market and any threat to that investment in a small island could be devastating.

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