

# Everyone's favourite investment



Property is considered a favourite investment amongst most Maltese. The price of property and its fluctuation, therefore, surely creates enormous interest. The *Malta Economic Update* spoke to Angelo Xuereb, one of Malta's leading entrepreneurs in property development about the current property market situation.

"Property prices seem to be high," Mr Xuereb began. "But put this into a context. Property prices range from Lm350 per square metre to a high of Lm1,750 per square metre. The difference lies in the type and in the location of the property. The affordable average price is approximately Lm445 per square metre, equivalent to Lm70,000 per apartment."

Mr Xuereb is a board member of the Building Industry Consultative Council (BICC), which carries out research and monitors the situation of

the construction industry. An analysis of the changes in property prices is included in its annual reports.

Mr Xuereb told the *Malta Economic Update* that the rate at which property prices have been increasing is not really a cause for concern. "Over the past 30 years, property prices have increased by an average of 8% per annum. A comparison of prices for 2003/04 to those for 1997/98, shows an increase of around 26%."

"This is considered to be quite normal," he continued. "Property prices have been rising at a much faster rate in other countries. This was also echoed recently by Mr. Shawn Wallis, HSBC Malta's CEO, who also stated that the average loan requested for the purchase of property is of Lm30,000. Compare this to the average price of Lm70,000 – This indicates clearly that there is a substantial amount of cash in hand. The property market in Malta is quite healthy!"

## Comparison

When comparing the prices of Maltese property to those in other

countries and their cities, Mr Xuereb says Malta is still reasonable. "In Majorca, property averages Lm2,000 per square metre; in Paris the square metre price is about Lm4,000 and in London around Lm6,000."

Mr Xuereb told the *Malta Economic Update* that the differences in price from property to property depend on many factors. "Some of the differences are justified, some are not," he pointed out.

Apart from location, which is of paramount importance, there is also differentiation between blocks of apartments in 'normal' residential areas, and other properties in luxurious complexes like Verdala Mansions, Portomaso, Tigne Point or Chambray.

"There are shortcomings in many of the normal apartment blocks. Often, there is a lack of sound and thermal insulation; for example and among other things, the external walls are of the single type which allow the outdoor temperature to permeate through, there is no double glazing and the party walls are not insulated" Mr ▷

Xuereb maintained. "This is common in most apartment blocks!"

"On the other hand, in a complex – in reality a residential destination, a community – the developer is investing in the infrastructure together with adequate parking both for the residents and also for the visitors, better quality construction with higher standards of finishes, besides a pool, a garden and other amenities. The priority on such developments would be to offer quality, comfort and security in a community environment. It is a different approach to development altogether," he told the *Malta Economic Update*.

This means that a 'standard' apartment selling at Lm500 per square metre may be overpriced for what it is; whereas the price of a Lm1,000 per square metre apartment in a residential destination, having higher standards in absolute terms, may be more justified and better value for money.

#### Limited view

"Unfortunately, people in Malta look only at location and size when estimating property value, and not at everything else that goes with it!"

"Malta lacks appropriate asset / property valuers. We utilize the services of real estate agents to estimate property values. These base their valuation upon their last sale of a similar property and this may be considered to be a bit of a hit-or-miss technique."

"A valuation should be more like producing a certificate for the property and should include a breakdown of certain relevant criteria each of which having a weighting on the value. These are to include: legal title, location, neighbourhood, construction quality, thermal and acoustic insulation and so on," he said.

The types of property offered for sale are changing, Mr Xuereb said. "93% of MEPA residential permits are now issued for apartments or maisonettes. That is where the demand is most since the last few years. There has been a

shift away from villas, terraced houses and other large properties to more convenient residences.

"One reason for this shift being price," Mr Xuereb said. "But the main drive is comfort. People value that a lot more and are looking for it. Having both partners working is common nowadays and one would not like to get home after a hard day's work and face up to all the daily chores that are necessary to maintain a large house or villa. An apartment is less demanding."

"I have moved from a villa to a luxury penthouse at Verdala Mansions. We have less space, I admit, but my wife

will never even consider moving back to a villa. She now has more free time to do things!"

"This change reflects the shift in the pace of life and in the Maltese lifestyle," Mr. Xuereb explained.

"Upon starting a married life, young couples should be able to move into a small apartment, having one or two bedrooms. They should then move up to a larger property when they have children, and ultimately move back to a smaller apartment as they grow older and the children leave home," he said. "It does not make sense for young newly weds to buy a big new house. They would not have had enough time



to save up for it – it will be easier to purchase a larger property later on in life when they are earning more. They can save some more of their earnings for improving their lifestyles, without sacrificing most of their income to repay their bank loans."

### Rentals

Mr Xuereb also believes that what is lacking in Malta is an effective rental market. "We do not have a proper rental market," he said. "In reality, how can people really afford to purchase property whilst still young? They should however be given the opportunity to rent."

"Unfortunately, the law governing the rental market is not yet attractive enough to get developers to invest in property for rentals. The rent laws as they stand today are unjust. The government has sorted out the issue for new leases, but to really motivate and get the rental market going, the conditions binding old rental agreements need to be sorted out as well. Until that happens, people will be concerned about renting out their property to locals. If the 1939 laws are not repealed completely, people will be apprehensive that certain measures may be reinforced," he explained. "However, should the laws governing the renting of dwellings be altered, then a number of the old buildings within the village cores will appear on the rental market."

While development continues, there are approximately 23% of properties that are vacant. "This figure includes second homes," Mr Xuereb pointed out. "But it is still a very high proportion. Owners of these properties are holding on, until they feel "secure" with the revised rental laws. Meanwhile, they recognize the fact that property prices are constantly on the increase and thus, they have no real motivation as yet to put these properties on the market."

"Most of these properties are in the village cores. They have problems with humidity, they are not comfortable or practical, there are parking



problems, insulation is poor and this means that it is difficult to effectively maintain heating or cooling mainly due to their large staircases and high ceilings. Moreover, they were not built to meet today's needs and are not necessarily attractive properties. However, with some imagination and a good number of man hours spent on restoration, these could be converted into beautiful homes. These would then become the ideal homes for young couples."

### Laws

"Motivating measures to stimulate the rental market could help bring these properties back into use. The parliament may agree to amend the present rental law now but putting it into effect at a predetermined future date, say in ten years time. Should this be the case, the owner will then have a choice: sell now, maybe at a lower price and get the cash in hand, or wait and sell later at most probably a higher price; the tenant on the other hand,

will be given the opportunity to purchase his rented home at an earlier date (before the tenancy term expires) at a lower price direct from the owner" Mr Xuereb said. "On the other hand, developers may want to buy such properties to convert them into smaller units and satisfy a modest share of the consumer needs in the rental market."

This brought Mr. Xuereb to his last point. "Finally, Malta is an ideal location for retired foreigners," he said.

"This is a very good opportunity. The climate is right, the Maltese are welcoming and easy to make friends with, almost everyone speaks English, the country is safe and distances are short, there is a lot of history to make it interesting, and Malta is a hub to the rest of Europe. All this contributes towards Malta being considered as being the ideal place for people from Europe to retire here; better than other European destinations," Mr. Xuereb concluded. ■