



FOUNDATION FOR
**AFFORDABLE
HOUSING**

Housing Affordability in Post-Boom Malta

The case for the third sector

16th November 2023





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FOREWORD

A handwritten signature in dark ink, appearing to read 'JA', positioned above the printed name.

JAKE AZZOPARDI
CEO FOUNDATION FOR AFFORDABLE HOUSING

The idea to introduce the third sector concept to the property market is rooted in the belief that those who contribute so largely to the advantage of society especially through their work, should themselves share from the benefits which they create.¹ The Foundation for Affordable Housing is a market-oriented organisation, which aims to attain its social aims, by operating not in parallel to, but within the market in order to enable it to provide adequately for everyone. We are convinced that collective gain ensues from a collective access to social and financial goods.

To operate within the market is to understand it, and to contribute towards creating a space for partners, users and consumers alike, characterised by accurate information, itself fundamental for a shift to guided long-term decision making in the housing sector. The effects of a relatively prolonged economic boom on the housing sector have been discussed in piecemeal fashion in many places. In entering a new phase, it is time for discernment. Through this multidisciplinary work, the Foundation aims to contribute to a process of comprehensive understanding of the social and economic realities of residents in Malta. The focus is intentionally laid on the experience related to housing as the work examines situations especially in terms of access to the housing market and the living experience following a household's access whether through a permanent arrangement or the more flexible leasing arrangements. This was felt to be a necessary step towards a holistic outlook towards housing affordability in Malta rightly seen within a context of the dynamics of demography, labour, and global economic currents – forces from which the housing sector may never be completely disentangled.

This paper represents a start in introducing newer tools to analyse housing affordability and to delve deeper into realities obscured by averages. Successive publications in this series, will usurp the limitations which characterise this initial effort placed by members of the foundation's expert contributors. In ensuring a thorough discernment of housing affordability in Malta future work will necessarily explore more deeply, longstanding decision-making patterns. Starting from those strictly related to the legislative framework of residential letting, the reasons behind coupled with the resultant effects of a national inclination toward homeownership, and the dynamics surrounding labour cost containment as a trigger for investment and growth.

¹Catholic Church. Pope (1878-1903 : Leo XIII). (1961). *Rerum novarum* : enciclica di Leone XIII sulla questione operaia. Lugano :Edizione a cura dell'Organizzazione cristiano-sociale del canton Ticino per la celebrazione del LXX,

Housing Affordability in Post-Boom Malta

The case for the third sector

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¹ P. Malpass, "Privatisation and Social Housing in the United Kingdom", N. Houard, Social Housing across Europe, (Paris: La documentation Française, 2011), pp. 29, 32.

Executive Summary

As Malta's house prices increased at rates faster than the historical average, the market solution to homeownership started falling increasingly short. Some prospective homeowners were priced out of the market, others were pushed into expensive rental housing, and others yet incurred housing costs that left them with inadequate income to meet expenditure on other essential needs. In fact, in 2022, more than 13,000 households had housing costs exceeding 30% of their disposable income – double what it was just four years earlier. And while the country averages around 3,000 first-time buyers per annum, house prices are so high that affordability may have come at the cost of lower quality.

These housing affordability issues are partly the result of various policies adopted by successive government administrations that led to a shift away from the state to the private market as the main provider of housing; with the state retaining the role of supporting those residualised by the market. Within this system, faster than average growth in house prices has given rise to a group of low- and middle-income individuals whose housing needs are neither catered for by the private market nor by the state.

At the European level, where the situation is no different from that of Malta, the debate is whether the state should simply accommodate the poor and the socially excluded (as it currently does), or to broaden its responsibility in ensuring adequate housing for all those for whom the market fails to deliver. This occasional paper contributes to this debate by identifying: (1) for whom housing is unaffordable; (2) how many are affected (where this is quantifiable); and (3) why a new approach to housing in Malta, which works through non-profit organisations, may be part of the solution to the housing affordability problem in post-boom Malta.

Prospective homeowners

The sustained increase in house prices continues to push upwards the income threshold below which prospective homeowners become ineligible for a home loan. As a result, by early 2023, an individual (or group of individuals) aged 20-25 years with an annual income less than €25,000 became ineligible for a loan on the average-priced housing unit (c. €225,000). And if interest rates on home loans were to increase in line with developments in international financial markets, the required annual income increases to over €30,000.

However, careful consideration of the various factors that have shaped the Maltese socio-economic landscape suggests that affordability is not only an issue for the typical, usually young, first-time buyer. Others, such as renters and those separated or divorced, may require significantly higher income to be eligible for a home loan. For example, the eligibility of a 40-year-old individual for a home loan on an average-priced housing unit, with a maximum term of loan of 25 years, would require an annual income in excess of €35,000. Since three out of every four individuals aged between 35 and 45 years are earning below this threshold, a significant portion of the 40-year-old population would likely be ineligible in the eventuality that they would like to purchase a housing unit.

Homeowners and renters

For those that already own or rent a housing unit, the average housing cost-to-income ratio is 10%. This is by far the lowest in the EU and significantly below the generally accepted affordability threshold of 30-40%; suggesting that the situation in Malta is nowhere close to what would be considered a housing crisis. However, Malta's average housing cost-to-income ratio reflects a large group of households that either 'own a housing unit with a home loan' or 'rent at below market rates'. Households that fall outside these groups (e.g., individuals or households renting at market rates) are more likely to have housing affordability problems

Among those that rent at market rates, the burden of housing costs appears to be disproportionately harsh on the young, the foreign, and the low income. In fact, the housing cost-to-income ratio exceeds 30% for: (i) 63% of those aged less than 35 years; (ii) 69% of non-Maltese citizens; and (iii) 63% of those earning less than €12,000 per annum. Overall, around one-third of households that rent at market rates have a housing cost-to-income ratio that exceeds 30%. For those households that are homeowners but have a home loan, the average housing cost-to-income ratio is 15% and 8% of households have a ratio that exceeds 30%.

The Role of Third Sector

Based on lessons learnt from the experiences of other European countries, social housing enterprises seem to present a practical solution to this problem. Their social aspect render them the "acceptable face of social housing", while their commercial aspect makes them compatible with "the private market obsession of the neoliberal ascendancy".¹ Alongside the private market and the state, as a third sector in the housing market, non-profit organisations can access stable long-term resources (e.g., loans granted at below market rates) to: (1) alleviate the affordability issues identified above, particularly for the low- and middle-income segments and those that are not supported by the state (e.g., foreign workers); and (2) factor the housing unit's physical suitability into the housing agenda.

The Foundation for Affordable Housing will operate within this space; with the medium-to-long term aim to fulfil these social aims while relying increasingly less on public resources. Its model is based on a mix of private and public funding that is governed in a managerialist manner. And while housing units must not be exclusively rented, and can be also sold, the tenants become active consumers rather than passive recipients of assistance. Any surplus from this endeavour will be recycled back into the social enterprise to help sustain its ongoing effort to enable and provide affordable housing.



01

Introduction

In the current local discussion about housing, there has been an increasing concern about affordability, particularly since the onset of the property boom that saw house prices doubling over just ten years.² The major concern is that prospective first-time home buyers are being priced out of the market. However, careful consideration of the various factors that have shaped the Maltese socio-economic landscape suggests that affordability may be an issue for a much wider group.

Prospective home buyers may include individuals that have recently gone through a divorce or separation, as well as those that had previously chosen to rent but are now interested in transitioning to homeownership. These groups have characteristics that differ from those of the typical, usually young, first-time buyer. They, therefore, merit individual consideration in the formulation of government policy, and initiatives by non-profit organisations, that aim to mitigate the housing affordability problem.

²Grant Thornton and Dhalia (2022) The Malta Property Landscape: A True Picture.





Furthermore, affordability concerns may also arise for individuals that have already purchased their home. For example, individuals that own a house, but have an outstanding loan, may find themselves with inadequate left-over income for non-housing consumption after meeting their monthly debt repayments. The high inflation rate that prevailed over the past 18 months made this more likely,³ and the situation may worsen if interest rates on outstanding loans were to increase in line with developments in international financial markets, as they did abroad.⁴ Similar arguments may be extended to other groups (e.g., renters).

Moreover, the discussion on housing affordability should not be restricted to price affordability. If we are to elevate the discussion to truly account for the wellbeing of individuals, it should also take into account the quality of housing, including the physical adequacy of the housing unit, and overcrowding.⁵ To pick on just one issue, the media has been ripe with reports of migrants, particularly those from outside Europe, living in overcrowded apartments.⁶ These house-sharing arrangements make the rental price for the individual renter more affordable but, at the same time, give rise to health and safety issues that make the living environment unsuitable for the individual.

Against this background, this occasional paper has two objectives. The first is to provide a concise overview of housing affordability in Malta. We do this through a selection of indicators primarily based on data compiled and collected by the National Statistics Office (NSO).⁷ The second is to provide a concise overview of the role of the state in contemporary housing policy in Europe; and to shed light on the role played by non-profit organisations in the fight against unaffordability.

The paper is not meant as an exhaustive in-depth analysis of all the issues identified above. Rather, the aim is to initiate a discussion on housing affordability that goes beyond the simple price-to-income comparison. It is the first of a series of occasional papers that the Foundation for Affordable Housing intends to publish over the coming years. The hope is that there will be a gradual exploration of the housing affordability problem that provides insights that will enable the Foundation for Affordable Housing to target those that are most in need.

The rest of the paper is organised as follows. In Section 2, we provide a snapshot of housing affordability in Malta using several indicators. Section 3 draws on some of the insights from the quantitative analysis and discusses them within the context of the various policies that have shaped the housing market in Malta and abroad, and lays out a number of principles that ought to shape the role of non-profit organisations operating within the sector. Finally, Section 4 concludes.

³Ministry for Finance and Employment (2023) Update of Stability Programme 2023-2026.

⁴Financial Times (2023) Where are à Mortgage Holders Most Exposed to Higher Interest Rates? Where are European mortgage holders most exposed to higher rates? | Financial Times (ft.com)

⁵Briguglio, M., Cassar, D. and Gravino, D. (Forthcoming) Housing, Neighbourhoods and Wellbeing. Eds. Briguglio, M., Czap, N.V. and Laffan, K. Wellbeing and Policy: Evidence for Action. Routledge.

⁶Magri, G. (2023) Overcrowding 'due to discrimination' of foreigners, Housing Authority suggests. Overcrowding 'due to discrimination' of foreigners, Housing Authority suggests (timesofmalta.com)

⁷Other data sources include the Central Bank of Malta (CBM), the European Central Bank (ECB), APS Bank and the Housing Authority.

02

Housing Affordability in Malta: a Snapshot

In this section, we present a quantitative analysis of the affordability of housing for prospective homeowners, current homeowners and renters. By providing a snapshot of the affordability of all three groups, instead of focusing only on first-time buyers, we hope to provide a holistic overview of housing affordability issues in Malta.





Affordability of Prospective Homeowners

The most frequent source of financing for the purchase of a housing unit is a home loan.⁸ Thus, in this section, we consider the minimum income that would be required by a prospective homeowner to purchase a housing unit. The resulting estimates are compared to the gross income earned by an individual (or a group of individuals) to shed light on the problem of affordability.

The calculation of the gross income that would be required to purchase a housing unit is based on five key parameters: (i) the price for a housing unit that would typically be bought by first-time buyers, (ii) the down payment on the price of the housing unit, (iii) the interest rate paid on the home loan, (iv) the term of the loan, and (v) the debt-service-to-income (DSTI) ratio. Table 1 provides a brief description of the parameters, their value and their source. Wherever the indicated source is an assumption, this is based on the authors' knowledge of how the sector operates.

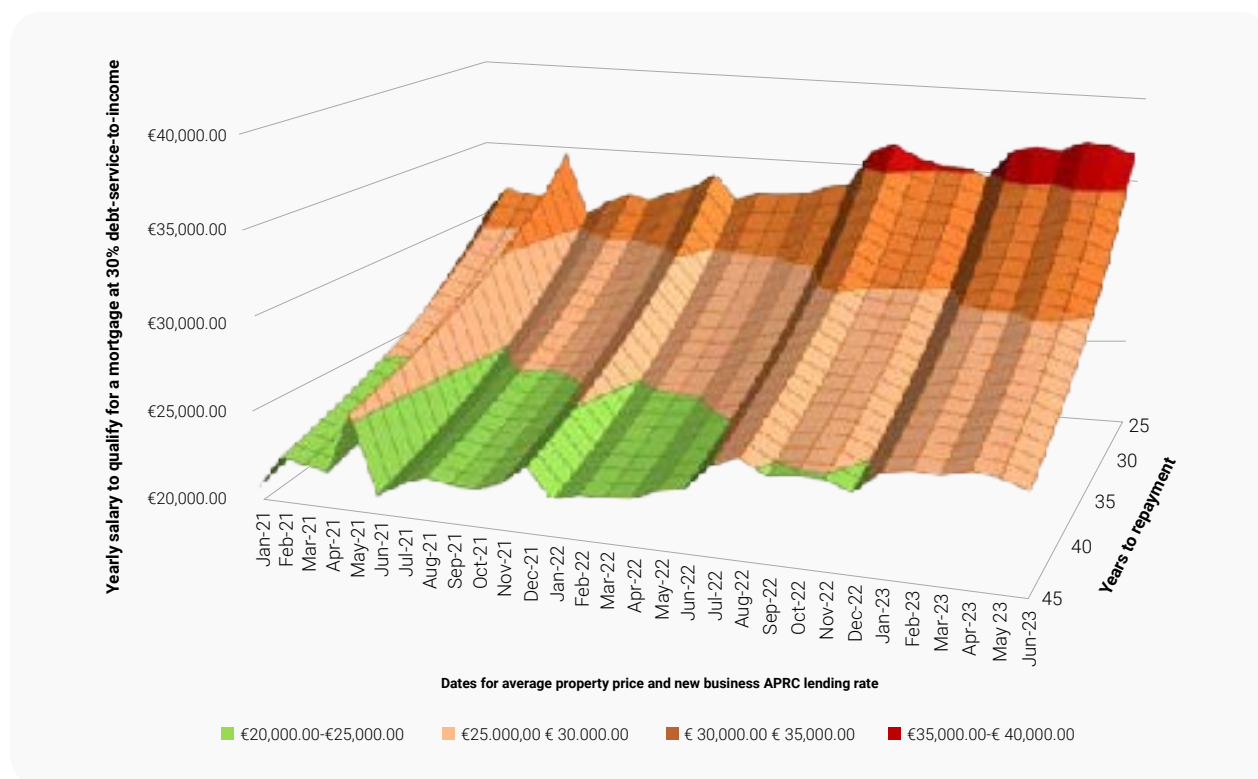
Table 1 – Parameters Description

Parameter	Description	Value	Source
House price	Quarterly average price of housing units based on final deeds of sale.	€195,000 for 2021 €209,000 for 2022 €225,000 for 2023	NSO
Down payment	Part of the house price that is paid upfront, i.e., it does not come from the lender providing the home loan.	10% of house price	Assumption
Interest rate	Annual Percentage Rate of Change (APRC) for new loans for house purchases.	2.69% for 2021 2.62% for 2022 2.75% for 2023	CBM
Age of prospective buyer	The age at which the prospective buyer enters into a home loan agreement, assuming payment until retirement at 65 years of age. (in years).	20 – 40 years depending on the years to retirement of the individual	Assumption
DSTI ratio	Amount of home loan repayment relative to individual's gross income	30%	Assumption

On the basis of these parameters, Figure 1 shows how the minimum income required to be eligible for a home loan on an average-priced housing unit changed over the period between January 2021 and June 2023. This also varies by the age of the prospective home buyer because the term of the loan is generally determined by the remaining years for the individual to reach the retirement age of 65.

⁸Cassar, D. (2023) Financialisation of the Maltese household? Household debt dynamics, the mortgage market, and housing in Malta. Central Bank of Malta Working Paper, WP/06/2023, Accessible at: <https://www.centralbankmalta.org/site/Reports-Articles/2023/WP-06-2023.pdf?revcount=4857>

Figure 1: Minimum Income Required to Purchase an Average-Priced Housing Unit (by age)



The green-shaded portion of the graph represents the possibility that an individual (or group of individuals) would be eligible for a home loan to purchase an average-priced housing unit if their gross annual income is less than €25,000. The graph shows that these would typically be young prospective buyers, with more than 40 years of home loan repayments ahead of them. By early 2023, the possibility of being eligible for a home loan on an average-priced housing unit with an individual, or combined, annual income less than the €25,000 disappeared as house prices continue to increase.

At the other extreme, the red-shaded portion of the graph shows that, in 2023, a 40-year old individual, with a maximum term of loan of 25 years, would require a gross annual income in excess of €35,000 to be eligible for a home loan on an average-priced housing unit (c. €225,000). Only two years earlier, the 40-year old individual would have required an income marginally in excess of €30,000 to be eligible.

We also consider how the minimum income requirement changes if interest rates on home loans were in line with the euro area average. Specifically, in Figure 2, we reproduce the minimum income requirement presented in Figure 1, but we replace Maltese interest rates data for home loans with the average interest rate in the euro area. This is based on new home loan interest rates from the European Central Bank (ECB).

The graph shows that, in 2021, when euro area interest rates were significantly lower than those in Malta, the minimum income required by a 20-25 year old would have been lower than €20,000; significantly lower than that based on Maltese interest rates (see Figure 1). However, by 2023, the 20-year old would have required an income in excess of €30,000. This is significantly lower than the comparable estimates presented in Figure 1 shows that lower interest rates in Malta have kept housing more affordable. Its comparison serves to illustrate the impact that an increase in local interest rates on home loans would have on prospective homeowners.

These observations serve to show that the increase in house prices continues to push upwards the income threshold below which individuals become ineligible for a home loan on an average-priced housing unit. However, the analysis should go beyond the average housing unit and take into consideration both the characteristics and the needs of the individual. For example, a single person may not afford the average-priced housing unit, but might afford a one-bedroom apartment that may very well suit their needs. In fact, estimates based on Housing Authority data suggest that, in 2022, 45% of sole borrowers purchased a finished housing unit for less than €200,000.

Figure 2 : Minimum Income Required to be Eligible for a Home Loan to Purchase the Average-Priced Housing Unit in Malta, using euro area interest rates



To provide a more complete picture, estimates of the minimum eligible income are computed for a range of prices of one, two and three bedroom apartments. Based on advertised listings for low-to-median prices, the price range is €165,000-€195,000 for a one-bedroom apartment, €210,000-€240,000 for a two-bedroom apartment, and €250,000-€290,000 for a three-bedroom apartment.⁹ The results are shown in Table 2. The estimates of the minimum income required to be eligible for a home loan on these prices are computed for a 30-year old individual at an annual interest rate of 3% and DSTI ratios of 25% and 30%.

⁹ Figures are for 2022 for finished flats based on advertised prices. The range provided represents the cut-off values of the 25th and 50th percentiles of the house price distribution excluding Sliema, St Julians and Valletta as well as high-end properties.

Table 2 – Minimum income for Home Loan Eligibility (2022)

Number of bedrooms	Price of housing unit	DSTI = 25%	DSTI = 30%	DSTI = 35%
1 bedroom	€165,000	€27,644	€23,037	€19,746
	€185,000	€30,995	€25,829	€22,139
2 bedroom	€210,000	€35,184	€29,320	€25,131
	€240,000	€40,210	€33,508	€28,721
3 bedroom	€250,000	€41,885	€34,904	
	€290,000	€48,587	€40,489	

Using a standard 30% DSTI ratio, the estimates show that a 30-year old would require an income of at least €23,037 per annum to be eligible for a home loan on a low-priced one-bedroom apartment. The figure goes up to €25,829 if the calculation is based on the median house price for a one bedroom apartment. The comparable figures for the low and median priced two-bedroom apartment are €29,320 and €33,508 per annum, respectively; and these go up to €34,904 and €40,489 per annum for the low- and median priced three-bedroom apartments. With these thresholds, affordability becomes an issue because a significant portion of the population have annual earnings that fall below them.¹⁰

Furthermore, these calculations assume that the prospective borrower has savings – over and above what they would be paying for the home loan – amounting to 10% of the value of the property for the down-payment. One must also add other fees associated with the purchase of a property, such as notary and architect fees, home/life insurance policies and stamp duty. These can be a considerable barrier to homeownership, especially for low-to-median income first-time buyers that cannot rely on their parents’ financial support.¹¹

Affordability for Home Owners and Renters

Affordability can also be a problem for those individuals (or groups of individuals) that are already homeowners or renters. While they do not face the challenges posed by high market prices and barriers to access credit, they may still find themselves in situations that give rise to affordability issues. For example, homeowners may have difficulty in meeting monthly home loan repayments, or they may find it difficult to keep up with house maintenance costs. Renters, too, may experience a challenge in meeting their monthly rent commitments. To capture these effects, we consider the share of housing costs in households’ disposable income.

¹⁰Gravina, J., Gravino, D., Maramara, V., Xerri, K. and Azzopardi, A.J. (2022) A Proposal Towards the Definition and Estimates of the National Living Income in Malta in 2022. Report prepared for the General Workers Union. Moviment Graffiti and Alleanza Kontra l-Faqar.

¹¹Maramara, V. and Brown, M. (2021) Profiling social housing applicants: Individuals applying for an alternative accommodation. Malta: Ministry for Social Accommodation.

The application of the housing cost-to-income ratio to assess affordability stipulates that the housing cost should not exceed some threshold of disposable income; with the threshold commonly assumed to be at 25% or 30% in many countries, and¹² 40% is also used both in Europe and the US.¹³ For homeowners, housing costs include mortgage payments, structural insurance, regular maintenance and repairs, and the cost of utilities. For renters, it includes rental payments and the cost of utilities.

On aggregate, the indicator shows that Malta has an average housing cost-to-income ratio of 10% – by far the lowest in the EU which has an average of 20% and significantly below the affordability threshold. However, this result is a reflection of a large group of households that either own a housing unit without a home loan (58% of total households) or rent at below market rates (11% of total households). The former are households that either did not make use of a home loan when purchasing their property (e.g. through self-construction), or else they have

repaid the home loan in full over the course of their life. In turn, the latter are households that entered into rental agreements before 1995 when Malta still had rent controls that prohibited the landlord from increasing the rental price and which gave the descendants of the original renters the right to retain use of the premises. Since then, several amendments have been made to rental regulation, which allow the landlord to revise the rental price upwards up to 2% per annum of the market value of the housing unit.

The faster than average growth in house prices experienced over the past ten years has impacted those individuals that fall outside these groups. In particular, Table 3 shows that those renting at market rates have an average housing cost-to-income ratio of 24.8%. Around one-third of those renting at market prices are overburdened, the latter being the percentage of the population living in a household where the total housing costs represent more than 30% of the total disposable income.

Table 3 – Housing Costs, by tenure status (2022)

Average property price	Housing cost-to-income ratio	Overburden rate
Owner outright	5.4	1.4
Owner with home loan	14.6	7.7
Rent at market prices	24.8	31.8
Rent at reduced price or free	10.3	6.5

Among those that rent at market rates, the burden of housing costs appears to be disproportionately harsh on the young, the non-Maltese, and the low income households. Table 4 shows that, for those that rent at market rates, the average housing cost-to-income ratio is 44% for those aged less than 35 years, 44% for the non-Maltese, and 37% for those with a disposable income of less than €12,000 per annum.

¹²Edmiston, K. (2016) Residential rent affordability across US metropolitan areas. Federal Reserve Bank of Kansas City Economic Review, Fourth Quarter 2016, 5-27.
¹³Meen, G. and Whitehead, C. (2020) Understanding Affordability: the economics of housing markets. Bristol University Press.

Table 4 – Housing Cost Indicators, by household characteristics (2022)

		Rent at market rates		Own with home loan	
		Housing cost-to- income ratio	Overburden rate	Housing cost-to- income ratio	Overburden rate
Aggregate		24.8	31.8	14.6	7.7
Age	< 35 years	43.6	62.8	18.2	13.6
	35 – 64 years	29.1	38.8	13.2	5.5
	> 64 years	14.1	14.4	:	:
Income	< €12,000	36.9	42.5	:	:
	€12,000 - €35,000	21.5	31.2	18.7	12.5
	€35,000 - €50,000	15.9	17.3	11.3	2.5
	€50,000 - €70,000	:	:	9.1	0.3
	> €70,000	:	:	8.3	0.0
Type of household	One person	27.5	38.4	19.4	14.7
	Lone parent	19.0	31.6	16.8	14.5
	Couple w/o children	23.3	20.5	14.9	10.6
	Couple with children	28.1	36.0	12.5	3.2
	Other	18.3	16.4	:	:
Citizenship	Maltese	18.9	20.2	14.5	8.0
	Non-Maltese	44.0	69.2	15.5	1.5



A look at the overburden rates confirms the outcomes of the analysis based on the average housing cost-to-income ratio. Table 4 shows that 63% of those aged less than 35 have a housing cost-to-income ratio that exceeds 30%. Similarly, high rates are also observed for those earning less than €12,000 per annum (43%), and the non-Maltese (69%). For those households that own a home with a home loan, the average housing cost-to-income ratio is 15% and only 3% of households have a ratio that exceeds 30%. This is largely due to commercial banks' lending practices and macroprudential policy which, at the point of loan origination, ensure that loan repayments do not exceed a given share (often 30%) of a household's income. Coupled with a generally low interest rate environment over the past decade, this resulted in relatively low housing cost-to-income ratios and overburden rates across the board.

Taken together, the households across all tenures with a housing cost-to-income ratio that exceeds 30% amount to over 13,000. And these figures are assumed to be conservative estimates, as updates of SILC data following the completion of the Census of Population and Housing 2021 are likely to show higher numbers of individuals belonging to vulnerable groups (e.g., foreign workers).

03

Non-Profit Organisation in Contemporary European Housing Policy

The housing affordability issues identified in the previous section are, in part, the result of various policies adopted by successive government administrations that led to a shift away from the state to the private market as the main provider of housing; with the state retaining the role of supporting those that are residualised by the market. Within this system, faster than average growth in house prices has given rise to a group of middle-income individuals whose housing needs are neither catered for by the private market nor by the state. In several countries, new solutions have been emerging whereby this gap is being addressed by non-state actors.

In this light, there are three fundamental passages to describe in the understanding of contemporary debates on housing affordability. The first one is how economic and societal changes have altered the housing needs and demands of the populations in Europe. The second one is how governments have been conceiving their role in the context of this reshaped housing equation, and the third one is the direction which foreign policies have taken to fulfil the needs of contemporary society without any strong reliance on public funding.





New housing demands

Across Europe, families have become smaller while life expectancy, divorce rates and migration have been on the rise.¹⁴ The housing market appears, in great part, to reproduce the labour market, particularly in amplifying the differences that it generates.¹⁵ In turn, the labour market has itself been in transition, particularly through the emergence of short-term contracts and a flexible (or easily-disposable) secondary workforce with sub-standard terms of employment.¹⁶

According to Malpass, the combined effect of these factors has resulted, in the formation of four main vulnerable groups: (i) single-person households consisting of elderly and young people, (ii) single parents, (iii) households with no income from employment, and (iv) members of ethnic minorities.¹⁷ Affordability gaps have now also started affecting middle- income households.¹⁸

Difficulties appear to be particularly pronounced among one-income households in countries with housing models which depend on ownership, since single households are likely to find themselves with low purchasing power compared to couples. As a direct consequence of this, family break- down is likely to introduce significant housing difficulties, particularly among females.¹⁹

Changes in household composition have, in turn, brought into question old planning concepts which adapt less readily to the changing social landscape. The situation seems to have been best described by Czischke:

“Indeed, all [social rental] organisations recognised that a growing proportion of elderly people living in their social housing results in a number of management issues. Among these is the need to adapt those dwellings to new physical requirements, which requires new technologies, innovative architectural solutions as well as urban design concepts when it comes to planning elderly-friendly neighbourhoods. In addition, the proliferation of individual lifestyles and processes of family breakdown and re-composition (due to higher divorce rates, lone parenthood, etc.) have brought about an increasing number of one-person households. Coupled to this, a growing proportion of ethnic minorities and immigrants is leading to an increasingly complex new demand for social housing in terms of both the types of dwellings and the range of services required for each specific group. Last but not least, the process of ‘residualisation’ that social housing is undergoing in most of these countries calls for the provision of a variety of accompanying services for vulnerable categories of residents.”²⁰

Malta seems to have been equally affected by these global trends, particularly the increase family breakdowns and the steady growth in migration. The 2018 White Paper on the Maltese private rented sector has already partially identified how the demand in the local rental market has been affected, in a decisive manner, by both the labour market as well as new patterns in household composition.²¹ It can be argued that these patterns have equally affected the ownership market although not homogeneously; while family breakdowns appear to reduce affordability by a significant margin, smaller families (in part due to lower fertility rates) requiring smaller living spaces and stronger female participation in the labour market, which raise the purchasing power of a household, may actually be alleviating or cushioning some of the main issues of affordability faced by new entrants.

¹⁴Czischke, D. (2009) Managing Social Rental Housing in the EU: A Comparative Study, *European Journal of Housing Policy* 9(2), 121–151, p.122.

¹⁵Malpass, P. (2005) *Housing & the Welfare State*, Palgrave MacMillan, p.144.

¹⁶Gallie D. and Paugam S. (dir.) (2000) *Welfare Regimes and the Experience of Unemployment in Europe*, OUP, Oxford, 295-6.

¹⁷Malpass, P. (2005) *Housing & the Welfare State*. Palgrave MacMillan, p.172.

¹⁸OECD (2021) *Building for a better tomorrow: Policies to make housing more affordable*, Employment, Labour and Social Affairs Policy Briefs, OECD, Paris, p.3. Available on: <http://oe.cd/affordable-housing-2021>.

¹⁹F. Early & M. Mulholland, “Women and mortgages” *Housing Finance*, 1995(25) 21–27.

²⁰Ibid. Czischke (2009).

²¹Parliamentary Secretariat for Social Accommodation, “Renting as a Housing Alternative”, 2018,pp.19-20.Retrieved online on: https://meae.gov.mt/en/Public_Consultations/MFESS/Documents/White%20Paper%20Booklet_.pdf.

State intervention in contemporary European housing policies

The understanding of the role that government has to play in housing policy is not uniform across Europe. As a Mediterranean state and a former British colony, Malta is comparable to the liberal and Mediterranean or “Latin-rim” welfare clusters where there is a predominance of home ownership.^{22 23} From a mainstream point of view, these clusters provide long-term, stable housing, which additionally enables the accumulation of capital wealth.²⁴ Malta, in particular, has for entire decades subsidised a “socialised homeownership” for large parts of the population²⁵ and ownership remains the primary goal of the government’s housing policy.

To a large extent, the demand for owner-occupation has been enabled by a supply of money that banks directed towards house purchases.²⁶ As the financial markets seemed to have solved the housing problem, governments retreated from their role of meeting ‘general needs’ and had local authorities focus their efforts on those households whose needs could not be met by the private market.²⁷ Governments seemed to rate their success according to the increase in mortgages granted and homeownership rather than its production of social housing.²⁸

The delivery of public housing came to be seen as a paternalistic exercise which was additionally ridden by inefficiency and, therefore, intrinsically unattractive and stigmatised;²⁹ particularly as opposed to the positive connotations of individual responsibility associated with ownership.³⁰ Since the allocation of social housing became confined to the least well-off, then the provision of the service itself became a sign of social exclusion.³¹ In the United Kingdom the government had, by the late 1980s, already introduced the idea that local housing authorities should become enablers rather than providers.³² Social housing which is planned, built and managed by local government is predicted might as well be looked at as an outdated concept in a few decades’ time.³³

The unregulated supply of money, however, led to the spiralling of house prices across many European countries, which, in turn, led to a decline in homeownership, initially due to reduced affordability and wages and eventually due to the financial crisis.³⁴ In the liberal welfare cluster, the dominant private sector’s need for development gain meant that new construction was tailored towards homeownership and speculative private renting for middle and high income.³⁵

²²S. Arbaci, “Ethnic Segregation, Housing and Welfare in Europe”, *European Journal of Housing Policy*, (2007) 7:4, p. 412. F.G. Castles & M. Ferrera, “Home Ownership and the Welfare State: Is Southern Europe Different?”, *South European Society and Politics*, 1996:1(2), 164-165. Cziške classifies Malta in the Mediterranean model as having few social housing units (D. Cziške & C. Taffin, “European policies for social housing funding”, in N. Houard, *Social Housing across Europe*, p. 153). Liberal and “Latin-rim” clusters are distinguished from “social-democratic” and “corporatist” welfare clusters present in Scandinavian and Central European states.

²³The former refer to societies such as the United States or the United Kingdom, while the latter refer to mostly to Southern Europe.

²⁴K. Kholodilin, S. Kohl & F. Muller, “The Rise and Fall of Social Housing? Housing Decommmodification in Long-run Comparison”, *Journal of Social Policy*, Cambridge University Press (2022), p. 2; P. Malpass, *Housing & the Welfare State*, 2005, Palgrave MacMillan, 158.

²⁵Ibid. Kholodilin et al. (2022).

²⁶M.B. Aalbers, *The Financialisation of Housing*, (Abingdon, New York: Routledge, 2017), p. 139.

²⁷Ibid. Malpass(2005).

²⁸H. Schwartz & L. Seabrooke (2008) “Varieties of residential capitalism in the international political economy : old welfare states and the new politics of housing”, *Comparative European Politics*, Vol.6 (No.3), pp. 237-261.

²⁹Ibid. Malpass (2005).

³⁰P. Malpass & C. Victory, *The Modernisation of Social Housing in England*, *International Journal of Housing Policy*, (2010) 10:1, p. 8.

³¹P. Malpass, *Housing & the Welfare State*, 2005, Palgrave MacMillan, 169.

³²The future role of local authorities was seen as an essentially strategic one, with the aim of identifying housing needs and demands, and encouraging innovative methods of provision by other bodies to meet such needs. At the turn of the century, British Prime Minister, Tony Blair had stated that: “The days of the all-purpose local authority that planned and delivered everything are gone. They are finished. It is in partnership with others – public agencies, private companies, community groups and voluntary organisations – that local government’s future lies.” (P. Malpass & C. Victory, “The Modernisation of Social Housing in England”, *International Journal of Housing Policy*, 2010(10:1), p. 11)

³³Ibid. Malpass (2011)

³⁴C. Whitehead & P. Williams, “Changes in the regulation and control of mortgage markets and access to owner-occupation among younger households”, *OECD Social, Employment and Migration Working Papers*, No. 196, 2017, p. 4.

³⁵S. Arbaci, “Ethnic Segregation, “Housing and Welfare in Europe”, *European Journal of Housing Policy*, (2007)7:4, pp. 418, 424.

While homeownership was becoming less accessible, more people were “squeezed” into the private rental sector which was, therefore, both expensive and insecure.³⁶ Coincidentally, the deregulation of private rented sectors took place simultaneously with the above-described decline of social housing.³⁷ As it turned out, the market was not good at providing accommodation for households on the lowest incomes, while the minimal intervention from governments was not proving to be sufficient.³⁸

The situation in liberal and Mediterranean welfare clusters is that access to ownership has, therefore, become decisive in ensuring that a household remains in the mainstream population. The debate, in these countries, is whether the state should simply accommodate the poor and the socially excluded (as it currently does), or to broaden its responsibility, even through non-profit organisations (understood as part of the third sector i.e. neither market nor state), in ensuring adequate housing for all those for whom the market fails to deliver. As housing policy in Europe went through a gradual shift from government control towards the reinforcement of market principles, the social housing sector also modernised itself³⁹ and now presents itself in a more diverse form, characterised by hybrid patterns of financing, construction and management.⁴⁰ In certain central European states that have social

democratic welfare models, the withdrawal of the state has been understood to create a specific task for social housing providers which, however, apply business principles in their operations.⁴¹ Such housing providers, in fact, adopt a wider scope which may partially include commercial activities such as renting and selling at market levels. With less dependence on state funds, these providers also become more flexible and independent and are free to assume new responsibilities in the management of their property.⁴²

The functions of a non-profit housing sector

Social landlords are heavily influenced by the ideas of a social business, i.e., running a company efficiently while remaining committed to the social purpose.⁴³ While committed to make surpluses (rather than profits) such organisations are also expected to perform the social mission of providing accommodation at affordable prices. The balance to be achieved is not always straight forward since financial efficiency must come at the expense of equity. However, it is precisely the inequity of the housing market that justifies the intervention in the first place.⁴⁴ The “tension between economic and social objectives” is crucial in this sector,⁴⁵ although decreasing state funding leads social landlords to be increasingly business-oriented.

³⁶Jim Kemeny, *From Public Housing to the Social Market: Rental policy strategies in comparative perspective*, (Abingdon: Routledge, 1995), p. 17.

³⁷Ibid. Kholodilin et al. (2022), p. 14. These are said to be the characteristics of a “dualist” or “residual” rental market which is typically characterised by a social rented sector which is limited to a residual population unable excluded from the private market, leading to a segregated and stigmatised category. This is the opposite of unitary rental systems which operate in a context of housing tenure balance and where, in certain instances, the social rented sector even dominates the rental market or competes with the private rented sector to dampen rents (Ibid. Arbaci (2007), p. 412).

³⁸Ibid. Malpass (2011), p. 23. This was particularly the case in systems which had a predominantly speculative approach in the management and access to land supply, where the profit regime is completely based on development gain, as opposed to systems which are based on a large extent of public land ownership (direct land provision) and/or a strong planning system able to negotiate with the private developers (indirect land provision).” (Ibid. Arbaci (2007), p. 411-412). As opposed to Malta, in countries such as the Netherlands, France and Sweden, there is a system of public land development wherein the government buys all the land to be developed, readjusts the parcels into forms suitable for the desired development, and sells those parcels (E. van der Krabben, H. Ploemakers & A. Samsura, “The Netherlands: the public development of land”, in M. Tira, E. Krabben, and B. Zanon, (Eds.), *Land management for urban dynamics: Innovative methods and practices in a changing Europe* (Editori Maggioli, 2011), p. 269). This, in turn, enables the state to have to have a stronger planning system able to negotiate with private developers, which, Arbaci considers to be a structural condition of a unitary housing system.

³⁹Ibid. Czischke (2009), p. 122.

⁴⁰Ibid. Kholodilin et al. (2022), p. 5.

⁴¹Darinka Czischke, *Managing Social Rental Housing in the EU: A Comparative Study*, *European Journal of Housing Policy* Vol. 9, No. 2, 121–151, June 2009, p. 130

⁴²Ibid. Czischke (2009), p. 130

⁴³P. Boelhouwer, *Social Housing Finance in the Netherlands: the road to independence*, *Housing Finance International*, p.18.

⁴⁴P. Ibid. Malpass (2005), 194.

⁴⁵Ibid. Malpass (2011), p. 29.

⁴⁶Ibid. Czischke (2009), p. 146.

Table 5 compares the traditional public housing model with the new social housing model. The social housing model includes a number of social housing providers that obtain funds from a mix of private and public channels and are governed in a more managerialist manner with a focus on asset management. While properties must not be exclusively rented and can be also sold, the tenants are, as a matter of fact, active consumers rather than passive recipients of assistance.

Table 5 – Two models of social housing⁵²

	Public housing model	Social housing model
Role in the housing system	Accommodating a broad social spectrum	Predominantly residual
Ownership	Overwhelmingly municipal	Mix of local authority and other social housing providers
Procurement/ development	Local authority	Mainly non-municipal providers
Governance	Municipal democratic; local autonomy from central control	Managerialist; heavily regulated by the centre
Organisational culture	Bureaucratic/professional	Customer oriented; focus on asset management
Finance	Public sector loans and subsidies	Mix of public and private loans; use of cross-subsidy from private developers
Tenants	Passive recipients	Active consumers
Tenure	Rented	Rented and shared ownership

Such organisations are also given access to stable long-term resources such as loans that are granted at a below-market rates, guarantees or explicit subsidies.⁴⁶ Thriving private markets tend to create several other opportunities for funding⁴⁷ and, more recently, social landlords have been finding new ways of raising private capital through mechanisms such as bonds via special purpose vehicles.⁴⁸ Social landlords, in fact, tended to increase their propensity towards risk more capital started flowing into the sector⁴⁹ particularly due to the attractive, low-risk investment that a social housing enterprise would represent.⁵⁰ Bottom-up initiatives to raise capital on their own account have enabled social landlords to respond to the drop in the levels of funding, while maintaining their operations more financially sustainable.⁵¹

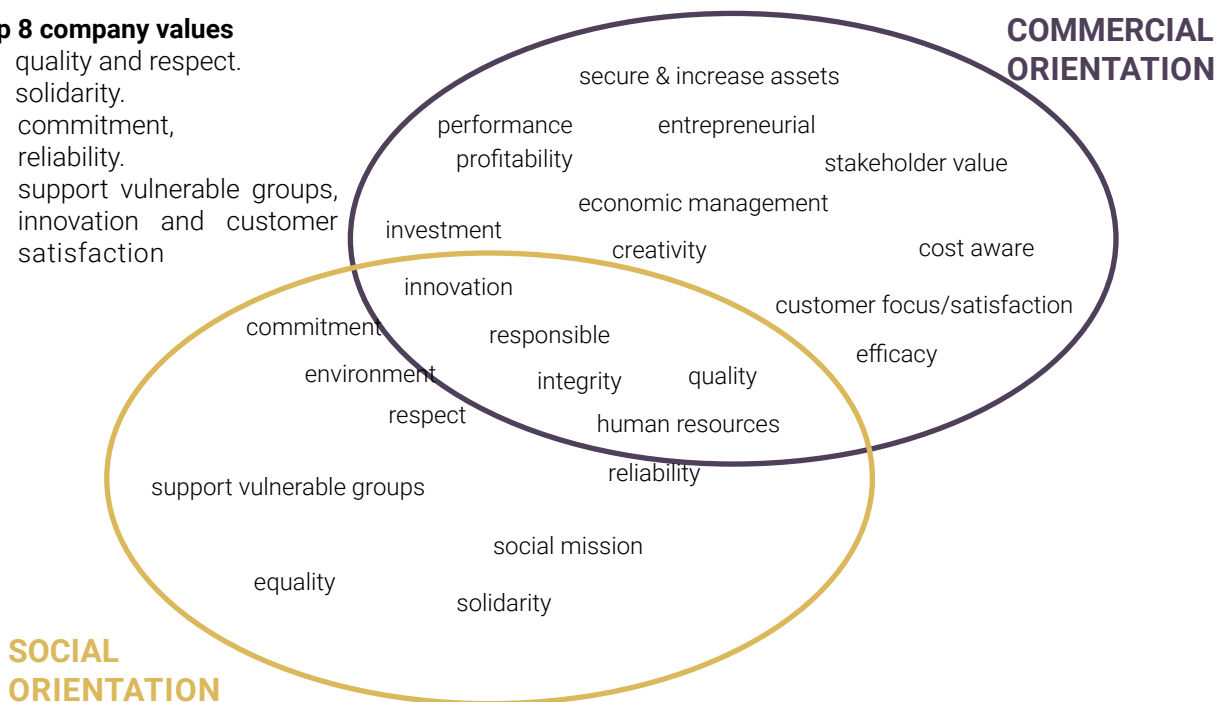
Nevertheless, social landlords must never lose sight of their primary objectives. Their objective is not that of boosting shareholder value, but rather to benefit their tenants while also generating a surplus which they could recycle back into the business.⁵³ Figure 3 attempts to demonstrate the balance which such social landlords need to achieve between commercial and social goals.

As to the actual housing production, social landlords are, in their larger part, themselves reliant on private builders to deliver a significant proportion of their new dwellings.⁵⁴ An analysis on the fields of activity of selected social housing organisations or social landlords across Europe finds that as a general trend, the main activities for which these would be responsible are: letting, purchase of land and maintenance of buildings, while, on the other hand, construction is typically outsourced (see Figure 4).

Figure 3 - Company values: commercial and social orientation⁵⁵

Top 8 company values

1. quality and respect.
 2. solidarity.
- commitment,
reliability.
support vulnerable groups,
innovation and customer
satisfaction



⁴⁶Ibid. Czischke & Taffin (2011), p. 160.

⁴⁷C.M.E. Whitehead, "The Provision of Finance for Social Housing: The UK Experience", Urban Studies, Vol. 36, No. 4, 1999.

⁴⁸Ibid. Czischke & Taffin (2011), p. 163.

⁴⁹Ibid. Arbaci (2007), p. 424.

⁵⁰Ibid. Czischke & Taffin (2011), p. 163.

⁵¹Ibid. Malpass (2005), p. 199.

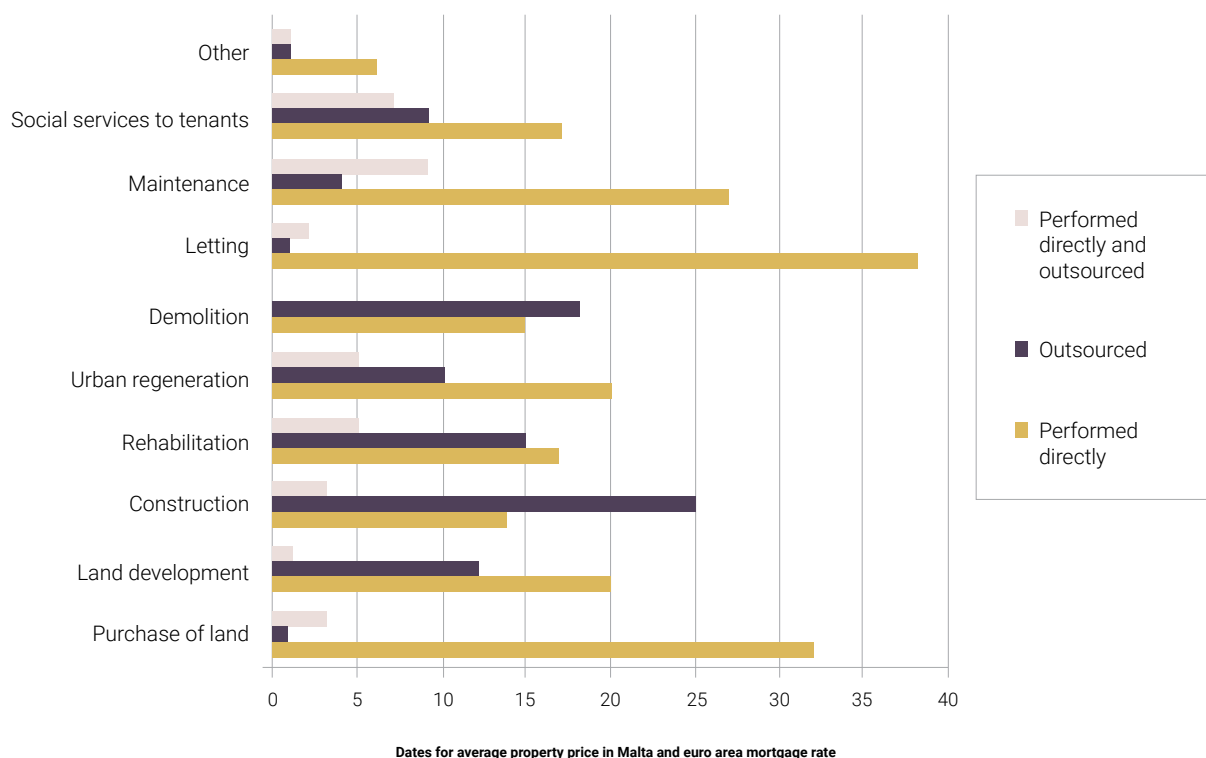
⁵²Ibid. Malpass & Victory (2010), p.8.

⁵³Ibid. Malpass (2011), p. 27.

⁵⁴Ibid. Malpass (2011), p. 141.

⁵⁵Ibid. Czischke (2009), p. 135.

Figure 4 – Fields of activity of social housing undertakings⁵⁶



The European experience seems to suggest that social housing organisations would appear to present a feasible solution to the current affordability gaps being formed. If these services are, furthermore, offered to a wide category of individuals rather than simply the bottom income strata, such activities are likely to result into less segregation, since there would be a redistribution of different income groups across diverse tenures.⁵⁷ The risks involved in marketising social housing, however, is that the penetration of capital from financial markets might expose what in principle ought to be “de-commodified” housing to pressures for the creation of higher shareholder value, turning projects intended underline the “use value” of homes into tools for speculation and capital accumulation.⁵⁸

In Malta, such enterprises would fulfil a role that would be no different than that covered by the Church in 1970s. It had effectively issued parallel schemes to those of the government, through which it offered more than 2,000 plots to Maltese households.⁵⁹ As a matter of fact, the Church remains, till this day, the only non-private (for-profit) and non-public landlord in Malta.⁶⁰

⁵⁶Ibid. Czischke (2009), p. 136.

⁵⁷Ibid. Arbaci (2007), p. 412.

⁵⁸G. Wijburg, M.B. Aalbers & S. Heeg “The financialisation of rental housing 2.0: Releasing housing into the privatised mainstream of capital accumulation” *Antipode* 2018 (50:4): p. 1115.

⁵⁹C. Vakili-Zad, *Housing Policy in Malta*, (Marsa: Union Print/YMCA Homeless/Department of Public Policy - University of Malta, 2007), p. 188.

⁶⁰According to the 2011 Census, 2.6% of households living in some form of rent or emphyteusis paid their rent to the Church.

04

Conclusion

The sustained increase in house prices continues to push upwards the income threshold below which individuals become ineligible for a loan. As a result, by early 2023, an individual (or group of individuals) with an annual income less than €25,000 became ineligible for a loan on the average priced-housing unit (c. €225,000). Since three out of every four persons in the population aged between 20 and 30 years have an income that falls below this level, there is an increasing concern about housing affordability.

For those that already own or rent a housing unit, the average housing cost-to-income ratio is 10%. This is by far the lowest in the EU and significantly below the generally accepted affordability threshold of 30-40%; suggesting that the situation in Malta is nowhere close to what would be considered a housing crisis. However, Malta's average housing cost-to-income ratio reflects a large group of households that either 'own a housing unit with a home loan' or 'rent at below market rates'. Households that fall outside these groups are more likely to have housing affordability problems. In fact, over 13,000 households have housing costs that amount to more than 30% of their disposable income.

⁶¹Ibid. Malpass (2011), p. 29, 32.

⁶²Ibid. Vakili-Zad (2007), p. 188.

⁶³According to the 2011 Census, 2.6% of households living in some form of rent or emphyteusis paid their rent to the Church.



Among those that rent at market rates, the burden of housing costs appears to be disproportionately harsh on the young, the foreign, the low income, and one-person households. In fact, the housing cost-to-income ratio exceeds 30% for: (i) 63% of those aged less than 35 years; (ii) 69% of non-Maltese citizens; and (iii) 63% for those earning less than €12,000 per annum. Overall, more than one-in-every-three households that rent at market rates have a housing cost-to-income ratio that exceeds 30%. For those households that are homeowners but have a home loan, the average housing cost-to-income ratio is 15% and only 8% of households have a ratio that exceeds 30%.

These housing affordability issues are the result of the various phenomena that have shaped the Maltese socio-economic landscape. Primary among these is the prevalence of low-paying jobs and fast-population growth; as well as various policies adopted by successive government administrations that led to a shift away from the state to the private market as the main provider of housing; with the state retaining the role of supporting those that are residualised by the market. Within this system, faster than average growth in house prices has given rise to a group of middle-income individuals whose housing needs are neither catered for by the private market nor by the state.

Based on lessons learnt from the experiences of other European countries, social housing enterprises seem to present a practical solution. Their social aspect renders them the “acceptable face of social housing”, while their commercial aspect makes them compatible with “the private market obsession of the neoliberal ascendancy”.⁶¹ In Malta, such enterprises would fulfil a role that would be no different than that covered by the Church in 1970s. It had effectively issued parallel schemes to those of the government, through which it offered more than 2,000 plots to Maltese households.⁶² As a matter of fact, the Church remains, till this day, the only non-private (for-profit) and non-public landlord in Malta.⁶³

The Foundation for Affordable Housing will operate within this space; with the medium-to-long term aim to enable and provide affordable housing while relying increasingly less on public resources. It is adopting a model that is based on a mix of private and public funding that is governed in a managerialist manner to enable and provide affordable housing. And while housing units must not be exclusively rented, and can be also sold, the tenants become active consumers rather than passive recipients of assistance. Any surplus from this endeavour will be recycled back into the social enterprise to help sustain its goals.



