KPMG

Supported by propertymalta

Malta Development Association

MALTA DEVELOPMENT ASSOCIATION

Construction Industry and Property Market Report 2024

8TH EDITION

This study was commissioned by Malta Development Association (MDA), and sponsored by Bank of Valletta p.l.c., BNF Bank p.l.c., FCM Bank Ltd., HSBC Bank Malta p.l.c., and Property Malta Foundation.

Important information about this report

This deliverable is addressed to Mr. Michael Stivala, President of the Malta Development Association (hereafter also referred to as 'MDA' or as 'the Association'), and to the sponsors of this report, namely: Property Malta Foundation; Bank of Valletta p.l.c.; BNF Bank p.l.c., FCM Bank Ltd., and HSBC Bank Malta p.l.c. and has been prepared in accordance with our terms of engagement as per our letter dated 23 May 2024.

Nothing in this deliverable shall be construed as meaning that we undertake any advocacy services or managerial function for the MDA. Any decisions and/or positions taken are solely those of the Association. Our duties in relation to this deliverable are owed solely to the Association and accordingly we do not accept any responsibility for loss occasioned to any third party acting or refraining from action as a result of this deliverable. We understand and acknowledge that our final report may be distributed and released into the public domain, in complete or summary form. Our consent for the whole or part of our reports to be copied or disclosed to any third party other than the MDA, or otherwise quoted or referred to, in whole or in part, is on the basis that we do not owe such third parties any duty of care as a result of giving such consent.

We have indicated in our report the sources of the information presented. We have not sought to establish the reliability of these sources by reference to information independent of the Association, but where any relevant information has been obtained, this has been indicated in our report. We have, however, satisfied ourselves, as far as possible, that the information presented is consistent with other information that was made available to us in the course of our work in accordance with the terms of the engagement letter.

Throughout this document, reference is made to comments received from industry operators during a series of consultation meetings. The views expressed by such industry operators do not necessarily reflect our own. Our inclusion of any such comments or views expressed by industry sources should not be interpreted as an endorsement of such views, or as an acknowledgement or otherwise of the veracity of such views.

In providing our services, we may have referred to and quoted from laws, regulations, directives or rules issued by regulatory bodies. We may have also commented on their general or specific applicability to the subject of our engagement. We have done so in the context of providing you with additional insights relevant to the subject at hand, and should not be construed in any way as the provision of legal services. We must emphasise that the scope of the work required in connection with this engagement is different from that required for an audit carried out in accordance with International Standards on Auditing and cannot therefore be relied upon to provide the same level of assurance as an audit of financial statements prepared in accordance with those standards.

Our deliverable is also based upon publicly sourced information. Our reliance on and the use of this unaudited information should not be construed as an expression of our opinion on it except as, and to the extent that, we may otherwise indicate in our report. We do not accept any responsibility or liability for the impact on our conclusions of any inaccuracies in such information.

There exists a significant degree of judgement involved in selecting methods and basis for arriving at our opinions and recommendations, and a significant number of items may be subjectively considered when arriving at such opinion. It follows therefore that, whilst our opinion will be one which we consider to be both reasonable and defensible, others may arrive at a different conclusion.

David Pace
Partner
Head of Advisory Services
E: davidpace@kpmg.com.mt
T: +356 2563 1160

Steve Stivala
Director
Advisory Services
E: stevestivala@kpmg.com.mt
T: +356 2563 1052

Contents

List of Figures

List of Tables


KPMG
Think ahead
Protect the legacy that you have built.
We can help you build a thorough succession plan that can help you manage a smooth transition to the next generation.
Contact us:
Anthony Pace
Partner
Head of Tax Services
E: anthonypace@kpmg.com.mt
T: +356 2563 1137
Doreen Fenech
Partner
Tax Services
E: doreenfenech@kpmg.com.mt
T: +356 2563 1017
© 2024 KPMG, a Maltese civil partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
The KPMG name and logo are trademarks used under licence by the independent member firms of the KPMG global organisation.

Foreword

Dear readers,

It is with great pleasure that I present to you the 2024 edition of the **"Construction Industry and Property Market Report"**. In the pages that follow, you will discover a comprehensive analysis of the current state of Malta's construction industry and property market. As with previous editions, this report serves as an invaluable resource for investors, industry professionals, and anyone keen on understanding the evolving dynamics of Malta's real estate sector.

This year's publication places a strong emphasis on three critical themes that are shaping the future of our industry: the unwavering focus on quality, the urgent need for a cohesive Construction Industry Strategy aligned with Malta's economic vision, and the imperative to minimise the disruptive nature of construction activities.

Elevating Quality in Construction and Development:

Our first theme underscores the necessity of a steadfast commitment to quality in every facet of construction and development. This means utilising superior building materials, adhering to professional construction practices, and pursuing developments that not only function efficiently but also enhance the aesthetic appeal of our surroundings. By prioritising quality, and addressing delays and cost escalations directly attributed to excessive bureaucracy, we can elevate Malta's offerings, ensuring that our built environment meets the highest standards and contributes positively to both residents' well-being and the island's attractiveness to visitors and investors.

Strategic Alignment with Malta's Economic Vision:

The second theme highlights the desperate need for a comprehensive Construction Industry Strategy that is intricately woven into Malta's broader economic vision. Construction lies at the heart of economic development, yet it must be aligned with current and future needs to truly complement sustainable economic growth. A strategic (rather than purely tactical) approach will ensure that the industry contributes positively to Malta's economy without detracting from environmental sustainability and social well-being.

Minimising Disruption and Negative Externalities:

Our third theme addresses the imperative to minimise the inherently disruptive nature of construction activities. Recognising that construction can generate significant negative externalities—such as noise, visual pollution, and environmental degradation—it is our collective responsibility to implement practices that reduce these impacts. Our goal must be to carry out construction with the least possible disruption, thereby safeguarding the quality of life for our communities and preserving the natural beauty of our island.

In addition to these overarching themes, this report provides valuable insights into the current realities shaping the industry:

- **Regional Opportunities:** Despite ongoing increases in property prices, regional disparities continue to present unique opportunities for investors and developers. Understanding these nuances and strategically capitalising on them remains key to success.
- **Property Prices and Market Dynamics:** We observe that residential property prices have continued to rise, even when considering the persistent trend of residential permits exceeding Final Deeds of Sale. With respect to commercial property such as office space, even in the face of the "on the ground feeling" of increased supply availability, slight increases have been recorded this year.
- **Affordability Trends:** There is a slight improvement in overall affordability. However, it is important to acknowledge that individuals within particular low-income brackets remain as vulnerable as ever. Addressing their needs is crucial for fostering an inclusive property market.

As we look towards the future, we must consider how the property market will evolve if we continue on our current trajectory. A significant driver of recent market growth has been the influx of expatriates and foreign investors. If the growth of the expat community slows down, or if Malta's attractiveness to foreign workers and investors diminishes, could this lead to a shift in property demand dynamics? Such a scenario urges us to reflect on the sustainability of our current market trends and underscores the necessity for strategic planning to adapt to potential changes. It is crucial to proactively address these possibilities to ensure the resilience and longevity of the industry.

In closing, I invite you to delve into this report, absorb its insights, and engage in the conversation about the future of Malta's construction industry and property market. Our commitment remains unwavering—to provide a comprehensive analysis that unites multiple data sources with our observations, revealing trends and offering valuable perspectives.

We look forward to continuing the dialogue beyond these pages. In November 2024, we will host our annual conference, where we will explore the report's findings in greater depth and discuss the way forward. Together, we can shape a more sustainable, quality-focused, and less disruptive construction industry that aligns with Malta's economic vision and enhances the quality of life for all.

Thank you for your continued interest in and support of this publication.

Sincerely,

Steve Stivala

Director
Advisory Services

Executive Summary

Construction industry and property market in a nutshell in 2024

During 2024, Malta's property market delivered mixed results, yet an optimistic outlook prevails. Residential property prices saw healthy, stable growth, reflecting a robust sector. Meanwhile, the residential rental market has strengthened significantly, reflecting robust demand. In the commercial office space market, emerging opportunities could attract diverse business needs and support the evolving dynamics of the sector. On the construction side of things, the industry contracted in real terms for the second consecutive year, though it remains an important pillar of the economy generating significant value add and employing thousands of workers. Many stakeholders view this as an opportunity to shift focus towards quality, professionalism, and alignment with Malta's evolving regulatory landscape. While this is essential, this period of recalibration must ensure that the industry is also seamlessly aligned with Malta's new socioeconomic priorities and climate ambitions.

Methodology

25

stakeholders consulted

c. 10,480

data points related to residential property sales

8th annual report

Multiple data sources

including data from NSO, Eurostat, CBM

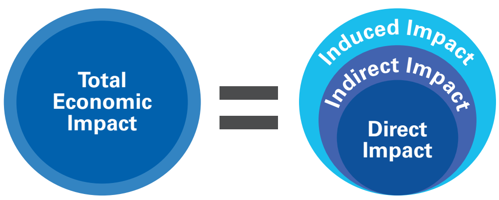
Multiplier analysis

Construction industry:

A €1 increase in demand for construction contributes €0.78 to GVA in terms of direct, indirect, and induced effect.

Real estate activities:

A €1 increase in demand for real estate is expected to generate €0.85 towards GVA in terms of direct, indirect, and induced effect.



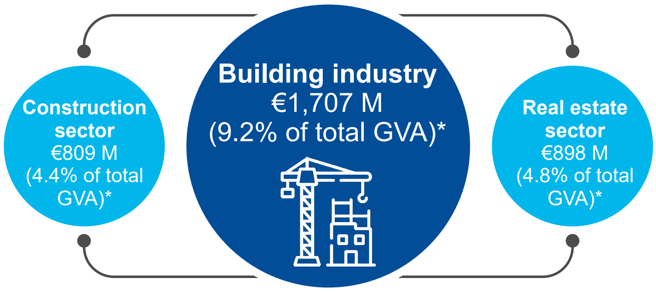
Employment in construction and related activities as of March 2024

Direct	Direct + Indirect	
21,368	29,800	FTEs in the construction sector
4,076	7,624	FTEs in the real estate sector
25,444	37,424	

7.9% direct employment out of the total FTEs in the economy

6.8% over March 2023

GVA of the building industry as of 2023



*Direct effects only.
Percentages do not add up due to rounding.

Industry nominal growth in 2023

Construction - NACE Category F

Construction GVA

6% 2023 growth

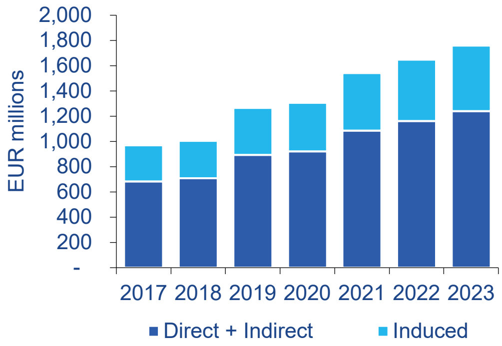
Real estate - NACE Category L

Real estate GVA*

18.3% 2023 growth

*Excluding imputed rents.

Value added multipliers of construction



Construction industry multipliers

€1.76 bln.

of value added in 2023 covering direct, indirect and induced impacts.

Real estate activities multipliers

€1.79 bln.

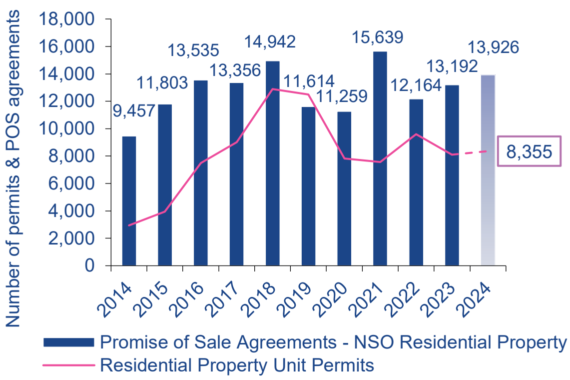
of value added in 2023 covering direct, indirect and induced impacts.

more than **50,000** FTEs in 2023

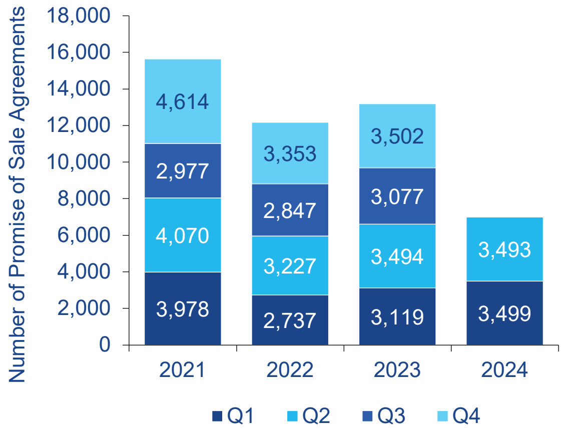
supported by the industry

Direct + Indirect + Induced

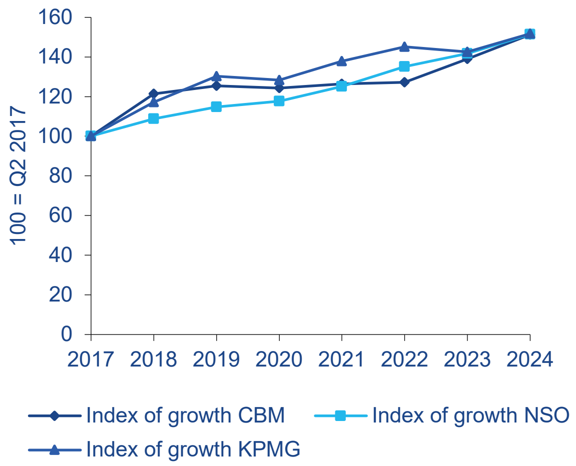
Residential property unit permits in comparison to Promise of Sale agreements for all residency types



Promise of Sale agreements

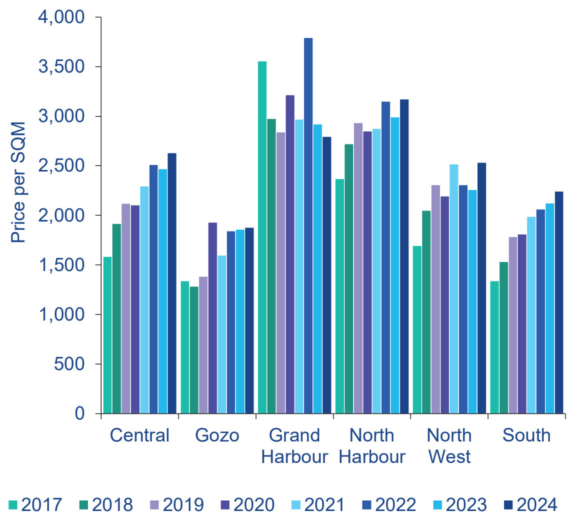


Property price movements - Apartments

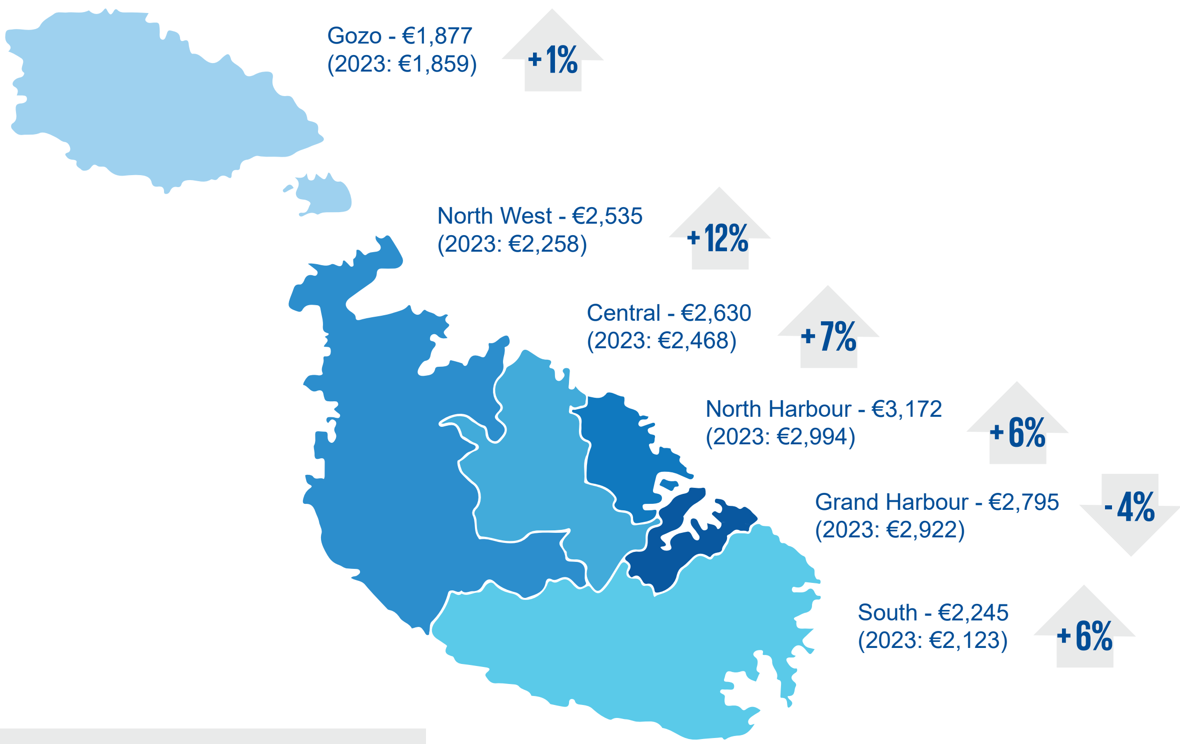


6.1% growth per annum on average, over 7 years.

Average price per sqm by region - Finished apartment



Heat map of finished apartment prices per sqm



Average asking price (€) per sqm for a finished apartment with no or unspecified views, outside of premium developments.


Unlock Sustainable Living with
Green Home Loans
LOWER INTEREST RATES
with Low EPC Rating
BOV
| Login
How would you like to start?
Whether you are still thinking about buying a property or whether you already have a property in mind, we are here to assist you!
I want a rough estimate of how much I can borrow
I want the accurate amount I can borrow, to get a quotation and/or to apply for a home loan
Apply Online
bov.com/homeloans
All loans are subject to normal bank lending criteria and final approval from the Bank. The term of the loan must not go beyond retirement age. Issued by Bank of Valletta p.l.c. 58, Triq San Żakkarija, Il-Belt Valletta VLT 1130. Bank of Valletta p.l.c. is regulated by the MFSA and licensed to carry out the business of banking in terms of the Banking Act (Cap. 371 of the Laws of Malta).
BOV
Bank of Valletta

Introduction

The property industry, covering all phases from groundwork to property sales, continues to be a key contributor to Malta’s economy. Its impact goes beyond mere financial aspects, significantly affecting the environment, the quality of life for residents, and overall social well-being.

Economically speaking, the industry is deeply interconnected with various sectors, including the provision of raw materials, the manufacturing of fixtures, infrastructure development, and its use as collateral in financial dealings. This complex network makes the industry sensitive to external economic shifts and allows it to pass on its own economic impacts to other sectors.

From a broader perspective, it is clear that the construction process and its final products have extensive implications beyond immediate business transactions. These include effects on sustainable development, the visual appeal and attractiveness of the island, and the generation of wealth for future generations, among other factors. These wide-ranging consequences make the industry a focal point for interest, ongoing discussions, and occasional debates.

This report serves as an update to our earlier work. Consistent with previous editions, we have aimed to identify changes within the industry and spotlight trends that may influence its future trajectory. Our core objective remains the same: to provide both qualitative and quantitative insights into the dynamics of the construction industry and the property market. We achieve this by analysing primary and secondary data and by engaging with key industry stakeholders, all with the goal of delivering a comprehensive analysis of the sector.

Characterisation of the industry

1.1 Measuring industry size

Our approach to measuring industry size uses a building block approach. We begin by establishing the foundation using the formal definition of the industry (in this case, construction), and then incorporate additional related economic activities to cover a broader scope, which we refer to as the *building industry*.

One of the most widely used indicators for measuring industry size is Gross Value Added (GVA). GVA represents the total value of goods and services produced within an economy or a specific sector. For the purposes of this study, we applied two methods to illustrate the contribution of specific sectors to the economy. Firstly, the output approach considers the total sales made by all firms in a particular industry, less any intermediate consumption[1]. Therefore, GVA for an economy, or a specific industry, is calculated as:

Gross Value Added = Total Sales - Intermediate Consumption

Secondly, the income approach can be calculated as the increase in the value of goods and services that arises as a direct result of the production process, and can be calculated as:

GVA = CFC + COE + T - S + NOS

Where:

- CFC = Consumption of fixed capital
- COE = Compensation of employees
- T = Taxes on production
- S = Subsidies on production
- NOS = Net operating surplus

Both approaches should yield identical results – one considers expenditure, the other considers payments to the factors of production.

1.2 Defining the building industry

National authorities compile official statistics in accordance with the NACE classification system. Within this framework, activities related to construction are categorised under Section F (NACE Category F: Construction). However, the building industry is wider in scope and some activities linked to it are classified outside of Category F, as they fall under other categories such as 'Real Estate Activities' (Section L) or 'Mining and Quarrying' (Section B). For the purposes of this report, the building industry is defined to include two primary sectors: the Construction sector under NACE F and the Real Estate sector under NACE L, as specified by the NSO's official classifications. Sectors and subsectors included in these two industries are highlighted in colour, while those shaded in grey, though potentially relevant to the building industry, are not included in our definition[2].

[1] Intermediate consumption measures the value of goods and services that are consumed as inputs by a process of production. These goods and services are supplied to the downstream firm and may either be transformed or used up during the production process.
[2] The definition of the building industry has been modified slightly from previous editions, for simplification purposes and to better align with official NSO statistics. Lack of data granularity has also been considered as a factor for omitting certain sectors.

Figure 1.1: Composition of the building industry

1.3 Putting it all together – Gross Value Added

In order to estimate the size of the building industry, we aggregated the statistics reported by the National Statistics Office[3] into two main categories:

- The Construction sector (F)
- The Real estate sector (L)

The construction sector classification considered here is kept in line with NSO's NACE group F categorisation, and includes the following:

- Construction of buildings (NACE 41) *
- Civil engineering (NACE 42) *
- Specialised construction activities (NACE 43) *

The Construction of Buildings (NACE 41) reflects economic activity resulting from the development of building projects and the construction of residential and non-residential buildings and tends to be the largest of the three core segments in terms of output. The second largest component is Specialised Construction Activities (NACE 43), which concerns activities considered as special trades, that take place in the construction of buildings and infrastructural projects[4]. The smallest segment is Civil Engineering which revolves around heavy construction projects like the repair or new build of infrastructural works (NACE 42).

[3] Data was only available for sectors marked with an asterisk (*). For those marked with a double asterisk (**), data pertaining to these items are not provided by the NSO on the basis of confidentiality.
[4] Eurostat's NACE Rev.2 document details all activities that fall under this category, which among others includes such as pile-driving, foundation work, carcass work, concrete work, brick laying, stone setting, scaffolding, roof covering etc. Finishing works and completion activities is also included, as is installation of all kinds of utilities including, but not limited to, plumbing, installation of heating and air-conditioning systems, antennas, alarm systems and other electrical work, sprinkler systems, elevators, and escalators, etc.

The real estate sector classification considered in our definition of the building industry is kept in line with NSO's NACE group L categorisation, and includes the following:

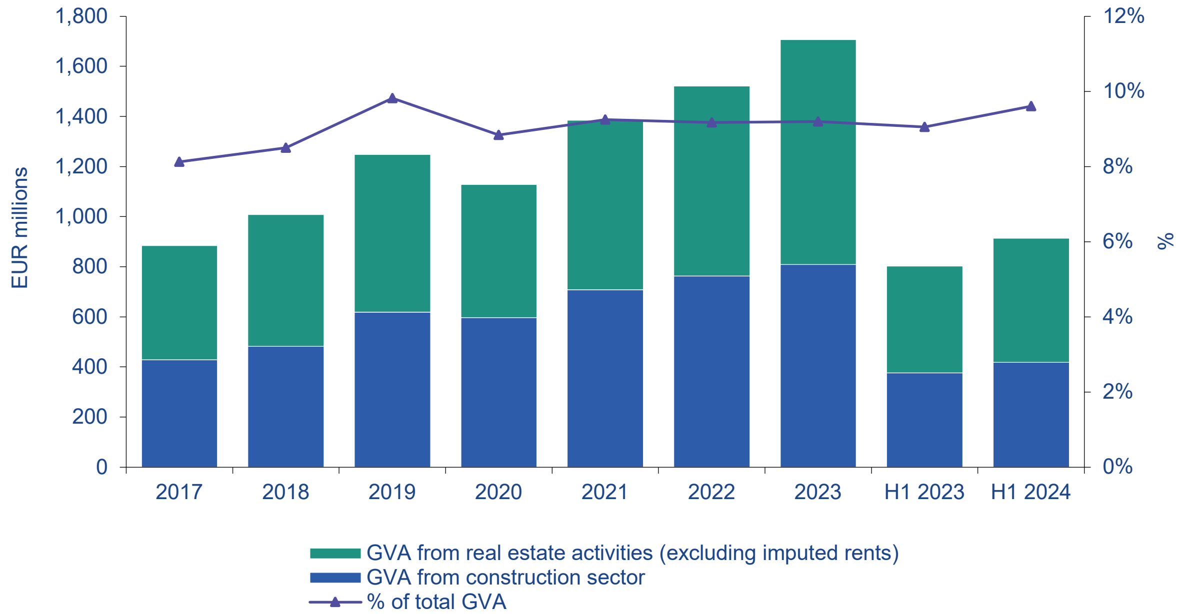
- Real estate activities (excluding imputed rents) (NACE 68)[5] *

Other sectors that are associated with the construction and property market, but were not included in this edition's metrics, are:

- Architectural and engineering activities, technical testing, and analysis (NACE 71) *
- Manufacturing of fabricated metal products (NACE 25) *
- Mining and quarrying (NACE 08) **
- Manufacturing of wood and products of wood and cork (NACE 16) **
- Manufacturing of other non-metallic mineral products (NACE 23) **
- Services to buildings and landscape activities (NACE 81) **

As a result, the final figures for the building industry are likely to be understated under the premise that the building industry would have also benefitted from the economic growth experienced by the sectors for which data was unavailable at the required level.

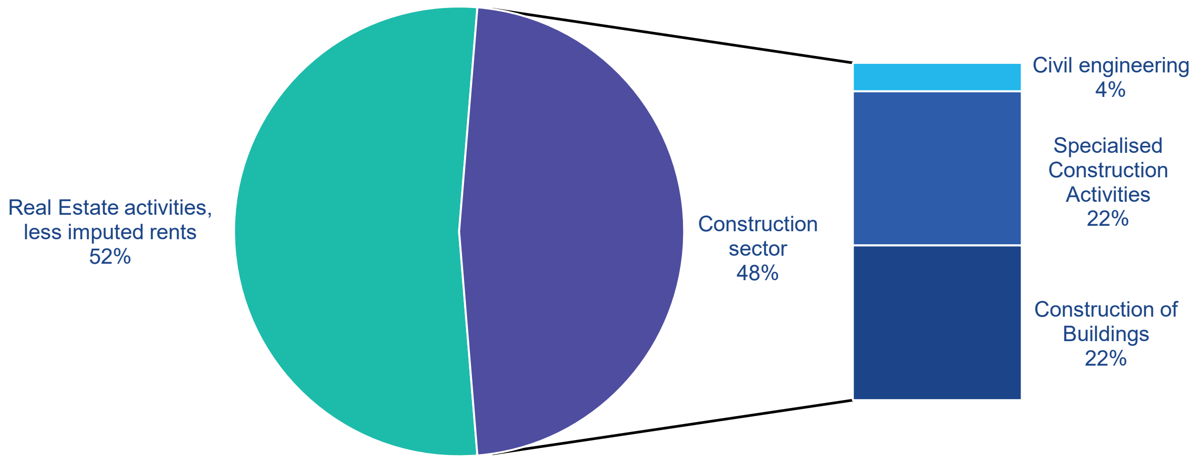
Figure 1.2: Gross Value Added from the construction sector and real estate activities



Source: NSO data; KPMG analysis

[5] In compliance with Commission Implementing Regulation (EU) 2021/1948, Malta has changed its methodology for owner-occupied dwellings from the user-cost method to the stratification method. This shift led to substantial retrospective revisions in NACE 68 (Real Estate Activities, excluding imputed rents) as part of the 2024 National Accounts Benchmark revision. Consequently, the historical values of NACE 68 presented in this report will differ from those in previous editions.

Figure 1.3: Composition of the building industry in 2023



Source: NSO data; KPMG analysis

The above Figure indicates that the construction sector accounted for 47.4% of the building industry, as defined earlier, while Real Estate activities (excluding imputed rents) constituted the remaining 52.6%. This contrasts with the prior year where construction sector accounted for circa 63%, with real estate activities accounting for circa 37%.

Nominal GVA for the first half of 2024 is compared against the first half of 2023 for both sectors. The Construction sector (NACE F) has so far generated around €417.8 million in the first half of 2024 – 4.2% of the entire economy, up from around €376.0 million in the first half of 2023 (approx. 4.1% of total GVA during H1 2023). Real Estate Activities less imputed rents (NACE L) generated about €496.4 million in the first half of 2024, which make up 5.0% of national GVA (less imputed rents). This is up from €426.7 million in the same period in 2023, when it commanded 4.7% of total H1 2023 GVA. Estimating the share of the building industry on the whole economy in H1 2024, the figure stands at 9.6% of national GVA (less imputed rents), or €914.1m. This is up from €802.7m (9.1% of national GVA) in H1 2023.

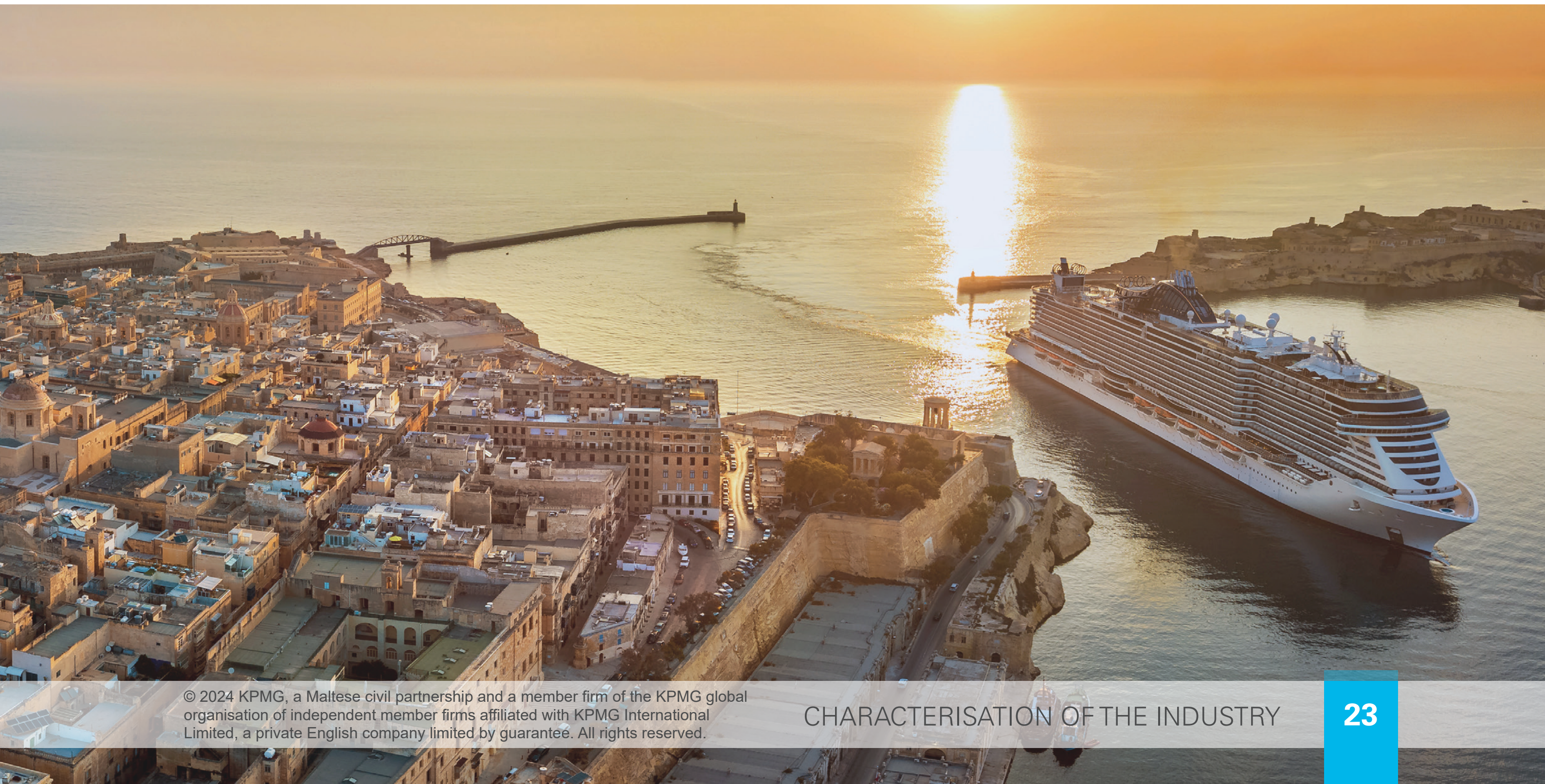
Under this definition, the building industry's contribution to GVA is depicted in the Table below:

Table 1: GVA from the building industry

	2019 (€ millions)	2020 (€ millions)	2021 (€ millions)	2022 (€ millions)	2023 (€ millions)	H1 2023 (€ millions)	H1 2024 (€ millions)
GVA from construction sector	619	597	708	763	809	376	418
GVA from real estate activities (excluding imputed rents)	629	531	677	759	898	427	496
Total GVA from construction sector and real estate activities	1,248	1,128	1,385	1,522	1,707	803	914
Total GVA less imputed rents	12,714	12,757	14,969	16,591	18,551	8,864	9,513
% of total GVA	**9.8%**	**8.8%**	**9.2%**	**9.2%**	**9.2%**	**9.1%**	**9.6%**

Source: NSO data; KPMG analysis

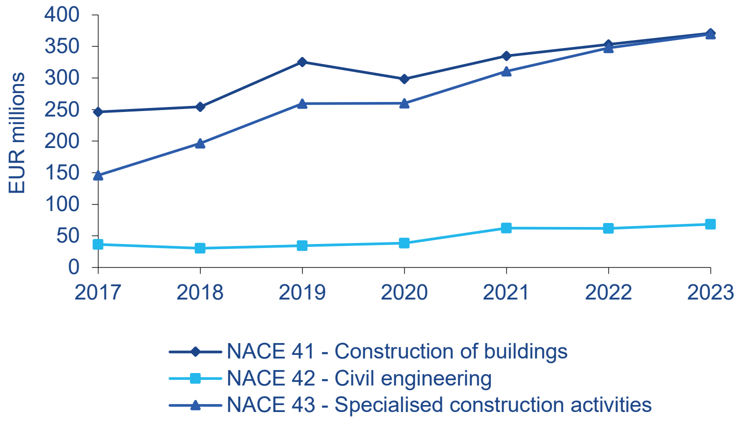
We reiterate that even though we estimate the total GVA from the building industry to be €914.1 million for the first half of 2024, and €1.707 billion for 2023 (full year), the actual figure is likely higher. This is due to the exclusion of certain goods and services related to the building industry that could not be included due to data limitations.



1.4 Industry performance

The Construction of Buildings has consistently reported the highest GVA among the three categories in the construction sector, increasing steadily from just under €250 million in 2017 to over €370 million in 2023. Specialised Construction Activities followed a similar trajectory, rising from just below €150 million in 2017 to just under €370 million in 2023. Civil Engineering, while recording the lowest GVA, grew from €36.5 million in 2017 to €68.4 million in 2023. Notably, Civil Engineering registered the highest percentage growth in nominal terms over the last year (2022/23), at 10.4%, compared to 6.2% for Specialised Construction Activities and 5.1% for the Construction of Buildings.

Figure 1.4: Gross Value Added in nominal terms



Source: NSO data

Annual nominal growth in the construction sector amounted to 6.0% in 2023, making it comparatively lower to the overall nominal GVA growth of 13.4% observed in the wider economy. In the first half of 2024, the construction sector recorded a nominal growth of 11.1%, surpassing the overall GVA growth of 7.7% for the same period in the previous year, demonstrating an even stronger performance relative to the national average[6].

Turning to Real Estate Activities[7] (NACE L), GVA has seemingly performed comparatively better to the construction sector, having expanded by 17.1% in nominal terms in H1 2024 over the same period in the prior year. GVA in 2023 increased by 41.2% in nominal terms, marking the highest year-on-year increase among all economic sectors[8].

Other sectors, such as financial and insurance activities, posted robust nominal growth, both on a year-on-year basis and when comparing the first half of 2024 to the same period last year, with increases of 29.3% and 12.4%, respectively.

[6] The half-year analysis was conducted at a nominal level, as real GVA figures be sector are expected to be released in the first half of 2025.
[7] This is inclusive of imputed rents as calculation is based off published GDP data as disaggregated by NSO.
[8] The large growth in real estate activities from 2022 to 2023 is partly attributed to a change in methodology in the calculation of imputed rents. For more information please refer to Section 2.7 of the Benchmark Revision 2024, published by NSO in August 2024.

Table 2 below shows movements in nominal GVA across sectors. Comparing 2023 with 2022, no industries registered declines. *'Agriculture, forestry and fishing'* was the only sector to contract between H1 2024 and the corresponding period in 2023.

Table 2: Changes in nominal GVA between 2022 and 2023 and between H1 2023 and H1 2024

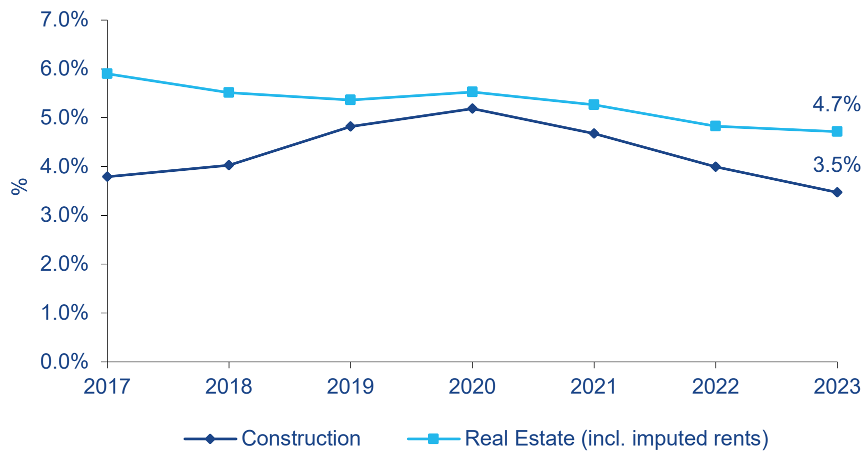
	NACE Group	2022 (€ 000's)	2023 (€ 000's)	% Change	H1 2023 (€ 000's)	H1 2024 (€ 000's)	% Change
Gross Value Added (GVA) by Sector							
Agriculture, forestry and fishing	A	140,903	141,711	0.6%	54,818	42,123	-23.2%
Mining and quarrying; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	B + D + E	255,301	331,302	29.8%	776,948	795,349	2.4%
Manufacturing	C	1,159,427	1,271,735	9.7%	606,400	662,269	9.2%
Construction	F	763,017	809,170	6.0%	375,997	417,775	11.1%
Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	G + H + I	2,954,358	3,238,431	9.6%	1,479,780	1,570,653	6.1%
Information and communication	J	1,932,585	2,001,948	3.6%	964,951	970,702	0.6%
Financial and insurance activities	K	1,334,412	1,725,769	29.3%	843,321	948,048	12.4%
Real estate activities	L	1,094,906	1,545,944	41.2%	713,212	834,976	17.1%
Professional, scientific and technical activities; administrative and support service activities	M + N	3,071,783	3,595,458	17.0%	1,707,638	1,881,467	10.2%
Public administration and defence; compulsory social security; education; human health and social work activities	O + P + Q	2,629,997	2,820,501	7.2%	1,387,597	1,500,740	8.2%
Arts, entertainment and recreation, repair of household goods and other services	R + S + T + U	1,590,464	1,716,924	8.0%	846,716	889,731	5.1%
Total GVA		**16,927,154**	**19,198,894**	**13.4%**	**9,150,979**	**9,851,563**	**7.7%**
Add Taxes on products		1,730,526	1,864,153	7.7%	876,751	1,006,455	14.8%
Less Subsidies on products		415,423	412,627	-0.7%	234,387	123,307	-47.4%
GDP		**18,242,258**	**20,650,420**	**13.2%**	**9,793,343**	**10,734,712**	**9.6%**

Source: NSO data; KPMG analysis

GVA growth in real terms contrasts significantly with nominal figures displayed in the Table 2. When correcting for growth in prices, it is revealed that the construction sector has in fact contracted by 7.7% in 2023 over prior year in volume terms. This represents a second year-on-year contraction, first observed in 2022. The real estate sector (inclusive of imputed rents) on its part grew by 3.6% in 2023. As overall GVA growth in real terms amounted to 6.1% in 2023, this suggests that both sectors have underperformed compared to the national average[9].

The share of the construction sector in real terms declined from 4.0% to 3.5% in 2023, while the share of the real estate sector (inclusive of imputed rents) in real terms fell marginally from 4.8% to 4.7%. The share of the GVA of the construction sector in the overall economy is the lowest since 2017, in real terms, highlighting both sectors' reduced contribution to the national value-added over time.

Figure 1.5: Share of Gross Value Added in real terms



Source: NSO data; KPMG analysis

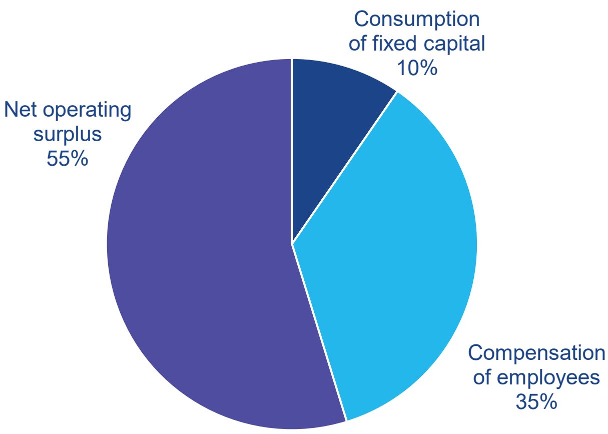
[9] Note that this is based on NSO's Q1 GDP newsletter (NR 099/2024), released on 24 May 2024. Real GVA figures are expected to be released in the first half of 2025.

A detailed breakdown of the Construction sector's nominal GVA between 2022 and 2023 indicates that the largest increase was in employee compensation, which rose by nearly €28.6 million (11.8%). This was followed by an increase of €8.8 million (2.0%) in net operating surplus, and €7.2 million rise (10.4%) in consumption of fixed capital.

During the first half of 2024 compared to the same period in 2023, net operating surplus recorded a notable increase of €24.2 million (11.9%), representing the largest change. Employee compensation also saw an increase of €13.7 million (10.2%), while consumption of fixed capital grew by €3.3 million (8.8%).

Figure 1.6 illustrates the distribution of GVA components for the Construction sector in H1 2024, with net operating surplus holding the largest share at 55%. The proportion of GVA components has remained largely unchanged since H1 2023[10].

Figure 1.6: Gross Value Added for the construction sector (NACE F) in H1 2024



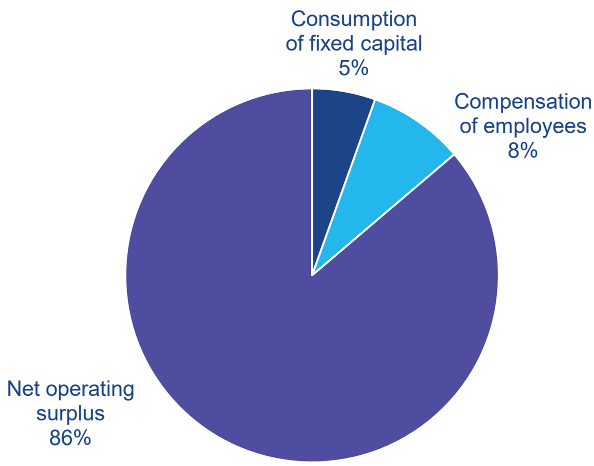
Source: NSO data; KPMG analysis

The component with the most significant absolute change in the Real Estate sector (excluding imputed rents) between 2022 and 2023 was net operating surplus, which increased by €116.7 million (an increase of 17.6% over the previous year). This was followed by a €13.4 million increase in employee compensation (25.4%). The smallest increase was seen in consumption of fixed capital, which grew by €7.0 million (15.6%).

A similar trend was observed in the first half of 2024 compared to the same period in 2023, with net operating surplus increasing by €58.1 million (15.8%). Employee compensation and consumption of fixed capital also rose by €8.9 million (27.8%) and €2.1 million (8.5%), respectively.

In Figure 1.7, a depiction of the share of the GVA components as of H1 2024 is provided. Net Operating Surplus commands the largest share of the nominal GVA at 86%. The share of the GVA components have stayed largely the same since H1 2023[11].

Figure 1.7: Gross Value Added for the real estate sector (NACE L) in H1 2024



Source: NSO data; KPMG analysis

[10] Note that values for H1 2023 may not be identical to previous editions of the report due to retrospective changes in data.
[11] Ibid.

1.5 Employment and compensation of employees

Between the end of 2022 and the end of 2023, the number of full-time equivalents (FTEs) in the construction sector grew by 7.2%, while the Real Estate sector saw an increase of 13.2%.

By December 2023, the construction sector directly employed an estimated 20,926 FTEs (up from 19,518 in 2022), representing approximately 6.5% of the total FTEs in the economy, slightly down from 6.6% in 2022. This growth trend continued into 2024, with the number of FTEs in this segment rising further to 21,368 by March, bringing its share back to 6.6% of total FTEs. In the Real Estate sector, an estimated 3,935 FTEs were directly employed by December 2023 (up from 3,477 in 2022). Similarly, employment in this sector continued to expand, reaching 4,076 FTEs by March 2024, an increase of 369 over the same period the previous year.

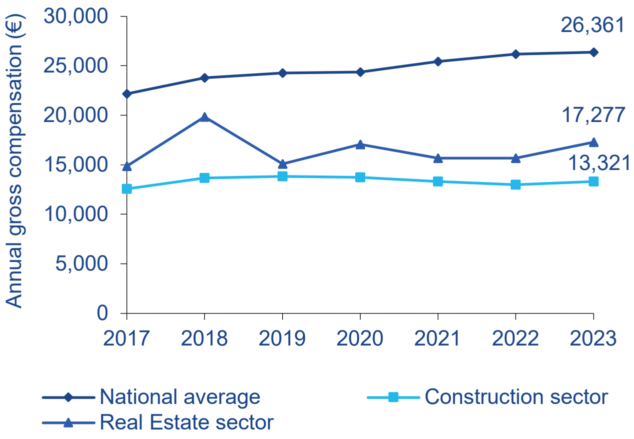
As of March 2024, the building industry, which includes both the construction and real estate sectors, employed a combined total of 25,444 FTEs, accounting for 7.9% of all gainfully employed individuals in Malta.

Between 2022 and 2023, employee compensation in the construction sector rose by 11.8%. The GVA for the sector increased by 6.0%, suggesting that employee compensation grew at a relatively higher rate than the overall GVA in the construction sector. Similarly, in the Real Estate sector, compensation to employees increased by 25.4% compared to 2022, outpacing the GVA growth for the real estate sector (less imputed rents) of 18.3%.

The national average compensation per employee was €22,170[12] in 2017, rising to €26,361 by 2023, reflecting an average annual growth of 2.9%. In the construction sector, average compensation per employee stood at €12,566 in 2017 and increased to €13,321 by 2023, corresponding to an annual average increase of 1.0%. In 2023, average compensation in this sector grew by 2.47% compared to the previous year, as the rise in total compensation (11.8%) outpaced the growth in FTEs (7.2%).

In the Real Estate sector, average compensation per employee increased from €14,850 in 2017 to €17,277 in 2023, with an average annual growth of 2.6%. In 2023 alone, average compensation per employee rose by 10.3% compared to 2022.

Figure 1.8: Trends in average compensation of employees



Source: NSO data; KPMG analysis

In 2023, the rise in individual employee compensation in both the construction and real estate sectors surpassed the national average increase, which was only 0.7% higher than in 2022. Across the economy, compensation grew by 8.5%, outpacing the 7.8% average increase in total FTEs. This suggests that average compensation growth in the construction and real estate sectors was stronger compared to other sectors in the economy.

It is further key to note that employee compensation does not include fees paid to individuals working as self-employed contractors. In the construction sector, such earnings are included under net operating surplus, which more than doubled—rising by 103.5%—between 2017 and 2023, equating to an average annual increase of 12.6%. This trend may suggest a shift towards more individuals working as self-employed. However, net operating surplus for this segment saw only a modest increase of 2.0% over the past year.

[12] Calculated as total compensation of employees divided by total FTEs.

1.6 Estimating a more comprehensive view of the building industry

The previous Section estimated that the building industry accounts for approximately 9.6% of the total nominal GVA in the local economy, based on figures from the first half of 2024. This figure includes the GVA from the construction and real estate sectors, as defined by the NSO. However, it does not capture the GVA contributions from other sectors mentioned in Section 1.2, nor from sectors not directly related to construction but generating economic output due to construction activities (such as auditing services for construction companies, legal services, or the manufacturing and sale of office furniture).

To estimate the direct and indirect economic impact of the supply of goods and services which are related to construction and real estate (as the two main components of the building industry) we use the latest Type 1 Value-Added Multipliers published by the Central Bank of Malta (based on the 2015 Symmetric Input-Output Table)[13].

Table 3: Estimation of GVA contribution from the broader construction industry[14]

Source of GVA contribution	€millions	% of total GVA
Construction		
Output from construction	2,256	
Construction Type 1 Value Added multiplier	0.55	
Value added from construction	1,241	6.5%
Real estate		
Output from real estate (incl. imputed rents)	2,106	
Real estate Type 1 Value Added multiplier	0.78	
Value added from real estate	1,643	8.6%
Value added from construction and real estate	2,883	
Less inter-industry linkages	(181)	-0.9%
Estimated contribution to total GVA by construction and real estate	**2,702**	**14.1%**

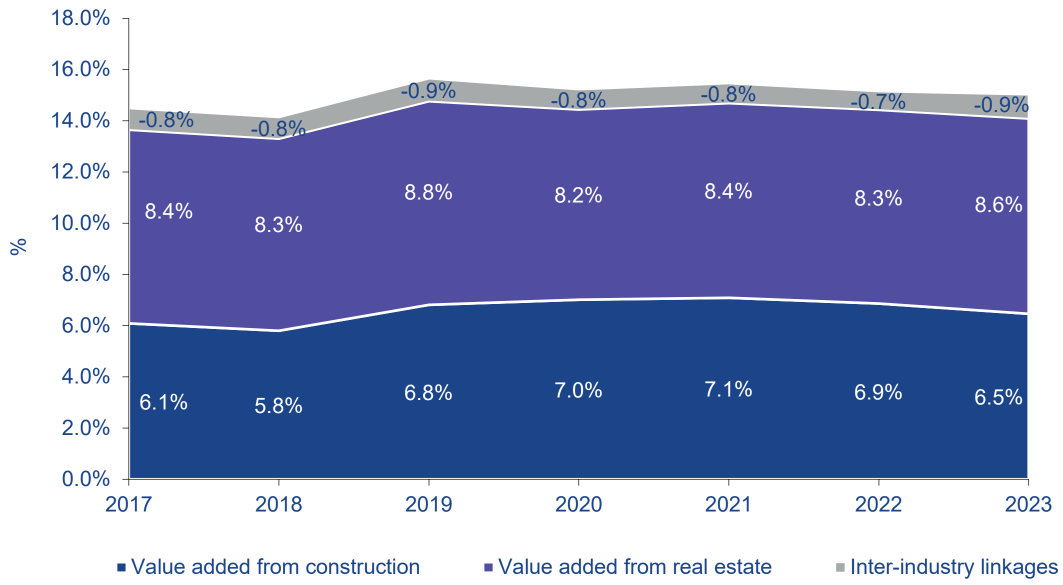
Source: NSO data; KPMG analysis

The findings suggest that in 2023, the building industry in Malta contributed approximately €2.7 billion to GVA, representing 14.1% of the total. However, data for 2023 also shows that the industry's share of total GVA has declined slightly (2022: 14.4%), indicating that overall economic growth has outpaced growth within the building sector.

[13] Multipliers should be interpreted with caution in that the hypothetical marginal change in final demand and the resultant impact in direct, indirect and induced impacts, are underpinned by a number of assumptions which may not hold true in real life, such as assumptions on relative prices and supply constraints.
[14] Amounts may not add up exactly in table due to rounding.

The Figure below illustrates the building industry's contribution to total GVA from 2017 to 2023.

Figure 1.9: Estimation of the GVA contribution from the wider building industry



Source: NSO data; KPMG analysis

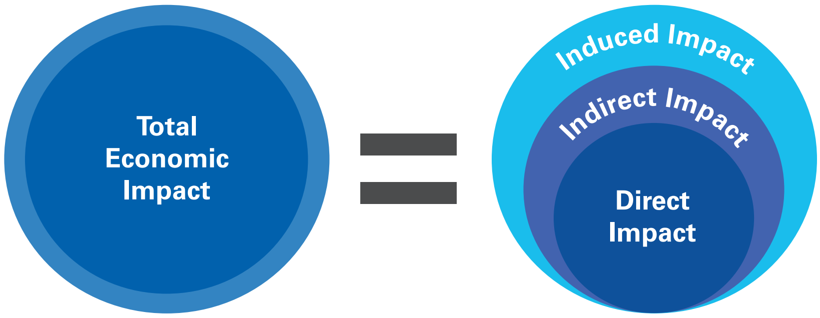
1.7 Multiplier analysis

Whenever a consumer buys a product or service, the economic effect goes beyond the amount they spent. This is known as the economic multiplier.

Economic multipliers help estimate the overall economic impact generated by an initial expenditure. A more detailed explanation of multiplier analysis can be found in Appendix D.1. The essential concepts and terminology relevant to this Section are outlined below:

- **Direct impact** – This is the initial spend made by a final consumer. Official statistics on output by economic sectors are a reflection of the direct impact attributable to those sectors.
- **Indirect impact** – This reflects the 'second round' of spending. For example, the demand created upstream to purchase raw materials needed to produce goods sold.
- **Induced impact** – This reflects all subsequent rounds of spending. For example, the spending by employees of the company supplying the goods initially purchased which can be linked to the original direct spend.
- **Type 1 Multiplier** – An estimate which captures both direct and indirect impact.
- **Type 2 Multiplier** – An estimate which captures direct, indirect, and induced impacts.

To take the construction industry as an example, the Type 1 multiplier for this industry is approximately 1.77. This means that a marginal change in spend of €1 will result in a direct and indirect economic impact (output) of €1.77 (€1 direct impact + €0.77 indirect impact). As it stands, we are using the latest multipliers which are based on 2015 figures. These multipliers offer the closest representation to the current scenario in Malta.



The following Section examines the total output generated by the construction and real estate sectors in 2023, using two types of economic multipliers to estimate the overall economic impact of activities in each sector. It is important to clarify that these figures should not be seen as representing the sectors' percentage contribution to the economy, which was covered in the previous Section. Instead, the multipliers (also known as simple or modelling multipliers) indicate the effect on value-added, and employment resulting from a marginal change in final demand within each industry.

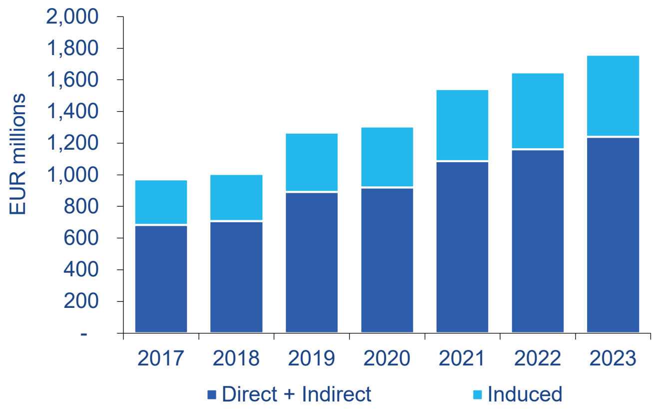
Figures for previous years have been recalculated to incorporate updates in official statistics.

1.7.1 Value added multipliers

Value added multipliers measure the extent to which an increase in output generates value added in the economy. By value added we are referring to the creation of wealth in the economy, measured from the income side by compensation to employees, gross operating surplus, and consumption of fixed assets. All figures are in nominal terms. The Type 1 and Type 2 value added multipliers associated with the quarrying and construction industry are 0.55 and 0.78, whereas the Type 1 and Type 2 value added multipliers associated with real estate activities are 0.78 and 0.85.

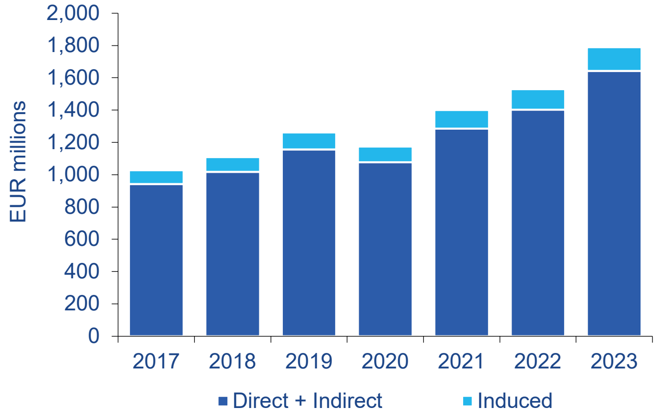
This means that the output generated in 2023 for the construction industry would be expected to have led to around €1.24 billion in direct and indirect value added, with an additional €0.52 billion in induced value added, for a total of €1.76 billion[15]. As for the real estate sector (inclusive of imputed rents), output effectively generated around €1.64 billion in direct and indirect value added, with an additional €0.15 billion in induced value added, for a total of €1.79 billion.

Figure 1.10: Value-added multipliers: Construction



Source: KPMG analysis

Figure 1.11: Value-added multipliers: Real estate activities



Source: KPMG analysis

[15] Note that multipliers are worked out using nominal figures and therefore, the increase in the construction sector's value added in 2023 compared to 2022 is chiefly coming from the increases in prices.

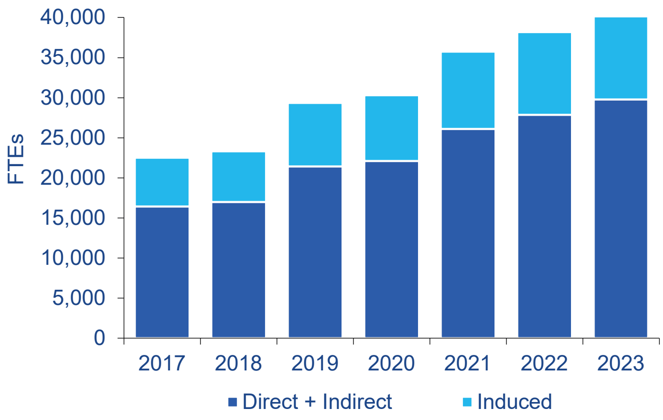
1.7.2 Employment multipliers

Employment multipliers estimate the number of jobs created as a result of a €1m increase in demand in a particular sector. For the construction sector, the Type 1 employment multiplier is 13.21, and the Type 2 employment multiplier is 18.09[16]. The results of the Type 1 multiplier should be interpreted as the minimum number of jobs likely to be generated as a result of the direct output generated by the construction industry, while the results of the Type 2 multiplier should be interpreted as the likely maximum number of jobs generated. Hence in reality, the construction industry most likely contributes to the creation of a number of jobs within this range. The same applies for the employment multipliers for the real estate sector, where the Type 1 employment was estimated at 3.62 and the Type 2 employment multiplier was estimated at 5.09.

Based on the 2023 figures, it is estimated that the construction industry supported approximately 29,800 direct and indirect jobs. Direct jobs include roles within the construction industry itself (e.g., manual labourers employed by construction companies), while indirect jobs are those generated through the industry's intermediate demand (e.g., a labourer working at a quarry supplying raw materials to construction firms). Meanwhile, the real estate sector supported an estimated 7,624 direct and indirect jobs.

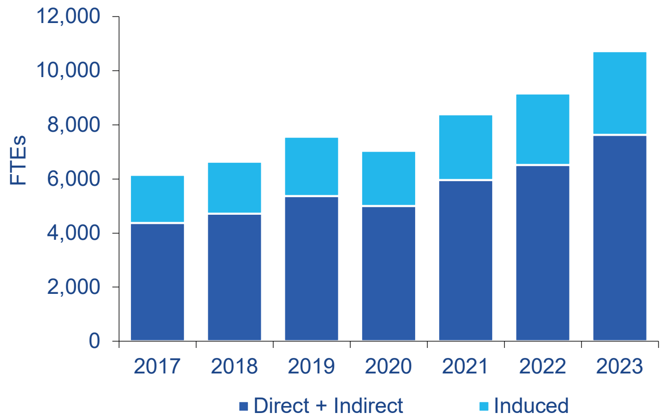
In terms of induced jobs, it is estimated that the construction industry supported an additional 11,009 jobs (bringing the total to 40,809). Similarly, the real estate sector supported a further 3,096 induced jobs (bringing the total to 10,719). Induced jobs arise from additional spending by employees in the construction and real estate sectors, respectively.

Figure 1.12: Employment multipliers: Construction



Source: KPMG analysis

Figure 1.13: Employment multipliers: Real estate activities



Source: KPMG analysis

[16] Note that employment multipliers changed drastically from the ones calculated form the 2010 SIOT. The previous employment multipliers, used in previous editions of the report, were 27 for Type 1, and 32 for Type 2.

Property market analysis

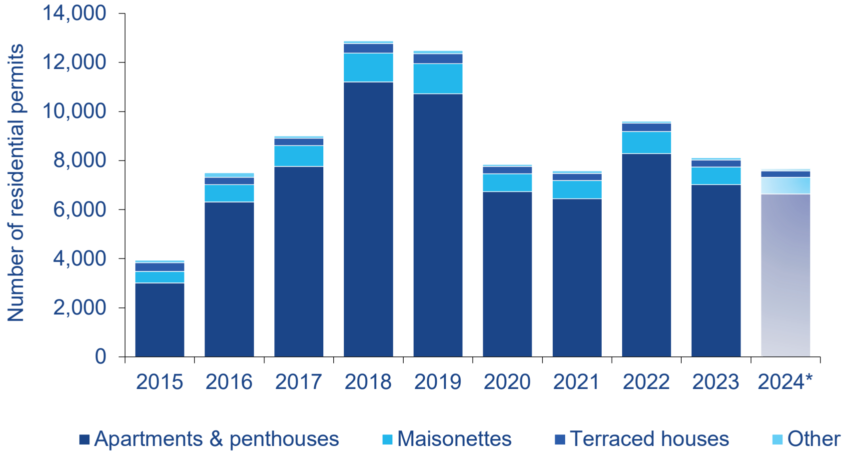
This Section is dedicated to analysing property trends in both residential and commercial real estate. The residential category covers apartments, penthouses, maisonettes, terraced houses, and other related properties. For this analysis, we leveraged data from our proprietary database, supplemented by information sourced from governmental entities including the National Statistics Office, Central Bank of Malta, and Planning Authority. In the context of commercial property, our primary focus is on offices and retail properties.

2.1 Residential permits

Data published by the NSO shows that a total of 8,112 residential units were granted approval during 2023, marking a 15.5% drop compared to 2022 (Figure 2.1). This decline reflects a return to lower approval numbers after the surge in residential permits seen the previous year. These levels are more consistent with the numbers seen in 2020 and 2021, and also appear to be in line with how 2024 will close off (based on a high-level extrapolation from 2024 Q1 and Q2 numbers). One is to note that the number of residential permits sanctioned between January and June 2024, stood at 4,714, a marked decline of 5.6% over the corresponding period in 2023.

Similar to previous periods, during the first half of 2024, apartments made up 71.3% of approved units followed by penthouses at 15.6%, and maisonettes at 9.0%[17].

Figure 2.1: Residential permits by property type



** For 2024 projections, the percentage increase observed from H1 2023 to H1 2024 was applied to estimate the growth for the second half of the year.*

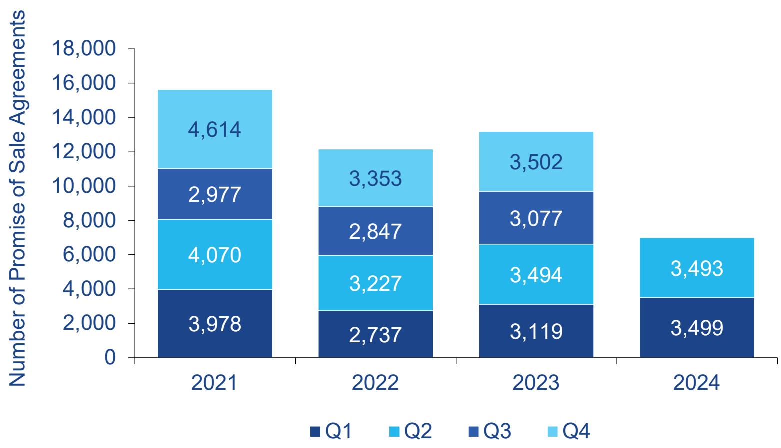
Source: NSO data; KPMG analysis

[17] Permit data was retrieved from NSO News releases and from the Central Bank of Malta Development Permits for Dwellings, by Type.
* Data for these years combine Apartments and Penthouses collectively.

2.2 Promise of Sale agreements[18]

Following the notable decline in Promise of Sale agreements in 2020, a strong recovery was observed in 2021. Although another contraction occurred in 2022, the market rebounded in 2023, with the upward trend continuing into 2024. By the first half of 2024, the number of Promise of Sale agreements had risen by 5.7% compared to the corresponding period in the previous year. These trends reflect the evolving dynamics of Malta's property sector.

Figure 2.2: Promise of Sale agreements



Source: NSO data

When evaluating Promise of Sale agreements, it is worth noting the proportion of potential buyers represented by households. During the first half of 2024, an average of 91% of potential buyers were households making up the majority of potential buyers.

Figure 2.3 presents a comparison between Promise of Sale data and permit data. It is important to note that the NSO data does not categorise Promise of Sale agreements by property type, meaning that the figures include non-residential properties such as garages, land plots, boathouses, and airspaces. Based on data from prior editions of this report, it can be observed that between 50% and 55% of POSs relate to residential property types which match the categories within residential permit data.

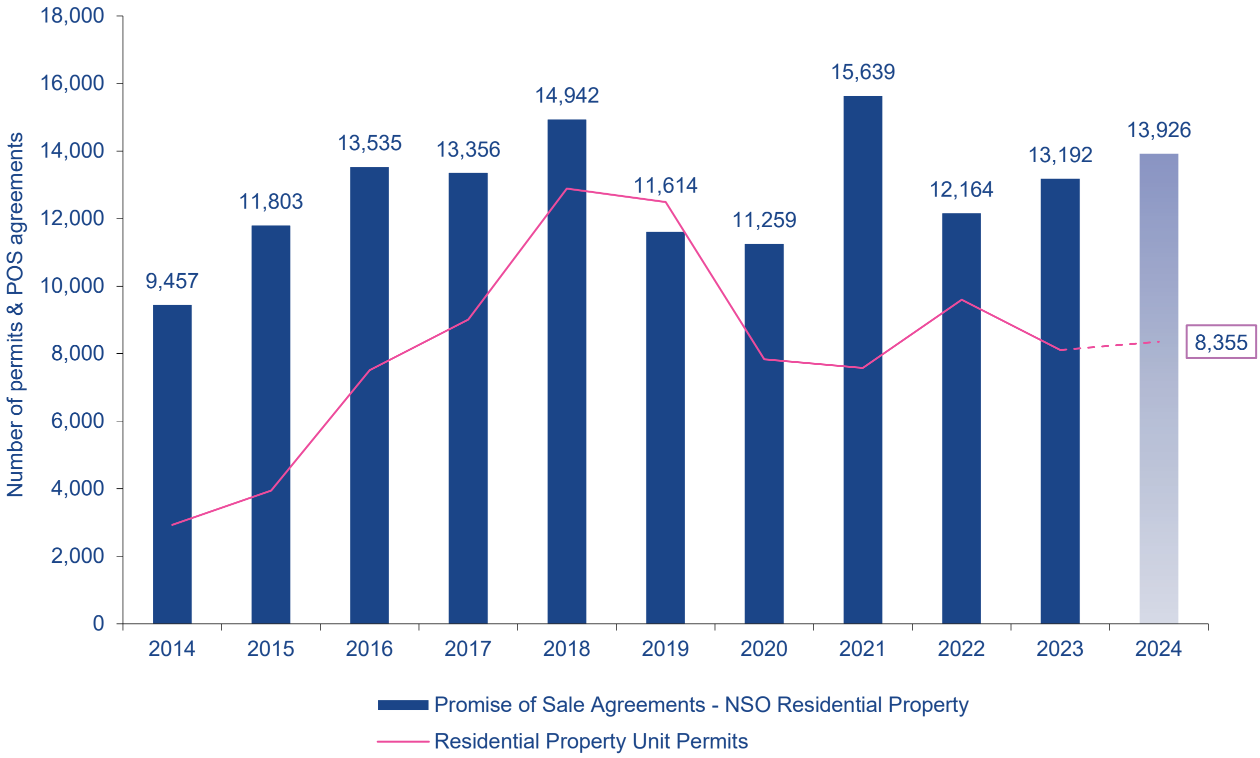
A key consideration in the following analysis is that the data for 2024 only covers the first half of the year. To facilitate comparisons with previous years, a simple forecasting approach was used, where the average share of H1 POS and permits data from the total annual figures over the last three years was applied to project the full-year figure for 2024, using the H1 data. While this assumption may not hold true, it offers a cautious basis for comparing Promise of Sale agreements and permits against previous years.

[18] The composition of the datasets under analysis significantly influences the outcomes we derive. Consequently, some of the fluctuations in our results from one year to the next can be attributed, in part, to alterations in the dataset's composition, as well as shifts in market dynamics.

According to NSO data, a total of 81,888 permits for residential property units were issued between 2014 and 2023, exclusively for apartments, penthouses, maisonettes, terraced houses, and other residential categories such as bungalows, farmhouses, and villas. During the same period, there were a total of 126,961 Promise of Sale agreements, of which an estimated 65,000[19] would be expected to correspond to these residential categories.

In the first half of 2024, 4,714 permits were issued, and 6,992 Promise of Sale agreements were recorded, with approximately 3,800 of these relating to comparable residential property types. Therefore, when considering only similar property categories, it is expected that the number of residential property permits exceeded the number of Promise of Sale agreements during this period.

Figure 2.3: Residential property unit permits in comparison to Promise of Sale agreements for all residency types



Source: NSO data; KPMG analysis

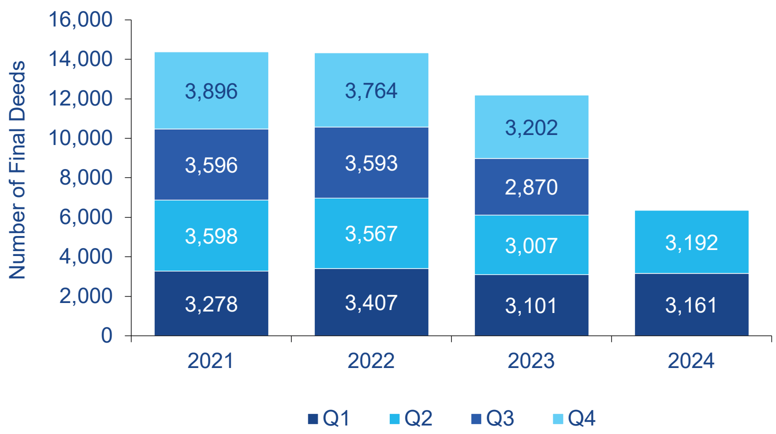
[19] Based on a 50% - 55% share, representing the average proportion observed between 2014 and 2023 using 2023 data.

2.3 Residential Final Deeds of Sale

This analysis relies on data obtained from the NSO and covers the count of final deeds recorded up to August 2024. However, the scope of this analysis will be limited to the first half of 2024. A key caveat in this analysis is that, in some cases, multiple properties may be included under a single Final Deed of Sale. Consequently, the number of final deeds does not necessarily correspond to the number of properties transacted. Based on the 2024 monthly average, the number of final deeds involving households should be increased by circa 18% to estimate the total number of properties transacted in Final Deeds of Sale. This Figure, however, includes non-residential properties such as garages, plots of land, and other categories such as airspace, boathouses, gardens, and urban tenements.

In the first half of 2024, there were a total of 6,353 final deeds registered, marking a 4.0% increase compared to the same period in the previous year but an 8.9% decline from the first half of 2022. Among these final deeds, approximately 92.0% involved individual buyers, often referred to as households. If the trend observed for the first half of 2024 persists, then one would expect similar levels of final deeds as those experienced last year in 2023, which are lower levels than 2021 and 2022.

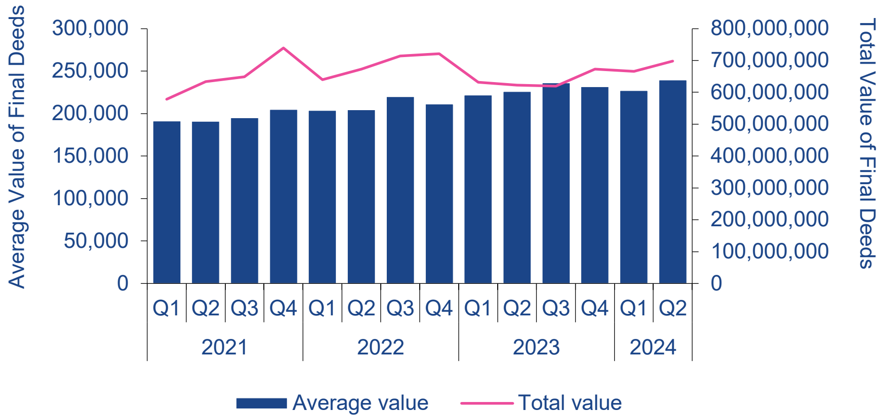
Figure 2.4: Final deeds



Source: NSO data

When it comes to final deeds involving individual buyers (households), the average value from 2021 to the first half of 2024 was €214,453[20]. In the first half of 2024, the number of these deeds increased by 4.2%, while their total value rose by 8.7% compared to the same period in 2023. This indicates a general increase in property values transacted from 2023.

Figure 2.5: Value of final deeds involving households



Source: NSO data; KPMG analysis

[20] Note that the number of properties transacted through final deeds of sale is higher than the number of deeds, as a single deed may cover multiple properties.

2.4 The demand and supply for different property types

In this Section, final deeds data are matched with approved permits for various property types to gain insights into market demand and supply patterns. More specifically, final deeds are a direct reflection of effective demand as they represent the completion of a sale. This analysis covers apartments and penthouses, maisonettes, and houses, which includes terraced houses, bungalows, farmhouses, and villas. Due to differing categorisations of property types between the permits and final deeds databases, it was not possible to distinguish between types of houses, leading to their combined analysis.

Presented below is the count of final deeds compared to issued permits for specific property categories up to 2024. It is key to note that data for full-year 2024 has been proxied to facilitate a proper comparison. The assumption made is that the first half of 2024 represents the same proportion of the annual total as the average of the past two years (2022-2023). This same ratio was applied to estimate the full-year figures for 2024, for both final deeds and permits separately. Moreover, the analysis is done in light of the potential lag between permit issuance and Final Deeds of Sale. Both caveats remain relevant for the entire examination.

2.4.1 Apartments and penthouses

In the first half of 2024, apartments and penthouses made up the majority of the property types considered, accounting for 71.3% and 15.6%, respectively. During this period, permits decreased by 5.5%, while Final Deeds of Sale increased by 6.6% compared to the first half of 2023, indicating that effective demand grew faster than the supply of new apartments and penthouses. However, this decline in permits represents an improvement from the more substantial 15.1% drop previously observed in full-year 2023 compared to 2022.

Assuming that the H1:H2 ratio for 2024 follows the average pattern of the past two years, permit issuance for apartments and penthouses could see a 1.0% decrease by the end of the year, a more modest decline than the previous year. For final deeds, based on this same assumption, completed sales of apartments and penthouses are projected to rise by 8.6% over 2023, indicating a rebound in effective demand after the downturn in 2023.

Figure 2.6: Apartments and penthouses

Source: NSO data; KPMG analysis

The following Table reports permits and final deeds for apartments and penthouses separately during the first half of 2023 and 2024. Notably, historical permits data before 2022 is unavailable for apartments and penthouses separately, highlighting the reason as to why the prior analysis included apartments and penthouses collectively.

The Table below indicates that both the effective demand (final deeds) and potential supply (permits) for apartments significantly surpass those of penthouses which aligns with the number of apartments and penthouses currently on the market. For both apartments and penthouses, there was a decrease in permits during the first half of 2024 when compared to the same period in 2023 (-5.5% and -5.4% for apartments and penthouses, respectively), alongside an increase in Final Deeds of Sale (4.5% and 21.8% for apartments and penthouses, respectively).

Table 4: Final Deeds of Sale and permits for apartments and penthouses

Type	Final Deeds of Sale		Permits	
	H1 2023	H1 2024	H1 2023	H1 2024
Apartments	2,435	2,545	3,559	3,363
Penthouses	326	397	779	737

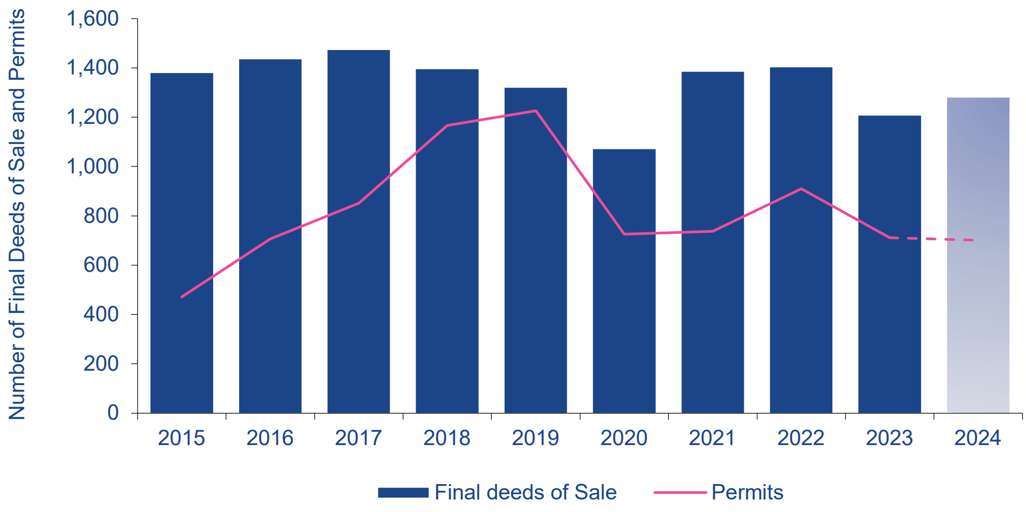
Source: NSO data; KPMG analysis

2.4.2 Maisonettes

Regarding maisonettes, there was a noteworthy 21.8% decrease in permits in 2023, reversing the 23.3% spike observed in 2022 Assuming the H1:H2 ratio for 2024 aligns with the average of the past two years, permits for maisonettes are expected to decline further by 1.5% in 2024 compared to the previous year. Under the same assumption, the number of signed deeds of sale is projected to rise by 6.0% in 2024, following a 14.0% drop from 2022 to 2023.

When comparing the first half of 2024 to the corresponding period in 2023, permits have declined by 5.2% compared to the same period in the previous year, while Final Deeds of Sale have increased by 6.5%, with a total of 635 Final Deeds of Sale signed for maisonettes.

Figure 2.7: Maisonettes



Source: NSO data; KPMG analysis

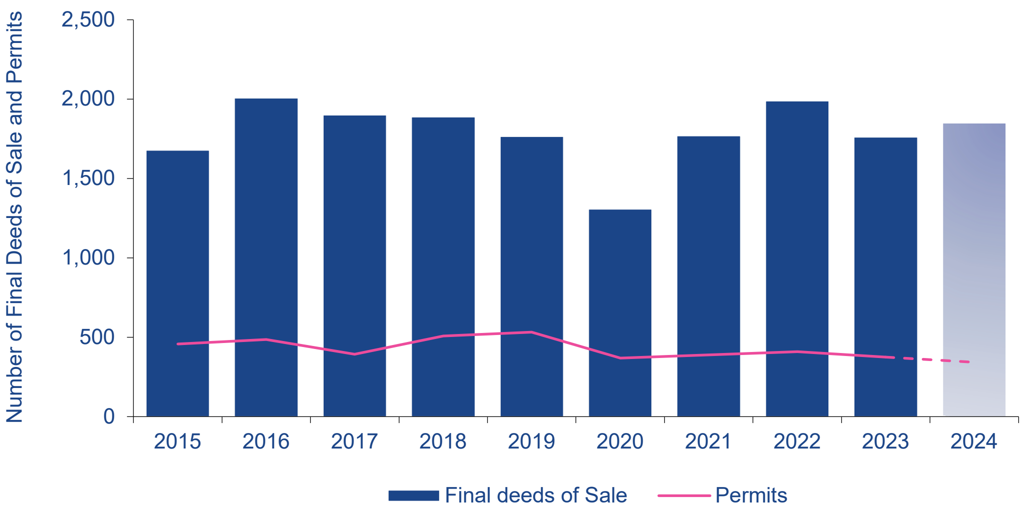
2.4.3 Terraced houses, bungalows, farmhouses, and villas

These properties typically command significant price premiums, and as expected, such properties comprise a smaller part of the property market. In recent years, a consistent trend has emerged wherein effective demand consistently surpasses potential supply, as evidenced by the number of permits issued and Final Deeds of Sale signed.

Assuming the H1 ratio for 2024 follows the average of the past two years, the number of permits issued for these dwelling types is projected to decline by 8.7%. Meanwhile, the number of Final Deeds of Sale is expected to increase by 5.0%, continuing to outpace the number of permits issued.

When we compare the data for the first half of 2024 to the same period in the previous year, an 8.6% decline is observed in permits issued, while there is an increase of 3.2% increase in Final Deeds of Sale, signifying an increase in effective demand and a decrease in potential supply. It is worth noting that, given the nature of these properties, demand growth in this segment may suggest a market preference towards larger properties. However, it is important to recognise that the volumes involved in this category are much smaller than those of apartments and maisonettes, meaning that even slight changes in absolute numbers will result in larger percentage fluctuations.

Figure 2.8: Terraced houses, bungalows, farmhouses, and villas



Source: NSO data; KPMG analysis

2.5 Property price movements

KPMG maintains an extensive real estate database that undergoes annual updates. This comprehensive database includes details such as property type, location, floor area (both internal and external measurements), the number of bedrooms and bathrooms, view type, and the property's overall condition. Each entry in the database is tagged with the year it was recorded.

It's worth noting that the KPMG database primarily captures advertised asking prices for properties. While these asking prices serve as valuable indicators of a property's market value and general price trends, it is important to recognise that actual sale prices can vary and may be negotiated downwards (or, in exceptional cases, upwards) during the transaction process. The degree to which a seller is willing to negotiate on price is influenced by various factors, including the availability of similar properties on the market, the property's condition, prevailing market conditions, the number of potential buyers, and the specific circumstances of both the buyer and seller.

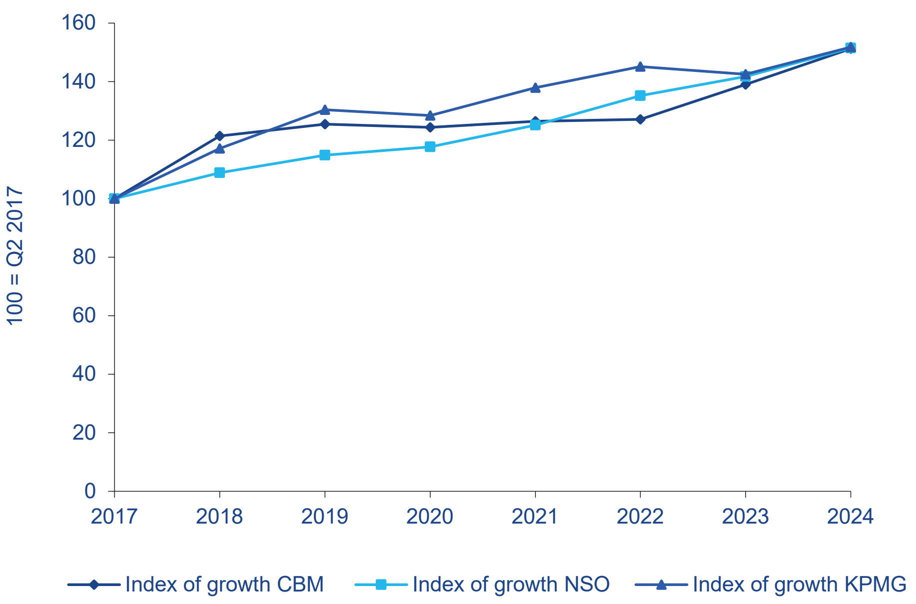
For the purposes of this analysis, we consider the dataset collected between July and August 2024. A total of 30,955 data points (each representing a residential or commercial property available for sale or rent) were available for analysis.

As shown in Figure 2.9, the analysis of property price fluctuations for apartments includes three distinct datasets: the KPMG database featuring asking prices from local real estate agents' websites[21], the Property Price Index from the National Statistics Office[22], which is based on transaction values, and the Property Price Index provided by the Central Bank of Malta[23], which relies on advertised prices.

The makeup of our dataset significantly influences the outcomes we derive. Therefore, certain fluctuations in our results from year to year can be attributed, in part, to alterations in the dataset's composition, in addition to broader market trends. Since our data is drawn from real estate listings, this shifting composition is a crucial factor to acknowledge, as it sheds light on supply dynamics within the market.

Nevertheless, despite these considerations and the fact that all three datasets are captured independently under different methodologies, all three indices align with one another, as illustrated in Figure 2.9. Over the last seven years (2017-2024), apartment prices in general have increased by around 51%. This means that a property worth €180,000 in 2017 would be expected to be valued at around €272,000 – equivalent to €13,000 capital appreciation per year, or a compounded annual growth rate (CAGR) of 6.1%.

Figure 2.9: Property price movements - Apartments



Source: NSO data; CBM data; KPMG analysis

[21] Latest data available – August 2024.
[22] Latest data available – Q2 2024.
[23] Latest data available – Q2 2024.

Apartments

From Q2 2023 to Q2 2024, the average asking price of apartments from the entire sample (across all localities) recorded in our database witnessed an increase of approximately 4.7%, (when considering asking prices) while the median price saw a more modest uptick of 1.8%. This marginal increase reflects the general sentiment expressed by stakeholders who have noted a moderate increase in property prices, a point we will delve into further in subsequent discussions. Here it is pertinent to note that when expressed as a price per sqm, the general price increase is larger (around 6.5%) indicating that property sizes are becoming smaller, a trend witnessed in prior publications of this report.

The overall average price for apartments within the sample stood at €374,070 in 2024 from €357,175 in 2023, with a corresponding median of €285,000 in 2024 from €280,000 in 2023.

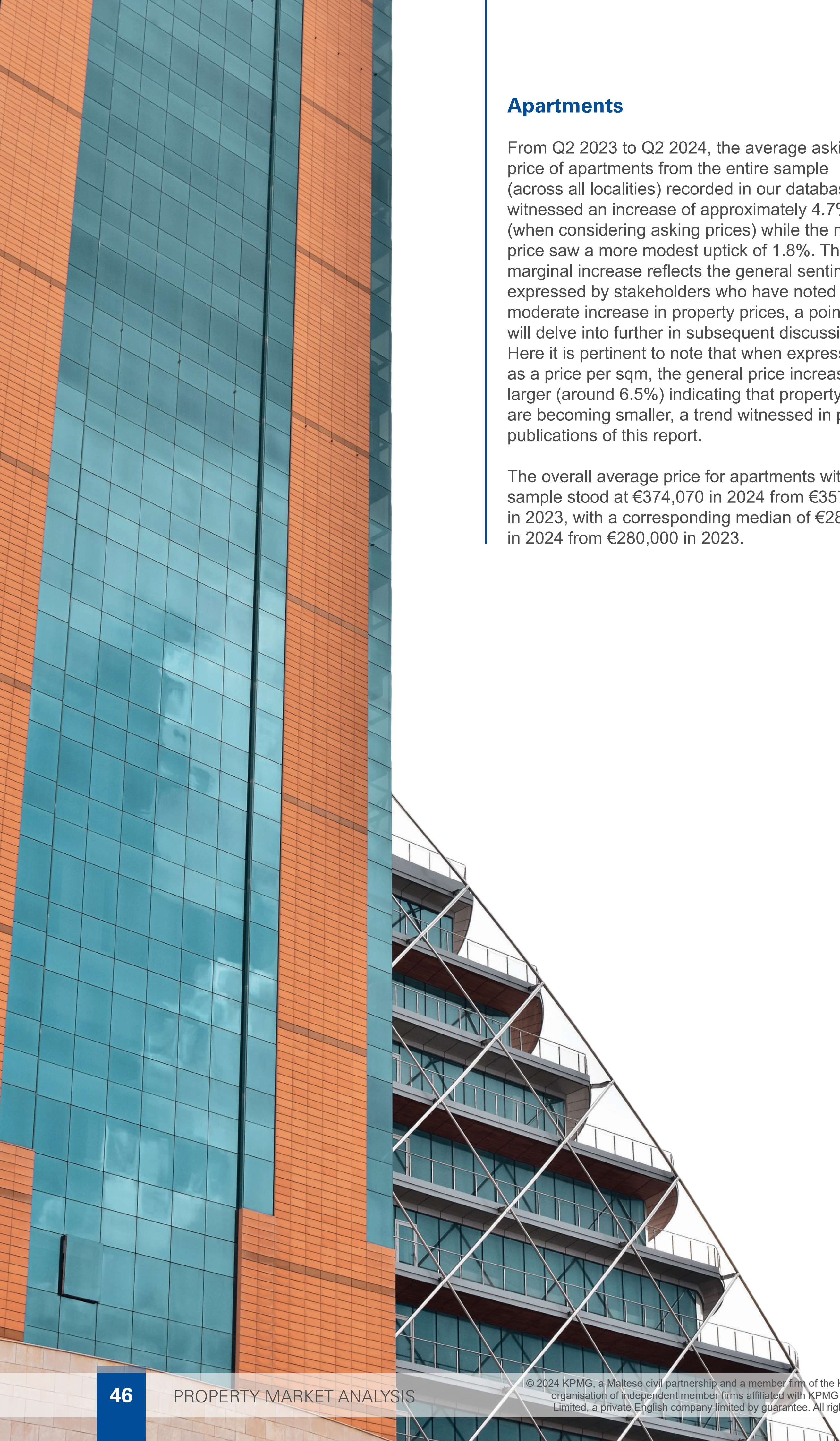
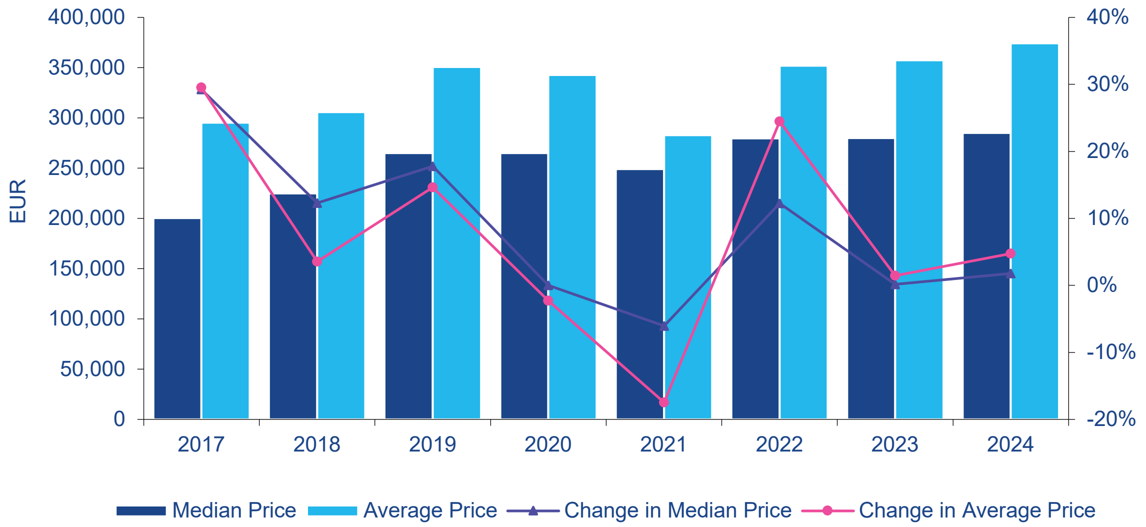


Figure 2.10: Asking prices for apartments

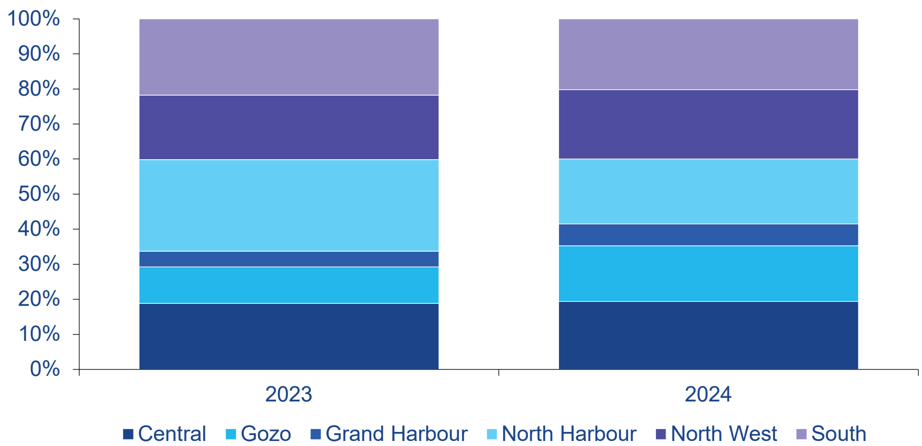


Source: KPMG analysis

When examining the regional distribution of different property types, we aim to assess the prevalence of these property types in different regions. This analysis provides insights into the regional distribution of each property type, highlighting where they are most abundant and where they are relatively scarce.

Regarding apartments, we observed that regional distribution in our sample showed a moderately more evenly spread distribution compared to 2023. The North Harbour, Central, North West, and Southern regions, each constituted approximately a 20% share of where apartments are found, while they are least prevalent in the Grand Harbour region, comprising only 6.2% of the total. Our sample also finds a reduced share in apartments in the North Harbour region compared to 2023. A contraction in the share of the latter region of 7.5%, was mostly made up by a 5.5% increase in Gozo's share of total apartments.

Figure 2.11: Regional distribution of apartments



Source: KPMG analysis

Penthouses

The average and median asking prices for penthouses documented in our database exhibited a similar increase. The average price experienced growth of 3.9%, while the median price saw an increase of 2.4%. Specifically, the average price for penthouses stood at €478,984, while the median is at €378,500.

A substantial portion of advertised penthouses fall within the €300,000 to €400,000 range, with an estimated 500 properties constituting 29.0% of the penthouses listed. However, the number of penthouses within the €200,000 – €300,000 price bracket has been steadily falling since 2022 in favour of the €400,000 – €500,000 price bracket. This suggests that the market for this property type has been steadily shifting upwards, leaving less choices for lower income potential buyers.

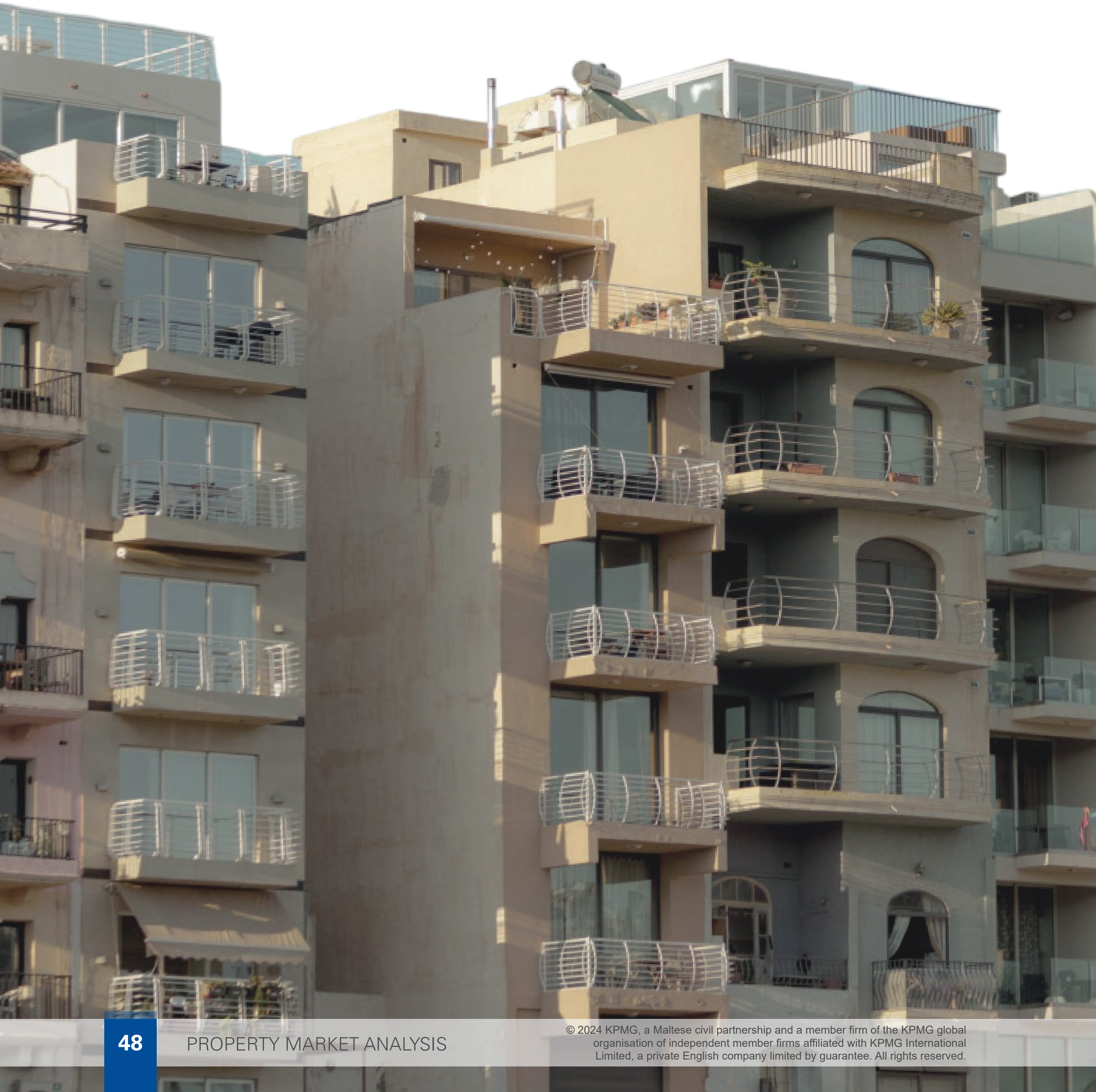
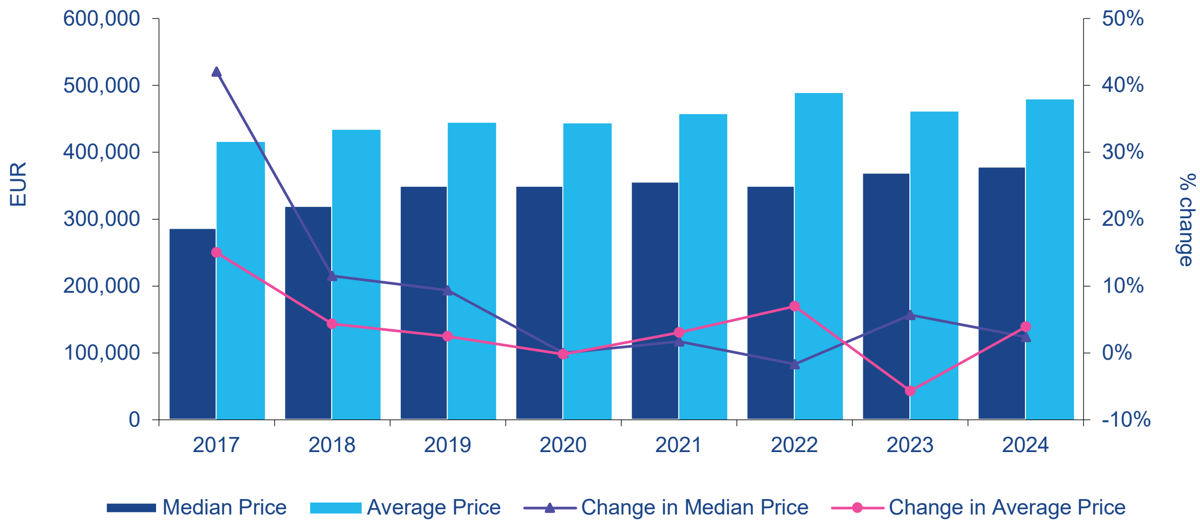


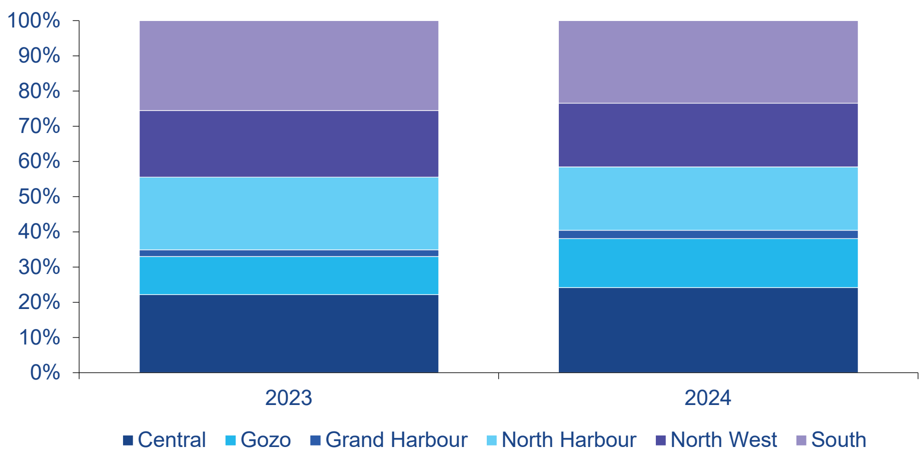
Figure 2.12: Asking prices for penthouses



Source: KPMG analysis

Listed penthouses are predominantly located in the Southern region (23.4%) and the Central region (24.2%). There have been only minor fluctuations in these proportions when compared to 2023.

Figure 2.13: Regional distribution of penthouses

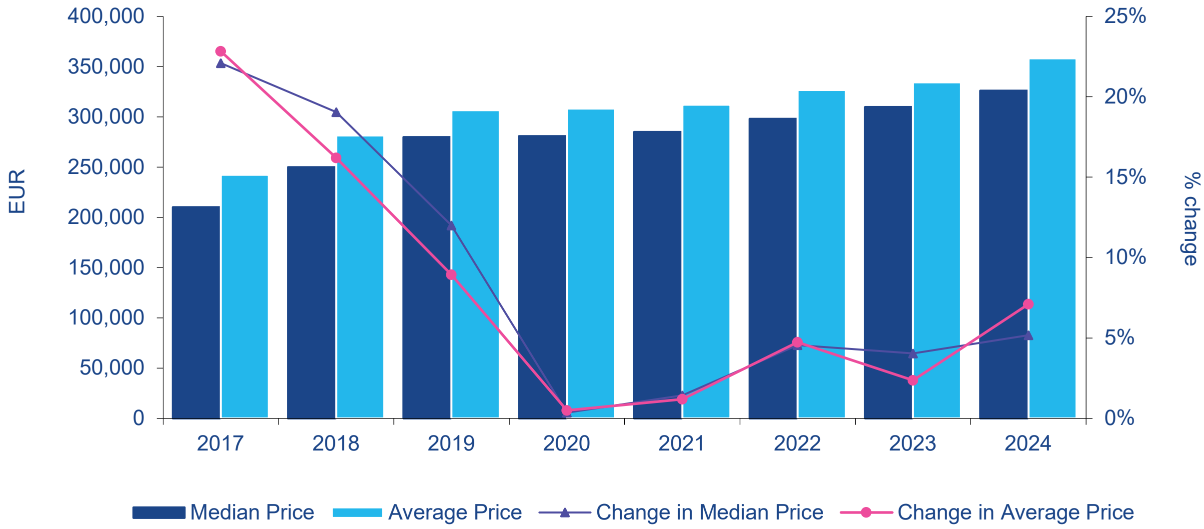


Source: KPMG analysis

Maisonettes

From Q2 2023 to Q2 2024, both the average and median asking prices of maisonettes listed in our database witnessed strong increases of 7.1% and 5.2%, respectively. The average price reached €358,240 in our latest sample, while the median price of a maisonette grew to €326,000. Our database also revealed that 33.2% of maisonettes are found within the €200,000-€300,000 price bracket, which is down from 36.8% recorded in prior year, suggesting reduced access to this market among lower income buyers.

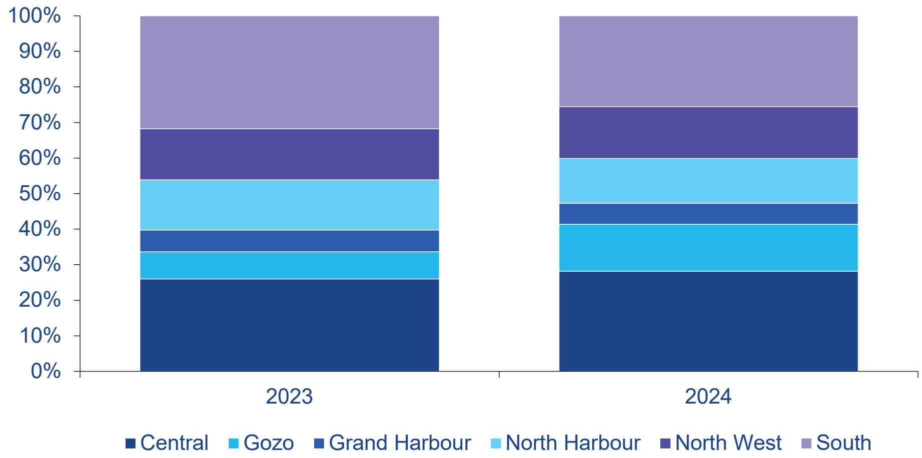
Figure 2.14: Asking prices for maisonettes



Source: KPMG analysis

A significant share of these listings came from the Southern region, comprising 25.5% of all maisonettes). This was down from prior year (2023: 31.7%), mostly in favour of an increased share in Gozo which now makes up 13.2% of our sample (up from 7.7%). The Central region maintained the largest share of maisonettes at 28.1%.

Figure 2.15: Regional distribution of maisonettes



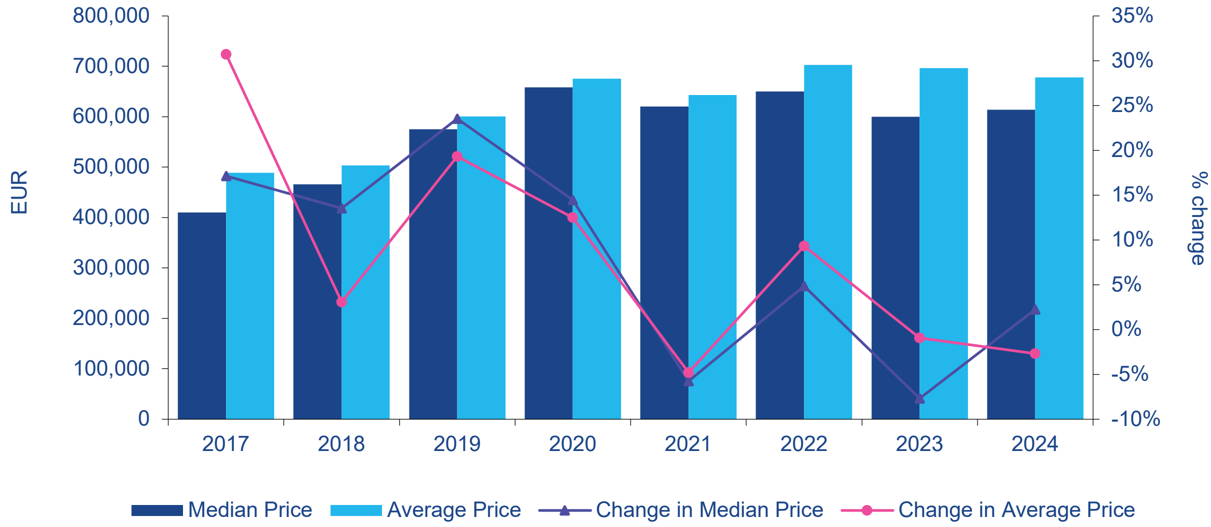
Source: KPMG analysis

Houses[24]

Through 2024, the average asking prices for houses saw a modest reduction of approximately 2.7%, while median asking prices in our database saw growth of 2.3%. This resulted in an average asking and median asking price of €677,683 and €613,500, respectively. An in-depth examination of the distribution of asking prices for such properties reveals a notable trend favouring lower-priced properties. Listings priced under €400,000 increased to comprise about 16.4% of the total listings in 2024, compared to 22.6% in 2023. Moreover, over half of all listings here are now priced above €600,000.

[24] Includes terraced houses and townhouses.

Figure 2.16: Asking prices for houses

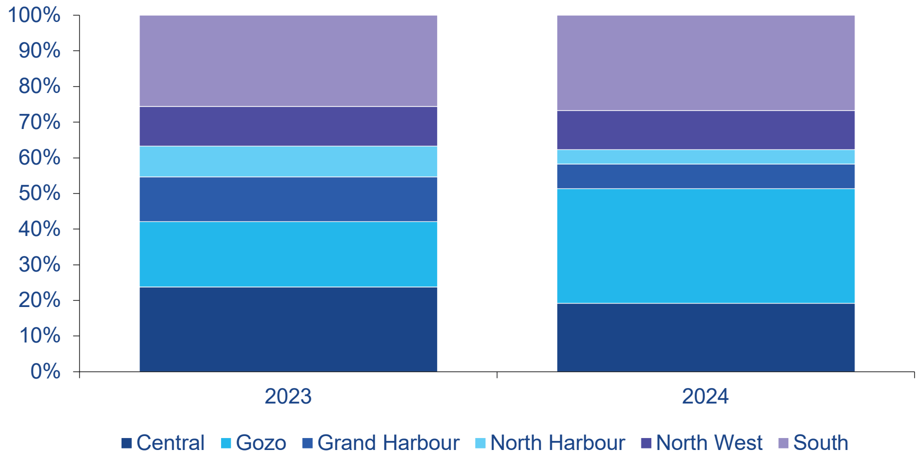


Source: KPMG analysis

In our 2024 sample, a significant proportion, 32.2% and 26.7%, of all house listings were located in the Gozo and Southern regions, respectively. The shift in Gozo is notable, which only amounted to 18.4% of houses in our database in 2023. The Centre region on the other hand saw its share decrease from 23.8% to 19.2%, possibly indicating increased property redevelopment in this area. The North Harbour region is represented by just 4.1% of houses.

As in the past, we believe that such changes in our database reflect shifts in the overall property supply within the market. The geographic shifts observed in the 2024 sample contribute to the variance in asking prices for houses, among other factors.

Figure 2.17: Regional distribution of houses

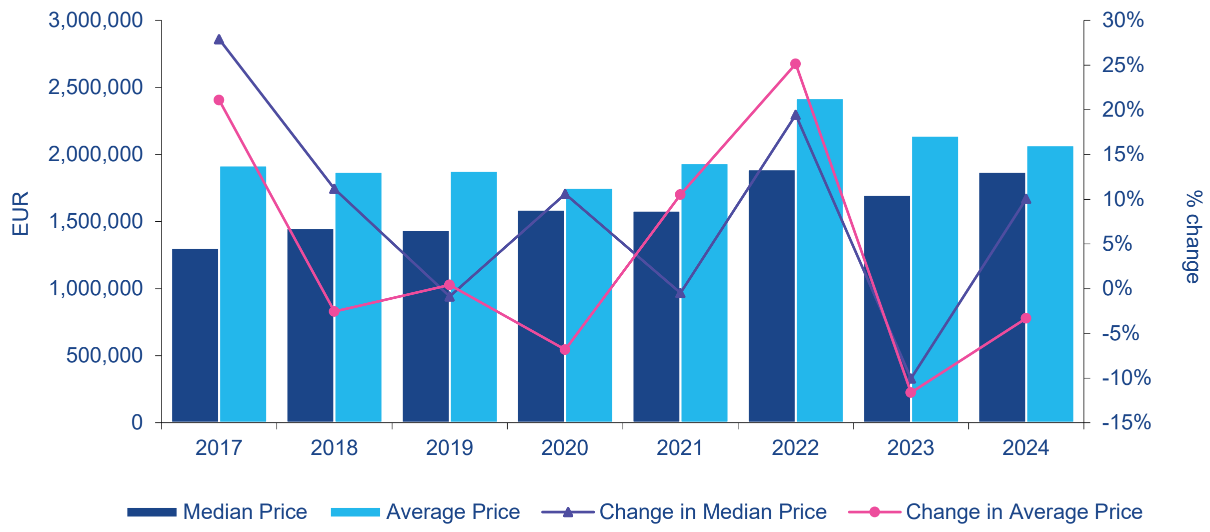


Source: KPMG analysis

Villas

Villas make up 1.8% of our sample in 2024, which is consistent with previous years. The average asking price of villas decreased by 3.3% as the median asking prices for villas within our database increased by 10.1%. These contrasting directions may indicate the presence of outliers pulling down the average price within a data set that is increasingly moving towards higher priced villas. The average and median asking prices of villas now stand at €2,069,086, and €1,871,000, respectively.
Moreover, no villas priced below €700,000 were recorded in our dataset.

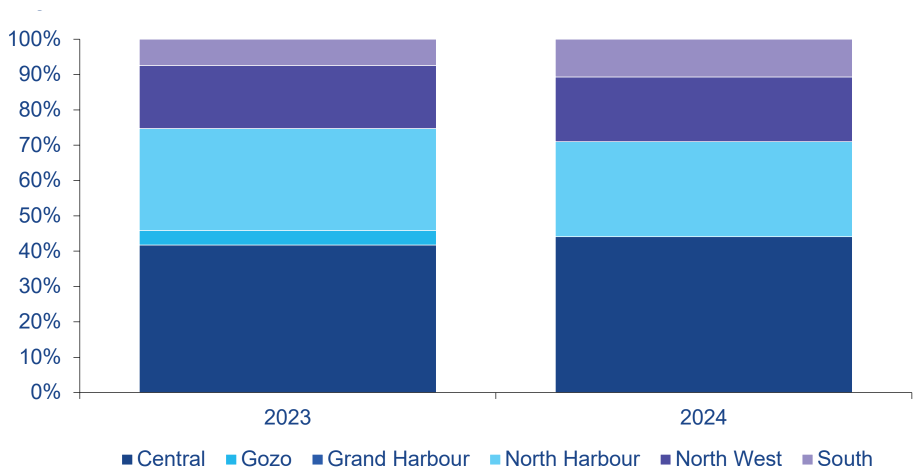
Figure 2.18: Asking prices for villas



Source: KPMG analysis

The geographic distribution of villas has only seen marginal changes from 2023. The Central region remains the largest host with 44.1% of all villas. Conversely, no villas were recorded to hail from the Grand Harbour region or Gozo in this year's sample, although the latter region has continued to dominate when it comes to Farmhouses which hosted just under half of all observations of this property type in 2024.

Figure 2.19: Regional distribution of villas



Source: KPMG analysis

2.6 By region

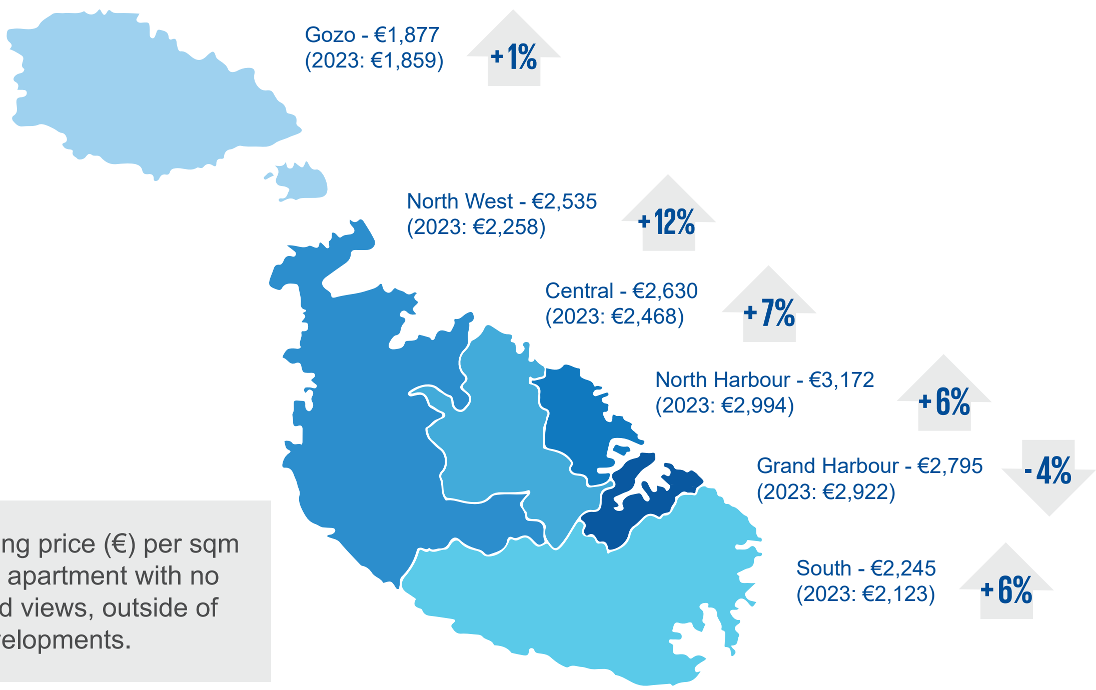
A heat map has been produced to provide a broad overview of regional price variations for apartments. It presents the average price for apartments in each region, alongside the average price per square metre. Notably, this average price calculation pertains exclusively to finished apartments, with no or unspecified views, and not including those within premium development projects[25].

This Section delves into the shifts in prices that specifically impact finished apartments. It is important to acknowledge that a distinct subset of our dataset is utilised for this analysis, differing from the one used in previous Sections. In this particular analysis, we have excluded properties with various types of views, as well as those located within premium real estate developments. This is to limit price variations due to changes in property characteristics.

When examining the variations in asking prices per square metre for finished apartments across various regions in our dataset, we observe that all regions recorded growth in 2024, bar the Grand Harbour region. The latter region, saw its finished apartments decrease by 4.3% on average. Specifically, the price per square metre declined from €2,922 in 2023, to €2,795. The strongest growth was recorded in the North West region, where prices per square metre rose by 12.3% to reach €2,535, from €2,258 in prior year.

The Central, North Harbour, and South regions all recorded very healthy growth of 6.6%, 6.0%, and 5.7%, respectively. The region with the highest price per square metre, remains the North Harbour region where finished apartments have an average asking price of €3,172/sqm in 2024, according to our sample. In contrast, the region with the lowest asking price is Gozo with a price per square metre of €1,877. Similar to prior year, Gozo also recorded the least significant change, growing by a marginal 1.0%.

Figure 2.20: Heat map of finished apartment prices per sqm



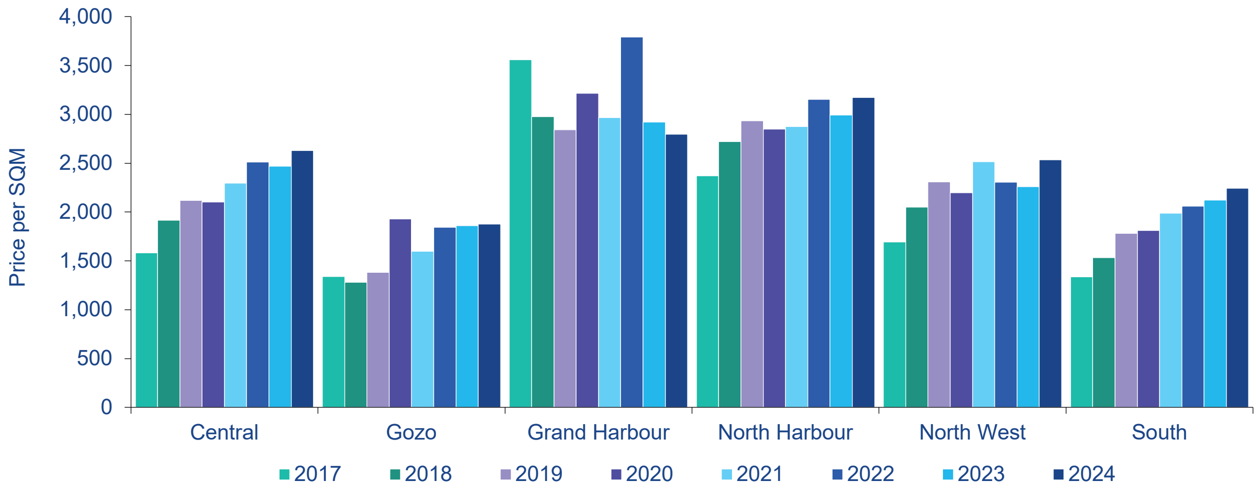
Average asking price (€) per sqm for a finished apartment with no or unspecified views, outside of premium developments.

Source: KPMG analysis

[25] Also noting that these represent average asking prices across localities. Indeed, properties sometimes may even vary in price per street/neighbourhood within the same locality.

In comparing with the prior year, the picture is notably different. Most regions in our 2023 analysis of price per square metre in these specified apartments recorded negative growth, resulting in an overall weighted average change of -1.8%[26]. Assessing this year's sample, we observe an overall weighted average growth of 6.5% across Malta.

Figure 2.21: Average price per sqm by region – Finished apartment

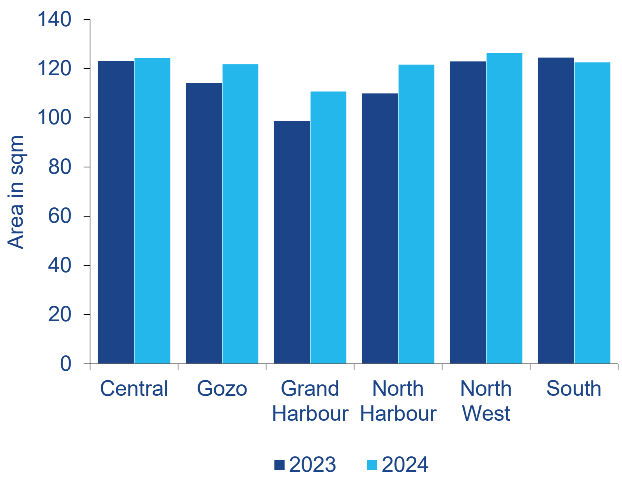


Source: KPMG analysis

When examining the trend in the average total area of apartments from 2023 to 2024 across various regions, it can be shown that the average apartment (as specified above) size has improved across all regions, bar in the South which saw a marginal contraction that led to an average size of 123sqm. The North West region commands the largest average apartment size, with an average area of 127sqm. The biggest changes were recorded in the North Harbour and Grand Harbour region, both of which each saw an uptick of 12sqm in average size. Overall, it appears that the average specified apartment size across Malta has grew marginally from last year, climbing from 120sqm to 123sqm in 2024.

These figures should not be compared to the total internal area discussed previously, as these figures include the total area of the apartment including both internal and external areas.

Figure 2.22: Average area for finished apartments by region



Source: KPMG analysis

[26] Weighted average change refers to overall growth being weighted by the number of finished apartments (not attributed to premium projects, and do not feature views) available in each respective region in our sample.

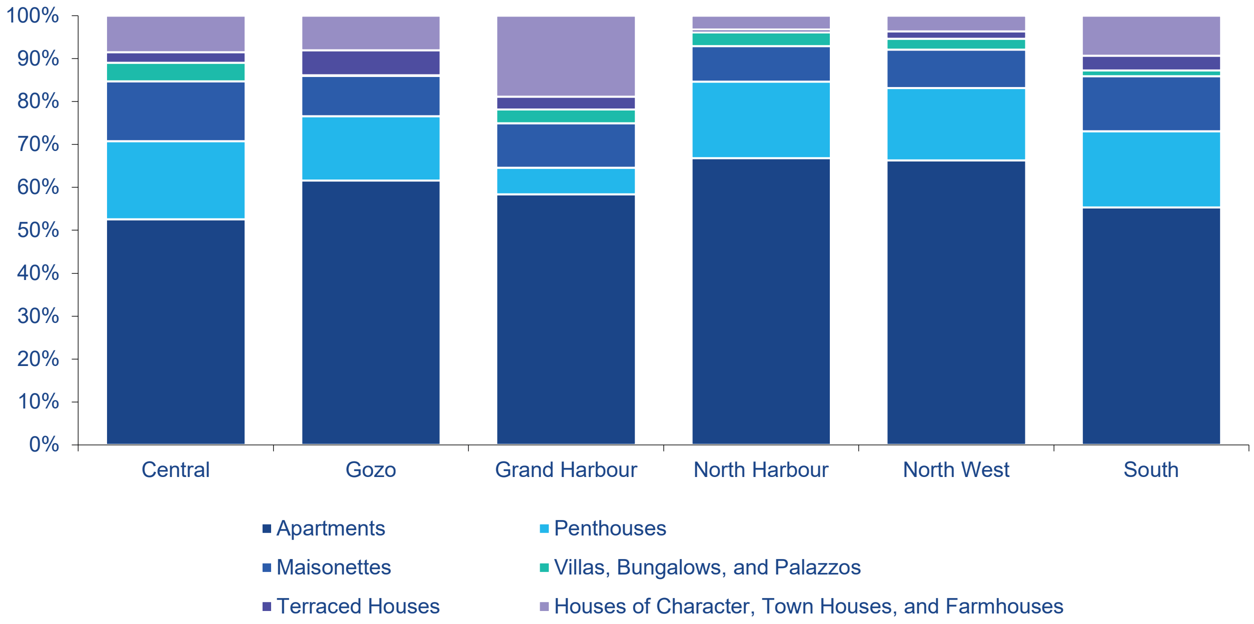
2.6.1 Regional mix

This analysis conducted on property listings recorded in our database for the year 2024 reveals that apartments continue to dominate the market, comprising 59.7% of the total listings in our database. Apartments also comprise the largest share of property types in each region, reaching as high as 66% in the North Harbour and the North West.

The Grand Harbour region maintains its distinction as an area with a relatively traditional property landscape, with an estimated 18.9% of totally properties here characterised as houses of character, townhouses, and farmhouses. This suggests a lower degree of property redevelopment in the region compared to other areas. However, it is evident that apartments have gained popularity in contrast to previous years, climbing to 58.4% in 2024 from 53.1% in 2023.

In Gozo, no villas were observed in this year's sample of properties, while apartments, penthouses, and maisonettes now comprise 86.0% of advertised properties in this region.

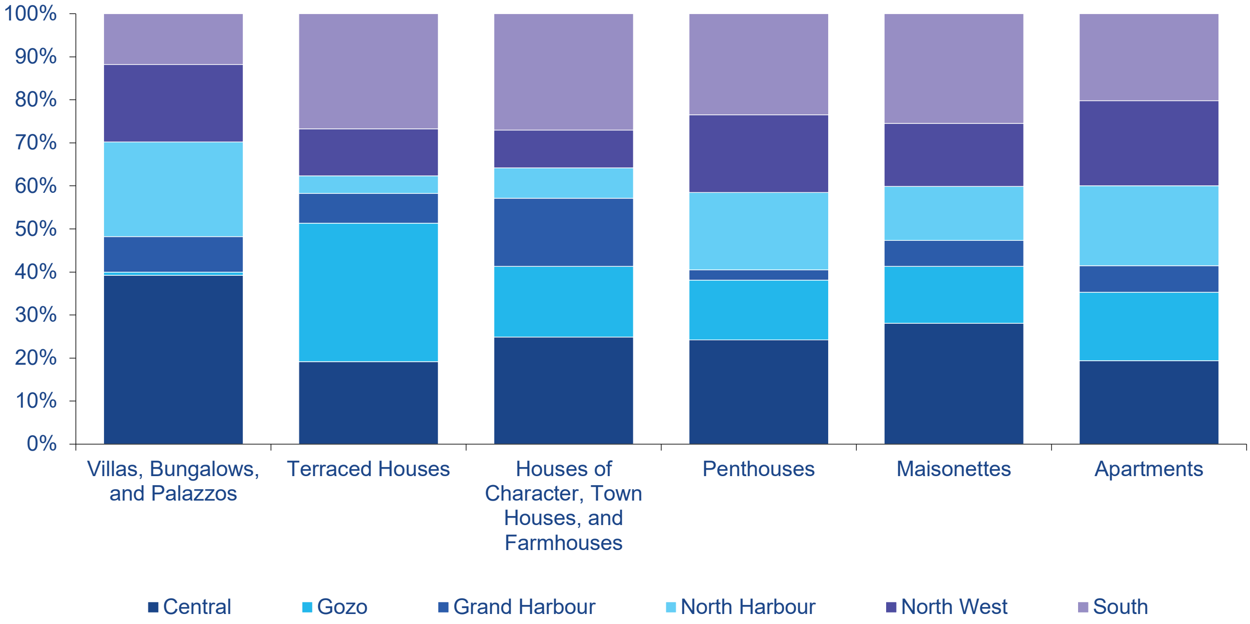
Figure 2.23: Regional mix of properties for 2024



Source: KPMG analysis

Another facet of this analysis examines the distribution of each property type within each region.

Figure 2.24: Proportion of property types by region



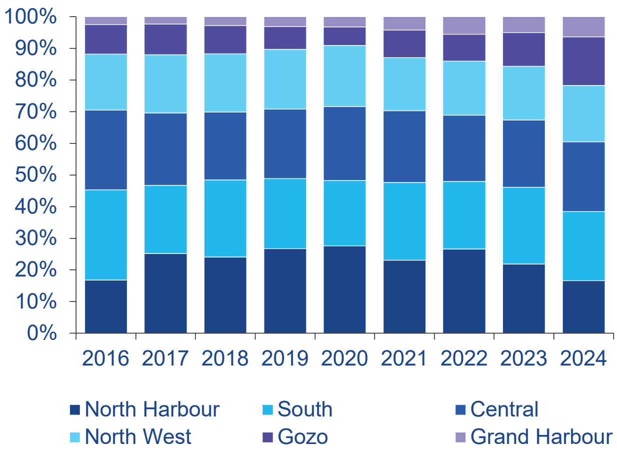
Source: KPMG analysis

2.6.2 Property mix

The regional mix of properties in our database saw only modest changes between 2023 and 2024. The North Harbour region is the region which saw the greatest change in proportion of total listings from 2022, with 5.2% pts in reduced share, which was mostly countered by a 4.8% pts share increase in Gozo. Minor changes were observed in the Southern and Grand Harbour regions, with a decline of 2.4% pts in the former and an increase of 1.3% pts in the latter. The proportion of listings from the Central region and the North West have remained constant. With these shifts, the largest share of properties in our dataset hail from the Central region (22.0%) as opposed to last year when most advertised properties hailed from the South, now at 21.8% - the second most populous region. At 6.3%, the Grand Harbour remains the region with the least number of listings in our dataset.

With respect to the effect of such regional shifts on reported prices, properties located within the Southern region and Gozo typically attract relatively lower prices than properties in other regions. Additionally, properties within the North Harbour region tend to attract a premium over properties in most other regions. Asking prices within the Central region tend to be similar to the national average. As such, this shift in the mix of our results may present a slight downwards pull in overall property prices. One should note that other variations in the property mix, such as property condition, views, and other value-enhancing factors may contribute to some degree of change in observed average and median asking prices.

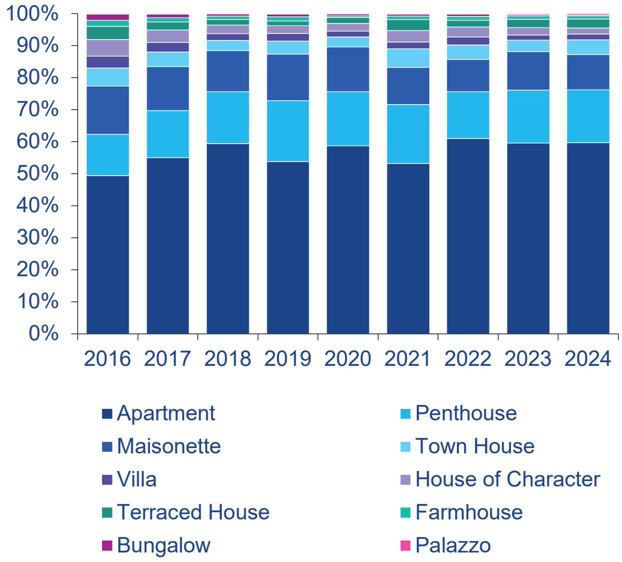
Figure 2.25: Mix of properties by region



Source: KPMG analysis

The mix of property types in our database has remained largely stable between 2023 and 2024. The relative share of apartments has stayed at approximately 60% of all listings. No changes of greater than 1.0% were recorded in this year's mix of property types in our dataset, compared to the prior year. Penthouses and Maisonettes maintained their position as the 2nd and 3rd largest property types, with 16.5% and 11.0%, respectively.

Figure 2.26: Mix of properties by type



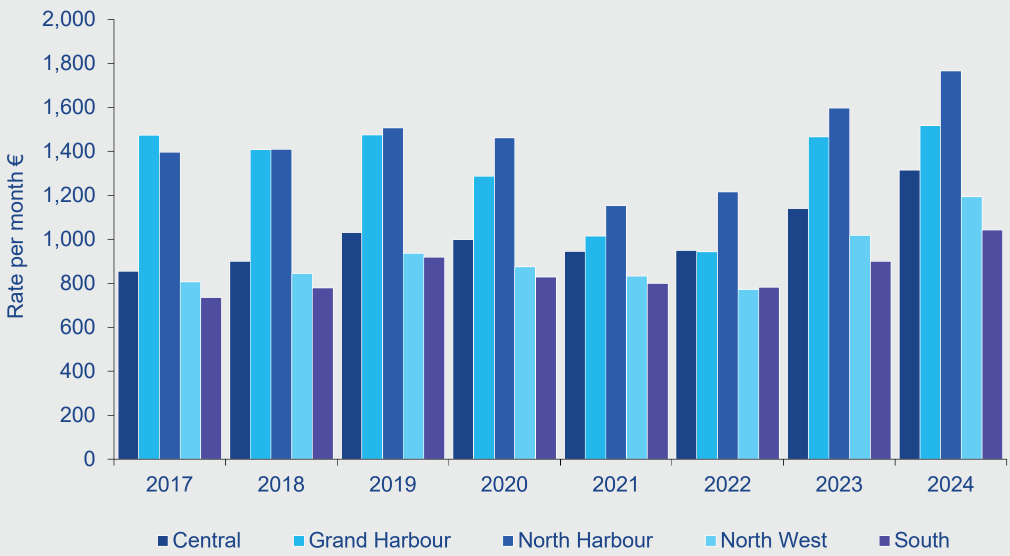
Source: KPMG analysis

2.7 Property prices – Residential property for rent[27]

Apartments

Average asking rental rates for apartments experienced a general rise across all regions. The largest jump was observed in the North West as rentals increased by 17.3% to reach an average of €1,194, from €1,018 in 2023. The Central, Southern, and North Harbour regions also observed substantial increases of 15.3%, 15.9%, and 10.5% respectively. The largest average rates were observed in the North Harbour region which reached €1,765, while the South remained the region with the least expensive average asking rates at €1,042. Only the Grand Harbour recorded marginal growth over prior year, with rates improving by 3.5%.

Figure 2.27: Apartment rental by region



Source: KPMG analysis

Note that while these growth rates appear fairly strong, they are mostly in line with growth rates observed in our database in 2019. Moreover, this growth is largely in line with our consultations with stakeholders (detailed in the next Chapter), who underscored the current strength of the rental market, boosted largely by the demand for housing from expat workers.

Gozo has been excluded from this analysis due to an insufficient sample size to yield meaningful insights. It's important to note, as in previous Sections, that part of the observed shifts in average asking rental rates from our database may be attributed to variations in the underlying distribution and methodological changes.

[27] KPMG's real estate database aims to collect consistent data for both properties listed for sale and rental. However, variations in how real estate agents handle these listings sometimes result in differences in the level of available information. For the purpose of this analysis, we utilised a dataset comprising 15,093 data points.

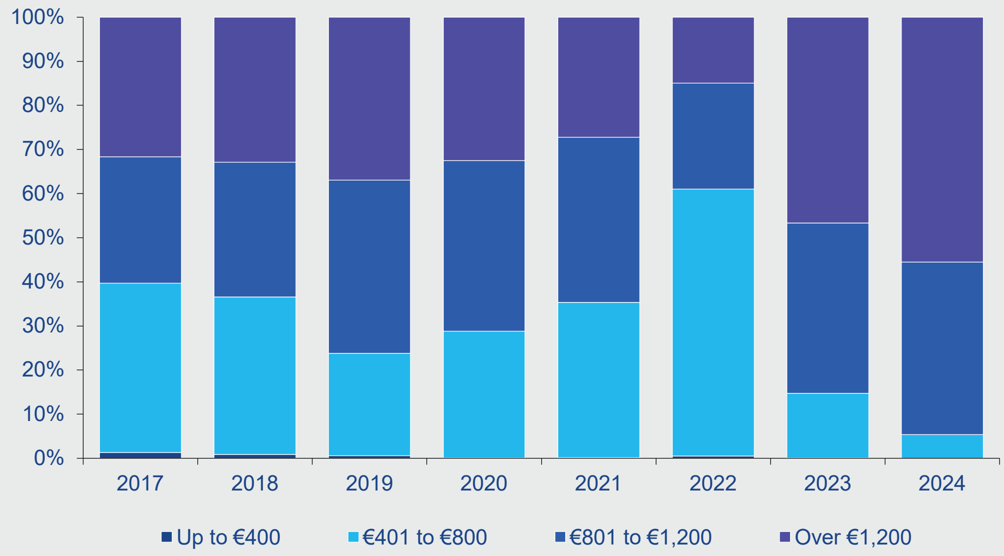
Inflation in the rental market

A more in-depth analysis of rental properties available in our database sheds light on the distribution of properties across various price points throughout different regions.

When comparing the composition of the rental market between 2023 and 2024, a persistent trend emerges. Monthly rental rates in the range of €400 to €800 have shown marginal expansion. However, it is noteworthy that the category with the highest number of data points consists of properties listed above €1,200 indicating that overall rental rates are increasing. For the first time, the number of properties for rent in our database over the €1,200 threshold is now more than half, reaching 55.5% in 2024, in comparison to 46.7% in prior year.

This may be attributed to the ongoing shortage of residential properties for rent in comparison to the demand. Additionally, differences in the sample within our database compared to previous years can also contribute to these variations.

Figure 2.28: Composition of rental market by rate per month



Source: KPMG analysis

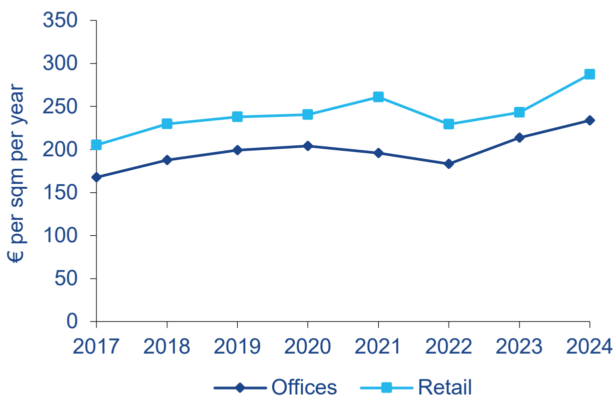
2.8 Commercial property[28]

2.8.1 Commercial property for rent

The majority of commercial property on the market is available on a rental basis rather than being offered for sale. The average asking rental rates for office space was €234/sqm in 2024, up from €214/sqm in 2023, while average asking rental rates for retail properties reached €294/sqm, up from €243/sqm). It should be noted that this growth may be attributed to changes in the underlying data.

Rental data for office space presents an intriguing contrast to the generally sluggish environment as expressed by industry players during our consultations. Several factors may be behind this reasoning, including a mismatch in expectations between landlords and rent seekers. It is also key to note that as these are advertised prices, they will fail to capture the extent of negotiating that is likely to occur, which given these market conditions may be expected to be substantial.

Figure 2.29: Average asking rental rates for commercial property

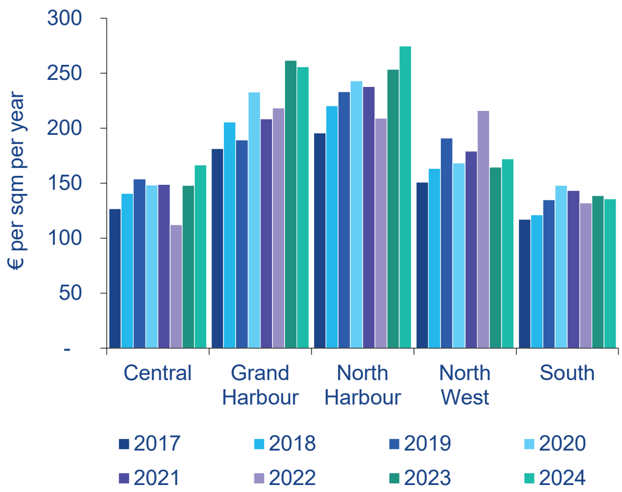


Source: KPMG analysis

2.8.2 Rental rates by region

The following presents the average rental rates per square metre categorised by regions to track fluctuations in prices across different areas. The largest increase in rental rates for office space were recorded in the Central region which saw growth of 12.5%, reaching €167/sqm (2023: €148). The highest priced region for office space is the North Harbour, with a rental rate of €275/sqm, while the lowest rate of €136/sqm hailed from the Southern region. Both the Grand Harbour and Southern region saw declining growth in rental rates in office space of -2.1% and -2.2%, respectively. Gozo has been excluded from this analysis due to an insufficient sample size to yield meaningful insights.

Figure 2.30: Average asking rental rates for offices by region

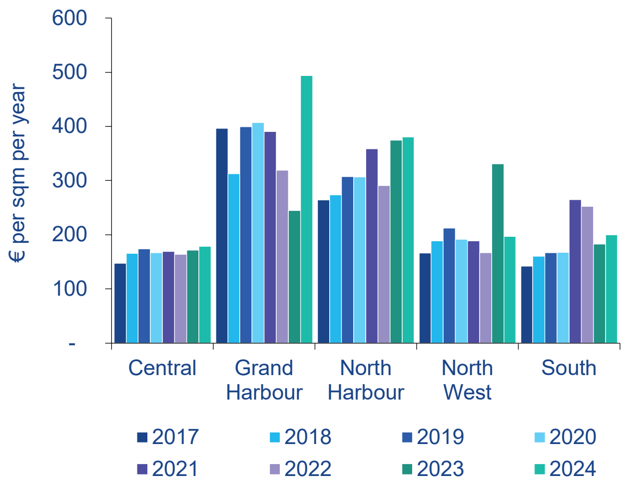


Source: KPMG analysis

[28] KPMG's real estate database seeks to cover data for properties available for sale or rent. Our objective is to provide an in-depth examination of prominent trends in the commercial property market, with a specific emphasis on both rental and sales for offices and retail properties.Variations in how real estate agents handle these listings can lead to disparities in available information. Notably, rental property listings often lack detailed metrics like floor area when compared to listings for properties being sold. In this analysis, a dataset comprising 1,579 data points for commercial sale properties and 3,802 data points for commercial rental properties, were considered.

Moving on to retail properties for rent, the largest increase in average rental rates was observed in the Grand Harbour region which saw prices for retail space rise by 101.6% in 2024, reaching €494/sqm., which in turn makes the Grand Harbour the most expensive retail location This rise also follows a two-year dip after peaking in 2020. The North Harbour is the second most expensive region at €397/sqm, following a 6.0% climb over 2023. The least expensive regions are the Central and Southern areas, at €180/sqm and €200/sqm, respectively, although both registered modest growth over prior year. The North West's significant decline in the rental rate can be attributed to sample limitations with prior year's data, but more data this year reveals this rate to be more in line with expectations. Again, Gozo has been excluded from this analysis due to an insufficient sample size to yield meaningful insights.

Figure 2.31: Average asking rental rates for retail space by region

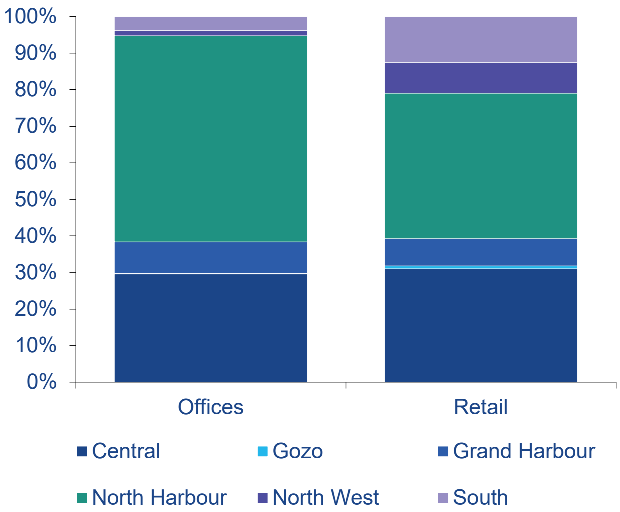


Source: KPMG analysis

2.8.3 Regional availability of commercial space for rent

An analysis of the location of the properties in the database for 2024 shows that the highest proportion of office property can be found in the Northern Harbour region (56.3% of all listings), followed by the Central region (at 29.6%). With regard to retail properties, both the Central and North Harbour regions remain the dominant regions in proportion of listings, commanding 31.1% and 39.9%, respectively.

Figure 2.32: Availability of commercial property for rent



Source: KPMG analysis

2.8.4 Office size and rental rates in selected localities

This Section presents an updated analysis of the variations in office size and rental rates across selected localities in Malta. The selected localities are Birkirkara, Mriehel, Sliema and Valletta. The results from our analysis are that each locality featured tends to have its own characteristics as described below.

- **Birkirkara:** Median asking rental rates are similar to Mriehel, but less than those in Sliema and Valletta. Property sizes tend to cover a wide spectrum, but median office size in Birkirkara is greater than both Sliema and Valletta.
- **Mriehel:** Median asking rates are similar to Birkirkara, and fairly consistent across our listings. Available listings include properties of substantially larger sizes than in the other localities considered.
- **Sliema:** Pricing tends to be more expensive than the other localities considered, and the sizes of listings tend to be smaller than in Birkirkara.
- **Valletta:** Pricing is slightly pricier than those noted in Sliema, while property sizes tend to be the smallest from the localities considered.

The median size and asking rate per square metre one could expect from offices across the four different localities was also computed and is presented in Table 5 below. Note that as this analysis considers the median, this represents the middle property both in terms of size and price. Half of all results would be larger and more expensive, and half would also be smaller and cheaper.

Table 5: Median size and rates for office space

	2023		2024	
Location	**Median size (sqm)**	**Median price (€/sqm)**	**Median size (sqm)**	**Median price (€/sqm)**
Birkirkara	285	129	255	143
Mrieħel	400	140	377	169
Sliema	171	214	171	240
Valletta	112	240	112	250

Source: KPMG analysis

As discussed in earlier Sections concerning office space for rent, the rise in asking rental rates does not reflect the consultations held with stakeholders in the industry, and the mismatch may be attributed to other factors.

2.8.5 Commercial property for sale

The market for commercial property sales witnessed diverging trends between its retail and office markets. The average asking price for office space in 2024 decreased by 7.4% to €3,470/sqm, down from €3,749/sqm in 2023, while retail properties saw an average increase of around 5.9%, reaching €4,109/sqm, up from €3,881/sqm from prior year. These changes are aligned with views shared by most stakeholders who have emphasised the slowdown in commercial office space in contrast to a surging retail market.

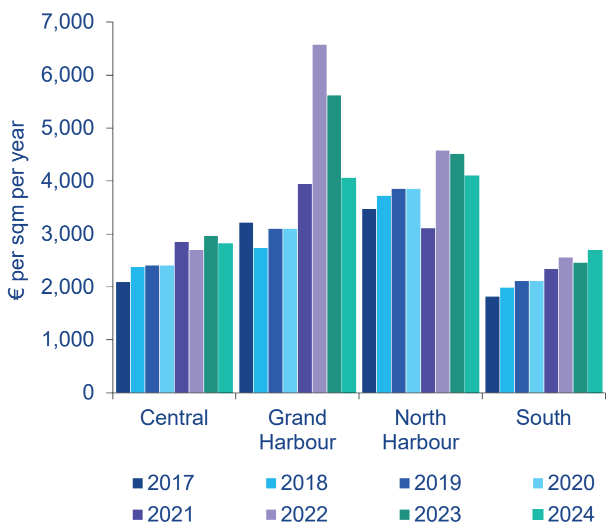
Figure 2.33: Average asking prices for commercial property for sale

Source: KPMG analysis

2.8.6 Asking prices by region

Average asking prices for office space saw declines in most regions, most notably in the Grand Harbour, North Harbour, and Central regions where prices fell by 27.8%, 9.1% and 4.7%, respectively. Only the Southern region saw an increase of 9.5%, albeit a relatively low sample may have contributed to this anomaly. The highest average asking price per square was recorded in the Northen Harbour region at €4,107/sqm (2023: €4,516/sqm). The least expensive asking price was observed in the South at €2,699/sqm, closely followed by the Central region at €2,825/sqm. Office space in the Grand Harbour region fell significantly from €5,622 in 2023 to €4,061, in this year's sample of listed properties. Gozo and the North West have been excluded from this analysis due to an insufficient sample size to yield meaningful insights.

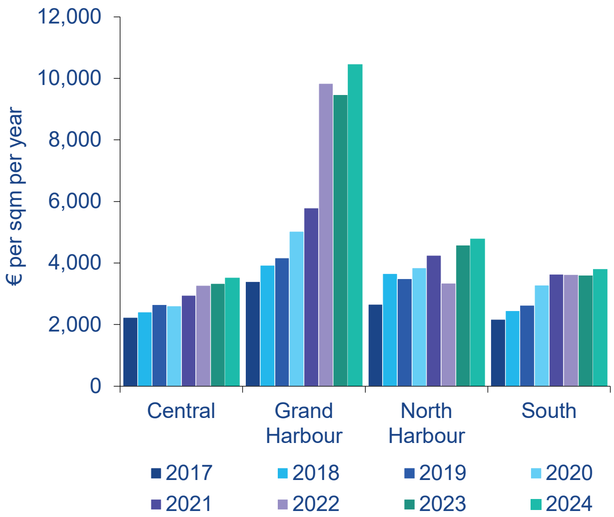
Figure 2.34: Average asking prices for offices by region



Source: KPMG analysis

The market for retail property for sale demonstrated moderate growth across all regions. Average asking prices for retail property increased by 10.4% in the Grand Harbour, reaching €10,456/sqm (2023: €9,467/sqm) – the most expensive average asking price from all regions. Strong growth was also observed in the Central and Southern regions, where average asking prices increased by 5.7% and 5.4%, respectively. Prices reached €3,528/sqm in the Central region and €3,805/sqm in the South. The second most expensive region is the North Harbour were rates jumped by 4.4% to €4,790/sqm (2023: €4,587/sqm). Again, Gozo and the North West were both excluded from the analysis due to the limited sample size.

Figure 2.35: Average asking prices for retail space by region

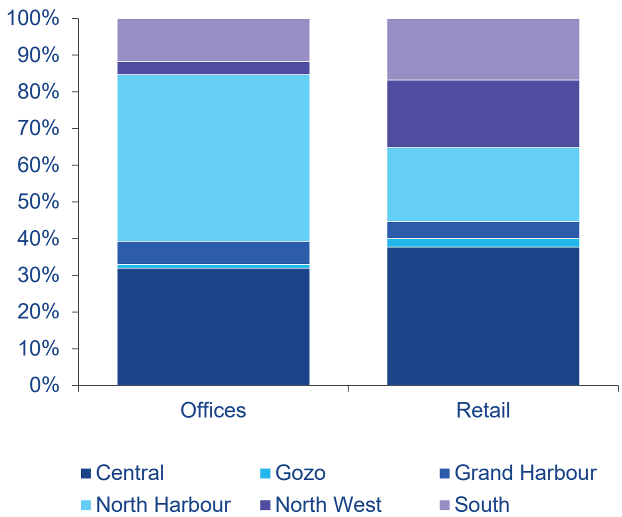


Source: KPMG analysis

2.8.7 Regional availability of commercial space for sale

An analysis of the properties available for sale recorded in the database during 2024 shows that most office listings are within the North Harbour region (45.5%), followed by the Central region (31.9%). Regarding retail properties, most listings were found in the Central region (37.7%), although its share decreased by around 5% pts from prior year. Around 20% of listed retail properties for sale are found in the North Harbour, closely followed by the Central and the Southern region.

Figure 2.36: Availability of commercial property for sale



Source: KPMG analysis

Our multi-disciplinary team of professionals have a technical, financial, economic and in-depth understanding of the real estate industry, with access to a comprehensive real estate database and a global network. We are closely monitoring developments within the sector and bring to the table extensive experience aimed at maximising value for our clients.

Real estate valuations

Our appraisal of market values for individual properties, portfolios and real estate companies covers a wide spectrum of residential and commercial real estate, taking into account the requirements of financial reporting standards whilst also serving as a pertinent tool for aspects such as the optimisation of financing mix and the investment decision-making process.

Feasibility studies and capital raising

We are well positioned to help analyse the expected financial returns of specific real estate projects based on the parameters of the project. Our experience encompasses a suite of developments ranging from small-scale hospitality and commercial ventures to large mixed-use development projects, wherein we can also assist in the determination of a financing strategy for a project and raising the necessary capital in the form of equity and/or debt.

Contact us:

Hermione Arciola
Partner
Advisory Services
E: hermionearciola@kpmg.com.mt
T: +356 2563 1106

Steve Stivala
Director
Advisory Services
E: stevestivala@kpmg.com.mt
T: +356 2563 1052

www.kpmg.com/mt
+356 2563 1000

Succession planning

Real estate regularly forms a core part of the succession planning journey for local family businesses. At this important juncture of a company's development, our expertise in the real estate sector as well as succession planning processes will ensure the smooth handling of all corporate, financial and tax matters, in line with your objectives.

Industry analysis & market assessment

We are the leading consultancy firm in Malta carrying out a comprehensive annual study on the Construction Industry and Property Market, covering aspects such as housing affordability, industry economic impact, and property price dynamics, amongst other themes.

KPMG Malta real estate database

We have developed a benchmarking tool that contains a volume of property price observations across multiple localities in Malta and Gozo. The Database, which encompasses both the sale and rental market, has been collated and updated on an annual basis since 2011 and provides insights into aspects such as pricing trends, view premiums, and property mix distribution, amongst others.

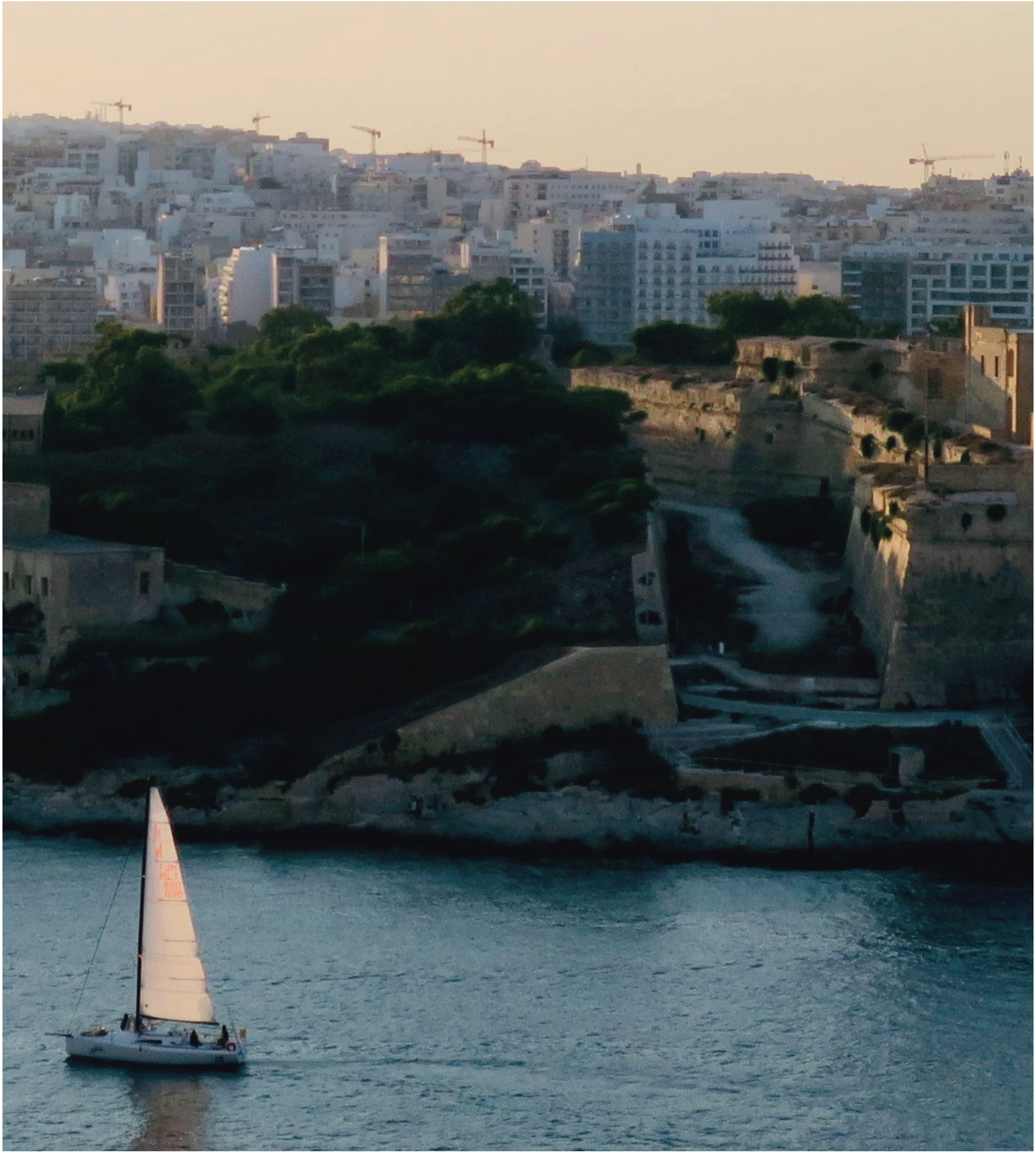
Stakeholder analysis

3.1 Stakeholder consultations

A consultation process was initiated with major stakeholders to gather first-hand insight on the state of affairs pertaining to the building industry and the property market. Interviews were conducted with a variety of stakeholders including developers, contractors, real estate agents, architects, and representatives from major banking institutions and public entities.

This Section seeks to present:

- The stakeholders' thoughts and observations on a variety of topical subjects
- Suggestions offered by the relevant stakeholders
- KPMG's point of view on the subject



3.2 Commercial property

Commercial property represents the non-residential side of the property market and mainly revolves around retail and office space, warehousing, and industrial areas. Rapid changes in economic conditions and workplace behaviour in recent years have left a marked impact on this sector.

3.2.1 Comments from interviewees

- The general observation made from stakeholders on this topic is that office space is experiencing lower demand, which in turn is putting downward pressure on asking rates in some areas and leaving buildings vacant for extended periods of time. While data from the KPMG property database appears to confirm this where the sale of office space is concerned (in the form of decreasing growth in asking prices), the data still depicts rising rates for office space for rent in 2024. As elaborated before, this could be down to a misalignment of expectations between renters and property owners at the advertising stage of the rental property.
- The consensus suggests that the current availability of office space provides businesses with a wider range of choices, creating a favorable environment for companies seeking flexible and strategically located workspaces.
- The main reason outlined for this decreasing trend in demand for office space is the increased popularity of remote working. Several office space projects had commenced in the pre-pandemic year which predate the shift in workplace culture that has left many businesses reconsider the need for large office spaces in later years.
- A second reason often mentioned relates to a lack of new foreign direct investment that is coming in to occupy vacant office space.
- Many were keen to point out that some locations fare better than others, emphasising that quality and premium sites (like the Northern Harbour area), play a key role in determining demand for office spaces. Older office spaces are losing tenants to newer and higher quality builds, without managing to find replacements.
- The retail and warehousing parts of the commercial sector are performing far stronger, with demand for storage space evidently on the increase according to most stakeholders. This is in line with the data from the KPMG property database which showed strong growth in asking prices for retail properties, both those advertised for sale and for rent.

3.2.2 Suggestions put forward by interviewees

The general outlook on retail and warehousing is mostly favourable, however this is less so for offices. In the view of some stakeholders, there may be a case for repurposing some of these office spaces for residential use, although many also concede this may be expensive (and impractical) to do.

3.2.3 KPMG point of view

1. A holistic planning approach at the national level should take into consideration changing workplace behaviours to ensure that the type of properties being constructed today are aligned with the demands of current and future realities.
2. The viability of repurposing surplus office spaces into residential space for rent or otherwise, warrants further exploration by the relevant authorities. The financial burden of the modification may be too great for owners of these properties to undertake alone and could require support, but it could help alleviate affordability concerns for some segments of society.
3. The planning sensitivities of introducing residential buildings in heavily industrial areas needs careful consideration. It is likely that many sites will rightly be deemed as non-starters.

3.3 Regulation and bureaucracy

Recent developments in the regulatory space are intended to professionalise the construction industry for the benefit of legitimate operators, consumers, employees in this industry, and third parties affected by the sector. Ongoing and recent initiatives include the licensing of contractors and estate agents and the setting up of different entities like the BCA, and the Malta Property Agency.

3.3.1 Comments from interviewees

- While several stakeholders welcomed efforts to improve the sector, many have lamented that the largest impact of the changes being made is the significant rise in paperwork and excessive delays to the development process that ultimately lead to an increase in development costs.
- More focus should be made on increasing regular enforcement of the rules already in place.
- Overall, there appears to be a slight improvement in this space, with some observing more organised construction sites.
- Still, many feel there is a lot of room for improvement when it comes to relevant authorities, which are perceived to be overburdened and understaffed.
- Many have welcomed the initiatives for contractors to require licences to operate, which has begun weeding out unprofessional outfits. Key here would be to ensure requirements to qualify for licensing is sufficiently high. Progress is expected to be gradual in this respect.
- This law could lead to higher prices, as larger organisations tend to charge a premium for their professionalism and quality standards.
- Progress on enforcing the rules on real estate agents' licences remains slow, with many large agencies who have invested in training their staff are left feeling frustrated that the property market still consists of many unlicensed agents operating unlawfully.

3.3.2 Suggestions put forward by interviewees

- Regulations should be sensitive to the project's size. As every project is different, it should not be the case that a small development has to go through the same processes and paperwork that a large project would.
- Some have proposed introducing authority sub-offices that will each take responsibility of overseeing construction sites in a particular region.
- Inhibiting efficiency is the lack of case officers who would be responsible for a number of projects from start to finish. Some stakeholders have argued that the current process of chasing back and forth between different entities responsible for different parts of the development process is a huge bureaucratic and time-consuming burden, which can be reduced if case officers take charge of coordinating between these entities themselves.

3.3.3 KPMG point of view

1. Stakeholders do not necessarily recognise the overarching vision of the ongoing reform in the sector and have often remarked that the new processes effectively amount to a long check-box exercise. Policymakers must ensure that a clear and comprehensive strategy is in place that connects the current rules and processes to the end-goal, and how they will help to achieve it.
2. Further investment in human and digital resources may serve to soften the administrative burdens facing regulators and developers/contractors alike to resolve unnecessary delays and paperwork.
3. Efforts at attracting talent to regulators is important to ensure there is the quantity – but also the quality – to monitor all construction sites across Malta and Gozo.

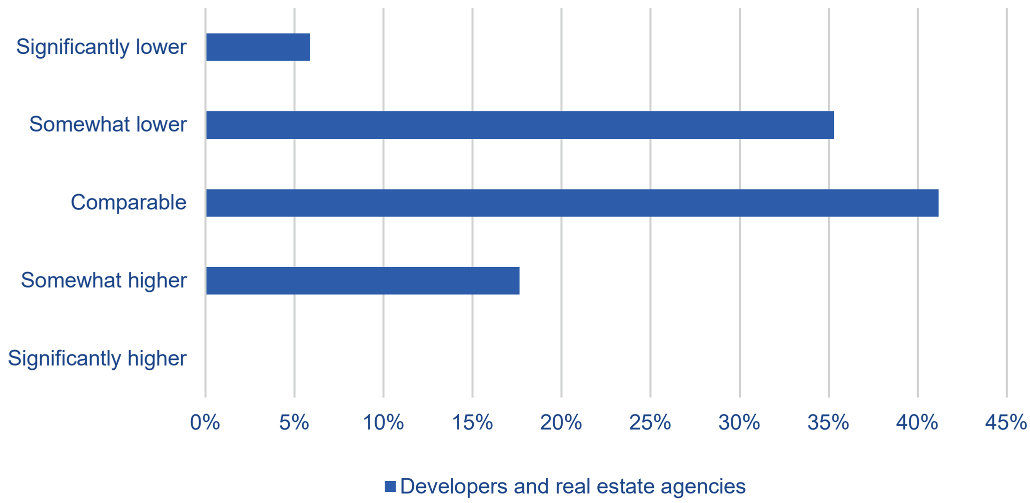
3.4 Demand and affordability

Demand in the residential property market has been robust over recent years, with prices tending to grow year on year. The issue on affordability amongst particular segments of society continues to be of some concern among stakeholders who recognise this environment can be challenging to young people climbing the property ladder.

3.4.1 Comments from interviewees

- Stakeholders have to an extent offered differing views on how demand for property purchases has performed over last year but have largely expressed that demand has remained comparable to last year or reduced marginally (see Figure 3.1).
- Consumers are generally more selective and taking more time to decide on a purchase, particularly for properties over the €300,000-€400,000 bracket. Demand for properties in lower price brackets has tended to remain strong.
- Sales for properties that are still on-plan have slowed down considerably.
- While sales have in general slowed down slightly, this was not reflected in prices, which many reported to have climbed from last year, as also observed in our KPMG property database sample for 2024 indicating overall growth in average and median residential properties.
- Many have specified that properties which tend to offer more in terms of quality, like larger space, and external areas, will usually sell faster.
- Demand for high-end and luxury properties has remained strong as well, particularly for villas valued at over €2 million. However, the great lack of supply here is a major factor. Most potential clients eyeing this price bracket have tended to be Maltese.
- The rental market has been performing exceptionally well, with many stakeholders remarking that apartments do not tend to remain vacant for long. The vast majority of current and new tenants are expats. This has kept rental rates relatively high.
- Different lifestyles will likely continue to contribute to a strong rental market.

Figure 3.1: Stakeholder responses on 2024 demand for residential property compared to prior year



Source: Stakeholder consultations; KPMG analysis

3.4.2 Suggestions put forward by interviewees

With prices rising, many stakeholders have suggested that planning policies should be altered to allow for more affordable 1-bedroom properties. Changes in lifestyle mean that individuals will likely find smaller properties more aligned with their needs and financial constraints.

3.4.3 KPMG point of view

1. Government incentives aimed at first time buyers have been crucial for young people to get on the property ladder. Strengthening these incentives (and making sure that such initiatives truly benefit the buyers) will remain key to keep affordability in check.
2. Careful consideration should be made about whether to alter regulations on property sizes and permits for 1-bedroom apartments. While it is true that lifestyle changes from one generation to the next have been substantial, a balance should be struck with ensuring an adequate level of quality of life for households.
3. A closer look at the minimum requirements set for Residency Schemes may be warranted to ensure that high-income individuals seeking to buy property in Malta to qualify for this scheme are not directly competing with local buyers and renters for affordable housing.

3.5 Skills and safety

The construction industry is dependent on having a skilled labour force that can deliver projects in a safe and secure manner. New subsidiary legislation concerning the Construction Industry Skill Cards (CISC) will be able to certify the trade competences of workers and in turn enhance health and safety on site.

3.5.1 Comments from interviewees

- Shortages in the labour force have continued to be very problematic, but a more worrying issue is that skills within the industry are being lost at an increasing rate. Traditional Maltese workmanship is disappearing quickly as much less Maltese people are entering the industry.
- The industry is heavily dependent on expats which are more likely to change jobs regularly, leading to higher labour turnover, which comes at a significant cost to the contractor.
- The language barrier between workers and their supervisors, and between workers themselves on site, is getting increasingly high, which is not helped by the fact that contractors are being left with no choice but to hire people from different nationalities to work together due to labour shortages. Problems in communication risks hindering safety and build quality if left unchecked.
- Contractors have also reported that many expat workers often disregard safety instructions and safety gear even when repeatedly warned. This may be partly due to cultural norms they have previously been accustomed to where safety is not taken seriously. Operators have expressed frustration at this behaviour since it risks creating accidents which could be avoided.
- Stakeholders in general agree with the skill card initiative, which is still voluntary at this stage, but some have questioned how some trainers with little industry experience could certify people who have been working in the industry for many years.
- Many are hoping that, eventually, there will be the necessary resources to carry out inspections when it comes to skill cards.

3.5.2 Suggestions put forward by interviewees

- The responsibility of worker safety needs to be shared with the workers themselves as well. Stakeholders have argued that despite investing in training and equipment, some workers will still not observe these rules all the time.
- Contractors/Developers should provide insurance to their workforce, which would be a condition for attaining the contractor's licence. Some find it inconceivable that workers in this industry are still not insured by their employer for the time they are on site.

3.5.3 KPMG point of view

1. Clear and coherent communication at the construction site is fundamental to avoid accidents and poor workmanship. Policymakers should ensure that good communication skills are considered to be an important credential for all workers aspiring to be in this industry.
2. It was recently reported in a parliamentary discussion that Malta has 8,000 active construction sites as of the first quarter of 2024, which translates to over 25 construction sites per square kilometre[29]. The sheer volume of sites where new regulations needs to be enforced places great pressure on regulators who are also grappling with human resource shortages. While new safety regulations are important, ensuring there is adequate enforcement is critical. Policymakers must ensure that the extent of construction activity on the island is held at a manageable level.

[29] Construction sites per kilometre: https://newsbook.com.mt/en/maltas-construction-conundrum-25-building-sites-per-square-kilometre/.

3.6 Construction activity and costs

Construction is a substantial (and highly visible) part of the national economy, employing thousands of jobs and supporting other adjacent sectors that revolve around the development of property.

3.6.1 Comments from interviewees

- Construction activity has seen continued decline according to the majority of contacted stakeholders.
- The outlook on large projects is still positive; however, the volume of small development works has reduced and will likely remain low in the near-term, as the industry becomes ever more bureaucratic and riskier for small operators to work in.
- Construction costs have seemingly held steady, with some materials like metal, and cement have held steady or marginally increased over last year.
- The price of finishings has also been on the increase.
- The persistent rise in the price of land is driving up prices for property. The stubbornly high prices being demanded for plots eyed for development is also rendering certain projects unfeasible, which could be one of the reasons why construction activity has declined.
- Some have also speculated that construction activity will continue to fall as the industry becomes more intensely bureaucratic, more exposed to negative attention, and financially harder to operate in.

3.6.2 Suggestions put forward by interviewees

Some developers, particularly those larger in size, have argued that the slowdown in construction is not necessarily a negative observation. The boom in activity in years prior was not entirely sustainable in the long-run, and this calmer time should be used to reflect on how to improve the industry.

3.6.3 KPMG point of view

The slowdown in this sector will offer perspective on its significance in the economy. If the Maltese economy is to continue growing, accommodating the need for more and better infrastructure, and to meet the housing needs of a growing population, then the industry should remain central in this growth trajectory, though it should strive to do so in a sustainable manner minimising the inherent disruptions associated with such activity. Policymakers should strive to formulate a national strategy that finds a genuine balance between the country’s need for development and people’s quality of life.

3.7 Threats and opportunities facing the property sector in the near-term

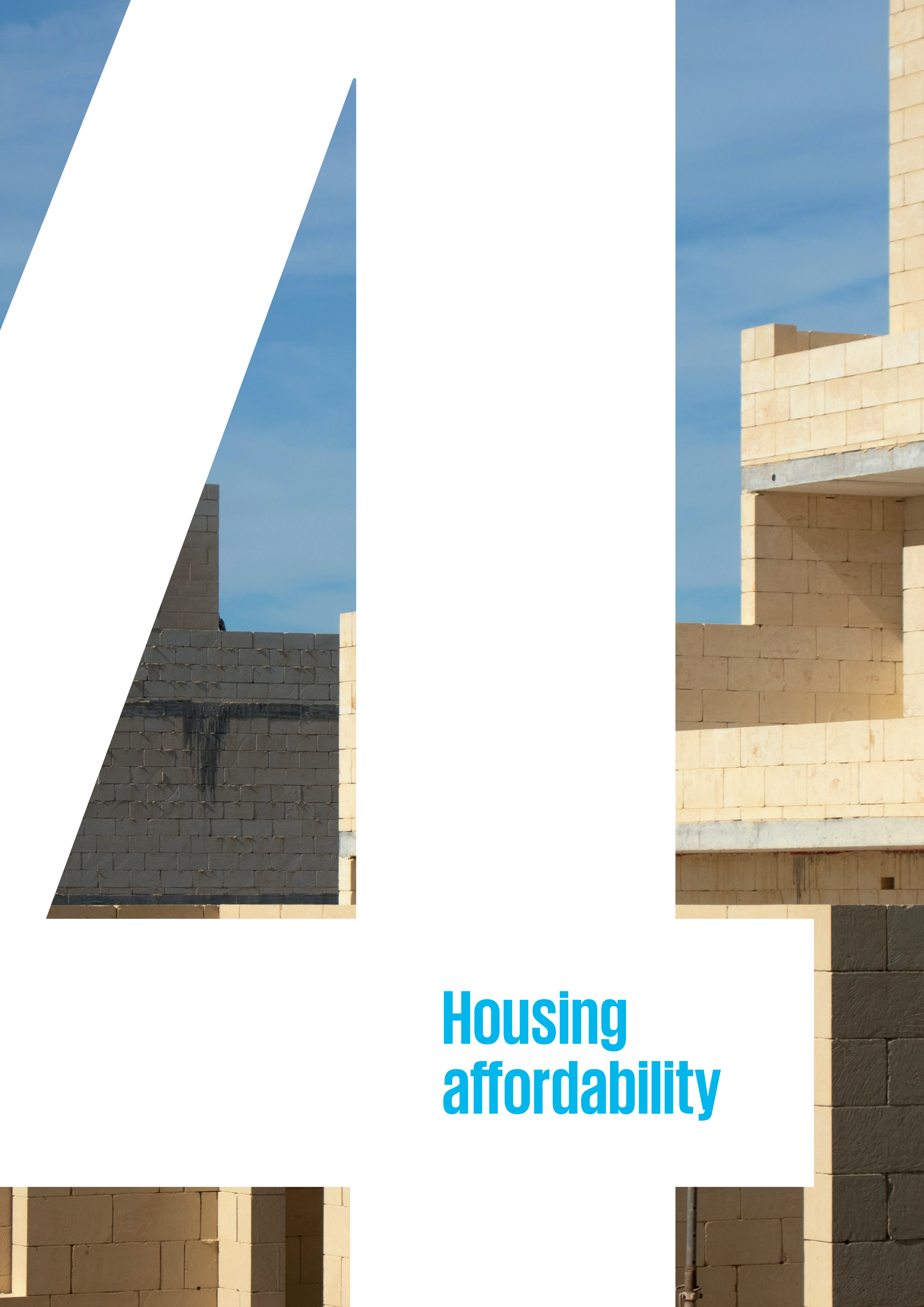
The last Section of this Chapter will list a number of threats and opportunities identified by stakeholders during our consultations.

3.7.1 Threats

- Malta's infrastructure is under significant pressure to keep up with the demands being exerted by the increase in population. Failure to keep up with such demands could have repercussions on Malta's attractiveness and on general quality of life, which inadvertently could impinge on the property sector, which in turn is a very important store of wealth for many businesses and families.
- Tourism is an important aspect of the property market and the national economy. Excessive development will hurt the touristic product that has sustained Malta over the last decades. Again, this can have negative repercussions on the property market.
- Regulatory bodies must be able to enforce rules across the industry if the country is to achieve its objective to enhance safety and quality. This means renewing efforts to recruit more qualified personnel that can handle the volume of ongoing and proposed development across the island. Moreover, this also means being well-organised from within to be able to offer an effective and efficient service. Relevant authorities should strive to work more cohesively to minimise unjustifiable delays and redundant paperwork in the development process which places undue pressure on genuine projects and the impacted communities.

3.7.2 Opportunities

- The effort being made with new initiatives like the licensing of contractors, and Document F will help to improve the quality of property supply for the benefit of consumers. Moreover, the sustained push for more sustainable buildings will help reduce the sector's environmental footprint.
- A local shift to the rental market can turn out to be the next phase in the property market, as affordability issues with buying property and lifestyle changes continue to make this option more popular. This presents an opportunity for investors to hold onto property and rent out as opposed to selling for immediate gain.
- There is also an opportunity for professional organisations to benefit significantly from emerging regulations. Developers and contractors which have the resources to provide an orderly service and can also deal with the bureaucratic paperwork will likely be in an advantageous position. This will serve to discourage operators who have historically cut corners and who are not well equipped to comply with such emerging regulations.



Housing affordability

4.1 Defining housing affordability

No single measure fully captures the complex issues surrounding households' ability to secure adequate housing in suitable locations at an affordable cost[30]. Broadly, housing affordability refers to the capacity of individuals or households to comfortably and sustainably cover housing expenses without compromising other essential needs or their standard of living. These costs typically include rent or mortgage payments, property taxes, insurance, utilities, maintenance, and other associated expenses.

In this report, however, we adopt a narrower perspective on housing affordability, focusing on the ability of households to acquire property through mortgage financing, the most common method for home purchases. Our primary motivator for this analysis revolves around the capacity of first-time buyers in accessing housing that meets basic needs, rather than upgrading to larger or more luxurious homes. Nevertheless, we acknowledge that affordability varies significantly depending on location and a property's qualitative characteristics.

Given the complexity of housing affordability, it requires an analysis of various economic, social, and demographic factors. As a result, multiple approaches are necessary to develop a comprehensive understanding of this issue.

In this Chapter, our goal is to:

Highlight the Importance of Housing Affordability	Housing affordability is a critical determinant of economic and social well-being, as it influences ability to secure stable housing without compromising ability to meet other essential needs.
Provide an overview of Key Indicators of Housing Affordability in Malta	Several indicators are used to assess housing affordability in Malta including the price-to-income ratio (PIR), the housing cost overburden rate, and the mortgage-to-income ratio.
Provide a high-level Analysis of Trends in Housing Affordability in Malta	Housing affordability in Malta has shifted over time in response to several factors, including changes in property prices, wage growth, and lending conditions.

4.2 Importance of housing affordability

Housing affordability is a key determinant of well-being, playing a fundamental role in shaping the quality of life and economic security of households. Affordable housing allows individuals and families to allocate adequate resources toward other essential needs, such as education and healthcare, which in turn strengthens economic stability, enhances financial security, and improves overall well-being. When housing costs are manageable, households can invest in their future, reduce financial stress, and avoid the risk of poverty.

Furthermore, housing affordability promotes social equity by ensuring that all members of society, regardless of income, have access to safe, adequate, and stable living conditions. This reduces social and economic inequalities and promotes social cohesion by creating inclusive communities where people from diverse backgrounds can live and thrive.

By addressing housing affordability, governments can build more equitable and sustainable societies, where citizens have the foundation to contribute to economic growth and social development. As such, ensuring access to affordable housing is a critical priority for policymakers worldwide, as it leads to a more inclusive, economically resilient, and harmonious society.

[30] OECD (2021). HC.1.5. Overview of affordable housing indicators last updated 27/01/2021 and accessed on 7/10/2024.

4.3 Housing affordability indicators

Given that there is no single definition of housing affordability, the following is an analysis of the most common indicators of housing affordability, given data availability.

4.3.1 Price-to-income ratio (PIR)

The price-to-income ratio (PIR) is a widely used indicator of housing affordability, calculated by dividing the median or average property price in a specific area or country by the median or average annual household income in the same region. When property prices rise at a faster rate than household incomes, the PIR increases, indicating that housing has become less affordable. Conversely, if household incomes grow at a faster rate than property prices, the PIR decreases, suggesting that housing has become more affordable.

Table 1 and Figure 4.1 present the PIR for Malta, calculated using the median asking prices of apartments derived from the KPMG database, divided by the individual median equivalised net income reported by Eurostat, for the period 2018 to 2023. The PIR for 2024 is based on income growth projections, as precise data for that year is not yet available. In 2024, housing affordability, as measured by the PIR, improved due to income growth outpacing the marginal rise in property prices, driven primarily by upward pressure on wages and salaries[31].

Table 6: Price-to-income ratio (PIR)

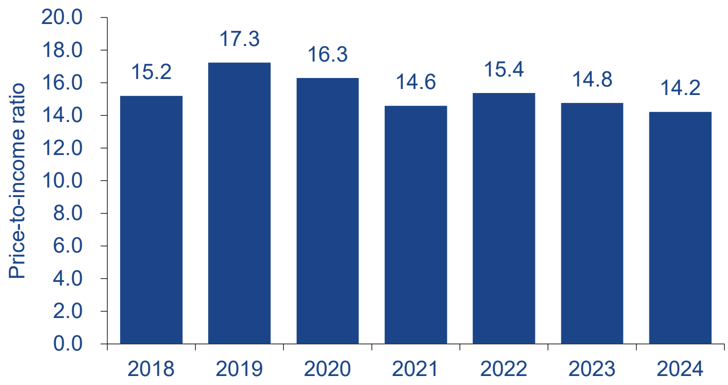
Year	Apartment - Median Price from KPMG database	Median Equivalised Net Income - Eurostat	PIR
2017	200,326	14,522	13.8
2018	225,000	14,781	15.2
2019	265,000	15,354	17.3
2020	265,000	16,240	16.3
2021	249,000	17,036	14.6
2022	279,500	18,155	15.4
2023	280,000	18,940	14.8
2024	285,000	20,005	14.2

Source: Eurostat data; KPMG property database; KPMG analysis

While the PIR is a simple and useful tool for comparing housing affordability over time and across different countries, it has notable limitations. As it relies on average property prices and household incomes, the PIR does not identify which specific segments of the population are struggling to access adequate housing, nor does it account for the size, quality, or location of housing. Additionally, the PIR does not factor in the costs and conditions of borrowing, which are critical components in assessing housing affordability.

[31] Note that Median Equivalised Net Income for 2024 was not available. To estimate the 2024 figure, we used the growth rate in average monthly basic salary for employees, after adjusting for income tax and NI. The growth rate between 2023 and 2024 was circa 5.63%.

Figure 4.1: Price-to-income ratio (PIR)



Source: Eurostat data; KPMG property database; KPMG analysis

4.3.2 Housing cost overburden rate

The housing cost overburden rate represents the proportion of the population residing in households where total housing expenses exceed 40% of disposable income. These housing costs include rent or mortgage interest payments, as well as utilities such as water, electricity, gas, and heating. As indicated in the following graph, the housing cost overburden rate within the Euro Area in 2023 ranged from 2.6% in Cyprus to 28.5% in Greece, with the EU average standing at 9.0%. In Malta, 6.0% of the population was living in households where housing costs surpassed 40% of disposable income. This contrasts with the 2.9% recorded in the previous year.

It is noteworthy that in 2023, the Maltese government continued to subsidise electricity for households, contributing to stable utility bills. Additionally, local banks kept mortgage interest rates constant, despite fluctuations in the ECB's key interest rates during 2023 and 2024. In the second half of 2024, the ECB lowered interest rates to stimulate the EU economy, which had been affected by elevated borrowing costs[32]. These measures contributed to Malta's relatively lower housing cost overburden rate compared to other EU countries, although it marked a significant increase from 2.9% in 2022.

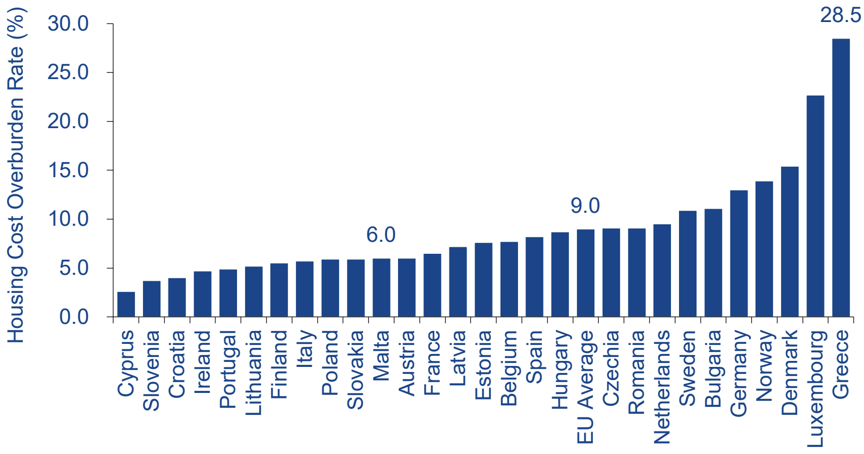
A prevalent critique of the housing cost overburden rate, as well as similar expenditure-to-income ratios, is the arbitrariness of the affordability thresholds they employ. These thresholds, often set at 40% of disposable income, do not reflect the varying financial pressures experienced across different income groups. For households with lower incomes, even if their housing costs fall within these prescribed limits, they may still struggle to cover other essential expenses such as food, healthcare, education, and transportation. In such cases, the rigid thresholds fail to capture the broader financial strain faced by vulnerable populations.

Furthermore, these metrics are not progressive, meaning they do not account for income disparities or the fact that a fixed percentage of disposable income has a vastly different impact on low-income households compared to higher-income ones. A household earning substantially more may have ample resources left after meeting housing expenses, while a lower-income household meeting the same threshold could be left financially constrained.

[32] European Central Bank (2024). Monetary policy decisions.

Additionally, like the PIR, the housing cost overburden rate provides no insight into the quality or adequacy of the housing itself. Thus, while these measures can offer a broad understanding of housing affordability, they fall short in addressing the nuances of financial well-being and housing quality, making them less effective as comprehensive indicators of housing equity and security.

Figure 4.2: Housing overburden rate across EU countries: 2023



Source: Eurostat data; KPMG analysis

4.4 Mortgage eligibility

Mortgage eligibility is an important determinant of housing affordability, given that in Malta 82.6%[33] of the population in 2022 lived in households owning their home, in comparison to an average of 69.1% in the EU. Bank loans are generally used to finance the acquisition of these properties.

[33] Eurostat (2023). Housing in Europe - 2023 edition.

4.4.1 Directive 16: borrower-based measures

The Central Bank of Malta's Directive 16[34] regulates the issuance of residential real estate (RRE) loans, outlining specific guidelines aimed at ensuring prudent lending practices. The directive categorises borrowers into two groups: **Category I** borrowers, who are individuals purchasing their primary residence, and **Category II** borrowers, which include all other RRE loan applicants, such as those buying secondary properties or investment real estate.

Loan-to-Value Ratio at Origination (LTV-O)
Directive 16 establishes loan-to-value ratio (LTV-O) limits, which set a maximum percentage of the property's value that can be financed through borrowing. For **Category I** borrowers, including first-time homebuyers and those purchasing a primary residence, the LTV-O must not exceed 90%[35]. For **Category II** borrowers, the LTV-O cap is set at 75%. These caps are designed to mitigate risk by limiting the amount of borrowing relative to the property's market value, ensuring that borrowers have sufficient equity in the property.

Debt Service-to-Income Ratio at Origination (DSTI-O)
The directive requires lenders to evaluate borrowers' ability to service their debt by applying a stressed debt service-to-income ratio (DSTI-O) of 40%[36]. This assessment includes a 150 basis-point interest rate stress test, ensuring that borrowers can maintain their mortgage payments even under adverse financial conditions, such as rising interest rates. This safeguard is intended to prevent over-indebtedness and promote financial stability.

Loan Maturity
The directive also sets restrictions on the maximum duration of RRE loans. For **Category I** borrowers, the loan maturity should not exceed 40 years[37] or extend beyond the borrower's official retirement age, whichever comes first. For **Category II** borrowers, the maximum loan term is 25 years or until the official retirement age. Exceptions are permitted for borrowers who demonstrate a stable income stream beyond retirement, subject to the lender's evaluation. These maturity limits are designed to ensure that borrowers can repay their loans within a realistic time frame, further reducing risk for both lenders and borrowers.

4.4.2 The impact of Directive 16 on mortgage eligibility

Prior to the implementation of Directive 16, local banks in Malta exercised considerable discretion in setting their own mortgage lending criteria. However, with the directive's introduction, most banks aligned their practices with the prescribed regulatory framework. Directive 16 has notably impacted borrowers seeking to acquire secondary homes or investment properties, such as buy-to-let purchases, by increasing the required initial capital outlay to 25% of the property's value and limiting the loan term to 25 years. These changes have effectively tightened financing conditions for Category II borrowers. Nevertheless, the affordability concerns of this borrower category fall outside the scope of this study.

Conversely, the affordability for **Category I borrowers**, primarily consisting of first-time buyers and individuals purchasing a new primary residence due to changing life circumstances, has either remained stable or improved, particularly for lower-income earners. Prior to the directive, some banks employed a tiered DSTI-O, with limits varying between 25% and 40% based on the borrower's income level. Following the directive's introduction, most banks now apply a uniform maximum DSTI-O of 40%, largely driven by market competition. This change may have enhanced affordability for lower-income borrowers, who previously faced more restrictive lending criteria.

[34] Directive No 16 of the Central Bank of Malta Act (Cap 204) Regulation on Borrower-Based Measures.
[35] Ibid.
[36] Ibid.
[37] Ibid.

4.4.3 Housing affordability by borrower type

This Section aims to quantify the maximum property expenditure for different households and individuals classified as **Category I** borrowers, in accordance with the lending criteria outlined in Directive 16. The calculations provided are based on several common factors that determine loan eligibility.

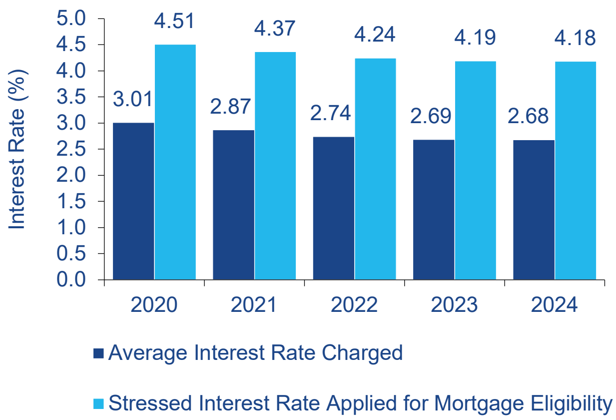
All buyer profiles are assumed to contribute a down payment of 10% towards the value of the property, in compliance with Directive 16's LTV-O requirements. The down payment, combined with the loan amount sanctioned by the bank, constitutes the total property value that the borrower can afford. Ancillary expenses, such as notarial fees, architect fees, insurance, and taxes, are assumed to be covered by the borrower's personal funds and are excluded from these calculations.

4.4.3.1 Interest rates on household loans for the purpose of house purchases

The chart below shows the average interest rate applied to household mortgages, as well as the stressed interest rate used in mortgage eligibility assessments. The stressed rate, defined in Directive 16, is calculated by adding 150 basis points to the average interest rate.

In contrast to trends in the broader European monetary market-where the ECB lowered its key policy interest rate for the second time by 25 basis points in October 2024[38] - interest rates in Malta remained unchanged from the previous year. This stability in domestic interest rates has contributed to a modest improvement in housing affordability.

Figure 4.3: Interest rates on household loans for house purchases



Source: CBM data; KPMG analysis

[38] European Central Bank. (2024) Monetary Policy decisions.

4.4.3.2 *Increases in income*

In 2023, households generated 85.1% of their total aggregated income from employment, with an additional 12.5% sourced from benefits[39]. Other income streams contributed 2.5% to the overall household income. Given this distribution, it is reasonable to assume that the gross income for the cases discussed in the following Sections corresponds to the average wage and salary movements, as reported in various NSO Labour Force Surveys. The Table below provides a representation of these changes in income trends.

Table 7: Change in Income

Year	Average Income	% Change
2020	€1,623	2.9%
2021	€1,491	-8.1%
2022	€1,730	16.0%
2023	€1,820	5.8%
2024	€1,942	6.7%

Source: NSO data; KPMG analysis

[39]National Statistics Office - EU-SILC 2023: Salient Indicators. News Release 106/2024 dated 12th June 2024.

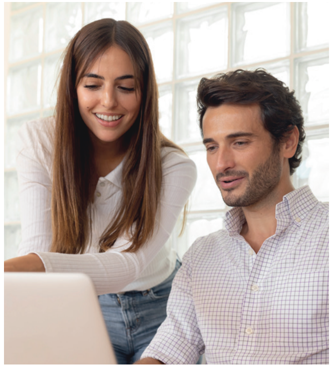
4.4.3.3 *Maximum housing affordability for different personas*

Young couple both in elementary jobs in their late 20s

Age of oldest applicant at next birthday: 28

Loan term: 37 years

Joint gross annual income in 2024: €32,000



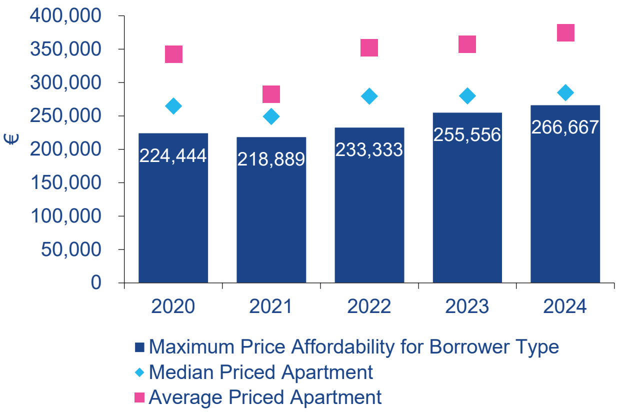
In 2024, with a maximum loan eligibility of €240,000, these borrowers could afford to purchase a property with an asking price of up to €266,667. According to the KPMG database, 33.1% of advertised finished apartments in 2024 fell within this price range. For the same couple earning €30,611 in 2023 (which is equivalent to €32,000 in 2024 in real terms), the proportion of properties within the price threshold in our database was slightly higher at 38.7%. For this type of couple, affordability has declined which mirrors the argument that housing affordability differs from one persona to the next depending on income and location[40]. In 2024, housing affordability in Malta continues to be a significant issue. More than 13,000 households face housing costs exceeding 30% of their disposable income, with individuals under 35, non-Maltese citizens, and low-income earners being most affected[41].

For those considering the purchase of an unfinished property, it is important to note that additional financing would be required to complete the property to a habitable standard. Banks typically provide loans based on the property's final value, meaning the cost of finishing the property would need to be deducted from the total loan eligibility of €240,000. As a result, borrowers would either need to reduce their property purchase budget or increase their personal contribution beyond the minimum 10% deposit requirement.

Given these financial constraints, potential buyers may face difficulties in acquiring a property and are likely to encounter limitations in terms of location and property size.

The below chart shows how the maximum affordability for these borrowers compares to the median and average apartment prices from 2020 to 2024.

Figure 4.4: Housing affordability for a couple jointly earning the equivalent of €32,000 in 2024



Source: KPMG analysis

Since this couple can only afford approximately 33.1% of the properties listed in the KPMG database, it is valuable to analyse an ideal apartment that aligns with their financial limitations. This analysis is crucial, as while they may be unable to purchase a property priced at or near the median and average apartment prices, their affordability may improve when considering various sub-markets. A detailed review of the KPMG database reveals that this couple's purchasing power is notably higher when focusing on two-bedroom apartments with an average of 100sqm in the South, Northwest, and Central regions. These areas offer more affordable options, potentially increasing their chances of securing a suitable property within their budget.

[40] Micallef, B. (2024). Xjenza Online, 12 Special Issue: 72–83.
[41] (2024). Affordable housing: meet Malta's first social enterprise. The Journal. https://thejournal.mt/affordable-housing-meet-maltas-first-social-enterprise/.

Young couple both earning a minimum wage in their late 20s

Age of oldest applicant at next birthday: 28

Loan term: 37 years

Joint gross annual income in 2024: €22,208

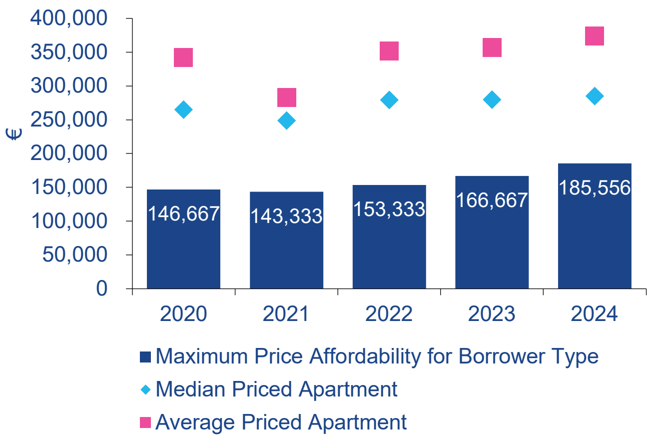
In 2024, borrowers with a maximum loan eligibility of €167,000 could afford to purchase a property with an asking price of up to €185,556. According to the KPMG database, 5.7% of advertised finished apartments in 2024 fell within this price range. For the same couple in 2023, only 4.4% of advertised finished apartments were available for purchase.

For those considering the purchase of an unfinished property, it is important to note that additional financing would be required to complete the property to a habitable standard. Banks typically provide loans based on the property's final value, meaning the cost of finishing the property would need to be deducted from the total loan eligibility of €167,000. As a result, borrowers would either need to reduce their property purchase budget or increase their personal contribution beyond the minimum 10% deposit requirement.

Given these financial constraints, potential buyers may face difficulties in acquiring a property and are likely to encounter limitations in terms of location and property size.

The below chart shows how the maximum affordability for these borrowers compares to the median and average apartment prices from 2020 to 2024.

Figure 4.5: Housing affordability for a couple jointly earning the equivalent of €22,208 in 2024



Source: KPMG analysis

Since this couple can only afford approximately 5.7% of the properties listed in the KPMG database, it is valuable to analyse an ideal apartment that aligns with their financial limitations.

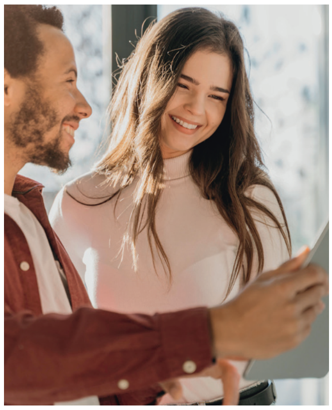
A detailed review of the KPMG database reveals that this couple's purchasing power is notably higher when focusing on one-bedroom apartments with an average of 62sqm in the Central and South regions. These areas offer more affordable options, potentially increasing their chances of securing a suitable property within their budget.

Young couple both earning average incomes in their mid-20s

Age of oldest applicant at next birthday: 25

Loan term: 40 years

Joint gross annual income in 2024: €46,614



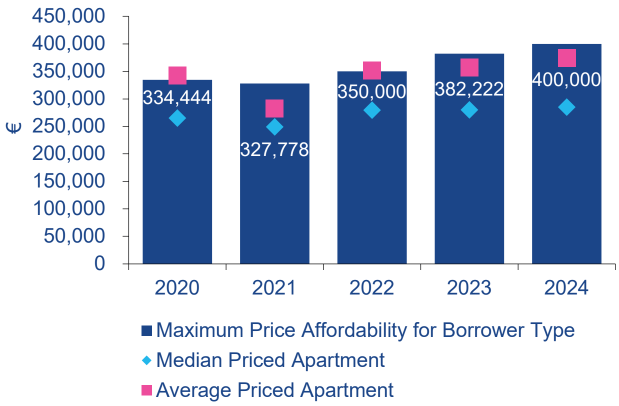
In 2024, borrowers with a maximum loan eligibility of €360,000 could afford to purchase a property with an asking price of up to €400,000. According to the KPMG database, 78.7% of advertised finished apartments in 2024 fell within this price range. The same couple in 2023, earning average income, would have been able to access 79.9% of the market (based on advertised listings in the KPMG database in 2023).

For those considering the purchase of an unfinished property, it is important to note that additional financing would be required to complete the property to a habitable standard. Banks typically provide loans based on the property's final value, meaning the cost of finishing the property would need to be deducted from the total loan eligibility of €360,000. As a result, borrowers would either need to reduce their property purchase budget or increase their personal contribution beyond the minimum 10% deposit requirement.

Given these financial constraints, potential buyers may face difficulties in acquiring a property and are likely to encounter limitations in terms of location and property size.

Figure 4.6 shows how the maximum affordability for these borrowers compares to the median and average apartment prices from 2020 to 2024.

Figure 4.6: Housing affordability for couple jointly earning the equivalent of €46,614 in 2024



Source: KPMG analysis

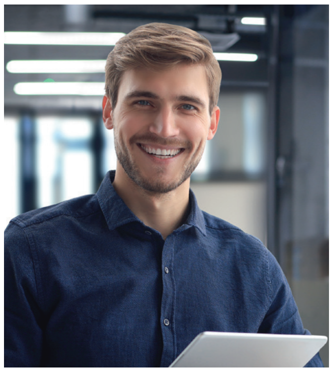
The potential borrowers are not deemed to have an affordability issue.

Single professional individual in their late 30s

Age of applicant at next birthday: 39

Loan term: 26 years

Gross annual income in 2024: €53,350



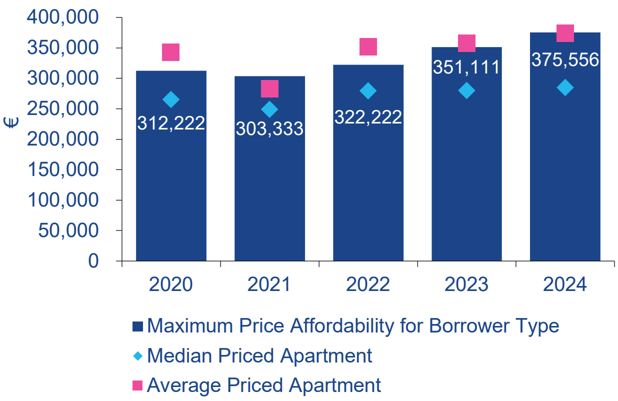
In 2024, borrowers with a maximum loan eligibility of €338,000 could afford to purchase a property with an asking price of up to €375,556. According to the KPMG database, 74.5% of advertised finished apartments in 2024 fell within this price range. The same individual earning €50,000 in 2023 (equivalent to €53,350 in real terms) would have access to 75.5% of advertised listings in 2023, slightly more than in 2024.

For those considering the purchase of an unfinished property, it is important to note that additional financing would be required to complete the property to a habitable standard. Banks typically provide loans based on the property's final value, meaning the cost of finishing the property would need to be deducted from the total loan eligibility of €338,000. As a result, borrowers would either need to reduce their property purchase budget or increase their personal contribution beyond the minimum 10% deposit requirement.

Given these financial constraints, potential buyers may face difficulties in acquiring a property and are likely to encounter limitations in terms of location and property size.

Figure 4.7 shows how the maximum affordability for these borrowers compares to the median and average apartment prices from 2020 to 2024.

Figure 4.7: Housing affordability for single individual earning €53,350 in 2024



Source: KPMG analysis

The potential borrowers are not deemed to have an affordability issue.

Single professional individual in their early 30s

Age of applicant at next birthday: 33

Loan term: 32 years

Gross annual income in 2024: €37,345

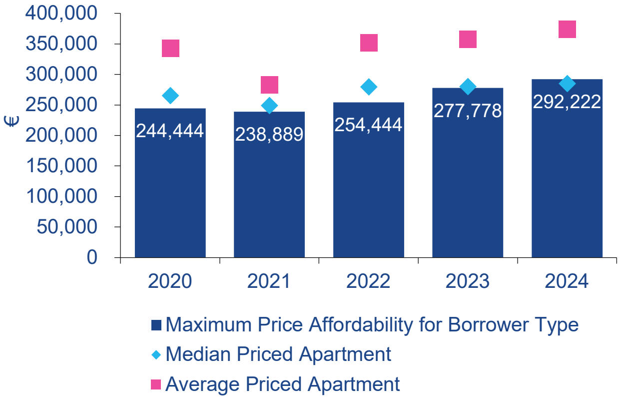
In 2024, borrowers with a maximum loan eligibility of €263,000 could afford to purchase a property with an asking price of up to €292,222. According to the KPMG database, 46.5% of advertised finished apartments in 2024 fell within this price range.

For those considering the purchase of an unfinished property, it is important to note that additional financing would be required to complete the property to a habitable standard. Banks typically provide loans based on the property's final value, meaning the cost of finishing the property would need to be deducted from the total loan eligibility of €263,000. As a result, borrowers would either need to reduce their property purchase budget or increase their personal contribution beyond the minimum 10% deposit requirement.

Given these financial constraints, potential buyers may face difficulties in acquiring a property and are likely to encounter limitations in terms of location and property size.

Figure 4.8 shows how the maximum affordability for these borrowers compares to the median and average apartment prices from 2020 to 2024.

Figure 4.8: Housing affordability for single individual earning €37,345 in 2024



Source: KPMG analysis

Since this individual can afford approximately 46.5% of the properties listed in the KPMG database, it is valuable to analyse an ideal apartment that aligns with their financial limitations.

A detailed review of the KPMG database reveals that this individual's purchasing power is notably higher when focusing on two-bedroom apartments with an average of 101sqm in the South, Northwest, and Central regions. These areas offer more affordable options, potentially increasing their chances of securing a suitable property within their budget.

Single individual in an elementary job in their late 20s

Age of applicant at next birthday: 30

Loan term: 35 years

Gross annual income in 2024: €22,407

In 2024, borrowers with a maximum loan eligibility of €164,000 could afford to purchase a property with an asking price of up to €182,222. According to the KPMG database, 5.2% of advertised finished apartments in 2024 fell within this price range.

Given the mentioned financial constraints, potential buyers may face difficulties in acquiring a property and are likely to encounter limitations in terms of location and property size.

The below chart shows how the maximum affordability for these borrowers compares to the median and average apartment prices from 2020 to 2024.

Figure 4.9: Housing affordability for single individual earning €22,407 in 2024

Source: KPMG analysis

Since this individual can only afford approximately 5.2% of the properties listed in the KPMG database, it is valuable to analyse an ideal apartment that aligns with their financial limitations.

A detailed review of the KPMG database reveals that this individual's purchasing power is notably higher when focusing on one-bedroom apartments with an average of 62sqm in the South, Northwest, and Central regions. These areas offer more affordable options, potentially increasing their chances of securing a suitable property within their budget.

4.5 Financial and non-financial aid

Various economic indicators have been discussed to assess housing affordability in Malta, but these alone are insufficient for a comprehensive understanding of the country's housing system and its complexities. In addressing the issue of affordability, it is essential to consider the significant role that both financial and non-financial support from family members plays in facilitating homeownership, particularly for younger generations[42].

Financial support often takes the form of property gifts, which can reduce the burden of down payments and mortgage costs. Between 2010 and 2020, for instance, 10% of individuals who acquired property did so through gifts[43]. In addition, non-financial support, such as co-residence - where young adults continue living with their parents for extended periods - provides another means of alleviating housing costs, allowing individuals to save for eventual homeownership. In Malta, the average age at which young people leave their parental households is 28.4, higher than the EU average of 26.4, reflecting the prevalence of this practice[44].

These considerations must be integrated into any assessment of housing affordability. For example, while a person might be able to afford a property valued below €240,000 - representing less than 33.1% of properties in the KPMG database - financial contributions from family members may enable them to afford properties beyond this initial estimation. Hence, affordability assessments should account for such external support to provide a more accurate picture of housing access in Malta.

[42] Cassar, D. (2024). Entryways to Homeownership: Family strategies and intergenerational transfer in Malta's housing system. Foundation for Affordable Housing. https://affordablehousing.mt/wp-content/uploads/2024/09/Entryways-to-homeownership-final-version-24.07.24-1.pdf.
[43] Ibid.
[44] Eurostat - Mean and median income by age and sex - EU-SILC and ECHP surveys.


CAPO CRUDO

Sustainability preferences in real estate in Malta

5.1 About the survey

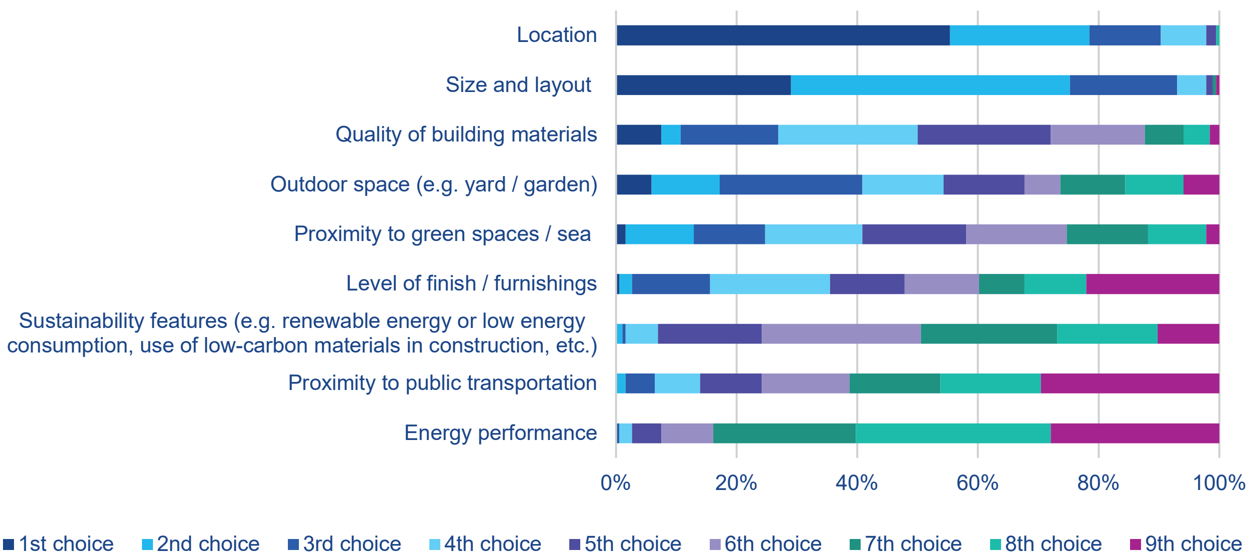
In August 2024, we conducted a study to gain a deeper understanding of the sustainability preferences of current and prospective property owners and renters in the Maltese islands. This research builds on our previous studies from 2022 and 2023, with the objective of exploring how attitudes towards sustainability are evolving withing the Maltese real estate sector. By analysing these trends over time, we aim to gain a clearer picture of how environmental concerns are influencing consumer choices when it comes to purchasing or renting property. In the following Sections, we highlight some of the most significant findings from this year's study.

Data was collected through a survey distributed via social media and e-mail, complemented by in-person intercept surveys. The survey was open to residents of Malta aged 18 and over, whether Maltese or not. There were 336 valid responses, which is more than that required to achieve representation at a 90% confidence interval and 10% margin of error when the sample is picked randomly. Nevertheless, the topic and means of distribution of the survey may have resulted in a degree of self-selection bias and therefore these limitations are to be considered when interpreting the results. Another point to consider is that in our previous surveys we collected responses from property owners who had purchased their property in recent years. In this iteration, we expanded the scope to include all property owners, regardless of when they acquired the property. Participant demographics are shown in the Appendix.

5.2 Location, size and layout remain a priority when purchasing and renting

Current and prospective property owners were asked to rank the importance of factors that influenced or could influence their decision to buy property. For this question, we intentionally excluded price, as that would be the obvious first choice of most respondents. Our analysis of the 2024 survey data reveals that property purchasers prioritise location, size and layout of the property and other factors over sustainability. Sustainability features rank in seventh place for those who purchased property, as shown in Figure 5.1. These findings are similar to our previous studies, with sustainability features having dropped slightly to seventh from sixth place because of the addition of a new factor (level of finish / furnishings) in this year's study.

Figure 5.1: Relative importance of non-price factors for respondents who purchased property (N=186)

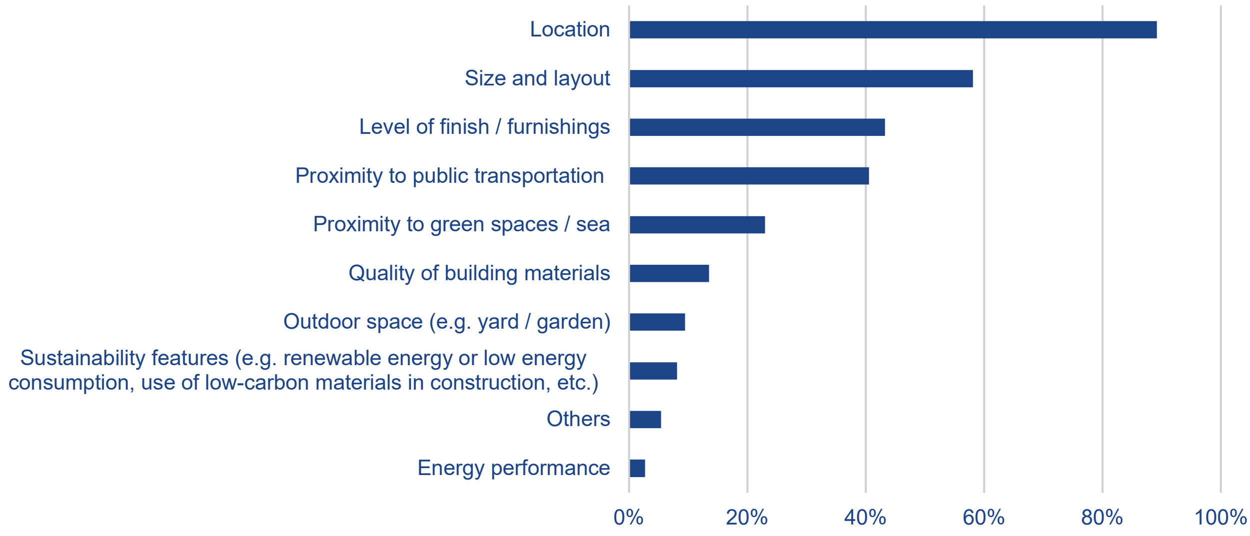


Source: KPMG analysis

Prospective buyers seeking to purchase property in the next three years have similar preferences, giving a high ranking to location, size and layout, with sustainability in seventh place. It can be inferred that the criteria that influenced past property purchases continue to guide future ones, suggesting that fundamental preferences have remain unchanged over time.

Priorities for renters (aside from price) have changed since the 2023 study. As shown in Figure 5.2, location was still the key consideration when choosing a property to rent and was chosen by 89% of renters (compared to 97% for 2023). Size and layout is the second most picked consideration with a 58% pick rate. The priority given to outdoor spaces within the property (such as a yard or garden) dropped significantly from 42% last year to only 9% of renters identifying it as a key consideration. This change may be reflective of a post-Covid reality, where renters have more opportunities to enjoy outdoor spaces outside their homes. Sustainability features and energy performance were amongst the least picked features (8% and 3% respectively).

Figure 5.2: Features preferred by renters when selecting a property (N=74)



Source: KPMG analysis

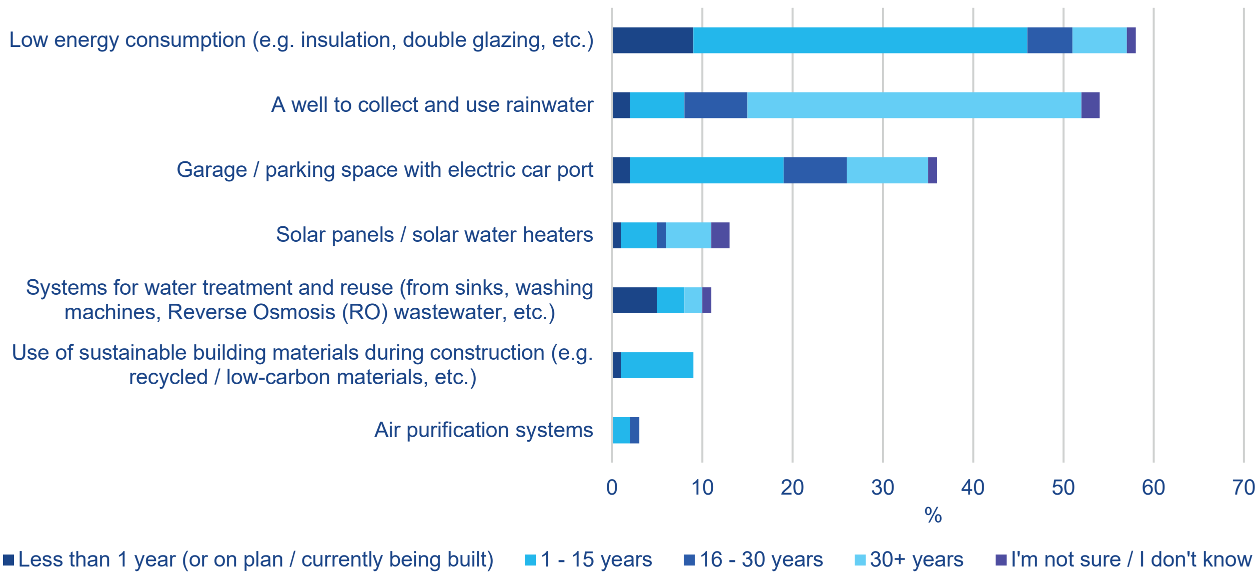
Although sustainability is surpassed by other factors in priority, it would appear that this is still a consideration for many purchasers and renters, as discussed further in Section 5.3.

5.3 The prevalence and importance of sustainability features in property

Sustainability features in property have the potential to become significant as environmental concerns and energy efficiency gain prominence. These features include the use of eco-friendly building materials, energy-efficient systems, and designs that minimise environmental impact. Incorporating renewable energy sources, such as solar panels, and implementing water-saving technologies are also key aspects that could also offer long-term cost savings for property owners.

In this study we asked property owners to identify sustainability features present in their property when they bought it. The majority, 62%, identified at least one such feature, the most common of which were low energy consumption and a well to collect and use rainwater (as shown in Figure 5.3). Sustainability features were most prominent in modern buildings (less than a year old and 1-15 years old), being present in 82% and 66% of such buildings respectively. For properties older than 30 years (of which 60% had at least one sustainable feature) a well to collect rainwater was the most common feature, which became less common in newer properties (even though it is mandated in legislation since the start of 2024 by the Minimum Energy Performance Requirements in Buildings regulation[45]), while low energy consumption took prominence.

Figure 5.3: Sustainability features in purchased properties of different ages (N=184)

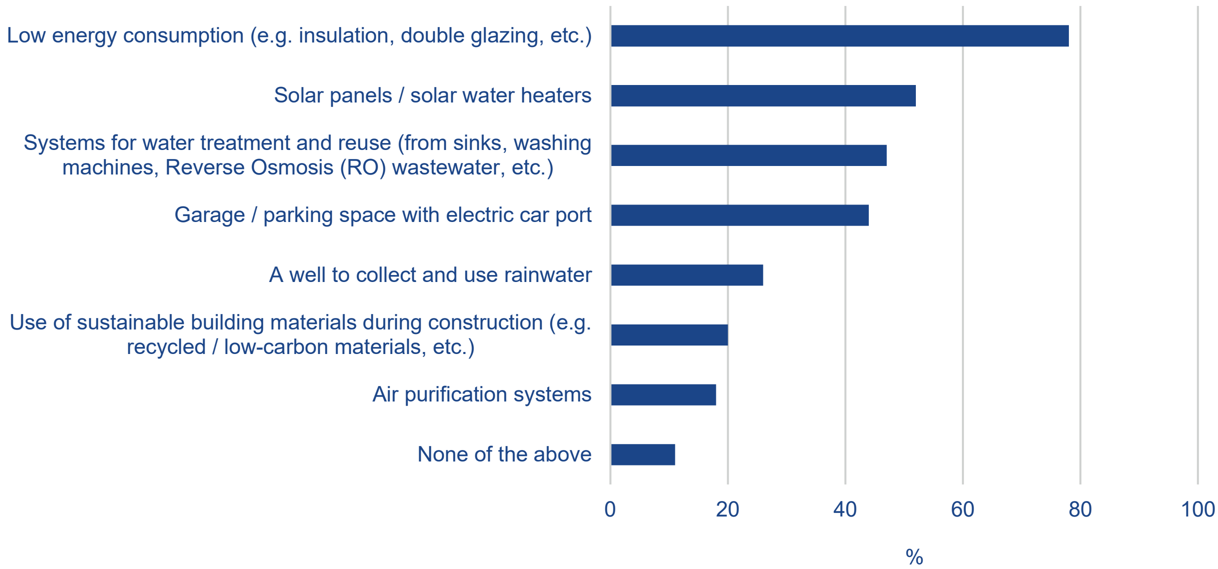


Source: KPMG analysis

[45] The Conservation of Fuel, Energy and Natural Resources (Minimum Requirements on the Energy Performance of Buildings) Regulations, S.L.623.04, and corresponding Document F.

Prospective buyers were asked which four sustainability features, if any, they would like to have in their property. The most sought-after features were low energy consumption and solar panels / solar water heaters (Figure 5.4), potentially reflecting a need to combat inflationary pressures by lowering future operational expenses. On average, most prospective buyers were willing to allocate between 6% and 9% of their property budget[46] for such features.

Figure 5.4: Sustainability features desired by prospective property buyers (N=103)

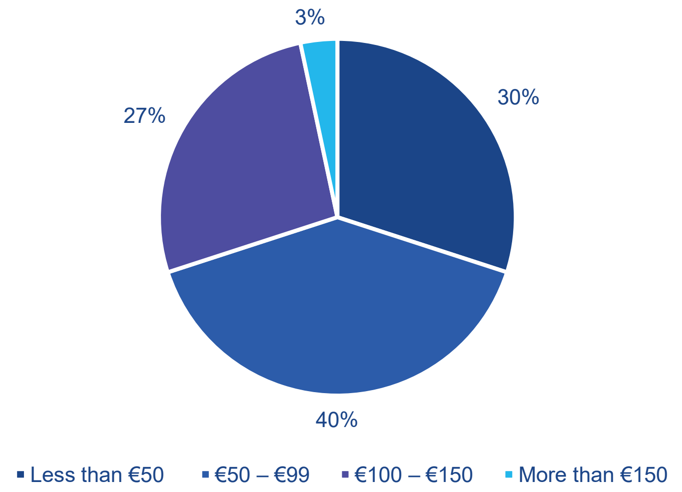


Source: KPMG analysis

[46] The most common purchasing budget (selected by 42% of respondents looking to buy property in the next three years) was between €200,000 and €299,000.

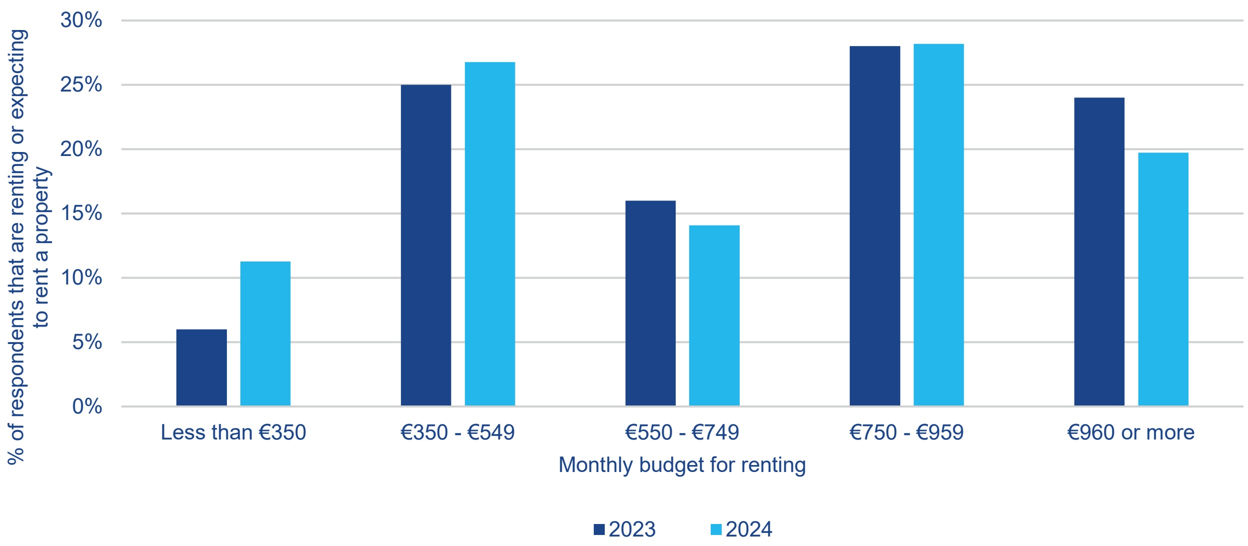
For renters, there was a slight decrease in the willingness to pay more for a sustainable home, with a reduction from 49% in 2023 (N=67) to 43% in 2024 (N=71). The amounts that these renters were willing to pay extra is shown in Figure 5.5, which shows a relatively even spread amongst the options given. The most common value, quoted by 38% of respondents, was between €50 and €99 monthly which corresponds to between 5% and 13%of the most common monthly rental budget (€750 to €959). Monthly budgets for renting, compared to 2023 budgets, are shown in Figure 5.6[47].

Figure 5.5: Addition to monthly rent that respondents are willing to pay for sustainability features (N=30)



Source: KPMG analysis

Figure 5.6: Monthly personal budget for renting for respondents that are renting or are planning to rent in the next year 2023 (N=67), and 2024 (N=71)



Source: KPMG analysis

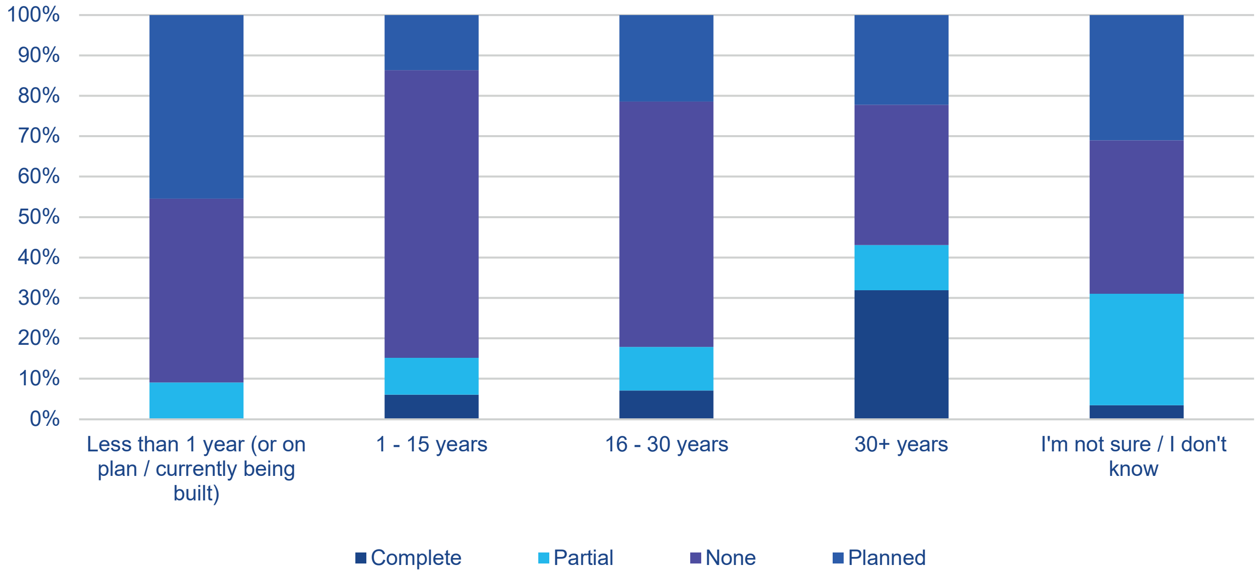
[47] The figure shows a slight increase in renters with a budget lower than €350 and a slight decrease in renters with a budget of €960 or higher; however, this may partially be due to the 2024 question focusing on the 'personal' monthly budget and specifying that if the residence was being shared, only the amount paid by the respondent should be indicated.

5.4 Reducing energy consumption is a top priority for retrofitting property

In addition to the presence of sustainability features at the time of purchase, the retrofitting of existing property serves as an indicator of how much property owners value sustainability. Retrofitting refers to the updating and improving of existing structures to enhance their performance with regards to energy, water usage, safety or functionality.

In this year's study, we asked property owners whether they have retrofitted or plan to retrofit their property in the future with sustainability features such as solar panels, water treatment and energy efficiency measures. From our sample of respondents who own property (N=206), around half (49%) have completed and/or have plans to retrofit their property to improve energy performance and sustainability. This suggests that sustainability is an aspect of some importance to property owners, potentially driven by cost considerations. Of note, properties over 30 years old had the highest percentage of completed retrofits (43%), and properties less than one year old had the highest percentage of planned retrofits (46%) as shown in Figure 5.7.

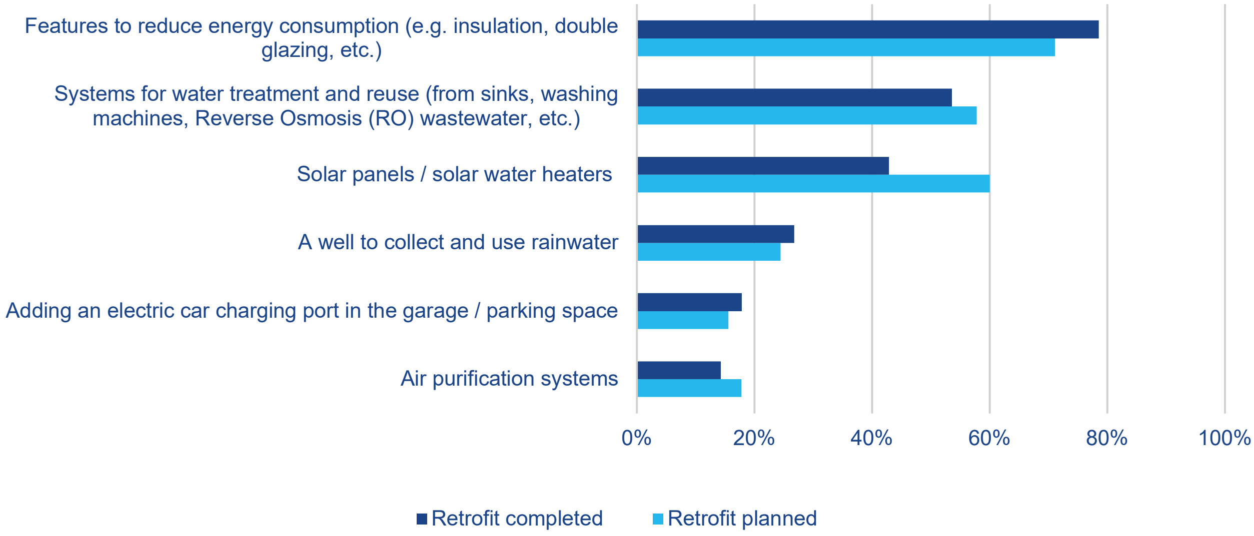
Figure 5.7: Status of retrofits by age of property (N=206)



Source: KPMG analysis

Completed retrofits most commonly focused on features to reduce energy consumption (picked by 79% of respondents), followed by systems for water treatment (54%) and solar panels / solar water heaters (43%), as shown in Figure 5.8. We see a similar focus on these three key features in planned retrofits, with a larger emphasis on planned solar panels / water heaters retrofits (picked by 60% of respondents), which could be attributed to an increase in popularity of incentives and grants for installing solar panels[48].

Figure 5.8: Retrofitted sustainability features: Completed (N=56) vs planned (N=45) for property owners



Source: KPMG analysis

The results from this survey also show that only 68% of respondents (N=159) who bought property after 2009 were provided with an Energy Performance Certificate (EPC), despite the legal obligation in force from that year. Additionally, only 8% of respondents (N=108) reported that having an EPC influenced their decision when choosing a property. Indeed, energy performance was given the lowest priority during property selection (as shown previously in Section 5.3), despite the cost and comfort implications. There is potential for EPCs to take on a more prominent role during the property acquisition phase, being used to raise awareness on the importance of energy efficiency in supporting a sustainable lifestyle.

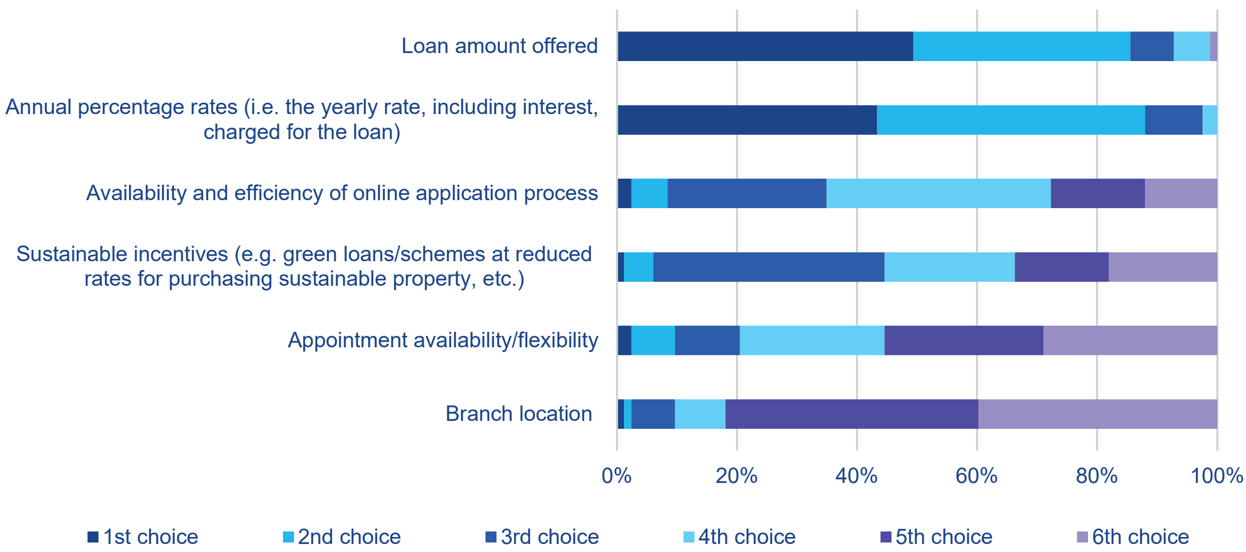
[48] Regulator for Energy & Water Services. Updated March 1, 2024. https://www.rews.org.mt/#/en/sdgr/581-2024-renewable-energy-sources-scheme.

5.5 Banks as financiers of the sustainable transition of the real estate sector

The percentage of prospective buyers who plan to finance their property purchase through a loan has seen a sharp increase to 81% (N=102) compared to 62% (N=152) in 2023. The majority of such respondents were planning to purchase a main residence.

When choosing a bank for a mortgage, future purchasers prioritise the loan amount offered and the annual percentage rates, followed by the availability and efficiency of an online application process. Sustainable incentives ranked fourth (Figure 5.9), which saw a drop from third place compared to last year's result. Despite the drop, banks still play an important role in the transition of the sector to greater sustainability. There is relatively high awareness about the availability of green loans, with 64% of respondents indicating that they are aware of this option. EPCs also have an important role in this phase of property acquisition and may be used to secure more favourable lending rates for energy efficient homes.

Figure 5.9: Relative importance of factors when choosing a bank with which to take out a loan (N=83)



Source: KPMG analysis

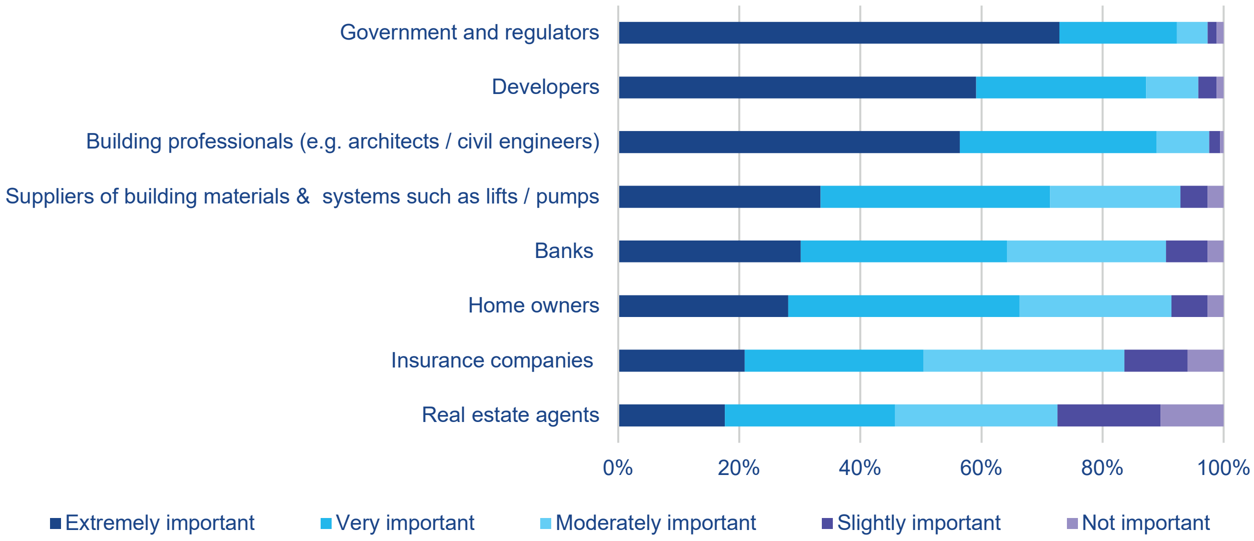
The importance of the banking sector in this space is seconded by respondents' awareness of the banking sector's involvement in sustainable initiatives increasing to 45% of respondents (N=297) giving a positive answer in 2024, compared to 32% (N=152) in 2023.

5.6 Transforming the construction sector towards sustainability

In order to assess their perception about the construction sectors involvement in sustainability, respondents were asked to rank on a scale from 0 to 10 to what extent they consider the construction sector in Malta to be taking initiatives towards sustainability. The average rating given for the sector this year was 2.7 (1.9 in 2023 and 2.5 in 2022), with 80% of respondents giving the industry a score below 5 (84% in 2023). These results show a slight improvement from previous years, returning to 2022 levels, and continuing to indicate that respondents expect a transformation of the industry.

When asked about the relative importance of stakeholders in this transformation (Figure 5.10), respondents consider that Government and regulators have the most important role, followed by developers, building professionals, and suppliers of building materials and systems. As in previous years, these findings indicate the importance of adopting a collaborative approach, with Government and regulators at the forefront, supported by the wider ecosystem.

Figure 5.10: Relative importance of stakeholders in the transformation towards sustainability (N=335)



Source: KPMG analysis

Moreover, when asked what more the sector could be doing on sustainability, respondents (N=280) suggested that different stakeholders had responsibilities in the promotion and support of sustainability for the sector. The four identified categories for action that respondents suggested are:

Regulation and enforcement
Several responses focus on stricter government policies, regulations, and enforcement. This includes introducing more laws, better planning, enforcing compliance with sustainability practices, penalties for unsustainable construction, and ensuring that existing laws are followed. Some of the proposals from the respondents included introducing laws that mandate sustainable practices, reducing permits to tackle overdevelopment and protecting natural or agricultural land from construction.

Incentives and financial support
Many respondents suggest providing incentives to encourage sustainable practices, such as tax breaks, subsidies, and grants for using sustainable materials, energy-efficient technologies, and repurposing old buildings. Suggestions ranged from subsidising eco-friendly materials and technologies, to offering tax incentives for developers who use energy-efficient materials or eco-friendly designs.

Sustainable practices and materials
This category highlights the need for sustainable construction practices, including using eco-friendly building materials, recycling, renewable energy, and better designs that reduce energy consumption. In this category, the primary stakeholders are developers, architects, builders, and suppliers. They are being urged to focus on sustainable construction methods, such as reusing materials, minimising waste, improving energy efficiency, and reducing the environmental impact of their projects.

Education and awareness
Several responses emphasised increasing awareness and educating the public and stakeholders about the importance of sustainability. This could include promoting awareness campaigns, educating stakeholders on sustainable practices, and providing clearer information on sustainable development. Respondents consider that greater understanding will drive a shift in behaviour toward more sustainable choices.

Appendices

Appendix A: Definitions

This Section provides a concise definition of the products and industries presented in the input-output tables. These definitions are adapted from the Eurostat (2008) “NACE Rev.2 Structure and explanatory notes”, Eurostat Methodologies and Working Papers.

Agriculture (NACE 1-3)

This division covers the production of crop and animal products, including organic agriculture, genetically modified crops and the raising of genetically modified animals as well as the growing of crops in open fields and greenhouses. Under this heading, forestry and logging as well as fishing and aquaculture activities are included. The latter industry covers the use of fishery resources from marine, brackish or freshwater environments, with the goal of capturing or gathering fish, crustaceans, molluscs and other marine organisms and products. However, this category excludes recreational fishing.

Production (NACE 5-39)

This category includes mining and quarrying, manufacturing, electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities.

Of which manufacturing (NACE 10-33)

This segment includes the manufacturing of food products and beverages, tobacco products, textiles, clothing, leather products, wood and paper products, coke and refined petroleum, chemicals, pharmaceuticals, rubber and plastic, glass products, metals, computer, electronics, optical products, machinery and equipment, motor vehicles, trailers and semi-trailers, furniture, and also repair and installation of machinery and equipment.

Construction (NACE 41-43)

This includes the construction of buildings, civil engineering (including the construction of roads), demolition and site preparation, electrical plumbing and other construction installation activities. It also includes building completion and finishing activities.

Distribution (NACE 45-47)

Distribution covers the wholesale, retail trade and repair of motor vehicles and motorcycles.

Transport (49-53)

This covers land, water and air transport. Specific activities applicable to Malta include taxi operations, freight transport, sea and coastal water transport services. It also includes warehousing and storage activities as well as postal and courier services.

Hotels and restaurants (NACE 55-56)

The hotels and restaurants cover hotel accommodation, holiday, short-stay, camping grounds and recreational vehicle parks.
It also covers restaurants, mobile food services, beverage serving and catering activities.

Information and communication (NACE 58-63)

This Section covers publishing activities, motion picture, video and television programme production, sound recording and also music publishing activities. It is also inclusive of programming and broadcasting activities, telecommunications, computer programming and consultancy services and also information service activities (such as data processing and web hosting).

Financial and insurance (NACE 64-66)

The financial and insurance segment includes monetary intermediation, central banking, and activities of holding companies, trusts, funds, financial leasing, credit granting, insurance activities, pension funding and also the administration of financial markets.

Real estate (NACE 68)

Real estate activities include the buying and selling of own real estate, renting and operating of own or leased real estate and also activities carried out by real estate agencies.

Professional (NACE 69-75)

This category includes legal, accounting, bookkeeping, auditing, tax and management consultancy services, architectural and engineering activities, scientific research and development, advertising and market research, photographic activities, translation and interpretation activities and also veterinary activities.

Administration and support (NACE 77-82)

The administration and support service activity segment includes rental and leasing activities (of motor vehicles, trucks, personal and household goods, machinery and equipment.) It also includes the activities of employment agencies, travel agencies and tour operators and security services. Furthermore, it also includes cleaning and landscaping activities, and other office administration and business support activities.

Public administration (NACE 84)

This NACE code includes all services related to public administration, defence and social security.

Education (NACE 85)

Education covers the provision of pre-primary, primary, secondary, post-secondary and tertiary education. It also includes sports and recreation education, cultural education and the activities of driving school instructors.

Health and social work (NACE 86-88)

This Section covers human health related activities such as hospital activities, medical and dental activities; residential care and social work activities.

Arts, entertainment and recreation (NACE 90-93) This covers creative, arts and entertainment services, libraries, archives, museums and other cultural activities, gambling and betting activities and also sports activities.

Other services (NACE 94-96)

This includes the activities of membership organisations (business, professional, religious or political), repair of computers, personal and household goods and other personal service activities. The latter include hairdressing and beauty treatments, washing and dry cleaning services, funeral services and physical well-being services.

Households as employers (NACE 97-98)

This includes the activities of households as employers and also undifferentiated goods and services producing activities of households for own use.

Extra-territorial organisations (NACE 99)

NACE 99 covers the activities of extra-territorial organisations and bodies.

Appendix B: Scope, approach and methodology

B.1 Scope and objectives of this engagement

We have been contracted by the Malta Development Association (formerly known as Malta Developers Association) to provide a further update to our report titled "Construction Industry and Property Market Report", originally published in October 2017 with annual subsequent updates. These reports seek to quantify the economic relevance of the building industry and the property market in general, with the ultimate aim of gauging the impact of the building industry on the rest of the Maltese economy.

B.1.1 Data collection and desk-based research

As part of the work carried out in preparation of the first edition of this report, an exercise was carried out to define a broader scope of economic activities which could be considered to form part of the construction industry, than those captured by official statistics. These parameters were updated slightly from previous editions for better alignment with official statistics.

The first phase of this engagement involved the collection of data from public sources such as the NSO, Eurostat, and the Central Bank of Malta. Efforts were made to collect updated data on each economic sector closely linked to the construction industry, but not formally defined as part of the industry under the definitions in the NACE system. This broader definition of the construction industry was developed during consultations with the MDA at the initial stages of our work when preparing our first report. An in-depth analysis of this data, as well as data from KPMG's internal real estate database, was then carried out. The aim of this phase was to extract summary statistics to (a) describe the current economic situation across several aspects of the construction industry and (b) analyse trends in the industry and in the property market.

More detailed explanations of the specific methodologies used for different parts of our analysis are provided throughout this report.

B.1.2 Stakeholder consultations

Even though statistics are a useful tool in industry analysis, they do not always give a comprehensive view. For this reason, it was considered imperative that insight from a sample of industry players was collected.

We have once again opted for a broader approach to stakeholder consultation by making use of interviews. As has been the case in past reports, such interviews allow us to obtain rich qualitative insights from industry experts in order to present a richer understanding of key issues presently facing the industry, as well as future challenges and opportunities.

B.2 Sources of information

The following are the main sources of information utilised in the compilation of this report:

- Economic and demographic statistics from the National Statistics Office.
- Economic and demographic statistics from Eurostat.
- Economic statistics and indicators published by the Central Bank of Malta.
- NSO, 2020, "Supply, Use and Input-Output Tables", National Accounts Unit 2015.
- Debono, Nathaniel., & Cassar, Ian., 2021, "Estimates of Industry specific multipliers for the Maltese economy on the basis of the SIOT for 2015", CBM.
- The KPMG Property Database.
- KPMG, 2017, "Construction Industry and Property Market Report, 2017".
- KPMG, 2018, "Construction Industry and Property Market Report, 2018".
- KPMG, 2019, "Construction Industry and Property Market Report, 2019".
- KPMG, 2020, "Construction Industry and Property Market Report, 2020".
- KPMG, 2021, "Construction Industry and Property Market Report, 2021".
- KPMG, 2022, "Construction Industry and Property Market Report, 2022".
- KPMG, 2023, "Construction Industry and Property Market Report, 2023".
- "Sustainability preferences in real estate in Malta" 2023 survey.
- Additional sources of information are referenced throughout the report as appropriate.

B.3 Underlying assumptions

This report is drawn on the basis of the following generic assumptions. Further case-specific assumptions are listed throughout the report's main text.

- Data received from third parties is presumed to be factual and correct as at the date of this report.
- The population frame from which the sample of new stakeholders was drawn for consultation is a comprehensive list of MDA members. Convenience sampling was used to ensure that we obtain a good mix of large influencers in the industry, and also to interview individuals who had contributed in past editions with a view to attain a level of continuity.
- The insight gathered from the stakeholder consultations were, in the main, of a qualitative nature and as such cannot be interpreted using statistical methods/techniques.

B.4 Note regarding comparability of reports

Please note that revisions to certain official statistics have been identified during the compilation of this report. In addition, in certain analyses, we have adopted updated refined data or actual published data (versus estimates previously adopted and, which since last publication, have been made available). In some instances, data sources may have changed owing to the requirements of specific pieces of analysis, with the possibility of different sources utilising methodologies which, while still correct and relevant, differ from each other. For this reason, certain figures quoted within this report may vary from those same figures as produced in our previous reports. As a result, the extent of comparability between different yearly issues of this report may be limited in certain instances.

Furthermore, as stated earlier, comparing reports on the size of the wider building industry is limited due to the revised definition in this year's edition. Additionally, the affordability analysis has also been revisited to ensure a more precise and transparent assessment. Both of these analyses have been retrospectively reworked and presented to facilitate comparability across different years.

Appendix C: Wider building industry

C.1 Definition of wider building industry

When compiling official statistics, national authorities use the NACE classification, a pan-European system of classifying economic activities. In Chapter 1, this report defines the wider building industry as being made up from the construction sector, and the real estate sector.

NACE Revision 2 groups together the following activities which are related to construction sector under Section F. These are:

- Construction of buildings (NACE 41)* – Comprises the construction of residential and non-residential buildings.
- Civil engineering (NACE 42)* – Comprises the construction of roads, motorways, bridges and tunnels, and utility projects for electricity, water, and telecoms.
- Specialised construction activities (NACE 43)* – Comprises activities such as demolition, site preparation, test drilling and boring, plumbing and electrical installations, building completion, plastering and joinery, floor and wall covering, glazing and roofing.

NACE Revision 2 categorises the real estate sector under Section L. Note that for the purposes of our analysis, we exclude imputed rent.

- Real estate activities (NACE 68) * – which include the buying and selling of own real estate, renting and operating of own or leased real estate, the operations of real estate agencies and also the management of real estate on a fee or contract basis. It also includes the building of structures, combined with maintaining ownership of leasing of such structure.

The NACE code classification also provides for other categories which are not listed under Section F (Construction), but which are intrinsically linked to the construction industry. The industries identified as forming part of the wider building industry are replicated overleaf.

Other mining and quarrying

- Mining and quarrying, which includes the quarrying of ornamental and building stone, limestone, gypsum, chalk and slate, and extraction of peat and slate (NACE 8) **

Manufacturing of materials and equipment

- Manufacture of wood and products of wood and cork (except for furniture, straw articles and plaiting materials). This code includes sawmilling and planning of wood, manufacture of veneer sheets and wood-based panels, parquet floors, builders' carpentry and joinery and also wooden containers (NACE 16) **
- Manufacturing of other non-metallic mineral products which includes the manufacture of flat and hollow glass, glass fibres, refractory products, ceramic tiles and flags, bricks, tiles and construction products, ceramic household and ornamental articles, sanitary fixtures, ceramic insulators and insulating fittings, cement, lime, plaster, concrete, ready-mixed concrete, mortars and fibre cement, and also the cutting, shaping and finishing of stone (NACE 23) **
- Manufacture of machinery for mining, quarrying and construction (NACE 28.92) **
- Manufacture of fabricated metal products, except machinery and equipment (NACE 25) *

Wholesale of materials and equipment

- Wholesale of mining, construction and civil engineering machinery (NACE 46.63) **
- Wholesale of wood, construction materials and sanitary equipment (NACE 46.73) **
- Agents involved in the sale of timber and building materials (NACE 46.13) **

Related service activities

- Architectural and engineering activities and any related technical consultancy (NACE 71) *
- Renting and leasing of construction and civil engineering machinery and equipment (NACE 77.32) **
- Specialised design, which includes interior decoration, and industrial design (NACE 74.10) **
- Services to buildings and landscape activities (NACE 81) *

In addition to the above activities, we also identified supporting economic activities which arise, to some extent, as a result of the construction sector. These may include industrial machinery repair and maintenance, accounting services, project management, market research and technical consultancy, legal services, financial services (provision of loans) and so on. Since statistics are reported on an economic activity basis, we are not able to disentangle that portion of economic activity which is solely attributable to the construction sector. For instance, one cannot elicit the share of legal and accounting activities (NACE 69) tied to the construction industry. However, to address this issue, we consider industry inter-linkages at a high level in another Section of this report.

Where available, data provided by the NSO on the above NACE codes was examined in further detail. The results of this analysis can be found in the following Section[49].

[49] Data was only available for sectors marked with an asterisk (*). For those marked with a double asterisk (**), data pertaining to some years was confidential.

Appendix D: Specific methodologies

D.1 Multiplier analysis

When a final consumer purchases any good or service, the impact on the economy is greater than the value of the original spend.

In the first instance, the payment from buyer to seller will cover the seller's expenses. This is referred to as the 'Direct impact', or the first round of spending. It is the demand created by the final consumer.

The demand created by final consumers, creates new demand upstream for intermediate suppliers. By way of example, developers would need to engage with building contractors, who in turn must buy raw materials from suppliers further up the supply chain. This is called the 'Indirect impact' and is measured using so-called 'Type 1' multipliers.

Finally, one can also include 'Induced impacts', which arise as a direct result of additional rounds of spending by agents involved in a transaction. For instance, contractors need to pay wages to their employees. The extent to which such wages are re-injected in the economy depends on the employees' own propensity to consume. The more employees spend, the greater is the ripple effect in the economy. We measure this 'induced impact' using so-called 'Type 2' multipliers. It can be argued that the total economic impact lies somewhere between that estimated using a Type I multiplier and that using a Type II multiplier.

Economic multipliers provide a measure of the magnitude of changes in output, income and value-added levels caused by an initial demand for goods and services. A shift in aggregate expenditure (caused by an increase in demand) will cause an increase in output by a multiple of the initial increase in expenditure.

The multipliers reported by the local National Statistics Office are based on the Leontief demand driven model. The statistics office reports what is known as the "Leontief Inverse" which incorporate the notion that the production process required in order to produce a unit of output (for eventual use by final demand), requires intermediate inputs from other industries. These intermediate inputs constitute the "direct effects". Moreover, the production of these additional intermediate inputs requires further increased rounds of production. The latter are the "indirect effects". Type 1 multipliers encompass the direct and indirect effects whilst Type 2 multipliers include the direct, indirect and induced effects, as explained previously.

The column extracted from the Leontief inverse of domestic production Table below shows both direct and indirect input requirements, on all other industries, which are generated by a one unit of output. In other words, adding the Leontief inverse for all the economic sectors under consideration gives the output multiplier for the relative industry. The output multiplier is the ratio of the change in total output (i.e. the impact on GDP) in all sectors of the economy in response to a direct change in the basic output of a particular sector. Taking the construction industry as a case in point, the Type 1 output multiplier is 1.77. This implies that for every €1 increase in final demand in this sector, €1.77 would be expected to be generated in direct and indirect effects.

Leontief inverse of domestic product flows

Industry	**Inverse**
Agriculture	0.003
Production	0.261
of which: manufacturing	*0.194*
Construction	1.171
Distribution	0.083
Transport	0.027
Hotels and restaurants	0.004
Information and communication	0.012
Financial and insurance	0.074
Real estate	0.013
Professional	0.039
Administration and support	0.009
Public administration	0.004
Education	0.002
Health and social work	0.000
Arts, entertainment and recreation	0.001
Other services	0.001
Households as employers	0.000
Extra-territorial organisations	0.000
Output multiplier	**1.704**

Source: NSO data; KPMG analysis

Appendix E: Regions

KPMG Real Estate Database - Localities in Gozo
Fontana
Għajnsielem
Ta' Għammar
Il-Munxar
Il-Qala
In-Nadur
Ir-Rabat (Victoria)
Ix-Xewkija
Iż-Żebbuġ
Ta' Kerċem
L-Għarb
L-Għasri
Marsalforn
Mġarr
San Lawrenz
Ta' Sannat
Santa Luċija
Ix-Xagħra
Xlendi

KPMG Real Estate Database - Localities in North Harbour Region
Il-Blata l-Bajda
Gżira
High Ridge
Kappara
Msida
Paceville
Pembroke
Pietà
San Ġwann
Sliema
St. Andrew's
St. Julian's
Swieqi
Ta' Giorni
Ta' L-ibrag
Ta' Xbiex
The Gardens
The Village

KPMG Real Estate Database - Localities in Grand Harbour Region
Cospicua (Bormla)
Floriana
Kalkara
Marsa
Senglea (Isla)
Valletta
Vittoriosa (Birgu)

KPMG Real Estate Database - Localities in North West Region
Baħrija
Bidnija
Buġibba
Burmarrad
Buskett
Dingli
Għajn Tuffieħa
L-Andrijiet
Magħtab
Manikata
Mdina
Mellieħa
Mensija
Mġarr
Mtahleb
Mtarfa
Qawra
Rabat
Salina
St. Paul's Bay
Wardija
Xemxija
Żebbiegħ

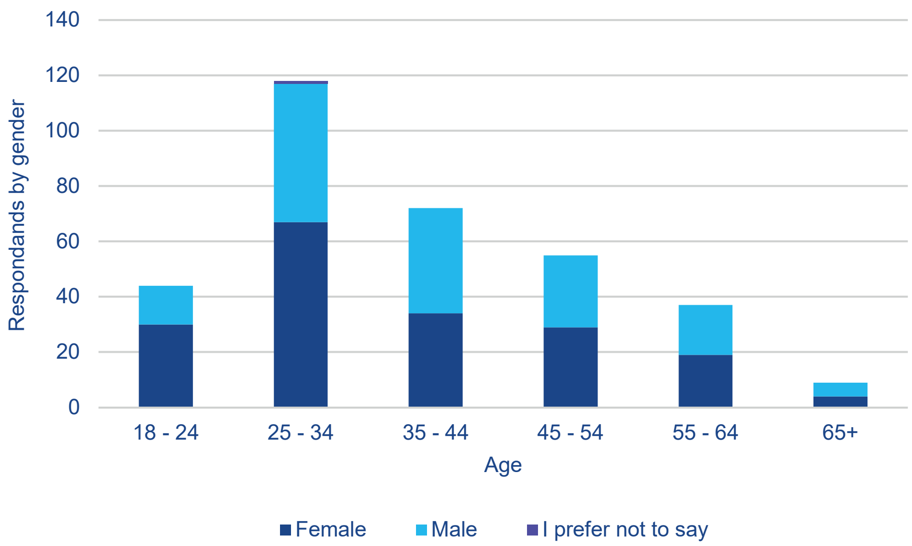
KPMG Real Estate Database - Localities in South Region
Bir id-Deheb
Birżebbuġa
Fgura
Għaxaq
Gudja
Ħal Far
Kalafrana
Kirkop
Luqa
Marsascala
Marsaxlokk
Mqabba
Paola
Qrendi
Safi
Santa Luċija
Siġġiewi
Tarxien
Xgħajra
Żabbar
Żebbuġ
Żejtun
Żurrieq

KPMG Real Estate Database - Localities in Central Region
Attard
Baħar iċ-Ċagħaq
Balzan
Birguma
Birkirkara
Fleur-de-Lys
Għargħur
Gwardamanġa
Hamrun
Lija
Iklin
Madliena
Mosta
Mrieħel
Naxxar
Qormi
Qormi-Industrial
San Pawl tat-Tarġa
Santa Venera
Swatar
Ta' Qali
Xwieki

Appendix F: Survey Results on Real Estate Preferences in the Maltese Islands: Demographic Insights

Sustainability survey – Participant demographics

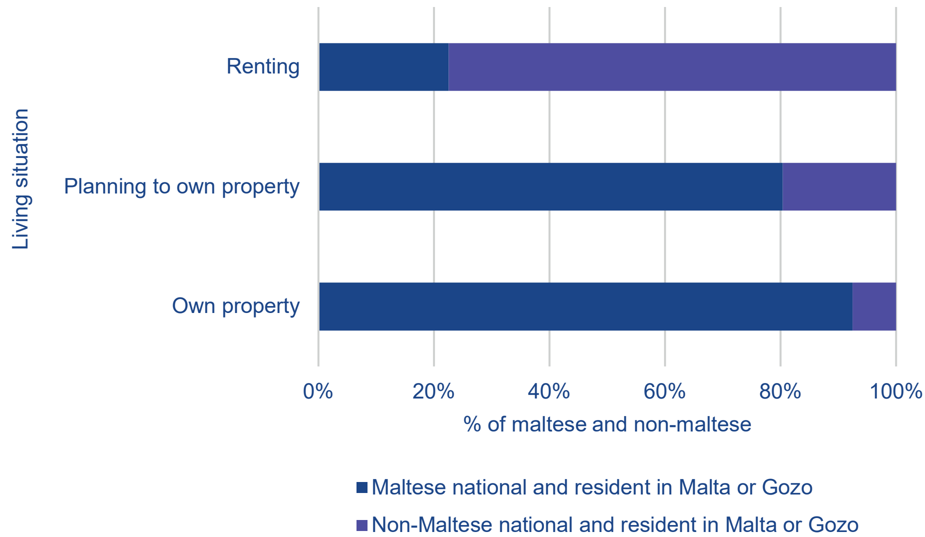
Number of respondents by age and gender



Source: KPMG analysis

Owners and renters in the Maltese islands – by nationality

Property owners, prospective buyers and renters by nationality



Source: KPMG analysis

Contact us:

David Pace

Partner
Head of Advisory Services
E: davidpace@kpmg.com.mt
T: +356 2563 1160

Steve Stivala

Director
Advisory Services
E: stevestivala@kpmg.com.mt
T: +356 2563 1052

www.kpmg.com/mt

Follow KPMG in Malta:

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.