The Long-Lasting Legacy of Rent Controls: Perspectives on the Private Rental Market in Malta within the Context of a Dual Market

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Abstract

Up to a few years ago, the private rental market in Malta was a classic example of the dysfunction created by two diametrically opposed regimes – a rigidly-controlled one and a completely liberal one – co-existing side by side. Two recent reforms have sought to address this situation. The objective of this paper is to describe the state-of-play in the private rental market in Malta by providing a historical background to these recent developments. In addition to the distortions in the housing market that rent controls introduce, controls also contributed to the deterioration of the statistical infrastructure to collect data on this sector. From this perspective, the introduction of the 2020 rent reform for the post-1995 sector, in addition to providing a set of minimum standards to professionalize the market, also facilitated data collection efforts through the introduction of a rent register. This information provided an alternative source of information to complement the other data sources, which tend to be outdated, inadequate, or focus solely on specific segments of the market, thus allowing for a more detailed and complete view of the private rental market in Malta.

Keywords: Private rental market, rent controls, rent reforms, housing market, Malta

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1.0 INTRODUCTION

Up to a few years ago, the private rental market in Malta was a classic example of the dysfunction created by two diametrically opposed regimes – a rigidly-controlled one and a completely liberal one – co-existing side by side. On one extreme, rental contracts signed before 1995 were governed by a mechanism that grants lifelong security of tenure and artificially low rents, initially set decades ago, that were only allowed to increase once every three years in line with the index of consumer price inflation. From a historical perspective, this intervention led to a ‘residualisation’ of the rental market (Xerri, 2018, p. 85), a finding that is observed in many other countries (Kholodilin & Kohl, 2021). As a result, in Malta the share of rental housing declining from 77% in 1948 to 20% by 2011. At the other end, rental contracts signed after 1995 were governed by a liberal regime characterized by a quasi-complete deregulation, with no regulation concerning the rent increases within tenures, the minimum duration of contracts, a registration system, or the security of deposits. Both regimes were unsustainable – the Maltese constitutional courts and the European Court of Human Rights (ECtHR) were repeatedly judging the pre-1995 leases to be in breach of landlords’ right to enjoy their property (Xerri, 2017, 2018), while concerns about rental affordability and abuse by landlords were regularly raised by tenants in the liberal post-1995 sector.

Two recent reforms have sought to address this situation. The government introduced a reform in 2020 for the post-1995 sector that was intended to provide minimum standards reflective of a modern rental market. This reform included an obligatory registration system accompanied with a signed inventory and declared security deposit, minimum contract durations, a mechanism to facilitate contract renewals or terminations, and a quasi-judicial body to rapidly resolve minor disputes (Housing Authority, 2021). In addition, the Housing Authority was designated as the regulator of the housing market in Malta, a role that was completely different from its traditional one of providing social and affordable housing. In a separate reform announced in 2021, the government introduced legislation that allows landlords of pre-1995 contracts to raise the rent to an amount not exceeding 2% of the fair market value of their properties (Fiott, 2021).

The objective of this paper is to describe the state-of-play in the private rental market in Malta by providing a historical background to these recent developments. One consequence of rent controls that is rarely mentioned in the literature is the deterioration of the statistical and data collection infrastructure that allows analysts and policy makers to regularly assess ongoing developments. Hence, any assessment of the private rental market in Malta and its developments over time must inevitably rely on a variety of data sources. From this perspective, the introduction of the 2020 rent reform for the post-1995 sector, in addition to providing a set of minimum standards to professionalize the sector, also facilitated data collection efforts through the introduction of a rent register. This information provided an...
alternative source of information to complement the other data sources, which tend to be outdated, inadequate, or focus solely on specific segments of the market, thus allowing for a more detailed and complete view of the private rental market in Malta.

This study contributes to the literature by describing the experience of a small European country with a long history of rent controls that, due to data limitations, is rarely included in cross-country comparison exercises. While in first half of the 20th century the rent control cycle was in sync with the experience in Europe, it diverged in important ways from the path adopted by most European countries during the 1970s (Kholodilin, 2020). While some factors are country specific, Malta’s experience with rent controls can provide some lessons for cities currently discussing the introduction of temporary controls to curb rising housing costs.

The rest of the article is organized as follows. Section 2 provides a literature review of the impact of rent controls. Section 3 discusses the evolution of the private rental market in Malta from the early 20th century, focusing in particular on the regulatory and political environment. Section 4 analyses the current state of play in the private rental market, focusing on the evolution of housing tenure, the socio-economic characteristics of tenants, the spatial distribution across the Maltese islands and developments in rents. Section 5 provides a discussion and conclusions.

2.0 LITERATURE REVIEW ON RENT CONTROLS

In economic textbooks, rent controls are usually introduced as price ceilings, in which the government puts a legal limit to maintain prices below the market level (Sloman et al., 2015). This creates an excess demand for the artificially low price, leading to housing shortages that constitute potential negative efficiency consequences, ultimately affecting both landlords and tenants. While incumbent tenants benefit from the controls, landlords and prospective tenants suffer a loss – in almost all instances, the latter loss exceeds the gains accrued to the benefitting tenants, resulting in a deadweight loss (Jenkins, 2009).

Early rent controls were very similar to price ceilings but over time they morphed into complex systems. In most countries, emergency rent controls in the 20th century were introduced during both world wars to prevent landlords from taking advantage of the sudden scarcity in housing. The first-generation of rent controls was effectively rent freezes that did not take costs or general price increases into account (Arnott, 2003). In many countries, they were retained long after their original imposition had passed due to the strong opposition of sitting tenants on their removal. The first-generation controls were eventually dismantled, either abolished altogether or replaced with the so-called second-generation of rent controls (Kholodilin, 2020). The latter were introduced after the oil price shocks of the 1970s and allowed the indexation of controlled rents to the general price level or building costs. Over time these have evolved to cover the regulation of rents only within tenures, thus providing security of tenure for incumbent tenants but leaving rents unrestricted between tenancies. According to the historical and multi-country dataset on rent controls developed by Kholodilin (2020), by 2019 many countries had completely abolished rent controls, while others, especially in Europe, had transformed strict first-generation controls into more flexible second-generation ones.

Over the longer term, rent controls tend to be a very inefficient redistribution mechanism. Turner and Malpezzi (2003) point out that the transfer efficiency – the ratio of benefits accruing to tenants to the costs imposed on the landlords – is much lower than 100 percent. Besides landlords, Andersson and Söderberg (2012) note that welfare gains from the deregulation of controlled rents might also accrue to potential tenants with greater willingness to pay. Empirical studies also find that rent controls raise rents or land prices in the uncontrolled sector (Fallis & Smith, 1984; Mense et al., 2019). Additional costs not included in the rental rates include long waiting lists, bribes and high search costs (Oust, 2018). In light of this, Jenkins (2009, p. 87) posits that “the beneficiaries of rent control may not extend much beyond those that were situated at the time of the imposition”. Furthermore, the targeting of benefits is generally rather poor. According to Sims (2007), only 26 percent of rent controlled units in Massachusetts were occupied by renters in the bottom quartile of the household income distribution while 30 percent of units were occupied by tenants in the top half of the distribution. In addition, low-income groups are generally underrepresented in rent-controlled units suggesting that much of the transferred surplus could have been received by wealthier households.

One source of inefficiency relates to potential misallocation of existing housing units, as incumbent tenants have an incentive to remain in their controlled dwellings, even though their preferences and conditions might have changed (Ault et al., 1994; Glaeser & Luttmer, 2003; Gyourko & Linnemann, 1989). Diamond et al. (2019) find that tenants covered by rent controls in San Francisco were 20 percent more likely to remain in their housing unit relative to those not affected by the controls. Similarly, Sims (2007) estimates that decontrol in Massachusetts was associated with a decrease of renter stay of around 2 to 3 years, which is quite sizeable when compared to the mean renter stay of 6 years in his study. These lock-in effects will not only distort the allocation of housing but could discourage the mobility of the labour force (Basu & Emerson, 2000).

Rent controls influence the incentives and behaviour of landlords. For instance, landlords tend to reduce the maintenance of controlled units, eventually leading to the deterioration in the quality of rent controlled housing (Gyourko & Linnemann, 1990; Sims, 2007). Under maintenance of rent-controlled properties is present even under tenancy rent control although, in these cases, landlords have an incentive to increase maintenance between tenancies to justify a higher rent from the new tenants (Arnott, 2003). In addition to the impact of new construction, rent controls can also shift the supply of rental units from the rental sector to the owner-occupied sector. Landlords may opt to convert controlled rental units to condominiums or office buildings (Diamond et al., 2019; Navarro, 1985), while developers have an incentive to construct luxury apartments, which are often excluded from rent controls. There are also externalities on the neighbourhoods associated with rent controls. For instance, Autor et al. (2014) study the rent control ordinance in Cambridge, Massachusetts and find that owners of non-controlled housing bore a significant portion of the cost as rent-controlled properties lower the amenity value of their neighbourhood. However, while mostly negative, the impact varies on a case-by-case basis and hinges on the specific regulation imposed by a jurisdiction under specific market conditions (Haffner et al., 2008; Turner & Malpezzi, 2003).
3.0 THE HISTORY OF HOUSING AND RENT CONTROLS IN MALTA

Rent controls have a long history in Malta, going back to the 16th century at the time of the Knights of St. John (Vakili-Zad, 2007). Throughout the 20th century, rent regulation in Malta went through various cycles, oscillating between periods of tight controls and liberalization. Table 1 highlights the key legislation and reforms, which are described in more detail below.

In the 20th century, the first-generation style of rent controls took place after the First World War. In 1925, only four years after Malta obtained autonomy from the British in respect of local matters, the local Legislative Assembly introduced legislation that challenged the liberal values of the Civil Code to curb rising rents. The establishment of the Rent Regulation Board (RRB), which came into effect in 1929, fixed the fair rent ceiling at 40 percent over and above the fair rent at which premises were leased, or could have been leased, at any time before 1914 (Saliba, 2012). The RRB was entrusted to oversee the conditions for the renewal of leases, the new rents requested by landlords and the reasons for refusal of contract extensions. In 1931, the Governor of the Maltese islands reinstated and gave permanent applicability to the Reletting of Urban Property Ordinance, today Chapter 69 of the Laws of Malta, which was heavily based on its 1925 predecessor. This intervention has set the pace for subsequent legislation on rent controls.

A second round of first-generation controls was introduced after the Second World War. The aerial attacks during the war led to huge devastations in the housing stock, especially in the densely populated harbour area. Estimates suggest that around 17 percent of the country’s housing stock was destroyed or heavily damaged during the war (Vakili-Zad, 2007). The main challenge in the post-war period for the Maltese administration was the reconstruction of the worst hit zones and the provision of housing for those that were left without a roof on their heads. Legislation was introduced in 1944 – Rent Restriction ( Dwelling Houses) Ordinance, today Chapter 116 of the Laws of Malta – to safeguard tenants from the rapid increase in the cost of living after the war and to restrict the landlords from passing the entire burden on the tenants. At the time, homeownership was not common and according to the 1948 Census, 77% of households in Malta were tenants. In addition, the absence of a proper mortgage system rendered property purchases completely unaffordable for large sections of the population. The 1944 ordinance made a distinction between ‘old’, ‘new’ and ‘furnished’ houses. Rents on old houses were frozen at their pre-war levels, set to 31 March 1939. Rents on new houses, defined as those that were completed after 31 March 1939, were capped at a sum equivalent to a return of 3.5 percent per annum on the freehold value of the site and 5 percent on the capital outlay on construction. The legislation allowed for a supplementary rate on the furniture if the property was let furnished. The ordinance allowed extensive tenant protection, with leases being inherited amongst family members living in the same house. As an emergency measure, in 1943 the government enacted the Housing (Requisition) Act, which allowed the State to requisition private property to allocate to applicants for alternative accommodation. Although this measure was initially designed to be temporary measure, it ended up lasting for five decades, being completely repealed in 1995. Legislative amendments in the late 1940s kept the old rents frozen at their 1939 levels. Landlords of the latter buildings were thus placed at a huge disadvantage on the market and this constituted the first, in a series of legislation enacted in subsequent years that imposed on landlords the government responsibility of subsidizing tenants (Ministry for Social Policy, 2008).

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>pre-1925</td>
<td>Civil Code - Law of letting and hiring</td>
</tr>
<tr>
<td>1925</td>
<td>Control of Rents of Immovables Act</td>
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<tr>
<td>1929</td>
<td>Urban Rent Regulation Act - establishment of Rent Regulation Board</td>
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<tr>
<td>1931</td>
<td>Reletting of Urban Property (Regulation) Ordinance</td>
</tr>
<tr>
<td>1943</td>
<td>Housing (Requisition) Act</td>
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<tr>
<td>1944</td>
<td>Rent Restriction ( Dwelling Houses) Ordinance</td>
</tr>
<tr>
<td>1959</td>
<td>Housing (Decontrol) Emergency Ordinance</td>
</tr>
<tr>
<td>1979</td>
<td>Act XXIII of 1979 - reversal of 1959 ordinance</td>
</tr>
<tr>
<td>2009</td>
<td>Act X of 2009</td>
</tr>
<tr>
<td>2020</td>
<td>Private Residential Leases Act</td>
</tr>
<tr>
<td>2021</td>
<td>Act XXIV of 2021 - targeting pre-1995 leases</td>
</tr>
</tbody>
</table>

In line with the predictions from economic theory, the introduction of rent controls has discouraged the development of new rental housing units. In his report to the Maltese government in 1955, Mr. G. A. Atkinson, Housing Advisor to the Colonial Office, estimated the need of 10,000 new dwellings in Malta (Vakili-Zad, 2007). However, his recommendations were curtailed by the political crisis at the time, while the excess of demand over supply led to a thriving black market in illegal key money (Vakili-Zad, 2007).

The colonial administration that took control of the Maltese islands in the late 1950s addressed the housing shortage by drafting an emergency ordinance to decontrol all houses built after March 1959 or owner-occupied on that date. This legislation created a new class of rentable buildings that were totally exempt from rent control and, more importantly, from the requisition powers of the government.
However, pre-1959 leases were still governed by past ordinances, which remained simultaneously in place. It goes on to confirm a finding from the literature that, once in place, rent controls are politically difficult to remove.

Buoyant building activity in the 1960s led to the urbanization of large areas of Malta, with successive governments complementing the private sector with extensive construction of social housing. The government introduced the Home Ownership Scheme (HOS) in 1962, which distributed, under emphyteusis, building plots for terraced houses at subsidized ground rents, grants and heavily subsidized home loans to engaged and married couples. A bank that specialized in housing finance, the Lohombus Corporation, was set up to encourage households to build or purchase their houses through relatively easy credit. This was a significant innovation at a time when society’s perception of borrowing to purchase a property was stigmatized, while borrowing facilities were both restricted and restrictive (Xerri, 2018). Direct housing intervention by the Government eventually reached its peak in the 1970s and 1980s. However, rather than relinquishing its requisition power, which were originally intended to be a temporary measure to address housing shortages after the war, the government used them more vigorously (Vakili-Zad, 2007). Despite the increase in homeownership, the government could not afford to alienate around half the population that were still tenants, as huge disparities in payable rents had emerged over the years among the different categories of rental dwellings.

The third cycle of rent regulation started in 1979. In this case, however, the provisions of the Maltese legislation differed significantly from those that characterize the second-generation rent controls in other countries, and were more in the spirit of the first-generation controls that were introduced during the war period. Draconian measures were introduced that imposed excessive tenant protection at the expense of landlords. The most onerous obligation was the automatic renewal of the leases on their termination. Increases in rents, which would be reviewed every fifteen years according to the increase in the index of consumer price inflation, were limited to twice the previously paid rent. Temporary emphyteutical grants were converted into leases and these contracts also started to benefit from legal protection – this provision continued to cause legal headaches to policy makers till very recently, eventually leading to amendments in the legislation in 2018 (Fiott, 2021). Allowances for maintenance were so limited that it was unlikely for landlords to recover the amount spent, with the consequence that most of these dwellings were allowed to deteriorate (Vakili-Zad, 2007).

The creation of development zones in the late 1980s, the elimination of popular schemes such as HOS and strict rent controls led to rapid increases in property prices in the 1990s and early 2000s. To a large extent, the rise in house prices was due to the increasing price of land, which is a very scarce asset in a small island economy like Malta. Estimates suggest that the cost of land increased from around 7 percent of the price of a house in 1970 to 58 percent in 1998 (Camilleri, 2011). At the same time, the 1995 census indicated the presence of around 20,000 permanently vacant properties. In addition to the low demand for rental housing, property owners were very skeptical in renting their properties due to the country’s history with rent controls, preferring to leave their dwellings vacant instead (Ministry for Social Policy, 2008).

A rent reform of 1995 – Act XXXI of 1995 – abolished all rent controls except for those contracts entered before June 1995, thus creating a dual rental market of pre-1995 and post-1995 leases. This reform was intended to revive the rental market by encouraging the letting of vacant properties, with its liberalizing spirit being decisively in favour of landlords. To stimulate the rental sector, the government also abolished its requisition powers and freed post-1995 rentals from government control. However, pre-1995 leases remained governed by the old regime – a constant reminder that, once in place, these controls are politically difficult to remove. Ultimately, however, this reform was not successful in reviving the private rental market, as the share of tenants continued to decline, from 23% in 1995 to 20.6% and 19.9% in 2005 and 2011, respectively. It also failed to address the problem with vacant dwellings, which according to the 2005 census, had doubled in a decade, standing at 43,108 units in 2005.

A fundamental tenet for the need to reform the pre-1995 rent laws, which was increasingly recognized by the mid-2000s, rested on whether the original conditions that demanded government intervention, sometimes going back to the war period, remained a legitimate social need or whether they became a blatant abuse for others that, in the current circumstances, would not even qualify for social housing. This came primarily as a response to a number of European Court of Human Rights (ECHR) judgments, delivered in 2006, which recommended that Malta establishes clearer criteria on what constitutes a ‘fair rent’, ‘decent profit’ and a ‘tenant in need’ (Xerri, 2018). From this perspective, the pre-1995 regime was deemed to be unfairly shifting the burden of social housing from the government to the private sector. This was clearly stated in a White Paper published in 2008 by a task force set up by the Ministry for Social Policy to reform the rental market in Malta. The report articulated the discussion and recommendations on the following, “the need to assure that the premise of social justice in terms of the continued impacts of the pre-1995 rental laws are borne primarily by the party that is truly responsible for providing for social inclusion: the State, as well as by the tenant where it is so evident that possession of tenancy under the pre-1995 laws constitute a misuse of the original spirit of why these laws were introduced in the first instance” (Ministry for Social Policy, 2008, p. 7)

The ensuing rent reform of 2009 – Act X of 2009 – amended the 1995 reform and stipulated that all pre-1995 leases will gradually revert to their open market rent levels. The reform introduced some basic standards – it stipulated that all rental agreements entered into after 1 January 2010 had to be undertaken via a written contract, which was previously not the case – but was clearly insufficient in addressing the artificially low rents. In particular, it imposed a minimum rent of €185 per annum unless agreed otherwise by both parties, which will be adjusted automatically every three years by the increase in the index of consumer price inflation. The reform ended the perpetual right to causa mortis inheritance to successive generations but a restricted security of tenure, for clearly defined beneficiaries, was still included with regards to main residencies. With this restricted security of tenure, Camilleri (2010) notes that some premises may take between 20 to 35 years before they revert back to their open market conditions. The 2009 reform covered not only residencies but the entire rental market, including also summer residencies, garages, clubs and commercial premises, although different conditions applied to these categories (Camilleri, 2010).

The unanticipated increase in demand for rental properties brought about by the sharp influx of foreign workers, which increased rapidly after 2013, took place in a completely de-regulated post-1995 market. The latter segment continued to be characterized by no
regulation concerning the rent increases within tenures, minimum contract duration, a registration system or deposit guarantees, while disputes between parties faced long court cases. This situation was leading to abuse and affordability concerns for tenants.

As a result, another reform was introduced in 2020 – the Private Residential Leases Act of 2020 – that was intended to provide a set of basic minimum standards for the post-1995 rental market. This included an obligatory registration system with a signed inventory and declared security deposit, minimum contract durations, legal mechanisms to facilitate contract renewals or terminations, and a quasi-judicial body to resolve minor disputes in a swift manner (Housing Authority, 2021). The Housing Authority was designated as the regulator of the housing market, with additional powers and responsibilities in addition to its traditional role of providing social and affordable housing.

Besides the distortions in the housing market, rent controls have exerted important implications on human rights levels. The turning point in Europe was represented by the judgement of Hutten-Czapska v. Poland by the ECtHR in 2006 that shifted decisively towards a more liberal interpretation of Article 1 of Protocol No. 1 to the European Convention for the Protection of Human Rights and the Fundamental Freedoms with respect to rental cases (Xerri, 2017, 2018). Since then, the constitutionality of the pre-1995 rent laws have been repeatedly challenged before the Maltese Courts and the ECtHR and most cases brought by landlords arguing a breach of their rights to property has been upheld by both Courts and awarded them compensation (Xerri, 2017). This situation was brought about by the inadequacy of the 2009 reform to address the disproportionality created by the pre-1995 regime. In addition to the legal problems, this situation also presented social challenges since, at every constitutional judgement decided in favour of a landlord, a household risked facing the threat of eviction. To address this situation, the government announced another reform in 2021 – XXIV of 2021 – targeting specifically the pre-1995 leases. The new regulations will allow landlords to request the RRB to increase rent to an amount not exceeding 2% of the fair market value of the property. A means testing exercise will be carried out by the RRB on the tenant, with thresholds set for both income and capital that vary in accordance with the age of the tenant. Those that fail the means-test will be required to vacate the dwelling within two years. Landlords are allowed to make a new request for an increase after six years from the first request or if there is a change in the economic circumstances of the tenant. However, tenants that now face higher rents may apply with the Housing Authority to benefit from a subsidy on their rent. For instance, pensioners can benefit from a subsidy that covers the entire increase in annual rent up to a maximum of €10,000. Hence, this reform will see the government absorb a substantial amount of the additional rental costs for the estimated 10,000 to 10,500 households that still reside in this market segment (Fiott, 2021).

4.0 THE IMPACT ON THE RENTAL MARKET

One consequence of the institution of rent controls that is rarely mentioned in the literature is the deterioration of the statistical and data collection infrastructure on this sector that allows analysts and policy makers to regularly assess ongoing developments. Hence, any assessment of the private rental market in Malta and its developments over time must inevitably rely on a variety of data sources, such as the Census of Population and Housing, surveys and reports that rely on advertised data. There are many elements that define data quality in these sources, such as its timeliness, representativeness, and accuracy, as well as the level of detail they provide. A common approach used in social sciences is to apply a triangulation method, that is, trying to cross-check the data or research from multiple sources in order to provide a more detailed and balanced picture of the situation. This is especially important if policy decisions are to be based on the careful use of rigorous evidence.

4.1 Impact on Housing Tenure

The Census of Population and Housing provides the most detailed information about the housing market in Malta (NSO, 2014). The Census is held once every ten years and the latest one provides a snapshot of the situation in 2011. The rental market in the Census is distinguished between ‘furnished’ and ‘unfurnished’ tenancies, with the latter consisting primarily of pre-1995 leases and social housing.

According to the 2011 Census, the share of the rental market stood at around 20% of the occupied dwellings in Malta, though the share of furnished rents only stood at 5%. According to the Census, the rental market in 2011 consisted of 22,351 units classified as ‘Rented unfurnished’ and 7,994 units classified as ‘Rented furnished’. The 22,351 units in the former category consisted of 7,518 Government units, 14,561 units from private landlords and 272 units from the Church. In 2011, the median annual rent in this category stood at €186, in line with the minimum specified by the 2009 reform. On the contrary, the units in the ‘Rented furnished’ category were mostly owned by the private sector and the median annual rent in this sector amounted to €3,537. In addition to providing the most comprehensive picture of housing in Malta, samples extracted from the Census still provide the basis for regular surveys held by the National Statistics Office on population and housing in Malta.

Figure 1 illustrates the distortions imposed by the institution of rent control on the Maltese housing market since the late 1940s. As a direct consequence of rent controls, together with government incentives to promote home ownership, the proportions of the housing sector in rental and owner occupation have undergone an inversion since 1948. The rental sector has declined from 77% of the housing market in 1948 to 20% by 2011. Overall, this is in line with the observation in many other countries, especially since the controls introduced in the 1970s were more akin to first-generation rent controls, of the type introduced during the war period, which tend to have a stronger adverse effect on the rental market (Kholodilin & Kohl, 2021). Indeed, this long-term decline has been more pronounced than that observed in other major European countries (Haffner et al., 2008). On the other hand, the share of home ownership has gradually increased from 23% to 77% over this period.
More updated information is obtained from the Survey on Income and Living Conditions (SILC), which is held every year by the National Statistics Office of Malta. This survey can be used to analyze trends in housing tenure over time, while its European dimension makes it possible to compare the domestic situation with other European countries.

Table 2 compares the evolution of housing tenure in Malta and the EU between 2011 (the year of the Census) and 2019 from SILC. The homeownership rate in Malta has remained broadly stable at around 80%, which is significantly higher than the corresponding average in the EU. The most pronounced change in housing tenure in Malta took place in the post-1995 private rental sector – classified as ‘rent at market prices’ in the SILC – which rose from 2.1% to 8.7%. On the contrary, the share of tenants classified as ‘rent at reduce price or free’, which includes pre-1995 leases, declined to 11.5% in 2019. Despite the increase in rents at market prices, it is highly likely that the SILC – like most other survey-based estimates – underestimates the true extent of the increase in the size of the private rental sector as foreign-born residents tend to be inadequately covered in local surveys (Barnes, 2008). For this reason, more up-to-date estimates of the size of the private rental market will only be available in the next Census of Population and Housing, which the National Statistics Office is expected to carry out in 2021.

Table 2 Housing tenure according to the Survey on Income and Living Conditions (SILC)
(Source: Survey on Income and Living Conditions)

<table>
<thead>
<tr>
<th></th>
<th>Malta</th>
<th>EU</th>
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<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2019</td>
</tr>
<tr>
<td><strong>Owner</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner, with mortgage or loan</td>
<td>17.8</td>
<td>21.3</td>
</tr>
<tr>
<td>Owner, no outstanding mortgage or housing loan</td>
<td>62.5</td>
<td>58.4</td>
</tr>
<tr>
<td><strong>Tenant</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenant, rent at market price</td>
<td>19.8</td>
<td>20.2</td>
</tr>
<tr>
<td>Tenant, rent at reduced price or free</td>
<td>2.1</td>
<td>8.7</td>
</tr>
<tr>
<td><strong>Tenant, rent at reduced price or free</strong></td>
<td>17.7</td>
<td>11.5</td>
</tr>
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Finally, the rent register of the Housing Authority provides a valuable source of information on the registration of rents. During the first year that the Private Residential Leases Act came into force, a total of 30,483 original contracts were registered with the Housing Authority in 2020. Of these, 858 contracts were terminated during the year in accordance with the terms stipulated in the respective contracts, while another 4,138 contracts were terminated before the expiry of the original termination date which, in part, could be due to the impact of Covid-19 as some foreign workers decided to go back to their home countries. A total of 25,487 contracts were still active on 31 December 2020. At the current juncture, it is not possible to accurately quantify this amount as a percentage of all leases that should have been registered although discussions with the Housing Authority suggests that this was considered to be a substantial turnout for the first year of the reform and one that exceeded their expectations (Briguglio, 2021).

4.2 Impact on Housing Quality

Information on the stock of housing is obtained from the Census of Population and Housing. The stock of housing units used in pre-1995 dwellings is much older than those occupied in the post-1995 rental housing. According to the Census, more than 60 percent of the total occupied housing in Malta was built after 1970. When it comes to unfurnished rental dwellings, which mostly consists of pre-1995 leases, 73 percent of them was built before 1970, with 40 percent being constructed before 1945. This corroborates the above evidence that pointed to a sharp decline in the share of tenure after the 1979 controls. On the contrary, furnished rental dwellings are much more modern. In this case, 71 percent of housing units used for post-1995 rents were constructed after 1970, with slightly more than a quarter being built after 1991.
The overall rate of repair of dwellings tends to be correlated with the tenure status. As described above, the low rental values of pre-1995 leases discouraged landlords from maintaining their property in good condition as the cost of repair often exceeds the annual rental income. This is in line with the empirical evidence in other cities and countries with rent controls (Gyourko & Linneman, 1990; Sims, 2007), which is not surprising given the stringency of controls in Malta, with strong tenant protection and landlords unable to convert their controlled units to recoup their losses (Diamond et al., 2019; Navarro, 1985). Furthermore, some tenants may have lacked the motivation to look for better quality accommodation as this would have been more expensive, even if their preference for housing might have changed (Diamond et al., 2019; Glaeser & Luttmer, 2003; Sims, 2007). According to the Census, in 2011, only 57 percent of rented unfurnished units (mostly pre-1995) were in a good state, with 38 percent requiring minor or moderate repairs, and 5 percent needing serious repairs or were in a dilapidated state. On the contrary, between 73 percent and 79 percent of rented furnished and owner-occupied dwellings were in a good state, with only 1 percent of each category being considered to need serious repairs or is in a dilapidated state.

4.3 Impact on the Spatial Distribution

Data on the spatial distribution of pre-1995 leases are available from the 2011 Census. A total of 14,561 units were classified as rented unfurnished (pre-1995) from the private sector in the Census, although Fiott (2021) contends that updated estimates of these protected leases have decreased to between 10,000 and 10,500 units by 2020. According to the Census, more than 70% of these dwellings are concentrated in the harbour district, which as discussed above, was severely affected by the aerial bombings during the Second World War (see Figure 2).

![Figure 2: Distribution of pre- and post-1995 leases by region in the Maltese islands (Source: Housing Authority, 2021; NSO, 2014)](image)

Information from the rent register of the Housing Authority provides a more updated spatial distribution of rental housing across the localities of Malta and Gozo for post-1995 leases. The largest concentration of leases is found in the Northern Harbour region, which today includes the business, retail, and touristic localities of Sliema and St Julian’s, as well as Msida with its proximity to the University of Malta. This is followed by the Northern region, with a quarter of all rental leases on the island. The latter includes the locality of St Paul’s Bay, a popular touristic hub, which at 16% has the highest concentration of residential contracts registered with the Housing Authority. The distribution of rental contracts across the localities of Malta and Gozo closely mirrors the share of foreigners in the total population of each locality – for instance, the localities of St Paul’s Bay, Sliema, St Julian’s and Msida have among the highest concentration of foreigners in Malta, which account for more than 25% of the total population in each locality.

The largest discrepancy between pre- and post-1995 leases is found in the Southern Harbour and the Northern region. The former has a high concentration of pre-1995 leases, reflecting the geographical distribution pattern of the population during the war period, but a relatively low share of post-1995 contracts. The opposite is observed in the Northern region, where strong population growth has occurred much later, driven in part by the influx of foreign workers that tend to reside in rental accommodation in the liberalized sector.

The Northern Harbour has a high concentration of both pre- and post-1995 leases, with the highest rents in the country co-existing side-by-side with artificially low ones. For instance, according to the Census, the median rent in the Northern Harbour area for unfurnished rental housing stood at €193 per annum in 2011, which would have increased every three years by the index of consumer price inflation. By means of comparison, already in 2011, the median rent for a furnished rental accommodation (post-1995) in this region stood at €4,200 per annum, while contracts from the Housing Authority register indicate that, at the end of 2020, the rent for a two-bedroom apartment in the Northern Harbour region stood at €781 per month (€9,367 per annum). While the Census figures do not control for the characteristics of the dwellings, such as the type of property or its physical condition, the sheer magnitude of the discrepancy between market and controlled rents indicate the extent to which rents in controlled properties have become detached from market realities over the years and exacerbated the sense of injustice felt by the landlords of these units.
4.4 Impact on the Socio-Economic Characteristics of Tenants

The distinction between the two rent regimes is further illustrated by the age of the reference person occupying the dwelling (see Figure 3). According to the Census, households in post-1995 tenancies (rented furnished) tend to be relatively young and the reference person in 57% of these households was less than 46 years in 2011. On the contrary, households in the rented unfurnished sector (pre-1995) tend to be relatively older, with 65% of them having their reference person above 56 years in 2011. Inefficient allocation of housing could not be excluded, due for instance to lock-in effects (Diamond et al., 2019; Sims, 2007), since a quarter of pre-1995 units consisting of relatively large units – terraced houses or townhouses, semi or fully-detached houses and farmhouses – compared to less than 10% for the post-1995 sector.

![Figure 3 Distribution of households in the rental market in 2011](Source: NSO, 2014)

More updated information about the household characteristics of tenants in both categories, as well as how they compare with homeowners, is available from the SILC survey. In 2019, around 60% of tenants classified as renting at market prices were households without dependent children, while the remaining 40% had dependent children living with them. More disaggregated data suggests that, in the former category (i.e. households without dependents), the largest category consists of two adults living together, followed by single individuals. On the contrary, the share of tenants renting at reduced prices or for free – this category includes not only the pre-1995 leases but also other categories such as social housing – are more equally spread between those that have dependent children and those that do not. The household structure of tenants that are renting at market prices differs considerably from those that are homeowners, especially those with a mortgage, who tend to be relatively younger than those without a mortgage. Around two thirds of households that are homeowners with a mortgage have dependent children living with them.

![Figure 4 Household structure of different categories of homeowners and renters](Source: SILC)

Since 2011, however, the private rental market has evolved significantly, primarily as a result of the sharp increase in the foreign workforce, which tend to rely heavily on this sector for accommodation. According to administrative statistics, the number of foreign workers stood at 67,596 in 2019, an increase of more than 55,200 individuals compared to 2011. To put this figure in perspective, according to the Census, the combined total population of the largest three localities in Malta – Birkirkara, Mosta and St Paul’s Bay – amounted to slightly less than 58,000 in 2011. This illustrates the extent of the increase in demand for rental accommodation experienced...
since 2011. Foreign workers tend to be relatively young, with 63% of them aged between 30 and 54 years in 2019, while another 21% being in the 25 to 29 age bracket. As a result of these developments, the snapshot provided by the Census in 2011 provides an outdated picture of the size and composition of the rental market. The reliance on the private rental sector is especially prevalent for recently arrived foreign workers and those with temporary migration intentions5. Borg (2019) estimates that most foreign workers remain in Malta for a relative short period of time, with almost half of them leave the country after two years. This may suggest a preference for flexibility in terms of the length of the rental lease. Indeed, a close inspection of the registered leases from the Housing Authority indicates that more than 80% were signed with foreign tenants, with almost three quarters of all contracts having a one-year duration (Debono et al., 2021).

4.5 Impact on Rents

In the post-1995 sector, developments in private sector rents reflect the interplay between the demand and supply for rental housing. One major limitation in Malta is the absence of an official rent index, which was never compiled by the National Statistics Office, in part as a direct consequence of the history of rent controls. In the absence of an official rent index, alternative sources of information must be used to assess price developments in this sector. In this regard, information is available from three main sources, one based on an annual survey with real estate agents, the use of advertised rents collected from publicly available sources and the register of the Housing Authority.

The Estate Agents Rent Survey (EARS) is based on an annual survey of real estate agents for properties situated in a residential area of good quality in selected localities in Malta6. The primary purpose behind the collection of this data is to compare the relative cost of living in different cities of civil servants working for EU institutions, which is then used to adjust their salaries. For this reason, it is likely that these properties command rents that are higher than the national average. According to this survey, rents for apartments increased between 10%-12% per annum on average between 2013 and 2017, before slowing down to 5%-7% over the period 2018-2019. In euro terms, two- and three-bedroom apartments in 2020 stood on average at around €1,200 and €1,550 per month, respectively.

The growth in rents can also be assessed from adverts posted online (Debono et al., 2020; Ellul, 2020). The use of advertised prices, which are set prior to the negotiation process that takes place between lessors and prospective lessees, tend to be higher than contract prices but still provide valuable insights on rental price dynamics. Debono et al. (2020) use advertised listings to track the developments in rents over time. Like the EARS survey, these adverts cover mostly properties of good quality, posted online by estate agents. This database insufficiently covers the lower end of the market and excludes properties whose landlord does not use the services of estate agents. The latter share is likely to be rising over time as landlords are increasingly making use of social media to advert their properties online, thus by-passing the estate agents. The results, shown in Figure 5, indicate that the growth in rents had started to slow down throughout 2019, albeit it remained at a relatively high rate, broadly in line with the EARS survey. Advertised rents however contracted sharply in 2020, amplified by demand and supply side factors associated with Covid-197.

The introduction of the rent register provides an additional source of information on registered rents. In Malta, slightly less than half of rental agreements in 2020 were set at a price below €700 per month, while at the higher end of the price distribution, around 19% of contracts were registered with a rent exceeding €1,000 per month. As expected, significant differences were registered among the regions of the Maltese islands, with the most expensive rents found in the Northern Harbour region and the lowest ones in Gozo (Debono et al., 2021; Micallef et al., 2021). Since the register was only introduced in 2020, it is still not possible to create a rent index using registered contracts. However, time-dummies from hedonic estimates in Micallef et al. (2021) using registered rents showed a broadly similar profile to advertised prices during the pandemic.

As expected, rents in the pre-1995 regime were much lower than those found in the liberal sector and were kept at an artificially low level. These were not affected by the pandemic since these rents do not depend on market forces. As discussed above, the 2009 reform imposed a minimum rent of €185 per annum, amounting to around €15.40 per month, unless agreed otherwise by both parties. This amount was expected to be adjusted automatically every three years by the increase in the index of price inflation. It must be said that in the 2009 reform, the government was very cautious with regard to the potential negative social impact of the reform by setting the inflation base to 100 in 1960 rather than in 1946. The adoption of the latter would have resulted in the minimum value of pre-1995 rents increasing to €830.27 per annum instead of €185. However, following the announced reform of pre-1995 leases in 2021, landlords will now be allowed

![Figure 5 Annual growth rate in advertised rents](source: Author’s calculations based on Debono et al., 2020)
to request the RRB to increase rent to 2% of the fair market value of the property, which in turn should help to narrow the gap, though not eliminate it, in rents compared to the pre-1995 leases negotiated on the open market.

5.0 DISCUSSION AND CONCLUSIONS

This study has described the current state-of-play of the private rental market in Malta within its historical regulatory and political environment since the early 20th century, which has been characterized by the institution of rent controls. The overall conclusion from the literature on rent controls was succinctly summarized by Navarro (1985, p. 90): “the economics profession has reached a rare conclusion: rent control creates many more problems than it solves”. This is important in the context of present-day realities with rent regulations being introduced in a number of cities, both in Europe and in the US, to curb the rise in housing costs. Despite this near unanimous conclusion (Jenkins, 2009), however, some caveats are in order.

First, a more holistic assessment should take into account other features that affect the relationship between tenants and landlords (Haffner et al., 2008). In Malta, rental policy since the 20th century oscillated between periods of tight controls – to the benefit of existing tenants – and laissez-faire – to the benefit of landlords, with these two regimes sometimes coexisting side-by-side. In addition to rent controls, other important features of tenancy legislation include, among others, contract duration, deposit requirements, eviction notification requirements and the efficiency of judicial proceedings (Cuerpo et al., 2014). The 2020 reform tackled many of these issues for the post-1995 regime, addressing the previous regulatory vacuum. In addition, the Housing Authority, in its capacity as the regulator of the housing market in Malta, has also set up a multi-disciplinary Rent Observatory to regularly analyze and scrutinize the data collected and the impact of the regulation on the rental market (Briguglio, 2021; Housing Authority, 2021; Xerri, 2021).

Second, in housing markets, details matter and while cases studies offer detailed insights of the effects of rent controls in particular jurisdictions, the results cannot always be easily generalizable. For instance, expectations are likely to play a key role and uncertainty about future regulation is likely to be a crucial factor. Especially in countries with a long history of rent controls, like Malta, the introduction of rent regulations may affect the expectations of landlords and developers on the future regulatory environment, potentially presaging a political shift toward more pro-tenant regulation or the application of stricter forms of controls in the future. In this regard, besides to the involvement of all stakeholders in the sector during a rather lengthy discussion period, including a White Paper published in 2018, the 2020 reform only introduced ‘light-touch regulation’ (Housing Authority, 2021, p. 9) and no measures were taken to interfere directly with the price mechanism.

Finally, rent controls are only one aspect of the housing regulation (Khodololin, 2020). In addition to rent controls, housing markets are also impacted, among others, by planning processes, zoning regulations, land use and building regulations (e.g. floor area ratios) and regulations affecting the provision of infrastructure and transport networks for construction developments. Hence, any analysis of the rental market should be understood within the broader framework of the housing market and its interaction with other policies and incentives, such as taxation, social policy, monetary policy and macro-prudential regulation.

Historical experience suggests that, once in place, rent controls tend to be politically difficult to remove. Malta is a case in point, where despite the introduction of various reforms over the years, it was only in 2021 that the government decided to address the situation, at a huge fiscal cost, almost a century since the first-generation controls were introduced. This is an important lesson for policy makers in cities currently contemplating the introduction of ‘temporary’ rent controls. In Malta, the duration of the controlled regime was longer – perhaps substantially longer than policy makers intended at the time of their introduction, which subsequent policy makers found increasingly difficult to remove – and, in most instances, more stringent than the empirical studies cited in the literature (Autor et al., 2014; Diamond et al., 2019; Sims, 2007). In addition to the distortions in the housing market that rent controls introduced – ranging from the residualisation of the rental sector as supply was curtailed (Haffner et al., 2008; Khodololin & Kohn, 2021), a deterioration in housing quality due to lower maintenance by landlords (Gyourko & Linneman, 1990; Sims, 2007), an increase in vacant dwellings (Vakili-Zad, 2007), legal challenges brought by aggrieved landlords in front of Maltese Courts and the ECtHR (Xerri, 2017, 2018), and the emergence of a dual market – it also resulted in the deterioration of the statistical infrastructure to collect data on this sector. Only in the last few years, following the sharp influx of foreign workers, were analysts able to collect advertised prices on rents from publicly available sources, a common source of information in rental studies (Bailey, 1999; Oust, 2018). In addition to the low demand for rental housing prior to the increase in migration, in part this was due to the absence of an obligatory registration system, which was only introduced following the 2020 reform. As a result, till this day, there is no official rent index in Malta published by the National Statistics Office.

Up until 2020, the available information on the private rental market fell significantly short of what was required for a holistic assessment of this sector. From this perspective, the introduction of the 2020 rent reform for the post-1995 sector, in addition to providing a set of minimum standards to professionalize the rental market, also facilitated data collection efforts through the rent register. This information provided an alternative source of information to complement the other data sources, which tend to be outdated, inadequately covering the main category of tenants in Malta, or focus solely on specific segments of the market. Hence, the information from the register provides a more detailed and complete view of the private rental market in Malta. The introduction of this register goes in the direction of the recommendations put forward by Borio and Lowe (2002, p. 28) on data collection efforts to address data gaps on housing statistics: “The first is more and better data. There is, in particular, a remarkable dearth of data on real estate prices […] Data gathering has so far been largely left to the initiative of private firms, which naturally tailor the data to their own requirements. Given the ‘public good’ properties of the data, there seems to be a good case for official authorities to put efforts in this area”. This advice is still valid today and the 2020 reform constitutes a step in the right direction. The availability of this data will also open interesting avenues for research and policy applications, including on rental affordability, which previously were very difficult to conduct with the available data.
Notes

(1) The classification of different ‘generations’ of rent controls is not without its critics. For instance, Lind (2001) argues that this distinction is too crude given the different types of regulations involved, especially in the second-generation controls, and instead proposes an alternative typology that distinguishes between categories of tenancies and the different objectives of these regulations.

(2) Shortly after their arrival in Malta in 1530, the Knights of St. John had established the ‘Officio delle Case’, a special tribunal with the objective of controlling rent increases and prevent unnecessary evictions. This tribunal remained in place throughout the entire period of the Knights’ rule in Malta.

(3) These were typically granted for 17 years but in some cases, they were granted for an even longer period.

(4) This might be due to the under-coverage of recently arrived foreign workers from the sample frame, the exclusion of households in collective accommodations and the low response rate of migrants in surveys. Further details are available in Barnes (2008).

(5) Evidence from the UK suggests that 76% of recently arrived migrants (defined as being in the UK for less than 5 years) relied on the private rental market for accommodation, compared to 39% among all migrants. By contrast, migrants who have been in the UK for a longer period, say 20 years or more, tend to have similar housing accommodation to UK-born residents (see Vargas-Silva and Fernández-Reino, 2019 for more details).

(6) In Malta, the Estate Agents Rent Survey is conducted by the National Statistics Office in collaboration with Eurostat. Further details are available from: https://ec.europa.eu/eurostat/web/civil-servants-remuneration/estate-agency-rent-surveys

(7) See Cutajar (2021) for further details on the events in the private rental market in Malta during the early stages of the pandemic using a survey on tenants and landlords.

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