

The rising value of real estate



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Interest in the property market in Malta has been always high on the local agenda.

This is understandable given that the provision of shelter is a basic human need, the strong culture of home ownership, and of course the scarcity of land.

Property prices have been on a steady rise over the past decade, where according to Eurostat these rose by 73.6% between 2015 and 2025. In the Euro area the rise was less strong at 53.5%. Thus, over the past decade, property prices in Malta increased on average by around 2ppts more each year than the Euro area average.

Was this a bad thing? The reply to such question depends on what has driven this increase in prices. Price increases driven by speculation, which is not backed by underlying fundamentals, would mean that such increases could be short-lived, and reversals would be very detrimental to both citizens and the financial system.

But this does not appear to have been the case for Malta over the past decade. Firstly, GDP per capita at Purchasing Power Standards in Malta rose from 93.4% of the Euro area average in 2015 to 106.8% by 2025 – an increase of 14.3% over the past decade. This difference largely reflected economic growth in Malta that consistently outpaced that of the Euro area. This means that growth in the value of land in Malta largely reflects this difference in economic growth fundamentals. Malta simply generates more output per capita (and more so per square metre) relative to the Euro area, and therefore the value



of land should also relatively rise.

Secondly, the Central Bank of Malta's indicator of misalignment of property prices has shown over the past 10 years that property prices have not been overvalued, barring perhaps during the Covid years of 2020 and 2021, where the extent of overvaluation was generally well below 5%. Although the index after 2022 suggests that property prices were undervalued by about 5%, allowing for data measurement and modelling imprecisions, these can be considered as broadly in line with fundamentals.

Thirdly, although according to Eurostat construction costs have risen over the past decade, up by 45.3% (Euro area up by 47.1%), the rise in property prices has outpaced such increase in costs which suggests that the rise in property prices has been significantly driven by the rise in the value of land. Indeed, a study by NSO published in September 2025 shows that construction costs to the total combined value of a property (construction cost plus land

value) has declined from about 39% in 1995 to just 17% by 2024. Just as companies pride themselves in increasing the value of their equity in stock markets as their earnings rise, this is also the case for the value of land as the earnings that it can generate increases.

While one could argue that if such land had been put to different uses, Malta could have perhaps generated even faster growth, in practice undertaking such counterfactual exercises are fraught with difficulties because one would need to also assume a different skill set of labour resources and entrepreneurs and capital that are needed for different kinds of activities, which usually take time to develop.

Optimising land use, which in the case of Malta is a very scarce resource, remains undoubtedly always a priority, particularly for a small island state. However, this is no simple task because of the existence of property rights, be they financial assets or land, which are governed both through national legislation

and by the EU Charter of Fundamental Rights and the European Convention of Human Rights.

In recent years, following the strong growth of tourism in Malta, some have called for halting permits for the construction of new hotels. Restricting supply would undoubtedly benefit existing hotel owners as it would limit competition and raise the value of such licence. A similar argument is also now surfacing in respect of the proliferation of supermarkets.

However, such restrictions would run counter to the principles of a free market and competition, where the inefficient are usually weeded out when demand does not grow sufficiently in line with supply.

What policy makers can do is embark on strong town-planning policies, where for example hotels are zoned in specific areas, while designated towns and villages can be earmarked exclusively for residential use, rather than allowing haphazard development of various types of tourist accommodation, such as, complexes, ho-

tels and even apartments, all over the island, which inevitably lead to conflicts between residents and businesses.

Others have argued that the use of land for tourism purposes is not generating a good return for the country, with claims that the increase in revenue was lower than the rate of inflation, and hence this would merit diverting land resources elsewhere. A comparison of tourist expenditure per night stayed (a far more appropriate measure than expenditure per tourist) in 2025 with that of 2019 (pre-Covid) shows that this increased by just over a third, whereas the HICP increased by just over 19%, meaning that since 2019, tourist expenditure increased in real terms on average by 2% each year. The first four months of 2026 continue to show such trends, with expenditure in real terms increasing by around 1.5%.

While Malta's land has significantly risen in value because of its strong fundamentals (read as ability to generate revenue), nevertheless, competing use for such land needs to be carefully managed, partly through zoning policies and regulation that aims for activities that generate better returns, like higher class tourist accommodation facilities, without infringing on property rights while ensuring continued space for competition.

At the same time, incentives can be recalibrated to encourage the development of labour skills and capital investment towards activities that require relatively less land-use (given its scarcity), are relatively more kind to the environment, and that can provide a reasonable return that enables citizens to improve further their living standards and quality of life. While reconciling these three objectives and concurrently respect property rights can be challenging, especially in a small island state, nevertheless, the direction of travel that Malta needs to take has been never so clearer at this juncture.

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