ADVERTISED RENTS IN MALTA

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BOX 3: ADVERTISED RENTS IN MALTA¹

Introduction
The private rental market has expanded rapidly over the last decade. Among other factors, this growth was driven by the demand for rental accommodation by foreign workers, evolving trends in the tourism industry, as well as changes in socio-demographic and lifestyle preferences. The introduction of a new legislative framework on 1 January 2020 – the Private Residential Leases Act – was intended to promote the development of the private rented sector by ensuring standards of fairness, clarity and predictability in contractual relations between landlords and tenants. This was possible through the regulation of rental contracts and the introduction of various responsibilities on both landlords and tenants that are overseen by the Housing Authority, which was designated as the regulator of the housing market in Malta.²

As part of its regular assessment of the housing market, in 2017, the Central Bank of Malta started to collect advertised private sector rents on a quarterly basis. Advertised rents are set prior to the negotiation process that takes place between lessors and prospective lessees and thus they can differ from actual contracted rents. Moreover, some segments of the market may be excluded as certain properties are not advertised for rent, which may lead to an incomplete view of the private rental market in Malta. However, in the absence of an index based on contracts, advertised rents may still provide valuable insight on rental price dynamics. In 2020, this dataset was used in a study to develop an advertised rent index using standard hedonic equations to account for observable characteristics such as property type, location, size, and other attributes that have an impact on the price.³ This box provides an update of this study using data until 2021Q4.

Characteristics of the database
The database comprises publicly available quarterly data about residential properties advertised for rent since 2017Q4. Data were collected using big data techniques. Until 2018Q4, the database consisted of solely two housing types – apartments and maisonettes – along with information about the locality in which the property is located and the number of bedrooms. As part of a continuous effort to enrich this database, starting in 2019Q1, this information was supplemented by the collection of data about penthouses and additional localities that were previously not incorporated. In addition, information started being collected on other observable property characteristics besides location and number of bedrooms such as the availability of a garage, garden or pool facilities, proximity to a seafront or availability of a view.⁴ The database incorporates only listings of properties with a monthly rent, thus excluding properties listed with daily prices which are usually intended for short-let purposes.

Following these improvements and a data cleaning process to remove outliers and duplicates, at the end of 2021 the database comprised 46,315 listings made up of apartments, maisonettes, and penthouses (see Chart 1). In 2021, the average number of observations collected per quarter amounted to 4,670, compared to an average of 2,784 listings in 2020.

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² Further details on this reform are available in the first edition of the Annual Malta Residential Rental Study published by the Housing Authority in 2021.
⁴ Properties classified as having a garage include only those whose access to a garage is included with the rent. A property is classified as having a garden or pool only if such facilities (private or communal) can be enjoyed within the property. Views may include country, town and sea views.
The database captures properties available for rent in different localities and areas across Malta and Gozo. In the empirical analysis, these localities are grouped in ten different clusters to account for the substantial rent heterogeneity that exists among these areas while, at the same time, ensuring enough observations in each cluster. The localities included in each cluster are listed in Table 1. Advertised rents in high-end complexes, which amount to around 2.4% of the database, are classified separately in cluster J. Around 28% of all properties advertised since 2019Q1 are found in the Northern Harbour area of cluster A mainly comprising Sliema, St. Julian’s and Valletta. This is followed by cluster E, which incorporates St. Paul’s Bay area (16%) and cluster B, which includes the localities of Gżira, Msida and Ta’ Xbiex (12%). Around 3.5% of all properties in the database are in Gozo.

In terms of additional characteristics, apartments constitute the largest proportion of listings (75%), followed by penthouses (14%) and maisonettes (11%). Most of the properties advertised for rent are two-bedroom (40%) and three-bedroom (43%) properties, respectively. Around 14% of listings have only one bedroom while a very limited number of properties (2%) come with four or more bedrooms.

### Table 1

**LOCALITIES INCLUDED IN EACH CLUSTER**

<table>
<thead>
<tr>
<th>Cluster A</th>
<th>Sliema, St Julian’s, Valletta, Paceville, Ta’ Ġiorni, The Village</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cluster B</td>
<td>Gżira, Msida, Ta’ Xbiex</td>
</tr>
<tr>
<td>Cluster C</td>
<td>Ibragg, Madliena, Pembroke, St. Andrews, Swatar, Svieqi</td>
</tr>
<tr>
<td>Cluster D</td>
<td>Attard, Bahar iċ-Ċagħaq, Balzan, Bidnija, Birguma, Għargħur, Iki, Lija, Magħtab, Mosta, Naxxar, Salina, San Pawl tat-Tanga</td>
</tr>
<tr>
<td>Cluster E</td>
<td>Buġibba, Burmarrad, Manikata, Mellieha, Qawra, St Paul’s Bay, Wardija, Xemxija</td>
</tr>
<tr>
<td>Cluster F</td>
<td>Birkirkara, Biata l-Bajda, Fleur de Lys, Floriana, Guardamangia, Hamrun, Kappara, Luqa, Mrieħel, Pietà, Qormi, San Ġwann, Santa Venera</td>
</tr>
<tr>
<td>Cluster G</td>
<td>Birżebbuġa, Cospicua, Fgura, Għaxaq, Gudja, Kalkara, Marsa, Marsascala, Marsaxlokk, Paola, Santa Lucija, Senglea, Tarxien, Vittoriosa, Xgħajra, Zabbar, Żejtun</td>
</tr>
<tr>
<td>Cluster H</td>
<td>Bahrija, Dingli, Kirkop, Mdina, Mgarr, Mqabba, Mtarfa, Qrendi, Rabat, Safi, Siġġiewi, Zeħbiegh, Żebbug, Żurrieq</td>
</tr>
<tr>
<td>Cluster I</td>
<td>Gozo – Fontana, Ghajnsielem, Gharb, Ghasri, Kerċem, Marsalforn, Mgarr, Munxar, Nadur, Qala, San Lawrenz, Sannat, Santa Luċija, Victoria, Xagħra, Xewkija, Xlendi, Żebbug</td>
</tr>
<tr>
<td>Cluster J</td>
<td>Fort Cambridge, Fort Chambray, Pender Place, Portomaso, Tigne Point</td>
</tr>
</tbody>
</table>

Source: Central Bank of Malta.

Note: All properties classified in Cluster H and a number of other smaller localities across Malta were added in 2019Q1.

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5 Descriptive statistics include the full database and are thus restricted for the period 2019-2021.
In terms of prices, 39% of listings are advertised between €701 and €1,000, followed by 30% whose price ranges between €1,001 and €1,500. The share of listed properties with a monthly rent exceeding €1,500 stands at 20%, while on the other end, only 11% of listings are advertised for €700 or less. After the high-end cluster J, properties in cluster A tend to be the next most expensive in the market while properties for rent advertised in Gozo are on the lower side of the price range.

Properties available for rent that are advertised with access to a garage, garden or pool are quite limited. The number of properties which were advertised as having a garage, garden or pool amounted to 2%, 1% and 2%, respectively of all listings. In comparison, the number of properties advertised as being on, or close to a seafront over the same period amounted to 17% of all adverts while 27% were described as properties which enjoy country, town, or sea views.

**Methodology**

Five different rental price indices are constructed using alternative methodologies, namely the time dummy variable (TDV) method, the rolling time dummy (RTD) method with a window length of two periods (Q=2) and the average characteristics method chained using the Laspeyres, Paasche and Fisher methods. Each of these methodologies is estimated for two sample periods. Estimates using the entire database – including the inclusion of penthouses, cluster H and other small localities, and the availability of other attributes such as garage, garden, pool, seafront, and views – are only available starting from 2019Q1. On the contrary, indices excluding the latter characteristics and features are based on the full sample (i.e., 2017Q4-2021Q4).

**Empirical results**

Chart 2 shows the development of the advertised rental price index since its inception in 2017Q4. The estimates are based on the full sample (starting in 2017Q4) and consequently, use information only on property type, size, and location. Advertised prices continued to recover in 2021Q4, following the trough reached in 2020Q4, and stand at slightly below the level observed in 2020Q1. However, the index remains substantially lower compared to the pre-COVID peak observed in 2019Q2. Taking the average of the different approaches, advertised rents in 2021Q4 stood around 8.3% lower than the peak reached in 2019Q2.

The index constructed using the full set of characteristics that starts in 2019Q1 follows a similar pattern – it peaks in 2019Q2, reaches a trough in 2020Q4, and recovers thereafter. In this case, the index in 2021Q4 stands around 9.5% lower compared to its peak in 2019Q2.

These indices are used to calculate quarterly and

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annual growth rates in advertised rents, while controlling for the characteristics of the property. Chart 3 plots the quarterly changes in the indices. Excluding quarter-on-quarter fluctuations, growth rates were mostly positive in 2018 and early 2019 but turned negative in the second half of 2019 and 2020 especially as the market suffered from the effects of the COVID-19 pandemic. Advertised rents recovered in 2021, with positive quarterly growth rates recorded throughout the year. In 2021Q4, all hedonic approaches indicate that advertised rents increased between 1.4% and 1.6% compared to the previous quarter. The application of the same hedonic methods to the data commencing in 2019Q1 has a similar growth profile but yields somewhat less pronounced increases in rental prices. Under this approach, advertised rents in 2021Q4 were around 1.0% and 1.1% more expensive than in 2021Q3.

Chart 4 plots the annual growth rates in advertised rents. Growth rates were positive in 2019, albeit on a downward trend, but declined sharply in 2020. Advertised rents started to recover in 2021 but, in annual terms, the growth rate only turned positive towards the end of the year. In 2021Q4, advertised rental prices were between 7.2% and 8.0% higher than the corresponding quarter in 2020. When taking into consideration the additional characteristics first introduced in 2019Q1, advertised rents in 2021Q4 stood between 6.7% and 7.1% higher compared to a year earlier.

The inclusion of penthouses, cluster H and other small localities in 2019Q1 implies that the house characteristics in 2017 and 2018 are different to those in 2019 and onwards. Inevitably, this has some implications on the growth rates calculated by the average characteristics method, which in itself calculates the price of the ‘average’ house based on house characteristics. In particular, these improvements in data collection cause some discrepancy among the different methods when calculating (i) the quarterly change in prices between 2018Q4 and 2019Q1 and (ii) the yearly price changes between 2018 and 2019. The calculation of such growth rates under the Paasche methodology are particularly on the high side because this method divides the average house characteristics of time t+1 estimated at time t+1 by the average house characteristics of time t+1 estimated at time t. It also follows that the Fisher index, being the geometric mean of the Laspeyres and Paasche indices, is also slightly on the high side when compared to the Laspeyres or the time dummy methods.
Conclusion
This box provided an update of the dataset on advertised rents collected by the Central Bank of Malta. This dataset provides some insight on the evolution of private sector rents. It also allows for the construction of quality-adjusted rent indices based on standard hedonic methods that include advertised rents and a set of observable characteristics. The results point to a recovery in advertised rents in 2021 following the sharp contraction registered in 2020 as a result of the COVID-19 pandemic. In terms of growth rates, the range of estimates indicate that, in 2021Q4, rents have increased between 1.0% and 1.6% compared to the previous quarter and between 6.7% and 8.0% compared to a year ago. However, advertised rents remain between 8.3% and 9.5% lower than the pre-pandemic peak reached in 2019Q2.