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# SECTOR SPECIFIC ANALYSIS – CONSTRUCTION AND REAL ESTATE

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## BOX 1: SECTOR SPECIFIC ANALYSIS – CONSTRUCTION AND REAL ESTATE[1]

Over the years, findings from the Business Dialogue exercise suggest that the construction and real estate sector has displayed a mix of evolving and stagnant trends. This box provides a more in-depth assessment of this sector by utilising insights gathered since 2022. A total of 141 responses were collected from this sector in this time frame, with respondents split closely between construction and real estate companies. As in previous publications, the results should be interpreted with caution given the relatively low number of responses from this sector every quarter.

The construction sector is increasingly showing signs that the sector reached a plateau. While business conditions remain generally stable, there is a widespread view that the market may have reached its peak, with limited opportunities for further expansion. This is largely attributed to the limited availability of land for development leading to elevated land prices. In line with this, some firms also noted that their order books are increasingly being supported by ongoing long-term projects rather than new ones. Nevertheless, investment activity has generally remained stable over the years, and in several instances has even increased. However, this was often directed towards machinery and other capital expenditure rather than new property development, with only around 8% of companies in this sector reporting investment in such projects since 2022. Nonetheless, some firms have also reported more subdued investment intentions compared with the previous year.

Businesses in the construction industry continue to report considerable cost pressures arising from shortages of construction materials, supply chain disruptions, and other input price volatility, all of which have adversely affected operating conditions and in some cases compressed profit margins. Respondents also pointed to an increasingly burdensome regulatory environment, noting that conducting business in this sector has become more bureaucratic, costly and time consuming.

In recent years, the construction industry has come under increased public and regulatory scrutiny following incidents in the sector, contributing to a generally negative perception of the industry and a more cautious approach to permit issuance. However, some respondents expressed optimism that the introduction of contractor licensing will improve compliance, quality standards and enhance the industry's reputation over time.

Competition within the sector had also intensified since 2022, as weaker private sector demand had encouraged more firms to compete for government tenders, placing downward pressure on tender prices. Nevertheless, respondents noted that public sector framework agreements continue to provide a relatively stable source of activity by allocating work across contractors while adjusting costs and prices to support profitability. As a result, construction firms have increasingly shifted their focus towards government projects.

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While construction firms themselves generally reported relatively stable conditions, firms providing services to the industry noted a more pronounced increase in activity, a pattern that is consistent with the broader finding that improvements in sector conditions are more commonly reported in periods when real estate firms account for a larger share of responses than construction companies. This suggests that construction firms have generally expressed more negative sentiment than their real estate counterparts, which have more frequently reported record sales.

On this note, business activity in the real estate sector remained buoyant. Along the years, both the residential sale and rental markets continued to perform particularly well, supported by resilient demand, while supply constraints contributed to sustained increases in both property prices and rents.

Over the review period, respondents in real estate reported a shift towards a more buyer-driven environment, with the negotiation process taking longer as buyers took their time to make decisions. Growth in transaction activity also slowed due to higher property prices and mismatches between sellers' price expectations and buyers' budgets. In particular, respondents noted that buyers' choices were increasingly shaped by their income rather than by location preferences or property types. Nevertheless, interest in property remained strong. Some respondents also highlighted significant increases in construction material and finishing costs.

Furthermore, over the surveyed years, respondents increasingly noted a widening imbalance in the rental and sales markets, as demand began to increasingly outpace available supply. Although construction activity remained stable, it was not sufficient to ease these pressures. Some respondents also noted that demand for property is broad-based across Malta, although the most sought-after areas remain those in central Malta. These dynamics have contributed to significant increases in property prices and rents, with some firms indicating that prices in certain areas have risen beyond what is justified by the quality of the property.

On the other hand, the commercial property market showed mixed performance, with demand for office space weakening partly due to increased hybrid working arrangements brought about by the pandemic as well as an oversupply of office spaces. By contrast, demand for warehouses and garages strengthened, with garage prices rising, particularly for street level units.

All-in-all, sentiment within real estate companies remained optimistic, with industry participants generally expecting business conditions to remain stable or improve in the near term, supported by continued demand for residential property, strong investment interest, and confidence in the long-term strength of Malta's property market.

In conclusion, insights gathered over the years suggest some variation in activity within the sector. While construction activity appears to have plateaued, real estate agents as well as firms providing services to the construction industry continue to report stronger activity, including record sales in some instances.