Workshop 21 - Home Ownership and Welfare Developments

High vacancy rates and high prices of housing: A Mediterranean paradox

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High Vacancy Rates and High House Prices
A Mediterranean Paradox

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Abstract
In a ‘normal’ housing market, one would expect that high house prices go together with low vacancy rates and vice versa. However, in Malta and Spain, two countries that belong to the so-called Mediterranean welfare state regime, this is not the case. These countries are characterized by high house prices and high vacancy rates. In this exploratory paper, we try to explain this paradox. Doing so, we look at aspects such as rent regulation, investments in the property sector, the role of the family, second homes and the characteristics of the welfare state. Furthermore, we discuss some possible policy responses towards this typically Mediterranean phenomenon.
1.1 Introduction
According to economic theory, the relationship between vacancy rates, house prices and housing production is rather straightforward. In a housing market with perfect competition, the house price is a function of demand and supply. If the demand for dwellings is higher than the supply of dwellings, there will be a shortage of dwellings and the house prices will rise. In that case the vacancy rate will be low, because vacant dwellings will quickly be occupied by house seekers. Thus, we can expect a negative association between the vacancy rate on the one hand, and the development of house prices on the other hand.

The relationship between the vacancy rate and the housing production rate is expected to be negative as well. If the vacancy rate is high, the supply of dwellings will be higher than the demand for dwellings, which means that the house prices are stable or decreasing. Consequently, developers won’t have much stimulus to engage in housing starts and the housing production rate will be relatively low. However, this paper will show that the reality can be very different than this simple economic model suggests. We will show that this is especially so for the Southern European EU-countries, and most in particular for Malta and Spain. In these countries, high vacancy rates go hand in hand with rising house prices and a high housing production rate. We call this the ‘Mediterranean paradox’. It is the aim of this exploratory paper to explain this paradox.

1.2 Structure of the paper
Apart from the introduction, the paper consists of five sections. In section 2 we present some statistics with regard to the vacancy rates in the different European Union countries, and we briefly touch upon the definitional problems that are associated with the concept ‘vacancy rate’. Furthermore, the vacancy rate figures for the different EU-countries will be confronted with figures on house price development, housing production and the degree of homeownership. This descriptive statistical analysis will clearly show that the Southern European countries, and especially Spain and Malta, are characterized by high vacancy rates, but also by rising house prices, a high rate of housing production and a high degree of homeownership. Thus, the Southern European housing markets seem to function according to some kind of particular Mediterranean rationale.

We postulate that this peculiar position of the Southern European countries is connected to the specific traits of the Mediterranean welfare and housing systems. That’s the reason why the main characteristics of these systems are described in section 3. Subsequently, section 4 pays specific attention to the position of Malta, a tiny country that is not included in the main typologies of welfare and housing systems. However, our analysis will show that the Maltese welfare and housing system shares a lot of similarities with the welfare and housing systems of the other Southern European countries.

In section 5, the phenomenon of vacant dwellings is analyzed in more detail for Malta and Spain; the most obvious representatives of the ‘Mediterranean paradox’. Both Malta and Spain are characterized by high vacancy rates, but also by rising house prices, a high housing production rate and a high degree of homeownership. The reasons for this phenomenon will be explored by referring to some specific features of the Mediterranean housing systems. Furthermore, we will also look at the Maltese and Spanish policy responses towards the phenomenon of vacant dwellings. Finally, section 6 contains a short conclusion.

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1 We are aware of the fact that is only a very limited and basic description of economic theory. For more advanced economic models, we refer to the housing economics literature.

2 In this paper, the terms Mediterranean countries and Southern European countries are used interchangeably. Both terms refer to Portugal, Spain, Italy, Greece and Malta.
1.3 Vacant Dwellings: some definitions
A vacant dwelling is defined as a unit of residential accommodation that is empty at a particular point in time (the moment that the census or survey is carried out). This includes dwellings that are empty between change of occupants, dwellings that are undergoing modernization, repair or conversion, dwellings that are awaiting demolition, and newly completed but yet not occupied dwellings.

It is necessary for a proportion of the housing stock to be empty at any point in time to enable the process of buying, selling and letting to work efficiently. It is also inevitable that properties will be empty when undergoing repairs and improvement. These kinds of vacancies are known as ‘transactional vacancies’. It is estimated that the effective minimum level of empty homes as a result of transactional vacancies is around 2% of the housing stock.

Some vacant dwellings are used as summer or holiday residence and thus are considered as ‘temporary vacant’, while vacant premises that are not used as second or holiday homes and that are vacant year around are termed ‘permanently vacant’. A large variety of ‘second homes’ can be found in Europe, some built specifically for temporary and recreation use, while others are former prime residences that are vacated due to depopulation of rural areas. A large part of the ‘second homes’ is located in rural or coastal areas and primarily used for recreation purposes.

2. Vacant dwellings in the European Union
When interpreting statistics on vacancy rates, it is of fundamental importance to distinguish between ‘permanently vacant’ dwellings and ‘temporary vacant’ dwellings (second homes). Unfortunately, it is often difficult if not impossible to assess whether a dwelling is temporarily or permanently vacant. The boundary between these two types of dwellings is very blurred. This lack of conceptual clarity seriously complicates international comparisons (National Board of Housing, Building and Planning Sweden 2004, p. 49).

Notwithstanding these definitional problems, figure 1 clearly shows that the Southern European countries have a higher rate of vacant dwellings than the other countries in the European Union. Outside Southern Europe, The Netherlands, Sweden, the United Kingdom and, to a lesser extent, Denmark, have relatively low vacancy rates. On the other hand, the rate of vacant dwellings is more substantial in France, Germany and Finland.

In Italy, one in every five dwellings is vacant, whereas in Malta and Spain the degree of vacancies is 15%. In Portugal and Greece, the vacancy rate is respectively 11% and 9%, also higher than in most other European countries. For four of the five Southern European countries, the second homes are not included in the definition of a vacant dwelling. The figure for Italy, however, probably also contains a share of second dwellings (National Board of Housing, Building and Planning Sweden, 2004, p. 91-94).
In Germany, the rather high vacancy rate is probably related to the German unification and the migration movements in which this process has resulted. These have caused a lot of vacant dwellings in former East Germany. For Finland, it is not clear whether the second dwellings are or are not included in the definition of a vacant dwelling. In France, the second dwellings are not included in the definition of a vacant dwelling. In this country, vacant dwellings are a serious problem. In order to reduce the vacancy rate and make the vacant dwellings available for the housing market, some big French agglomerations therefore impose a tax on the owners of vacant dwellings (Elsinga, Haffner and Hoekstra, 2006).

2.1 The relationship between vacancy rate and house prices

According to economic theory, one should expect that high vacancy rates are accompanied by low and/or decreasing house prices and vice versa. Figure 2 shows the relationship between vacancy rates on the one hand, and the development of house prices (growth in house prices in 2004) on the other hand, in the 11 of the 12 EU-countries that were also selected in figure 1 (figures for Italy are not available).
Figure 2  The relationship between vacancy rate and the development of house prices in 11 selected EU-countries

The figure shows that for the selected countries, there is a slightly positive relationship ($r=0.35$) between the vacancy rate on the one hand, and the development of house prices on the other hand. As far as this is concerned, two countries particularly stand out: Spain and Malta. These two countries are characterized by both the highest vacancy rates and the highest increase in house prices! This firmly contradicts with what we would expect on the basis of economic theory and strongly suggest that most Spanish and Maltese vacant dwellings are not available for the housing market. Rather, they seem to be kept aside for some reason or another (the possible causes of this phenomenon are discussed in section 5.

2.2 The relationship between vacancy rates and housing production

Based on economic theory (see section 1), we would expect an negative relationship between vacancy rates and housing production rates. However, as figure 3 shows, this relationship turns out to be very strongly positive instead ($r=0.9$). Again, this is mainly due to the developments in the Southern European EU countries. The latter group of countries is characterized by both high vacancy rates and a high rate of housing production. Especially in Spain and Malta, this is very clearly visible.
2.3 The relationship between vacancy rate and tenure

It's interesting to analyze whether there is a relationship between the vacancy rate of a country on the one hand, and the tenure structure of this country on the other hand. Figure 4 offers insight into this relationship for the 11 selected EU-countries. This figure shows that there is a positive correlation ($r=0.67$) between the degree of homeownership and the vacancy rate. Also here, the Southern European EY countries form a separate group; these countries have both the highest vacancy rates and the highest homeownership rates.

Source: Housing Statistics in the European Union, 2004 and Falzon et al., 2005 (for Malta)
2.4 Conclusions

Based on the figures that were presented in this section, the following conclusions can be drawn. First of all, it is clear that within the European Union, the highest vacancy rates can be found in the Southern European EU countries: Greece, Italy, Portugal, Spain and Malta. Furthermore, contrary to what one would expect on the basis of economic theory, these high Southern European vacancy rates go together with substantial increases in house prices, a high rate of housing production and a high degree of home ownership. Especially in Spain and Malta, the interrelationship between these four variables is very strong.

Thus, the housing markets of the Mediterranean countries seem to be governed by a different logic; they don’t follow the principles of ‘normal’ economic theory. In the rest of this paper, we try to explain this Mediterranean paradox. Doing so, we use a welfare system perspective. In our opinion, the Mediterranean paradox is related to the specific characteristics of the Southern European welfare and housing systems. These characteristics are described in the next section.

Figure 4 The relationship between vacancy rate and home-ownership rate in 11 selected EU-countries

Source: Housing Statistics in the European Union, 2004
3. Esping-Andersen’s typology of welfare systems

The theory and typology of Esping-Andersen is widely used in international comparative research. According to Esping-Andersen, one should not speak of the welfare state, since different welfare states have different characteristics. He argues that there are three ideal typical welfare state regimes (liberal, corporatist and social-democratic), which fundamentally differ from each other on aspects like ‘the size of the welfare state’ (degree of decommodification), ‘social stratification’ and the ‘mix between State, market and family’ (Esping-Andersen, 1990). Below, the characteristics of these three regime types are very briefly discussed (see also table 1).

In social-democratic welfare state regimes, the provision of welfare services is dominated by the State. There are universal welfare services of a high level, to which a large proportion of the population has access. As a result of the re-distributive effects of the welfare state, income differences are relatively low. Sweden is the classic example of a social-democratic welfare state, although the other Scandinavian countries also belong to this regime type.

In corporatist welfare state regimes, the State is fairly active in the provision of welfare services. However, this does not lead to income redistribution, since preservation of the existing hierarchy in society is the starting-point for welfare policies at State level. Consequently, the welfare provision is segmented; different groups are entitled to different welfare services and the nuclear family is often explicitly favored. Furthermore, the State is definitely not the only provider of welfare services. In this respect, the family and private non-profit organizations (churches, trade unions, and so forth) also play an important part. Austria, Germany, France, Belgium and the Netherlands\(^3\) are representative corporatist welfare state regimes.

The liberal welfare state regime is characterized by little State interference and a strong market orientation. Private companies are responsible for the provision of the majority of the welfare services. The State only provides help for a limited group of people with really low incomes (safety net). As a result, the society is characterized by dualism. There is equality (but also poverty) under the recipients of State welfare, while there is income differentiation in the rest of the society. The United States, Australia and, to a somewhat lesser extent, the United Kingdom and Ireland represent liberal welfare state regimes.

3.1 The position of Mediterranean countries in the welfare state typology

In the original typology of Esping-Andersen, the Mediterranean countries (with the exception of Italy which was classified as a corporatist welfare state regime) were left out of consideration. As a reaction to this omission, different researchers (Leibfried, 1992, Barlow and Duncan, 1994, Ferrara, 1996) have proposed to formulate a ‘new’ welfare state regime for the Southern European countries, using various names (for example rudimentary welfare state regime, Latin Rim regime) to indicate this regime type. As far as this is concerned, we use the term ‘Mediterranean welfare state regime’ because this is the way in which Esping-Andersen (1999, p. 139) refers to this welfare regime type\(^4\).

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\(^3\) The position of the Netherlands is not very clear because this country has both corporatist and social-democratic characteristics.

\(^4\) Esping-Andersen actually prefers to consider the Mediterranean welfare state regime as a sub regime of the corporatist welfare state regime and not as a separate regime type (Esping-Andersen, 1999, p. 94). This is due to the fact that the corporatist welfare state regime is also fairly familialistic. Furthermore, according to Esping-Andersen, clientelism doesn’t refer to the characteristics of the welfare system but rather to the way in which this system is (mis)used.
The Mediterranean welfare state regime, represented by Portugal, Spain, Italy and Greece, has many similarities with the corporatist model. However, the welfare state is generally less developed and the role of the family and the influence of the church are more pronounced. There is a strong degree of familialism, which implies that a disproportionately large part of the welfare tasks is carried out within the family, without much interference of market or state (Barlow and Duncan, 1994, p. 30). Furthermore, the civil administration is characterized by the occurrence of clientelism. Although the specific practices can vary immensely, clientelism is essentially an exchange of services provided by the state in return for political support (Allen et al., 2004, p. 104). Clientelism, thus, distributes services according to a particularistic and/or personalised logic, rather than the depersonalized and universalistic logic associated with professionalized Weberian bureaucracies. Although clientelism may occur in all types of welfare state regimes, it seems to be more prevalent in the Mediterranean welfare states (Ferrara, 1996).

Table 1 A typology of four welfare state regimes

<table>
<thead>
<tr>
<th>Size of the welfare state</th>
<th>Liberal welfare state regime</th>
<th>Social democratic welfare state regime</th>
<th>Corporatist welfare state regime</th>
<th>Mediterranean welfare state regime</th>
</tr>
</thead>
<tbody>
<tr>
<td>small</td>
<td>big</td>
<td>relatively big</td>
<td>small</td>
<td></td>
</tr>
<tr>
<td>Stratification</td>
<td>high, mainly based on income</td>
<td>low</td>
<td>relatively high, mainly based on social or occupational status</td>
<td>relatively high, mainly based on social or occupational status</td>
</tr>
<tr>
<td>Arrangement between state, market and family</td>
<td>dominant position of market parties</td>
<td>dominant position of the state</td>
<td>important position for the family, considerable influence for private non-profit organizations</td>
<td>dominant position for the family, occurrence of clientelistic practices, church is relatively important</td>
</tr>
<tr>
<td>Countries (EU-countries only)</td>
<td>United Kingdom, Ireland</td>
<td>The Netherlands, Denmark, Sweden, Finland</td>
<td>Belgium, Germany, France, Austria</td>
<td>Greece, Portugal, Spain, Italy</td>
</tr>
</tbody>
</table>

Source: Hoekstra, 2005a

3.2 The welfare state typology in international comparative housing research

Although housing has been largely left out of consideration in Esping-Andersen’s work, his welfare state regime theory has been widely discussed and used in international comparative housing research (see for example Harloe, 1995, Brandsen, 2001, Matznetter 2002, and Hoekstra, 2003). However, there are few studies that apply the welfare system perspective to the Southern European housing systems. Lacking the necessary knowledge, data or language skills (or a combination of these), many housing researchers have simply omitted the Southern European countries from their international comparisons. The book ‘Housing and Welfare in Southern Europe’ (Allen et al., 2004) is a notable exception to this trend. In this book, the authors analyze Southern European housing systems as part of the welfare system; a broad welfare providing system operating at the levels of the state, the market and the family. Assuming that welfare systems and housing systems are interconnected, the authors argue that the Mediterranean welfare systems have generated housing...
systems that are peculiar to Southern Europe. The specific features of these Southern European housing systems are described in the next paragraph.

3.3 Specific characteristics of the Mediterranean housing systems

Allen et al. conclude that all Southern European housing systems have certain features in common: a high rate of home ownership; a high proportion of secondary homes; an important role for the family in supporting access to housing and the occurrence of clientelistic housing practices.

A high rate of home ownership

The Southern European EU countries are characterized by relatively high rates of homeownership and a limited social rental sector (with the exception of Malta). There are different explanations for this phenomenon. Some authors, for example Castles and Ferrera (1996), state that the preference for homeownership is part of the cultural heritage, whereas others (for example Trilla, 2001) point to the specific nature of the Southern European housing policies and the fact that in Southern Europe, the home owning sector is generally considered as a safe target for investments (see also section 5.2).

A high proportion of secondary homes

In Southern Europe, second homes have a share of between 15 and 20 percent of the housing stock. Moreover, in most Southern European countries the share of second homes is still rising. There are three main reasons for the high proportion of second homes in Southern Europe (Allen et al., 2004, pp. 34-36). First of all, some second homes are located in places where there is not enough employment to make a living. These dwellings, mostly situated in agricultural villages, were left empty by their owners when they migrated from the countryside to the cities. However, they often stay in the family who use them as second home and as a way of keeping in touch with the local village life.

Second, some secondary homes in villages arise through the investments of emigrants, who want to come back for their holidays and weekends, or when they retire. Such houses can be considered as second homes until the owners remigrate. Third, some houses are explicitly built for the purpose of providing second homes for households from urban areas or from other parts of Europe. Such dwellings are especially found in places of scenic beauty, such as coastal areas, mountain areas or historical cities. The rise in affluence in the European Union, the increase of the ageing population (pensionados), the increase of leisure time and the improvement of infrastructure and transport systems have clearly boosted this process.

An important role for the family in supporting access to housing

Although this is slowly changing, the families in Southern Europe still tend to be characterized by a largely domestic female role, much intergenerational help and a high degree of family solidarity. This influences how people access housing. Families often provide financial support to first-time homebuyers and a significant proportion of households have acquired their house as a family gift or through inheritance. Furthermore, family relations also have a strong effect on residential mobility patterns. Residential propinquity to relatives is often the prime factor in households’ residential location preferences, substantially overriding considerations such as proximity to work.
The occurrence of clientelistic housing practices

Clientelism can play a role in all housing areas that require some degree of state regulation, such as housing allocation and land-use policies. In Spain for example, state-subsidized homeowner dwellings that are built by private promoters are often allocated to relatives or friends of these promoters (Hoekstra, 2005b). As long as these people meet the criteria for these dwellings, this is a perfectly legal practice. Nevertheless, it is a typical example of a personalised, particularistic and thus clientelistic way of housing allocation.

4. Does Malta Have a Mediterranean welfare and housing system?

Malta is not included in the welfare state typology of Esping-Andersen. This section therefore examines the welfare state characteristics of Malta and assesses whether this country can be included in the Mediterranean welfare state model. As far as this is concerned, we particularly pay attention to the concept of clientelism. We will show that Malta is perhaps the model *par excellence* regarding clientelism, due to its long history of colonialism under the Knights and the British.

4.1 Does Malta have a ‘Clientelist’ Culture?

Malta, one of the smallest island states in the world is only seventeen miles in length and nine miles across, at its widest. A rocky piece of land, barren of vegetation, that never managed to produce enough food to feed its unusually fast growing population. Since historical records exist, Malta has been under the political protection of invading rulers. In 1530, Emperor Charles V of Spain offered Malta to the Order of St. John of Jerusalem who had been evicted from Rhodes by the Ottoman forces. The Order hesitantly accepted Malta and remained there until in 1798, they were evicted again, this time by Napoleon’s army. Thus, the most important influences that shaped the Maltese personality and molded the national aspirations came from two sources: the Knights (1530-1798) and the British (1800-1964).

Maltese not only accept the state’s intervention, but believe that the most important role of the state is to provide all life’s necessities, especially permanent and secure government employment to its citizens. However, Malta is politically polarized around the two dominating political parties: the Nationalist party (NP) and the Labour party (MLP). Party loyalty is almost complete and most Maltese openly express allegiance to one of the two political parties. Dissention and change of allegiance is rare. In Malta, client politics is not only the dominant force, but it has been held up as a paradigm of good government (Malia, 1994, P.700).

The Knights not only imported grain from Sicily to feed the growing population, they also supported charities and provided free universal health services to the Maltese. The Order’s Sacred Infirmary, its Hospital, became the most celebrated institution of its kind in the Western world and patients came from all over Europe to visit it (Luke, 1960, p.65).

... as a consequence of the Order’s never-ending feud with Muslim princes, within the administrative system adopted in Malta by the Knights, autocracy and paternalism overlapped significantly with the requirements of military security (Pirotta, 1996, P.25).

As modernization and urbanization proceeded in Malta, the tradition of patron and client relationships and personal contacts that were the hallmark of the Knights administration extended

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5 This happened a lot in the past. Nowadays, many Spanish state-subsidized homeowner dwellings are allocated by means of a lottery.

6 Goldsmith (1996) defines ‘clientelism’ as a system where politics is personal rather than professional. Such a system tends to foster political corruption (Goldsmith, 1996, P.31).
into the twentieth century under the British colonial administration. In order to buy loyalty, the British administration ensured that, “as in the past, the dependency of almost every section of Maltese society on the government” is maintained (Pirotta, 1996, P.48). Moreover, nearly 40 percent of the gainfully employed population works for the government, and another 20 percent or so tends to rely almost exclusively on incomes earned from government contracts (Pirotta, 1997, pp.4-5). Although under the new republic (since 1964), governments have been formed through modern and secular elections, the patron and client relationship remained as powerful as ever. Pirotta (2001) describes the relationships between a paternalistic state and a dependent nation as:

Historically, for reasons that were sometimes strategic and at other times economic or social, the existence of an extensive paternalistic state and the welfare of the Maltese have always been seen as being inextricably linked (Pirotta, 2001, p.40).

4.2 A Powerful and Dominant Catholic Church and the Idea of ‘Subsidiarity’
In addition to the strong clientelism that defines Malta as a nation, there are more characteristics that Malta shares with the “Mediterranean” welfare state regimes. For most, it is the Catholic culture whose influence and power may well exceed those in Spain and Portugal:

As patrons of all the arts, repositories of wealth, directors not only of consciences but all conscious action, the parish organizations became, and to an amazing extent still retain, a permeating power (Bowen-Jones et al., 1954, p.181).

The first sign of the strength and power of the Catholic Church in Malta can be seen through the census figures - more than 95 percent of Maltese are Roman Catholics. Maltese trace the presence of the Catholic Church in Malta to the shipwreck of St. Paul in the year AD 60. Until very recently, the parish priest was the only representative of village and community interests. According to Tabone, one can claim that it was the Catholic Church that gave Malta its identity and constructed much of its culture (Tabone, 1994, p.294). All the existing homeless shelters, the main institutions serving people with disabilities and all homes that cater for children (Children Homes) in Malta are directly or indirectly run by religious organizations.

Catholic social teaching and its doctrine of ‘subsidiarity’ is the dominant practice. Family is the most important institution and believed to be the first line of defense against social and economic risks. When in 1949, the then Labour government introduced the national health system, the Church opposed the idea by claiming that the government’s intervention in family life is dangerous and not wanted (Pirotta, 1987, p.156). Women are encouraged to stay home and take care of the family; this is reflected in the low female labour force participation rate (28%).

Almost thirty percent of the total school age population in Malta attends Church schools that are run by nuns, priests and/or secular clergy. These schools, which receive government subsidy, are believed to be of better quality than the government schools, thus access to them is hotly contested. Even the University of Malta, which is supposed to be a secular institution, has religious roots that go back to 1769, when it started as a Jesuit College (Sultana and Baldacchino, 1994, pp.11-2). Even today, the departments of sociology, social work and even the Institute of Management are headed by secular clergy.

4.3 Social Protection System
The income maintenance system is in line with corporatist welfare state regimes and is based on occupational statuses. Like many countries that are included in the Mediterranean model, Malta
tends to have a relatively generous pension system, albeit covering only workers that are part of the ‘system’ (these ‘insiders’ are predominately male). Malta has a universal national health system that is financed on both the contribution of workers and taxes.

4.4 Lack of Professionalism and the prevalence of Patronage
Due to the small size of the island, public institutions are highly vulnerable to partisan pressures, favoritism and manipulation. For example, in order to safeguard against favoritism, the University of Malta (the only university in the islands with approximately 9,000 students) hires inspectors from the British universities at the end of each academic year to carry out a random inspection of students’ final grades. Students don’t know their final grades until this inspection is completed and the grades are confirmed and posted.

One area in which Malta diverges from the Mediterranean model is the size of its social housing sector. This sector is much larger than in Spain, Portugal and Greece. The expansion of social housing under the Labour government in Malta can be attributed to the the Maltese patronage system in which homes were exchanged for votes.

4.5 Conclusion
Based on the above analysis, we can conclude that Malta fits well in the Mediterranean welfare state model. The culture and social structure are characterized by an important role for the family and the occurrence of clientelism. Furthermore, the church has an important position and the social protection system is based on social statuses, which gives it a corporatist character.

5. Vacant Dwellings in Malta and Spain

5.1 The size of the phenomenon

How many vacant dwellings are there in Malta?
Reliable housing data in Malta are only collected through censuses, the last one of which took place in 1995. According to this census, there are 155,000 dwellings in Malta. Of this dwelling stock, 13,000 dwellings (8%) are considered as ‘temporary vacant dwellings’ (second homes), whereas almost 23,000 dwellings (15% of the dwelling stock) are permanently vacant. Since 1985, the stock of permanently vacant dwellings has increased by almost 12,000 (Planning Authority, 2002, p. 41). According to the Planning Authority, 41,000 dwelling units are required until the year 2020. However, a conservative estimate of the current available residential capacity indicates that 95,500 units may actually be provided, if the current policy is continued. Therefore, in 2020, the supply will probably exceed the housing requirements by more than 50,000 dwelling units. Such excess supply will no doubt add to the already alarming vacancy rate.

How many vacant dwellings are there in Spain?
According to Spanish census of 2001 (www.ine.es), Spain had 20,95 million dwellings. Of this dwelling stock, only 68% is a prime residence. The rest of the stock consists of second homes (16%), empty dwellings (15%) and the category ‘other’ (1%). As far as this is concerned, second homes are defined as ‘dwellings that are only used part of the year and that don’t constitute the prime residence of one or more persons’. Vacant dwellings are defined as ‘dwellings that are not occupied by a household and that don’t serve as a second home’. Finally, the category ‘other’ consist of mobile homes and student accommodation.
Figure 5 shows the share of vacant dwellings in the different Spanish regions. The figure shows that vacant dwellings have a significant share in the dwelling stock throughout all Spain. In all regions, more than 10% of the dwelling stock consists of vacant dwellings. As far as the prevalence of second homes is concerned, the regional differences are more pronounced, with percentages ranging between 2% and 23%. Contrary to what is often assumed, a high share of second homes is not only a Mediterranean phenomenon. In fact, the landlocked regions of Castilla-La Mancha and Castilla y Leon have the highest share of second homes of all Spain.

5.2 Why are there so Many Vacant Dwellings in Malta and Spain?
In our opinion, the high incidence of vacant dwellings in both Malta and Spain (and the other Southern European countries as well) can be explained by referring to some specific features of the Southern European housing systems. These features are explored in more detail in this section.

Rent regulation and tenancy protection
Contrary to what is often thought, the Southern European countries have not always been countries of homeowners. In 1950, more than 50% of the Spanish dwelling stock consisted of private rental
dwellings. Most of these dwellings were owned by individual households who traditionally see the residential sector as a safe target for investments. However, in order to protect the sitting tenants against rent increases, the Spanish government decided to freeze all rents between 1946 and 1964. This stimulated many landlords to sell their dwellings. As far as this is concerned, the strong rental protection also played an important role. In case of non-payment, eviction procedures generally took many years. Consequently, homeowners became more and more reluctant to let their vacant dwellings, whereas landlords cut back on their investments in maintenance and renovation. Even though the Spanish rent regulation was considerably liberalised after 1964, the Spanish government has not yet been able to reverse this trend. This is probably due to the fact to the rental protection of tenants is still rather high; also today the eviction of non-paying tenants requires long juridical procedures (Circulo de Empresarios, 2005). And since non-paying tenants might be more frequent in Spain than in many other countries (Periodico El Mundo, 2004), there has emerged a culture in which letting a dwelling is equated with asking for problems. Consequently, many Spanish homeowners are very reluctant to let their vacant dwellings.

In Malta, the situation is largely the same. In 1949, a new rent regulation law came into force. Under this new law, a landlord could not take its property away from the tenant, unless the tenant was offered a suitable alternative accommodation. Furthermore, rent increases were only possible after permission of the Rent Regulation Board’s (Camilleri, 1982, p.31). Since the 1960’s, the Maltese government has made several attempts to liberalize the rent regulation, the latest being in 1995. However, the 1995 act only applies to contracts signed after 1995, thus exempting the more than 17,000 older rental units where the rent is very low. Partly as a result of this, the 1995 rent regulation reform has largely failed to convince the private sector to invest in the private rental market, or to let vacant dwellings. The Maltese rent regulation is therefore seen by many as the major culprit behind the large vacancy rate, and the thousands of dwellings that are permanently vacant.

Investing is homeownership is profitable and safe
Many Mediterranean countries have made a move to a service economy before completing the industrial cycle. Furthermore, their welfare states are not very extensive, which means that families are primarily responsible for their own financial future. In such circumstances, investments in immoveable property are seen as a safe way of saving and investing money. After all, such investments are inflation-proof (before joining the European Union, many Mediterranean countries were characterized by high rates of inflation) and generally yield high returns. According to Trifilleti (1999), homeownership may be considered as a primitive form of insurance against social risks (Cited in Flaquer, 2000, p.9). It may provide protection in old age, when children want to get married, and in situations of sudden unemployment.

Moreover, apart from housing, there are often few other investment opportunities for individual households. For example in Malta, the interests rates are low, the stock market is very limited and the amount of money that families can save is usually not large enough to invest in industrial development. Consequently, the most logical option for safe investments has always been the property sector. Even when the introduction of a more liberal trading regime, the gradual relaxation of exchange controls, and the establishment of the Malta Stock Exchange, led to alternative outlets for investment, this did not really change the property investment trend that been part of the Maltese culture for decades. In Spain, the situation is rather similar. Also here, the property sector is the preferred investment outlet for large segments of the population. This is due to the very low interest rates and the lack of trust in investments in stocks (especially after the ‘internet crisis’)
Furthermore, the large informal and illegal economy also plays a role. A large amount of the black money that is earned here is invested in the property sector.

Summarizing the above, we agree with Allen et al. (2004, p. 20) that the high rate of (investments in) homeownership in the Mediterranean countries is more a response to the specific constellation of the Mediterranean welfare states and the lack of other investments opportunities than a deeply rooted cultural preference (Allen et al., 2004, p.20).

The profitability of investments in homes largely depends on the development of house prices. In both Malta and Spain, these developments have been very positive. House prices have been rising in Malta since anybody remembers. Since 1987, the average price for housing has been rising by on average 10.3 percent annually. In 1987, the average price of a flat was Lm16,354 (approximately € 40,000) whereas it was Lm85,376 (approximately € 190,000) in 2004; almost 5 times as much! (Falzon et al, 2005, p.64). In Spain, the price developments are rather similar. Between 1995 and 2005, the average square meter price for housing has risen from € 662 in 1995 till € 1824 in 2005 (www.mviv.es). Although there are some economic and demographic reasons for this price explosion (rather strong economic growth, low interest rates, deregulation of the mortgage market), many analysts fear that the Spanish housing market is built on a bubble, caused by speculation (Garcia-Montalvo, 2003). This is best illustrated by the extremely high housing costs that Spanish households have to bear. Spanish house-buyers that bought a house in 2004 on average needed 8 net yearly salaries to carry out this purchase. This results in an average mortgage repayment of 55% of the net monthly household income! (Europa Press, 2005).

As long as the house prices keep on rising in the pace described above, there is no urgent need for Maltese or Spanish owners of vacant dwellings to let or to sell these dwellings. After all, in the current housing market, only possessing a dwelling is enough to yield an attractive (although fictitious as long as the dwelling is not sold) return.

The Role of the family

The important role for the family is the most distinctive feature of the Mediterranean welfare and housing systems. Dwellings sometimes stay in the same family for a very long time. Through inheritance, they are passed within the family: from grandparents to parents, from parents to children and sometimes also between other family members. And even if there are no family members interested in occupying a dwelling that is in possession of the family, these dwellings are often kept vacant instead of being sold, because family members may need them at a later stage. Furthermore, both Maltese and Spanish families often assist their children and grandchildren when they want to buy a house. Sometimes, these properties remain vacant until the children and grandchildren are ready to occupy them.

Rise of second homes

Although this paper is mainly about permanently vacant dwellings and not about second homes (temporarily vacant dwellings), both phenomena are certainly related to each other. First of all, the high demand for second dwellings has given a positive boost to the Mediterranean housing markets. This demand has contributed to the rising house prices and the high housing production rate. Due to this, housing has become an attractive long-term investment opportunity for many households. Second, the distinction between vacant dwellings and second dwellings is very blurred. Vacant dwellings may actually be second homes and vice versa. Research in the autonomous Spanish region Basque country has for example shown that 37% of the dwellings that are registered as vacant are in fact in use as second homes (Heras, 2006). As a result of this overlap between vacant dwellings and
second homes, an increase in the number of second homes, as has been the case in all Southern European countries, may also result in an increase in the number of vacant dwellings.

**Strong rural to urban migration and a spatially segmented housing market**

All Southern European countries have been (and still are) characterized by a strong rural to urban migration. Due to economic processes (less work in agriculture, more work in services), many people have left the rural villages in search for work in the city, thus vacating their village dwelling. Some of these dwellings are used by the original owners as second homes, whereas other are sold to emigrants or city people. However, for some dwellings, especially those in bad condition or in very remote areas, there is little interest. These dwellings may just remain vacant for many years. Thus, we may conclude that the Southern European countries are characterized by a very strong spatial segmentation of the housing market. Whereas some urban regions suffer from severe housing shortages, many rural regions are characterized by a substantial oversupply of dwellings.

### 5.3 Policy responses towards the phenomenon of vacant dwellings

#### 5.3.1 Maltese Policy responses

In Malta, the high degree of vacant dwellings is considered as a serious problem. Zammit (1999) estimates the total value of these vacant units as Lm 540 million, on which one could generate a rent revenue of at least Lm 22 million annually. The tax that this generates, the multiple effects on the economy and the release of a substantial amount of future mortgage money could mean an equivalent amount of another Lm 22 million. Furthermore, investment in redevelopment and rehabilitation (a fair amount of the Maltese vacant dwellings need to be renovated before they can enter the housing market) would inject a substantial amount of funds into the economy with something in order of LM 13 million a year. According to Zammit, reducing the rate of vacant dwellings in Malta would solve several problems simultaneously. It would reduce substandard housing, it would diminish the urban sprawl that is destroying greenfields and it would reduce the costs of the provision of community services.

Until now, the Maltese policy measures that aim to reduce the rate of vacant dwellings have been relatively limited. In 1995, the Maltese government revised the rent regulation and made it less strict. However, the new regulation only applies to units built after 1995, and thus excluded more than 17,000 rental units that have been built under the old regulation. Furthermore, the lack of trust in the government prevented the private rental sector to respond positively to the new regulations. Owners feared that a new government would again revert to a stricter rent regulation and more tenant protection.

Another initiative concerns a reduction of the capital gain tax from 35 percent to 12 percent. This tax reduction is supposed to make it more attractive for owners of vacant dwellings to sell their dwelling, thus making it available for the housing market.

Finally, there is the so-called ‘urban regeneration scheme’ of the Housing authority, the organization that is responsible for social housing in Malta. This project, for which Lm 3 million has been allocated, encourages owners of vacant dwellings to sell these dwellings to the Housing authority, who subsequently lets them. The goal of this project is twofold. It intends to reduce the number of vacant units while at the same time providing social housing for those on the waiting list.
Evaluation of the Maltese policy initiatives

Until now, the impact of the Maltese policy initiatives described above has been relatively limited. In order to really solve the problem of vacant dwellings, much more needs to be done. Given, the polarized structure of Maltese politics, a policy that is based on an agreement between the two main political parties, should be developed. This policy should also address the question for which groups the vacant dwellings, if they are brought back into the market, are accessible. After all, given the high house prices in Malta, only the middle and higher income groups would be able to purchase such dwellings. Letting them would be another option, although it should be realised that Maltese homeowners are still hesitant to rent to a Maltese family due to the uncertainty that still exists with regard to housing policy and rent regulations (Brinkworth and Vella, 1999).

5.3.2 Spanish policy responses

In the first years of the 21st century, the house prices in Spain have risen sharply. This involves risks for both homebuyers and financial institutions, and reduces the accessibility of the housing market. For more and more Spanish households, the homeowner sector is no longer accessible (Consejo Economico y Social, 2002). In order to improve the accessibility of the housing market, the Spanish government has launched two policy initiatives that should stimulate homeowners to rent out their vacant dwellings. One of these initiatives provides a financial incentive, whereas the other one offers security to landlords. These two policy initiatives are discussed in the sequel.

Premium for renting out dwellings

Owners who possess a (vacant) dwelling with a surface of less than 120 square meters who agree to rent out this dwelling for at least five years, can get a government subsidy. This subsidy can be used for making the dwelling suitable for letting. It covers the necessary revision and redecoration costs, until a maximum of € 6,000. However, households are only entitled to this subsidy if they charge a rent that is below a certain government-determined level. Moreover, when more fundamental revisions of the dwelling are needed, households can apply for extra subsidies.

Public rent fund

To deal with the problem of vacant dwellings, a so-called public rent fund (Sociedad publica de alquiler) was erected in 2005 (Moron, 2005). This fund acts as an intermediary institution between owners of vacant dwellings on the one hand, and house seekers on the other hand. The Spanish central government has taken the initiative for this fund, and defines the general framework within which it can employ its activities. However, the local authorities (bigger municipalities, autonomous regions) have the freedom to organize the activities of the fund in the way that best suits them. The public rent fund doesn’t have its own offices, but cooperates with the autonomous regions, local foundations and real estate agents. It provides the following facilities.

For the landlords:

- All administrative obligations concerning the letting of a dwelling are carried out by the public rent fund. At the same, the rent they can ask is regulated; it may not be higher than 7% of the theoretical value of the dwelling (El Mundo, 2004). Furthermore, 20% of the rental income has to be paid to the public rent fund, in order to cover their expenses.
- The landlord gets the guarantee that he/she receives a fixed amount of rental income every month, independent on whether the tenant does or does not pay the month. Thus, it’s the public rent fund and not the landlord who runs the financial risk.
• If a dwelling needs to be renovated before it can be rented, the public rent fund takes care of these renovations and their funding (using the premium that was mentioned earlier in this section).
• The landlord gets the guarantee that, after the tenancy agreement has expired, the condition of the dwelling is the same as at the start of the tenancy agreement. Possible damage caused by the tenants is repaired and paid for by the public rent fund.
• When there are disagreements between landlords and tenants, the public rent fund acts as a mediator. If necessary they can also offer juridical assistance.
• The landlord doesn’t have to be in touch with the tenants. The public rent fund selects the tenants and deals with all the questions and requests of these tenants.
• The landlords is allowed to sell the dwellings, provided that the new owner respects the tenancy agreements and the arrangements that are made between the landlord on the one hand, and the public rent fund on the other hand.

For the tenant:
• Only households that earn at least 1.5 times the Spanish minimum salary can apply for a dwelling via the public rent fund. Furthermore, the rent of the dwelling may not be higher than 30% of the household income. Potential tenants have to provide a bank guarantee for four months rent. Besides they have to pay a deposit of one month rent (Heras, 2006).
• The public rent fund helps house seekers that look for a rental dwelling. All dwellings that are let via the fund are displayed on a special internet site. House seekers from all over Spain can react to these dwellings.
• Not the landlord but the public rent fund is responsible for repairs.
• The tenants are not dependent on the possible arbitrariness of an individual landlord, but they can turn to a professional organization.
• The tenant can be sure that the dwelling is in good condition.

**Evaluation of these new Spanish initiatives**

At the moment, it is too early to say whether the new Spanish policy initiatives are successful or not. The introduction of the public rent fund has generated a lot of publicity, but the number of dwellings that is let via this fund is still rather limited. It is expected that in the first year that the fund is active, about 1,000 tenancy agreements will be signed (Consumer.es Eroski, 2006). The government hopes that by the end of 2008, 25,000 dwellings will be let through the public rent fund (Heras, 2006). However, it remains to be seen whether this is a realistic objective. Similar comments can be made with regard to the premium for renting out dwellings. The government expects that every year, about 15,000 homeowners will apply for this subsidy. However, until now, this objective has not been met. These numbers clearly indicate that the new policy initiatives need to be placed in perspective. Spain keeps on being a country of homeowners in which the rental sector occupies a marginalized position. This is due to the fact that Spain has a culture in which letting a dwelling is equated with asking for problems. It is very difficult to change this overnight. Furthermore, a substantial part of the Spanish population, especially from the right wing of the political spectrum, shows a big distrust towards the public sector. This might be one of the reasons why the new measures are less used than was expected.
Last but not least it should be realized that the rental market not only has a supply side but also a demand side. In the current housing market conditions, which are very tight, there will definitely be a demand for rental dwellings. However, it questionable whether this demand is sustainable. After all, most Spanish households still see renting is ‘throwing money down the drain’, whereas buying a dwelling is seen as a form of saving and an investment in the future (Las Provincias digital, 2005).

6. Summary and conclusion

Our exploratory paper has shown that the Mediterranean countries, and especially Malta and Spain, are characterized by specific phenomenon that contradicts with economic theory: high vacancy rates go together with high house prices and a high housing production rate. In our opinion this phenomenon, which has barely been researched before, is related to some specific characteristics of the Maltese and Spanish (and more in general the Southern European) welfare and housing systems:

• Malta and Spain are both characterized by a strict rent regulation and a strong rental protection, which makes homeowners reluctant to let vacant dwellings.
• In both Malta and Spain, the house prices have risen dramatically. This makes it profitable to invest in dwellings, even if these dwellings are left vacant and not sold or let on the housing market.
• In Spain and Malta, dwellings are often family possessions that are kept vacant until one of the family members is interested in occupying them.
• The distinction between second homes and vacant dwellings is often very blurred. Consequently, an increase in the number of second homes may also result in an increase in the number of vacant dwellings (this is basically a definitional problem).
• The extensive rural to urban migration has caused vacant dwellings in small villages.

Both Spain and Malta have developed some policy initiatives that aim to bring back vacant dwellings to the housing market. However, until now, the impact of these initiatives is rather limited.

This is a pity because we think that vacant dwellings are a serious problem. Vacant dwellings not only lead to an inefficient allocation of resources but also pose a serious risk for the future functioning of the housing market. Imagine for example what would happen if the house prices start to decrease, and many owners of vacant dwellings would suddenly start to sell their dwellings in order to limit their losses. In that case we might see the appearance of a second Mediterranean paradox: decreasing house prices that are accompanied by increasing housing supply. Such a situation could lead to a sharp fall in house prices and a serious collapse of the housing market.

Furthermore, most Southern European countries will have to cope with a decreasing population in the coming decades. If the current housing production rate is continued the vacancy rates will only rise further and the housing market risks will only grow bigger. That’s why we think that solving the problem of vacant dwellings is one of the major challenges for Southern European housing policy in the decades to come.

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