



THE MALTA CHAMBER

Annex E 4

Post-COVID19 Construction Think Tank Round Table

This exercise was carried out between June and July 2020.



Report of Round Table Meetings

Meetings held: 1st June, 2020 at 1630hrs (Zoom Meeting)
9th June, 2020 at 1400hrs (Zoom Meeting)
11th June, 2020 at 1400hrs (Zoom Meeting)
18th June, 2020 at 1400hrs (Zoom Meeting)
23rd June, 2020 at 0900hrs (Zoom Meeting) with the Building & Construction Agency

Participants: Benjamin Grech (BG) Chair, Simone Vella Lenicker (SVL), Patrick Spiteri Staines (PSS), David Bonnici (DB), Paula Agius Vadala (PAV), Kevin Rapinett (KR), Jackie Camilleri (JC), Karl Azzopardi (KA).

In Attendance: Diana Miceli (DM), The Malta Chamber



Contents

Contents	3
A. Briefing Note	4
A.1 Main Concerns.....	4
B. Scenarios & Recommendations	5
B.1 Scenarios.....	5
B.2 Recommendations	5
C. Conclusion	8



A. Briefing Note

The Construction Round Table carried out a thorough exercise over the last few weeks to look at various facets of the industry and propose recommendations for a holistic way forward. The industry moved forward over the past months primarily on the strength of past investments, however it is expected that Covid-19 will cause a lag effect on the sector and may also be experienced later this year.

Nevertheless, the results outlined in the Excel Tool highlight the current deficiency of the following principles in the Construction Sector:

1. **Governance** being marked as the least effective, which means that a thorough overhaul of the way the Sector is being governed remains poor and in desperate need of clear structure to ensure that regulations are upheld, even through enforcement.
2. **Sustainability** also ranked very low, which clearly shows that the current scenario is anything but sustainable, and clear guidelines are required as citizens are now demanding better and more sustainable buildings.
3. **Agility** was ranked on the lower end of the spectrum, which depicts how the Construction sector is not flexible enough to adapt to new and improved concepts locally, hence the importance of an effective national vision backed by better regulation and enforcement is required.
4. **Quality** was marked low too: the quality of the industry, the local landscape and the built environment reflects the desperate need for attention and detail to quality in this sector. Once again this principle would need to be supported by better regulation and enforcement.

A.1 Main Concerns

The main concerns of the industry include:

1. The heavily fragmented sector when it comes to regulation and Governmental bodies in the context of holistic targets related to the sector, and the desire to upscale is of great concern.
2. The lack of a cohesive vision for the country's overall landscape that is made available to this sector and drivers of this sector is also worrying. The adequacy of current data and the availability of such statistics is lacking in order for this sector may be more proactive and plan ahead to better respond accordingly.
3. It is also expected that the following will be impacted as a result of Covid-19:
 - a. Buyers who have purchased recently,
 - b. Landlords dependent on paying loans through rental income,
 - c. Developers committed to purchasing land but unable to build due to the decrease in demand or increase in supply (selling off plan),
 - d. Cash stretched Developers,
 - e. Indirect impact on Contractors' cash flow and credit terms,
 - f. Highly leveraged hotel and commercial property developers will face financial difficulties,
 - g. Professionals with cash flow problems due to increased defaults of payments by clients.
4. Around 15% of economic operators in the Sector could face insolvency or cessation of business.



5. There is no ‘real’ incentive to introduce new measures that promote the use of recycled material (circular economy) and to reinvest in adopting current and new technology within the supply chain, unless regulatory aspects are introduced to incentivise the adoption of such materials.
6. Liquidity in the market to repay loans or early sales may lead to re-possession processes that can indirectly distort the market.
7. Poor liquidity will affect around **40% of businesses** especially in the professional services sector of the construction industry. For example, the Kamra tal-Periti issued the results of a survey¹ showing that over 45% of periti recorded a reduction in their turnover by April 2020 of more than 30%, thus causing further difficulties.
8. There seems to be a reduction of around 20% in planning applications submitted (full development only) from 2019 to 2020 (monthly average). One would need to look into and analyze this data in terms of type of developments (cause and effect analysis).

B. Scenarios & Recommendations

B.1 Scenarios

The Construction Round Table agreed on a hybrid of scenarios 2 and 4, it is envisaged that there will be a longer time to return to a lower curve, and supply will probably be high following the recent boom in construction and the number of foreign nationals that returned to their countries during the Covid-19 months. It is worth noting that a drop in demand in excess of 20% may have an exponential impact on the sector.

B.2 Recommendations

A Strategic National Vision

1. *National Strategy for the Construction Sector*: a national strategy is required to reform the construction industry, build its **reputation** and set the vision for Malta for the next 5 to 15 year period with a clear vision by Government, specifically for this sector. The strategy should move towards a shift to sustainable and green construction and rolling out programmes such as Leadership in Energy and Environmental Design (LEED) certification – one of the most popular green building certification programmes used worldwide. This strategy would also require the:
 - a. Long term vision of where the country wishes to place itself in all sectors.
 - b. The strategy requires clear visibility of the economy going forward, which the construction sector will then support. It is therefore important to have a forecast on the type of economies / industries expected to grow locally and the current supply or anticipated supply, taking into account the movement of foreigners on the island.
 - c. Expected number of permits approved/rejected on a monthly basis.
 - d. Number of contracts signed on a monthly basis.

¹ Source Kamra tal-Periti: <https://kamratalperiti.org/covid-19-impact-on-periti-bulletin-03/>



e. Number of projects commencing each month.

The Strategy would require the backing of the Government both in principle as well as resources to ensure that supervision and enforcement is carried out.

2. *Providing a Quality Property Product*: Falling property prices in Europe will impact both local and foreigners' demand for property in Malta. Unless the country is transformed from an overbuilt environment to a lifestyle destination with improved landscape, higher standards of air quality and use of recycled materials, demand for local property by foreigners will be low. On the same note, today local consumers are also demanding better quality and more sustainable buildings.
3. *Promote Qualitative Buildings*: thereby anticipating the market stock subject to guidelines imposed on developers.
4. *Focus on Circular Economy*: aspects and incentives related to such potential / create the market and facilitate - Promote a 'stick' and 'carrot' approach by adopting a fiscal policy mix which supports the use of recycled material, qualitative products and good quality projects processes / those who attain such criteria and standards. Reward type of measures.

Regulation

1. *Better Regulation and Harmonisation of Laws for the Construction Sector*: the sector as a whole needs to be better regulated and the harmonisation of laws is also required to be regularised and harmonised, and made to include construction and building standards and regulations, workforce licencing and training, long term planning, health and safety measures, environmental priorities and effective enforcement covering all aspects mentioned. *Kamra Tal-Periti* already made recommendations in this respect through its recent publication.
2. *The Building and Construction Authority (BCA)*: the BCA needs to be adequately manned and funded to fulfill its role. The priorities of the BCA should be aligned with the national priorities as determined by the social partners, primarily the Chamber, through this document, the *Kamra Tal-Periti* with its recommendations and the Economic Vision 2020-2025 of the Chamber.
3. *Forward Planning*: Urgent review is required of the Strategic Plan for the Environment and Development (SPED).
4. *Mandatory Measures*: Central Government and relevant stakeholders should enhance their effort and work together to identify best practices that fit the local context, a combination of mandatory and voluntary incentives that promote the use and introduction of recycled building materials (creation of such market), certification of buildings and contractors, good standing registers and construction material standards. Such measures could make use of a point / scoring system for those working in the sector that may tie in with annual classification of their certification and incentives such as tax credits to points earned.
5. *Availability of Data*: Full Publication of Construction / Real Estate sales data should be made available to the public against a payment / monthly subscription. Such data should be collected and published in a timely manner on a yearly basis.
6. *Contextuality of Development*: Environmental Impact Assessments (EIAs) should be based on the cumulative impact of development, therefore an application for a permit needs to be analysed within a wider context of the area and other future developments.



7. *Development Applications:* Changes to the development application regime in its entirety is required with a staged approach, giving importance to sustainable development, qualitative aspects, and upscaling of standards.
8. *Due Diligence on Developers Finances:* High level of scrutiny of developers' finances and ability to see projects concluded is recommended. Companies that emerge from the crisis with solid finances will be better positioned.
9. *Transparency:* Registered contracts for property sales should be transparent and published using a blockchain platform with real-time data being made available.

Incentives - Access to Finance link to Technology

1. *Incentives:* incentives should also be made available to target the regeneration of dilapidated areas and encourage the redevelopment of such areas (which could otherwise be referred to as slums). Moreover, incentives should also be made available for holistic developments, where smaller plots are developed as one larger area, as well as for the purchasing and restoration of old buildings. Such incentives could involve:
 - a. All first-time buyers should be given a grant of 10% deposit from the Government, a subsidy on interest rates and the right to buy on rented property. Changing the selling tax to capital gains and not as a flat rate on the final selling price but rather as a percentage of the selling price.
 - b. Reduce corporate tax and increase the effective rate of non-residents to account for distributed dividends.
 - c. Tax on all commercial and residential leases should be waived against a reduction in rent for any commercial lease that is registered.
 - d. Government needs to incentivise Real Estate investment with lowering of stamp duty and final withholding tax for properties upholding good quality and higher standards.
 - e. Provide fiscal incentives for those properties which exceed minimum requirements in terms of energy performance.
2. *R&I Investment:* Government should further invest in research and innovation specifically within the Construction sector, to ensure an improved built environment with the use of better and improved technology.

Holistic review of the Local Plans

5. *Urban Planning:* The Planning Authority must develop a medium- and long-term plan for the Islands which is clearly communicated and focuses on enhancing the environment. Therefore, rethinking local plans where the natural environment would be the priority, going for quality, high standards, improved quality of life, raising the bar in outdoor living concepts by embellishing public spaces, also through the introduction of focused masterplans. Such an initiative should also be encouraged in the various localities through prestigious competitions by or for Local Councils, public spaces, and social housing. Moreover if, as a result of Covid-19, it becomes more difficult and more expensive to travel, we need to appeal to high net worth individuals to come to Malta.



Human Resources

The sector requires more investment in specialised education as well as better training of personnel already working in the sector, thus leading to the licensing and classification of the workforce.

Government Projects

Government tenders for national projects need to be better structured by having separate tenders for the role of the design architect and that of the contractor. Therefore, avoiding having a tendering process requiring a consortium to bid as a whole. Diverse roles for the same project will ensure they keep each other in check at all times, resulting in an improved outcome of the final development.

Design Advisory Committee

The Design Advisory Committee in its current setup is not achieving the goals it was set up for.

C. Conclusion

Going forward, Government needs to develop a **clear and strategic vision for Malta's landscape** coupled with a **holistic reset to Governance and Regulation** supported with the respective **resources for enforcement** for the sector as a whole, ensuring the rebuilding of the sector's **reputation by aligning it** to the key strategic principles of **better governance, sustainability, agility and quality**.