

Kuwait: Real estate sales moderate in 1Q19 on softer investment sector

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Highlights

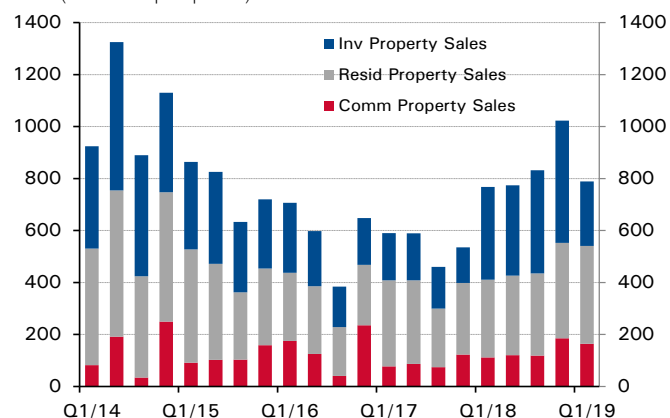
- After an exceptionally strong previous quarter, real estate sales moderated to KD789 million in 1Q19.
- The moderation was driven by the apartment sector, where sales have shown signs of renewed softness.
- The residential and commercial sectors maintained strong sales in 1Q19.
- Prices saw strong annual gains in the residential sector, but modest declines in the investment sector.

Real estate sales decline in 1Q19 but remain solid

Real estate sales in the first quarter fell back from a four-year high in 4Q18, but remained solid at KD789 million. (Chart 1.) The decline came mostly from a drop in investment sector sales following a strong end to last year. The residential sector continued to post robust sales and growth, while the commercial sector, having improved noticeably in 2018, extended its good performance into 1Q19 with relatively solid sales and activity levels.

► **Chart 1: Real estate sales**

(KD million per quarter)



Source: Ministry of Justice/ NBK

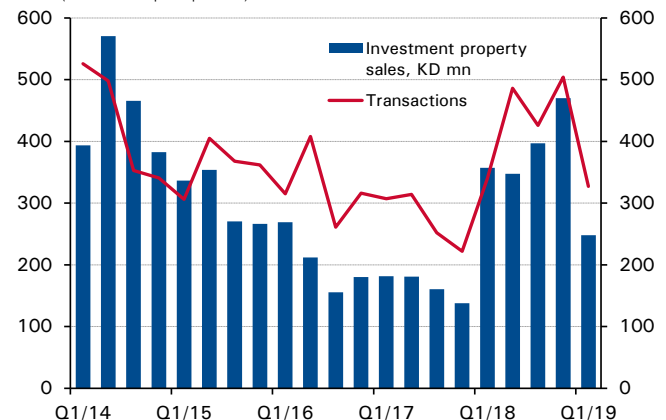
Decent sales levels in 1Q19 reflect a continuation of the recovery observed in 2018 and an indication that market confidence and liquidity is intact. Real estate prices however were mixed. While the residential sector continued to register solid annual gains, the investment sector was recently subjected to renewed downward pressure.

Investment sector posts drop in sales and prices

Investment sector (apartments and apartment buildings) sales in 1Q19 stood at KD248 million, a sharp 47% decline from the exceptional KD470 million recorded in 4Q18 and down 31% y/y. (Chart 2.) Sales volumes also moderated to 327 transactions from 504 the previous quarter. The declines were possibly due to softer demand stemming from subdued immigration growth, while the supply of new apartment buildings continues to increase. These headwinds seem to have led investors to reconsider the pricing and timing of potential deals. Apartment prices also fell, by 11.7% q/q, and 2.2% y/y, while apartment building prices declined less severely, by 3.8% q/q and 1.4% y/y. (Chart 3.) Apartment rents also fell slightly in March as indicated by the housing component of the CPI, reflecting the general weakness in the sector.

► **Chart 2: Investment sector sales**

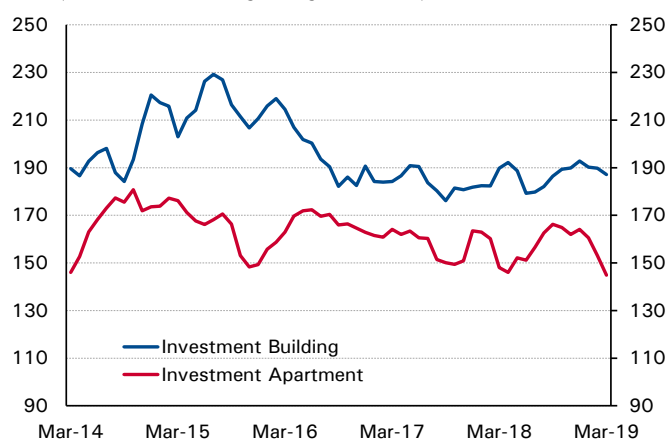
(KD million per quarter)



Source: Ministry of Justice/ NBK

Chart 3: Investment sector price indices

(index, 3-month moving average, 2010=100)



Source: Ministry of Justice / NBK estimates

Residential sector strong in 1Q19

Residential sales maintained their strength in 1Q19 at KD377 million, a 2% q/q increase (and +26% y/y) despite a slight decline in transaction volumes. (Chart 4.) The easing in volumes was likely due to the significant rise in prices for both residential homes (10.5%) and land (8.4%) that has occurred over the past year. (Chart 5.) Looking ahead, support for this sector may come from the possible approval of the mortgage law later this year, which should provide a healthy boost to demand. Further the recently proposed KD750 million capital increase of the Kuwait Credit Bank, the entity responsible for granting housing loans to citizens, if enacted may further enhance access to home financing and reduce the large backlog in housing applications.

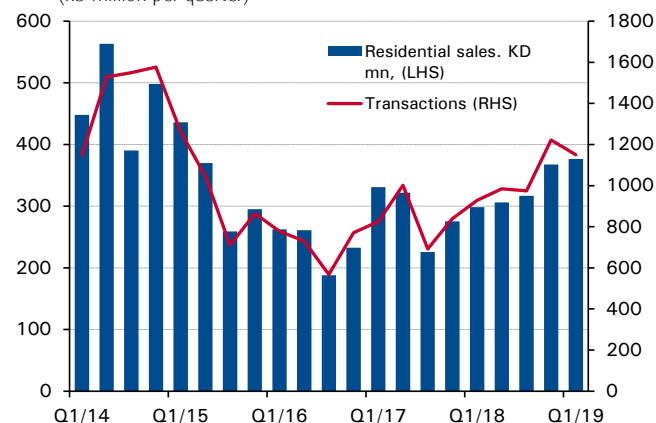
Commercial sector sees exceptionally large deals in 1Q19

Commercial sector sales were strong in 1Q19, at KD161 million. Although below the sales peak of 4Q18, this is still up 46% y/y and also well above the quarterly averages for 2015-2018. Strong sales were due to some exceptionally large size deals, which nearly doubled the average transaction size of 1Q18. Three large ticket transactions stood out in 1Q19: a complex in Jahra (KD39 million), a plot in Khaitan (KD26 million) and a

commercial building in Sharq (KD25 million). These three transactions had a combined value of KD90 million and comprised more than half of all 1Q19 commercial sales.

Chart 4: Residential sector sales

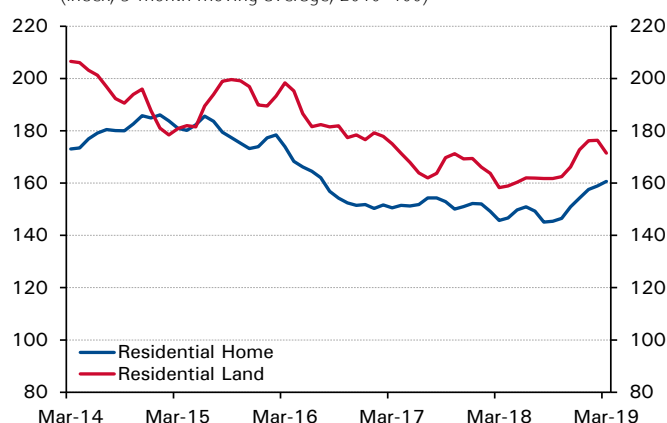
(KD million per quarter)



Source: Ministry of Justice / NBK

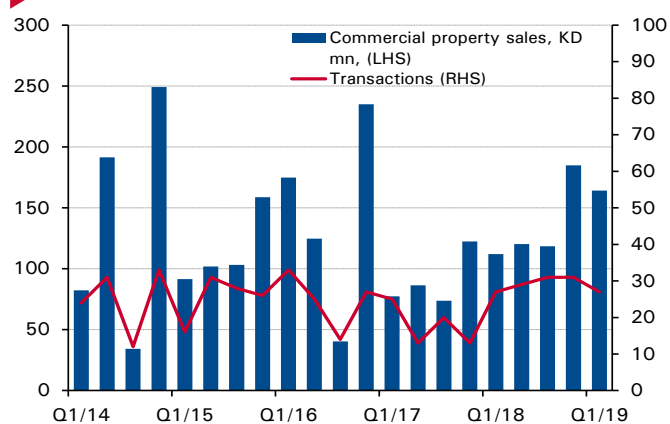
Chart 5: Residential sector price indices

(index, 3-month moving average, 2010=100)



Source: Ministry of Justice / NBK estimates

▶ Chart 6: Commercial Sector sales



Source: Ministry of Justice/ NBK

▶ Table 1: Real estate sales

	Quarterly average				Quarterly total			% Change 1Q19	
	2015	2016	2017	2018	1Q18	4Q18	1Q19	%q/q	%y/y
Sales (KD mn)	760.6	584.0	543.6	849.1	767.4	1022.8	788.6	-22.9	2.8
Residential	340.1	236.0	288.5	322.2	298.3	367.7	376.5	2.4	26.2
Investment	306.7	204.2	165.1	392.9	357.1	470.2	248.0	-47.3	-30.5
Commercial	113.8	143.8	89.9	133.9	112.1	184.9	164.1	-11.3	46.4
Number of Transactions	1356	1060	1131	1496	1295.0	1757.0	1504.0	-14.4	16.1
Residential	970	712	840	1027	928.0	1222.0	1150.0	-5.9	23.9
Investment	360	325	274	439	340.0	504.0	327.0	-35.1	-3.8
Commercial	25	23	18	30	27.0	31.0	27.0	-12.9	0.0
Average Transaction Value (KD th)	561	551	481	568	592.6	582.1	524.3	-9.0	-9.2
Residential	351	332	344	314	321.4	300.9	327.4	8.7	1.4
Investment	851	628	603	895	1050.2	932.9	758.3	-24.6	-34.0
Commercial	4509	6320	5068	4540	4150.7	5964.9	6077.2	40.4	97.6

Source: Ministry of Justice

Note: Our proprietary real estate indices database comprises 65,000 transactions. Each index combines monthly average prices (per sqm when possible) in select, more active, areas of Kuwait; it is then adjusted for volatility. The indices are based in 2010, i.e. 2010 price index equals 100. The indices are not adjusted for seasonality nor for number of business days. They also do not cover the commercial sector.

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