

Economic Update

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Real estate

Kuwait: Real estate sales strengthen in 1Q22 with buyers' focus shifting to the investment sector

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Highlights

- Real estate sales totaled KD891 million in 1Q22, up 9.2% q/q as investment and commercial sectors gained traction.
- Overall sales also reached an eight-month high of KD391 million in April largely on exceptional commercial sector activity.
- Residential sector sales fell 7% q/q and 20% y/y to KD517 million in 1Q22, the lowest since 3Q20.
- Investment sector prices trended up slightly in 1Q22, while residential land and home price performance was mixed.
- Policy reforms and an accelerated supply of new homes will be key to ensuring a healthy and stable residential market.

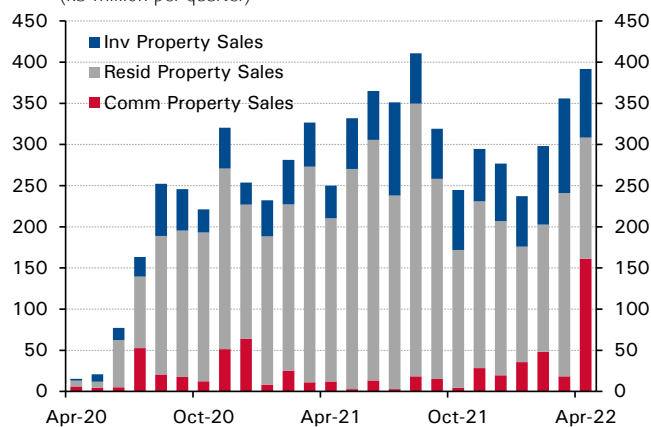
Investment sector drives real estate sales higher in 1Q22

Real estate sales rose to KD891 million in 1Q22, an increase of 9.2% q/q and 6.1% y/y, on mostly stronger activity in the investment and commercial sectors, which have continued to show signs of recovery after a prolonged period of softness. (Chart 1.) The trend extended through April, with sales at an eight-month high of KD391 million (+10% m/m; +57% y/y), with the commercial and investment sectors continuing to be the main drivers. In addition to markedly higher non-residential volumes, evidence of higher prices in the investment sector has been a contributing factor to the increase in overall sales. This is likely supported by improving economic prospects coupled with lower valuations relative to the residential sector.

Looking ahead, a positive economic outlook and stronger business activity should pave the way for a sustained recovery in the commercial and investment sectors, which we expect to be the main real estate drivers in 2022. In contrast, the residential

► **Chart 1: Real estate sales**

(KD million per quarter)



Source: Ministry of Justice/NBK

sector, following the steep price gains of 2021, could see softer activity this year as per recent observations. However, there is unlikely to be a meaningful decline in residential prices absent vital reforms and a large new supply of homes or land to address the continued shortage of housing for nationals.

Residential sector sales extend downward trend in 1Q22

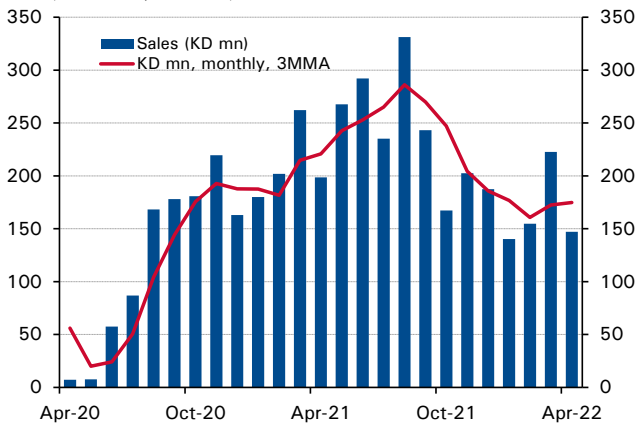
Residential sector sales fell 7% q/q and 20% y/y to KD517 million in 1Q22, the lowest quarterly figure since 3Q20. (Chart 2.) The trend continued through April, with sales at a relatively subdued KD147 million. The lower sales were due to far fewer transactions, likely a reflection of the marked rise in residential home and land prices to record highs. The home and land price indices continued to register strong annual gains in March (+7% y/y and +22% y/y, respectively), though on a monthly and quarterly basis, price pressures were more mixed—with home prices down 4.7% q/q and land prices up a relatively modest 3.9% q/q. (Chart 3.) As the economy continues to recover and Covid-related risks fade, demand for the residential sector, typically favored for its resilience in turbulent times and strong fundamentals, seems to have eased in favor of other sectors with more attractive valuations and greater upside as the economic recovery gains traction. The residential sector was also likely weighed down by surging construction and labor costs, with some rates nearly doubling since the start of the year. Additionally, speculative activity was likely curbed by an increase in real estate agency fees that had previously been fixed at KD500 (or KD250 for prices less than KD100,000), to a rate of 0.5% of the trade value.

Still, residential prices should remain elevated absent reforms and an increase in the supply of units, but could see softer gains this year given the exceptional increases seen in 2021 and rising interest rates, expected to see notable increases in 2022 in line with a hawkish Fed, potentially curbing demand for credit and

real estate. Moreover, the cabinet resignation in April, and uncertainty regarding future political prospects does not auger well for the enactment of key reforms including the anticipated mortgage law. The approval of this draft law, along with the KD300 million recapitalization of the Kuwait Credit Bank in January (parliament had requested KD700 million to ease liquidity constraints)—the government entity responsible for disbursing housing loans—has the potential to improve access to and disbursement of financing, augmenting demand. However, without an increase in housing supply, the measures are likely to further stoke inflation in residential real estate prices.

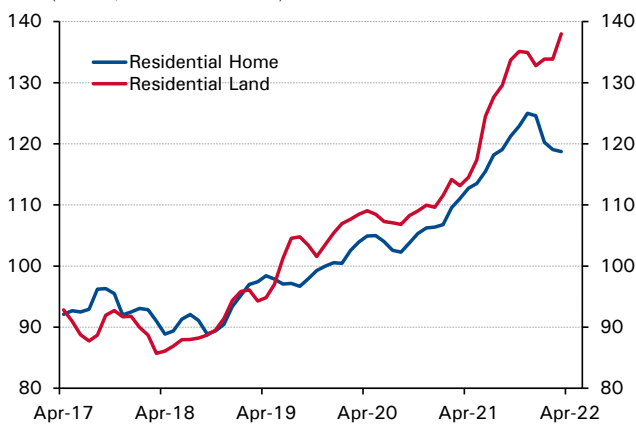
Affordability remains an issue, as the rise in home prices becomes increasingly disproportionate relative to the income of the average citizen. Despite an increase in planned and underway housing projects (around ten) by the Public Authority for Housing Welfare, a sizeable backlog of applications for government housing estimated at around 94,000 as of 2021 persists, and with new demand for housing continuing to outpace supply, pressure increases every year. Therefore, the housing shortage will likely remain a challenge and require further initiatives in order to be resolved.

Chart 2: Residential sector sales
(KD million per month)



Source: Ministry of Justice/NBK

Chart 3: NBK residential home and land price indices
(3-mma, rebased 2016=100)

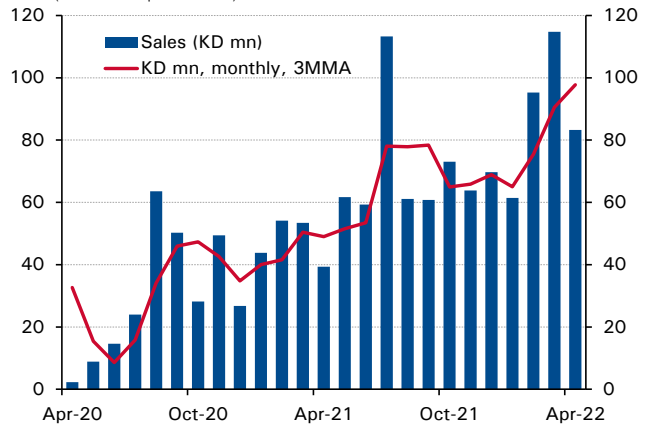


Source: Ministry of Justice/ NBK

Higher volumes lift investment sales to pre-pandemic level

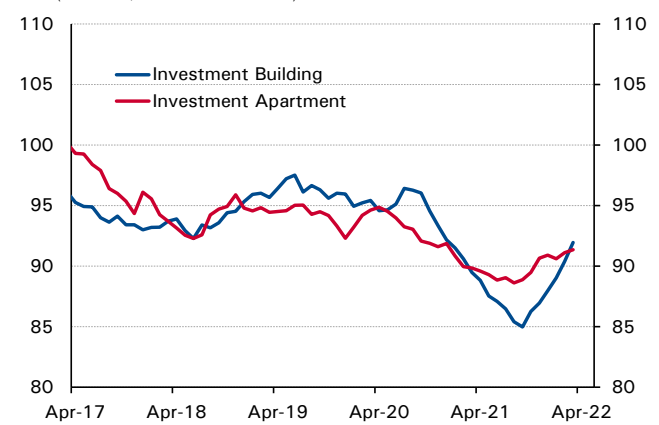
Investment sector sales totaled KD272 million in 1Q22 (+31% q/q; +79% y/y). (Chart 4.) This compares to a pre-pandemic quarterly average of KD279 million (2019)—a near-full recovery. The increase in sales in the first quarter was driven by higher volumes (+6% q/q; +16% y/y), likely encouraged by a growing valuation gap between this sector and the residential sector, and better economic prospects. Indeed, evidence from the rental component of the CPI, which trended up in the second half of 2021, points to firming rental prices.

Chart 4: Investment sector sales
(KD million per month)



Source: Ministry of Justice/ NBK

Chart 5: Investment sector building and apartment prices
(12-mma, rebased 2016=100)



Source: Ministry of Justice/ NBK

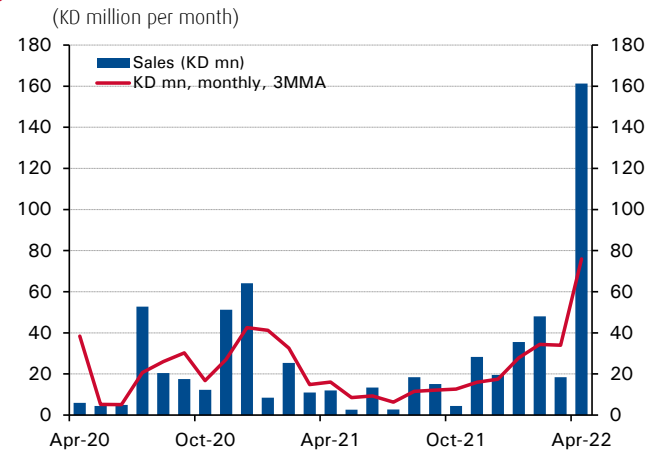
Extending the gains seen in the previous quarter, investment sector prices rose an average of 3% q/q and 2.2% y/y in March on the back of higher demand. (Chart 5.) The shift is significant as it follows a prolonged period of weakness marked by oversupply and falling prices since 2015. Sales and transactions eased by 28% m/m and 16% m/m, respectively, in April, the lowest since January, but remained robust relative to 2021 monthly levels. However, a sustained recovery in this sector could be hindered by various headwinds, including ongoing oversupply, dependence on relatively unstable expat demand, tariff disparities versus the residential sector, and higher interest rates. Policy reforms aimed at promoting demand for

apartments would provide some support to the investment sector, including for instance addressing the previously mentioned inter-sectoral tariff disparity, discouraging renting in residential areas or raising the cost of multiple home or plot ownership through taxes and fees, in effect incentivizing apartment over house ownership.

Commercial sector sales surged in 1Q22 on large ticket deals

Commercial sector sales continued to strengthen in 1Q22, surging by 95% q/q and 128% y/y to KD102 million, the highest since 4Q20, which reflects a partial recovery to pre-pandemic levels. (Chart 6.). The higher sales came about despite a decline in transaction volumes: higher average transaction sizes reflecting large-size deals. This includes a 945 sqm building in Qibla that sold for KD10 million, a 4,300 sqm plot in Hawally for KD10 million and a 1,260 sqm building in Mirqab for KD30 million. Furthermore, sales surged to a record monthly high of KD161 million in April, likely a one-off occurrence driven by a flood of large commercial land offerings in the Sabah Al-Ahmad coastal area, which lifted transactions seven-fold (y/y) to 49 deals, the highest since July 2019. And while a pull-back from this exceptional level of activity is expected, the sector could continue to see a gradual recovery in line with improving business activity.

► Chart 6: Commercial sector sales



Source: Ministry of Justice/ NBK

► Table 1: Real estate sales

	Quarterly Average		Quarterly Sales/ Transactions				Change in 1Q22, %	
	2020	2021	2021	3Q21	4Q21	1Q22	q/q	y/y
Sales (KD million)	560	921	946.8	1081.2	816.2	891.1	9%	6%
Residential	340	692	758.4	809.8	557.2	517.6	-7%	-20%
Investment	117	188	160.3	235.1	206.6	271.5	31%	79%
Commercial	103	40	28.1	36.3	52.4	102.0	95%	128%
Number of Transactions	1320	2415	3123	2547	1684	1632	-3%	-29%
Residential	1118	2124	2834	2259	1378	1312	-5%	-35%
Investment	170	271	271	270	284	302	6%	16%
Commercial	32	19	18	18	22	18	-18%	-5%
Average Transaction Value (KD '000)	372	394	303.2	424.5	484.7	546.0	12%	29%
Residential property	304	326	267.6	358.5	404.4	394.5	-3%	3%
Investment	688	694	591.5	870.8	727.3	898.9	22%	48%
Commercial	3264	2098	1560.7	2016.6	2381.4	5667.9	129%	131%

Source: Ministry of Justice

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