

Kuwait: First quarter real estate sales were strong, supported by high volumes

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Highlights

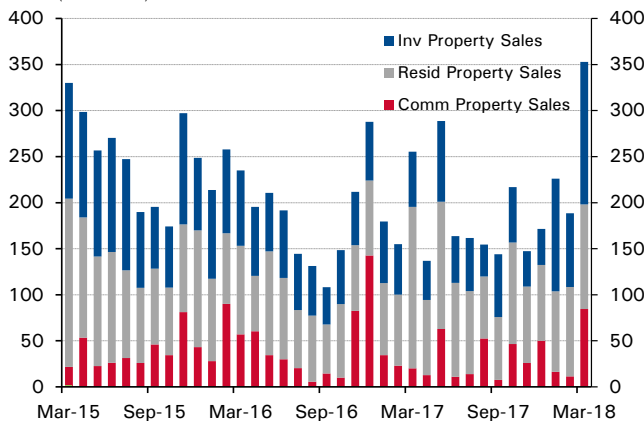
- The first quarter of 2018 showed strong gains in real estate sales, up 30% q/q to KD 767 million.
- March was the strongest performing month, contributing 45% of quarterly sales.
- Sales were driven by a higher volume of transactions and a rise in average deal size.
- Home and land prices continued to ease in 1Q18.
- The outlook for the rest of the year remains cautious.

Real estate sales see strong rise in 1Q18

The first quarter of 2018 saw a pick-up in real estate activity, driven in particular by strong sales in March. Sales reached KD 767 million in 1Q18, 45% of which took place in March. (Chart 1.) The pickup at the end of the quarter was due to an increase in the number of transactions – perhaps helped by one-off factors and a sales rush ahead of the traditionally slow Ramadan and summer periods – coupled with a sharp rise in average transaction values in the investment sector. Sales in March rose 38% y/y, 87% m/m and were the highest since December 2014.

▶ **Chart 1: Real estate sales**

(KD million)

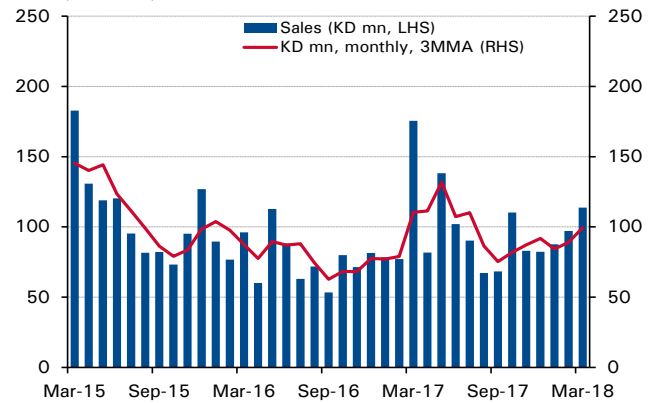


The first quarter saw KD 298 million of residential sales (chart 2), a decline of 10% y/y, though the number of transactions rose 12.5% y/y to 928. Higher activity was likely helped by

lower prices, possibly due to expectations of higher interest rates in the near-to-medium term.

▶ **Chart 2: Residential real estate sales**

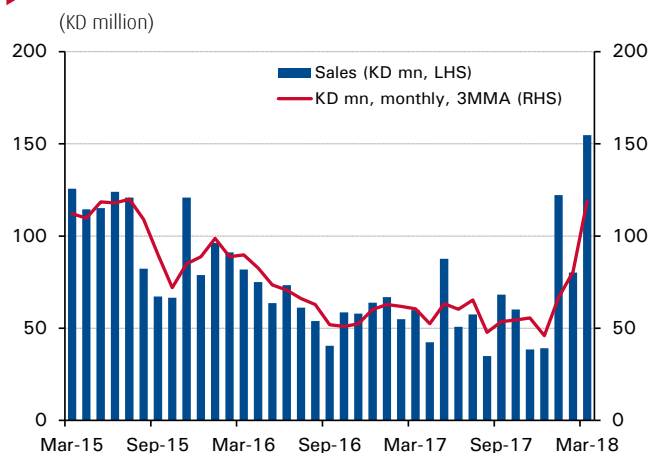
(KD million)



Investment property sales meanwhile strengthened on the back of an increase in high value building transactions. Total investment sector sales stood at KD 357 million in 1Q18, up 97% y/y (Chart 3.) This was driven by an 11% y/y increase in transactions, but more importantly a significant rise in the average transaction size (85% y/y), reflecting a large number of building sales. Contrary to the norm, the investment sector surpassed the residential sector as the leader in sales, with 47% of the total (by value) in the quarter.

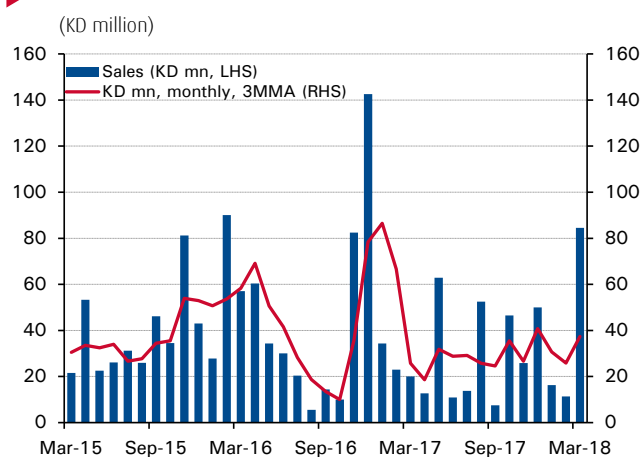
The commercial sector posted sales of KD 112 million in 1Q18, up 45% y/y (Chart 4.) This was driven by an 8.4% y/y rise in the number of transactions, combined with a rise in the quarterly average transaction size.

Chart 3: Investment real estate sales



Source: Ministry of Justice, NBK estimates

Chart 4: Commercial real estate sales



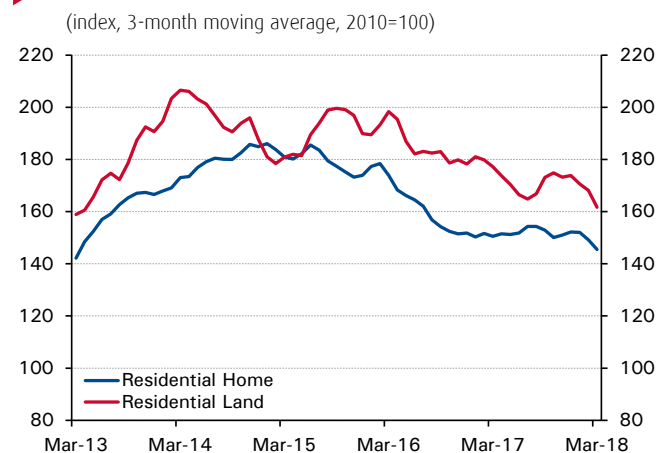
Source: Ministry of Justice, NBK estimates

Increased transaction activity across all the sub-sectors appears to be stemming from emerging areas. Saad Al Abdulla recorded the highest number of transactions, with 95 sales worth KD 73 million. It was also the most active area for residential and commercial sales. In the investment sector, Sabah Al Salem was the most active area, with 17 transactions valued at KD 19.1m, followed by Saad al Abdulla which also posted a large number of investment transactions. The highest single residential sale value was recorded in Funaitees at KD 9 million for a 5,300 sqm residential plot of land, while the highest recorded transaction in the investment sector was a KD 20 million, 10,000 sqm building sale in Saad Al Abdulla.

Home and land prices soften in Q1

The NBK residential home and land price indices both eased slightly in 1Q18, resuming the negative price trend that started in 2016 but abated somewhat last year (Chart 5). The home and land indices fell 3.4% and 8.8% y/y, respectively. An increase in supply of homes on the market from newly developed areas likely contributed to weaken price trends.

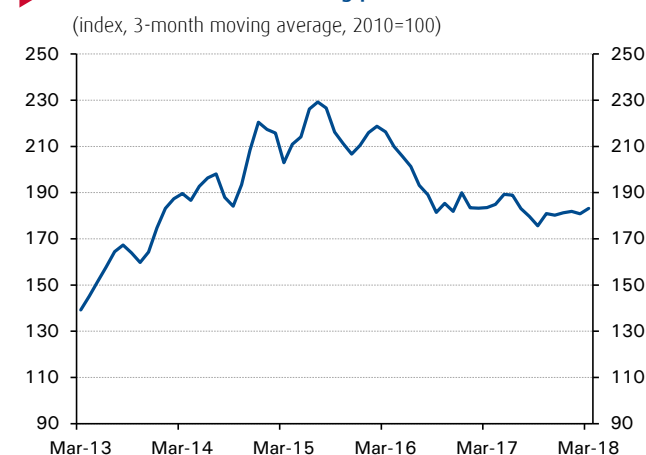
Chart 5: Residential real estate price indices



Source: NBK estimates from Ministry of Justice data

The investment building price index was broadly flat y/y in March 2018, though edged up 0.7% q/q overall in 1Q18. (Chart 6.) Prices in the investment apartment sector, by contrast, declined by 9.8% y/y and 8% m/m in March. Weak price trends in the investment sector may be linked to the surge in development in the years leading up to 2016, and by weaker demand from expats, resulting in relatively high vacancy rates. According to the Real Estate Association, vacancy rates are high and expected to increase with new supply in the pipeline and further decline in expat numbers.

Chart 6: Investment building price index



Source: NBK estimates from Ministry of Justice data

The real estate market is not without risks in 2018-19. Despite the strong figures posted in 1Q18, sales are still not that high relative to some earlier years, and our outlook for the rest of the year remains conservative. We expect the oversupply in the rental market to linger, making sustained price increases unlikely. Further, we may see more policy interest rate hikes during 2018, which could tighten demand and keep prices subdued.

▶ **Table 1: Real estate sales**

	Average/mth		2018			Jan		Feb		Mar 2018	
	2017	1Q2018	Jan	Feb	Mar	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y
Sales (KD mn)	181.2	255.8	226.0	188.5	352.9	31.8	25.9	-16.6	21.6	87.2	38.2
Residential	96.2	99.4	87.5	97.1	113.7	6.4	11.7	10.9	25.9	17.1	-35.2
Investment	55.0	119.0	122.2	80.1	154.6	212.5	83.0	-34.4	46.0	93.0	158.7
Commercial	30.0	37.4	16.2	11.3	84.5	-67.6	-52.7	-30.1	-50.7	645.6	322.6
Number of transactions	377.0	431.7	375	349	571	16.1	1.9	-6.9	-1.1	63.6	31.0
Residential	279.8	309.3	283	278	367	15.0	17.9	-1.8	22.5	32.0	2.5
Investment	91.3	113.3	87	66	187	14.5	-24.3	-24.1	-44.5	183.3	156.2
Commercial	5.9	9.0	5	5	17	400.0	-61.5	0.0	-28.6	240.0	240.0
Transaction size (KD th)	479.8	587.0	602.7	540.2	618.0	13.6	23.6	-10.4	23.0	13.6	5.5
Residential	340.3	322.8	309.3	349.2	309.8	-7.5	-5.3	12.9	2.8	-7.5	-36.8
Investment	624.5	1148.8	1404.9	1214.2	827.2	173.0	141.9	-13.6	163.2	173.0	1.0
Commercial	8633.3	3494.2	3244.4	2267.0	4971.2	-93.5	23.0	-30.1	-31.0	-93.5	24.3

Source: Ministry of Justice

Note: Our real estate indexes 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 indexes are based in 2010, i.e. 2010 price index equals 100. The indexes are not adjusted for seasonality nor for number of business days. They also do not cover the commercial sector.

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