

Kuwait: Real estate sales in Q3 top pre-pandemic levels as residential sector rally continues

> Saqer Al-Zayed
Economist
+965 2259 5355
SaqerAlZayed@nbk.com

Highlights

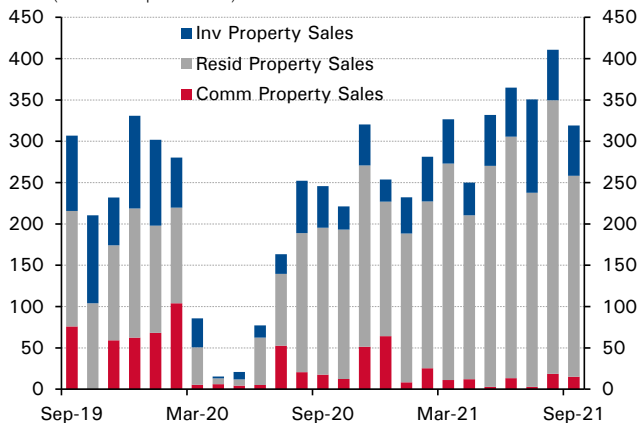
- Quarterly sales totaled KD1.1 billion (+16% q/q; +63% y/y), averaging a solid KD 360 million per month.
- Real estate sales were led by the residential sector, with sales of KD 810 million in 3Q21 (+87% y/y).
- The investment sector saw a notable pickup in activity amid lower prices, but sales remain below pre-pandemic levels.
- Policy reforms and an accelerated supply of new homes will be key to ensuring a healthy and stable real estate market.
- The government's draft mortgage bill could be approved into law by 2022/23, but needs accompanying measures to curb excessive price gains.

Real estate sales exceed pre-pandemic levels in 3Q21

Real estate sales rose further in 3Q21, building on the full recovery seen in the first half of the year. Sales in the quarter totaled KD1.1 billion (+16% q/q; +63% y/y), averaging a robust KD360 million per month, on the back of strong activity in the residential sector and a significant increase in home and land prices. (Chart 1.) The third quarter also witnessed an improvement in commercial and investment (i.e. apartment) sector sales, although both remain below pre-pandemic levels and the investment sector remains challenged by weaker fundamentals (lower demand and higher vacancies). Part of the reason for the divergence in performance between the residential and investment sector is a shift in investors' preference towards residential properties, which gained further momentum in 2017 after utilities tariffs on investment properties were increased.

▶ **Chart 1: Real estate sales**

(KD million per month)



Source: Ministry of Justice/ NBK

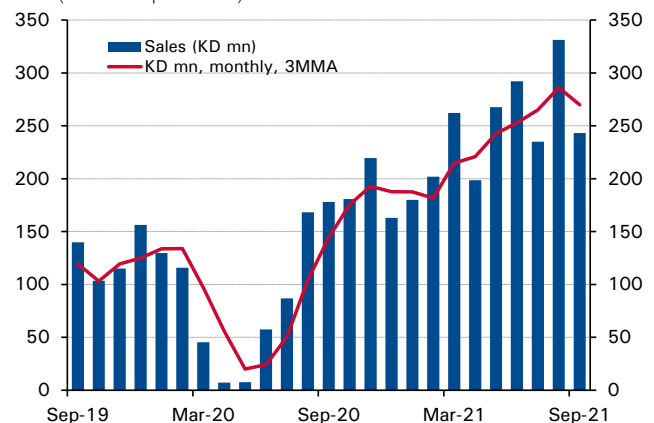
The coronavirus pandemic was also a factor, pressuring the incomes and employment of expatriates, who are major drivers of the apartment rental market. Looking ahead, residential activity should benefit from healthier demand and a still-limited supply of new units. The proposed mortgage law, if passed, has the potential to boost the residential market, but should be accompanied by measures to prevent excessive price gains. Meanwhile, economic growth is returning and business activity is gradually recovering, which should be positive for both the commercial and investment sectors. Without a more significant shift in the preference of Kuwaitis for apartment rentals, the fortunes of the investment sector will likely remain linked to expatriate demand.

Residential sector activity the main driver in overall sales

Residential sales reached KD810 million in 3Q21 (+87% y/y), driven by a combination of higher volumes (+35% y/y) and a steep, general rise in land and home prices. (Chart 2.)

▶ **Chart 2: Residential sector sales**

(KD million per month)

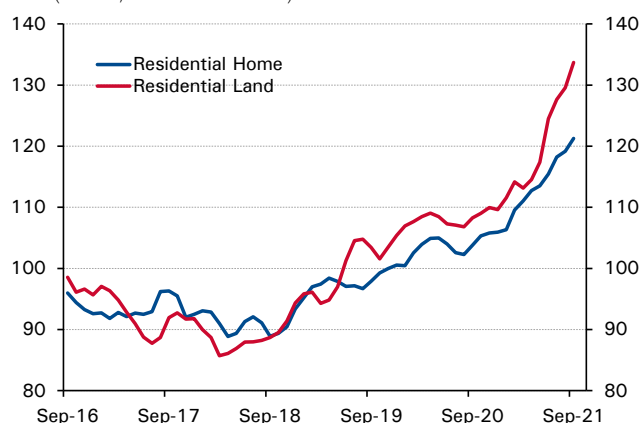


Source: Ministry of Justice/ NBK

The NBK residential home and land price indices were up by 27% y/y and 14% y/y, respectively, as of September. (Chart 3.) Solid fundamentals (limited supply and strong demand) continue to underpin gains in the residential sector, with demand partly driven by a young and growing population, in addition to increased investor interest due to stable returns: occupancy rates are higher than in the investment sector.

Chart 3: NBK residential home and land prices indices

(3-mma, Rebased 2016=100)



Source: Ministry of Justice/ NBK

The divergence between the sectors is also due in part to several policy-related factors that have indirectly favored the residential sector. These include the exemption from higher utility tariffs since 2017, which has led to lower operating costs and thus stronger rental return margins in the residential sector and the absence of measures to curb price-raising and speculation, such as a second home tax or fees on long-standing vacant lots. The above factors, coupled with the pre-existing weakness in the alternative apartment sector, continue to contribute to the significant residential price increases seen since 2018.

Looking ahead, absent reforms and an increase in the supply of units, residential prices should remain elevated. Given the steep gains seen this year however, it would be surprising if prices continued to rise at recent rates and could even moderate somewhat ahead.

The residential market should receive a further boost from the likely approval by parliament of the government's draft mortgage law that was submitted last May. Legislation could come as early as 2022/23. This will facilitate financing and likely provide a further boost to residential activity and prices. However, of concern is affordability, with home prices increasing significantly in relation to the increase in the average citizen's income. While the Public Authority for Housing Welfare has successfully planned and implemented, in partnership with the private sector, a number of large housing projects in recent years, the increase in the available stock of housing is insufficient to make a sizeable dent in the backlog of housing applications, estimated to be around 91,500 as of 2020 (this is before accounting for future demand). Therefore, the housing shortage will likely remain a challenge and require further initiatives in

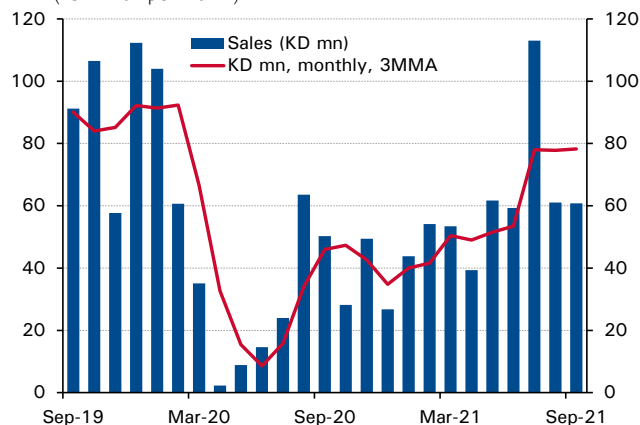
order to be resolved.

Investment sector sees price drop and pick-up in activity

Investment sector (i.e. apartment) sales amounted to KD235 million in 3Q21 (+47% q/q; +70% y/y). (Chart 4.) This compares to a pre-pandemic quarterly average of KD279 million in 2019, reflecting a partial recovery.

Chart 4: Investment sector sales

(KD million per month)



Source: Ministry of Justice/ NBK

Higher sales were driven by a marked pick-up in volumes (+83% y/y), likely encouraged by lower prices (building prices were down 9% y/y) as the market adjusts to weaker demand and a decline in the expat population due to the pandemic. (Chart 5.)

Chart 5: Investment sector building and apartment prices

(12-mma, Rebased 2016=100)



Source: Ministry of Justice/ NBK

This had added to pre-existing weaknesses in the sector—declining rents, lower prices, and rising vacancies—even before the pandemic due to oversupply and slower economic growth.

We expect a full recovery to take some time given the gradual pace of the economic recovery and the government's efforts to promote Kuwaitization and address the demographic imbalance by proposing to cap the number of expats (bill proposed late 2020). Policy reforms aimed at curbing house purchases while promoting demand for apartments would help in restoring balance between the two sectors.

Commercial sector sales remained weak in 3Q21

Commercial sector sales in 3Q21 were a subdued KD36 million (-60% y/y), which is still well below pre-pandemic levels. Volumes were down 40% y/y. As the economy and the business environment picks up, supported by progress on the vaccine front, a gradual recovery is expected for the sector. It may take some time, however, for the negative impact of the pandemic on SMEs, expatriate jobs and the labor market to subside and demand for commercial space to rebound.

Chart 6: Commercial sector sales

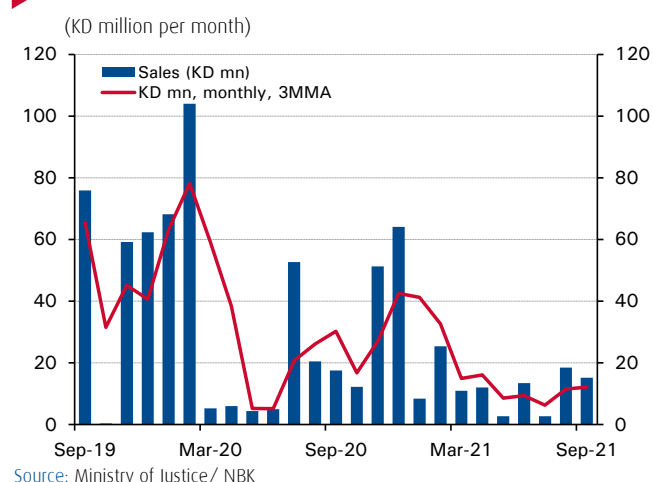


Table 1: Real estate sales

	Quarterly Average		Quarterly Sales/ Transactions				Change in 3Q21, %	
	2019	2020	4Q20	1Q21	2Q21	3Q21	q/q	y/y
Sales (KD million)	798	560	795	840	947	1081	14.1	63.3
Residential	370	340	563.3	644.1	758.4	809.5	6.7	87.0
Investment	279	117	104.3	151.3	160.3	234.8	46.5	70.4
Commercial	149	103	127.6	44.7	28.1	36.3	29.2	-60.0
Number of Transactions	1580	1320	1985	2304	3123	2547	-18.4	37.3
Residential	1114	1118	1714	2025	2834	2259	-20.3	34.8
Investment	349	170	236	260	271	270	-0.4	81.2
Commercial	117	32	35	19	18	18	0.0	-40.0
Average Transaction Value (KD '000)	505	424	401	365	303	424	39.9	19.0
Residential property	332	304	329	318	268	358	33.9	38.7
Investment	800	688	442	582	592	870	47.0	-6.0
Commercial	294	242	3646	2355	1561	2017	29.2	-33.3

Source: Ministry of Justice

Head Office

Kuwait

National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain

National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates

National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoum, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia

National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan

National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon

National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt

National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America

National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom

National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

France

National Bank of Kuwait France SA
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore

National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China

National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait

NBK Capital
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates

NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey

Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353