

Kuwait: Real estate sales rise modestly in 2Q19, with price trends mostly positive

> Saqer Al-Zayed
Economist
+965 2259 5655
SaqerAlZayed@nbk.com

Daniel Kaye
Head of Research
+965 2259 3136
Danielkaye@nbk.com

Highlights

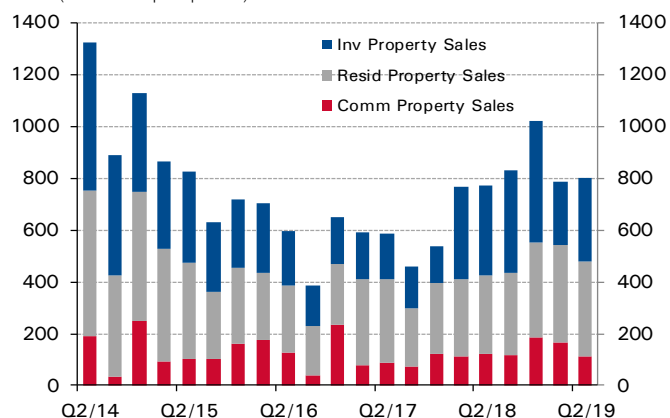
- Real estate sales gained modestly in the second quarter to record a solid KD 803 million.
- The higher sales were driven by the investment sector, which saw a rebound in both transactions and prices.
- Prices in all sectors are now positive year-on-year with the investment sector recently crossing into positive territory.
- Real estate lending has also risen sharply over the past year, reflecting an improvement in sentiment.

Real estate sales rise modestly in the second quarter

Real estate sales remained solid in the second quarter of the year at KD 803 million, up 1.8% q/q and 3.7% y/y. (Chart 1.) Higher sales were driven by a marked improvement in transaction volumes, which rose 18% y/y to 1,769 and comes amid a significant further rise in real estate loan growth. (Table 1.) This can be viewed as a continuation of the positive market momentum seen last year, with confidence helped by a relatively stable economic climate and now positive overall price trends. Prices in all market segments saw notable quarterly and annual gains, with the exception of the residential home sector, which saw a mild quarterly price drop.

▶ **Chart 1: Real estate sales**

(KD million per quarter)



Source: Ministry of Justice/ NBK

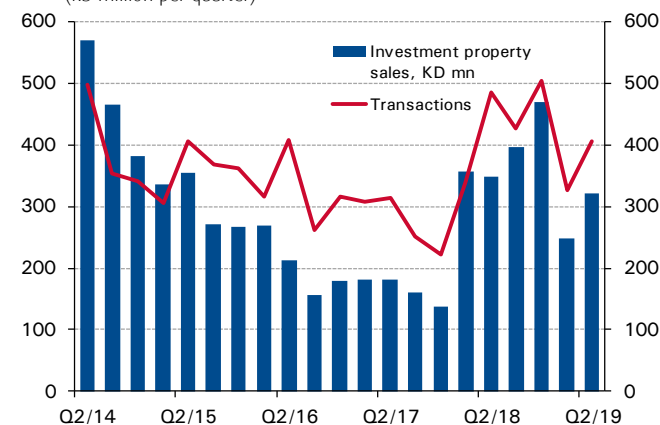
Investment sector rebounds after weakness in 1Q19

The investment sector witnessed a rebound in sales and transactions in 2Q19 after dipping in the previous quarter. Some KD 322 million in sales were recorded in 2Q19, a 30% rise from

Q1 but still moderately negative on an annual basis (-7%). (Chart 2.) Transactions also rose sharply (24% q/q) to 406 deals, over half of which stemmed from single apartment units, with the most active areas being Mahboula and Salmiya.

▶ **Chart 2: Investment sector sales**

(KD million per quarter)

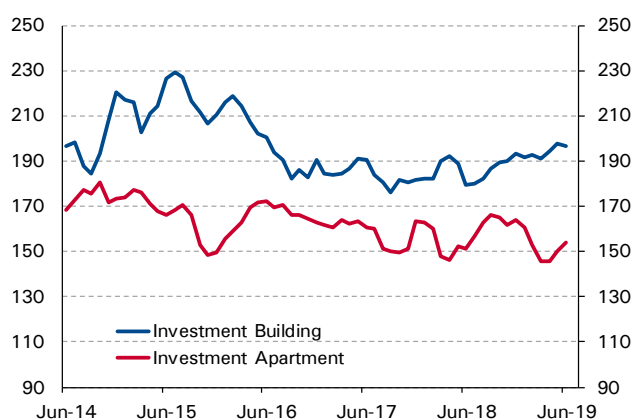


Source: Ministry of Justice/ NBK

The rise in activity likely came from a pick-up in demand after several months of consecutive price declines (ending in April) that have improved property valuations for investors, making the market more attractive. The pick-up in demand subsequently led to price rises of 2.8% and 5.6% q/q for buildings and apartments respectively, with prices now up 9.6% and 1.7% y/y. (Chart 3.) But the improvement should be interpreted cautiously, with the sector still facing some downside risk from oversupply and vacancies; reflecting this, apartment rents have seen a mild further decline this year according to the housing segment of the CPI. (Chart 4.)

Chart 3: Investment sector price indices

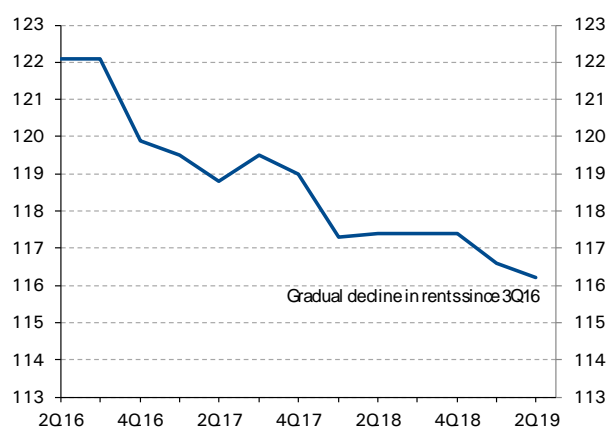
(index, 3-month moving average, 2010=100)



Source: Ministry of Justice / NBK estimates

Chart 4: Consumer Price Index – housing rents

(Index, 2013=100)



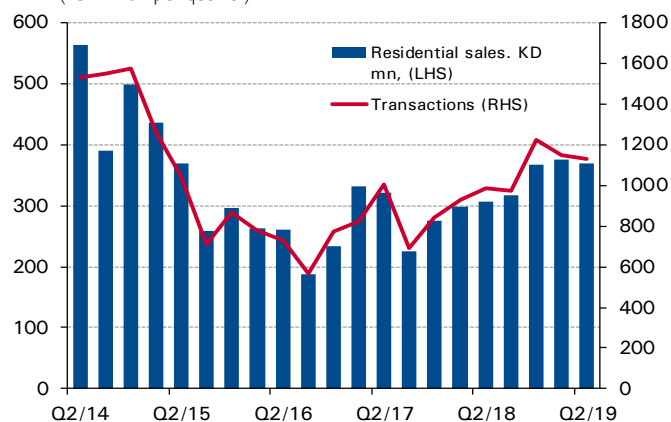
Source: Central Statistical Bureau

Residential sector steady in 2Q19

The residential sector was steady in Q2, with solid sales of KD 369 million from 1,128 transactions. (Chart 5.) This a marginal decline over Q1, but a notable rise from the same quarter last year (26%). The growth in annual sales was driven by a significant rise in both prices and transactions. Prices of residential homes and land are up a solid 5% and 15% y/y respectively, while combined transactions have surged by 15% y/y. (Chart 6.) The residential sector, benefitting from strong fundamentals, is likely to remain robust in 2019 despite a lack of news on progress relating to the awaited mortgage law, which is expected to boost demand through better access to financing if and when enacted.

Chart 5: Residential sector sales

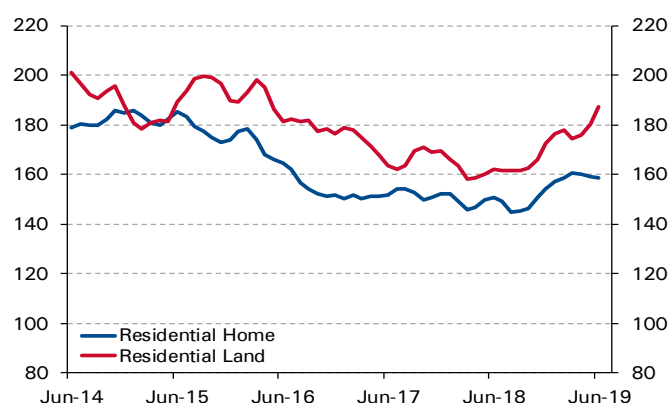
(KD million per quarter)



Source: Ministry of Justice/ NBK

Chart 6: Residential sector price indices

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



Source: Ministry of Justice / NBK estimates

Commercial sales moderate despite record transactions

The commercial sector saw KD 112 million in sales in Q2, moderating from its peak of KD 185 million in 4Q18 despite posting a record volume of transactions (235). (Chart 7.) This suggests that the type of commercial property traded during the period was small. There is support for this from reports of sales of a large number small shops located in the new cities south of Kuwait (e.g. Sabah Al-Ahmad). Accordingly, there was a sharp drop in average transaction size to just KD475,500 in 2Q19 compared to the 2Q18 average of KD 4.1 million.

Real estate loans rise in 1H19 amid improved confidence

The stronger activity and generally positive price trends we have seen so far this year coincide with a significant rise in loans to the real estate sector. Real estate loans (which are separate from housing loans made to individuals) barely increased at all in the four years to mid-2018, but have surged 8.9% over the past year and at KD8.6 billion are now worth

more than 41% of all loans to the business sector. This boost also points to rising confidence in the market. Based on the positive trends and restored confidence we have seen thus far this year, we expect real estate activity to remain solid for the remainder of the year. Investor sentiment could also be supported if gains in the stock market – often viewed as an alternative asset class – show signs of plateauing after the strong rally seen in the first half of this year.

▶ **Chart 7: Commercial Sector sales**



Source: Ministry of Justice/ NBK

▶ **Table 1: Real estate sales**

	Quarterly average				Quarterly total			% Change 2Q19	
	2015	2016	2017	2018	2Q18	1Q19	2Q19	%q/q	%y/y
Sales (KD million)	760.6	584.0	543.6	849.1	773.9	788.6	803.0	1.8	3.7
Residential	340.1	236.0	288.5	322.2	306.3	376.5	369.2	-1.9	20.6
Investment	306.7	204.2	165.1	392.9	347.4	248.0	322.0	29.8	-7.3
Commercial	113.8	143.8	89.9	133.9	120.3	164.1	111.7	-31.9	-7.1
Number of Transactions	1356	1060	1131	1496	1499	1504	1769	17.6	18.0
Residential	970	712	840	1027	984	1150	1128	-1.9	14.6
Investment	360	325	274	439	486	327	406	24.2	-16.5
Commercial	25	23	18	30	29	27	235	770.4	710.3
Average Transaction Value (KD th)	561	551	481	568	516.3	524.3	453.9	-13.4	-12.1
Residential	351	332	344	314	311.2	327.4	327.3	0.0	5.2
Investment	851	628	603	895	714.8	758.3	793.0	4.6	10.9
Commercial	4509	6320	5068	4540	4147.3	6077.2	475.5	-92.2	-88.5

Source: Ministry of Justice

Note for text: 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.

Head Office

Kuwait

National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
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 Maktoom, (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

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France

National Bank of Kuwait
(International) Plc
Paris Branch
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
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
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

© Copyright Notice. The Economic Update is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK.

While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. GCC Research Note is distributed on a complimentary and discretionary basis to NBK clients and associates. This report and other NBK research can be found in the "Reports" section of the National Bank of Kuwait's web site. Please visit our web site, www.nbk.com, for other bank publications. For further information please contact: NBK Economic Research, Tel: (965) 2259 5500, Email: econ@nbk.com