

Economic Update

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Real estate

Kuwait: Uptick in activity in 4Q22 but full-year sales marginally down after strong 2021

> Ensaf Al-Matrouk
Assistant Economist
+965 2259 5366
EnsafAlMatrouk@nbk.com

> Issa Hijazeen
Senior Economist
+965 2259 5359
Issahijazeen@nbk.com

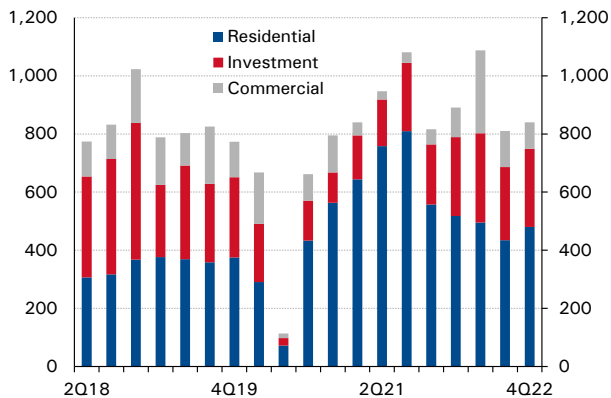
Highlights

- Real estate sales were up slightly in 4Q22 at KD840m, although full-year activity, at KD3.6bn, was down 1.5% on 2021.
- Residential sales edged up in 4Q22, but growth was lower y/y and unable to match the exceptional performance in 2021.
- Investment sector sales saw only a modest rebound in 4Q22, following a seasonal decline in the previous quarter.
- Continued non-oil growth should support the market in 2023, but some further softening in activity may be expected.

Real estate activity remained fairly solid in the fourth quarter of 2022 at KD840 million, gaining marginally on the previous quarter and year. (Chart 1.) In the residential sector, the predominant driver of headline real estate activity, sales came in at KD480 million in 4Q22, an improvement on 3Q22 but down in annual terms. The sector has largely been at the sharp end of higher valuations, uncertainty and rising construction costs. Sales in the investment and commercial sectors, in contrast, increased by a robust 30% y/y and 74% y/y, respectively, though the latter saw a q/q decline, perhaps due to tighter financial conditions and higher construction costs linked to rising raw material prices and labor shortages.

► Chart 1: Real estate sales

(KD million, per quarter)



Source: Ministry of Justice

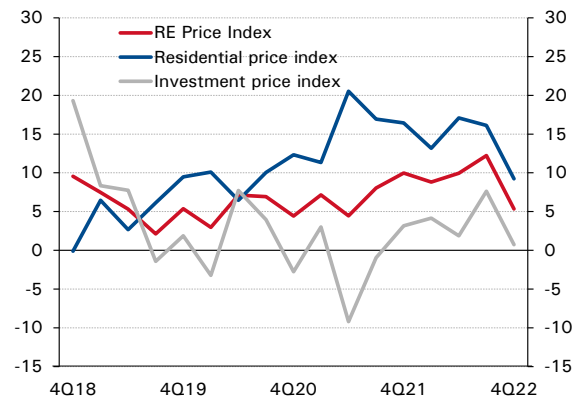
Looking back at the full year, real estate activity was relatively stable in 2022 at high levels. Total sales amounted to KD3.63 billion compared to KD3.68 in 2021. The small decline of 1.5% y/y partly reflects the fading of pandemic pent-up demand during. Overall activity remained well above 2019's level and the pre-pandemic 5-yr annual average (2015-19) of KD2.83 billion. Sales activity was affected by residential sector dynamics, which saw a 49% decline in transactions during 2022, despite a largely positive economic backdrop, following the rise in oil prices and the reopening of the economy. As well as higher home valuations, especially in inner areas, uncertainty surrounding government proposals to resolve the residential housing crisis

may have weighed on sales activity, at least in the short-term. The proposed reforms, which include imposing taxes/fees on multiple home ownerships and abolishing utility subsidies (except on a first home) as well as a proposal to levy a tax on multiple ownership of undeveloped land, all with the intention to limit speculation, may have affected buyers' sentiment.

Moreover, our real estate price index showed signs of softening in 4Q22 (-3.2% q/q; +5.4% y/y), according to estimates based on transactions data, following significant rises in residential valuations over the last two years. (Chart 2.) The easing in the real estate index was largely due to the quarterly decline in residential (home and plot) prices in 4Q22 linked to uncertainties within the market. In addition, investment prices dropped, with y/y rises slowing to 0.7% in 4Q22 from 7.6% in the previous quarter. The softness in investment prices could be linked to a shift in investors' sentiment given the sluggish recovery in the rental market and higher financing costs. Higher deposit rates may also be providing steeper competition for investor funds.

► Chart 2: NBK real estate price indices

(% y/y)



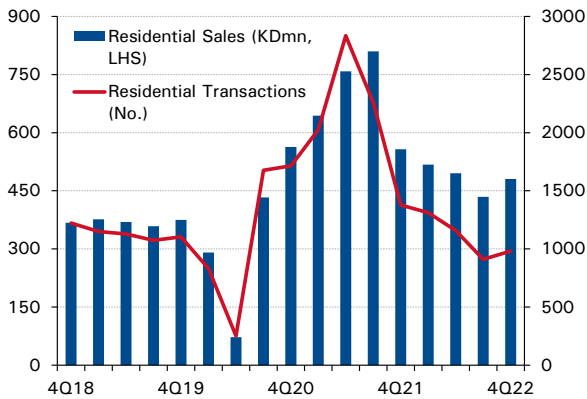
Source: Ministry of Justice, NBK estimates

Residential sales activity improves in 4Q22

Residential sales activity came in at KD480m in 4Q22, increasing on the previous quarter's level of KD434m (+10.6% q/q) but down compared to 4Q21 (-13.8% y/y). The quarterly gain, the first since 3Q21, was supported by an increase in the volume of plot transactions, especially in Hawalli and Al-Ahmadi

governorates. (Chart 3.) Ongoing market sluggishness compared to a year earlier could be attributed to the 'wait and see' attitude of buyers given high home valuations, especially in the inner areas, and the possibility of new measures related to resolving the residential crisis (mentioned above). These factors contributed to the drop in total residential sales in 2022 to KD1.9 billion (-30% y/y), though still higher than any year apart from 2021.

► **Chart 3: Residential sector sales**

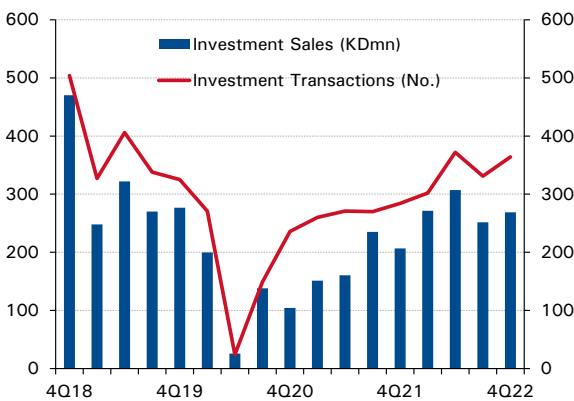


Source: Ministry of Justice

Modest pickup in investment sales following 3Q22 dip

Investment sector sales amounted to KD269 million in 4Q22 (+6.8% q/q; +30% y/y), a rebound, albeit a soft one, from the seasonality-driven decline observed in 3Q22. (Chart 4.) This was mainly due to increased apartment sales in Mubarak Al-Kabeer governorate.

► **Chart 4: Investment sector sales**



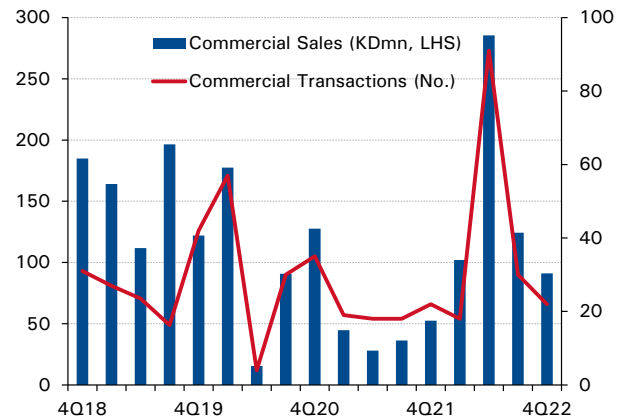
Source: Ministry of Justice

The overall softer demand trajectory of the past two quarters could be related to the combination of higher financing costs and a still-subdued rental market. Additionally, investment segment prices were softer in Q4 as described above. However, overall sales in 2022 increased by 46% to KD1.1 billion, spurred in part by the relative attractiveness of the segment in price terms compared to the residential sector, where price rises have been quite aggressive, and by the general post-pandemic improvement in the economy.

Commercial sales rise significantly in 2022

Commercial property sales were up by a robust 74% y/y to KD91 million in 4Q22 (though down on the quarter), with the average transaction size nearly doubling. This is most likely a reflection of improving business demand and weak sales a year earlier. The commercial sector's performance in 2022 surpassed its pre-pandemic level, in line with the broader recovery of the economy.

► **Chart 5: Commercial sector sales**



Source: Ministry of Justice

Real estate activity could ease further in 2023

Overall, property sales growth showed signs of easing in 2H22 versus 1H22, a trend that could extend into 2023. Potential downside pressures include a global economic slowdown, a backdrop of tighter global financial conditions relative to 2022, sluggish demand in the rental market, and high residential market valuations. Moreover, the recent resignation of the government could prolong the uncertainty surrounding proposed real estate legislation, extending the weakness in the sector throughout 2023. However, several factors will continue to support the market, including high oil prices, continued albeit moderate growth in non-oil GDP (versus possible recession in some overseas economies), and potential support from higher government spending as outlined in the draft budget (although approval may take time).

Looking further ahead, positive supply-side developments include three major housing projects in the pipeline estimated at KD3.2 billion over the next three years. Additional projects for FY22/23 include development schemes in South Sabah Al-Ahmed (KD277mn), Saad Al Abdullah (KD152mn) and Al-Mutlaa (KD296mn), which could help alleviate supply shortages and rebalance the market over the medium-to-long run.

► Table 1: Real estate sales

	Quarterly Average		Quarterly Sales/ Transactions				Change in 4Q22,%	
	2021	2022	1Q22	2Q22	3Q22	4Q22	q/q	y/y
Sales (KD million)	921	907	891	1,088	810	840	3.7	2.9
Residential	692	482	518	495	434	480	10.6	-13.8
Investment	188	275	271	307	252	269	6.8	30.1
Commercial	40	151	102	285	124	91	-26.7	73.9
Number of Transactions	2415	1473	1632	1621	1272	1368	7.5	-18.8
Residential	2124	1091	1312	1158	911	982	7.8	-28.7
Investment	271	342	302	372	331	364	10.0	28.2
Commercial	19	40	18	91	30	22	-26.7	0.0
Average Transaction Value (KD '000)	381	616	546	671	637	614	-3.6	26.7
Residential property	326	442	395	428	477	489	2.6	20.9
Investment	694	803	899	826	760	738	-2.9	1.5
Commercial	2098	3745	5668	3137	4145	4142	-0.1	73.9

Source: Ministry of Justice

► Table 2: NBK real estate price index

	Weight (100=2019)	q/q				y/y			
		1Q22	2Q22	3Q22	4Q22	1Q22	2Q22	3Q22	4Q22
RE price index	100.0	1.1	2.7	4.8	-3.2	8.8	9.9	12.2	5.4
Investment	45.5	2.5	-3.5	5.3	-3.3	4.1	1.9	7.6	0.7
Apartment	7.2	-1.6	-0.6	0.7	4.9	4.5	-0.4	1.0	3.4
Building	69.9	2.6	-5.0	5.2	-4.1	4.6	1.4	6.4	-1.7
Plot	22.9	3.7	1.3	7.0	-2.9	2.4	4.3	14.1	9.1
Residential	54.5	0.0	8.1	4.4	-3.2	13.2	17.1	16.1	9.2
Home	62.4	-2.9	11.0	4.8	-1.0	7.8	16.2	15.4	11.8
Plot	37.6	3.2	5.1	3.9	-5.5	19.3	18.1	16.9	6.4

Source: Ministry of Justice, NBK calculations

* NBK real estate price index is based on a dataset of real estate transactions that are available in the Ministry of Justice. The index is calculated on a quarterly basis by type of real estate for all governorates. The index methodology is based on a fixed-weight Laspeyres type with the base year 2019.

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 2222 2011
Fax: +965 2229 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

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

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