

Economic Update

NBK Economic Research Department | 25 August 2022

Real estate

Kuwait: Investment and commercial sector sales remain strong in 2Q22

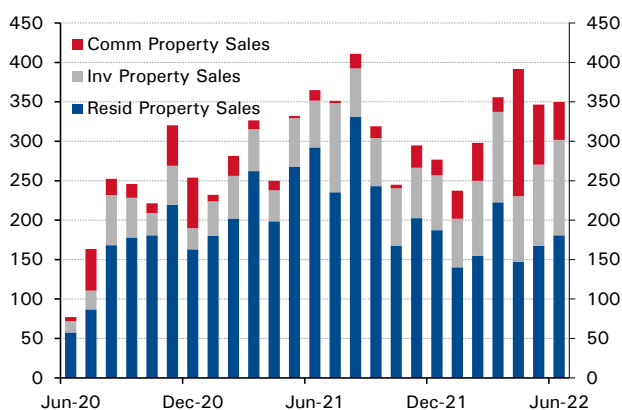
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Highlights

- Real estate sales rose to KD1.1 billion in 2Q22, up 22% q/q, boosted by investment and commercial sector sales.
- Residential sales declined for the third consecutive quarter, to KD0.5 billion (-35% y/y).
- Investment and commercial sector sales accounted for more than half of total sales for the first time since 1Q20 on more favorable relative valuations and improved broader economic prospects.
- We expect activity to stay relatively firm in 2H22, with a weaker global economy and rising interest rates as downside risks.

Real estate sales remained on a strong footing in 2Q22, with rising activity in the investment and commercial sectors more than offsetting a slight dip in the residential segment. Total sales increased to KD1.1 billion in Q2 (+22% q/q; +14.9% y/y), which was the strongest quarter since 4Q14. (Chart 1.) The number of transactions continued to trend lower after surging last year, but remains close to pre-pandemic levels. At the sector level, we believe that activity in the investment segment especially may be benefitting from relatively low valuations versus the residential market.

▶ **Chart 1: Real estate sales**
(KD million)



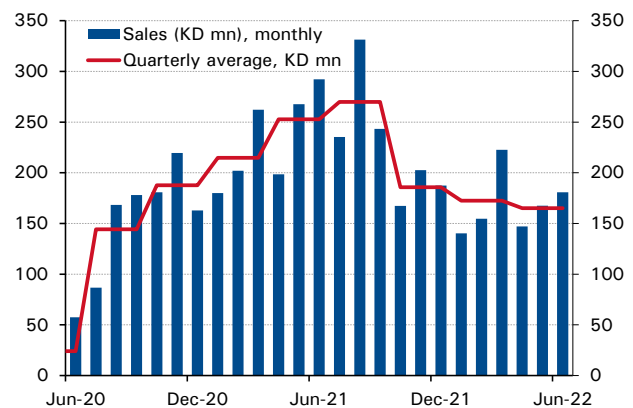
Source: Ministry of Justice/NBK

Looking ahead, we expect overall real estate activity to remain relatively firm through 2H22 given steady growth in the broader economy, high oil prices and solid underlying demand for housing. Downside risks include weaker market sentiment linked to a slowdown in the global economy, the impact of inflation (especially raw materials and labor) on construction and maintenance costs, and higher borrowing costs as interest rates both locally and globally continue to rise.

Residential sales ease amid high valuations

Residential sales continued to decline in 2Q22, reaching KD495 million (-4.3% q/q; -35% y/y) from a high of KD810 million in 3Q21. (Chart 2.) The fall in sales was due to a decline in transaction volumes during the quarter, while the average transaction size continued to rise. We note however that the pace of decline in sales slowed in Q2 versus Q1, perhaps suggesting that the market is stabilizing after last year's bigger falls.

▶ **Chart 2: Residential sector sales**
(KD million)

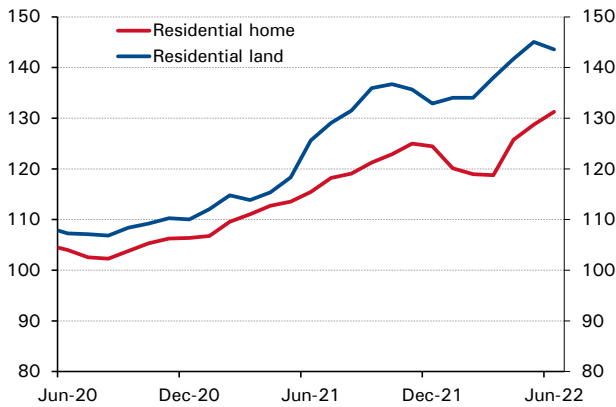


Source: Ministry of Justice/NBK

The further easing in residential sector sales occurred against a largely positive economic backdrop, following the increase in oil prices and the government decision to fully open up the economy by removing the remaining Covid-19-related health measures. Although underlying demand for housing remains strong, activity seems to have shifted toward relatively lower valued (like-for-like) investment and commercial segments, where the prospects are attractive as the post-Covid economic recovery proceeds. Meanwhile, rising prices for raw materials and labor shortages are making homes more costly to construct and maintain, adding

to upward pressure on prices. High valuations in the residential sector could remain a headwind to a pick-up in sales in 2H22. Meanwhile, residential land prices, which saw a relatively small decline in 4Q21, have resumed their climb this year, up by 4.1% q/q (+14.3% y/y) in 2Q22. It was a similar story with residential home prices, which increased 10.6% q/q (+13.7% y/y) in Q2. (Chart 3.)

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

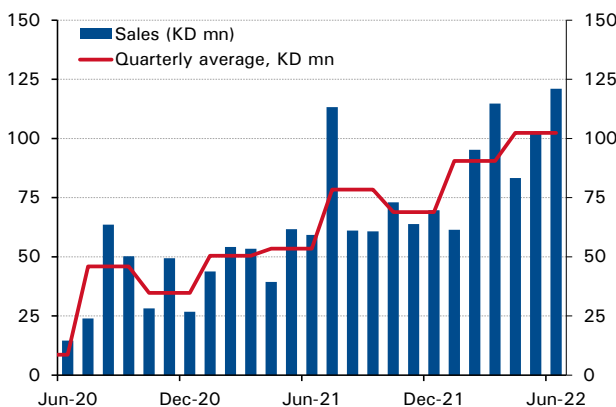


Source: Ministry of Justice/ NBK calculations

Investment sales continue to trend up

In contrast, sales in the investment sector saw a significant increase in 2Q22 at KD307 million (+13.1% q/q; +92% y/y), carrying over its improvement from previous quarters. (Chart 4.) Although the trend upturn from the depths of the pandemic is clear, activity has not yet quite recovered to the levels recorded on average through 2018-19, which were relatively strong. Both the volume of transactions and average transaction size continued to trend up, helped by lower valuations (following declines during the pandemic) and the ongoing post-pandemic economic recovery. These factors should continue to offer some support in 2H22, though the pace of improvement could slow as interest rates rise and if local sentiment is affected by a weaker global economy.

Chart 4: Investment sector sales
(KD million)



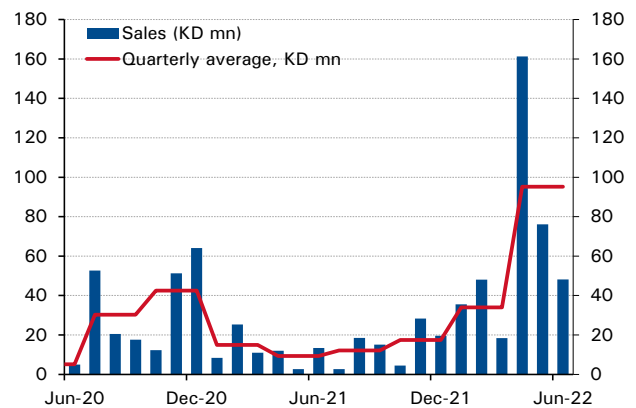
Source: Ministry of Justice/ NBK

Higher sales came mainly on rising transaction volumes in 2Q22 (+23% q/q), with the sector’s attractiveness helped by the ongoing valuations gap compared with the residential sector. Still, according to our estimates, year-on-year price gains in the investment segment remained significant in 1H22 at around 10%, but the pace of increase eased versus late 2021.

Commercial sector sales surge on rising land sales

Sales in the commercial sector nearly doubled in 2Q22 to KD285 million compared to 1Q22. (Chart 5.) This is the highest level in a decade. The segment increasingly seems to have found its feet, with corporate demand no doubt helped by the recovery in the broader economy and the full lifting of Covid restrictions earlier in the year. More than half of all purchases in 2Q22 were made in April, which recorded sales of KD161 million, driven mainly by large land transactions in the Sabah Al-Ahmad coastal area. Commercial sector demand is expected to remain strong while trending close to or above its pre-pandemic level of around KD50 million per month for the remainder of this year. However, higher interest rates and a slowdown in the global economy that could negatively affect domestic sentiment is a risk factor.

Chart 5: Commercial sector sales
(KD million)



Source: Ministry of Justice/ NBK

▶ Table 1: Real estate sales

	Quarterly Average		Quarterly Sales/ Transactions				Change in 2022, %	
	2020	2021	3Q21	4Q21	1Q22	2Q22	q/q	y/y
Sales (KD million)	560	921	1,081	816	891	1,088	22.1	14.9
Residential	340	692	810	557	518	495	-4.3	-34.7
Investment	117	188	235	207	271	307	13.1	91.6
Commercial	103	40	36	52	102	285	179.8	916.1
Number of Transactions	1,320	2,415	2,547	1,684	1,632	1,621	-0.7	-48.1
Residential	1,118	2,124	2,259	1,378	1,312	1,158	-11.7	-59.1
Investment	170	271	270	284	302	372	23.2	37.3
Commercial	32	19	18	22	18	91	406.0	405.6
Average Transaction Value (KD '000)	424	381	424	485	546	671	22.9	121.4
Residential property	304	326	358	404	395	428	8.4	59.9
Investment	688	694	871	727	899	826	-8.2	39.6
Commercial	3,264	2,098	2,017	2,381	5,668	3,137	-44.7	101.0

Source: Ministry of Justice, NBK calculations

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