

Kuwait: Real estate sales rebound in the third quarter following the lifting of restrictions

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Highlights

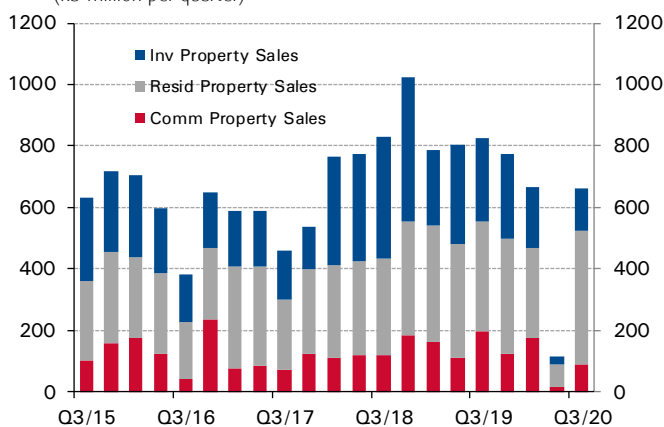
- Real estate sales staged a strong recovery in the third quarter, returning roughly to pre-pandemic norms at KD 662 million.
- Strong Q3 sales were driven mostly by strong activity in the residential sector, which reached multi-year highs.
- Price data is mixed, with residential prices on a modest uptrend, while investment prices decline.
- The drive to address the demographic imbalance and the impact on the expat population will weigh on the investment and commercial sectors, while residential activity should remain solid.

Real estate sales rebounded in 3Q20 on restriction lifting

Following the historically low real estate sales of 2Q20 in the wake of the pandemic and the national lockdown that lasted until July, sales staged a strong recovery in the third quarter, returning roughly to pre-pandemic norms at KD662 million, up more than five-fold q/q. (Chart 1.) The rebound was supported by the lifting of coronavirus restrictions on business and mobility, leading to a surge in transactions in all three subsectors likely due to pent-up demand after several months of restrictions. Although real estate activity has gradually improved from the April/May lows, reaching KD245 million in September, sales could fall back as the commercial and investment sectors remain weaker due to the effect of the pandemic on business activity and the expat population.

Chart 1: Real estate sales

(KD million per quarter)



Source: Ministry of Justice/ NBK

Investment sector picks up in 3Q20, but headwinds remain

Investment (i.e. apartment) sector sales surged more than five-fold q/q in 3Q20 to KD138 million (chart 2), though remain depressed compared to the same quarter last year (-49% y/y). The rise was driven by a surge in the number of transactions, which rose more than six times q/q (mostly due to the low base of 2Q20), rather than strong activity. Deals stood at 149 in 3Q20, down 56% y/y, much lower than the 2019 quarterly average of 349 deals. The exceptionally thin volumes from March to July have obscured price trends, but higher activity in Q3 (though still low by pre-corona standards) could imply better price readings. In particular, the spike in building prices seen in March – June was likely due to thin volumes and distorted price readings, but have sharply trended downwards in recent months as volumes picked up, lending a more reliable and sensible indication. Investment sector prices currently appear to be trending downwards, in line with weaker market conditions, with apartment prices down 6% y/y in September (Chart 3).

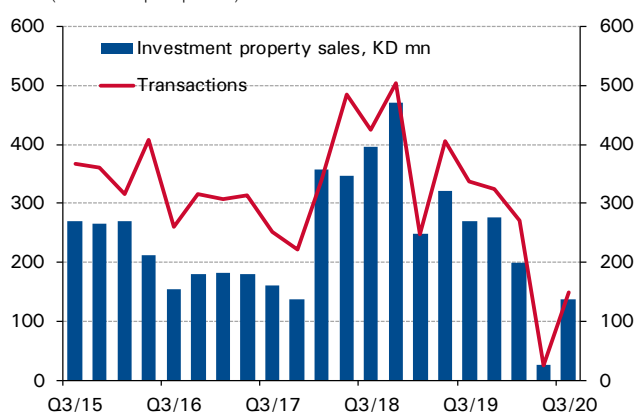
Given the multiple headwinds that this sector currently faces, we expect a full recovery to take some time. The sector, which was burdened by oversupply and falling rents even prior to the pandemic, now faces the additional pressure of weakening expat demand due to the negative impact of the pandemic on the expat population, which is the main investment sector demand driver. A recovery in demand is tied to the pace of economic recovery and the degree of success in controlling the rates of virus cases, which remain elevated, adding to risk of renewed curfews and restrictions. Further, a new law to reduce considerably the expat population and address the demographic imbalance was recently approved by parliament. The government was tasked to prepare a detailed plan within a year—this does not bode well for the investment sector.

Residential sales rebound on strong demand

Residential sales rose six-fold q/q and 21% y/y in 3Q20, reaching an exceptional KD433 million, the highest since 1Q15. (Chart 4.) The strong sales were driven by a surge in the number of transactions, which totaled 1,676 deals, contrasting sharply with the 251 deals of Q2, and the highest since 2013. This rebound in activity was partly the product of pent-up demand after several months of restrictions, coupled with solid fundamentals in the sector including its resilience to pandemic pressures.

Chart 2: Investment sector sales

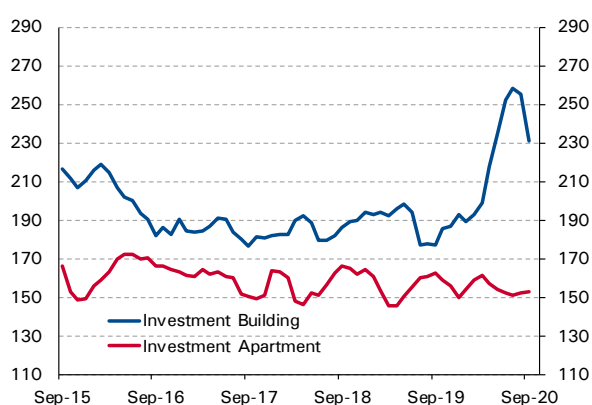
(KD million per quarter)



Source: Ministry of Justice/ NBK

Chart 3: Investment sector prices

(% y/y, 2010=100)



Source: Ministry of Justice/ NBK

The solid fundamentals stem from limited supply and a growing national population, and are supported by good liquidity and minimal job losses for citizens during the pandemic, keeping demand stable. Moreover, as profitability in the investment sector comes under increasing pressure from vacancies and falling rents, there is anecdotal evidence of investors turning to the residential sector for investment opportunities, such as speculative buying and better rental potential.

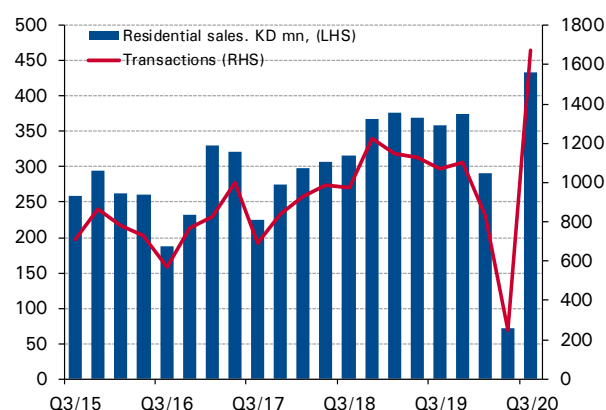
While our interpretation of price trends has been hindered in past months by thin trading volumes, we believe that price indications are now more reliable given the surge in trading during 3Q20.

Home and land prices rose 4% and 6% y/y respectively in September. (Chart 5.)

Though the strong activity and sales in the residential sector may ease in coming months as the effect of restriction lifting fades, we expect it to hold well overall in the near-to-medium term, due to an expected high and persistent demand by nationals for residences.

Chart 4: Residential sector sales

(KD million per quarter)



Source: Ministry of Justice/ NBK

Chart 5: Residential sector prices

(% y/y 2010=100)



Source: Ministry of Justice/ NBK

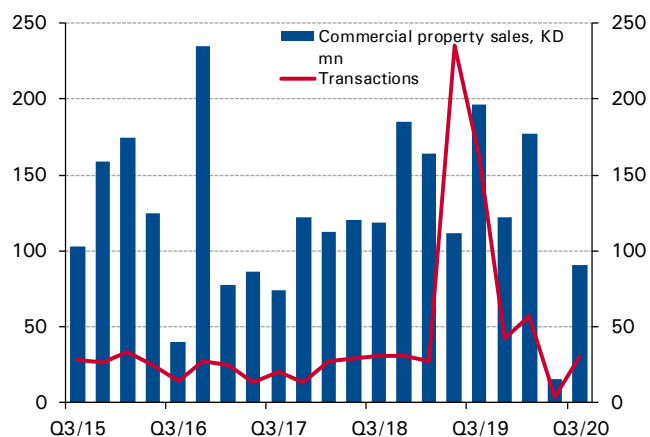
Signs of weakness in commercial sector despite higher sales

Commercial sector sales (chart 6) picked up in 3Q20 reaching KD91 million (five-fold q/q), helped by the easing of restrictions, though remain low relative to pre-corona levels (-54% y/y). The higher sales came on the back of a rebound in transaction numbers (seven-fold q/q) following the exceptional pandemic-induced lows of 2Q20, but is still low (-82% y/y) when looking at pre-corona norms. The commercial sector – which typically sees fewer sales than other sectors – was a victim of weak business activity during the lockdown, with various reports of businesses struggling to pay rent for commercial space, leading to rent reductions and deferred payments for various commercial tenants, but mostly for severely impacted retail tenants with high rents in malls. As restrictions are lifted and the economy

improves, a gradual recovery maybe underway for the sector, but weakness may still take some time to subside. This is especially true given the large number of distressed businesses and a large loss of expat jobs, which will likely weigh on demand for commercial space and prices in some areas.

► Chart 6: Commercial Sector sales

(KD million per quarter)



Source: Ministry of Justice / NBK estimates

► Table 1: Real estate sales

	Quarterly Average		Quarterly				3Q20 change, %	
	2018	2019	3Q19	1Q20	2Q20	3Q20	q/q	y/y
Sales (KD million)	849.1	797.5	825.2	667.9	113.3	661.5	484.0	-19.8
Residential	322.2	369.8	358.5	290.7	72.1	433.0	500.3	20.8
Investment	392.9	279.2	270.2	199.7	25.8	137.8	435.2	-49.0
Commercial	133.9	148.6	196.5	177.5	15.4	90.8	489.3	-53.8
Number of Transactions	1495.5	1579.5	1574.0	1159.0	279.0	1855.0	564.9	17.9
Residential property	1027.0	1113.8	1073.0	831.0	251.0	1676.0	567.7	56.2
Investment	439.0	349.0	338.0	271.0	24.0	149.0	520.8	-55.9
Commercial	29.5	116.8	163.0	57.0	4.0	30.0	650.0	-81.6
Average Transaction Value (KD th)	1683.6	1516.4	524.3	576.3	406.0	356.6	-12.2	-32.0
Residential property	938.3	993.8	334.1	349.9	287.3	258.3	-10.1	-22.7
Investment	2905.8	2430.3	799.3	737.0	1072.9	924.9	-13.8	15.7
Commercial	12452.4	8498.6	1205.7	3113.2	3850.0	3025.0	-21.4	150.9

Source: Ministry of Justice

Note for text: Our proprietary real estate indices database comprises over 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.

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