

## Kuwait: Real estate sales moderate in October from a solid third quarter

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### Highlights

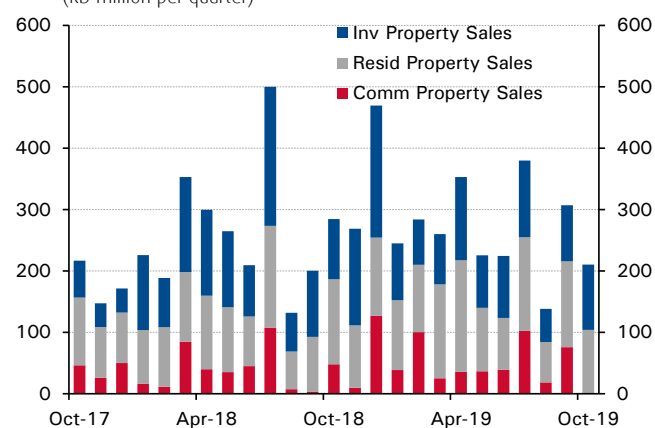
- Real estate sales moderated to KD 211 million in October on a slump in commercial sales, and after a strong Q3.
- October sales came almost entirely from the residential and investment sectors.
- While residential prices have maintained strong y/y gains, investment prices continue to linger in negative territory.

### Real estate sales moderate in October

Real estate sales moderated to KD 211 million in October, down 31% m/m and 26% y/y, mainly on the back of a sharp drop in the commercial sector, which saw the weakest monthly sales since August 2010, while residential and investment sector sales were decent. This follows a robust third quarter, with sales of KD 825 million, up 2.8% q/q but down a negligible 0.8% y/y. Prices were mixed as of October, with the residential sector continuing to display a positive trend with strong year-on-year gains, while investment prices continued to be moderately negative on an annual basis due to fundamental weakness (surplus of apartments, soft demand).

#### Chart 1: Real estate sales

(KD million per quarter)



Source: Ministry of Justice/ NBK

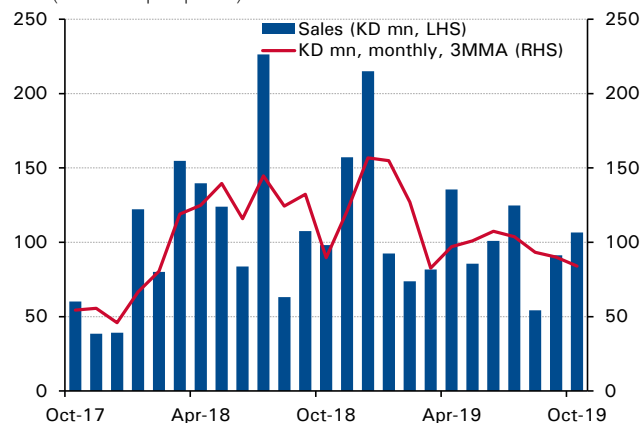
### Strong building sales lifts investment sector in October

Investment sector sales rose 17% m/m and 9% y/y to KD107 million in October, lifted by some exceptionally large building transactions, coupled with a 4% m/m rise in building prices. Building transactions alone totaled nearly KD 100 million, of

which KD 34 million stemmed from two large, 6000 sqm properties in Mahboula. This follows a muted third quarter for the investment sector, in which sales declined 16% q/q and 32% y/y to KD 270 million. The decline was driven by a lower number of transactions (338) particularly in August with well-below 2019-to-date average sales of KD 54.2 million, most likely due to seasonal factors, in addition to softer prices. On an annual basis, investment sector prices remain negative, down 3.2% and 3.7% for buildings and apartments respectively as of October.

#### Chart 2: Investment sector sales

(KD million per quarter)



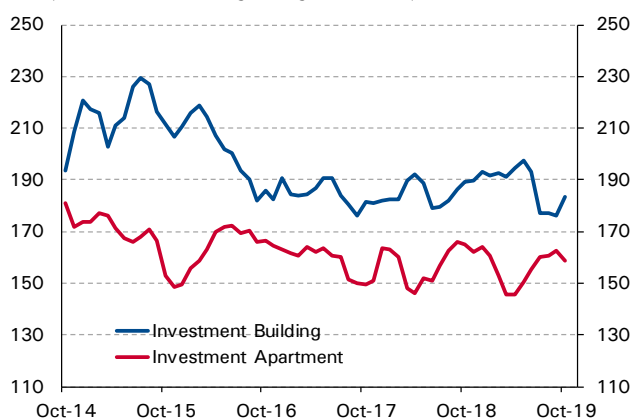
Source: Ministry of Justice/ NBK

We expect the price trend to remain slightly negative in this sector until the imbalance between softer demand and over-supply starts to subside, as there is good reason to believe that a relatively large number of vacant apartments have yet to be absorbed by the market. The gradual decline in apartment rents is a reflection of this imbalance, although rents have been stable since June, which may suggest an improvement in this regard. Weakness in the investment sector is partly due to a slower pace of emigration, which is a large source of apartment demand, but

also likely due to a rising amount of rental space offered from newly built, apartment-type homes in recently developed residential areas. This is especially evident in the large areas adjacent to the Fahaheel expressway (including Messayel, Egaila and Funaitees)

### ▶ Chart 3: Investment sector price indices

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



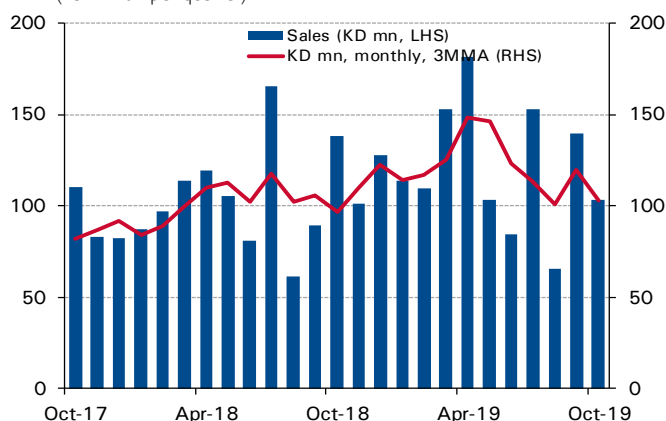
Source: Ministry of Justice / NBK estimates

### Residential sales moderate in October on softer volume

Residential sales were moderate in October at KD 104 million (down 26% m/m, 25% y/y) as the number of transactions eased by 23% to 314 deals. The average transaction size also eased slightly, despite a monthly pick-up in prices, suggesting that trading in smaller, or less premium properties was more dominant. Looking back at Q3, residential sales eased slightly (3%) from the previous quarter, but remained strong at KD 359 million, rising 13% from the same quarter last year on higher prices and decent volumes.

### ▶ Chart 4: Residential sector sales

(KD million per quarter)



Source: Ministry of Justice/NBK

Residential prices have indeed risen significantly, up a solid 16% and 11% y/y in October for land and homes respectively. The residential sector's solid sales and good liquidity is likely

supported by strong demand (given the growing backlog of housing applications and the shortage of government housing), but also due to the rising potential for investment in residential areas, especially newly developed areas that typically carry some upside potential. With home and land prices becoming less affordable relative to average income, renting has become an increasingly viable option among citizens with preference for residential areas, and investors seem poised to serve this growing demand stemming from a more stable local demographic (relative to expat demand). These characteristics may explain, in part at least, the divergence in residential and investment sector market trends.

### ▶ Chart 5: Residential sector price indices

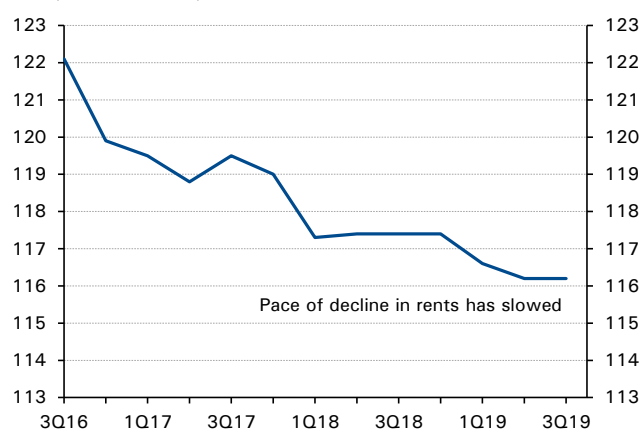
(index, 3-month moving average, 2010=100)



Source: Ministry of Justice / NBK estimates

### ▶ Chart 6: Consumer Price Index – housing rents

(Index, 2013=100)



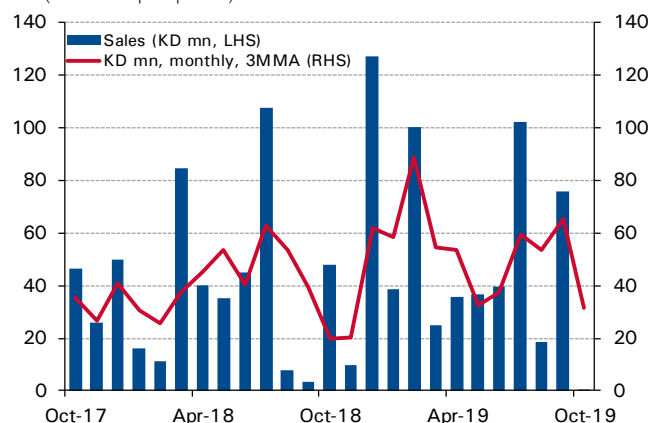
Source: Central Statistical Bureau

### Commercial sector slumps to weakest in nine years

Commercial sector sales in October fell to the weakest level since August 2010, at only KD 400,000, well below the 2019 monthly (January-September) average of KD 52 million. The weak sales were driven by a sharp, 79% drop in transactions to

a level (8) roughly in line with the historical norm, but more importantly, an extreme drop in the average transaction size to only KD 47,000, pointing to the complete absence of large deals involving plots and complexes. Rather, the eight transactions came exclusively from small shops. In contrast, commercial sector sales amounted to a record KD 197 million in the third quarter, up 76% q/q and 66% y/y. The record sales were despite a slight quarterly drop in the number of transactions, which was more than offset by a pick-up in average transaction size. This suggests the transaction of bigger or more premium commercial properties relative to the previous quarter. The surge in commercial activity observed in 2Q and 3Q reportedly stemmed from the bulk offering of spaces in large newly developed commercial properties in the south of Kuwait, which now seem to have been absorbed by the market given the sharp drop in transactions in October.

**Chart 7: Commercial Sector sales**  
(KD million per quarter)



Source: Ministry of Justice/ NBK

**Table 1: Real estate sales**

	Monthly average		Monthly				Oct change, %	
	2018	2019-to-date	Jul-19	Aug-19	Sep-19	Oct-19	m/m	y/y
<b>Sales (KD million)</b>	<b>283.0</b>	<b>262.7</b>	<b>379.8</b>	<b>138.5</b>	<b>306.9</b>	<b>210.5</b>	<b>-31.4</b>	<b>-26.1</b>
Residential	107.4	120.8	152.8	65.9	139.9	103.6	-25.9	-25.2
Investment	131.0	94.7	124.8	54.2	91.2	106.5	16.8	8.6
Commercial	44.6	47.3	102.3	18.4	75.9	0.4	-99.5	-99.2
<b>Number of Transactions</b>	<b>498.5</b>	<b>526.3</b>	<b>695</b>	<b>320</b>	<b>559</b>	<b>416</b>	<b>-25.6</b>	<b>-37.7</b>
Residential property	342.3	366.5	462	207	404	314	-22.3	-31.3
Investment	146.3	116.5	154	67	117	94	-19.7	-53.2
Commercial	9.8	43.3	79	46	38	8	-78.9	-20.0
<b>Average Transaction Value (KD th)</b>	<b>561.2</b>	<b>500.6</b>	<b>546.5</b>	<b>432.7</b>	<b>549.1</b>	<b>505.9</b>	<b>-7.9</b>	<b>18.7</b>
Residential property	312.8	329.1	330.8	318.2	346.2	329.8	-4.7	8.8
Investment	968.6	825.8	810.1	809.5	779.3	1133.1	45.4	132.2
Commercial	4150.8	2622.7	1294.6	399.1	1997.5	46.9	-97.7	-99.0

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.

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