

Kuwait: Second quarter real estate sales highest in three years

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Highlights

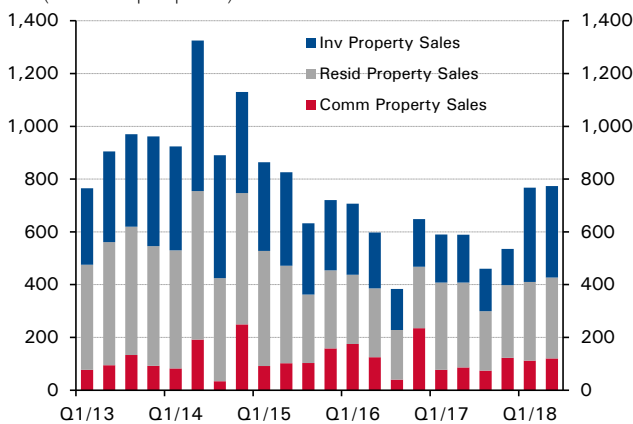
- The second quarter of 2018 showed strong gains in real estate sales, up 31% y/y to KD 774 million.
- Sales were driven by a higher volume of transactions and a rise in the average transaction size.
- Home and land prices showed signs of recovery in 2Q18, while investment property prices continued to ease.
- Downside risks remain, and we maintain a conservative outlook for the rest of the year.

Real estate sales were robust in 2Q18

Real estate sales in 2Q18 rose modestly compared to 1Q18 but were up strongly on a year ago (chart 1), boosted by higher sales and lower prices in the investment sector. Total sales reached KD 774 million in 2Q18, up 31% compared to the same quarter in 2017, with the volume of transactions up 13% year-on-year (y/y) (table 1). Although the market remains soft relative to the highs of 2014-15, the improvement in activity levels versus last year and a recent modest rebound in residential prices are encouraging signs. The improvements were likely helped by a better macroeconomic outlook and a confidence boost from higher oil prices.

▶ **Chart 1: Real estate sales**

(KD million per quarter)



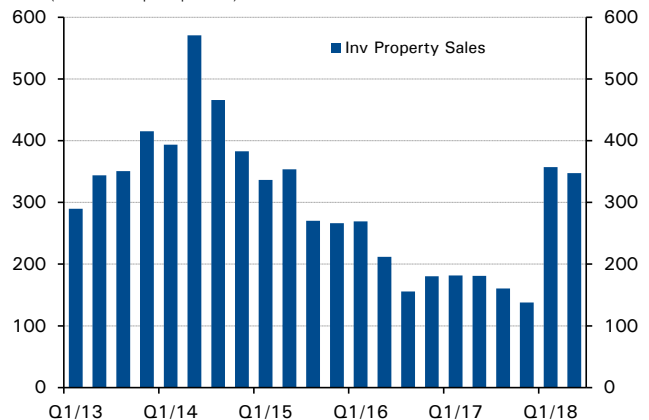
Source: Ministry of Justice/ NBK

Investment sector the main driver of higher sales

Sales in the investment sector reached KD 347 million in 2Q18 (chart 2), almost double its performance of last year, supported by a sharp rise in the volume of transactions. Prices have fallen significantly since 2017, with prices of buildings (chart 3) and apartments down 10% and 6%, respectively, on a year ago. Sellers and buyers may be in the process of converging to a new lower equilibrium price, in line with lower building valuations and high vacancy rates for apartments (approximately 13% according to the Real Estate Association). We expect prices in this sector to stabilize once the gap between demand and supply narrows, although this may take some time. Building prices remain in a fairly steep negative price trajectory (chart 3), while the pace of decline in apartment prices sold individually appears to be slowing.

▶ **Chart 2: Investment sector sales**

(KD million per quarter)



Source: Ministry of Justice/ NBK

▶ **Chart 3: Investment building price index**

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

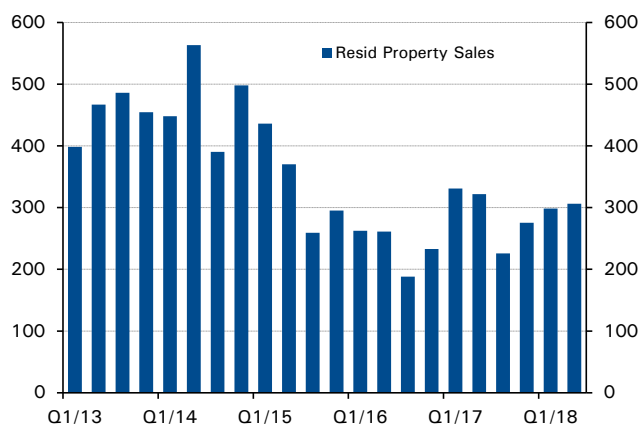


Source: Ministry of Justice, NBK estimates

Residential sales weaken on the back of softer volumes

Residential sales fell 5% y/y in 2Q18 to KD 306 million (chart 4), driven mainly by a decline in transaction volumes. Further, home prices have posted a small (1.1% y/y) yet significant rise in the context of a trend that has been negative for a considerable period (chart 5). Land prices also appeared to be stabilizing (chart 5), with the y/y rate of decline slowing to -0.8% in 2Q18, possibly due to tightening supply following the glut that reigned over the market over the past two years.

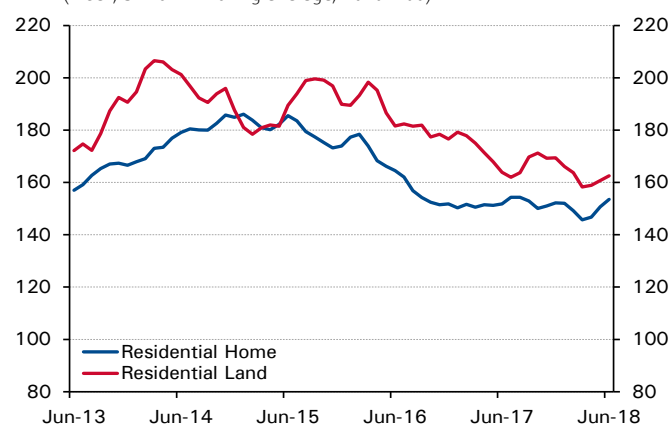
▶ **Chart 4: Residential sector sales**



Source: Ministry of Justice/ NBK

▶ **Chart 5: Residential sector price indices**

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

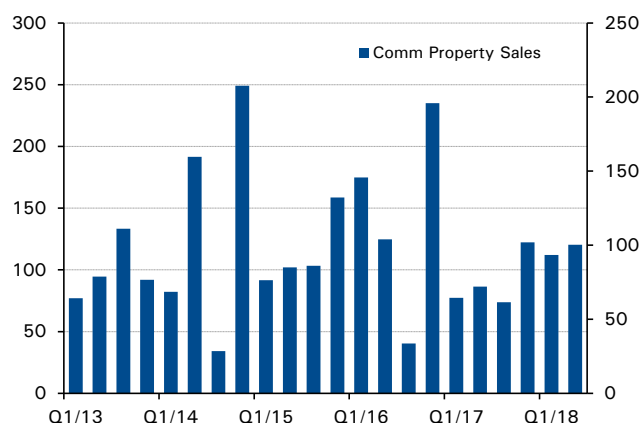


Source: Ministry of Justice, NBK estimates

Commercial sector is doing better

Sales in the commercial sector jumped by close to 40% to KD 120 million in 2Q18 (chart 6), driven by a strong pickup in activity, with 29 transactions compared to 13 during the same period last year (table 1). This coincided with a pickup in commercial licenses issued by the Ministry of Commerce and Industry. The ministry recently eased business start-up requirements including a reduction of the minimum capital requirement, and has established a one-stop-shop for new company registration, reducing the time, cost and effort needed to start a business.

▶ **Chart 6: Commercial Sector sales**



Source: Ministry of Justice/ NBK

Real estate market shows signs of recovery

Sales and activity are strong relative to previous quarters, and overall, prices have eased since last year to become more in line with demand. However, downside risk is still present. Rising interest rates may weaken demand for housing, and persisting oversupply in the rental market is likely to keep prices subdued. Meanwhile, home and land prices, although

recovering, may see headwinds in the near-to-medium term as more areas and homes are introduced and distributed by the Public Authority for Housing Welfare. Our outlook therefore remains conservative.

▶ **Table 1: Real estate sales**

	Average per quarter				Quarterly			% Change 2Q18	
	2014	2015	2016	2017	2Q17	1Q18	2Q18	%q/q	%y/y
Sales (KD mn)	1067.4	760.6	584.0	543.6	589.1	767.4	773.9	0.9	31.4
Residential	474.9	340.1	236.0	288.5	321.9	298.3	306.3	2.7	-4.9
Investment	453.1	306.7	204.2	165.1	180.8	357.1	347.4	-2.7	92.1
Commercial	139.3	113.8	143.8	89.9	86.4	112.1	120.3	7.3	39.2
Number of Transactions	1905	1356	1060	1131	1329	1295	1499	15.8	12.8
Residential	1451	970	712	840	1002	928	984	6.0	-1.8
Investment	430	360	325	274	314	340	486	42.9	54.8
Commercial	25	25	23	18	13	27	29	7.4	123.1
Transaction size (KD th)	560	584	551	472	443.3	592.6	516.3	-12.9	16.5
Residential	327	351	332	335	321.2	321.4	311.2	-3.2	-3.1
Investment	1055	1000	628	603	575.8	1050.2	714.8	-31.9	24.1
Commercial	5573	4509	6320	5068	6645.7	4150.7	4147.3	-0.1	-37.6

Source: Ministry of Justice

Note: Our real estate indexes 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 indexes are based in 2010, i.e. 2010 price index equals 100. The indexes are not adjusted for seasonality nor for number of business days. They also do not cover the commercial sector.

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