

Kuwait: Real estate sales reach KD1 billion in Q4, the strongest in four years

> Saqer Al-Zayed
Economist
+965 2259 5655
SaqerAlZayed@nbk.com

Daniel Kaye
Head of Research
+965 2259 3136
Danielkaye@nbk.com

Highlights

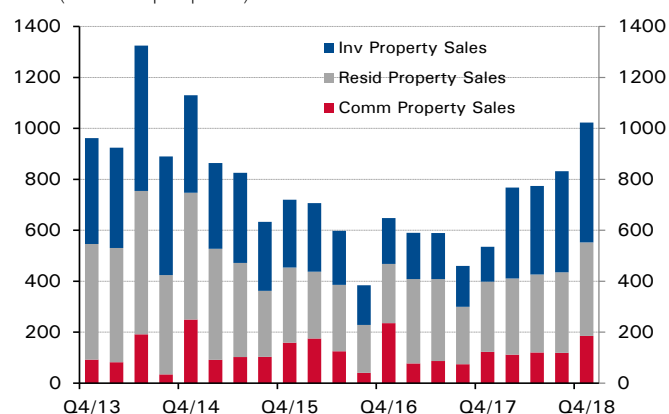
- Fourth quarter sales were in excess of KD 1 billion, the strongest in four years.
- A pick-up in sales was seen across all three real estate sectors.
- Sales were also helped by a pickup in residential and investment sector prices, which now appear to be trending up.
- The commercial sector saw renewed strength in 2018 helped by business-friendly reforms by MOCI.

Real estate market strength extends into 4Q18

Real estate sales rose to their strongest levels in four years in 4Q2018. (Chart 1.) Sales were in excess of KD1 billion (up 23% q/q, 91% y/y), marking the fifth consecutive quarterly rise in sales and reinforcing the positive trend that started to emerge in late 2017. The strength came primarily from the investment (i.e. apartment) sector, helped by rising prices. The residential sector also saw a rise in prices. Meanwhile, the commercial sector has benefitted from higher demand helped by business-friendly reforms by the Ministry of Commerce and Industry, giving rise to better sentiment and renewed demand in this sector.

► Chart 1: Real estate sales

(KD million per quarter)



Source: Ministry of Justice/ NBK

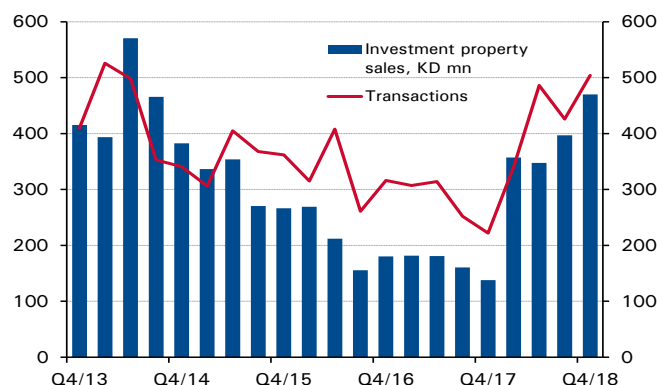
For 2018 overall, all three sectors saw a significant rise in sales from 2017 levels, and NBK real estate price indices (covering land, homes, apartments and multi-unit buildings) have posted year-on-year gains. (Charts 3 and 5.) The improvement was likely driven by a better economic backdrop relative to 2017, higher average oil prices which lifted sentiment, rising employment and slightly faster growth in the expatriate population which may have supported rental demand. At this juncture, the real estate market appears to be in a good state. Volumes and liquidity have been mostly restored to pre-slump levels (2014), while prices have been stable since mid-2018 and are now on a mildly positive trend. Housing rents have also been steady since mid-2018. These positive trends have been consistent for some time, with the market gradually improving since 4Q17.

Investment sector posts strong sales and higher prices

Investment sector sales reached KD470 million in 4Q18, up 19% q/q and more than triple the level of 4Q17 (Chart 2.). Higher sales were driven by a rise in transaction volumes, coupled with an increase in prices. Transactions rose 18% q/q and 127% y/y, while the NBK investment real estate price indices were up by an average of 1.5% q/q and 3.7% y/y, led by multi-unit buildings. (Chart 3.) The rise in investment sector prices was likely helped by more stable rents compared to 2017 and early 2018 when rents were falling. The sector could face headwinds in the near to medium term from new supply in the pipeline, and from a possible increase in interest rates in 2019. But there are potential tailwinds, too: possibly higher government capex and project awards in 2019 may stimulate non-oil growth and boost employment, which could in turn boost demand in the rental market.

▶ **Chart 2: Investment sector sales**

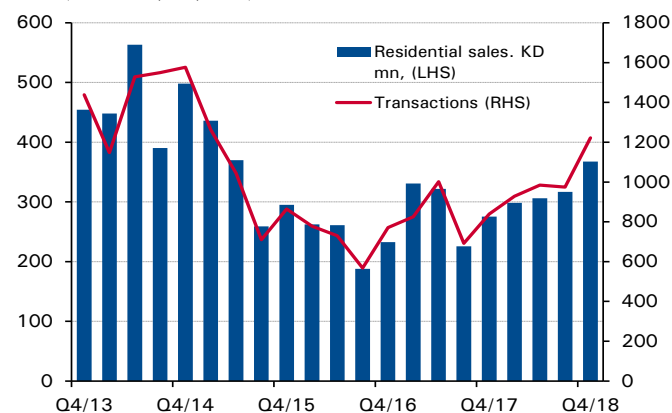
(KD million per quarter)



Source: Ministry of Justice/ NBK

▶ **Chart 4: Residential sector sales**

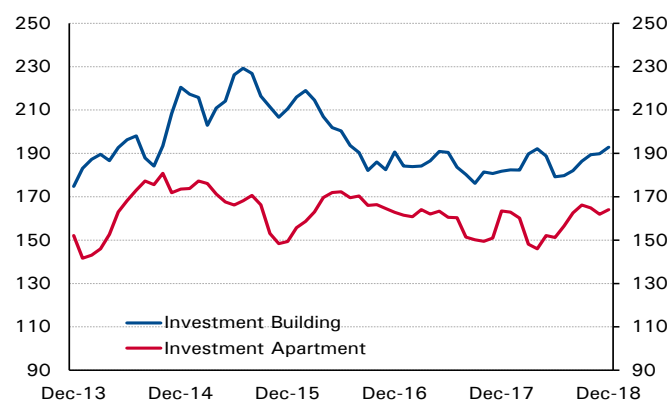
(KD million per quarter)



Source: Ministry of Justice/ NBK

▶ **Chart 3: Investment sector price indices**

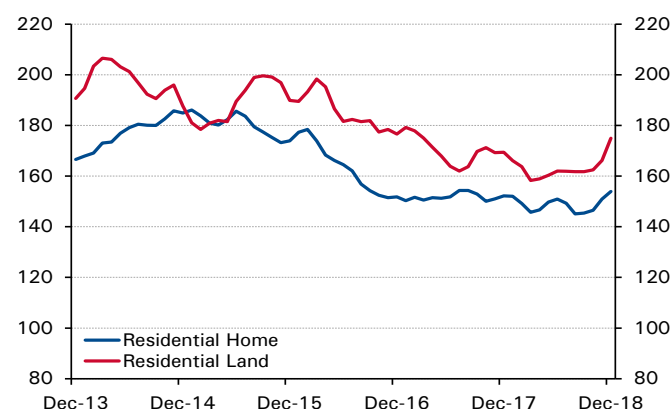
(index, 3-month moving average, 2010=100)



Source: Ministry of Justice / NBK estimates

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

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



Source: Ministry of Justice / NBK estimates

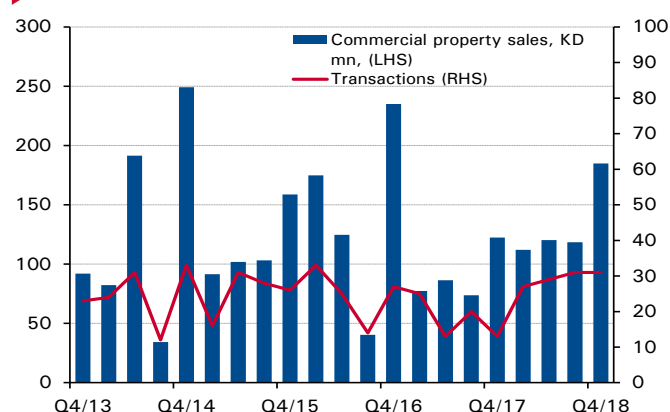
Residential prices rebound in 4Q, positive year-on-year

The residential sector registered sales of KD368 million, up 16% q/q and 33% y/y. (Chart 4.) The rise in sales was driven by a higher number of transactions and a rise in prices. Transactions rose by 26% q/q and 46% y/y. Prices, slightly negative in 1Q-3Q18, surged by nearly 8% q/q in Q4, helping residential prices cross into positive year-on-year territory from November for the first time since 2016. (Chart 5.) Higher prices were likely helped by improving demand, reflected in much higher activity levels relative to 2017. Downside risk in this sector may emerge in the form of large government housing distributions planned for 2019, coupled with a potential rise in financing costs. Meanwhile, a draft mortgage law is under consideration by the National Assembly. The law, if passed, should boost demand in the residential sector with citizens benefitting from improved access to financing. The law will also help lower the growing backlog of government housing applications.

Commercial sector benefits from business-friendly reforms

The commercial sector was the scene of a big improvement in activity and sales in 2018. After showing encouraging signs earlier in the year, the sector gained traction, with the fourth quarter being the strongest of the year. Commercial sales in 4Q18 reached KD185 million, the highest in two years, and gained over 50% on a quarterly and annual basis. (Chart 6.) The number of transactions surged 139% y/y in 4Q18, but were unchanged from the previous quarter. Higher sales in 4Q18 were driven by a rise in average transaction size, suggesting that relatively larger properties or more prime locations, or higher quality properties were traded in Q4 compared to Q3. For instance, a commercial building of 5,800 sqm was traded in Sharq for a value of KD 45 million, much higher than the sector average. The sector has benefitted from various business friendly reforms by the Ministry of Commerce and Industry, the latest of which is the launch of an electronic system for the issue of commercial licenses.

► Chart 6: Commercial Sector sales



Source: Ministry of Justice/ NBK

► Table 1: Real estate sales

	Quarterly average				Quarterly total			% Change 4Q18	
	2015	2016	2017	2018	4Q17	3Q18	4Q18	%q/q	%y/y
Sales (KD mn)	760.6	584.0	543.6	849.1	535.6	832.1	1022.8	22.9	91.0
Residential	340.1	236.0	288.5	322.2	275.6	316.6	367.7	16.1	33.4
Investment	306.7	204.2	165.1	392.9	137.7	396.9	470.2	18.5	241.5
Commercial	113.8	143.8	89.9	133.9	122.3	118.5	184.9	56.1	51.2
Number of Transactions	1356	1060	1131	1496	1074	1431	1757	22.8	63.6
Residential	970	712	840	1027	839	974	1222	25.5	45.6
Investment	360	325	274	439	222	426	504	18.3	127.0
Commercial	25	23	18	30	13	31	31	0.0	138.5
Average Transaction Value (KD th)	561	551	481	568	1502.0	1619.2	1757.7	8.6	17.0
Residential	351	332	344	314	995.1	948.9	903.0	-4.8	-9.2
Investment	851	628	603	895	1854.9	2638.5	3016.5	14.3	62.6
Commercial	4509	6320	5068	4540	61807	9706.1	14748.	51.9	-76.1

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.

Head Office

Kuwait

National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 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

Jordan

National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

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

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France

National Bank of Kuwait
(International) Plc
Paris Branch
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
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
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

© Copyright Notice. The Economic Update is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK.

While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. GCC Research Note is distributed on a complimentary and discretionary basis to NBK clients and associates. This report and other NBK research can be found in the "Reports" section of the National Bank of Kuwait's web site. Please visit our web site, www.nbk.com, for other bank publications. For further information please contact: NBK Economic Research, Tel: (965) 2259 5500, Fax: (965) 2224 6973, Email: econ@nbk.com