

# Real estate sales weaken in 1Q23 on market uncertainty and tighter liquidity

## Summary

Real estate sales in the first quarter hit their lowest since 3Q20 led by declining residential sales. Prices in the residential segment may have dropped q/q, though are still up around 8% year-on-year. Overall, market activity could remain relatively soft this year given tighter financial conditions versus 2022, still high valuations in the residential segment, the slow recovery in the rental market and investor worries about a global recession.

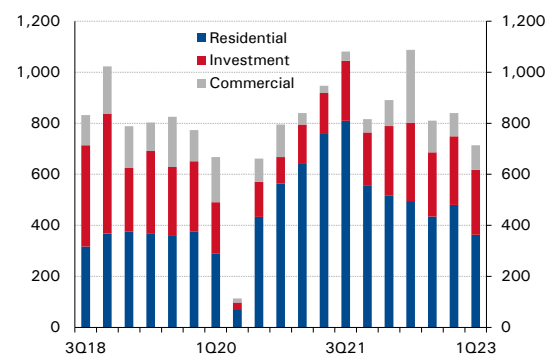
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- Real estate sales slipped to KD714 million in 1Q23, their lowest level since 3Q20, as demand moderated amid high valuations in the residential sector, rising borrowing costs and uncertainty over the prospects for reforming utility subsidies and the distribution of plots and residential units during the current year. (Chart 1.) Overall real estate prices, as measured by our real estate price index, eased as residential sector prices edged lower. (Chart 2.)
- Residential sales activity took a sharp downward turn in 1Q23, falling to its lowest level since 2Q20 at KD363 million, mainly on lower transaction volumes (-23% q/q; -42% y/y). (Chart 3.) Sales (homes and plots) concentrated in Hawalli and Al-Ahmadi governorates accounted for 54% of total residential sales. The decline in sales could be due to a combination of lower speculation in residential areas, higher returns on deposits and a cloudier outlook regarding the path of government reforms in the sector.
- Meanwhile, our residential price index (based on MoJ data) eased for the second consecutive quarter in 1Q23, with growth moderating to 8.4% y/y. In year-on-year terms, home (as opposed to land) prices were still up strongly, reflecting higher recorded valuations especially in the Kuwait city and Hawalli governorates. Higher prices could be dissuading buyers from pursuing real estate ventures.
- Mirroring the residential sector, sales in the investment (i.e. apartment and apartment buildings) segment also fell, to KD254 million, while the volume of transactions saw a slight uptick on a year-on-year basis. (Chart 4.) Lower sales could be related to rising borrowing costs and the sluggish recovery in the rental market, despite the rise in the number of expats in 2022, historically a key driver of the rental market. Expatriate numbers are still 3.7% (125,000) below 2019 levels. Prices in the investment sector continue to trend downwards, on lower building prices, especially in Al-Farwaniya and Al-Ahmadi governorates, and are now more or less flat year-on-year.
- Commercial sector sales declined by 5.8% y/y to KD96 million in 1Q23, though activity was up on the previous quarter (+5.5% q/q). (Chart 5.) The concentration of sales in Jibla-Kuwait city supported the value of commercial sales, though transaction volumes saw a quarterly decline of 13.6%.
- Separately, disbursed loans from Kuwait Credit Bank (KCB), the entity responsible for granting housing loans to citizens, increased by 49% m/m (+36% y/y) to KD 49.8 million in March. (Chart 6.) Strong recent performance is in line with increased plot disbursement by the government. KCB loans totaled KD127 million in 1Q23, which could auger well for the potential supply of homes over the medium to long term.
- The KCB recently requested from the government additional and urgent financing worth KD275 million for the Mutla's new suburbs (N1-4) project that commenced in late April. The capital increase, if approved, could enhance access to home financing and help reduce the backlog in housing applications, though at a reported 90,915 as of March 2023 and with 6-8 thousand new

### Chart 1: Real estate sales

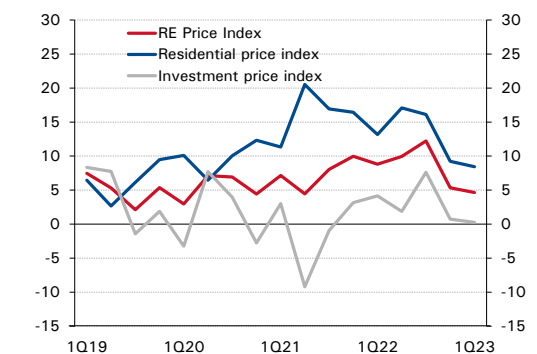
(KD million, per quarter)



Source: Ministry of Justice (MOJ)

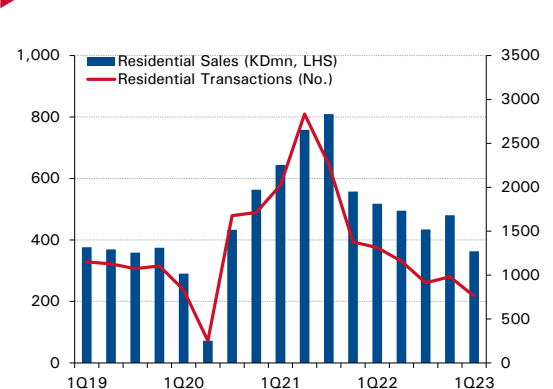
### Chart 2: NBK real estate price index

(% y/y)



Source: NBK estimates, MOJ

### Chart 3: Residential sector sales

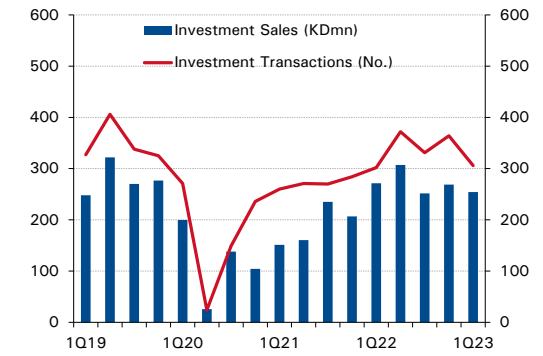


Source: MOJ

applications every year, bringing this number down significantly is a considerable challenge. The Public Authority for Housing Welfare has the East Sabah Al-Ahmed Township next in its pipeline. This is due to be completed in 2024.

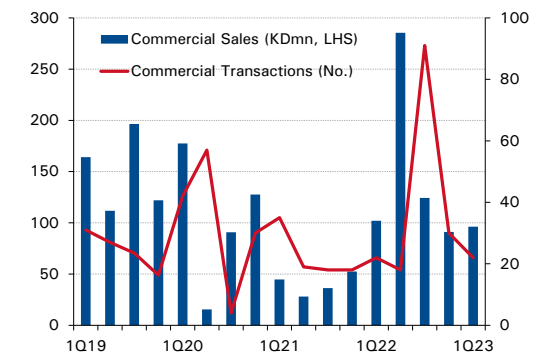
- Looking ahead, we expect real estate sales to remain relatively soft through this year especially within the residential segment (April data shows sales fell by 68% y/y on the lowest transaction volume in almost three years), given elevated valuations in that sector, higher interest rates versus 2022, and only a gradual further recovery in the rental market. Any increase in government housing distributions or KCB loan disbursements will help boost supply over time, but is expected to have little impact on existing home prices (especially in inner areas) in the short run. In addition, still elevated construction costs and the current unsettled political climate are also adversely affecting investor sentiment. These factors, along with global recession fears, could continue to weigh on the market outlook in the near term.

▶ Chart 4: Investment sector sales



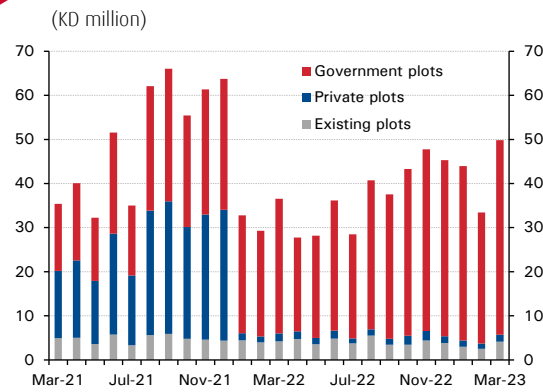
Source: MOJ

▶ Chart 5: Commercial sector sales



Source: MOJ

▶ Chart 6: KCB loan disbursements



Source: Kuwait Credit Bank (KCB)

► Table 1: Real estate sales

	Quarterly Average		Quarterly Sales/ Transactions				Change in 1Q23,%	
	2021	2022	2Q22	3Q22	4Q22	1Q23	q/q	y/y
<b>Sales (KD million)</b>	<b>921</b>	<b>907</b>	<b>1,088</b>	<b>810</b>	<b>840</b>	<b>714</b>	<b>-15.0</b>	<b>-19.9</b>
Residential	692	482	495	434	480	363	-24.3	-29.8
Investment	188	275	307	252	269	254	-5.3	-6.3
Commercial	40	151	285	124	91	96	5.5	-5.8
<b>Number of Transactions</b>	<b>2415</b>	<b>1473</b>	<b>1621</b>	<b>1272</b>	<b>1368</b>	<b>1085</b>	<b>-20.7</b>	<b>-33.5</b>
Residential	2124	1091	1158	911	982	760	-22.6	-42.1
Investment	271	342	372	331	364	306	-15.9	1.3
Commercial	19	40	91	30	22	19	-13.6	5.6
<b>Average Transaction Value (KD '000)</b>	<b>381</b>	<b>616</b>	<b>671</b>	<b>637</b>	<b>614</b>	<b>658</b>	<b>7.1</b>	<b>20.5</b>
Residential property	326	442	428	477	489	478	-2.2	21.2
Investment	694	803	826	760	738	831	12.6	-7.5
Commercial	2098	3745	3137	4145	4142	5061	22.2	-10.7

Source: Ministry of Justice

► Table 2: NBK real estate price index\*

	Weight (100=2019)	q/q				y/y			
		2022	3Q22	4Q22	1Q23	2022	3Q22	4Q22	1Q23
<b>RE price index</b>	<b>100.0</b>	2.7	4.8	-3.2	0.5	9.9	12.2	5.4	4.7
<b>Investment</b>	<b>45.5</b>	-3.5	5.3	-3.3	2.0	1.9	7.6	0.7	0.3
Apartment	7.2	-0.6	0.7	4.9	-1.1	-0.4	1.0	3.4	3.9
Building	69.9	-5.0	5.2	-4.1	2.7	1.4	6.4	-1.7	-1.6
Plot	22.9	1.3	7.0	-2.9	0.7	4.3	14.1	9.1	5.9
<b>Residential</b>	<b>54.5</b>	8.1	4.4	-3.2	-0.7	17.1	16.1	9.2	8.4
Home	62.4	11.0	4.8	-1.0	0.3	16.2	15.4	11.8	15.5
Plot	37.6	5.1	3.9	-5.5	-2.0	18.1	16.9	6.4	1.1

Source: Ministry of Justice, NBK calculations

\* The NBK real estate price index is based on a dataset of real estate transactions that are available from the Ministry of Justice. The index is calculated on a quarterly basis by type of real estate for all governorates. The index methodology is based on a fixed-weight Laspeyres type with the base year 2019.

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