

## Kuwait: Third quarter real estate sales maintain positive momentum

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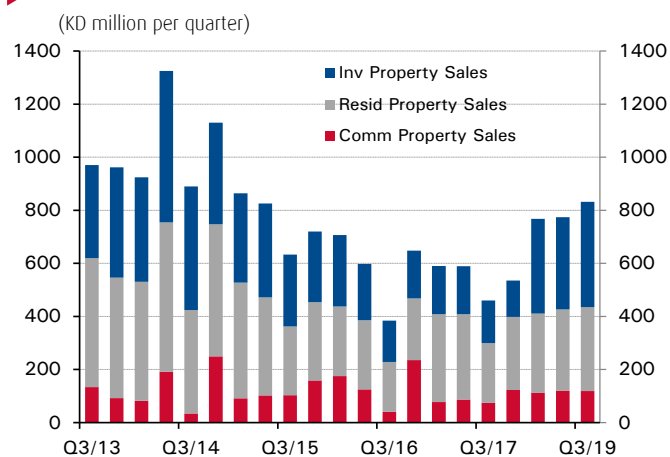
### Highlights

- Third quarter real estate sales were robust at KD 832 million, extending the positive trend of previous quarters.
- The investment sector is showing signs of improvement with higher sales and prices.
- Residential prices continued to weaken, but activity and sales were firm.
- Commercial sector sales have improved from 2017 levels, helped by the easing of business startup requirements.
- Some risks remain in the form of large upcoming housing distributions, and new buildings and apartments.

### Real estate sales maintain good momentum in 3Q18

Real estate sales in the third quarter registered KD 832 million, up 7.5% from 2Q18 and 81% y/y (chart 1, table 1). This was the third consecutive quarterly rise in sales this year and the fourth consecutive rise since 3Q17, reflecting a steadily improving trend. Although higher sales in 2018 have been largely driven by increased activity, the rise in 3Q18 was due to an increase in the average transaction value, helped by a rise in investment (i.e. apartment) sector prices.

#### Chart 1: Real estate sales



Source: Ministry of Justice/ NBK

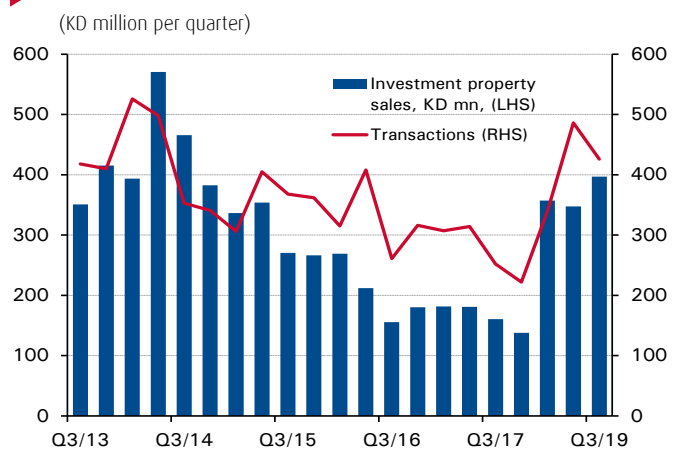
The relatively strong sales were supported by a gradually improving economic backdrop and the significant drop in real estate prices since 2016 to levels more encouraging to buyers. Moreover, with some regional real estate markets either saturated (Dubai) or unstable (Turkey), local equity prices softening compared to earlier in the year, and negative

sentiment surrounding foreign real estate investments due to rising reports of fraud (by real estate marketing companies through local fairs/exhibitions/media), the domestic real estate market may be becoming a more attractive alternative for Kuwaiti investors.

### Investment sector sales and prices on the rise

Investment sector sales in 3Q18 stood at KD 397 million, up 14% from the previous quarter, and more than double the levels of 3Q17 (chart 2, table 1). Although the number of transactions saw a slight drop from the previous quarter, sales still increased on the back of a rise in average transaction value, partly owed to a recent rise in prices.

#### Chart 2: Investment sector sales



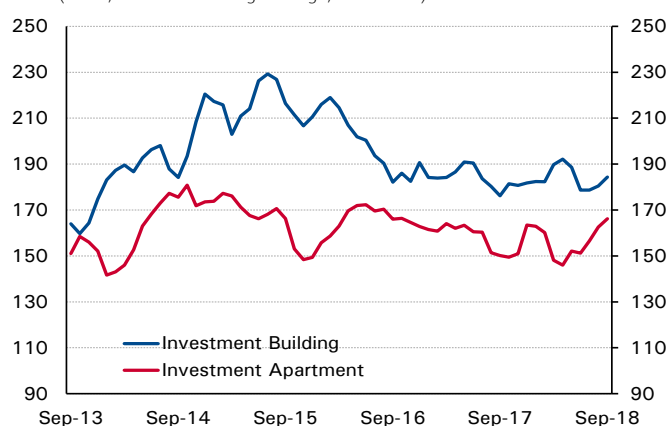
Source: Ministry of Justice/ NBK

It is noteworthy that September saw the third consecutive month-on-month increase in apartment prices and second

consecutive increase in building prices. This could be an indication that the market is tightening in terms of supply and demand, but official vacancy figures are not yet available to confirm this. Prices rose by a significant 10.7% y/y for apartments and 4.6% y/y for buildings in September (chart 3), although part of the rise is due to a base effect following a drop in prices in 3Q17. This sector however may face headwinds in the near-to-medium term as interest rates may rise and new supply is expected to come into the market.

**Chart 3: Investment sector price indices**

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



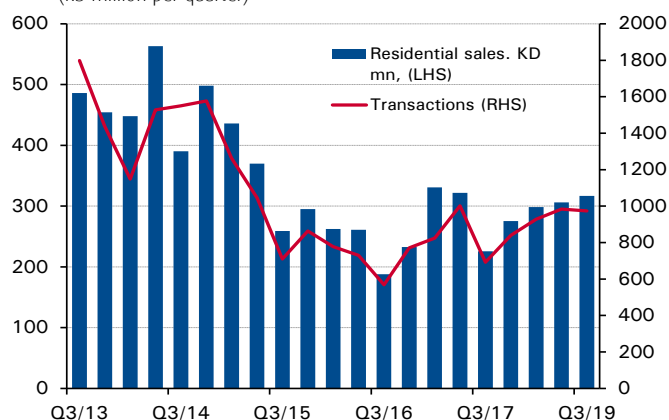
Source: Ministry of Justice, NBK estimates

### Residential sales improve, but prices are still negative

The residential sector saw sales of KD 317 million in 3Q18, up 3.4% from the second quarter and 40% y/y (chart 4, table 1). Higher sales were registered despite transactions and prices easing slightly from Q2, and can be attributed to trading in larger or higher quality properties compared to the previous period. Although prices rose modestly in 2Q18, the general trend remains slightly negative, with land and home prices falling by 4% and 5.9% y/y respectively (chart 5).

**Chart 4: Residential sector sales**

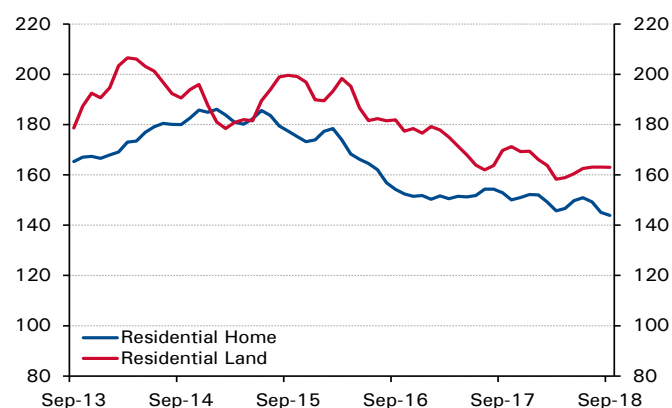
(KD million per quarter)



Source: Ministry of Justice/ NBK

**Chart 5: Residential sector price indices**

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



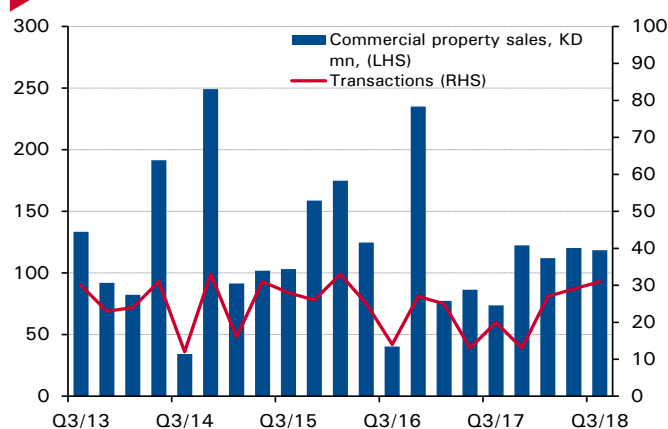
Source: Ministry of Justice, NBK estimates

Overall, this sector is still displaying some price weakness, but demand and sentiment are showing signs of improvement, evident by a more active and liquid market in 2018 than in previous years. The higher activity however may need to be sustained before we see prices picking up. The much-awaited mortgage law, which may still take some time to be adopted, would likely speed up the recovery in residential real estate prices. Downside risk in this sector is mainly centered on higher expected financing costs due to higher interest rates, and a large number of units due to enter the market from upcoming PAHW distributions.

### Commercial sector more active thanks to reforms and better sentiment

Commercial sector sales, despite declining slightly (-1.5%) from the previous quarter, rose strongly year-on-year at 61% (chart 6, table 1). Transactions were also positive, up 55% y/y and 7% q/q. We maintain our view that the improvement in this sector is owed in part to better policies by the Ministry of Commerce and Industry (MOCI) relating to the easing of rules and procedures for business start-ups. This, combined with a better economic outlook, has improved investor sentiment and is reflected in the rise in the number of commercial licenses issued this year by MOCI. A new round of improvements was recently introduced to the MOCI's business start-up center, adding further support to this sector. The pickup in licenses and startups has promoted commercial rentals, and this may have spurred higher activity together with interest from commercial property investors. With oil prices high, good expectations for growth, and business activity and consumer spending firm, we expect this trend to continue.

▶ Chart 6: Commercial Sector sales



Source: Ministry of Justice/ NBK

▶ Table 1: Real estate sales

	Average per quarter				Quarterly			% Change 3Q18	
	2014	2015	2016	2017	2Q17	2Q18	3Q18	%q/q	%y/y
<b>Sales (KD mn)</b>	<b>1067.4</b>	<b>760.6</b>	<b>584.0</b>	<b>543.6</b>	<b>589.1</b>	<b>773.9</b>	<b>832.1</b>	<b>7.5</b>	<b>80.9</b>
Residential	474.9	340.1	236.0	288.5	321.9	306.3	316.6	3.4	40.3
Investment	453.1	306.7	204.2	165.1	180.8	347.4	396.9	14.3	147.3
Commercial	139.3	113.8	143.8	89.9	86.4	120.3	118.5	-1.5	60.6
<b>Number of Transactions</b>	<b>1905</b>	<b>1356</b>	<b>1060</b>	<b>1131</b>	<b>1329</b>	<b>1499</b>	<b>1431</b>	<b>-4.5</b>	<b>48.4</b>
Residential	1451	970	712	840	1002	984	974	-1.0	40.8
Investment	430	360	325	274	314	486	426	-12.3	69.0
Commercial	25	25	23	18	13	29	31	6.9	55.0
<b>Average Transaction Value (KD th)</b>	<b>560</b>	<b>584</b>	<b>551</b>	<b>472</b>	<b>443.3</b>	<b>516.3</b>	<b>581.5</b>	<b>12.6</b>	<b>21.8</b>
Residential	327	351	332	335	321.2	311.2	325.1	4.5	-0.3
Investment	1055	1000	628	603	575.8	714.8	931.8	30.3	46.3
Commercial	5573	4509	6320	5068	6645.7	4147.3	3821.9	-7.8	3.6

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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