

Kuwait: Second quarter real estate sales at historical lows on coronavirus woes

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Highlights

- Real estate sales totaled a record low KD 113 million in 2Q20, down 83% q/q and 86% y/y on coronavirus woes.
- Weak Q2 sales were seen across all three subsectors, though sales picked up slightly in June on easing restrictions.
- Thin Q2 volumes mean price data is inconclusive; observation of trends over coming months may yield better indications.
- Longer-term coronavirus implications on the expat population mean the investment and commercial sectors may take longer to recover to pre-pandemic norms.

Real estate sales at all-time lows in 2Q20

After a solid first quarter for real estate sales (KD 668 million), sales were depressed in 2Q20 in the wake of the coronavirus pandemic and the national lockdown, which had a severely negative impact on most economic sectors. (Chart 1.) Sales totaled just KD 113 million in Q2 (down 83% q/q and 86% y/y), the lowest on record. Low sales were driven by thin volumes in all three sub-sectors, though it is worth noting that sales mostly stemmed from a pick-up in June coinciding with eased lockdown restrictions, in a promising sign that activity may improve as restrictions are further eased in the coming months. Given the thin volumes during Q2 and the limited availability of data, it would be premature to draw any reliable inferences about prices at this juncture.

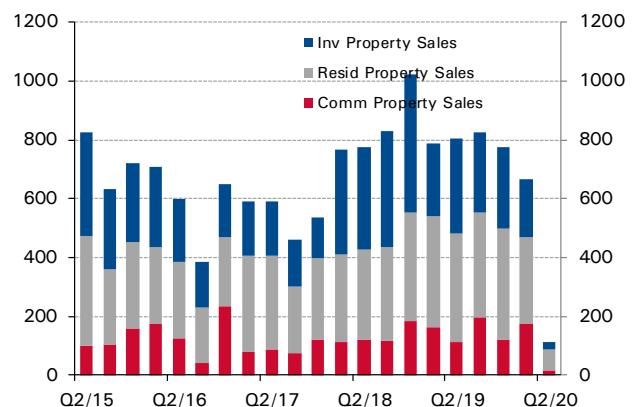
However, it is reasonable to assume that prices were negatively affected in 2Q20 by the dual coronavirus/oil price shocks and their negative implications on the expat population and business conditions. These implications may be long-term in nature, and thus we expect the real estate market to take some time to fully recover, especially with the commercial and investment sectors which are typically less resilient to such shocks.

Investment sector may suffer due to higher vacancies

Investment sector sales fell 87% q/q and 92% y/y to a record low of KD 26 million in 2Q20. (Chart 2.) The decline came on the back of the exceptionally low transactions (24), contrasting sharply with a quarterly average of 329 transactions during 2019 and 271 in 1Q20. Due to the unusually thin volumes, we believe that the market will need time to settle back into more normal patterns before any reliable conclusions on prices can be drawn.

Chart 1: Real estate sales

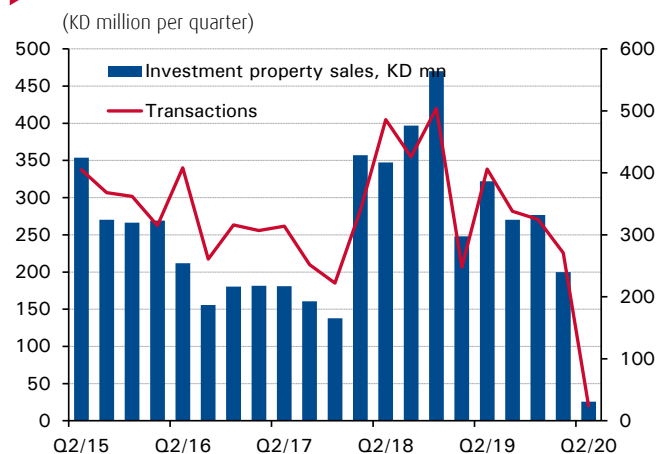
(KD million per quarter)



Source: Ministry of Justice/ NBK

Looking forward, investment sector sales and transactions may improve as lockdown restrictions ease, but will likely remain muted, especially given that the bulk of rental demand for such properties typically stems from the expat labor force, which has certainly been affected by the lockdown and business closures. Further, with oil prices and economic growth expected to recover but remain moderate next year, slow progress on policy reforms, and investors increasingly turning to the residential sector for opportunities, it may take some time for demand and prices to recover to pre- coronavirus levels. Additionally, according to the consumer price index, residential rents (mostly apartments) have been either flat or falling y/y over the past ten months, but are expected to resume a downtrend on reportedly higher vacancies, with recent reports of rent cuts and/or no rent for 1-2 months as landlords attempt to attract new tenants.

Chart 2: Investment sector sales



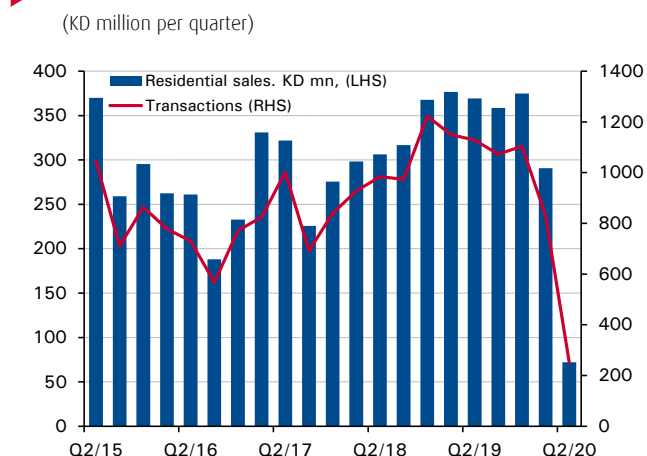
Source: Ministry of Justice/ NBK

Residential sector expected to show greater resilience

Residential sales fell sharply to KD 72 million in 2Q20 from KD 291 million in 1Q20 (-75% q/q, -81% y/y). (Chart 3.) The lower sales were due to a steep drop in the number of transactions which fell to an exceptionally low 251 (-70% q/q, -78% y/y).

While other sectors will likely continue to be affected by coronavirus restrictions and lockdowns in the near term, the residential sector has typically been more resilient to such shocks, as the demand base stems from the local population with mostly stable jobs, and supply is somewhat limited, especially in prime areas. Due to these strong fundamentals, we expect the residential sector to witness a relatively quick recovery (in terms of volumes) in the coming months as restrictions ease.

Chart 3: Residential sector sales



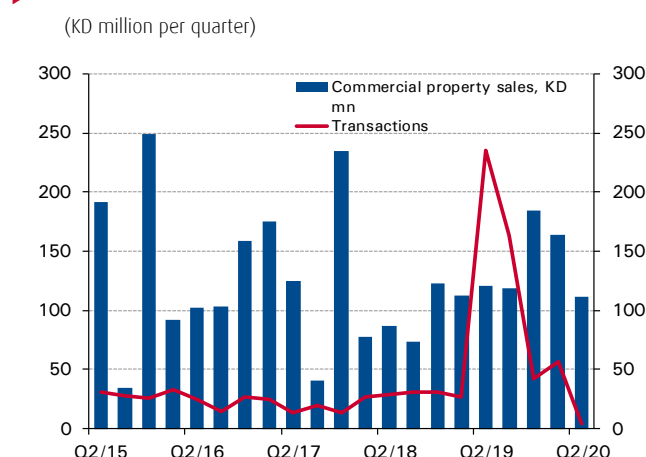
Source: Ministry of Justice/ NBK

Business weakness likely to weigh on commercial sector

Commercial sector sales dropped 91% q/q and 86% y/y to a mere KD 15 million in 2Q20, stemming from only four transactions (-98% y/y). (Chart 4.) The commercial sector – which typically sees fewer sales than other sectors – was a victim of weak business activity during the lockdown, with various reports of businesses struggling to pay rent for

commercial space, leading to rent reductions and deferred payments for various commercial tenants, but mostly for severely impacted retail tenants with high rents in malls. As restrictions are slowly lifted, a gradual recovery maybe underway for the sector, but weakness may take some time to subside. This is especially given a large number of distressed businesses and with a large loss of expat jobs which will likely weigh down on demand for commercial space, likely to be reflected in lower prices in some areas.

Chart 4: Commercial Sector sales



Source: Ministry of Justice / NBK estimates

► Table 1: Real estate sales

	Quarterly Average		Quarterly				2Q20 change, %	
	2018	2019	3Q19	4Q19	1Q20	2Q20	q/q	y/y
Sales (KD million)	849.1	797.5	825.2	773.4	667.9	113.3	-83.0	-85.9
Residential	322.2	369.8	358.5	374.9	290.7	72.1	-75.2	-80.5
Investment	392.9	279.2	270.2	276.5	199.7	25.8	-87.1	-92.0
Commercial	133.9	148.6	196.5	121.9	177.5	15.4	-91.3	-86.2
Number of Transactions	1495.5	1579.5	1574.0	1471	1159	279	-75.9	-84.2
Residential property	1027.0	1113.8	1073.0	1104	831	251	-69.8	-77.7
Investment	439.0	349.0	338.0	325	271	24	-91.1	-94.1
Commercial	29.5	116.8	163.0	42	57	4	-93.0	-98.3
Average Transaction Value (KD th)	1683.6	1516.4	524.3	525.8	576.3	406.2	-29.5	20.7
Residential property	938.3	993.8	334.1	339.6	349.8	287.3	-17.9	-1.3
Investment	2905.8	2430.3	799.3	850.9	737.0	1075.0	45.9	33.9
Commercial	12452.4	8498.6	1205.7	2903.2	3113.9	3850.0	23.6	626.7

Source: Ministry of Justice

Note for text: Our proprietary real estate indices database comprises over 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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