

Real estate

# Kuwait: Prices correct further in 2016; commercial sales strong

> Hiba Koraytem

Senior Economist

+965 2259 5363, hibakoraytem@nbk.com

**Sluggish performance and orderly correction in prices best describe the real estate market in 2016. Commercial sales were strong however, and there were some early signs of stabilization toward the end of the year.** The beginning of 2016 was marked by uncertainty in global equity markets, oil prices and the geopolitical environment. Locally, investors were unsure of the government's fiscal stance and the fate of its capital spending program. As a result, sales activity was the lowest in six years. Activity in the residential and investment sectors continued to trend downward for the second consecutive year. The commercial sector was the exception; it saw sales soar in 2016 following a weak performance the previous year. The overall weakness put pressure on prices, which have seen a gradual correction since the end of 2013. NBK's real estate indices were all down in 2016, despite some gains during the first quarter of the year (Chart 2).

**The real estate market saw activity reduced by a quarter from the previous year.** Total sales during 2016 amounted to KD 2.3 billion on 4,246 transactions, down 23% and 22%, respectively, from the year before; activity was almost halved from its peak year in 2014.

**The weaker market coincided with a rise in oil market volatility.** The Crude Oil Volatility Index (OVX) of the Chicago Board Options Exchange (CBOE) shows a clear increase in volatility since 2014 (Chart 3). When oil volatility was in the low 20's between the end of 2011 and September 2014, expectations of a sudden change in the environment were low and real estate sales were recording double-digit growth. From October 2014 to April 2016, oil volatility almost doubled and real estate activity slowed. More recently, with efforts by OPEC and non-OPEC oil producers to reduce output, oil volatility eased towards the last quarter of the year and real estate sales started improving.

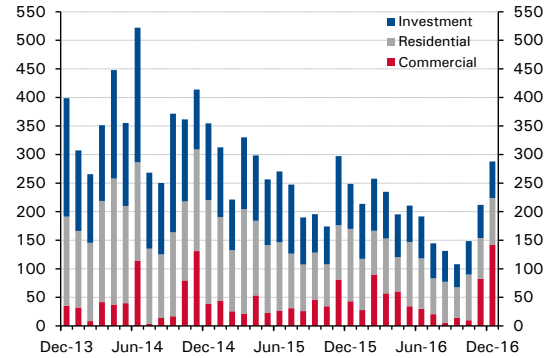
**Residential sector sales were generally weak throughout 2016, for the second consecutive year.** Sector sales totaled KD 944 million on 2,847 transactions, down 31% and 27% y/y, respectively. The majority of the land sales occurred in three main areas: Sabah Al-Ahmad Sea City, Fnaitees and Abu Fatira. As for the residential homes, sales were more or less evenly distributed across multiple residential areas. Saad Al-Abdullah, Salwa, Firdous, Sabah Al-Ahmad and Jabriya were among the most popular areas.

**The softness in this sector was exacerbated by the surge in distribution of residential land plots by the housing authority.** The Public Authority of Housing Welfare (PAHW) distributed more than 12,000 plots in 2016, in addition to 15,240 plots, homes and apartments distributed in 2015. This added significant supply to the market, from much slower distributions prior to 2015. PAHW has committed to significantly reducing the backlog of applications in the coming years through new housing projects like South Saad Al-Abdallah and Sabah Al-Ahmad in 2018, and Khairan in 2019.

**As a result of the decline in residential sales since 2014, the NBK residential real estate price indices have come down from their peaks.** The NBK residential home price index stood at 152.4 points in

Chart 1: Real estate sales

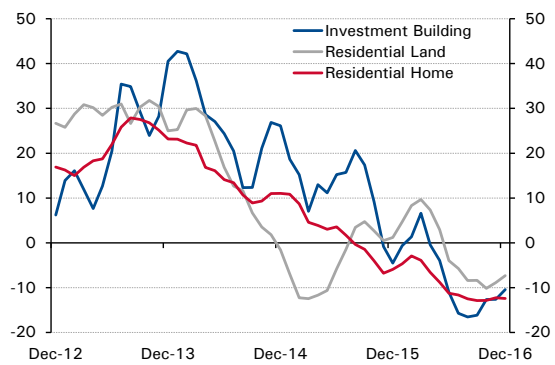
(KD mn)



Source: Ministry of Justice

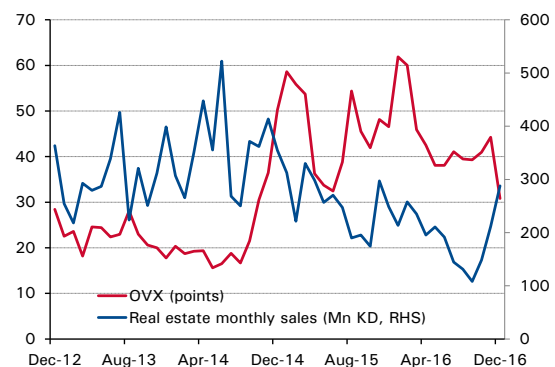
Chart 2: NBK real estate indices

(% y/y)



Source: Ministry of Justice, NBK estimates

Chart 3: Crude oil volatility vs real estate sales



Source: Ministry of Justice, Thomson Reuters Datastream

December 2016, retreating by 12% y/y. The index has been trending downward since the beginning of 2015, when it peaked at 186 in January 2015. It is now down 18% from the peak. Meanwhile, the residential land price index slid to 176 points in December 2016. The index has been logging declines since June 2016, bottoming at -10% y/y in October. It has improved slightly since, to end the year at -7.3% y/y.

**The retreat in residential prices in Kuwait appears to follow a similar regional pattern.** The Bank of International Settlement (BIS) Dubai residential property index was the first index to peak in October 2014 and the fastest one to correct, losing 12% from its peak, over a period of 12 months. Simultaneously, the BIS Abu Dhabi residential property index peaked in November 2014 and remained stable and very close to that level since, shedding only 4% from its peak. The Qatari residential index was the last index to peak and correct. The index, published by the Qatar Central Bank, hit a maximum on November 2015, a year after its regional peers. The index is currently going through a quick correction, having lost 14% from peak to September 2016 (last published data point) (Chart 4).

**Kuwait's investment sector also registered a weak 2016.** Sales totaled KD 817 million, down 33% from 2015; 1,300 transactions were recorded, down 10% y/y. The year saw an increased appetite for small ticket investments (apartments) that represented 40% of the sector's transactions compared to 30% in 2015. Sales were mostly concentrated in Mahboula, Hawalli and Salmiya.

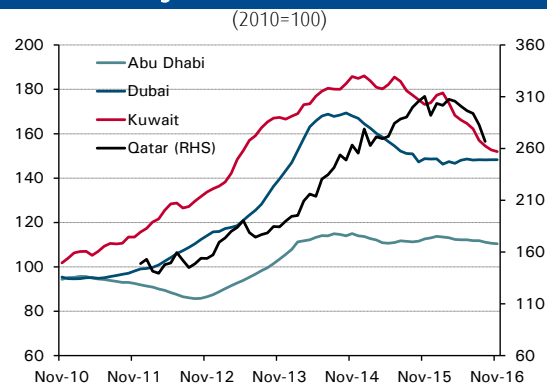
**An influx of investment apartments and buildings into the market coupled with moderate growth in the expat labor force took its toll on the investment sector in 2016.** In fact, the real estate market witnessed an increase in vacant apartments in the wake of the 2008 financial crisis, as a result of a slowdown in expat labor force growth. The latter translated into declining investment building prices. As the market became tighter and vacant apartments became scarce between 2013 and 2014, the index peaked. Since then, vacant apartments are on the rise, exercising downward pressure on the prices of investment buildings. The NBK investment building index retreated throughout most of 2016 and appears to be stabilizing late in 2016. In December the index stood at 188.6 points, down 10% y/y. (Chart 6).

**The investment sector may be further pressured by higher utility prices which are expected by the second half of 2017.** Depending on implementation, investment apartments may see their utility bills increase by 7-10% of the rental value on average. This could impose additional pressure on demand at a time when supply is increasing, and vacancies are on the rise. Nonetheless, we expect that the impact of the higher charges will be limited especially if users reduce consumption considerably to accommodate for the higher rates.

**The commercial sector presented a stellar performance in 2016, despite the visible slowdown in the household sector.** Commercial sales soared to KD 575 million, the highest on record, rising by 26% y/y. Transactions were almost unchanged from last year at 99 transactions. Almost half of the KD sales were for eight large transactions, out of which: three plots in Sabah Al-Ahmad Sea City sold for a total value of KD 104 million and two complexes in Salmiya sold for a total value of KD 105 million.

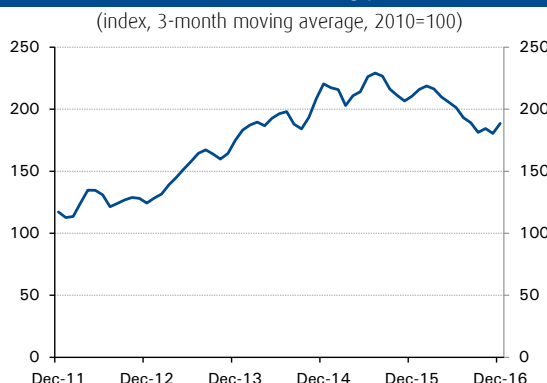
**Utility price hikes could also affect interest in commercial properties.** The new utility prices will be applied first on the commercial sector

**Chart 4: Regional residential real estate indices**



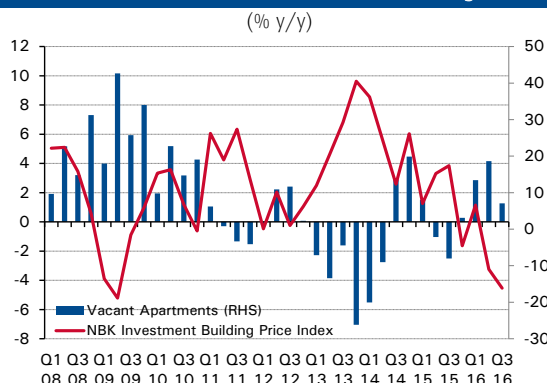
Source: National sources, BIS Residential Property Price database, NBK estimates

**Chart 5: Investment building price index**



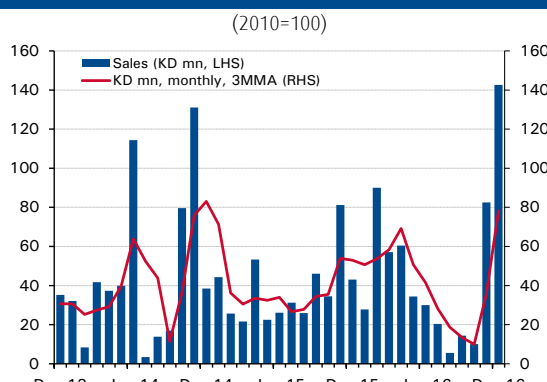
Source: Ministry of Justice, NBK estimates

**Chart 6: Vacancies versus investment building index**



Source PACI, NBK estimates

**Chart 7: Commercial real estate sales**



Source: Ministry of Justice

starting in May 2017. As per the new law, the electricity tariff on companies will rise from two fils per kilowatt hour (kWh) to 25 fils, irrespective of the level of consumption. To date, the final executive regulations' list has yet to be published by the Ministry of Electricity and Water. That list might include discounts on the utility prices published in the new law. Some pressure on activity and prices is possible; however the extent is still to be assessed after more implementation details are forthcoming.

**Table 1: Real estate sales**

	Monthly average		2016		December 2016		
	2015	2016	Oct	Nov	Dec	% m/m	% y/y
<b>Sales (KD mn)</b>	<b>253.5</b>	<b>195</b>	<b>148.5</b>	<b>211.8</b>	<b>287.9</b>	<b>35.9</b>	<b>15.7</b>
Residential property	113.4	79	79.9	71.4	81.5	14.1	-35.8
Investment property	102.2	68	58.6	57.9	63.8	10.2	-19.0
Commercial property	37.9	48	10.0	82.5	142.6	72.8	231.6
<b>Number of transactions</b>	<b>452</b>	<b>354</b>	<b>366</b>	<b>365</b>	<b>383</b>	<b>4.9</b>	<b>-17.3</b>
Residential property	323	237	254	244	273	11.9	-15.5
Investment property	120	108	106	112	98	-12.5	-24.0
Commercial property	8	8	6	9	12	33.3	9.1
<b>Transaction size (KD '000)</b>	<b>566</b>	<b>547</b>	<b>405.7</b>	<b>580.3</b>	<b>751.7</b>	<b>29.5</b>	<b>39.9</b>
Residential property	352	332	314.6	292.6	298.5	2.0	-24.0
Investment property	882	646	552.8	517.0	651.0	25.9	6.6
Commercial property	5,185	5,204	1666.7	9,166.7	11,883.3	29.6	203.9

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](http://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 Representative 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