

# Economic Update

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## Real estate

# Kuwait: Real estate sales reach 7-year high in 2021 supported by residential sector strength

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### Highlights

- Real estate sales fell by 25% q/q to KD 816 million in 4Q21 mostly on a steep decline in residential sector transactions, though still recorded a very strong 2021 overall.
- Residential sales fell 31% q/q and 1.1% y/y to KD 557 million in 4Q21, the lowest since 3Q20.
- The investment sector saw a notable pickup in activity amid lower prices, but sales remain below pre-pandemic levels.
- Policy reforms and an accelerated supply of new homes will be key to ensuring a healthy and stable real estate market.
- Legislation for the mortgage law could come by 2023, but needs accompanying measures to curb excessive price gains.

### Real estate sales eased in 4Q21 to end a strong year

Real estate sales eased to KD 816 million in 4Q21 (-25% q/q; 3% y/y) mostly on a marked decline in residential sector transactions amid a prolonged rise in home and land prices. (Chart 1.) Looking back at the full year, 2021 saw KD 3.7 billion in sales – the highest since 2014 and the second highest on record, driven mostly by the residential sector despite the dip in Q4. However, there are also tentative signs of a recovery in the investment (i.e. apartment) sector, with prices and rents beginning to rise after several years of decline, possibly encouraged by improving business activity and lower valuations. Commercial sector sales remained well below pre-pandemic levels though have also picked up as of late. Meanwhile, the improvement in government-parliament relations of late raises the chance of passing key laws such as the mortgage law – which could be transformative for the residential sector. A further promising sign is parliament's recent approval of a KD 300 million capital

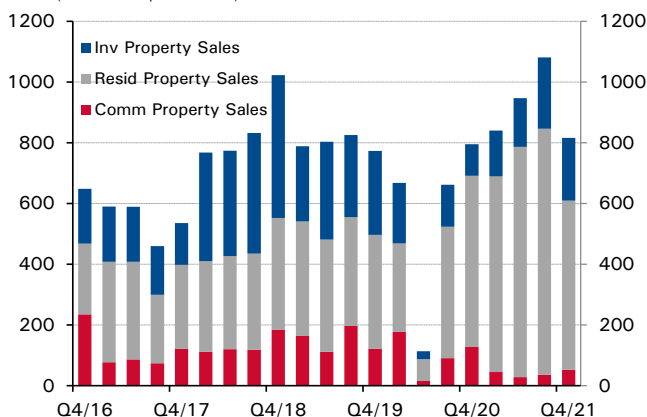
increase for Kuwait Credit Bank to help ease its liquidity constraints and accelerate the distribution of housing loans.

Looking ahead, residential activity should continue to be driven by strong demand and a still-limited supply of new units – although a further moderation in sales could be seen from the super-strong levels of most of last year. Economic growth is returning and business activity is gradually recovering, which should be positive for both the commercial and investment sectors, though the latter continues to be challenged by long standing issues including oversupply and utility tariff inequality.

### Residential sector sales fall on lower volumes in Q4

Residential sector sales fell 31% q/q and 1.1% y/y to KD 557 million in 4Q21, the lowest since 3Q20. (Chart 2.) The lower sales were driven by a steep decline in transactions, likely affected by the multi-year rise in residential home and land prices, currently at record highs. Home and land price increases were especially strong in 2021, up 17% and 21% y/y respectively in December, though on a quarterly basis, upwards price pressure has notably eased. (Chart 3.) In addition to the solid fundamentals (strong local demand base, limited supply) and resilience during Covid uncertainty, the residential sector was likely helped by its strength relative to the apartment sector (which has weaker fundamentals including oversupply and expat-dependent demand), providing a compelling alternative to investors. Furthermore, policy-related factors have indirectly favored the residential sector. These include the exemption from higher utility tariffs since 2017, which has led to lower operating costs and relatively high rental returns, thereby promoting speculative and profit-seeking activity in the residential sector, in addition to growing end-use demand and the absence of measures such as a second home tax or fees on long-standing vacant lots.

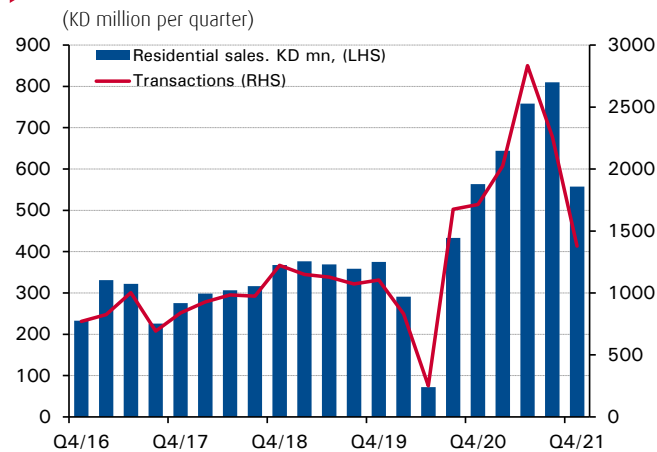
**Chart 1: Real estate sales**  
(KD million per month)



Source: Ministry of Justice/ NBK

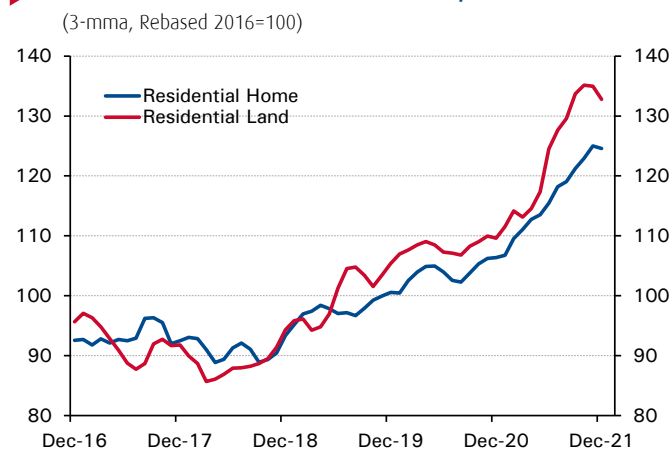
Looking ahead, absent reforms and an increase in the supply of units, residential prices should remain elevated. However, price increases could moderate this year given the exceptional increases seen in 2021, and potentially higher interest rates. Moreover, given the improving political backdrop, legislation for the mortgage law could come as early as 2023, with the potential to further boost residential market activity and prices, but should be accompanied by measures to prevent excessive price gains. Affordability remains an issue, as the rise in home prices becomes increasingly disproportionate relative to the income of the average citizen. House price pressures could be partly mitigated over the medium term by the increase in housing projects by and government land allocations to the Public Authority for Housing Welfare. However, the backlog of housing applications, estimated to be around 94,000 as of 2021 is sizeable while new supply also needs to accommodate future demand. Therefore, the housing shortage will likely remain a challenge and require further initiatives in order to be resolved.

### Chart 2: Residential sector sales



Source: Ministry of Justice/ NBK

### Chart 3: NBK residential home and land prices indices



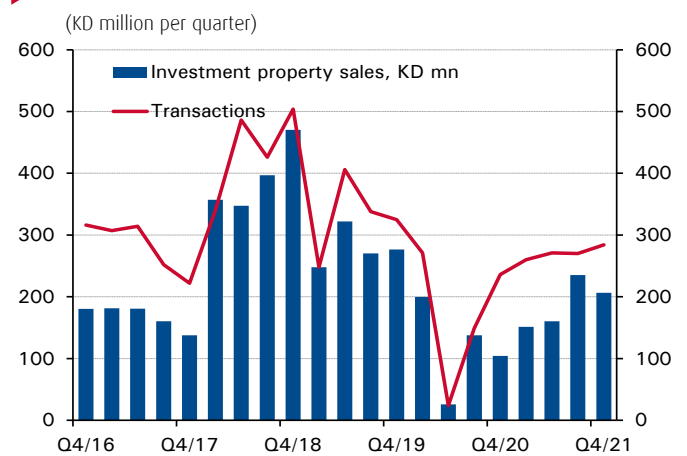
Source: Ministry of Justice/ NBK

### Investment sector prices rose modestly amid higher volume

Investment sector sales amounted to KD207 million in 4Q21 (-12% q/q; +98% y/y). (Chart 4.) This compares to a pre-pandemic quarterly average of KD279 million in 2019, reflecting a partial

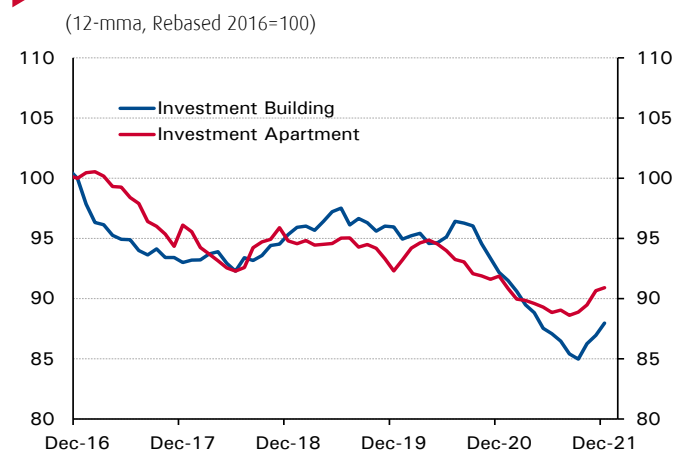
recovery. The higher y/y sales were driven by a pick-up in volume, likely encouraged by lower prices (building prices were down 5% y/y) as the market adjusted to weaker demand and a decline in the expat population due to the pandemic. Still, there are early signs that apartment prices may be turning the corner. On a quarterly basis, transaction volumes rose 5% q/q in Q4 in tandem with 4% and 1% q/q price gains for buildings and apartments respectively. Prices in these sectors have been in trend decline since 2015, but may now be benefitting from a wider valuation gap versus the residential sector. Also worth noting is that housing rents, as calculated in the official Consumer Price Index, are also showing signs of life after several years of decline, up 2.4% y/y in December, possibly an indicator of improving fortunes for the sector.

### Chart 4: Investment sector sales



Source: Ministry of Justice/ NBK

### Chart 5: Investment sector building and apartment prices



Source: Ministry of Justice/ NBK

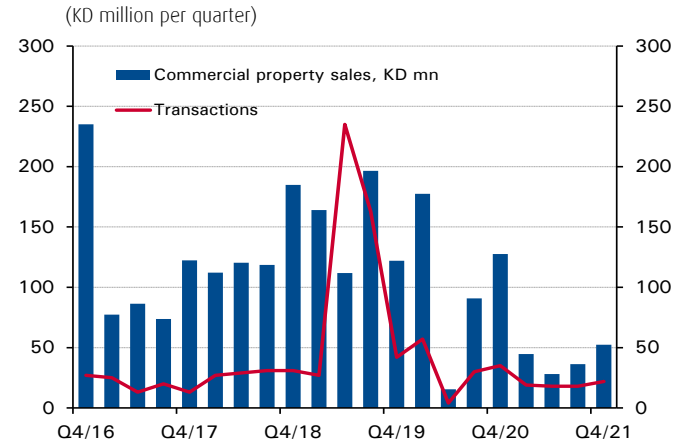
Nevertheless, a full recovery could be hindered by various headwinds including ongoing oversupply, dependence on relatively unstable expat demand, and tariff disparities versus the residential sector. Policy reforms aimed at promoting demand for apartments would provide some support to the investment sector, including for instance addressing the prior mentioned inter-sectoral tariff disparity, discouraging renting in residential areas or raising the cost of multiple home or plot

ownership through taxes and fees, in effect incentivizing apartment over house ownership.

### Commercial sector sales rise in 4Q21 but remain muted

Commercial sector sales surged by 44% q/q in 4Q21 but remained relatively muted at KD 52 million, still down 59% y/y and well below pre-pandemic levels. The higher sales were partly driven by a 22% q/q increase in transactions, though still down 37% y/y. Moreover, it is plausible that commercial activity has been curbed by a lack of new commercial space on the market, which normally boosts trading in this sector. As the economy and the business environment continues to recover supported by an improving pandemic backdrop, a gradual recovery is expected for the sector.

► **Chart 6: Commercial sector sales**



Source: Ministry of Justice/ NBK

► **Table 1: Real estate sales**

	Quarterly Average		Quarterly Sales/ Transactions				Change in 4Q21, %	
	2020	2021	1Q21	2Q21	3Q21	4Q21	q/q	y/y
<b>Sales (KD million)</b>	<b>560</b>	<b>921</b>	<b>840.2</b>	<b>946.8</b>	<b>1081.2</b>	<b>816.2</b>	<b>-24.5</b>	<b>2.6</b>
Residential	340	692	644.1	758.4	809.8	557.2	-31.2	-1.1
Investment	117	188	151.3	160.3	235.1	206.6	-12.1	98.0
Commercial	103	40	44.7	28.1	36.3	52.4	44.3	-58.9
<b>Number of Transactions</b>	<b>1320</b>	<b>2415</b>	<b>2304</b>	<b>3123</b>	<b>2547</b>	<b>1684</b>	<b>-33.9</b>	<b>-15.2</b>
Residential	1118	2124	2025	2834	2259	1378	-39.0	-19.6
Investment	170	271	260	271	270	284	5.2	20.3
Commercial	32	19	19	18	18	22	22.2	-37.1
<b>Average Transaction Value (KD '000)</b>	<b>372</b>	<b>394</b>	<b>364.7</b>	<b>303.2</b>	<b>424.5</b>	<b>484.7</b>	<b>14.2</b>	<b>21.0</b>
Residential property	304	326	318.1	267.6	358.5	404.4	12.8	23.0
Investment	688	694	582.1	591.5	870.8	727.3	-16.5	64.5
Commercial	3264	2098	2354.6	1560.7	2016.6	2381.4	18.1	-34.7

Source: Ministry of Justice

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