

# Economic Update

NBK Economic Research Department | 28 November 2022

## Real estate

# Kuwait: Property sales eased in 3Q22 on seasonal factors, fading of post-pandemic demand boom

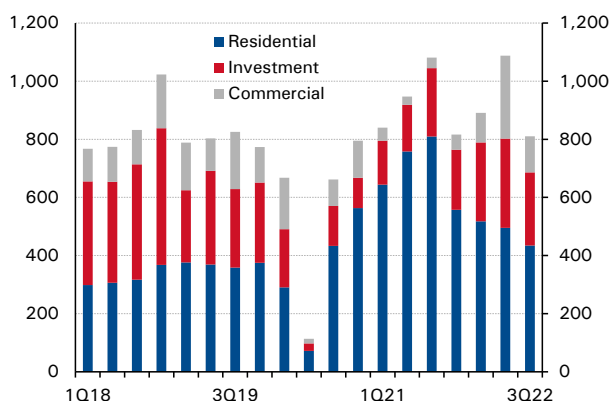
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### Highlights

- Real estate sales declined in 3Q22, reflecting a further easing of the post-pandemic boom in activity, though perhaps affected by seasonal factors and still in line with pre-pandemic norms.
- Residential sales fell for the fourth quarter in a row, while investment and commercial sector activity also dipped.
- Still, our measure of real estate prices continued to trend higher, up 12% y/y, led by the residential sector.
- Stronger October data could herald a pick-up in property sales in Q4 and we see risks to the outlook as relatively balanced.

Sales activity in Kuwait's real estate market eased in 3Q22, falling by a quarter to KD810 million, its lowest since 4Q21. (Chart 1.) This was largely due to a continued decline in residential sector sales and softening investment and commercial sector sales, though the latter two were still trending above their 3Q21 levels. These developments point to a fading of the post-pandemic boost to real estate demand seen in 2021. The drop in activity could also be attributed to a combination of seasonal effects, higher valuations, construction costs, and tighter financial conditions as central banks increase interest rates to control rising inflation. This said, sales regained some momentum in October, increasing by 20% y/y, potentially pointing to a better 4Q22.

► **Chart 1: Total real estate sales**  
(KD million)

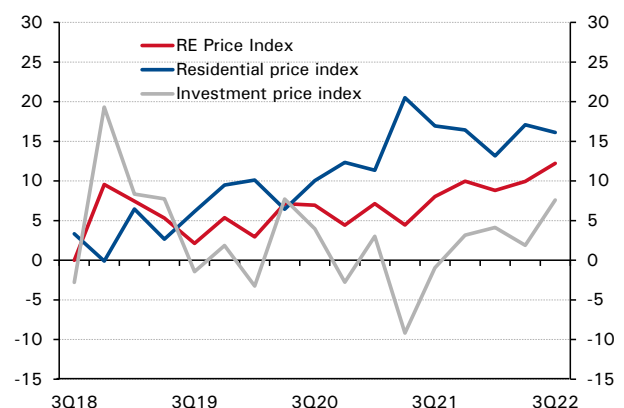


Source: Ministry of Justice, NBK estimates

As for price trends in 3Q22, according to our estimates based upon official transaction data, property prices continued to climb (+4.8% q/q; +12.2% y/y) on further residential unit price increases, which outpaced price increases in investment sector properties. (Chart 2.) Investment sector prices may have been hit by weaker demand through the pandemic (especially due to the drop in the expatriate population), as well as an earlier decision

to increase utility tariffs on investment properties. However these forces may be starting to abate.

► **Chart 2: NBK real estate price indices**  
(% y/y)



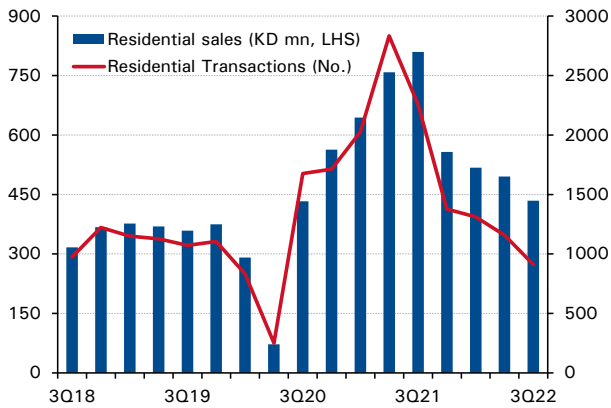
Source: Ministry of Justice, NBK estimates

### Residential activity continues to decline

The value of residential sales activity fell by a sizeable 46% y/y in 3Q22 to KD434 million, though quarterly sales are still ranging around their five-year average. The post-pandemic pent-up demand effect that helped drive more than KD800 million worth of residential sector purchases in 3Q21 (and KD2.8 billion worth in the entirety of 2021) looks to have finally subsided. (Chart 3.) The volume of transactions also fell to its lowest level since 2Q20, likely affected by a seasonal summer lull, with the majority of the activity focused in Kuwait city, Hawalli and Al-Ahmadi governorates. Meanwhile, however, residential prices continued to increase in 3Q22 (+16.1% y/y). Home prices rose +15.4% y/y, up notably in the Kuwait City and Hawalli governorates, where the supply of units is tight and developable land is scarce. Meanwhile, residential land prices increased by 16.9% y/y, especially in Al-Farwaniya and Mubarak Al-Kabeer governorates. The overall increase in residential prices widened the valuation

gap with the investment sector, with high prices potentially acting as a brake on residential real estate demand.

### ▶ Chart 3: Residential sales



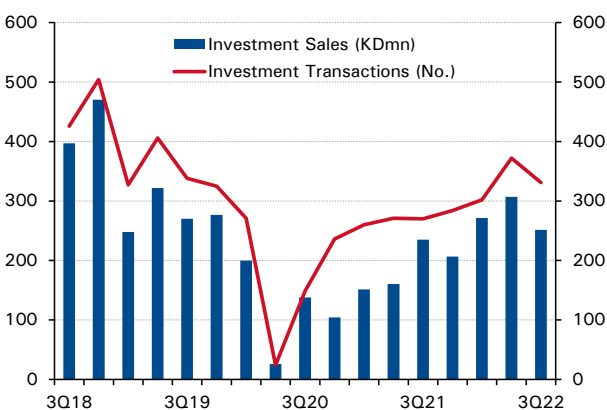
Source: Ministry of Justice

Prices are also being affected by supply-side pressures, including more plot allocation in relatively remote (versus urban) areas, rising construction costs and labor shortages. The government's recent plan to develop the Jleeb Al-Shuyoukh area has gained a vote of confidence from the local community given its strategic location near large projects such as the new Kuwait airport. Although this will eventually increase supply and help alleviate the nationwide shortage of residential property, in the short term this could increase real estate demand in other areas, driving prices higher given the tight supply. This said, tighter financial conditions as global and local interest rates rise could help curb some of these demand-led price pressures going forward.

### Softening investment sales activity

Meanwhile, investment (i.e. apartment units and related buildings and land) sector sales reached KD252 million in 3Q22, up 7% y/y, though declining on a quarterly basis. (Chart 4.) The volume of transactions was also lower than in 2Q22 (but above 3Q21 levels), potentially weighed by seasonal factors. More than half of the transactions were in Al-Ahmadi governorate, encouraged by lower valuations compared to other governorates.

### ▶ Chart 4: Investment sector sales



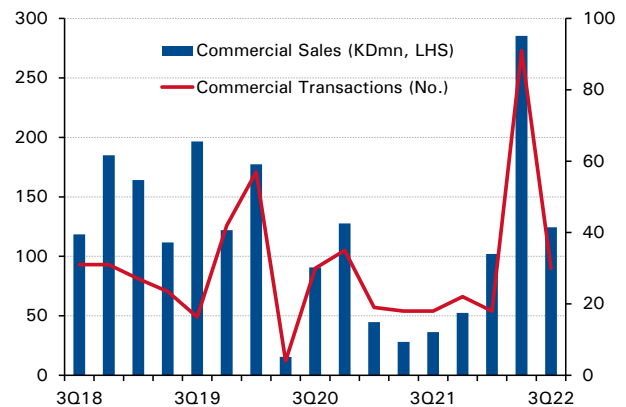
Source: Ministry of Justice, NBK estimates

On the other hand, the index of investment sector prices increased in 3Q22 by 7.6% y/y, amid strength in plots (14.1%) and buildings' (6.4%) prices, especially in the Kuwait City and Hawalli governorates. Apartment prices saw a smaller price increase of 1% y/y in the same period.

### Commercial sales remain volatile

Commercial property sales in 3Q22 declined to KD124 million (-56% q/q) but were up a massive 243% y/y. The quarterly decline was largely a readjustment following a surge in transactions during 2Q22 in the Sabah Al-Ahmad coastal area in the month of April that is unlikely to be repeated to the same extent. (Chart 5.) Transaction volumes declined even more sharply q/q in 3Q22, resulting in an increase in the average transaction size (+32% q/q; +106% y/y). Risk factors relating to commercial sector demand are fairly balanced given the higher interest rate environment on the one hand, but continued high oil prices and reasonable economic growth outlook on the other.

### ▶ Chart 5: Commercial sector sales



Source: Ministry of Justice, NBK estimates

### Activity to rise in 4Q22, risks in 2023 are relatively balanced

Overall, real estate activity was on the softer side in 3Q22, though still in line with pre-pandemic norms and potentially weighed down by seasonal factors. However, in our view it is too early to see this as the start of a durable shift towards a much weaker level of sales, especially given the apparent pick-up in activity in October, which could foreshadow a stronger Q4. Looking ahead, we view risks to the market outlook as relatively balanced. Positive factors include high oil prices, decent non-oil economic growth expected for 2023, potentially higher investment spending, which would support expat labor (and therefore apartment) demand, and potentially the passing of the mortgage law which would boost demand for housing. Government steps to accelerate the pace of housing distributions would also allow for the release of pent-up demand and help the market run more smoothly. Downside risks include a drop in oil prices that affects sentiment, high interest rates that weigh on demand and prices, continued rising valuations in the residential sector which dampen demand, and increases in construction costs which

would hold back supply growth – keeping prices high and exacerbating affordability concerns in the residential sector.

► **Table 1: Real estate sales**

	Quarterly Average		Quarterly Sales/ Transactions					Change in 3Q22, %	
	2020	2021	3Q21	4Q21	1Q22	2Q22	3Q22	q/q	y/y
<b>Sales (KD million)</b>	<b>560</b>	<b>921</b>	<b>1,081</b>	<b>816</b>	<b>891</b>	<b>1,088</b>	<b>810</b>	<b>-25.5</b>	<b>-25.1</b>
Residential	340	692	810	557	518	495	434	-12.3	-46.4
Investment	117	188	235	207	271	307	252	-18.1	7.0
Commercial	103	40	36	52	102	285	124	-56.4	242.6
<b>Number of Transactions</b>	<b>1320</b>	<b>2415</b>	<b>2547</b>	<b>1684</b>	<b>1632</b>	<b>1621</b>	<b>1272</b>	<b>-21.5</b>	<b>-50.1</b>
Residential	1118	2124	2259	1378	1312	1158	911	-21.3	-59.7
Investment	170	271	270	284	302	372	331	-11.0	22.6
Commercial	32	19	18	22	18	91	30	-67.0	66.7
<b>Average Transaction Value (KD '000)</b>	<b>435</b>	<b>394</b>	<b>424</b>	<b>485</b>	<b>546</b>	<b>671</b>	<b>637</b>	<b>-5.1</b>	<b>50.1</b>
Residential property	306	337	358	404	395	428	477	11.4	33.0
Investment	794	693	871	727	899	826	760	-7.9	-12.7
Commercial	3409	2078	2017	2381	5668	3137	4145	32.1	105.6

Source: Ministry of Justice, NBK calculations

► **Table 2: NBK real estate price index**

	Weight (100 = 2019)	q/q				y/y			
		4Q21	1Q22	2Q22	3Q22	4Q21	1Q22	2Q22	3Q22
<b>RE price index</b>	100.0	3.1	1.1	2.7	4.8	10.0	8.8	9.9	12.2
<b>Investment</b>	45.5	3.3	2.5	-3.5	5.3	3.2	4.1	1.9	7.6
Apartment	7.2	2.5	-1.6	-0.6	0.7	11.3	4.5	-0.4	1.0
Building	69.9	3.8	2.6	-5.0	5.2	3.8	4.6	1.4	6.4
Plot	22.9	1.5	3.7	1.3	7.0	-1.3	2.4	4.3	14.1
<b>Residential</b>	54.5	2.9	0.0	8.1	4.4	16.4	13.2	17.1	16.1
Home	62.4	2.2	-2.9	11.0	4.8	16.5	7.8	16.2	15.4
Plot	37.6	3.7	3.2	5.1	3.9	16.4	19.3	18.1	16.9

Source: Ministry of Justice, NBK calculations

\* NBK real estate price index is based on a dataset of real estate transactions that are available in 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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