

Kuwait's Real Estate Sector Requires Data and Information to Enable Better Investment Decisions

Key issues:

- High prices of lands in Kuwait have been a prominent feature in recent years
- Kuwait has strong demographic and financial fundamentals to support the development of the real estate market
- The value of land represents 60 to 70% of an investment
- The size of houses in Kuwait is draining resources, energy and infrastructure
- The need for private sector participation in infrastructure projects through partnership law

Introduction

Gulf Bank gathered industry leaders, experts and decision makers from real estate companies, government institutions and nonprofit organizations in a closed session to discuss the present developments of the local real estate market.

The session came as part of the Bank's commitment to providing a platform where professionals can exchange insights and experiences with decision makers in an aim to advance the business environment and ultimately benefit stakeholders.

Real estate market position today

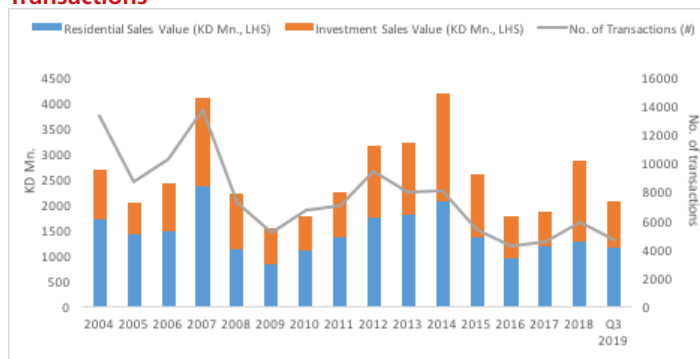
Presently, the Kuwait real estate sector is considered healthy when compared to other Gulf Cooperation Council (GCC) countries, mainly due to the halt in its expansion from 2013 to 2016 which contributes to keeping supply under control.

However, and despite the controlled supply, number of factors continue to affect the level of transactions and trade volumes of each real estate subsector. Investment properties in particular saw a decline of 0.3% to 0.5% in every quarter of 2018, and closed the first quarter of 2019 with a 0.3% decline in a comparison to the same period in the previous year. The decline in these prices affected in turn trade volumes, which declined by 16.2% in the first quarter of 2019, and then witnessed a slight growth in the second quarter by 1.5% compared to the same period of 2018. Volumes declined once again by a sharp 25.7% year-on-year in the third quarter.

Residential and commercial properties

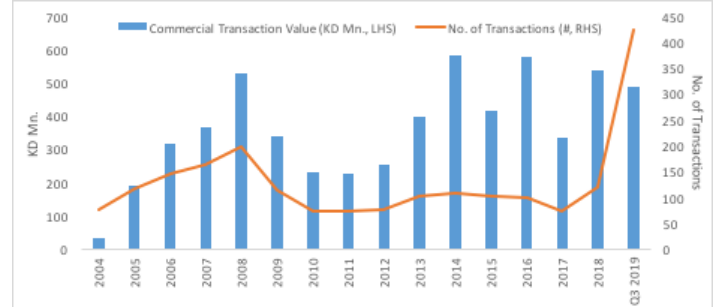
Statistics show that residential and commercial properties performed better than investment properties when it came to price levels and trade volumes. While trade volumes of residential and commercial properties increased by 47% and 57% respectively in the first quarter of this year, prices in each subsector increased by 0.2% and 0.1% respectively for the same period.

Residential and Investment Sales (KD Mn.) and No. of Transactions



Source: Kuwait Ministry of Justice

Commercial Transaction Value (KD Mn.) and No. of Transactions



Source: Kuwait Ministry of Justice

Value of lands

Value of lands in Kuwait have witnessed noticeable increases in some rare and popular locations. Between 2015 and 2016, the average price per square meter of investment properties in the capital stood at approximately KD 800, and increased to a soaring KD 1,400 to KD 1,500 today. And despite the increase in prices, a few family-owned real estate companies still hold a significant share of total trades of investment and commercial properties, while the number of vacant investment lands ranges between 1,200 and 1,300 only following the large expansion seen in the market pre-2013 in response to the back then shortage in supply.

As for residential properties, the price per square meter in the Mubarak Al-Kabeer Governorate stood at approximately KD 400 between 2015 and 2016, and reached today an average of KD 600. Prices of lands in the residential sector have increased despite real estate companies absent from this sector as per the law (9/28) which prevents them from owning land for in residential areas. These companies have therefore turned to invest in other area in the GCC and Europe.

The landscape for industrial properties somewhat differs and is witnessing a growing demand for warehouses and industrial lands. Available statistics show a rise in the prices in the service and crafts sectors, however it is not driven by the industry, but by traders who control the supply and its prices. The ultimate beneficiary in this sector is the real estate trader, searching for fast financial gain and benefiting from a lack of regulations or law of ownership in this specific sector.

Properties developed for retail and restaurants are also suffering today due to a weak demand, perhaps caused by high rental prices. Demand for supply in this sector can only regain balance should rents be reduced.

Mega projects

Land prices continue to rise at a time where Kuwait is ranked last among GCC countries in terms of spending on mega projects such as the development of its waterfront, the Shuwaikh industrial and chalet areas, the labor accommodation project, gated communities and other similar projects including industrial cities.

While neighboring countries are moving towards a massive development of "Mega Projects", many of which have been successful, Kuwait has not kept pace with this trend despite its demographic and financial fundamentals that support similar developments, subsequently opening door to opportunities that would benefit developing companies as well as community at large which these developments are built for.

Accordingly, the real estate market requires today from the government to introduce new residential, investment and commercial areas in its capacity as the main owner of lands with the objective to change the structure of trades in the sector. The step is a need today, in addition to the endeavors of the Public Authority for Housing Welfare which resulted in the launch of mega real estate projects under the PPP Law such as the development of malls, offices and investment housing in Jaber Al-Ahmad Sabah Al-Ahmad cities, as well as new residential cities such as South Saad Al-Abdullah city.

Enhance transparency

Providing the required information about the real estate remains a challenge for the sector. The growth of investments in the real estate market today relies on the sole data collected by various government institutions when a transaction is registered. This decentralization limits the possibility of developing in-depth studies and report on the outlook and opportunities that the sector may offer.

In fact, real estate companies lack a central entity whose only purpose is to collect all sector-specific data from the market and provide it to companies and individuals seeking to invest their capital in Kuwait. Real estate companies depend on such to prepare their feasibility studies and development plans in a clear methodology that achieves the objectives of the investor as well as the prosperity of the sector. The data also served to protect them from defaulting investments.

Promoting transparency in the sector is without a doubt a foundation to any vital sector. It is therefore crucial to establish an independent body capable of providing the necessary data and regulating the sector by developing the framework that enable the growth of the sector. With such a structure, transparency in the sector will increase naturally. And when there is transparency, capital flows increase because investors can assess their returns based on reliable data. The independent body would have the responsibility to provide opportunities to invest lands by setting clear standards and laws for real estate developers and ensuring it regulates supply and demand.

Organizational challenges

The private sector emerges as a provider of solution to the need of the real estate sector which today lacks quality developments. The sector is faced with challenges of weak activity and a need to create a more transparent environment, regulated by laws and a clear vision for the standards of development and urbanization to contribute to its long-term sustainability and attract new investments.

Real estate developers are also faced with obstacles, including a disparity in statistics and their unconformity with data and laws presently regulating the sector. Some of these statistics show that the private housing sector attracts 50% of total trades made in the real estate sector, while Kuwait is living a housing crisis that is leading the government to subsidize rents at a value exceeding KD 2 billion over the past five years. Real estate developers remain absent from the role of finding a solution to this crisis despite their proven success in developing residential projects out of Kuwait.

Returns of the real estate sector

Today, the value of the land represents around 60% to 70% of the total investment value of a property. For an investment to be economically viable, the value of the land should ideally stand at 20% of the investment value. The high value of lands is mainly due to the monopoly on lands as well as many other challenges that were seen in the past 50 years and which included a limited road network and infrastructure. These challenges have clearly shown the necessity to introduce an infrastructure development program for new areas under the PPP Law.

Moreover, the economic viability of any property development is key. Today's environment does not support a balance in real estate prices because of the monopoly on lands and limited regulations. The real estate sector will start regulating automatically when addressing these imbalances. Government regulators must take into consideration the limited support and incentives presented to the private sector, in addition to the lack of a "code" for the development of private housing and other properties and a clear plan to bringing solutions to the land planning issue.

Challenges and opportunities

1. The residential real estate sector in Kuwait suffers from the size of houses which drain resources, energy and infrastructure, and pushes urbanization to an unsustainable stage. The solution lies in fragmenting the property and creating new cities at a low construction rate. The size of houses need to be reviewed.
2. Boursa Kuwait recently introduced REITs, enabling the real estate sector to attract local and international investments, and providing a transparent platform to trade and for small investors to benefit of fixed dividends. These funds are expected to attract new capital to the market and therefore their role as a new investment tool in the market needs to be strengthened.
3. Mortgages are one the necessities to the development of the private sector in general and the private housing sector in particular. Introducing mortgages will contribute to a solution to the housing crisis.
4. New laws capable of attracting Kuwaiti funds instead of flight out of the country and involving the private sector in providing solutions to the housing crisis.
5. Promote the participation of the private sector in the development of infrastructure projects under the PPP Law.
6. Provide data and market studies to help investors make informed decisions.

List of Attendees

Name	Title	Entity
Eng. Ahmed Al-Manfouhi	General Director	Kuwait Municipality
Eng. Osama Bukhamseen	Chairman and CEO	Tanmiya RE
Mr. Bassam Al-Othman	Executive Vice President	Kuwait Financial Centre
Mr. Tawfiq Al-Jarrah	Chairman	Real Estate Association
Mr. Khaled Al-Mashaan	Vice Chairman and CEO	Alargan International RE
Mr. Sulaiman Al-Dulaijan	RE Expert	Al-Dulaijan Centre
Mr. Abdulaziz Al-Khatrash	CEO	Ajial RE
Mr. Abdulkarim Taqi	General Manager	Public Authority for Industry
Eng. Mohamad Al-Zemami	Executive Vice President - Projects	Wafra RE
Mr. Mohannad Al-Sanea	Chairman	Kuwait Economic Society