NBK economic report

Kuwait real estate market gains traction in Q3 2017

Sales pick up, property prices stabilize

Chart 1: Real estate sales

Source: Ministry of Justice

Chart 2: Residential real estate sales

Source: Ministry of Justice, NBK estimates

Chart 3: Residential real estate price indices

Source: Ministry of Justice, NBK estimates

Chart 4: Investment real estate sales

Source: Ministry of Justice, NBK estimates

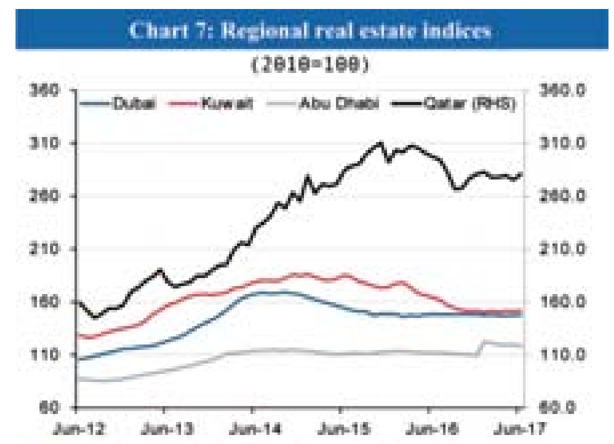
Chart 5: Investment building price index

Source: Ministry of Justice, NBK estimates

Chart 6: Commercial real estate sales

Source: Ministry of Justice, NBK estimates

Chart 7: Regional real estate indices



Source: Bank of International Settlement.

Table 1: Real estate sales

	Average		2017		Sep 2017		
	2015	2016	Jul	Aug	Sep	% m/m	% y/y
Sales (KD mn)	253.5	194.7	161.5	154.5	144.0	-6.8	33.8
Residential property	113.4	78.7	90.3	67.2	68.3	1.6	28.1
Investment property	102.2	68.1	57.5	34.6	68.2	95.8	68.4
Commercial property	37.9	47.9	13.8	52.5	7.5	-85.7	-47.9
Number of transactions	452	354	372	300	292	-2.7	14.1
Residential property	323	237	268	217	207	-4.6	36.2
Investment property	120	108	100	68	84	23.5	-15.2
Commercial property	8	8	4	15	1	-93.3	-80.0
Transaction size (KD)	566	547	434.2	515.1	493.0	-4.3	16.6
Residential property	352	332	336.8	309.7	329.8	6.5	-6.0
Investment property	882	646	574.9	512.0	811.8	58.5	98.4
Commercial property	5,185	5,204	3,444	3,500	7,500	114.3	160.4

Source: Ministry of Justice

KUWAIT: Activity in the real estate market is gaining traction with a pickup in sales and stabilizing prices. Real estate sales posted healthy 20 percent year-on-year (y/y) growth in 3Q17, the first positive growth since 4Q14, despite the seasonality that customarily reigns over the quarter. The positive pickup in activity also translated into further stabilization in real estate prices, with indices hovering around their 12-month average. Comparable stabilization is seen in other GCC real estate price indices despite slight divergence in trends.

The residential sector remained supportive of the real estate market throughout the first three quarters of the year. Residential sales reached KD 226 million in 3Q17, up 20 percent y/y. Year-to-date (ytd) sales tallied up to KD 879 million over 2,519 transactions. As for the month of September, sector sales were up 28 percent y/y with transactions improving by 36 percent y/y. Renewed interest in the sector was not channeled through a specific type of properties: both home and plot sales advanced, rising by 26 percent and 21 percent, respectively ytd.

Residential sales reach KD 226m in Q3

Strong third quarter activity helped support residential prices further. The NBK residential home price index reached 153.1 in September, flat from a year ago. The NBK residential land price index soared to 172.8 in September, up 4 percent for the month, though it remains down 5.5 percent y/y. Although residential prices are down around 17 percent from their peaks, their annual pace of decline has come down from double-digit to less than 5 percent, suggesting the end of the price correction.

Investment properties' activity remains off, not in line with the spur in the residential sector, as other markets seem more appealing to investors. 3Q17 sales reached KD 160.5 million, down to a third of what was recorded in 3Q14. The exceptional performance of Kuwait's stock market this year may have deterred investors from investing in real estate. With stocks generating double-digit growth so far this year, the investment sector, plagued by increased vacant apartments, lower housing inflation (i.e. rents) and higher utility bills, was not able to generate comparable returns.

Table 2: Regional residential real estate price indices

	Annual average		2017	
	2015	2016	Jun	% y/y
Abu Dhabi (2010=100)	111.9	111.8	118.2	5.4
Dubai (2010=100)	154.6	147.9	147.9	-0.7
Qatar (2010=100)	285.5	290.5	280.9	-5.5
Saudi Arabia (2014=100)	98.9	93.8	87.8	-8.0

Source: BIS, national sources

The persistently slow activity in the sector continues to exercise negative pressure on investment property prices. The NBK investment building price index retreated to 171.1 in September, down 5.7 percent y/y. The price index has settled at levels last seen at the end of 2013. The index is off by 25 percent from its peak in July 2015.

The commercial sector witnessed a healthy third quarter. 20 commercial properties were sold during the quarter for a total value of KD 74 million. This quarter's transactions were predominantly commercial buildings and offices. Ytd, the sector is 30 percent short on sales and 20 percent on transactions.

Regional real estate residential price indices are exhibiting similar signs of stabilization despite the divergence in trends caused by the heterogeneous macroeconomic and geopolitical outlooks of each of the GCC countries. Abu Dhabi prices appear among the most stable in the region, with prices advancing 5.4 percent y/y in June 2017. Qatar prices on the other hand were the last to correct, with the residential index down 5.5 percent y/y in June. KSA recently launched real estate quarterly indices, which reveal a downward trend since 2016: as of June the general residential index is down 7.9 percent y/y.

Place your bets for the Brexit rate hike

LONDON: To hear some economists talk, the Bank of England is about to make a big mistake - raise interest rates just as the economy heads into what could be a major storm.

If all goes as scripted, the bank will hike borrowing costs in the coming week for the first time in more than 10 years. But is the country really ready? The consensus is for rise to 0.5 percent from 0.25 percent. That 0.25 percent was where the BoE put Bank Rate just over a year ago, shortly after British voters elected to leave the European Union. And there's the rub: the uncertainty the vote triggered is still there. A Reuters poll published in the past week showed more than 70 percent of economists believe now is not the time to raise rates-though slightly more than that said it would happen anyway.

BoE Governor Mark Carney has made it clear a hike is in the offing, if not specifically saying at this coming meeting. His concern is that low unemployment means Britain's economy has little spare capacity and, accordingly, faces upward inflation pressure. Added to that are moves by other major central banks to rein in loose monetary policy, which could also push inflation higher by weakening the pound further. The US Federal Reserve has raised rates four times since late 2015 and is expected to do so again. The European Central Bank is cutting back on its bond buying, albeit gently.

So the BoE needs to concern itself with a pressured pound and high employment driving up inflation that, at 3 percent, is already well above target and the highest in the Group of Seven industrialized nations. —Reuters

Oil market set to move from rebalancing to tightening

LONDON: The oil market is now well into a cyclical upswing and within the next year the narrative about "rebalancing" is likely to be replaced by one about "tightening".

Rebalancing started well before the production pact between the Organization of the Petroleum Exporting Countries (OPEC) and its allies went into effect in January. OPEC has been open about the fact that the rebalancing process pre-dated its agreement, with officials repeatedly noting the accord was intended to "accelerate" a process that was already underway.

The spot price of Brent has been rising since January 2016 and the six-month calendar spread has been increasing since January 2015. Depending on which turning point is used, the rebalancing process has already been underway for 21 months (spot prices) or 32 months (spreads).

Like any rebalancing process, adjustment is barely perceptible at first, which is why the turning point is often missed, but tends to accelerate over time. The current rebalancing started with an acceleration in global oil consumption, which was already evident in the first half of 2015 in response to lower prices.

Oil production did not decelerate until 2016, because of the lags in the system, and OPEC's own output restraint did not start until 2017. But with consumption now running faster than production the market is steadily whittling away the excess inventories accumulated in 2015/2016.

During the last two rebalancing processes, after oil slumps in 1998/99 and 2008/09, front-month Brent prices took roughly 21 months and 26 months respectively to reach their first major peak.

Meanwhile, the calendar spread took 21 months and 34 months respectively to reach its first cyclical peak after each episode. The recent slump was in some ways deeper, and the recovery has certainly been more prolonged, but it can no longer be described as being in its early stages.

SAN ANSELMO: This file photo shows a customer preparing to pump gasoline into his car at a gas station in San Anselmo, California. —AFP

The current rebalancing process is already therefore fairly mature and at some point in the next six to nine months will be more accurately described as tightening.

The Brent spread has already shifted decisively from contango to backwardation and is well within the upper-half of its historical range, pointing to a market that is undersupplied and drawing down stocks. According estimates from the OPEC/non-OPEC Joint Ministerial Monitoring Committee, OPEC is more than halfway to its declared target of reducing OECD oil inventories to their five-year average.

Excess stocks have been draw down by 180 million barrels since the start of 2017, although they are still 160 million barrels above the 2012-2016 average.

In practice, stocks at the five-year average would probably prove uncomfortably low given the big increase in oil demand since 2012. Well before the five-year average is reached, spot prices and spreads will rise to move the market from production restraint/consumption growth to production growth/consumption restraint.

In this context, the increase in front-month Brent futures prices above $60 per barrel on Friday, for the first time since July 2015, and tightening of the calendar spread to its highest on a sustained basis since July 2014, is consistent with a market transitioning from rebalancing to tightening. —Reuters