NBK ECONOMIC REPORT

Lockdown will impact sales, prices of Kuwait real estate sector in 2Q20

Sales totaled a solid KD 280 million in Feb 2020, down by 1.2% y/y

KUWAIT: Real estate sales totaled a solid KD 280 million in February 2020, down by 1.2 percent y/y and 7 percent m/m. (Chart 1.) This follows sales of KD302 million in January, marking a strong start to the year. The monthly decline in total sales was driven by a notable drop in residential and investment sales which more than offset a strong rise in commercial sales. With respect to prices, our residential real estate price index rose 9 percent y/y as of January, while investment prices remained soft, on relatively weak demand and high apartment vacancy rates.

Looking back at 4Q19, sales were moderate at KD 773 million, although down 6 percent q/q and 24 percent y/y, wrapping up a relatively strong year overall for real estate. Sales in 2019 exceeded KD 3 billion, maintaining the recovery seen in 2018 which saw a similar level of activity. Sales were driven by solid volumes in the residential sector (+8 percent) encouraged by strong confidence, improving market conditions, and lower prices at the onset of 2019.

No data is yet available post February due to the total lockdown. However, we expect the real estate market, especially the commercial and investment sectors and to a lesser extent the residential sector to be impacted in 2Q20 by the coronavirus and the related precautionary measures, namely the lockdown and business restrictions which have led to weaker business conditions and job losses especially among the expatriate population. Real estate shares in Boursa Kuwait have indeed shown signs of distress, with the real estate index down a steep 19 percent (as of June 14) since late February, though recovering from a low of nearly 30 percent in April in line with a general equity market pick-up helped by the easing of lockdown restrictions and rising oil prices. Longer-term market pressures could also arise from newly proposed policies to correct the demographic imbalance by reducing eventually the expat population share to 30 percent from the current 70 percent. Returns could also be affected by a recently-proposed law to waive rents for six months and reduce rents by 60 percent in the six months thereafter in times of crisis.

Investment sector may suffer

Investment sector sales fell 42 percent m/m and 18 percent y/y to KD 62 million in February. Looking back at 4Q19, sales were roughly in line with the 2019 quarterly average, at KD 277 million. The monthly drop was driven by a decline in prices, number of transactions and average transaction size.

Meanwhile prices remained relatively soft in this sector, which has been burdened by weak fundamentals since early 2017, partly reflecting softer demand from the expatriate segment but also continued oversupply. Building and apartment prices as of January were down 3 percent and 5 percent y/y respectively.

Prices and sales in the investment sector will likely be negatively impacted by the coronavirus, especially given that the bulk of rental demand for such properties typically stems from the expat labor force, which has certainly been affected by the lockdown and business closures. Further, with oil prices and economic growth expected to recover but remain moderate next year, slow progress on policy reforms, and investors increasingly turning to the residential sector for opportunities it may take some time for demand and prices to recover to pre-2017 levels. Additionally, according to the consumer price index, residential rents (mostly apartments) remain in deflationary territory (-0.3 percent y/y) though have been stable over the past ten months, but are expected to resume a downtrend on reportedly higher vacancies, with recent reports of rent cuts and/or no rent for 1-2 months as landlords attempt to attract new tenants.

Residential sector to show greater resilience

Residential sales eased to KD 116 million in February from KD130 million in January (-11 percent m/m, -5.6 percent y/y). The lower sales came on the back of a notable drop in the average size of transactions, which fell by 14 percent m/m.

Meanwhile prices maintained the positive trajectory observed through 2019, with home and land prices up 8 percent and 13 percent y/y respectively in January, supported by strong demand.

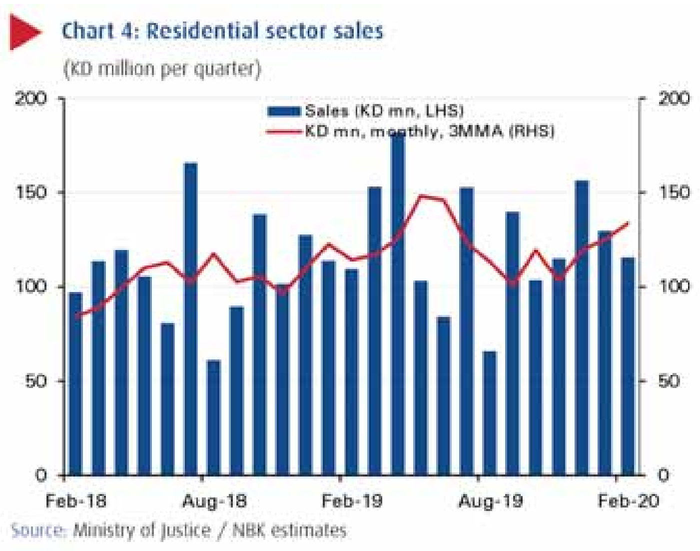
While other sectors will likely be affected by coronavirus restrictions and lockdowns, the residential sector has typically been more resilient to such shocks, as the demand base stems from the local population with mostly stable jobs, and supply is somewhat limited, especially in prime areas.

Impact on commercial sector

Commercial sector sales rose 53 percent m/m (3.6 percent y/y) to KD 104 million in February, driven by a doubling of the number of transactions, which more than offset an 24 percent drop in average transaction size, indicating that smaller/ more subprime properties were transacted. Similarly on a yearly basis, the higher transactions coupled with a drop in average transaction size points to smaller size/less premium property deals having taken place. The commercial sector will almost certainly be affected by the coronavirus lockdown and its adverse effect on business sales and revenues. There have indeed been various reports of businesses struggling to pay rent for commercial space, leading to rent reductions and deferred payment for various commercial tenants, but mostly for severely impacted retail tenants with high rents in malls.

Market outlook

Our previous view was for the market to be somewhat steady in 2020 on a relatively softer overall economic climate, but risks are now clearly to the downside. This is in light of a prolonged coronavirus situation and a severe slump in oil prices, which will impact economic growth, sentiment and financial markets. It is too early to say how large the economic and property market fallout from both shocks will be, but it is probable that the prices of property – like other key asset classes – will be affected. Virus concerns have already weighed down on immigration, with a weaker job market and various travel bans already in place, which may in turn affect demand for property rentals and weigh on property prices. Additionally, lower oil prices may lead investors and homebuyers to be wearier of market conditions, resulting in postponement of would-be property purchases, though this maybe offset in the near-term by pent-up sales from the lockdown period. Nevertheless, with the recent easing of business restrictions and the end of the total lockdown in May in accordance with a five-phase plan, a recovery may be on the horizon, but the pace of which will naturally depend on the longevity of the pandemic.



C3 Social Impact Accelerator program helps ME startups

KUWAIT: As global industry came to an almost complete halt over the past couple of months, many startups in the region have bravely and creatively turned around the way they do business to stay afloat and, in some cases, even thrive and grow.

A few of them are the 2019 graduates of the C3 Social Impact Accelerator Programme powered by HSBC. The program helps startups to receive the tools they need to thrive in the global economy, including guidance on raising funds and how to manage their governance practices. Such cases include:

- Chefaa, last year's winner, the Egyptian based e-health start-up is now fulfilling triple the number of orders it used to get before the Covid-19 lockdown was imposed.
- InnoTech, an Omani based 3D printing EdTech startup, has completely pivoted operations by utilising its 3D printing capabilities to manufacture medical equipment, to ensure the country is well equipped as international supply chains are disrupted.
- MyU, a Kuwait based e-learning startup, supported schools and educational institutions to continue teaching online, making the process easier on teachers, students, and parents.

This year's edition of the program – which is now open – has attracted over 600 applicants from eight countries in the Middle East, North Africa and Turkey (MENAT). Twenty-four finalists have been carefully shortlisted following a proven, rigorous selection process by the evaluators from HSBC, Bain & Company, and C3.

As per the program's qualifying criteria, all the selected start-ups are contributing significantly to the UN Sustainable Development Goals, are revenue generating, and are profitable or have a clear profitability path.

Due to the COVID-19 pandemic and the imposed travel bans and restrictions on hosting events, C3 and HSBC have decided to turn the originally planned one-week program in Dubai, into a four-week online format, with board meeting simulations and the final pitch competition scheduled to run in August.

Commenting on the challenges and opportunities of running the event online, Medea Nocentini, Co-founder and CEO of C3, said: "COVID-19 is pushing us to accelerate plans we had for quite some time to further boost the effectiveness of our program. Hosting lectures and workshops online over a longer period of time will provide our entrepreneurs with increased expert accessibility and give them a chance to better absorb critical learning material."

The customized lectures and interactive online sessions of the program are delivered by international trainers, tackling topics such as Theory of Change, social impact measurement, and pitching to impact investors, over four weeks.

Sabrin Rahman, Regional Head of Corporate Sustainability, HSBC, MENAT, said: "We have given the online structure a lot of thought to ensure that the entrepreneurs get all the benefits they were hoping for from the program, from engaging and insightful training, to networking with impact investors and likeminded entrepreneurs. We learnt a lot from last year's program and are confident that the second edition of C3 will deliver an even better experience for our entrepreneurs."

Roger Winfield, Chief Executive Officer of HSBC in Kuwait, said: "We are proud of our partnership with the C3 Social Impact Accelerator. This program really helps entrepreneurs maximize their social and environmental impact on the community, and I am delighted that Kuwait's MyU from last year's edition is supporting the education sector during this time. I look forward to seeing the 2020 winning startups at the final event in August."

Thanks to C3's partnership with Bain & Company and Al Tamimi & Company, the pitch competition winners will also benefit from mentoring sessions where they receive one-on-one tailored pro-bono support. Also, C3's partnership with CNN Arabic will create further opportunity to raise awareness of the program.

Russia's central bank cuts key rate to new low

MOSCOW: Russia's central bank announced a 1.0-percentage-point cut to its key interest rate, taking it to 4.5 percent, the lowest level in decades, in a bid to revive the economy after a virus shutdown.

A global slump in demand during months of lockdown measures triggered by the coronavirus epidemic led to "more profound than expected" disinflationary factors, the bank said in a statement. The bank has abided by a conservative monetary policy for years, targeting four percent inflation, but said Friday that the rate decision was taken because this figure may dip "significantly" below the target next year.

It said the negative effect of the economic lockdown has been "more extended" than previously assumed, hitting investment and incomes and increasing unemployment. "The influence of the weaker ruble and the episodes of increased demand for certain product groups in March has been exhausted," it said.

It said further cuts would be considered, based on inflation dynamics, economic activity and domestic and global market risks. The next bank meeting on monetary policy is scheduled for July 24.

Russia's State Statistics Agency on Friday published figures showing employment grew to 6.1 percent in May, steadily growing from 5.8 percent and 4.7 percent in April and March, respectively. Consumer spending fell by 19.2 in May year on year, figures showed, though rose from even lower levels in April of this year by 6.7 percent.

President Vladimir Putin declared a "non-working" period from late March, but on May 12 lifted the national lockdown, saying regions were free to impose rules based on local stages of the epidemic.

Some sectors of economy were opened up, though many remain crippled by the restrictions. The central bank predicted that the contraction of the economy in the second quarter "could prove more sizeable than expected," after growth of 1.6 percent in the first quarter. It predicted the GDP for the year 2020 would shrink by four to six percent, and a return to pre-coronavirus levels of economic growth only in 2022.

Central bank chief Elvira Nabiullina said she also expected the recovery to take longer than previously forecast, notably due to oil production cuts at least until the end of July that Moscow has agreed with the OPEC cartel.

The new key rate is the lowest in recent history, below the previous record of five percent in June 2010. "This is quite a change relative to previous 5 years of quite conservative monetary policy," said Renaissance Capital's chief economist Sofiya Donets.

"So it could clearly affect both borrowing and savings in the economy," she told AFP, adding she expects a return to a more neutral policy next year.

"The rate of 5 percent or below would indeed be the lowest over this century," said Dmitry Polevoy, chief economist at the Russian Direct Investment Fund. "With downside risks to inflation outlook, strong ruble and recessionary economic environment there is clearly room to enter this uncharted territory of lower policy rate to fuel the just-started economic recovery," he said. — AFP