

Business

KAMCO GCC REAL ESTATE UPDATE

GCC real estate transactions down over 30% y-o-y in 9M-18

KUWAIT: Real estate sale transactions in the GCC (excluding Bahrain) in 9M-18 declined y-o-y, as total value transacted declined by 30.7% to USD 59.3 Bn, as compared to USD 85.6 Bn in 9M-17, according to KAMCO Research. The number of transactions in the region fell by 8.4% over the same period to reach 342,583 transactions in 9M-18.

The drop in the region's transactions was mainly driven by Dubai and Saudi Arabia, as transacted value in Dubai fell by 36.1% y-o-y in 9M-18, while transacted value in Saudi Arabia fell by 33.8% as compared to 9M-17. Kuwait was the best performing real estate market in the GCC y-o-y, as value transacted increased by 34%, driven by a more than doubling of value in apartment transactions. On the lending side, aggregate credit to the real estate sector disbursed by GCC banks at the end of Q3-18 grew 1.1% q-o-q to reach USD 195.4 Bn.

Residential continues to search for a bottom; Kuwait office market strong

Downward pressure on rents in most residential markets in the GCC continued in 2018, as investors continued to search for a bottom in terms of prices, and tenants continued to prefer affordability. Office space landlords continued to offer attractive incentives for tenants in order to keep occupancy rates intact, although incremental office space demand continues to remain soft, as employers across the GCC continue to consolidate and optimize manpower.

On the contrary, Kuwait's office space demand remains robust, particularly for premium office spaces where rents have increased over 2018, as the market tightened. The retail segment in the GCC continues to recalibrate, in the backdrop of lower consumer spending trends; and mall owners are looking at entertainment and F&B as the new drivers to increase footfall. Real Estate equities in the GCC barring Qatar beaten down in 2018 Real estate equities in the GCC continued their underperformance vis a vis the broader market in 2018 YTD.

Structural issues affecting demand for real estate have continued and are reflected in negative sentiment towards real estate equities, as the Thomson Reuters GCC RE index fell by over 27% YTD as of Nov-18. The Dubai RE & Construction index was the main laggard and has plunged by 32.2% YTD until Nov-18. The Real Estate index in Saudi Arabia, which comprises of real estate developers followed and declined by 30.5% YTD as of Nov-18. The Qatar RE sector remained the lone gainer in the GCC, and gained by 11% YTD in Nov-18, as the broader market in Qatar rallied in 2018.

Sales Transactions

The average value per transaction in the GCC declined by over 24% to around USD 173,000 in 9M-18 from USD 228,700 per transaction in 9M-17. Saudi Arabia remains the largest contributor to real estate transactions in the GCC contributing to over 44% of the value transacted and 41.3% of the region's number of transactions.

Off-plan sales in Dubai until 9M-18 were also sequentially down y-o-y in terms of number of transactions (-32.9%), even as overall number of transactions in Dubai fell by 32.3% to reach 25,476 transactions over the same period. Kuwait was the best performing real estate market in the GCC with y-o-y increase in transactions in 9M-18, as value transacted increased by 34%, driven by a more than doubling of value transacted in apartment transactions, while volumes traded improved by 9.8% y-o-y.

Real Estate Credit Lending

Aggregate credit to the real estate sector disbursed by GCC banks at the end of Q3-18 grew 1.1% q-o-q to reach USD 195.4 Bn. Qatari banks were the largest contributors in Q3-18, as USD 1.39 Bn of net incremental credit was disbursed q-o-q, followed by Saudi Banks (USD 0.86 Bn). Credit disbursed by GCC banks to the real estate and construction sectors - USD Mn.

In terms of mortgage lending, value of mortgages disbursed in Dubai declined by 11% y-o-y to AED 86.0 Bn in 9M-18, while the number of mortgages receded marginally by 7% over the period. In Saudi Arabia, as part of the Sakani program the Ministry of Housing

(MOH) disbursed 91,300 mortgage loans until end Nov-18, representing a growth of 7.4% from 2017.

KUWAIT

Statistics from Kuwait's Ministry of Justice (MOJ) show that total real estate sale transactions increased in 9M-18 on a y-o-y basis. Total number of transactions improved by 10% y-o-y to reach 4,481 transactions from 4,081 transactions in 9M-17. Value transacted moved up by around 33% to KWD 2,591.8 Mn. On a q-o-q basis, total number of transactions was down by 5% in Q3-18, while value transacted improved by 6% as compared to Q2-18.

The improvement in sale transactions driven mainly by was apartment sale transactions. Value transacted in apartment transactions jumped by over 109% y-o-y in 9M-18 to reach KWD 1,170 Mn, while number of transactions moved up by 42% y-o-y to 1,277 transactions. Private residential transactions, the other major contributor to real estate transactions in Kuwait, saw the number of transactions improve by 1% y-o-y to 3,031 transactions, while value transacted declined by 6% y-o-y to KWD 946 Mn.

Residential

Apartments which constitute a significant portion of the rental market, saw stable rental trends in Q2-18. In the Capital and Hawalli governorates, apartment rents remained stable on a q-o-q basis, as the rental range for 2 BHK apartments remained between KWD 340-390 per month, as per KFJ Local Real Estate Report: Q2-18. The report also stated that the range for larger 3 BHK apartments stayed stable q-o-q at KWD 390-440 per month. However, on a y-o-y basis and when compared to Q4-17, the lower end of the range for both 2 BHK and 3 BHK apartments showed marginal declines, which is an indication that rents for lower quality residences are still yet to be stabilized.

Office

Prime office space rents in Kuwait strengthened on limited quality supply available for tenants, as the higher end of asking rents for the CBD area increased to KWD 10/sq.m/month. The gap between the lower-end and higher-end of the band increased to KWD 2/sq.m/month, which shows that landlords are able to command higher rents for quality office spaces.

UAE RE TRENDS- DUBAI & ABU DHABI

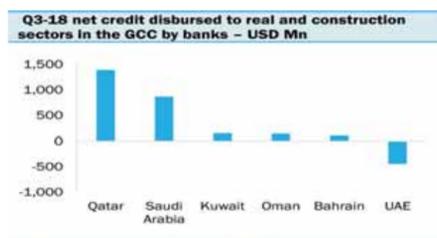
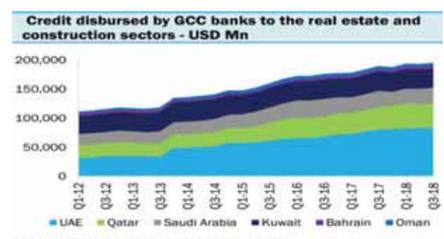
Data from Dubai Land Department (DLD) revealed that real estate sale transactions in 9M-18 receded compared to 9M-17, both in terms of value transacted and number of transactions. The number of transactions in 9M-18 was down 32% y-o-y, and reached 25,476 transactions from 37,632 transactions in 9M-17. Value transacted declined 36.1% over the same period from AED 88.2 Bn in 9M-17 to AED 56.4 Bn in 9M-18.

The decline was mainly driven by land transactions which were down by over 37% y-o-y and reached AED 26.7 Bn from AED 42.5 Bn in 9M-17. Unit transactions were also down by 32% y-o-y and reached AED 25.1 Bn in 9M-18 (9M-17: AED 36.9 Bn). Dubai RE sales transactions breakup - AED Mn

However, the contribution (%) of off-plan transactions overall remained stable y-o-y in 9M-18 at slightly over 30%. In terms of value transacted, around 30.3% of the total sales value transacted in 9M-18 came from off-plan transactions at AED 17.08 Bn. Nevertheless, on a sequential basis, off-plan sales were down from AED 27.62 Bn in 9M-17.

Residential

Residential rents in Dubai continued their slide downwards in Q3-18 across categories, from softer demand and pressure caused by upcoming supply, though the commissioning of some of the projects are likely to be delayed. Based on our analysis of rents published by Asteco, the highest declines q-o-q in Q3-18 was witnessed by the affordable segments as affordable 2 BR apartment rents declined by 4.9% q-o-q to reach an average of AED 68,000/year. Downward pressure on rents was also witnessed across Mid-to-High end (-3% q-o-q) and High-to-Luxury end apartments (-2.9%). The villa segment in



Dubai also saw declines, as 4-BR villa rents declined by 2.4% q-o-q to reach AED 202,000/year.

In Abu Dhabi's residential market, the affordable segment was most affected during Q3-18, while apartments at higher end locations and specifications were more stable, as per our analysis of data published by Asteco. Low End 2BR apartment rents declined by 6.0% q-o-q to reach around AED 68,000/year. The declines in High End-2 BR apartments were less pronounced at 2.5% q-o-q, while Prime-2 BR apartments witnessed stable rents as compared to Q2-18.

Our analysis of yields published by Property Monitor from end 2017 to Nov-18 suggests that yields compressed through 2018, albeit marginally in both Dubai and Abu Dhabi, mainly driven by a faster rate of decline in rents than the fall in prices. Affordable areas in Dubai have higher yields (Yield: 8.7%), as they include smaller 1BR apartments where demand for renting remains relatively higher than High End (Yield: 5.6%) and Mid End areas (Yield: 6.2%). A similar trend was witnessed in Abu Dhabi, as yields went down in Q1-18 because of higher rental declines than price declines.

Office

In Dubai's office market, in a quest to retain tenants, landlord continued to offer more discounted rents and attractive terms such as rent-free period, fit-out contributions and other concessions. As a result, rents in Q3-18 plunged by double digits across office districts from the start of the year, especially in DIFC and Sheikh Zayed Road, as per data from Asteco.

In Abu Dhabi, the office market continues to remain weak with vacancy rates of 23% as of Q3-18, as per JLL. Though vacancy rates remained stable q-o-q, JLL expects another 38,000 sq.m of leasable area to come in by Q4-18, which should further put pressure on vacancy rates and rents. Rents for Prime Fitted office spaces and Quality Fitted spaces remained stable q-o-q at AED 2,000/sq.m/year and AED 1035/sq.m/year respectively.

SAUDI ARABIA

Real estate sale transactions recorded by the Ministry of Justice (MOJ) statistics show that total sale transactions in Q3-18 and 9M-18 declined on a y-o-y

basis. Total number of transactions over 9M-18 fell by 13% y-o-y to reach 141,581 transactions from 162,406 transactions in 9M-17. The drop in value terms was higher, as value transacted declined by around 34% to SAR 146.63 Bn. On a q-o-q basis, total number of transactions gained by 1% in Q3-18, while value transacted receded by 19%, as compared to Q2-18.

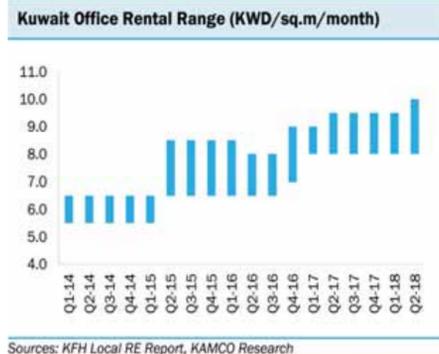
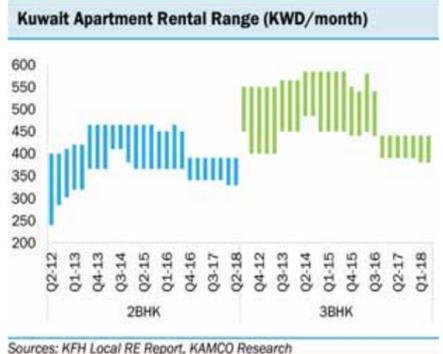
The drop in sale transactions q-o-q in 9M-18, was mostly attributed to lower residential transactions which constituted over 88% of the overall transaction volumes and 71% of the overall value transacted. Residential transaction volumes were down 12% y-o-y in 9M-18 and reached 124,672 transactions, while value transacted declined by 12% y-o-y to reach SAR 69.3 Bn. Commercial transaction volumes declined as well, by 19% y-o-y, to reach 6,212 transactions, while value transacted receded by 45% to SAR 27.7 Bn.

Residential

For the year 2018, until Nov-18, as part of the Sakani program by the Ministry of Housing, there were 285,706 residential products which were allocated as compared to 282,744 products in the eleven months in 2017 starting from Feb-17. The residential products allocated in 2018 up until Nov-18 included 91,300 mortgage loans, 98,431 residential units under construction and 79,941 residential lands. Residential rents in Riyadh stayed stable q-o-q in Q3-18 across apartments and villas, despite ongoing downward pressure on rents and soft current market conditions. In Jeddah, rents for both apartments and villas declined by 3.6% q-o-q and 3.4% q-o-q respectively, as per JLL, driven by a slowdown in employment trends.

Office

In the office market, average office space rents in Riyadh declined by 3.2% q-o-q to reach SAR 1,248/sq.m, ascribed to a slowdown in economic activity and consolidation of businesses, thereby reducing the requirement for office spaces. Vacancy rates in Riyadh however remained stable at 8%, as of Q3-18. As per JLL, office rents in Jeddah stood at around SAR 1,035/sq.m, representing a decline of 1.9% q-o-q, while vacant office spaces amounted to 20% of total leasable space.





BEWARE OF TELEPHONE & EMAIL FRAUDS

We would like to bring to attention to all Residents of Kuwait that there are Fraudsters who are calling or emailing Residents in Kuwait, telling them that they won a lottery or a prize which they can collect from Al Mulla Exchange and asking them to remit some fees or buy some prepaid phone cards to get the Pin with which they can collect the money from our Branches.

SUCH SCHEMES ARE HOAXES, SINCE AL MULLA EXCHANGE NEVER HAS & NEVER WILL PARTICIPATE IN ANY SUCH SCHEMES WHERE CUSTOMERS ARE TRICKED INTO PAYING FOR PRIZES.

We ask all Residents of Kuwait to reject all such telephone calls and emails in their own interest.

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Sources: KFJ Local RE Report, KAMCO Research

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