



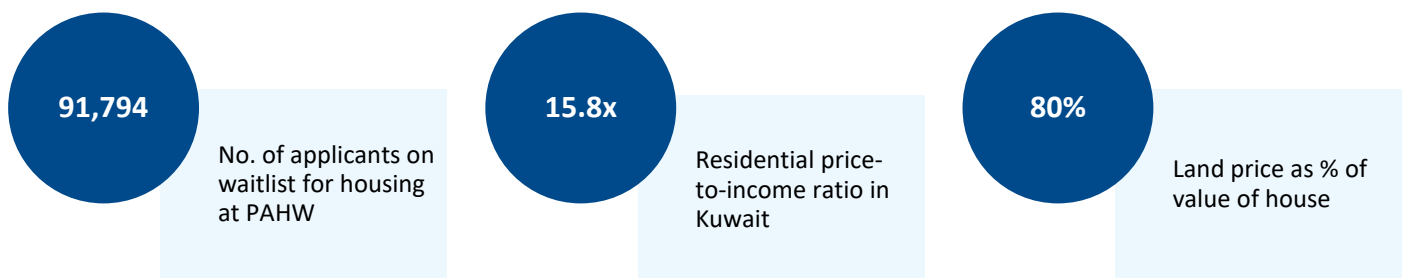
Housing Problem in Kuwait and the Way Forward

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Kuwait Housing Problem



Suggestions to Address Kuwait Housing Issue



Executive Summary

A significant challenge that has persisted in Kuwait's Residential Real Estate segment is the supply-demand gap in the state housing program, which has spiraled into a pressing housing problem. A delay in the allocation of housing units and diminishing affordability are major pain points that require immediate attention. The supply of housing units does not keep pace with the demand, with the number of waitlisted housing applications at the Public Authority for Housing Welfare (PAHW) remaining high. This has led to stretching waiting times between application and allocation almost 10 years. The restricted supply of housing units has also pushed up the prices of private housing, reducing the affordability of owning private residences. The residential price-to-income ratio in Kuwait is higher than that of cities such as London or New York and approximately three times that of Dubai and Abu Dhabi.

Finding a solution to the housing problem would involve addressing some of the key bottlenecks. The decision to prevent private companies from buying and trading residential property has led to the supply shortfall, which has in turn led to the sharp rise in land prices. Funding has also become a major hindrance, due to the capital shortfall in Kuwait Credit Bank combined with prudent lending from private commercial banks. The maximum available borrowing for a median house in Kuwait is much lower than in western countries. Other key challenges such as restrictive zoning, high capital costs involved in infrastructure development, and high urbanization levels have also exacerbated the housing problem.

As the demand for housing is set to increase steadily due to youthful demographics in Kuwait, an efficient housing program that addresses key issues from multiple facets needs to be implemented. Relaxation of zoning requirements, land reforms pertaining to the involvement of the private sector, revising the floor area ratio (FAR), involving commercial banks and finance companies in mortgage financing, and a differentiated housing program are some solutions that could address the pressing issues in the private housing sector. A swift and targeted action by regulatory authorities in similar cases in countries such as Singapore has helped resolve such housing issues in the past. A holistic approach, with the collaboration of multiple stakeholders, is a prerequisite for addressing the housing problem in Kuwait in the coming years.

The state housing program primarily caters to the housing needs of Kuwait's citizens. It provides Kuwaiti citizens with either a house by the Public Authority for Housing Welfare (PAHW), or a land plot by PAHW and an interest-free loan by the Kuwait Credit Bank (KCB) of KWD 70,000 payable over 58 years.

Kuwait State Housing Program

Kuwait's housing program consists of the following options:

1. A government house built on a minimum 375 square meter plot or a minimum 375 square meter apartment provided by the PAHW at a nominal value. Additionally, a monthly rent allowance of KWD 150 during the waiting period.
2. A minimum 375 square meter plot of land provided by the PAHW at a nominal value. A long-term, interest-free loan of KWD 70,000 and building materials worth KWD 30,000 at a subsidized price are provided by the KCB for the construction of a house. During the waiting period for allocation, a monthly rent allowance of KWD 150 is paid to the applicant.
3. A KWD 70,000 long-term, interest-free loan from KCB to buy an apartment or house with a minimum area of 360 square meter, or to build a house if the citizen already owns land. KWD 30,000 worth of building materials are also provided by the bank for construction or renovation.

Source: Right to Housing in Kuwait - LSE, 2013

While the program was designed to make housing affordable for its citizens as part of Kuwait's welfare state model, the program is currently hindered by very long waiting times for applications at PAHW and capital depletion in KCB. The number of applicants on the waiting list stood at 91,794, as of 2020. The waiting time from application to allocation is almost 10 years, indicating the demand-supply gap in the state housing program. Owing to the prevailing high real estate prices, it is difficult for people to buy houses on their own during the waiting time.

Table: Government Housing Program for Citizens

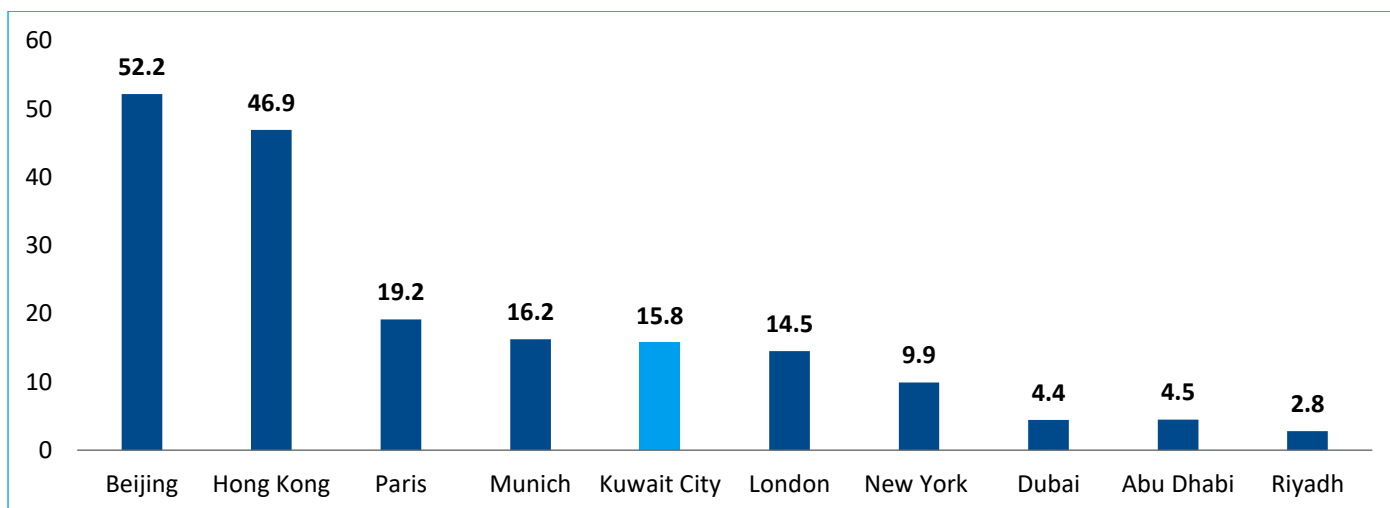
	2015	2016	2017	2018	2019	2020
Submitted Requests	7,950	7,316	7,286	6,199	6,029	6,097
Cumulative Requests	97,399	100,018	90,445	96,906	88,632	91,794
Distributed Residential Units						
Houses	2,555	0	0	0	0	0
Plot	370	0	4,430	3,368	0	0
Apartment	345	0	35	0	0	0
Total	3,270	0	4,465	3,368	0	0
Planned Distributed Residential Units						
Houses	-	0	0	0	0	0
Plot	13,311	12,500	9,719	6,437	8,986	636

Source: CSB, PAHW

While Saudi Arabia had also had a 15-year long waiting list before 2018, it has managed to accommodate applications in three years and has transitioned to immediate entitlement by launching a dedicated Housing Program in 2018.

Kuwait's residential affordability is the lowest in the GCC, as the price-to-income ratio (measured by the median house price divided by median household income) stands at 15.8, making it one of the least affordable places in the world to own a residence. This is approximately three times that of Dubai and Abu Dhabi, five times that of Saudi Arabia, and is higher than London and New York.

Residential Price to Income Ratio (2022)



Source: Numbeo; **Note:** Residential Price-to-Income Ratio of median apartment prices to median familial disposable income expressed as years of income. The median apartment size is 90 square meters.

Demographic structure (new households): Accelerated demand for housing

Kuwait's population has grown at a CAGR of 3.6% and that of nationals has grown at 2.3% from 2005-2021, and is expected to slow to 0.34% by 2050. The uptrend in population growth would sustain demand for housing. Kuwait has a young demographic structure with about 75% of the Kuwaiti population aged below 39 years. The number of marriage contracts among Kuwaitis stood at 10,774 in 2020 with the general marriage rate at 24.3%¹. The high annual household formation indicates a sustained fast growth in demand for housing in Kuwait for the foreseeable future.

Government-owned lands and lack of private sector participation: Limited supply of land

The government owns 90% of the land in Kuwait and regulates residential real estate development through parceling and allocation of land plots.² Kuwait's laws prevent private companies from buying and trading residential property. While this was intended to prevent speculation, profiteering, and control real estate prices, it has severely curtailed supply and led to a sharp increase in real estate prices. Land price makes up about 80% of the value of a house, significantly above the international standard of 30%.³

¹ CSB; General Marriage Rate = (Number of marriages among residents / mid-year population estimation (15+) of an area in a given year) *1000

² World Bank

³ World Bank

Zoning and urban planning: Low-density zoning in near urban areas

Kuwait's urban plan classifies land into zones. Accordingly, housing neighborhoods were established outside of Kuwait City, as the city itself was zoned exclusively for commercial development. The residential areas outside the city require a minimum of 375 sq. m. plot per residential dwelling by PAHW and have a limit on population density at 12 units per hectare. These have led to urban sprawl.⁴ Such restrictive zoning limited supply and resulted in higher housing prices.

Lack of financing: Limited access to funding

KCB is the main source of financing for housing in Kuwait; however, its capital is dwindling. According to a PAHW report in June 2021, it is capable to finance only 12,000 plots.⁵

Local banks and investment companies in Kuwait offer installment loans up to KWD 70,000 for housing at regular market interest rates, which could be used for the purchase and/or construction and repair of houses. Banks are prudent in lending because the law restricts their ability of banks to foreclose on first homes even if they are mortgaged.

Given the prevailing real estate prices, the acquisition of a house will require a substantial down payment of 70% because the maximum borrowing available will not exceed 30% of a median home price, compared with 70% to 80% in western markets.

Urbanization: Constrained infrastructure

Kuwait boasts 100% urbanization with a relatively high population density of 232 people/sq. km.⁶ Such high rates of urbanization and population density would result in a concentration of infrastructure development. The existing infrastructure is not geared for the needed higher density in construction.

High capital costs associated with developing infrastructure

As new areas are developed to meet the demand for residential real estate, supporting physical and social infrastructure such as roadways, schools and universities, and hospitals need to be developed and they require high capital expenditure. For example, the cost of major road projects under implementation in Kuwait is estimated at KWD 1.5 billion.⁷ The prices of building materials have reportedly increased by 40% post-COVID-19 crisis, pushing up the capital outlay required.⁸ As these expenditures are dependent on oil revenues, they are vulnerable to unfavorable movements in oil prices.

⁴ Right to Housing, Sharifah Alshalfan

⁵ PAHW, Arab Times

⁶ Statista, World Bank

⁷ Zawya, July 2021

⁸ Times Kuwait

Way forward

The government would need to take a holistic approach to the housing problem, which encompasses an increase in the supply of suburban land and the density of residential urban land accompanied by an improvement in infrastructure and accessibility, legislating laws for co-ownership of properties, and increasing affordability through private sector financing. In short, increasing the supply of land, engaging the private sector to accelerate land development, and incentivizing banks to provide financing should quickly ease the supply-demand gap and in housing and reduce the backlog of applications.

A. Rezoning

Re-zoning could be done by relaxing requirements on minimum lot sizes, increasing density, and changing land usage. Repurposing vacant areas for uses other than originally designated could improve the chances of their development. In the case of the acquisition of private land under rezoning, adequate compensatory solutions would help smoothen the process.

In 1960, Singapore, with a land area of 700 sq. km, had only 9% of its population living in government housing and more than half of its population living in dilapidated housing. Towards resolving this, Singapore had acquired private land and rezoned them to allow higher densities. It had also anchored residential developments to commercial development which had led to an appreciation in land value. By 2014, more than 80% of its population was living in government housing. The elimination of single-family zoning in Minneapolis, USA and the easing of height and density restrictions in Fairfax, USA are a few other examples of policy efforts to increase housing supply.

B. Mortgage finance

Encouraging the participation of local banks and financing companies in the mortgage market would ease the financing burden of the state housing program. While a draft mortgage law to this effect has been proposed, it has yet to be passed. Some of the proposed features in the new mortgage law are:

- In addition to KCB, mortgages can be provided by local banks and financing companies that operates under the umbrella of the Central Bank of Kuwait (CBK).
- The government pays the interest on behalf of the borrower within the limits of loan amounts provided by the Kuwait Credit Bank.
- The beneficiary must not have previously obtained a mortgage loan from the Kuwait Credit Bank.
- Banks and financing companies have the right to mortgage and foreclose on the properties in case of default.
- PAHW must implement a housing program to provide an alternative accommodation to beneficiaries who are evicted.

Table: Comparison of Current Scheme and Proposed Mortgage Law

Parameters	Current Scheme Kuwait Credit Bank	Draft Law Local Banks & Financing Companies
Maximum Loan (Mortgage for the first house)	KWD 70,000 + KWD 30,000	KWD 140,000 + KWD 30,000
Maximum Loan Without Interest	KWD 70,000	KWD 70,000
Maximum Period for Repayment	58 Years	Not stated yet
Minimum Monthly Installment	KWD 100 or 10% of Salary which is higher	Not stated yet
Possibility of Foreclosure	No	Yes
Government Initial Payment	KWD 70,000 + KWD 30,000	KWD 30,000
Government recurrent cash payments/receipt	Government receives monthly repayments at zero interest rate	The government pays interest on KWD 70,000 to banks
Risk	Default risk from borrower	PAHW must provide alternative accommodation to beneficiaries who are evicted

Table: Comparison of Proposed Mortgage Law and Saudi Arabia’s Mortgage Law

Parameters	Kuwait	Saudi Arabia	Commentary
Maximum Loan (Mortgage for the first house)	KWD 140,000 + KWD 30,000	Loan-to-Value ratio at 90% ⁹	Saudi Arabia allows for the higher loan amount, in turn lowering the initial outlay for the individual
Outflow for the government	Initial - KWD 30,000 The government pays interest on KWD 70,000 to banks	Under the Sakani Affordable Housing program, the Saudi government undertakes to pay off the interest on loans up to SAR 500,000 and exempts buyers from real estate taxes. Mortgage products that include the provision of guarantees by the Ministry of Finance Ministry at 15% of property value or by the Real Estate Development Fund at 5% of property value are offered for eligible citizens. ¹⁰	In the case of mortgage products with guarantees, there is a lower outflow for the government in Saudi Arabia’s model as it would be obligated to pay only in case of default.
Possibility of foreclosure and risk	Yes. PAHW must provide alternative accommodation to beneficiaries who are evicted.	Yes. Limited risk due to option for legal recourse on mortgage defaults outlined in the Enforcement Law	Reduced risk for banks as the laws allow for/outline foreclosure procedures

Source: Various

For the mortgage financing to be effective and scalable, CBK should allow the securitization of mortgages. This will enable banks to originate loans and sell them down as Mortgage-Backed Securities listed on Boursa Kuwait to investors regionally and internationally. Such investment instruments will enhance the capital market, provide investment opportunities, improve the banking sector, attract foreign investments, and create jobs.

For example, Fannie Mae, a government-sponsored organization in the U.S., buys loans from banks, bundles them as mortgage-backed securities and sells them. This mechanism allows for banks to transfer assets off their balance sheet and frees up capital, enabling further lending. The mortgage-backed securities are bought by insurance companies, pension funds, etc. Fannie Mae guarantees payments of principal and interest on the mortgage-backed security.

In addition, credit default insurance can be allowed, which will render the market more efficient and engages the insurance sector in Kuwait.

⁹ S&P

¹⁰ Deloitte, FT

C. Land reforms

Of Kuwait's total area of 17,818 sq. km, large portions of land are uninhabitable owing to a harsh environment, the presence of oil fields, or assignment for prospecting or for military bases. The land that is currently inhabited accounts for about 8% of the country's surface area. In the backdrop of limited availability of land, a key measure that could be undertaken is to reduce the area of the land parcels from the current 375 sq. m per land parcel to 200 sq. m. This would help in better ensure housing for all by increasing land available for development and also making land plots more affordable.

The scarcity of utilizable land and tight government control over it also necessitate land reforms. Active government participation in ensuring the efficient use of land, the creation of a dedicated authority for land allocation and the implementation of land reforms, developing proper compensation packages in case of reclaiming private land, establishing clear titular rights, and exploring the deep western region for possible development are some reforms that could be considered.¹¹

Involving the private sector in housing development would aid in quicker completion of projects and an increase in supply. There have been several recommendations for this as follows.

- The government would be providing undeveloped land free of cost which would enable faster allocation of land.
- The developer then undertakes the development/construction of the land and sells the completed unit at a nominal rate to citizens, accounting for only the construction costs as the land is provided free of cost by the government.
- The citizen could be allowed to pay in installments with the land being in the name of PAHW until they repays the cost of the house. Alternatively, banks could finance the construction/purchase of houses against the mortgaged property.

Mixed-use development could also be undertaken with the involvement of the private sector. A large area of land in a single location, say, Nawaf Al Ahmad New Area, could be allocated for private sector development.

- This area would be a self-sufficient mixed-use development consisting of villas and small hospitals, schools, and supermarket/retail stores. PAHW could provide the requirements and specifications for the house such as the minimum area for each component of the house to ensure a satisfactory outcome.
- After the completion of the bidding process, the bid winner would design and construct all of the designated land including infrastructure.
- PAHW could fix a cap on the selling price of each villa and they would be available for sale only to those registered with PAHW. In case the villas are not sold after one year of completion, the developer can sell the villa in the market.

This approach to land reforms would pave way for more organized projects as it would be focused on a single theme. It would also result in a healthier economic cycle than the current one, wherein each land owner undertakes the construction of his own house. Listing of these bidding companies on Boursa Kuwait would allow investors to invest in these projects.

The following measures could be implemented to limit land trading and the acquisition of houses for investment purposes.

- Once the citizen completes payment and the house is transferred to their name, further selling of the house could be barred for a period of, say, 5 years, to limit land trading.
- The new plots could have a covenant that they are meant for single-family housing and cannot be segregated into multifamily (unless it is for members from the same family). In case of a breach of the covenant, PAHW would have the right to rescind the contract even if the inhabitant had paid in full.

To address the concern of the increase in prices, alternative measures such as a price increase ceiling or an increase in the supply of buildable land could be considered.

¹¹ Land Reforms in Kuwait, Marmore

D. Differentiated Housing Program

The income levels of Kuwaiti households and in turn their affordability vary depending on their nature of employment. In this regard, the government could offer a differentiated housing program for high-income and lower-income households.

To cater to low-income households, the government could provide smaller land parcels of 200 sq. m with a built-up area of 400 sq. m. While the development would be undertaken by the private sector, the government would be providing the land free of charge and would also be setting a cap on the final selling price.

For high-income households, the government could auction the land to the private sector to develop mid and higher-end houses, which the private sector could in turn sell at market prices. This could be coupled with loans subsidized by the government, (i.e.) interest-free loans for the first KWD 70,000.

E. High-rise apartments

In Kuwait, Floor Area Ratio (FAR) was increased for the private housing sector from 150% to 210% in 2005.¹² This resulted in high-net-worth individuals acquiring more houses for investment purposes; keeping in mind that the residential building sector or apartments have an FAR of 250%.

Meeting current outstanding requests through only villas would require about 34 sq. km of land. New housing requests have averaged at about 7,400 per year for the period 2011-2020. Assuming a similar average for the next 10 years, this would require an additional 28 sq. km of land. In comparison, urban Kuwait is currently composed of 432 sq. km. Given the limitations on utilizable land and the area required for other amenities in housing projects, expansion at this rate might not be feasible.

Table: Number of Villas vs. Apartments for a Given Land Area

Parameters	Current FAR	Increased FAR
Land Area (m2)	1,200,000	1,200,000
Villa		
Area per Villa (m2)	375	375
A. Number of Villas	3,200	3,200
Apartment		
FAR	210%	310%
Buildable Area (m2) (FAR*Land Area)	2,520,000	3,720,000
Area per apartment	375	375
B. Number of Apartments	6,720	9,920
Additional housing units (A - B)	3,520	6,720

Source: Marmore

An increase in FAR by 100 percentage points increases the number of apartments that could be built in a given area by 3,200 units. Incentivizing the construction of high-rises by providing higher FAR could expedite the development of high-rise apartments could increase the rate of utilization of available space and could be a sustainable alternative to villas. However, a downside to this is that higher FAR could lead to increased demand from investors in the Istithmari segment (rental apartments segment), which would in turn increase prices. The case was similar in 2015, where the increase of FAR from 150% to 210% garnered substantial interest from investors.

¹² Floor Area Ratio is the ratio between the total amount of usable floor area that a building has and the total area of the lot on which the building.

Conclusion

Addressing the challenges pertaining to Kuwait's housing sector requires a multipronged approach that constitutes rezoning, land reforms, and new mortgage law along with engaging the private sector in real estate development. Considering the youthful demographic in Kuwait, the demand for housing is expected to increase moving forward, which would in turn entail speeding up the rate of meeting outstanding requests for housing in Kuwait. Structural reforms with a targeted and unified approach in the near term would be pivotal in addressing key pain points in the residential real estate sector and help in solving the long-persisting social issue of housing in Kuwait.

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