

KFH LOCAL REAL ESTATE REPORT



First Quarter 2007

K U W A I T

بيت التمويل الكويتي
Kuwait Finance House





KFH LOCAL
REAL ESTATE REPORT

First Quarter 2007

Introduction

Although trading volume dropped slightly in the 1st quarter of 2007, compared to the 4th quarter of 2006, the real estate market recovered during the period January-March 2007. Such a recovery was a result of higher real estate price indices, and increasing demand for investment and housing properties, which can be interpreted as the return of real estate to the focus of investors, in addition, to escaping the instability of the Kuwait Stock Exchange (KS), and the switching of liquidity from financial into the real estate bourse. This trend was supported by local banks and investment companies by launching several real estate funds to strongly attract real estate market driven investors.

As a result, investment real estate properties witnessed unprecedented recovery with a higher share in the total trading. Demand increased for certain distinctive areas, as well as areas lacking infrastructure, targeting higher profitability. Demand also increased for trading of properties violating the construction laws. There are attempts to convert certain residential areas into investment areas.

Compared to 2006, the real estate market is expected to realize a new record. The market witnessed a sharp increase in the volume of deals and trading. Positive indicators motivate the market toward a further increase in the volume of liquidity available to individuals and investors. Surpluses continue to be achieved in the state budget, which is conducive to increasing the private and government spending, also reflecting in the form of notable construction and economic development. Private and government real estate projects are expected to amount to about KD 70 billion over the next five years, motivating further demand for other industries related to real estate.

As a result of the resignation by the Kuwaiti government, the 1st quarter of 2007 witnessed a state of anticipation. It ended with a new government entrusted with a motivation to investors entering the real estate market and eliminating obstacles restricting growth of this promising sector. The new government's mission is to pave the way to the private sector's larger role in activating the infrastructure projects, solving the housing problems, increasing the supply of land, and rapidly upgrading the infrastructure in the new areas. While the available real estate properties are scarce, the private sector is also expected to curb inflation and soaring prices. The private sector's role is to attract the inflow of Kuwaiti capital, instead of the outflow of this capital in search for real estate investment opportunities in the GCC region or elsewhere.

Despite the decline in the real estate trading in private housing and commercial sectors, price indices still are characterized by an upward trend. This is a result of the scarcity of such lands and houses and the increasing demand for them, driven by the increasing population, higher income, higher occupancy rates and intensive demand for real estate investment.



Real Estate Trading Indicators

On the real estate market side, trading indicators, issued by the Real Estate Registration and Authentication Department of the Ministry of Justice, declined in the 1st quarter of 2007 by KD 37.8 million, or by 4.4%, compared to the 4th quarter of 2006, of KD 858.7 million, representing a boom, compared to the previous quarters of 2006.

Real Estate Transactions Private Housing

Real estate transactions of private housing constituted 56.1% of the total trading of KD 820.8 million. Private housing transactions registered KD 460.5 million in the 1st quarter of 2007. Trading dropped by 9.6%, compared to the 4th quarter of 2006. Private real estate trading dropped to 2,495 transactions in the 1st quarter of 2007, compared to 2,853 transactions in the 4th quarter of 2006. During the 1st quarter, average transaction rose to KD 187,600 compared to KD 178,700 in the 4th quarter of 2006 due to the decline of the number of transactions by 13.9%, and the higher prices of certain areas. March 2007 registered the highest trading rate, accounting for 47% of the total private trading over the private trading in the 1st quarter of 2007. January ranked second with a share of 32%. February ranked last with a share of 21% as for the total trading in private housing.

Real Estate Investment Transactions

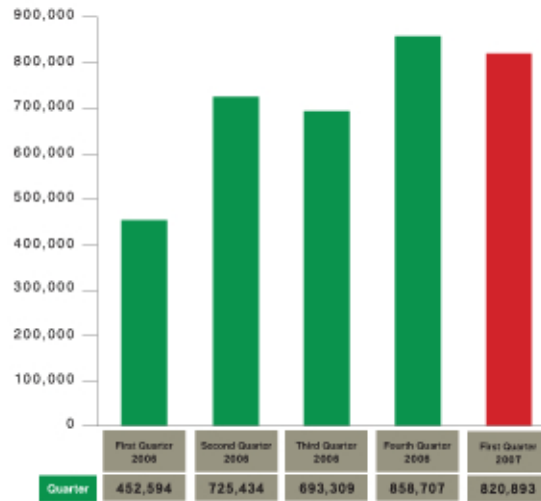
During the 1st quarter of 2007 total real estate investment trading rose to KD 320.2 million, compared to KD 257.8 million in the 4th quarter of 2006, or by 24.1%. March came in the first place in terms of trading volume for the 1st quarter of 2007, registering KD 132.2 million. February came in the second place with average investment trading of KD 112.8 million. January ranked third, registering a trading of KD 74.8 million. Average transaction during the 1st quarter of 2007 accounted for KD 644,000, compared to KD 568,000 for the 4th quarter of 2006, indicating a substantial rise in the number of transactions by 9.7%, accompanied by a rise in trading value and price indices.



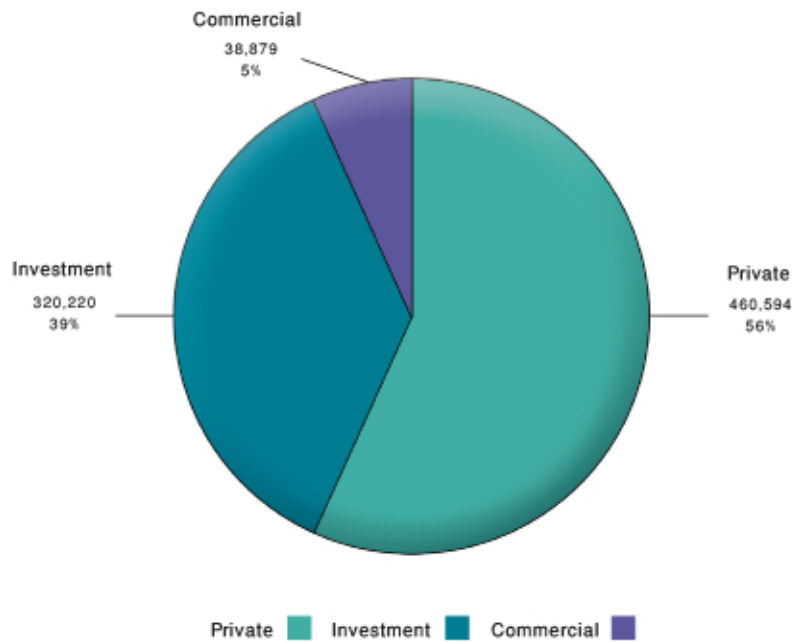
The increasing investment transaction trading is in line with the positive indicators to the reactivation of the investment market, higher rates of investment housing, increasing demand in certain distinctive areas and properties, investment properties that lack infrastructure, pending the realization of higher gains, due to the return of real estate investors from the stock exchange, and the demand by some investors for purchasing irregular properties with high investment risk. In addition, the change of positions from speculators to real investors contributed to the rise, in line with the upward trend of occupancy rates due to the increasing rates of population, especially the expatriates.

Commercial Real Estate Transactions

During the 1st quarter of 2007 total commercial real estate trading dropped in spite of the increasing demand for certain commercial locations, with scarce supply. Trading declined by 56.1%, registering KD 38.8 million, compared to the 4th quarter of 2006 of KD 89.9 million. This caused its share in total trading to drop to nearly 5%, on account of the real estate transactions for private housing, of which the share approached 50%, and investment transactions of 39%. March ranked first with KD 14.850, while January registered the lowest trading during the 1st quarter of 2007, with trading reaching KD 10.294. Meanwhile, average transaction during the 1st quarter of 2007 amounted to KD 1.555 million, compared to 3.101 million for the 4th quarter of 2006. The declining volume of a transaction is due to the decreased number and value of the commercial transactions, due to the scarcity of the real estate properties and the unprecedented higher rates of such real estate properties, scarcity of supply compared to the stable economic conditions, the increased government and private spending on projects, the increased volume of consumption by families, in addition to the raised salaries and wages of certain classes and categories in the Kuwait Society, the higher per capital income by 24.3%, consequently increasing the demand and consumption, motivating investors towards achieving more expansion, pushing the demand for commercial real estate properties higher.



Total Real Estate Trading for 2006 and 1st Quarter of 2007



Total Real Estate Trading for 1st Quarter of 2007



Price Indices

1- Private Housing Land Rates

During the 1st quarter of 2007, private housing witnessed a higher rate compared to the previous levels in the 4th quarter of 2006, by up to 7%, due to the increasing number of housing applications. The trend took place although the government endeavors to provide the infrastructure in certain areas. Trading on these areas returned strongly. There were attempts to activate the real estate market by increasing the number of real estate exhibitions. In addition, The state attempted to increase the housing supply by establishing new towns, such as Arifjan Model Town in the south and the return of trading thereon. In mid 2006, the Ministry of Public Works announced the allocation of houses to applicants whose applications have been pending since 1992, exceeding 60,000 applications.

The continuing rise of housing land rates during the 1st quarter of 2007 reflects the intention of many citizens to build or reside in the areas close to the city center or internal areas, and their refusal to stay in the new remote areas offered by the state. Factors of increasing rates of private housing land include higher cost of building, materials and manpower. This limited the ability of some citizens to purchase housing land due to the higher rates. They tended to purchase built houses to utilize the Credit and Savings Bank's loans as an advance payment, although such types do not meet their requirements in building their dream house.

Some investment companies entered into the field of providing private houses or land to meet the growing demand and to influence the rates. However, expanding these companies will create an atmosphere of competition causing rates to be more stable.

KFH's price indices registered the highest rise of housing land rates during the 1st quarter of this year in the Capital Governorate, with average KD 577. Rate at Shuwaikh area and Abdulla Al-Salem suburb continued to rank first as the highest rates in the Capital Governorate, with KD 700-800 per m². Special locations registered KD 800-1,000 per m².



Al-Shamiya area registered the highest rise during the 1st quarter, with 30%, followed by Adailiya and Al-Nuzha, with 20%. Rates of Qurtoba, Mansouriya, Dasma, Surra, and other areas of the capital also soared.

Area	M2	Value (In KD)		Price per M2 (In KD)		Average 1st Quarter 2007 (In KD)
		From	To	From	To	
Abdulla Al-Salem Suburb	750	450,000	900,000	600	1,200	900
Abdulla Al-Salem Suburb	1,000	480,000	1,100,000	480	1,100	790
Shuwaikh Residential	1,000	500,000	1,200,000	500	1,200	850
Shuwaikh Residential	500	400,000	550,000	800	1,100	950
Faihaa	750	300,000	550,000	400	733	567
Kaifan	500	250,000	350,000	500	700	600
Kaifan	750	32,000	535,000	43	713	378
Adailiya	500	250,000	350,000	500	700	600
Adailiya	750	300,000	535,000	400	713	557
Nuzha	750	360,000	680,000	480	907	693
Mansouriya	1,000	420,000	600,000	420	600	510
Mansouriya	750	300,000	535,000	400	713	557
Qadisiya	750	275,000	500,000	367	667	517
Shamiya	1,000	450,000	1,000,000	450	1,000	725
Yarmouk	750	350,000	535,000	467	713	590
Khaldiya	1,000	440,000	650,000	440	650	545
Al-Surra	500	220,000	280,000	440	560	500

Mubarak Al-Kabir Governorate registered KD 412 as the average rate per m2. However, some areas witnessed notable trading and rise, including Abul Hasaniya, Ogaila, Abu Fateera, and Funaitees, due to the approaching completion of the infrastructure projects there. Meanwhile, rates stabilized in Sabah Al-Salem, Adan and Al-Qosour areas.

Area	M2	Value (In KD)		Price per M2 (In KD)		Average 1st Quarter 2007 (In KD)
		From	To	From	To	
Abul Hasaniya	750	320,000	450,000	427	600	513.3
Maseela (East Qurain)	400	105,000	160,000	263	400	331.3
Abu Fateera (East Qurain)	400	85,000	140,000	213	350	281.3
Adan (Govt Housing)	400	90,000	120,000	225	300	262.5
Adan (Plots)	400	140,000	185,000	350	463	406.3
Qosour (Plots)	400	140,000	180,000	350	450	400.0
Mubarak Al-Kabir (Plots)	400	140,000	180,000	350	450	400.0

Farwaniya Governorate registered an average rate of up to KD 285.2 per m2. 1st quarter of 2007 witnessed higher trading in Jaleeb Al-Shoyoukh, Khaitan and Farwaniya areas, and higher demand for Esh-bilia, where rates soared to KD 400 for prime locations, and KD 318 for some ordinary locations, compared to KD 280 per m2 in the 4th quarter of 2006.

Rates in Andalus area stabilized at and average of KD 270 per m2, while Ardiya rates stabilized at KD 227 per m2.



Area	M2	Value (In KD)		Price per M2 (In KD)		Average 1st Quarter 2007 (In KD)
		From	To	From	To	
Andalus	500	120,000	150,000	240	300	270.0
Eshbilila	400	95,000	160,000	238	400	318.8
Khaitan (non-common)	750	165,000	220,000	220	293	256.7
Jaleeb Shoyoukh	750	230,000	280,000	307	373	340.0
Sabah Al-naser	600	120,000	150,000	200	250	225.0
Firdous (existing house)	400	80,000	120,000	200	300	250.0
Rehab (existing house)	400	100,000	140,000	250	350	300.0

Ahmadi Governorate's rate per m2 touched the KD 271 level in average, reflecting the highest price increase in the coastal line area, with a growth rate of 7.6%, pushing the rates to KD 566 per m2.

Area	M2	Value (In KD)		Price per M2 (In KD)		Average 1st Quarter 2007 (In KD)
		From	To	From	To	
Southern Coastal Line (sea front)	750	670,000	800,000	893	1,067	980.0
Southern Coastal Line (main road)	750	400,000	450,000	533	600	566.7
Southern Coastal Line (internal roads)	750	280,000	300,000	373	400	386.7
Wafra Residential (existing house)	400	35,000	40,000	88	100	93.8
Jaber Al-Ali (govt. existing house)	400	90,000	120,000	225	300	262.5
Jaber Al-Ali (plots)	400	110,000	165,000	275	412.5	343.8
Al-Riqqa	400	80,000	120,000	200	300	250.0

In Hawalli Governorate, rate per m2 stabilized at KD 525 in average. Bayan, West Mishref, and South Surra areas registered up to KD 463. Rates at the areas overlooking the coastal line ranged between KD 650 and KD 2,200, compared to KD 900-1,633 per m2 in the 4th quarter of 2006.

Area	M2	Value (In KD)		Price per M2 (In KD)		Average 1st Quarter 2007 (In KD)
		From	To	From	To	
Shaab	400	200,000	280,000	500	700	600.0
Jabriya	750	210,000	265,000	280	353	316.7
Rumaithiya	750	185,000	250,000	247	333	290.0
Rumaithiya (Aqsa Str)	1,000	380,000	480,000	380	480	430.0
Salwa	750	185,000	250,000	247	333	290.0
Salwa (Aqsa Str.)	1,000	420,000	480,000	420	480	450.0
Salwa (Tawon Str.)	750	450,000	500,000	600	667	633.3
Bayan	500	150,000	200,000	300	400	350.0
Bayan (Block 13)	400	170,000	200,000	425	500	462.5
Mishref	750	200,000	280,000	267	373	320.0
West Mishref (Mubarak Al-Abdulla)	400	180,000	240,000	450	600	525.0

Jahra Governorate registered an average of KD 294 per m2. Jahra area witnessed stable size of demand for private housing as a result of population growth in the area and its strategic position as a transit point for cargo trucks to Iraq. In addition, the number of commercial complexes increased to meet the requirements of increasing consumer demand in the area, particularly at the Qaser area, which rose by 4% in the average rate per m2.



Area	M2	Value (In KD)		Price per M2 (In KD)		Average 1st Quarter 2007 (In KD)
		From	To	From	To	
Qaser	750	115,000	130,000	153	173	163.3
Qaser (existing house)	600	95,000	140,000	158	233	195.8
Oyoun (govt. house)	400	85,000	120,000	213	300	256.3
Al-Naeem (plots)	400	145,000	165,000	363	413	387.5
Al-Naeem (govt. house)	400	95,000	130,000	238	325	281.3
Waha (existing house)	300	75,000	85,000	250	283	266.7

2- Investment Land Rates

Investment land rates soared due to the entry of properties violating building regulations into low rate trading. The entry is a result of the high risk, where the irregular properties problem has not been solved yet. The Resale problem also expanded. The resale aims at eliminating debts, speculating and realizing instant gains. The rates rose by 10-22%, compared to the 4th quarter of 2006. Regular investment properties in prime locations witnessed higher rates, and still have a good demand.

Farwaniya Governorate registered the highest rise in rates, up to 30%, in certain areas, with an average rate of up to KD 573 per m2 in the 1st quarter in 2007 with an increase rate of 23% compared to the 4th quarter in 2006. Average rate per m2 accounted for KD 1,438, compared to KD 1,301 in the 4th quarter of 2006, up by 23%. Certain prime plots at Dasman and East Maqwa areas registered the highest rates, i.e. KD 2,500 per m2, for the 4th quarter of 2006, as they are utilized by some investors as offices, in the hope of converting them into administrative buildings. Meanwhile, Maqwa internal areas registered the lowest rates, with average rate stabilizing at KD 700. Areas overlooking the sea at Hawalli governorate averaged KD 2,400-2,800, while Ahmadi Governorate registered up to KD 710 per m2, an increase by 18%. Areas overlooking the sea averaged KD 900-1,000. Jahra ranked last with an average rate of up to KD 495 per m2, an increase of 16%.



Area	M2	Value (In KD)		Price per M2 (In KD)		Average 1st Quarter 2007 (In KD)
		From	To	From	To	
Bnaid Al-Qar (sea front)	1,000	2,000,000	2,550,000	2,000	2,550	2,275
Bnaid Al-Qar (internal roads)	1,000	785,000	1,000,000	785	1,000	892.5
East Maqwa (400% building rate)	500	1,000,000	1,500,000	2,000	3,000	2,500
Dasman (400%)	1,000	2,500,000	5,000,000	2,500	5,000	3,750

3- Commercial Real Estate Rates

Scarcity of supply for commercial and private land within the city caused their rates to soar at a record rate to benefit from the rising ratios of building and allowing more heights up to 100 floors. Notable is the economic growth and higher consumer spending has motivated investors to expand their activities, increasing demand for commercial areas and creating purchasing patterns that gave way for new shopping centers and for seeking new commercial areas such as: Fahaheel, Farwaniya, and Jahra.

Commercial real estate rates continued to increase notably during the 1st quarter of 2007, by 4-30% according to the areas, compared to the 4th quarter of 2006, where trading rates within the city registered KD 4,000 - KD 12,000 per m2 in average. This was caused by the scarcity of this type of land and the increasing demand for it by local companies, in addition to the entry of foreign companies, which, in turn, seek good building standards. Foreign companies rent full buildings once completed, pushing prices and rent even higher.



Area	Bldg Ratio %	M2	Value (In KD)		Price per M2 (In KD)		Average 1st Quarter 2007 (In KD)
			From	To	From	To	
Downtown (Mubarakiya Market)	300	500	1,500,000	2,500,000	3,000	5,000	4,000
Downtown (Ahmad Al-Jaber Str.)	520	500	4,500,000	5,500,000	9,000	11,000	10,000
Downtown (Mubarak Al-Kabir Str.)	620	500	4,500,000	5,000,000	9,000	10,000	9,500
Downtown (Fahd Al-Salem Str.)	620	500	4,750,000	5,500,000	9,500	11,000	10,250
Downtown (Ali Al-Salem Str.)	300	500	1,800,000	2,600,000	3,600	5,200	4,400
Downtown (Gharabally Str.)	300	500	2,200,000	2,750,000	4,400	5,500	4,950
Downtown (Ali Al-Salem Str.)	520	500	3,500,000	4,000,000	7,000	8,000	7,500

Jahra Governorate registered the highest rate, being 8-40%, compared to the 4th quarter of 2006 due to the permission of commercial building at the commercial and administrative center area, which witnessed notable trading and higher rates.

Hawalli Governorate came in the third place, up by 25% . Salem Al-Mubarak topped the list with a rate ranging between KD 3,800 and KD 4,200 in average. Followed by Bahrain Street with rate per m2 ranging between KD 2,000 and KD 2,100. Farwaniya attained the third place with up to 20%, and Munawer Str. came in the first place, registering an average of KD 3,200 per m2.

Notable, rates continued to soar at Al-Dhajeer area - south of Khaitan as a result of the increasing demand by certain companies, and the scarcity of empty land parcels at Dhajeer area behind the airport, of which the rates rose to between KD 500 and KD 600 in average.



4- Rates of Industrial Plots (Usufruct and Warehousing Contracts)

Rates of industrial plots rose notably during the 1st quarter of 2007, by up to 12%, compared to the 4th quarter of 2006, particularly at Shuwaikh Industrial Area.

5- Farms and Pale Rates

During the 1st quarter of 2007 farm rates rose by 7%, compared to the 4th quarter of 2006. Kabd pale rates stabilized at the KD 65,000-KD 85,000 range per built and equipped pale, and KD 35,000-KD 42,000 per unequipped pale, with an area of 2,500 m². Pale rates at Rajm Khashman stabilized around KD 25,000-KD 35,000, and Ahmadi Equestrian at KD 25,000-KD 30,000.

6- Owned Apartment Rates

Demand for owned apartment product continued to increase. The demands stems from certain segments of the society. However, in light of the increasing supply of apartments of various specifications, ranging between super deluxe and ordinary finishing, coupled with the tendency by some investors to the owning product rather than leasing, average rate of owned apartment stabilized at KD 331.5-KD 520 during the 1st quarter of 2007, compared to the 4th quarter of 2006. This product has features, such as low total value, and low cost of trading, compared to land and residential houses, and the realization of good return from leasing, in addition to the heavy demand by citizens and expatriates. This type of real estate properties started to witness lack of demand by some investors from investment in these areas as a result of high land rates.



Governorate	No.	Area	M2	Price	Sale per M2	Apartment Specifications	Remarks
Hawalli	1	Hawalli	75	30,000	400	2 bedroom, 2 bath, maid room	Back elevation, under finishing (3 months), Sharhabeel Str.
	2	Hawalli	75	32,000	426.6	2 bed, lounge, 2 baths, maid room	Shurahbeel Str front, under finishing (3 months)
	3	Salmiya	67	30,000	447.7	2 bed, lounge, bath room	1 1/2 years, good condition
	4	Jabriya	112	58,000	518	Reception, dining room, main kitchen, maid room with bath, external bath, master b/r and bath, separate b/r	Deluxe finishing, ready for sale
	5	Jabriya	145	79,000	545	Reception, dining room, guest bath, main kitchen, maid room with bath, master b/r with bath, w b/r and bath	Deluxe finishing, ready for sale
	6	Jabriya	206	104,000	504.8	Two-level duplex: lower level: reception, dining, master b/r, terrace, main kitchen, guest lavatory, bath, driver room and bath Upper level: master b/r, with bath, 2 b/r, bath, living room, maid room with bath	Deluxe finishing, ready for sale
Ahmadi	7	Fintas	92	32,000	347.8	3 b/r, reception, 2 bath, maid room	2 years, 1 room removed from floor distribution area, after electricity
	8	Mahboula	145	55,000	379.3	3 b/r, rec, hall, maid room, 4 bathrooms	Deluxe finishing
	9	Manqaf	105	35,000	333.3	3 b/r, rec, 2 bath, maid room with bath	5 years, good condition
	10	Mahboula	74	28,000	378.3	2 b/r, rece, 2 bath	2 years, good condition
Farwaniya	11	Farwaniya	71	32,000	450.7	2 b/r, rec, 2 bath, maid room and bath added after connecting electricity	Over 2 years, 82m after connecting electricity, behind Al-Mallam Complex



7- Occupancy Rates and Rent

The occupancy rate continued to soar in all types of real estate properties, registering 97-98%, and 100% in certain areas. Apartment rent averaged KD 120-180 for 1 b/r and reception, KD 135-200 for double b/r and reception, and KD 150-260 for 2 b/r, reception, 2 bathrooms, and maid room. Rent of three b/r apartments registered KD 190-380. Rates differ according to design and prime locations.

Rent per m2 (commercial ground floor) averaged KD 11-18, and up to KD 25 at prime locations. For offices, rent per m2 averaged KD 7-11 for the various areas of Kuwait, and up to KD 14 in the capital, even more according to location and type of finishing. A new type of office emerged, i.e. fully furnished offices, including technical and secretarial facilities, for temporary use, especially for foreign companies, which rent in intervals. Rent per meter may reach KD 12-14, or even more.

It should be noted that this report observes the general directions of trading in the real estate market in the State of Kuwait. However, KFH's Evaluation and Studies Section follows the approach of studying each property separately, covering its characteristics, rent, and return, so as to approve a special recommendation and fair valuation of each property.