



Effects of New Law Tackling the Monopoly of Residential Lands

Markaz Analysis

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Effects of New Law Tackling the Monopoly of Residential Lands - Markaz Analysis

This paper discusses the effects of the new law imposing fees on undeveloped residential land above a certain limit per person.

Introduction

Anti-Monopoly Law On Lands was approved by the Kuwaiti Parliament (Majlis Al Ummah) on 29 November 2023 and was published on 31 December 2023 in the official gazette (Kuwait Alyawm) to prevent feudal practices by traders controlling supply of residential real estate land and prices by owning large areas and leaving it unexploited for periods of time for the purpose of selling it when its value increases in light of the lack / scarcity of vacant land allocated for residential purposes.

The law imposes an annual fee of KD10 per square meter of land above a limit per person of 1,500 square meters of vacant residential land. The fee increased by KD 30 per square meter every year until it reaches KD100 per square meter per annum.

Illustration of annual fees on vacant lands exceeding 1,500 m² per person:

Annual Fee	Year 1	Year 2	Year 3	Year 4 and beyond
	KD10 /m ²	KD40 /m ²	KD70 /m ²	KD100 /m ²

The new law explained:

Fee Application:

- Unbuilt private housing lands above a max limit of 1,500 sqm owned by one person, whether it consists of one or many plots or the plots are in one location or in multiple locations.
- **Start date:** January 2026.
- The fee will also be imposed in case of any transfer of ownership disposal that would restore ownership to the same owner within two years from the date of transfer of ownership, with a backward effect since the date of initial transfer.
- The fee will also be imposed in the event of granting the land as “waqf” and then reversing the endowment at any time, with a backward effect since the date of grant.

When does the fee stop accruing:

- After construction is completed and the electricity supply is connected to the plot.
- A plot is considered to be “built” if the building area reaches 50% of the plot area.

Restrictions on government agencies to ensure the application of the law:

- Prohibiting the completion of ownership transfer procedures or the issuance of a power of attorney to dispose of any of the plots for which fees have not been paid.
- The obligation of government agencies to prohibit dealings with any person who has not paid their due fees.
- The landowner who is unable to pay the fees on their land has the option to sell all or part of the space plots subject to the fee by sale or public auction organized and supervised by the Ministry of Justice.

Restrictions on companies, banks and individual institutions to ensure the application of the law:

- Banks, private companies, and individual institutions (Sole Proprietorships) are prohibited from dealing with selling, buying, mortgaging, issuing a transfer of rights, issuing a power of attorney, or accepting an agency to dispose of third parties in plots or houses designated for private housing purposes in any location and within any project.
- The prohibition on dealing does not apply to owned real estate, transactions and contracts concluded prior to the promulgation of the law.
- Banks may, in accordance with the limits and regulatory requirements issued by the Central Bank of Kuwait, mortgage or own residential real estate for the purpose of financing their national customers, provided that the financing is for one residential property per client who does not own a property.

Exclusions:

- Private housing lands that have not been regulated, split or divided yet by the Kuwait Municipality, provided that an official request is submitted to the relevant authorities within two months of the publication of the law requesting exemption from the prescribed fee.
- The lands that the Kuwait Municipality regulated and did not exceed two years from the date of the decision.
- Private housing vouchers located in areas that have not been served by infrastructure and electricity services.
- Private housing plots designated for Public Authority for Housing Welfare (PAHW).

POA cancellation (Different law, but works in tandem with this law):

- The law provides, in one year, for the termination of sales through POAs transferring the POAs into a final sale and official title deed. This provision will force the registration of the private residential homes sold through a POA in the name of the beneficiary of the POA, disqualifying these individuals from applying for a house from the PAHW owning another home. It is estimated anecdotally that this will reduce the backlog of houses by 25,000 applications.

Current Status

As of Q4 2023, cumulative housing requests from 1985 to 2023 is 95,428 according to PAHW.

Scope: Vacant Land

Current supply of empty residential land in Kuwait.

Year	2018	2019	2020	2021	2022
Vacant Private Housing Lands (Plots)	43,580	42,341	42,305	42,058	41,189
Vacancy Ratio	21.00%	20.40%	20.40%	20.30%	19.90%
Vacant Private Housing Land Excluding Mutlaa Area (Plots)	15,291	14,052	14,016	13,769	12,900
Vacancy Ratio Excluding Mutlaa Area	8.53%	7.84%	7.83%	7.70%	7.22%

Source: Aayan report

Financial impact:

Depending on the location, the 100 KD/m² maximum fee represents between 3.8% to 17.6% of land value.

Area	Land value 2023	
Asima	KD/m²	100KD/m² per year as % of land value
Abdullah Al Salem	2,181	4.6%
Shuwaikh	2,611	3.8%
Nuzha	1,864	5.4%
Adailiya	1,768	5.7%
Shamiya	1,671	6.0%
Hawally	KD/m²	100KD/m² per year as % of land value
Shaab	1,479	6.8%
Jabriya	970	10.3%
Salwa	957	10.5%
Rumaithiya	980	10.2%
Farwaniya	KD/m²	100KD/m² per year as % of land value
Farwaniya	770	12.99%
Khaitan	770	12.99%
Rabia	705	14.18%
Ishbelia	708	1.41%
Mubarak Al Kabeer	KD/m²	100KD/m² per year as % of land value
Massayel	1,090	9.17%
Sabah Al Salem	860	11.63%
Finaitees	1,040	9.62%
Adan	840	11.90%
Ahmadi	KD/m²	100KD/m² per year as % of land value
Fintas	568	17.62%
Egaila	953	10.49%
Fahad Al Ahmed	747	13.39%
Mangaf	872	11.47%

Source: KFH report, Markaz analysis

The long-term land inflation rate on average is between 4.2%-8.29%. This is mainly due to the limited supply of residential land in Kuwait and the chronic backlog of individuals waiting to receive residential land.

Historical land value KD/m ²	2008	2013	2018	2023	
Asima	KD/m²	KD/m²	KD/m²	KD/m²	Long term inflation per annum
Abdullah Al Salem	1093	1247	1418	2181	4.7%
Shuwaikh	1150	1542	1550	2611	5.6%
Nuzha	819	1110	994	1864	5.6%
Adailiya	817	1081	1011	1768	5.3%
Shamiya	900	1081	1072	1671	4.2%
Hawally	KD/m²	KD/m²	KD/m²	KD/m²	Long term inflation per annum
Shaab	613	1037	874	1479	6.1%
Jabriya	403	953	740	970	6.0%
Salwa	353	728	675	957	6.9%
Rumaithiya	458	894	677	980	5.2%
Farwaniya	KD/m²	KD/m²	KD/m²	KD/m²	Long term inflation per annum
Farwaniya	350	650	560	770	5.40%
Rabia	300	630	540	705	5.86%
Ishbelia	327	717	668	1080	8.29%
Ahmadi	KD/m²	KD/m²	KD/m²	KD/m²	Long term inflation per annum
Fintas	250	488	405	568	5.62%
Egaila	356	718	590	953	6.78%

Source: Data collected from multiple KFH reports, Markaz analysis

Market reaction to the law

The law covered legal work around the available means to avoid paying the fee:

- Donating lands to a new person, the sons and daughters of the landowner.
- Owning land through an SPV: SPVs are no longer allowed to own private land. If the land is owned by the SPV before the issuance of this law, rendering it exempt for the prohibition, the SPV can offload any area over 1500m² to avoid paying these fees.

If these two options are not available, the landowner that own vacant residential land in excess of the maximum allowed area per person of 1,500m² are left with three options:

First option is to sell the excess land that they own and realize the land appreciation before paying the fee.

Second option is holding the land, which will lead to the landowner paying the fee stipulated by the law. In this case, the owner would still benefit of the land price inflation against paying the fee. This assumes inflation of land prices will remain at current elevated levels, higher than the normal long-term inflation of 2.5%, assuming that supply will remain below demand. The below table compares the historical land price inflation since 2008 to the maximum stipulated annual fee:

Area	Land value 2023	Historical long-term inflation per annum	Maximum fee in terms of 2023 land value	Difference
Asima				
	KD/m²			
Abdullah Al Salem	2181	4.71%	4.58%	0.13%
Shuwaikh	2611	5.62%	3.83%	1.79%
Nuzha	1864	5.63%	5.37%	0.27%
Adailiya	1768	5.29%	5.66%	-0.37%
Shamiya	1671	4.21%	5.99%	-1.77%
Hawally				
	KD/m²			
Shaab	1479	6.05%	6.76%	-0.70%
Jabriya	970	6.03%	10.31%	-4.28%
Salwa	957	6.87%	10.45%	-3.59%
Rumaithiya	980	5.20%	10.20%	-5.01%
Farwaniya				
	KD/m²			
Farwaniya	770	5.40%	12.99%	-7.59%
Rabia	705	5.86%	14.18%	-8.32%
Ishbelia	1080	8.29%	9.26%	-0.97%
Ahmadi				
	KD/m²			
Fintas	568	5.62%	17.62%	-12.00%
Egaila	953	6.78%	10.49%	-3.71%

Source: Data collected from multiple KFH reports, Markaz analysis

The fee imposed exceeds expected long-term inflation for most areas except for prime locations such as Abdullah Al Salem, Shuwaikh, and Nuzha where the net benefit from holding the land becomes slim. rendering this option not viable for most locations.

Third option is developing a minimum area in order to avoid paying the fee:

- The new law states that for a plot to be considered “built”, the building must constitute 50% of the land area.
- **Solution:** Constructing a basic building covering 50% of the area with cost-effective finishing such as sigma façades and low-grade ceramic flooring. This house can be rented for income.
- **Cost:** The cost of building such a temporary facility would be around 100 to 170 KD/m².
- **Timeline:** the time to complete the building and connect it to the utilities is expected to be 2 years, which fits well with the grace period for the application of the fee.

Excess Plot Area (m ²)	1 st Year Fee KWD 10 KWD/m ²	2 nd Year Fee KWD 30 KWD/m ²	3 rd Year Fee KWD 70 KWD/m ²	4 th Year + Fee KWD per annum 100 KWD/m ² /annum	One time Cost of Building KWD 170 KWD/m ²
400	4,000	12,000	28,000	40,000	34,000
600	6,000	18,000	42,000	60,000	51,000
800	8,000	24,000	56,000	80,000	68,000
1,000	10,000	30,000	70,000	100,000	85,000

Source: Markaz analysis

Building a temporary facility on the land, with or without renting it, seems to be economically feasible, and could be the preferred solution for landowners, thus avoiding selling the land especially in prime areas where land is scarce.

Using the cheapest land as an example, Fintas, it would take roughly two years and a half to recuperate the cost of construction by avoiding paying the fees. In this example, it is assumed that there is a 5.62% annual increase in land price in line with historical inflation.

Fintas (400m ²)	Year 0 2023	Year 1 2024 (Estimate)	Year 2 2025 (Estimate)	Year 3 2026 (Estimate)
Land Value (KWD)	227,000	239,751	253,219	267,443
Value Appreciation at 5.62% (KWD)	0	12,751	13,468	14,4224
Total Appreciation (KWD)				40,443
Building Cost				-34,000
Difference (KWD)				6,443

Conclusion

Considering that the fee exceeds land price inflation in most areas, we expect most owners will mitigate their losses by developing the minimum area or granting the land to their sons and daughters rather than selling the land, especially in prime areas. Therefore, we do not expect supply or land prices to be affected greatly by the new law, especially in established areas.

There is a suggestion that there might be a follow-on to the law that might impose a fee on second homes, in this case the option of building a minimum FAR at a reduced cost might not shield the owner anymore.

The main solution to the housing problem remains to either (1) increase supply of land or (2) direct demand to other housing solutions such making apartments as an alternative through a modern common ownership law like mature markets and like other GCC countries such as UAE and Bahrain, which would encourage the development of the quality apartments for sale.

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