

INDEPENDENT RESEARCH REPORT

إسكان الكويتيين

قراءة في النموذج القائم وتبعاته على القدرة على تحمل تكلفة السكن
وجودة الحياة

Housing Kuwaitis

An overview of the current model and its implications on
affordability and quality of life

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This report examines the housing challenges that face Kuwaiti society and the government today. It aims to shift the local narrative on housing from one focused on state provision of land for housing to a more holistic view of the effect of the current model on the economy, built environment and people's lives. It is conducted by local researchers and practitioners with relevant knowledge of Kuwait's history, governance structure, and political context, as well as an understanding of the diversity of social and economic needs and backgrounds of the local population. It builds on previous research and data-sets available on housing, demographics, and people's preferences and engages both the public and private sectors in the analysis to provide an overview and insight into the housing issue in Kuwait.

The current discourse on housing for Kuwaitis is constrained by the prevailing narrative that the government is solely responsible for housing provision, which is defined by a particular plot size and typology and offered to citizens at nominal prices and in a timely manner. The government's failure to meet its housing provision responsibility can be measured through the number of applications on the waitlist at the Public Authority for Housing Welfare (PAHW), as well as the grossly unaffordable land prices on the market.

To assist in reframing the narrative on housing for Kuwaiti families, this report provides an overview of local urban planning and governance, urban character, housing supply and demand, and policy implications through the lens of housing affordability and quality of life. A summary of the findings is outlined below.

** The authors recognize that the majority of the population of Kuwait is non-Kuwaiti; however, for the purposes of this report the focus has been on housing for Kuwaiti families rather than on the entire population.*

QUALITY OF LIFE

- Kuwait today ranks low on multiple city livability indices which reflects not only the poor quality of life of its inhabitants, but also presents a challenge for city competitiveness in attracting global businesses, talent, and tourism.
- The villa typology, a product of the Kuwaiti urban landscape, has been the vehicle for raising the quality of life of its inhabitants by introducing sanitation, air conditioning, and access to electricity. Today, the villa, coupled with car-centric development, are a cause of urban sprawl and the subsequent negative effects of traffic congestion and limited daily physical activity.
- A focus on developing land for housing has ignored the quality of life of citizens at the neighborhood level, with poor quality public space and amenities and limited access to green space and walkable streets.

HOUSING AFFORDABILITY

- The housing problem for Kuwaitis is generally defined as being one of long waiting times at PAHW and the unaffordability of land on the private market. However, by looking at the type and location of the available housing stock, the problem can in fact be redefined as a mismatch between supply and demand, where the affordable housing available is not desirable.
- The housing being offered by PAHW today is both undesirable due to its location away from work and social life, and unattainable due to lack of financing both from the Kuwait Credit Bank (KCB) and commercial banks.
- The housing being offered on

the market is either unaffordable (private housing) to the median-wage household or undesirable (investment housing) due to location and housing typology. While single-family houses are out of reach for most Kuwaiti households, purchasing a condominium is affordable with no down payment, even for the median-wage household given the available financing.

URBAN GOVERNANCE AND INSTITUTIONS

- The central government is the main actor in planning, development, and service provision through its various institutions. Although the structure for local governance exists at various levels, there is no clear jurisdiction to effectively plan and manage at the city and sub-city level, as well as engage the local community.
- There are various contradictions between laws, regulations, plans and policies both at the inter and intra-institutional levels, and these contradictions exist both in the documents themselves and in their implementation.
- The challenges hindering effective and efficient urban governance include: limited availability and access to data; the lack of a clear urban and housing policy; minimal focus on sustainability; lack of clear guidelines to improve the quality of architecture and urban design; failure to monitor the correct implementation of the Third Kuwait Master Plan Review 2005; disempowered local governance and poor stakeholder engagement; and difficulties accessing land.

URBAN CHARACTER

- The spatial character of the Kuwaiti urban landscape is atypical when compared to common trends in monocentric cities around the world, where distance to the central business district (CBD) determines densities, heights, prices, and dwelling size. The spatial character of Kuwait is a result of specific car-centric planning policies driven by the villa as the main typology for Kuwaiti housing, which has caused urban sprawl and leapfrog development.
- In Kuwait, there are two main housing typologies: the single-family villa and the apartment building. These exist in two distinct areas: private (lower density) and investment (higher density) housing areas and are occupied by Kuwaitis and non-Kuwaitis respectively. Even though Kuwaitis make up about a third of the population, private housing areas occupy 78% of the Kuwait Metropolitan Area (KMA).
- The apartments-in-villas is a third informal housing type that has become ubiquitous over the past 15 years, characterized by the internal subdivision of the villa. In 2013, 72% of Kuwaiti households lived in private housing in villas, 20% in apartments-in-villas and only 8% lived in apartments in investment housing. The number of Kuwaiti households living in apartments-in-villas is likely to have increased since then.
- Pressure to provide housing, whether formal or informal, has in turn led to the neglect of other important aspects of urban development such as good quality transport options, walkability, access to green space and quality public space, putting Kuwait at the lower end of global city and quality of life ranking indices.

HOUSING DEMAND

- The right to housing, rooted in the social contract that sees land and housing in Kuwait as one of the primary means of oil wealth distribution, is the main driver for indiscriminate provision of land plots and housing units at nominal cost. It has also created a housing demand that likely distorts households' incentives to buy properties from the private market, even if they were affordable.
- As of 2020 there were over 91,500 applicants on the PAHW waitlist, which represents over a third of all Kuwaiti households. More than 40,000 applicants have been on the waitlist for more than a decade. These applicants have priority over new applicants, who may in fact have a more pressing need for housing.
- To better understand the current preferences of contemporary Kuwaiti families, a nation-wide household survey is needed. Similarly, detailed real estate transaction data can estimate demand. No such survey or data exist in Kuwait. Previous studies using small-scale qualitative methods, such as interviews and online questionnaires, have shown that Kuwaiti families prefer to live in private housing areas, in villas that they own. They also prefer to live close to family and view their homes as income-generating vehicles and financial investments for the future.

HOUSING SUPPLY

- Historically, the state has been - and continues to be - the main supplier of housing in Kuwait. Since 1956, 155,000 housing units have been distributed by the state as a combination of mostly land and villas. The 91,500 pending applications at PAHW represents a demand equivalent to 59% of the total housing units supplied since the

inception of the housing program in Kuwait.

- The allocation of housing by PAHW is not a direct reflection of housing supply since it is a paper exercise that simply removes the application from the waiting list. It can take years for citizens to have access to the house and/or land to build on and move into, as PAHW has not been able to execute projects on time.
- The government does not allocate land in private housing zones to developers and they are prohibited by law from owning and developing private housing zones. This severely restricts the supply of single-family houses on the market and results in a dysfunctional housing sector where neither the government nor the private sector are able - or allowed - to address housing shortages.

HOUSING MARKET AND FINANCING

- Land and house sales represent the largest share of housing market activity compared to condominiums. Analysis of land and house transactions in Kuwait reveals that much of the housing price lies in the price of land, at one point reaching 94% of the housing price in South Surra when land sales were compared with house sales per square meter.
- Housing finance is significantly restricted in Kuwait and is primarily available through the state-owned KCB, which provides interest-free loans of up to KD70,000 to finance the purchase of a house or apartment, the construction of a house or the expansion or renovation of an existing house.
- There is no standard mortgage option available in the private capital market due to a law barring commercial banks from using private residential properties as collateral. There is, however, an installment (housing) loan offered by commercial banks with a KD70,000 cap for 15 years which does not require collateral.

POLICY IMPLICATIONS

- Housing policy in Kuwait reflects society's aspirations to distribute oil wealth, promote home ownership and enhance the living standards of residents. While many of the housing policies individually seem well intentioned, it is often their short term, ad-hoc nature as well as their combined effect that ultimately produces unintended consequences that undermine housing affordability and quality of life.
- Enhancing quality of life has, over time, become synonymous with the large detached single-family villa. However, there is often an implicit tension between the interests of private households and those of the neighborhood or society at large. Driven by the motives of social status and wealth creation, the villa model has overtaken the quality-of-life objective.
- Housing affordability and quality of life have been undermined by the combined (and unintended) effect of a number of factors: the restricted supply of housing by PAHW and the private sector; limited access to financing; housing cost policies through subsidies and rent control; land-use policies including zoning and housing tenure; and the impact of the Building Code on the ground.

الملخص التنفيذي

يتفحص هذا التقرير التحديات الحالية التي تواجه المجتمع الكويتي وحكومته في قطاع الإسكان، ويهدف لتحويل الحوار المحلي بشأن الإسكان من حوار يقتصر على تزويد الدولة للأراضي لأغراض الإسكان إلى حوار أكثر شمولاً حول أثر نموذج الإسكان الحالي على الاقتصاد والبيئة العمرانية وحياة الناس. تولى إعداد هذا التقرير باحثون ومختصون محليون لديهم معرفة بتاريخ الكويت وهيكل حوكمتها وسياقها السياسي فضلاً عن فهمهم لتنوع خلفيات السكان وحاجاتهم الاجتماعية والاقتصادية. وتم إعداد التقرير على أساس بحوث سابقة وقواعد بيانات بشأن الإسكان والخصائص السكانية وتفضيلات السكان، وقد شمل القطاعين العام والخاص في التحليل بهدف تقديم نظرة شاملة تساعد في فهم مشكلة الإسكان في الكويت

يقتصر الحوار الحالي بشأن الإسكان في الكويت على الشعور بأن الحكومة هي المسؤول الوحيد عن توفير السكن - المقيّد أيضاً بمساحات وأنواع معينة - للمواطنين بأسعار رمزية ودون تأخير، في حين يُقاس إخفاق الحكومة في أداء مسؤوليتها في توفير السكن بعدد الطلبات في قائمة الانتظار لدى المؤسسة العامة للرعاية السكنية، وارتفاع أسعار الأرض الكبير في السوق

لذلك، ومن أجل إعادة صياغة الحوار بشأن إسكان الأسر الكويتية، يستعرض هذا التقرير نظرة عامة على التخطيط والإدارة العمرانية على المستوى المحلي، والطابع العمراني، والطلب والعرض على السكن، وتبعات سياسات الإسكان على القدرة على تحمل تكلفة السكن وجودة حياة السكان. فيما يلي ملخص للنتائج التي توصل إليها التقرير، بدءاً من الخطوط العريضة لوضع السكن الحالي من حيث جودة حياة السكان والقدرة على تحمل تكلفة السكن

يدرك المؤلفون أن معظم سكان الكويت غير كويتيين، لكن لأغراض هذا التقرير، كان التركيز منصباً على سكن الأسر الكويتية وليس جميع السكان

جودة الحياة

تحتل الكويت اليوم مراتب متدنية في عدة مؤشرات لقابلية العيش في المدن، وذلك لا يعكس فحسب تدني جودة حياة سكان الكويت، بل يوضح أيضًا التحديات التي تواجه المدينة في التنافس على جذب الاستثمارات العالمية والمواهب والسياح

كان نمط الفيلا - وهو أحد أهم العوامل التي شكلت المشهد العمراني الكويتي - وسيلة لرفع جودة حياة السكان من خلال تقديم الصرف الصحي وتكييف الهواء والكهرباء. لكن اليوم، أصبح نمط الفيلا - مصحوبًا بالتطوير العمراني المتمركز حول استخدام السيارات كوسيلة أساسية للنقل - سببًا للزحف العمراني وأثاره السلبية على الاختناقات المرورية ومحدودية النشاط البدني

لقد تجاهلت عملية تطوير الأراضي للأغراض السكنية جودة حياة المواطنين على مستوى الأحياء السكنية؛ حيث عانت الأحياء السكنية من تدني جودة المساحات العامة والمرافق وشح المساحات الخضراء وقلة الشوارع القابلة للمشاة فيها

القدرة على تحمل تكلفة السكن

عادة ما تتمثل مشكلة سكن الكويتيين ضمن الحوار المحلي في فترات الانتظار الطويلة لطلبات السكن لدى المؤسسة العامة للرعاية السكنية وعدم القدرة على تحمل تكلفة الأراضي في السوق الخاص. لكن بالنظر إلى أنواع ومواقع الوحدات السكنية المتوفرة، نستطيع إعادة تعريف المشكلة على أنها مشكلة سوء تطابق بين العرض والطلب، لأن السكن المتوفر الذي يستطيع السكان تحمل تكلفته غير مرغوب

قد يكون ما تعرضه المؤسسة العامة للرعاية السكنية اليوم غير مرغوب بسبب بعده عن أماكن العمل والحياة الاجتماعية فضلاً عن عدم القدرة على تحمل تكاليف البناء بسبب نقص التمويل من بنك الائتمان الكويتي وغيره من البنوك التجارية

السكن المعروض في السوق إما أنه بأسعار لا يمكن للأسر متوسطة الدخل تحملها (السكن الخاص) أو أنه غير مرغوب بسبب موقعه ونوعه (السكن الاستثماري). فالفلل المخصصة للأسرة واحدة غير متاحة لمعظم الأسر الكويتية، وفي المقابل، الأسر متوسطة الدخل تستطيع شراء الشقق في العمارات السكنية دون دفع دفعة مقدمة في ظل التمويل المتاح حاليًا

الإدارة الحضرية ومؤسساتها الطابع العمراني

الطابع المكاني للمشهد العمراني الكويتي غير اعتيادي مقارنة بالأنماط السائدة في المدن ذات المركز الواحد حول العالم حيث تحدد المسافة عن مركز المدينة التجاري الكثافة السكانية وأسعار الوحدات السكنية ومساحاتها. وقد نتجت الخاصية المكانية للكويت عن سياسات التخطيط العمراني القائمة على أساس استخدام السيارات كوسيلة أساسية للنقل والمدفوعة بكون النمط الأساسي للوحدات السكنية هو نمط الفيلا، وقد أدى ذلك إلى زحف عمراني شديد وتطوير عمراني يتسم بتجاوز قسائم خالية كثيرة

ثمة شكلان رئيسيان للسكن في الكويت: الفيلا المخصصة للأسرة واحدة والعمارات السكنية، وهي موجودة على التوالي في نوعين من المناطق المنفصلين هما مناطق السكن الخاص المخصصة للكويتيين (ذات الكثافة السكانية المتدنية)، ومناطق السكن الاستثماري المخصصة لغير الكويتيين (ذات الكثافة الأعلى). رغم أن الكويتيين يشكلون نحو ثلث السكان، إلا أن مناطق السكن الخاص تحتل ٧٨٪ من منطقة التجمع الحضري في الكويت

ثمة شكل ثالث غير رسمي للإسكان في الكويت وهو الشقق داخل الفلل، وقد انتشر هذا النمط خلال السنوات الخمس عشرة الماضية التي شهدت التقسيم الداخلي للفلل. في عام ٢٠١٣، سكن ٧٢٪ من الأسر الكويتية في فلل في مناطق السكن الخاص، في حين سكن ٢٠٪ منهم في الشقق داخل الفلل، و٨٪ فقط في شقق في المناطق الاستثمارية. ومن المرجح أن عدد الأسر الكويتية التي تعيش في شقق داخل فلل قد ازداد منذ ذلك الحين

أدت الضغوط على توفير السكن - سواء الرسمي أم غير الرسمي - إلى التفاوض عن نواح أخرى مهمة للتطوير الحضري مثل خيارات النقل عالية الجودة، وإمكانية المشي في الشوارع، والوصول إلى المساحات الخضراء، والمساحات العامة عالية الجودة، وقد أدى ذلك إلى تراجع مرتبة الكويت في المؤشرات العالمية للمدن وجودة الحياة

الحكومة المركزية هي الطرف الأساسي الفاعل في التخطيط والتطوير وتقديم الخدمات من خلال مؤسساتها المختلفة. مع أن هيكل الحكومة المحلي موجود على مستويات متعددة، إلا أنه لا يحدد سلطات واضحة تتيح التخطيط والإدارة الفعالين على مستوى المدن وما دون مستوى المدن، كما أنه لا يتيح إشراك المجتمع المحلي

لوحظت تناقضات عديدة بين القوانين والأنظمة والخطط والسياسات داخل المؤسسات وفيما بينها، وعلى سبيل المثال بين المخطط الهيكلي وأنظمة البناء وهي مرصودة في نصوص هذه الوثائق وفي تطبيقها على حد سواء

من التحديات التي تعرقل الإدارة الحضرية بفعالية وكفاءة: شح البيانات وصعوبة الوصول إليها، وعدم وضوح سياسات الإسكان والتطوير الحضري، وعدم التركيز بشكل كافٍ على الاستدامة، وعدم توفر قواعد إرشادية واضحة لتحسين جودة التصميم المعماري والحضري، وعدم مراقبة التنفيذ السليم للمخطط الهيكلي، وعدم تمكين الإدارات المحلية، وضعف مشاركة أصحاب المصلحة، وصعوبة الحصول على الأراضي

الطلب على السكن

عرض السكن

كانت الدولة وما زالت المزود الرئيسي للسكن في البلاد. حيث وزعت الدولة 100 ألف وحدة سكنية منذ عام 1966، سواءً على شكل قسائم أم فلل. يوجد اليوم أكثر من 91 ألف طلب على قائمة الانتظار لدى المؤسسة العامة للرعاية السكنية؛ أي أنه ما زال على الدولة توزيع ما يعادل 09% من مجموع الوحدات السكنية التي وزعتها منذ إطلاق برنامج الإسكان في البلاد

توزيع السكن من قبل المؤسسة العامة للرعاية السكنية لا يعكس مباشرة عرض السكن في البلاد؛ فتوزيع السكن يؤدي إلى حذف الطلب من قائمة الانتظار، لكن المواطنين قد ينتظرون عدة سنوات للحصول على السكن و/ أو القسيمة لبناء السكن والانتقال إليه، بسبب عدم قدرة المؤسسة على تنفيذ مشاريعها في الوقت المخطط له

لا تخصص الحكومة أي قسائم في مناطق السكن الخاص للمطورين العقاريين من القطاع الخاص لأن القانون يحظر عليهم امتلاك وتطوير أراضٍ في هذه المناطق. وذلك يقيد بشدة عرض الفلل المخصصة لأسرة واحدة في السوق، ويؤدي إلى تعطل قطاع السكن؛ حيث لا الحكومة ولا القطاع الخاص قادران على معالجة النقص في السكن، أو لا يُسمح لهما بذلك

الحق في السكن - المتجذر في العقد الاجتماعي والذي يعدُّ الأرض والسكن وسائل أساسية لتوزيع الثروة النفطية - هو الدافع الرئيسي لتقديم الأراضي والوحدات السكنية دون تمييز وبأسعار رمزية. وقد حدد هذا الحق معياراً معيماً للطلب على السكن من المرجح أن يشوه حوافز الأسر لشراء العقار من السوق الخاص حتى وإن كانت تستطيع تحمل تكلفته

اعتباراً من عام 2020، يقبع أكثر من 91 ألف طلب في قائمة الانتظار لدى المؤسسة العامة للرعاية السكنية، أي ما يعادل ثلث الأسر الكويتية. وقد كان أكثر من 60 ألف طلب في قائمة الانتظار منذ أكثر من عشرة أعوام، وهؤلاء لهم الأولوية على مقدمي الطلبات الجدد الذين قد تكون حاجتهم للسكن أكثر إلحاحاً، لأن النظام قائم على منح الأولوية حسب تاريخ تقديم الطلب

لتحسين فهم التفضيلات الحالية للأسر الكويتية، يلزم إجراء مسح للأسر على مستوى الدولة. ويمكن أيضاً تقدير الطلب بناءً على بيانات التعاملات العقارية التفصيلية. لكن، لا يتوفر في الكويت مسح للأسر أو بيانات تفصيلية من هذا النوع. أظهرت دراسات سابقة قائمة على وسائل نوعية ضيقة النطاق - مثل إجراء المقابلات ونشر الاستبيانات عبر الإنترنت - أن الأسر الكويتية تفضل السكن في مناطق السكن الخاص وفضل يملكونها. وهم يفضلون أيضاً السكن بالقرب من عائلاتهم ويعتبرون أن المنزل وسيلة لكسب الدخل واستثمار مستقبلي

سوق الإسكان وتمويله

تمثل مبيعات الأراضي والفلل النسبة الأكبر من نشاط سوق الإسكان مقارنةً بمبيعات الشقق الخاصة. يشير تحليل لتعاملات الأراضي والإسكان في الكويت إلى أن جزءًا كبيرًا من سعر الوحدة السكنية يعود إلى سعر القسيمة، حيث وصل إلى 94٪ من السعر في جنوب السرة عند مقارنة سعر بيع المتر المربع الواحد من السكن بسعر بيع المتر المربع الواحد من القسائم

تمويل الإسكان محدود بشكل كبير في الكويت، وهو متاح بشكل رئيسي من خلال بنك الائتمان الكويتي الذي يقدم قروضًا دون فائدة تصل قيمتها إلى 70 ألف دينار كويتي لتمويل شراء الفلل أو الشقق، أو بناء الفلل، أو توسعة أو تجديد الفلل القائمة

لا يتوفر خيار الرهن العقاري في سوق رأس المال الخاص بسبب قانون يمنع البنوك التجارية من استخدام العقارات السكنية الخاصة كضمان للقروض. لكن تستطيع البنوك التجارية تقديم قروض تصل قيمتها إلى 70 ألف دينار كويتي وتسدد بالتقسيط خلال 10 عامًا دون ضمان

تبعات السياسات

يمكن فهم أهداف السياسات المتصلة بالإسكان على أنها تمثل تطلعات المجتمع؛ أولاً، باستخدام السكن كوسيلة لتوزيع الثروة النفطية، وثانيًا بتعزيز ملكية السكن، وأخيرًا بتحسين مستوى معيشة السكان. مع أن الكثير من سياسات الإسكان في الكويت تبدو ذات مقاصد جيدة بحد ذاتها، إلا أنها كثيرًا ما تؤدي إلى تبعات سلبية غير مقصودة تقوض القدرة على تحمل تكلفة السكن وجودة حياة السكان بسبب قصر نظر هذه السياسات أو نتيجة تفاعلها مع بعضها البعض أو بسبب طبيعتها الارتجالية

لقد أصبح تحسين جودة الحياة مع مرور الزمن مرادفًا للفلل الكبيرة المخصصة لأسرة واحدة. لكن كثيرًا ما ينطوي ذلك على تضارب بين مصالح الأسر الخاصة ومصالح الأحياء السكنية والمجتمع عمومًا، حيث طغى السعي للسكن في الفلل على هدف تحسين جودة حياة السكان بدافع كسب المكانة الاجتماعية وتوليد الثروة

لقد ساهم العرض المحدود من المؤسسة العامة للرعاية السكنية والقطاع الخاص، ونقص التمويل، وسياسات ضبط كلفة السكن من خلال الدعم الحكومي وضبط الإيجارات، وسياسات استخدام الأراضي بما في ذلك الآثار المترتبة على حيازة الإسكان، وآثار قوانين البناء على أرض الواقع - كل ذلك ساهم في عواقب غير مقصودة قوّضت القدرة على تحمل تكلفة السكن وجودة حياة السكان

ABBREVIATIONS AND ACRONYMS

4KMP	Fourth Kuwait Master Plan 2040
CBK	Central Bank of Kuwait
CIP	Common Interest Property
Co-op	Co-operative Society
CPI	Consumer Price Index
CSB	Central Statistical Bureau
FAR	Floor-to-Area Ratio
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
HPI	Housing Price Index
KCB	Kuwait Credit Bank
KOC	Kuwait Oil Company
KM	Kuwait Municipality
KMA	Kuwait Metropolitan Area
LTV	Loan-to-value
MOCI	Ministry of Commerce and Industry
MOF	Ministry of Finance
MOI	Ministry of Interior
MPW	Ministry of Public Works
MC	Municipal Council
PAAF	Public Authority for Agricultural Affairs and Fish Resources
PACI	Public Authority for Civil Information
PAHW	Public Authority for Housing Welfare
SCPD	Supreme Council for Planning and Development

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DEFINITIONS

Apartment	A housing unit that is part of a multi-unit building. It can be leased but not bought, sold or owned separate from the building
Common Interest Property	A property whose ownership is shared among multiple owners (commonly known in Arabic as musha'a)
Condominium	Apartment that can be sold, bought, and owned as a standalone unit separate from the building in which it is contained
Investment Housing	Describes buildings comprising multiple housing units (apartments, duplex villas, or studios) that can be leased or owned.
Loan-to-Value Ratio	The ratio of the housing loan amount to the value of the financed property
Price-to-Income Ratio	The ratio of the median purchase price of a housing unit to the median household annual income
Private Housing	Describes buildings, typified by the villa, located in low-density areas designated for single-family housing and which can only be utilized for private housing (as opposed to investment housing)
Private Housing Apartment	Apartment contained as a subdivision inside a private housing building
Single-Family House	A detached or semi-detached house located in private housing areas that accommodates a nuclear family as well as the extended family, and as per [redacted] is allowed to house 3 units within its structure

* Definitions are according to local policies and code

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CHAPTER

1

INTRODUCTION

This report examines issues related to housing for Kuwaiti families from the perspective of urban planning and governance, urban character, housing supply and demand, and policy implications in terms of housing affordability and quality of life. The housing problem was identified by the Kuwait National Assembly (henceforth, parliament) as the number one issue concerning citizens (KNA, 2013). Unlike other countries where the physical manifestation of the housing problem is much more obvious through slums and homelessness, the problem in Kuwait is multi-faceted and complicated, with a housing welfare system that promises housing provision for all citizens but fails to deliver on the ground.

Since the establishment of the modern Kuwaiti state, housing and land have been used as a means of oil wealth distribution to citizens. The single-family villa typology - a western concept introduced to replace the traditional multi-family courtyard house of pre-oil Kuwait - became both a symbol of wealth and

modernity. It greatly improved the quality of life of its inhabitants by introducing sanitation, air conditioning, and access to electricity that previously were scarcely available. The state continued to provide housing for citizens at nominal values and experimented over time with different methods of housing provision such as state-built houses, land plot and loan schemes, and income stratification. The villa, whether a physical structure built by the government or subsidized land provided and financed by it, remains today the main typology shaping housing welfare policy in Kuwait.

The current discourse on housing for Kuwaitis is constrained by the prevailing narrative that the government is solely responsible for housing provision, defined by a particular plot size and typology and offered to citizens at nominal prices and in a timely manner. The government's failure to meet its housing provision responsibility can be measured through the number of applications on the waitlist at PAHW, as well as the grossly unaffordable land prices on the market.

Today there are over 91,500 applications on the waitlist for housing at the Public Authority for Housing Welfare (PAHW) (PAHW, 2020a), reflecting a lack of desire for plots currently being offered by PAHW. It is also an underestimate of the actual number of households seeking homeownership. Approximately 30,000 households have been assigned plots; however, they do not yet have access to state financing or building permits. As prospective first-time homeowners they are choosing to wait rather than buy an apartment condominium - an affordable yet less desirable alternative on the market - for various reasons, including location or demographic composition. The more sought-after housing type - the villa - is beyond the reach of much of the population in terms of affordability. This supply and demand mismatch is not just a result of the social contract between citizen and state manifested in the villa typology precedent, but it is also due to a combination of regulatory restrictions on land-use planning, building codes, real estate development, and financing.

Policies in Kuwait have focused on the government as the sole provider of housing for Kuwaiti families. PAHW is the main body responsible for housing provision and the Kuwait Credit Bank (KCB) for housing finance. The housing issue is narrowly defined as one of access to large swathes of land and delivery of infrastructure, which has placed - and continues to place - a large burden on PAHW, as well as a liquidity challenge for KCB. Addressing housing supply issues is seen entirely in terms of access to land - mostly outside the Kuwait Metropolitan Area (KMA) - with little regard to housing density variations across the KMA. Pressure on the government to provide housing in this manner in the face of a rising application backlog at PAHW also produces neighborhoods and cities that prioritize the villa typology over sustainability and quality of life. This has undermined the role of the private sector as an important player in the housing market, both as a developer and financier that can be creative, flexible and reactive to changing needs and conditions in society.

A holistic approach to housing is, therefore, needed to understand this complicated and multifaceted problem, so that the narrative can shift from one focused solely on state housing provision to a wider view of the importance of housing on the economy, the environment and people's lives. Using both qualitative and quantitative methods of research and analysis, this report addresses the diversity in society today, whether in terms of family size, income, or background. It assesses the housing issue in Kuwait from the perspective of both affordability and quality of life, acknowledging that there is no one-size-fits-all solution. This report is written by local researchers and practitioners with a close understanding of Kuwait's history and economic, social, and political context. It aims to shed light on important aspects of the housing sector in Kuwait, acting as a reference for both local and international researchers as well as policymakers and consultants who are interested in this topic. The authors recognize that the majority of the population of Kuwait is non-Kuwaiti; however, for the purposes of this report the focus has been on housing for Kuwaiti families rather than on the entire population.

1.1 KUWAIT CONTEXT

1.1.1 POLITICAL CONTEXT

The State of Kuwait is a constitutional monarchy ruled by the Al-Sabah family since the 18th century. The current Head of State, His Highness Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, has been H.H. the Amir of Kuwait since September 2020. H.H. the Amir appoints the prime minister who in turn appoints his cabinet members.

Since 1981, Kuwait has been a member of the Gulf Cooperation Council (GCC) - a regional partnership established to promote cooperation among member countries in light of their shared political and cultural characteristics. Other members are Bahrain, Oman, Qatar, Saudi Arabia and the United Arab Emirates as shown in Figure 1.

Kuwait has established a National Assembly comprising 66 members: 50 are elected by popular vote, while the remaining 16 are cabinet ministers (including the Prime Minister) appointed by the H.H. Most parliamentary work is individualistic in nature as there are no organized political parties or a legislative majority. Legislative authority is vested in H.H. the Amir and the National Assembly, while executive power lies exclusively with

H.H. the Amir and the Council of Ministers. Such a system is considered advanced when compared to other countries in the region that are much less democratized. Kuwait's judicial system is independent, with justices appointed by H.H. the Amir. An overview of Kuwait's Executive, Legislative and Judicial branches is provided in Figure 2.

FIGURE 1 MAP OF KUWAIT AND ITS NEIGHBORS



FIGURE 2 OVERVIEW OF KUWAIT'S POLITICAL STRUCTURE

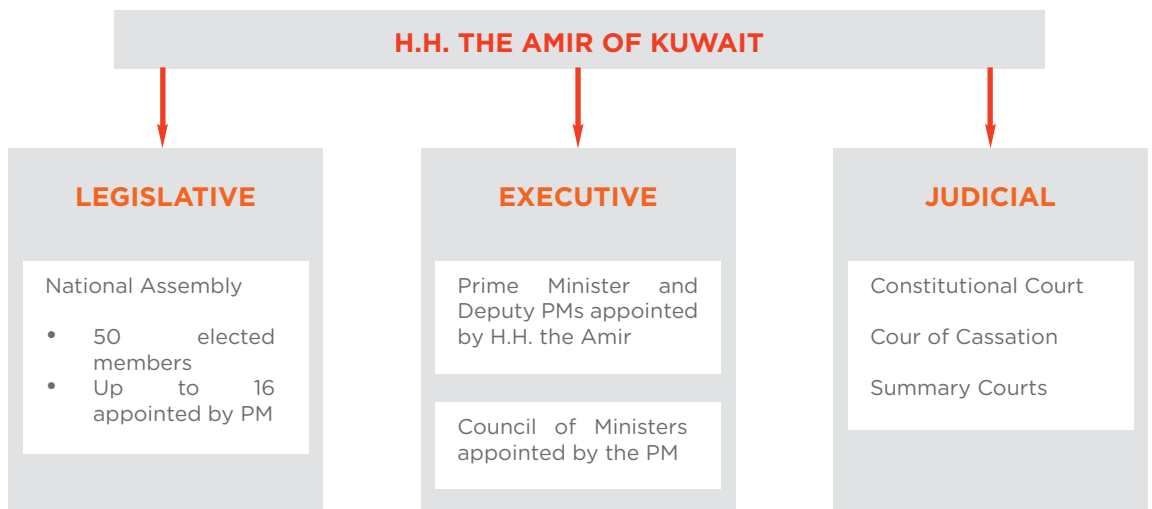
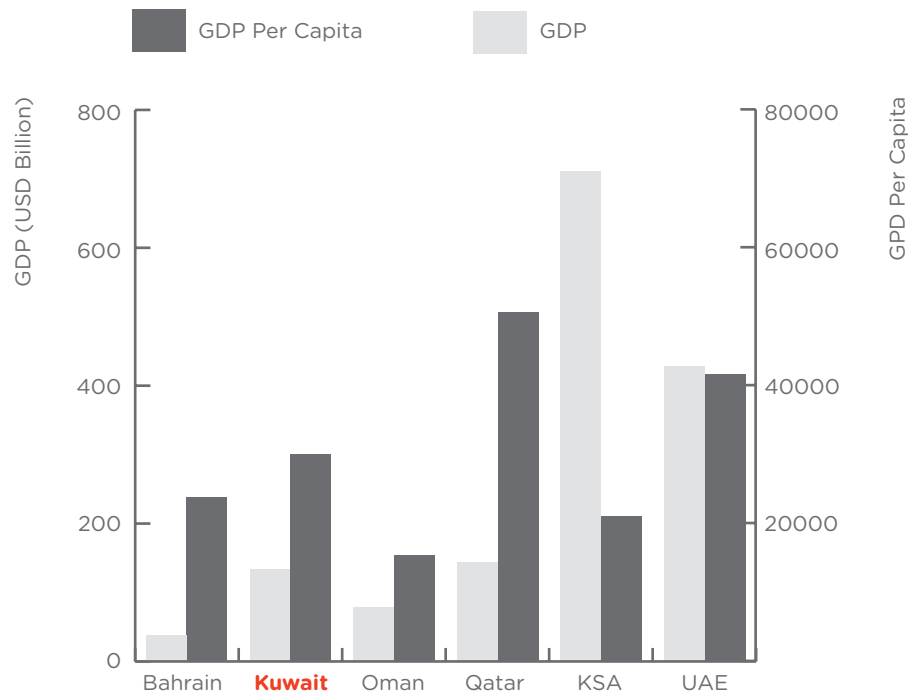


FIGURE 3 GDP, 2019 (CURRENT USD BILLION)

Data source: World Bank (2021)

1.1.2 SOCIO-ECONOMIC CONTEXT

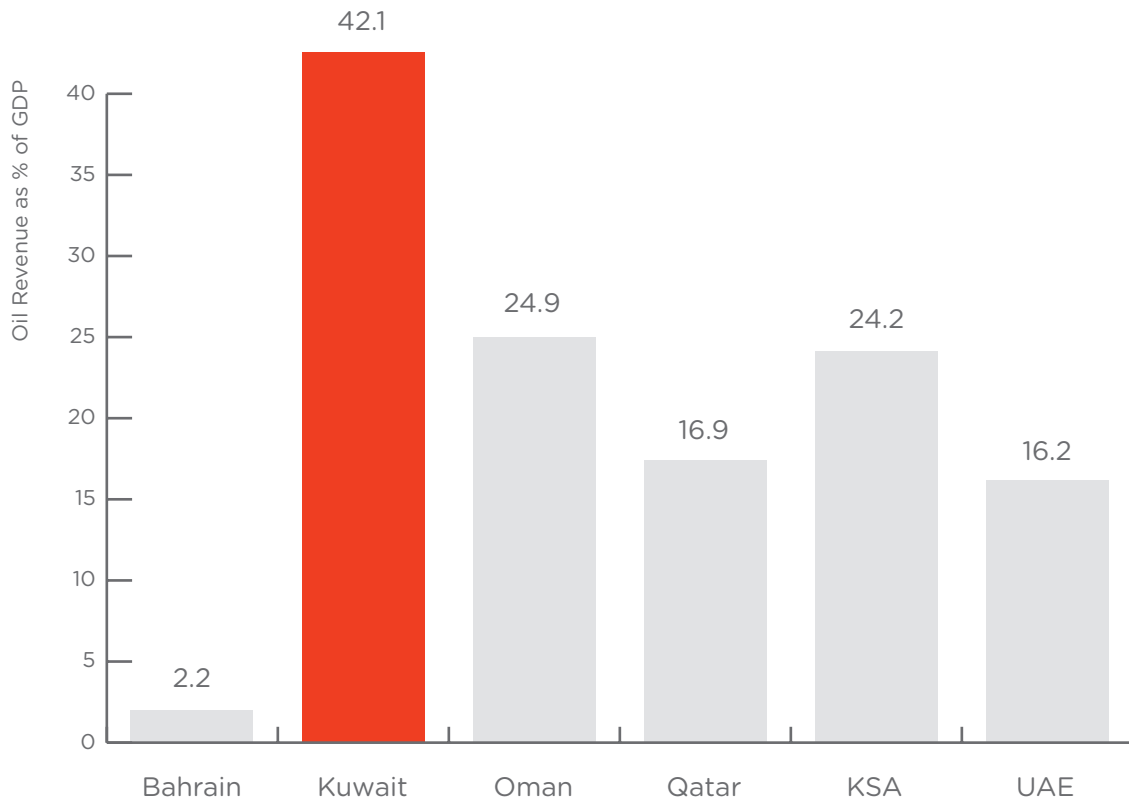
According to data from the World Bank (2021), Kuwait's economy, with a total gross domestic product (GDP) of \$135 billion in 2019, represents 8.2% of the total GDP of the GCC countries and ranks 4th amongst them in size, ahead of only Oman and Bahrain (see Figure 3). On a per capita basis, Kuwait ranks 3rd at \$32,000. In 2019, the economy grew at an annual rate of 0.4%, decelerating from 1.2% the previous year - a common trend across the GCC.¹

Kuwait has 6.5% of the world's proven oil reserves as of 2019 (OPEC, 2020) and oil rents represented 42.1% of its 2019 GDP (see Figure 4) - the highest among its GCC counterparts (World Bank, 2020). This oil

dependency is more pronounced when examining Kuwait's closing accounts in the fiscal year 2019/20, where oil revenues accounted for 89.3% of the country's total revenue. Furthermore, oil exports in 2019 accounted for 91% of total exports (CBK, 2020). This high level of dependency places Kuwait at the mercy of global oil price fluctuations.

According to statistics published by the Public Authority for Civil Information (PACI), Kuwait's total labor force stands at 3 million workers as of 2019. The overall labor force participation rate is 76.3%, but it is only 46.8% for Kuwaitis compared to 85.6% for non-Kuwaitis. In other words, non-Kuwaitis outnumber Kuwaitis by about six to one in the labor force. Even more striking is how Kuwaiti and non-Kuwaiti workers sort into sectors.

¹ The authors elected to cap most of the quantitative economic analyses throughout the report at the year 2019 in order to avoid confounding anomalies associated with the COVID-19 global pandemic that started in early 2020.

FIGURE 4 OIL DEPENDENCY IN THE GCC, 2018

Data source: World Bank (2021)

About 84.4% of the 409,000 active Kuwaiti workers are in the public sector, accounting for 74.2% of the sector's total workforce. In contrast, of the 2.5 million active non-Kuwaiti workers, 65.7% are in the private sector with 29.5% (745,000) of those employed in the domestic service sector (see Figure 5).

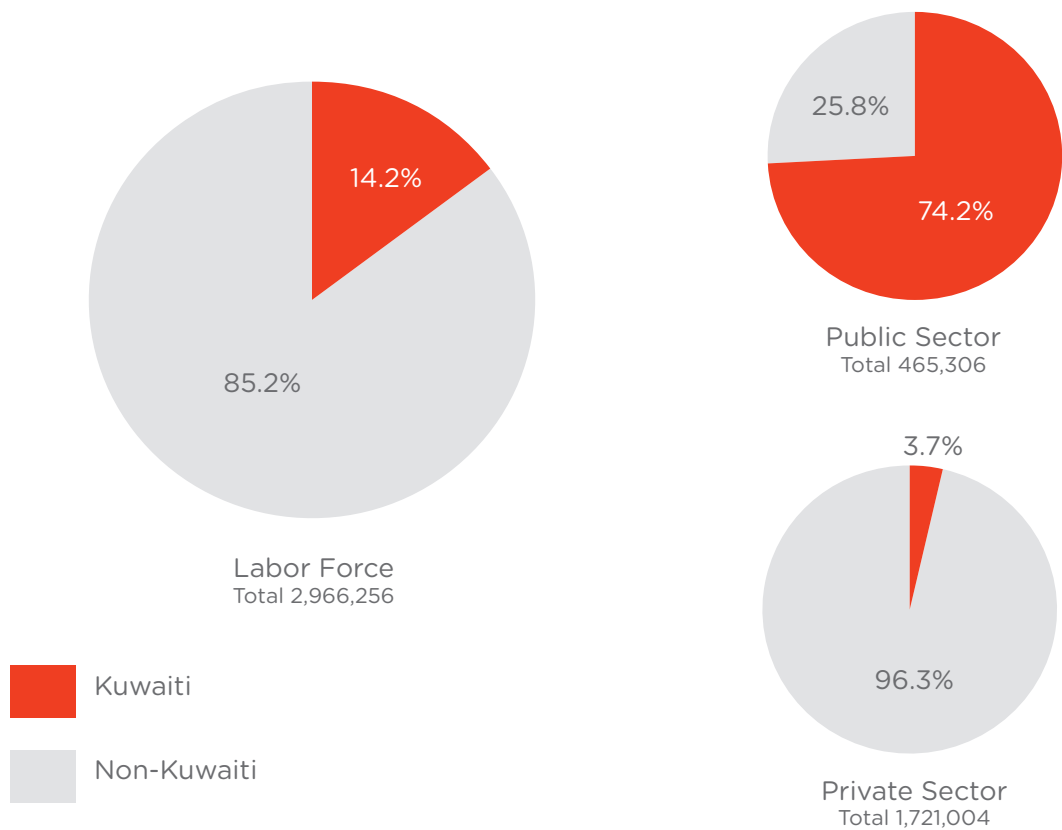
The overall unemployment rate has fluctuated between 1.6% and 2.9% in the past decade, standing at 2.2% at the end of 2019 (World Bank, 2020). The 2016/2017 Labor Force Survey provides the most recent figures broken down by citizenship status (CSB, 2020a). The overall rate was 2.2% in 2016; however, it was 6.4% for Kuwaitis,² which was primarily driven by youth (ages 15-24) unemployment at 26.6%.³

Based on data from the Central Statistical Bureau (CSB), the average monthly wage for Kuwaitis in 2019 was KD1,450 - about 4.7 times that of non-Kuwaitis, excluding domestic workers (CSB, 2020a). This gap is likely (but not entirely) due to educational differences, since the 2016/2017 Labor Force Survey shows college-educated Kuwaitis earning KD1,300 compared to KD600 for non-Kuwaitis. In the public sector, Kuwaitis earned an average of KD1,510 per month in 2019, which is 27% higher than Kuwaitis in the private sector.

These wage disparities, coupled with the concentration of Kuwaitis in the public sector, has put a strain on the state's public finances. In the 2019/2020 fiscal year, 57% of public expenditures went on paying salaries and their equivalents (MOF,

2 The unemployment rate may be understated, especially for Kuwaiti public sector employees, due to masked unemployment. A parliamentary study in 2017 reportedly estimated masked unemployment to be at 79% of the public sector's workforce (Al-Mutairi and Abdulsattar, 2017) while another report estimated it to be above 50% (Alshall Consulting, 2018).

3 Non-working students are definitionally excluded from labor force and unemployment measures.

FIGURE 5 LABOR FORCE (2019)

Data source: PACI (2020)

2020a) and 19% was spent on subsidies for energy, education, healthcare, and housing. These expenditures highlight the degree of welfare state provision by Kuwait to its population, and especially its citizens (for comparison, capital expenditures represented only 12%, while tax revenues were 3% of total revenues). The government has been running budget deficits since 2015 (MOF, 2020a), accumulating KD28.4 billion as of 2019. These deficits add to the national public debt, which stood at KD2.1 billion at the end of 2019, amounting to 5% of nominal GDP (CBK, 2020). The 2020/2021 closing account posted an additional deficit of KD10.8 billion due to the effects of the COVID-19 pandemic and the collapse of oil prices in early 2020.

What emerges from the preceding discussion are three structural imbalances that plague Kuwait's economy:

1. The economy is undiversified,

relying heavily on oil revenues.

2. The labor market is sectorally and demographically lopsided, with Kuwaiti workers concentrated in the public sector due to its attractive wages and benefits, while non-Kuwaiti workers dominate the private sector.

3. The country's public finances are strained, with about three quarters of the annual budget spent on public sector salaries and public subsidies.

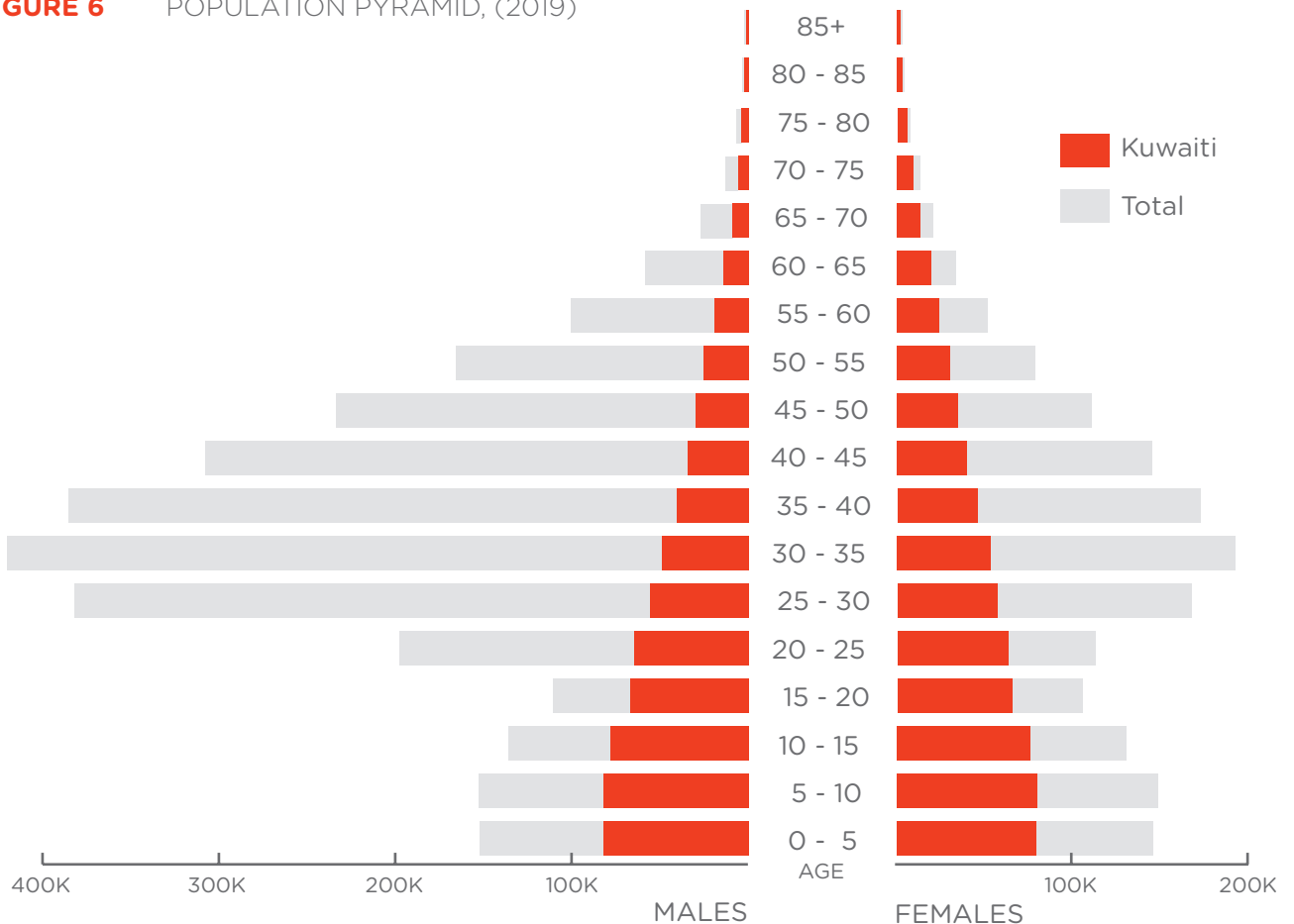
A fourth structural imbalance highlighted in the next section is the demographic imbalance of the population, with Kuwaitis a minority in their country and the non-Kuwaiti majority being a transient population segment with no permanent residency options. This presents various socioeconomic and policy challenges in terms of political representation, infrastructure investment, welfare programs, public service provision and - most relevant - urban governance.

1.1.3 DEMOGRAPHIC CONTEXT

According to PACI (2020b), the population of Kuwait was 4,776,000 in 2019, of which only 30% was Kuwaiti. Of the 70% non-Kuwaiti majority, 745,000 are employed as domestic workers residing within the home of their employer. Half of all Kuwaitis are under 23 years old, whereas half of non-Kuwaitis are under 34 years old. The average size of a Kuwaiti family (excluding domestic workers) has decreased steadily from 8 in 1985 to 4.5 in 2019 (MOP, 1990). The birth rate for Kuwaitis has decreased steadily from 40.5 births per 1000 people in 1985 to 23.3 births in 2019. In that same

time the number of Kuwaiti households has increased from 85,000 to 312,000. A few marginal policy measures have been taken recently to correct the demographic imbalance, as the government attempts to reduce the percentage of non-Kuwaitis in the population. The 2019 population pyramid is shown in Figure 6.

FIGURE 6 POPULATION PYRAMID, (2019)



Data source: PACI (2019)

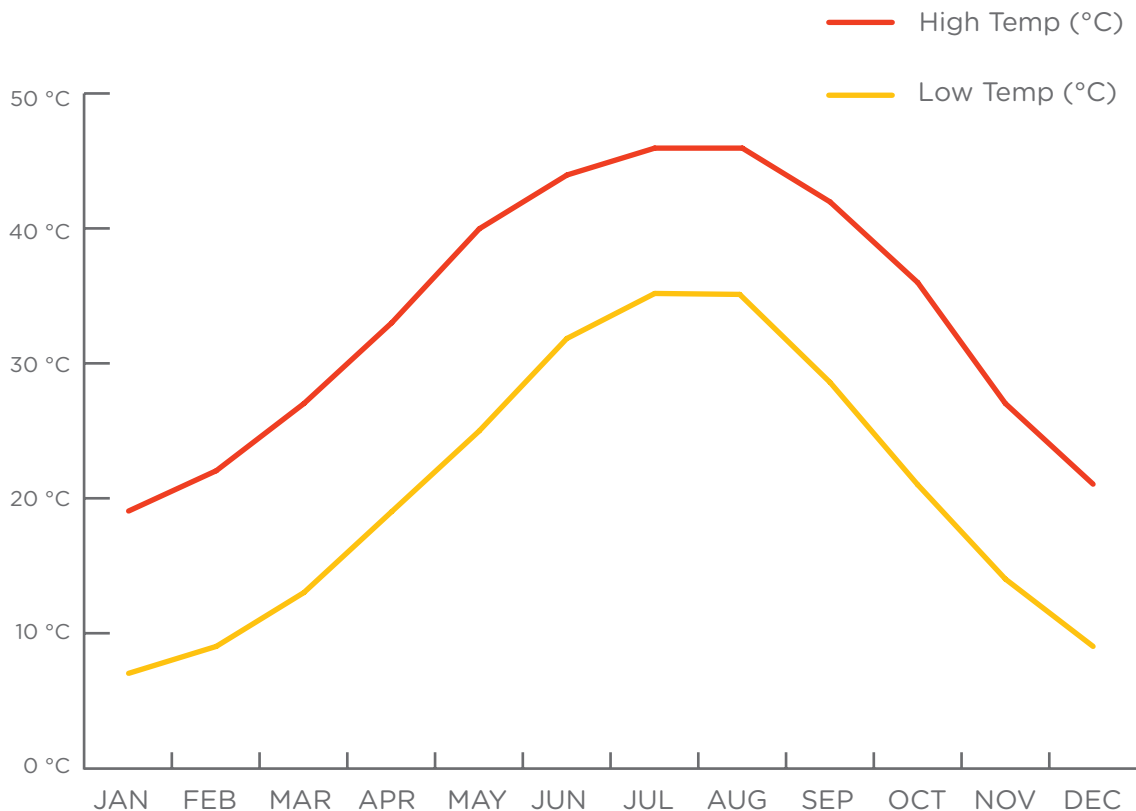
1.1.4 GEOGRAPHY AND CLIMATE

Kuwait is an arid country that borders the Arabian Gulf, Iraq and Saudi Arabia, with a total land area of 17,818 km². It is one of the hottest and driest countries in the world, with summer high temperatures approaching 50° Celsius, as shown in Figure 7. Summers are dry with periodic dust storms. Winters are colder than other GCC countries, with temperatures dropping below 10° Celsius due to strong, cold north-westerly winds. Annual rainfall averages around 90mm per year.

KMA, an urbanized, coastal area roughly 850 km² in size. The country is divided into six governorates: Al-Asima (Capital), Ahmadi, Jahra, Hawalli, Farwaniya, and Mubarak Al-Kabeer. Large areas of desert are contained within the Ahmadi and Jahra governorates as shown in Figure 8.

Almost all the population lives within the

FIGURE 7 AVERAGE MONTHLY TEMPERATURES (OCT. 2019--OCT. 2020)



Data source: Kuwait Meteorological Center 2019)
<https://www.met.gov.kw/Climate/>

FIGURE 8 METROPOLITAN AREA AND THE 6 GOVERNORATES

1.2 KUWAIT HOUSING AND URBAN DEVELOPMENT

1.2.1 URBAN CONTEXT AND QUALITY OF LIFE

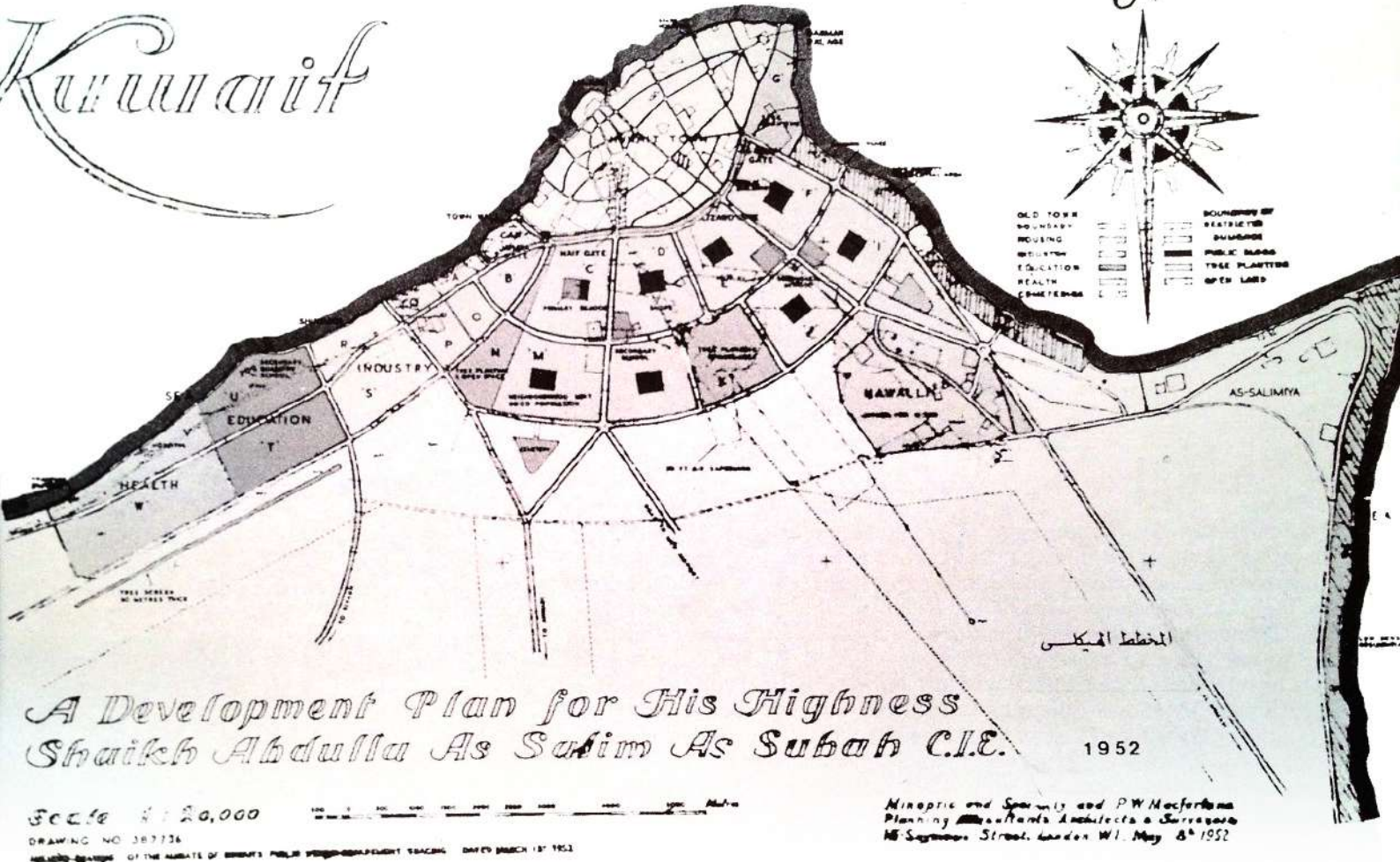
According to the U.N., 100% of the Kuwaiti population is currently urbanized (2019). Most of this population lives in the KMA, creating an average density of 4,904 persons per km² (Rode et al., 2017) (Figure 8). Formal urban planning started in the early 1950's, with the first master plan completed in 1952 (Figure 9). The plan zoned separate residential and employment areas, linking them with a network of ring and radial roads with Kuwait City as the commercial center. This contrasted with the pre-oil town which was based on organic growth and where people lived and worked in close proximity.

With oil wealth however, lifestyles quickly transformed as the government expropriated local homes in the town center as a means of wealth redistribution and built the new city beyond the border of the old Kuwait Town. Based on the neighborhood unit model, the residential areas each had their local amenities such as schools, clinics, and grocery stores, and their residents occupied single-family villas. These areas were planned for the local population, yet an influx of foreign labor coupled with population growth led to an expansion of the city with two distinct types of residential areas: low density for Kuwaitis (known as private housing) and medium density for non-Kuwaitis (known as investment housing).

Subsequently, Kuwait Municipality (KM)

FIGURE 9 1ST MASTERPLAN FOR KUWAIT, 1952

Data source: Gardiner (1983)



completed the second and third master plans in 1972 and 1997 respectively and is now in the process of completing the Fourth Kuwait Master Plan 2040 (4KMP). The growth of the city followed similar zoning and transport planning principles, with the single-family villa unit dominating residential development in a sprawling manner, accompanied by an inadequate public transport network lacking rail infrastructure or any other mobility options. Limited public transport options, combined with relatively high disposable income per capita and heavily subsidized vehicular fuel, resulted in high private vehicle dependency, with motorization levels at 359 private vehicles per 1,000 persons (CSB, 2018).

Kuwait ranks 126 out of 231 cities on Mercer's Quality of Living City Ranking (2019), 70 out of 100 on the Arcadis Sustainable Cities Index (2016), and 86 out of 140 on the Global Liveability Index (EIU, 2019). The urban challenges faced by Kuwait such as housing affordability, access to green space, air pollution, and quality of transport infrastructure are some of the factors that determine the outcomes of these rankings. Other issues include the deteriorating quality of the city's public space and its low walkability levels (Gomes et al., 2021). As such, urban governance, regulatory framework, and institutional arrangements all play an instrumental role in improving the quality of life in Kuwait.

1.2.2 HOUSING AND THE MACROECONOMY

Given the housing sector's significant contribution to a country's wealth and capital stock and given the housing market is closely related to the markets for credit, assets, and construction, it is useful to consider housing in the context of the general macroeconomy and examine

potential co-movements between housing and aggregate macroeconomic variables. Figure 10 shows the dynamic relationships between the housing market and the Kuwaiti economy using oil prices as a proxy for GDP.⁴

Figure 10(a) shows that the housing market activity slowdown and eventual recovery around the 2008 global financial crisis preceded the oil price response to the crisis by two to four quarters. In contrast, the housing market generally lagged behind the oil price crash of 2014. The market for private housing land experienced the largest transaction volume changes, whereas the single-family house market showed less volatility. Finally, the condominium market was relatively less responsive to oil price shocks.

Figure 10(b) shows that oil, land, and house prices co-moved very closely around the 2008 financial crisis, and that all housing prices continued to rise steadily in the following six years, even when the oil price stabilized. Eventually, land and house prices declined following the 2014 oil price crash before recovering again in 2018. Condominium prices showed a significant lag in their relationship with oil and other housing prices.

Looking at housing as part of overall household consumption, Figure 11 shows that the rate of inflation of housing services tracks that of the overall consumer price index (CPI) very closely up until 2011.⁵

While the two rates continue moving in the same direction beyond 2011, housing services exhibit greater inflation between 2012 and 2016, indicating housing costs have outpaced overall costs during the period. The two rates have since diverged, with housing services turning negative, which is consistent with the observed decline in land, house, and rental prices after 2016 as will be discussed in Chapter 4.

4 Quarterly GDP data are not available for the entire analysis period, so oil price is used as a proxy as the correlation coefficient between them is high at 0.8 in Kuwait's case.

5 The CSB defines housing services as rent, maintenance and repair, and utilities. See section 4.1 for more on the concept of housing services..

FIGURE 10A CHANGE IN OIL PRICE AND HOUSING TRANSACTION VOLUME

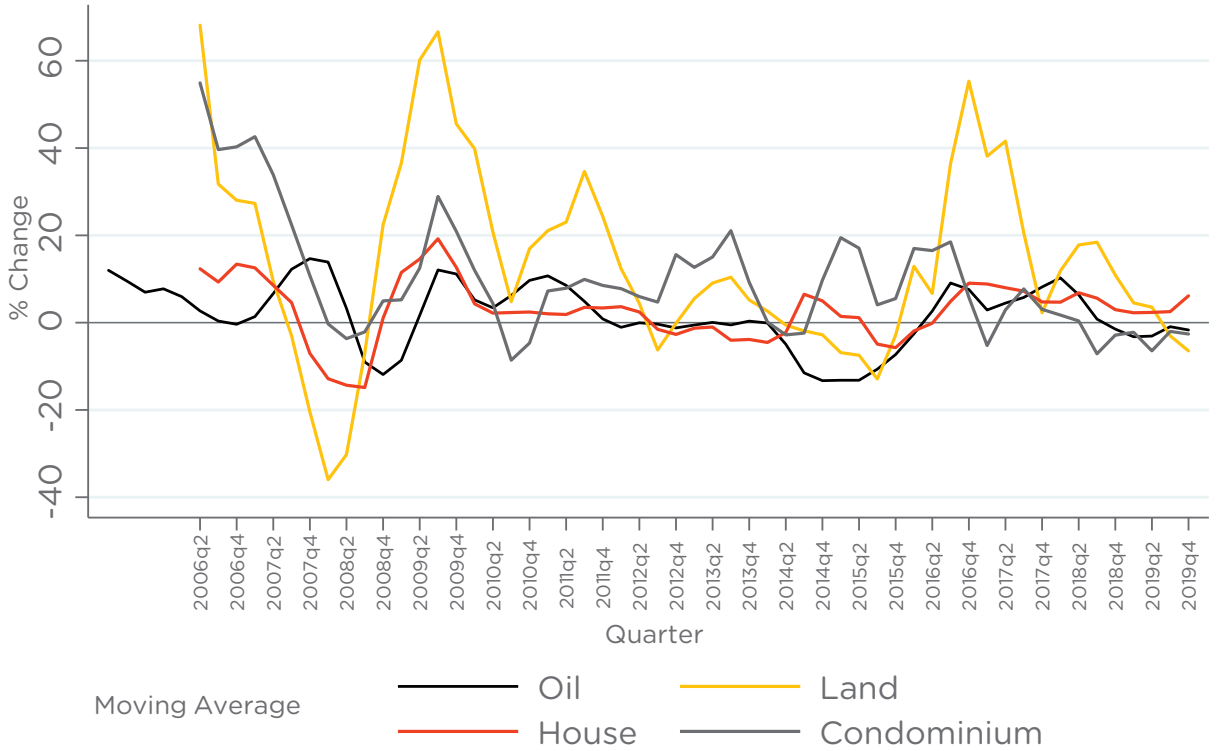


FIGURE 10B CHANGE IN OIL AND MEDIAN HOUSING PRICES PER M²

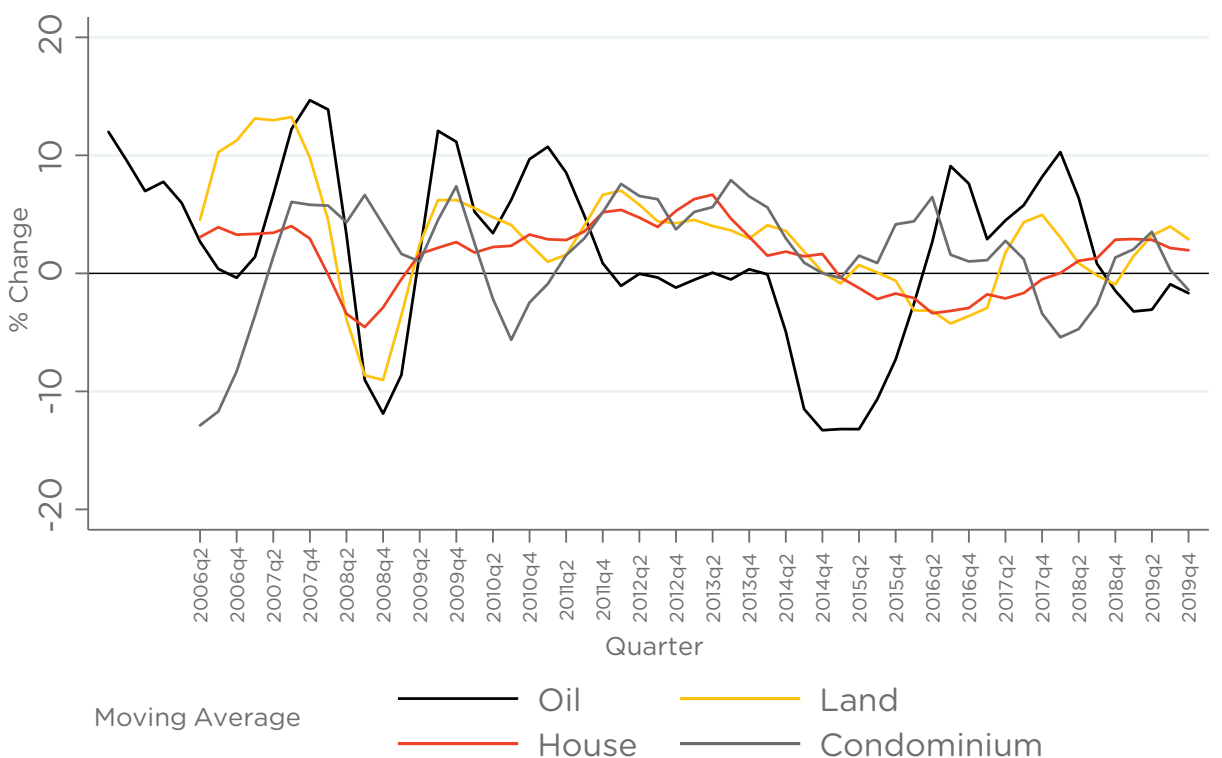
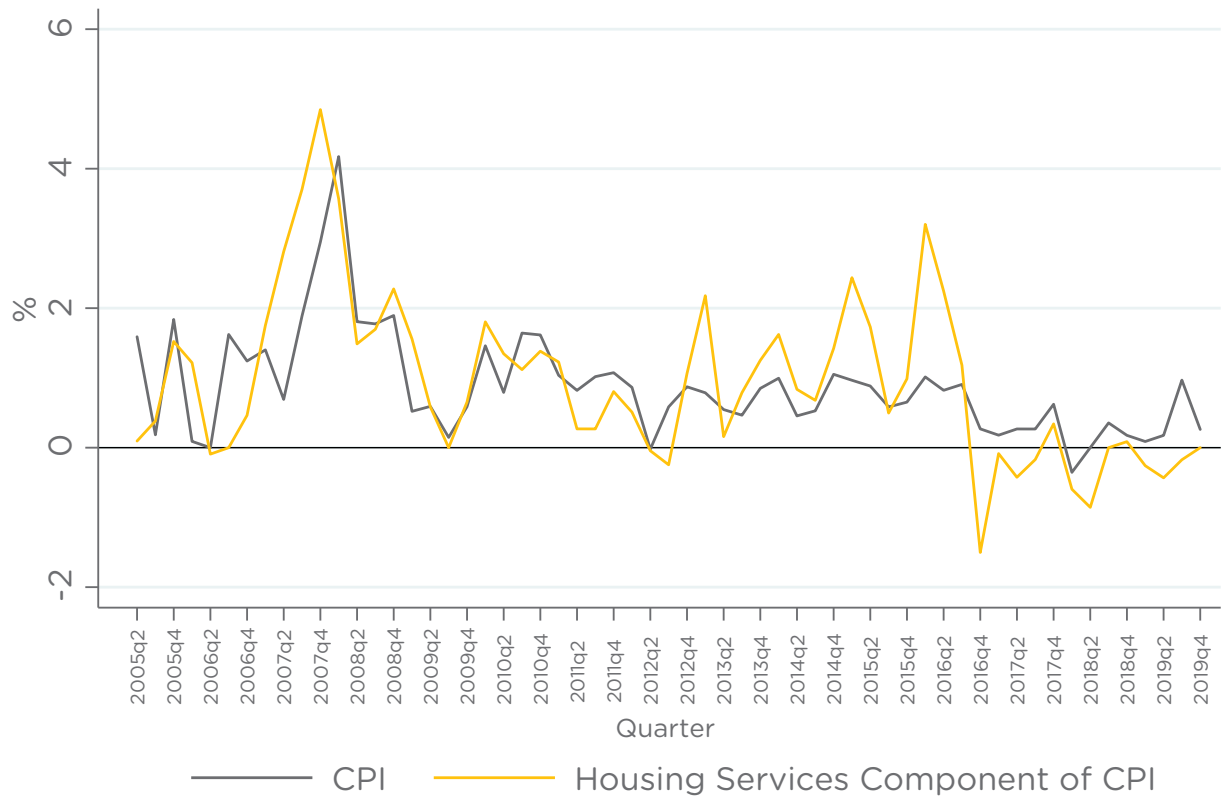


FIGURE 11 INFLATION RATE OF CPI AND HOUSING SERVICES

Data source: CBK (2020) and CSB (2020a)

The credit market plays a pivotal role in facilitating home ownership through financing the purchase of housing units. The outstanding housing debt owed to commercial banks has grown continuously from KD744 million in 2000 to KD12 billion in 2019, indicating more loan amounts have been disbursed than repaid annually during the period, as shown in Figure 12.

This debt has generally increased as a percentage of GDP, and rapidly so since 2011, fluctuating around 30% since 2016. However, these figures do not account for all housing debt in the economy as data on outstanding mortgage loans owed to the state-owned KCB are not publicly available.

Housing is also related to the construction market, which has seen a steady growth in construction contracts for projects owned by households from KD126 million in 2000

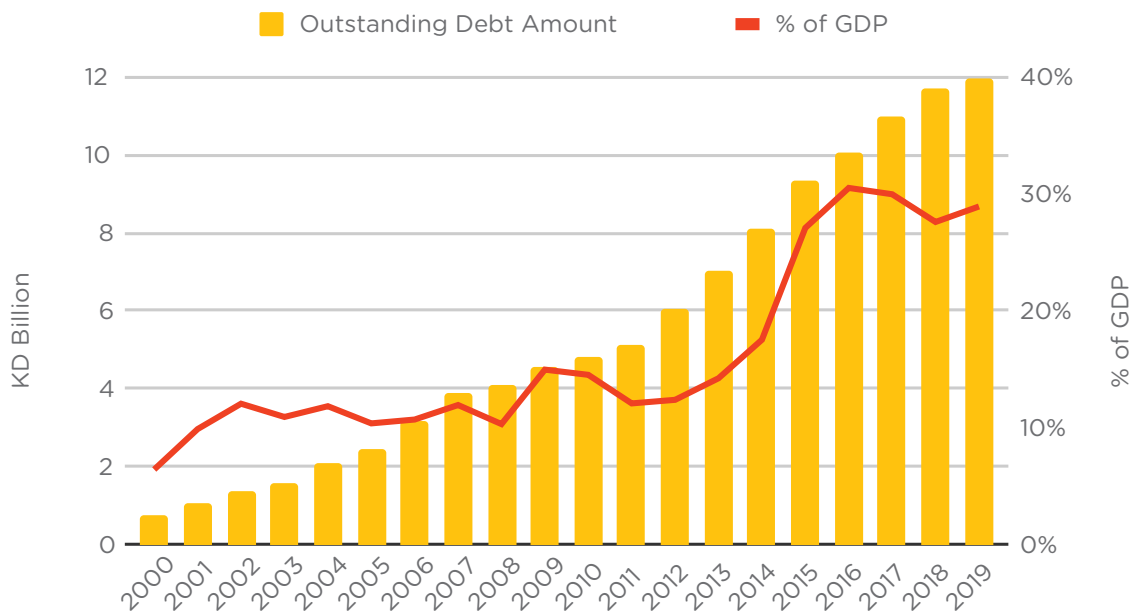
to KD752 million in 2018, as shown in Figure 13.

In the post-2008 financial crisis period in particular, household construction contracts grew in value at an average annual rate of 10%, representing 1.8% of GDP in 2018. These numbers are considered a lower bound of housing construction activity as they do not account for construction carried out by PAHW or commercial developers, for which disaggregate data are not publicly available.

1.2.3 HOUSING AFFORDABILITY

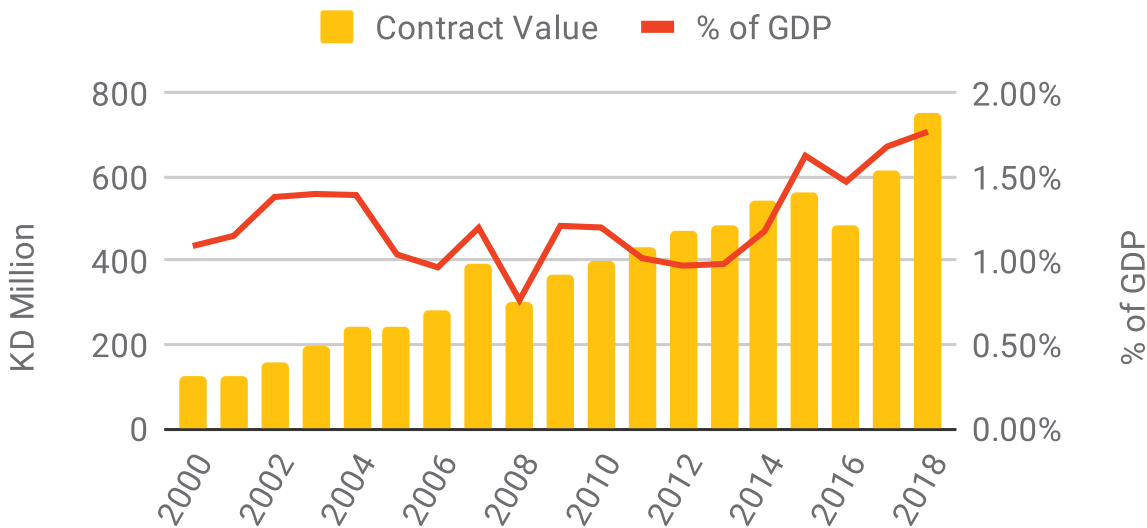
The two main types of housing typologies that exist in Kuwait - the single-family villa and the apartment building - exist in two distinct types of residential districts

FIGURE 12 OUTSTANDING HOUSING DEBT OWED TO COMMERCIAL BANKS



Data source: CBK (2020)

FIGURE 13 HOUSEHOLD CONSTRUCTION CONTRACTS



Data source: CSB (2020c)

(Figure 14): private and investment housing respectively.⁶

units in 13,000 apartment buildings (PACI, 2020b).

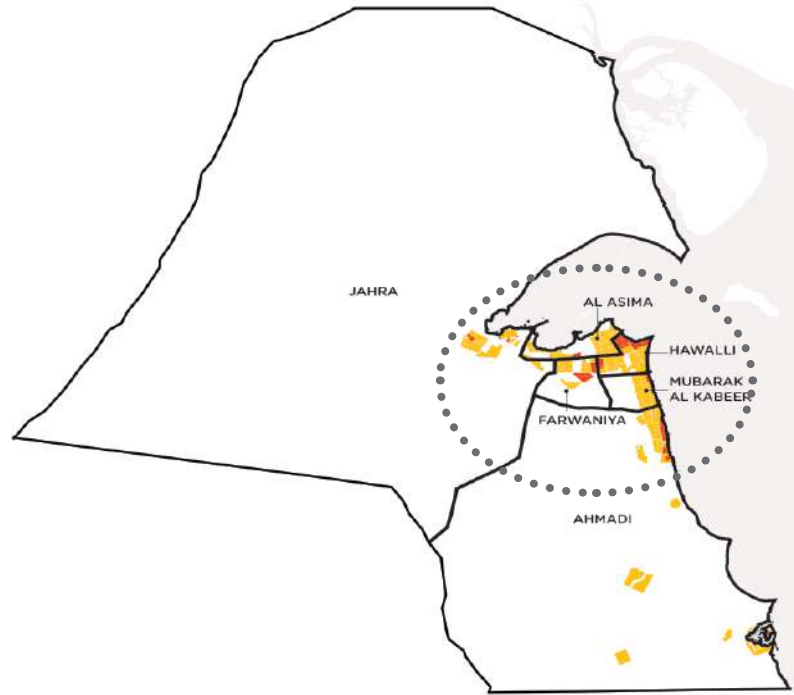
In 2015, 78% of the developed land in the KMA was occupied by the villa typology and 13% by apartment buildings (Rode et al., 2017). Today, Kuwait has a total of 161,000 houses and 341,000 apartment

The Building Code outlines building regulations for private and investment housing in separate sections of the code. It defines private housing as single-family units in low density areas. Investment

6 Few districts combine both typologies in Kuwait, such as Salmiya and Jabriya.

FIGURE 14 ZONING OF RESIDENTIAL DISTRICTS

- Private Housing
161,000 Villas
- Investment Housing
13,000 Apartment Buildings



Data source: Kuwait Municipality

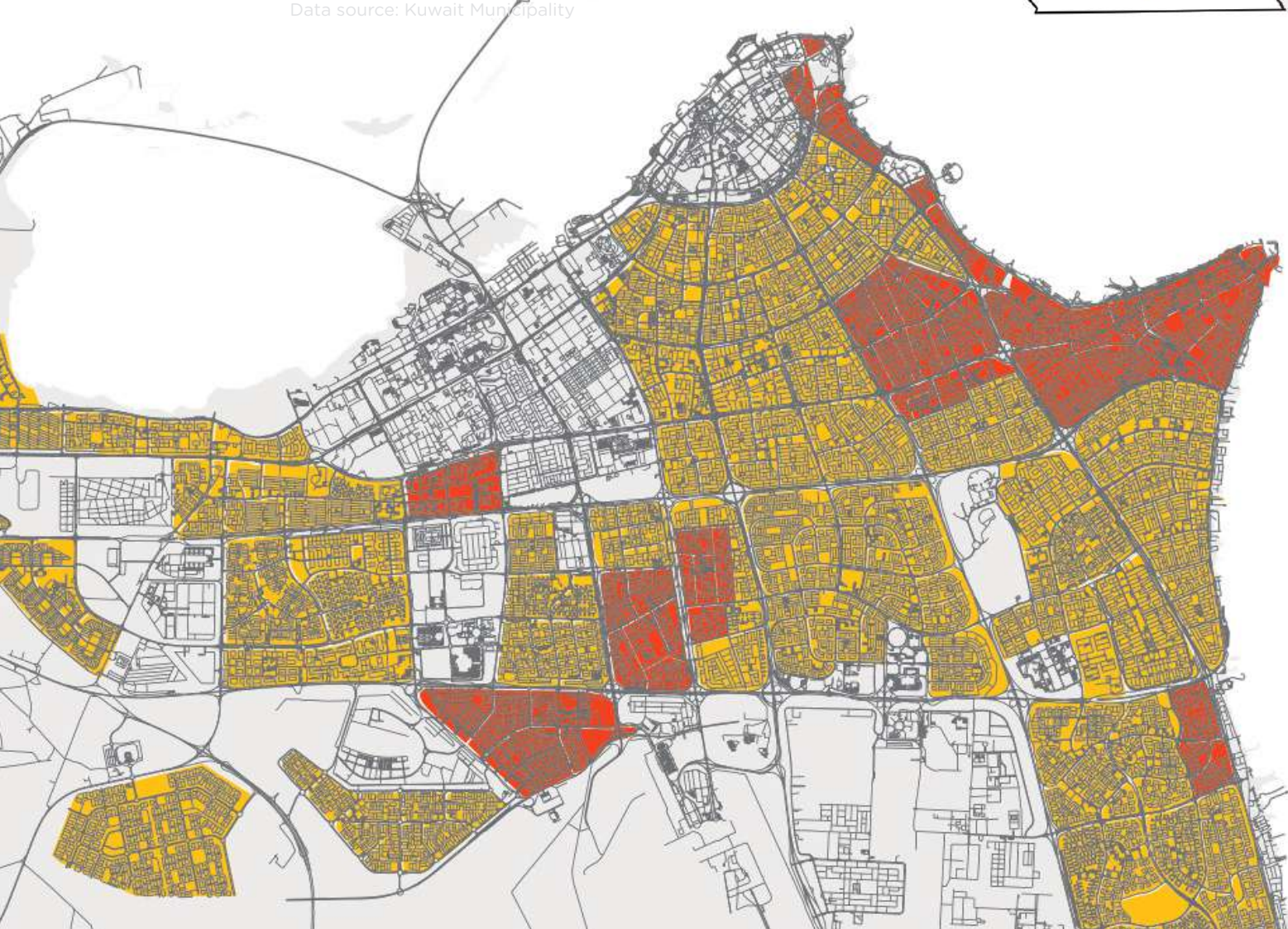
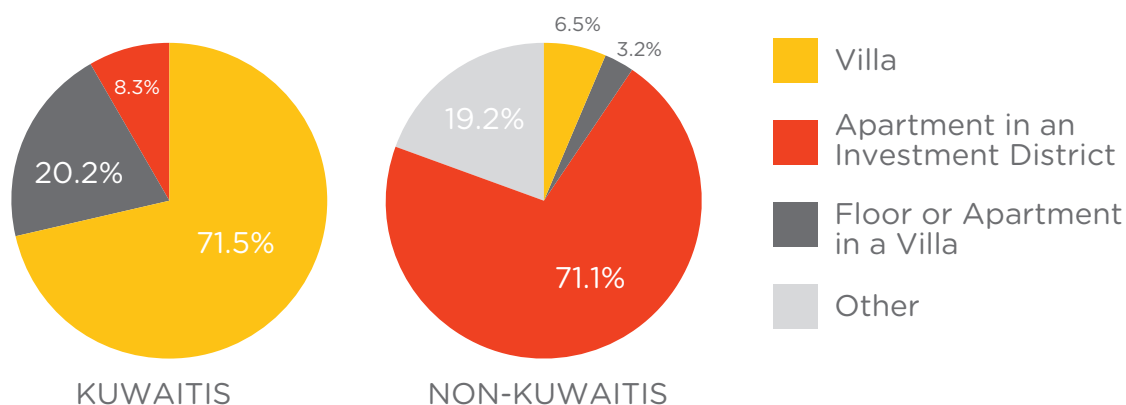


FIGURE 15 HOUSING TYPE: KUWAITIS VS. NON-KUWAITIS

housing is defined as multiple housing units (e.g. apartments, duplex villas, and studios on all floors) in high density areas, used for rental or ownership. This clear separation of building typology by district has manifested in an urban morphology of low-density private housing adjacent to high-density investment housing districts as shown in Figure 16.

There is also a clear demographic segregation between private housing and investment housing areas, as 72% of Kuwaiti households live in villas, 20% in apartments-in-villas and only 8% live in apartments in investment housing districts as shown in Figure 15. This contrasts with non-Kuwaiti households, where 71% live in apartments in investment housing areas and only 6.5% live in villas.

There may be many reasons why Kuwaitis prefer private housing over investment housing. However, this preference has led to a crisis of affordability because in private housing districts only the villa typology is allowed under the Building Code. This means that should a Kuwaiti household wish to own a housing unit in a private housing district, the smallest housing unit available to them is a villa. The smallest available plot sizes in private housing districts typically range from

between 375m² to 400m², with a median cost of KD367,000 in 2019. However, costs exceed KD500,000 in more desirable areas closer to the city.⁷ This lack of typological diversity in areas preferred by Kuwaitis has forced many of them to rent apartments in private housing districts (henceforth, apartments-in-villas) and forgo homeownership which they might otherwise afford in investment housing areas. The demand for renting apartments-in-villas has created an incentive for developers to build houses in private housing districts with the sole intention of maximizing the number of apartment units to rent to Kuwaiti families. This new housing typology, whilst outside existing regulations, has filled the void by supplying Kuwaiti families with housing in areas that they want to live in. The fact that this has been unplanned has resulted in a potential overload on local public services such as schools and utilities, while also causing negative externalities such as noise, traffic congestion, and overcrowded on-street parking.

This struggle for home ownership by Kuwaiti families is the result of a perceived crisis in affordability; and here, housing affordability is hard to define as it depends on many factors such as the combined income for different

⁷ Calculated for a house with lot size 375m²--400m² with 210% built-up area, using the observed median land value of KD265k and an estimated construction cost of KD125/m² (MOJ, 2020; Building Code).

households and definitions of the lowest acceptable standard of housing. The median income Kuwaiti household could afford a condominium in investment housing districts without a down payment, since available housing loans can finance the entire amount. However, only 8% of Kuwaiti households have made this choice, in all likelihood due to social, cultural, and regulatory factors associated with condominiums in investment housing buildings. The only option for home ownership in private housing districts is the villa, and for a Kuwaiti household with a median income it is highly unaffordable since it would require savings over multiple decades to afford.

One way to measure housing affordability is through the Price-to-Income Ratio (PIR), which is the ratio of the median

purchase price of a housing unit to the median annual household income. It gives the number of years over which a household would have to save their entire income to afford a median-priced housing unit. A PIR of 5.1 or greater is considered highly unaffordable, and recently many cities around the world have exceeded this figure, as shown in Figure 17.

In 2019, Kuwait had a high PIR of 10.3,⁸ which is comparable to cities such as Vancouver and Sydney, even though Kuwait does not rank as highly in livability reports as these cities to justify such a high PIR.⁹ This is the result of a high median house value that is driven by a combination of factors, as will be discussed throughout this report.

Figure 18 shows the home ownership rate as estimated by the Household Income

8 Calculated using the 2019 average wage data for a hypothetical household of two-wage earners. The average combined annual income is KD35,772, as the median is not available (CSB, 2020a).

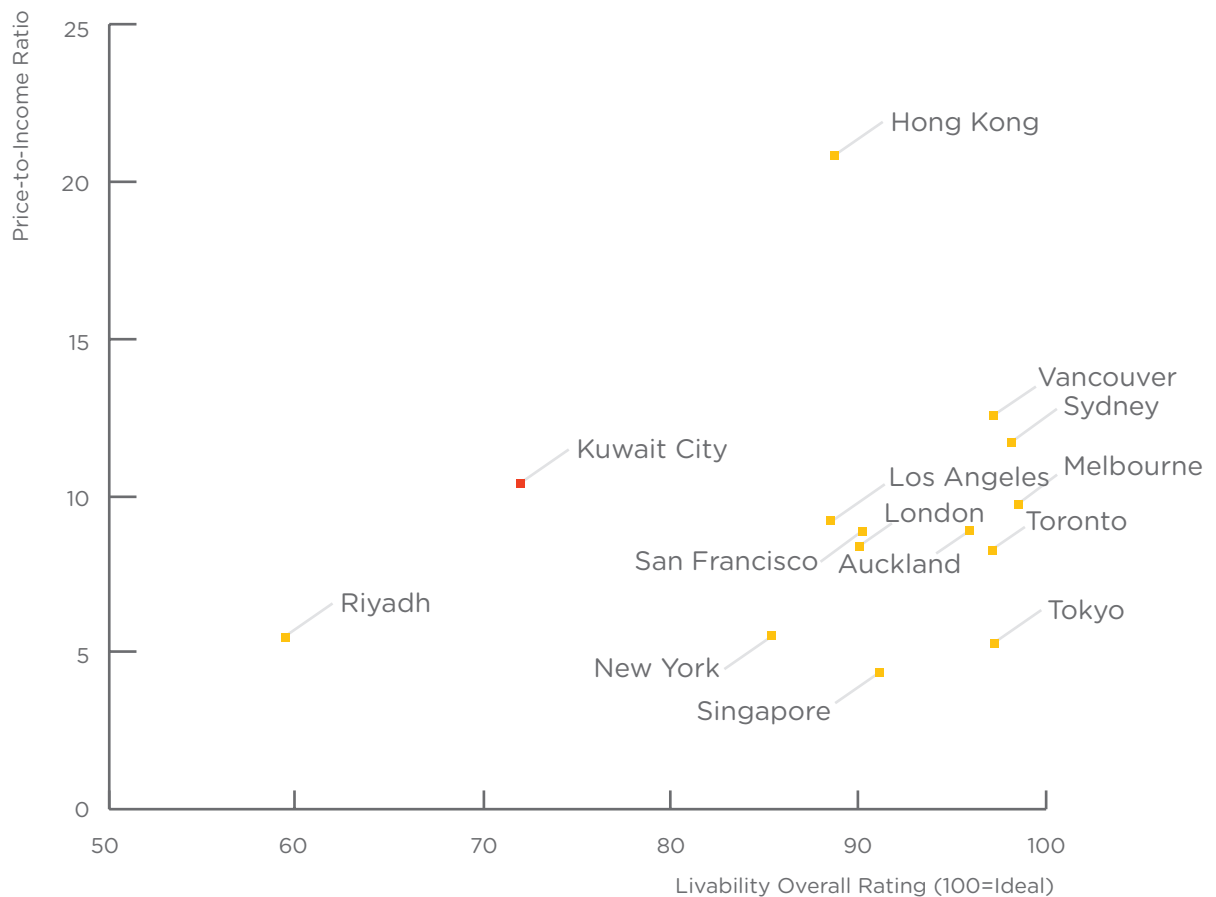
9 Kuwait ranks 86 out of 140 cities as per The Livability Index by the Economist

FIGURE 16 INVESTMENT AND PRIVATE HOUSING AREAS SEPARATED BY A HIGHWAY

Image source: Sharifa Alshalfan



FIGURE 17 HOUSING AFFORDABILITY AND LIVABILITY RATING



Data source: The Economist Intelligence Unit (2020), Demographia International Housing Affordability (2020)

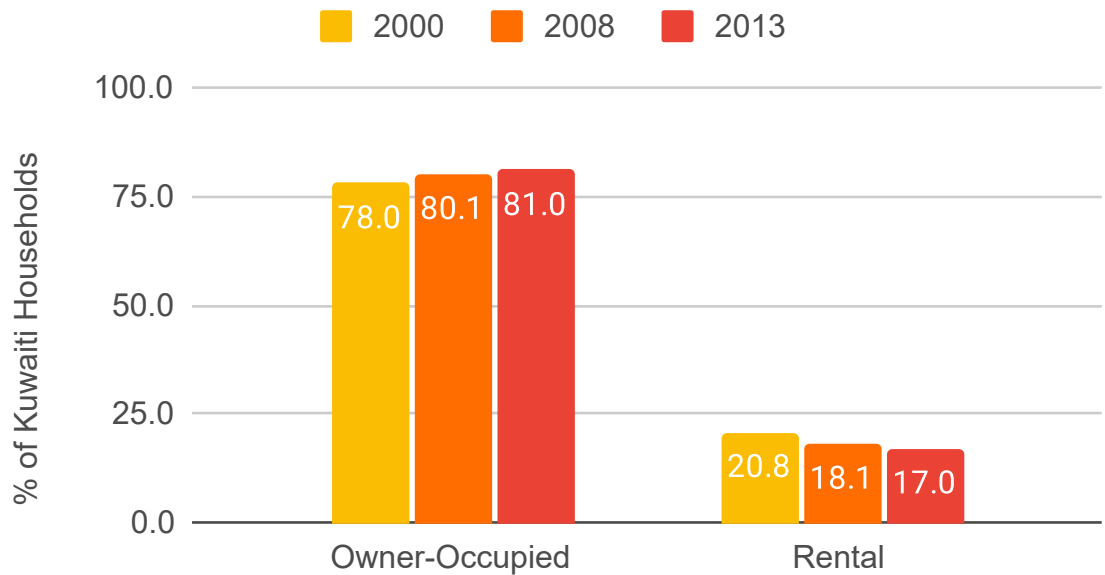
and Expenditure Survey (CSB, 2000, 2008, and 2013).

Notwithstanding the stability of the home ownership rate over the 2000-2013 period, there are two reasons to resist extrapolating it to the year 2019. First, the demand for owner-occupied housing has probably exceeded supply since the last survey. For example, between 2014 and 2018, PAHW received 36,900 new applications but fulfilled only 12,800 (CSB, 2020b). It is also unlikely that the housing market supplied enough homes for new homeowners to overcome this shortage. Second and more importantly, there is a fundamental flaw in the way a household is defined in the survey (and other official statistics) which casts doubt on the reliability of the home ownership estimates. The 2013 Income

and Expenditure Survey defines the household as a group of individuals living together and sharing living expenses. However, this definition potentially misclassifies households living in homes owned by family relatives (e.g. in-laws) as also being homeowners, even though they may be seeking homeownership through PAHW or on the market. As such, for housing research and policy purposes, they should be classified as independent households who happen to be renters or non-paying tenants. Therefore, the home ownership rates in Figure 18 are probably an overestimate.

Figure 19 shows the distribution of Kuwaiti households across the different types of housing.

The proportion of households living in full villas was around 60% in both

FIGURE 18 KUWAITI HOMEOWNERSHIP

Data source: CSB (2013, 2008, 2000)

2000 and 2013 but was 10 percentage points higher in 2008. This increase and subsequent decrease could be due to a combination of factors, such as changes in PAHW land and housing distribution intensity, demographic change, housing market dynamics, and general economic conditions. More interestingly, the survey documents a doubling in the fraction of households living in apartments or floors in private villas between 2008 and 2013, mirrored by a decrease in the proportion of investment housing apartment dwellers. This pattern might reflect a change in renters' preferences in favor of apartments-in-villas and the increase in supply of this housing type.¹⁰

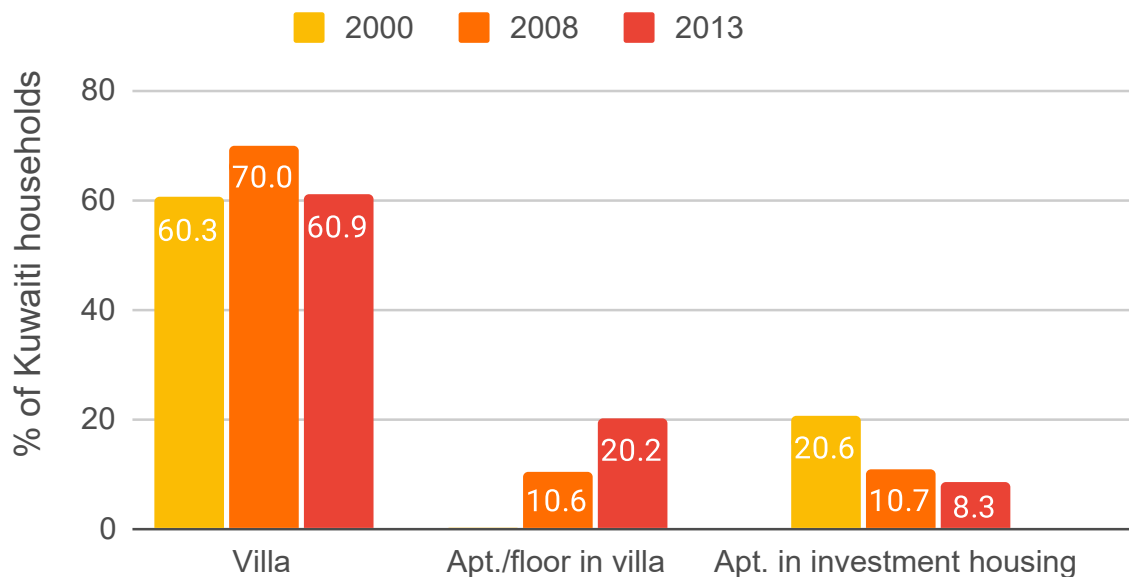
The share of the household budget spent on housing (including utilities) has increased over time as shown in Figure 20. The average Kuwaiti household spent 37.4% of its total expenditure on housing in 2013, compared to 25.8% in 2000. The figure for non-Kuwaiti households stayed

at 28.4% in both periods, but dipped to 19.5% in 2008.

The increase in expenditure on housing as a proportion of the overall Kuwaiti household budget may be attributed to several factors, such as substituting housing consumption for other goods and services due to a change in preferences, combined with rising real incomes.¹¹ Figure 20 demonstrates that the cost of housing services tracks the overall CPI closely over the survey period, thus ruling out the alternative hypothesis that housing cost might have increased disproportionately relative to other components of the CPI.

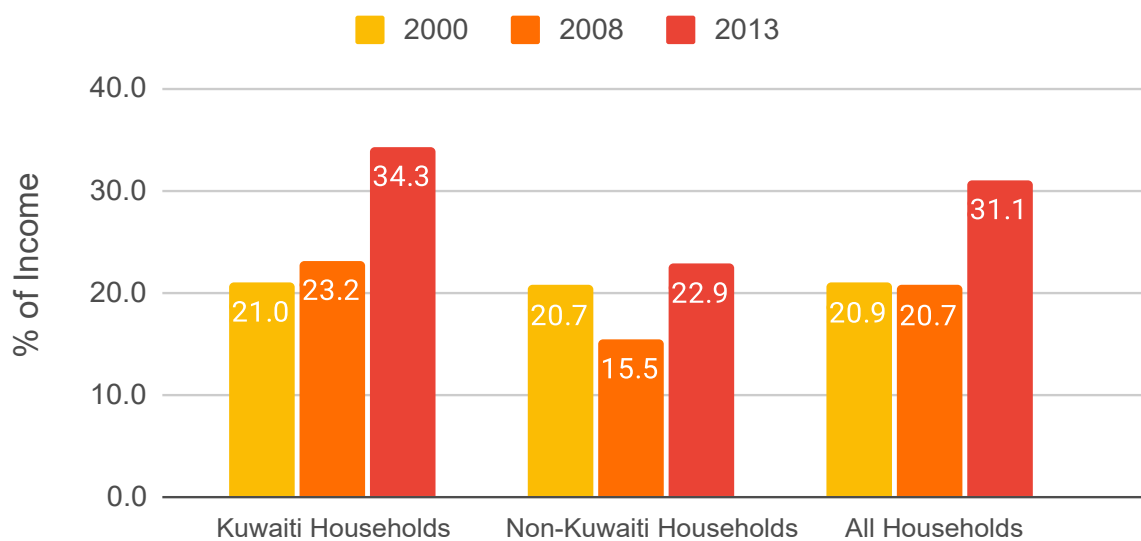
¹⁰ To the best of the authors' knowledge, no data exist on the stock of private housing apartments.

¹¹ Average real income for a household with 4-5 people rose by 8% between the 2000 and 2013 surveys (authors' calculation).

FIGURE 19 HOUSING TYPE

Data source: CSB (2013, 2008, 2000)

The 2000 Income and Expenditure Survey did not distinguish between apartments in villas and investment housing. It reported both as the latter.

FIGURE 20 HOUSING EXPENDITURE

Data source: CSB (2013, 2008, 2000)

1.2.4 KUWAIT HOUSING WELFARE SYSTEM

Kuwait started offering housing to its citizens in 1954, soon after its first oil shipment in 1946. Oil wealth redistribution and raising citizens' quality of life were two of the main pillars of the post-oil Kuwait doctrine, and housing has been one of the main instruments of this social contract. Since then, Kuwait's housing welfare program has been evolving in terms of types of housing, their size and location, and the amount of financing available. Today, every Kuwaiti family is eligible for homeownership through state-

provided housing. According to Law No. 47/1993 concerning housing welfare, the government has responsibility for developing and allocating land to meet the growing demand of citizens through offering a plot of land with or without a built house (Figure 21), or a condominium of a similar size, all offered at nominal prices and on long-term repayment schedules.

In addition, citizens are eligible for a construction grant and a one-time interest-free state provided mortgage loan should they choose to buy their home from the market - the only feasible mortgage instrument available to most first-time homeowners today.

FIGURE 21 EXAMPLES OF GOVERNMENT BUILT HOUSING IN KUWAIT

Image source: PAHW



Amongst the GCC countries, Kuwait has one of the most indiscriminately generous housing programs whereby a citizen's income is not a metric for eligibility. This places a large demand on land as the second most valuable natural resource after oil. A housing scheme that is resource-depleting and dependent on subsidized carbon energy costs has long-term environmental implications as well as intangible social costs. This scheme faces many challenges, with more than 91,500 applications on the waitlist at PAHW (PAHW, 2020a) and many who have been provided plots still waiting to finance and build their homes. By 2025, PAHW plans to provide 35,600 new housing plots across the country (New

Kuwait, 2020). This is expected to add to the already high demand for energy (as explained in the next subsection) for power, in addition to the indirect energy demand for transportation. With the existing KD70,000 interest-free mortgage loan provided by KCB, this will require KD2.5 billion (about 12% of the total government budget in 2019/2020 (MOF, 2020a)) in liquidity to be made available to prospective homeowners, over and above the other mortgages to be provided for those who choose to buy from the market. A recent example from the Al-Mutla'a project has demonstrated KCB's struggle to provide loans for such a large cohort of new prospective homeowners. Not only is the financial burden on the



state unsustainable, location, proximity to work and family, and types of housing provided are some of the other issues that these new housing projects face.

(excluding Kuwait) and almost double the OECD average. In 2016, Kuwait ranked 4th highest in the world in CO2 emissions at 25 metric tons per capita (World Bank, 2020).

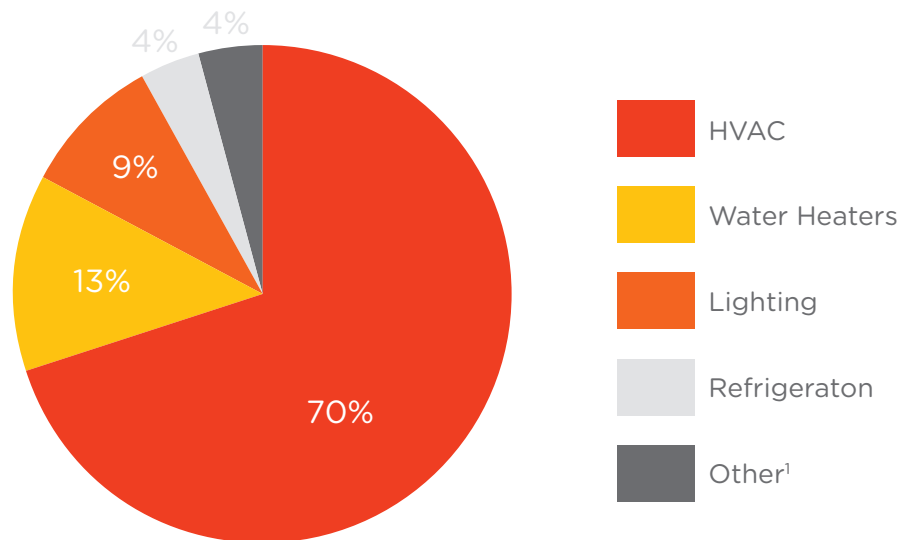
1.2.5 HOUSING AND ENERGY DEMAND

According to the International Energy Agency (IEA, 2020), Kuwait generated 74.1 Tera-Watt hours (TWh) of electricity in 2018, sourced primarily from oil (41.3%) and natural gas (58.6%), while demand stood at 63.8 TWh – a near doubling in 16 years. Per-capita electricity consumption was 15.4 Mega-Watt hours (MWh), which is 17.2% higher than the GCC average

Kuwait’s residential sector accounted for 16.8% of the total final energy consumption in 2018 -the highest in the GCC and nearly double its average of 8.6%.¹² For electricity specifically, the residential sector was responsible for 60.9% of total final consumption in Kuwait--also the highest in the GCC and almost double its average despite declining by 10% over the past decade. 70% of typical consumption of home electricity in the summer is dedicated to the cooling of homes and 13% dedicated to water heating. On a per capita basis, residential electricity

12 Final energy consumption refers to end-use consumption that excludes uses in energy transformation processes (IEA, 2020)

FIGURE 22 TYPICAL CONSUMPTION OF HOME ELECTRICITY IN THE SUMMER



Data source: Kuwait Energy Outlook, KISR (2019)

consumption is 6.5 MWh and has been at about the same level for the past 18 years.

Electricity is heavily subsidized in Kuwait, especially in the residential sector where Kuwaitis pay only 5% of the generation cost (KISR, 2019). Thus the subsidy is not merely a price support but also an actual loss that the government incurs in the form of a cash transfer to the Ministry of Electricity and Water (MEW) to cover the difference between generation cost and retail revenue. Heavily subsidized electricity incentivizes wasteful consumption and discourages investment in passive cooling methods of building design, which can reduce the need for active HVAC cooling. Building orientation, cladding materials, and window sizes are all tools that can be used to reduce heat gain in buildings; however, these tools are not required under the Building Code.

CHAPTER

2

**HOUSING
GOVERNANCE
AND
REGULATORY
FRAMEWORK**

2.1 URBAN GOVERNANCE AND INSTITUTIONS

Central government is the main actor in housing and urban governance in Kuwait. Various policies, laws and regulations dictate the decision-making process, albeit fragmented at both inter and intra-level state institutions. Kuwait Vision 2035, the Kuwait National Development Plan, the constitution, parliament, KM, as well as ministerial decisions and regulations, all contribute to the way housing and urbanization is shaped in the country. In addition, KOC is an important player in land development as it holds concession rights for over two thirds of land in Kuwait and therefore dictates where new development takes place, based on the land it releases (KM, 2019). The Supreme Council for Planning and Development (SCPD) sets the vision and development plan for the country, while the two main institutions formally responsible for defining, developing, and implementing housing and urban policy for the state are KM and PAHW. KM sets the urban policy and PAHW leads the planning and provision of housing for citizens. Other public agencies are also responsible for financing, regulating, monitoring, public transport, land management, and other functions related to housing and urban development. Local government, civil society, and the private sector play a minimal role in housing and urban governance in Kuwait.

2.1.1 SUPREME COUNCIL FOR PLANNING AND DEVELOPMENT

SCPD is responsible for developing the country's vision for the future and identifying its goals and priorities for social and economic development. The national vision was set for 2035 by the

late H.H. the Amir Sheikh Sabah Al-Ahmad Al-Sabah.¹³ It describes an economy led by the private sector, with the government playing the role of facilitator and regulator. The Kuwait National Development Plan is the means to achieve this goal, organized around five pillars and with seven strategic directions. In the plan, housing comes under the umbrella of "Providing Housing Welfare to Citizens", a sub-category of the Sustainable Living Environment pillar. Although it is envisaged that the private sector will lead economic development in the 2035 vision, housing provision for Kuwaitis is still seen as a state-led initiative, with all five key projects in the Kuwait National Development Plan belonging to PAHW.

2.1.2 KUWAIT MUNICIPALITY

KM is responsible for outlining urban policy for the country and implementing it under the guidance of the master plan which is issued by Emiri Decree. In addition, it is also responsible for land-use regulations, building and construction regulations, issuing building permits, licensing practitioners, and authorizing the allocation of state land to other entities.¹⁴ The Building Code is the main regulation that dictates the formal characteristics of buildings, including residential buildings, and KM issues both the code and its periodic updates as well as regulating its implementation. The Municipal Council (MC) is the legislative arm of KM which is partially elected, while the Municipality is the executive body with an appointed Director General. They are both headed by the Minister of State for Municipal Affairs. The executive body of the Municipality has branches for the respective governorates. They deliver municipal services that focus on monitoring and supervision of building

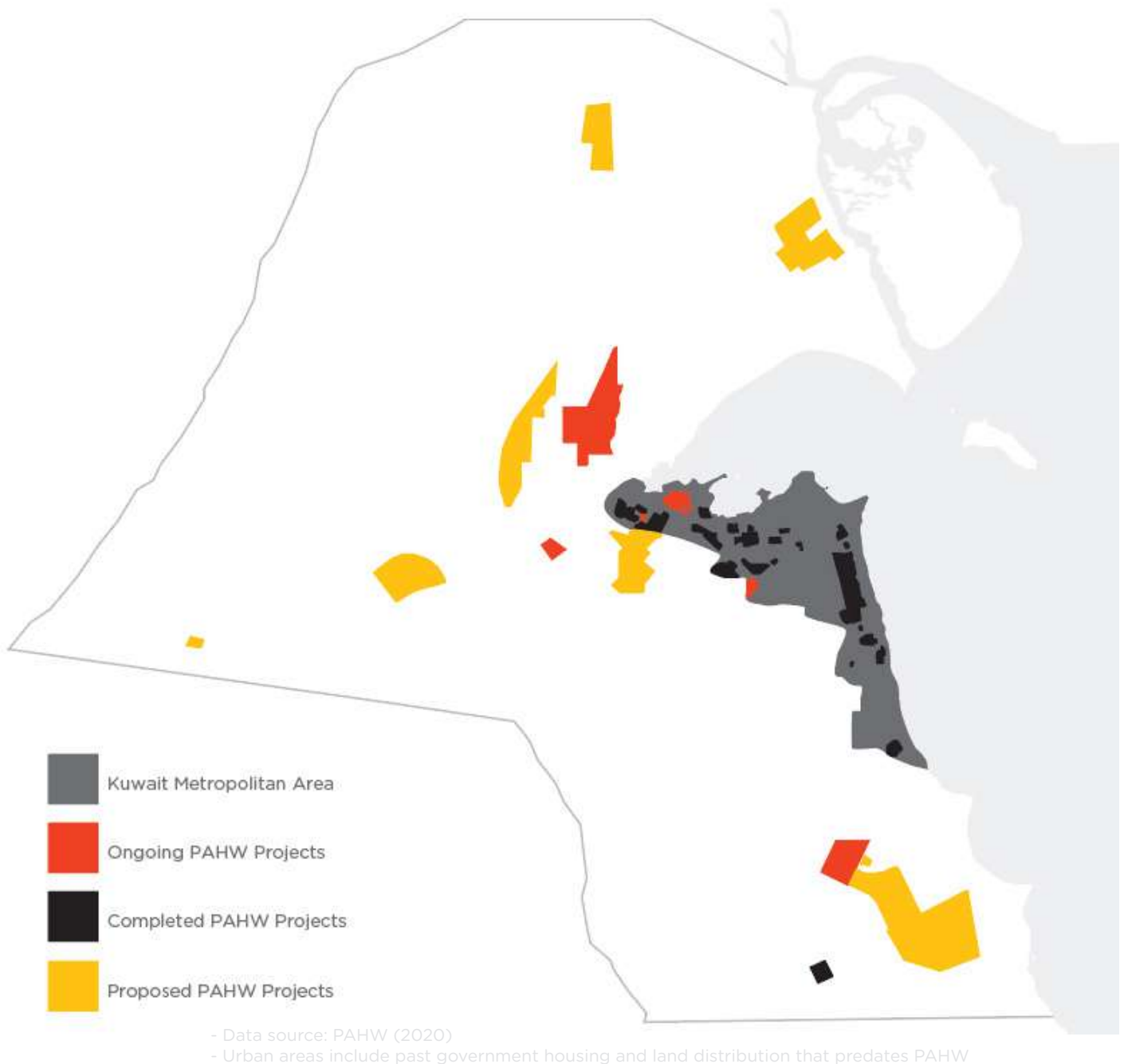
¹³ "[To] transform Kuwait into a financial and trade hub, attractive to investors, where the private sector leads the economy, creating competition and promoting production efficiency, under the umbrella of enabling government institutions, which accentuates values, safeguards social identity, and achieves human resource development as well as balanced development, providing adequate infrastructure, advanced legislation and inspiring business environment"

¹⁴ Kuwait Municipality Law No. 33/2016

works and construction permits, as well as issuing licences for occupying state properties within the stated regulations. They are not involved in any urban planning activities.

The MC approves regulation based on the technical studies of the Municipality. In principle, all legislation must follow the guidelines of the master plan. In practice, however, many land-use and building regulations conflict with it. The minister

FIGURE 23 MAP OF PAHW PROJECTS



has fifteen days to veto any legislation passed by the MC, which must then revise it. If there is still no agreement, the Council of Ministers has the final say. Another important role for the MC is land allocation, which includes land allocated to PAHW for new housing districts. The Municipality is mandated by law to prepare, plan, and allocate land to PAHW as per the master plan.¹⁵

2.1.3 PUBLIC AUTHORITY FOR HOUSING WELFARE

Headed by an appointed Director General who reports to the Minister of State for Housing Affairs, PAHW is responsible for providing housing to citizens through the design and development of residential districts. It is also responsible for offering housing units at nominal rates in the form of land plots, houses, or condominiums. It has developed many residential areas in the existing KMA whilst also currently developing areas in satellite towns as shown in Figure 23.

The majority of Kuwaiti families are eligible for this type of housing welfare on condition that the head of the household does not own or co-own any other real estate. Although historically PAHW has been responsible for contributing to the development and provision of citizens' homes and respective public amenities and services,¹⁶ it has recently taken on a new, larger role in city development. This includes planning commercial and industrial developments and investment housing, as well as experimenting with different types of urbanization such as smart cities. PAHW is also developing its own urban design guidelines, zoning code (based on the SmartCode) and building specifications, as well as looking at systems such as district cooling.

2.1.4 THE MUKHTAR

The Mukhtar is a district level mayor who acts as a liaison between the district's residents and the various government agencies that provide them with public services. The Mukhtar is appointed by, and reports to, the Minister of Interior, with responsibilities that include helping district residents in the planning and organization of social, cultural and educational programs, as well as community services.¹⁷ With the growth of central government, many of the Mukhtar's responsibilities (e.g. reporting births and deaths, inheritance, and crime) have ceased to exist as they were transferred to their respective government agencies. The deliverables of this single-person role with a limited budget vary greatly from one Mukhtar to another. In some districts, the Mukhtar is an active member of the community working closely with the co-operative society (henceforth, co-op) to address issues of importance to the district residents, whilst in others the position is mostly symbolic.

¹⁵ Housing Welfare Law No. 47/1993

¹⁶ Law no. 15/1974 Establishing the Public Authority for Housing

¹⁷ Mukhtar Law no. 40/1966, amended by Law no. 4/1983.

2.1.5 THE CO-OPERATIVE SOCIETY

Co-ops are a big part of people's lives and play an important role in each district. While their most prominent feature is the supermarket (located in the district's center) which sells grocery products at competitive prices, co-ops have expanded their commercial footprint in recent years by building and managing suburban mini malls (usually adjacent to the supermarket) that offer a variety of shopping and dining options as well as services ranging from tailoring to banking.

Co-ops are relevant to urban development discussions because, since their formal inception in law,¹⁸ they are defined by the local district in which they are situated. First, shareholding membership is reserved exclusively for the district residents. Second, the co-op is run by a board made up of and elected by the residents, providing the only example of civic engagement at the local level. Third, the law defines the co-op's main mission as raising the socioeconomic standards of its members. Finally, 20% of a co-op's profits may be allocated to the provision of social services for the local community.¹⁹

However, in practice these services often include delivering public services and infrastructure maintenance, side-stepping the responsible national or municipal government agencies. According to interviews with the boards of two co-ops,²⁰ there have been instances where the co-op has painted street pavements (the responsibility of MPW and MOI), fixed street lighting (MEW), and maintained public parks and green spaces (PAAF). They justify taking such initiatives by citing the (often) delayed response by the responsible government agencies in the face of demands for action by the residents. In other instances, government agencies have delegated the management

and maintenance responsibilities of some amenities (e.g. parks, walkways, and football fields) to co-ops through formal - albeit ad-hoc - agreements.

Even though the law does not set out an explicit role for co-ops in urban governance, some co-ops have assumed this role de facto on the ground to varying degrees. This is perhaps because of their local knowledge of their districts and the ability to leverage the networks of relationships with the district's Mukhtar and other local branches of government agencies (e.g. the health clinic and Citizen Service Centers), as well as local amenities such as schools, mosques, and local businesses. These management agreements for local public amenities, together with the government's reliance on co-ops to ensure continuity of food supply and home repair services during the COVID-19 pandemic lockdowns, are evidence that the government recognizes that co-ops are sometimes better positioned to understand the needs of their constituents and respond to them more promptly and efficiently.

18 Law no. 20/1962 and its subsequent amendments and by-laws.

19 By-law no. 165/2013. A prior by-law (109/1984) used to allocate an additional 5% of profits to be spent on public services at the governorate level.

20 Interviews with representatives of the boards of Yarmouk and Mishref co-op's.

2.2 REGULATORY FRAMEWORK

The master plan is the main document that designates land uses such as residential, commercial, industrial or agricultural land. A review is conducted every five years and a new master plan is developed every 25 years, although this timeline is not rigid. KM has commissioned the 4KMP for the year 2040, which is nearing completion. The current master plan has three levels: the national, metropolitan and city (CBD) scale (KM, 2005). Seven sub-regions are also included which focus on large-scale developments such as Madinat Al-Hareer in the north and the Al-Shegaya Renewable Energy Park in the west.

As previously discussed, there are three classifications for housing in the current master plan: Kuwaiti family dwelling (private housing), non-Kuwaiti family dwelling (investment housing) and non-Kuwaiti collective dwelling (informal housing for low-income male migrant workers that exists in both private and investment housing areas). The plan recommends increasing the housing density in private housing areas from 8 to 12 units per hectare. In practice, however, this recommendation has not been followed by PAHW as the primary developer of single-family housing. Although the master plan is issued as an Emiri Decree, giving it high legal and political status, PAHW's developments, as well as ad-hoc decisions and land allocations by the MC, have not always followed the master plan's recommendations.

Another essential document issued by KM is the Building Code, which regulates construction and demolition activities for buildings across the country. It determines allowable built-up areas, building setbacks, building heights, and internal divisions based on the various types of buildings. For residential buildings, there are three main categories in the Building Code: private housing, investment housing and residential complexes. These are further subdivided based on the size of their respective plots. The Building Code is by and large based on building use (residential, commercial, industrial, etc.)

rather than building location. This creates little typological and height variation in residential developments across the country as seen in Figure 24, where the same regulations operating in urban areas close to the city center also apply to built-up areas on the urban fringes.

2.3 PLANS AND REGULATIONS UNDER DEVELOPMENT

Several housing initiatives are ongoing as part of government plans, with the most prominent being the 4KMP by KM. Changes have also been made to the Building Code to allow large private projects to deviate from existing zoning requirements and this has allowed projects such as the Hessa Al-Mubarak District to be formalized.²¹

land-use and zoning ordinances using the New Kuwait Zoning Code.²² One of the development goals of 4KMP is to reduce dependence on the personal automobile for transportation while increasing density through transit-oriented mixed-use development. The plan is seen as a flexible guide to physical planning that can be adapted to changing needs.

2.3.1 FOURTH KUWAIT MASTER PLAN 2040

The Fourth Kuwait Master Plan (4KMP) is being developed by KM in partnership with SCPD, with the following consultants commissioned for the task: Perkins & Will, Dar Al-Handasah, Shair and Partners (DAR), and SSH. The 4KMP will guide the physical planning strategy of the country to the year 2040 and identify

2.3.2 NEW KUWAIT ZONING CODE

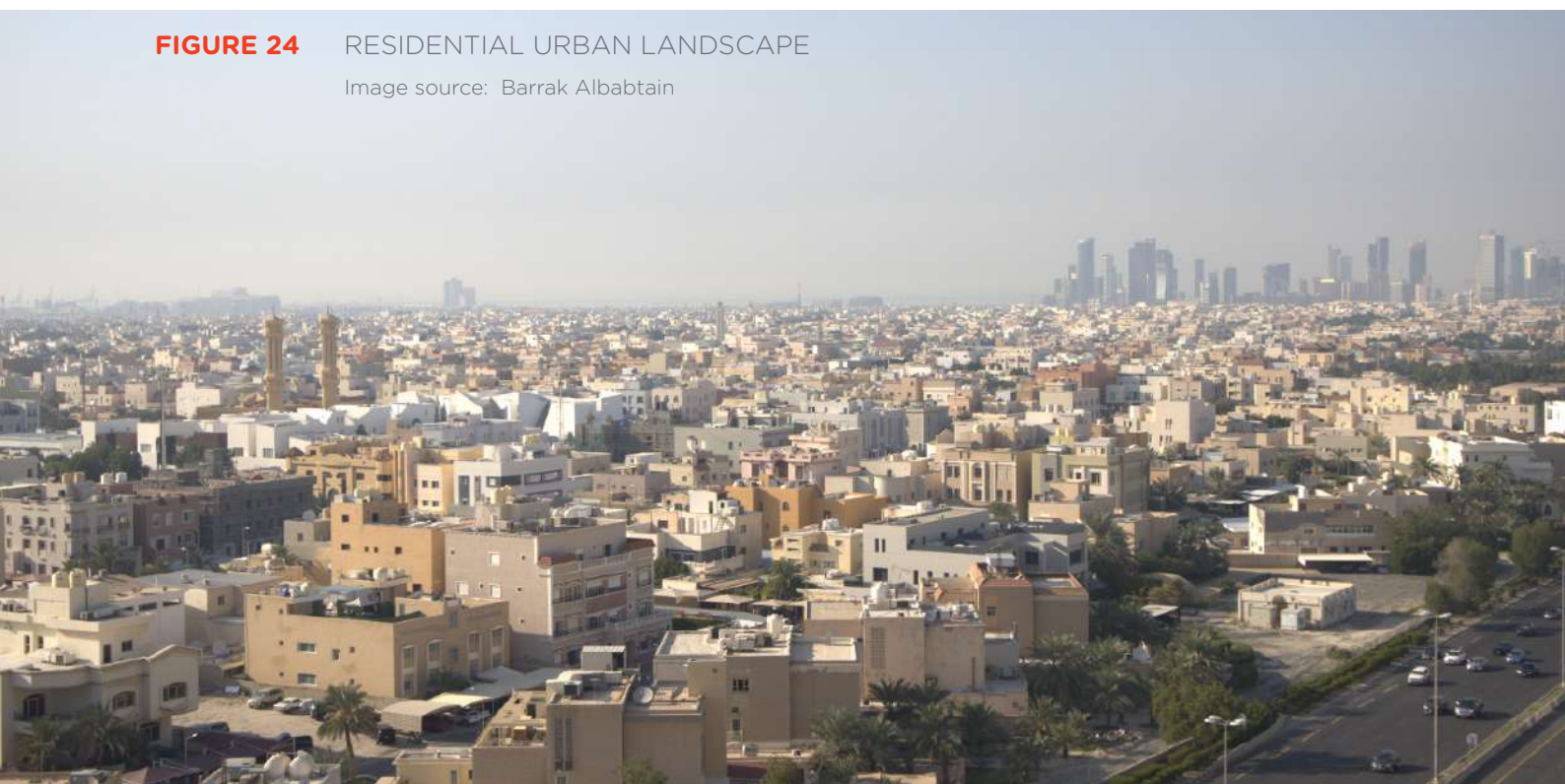
The new KM code will be a transect-based planning and zoning document with the goal of increasing density through transit-oriented design and infill development. The zoning divisions are based on a scale of urban density and the intention is to have an urban fabric of gradually increasing density based on factors such as proximity to the urban center or transit nodes. The new code defines the density

21 Eligibility is limited to projects owned by a single owner with a contiguous area larger than 50,000m²

22 KM has developed a new form-based zoning code for Kuwait that is based on the SmartCode urban planning guideline developed by Duany Plater-Zyberk & Company in 2003 (KM, 2016).

FIGURE 24 RESIDENTIAL URBAN LANDSCAPE

Image source: Barrak Albabtain



of an area first and then its function on a plot-by-plot basis rather than defining the function of an area first, which is the method currently followed by the existing Building Code. This allows for greater flexibility in urban planning and for the development of mixed-use communities. It addresses all scales of planning, from the regional to the community to the block and building. The strategy allows for alternative building typologies to the private villa and apartment building.

2.3.3 MORTGAGE LAW

PAHW has continued with consistent project delivery, although this has far outpaced the capacity for KCB to provide construction loans for PAHW land plot recipients, resulting in a massive backlog of prospective homeowners waiting to receive their loans from KCB to begin building. The Council of Ministers recently approved a legislative proposal to allow commercial banks to provide housing mortgage loans secured by the financed property where the interest cost is borne by the state (Al-Abdulghafour, 2021, May 25). While the proposed law outlines a broad framework, it is short on detail: its main feature is that only recipients of PAHW housing are eligible to take advantage of the loans. It seems then that the law is aimed at solving KCB's liquidity crunch rather than easing credit constraints in the housing market more generally. The proposal has yet to be debated by the parliament.

2.4. CHALLENGES TO CURRENT PLANNING

2.4.1 DATA LIMITATIONS

The availability of high-quality data is crucial for informed planning, policymaking, and efficient and effective governance. For instance, detailed data on the existing housing stock and occupancy rates are needed for efficient infrastructure investment and adequate government service provision. Data on housing construction starts and completions allows the identification of rigidities in the supply of housing in response to increasing demand. Data on housing finance and household income and expenditure, both of which are essential for assessing affordability, are at best fragmented and infrequent (the last Income and Expenditure Survey was conducted in 2013).

Presumably, some of these and other data are available to housing-related government agencies (albeit of varying quality and usefulness in informing policy). Nevertheless, major data gaps remain in essential areas of policymaking and governance. The most glaring example relates to the apartments-in-villas phenomenon that has engulfed private housing districts over the past two decades (discussed in Chapter 5). There is little evidence to suggest that the government has a proper accounting of the extent of this sector of the housing market, and the pressure it exerts on infrastructure and public services. Frequent and consistent household surveys on housing preferences, as well as travel and energy consumption behavior, are essential for long term urban planning and housing policymaking.

The value of detailed, disaggregated, timely, and accurate housing data extends beyond planning, policymaking, and governance. As will be discussed in Chapter 4, housing markets are inherently fraught with frictions and informational asymmetries that in some instances lead to the market's failure to match supply with demand. Data that are accessible to home buyers and sellers, renters and

landlords, lenders, assessors and brokers is essential to a well-functioning housing market. Furthermore, data limitations also hamper researchers' ability to study the housing sector quantitatively and offer the empirical evidence that can inform planning, policy, and regulation.

2.4.2 LACK OF A CLEAR URBAN AND HOUSING POLICY

Although KM is mandated by law to develop national urban policy, this policy is not clearly articulated. For example, issues related to fragmented growth as a result of leapfrog development are not addressed directly, nor is there any documented information available on this. Rather, with every new master plan, certain policy directions are taken based on their respective planners' understanding of the needs of each government agency, including projected housing requirements. Areas for new housing developments are assigned mainly based on land availability and release from KOC and bear little relation to the existing urban fabric of the city. In addition, the MC passes ad-hoc regulations as a reactive measure in individual cases and these are not necessarily guided by a unified policy framework. For example, some MC members recommended reassigning parts of Al-Sulaibiya from agriculture to residential zones, thus contradicting the existing master plan (Anwar, 2020, April 28) and bypassing the holistic process of planning. Although Kuwait has a very clear housing welfare law, what is missing is a comprehensive housing policy that addresses affordable housing provision both through state-provided housing and the private market for Kuwaitis and non-Kuwaitis alike.

2.4.3 MINIMAL FOCUS ON SUSTAINABILITY

A clear shortcoming in existing urban development and housing plans and projects is the lack of attention given to social, environmental, and economic sustainability. With the focus wholly on housing welfare, long-term plans for an alternative and sustainable method of securing affordable housing - including on the private market - are missing, with serious implications for the entire population. Land is Kuwait's second most important natural resource after oil, but its potential has been undermined through inefficient development and a failure to treat it as a financial asset whose value could otherwise be realized through taxation, market-rate fees, and long-lease contracts. Another issue is that contextually driven planning relating to local climate and geography is missing. Wind direction, dust corridors, vegetation, and shading are just some of the issues neglected in new developments today.

2.4.4 MINIMAL ATTENTION TO ARCHITECTURE AND URBAN DESIGN

There appear to be no clear guidelines or standards (relating to both architectural and urban design) to enhance the design and quality of buildings and public space. Although the Building Code sets certain height, space and building setback limitations, it completely disregards climate-related design guidelines such as material use, fenestration ratio and natural ventilation - all passive design tools that would collectively lower temperature and reduce energy consumption. Also missing are any requirements for open space, light, and ventilation within buildings to enhance the quality of space for the inhabitants.

Likewise, there are no specifications for the types of materials to be used on streets, sidewalks, and urban furniture, and it is not uncommon to find different street finishes on the same road and sidewalks. Due to this gap in urban design standards, the public space in front of buildings is encroached upon by property owners, who alter the space either through planting, floor finishes and/or lighting. Urban design opportunities are also missed when it comes to the street façade, where certain building elements could be unified for visual and aesthetic purposes as well as creating shade for the street. Similarly, no clear guidelines exist for green space and planting: there is an uneven distribution of parks in different neighborhoods, as well as an absence of trees and vegetation in neighborhoods, especially the more recently developed ones.

It should be noted that some of the issues mentioned above are alluded to in the zoning codes of KM and PAHW, yet it is not clear how these will be implemented on the ground, nor which institutions would be responsible for this.

2.4.5 CONTRADICTION IN LAND-USE AND HOUSING REGULATIONS

The inter- and intra-institutional fragmentation of urban- and housing-related agencies results in regulatory contradictions. Guidelines set by the master plan are not followed by KM and PAHW. For example, the current master plan recommends a housing density of 12 units per hectare in private housing districts;²³ however, PAHW has designed districts that are one quarter of that, with densities as low as three units per hectare. In addition, PAHW has also introduced other types of housing and uses within its allocated lands which

are planned and designed separately, with no clear indication as to how they relate to the state master plan. These can be found in the districts developed more recently such as Jaber Al-Ahmed, Sabah Al-Ahmed and South Al-Mutla'a, which include commercial, industrial and investment housing zones. Similarly, the master plan designates areas for single-family units defined as private housing for Kuwaitis, yet KM's Building Code allows private housing to contain up to three units (however, they cannot be owned separately), which may be partly interpreted as a way for the government to address the shortage of housing supply. However, increasing the housing density threefold creates a planning problem as it places pressure on services and amenities in those areas. Similarly, land allocation does not always follow the master plan's zoning requirements. For example, areas that are designated as agricultural may be re-designated as residential on a whim by the MC, as mentioned earlier.

2.4.6 MONITORING AND IMPLEMENTATION OF THE MASTER PLAN

Even though the master plan is the leading spatial strategy for the country and is issued by an Emiri Decree, implementing it has proven to be challenging.²⁴ The absence of an effective implementation, monitoring, and review process has allowed different entities to deviate from it in a way that does not consider the ramifications on the wider planning process. The role of the MC in legislating land uses that contradict the master plan, as discussed earlier, undermines the master plan's role in driving spatial development. The lack of a centralized government body to enforce the master plan makes it difficult to monitor and implement it at its different scales. The current fragmentation in urban planning

across government, together with a lack of coordination due to the absence of universal digitization across its institutions, creates a significant challenge for both monitoring and implementation.

2.4.7 LOCAL GOVERNANCE AND STAKEHOLDER ENGAGEMENT

There is increased pressure on central government to maintain service provision and engage its stakeholders due to the expansion of the urban area and population growth. Although the structure for local governance exists at various levels, through the governorate branches of KM, the Mukhtar and the co-ops, they are not empowered to realize their potential to plan and manage at the city and sub-city levels and engage the local community.

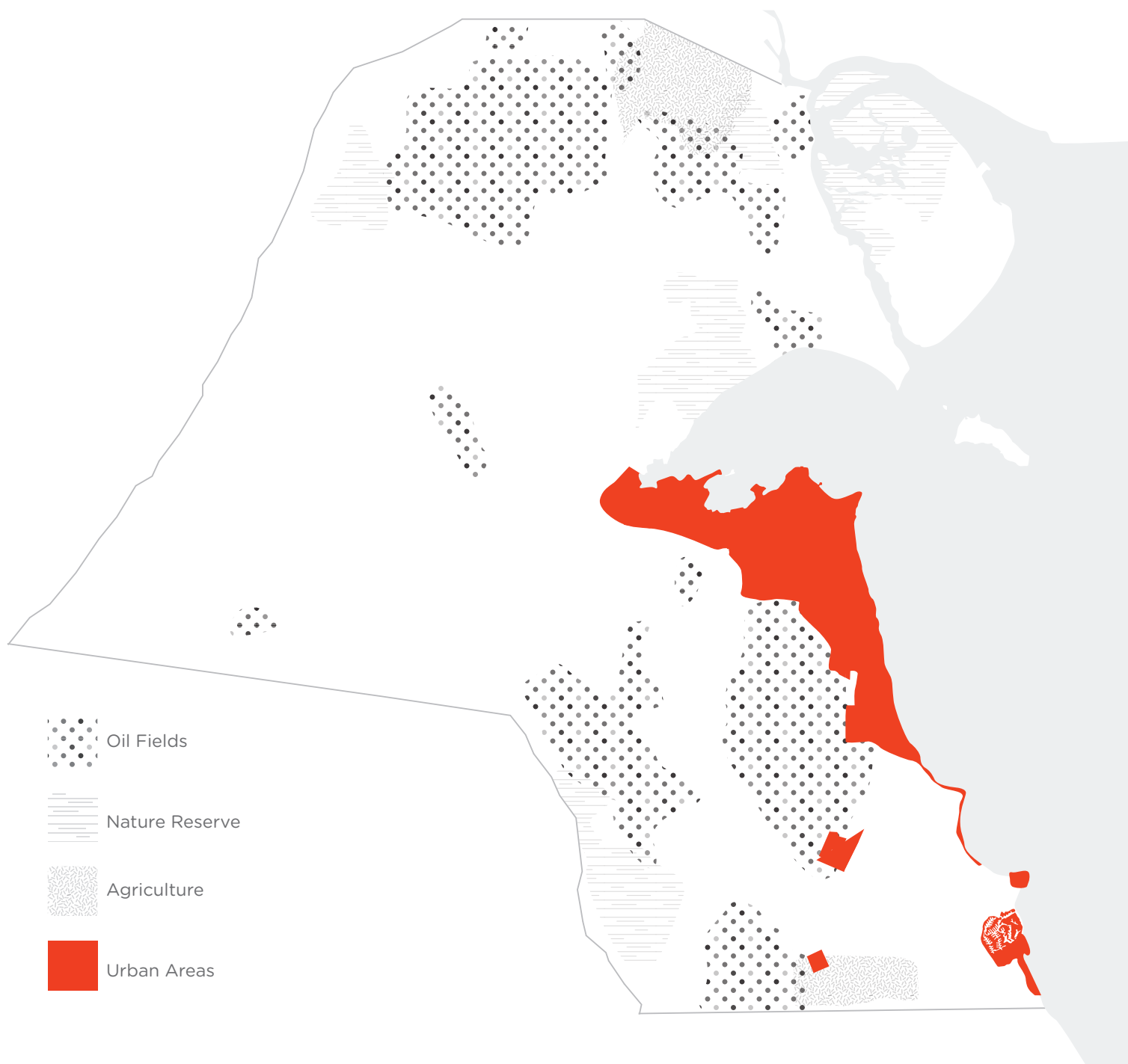
Urban planning takes a similarly centralized approach, where the master plan department at KM creates the local improvement and district plans but is quite disconnected from the local communities they are planning for. Localized urban improvements ranging from landscaping to speed bumps or bus stop designs all rely on central government, where the process is lengthy and at times fails to serve the community's needs. Currently, minimal stakeholder engagement results in failure to serve the needs of local residents and businesses, as well as a lack of input from key players such as the private sector, academics, and civil society

24 Report on the Alignment of Kuwait Master Plan with the Medium-Term Kuwait Development Plan 2009-2010 - 2013-2014, GS-SCPD Master Plan Working Group, 2012.

2.4.8 LAND RESOURCE SCARCITY AND ACCESS

Access to residential land is one of the biggest obstacles facing housing development in Kuwait today. KOC alone controls 1.2 million hectares (68.7%) of the country and is the main player in releasing land as shown in Figure 25. The rest (25.8%) is held by other state agencies or kept as natural reserves (KM, 2019). Within KMA only 50% of the land is developed, leaving large swathes of undeveloped land under state control (Rode et al.,2017). This creates an artificial shortage of land in the country because much of the available land is under-utilized.

When land is released by the government, the allocation mechanism is complicated and lengthy. The MC is responsible for land allocation and most land for residential development is allocated to PAHW. In turn, PAHW takes many years to plan, design, develop and allocate land to citizens. Although land allocation in principle should follow the master plan guidance, in practice this is not the case due to ad-hoc decisions and political pressure. For example, West Abdullah AlMubarak is a relatively new PAHW-developed residential district allocated to PAHW by the MC, even though it has not been designated as such on the master plan. On the other hand, private developers are not able to buy or lease residential land directly from the government, restricting them to the limited land available on the market which leads them to compete with individual land and home buyers.

FIGURE 25 LAND USE MAP OF KUWAIT

- Data source: Kuwait Oil Company

CHAPTER

3

**URBAN
CHARACTER**

The spatial character of the Kuwaiti urban landscape is atypical when compared to trends in monocentric cities, where there is a relationship between distance from the central business district (CBD) and building height, dwelling size, density and price. In Kuwait, this relationship is less clear. As previously discussed, there are two dominant types of housing typologies in Kuwait: the single-family villa and the apartment building, which exist in two distinct areas: private (low density) and investment (medium density) housing areas respectively. These typologies are clustered in specific areas across the city, delineated by the fact that they house Kuwaitis and non-Kuwaitis respectively. This population segregation, coupled with an increase in demand for housing within the Kuwaiti population, has produced a third housing type in the Kuwaiti districts: apartments-in-villas. This informal housing typology has become ubiquitous over the past 15 years and is characterized by the

internal sub-division of the villa. Pressure to provide housing, whether formal or informal, has in turn led to the neglect of other important aspects of urbanization such as good quality transport options and access to quality public space, placing Kuwait at the lower end of global city and quality of life ranking indices.

FIGURE 26 SATELLITE IMAGE OF KUWAIT CITY



3.1. URBAN SPATIAL STRUCTURE

The physical shape of a city is a product of its history, culture, economy, natural constraints, and planning policies. The standard urban economic model, summarized by Brueckner (1987), is predicated on the tradeoff between commuting and housing costs faced by households. In a monocentric city,

the model predicts certain relationships between specific variables and the distance from the city's CBD (Table 1). The location of the CBD is indicated in Figure 26.

TABLE 1 URBAN SPATIAL STRUCTURE RELATIONSHIPS

FEATURE	RELATIONSHIP WITH DISTANCE TO CBD	DESCRIPTION
POPULATION DENSITY	 <p>POPULATION DENSITY</p> <p>DISTANCE FROM CBD</p>	DENSE AT CBD; DECREASE GRADUALLY WITH DISTANCE
BUILDING HEIGHT	 <p>BUILDING HEIGHT</p> <p>DISTANCE FROM CBD</p>	TALL AT CBD; DECREASE GRADUALLY IN HEIGHT WITH DISTANCE
HOUSING UNIT (DWELLING SIZE)	 <p>HOUSING UNIT</p> <p>DISTANCE FROM CBD</p>	SMALL AT CBD; INCREASE GRADUALLY IN SIZE WITH DISTANCE
LAND VALUES (PER M2)	 <p>LAND VALUES</p> <p>DISTANCE FROM CBD</p>	HIGH AT CBD; DECREASE GRADUALLY WITH DISTANCE
HOUSING PRICE (PER M2)	 <p>HOUSING PRICE</p> <p>DISTANCE FROM CBD</p>	HIGH AT CBD; DECREASE GRADUALLY WITH DISTANCE

Studies find these predictions to be generally consistent with observed spatial structures of many of the world's traditional cities such as London, New York, Paris, Bangkok, and Jakarta (McDonald and McMillen, 2011; Bertaud and Malpezze, 2003). However, they also document several departures from them in cities such as Brasilia, Johannesburg, Seoul, and Moscow. The authors categorize these urban development experiences as being market driven (the former group) versus centrally planned (the latter group).

Figures 27-(a) through (d) are generated by treating downtown Kuwait as the CBD and using the available data.

Figure (a) shows a relatively flat density profile, perhaps reflecting the mostly uniform land-use regulations in residential zones across Kuwait. Even the few high-density outliers around 10km from the CBD (namely, Farwaniya, Khaitan, Salmiya, and Jleeb Al-Shuyoukh) are not sufficient to overcome the cluster of low-density districts near the CBD. Figure (b) shows a decreasing average lot size with distance from the CBD, which runs contrary to the urban model's prediction; however, lot size is an imperfect, if not misleading, proxy for dwelling size as it does not account for differences in built-up area. In fact, it is not implausible to expect the curve to be even steeper if subdivided apartments-in-villas - a recent phenomenon mostly observed in newly developed districts far from the CBD - are taken into account. Figure (c), on the other hand, shows decreasing land values with distance, as expected. Figure (d) shows a similar pattern for house prices, although it is based solely on lot size due to lack of data on other housing and neighborhood attributes.²⁵

25 Houses with the same lot size may have different per-m2 prices due to differences in other attributes (e.g. floor space, design and quality, location, and neighborhood amenities). Refer to section 4.1 for a thorough discussion of the definition of housing as a good.

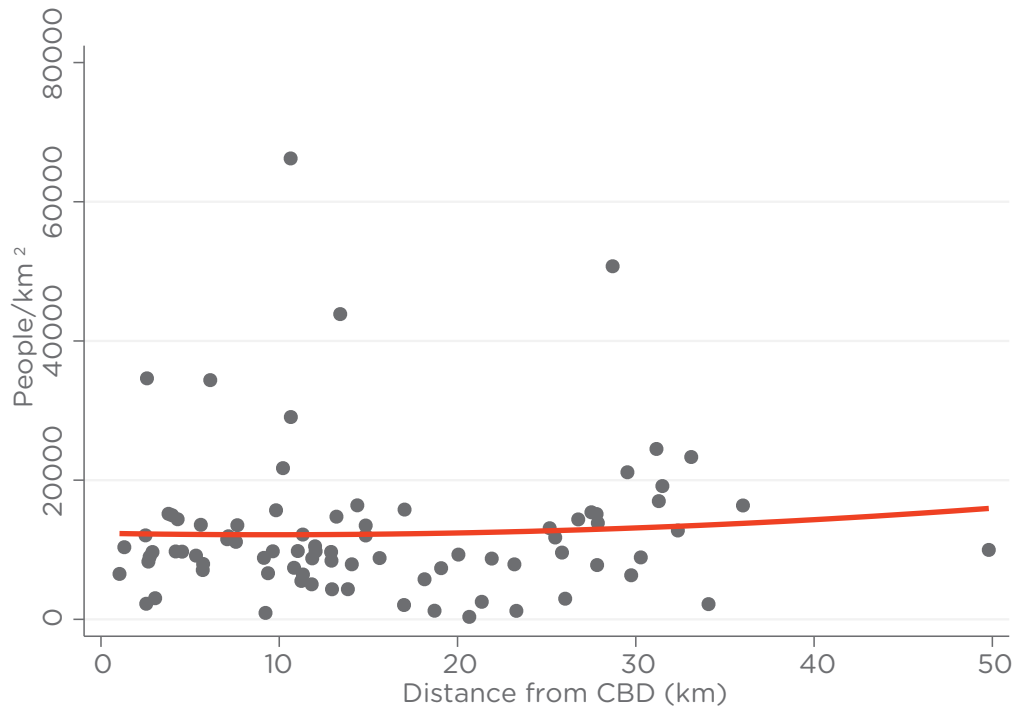
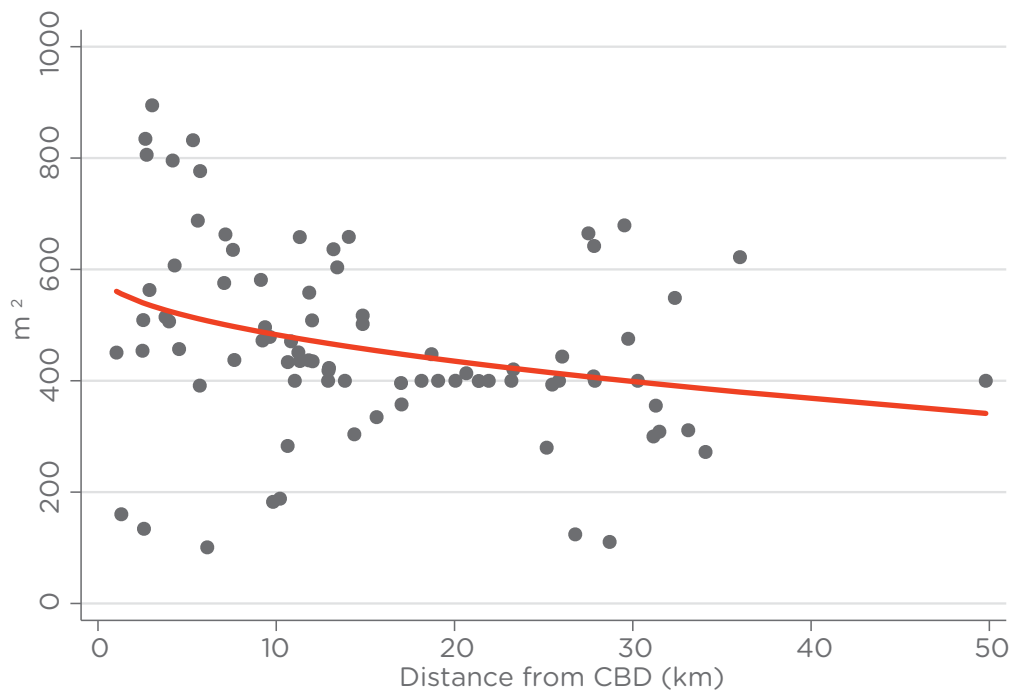
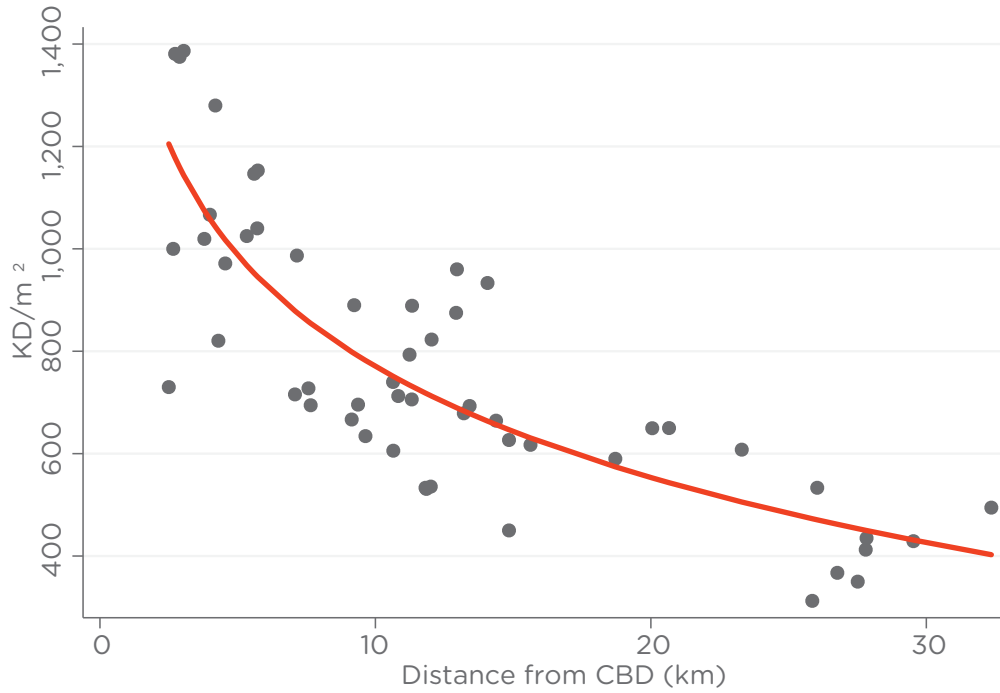
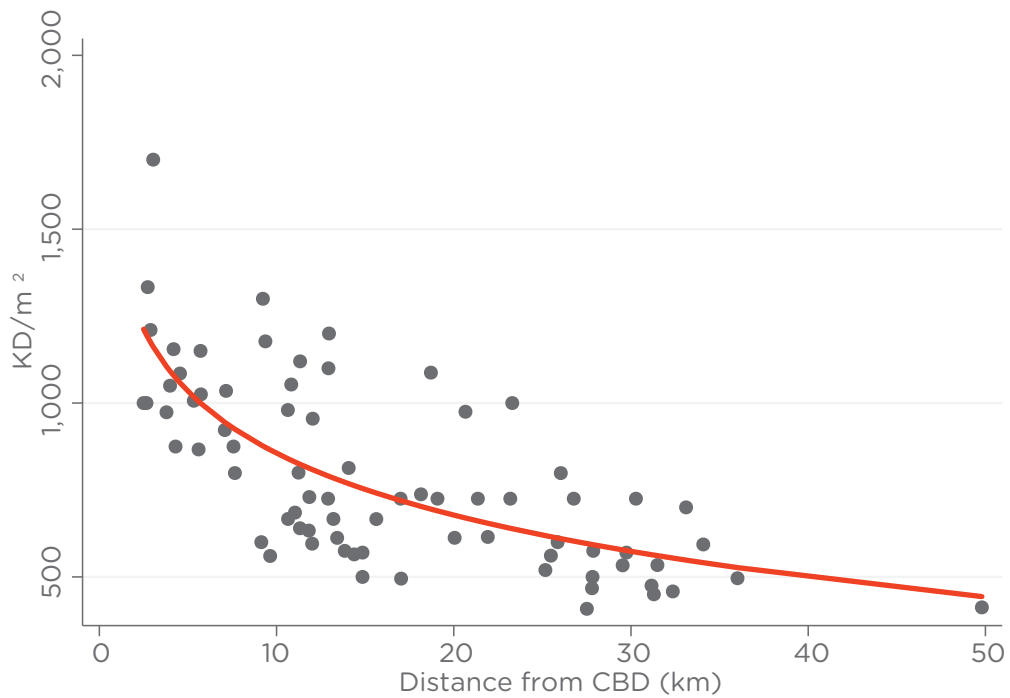
FIGURE 27A POPULATION DENSITY**FIGURE 27B** AVERAGE LOT SIZE

FIGURE 27C LAND VALUES**FIGURE 27D** HOUSING PRICE

- Data source: PACI (2019) and MOJ (2020)

- Distance from the CBD is capped at 50km to exclude outlying newly developed residential districts for which there are very few observations in the data.

3.2. HOUSING TYPOLOGIES AND POPULATION DENSITY

Formal urban planning in Kuwait is based on the premise of land-use designation which separates work from living areas and relies on the private automobile as the main mode of transport, facilitated by an extensive road network. The land-use plans developed for Kuwait determine not only the allowable uses in different areas of the city, but also specific types of housing in the different residential areas of Kuwait, mostly concentrated in the KMA

today. As shown in Figure 28, the private housing area covers 78% of the developed area in the KMA whilst the investment area covers 13%. Yet, they inversely house 31% and 69% of Kuwait's population, with average urban living area densities of 3,043 persons/km² and 6,805 persons/km² respectively (Rode et al.,2017).

Density figures in Kuwait can be misleading, however, depending on how

FIGURE 28 PRIVATE AND INVESTMENT HOUSING AREAS BY GOVERNORATE

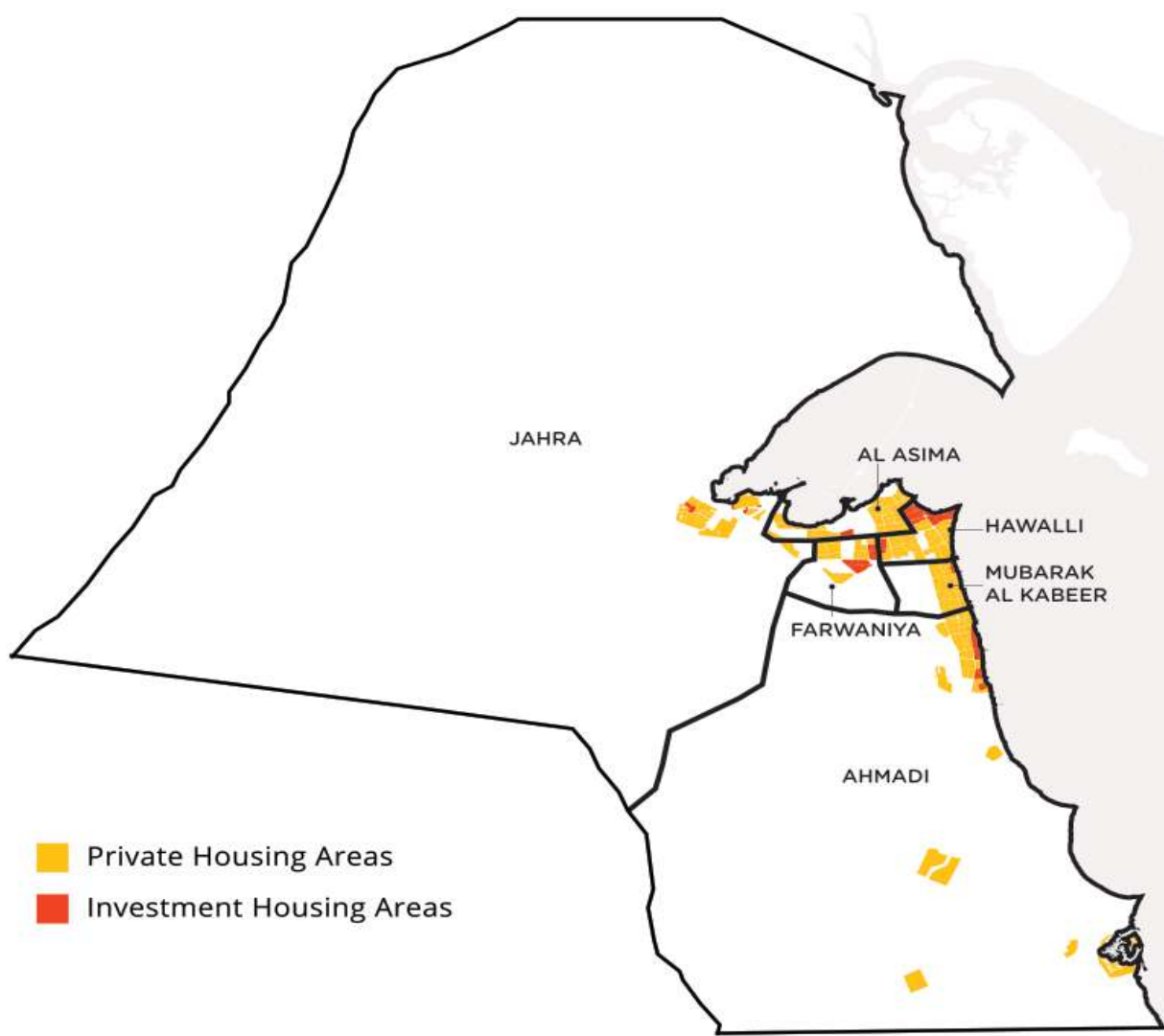
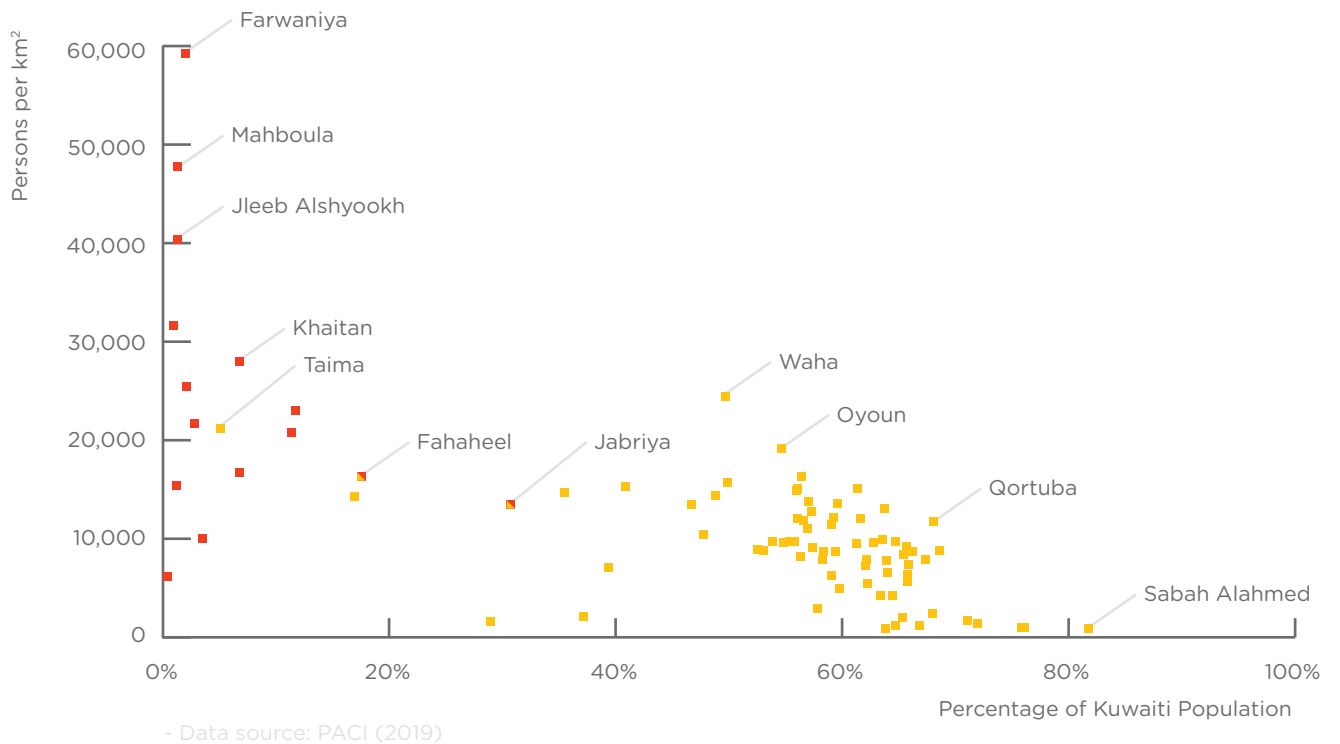


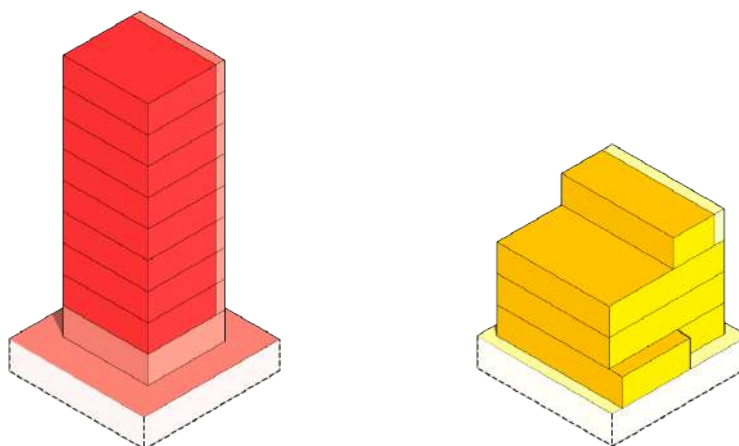
FIGURE 29 POPULATION DENSITY VS. PERCENTAGE OF KUWAITIS

one measures them. The most referenced measure is the national density figure of 232 persons/km² covering the entire country (World Bank, 2018). However, this can be very misleading as the KMA, where most of the urban area is located, covers only 5% of the land and therefore urban density within its boundary would be a more indicative measure. Rode et al. (2017) calculated KMA's density at 4,904 persons/km² - comparable to cities such as London and Berlin which are seen as compact, whereas Kuwait is generally viewed as much less dense and sprawling. Moreover, there is no defined metropolitan area density, since KMA's boundary is not a census or administrative boundary where population and other data are measured. Rather, Kuwait is divided into districts that fall within six governorates that make up the city-state. Understanding densities by governorates is also challenging because some cover vast areas of undeveloped desert, namely Ahmadi and Jahra (Figure 28).

Figure 29 shows a stark difference in population based on the percentage of Kuwaitis in each district, with areas that have a large non-Kuwaiti population having a much higher density.

A more granular approach to understanding population density in Kuwait can be taken by measuring it at the block level - a subdivision of the district. Rode et al. (2017) revealed that population density in Kuwait peaked at 52,941 persons/km². When stratified by citizenship status, the average density for non-Kuwaitis (6,805 persons/km²) was double that of Kuwaitis (3,043 persons/km²). Based on the Third Master Plan Review (KM, 2005), Kuwaiti housing (single-family villas) and non-Kuwaiti housing (apartment buildings) should create an average density gap much larger than double when stratified by residential zoning (i.e. private vs. investment). In reality Kuwaitis do not live in single-family homes, as the current Building Code allows for each villa to be divided into

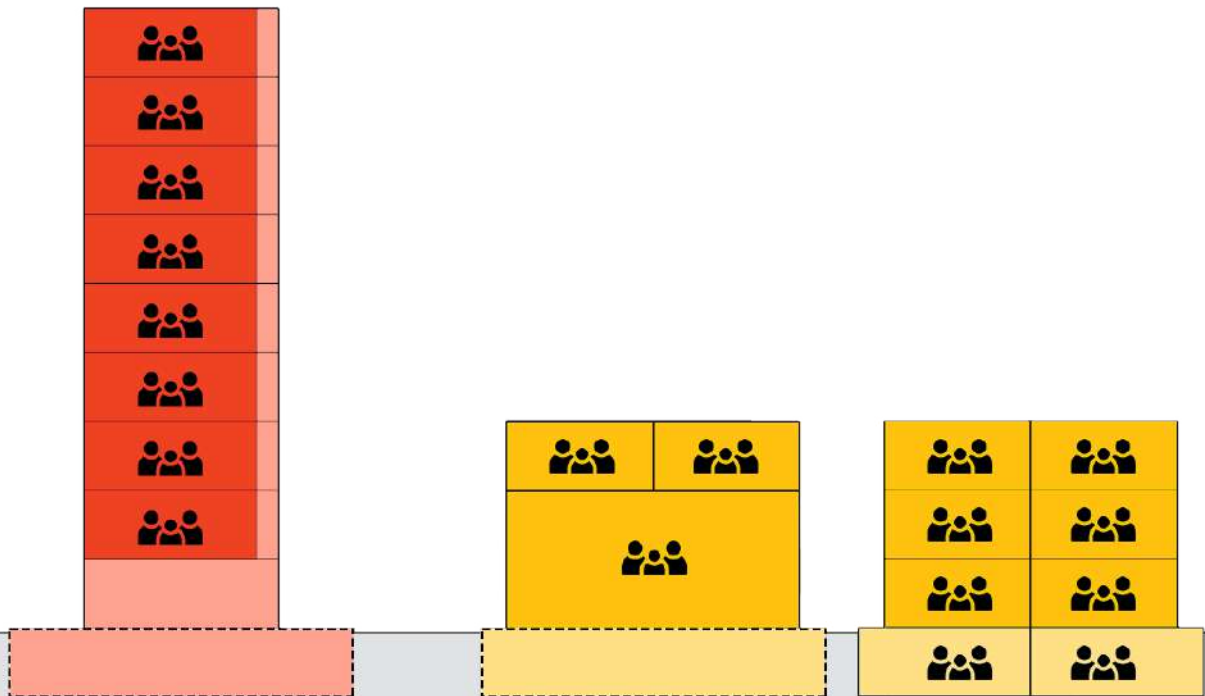
FIGURE 30 INVESTMENT AND PRIVATE HOUSING DIFFERENCES



Zoning	Investment	Private
Plot size	400m ²	400m ²
FAR	250%	210% + 120m ²
Total BUA	1000m ² rentable space	960m ² + 400m ² basement
Total Units	8 x 125m ² apartments	1 single family villa + 2 apartments
Parking	16 parking spots required	None required
Electricity	5-15 fils per kWh	2 fils per kWh
Water	4 fils per imperial gallon	0.8 fils per imperial gallon
Fire safety	Required	Not required

Source: Building Code, Ministry of Electricity and Water (MEW)

three units. Thus the single-family villa by definition is slowly ceasing to exist in its pure form, facilitated by a floor-to-area (FAR) ratio of 2.1 (expressed as 210% in the Building Code which allows for up to 1,360 square meters of built-up area in a 400 square meter plot (Figure 30).²⁶

FIGURE 31 TYPICAL ARRANGEMENT OF HOUSING UNITS

Data source: Building Code

A number of press reports in the last two decades have pointed to violations in building regulations in single-family home construction, as many are being entirely converted into apartment buildings, adding pressure on infrastructure, amenities, and parking space. In the absence of reliable official counts or estimates of the number of houses that contain apartments and the number of resulting apartments, it is virtually impossible to quantify the extent of the problem.

Figure 31 shows the typical arrangement of housing units in investment buildings and private homes.

The building in red shows the typical occupancy of an investment housing building, with one or more apartments on each floor. The buildings in yellow illustrate single-family houses in private housing districts. A private villa can have up to two separate apartments on the top floor as per the Building Code. However lax enforcement has resulted in

private villas being constructed with the purpose of renting the entire building as an investment project with apartments on each floor. Added benefits such as the favorable utility subsidies and parking requirements compared to investment buildings have further encouraged investors to build apartment buildings in private housing areas. The investor can achieve a larger rentable floor space on the same size plot while paying less in utility fees and not having to comply with any minimum parking requirements. As such, a private villa designed in this way can have the same number of apartments as an investment building because of the similar FAR in both zoning types.

3.3. MOBILITY AND TRANSPORT INFRASTRUCTURE

Car-centric development has historically shaped the spatial form of the city at a time when the car provided freedom and ease of travel. Development since has followed a similar model, resulting in an extensive road network of 7,994 km² representing the primary ground infrastructure in Kuwait connecting different zones of the city (CSB, 2018). The car is essential for daily travel since the various areas of the city - mainly living and working areas - are mostly separated from one another. The car motorization rate in Kuwait is 353 cars per 1,000 persons (CSB, 2018) - almost double the global average (OICA, 2015). Kuwait also has the sixth cheapest gasoline price rates worldwide (Global Petrol Prices, 2020), making fuel costs a negligible factor in encouraging a reduction in motorization levels. Road fatalities were 97.6 deaths per million inhabitants in 2018, which is much higher than the OECD average²⁷ and this clearly calls for a review of this car-dependent culture.

However, there are currently few viable transport alternatives. According to Rode

et al. (2017), 53% of all trips in Kuwait are by private motorized vehicles, 41% by public transport, and only 6% by active transport such as walking or cycling. Amongst Kuwaitis, 99% of all trips taken are by car. The lack of any type of rail infrastructure limits public transport options and increases the dependency on motorized vehicles. All public transport is by bus, provided by three companies: Kuwait National Public Transport Company, City Bus, and KGL, the latter two being private companies. Even though bus usage has increased over time, its growth has not kept pace with population growth (KM, 2019). The bus network has shrunk and this has been a factor in the slow growth of bus usage as some routes have been discontinued, especially unprofitable ones and those serving the outskirts of the KMA. Poor maintenance and the lack of climate-adapted bus stops make using the bus network challenging in Kuwait (see Figure 32). As with housing, the transport mode share varies between Kuwaitis and non-Kuwaitis, with bus usage dominated by non-Kuwaitis.

²⁷ The OECD average is 62.6 road deaths per million inhabitants in 2018. <https://data.oecd.org/transport/road-accidents.htm>

FIGURE 32

DILAPIDATED BUS STOP

- Image source: Sharifa Alshalfan



3.4. WALKABILITY

As discussed earlier, active transport modes make up only 6% of the travel mode share, and this is reinforced by policies geared towards increased road infrastructure together with the neglect of both sidewalks and bike lanes. Sidewalks are poorly designed and maintained but are also encroached upon by cars using them for parking (Figure 33). The near absence of bike lanes, coupled with a lack of crossings and pedestrian traffic lights, presents a significant safety risk for pedestrians and cyclists alike. This also has an indirect negative effect on the quality of public transport, as mentioned earlier, as inadequate pedestrian infrastructure creates yet another challenge for its users.

Similarly, the lack of urban design guidelines to address shading, vegetation and materials to be used in construction, have contributed further to the deterioration of public space and low walkability levels and resulted in neighborhoods that lack character and a sense of place. Even though the climate is usually blamed for the neglect of public space, studies have shown that behavior and use of public space do not usually correlate with weather conditions to the extent that low usage of public space

is constant, irrespective of the season (Gomes et al., 2021).

In Kuwait, urban planning views walking as a function of leisure and exercise rather than transport and mobility needs. This is shown through the designated walking paths that border some of the residential districts to provide a safe and comfortable environment for walking. However, the lack of recognition of walking as a transport mode neglects the needs of the 49% of non-Kuwaitis who do not have access to private vehicles (Rode et al., 2017), and as mass transport users they would naturally require pedestrian infrastructure to move from place to place to access their travel mode. Similarly, there is no clear walkable connection between bus transit nodes and the wider pedestrian network. Pedestrian paths are generally uneven and are constantly obstructed by physical barriers, with a lack of clarity on the boundary between the public and private realm. This poses a safety risk to users who require a consistent and clear mobility pathway, such as the disabled and young children.

FIGURE 33

TYPICAL RESIDENTIAL NEIGHBORHOOD IN A PRIVATE HOUSING ZONE

- Image source: Barrak Albabtain



3.5. QUALITY OF LIFE

As discussed in section 1.2.1, Kuwait today ranks low on multiple city livability indices, which reflects the poor quality of life of its inhabitants but also presents a challenge for city competitiveness in attracting global businesses, talent, and tourism. Urban planning policies and a car-dominant culture, as previously discussed, have an adverse impact on air quality, walkability, and the quality of public transport infrastructure and public space - some of the key factors considered when determining the quality of life of any city.

Urban planning has also neglected the quality of public space through minimal mixed-use developments and poor access to green space. For example, the 4KMP reveals that the green area per capita in Jabriya - a district of both private and investment housing as well as considerable commercial activity - is over three times less than the world recommendation (KM, 2019).

Low walkability and the poor quality of life in neighborhoods is a result of urban and transport planning that is based on single land-use allocation (as opposed to mixed-use) and centered on private vehicle use as seen in Figure 34. Furthermore,

planning policies intentionally segregate Kuwaiti and non-Kuwaiti communities thus creating potential social and cultural conflicts. The reduced variety in building type and use, coupled with private vehicle dependency, has neglected the negative externalities associated with these policies such as the inefficient use of resources, pollution, limited physical activity and traffic congestion, all of which impact on both quality of life and economic productivity.

FIGURE 34 POOR QUALITY PUBLIC SPACE
- Image source: Sharifa Alshalfan



CHAPTER 4**HOUSING
DEMAND AND
SUPPLY**

4.1. THE ECONOMICS OF HOUSING

In discussions about housing demand and supply, one needs to recognize those aspects of housing that are unique and set it apart from other consumption goods. It also requires an understanding of how housing markets are related to other markets, as well as the general macroeconomy.

consumption and investment motives underpin the demand for housing, and a prospective home buyer employs much more foresight than in most other purchase decisions. This, together with other characteristics of housing as a singular good, are discussed at length in Pirounakis (2013) and Arnott (1987).

4.1.1 HOUSING IS A PECULIAR GOOD

Housing provides one of life's most basic needs: shelter. It is fixed in space, so the utility associated with consuming it derives from the housing unit as well as the neighborhood and the general spatial environment it is situated in.²⁸ Housing is a composite good comprising a variety of attributes that satisfy heterogeneous consumer preferences. Thus, housing analyses and surveys usually treat the quantity of housing consumed by a household as a flow of housing services per unit of time, valued by the rent it would command. Households also draw intangible and sentimental benefits from housing, such as a sense of security, privacy, autonomy, attachment and belonging to a neighborhood, as well as life-experience and memory creation. In addition, housing consumption is linked to household composition and employment choices.

Housing is durable and represents a substantial share of a household's overall expenditures. Purchasing a housing unit is one of the most significant life decisions, one where the household considers expected future utility and income flows as well as maintenance costs. Most housing purchases involve a long-term financing commitment, with the housing unit usually pledged as collateral. It can accrue capital gains and serve as an inflation hedge as well as an intergenerational transfer of wealth. Housing thus represents both an asset and a consumption good. Both

4.1.2 THE HOUSING MARKET

The peculiarities of housing affect how housing markets function and are analyzed. A basic supply and demand model would assign real estate developers the role of producers of housing services, while households assume the role of consumers. In reality, these roles are not as clear cut, especially in the case of Kuwait as will be discussed in Chapter 5.

The housing market is differentiated by tenure choice. The submarkets for owner-occupied and rental housing are interdependent and influenced by different policies, with households transitioning between owner-occupants and renters as life circumstances change. Housing is also interlinked with other markets for land, credit, assets, and construction, as well as the macroeconomy in general. Furthermore, developers' expectations about demand play a crucial role in the timing of construction, potentially resulting in speculative behavior.

Finally, housing markets are not perfectly competitive and suffer inefficiencies due to transaction costs (e.g. search and moving costs as well as legal, brokerage, and financing fees), market frictions (e.g. construction lags, neighborhood attachment, and long-term leases), and informational asymmetries between buyers/tenants and developers/landlords (Arnott, 1978). These imperfections, along with the fact that housing plays a large role in the macroeconomy as both

28 Utility is an economic concept used to describe satisfaction or happiness from consuming a good.

a consumption and investment good, help explain the pervasiveness of government intervention in housing markets around the world (Malpezzi, 1999; Arnott, 1978).

interventions have distortionary effects on incentives in the market, and their efficacy hinges upon the competency of governments, which can be imperfect (Arnott, 2015).

4.1.3 DEMAND AND SUPPLY

Demand analyses usually aim to understand how housing consumers respond to changes in price, income, and government policies. Empirically, housing demand around the world is generally found to be price and income inelastic (Malpezzi, 1999; Olsen, 1987), indicating that buyers respond less than proportionately to changes in price and income respectively, all else being equal. Pirounakis (2013) lists other factors that influence demand, some of which are particularly relevant to Kuwait such as the number and demographic composition of households, price expectations, financing, tenure choice, and the cross-elasticity of demand between owner-occupied and rental housing.

The supply of housing in any given period comprises the existing stock of housing and the flow of new construction. As such, determining the price elasticity of supply will depend on the time horizon. Because of construction lags, housing supply is almost perfectly inelastic in the short run, as few housing services can be added beyond marginal improvements to the existing stock (Arnott, 2015). However, the long run elasticity varies more widely around the world (Kim et al., 2012), owing largely to differences between countries in the availability and cost of land, construction costs, and government regulations (Pirounakis, 2013).

Housing supply can be viewed as a social good which, in light of its peculiarities and market imperfections, calls for direct provision by the government to improve equity through subsidized or directly-provided public rental housing for low-income households (Malpezzi, 1999; Whitehead, 1999). Most government

4.2. THE DEMAND FOR KUWAITI HOUSING

The demand for housing by Kuwaitis is generally influenced by factors such as population growth, household income, preferences, and expectations. These factors in turn are likely to be influenced by some of the unusual characteristics of Kuwait's economy, society, and urban and housing policies. Generous and indiscriminate state-provided housing, the demographic imbalance of the population, and the spatial segregation of residents by citizenship status resulting from the multitude of zoning and land-use regulations all have distortionary effects on the incentives and preferences underlying housing demand. Establishing these causal links empirically, however, requires the analysis of detailed and timely household-level data. In other countries, such data are commonly obtained from representative household surveys conducted by planning agencies to obtain information on housing preferences. No such survey is carried out in Kuwait.

4.2.1 RIGHT TO HOUSING

Among the factors that influence the demand for housing in general - and housing ownership in particular - is the land and housing distribution program carried out by PAHW, as discussed elsewhere in this report. The expectation by Kuwaitis of being endowed a property by the state upon becoming eligible distorts incentives in households' decisions regarding saving, borrowing, housing tenure choice, and family planning, all of which affect housing demand. One likely result is that potential buyers may hold out from buying on the market in favor of renting and waiting (often for a long period of time) for their turn to receive a property from PAHW.

4.2.2 HOUSING PREFERENCES

Researchers and policymakers usually elicit information on preferences,

attitudes, and expectations from representative household surveys to understand their role in housing demand. This can also be inferred from detailed real estate transaction data, which reveals households' willingness to pay for specific housing and neighborhood attributes. Since no such survey or data exist in Kuwait, researchers have instead resorted to small-scale qualitative methods such as interviews and online questionnaires.

Several studies report Kuwaiti respondents' preference for characteristics associated with private housing districts (e.g. suburban, residential zoning, villas, and home ownership) (Alharoun, 2019; Alghais and Pullar, 2018; Alzamil and Alshaheen, 2016; Alshalfan, 2013). In contrast, Alghais and Pullar (2018) found that a slight majority of non-Kuwaiti respondents preferred mixed-use neighborhoods, which are a feature of investment housing districts. They also found that more Kuwaiti respondents prefer more segregated (by citizenship status) residential areas than less segregated ones, which may be driven by differences in income, cultural backgrounds, traffic, and quality of public services (Alharoun, 2019). Similarly, Alzamil and Alshaheen (2016) and Alshalfan (2013) found that respondents take into consideration neighbors' interactions and social standards in their residential location choices.

Family ties also play a role in housing preferences. Alharoun (2019) and Alshalfan (2013) found that Kuwaiti respondents prefer more spacious homes to accommodate their children when they get married. They also indicate a preference for residing close to family (Alharoun, 2019; Alzamil and Alshaheen, 2016). Another recurring factor in these three studies is privacy, in terms of the type of housing preferred by respondents. Finally, some housing preferences are driven by the view that a house can also serve as a source of income generation (by renting out apartments within it) or a future financial investment (Alharoun, 2019; Alshalfan, 2013).

4.2.3 PAHW WAITLIST

All Kuwaiti families are eligible for housing welfare from PAHW,²⁹ with priority strictly given according to the date of application (with some exceptions).³⁰ The applicant head of household must not own property either directly or through ownership by a spouse or child. The law states that PAHW must provide adequate housing for all applicants within 5 years of applying. An applicant’s income or need for housing has no impact on their status within the PAHW waitlist. Kuwait has had an average annual rate of 7,500 first time marriages over the past 10 years (PACI, 2020), which tracks closely with the average rate of 7,800 PAHW applications in the same period, indicating that almost all newly formed Kuwaiti families apply to PAHW regardless of income level or need for housing. In addition, many applicants remain on the PAHW waitlist for a long

time, waiting for the opportunity to apply for a desirable development project. There are currently over 40,000 applicants who have been on the waitlist for more than a decade as shown in Figure 35. As of 2020 there are over 91,500 applicants on the PAHW waitlist, which represents 32% of all Kuwaiti households (Figure 36).

Applicants who have a more pressing need for housing are given lower priority than those who have applied earlier and may already have some form of housing secured. Applicants can also circumvent the eligibility rules by registering property in the name of siblings or other close relatives, allowing them to remain on the PAHW waitlist and collect a monthly rent allowance of KD150.³¹

PAHW distributes plots, houses, and apartments in new residential districts that differ from project to project in terms of design. The housing welfare law states

29 Housing Welfare Law no. 14/1993

30 PAHW’s eligibility criterion has provisions for groups with special status, such as divorced and unmarried women, people with disabilities, and families of martyrs and prisoners of wars.

31 Law no. 26/2006 amending the Housing Welfare Law no. 47/1993.

FIGURE 35 PENDING PAHW APPLICATIONS BY YEAR OF APPLICATION

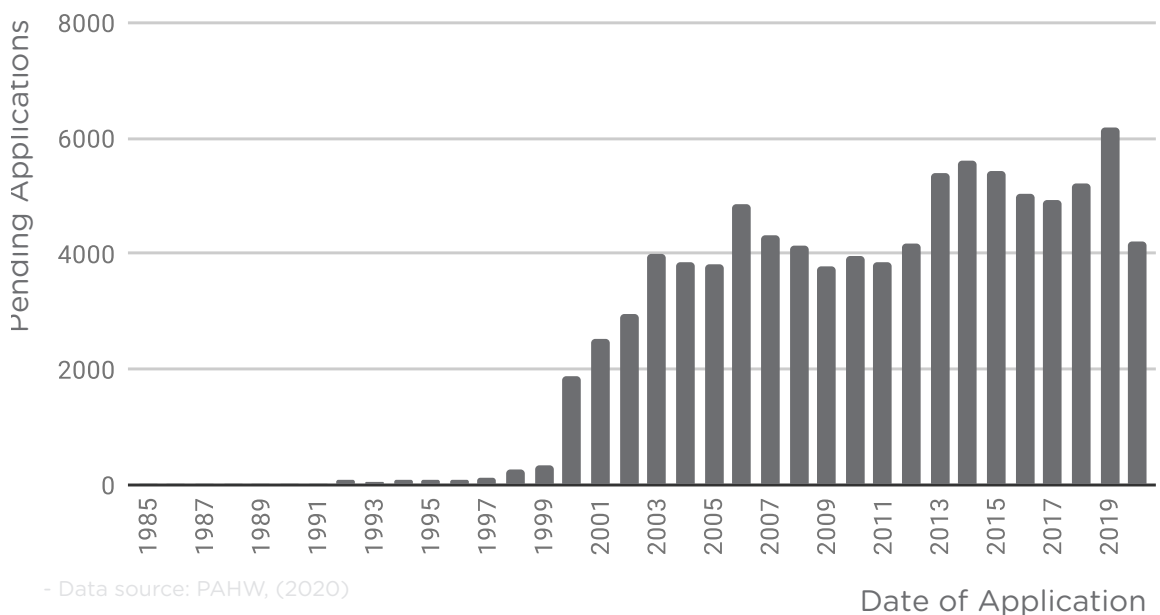
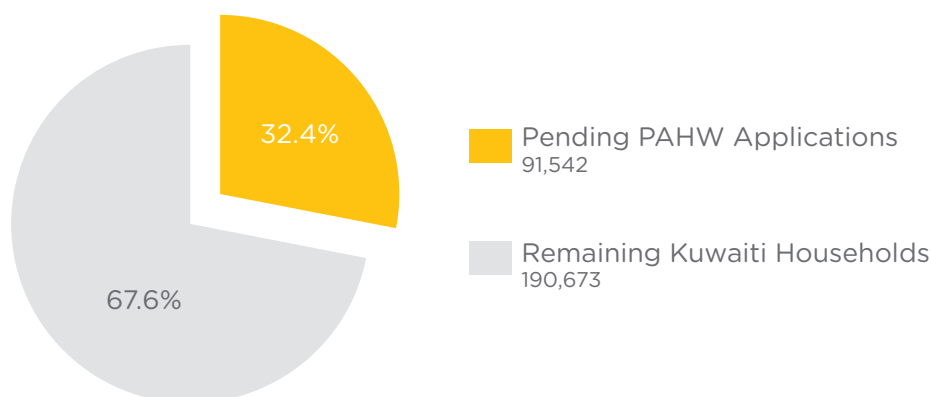


FIGURE 36 PAHW APPLICANTS AS A PERCENTAGE OF TOTAL KUWAITI HOUSEHOLDS

- Data source: PAHW, PACI (2020)

that no property should be less than 400 m², including condominiums such as those recently distributed in Jaber Al-Ahmed district. The desirability of projects is primarily linked to their proximity to the CBD and, as such, these projects have been limited to applicants with very early applications. For example, South Khaitan is a district that is relatively close to the CBD where 1,448 plots were distributed by PAHW in 2017 but these were only open to applicants who had applied before the end of March 2000. In contrast, a less desirable project such as South Sabah Al-Ahmed is currently available for any newly eligible applicant. Moreover, some prior PAHW housing recipients who have sold their homes have been offered the opportunity to reapply for housing welfare if they meet certain conditions.³² Of the total 3,513 applications received by PAHW in 2017, 2,044 were accepted. The first 111 ready-built houses were delivered as part of the East Taima development in June 2021.

Once the head of the household has been allocated a plot by PAHW, they require a permit from KM to start building. Many recent projects have been allocated as

plots by PAHW, but without KM providing building permits due to incomplete infrastructure development. This has been the case in projects such as Al-Mutla'a, which has suffered from a lack of coordination between PAHW and other ministries. About 29,000 plots were allocated by PAHW between 2015 and 2018, but KM has only recently approved building permits for some of these plots. Financing of real estate loans by the KCB has also been a major factor in the slowdown of projects such as Al-Mutla'a, as the sudden increase in plots distributed by PAHW was not budgeted for by the KCB, creating a large backlog.

After an allocated plot owner has received an approved building permit, they can begin construction. The ownership deed is only issued once the construction is completed and approved by KM and the property is connected to the electric grid.

³² The conditions are that the home has been sold only once for less than KD300,000 between 1992 and 2015; that the KCB loan has been repaid fully; and that the applicant is residing permanently in Kuwait and does not own or co-own a real estate property.

4.3. THE SUPPLY OF HOUSING IN KUWAIT

Any quantitative description and analysis of housing supply in Kuwait is severely hindered by the lack of reliable data on housing stock and flow. For example, by not accounting for the growing apartments-in-villas phenomenon, publicly available data from PACI necessarily underestimates the existing stock of housing units. However, the number of new electricity installations of newly constructed housing units can be used as a proxy for the flow of new housing units, but the only publicly available data are for the last four years, and this data overlook the apartments-in-villas.³³

Several factors affect the supply of owner-occupied and rental housing and its responsiveness to demand, including significant government interventions through direct provision or regulations. A discussion of the rationales and implications of these policies on general housing outcomes, such as housing affordability and quality of life, is given in Chapter 5.

4.3.1 RESIDENTIAL LAND ALLOCATION

The majority of new residential land in Kuwait is allocated to PAHW for housing development through a lengthy and complicated process and follows different routes. The normal route is as per the master plan's land-use designation, where a particular state agency applies for a plot of land for a particular project. It is then evaluated by different committees and departments within KM and the MC. This process can take three or more years, depending on the evaluation, and be approved or rejected. Another route is for a government agency such as PAHW to request land from KOC - the main custodian of undeveloped land - and

coordinate with KM to have it assigned to them. This route does not always reflect the land uses of the master plan and it is up to the MC to approve the request. Many agencies follow this process to save time, even though KOC often releases land every few years to KM. It should be noted that these processes apply only to public sector agencies; land allocation for private companies or individuals usually goes through a different process.

4.3.2 SUPPLY BY PAHW

This subsection considers land plots and owner-occupied single-family houses, since they are the predominant housing options supplied by PAHW.³⁴ It is helpful first to outline the process by which PAHW fulfills outstanding applications. As new residential projects become available, the first step is project assignment, whereby PAHW calls on eligible applicants - selected by application date - to declare their desire to enter a particular project. This is followed by allocation - a lottery held by PAHW in which applicants pick their specific plots, houses, or condominiums (on paper) in a random draw within the assigned project. Finally, delivery is when the application has been fulfilled and the project is 'ready', meaning either ready to move into a house, or ready for development in the case of land plots.³⁵ Note that PAHW land and housing recipients pay nominal prices for the units which are set by the Council of Ministers on a project-by-project basis.

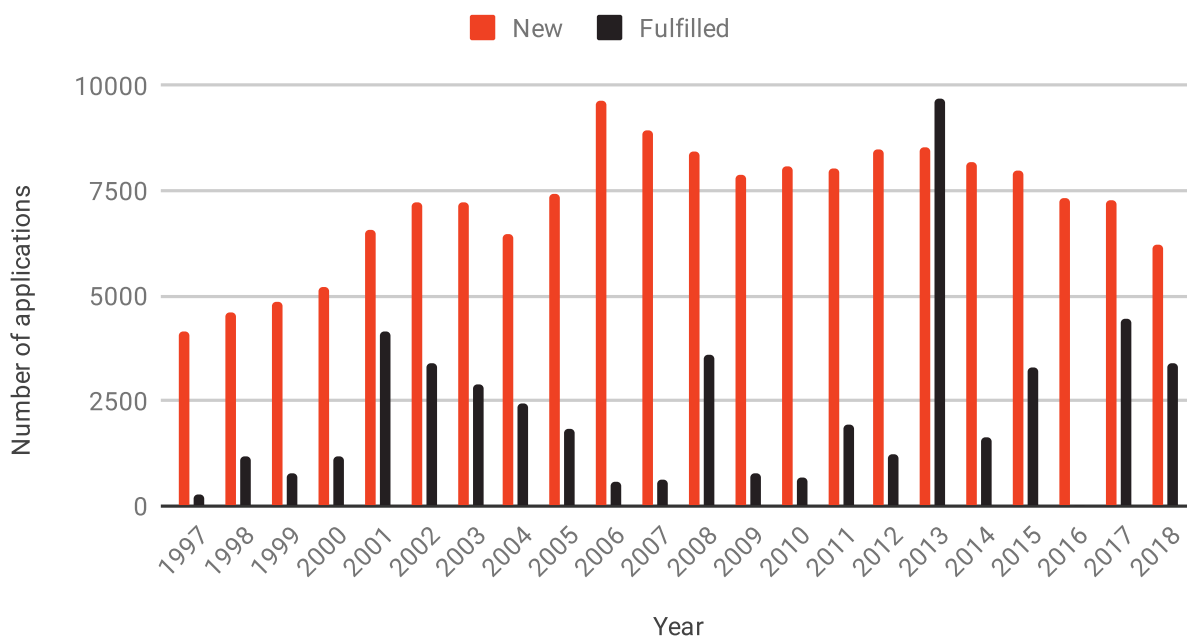
Figure 37 shows the annual number of new and fulfilled applications for PAHW housing over two decades.

Between 1997 and 2006, new applications rose dramatically, from 4,135 to 9,650

33 An average 3,913 new electricity installations annually in the private housing sector from 2016 to 2019.

34 Other PAHW housing options include owner-occupied apartment condominiums in vertical housing projects as well as low-cost rental housing units.

35 Land plot recipients must go through an additional step: obtaining building permits from the municipality, which often involves waiting an additional period of time after the delivery step.

FIGURE 37 PAHW APPLICATIONS

- Data source: CSB (2020b)

- The figures represent the combined applications for land plots, single-family houses, and condominiums.

- a 133% increase. Since then, new applications have averaged about 8,000 per year. Fulfilled applications, on the other hand, have failed to keep up in all but one year, leading to a backlog of applications.

Figure 38 shows the number of land plots and houses delivered annually over the same period.

Three clear observations can be made from Figure 38. First, the spike of land plots in 2013, followed by spikes in houses in 2014 and 2015 mostly relate to two newly developed residential districts: Jaber Al-Ahmad to the west of Kuwait City, and Sabah Al-Ahmad in the south. Second, a land plot is clearly the preferred option for applicants - more so in recent years - as it usually involves a shorter wait

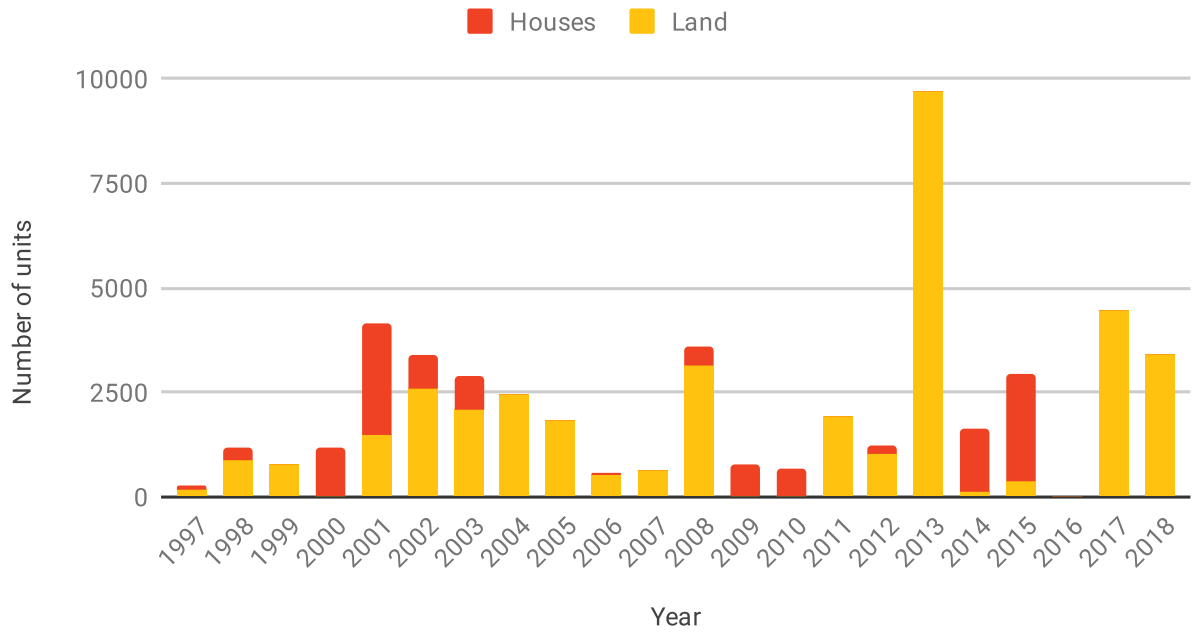
period and gives recipients autonomy in designing their houses. The average waiting time depends on the demand from applicants for each project, with some highly desirable projects only open to applicants who have applied more than a decade ago, while other less desirable projects are available to any eligible applicant. Classifying land distribution as housing supply is a misnomer since it is not actual housing yet, although it contributes to reducing the pent-up demand by removing applicants from the PAHW queue and/or potential buyers from the market. Third and finally, while no units were delivered in 2016, in fact 12,500 land plots were distributed on paper that year in ongoing projects (CSB, 2020b).³⁶

According to PAHW (2020b), of the 91,500 outstanding applications, half have

36

Around 42k units were distributed on paper between 2015 and 2018 in newly developed or re-developed districts such as South Al Mutla'a, South Sabah Al-Ahmad, South Abdullah Al-Mubarak, and South Khaitan (CSB, 2020b; PAHW, 2020b).

FIGURE 38 HOUSING PROPERTIES DELIVERED BY PAHW



- Data source: CSB (2020b)

accumulated over the past 7 years.³⁷ For comparison, a total of 155,000 housing units have been distributed by the state since 1956. This means that PAHW must provide an additional 59% of its cumulative supply over its 64-year history just to fulfill current outstanding applications.

37 There are outstanding applications dating back to the 1980's and 1990's.

4.3.3 SUPPLY BY THE PRIVATE SECTOR

Housing development in private housing zones by commercial developers is prohibited by law, which severely restricts the supply of single-family houses. Consequently, nearly all private housing construction (besides PAHW-built houses) is carried out by individual homeowners themselves. The contribution made by commercial developers to the owner-occupied housing stock is limited to minimal development of condominium apartment buildings in investment housing zones, or single-family houses in private housing zones by developers circumventing the law.

In terms of rental housing, commercial developers as well as individual and corporate investors have historically supplied the bulk of rental apartments in vertical housing buildings in investment housing zones. However, the new phenomenon of apartments-in-villas that has emerged over the past two has far-reaching effects on urban form, housing affordability, and neighborhood quality of life (Alharoun, 2019). These apartments-in-villas have become so ubiquitous across Kuwait that they now regularly show up in housing news and analysis (KFH, 2020), although there is no official census to measure the extent of this phenomenon.

4.4. HOUSING MARKET IN KUWAIT

Analysis of the housing market in this report has relied primarily on public data of real estate transactions obtained from the MOJ (2020) website.³⁸ To overcome the challenge of some districts having too few, if any, transactions in a given quarter, districts are combined into 12 district groups based on location and contiguity.³⁹ The analysis tracks price movements whilst taking into account differences in attributes between housing units traded on the market. Ideally, one would construct a housing price index (HPI) from the implicit prices of the attributes or track the repeated sales of the same housing units over time to hold the attributes constant (Pirounakis, 2013). The transaction data used here lack information on attributes or repeat sales. As an alternative, the median price at the national and district group levels is used as the HPI.⁴⁰

4.4.1 LAND MARKET

The land sample in this analysis comprises 21,345 transactions in private housing zones recorded across Kuwait during the 2006Q3-2019Q4 period, amounting to 9.98 million m² valued at approximately KD4.93 billion. These figures translate to approximately 24,900 plots of size 400m² each, valued at about KD197,000. It is worth noting that 7,791 transactions (36.5% of the sample) represent bulk sales of multiple plots of land, with a significant share of them occurring in the years 2007 (16%), 2009 (10%), and 2011 (11%). Figure 39 shows a time series of the land transaction volume.

Land market activity since at least 2006 has been primarily driven by the East Qurain and - to a lesser extent - South Surra⁴¹ district groups, which together

accounted for 80% of total transactions. This is not surprising, since these two district groups contained large swathes of vacant land and were among the most recently designated as residential land and released to the market. However, it highlights the apparent pent-up demand for land because as soon as new land is released for development, it essentially becomes the market. Since the data do not indicate which transactions reflect repeat sales of the same plots, it is impossible to ascertain how much of the heightened market activity in these districts reflects a hunger for development or speculation.

A similar conclusion can be reached by looking at Figure 40(a), which shows the national median land price tracking that of the East Qurain district group almost perfectly.

Another striking observation is the rise in land prices that coincided with the post-2008 financial crisis recovery. A land buyer in 2009Q2 paid a median price of KD300 per m² compared to KD700 in 2014Q2. Nominal prices have stabilized between KD600 and KD700 since then, except for a temporary dip to nearly KD500 in early 2017 which began with the fall in oil prices and coincided with the acceleration of land plot distribution in recent PAHW projects such as South Al Mutla'a. In real terms, the median land price nearly doubled between 2009 and 2014, as shown by the land price index in Figure 40(b). This meteoric rise is equivalent to an average annual growth rate of 14.6%, far outpacing the average annual inflation rate of 3.4% for the same period.⁴²

38 A complete description of the transactions dataset is included in the appendix A.2.

39 A list of the districts and their respective district groups can be found in the appendix A.1.

40 The median is not as sensitive to skewness and outliers as the average. See Pirounakis (2013) for a discussion on the drawbacks of median- or average-based HPI's.

41 Currently make up the areas of: Salam, Sideeq, Hiteen, Zahra and Shuhada

42 Authors' calculation using CPI data obtained from CBK (2020).

FIGURE 39 LAND TRANSACTION VOLUME (MOVING AVERAGE)

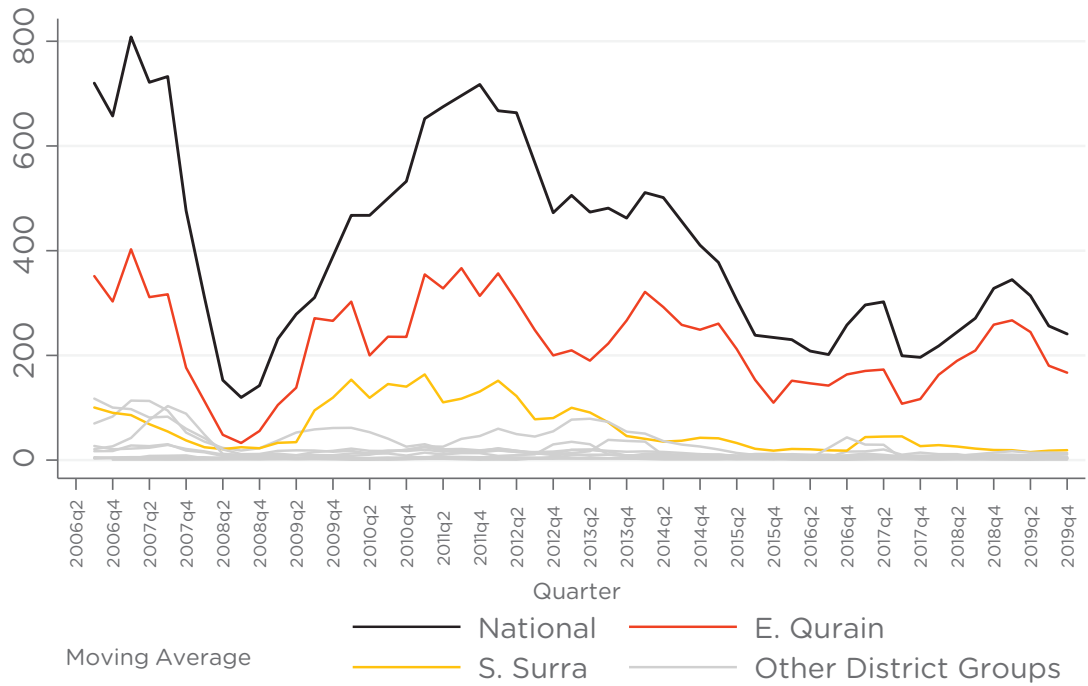
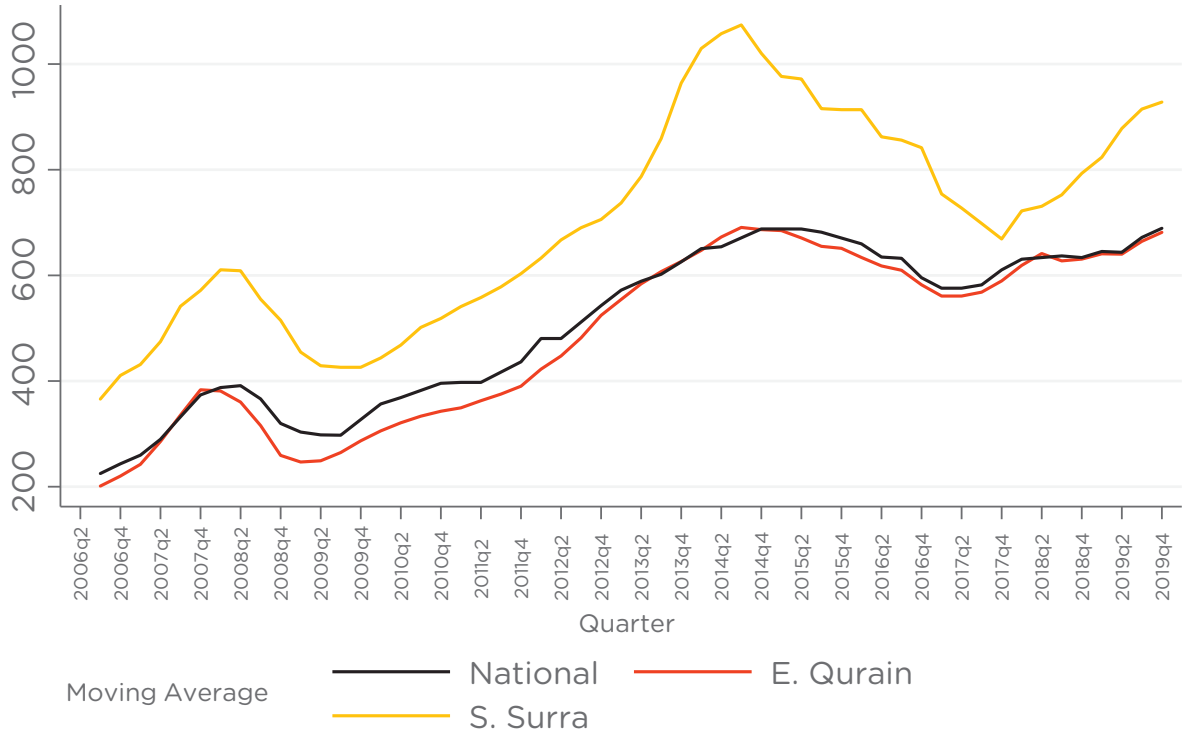
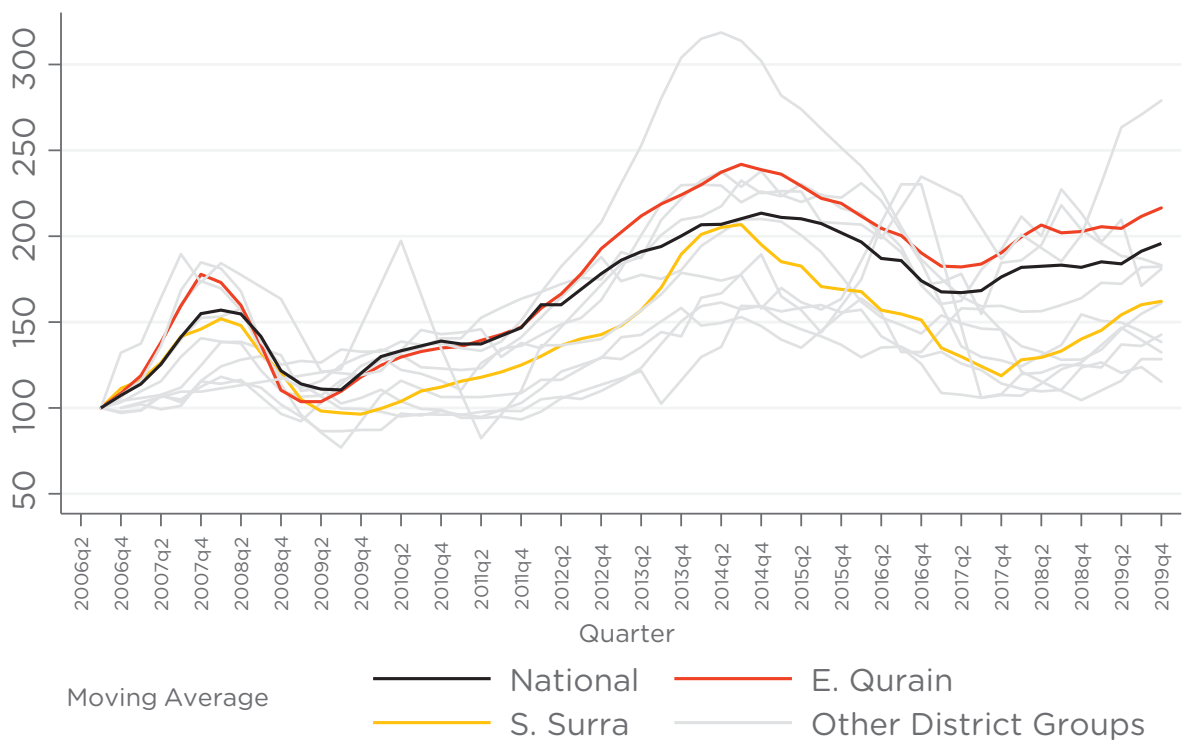


FIGURE 40A PRIVATE HOUSING MEDIAN NOMINAL PRICE PER M² (MOVING AVERAGE)



- Data source: MOJ (2020)

FIGURE 40B PRIVATE HOUSING LAND PRICE INDEX (MOVING AVERAGE)



- Data source: MOJ (2020)

4.4.2 SINGLE-FAMILY HOUSE MARKET

Figure 41 shows the quarterly volume of 25,584 house transactions recorded between 2006Q3 and 2019Q4.

In contrast to the market for land, market activity for single-family houses is uniformly distributed across district groups. Moreover, the national and district group median prices and HPI seem to follow the same general trend over time as shown in Figure 42. One important caveat however is that these prices are calculated solely on lot size; a more informative price analysis would incorporate differences in house and location attributes.

As with land prices, a persistent upward trend in the nominal housing price can be observed during the post-2008 financial crisis recovery period. A home buyer paid a median price of KD373 per m² in 2009Q2, compared with KD752 in 2014Q2, which represents more than a doubling in price in just 5 years. This is also reflected in the HPI, which shows the median real price rising by 50.3% in 2014Q2 relative to the base period in 2006Q3 before eventually falling to 25.8% above the base level at the end of the sample in 2019Q4.

By combining these analyses with those in previous subsections, it is clear that much of the housing price comprises the price of land. For example, Figure 43 shows the evolution of median nominal land and house prices in the South Surra district group,⁴³ where the ratio of land to house prices per m² fluctuated between 0.44 and 0.94 over the period of analysis, standing at 0.79 in 2019Q4.⁴⁴

43 South Surra is chosen because it is the district group with sufficient sample size of both land and house transactions throughout the entire analysis period.

44 Two important caveats about the underlying price data: (i) the land and house prices are not of the same properties necessarily but come from the separate land and house transactions datasets, respectively; (ii) house prices do not take into account differences in attributes other than lot size.

FIGURE 41 HOUSE TRANSACTION VOLUME (MOVING AVERAGE)

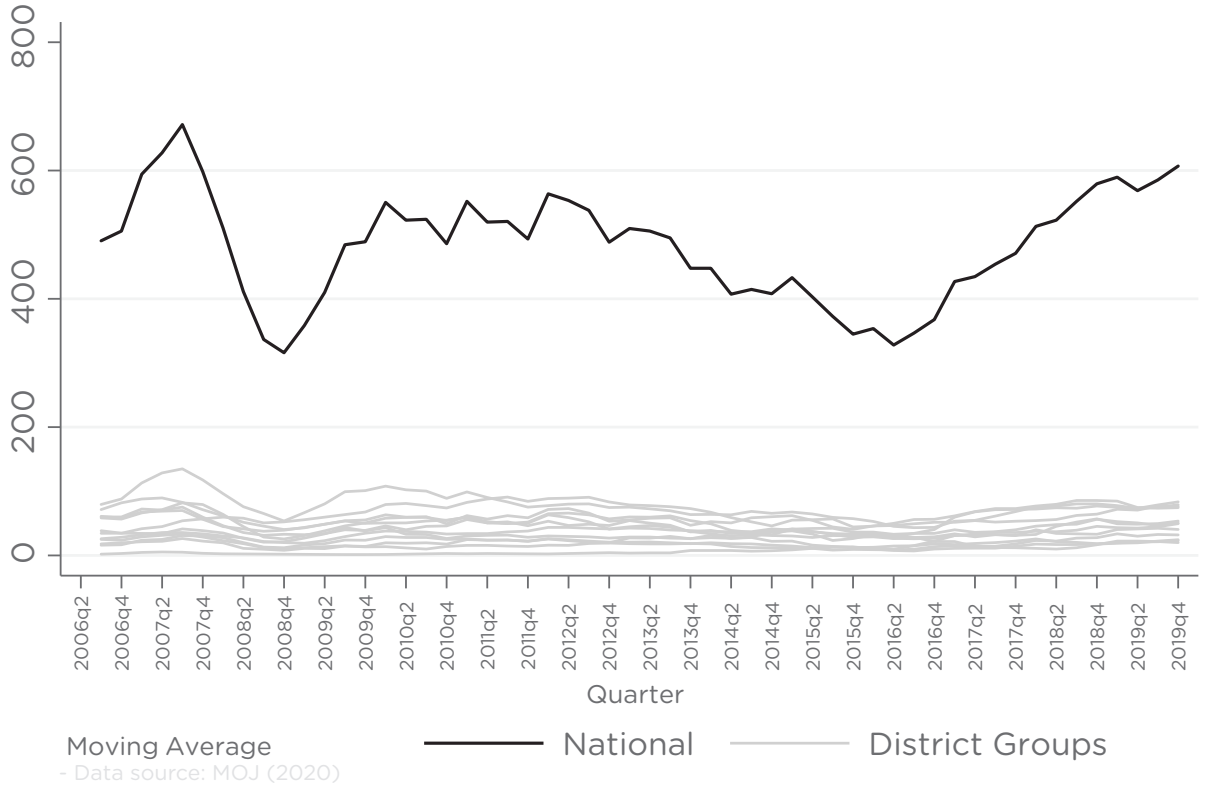


FIGURE 42A MEDIAN NOMINAL HOUSING PRICE PER M² (MOVING AVERAGE)

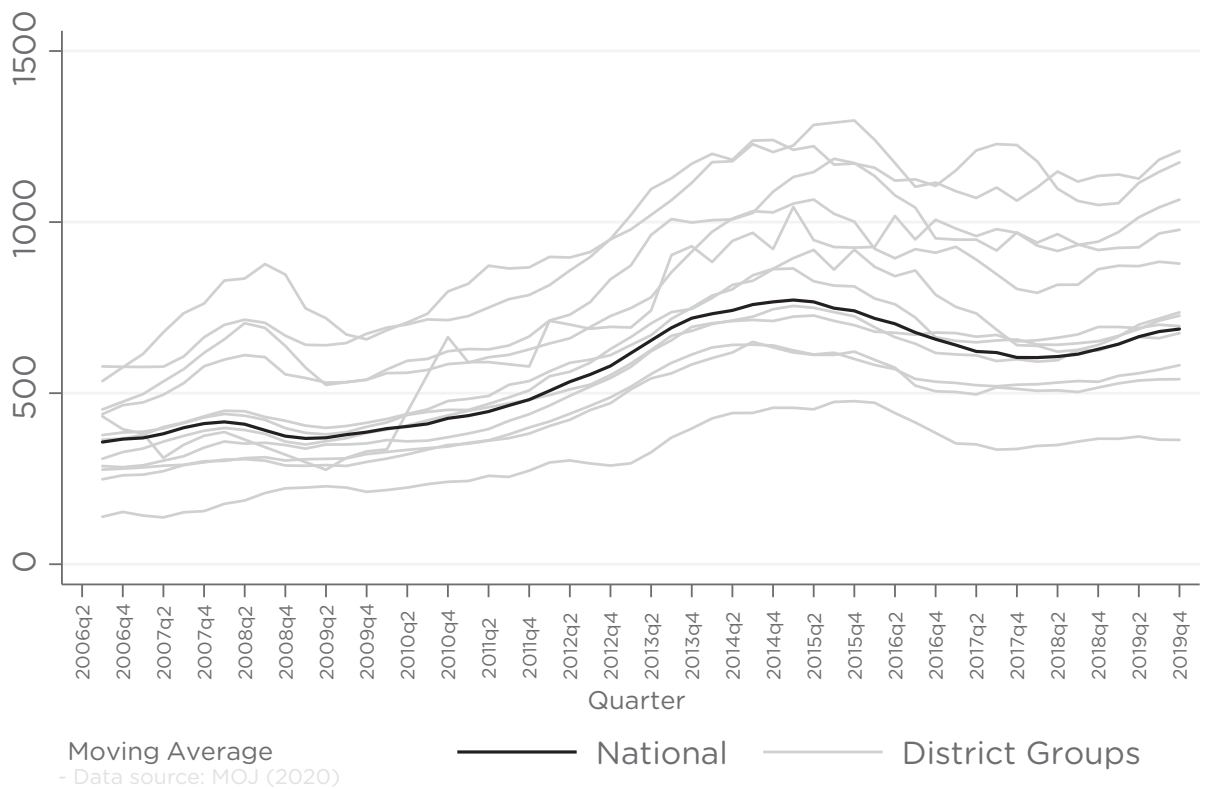


FIGURE 42B HOUSING PRICE INDEX (MOVING AVERAGE)

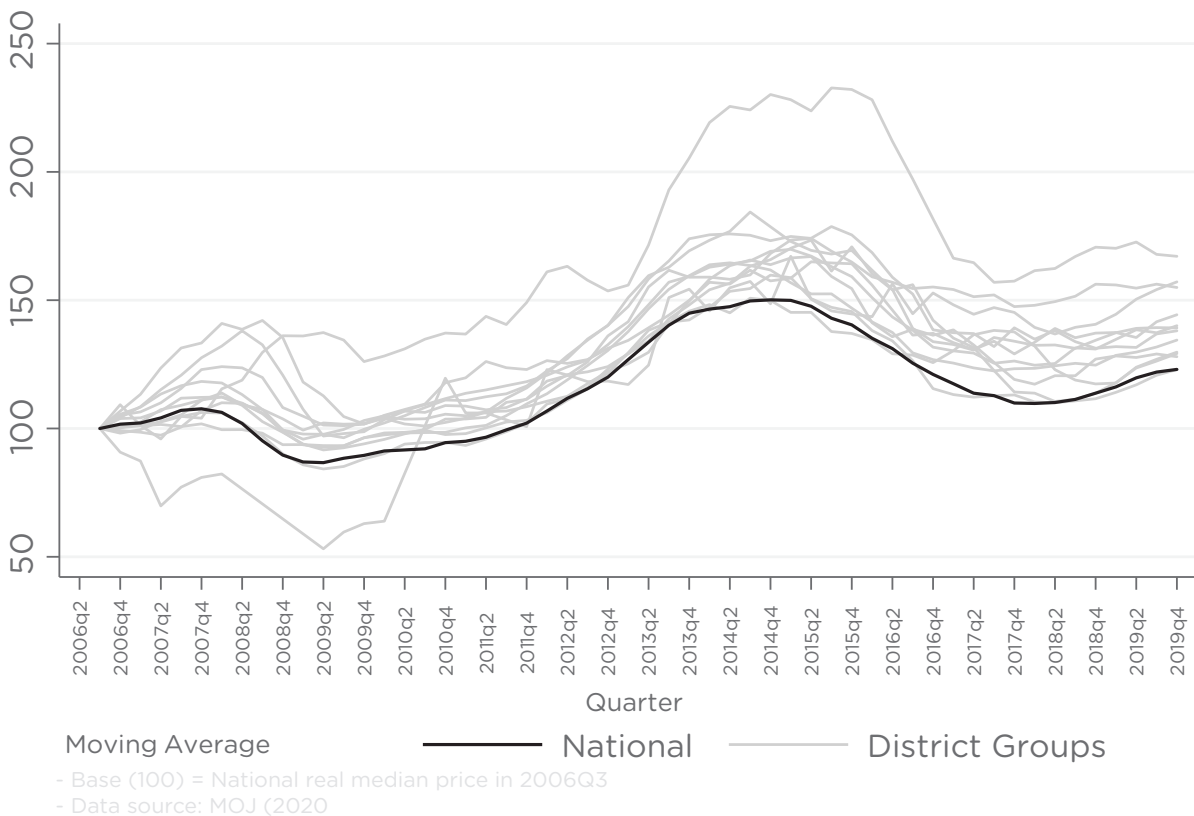
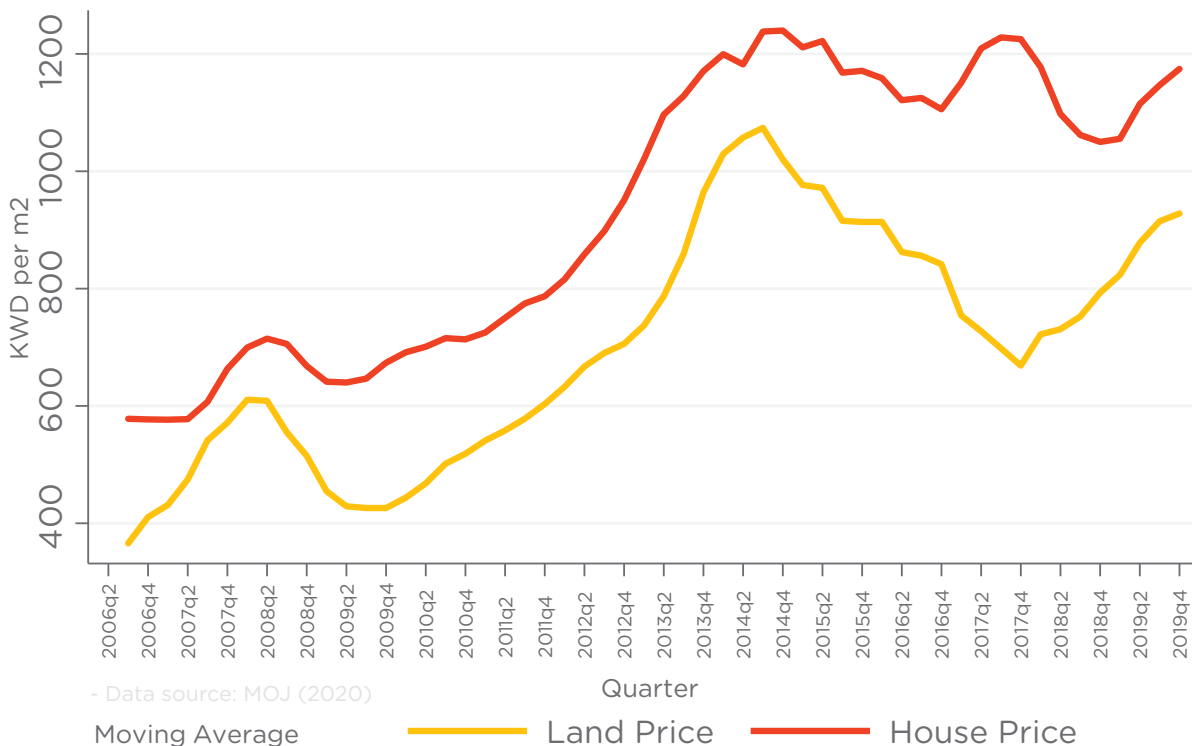


FIGURE 43 MEDIAN LAND AND HOUSE PRICES IN SOUTH SURRA DISTRICT GROUP (MOVING AVERAGES)



4.4.3 APARTMENT MARKET

According to the 2013 Income and Expenditure Survey, 28.5% of Kuwaiti households and 74.3% of non-Kuwaiti households live in apartments in both private and investment housing districts. The apartment sector of the housing market can be divided into two submarkets based on tenure: condominiums (i.e. apartments for ownership) and apartment rentals. Condominiums are confined to the investment housing sector⁴⁵ and represent a smaller share of the housing market activity than land and single-family houses. The sample analyzed in this report included 9,013 condominiums traded on the market between 2006Q3 and 2019Q4, of which 56% were located in Mahboula (42%) and Salmiya (14%). Figure 44 shows the volume and price evolution of condominium sales.

The market follows the same general trends observed in the preceding analyses, although the condominium transaction volume and price peaks and troughs lag behind those in the land and house markets. It is worth noting that 27.8% of transactions represent bulk sales of multiple condominiums.

Figure 45 shows the time series of annual rent estimates for typical 3-bedroom apartments in the investment and private housing zones

Again, the rent estimates for apartments in investment housing follow the general trend of housing prices discussed previously. Estimates for apartments-in-villas are only available from 2015, but they follow the overall trend and tend to be higher than those in investment housing.

Even though apartment dwellers represent a significant proportion of households, the data needed to analyze this sector of the housing market are inadequate. For example, an analysis of condominium price dynamics would benefit from data

on the attributes of the units being traded besides lot size, such as precise location, floor level, and building amenities, but these data are not available. Similarly, the state lacks a centralized registry of housing lease contracts needed to study the evolution of rental rates over time (hence the use of KFH estimates instead). Finally, while the decennial census and PACI provide some data on the stock of apartment units and occupancy rates - crucial for analysis of supply and demand - these datasets do not have information on informal subdivisions of apartments as well as apartments-in-villas, both of which are loosely regulated and accounted for.

FIGURE 44A CONDOMINIUM APARTMENT TRANSACTION VOLUME

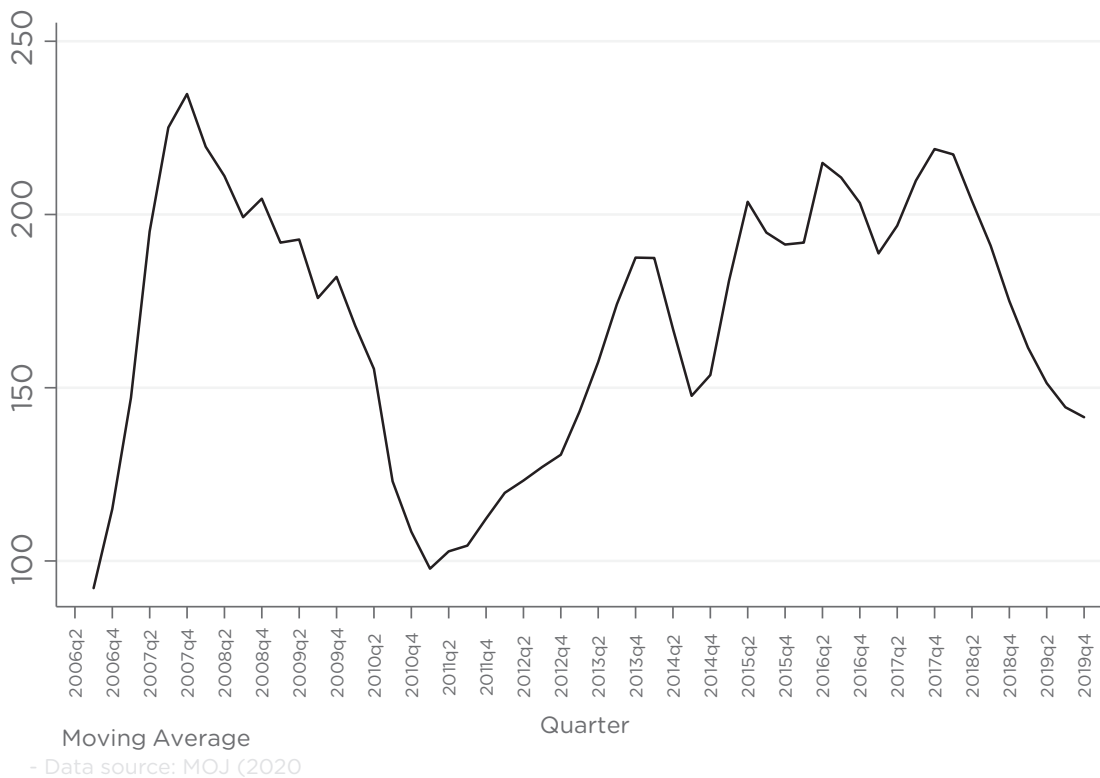


FIGURE 44B CONDOMINIUM APARTMENT PRICE PER M²

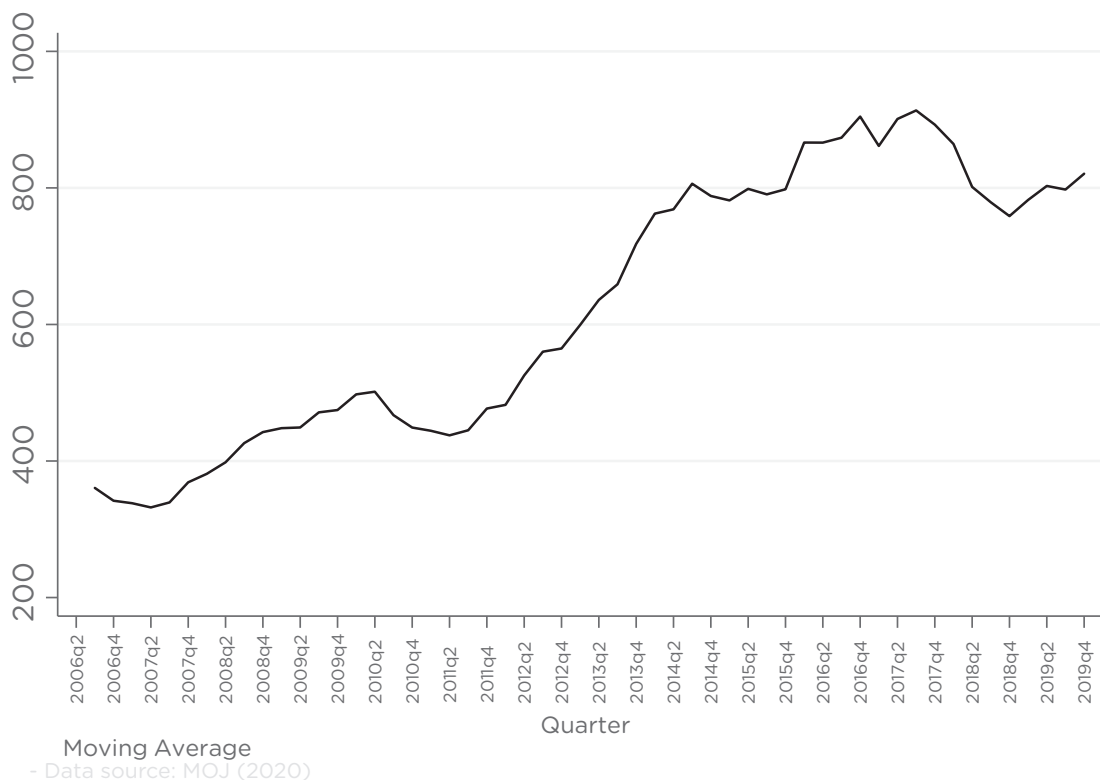
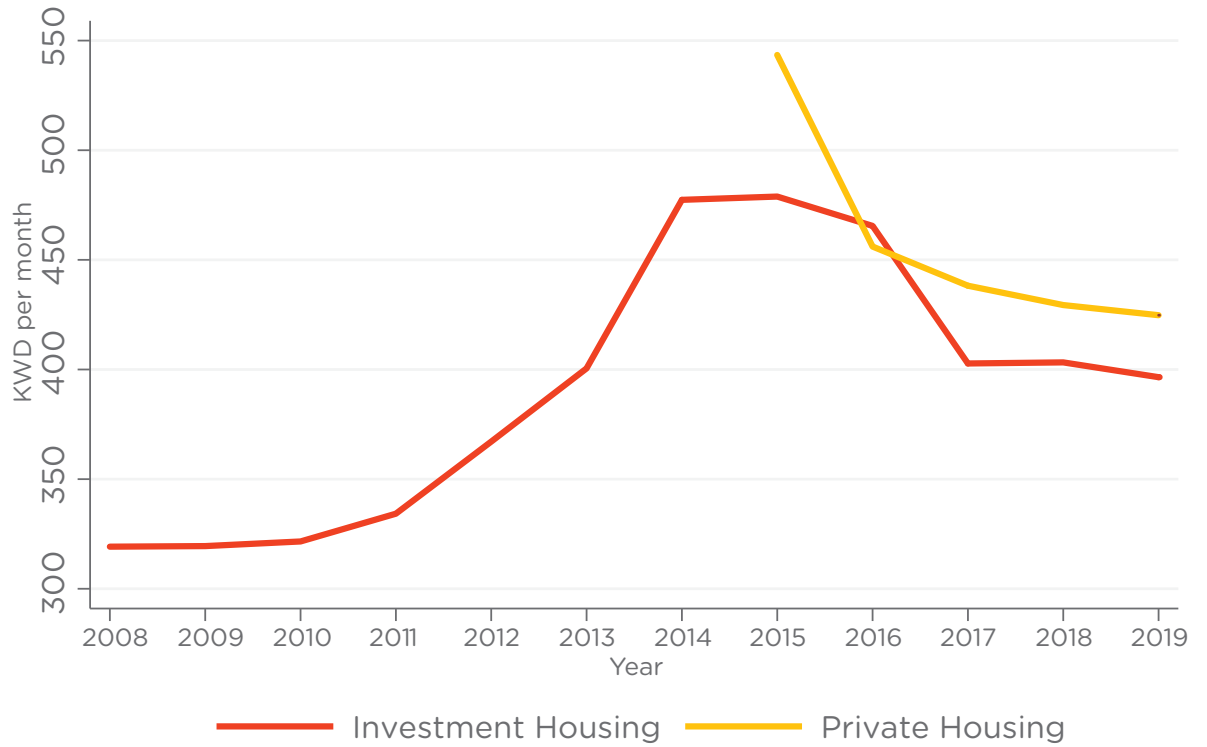


FIGURE 45 RENT ESTIMATES FOR 3-BEDROOM APARTMENTS

- Data source: KFH (2020).
- National rent averages are aggregated from first-quarter district level estimates.
- Investment housing: 3-bedroom, 100m²--110m² apartments.
- Private housing: 3-bedroom, 135m² apartments, available only since 2015.

4.5. HOUSING FINANCE

Borrowing is a means for cash-constrained home buyers to manage budget problems and alleviate the upfront consumption sacrifices needed to accumulate sufficient savings to purchase a house (Chan et al., 2015). Well-functioning financial systems are associated with lower housing prices relative to income (Malpezzi, 1999). Thus, by facilitating a household's transition to homeownership, access to credit is a key determinant of the demand for owner-occupied housing, the homeownership rate, and housing affordability.

The standard housing credit facility is the mortgage loan, secured by the property as collateral, with an agreed term and interest rate. The loan-to-value (LTV) ratio is based on the risk assessment by the lender and the regulatory requirements. In turn, the LTV ratio determines the down payment that the buyer must provide upfront.

4.5.1 STATE-PROVIDED HOUSING FINANCE

As previously discussed, mortgage financing in Kuwait is primarily available through the state-owned KCB, which provides interest-free loans of up to KD70,000 to finance the purchase of a house or apartment, the construction of a house (whether on land obtained through PAHW or from the market), or the expansion or renovation of an existing house. The main criterion is that the borrower must be currently eligible for housing welfare, thus excluding existing homeowners. As such, it is perhaps more appropriate to view KCB financing as part of a larger housing welfare policy rather than a conventional mortgage facility, a view reinforced by the fact that there are no clear rules regarding default and foreclosure even though the loan is

secured by the property as collateral.⁴⁶

In the period 2001 to 2019, KCB disbursed a total of KD4.1 billion in housing loans, broken down as shown in Figure 46.

Figure 47 clearly shows that KCB construction loans closely track PAHW land plot delivery, with a notable exception in 2013 when KCB lagged the spike in land plots delivered. This, together with the fact that building loans are the dominant loan type provided by KCB, underscores the role played by KCB as a complementary instrument to PAHW in the state's mission to facilitate homeownership. As shown in Table 2, Kuwait has the most generous zero interest housing provision for citizens when compared with GCC counterparts: only Kuwait and Qatar have no income eligibility requirement

4.5.2 MARKET-PROVIDED HOUSING FINANCE

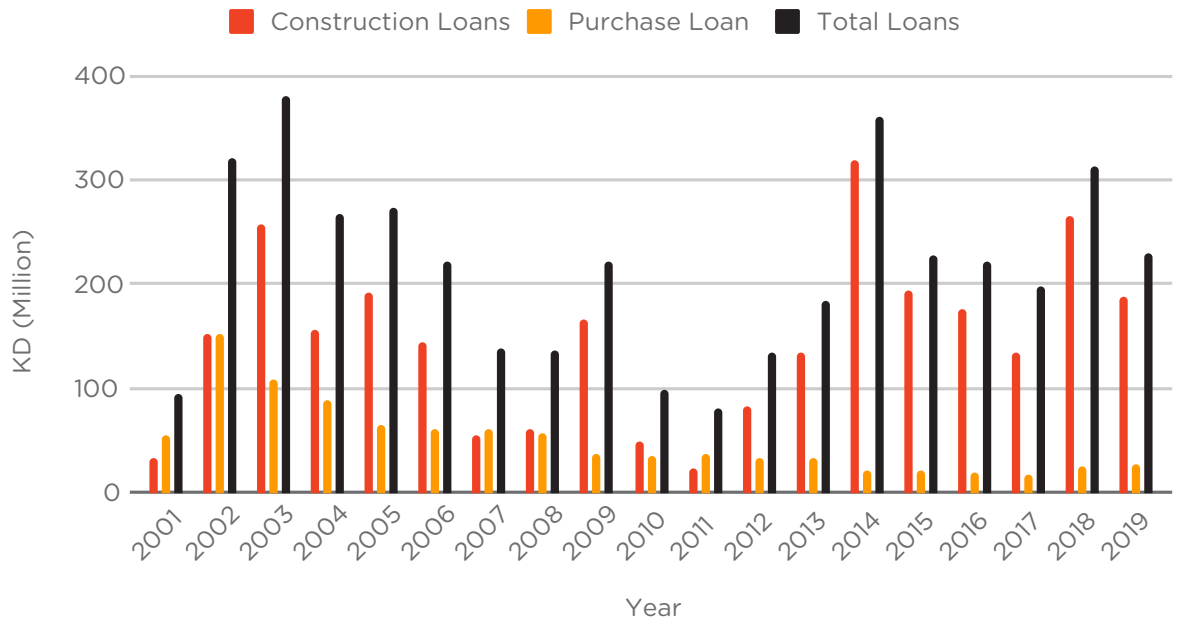
The KCB loan is not sufficiently large to be able to afford most houses and cannot be used towards the purchase of land alone, so buyers complement it with the installment (housing) loan offered by commercial banks: KD70,000 for 15 years but without collateral (CBK, 2018; CBK 2004). The market-wide outstanding installment loan debt grew by 157% between 2009 (KD4.6 billion) and 2018 (KD11.7 billion), as shown in Figure 48.⁴⁷

Similarly, the share of installment loans in the total lending portfolio grew from 18% in 2009 to 32% in 2018, reflecting the increased attractiveness to banks of offering housing finance. Banks may extend real estate loans exceeding KD70,000, but these are bound by stringent down-payment and collateral requirements that effectively only render

46 For financed properties obtained through PAHW, the government guarantees the loan until the deed is transferred to the owner (KCB, 2014)

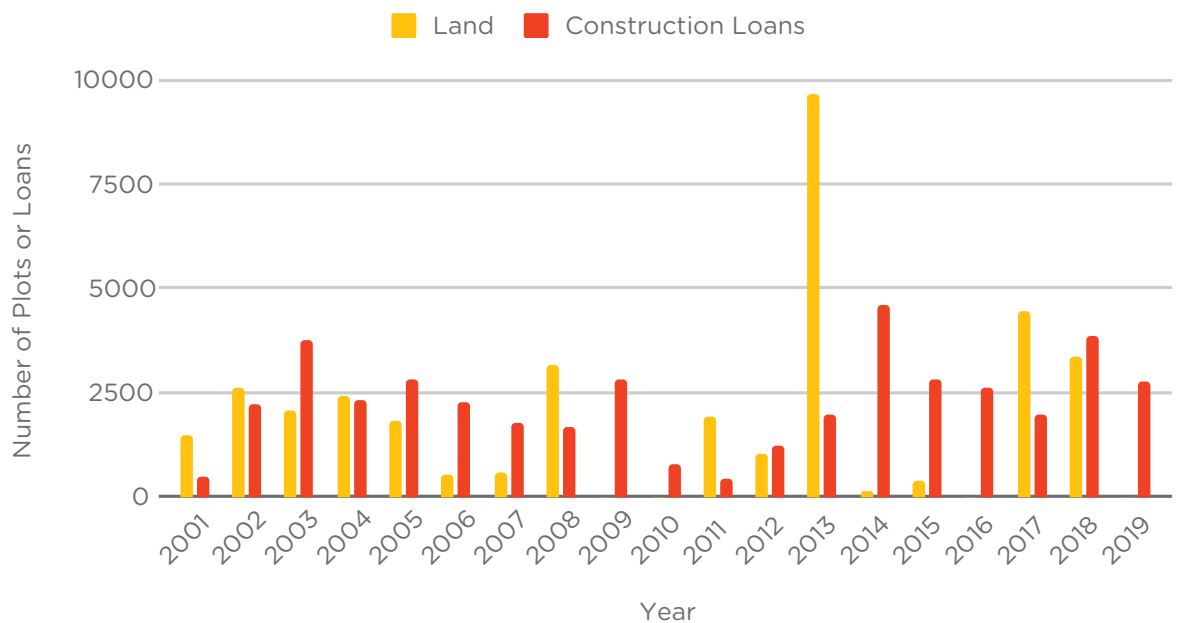
47 The CBK only recently stepped up its oversight of installment loans after it found evidence of using them for non-housing purposes ("What is the story behind CBK's stringency," 2015).

FIGURE 46 KCB LOAN AMOUNTS BY TYPE OF LOAN



- Data source: CSB (2020b)
 - Expansion, renovation, and prefabricated house loans are omitted

FIGURE 47 PAHW LAND PLOTS AND KCB CONSTRUCTION LOANS

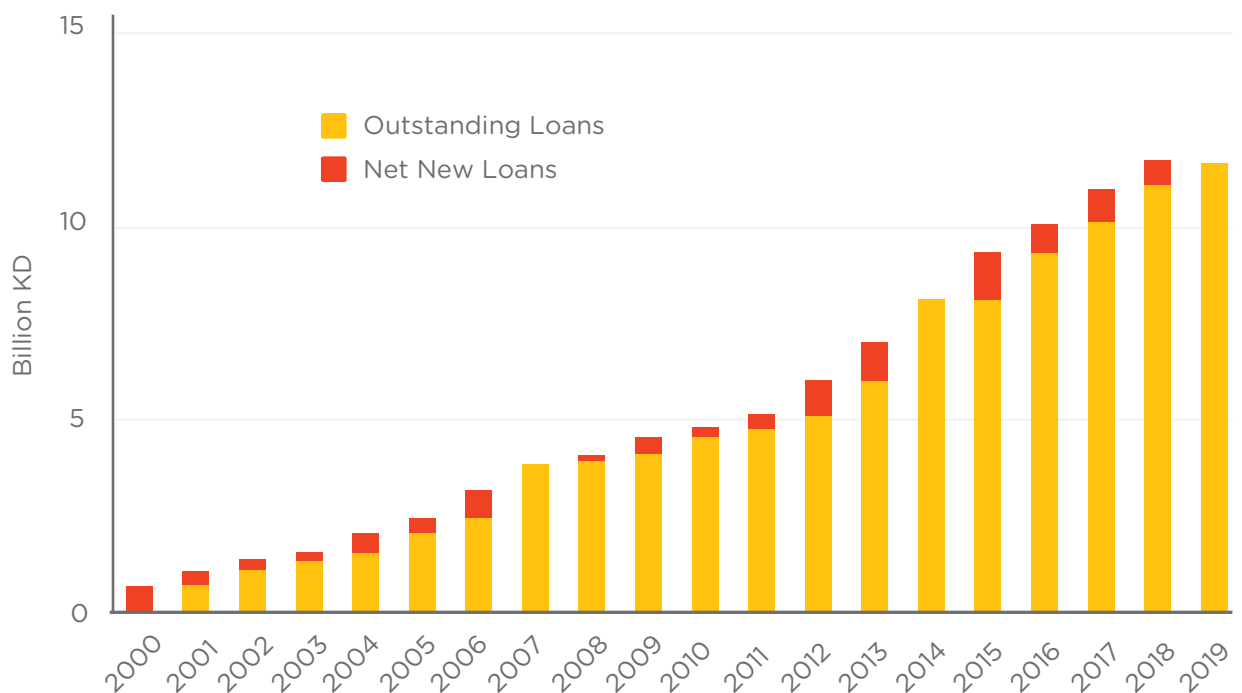


- Data source: CSB (2020b)

TABLE 2 GCC STATE-PROVIDED HOUSING FINANCE COMPARISON

	INCOME ELIGIBILITY	FINANCING
KUWAIT	ALL	KD70,000 WITH ZERO INTEREST
SAUDI	ASSETS UNDER SAR5 MILLION (KD412,000)	SUBSIDIZED HOME FINANCING UP TO 500,000 (KD40,000)
BAHRAIN	BD600 (KD485) TO BD1200 (KD970) MONTHLY INCOME	BD90,000 (KD74,000) TO BD120,000 (KD98,000)
UAE	AED15,000 (KD1,260) MONTHLY INCOME OR LESS	HOUSING GRANT FOR LOW-INCOME HOUSEHOLDS, INTEREST FREE LOAN FOR ALL OTHER HOUSEHOLDS
QATAR	ALL	QR600,000 (KD51,000), 1% INTEREST LOAN FOR CONSUMERS NOT ABLE TO AFFORD COMMERCIAL MORTGAGE
OMAN	OMR300 (KD235) MONTHLY INCOME OR LESS	OMR20,000 (KD16,000), ZERO INTEREST LOAN

All GCC countries share similar baseline eligibility requirements such as citizenship of the homeowner, not owning any prior residential property, and for the homeowner to be a head of a household.

FIGURE 48 NET NEW AND OUTSTANDING INSTALLMENT LOAN AMOUNTS

- Outstanding loans: the total amount of loans currently under on-going repayment schedules.

- Net new loans: new loan amounts minus repaid amounts

- Data source: CBK (2020)

them accessible to high net-worth borrowers (CBK, 2013).

There is a striking absence of a standard mortgage option in the private capital market due to a law barring commercial banks from using private residential properties as collateral. Islamic banks are exempt from the law, but stringent CBK requirements also make their mortgage loans inaccessible to the average home buyer.⁴⁸ These laws and regulations and their rationales and effects are discussed at length in Chapter 5.

48 Islamic banks offer two main options: (i) Murabaha, whereby the bank buys the property and re-sells it to the borrower, with the sale amount paid in installments over time while the property is held as collateral; (ii) Ijara, whereby the bank buys the property and leases it to the borrower with a promise to sell it to him or her at the conclusion of the lease agreement.

4.6. THE PECULIARITIES OF HOUSING IN KUWAIT

The discussion thus far provides a broad picture of Kuwait's housing sector and the peculiarities that set it apart from the standard description of the housing good and market set out in section 4.1. First, the wide-ranging and interconnected network of institutions involved in urban and housing governance looms large over policy making, people's housing decisions, and the functioning of the housing market. Government intervention features heavily in the supply of housing, whether through direct provision, restrictions on private sector involvement, or land-use regulations. On the demand side, the legacy of oil wealth distribution and a decades-old housing welfare-for-all policy have resulted in citizens having an ingrained expectation of obtaining large and heavily subsidized single-family villas, regarding it as both a right and a vehicle for wealth creation over and above actual housing need. Over time, this distortion of incentives has shifted demand from the private market on to state-provided housing. The resulting pent-up demand - evidenced by the increasing backlog of PAHW applications - and restricted supply has significant implications on housing affordability, homeownership, and quality of life. These and other policy implications are discussed at length in the next chapter.

Another peculiarity of housing in Kuwait is the composition and characteristic of private housing (single-family) units traded on the market. Because commercial real estate developers are prohibited by law from developing private housing units, the share of new housing units traded on the market is extremely low.⁴⁹ This is reflected in the median house value of KD290,000, which is relatively low compared to the median land value of KD265,000. In other words, the price data mostly represent existing, often aging, houses and not the typical starter houses desired by young families who might prefer to build their own new houses on PAHW-provided land. This has important implications for determining housing

affordability in Kuwait and comparing it with other countries' housing markets.

⁴⁹ The real estate transactions data do not indicate the age of the building.

CHAPTER **5**

**POLICY
IMPLICATIONS**

The peculiarities of the housing good discussed in Chapter 4 often give rise to market failures, whereby the market, left to its own devices, fails to produce the optimal quantity of housing to maximize society's welfare, thus justifying government intervention. For example, by adding rental units to a building, a landlord can increase his profit without regard to the resulting increase in congestion. A Building Code limiting the number and size of dwellings within a building is meant to prevent such external costs from being imposed on the neighborhood. A land tax aims to curb speculation by landowners and restrict the supply of developable land. Mortgage subsidies and regulations address the informational asymmetries between lenders and borrowers that can result in the sub-optimal supply of credit. Reducing the inefficiencies caused by market failures often serves as the rationale for government intervention (Whitehead, 1999). In addition, Arnott (2015) notes that governments often intervene in housing markets to improve equity and affordability because some sections of society lack access to adequate housing due to underlying socioeconomic constraints.

Achieving the desired policy objectives is not, however, automatically guaranteed. Policies such as taxes and subsidies are designed to distort consumer and producer incentives, but issues of avoidance and abuse may arise. There can also be unintended consequences because policymakers fail to take into account all the relevant factors that will be affected by the policy (Malpezzi, 1999). Finally, governments are themselves imperfect (Arnott, 2015); inefficiencies in implementing a policy may end up negating some of its benefits.

Kuwait is no exception in having a sprawling network of institutions, laws, and regulations related to housing and urban development. The next subsection discusses the overarching objectives of policies that are either explicitly stated or can be inferred from reviewing the different laws and regulations as well as

stakeholder interviews. The subsequent subsections discuss the potential impacts of these policies and whether they are consistent with the overarching objectives. The discussion is organized into subsections that consider policies that target housing supply, housing finance, housing cost, and land use. This division does not imply, however, that their effects do not interact with one another.

5.1. OVERARCHING POLICY OBJECTIVES

An overview of the relevant literature, laws, and regulations reveals a set of overarching policy objectives that represent society's aspirations with regards to housing and urban development; and the state's view on how to facilitate achieving them.

First, housing policy has been used as a means of distributing oil wealth since its discovery more than 80 years ago (Alshalfan, 2018) - an objective embodied in the continuing distribution of land and houses by PAHW to every Kuwaiti family at a nominal cost. The second policy objective is home ownership - one not unique to Kuwait. Olsen and Zabel (2015) list several justifications used by governments for promoting home ownership, among them wealth distribution and household and neighborhood stability (the latter is alluded to in Housing Welfare Law (No. 47/1993)). The third policy objective is housing affordability - explicitly cited in several laws and regulations.

Finally, policies ostensibly aim to enhance residents' quality of life. Over time, this objective has become synonymous with the large detached single-family villa - a staple of Kuwait's urban landscape and one that features prominently in policy and public discourse. However, as the analysis throughout this report reveals, there is often an implicit tension between the interests of private households and those of the neighborhood or society at large, with the former - driven by motives of social status and wealth creation symbolized by the villa model - dominating the latter and quality of life objectives.

5.2. HOUSING SUPPLY POLICIES

The restricted and inelastic supply of housing in Kuwait is the main factor contributing to the housing affordability problem in the context of home ownership. This section considers existing policies that either alleviate or exacerbate the supply problem, as well as their impact on the overarching objectives identified above. The state's dominance in housing provision is highlighted in the discussions below on housing welfare provided by PAHW, as well as the severe restrictions placed on private sector participation in residential real estate development. The efficacy of the vacant land tax in curbing speculation is also examined.

5.2.1 PAHW'S SINGLE-FAMILY HOUSING

The most dominant housing policy by far is the state-led distribution of land and houses administered by PAHW. Such a longstanding, large-scale program merits a discussion of how it interacts with the housing market in general and influences households' housing decisions.

Where the state engages in the direct provision of a good, it is possible that this policy crowds out private provision and investment, resulting in reduced supply and limited choice. With most newly released land usually taken up by PAHW projects, the private market is left with only a limited amount of developable land, the price of which is naturally bid up because of the pent-up demand for housing. A similar dynamic may be at play for construction materials and labor. Thus the high price of land and other housing inputs may be discouraging development in the private market. It is also possible, however, that much of the restricted supply is the result of a combination of land scarcity, minimum lot size requirements, and the ban on commercial development of private housing.

Demand is also affected by the PAHW program itself. An eligible household must weigh up buying a property in the private market against waiting to receive one from PAHW at a much lower nominal cost. The latter is especially appealing given pent-up demand and inflated prices, which leads to a sharp increase in household net worth upon receipt of a PAHW property. For this reason, the PAHW program has become a vehicle for wealth creation, as well as providing housing welfare. Alshalfan (2013) discusses how this entitlement is now seen as a right in the Kuwaiti mindset, acting as a compelling force in their housing decisions. By offering this windfall opportunity to households, the PAHW program distorts incentives, shifting demand from the private market to PAHW.

This dynamic contributes to the growing backlog of PAHW applications. There have been occasions in the past when waiting periods for desirable projects have lasted between 11 and 18 years (Alshalfan, 2013). On the other hand, projects in less desirable locations involve relatively shorter waiting periods, especially given the rapid pace at which PAHW has distributed recent projects such as South Al-Mutla'a and Sabah Al-Ahmad - even though it still takes several years for recipients to be granted building permits and KCB loans.⁵⁰ There comes a point where the time and rent cost of waiting are so high that the household might be better off buying a property on the private market. However, this assertion assumes that households are rational, with perfect insight into the future about the value of time, PAHW project timelines, and housing prices. More importantly, buying is not currently possible for most households given the high market prices and financing barriers. In an interview for this report, a PAHW representative indicated that there was a period prior to 2014 when around 40% of applicants decided to voluntarily withdraw their PAHW application

50 The South Al-Mutla'a plots were distributed between 2015 and 2017, but only a small fraction of recipients received building permits and financing as of writing this report.

because they had managed to secure adequate housing independently on the market. However, this has become a rare occurrence in recent years due to the housing affordability problem.

There are other social costs associated with PAHW's approach to housing provision. The insistence on building detached single-family houses with a minimum lot size of 400m² has been the main driver of urban sprawl in Kuwait. While individual households enjoy the spacious villas, society suffers collectively through long and congested commutes, inefficient use of land, and loss of open and public space. Another closely related consequence is that, due to the scarcity of developable land, distributed properties

have become smaller and farther away from the city center over time - an outcome described by Alshalfan (2013) as generational inequity.

Finally, PAHW's one-size-fits-all eligibility criterion is regressive as it does not differentiate between applicants based on need or economic status.⁵¹ As PAHW's backlog and the waiting period grow, low-income households in most need of housing welfare bear the highest cost.

51 PAHW's eligibility criterion has provisions for groups with special status, such as divorced and unmarried women, people with disabilities, and families of martyrs and prisoners of wars.

FIGURE 49 AERIAL VIEW OF JABER AL AHMED VERTICAL HOUSING BLOCK

- Image source: PAHW



5.2.2 PAHW'S VERTICAL HOUSING

Vertical housing would theoretically relieve demand pressures while also using land efficiently, but only a handful of such projects have been built by PAHW. Besides being seen as another form of generational inequity, the short waiting period for obtaining a PAHW condominium may not be enticing enough for many households to sacrifice the space, privacy, and autonomy associated with the single-family villa - especially when there is no

gain in terms of proximity to the CBD, as is the case with the two most recent vertical housing projects in northwest Sulaibikhat and Jaber Al-Ahmad districts. It is important to note that features such as higher density and more efficient use of land (commonly associated with apartment buildings) are in fact missing from some of these developments, where density is lower in condominium zones than the villa zones in the same district (Figure 49). The condominium option is also seen as restrictive because accepting it necessarily precludes the household

FIGURE 50A JABER AL AHMED VERTICAL HOUSING BLOCK DENSITY



HOUSING TYPE	VERTICAL HOUSING BLOCK
BLOCK TOTAL AREA	20 HECTARES (200,000 M ²)
NUMBER OF UNITS	195 CONDOMINIUMS
DENSITY (DWELLING UNIT/HECTARE)	9.75 DU/HA

from obtaining a larger home from PAHW in the future, when its family size and housing needs might have grown. Household interviews conducted by Alshalfan (2013) confirm these and other negative sentiments towards vertical housing.

Planning issues also feed into these negative sentiments. Not only are there challenges associated with creating a homeowners' association (discussed in further detail in section 5.5.2), but sacrificing space should be rewarded

with the advantage of being in the heart of the city with proximity to jobs, entertainment and ample green space. In the examples mentioned earlier, locating the condominiums in the same districts as villas offers no incentive to give up the advantages of the single-family dwelling on the outskirts of the city, when the vibrancy of living in the city center is not offered as the alternative (Figure 50).

FIGURE 50B JABER AL AHMED SINGLE FAMILY HOUSING BLOCK DENSITY



HOUSING TYPE	SINGLE FAMILY PRIVATE VILLA
BLOCK TOTAL AREA	20 HECTARES (200,000 M2)
NUMBER OF UNITS	207 VILLAS
DENSITY (DWELLING UNIT/HECTARE)	10.35 DU/HA

5.2.3 RESTRICTED PRIVATE SECTOR DEVELOPMENT

In 1994 a law was passed prohibiting shareholding companies from trading in private housing properties except to finance the purchase of housing by citizens. A rise in housing prices due to speculative and monopolistic practices was cited as the reason.⁵² Two further laws (No. 8/2008 and No. 9/2008) were later passed to close a loophole whereby companies were allegedly circumventing the ban by registering properties under sole proprietorships.⁵³ The ban was directed at all companies and sole proprietorships, giving them three years to dispose of any private housing properties they owned at the time. It effectively rendered the market for mass production of private housing by commercial developers non-existent, although there is evidence of a small informal market of independent individual developers circumventing the law by registering properties under personal ownership. This restriction in housing supply is likely to have contributed to the rise in housing prices.

To examine this in more detail, it is useful to differentiate between development and building in the housing production process. Pirounakis (2013) describes development as purchasing land, paying land-keeping costs (e.g. taxes, fees, maintenance, etc.), obtaining building permits, choosing the right time to build, and selling the finished house to the home buyer. Development is more of a business decision-making process involving financing and risk-taking. Building, on the other hand, is only one part of the development process where inputs - land, capital, labor, material, and architectural creativity - are combined to construct a house.

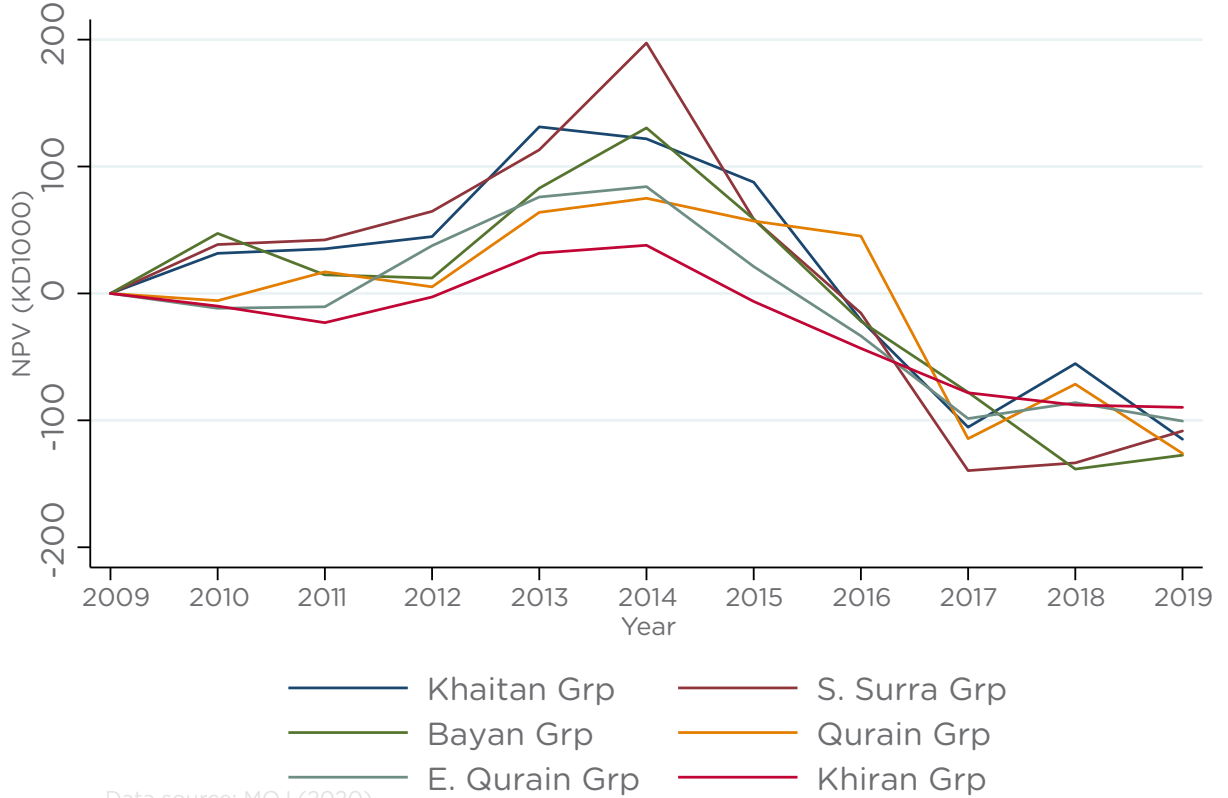
With mass production, commercial developers can achieve economies of scale and savings can be made on the average per-house production cost by pooling production processes, manpower, creative knowledge, and administrative tasks. In addition, mass production coupled with established supplier and subcontractor relationships enable the developer to negotiate favorable prices for materials and contract work. In a sufficiently competitive real estate development market, these cost savings get passed on to the home buyer through a lower price for the finished house. Moreover, commercial developers with name recognition and a longstanding presence in the market have an incentive to maintain a positive business reputation by building high-quality houses.

With the introduction of the ban, the development task has now been shifted to the homeowner, who must now acquire the land, apply for building permits, obtain engineering and architectural designs, shop for construction materials, hire and monitor one or more contractors, and manage the financial intricacies of the entire project. Essentially, the ban turned every new homeowner into a real estate developer acting as both a consumer and producer of housing. As a result, the homeowner incurs a higher than optimal cost in a number of ways. First, no economies of scale are achieved by building a single house. Second, the homeowner incurs search costs by having to acquire materials and services independently. Third, the technical knowledge gap between the homeowner and the contractor may give rise to a principal-agent problem where their economic interests are not perfectly aligned. In Kuwait's weakly regulated market - and for independent contractors especially - stories of performance and financial disputes between homeowners and contractors are not uncommon. Furthermore, independent contractors

52 Law no. 51/1994 amending the Commercial Companies Law no. 15/1960.

53 Laws 8/2008 and 9/2008 amending the Vacant Land Regulation Law (50/1994) and the Commercial Companies Law (15/1960), respectively. Law no. 9/2008 was eventually repealed in 2012.

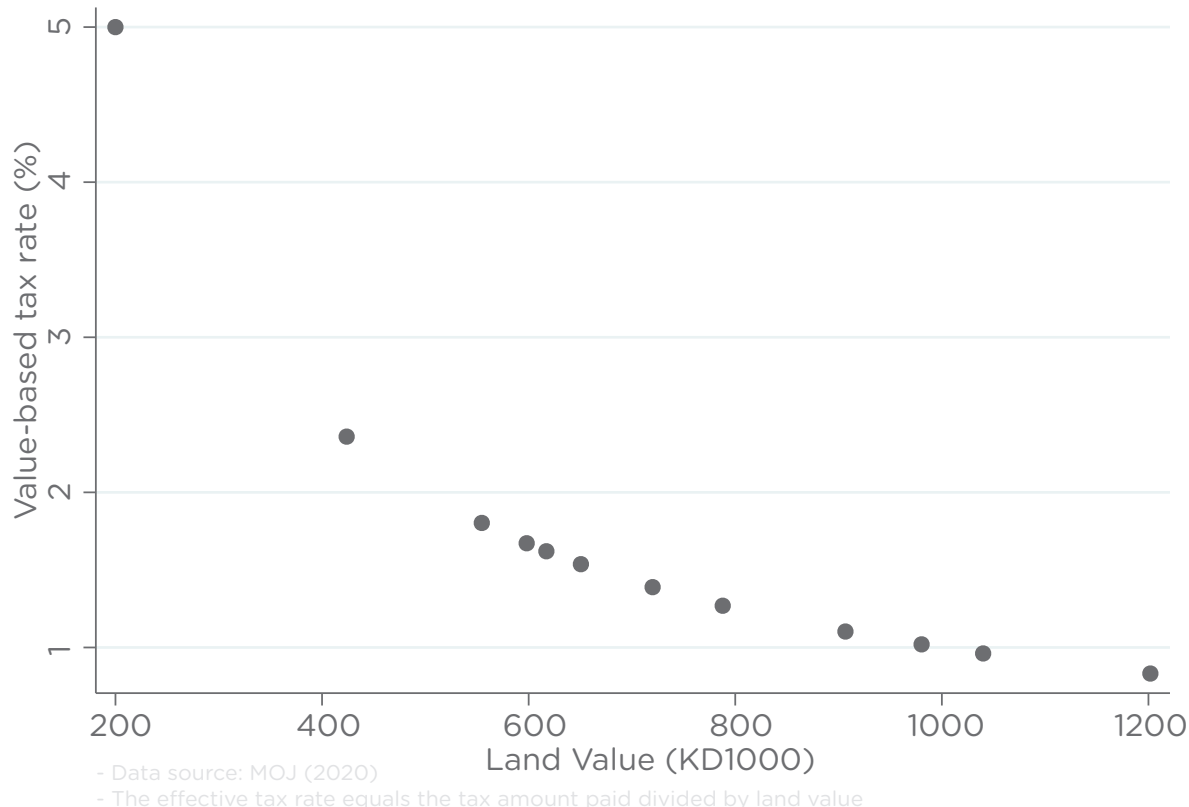
FIGURE 51 NET PRESENT VALUE



- Data source: MOJ (2020)
 - District groups with small sample size in any of the years spanning the analysis are excluded.
 - Qurtuba district group is excluded due to a data irregularity caused by the bulk sale of 67 plots in Surra in 2013.

do not have the same reputational incentive as commercial developers and may prioritize cost and expediency over quality. Finally, homeowners acting as part-time project managers whilst juggling other life responsibilities can prolong the building process, resulting in a longer period paying housing rent and making the whole process fraught with difficulties.

These adverse effects, if proven empirically, would indicate that even if the ban did indeed curb speculation, it might have brought about unintended negative consequences on housing ownership, affordability, and quality.

FIGURE 52 EFFECTIVE TAX RATE IN 2019

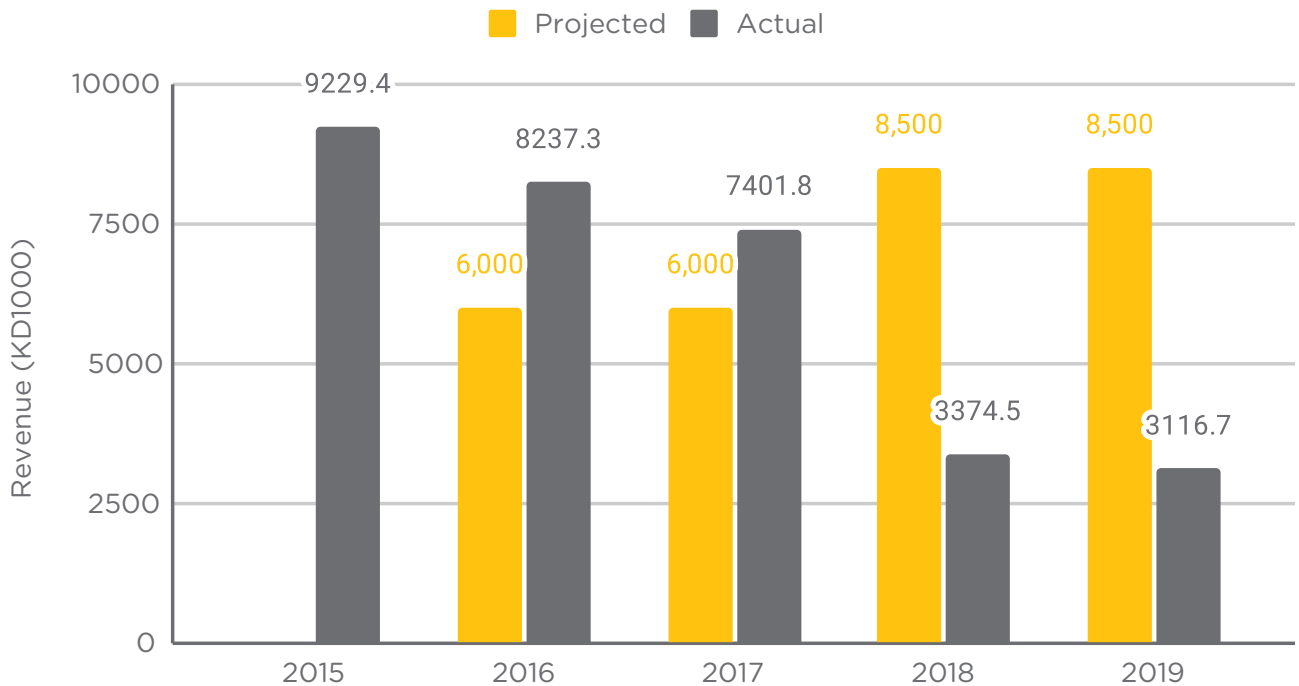
5.2.4 VACANT LAND TAX

The tax on vacant residential land exceeding 5000m² was raised in 2008 from KD0.5 to KD10 per m² annually.⁵⁴ The law cites the exponential rise in land prices due to land scarcity and increasing demand, thus creating an incentive for speculation by withholding land. It aims, therefore, to “break the monopoly over vacant land.” The law’s rationale is consistent with predictions in economic theory that the increase in demand over time raises land prices, leading to appreciation in land values. As Owen and Thirsk (1974) explain, a rational landowner will hold the land for as long as the expected return from holding it (and eventually selling it in the future) exceeds the return from the next best alternative

investment.

Since the supply of land is fixed and perfectly inelastic (in the short run at least), the land tax does not cause a decrease in land supply and the tax burden is borne entirely by the landowner, so there is no concern about passing it on to prospective land buyers (Heilbrun, 1983). Moreover, Smith (1978) shows that a pure land tax does not capitalize into the land value. This is especially the case in Kuwait, where the prospective buyer of a plot smaller than 5000m² with the intention of developing it is not subject to the tax and does not need to discount it from his or her bid. Hence, Kuwait’s land tax is non-distortionary in terms of economic efficiency. Its merits, then, turn on whether it does indeed curb speculation and expedite sale or development by raising

54 Law no. 8/2008, amending the Vacant Land Utilization Regulation Law no. 50/1994, applies to the combined stock of land (contiguous or fragmented) in private-housing zones owned by a single owner.

FIGURE 53 VACANT LAND TAX REVENUE

- Data source: MOF (2020a) and Al-Holan (2020, January 13)

the relative cost of holding the land. Such efficacy hinges on how the tax is designed and implemented in practice.

Consider the hypothetical comparison of taxable plots of size 1000m² in each of the district groups using observed prices from the land transactions data. Figure 51 shows the net present value (NPV) of holding the land over time relative to selling it in 2009 when the tax rate rise came into effect, where a positive NPV indicates that holding is more profitable.

Even assuming an overly generous 10% discount rate,⁵⁵ landowners all in all are better off holding the land for at least 6 years. This is due to a combination of a high rate of appreciation during the analysis period and the relatively low flat tax rate, which has remained unchanged

since 2009 and has not kept pace with appreciation, natural inflation, or the duration the land is kept vacant. The conclusion is nonetheless consistent with the weak or inconclusive empirical evidence of the efficacy of vacant land taxation around the world (McCluskey and Franzsen, 2013; Bird and Slack, 2007; Bird and Slack, 2004).

The inverse relationship highlights the fact that owners of high-value land enjoy substantially lower effective tax rates than those faced by owners of low-value land.

Since the tax base is defined as vacant land exceeding 5000m², a landowner can hold enough land to build 400m² homes for at least 12 families and still not pay the tax. The only system in the world similar to this is in the Philippines, although here the

55 The discount rate represents the rate of return of an alternative investment with similar risk (i.e. the opportunity cost of holding the land). The assumed rate presumes alternative investments would have generated a 10% return, which is relatively generous given the period of the analysis

tax is value based and has a threshold of 1000m² (Bird and Slack, 2004). However, in Kuwait, the tax is waived once 200m² or 20% of the land is built up, whichever is greater.

Despite a projected increase in tax revenues, actual revenues have been declining since as far back as 2016, as shown in Figure 53.

The revenue data probably understates the actual stock of taxable vacant land. For instance, a 2017 parliamentary report stated that taxable vacant land at the time stood at 7.2 million m² - almost ten times more than indicated by the revenue data (Al-Holan, 2020, January 13). It also showed a 171% increase in taxable land from 2.7 million m² in 2014. It is unclear whether these figures reflect changes in the stock of taxable land or variations in compliance.⁵⁶ The report alludes to the latter, citing several weaknesses in the state's institutional capacity. The land tax might be being evaded by registering the taxable portion of land under a different owner or by erecting a minimal, non-essential structure to comply with the minimum built-up area threshold.

56 Data on the stock and flow of taxable vacant land are not publicly available.

5.3. HOUSING FINANCE POLICIES

Most new homeowners combine state-provided KCB mortgage loans with unsecured housing loans from commercial banks to finance the purchase or construction of their homes. As previously discussed, private mortgage lending is severely restricted in Kuwait. This subsection discusses the financing options, their regulation, and the implications for housing affordability.

5.3.1 STATE-PROVIDED FINANCING

Analysis of the borrower eligibility requirements for KCB loans (see Chapter 4) reveals three apparent objectives beyond providing financing. First, by offering purchase loans to PAHW-eligible borrowers exclusively, KCB works to relieve some of the demand pressure on PAHW housing. Second, KCB lends mostly to new homeowners, thus expanding the home ownership base. Finally, the interest-free loans - with relatively small repayment installments, a long loan term and a generous two-year grace period - effectively constitute a home ownership subsidy.⁵⁷

5.3.2 PRIVATE MORTGAGE RESTRICTION

Using private housing property as collateral for loans provided by private banks is prohibited under Law No. 8/2008,⁵⁸ so the introduction of this law suddenly eliminated the standard mortgage as an option for home buyers. One hypothesis is that the reduction in the supply of mortgage loans would, in

principle, raise mortgage interest rates. The cost of borrowing would then increase, resulting in a decrease in the demand for owner-occupied housing (Chan et al., 2015). However, another hypothesis could argue that even before 2008, banks took a generally conservative attitude towards mortgage lending given the social and political sensitivity around the possibility of foreclosure. The mortgage market was arguably too small in the first place for the prohibition to have had a measurable impact on housing demand. Data on mortgage transactions are not publicly available which makes it difficult to examine either of these hypotheses.

Islamic banks challenged the prohibition in the courts and eventually won an exemption three years later (“Cessation ruling of real estate registry.” 2011). However, CBK regulations stipulate a 40% down payment, a maximum repayment period of 10 years, and a requirement that 50% of the installment amount be covered with cash flows besides the borrower’s salary and the expected rental revenue from the financed property (CBK, 2013). These requirements are stringent, making this mortgage option accessible only to high-income borrowers.⁵⁹

5.3.3 IMPACT ON AFFORDABILITY

Table 3 presents two scenarios for a hypothetical Kuwaiti household led by two wage earners in the 25-34 age group seeking to obtain housing finance, using median wage estimates from the 2016/2017 Labor Force Survey (CSB, 2017).⁶⁰

For a household earning a combined median monthly income of KD2,000, the total amount of financing attainable is

57 Monthly installments are capped at KD100 or 10% of salary, whichever is greater. Hence, the loan tenor can possibly extend to a maximum of 58.3 years (KCB, 2014).

58 Law no. 9/2008 also contained the same prohibition, but was later repealed.

59 In an interview with the authors, a real-estate finance officer at an Islamic bank stated that mortgage applications by some of the highest-salaried individuals in society are routinely rejected because they do not meet the CBK requirements.

60 Wage data are used rather than income because the amount of the housing loan given by commercial banks is determined by the borrower’s monthly salary.

approximately KD156,000. To get close to obtaining KD210,000 of financing - the maximum allowable amount under existing lending regulations - the household must earn a combined monthly income of KD3,336 per month, which is roughly equivalent to the income of an additional wage earner.

Table 4 examines the housing affordability of a house of lot size 400m² in the years 2016-2017.

For the median wage household, 52% of the cost of a house is borne upfront in cash, equivalent to a down payment of KD169,000 based on a median house value - an amount that exceeds the financing available. In other words, the down payment required is equivalent to seven times the household's annual income. Clearly, purchasing a house using the financing options currently available involves a substantial consumption sacrifice or time cost.

Obtaining the maximum allowable financing (KD210,000) would reduce the down payment to a reasonable 35% of the house value. However, as illustrated in Table 3, this scenario is only possible if each of the two wage earners in the household earns on average KD1,668 per month. In 2017, 77% of Kuwaiti workers earned less than KD1,600 per month and were therefore unable to obtain the maximum financing (CSB, 2017).

We can conclude from this analysis that the housing ownership affordability problem is primarily a result of high house prices rather than low incomes. It is worth noting that the median value of condominium apartments in investment housing buildings was KD150,000 in 2016-2017 (MOJ, 2020). Thus, while single-family houses are out of reach for most Kuwaiti households, purchasing a condominium is affordable with no down payment given the available financing, even for the median-wage household.

TABLE 3 HOUSING FINANCE SCENARIOS (KWD)

	MEDIAN INCOME CASE	MAXIMUM FINANCING CASE
HOUSEHOLD HEAD'S MONTHLY WAGE	1,000	1,907
SPOUSE'S MONTHLY WAGE	1,000	1,430
TOTAL HOUSEHOLD MONTHLY INCOME	2,000	3,336
KCB LOAN	70,000	70,000
HOUSEHOLD HEAD'S BANK LOAN	36,716	70,000
SPOUSE'S BANK LOAN	48,955	70,000
TOTAL FINANCING	155,671	210,000

TABLE 4 HOUSING AFFORDABILITY

	MEDIAN INCOME CASE	MAXIMUM FINANCING CASE
MEDIAN HOUSE VALUE	325,000	325,000
TOTAL FINANCING	155,671	210,000
REQUIRED DOWN PAYMENT	169,329	115,000
DOWN PAYMENT AS A % OF HOUSE VALUE	52.1%	35.4%

Median house value = median land value + construction cost

where

- Median land value in for lot size 400m² in 2016-2017 is KD220k (MOJ, 2020)
- Construction cost = Estimated construction cost per m² x lot size x FAR
- Estimation construction cost per m² is = KD125/m²
- FAR = 210% (Building Code)

5.3.4 IMPLICATIONS ON THE HOUSING MARKET

As can be seen from the preceding discussion, housing finance in Kuwait is characterized by considerable government intervention and regulation, warranting a discussion of the potential impacts on the supply of credit and the housing market in general.

Housing finance markets are inherently imperfect due to transaction costs and informational asymmetries related to risk assessment and housing maintenance (Arnott, 1978). Because home ownership in Kuwait is a symbol of status, social mobility and wealth, the prospect of foreclosure carries its own reputational risk for lenders. This results in them being more risk-averse, leading to a sub-optimal supply of credit which in turn justifies government intervention. The question is

whether KCB crowds out private lenders, thus reducing the supply and choice of credit products. This is unlikely given the KD70,000 cap on KCB loans, the restricted private mortgage loans, the pent-up housing demand, and relatively high house prices. It is more likely that KCB complements, rather than substitutes for, private lenders.

KCB's interest-free loan is effectively a mortgage subsidy that lowers the cost of buying a house. It is progressive in that borrowers who hit the KD70,000 cap benefit uniformly. Rappoport (2016) illustrates how the subsidy is distortionary, creating inefficiency in the mortgage market through misallocation of credit. The housing market, on the other hand, experiences no efficiency loss, but the subsidy increases the demand for mortgages which in turn drives an increase in housing demand. With a relatively inelastic housing supply, this shift in demand pushes housing prices up, more so

than increasing home ownership. The rise in house prices outweighs the borrowing cost savings and the net result, this report concludes, is that the home buyer is hurt by the subsidy. The government guarantee of KCB construction loans also increases mortgage and housing demands, with similar effects. While Kuwait is not unique in using housing finance as a subsidy mechanism, Malpezzi (1999) has noted a move away from this approach in other parts of the world towards more targeted and efficient direct housing subsidies.

The restrictive regulations on using private housing properties as collateral leaves lenders no choice but to raise interest rates to hedge against the risk of default. Moreover, the resulting reduction in the supply of credit increases the demand pressures on KCB, which has been experiencing its own liquidity shortages because of recently ramped up land distributions by PAHW (Al-Holan, 2018). The KD70,000 and 15-year caps on housing loans offered by private banks increase the down payment and installment amounts paid by home buyers. Thus the manner in which housing finance is provided and regulated currently contributes directly to the affordability problem illustrated in the previous subsection. Prospective borrowers are obliged to patch together a combination of public and private loans (which introduces transaction costs) rather than having a simple one-stop-shop mortgage option as is the case in other countries.

5.4. HOUSING COST POLICIES

This section discusses the rationale, implementation and economic impact of four policies aimed (directly or indirectly) at reducing the cost of housing: rent subsidy, rent control, construction materials grants, and subsidized electricity.

5.4.1 RENT SUBSIDY

Every Kuwaiti household on the waiting list for PAHW housing receives a monthly rent allowance of KD150, which represents 15% of the average monthly wage for a Kuwaiti worker between the ages of 25 and 34.⁶¹ The total annual amount disbursed has risen from KD155 million in 2010 to KD218 million in 2022, as shown in Figure 54.

Nearly KD2 billion has been disbursed in the last nine years, with an additional KD705 million projected for the years 2020-2022 (KNA, 2019). This contrasts with the initial contract for the entire Al Mutla'a City project - the largest housing project in PAHW's history - to build 21,000 housing units, valued at KD1.65 billion (Sabah, 2014, July 21).

A rudimentary analysis of supply and demand would suggest that, with short-run inelastic housing supply, landlords would benefit from the subsidy more than renters. However, this is mitigated in the long run as the supply of rental housing increases to catch up with demand. Perhaps more relevant is whether the subsidy is designed efficiently, given that it isn't based on a particular rent or income level. Given that there are high-income recipients who are not in need of the subsidy, there is an opportunity cost

to some of the public funds allocated for it. Lastly, since it is a cash grant with no strings attached, there is no means of ensuring that it is spent on housing.

5.4.2 RENT CONTROL

Rent control is a ceiling imposed on rent below market price to enhance rent affordability and housing stability. According to the law, landlords and new tenants may negotiate rental rates freely.⁶² The rate is then frozen for five years unless the two parties agree otherwise. For ongoing open-ended leases, the rent may be renegotiated or reset at the prevailing market rate every five years. So rather than imposing controls on rent levels, the law controls *changes* in the rent for existing leases only, allowing rate adjustments either amicably every five years, or with a new tenant.⁶³

The law also contains controls relating to evictions. An open-ended lease may be terminated *at will* after five years have elapsed since the signing of it. The landlord may not evict a tenant at will within five years *even if the lease term ends* except for legitimate reasons.⁶⁴

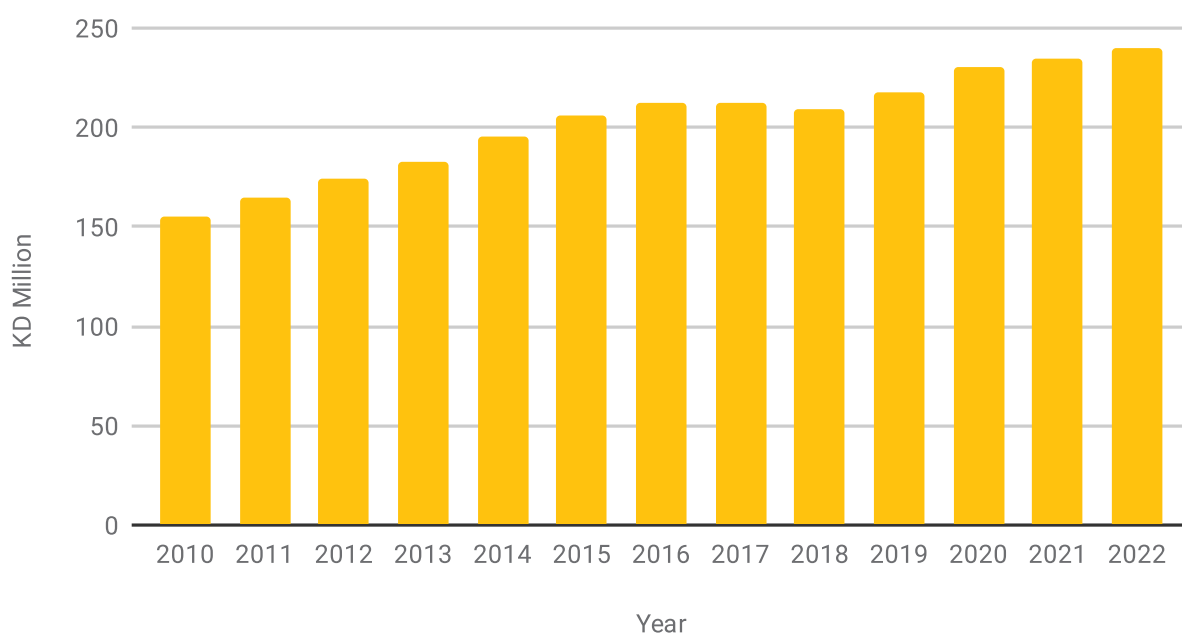
The five year rate adjustment and eviction rules are clearly tilted in the tenant's favor. If the market rate increases after the lease is signed, the tenant will still pay the initial lower rate for five years and be protected against eviction at will. The rate freeze also theoretically benefits landlords in the event of a decline in market rates, but in reality the tenant is free to walk away (if they are on an open-ended lease) and seek a lower rate elsewhere. Similarly, inflation adjustment is allowed only once every

61 Law no. 26/2006 amending the Housing Welfare Law no. 47/1993.

62 Lease contracts, including rent controls, are governed by the Real Estate Rentals Law No. 35/1978 and its subsequent amendments.

63 The law also freezes the agreed upon rate for fixed-term contracts exceeding 5 years, unless the two parties agree to adjust it mid-term. However, it is reasonable to assume that such long-term commitments are not realistically common for most households.

64 Causes included violations of lease terms, demolition of buildings 25 years of age or older, the landlord intends to occupy the property if it is his only one, and if the rented space falls within the landlord's residence as is the case with most apartments in private housing villas.

FIGURE 54 TOTAL RENT ALLOWANCE DISBURSED

- Data source: KNA (2019) and "Almezaniyat bahathat" (2020)

five years for existing tenants, resulting in sharper rate hikes than if it were an annual adjustment.

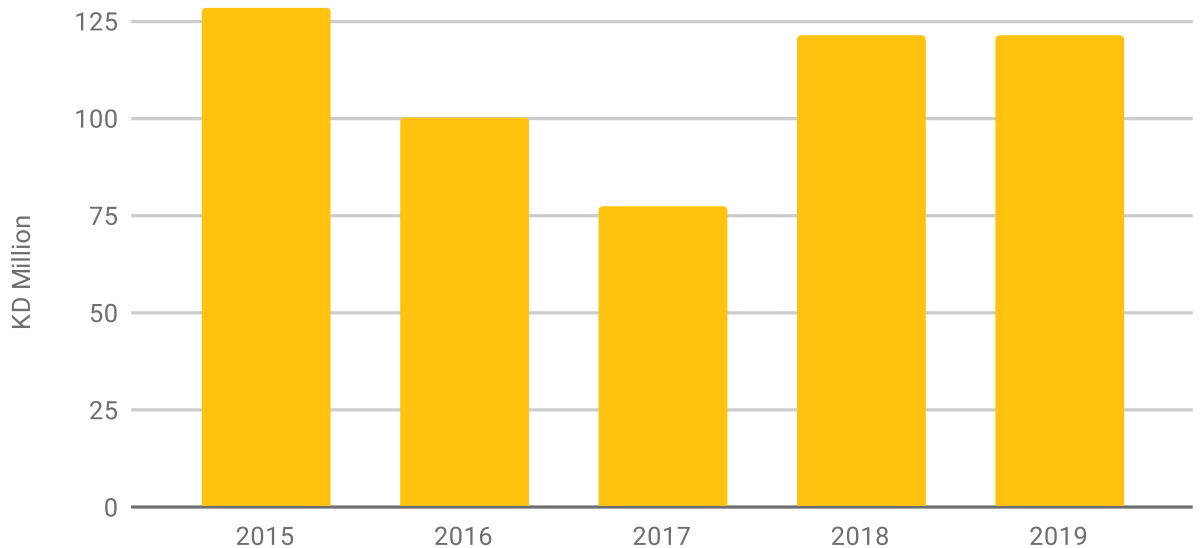
Tenant benefits notwithstanding, it is worth looking at some of the potential drawbacks of these rent controls. Because the rate freeze reduces the landlord's real profit, he or she may compensate by economizing on maintenance, thus lowering dwelling quality (see Malpezzi (1999) and Whitehead (1999) for summaries of the empirical evidence). The five year rate and eviction controls may also prompt landlords to favor short-term leases, thus reducing stability. The rate freeze also distorts tenants' incentives by making them less willing to move out, which excludes other prospective tenants with a more pressing need for the dwelling (based on household size or proximity to school and employment) who are willing to pay the market rate for it. Such misallocation of dwellings is economically

inefficient, and policymakers should weigh the trade-off between housing stability and mobility.

5.4.3 CONSTRUCTION MATERIALS GRANT

Recipients of KCB's construction loans are also eligible for a grant of KD30,000 worth of subsidized construction materials. Figure 55 shows the total annual value of construction materials grants disbursed since it was instituted in 2014.⁶⁵

Approximately KD121 million was disbursed in 2019, equivalent to 4,033 grants - although not all applicants receive the full grant, so the number of actual beneficiaries is higher.

FIGURE 55 TOTAL CONSTRUCTION MATERIALS GRANTS

- Data source: MOCI (2020)

The extent to which this in-kind subsidy benefits homeowners by lowering the marginal cost of construction depends on its economic incidence (i.e. how much of it is passed on to the consumer). Since the grant can only be used for a limited set of goods, demand for these goods is less elastic. In this case, analysis of supply and demand would predict a greater benefit to consumers. However, prospective homeowners interviewed for a newspaper report indicated that they hardly benefited from the grant due to rising prices (Al-Abdullah, 2015, October 3). The respondents also expressed their dissatisfaction with the limited choice of goods and suppliers to which the grant applies, stating that they would rather it was converted into a cash subsidy. This sentiment is consistent with MOCI's concern about the emergence of a secondary black market, where recipients sell or exchange the subsidized goods that do not match their needs or

preferences (Al-Sultan, 2019). Whether the overall effect of the grant is net positive or negative ultimately depends on the relative size of the construction cost savings and the subsidy incidence.

5.4.4 SUBSIDIZED ELECTRICITY

Electricity is heavily subsidized in Kuwait in all sectors of the economy but especially the residential sector. The retail price paid by households for a kilowatt-hour (kWh) of electricity is two fils - less than 5% of the cost of generation at 41.43 fils/kWh (IMF, 2015). This rate had been in place since the 1960's until a new tiered pricing system was introduced in 2016 which set the rate at between five and 15 fils/kWh for the investment housing sector, but kept it unchanged for the private housing sector and for Kuwaiti citizens residing in

TABLE 5 RESIDENTIAL ELECTRICITY TARIFF

COUNTRY	US CENTS/KWH
KUWAIT - PRIVATE HOUSING	0.7
KUWAIT - INVESTMENT HOUSING	1.75 - 5.25
BAHRAIN	0.8
OMAN	2.6
QATAR	2.2 - 6.0
SAUDI ARABIA	1.3
UAE - ABU DHABI	5.6 - 8.7
UAE - DUBAI	7.8 - 12.1
GCC AVERAGE (EXCLUDING KUWAIT)	3.8

investment housing.⁶⁶ As Table 5 shows, Kuwaiti citizens pay the lowest rate for electricity in the GCC, with the mid-tier rate for investment housing below the GCC average.

The law cites affordability and extreme climate as justification for the subsidy. Nevertheless, it distorts consumer incentives, leading to overconsumption and inefficient resource allocation. With air conditioning accounting for 70% of annual peak load demand (KISR, 2019), overconsumption of electricity manifests in the building of larger and more inefficient homes.

Price discrimination based on zoning or citizenship status also affects tenure choice and the housing market in general. The higher electricity tariff for investment housing buildings might induce non-Kuwaiti renters to move to private housing zones, increasing demand for the latter and leading to higher house rents and prices. There might be a similar effect for Kuwaiti renters in investment housing, as it is not clear how the rate hike exemption can be implemented in practice. Additionally, supply responds in the long run, with investors and developers moving

out of investment housing in favor of private housing, further distorting the urban form and density of private housing zones planned for single-family housing.

Finally, the subsidy as designed is regressive since the benefits are skewed towards owners and renters of larger dwellings who are also likely to be high-income households. All told, while the subsidy does indeed make electricity consumption affordable and enhances the quality of life for individual households, it comes at a social cost in the form of inefficient and larger than optimal homes, pressures on the electricity grid, more greenhouse gas emissions, and misallocation of public funds.

66 Law no. 20/2016 regarding electricity and water tariffs.

5.5. LAND-USE POLICIES

Regulations on the utilization of urban land are meant to improve efficiency and mitigate negative externalities that stem from the otherwise unregulated use of land. Summarizing the relevant literature, Gyourko and Molloy (2015) conclude that there is ample empirical evidence of the significant impact of land-use regulations on housing supply elasticity and prices, construction activity, building typology, and the geographical size of cities. This section discusses the key land-use regulations implemented in Kuwait, with subsections on the relationship between zoning and housing tenure; apartment ownership and homeowners' associations; Building Code regulations related to lot size and building height; and the emerging apartments-in-villas phenomenon in Kuwait. The impact of various overarching policy objectives is also discussed throughout the section, with a particular focus on housing affordability in the final subsection.

5.5.1 HOUSING TENURE

As discussed in section 2.3 and elsewhere in this report, the housing types that may be owned or rented by particular people depend on whether the property is located in private or investment housing zones. The Building Code defines *private housing* as *single-family* units in low-density areas. Although not addressed in the Building Code, renting private housing units is a common phenomenon on the ground. In contrast, the code defines *investment housing* as multi-unit buildings (apartments, duplexes, and studios) and states explicitly that they can be rented or owned.

There is also a third type of housing tenure in Kuwait: the common interest property (CIP), whereby ownership is shared among multiple owners (commonly known in Arabic as *musha'a*).⁶⁷ In private housing, voting power over property management and maintenance decisions are indicated by the ownership shares (as in a shareholding company) and are not tied to any specific subdivision of the property. CIPs in investment housing are different in that each owner owns both a private interest (the condominium)⁶⁸ and a common interest represented by the land, spaces and amenities shared with all owners.⁶⁹ This ownership structure gives rise to governance issues related to management and maintenance. The next subsection discusses the homeowners' association (HOA) as a model for CIP governance in investment housing.

5.5.2 HOMEOWNERS' ASSOCIATION

How can common interests be managed and maintained fairly and effectively when they are owned and used to varying degrees by multiple individuals? The law stipulates owners must pay management fees proportional to their ownership share.⁷⁰ It also permits the establishment of a HOA comprising all owners to carry out management duties.

Al-Otaibi (2018) highlights two problems with this law. First, forming an HOA is voluntary. Despite requiring a simple majority to establish one, he asserts that HOA adoption remains limited in Kuwait. As such, most CIPs revert to general provisions in the law where disputes between owners have to be resolved in court.⁷¹ The lack of a mandatory

67 CIP arrangements are governed by the Civil Law no. 67/1980.

68 As is common in the literature and the industry, condominium refers to a unit in a multi-family building that can be owned whereas apartment refers to a rental unit.

69 Civil Law no. 67/1980. defines common interests as land, courtyards, exterior corridors, gardens, car parks, foundations, ceilings and their columns, main walls, entrances, stairs, elevators, spaces designated for maintenance staff, spaces designated for shared services, pipes, and appliances.

70 Articles 848-874 of the Civil Law (67/1980) regarding the "ownership of floors and apartments."

71 The law allows for instituting a management system by a three-fourths majority--notably a higher threshold than the simple majority required for an HOA.

requirement to establish an HOA is often blamed for the lack of interest by investors (Al-Homsi, 2013, July 18) and homeowners (Al-Abdullah, 2015, October 17) in CIP properties more generally and the failure of the Al-Sawaber Complex in particular - Kuwait's first large-scale, high-density, vertical multi-family housing project (Al-Ragam, 2013).⁷²

The second problem is that the law does not task any one government agency with overseeing and regulating HOAs. Al-Otaibi (2018) gives the example of PAHW standing by passively when problems arose between the HOA members of its recent Northwest Sulaibikhat vertical housing project, because the law does not require it to intervene. However, intervening might have presented a conflict of interest since PAHW was an owner of several condominiums as well as being a member of the HOA (Al-Shannan, 2016, October 17). In any case, the point remains that the law is ambiguous in this regard.

5.5.3 MINIMUM DWELLING SIZE

The minimum dwelling size is set by different regulations depending on the context (Table 6).

A common thread in these regulations is the relationship between home ownership and large dwellings, a response to household preferences for larger homes and a better quality of life. The regulations could be aimed at improving neighborhood quality by mitigating the negative externalities associated with density such as congestion, overuse of amenities, and demand pressures on infrastructure and municipal services.

Alternatively, the regulations could

potentially create socially undesirable outcomes that undermine the overarching policy objectives. First, minimum dwelling size requirements are associated with reduced housing supply and higher prices (Gyourko and Molloy, 2015), thus exacerbating the problem of unaffordability. Analysis of the land transactions data between 2006 and 2019 shows that every additional 10m² in lot size is associated with a statistically significant increase of 1.3% in land value when controlled for district group and time effects. The nonlinearity of this relationship implies that the value of land increases disproportionately relative to its size. Thus, the regulations could potentially act as an exclusionary tool for low-income or credit-constrained households, resulting in spatial sorting of households based on income.

Second, minimum lot size requirements also affect the city's urban form. With the dominance of single-family zones in Kuwait's urban area, stacking large residential parcels horizontally inevitably leads to sprawl and long commutes, offsetting some of the quality of life gains from living in larger homes. Finally, the regulations could result in inefficient use of space in terms of energy use and lower than optimal occupancy.

5.5.4 BUILDING HEIGHT AND BUILT-UP AREA REGULATIONS

Building height is governed by the Building Code which imposes limits on maximum height and floor-to-area ratio (FAR) for private housing zones,⁷³ as shown in Table 7.

The limits shown in Table 7 are a result of a major increase in FAR implemented in 2005 ("Baquer: raising the building ratio,"

⁷² Al-Sawaber Complex was completed in the early 1980's and eventually demolished in 2019.

⁷³ FAR is defined as the total built-up floor area divided by the buildable lot area. However, it is expressed in the Building Code as the maximum built-up area (in m²) or percentage of the buildable lot area.

TABLE 6 MINIMUM DWELLING SIZE REGULATIONS BY REGULATING ENTITY

REGULATING ENTITY	APPLICABILITY	MINIMUM REQUIREMENT
BUILDING CODE	SINGLE-FAMILY HOUSE	LOT SIZE: 375M ²
	INVESTMENT HOUSING APARTMENT	APARTMENT SIZE: 60M ²
PAHW	PAHW DISTRIBUTED LAND PLOTS AND HOUSES	LOT SIZE: 400M ²
KCB	CONSTRUCTION LOAN: SINGLE-FAMILY HOUSE	LOT SIZE: 375M ² BUILT-UP AREA: 360M ²
	PURCHASE LOAN: SINGLE-FAMILY HOUSE	BUILT-UP AREA: 280M ²
	PURCHASE LOAN: INVESTMENT HOUSING APARTMENT	APARTMENT SIZE: 200M ²

- Building Code

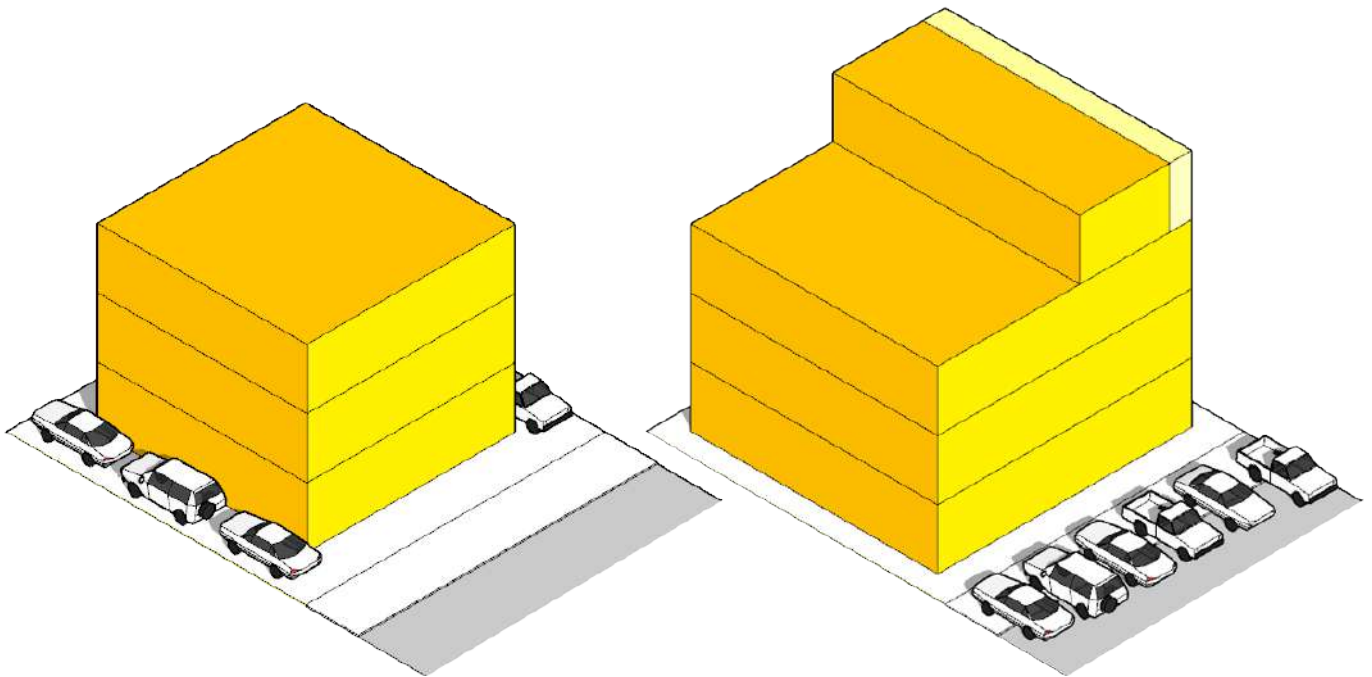
- Amendment no. 7/2005 to the Housing Welfare Law no. 47/1993

- KCB (2014)

TABLE 7 BUILDING HEIGHT AND BUA REGULATIONS BY PRIVATE HOUSING PLOT SIZE

LOT SIZE (M ²)	FAR	MAXIMUM BUILT-UP AREA (M ²)	MAXIMUM HEIGHT	ADDITIONAL ALLOWANCE
250 - 349	800M ²	800	3 FLOORS (INCLUDING GROUND) UP TO A MAXIMUM BUILDING HEIGHT OF 15M	HOMEOWNERS ARE ALLOWED TO ADD A BASEMENT UP TO THE SIZE OF THE PLOT
350 - 400	210% + 120M ²	855-960		
401 OR MORE	210%	842 UP TO 210% OF LOT SIZE		

FIGURE 56 DIAGRAM SHOWING OFF-SITE PARKING AFTER FAR INCREASE



- Data source: Building Code

2005),⁷⁴ which favors large, spacious, and now high-rise single-family houses. The policy change was ostensibly motivated by a desire to increase living space to accommodate extended families in the two apartments allowed under the Building Code. However, it should be noted that this policy change followed the considerable increase in PAHW applications, an increase in land and house prices, and a slowing down of the housing and land markets. The timing, therefore, could be seen as policymakers responding to an increase in housing demand by recognizing that the added FAR allowance would result in an increase in the supply of rental apartments in private housing zones, even though it violates the Building Code. This is coupled with the fact that the maximum FAR for investment housing buildings outside the CBD is fixed at 250%. The current height and built-up area regulations might have contributed

to structural changes in the market for rental apartments, with implications for housing affordability, urban form, quality of life, and infrastructure and municipal service provision, as will be discussed in the next subsection.

Changes made to the FAR in private housing have also affected the public spaces of neighborhoods themselves. In the past it was common for cars to be parked inside the plot of private housing villas because the side setback minimum was wide enough to allow for parked cars. Changes made to the Building Code in 1996 have reduced the side setback to 1.5m and 2m depending on the plot size. This width is not large enough to allow cars to be parked within the plot limits as seen in Figure 56, which results in cars blocking sidewalks and pedestrian walkways.

⁷⁴ Prior to the change, the FAR's were 680m² parcels smaller than 400m², 170% for parcels between 400m² and 600m² and 150% for parcels larger than 600m².

5.5.5 APARTMENTS IN PRIVATE HOUSING

Apartments-in-villas have become increasingly ubiquitous and have coincided with the rapid increase in the PAHW backlog over the past 20 years. By virtue of being in private housing zones, these apartments cannot be owned or sold separately from the houses that contain them. This sector of the housing market is loosely regulated and no official census exists to quantify the extent of this phenomenon.

As discussed earlier, the Building Code permits the building of two apartments in a single-family house in private housing zones. A contradiction immediately arises here when the apartments are leased to non-family tenants, when the single-family definition no longer applies. Even in cases where the tenants are relatives, the definition becomes ambiguous at best. For example, when the apartment is occupied by the homeowner's adult child with their spouse and children, it is not clear whether the house is now considered occupied by a single family or two families. Clearly, they are one extended family even though they should be treated as two independent social units for planning and housing policy purposes.

Al-Haroun (2019) provides examples of entire houses converted into apartment buildings in violation of the two-apartment limit, which may be indicative of weak institutional capacity or a recognition by the state that these developments are satisfying a housing need from households with a preference for residing in private housing zones.

These issues highlight the discrepancy between planners' intentions and how these are then manifested on the ground. Although the single-family villa is synonymous with privacy, large green spaces and enough distance from

neighbors, it is undermined in reality by the prevalence of non-family tenants and compromised open spaces. Moreover, violations of the two-apartment limit undermine the low-density designation of private housing zones, leading to increased pressures on infrastructure, municipal services, and public space.

Al-Haroun (2019) presents two complementary economic rationales to explain the apartments-in-villas phenomenon from the homeowner's perspective: it generates supplementary rental income that helps to pay off housing loans, while also providing future housing security for the homeowner's children. On the supply side, two policy decisions may have created an attractive business opportunity for real estate investors: increasing the FAR in private housing zones to 210% and raising the electricity price for investment housing buildings. In response to the diminished relative competitiveness of investment housing due to the introduction of these policies, investors are incentivized to shift their capital towards developing apartments-in-villas in private housing zones. In addition, existing homeowners are also incentivized to build additional floors on existing properties that have unused built-up area allowance in response to the increased FAR for private housing.

Ultimately, however, the main obstacle to studying this segment of the housing market is the lack of information due to insufficient effort on the part of the government to collect data through either systematic field surveys or a centralized registry of lease contracts.⁷⁵ Data on variables as basic as the inventory of apartments, number of tenants, occupancy rate, lease terms, tenant characteristics, and apartment attributes are virtually non-existent. This, coupled with rampant violations of the Building Code, weak enforcement, and the diffuse nature of supply (i.e. landlords are mostly individual households as

⁷⁵ The Income and Expenditure Survey covers housing, but the information contained in it is minimal and the survey is not conducted consistently with sufficient frequency (the last one was conducted in 2013).

opposed to commercial developers), lead one to conclude that apartment rentals in private housing zones represent a loosely regulated informal market where informed planning, regulation, and service provision are difficult, if not impossible, to implement efficiently and effectively.

5.5.6 IMPLICATIONS FOR HOUSING AFFORDABILITY

The land-use policies discussed in this section clearly reinforce existing preferences for the large single-family villa model. First, the shortcomings of the HOA regulations make owning or living in investment housing condominiums less desirable. This in turn increases the concentration of non-Kuwaitis in investment housing, resulting in further spatial sorting according to citizenship, which pushes even more Kuwaitis into private housing zones. The minimum lot size requirements impose a high cost burden on home buyers who might otherwise have no need for a large house. This, coupled with the generous FAR limits for private housing villas and the option to build apartments within them (not to mention the lax enforcement of the two-apartment limit), creates an incentive for building larger than optimal houses, thus appealing to households' preferences for spacious homes, neighborhood homogeneity, social status, income generation, and future housing security for children. The result is increasing demand for private housing properties which, due to lagging and inelastic supply, keeps housing prices persistently high.

The economic repercussions of these policies depend on which segment of the market is being considered. The increase in supply of private housing apartments is undoubtedly a boon for renters with a preference for them, although rent affordability may still be an issue given the underlying pent-up housing demand. Incumbent homeowners, on the other

hand, benefit from the appreciation in house values.

In terms of home buyers and housing affordability, additional apartments built into a house raises the value of that house through capitalization of expected future rent revenue. In the short run, this value appreciation can have a positive spillover effect on the average price in the neighborhood in several ways. If households sort spatially based on income, the presence of high value properties attracts home buyers with a relatively high willingness to pay, which raises the average price. The construction of apartments-in-villas may signal to the market the desirability of apartments in this neighborhood, which raises expectations about future demand for apartments and results in investors bidding up prices of properties available for sale. A prospective home buyer is then compelled to build a large house with apartments - even if their household size does not necessitate it - in order to recover (through future rent income) the high cost of purchasing the property. In summary, a combination of land-use regulations and market dynamics creates a vicious cycle whereby houses needlessly keep getting larger and less affordable.

Two caveats about the preceding discussion are in order. First, while a prospective homeowner receiving land from PAHW does not face the same high costs faced by a buyer, he or she may still feel compelled to build up to the maximum FAR because of other factors such as a large household size or to keep up with neighbors' social status. The result, however, is the same: larger and less affordable houses on average. Second, there may come a point - at least in the long run - where a critical mass of apartments is reached in a neighborhood such that they create negative spillover effects on property values due to congestion, pressure on infrastructure and municipal services, loss of neighborhood character, and decay in overall neighborhood quality. The implication on housing affordability

is best understood heuristically from the perspective of a home buyer. First, recognize that every additional apartment built into a house raises the value of that house through capitalization of expected future rent revenue. In the short run, this value appreciation can have a positive spillover effect on the average price in the neighborhood through two possible channels. If households sort spatially based on income, the presence of high value properties attracts home buyers with a relatively high willingness to pay who would raise the average price. Alternatively, the construction of apartment villas may signal to the market the desirability of apartments in this neighborhood, which would raise expectations about future demand for apartments and induce investors to bid up prices of properties available for sale. A prospective home buyer would then find themselves compelled to build a large house with apartments--even if their household size does not necessitate it--in order to recover (through future rent income) the high cost of purchasing the property. In summary, the confluence of land use

regulations and market dynamics creates a self-reinforcing vicious cycle whereby houses needlessly keep getting larger and less affordable.

Two caveats about the preceding discussion are in order. First, while a prospective homeowner that received land from PAHW does not face the same high cost faced by a buyer, he or she may still feel compelled to build up to the maximum FAR because of other factors such as a large household size or to keep up with neighbors' social status. The end result, though, is the same: larger and less affordable houses on average. Second, there may come a point--at least in the long run--where a critical mass of apartment inventory is reached in a neighborhood such that they impose negative spillover effects on property values as a result of congestion, pressure on infrastructure and municipal services, loss of neighborhood character, and decay of overall neighborhood quality.

CHAPTER

6

CONCLUSION

Housing has been identified by the parliament as the top concern for citizens and remains one of the most salient issues in Kuwaiti society today (KNA, 2013). Unlike in other countries where the most pressing housing issues usually manifest in slums and homelessness, the housing problem in Kuwait is very different: it is multifaceted and stems from the peculiar nature of Kuwait's economic, social, political, and demographic landscape. It is rooted in a social contract that views land and housing as one of the main means to distribute oil wealth directly, with the government playing an outsized role in housing provision and urban governance. With these in mind, this report sets out to describe and understand the housing situation in Kuwait through the lens of affordability and quality of life. It does so by examining the issues and forces that gave rise to, and perhaps sustain, the housing problem in Kuwait.

Chapter 1 provides contextual background, whilst Chapter 2 examines the urban governance and regulatory framework pertaining to housing in Kuwait. Having described the network of institutions, plans, and policies that govern housing, several key issues are identified in the report. Data limitations severely hamper the ability to design and effectively implement the various urban and housing plans, policies, and regulations. Furthermore, the lack of a clear, overarching, and coherent urban development and housing policy with well-defined socioeconomic objectives is also likely to be partly responsible for many of the observed contradictions between written plans and policies on the one hand, and implementation on the ground on the other. Moreover, an opportunity has been missed to improve urban and housing governance by not establishing new (or leveraging existing) local entities to solve local problems more efficiently and promote stakeholder engagement.

Chapter 3 describes the urban character of Kuwait and tells a tale of two cities: one for Kuwaiti residents and the other for non-Kuwaiti residents, seen through the

patterns of population density, housing typology, transport mobility, and quality of life in built up areas. As such, the dominant feature of Kuwait's urban character is the segregation between Kuwaitis and non-Kuwaitis, which arguably has been mainly induced by urban development and housing policies.

Chapter 4 describes the housing market in Kuwait and examines the underlying factors driving housing demand and supply. The analysis identifies aspects that are unique to Kuwait's housing sector and set it apart from most others around the world. On the demand side, the *right to housing*, ingrained in the minds of Kuwaitis and furthered by the continuing indiscriminate provision of land plots and housing units by PAHW at nominal cost, likely distorts households' incentives to buy properties from the private market even if they were affordable. In addition, the home ownership, land-use, and building regulations affect the type, size, and location of housing that Kuwaitis and non-Kuwaitis demand and can afford. On the supply side, the outsized role assumed by PAHW as the nearly sole provider of private housing, together with its inability to execute projects on time, has created a mismatch between housing demand and supply, evident from the persistent long backlog of applications for PAHW housing. The slow pace of new land releases and the laws prohibiting private housing development by real estate developers have further restricted supply. The result is a dysfunctional housing sector in which neither the government nor the market are able - or allowed - to address this shortage.

Chapter 5 brings together all the housing-related policies and discusses the implications for housing affordability and quality of life. The policies have been implemented to address, or have an impact on, supply, financing, cost, and land use. While many seem well-intentioned individually, it is their combined effect and/or their ad-hoc nature that ultimately produce unintended consequences, reinforced perhaps by the

lack of a clear urban development and housing policy, overlapping institutional responsibilities and weak implementation and enforcement capacity, as discussed in Chapter 2.

This report attempts to comprehensively examine the housing problem in Kuwait. In this respect, studying the housing sector is a challenging endeavor, especially given the unique economic, social, political, and demographic context, the sprawling and interconnected web of institutions, laws, and policies related to housing, and the many distorted preferences and incentives that have all culminated in the housing reality that residents of Kuwait currently contend with.

It is, nevertheless, the authors' hope that this report will encourage an honest conversation about the underlying contributors to the housing affordability problem and the unsustainability of the existing housing provision model. By putting forward hypotheses about the likely impacts of the many existing housing policies, it is also the authors' hope that this report stimulates further research that tests these hypotheses empirically. Such research, however, will only be possible if the gaps in timely, disaggregated, and high-quality data on urban development and housing are addressed by policymakers and agencies responsible for urban governance and housing.

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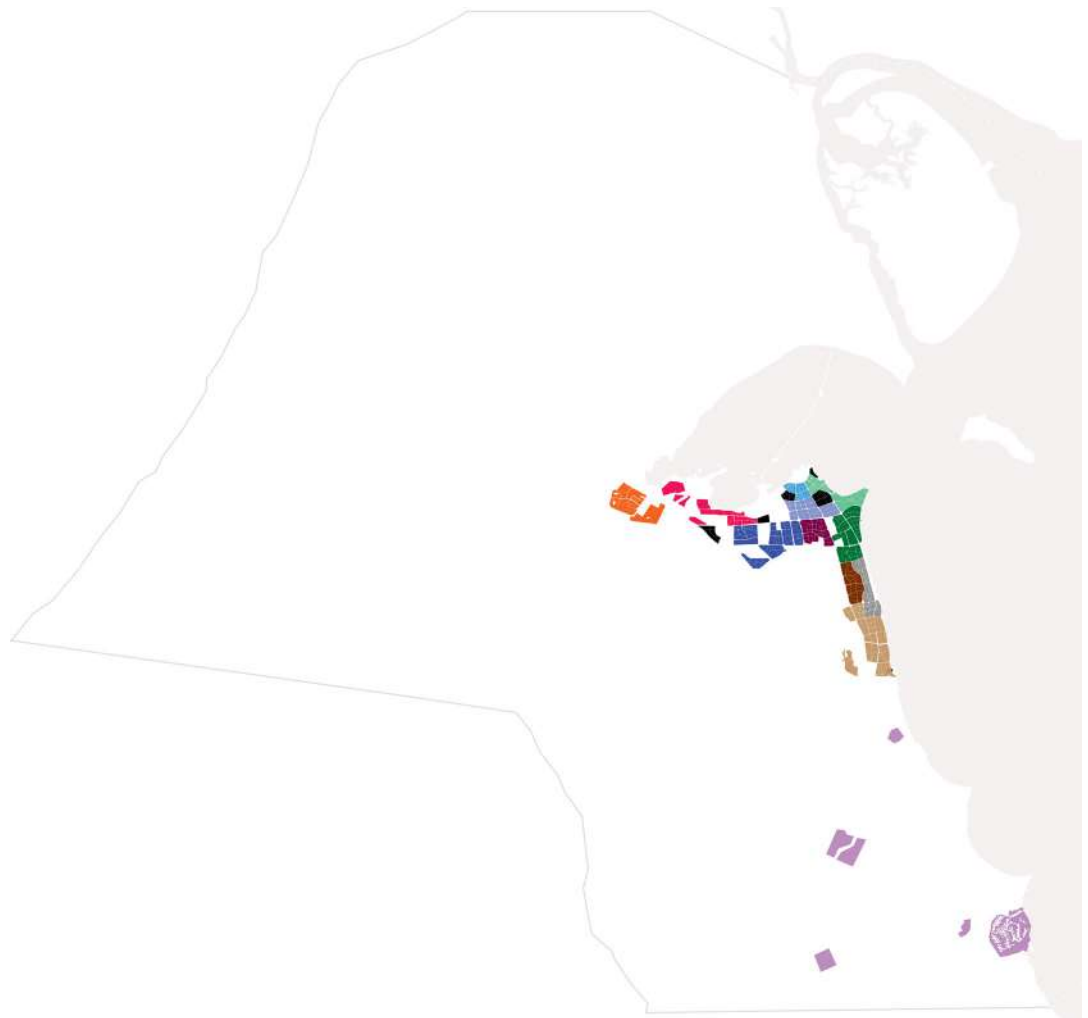
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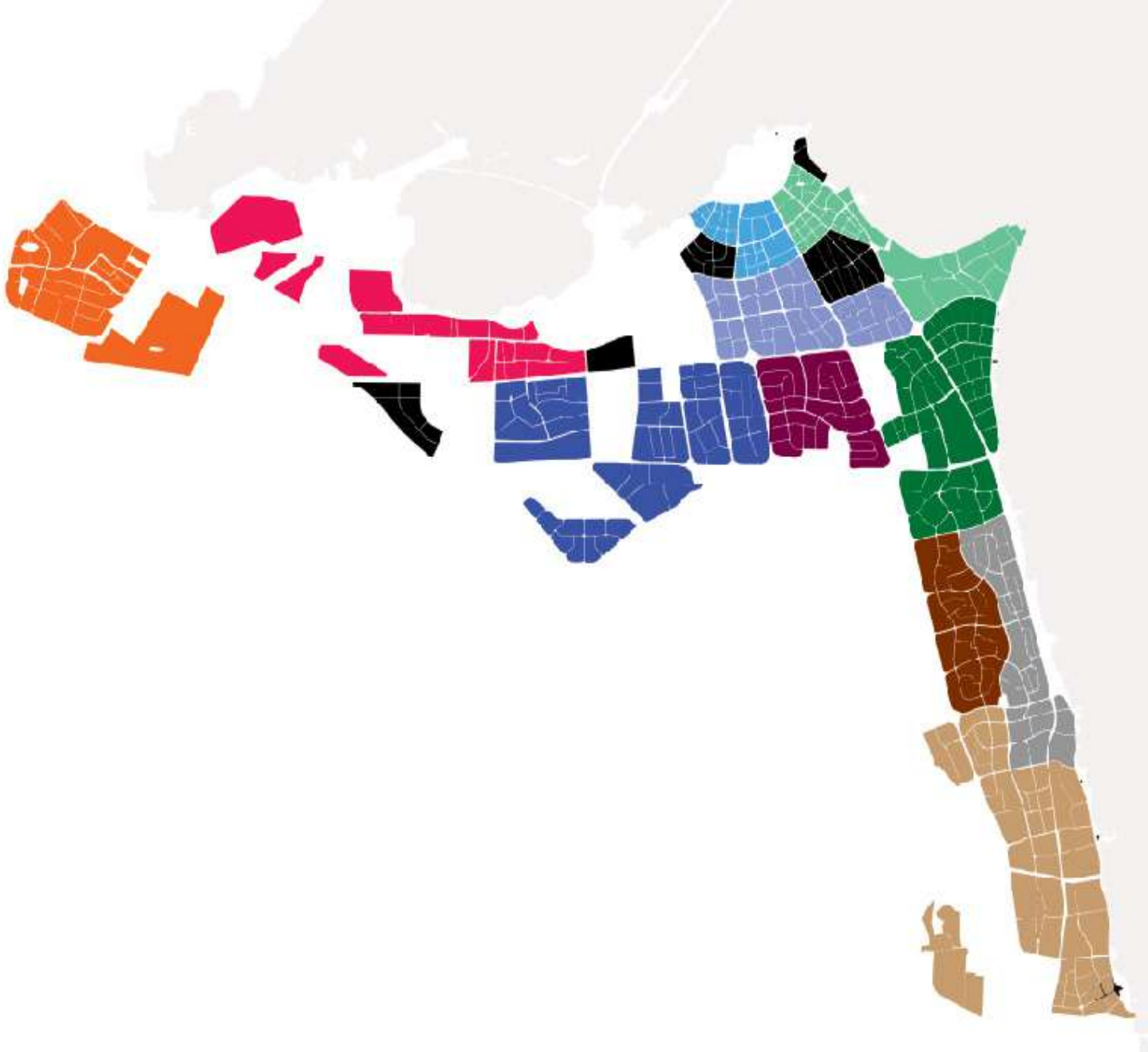
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APPENDICES

A.1. DISTRICT GROUPS

#	Name	Districts
1	Abdullah Al-Salem	Abdullah Al-Salem, Shamiya, Shuwaikh, Faiha, Nuzha, Qibla, Kaifan
2	Dasma	Dasma, Qadisiya, Mansouriya, Daiya, Sha'ab, Salmiya, Bneid Al-Gar, Magwa, Sha'ab Bahri, Sharq, Dasman, Hawally
3	Qurtuba	Qurtuba, Khaldiya, Yarmouk, Adailiya, Surra, Rawda, Jabriya
4	Khaitan	Khaitan, Omariya, Rabia, Rihab, Eshbilya, Ardiya, Firdous, Sabah Al-Nasser, Abdullah Al-Mubarak, Farwaniya, Jleeb Al-Shuyoukh
5	Andalous	Andalous, Sulaibikhat, Garnata, Nahda, Doha, Qeirawan, NW Sulaibikhat, Jaber Al-Ahmad, Rigey
6	South Surra	Sadiq, Shuhada'a, Hateen, Salam, Zahra
7	Bayan	Bayan, Mishref, Salwa, Rumaithiya, Mubarak Al-Abdullah
8	Qurain	Qurain, Adan, Qosoor, Mubarak Al-Kabeer, Sabah Al-Salem
9	East Qurain	Messayl, Abu Fatira, Funaitees, Egaila, Fintas, Messila
10	Ahmadi	Riqqa, Sabahiya, Hadiya, Fahad Al-Ahmad, Mangaf, Jaber Al-Ali, Dhahr, Abu Halifa, Ahmadi, Fahaheel, Mahboula
11	Jahra	Jahra, Ayoun, Qasr, Waha, Taima, Sa'ad Al-Abdullah, Naeem, Naseem
12	Khiran	Khiran, Ali Sabah Al-Salem, Sabah Al-Ahmad, Wafra





A.2. TRANSACTIONS DATA DESCRIPTION

The real estate sales transactions data were obtained from the MOJ's website for the period spanning 2006Q3 to 2009Q3. The subset of raw data representing properties classified as private consists of 76,527 transactions from all over Kuwait, 97.5% of which pertain to land or houses.

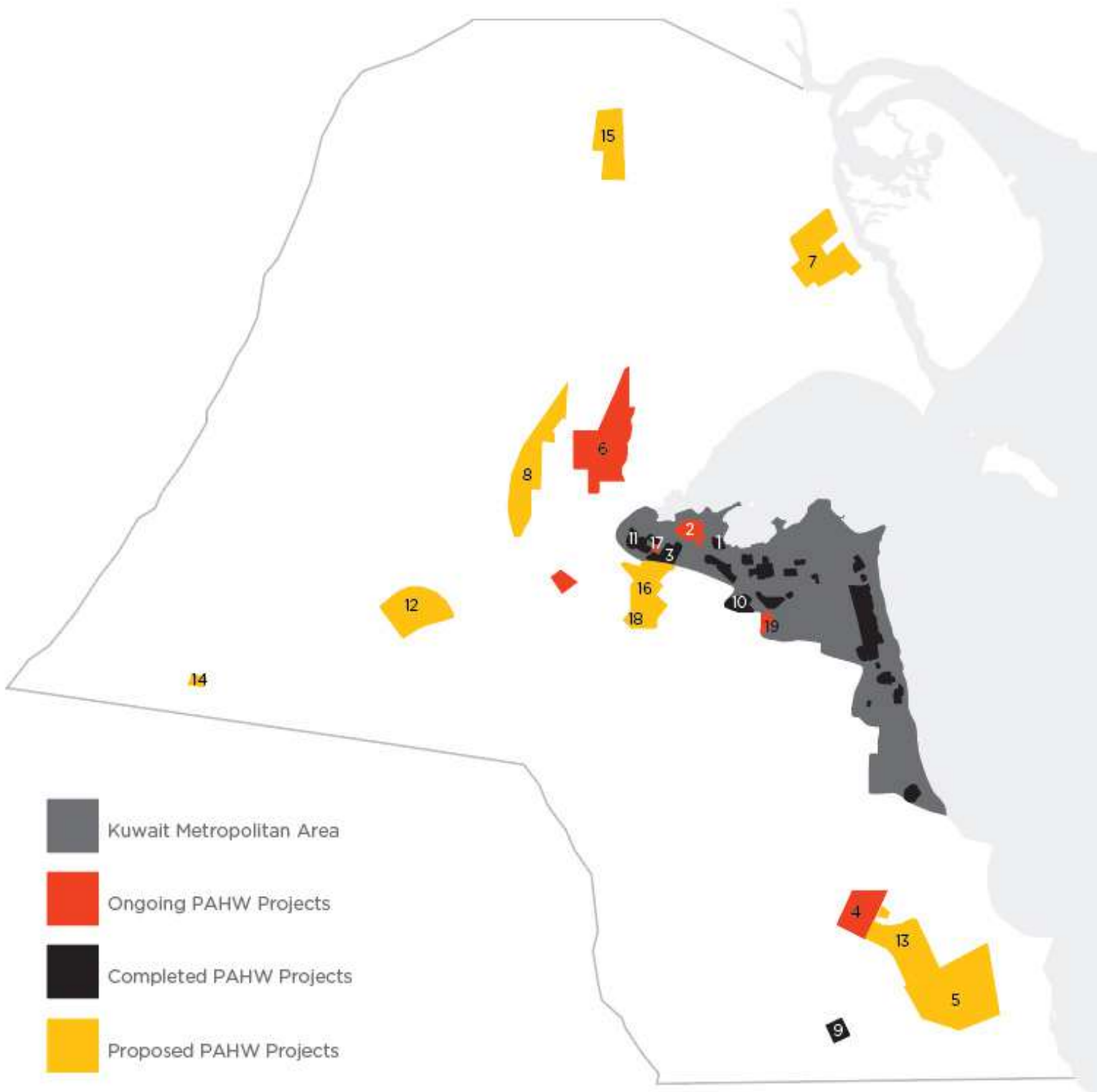
Cleaning and translating the data required significant effort. Besides correcting obvious coding errors, the main challenge involved transactions representing bulk sales of multiple properties, where it was not readily obvious whether the listed sale price pertained to the properties individually or combined. Verification was possible for some transactions by cross-checking them with weekly statistics also published by the MOJ. For the remaining data, the authors created systematic criteria based on comparisons with the prevailing median price per m² and sales values of properties of similar size in the vicinity of the properties in question. The transactions were then painstakingly examined and classified accordingly.

For the purposes of the analysis, only the

transactions involving the entire property (as opposed to a partial share of it) were considered. Moreover, the analysis was restricted to land plots and houses of lot size between 250m² and 1000m². Non-residential properties as well as residential ones in prime downtown or coastal zones were excluded from the analysis. For the land sample in particular, certain mixed-use districts were excluded because differentiating between plots in private and investment housing zones was not possible.

The final numbers of transactions making up the samples used in the housing market analyses were 21,345 for land sales, 25,584 for single-family house sales, and 9,013 for condominium sales. These samples were obtained after excluding between 1.56% and 1.65% of the transactions because their prices could not be determined .

A.3. ONGOING GOVERNMENT HOUSING PROJECTS



- Data source: PAHW (2020)

- Urban areas include past government housing and land distribution that predates PAHW

#	Project Name	Available land area (ha)	Plots (declared by PAHW)
1	North West Sulaibikhat	250	1,736
2	Jaber Al Ahmed City	1,250	6,680
3	Saad Al Abdullah City	1,000	7,542
4	Sabah Al Ahmed City	3,500	9,574
5	Al Khiran City	14,500	35,844
6	Al Mutla'a City	1,050	21,500
7	Al Sabriya City	8,000	52,625
8	North Al Mutla'a (Nawaf Al Ahmed City)	8,000	52,625
9	Al Wafra City	800	3,496
10	West Abdullah Al Mubarak	900	7,400
11	Al Naseem Residential Area	35	696
12	Al Naayim City	2,050	21,764
13	South Sabah Al Ahmed (Central Town)	6,150	25,000
14	Al Salmi Eco-City	500	2,272
15	Al Abdali Residential Area	670	8,900
16	South Saad Al Abdullah	5,900	40,000
17	East of Taimaa	40	372
18	South Saad Al Abdulla Expansion	560	TBD
19	South Abdullah Al Mubarak	450	3,600

The South Saad Al Abdullah project

This project is located west of Kuwait City and is 5 km from Jahra and 35 km from Kuwait City, covering an area of 64.42 sq km. The city will be developed as a mixed-use project. The project will provide several housing options, with an estimated total of 30,000 housing units for housing welfare beneficiaries, including areas for non-housing welfare purposes serving the city's residents. The project is designed in accordance with the new PAHW Zoning Code and as such will require legislative changes to approve the updated building regulations and zoning.

The South Sabah Al Ahmed development project

The South Sabah Al-Ahmad City housing project extends over an area of 60 sq km and is located south of Kuwait City. The project is still in the planning and design stage, working in partnership with global consultancy firms, and is expected to accommodate around 25,000 housing units for housing welfare beneficiaries.

The Jaber Al Ahmed City project

This residential project is expected to provide a link between the new areas in the Al-Sabiya area and Hareer City, where it will be at the crossroads of the planned road networks and bridges. The city includes more than 6,500 residential units for housing welfare beneficiaries and commercial areas serving the city.

The Al Matla'a Residential City project

This project provides 28,288 housing units, each of which is 400 sq m. The project area is 104 sq km and is 10 km from Jahra and 40 km from Kuwait City. The Municipality has recently begun releasing building permits for some plots in Al Mutla'a.

The South Abdullah Al Mubarak City project

The South Abdullah Al-Mubarak housing project was allocated in May 2016. The project occupies an area of 4.3 sq km, with a total of more than 3,000 housing units. It is adjacent to the Abdullah Al-Mubarak Project and the West Abdullah Al-Mubarak project and is bordered to the north by the Shdadiya University campus project.

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HOUSING KUWAITIS: AN OVERVIEW OF THE CURRENT MODEL AND ITS IMPLICATIONS ON AFFORDABILITY AND QUALITY OF LIFE

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