

KFH LOCAL REAL ESTATE REPORT



Second Quarter 2007

K U W A I T

بيت التمويل الكويتي
Kuwait Finance House



KFH LOCAL
REAL ESTATE REPORT

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Praise be to Allah and Peace and Blessings be upon
Prophet Muhammad

Dear Reader,

We are delighted to present to you a new edition of the KFH, comprehensive Report on the Local Real Estate Market during the 2nd Quarter of 2007 for your convenience; especially after the booklet issued in the 1st Quarter of 2007 was highly commended and welcomed by all recipients. This, in fact, will encourage us to exert our utmost efforts so that the Report will be up to the expectations of our customers who are interested in the real estate market.

We are also very pleased that the Report has been extremely welcomed and well received by the esteemed academic entities and figures such as the professors and students of Kuwait University, Public Authority of Applied Education & Training (PAAET), private universities, and the different companies and institutions within all specializations. In fact, the large demand on the printed copy of the Report has driven us to double the printed quantity to satisfy the needs of the increasing number of our readers.

As we hope the new edition of the Report will help achieve our aspired goals, you are kindly requested to submit your comments to us. They Your will certainly be taken into consideration for further enhancement.



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6. The expanded promotional activities for the real estate investment through participation in exhibitions, conferences, and auctions to offer these opportunities.

Consequently, rates and trading of investment real estates have witnessed an unprecedented increase, and demand has increased on certain prime locations as well as on the poor infrastructure areas in anticipation of high profits in the future. In addition, there has been an increasing demand on buying buildings with violations against the construction laws and on changing certain areas from residential houses to investment projects, and residential areas to investment areas. Worth-noting is the steady rise of prices during the 2nd quarter of 2007 following the high rise in prices in the last quarter of 2006 and 1st quarter of 2007.

Should the real estate upswing continue, the real estate market is expected to set a new record compared to 2006 (which witnessed a large increase in the volume of transactions and trading) as positive indicators anticipate more rise in the market.

Real Estate Trading Indicators

At the real estate market level, the trading indicators issued by Registration & Authentication Department, Ministry of Justice, during the 2nd quarter of 2007 have increased by KD 369.472 million with a rise of 45% compared to KD 820.893 million in the 1st quarter of 2007, representing a boom as compared to the previous quarters of 2006.

Real Estate Transactions Private Housing

Real estate transactions of private housing constituted 57.4% of the total trading (KD 1190.365 million) as private housing transactions registered KD 682.722 million in the 2nd quarter of 2007. Trading of the private housing rose by 48%, compared to the 1st quarter of 2007, as the number of private real estate trading transactions increased to 3667 transactions in the 2nd quarter of 2007 compared to 2455 transactions in the 1st quarter of 2007. During the 2nd quarter, average transaction rose to KD 186.2 thousand compared to KD 178.6 thousand in the 1st quarter of 2007 due to the increased number of transactions by 49.3% coinciding with the higher prices of certain areas. April 2007 registered the highest trading rate in the 2nd quarter of 2007, accounting for 36.9% (equal to KD 251.552 million) of the quarter's total private trading (KD 682.722 million). May ranked second with a share of 32.9% (equal to KD 224.366 million) and June ranked last with a share of 30.3% (equal to KD 206.804 million).

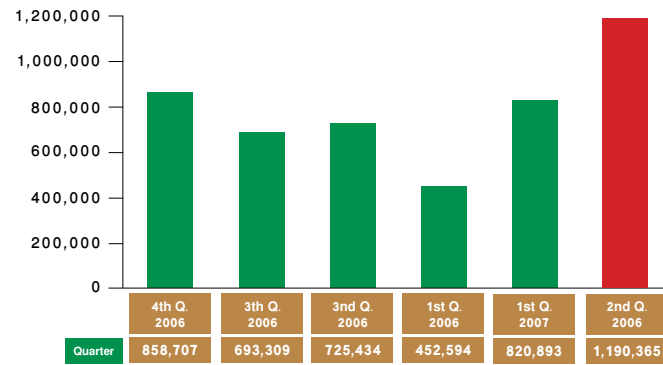


Introduction

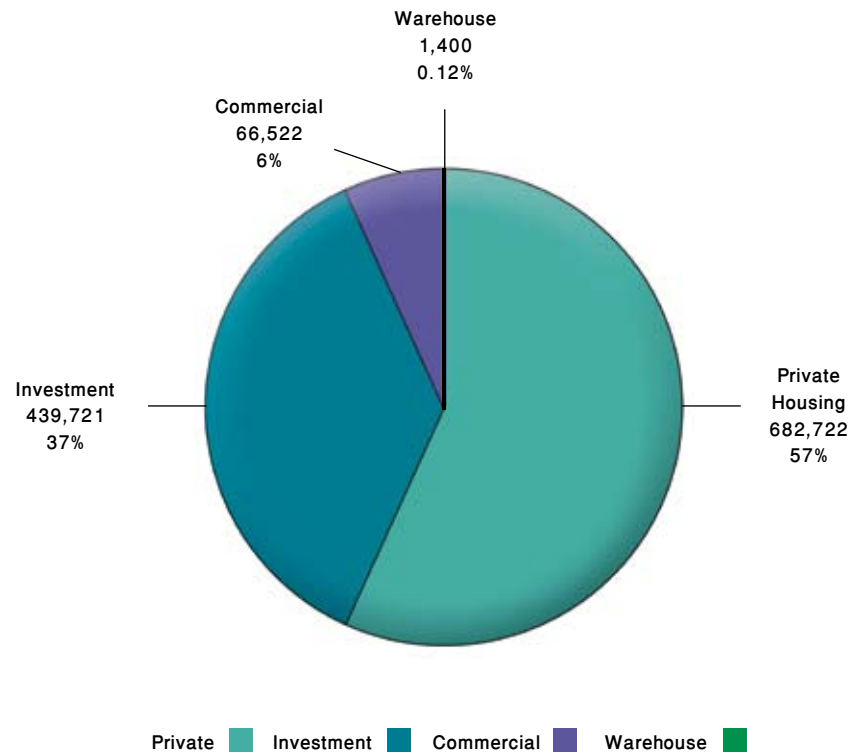
Total trading volume during the 2nd quarter of 2007 has witnessed a notable increase of 45% compared to the 1st quarter of 2007. The Real Estate market experienced a revival during the 1st semester due to a set of factors that have significantly increased the demand on the investment, residential, and commercial real estate properties and usufruct contracts. This can be elaborated on as follows:

1. The continued increase in the oil prices during the 2nd quarter of the current year, which is a key driver for most economic sectors in the State of Kuwait. The average oil price registered is USD 61.8 per barrel exceeding that of 2006 which was USD 58.4 per barrel, with an increase of about 22% compared to 2005, given that Kuwait has achieved oil returns in its balance sheet in the fiscal year 2006/2007 amounting to KD 14.5 billion.
2. The increased levels of liquidity available by individuals and investors in light of the continued financial surplus in the State's balance sheet and the increased credit volume by the Credit & Savings Bank or the local banks and investment companies, given that there has been a growth in real estate credit by 46.5% and in the construction sector by 31% during May 2007 as compared to the same period of the past year.
3. The desire of a multitude of investors for changing their savings from cash into real investment, lest that prices may increase and for profit-making purposes, given that the supply of money reached KD 17.393 million in May 2007 compared to KD 15.036 million in May 2006 (increase of 15.7%), which led to an increase in the public and private expenditure that has been reflected in the form of a tangible constructional and economic development.
4. The vast introduction of several new companies in the real estate sector either in the field of building and construction or real estate investment and finance, as many real estate funds and portfolios have been launched. This, in addition to the increasing popular demand on purchasing the shares of the said companies to apply a capital increase for financing certain projects in order to meet the increasing demand on real estate properties in the Gulf and Arab region. Supporting this, is the population growth, high income per capita, high occupancy percentage, the growing trend for investment in the real estate sector, and the profitability of the real estate investment.
5. Return of the real estate investment to the close attention of investors due to the unstable conditions in the Kuwait Stock Exchange and the shift of liquidity from the stock exchange to the real estate exchange market, given the fact that investment in the real estate sector is safer than investment in stocks. This is best illustrated by the sharp regression suffered by the Gulf money markets and Kuwait Stock Exchange during 2006 and the 1st quarter of 2007, and the absorption of a large amount of the funds flown out of these markets into real estate investments.

KFH Local Real Estate Report



Total Real Estate Trading for 2006 and the 2nd Quarter of 2007



Total Real Estate Trading during the 2nd Quarter of 2007



Real Estate Investment Transactions

During the 2nd quarter of 2007, total real estate investment trading rose to KD 439.721 million, compared to KD 320.220 million in the 1st quarter of 2007 with a rise of 37.3%. April came in first place in terms of trading volume for the 2nd quarter of 2007, registering KD 168.129 million. June came in second place with an average investment trading volume of KD 142.784 million. May ranked third, registering a trading of KD 128.808 million.

The increase in trading of investment transactions complies with the positive indicators to the reactivation of the investment market, higher rates of investment housing, increasing demand in certain prime areas and properties, as well as investment properties that still lack infrastructure pending the realization of higher gains due to the immigration of some real estate investors from the stock exchange, which still witnesses corrective actions, and the demand by some investors on purchasing properties violating the construction law in spite of the high investment risks involved. In addition, the change of positions from speculators to real investors contributed to the rise, in line with the upward trend of occupancy rates due to the increasing rates of population, especially among expatriates.

Commercial Real Estate Investments

During the 2nd quarter of 2007, total commercial real estate trading rose in spite of the increasing demand for certain commercial locations with supply being scarce. Trading rose by 71%, registering KD 66.522 million, compared to the 1st quarter of 2007 of KD 38.879 million. This caused its share in total trading to rise to nearly 5.6%, on account of the real estate transactions for private housing, of which the share approached 57.4%, and investment transactions of 36.9%. June ranked first with KD 23.018 million, while May ranked second with trading volume reaching KD 22.188 million. April ranked third with a trading volume of KD 21.316 million. Meanwhile, the average transaction during the 2nd quarter of 2007 amounted to KD 1.663 million, compared to 1.555 million for the 1st quarter of 2007. The rise in the volume of one transaction is attributed to the increasing number and value of the commercial transactions as a result of scarcity of real estate properties, the record rates in the shadow of economic stability, the increasing number of the new investment companies, the participation of foreign banks and investment companies, and the increasing governmental and private expenditure on projects, in addition to the higher volume of household consumption, as the salaries of certain segments of the Kuwaiti society were raised. Another factor was the higher per capita income by 24.3% due to the following reasons:

1. The record rise in the price of the barrel of oil.
2. Establishment of new real estate companies.
3. Establishment of local and foreign finance companies.
4. Launching of new real estate investment funds.
5. Openness of the local commercial market to world products; thus, looking for markets and branches for marketing their products, causing the volume of demand and consumption to increase and motivating investors towards further expansion thus increasing the demand on commercial real estates.



Area	M2	Value (In KD)		Price per M2 (In KD)		Average 2nd Quarter 2007 (In KD)
		From	To	From	To	
Abdulla Al-Salem Suburb	750	480,000	900,000	640	1,200	920
Shuwaikh Housing Area	1,000	510,000	1,200,000	510	1,200	855
Faiyhaa	750	350,000	600,000	467	800	633.3
Al-Nuzha	750	385,000	700,000	513	933	723
Al-Mansouriya	750	330,000	550,000	440	733	586.7
Al-Yarmouk	750	375,000	600,000	500	800	650
Al-Rawda	750	260,000	420,000	347	560	453

Mubarak Al-Kabir Governorate registered KD 400 for the average rate per m2. However, some areas witnessed notable trading and rise, including Abul Hasaniya, Ogaila, Abu Fateera, and Funaitees, due to the imminent completion of the infrastructure projects there. Meanwhile, rates stabilized in Sabah Al-Salem, Adan, and Al-Qosour areas.

Area	M2	Value (In KD)		Price per M2 (In KD)		Average 2nd Quarter 2007 (In KD)
		From	To	From	To	
Abul Hasaniya (side streets)	750	350,000	500,000	467	667	566.7
Al-Maseela (East Qurain)	400	140,000	200,000	350	500	425
Sabah Al-Salem (Government House)	400	110,000	140,000	275	350	312.5
Mubarak Al-Kabeer (Blots)	400	140,000	180,000	350	450	400



Price Indices

1- Private Housing Land Rates

During the 2nd quarter of 2007, private housing witnessed higher rates compared to their previous levels in the 1st quarter of 2007, by up to 8.7%, driven by the increasing demand on the private housing, availability of local liquidity, and the increased credit volume by banks and investment companies. Changes in the conditions of credits granted by the Credit and Savings Bank are expected by some analysts in addition to the failure of the State to satisfy the demand on the private housing in spite of the announcement of the establishment of new towns which will help decrease the number of applications pending and accumulating since 1992.

On the part of supply, the introduction of many companies and key traders into the residential real estate market is noticeable especially through the purchase of blocks or the construction on certain lands for profit-making purposes. This caused the rates of these real estates to rise, driven by the rising costs of construction, building materials, and manpower. This in fact may increase the demand on certain residential real estates designed to include units for rent besides the private housing, to enable payment of the finance installments and utilization of the Credit and Savings Bank's loans as an advance payment upon purchasing such real estates.

Some investment companies entered into the field of providing private houses or land to meet the growing demand and to influence the rates. However, we believe that expanding these companies will create an atmosphere of competition, which will lead to the stability of prices.

KFH price indices registered the highest rise of the housing land rates during the 2nd quarter of this year in the Capital Governorate, with an average of KD 609. Rates at Shuwaikh housing area and Abdulla Al-Salem suburb continued to rank first as the highest rates in the Capital Governorate, with KD 700-900 per square meter. Prime locations registered KD 800-1,200 per square meter.

Al-Adailiya and Al-Nuzha rose by 16%. Rates of Qurtoba, Mansouriya, Dasma, Surra, and other areas of the capital also soared.



Area	M2	Value (In KD)		Price per M2 (In KD)		Average 2nd Quarter 2007 (In KD)
		From	To	From	To	
Fntas Agricultural	1000	200,000	300,000	200	300	250
Hadiyah	750	150,000	180,000	200	240	220
Al-Aqilah	400	120,000	180,000	300	450	375
Al-Khairan One street, private housing	400	30,000	36,000	75	90	82.5
Al-Manqaf - Residential	400	120,000	140,000	300	350	325

In Hawalli Governorate, rate per m2 stabilized at KD 526 in average. Bayan, Jabriyah, West Mishref, and South Surra areas registered KD 463. Rates at the areas overlooking the coastal line ranged between KD 867 and KD 2,600, compared to KD 650-2,600 per m2 in the 1st quarter of 2007.

Area	M2	Value (In KD)		Price per M2 (In KD)		Average 2nd Quarter 2007 (In KD)
		From	To	From	To	
Al-Sha'b	400	200,000	280,000	500	700	600.0
Al-Jabriyah	750	210,000	265,000	280	353	316.7
Al-Rumaithiyah	750	185,000	250,000	247	333	290.0
Bayan	500	160,000	220,000	320	440	380
Bayan - Plot 13	400	170,000	220,000	425	550	487.5
Mishrif	750	220,000	300,000	293	400	346.7



Farwaniya Governorate registered an average rate of up to KD 300 per m2. The 2nd quarter of 2007 witnessed a higher trading in Jaleeb Al-Shoyoukh, Khaitan and Farwaniya areas, and higher demand for Eshbilia, where rates soared to KD 400 for prime locations, and KD 325 for some ordinary locations, compared to KD 318 per m2 in the 1st quarter of 2007.

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

Area	M2	Value (In KD)		Price per M2 (In KD)		Average 2nd Quarter 2007 (In KD)
		From	To	From	To	
Al-Rabiya	500	130,000	160,000	260	320	290
Farwaniya	500	150,000	200,000	300	400	350
Khaitan	750	165,000	220,000	220	293	256.7
Jaleeb Al-Shoyoukh	750	250,000	350,000	333	467	400

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



Noteworthy is that there is no significant difference in the rise percentages between the different governorates, as the Capital City has touched a rise by 5.2% with an average rate of KD 1,776 per square meter and KD 4,000 per square meter in Dasman including the areas overlooking the sea which reach KD 6,000 per square meter and the internal areas which drop to KD 2,500 per square meter. The high demand on this area is best interpreted by the fact that some investors anticipate the issuance of a decision changing this area into an investment area combining administrative offices.

Area	M2	Value (In KD)		Price per M2 (In KD)		Average 2nd Quarter 2007 (In KD)
		From	To	From	To	
Bnaid Al-Qar (Overlooking the Sea)	1,000	2,200,000	2,700,000	2,200	2,700	2,450
Bnaid Al-Qar (side street)	1,000	810,000	1,000,000	810	1,000	905
Eastern part of Maqwa'e (construction percentage of 400%)	500	1,000,000	1,500,000	2,000	3,000	2,500
Dasman (400%)	1,000	2,500,000	5,500,000	2,500	5,500	4,000

Rates in Hawalli and Farwaniyah rose by 5% and the rise percentages are proportionate for the areas within Hawalli, given that Salmiyah and Hawalli marked the highest rates, while rates remained stable at KD 2,400 to 2,800 in the areas overlooking the sea. Rates in Al-Ahmadi rose by 6% with an average rate of KD 577, while the rate per each square meter in the areas overlooking the sea ranged from KD 900 to 1,200. Area of Al-Jahra rose by 4.2%.

Farwaniya Governorate marked the highest rise in rates reaching 30% in certain areas, with an average rate of up to KD 573 per m2 in the 1st quarter of 2007 and a rise percentage of 23% compared to the 4th quarter of 2006.

Jahra Governorate registered an average of KD 256 per m2. Jahra area witnessed a stable size of demand on private housing as a result of high population growth in the area and its strategic position as a transit point for cargo trucks to Iraq. In addition, the number of commercial complexes increased to meet the requirements of increasing consumer demand in the area, particularly at the Qaser area, which rose by 4% in the average rate per m2.

Area	M2	Value (In KD)		Price per M2 (In KD)		Average 2nd Quarter 2007 (In KD)
		From	To	From	To	
Al-Qasr	750	115,000	130,000	153	173	163.3
Al-Qaser (Existing house)	600	95,000	140,000	158	233	195.8

Second: Investment Land Rates

Rates of the investment real estates rose at steady ratios after they soared during the last two quarters (the 4th quarter of 2006, and the 1st quarter of 2007). This rise is due to the desire of a multitude of savers to shift their savings from liquid assets to investment assets, in order to maintain integrity of their funds from inflation, and to benefit from the high rise in the rates of real estate market which still has surplus liquidity arising from the availability of investment opportunities in the ever growing real estate market amidst the stable demand on the apartments designed for renting and the rise in the rental values driven by the population growth and the rise in the income of certain categories in certain areas (ex: Al-Mahboulah, Fahaheel, and Manqaf where the high demand on accommodation is noticeable).

Market makers do play a significant role as they revive the buying and selling transactions through promoting their investments by offering and constructing new investment units or through speculation on the existing units.

Jahra Governorate registered the highest rate reaching 24% compared to the 1st quarter of 2007 due to the permission of establishing commercial buildings at the commercial and administrative center area, which witnessed notable trading and higher rates.

Hawalli Governorate came in the third place with a rise of 13%. Salem Al-Mubarak St. ranking the first with a rate ranging between 2,500 and KD 3,000 on average followed by Farwaniya Governorate with a rise of 43.6%, and Munawer St. came in the first place, registering an average of KD 4,200 per each square meter on average.

Notably, rates continued to soar at Al-Dajeej area, south of Khaitan, as a result of the increasing demand by certain companies, and the scarcity of empty land parcels at Dajeej area behind the airport, of which the rates rose to KD 650 on average.

Fourth: Rates of Industrial Plots (Usufruct and Warehousing Contracts)

Rates of industrial plots rose significantly during the 2nd quarter of 2007, by up to 26%, compared to the 1st quarter of 2007, particularly at East of Ahmadi, Shuwaikh Industrial Area, and Fahaheel.

Fifth: Farms and Pales Rates

During the 2nd quarter of 2007, farm rates rose by 8% ranging from KD 3 to KD 5 per each square meter in Al-Wafra Farms, KD 1 to KD 1.750 in Al-Abdaly Farms, compared to the 1st quarter of 2007 where Kabd pale rates ranged between KD 65,000 to KD 85,000 per each built and equipped pale, and KD 35,000-42,000 per each unequipped pale, with an area of 1,250 m². Pale rates at Rajm Khashman stabilized at around KD 25,000 to KD 35,000, and Ahmadi Equestrian at KD 30,000 to KD 38,000 for the ordinarily equipped pales.



Third: Commercial Real Estate Rates

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

Commercial real estate rates continued to increase notably during the 2nd quarter of 2007, by 2%-43% depending on each area, compared to the 1st quarter of 2007, where trading rates within the city registered KD 4,000 - KD 12,000 per m2 in average. This was caused by the scarcity of this type of land and the increasing demand on it by local companies, in addition to the entry of foreign companies, which, in turn, seek good building standards. Foreign companies rent the whole units of the administrative buildings once they are completed, thus pushing prices and rentals even higher.

Area	Bldg Ratio %	M2	Value (In KD)		Price per M2 (In KD)		Average 2nd Quarter 2007 (In KD)
			From	To	From	To	
Downtown (Al-Mubarakiya Souq)	300	500	1,500,000	2,500,000	3,000	5,000	4,000
Downtown (Ahmad Al-Jaber Str.)	520	500	4,750,000	5,700,000	9,500	11,400	10,450
Downtown (Mubarak Al-Kabir Str.)	620	500	4,500,000	5,000,000	9,000	10,000	9,500
Downtown (Fahd Al-Salem Str.)	620	500	4,750,000	5,700,000	9,500	11,400	10,450
Downtown (Ali Al-Salem Str.)	300	500	1,800,000	2,600,000	3,600	5,200	4,400
Downtown (Ali Al-Salem Str.)	520	500	3,500,000	4,000,000	7,000	8,000	7,500



Governorate	No.	Area	M2	Price	Sale per M2	Apartment Specifications	Remarks
C a p i t a l	1	Bneid Al-Qar	101	70,000	693	2 b/r, hall, 2 bathrooms, Mate Room with a Bathroom.	The 6th Floor, second row of the Gulf St. overlooking the Sea.
	2	Al-Sawaber	226	220,000	973,4	3 b/r, hall, reception room, 3 bathrooms, mate room with bathroom, warehouse, and a balcony.	Located at Al-Shuahada' St. Rental KD. 500
	3	Al-Sawaber	216	188,000	870,3	3 b/r, hall, reception room, 3 bathrooms, mate room with a bathroom, warehouse, and a balcony.	Located in ward (second row of Al-Shuahda' St. Rental KD 500
H a w a l l i	4	Hawalli	74	29,500	398,6	2 b/r, hall, 2 bathrooms, (a mate room was added to be 80 m2).	The building is located at a main street, and the apartment is located in the posterior part.
A h m a d i	5	Al-Mahbbolah	114,5	33,000	288,2	3 b/r, hall, reception room, 2 bathrooms, mate room with a bathroom.	Facing the Street, with ordinary finishing .



Chalets Rates:

Rates of chalets are rising successively in light of the increasing demand on chalets in summer. Rates of chalets are identified in the table below:

Area	Facade in Meter	Estimated Rate of the Plot		Rate per Square Meter		Average 2nd Quarter 2007 (In KD)
		From	To	From	To	
Abdullah Port	15	115,000	130,000	7,66	8,66	8,16
Al-Dabaeiah	15	120,000	140,000	8,000	9,333	8,66
Al-Gulaiah	15	155,000	175,000	10,333	11,667	8,66
Bneider	15	180,000	210,000	12,000	14,000	13,000
Al-Khairan	15	110,000	125,000	7,333	8,333	7,833
Al-Nuwiseeb	15	110,000	125,000	7,333	8,333	7,833

Sixth: Freehold Apartment Rates

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



Seventh: Occupancy Rates and Rentals

Occupancy rate continued to soar in all types of real estate properties ranging from 97-98% and reached 100% in certain areas. Apartment rent averaged KD 165-200 for 1 b/r and hall, KD 200-250 for double b/r and hall, and KD 210-280 for 2 b/r, hall, 2 bathrooms, and maid room. Rent of 3 b/r and hall apartments ranged from KD 300-380. Rates differ according to design and prime locations.

Rent per m2 (commercial ground floor) averaged KD 16-28, and up to KD 30 at prime locations. For offices, rent per m2 averaged KD 7-12 for the various areas of Kuwait, and up to KD 14 in the Capital City and even more according to location and type of finishing. A new type of office emerged; the fully furnished offices equipped with technical and secretarial facilities, for temporary use, especially for foreign companies which rent in intervals. Rent per meter may reach KD 12-14, or even more.

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

