



GALT & TAGGART

CREATING OPPORTUNITIES

Tbilisi Residential Real Estate Market Overview

15 November 2023

3 Questions about

Tbilisi Residential Real Estate Market

Demand

Are the demand drivers healthy?

Supply

Is there a risk of oversupply?

Prices

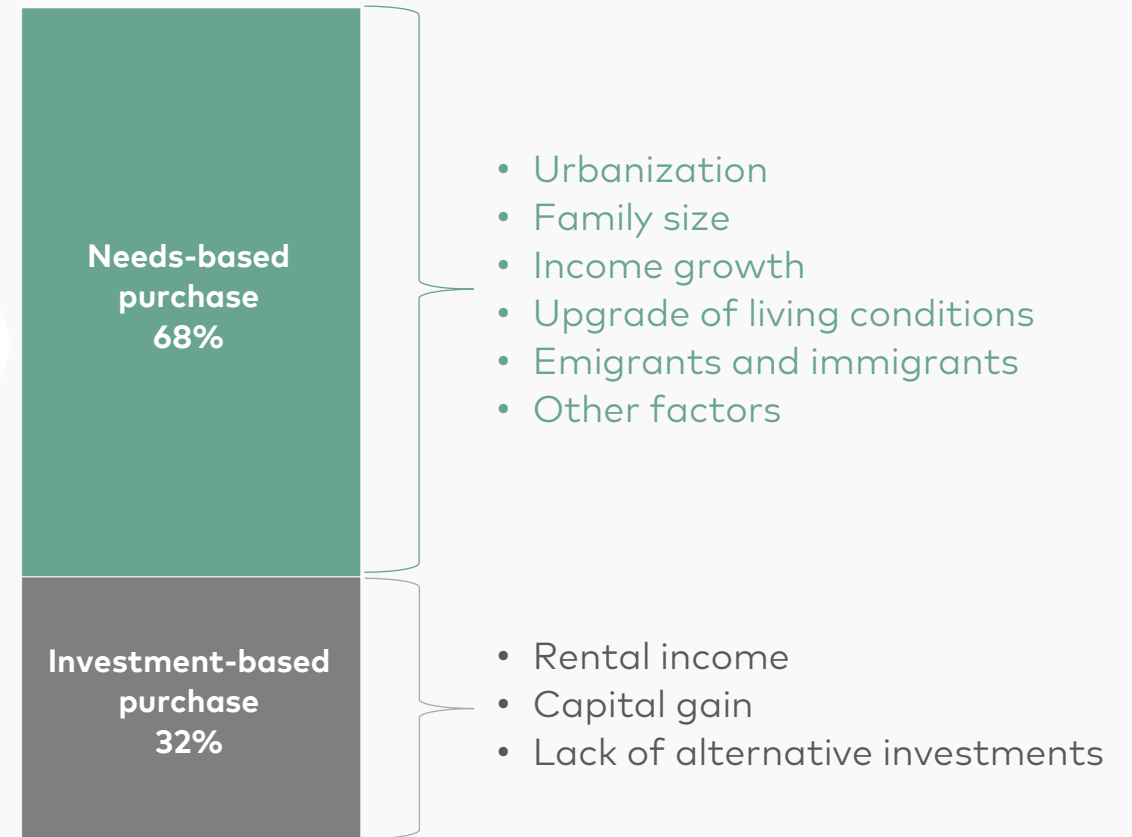
What do the real estate prices reflect?

Demand drivers

Demand in the Tbilisi real estate market depends on two main factors:

- 1) **Needs-based purchase**, driven by fundamentals.
- 2) **Investment-based purchase**, driven by rental income and capital gain.

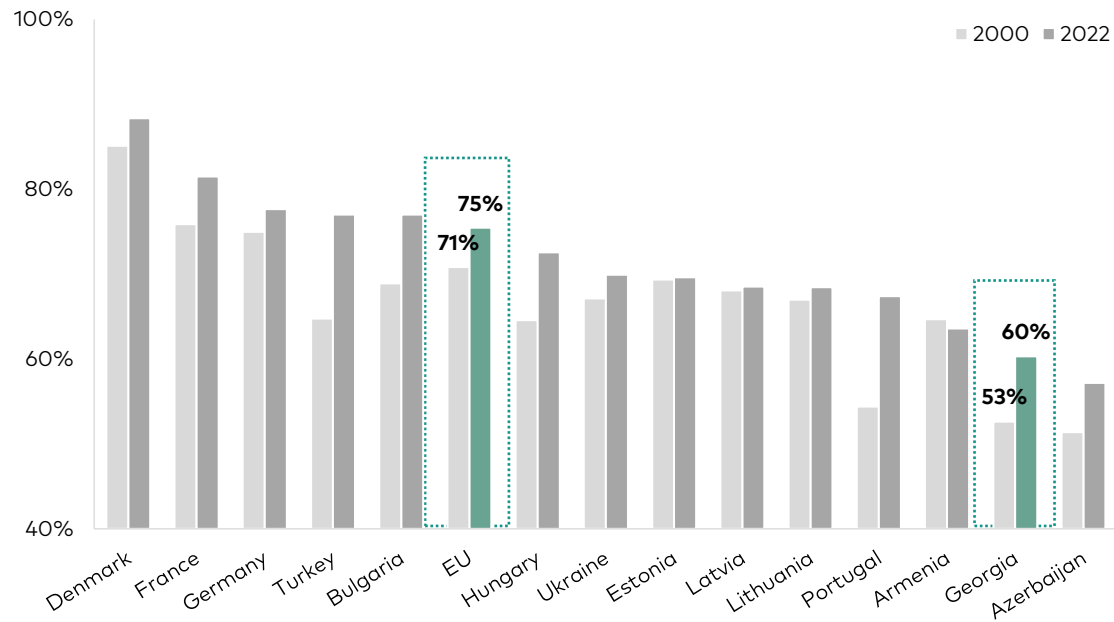
Demand drivers



Demand drivers

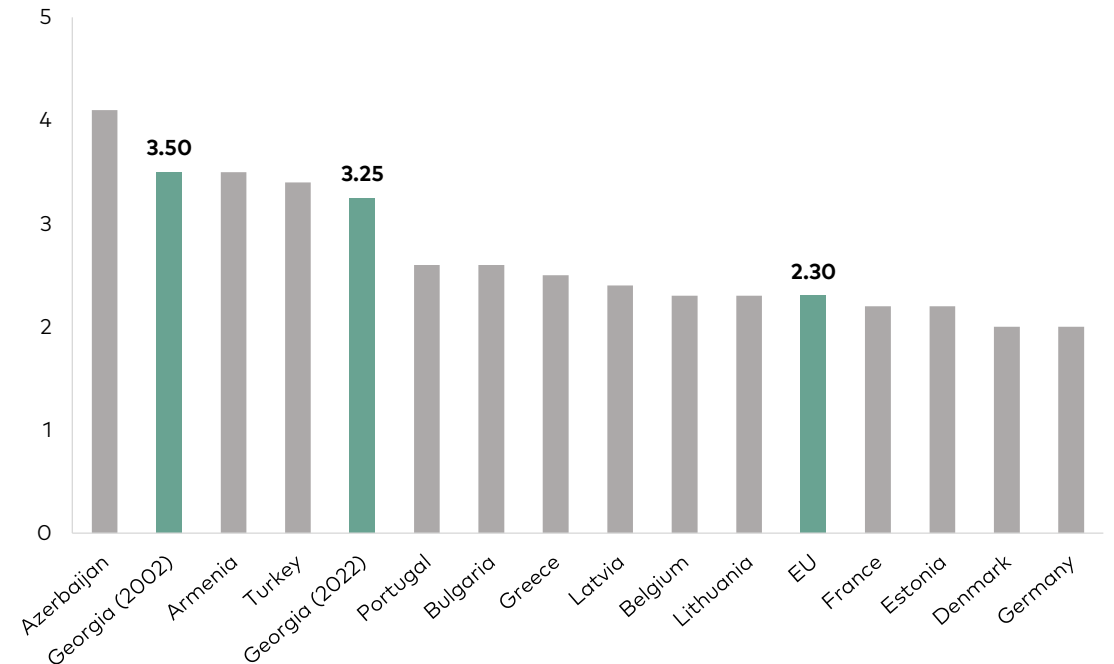
Urbanization growth and decrease in the average family size create annual demand for about 9,000 apartments

Urbanization rate by countries, %



Urbanization growth creates a demand for about 4,000 apartments per year. Notably the population of Tbilisi has increased by 140,000 since 2014.

Average family size by countries, 2022

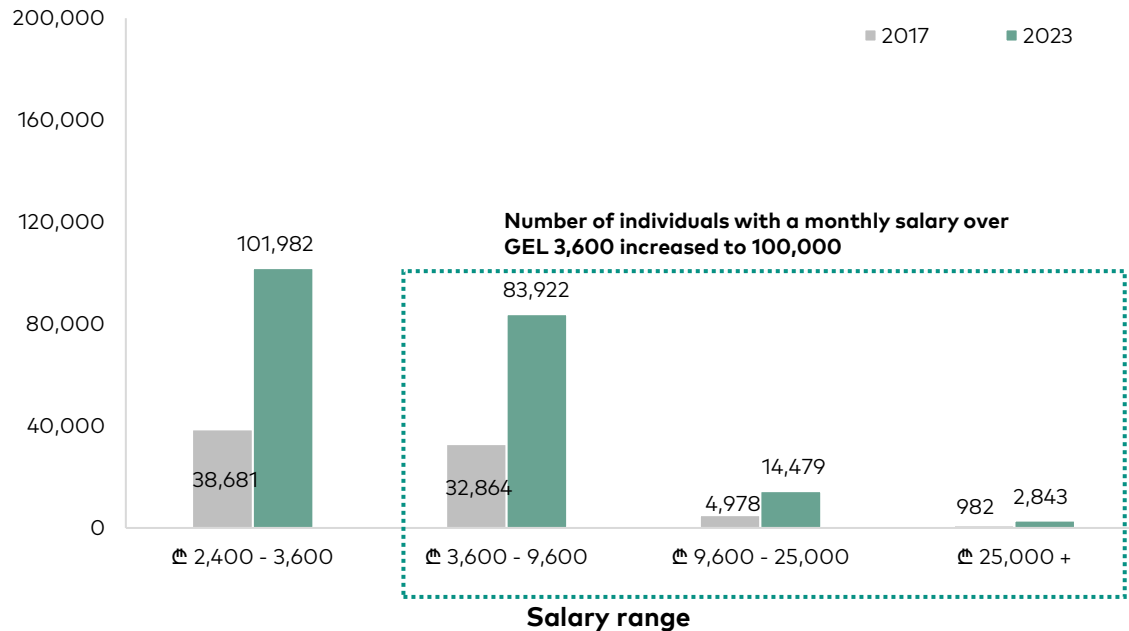


A decrease in the average family size creates demand for about 5,000 apartments per year.

Demand drivers

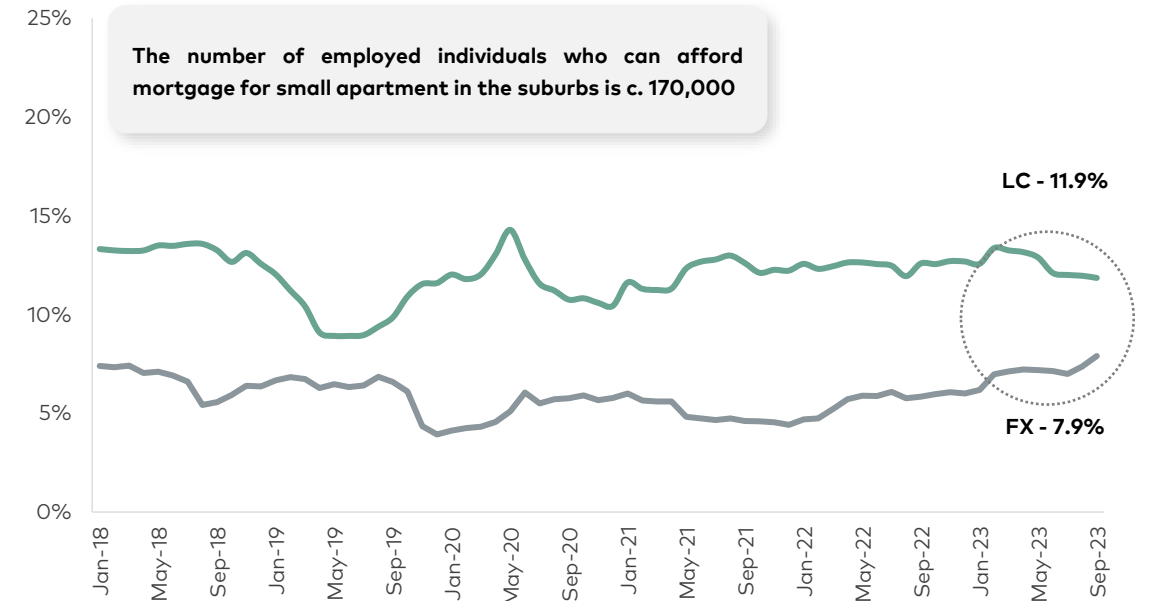
The number individuals with high earnings tripled during 2017-23

Number of employed individuals by monthly salary ranges



The number of people with a salary over 3,600 GEL is expected to surpass 150,000 by 2025.

Mortgage interest rates by currencies, %

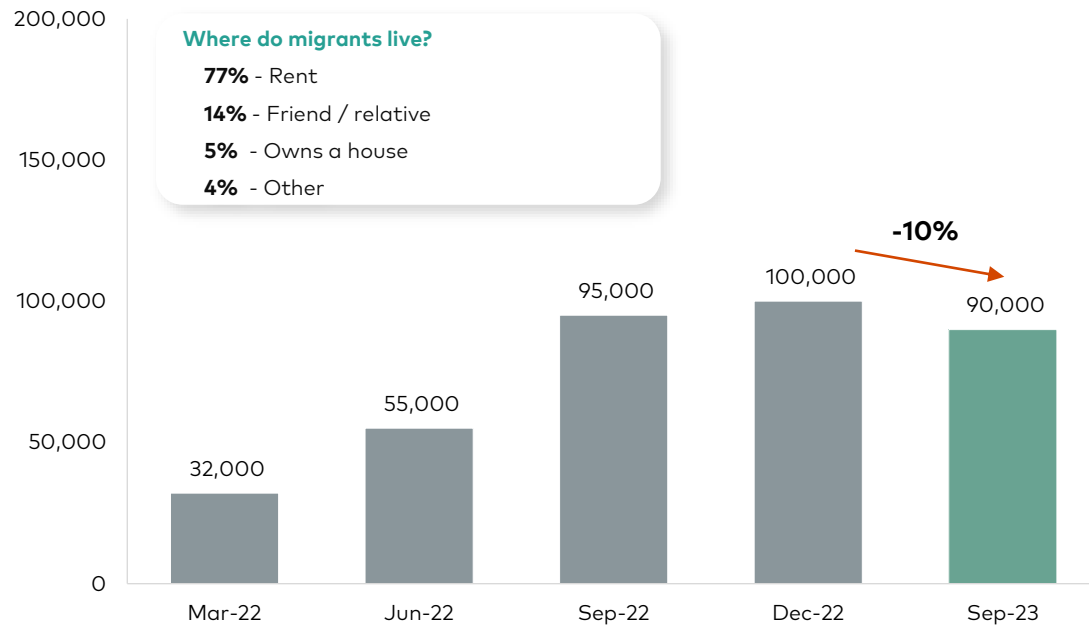


Interest rates expected to continue decline in national currency and remain high in foreign currency in 2024.

Demand drivers

Migrant inflow positively impacted real estate business

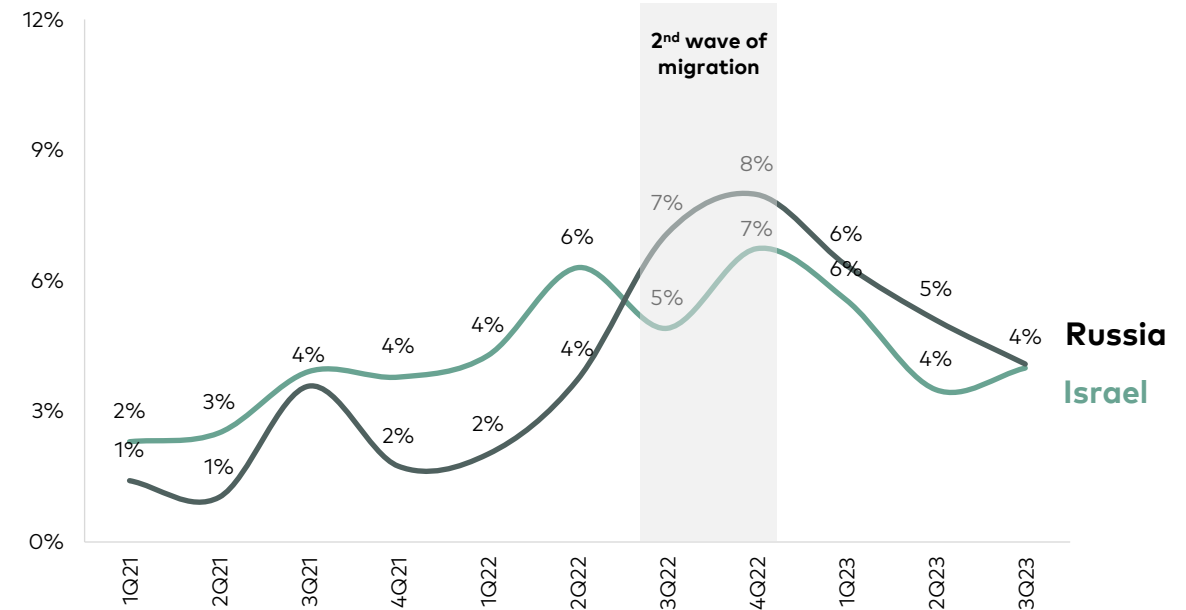
Number of Russian and Belarusian migrants relocated in Georgia since Mar-22, end of period



About 90,000 citizens of Russia and Belarus live in Georgia as of today, 77% of whom rent apartments.

Source: German Economic Team, NBG, Galt & Taggart Survey

Share of Russian and Israeli citizens in real estate sales on a primary market in Tbilisi, survey of selected developers

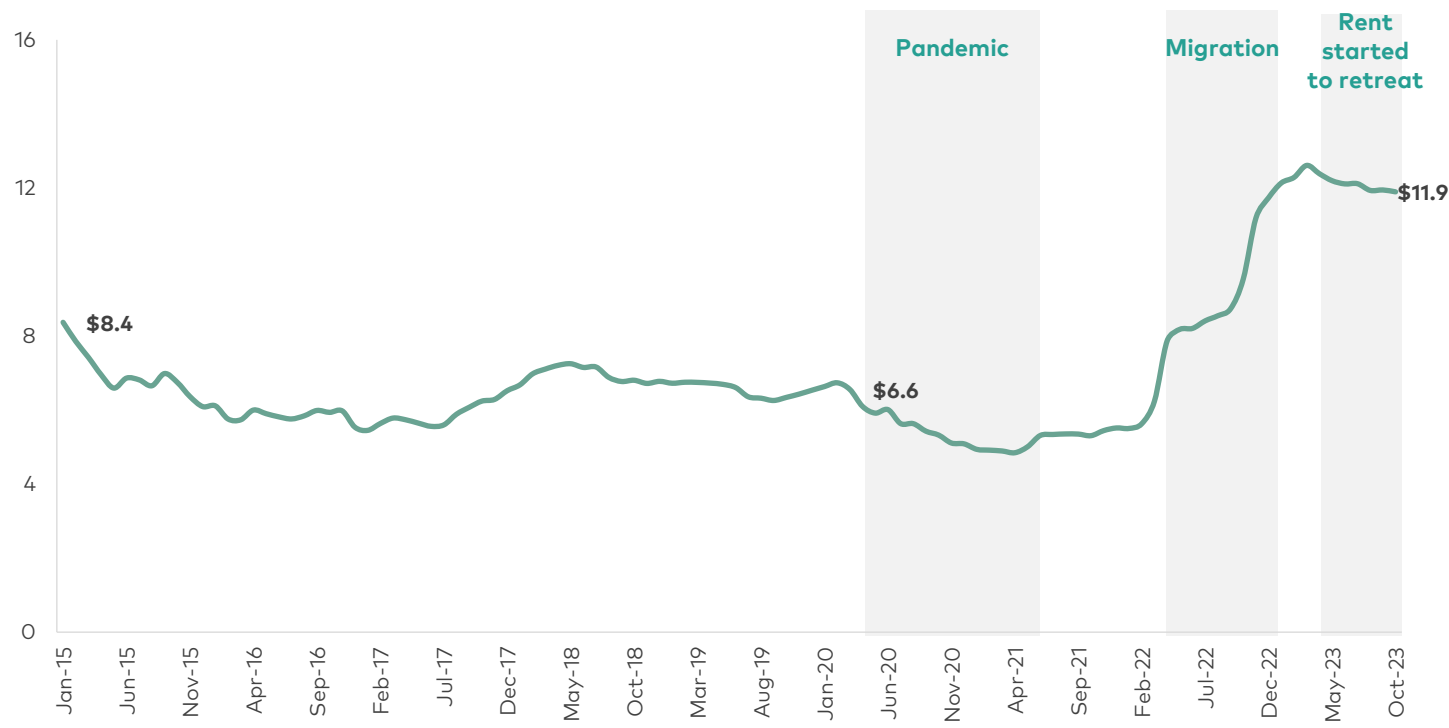


The share of Russian citizens in real estate purchases of selected developers ranges from 3-4%.

Demand drivers

Migration waves caused unprecedented increase in rent

Monthly real estate rent in Tbilisi, US\$/sq.m.



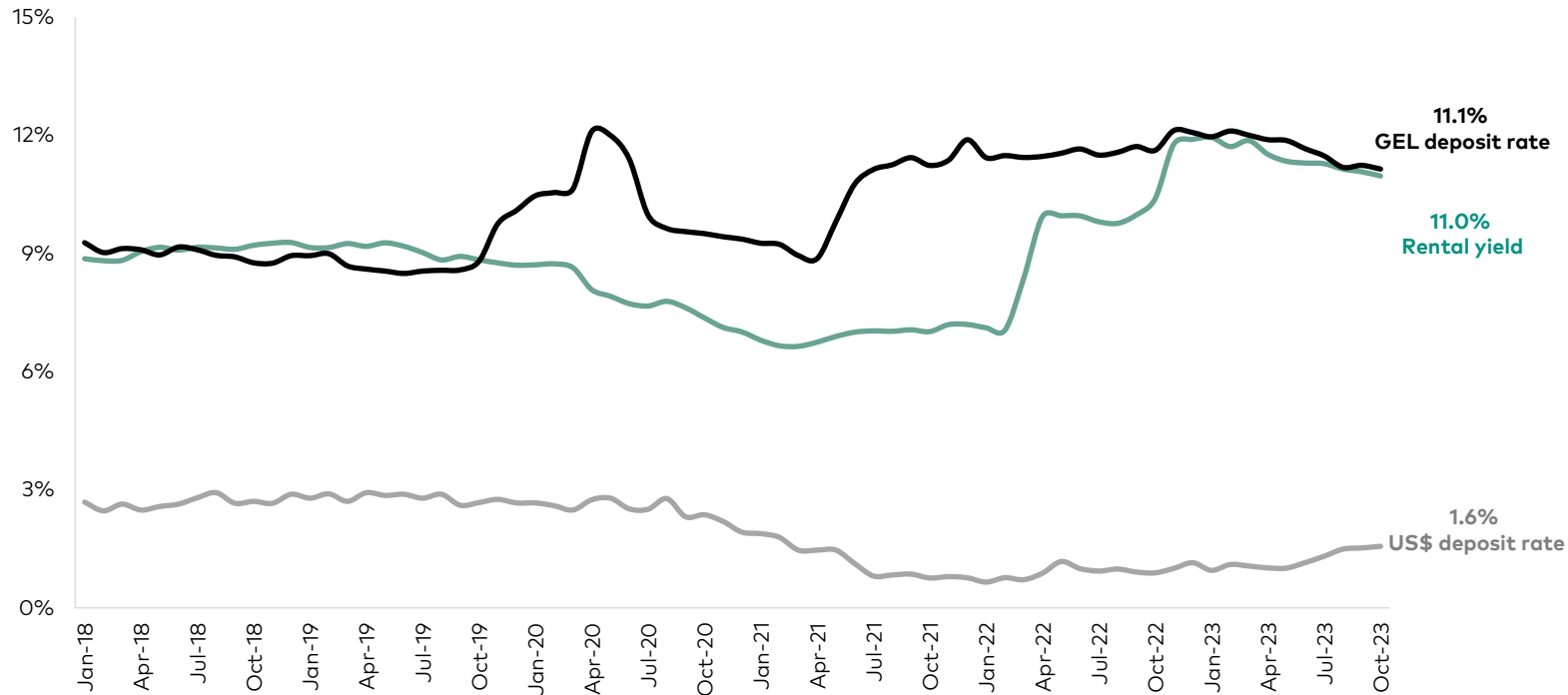
Rents started to retreat since Mar-23 and decreased by 5.7% by Oct-23.

The rents are expected to continue downward trend in the near future.

Demand drivers

Rental yields are attractive compared to other investment alternatives

Rental yield vs. alternative investments, %

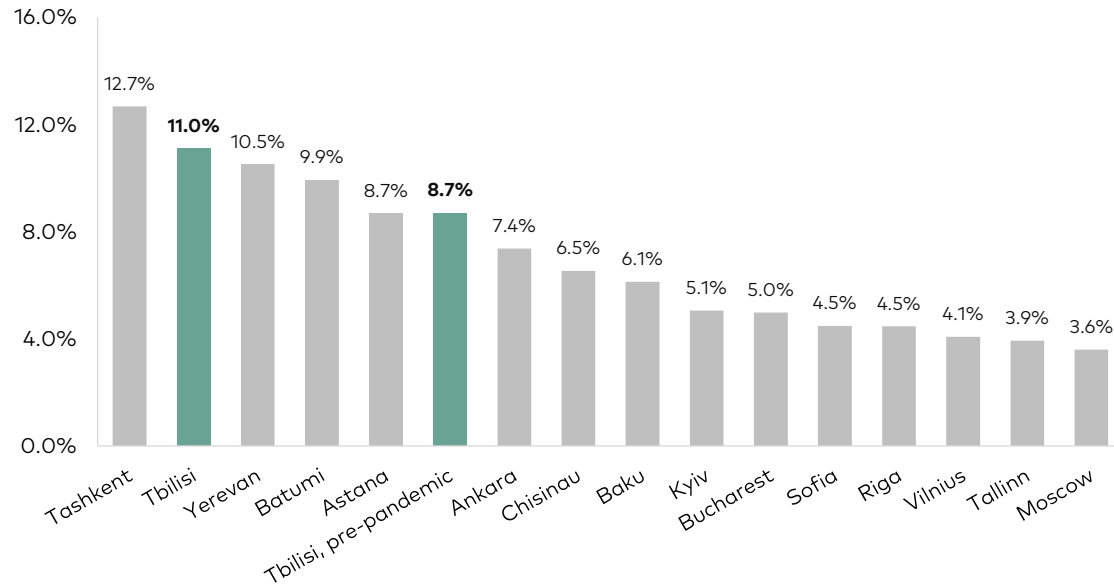


Real estate rental yield reached 11.9% in Mar-23, but has been declining since then to 11.0% by Oct-23.

Demand drivers

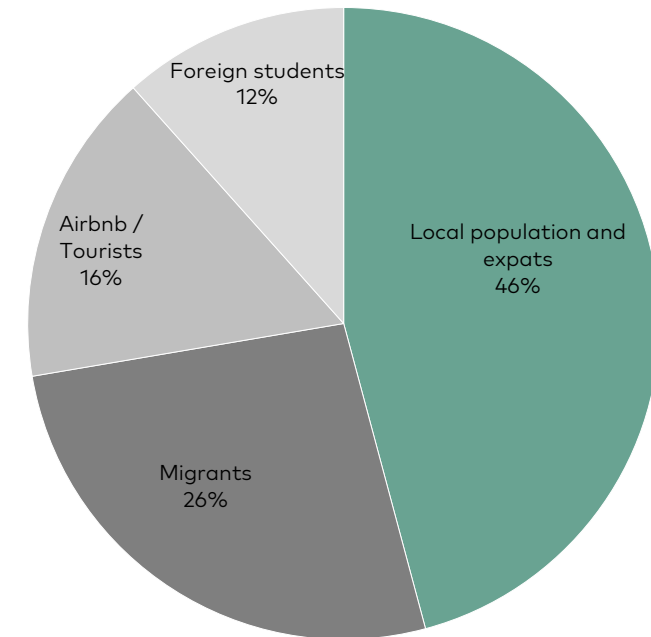
Rental yield in Tbilisi is higher compared to other cities

Rental yields by city, Oct-23



Rental yield is high in Tbilisi and in those cities where Russian migrants have moved to live.

Distribution of rented real estate by tenants, Oct-23



The biggest tenants of real estate in Tbilisi are the local population and expats, while the share of migrants is about 26%.



Real estate sales

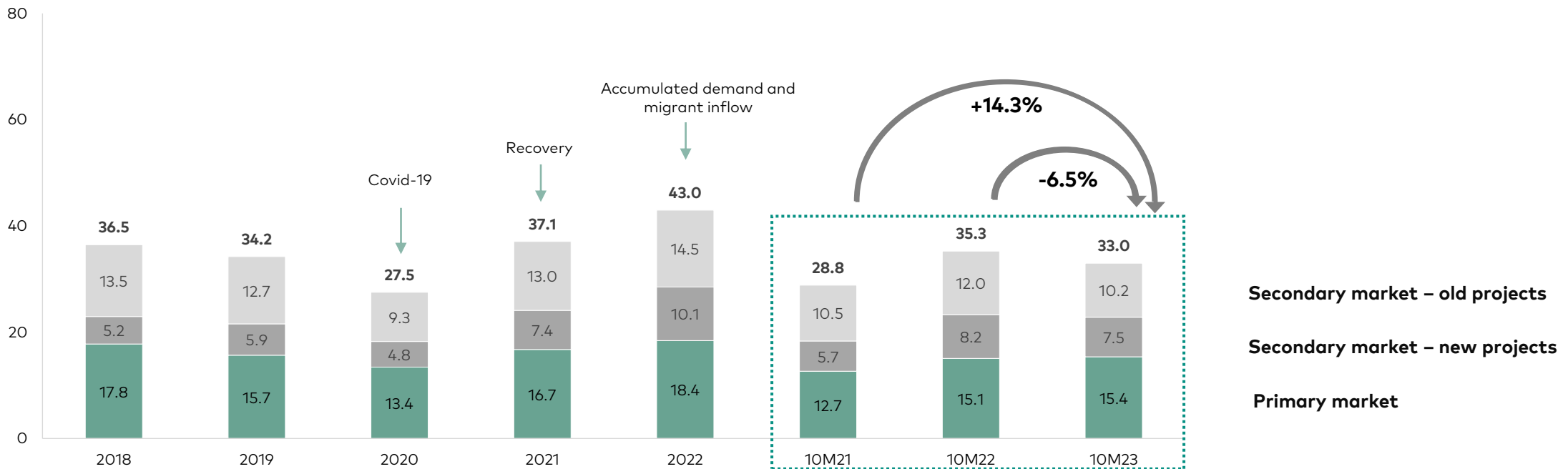
What does the data indicate?



Real estate sales - Tbilisi

Real estate sales slowed down after a record year of 2022

Real estate sales dynamics in Tbilisi, '000 units

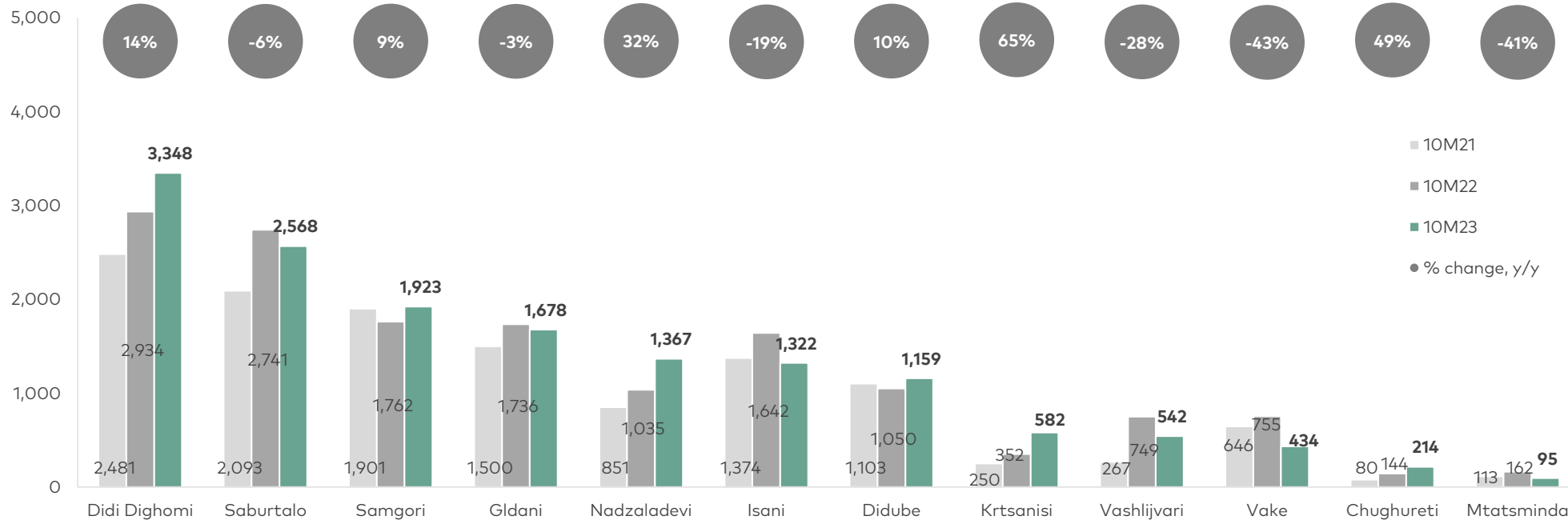


Residential real estate sales slowed down slightly in 10M23. Notably, sales increased on the primary market and declined on the secondary market.

Real estate sales - Tbilisi

Didi Dighomi and Saburtalo account for 39% of sales on the primary market

Real estate sales on a primary market by districts, units

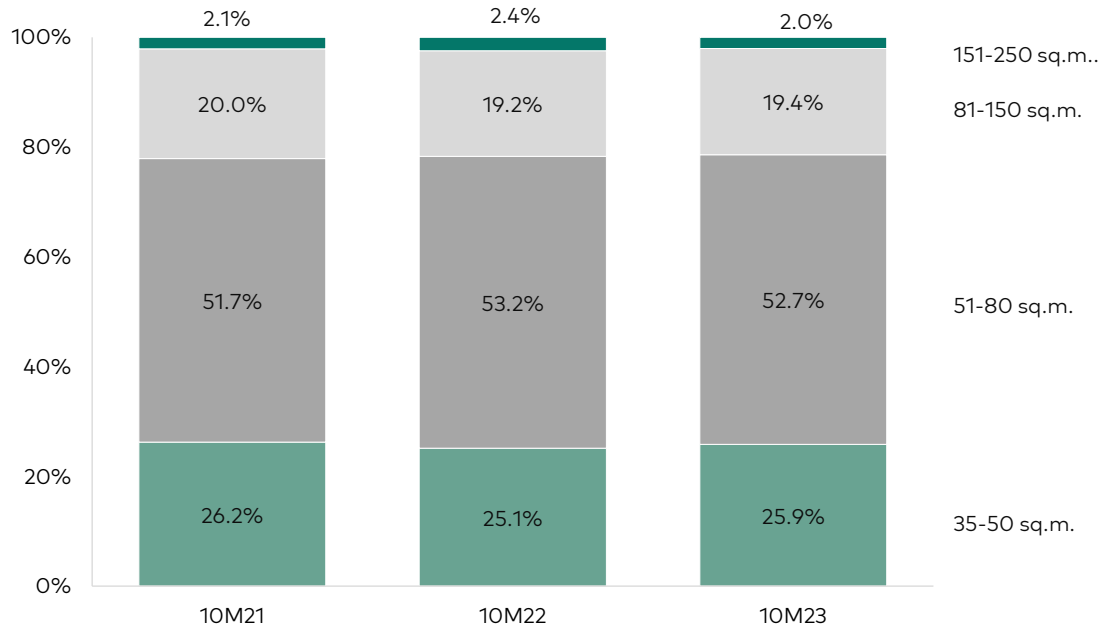


Didi Dighomi and Saburtalo held the largest share in primary sales in 2023, like in previous years. Primary sales in the central districts (Vake, Mtatsminda) are comparably small due to limited supply.

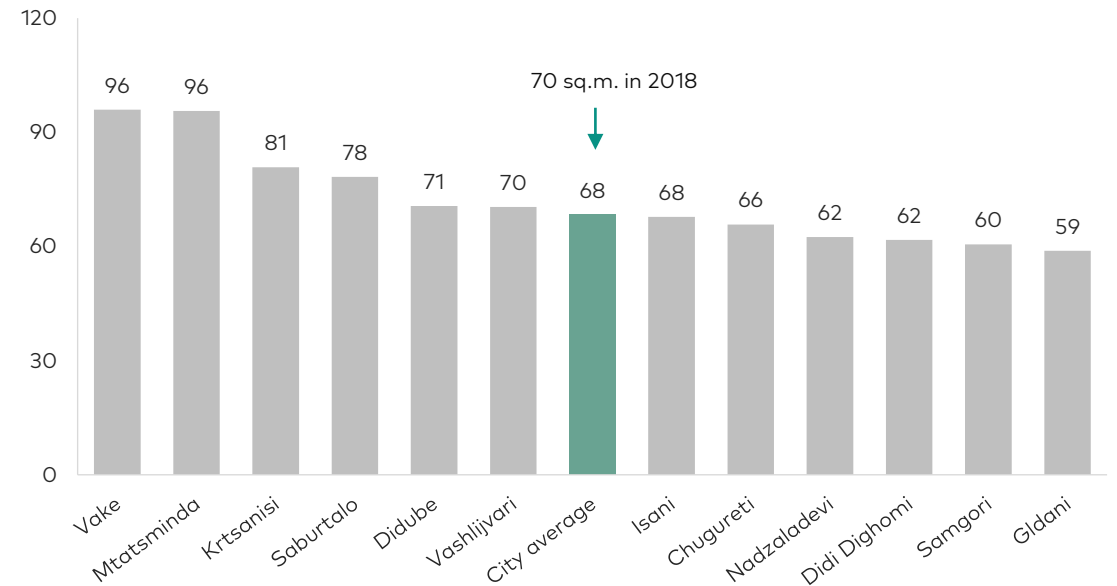
Real estate sales - Tbilisi

Small or medium-sized apartment sales account for approximately 80% of total sales on a primary market

Real estate sales by size on a primary market, (% of total sales)



Average size of apartments on a primary market by districts in 10M23, sq.m



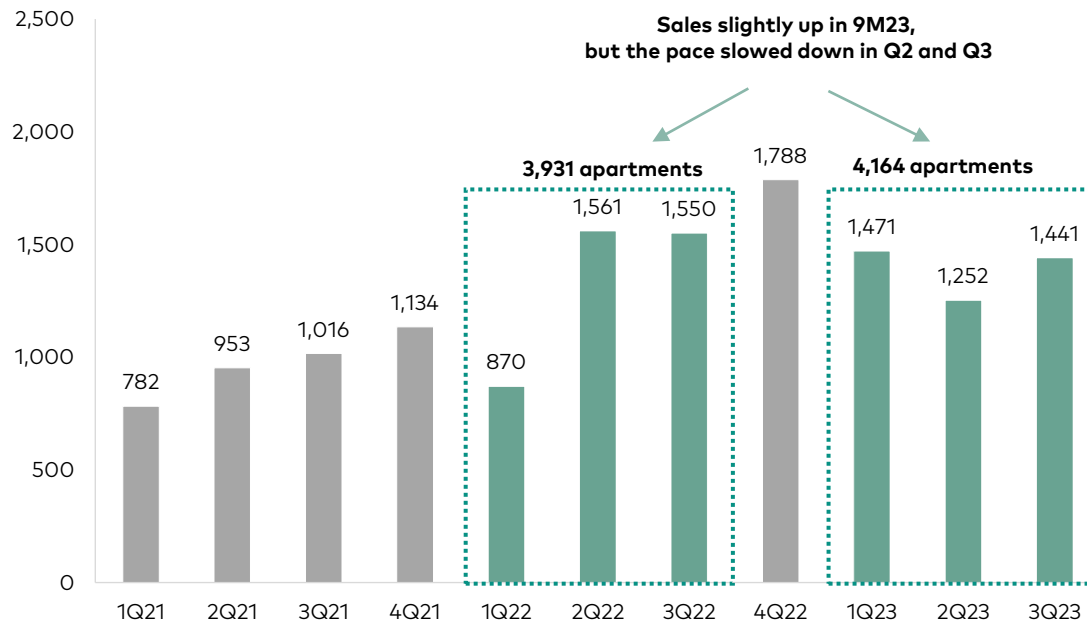
Small and medium-sized apartments are most popular due to affordability, high liquidity and ease of renting.

The average size of sold apartments is about 68 sq.m. and varies by districts.

Survey of developers - Tbilisi

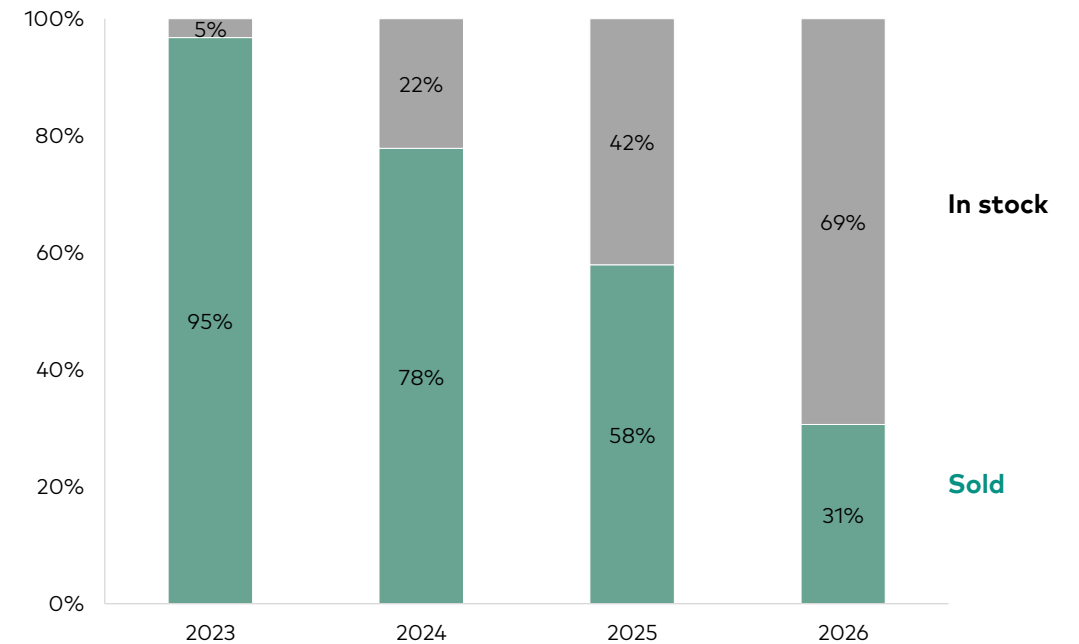
Galt & Taggart conducted a survey of 15 developers and analyzed sales data of 65 projects. The data indicates stable demand

Real estate presales in ongoing projects, survey of selected developers



9M23 sales highlight the stability of demand.

Distribution of the housing stock by project completion year and status, survey of selected developers



Among the surveyed developers and in the projects due for completion in 2024-25, 70% of stock is already sold.



Supply

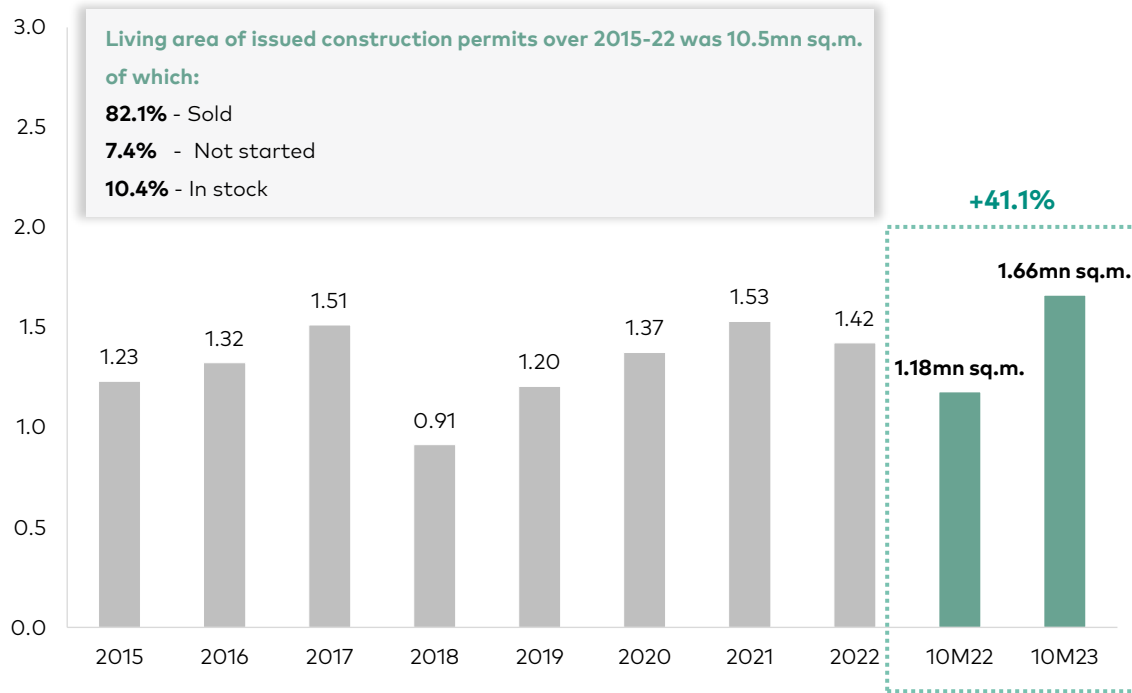
Is there a risk of oversupply on the real estate market?



Real estate supply - Tbilisi

High demand encouraged increase in permit issuance

Living area of issued construction permits in Tbilisi*, mn sq.m.

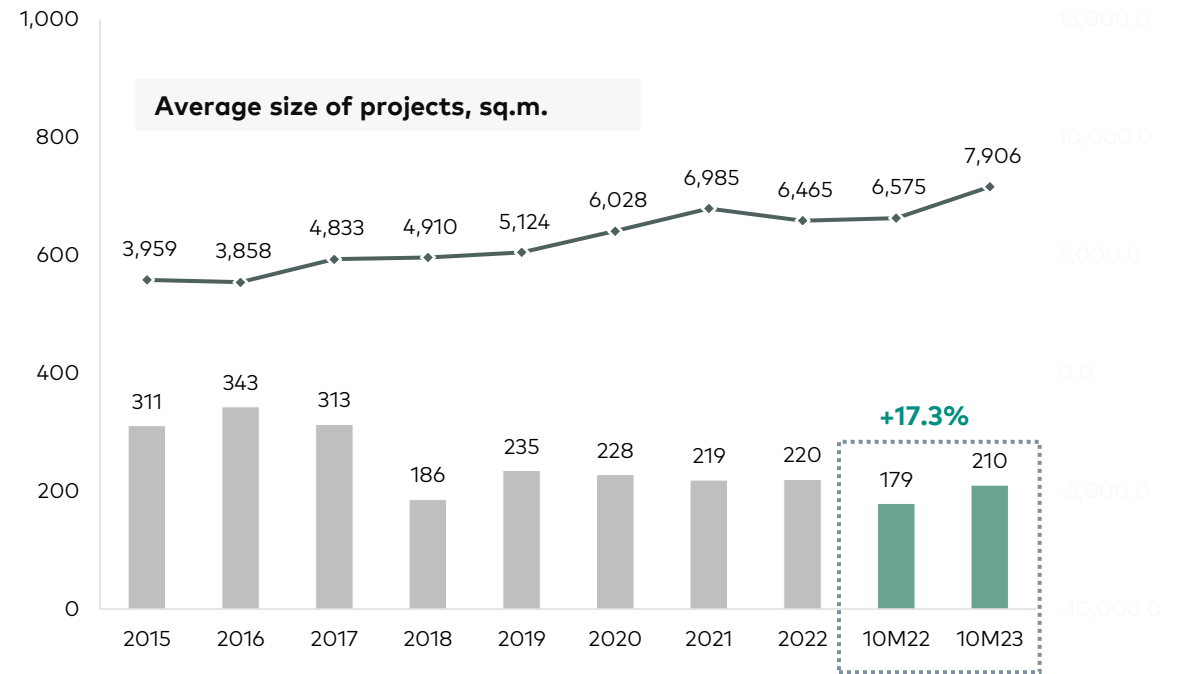


The volume of issued permits reached a record high in 10M23, which is explained by strong demand and regulations.

Source: TAS, Galt & Taggart Research

Note: III and IV category projects. Includes residential and balcony areas

Number of construction permits issued, units

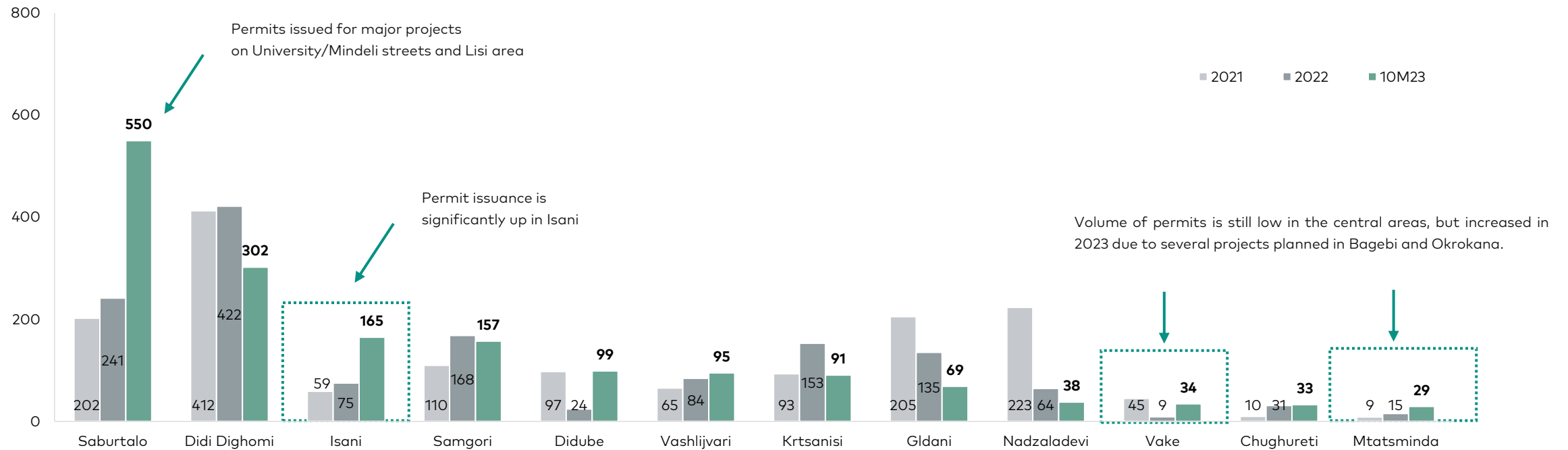


The number of issued permits increased by only 17.3% y/y in 10M23, which highlights significant increase in the average size of projects.

Real estate supply - Tbilisi

The issuance of permits increased most significantly in Saburtalo district

Living area in the issued construction permits by districts in Tbilisi, '000 sq.m.



More than half of permits issued in 2023 were in Saburtalo and Didi Dighomi districts. In the Saburtalo district, significant growth is related to the increased activity on the University/Mindeli streets and Lisi areas.



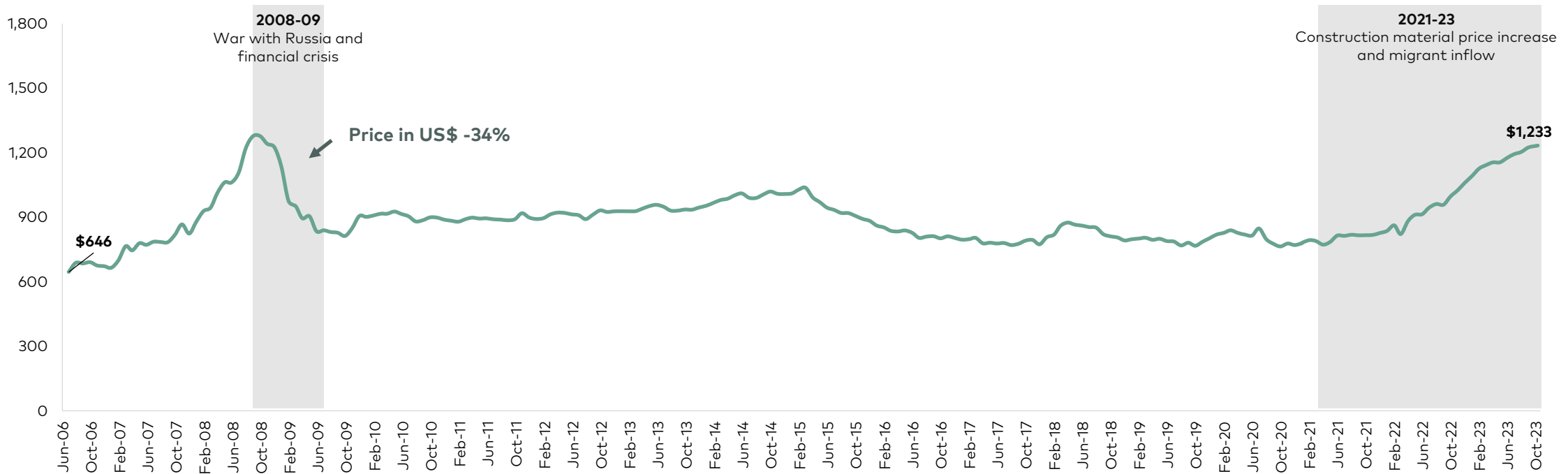
Prices

What do the real estate prices reflect?



Real estate prices - Tbilisi

Residential real estate price in Tbilisi, US\$/sq.m.

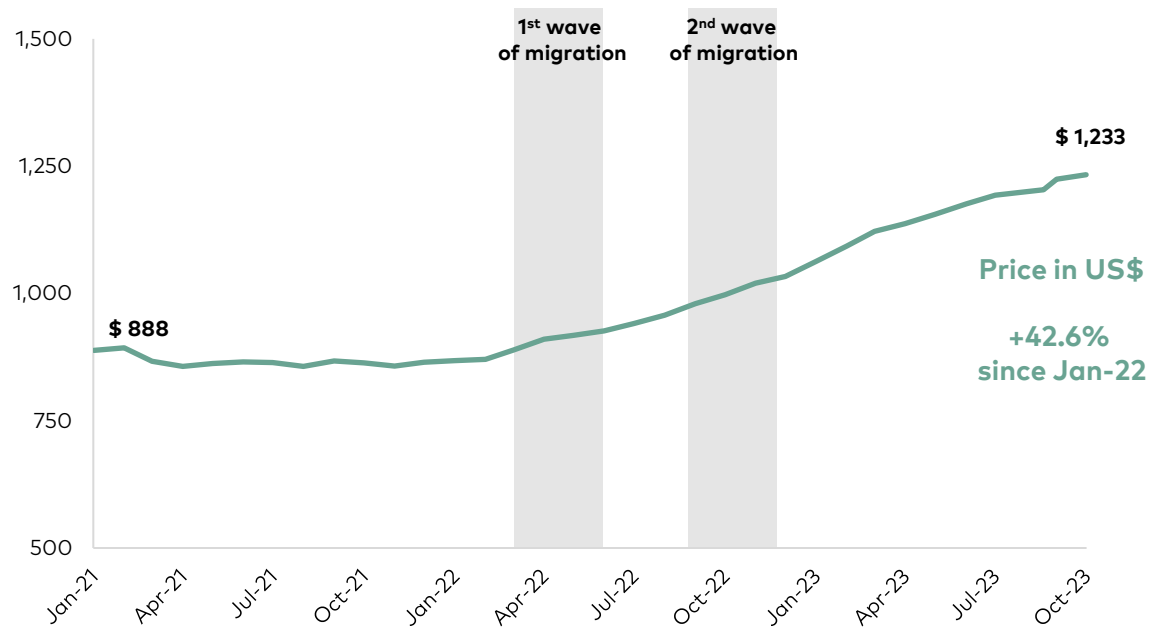


Real estate price was largely stable over 2010-20. Real estate price has risen significantly since 2021 when prices of construction materials began to rise. Additional factor was increased demand fueled by migrant inflow.

Real estate prices - Tbilisi

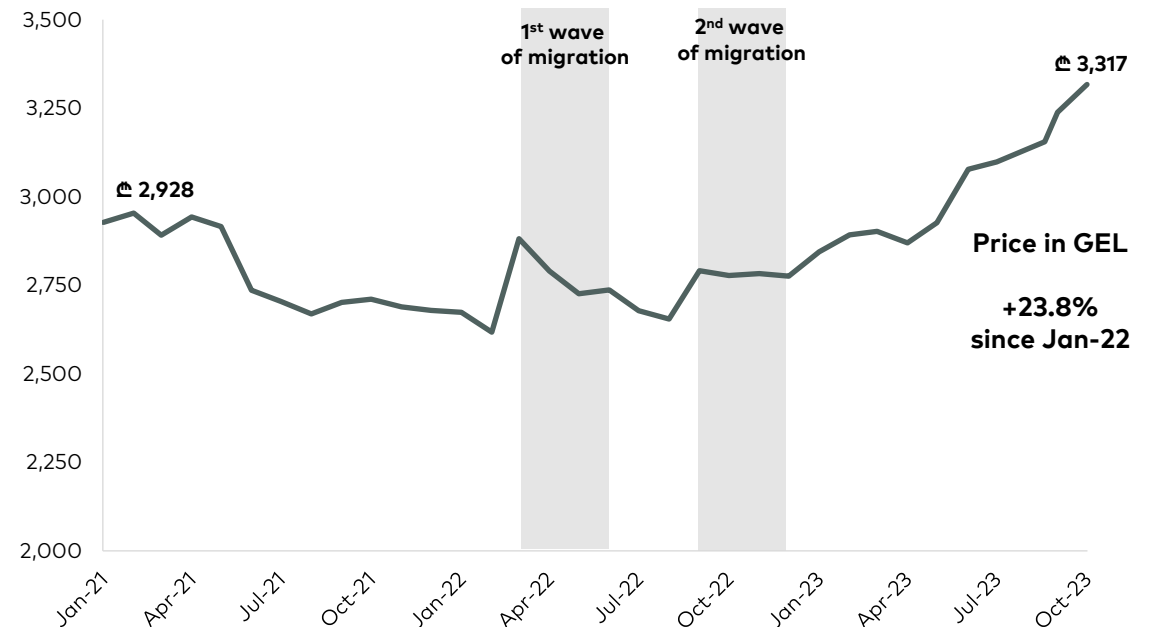
Real estate prices increased after years of stability

Residential real estate price on a primary market in foreign currency, US\$/sq.m.



Real estate prices on primary market increased by 42.6% since Jan-22 in foreign currency.

Residential real estate price on a primary market in local currency, GEL/sq.m.

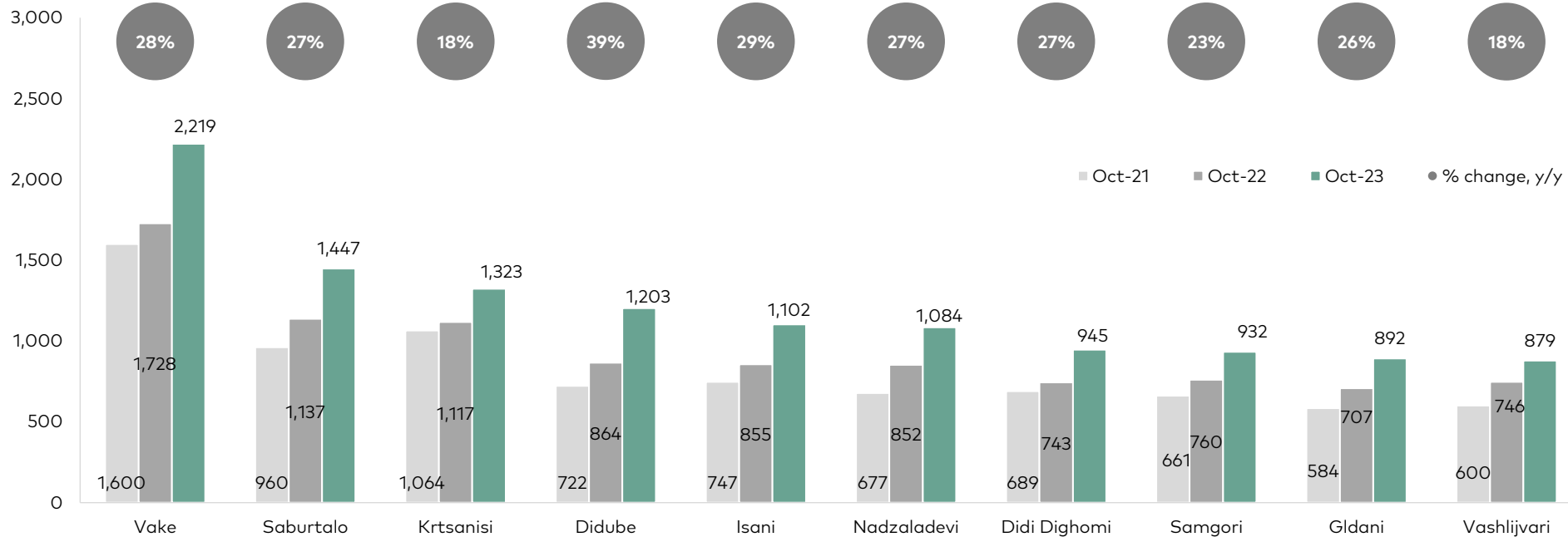


Real estate prices on primary market increased by 23.8% since Jan-22 in local currency.

Real estate prices - Tbilisi

Prices have increased significantly in all districts of Tbilisi

Real estate prices on a primary market by districts, US\$/sq.m.

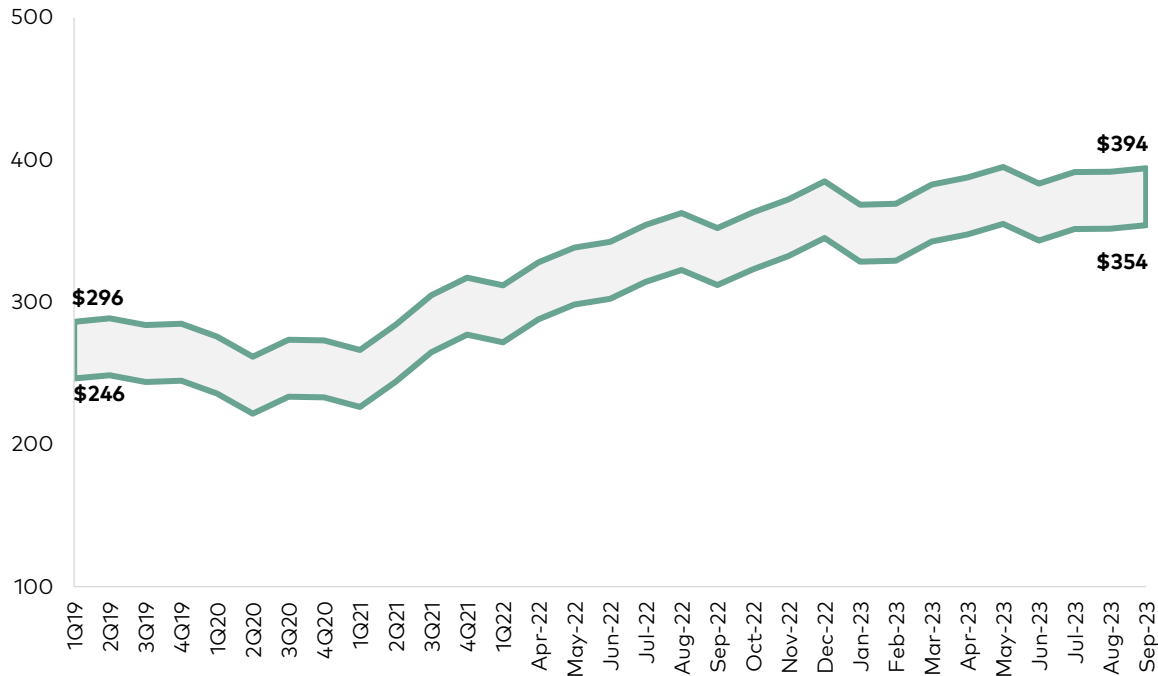


Real estate prices in all districts of Tbilisi increased significantly over 2021-23. Notably, current minimum price is almost \$900, compared to \$600 in 2021.

Real estate prices - Tbilisi

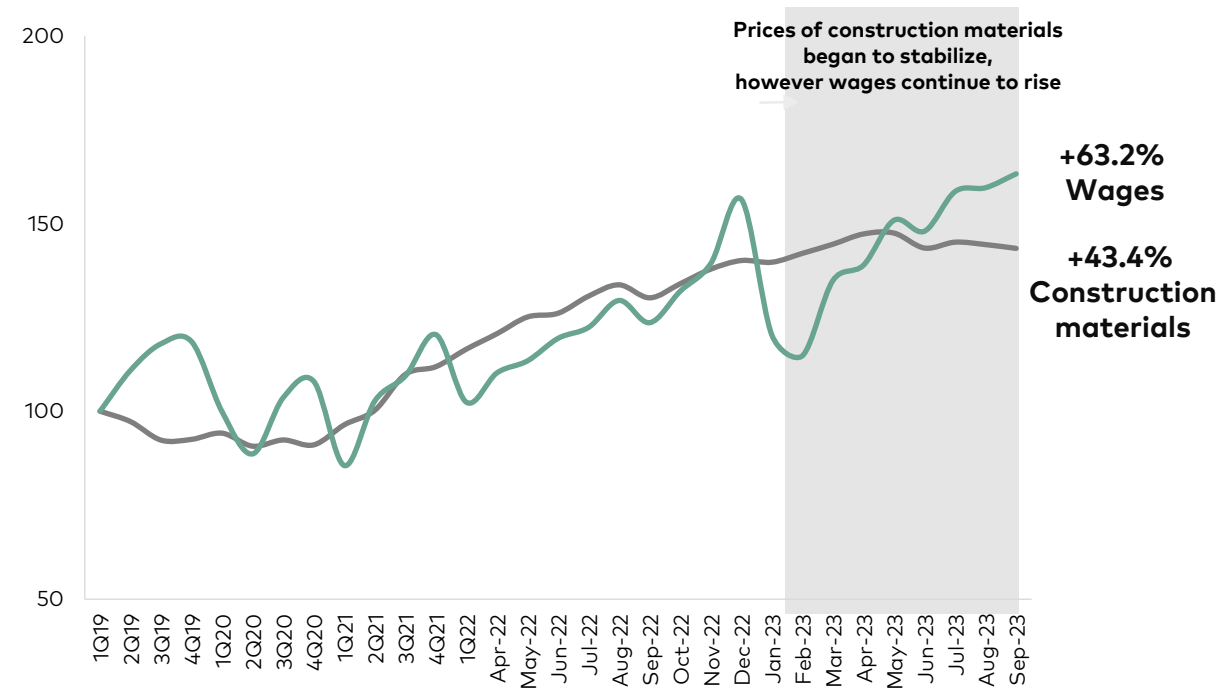
The cost of construction has increased by 43% in the last three years

Construction cost of white frame condition, US\$/sq.m of building area (including VAT)



After 2021, the cost of building a white frame condition increased significantly and averages \$354-\$394 per sq.m.

Construction cost index, 1Q19 = 100



The cost of construction materials increased by 43.4% and the salary costs increased by 63.2% since the beginning of 2019.

Key findings

1. Are the demand drivers healthy?

Most of the factors are healthy and have a positive affect on growth:

- Urbanization growth
- Shrinking family size
- Income growth
- Attractive investment
- Mortgage rates
- Rental yield
- Migrant outflow

2. Is there a risk of oversupply?

At this stage, there is no risk of oversupply:

- Based on our survey of developers, in projects set to be completed in 2023, 95% of apartments are sold, while in 2024-25, the figure is 70%.
- An increase in the issuance of permits in 2023 is noteworthy if the trend continues.

3. What do the real estate prices reflect?

Prices have increased due to increased costs of construction and higher demand:

- GEL appreciation mitigated effect of the price increase for buyers.
- In 2024, price stabilization is expected.



Disclaimer

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