Tbilisi Residential Real Estate

April 2023 overview

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April 2023 overview

Recent performance and outlook

Tbilisi real estate market posted a strong performance in 2022 boosted by migrants' influx related to Russia's war in Ukraine. Rents skyrocketed from April 2022, followed by growth in real estate prices. Apart from outsized demand, real estate price growth was also driven by rising input costs (construction materials, wages and land). Notably, real estate price and rent growth was more pronounced in dollar than in GEL terms, as prices experienced larger upward correction in dollar amid GEL appreciation. Since the start of 2023, demand on residential real estate slowed but prices and rents remain elevated. On demand side, easing monetary policy, strong GEL and improved sentiments can support the sales. On supply side, stabilized construction costs, steady supply and softened demand will limit price growth, while upcoming energy-efficiency regulation will put upward pressure on prices, we believe.

Number of transactions

2,705 apartments were sold in Tbilisi in Apr-23 down by 23.4% y/y (-24.9% m/m). Sales were down in all types of apartments (primary, secondary market new projects, secondary market old projects), reflecting last year high base effect as well as reduced demand. In Apr-23, the key characteristics of the market were as follows:

- Sales by size - medium-sized (51-80 m^2) apartment sales were most prevalent;
- Sales by segment – share of midscale/upscale segments increased reflecting price effect;
- Sales by district - Majority of sales were recorded in Saburtalo (18.2% of total) as usual, followed by suburban districts - Didi Dighomi, Samgori, Gldani – which accounted for 41.1% of total sales.

Prices

Real estate asking prices remained elevated up 31.1% y/y in April, however GEL appreciation eased pressure for customers as price were up 7.9% y/y in GEL.

Market size

Despite continued growth in prices, reduced transactions resulted total residential real estate market size to fall to US$ 186.0mn in Apr-23, down by 9.8% y/y and 25.7% m/m.

Rent

Real estate rents remained elevated (+52.3% y/y) in Apr-23, but growth pace has been on a downward trajectory since Feb-23, reflecting base effect.

Residential sales

Methodological note - we divide real estate sales in three categories:

1) **Primary sales** – real estate sold directly by construction companies/developers
2) **Secondary sales in new projects** – real estate sold by an individual owner in projects built by construction permits issued after 2013
3) **Secondary sales in old projects** – real estate sold by an individual owner in projects built by construction permits issued before 2013

Figure 1: Monthly real estate sales, '000 units

Real estate sales were down -23.4% y/y (or -24.9% m/m) in Apr-23

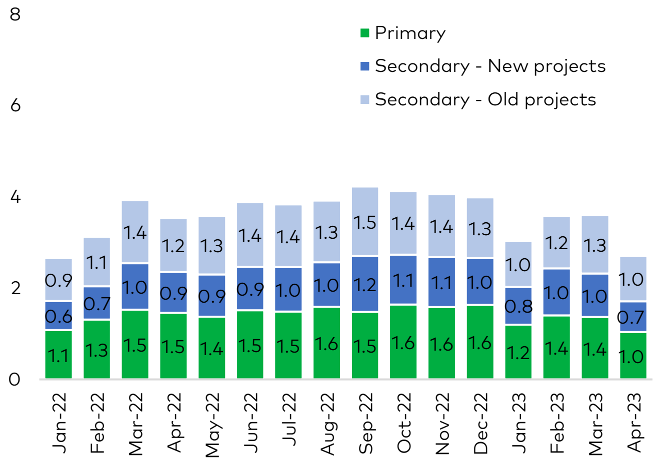
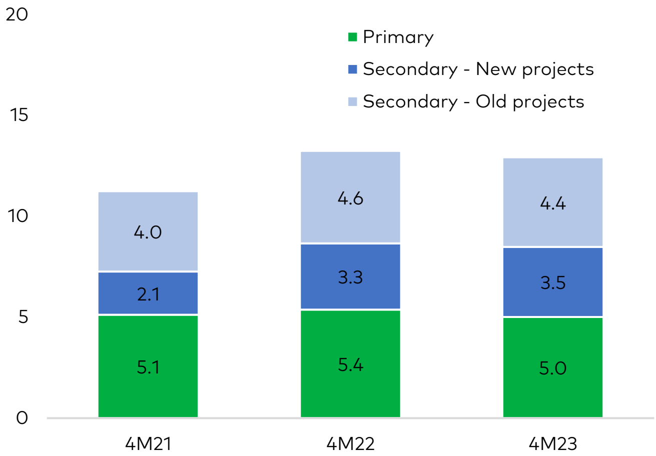


Figure 2: Cumulative real estate sales, '000 units

Reduced sales in 4M23 (-2.4% y/y) was driven by low number of sales of primary and secondary old projects



Source: NAPR, Galt & Taggart Research

Figure 3: Real estate sales by size, units

Medium-sized (51-80 m^2) apartment sales were most prevalent in Apr-23

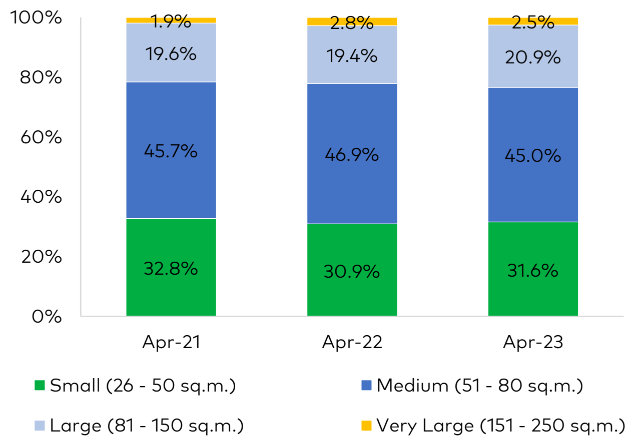
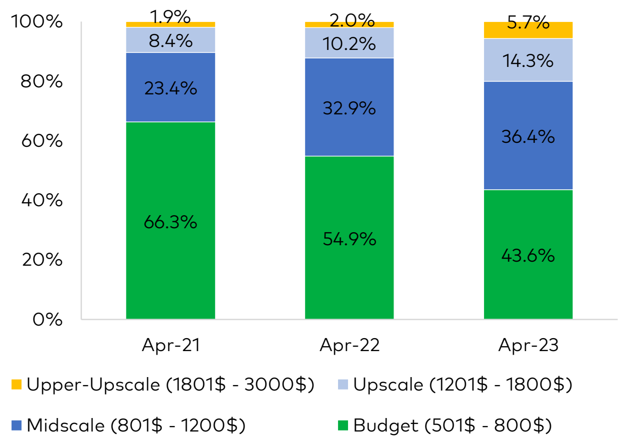


Figure 4: Real estate sales by segments, units

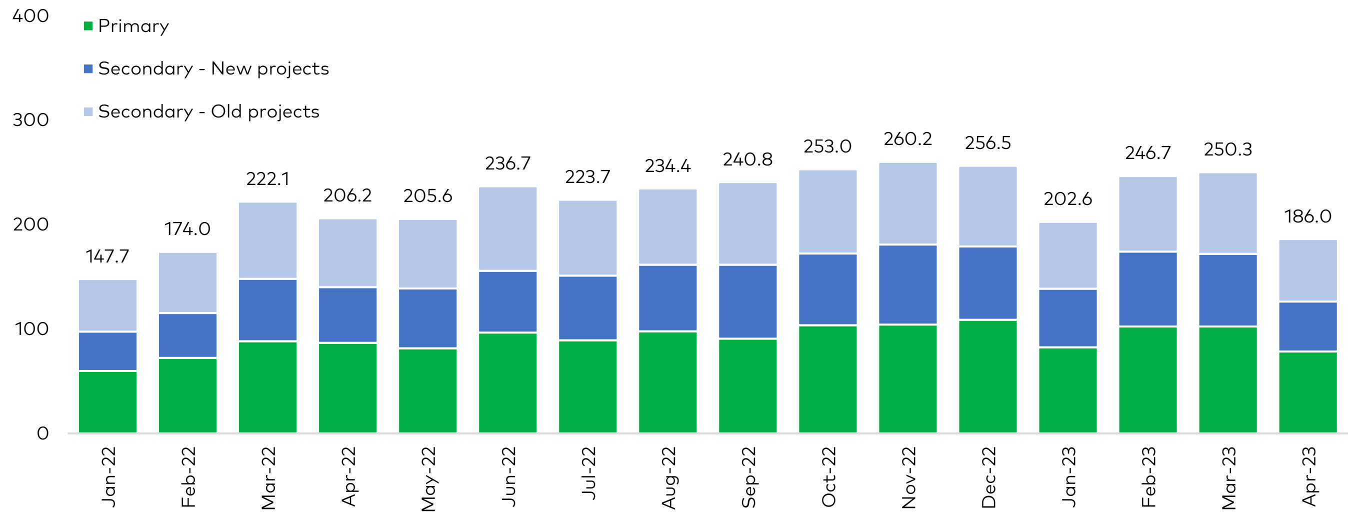
Increased prices lifted up share of midscale/upscale segments



Source: NAPR, Galt & Taggart Research

Figure 5: Monthly real estate market size, US$ mn

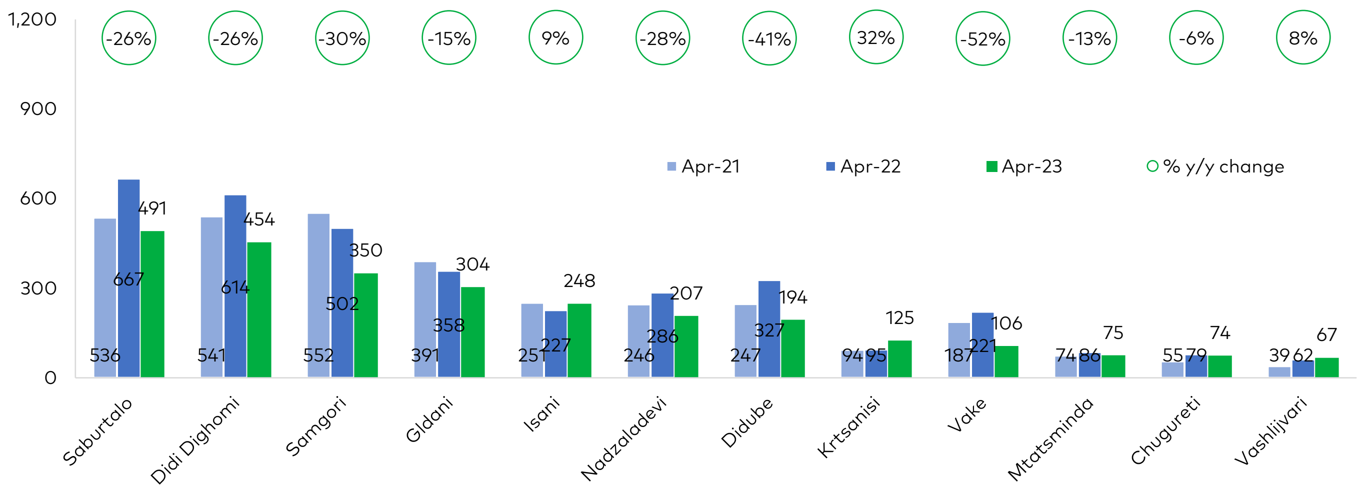
In Apr-23 total market size of apartments sold in Tbilisi stood at US$ 186.0mn, down 9.8% y/y and 25.7% m/m. Market sizes of all types of projects reduced with largest reduction recorded in secondary market new project sales



Source: NAPR, Galt & Taggart Research

Figure 6: Real estate sales by districts, units

Majority of sales were recorded in Saburtalo (18.2% of total) as usual, followed by suburban districts - Didi Dighomi, Samgori, Gldani – which accounted for 41.1% of total sales



Source: NAPR, Galt & Taggart Research

Table 1: Real estate sales by districts – value, units and area, 4M23

Saburtalo remained most attractive residential district, with US$ 215.9mn (25.2% of total) market size in 4M23

District	Value (mn US$)	Units ('000)	Area ('000 m²)
Saburtalo	215.9	2.4	182.8
Didi Dighomi	111.3	2.2	134.6
Vake	80.7	0.5	52.1
Gldani	78.1	1.6	97.9
Samgori	76.1	1.7	99.4
Isani	65.0	1.1	74.2
Didube	61.6	1.0	72.5
Nadzaladevi	57.9	1.1	70.6
Mtatsminda	35.9	0.3	24.3
Krtsanisi	32.6	0.5	33.3
Chugureti	23.0	0.3	23.3
Vashlijvari	20.2	0.3	23.0

Source: NAPR, Galt & Taggart Research

Residential prices

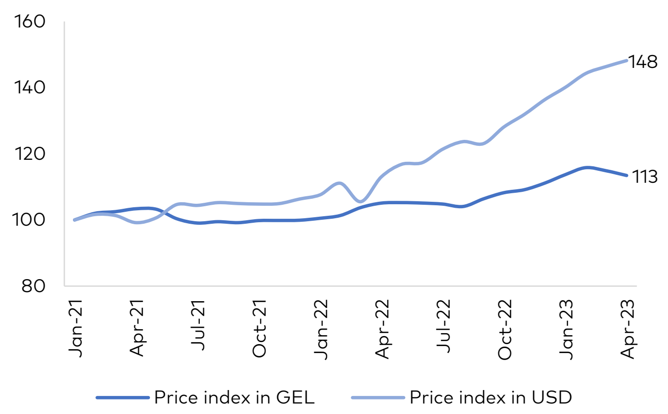
Methodological note - in terms of residential prices, there are two different measures: asking price and sales price. Asking price refers to how much a seller has listed a property for, and sales price refers to the amount it actually sells for.

Asking price – prices that are quoted by the sellers during reporting period on the market.

Sales price –amount actually paid on secondary and primary markets. Notably, developers sometimes report transactions in NAPR later than actual sales take place, which distorts price dynamics (e.g. apartment sold in March and registered in October).

Figure 7: Real estate asking price index, Jan-21=100

Asking prices were up 31.1% y/y in US$, however GEL appreciation eased pressure for customers (+7.9% y/y in GEL)

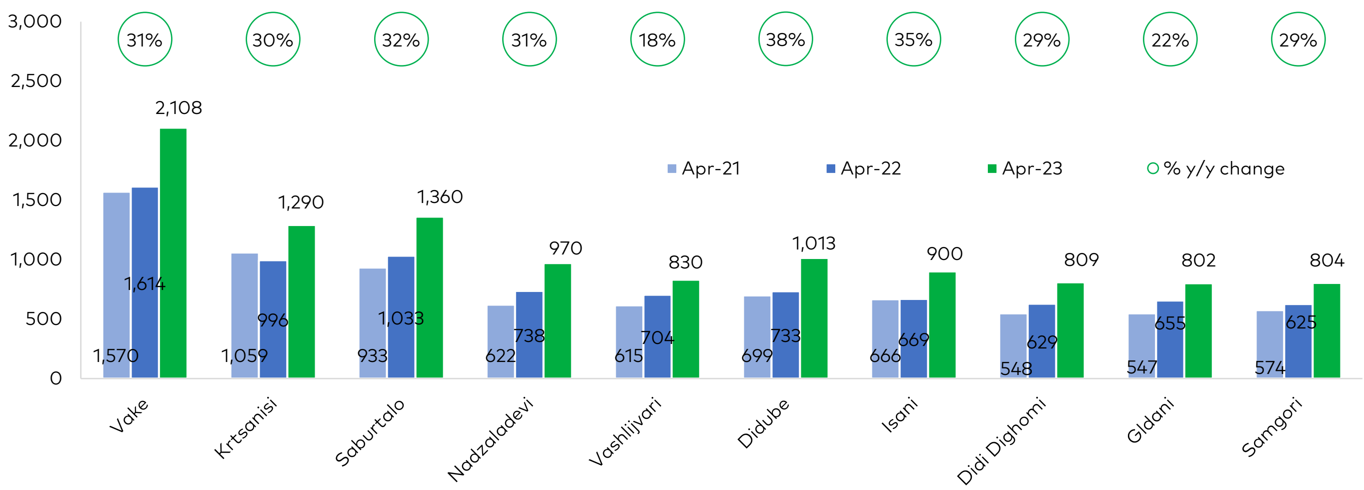


	y/y growth, US$	y/y growth, GEL
Nov-22	25.7%	9.3%
Dec-22	28.3%	11.2%
Jan-23	30.2%	13.1%
Feb-23	29.9%	14.3%
Mar-23	38.7%	10.7%
Apr-23	31.1%	7.9%

Source: NBG, Galt & Taggart Research

Figure 8: Real estate asking prices on primary market (from developers) by districts, US$/m^2

There was double-digit y/y growth in primary apartment asking prices in every district of Tbilisi

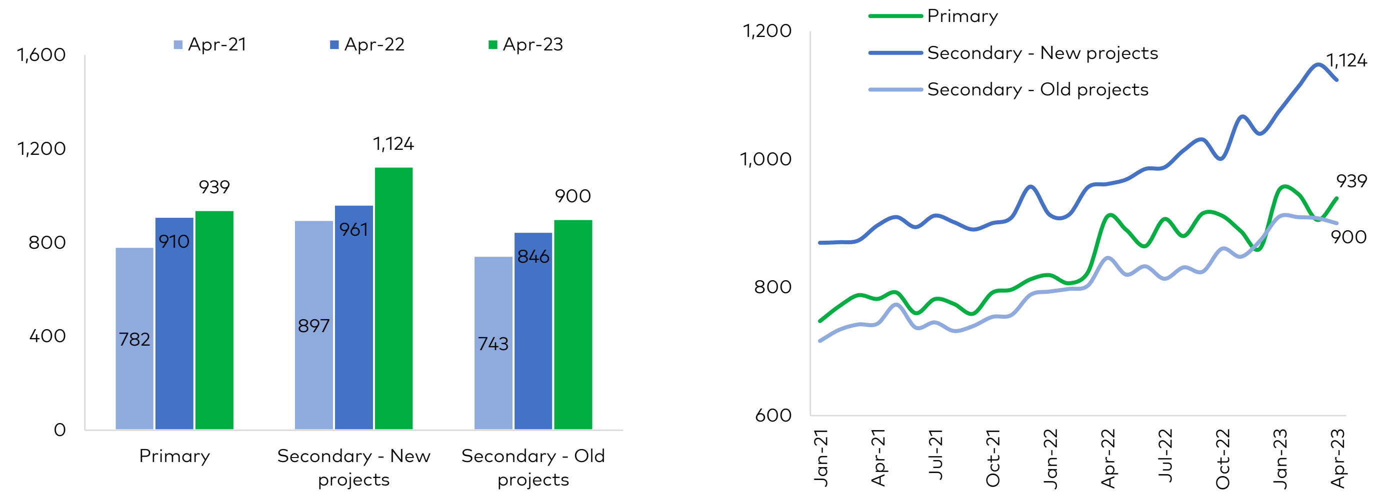


Source: Galt & Taggart Research

Note: Mtatsminda and Chugureti are excluded due to small sizes of samples (less than 5 projects in each of the districts)

Figure 9: Real estate weighted average sales prices by type, US$/m²

In Apr-23 sales prices increased most on a secondary market in new projects (+16.9% y/y).



Source: NAPR, Galt & Taggart Research
Note: sales prices on a primary market are usually lagged because developers sometimes report transactions in NAPR later than actual sales, which distorts price dynamics

Table 2: Real estate weighted average sales prices by districts in 4M23, US$/m²

Sales prices remained the highest in Mtatsminda and Vake districts

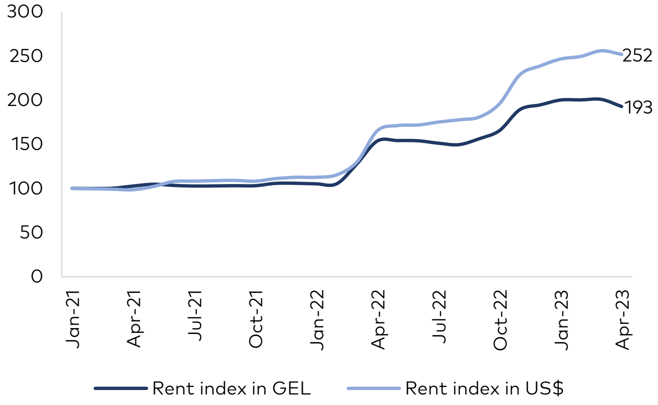
District	Primary	Secondary New projects	Secondary Old projects
Mtatsminda	1,978	1,937	1,341
Vake	1,725	1,819	1,272
Saburtalo	1,217	1,449	987
Chugureti	1,025	1,140	929
Krtsanisi	982	1,135	858
Vashlijvari	834	993	805
Isani	825	994	795
Nadzaladevi	807	985	750
Didube	803	996	806
Didi Dighomi	769	921	748
Gldani	767	909	750
Samgori	725	895	710

Source: NAPR, Galt & Taggart Research
Note: sales prices on a primary market are usually lagged because developers sometimes report transactions in NAPR later than actual sales, which distorts price dynamics

Residential rents

Figure 10: Real estate asking rent price index, Jan-21=100

Real estate rents remained elevated (+52.3% y/y), but growth pace has been on a downward trajectory since Feb-23, reflecting base effect

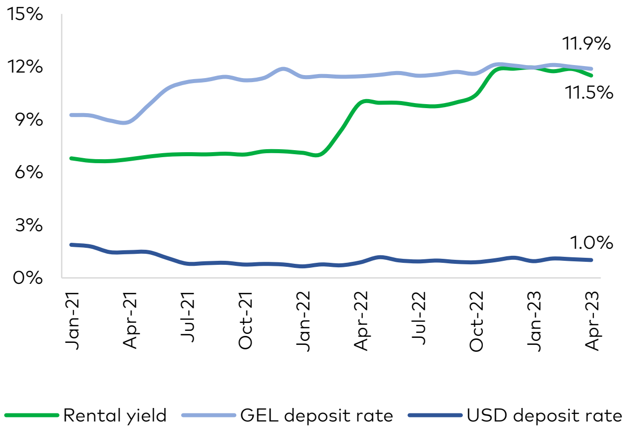


	y/y growth, US$	y/y growth, GEL
Nov-22	105.9%	79.0%
Dec-22	112.0%	83.9%
Jan-23	119.0%	90.3%
Feb-23	116.4%	90.4%
Mar-23	96.9%	57.1%
Apr-23	52.3%	25.4%

Source: NBG, Galt & Taggart Research

Figure 11: Real estate rental yield and deposit rates

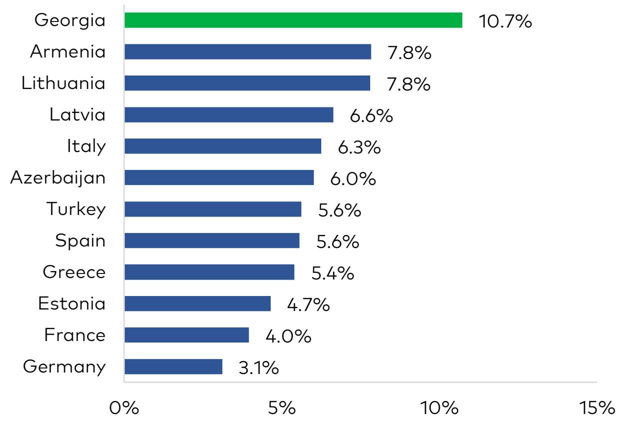
Real estate and GEL deposits yield the same return since Nov-22



Source: NBG

Figure 12: Real estate rental yield by countries, 2022

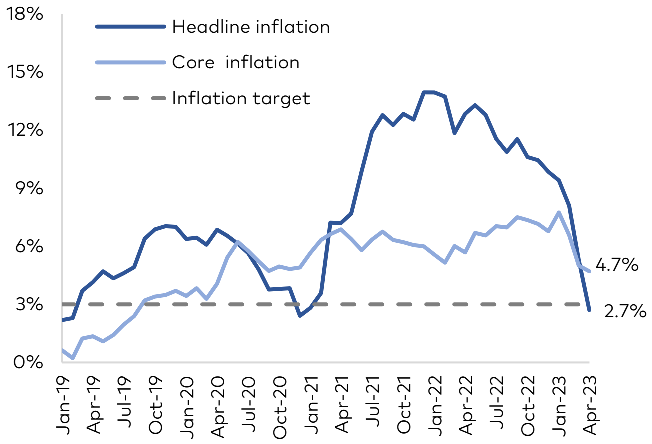
Georgian real estate had the highest return among peers



Source: Global property guide

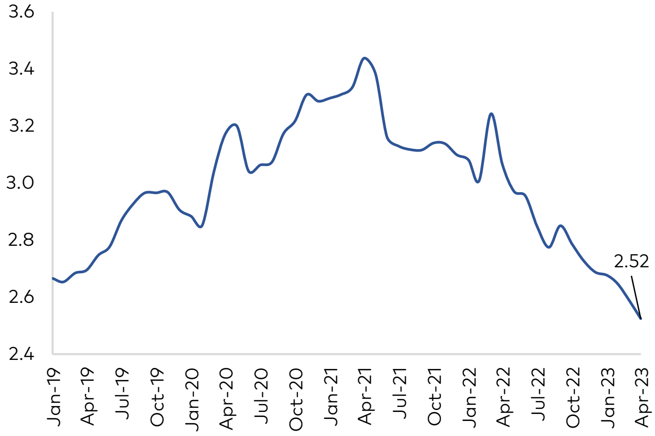
Market fundamentals

Figure 13: Annual inflation
Inflation reduced to 4.7% in Apr-23



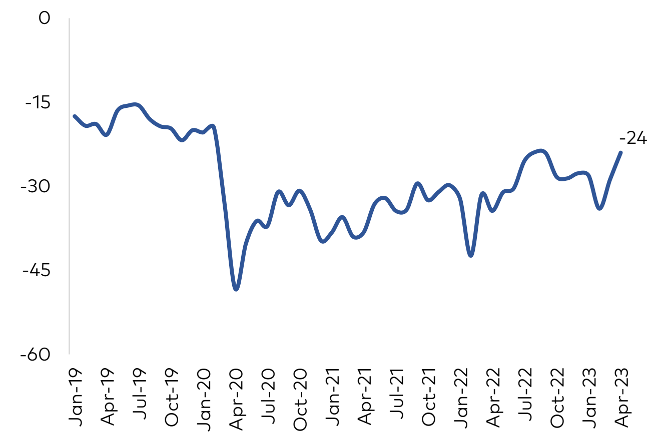
Source: Geostat

Figure 14: US$/GEL exchange rate, monthly average
GEL appreciation partially balanced out effect of increased apartment prices in US$



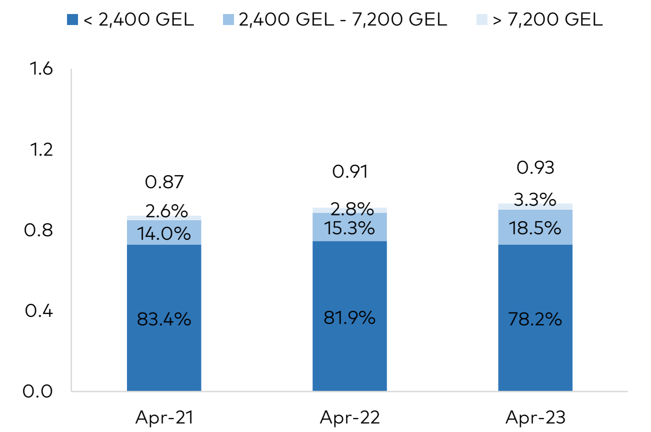
Source: NBG

Figure 15: Consumer confidence index
Confidence index continued increasing after a slight drop, indicating higher spending expectations



Source: ISET Policy Institute

Figure 16: Wage distribution in Georgia, mn persons
Proportion of individuals who are eligible to apply for a mortgage has been on the rise



Source: Revenue Service

Figure 17: Mortgage interest rates, %
Due to high refinancing rate mortgage financing remains costly

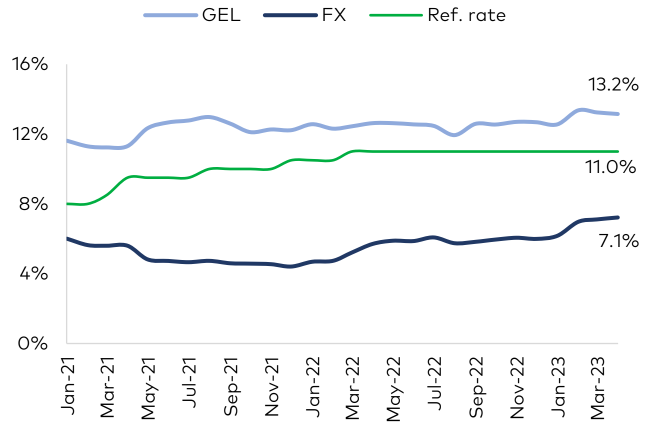
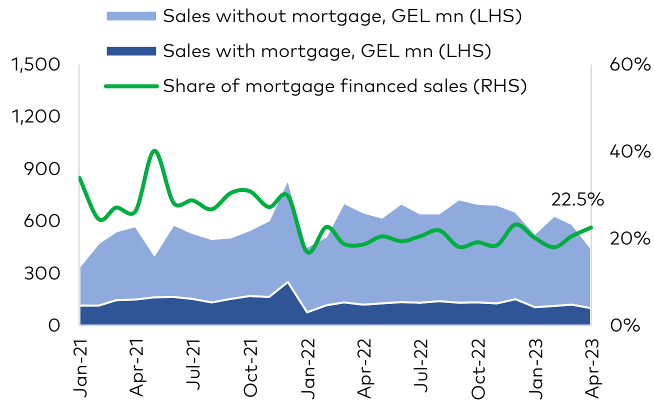
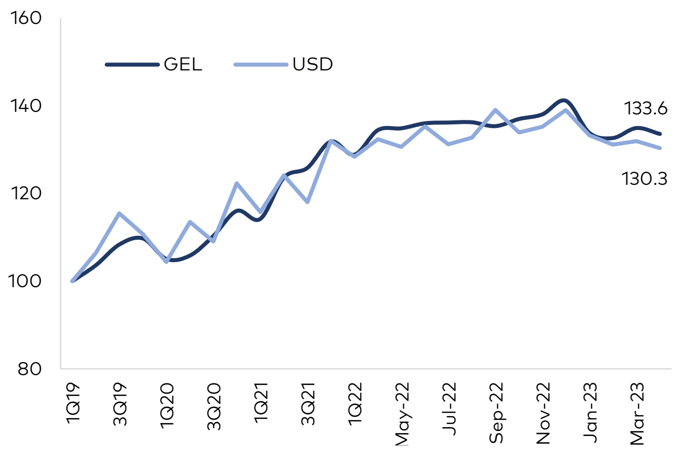


Figure 18: Share of mortgages in total sales value
Mortgages financed 22.5% of sales



Source: NBG, Galt & Taggart Research

Figure 19: Construction cost index, 1Q19=100
Construction costs stayed flat in Apr-23, however, still remain elevated. Moreover, upcoming regulation about energy efficiency of buildings will likely inflate construction costs by c. 5% upon adoption of the law



	y/y growth, US$	y/y growth, GEL
Total construction cost	0.1%	-0.6%
Construction materials	-0.1%	0.5%
Wages	-0.7%	3.7%
Machinery	-1.7%	9.4%
Transportation, fuel and electricity	2.7%	-15.5%
Other costs	-0.5%	2.7%

Source: Geostat, Galt & Taggart Research
Note: Construction cost index was published quarterly over 2019-22, but was discontinued and shifted to monthly reporting since Mar-22

Annex 1 – construction permits

Figure 20: Sellable area of issued permits for residential real estate*, '000 m²

Construction permit issuance area was slightly down in 2022, but remained elevated vs 2013-20 average

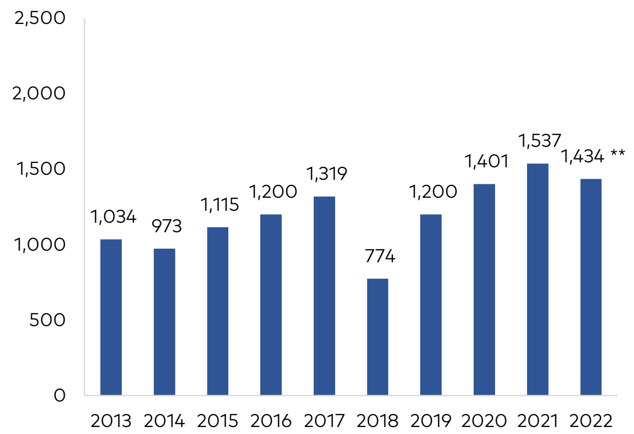
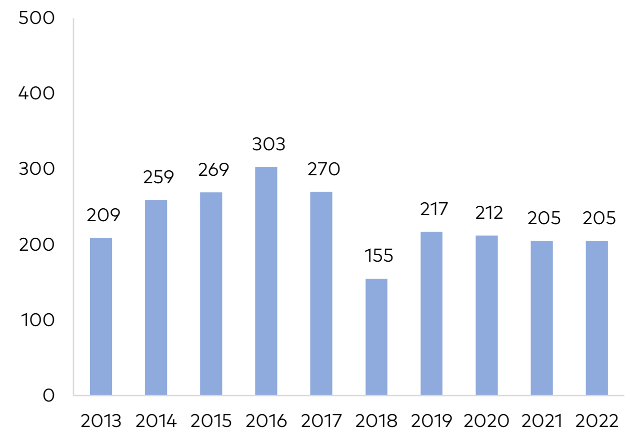


Figure 21: Issued permits for residential real estate, units

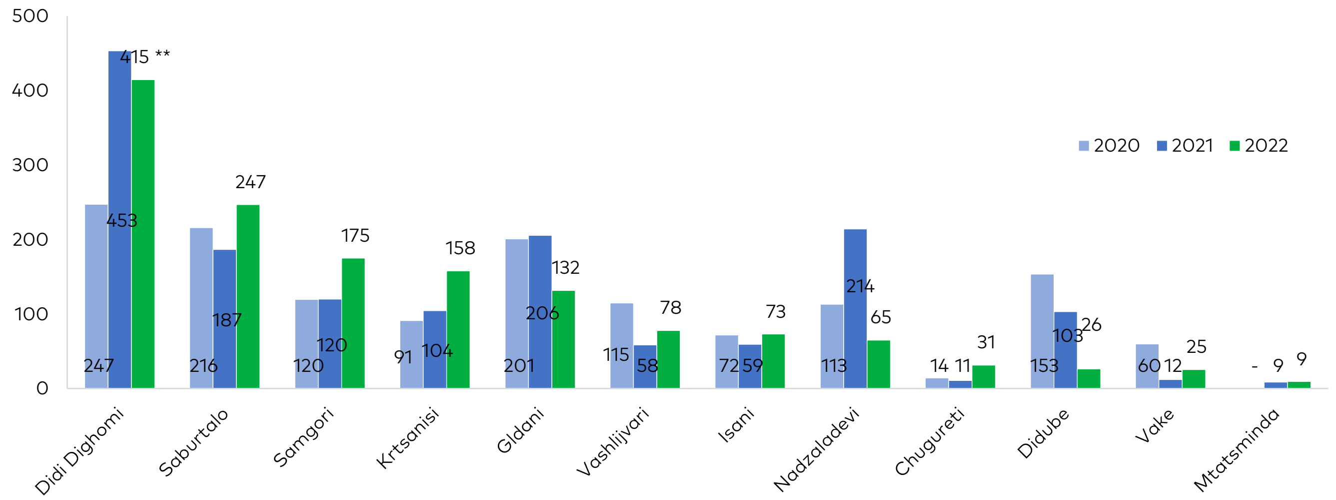
Number of constructions permitted has been gradually decreasing as developers have been applying for larger projects in recent years



Source: TAS, Galt & Taggart Research
*: includes only III and IV class multiapartment/multifunctional buildings
**: includes balcony and office areas. Office areas are usually sold as residential spaces

Figure 22: Sellable area of Issued permits for residential real estate* by districts, '000 m²

Construction permit issuance remained the highest in Didi Dighomi in 2022, followed by Saburtalo. Contrarily, permit issuances in Vake and Mtatsminda districts remained low due to scarcity of development land. As a result, real estate price gap among central and suburban districts is on the rise and we expect trend to strengthen over short-to-medium term



Source: TAS, Galt & Taggart Research
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