



Tbilisi Real Estate Market Watch

Quarterly update

Tbilisi | Real Estate
Market Watch
July 30, 2020

Key takeaways

In 2Q20, real estate fundamentals were negatively affected by Covid-19 with double digit contraction in GDP in April-May, weakening GEL and inflationary pressures. Apartment sales contracted sharply in April and May, however with lockdown measures being lifted reduction slowed in June, highlighting first signs of recovery. Importantly, drop in sales was more pronounced in new apartment category as market was waiting for government's mortgage interest rate subsidy program, which became effective from July 2020. Key takeaways from the report include:

- Apartment sales contracted sharply in April (-92.7% y/y) and May (-74.3% y/y) due to lockdown. As economy reopened, drop in sales slowed to 21.0% y/y in June, highlighting first sign of potential recovery. We expect apartment sales to be flat y/y in 2H20, yielding 15% y/y drop for the whole 2020.
- Issuance of new mortgages reduced sharply in April and May (to GEL 19mn and GEL 40mn or -94.4% y/y and -88.8% y/y excl. FX effect, respectively), but reduction slowed in June to GEL 164mn or -45.4% y/y excl. FX effect.
- Market interest rates spiked, pricing in increased risks – GEL interest rates stood at 12.8% (+1.2ppts since end-19) and FX interest rates at 6.0% (+2.1ppts since end-19) in June.
- There was one-off price spike in April, reflecting extremely low volumes and average price of premium segment transactions. Notably, new apartment prices were up in April (+8.3% y/y), down in May (-11.3% y/y) and June (-9.5% y/y).
- Developers and private investors started to adjust to new reality and reduce prices, though this trend is more evident in rental investors. Almost 7% (3,076 in total) of listings reviewed pricing policy since March 2020.
- Real estate rents were down 10.7% y/y in 2Q20, explained by tourism related demand shock. Therefore, rental yields are on the decline, meaning that real estate price decline is also unavoidable.

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Real estate fundamentals – ongoing recovery

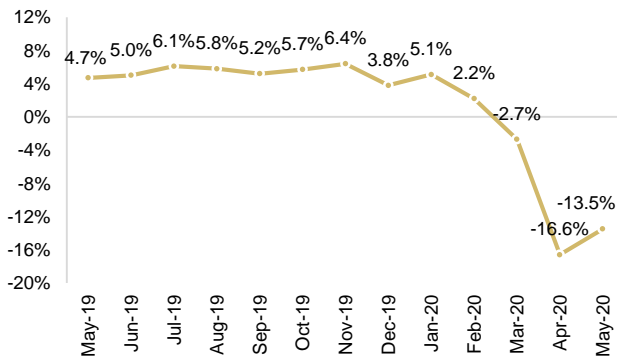
Market fundamentals have significantly deteriorated due to Covid-19.

Economic lockdown measures in April and May 2020 resulted in double digit contraction in monthly GDP, economic uncertainty remained at a record high and GEL depreciated (for more information on Georgia's current economic trends see our [report](#) of 21 July 2020). However, with successful management of Covid-19, economic reopening and stabilization of GEL, consumers and businesses started to operate relatively normally.

Annual inflation has retreated gradually since the start of the year, reaching 6.1% in June 2020, though still far above the central bank's 3% inflation target. The NBG cut rates twice this year, to 8.25%, to support economic activity despite the ongoing high inflation. We see this as a positive factor to limit upward pressure on the cost of credit to support demand. GEL's appreciation since mid-May is another positive factor for real estate demand.

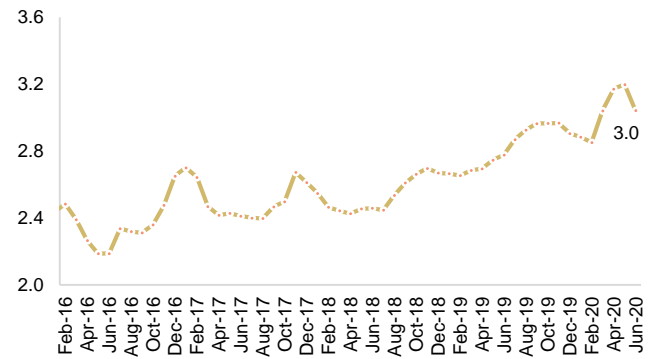
Improved consumer expectations hint also on gradual recovery in real estate market. After hitting record low in April, consumer sentiment posted V-shaped recovery since May, captured by monthly Consumer Confidence Index (CCI). CCI was up by a significant 12.1 index points in June 2020, compared to April 2020.

Figure 1: Monthly GDP, y/y growth



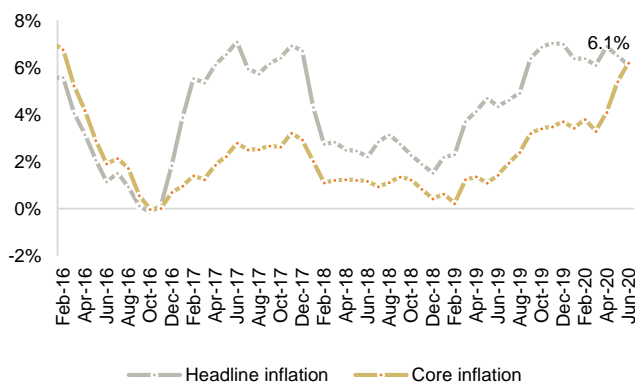
Source: Geostat

Figure 2: US\$/GEL exchange rate, monthly average



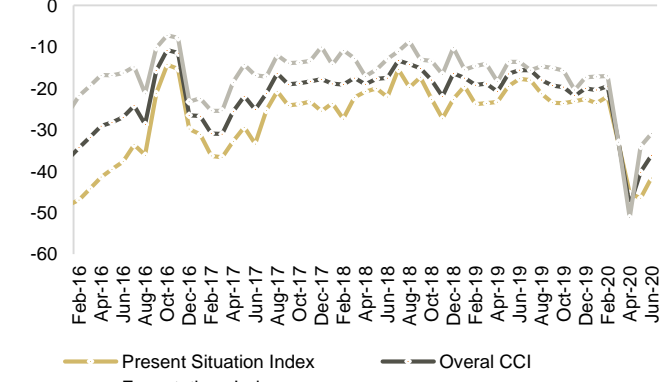
Source: NBG

Figure 3: Annual inflation, y/y growth



Source: Geostat

Figure 4: Consumer confidence index, monthly



Source: ISET Policy Institute



Mortgage market – subsidy to boost issuance

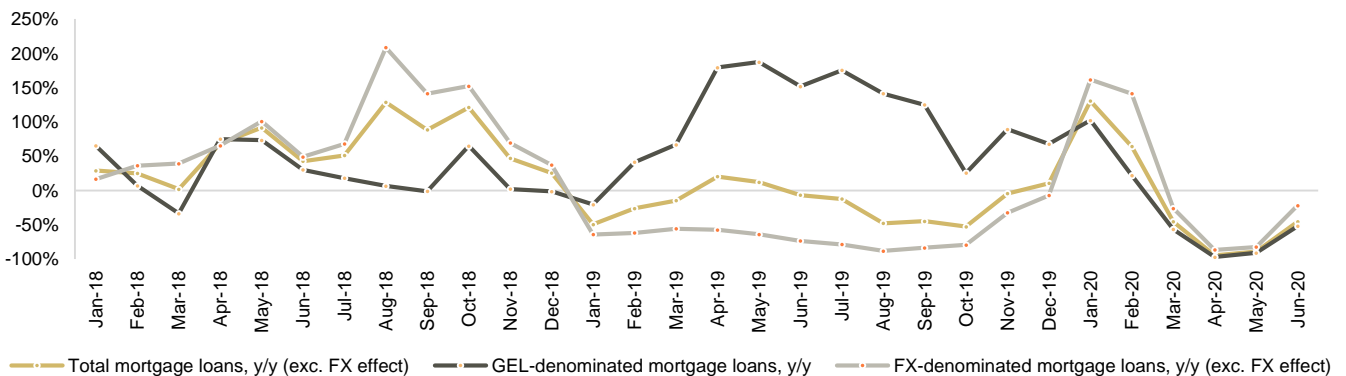
In 2Q20, mortgage issuance plummeted sharply as sales were stalled.

Mortgage issuance in 1Q20 was driven by sharply declining FX interest rates. However, this trend was reversed due to Covid-19, with markets pricing in increased risks. GEL interest rates stood at 12.8% (+1.2ppts since end-19) and FX interest rates at 6.0% (+2.1ppts since end-19) in June.

Issuance of new mortgages was down to GEL 19mn (-94.4% y/y excl. FX effect) in April-20 and to GEL 40mn (-88.8% y/y excl. FX effect) in May-20, but reduction slowed in June-20 with GEL 164mn issuance (-45.4% y/y excl. FX effect).

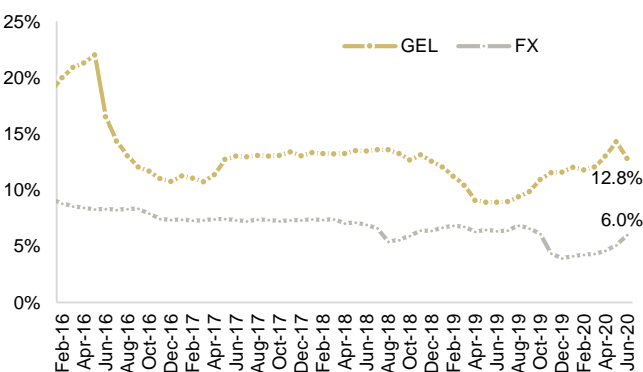
We expect sharp spike in the mortgage issuance in 2H20, as government's 4% interest rate subsidy scheme will incentivize customers to buy apartments on the primary market. This subsidy program will last till end 2020 and mortgages for new apartments sold by developers with the maximum value of mortgages up to GEL 200,000 will be subsidized during five years by the state.

Figure 5: Mortgage issuance, y/y growth



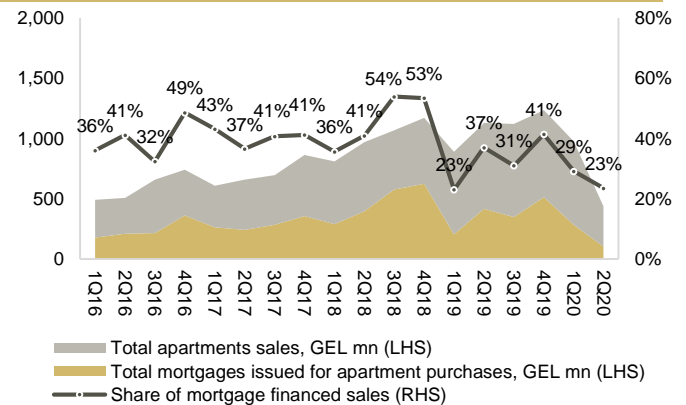
Source: NBG, Galt & Taggart Research

Figure 6: Mortgage interest rates, monthly



Source: NBG

Figure 7: Share of mortgages in total sales, Tbilisi



Source: NBG, Galt & Taggart Research



Residential sales - first signs of recovery

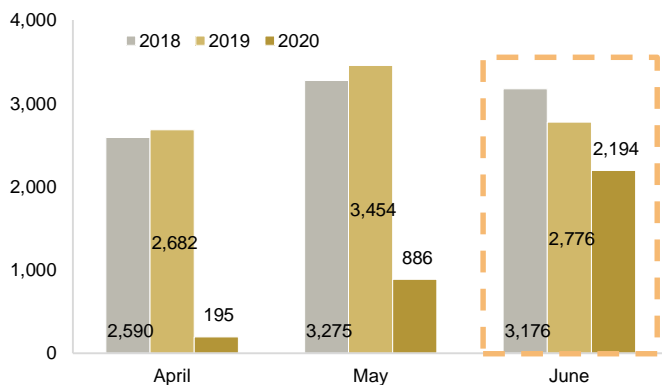
Apartment sales recovered in June, after record high decline over April-May.

Apartment sales contracted sharply in April (-92.7% y/y) and May (-74.3% y/y) due to Covid-19 and related lockdown measures. However, decline in sales slowed to 21% y/y in June, highlighting first sign of recovery. Notably, sales decline was higher in new apartment category as market was waiting for 4% mortgage interest rate subsidy scheme for new apartments, which became effective from July 2020.

Surprisingly, suburban districts continued to dominate sales in 2Q20, despite suburban customer base being most sensitive to economic fluctuations. Out of the top 5 districts by sales, the 4 suburban areas – Gldani, Samgori, Isani, Didi Dighomi – accounted for 54.2% of total residential sales in 2Q20.

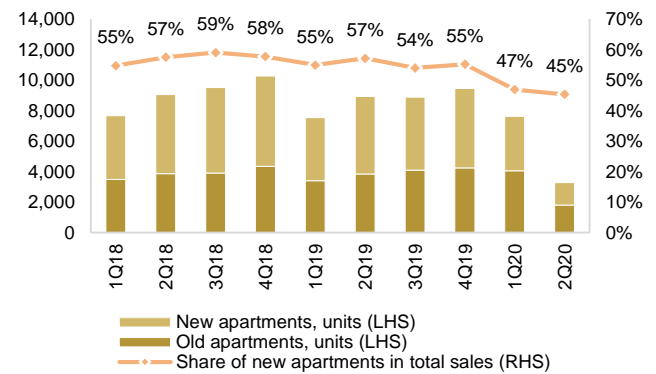
We expect that mortgage subsidies and weakened purchasing power of consumers to further lift share of suburban sales in the nearest future, as only mortgages up to GEL 200,000 are subsidized by government before end-2020.

Figure 8: Apartment sales in Tbilisi, 2Q (units)



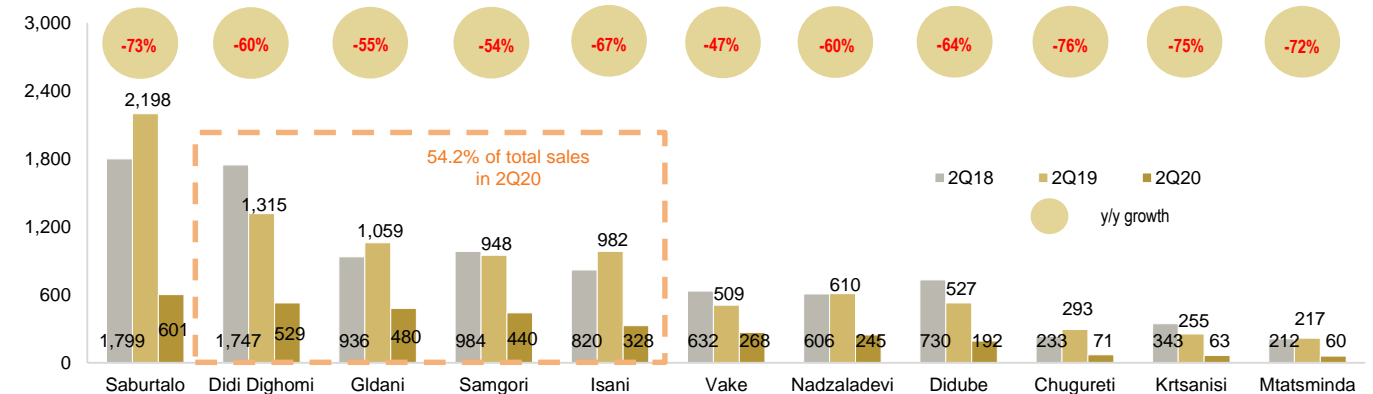
Source: NAPR, BoG, Galt & Taggart Research

Figure 9: Apartment sales by type in Tbilisi



Source: NAPR, BoG, Galt & Taggart Research

Figure 10: Apartment sales by district in Tbilisi, 2Q (units)



Source: NAPR, BoG, Galt & Taggart Research



Residential prices – adapting to new normal

Prices were down in May and June, after one-off spike in April.

Apartment price spike in April was one-off as sales volume was extremely low and average price was biased towards individual premium segment transactions. New apartment prices were up in April (+8.3% y/y), down in May (-11.3% y/y) and June (-9.5% y/y).

Price volatility was higher in central districts, while remained relatively stable in suburbs in 2Q20. Weighted average selling prices posted the following trend in 2Q20:

- Mtatsminda to US\$ 1,346 (+21% y/y)
- Vake to US\$ 896 (-6% y/y)
- Sabutalo to US\$ 790 (-6% y/y)
- Nadzaladevi to US\$ 585 (+7% y/y)
- Gldani to US\$ 561 (+6% y/y)

Figure 11: Selling price index, new apartments

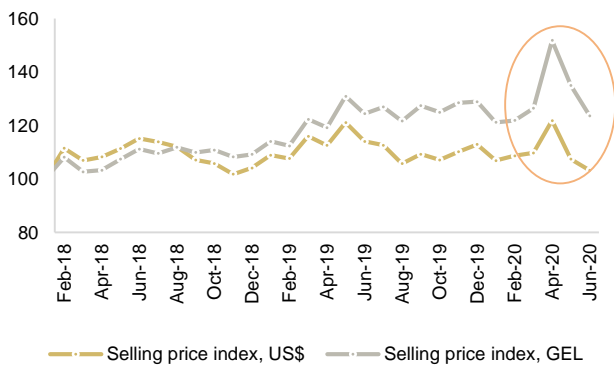
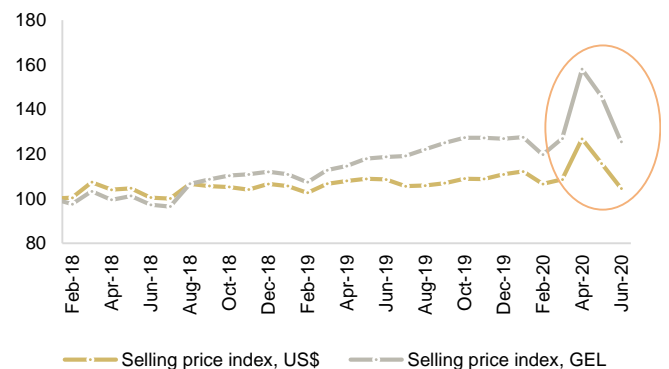


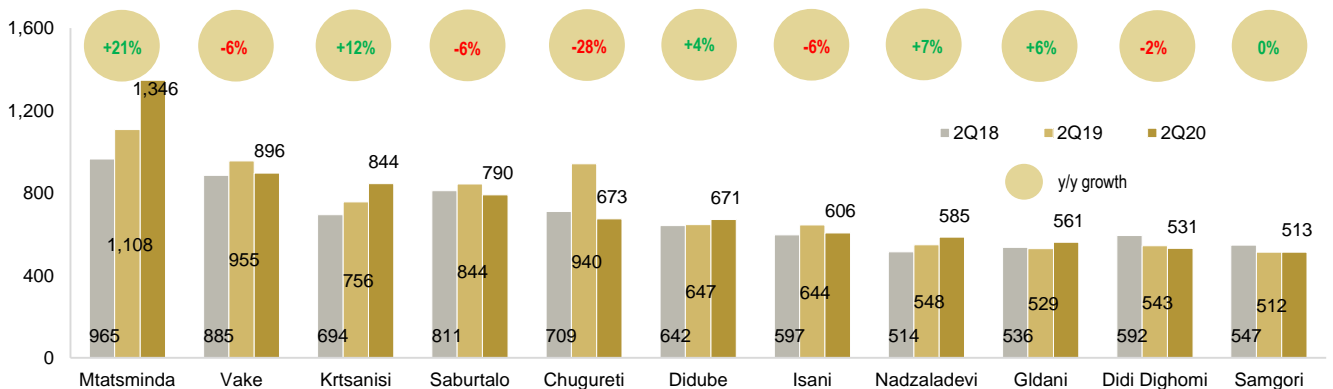
Figure 12: Selling price index, old apartments



Source: NAPR, BoG, Galt & Taggart Research

Source: NAPR, BoG, Galt & Taggart Research

Figure 13: Weighted average selling price by districts in Tbilisi, US\$ per m²



Source: NAPR, BoG, Galt & Taggart Research



Sales patterns – cheaper flats dominating

Apartment sales patterns almost unchanged in 2Q20.

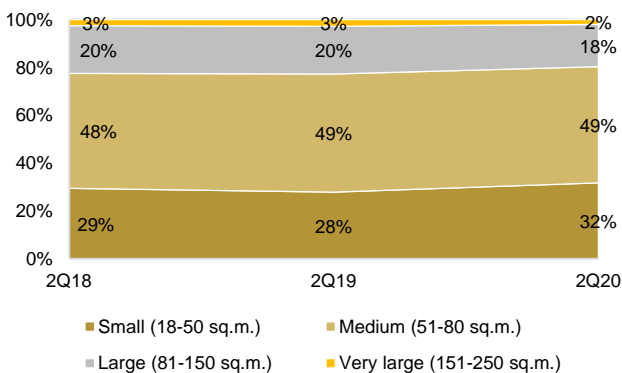
In new apartment segment, medium-sized apartment (51-80 m²) sales were most prevalent – 49% of total sales in 2Q20. Notably, the share of the small-sized apartments (18-50 m²) went up to 32% in 2Q20 from 28% in 2Q19.

In old apartment segment, medium-sized apartment (51-80 m²) sales were also most prevalent. Importantly, demand distribution by size among old apartments changed slightly with demand for large-sized apartments (81-150 m²) diminishing.

Low-price segment was most demanded – evidence that low-to-middle-income households drive demand for the housing market. 56% of total number of apartments sold were in the low-price segment (50% in 2Q19), while the premium segment accounted for only 11% of total in 2Q20 (13% in 2Q19).

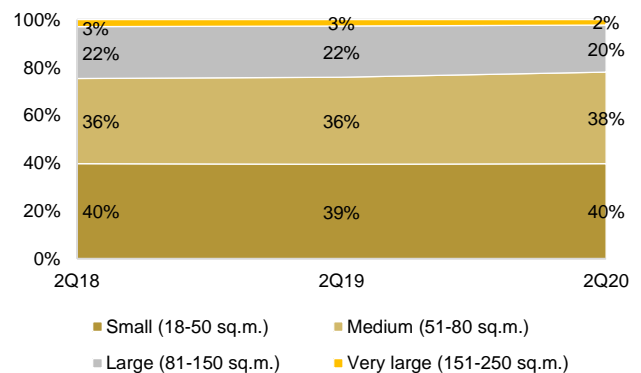
Demand was high on medium-sized apartments (51-80 m²) in all districts of Tbilisi, except suburban districts (Samgori, Gldani and Isani), where small-sized flats dominated the sales.

Figure 14: New apartment sales by size in Tbilisi



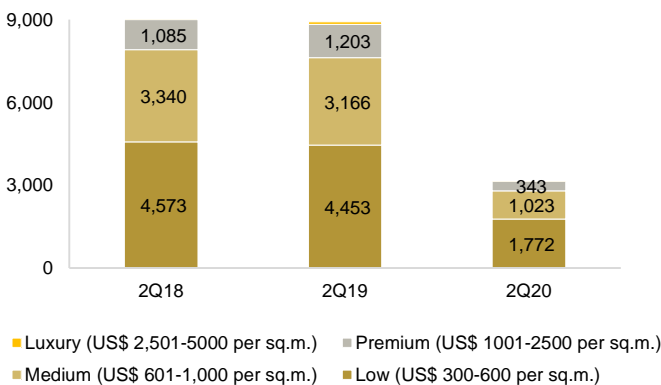
Source: NAPR, BoG, Galt & Taggart Research

Figure 15: Old apartment sales by size in Tbilisi



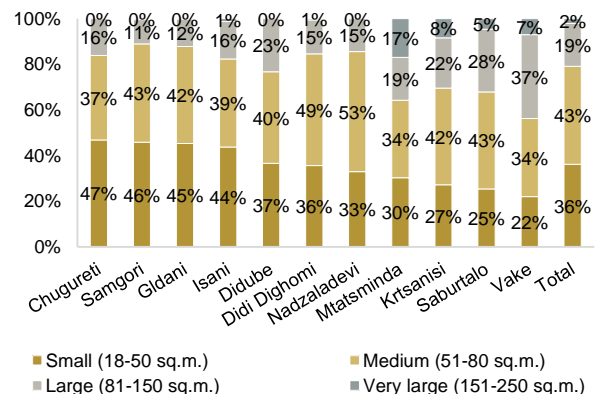
Source: NAPR, BoG, Galt & Taggart Research

Figure 16: Apartment sales by prices segment in Tbilisi (units)



Source: NAPR, BoG, Galt & Taggart Research

Figure 17: Apartment sales by size and district in Tbilisi



Source: NAPR, BoG, Galt & Taggart Research



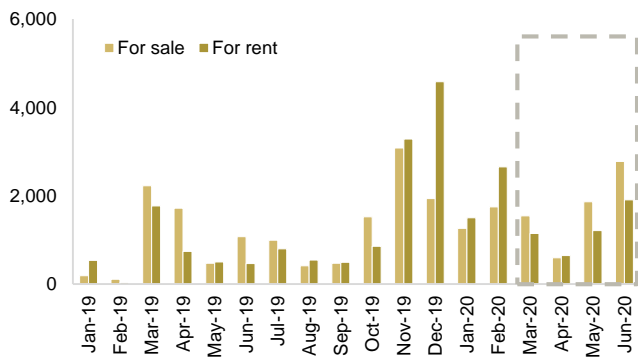
Residential supply – investors adapting

Developers and private investors started to decrease prices and are adapting to new reality, especially rental investors.

Almost 7% (3,076 in total) of listings reviewed pricing policy since March 2020 on Area.ge – pricing policy was mostly reviewed by rental investors rather than apartment sellers. Weighted average selling price of listed apartments on Area.ge by developers and private investors was down to US\$ 817 (from US\$ 870) and US\$ 846 (from US\$ 893), respectively in June 2020.

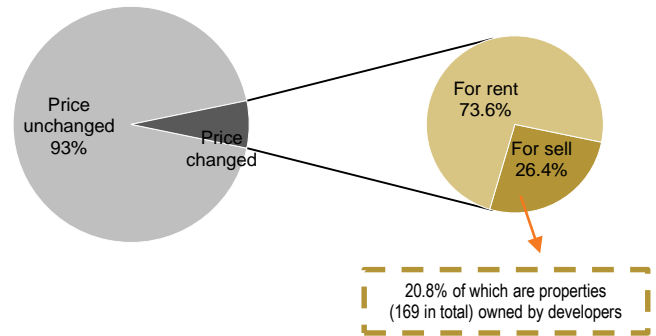
New listings published for sale and for rent picked up since May, after plummeting in March and April of 2020.

Figure 18: New listings on Area.ge, monthly



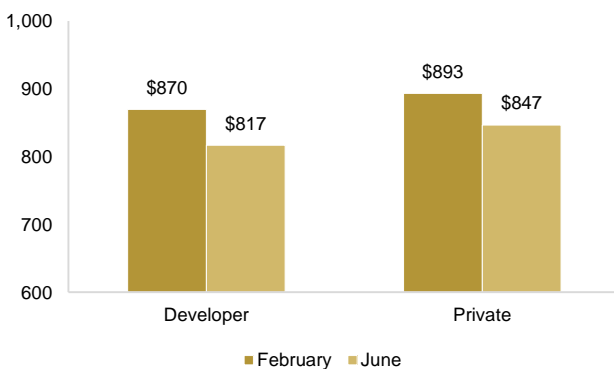
Source: Area.ge, Galt & Taggart Research

Figure 19: Pricing policy change since March 2020 on Area.ge



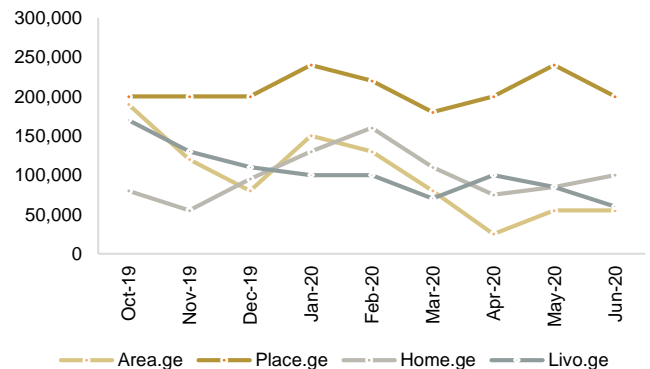
Source: Area.ge, Galt & Taggart Research

Figure 20: Weighted average selling price on Area.ge



Source: Area.ge, Galt & Taggart Research

Figure 21: Monthly visits of real estate websites



Source: SimilarWeb



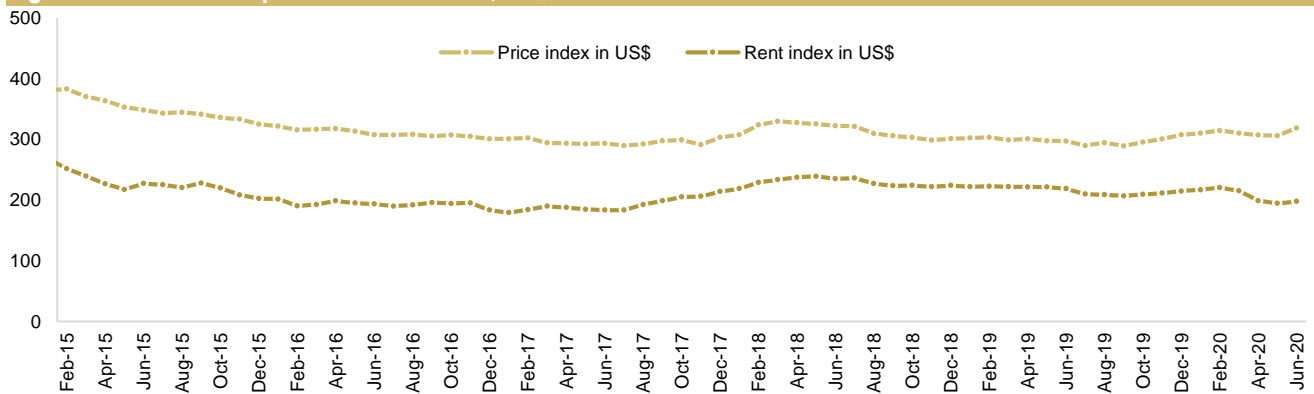
Rents down – dictating price decline

Covid-19 affected rental market instantly, reducing rental rates.

Real estate rent index in US\$ was down 10.7% y/y in 2Q20, while prices were up 4.1% y/y. Decline of rental rates can be explained by tourism related demand shock. Therefore, rental yields are on the decline, meaning that real estate price decline is also unavoidable.

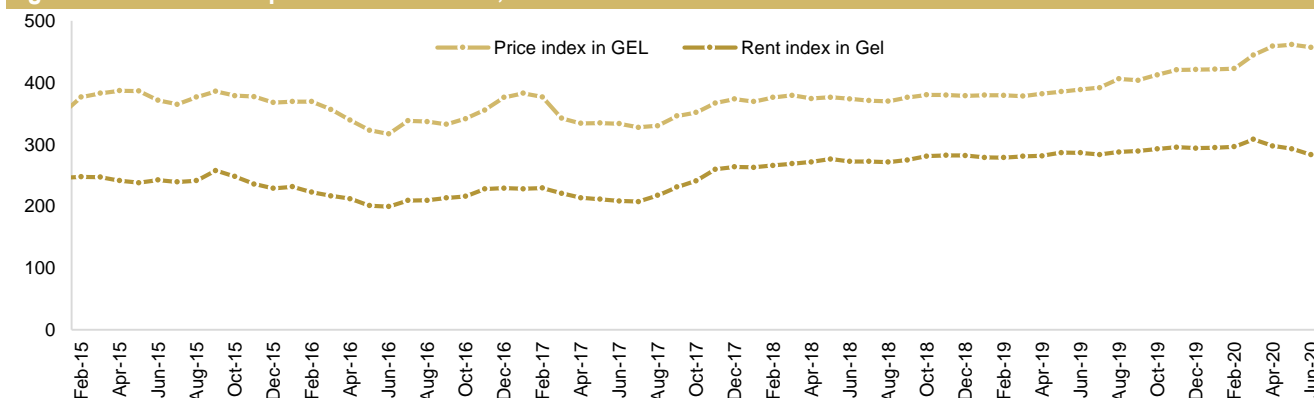
Real estate selling price decline will be softened by government 4% mortgage interest rate subsidy scheme, which will support sales on a primary market until the end-2020. This subsidy program will also front-load demand, as some people expected to buy apartment to get the subsidy. However, this can effect negatively 2021 demand and price dynamics. We expect apartment sales to be flat y/y in 2H20, yielding 15% y/y drop for the whole 2020.

Figure 22: Real estate price and rent index, US\$



Source: NBS, Galt & Taggart Research

Figure 23: Real estate price and rent index, GEL



Source: NBS, Galt & Taggart Research



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