



Tbilisi Real Estate Market Watch

Quarterly update

Tbilisi | Real Estate
Market Watch
May 4, 2020

Key takeaways

The demand for housing accelerated in Jan-Feb 2020 helped by last year's low base and record low FX mortgage rates, before plummeting again in March due to Covid-19. Notably, apartment sales continued solid growth in 1st half of March 2020, before state emergency and lockdown was announced. In March 2020, real estate fundamentals were sharply affected by Covid-19 outbreak, putting real estate sales under pressure. Increased risks, combined with inflationary pressures and deteriorated consumer sentiments, bring back memories from 2008-2009 crises, when real estate prices and construction activity dropped sharply and it took 3 years to accelerate again. Key takeaways from the report include:

- In Jan-Feb 2020, mortgages increased strongly due to record low interest rates in FX. Weighted average FX mortgage interest rates stood at 4.2% in 1Q20, down from 6.7% in 1Q19.
- However, as Covid-19 outbreak deteriorated market outlook, mortgages were down to GEL 134mn (-45.5% y/y excl. FX effect) in March 2020.
- After growth in Jan-20 (+0.9% y/y) and Feb-20 (+7.7% y/y), apartment sales suffered in March (-7.7% y/y). Notably, sales were up in 1st half of March, but plummeted in 2nd half of March due to lockdown – 37.6% decline in 2H compared to 1H of March.
- In March 2020, prices were surprisingly up compared to February, ignoring economic conditions. New apartment prices were up 1.0% m/m in US\$ terms and 3.8% m/m in GEL terms.
- Developers and private investors are not rushing to dramatically change prices and are slowly adapting to new reality, as only 1% of published listings on Area.ge changed pricing policy in March-2020.
- Previous crisis hit hard construction and real estate sectors in 2008-2009. Construction turnover declined by 12% y/y, construction employment declined by 28% y/y. Prices in US\$ dropped by 34% y/y, while prices in GEL were down 27% y/y.

Eva Bochorishvili

Head of research | evabochorishvili@gt.ge | +995 32 2401 111 ext. 8036

Kakha Samkurashvili

Senior Analyst | ksamkurashvili@gt.ge | +995 32 2401 111 ext. 4298



Real estate fundamentals – negative outlook

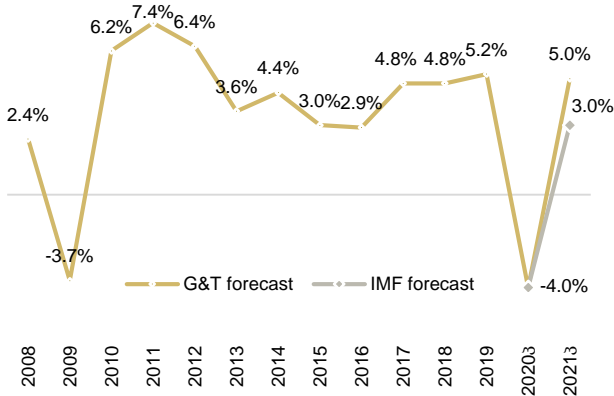
With Covid-19 pandemic, real estate market outlook has significantly deteriorated.

IMF forecasts real GDP growth to decline in Georgia by 4.0% in 2020, with recovery projected in 2021 (+3.0% by IMF vs. +5.0% by Galt & Taggart). Negative expectations and reduced inflow of foreign currency from tourism and remittances pressured GEL and currency lost 17.7% of its value against dollar during March 2020.

Annual inflation remained high at 6.1% in March 2020. Based on current forecast inflation is expected to decline gradually due to weak demand and will converge the target rate of 3.0% in the beginning of 2021. With this expectation, NBG started gradual easing and cut policy rate by 50bps to 8.5% in April. We see this as a positive factor to contain upward pressures on the cost of credit to support demand.

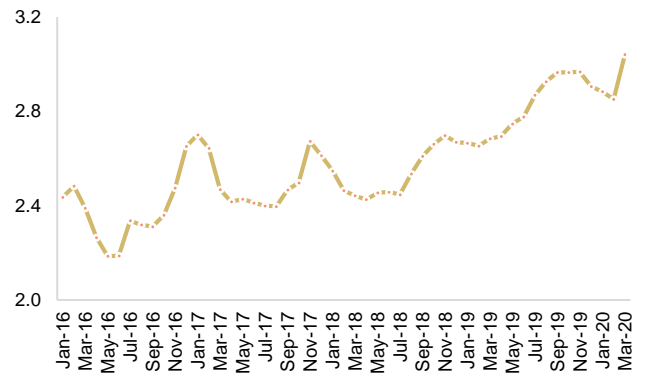
Negative outlook quickly deteriorated consumer sentiment, captured by monthly Consumer Confidence Index (CCI). CCI declined by a significant 13.6 index points (-69.7% m/m) in March 2020, lowest since March 2017.

Figure 1: GDP growth forecast, y/y growth



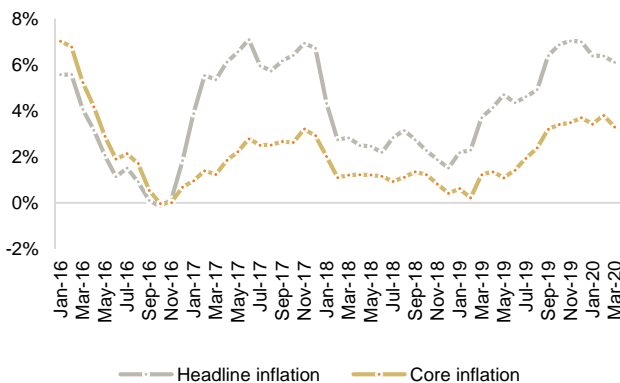
Source: Geostat, IMF, Galt & Taggart Research

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



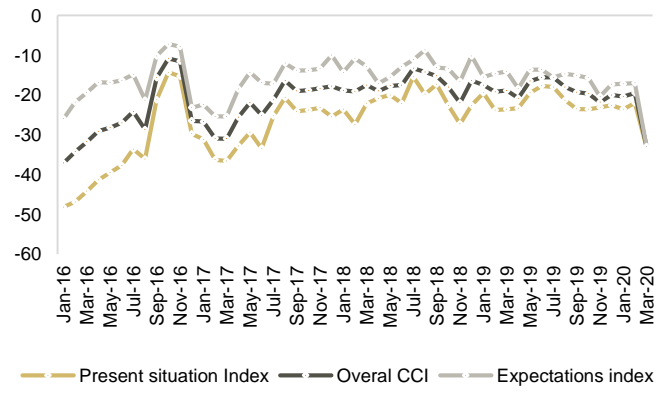
Source: NBG

Figure 3: Annual inflation, y/y growth



Source: Geostat

Figure 4: Consumer confidence index, monthly



Source: ISET Policy Institute



Mortgage market - uncertainty will limit issuance

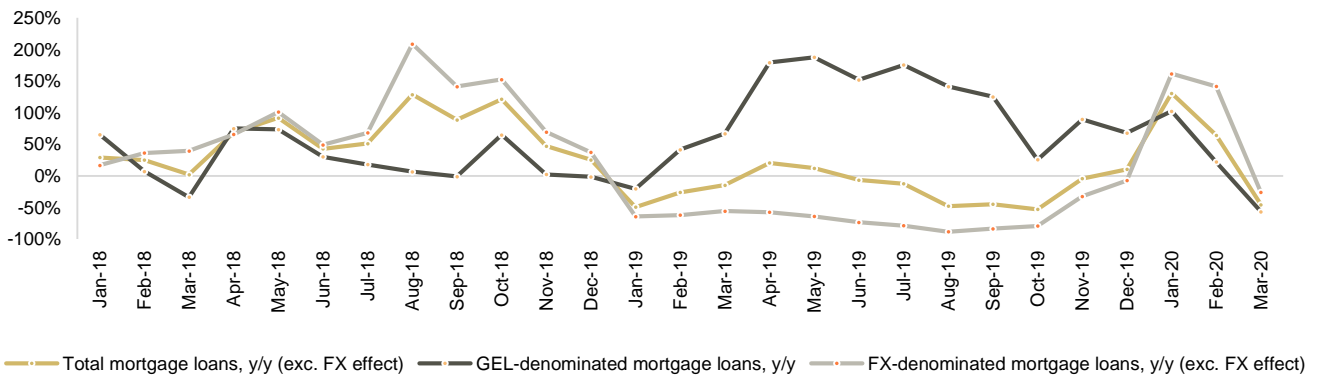
In Jan-Feb 2020, mortgage issuance was on the rise helped by last year's low base and record low FX interest rates, before plummeting again in March.

Mortgage issuance was driven by sharply declining FX interest rates – weighted average interest rate of FX mortgages stood at 4.2% in 1Q20, down 2.5ppts y/y. Local currency mortgage issuance was also up despite increased interest rates – weighted average interest rate of LC mortgages stood at 11.9% in 1Q20, up 0.7ppts y/y due to key rate spikes. As a result, share of mortgage-backed sales was up to 41% in 1Q20 vs 23% in 1Q19.

Incentivized by low rates, issuance of new mortgages was up to GEL 215mn (+130.7% y/y excl. FX effect) in Jan-20, followed by GEL 254mn issuance (+64.2% y/y excl. FX effect) in Feb-20. However, Covid-19 outbreak deteriorated market outlook, and mortgage issuance was down to GEL 134mn (-45.5% y/y excl. FX effect) in March.

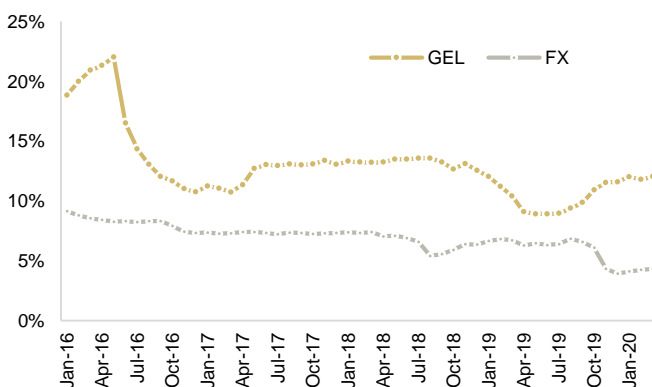
We expect sharp drop in the mortgage issuance to continue during the upcoming months, considering increased uncertainties and subsequent risks, even though NBG softening PTI and LTV requirements.

Figure 5: Mortgage issuance, y/y growth



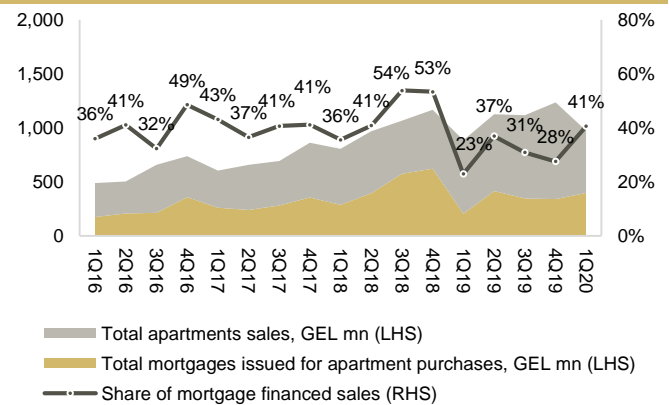
Source: NBG, Galt & Taggart Research

Figure 6: Mortgage interest rates, monthly



Source: NBG

Figure 7: Share of mortgages in total sales, Tbilisi



Source: NBG, Galt & Taggart Research



Residential sales in March-20 - first effect of Covid-19

Apartment sales was on the rise in March 2020, before lockdown measures became effective.

After growth in Jan-20 (+0.9% y/y) and Feb-20 (+7.7% y/y) from last year's low base, apartment sales suffered in March (-7.7% y/y). Notably, sales were up in the 1st half of March, but plummeted in 2nd half of March due to lockdown – 37.6% decline in 2H compared to 1H of March 2020.

Suburban districts continued to dominate sales in Mar-2020, representing half of sales. Out of the top 5 districts by sales, the 4 suburban areas – Gldani, Samgori, Isani, Didi Dighomi – accounted for 49.9% of total residential sales in Mar-2020.

We expect that mortgage regulations and stressed purchasing power of consumers to further lift share of suburban sales in the nearest future.

Figure 8: Apartment sales in Tbilisi, 1Q (units) **Figure 9: Weekly apartment sales in Tbilisi, March 2020 (units)**

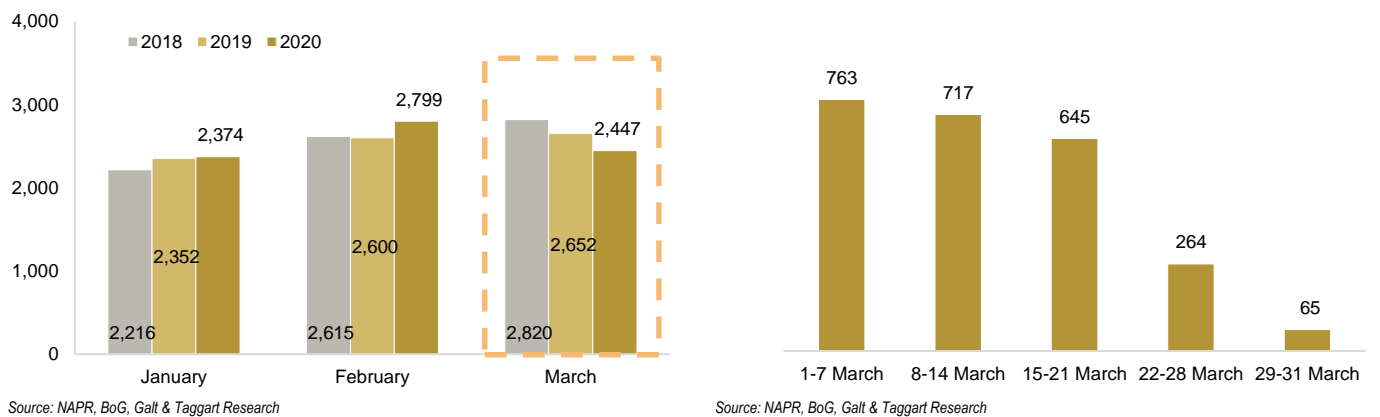
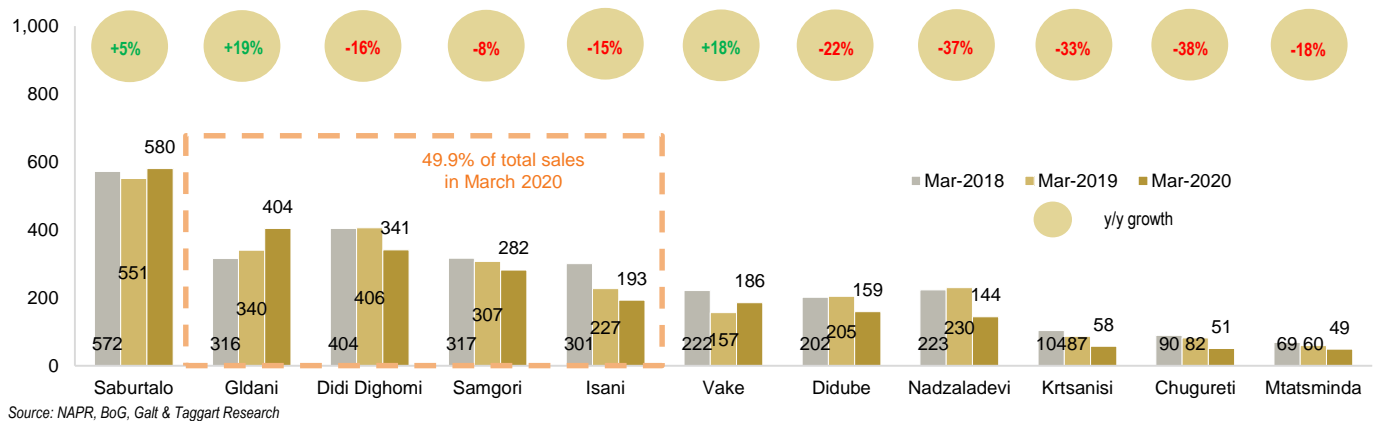


Figure 10: Apartment sales by district in Tbilisi, March (units)





Residential prices - ignoring economy

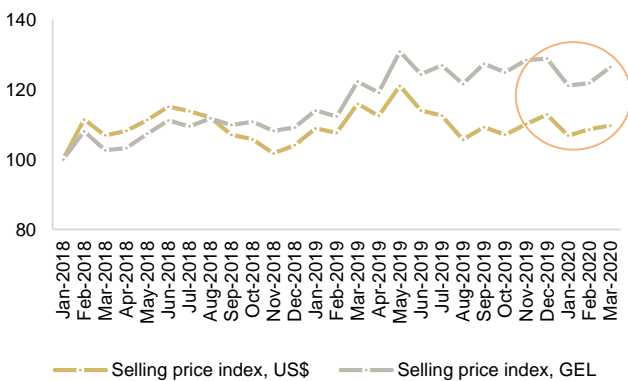
In March 2020 prices were surprisingly up compared to February, ignoring economy.

New apartment prices were up 1.0% m/m in US\$ terms and 3.8% m/m in GEL terms. However, prices were still down 5.4% y/y compared to March 2019. Old apartment prices were up 1.9% m/m in US\$ terms and 6.0% m/m in GEL terms, reflecting GEL depreciation effect on prices in local currency.

Price volatility was higher in central districts, while remained relatively stable in suburbs in Mar-2020. Weighted average selling prices were up in:

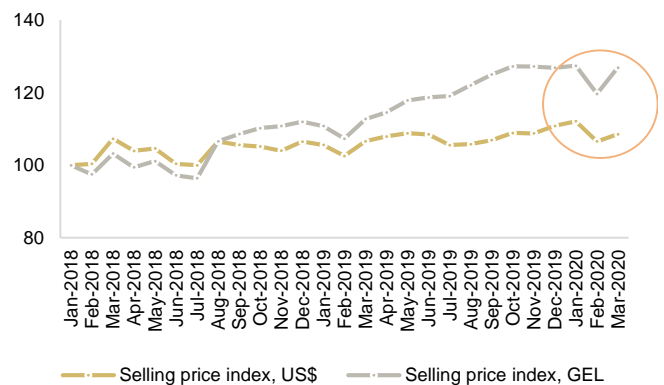
- Vake to US\$ 1,102 (+14% y/y)
- Mtatsminda to US\$ 1,040 (+9% y/y)
- Didube to US\$ 793 (+8% y/y)
- Gldani to US\$ 537 (+7% y/y)
- Didi Dighomi to US\$ 530 (+5% y/y)

Figure 11: Selling price index, new apartments



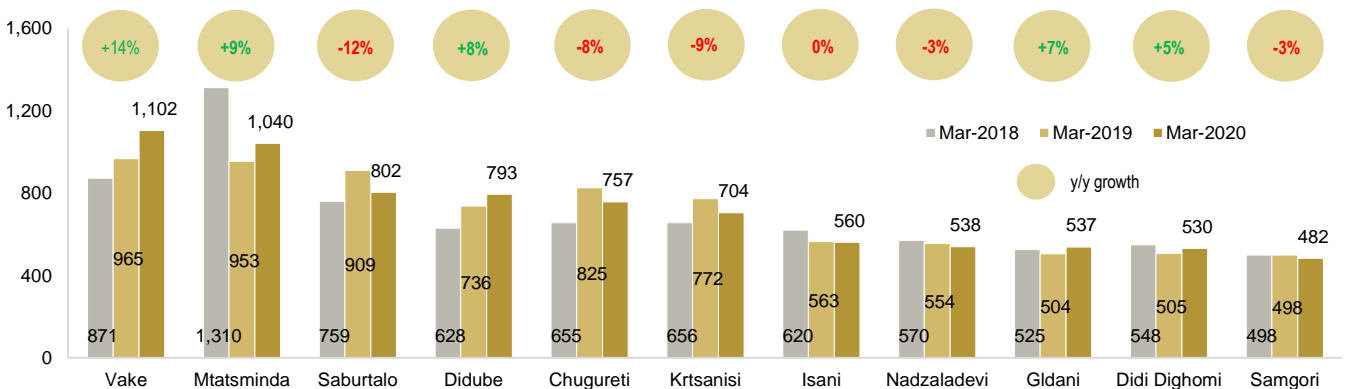
Source: NAPR, BoG, Galt & Taggart Research

Figure 12: Selling price index, old apartments



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



Residential sales patterns - almost unchanged

Apartment sales patterns almost unchanged in 1Q20.

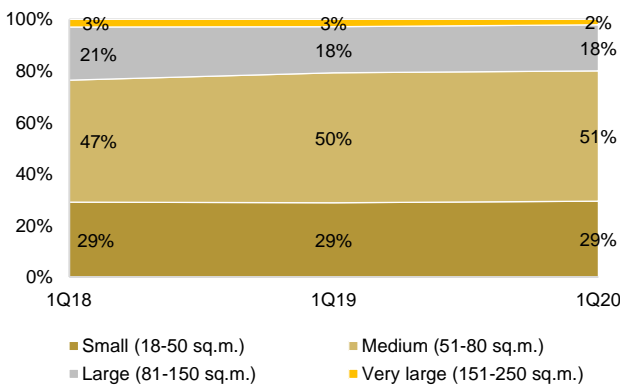
In new apartment segment medium-sized apartment (51-80 m²) sales were most prevalent – 51% of total sales in 1Q20. Notably, the share of the medium-sized apartments (51-80 m²) went up from 47% in 1Q18.

In old apartment segment medium-sized apartment (51-80 m²) sales were also most prevalent. Importantly, demand distribution by sizes among old apartments was slightly changing with demand for small-sized apartments (18-50 m²) diminishing.

Low-price segment was most demanded – evidence that low-to-middle-income households drive demand for the housing market. 53% of total number of apartments sold were in the low-price segment, while the premium segment accounted for only 12% of total in 1Q20.

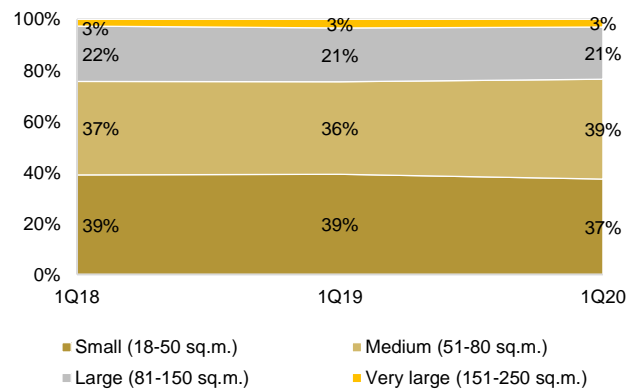
Demand was high on medium-sized apartments (51-80 m²) in all districts of Tbilisi, except central districts (Vake, Saburtalo and Mtatsminda), where large-sized flats dominated the sales. Small-sized flats were mostly sold in suburbs.

Figure 14: New apartment sales by size in Tbilisi



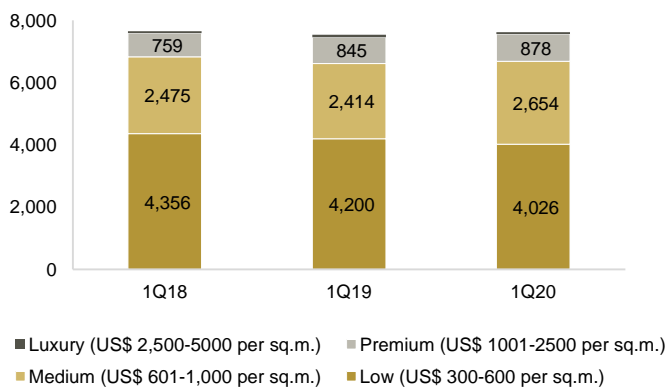
Source: NAPR, BoG, Galt & Taggart Research

Figure 15: Old apartment sales by size in Tbilisi



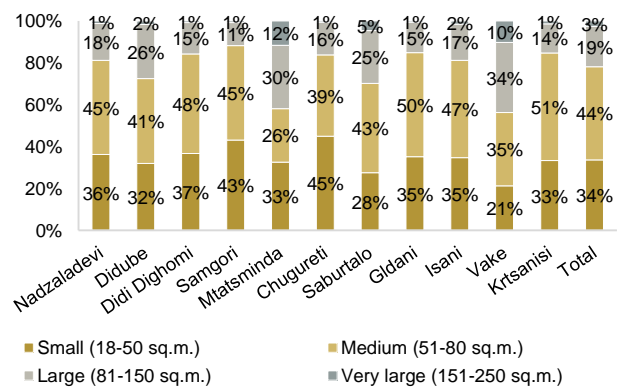
Source: NAPR, BoG, Galt & Taggart Research

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



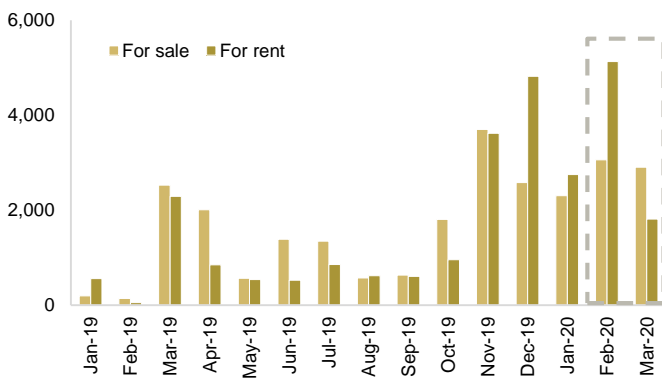
Residential supply - adapting slowly

Developers and private investors are not rushing to dramatically change prices and are slowly adapting to new reality, as only 1% of published listings changed pricing policy in March-2020.

Only 1% (755 in total) of listings reviewed pricing policy in March 2020 – pricing policy was mostly reviewed by rental investors rather than apartment sellers. Surprisingly some developers increased prices in March 2020 offsetting decrease of others, leaving overall price changes almost negligible.

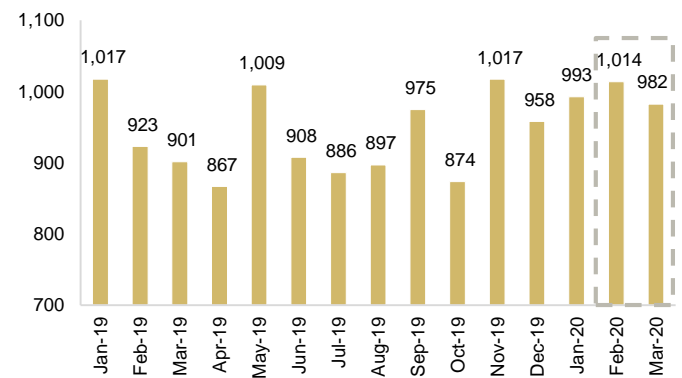
New listings published for sale were slightly down (-5.0% m/m), however new listings for rent more than halved (-64.6% m/m) in March 2020.

Figure 18: New listings on Area.ge, monthly



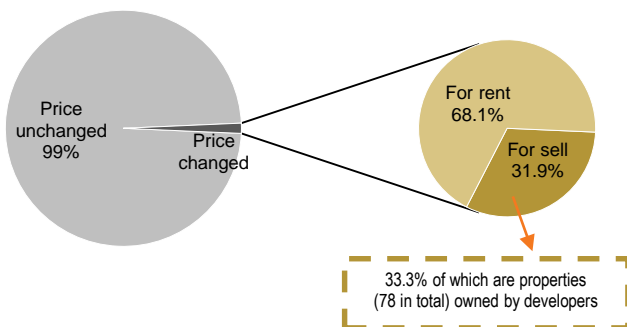
Source: Area.ge, Galt & Taggart Research

Figure 19: Selling prices of new listings on Area.ge, US\$ per m2



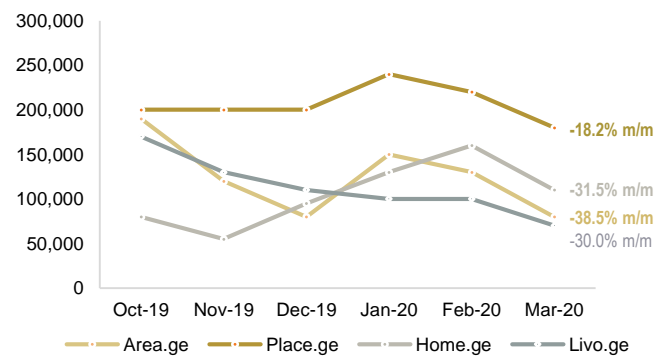
Source: Area.ge, Galt & Taggart Research

Figure 20: Pricing policy change in March 2020



Source: Area.ge, Galt & Taggart Research

Figure 21: Monthly visits of real estate websites



Source: Similarweb



Flashback - 2008-2009 crises

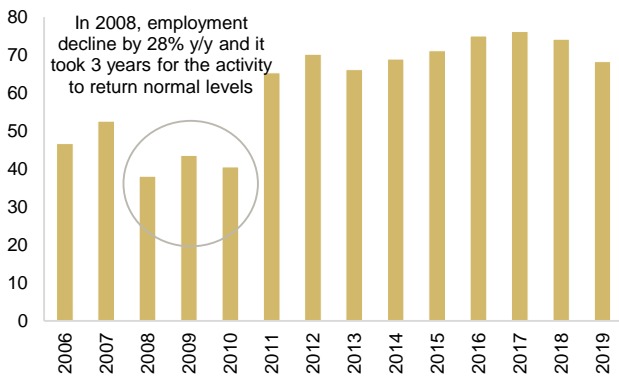
Construction and real estate sectors are especially vulnerable during crisis.

War with Russia and Global Financial Crises hit hard construction and real estate over 2008-2009:

- Construction turnover declined by 12% y/y and took 3 years to accelerate
- Construction employment declined by 28% y/y and took 3 years to accelerate
- Prices in US\$ dropped by 34% y/y, while prices in GEL were down 27% y/y

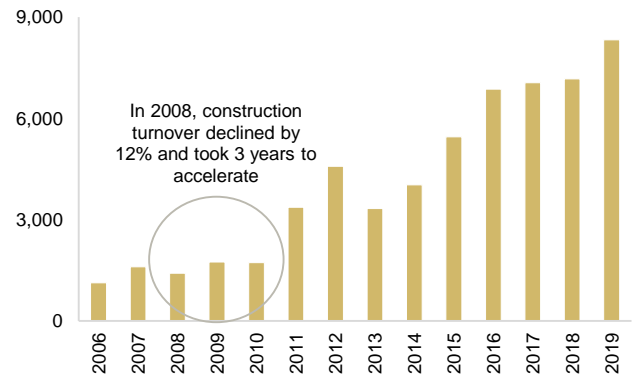
In the worst case scenario we do not rule out such drastic corrections to the market, but circumstances were somewhat different in 2008: real estate prices were at record high levels, indicating the presence of real estate bubble, while there were no any worrying signs of it in recent years, evidenced by stable prices over 2009-2019.

Figure 22: Construction sector employment



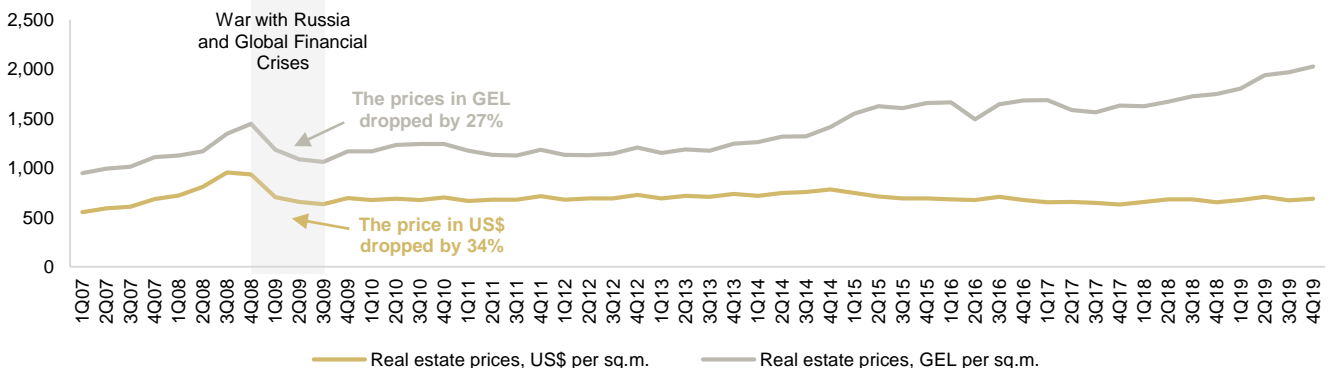
Source: Geostat

Figure 23: Construction sector turnover



Source: Geostat

Figure 24: Real estate prices in Tbilisi



Source: NBG, Galt & Taggart Research



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Head of Research

Eva Bochorishvili | evabochorishvili@gt.ge

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Head of Macroeconomic Analysis and Forecasting

Lasha Kavtaradze | lashakavtaradze@gt.ge

Tel: + (995) 32 2401 111

Email: research@gt.ge

Head of Analytics

Giorgi Iremashvili | giremashvili@gt.ge

Head of Sector Research

Bachana Shengelia | bshengelia@gt.ge

Senior Analyst

Mariam Chakhvashvili | mchakhvashvili@gt.ge

Senior Analyst

Kakha Samkurashvili | ksamkurashvili@gt.ge

Senior Analyst

Ana Nachkebia | anachkebia@gt.ge

Analyst

Tatia Mamrikishvili | tmamrikishvili@gt.ge

Analyst

Nino Peranidze | ninoperanidze@gt.ge

Analyst

Nika Megutnishvili | nmegutnishvili@gt.ge