



Tbilisi Real Estate Market Watch

Quarterly update

Tbilisi | Real Estate
Market Watch
October 30, 2020

Key takeaways

Tbilisi real estate market drastically improved in September 2020 along with strengthening economic recovery. Key takeaways from the report include:

- Apartment sales were up in September (+14.4% y/y) after sales contracting in July (-14.9% y/y) and August (-16.3% y/y).
- Suburban districts dominated sales in 3Q20 as mortgage subsidy scheme supported transactions in budget/economy segment. As a result, the 4 suburban areas accounted for 56.1% of total residential sales in 3Q20 vs 52.0% in 3Q19.
- Stabilization signs drove GEL interest rates down in 3Q20 to 11.2% (-2.2ppts vs 2Q20), while FX interest rates were slightly up to 5.7% (+0.5ppts vs 2Q20). Consequently, issuance of new mortgages was on the rise from Aug-20, with sharp spike in Sep-20 to GEL 437mn (+63.9% y/y excl. FX effect).
- New apartment prices were down in July (-8.6% y/y) and price reduction slowed in August (-7.6% y/y) and September (-5.9% y/y). However, this reduction was most likely driven by dominance of economy apartments in total transaction mix rather than market price correction. This means that the government's 4% mortgage interest rate subsidy program supported real estate prices in 3Q20.
- We expect apartment sales to moderate in 4Q20, from September 2020 highs, as rising COVID cases and GEL depreciation may weigh on house buying decision.
- Contrary to house prices, rents were sharply down in 3Q. Real estate rent index in US\$ was down 18% YTD in 3Q20 to 13 year low, while price index in US\$ were down only 6% YTD. Decline of rental rates can be explained by non-existent tourism and reduced demand from students. Therefore, rental yields are on the decline – rental yield was down to record low 7.7% in 3Q20 from 8.9% in 3Q19.

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Real estate fundamentals – strengthening recovery

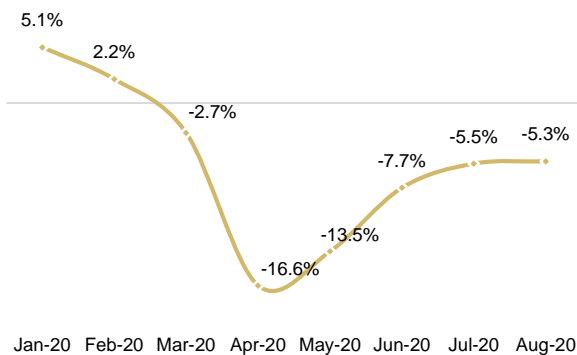
But rising virus cases may weaken recovery dynamics.

Economic recovery continued strengthening since June 2020, supported by fiscal policy, bank lending and strong growth in remittances. However, rapid growth of COVID-19 cases puts downward pressure on recovery dynamics, despite low probability of the re-imposition of strict lockdown measures.

Annual inflation retreated gradually since the start of the year, reaching 3.8% in September 2020. The NBG cut the key rate three times this year to 8.00%. However, further rate cut was limited by GEL’s weakness in September, which is also major step-back for the real estate industry.

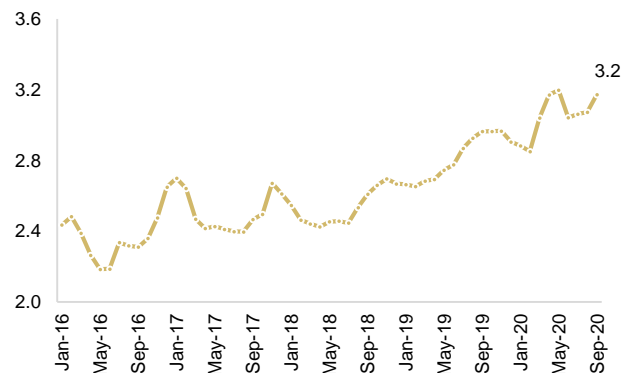
Consumer expectations also worsened somewhat in September amid GEL weakness. While Consumer Confidence Index (CCI) was up by a significant 14.9 index points in September 2020, compared to April 2020, it worsened compared to August 2020.

Figure 1: Monthly real GDP, y/y growth



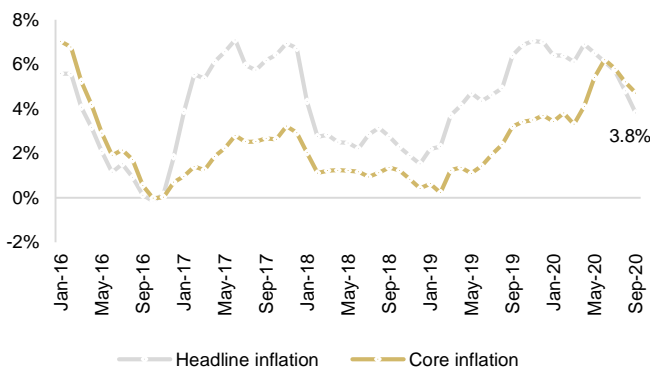
Source: Geostat

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



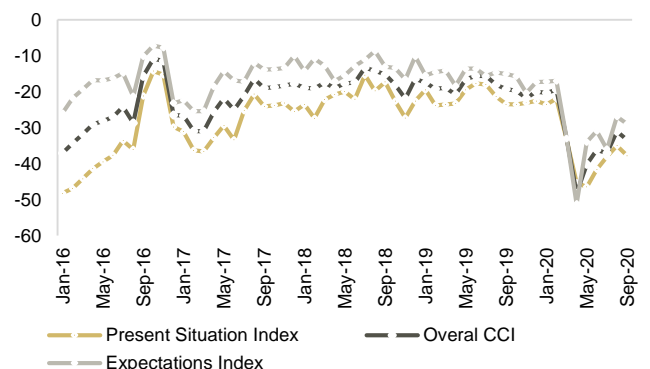
Source: NBG

Figure 3: Annual inflation



Source: Geostat

Figure 4: Consumer confidence index, monthly



Source: ISET Policy Institute



Mortgage market – subsidy boosted issuance

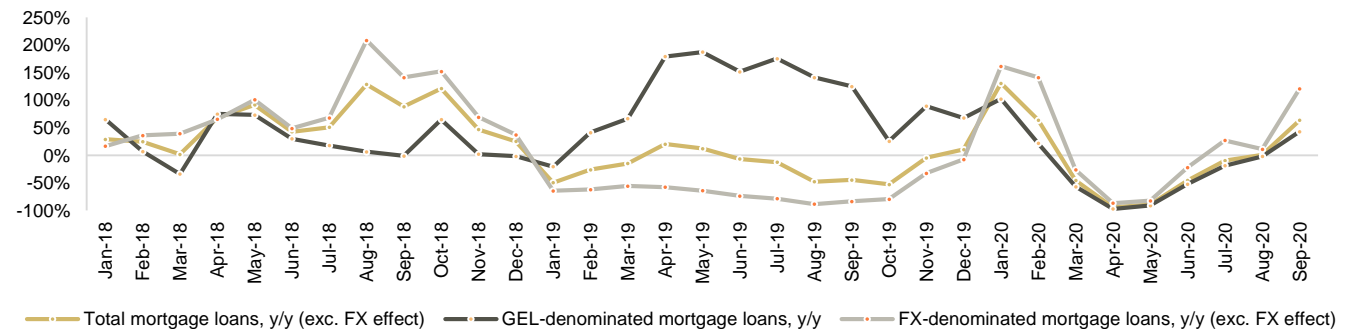
In 3Q20, mortgage issuance spiked sharply amid subsidy scheme and recovering economy.

Reduced mortgages in 2Q20 was driven by lockdown accompanying by sharply increasing interest rates as markets priced in increased risks. Importantly, economic stabilization signs and government subsidy scheme drove GEL interest rates down in 3Q20 to 11.2% (-2.2ppts vs 2Q20), while FX interest rates was slightly up to 5.7% (+0.5ppts vs 2Q20).

Issuance of new mortgages sharply increased in September-20 to GEL 437mn (+63.9% y/y excl. FX effect) after minor increase in August-20 (+0.8% y/y, GEL 245mn) and reduction in July-20 (-9.3% y/y, GEL 270mn). In September, GEL-denominated loans accounted for 62% of total (+43.1% y/y), and FX-denominated loans also increased strongly (+121.0% y/y excl. FX effect).

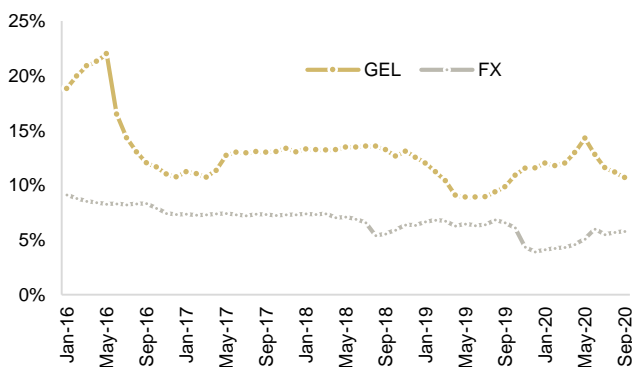
We expect demand on mortgages to be supported in 4Q20 by government's 4% interest rate subsidy scheme, which expires at end 2020 on the one hand. On the other hand, demand may be hampered by rising COVID cases and GEL depreciation. Notably, share of mortgage-financed apartment sales jumped to 44% - highest since mortgage regulations became effective in Jan-19 (23% in 2Q20 and 31% in 3Q19).

Figure 5: Mortgage issuance, y/y growth



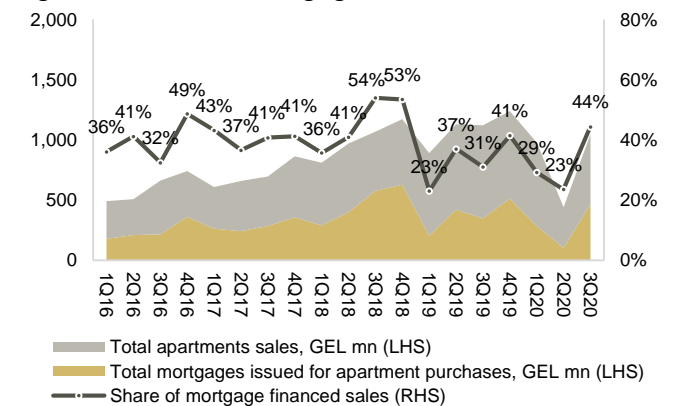
Source: NBG, Galt & Taggart Research

Figure 6: Mortgage interest rates, monthly



Source: NBG

Figure 7: Share of mortgages in total sales, Tbilisi



Source: NBG, Galt & Taggart Research



Residential sales – growth in September

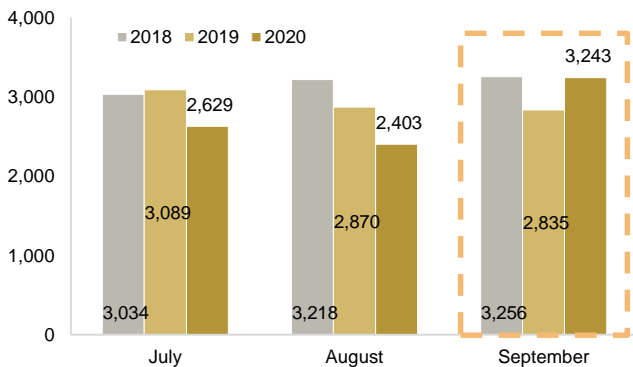
Apartment sales were up 14% y/y in September, for the first time since February.

After apartment sales contracted in July (-14.9% y/y) and August (-16.3% y/y), sales were up in September (+14.4% y/y) for the first time since Feb-20. Sales were boosted by ongoing economic recovery and 4% mortgage interest rate subsidy scheme for new apartments, which became effective from July 2020 and accelerated in September. In particular, new apartment sales were up 20.3% y/y in September, after 18.4% y/y decline in July-August.

Suburban districts continued to dominate sales in 3Q20 as mortgage subsidy scheme mostly supported budget/economy segment. As a result, the 4 suburban areas – Gldani, Samgori, Isani, Didi Dighomi – accounted for 56.1% of total residential sales in 3Q20 vs 52.0% in 3Q19.

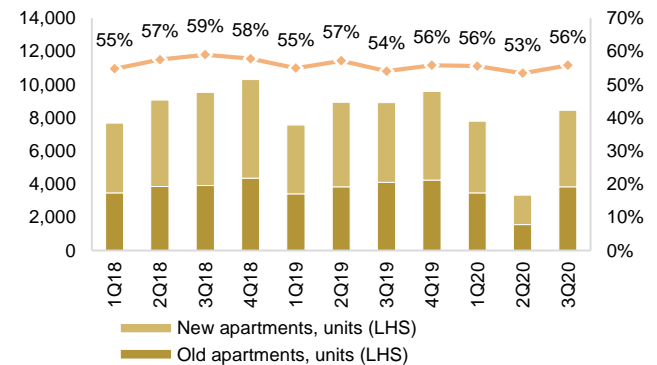
We expect that mortgage subsidies to further support suburban sales in 4Q20.

Figure 8: Apartment sales in Tbilisi, 3Q (units)



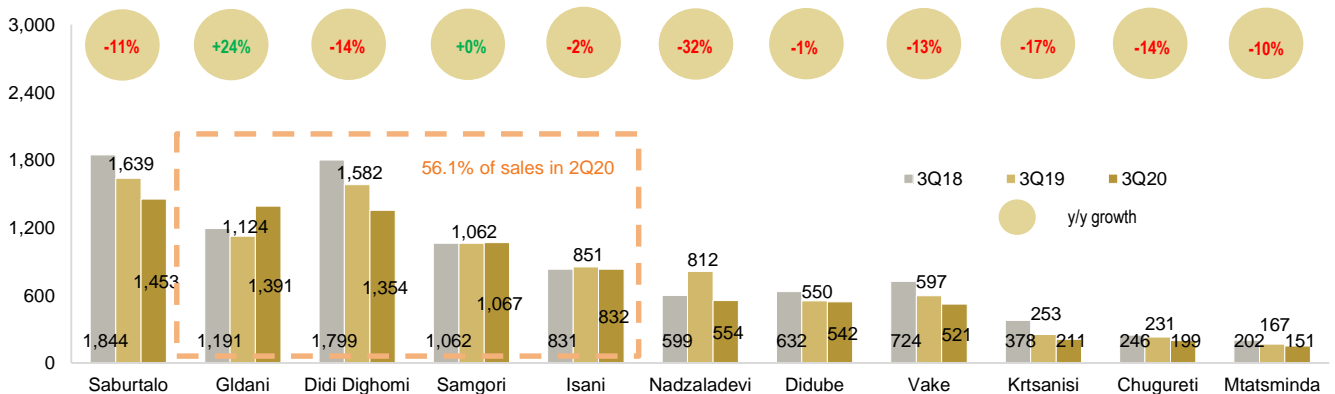
Source: NAPR, BoG, Galt & Taggart Research
Note: sales may include residential houses, but share is negligible

Figure 9: Apartment sales by type in Tbilisi



Source: NAPR, BoG, Galt & Taggart Research
Note: sales may include residential houses, but share is negligible

Figure 10: Apartment sales by district in Tbilisi, 3Q (units)



Source: NAPR, BoG, Galt & Taggart Research
Note: sales may include residential houses, but share is negligible



Residential prices – resilient amid pandemic

Average prices were slightly down in 3Q20, but likely result of budget/economy segment dominating the sales mix.

New apartment prices were down in July (-8.6% y/y) and reduction eased in August (-7.6% y/y) and September (-5.9% y/y). However, price reduction was most likely driven by dominance of economy apartments in total transaction mix rather than market price correction.

Price volatility was higher in central districts, while remained relatively stable in suburbs in 3Q20. Weighted average selling prices posted the following trend in 3Q20:

- Saburtalo at US\$ 748 (-8% y/y)
- Didube at US\$ 681 (+2% y/y)
- Isani at US\$ 593 (+3% y/y)
- Didi Dighomi at US\$ 554 (-1% y/y)
- Gldani at US\$ 539 (+5% y/y)

Figure 11: Selling price index, new apartments

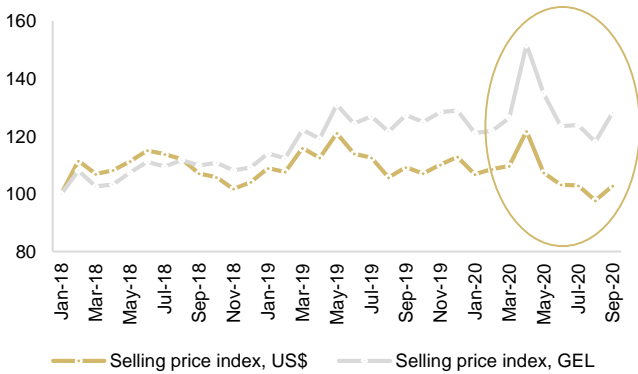
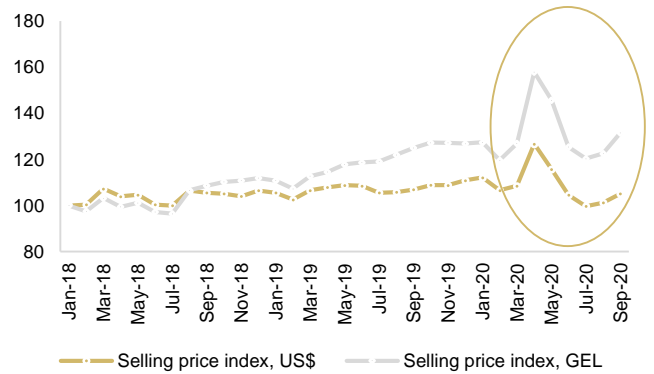


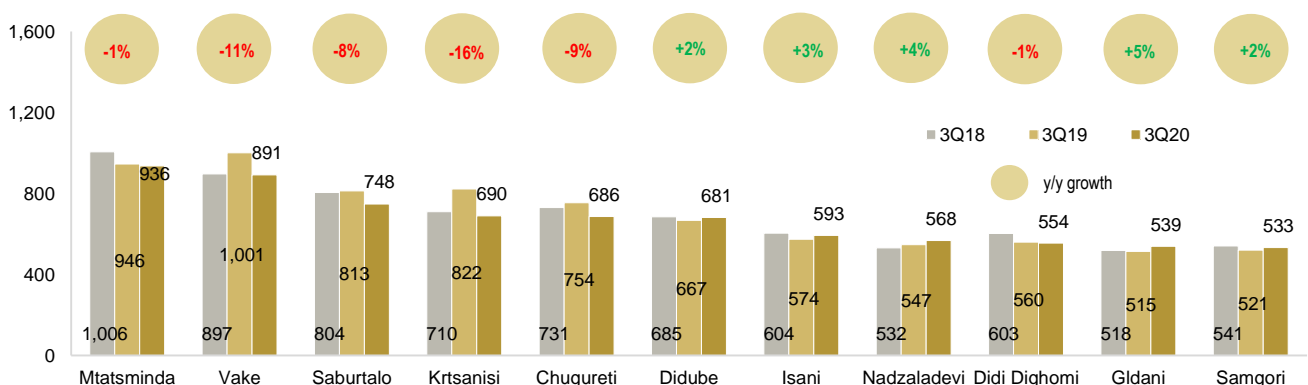
Figure 12: Selling price index, old apartments



Source: NAPR, BoG, Galt & Taggart Research
Note: Price spike in April-20 was one-off due to small sample dominated by premium transactions

Source: NAPR, BoG, Galt & Taggart Research
Note: Price spike in April-20 was one-off due to small sample dominated by premium transactions

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 slightly changed in 3Q20, with decreased demand on premium segment.

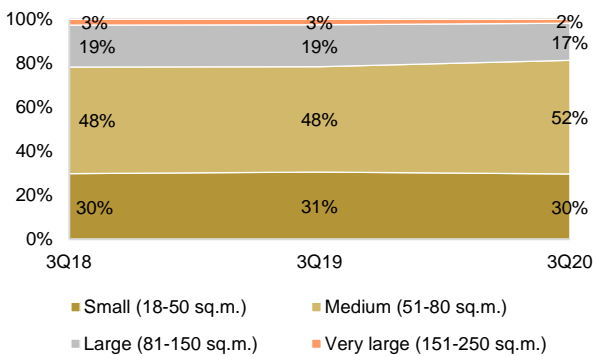
In new apartment segment, medium-sized apartment (51-80 m²) sales were most prevalent – 52% of total sales in 3Q20 up from 48% in 3Q19 – effect of subsidy scheme limits.

In old apartment segment, small-sized apartment (18-50 m²) sales were most prevalent. Importantly, 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. 55% of total number of apartments sold were in the low-price segment (54% in 3Q19), while the premium segment accounted for only 8% of total in 2Q20 (13% in 3Q19).

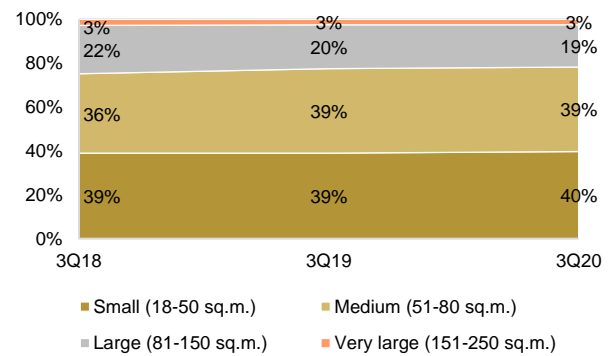
Demand was high on medium-sized apartments (51-80 m²) in all districts of Tbilisi, except central districts (Mtatsminda and Vake), where large-sized flats dominated the sales.

Figure 14: New apartment sales by size in Tbilisi



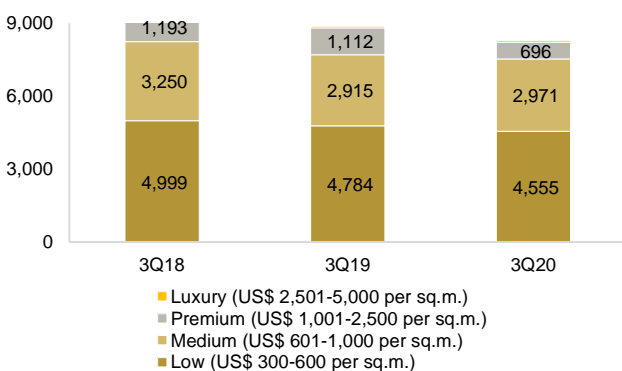
Source: NAPR, BoG, Galt & Taggart Research

Figure 15: Old apartment sales by size in Tbilisi



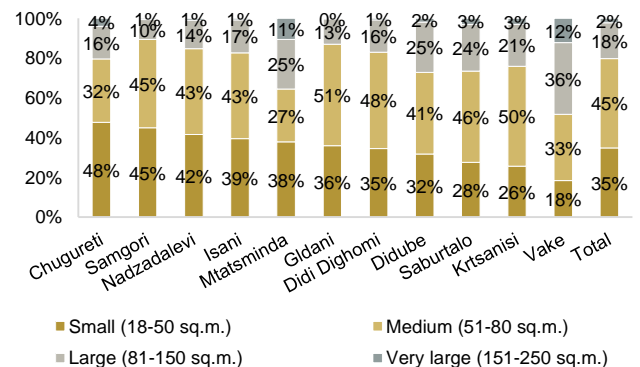
Source: NAPR, BoG, Galt & Taggart Research

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



Source: NAPR, BoG, Galt & Taggart Research

Figure 17: Apartment sales by size and district in Tbilisi, 3Q20



Source: NAPR, BoG, Galt & Taggart Research



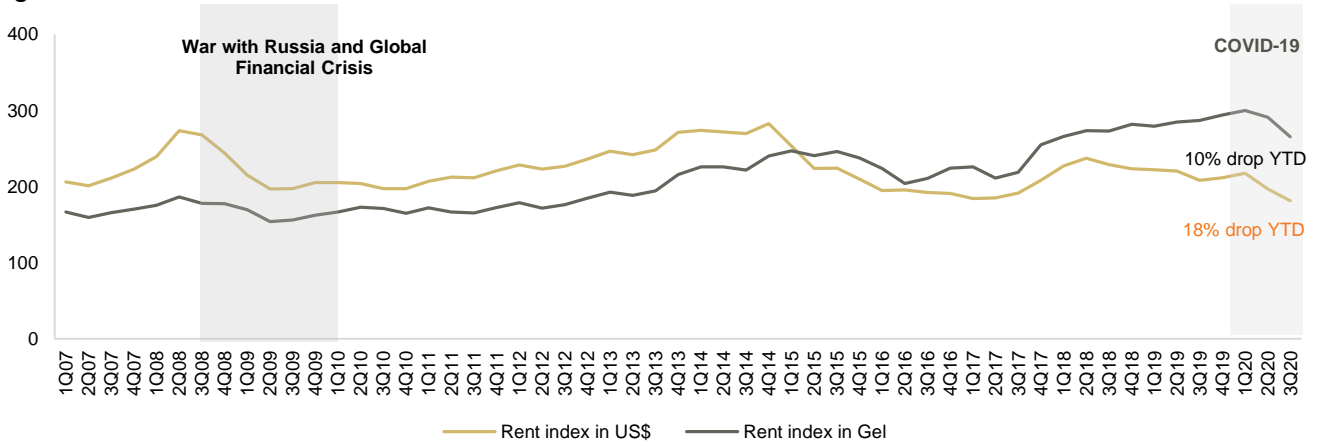
Rents at 13 year low

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

Real estate rent index in US\$ was down 18% YTD in 3Q20 to 13 year low, while residential real estate price index in US\$ were more stable down just 6% YTD. Decline of rental rates can be explained by nonexistent tourism and reduced demand from students because of online learning at universities. Therefore, rental yields are on the decline – rental yield was down to record low 7.7% in 3Q20 from 8.9% in 3Q19. We expect gradual growth in rental yields, as tourists will return and economy rebounds.

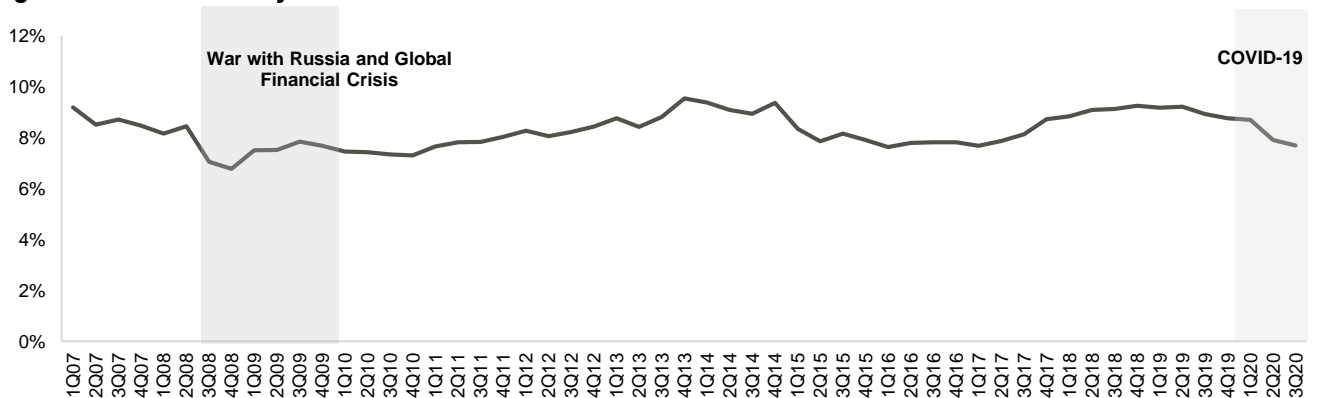
We expect apartment sales to moderate in 4Q20, from September 2020 highs, as rising COVID cases and GEL depreciation may weigh on house buying decision.

Figure 18: Real estate rent index



Source: NBG, Galt & Taggart Research

Figure 19: Real estate yields



Source: NBG, Galt & Taggart Research



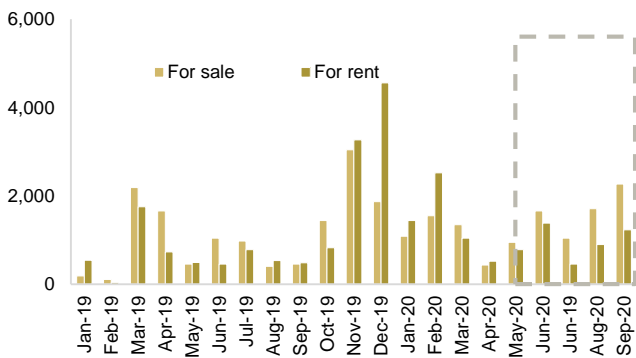
Area.ge – rental investors adapting

Rental investors started to decrease prices, adapting to new reality.

Almost 7% (3,294 in total) of listings reviewed pricing policy since March 2020 on Area.ge – pricing policy was mostly reviewed by rental investors. Average rental price per sq.m. of listed apartments on Area.ge was down to US\$ 6.8 in September 2020 (from US\$ 10.6 in February 2020).

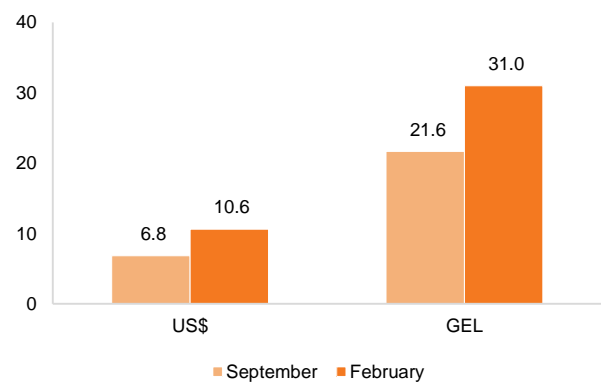
New listings published for sale and for rent gradually recovered since May, after plummeting in March and April of 2020.

Figure 20: New listings on Area.ge, monthly



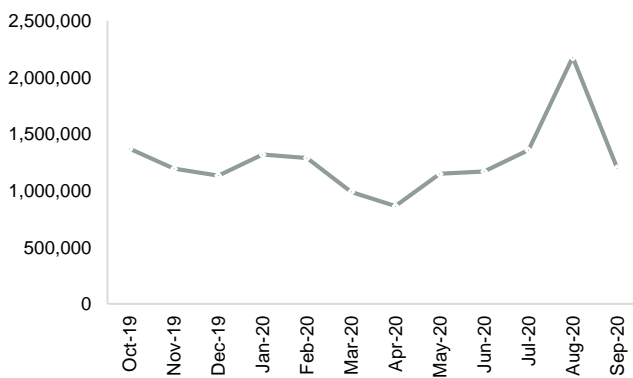
Source: Area.ge, Galt & Taggart Research

Figure 21: Average rental price per sq.m. on Area.ge



Source: Area.ge, Galt & Taggart Research

Figure 22: Monthly visits of real estate websites



Source: SimilarWeb



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