

The Residential Market *at a glance*

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OVERVIEW

Tbilisi residential market has been growing at a steady pace over the last decade, however, the recent changes in mortgage legislation have created a climate of uncertainty and fear. How is the market fearing a year on?

In this publication we review the residential sales dynamics with a special focus on the post-regulation market recovery. Additionally, we review the residential rental market in Tbilisi and assess its investment potential as opposed to that of the commercial leasing sector.

THE REGULATORY SHOCK

2019 was a pivotal year for the residential market. Issuance of new regulations affected mortgage availability which represents a measure of the primary purchasing power of the Georgian clientele. Primarily, the regulations entailed a more robust assessment of creditworthiness, alleviation of the debt service burden on customer earnings as well as significant steps against the “dollarization”.

Tightening of the credit conditions contributed to the slowdown in mortgage lending however pessimistic expectations of the market turned out to be more detrimental to the mortgage lending growth rate than the actual regulations.

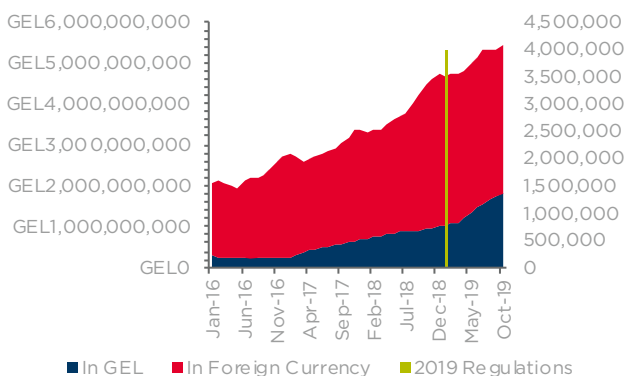


Chart 1. Mortgage Lending Historic Dynamics
Source: NBG

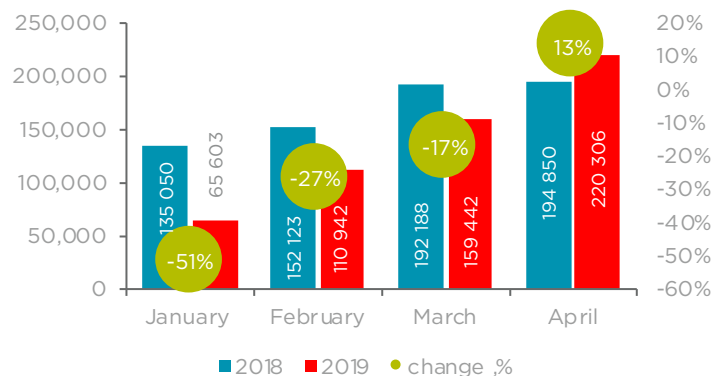


Chart 2. Mortgage Lending Dynamics, 2018 vs 2019
Source: NBG

Mortgage lending showed the greatest drop in the first quarter of 2019. As seen on the chart above the volume of mortgage issued - especially in the foreign currency - plateaued in this period. However, by April the diversity of offerings from commercial banks boosted the mortgage growth by 13%.

A detailed look at the dynamics of the first four months of 2019 shows that mortgages dropped in January, February and March 2019 by 51%, 27% and 17% respectively. Starting in April the growth has shown stable recovery in loans taken out in both local and foreign currencies.

RESIDENTIAL SALES AND PRICES

Over the last decade the residential market in Tbilisi has grown at a stable pace. An estimate suggests that the total livable area in Tbilisi has exceeded 21 mln square meters. Home ownership is more prevalent in Georgia than in other comparable locations. With growing urbanization the long-term rental market has burgeoned. In this context, houses and apartments are residential units as much as profitable investments. Recent introduction of AirBnB has further underlined the long-term potential of homeownership as a business.

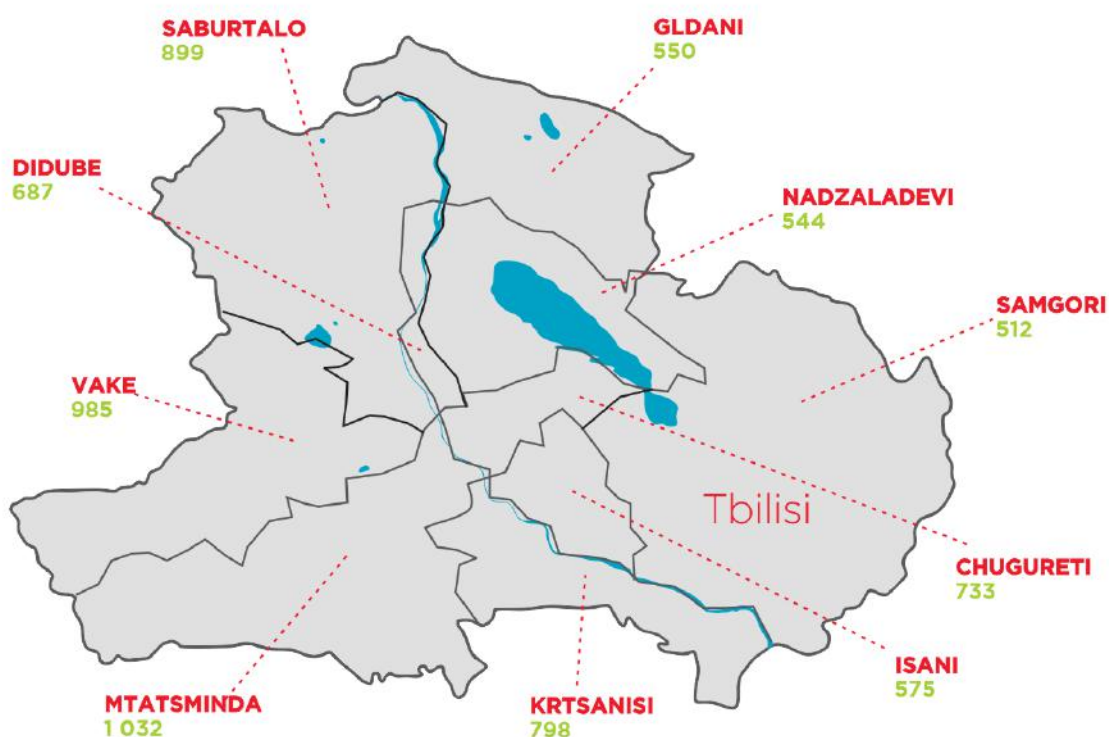
These are just one of the reasons for the prevalent residential boom. Another important consideration is the gradual reduction in household sizes as young people increasingly choose to move out of their parents' homes at an earlier age.

Demand is demonstrated most clearly in the residential unit sales dynamics. Total area transacted between 2009 and 2019 has reached 13 million square meters. On average, more than 1.7 million square meters of residential housing were sold annually. The total value of transactions is just shy of USD 7.7 bln.

Naturally, with growing demand, prices of the residential real estate have also increased at an average annual rate of 7%. Some districts have experienced greater boost than others. Prices at Mtatsminda have almost doubled due to its overall desirability as well as due to the perpetually shrinking stock. As the district with the highest number of cultural heritage monuments, Mtatsminda cannot accommodate the same volume of new construction that other districts can. Saburtalo has experienced the highest growth in new construction driven in large part by the new developments in Dighomi. Prices here are also some of the highest.

Central districts tend to be priced highest. Average price per square meter in Mtatsminda stood at \$1,032 in 2019 followed by Vake at \$985 and Saburtalo at \$899. Samgori has had the most impressive price gain of 30% over the last decade. The map below demonstrates the comparative cross-section of residential property pricing in Tbilisi districts in 2019.

Map 1. Average Sales Price USD, Residential Units, Tbilisi 2019
Source: NAPR



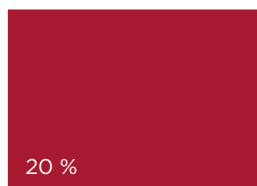
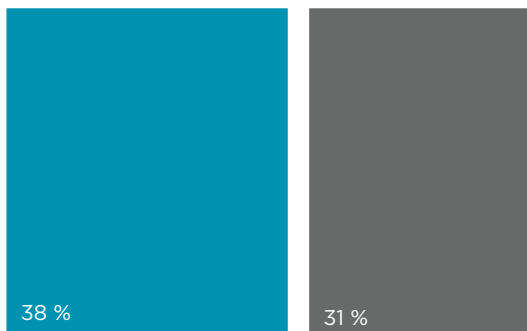
THE BUYER PREFERENCES

Smaller apartments in Tbilisi are in greater demand: 69% of all transactions made in 2019 involved apartments sized 70m² and below.

Demand on apartments decreases proportionately to their size. This is to be expected – the smaller sized apartments are more convenient for both the younger mover-outs as well as for commercial purposes. The chart to the left illustrates the sizing preferences of the 2019 buyers.

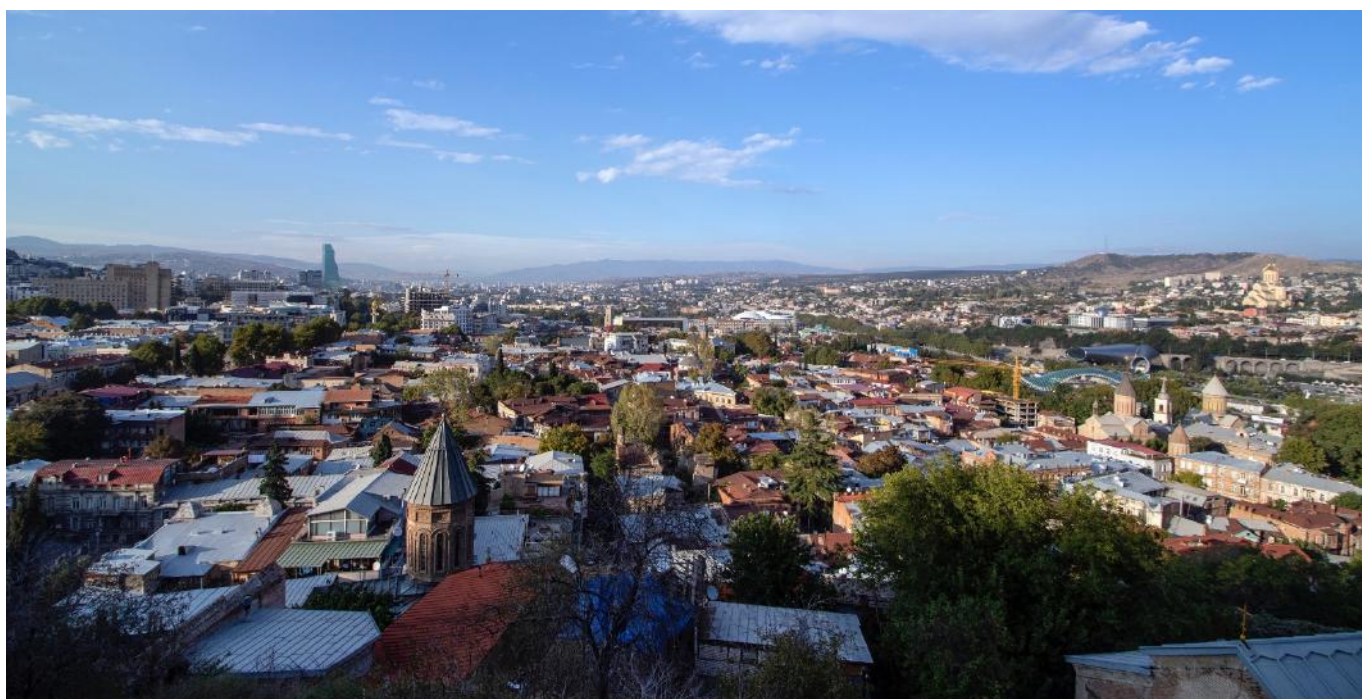
In terms of location, one could say that the traditionally active and popular districts are still in vogue. Saburtalo seems to supply the most attractive properties on the market; it has been the leader in the residential sales category for the last 10 years. Again, we attribute this in major part to the development, expansion and popularization of Dighomi.

Vake is the second most popular location followed by Gldani and Samgori. For the latter two, low price point should be credited for their overall attractiveness. The lowest share of sales registered in Mtatsminda as this district offers the fewest sellable options. This in itself determines the highest price on available apartments.



- <50
- 51 - 70
- 71 - 100
- 101 - 150
- 151 - 200
- 200 - 600
- >600

Chart 3. Sizing Preferences of Tbilisi Residential Buyers
Source: NAPR



Residential Rental Market

As the young people graduate from schools, they are increasingly delaying marriage, kids and mortgages – decisions that were seen as a rite of passage into adulthood for previous generations. Instead, the youth is flocking to cities in record numbers in pursuit of career opportunities and a better lifestyle. As a result of this urbanization and Westernization demand for apartments has increased.

The most expensive district to rent an apartment in is Mtatsminda with the maximum price per square meter of \$17.33. Krtsanisi follows with the upper limit of \$13.17 and Vake with \$12.80. In terms of modality, the highest modal rent rate can be found in Vake; In Mtatsminda and Saburtalo modal rates are \$6.00 and \$4.76. Conversely, Gldani and Samgori tend to be the cheaper regions for renting the residential real estate.

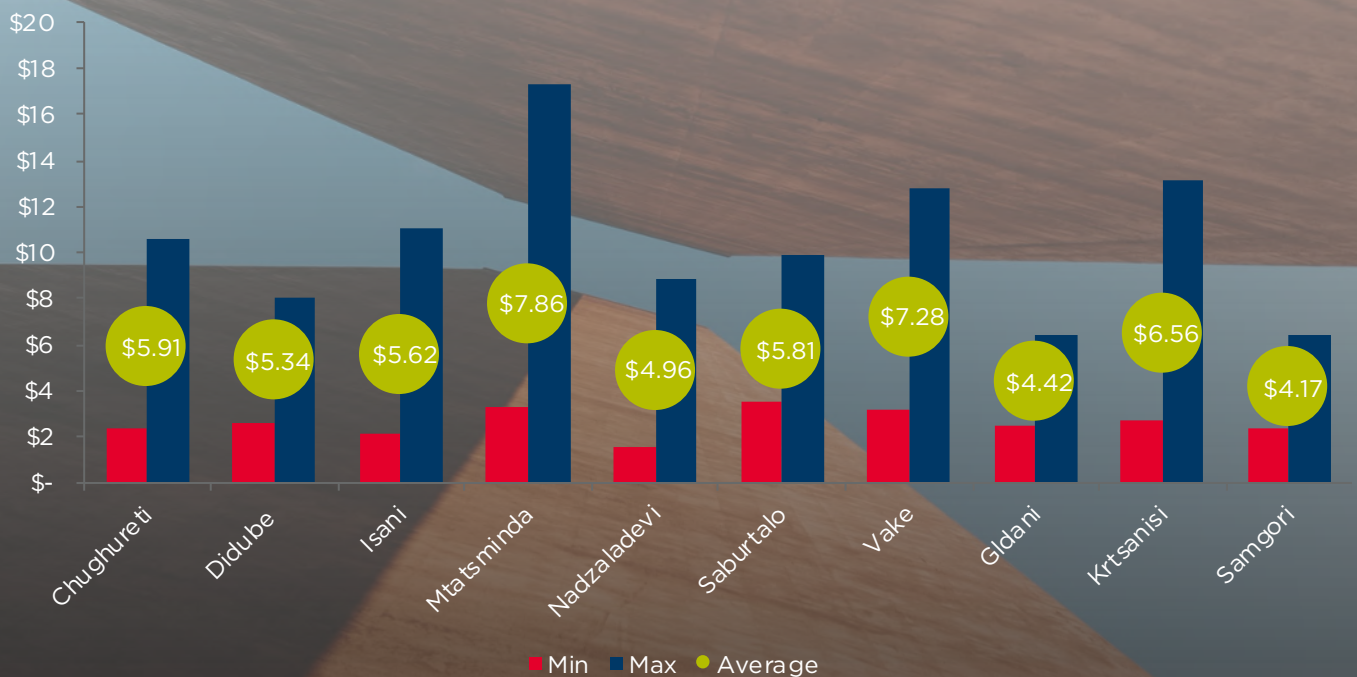


Chart 4. Rental Rates on Residential Units in Tbilisi Districts, 2019
Source: Cushman & Wakefield Georgia

In the last decades supply and subsequently the demand on the renovated apartments has increased. The renters prefer the renovated flats. Maturity of the market is further expressed by the rising demand on furnished options. 90% of the flats that are up for rent have been recently renovated; 88% of them are fully furnished. Additionally, 68% come with a parking spot.

Average size of flats up for rent is 72.66m². The largest rentals are located in Vake, where average rental flat size is 100.50m². Rentable options in Mtatsminda and Krtsanisi are also quite large. Conversely, the smallest options are located in Gldani with an average rentable flat size of 55.43m².

Most popular flats tend to have an average of 1.57 rooms meaning that one bedroom and/or studio flats are in high demand/supply.

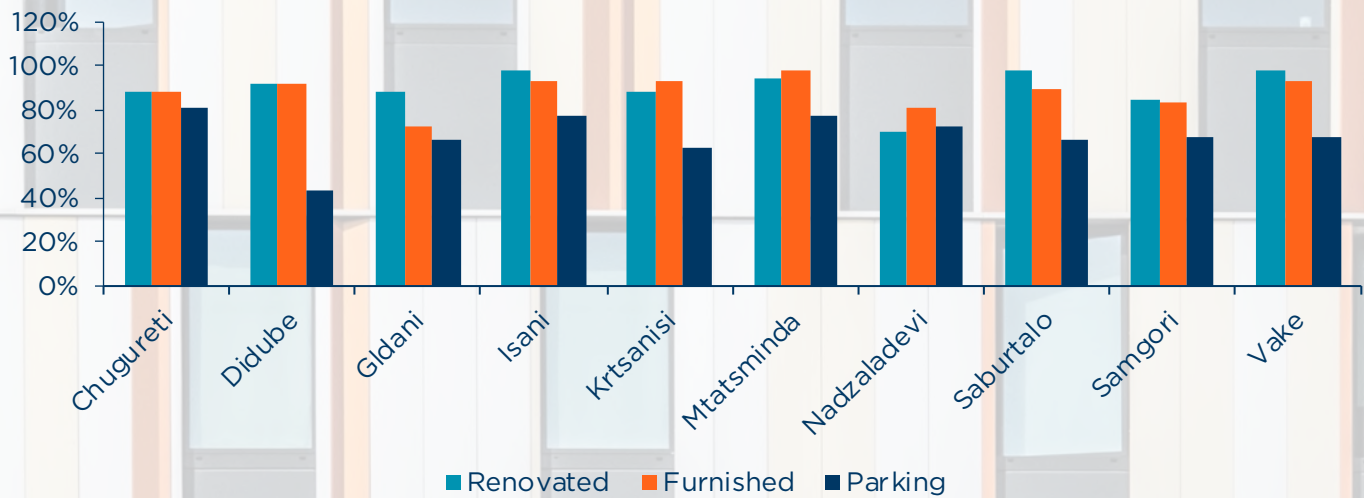


Chart 5. Condition of Rental Units by District, 2019
Source: Cushman & Wakefield Georgia

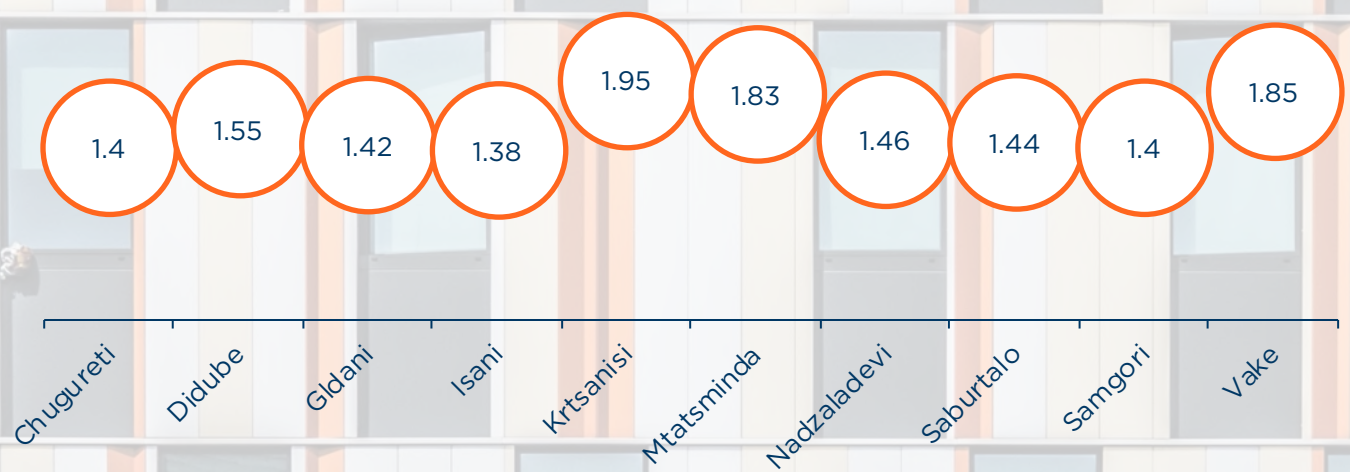


Chart 6. Average Number of Bedrooms in Rentals by District, 2019
Source: Cushman & Wakefield Georgia

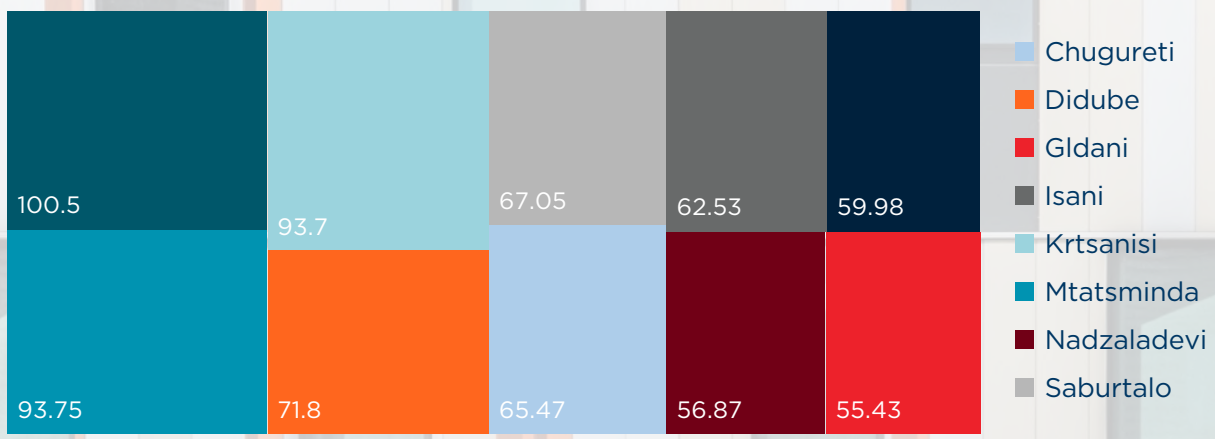


Chart 7. Average Flat Size (m²) by District, 2019
Source: Cushman & Wakefield Georgia

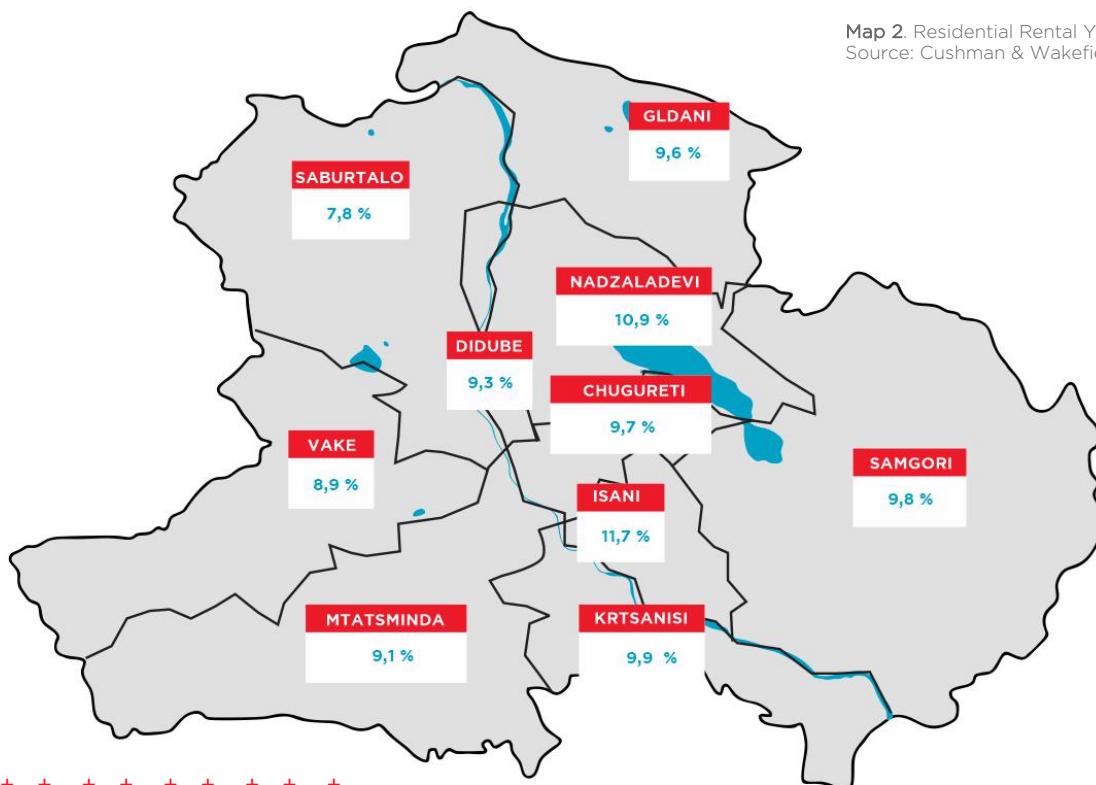
Residential Rental Yields



A home in a good location is usually a solid long-term investment. Real estate agents often advise clients to buy the ‘worst’ house on the best block. This is because fixing up a home in a great neighborhood will give you the best return on investment (ROI) as well as a desirable resale value down the road.

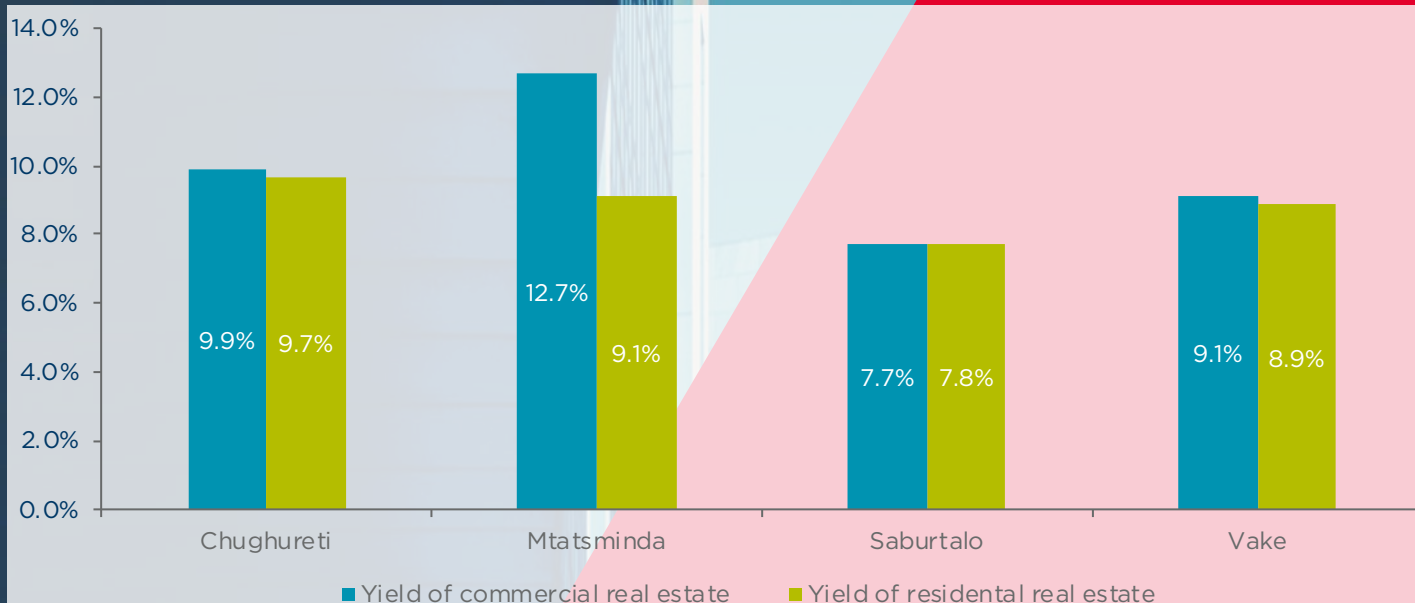
Isani has emerged as the most profitable district for residential real estate investments. Sales price per square meter is significantly lower than those in other neighborhoods while average rent rate stands at \$5.62. Rental yield for Isani is 11.7% - the highest in Tbilisi. Residential rental yields in Nadzaladevi and Krtsanisi are 10.9% and 9.9% respectively. Saburtalo is lagging due to high investment value and relatively low rental rate – perhaps due to high competition. The map below details residential rental yields in Tbilisi districts.

Map 2. Residential Rental Yields
Source: Cushman & Wakefield Georgia



Commercial vs Residential: Where To Invest?

Investors considering investing in real estate need to consider their tolerance to risk, long-term goals, the time they are ready to commit to the project as well as the amount of capital available. In view of this, one may ask: "Is there an obvious winner between residential and commercial real estate?" We have looked at the commercial rental yields in Chughureti, Mtatsminda, Saburtalo and Vake – central and some of the most commercially active districts in the city – and compared them to the residential rental yields. Commercial yields are marginally higher in Chughureti and Vake; in Saburtalo residential rental yield is actually slightly higher than commercial rental yield. Mtatsminda, however, is where we have the highest difference: as the primary tourist and commercial district, Mtatsminda generates 12.7% in commercial rental yields as opposed to 9.1% residential rental yield percentage. The chart below illustrates the difference.



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