TBC CAPITAL

RESIDENTIAL REAL ESTATE: REGIONAL FOCUS

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Monthly Watch

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IN BRIEF

Demographic factors (urbanization, declining family size and immigration) together with high mortgage activity have been the main drivers of demand on RRE in Georgia during the last years. At the same time, the dynamics in population income and USD/GEL exchange rate, have a negative impact on RRE demand by reducing housing affordability in Georgia.

In 2016-2018, the number of transactions of residential properties was rapidly increasing in Tbilisi and Batumi, while smaller cities showed modest performance. In 2019 the activity on RRE market was slowed down by stricter lending regulations and halted in 2020 due to the pandemic. However, in 2021 transactions exceeded the pre-pandemic levels in all cities, except Batumi.

RRE prices were less volatile during the last years and had the upward trend in all cities, except Kobuleti. Prices showed a great resilience during the pandemic as well. Besides the capital, RRE in Batumi and Kobuleti has the highest weighted average sale prices in Georgia. In 2021, these two cities had the largest shares of high-price properties, while in Poti and Zugdidi, the cheaper ones took the majority. The share of high-price segment has been increasing in Kutaisi, Telavi and Rustavi.

The share of small size residential properties in transactions has been increasing in Georgia, which is in line with the decreasing average family size.

The number of residential property transactions in Batumi improved by 32% YoY in Q1 2022. Periphery showed the highest increase in transactions (+48% YoY), while I line – the lowest (+11% YoY).

This trend will continue in the future, as the supply is shifting from the I line to the broader coastal line (Chakvi, Makhinjauri, Gonio). Periphery and Suburbs together accounted for 73% of total residential area approved for construction in 2021, while no permit was issued for construction in I line. The total residential area issued for construction in Batumi in 2021 was at the lowest level since 2013.

The average weighted sale prices declined by 3% YoY in Q1 2022. The highest decrease in prices was observed in I Line (-20% YoY), while Suburbs showed the biggest improvement (+9% YoY). This pattern is explained by the higher share of low-price properties in Q1 2022.

Asking rent price and rental yield more than doubled in the beginning of 2022, reflecting an increased demand stemmed from migrants and gradual recovery in tourism.

We expect the number of transactions and sale prices to increase in 2022 compared to the last year in Tbilisi and Batumi, supported by higher incomes, stable USD/GEL exchange rate, increased demand from non-residents and recovery in tourism.

Rising construction costs will also push RRE prices up. However, together with the declining permit issuance it might have a negative impact on the market activity, especially in 2023 and 2024.

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Introduction

Residential Real Estate (RRE) represents a big portion of people's accumulated wealth. This is particularly true in case of Georgia, where 91.3% of total population and 88.3% of urban population lives in their owned dwelling (Geostat 2021). Compared to other European countries, Georgia has one of the highest house ownership rates, which is significantly higher than EU-27 average of 69.7% (Figure 1).

At the same time, RRE market affects other sectors of the economy and the economic growth in overall. Rising house prices positively affect people's wealth, income (from rent), confidence and equity withdrawal, which then is reflected in increased consumer spending. Also, rising house prices encourage investment and building of new houses, stimulating the growth of construction sector. In addition, RRE has a high importance for the macro-financial stability, as RRE prices directly affect the value of banks' collateral assets, while rent prices affect default rates on mortgages.

FIGURE 1

House ownership rate by country, 2020 (%)

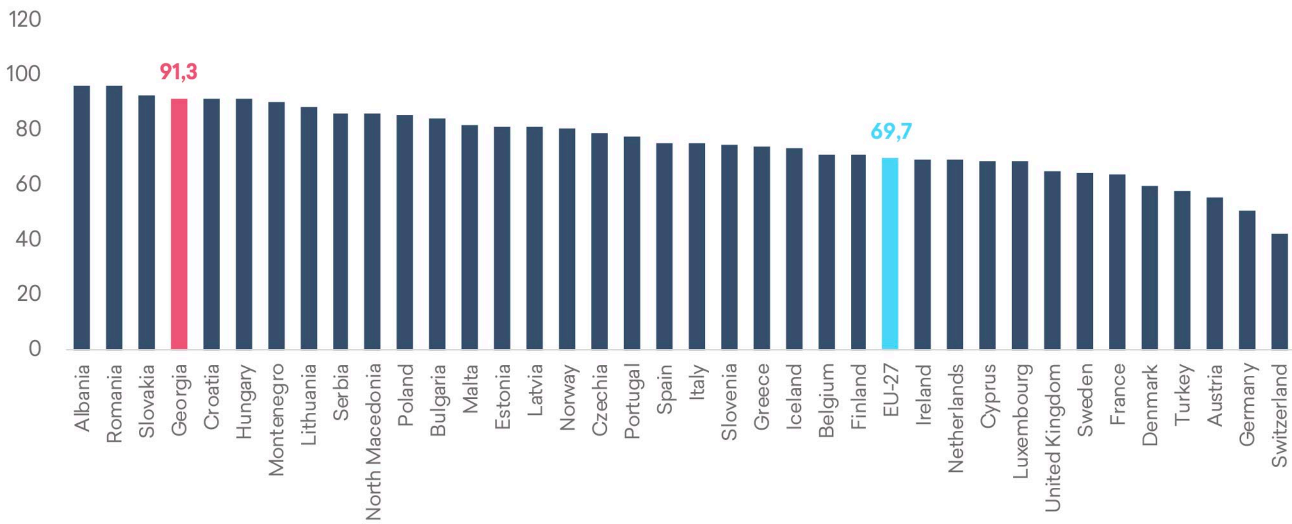
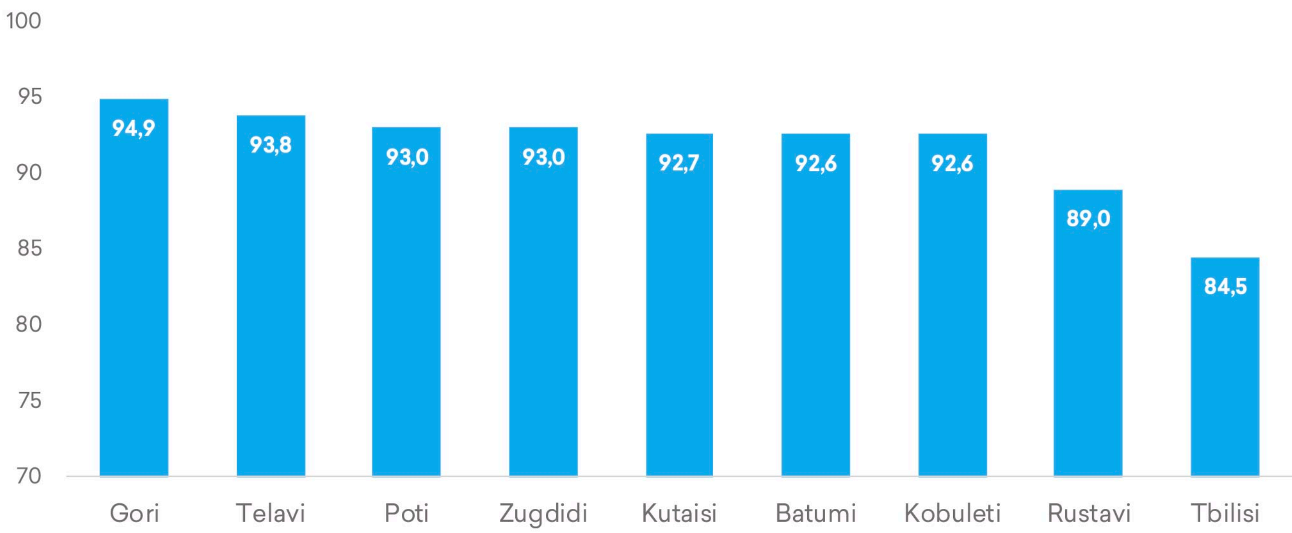


FIGURE 2

House ownership rate by cities, 2020 (%)



Source: Eurostat, Geostat, TBC Capital

Introduction

According to TBC Capital estimates, the RRE market size in Georgia was valued at USD 2.7 bn in 2021, accounting for 14.6% of GDP (Figure 3). Reaching this figure the market not only recovered from the downturn in 2020, but surpassed 2019's level by 10.2%.

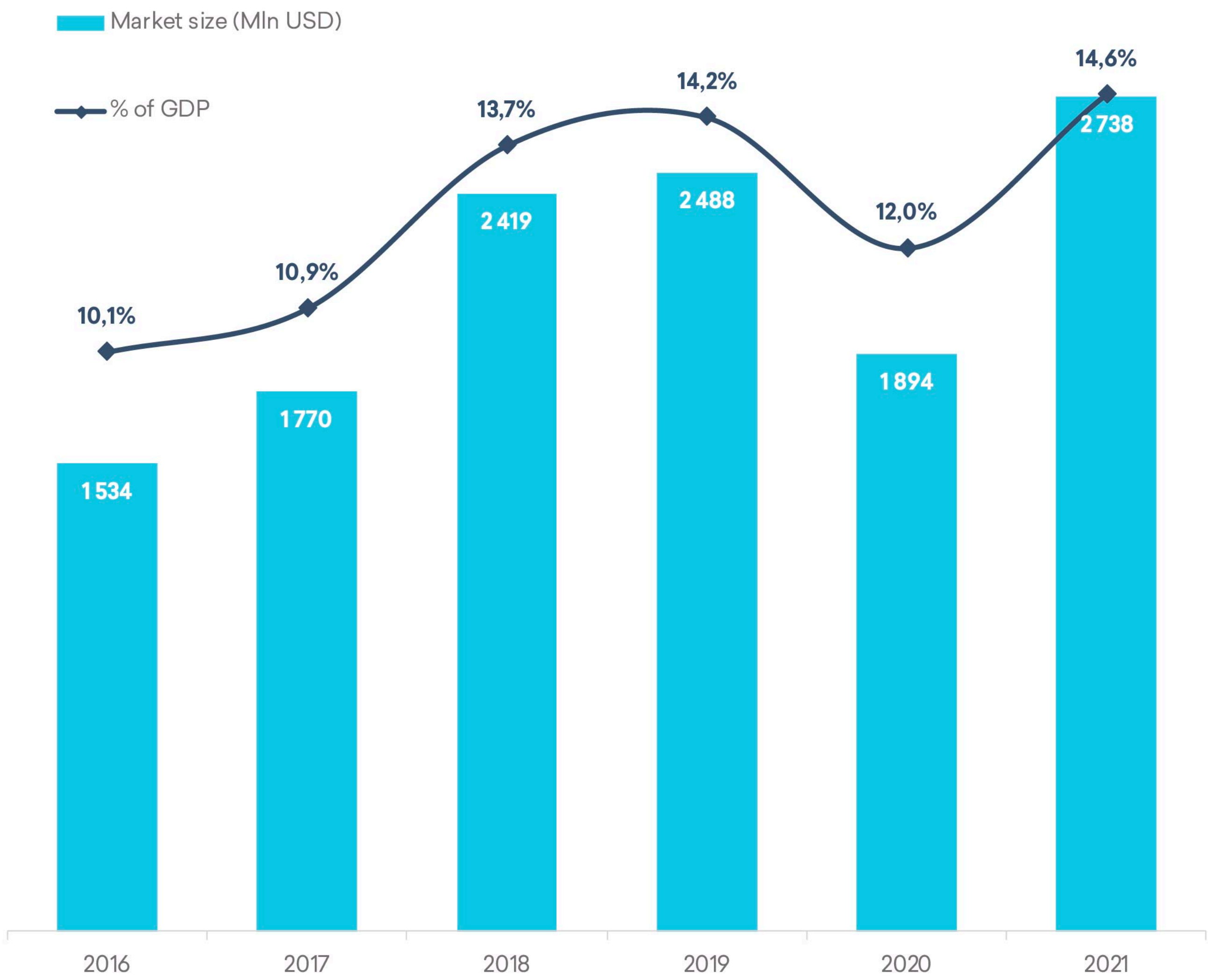
RRE market in Georgia is highly concentrated - Tbilisi accounted for 71.8% of total market in 2021. This figure reflects the distribution of general economic activity in the country: 52.9% of total urban population lives in Tbilisi, while 50.5% of country's GDP is created in the capital city.

Due to its importance, Tbilisi RRE market attracts the highest attention from TBC Capital and other research institutions, which produce the market reports on a regular basis. However, in the current report we focus on the RRE regional markets, specifically in Batumi, Kutaisi, Rustavi, Gori, Zugdidi, Kobuleti, Telavi, and Poti.

First, we assess the main demand- and supply-side drivers of RRE market in these municipalities. Then, we analyze the recent trends of major market indicators and present market projections.

FIGURE 3

RRE market size in Georgia (from 2015, and % of GDP)



Source: NAPR, Myhome, Geostat, TBC Capital

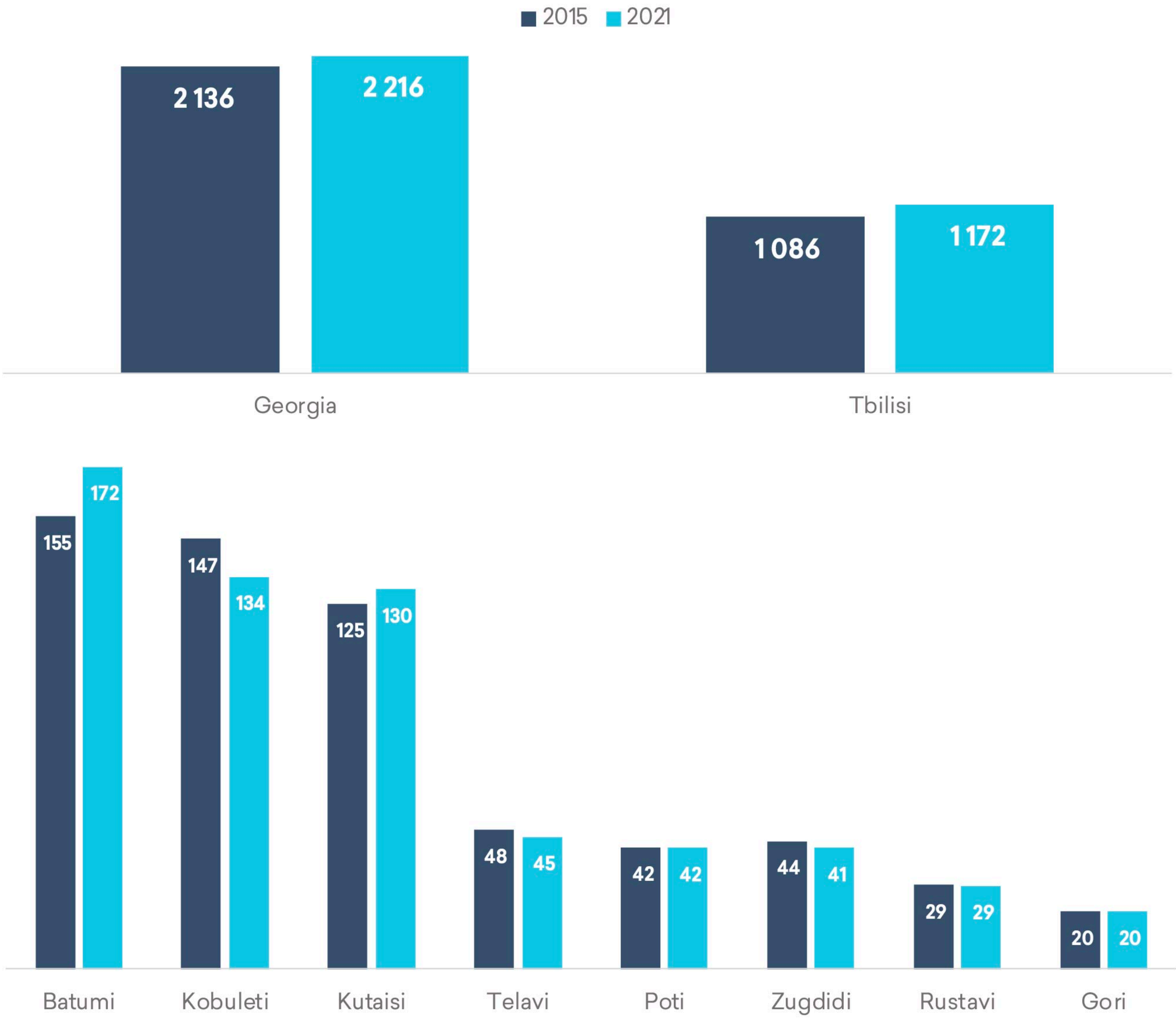
Demand-side Factors: Demographics – population number

Demographics – statistics which describes the changes in number of population, age and gender structure, migration patterns, is one of the determining factors of the demand for real estate. For example, the growth of urban population was the main driver of RRE market growth in China and India during the last 20 years. Another example is transition of „baby boomers“ to retirement (population aging), which significantly influences the demand for vacation or second home in the US for decades to come.

Despite the fact that the number of population in Georgia did not largely change since 2015, some shifts in the demographics are observed. First, migration from rural to urban areas has accelerated. Urbanization increased from 57.4% in 2015 to 59.4% in 2021, resulting in 80 thousand more people living in cities. This dynamics was primarily driven by Tbilisi, while from other large cities only Batumi (+16.9 thousand) and Rustavi (+5.1 thousand) showed a positive population growth in the same period.

FIGURE 4

Number of urban population (000')



Source: Geostat, TBC Capital; Note: Since the scales are significantly different, two graphs are shown in order to represent the data appropriately

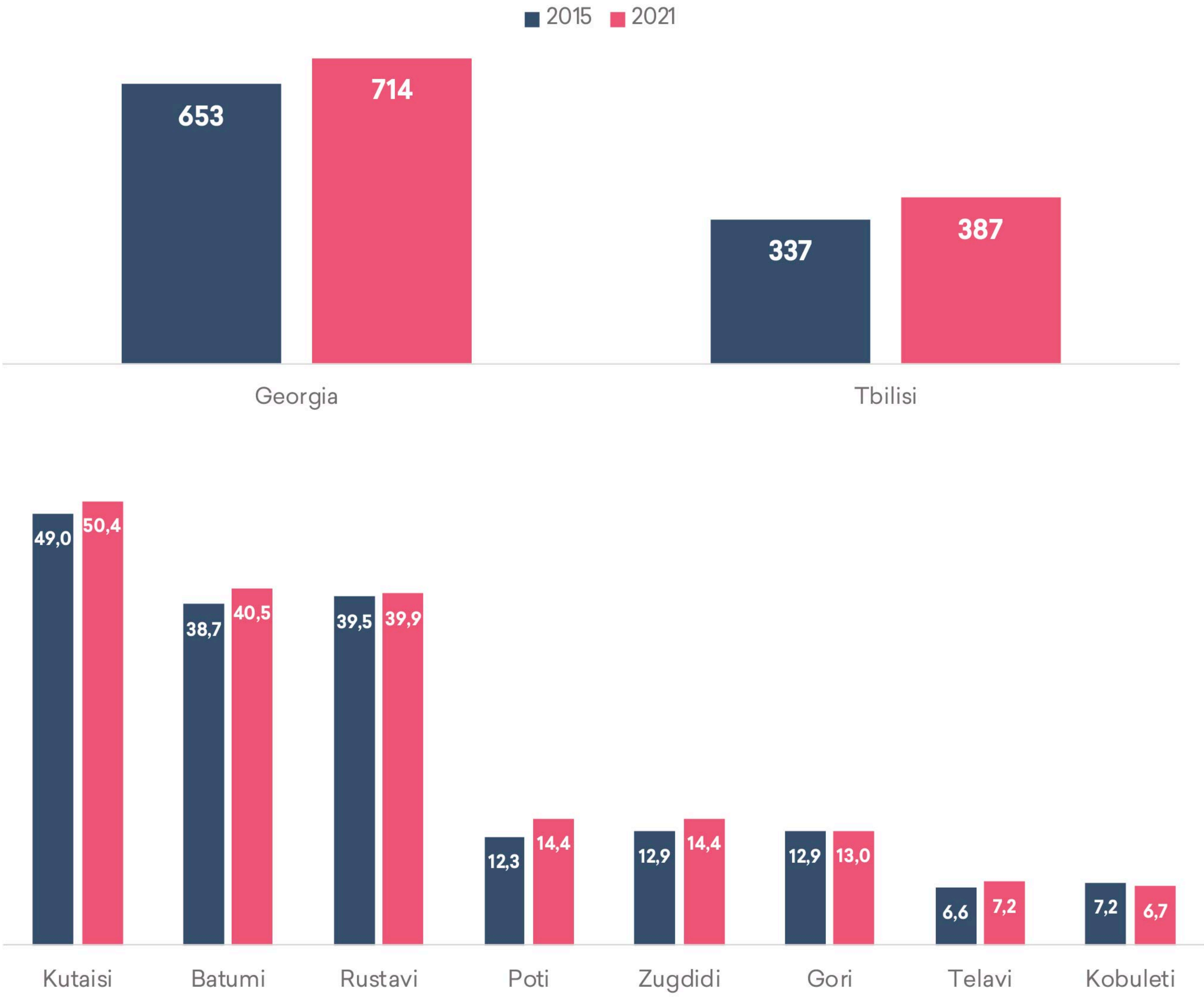
Demand-side Factors: Demographics – number of households

The changes in population number should be analyzed together with the changes in the average household size, as the number of households also is an important factor for RRE demand.

Average household size in Georgia decreased from 3.27 in 2015 to 3.1 in 2021. However, it still stands notably higher than European average of 2.2. The decline in the family size was observed in all regions across Georgia, except Adjara A.R. and Kvemo Kartli. As a result of declining family size, the number of households in urban areas of Georgia increased by 61.8 thousand in 2015-2021, stimulating the demand for housing. Tbilisi accounted for 80.1% of this increase. At the same time, Poti, Batumi, Zugdidi and Kutaisi showed from 1 to 2 thousand increase in the number of households, which is a notable change considering the population and RRE market sizes in these cities. Declining family size also means that the demand should potentially shift towards smaller size residential properties.

FIGURE 5

Number of households in urban areas and change vs 2015 (000')



Source: Geostat; TBC Capital; Note: Since the scales are significantly different, two graphs are shown in order to represent the data appropriately

Demand-side Factors: Demographics – migration

Cross border migration has a crucial role in determining demographic trendsin Georgia. From 2015 to 2021, the total net migration accounted for -42.9 thousand people. It were mainly Georgian citizens who left the country (net migration stood at -126.6 thousand people), while net of 83.6 thousand people of other nationalities migrate to Georgia. The majority of them were from Russia (30.5%), Azerbaijan (10.1%), Turkey (9.8%), Iran (9.5%) and Ukraine (7.2%).

Unfortunately, the cross border migration statistics by regions/municipalities is not available, therefore we can not track the places where non-Georgian immigrants settle down in the country. Presumably, Tbilisi and Batumi are the major cities which accommodate immigrants.

Compared to Georgian citizens, non-Georgian immigrants have stronger impact on the RRE and rental market, as they simply have no other alternatives than buying or renting real estate.

The demand on RRE in Georgia from non-residents had been increasing previously. According to the latest publicly available data the number of cases of the ownership right registration on residential properties increased from 3.7 in 2016 to 11 thousands in 2018. The share of non-residents in total RRE transactions reached 20% in 2018. Citizens of Russia, Iran, Ukraine, Israel and Armenia were the main drivers of non-resident demand for RRE in 2016-2018.

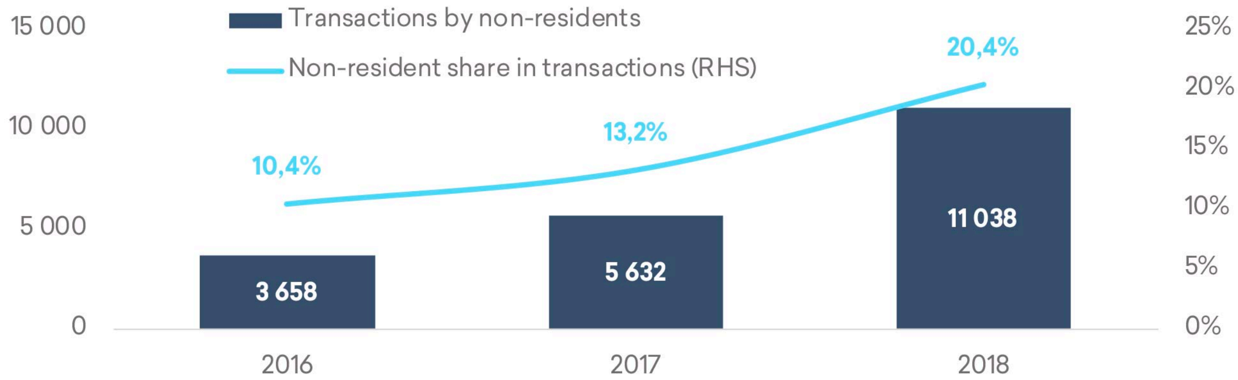
FIGURE 6

Net migration to Georgia by nationalities in 2015-2021

Georgia	Russia	Turkey	Iran	Azerbaijan	India
-126,563	+25,476	+8,195	+7,985	+8,428	+4,275
Ukraine	**Armenia**	**USA**	**China**	**Greece**	**Other**
+5,991	-205	+2,522	+2,440	+1,059	+17,493

FIGURE 7

RRE transactions by non-residents



Source: Geostat, Migration Commission, TBC Capital

Demand-side Factors: Demographics – migration

We assume that non-resident demand slightly weakened in 2019 due to the decline in buyers from Iran (see our publication: Residential Real Estate Sector Analysis). The pandemic also should have negatively affected non-resident demand in 2020 and 2021.

However, the ongoing war in Ukraine stimulates the immigration from Ukraine, Russia and Belarus to Georgia. In March 2022, net inflow (number of border entries minus number of border exits) of Ukrainians, Russians and Belarusians in Georgia, reached 39 thousand people, which was a 10 and 19 times increase compared to March 2021 and 2019 respectively.

Accelerated immigration will initially affect the rental market driving rents and, consequently, rental yields up. Depending on the duration of war this impact might be temporary. However, if current trend in immigration continues, it will have an upward pressure on RRE prices as well.

In April 2022, rent prices in Tbilisi increased by more than 60%, while in Batumi rents more than doubled compared to the same period in 2021.

FIGURE 8

Net border crossing by nationalities, March (number of entries – number of exits) (000')

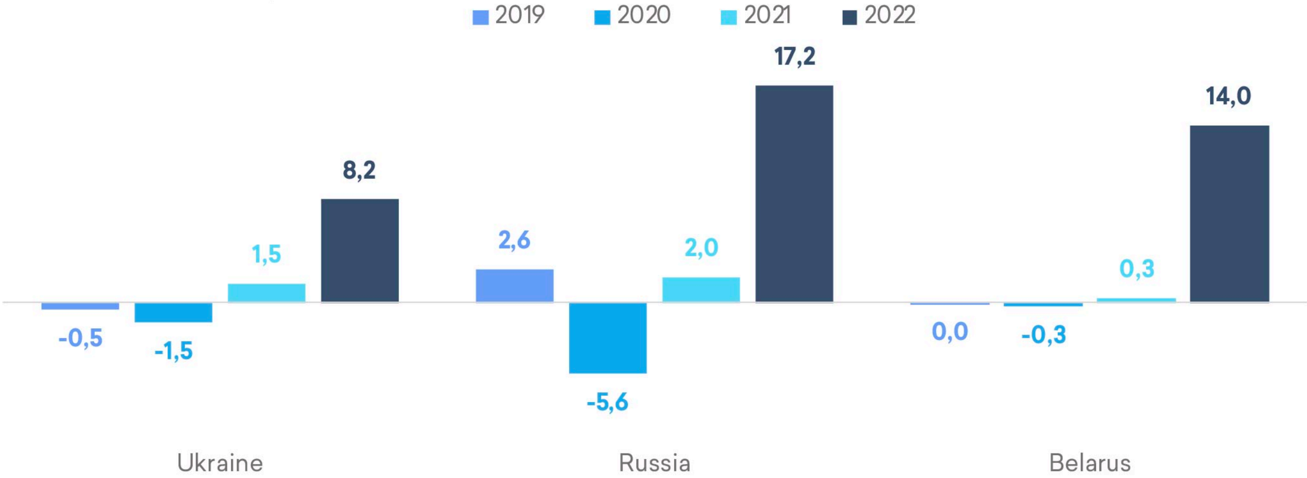
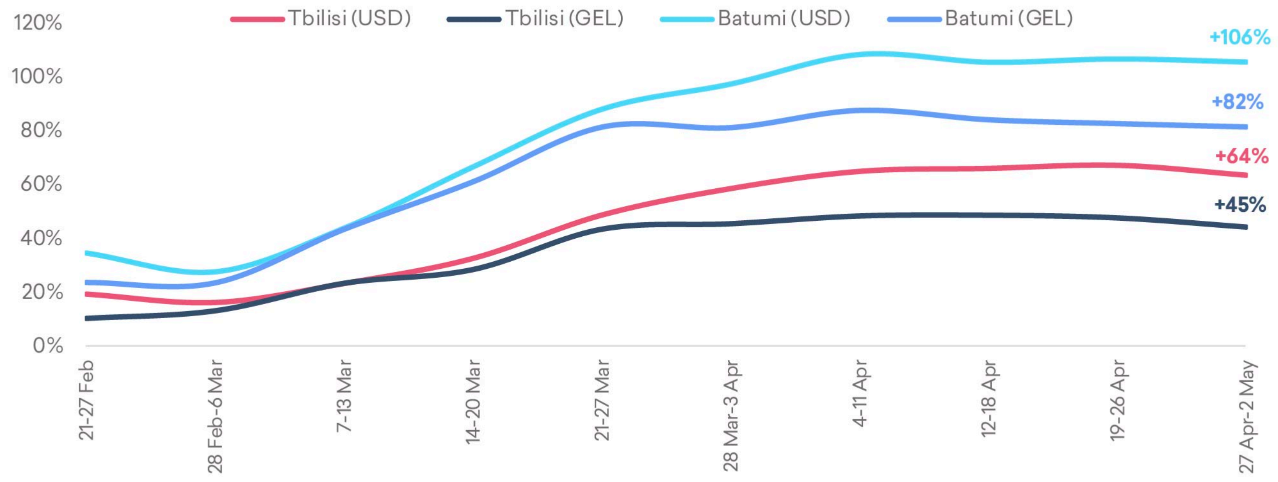


FIGURE 9

Rent prices in Tbilisi and Batumi, 2022 (YoY change, %)



Source: Ministry of Internal Affairs, Myhome, TBC Capital

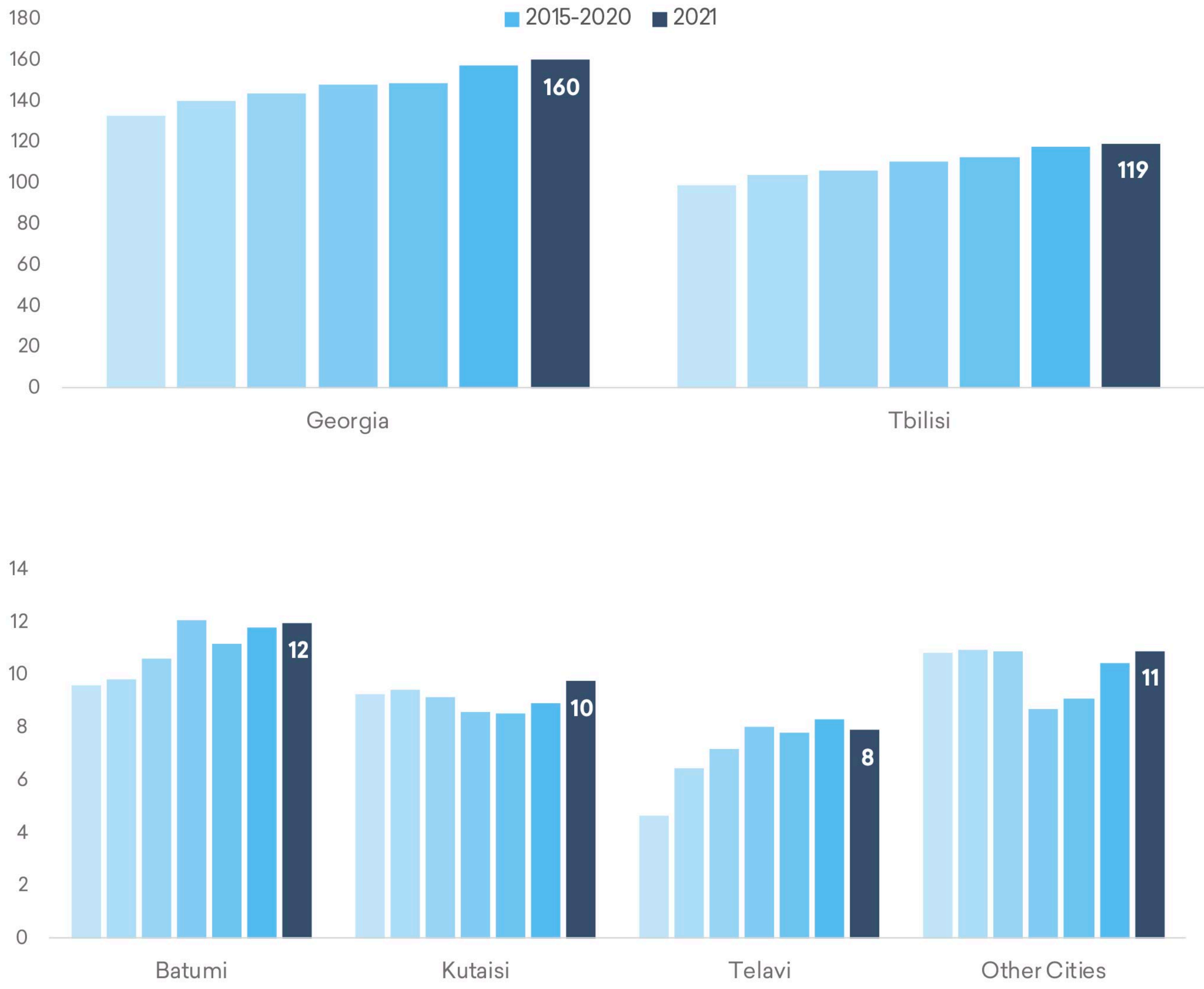
Demand-side Factors: Demographics – student mobility

The students enrolled in universities also affect the demand on residential rental market. From 2015 to 2021 the number of university students has gradually increased from 133 thousand to 160 thousand. 74.7% of students are enrolled in universities located in Tbilisi, 7.5% - in Batumi, 6.1% - in Kutaisi and 4.9% - in Telavi. Therefore, the impact of students on rental housing demand is more pronounced in case of Tbilisi.

COVID-19 and broad adaptation of remote learning practices had a negative impact on demand for off-campus rental housing. This might be one of the reasons behind a sharper decrease in average rent price compared to sale prices in 2020-2021. From the Fall Semester 2022 universities will probably bring back the students to classrooms, which will positively affect the demand for off-campus rental housing. However, the impact on rent prices might be marginal, as rents are already increasing due to high demand from non-residents.

FIGURE 10

Number of students in universities in the beginning of the academic year (000')



Source: Geostat, TBC Capital; Note: Since the scales are significantly different, two graphs are shown in order to represent the data appropriately

Demand-side Factors: Income and housing affordability

Overall economic conditions and consumer confidence are another factors affecting demand for housing. Generally, during the periods of economic growth income of population and their confidence about the future tend to rise, which is then reflected in higher demand for housing.

Georgian economy showed a relatively poor performance in 2015-2021, averaging 3.5% YoY real GDP growth. In 2020 compared to 2015, average monthly salary of hired population increased by 32%, while the average monthly household income increased only by 6.2% in nominal GEL terms. Due to the GEL depreciation against USD, both indicators showed negative growth in USD terms (which is more important when analyzing RRE market in Georgia, as it is typically priced in USD).

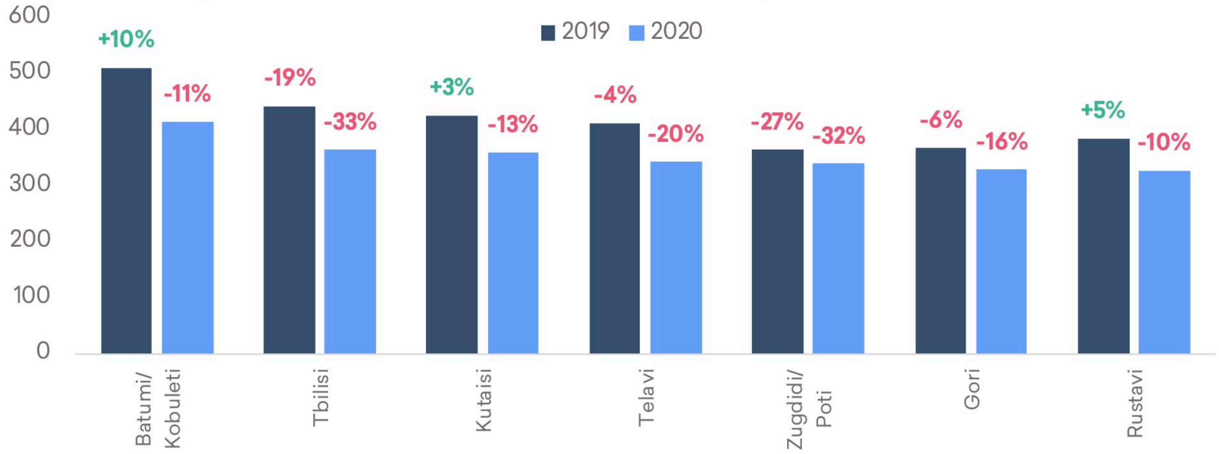
The change in salaries was different across regions. Samtskhe-Javakheti and Kakheti showed the highest growth in 2020 vs 2015, while Tbilisi, Adjara A.R. and Guria were the only regions with negative change in salaries. The average monthly income of households (in USD) decreased by more than 10% in all regions for which the data was available.

FIGURE 11

Average monthly salary (USD) and change vs 2015 (%)

FIGURE 12

Average monthly household income (USD) and change vs 2015 (%)



Source: Geostat, TBC Capital

Demand-side Factors: Income and housing affordability

Existing negative dynamics in population income reduces the affordability of housing and negatively affects housing demand.

Price to income ratio (PIR), which is the basic measure for housing affordability, significantly differs across cities. We calculated PIR as the ratio of an average price of residential property (65 SQM) to average annual household income. In other words, PIR shows the number of years that a household needs to purchase a property (lower is better).

Housing affordability decreased in all cities, except Kobuleti, where the decrease in average household income was accompanied by the similar decrease in housing prices. In other cities, households now need to work on average by 1.8 years more to purchase the residential property.

Affordability decreased the most in Tbilisi (+3.6 years) driven by lower income (in USD) and Telavi (+2.7 years) driven by higher prices.

FIGURE 13

Distribution of households (000') by income (USD) level categories and YoY change (%)

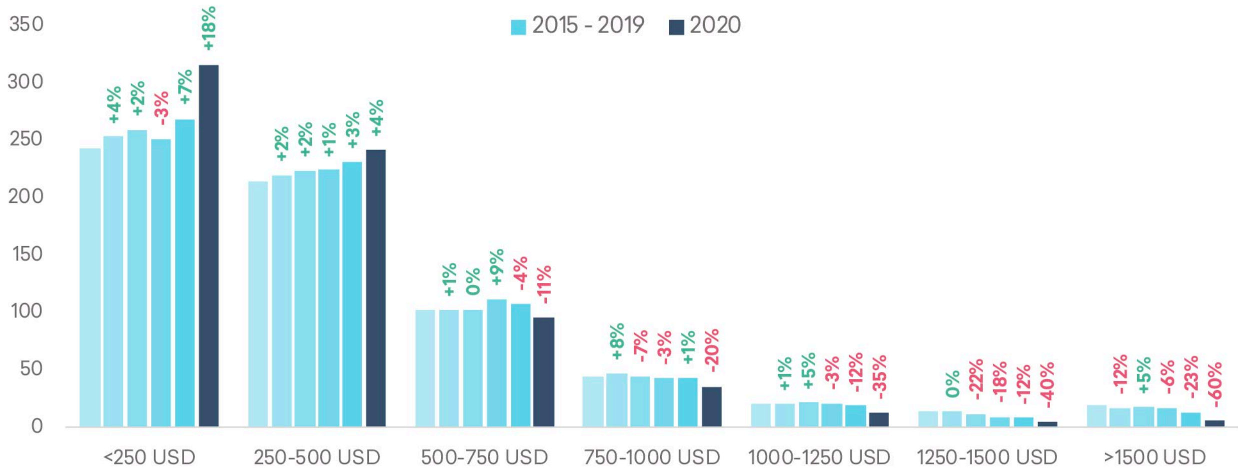
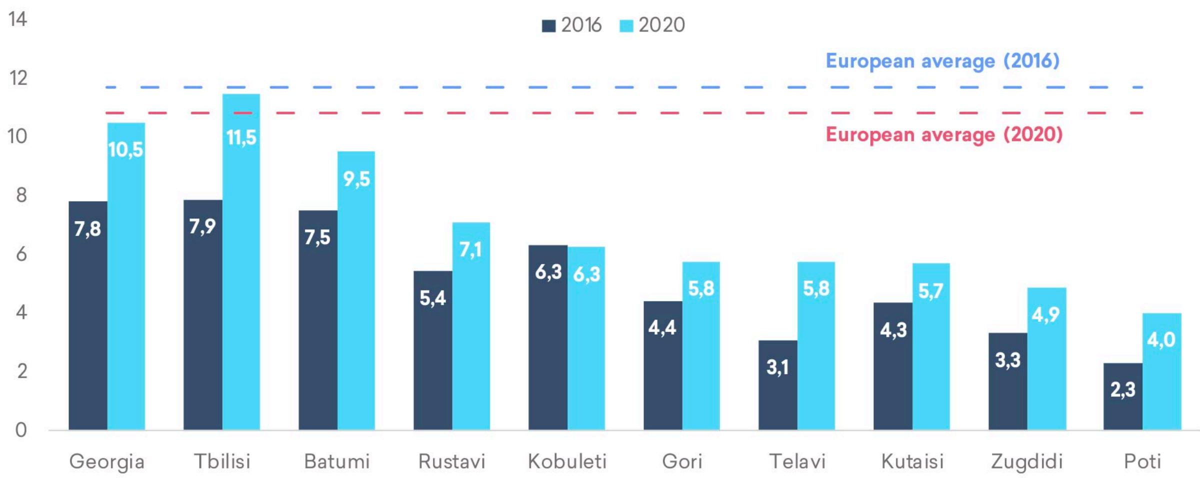


FIGURE 14

Price to income ratio (2020 vs 2016)



Source: Geostat, NAPR, Numbeo,TBC Capital

Demand-side Factors: Interest rates and mortgage

Cost of lending has an ultimate impact on the housing demand and its prices. Lower interest rates mean the lower costs of obtaining a mortgage, which increases the person's ability to purchase RRE. This relationship works in the opposite direction as well – higher interest rates drive mortgages and, consequently, RRE market down. This held true for Georgia during the 2016-2021, as RRE prices and mortgage interest rates (inverted) show similar trends (Figure 15).

Mortgages financed on average 37% of total RRE market transactions in 2021. The majority of them are issued in Tbilisi (77.2% of total).

Mortgage market is significantly lower in other cities. In 2021, only 7.2% of total mortgages were issued in Batumi, 5.4% - in Kutaisi.

However, the penetration of mortgages differs by cities. In Tbilisi and Rustavi the proportion stands at 40% and 36% respectively, while penetration of mortgages in Batumi and Kobuleti is relatively low, at 16%. In smaller cities, the ratio of mortgages to transaction value is considerably higher, which is explained by the fact that these mortgages are used for purchases of residential properties in Tbilisi or Batumi.

FIGURE 15

Average weighted sale price index (USD) and market interest rates on mortgages (%)

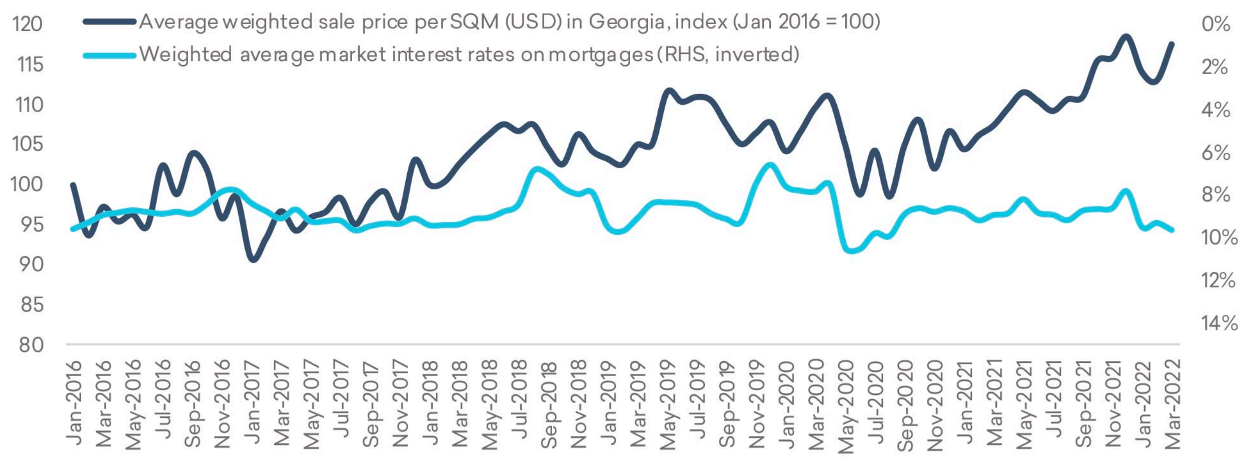


FIGURE 16

Mortgage penetration, Georgia

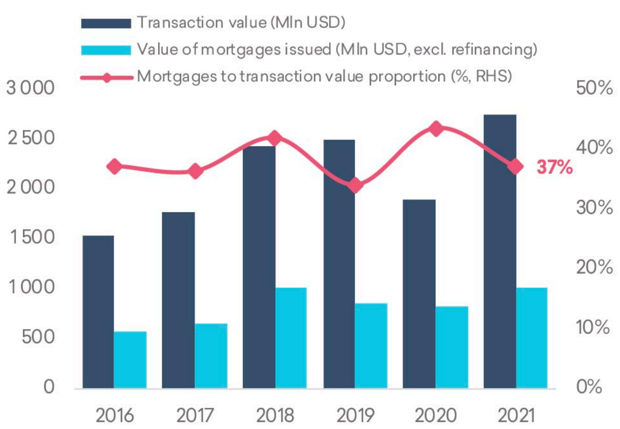
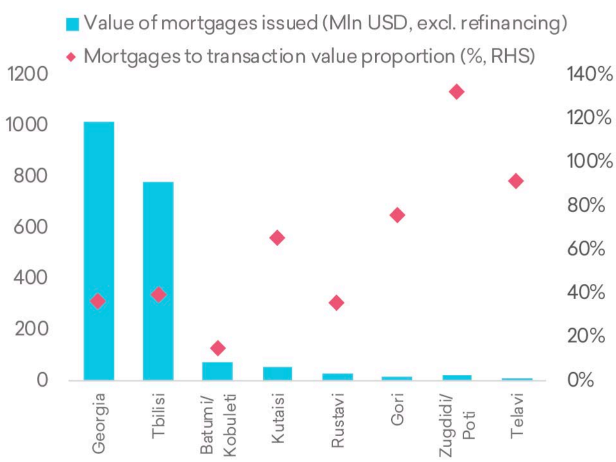


FIGURE 17

Mortgage penetration by cities, 2021



Source: NAPR, NBG, TBC Capital

Demand-side Factors: Interest rates and mortgage

Lending regulations also have serious implications for mortgages and, consequently, RRE market. The most notable recent changes were: 1. Banning the issue of FC loans below the minimum threshold of 200,000 GEL since 2019 (a lending cap with threshold of 100,000 was initially introduced in 2017); 2. Adaptation of responsible lending practices, which imposed the upper ceilings of Payment-to-Income (PTI) and Loans-to-Value (LTV) ratios for borrowers by their disposable income levels (also in 2019). These regulations forced the borrowers to switch from FC to LC mortgages and slowed down the growth rates of mortgages, which then had to endure an additional hit from the pandemic.

RRE market value showed the similar pattern - high growth in 2017-2018 was followed by a standstill in 2019, before entering negative growth territory in the first pandemic year. These trends indicate the strong correlation between mortgages and housing demand in Georgia.

Interest rates on deposits also affect the housing demand. Lower deposit rates (higher differential between rental yield and deposit rates) increase the attractiveness of RRE for investors and vice-versa. In 2021, rental yield was notably higher than FC LT deposit rate in all cities with the highest yields in smaller cities (Poti, Telavi, Zugdidi).

FIGURE 18

Mortgage and RRE market YoY growth (%), Georgia

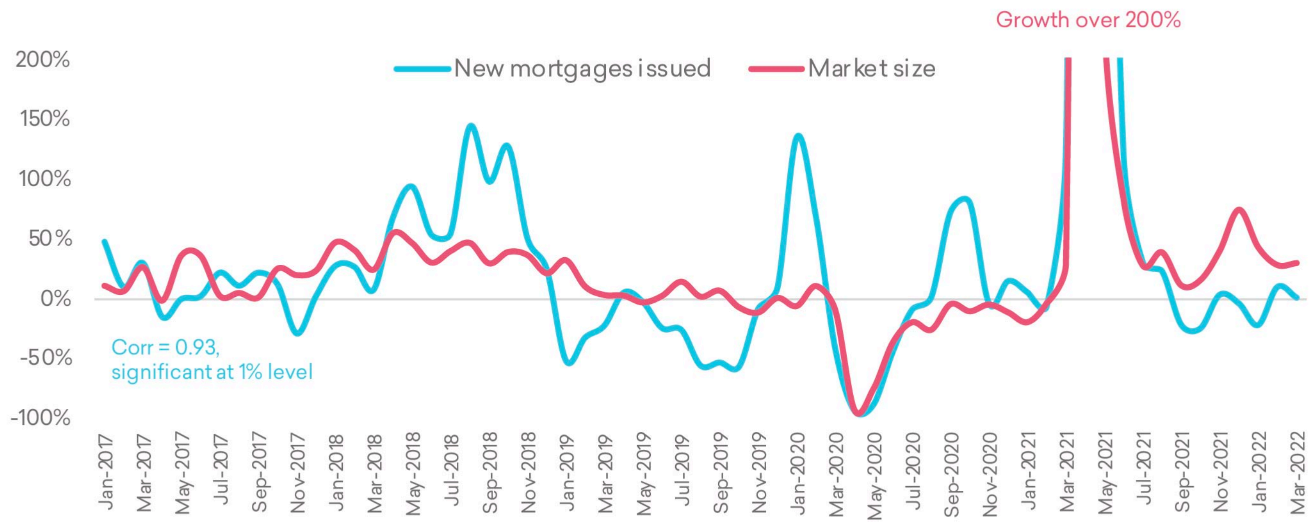
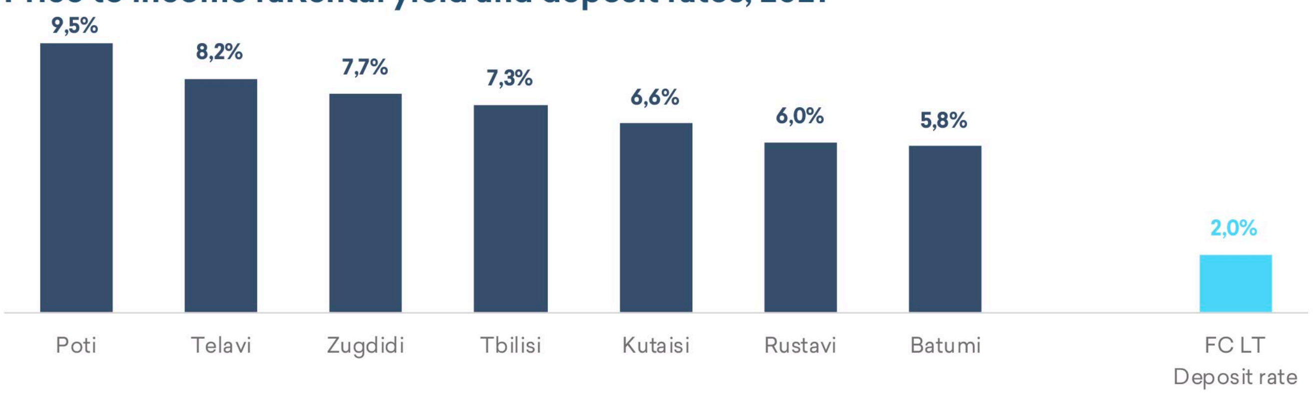


FIGURE 19

Price to income raRental yield and deposit rates, 2021



Source: NAPR, NBG, Myhome, TBC Capital

Demand-side Factors: Exchange rate

Changes in local currency exchange rate is another factor affecting housing demand in the developing countries with high dollarization of the economy. In Georgia, RRE is highly dollarized. Despite the introduction of mandatory pricing of every goods and services for legal entities, advertisement of RRE on developers' web pages or real estate portals are given in USD, which is shown in GEL as well using built-in automatic currency converter.

Moreover, the prices in RRE purchase agreements are also fixed in USD with indication that actual payment will be done in GEL based on official exchange rate in the moment of payment. Despite the fact that GEL is the only legal tender in Georgia, USD was indicated as the currency of transactions in 69% of total RRE transactions in 2021 according to the Public Registry data.

Due to high dollarization of RRE market, during the GEL depreciation against USD, RRE prices are more stable in USD terms than in GEL terms (see Figure 20). This might be particularly true in the short-term.

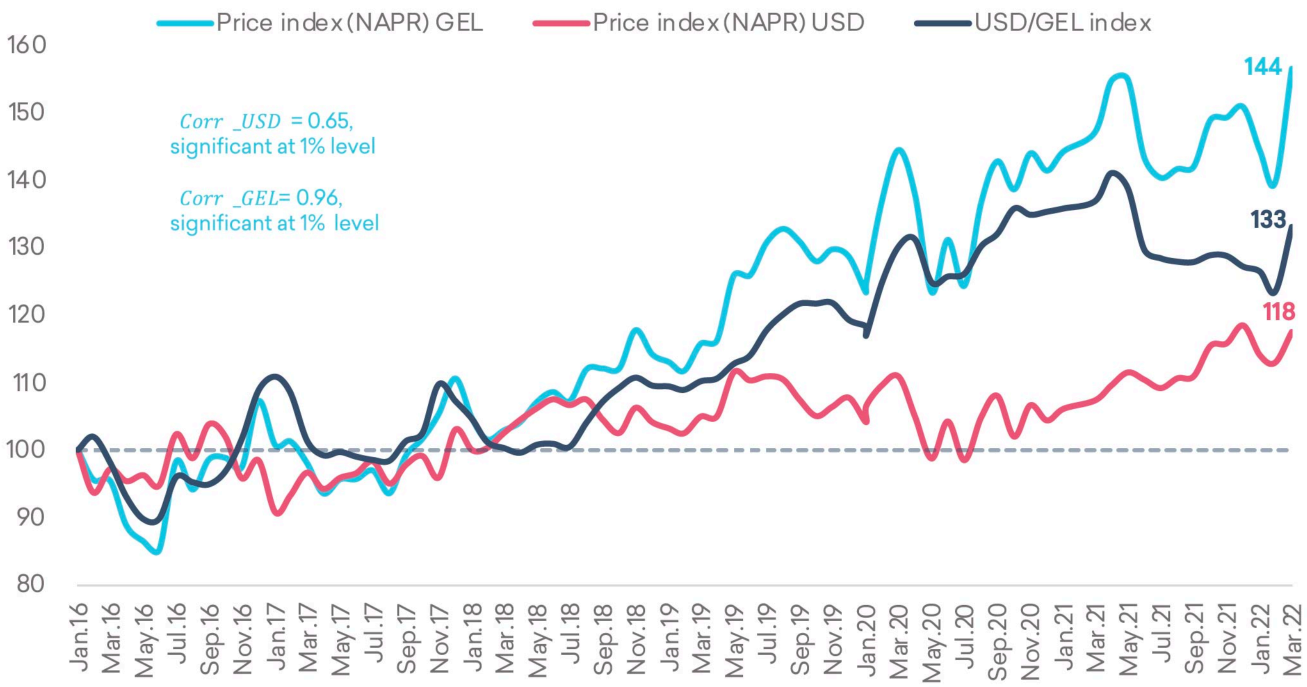
However, as it is shown in the previous chapter, in the medium and long-term the GEL depreciation (which was not accompanied by accelerated growth) caused a decline in income in USD terms and reduced the affordability of housing in Georgia. Consequently, it had a negative impact on housing demand and slowed down RRE price increase (in USD).

S

trong positive correlation between exchange rate and RRE prices in GEL terms also supports the statement that pricing on RRE market occurs in USD.

FIGURE 20

RRE price (Georgia) and USD/GEL indices (Jan 2016=100)



Source: NAPR, NBG, TBC Capital

Supply-side Factors: Construction permits

Permits issuance is one of the important indicators of the future supply of residential properties. Data on number of permits issued for construction of residential buildings presented in Figure 22 contains all building classes, including classes I, II and III that are more likely individual houses.

Also, data on permits issued in 2021 might be inflated due to the real estate developers' rush on building permits before the tightening of construction regulations (the law of energy efficiency of the buildings, which initially should have been effective since July 2022).

The statistics of permits issued for construction of class III and IV apartment buildings (see Figure 23) indicate that the supply of new apartments is limited in Zugdidi and Telavi. At the same time, developers show an increased interest in Kutaisi. According to Kutaisi RRE developers, their potential buyers are migrants returning to Georgia, young families and locals who want to move from old residential buildings to the new modern ones.

FIGURE 21

Number of permits (Units) issued for residential buildings (including all classes)

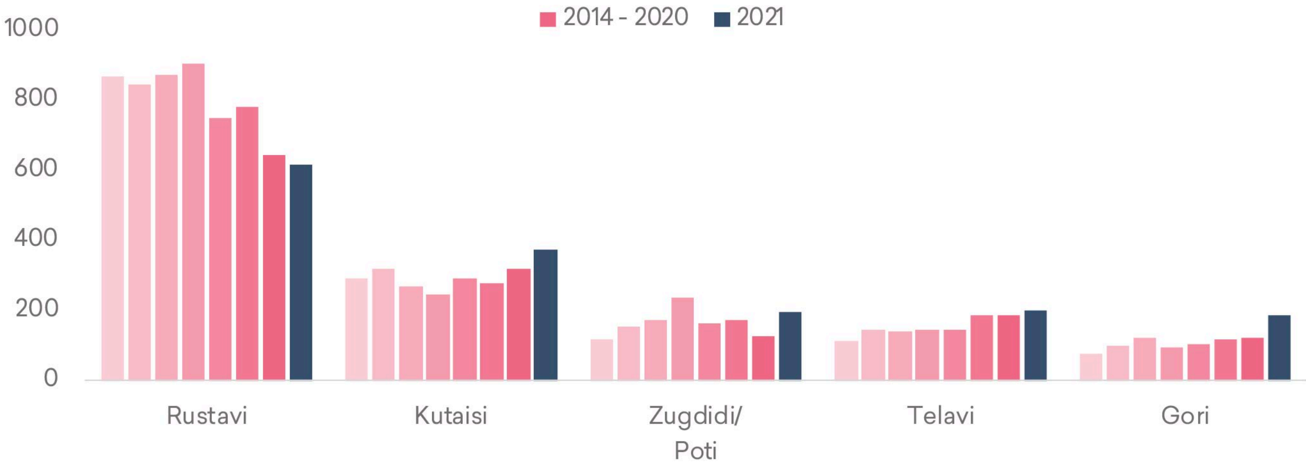
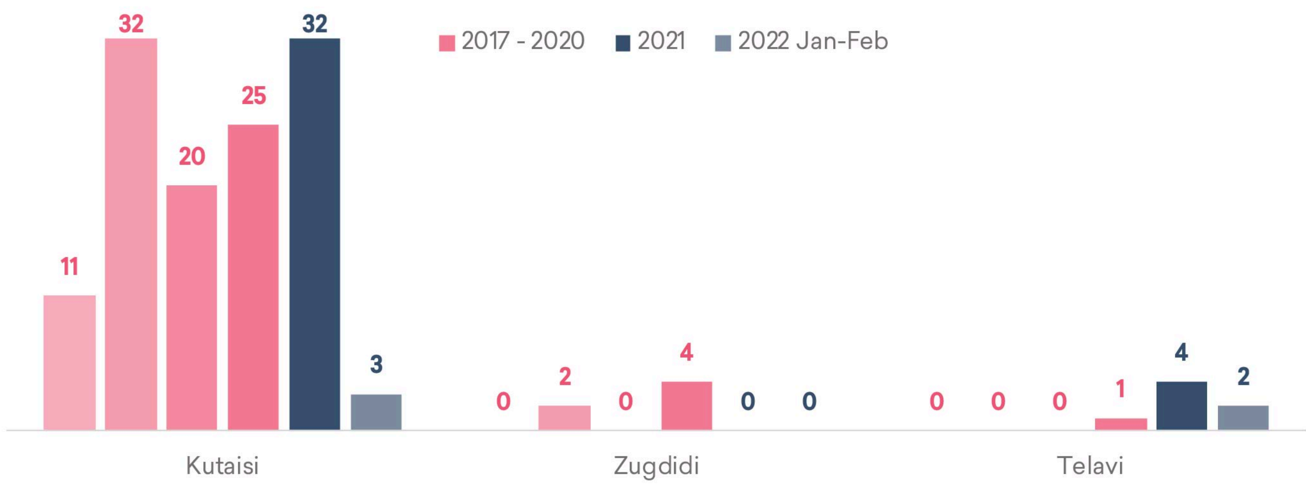


FIGURE 22

Number of permits (Units) issued for class III and IV apartment buildings



Source: Geostat, City halls of Kutaisi, Zugdidi and Telavi, TBC Capital; Note: Permits issuance in Batumi is presented separately

Supply-side Factors: Construction costs

Construction costs is an important driver of RRE prices in Georgia. The prices of construction materials, which account for the largest share of total construction costs (about 57% of total), are strongly correlated (positively) with RRE prices. As shown in Figure 24, when construction material prices increase faster than RRE prices, it pushes RRE prices up.

According to Geostat, inflation of material input prices accelerated in 2021 (+19% YoY) and continued an upward trend in Q1 2022 (+27% YoY) as well. All other components of construction costs (except machinery) also showed high growth in prices (in USD). In 2021, wages and “other costs” increased by 5% YoY, while prices of transportation, fuel and electricity - by 15% YoY.

In 2021, the total construction costs increased by 9% YoY (in USD). Considering the dynamics in prices of components of construction costsobserved in Q1 2022, ongoing war in Ukraine and supply chain disruption in construction materials, we expect the total construction costs to increase by 18% YoY (in USD terms) in 2022.

Consequently, rising construction costs will be one of the main drivers of RRE prices in 2022-2023.

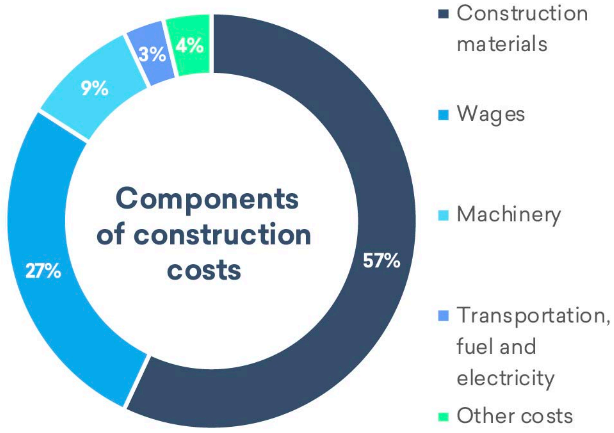
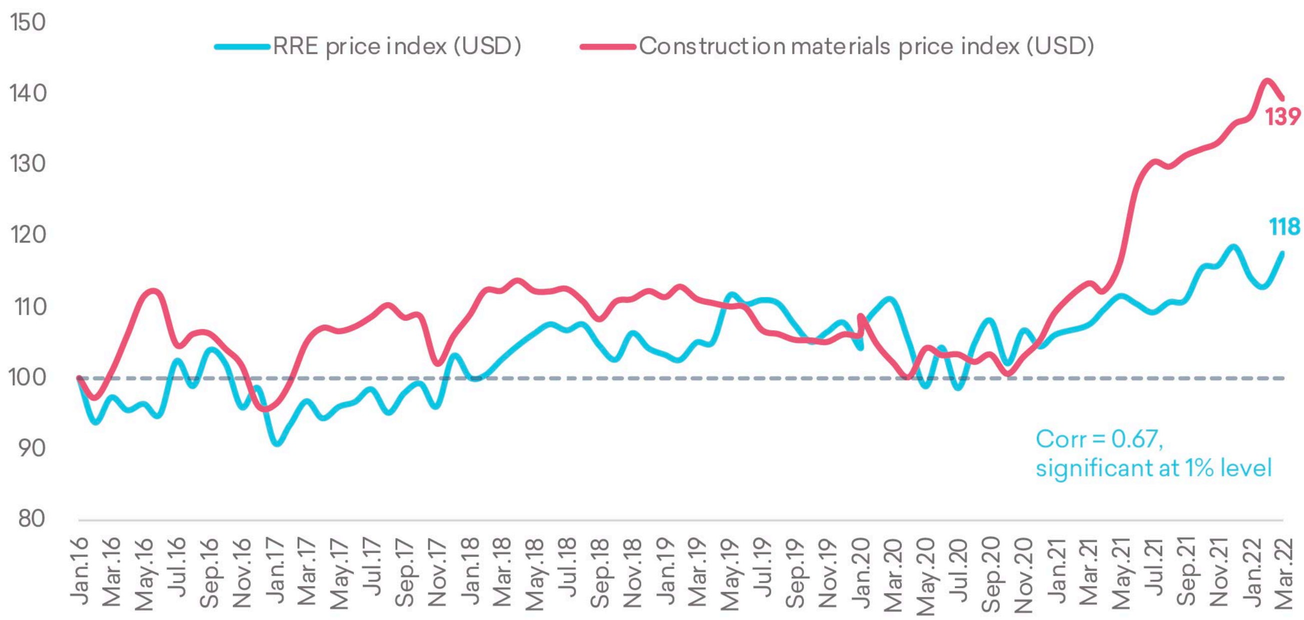


FIGURE 23

RRE price (Georgia) and construction materials price indices (Jan 2016=100)



Source: Geostat, NAPR, TBC Capital; Note: The breakdown of construction costs are approximate. The structure might differ project by project and depends on the class of construction

Supply-side Factors: Construction costs

Wages, which account for about 27% of total construction costs, significantly differ by cities. According to Geostat, the average monthly salary in construction industries in Tbilisi (city with the highest salary) was twice as much as in Gori (city with the lowest salary) in 2020. Tbilisi was followed by Batumi and Kutaisi.

In 2016-2020, average monthly salary (in USD) in construction industries has increased by only 3% in Georgia. The highest increase was observed in Kutaisi (+41%), Zugdidi/Poti (29%) and Telavi (+27%). At the same time, in Batumi it has declined by 30%.

As for the land prices, according to registry transactions, the highest prices on non-agricultural lands in 2021 were observed in Tbilisi, which was followed by Batumi. Land prices in other cities were significantly lower.

FIGURE 24

Average monthly salary (USD) in construction industries (2020 vs 2016)

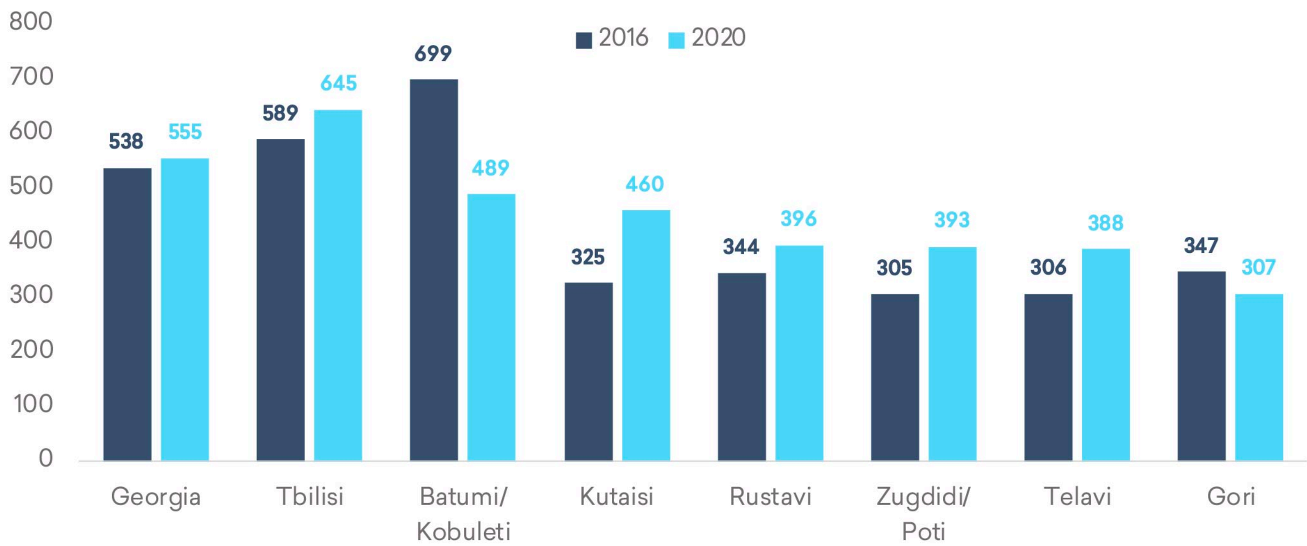
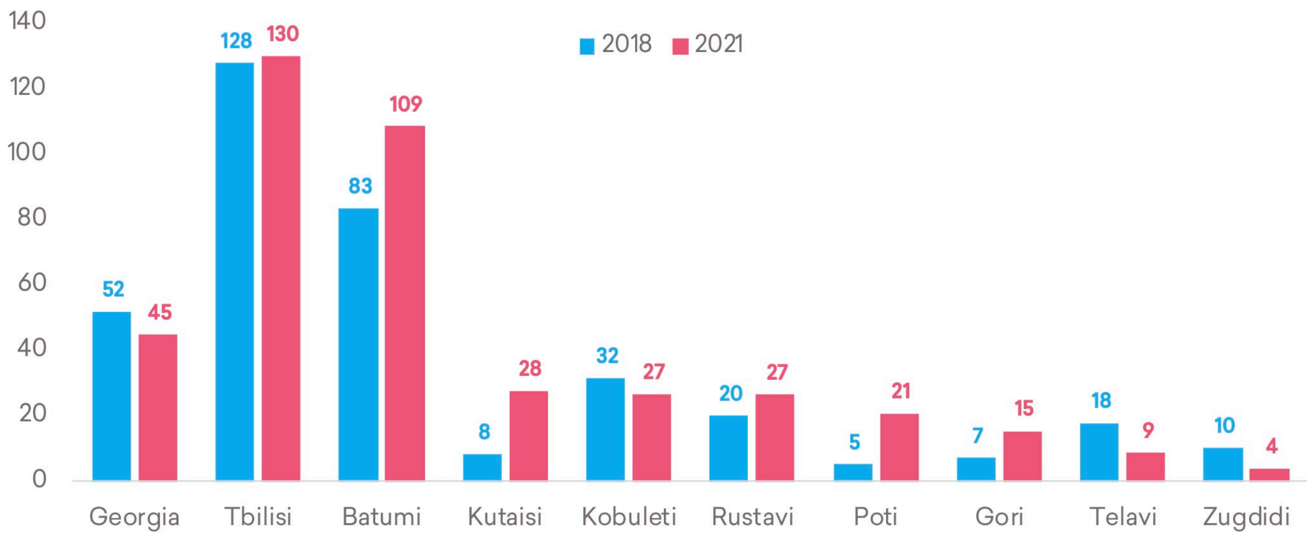


FIGURE 25

Weighted average land prices per SQM (USD) by cities, 2020



Source: Geostat, NAPR, TBC Capital; Note: Land prices are given for non-agricultural lands with SQM >=1,500 and <=50,000.

Residential Real Estate Market KPIs Transactions, Units

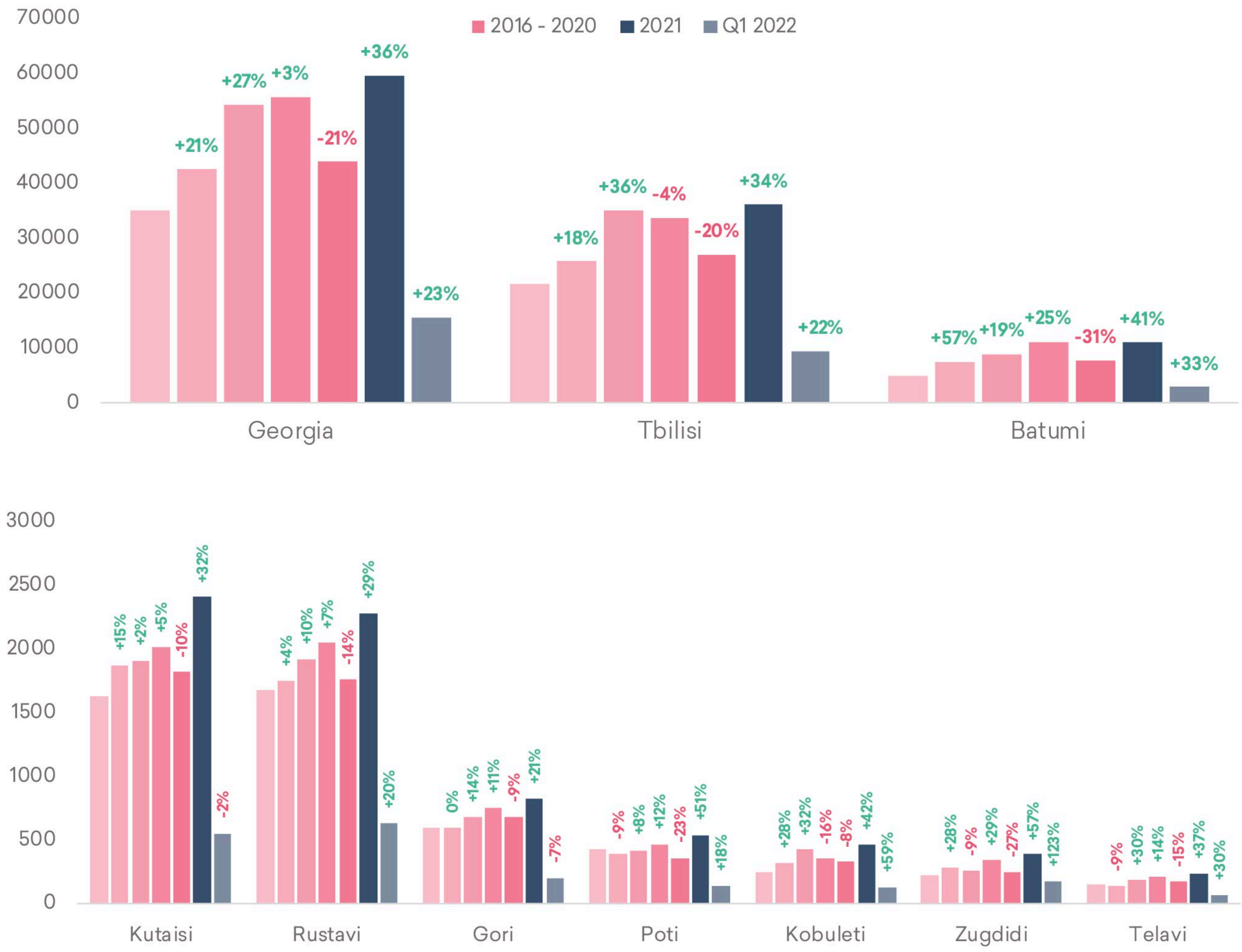
RRE market in Georgia was mostly on a rising streak in 2016-2018. Number of transactions of residential properties (individual houses and apartments with area ranging from 15 to 500 SQM) was rapidly increasing in Tbilisi and Batumi, while smaller markets showed modest performance. As discussed earlier, in 2019 the activity on RRE market was slowed down by stricter lending regulations.

In 2020, the market growth was halted noticeably, as the pandemic hit the economy. Due to high dependence of RRE on tourism and non-resident buyers Batumi was affected the most, with a 31% decrease YoY in 2020. Zugdidi (-27%) and Poti (-23%) were close to this percentage as well. However, at the same time, the recovery in 2021, was strong in all cities, with figures exceeding the pre-pandemic levels in all cases, except Batumi. Highest YoY growth in 2021 was observed in Zugdidi (+57%), Poti (+51%) and Kobuleti (+42%).

The beginning of 2022 also looks promising as in Q1 all cities, except Kutaisi and Gori, showed the double-digit YoY growth in the number of transactions.

FIGURE 26

Number of sold residential properties (Units) and YoY growth (%)



Source: NAPR, TBC Capital; Note: Since the scales are significantly different, two graphs are shown in order to represent the data appropriately

Residential Real Estate Market KPIs
Transactions, Area

The data for total area sold follows the same dynamics as the number of transactions made.

Batumi posted the largest annual decrease in 2020 (-30%), but also had a strong recovery in 2021 (+45%). Kobuleti was the most resilient and appears to be the only city where positive annual growth was recorded in 2020 (+2% YoY).

In 2021, in terms of sold area, Telavi (+51%), Kobuleti (+50%) and Poti (+49%) posted the highest annual increase.

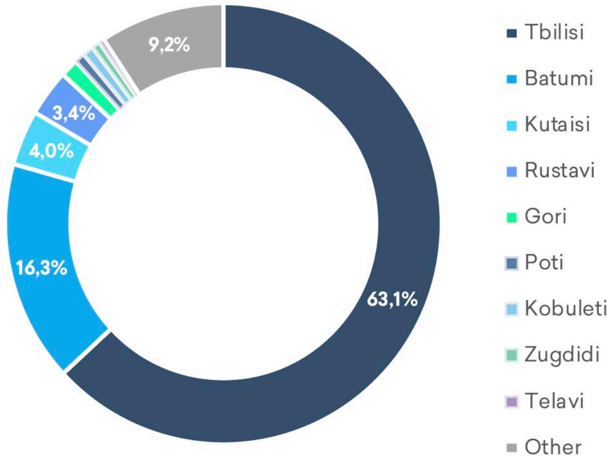


FIGURE 27

Area of sold residential properties (000' SQM) and YoY growth (%)

Source: NAPR, TBC Capital; Note: Since the scales are significantly different, two graphs are shown in order to represent the data appropriately

Residential Real Estate Market KPIs
Sale prices

RRE prices in Georgia were less volatile compared to number of transactions (or sold area) during the last years and have the upward trend in all cities, except Kobuleti.

Prices showed a great resilience during the pandemic - all cities except Tbilisi, Poti and Zugdidi posted a price increase in 2020. The increasing trend in prices continued in 2021 and the beginning of 2022 as well. Only Batumi showed the negative annual change in prices after being stable in 2020.

As expected, besides the capital, cities like Batumi and Kobuleti, which are popular touristic destinations in the country, have the highest average sale prices in Georgia. In 2021, exactly these two cities had the highest shares of high-price properties. The share of high-price segment has been increasing in Kutaisi, Telavi and Rustavi (see Annex).

FIGURE 28

Average weighted sale price per SQM (USD) and YoY growth (%)

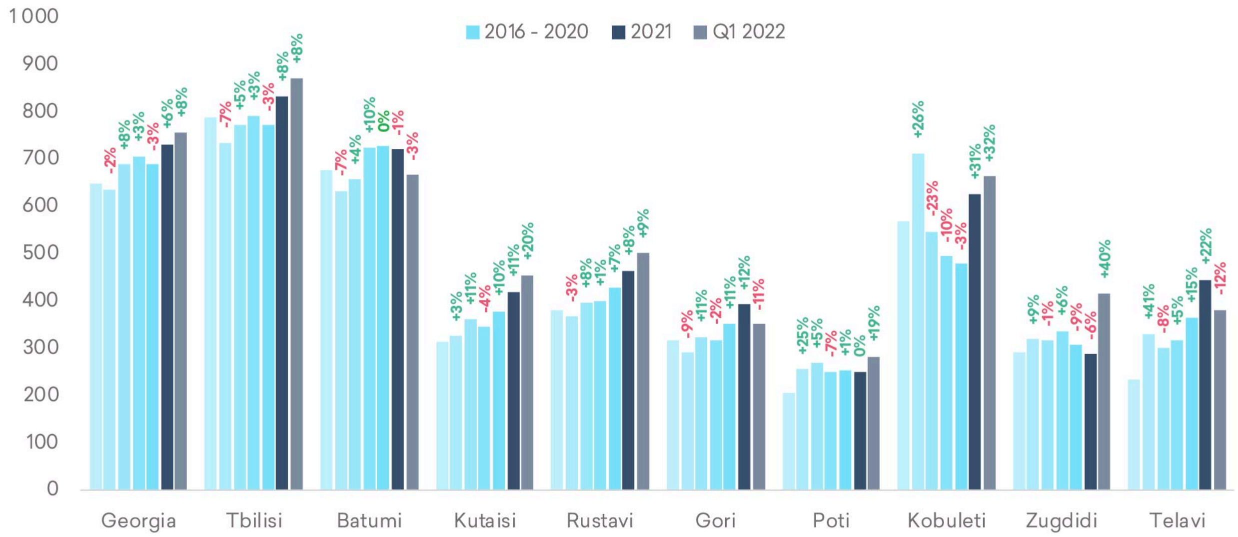
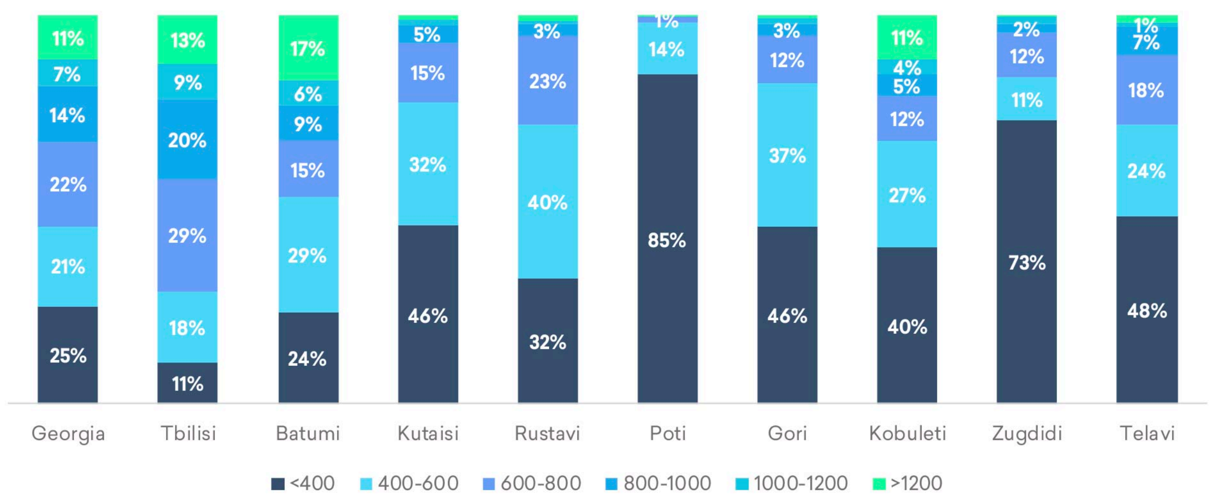


FIGURE 29

Distribution of transactions by price categories, 2021 (per SQM, USD)



Source: NAPR, TBC Capital; Note: Since the scales are significantly different, two graphs are shown in order to represent the data appropriately

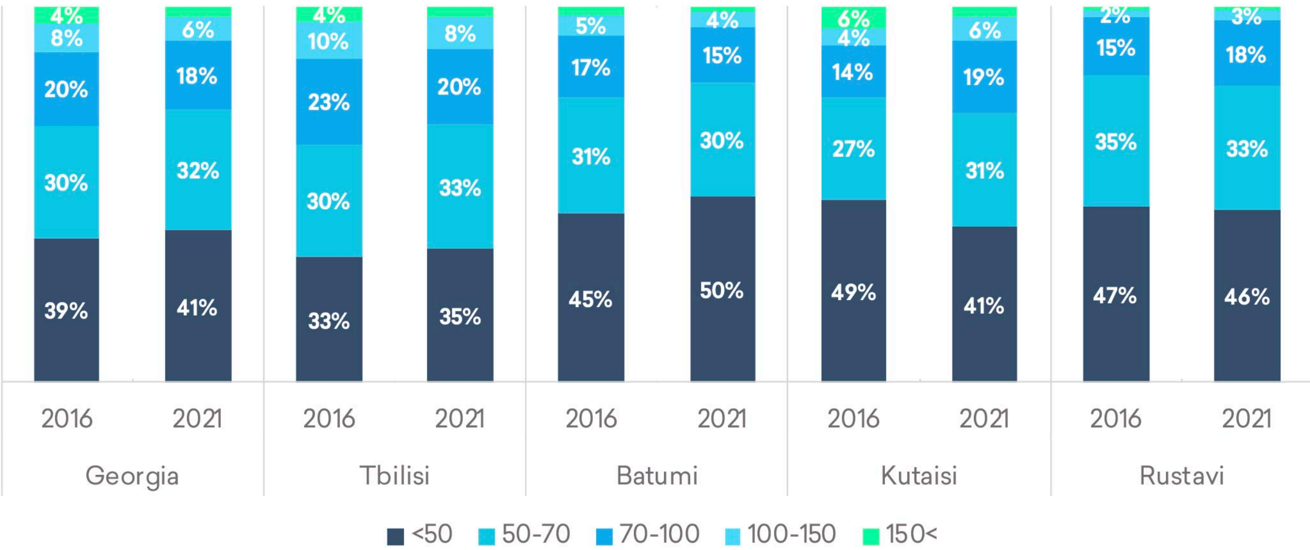
Residential Real Estate Market KPIs Distribution by size

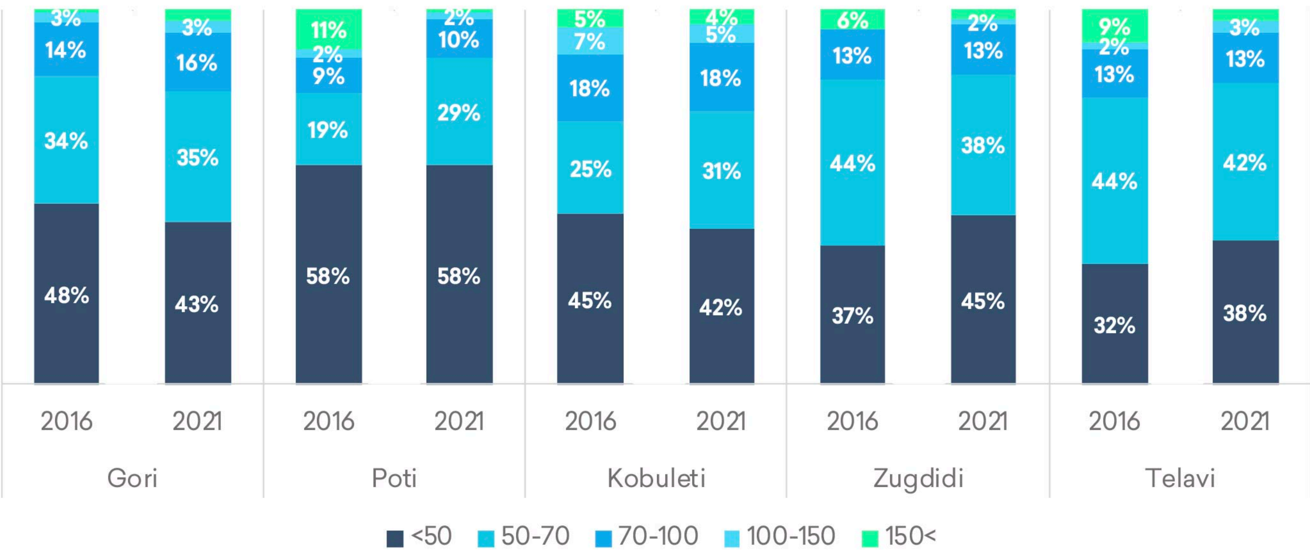
When it comes to the distribution of transactions by size, small residential properties (<50) take the majority in all cities except Telavi, where mid-sized properties (50-70) are more popular. Besides Tbilisi, Kutaisi and Kobuleti have the highest shares of larger residential properties (70+).

The share of small size residential properties in transactions has increased since 2016 in almost all cities except Kutaisi, Kobuleti and Gori. This trend is in line with the decreasing average family size in Georgia.

FIGURE 30

Distribution of transactions by size, 2021 vs 2016 (%)





Source: NAPR, TBC Capital

TBC CAPITAL

BATUMI RESIDENTIAL REAL ESTATE MARKET

Batumi RRE Market Dependency on tourism

Batumi RRE market is strongly linked with the tourism due the touristic nature of the city. Both number of transactions and prices followed the changes in number of international visitors (Figure 32) yet with less amplitude.

The demand on RRE in Batumi, especially in the coastal line traditionally comes from non-residents. Survey of large scale RRE developers showed that in Q1 2022, foreigners accounted for 79% of all transactions, which is slightly higher compared to the pandemic years, but lower than in 2019.

Residents of Russia, Belarus and Ukraine have the biggest share in RRE purchases among foreigners, with ongoing war positively affecting the demand according to Batumi's large scale residential real estate developers. At the same time, the interest is rapidly increasing from Israel and Gulf countries.

Foreigners buy RRE in Batumi mostly by paying in cash. Non-residents accounted for only 17% of value of newly issued mortgages in 2021. It explains the low penetration of mortgages in Adjara A.R. – 16% in 2021 (2 times lower than in Tbilisi).

FIGURE 31

Batumi RRE market and number of international visitor trips (Indices; 2019 average = 100)

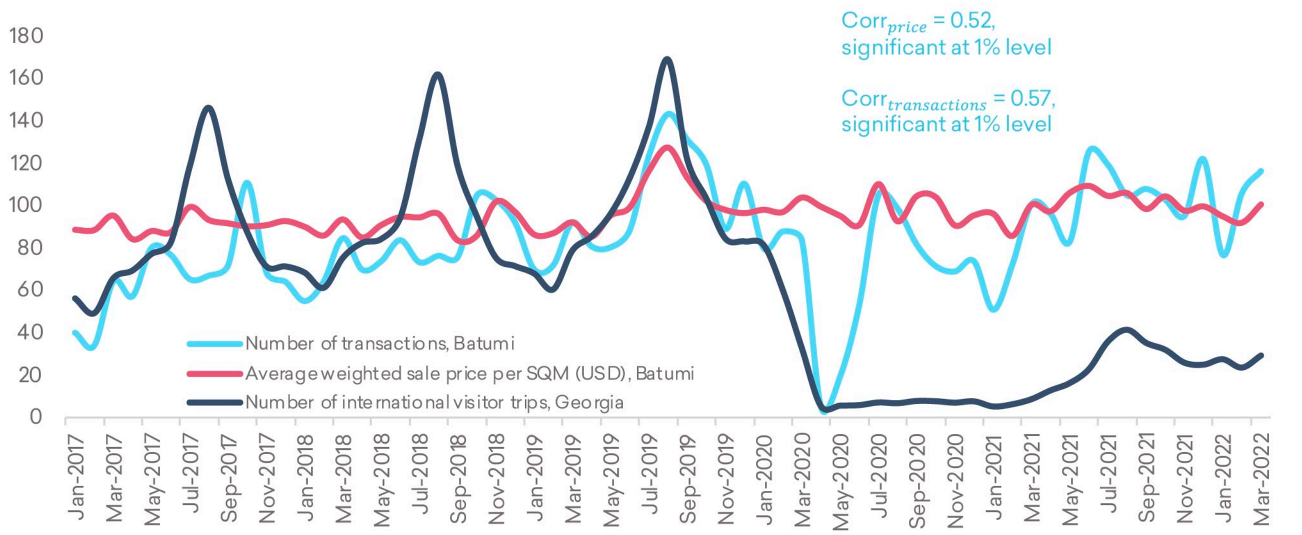


FIGURE 31

Mortgage (Mln. GEL), Adjara AR

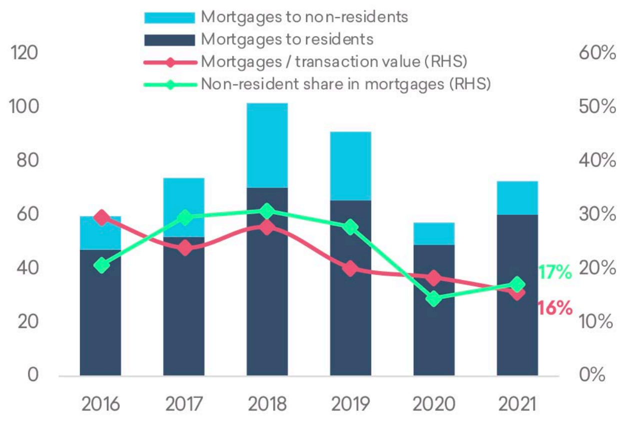
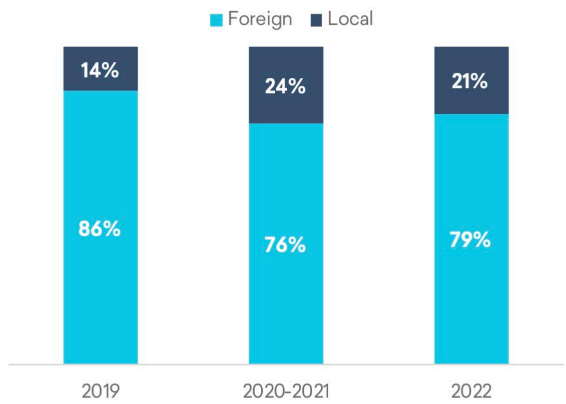


FIGURE 31

Share of foreign and local buyers (survey of large-scale RRE developers in Batumi)



Source: NAPR, NBG, GNTA, TBC Capital

Batumi RRE Market
Market dynamics

It seems that Batumi RRE market has fully recovered from the pandemic, at least in terms of number of transactions.

In Q1 2022, the number of residential property transactions improved by 32% YoY. The increase was similarly impressive compared to 2019 and 2020 as well. Prices showed a sluggish start in 2022. The average weighted sale prices declined by 3% YoY in Q1. The decline is explained by the lower share of high-price segment in the transactions. At the same time, prices were higher compared to Q1 2019.

Both, number of transactions and sale prices in Batumi have a seasonal trend with the higher activity observed in the summer, which is explained by the touristic nature of the city. During the last two years, this trend was distorted by the pandemic, however the summer of 2022 might set the new highs for RRE market driven by strong recovery in tourism.

Asking rent price and, consequently, rental yield hiked in the beginning of 2022, reflecting an increased demand on rental market stemmed from migrants and tourists.

FIGURE 34

Number of sold residential properties (Units) in Batumi

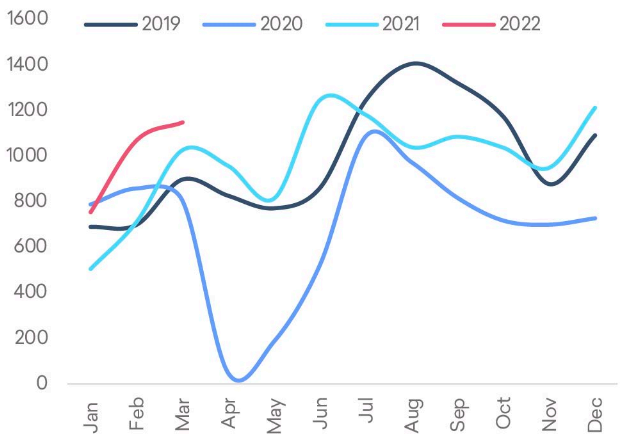


FIGURE 35

Average weighted sale price per SQM (USD) in Batumi

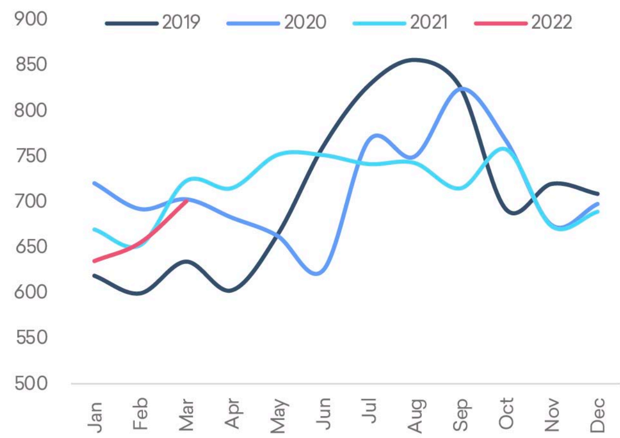


FIGURE 36

Average asking rent price per SQM (USD) in Batumi

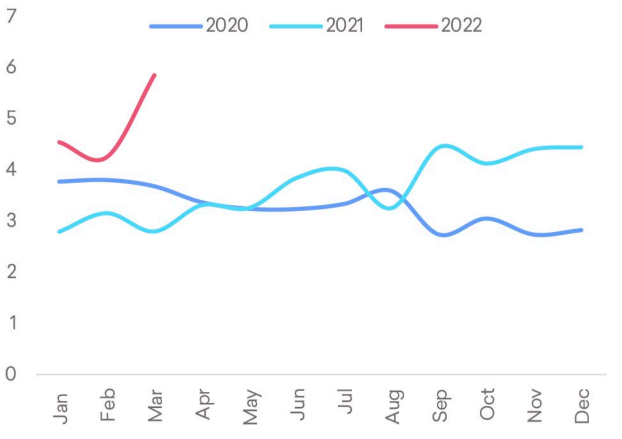
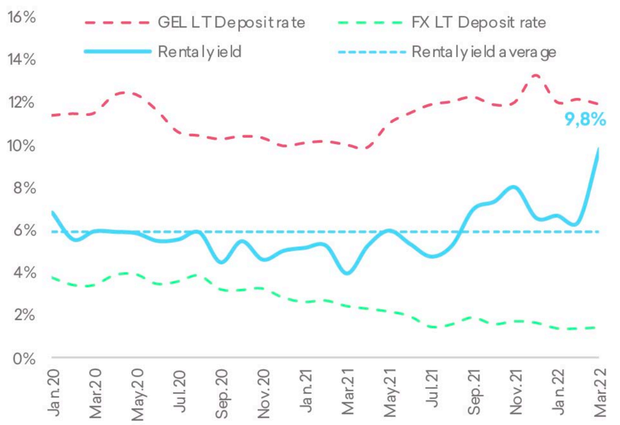


FIGURE 37

Rental yield and deposit rate dynamics in Batumi



Source: NAPR, Myhome, NBG, TBC Capital

Batumi RRE Market
Units and area by districts

Taking a closer look at Batumi, it seems that the trend was more or less similar for all districts, with some differences attributed mostly to the touristic nature of the city. An understandable decrease in the pandemic year (2020), due to almost non-existent consumer confidence and a generally worsened income level was particularly discernible in I Line (Boulevards), since this district is generally more affected by changes in tourism industry, compared to other three, which sustain themselves mostly by domestic demand. In terms of the raw number of transactions and sold area Suburbs took the lead, followed by the Periphery.

The recovery in 2021 was robust for all districts, especially for Suburbs (+54% YoY). The beginning of 2022 seems to be promising as well. Periphery showed the highest increase in transactions (+48% YoY), while I Line – the lowest (+9% YoY). This trend will continue in the future, as the supply is gradually shifting from the I Line to the broader coastal line (which is part of Batumi's Periphery).

FIGURE 38

Number of sold residential properties in Batumi (Units) and YoY growth (%), by districts

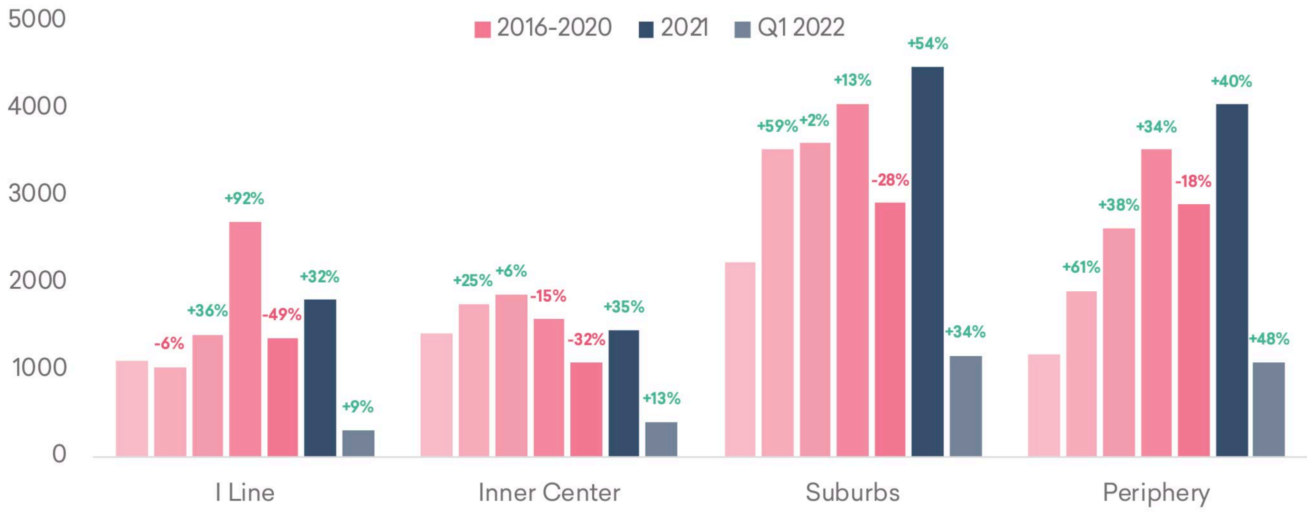
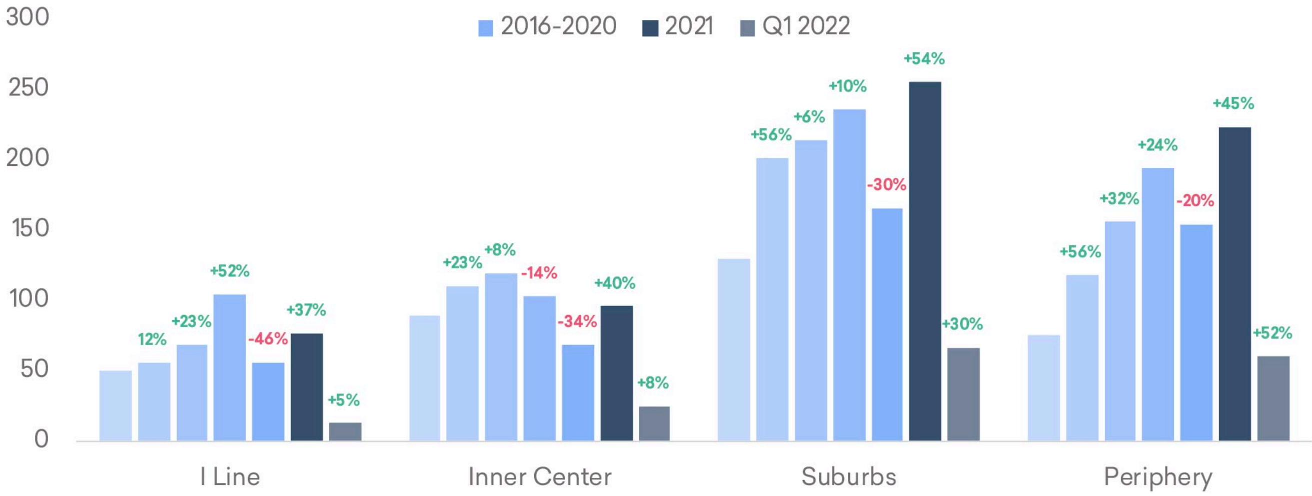


FIGURE 39

Area of sold residential properties in Batumi (000' SQM) and YoY growth (%), by districts



Source: NAPR, TBC Capital

Batumi RRE Market
Prices and market size by districts

Prices were more resilient towards changes in economic environment in recent years, which holds true in Batumi's case as well.
Keeping in mind the location of I Line (coastal line in the center of Batumi) the highest sale prices can be observed exactly in this district, where the most notable price change was registered in 2019 (+28% YoY), whereas in other three districts price dynamics were more stable.

In the beginning of 2022, the average weighted sale prices changed in different directions by districts. The highest decrease in prices was observed in I Line (-20% YoY), while Suburbs showed the biggest improvement (+9% YoY).
This pattern in I Line was most likely driven by the increased share of low-price segment in residential property transactions in Q1 2022 (see the next section for details).

FIGURE 40

Average weighted sale price per SQM (USD) in Batumi and YoY growth (%), by districts

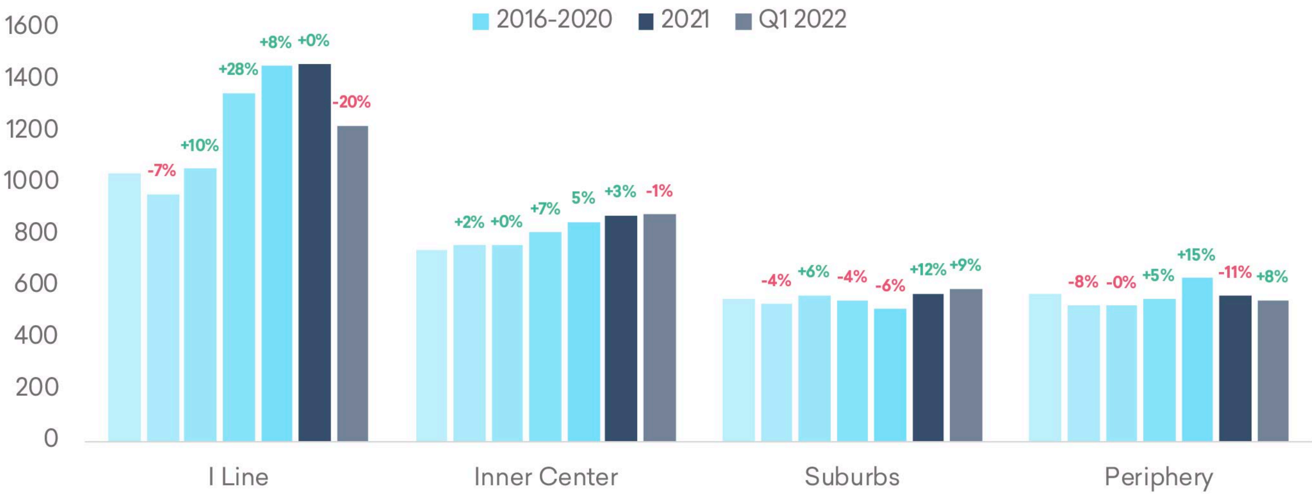
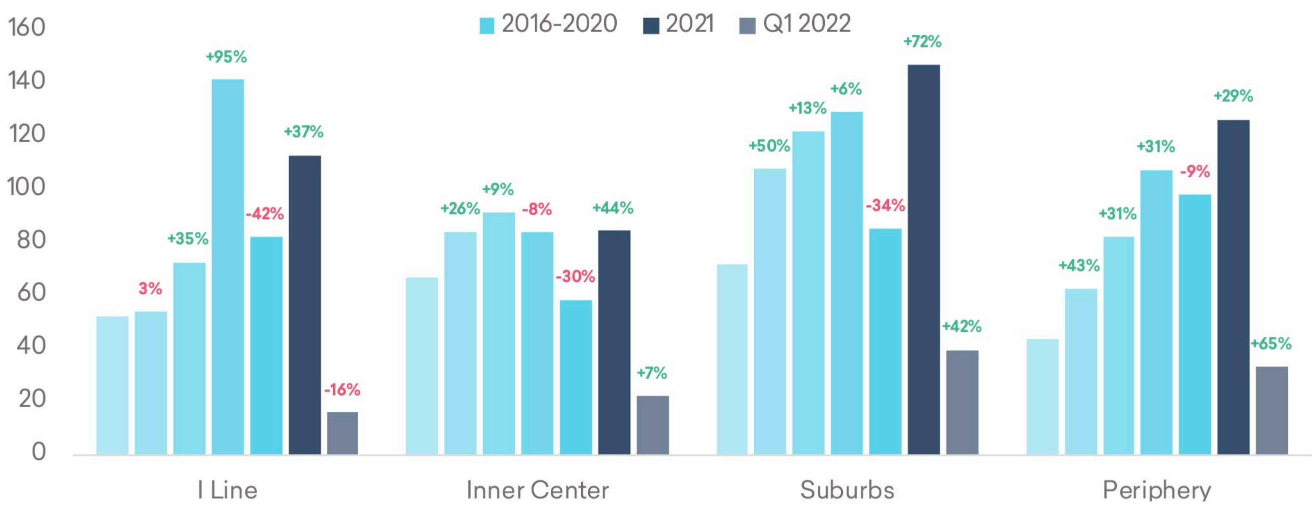


FIGURE 41

Residential real estate market size (Mln USD) in Batumi and YoY growth (%), by districts



Source: NAPR, TBC Capital

Batumi RRE Market
Distribution by size and price segments

Small residential properties (with less than 50 SQM area) account for over half of total transactions in Batumi. The share of such residential properties is particularly high (79% in Q1 2022) in I Line, which is the most popular location for aparthotels. Since 2019, the average size residential properties (50 - 70 SQM) has been gradually gaining popularity in I Line. The share of small properties has been increasing in Suburbs and Periphery.

Distribution of residential property transactions by price segments significantly differs by districts. The share of high-price properties (more than 1200 USD per SQM) is expectedly the highest in I Line (50% in Q1 2022). High-price segment is dominating in Inner Center as well (22% in Q1 2022). In Suburbs and Periphery the demand is concentrated in properties with prices ranging from 400 to 800 USD per SQM.

FIGURE 42

Distribution of transactions by size in Batumi, by districts

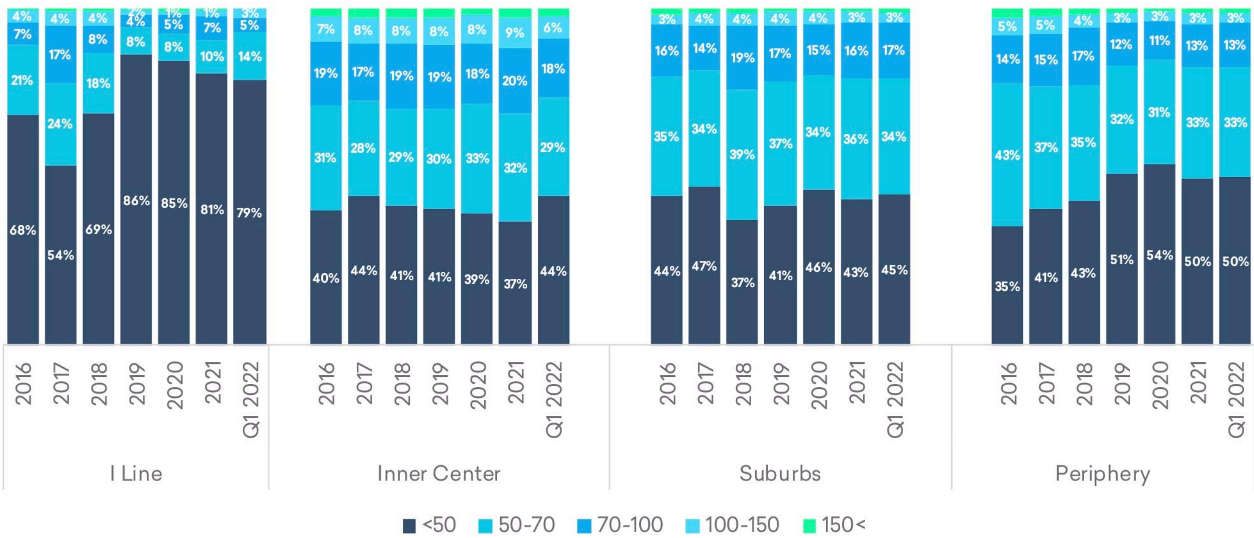
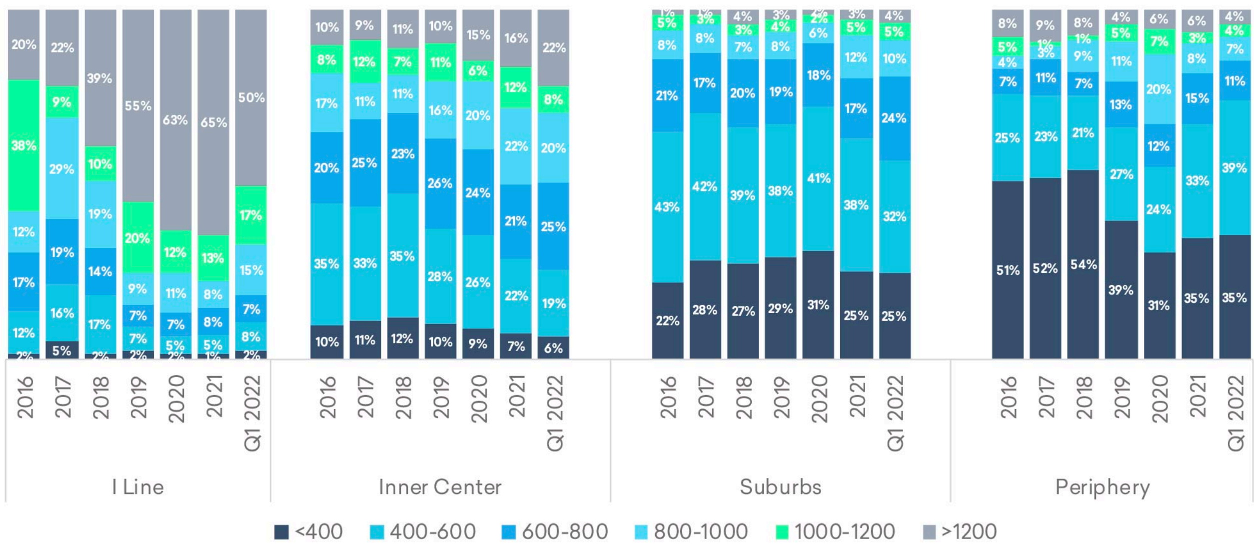


FIGURE 43

Distribution of transactions by price categories (per SQM, USD) in Batumi, by districts



Source: NAPR, TBC Capital

Batumi RRE Market
The future supply

In line with our previous expectations, the permits issuance continue to decline in Batumi. Permits for construction of only 35 new apartment blocks were issued in 2021. The residential area issued for construction was down by 43% YoY and amounted 276 thousand SQM - the lowest figure since 2013.

Stricter regulations of obtaining construction permits (Dec 2019) was the major reason behind this decline. According to the biggest developers operating on Batumi RRE market, the pandemic had a limited impact on their future plans (and therefore permits issuance).

The supply is shifting towards Periphery (Chakvi, Makhinjauri, Gonio) and Suburbs, which together accounted for 73% of total residential area approved for construction in 2021.

At the same time, no permit was issued for construction in I Line in 2021, indicating the low availability of land and challenges in obtaining construction permits. However, about 160 thousand SQM of residential area (issued for construction in 2019) is expected to appear on the market in 2022. Permits issued in 2021 are concentrated in small and medium-sized projects.

FIGURE 44

Number (Units) and area (000' SQM) of construction permits issued, Batumi

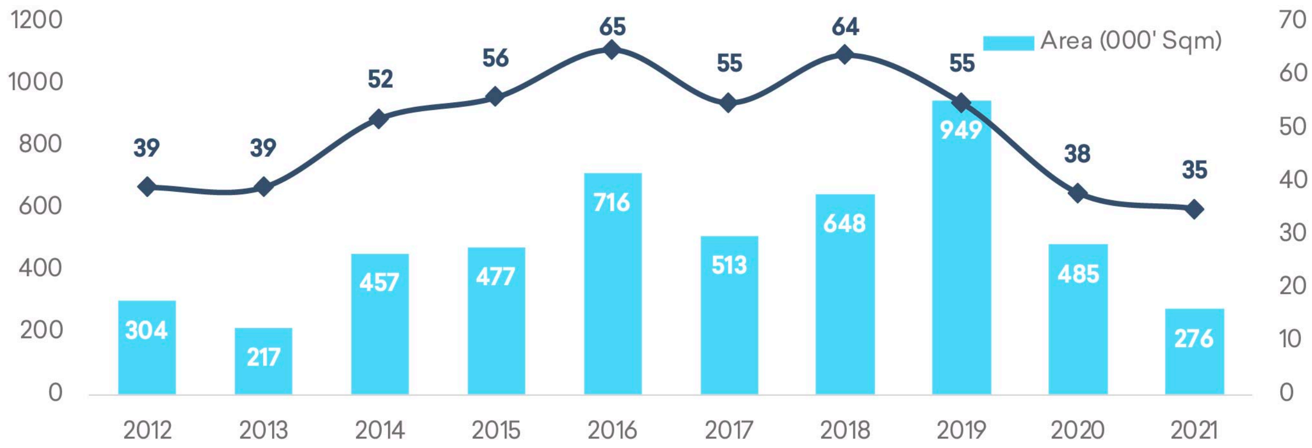


FIGURE 45

Distribution of total residential area (permits) by districts, Batumi

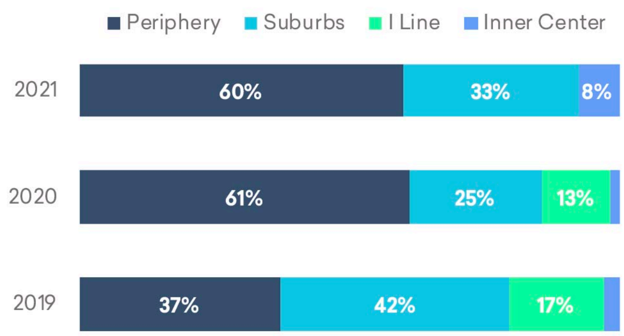
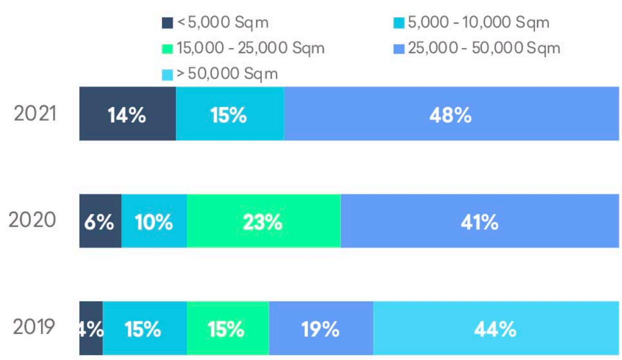


FIGURE 46

Distribution of total residential area (permits) by project size, Batumi



Source: Batumi City Hall, TBC Capital

Market Projections

Considering the optimistic start of 2022 for RRE market in Tbilisi and Batumi, we expect the number of transactions and sale prices to increase in 2022 compared to the last year. Stronger than expected economic growth, stable USD/GEL exchange rate (see our publication: Macro Insights: Stronger than 5.5% Baseline), accelerated migration from Ukraine, Russia, Belarus and recovery in tourism will be the main demand-side drivers of RRE market in 2022. Rising construction costs will also have an upward pressure on RRE sale prices. However, together with the decreasing supply of new residential buildings (declining permit issuance) it might have a negative impact on the market activity, especially in 2023 and 2024.

We expect that in 2022 prices in Batumi (+1% YoY) will show lower growth compared to Tbilisi (+11% YoY), due to the rapidly increasing share of Periphery (where properties are two times cheaper than in I Line) in Batumi's total transactions. On other hand, the increase in number of transactions will be higher in Batumi (+23% YoY) than in Tbilisi (+14% YoY) due to the stronger demand from non-residents.

FIGURE 47

Weighted average sale prices (Index, 2019 average = 100)

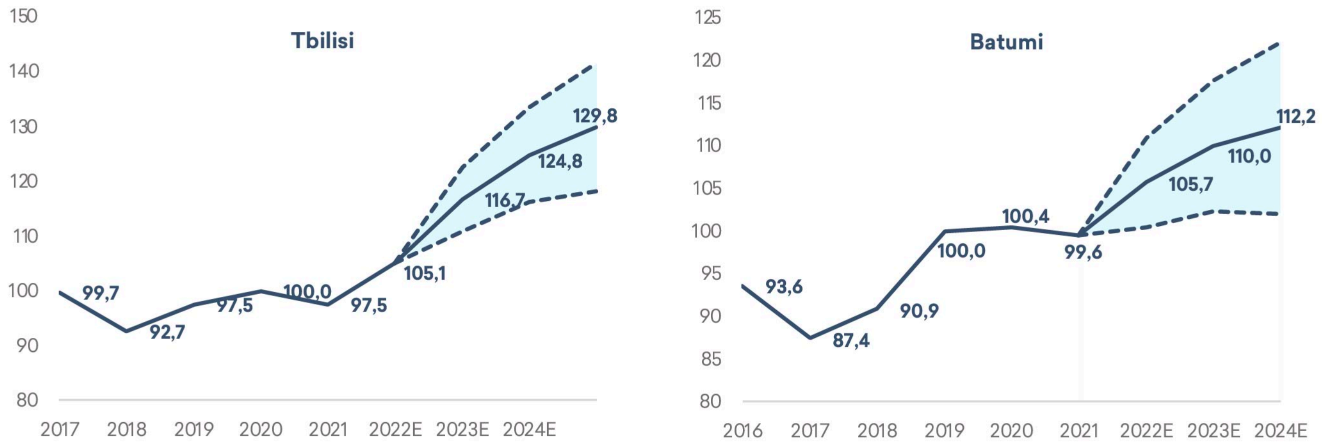


FIGURE 48

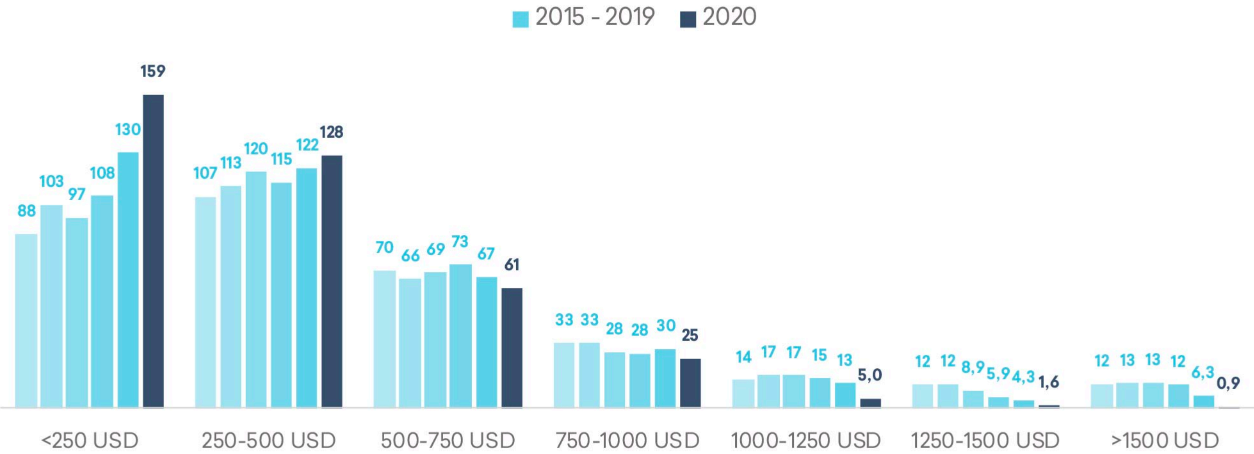
Number of residential property transactions (Index, 2019 average = 100)

Source: NAPR, TBC Capital

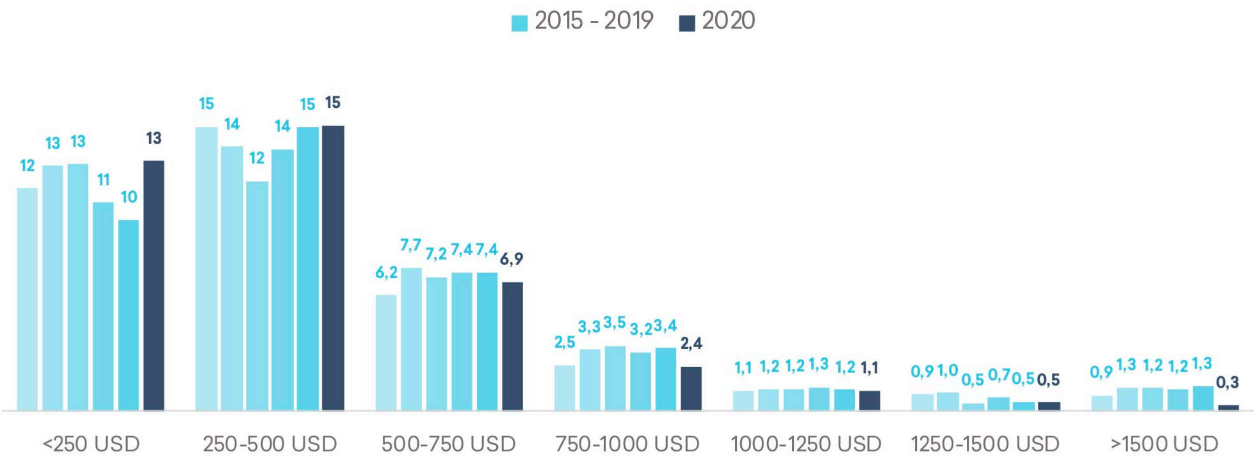
Annex

A1. Distribution of households (000') by income (USD) level categories

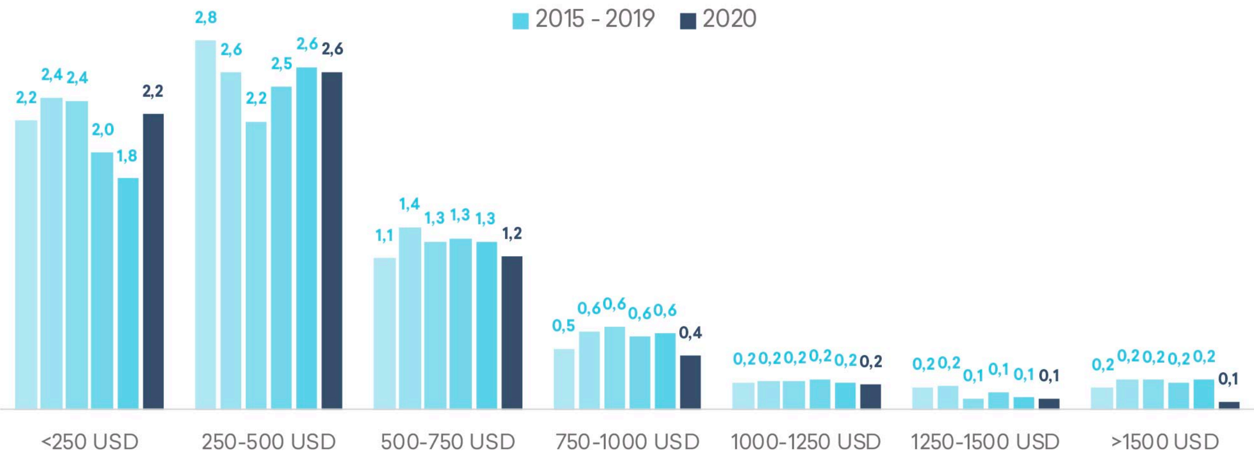
Tbilisi



Batumi



Kobuleti

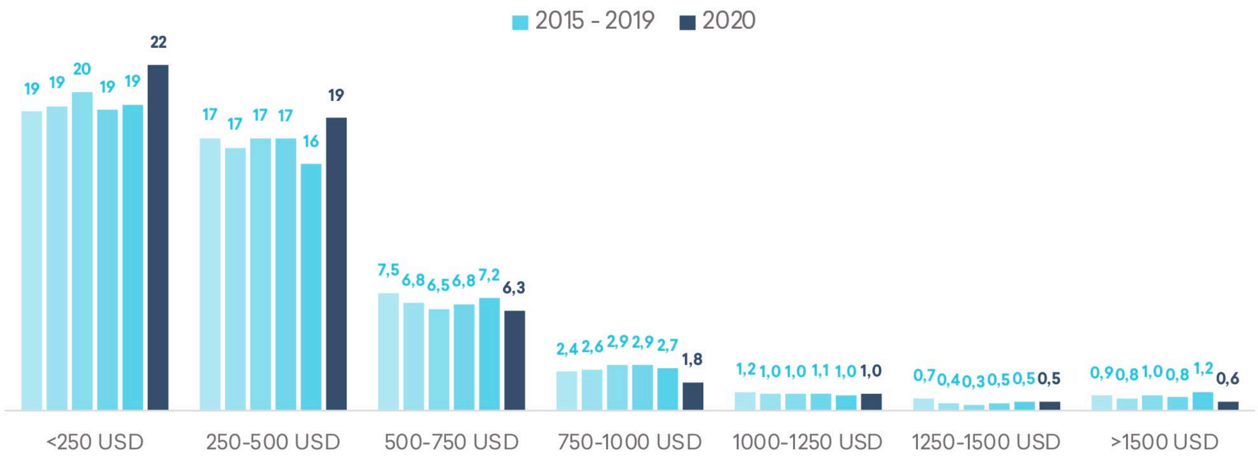


Source: NAPR, TBC Capital

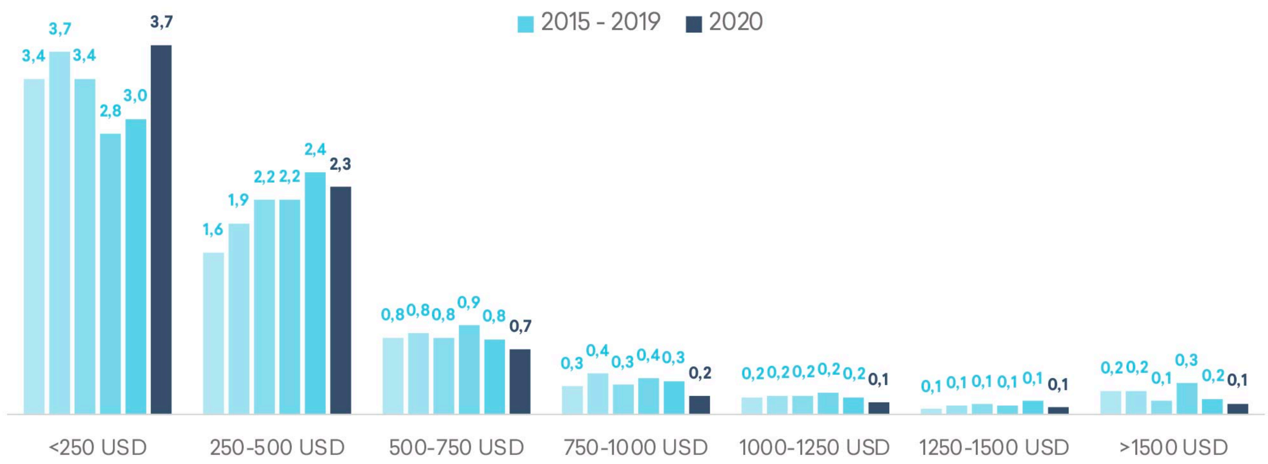
Annex

A1. Distribution of households (000') by income (USD) level categories

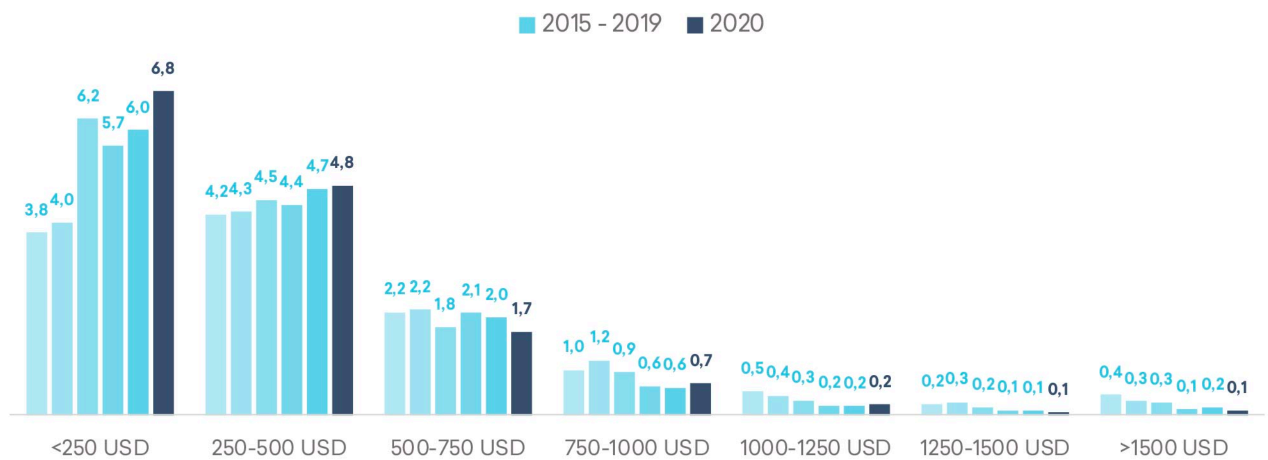
Kutaisi



Telavi



Poti

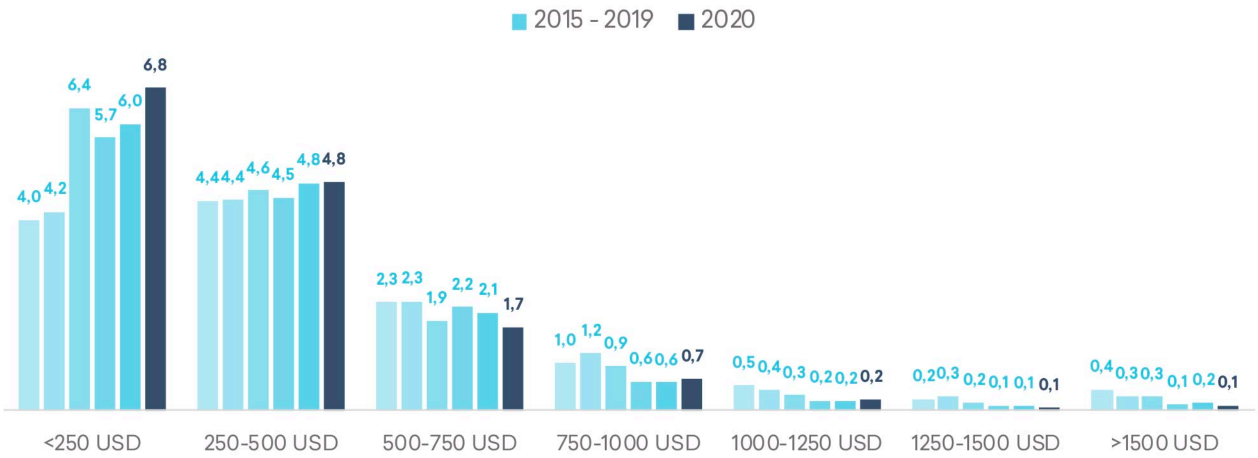


Source: NAPR, TBC Capital

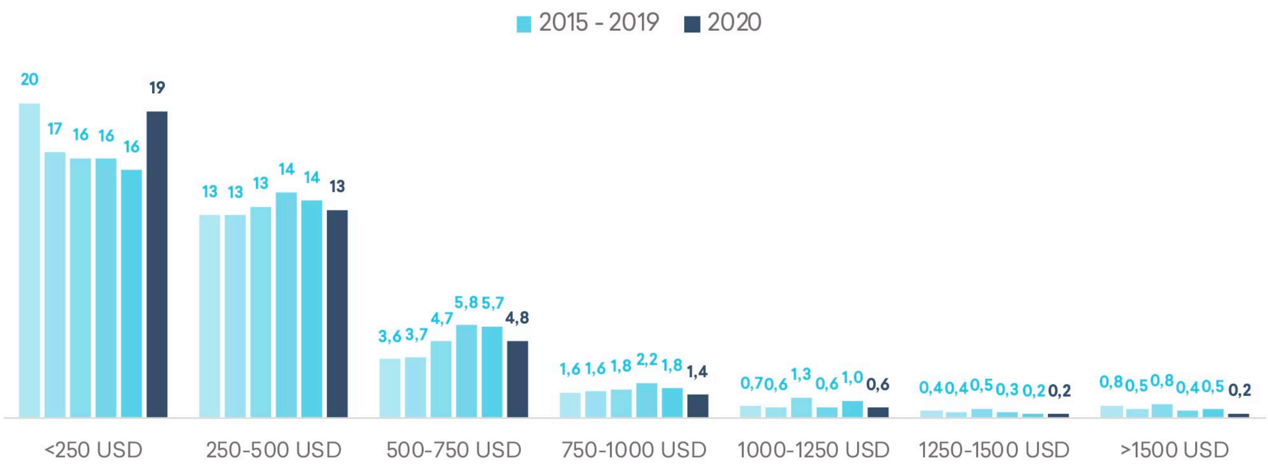
Annex

A1. Distribution of households (000') by income (USD) level categories

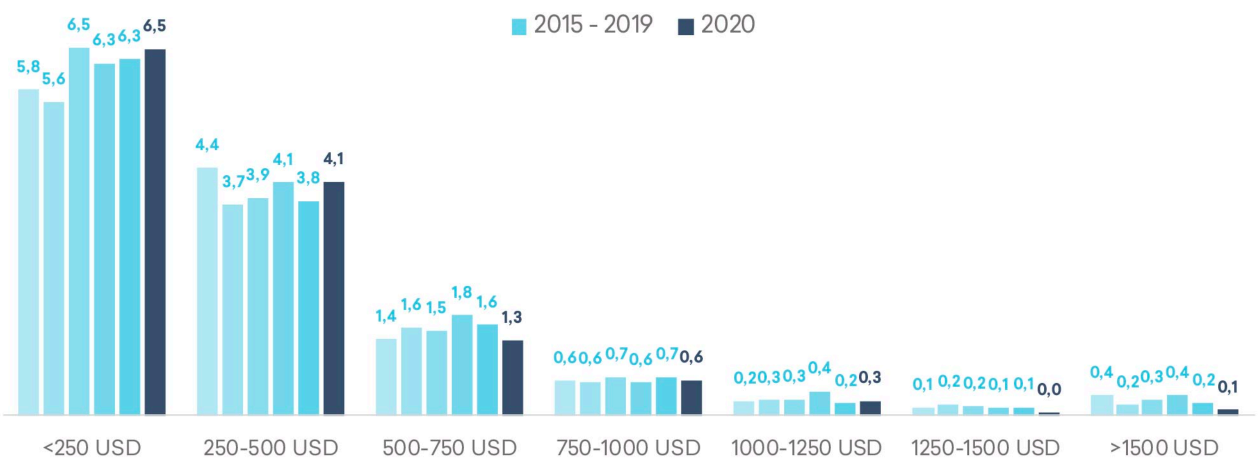
Zugdidi



Rustavi



Gori

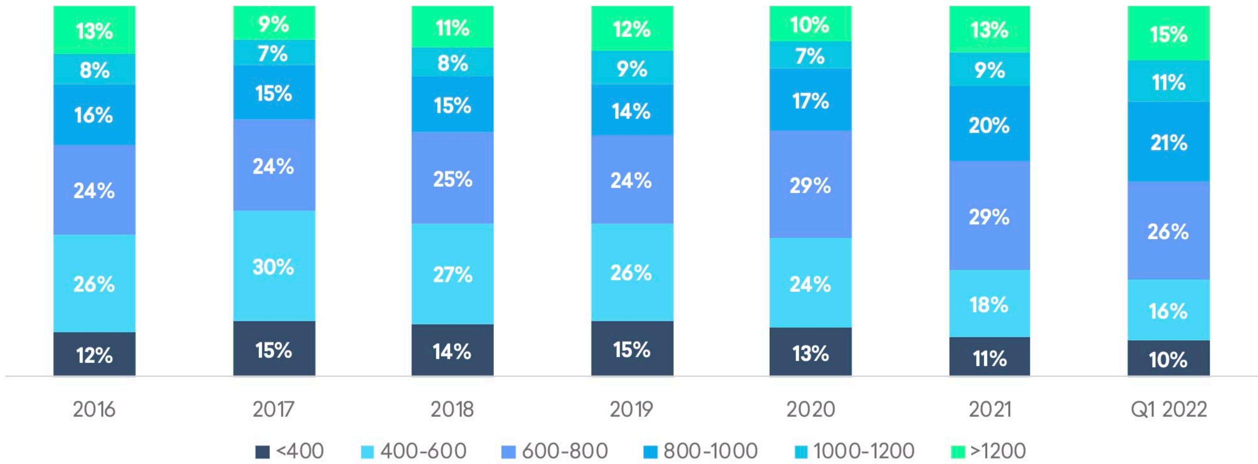


Source: NAPR, TBC Capital

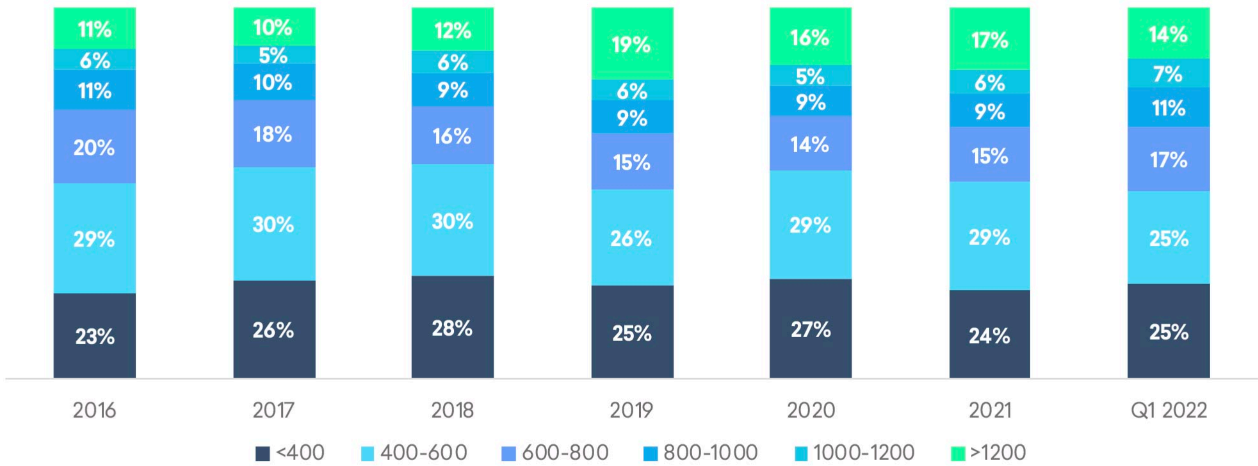
Annex

A2. Distribution of transactions by price categories (per SQM, USD)

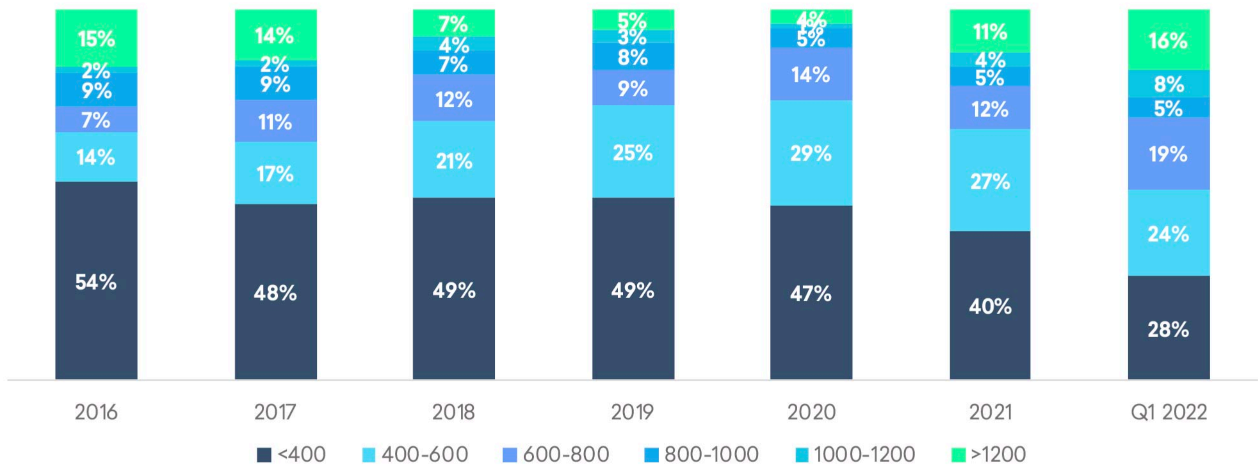
Tbilisi



Batumi



Kobuleti

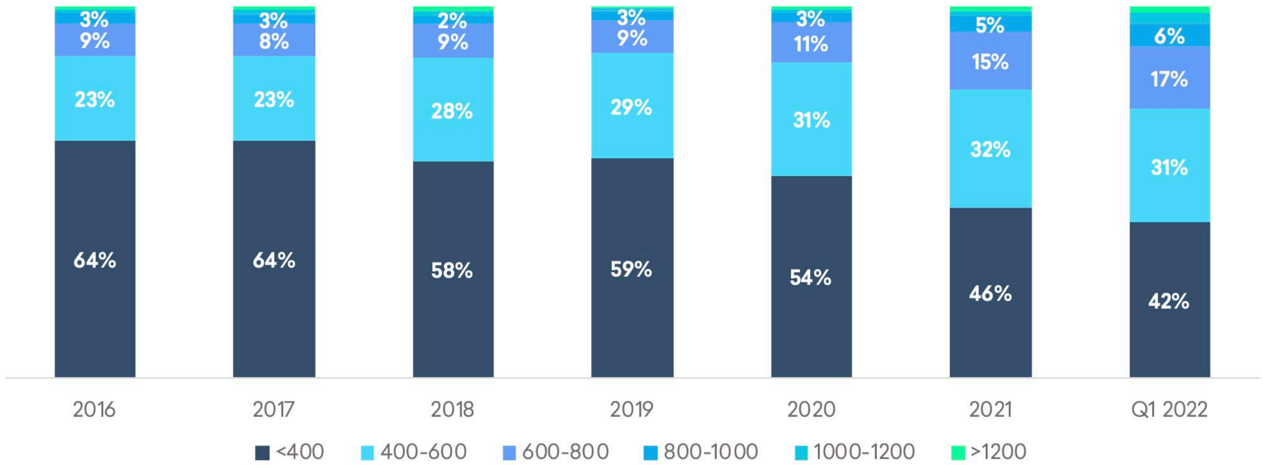


Source: NAPR, TBC Capital

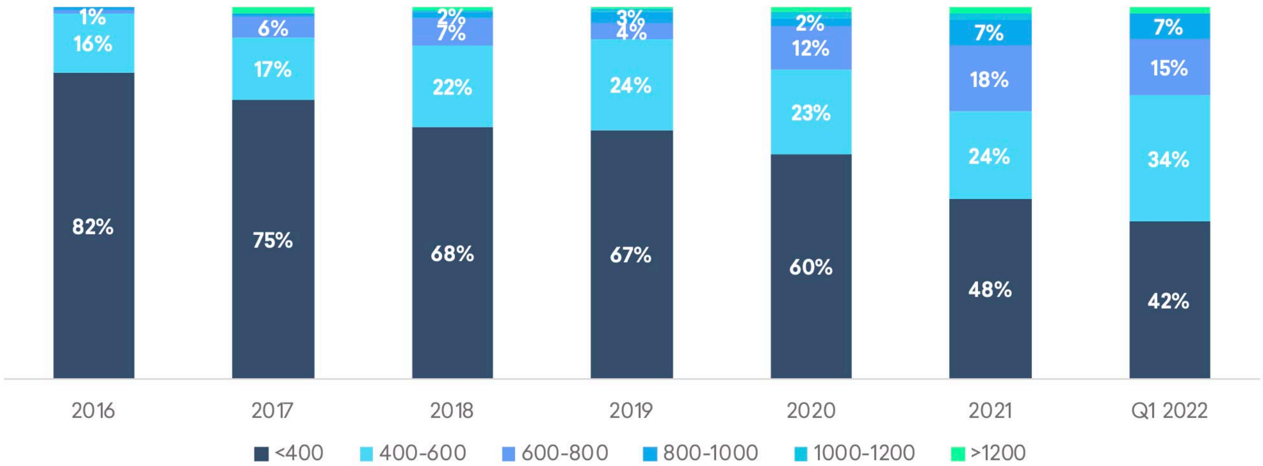
Annex

A2. Distribution of transactions by price categories (per SQM, USD)

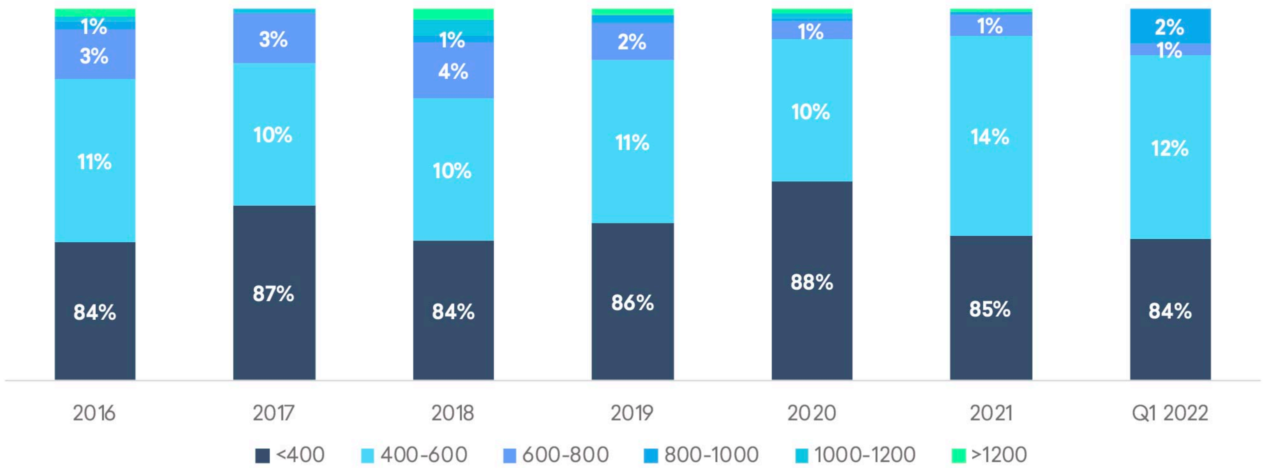
Kutaisi



Telavi



Poti

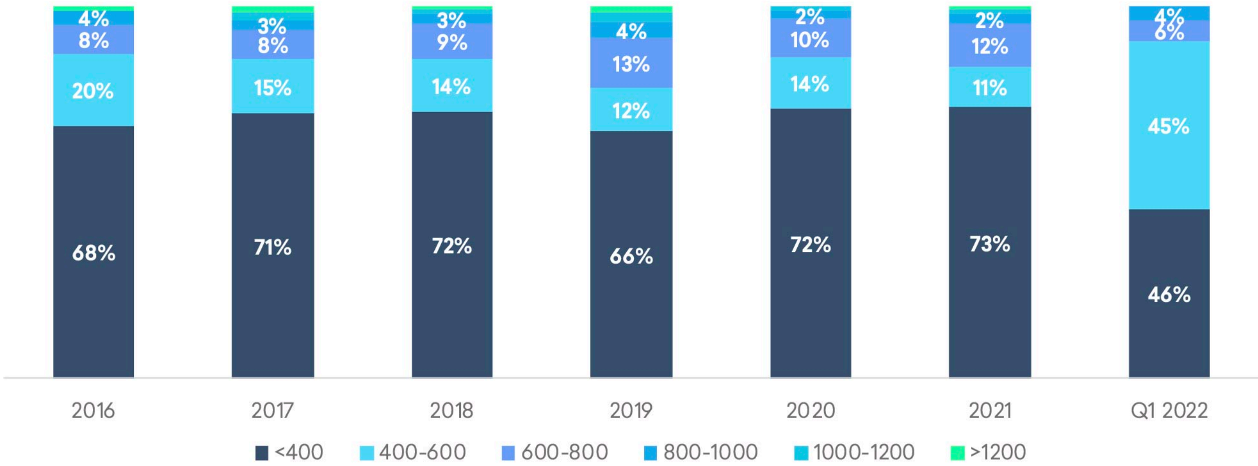


Source: NAPR, TBC Capital

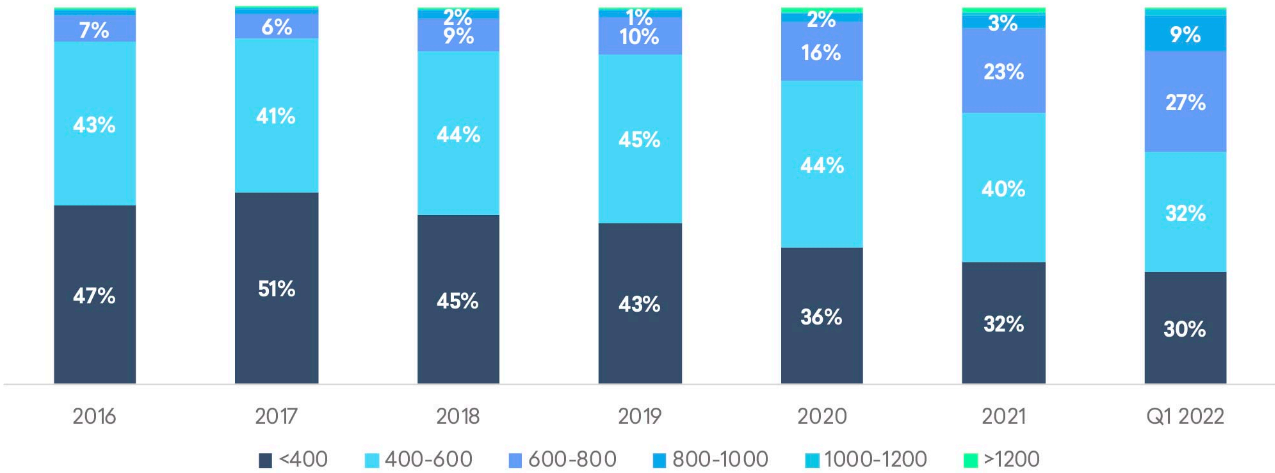
Annex

A2. Distribution of transactions by price categories (per SQM, USD)

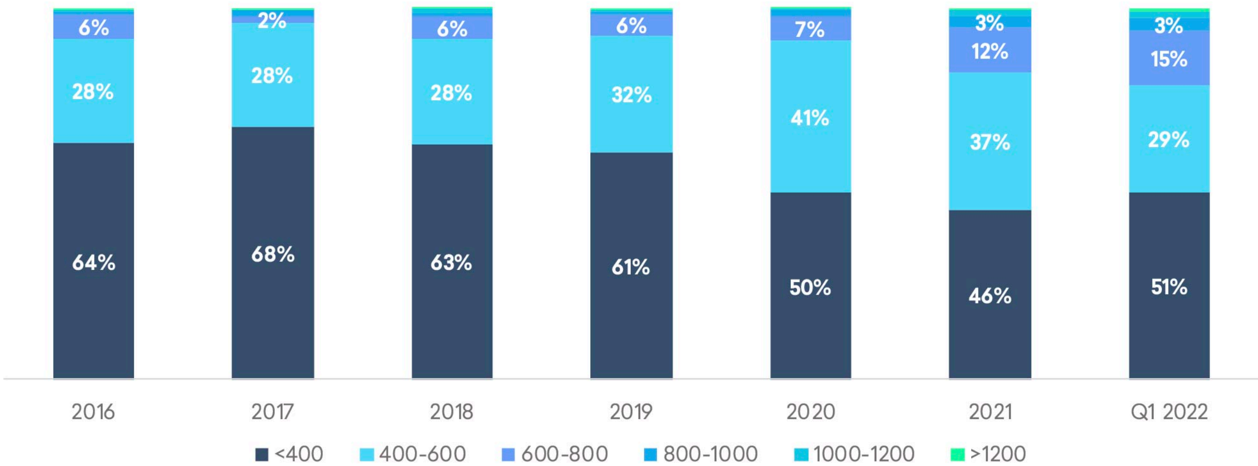
Zugdidi



Rustavi



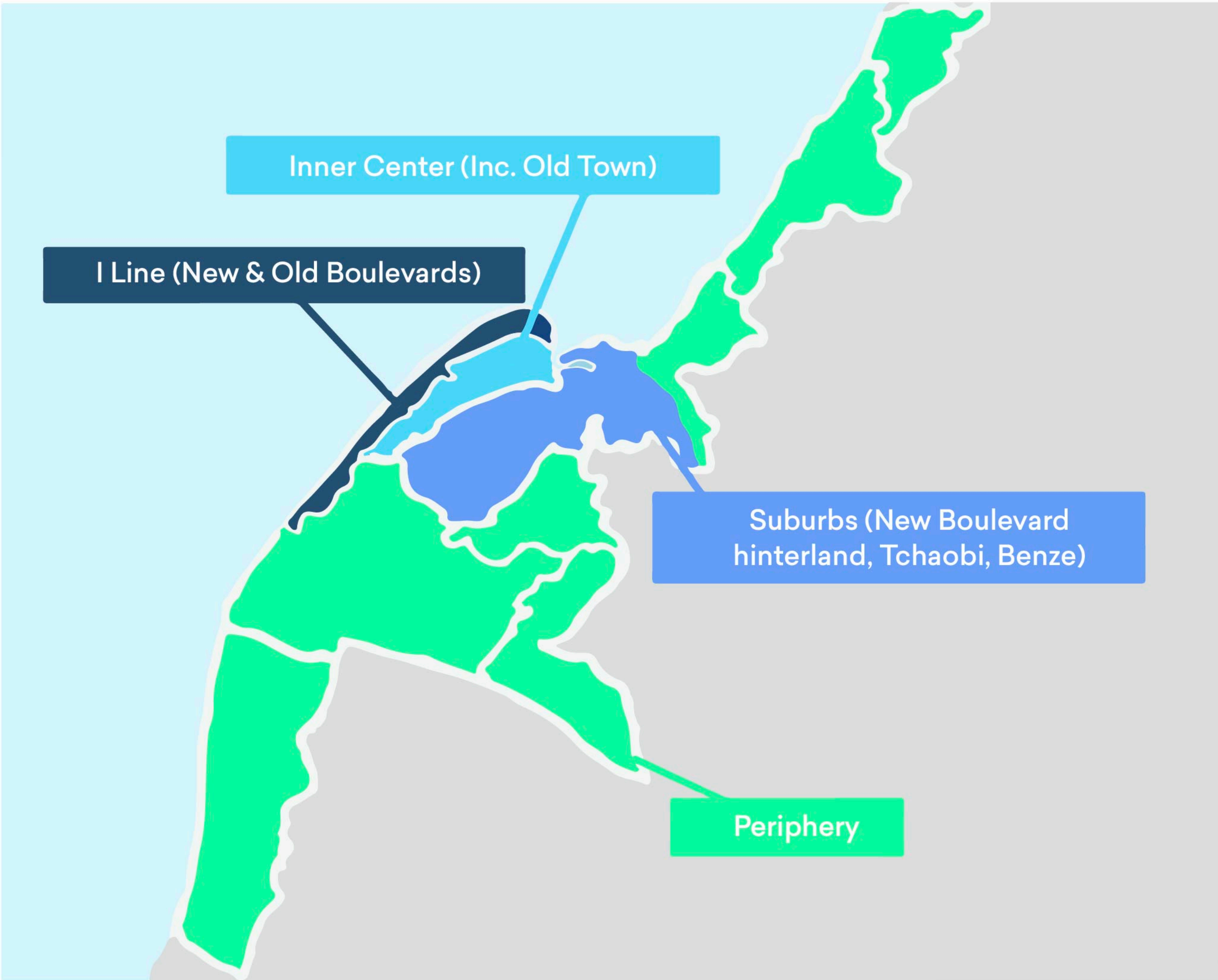
Gori



Source: NAPR, TBC Capital

Annex

A3. Batumi district definitions



For our analysis, the urban divisions mentioned in the report do not match with administrative borders of Batumi:

I Line: Rustaveli, Khimshiashvili and Ninoshvili streets, Old and New Boulevard coastal areas;

Inner Center: Area behind I Line and Old Boulevard, including Old Batumi;

Suburbs: Tchaobi, Benze, New Boulevard hinterland, as well as districts beyond Old Batumi;

Periphery: Settlements surrounding the city – Kakhaberi, Chakvi, Makhinjauri, Khelvachauri, Gonio, Kvariati and other peripheral areas;

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