



TBC CAPITAL

CONSTRUCTION SECTOR AT A GLANCE

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Brief Overview

Construction costs in Georgia have increased significantly since 2019, with especially sharp growth in 2021-2022. The construction cost index (CCI) increased by 23% annually in 2022. In 2023-2024 the construction cost inflation relatively stabilized with moderate growth figures.

Initial cost increase was driven by construction materials, reflecting pandemic and war-related price spikes. However, more recently, in 2023-2024, labor costs have become the main driver.

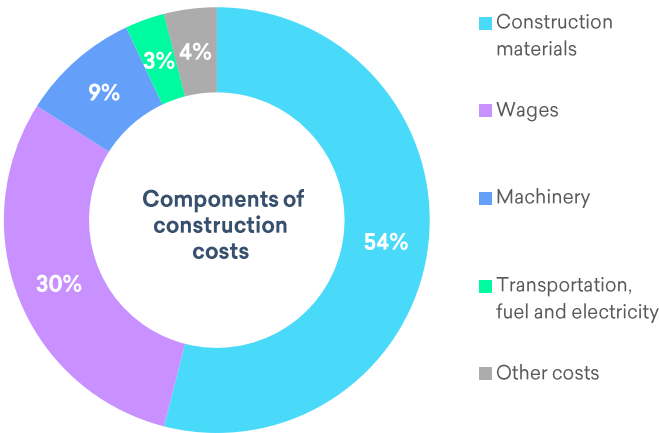
Soaring wages have contributed significantly to increased total construction cost. The rapid growth in remuneration and a noticeably decreasing number of persons employed in construction signals skilled labor shortage. Meaning, the labor related issues could be a key challenge for the sector currently.

Construction and Rising Costs

Construction input costs increased significantly in recent years. The onset of Covid-19 in 2020 led to project delays and modest cost changes. In short, 2019-2020 saw low construction inflation with any pandemic-driven supply issues largely offset by weak demand in 2020. As the economic activity rebounded, construction costs accelerated in 2021, marking an annual growth of 10%. Material costs were the major factor, since imported materials became pricier amid worldwide shortages, together with higher transportation and fuel costs. This period marked the beginning of an upward cost cycle for the sector. Later in 2022, the Russia-Ukraine war further amplified cost pressures. Disruptions in regional supply chains and commodity markets drove input prices even higher and CCI increased by 23% YoY.

During 2023, construction cost inflation started cooling down, with annual growth standing at 12%. The trend of moderate inflation carried into 2024 and through most of the year CCI index rose at a low single-digit pace, with final annual YoY growth standing at 4%. In these years real estate demand stayed strong, preventing any cost deflation.

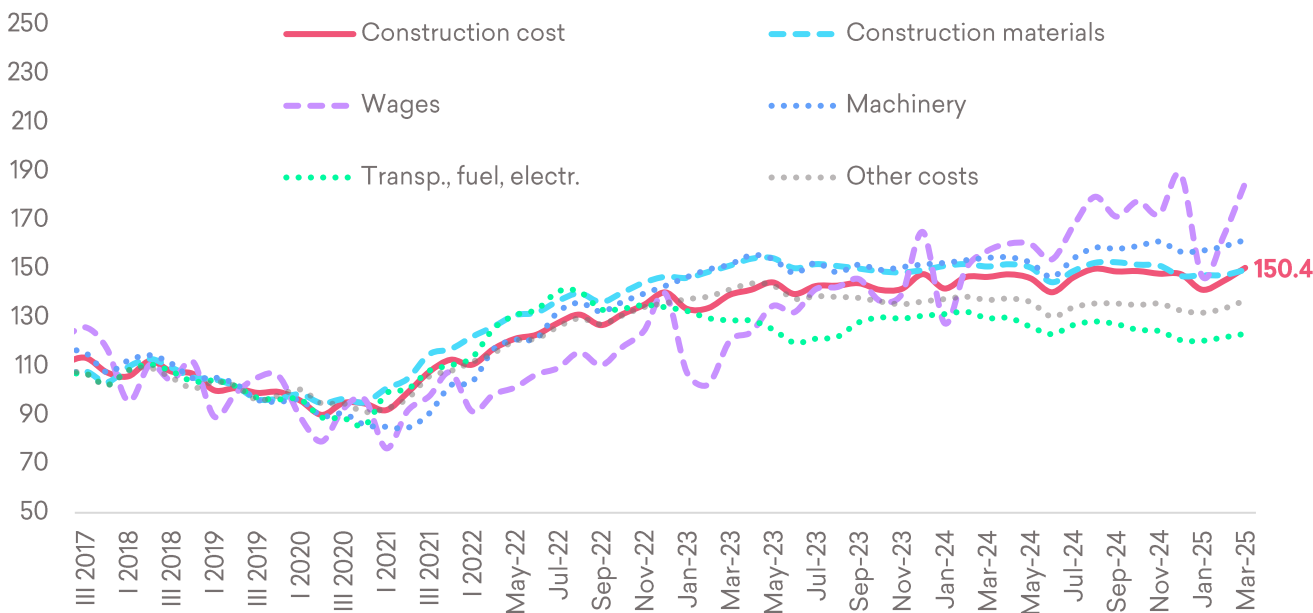
The most recent data of the first quarter of 2025, shows basically no change relative to the same period of 2024.



By our estimations, construction materials account for the largest share of total construction costs, followed by wages.

The data underlines the shift in what’s driving the cost changes. While in 2021 and 2022 the construction materials were the main cost growth drivers, by 2024 labor costs dominate incremental increase, which is mostly due to shortage of labor on the market and the outflow of labor.

Figure 1. Construction cost index (2019 average = 100, \$)



Source: Geostat, TBC Capital

Cost Drivers – Materials

Iron Bars and Rods

Iron bars/rods are key construction materials. In 2019-2020, Ukraine played a central role in supplying Georgia with iron bars and rods. During this period Ukraine accounted for an average of 59% of Georgia’s total imports in this category, however, in 2021, Ukraine’s share dropped to about 24%, signaling a shift in trade dynamics even before the war began. Following the next events, in 2022-2023, since imports of iron bars/rods from Ukraine stopped, the import sources needed diversifying. So from 2022 and onward, Iran and Russia became the main suppliers for Georgia.

Import size has been increasing considerably since 2022, reflecting the significant increase of activity on the real estate market in Georgia.

In 2024, around 395 thousand tons of iron bars and rods were imported, exceeding the 2023 level by 56%. Russia and Iran were the main importers.

It is important to note that domestic capacity had a bit of a stall in 2024, with production decreasing by 4% annually. Consequently, self-sufficiency fell by 10 percentage points, meaning that for the first time in the last 6 years, more than half of local demand was met by imported product. This could be explained by the price difference between locally produced and imported products.

Figure 2. Production and import of iron bars and rods (‘000 tons)

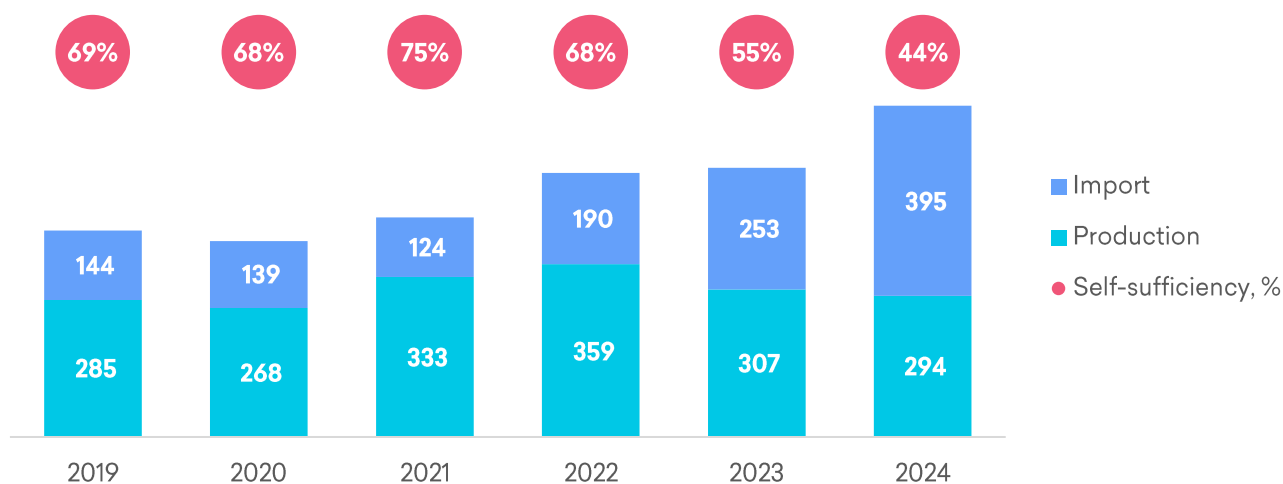
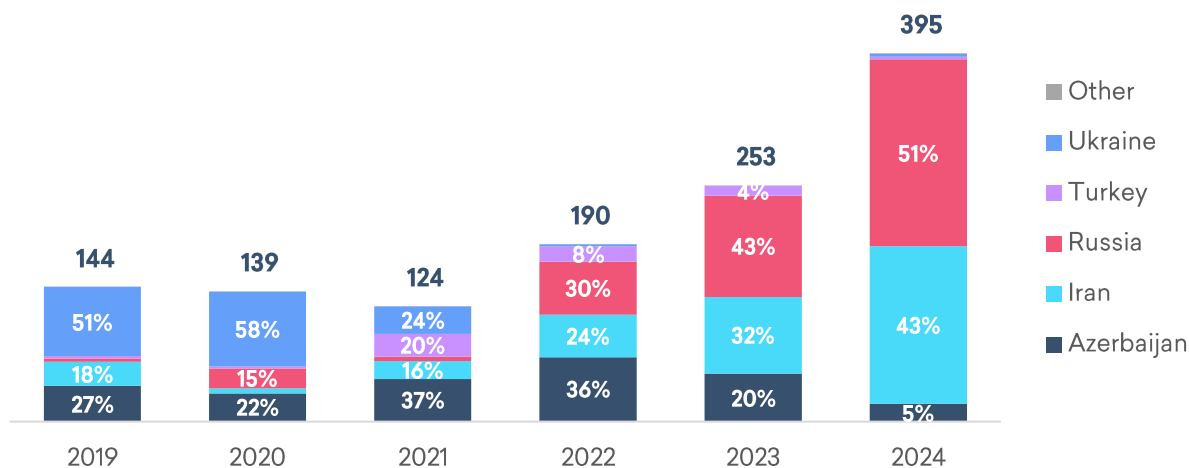


Figure 3. Import of iron bars and rods (‘000 tons), by country



Source: Geostat, TBC Capital

Cost Drivers – Materials

Iron Bars and Rods

When it comes to prices, after a significant increase in 2021-2022, the figures started stabilizing. Since January 25, 2025, the import of bars and rods of iron will be subject to a tax of GEL 420 per ton. The tax will remain in effect until September 1, 2025. It is expected to reduce the imported volume of the product and increase domestic production.

Iron ore is a key raw material for bars and rods used in projects. As of March 2025, iron ore prices stood at USD 103.1 per metric ton (mt), marking a 16% decline compared to the Q1 2024 average. The iron ore price forecast for 2025 is 95.7 \$/mt, with prices expected to stabilize at 90 \$/mt from 2026 onward.

Figure 4. Price of iron bars and rods (\$/mt)

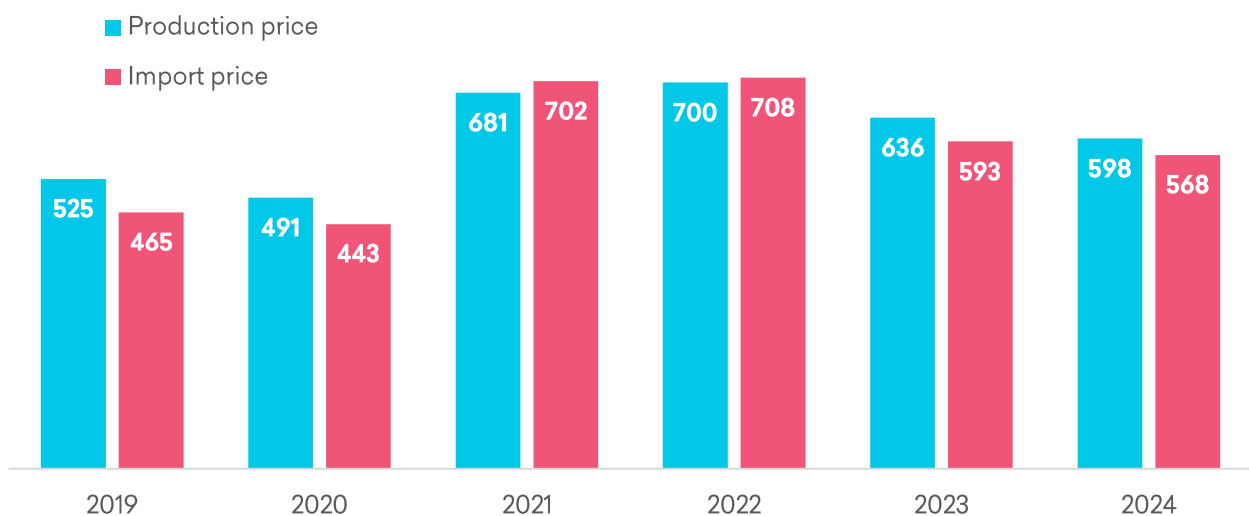
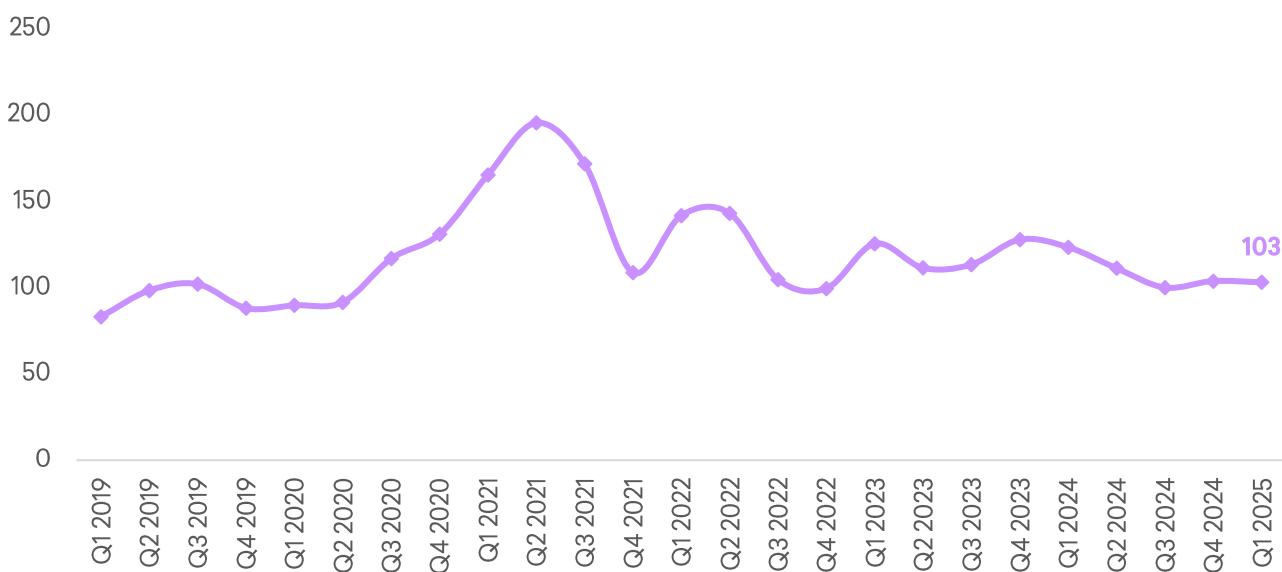


Figure 5. Iron ore price (\$/mt), the spot price for 62% iron ore



Source: Bloomberg, Geostat, TBC Capital
 Note: 2024* preliminary data

Cost Drivers – Materials

Cement

Since 2019, Georgia has been consistently producing around 94% of total cement used in the country annually. The cement market is highly self-sufficient and in 2023-2024, there has been double digit annual growth observed. In 2024, about 3 mln tons of cement was produced in Georgia, a 12% increase relative to 2023.

However, despite high self-efficiency, it should be noted that the production of cement is reliant on clinker - the primary raw material for cement.

The import of this product has been increasing considerably in the last 3 years. There was an especially high annual increase observed in 2024, when for the first time, import of clinker went above 1 mln tons, marking a 41% annual growth.

Figure 6. Cement production and import ('000 tons)

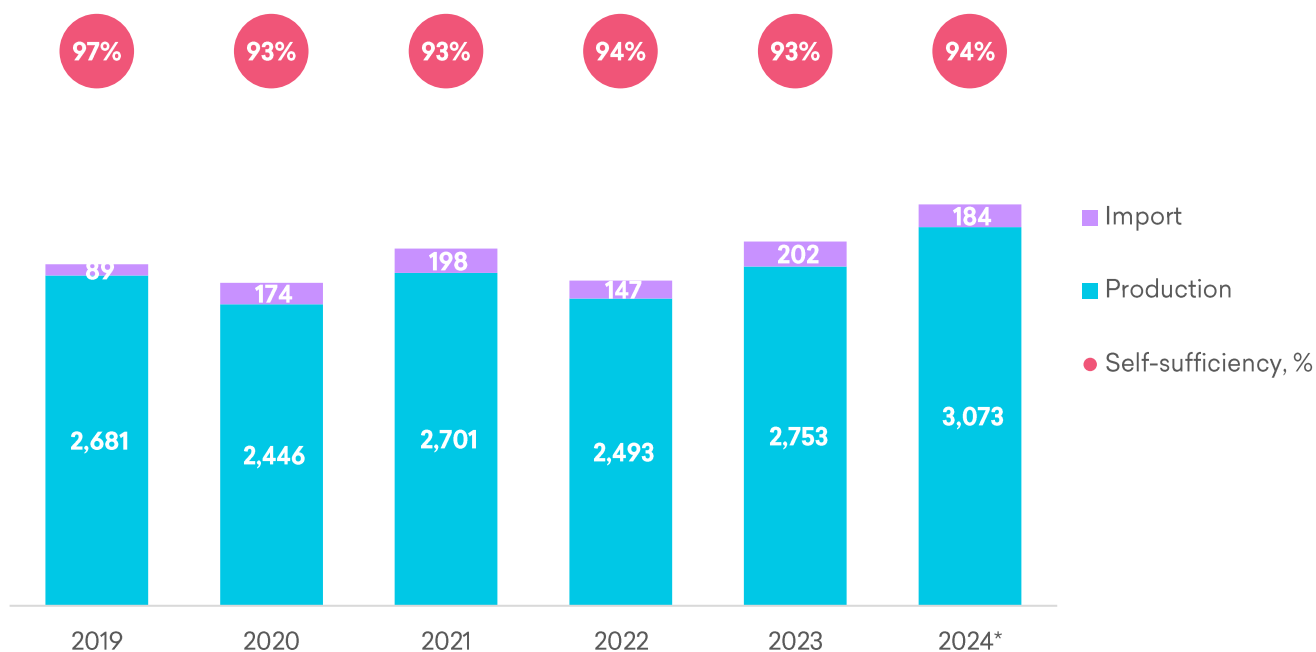


Figure 7. Cement price (₾/mt)

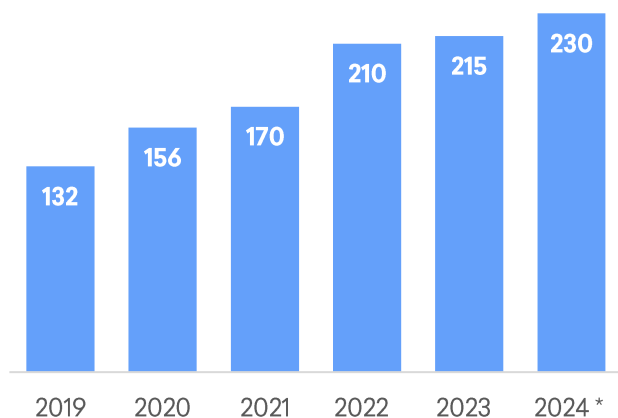
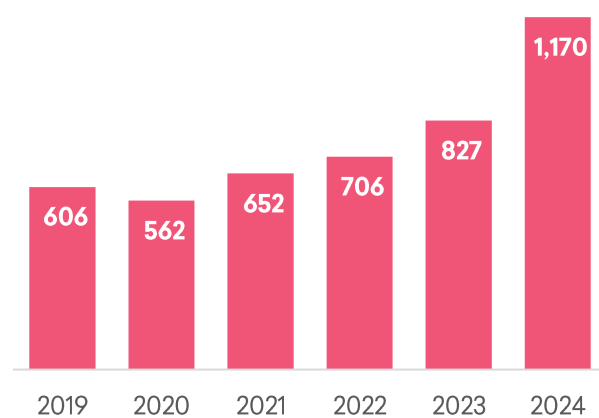


Figure 8. Import of clinker ('000 tons)



Source: Bloomberg, Geostat, TBC Capital
 Note: 2024* preliminary data

Cost Drivers – Materials

Concrete

Production of concrete has been on a rising streak since 2021, with double digit annual growths. According to the preliminary data in 2024, around 5 mln cubic meters (cbm) of concrete was produced in Georgia, which is more than double than 6 years ago and 21% more relative to 2023.

The market size of concrete production naturally follows the dynamics of volume. Latest data in 2024 shows that the market was valued at 894 mln GEL, which exceeded the 2023 figure by 16%.

Figure 9. Production of concrete in Georgia ('000 cbm) and YoY change (%)

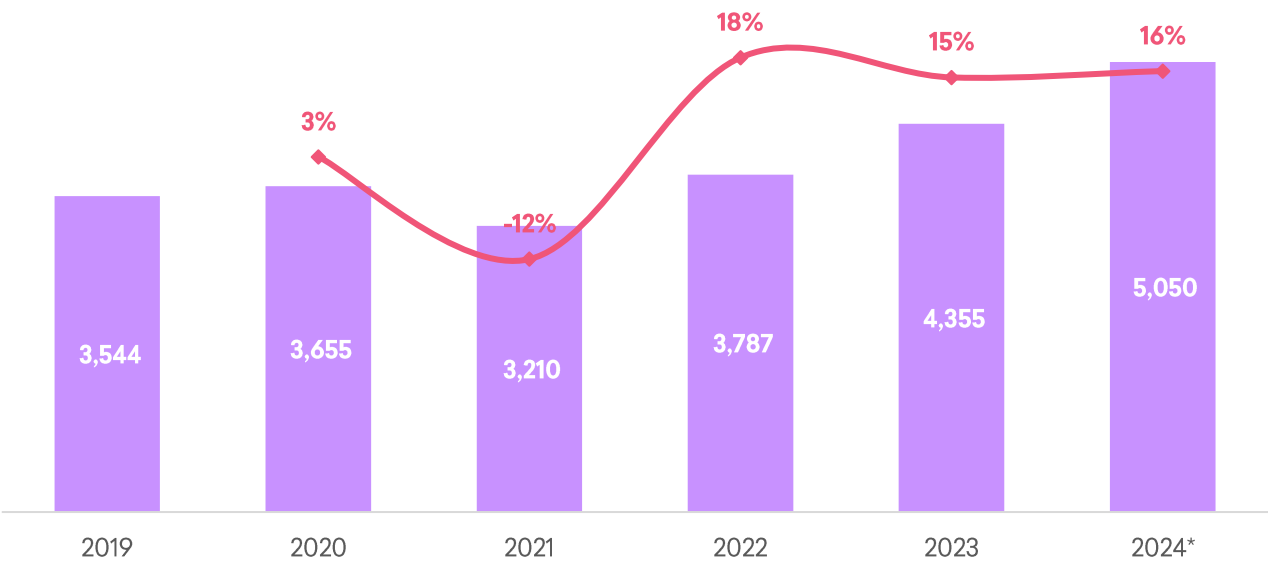
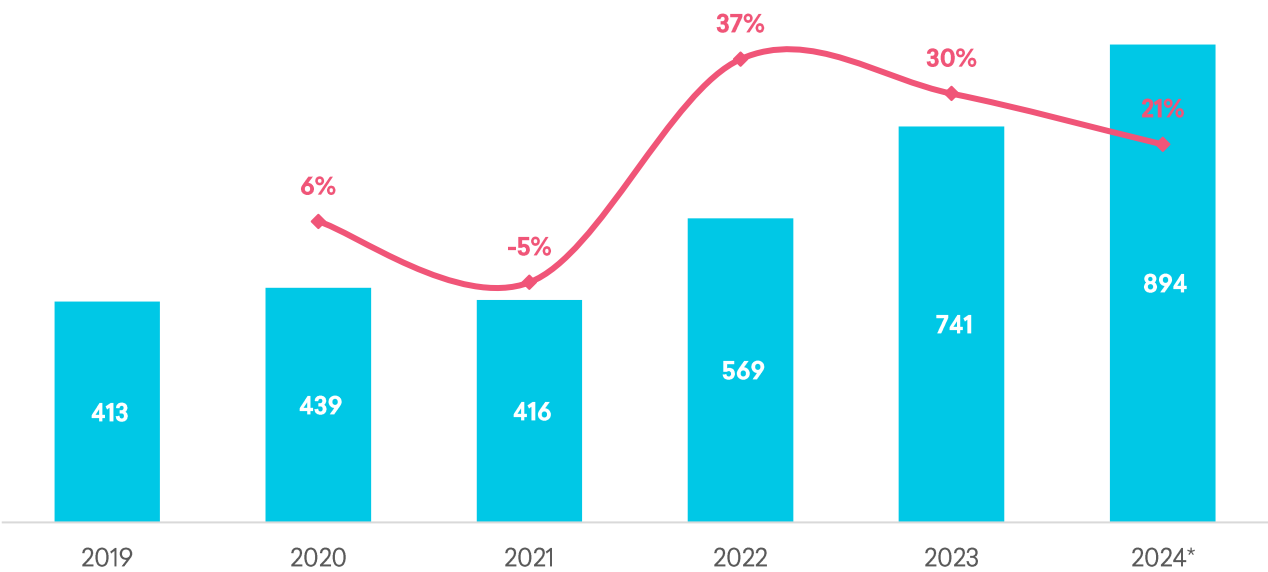


Figure 10. Market size of concrete in Georgia (mln. Gel) and YoY change (%)



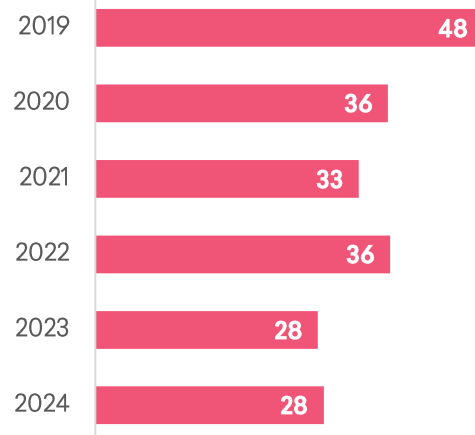
Source: Geostat, TBC Capital
Note: 2024* preliminary data

Amid Labor Shortages

Construction sector employment has mostly been on a roller coaster. Pre-Covid, in 2019, the industry employed around 70 thousand people. The pandemic dealt a blow to the sector, causing employment to drop by 5% annually in 2020 and by 3% in 2021, hitting the low of 64 thousand persons. As the economy rejuvenated, jobs came back gradually with the number of employed persons increasing in 2022 (+2% YoY) and 2023 (+4%, YoY). However, according to the preliminary data, in 2024 the number went down by 4% relative to 2023. So, the workforce did not expand much since 2019 despite a surge in construction activity. This suggests that labor supply is limited and essentially, the sector is trying to build more with less number of workers. If we look at the average number of employed persons per 1,000 sqm of potential residential area supply in Tbilisi, the figure has nearly halved in the last 6 years. Coming down from an average of 48 persons in 2019, to only 28 in 2024.

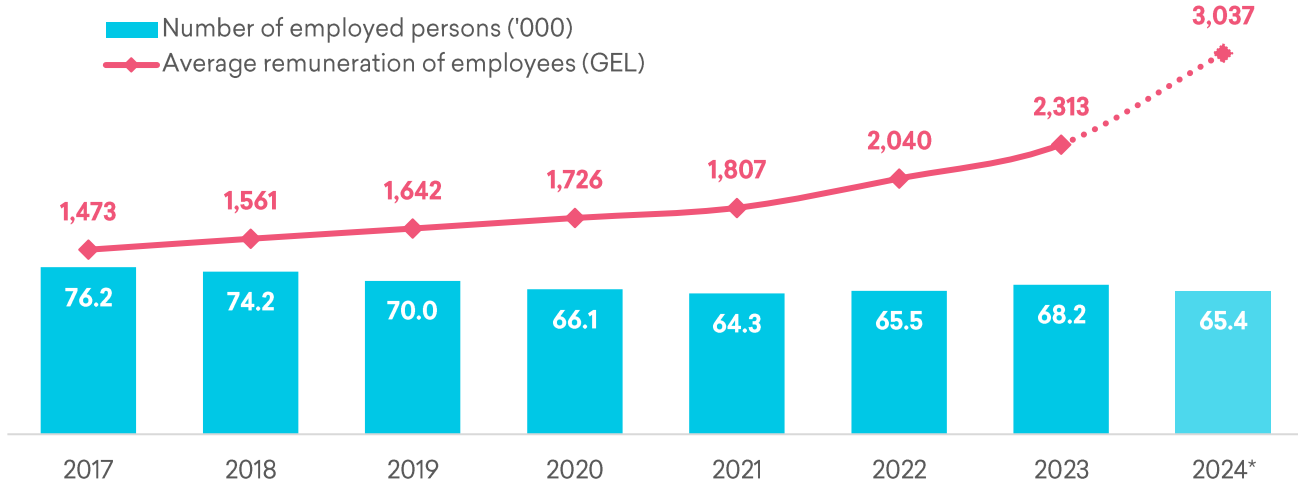
Construction wages have increased drastically. Even during 2020 when employment was weak, the nominal wage kept rising, in some ways possibly reflecting the efforts to retain skilled labor. The average remuneration of employed persons in construction was around 1,600 GEL in 2019, while according to the preliminary data in 2024 the figure stands above 3,000 GEL. The wages have basically doubled relative to pre-pandemic level. Such wage inflation far exceeds CPI inflation – another indication of labor shortage in construction.

Average number of employed persons per 1,000 sqm of potential residential area supply, Tbilisi



Since 2021, construction activity has increased significantly across both residential and commercial segments, fueled by strong market demand. This expansion has driven a sharp rise in the demand for labor. However, persistent labor outflows and unfavorable demographic trends have contributed to a sustained shortage of skilled workers. As a result, the sector has faced growing challenges in meeting labor needs, intensifying competition among companies to secure a qualified workforce. To attract and retain experienced personnel, firms have likely been compelled to raise wages, contributing to a steady increase in industry-wide remuneration.

Figure 11. Number of employed persons in construction ('000) and average monthly remuneration (GEL)



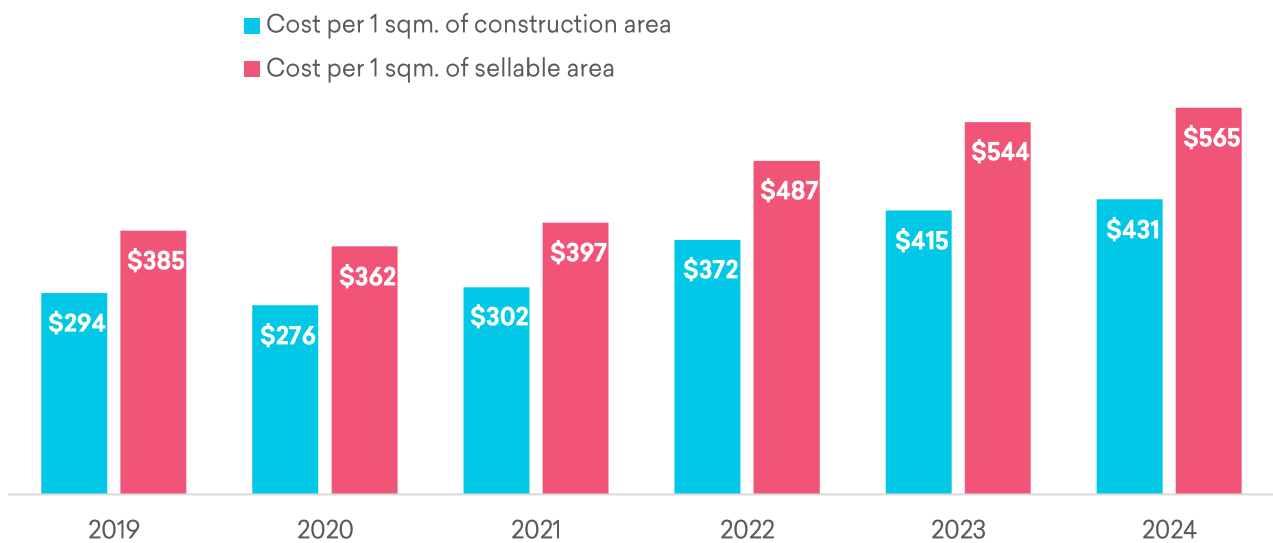
Source: Geostat, TBC Capital
Note: 2024 preliminary data

Construction Cost

The average construction cost in Tbilisi has been on the rise since 2020. By our estimations the figure reached \$431 per 1 sqm of construction area and \$565 per 1 sqm of sellable area (+4% YoY).

It is important to note that this cost includes construction materials/construction and project planning.

Figure 12. Average cost of construction (\$/sqm), Tbilisi



Source: TBC Capital

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