

TBILISI RESIDENTIAL REAL ESTATE
MARKET OVERVIEW -
NEW REALITY

SPECIAL EDITION


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A nighttime photograph of a cityscape, likely Tbilisi, Georgia. The image shows several tall buildings with lit windows, creating a warm glow against the dark sky. In the foreground, a construction crane is visible, and the city lights are reflected in a body of water. The overall scene is a mix of urban architecture and construction activity.

The resilience of Tbilisi residential real estate (RRE) market toward the COVID-19 shock in 2020-2021 will be tested once again in 2022, as the ongoing war in Ukraine creates new challenges and uncertainties for the market development.

In this special edition, we assess the outcomes of the war in Ukraine for the RRE in Tbilisi under two possible scenarios and compare them to no war scenario.

The market indicators will be formed by combination of both demand and supply side factors. GEL depreciation against USD, lower economic growth, increase in monetary policy rate are the main drivers negatively affecting demand on RRE. However, an increase in inflow of migrants will compensate these impacts with low foreign currency (FC) deposit interest rates further stimulating the demand. On the supply side, increased oil and commodity prices will affect construction costs and, therefore, RRE prices.

The initial impacts on RRE market could be already observed, however circumstances change rapidly and TBC Capital will continue to update these assessments accordingly.

What did we expect

In no war scenario, TBC Capital had a positive outlook for Tbilisi RRE market. We projected **sale price** (in USD) and the **number of transactions** to increase by **9.4%** and **12.8%** respectively in 2022 compared to the previous year. It would result in a 22.5% YoY increase in Tbilisi RRE market size (in USD). At the same time TBC Capital expected **rent price** to recover to 2019 level in the second half of the year with **18%** YoY growth. These projections were based on our forecast of selected macroeconomic indicators and information on construction permits granted in previous years (see Table 1).

The recent data from January-February 2022 supports our expectations in no war scenario, as prices (+6.5% YoY), transactions (+21.3% YoY) and rents (+22.6% YoY) improved significantly. February data is analyzed in more detail in our latest [Tbilisi Residential Market: Monthly Watch](#).

Considering ongoing war in Ukraine the world is no longer in a 'business as usual situation' and TBC Capital changes estimates accordingly. We evaluate the impact of the war on Tbilisi

RRE according to two scenarios that were recently developed by TBC Capital and then updated in the following publications:

[Tourism: What is at Stake?, March 10](#)
[Weekly Update From Chief Economist, March 7](#)
[Weekly Update From Chief Economist, February 28](#)

In our scenario analysis we consider all the main variables, which will shape the Tbilisi RRE market in 2022, including both demand and supply side factors. Also, variables such as oil prices and nominal exchange rate against USD are included in the impact analysis. Oil prices directly affect the transportation and production costs of construction materials. Exchange rate fluctuations affect incomes (in USD terms) of population and, consequently, demand and prices (in USD terms) of RRE. The respective changes in all variables used for impact analysis are provided in Table 1.

Additionally, we assume that low interest rates on FC deposits (which stimulated the demand on RRE in 2021) remains at the low level in all scenarios, not affecting the impacts of war on Tbilisi RRE in 2022.

Table 1. Major indicators used in impact analysis

		2021 Actual	2022 Baseline No War	2022 Rapid Resolution	2022 Delayed Resolution
Demand side factors	Real GDP (YoY, %)	+10.6	+6.0	+3.0	-1.5
	Remittances (YoY, %)	+25.5	+11.0	+2.3	-15.0
	MPR (%)	9.25	8.0	9.5	12.5
	Migrants ('000)	-	-	141.9	280.1
Supply side factors	Supply of new residential area, (YoY, %)*	+38.9	+19.0	+19.0	+19.0
	Construction costs, USD (YoY, %)	+9.2	+15.3	+18.2	+18.1
Other Variables	Oil price (USD/b)	71	85	95	110
	USD/GEL	3.10	3.00	3.15	3.30

*Estimates based on historical data of permits issued for construction of residential and multifunctional buildings. We assume 2 year as an average time for construction.

Source: TBC Capital, Geostat, NBS, IMF, Tbilisi City Hall

Impact analysis: timely vs delayed resolution scenario

In the timely resolution scenario, the demand on RRE weakens compared to the no war situation due to lower economic growth, remittances, higher monetary policy rate and GEL depreciation. At the same time, increased migration from Russia, Belarus and Ukraine positively affects the demand. The overall demand on Tbilisi RRE is expected to be slightly stronger in timely resolution scenario compared to the no war scenario.

The supply of RRE in Tbilisi will be negatively affected by the war. The main impact will be transmitted through increased prices of construction materials, which accounts for about 57% of total construction costs. GEL depreciation against USD will partially soften the pressure on construction costs (in USD), as wages (27% of total construction costs) and other costs, which do not directly depend on imports, will be “cheaper” in USD terms.

The combination of abovementioned factors in the timely resolution scenario results in a higher YoY growth in sale prices (+1.9 pp) and the number of transactions (+1.6 pp) compared to the no war scenario. Overall, in 2022, Tbilisi RRE market size (in USD) is expected to expand by 26.5% YoY, which is 4 pp higher

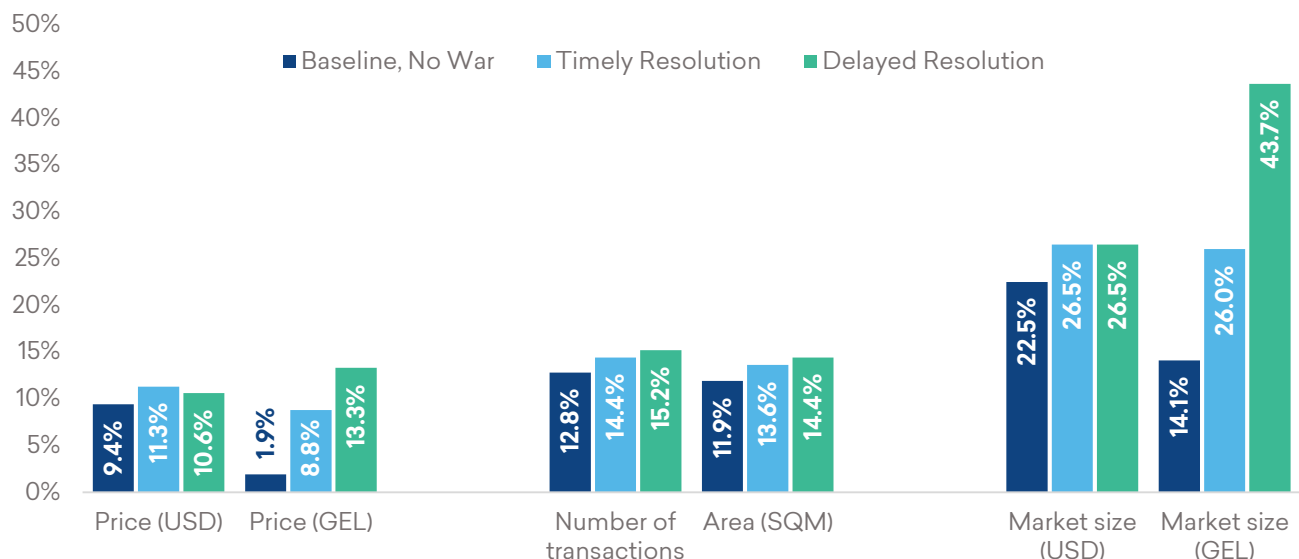
compared to the no war scenario.

In the delayed resolution scenario, same forces affect the demand and supply on RRE market. At the same time, the negative impact of macroeconomic indicators on RRE demand (GEL depreciation in particular) is more pronounced. However, due to notably higher migration, the RRE demand is even stronger than in timely resolution scenario.

The pressure on sale prices from supply side factors in delayed resolution scenario is slightly lower compared to the timely resolution scenario: higher prices of construction materials, transportation, fuel and electricity are balanced by lower wages (in USD). As a result, in the delayed resolution scenario, sale prices and number of transactions show higher YoY growth, by 1.2 pp and 2.4 pp respectively compared to the no war scenario. And the total Tbilisi RRE market size (in USD) increases by 26.5% YoY, which is 4 pp higher compared to the no war scenario and the same as in timely resolution scenario.

Therefore, based on the analysis of existing scenarios, TBC Capital has a positive outlook for Tbilisi RRE market in 2022.

Figure 1. Annual change in major market indicators in 2022 by scenario (YoY, %)



Source: TBC Capital

Impact on rents and yields

A big uncertainty in 2022 for Tbilisi RRE market is the scale of migration from Russia, Belarus and Ukraine and its impact on RRE demand. Currently, in the impact analysis we assume that 3% of incoming migrants will purchase RRE in Tbilisi.

Google analytics data (see Figure 2) shows that during the war the number of new users of myhome.ge from these three countries increased tremendously (especially from Russia and Belarus). The share of the users from these countries in total users of the web page increased from an average of 3% to maximum of 27% in the week of 28 February - 6 March totaling 68 thousand new users in three weeks. These numbers reflect the increased demand from migrants on RRE in Tbilisi.

Figure 2. The number ('000) and YoY change (x times) of new users of myhome.ge by country

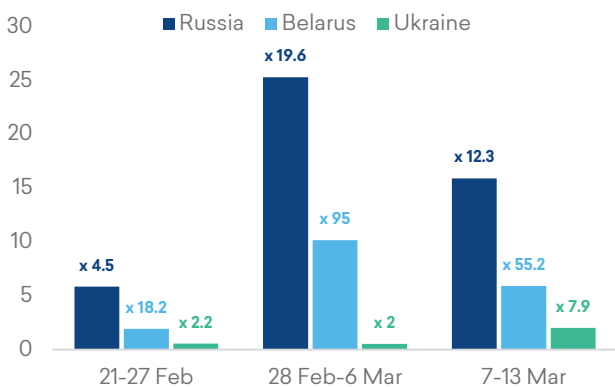
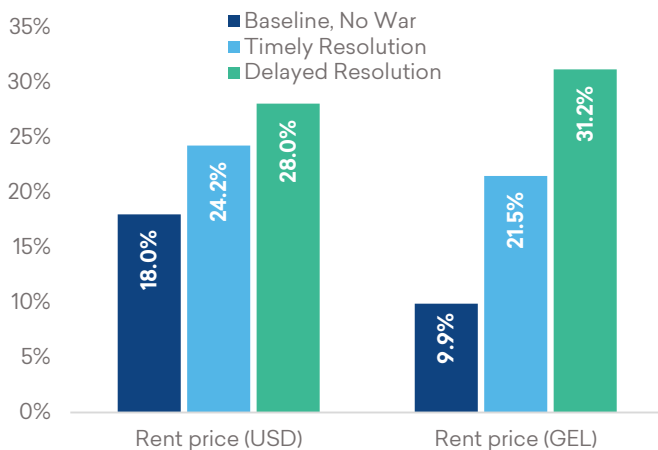


Figure 4. Rent price per SQM



Source: TBC Capital, Myhome.ge, Google Analytics

According to the developers, the majority of them are looking to rent the property rather than buy it (at least for now). Therefore, the impact on rent prices (especially in central districts of Tbilisi) will see higher annual growth in 2022 than sale price. The impact on rent is already observed in a recent weekly data from March (see Figure 3).

We project average rent price in Tbilisi to increase by 24.2% YoY in timely resolution and by 28% YoY in delayed resolution scenario. In both scenarios, rent prices will surpass the 2019 level. As a result of higher growth in rent compared to sale prices, yields are expected to increase in timely (+0.3 pp) and delayed (+0.4 pp) resolution scenarios compared to no war situation.

Figure 3. Rent price per SQM, YoY Change (%)

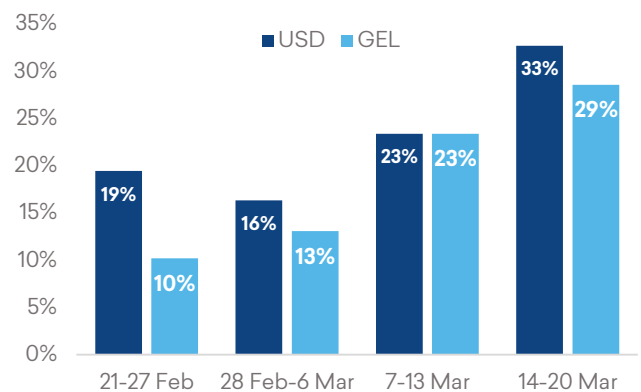
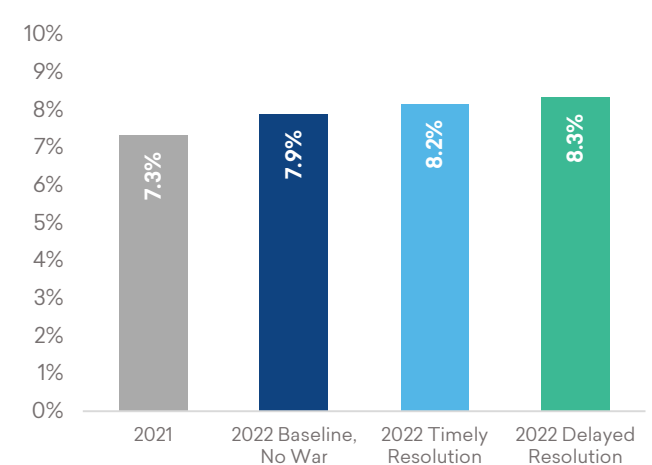


Figure 5. Rental yield



Other important considerations

Our scenario analysis shows the projections of market indicator averages, however the impact of war on RRE will most probably differ by districts and new/old apartments. Migration and construction costs are major sources of these differences.

According to conducted interviews with sector's representatives, the demand of migrants from Russia, Belarus and Ukraine are mostly concentrated in central districts of Tbilisi and new buildings.

The impact of migration on Tbilisi RRE might be only temporary and creates some uncertainties for major market indicators (especially rent prices) in the upcoming years. Therefore, there are risks of market correction in case of outflow of migrants in the future.

As for the construction costs, in 2022 it will directly affect sale prices of ongoing and new constructions, while prices on existing stock of residential area will gradually benefit as market prices go up.

It should be noted that construction costs (in USD) increased significantly in 2021 as well (+9.2% YoY), combined with 15.3%-18.2% YoY increase expected in 2022, it might drastically lower the affordability and supply of new projects in the following years.

Despite elevated construction costs and problems with logistics (import of iron bars from Ukraine), sector representatives do not expect any shortages of construction materials and therefore, delays in construction process.



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