

October 2014

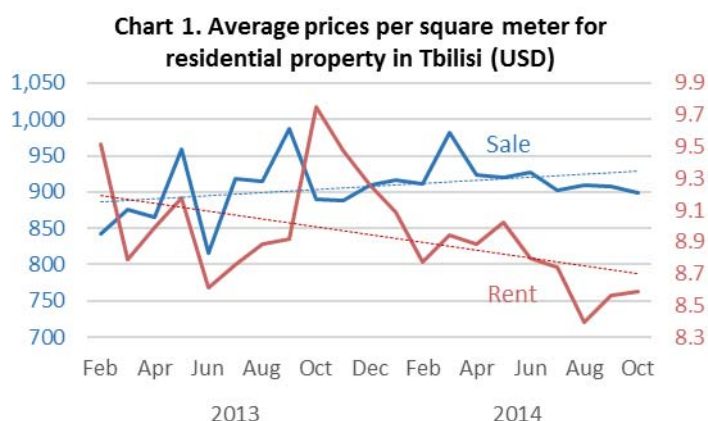
Low interest rates drive decline of average rental prices in October

- In October, rental prices for residential properties in Tbilisi declined significantly in annual terms (-7.1%).¹
- Buyers tended to purchase cheaper, lower quality units in October relative to the previous month.
- Lower lending and deposit interest rates made real estate investments more attractive, driving rental prices for residential property downward.

	Headlines	Sep-2014	Oct-2014
For Sale	Monthly Index	1.0180	1.0231
	Annual Change	-8.6%	1.6%
	Average Price (per m ²)	\$908.2	\$899.5
For Rent	Monthly Index	0.99	1.02
	Annual Change	-2.4%	-7.1%
	Average Price (per m ²)	\$8.56	\$8.59

Note: The real estate price index shows the evolution of price for a median residential (or commercial) unit. The price in March 2013 = 1.0

The October rental price index fell sharply by 7.1% in annual terms (see Chart 1). However, the average rental price remained stable and even slightly increased in monthly terms from 8.56 to 8.59 USD per m², reflecting seasonal price changes on this market.



Source: ISET-PI calculations

The October average sale price decreased from 908.2 to 899.5 USD per m². At the same time, the sale price index for residential property increased slightly in annual terms (1.6%). These two factors combined suggest that 'for sale' units of similar quality were more expensive in October, while people on average were shifting towards buying cheaper, lower quality units.

Despite the increase in annual terms, the average sale prices for residential property are still below the long run trend and are currently at their lowest level this year. This evidence supports our previous conclusion about increased supply on the real estate market leading to lower prices.

However, we can speak of demand-pull price dynamics also playing a role. In particular, interest rates on deposits have been on a declining trajectory, reaching the minimum of 5.8% in August 2014. People have the choice to either deposit their money or invest it in real estate. As deposit rates decline, real estate investment looks like the more attractive option.

At the same time, according to the official data of National Bank of Georgia (NBG), lending interest rates on mortgages for individuals in foreign currency reached a new minimum of 11% in September 2014. A decrease in lending rates leads to increased demand for residential property for sale as approximately 70% of mortgages are in a foreign currency according to NBG data (for more details, see the ISET Macroeconomic Review http://iset-pi.ge/index.php?article_id=1278&clang=0).

These factors, which induce higher demand for real estate investment, tend to pull sale prices upward, thus partially balancing the effect of increased supply on the market.

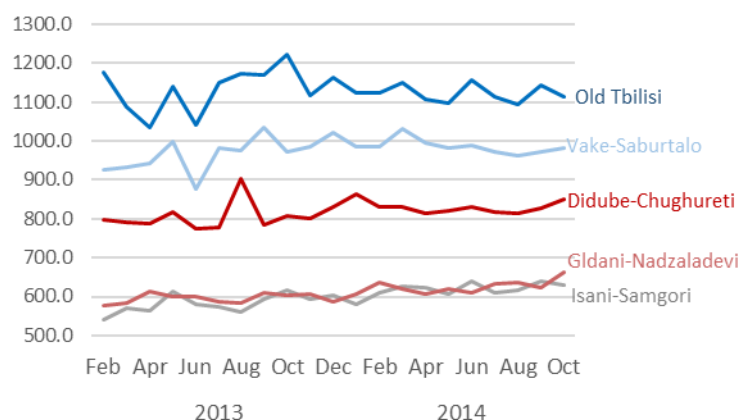
¹ Table 1 at the end of this document gives a comprehensive overview of price changes since March 2013.

Chart 2. Average prices per square meter for commercial property in Tbilisi (USD)



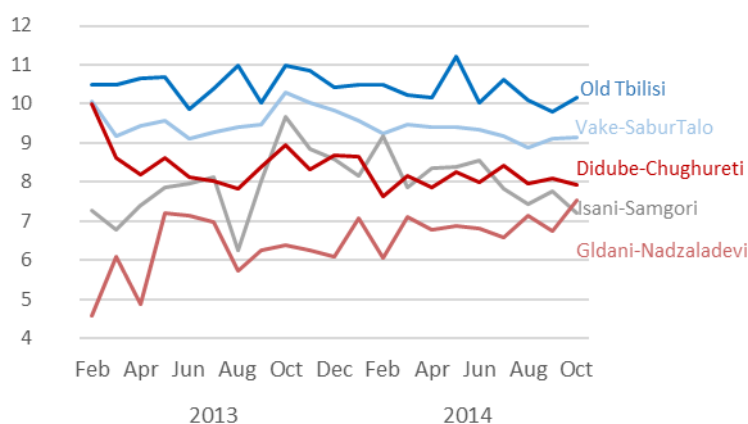
Source: ISET-PI calculations

Chart 3. Average sales price per square meter in districts of Tbilisi for residential property (USD)



Source: ISET-PI calculations

Chart 4. Average rental prices per square meter in districts of Tbilisi for residential property (USD)



Source: ISET-PI calculations

Lower interest rates affect rental prices as well, because some newly bought flats appear on the rental market, increasing the supply and resulting in lower rental prices.

As for the commercial property market, average rental prices continue to follow a decreasing trend, reaching a new minimum of 11.28 USD per m² in October 2014 (Chart 2). At the same time, sale prices for commercial real estate have been slowly falling after their peak in August; yet the average of 1,178 USD per m² remains significantly above the trend. As already mentioned in a previous report, the large swings in prices can be partially explained by the small sample size for advertised commercial properties (especially in the summer months).

Regarding the analysis of different districts in Tbilisi, in October the average sale price for residential property showed an increasing pattern in all districts except Old Tbilisi and Isani-Samgori. However, the most expensive area for sale still remains Old Tbilisi (1,113 USD per m² on average), followed by Vake-Saburtalo, with an average price of 982 USD per m². Prices increased in Gldani-Nadzaladevi reaching an average of 661 USD per m², while Isani-Samgori became the cheapest district in October at 631 USD per m².

The situation is similar on the residential rental market. The most expensive areas still remain Old Tbilisi and Vake-Saburtalo (at an average of 9.7 and 8.7 USD per m² respectively). Rental prices also increased in Gldani-Nadzaladevi by almost 13% (the new average is 7.03 USD per m²).

Isani-Samgori is once again the cheapest district on the market, with an average rental price of 6.7 USD per m².

The real estate price indices for both the sale and rental of residential property in Tbilisi are provided in Table 1 below.

The indices are calculated using the Fisher index methodology. The table reports the original index, with prices in March 2013 normalized to 1. The table also reports the annual percent change as well as the three months on three months percent changes in residential property prices.

As explained in the methodology, the Fisher index shown in Table 1 below, is different from a simple average of prices reported on the charts. The change in average prices is not necessarily due to pure price change for real estate. This is because the quality of units offered for rent and for sale may change from month to month. An example of this is the sale prices for residential property in October. Despite the decrease of the average sale price, the Fisher index for sale price actually slightly increased in that month. This means that sale prices for residential units of similar quality went up, but people tended to buy properties of lower quality (fewer rooms, older buildings, not in central districts etc.) thus dragging the average sale price downward.

Table 1

	Residential Property for Sale			Residential Property for Rent		
	Fisher Index	3 month on 3 month % change	Annual % change	Fisher Index	3 month on 3 month % change	Annual % change
Mar-13	1.00	N/A	N/A	1.00	N/A	N/A
Apr-13	0.95	N/A	N/A	0.98	N/A	N/A
May-13	1.05	N/A	N/A	1.03	N/A	N/A
Jun-13	0.90	N/A	N/A	0.97	N/A	N/A
Jul-13	1.05	N/A	N/A	0.97	N/A	N/A
Aug-13	1.03	-0.9%	N/A	1.04	-0.8%	N/A
Sep-13	1.11	9.8%	N/A	1.01	1.4%	N/A
Oct-13	1.01	5.0%	N/A	1.10	6.0%	N/A
Nov-13	1.03	6.0%	N/A	1.08	6.8%	N/A
Dec-13	1.03	-3.7%	N/A	1.01	5.3%	N/A
Jan-14	1.04	-1.4%	N/A	1.03	-1.2%	N/A
Feb-14	1.04	-1.1%	N/A	0.98	-5.6%	N/A
Mar-14	1.08	3.1%	8.2%	0.99	-6.1%	-1.0%
Apr-14	1.04	1.9%	9.8%	0.98	-5.4%	0.4%
May-14	1.01	0.5%	-4.0%	1.00	-1.4%	-3.3%
Jun-14	1.03	-2.7%	14.0%	0.99	-0.8%	1.2%
Jul-14	1,01	-3,7%	-3,7%	0,99	1,1%	2,6%
Aug-14	1,04	-1,9%	1,2%	0,97	-0,6%	-6,9%
Sep-14	1,02	-0,5%	-8,6%	0,99	-0,4%	-2,4%
Oct-14	1,02	1,2%	1,6%	1,02	0,0%	-7,1%

Notes:

The data is drawn from the online real estate marketplace. The marketplace collects information about residential and commercial real estate sold in different locations of the country. Data is collected on a daily basis from the marketplace. For the period of October 2014, there were 107,091 useable observations. While we have data from all over Georgia, the analysis here is limited to Tbilisi given the limitations with sample size.