



## May 2015

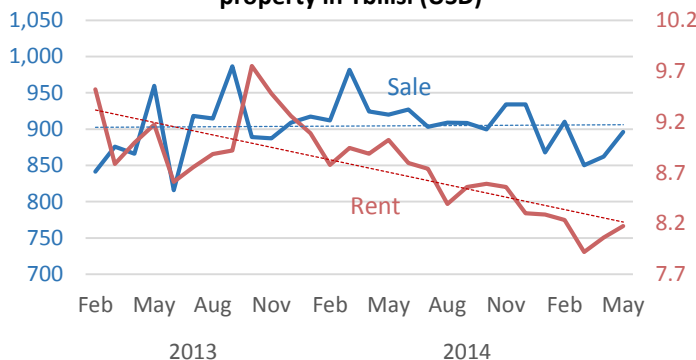
- The lari depreciation caused a substantial decrease in USD prices of real estate. Average rental prices of residential property reached their historical minimum in March 2015.
- Property sellers are trying to compensate for the price decline by offering better, more expensive housing for sale.
- The lari price increase of rental properties has driven demand away from the central districts of Tbilisi to the nearby suburbs.

	Headlines	Mar-2015	Apr-2015	May-2015
For Sale	Monthly Index	1.0058	0.9317	0.9460
	Annual Change	-7%	-10.3%	-6.4%
	Average Price (per m <sup>2</sup> )	\$850.3	\$862.1	\$896.0
For Rent	Monthly Index	0.8437	0.8343	0.9005
	Annual Change	-14.8%	--15.0%	-9.8%
	Average Price (per m <sup>2</sup> )	\$7.92	\$8.06	\$8.18

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

Some interesting phenomena can be observed on the residential property Tbilisi market in the period March-May 2015. First, average rental prices continued to follow a downward trajectory. In particular, in March average rental rates reached a historical low of 7.92 USD per m<sup>2</sup>. At the same time, average sale prices declined to 850.3 USD per m<sup>2</sup> in March.

Chart 1. Average prices per m<sup>2</sup> for residential property in Tbilisi (USD)



source: ISET-PI calculations

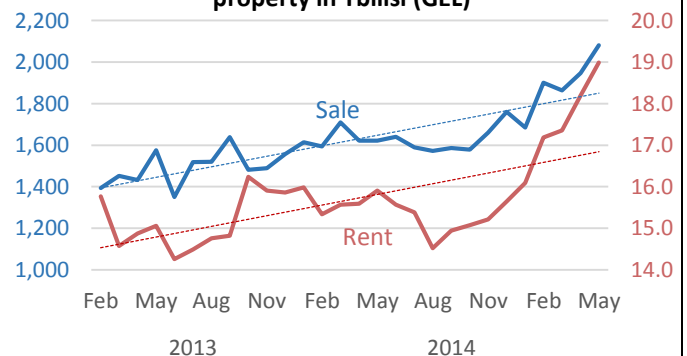
However, by May they had returned to the 900 USD per m<sup>2</sup> range (i.e. to the level reflecting the general price trend over many months).

Secondly, the Fisher index, which reflects “pure” price changes (i.e. price change for similar types of properties), showed that both rental and sale prices for residential property continued to decrease steadily in March-May 2015 (see Table 1).

The discrepancy between the average and “pure” price trends, especially for the sales market, can be easily explained if we take into account the tension the lari depreciation placed on the fully dollarized Tbilisi real estate market.

On the one hand, the lari depreciation forced sellers to lower their asking prices somewhat, as increasingly fewer potential buyers could afford the “old” dollar prices. On the other hand, less impatient sellers tried to compensate for the price drop by putting more expensive, better quality housing on the market. This was the most likely reason behind the increase in **average** prices in April and May 2015. This increase masked the overall drop in general dollar prices for residential housing.

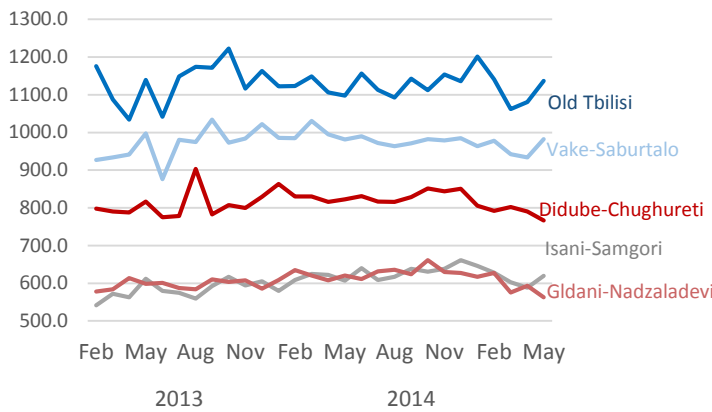
Chart 2. Average prices per m<sup>2</sup> for residential property in Tbilisi (GEL)



source: ISET-PI calculations

However, as Chart 2 above shows, sharp lari depreciation meant that housing became less

**Chart 4. Average sales prices per m<sup>2</sup> in districts of Tbilisi for residential property (USD)**



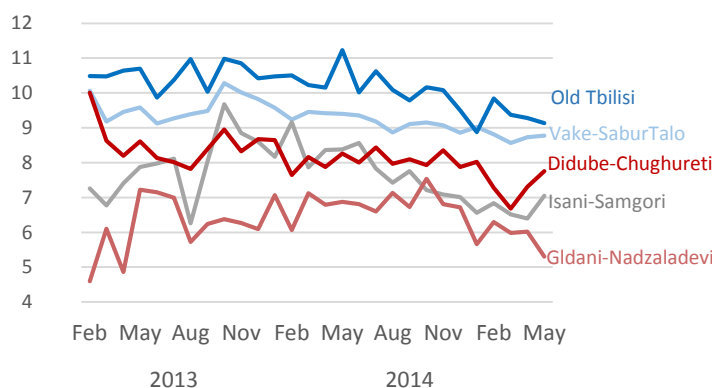
source: ISET-PI calculations

Regarding the different areas of Tbilisi, the average sale price increased in all districts except Didube-Chughureti and Gldani-Nadzaladevi. The most expensive areas in May were still Old Tbilisi and Vake-Saburtalo, with average prices of 1,136 and 982 USD per m<sup>2</sup> respectively. Isani-Samgori and Gldani-Nadzaladevi are still the cheapest areas for buying a flat and the prices in those regions diverged in the last month to average 620 and 563 USD per m<sup>2</sup> respectively (see Chart 4).

As for the residential rental market, Old Tbilisi was again the most expensive district, closely followed by Vake-Saburtalo. Average rents in these districts reached 8.6 and 6.3 USD per m<sup>2</sup> respectively. The cheapest district for renting flats is still Gldani-Nadzaladevi at 4.8 USD per m<sup>2</sup>, which is the lowest value for the last two years.

As the chart below shows, rental prices increased quite significantly in Didube-Chughureti and Isani-Samgori, while decreasing in all other districts. The explanation for this can again be found in the sharp lari depreciation. People who could no longer afford houses in central districts shifted demand towards less central areas (but not too far from the center), causing rental price increases in the two off-central districts and decreases in others (see Chart 5).

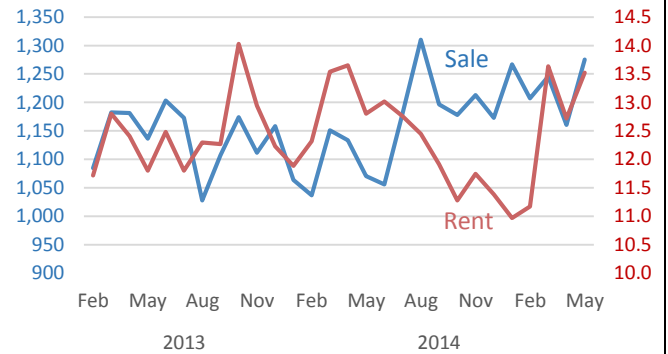
**Chart 5. Average rental prices per m<sup>2</sup> in districts of Tbilisi for residential property (USD)**



source: ISET-PI calculations

affordable for both renters and buyers with lari denominated incomes. One may also notice that since the devaluation started rental prices in lari accelerated faster than average sales prices. This means that people who mainly have their income in the domestic currency find it much more expensive to rent a flat in Tbilisi (despite the nominal price decrease in dollars). As for average sale prices, they seem to be more stable, especially in USD. People are evidently more cautious while selling real estate. They do not immediately drop prices during a crisis, but rather try to offer more reasonable prices that are closer to the previous period.

**Chart 2. Average prices per m<sup>2</sup> for commercial property in Tbilisi (USD)**



source: ISET-PI calculations

On the commercial property market, the average sale price first increased to 1,246 USD per m<sup>2</sup> in March, then decreased slightly to 1,161 USD per m<sup>2</sup> the following month, before increasing back to 1,275 USD per m<sup>2</sup> in May (the highest value aside from the strange price peak of August 2014) (see Chart 3).

The pattern was exactly the same on the commercial real estate rental market, where the average price showed the highest jump of 22% from February to March 2015, reaching 13.6 USD per m<sup>2</sup>. This value slightly declined in April to 12.7 USD per m<sup>2</sup>, but the drop was quickly compensated in the following month, finally reaching 13.5 USD per m<sup>2</sup> in May 2015.

The real estate price indices for sales and rentals 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 percentage change as well as the three months on three months percentage changes in residential property prices.

The Fisher Index for sales in March, April and May 2015 stood at 1.00, 0.93 and 0.95 respectively; it decreased by 8% in annual terms for May 2015. As for the rental price index, in March (0.84), April (0.83) and May (0.90) the index had the sharpest drops of 14.8%, 15.0% and 9.8%, respectively, when compared to the same months of the previous year.

**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%
Nov-14	1,03	0,0%	0,3%	0,98	1,3%	-8,8%
Dec-14	1,04	0,9%	0,3%	0,98	0,4%	-4,3%
Jan-15	1.06	1.4%	1.5%	0.96	-2.3%	-6.2%
Feb-15	1.04	2.1%	0.0%	0.95	-3.9%	-2.9%
Mar-15	1.00	0.4%	-7.0%	0.84	-7.3%	-14.8%
Apr-15	0.93	-4.7%	-10.3%	0.83	-9.8%	-15.0%
May-15	0.95	-8.0%	-8.0%	0.90	-10.4%	-9.8%

**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 May 2015, there were 144.450 useable observations. While we have data from all over Georgia, given limitations with the sample size this analysis is limited to Tbilisi.