

ISET POLICY INSTITUTE REAL ESTATE PRICE INDEX



September 2015

Lari depreciation is taking its toll on real estate prices

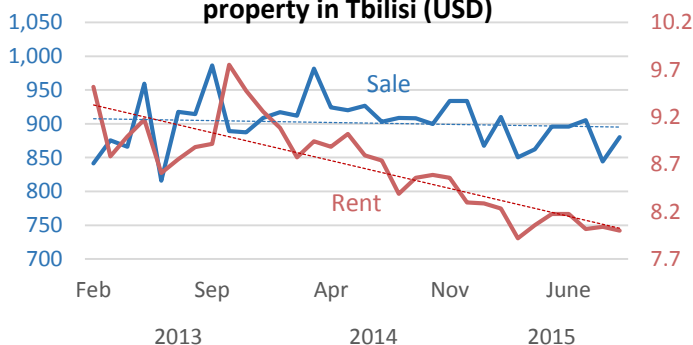
- The lari depreciation caused a significant decrease in sale and rental prices in dollar terms.
- Rental prices slightly increased in August and September before the start of the new academic year.
- The commercial market turned out to be more resistant to the effects of currency depreciation.

	Headlines	July-2014	Aug-2015	Sep-2015
For Sale	Monthly Index	1.0160	0.9928	0.9891
	Annual Change	0.9%	-4.5%	-2.8%
	Average Price (per m ²)	\$905.6	\$844.1	\$880.2
For Rent	Monthly Index	0.9098	0.9284	0.9433
	Annual Change	-8.5%	-4.5%	-4.7%
	Average Price (per m ²)	\$8.02	\$8.04	\$8.0

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

Average rental prices of residential property have been declining since July, reaching one of the lowest points of 8 USD per m² in September 2015. Average sale prices first increased above the long-run trend to 905.6 USD per m² and then sharply declined in the following month to reach the new minimum for the last two years (844.1 USD per m² in August 2015). July was the only month when the residential sale price index increased annually (by 0.9%), and it subsequently started declining in both annual and monthly terms. Meanwhile, the residential rental price index saw one of the biggest drops in history in July, declining by more than 8.5% compared to the same period in 2014.

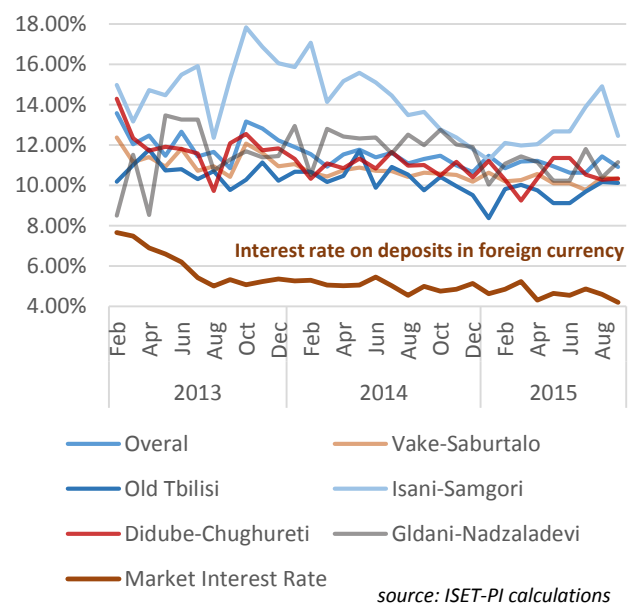
Chart 1. Average prices per m² for residential property in Tbilisi (USD)



source: ISET-PI calculations

The index slightly recovered in monthly terms over August and September, but the annual changes still remained negative (-4.5% and -4.7% respectively).

Chart 2. Return on Residential Real Estate Investment in different districts

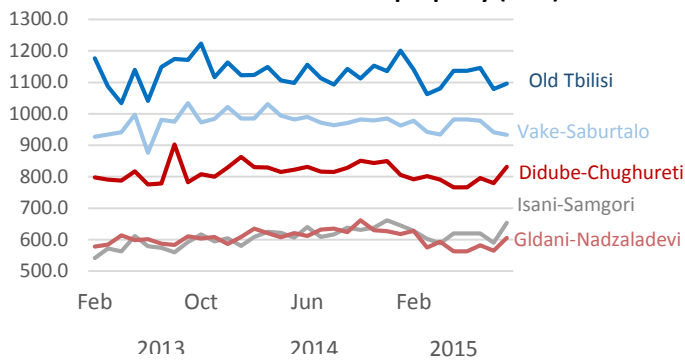


source: ISET-PI calculations

Chart 2 above shows the return on real estate investment for different districts and compares this to average deposit interest rates in foreign currency for individuals. The return on real estate can be roughly estimated by dividing annual income gained from real estate (annual rental price) by the price of investment (sale price).

In Georgia, the return on real estate investment is above the market interest rate on deposits. From a theoretical perspective, in equilibrium the return on real estate and the interest rate on deposits should move together. The difference (the higher return on the real estate market) can be explained by risk premiums, as investment on the real estate market is riskier and more uncertain than money deposits in a bank. The higher the divergence between the return on real estate and interest rates on deposits, the more profitable investments in real estate become. As the chart shows, the highest, albeit volatile, returns to

Chart 4. Average sales prices per m² in districts of Tbilisi for residential property (USD)

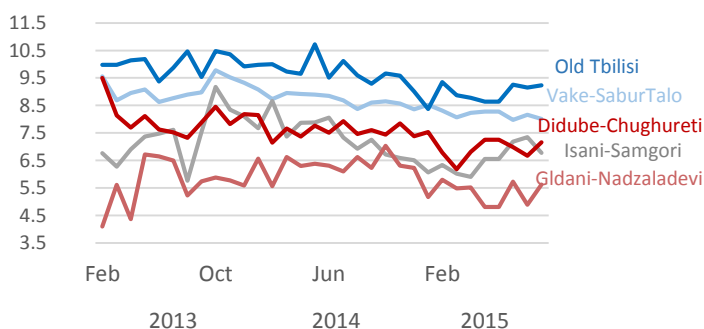


source: ISET-PI calculations

Regarding the different areas of Tbilisi, Vake-Saburtalo was the only district where the average sale price decreased consecutively over three months, reaching a long time minimum of 933.3 USD per m². In all other districts the average sale price declined in August, but went up again in September. The most expensive areas in September were still Old Tbilisi and Vake-Saburtalo, with average prices of 1,096 and 933 USD per m² respectively. As for the cheapest areas, the sale prices for Isani-Samgori and Gldani-Nadzaladevi reached 653 and 605 USD per m² respectively (see Chart 4).

The situation was somehow similar on the residential rental market. Old Tbilisi and Vake-Saburtalo are the most expensive districts at an average of 9.2 and 8 USD per m² respectively. As for the cheapest areas for renting a flat, prices in Isani-Samgori increased significantly in August, even exceeding the rental price in Didube-Chughureti. However, prices in Isani-Samgori fell back in September, once again making it the second cheapest district at an average 6.8 USD per m². Rental prices in Gldani-Nadzaladevi fell even further to only 5.6 USD per m² (see Chart 5).

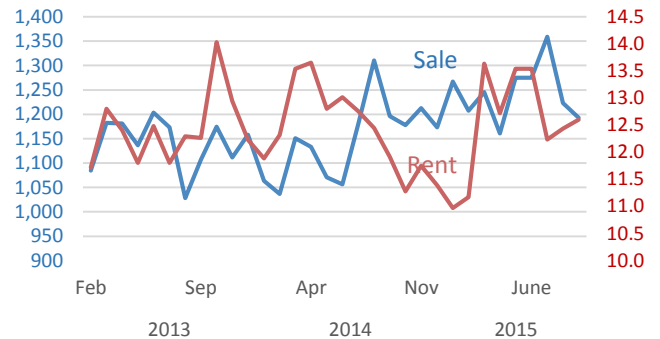
Chart 5. Average rental prices per m² in districts of Tbilisi for residential property (USD)



source: ISET-PI calculations

investment in real estate were recorded in Isani-Samgori, making it one of the most attractive districts for investors. Thus, even though Isani-Samgori is currently one of the cheapest areas for both renting and buying real estate, our data signals high potential for real estate sector development in this district.

Chart 3. Average prices per m² for Commercial property in Tbilisi (USD)



source: ISET-PI calculations

On the commercial property market, the average sale price peaked at the historical maximum of 1,359 USD per m² in July but fell to 1,193 USD per m² in the following two months (Chart 3). The situation was reversed on the rental market, where prices first declined to 12.24 USD per m² in July and then increased to 12.60 USD per m² in September.

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 percentage change as well as the three months on three months percentage changes in residential property prices.

The Fisher Index for sales in July, August and September 2015 was 1.016, 0.993 and 0.989 respectively; it decreased by 2.8% in annual terms last month. As for the rental price index, in July (0.9098), August (0.9284) and September (0.933), it continued to decrease by 8.5%, 4.5% and 6.9% respectively 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%
Jun-15	-	-	-	-	-	-
Jul-15	1.0160	-1.2%	0.9%	0.9098	3.4%	-8.5%
Aug-15	0.9928	4.5%	-4.5%	0.9284	6.9%	-4.5%
Sep-15	0.9891	6.4%	-2.8%	0.9433	6.9%	-4.7%

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 September 2015, there were 177,134 useable observations. Although we have data from all over Georgia, given limitations with the sample size this analysis is limited to Tbilisi.