

ISET POLICY INSTITUTE REAL ESTATE PRICE INDEX



November 2014

Business as usual for Tbilisi's real estate market, despite a sharp annual drop in rental prices

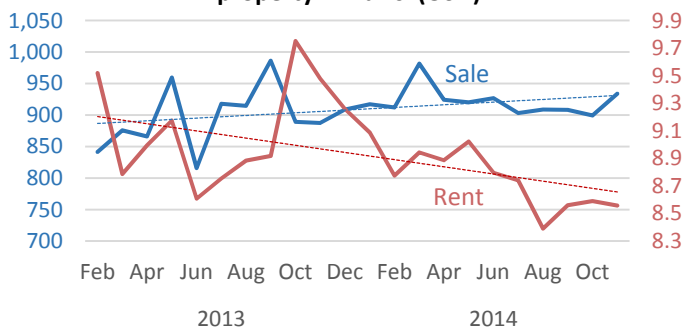
- The rental price index registered the sharpest annual decline in November 2014.
- Average rental and sale prices in Tbilisi continue to follow their long run trends.
- Average rental prices in Gldani-Nadzaladevi and Isani-Samgori have converged for two consecutive months.

	Headlines	Oct-2014	Nov-2014
For Sale	Monthly Index	1.0231	1.0314
	Annual Change	1.6%	0.3%
	Average Price (per m ²)	\$899.5	\$933.8
For Rent	Monthly Index	1.02	0.9839
	Annual Change	-7.1%	-8.8%
	Average Price (per m ²)	\$8.59	\$8.56

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

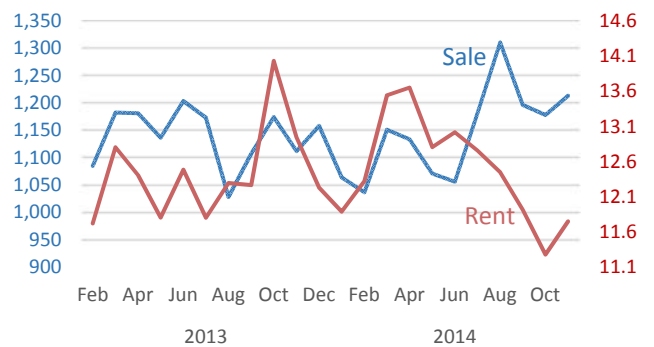
The November rental price index registered the sharpest annual decline (-8.8%) since the data collection started in March 2013. The good news is that nothing unusual happened on the rental market in Tbilisi during this time. The rental prices were simply coming off the unusual peak experienced in October-November 2013. Meanwhile, the average rental prices followed their long run trend, declining slightly to 8.56 USD per m². As for sale prices, the index increased by 0.3% in annual terms and average market prices increased slightly above their long run trend, reaching 933.8 USD per m² (see Chart 1).

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



source: ISET-PI calculations

Chart 2. Average prices per m² for Commercial property in Tbilisi (USD)



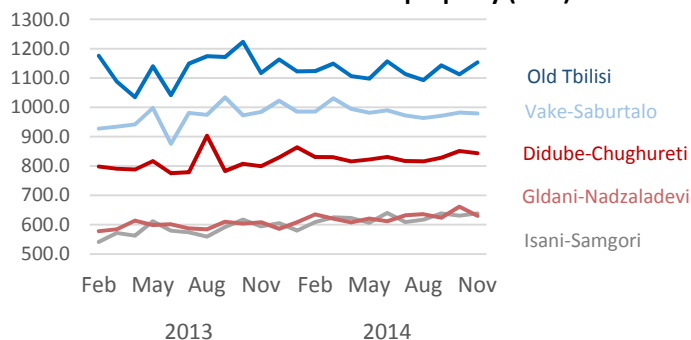
source: ISET-PI calculations

Regarding the commercial property market, average rental prices recovered from the historical minimum of the previous month, reaching 11.7 USD per m² in November (Chart 2). Average commercial sale prices came off the summer peak, reaching 1,213 USD per m², although the price level continued to stay well above the usual trend line. Commercial property prices in Tbilisi tend to exhibit sharper price fluctuations over time than residential properties. This happens because the commercial real estate market is shallower and average prices might be significantly impacted by large properties coming on or off the market.

In the different districts of Tbilisi the November prices did not deviate much from the previous month. The average sale price decreased slightly in all districts apart from Old Tbilisi and Isani-Samgori. The most expensive areas remained Old Tbilisi at 1,154 USD per m² and Vake-Saburtalo at 979 USD per m². However, prices in Gldani-Nadzaladevi decreased more than in other districts with this area becoming the cheapest in Tbilisi at just 630 USD per m².

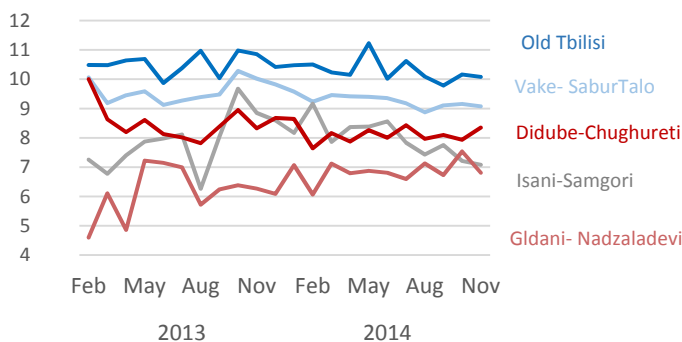
The situation on the residential rental market is very similar. The most expensive area for renting a flat is Old Tbilisi, followed by Vake-Saburtalo with average prices of 9.6 and 8.6 USD per m² respectively. Gldani-Nadzaladevi also became the cheapest district on the rental market, with an average price of 6.3 USD per m².

Chart 3. Average sales price per m² in districts of Tbilisi for residential property (USD)



source: ISET-PI calculations

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



source: ISET-PI calculations

The behavior of real estate prices in the two cheapest districts of Tbilisi – Isani-Samgori and Gldani-Nadzaladevi – offer an interesting case study. One may notice that the average *sale* prices of residential property in these two districts are almost exactly equal and have been moving together throughout the history of our sample. A possible explanation for this is that these areas are similar from a geographical point of view in terms of their relative location and accessibility from the city center. However, until recently the rental market prices for these two districts have been quite different, with average rental prices in Isani-Samgori having been historically higher. The likely reason for this is that this area is more convenient for students (a number of universities are located near the district, e.g. SEU Teaching National University). As the student sector forms quite an important part of the rental market, the higher prices in Isani-Samgori were easy to justify. However, the discrepancy between sale and rental prices created arbitrage opportunities for property investors. Over time, the market started adjusting to equilibrium: rental prices in Isani-Samgori came down, while prices in Gldani-Nadzaladevi edged up slightly. Currently, the rental market prices in the two districts have converged for the second consecutive month (see Chart 4).

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 November 2014 is 1.03; it has increased insignificantly compared to the previous month and by only 0.3% annually. As for the rental price index (0.98), it decreased compared to October 2014 and showed the largest drop of 8.8% in annual terms.

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%

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.