



September 2014

Residential sales and rental prices in Tbilisi decline

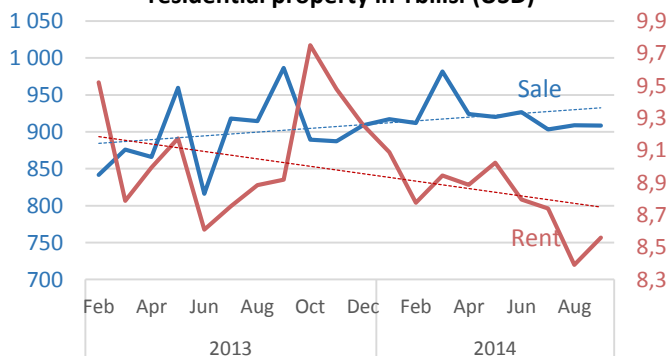
In September, sale prices for residential properties in Tbilisi declined significantly compared to the previous year (-8.6%).¹ In terms of area, Old Tbilisi continues to lead the price index, at 1,143 USD per m² in September.

Headlines	Jul-2014	Aug-2014	Sep-2014
Monthly Index (sale)	1.0065	1.0396	1.0180
Annual Change (sale)	-3.7%	1.2%	-8.6%
Average Price (for sale, per m ²)	\$903.2	\$908.8	\$908.2
Monthly Index (rent)	0.9938	0.9724	0.9901
Annual Change (rent)	2.6%	-6.9%	-2.4%
Average Price (for rent, per m ²)	\$ 8.7	\$ 8.4	\$8.6

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

Starting in June, sale prices for residential property began to drop and stayed below the long-term trend. Rental prices have also declined in annual terms (-2.4%, compared to September 2013). The rental decline is not surprising, and is due mostly to the pronounced seasonal pattern in Tbilisi rental market prices. Typically rents slump in the summer as students start leaving the city and increase in September when students come back for the new academic year. (see Chart 1)

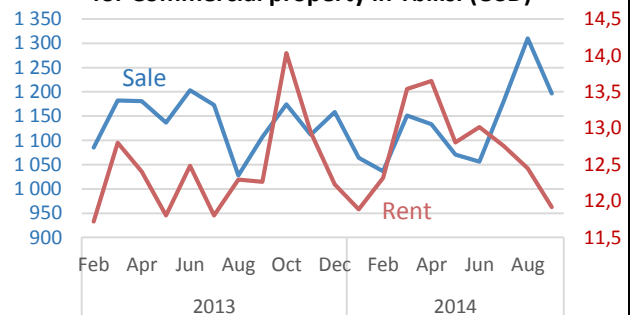
Chart 1. Average prices per square meter for residential property in Tbilisi (USD)



source: ISET-PI calculations

The decreasing pattern of sale prices for residential property in the recent months is most likely due to the increasing supply on the market. According to the official data of Ministry of Economy and Sustainable Development of Georgia, construction permits in Tbilisi increased by more than 30% in 2013 comparing to the previous year. Moreover, the observed construction activity pickup also includes the projects which were stalled in the wake of the 2009 economic crisis. Lower sales prices can lead to a decreased demand for rental residential property, as more people choose to buy rather than rent. This effect could in part explain the sharp drop in rental prices since June 2014 coupled with a very slight seasonal increase in September.

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

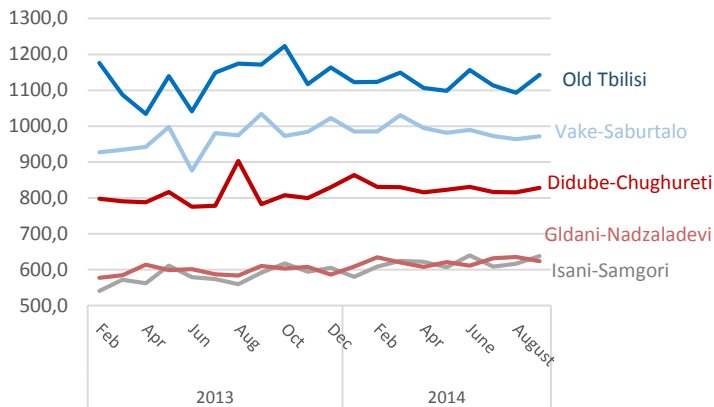


source: ISET-PI calculations

According to Chart 2, rental prices for commercial properties have been constantly declining since June. In September, the average rental price decreased to 11.92 USD per m². In contrast, sale prices for commercial properties revealed an increasing pattern, reaching their highest average value 1,310.3 USD per m² in August 2014 and then declining to 1,196.4 USD per m² in September. However, this unusual pattern, especially for August, can partially be explained by the extremely small sample size, as people tend to advertise

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

Chart 3. Average sales prices per sq. m in districts of Tbilisi for residential property (USD)



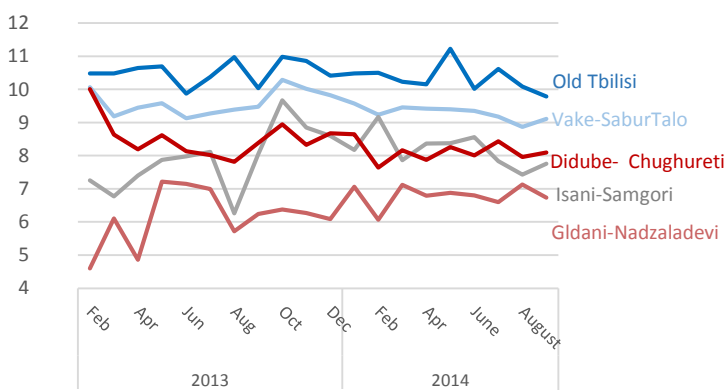
source: ISET-PI calculations

commercial properties less during the late summer period. (For example, our sample captures only 148 observations in August, compared to 401 observations in September).

Regarding the residential sale prices in different districts, Old Tbilisi remained the most expensive area for residential properties in September (reaching 1,143 USD per m² on average), followed by Vake-Saburtalo, with an average price of 971 USD per m². The lowest sale prices for residential property was in Isani-Samgori in July and August, but Gldani-Nadzaladevi decreased further in September (623 USD per m²). The average sale price of residential real estate shows a decreasing pattern for all districts compared to August, except for Gldani-Nadzaladevi.

The situation is similar on the residential rental market. Old Tbilisi and Vake-Saburtalo were the most expensive districts in September for rent as well, with an average price of 9.3 and 8.6 USD per sq. m respectively. The cheapest district was Gldani-Nadzaladevi (6.2 USD per sq. m). As compared to the previous month, the average rental price of residential real estate increased in all districts, aside from Gldani-Nadzaladevi and Old Tbilisi.

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



source: ISET-PI calculations

The effect of seasonality on rental prices of residential property varies through different districts of Tbilisi. Chart 4 shows that rental prices in Old Tbilisi and Gldani-Nadzaladevi moved in the opposite direction during the first month of autumn. This can be explained by the fact that the end of the tourist season affects mainly Old Tbilisi and causes a decrease in rental prices in this area. Increased average rental prices in September are mostly reflecting the high demand from students coming back from the regions for a new academic year. However, Gldani-Nadzaladevi is least affected by the seasonal factor, as there are no universities in this area. Prices there thus do not follow the same path as in the rest of Tbilisi.

According to Table 1, the Fisher index shows a negative three month on three month percentage change for both sale and rental prices of residential estate in August and September. This evidence supports our earlier conclusion about the increased supply on the real estate market.

Looking at the index numbers in Table 1 is important, as it gives us a slightly different perspective on real estate price dynamics than simply looking at weighted averages of prices (e.g. Chart 1).

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 the prices of March 2013 normalized to 1, as well as the annual and the three months on three months percent changes in prices for residential property.

The Fisher index is an average of the Laspeyres and Paasche hedonic imputation indexes. The intuition behind using this methodology is that just observing the pattern of average prices does not explain whether movement was caused by price or quality change. For example, in Chart 1 rental prices decreased from June to August, but the reason might have been either the decreased quality of the units advertised or the price change itself. In order to separate these two effects and track pure price change, we use average of the Laspeyres (today's price of a "typical" property in a base period) and Paasche (today's "typical" unit price in a base period) indexes.

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%

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 September 2014, there were 100,893 useable observations. While we have data from all over Georgia, the analysis herein is limited to Tbilisi given the limitations with sample size.