

Transformation of Residential Property Price in Georgia against the backdrop of global events

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ABSTRACT

The residential real estate market in Georgia has experienced significant growth in recent years, driven by various changes and trends.

The article discusses the main trends in the price of residential real estate against the background of the current changes in the market of residential apartments in Georgia. In general, the determining factors of apartment prices are analyzed and an analysis of price changes according to prestigious districts and places in Georgia is given.

Accordingly, the objective of this research was to conduct a statistical analysis of price fluctuations in the residential real estate sector in Georgia.

Results: The real estate market in Georgia is attractive to both local and international investors. Investment purchases account for 32% of the demand in the market. On average, rental prices in Tbilisi have doubled. The number of building permits has been steadily increasing, and there is no significant imbalance between supply and demand. Property prices for both apartments and private houses are on the rise, with Didi Digomi and Saburtalo leading in terms of real estate sales in Tbilisi.

The average price of real estate in Tbilisi is \$1,233 per square meter, representing a 42.6% increase compared to January 2022 and a 100% increase since 2020.

Several factors have contributed to this growth, including the easing of the National Bank's monetary policy, greater accessibility to mortgage loans, heightened foreign investor activity, and a rising interest in private homes. These factors have collectively led to an increase in the number of people looking to purchase properties.

Keywords: Real estate, growth, demand, sale, analysis

1. INTRODUCTION

The residential real estate market in Georgia has been evolving amidst significant changes in recent years, driven by various factors. These include fluctuations in construction material prices, varying square meter prices across priority locations and regions, inflationary trends, political developments in the region, and more. Notably, one of the key contributors to the substantial volatility in residential real estate prices in Georgia—particularly the sharp rise in prices—has been the Russia-Ukraine war. This conflict has led to a significant increase in migration flows from both Ukraine and Russia, further influencing market dynamics. Prices have increased for all types of residential real estate, which logically led to the transformation of the purchasing power of the local population. Based on the above, the statistical analysis of these fluctuations is interesting and important, considering that the change in real estate prices is formed under the influence of various factors.

The purpose of the research was the statistical analysis of the changes in the prices of residential space against the background of the global events taking place in Georgia.

In order to achieve this goal, we have analyzed the prices of residential real estate in Georgia, we have identified the main price trends, priority and trendy areas, and a comparative analysis of the prices of 1 square meter of building space.

The tasks corresponding to the goal were realized based on the use of statistical methods. Methods of observation, grouping, and analysis were used. Graphical methods for visual representation. Special emphasis was placed on the use of the index method, namely the real estate price index.

Residential Property Price Index (RPPI) measures the price evolution for residential properties. The index covers only the

market of new dwellings for both, multi-dwelling buildings (flats) and detached houses in Tbilisi. RPPI is used for the following purposes: 1. To assess the development and risks of the real estate market; 2. To understand and evaluate the links between residential real estate markets and financial soundness. The main source of information about real estate prices is the National Statistics Office of Georgia, which collects data on dwellings for sale from the real estate advertising websites to obtain the necessary microdata to allow for the compilation of the RPPI. The data is obtained automatically, using web scraping.

The obtained data is the so-called "offer prices". For the RPPI calculation, the National Statistics Office of Georgia uses the so-called "characteristics hedonic approach" that has been tested in many countries around the world. According to this approach, RPPI measures the price evolution of a "typical" dwelling [1]. Internal classification is used for data grouping. In particular, the data are presented in two subgroups, and therefore include . in Tbilisi, both multi-storey houses (apartments) and private houses segments. The index in the country is calculated from 2020 to the present day.

2. THE THEORETICAL FRAMEWORK OF THE STUDY

Before discussing directly the changes and main trends of residential real estate prices in Georgia, let's briefly analyze the criteria for determining apartment prices in general.

Of course, the real estate market implies a systematic control of security norms and related criminal activities based on quantitative characteristics. This should be analyzed in the context of how investment properties are transformed into financial assets, which, in turn, exert pressure on state agencies to mobilize urban planning efforts to deliver more of such assets [2].

Always regional density and unit concentration were significantly associated with crime at placement and over time [3]. As we mentioned, this factor affects the price of real estate according to regions and districts of cities. Ecological theories of crime have found that perceptions of neighborhood safety are influenced by a broad range of building features. Yet most research on how building design impacts perceptions of neighborhood safety for low-income renters was developed in a period of affordable housing defined by dense, segregated, and brutalist-inspired public housing [4].

In addition to real estate markets, its submarkets should also be evaluated. There is now widespread agreement amongst housing economists that submarkets should be adopted as a working hypothesis but the concept has been reformulated in terms of intra-urban relative house price differential. Hedonic models based on price data infer that submarkets may be identified over a wider spatial scale [5]

Price changes are due to the peculiarities of these submarkets and should be taken into account when forecasting prices. It should be noted that on the price of residential real estate has a certain influence on the location and availability of transport. Accessibility of transportation is of little significance in explaining variation in house prices at a city-wide scale but at a sub-market level, particularly in lower-income areas, accessibility can be an important influence [6].

M.J. Ball and R.M. Kirwan confirmed a general tendency for unit prices to decline with distance from the centre, but the authors question the importance of the 'trade-off' theory's accessibility factor relative to historical features and planning policies [7]. In some countries, the price of residential real estate is determined by the provision of resilience to natural events, for example, the presence of shelters. Home owners must be able to capture the present value of future benefits to equate the private and societal return on mitigation. The capitalization of mitigation into home prices thus is crucial for home owners to have a proper incentive for mitigation [8].

Concepts of smart cities are trending today. During the construction of modern residential apartments in Georgia, great attention is paid to ecologically clean environment and green development. To date, the association of environmental pollution with smart city construction is purely hypothetical without any direct evidence. [9] At present, environmental pollution associated with smart city construction is purely hypothetical without any direct evidence. That's why in Georgia it is necessary to identify those mechanisms through which the smart city project affects the upgrading of industrial structure, technological progress in pollution reduction, and increase in greening. [9]. Such conditions will certainly affect the formation of the final price of real estate.

Real estate prices are linked to the growing problem of housing affordability. The price of apartments is determined by the ratio of supply and demand, therefore, the indicators of the standard of living have a great influence on the price of real estate and its changes.

Poverty reduction in all its forms remains one of humanity's most important challenges [10]. The UN Sustainable Development Goals aim to end poverty in all its forms and dimensions by 2030 [11]. The formation of housing policy is of great importance, [1, 8] the "best policy" depends on program targeting and the nature and extent of program-induced price increases and externality effects [12].

Although a large proportion of people have risen out of extreme poverty since 1990, [13] still many people are still at risk of falling into poverty due to economic decline and recession, huge infrastructure deficits, inequality, rapid urbanization, corruption, environmental pressures and climate change, and limited governance and institutional capacity. In fact, is global poverty with half a billion people, or 8% of the total human population [14, 15]. The standard of living and therefore the income indicators are among the factors affecting the housing prices, because it affects the structure of the buildings, which is ultimately reflected in the price.

It should be taken into account that the low-income population, and especially those close to the poverty line, are less likely to buy apartments in prestigious locations.

The concept of "geography of opportunity" suggests that where individuals live affects their opportunities [16]. That's why they are also characterized by widespread urban poverty and inequality, enormous deficiencies in access to shelter and services, and deteriorating quality of the urban environment [17]. The most active regions favoring housing programs for low-income people [18], have pessimistic expectations towards the national economy and social security. Cities and human

settlements need to be inclusive, safe, resilient and sustainable [17].

The main indicator of the real estate market situation is the ratio between demand and supply. That's why the relative merits of demand-side and supply-side strategies for attacking the housing problems faced by low-income renters should be considered [19]. Against the backdrop of global and Georgian trends in real estate prices, it is interesting to see the dynamics of residential apartment prices

3. THE EMPIRICAL PART OF THE RESEARCH AND FINDINGS

There is still a high demand in the real estate market in Georgia today. Along with the increase in demand, the trend of price increase was also observed. In the first half of 2024 alone, according to the data of six months of residential real estate in Tbilisi, the weighted average price of a square meter amounted to \$1,270, which is an increase of 13.7% compared to the same period of the previous year. The price growth in the primary market segment was even more impressive and amounted to 21.8% since the beginning of the year [20].

An interesting fact was revealed during the research. Along with the increase in prices, the number of people with high salaries increased. For example, in the period 2010-2023, the share of citizens with a salary higher than 3,000 GEL per month actually increased 12 times, compared to 2010, it increased 5 times. (see Figure 1)

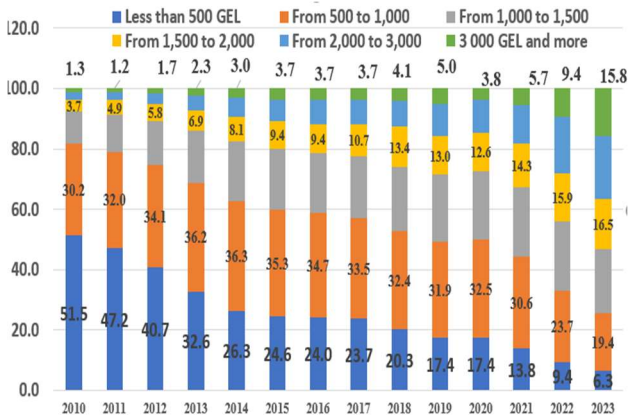


Figure 1. Distribution of the population by income (%) Source: [21]

This helps to increase the demand for real estate. It should be noted that 32% of the demand in the real estate market comes from investment purchases. This means that part of the customers buy apartments for renting [22].

Obviously, in Georgia and especially in Tbilisi, the growth of the demand for apartments is influenced by the current geopolitical situation, the ongoing hostilities between Russia and Ukraine, and the resulting migration factor. Since the beginning of the war, the intensity of arrival of Russian, Belarusian and Ukrainian migrants has increased, irreversible processes of buying apartments have begun, and the facts of real estate purchases by Israeli residents in Georgia have increased.

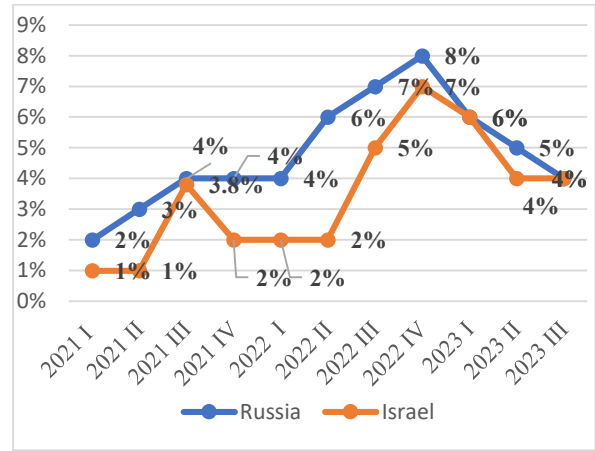


Figure 2. Share of Russian and Israeli citizens in real estate sales on a primary market in Tbilisi. Source: [23]

These processes had a direct impact on the increase in real estate prices. The real estate for rent has risen in price, which is due to the fact that 77% of migrants live on rent in Tbilisi. Since the beginning of the war, the average price of rent in the capital has almost doubled. [23]

However, from March 2024 onwards, the downward trend is fixed in the market and the prices are adjusted by 5.7%. According to analysts, the downward trend will continue in the near future [21].

We can say that the second half of the current year is characterized by more stability, the influence of seasonality is increasing, moreover, there are also expectations of price reduction. As a rule, activity in the real estate market traditionally decreases during winter. The presence of economic uncertainty must also be taken into account, because the global processes taking place in the world and the economic challenges related to it are most likely to be reflected in the local market.

Price changes are affected by the completion of new construction, which increases supply to the market, and exchange rate fluctuations.

This was also reflected in real estate prices. According to the latest data, real estate prices decreased in the third quarter of 2024 compared to the previous quarter. Such a low rate was recorded for the first time after the second quarter of 2021 (see Figure 3).

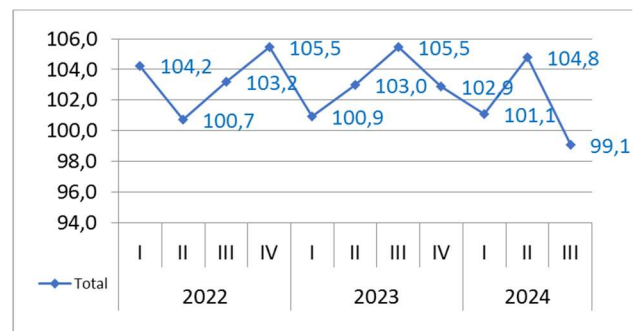


Figure 3. Real estate index dynamics 2020-2024 Source: [20]

This trend was equally, with slight differences, manifested both in the case of apartments and private houses. In all quarters of 2023-2024, approximate indicators of the price index were recorded. Dynamics of the price index of apartments and private houses 2020-2024 previous quarter=100



Figure 4. Residential Property Price Index (Previous quarter = 100) Source: [20]

Obviously, amid the increase in demand, construction activity has also increased. For example, the number of construction permits increased by 17.3% this year. Despite the increase in the number of construction permits, it should be noted that 82% of the real estate presented on construction permits issued in 2015-2022 has already been sold. Therefore, we can say that there is no imbalance between demand and supply in Georgia, and there is no danger of oversupply in the market. This can be clearly seen from the diagram presented below (see Figure 5).

At the end of the projects of 2025 and 2026, respectively, 58% and 31% have already been sold.

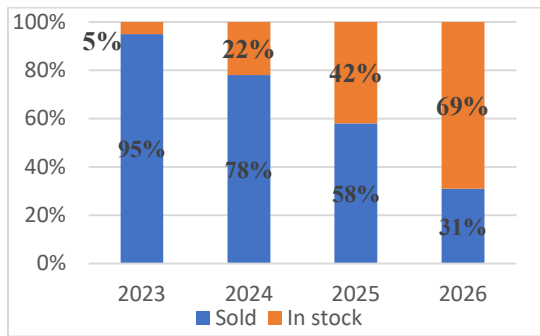


Figure 5. Distribution of the housing stock by project completion year and status. Source: [23]

According to the sales analysis, Medium sized apartments remained the most prevalent. This is not surprising given the social background created in the country.(see Figure 6)

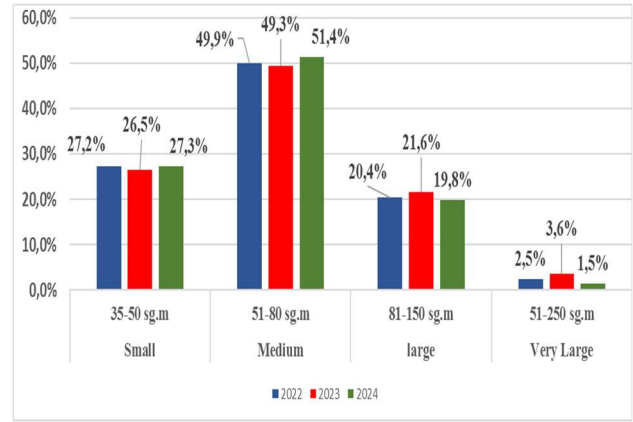


Figure 6. Real Estate sales by sizes (% of total apartments sold.) Source: [23]

According to recent data, In the third quarter of 2024 the Residential Property Price Index (RPPI) in Georgia decreased by 0.9 percent compared to the previous quarter, while the annual increase amounted to 8.0 percent. Compared to the 2020 average, the index change amounted to 46.7 percent (National Statistics Office of Georgia,2024)

Table 1. Residential-Property-Price-Index

Index	Compared to 2020 Average,%	Compared to 2020 Previous Quarter,%	Compared to the same quarter of Previous year, %
Total RPPI	46.7	-0.9	8.0
Flats	44.6	-1.1	7.5
Detached houses	50.6	-0.2	9.7

Source: [23]

There is a differentiated situation in Georgia according to the market segment. To day, the trend towards a decreasing share of apartment sales in the budget segment persists. (see Figure 7)

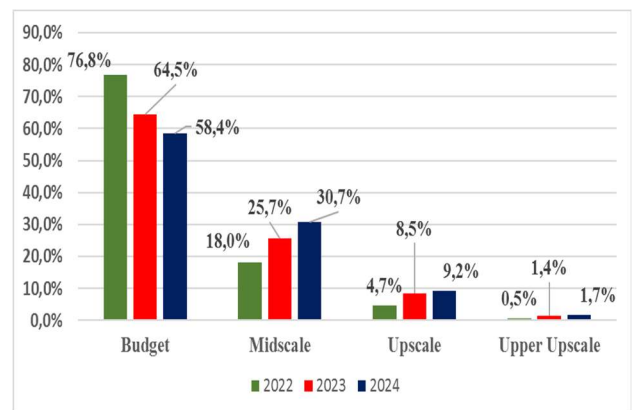


Figure 7. Real Estate sales by segments (% of total apartments sold) Source: [23]

In the third quarter of 2024 a price decrease compared to the previous quarter was registered both in flats (-1.1 percent) and

detached houses (-0.2 percent) segments. Compared to the third quarter of 2023, the prices increased in both segments, for flats by 7.5 percent and for detached houses by 9.7 percent. The following graph represents the dynamics of the total RPPI and its sub-indices, as well as the Consumer Price Index.

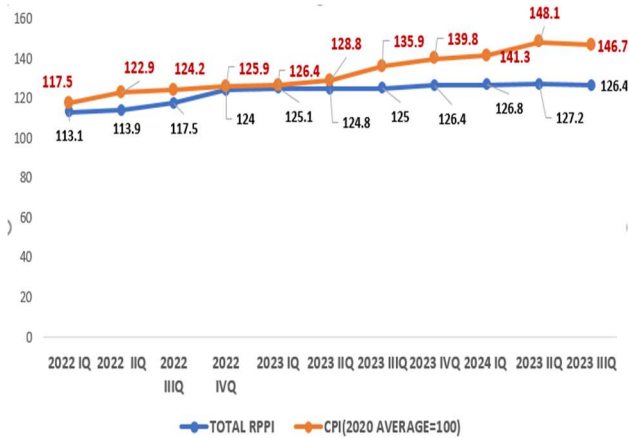


Figure 8. PPI and CPI (2020 average=100)
Source: [20]

The price of real estate in the third quarter of 2024 increased by 50.6% and 44.6% on average for apartments and private houses, which is 13.4% and 16.8% higher than the corresponding quarter of the previous year, respectively. [20]

According to Galt & Taggart, the situation in the market was stable between 2010-2020 and there were no clear trends, however, a sharp rise began in 2021 and prices almost doubled in a short period of time, which was due to a 43% increase in the price of construction materials and migration factors.

As of now, the average price of 1 m2 real estate in Tbilisi is 1,233 dollars, which is a 42.6% increase compared to January 2022, and compared to 2020, the increase rate reaches 100%. [19]

Which are the most prestigious areas in Tbilisi and what is the price? The table shows that the most expensive apartments are in Mtatsminda and Vakesi, and the cheapest in Samgori. As for private apartments, Mtatsminda, Vake and Didube intersect here as well.

The following graphs 9,10 represents the median prices of 1 sq.m in the newly-built residential properties in the third quarter of 2024 in Tbilisi, by districts.

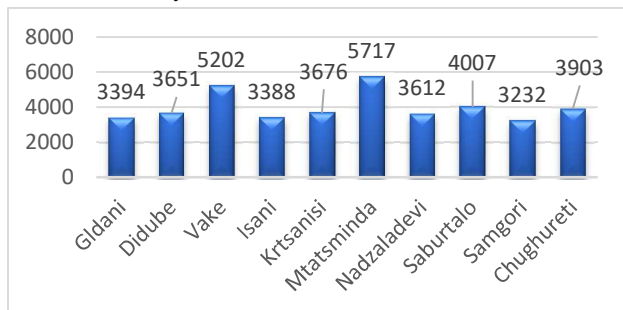


Figure 9. Residential property prices of 1m2 for flats in Tbilisi, by districts. Gel
Source: [20]

Residential property prices of 1m2 for detached houses in Tbilisi, by districts are relatively smaller.

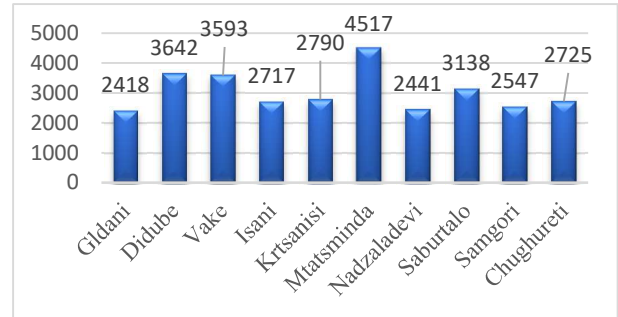


Figure 10. Residential property prices of 1m2 for detached houses in Tbilisi, by districts. Gel
Source: [20]

According to the data of 2024, Didi Digomi (22% of total sales) and Saburtalo (16%) are leading the real estate sales in Tbilisi. The growing popularity of central areas - Mtatsminda, Vake may become more attractive for investors, especially in the premium segment. New developing areas - individual parts of Isan, Samgori and Gldani may become more attractive due to new infrastructure projects. For example, in Samgori, despite the low average price (\$1,018/m²), it ranks third in the number of sales. Prices of 1 square meter of black, white and green frames are increasing.

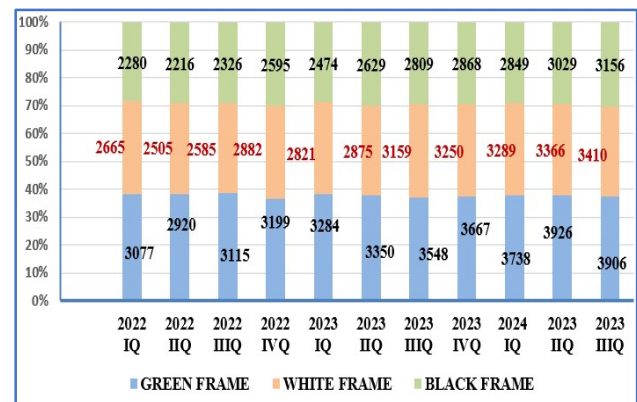


Figure 11. Flat Prices By Condition (Frames), Gel
Source: [20]

What factors affect the increase in the number of people who want to buy apartments? The easing of the monetary policy of the National Bank helps to increase the number of people who want to buy apartments, therefore, the availability of mortgage loans should be taken into account, the activity of foreign investors, taking into account the geopolitical situation, the interest of foreign investors in Tbilisi real estate may increase. There is an increased interest in private houses, which will increase the popularity of the surroundings of Tbilisi, etc. Sh.

According to the basic scenario of the National Bank of Georgia, real estate may become more expensive in the coming years. If in 2023 the increase in GEL was 12.5%, this year it will be 6%, and in 2025-2026 it will be 5.5%. Following the stabilization of the geopolitical situation, foreign demand for real estate will be

replaced by domestic demand, which will make real estate price growth proportional to nominal economic growth in the medium term. [24]

4. CONCLUSIONS

The real estate market in Georgia remains highly attractive to both local and foreign investors. Alongside rising property prices, the number of high-income earners in the country has also been growing. Investment purchases now account for 32% of the demand in the market.

In Tbilisi, the rental market has seen a sharp increase in prices, with rents doubling on average. This surge is largely driven by the fact that 77% of migrants in Georgia reside in rental properties in the capital.

According to the latest data, the number of building permits has risen by 17.3%. Despite this increase, 82% of the real estate associated with building permits issued between 2015 and 2022 has already been sold. As a result, there is no significant gap between demand and supply in Georgia, and the market is not at risk of oversupply. By the completion of projects in 2025 and 2026, 58% and 31% of the apartments, respectively, have already been sold.

In the third quarter of 2024, the price of real estate saw a significant increase, with apartment prices rising by 50.6% and private house prices increasing by 44.6%. These figures represent a 13.4% and 16.8% rise, respectively, compared to the same quarter in the previous year.

It is true that a sharp rise in real estate prices began in 2021, with prices nearly doubling in a short period. This surge was primarily driven by a 43% increase in construction material costs and migration factors. However, according to the latest data, real estate prices decreased in the third quarter of 2024 compared to the previous quarter.

According to 2024 data, Didi Digomi leads Tbilisi's real estate market with 22% of total sales, followed by Saburtalo at 16%. Other popular areas include Mtatsminda and Vake.

The average price of real estate in Tbilisi is \$1,233 per square meter, marking a 42.6% increase compared to January 2022. When compared to 2020, the price increase reaches 100%.

Factors such as the National Bank's easing of monetary policy, the availability of mortgage loans, increased activity from foreign investors, and growing interest in private houses have all contributed to a rise in the number of individuals looking to purchase apartments.

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