

EXECUTIVE SUMMARY

- Sales are down, with the decrease observed both in sold residential units and in sold apartment area. We believe that somewhat steeper decline might be concealed by the lag in the registration of sales.
- While the YoY decline can be partly explained by the high base of 2018, sales declined relative to the previous quarter as well. On the other hand, the market activity remains stronger compared to year 2017.
- The depreciation of GEL resulted in less demand for residential properties. The slow-down of mortgage growth also had its toll on sales. As a counter-measure, the developers are more actively engaged in inner-installment schemes.
- The interest rates on GEL mortgage loans started to increase, making the GEL mortgages costlier. This, together with the decreased reserve requirements in FX and stable or appreciating GEL, should contribute to the growth of foreign currency mortgages.
- The construction permits picked up, indicating the increase in future supply.
- The overall price level increased in GEL, but decreased in USD, explained by the depreciation of local currency relative to USD.

TRANSACTION DYNAMICS: SALES ARE DOWN

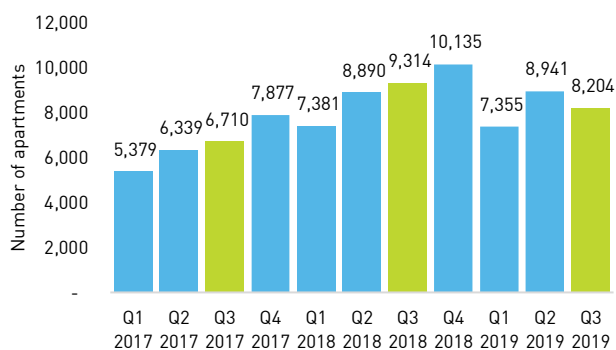
NAPR¹ indicates the decline of transactions. In Q3 2019, the number of sold apartments totaled 8,204 in Tbilisi, down -11.9% YoY. The decrease was also significant in terms of sold apartment area, which amounted to 551,000 Sqm in the same quarter (-11.4% YoY). The decrease can be partly explained by the high base of Q3 2018, when both demand and supply for mortgages was high due to the changing regulatory framework. However, the sales declined relative to the previous quarter as well, diverting from the usual seasonality.

Exchange rates and mortgage slow-down effected the sales. With depreciation of GEL, the level of consumer confidence has deteriorated, expressed in less demand for residential properties. The slow-down of mortgage growth had its toll on sales, currently further pressured by the rising GEL interest rates. At the same time, developers are more actively engaged in inner-installment schemes.

General market perception indicates even somewhat steeper decline in sales. The extent of the decline might be camouflaged by the time lag in NAPR reporting. As stated in our earlier reports, depending on the practice of individual developers, a portion of residential real estate transactions does not enter the registry database straight at the moment of the sale, causing a time lag. The market perception is supported by the slowing mortgages, elevated FX volatility and worsening consumer sentiments, which are traditionally among the key drivers of sales' growth.

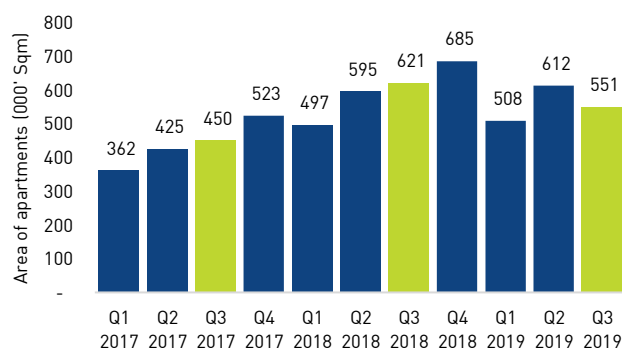
Going forward, the development of residential property sales will remain subject to the continuation of current mortgage trends and exchange rate dynamics.

FIGURE 1: APARTMENTS SOLD IN TBILISI



Source: NAPR, TBC Capital

FIGURE 2: AREA OF APARTMENTS SOLD IN TBILISI

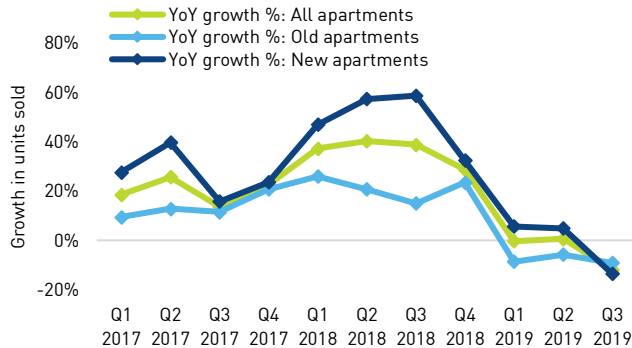


Source: NAPR, TBC Capital

The market went from deceleration to decline in Q3 2019. Following the solid growth dynamics in 2018, NAPR has been indicating the level off in market activity in the first two quarters of 2019. In Q3 2019, year-on-year growth rates turned negative. However, the number of apartments sold in Q3 2019 is still 22.6% higher than sales in Q3 2017.

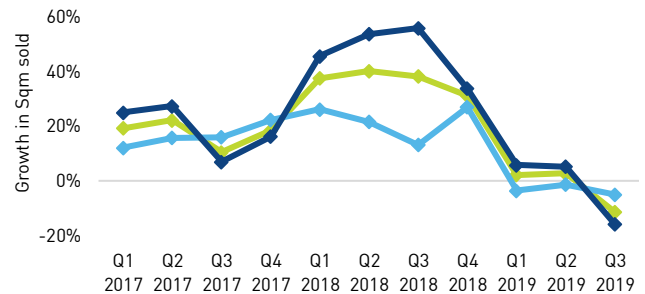
¹ National Agency of Public Registry

FIGURE 3: YOY QUARTERLY CHANGE OF APARTMENT TRANSACTIONS IN UNITS



Source: NAPR, TBC Capital

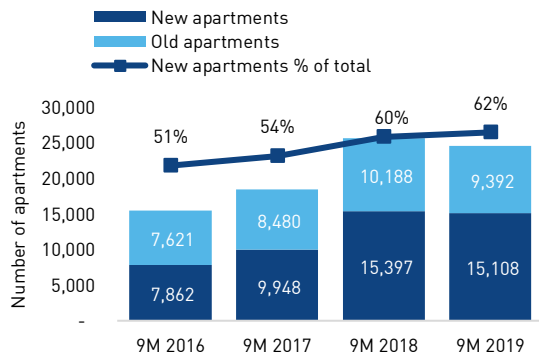
FIGURE 4: YOY QUARTERLY CHANGE OF APARTMENT TRANSACTIONS IN AREA



Source: NAPR, TBC Capital

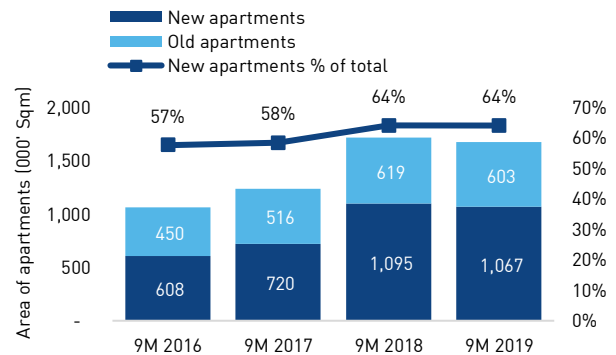
New apartments still account for the larger share of transactions. In 9M 2019, homebuyers purchased 15,108 newly² built residential units with total of 1.1mln Sqm area in Tbilisi, down -1.9% YoY and -2.5% YoY respectively. The decline was larger for old apartments, sales of which totaled 9,392 in units (-7.8% YoY) and 600,000 Sqm in area (-2.5% YoY). Overall, new properties had 62% share of total transaction units and 64% share of total transaction space in the same period.

FIGURE 5: NEW AND OLD APARTMENTS SOLD



Source: NAPR, TBC Capital

FIGURE 6: AREA OF NEW AND OLD APARTMENTS



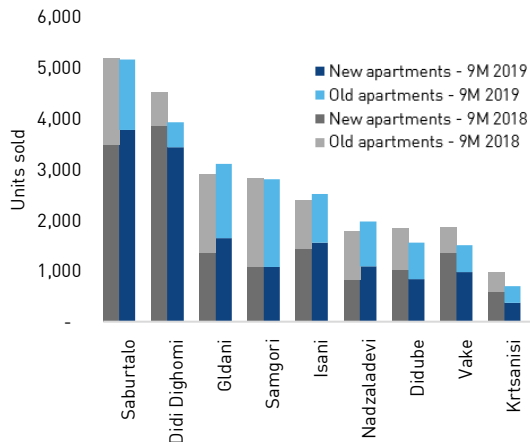
Source: NAPR, TBC Capital

9M Sales up only in Gldani, Isani and Nadzaladevi, down in most³ districts. Traditionally active districts still lead the sales. However, Didi Dighomi with Vake and Didube had the steepest YoY decline in transactions, ranging from -12% to -20%. Apartment sales remained relatively stable in Saburtalo and Samgori.

² For the purposes of this research, the new apartments are the units built under construction permit issued since 2010.

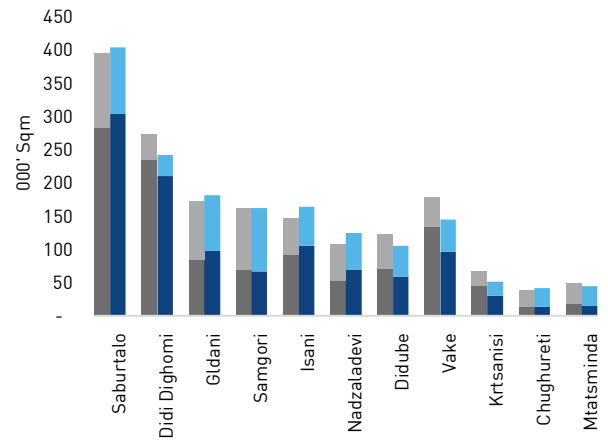
³ Transactions were up in Chugureti and down in Krtsanisi. However, both districts have a low base.

FIGURE 7: SALES BY DISTRICTS IN UNITS



Source: NAPR, TBC Capital

FIGURE 8: SALES BY DISTRICTS IN AREA (SQM)

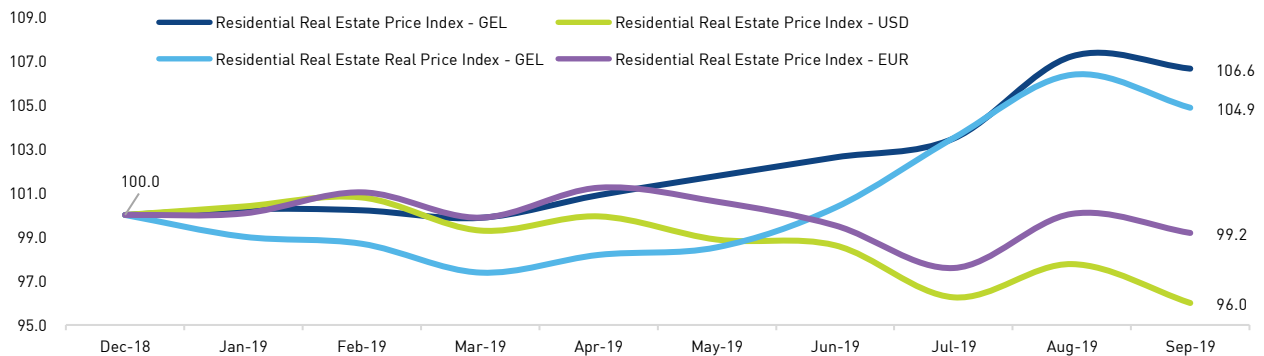


Source: NAPR, TBC Capital

PRICES: DOWN IN USD, UP IN GEL

In Q3 2019, a gap between the NBG home price index in the two currencies widened. The index level increased by 6.6% in GEL and fell by -4.0% in USD in nominal terms, as compared to December 2018. The decline was minor in EUR, index of which decreased by -0.8%. Adjusted for the inflation, the real price index grew by 4.9% in GEL. The opposite directions of price change in different currencies is linked to depreciation of the local currency, on higher level relatively to USD than EUR.

FIGURE 9: HOME PRICE INDEX⁴ (DECEMBER 2018=100)



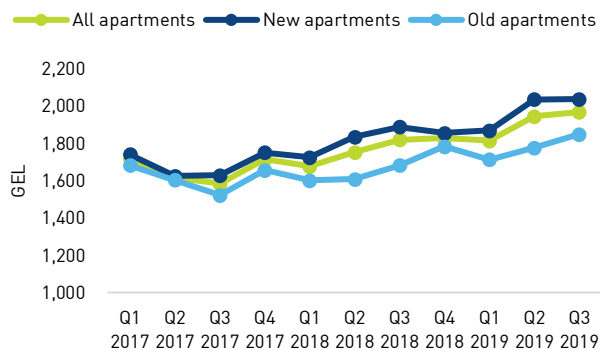
Source: NBG

In Q3 2019, the sales weighted Average Selling Price (ASP) of Tbilisi's apartments amounted to USD 680/Sqm (-4.6% QoQ) and GEL 1,970/Sqm (+1.2% QoQ). For new residential properties, ASP decreased by -5.6% QoQ in

⁴ The NBG home price index tracks the price change of the apartments with similar traits throughout time, providing an accurate depiction of the economic evolution of the price. We rebased the index at 2018 for our purposes.

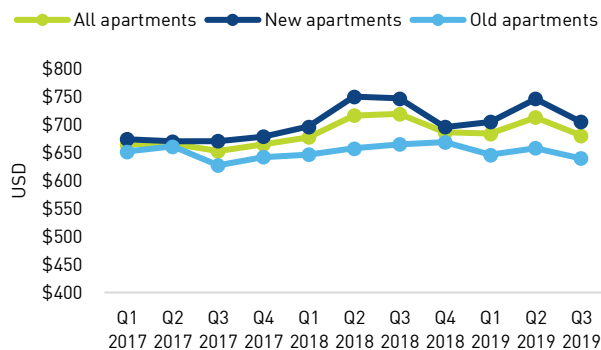
USD and increased by +0.1% QoQ in local currency, totaling USD 705/Sqm and GEL 2,040/Sqm respectively. Old apartments had an ASP of USD 640/Sqm (-2.8% QoQ) and GEL 1,850/Sqm (+4.1% QoQ).

FIGURE 10: ASP IN GEL



Source: NAPR, TBC Capital

FIGURE 11: ASP IN USD

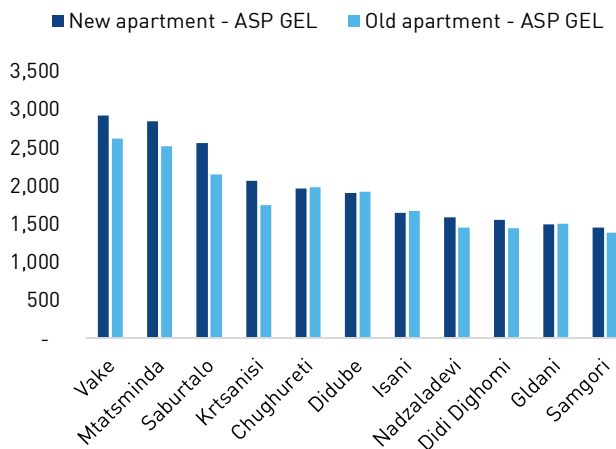


Source: NAPR, TBC Capital

Central districts keep leading by sales weighted prices. On a district level, Vake, Mtatsminda and Saburtalo are significantly more expensive than other districts. Old units in suburban areas like Nadzaladevi, Gldani, Didi Dighomi and Samgori are the most affordable.

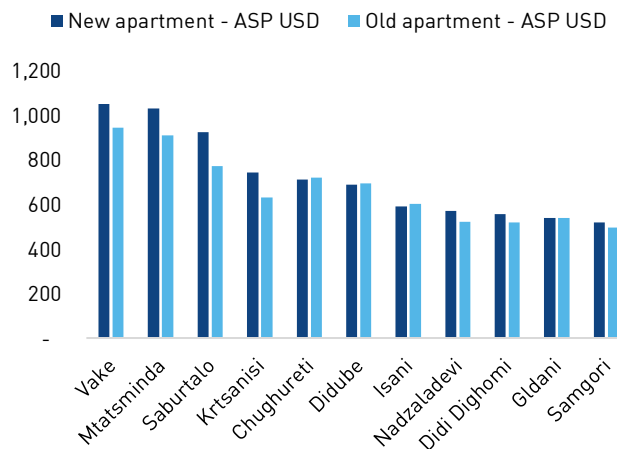
In the short term, we expect the foreign currency denominated price for Tbilisi’s residential properties to marginally decline.

FIGURE 12: 9M 2019 ASP IN GEL BY DISTRICTS



Source: NAPR, TBC Capital

FIGURE 13: 9M 2019 ASP IN USD BY DISTRICTS

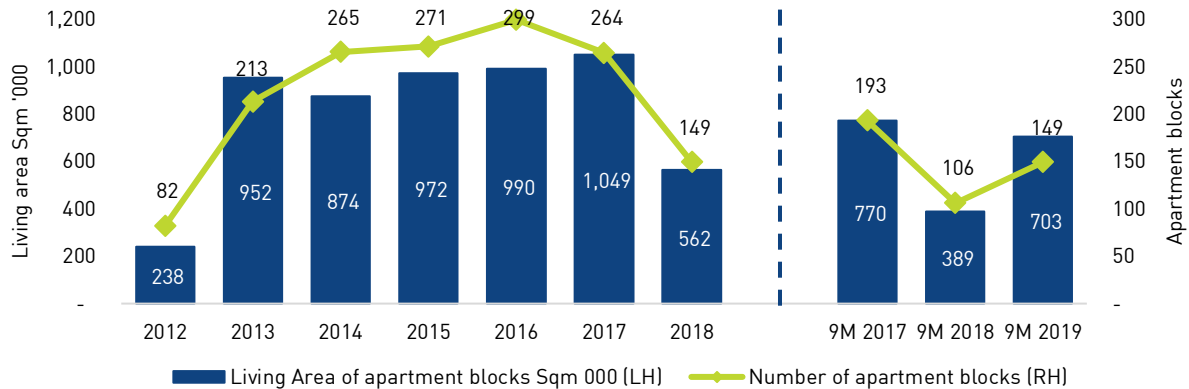


Source: NAPR, TBC Capital

SUPPLY: PERMITS PICKED UP

Growth of issued construction permits strengthens. In 9M 2019, Tbilisi saw 149 newly issued building permits for multi-apartment and multi-functional blocks, accounting for 703,000 Sqm residential space (+81% YoY). The latest numbers are still slightly lower than that of 9M 2017.

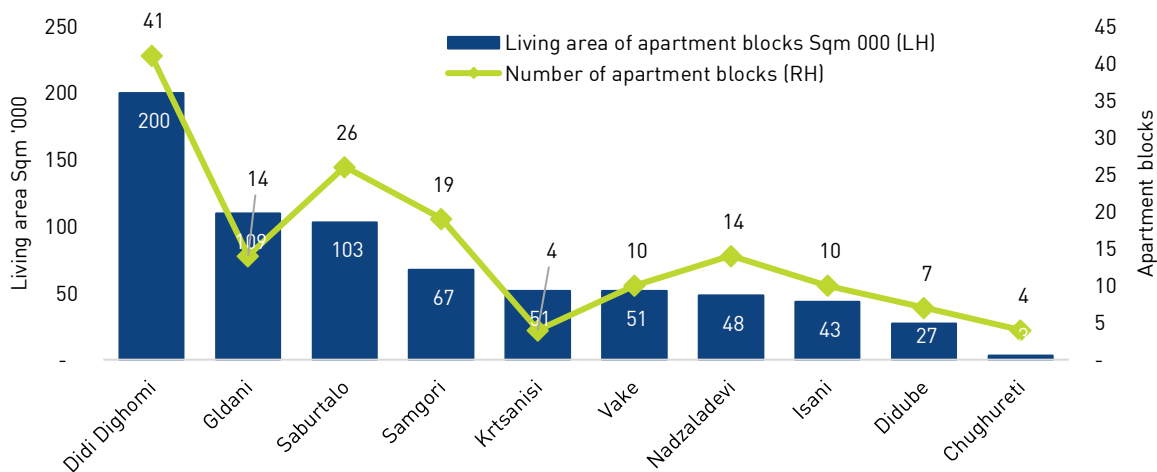
FIGURE 14: APARTMENT BLOCK PERMITS APPROVED (SQM, UNITS)



Source: Tbilisi City Hall, TBC Capital

New supply concentrated in Didi Dighomi, Gldani and Saburtalo. Mirroring the trend of previous years, these districts are the most active in terms of construction permit issuance – both in units and living area. In Q3 2019, Gldani had 7 new permits for construction of over 83,000 Sqm residential area, putting the district back in the top three. The significant growth in average permit area was due to two large projects, adding 62,000 Sqm living space in total. Chughureti remains the least active, with only four new small-area permits issued in 9M 2019.

FIGURE 15: TOTAL AREA (SQM) AND NUMBER OF PERMITS APPROVED BY TBILISI DISTRICTS

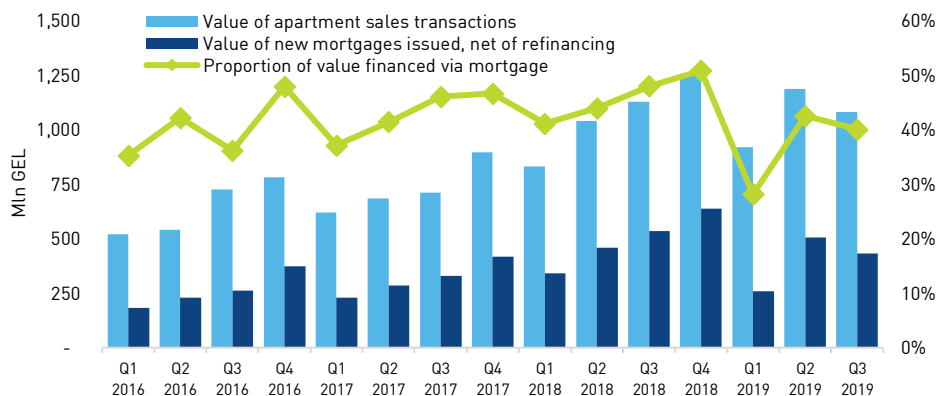


Source: Tbilisi City Hall, TBC Capital

MORTGAGE: THE SLOW-DOWN

Proportion of mortgages to total sales marginally declined. Throughout 2019, the proportion of issued mortgages to total market sales value remains lower compared to the previous year. The proportion dropped significantly in Q1 2019, but improved relatively in Q2 2019 as interest rates went down and mortgage loans became relatively accessible. In Q3 2019, the proportion somewhat declined, standing at 40%. The lower mortgage activity is also partly substituted by the developers offering homebuyers an alternative way of finance through inner-installment schemes.

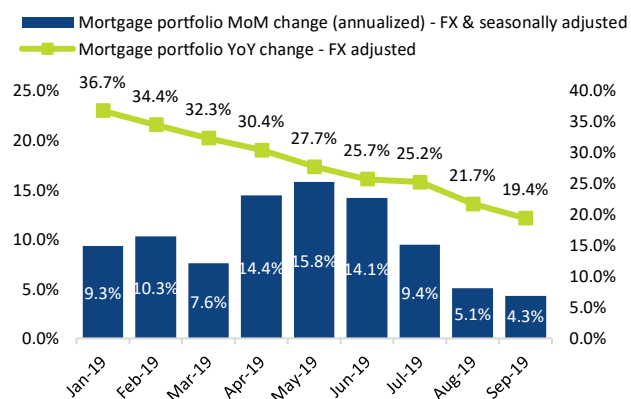
FIGURE 16: THE PROPORTION⁵ OF ISSUED MORTGAGES TO TOTAL RESIDENTIAL SALES VALUE IN TBILISI



Source: NAPR, TBC Capital

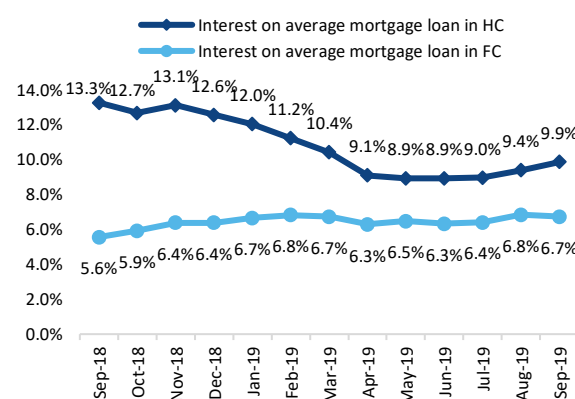
The growth of mortgage portfolio has slowed down. Adjusted for seasonality and FX effect, MoM change started to rapidly decline from June 2019, with September displaying the weakest growth (+4.3% MoM annualized). The weakening trend is also visible in the YoY change dynamics.

FIGURE 17: MORTGAGE PORTFOLIO GROWTH RATE



Source: NBG, TBC Capital

FIGURE 18: AVG. INTEREST RATES ON MORTGAGE



Source: NBG, TBC Capital

⁵ In reality, mortgages have more profound effect on the total value of sales. Firstly, because of the value of down payments of these transactions. Secondly, we believe that a mortgage has a multiplication effect in the sector, causing on average more than one transaction, as the part of individual home-sellers often sell the apartment in order to buy a newer one with the proceeds.

The GEL interest rates have been rising. Average interest rates on newly issued GEL mortgages increased in the third quarter. Going forward, with the NBG tightening policy rate by 2PP to 8.5% since the beginning of September 2019, interest rates on the GEL loans should further increase. This, together with the decreased reserve requirements in FX and stable or appreciating GEL, should contribute to the growth of foreign currency mortgages. The current floor for the FX mortgage is the equivalent of GEL 200,000.

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