Colliers INTERNATIONAL

Georgia | Residential Market Report
2014

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Contents

Executive Summary

GDP and money transfers from foreign countries.
In recent years, Georgia has observed a significant increase of GDP. In 2013 the growth rate of GDP stood at 3.3% and reached USD 16.14 billion.

In 2013 money transfers from foreign countries grew by 11% and amounted to USD 1.48 billion. In the first half of 2014 the growth rate stood at 2% compared with the same figure of 2013. The biggest proportion of money transfers is held by Russia, with 50%, after which comes Greece – 14% and Italy with 8%.

Positive trend in mortgage lending.
During 2010 – 2011, the growth rate of mortgage lending amounted 39% and the volume of issued loans reached USD 314 million. In 2012 a 34% decrease was observed in comparison with the previous year. In 2013, due to the marketing campaigns of commercial banks and reduced interest rates the volume amounted USD 416 million. In 2014 growth rate of issued mortgages amounted 30% comparing with the same figure in 2013, and reached USD 541 million.

High tenure structure and average household size.
Home ownership in Georgia currently stands at 93%. Compared with other European countries it stands second only to Romania, with 96%. This is an indication that the rental market development is very low. Although it can not be discounted that some of the population has not officially registered lease agreements. In Tbilisi the proportion of home ownership is 86%.

Average household size in Georgia is still very high and has been around 3.6 for the last few years. In the EU, the average household size is around 2.4. The long-term forecast is that this figure will decrease as economic prosperity improves.

Tbilisi and Batumi are the main flows of new supply.
Residential real estate development in Georgia is dominated by Tbilisi and Batumi. In the rest of country the future pipeline is very poor and current stock is mainly represented by Soviet Union period buildings.

Ongoing and pipeline residential project in Tbilisi amounts almost 2.9 million sqm under construction. During next two years supply will rise by 16,000 dwelling units and amount 360,000 dwelling units. In the last two years, strong demand has resulted in stalled projects being resumed.

There are 112 residential real estate projects under construction in Batumi, which amounts 1.2 million square metres construction area and around 12,000 dwelling units. Suspended construction activity in Batumi stands at a significantly lower level than in Tbilisi.

Growing demand in Tbilisi.
Registered purchase transactions are following a positive trend in Tbilisi. The average growth rate of selling transactions during last three years was 8% in Tbilisi. The volume of registered transactions in 2013 amounted USD 829 million. In 2014 transaction volume increased by 6% in Tbilisi (USD 882 million).

Selling price indices are increasing slightly.
The average residential real estate selling price in Tbilisi grew from USD 826 per sqm in Q1 2012 to USD 830 per sqm in Q4 2014.

Batumi has seen 6% price increase during last three years from USD 646 per sqm in Q1 2012 to USD 686 per sqm in Q4 2014.

The average selling price in Mtskheta is more volatile. Despite that by the end of 2014 the average price has increased by 49% comparing with Q1 2011, equaling to USD 418. Comparing to the same figure of Q3 2014 the average selling price increased by 14%.

Rustavi observed the 64% increase of average selling price during 2011-2014. By the end of 2014 the mentioned index amounted to USD 386 per sqm.

Georgia – Country Profile

Introduction
Georgia is located between Asia and Europe and occupies a land area of 69,700 sq. km. It neighbours Turkey to the southwest, Azerbaijan to the east, Russia to the north and Armenia to the south.
Georgia declared independence on 9 April 1991, following the dissolution of the Soviet Union.

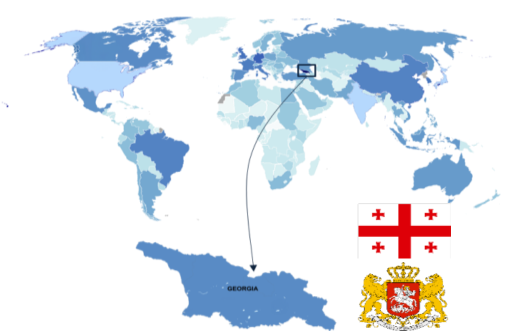
Economy
Georgia achieved robust economic growth between 2003-2014, averaging 6.3 percent annually, following structural reforms that stimulated capital inflows and investment. The reforms helped to improve the business environment, strengthened public finances, upgraded infrastructure facilities and liberalized trade. Growth was also supported by increased foreign direct investments (FDI) and was driven by capital accumulation and sound use of excess capacity rather than by net job creation, with productivity gains concentrated mainly in the non-tradable sectors. GDP per capita increased from $919 in 2003 to $3,763 in 2014 (in current prices, 2014 - preliminary data). GDP growth rate amounted to 4.7% in 2014. According to IMF, Georgia has one of the highest forecasted GDP growth rates among Eastern European countries and its neighbors during 2014-2015. Major foreign investors in Georgia include: BP, Socar, Heidelberg Cement, RAKIA Group and MAF.

Government
Georgia is a democratic, Presidential-Parliamentary republic whereby the President is the Head of State and the Prime Minister is the Head of Government.
As a result of the presidential elections held on October 27, 2013, Giorgi Margvelashvili was elected as the president from the coalition "Georgian Dream". The new cabinet of ministers was established in November, headed by Irakli Gharibashvili.
According to the declared strategy, joining the EU and NATO are among the country's top foreign policy objectives.

Tax system
To enhance Georgia's Investment & Business Climate, the Government has dramatically overhauled its tax system since 2004. By implementing a liberal reform agenda, Georgia has simplified its processes and has reduced the number of taxes from 21 in 2004 to only 6 today.

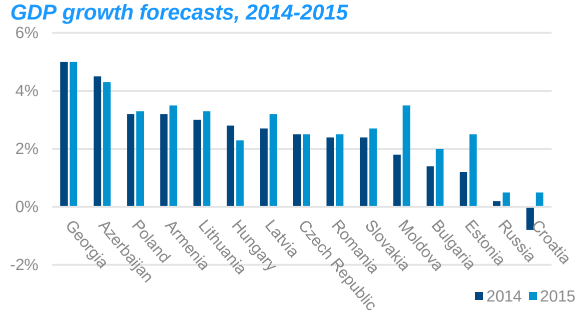
- Value Added Tax (from 20% has been reduced to 18%)
- Income Tax (20%)
- Profit Tax (corporate tax 20% has been reduced to 15%)
- Excise
- Property Tax (1%)
- Customs Tax (0%, 5% or 12%)

These improvements have made Georgia one of the most attractive tax regimes globally. In 2009, Forbes Magazine designated Georgia as the "4th Least Tax-Burdened Country".
Since 2008 Georgia has initiated and concluded Avoidance of Double Taxation Agreements with its major trade partners. Currently, Georgia has 46 active agreements. Additional reforms are projected to decrease tax rates even further in the next few years.



Population
The Georgian population is approximately 4.49 million. This figure has grown since 2006 by 2%. About 54% of the total population lives in urban areas and the urbanization rate has been increasing since 2006.
83.8% of the Georgian population are Georgians by ethnic origin. The second largest share - 6.5% are Azeri, followed by Armenians – 5.7% and Russians – 1.5%.

GDP growth forecasts, 2014-2015



Source: www.imf.org (World Economic Outlook-October 2014)

Key Socio-Economic Indicators	2010	2011	2012	2013	2014F
Area					69 700 sq. km
Population 2014					4.49 mln
Capital					Tbilisi
Currency (code)					Lari (GEL)
GDP at current prices, mil. USD	11,636	14,438	15,846	16,140	16,890*
GDP - Real Growth Rate	6.2%	7.2%	6.4%	3.3%	4.7%*
GDP - Per Capita 2013	$2,623	$3,231	$3,523	$3,600	$3,763*
Inflation rate (12 months average)	7.1%	8.5%	-0.9%	-0.5%	3.1%
Unemployment rate	16.3%	15.1%	15%	14.6%	N/A
Total exports (mln. USD)-FOB	$1,677	$2,189	$2,375	$2,908	$2,861*
Total imports (mln. USD)-CIF	$5,257	$7,058	$7,902	$7,885	$8,596*
Trade surplus/deficit 2013 (mln. USD) FOB-CIF	(3,580)	(4,869)	(5,527)	(4,977)	(5,735)*
Exchange rate - USD/GEL	1.7826	1.6860	1.6513	1.6634	1.7659
Exchange rate - EUR/GEL	2.3644	2.3473	2.1232	2.2094	2.3462

**Preliminary data*
Source: www.geostat.ge www.nbg.ge www.imf.org

Georgia – Country Profile

Recent Developments

In June of 2014, the Association Agreement between Georgia and the European Union was signed. This agreement aims to expand political and economic relations between Georgia and the European Union and to gradually integrate Georgia into the European Union's internal market.

Georgia's international ratings has been revised In 2014:

- Standard & Poor's: BB- Stable (Affirmed in May 2014)
- Moody's: Ba3 Positive (Affirmed in August 2014)
- Fitch Rating: BB- Positive (Affirmed in October 2014)

The Heritage Foundation ranked Georgia the 22nd among 178 countries in Economic Freedom Ranking.

In the World Bank's "Ease of Doing Business Index 2014", Georgia ranks 15th out of the surveyed 189 economies. In the same ranking in 2006 Georgia held the 100th position.

According to the Global Peace Index (GPI) issued by Institute for Economics and Peace (IEP) in 2015, Georgia is fourth safest country in the World.

Business and Investment Environment

Georgian government efforts to reduce corruption in public and private sectors have significantly improved Georgia's ranking in the World Bank's Doing Business Survey. By the latest survey it stands on 15th position among 189 countries. Georgia ranks as 1st in property registration, 3rd in dealing with construction permits, 5th in starting a business and 7th in getting the credit.

Among transitional economies, Georgia has improved its ranking in the Corruption Perception Index from 85 to 50 in the years 2002-2005. The Georgian tax system was simplified, customs duties were reduced and procedures for granting licenses and permits were simplified. According to Forbes, Georgia was ranked as 4th least tax burden country in 2008.

At present Georgia enjoys free trade agreement with Turkey and nearly all CIS countries. Georgia is eligible for Most Favored Nation (MFN) treatment from all the WTO member states and is the member of WTO since 2000. Georgia has been granted a Generalized Scheme of Preferences (GSP) treatment by the following countries: the EU, the USA, Japan, Canada, Switzerland and Norway.

The Association Agreement between Georgia and the European Union, signed in June 2014, includes the setting up of a Deep and Comprehensive Free Trade Area (DCFTA). The DCFTA has been enacted since September 2014, therefore products or services produced in Georgia can freely access to the EU market with more than 500 million consumers. DCFTA will contribute to economic growth, integration with world markets and global supply chains, and will open new prospects for Georgia and for entrepreneurs doing business in our country.

In 2015, the Government of Georgia began negotiations on signing the Free trade Agreement with the European Free Trade Association (EFTA) that unities Switzerland, Norway, Island and Lichtenstein. After the signing an agreement with the EFTA, market of high purchasing value will open for the Georgian products and services that unities 4 countries and more that 13 million customers.

Legal System

The Constitution, adopted in 1995, sets out the structure of the national government as well as its powers and functions. The powers of government are divided into three branches – legislative, executive and judicial.

The court system in Georgia has three branches: Courts of First Instance (District or City Courts), Appellate Courts and the Supreme Court. First Instance Courts have jurisdiction over all civil, criminal and administrative cases. Decisions from First Instance Courts may be appealed to the Appellate Courts and, from there, to the Supreme Court. The Constitutional Court of Georgia is the sole organ of constitutional jurisdiction of Georgia.

As an alternative to litigation, Georgia allows for third party arbitration. Georgian law also allows foreign companies to include provisions in their contracts (including those with Georgian entities) that allow for arbitration by international arbitration institutions.

Infrastructure & Transport

Located on the shortest route between Europe and Asia, Georgia's transport system is a key link in the historic "Silk Road."

It is believed that long-term growth will stem from Georgia's role as a transit state for pipelines. Three pipelines currently exist:

- The **Baku-Supsa pipeline** (GPC-Georgian Pipeline Company) runs 814 km from Baku to Supsa (444 km in Azerbaijan and 370 km in Georgia) and transports "early oil" from the Caspian Sea region.
- The **Baku-Tbilisi-Ceyhan (BTC)** oil pipeline extends 1,750 km across Azerbaijan, Georgia and Turkey and is designed to transport up to one million barrels of Azeri oil per day. The oil is transported via Georgia to the Turkish port of Ceyhan.
- The **South Caucasus Pipeline (SCP)** System project was completed in late 2006. The initial capacity of the pipeline is 8.8 billion cubic meters (bcm) of gas per year and, after 2017, its capacity could be expanded to 20 bcm per year. As part of the transit payment, Georgia will receive 5% of the volume of natural gas transited from Azerbaijan to Turkey. One of the main partner and operator of the project is BP.

Four **airports** with a total capacity of 3,100 passengers per hour, serve the country in Tbilisi, Batumi, Kutaisi and Mestia. The total length of **railway** amounts 1,612 km, with capacity of 3.3 million passengers per year and the length of roadways amounts 19,109 km. Completion of the Baku-Tbilisi-Kars (BTK) railway in 2015 will also stimulate advancement of Georgian Railway.

Major sea ports are located in Poti and Batumi. The Government of Georgia strives to enhance port infrastructure. For this purpose, particular importance is attached to the construction of the new Deep Sea port in Anaklia. Construction of the new port is strategically important and shall result in significant increase in cargo turnover through Georgia.

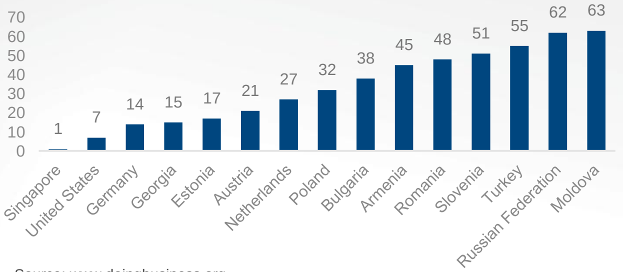
Energy

Georgia has a developed, stable and reliable energy sector but efforts are required to improve the efficiency in domestic energy use. The most promising source of additional energy generation is hydropower and the Government is focused on securing private investments for the construction of new hydropower stations.

In 2012 9.694 billion kWh was produced in Georgia and consumption amounted 9.379 billion kWh.

With a large number of planned investments in energy sector it is expected that Georgia will be fully energy self-sufficient by the year 2020.

Rankings on the ease of doing business



Source: www.doingbusiness.org

Georgia Socio-Economic Overview

Economic

During the past two years Georgia has experienced a significant increase of GDP and remittances.

In 2014, GDP is expected to reach USD 16.9 billion. According to the IMF, Georgia has one of the highest forecasted growth rates of GDP among Eastern European countries and its neighbors during 2014-2015.

The largest proportion of remittances are held by Russia with 50%, after which stands Greece with 14% and Italy with 8%.

Population

The Georgian population stands at 4.49 million. This figure has grown since 2006 by 2%. About 54% of the total population lives in urban areas and the urbanization rate has been increasing since 2006.

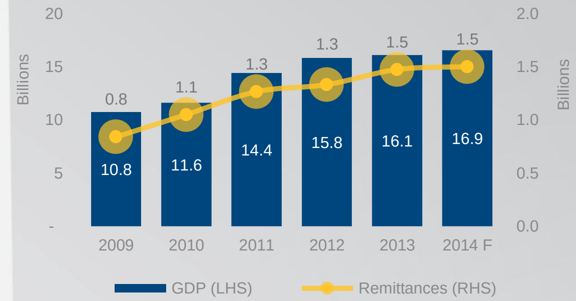
Compared to other European countries, by population, Georgia stands between Slovakia and Croatia.

Average household income

The average household income in Georgia is characterized by a growing trend, but still remains low. In comparison to 2009, the average household income has increased by 57%. During 2009-2013 the average growth rate was around 10-12% annually.

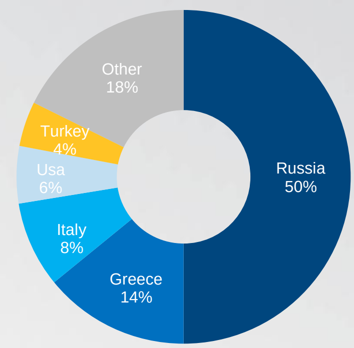
The current average household monthly income stands at USD 533. Even though a growth trend is observed, Georgia is still classified by the World Bank as a Lower Middle Income country.

GDP/Remittances (USD) 2009 - 2014 F



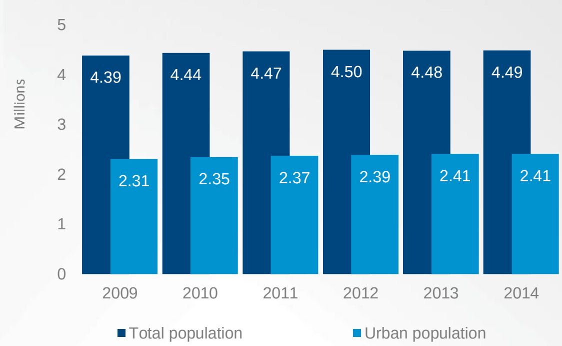
Source: National Statistics Office of Georgia, www.nbg.ge

Remittances in Georgia 2014



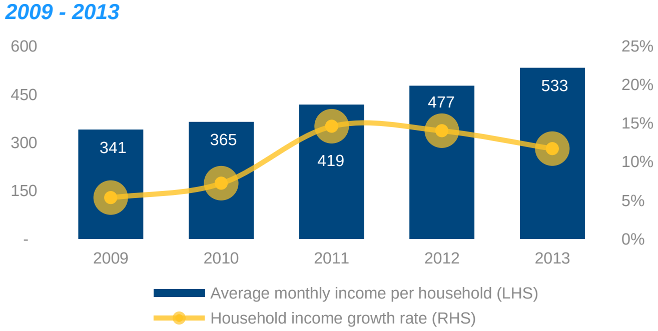
Source: National Bank of Georgia

Population in Georgia 2009-2014



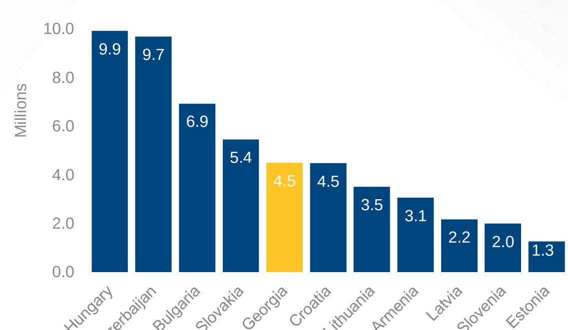
Source: National Statistics Office of Georgia

Average household income (USD) 2009 - 2013



Source: National Statistics Office of Georgia

Benchmarking Population in Georgia



Source: National Statistics Office of Georgia, CIA

Georgia Residential Market Fundamentals

Average household size

The average household size in Georgia is still very high and stands at around 3.6 for the last few years. In the EU, the average household size is around 2.4.

In long-term this figure will move towards the European standard, which will generate increasing demand for residential real estate.

Tenure structure (home ownership)

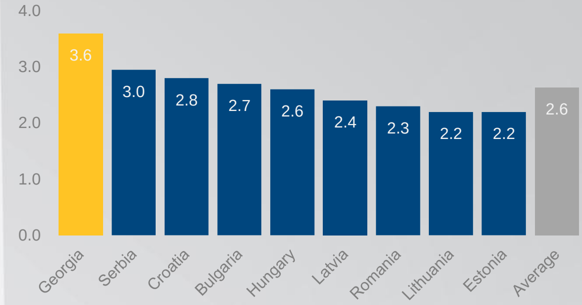
Home ownership is very high in Georgia. The current level stands at 93% and is second only after Romania compared with other Eastern European countries.

Mortgage lending

During 2013, the volume of issued mortgage loans amounted to USD 691 million, which is the double the level of 2012 and 31% higher than 2011. The largest proportion of mortgages in 2013 was issued in December (around USD 149 million), due to the marketing campaigns of commercial banks and reduced interest rates. In 2014 the growth rate stands at 30% and issued mortgages amounted to USD 541 million.

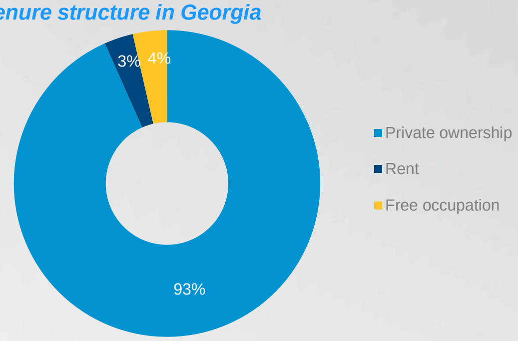
Currently the average interest rate is 10%, which is still high when compared internationally.

Benchmarking of average household size



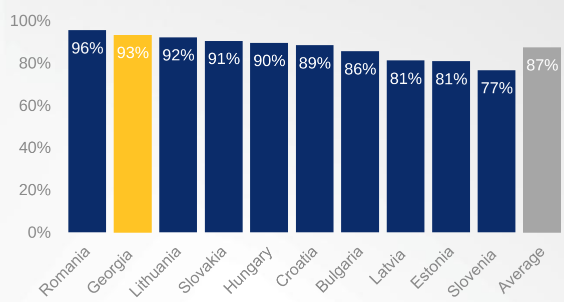
Source: National Statistics Office of Georgia, Eurostat

Tenure structure in Georgia



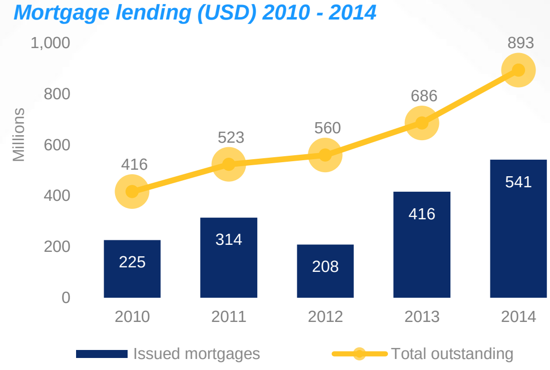
Source: National Statistics Office of Georgia

Benchmarking of tenure structure (home ownership)



Source: National Statistics Office of Georgia, Eurostat

Mortgage lending (USD) 2010 - 2014



Source: National Bank of Georgia, Colliers International

Tbilisi Residential Overview

Market Fundamentals

Population

The total population of Tbilisi is 1,175,200. The mentioned figure has increased by 2% since 2009.

Compared with the other cities in Eastern Europe, it is of a similar size to Prague and Sofia. Over the next ten years we expect a 10% growth in population of Tbilisi.

Tenure structure (home ownership)

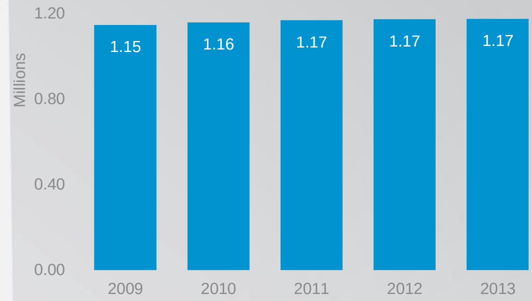
Home ownership in Tbilisi is high, as it is in Georgia. In the current period it stands at 86%. Compared with Eastern European cities the Tbilisi figure is second only to Bucharest. Such a high rate is an indication that development of the rental market is very low. However, it can not be discounted that part of the population has not officially registered lease agreements.

Living area per capita

The average living area in Tbilisi stands at 23 sqm per capita. The largest properties are located in Vake and Saburtalo district. The smallest living area per capita is represented in Chughureti (5.4 sqm) and Nadzaladevi (6.7 sqm).

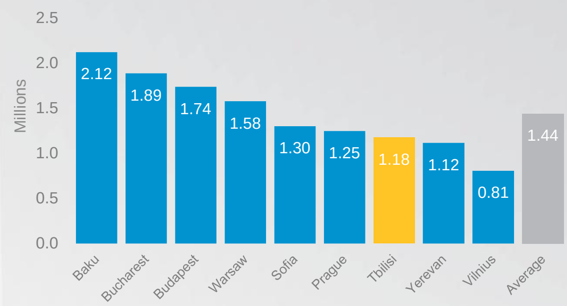
According to the average living area per capita, Tbilisi stands between Vilnius and Budapest in comparison with the Eastern European cities.

Population in Tbilisi



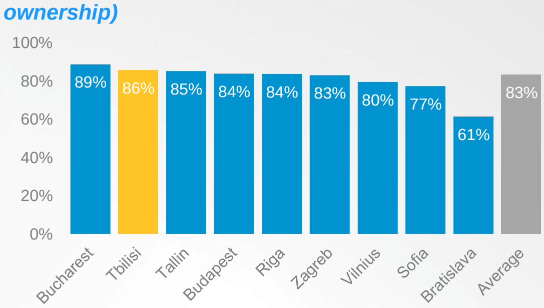
Source: National Statistics Office of Georgia

Benchmarking Population Tbilisi



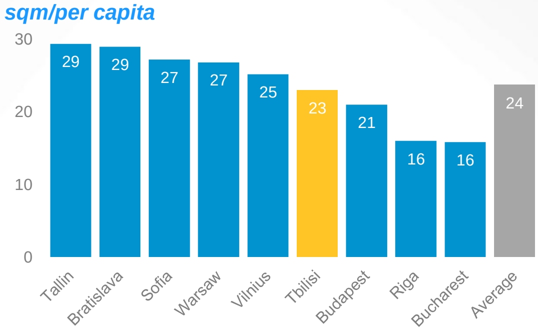
Source: National Statistics Office of Georgia, CIA

Benchmarking of tenure structure (home ownership)



Source: National Statistics Office of Georgia, Eurostat

Benchmarking of average living area sqm/per capita



Source: National Statistics Office of Georgia, Eurostat

Tbilisi Residential Market Overview - Supply

Stock

The total housing stock in Tbilisi equals to 344,000 dwelling units, of which the largest share was built during 1960-1990, so called “Soviet-type” residential buildings, of which significant proportion is deteriorated or damaged. After this period, in 1991-2000 there was a significant decrease in development, but after this decade residential construction picked up significantly. During 2013-2016, 21,000 dwelling units will be delivered.

Main market suppliers

The Georgian residential market is dominated by local developers. Participation of foreign investors is limited to a handful of larger schemes such as Dirsi (Azerbaijan), Hualing (China) and Dona Group (Israel). Developers fall into the following categories: large-sized developers, middle-sized developers, small-sized developers and passive developers.

Large-sized developers includes companies that have large scale construction projects (over 50,000 sqm) and also are involved renovation, refurbishment and fit-out.

The middle-sized developers are actively implementing middle scaled projects (from 10,000-50,000 sqm).

Small-sized developers are represented by developers of condominiums, limited liability companies and houses etc., whose total construction area is under 10,000 sqm.

Passive developers are those companies, who have encountered problems during development and have consequently suspended construction.

Ongoing and future projects

Currently there are 233 residential development projects in Tbilisi, covering 1,013,000 sqm land area and a total of 2,900,000 sqm construction area.

Ongoing projects have been divided into several categories by selling price, such as premium, middle and low segments[1]. 45% of total supply is the middle and low segments, only 10% is represented by the premium segment.

Currently, from observed development projects around 19 units[2] have suspended status, with a total area of 539,478 sqm it holds 19% of the total supply.

Issued construction permits

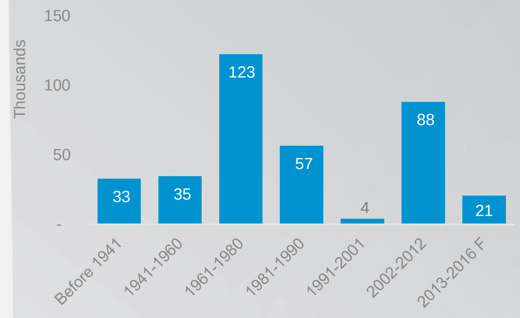
According to the information provided by National Statistics Office of Georgia, during 2003-2013 over 10,000 construction permits were issued in Tbilisi, which totally amount 12 million sqm[3] construction space. In accordance to this period only 2,000 units were completed with 2.3 million sqm. Despite such a negative interdependence of these indicators, it should be noted that the quantity of completed constructions are characterized by a growing trend.

[1] The segmentation was based on selling prices reported from developers. Premium segment – USD 1,200 and higher, Middle segment between USD 800-1,200 and Low segment from USD 400 to USD 800.

[2] Suspended constructions include large-sized projects and/or small-sized suspended projects of the development companies, managing more than one project.

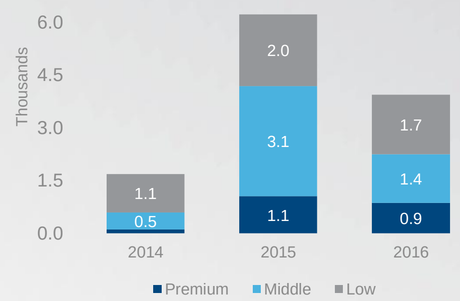
[3] Permits for I-IV class buildings, new constructions and renewals.

Number of dwelling units supplied in Tbilisi



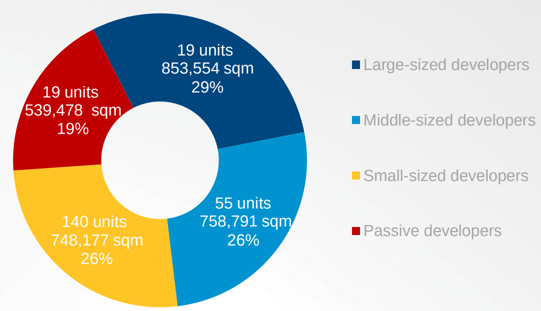
Source: IPM, Colliers International

Upcoming supply by years and classes in Tbilisi (dwelling units)



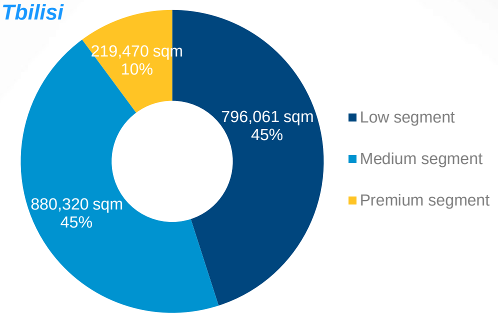
Source: Colliers International

Development company categories in Tbilisi



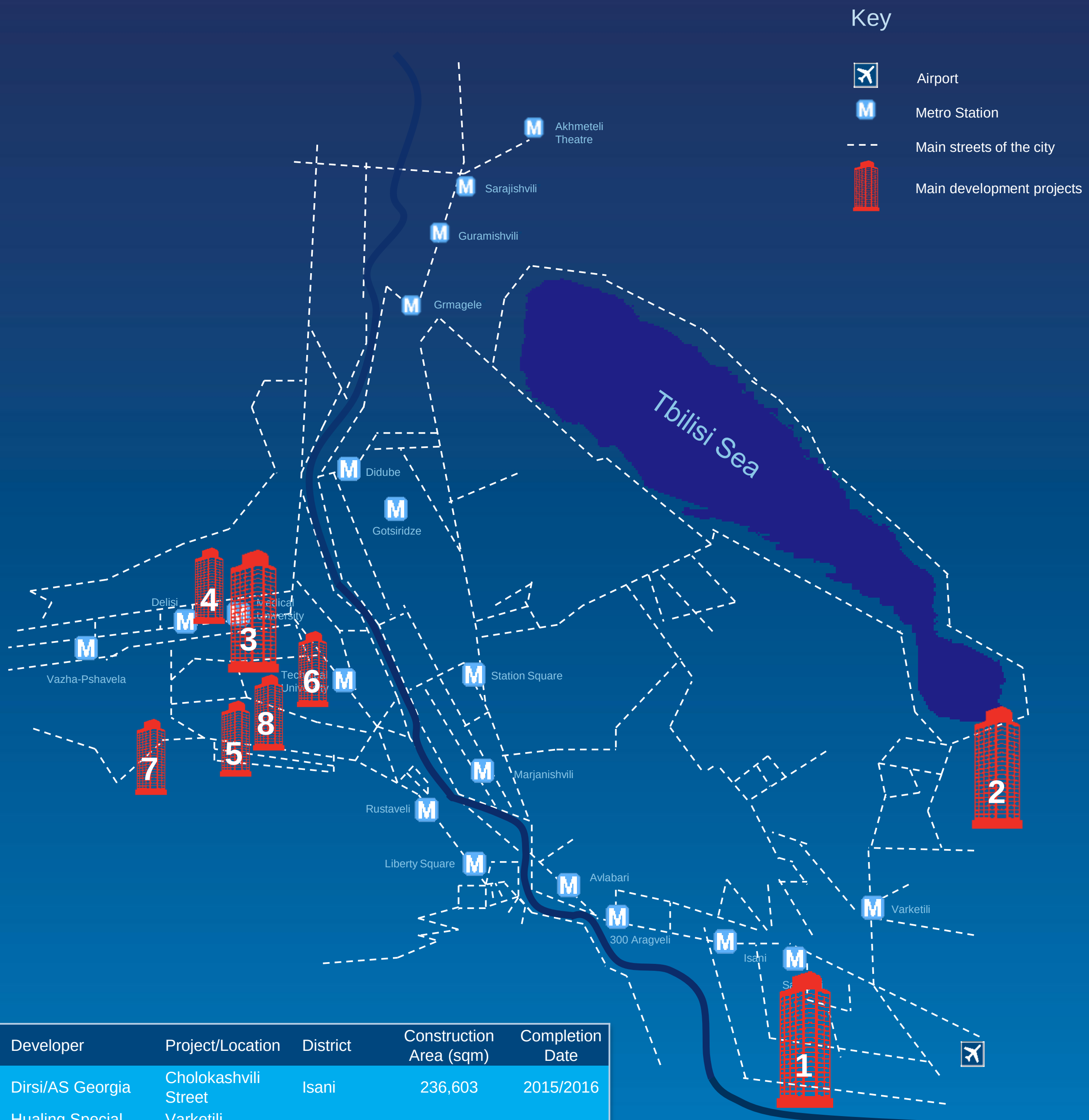
Source: Colliers International

Ongoing projects by type of class in Tbilisi



Source: Colliers International

Main Development Projects in Tbilisi



#	Developer	Project/Location	District	Construction Area (sqm)	Completion Date
1	Dirsi/AS Georgia	Cholokashvili Street	Isani	236,603	2015/2016
2	Hualing Special Economic Zone	Varketili Economy	Samgori	144,122	2015
3	Axis	Palace 1, Saburtalo Street	Saburtalo	114,218	2015
4	MaQro Construction	Green Budapest	Saburtalo	48,832	2016
5	GDG	70 Abashidze Street	Vake	40,708	2015
6	Domus Development	13 Tamarashvili Street	Saburtalo	37,633	2016
7	Metra Development	Metra Park Bagebi	Vake	37,558	2015
8	Archi Group	Archi Towers	Vake	35,456	2016

Source: Developers, Operators/Property Managers, Colliers International

Map of Tbilisi Districts

Key

Density (inh/km²)
Stock (unit)
Pipeline (ongoing and pipeline projects)

Note: Didi Dighomi is a part of Saburtalo district.
Source: National Agency of Public Registry, Colliers International

Tbilisi Residential Market Overview - Demand

The number of transactions in Tbilisi has been growing steadily. Since 2009 the average annual growth rate has been 5%. Only in 2011 was there a slight 2% decrease comparing with the previous year. In 2014 the growth rate amounted 5%.

Transaction volume

In 2012, the residential real estate transaction volume was USD 774 million. In 2013 it grew by 7%. In 2014 transaction volume increased by 6% and reached USD 882 million.

Transaction distribution by districts

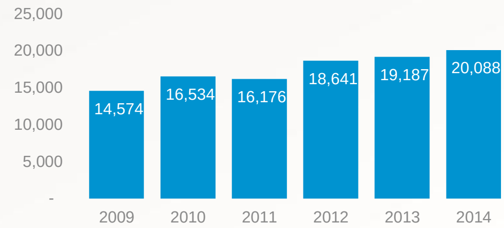
The largest share of transactions is represented is Saburtalo district with 20%. Then comes Samgori, Gldani and Nadzaladevi, even though these parts of the city do not have the largest shares of supply, the high volumes are caused by low prices, as these districts represent city suburbs. Vake and Mtatsminda together, account only 10% of total transactions.

Transaction distribution by size of dwelling unit[4]

The largest share of transactions is for small flats (< 50 sqm) in most districts. This difference is more pronounced in suburban parts of the city – Chughureti, Gldani, Nadzaladevi, and Samgori. Vake district holds the biggest portion of 150-250 sqm units in registered transactions. Most of these transactions occurred in newly built residential buildings, of a type with very low numbers in the suburbs, which is why the proportion of large apartment transactions is much lower in suburbs.

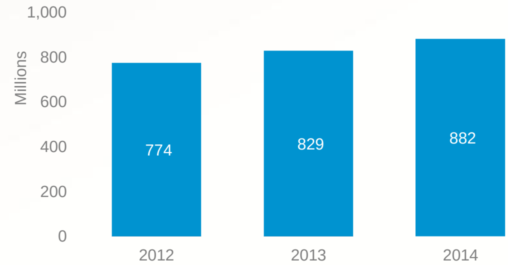
[4] The figures are calculated using 0-250 sqm residential property transactions from the database of the National Agency of Public Registry.

Transactions of residential units in Tbilisi 2009 - 2014



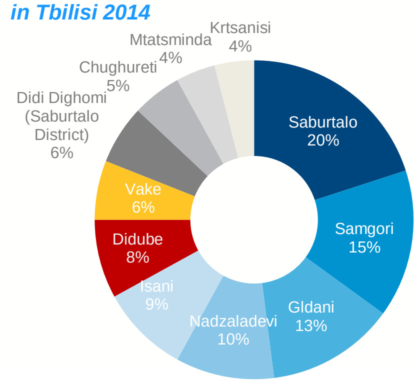
Source: National Agency of Public Registry, Colliers International

Transaction volume in Tbilisi (USD) 2012 - 2014



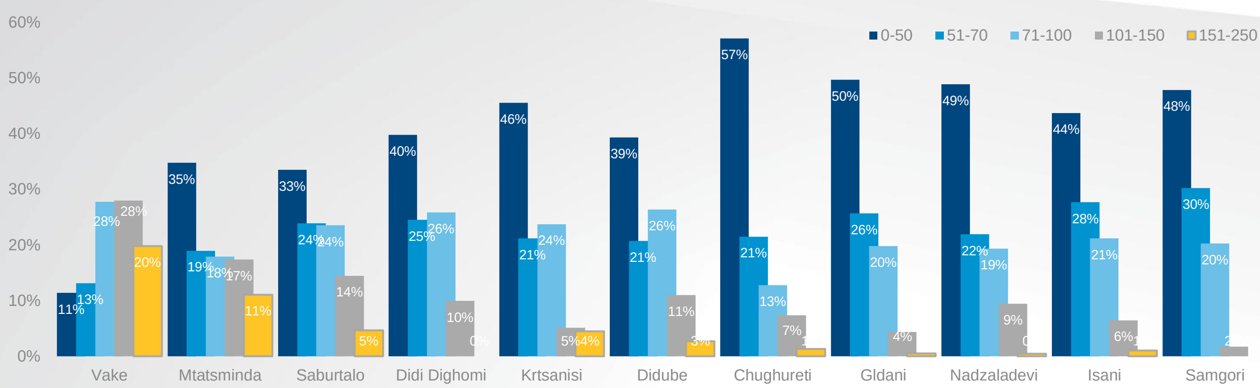
Source: National Agency of Public Registry, Colliers International

Transaction distribution by districts in Tbilisi 2014



Source: National Agency of Public Registry, Colliers International
Note: Didi Dighomi is a part of Saburtalo district

Distribution of transactions in Tbilisi districts by size 2014



Source: Colliers International
Note: Didi Dighomi is a part of Saburtalo district

Transaction Distribution in Tbilisi Districts

Key

Transaction unit
Transaction volume
Selling price (average transaction price in district)
Average size of apartment

Note: Didi Dighomi is a part of Saburtalo district.
Source: National Agency of Public Registry, Colliers International

Tbilisi Residential Market Overview - Price Indices

Selling price by type

Selling prices by type can be divided into three segments: premium, medium and low. Housing price by type varies from $630 to $1,680 per sqm depending on the location and condition of property.

The premium segment includes premium class projects with additional facilities such as renovation and fit-out. Selling prices starts from USD 1,200. The medium segment includes middle class projects where no additional facilities are provided. Selling price ranges from USD 800 to USD 1,200. This segment represents 45% of the development pipeline stock. Low segment residential units are mostly extended in suburbs of the city.

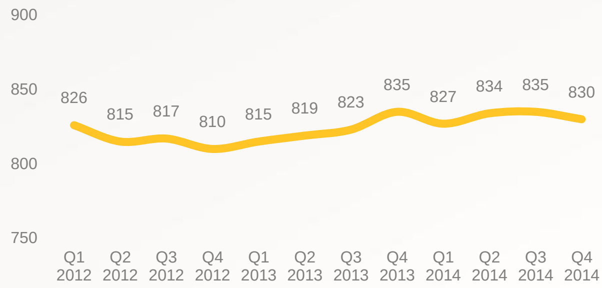
Selling price by district

The most prestigious and expensive flats are represented in Vake, Mtatsminda and some parts of Saburtalo. In these districts the price per sqm is 40%-50% higher than the average price of other districts. Middle class supply occurs mainly in following districts: Ortachala and part of Avlabari. In this class, prices vary from $700 to $1,000 per sqm. Other districts are considered to be less prestigious and prices are comparatively low.

Selling price of transactions

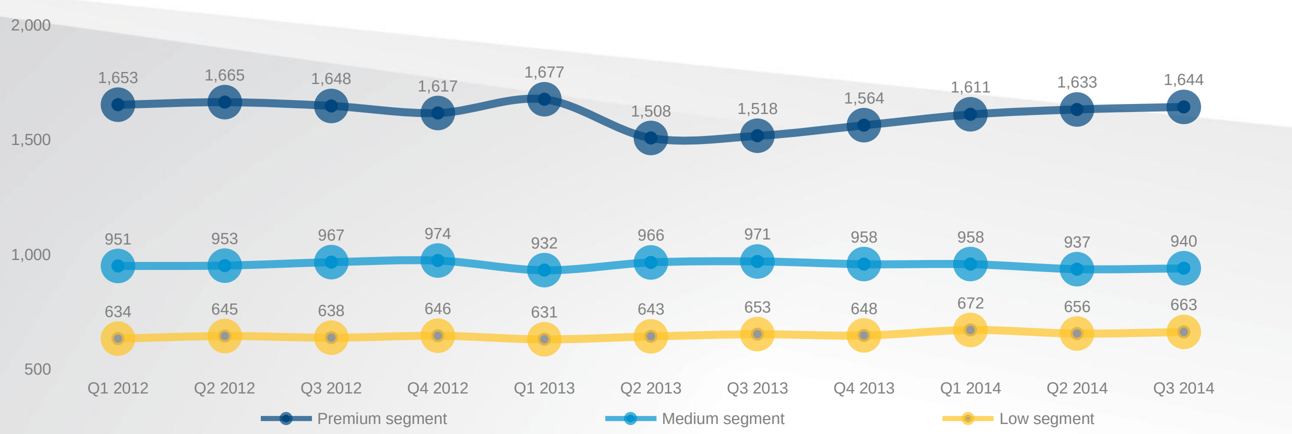
The average selling price is very stable due to new supply matching increased demand. In 2014 the market average selling price stands at USD 832.

Average selling price of transactions (USD) 2012 - 2014



Source: National Agency of Public Registry, Colliers International

Average selling prices on primary market by type in Tbilisi (USD/sqm) 2012 - Q3 2014



Note: Primary market represents listed supply by development companies. Average selling price in about 95% of the researched development projects are indicated for white frame condition.
Source: Colliers International

Tbilisi Residential Market Overview – Rent Prices & Yields

Rent rate by district

The average rent prices for an apartment in the suburbs are characterized more volatile than in the middle class and central districts. This is caused by an insufficient supply of apartments in the suburbs. The current situation, compared with the first quarter of 2010, shows that the rental rate in central districts and middle class districts decreased by 21% and 3% respectively. In suburbs rent price grew by 34%.

Rent rate by type

In the third quarter of 2014 the rent price by types of apartment in Tbilisi send no significant changes. In one and three-room apartments, the rent price increased by 2% with 1% growth in two-room apartments. In one-room apartments the average rent stands at USD 245, in two-room apartments - USD 335 and in three-room apartments - USD 450.

Yield for individual dwellings

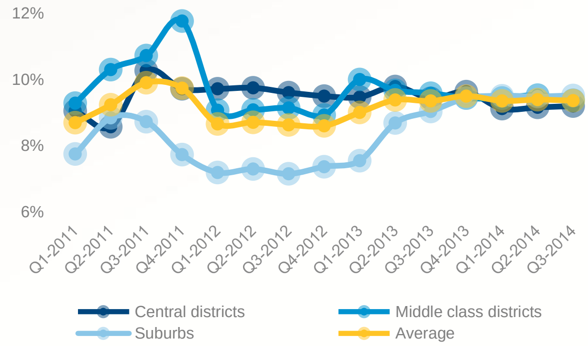
Until the end of 2011 the highest yield segments were characterized by flats in the middle class districts, but in the beginning of 2012, due to the reduction of rent prices and the increase of selling prices the yield fell to 9.08%. Within the last four years, the highest income was observed in the third quarter of 2010, when the average yield reached 10.1%.

Generally, real estate and bank deposits are considered as the alternative investments. Therefore, the yield for individual dwellings should be compared with long-term deposit interest rates. In 2013, the yield for all three types of districts became more profitable than bank deposits.

Rent Prices USD/month	1 room		2 rooms		3 rooms	
	min	max	min	max	min	max
Central districts	$270	$330	$360	$450	$490	$600
Middle class districts	$220	$270	$290	$350	$370	$460
Suburbs	$170	$210	$250	$310	$320	$400
Average	$245		$335		$450	

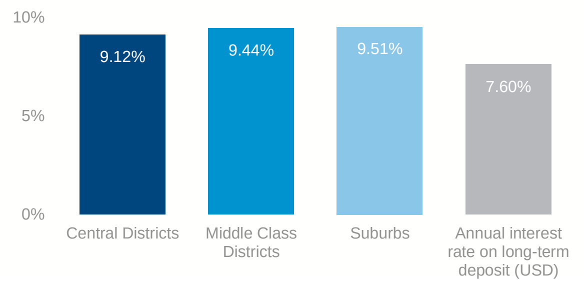
Note: min & max rent prices are calculated +/- 10% of the average rent rate.
Source: Colliers International

Yield for individual dwelling unit 2011 - Q3 2014



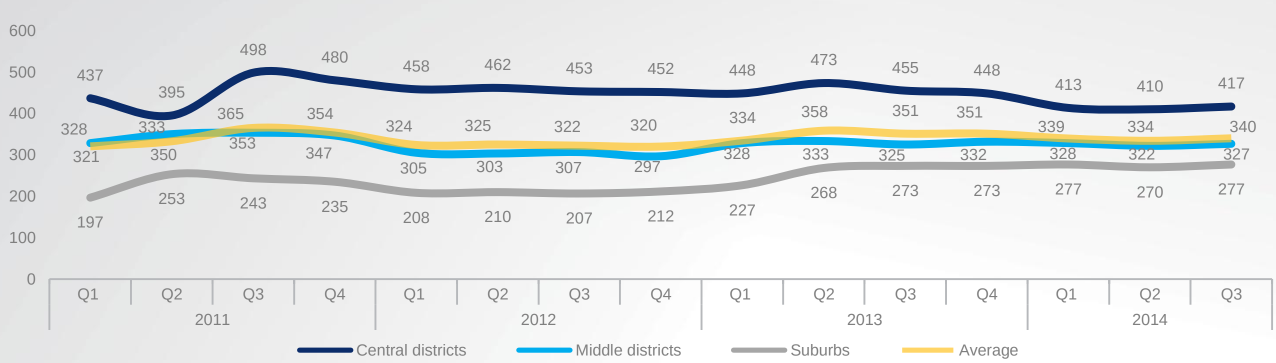
Source: Colliers International

Yield VS annual interest rate on long-term deposit Q3 2014



Source: National Bank of Georgia, Colliers International

Average rent prices by districts 2011 - Q3 2014



Source: Colliers International

Batumi Residential Market Overview

Supply

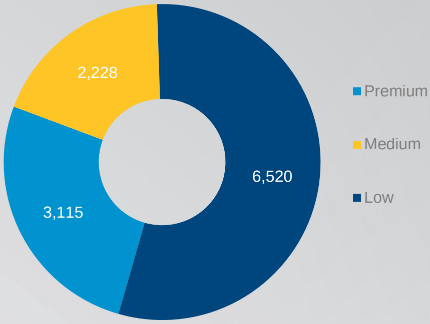
The housing stock in Batumi will increase by 12,000 dwelling units during 2014-2017, of which the largest share is in the low segment category, almost 55%. In comparison with Tbilisi, there is a high share in the premium category.

Ongoing & future projects

Currently there are 112 residential development projects in Batumi, with a total of 1,245,000 square metres construction area. In the Batumi residential market there are few passive developments compared with Tbilisi. There are no suspended construction buildings in the city. The highest portion of stock is held by middle-sized developers with 52%, after which large-sized developers own 30% of total projects and 18% is occupied by small-sized developers.

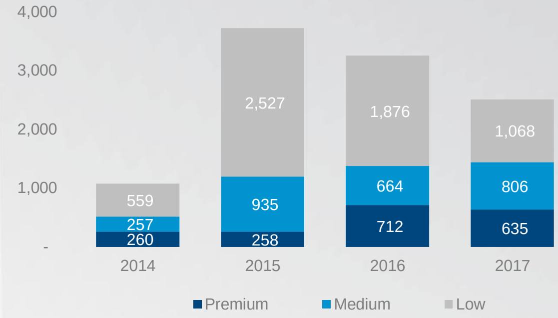
In Batumi, 45% of development activity is in the low segment. A remarkable feature of the Batumi residential market is the very high share (34%) of the premium segment. A small portion is represented by the medium category, which stands at 21% of total ongoing projects.

Upcoming supply by segments in Batumi



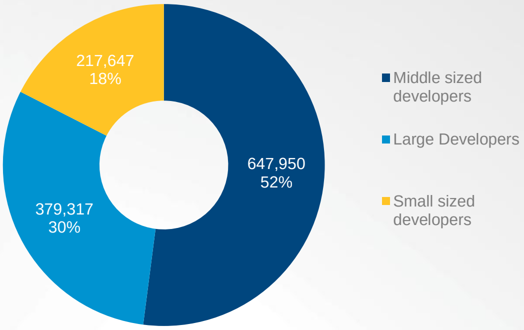
Source: Colliers International

Upcoming supply dwelling units by years in Batumi



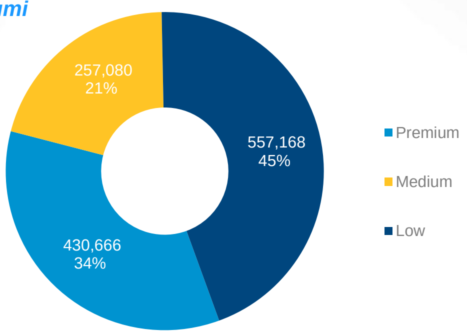
Source: Colliers International

Development company categories



Source: Colliers International

Development projects by segments in Batumi



Source: Colliers International

Residential Map of Batumi

#	Developer	Project/Location	Construction Area (sqm)	Completion Date
1	Tam Geo LLC	Babillon Tower	69,444	2016
2	Tourinvest LLC	Hilton Residences	59,295	2014
3	Orbi Group	Orbi Residence	53,701	2014
4	Orbi Group	Porta Batumi	53,000	2016
5	Yalcin Group Georgia	16 Pirosmani Street	49,600	2016
6	DS Group LLC	5a Chavchavadze Street	48,700	2016

Source: Developers, Operators/Property Managers, Colliers International

Batumi Residential Market Overview - Demand

The total population of Batumi amounts to 161,200. The mentioned figure has increased by 28% comparing with 2012 and only by 1% higher than the previous year.

Transactions in Batumi have followed a fluctuated path. During 2011-2012 transactions of dwelling units reached the highest point. In 2013 has been occurred 2% decrease.

Transaction volume

In 2011 the total transaction volume for the residential real estate market in Batumi amounted to USD 97 million. In 2012 the growth rate amounted 22% and peaked USD 119 million. In 2013 has decreased by 2% in comparison with the previous year. In 2014 transaction volume grew by 2% and reached USD 119 million.

Transaction distribution by size of dwellings

The biggest portion of total transactions is for small flats (under 50 sqm) in Batumi. This trend is common in every city of Georgia. Small-sized dwelling units are more liquid in the market compared with the larger options of apartments.

Following this trend, construction and development companies are focusing on small-sized apartments. However, interest for penthouse type apartments has been quite active in recent years.

Selling price indices

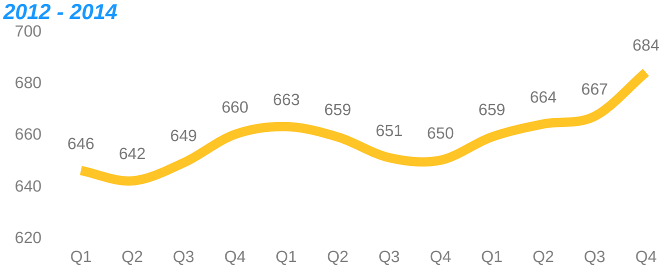
The average selling price by segments varies from USD 580 to USD 2,300. The average price of premium segment in Batumi reaches USD 2,292 per sqm, which is higher than the equivalent figure in Tbilisi. Development of this segment in Batumi differs from the flows in Tbilisi.

Although the average price by classes is characterized by fluctuating trend, the selling price is fairly stable. By the end of 2014 it amounted to USD 685 per sqm.

Rent rate by type

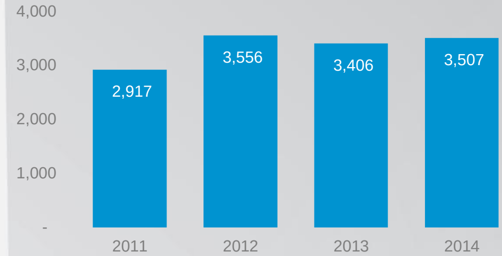
The rent price by types of apartment in Batumi is a bit higher than in Tbilisi. In one-room apartments the average rent stands at USD 275, in two-room apartments - USD 420 and in three-room apartments - USD 600.

Average selling price of transactions in Batumi (USD) 2012 - 2014



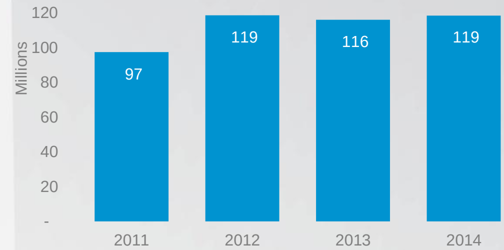
Source: National Agency of Public Registry, Colliers International

Transactions of residential units in Batumi 2011 - 2014



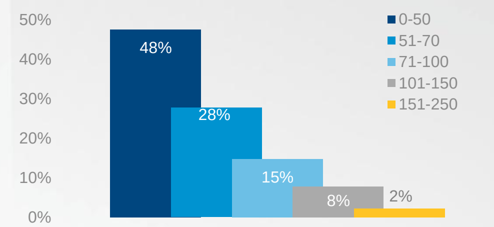
Source: National Agency of Public Registry, Colliers International

Transaction volume in Batumi (USD) 2011 - 2014



Source: National Agency of Public Registry, Colliers International

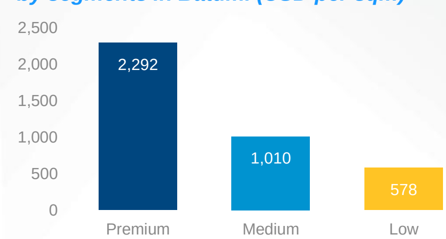
Transaction distribution in Batumi by size of unit



Note: Mentioned figures are calculated using 0-250 sqm residential property transactions from database of National agency of public registry.

Source: National Agency of Public Registry, Colliers International

Average selling price on primary market by segments in Batumi (USD per sqm)



Source: Colliers International

Rent Prices USD/month	1 room		2 rooms		3 rooms	
	min	max	min	max	min	max
Batumi	$250	$300	$380	$460	$540	$660
Average	$275		$420		$600	

Note: min & max rent prices are calculated +/- 10% of the average rent rate.

Source: Colliers International

Mtskheta Residential Market Overview

Supply

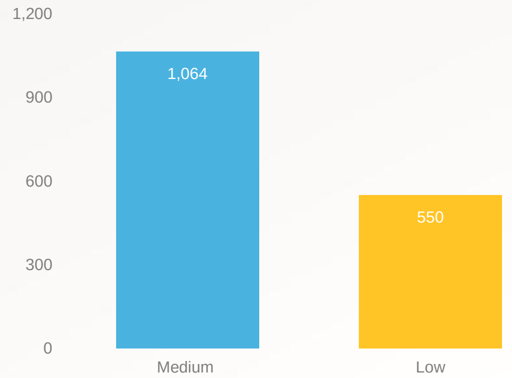
The housing stock in Mtskheta is mostly developed with residential houses and so called “Soviet-type” residential buildings constructed during 1960-1990. Despite the fact that it is located close to Tbilisi, the Mtskheta residential market is characterized by a very low level of new supply. During 2012-2014 only two projects were delivered.

Ongoing & future projects

Residential real estate development in Mtskheta is represented by two projects, one of which is partly completed. The “Riverside Mtskheta” project consists of 30 residential townhouses (of which 16 have been delivered). The dwelling area varies from 217– 250 sqm. It is located nearby the river Aragvi and has panoramic views over the ancient city and heritage monuments. The selling prices vary from USD 1,000 to USD 1,127 per sqm.

The second project represents a six-storey residential building with a total area of 3,500 sqm. In total, 36 dwelling units will be delivered with an average size of 36 sqm. The average selling price in this project is USD 550 per sqm.

Average selling price on primary market by segments in Mtskheta (USD/sqm)



Source: National Agency of Public Registry, Colliers International

RIVERSIDE MTSKHETA

Residential Map of Mtskheta

Key

- - - Main streets of the city

Main development projects

#	Developer	Project/Location	Construction Area (sqm)	Completion Date
1	Boneser Trading Limited	Riverside Mtskheta	3,800	2014-2016
2	Glov Group LLC	House nearby Teatroni	3,500	2014

Source: Developers, Operators/Property Managers, Colliers International

Mtskheta Residential Market Overview - Demand

The total population of Mtskheta amounts to 57,400. The mentioned figure has decreasing trend. Since 2004 it has reduced by 10%.

Mtskheta has relatively low and stable demand. Since 2011 it has seen a slightly increasing trend. In 2014 transactions in Mtskheta grew by 19% and amounted 142 units.

Transaction volume

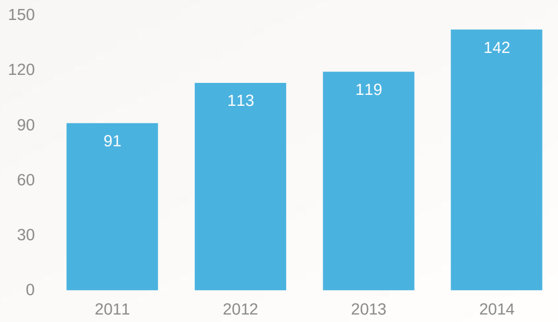
In 2011 the Mtskheta market observed USD 2.94 million transaction volume. Despite the slight decrease in 2012 by 11%, in 2013 it grew by 43%. In 2014 the growth rate amounted 36% and reached the highest point USD 5.11 million.

Selling price of transactions

The average selling price in Mtskheta is very low and characterized by fluctuating trends, due to the low level of transactions. As the lack of development, old residential buildings are off the interest.

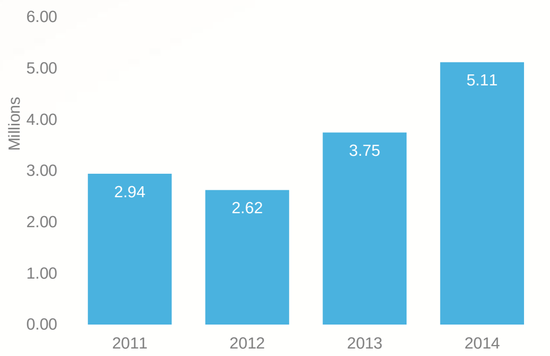
It should be noted that the average selling price stands at USD 48 per sqm, which is 49% higher than Q1 2011 figure.

Transactions in Mtskheta (unit) 2011 - 2014



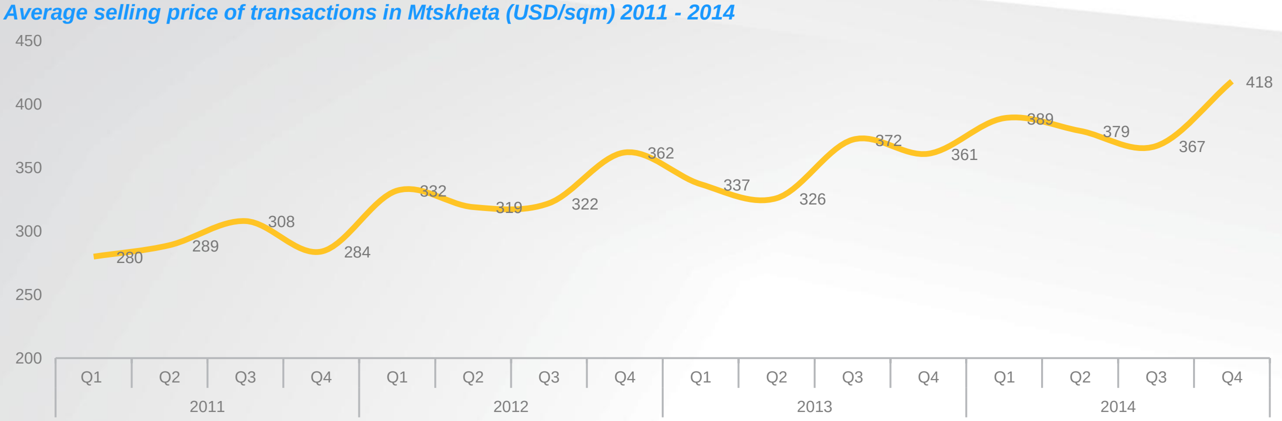
Source: National Agency of Public Registry, Colliers International

Transactions volume in Mtskheta (USD) 2011 - 2014



Source: National Agency of Public Registry, Colliers International

Average selling price of transactions in Mtskheta (USD/sqm) 2011 - 2014



Source: National Agency of Public Registry, Colliers International

Rustavi Residential Market Overview

Supply

The majority of the stock in Rustavi was built during 1960-1990, so called "Soviet-type" residential buildings. In recent years the construction of residential building was not implemented. Even though Rustavi is one of the industrial centers of the Kvemo Kartli Region, for housing purposes has been less attractive for developers.

Demand

The total population of Rustavi amounts to 122,900. The mentioned figure has increasing trend since 2008.

Analyzing demand in Rustavi, the level of registered transactions are characterized by a decreasing trend. Compared to 2011 it reduced by 10% in 2012. This trend continued in 2013 with a 12% decrease. In 2014 transactions will stabilize at around 2,455.

A lack of new residential development market can be a cause of weak demand for old building dwellings.

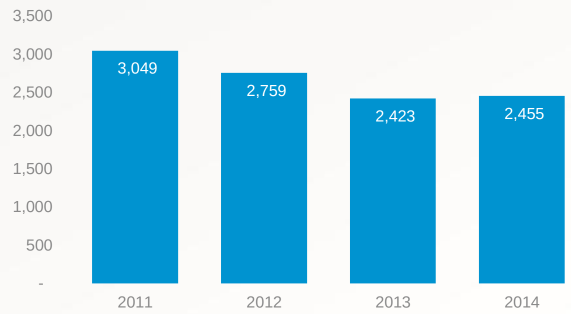
Transaction volume

In 2011 the Rustavi market observed USD 35 million transaction volume. Despite the slight decrease in 2012 by 7%, in 2013 it grew by 6%. In 2014 the growth rate amounted 17% and reached the highest point USD 40 million.

Selling price of transactions

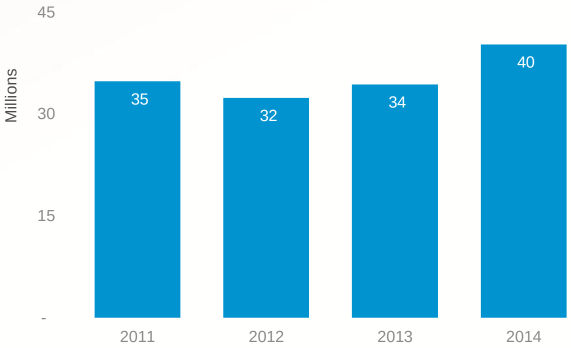
The average selling price in Rustavi is very low. It may also be the major reason that investors are not interested by implementing development projects. Despite the fact that prices have risen by 64% compared with 2011, the average selling price stands at USD 386.

Transactions of residential units in Rustavi 2011 - 2014



Source: National Agency of Public Registry, Colliers International

Transactions volume in Rustavi (USD) 2011 - 2014



Source: National Agency of Public Registry, Colliers International

Average selling price of transactions 2011 - 2014

Source: National Agency of Public Registry, Colliers International

Conclusions and Outlook

The residential real estate market in Tbilisi has been characterized by increased demand and supply in the last three years. At the same time, selling prices did not change significantly. Annual 2-3% increase of selling price is expected during next three years.

Positive demographics, population growth and mortgage lending activities from the banks are also creating the improving demand prospects in the long-term.

The average living area stands at 23 sqm per capita, also the positive trend of demographics indicates that demand on newly constructed apartments will remain growing trend and also the Soviet-type refurbished buildings will be replaced gradually.

Residential real estate remains one of the attractive investment tools for local population as well as non-resident Georgians. The mentioned fact is also caused by higher yield figures for individual dwelling units, than long-term deposit rates in foreign currency.

During recent years the most developed districts in Tbilisi is Saburtalo, where the largest share of development projects are implemented. It should be noted that the selling price per sqm accords to medium segment, which is why the market activity is high. Therefore, the density of district provides the opportunity for further development.

The majority of the development projects do not offer property management and this may become a distinct selling point in the future.

Recently, Tbilisi has seen an upward trend of townhouse type constructions started due to positive demand for this type of housing. The developments are mainly represented nearby recreational zones of Vake, Saburtalo, Krtsanisi and Didgori districts, which benefit from a quiet environment, ecologically fresh air, green territory. Also the topography of the city provides fascinating panoramic views from different locations and districts over Tbilisi. In long-term forecast the growing trend of demand will proceed on townhouse type constructions.

Residential development in Batumi is increasing, with a total of 112 projects under construction, totaling 1.5 million sqm. Also, it should be noted, that the average price of premium segment in Batumi has reached USD 2,292 per sqm, which is much higher, than the same category in Tbilisi.

The residential market in Mtskheta is dominated by single family houses. In recent years only two residential projects were delivered, of which the most impressive was Riverside Mtskheta, implemented by the foreign investor Boneser Trading Limited.

Due to the increased popularity of country houses, a positive trend for out of town living and closeness to Tbilisi, Mtskheta may be considered as one of the possible development locations for single family house development community.

Since 1990, construction of residential buildings has not been implemented in Rustavi. Even though it is one of the industrial centres of the Kvemo Kartli Region, for housing purposes it is less attractive for developers.
Analyzing the market, it can be concluded that Rustavi has the potential to absorb small-sized and low segment development projects.

Appendix 1

Typical Lease Terms, Registration of Property, Construction Permits

Typical Lease Terms

Office lease contracts for one year and more period in Georgia should be registered in National Agency of Public Registry.

Typical lease terms in Georgia are based on fixed amount per sqm.

As usual international tenants have three years and longer term contracts and lease contract period for local companies varies between one to three years.

The average brokerage fee for renting the property varies between 10%-15% of the first year's rent, depending on the lease term.

Registration of Property

In Georgia, the National Agency of Public Registry is the state institution responsible for registration of property, registering both transfers between private entities and state-owned properties.

In case of private transfer, the purchaser has two options:

- Via a notary – contract drafting and legalization by the notary and subsequent registration. The notary assumes responsibility for the content of the draft and its legalization. The presence of a translator and his signature on the bilingual purchase document is required and the translator assumes responsibility for the authenticity of texts. Time for preparation of the bilingual document and its legalization varies depending on the notary

- Via the National Agency of Public Registry – direct submission of the purchase contract for legalization and registration. In this case, the bilingual purchase document is to be drafted directly by both parties or by their authorized representatives. The Agency's representative certifies the signatures and may provide recommendations if the document is not accurately drafted, but does not carry any responsibility for the validity or its content.

The National Agency of Public Registry is represented in: a) Public Services Halls (Tbilisi, Gori, Kutaisi, Batumi, Ozurgeti, Mestia, Zugdidi, Rustavi, Marneuli, Gurjaani, Telavi, Kvareli and Akhaltsikhe) and b) regional departments of the National Agency of Public Registry (located in cities throughout the country).

In case the property is purchased from the state/municipality (privatization, auction or other form of purchase) the documents should be submitted directly to the Agency.

Construction Permits

For the purposes of construction, buildings are divided into 5 types:

1st class buildings – no construction permit is required;

2nd class buildings – buildings with low risk factors;

3rd class buildings - buildings with medium risk factors;

4th class buildings - buildings with high risk factors,

5th class buildings – buildings with very high risk factors.

The permit issuance process is divided into 3 stages:

Stage I – Statement of urban construction terms

Stage II – Approval of architectural-construction project

Stage III – Issuance of Construction Permit

State organs responsible for the issuance of permits:

Local self-governmental (municipal) organs – for II, III class buildings within the municipal territory (at stages I and II) except from Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi.

Local self-governmental (municipal) organs – for IV class buildings (at stages I and II) with the participation of corresponding state organs

Local self-governmental (municipal) organs – for II, III and IV class buildings (at III stage) independently (including Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi)

Tbilisi City Hall - for II, III and IV class buildings in Tbilisi Municipality (at all stages) independently

Corresponding local organs of Adjara Autonomous **Republic and Abkhazia Autonomous Republic** - for II, III and IV class (at all stages) on the territory of the Autonomous Republics

Local self-governmental (municipal) organs – II, III and IV class buildings (at stages I and II) for Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi – with the participation of the Ministry of Economy and Sustainable Development.

Ministry of Economy and Sustainable Development – for V class buildings

Ordinary terms per each stage (working days):

Stage I

12 days for II and III class buildings

15 days for all IV class buildings, for Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi (excluding V class buildings), also for all buildings that require ecological expertise

30 days for V class buildings

Stage II

18 days for II and III class buildings

20 days for all IV class buildings, for Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi (excluding V class buildings), also for all buildings that require ecological expertise and for V class buildings

Stage III

5 days for II, III and IV class buildings

10 days for V class buildings

Exceptions:

The special terms for permission process:

Construction permits concerning:

III class buildings with an intensity coefficient up to 1,500 sqm and for buildings with a height of up to the 14 meters that will be located on the territories where urbanization regulatory plans do not exist and are organized according to land use or which are organized according to the perspective development regulatory plans on the territory of Tbilisi – the permission process may involve II and III stages only

The simplified permit procedure may involve just 2 stages and the permit is issued in the second stage.

The terms for the simplified procedure are as follows:

Stage I – 12 days for II and III class buildings

15 days for all IV class buildings, for Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi (including V class buildings), also for all buildings that require ecological expertise.

Stage II (issue of permit) – 20 days for all classes

Appendix 2

Primary Information Sources, Data Used for the Study Definition and Assumptions

Primary Information Sources, Data Used for The Study Definition and Assumptions

In the process of preparing the survey, we were guided by the information provided by hotel managers, governmental institutions/agencies (National Agency of Public Registry, National Statistics Office of Georgia, National Bank of Georgia, Ministry of Economy and Sustainable Development of Georgia, City Halls). Materials from various Georgian and foreign publications have also been used, such as www.geostat.ge, www.eurostat.com, www.colliers.com. In addition, we developed our conclusions and recommendations based upon our own local market knowledge and insight.

Definition and Assumptions

DCFTA: Deep and Comprehensive Free Trade Agreement
FDI: Foreign Direct Investment
IMF: International Monetary Fund
GDP: Gross Domestic Product
sqm: Square metre
USD: The United States Dollar
VAT: Value added tax

Large-sized developers: Large-sized developers includes companies that have large scale construction projects (over 50,000 sqm) and also are involved renovation, refurbishment and fit-out.

Middle-sized developers: Middle-sized developers are actively implementing middle scaled projects (from 10,000-50,000 sqm).

Small-sized developers: Small-sized developers are represented by developers of condominiums, limited liability companies and houses etc., whose total construction area is under 10,000 sqm.

Passive developers: Passive developers are those companies, who have encountered problems during development and have consequently suspended construction.

Premium segment: The segmentation was based on selling price, the average varies around USD 1,200 and higher.

Medium segment: The segmentation was based on selling price, the average varies around USD 800 to USD 1,200.

Low segment: The segmentation was based on selling price, the average varies around USD 400 to USD 800.

Suspended Construction: Suspended constructions include large-sized projects and/or small-sized suspended projects of the development companies, managing more than one project.

Issued Construction Permits: Issued construction permits for I-IV class buildings, includes new constructions and renewals.

Primary market: Listed supply by development companies and individuals.

Central Districts: In this category are represented Vake, Saburtalo, Mtatsminda, Vera and Sololaki.

Middle Class Districts: Nutsubidze plateau, Avlabari, Ortachala, Krtsanisi, Chughureti, Didube, Dighomi Massive, Nadzaladevi and Didi Dighomi.

Suburbs: Temka, Muxiani, Gldani, Avchala, Isani, Samgori, Varketili, Vazisubani and Ponichala.

Ongoing & Future Projects: For the market study it was analyzed development projects above 1,000 sqm.

Correctness of the information: The information used in the survey is objective and Colliers believes that the report reflects current conditions in the Georgian residential real estate market. However, Colliers cannot guarantee the accuracy of third party data referenced in the report and cannot be held responsible for that element. “Colliers International Georgia” is not responsible for possible consequences of any actions taken by the consumer/reader of the given survey.

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Disclaimer

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64 countries on
6 continents

$2.1
billion in
annual revenue

1.46
billion square feet
under management

15,800
professionals
and staff

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