

# Real Estate Market Overview

July 2009

Tbilisi



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Note: all information is courtesy of respective Georgian Government Agencies, Non Government Organizations or product of the Georgian National Investment Agency research.

## Executive Summary

The real estate market and construction industry are one of the most rapidly growing industries of the Georgian economy. Construction in Georgia enjoyed high rates of output and employment growth over the past few years, with the strong upward trend expected to continue. The construction business continues to attract increasing investment and banks are continuously increasing their lending to the sector.

A high demand for residential and commercial space has been followed by the evolvement of many construction and development companies. Even though the prices for real estate have increased more than four times since 2003, demand yet continues to exceed existing supply across all sectors. As a result, the Georgian real estate market has become quite sophisticated and offers development opportunities virtually across all real estate sectors residential, office, retail, hotel and warehouse markets.

## Economic Overview – Key Digits

|                  |   |
|------------------|---|
| 0%               | Import tariff on almost all goods, weighted-average import tariff of circa 1%   |
| 0                | Score in difficulty of the hiring & firing indices in the 2008 World Bank Doing Business Survey –which announced Georgian Labor Code as one of the best |
| 1.3              | Million visitors for 2008, 23% growth comparing with previous year  |
| 2.1%             | Real GDP growth rate in 2008  |
| 3                | Number of IPOs on the Georgian Stock Exchange in 2006-2008, with two or three more in the pipeline  |
| 4.6              | Million people, plus approximately another 1 mln living and working abroad  |
| 5.5%             | Inflation rate (e-o-p) in 2008  |
| #6               | Reformer in the world in 2007 (according to World Bank Doing Business Survey 2008)  |
| 12.4%            | Real GDP growth rate in 2007, accelerating from 9.4% in 2006  |
| 15%              | Corporate income tax effective from 1 January 2008 (reduced from 20%)   |
| 15 <sup>th</sup> | Global Rank in the 2009 Ease of Doing Business Survey by World Bank   |
| 20%              | Flat personal income tax – and no payroll/social tax whatsoever – to be reduced to 15% within 3 years   |
| 32 <sup>th</sup> | Global Rank in 2009 in the Heritage Foundation Economic Freedom Index   |
| 4,851USD         | GDP per capita(PPP) 2008  |
| 7,200            | Categories of goods Georgia can export duty- and tariff-free to EU & Turkey under the GSP+ regime   |



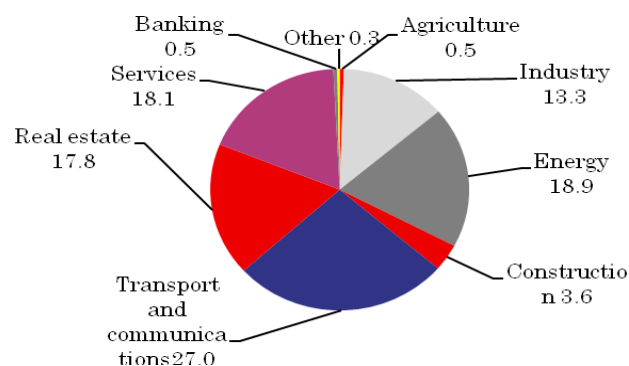
## Top Market Players:

Aword: [www.aword.ge](http://www.aword.ge)  
Center Point: [www.centerpoint.ge](http://www.centerpoint.ge)  
Arci: [www.arci.ge](http://www.arci.ge)  
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## Residential Real Estate

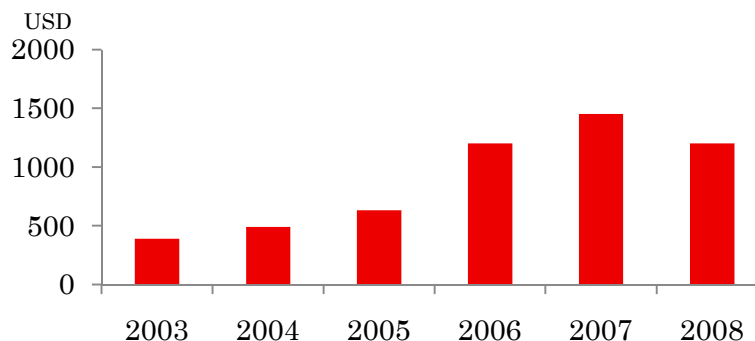
Over the past few years demand for quality residential products has been continuously outstripping supply. The continuous increase in demand has been influenced by high growth of income levels, the availability and the affordability of mortgage facilities. An expectation of continuous price acceleration, the increased attractiveness of the country's investment environment has attracted large number local and international developers. According to the Department of Statistics, construction and real estate stands at 21% of total Foreign Direct Investment.

### FDI by Sectors 2008 (%)

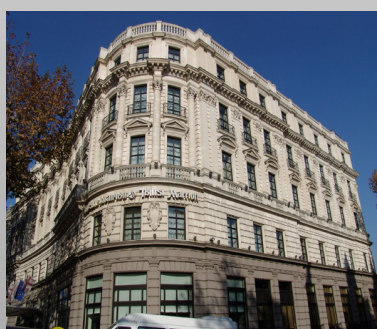
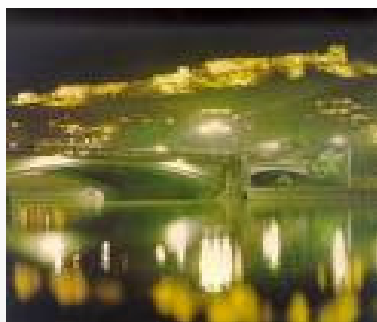


Tbilisi is Georgia's largest and most prosperous city, with the most developed and fastest growing residential market. Over the past five years there has been major increase in prices in Tbilisi's residential market, mainly caused by continuous under-supply.

### Residential Real Estate Price Dynamics



Even though there is an increasing number of construction and developer companies operating in the market it is notable that any real estate company with a diversified project portfolio and positive track records in project delivery should regard entering the fast-growing, high potential Georgian residential real estate segment as an opportunity.



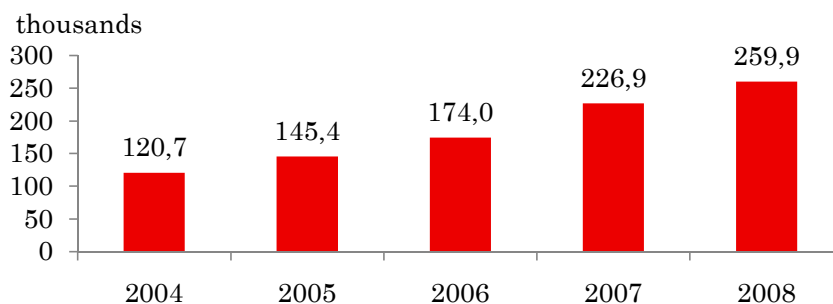
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## Office Market

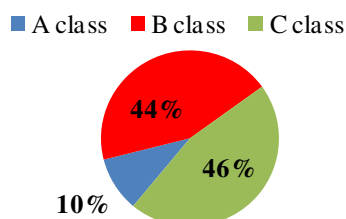
Over the past three years GDP of the country has increased approximately by 10 per cent. One of the reasons for such rapid growth was an increase of FDI inflows which in year 2007 equalled to USD 2.014 billion. The business friendly environment has stimulated local business development:

### Companies Registered in Georgia



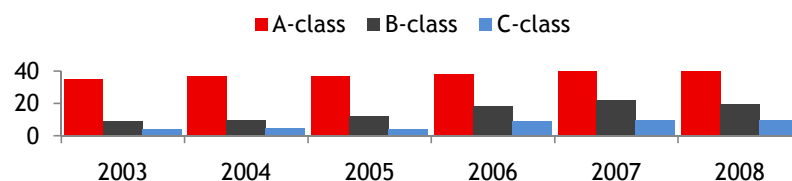
Increasing number of local companies and international organizations result in higher demand in the offices premises market in Tbilisi. The supply of B & C class office premises is much higher than that of A-class.

### Office Space Supply in Tbilisi



Over the past five years Georgia has experienced rapid increase in office rental prices. This happened mainly due to rapidly increasing demand and limited supply.

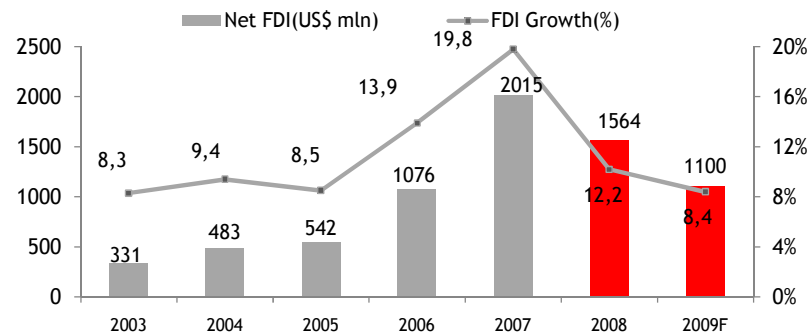
### Office Space Renting Prices (USD/sq.mtr)





Becoming one of the most attractable destinations for investors, Georgia is expecting further growth of FDI; thus, investment possibilities in this real estate sector tapped to be positive.

## Net FDI

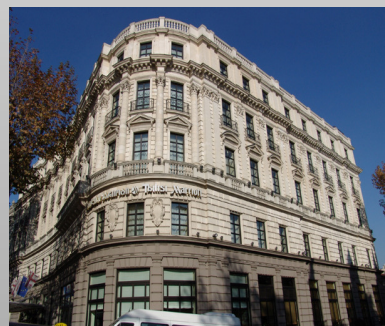


## Retail Market

The retail sector of the real estate market is seeing major switches from old soviet-style open markets and bazaars to modern shopping centres. Based on the announced projects, Tbilisi in the next 3-4 years will have at least additional 150,000m<sup>2</sup> of shopping centre space.

Demand for retail real estate is largely driven by the high growth rate of retail turnover in Tbilisi. From 2003 to 2008 retail turnover in Tbilisi grew by almost four times. Future growth of GDP per capita and level of disposable income will further increase the demand.

Modern shopping centres represent attractive investment opportunities for Georgian and Foreign Developers as the retail real estate is one of the most expensive property categories in Georgia. Currently, A-class shopping centres can charge up to \$100 per month per m<sup>2</sup>. Rental rates in B-class shopping centres are in a range of \$30-\$60 per month per m<sup>2</sup>.



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## Top Market Players:

Marriot: [www.marriott.com](http://www.marriott.com)

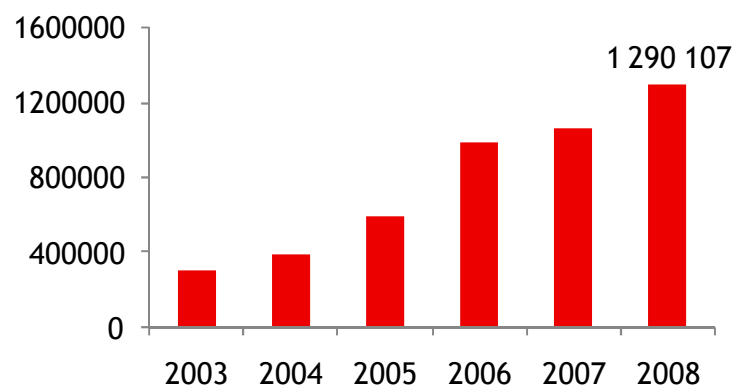
Sheraton: [www.sheraton.com](http://www.sheraton.com)

Radisson SAS: [www.radisson.com](http://www.radisson.com)

## Hotel Market

The recent favourable political, economic and social environment in Georgia, and the special governmental attention dedicated to tourism development by the Government, the country has seen dramatic increase in the number of foreign tourists. Figures from the World Tourism Organization show that in 2006 Georgia saw a 76 per cent increase in the number of tourists compared to year 2005, the highest figure compared to all other countries International tourist arrivals reached an all-time record of 1 290 107 in 2008 and the total number of international visitors, crossing national borders of Georgia, has been increased by 23% compared to 2007.

### International Tourist Arrivals



The rapid growth of the tourism industry has placed demand on hotels that far exceeds the supply, causing the price acceleration on accommodation. According to the National Statistics Department by 2010, number of guests staying in the hotels or similar accommodations will further increase by 70 per cent. It is also important to mention that the competition in medium end-hotels sector is quite low. Totally, there are around 189 hotels in Georgia and approximately 7361 rooms, of which around 420 rooms represent five star hotels and around 200 - in four star hotels.

With the combination of these two factors – high demand and low supply investors can see a high profile benefit.



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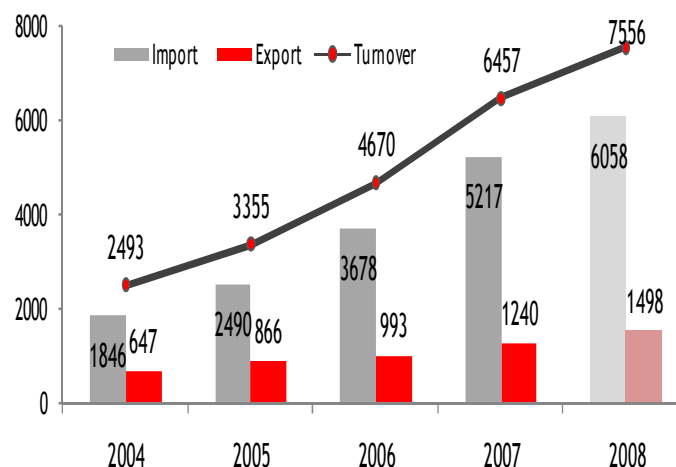
## Warehouse Market

Despite Georgia's favourable location, the warehousing sector still remains the least developed part of the real estate sector. There are no A & B class warehouse facilities and there is no presence of international professional warehouse operators. According to the Georgian statistics department, there are around 15 warehouse facilities in Tbilisi with total stock of order of 100,000-120,000m<sup>2</sup>

Georgia is considered to be one of the main transportation corridors connecting Europe to Caucasus region and Central Asia. Western business demonstrates increasing interest in Eastern European countries; Georgia is at the crossroads of the North-South and East-West transport corridors. Goods are transported from main western Black Sea ports of Constantza and Burgos through Georgia to Azerbaijan, Armenia and the main Central Asian countries. Turnover of Georgian transportation companies from 2003 to 2006 increased by four times.

Other factors stimulating demand for warehouse facilities are import of goods and retail turnover. From 2003 to 2006 the import of goods in Georgia increased by three times and retail turnover grew by almost four times.

## Foreign Trade



## Key Features of the Georgian Privatization

- Flexibility
- Transparency
- Equal opportunities for locals & foreigners
- Investor-initiated privatization



## Useful Contacts:

Department for Privatization

[www.privatization.ge](http://www.privatization.ge)

Tbilisi City Hall

[www.tbilisi.gov.ge](http://www.tbilisi.gov.ge)

Ministry of Economic

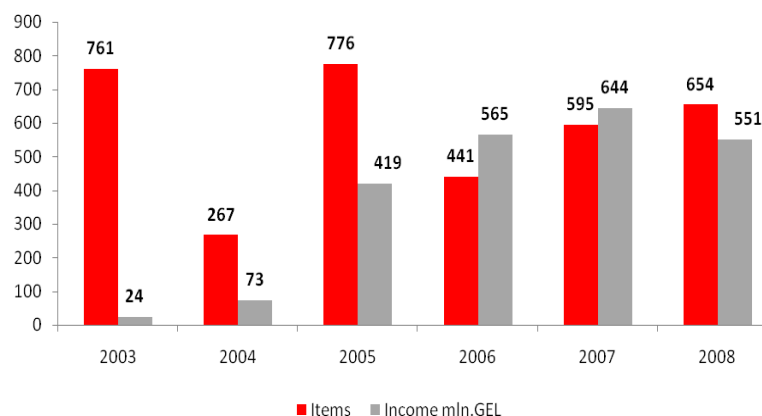
Development

[www.economy.ge](http://www.economy.ge)

## Privatization Policy

Georgia's new government is aggressively privatizing state-owned property to attract private capital in order to introduce efficient management, increase investment and boost economic growth and job creation:

### Privatization 2003-2008



## Tax and Regulatory Environment

### Tax Policy and Rates

In 2005, Georgia enacted a new Tax Code that introduced lower, flat-tax rates and significant procedural and institutional innovations. The number of taxes and total tax rate were further decreased starting January 1, 2008. Major features of the current tax regime include:

- Currently, five of the six taxes are State taxes - **personal income tax, corporate income tax, excise, value added tax, and customs tax**. **Property tax** is a local tax established by local self-governing bodies within marginal rates regulated by the Tax Code of Georgia.
- 20% social tax was abolished. 12% personal income tax increased to a flat 20% rate.
- Corporate income tax was reduced from 20% to 15%.
- An 18% value-added tax is compulsory for taxpayers whose turnover exceeds 100,000 Georgian Lari in any 12-month period and for importers.
- VAT paid for the purposes of investments in fixed assets, construction and export is refunded to the entrepreneur within 1 month and in all other cases within 6 months.



## Georgian Tax System

20% personal income tax  
18% VAT  
15% corporate income tax  
5% interest & dividend  
1% (max) property tax

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Ministry of Finances of Georgia  
[www.mof.gov.ge](http://www.mof.gov.ge)

## Rental Income

Pursuant to the Tax Code, rental income received by a company registered in Georgia should be included in the taxable gross income of that company subject to profit tax at the rate of 15% (as of January 1, 2008). Companies making taxable supplies exceeding GEL 100,000 within the last consecutive twelve months period have to register as a VAT payer. Pursuant to the Tax Code, voluntary VAT registration is permitted. The current VAT rate is 18%. According to the Tax Code leasing of property is considered as a VAT-able transaction. 20% of income tax rate applies to profit received by individuals from selling real estate objects (if they owned the object for more than 2 years).

## Property Tax

Local self-government bodies are entitled within their authority, to establish local taxes in the respective territory within the maximum limit stipulated by the Tax Code. Property tax is a local tax and comprises land tax and property tax of individuals and enterprises.

Fixed assets, installed equipment, incomplete capital investment, and intangible assets that are recorded in the balance sheet of a taxpayer are subject to property tax at a rate of 1 percent of the average annual net book value of the assets, unless specifically exempt.

According to the Tax Code owners and users of land pay the land tax. The land tax is differentiated according to the quality and location of the land. The base annual rate for the non-agricultural land amounts to GEL 0.24 per one square meter. The tax rate on non-agricultural land should be established by local self-governing bodies. The tax must be calculated by multiplying the annual base tax rate by the territorial coefficient and the land area. The differentiation of the land tax by territorial coefficient is made in accordance with location and zones of the land plot.

## Regulatory Environment

Government's Liberalization Program assigns special importance to streamlining and liberalizing the regulatory environment affecting the construction business.

- Licensing and inspection system. Significant reforms have been carried out in recent years to simplify the system of issuing permits in the construction sector. As a result, procedures are simplified; a "one-stop-shop" is responsible for issuing permits before a statutory time limit, after which silence means consent.
- Standardization and technical regulation. According to the implemented reforms, construction businesses now can use the technical regulations of OECD and EU member countries acknowledged by the Government of Georgia. At the same time, they can voluntarily choose other internationally recognized standards for their construction projects.

According to the Georgian legislation the issuance of construction permit includes three phases and minimum 60 days.

- The first phase: Assessment of appropriateness of project for city landscape. The time needed for this phase is 30 days (wherever necessary the deadline might be postponed by additional 15 days or in case of very important project by additional 30 days)
- The Second phase: Approval of architectural design of project. The time needed for this phase is 20 days (possible extensions: 10 days or 20 days for very important projects)
- The Third phase: Issuance of construction permit. The time needed for this phase is 10 days (possible extensions: 5 days or 10 days in case of very important projects)

According to the legislation the issuance of construction permit has become simpler for many small projects. For example, objects with no more than 100 m<sup>3</sup> construction volume do not require a construction permit at all. If the building's main function is preserved and the area of the building remains the same, only the second and third phases become applicable to the construction permit issuance process.

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- Transparency
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## Georgian Tax System

20% personal income tax  
18% VAT  
15% corporate income tax  
5% interest & dividend  
1% (max) property tax

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[www.tbilisi.gov.ge](http://www.tbilisi.gov.ge)  
Ministry of Finances of Georgia  
[www.mof.gov.ge](http://www.mof.gov.ge)

## Usefull Web Links

President of Georgia: [www.president.gov.ge](http://www.president.gov.ge)

Parliament of Georgia: [www.parliament.ge](http://www.parliament.ge)

Government of Georgia: [www.government.gov.ge](http://www.government.gov.ge)

Ministry of Economic Development of Georgia: [www.economy.gov.ge](http://www.economy.gov.ge)

Ministry of Finance of Georgia: [www.mof.ge](http://www.mof.ge)

Ministry of Foreign Affairs of Georgia: [www.mfa.gov.ge](http://www.mfa.gov.ge)

Ministry of Justice of Georgia: [www.justice.gov.ge](http://www.justice.gov.ge)

National Agency of Public Registry: [www.napr.gov.ge](http://www.napr.gov.ge)

National Bank of Georgia: [www.nbg.gov.ge](http://www.nbg.gov.ge)

Georgian Stock Exchange: [www.gse.ge](http://www.gse.ge)

Information about Privatization in Georgia: [www.privatization.ge](http://www.privatization.ge)

## Sources

- ❖ Ministry of Economic Development of Georgia
- ❖ Tbilisi City Hall Report
- ❖ Department of Statistics
- ❖ National Bank of Georgia
- ❖ Ministry of Finances of Georgia
- ❖ World Bank
- ❖ Deloitte & Touché