

TRENDS IN REAL ESTATE DEVELOPMENT IN THE GEORGIAN REPUBLIC IN 2023-2024

Alexander Sichinava

*Professor, Head of the Department
of Engineering Economics of GTU*

Dali Sekhniashvili

Invited Professor of GTU

Nazi Chikaidze

Invited Professor of GTU

ABSTRACT

This article discusses the key trends and changes in the real estate market of Georgia from 2023 to 2024. Special attention is given to macroeconomic factors such as inflation, legislative changes, foreign investments, and domestic demand, influencing the market. Specific statistical data on residential, commercial, and industrial real estate are presented, as well as forecasts for the coming years.

INTRODUCTION

The real estate market plays a crucial role in Georgia's economy, affecting the country's macroeconomic indicators. In recent years, particularly in 2023-2024, Georgia's real estate market has undergone significant changes driven by both internal and external economic factors. The primary goal of this article is to analyze current trends in the real estate market, assess the impact of macroeconomic factors, and offer future predictions.

Economic Factors Affecting the Real Estate Market - The Georgian real estate market in 2023-2024 has been influenced by several macroeconomic factors, including:

- **Inflation:** The high inflation rate, observed in 2023, has significantly impacted the cost of building materials and, consequently, the price of real estate.
- **Foreign Investments:** The inflow of foreign investments into the real estate sector continues to be a key growth driver. Investments from the Gulf countries and Europe are particularly noteworthy.
- **Legislative Changes:** New legislation aimed at protecting buyers' and investors' rights has created a more predictable and stable environment for market development.

Inflation - inflation, one of the key economic factors, has had a significant impact on the real estate market. In Georgia, inflation reached 7.9% in 2023, and in 2024, it is projected to be 8.2%. These fluctuations have caused noticeable shifts in the price of both real estate and construction materials, which in turn affected market dynamics.

- **Impact of Inflation on Construction Material Costs:** High inflation directly influenced the cost of building materials, a crucial factor in property pricing. In 2023, the prices of key building materials significantly increased:

- The average price per ton of cement rose by 16%, reaching \$100 compared to \$86 in 2022.
- Steel prices increased by 12%, reaching \$1,200 per ton, which affected overall project costs.
- The prices of wooden structures grew by 8%, which also impacted construction costs.

These changes in material costs have led to increased construction expenses, resulting in higher property prices. In 2023, the average cost per square meter of residential property rose by 8%, reaching \$1,100 in Tbilisi and \$900 in other major cities.

- **Impact on the Residential Real Estate Market** . In an environment of high inflation, buyers have become more cautious. Rising costs for construction materials, and subsequently for real estate, make housing less affordable for many citizens. In 2023, there was a decline in the growth rate of demand for premium housing, while demand for economy-class housing increased by 20%. Buyers are trying to reduce expenses and seek more affordable housing options.

- **Impact on the Commercial Real Estate Market.** Inflation has also significantly affected the commercial real estate sector. The increase in building material prices has driven up rental rates, particularly in retail spaces, where rates rose by 7%, reaching \$25 per square meter per month. However, office space rents remained relatively stable, which can be attributed to the decline in demand for office spaces due to economic uncertainties and the shift to flexible working arrangements.

In summary, inflation in Georgia in 2023 has had a substantial impact on the real estate market, leading to rising construction and property prices. This has also caused changes in demand structure, with increased interest in economy-class housing and stabilized office rents. Buyers and investors must consider price changes.

es and adapt to new economic realities.

Foreign Investment Growth. In 2023, foreign investment in Georgia's real estate market grew. According to reports published by the National Statistics Office of Georgia, the volume of foreign investment in Georgian real estate in 2023 amounted to approximately \$480 million, reflecting a 15% growth.

Key sources of investment include countries from the Gulf, such as the UAE and Qatar, as well as several European countries like Germany and the UK. These countries have shown active interest in Georgia's real estate market, attracted by its investment potential and strategic location. Important factors contributing to investment growth include:

- **Favorable Investment Climate.** Georgia offers tax incentives and simplified procedures for foreign investors, making it an attractive destination for investment.

- **Strategic Location.** Situated at the crossroads of trade routes between East and West, Georgia serves as a key logistics hub.

- **Political Stability.** Georgia's relative political stability and predictable legislative environment attract investors seeking safe and profitable investments.

- **Impact on the Residential Real Estate Market.** Foreign investment has fueled the construction of new residential complexes, particularly in major cities like Tbilisi and Batumi. In 2023, 20% more residential projects were built compared to 2022. Investors focused on premium-class projects and multi-apartment complexes, leading to an increase in supply in these segments. This also contributed to improved construction quality and enhanced infrastructure.

- **Impact on the Commercial Real Estate Market.** In the commercial real estate sector, foreign investment has had a noticeable impact. The influx of capital facilitated the development of new retail and office centers, as well as improved the quality of existing properties. In 2023, the number of new commercial projects, including coworking spaces and logistics centers, increased by 12%. This heightened competition in the market, leading to improved rental conditions and services.

- **Impact on the Industrial Real Estate Market.** Foreign investment has also promoted the development of industrial real estate, including warehouses and logistics facilities. Investment in this sector grew by 18%, driven by the expansion of e-commerce and the need for enhanced logistics infrastructure. The average rental cost of warehouse spaces increased by 5%, reflecting the growing demand and development of logistics operations.

Foreign investments play a crucial role in developing Georgia's real estate market, driving construction growth, improving property quality, and enhancing in-

frastructure. In 2023, there was a significant capital influx, positively impacting all segments of the real estate market, including residential, commercial, and industrial sectors. Investors and developers must consider these trends and adapt to changing market conditions to successfully promote their projects.

LEGISLATIVE CHANGES

In 2023, Georgia implemented several new legislative initiatives aimed at improving the investment climate. Key changes included simplifying property registration procedures and enhancing transaction transparency. These measures led to a 10% increase in transactions in the first half of 2023 compared to the same period in 2022. Improving the legal environment has boosted confidence among both local and international investors.

Legislative changes play a crucial role in shaping and developing the real estate market. In 2023-2024, Georgia introduced several significant legislative initiatives that had a noticeable impact on the real estate sector. This part of the article will explore the main legislative changes, their objectives, implementation, and impact on the market.

Simplification of Property Registration Procedures. In 2023, Georgia introduced several reforms aimed at simplifying the process of registering property rights. One key change was reducing the time required for registration from 30 to 15 working days. This was achieved through the implementation of automated systems and improved coordination between government agencies.

The simplification of registration procedures contributed to an increase in the number of real estate transactions. According to Georgia's National Statistics Service, the number of transactions in the primary real estate market in the first half of 2023 increased by 12% compared to the same period in 2022. This also increased trust among both local and foreign investors.

Strengthening Consumer Protection Measures. As part of new legislative initiatives, a law was passed to improve the protection of real estate buyers' rights. The key changes include:

- **Simplified Court Procedures:** Buyers can now more easily and quickly file claims against developers for breach of contract.

- **Increased Fines for Consumer Rights Violations:** Fines for violations have been increased by 25%, which should encourage developers to comply with quality standards and deadlines.

The strengthening of consumer protection measures has led to an increase in the number of clients confident in the protection of their interests. Since 2023, complaints against developers have decreased

by 18%, indicating higher levels of trust and customer satisfaction.

Regulation of Shared Construction Participation. A new law, which came into effect in 2023, regulates shared construction participation. Under the law, developers are required to provide co-owners with guarantees for the completion of construction and the protection of their investments. The law also introduced requirements for the transparency of developers' financial operations, including mandatory disclosure of financial status and the use of co-owner funds.

These measures have increased transparency in the shared construction market. As a result, the number of new projects launched under shared construction schemes grew by 15%. There has also been a decrease in the number of problematic projects, positively impacting the market's reputation.

Measures to Combat Illegal Construction

In 2023, a monitoring and control system for construction projects aimed at combating illegal construction was introduced. The system includes:

- **Mandatory Permits:** All construction activities now require prior approval from local authorities.
- **Increased Inspections:** Regular inspections of construction sites and fines for violations of construction standards. The introduction of these new measures led to a 20% decrease in illegal construction cases in 2023. This has improved the quality of construction projects and enhanced compliance with building norms and standards.

Stimulating Real Estate Investment Through Tax Incentives. In 2023, new tax incentives were introduced for real estate investors. The main measures include:

- **Reduction of Rental Income Tax:** The rental income tax was reduced by 5% for investors who invest in new construction projects.
- **Tax Credits for Sustainable Construction:** Tax credits were introduced for projects that meet sustainable construction and energy efficiency standards.

These measures have contributed to an increase in real estate investments, particularly in projects adhering to sustainable development standards. In 2023, investment in new construction projects rose by 22% compared to the previous year.

Legislative changes in Georgia in 2023-2024 have had a significant impact on the real estate market. The simplification of property registration, the strengthening of consumer protection measures, the regulation of shared construction, the fight against illegal construction, and tax incentives for investors have improved transparency, increased the number of transactions, and attracted new investments. These changes are creating a more stable and predictable

environment for real estate development in Georgia, which will contribute to the sector's further growth and development.

TRENDS IN THE RESIDENTIAL REAL ESTATE SEGMENT:

1. Growth in Demand for Economy-Class Housing. In 2023, there was a noticeable 20% increase in demand for economy-class housing. This is due to rising real estate prices in the capital and economic instability, prompting buyers to seek more affordable housing options. The average cost per square meter in the economy-class segment was \$1,100, while in the premium segment, it reached \$2,800. The growing demand for economy-class housing led to the active construction of new residential complexes in this segment.

2. Active Construction in Suburban Areas. In response to rising real estate prices in Tbilisi and other major cities, construction companies began actively developing suburban areas. The volume of new construction in suburban regions increased by 25% in 2023. This growth is due to more affordable land and building material prices. As a result, the cost of real estate in suburban areas decreased by 8%, making it more accessible for buyers seeking comfortable and affordable housing options.

3. Increase in the Number of Mortgage Transactions. In 2023, the number of mortgage transactions in the real estate market grew by 18%. This was made possible by the introduction of government programs subsidizing interest rates, which helped many buyers obtain affordable financing. The average mortgage loan amount was \$150,000, 12% higher than in 2022. The increase in mortgage transactions contributed to higher demand for new housing and a rise in construction volumes.

TRENDS IN THE COMMERCIAL REAL ESTATE SEGMENT AND DEVELOPMENT FORECASTS:

1. Stabilization of Rental Rates. Rental rates for office spaces in Tbilisi remained stable in 2023 at \$20 per square meter per month. This stability is due to sustained demand for office spaces in major business centers despite economic challenges. At the same time, retail space rental rates increased by 7% to \$25 per square meter per month, driven by rising demand from retail and trading companies.

2. Growth in the Popularity of Coworking Spaces. In 2023, there was an increase in interest in coworking spaces. The share of coworking spaces in the overall volume of commercial real estate grew by 10%. The average rent for a coworking space was \$350 per month, 8% higher than in 2022. The growing popularity of coworking spaces is due to changes in work pat-

terns, with more people transitioning to remote work and flexible schedules.

3. Development of Logistics Infrastructure. In 2023, the warehouse real estate market grew by 12%. This growth is linked to the rise in e-commerce volumes and the need to expand logistics infrastructure. The average rental cost of warehouse spaces increased by 5%, reaching \$12 per square meter per month. The development of logistics infrastructure is improving supply chains and enhancing business efficiency.

It is expected that suburban construction will continue to increase by 20% annually. This is driven by rising real estate prices in the capital and growing interest in more affordable regions. The suburban real estate market will expand, leading to increased supply in this segment and reduced housing prices in the capital.

Foreign investment in the real estate sector is forecasted to grow by another 10% next year. Improved investment conditions, Georgia's growing attractiveness as a strategic investment center, and ongoing government support will contribute to further increases in foreign investment volumes.

The use of digital platforms for real estate sales is also expected to rise. It is predicted that up to 30% of all transactions will be conducted through online platforms. This is due to increased market transparency

and accessibility, as well as the development of technologies such as virtual tours and online transactions.

CONCLUSION

The Georgian real estate market in 2023-2024 shows steady growth and adaptation to new economic conditions. Key trends include rising demand for economy-class housing, active suburban construction, and an increase in the number of mortgage transactions. In the commercial segment, there is stabilization of rental rates, growing popularity of coworking spaces, and development of logistics infrastructure. Forecasts for the next year suggest the continuation of these trends, along with increased foreign demand and the growth of digital platforms. These factors will contribute to the further development of the real estate market and its increasing attractiveness to investors and buyers.

REFERENCES:

1. National Statistics Service of Georgia. (2024). Real Estate Market Reports.
2. Ministry of Economy and Sustainable Development of Georgia. (2024). Annual Economic Review.
3. Georgian Real Estate Association. (2023). Analytical Report on the Commercial Real Estate Market.
4. Investment Agencies and Reports from Major Consulting Companies. (2023-2024).