

THE IMPACT OF FOREIGN DIRECT INVESTMENTS ON THE DEVELOPMENT OF TOURISM IN GEORGIA AND ITS RELATIONSHIP WITH THE REAL ESTATE MARKET

Vakhtang Mikashavidze

*Doctor of Economics, Associate Professor at
Batumi Shota Rustaveli State University,*

Email: mikashavidze.vakhtang@bsu.edu.ge

ORCID: <https://orcid.org/0009-0000-2094-6440>

Abstract. In the

context of the globalization process in the modern world, foreign direct investments (FDI) play a significant role in transforming a country's economic structure and promoting the development of strategic sectors. One such strategic direction in Georgia is the tourism sector, which has become a key source of the country's economic sustainable development and employment over the last decade. In this context, it becomes crucial to analyze the impact of FDI not only on the growth of the tourism industry but also on its systemic link with other sectors of the economy, primarily the real estate market. Although various authors' research addresses investments, tourism development, and the real estate market individually, a comprehensive study of this issue in Georgia is limited, which defines the novelty of our research.

The aim of the study is to assess the impact of foreign direct investments on the tourism sector and analyze this influence in relation to the real estate market. Methodologically, the study uses quantitative analysis with a time interval from 2016 to 2025. Statistical data are obtained from both state institutions (Geostat, NBG, GNTA, etc.) as well as from the public and private research organizations.

The research found that foreign direct investments significantly affect the development of tourism infrastructure (hotels, apart-hotels, recreational facilities), which, in turn, creates the potential for further growth in tourist flows. Along with the increase in tourist flows, the real estate market strengthens significantly, especially in the rental and sale segments of residential properties. By 2024, the number of international tourist visits exceeded 5 million (GNTA, 2024), while the Residential Property Price Index (RPPI) increased by an average of 48% in 2020-2024. Moreover, the high share of investments in real estate increases the risks of market concentration and overheating.

The article posits that in Georgia, foreign direct investment, tourism development, and the real estate market are closely interrelated, creating a mutually reinforcing dynamic: the growth of tourism enhances the investment attractiveness of the real estate market, while the expansion of the real estate sector, in turn, stimulates the attraction of foreign investment and generates additional economic opportunities within the residential rental and aparthotel segments. The findings of the study may serve both as a basis for planning and implementing economic and tourism development policies and as an analytical foundation for investment decisions by private investors. The recommendations presented focus on sectoral diversification of investments, promotion of regional equality, and regulatory policies aimed at sustainable market development.

Keywords: tourism; investments; real estate; correlation analysis; bilateral Interrelationship.

Introduction. Tourism has become one of the leading sectors in Georgia, recognized as a key driving force behind the country's economic growth. In 2024, the number of international visits to Georgia reached 6.5 million, while revenues from international travel (tourism) exceeded 4.4 billion USD. Tourism accounts for approximately 7.3% of the country's Gross Domestic Product, highlighting the sector's economic importance (GNTA R. , 2025). The sustainable development of this field largely depends on the investment climate and, in particular, on foreign direct investment (FDI). It is globally acknowledged that foreign direct investment (FDI) brings not only financial resources but also technological impact, facilitates the modernization of tourism infrastructure, improves the quality of services, and supports the integration of international standards. Closely linked to this process is the real estate market, which, in turn, responds to both tourism activity and investment flows.

The aim of the study is to analyze the impact of foreign direct investment on the development of the tourism sector in Georgia and to determine its relationship with the real estate market. Specifically, the research seeks to examine: how the growth of tourism affects changes in real estate prices and market structure; What portion of investments is directed toward the real estate sector as part of tourism infrastructure; And whether a reciprocal relationship exists among investments, tourism, and real estate.

The object of this research is the tourism sector in Georgia, while the subject of the research is the impact of foreign direct investment on tourism and its relationship with the real estate market. The results of the study may be utilized by both economic analysts and tourism policy makers to define investment directions, improve tourism infrastructure, and regulate the balance of the real estate market. The findings will assist policymakers in economics and tourism strategy in making optimal decisions regarding financing and regulation across different sectors.

The theoretical foundation of the article is based on the promotion of sustainable tourism development, revenue growth, and the enhancement of significance of the sector. In addition, the article incorporates conceptual insights from foreign authors published in academic collections of Western countries. Specifically, the scientific article *"Do Greenfield FDI Inflows Promote International Tourism?"* demonstrates that foreign direct investment in real estate not only contributes to economic growth but also serves as a strong driving force for the development of international tourism (Sasidaran Gopalan, 2023). Furthermore, the study *"Does Tourism Activity Affect House Price Dynamics? Evidence from Tourism-Dependent Countries"* establishes that a 10% increase in real revenues from international tourism leads, on average, to a 2%–4% rise in residential property prices in the long term (Martins S. C., 2023).

In the study *"The Effect of Tourism Activity on Housing Affordability"*, the results convincingly confirm that tourism negatively affects housing affordability in Croatia, particularly during the peak tourist season (Josip Mikulić, 2021). In the article *"The Relationship Between Foreign Housing Investments and Tourism in Turkiye": causality Analysis*", it is established that there is a relationship between foreign direct investment in real estate and the tourism sector. According to the causality analysis, foreign direct investment in real estate influences both the number of tourists and the revenues generated from tourism (Mustafa Şit, 2018). In international research, foreign authors consistently emphasize the role of FDI across various sectors of the economy, including real estate and tourism.

In addition, this article draws upon studies published within the Georgian academic sphere by professors from Georgian universities and researchers from academic institutes, as well as the perspectives presented therein. Specifically, the article *"Investment Opportunities in Tourist Accommodation Facilities: A Case Study for Batumi"* establishes that the growth of tourism in Batumi creates significant opportunities for the real estate market, while well-chosen investment properties provide both short-term and long-term benefits for

investors (Khelashvili, 2022). In the article *“Assessing the Value Chain Impacts of the Ukraine War on the Tourism Industry of Georgia”*, the effects of the war in Ukraine on Georgia’s tourism sector—particularly on the tourism value chain and the dynamics of short-term housing prices—are examined in depth (Bregadze, *Globalization and Business*, Vol. 8 No. 15 (2023), 2023). Although individual studies exist on tourism, investment, and real estate, their systemic interrelationship has been relatively less studied in the context of Georgia. Some sources highlight the influence of tourism on real estate prices; however, there is limited data regarding the role of foreign investment in this process.

Methods. The present study constitutes an analytical work based on a comparative examination of data on foreign direct investment, tourism activity, and the real estate market in Georgia during the period 2016–2024. The research employs statistical and documentary information obtained from various sources. Based on data from the National Statistics Office of Georgia (Geostat), the analysis takes into account the sectoral distribution of FDI, as well as changes in accommodation capacity and the real estate market. Data from the Georgian National Tourism Administration (GNTA) are used to study tourist flows and revenues generated from tourism. Statistics from the National Bank of Georgia (NBG) include annual figures for foreign investment, providing an additional basis for identifying analytical dynamics. To enable comparisons with global trends, reports from the World Bank and the World Tourism Organization are utilized, while the cases of Tbilisi and Batumi are considered as specific geographical examples.

The analytical part of the study is based on a comprehensive methodological framework that incorporates both quantitative and qualitative methods, ensuring the multidimensionality and reliability of the results. At the first stage, **descriptive statistics** are applied to analyze the dynamics of key indicators. Specifically, the study assesses the volume of foreign direct investment in economic sectors directly or indirectly related to tourism, changes in tourist flows and revenues, as well as trends in real estate prices in tourism-active regions. The analysis takes into account average, maximum, and minimum values, including their long-term trends.

At the next stage, **correlation analysis** is applied to identify the relationships among foreign direct investment, tourism activity, and real estate prices. The quantification of these relationships is carried out using Pearson’s correlation coefficients, which make it possible to conduct a deeper analysis of the causal linkages.

An important component of the research is the **case study**, which focuses on specific locations—Batumi and Tbilisi. This method makes it possible to assess in detail the impact of investments on both the dynamics of tourism and the development of the residential and commercial real estate markets.

In addition, **content analysis** is applied, within which state strategic documents, investment reviews, banking sector studies, and analytical reports of international organizations are examined. This component provides the research with a broader context, contributes to the thoroughness of result interpretation, and enhances the reliability of the analysis.

In terms of methodological, it should be noted that the database used in this study is, in certain cases, incomplete, which complicates both comprehensive time-series comparisons and the full perception of individual indicator dynamics—particularly in the context of the post-pandemic (COVID-19) period. In addition, the study does not employ primary (empirical) methods such as surveys or interviews, which is considered one of its essential limitations.

Discussion. The dynamics of tourism development in Georgia during 2016–2024 have been highly diverse and noteworthy. This period encompasses phases of both stable growth and crisis (the COVID-19 pandemic), followed by recovery. The years 2016–2019 are considered the “golden age” of tourism. During this time, the number of visitors increased annually by approximately 15–20%. In 2019, Georgia received a

record number of about 9.4 million international travelers, of which 5.1 million were tourist visits. In the same year, revenues from tourism reached 3.3 billion USD, indicating a steadily rising trend that made a significant contribution to the national economy. In 2019, tourism accounted for approximately 8% of the country's Gross Domestic Product (GDP).

It is also noteworthy that during these years, tourism infrastructure developed substantially—new hotels were built, the road network was improved, and the number of direct flights increased. The years 2020–2021 represent the crisis phase caused by the COVID-19 pandemic. In 2020, the number of tourists declined by up to 80% compared to 2019, inflicting severe losses on the sector and causing a sharp fall in revenues. The years 2022–2024 marked the post-pandemic recovery and adaptation period for Georgia's tourism sector. In 2022, the number of international travelers increased significantly, though it still lagged behind 2019 levels; However, tourism revenues reached 3.5 billion USD, reflecting an 8% growth compared to 2019. In 2023, the number of international tourist visits almost reached pre-pandemic levels, while revenues from travel surpassed 2019 results by 26%. According to 2024 data, the growth trend remains stable: the number of international tourist visits amounts to 5.1 million, virtually matching 2019 figures, while revenues total 4.4 billion USD—35% higher than in 2019 (GNTA, Researches, 2025).

When observing the dynamics of 2016–2019, a notable trend emerges: the annual growth rates of international visitor arrivals, international tourist visits, and revenues from international travel are almost perfectly aligned. However, during 2020–2024, the picture changes significantly. Specifically, the growth rate of tourism revenues is directly correlated with the growth rates of international visitor arrivals and international tourist visits, as confirmed by their proportional relationship. For instance, a 1% increase in international visitor arrivals corresponds to a 2% increase in revenues, while a 1% increase in international tourist visits results in a 1.4% rise in revenues (see Diagram 1). Consequently, the data clearly highlight the importance of tourism as one of the main driving forces of economic development, exerting a positive impact on investments and, particularly, on the activity of the real estate market.

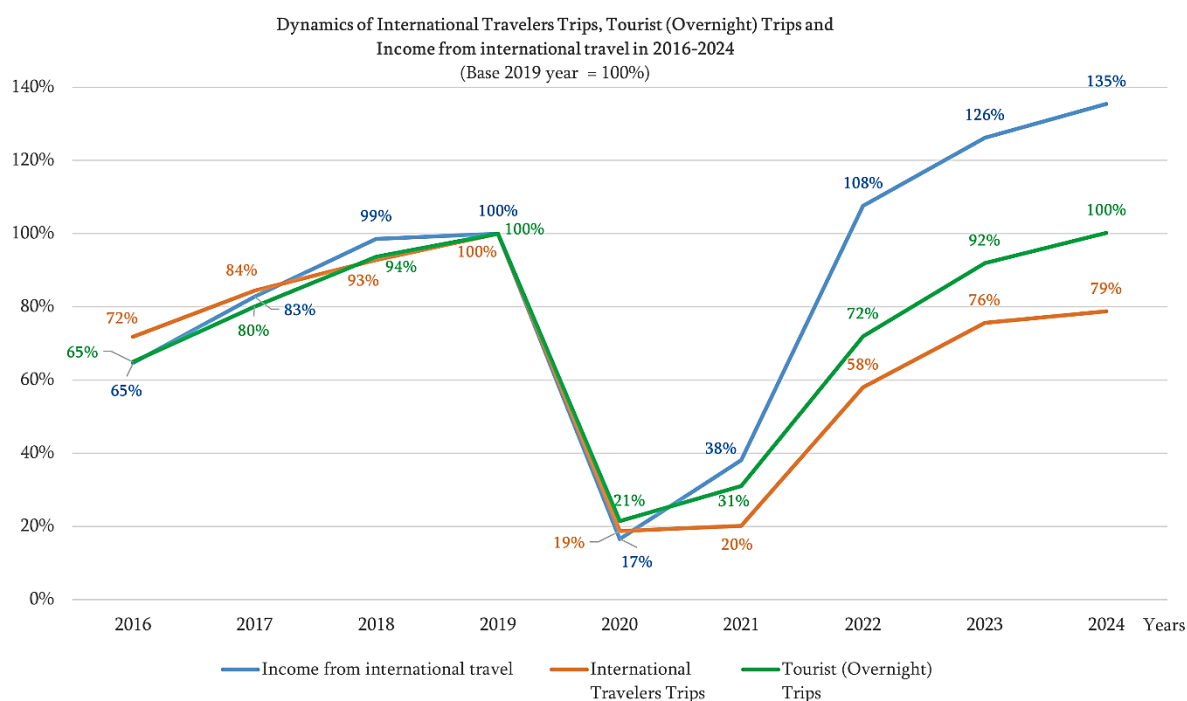
In Georgia, the development of tourism and the real estate market has progressed in parallel over the past decade. This trend has been driven by both domestic economic factors and the inflow of foreign direct investment (FDI), which has made a significant contribution to infrastructure improvement and the expansion of tourism services. The following section analyzes the impact of foreign direct investment (FDI) on the tourism sector and examines the interconnection between this impact and the real estate market. **Broadly speaking, the relationship between foreign direct investment, tourism, and the real estate market provides a basis for identifying potential cause-and-effect linkages within the Georgian context.**

The contribution of foreign direct investment (FDI) to the development of tourism infrastructure is reflected in the fact that a significant portion of foreign direct investment (FDI) is directed toward the construction of tourism-related facilities — including hotels, restaurants, aparthotels, and conference venues. The presence of international hotel brands such as Radisson, Hilton, Wyndham, and Marriott in Tbilisi and Batumi is a direct result of such investments. At the same time, foreign investors with international experience introduce new service standards to Georgia, thereby improving the overall quality of the tourism product. Against the backdrop of tourism development, demand for commercial real estate (e.g., restaurants, cafés, and retail spaces) has also increased, creating new investment opportunities not only within the tourism industry itself but also in related sectors.

In the years 2016–2024, the dynamics of foreign direct investments (FDI) in Georgia were characterized by sharply fluctuating tendencies. During the given period, there were recorded both phases of stable growth and stages of significant decline. For the analyzed period, the smallest indicator of foreign direct investments (FDI) — USD 596 million — was recorded in 2020, whereas in 2022 the largest volume was observed, amoun-

ting to USD 2.224 billion (Geostst, Foreign Direct Investments, 2025). This fluctuation correlates both with global economic shocks (the COVID-19 pandemic, the war in Ukraine) and with the country’s internal political and economic context, which directly affects the stability and predictability of the investment environment. As for the sectors of the economy that are directly or indirectly related to tourism, according to the classifier of types of economic activities – SEC 006-2016 (Geostst, Statistical classification of economic activities, NACE Rev. 2, 2025) – such as *Accommodation and food service activities* (code I), *Arts, entertainment and recreation* (code R), *Real estate activities* (code L), and *Construction* (code F), they represent systemically significant branches and, in our view, determine the intensity of investment attraction. The analysis of these sectors provides an opportunity not only to determine their direct impact on the tourism sector but also to reveal the existing bilateral interconnection. If we consider the dynamics of foreign direct investments in Georgia through the prism of the sectors of the economy related to tourism, we can conclude that the wave of FDI growth, which was conditioned by the rapid development of tourism in Georgia, encompassed the years 2016–2018. The years 2019–2020 were a struggle against global economic shocks (COVID-19), which caused a sharp decline in foreign direct investments.

Diagram 1.



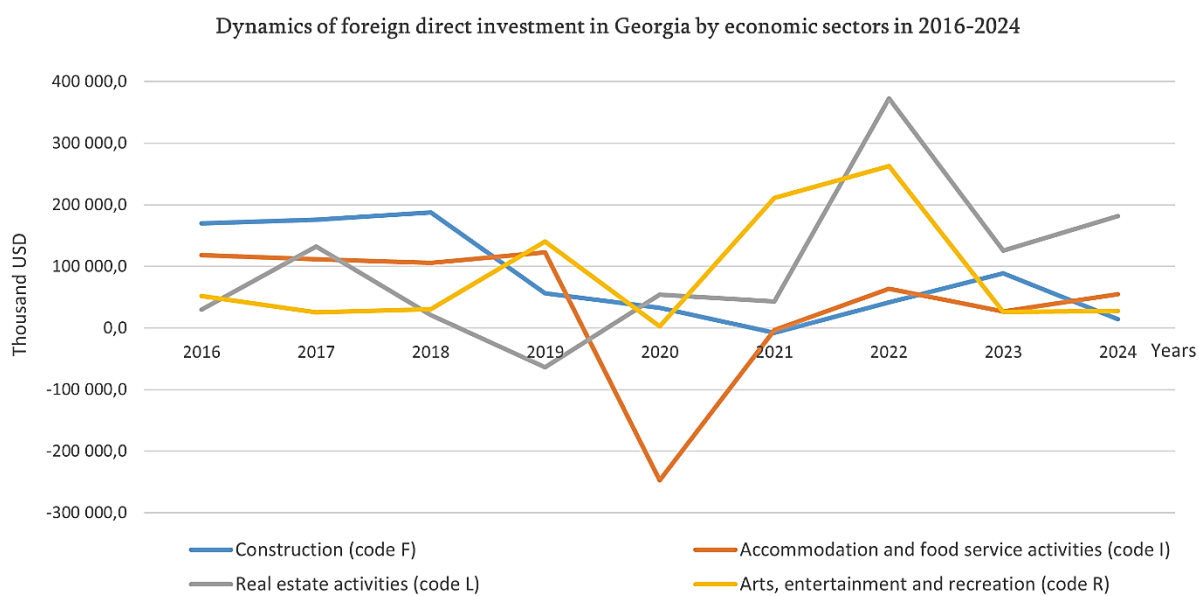
Years		2016	2017	2018	2019	2020	2021	2022	2023	2024
International Travelers Trips	Person	6 719 975	7 902 509	8 679 544	9 357 964	1 747 110	1 881 271	5 426 903	7 072 220	7 368 149
	%	72%	84%	93%	100%	19%	20%	58%	76%	79%
Income from international travel	Thousand USD	2 110 709	2 704 340	3 222 074	3 268 654	541 687	1 244 942	3 516 634	4 125 329	4 425 377
	%	65%	83%	99%	100%	17%	38%	108%	126%	135%
Tourist (Overnight) Trips	Person	3 297 275	4 069 354	4 756 820	5 080 478	1 087 093	1 577 463	3 652 949	4 669 467	5 091 732
	%	65%	80%	94%	100%	21%	31%	72%	92%	100%

Source: The diagram and table were compiled by the author using data from the Georgian National Tourism Administration.

The partial recovery of FDI, especially in the directions of real estate and construction, occurred in 2021–2022. The years 2023–2024 demonstrate renewed growth, during which a large share of foreign investments is directed toward real estate and hotel infrastructure. For example, in the sector of accommodation and

food service activities (code I) [Accommodation and food service activities (code I)], in 2019, a significant 16% increase in FDI was recorded compared to the previous year, amounting to 122.7 million USD, which was related to the tourism boom of 2016–2019. In 2020, the COVID-19 pandemic most severely affected precisely this sector — investments decreased by 301% compared to the previous year, marking a decline of -246.9 million USD. The recovery process began in 2021, and by 2024 it reached 54.9 million USD; However, it still significantly lags behind the 2019 indicators. During the analyzed period, the dynamics of foreign direct investment (FDI) were characterized by an upward trend in the sector of arts, entertainment and recreation (code R) Arts, entertainment and recreation (code R), where the main emphasis was placed on the development of casinos, entertainment complexes, and tourism infrastructure. In the sector of real estate activities (code L) Real estate activities (code L), the development of foreign direct investment (FDI) was characterized by sharply fluctuating tendencies. For instance, by 2019, investments had decreased by 398% compared to the previous year, with the decline amounting to -63.6 million USD in absolute value (the impact of the COVID-19 pandemic). Starting from 2020, the sector began its recovery, and by 2022 it reached 372.6 million USD, which represents the historical maximum within the analyzed period. This result of foreign direct investment (FDI) is related to the purchase of apartments, aparthotels, and commercial spaces by foreign investors, which became the main driving force of the real estate market and is associated with the global economic shock (the war in Ukraine). The real estate market is often considered a “safe haven” for foreign investors, especially against the backdrop of global crises, which was reflected in the 2024 foreign direct investment (FDI) indicator — the increase compared to the previous year amounted to 44.5%, reaching 182 million USD in absolute terms. In the construction sector (code F) [Construction (code F)], during the years 2016–2018, a stable 10% growth of foreign direct investment (FDI) was recorded, which was driven by the implementation of hotel and infrastructural projects. In the years 2019–2021, due to the COVID-19 pandemic, there was a sharp 114% decline in foreign direct investment (FDI), which was expressed in an absolute decrease of -7.9 million USD. During the years 2022–2024, investments in the construction sector increased once again, particularly in Batumi and Tbilisi, where the construction of hotels, apart-hotels, and residential buildings is in an active phase. For instance, by 2023, the absolute indicator of foreign direct investment (FDI) in the construction sector amounted to 88.7 million USD, which represents a 114% increase compared to the previous year (see Diagram 2).

Diagram 2



Years	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total FDI (Thousand USD)	1 654 009,5	1 990 526,4	1 350 608,2	1 367 795,3	596 151,4	1 264 891,2	2 224 195,6	1 928 462,4	1 569 271,7
Including tourism-related economic sectors, according to the Classifier of Economic Activities б03 006-2016:									
Construction (code F)	170 245,2	176 115,7	187 349,1	56 482,0	32 834,5	-7 905,7	41 409,9	88 694,5	14 635,3
Accommodation and food service activities (code I)	118 133,1	111 437,2	106 032,1	122 703,1	-246 854,9	-2 986,5	64 026,0	27 075,0	54 914,0
Real estate activities (code L)	29 624,0	132 375,0	21 332,9	-63 631,4	54 457,3	43 076,6	372 586,2	125 911,2	181 994,1
Arts, entertainment and recreation (code R)	51 713,6	25 280,3	30 764,5	140 120,0	2 467,5	210 987,2	263 090,3	26 406,7	27 989,1

Source: The diagram and table were compiled by the author, using data from Geostat.

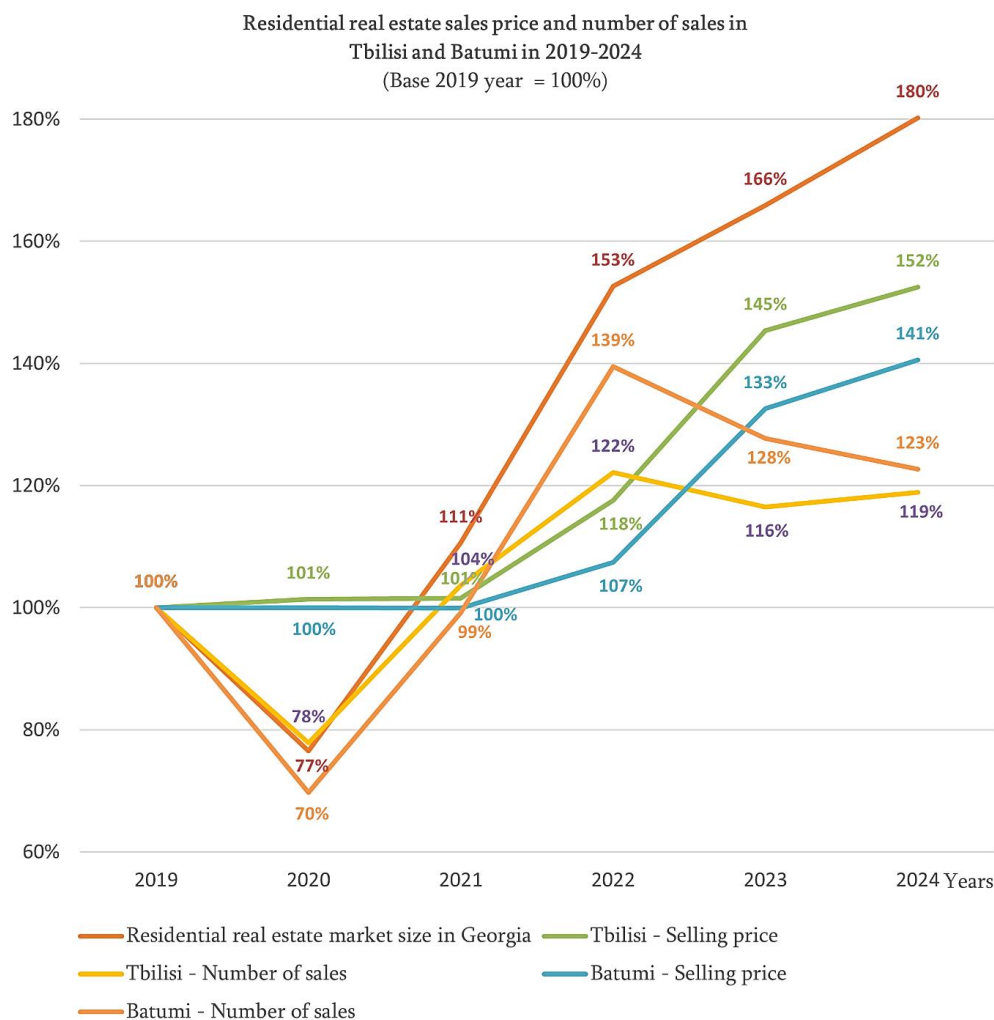
Overall, for the sectors related to tourism, foreign direct investment (FDI) is closely dependent on global and domestic economic factors, while real estate and construction have emerged as two of the most attractive areas for foreign investors — particularly under crisis conditions.

The analysis of Georgia’s real estate market reflects both long-term and short-term trends. The study is based on residential property price indices RPPI- Residential Property Price Index (RPPI), the number of transactions (sales), and the dynamics of the real estate rental market. The development of the real estate market in Georgia is closely linked to both domestic credit policy and the dynamics of international investments and tourism. For the base year of the study, 2019, the volume of the residential real estate market in Georgia amounted to 2.4 billion USD, while the weighted selling price of residential real estate per square meter in Tbilisi and Batumi was 802 USD and 848 USD, respectively. By 2020, as a result of the impact of the COVID-19 pandemic, the situation changed significantly, and the volume of the real estate market decreased by 23% compared to 2019, amounting to 1.8 billion USD in absolute terms. The number of residential property sales also declined substantially — by 22% in Tbilisi and 30% in Batumi. An analysis of the dynamics of residential property selling prices indicates that in both Tbilisi and Batumi, prices per square meter remained virtually unchanged in 2020–2021, reflecting stagnation trends in the market during this period. In 2022, activity in Georgia’s real estate market experienced a sharp increase, amounting to 3.6 billion USD, which represents a 53% growth compared to 2019. This trend was driven both by strong domestic demand and by intensified migration processes. High growth dynamics were observed nationwide, and particularly in Tbilisi and Batumi. According to statistical data, in 2022 the number of transactions increased sharply compared to the base year of 2019: in Tbilisi — by 22%, reaching 40.8 thousand units, and in Batumi — by 39%, reaching 16.6 thousand units. Regarding the selling price of residential real estate per square meter, there was also an increase compared to 2019: 18% in Tbilisi (943 USD) and 7% in Batumi (911 USD).

These processes were significantly stimulated by tourism, as the increased flow of foreign visitors and investors strengthened demand for both residential and investment real estate, particularly in touristically active regions. In 2023–2024, the volume of the residential real estate market maintained a sharply upward trend compared to 2019. Specifically, in 2023, a 66% increase was recorded, and by 2024, the indicator reached 80%, clearly illustrating the stable expansion of the market. Regarding residential property selling prices in 2023 compared to 2019, a significant upward trend was also maintained. For example, in 2023, the price per square meter in Tbilisi reached 1,166 USD, representing a 45% increase compared to 2019, while in Batumi, the price was 1,124 USD, reflecting a 33% increase compared to 2019. In 2024, there was a 52% increase in Tbilisi, resulting in a price of 1,223 USD, and in Batumi, a 41% increase, with the price reaching 1,192 USD. Accordingly, it is confirmed that residential real estate prices remain stable, demand is characterized by high steadiness, and no significant fluctuations are observed in market activity. This trend indicates the long-term attractiveness of the sector, which not only strengthens the interest of local buyers

but also stimulates foreign investment. Regarding the number of sales in the residential real estate market in 2023–2024, a different pattern is observed: in 2023, compared to 2022, there was a 6% decrease in Tbilisi and an 11% decrease in Batumi. In 2024, compared to the previous year, there was a 3% increase in Tbilisi, whereas in Batumi, the decline continued at 5% (see Diagram 3).

Diagram 3



	Years	2019	2020	2021	2022	2023	2024
Residential real estate market size in Georgia	Million USD	2 386	1 826	2 638	3 642	3 958	4 300
	%	100%	77%	111%	153%	166%	180%
Tbilisi - Selling price	USD / Sq.m.	802	813	814	943	1 166	1 223
	%	100%	101%	101%	118%	145%	152%
Tbilisi - Number of sales	Thousand units	33,4	26,0	34,6	40,8	38,9	39,7
	%	100%	78%	104%	122%	116%	119%
Batumi - Selling price	USD / Sq.m.	848	848	847	911	1 124	1 192
	%	100%	100%	100%	107%	133%	141%
Batumi - Number of sales	Thousand units	11,9	8,3	11,8	16,6	15,2	14,6
	%	100%	70%	99%	139%	128%	123%

Source: The diagram and table were compiled by the author, using data from Geostat, the National Bank of Georgia and TBC Capital.

In Georgia, the Residential Property Price Index (RPPI) increased by approximately 48% by 2024 compared to the base level of 2020 (Geostst, Residential Property Price Index, 2020-2024), indicating a sharp rise

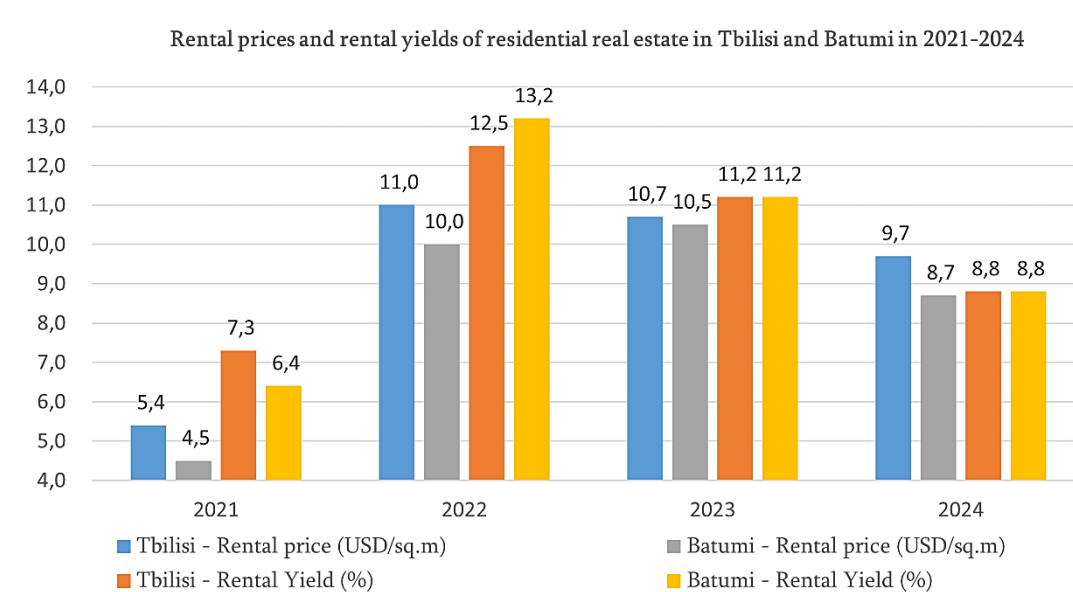
in market prices. This trend, on one hand, reflects the intensity of developer activity, the inflow of foreign capital, and the growing influence of tourism demand, while, on the other hand, it can be assessed as a high indicator of investment yield. At the same time, such price dynamics may generate overheating risks, which require particular attention from both regulatory authorities and market participants in order to maintain the sustainability of the investment environment and long-term stability.

The volume of the residential real estate market actively increased from 2021 and in 2024 reached a historical maximum — 4.3 billion USD. From a market structural perspective, Tbilisi's advantage is evident, covering approximately 72% of the total volume, while Batumi's share constitutes 20%, and only 8% comes from the rest of Georgia (Tbccapital, 2025). This distribution once again emphasizes the strategic significance of the capital and the Black Sea coastal resort for both foreign and domestic investors.

According to the data of the National Bank of Georgia, in the post-pandemic period, the increase in demand in the real estate market was determined by several factors. One significant contribution came from mortgage support programs and eased monetary policy, which improved the conditions of loans issued in GEL. Migration processes additionally contributed to the growth of demand, which was accompanied by an increase in the prices of residential spaces. The price increase was also determined by the growth of construction costs, which in turn was caused by the rise in the prices of construction and repair materials, as well as the increase in wages in the construction sector (NBG, Financial Stability Bulletin, 2025).

In parallel with these processes, the growth of foreign investment in the tourism sector and the increase in the flow of international travelers significantly raised the demand for both hotel-tourism infrastructure and residential real estate, thereby further intensifying the price growth dynamics and highlighting the close connection between tourism and the real estate market. Alongside the growth of tourism, residential property prices and the activity of the rental segment increase. For example, in Batumi and Tbilisi during tourist seasons, short-term rentals (Airbnb, Booking) are often more profitable than long-term leases, which reinforces the prices in the residential property market.

It is noteworthy that, especially in coastal regions, apartment purchases have become popular not only among local but also foreign investors, often of a speculative nature. This increases demand and prices, particularly in the new construction segment, causing the real estate market to overreact to tourism activity. For example, in 2021, in both Tbilisi and Batumi, rental prices for residential real estate were relatively low (Tbilisi – 5.4 USD/m², Batumi – 4.5 USD/m²), while rental yields were at moderate level, in Tbilisi – 7.3%, Batumi – 6.4%. However, in 2022, a clear sharp growth trend emerged: in both cities, the price per square meter for rental properties doubled (Tbilisi – 11 USD/m², Batumi – 10 USD/m²), while rental yields reached historical maximums (Tbilisi – 12.5%, Batumi – 13.2%). This dynamic can be explained by the post-pandemic strengthening of demand, increased construction costs, and the influence of migration processes, which significantly raised demand for residential spaces. In 2023, the market entered a relatively stabilization phase: prices and yield in both cities were almost balanced, although growth rates slowed. This indicates that following rapid expansion, the market moved into a correction stage, where demand and supply were relatively balanced. In 2024, a downward trend became evident — prices and yields indicators decreased and stabilized at nearly identical levels in both cities (rental yield – 8.8%), while rental prices were 9.7 USD/m² in Tbilisi and 8.7 USD/m² in Batumi (see Diagram 4).



Source: The diagram was compiled by the author, using data from the National Bank of Georgia, TBC Capital and Galt & Taggart.

Such a result can be interpreted as market normalization, where, following the peak of previous years, the real estate sector has moved to a new stage of sustainability and sequential development. The current trend of declining rental prices does not pose a threat to financial stability, as this process is occurring gradually. After a sharp increase driven by one-off factors, the trend of rental price reduction is a predictable and natural phenomenon. The level of rent represents a significant indicator of the attractiveness of real estate as an investment asset. Accordingly, if the trend of declining rents persists over a long period, it may negatively affect the investment appeal of real estate and, in turn, the dynamics of foreign direct investment.

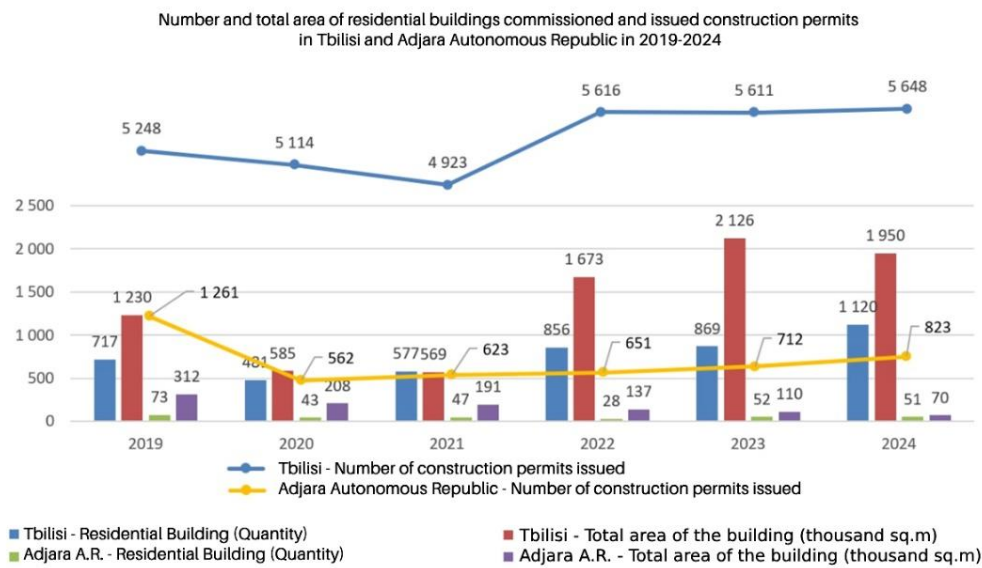
The data under consideration confirms that during 2021–2022, the residential real estate markets in Tbilisi and Batumi experienced dynamic growth, followed by stabilization in 2023 and a moderate declining trend in 2024. These changes highlight the cyclical nature of the market and its close connection to both economic and social factors.

When assessing the development process of the real estate market, it is necessary to consider the dynamics of issued construction permits, as well as both the number and the area of completed projects. The 2019–2024 dynamics clearly illustrate the cyclical changes in the construction sector and its close connection to both economic and investment factors. During the period under review, the number of constructions permits issued in Tbilisi remained relatively stable, with minor fluctuations. In 2020, compared to 2019, the number of permits decreased by 3%, followed by a further decline in 2021; however, from 2022 onwards, an upward trend was observed, and by 2024, the figure exceeded the 2019 level by 8%. Regarding the Autonomous Republic of Adjara, the number of issued permits decreased by 55% in 2020 compared to 2019, followed by slow growth. By 2024, the number of permits still lagged behind the 2019 level by 35%.

The analysis of commissioned projects indicates the successful completion of construction works. In Tbilisi, the number of residential buildings commissioned in 2020 decreased by 33% compared to 2019, followed by a continuous and growing trend from 2021 onwards. By 2024, the number of commissioned buildings exceeded the 2019 level by 56%, while the total area increased by 59%. This demonstrates that despite the pandemic-induced fluctuations, the construction sector in Tbilisi was able to recover rapidly and achieve growth. In the Autonomous Republic of Adjara, a slight increase in the number of commissioned

projects is observed in 2020 following a sharp decline, although the dynamics are not as pronounced as in Tbilisi. Regarding the area of commissioned projects in Adjara, a reversed trend is evident, specifically a consistent annual decline, with a 78% decrease in 2024 compared to 2019 (see Diagram 5).

Diagram 5



Source: The diagram was created by the author using data from Geostat.

Overall, the presented data indicate that the real estate market dynamics in the Autonomous Republic of Adjara have been characterized by a downward intensity since 2022. From this period onward, the declining trend in the area indicators points to certain structural constraints. This trend may reflect the gradually decreasing pace of investment activity in the region, or more specifically, a shortage of land resources for development projects in Batumi, which becomes a significant obstacle to the sustainable development of the market. Furthermore, such changes can be interpreted as a sign of market maturation, where the growth rate slows down, but the qualitative aspect of investments becomes more important. This situation is particularly relevant for Adjara, where the development of tourism and the real estate sector are closely interconnected, and any dynamics directly affect both regional economic growth and the assessment of the investment attractiveness of real estate.

Thus, the dynamics of the construction sector demonstrate that foreign direct investments not only enhance the intensity of construction activity but also significantly determine the sustainability of the real estate market and its long-term development prospects, particularly in regions where the tourism sector serves as a primary driver of economic growth.

Results and Interpretation of Correlation Analysis

Based on the presented data, a correlation analysis was carried out using Pearson’s correlation coefficient (r), the purpose of which was to identify the strength and direction of the linear relationship between various economic indicators. The given coefficient (r) ranges from -1 to $+1$, where: $r = +1$ indicates a perfect positive correlation; $r = -1$ indicates a perfect negative correlation; and $r = 0$ indicates the absence of a relationship.

The results of the study revealed that there exists a close interrelationship between the development of tourism and foreign direct investment (FDI) in Georgia, which generates synergistic effects within the economic system.

First and foremost, the **moderate positive correlation** ($r = 0.67$) identified between revenues from international travel and foreign direct investment (FDI) indicates that the strengthening of investor interest in Georgia is largely driven by the growth of tourist flows and revenues. This result underscores the strategic importance of tourism in shaping investment attractiveness, as the increase in revenues creates prospects both for market expansion and for the profitability of investments.

On the other hand, the analysis of foreign direct investment (FDI) in tourism-related sectors is of particular importance. For instance, a **very strong positive correlation** ($r = 0.80$) was identified between the number of international visitors and accommodation and food service activities (code I). This indicates that the growth of tourist flows directly stimulates the attraction of foreign capital into this sector. Furthermore, **the moderate positive correlation** ($r = 0.62$) between accommodation and food service activities (code I) and revenues from international travel confirms that investors are interested not only in quantitative indicators but also in profitability metrics. In the case of the real estate market, **the very strong positive correlation** between revenues from international travel and residential property sales, both in Tbilisi and Batumi (Tbilisi $r = 0.84$; Batumi $r = 0.84$), confirms that tourism growth serves as a direct stimulus for the activation of the residential market. It is also noteworthy that **the moderate positive correlation** between residential property sales and FDI in real estate (Tbilisi $r = 0.65$; Batumi $r = 0.72$) demonstrates that investments in real estate largely reflect the influence of tourism.

The very high correlation observed in the rental segment between rental prices and profitability (Tbilisi $r = 0.88$; Batumi $r = 0.89$) indicates that the market's profitability is strongly dependent on rental dynamics. These finding positions real estate as a stable investment asset whose returns are directly linked to the growth of tourist demand.

Particularly noteworthy is **the very strong positive relationship** between rental profitability and FDI in real estate activities (code L) (Tbilisi $r = 0.80$; Batumi $r = 0.84$). These data confirm that the profitability of the rental market can be regarded as a kind of "barometer" of foreign investment, as its growth practically occurs in parallel with the inflow of foreign capital.

The results obtained at the interpretative level demonstrate that tourism in Georgia is not only a significant source of economic growth but also a key driving force behind investments and the real estate market. The identified correlations confirm that the growth of tourist flows and revenues creates a favorable investment environment, while the real estate market serves both as a recipient and an amplifier of this process.

Bilateral Interrelationship

The data discussed above demonstrate that the interrelationship among foreign direct investment (FDI), tourism, and the real estate market is bilateral:

Factor	Influence
FDI → Tourism	Grows of tourism infrastructure, improvement of services
Tourism → Real Estate	Price increase, rental market activation
Real Estate → FDI	Attracting investments in residential and commercial spaces

The analysis shows that the expansion of tourism increases the investment attractiveness of the real estate market, while the dynamics of the real estate sector, in turn, influence tourism potential (for instance, through the availability of accommodation, as well as the location and number of services).

Risks and Structural Instability

Despite the aforementioned positive trends, several risks should be noted:

- **Market overheating** — the rapid increase in real estate prices may lead to unstable demand;
- **Low diversification** — investment concentration limited mainly to residential and hotel segments;
- **Dependence on tourism seasonality** — creating financial fluctuations, particularly in the rental market.

Opportunities and Risks

Opportunities	Risks
The very strong correlation ($r=0.80$) between the number of international visitors and FDI in accommodation and food service activities increases the investment attractiveness of the tourism-related sector.	In the event of a decline in tourism revenues, FDI inflows may significantly decrease in tourism-related sectors.
The very strong correlation ($r=0.84$) between real estate sales and revenues from international travel provides a basis for forecasting market growth.	Excessive dependence on tourism creates systemic vulnerability during external shocks.
The high correlation between rental prices and profitability (Tbilisi $r=0.88$; Batumi $r=0.89$) drives the investment attractiveness of real estate.	A prolonged decline in rental prices may negatively affect the investment value of real estate.
The very strong positive correlation between rental profitability and FDI in real estate activities (code L) (Tbilisi $r=0.80$; Batumi $r=0.84$) determines the inflow of foreign capital.	A decline in rental yield will reduce the investment attractiveness of real estate, which will be reflected in the inflow of foreign capital.
Tourism growth promotes the development of supporting sectors (construction, services, infrastructure).	An increase in construction material costs and wages may reduce the profitability of development projects.
The increased interest of international investors creates an opportunity for market diversification.	Global crises, pandemics, or geopolitical risks limit the ability to attract investments.

Conclusions. The present study analyzed the impact of Foreign Direct Investment (FDI) on the development of tourism and the real estate market in Georgia based on data from 2016–2024. The results obtained demonstrate that the development of these sectors is closely interrelated and generates a mutually reinforcing dynamic.

The main findings of the study confirm that Foreign Direct Investment (FDI) significantly drives the development of tourism infrastructure. It was observed that investments in Georgia’s tourism sector facilitated the entry of international brands, improved service quality, and created new jobs, while their role in the construction of hotels and commercial tourist facilities proved particularly significant.

Tourism growth also had a noticeable impact on the real estate market. Observations showed that the Residential Property Price Index (RPPI) increased by approximately 48% during 2020–2024, reflecting the market’s strong response to the intensification of tourist activity.

Foreign Direct Investment (FDI), tourism, and the real estate market form an interdependent system. A significant share of FDI is directed toward the real estate sector (in 2024 — USD 182 million, accounting for 12% of the total volume and ranking as the third-largest among economic sectors). The obtained data indicate that the dynamics of tourism increase the investment attractiveness of the real estate market, which, in turn, drives the expansion of foreign investor interest. At the same time, the study’s results reveal certain structural risks. Notably, these include signs of market overheating — sharp increases in price dynamics and seasonal fluctuations — as well as the high concentration of investments in Tbilisi and Batumi. These circumstances necessitate the development of effective policies to ensure the sector’s sustainable development and long-term stability.

Thus, the obtained findings clearly illustrate the systemic interdependence of FDI, tourism, and the real estate market, which serves not only as a key to economic dynamics but also as an instrument for the country’s long-term development. Foreign direct investment constitutes a significant foundation for the development of tourism and real estate in Georgia, and its strategic management is essential to ensure diversified, sustainable, and regionally balanced economic growth.

Policy Development Recommendations

The research highlighted several significant trends that require targeted and strategic responses at the level of tourism policy. The recommendations are divided into three main directions: management and stimulation of foreign direct investment, regulation of the real estate market, and sustainable development of tourism.

Management and Stimulation of Foreign Direct Investment:

- **Sectoral Diversification** — The state should purposefully encourage FDI not only in the construction of hotels and residential complexes but also in less developed yet promising sectors: eco-tourism, agritourism, cultural heritage, and wellness/therapeutic tourism.
- **Regional Balance** — Promote investments in regions where tourism is less developed (e.g., Racha, Lechkhumi, Tusheti, mountainous Adjara), which will support economic decentralization and reduce social inequality.
- **Transparency of Investment Policy** — It is essential to implement a unified investment platform that ensures transparency of information, risk assessment, and facilitates conditions for investors.

Regulation of the Real Estate Market:

- **Strengthening Market Monitoring Mechanisms** — Regular analysis and public access to the Residential Property Price Index (RPPI) should become one of the functions of state institutions to prevent the formation of price bubbles.
- **Regulation of the Rental Sector** — It is necessary to register and monitor the short-term rental sector to ensure that the local market does not become exclusively oriented toward tourist services and that long-term residential availability for locals is not reduced.
- **Strengthening the Legal Framework** — The legal protection of investors’ activities should be based on European practices, which will increase their confidence and create a stable environment.

Sustainable Tourism Development:

- **Balancing the Tourist Season** — Strategies should be developed to balance tourism seasonality; For example, creating special programs during the off-season to support cultural, gastronomic, and wellness tourism.
- **Promoting Local Participation** — Support for tourism services based on small and medium-sized enterprises, which will increase inclusivity and have a direct impact on local economies.
- **Coordination of Tourism and Urban Development** — Infrastructure projects must be coordinated with tourism development strategies to prevent environmental overload or urban degradation (e.g., the cases of Batumi and Gudauri).

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