

12-Mo. Forecast

\$24
Weighted Average Rent – MSC*



12%
Weighted Avg. Vacancy - MSC



400,000m²
Supply - MSC



* Modern Shopping Centers
Source: Cushman & Wakefield Georgia Research

GEORGIA ECONOMIC INDICATORS Q2 2020

12-Mo. Forecast

2.2%
GDP Real Growth



6.5%
Inflation



11.6%
Unemployment Rate



\$165,367
FDI*



Source: GeoStat/Cushman & Wakefield Georgia Research
* Thousands USD

OVERVIEW

Retail sector continued to struggle well into the second quarter of 2020. Many stores such as Zara and Mango had closed before the announcement of the State of Emergency in March, and by April, the entire retail sector was in shutdown. Retailers ended up in an impasse with no revenue and the surplus of stock. Many struggled with paying salaries and retaining staff. Conflict arose between shopping centers and tenants over reduction of rents – contention that was reportedly absent from negotiations with high street landlords. Additionally, stock for Summer 2020 was stuck at border checkpoints as retailers were unable to pay for customs clearance.

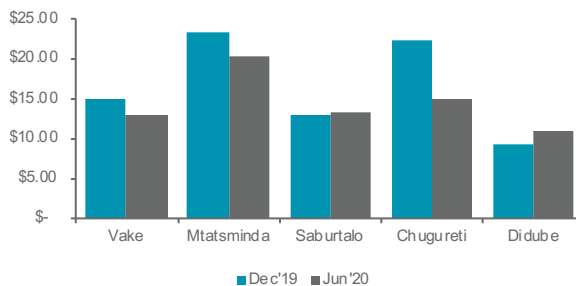
Reopening started gradually in May following the Government’s plan: high street outlets reopened on May 11th while shopping centers reopened on June 1st. As per the state requirement, movie theatres in shopping centers remain closed. Retailers reported initial boost in performance as pent up demand exhibited in increased visitor footfall in stores. But this upshoot was quite short-lived and within a couple weeks from reopening, shopping demand- and correspondingly, revenue - fell back below the pre-COVID levels. Consequently, more and more retailers have started thinking about downsizing.

SUPPLY, DEMAND AND RENTS

Pipeline of shopping centers was nil even before COVID-19. We expect retail supply to remain stable for at least a year. Tenant demand has so far remained stable but the risk that retailers will choose to reduce the number of units city-wide is high. This being said, Q2 2020 has already welcomed a new entrant to the market. Retail Group Georgia introduced a Turkish apparel brand, Ipekyol, which opened in Tbilisi Mall on June 8th. It remains to be seen, what niche the brand will capture.

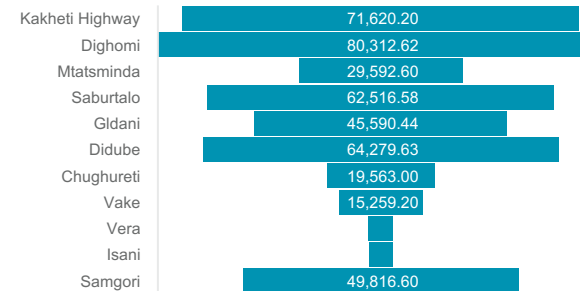
So far, rents at shopping center remain stable while those at high streets have dropped in nearly all of the central districts, with Saburtalo and Didube being the only two exceptions. Many of the street outlets have only recently been vacated and there is a tendency of landlords advertising these spaces at higher than average rates, which may be some explanation as to why rents in Saburtalo and Didube have moved upwards. In the long run, we expect high street rents in all districts to exhibit downward tendencies.

STREET RETAIL RENTS, 6-MONTH COMPARISON



Source: Cushman & Wakefield Georgia Research

SHOPPING CENTER GLA BY DISTRICTS



Tekla Iashagashvili

Head of Development Advisory
34 I. Chavchavadze Ave. Pixel BC, 4th Floor,
Tbilisi 0179
Tel: +995 (0) 32 247 48 49
tekla.iashagashvili@cushwake.ge

cushmanwakefield.ge

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

This report has been produced by Veritas Brown Caucasus LLC for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Veritas Brown Caucasus LLC believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Veritas Brown Caucasus LLC shall not be liable to any reader of this report or any third party in any way whatsoever. All expressions of opinion are subject to change. Our prior written consent is required before this report can be reproduced in whole or in part. ©2020 Veritas Brown Caucasus LLC. All rights reserved.

12-Mo. Forecast

\$20.67

Prime Rents

81.3%

Occupancy

200,447m²

Supply

Source: Cushman & Wakefield Georgia Research

GEORGIA ECONOMIC INDICATORS Q2 2020

12-Mo. Forecast

2.2%

GDP Real Growth

6.5%

Inflation

11.6%

Unemployment Rate

\$165,367

FDI*

Source: GeoStat/Cushman & Wakefield Georgia Research
* Thousands USD

OVERVIEW

The start of the second quarter of 2020 was uneventful for the entire real estate sector in Georgia. The State of Emergency was announced on the 21st of March and was not lifted until May 23rd. Gathering of more than three people was prohibited during this period, which effectively emptied the offices around the city. At this time, business centers reported an increased activity in lease renegotiations requests and a substantial drop in monthly revenue as tenants stopped paying rents citing force majeure.

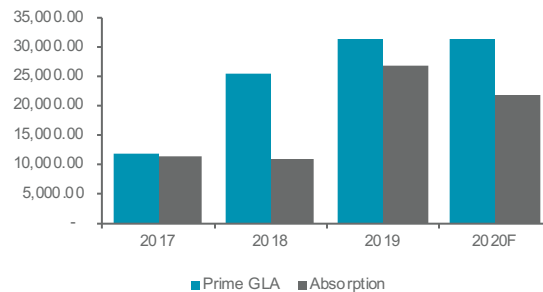
SUPPLY AND DEMAND

There was some contention between tenants and landlords as the former requested rent adjustments, initially, to no avail. By the end of the second quarter, most BCs yielded and the city-wide rent has consequently dropped. Prime office spaces did not see as big of an impact on average rent as B and C Class offices. However, COVID-19 has further increased the tenants' bargaining power in a market, where increasing supply already gave them an advantage.

Working from home showed that some businesses can operate with offices at significantly less than 100% capacity. As non-essential staff continue to work from home, space rented by any single tenant will likely shrink. With a looming pipeline of six business centers – three of which are A Class (Vake Plaza and CH64 at Chavchavadze Ave and City Tower at Vaja-Pshavela Ave) and an apparent lack of new entrants on the tenant side, the office market is facing a big vacancy problem not only through 2020 but also 2021.

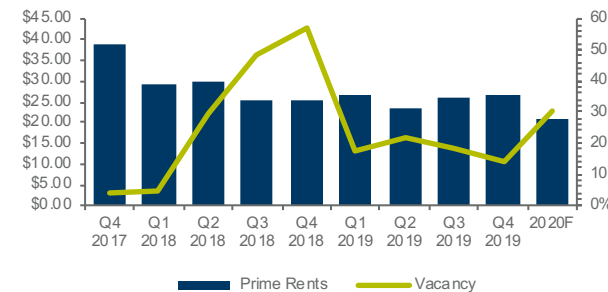
Due to COVID-19, some of the pipelined BCs may further delay official launch. Since office pipeline is concentrated in Vake, this will also delay the transformation of this district into a new CBD. Further, we expect demand on A Class BCs to increase as rent rates come down to what used to be B Class levels.

PRIME SPACE DEMAND / ABSORPTION



Source: Cushman & Wakefield Georgia Research

PRIME VACANCY & ASKING RENT



Tekla Iashagashvili

Head of Development Advisory
34 I. Chavchavadze Ave. Pixel BC, 4th Floor,
Tbilisi 0179
Tel: +995 (0) 32 247 48 49
tekla.iashagashvili@cushwake.ge

cushmanwakefield.ge

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

This report has been produced by Veritas Brown Caucasus LLC for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Veritas Brown Caucasus LLC believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Veritas Brown Caucasus LLC shall not be liable to any reader of this report or any third party in any way whatsoever. All expressions of opinion are subject to change. Our prior written consent is required before this report can be reproduced in whole or in part. ©2020 Veritas Brown Caucasus LLC. All rights reserved.