



2021 at a glance
2022 outlook

OFFICES

Tbilisi office market has undergone significant changes during the pandemic period. Closure of offices due to lockdown and restrictions and the introduction of a work-from-home culture have significantly changed not only the work ethic and practices but also expectations of the office end-users towards the spaces they occupy.

The beginning of 2021 still showed traces of the previous year, when with the emergence of new strains of the virus, a large proportion of companies were forced to operate online due to tighter regulations. This has had a predominantly detrimental impact on office prices and occupancy rate. Earlier last year, business centers had to cut rent rates to maintain tenants. B Class offices were hit particularly hard as lower rent rates in A Class business centers, as well as a mass migration towards owner-occupied options caused vacancy rate to spike.

By the end of 2021, the situation had improved somewhat. In our surveys, business centers – both prime and subprime players – reported higher rent rates. Average vacancy in A Class BCs reduced, primarily due to the successful lease campaign by the City Tower. Vacancy rate remained above 20% in B Class BCs.

It is notable that demand on owned offices has increased. December 2021 registered record number of office transactions. Underscored in part by the regulatory determinants, the numbers still indicate growing demand on owned offices.

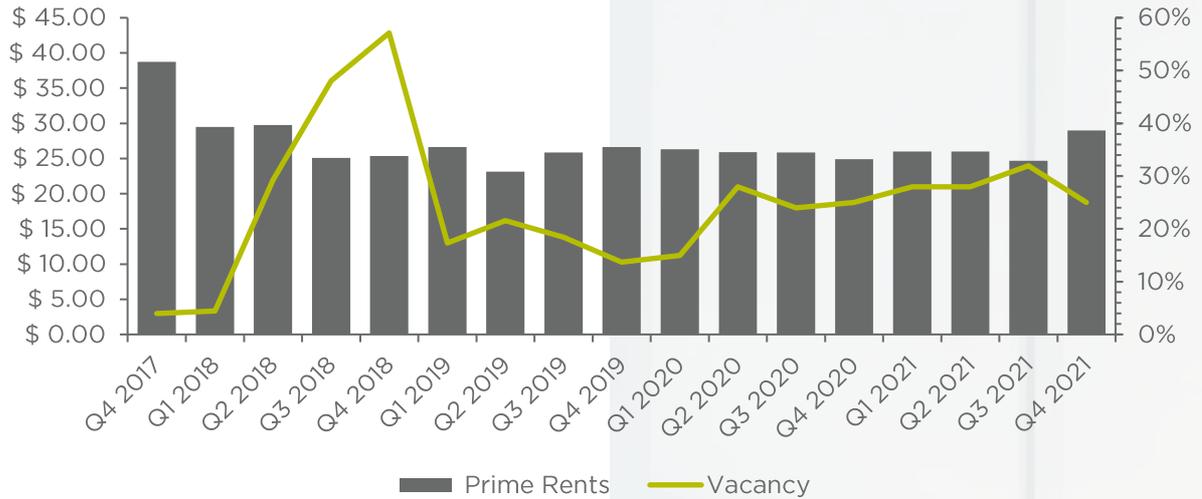
Despite the pandemic and the subsequent hardship and regulations, several new spaces were added to the office market in 2021, most of which are A Class business centers. It should be noted that most of the business centers are concentrated in Vake district (32%), followed by Saburtalo with 23% and Mtatsminda with 18%.

It is important to note that offices and business centers have begun to adapt as much as possible to the regulations and restrictions that are still in place.

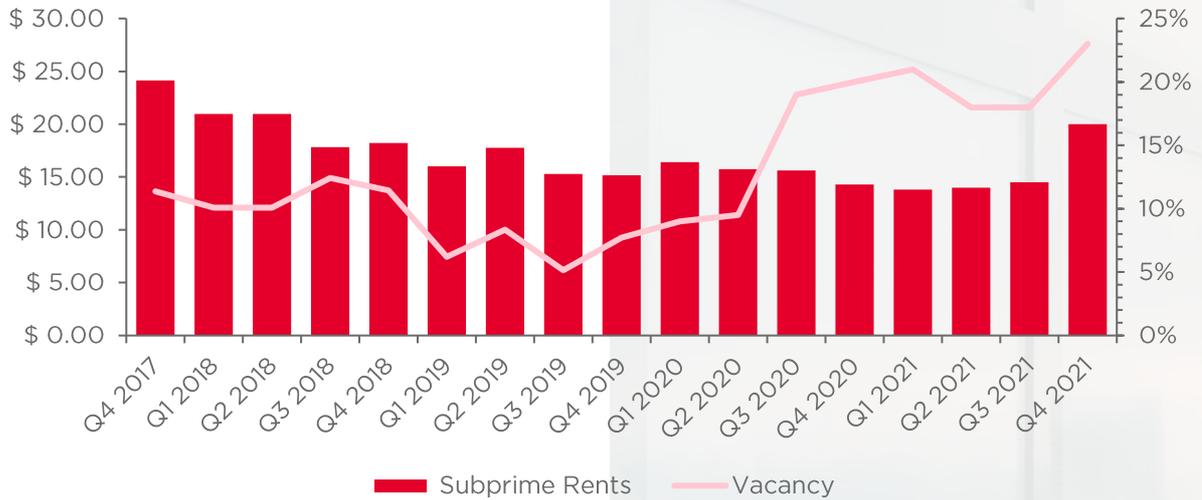
Despite the emergence of new strains of COVID, tightening regulations by 2022 is not expected. This creates the expectations that the current situation in the office market can change for the better.



Prime Rents and Vacancy Rate



Subprime Rents and Vacancy Rate



Office Transactions: Quantity Sold and Weighted Average Price



HOSPITALITY

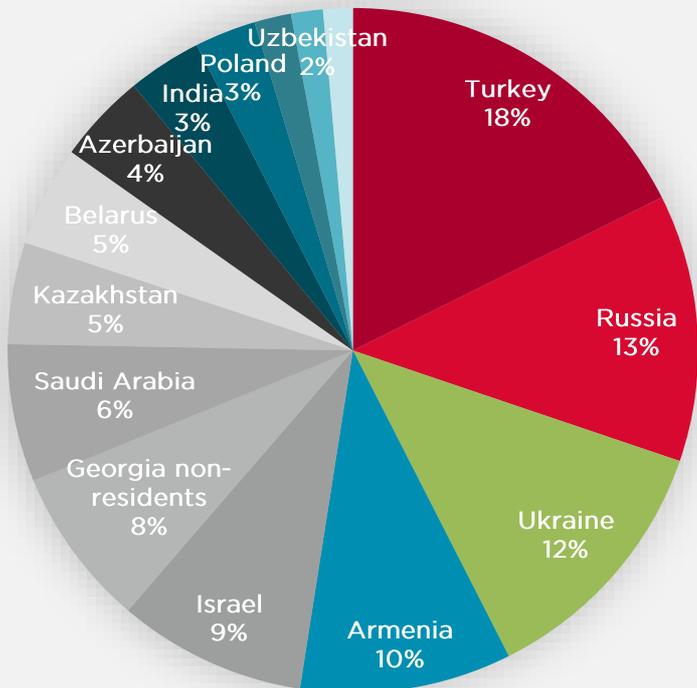
When reviewing hospitality industry in Tbilisi throughout the year 2021, the term *unpredictable* comes to mind. Hospitality sector is highly vulnerable to the exogenous events taking place locally or globally. Hence hospitality industry in the city for each quarter of the 2021 operated within the climate set by the COVID-19 pandemic, experiencing fluctuating traveler demand, and affected by stay-at-home regulations and bans on non-essential travel.

“ At the beginning of 2021 hospitality sector in Tbilisi did not look very promising in terms traveler demand, as the number of international visitor trips showed a 31% drop compared to previous months. However, with the help of ongoing global vaccination efforts and initiatives and relative easing of COVID-19 regulations, the sectoral trends started to take a positive turn. In early March Georgia was visited by almost 56,000 international visitors – the highest visitor yield since March of the previous year. Most of the hotels operating in the Capital resumed their services, however, the number of opened hotels (498) was 7% lower than in the previous year. Additionally, both branded and family-owned hotels in the city had to reduce their ADRs to attract long-awaited guests.



During the winter months of 2021 domestic visitors overwhelmingly outweighed foreigners, however this trend reversed from the beginning of May, when Tbilisi saw the distribution between domestic and international guests shift in favor of the latter. Late spring mostly saw visitors from Turkey, Ukraine, Israel, Russia, and other neighboring countries continuously arriving in the city. The rising number of guests was supported by the resumed flights and activated air traffic. By May 2021, 104,700 visitors had come to Georgia which was 180% higher than the number of visitors for the same months in the previous year; more than half of them had entered the country by air.

International Visitors; Top 15 Countries



Source: GNTA

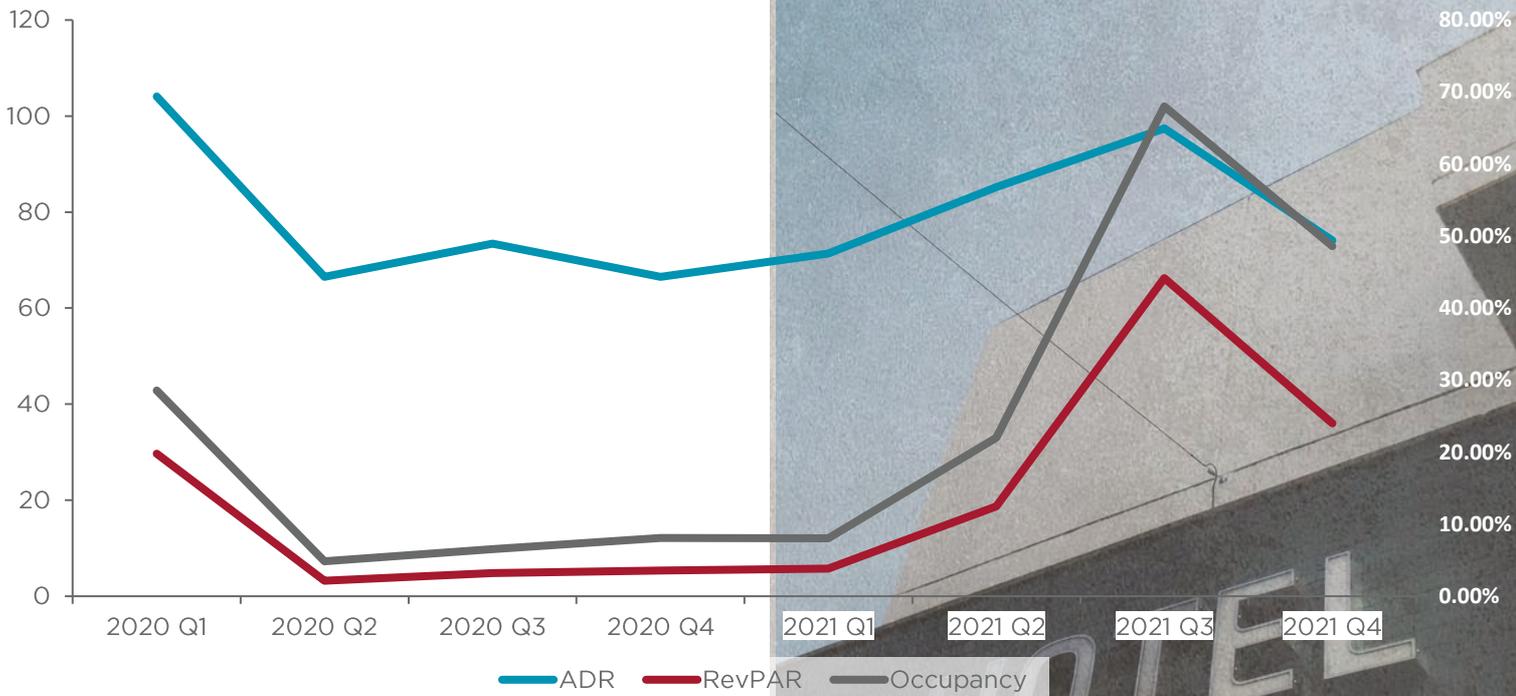
The summer months are typically characterized as high touristic season and 2021 was not an exception either. Despite domestic tourism boom in summer, natives are not target clientele of hotels in the Capital and hotels in Tbilisi are heavily dependent on foreign visitors, making up around 90% of their customers. During July and August hotels in Tbilisi could take a collective sigh of relief as international demand started to revive.

According to the GNTA, July marked the record number of tourists in Georgia since the pandemic, amounting to 231,000 visitors, which showed 403% growth in the tourist flow compared to 2020, and 26% recovery of the 2019 figure. Most tourists came from Turkey, Russia, Ukraine, Armenia, Israel and Saudi Arabia, while Kazakhstan, Belarus, Azerbaijan, India and the USA have been also leading the tourist lists in summer 2021. From Europe visitors from Poland, Germany, France, Finland, Italy, and Britain were noticeable, while some hotels also hosted guests from Switzerland and Sweden, who mainly arrived in specific hotels through partner tour operators.



/ If the non-branded hotels citywide reported 20-40% occupancy during low season, the same hotels witnessed 80-100% occupancy during high season in 2021. Similar trend applied to branded hotels in Tbilisi, which had around 40% and 90% occupancy during low and peak periods, respectively.

Tbilisi Hotel KPIs



Source: Cushman & Wakefield Georgia



/ The promising trend of recovery did not last long as in the last quarter of 2021 rising cases of the virus derailed the road to recovery that hard-hit hospitality industry was on. The country has been moved to a 'red zone', leading to cancelled international flights while travel demand came to a standstill especially from Israeli and Russian tourists who had been dominating guest lists a couple of weeks back.

/ If travel and hospitality sectors seemed healthy for a while, they became devastated by the rising cases that put a dent in consumer confidence. As a result, hotels and airlines kept their finger on the pulse of booking demands to respond to changes as quickly as possible. Some hotels optimized strategy and protected their bottom line, whereas some were forced to close down again, and remained so until the very end of the 2021 due to financial burdens.

/ *To encapsulate the shared experience of 2021 for hospitality sector in Tbilisi, suffice it to say, that it was highly volatile. **At the beginning of 2022 both branded and non-branded hotels in the city believe that the industry is finally beginning to rebound.** However, the rebound is not proceeding quite smoothly as the most recent Omicron variant of the virus has been making headlines worldwide which can be dangerous for long-awaited return to normal for the sector.*

/ *Nevertheless, with the caveat of no more major virus shocks later in the year, as well as vaccine boosters and vaccination plans for children, the 2022 industry forecast shows positive trends while international inbound travel to Tbilisi is supposed to pick up.*



RETAIL

Retail sector faced a significant challenges in early 2021 with curfew being one of the main barriers to recover. In Q1 stores were not allowed to operate over the weekend, and the 9pm curfew obligated retailers to close shops as early as 7pm.

In Q2 curfew had been removed. This allowed retailers to prolong working hours until late evening, when Tbilisi shops receive the highest volume of traffic. Recovery of tourism has had a positive impact on the recovery of the retail sector as well. Customers have come back to brick-and-mortar stores (not at the expense of online shopping one might add; web retail is flourishing now more than ever, however as has been shown over and over, the shopping experience is hard to emulate or replace). Not every player is receiving similarly recovered traffic. Central shopping malls – Galleria Tbilisi, Saburtalo City Mall – have rebounded much better than the competition. *At the end of the year, despite the increased cases of CCVID shopping malls were working at full capacity. It should also be noted that the overall average vacancy rate in the Q3 and Q4 did not exceed 5%.*

Rent rates are still affected by the pandemic and hence there is still a gap between the revenues of the malls as summed up at the end of 2021 versus those of 2019. Yet the fact that the sector is recovering is undeniable. Whether the retail sector within two years from now will be the same as the one we knew before the pandemic is doubtful. Trajectory of the said recovery does not seem to approximate the situation that we had on the market in 2019. This is the most apparent when one looks at the street retail dynamics.

As far back as 2019, street retail was already showing signs of transformation. Apparel was moving into shopping malls giving way to F&B, service and day to day retail on high streets. COVID-19 caused mass closures of stores on both primary and secondary streets. Many smaller retail outlets closed altogether; the rest moved operations completely to online platforms. The only sector which showed expansive tendencies on high streets is pharmacy sector – unsurprisingly. Presently vacancy rate keeps hiking on high streets and rent rates inch lower. Street retail in Tbilisi is looking for a new identity and for a new tenant mix. It may take more than a year for new entrants to drive high street demand.

High Street Rent Rate Comparison



Source: Cushman & Wakefield Georgia

While Covid's cases are currently reaching the daily historic picks, there is still no expectation that restrictions will intensify. This trend is maintained not only in Georgia, but also outside the country. That is why the number of tourists is increasing every month, which creates the expectations for positive changes for the sector.



THE TERRACE

OUTLOOK 2022

In many respects, 2021 was a year of recovery; it was also a year of shifts that will indelibly affect some of the real estate sectors. While we have learned to live with the pandemic, it is also a fact that in many respects the situation remains volatile. Emergence of the Omicron variant, the subsequent rise in the number of cases, reintroduction of certain restrictions and renewed uncertainty over the trajectory of recovery demonstrated this very volatility.

Nonetheless the outlook is positive. Globally rising vaccination rates and immunity against the virus is an encouraging trend. Tbilisi hospitality sector, which relies so heavily on the international visitor trips should benefit from increasing immunity of the population in source markets. The number of direct flights rebounded remarkably in 2021; we expect to see more direct destinations to be added to the roster in 2022. As to the hotels in the capital, it is highly likely that the projects that had been paused due to the pandemic will pick up the pace again. 2021 saw the launch of Hilton Garden Inn on Chavchavadze Ave. 2022 may welcome more than one new hotels to the Tbilisi hospitality scene.

Office market is expected to continue in a bit a flux in 2022. Operators will be expected to adapt to the tenants' changing needs. It is expected that asking rent will begin to rise in both A and B Class BCs. Demand on purchasing offices will likely sustain itself for some time to the detriment of occupancy rate at office buildings. As newly built BCs become more affordable, demand will shift towards them as older BCs start seeing increasing vacancy rates.

Finally, retail market is expected to develop along two separate lines: modern shopping centers will continue to recover and attract both tenants and visitors. Conversely, street retail, or the version of street retail that used to be, will continue to become obsolete. That is not to say that street retail will lose its tenants. Rather that, the face of street retail – the shopfronts, the tenant mix – will evolve into something that is driven more by convenience, day-to-day, F&B and miscellany stores.

As we progress towards a new future, Cushman & Wakefield Georgia will always be there to keep a finger on the real estate pulse and share insights for what's to come next.





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