

Retail Market Snapshot

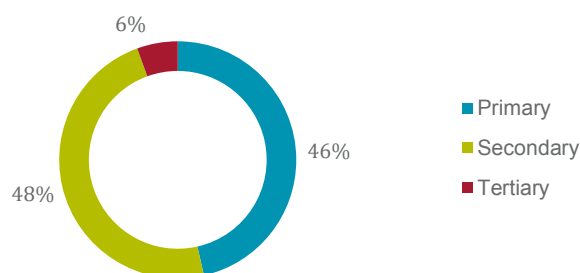
First Quarter | 2019

MARKET INDICATORS

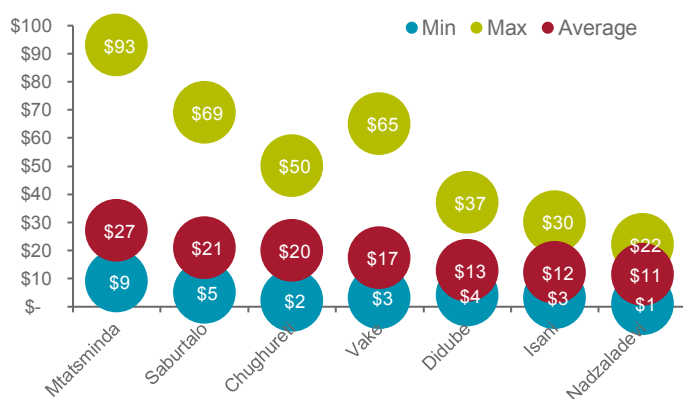
Market Outlook

Prime Rents:	Prices in shopping malls and high street have been stable between Q4 2018 and Q1 2019;	►
Prime Yields:	Steady with some further downward pressure in certain parts of the market;	▲
Supply:	As modern shopping centers are being added to the market, street retail continues to suffer;	▼
Demand:	No drastic changes as of yet.	►

Availability by Retail Street Categories



Street Retail Price Dynamics by District



Tbilisi Shopping Malls

SHOPPING CENTERS	GLA (M ²)	RENT RATE		VACANCY	
		Q1 18 VS Q1 19	Q1 18 VS Q1 19	Q1 18 VS Q1 19	Q1 18 VS Q1 19
Tbilisi Mall	70,000	\$22	\$24	30%	25%
East Point	71,780	\$27	\$27	8%	8.2%
Galleria Tbilisi	24,500	\$47	\$47	15%	12.5%
Gldani Mall	22,452	\$15	\$15	4%	4%
Merani Shopping Gallery	7,600	\$25	\$25	25%	9%

Overview

Over the last decade, Tbilisi has begun to actualize its potential as the economic center of the region. Retail trade turnover has averaged an annual growth rate of 19% while value added by the sector has increased on average by 24%. The latest data published by the National Statistics Office indicates that there are 112,456 persons employed in retail – a 224% increase over the number of persons employed in 2008.

This growth over nearly a decade is encouraging, yet the latest quarter has been more or less static. This is reflected in the rigidity of prices and a slow change in the demand mix.

Slow Changes in the Demand Mix

First quarter of 2019 saw some changes realized on the demand side. Italian luxury fashion store, Ermenegildo Zegna, which occupied prime retail space at 50 Shota Rustaveli Ave. has closed, increasing availability on one of the most demanded streets in the city. Another Italian brand, Diesel, became a new entrant on the market; the store is leasing space at 50 Chavchavadze Ave.

Top occupiers in the shopping malls remain fashion brands, houseware and electronics, hypermarkets and supermarkets and entertainment facilities. The latter category has been rapidly increasing its share of floor-space, as shopping malls diversity their designation beyond simply retail. In the streets, the largest category of occupants is still fashion retailers, followed by service providers, food and beverage providers and pharmacies. No new international entrants have been announced for the coming year, however, many international brands that have only the flagship stores may expand to other districts of the city.

Supply and Rates Remain Unchanged

Supply of the retail floor-space has remained unchanged between Q4 2018 and Q1 2019. Approximately 39% of this supply is provided by the shopping centers; 9 of the largest malls in Tbilisi account for 228,887m² of the floor-space. Street retail supply is estimated at 68K m².

Rates in prime retail locations have hardly budged between the last two quarters. Mtatsminda is still the priciest location with an average rent rate of \$27 and a maximum rate of \$93; in Vake maximum rate stands at \$65 while average rate is \$17. Nadzaladevi is the most affordable option, where spaces can be rented for as little as \$1 per square meter.

While vacancy in shopping centers is gradually decreasing, availability in streets is on the rise. 46% of the available spaces are located on primary high streets like Pekini Ave or Chavchavadze Ave.; 48% are located on secondary streets. The highest vacancy rate in a shopping mall is still observed in Tbilisi Mall, which is predominantly due its scale and distant location.

City Mall Saburtalo will increase the GLA with 45,000m² in 2019. The exact date of the opening is yet to be announced.

TBILISI, GEORGIA Office Market Snapshot

First Quarter | 2019



MARKET INDICATORS

Market Outlook

Prime Rents:	Expected to decrease due to shifts in supply.	▲
Prime Yields:	Limited transactional evidence, but a slight increase in prime yields is expected.	▼
Supply:	Increasing in line with strong speculative development pipeline.	▼
Demand:	Expected to stabilize at current level.	►

Modern Leasable Office Stock in Tbilisi



Source: Cushman & Wakefield Georgia

Demand on Premium Office Space Providers

BUSINESS CENTER	GLA, M ²	OCCUPANCY RATE
1 King David	16,500	78%
2 Merani	2,500	100%
3 Leonidze/Tabidze 1	5,935	88%
4 GMT Plaza	3,000	98%
1 Pixel 34	16,000	90%
2 BCV	12,829	87%
3 Grato	6,400	91%
4 Green Building	2,500	100%
5 Khetagurovi 36	2,160	80%

Rent and Service Charges on Premium Providers

BUSINESS CENTER	AVG. RENT	SERVICE CHARGE
1 King David	\$23.00	\$4.26
3 Leonidze/Tabidze 1	\$35.00	\$3.00
4 GMT Plaza	\$30.00	\$5.00
1 Pixel 34	\$18.00	\$5.00
2 BCV	\$16.00	\$0.50
3 Grato	\$20.00	\$3.00
4 Green Building	\$25.85	N/A
5 BCV	\$16.00	\$0.50

Overview

Tbilisi is a commercial center of the country; as such, over the past decade it has attracted a diversity of international businesses seeking to establish a regional office in Georgia and in the wider Caucasus. Surge in demand prompted creation of supply of offices in the capital, which until recently, had mostly consisted of converted Soviet-era buildings. Modern office buildings have gradually appeared, with prime office spaces built in recent years however, demand that once propelled this expansion is now stalling.

Pipeline of prime offices set to open within the next two years includes three office buildings, however there is no indication that either the number of international entrants or that of local businesses in need of space to lease will increase. Local businesses are growing, but these are more likely to operate from owner-occupied or co-working spaces.

As of Q1 2019, the total supply of office space amounts to 450,240m² – same as in Q4 2018. Demand mix has similarly remained unchanged.

Excess of Premium Provision

Market averages for A and B class business center rent rates stand at \$29.33 and \$18.85 respectively. This has been passed down from the previous quarter. Price rigidity is a common issue in Georgian real estate market, but an increasing supply will most definitely put a downward pressure on the current rates.

Three business centers are set to open within the next few months. Axis Towers business center will add up to 15,000 m² to the overall GLA; Hilton Garden Inn is expected to add 5,000 m² to the prime office stock while City Tower will increase total GLA by 7,500 m².

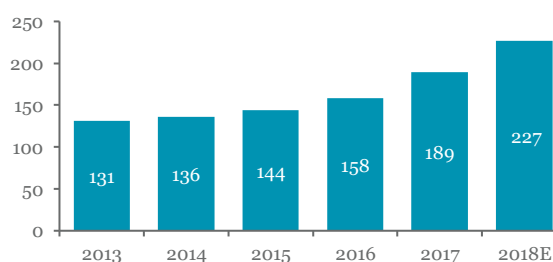
General distribution of the office stock by classes remains the same as before; with no new project launches, in Q1 2019 modern office spaces make up 41% of the total stock.

Demand Inertia

Demand for office spaces continues to be redistributed between different types of office spaces but there are no new entrants to the market. Green Building and Merani are still operating at full capacity and King David is still suffering from a relatively low occupancy rate.

The new stabilized demand distribution is expected to increase occupancy rates of the prime offices spaces and detract from that of economy and unrated options.

Modern Leasable Office Stock Dynamics in Tbilisi



Thousands
Source: Cushman & Wakefield Georgia

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Hospitality Market Snapshot

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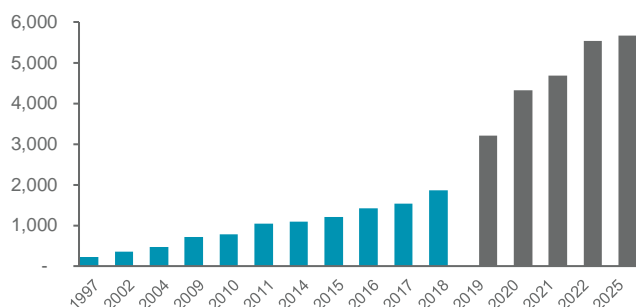


MARKET INDICATORS

Market Outlook

ADR:	Has increased compared to Q1 18;	▲
Occupancy:	At stable low-seasonal rate;	▶
Supply:	Increasing, due to a significant number of pipeline projects encompassing different price points;	▼
Demand:	Increasing, as indicated by the rise in the inflow of international tourists.	▼

Cumulative Growth of Room Supply at Brand Hotels (STR)



Key Performance Indicators in Tbilisi Submarket (STR, C&W Geo)

RANK	OCCUPANCY	ADR	REVPAR
Luxury	53%	\$150	\$78
Upscale	57%	\$103	\$61
Upper Midscale	52%	\$90	\$45
Midscale	50%	\$75	\$38

KPIs of Upscale and Luxury Hotels in Tbilisi (STR)



Overview of Tourist Inflow

Quarter 1 of 2019 started off with Georgia hosting 1.334 million visitors, which was a 1.1% increase over the number recorded in the same period in 2018. The first three months of the year are off-seasonal, which explains relatively low number of tourists and a slow growth rate. However, we expect the tourist inflow to increase exponentially in the following two quarters – our forecasts indicate that in 2019, total number of visitors to Georgia will reach 7,390,457.

Supply and Brand Dynamics

The supply of hotels in Tbilisi is increasing in step with demand. As of March 2019, Georgian National Tourism Administration reported that there are 472 hotels in Tbilisi. Of these, 13 are brand facilities, which also tend to be the largest lodging establishments in the city.

The submarket of brand facilities is set to grow substantially within the next 5-6 years. Currently, there are 24 projects in the pipeline, which, when realized, will add 3,961 rooms to the total room supply. None of the hotels set to open in 2019 have launched yet; opening of Hilton Tbilisi on Chavchavadze Avenue is expected in Q2 2019. Pullman Hotel in Axis Towers, also on Chavchavadze Ave. is set to open in the same time period, while Wyndham Grand on Gudishvili Street, will launch later in the year. The Autograph Collection Freedom Square, was set to open in 2019, as was Hilton on Kostava Street. These projects have been delayed and are not expected to open until 2020.

Operational History and Performance

As supply keeps increasing, indicators of demand such as occupancy rate keep climbing downward; a relatively slow-growing demand is being redistributed in the increasing room supply. STR reported that annual average occupancy rate in Tbilisi dropped from a four-year high of 66% to 60% in 2018.

In Q1 2019, average occupancy rate registered at 53%. Average ADR stood at \$104.5 and RevPAR registered at \$55.5. A curious characteristic of the luxury and upper upscale hotels in Tbilisi is that RevPAR varies directly and in an almost identical fashion as the occupancy rate, as seen on the chart to the left. ADR at some of the most prestigious hotels shifts only by 2%-4% in either direction, with the second quarter of every year being the priciest period to stay in a Tbilisi upmarket hotel. This non-seasonal ADR is what underlies the tendency shown on the chart to the left.

Looking ahead, KPIs of all hotels in the city are expected to shoot up as warmer weather brings on the tourist season. Barring unforeseeable developments, this is set to be another successful year for Georgian tourism.

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