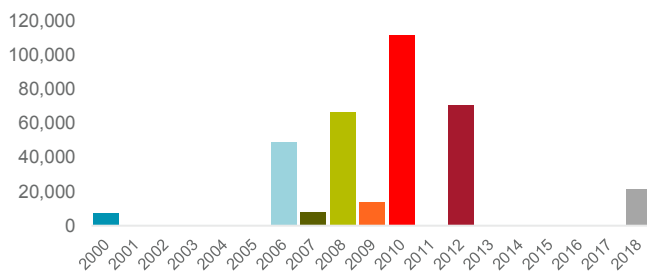


MARKET INDICATORS

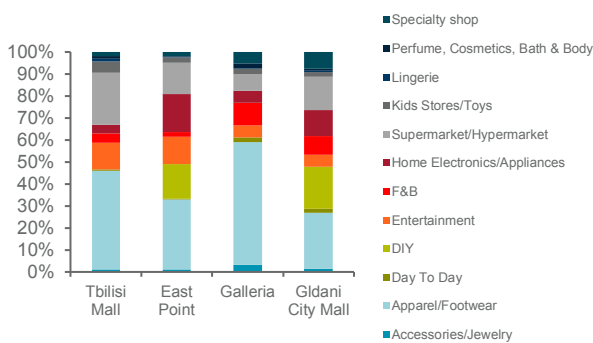
Market Outlook

Prime Rents:	Prices are exhibiting stability;	▶
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:	Some new entrants are diversifying the market.	▶

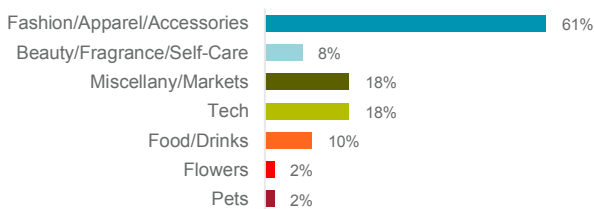
Shopping GLA Increase by Years



Tenant Mix in Four Shopping Malls



Main Product Lines – E-commerce



Overview

The second quarter of 2019 continues to be a steady period for the Tbilisi retail sector. Shopping centers continue to be the preferred shopping destination; however a couple of new entrants have diversified the high street tenant mix. The latter suffers as the vacancy rates slowly inch upwards.

The slowdown in the tourism inflow that has registered since June will affect the retail market, however the effects may not take hold until the end of the following quarter. Rent rates remain virtually unchanged as does the pipeline of projects. E-commerce is gaining greater prevalence than ever.

Supply

Supply of the retail space in Tbilisi remains unchanged. Modern shopping centers make up the bulk of modern retail supply, in total providing more than 400,000m² of Gross Leasable Area. Majority of shopping centers in the Capital are Community Centers; Tbilisi Mall and East Point can be classified as Reginal Malls.

As new malls are added to the supply, the experiential offerings are starting to diversify as well. Some of the oldest and smallest shopping centers offer simply retail, while newer and larger ones tend to offer amenities and activities that invite guests to stay all day. Tbilisi Mall and Galleria Tbilisi as well as East Point to a measure, remain leaders in terms of exhibiting experiential focus. Not only do they provide a variety of retail supply, but also family friendly areas and activities, cinemas and entertainment areas.

Demand

Most recent entrants to the market are the French luxury bakery Ladurée and an Italian luxury lifestyle brand – Stefano Ricci. Ladurée is located on the Abashidze street, in the middle of a Vake F&B cluster which also includes international patisserie Paul. Most recently, a pop-up of Ladurée opened in Tbilisi Galleria as well. Stefano Ricci's showroom, however opened in a rather unusual spot, at Ambassadors Tbilisi Hotel.

Ermenegildo Zegna is expected to make a return to its long-term location on the Rustaveli Avenue, after a brief renovation process. Additionally, Jo Malone is expected to open a boutique on Chavchavadze Avenue in the next few months.

E-Commerce

E-commerce is starting to gain more traction than ever, as Georgian customers begin to adapt to virtual shopping, however, some of the e-commerce stores are opening showrooms, emphasizing just how important it still is for a Georgian customer to inspect an item before purchasing it. Conversely, many established brands are launching online platforms.

We expect e-commerce to gain greater prevalence and shape the brick-and-mortar market in the near future.

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TBILISI, GEORGIA Office Market Snapshot

Second Quarter | 2019

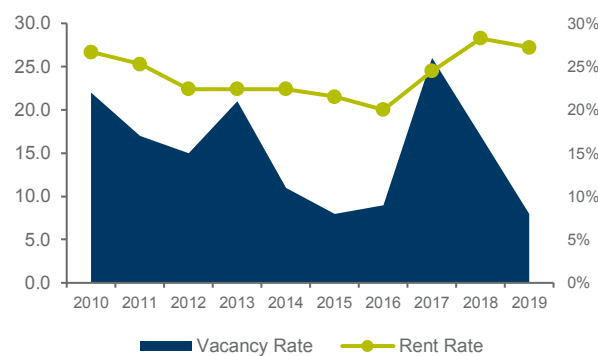


MARKET INDICATORS

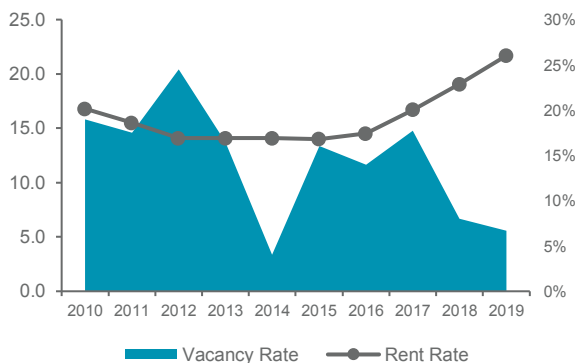
Market Outlook

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.	▶

Vacancy and Rent Rate Fluctuations in A Class BCs



Vacancy and Rent Rate Fluctuations in B Class BCs



Overview

Office market in Tbilisi continues to evolve at a rapid pace, in spite of lack of demonstrable increase in demand. Over the last quarter, the rent and vacancy rates did not experience major changes, no new additions to either supply or the tenant mix have been reported, however the pipeline has grown even larger. Over the next two years, the A Class office stock is expected to increase by more than 48,000m² which will apply a downward pressure to the prime office rents. However, should the demand side remain inert, the vacancy rates at these new developments may - within the short term - peak.

Current Supply and Rates

Presently there are three A Class business centers in Tbilisi – King David, GMT Plaza and Tabidze 1, the latter of which is fully occupied. GMT plaza has a 98% occupancy rate while King David is 78% full. Weighted average rent rate of these business centers stands at \$27.22 having dropped slightly from the 2018 average of \$28.15.

B Class business centers, of which there are nine, have varying vacancy rates. Merani BC and Lilo rental are full, but CDB Business Center is only 80% occupied. Here, weighted average rent stands at \$21.68, continuing a somewhat counterintuitive upwards trend that started in 2015. B Class offices are increasing rates in step with the increasing rates of A Class offices. There is also an apparent demand on these as average vacancy is down to 7%.

Demand and Pipeline

Demand continues to be static, as in the previous quarters. While some tenants are negotiating new deals, or renegotiating the existent ones, the new tenants remain in short supply. This is counteracted with the stark increase in office supply, that is set to materialize within two years.

Presently, there are six business centers announced as the pipeline. Axis Towers, City Tower and CH64 are all expected to launch within the third and fourth quarters of 2019. Cumulative increase in supply will potentially add up to 35,800m². By 2020, both Vake Plaza and Green Hill Saburtalo will be completed further increasing supply by at least 48,500m². Geographic concentration of these new projects along with existent BCs in Vake indicates that this district may soon emerge as the new Tbilisi CBD, together with Freedom Square.

MARKET INDICATORS

Market Outlook

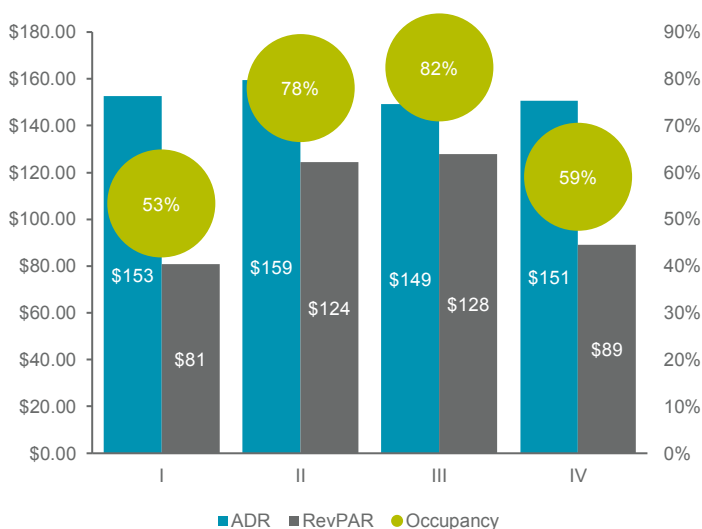
ADR:	Has increased compared to Q1 19;	▼
Occupancy:	Stable within the historic Q2 range;	▶
Supply:	Increasing, due to a significant number of pipeline projects encompassing different price points;	▼
Demand:	Increasing, as indicated by the rise in the inflow of international tourists.	▼

International Visitor Trips and Foreign Card Operations (GNTA)

	Total		Change	Russia		Change
	2018	2019		2018	2019	
April	529,892	549,761	4%	89,430	113,138	27%
May	541,752	618,709	14%	112,386	172,217	53%
June	606,792	727,634	20%	116,357	152,155	31%

FCO	April-May 2018		April-May 2019		Change
	USD	USD	USD	USD	
	116,781,645	157,766,352			35%

Key Performance Indicators Quarterly Context (STR)



Overview of Tourist Inflow

One of the defining moments of the Q2 2019 happened on the 20th of June, when the Georgian public became aware that a Russian MP chaired Inter-Parliamentary Assembly on Orthodoxy from the seat of the Chairman of the Georgian Parliament. Protests ensued, followed with a verbal tirade of a journalist against the President of the Russian Federation. In retaliation for the peaceful protest of the occupation, Russia adopted sanctions; in particular, a ban was issued, stopping direct flights between Georgia and Russia starting July the 8th.

What has been designated as the “Gavrilov Effect” will have greater implications for the following quarter, however some of its effects were felt by the hospitality industry even in the Q2. Slowdown in and cancellation of the number of bookings from Russia started after the ban was announced, however, as a whole, the Q2 numbers indicate a growth in the travel and tourism industry.

Arrivals and Demand

Total number of international visitor trips in Q2 2019 amounted to 1,896,104, which is a 13% increase over the same period last year. June saw the largest increase in visitor inflow at 20%. The number of Russian visitors specifically grew between each month of Q2 2018 and Q2 2019 as well, however, it should be noted that while that number grew by 53% between May '18 and '19, it grew only by 31% between June '18 and '19. GNTA reported that expenditure, expressed as Foreign Card Operations (FCO) increased similarly with 35%.

Supply and KPI Dynamics

According to the Georgian National Tourism Administration, the number of hotels in Tbilisi increased to 487 from 472 in the previous quarter. The room supply adds up to 9,919 and the bed supply is 22,344 units.

This quarter did not see any major pipeline openings; 24 projects are expected to launch within the next three to four years. A boutique hotel opened in the very center of Tbilisi – Radius Hotel is located next to Galleria Tbilisi and has 78 rooms and a capacity to hold 200 guests. The hotel is targeting mid-segment clientele and is designed as a lifestyle facility for the fast-moving, active traveler.

In terms of KPIs the second quarter has not been distinct from the past quarters. Some of the hotels reported at the end of June bookings were cancelled en masse. Even hotels that do not primarily target the Russian clientele experience a downward pressure on their prices as those that counted Russian tourists as their primary revenue drivers keep dropping rates. The effects of the Russian ban will be more clearly indicated in the following quarter.

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