

## Overview

Transformation of Georgia into a tourist hotspot has had a favourable effect on the hospitality market. The number of international visitor trips has increased by 10.7% compared to the Q3 17. Russia remains the top visitor provider, followed by the rest of the neighbouring states, with visitors from the aforementioned countries staying on average for 4-5 nights. Hotel market in Tbilisi meets this demand with 457 units providing a total of 19,549 beds; 29% of the room supply is provided by international brands, which also dominate the pipeline of future projects. Projected growth in demand over the next five years is expected to sustain stable growth of the hospitality sector.

## Number of International Visits on the Rise

The number of international visitor trips has increased by 10.7% compared to the third quarter of last year. Over the last eight months, the number of international visitor trips has also increased by 14.1% compared to the same period in 2017. In July and August the share of overnight visitors amounted to 66.8% and 70.8% respectively. More than 50% of these and same day visits were motivated by familial reunions or visits to friends. The second and third most common categories of travel purposes were healthcare and shopping respectively.

## Investor Focus

First half of 2018 saw a total of \$31.2894 million worth of FDI capitalized in the hospitality sector, however there was a 32% drop between Q1 18 and Q2 18. As of the day of publication of this report, Q3 statistics have not been published. The supply of hotels in Georgia is increasing, with majority of the pipeline projects located in Tbilisi, and the seaside resorts in Adjara. International firms dominate the pipeline: nine five-star branded hotels are set to open within the next two years.

## Outlook

The upscale segment has become oversupplied. The drop in average occupancy rates between Q3 17 and Q3 18 is likely a response to this saturation. Opening of the planned five-star hotels in 2019-2020 will further saturate the market. There is an increase in the mid-scale segment of hotels in Tbilisi as well; at least six notable mid-scale brands are set to debut on the market by 2020. Perceived as providers of more authentic social experiences, hostels are also gaining traction as a cheaper alternative.

The projected doubling of the tourist arrivals over the next five years indicates that the increasing supply at different price points will be met with an increasing demand. The hospitality industry still has to deal with the seasonality factor, but projects geared towards developing ski resorts at a number of locations throughout the country are likely to alleviate this constrain.

## MARKET INDICATORS

### Market Outlook

ADR:	Has seemingly stabilized at \$113-118, however suffers from seasonal fluctuation;	►
Occupancy:	Has increased due to a seasonal peak; expected to drop in the next quarter;	▼
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.	▼

### ADR Change – July 2017 – July 2018 (USD)

LOCATION	USD Q3 17	USD Q3 18	GROWTH %
Upper Upscale	163.85	173.9	6.1

### Occupancy Change – July 2017 – July 2018

LOCATION	AVE. OCC. % Q3 17	AVE. OCC. % Q3 18	GROWTH %
Upper Upscale	85.9	75.3	-12.4

## PLANNED PROJECTS

Name	Region	Opening Year	Number of Rooms
Babylon Tower	Ajara	2018	168
Courtyard by Marriott	Ajara	2019	150
Swissotel	Ajara	2019	186
Le Meridien	Ajara	2018	110
Interstate Hotels and Resorts	Ajara	2019	220
Pulmann Hotels & Resort	Ajara	2018	310
Wellness Resort & Spa on Mtsvane Kotskhi	Ajara	2019	280
Ramada Resorts	Ajara	2018	115
Metro Holding	Ajara	2018	190
Twin Tower	Ajara	2018	350
White Sails	Ajara	2019	210
Crystal Building Kobuleti	Ajara	2020	220
Ramada Encore	Imereti	2019	120
Radisson BLU Tsinandali	Kakheti	2018	111
Holiday INN	Kakheti	2018	85
Golden Tulip	Kakheti	2019	101

GEORGIA

# Hospitality Market Snapshot

Quarter 3 | 2018



Radisson Blu Gudauri	Mtskheta-mtianeti	2019	105
Crystal Apart Resort	Samtskhe-Javakheti	2018	86
Rooms Hotel	Samtskhe-Javakheti	2018	100
Hilton Garden Inn	Tbilisi	2018	165
Radisson Park Inn	Tbilisi	2018	200
Wyndham Grand	Tbilisi	2018	143
Hyatt Regency	Tbilisi	2019	170
Pullman Hotels & Resort	Tbilisi	2018	234
Radisson BLU Telegraph	Tbilisi	2018	189
Ramada	Tbilisi	2019	125
Golden Tulip	Tbilisi	2018	80
Marriott Autograph Collection-Panorama Freedom Square	Tbilisi	2018	220
Marriott Autograph Collection-Panorama Sololaki	Tbilisi	2018	187
Holiday Inn Express	Tbilisi	2018	121
Hilton Tbilisi	Tbilisi	2019	200
Tabori Ridge Recreation & Golf Resort	Tbilisi	2018	100
NOVOTEL	Tbilisi	2019	180

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# TBILISI, GEORGIA Office Market Snapshot

Quarter 3 | 2018



## Overview

As the financial and business center of the country, Tbilisi has to accommodate 43.6% of the country's total of 652,046 legal entities. As the Capital, it is also a hub of international companies, embassies and consulates. In the third quarter of 2018 supplied office space measured 450,240m<sup>2</sup>, bulk of which were unclassified, or evaluated as either B or C tier. As such, Tbilisi still lags behind comparable cities in terms of premium office space provision. Concurrently, significantly high office rents surpass those in comparable locations.

As of Q3 18, overall supply of office space is starting to outpace demand. Consistency of the pipeline will most likely further contribute to the issue. Popularity of open-space office plans is catching up with that of traditional plans presumably due to its cost-efficiency and flexibility, and niche co-working spaces are starting to gain traction.

## Demand for Premium Office Space Countered with Low Supply and High Rent Rates

Demand for premium office supply has grown, as demonstrated by the success of King David BC, which leased out 2,166m<sup>2</sup> in 2017. Yet, King David's pre-leasing figures still fell below their forecasts. This is most likely due to the high rent rates associated with premium office spaces. The weighted average rents for A and B Class office stocks are \$24.5/m<sup>2</sup> and \$16.7/m<sup>2</sup> respectively. Average premium rent stands at \$20/m<sup>2</sup>. We project that this spike in rental prices is temporary, caused by recent prime office space developments; it should stabilize within the next five years.

Majority of the new occupiers are still those companies that have been present on the Georgian market for years. In the international segment, EY, Deloitte, PwC, KPMG, Samsung, BBC, EBRD, ADB, Microsoft, JTI, Phillip Morris, Booking.com, and Rompetrol are some of the largest representatives leasing out office spaces in Tbilisi.

## A Surplus Mix: Office Spaces in Tbilisi

Investment in office spaces continues to grow, increasing supply disproportionately to the existent demand. However, premium office provision is still relatively low in Tbilisi. Additionally, unclassified office spaces are quite common: out of Tbilisi's 450,240m<sup>2</sup> of leasable office space, 43% can be classified as either A, B, or C modern office stock; the reminder comprise non-refurbished, converted Soviet-era buildings.

The total supply is almost equally distributed between leasable and owner-occupied offices. The latter are most frequently occupied by large financial institutions e.g. TBC Bank, Bank of Georgia, etc. Leasing of first floor apartments as converted office spaces is also a common practice in Tbilisi. These spaces are low cost and cater to smaller companies.

Open-space planning is becoming a prominent trend in newly constructed office buildings. It has an advantage of being low cost, flexible and supportive of teamwork; in comparison, traditional cabinet-style office planning is more conducive to confidential work.

Co-working spaces are also starting to form a niche market. So far, only five companies offer co-working spaces, however, with a surge in start-ups and entrepreneurial endeavors, it is highly likely that such options will become more common.

## MARKET INDICATORS

### Market Outlook

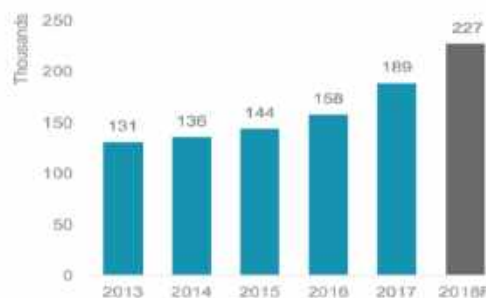
<b>Prime Rents:</b>	No significant changes in prime rents.	►
<b>Prime Yields:</b>	Limited transactional evidence, but a slight increase in prime yields is expected.	▼
<b>Supply:</b>	Increasing in line with strong speculative Development pipeline.	▼
<b>Demand:</b>	Demand is expected to increase slightly on the A class office spaces in core locations.	▼

### Sample of Premium Office Space Providers

BUSINESS CENTER	TOTAL SIZE IN M <sup>2</sup>	VACANCY RATE IN %
King David	9,600	65%
GMT Plaza	3,000	0%
Merani Shopping Gallery	4,006	0%
Tabidze 1	2,300	40%
Leonidze Business Center	5,392	64%
Grato	5,600	23%
Melikishvili Business Center	5,100	0%
Panorama Business Center	2,500	0%
Pirimze	6,596	54%
BCV	12,000	18%
Pixel 34	18,000	18%
Besiki Business Center	7,091	0%
Green Office	4,300	10%
Avlabari Business Center	3,531	50%
Tiflis Business Tower	6,000	15%
Anri 2005	6,500	30%
Chavchavadze 29	4,246	33%
BC on Belinski / From Jun/2017	7,317	0%
Irao Business Center	4,000	0%

## Timeline

### MODERN LEASABLE OFFICE STOCK IN TBILISI



Source: Cushman & Wakefield Georgia

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# TBILISI, GEORGIA Office Market Snapshot

Quarter 3 | 2018



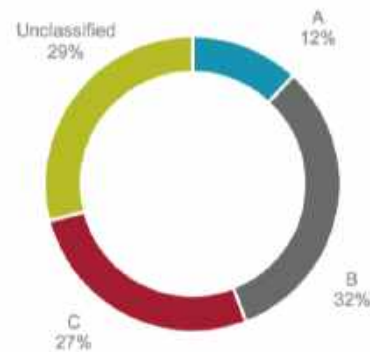
## Up Next for Offices

Modern office stock supply is expected to increase with opening of Axis Towers Business Center which will provide 15,000m<sup>2</sup>. Additional 13K m<sup>2</sup> is expected to be added to the overall supply in 2019. These developments, in addition to the already completed ones, will further saturate the office market. Absorption rate is not expected to rise in the foreseeable future, however, it is our belief that pipeline developments will exert a downward pressure on the rent prices.

Tbilisi is becoming one of the most welcoming environments for freelancers and startups, particularly due to the state support. Co-working spaces, which have been gaining traction, so far only account for 3% of the leasable office stock. However, it is expected that this segment will form its own niche market.

## Breakdown

### TBILISI OFFICE STOCK CLASSIFICATION



Source: Cushman & Wakefield Georgia



TBILISI

# Retail Market Snapshot

Quarter 3 | 2018



## Overview

The third quarter of 2018 saw minimal changes in the retail sector. Period of adjustment to tenant diversification continues as both a variety of foreign entrants and exciting new local brands establish their retail presence. E-commerce is still in the burgeoning phase of development, yet it exhibits a potential to establish itself as a significant competitor to the traditional retail sphere.

An instrumental shift is affecting traditional and modern malls, as conventional trade-focused environments are transformed into leisure-focused spaces in an effort to attract heavier customer traffic. Tbilisi Mall, East Point and the newly-opened Galleria Tbilisi, all boast IMAX Cinemas, with East Point also offering a variety of other recreational options (e.g. bowling, indoors amusement center, etc.)

Rental rates continue to vary based on the location of the space, however occupancy rates have experienced a boost compared to the respective figures from Q3 16 and Q3 17.

## Demand Persists as Street Unit Prices Skyrocket

Due to persisting demand on retail spaces, vacancy rates continue to shrink. Proximity of a number of shopping centers to each other does not seem to affect the individual occupancy rates: Gldani Plaza is 100% occupied, while Gldani Mall and City Mall are 96% and 98.5% occupied respectively, despite their territorial proximity.

Rustaveli Avenue and Pekini Street are priciest street unit providers with rent rates of \$42/m<sup>2</sup> and \$36/m<sup>2</sup> respectively. Average street-unit cost registers at \$34/m<sup>2</sup>. However, vacancy rates of street units are also considerably high. Of all shopping center suppliers, Galleria Tbilisi solicits the highest average rent at \$47/m<sup>2</sup>, however, mean rate at the shopping centers falls below that of the street units. This is attributed to the relative distribution of leasable space: street units charge more as available leasable area is smaller. The reverse relationship prevails at the shopping centers.

## No New Additions to the Retail Supply

The third quarter of 2018 has been uneventful in terms of new retail space openings, however due to a relative shortage of premium retail spaces, this sector is an attractive investment option. However, as of writing, the stores that occupy Galleria Tbilisi (opened 2017) are still considered the newest entrants: H&M, Benetton, Trussardi, Lacoste, Guess, Calvin Klein, Armani Exchange and Apple Premium Reseller (by AltaOk).

As of Q3 18, total volume of retail floorspace adds up to 1,085,435m<sup>2</sup> with open markets and bazaars being the largest category (35%). Street retail is one of the most crowded retail segments offering the widest variety of tenant categories, from grocery shops to international brand boutiques.

## MARKET INDICATORS

### Market Outlook

Prime Rents:	Street-retail spaces dominate price rankings with leisure-oriented shopping mall East Point topping the rental price chart in its own category.	▼
Prime Yields:	Steady with some further downward pressure in certain parts of the market.	▲
Supply:	Construction of a number of modern shopping centers does not bode well for street retail and open-air markets, which before now have been the dominating retail space categories.	▼
Demand:	Steadily decreasing vacancy rates indicate consistency of demand on different categories of retail spaces.	►

### Economic Indicators

INDICATOR	Q3 17	Q3 18*
GDP Growth	4.4%	5.4%
CPI	4.0%	4.2%
Average Monthly Household Expenditure (annual, GEL)	1,093.0	1,069.9

\* Q3 18 Estimates, forecasted by Cushman & Wakefield

### Prime Retail Rents – Q3 18

HIGH STREET SHOPS	WEIGHTED AVE. USD/ M <sup>2</sup> /M Q1 18	WEIGHTED AVE. USD/ M <sup>2</sup> /M Q3 18
Rustaveli Ave.	36	42
Pekini Ave.	41	36
Chavchavadze Ave.	30	N/A

### Prime Retail Rents – Q3 18

SHOPPING CENTERS	WEIGHTED AVE. USD/ M <sup>2</sup> /M	VACANCY RATE, %
Merani Shopping Gallery	25	9%
Tbilisi Mall	24	25%
Tbilisi Cetral	14.5	0%
City Mall - Saburtalo	25	0%
City Mall - Gldani	18	1.5%
Gldani Plaza	20	0%
East Point	27	8.2%
Gldani Mall	15	4%
Galleria Tbilisi	47	15%
Homemart	20	0%

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TBILISI

# Retail Market Snapshot

Quarter 3 | 2018



## Recurrent Stalling of Projects - the Major Obstacle

Tbilisi has a potential to overtake Sofia, Bulgaria, with its supply of retail spaces, however recurrent stalling of projects is getting in the way of realizing this potential. City Mall - Saburtalo is opening in September, 2019; this development will increase Tbilisi retail space by 57,000 m<sup>2</sup>. Two other projects which were supposed to be finalized in 2018 – Niba Delisi and Didube Mega Trade – have been temporarily suspended due to construction issues. Despite these scheduling rearrangements, the number of shopping malls in the Capital is increasing, which can further decrease the appeal of street retail and force rental prices of the latter down.

## Comparative Overview

### AVAILABLE RETAIL SPACE AND HOUSEHOLD EXPENDITURE PER CAPITA IN TBILISI AND COMPARABLE CITIES



Source: Cushman & Wakefield Georgia

TBILISI

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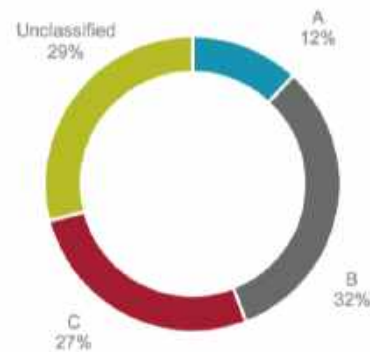
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