TBILISI, GEORGIA

Retail Market Snapshot

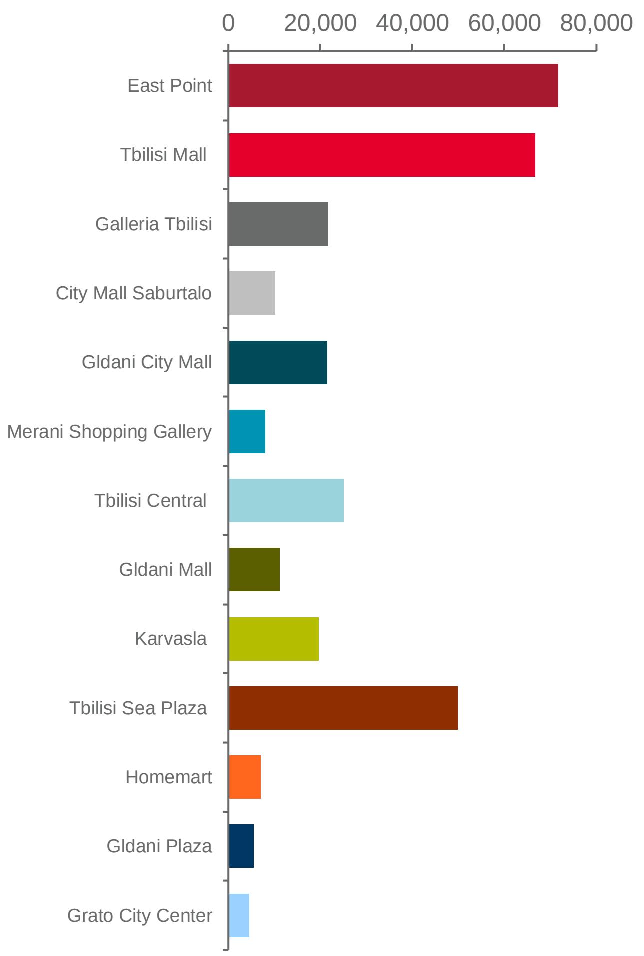
Third Quarter | 2019

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:	Stable; set to increase in October;
Demand:	Some new entrants are diversifying the market.

Shopping Centers GLA



Overview

Retail sector has experienced no significant shifts in the third quarter. Shopping centers continue operations steadily with pipeline for new shopping areas being limited to the extension of City Mall Saburtalo, which is set to open on the 26th of October and add 45,000m^2 of GLA.

In terms of demand, devaluation of GEL continues to threaten the sector, as well as the economy at large, but shortcomings in the local demand are made up for by the tourism revenues. Shopping is one of the most popular tourist activities, especially amongst the visitors from neighboring countries such as Azerbaijan and Armenia; consequently spending on retail makes up 67% of total tourist expenditure.

Tourism has been growing over the past quarter, regardless of the adverse effects brought on by the Russian flight ban imposed in early July. More than 3.723 million visitors came to Georgia between July and September which is a 4% growth over the visitor numbers in Q3 2018. This positive development bodes well for the future of retail sector.

Supply

Total gross leasable area in modern shopping centers remains the same at slightly more than 400,000m^2. Pipeline of shopping centers includes extension to City Mall Saburtalo, which is set to open on October 26th, 2019 adding 45,000m^2 to the leasable supply. The majority of the new shopping space has already been leased out to such key tenants as the brands in the Inditex group; additionally, H&M, which will be launching its third store in Tbilisi at this location. City Mall reports that the center will be able to accommodate 21,000 visitors per day as well as a total of 150 shops and 20 F&B Units. It will be the first mall of this size to be located in the center of Tbilisi, which, we believe, will negatively affect footfall in suburban shopping malls.

In terms of KPIs, quarter three has registered a weighted average rent rate of $24.32 and vacancy rate of 12% in Tbilisi shopping centers. We expect both the rent rate and average vacancy to increase with the launch of City Mall. The successful operation and demand on the facilities available at the shopping centers is putting pressure on the high streets, where vacancy is visibly increasing as tenants move to shopping malls.

Food Clusters

One of the newest trends in the Tbilisi retail scene, is the creation and successful re-establishment of the food clusters. There are at least 10 such clusters in the vicinity of Tbilisi, spread out in different districts. Vake, Vera and Mtatsminda together account for 7 of these. Tabidze and Shardeni streets remain some of the original of these types of clusters, however at the moment, Petriashvili and Chovelidze clusters are gaining greater popularity. We expect the trend of food clusters to continue and diversify, and eventually dominate the street locations, especially in the touristy 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

TBILISI, GEORGIA

Hospitality Market Snapshot

Third Quarter | 2019

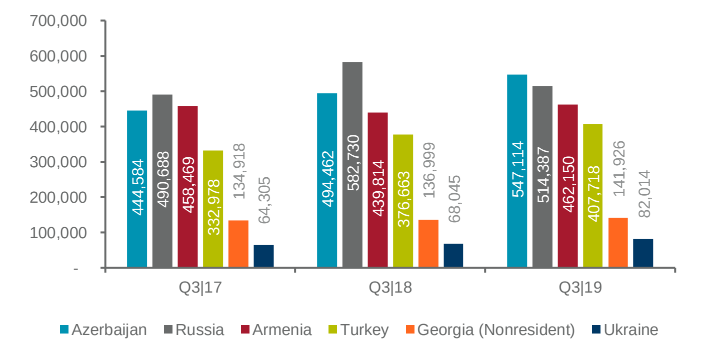
CUSHMAN & WAKEFIELD

MARKET INDICATORS

Market Outlook

ADR:	Remains at its long-term stable rate;	
Occupancy:	Stable within the historic Q3 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.	

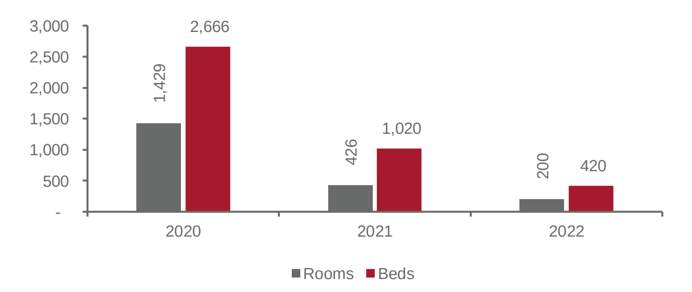
Top 5 Tourist Supplier Markets in Q3 Over the Years (GNTA)



Key Performance Indicators (STR, C&W Research)

Period	Occupancy	ADR	RevPAR
Q3|16	87%	$ 100.22	$ 87.41
Q3|17	90%	$ 99.38	$ 89.29
Q3|18	84%	$ 99.38	$ 81.59
Q3|19	82%	$ 98.01	$ 80.37

Tbilisi Pipeline (GNTA)



Demand – Need for Diversification

Visitor to population ratio for Tbilisi in Q3 2019 stood at 1.18; countrywide, this ratio was 0.74. Tbilisi remains the most popular destination. In this quarter, more than 1.17 million visitors came to the Capital. The country on the whole hosted 3.723 million tourists.

In spite of the Russian flight ban, the number of visitors y-o-y has increased. Between Q3 2017 and 2018, the growth rate was 9%; between Q3 2018 and 2019, it was 4%. The top tourist supplier markets remain the neighboring countries and Ukraine. However, what the situation since July has shown is that Georgian tourism is in need of diversification. Diluting the share of visitors between different geographies will reduce the economic risk that relying on only a number of them creates.

Supply and KPI Dynamics

According to the Georgian National Tourism Administration, the number of hotels in Tbilisi increased to 492 from 487 in the previous quarter. The room supply adds up to 10,130 and the bed supply is 22,840 units.

Bed per visitor ratio in Tbilisi in Q3 2019 stood at 0.01659 which means that there were about 17 beds per 1,000 visitors. Countrywide, there were 33 beds per 1,000 visitors. Both of these indicators point towards the need for more accommodation.

KPIs remain stable and within their long-term ranges. Occupancy rate for upscale and midscale hotels stood at 82%, with ADR at $98.01 and RevPAR at $90.37. For the following quarter, we expect an increase in all three of these, as a reflection of the holiday season demand and pricing.

Looking Ahead

In the past three quarters, Tbilisi supply increased with the opening of one branded facility – Wyndham Grand – and a number of boutique hotels. There are no more openings planned for 2019 however the supply is set to increase with 8 launches in the next year which will add 1,429 rooms and 2,666 beds to the total supply.

In terms of demand, we expect the total number of international visitor trips in Q4 to reach 1,754,166. Recently, the Russian government has proposed stopping the sanctions, which will give further boost to tourism. However, need for diversification remains paramount. Due to the significant share of tourism in GDP, reliance on one source market, in situation of political conflict can prove to be highly detrimental to the country's economy at large.

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

TBILISI, GEORGIA

Office Market Snapshot

Third Quarter | 2019

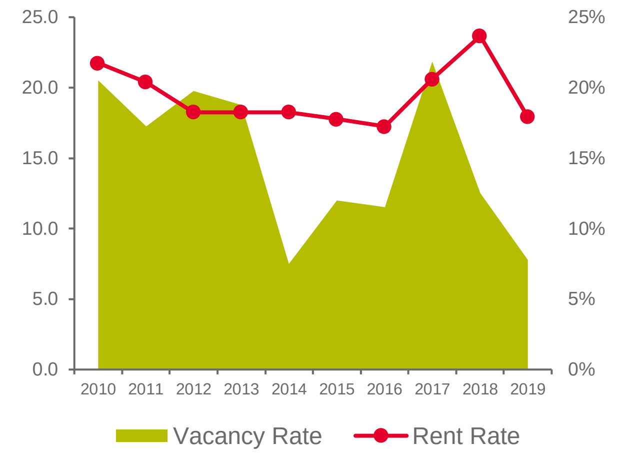
CUSHMAN & WAKEFIELD

MARKET INDICATORS

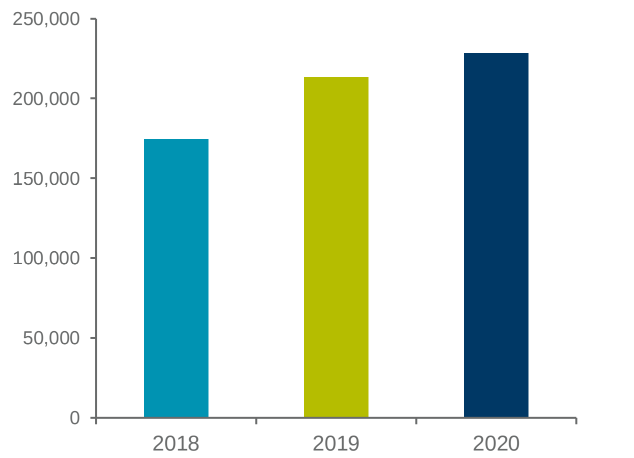
Market Outlook

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.

Rent and Vacancy Rate Dynamics in A and B Class BCs



Cumulative Office Space Growth: Speculative Pipeline



Overview

Third quarter saw an increase in the pipeline of the office spaces. As previously, there is no demonstrable increase in demand; the new entrants in the form of large international companies are lacking. However, the tendency to renegotiate existent contracts or negotiate new contracts to move in newly built and renovated business centers has been on the rise.

Presently, the total modern office space in Tbilisi is estimated to exceed 180,000m^2 with the city-wide weighted average vacancy rate standing at 12%. The supply will further increase with the addition of at least four more business centers, which will provide a further downward pressure on the pricing.

Current Supply and Rates

The supply of A Class business centers has increased with September expansion of Confidence BC in Avlabari; Axis Towers, which was expected to officially launch this quarter, has not yet done so. Of more than 31,000m^2, 5.76 thousand square meters are available for rent. This puts the vacancy rate at 18.5% - a 4 pp increase from the last quarter's 14.5%.

Rent rates have dropped compared to the last quarter – in Q2, weighted average rent for A Class BCs stood at $27.22; this quarter, the rent rate stands at $25.84. Increased competition from the B Class business centers as well as the imminent pipeline of A Class spaces is to be credited with such a development. We project a further reduction in rent rates of A Class business centers.

B Class business centers account for more than 66,000m^2 of office space. Many of these compete directly with A Class centers in terms of location, amenities and especially pricing. However, in the long term, reduction in the prices of A Class BCs does not bode well for the pricing of B Class BCs.

Vacancy in B Class business centers stands at 5% down from 7% in the previous quarter. This reduction in vacancy underscores the competitiveness on B Class BCs on the market. Rent rate, which is down from $21.68 to $15.28 further clarifies why demand is shifting towards this sector.

Co-Working Spaces

Co-working spaces are picking up great traction among two groups of clientele – small local companies and small international representations. Flexibility offered by co-working spaces is unmatched and the pricing is competitive. The table on the left details pricing and offerings of the major co-working spaces in Tbilisi. Increase is demonstrated is underscored as some of these providers are looking to expand their spatial offering. Most recently, Terminal acquired 1,025m^2 office space at the University Street in Tbilisi.

Pipeline

Axis Business Center will deliver the largest provision – up to 15,000 m^2 office space by the end of 2019; Hilton Garden Inn is also expected to add 6,900 m^2 to the prime office stock while City Tower will increase total GLA by 7,500 m^2. Finally, Vake Plaza will provide 9,700 m^2 office space and a B Class BC near Vakhushti Bridge will increase provision by 5,300m^2.

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