

12-Mo. Forecast

\$62.79
ADR, Citywide Average

48.5%
Occupancy, Citywide Average

\$36.54
RevPAR, Citywide Average

Source: Cushman & Wakefield Georgia Research

GEORGIA ECONOMIC INDICATORS Q4 2019

12-Mo. Forecast

4.8%
GDP Real Growth

6.4%
Inflation

11.6%
Unemployment Rate

\$417,346
FDI*

Source: GeoStat/Cushman & Wakefield Georgia Research
* Thousands USD

Hospitality Industry Undergoing a Slump

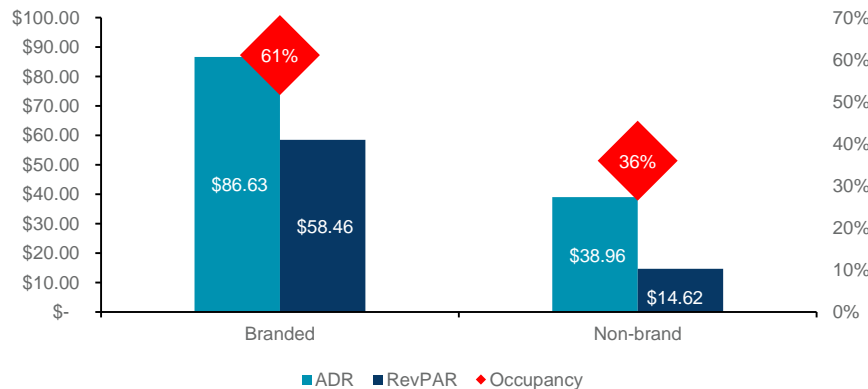
The last quarter of 2019 closed out with some growth in the number of visitor trips, but hospitality market has seen better days. The political turmoil of the summer of 2019 was extremely detrimental to the industry as a whole – an effect that has since then been amplified by the fears of the novel Coronavirus. Outlook for 2020 is quite pessimistic; both branded and non-brand hotels are reporting booking cancellations and a significant drop in occupancies.

A sample of branded facilities registered a 67% occupancy in Q4 2018, which had come down to 61% by the same period in 2019. Similarly, ADR dropped from \$95.90 to \$86.63 – a 9.6% reduction. Non-brand facilities have been hit more severely than the branded ones; reported ADRs ranged between \$35-40 and average occupancy stood at 36%. Non-brand facilities are typically less resilient to seasonality as well, which has further exacerbated their overall state in Q4 2019.

In spite of the less than desirable performance, the sector keeps growing. Last quarter of 2019 saw the opening of yet another local boutique hotel, Heritage Hotel & Suites on Aghmashenebeli Avenue. The facility offers 23 rooms and has been receiving guests since November. Announcements have been made with regard to the opening of Swissotel, Golden Tulip Design Hotel, Holiday Inn Express and Hampton by Hilton in Tbilisi. If all planned launches stay on schedule, the supply will increase by 1,211 keys.

The threat of oversupply in the face of lessening demand is becoming more pronounced. We expect some launches scheduled for 2020 to be delayed. We also project 2020 KPIs to have significantly dropped compared to those in 2019.

KPI DYNAMICS IN BRANDED AND NON-BRAND FACILITIES, Q4 2019



Source: Cushman & Wakefield Research

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12-Mo. Forecast

\$24
Weighted Average Rent – MSC*

12%
Weighted Avg. Vacancy - MSC

400,000m²
Supply - MSC

* Modern Shopping Centres
Source: Cushman & Wakefield Georgia Research

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Demand Shifts from High Streets to Shopping Malls; GLA Supply Remains Stable

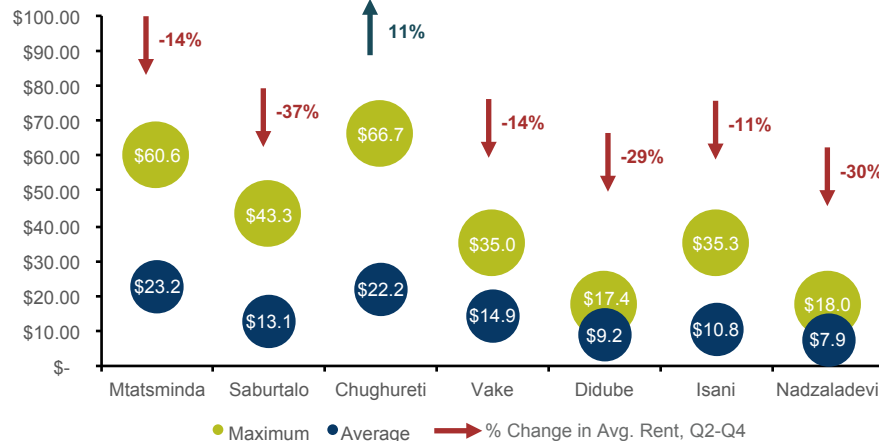
Tbilisi retail market has had a relatively quiet fourth quarter. Opening of the City Mall extension at Saburtalo in the third quarter marks perhaps the most important development of the year. As of Q4, 2019 GLA of modern shopping stock remains nearly 400,000m² while rent and vacancy rates remain stable at weighted averages of \$24 and 12% respectively.

Over at the High Street end, lack of demand is starting to become apparent: both occupancy and rent rates are falling. In case of Vake, this has been driven primarily by the increasing vacancy at Chavchavadze Avenue. This primary street has been under renovation for some months, which restricted both vehicular and pedestrian access and traffic. Subsequently, retailers have vacated premises and relocated to either alternative streets or to the shopping centers, where they expect to get greater footfall.

Average rent rate in Vake has dropped to \$15 – a 14% reduction; in Saburtalo, average rent has decreased by 37%. Only in Chughureti has the average rent increased from \$20 to \$22. Shifting demand puts shopping centers at a distinct advantage, turning them into a “landlord’s market”. This is why in some of the newest centres, average rent can exceed \$50.

There are two projects in the development pipeline – Bavshvta Samkaro and the extension of East Point. However, neither of these projects have started construction yet and the changes in supply are not expected until 2022.

RENT RATES IN HIGH STREETS IN TBILISI, Q4 2019



Source: Cushman & Wakefield Georgia Research

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12-Mo. Forecast

\$20.85
Prime Rents



84%
Occupancy



194,167m²
Supply



Source: Cushman & Wakefield Georgia Research

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Overview

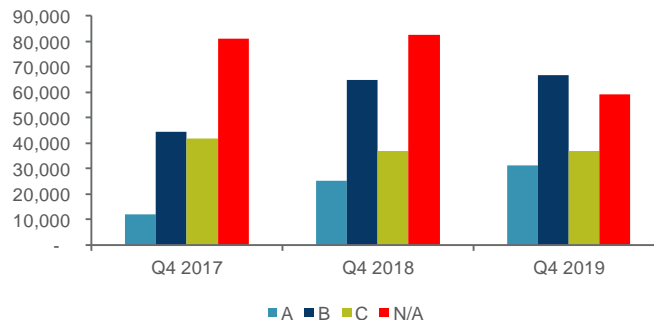
The office market in Tbilisi continues to be one of the least variable from quarter to quarter. The supply is on the brink of increasing with five business centers in the pipeline while the market is suffering from the lack of new tenants. The last quarters of 2018 and the beginning of 2019 was a period when leases were renegotiated and many companies switched to higher class offices. However, by the end of 2019, this trend has slowed down. The results are increased vacancies in C Class and older, non-refurbished business centers and lower vacancies in A and B Class offices. Rent rates have increased slightly in A Class BCs but dropped in B and C Class centers. The market-wide average rent is \$16.87 excluding VAT and any applicable service and utility charges.

GLA Increase Attributed to Prime Office Launches and Expansions

Between the fourth quarters of 2017 and 2019, total GLA has grown by 8%. This has been driven primarily by the growth in A Class (158%) and B Class (50%) expansion. C Class and unranked offices' GLA on the other hand shrunk by 12% and 27% respectively. The market is increasingly demonstrating demand on high quality offices, but high rent rates are discouraging to tenants. Subsequently, B and B+ office spaces have been benefiting from increased demand. While A Class supply is increasing, vacancy rate in B Class offices is reaching an all-time low.

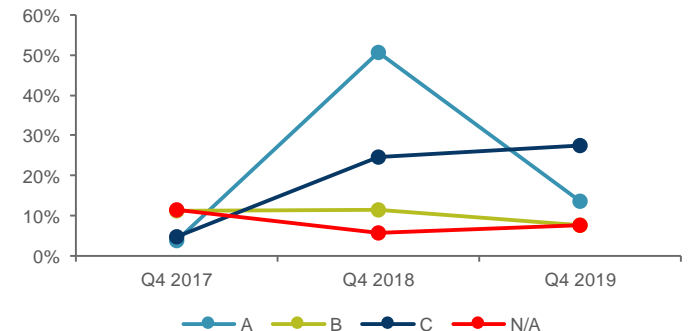
Pipeline has not changed since the last quarter: Axis Business Center will deliver the largest provision – up to 15,000 m² office space in 2020; Hilton Garden Inn is also expected to add 6,900 m² to the prime office stock while City Tower will increase total GLA by 7,500 m². Finally, Vake Plaza will provide 9,700 m² office space and a B Class BC near Vakhushiti Bridge will increase provision by 5,300m². Launches of A Class BCs currently in the pipeline will boost supply in Vake, turning it into the new CBD.

CHANGES IN LEASABLE SPACE OVER THREE YEARS



Source: Cushman & Wakefield Georgia Research

SHIFTS IN THE VACANCY RATE IN TBILISI BUSINESS CENTERS



Source: Cushman & Wakefield Georgia Research

Co-Working Spaces Expanding

Co-working spaces have now been present on the market for longer than two years. It may have been somewhat of a slow start but as of Q4 2019, they have found their niche. Currently, there are 10 major co-working operators working in Tbilisi. Total area occupied by them exceeds 4,500m². These offer a variety of facilities and equipment to their clientele.

Vere Loft, Terminal, UG Startup Factory, Publica and Terminal Khorava all have libraries; majority also offer a 24-hour access option. All of them are equipped with business center facilities (printers, scanners, projectors, recorders) and Vere Loft and Terminal also offer on-site computers (PCs and Macs). Vere Loft, Impact Hub, Modi Modi Modi, and both of the Terminals offer free coffee. Other co-working spaces have at least one on-site F&B option. Finally, all of the co-working spaces offer closed-off spaces for business meetings, events and workshops. UG Startup Factory and Terminal also have terraces for this very purpose.

Pricing for co-working spaces varies by seating arrangement and by duration of stay. Only Regus and Gate offer a 1-hour option however prices are vastly different. Regus, an international co-working operator charges \$14.34 per hour while Gate – an economy operator offers the option at mere \$2.87. Seven out of ten offer a single day option; all of these are Hot Desk / Open Seating Plan and on average cost \$11.27. Vere Loft, Regus, Space Z, Modi Modi Modi and KD4US also accept clients for a week at an average price of \$57.85 and all of them accept clients for a monthly rate, with varying seating option.

DISTRIBUTION OF GLA IN TBILISI DISTRICTS

	Chugureti	Didube	Isani	Krtsanisi	Mtatsminda	Nadzaladevi	Saburtalo	Samgori	Vake	Total
A	0%	0%	19%	0%	28%	0%	53%	0%	0%	100%
B	7%	12%	0%	6%	0%	0%	19%	12%	45%	100%
C	0%	0%	19%	12%	49%	0%	9%	0%	11%	100%
N/A	0%	11%	5%	0%	27%	26%	31%	0%	0%	100%

RATES AT CO-WORKING SPACES IN TBILISI

	1 Hour	1 Day	1 Week	
Dedicated Desk	-	-	-	
Hot Desk / Open Plan Seating	\$8.60	\$11.27	\$57.85	
Private Office for 4 Persons	-	-	-	
	1 Month	3 Months	6 Months	1 Year
Dedicated Desk	\$129.95	\$438.89	\$478.49	\$193.55
Hot Desk / Open Plan Seating	\$85.82	\$141.82	-	-
Private Office for 4 Persons	\$408.17	\$1,165.95	\$1,571.68	\$2,138.89

Source: Cushman & Wakefield Research

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