SNAPSHOT

TBILISI

Hospitality Q1 2020

CUSHMAN & WAKEFIELD

	12-Mo. Forecast
$48.14 ADR, Citywide Average	▼
31.3% Occupancy, Citywide Average	▼
$18.54 RevPAR , Citywide Average	▼

Source: Cushman & Wakefield Georgia Research

GEORGIA ECONOMIC INDICATORS Q1 2020

	12-Mo. Forecast
2.2% GDP Real Growth	▼
6.5% Inflation	▲
11.6% Unemployment Rate	▲
$165,367 FDI*	▼

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

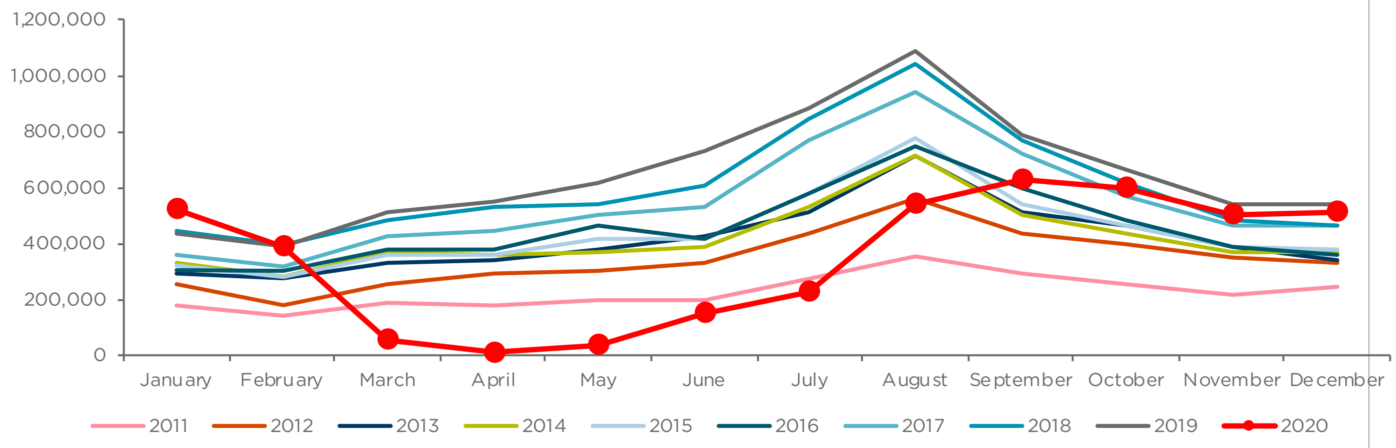
INDUSTRY OVERVIEW AND IMPACT OF COVI-19

First quarter of 2020 started out on a high note on Tbilisi hospitality market – the number of incoming tourists was increasing and the ADRs had been stabilized at long-term levels. However, end of February brought COVID-19 and by mid-March hospitality sector was fully paralyzed. State of Emergency was announced on March 21, which prompted all but a handful of hotels to close down. The few that remained opened were accommodating stranded tourists or served as quarantine sites. Non-brand hotels felt the effects of the pandemic more acutely and had to let go of their staff. With significantly stronger financial backbone, branded hotels endured the first onslaught of pandemic slightly better.

Hotels report that the booking cancellations started in the beginning of February. These were primarily cancellations made by the Chinese tourists. However, majority of the cancellations happened at the end of the month, when first confirmed case of COVID-19 was announced in Georgia. For the branded hotels, bookings were cancelled until mid- or the end of May, however since the situation worsen, these reservations were cancelled as well.

STR reports that in the week ending on March 21st, Georgian hotels experienced an 86% drop in weekly occupancy compared to the same period last year. Additionally, hotels in Tbilisi experienced an 88% reduction in RevPARs. As of the end of the first quarter, the situation in the hospitality market is deeply uncertain and contingent upon the effective handing of the outbreak.

INTERNATIONAL VISITOR TRIPS – 2020 PROJECTION



Source: Georgian National Tourism Administration, Cushman & Wakefield Research

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SNAPSHOT

TBILISI

Retail Q1 2020

CUSHMAN & WAKEFIELD

	12-Mo. Forecast
$24 Weighted Average Rent – MSC*	▼
12% Weighted Avg. Vacancy - MSC	▲
400,000m² Supply - MSC	▼

** Modern Shopping Centers*
Source: Cushman & Wakefield Georgia Research

GEORGIA ECONOMIC INDICATORS Q1 2020

	12-Mo. Forecast
2.2% GDP Real Growth	▼
6.5% Inflation	▲
11.6% Unemployment Rate	▲
$165,367 FDI*	▼

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

INDUSTRY REVIEW AND COVID-19

Trouble for the retail sector began when the first case of COVID-19 was identified in Georgia on February 26th. First week of March saw sales figures drop by 35%, followed by a drastic 80% plunge in the week leading up to the announcement of the State of Emergency. Swift and sharp reduction in revenue forced many retailers to close their stores days before the State of Emergency mandated closure of all retail units. Retailers with an online presence started aggressively advertising their e-commerce platforms and offering discounts in a bid to recapture market demand. Yet by the end of Q1 2020, the retail market was in full stall. Due to the quick depletion of the working capital, 40% of the retailers interviewed have not been able to pay March salaries.

TWO SIDES OF THE RETAIL CRISIS

On high streets, 40% of retailers have been given full or partial financial relief. Meanwhile, none of the shopping centers formulated a plan for handling the situation. Both tenants and landlords were operating under force majeure, which under most circumstances means temporary release from the obligation to pay rent. A cutback in retailer revenues rippled over to those of shopping centers as well and these latter have experienced problems fulfilling their financial obligations: apart from salaries, there are also operational costs that need to be paid – the cost that high street landlords do not have to incur.

2020 PROSPECTS

In terms of predicting the recovery of retail, timing is everything. Typically, a one-month store closure is tantamount to having a negative bottom line for six months so the fact that spring shopping season has effectively been cancelled does not bode well for either retailers or shopping center operators. An optimistic outlook suggests that the lockdowns should lift in late spring. People are primarily accumulating income that they have very limited ways of spending, so when the lockdown does lift, we expect a sudden surge in shopper demand, but, again, the actual volume of demand is highly contingent upon the timing of the virus containment. Nevertheless, even in the short term, the sector is facing a serious liquidity and unemployment problem.

Risk of permanent closure is high especially for smaller retailers and older, smaller shopping centers with low inherent bargaining power. Consequently, by the end of the year vacancy rates will spike while a number of small, peripheral shopping centers will close their doors.

In terms of supply chain reestablishment and renewing inventory, retailers will have to negotiate with respective brands; subsidies and loans will likely be needed to finance the restoration of the sector. We expect that if moderate or pessimistic scenarios realize, rent rates will have to be renegotiated. Vacancy rates in both high streets and shopping centers will spike nonetheless.

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SNAPSHOT

TBILISI

Offices Q1 2020

		12-Mo. Forecast
$20.85	Prime Rents	▼
84%	Occupancy	▼
200,447m²	Supply	▼

Source: Cushman & Wakefield Georgia Research

GEORGIA ECONOMIC INDICATORS Q1 2020

		12-Mo. Forecast
2.2%	GDP Real Growth	▼
6.5%	Inflation	▲
11.6%	Unemployment Rate	▲
$165,367	FDI*	▼

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

INDUSTRY OVERVIEW AND COVID-19

January and February were quiet months for the office market. There were no new entrants and the rent rates and occupancy in A and B Class centers remained virtually unchanged. Second half of March ushered in the regulations and restrictions imposed due to COVID-19. Lockdown and the State of Emergency forced many workplaces to shift to teleworking mode, which emptied the business centers. By the end of March, situation was still quite uncertain but a number of tenants had started conversations with regard to lease renegotiations. Overall, circumstances have been less than favorable for landlords given that apart from lease renegotiation requests, due to force majeure, tenants stopped paying rents.

Due to fears of unemployment and the efficiency of working from home, the chances that tenants will opt for smaller offices or will abandon standard offices altogether are very high. This puts landlords in a risky situation. In Tbilisi, the pipeline of office buildings has been quite voluminous for some time now. The unfavorable market conditions have caused the launch of some A Class BCs to be delayed. COVID-19 will further delay these launches.

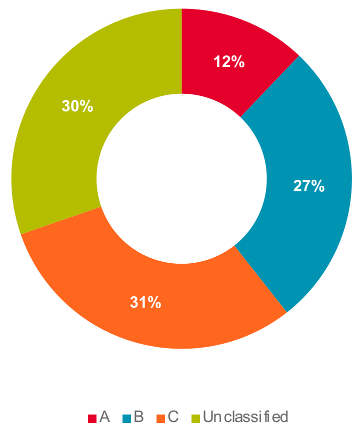
UPCOMING OFFICE TRENDS

Those who remain in the office buildings will have to incorporate certain recommendations to ensure the safety of employees. Cushman & Wakefield has formulated the concept of a 6 Feet Office, which incorporates the social distancing guidelines in the day-to-day office life:

- ***6 Feet Quick Scan:*** *A concise but thorough analysis of the current working environment in the field of virus safety and any other opportunities for improvement.*
- ***6 Feet Rules****: A set of simple and clear workable agreements and rules of conduct that put the safety of everyone first.*
- ***6 Feet Routing:*** *A visually displayed and unique routing for each office, making traffic flows completely safe.*
- ***6 Feet Workstation:*** *An adapted and fully equipped workplace at which the user can work safely.*
- ***6 Feet Facility:*** *A trained employee who advises on and operationally ensures an optimally functioning and safe facility environment.*

6 Feet Certificate: *A certificate stating that measures have been taken to implement a virus-safe working environment.*

CLASSIFICATION OF OFFICE SPACES IN TBILISI, 2020 Q1



Source: Cushman & Wakefield Research

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