SNAPSHOT

GEORGIA

Industrial 2021

	12-Mo. Forecast
2.5 mln sqm Countrywide Supply	▲
$2 – $4.5 Per sqm, Dry Storage Rent	▼
$14 – $16 Per ton, Cold Storage Rent	▼

Source: Cushman & Wakefield Georgia Research

GEORGIA ECONOMIC INDICATORS 2022

	12-Mo. Forecast
-6.8% GDP Real Growth	▲
13.9% Inflation	▲
18.5% Unemployment Rate	—
$728.4 FDI*	▲

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

OVERVIEW

Warehouse is a planned space for the efficient storage and handling of goods and materials, and with goods and materials coming in and going out, the warehouse is also a vital hub in the centre of the supply chain. Some years ago, warehousing in Georgia was a synonym for basic four walled structures with suboptimal sizes, inadequate ventilation and lighting, lack of racking systems and lack of inventory management or technology solutions. Over time and with the changing role of the sector, apart from conventional storing services, warehouses are now providing value-added services like consolidation and breaking up of cargo, packaging, bar coding, reverse logistics, etc.

Due to its highly strategic location, Georgia has always been a crossroad of trade relations; it was a part of the Silk Road and served as a gateway between Europe and Asia. Recently the country has been envisioned as part of 'The Belt and Road Initiative' - Beijing's vision of a new Silk Road, where Georgia is positioned as an essential part of the south Eurasian corridor. The country has an excellent potential for a highly developed industrial and logistics market and is slowly starting to engage in activating this potential.

Presently the main players of the country's industrial market are located Tbilisi, Batumi, Kutaisi and Poti with total volume of logistics and warehouse space exceeding 2.5 million sqm. Tbilisi, as the capital of Georgia occupies the key role in the sector, as it is the central distribution point for the entire Georgian market: almost all of the imported goods come to Tbilisi for redistribution. Industrial warehouse space in Tbilisi saw a considerable expansion in 2017 when the supply grew by around 86,000m^2, following by further 31,000m^2 expansion later in 2018-2019. 2020-2021 also witnessed emergence of new market players in the city, which led to the total amount of warehouse space in Tbilisi to reach approximately 1.7 million sqm. Currently most of the available industrial space is owner-occupied. Furthermore, while total storage space can be subdivided into A, B and C class logistics centers, Tbilisi is also notable to host only one A class warehouse center in the entire country. Additionally, the demand in the city is driven mainly by transportation sector, food & beverages, construction/building materials, furniture, electronics, and service sector.

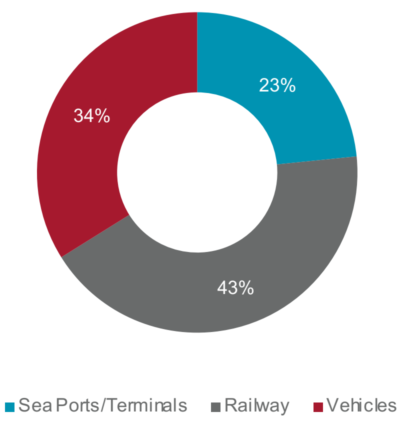
Total area of industrial and logistics space in Batumi is over 140 000 sqm. Most of this space can be found in old Soviet-era buildings, which are owner-occupied. Here demand is generated mostly by furniture and construction companies. In the other pivotal cities - Kutaisi and Poti – industrial space is ~349 000 sqm and ~133 000 sqm respectively. In Poti, industrial supply is predominantly owner-occupied, and the largest share of demand comes from seafood manufacturing firms.

Over time the sector has been growing and by the year 2021 it should be highlighted that there are more logistics companies providing complete solutions in the country than ever before. Many of them offer services, such as door-to-door transportation of goods by the sea, land, railway and air transport; transportation of cargo with temperature regime and warehousing; ability to track the cargo movement during transportation; handling of bulk cargo; vessel charter and shipping; customs clearance; cargo insurance; and importantly, high-skilled labour.

2021 also marked opening of crucial infrastructural projects in the country supporting the logistics and industrial sector. A new multimodal terminal 'Wondernet Express' for processing mineral fertilizers was opened on the territory of Batumi seaport in June 2021. Total processing capacity stands at 1.5 million tons per year. Meanwhile, Poti is also expecting a completion of a deep-water port project. The new harbour is 250 meters long and 13 meters deep, able to receive ships carrying 50 thousand tons of cargo. Once launched, it will be the first port in Georgia able to host ships of noted capacity. Designed for all types of dry, bulk and general cargo, the new harbour will accommodate 3 million tons of goods per year. With the help of these new developments, cargo will be transported from Georgia to Central Asia, the US, Europe, Africa and Australia, proving that Georgia is indeed an important logistics hub in the region.

This further means that continuous investment in logistics infrastructure and thus well-developed logistics services can ensure the efficiency of trade. Georgia indeed saw an increase in exports between 2020-2021, from $3,343,442.9 to $4,242,335.1.

DISTRIBUION OF FREIGHT VOLUME, 2019



Source: Ministry of Internal Affairs

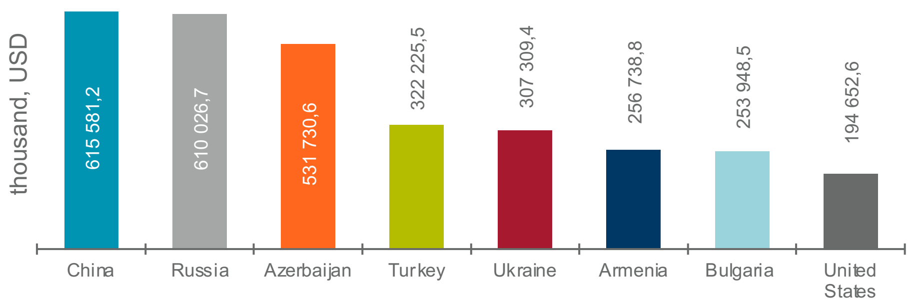
TBILISI – SUPPLY DYNAMICS

Industrial warehouse space in Tbilisi saw a considerable expansion few years ago, in 2017, when the supply grew by 86,000m^2, half of which was available for lease. Of the new supply, 3,300m^2 belonged to MacDonald's. With support from Enterprise Georgia, the fast-food chain opened a logistics center which processed more than 1,500 tons of product and employed 30 people. According to the press-release, total investment in this modern, owner-occupied facility amounted to €2.3 million. Later in 2018-2019, the city's total industrial and logistics space increased by 31,000m^2. Particularly, in March 2018, Gebrüder Weiss expanded its supply with additional 2,300m^2 of logistics and warehousing space, further increasing the supply available for lease. Another company that entered the Tbilisi market in 2020 was LogisticsWise specializing in warehousing and courier-logistics services, automatically increasing an available storage space of the city. *As a consequence of new entrants being introduced to the market, currently the total amount of warehouse space in Tbilisi is around 1.69 million sqm, of which 35% is leasable space, while the remaining 65% is owner-occupied.*

Total leasable supply can be subdivided into A, B and C class logistics centers. Noteworthily, Gebrüder Weiss is the only A Class center in the entire country. The company launched its Georgian branch in 2012 and delivered 10,000m^2 of A Class leasable warehouse and logistics space. The 2019 extension further added 2,300m^2 warehouse space, paved, open-air zone of 7,800m^2 and 300m^2 office space. Total area of this adjunct complex – utilized and non-utilized - is estimated to be 90,000m^2.

Gebrüder Weiss LLC offers land, air and sea freight and the following logistical services: supply chain management, production and distribution, warehousing and IT solutions. From its leasable supply 94% is suggested to be dry storage. Additionally, the vacancy rates indicate that the demand is mostly for dry storage, as vacancy rates of cold storage facilities have ranged between 30-35% while those at dry storage facilities have consistently remained under 20% in the last three years. Located near the Tbilisi International Airport, the logistics center employs 120 people and since 2012 has transported more than 530,000 tons of goods, such as consumer goods, power tools, automotive parts, agricultural products and foodstuffs. Being the only internationally operated logistics center, Gebrüder Weiss enjoys high popularity – this is the only center where in 2018, the vacancy rate stood at 0%. Tenants are mostly car parts and electronics goods manufacturers and resellers. The logistics terminal is equipped with high-quality and cutting-edge technology, making it possible to provide logistics solutions tailored specifically to the customer. Also, with the new warehouse software the customer can directly access the goods in transit and see where they are at any time.

TOP EXPORT PARTNERS 2021



Source: GEOSTAT, Cushman & Wakefield Research

Apart from Gebrüder Weiss, the supply is mainly provided by local companies, which own recently built or refurbished buildings with additional warehouse facilities. Majority of suppliers offer B class storages, and the dominant type of warehouse spaces in Tbilisi are dry storage. Hence, it can be suggested that there is a gap in the market for a large scale, A Class warehouse center, as well as for the cold storage facilities.

Lilo 1 LLC is another large local supplier that is worth mentioning. It was founded in 2006 and is one of the largest warehouse and logistics centers not only in Tbilisi but in the Caucasus region. The total area of the complex encompasses 230,000m^2 with the warehouse taking up 95,000m^2. Lilo 1 has the widest array of in-house offerings. The complex includes a dry and a refrigerated warehouse with temperatures ranging +15°C and – 28°C as well as temperature-controlled warehouse for pharma products. There are custom storage units too. There is a parking area for trucks and motorcars as well as railway freight wagon access point. Lilo 1 includes office spaces as well as a café.

The handling capacity of the warehouse is 10,000 tons of cargo per month, which is enabled using modernized supply chain monitoring technology and CRM. The company counts more than 3,000 customers of which 400 are corporate clientele.

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CUSHMAN & WAKEFIELD

TBILISI – SUPPLY DYNAMICS

Lilo 1 currently has storage spaces for rent from 250 to 7,000m^2. The space has 7m ceiling, industrial, concrete polished floor, natural temperature between 10-22 degrees, fire resistance systems, and 24-hour video-monitoring and live security. Also truck tank for trailers is equipped with automated dock levelers. Presently rent for one sqm storage starts from 3.5 US dollars.

It is notable that Lilo 1 is part of ALC - the largest logistics center in Georgia and the whole Caucasus region, managing a total 230,000 sqm of warehousing space. ALC group also includes Smart Warehouse and A Logistics Company, also called JSC Lelo.

A Logistics Company was founded in 1996 and became warehousing company in 2006. In 2014 it was part of three top warehousing companies in the country. In 2015 they launched 3PL in dry storage. Since then, the company has been expanding and in 2017 it became logistics service provider to largest retailers in Georgia.

A Logistics Company has 2 locations in Tbilisi, where they can store food, cosmetics, home appliances, fashion, general equipment, pharmaceutical products and oversized goods. Their clients include Super, Sharm Trading, Carrefour, Ori Nabiji, Clean House, Style, Baldi, etc. Moreover, besides 3PL and warehousing services, they offer cargo handling, development of office spaces and showroom spaces. This is the first Georgian logistics company which implemented ISO 9001:2015 quality standards. The company offers warehouse spaces between 200-2,000m^2. They have large freight elevators, and 1m^2 is rented out for around 2.5 USD including VAT.

WAREHOUSING DEMAND: POTENTIAL TENANTS

Based on research the area requirement range for the each of the following sectors are:

- Food and Beverages is: 100m^2 –500m^2;
- Pharmaceuticals: 2,000m^2 – 15,000m^2;
- Auto parts dealers and manufacturers: 300m^2 – 12,000m^2;
- Electronics: 150m^2 – 1,000m^2;
- Remote Shipping/Delivery Service Providers: 500m^2 – 2,000m^2.

Not long ago demand for warehousing services was dominated by producers of building materials and furniture. However, more recently, transportation has become the largest occupier, renting almost 24% of the total leased area in 2019 in Tbilisi. The share of this category in the tenant distribution mix had increased by 6% since the previous year. Transportation sector is followed by Food & Beverage category represented by local and international supermarket chains, occupying 16% of the leased area. The third is Construction, demanding 16% of the leased warehouses. Furthermore, in 2019, demand from Electronics dropped by 4%, while increasing for the Service sector.

It should be noted that in our studies, potential tenants of warehousing spaces have always empasized the importance of location *within* the bounds of Tbiliis, either near the Airport, Dighomi, or in Didube, along the embankment of river Mtkvari. Accessibility of goods is highly important and due to traffic conditions, warehouses with locations further than 20-25km from the city center are not considered optimal on the market.

PRICING AND VACANCY RATE

Average rent of industrial space ranges between USD 2 - USD 5 per sqm based on location, condition and existence of production machinery in the property. Rent rate in B class, dry storage warehouses ranges between $2-$4.5 per square meter; while rent rate in B Class, cold storage warehouses ranges between $14-$16 per ton.

Moreover, the weighted average rent for dry storages in Tbilisi stands around at $3 per sqm in B class, while the figure in C class stands at $2 per sqm. Based on Invest in Georgia document (2019), weighted average rent has been declining in both dry and cold storages since 2017, for both B and C Class warehouses. Additionally, cold storages saw a further drop of 6.8% in the weighted average rent in 2019.

Notably, tenants usually do not pay additional fixed costs for the service and utility. Also, occasionally landlords of the cold storages offer cargo loading-unloading services, the price of which varies between 5-10 USD per ton.

The vacancy rate has also seen a decline between 2018-2019 for both cold and dry storages, amounting to 11% and 2% drop, respectively. Moreover, dry storages received less occupants in both B and C class warehouses, reducing occupancy rates by 10% and 12% correspondingly.

Operator: Warehouses	Address	District	GLA (m2)	Class	Type
Gebrüder Weiss	Evropa st. 4	Isani Samgori	12,300	A	Dry
Transservice	98 K.Tsamebuli Ave	Isani	10,000	B	Dry
Lilo 1	14 Iumashevi Str	Isani Samgori	95,000	B	Dry
Pine Tree	D. Agmashenebeli 12 km	Didi Dighomi	NA	B	Dry/Cold
Sakinvesti	32 Agladze Str	Didube Chugureti	20,000	B	Dry/Cold
LC Tbilisi	4 Iumashevi Str	Isani Samgori	18,000	B	Dry
Arco LLC	8 Moscow Ave	Isani Samgori	7,000	B	Cold
Iceberg Tbilisi LLC	4 Gagra Str	Gldani Nadzaladevi	6,300	B	Cold
A Logistics Company (JSC Lelo)	Location 1: 36, Ksani Street; Location 2: Aghmashenebeli Alley, 6th km	Sanzona; Didi Digomi	20,000	B	Dry
ANA Group	G. Chkondideli 56	Didube Chugureti	32,000	C	Dry
Cargo Terminal Lasare	Tbilisi International Airport	Isani Samgori	6,000	B	Dry
GLC Georgian Logistics Company	25 Moscow Avenue	Isani Samgori	NA	B	Dry

Regarding pricing and occupancy levels, it should be mentioned too that nowadays warehouse spaces greater than 10,000 sqm are leasing more slowly, in part because larger distribution firms are more cautious and slower in relocating and mostly own their warehouse premises. Also, Tbilisi's warehousing market is dominated by short term lease contracts, increasing bargaining power of landlords and empowering them to change rental rates frequently.

COMPARATIVE CONTEXT

Increased industrial facilities and more full-service logistics companies play an important role in the growth and development of the local economy. However, Georgia still has a long way to go to catch up with CEE countries in terms of provided services. For instance, Slovakia firstly built extensive road and rail networks. Progressive modernization of the road network enabled to reorganize freight transport. Good quality of transportation and logistics and the ability to import components and timely distribute the products from the warehouses were key to success. Then, Slovak firms also realized that modern warehouses tailored to the needs of customers are highly demanded. Moreover, Slovak industrial market further identified that in order to achieve competitive advantages in the logistics sector, the development of logistics services with the higher added value is required, which is possible through constant innovations in the sector. For example, they currently utilize concept Industry 4.0 and intelligent/smart technologies, such as Automated Guided Vehicles (AGVs) - fully automatic, electrically powered unmanned vehicles, also AGV - compact GG vehicles used in storage processes, allowing optimal handling during loading with the side feed and angle of fork. Various levels of automation allow more customized logistics offers, and satisfying customer needs with the greatest flexibility, accuracy, reliability and economy is what good logistics services need to do. Furthermore, Slovak enterprises in logistics industry take a step forward towards green and reverse logistics, by mostly using rail freight, biofuels, bicycles and electric cars for delivery solutions, as well as by trying to minimize the waste of resources, recycling and reusing products and packaging, and extending the life of products and components. As a result, the industrial real estate captivates the biggest interest of foreign investors in Slovakia, leading to enlarging first-class industrial warehouses, improved services and ever-growing demand.

Industrial sector in Georgia will develop if there are more modernized transport infrastructure, modern warehouse facilities, innovations and utilization of advanced technology for efficient service provision. Also considering cutbacks to negative transportation impacts, transferring from air transportation to truck or rail transportation, and utilization of hybrid and electric vehicles could support transition towards green logistics. The principles of sustainability will bring differentiation of the products offered and subsequent positive changes in the logistics chain. Moreover, if offered logistics and warehouse services are of high quality in Georgia, the sector will become much more liquid, enjoying the interest of both tenants and investors, which is likely to be followed by the expansion of existing developers and the construction of new warehouses, as well as rising effective rents.

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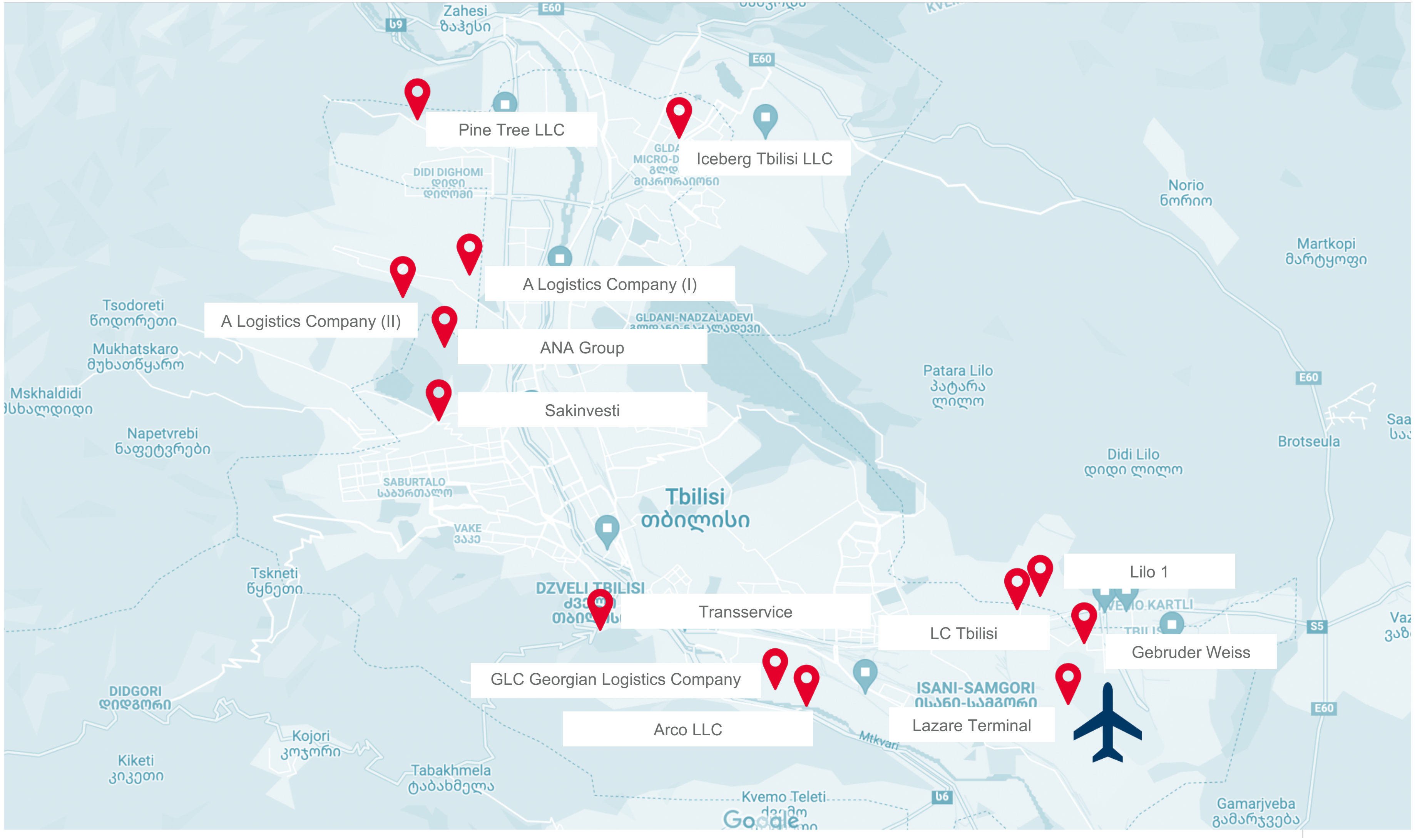
MAP OF WAREHOUSE CENTERS IN TBILISI



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