TBILISI

Retail Market Snapshot

Fourth Quarter | 2018

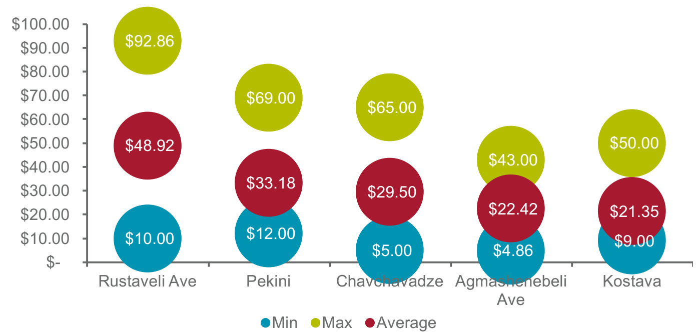
CUSHMAN & WAKEFIELD

MARKET INDICATORS

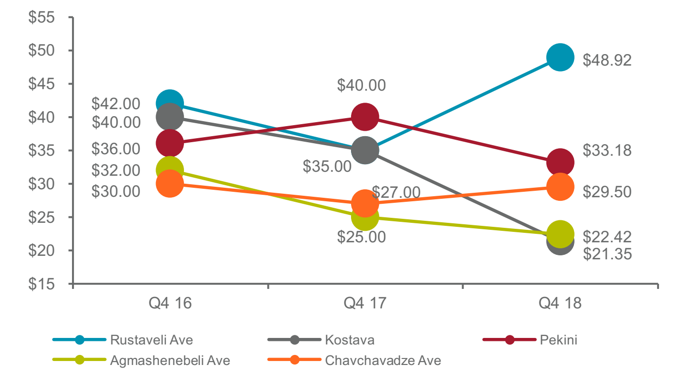
Market Outlook

Prime Rents:	Prices in shopping malls exhibit an upwards tendency, however growth rate is relatively flat; high street rent rates are starting to flatten.	◥
Prime Yields:	Steady with some further downward pressure in certain parts of the market.	◢
Supply:	As modern shopping centers are being added to the market, street retail continues to suffer.	◥
Demand:	No drastic changes as of yet, but new entrants to the market in 2019 will reshape the demand landscape.	▶

Primary Street Retail Price Ranges



Primary Street Retail Pricing Dynamics



Tbilisi Shopping Malls

SHOPPING CENTERS	GLA (M^2)	RENT RATE	VACANCY RATE, %
Tbilisi Mall	70,000	$24	25%
East Point	71,780	$27	8.2%
Galleria Tbilisi	24,500	$47	15%
Gldani Mall	22,452	$15	4%
Merani Shopping Gallery	7,600	$25	9%

Overview

Retail sector retains stability in Q4 2018 as both the leasable supply and tenant mix remain mostly the same. Major market trends have been passed down from the previous quarter: shopping centers continue to hold the upper hand over high streets but in contrast to Q3, high street retail prices are starting to suffer from downwards pressure.

E-commerce continues to grow but it still has to establish itself as a viable alternative to traditional retail. With short delivery timelines and the obvious convenience, e-commerce is starting to become a niche market.

On the other end of the spectrum, shopping malls continue emphasizing the fact that they offer a recreational experience, rather than just shopping opportunities, drawing more people away from streets and towards the modern shopping centers.

Stabilization of Demand and Price Fluctuations

There are very few entrants to occupy the retail supply. In a recent development, market has become increasingly positive towards low-cost miscellany stores; Miniso, a Chinese retailer, expanded from Galleria to high streets - Rustaveli Ave and Chavchavadze Ave. A Korean competitor – Yoyoso – also opened in Pixel shopping gallery on Chavchavade Ave. Of the higher-end tenants, apparel store Diesel is expected to launch in the first half of 2019. We project, that miscellany stores will continue to expand. Higher-end tenant market as of Q4 2018 is in a stabilization phase.

At $47/m^2$ Galleria Tbilisi remains the priciest of the shopping malls, with the rest of the centers offering spaces for less than $30. Galleria still benefits from being a new mall located in the very heart of the city – an advantage, that is hard to compete with for any other retail area.

On the high streets, the exorbitant prices are starting to take a hit: average rent rates on Aghmashenebeli Ave and Kostava St have been steadily decreasing between Q4 2016 and Q4 2018. Pekini Street average rates also suffered dropping from $40 last year to $33.18. Chavchavadze Ave is back to its Q4 2016 average, recovering from $27 average last year to $29.50 in 2018. Rustaveli Ave is also back to the top of the priciest high streets list, with an average rent rate of $48.92. Controlling for outliers, maximum rent rate registered here was $92.86.

Outlook

City Mall Saburtalo will increase the cumulative GLA with 45,000m^2, with tenant mix expected to consist of some of the largest retailers in Tbilisi; this will further amplify the pressure on high streets as tenants are redistributed.

We project that overall prices for high street areas will drop, but this trend will not exhibit in Rustaveli Ave, due to its unbeatable centrality.

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GEORGIA

Hospitality Market Snapshot

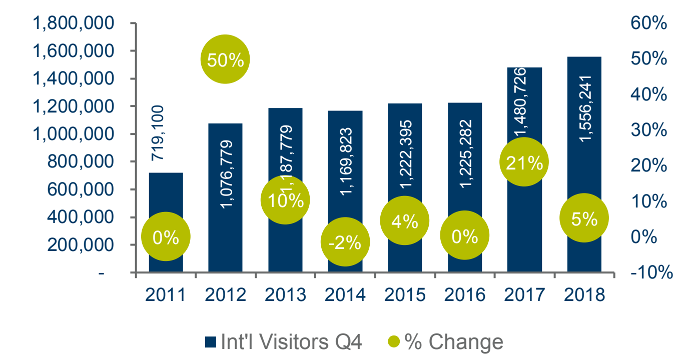
Fourth Quarter | 2018

MARKET INDICATORS

Market Outlook

ADR:	Has seasonally stabilized at $105-110;
Occupancy:	Has dropped due to the fourth quarter being off-seasonal;
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.

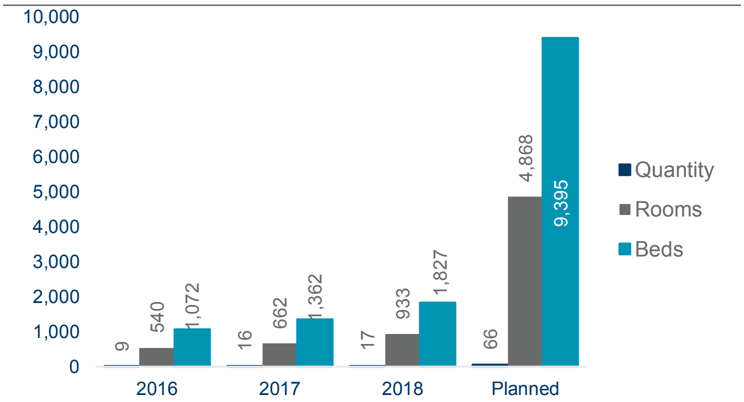
Historic Dynamics of Tourist Inflow in Q4 *(GeoStat)*



Key Performance Indicators

RANK	OCCUPANCY	ADR	REVPAR
Luxury	67%	$140	$105
Upscale	60%	$115	$70
Upper Midscale	62%	$90	$55
Midscale	53%	$77	$43

Hotel Openings 2016-2018 and the Pipeline 2019-2021 *(GNTA)*



Overview of Tourist Inflow

Georgia continues to be a tourist hotspot, with off-seasonal months showing an increased tourist inflow. 2018 saw a record number of 7.2 million tourists visit the country, which was an 11% increase over the 6.48 million of 2017. As with the previous years, the number of visitors decreased between the third and the fourth quarters (-41%) but Q4 2018 showed a 5% increase in visitor inflow compared to Q4 2017.

Over the following year, the total tourism inflow is expected to increase to approximately 8 million, with the growth of the Q4 numbers stabilizing between 4-6%.

Visitor Profile

Russia has been surpassed by Azerbaijan in becoming the greatest tourist source market, but tourists from the former nation still constitute a substantial portion of visitors to Georgia. Average length of stay remains at 2-3 nights indicating that seasonality does not significantly influence this indicator.

Vast majority of tourists come for leisure purposes, but, as usual, business tourism has grown over the last quarter of 2018. In a related development, share of tourists travelling alone has also increased.

Supply and Investor Focus

Q4 2018 saw $16.1 mln of FDI capitalized in the hospitality sector, which is a 60% increase over the same time period last year. The supply of hotels in Georgia is increasing rapidly. According to the official national sources, as of the fourth quarter, there were 472 hotels in Tbilisi alone with 10 hotels projected to open in 2019.

Majority of the hotels are small in size – 77% of the facilities offer less the 20 rooms. The largest facilities tend to be the branded ones – Biltmore offers 214 rooms, Radisson Blu – 249, Tbilisi Marriott – 127.

With an extensive pipeline, there is a realistic possibility of market becoming oversupplied, but the existent track record of project delivery dates suggests that the increase in available lodging facilities will be more gradual than suggested by the announcements.

Performance Indicators

As of the fourth quarter, ADRs for all ranking categories have dropped e.g. luxury hotels ADRs prices from the high of $180 to $140. ADR for upscale hotels stands at $115, that for upper midscale is at $90 and one for midscale is $77. RevPARs have been reduced proportionately to ADRs. It should also be noted that occupancy level is higher in luxury hotels than in other categories, suggesting that when prices are lowered off-season, visitors pick the best possible option on the market.

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TBILISI, GEORGIA
Office Market Snapshot
Fourth Quarter | 2018

CUSHMAN & WAKEFIELD

MARKET INDICATORS

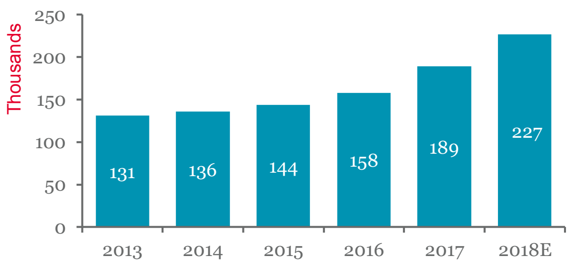
Market Outlook

Prime Rents:	Expected to stabilize despite 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 Service Charges on Premium Providers

BUSINESS CENTER	AVG. RENT	SERVICE CHARGE
King David	$23.00	$4.26
Leonidze/Tabidze 1	$35.00	$3.00
GMT Plaza	$30.00	$5.00
Pixel 34	$18.00	$5.00
BCV	$16.00	$0.50
Grato	$20.00	$3.00
Green Building	$25.85	N/A
Khetagurovi 36	$14.41	$0.50

Modern Leasable Office Stock Dynamics in Tbilisi



Source: Cushman & Wakefield Georgia

Demand on Premium Office Space Providers

BUSINESS CENTER	GLA, M²	OCCUPANCY RATE
King David	16,500	78%
Merani	2,500	100%
Leonidze/Tabidze 1	5,935	88%
GMT Plaza	3,000	98%
Pixel 34	16,000	90%
BCV	12,829	87%
Grato	6,400	91%
Green Building	2,500	100%
Khetagurovi 36	2,160	80%

Overview

As the commercial center of the country, Tbilisi has over the years attracted international companies seeking to enter the Georgian market or establish the regional center in Caucasus. The rise in demand generated increases in supply, as new office buildings started appearing, and even more Soviet era buildings became converted into working spaces.

Recently, however, demand has stalled, while supply has continued to expand. Appearance of premium shopping centers has affected both sides of the market equation, pushing rent rates in lower tier business centers down, and generating demand for higher quality offerings. The growth in prime office provision has helped narrow the gap between Tbilisi premium workspace provision and the international benchmarks, but in the local context, market is not reaping many benefits.

As of Q4 2018, the total supply of office space amounted to 450,240m^2 – same as the quarter before. With a pipeline of three prime office developments, and lack of evidence for demand, the market is moving towards saturation.

Excess of Premium Provision

Market averages for A and B class business center rent rates stand at $29.33 and $18.85 respectively. Counterintuitively, in spite of increases in the premium office stock, prices have grown as well. Three business centers are expected to open in the coming months - Axis Towers business center, which plans to charge $25.00/m^2 and a $5.00 service fee, will add up to 15,000 m^2 to the overall GLA; Hilton Garden Inn is expected to add 5,000 m^2 to the prime office stock while City Tower will increase total GLA by 7,500 m^2. We do not expect these developments to perpetuate a drop in rent rates.

General distribution of the office stock by classes remains generally unaffected, with only 41% of the total stock considered modern. Owner occupied spaces remain prevalent – not only financial institutions, but also financially robust companies tend to move away from rentable spaces. Co-working spaces market has shown no drastic divergence in Q4 either.

Demand Inertia

Demand mix for office spaces has been unaffected for two quarters now, which is an indication of inertia plaguing the office market. Opening of King David is credited with a surge in renegotiation and renewal deals, as demand on prime stock has grown. Yet, this trend describes redistribution rather than rise in overall demand – companies are switching to better offices, but the market absorption rate remains static.

Of prime offices, Green Building and Merani are the only ones that operate at full capacity. Relatively low occupancy rate at King David (compared to other A Class centers) can be attributed to a variety of factors, from high GLA to pre-existing leases and contracts. Regardless, the A class market vacancy rate indicates that companies that move towards prime workspaces are not extremely price sensitive.

We do not expect sharp changes in demand distribution in the following quarter.

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