CUSHMAN & WAKEFIELD

Shopping Transformed:

Malls of Tbilisi in the Chain of Retail Revolution

Tbilisi, Georgia

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The transformation that the retail sector has undergone over the last couple decades has been a topic of much contention among the experts in this sector, worldwide. Are we living through a Retail Apocalypse or is the sector merely evolving? Will the once pioneering shopping institutions still be around in the next two decades?

European shopping clusters can be traced back to the 1st century AD Rome. Before the term was even coined, merchants congregated in open bazaars or markets to exploit the benefits of agglomeration, reducing both transaction and inspection costs for the customers. The sprawling shopping malls, as we know them today, gained popularity in the United States after the Second World War; by 1960s, one of them covered an area exceeding 220,000m^2.

However, by the late 20th century, it became obvious that differentiation by expansion did not necessarily yield higher profits. Emergence of the internet and the début of Amazon irreversibly altered the retail landscape. The resultant disruption, as well as bankruptcy, stalling or closure of once successful and widely recognized brands, has seemingly plunged the retail sector into chaos.

Yet some are still reluctant to call it an “apocalypse”. Disruption has forced the sector to evolve; the malls of tomorrow will keep up with the changes, exploiting new technologies and the social mindset as well as the benefits of shopping “offline”. On the other hand, retailers and malls that cling to the past will become the things of the past.

How does Tbilisi retail sector fare in this era of uncertainty?

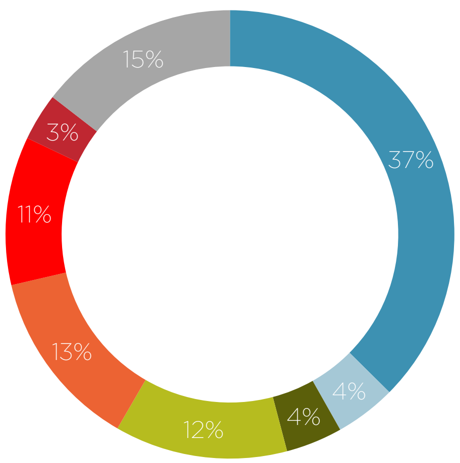
We have reviewed some of the key ideas that drive the viability of shopping malls as well as macroeconomic and social shifts that have precipitated the demise of the traditional model. We have also assessed the position of Tbilisi shopping centers in the retail evolutionary chain and reviewed existent and potential effects of e-commerce on the predominantly brick and mortar market. It is our conclusion that the Tbilisi shopping centers are yet to evolve as fast and as forward as their international counterparts, however some of the concerns that plague these very counterparts may prove to be baseless in our local market

Key Highlights

12.4% TRADE PORTION OF GROSS OUTPUT, 2018

67% SHARE OF TOURIST EXPENDITURE ON SHOPPING

PER CAPITA CONSUMPTION CATEGORIES, 2018



Source: National Statistics Office of Georgia

402,388m²
TOTAL RETAIL FLOORSPACE IN TBILISI

6% MORE THAN IN 2017

APPROXIMATELY
67,000m²
OF NEW SHOPPING CENTRE SPACE TO BE ADDED WITHIN THE NEXT THREE YEARS

45K TO BE DELIVERED BY 2020

Source: Cushman & Wakefield Research

Malls of Yesterday, Today and Tomorrow

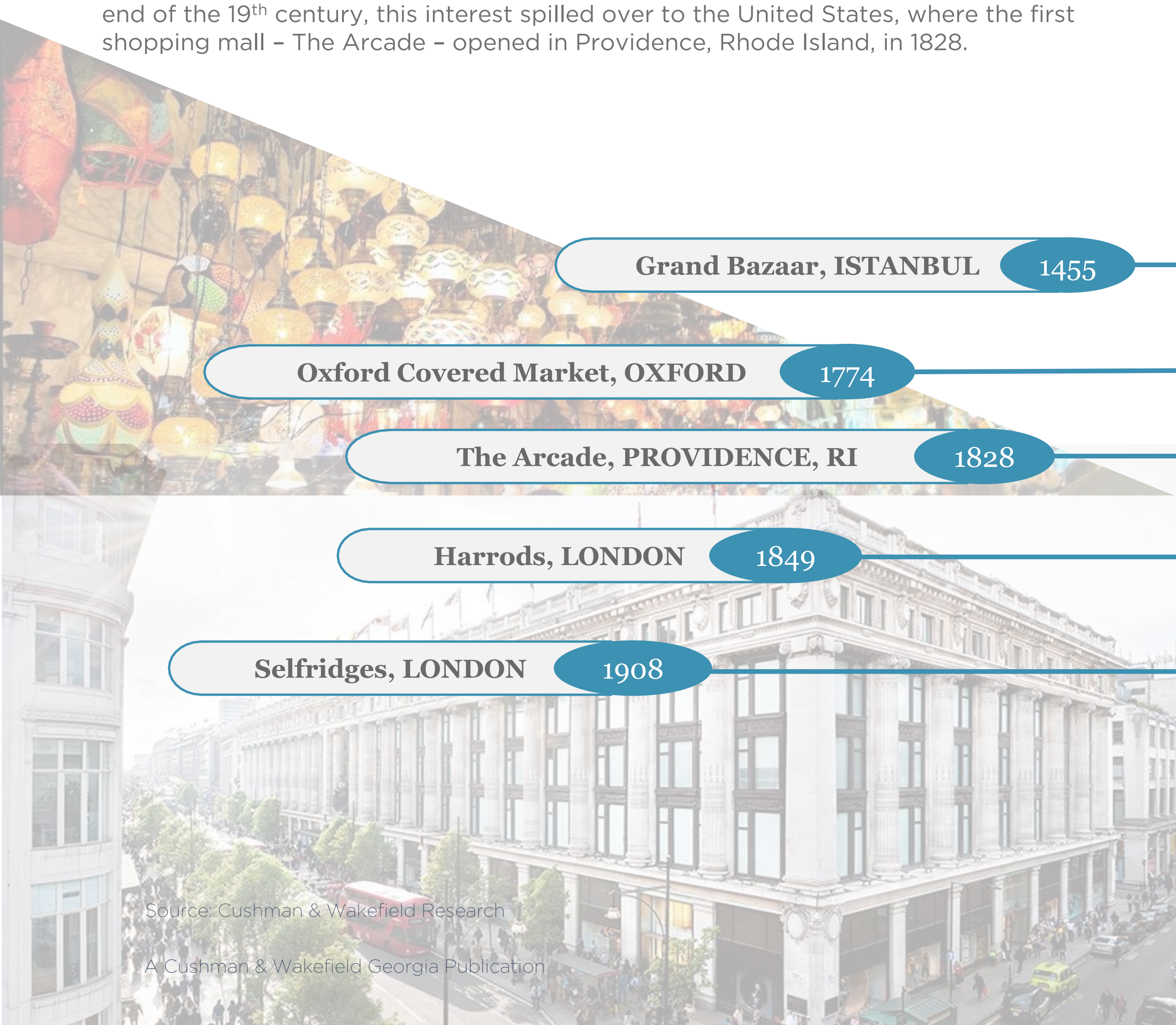
History of the Organized Retail

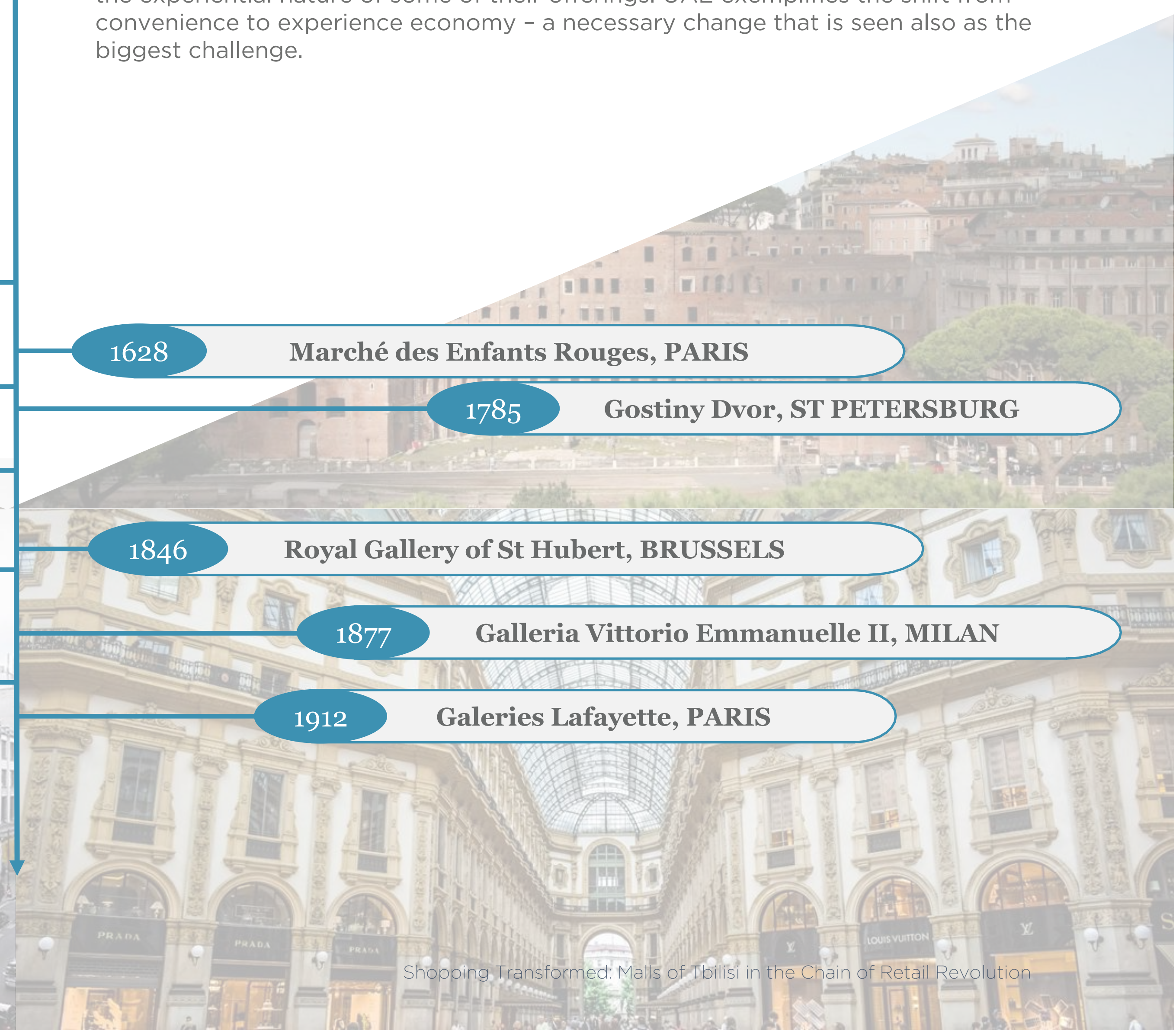
Organized retail has a long history starting with the early markets and bazaars where people traded goods and perishables. In the Western hemisphere, it is sometimes noted that the history of shopping centers began with Trajan's Market in Rome. Through the centuries, such large-scale organized markets have popped up in different parts of the world. Still operating today, Grand Bazaar of Istanbul was established in the 15th century as a regional retail hub.

Europe's interest in shopping centers grew between 18th and 19th centuries. By the end of the 19th century, this interest spilled over to the United States, where the first shopping mall – The Arcade – opened in Providence, Rhode Island, in 1828.

However, not until post-WW2 did the States see a surge in sprawling shopping malls. Since then, the institution has dominated the retail space in most of the Western hemisphere.

Recently, UAE emerged as the destination for large-scale, world-class, multi-functional shopping malls that serve not just as retail spaces but also as tourist attractions due to the experiential nature of some of their offerings. UAE exemplifies the shift from convenience to experience economy – a necessary change that is seen also as the biggest challenge.





- **113** Trajan's Market, ROME
- **1455** Grand Bazaar, ISTANBUL
- **1628** Marché des Enfants Rouges, PARIS
- **1774** Oxford Covered Market, OXFORD
- **1785** Gostiny Dvor, ST PETERSBURG
- **1828** The Arcade, PROVIDENCE, RI
- **1846** Royal Gallery of St Hubert, BRUSSELS
- **1849** Harrods, LONDON
- **1877** Galleria Vittorio Emmanuelle II, MILAN
- **1908** Selfridges, LONDON
- **1912** Galeries Lafayette, PARIS

Source: Cushman & Wakefield Research

Agglomeration and Convenience

Economies of agglomeration is the backbone that supports any kind of organized retail. Agglomeration effect primarily has to do with cutting costs. From the customer's perspective, there are two such costs, transaction and inspection costs (Dukes, 2019:5).

Transaction cost – other than the cost of purchase, that the customer incurs when accessing the desired item e.g. transportation (Dukes, 2019);

Inspection cost – cost of the effort put into comparing products and prices from different suppliers (Dukes, 2019);

Shopping malls cut transaction costs as customers have a variety of goods and services within easy reach once they are at the mall. Additionally, the proximity of stores allows for a wider selection of goods, optimizing the inspection process (Dukes, 2019).

In short, shopping malls thrive because they offer convenience. However, "in the "Age of Amazon", convenience is no longer enough." (Brown, 2019:2)

Threat of E-Commerce, Benefits of Experience

"There are only three reasons why a consumer visits a store or a shopping center to purchase goods or services. They come either because of *convenience, value or experience*." (Brown, 2019:2)

Shopping malls are no longer an epitome of convenience; that designation now applies to an online marketplace. Thus, e-commerce is primarily a threat to those units that operate within the confines of the convenience economy. Malls that focus on experience and entertainment and especially the ones that embrace technological advancements (mapping, digital assistants, AI) will be immune to the threat posed by e-commerce. (Clarke, 2007).

This is part of a wider shift from convenience-driven to experience-driven economy. In 1998 Pine and Gilmore stipulated that all market sectors except for electronic goods and medical technologies had come to a point where it was hard to encounter a new invention. Hence, competition has been driven by "enhancement and modification" rather than creation. Under these circumstances, *"when buying these items, consumers most value not the goods themselves but the experiences and transformations they enable"* (Pine and Gilmore in Brown, 2019:3)

Effects of the experience economy are the most apparent in retail market perhaps because of the recent disruptions and reformations that it has been going through (Brown, 2019). Another sector actively and visibly shaped by the experience economy is travel, tourism and hospitality, where success of Airbnb exemplifies the trend.

Organized Retail in Tbilisi

Supply Review

The modern retail landscape in Tbilisi has formed only within the last two decades. Pre-Soviet retail consisted of small bazaars white the Soviet Tbilisi acquired four department stores or “Univermags” located at Marjanishvili Ave (TBC Bank HQ), Freedom Square, near the Railway Bridge and at the Rustaveli Avenue. The latter was rebranded and reopened in 2018 as one of the higher-end and popular shopping centers – Galleria.

Tbilisi retail has come a long way since the Soviet era. Presently, there are more than 20 enclosed shopping establishments in the City. *Total floorspace exceeds 400,000m² with an additional area of 67,000m² to be added within the next three years.*

EAST POINT

KAKHETI HIGHWAY

71,620.20

REGIONAL MALL

TBILISI MALL

DIGHOMI

66,660.00

REGIONAL MALL

TBILISI CENTRAL

DIDUBE

25,000.00

COMMUNITY CENTER

GALLERIA TBILISI

MTATSMINDA

21,647.00

COMMUNITY CENTER

GLDANI CITY MALL

GLDANI

21,494.72

COMMUNITY CENTER

KARVASLA

CHUGHURETI

19,563.00

COMMUNITY CENTER

GLDANI MALL

GLDANI

11,154.63

NEIGHBORHOOD CENTER

CITY MALL SABURTALO

SABURTALO

10,206.70

NEIGHBORHOOD CENTER

PIXEL

VAKE

8,293.00

NEIGHBORHOOD CENTER

MERANI SHOPPING GALLERY

MTATSMINDA

7,945.60

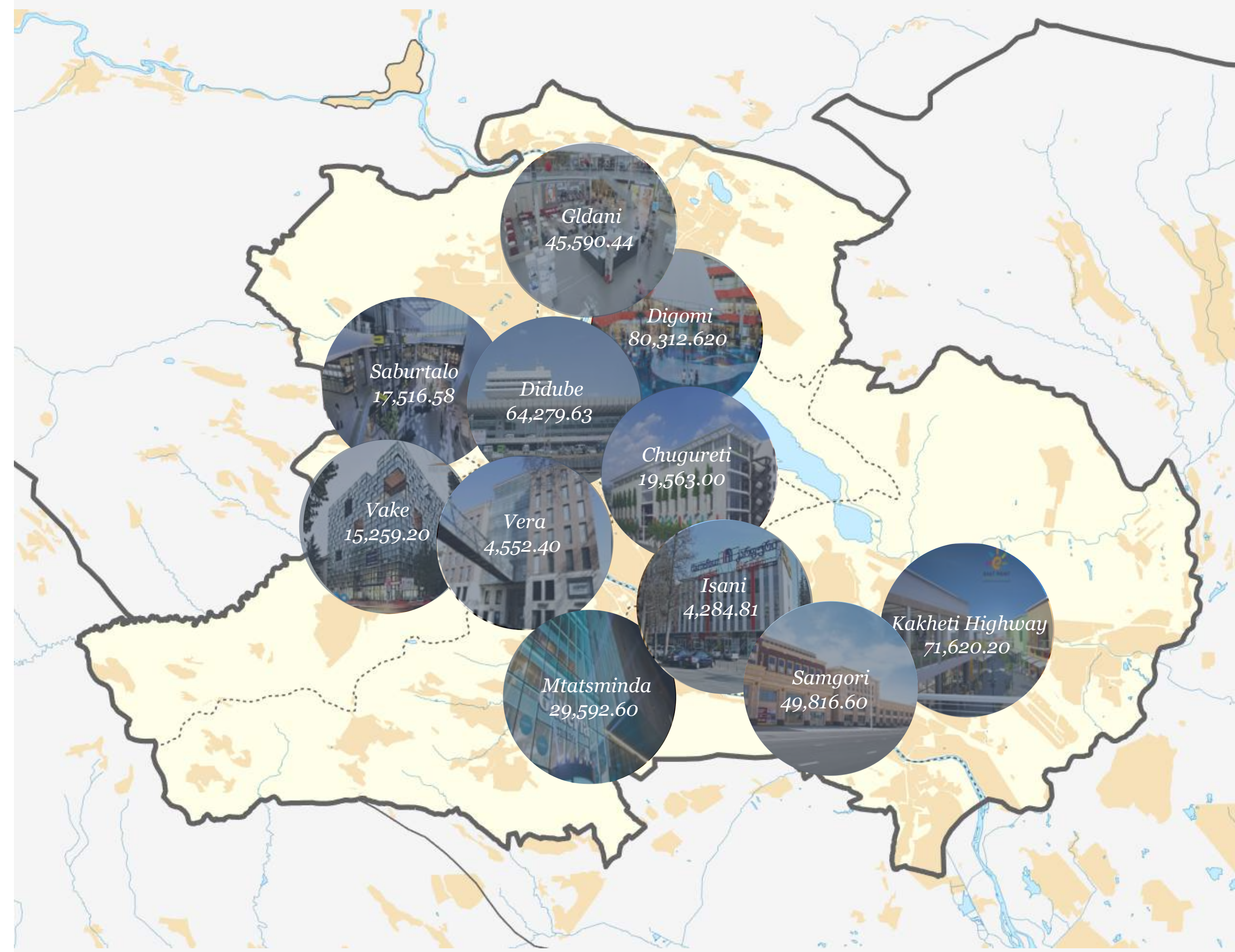
NEIGHBORHOOD CENTER

LOCATION

SIZE (M²)

CLASSIFICATION

DISTRIBUTION OF SHOPPING GLA IN TBILISI DISTRICTS



Total

402,388.08

Source: NAPR

Distribution and Classification

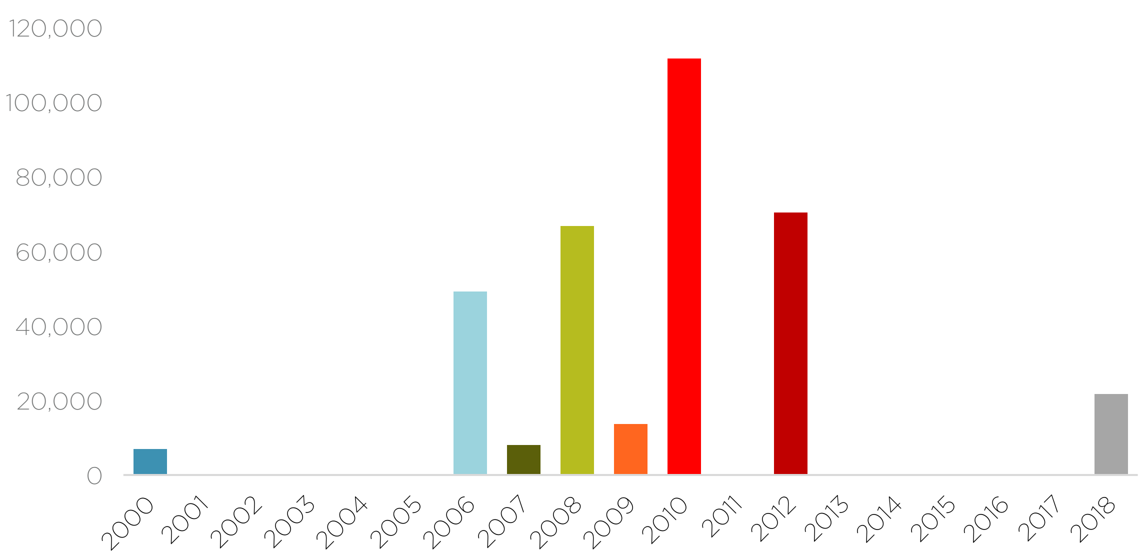
GLA distribution between the districts is somewhat uneven. Floorspace in Vera and Isani barely exceeds 4,000m²; Gldani and Samgori offer leasable area of 45K m² and 49K m² respectively; malls in Didube collectively offer 64,279m² and those in Dighomi offer more than 80,000m². Mtatsminda, Vake and Chughureti vary between 15K-30K of floorspace.

The most recent addition to the retail landscape is Galleria Tbilisi, which opened in 2018 and added 21,000m² to the Mtatsminda retail supply. Galleria opened in the very same location that used to house the Rustaveli Univermag. Introducing H&M to the Tbilisi market along with an extensive lineup of upper and midscale brands – Gant, Lacoste, Armani Exchange, Guess and Karl Lagerfeld – it has become both a local and a tourist retail hotspot. Being located in the very center of the city gives it an edge over other expansive malls such as East Point and Tbilisi Mall; experiential offerings such as CAVEA Cinema, a bowling alley, Children's corner, and the Griboedov Theater (now only accessible from Galleria) provide it with popularity amongst locals and foreigners.

Galleria was the first major mall opening in years. 2012 was a major year, when 5 small and medium-sized shopping centers opened across three districts. 2010 however remains the record year in terms of surge in floorspace – 4 shopping malls added more than 111,000m² to the total supply. East Point on the Kakheti highway accounted for more than 70,000m² of the total new supply. East Point is one of four shopping malls that can be given a regional status. Another regional mall – Tbilisi Mall which opened in 2008 was the first of its kind, and a trailblazer at the time.

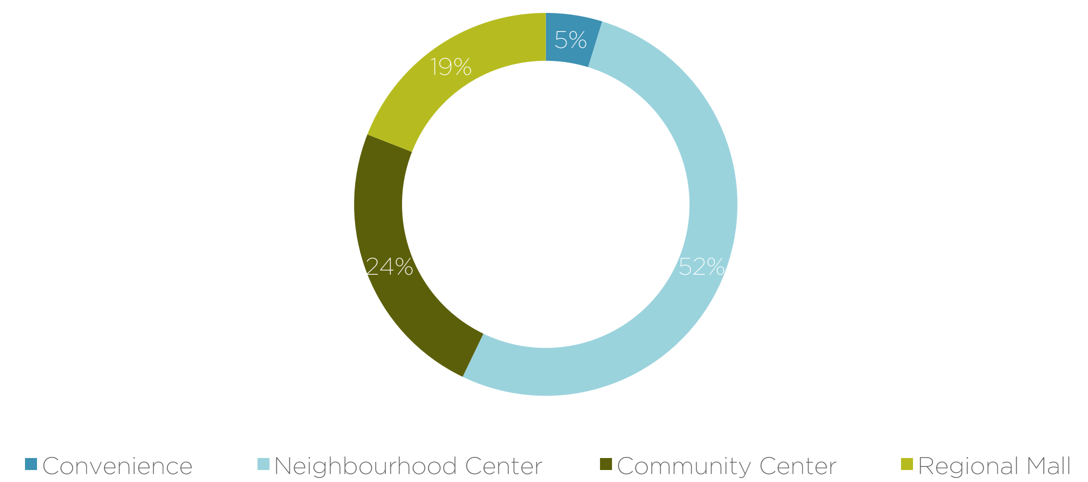
Majority of the shopping malls in Tbilisi can be classified as Neighborhood Centers. Galleria Tbilisi and Gldani City Mall are two of the best-known Community Centers while East Point and Tbilisi Mall as well as Tbilisi Sea Plaza qualify as Regional Malls purely due to their sizes. When it comes to classifying malls by their anchors or tenant mixes, classifications will tend to vary.

Annual Shifts In Shopping Center Supply



Source: NAPR, Cushman & Wakefield Research

Shopping Center Typology Distribution



Source: NAPR, Cushman & Wakefield Research

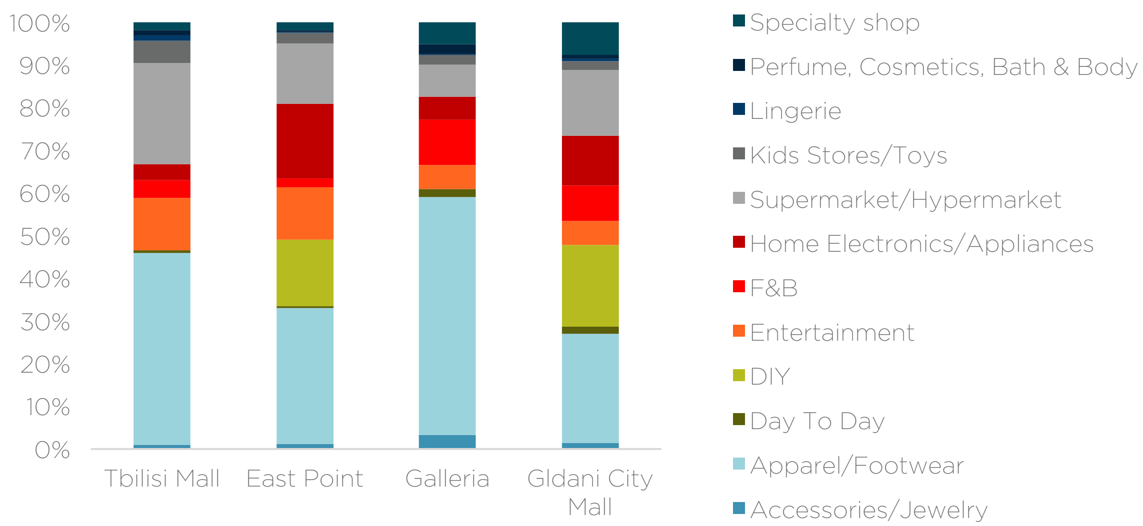
Tennant Mix and Rates

Tennant mix varies by designation and size of the malls; *CAVEA Cinema and Supermarkets and Hypermarkets (Goodwill, Carrefour) tend to be anchors in Neighborhood Centers and Regional Malls.* Economy/mid-segment foreign retailers such as Zara, H&M and Massimo Dutti can act as anchor tenants in Neighborhood Centers as well; in case of Galleria, H&M as well as Goodwill serve as anchors. A few shopping centers do not have any international brand tenants and offer only non-brand shops and goods.

Anchor categories are highlighted in the charts of tenant categories. 42% of floorspace in Tbilisi Mall is occupied by apparel/footwear shops; 22% is taken up by Hypermarket Carrefour. In East Point, 32% is allocated to apparel/footwear, 17% to home electronics and appliances and 14% to hypermarket Goodwill. Here, 12% of space is taken up by CAVEA IMAX as well. Galleria has the highest share of apparel/footwear shops at 54% while Gldani City Mall has the highest share of DIY stores at 19%.

Vacancy rates in three of these four major malls are quite low; East Point is 1% vacant, Galleria only has 3% of space available for lease and Gldani City Mall is full. Tbilisi Mall has an entire upper story to lease out; the rest of the building is 93% occupied. As for rent rates, these are volatile and vary greatly from district to district. Gldani City Mall has the widest range of rates of all the neighborhood shopping malls. Tbilisi Mall and East Point charge between $25-30 on average. On the other hand, the most central shopping center, Galleria Tbilisi charges $40-45 per tenant.

Tennant Mix At Four Major Shopping Centers

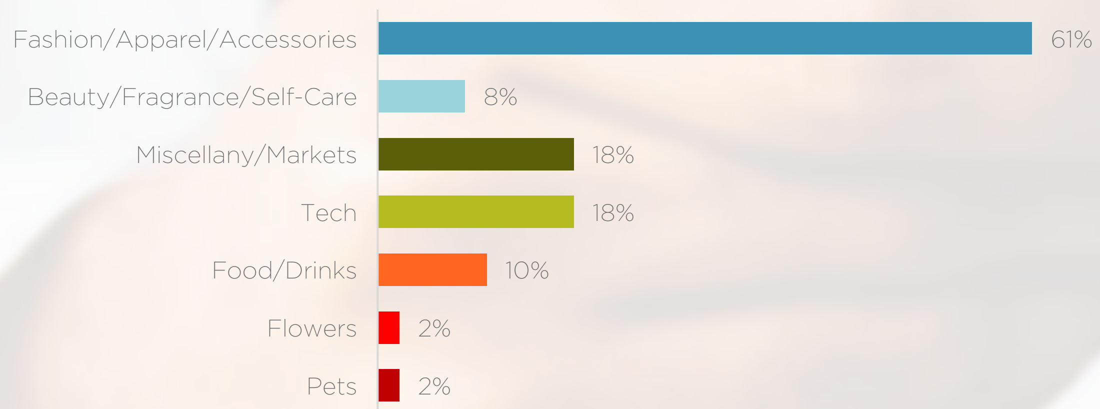


Source: Cushman & Wakefield Research

The Issue of E-commerce

E-commerce has slowly but surely gained foothold in the Georgian retail market. Initial reservations on the payment security, quality of products and guaranteed delivery have gradually faded; *now more than ever, Georgian customers rely on online retail.*

Product Lines At Georgian E-commerce Websites



Source: Cushman & Wakefield Research

The inconclusive list of some of the most recognizable, trusted and highly used online retailers is made up of 49 names. *Six of these, offer more than one category of goods; the rest have a distinct designation.* More is Love, an upscale online retailer, offers apparel and accessories as well as beauty, fragrance and self-care products. Similarly, buyers.ge offers apparel, self-care, books and home goods. These types of online stores highlight Georgian brands and designers, and since their clientele tend to be majority international, they serve as ambassadors to these designers as well.

Vendoo, Nido and Wishlist offer an array of convenience goods rather than luxury retail; these trade in tech too. The rest of the online stores are either category or brand specific. The incomplete list is provided in this report.

An interesting trend should be highlighted here. First, it should be noted that 12 of the online stores on our list are chain retailers with multiple store locations. They built brand awareness as brick and mortar units before expanding online. Examples of these retailers are Voulez-Vouz, ICR brands, Roniko, Alcorium, and Biblus.

Of the remaining brands, 58% or 22 e-stores, also have a showroom. Some of these, started online and expanded into brick and mortar units. In other words, not only are we seeing an expansion online, but also a movement of online to offline.

Product Line	E-store	Showroom/Location
Mixed Goods	MORE IS LOVE	14 Leo Kiacheli St
	buyers.ge	11 Geronti Kikodze St
	Nido.ge	82 Shalva Nutsubidze St
	Wishlist	Multiple Showrooms
	Vendoo.ge	
Beauty/Self-Care	Voulez-Vouz	Multiple Locations
Fashion/Apparel/ Accessories	N-DOU CONCEPT	
	IERI store	1 Vasil Petriashvili St
	Idee Fixe	
	ANOUKI	2 Ivane Tarkhnishvili St
	DOTS	22 Kote Afkhazi St
	co.mode	14 Irakli Abashidze St
	Materiel Tbilisi	22/19 Kote Afkhazi St
	Crosty	Showcased in Atrio Stores
	Zoma	Galleria Tbilisi
	ICR	Multiple Locations
	Dressup Group/Atrio	Multiple Locations
	Chaos Concept Store	14 M. Kostava St
	Krawaii	
	Altersocks	Multiple Locations
	Eshvi London	Showcased in More is Love
	ETHERESTORE	
	Petviashvili	
	Roniko	Multiple Locations
	Giovanni Morra	Galleria Tbilisi
	Flying Painter	8 Egnate Ninoshvili St
	GeoFashionLab	
	Chubika	1 Vashlovani St
	GMT	Multiple Locations
Flowers	Art Flowers	34 Kostava Lane
Food/Drinks	8000 Vintage	26 Sulkhan Tsintsadze
	Alcorium	Multiple Locations
	Sarajishvili	Multiple Locations
Miscellany/Markets	Soplidan	
	WHITE Studio	22/26 Simon Janashia St
	New Light	116 Akaki Tsereteli Ave
	Biblus	Multiple Locations
	JYSK	Multiple Locations
Pets	4Pets	52 Z. Paliashvili St
Tech	Grand El	Multiple Locations
	Domino	Multiple Locations
	iStore	21 Ilia Chavchavadze Ave
	iMart	
	Game Zone	Petre Kavtaradze St

Two main uncertainties that problematize online shopping of certain types of goods such as apparel – uncertainty of quality and fit (Dukes, 2019). Simultaneously, there are advantages of offline shopping largely unavailable at e-stores:

- *Immediate possession*
- *Physical inspection*
- *Advice & guidance from assistants*
- *Social interactions*

These advantages seem to have quite a strong hold on Georgian customers; Tbilisi is a relatively small city; accessibility of shopping areas is higher than average. A typical Georgian customer is used to easily getting to a local shopping center, inspecting an item and possessing it immediately after the transaction. Advice, guidance and the social aspect play a role as well, as customers are likely to shop and ask opinions of spouses, relatives and friends.

Advantages of offline shopping are amplified when one considers the return policies as well. Some of the more generous Georgian online and offline retailers give customers 3 days to return and 7 days to exchange items (policies vary between product lines). Returning an item purchased online can turn into a hurdle as Georgians tend not to use postal services quite as extensively.

Under these conditions, even the next-day delivery of an item, which may or may not fit or be of the required quality, and which may have to be returned within the next two days, will fail to amount to “convenient”. Repeat purchases of convenience goods and necessities need to be exempt from such assessment, however this reasoning applies to apparel as well as to tech and to some extent beauty and self-care.

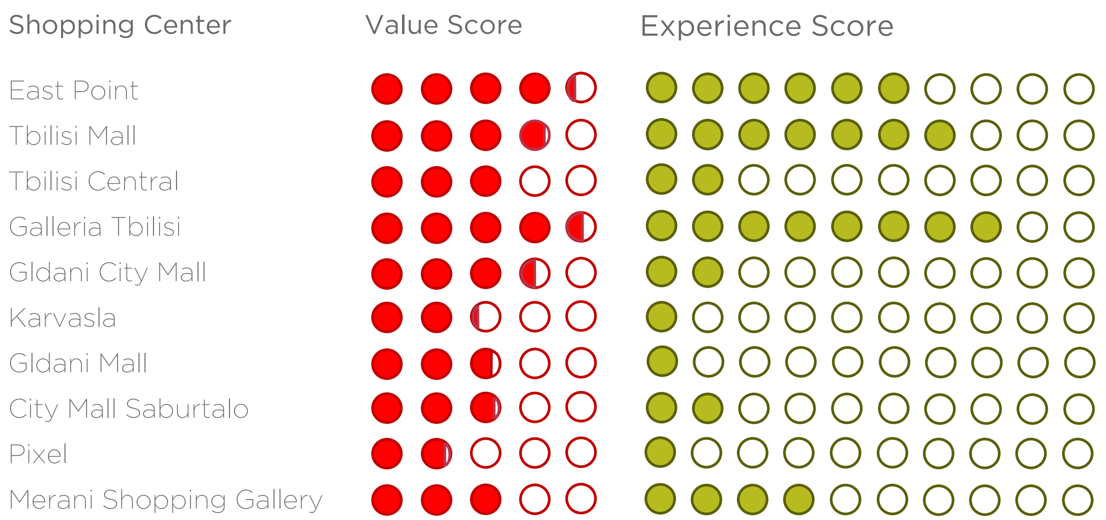
On one hand, this explains the expansion of online stores into showrooms; on the other hand, it may also partially explain why all of the highly successful international brands on the Georgian market – Zara, Mango, H&M, etc. – have yet to launched online platforms. *Georgian e-commerce may be growing but it has yet to register in the social mindset as the convenient alternative, before it can pose a considerable threat to the brick and mortar retail.*

The key question however remains: where do the Tbilisi shopping malls measure on the value and experience scales?

Values and Experiences

In order to answer this question, we designed the scale and ranked a sample of 10 shopping centers for both value and experience offerings. The results are given in the chart below.

Value And Experience Assessment Chart



Source: Cushman & Wakefield Research

In terms of value, Galleria Tbilisi ranked the highest with a score of 4.5/5.0. This is unsurprising, partially because Galleria is the newest mall in Tbilisi. A relatively older center, Tbilisi Mall, scored 3.9/5.0 taking the third place, while another regional mall, East Point, scored 4.2/5.0. The other malls scored anywhere between 1.9-3.5 lacking in value drivers such as range of offerings, internal accessibility, or tech integration.

In terms of experiences, Galleria again scored the highest with 8/10 followed by Tbilisi Mall at 7/10 and East Point with 6/10. These malls have integrated experiential activities such as Cinema, Gambling and Gaming, Bowling centers, VR, and Customer Engagement Programs that add up to an all-day experience rather than simply a retail experience at the mall.

Future of Tbilisi Shopping Malls

As new malls are opened, introducing new offerings and setting the bar higher, the competition will force innovation. Tbilisi retail scene is starting to transform. The transformation is neither as fast nor as forward-looking as that of shopping centers abroad. However, we believe that *within the next couple decades shifting landscapes of both online and offline retail, as well as changing social attitudes will produce a market focused more on all-day lifestyle centers than one-stop shopping malls.*

Pipeline Of Shopping Centers In Tbilisi

#	Shopping Center	Address	GLA (m^2)	Completion Date
1	City Mall Saburtalo Extension	70 Vazha Pshavela	45,000	2019
2	Bavshvta Samkaro	7 Tevdore Mgvdeli	22,000	2022

Source: Cushman & Wakefield Research

E-commerce will continue to evolve eventually establishing itself as the convenient alternative, however we do not see this as an end to the brick and mortar models. *More stores will migrate online while international brands will launch their online platforms all the while retaining physical units that will gradually transform into showrooms, resulting in optimization of store inventory.*

Finally, the shift away from high street into covered shopping areas will continue, providing tenant demand in a time of change for the shopping malls in Tbilisi.

Glossary

Agglomeration – economic principle which states that geographic proximity of businesses produces benefits for all by reducing number of costs for both businesses and their customers.

Anchor tenant – the tenant that draws majority of the clientele and gives exposure to the other stores within the same shopping area.

Brick and mortar units – traditional street-side or enclosed shopping units where customer-merchant interaction happens face to face.

E-commerce – activity and platforms that enable individuals and businesses to buy and/or sell online

Experience economy – market in which the lack of true innovation has shifted consumer focus onto experiences and transformations that goods and services may offer

Inspection cost – cost of the effort put into comparing products and prices from different suppliers (Dukes, 2019);

Shopping center – a group of stores and service units conglomerated under one enclosed facility

Tenant mix – a combination as well as placement of tenants within a shopping mall

Transaction cost – other than the cost of purchase, that the customer incurs when accessing the desired item e.g. transportation (Dukes, 2019);

Shopping Mall Classification

Type	Concept	Typical GLA	Typical Anchors
Strip/Convenience	Attached row of stores or service outlets managed as a coherent retail entity, with on-site parking usually located in front of the stores. [...] A convenience center is among the smallest of the centers, whose tenants provide a narrow mix of goods and personal services to a very limited trade area.	< 2,800m^2	Convenience store, such as a mini-mart.
Neighborhood Center	Convenience-oriented.	2,800 – 12,000	Supermarket
Community Center ("Large Neighborhood Center")	General merchandise or convenience-oriented offerings. Wider range of apparel and other soft goods offerings than neighborhood centers. [...]	12,000 – 37,000	Discount store, supermarket, drug, large-specialty discount (toys, books, electronics, home improvement/furnishings or sporting goods, etc.)
Regional Mall	General merchandise or fashion-oriented offerings. Typically, enclosed with inward-facing stores connected by a common walkway. Parking surrounds the outside perimeter.	37,000 – 75,000	Full-line department store, mass merchant, discount department store, fashion apparel store, mini-anchor, Cineplex or other large-scale entertainment attraction, and food-and beverage service cluster.
Super-Regional Mall	Similar in concept to regional malls, but offering more variety and assortment.	75,000+	Full-line department store, mass merchant, discount department store, fashion apparel store, mini-anchor, cineplex or other large-scale entertainment attraction, and food-and beverage service cluster.

Source: International Council of Shopping Centers

Notes

1. Shopping Mall GLAs are drawn from data accessed at National Agency of Public Registry records

2. Shopping malls were ranked on 10 value variables, and 10 experience categories.

Value was measured by variables such as range of offerings, accessibility, tech integration, parking availability, F&B availability, disability access etc. Each mall was scored 1-5, for a high score of 50. Resultant scores were standardized to a 5-point scale.

Experience was measured using binary approach, marking positive for the existence of amenities such as Cinema/IMAX, Customer Engagement Programs, Sports/Gaming, VR/Tech, Children's Entertainment, etc. Scores were added up and mapped on a 1-to-10 range.

3. The lists of shopping malls and e-commerce provided in this report have been abridged for the sake of brevity and to represent a sample of the population.

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