

TBILISI, GEORGIA Office Market Snapshot

Quarter 3 | 2018



Overview

As the financial and business center of the country, Tbilisi has to accommodate 43.6% of the country's total of 652,046 legal entities. As the Capital, it is also a hub of international companies, embassies and consulates. In the third quarter of 2018 supplied office space measured 450,240m², bulk of which were unclassified, or evaluated as either B or C tier. As such, Tbilisi still lags behind comparable cities in terms of premium office space provision. Concurrently, significantly high office rents surpass those in comparable locations.

As of Q3 18, overall supply of office space is starting to outpace demand. Consistency of the pipeline will most likely further contribute to the issue. Popularity of open-space office plans is catching up with that of traditional plans presumably due to its cost-efficiency and flexibility, and niche co-working spaces are starting to gain traction.

Demand for Premium Office Space Countered with Low Supply and High Rent Rates

Demand for premium office supply has grown, as demonstrated by the success of King David BC, which leased out 2,166m² in 2017. Yet, King David's pre-leasing figures still fell below their forecasts. This is most likely due to the high rent rates associated with premium office spaces. The weighted average rents for A and B Class office stocks are \$24.5/m² and \$16.7/m² respectively. Average premium rent stands at \$20/m². We project that this spike in rental prices is temporary, caused by recent prime office space developments; it should stabilize within the next five years.

Majority of the new occupiers are still those companies that have been present on the Georgian market for years. In the international segment, EY, Deloitte, PwC, KPMG, Samsung, BBC, EBRD, ADB, Microsoft, JTI, Phillip Morris, Booking.com, and Rompetrol are some of the largest representatives leasing out office spaces in Tbilisi.

A Surplus Mix: Office Spaces in Tbilisi

Investment in office spaces continues to grow, increasing supply disproportionately to the existent demand. However, premium office provision is still relatively low in Tbilisi. Additionally, unclassified office spaces are quite common: out of Tbilisi's 450,240m² of leasable office space, 43% can be classified as either A, B, or C modern office stock; the remainder comprise non-refurbished, converted Soviet-era buildings.

The total supply is almost equally distributed between leasable and owner-occupied offices. The latter are most frequently occupied by large financial institutions e.g. TBC Bank, Bank of Georgia, etc. Leasing of first floor apartments as converted office spaces is also a common practice in Tbilisi. These spaces are low cost and cater to smaller companies.

Open-space planning is becoming a prominent trend in newly constructed office buildings. It has an advantage of being low cost, flexible and supportive of teamwork; in comparison, traditional cabinet-style office planning is more conducive to confidential work.

Co-working spaces are also starting to form a niche market. So far, only five companies offer co-working spaces, however, with a surge in start-ups and entrepreneurial endeavors, it is highly likely that such options will become more common.

MARKET INDICATORS

Market Outlook

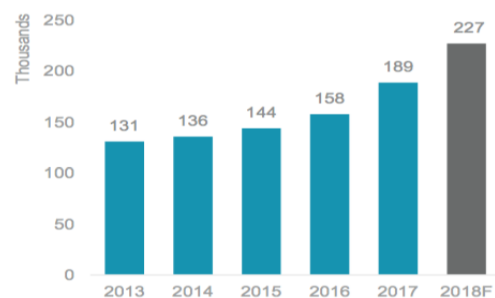
Prime Rents:	No significant changes in prime rents.	▶
Prime Yields:	Limited transactional evidence, but a slight increase in prime yields is expected.	▼
Supply:	Increasing in line with strong speculative Development pipeline.	▼
Demand:	Demand is expected to increase slightly on the A class office spaces in core locations.	▼

Sample of Premium Office Space Providers

BUSINESS CENTER	TOTAL SIZE IN M ²	VACANCY RATE IN %
King David	9,600	65%
GMT Plaza	3,000	0%
Merani Shopping Gallery	4,006	0%
Tabidze 1	2,300	40%
Leonidze Business Center	5,392	64%
Grato	5,600	23%
Melikishvili Business Center	5,100	0%
Panorama Business Center	2,500	0%
Pirimze	6,596	54%
BCV	12,000	18%
Pixel 34	18,000	18%
Besiki Business Center	7,091	0%
Green Office	4,300	10%
Avlabari Business Center	3,531	50%
Tiflis Business Tower	6,000	15%
Anri 2005	6,500	30%
Chavchavadze 29	4,246	33%
BC on Belinski / From Jun/2017	7,317	0%
Irao Business Center	4,000	0%

Timeline

MODERN LEASABLE OFFICE STOCK IN TBILISI



Source: Cushman & Wakefield Georgia

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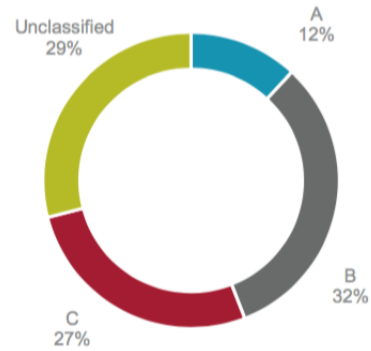
Up Next for Offices

Modern office stock supply is expected to increase with opening of Axis Towers Business Center which will provide 15,000m². Additional 13K m² is expected to be added to the overall supply in 2019. These developments, in addition to the already completed ones, will further saturate the office market. Absorption rate is not expected to rise in the foreseeable future, however, it is our belief that pipeline developments will exert a downward pressure on the rent prices.

Tbilisi is becoming one of the most welcoming environments for freelancers and startups, particularly due to the state support. Co-working spaces, which have been gaining traction, so far only account for 3% of the leasable office stock. However, it is expected that this segment will form its own niche market.

Breakdown

TBILISI OFFICE STOCK CLASSIFICATION



Source: Cushman & Wakefield Georgia