TBILISI, GEORGIA

Office Market Snapshot

Fourth Quarter | 2018

CUSHMAN & WAKEFIELD

MARKET INDICATORS

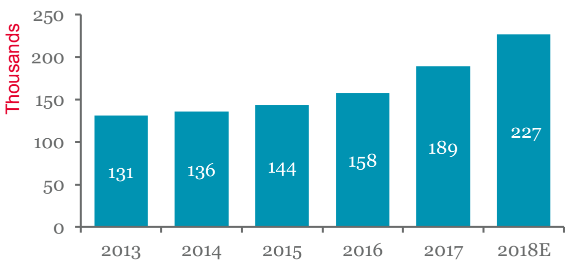
Market Outlook

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, M^2	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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