

TBILISI, GEORGIA Office Market Snapshot

Second Quarter | 2019

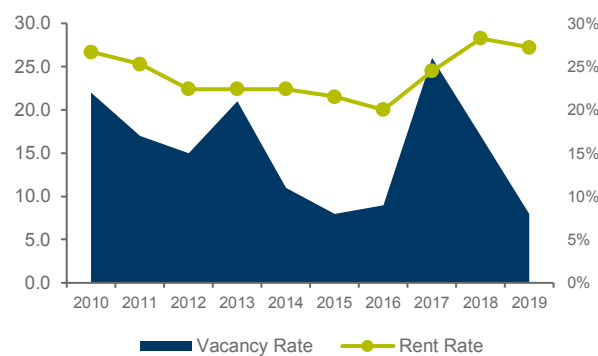


MARKET INDICATORS

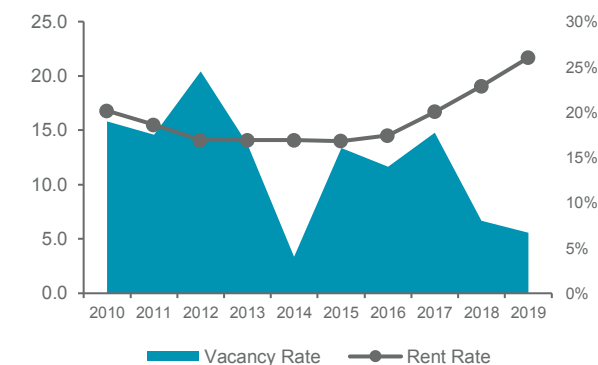
Market Outlook

Prime Rents:	Expected to decrease due to 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.	▶

Vacancy and Rent Rate Fluctuations in A Class BCs



Vacancy and Rent Rate Fluctuations in B Class BCs



Overview

Office market in Tbilisi continues to evolve at a rapid pace, in spite of lack of demonstrable increase in demand. Over the last quarter, the rent and vacancy rates did not experience major changes, no new additions to either supply or the tenant mix have been reported, however the pipeline has grown even larger. Over the next two years, the A Class office stock is expected to increase by more than 48,000m² which will apply a downward pressure to the prime office rents. However, should the demand side remain inert, the vacancy rates at these new developments may - within the short term - peak.

Current Supply and Rates

Presently there are three A Class business centers in Tbilisi – King David, GMT Plaza and Tabidze 1, the latter of which is fully occupied. GMT plaza has a 98% occupancy rate while King David is 78% full. Weighted average rent rate of these business centers stands at \$27.22 having dropped slightly from the 2018 average of \$28.15.

B Class business centers, of which there are nine, have varying vacancy rates. Merani BC and Lilo rental are full, but CDB Business Center is only 80% occupied. Here, weighted average rent stands at \$21.68, continuing a somewhat counterintuitive upwards trend that started in 2015. B Class offices are increasing rates in step with the increasing rates of A Class offices. There is also an apparent demand on these as average vacancy is down to 7%.

Demand and Pipeline

Demand continues to be static, as in the previous quarters. While some tenants are negotiating new deals, or renegotiating the existent ones, the new tenants remain in short supply. This is counteracted with the stark increase in office supply, that is set to materialize within two years.

Presently, there are six business centers announced as the pipeline. Axis Towers, City Tower and CH64 are all expected to launch within the third and fourth quarters of 2019. Cumulative increase in supply will potentially add up to 35,800m². By 2020, both Vake Plaza and Green Hill Saburtalo will be completed further increasing supply by at least 48,500m². Geographic concentration of these new projects along with existent BCs in Vake indicates that this district may soon emerge as the new Tbilisi CBD, together with Freedom Square.