GEORGIA

Office Market Snapshot

Fourth Quarter | 2016

CUSHMAN & WAKEFIELD

Overview

The economy is weak but somewhat gaining stability, however most leading indicators fail to point clearly towards any direction. Continued uncertainty linked to the parliamentary elections has had its effect on market confidence, however demand from occupiers and investors throughout the year was moderately healthy, but tight Grade A supply in core locations remains a key issue on the market. This is prompting investors to monitor the market for opportunities. The main fueling factor for demand have been renegotiations and relocations, however new leases are also evident on the market. As the employment figures are only available for the previous quarter we can therefore account the job creation to have been strong in Q3 (like in previous quarters) - number of employed persons increased 6.6% y/y to 606 thousand persons (+37.4 thousand persons y/y and +5.0 thousand persons q/q), with particularly upward trend in trade (+10.0% y/y, 25.7% of total), real estate (+8.3% y/y, 9.8% of total), hotels and restaurants (+7.7% y/y, 5.5% of total), and healthcare (+7.4% y/y, 10.4% of total).

Preleasing becoming trendy

The vacancy rate kept dropping and represented 12.6% of an inventory that has expanded in recent years. Despite preleasing activities being muted over recent years, this trend is beginning to reverse linked to the low levels of availability of good quality accessible space. Indeed, the choice for occupiers looking for larger floor plates in high standard A class buildings available immediately is already limited and this is forcing some occupiers to move early into the pipeline projects and wait to relocate. The 30,810 square meters strong development pipeline under the circumstances will be a welcomed addition and looks like it can address the demand, however with the threat of imbalance and oversupply.

Subdued outlook for investment in short term

No deals concluded in Q4 however, there are a number of deals in the pipeline, all sharing the common thread of security of rental income. There is however, a dearth of suitable assets available and this will continue to hinder larger activity levels in the short term.

Currency exchange rate pressuring asking prices

The outlook is for a relatively active investment market in longer term in light of the considerable pipeline of deals in varying stages of negotiation. Occupational activity should remain moderate based on relocations, until the final leasing stages of the Freedom Square (Alliance Center), King David and Axis Towers. USD/GEL exchange rate has had an impact on asking prices across all building classes during the year, including some incentive packages as well.

MARKET INDICATORS

Market Outlook

Prime Rents:	Decreasing further, although the rate may slow.	◢
Prime Yields:	Remaining under downward pressure across prime markets.	◢
Supply:	The current amount of speculative new development will see overall supply levels rise.	◥
Demand:	Strengthening further in core markets.	◥

Prime Office rents – December 2016

BUSINESS CENTER	TOTAL SIZE IN SQ.M	VACANCY RATE IN %	PRICE PER SQ.M IN USD
GMT Plaza	3,000	13%	45
Green Building	2,416	8%	30
BCV Redix	12,000	24%	23
Pixel 34	15,400	8%	27
Besiki Business Center	13,261	2%	20
Mantashevi Business Center	4,500	5%	25
Tabidze 1	9,110	1%	40
Grato	6,000	20%	20
Pirimze Plaza	9,000	4%	20
BC on Chavchavadze	5,636	5%	16
Tiflis Business Tower	6,000	5%	15
BC on Khetagurov	2,000	0%	15
Sa-Ga Business Center	3,696	45%	15
Meidan Palace	4,000	0%	25
Merani Shopping Galery	4,006	0%	23
Tarkhnishvili BC	2,495	0%	18
Rea Business Center	6,500	35%	*for sale only*
Aghmashenebeli BC	4,000	6%	20

Prime of New Office Space

BUSINESS CENTER	CLASS	TOTAL SIZE IN SQ.M	COMPL. YEAR	CURRENT STATUS
Freedom Square	A	5,530	2016	ongoing
Axis Towers	A	16,500	2017	ongoing
King David	A	8,780	2017	ongoing

Leah Rusia Beselidze
Director | Valuation & Advisory
71 Vazha-Pshavela Ave.,10blk, 6th fl.
Tbilisi, 0186, Georgia
Tel: +995 (0) 32 247 48 49
leah.rusia@cushwake.ge
cushmanwakefield.ge