

Georgia | Retail Market Report 2014



Accelerating success.



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Executive Summary

Accelerating growth of GDP and household expenditure has driven demand for retail real estate in Tbilisi over recent years.

During the last decade the Georgian economy has made significant progress, which has been reflected in GDP and average salary growth of 3.13 and 6.14 times respectively.

Along with the development of GDP and the retail trade sector, annual per capita retail expenditure has been growing during the last decade. Per capita retail spending has doubled from GEL 591 in 2005 to GEL 1,218 (around USD 700) in 2011. The share of spending on food is very high (60% in 2013), but there is clear evidence that this is decreasing (65% in 2011).

This growth has resulted in increased demand for retail space. Together with the number of new international brand entries in recent years, existing retailers are expanding their branches throughout the country. The fastest growing sectors include fast food retailers, supermarkets and fashion brands.

Supply of modern shopping centres rises but still remains far behind the CEE average.

The total amount of retail space in the three main Georgian cities amounts to around 1.1 million sqm, out of which 80% is concentrated in Tbilisi, 11% and 9% in Batumi and Kutaisi respectively.

During the last two years the total volume of shopping centre supply in Georgia grew by 28% approximately and currently amounts to 292,000 sqm. Growth has mainly been driven by developments in the capital, Tbilisi. After the opening of the country's first large modern mall in 2012 (Tbilisi Mall), the next major scheme (East Point) will start operations at the beginning of next year.

Shopping centre supply in Georgia will rise by 42% in 2015 and by 10% in 2016. Despite this, the country will still remain far behind the CEE average level of shopping centre supply.

Prime rents in Tbilisi stand below the CEE average, while yields exceed average CEE figures significantly.

The prime high street rent in Tbilisi is around USD 60 per sqm, which exceeds several Eastern European cities (Tallinn, Riga, Sofia, Tirana, Vilnius, Bratislava), but is 27% less than the average CEE figure.

The prime shopping centre rent in Tbilisi exceeds only Zagreb and Sofia figures and equals USD 40 per sqm, which is around half of the CEE average.

The estimated prime retail yield in Tbilisi is 13% for shopping centres and 12% for street retail, which exceeds average CEE figures (8.6% and 9.1%) significantly.

The shopping centre vacancy rate in Tbilisi is declining gradually and street retail vacancy has not changed noticeably.

At the end of H1 2014 the average shopping centre vacancy rate in Tbilisi stands at around 19%, which is declining gradually after the highest rate in H1 2012 (29%), when the biggest shopping centre - Tbilisi Mall - was opened.

In the first half of 2015 another large shopping centre – East Point - will be opened, almost 70% of which, is pre-leased.

The average vacancy rate for street retail is more stable than for shopping centres. At the end of H1 2014 it equals 11%.

The retail real estate market in Batumi and Kutaisi is in a very early stage of development

Batumi Plaza is the only shopping centre (approximately 8,000 sqm – around 6% of total retail space) in Batumi, but in the next two years supply will increase more than three times in the city. The average rent in Batumi is around USD 11-14 per sqm.

During the last two years several small-sized shopping centres were opened in Kutaisi with a total amount of GLA 23,000 sqm and the share of shopping centre space in total retail space supply reached 25%. By the end of 2014, average retail rents in Kutaisi varies between USD 14-15 per sqm.

International brands are currently poorly represented in Batumi and Kutaisi, but some retailers plan to expand their chains in these cities during next few years.



Georgia – Country Profile

Introduction

Georgia is located between Asia and Europe and occupies a land area of 69,700 sq. km. It neighbours Turkey to the southwest, Azerbaijan to the east, Russia to the north and Armenia to the south.

Georgia declared independence on 9 April 1991, following the dissolution of the Soviet Union.

Economy

Georgia achieved robust economic growth between 2003-2014, averaging 6.3 percent annually, following structural reforms that stimulated capital inflows and investment. The reforms helped to improve the business environment, strengthened public finances, upgraded infrastructure facilities and liberalized trade. Growth was also supported by increased foreign direct investments (FDI) and was driven by capital accumulation and sound use of excess capacity rather than by net job creation, with productivity gains concentrated mainly in the non-tradable sectors. GDP per capita increased from \$919 in 2003 to \$3,763 in 2014 (in current prices, 2014 - preliminary data). GDP growth rate amounted to 4.7% in 2014. According to IMF, Georgia has one of the highest forecasted GDP growth rates among Eastern European countries and its neighbors during 2014-2015. Major foreign investors in Georgia include: BP, Socar, Heidelberg Cement, RAKIA Group and MAF.

Government

Georgia is a democratic, Presidential-Parliamentary republic whereby the President is the Head of State and the Prime Minister is the Head of Government. As a result of the presidential elections held on October 27, 2013, Giorgi Margvelashvili was elected as the president from the coalition "Georgian Dream". The new cabinet of ministers was established in November, headed by Irakli Gharibashvili. According to the declared strategy, joining the EU and NATO are among the country's top foreign policy objectives.

Tax system

To enhance Georgia's Investment & Business Climate, the Government has dramatically overhauled its tax system since 2004. By implementing a liberal reform agenda, Georgia has simplified its processes and has reduced the number of taxes from 21 in 2004 to only 6 today.

- Value Added Tax (from 20% has been reduced to 18%)
- Income Tax (20%)
- Profit Tax (corporate tax 20% has been reduced to 15%)
- Excise
- Property Tax (1%)
- Customs Tax (0%, 5% or 12%)

These improvements have made Georgia one of the most attractive tax regimes globally. In 2009, Forbes Magazine designated Georgia as the "4th Least Tax-Burdened Country". Since 2008 Georgia has initiated and concluded Avoidance of Double Taxation Agreements with its major trade partners. Currently, Georgia has 46 active agreements. Additional reforms are projected to decrease tax rates even further in the next few years.

Population

The Georgian population is approximately 4.49 million. This figure has grown since 2006 by 2%. About 54% of the total population lives in urban areas and the urbanization rate has been increasing since 2006.

83.8% of the Georgian population are Georgians by ethnic origin. The second largest share - 6.5% are Azeri, followed by Armenians – 5.7% and Russians – 1.5%.

Recent Developments

In June of 2014, the Association Agreement between Georgia and the European Union was signed. This agreement aims to expand political and economic relations between Georgia and the European Union and to gradually integrate Georgia into the European Union's internal market.

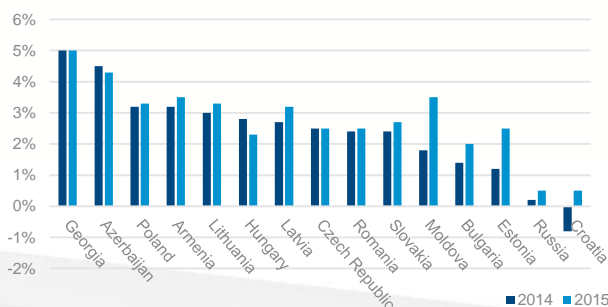
Georgia's international ratings has been revised In 2014:

- Standard & Poor's: BB- Stable (Affirmed in May 2014)
- Moody's: Ba3 Positive (Affirmed in August 2014)
- Fitch Rating: BB- Positive (Affirmed in October 2014)

The Heritage Foundation ranked Georgia the 22nd among 178 countries in Economic Freedom Ranking.

In the World Bank's "Ease of Doing Business Index 2014", Georgia ranks 15th out of the surveyed 189 economies. In the same ranking in 2006 Georgia held the 100th position. According to the Global Peace Index (GPI) issued by Institute for Economics and Peace (IEP) in 2015, Georgia is fourth safest country in the World.

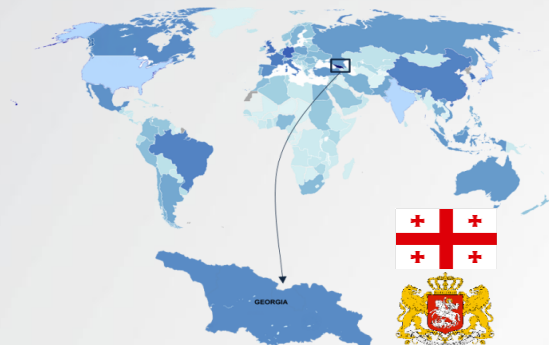
GDP growth forecasts, 2014-2015



Key Socio-Economic Indicators	2010	2011	2012	2013	2014F
Area	69 700 sq. km				
Population 2014	4.49 mln				
Capital	Tbilisi				
Currency (code)	Lari (GEL)				
GDP at current prices, mil. USD	11,636	14,438	15,846	16,140	16,890*
GDP - Real Growth Rate	6.2%	7.2%	6.4%	3.3%	4.7%*
GDP - Per Capita 2013	\$2,623	\$3,231	\$3,523	\$3,600	\$3,763*
Inflation rate (12 months average)	7.1%	8.5%	-0.9%	-0.5%	3.1%
Unemployment rate	16.3%	15.1%	15%	14.6%	N/A
Total exports (mln. USD)-FOB	\$1,677	\$2,189	\$2,375	\$2,908	\$2,861*
Total imports (mln. USD)-CIF	\$5,257	\$7,058	\$7,902	\$7,885	\$8,596*
Trade surplus/deficit 2013 (mln. USD) FOB-CIF	(3,580)	(4,869)	(5,527)	(4,977)	(5,735)*
Exchange rate - USD/GEL	1.7826	1.6860	1.6513	1.6634	1.7659
Exchange rate - EUR/GEL	2.3644	2.3473	2.1232	2.2094	2.3462

*Preliminary data

Source: www.geostat.ge www.nbg.ge www.imf.org





Georgia – Country Profile

Business and Investment Environment

Georgian government efforts to reduce corruption in public and private sectors have significantly improved Georgia's ranking in the World Bank's Doing Business Survey. By the latest survey it stands on 15th position among 189 countries. Georgia ranks as 1st in property registration, 3rd in dealing with construction permits, 5th in starting a business and 7th in getting the credit.

Among transitional economies, Georgia has improved its ranking in the Corruption Perception Index from 85 to 50 in the years 2002-2005. The Georgian tax system was simplified, customs duties were reduced and procedures for granting licenses and permits were simplified. According to Forbes, Georgia was ranked as 4th least tax burden country in 2008. At present Georgia enjoys free trade agreement with Turkey and nearly all CIS countries. Georgia is eligible for Most Favored Nation (MFN) treatment from all the WTO member states and is the member of WTO since 2000. Georgia has been granted a Generalized Scheme of Preferences (GSP) treatment by the following countries: the EU, the USA, Japan, Canada, Switzerland and Norway.

The Association Agreement between Georgia and the European Union, signed in June 2014, includes the setting up of a Deep and Comprehensive Free Trade Area (DCFTA). The DCFTA has been enacted since September 2014, therefore products or services produced in Georgia can freely access to the EU market with more than 500 million consumers. DCFTA will contribute to economic growth, integration with world markets and global supply chains, and will open new prospects for Georgia and for entrepreneurs doing business in our country.

In 2015, the Government of Georgia began negotiations on signing the Free trade Agreement with the European Free Trade Association (EFTA) that unities Switzerland, Norway, Island and Lichtenstein. After the signing an agreement with the EFTA, market of high purchasing value will open for the Georgian products and services that unities 4 countries and more that 13 million customers.

Legal System

The Constitution, adopted in 1995, sets out the structure of the national government as well as its powers and functions. The powers of government are divided into three branches – legislative, executive and judicial. The court system in Georgia has three branches: Courts of First Instance (District or City Courts), Appellate Courts and the Supreme Court. First Instance Courts have jurisdiction over all civil, criminal and administrative cases. Decisions from First Instance Courts may be appealed to the Appellate Courts and, from there, to the Supreme Court. The Constitutional Court of Georgia is the sole organ of constitutional jurisdiction of Georgia.

As an alternative to litigation, Georgia allows for third party arbitration. Georgian law also allows foreign companies to include provisions in their contracts (including those with Georgian entities) that allow for arbitration by international arbitration institutions.

Infrastructure & Transport

Located on the shortest route between Europe and Asia, Georgia's transport system is a key link in the historic "Silk Road."

It is believed that long-term growth will stem from Georgia's role as a transit state for pipelines. Three pipelines currently exist:

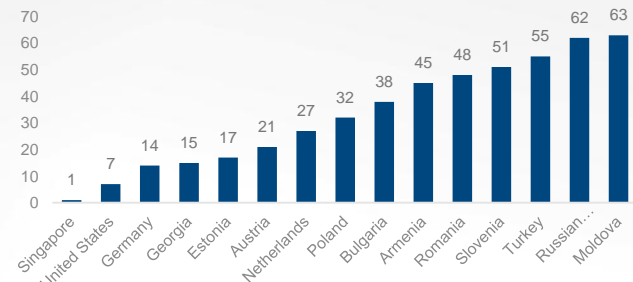
- The **Baku-Supsa pipeline** (GPC-Georgian Pipeline Company) runs 814 km from Baku to Supsa (444 km in Azerbaijan and 370 km in Georgia) and transports "early oil" from the Caspian Sea region.
- The **Baku-Tbilisi-Ceyhan (BTC)** oil pipeline extends 1,750 km across Azerbaijan, Georgia and Turkey and is designed to transport up to one million barrels of Azeri oil per day. The oil is transported via Georgia to the Turkish port of Ceyhan.
- The **South Caucasus Pipeline (SCP)** System project was completed in late 2006. The initial capacity of the pipeline is 8.8 billion cubic meters (bcm) of gas per year and, after 2017, its capacity could be expanded to 20 bcm per year. As part of the transit payment, Georgia will receive 5% of the volume of natural gas transited from Azerbaijan to Turkey. One of the main partner and operator of the project is BP.

Four **airports** with a total capacity of 3,100 passengers per hour, serve the country in Tbilisi, Batumi, Kutaisi and Mestia. The total length of **railway** amounts 1,612 km, with capacity of 3.3 million passengers per year and the length of roadways amounts 19,109 km. Completion of the Baku-Tbilisi-Kars (BTK) railway in 2015 will also stimulate advancement of Georgian Railway. Major sea ports are located in Poti and Batumi. The Government of Georgia strives to enhance port infrastructure. For this purpose, particular importance is attached to the construction of the new Deep Sea port in Anaklia. Construction of the new port is strategically important and shall result in significant increase in cargo turnover through Georgia.

Energy

Georgia has a developed, stable and reliable energy sector but efforts are required to improve the efficiency in domestic energy use. The most promising source of additional energy generation is hydropower and the Government is focused on securing private investments for the construction of new hydropower stations. In 2012 9.694 billion kWh was produced in Georgia and consumption amounted 9.379 billion kWh. With a large number of planned investments in energy sector it is expected that Georgia will be fully energy self-sufficient by the year 2020.

Rankings on the ease of doing business



Source: www.doingbusiness.org

Retail Market Fundamentals

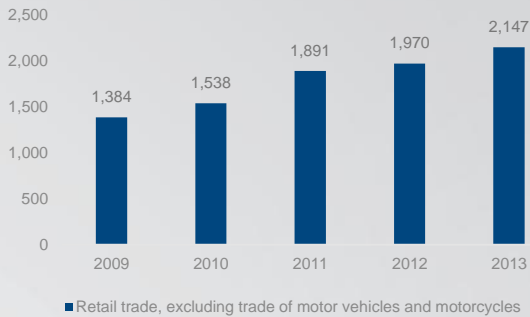
With 9% of national gross output in 2013, retail trade is the largest economic sector in Georgia. Output has been increasing steadily since 2009, with average annual growth of 11.8%. Including wholesale trade, fuel and repairs, the entire trade sector accounts for 17.3% of national GDP, illustrating its importance to the economy of the country. Employment in the sector is 117,343- around 23% of total employment in Georgia.

With its 81% share, Tbilisi has a dominating position in the trade economy of Georgia. The sector accounts for around 27% of Tbilisi GDP. The average growth rate of the trade sector in Tbilisi was 20% during last three years. Adjara and Imereti are another large regions of trade with 5% and 4% of trade sector in Georgia respectively.

Along with the development of the retail trade sector, annual per capita retail expenditure has been growing during last decade. Per capita retail spending has doubled from GEL 591 in 2005 to GEL 1,218 (around USD 700) in 2011. In international comparison, this looks still very low, which is also reflected in its structure. The share of spending on food is very high (60% in 2013), but there is clear evidence that this is decreasing (65% in 2011).

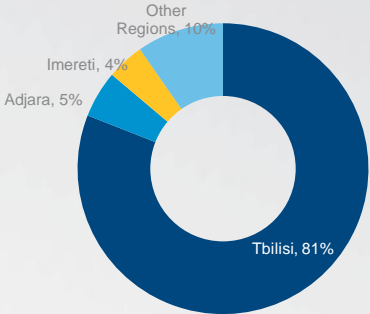


Gross output in retail trade (million GEL)



Source: National Statistics Office of Georgia

Retail trade in Georgia 2013



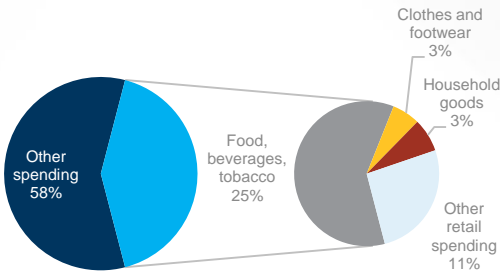
Source: National Statistics Office of Georgia

Average annual spending per capita (GEL)



Source: National Statistics Office of Georgia

Consumer spending pattern in Georgia 2013



Source: National Statistics Office of Georgia

Georgia Retail Market Overview

Supply

Although the Georgian retail landscape is still dominated by traditional supply, modern shopping centre development is accelerating. During the last two years the total volume of shopping centre supply in Georgia grew by 28% approximately and currently amounts to 292,000 sqm. Growth has mainly been driven by developments in the capital, Tbilisi. After the opening of the country's first large modern mall in 2012 (Tbilisi Mall), the next major scheme (East Point) will start operations at the beginning of next year.

The total amount of retail space in the three main Georgian cities amounts to around 1.1 million sqm, out of which 80% is concentrated in capital - Tbilisi, 11% and 9% in Batumi and Kutaisi respectively. Tbilisi is the largest city of the country with a population of 1.2 million. It is the industrial, cultural and social centre of Georgia. Tbilisi can attract another 500,000 people within 1 hour drive distance. It is worth mentioning that modern shopping centre supply hardly exists outside the capital Tbilisi. In addition, modern big box supply does not exist in Georgia.

Despite the fact that during the next two years supply of shopping centre space in Georgia will increase by 42% and 10% respectively, the country will still remain far behind the CEE average level of shopping centre supply.

Occupier demand

The main occupiers of retail real estate in Georgia are fashion brands, supermarkets, fast food chains and consumer electronics. Banks and pharmaceutical companies occupy quite a significant share of retail space in comparison with European cities. Although Tbilisi is the most attractive city for international retail brands in Georgia, some of them have extension plans in other cities of the country, especially Batumi and Kutaisi.

Modern fashion retail in Georgia is primarily operated by franchisers. The major representative on the market is Retail Group Georgia, part of Saudi-Arabian Fawaz Al Hokair, the official licensee of the Inditex Group in the Caucasus Region. They represent 35 international brands, such as Zara, Marks & Spencer, Gap, Banana Republic, Aldo etc. The company has expansion plans in Tbilisi.

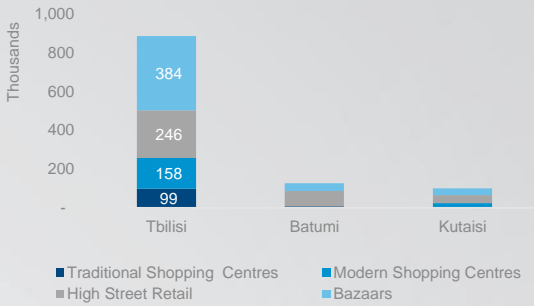
Another major player on Georgian fashion retail market is international corporation ICR, which represents European brands of clothing, footwear and accessories such as Ecco, Geox, Bata, Okaïdi & Obaïbi etc. as well as the My Home furniture store, food brands Brioche Dorée - chain of café-bakeries, and one of the Italian Pomodorissimo -pizzeria-steakhouse. Among fashion retailers should also mentioned Address LTD – representative of Celio, Tom Tailor, 123, Etam, Promod etc. and Debeni LTD – representative of LC Waikiki, Mango, Debenhams etc.

After its first entry in 2012, Carrefour has opened two additional stores in Tbilisi and plans to open another five branches in the next two years in Tbilisi and considers other locations outside of the capital. The recent entry of Spar should also be noted, which will operate up to 50 stores by the end of 2014. Furshet is increasing its chain up to seven branches by the end of this year. Together with international brand entries, Georgian supermarket chains – Fresco, Smart and 2 Steps have aggressive plans for future expansion in the next two years.

Competition in the Georgian fast food market grows significantly, driven by the expansion plans of McDonalds, Wendy's, Subway and recent entries of KFC, Dunkin' Donuts, Coffee Bean and Domino's Pizza.

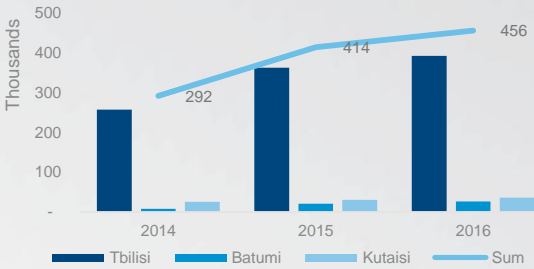
Other key retailers in Georgia include consumer electronics chains Elit Electronics, Metro Mart, Smiley and OK, Georgian banks, and pharmaceutical companies.

Retail space supply in Georgia 2014 (sqm)



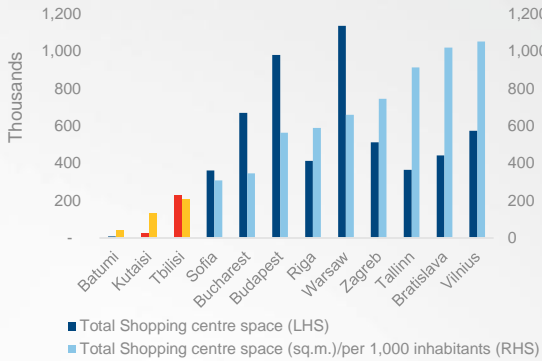
Source: Colliers International

Total shopping centre supply in Georgia (sqm)



Source: Colliers International

Benchmarking of modern shopping centre supply



Source: Colliers International

Recent entrants (2012-2014)



Tbilisi Retail Market

Supply

The total volume of retail floorspace in Tbilisi amounts to 887,280 sqm. The largest share of Tbilisi retail floorspace is occupied by bazaars and open markets (43%), with 28% of space allocated to street retail and 29% for shopping centres.

It is worth noting that throughout the last four years the amount of shopping centre supply has gradually increased as a proportion of total retail supply. In 2010, it amounted to only 16 % of total retail space supply, whereas by the first half of 2014 it amounted to 29% of total retail floorspace.

In 2014, 28,900 sqm GLA was added to shopping centre supply in Tbilisi (Tbilisi Sea Plaza – 22,000 sqm and Irao 6,900 sqm) and by the end of 2014 another 25,200 sqm will be added to the market, including Gldani Plaza (6,200 sqm) and Gldani Mall (19,000 sqm). By 2015, the total supply of shopping centres will further increase by 41%, primarily because of the opening of the new shopping mall East Point, with 72,000 sqm GLA.

Many shopping centres in Tbilisi, even recent constructions, have more than three levels/floors and most of the higher floors remain vacant. One of the main characteristics of shopping centres in Tbilisi is that developers sell small units within the shopping mall to different individuals or tenants. Of course this fact makes property management more difficult and decreases the investment attractiveness of the shopping mall.

The most prestigious streets in Tbilisi are located in the Vake-Saburtalo and Old Tbilisi districts. The highest retail rents of USD 55-60 per sq. m. are typically achieved on Pekini Street and Rustaveli Avenue. Chavchavadze Avenue, together with the recently renovated Marjanishvili Street and Aghmashenebeli Avenue are becoming increasingly attractive for high quality tenants.

Demand

The annual per capita retail expenditure in Tbilisi has been growing in recent years. In 2013 the expenditure figure amounted GEL 3,496, which is 20% more than the country's average. 47% of total annual expenditure in Tbilisi comes from retail expenditure, which is 5% more than the country's average figure.

Popularity of online shopping is significantly growing during the recent years. Currently, 11% of Tbilisi population buy clothes on internet, same figures for shoes and accessories amount to 9% and 8% accordingly.

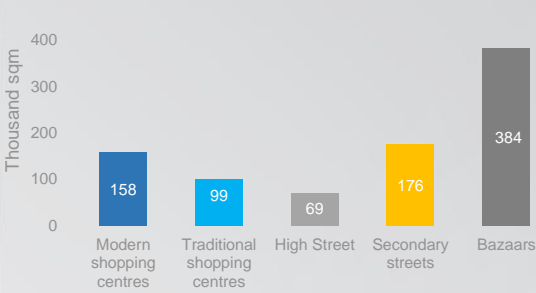
Due to the fact that the vast majority of Bazaars and open style markets are occupied by individuals and local non-brand shops, branded occupiers account for just 31% of retail space in Tbilisi.

Major fashion retailers in Tbilisi include Retail Group Georgia and International Corporation ICR. They represent almost 60 different brands. Zara, Massimo Dutti, Gap, Banana Republic, Aldo Ecco, Geox, Tamaris, Sketchers, Okaidi & Obaibi should be noted among them.

Consumer electronics brands are represented by Georgian Companies such as Elit Electronics, Metro Mart, Okay, Smiley, Alta, Galaxy etc. They are continuously expanding their networks, not only in street retail, but also in shopping centres.

Together with the recent entries of Spar, Furshet, Wendy's and Dunkin' Donuts, existing modern supermarkets and fast food operators are rapidly developing their chains in Tbilisi. Despite this, banks and drug stores should not be excluded from the core occupiers of the retail market in Tbilisi.

Retail space supply in Tbilisi 2014 (sqm)



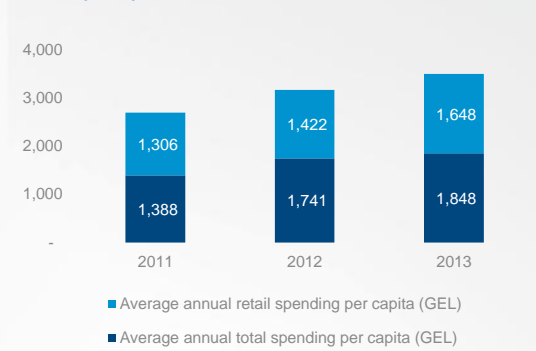
Source: Colliers International

Shopping centre supply in Tbilisi (sqm)



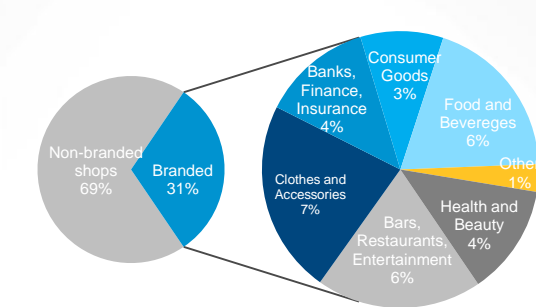
Source: Colliers International

Average annual spending per capita in Tbilisi (GEL)



Source: National Statistics Office of Georgia

Occupier demand in Tbilisi 2014



Source: Colliers International

Performance indicators

The average high street retail rent in Tbilisi exceeds the same figure in shopping centres by USD 10 per sqm and stands at around USD 40 per sqm. The average rents in traditional shopping centres and secondary streets varies between USD 18-22 per sqm.

The highest rents in street retail are achieved at Rustaveli Avenue and Pekini Street at USD 55-60 per sqm. Chavchavadze Avenue and the newly refurbished Aghmashenebeli Avenue, together with Marjanishvili Street can also be considered as high streets of the city. The average rents on these streets stands at around USD 35-40 per sqm.

Merani Shopping Gallery and Tbilisi Mall achieve the highest average rents among modern shopping centres USD 35-38 per sqm. Some of the traditional shopping centres are well located and respectively, their rents stand above the average figure, Kidobani (USD 24) and Passage (USD 30) are examples.

The street retail average selling prices in Tbilisi varies between USD 1,200-USD 4,900 per sqm net of VAT, depending on location and attractiveness of the street. The highest selling prices are indicated at Rustaveli Avenue and Pekini Street, USD 4,932 and USD 4,785 per sqm net of VAT.

At the end of H1 2014 the average vacancy rate of shopping centres stood at 26%. This figure has decreased gradually since the highest figure in H1 2012, when the biggest shopping centre – Tbilisi Mall was opened. In the first half of 2015 another large shopping centre – East Point - will be opened, almost 70% of which is preleased. The average vacancy rate of street retail is more stable than in shopping centres. At the end of H1 2014 it equalled 11%.

International benchmark

The prime high street rent in Tbilisi is around USD 60 per sqm and the prime shopping centre rent is USD 40 per sqm. These figures are below the CEE average by 27% and 54% respectively.

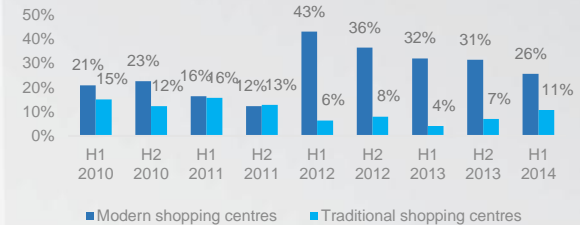
The commercial real estate investment market in Tbilisi is in an early stage of development. Institutional real estate investors are not active in the country and, accordingly, large investment transactions have not been recorded in the retail real estate market. The estimated prime retail yield in Tbilisi is 13% for shopping centres and 12% for street retail, which exceeds average CEE figures significantly.

Average retail rents in Tbilisi (USD per sqm per month excl. VAT and service charges)



Source: Colliers International

Vacancy rates in Tbilisi



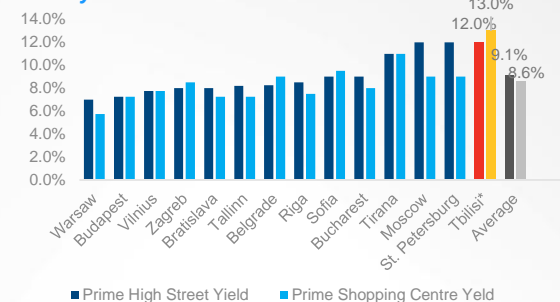
Source: Colliers International

Prime rents 2014 (USD per sqm per month excl. VAT and service charges)



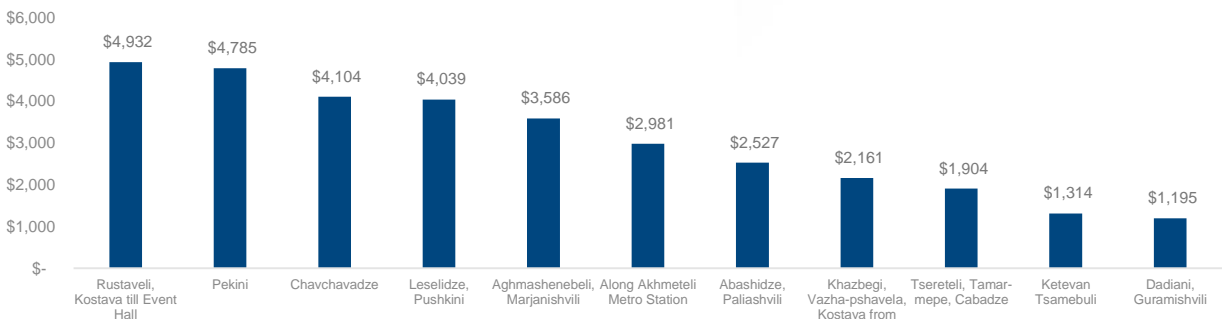
Source: Colliers International

Prime yields 2014



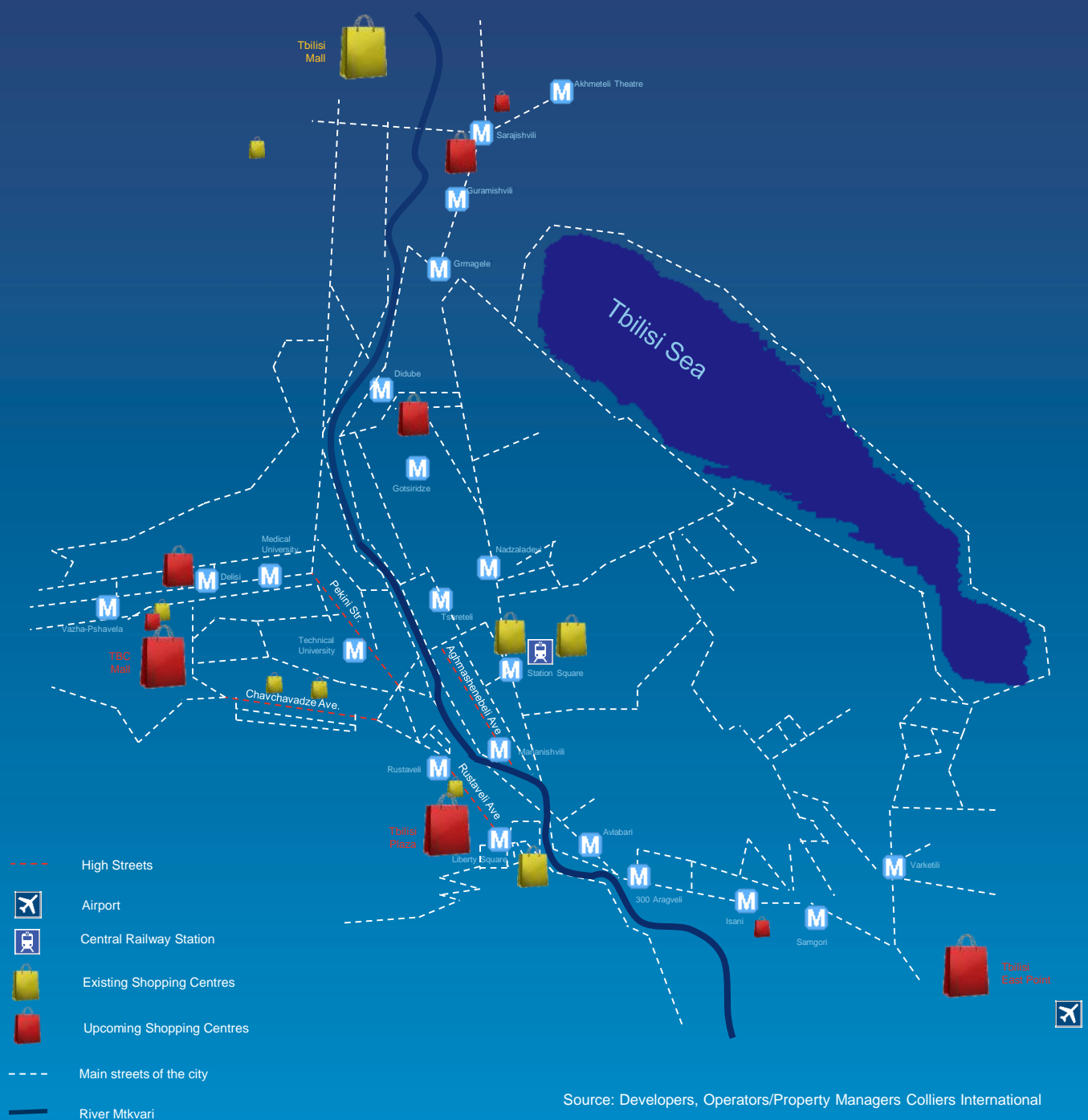
Source: Colliers International

Average street retail sale prices in Tbilisi (USD per sqm excl. VAT) 2014



Source: Colliers International

Retail Map of Tbilisi



Batumi Retail Market

Batumi is an administrative centre of Adjara Region. Batumi seaport is Georgia's main sea gateway. Today, Batumi is a fast-growing tourist region. Batumi has undergone serious changes and reforms, significantly improving its worldwide image and making its investment climate more attractive to foreign investors. The hospitality market in Batumi is developing as the inflow of foreign visitors, businessmen and delegations increases at a fast pace, which is attracting well-known international hotel chains. The total population of Batumi is around 161,000. The city targets another 166,000 persons within 1 hours driving distance.

Supply

The total amount of retail space in Batumi is 128,000 sqm, which is dominated by high street retail (62%). The only shopping centre is Batumi Plaza, which is a mixed-use building in the centre of the city, with local tenants. Bazaars and open markets constitute a large proportion of total supply (32%) and are fully occupied by suppliers of agricultural products and construction materials.

Old Batumi, Gorgiladze Street and Chavchavadze Avenue are the major high streets of the city, offering tourists various attractions, cafes, restaurants and fashion shops.

With a number of announced future projects, shopping centre supply will rise by 3.3 times in the next two years in Batumi. The majority of the pipeline includes retail space attached to residential developments. There is no confirmed future large scale shopping mall in Batumi.

Demand

Retail space demand in Batumi is mainly dominated by local non brand tenants (81%). Entertainment facilities (including restaurants, bars, gaming venues) and financial institutions occupy the major high quality retail spaces.

The main fashion brands represented in Batumi are: LC Waikiki, Puma, Koton, Shoes Gallery, Bata, Alcott, Okaidi Obaïbi etc. Other international fashion brands already operating Georgia are viewing the retail market in Batumi with increasing interest.

Modern supermarket chains such as Goodwill, Smart and Foodmart are operating in Batumi and Carrefour will likely enter the market soon.

Currently, McDonald's is the only international fast food restaurant in Batumi, but other supermarket and fast food brands are going to expand their chains in the city in the near future.

Performance indicators

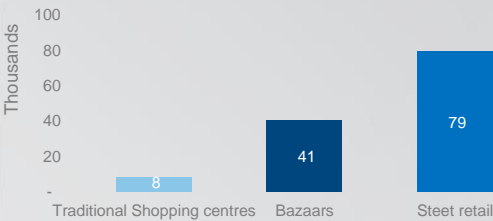
Retail rents in Batumi range from USD 10-14 per sqm. Old Batumi and Gorgiladze Street are the most prestigious locations in terms of retail rents. The average rent in these areas is USD 16 per sqm.

Chavchavadze Avenue is characterized as a main street for large size tenants (consumer electronics and furniture shops). Pushkini Street can be considered as an attractive location for construction materials' shops. The average rents along the mentioned streets varies between USD 12-14 per sqm.

The average selling price of high street retail units in Batumi is USD 1,445 per sqm net of VAT. The most prestigious streets are in old Batumi, where selling prices range mainly between USD 2,500 to USD 3,000 per sqm net of VAT.

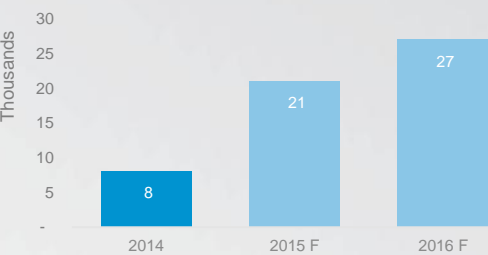
The average vacancy rate for street retail stands at around 9%-10% and is half the rate seen for shopping centres.

Retail space supply in Batumi 2014 (sqm)



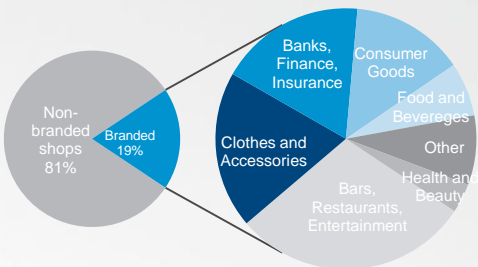
Source: Colliers International

Future shopping centre pipeline in Batumi (sqm)



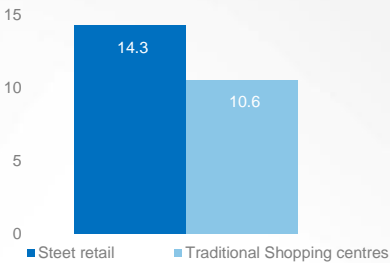
Source: Colliers International

Occupier demand in Batumi 2014



Source: Colliers International

Retail rents in Batumi 2014 (USD per sqm per month excl. VAT and service charges)



Source: Colliers International

Vacancy rates in Batumi 2014



Source: Colliers International

Retail Map of Batumi



Source: Developers, Operators/Property Managers Colliers International
Note: Future pipeline Includes projects above 3,000 sqm leasable area

Kutaisi Retail Market Overview

Kutaisi is the second largest city of Georgia located in the centre of Imereti region on both banks of the River Rioni. The foundation of Kutaisi can be traced back more than 3,500 years. Since May 2012 it appears as parliament city of the country. The construction of Kopitnari International Airport (Kutaisi) was finished in September 2012, with total capacity 500 passengers per hour. Its opening was marked by the launch of flights by the low-cost carrier (LCC) Wizz Air with direct flights from Kutaisi to Kiev, Budapest, Vilnius, Warsaw and Katowice. The total population of Kutaisi is around 197,000. The city targets another 373,000 persons within 1 hours driving distance.

Supply

The total amount of retail space in Kutaisi is 101,000 sqm which is dominated by high street retail (40%). Around 35% of total supply is Bazaars, which are fully occupied by suppliers of agricultural products and construction materials. During the last two years four small-sized shopping centres were opened with a total amount of GLA 22,850 sqm.

The major high streets in Kutaisi include Chavchavadze Avenue, Gamsakhurdia, Rustaveli and Old Kutaisi streets.

The future shopping centre pipeline in Kutaisi includes two projects with a total floorspace of around 10,380 sqm.

Demand

Retail space demand in Kutaisi is dominated by local non brand tenants (84%). There are limited number of international brands represented on the market. The brands of retailer ICR (Okaidi Obaiy, Parfois, Bata, Alcott) are the main fashion brands in Kutaisi. McDonald's is the only international occupier on the fast food market in Kutaisi, but in the near future, entry of other fast food chains is expected.

Spar will start operations soon as it manages the supermarket chain Foodmart, which is represented by two branches in Kutaisi.

Other branded tenants include leading Georgian banks (Bank of Georgia, TBC, Bank Republic Societe Generale, Pro Credit, VTB), supermarkets (Smart, Nikora) consumer electronics shops (Elit Electronics, ARAI, Metro Mart, Electronics) and pharmaceutical companies (Aversi, PSP, GPC, Pharmadepo).

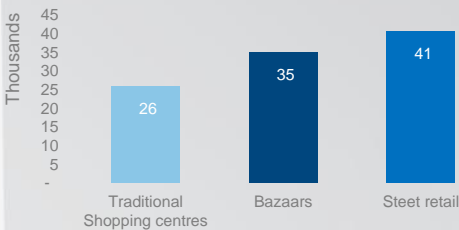
Performance indicators

Retail rents in Kutaisi range between USD 14-15 per sqm. Old Kutaisi is the most prestigious location for retail space, where the average rent amounts to USD 20 per sqm. The highest retail rents in Kutaisi are achieved in the 4,600 sqm Grand Mall on Chavchavadze Avenue, at USD 25 per sqm.

The average selling price in high street retail units in Kutaisi is around USD 1,500 per sqm net of VAT. The most prestigious locations are streets of old Kutaisi, where selling price amounts to USD 2,500-3,000 per sqm net of VAT.

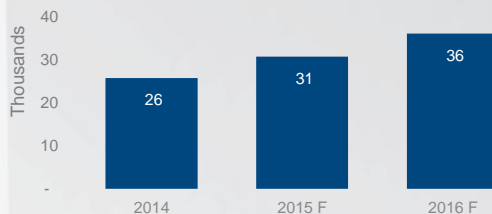
The average vacancy rate of street retail stands at around 18%-and the same figure for shopping centres at the end of H1 2014 is around 32%, which is mainly caused by the high vacancy rate (91%) in the recently opened Iberia Star shopping centre.

Retail space supply in Kutaisi 2014 (sqm)



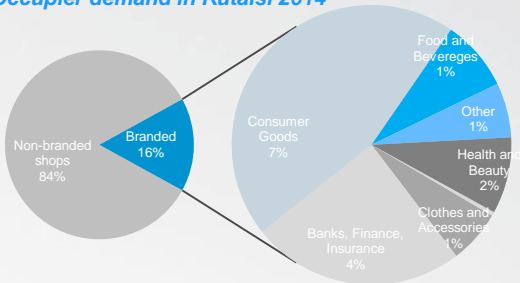
Source: Colliers International

Future shopping centre pipeline in Kutaisi (sqm)



Source: Colliers International

Occupier demand in Kutaisi 2014



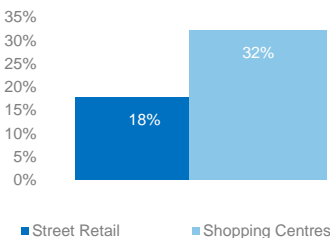
Source: Colliers International

Retail rents in Kutaisi 2014 (USD per sqm per month excl. VAT and service charges)



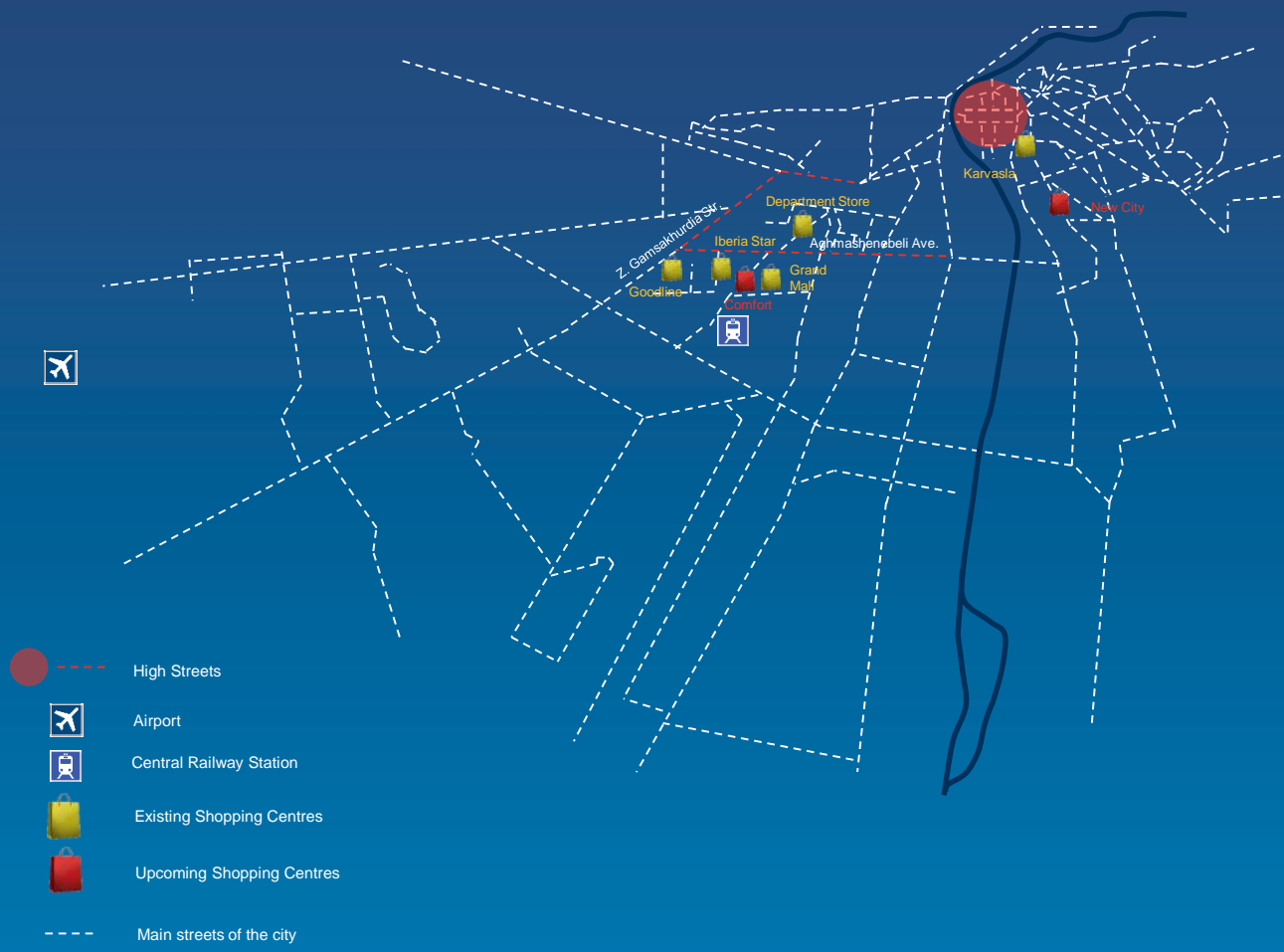
Source: Colliers International

Vacancy rates in Kutaisi 2014



Source: Colliers International

Retail Map of Kutaisi



Source: Developers, Operators/Property Managers Colliers International

Note: Future pipeline Includes projects above 3,000 sqm leasable area



Conclusions and Outlook

Although the Georgian retail landscape is still dominated by traditional supply, modern shopping centre development is accelerating. After the opening of the country's first large modern mall in 2012 (Tbilisi Mall), the next major scheme (East Point) will start operations at the beginning of 2015. Currently, retail development is primarily driven by the expansion of modern supermarket formats (Carrefour, SPAR and Smart) and an increasing number of fast-food retailers, such as McDonald's, Wendy's, Subway and recent entrant KFC.

Given the country's urban structure, the bulk of expansion potential in the Georgian retail market can be found in the capital Tbilisi, the only city with a catchment area of sufficient size and affluence. The city's retail market is undergoing significant changes, driven by increasing competition between retailers and locations. The high street retail offer is strengthening and older shopping centres are undergoing refurbishment and – in some cases – repositioning, which is expected to continue further in the nearest future. Retailer interest is fuelled by the country's confirmed orientation towards Europe, its ever improving business climate and strategic location in the region. After the current surge in modern supermarket development, it is anticipated that international big box retailers will start to eye this market with increasing appetite.

It is worth mentioning, that during the recent years internet shopping is becoming increasingly popular in Georgia. Apart from the fact that significant portion of customers wary of online shopping, demand is still characterized by the growing trend.

There is a clear evidence that shopping tourism is also characterized by growing trend. Number of non-resident

visitors arrived for shopping purposes in Georgia increased by almost 5 times after 2010 and amounted to 491,000 persons in 2014 (9% of total visitors).

With Tbilisi leading the way, more retail chains are also expanding regionally. Outside Tbilisi, modern retail is virtually non-existent, with the exception of a small volume of high street supply and some modern supermarkets, mainly in the Kutaisi city of the Imereti Region. Other regional cities that offer potential are Batumi, Zugdidi, Poti and Telavi.

The embryonic real estate investment market in Georgia, featuring prime retail yields at around 12-13%, coupled with significant potential for rental increase, opens up a myriad of attractive investment opportunities. In addition, streamlining local property management practices alone will have the potential to add significant value.

For the coming years, the Georgian retail market will continue to offer attractive niches for retailers, developers and investors. With the country embarking on its journey towards integration with the European Union, demand for modern retail formats will continue to increase. The transformation towards a modern market has started and in the next phase shopping centres will see improved design and concept as new international developers enter the market.

After the declining trend of the shopping centre rent prices, the mentioned figure has stabilized and there is not expected it to be changed significantly. In addition, gap between street retail and shopping centre rents will grow further as street retail supply remains limited.

Appendix 1

Typical Lease Terms, Registration of Property,
Construction Permits

Typical Lease Terms

Retail lease contracts for one year and more period in Georgia should be registered in National Agency of Public Registry.

Typical lease terms in Georgia are based on fixed amount per sqm both in traditional shopping centres and high streets.

In the recently developed modern shopping centres, lease payments are calculated as the maximum amount of fixed rent and as a percentage turnover from net sales. In some cases lease terms are based only on tenant's net turnover.

As usual international branded tenants have three years and longer term contracts and lease contract period for non-branded tenants varies between one to three years.

The average brokerage fee for renting the property varies between 10%-15% of the first year's rent, depending on the lease term.

Registration of Property

In Georgia, the National Agency of Public Registry is the state institution responsible for registration of property, registering both transfers between private entities and state-owned properties.

In case of private transfer, the purchaser has two options:

- Via a notary – contract drafting and legalization by the notary and subsequent registration. The notary assumes responsibility for the content of the draft and its legalization. The presence of a translator and his signature on the bilingual purchase document is required and the translator assumes responsibility for the authenticity of texts. Time for preparation of the bilingual document and its legalization varies depending on the notary
- Via the National Agency of Public Registry – direct submission of the purchase contract for legalization and registration. In this case, the bilingual purchase document is to be drafted directly by both parties or by their authorized representatives. The Agency's representative certifies the signatures and may provide recommendations if the document is not accurately drafted, but does not carry any responsibility for the validity or its content.

The National Agency of Public Registry is represented in: a) Public Services Halls (Tbilisi, Gori, Kutaisi, Batumi, Ozurgeti, Mestia, Zugdidi, Rustavi, Marneuli, Gurjaani, Telavi, Kvareli and Akhaltsikhe) and b) regional departments of the National Agency of Public Registry (located in cities throughout the country).

In case the property is purchased from the state/municipality (privatization, auction or other form of purchase) the documents should be submitted directly to the Agency.

Times and fees for registration:

- 4 working days upon the submitting of documents (ordinary time) – the day of submission of documents is not counted – GEL 50 (registration fee per one property) + GEL 5 for certifying the document (GEL 5 per each document subject to submission)
- 1 working day – GEL 50 + GEL 5 for certifying the document
- On the day of submitting the agreement in the Agency – GEL 200 + GEL 5

Construction Permits

For the purposes of construction, buildings are divided into 5 types:

- 1st class buildings – no construction permit is required;
- 2nd class buildings – buildings with low risk factors;
- 3rd class buildings - buildings with medium risk factors;
- 4th class buildings - buildings with high risk factors,
- 5th class buildings – buildings with very high risk factors.

The permit issuance process is divided into 3 stages:

- Stage I – Statement of urban construction terms
- Stage II – Approval of architectural-construction project
- Stage III – Issuance of Construction Permit

State organs responsible for the issuance of permits:

Local self-governmental (municipal) organs – for II, III class buildings within the municipal territory (at stages I and II) except from Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi.

Local self-governmental (municipal) organs – for IV class buildings (at stages I and II) with the participation of corresponding state organs

Local self-governmental (municipal) organs – for II, III and IV class buildings (at III stage) independently (including Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi)

Tbilisi City Hall - for II, III and IV class buildings in Tbilisi Municipality (at all stages) independently

Corresponding local organs of Adjara Autonomous Republic and Abkhazia Autonomous Republic - for II, III and IV class (at all stages) on the territory of the Autonomous Republics

Local self-governmental (municipal) organs – II, III and IV class buildings (at stages I and II) for Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi – with the participation of the Ministry of Economy and Sustainable Development.

Ministry of Economy and Sustainable Development – for V class buildings

Ordinary terms per each stage (working days):

- Stage I
 - 12 days for II and III class buildings
 - 15 days for all IV class buildings, for Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi (excluding V class buildings), also for all buildings that

require ecological expertise

30 days for V class buildings

Stage II

- 18 days for II and III class buildings
- 20 days for all IV class buildings, for Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi (excluding V class buildings), also for all buildings that require ecological expertise and for V class buildings

Stage III

- 5 days for II, III and IV class buildings
- 10 days for V class buildings

Exceptions:

The special terms for permission process:

Construction permits concerning:

III class buildings with an intensity coefficient up to 1500 sq.m and for buildings with a height of up to the 14 meters that will be located on the territories where urbanization regulatory plans do not exist and are organized according to land use or which are organized according to the perspective development regulatory plans on the territory of Tbilisi – the permission process may involve II and III stages only

The simplified permit procedure may involve just 2 stages and the permit is issued in the second stage.

The terms for the simplified procedure are as follows:

- Stage I – 12 days for II and III class buildings
- 15 days for all IV class buildings, for Gudauri, Bakuriani, Bakhmaro, Ureki recreation territories and for special regulatory zones on the territory of Borjomi (including V class buildings), also for all buildings that require ecological expertise.
- Stage II (issue of permit) – 20 days for all classes

Permission fees:

The municipal organs determine the permission fees though the maximum limits are envisaged by the Law:

For all territory of Georgia – 1 (one) GEL per 1 sq. / m of construction territory

For construction of industrial buildings – 5 (five) GEL per 1 sq. / m of construction territory

Exceptions:

Investors seeking the construction of hotels in free tourism zones and investing not less than 1 000 000 (one million) GEL per each hotel are exempted from paying the permission fee.

Appendix 2

Primary Information Sources, Data Used for the Study,
Definition and Assumptions

Primary Information Sources, Data Used for The Study Definition and Assumptions

In the process of preparing the survey, we were guided by the information provided by property managers, governmental institutions/agencies (National Agency of Public Registry, National Statistics Office of Georgia, National Bank of Georgia, Ministry of Economy and Sustainable Development of Georgia, City Halls). Materials from various Georgian and foreign publications have also been used, such as, www.gnta.ge, www.geostat.ge, www.colliers.com. In addition, we developed our conclusions and recommendations based upon our own local market knowledge and insight.

Definition and Assumptions

DCFTA: Deep and Comprehensive Free Trade Agreement

FDI: Foreign Direct Investment

IMF: International Monetary Fund

GDP: Gross Domestic Product

GLA: Gross leasable area

sqm: Square metre

USD: The United States Dollar

VAT: Value added tax

Rent Prices: Are calculated based on the data provided by shopping centre developers, property managers, retail space owners, tenants, National Agency of Public Registry etc. all rents are calculated in USD per sqm per month net of VAT and service charges.

Total Space of Bazaars: Total retail stock of bazaars is calculated using GIS program. That means measuring occupied space on satellite map of Tbilisi and Batumi.

Total Space of High Street retail: We used GIS program for calculating total floor space of street retail in Tbilisi and Batumi. Based on market analysis we concluded that averagely less than half of ground floor space is occupied by tenants. Consequently we made 60% adjustment to total ground floor space.

High Street Rents: We analyzed listings provided by real estate portals and made adjustments for negotiation (10%). VAT (18%) and income tax (20%) was also excluded, where needed. We also obtained lease agreements from National Agency of Public Registry in order to have accurate information about existing rental rates on high streets.

Rents of Shopping Centers: Calculation of rental rates in shopping centers is based on the information provided by centres' administration and statements made by retail space owners. Actual lease contract are also requested and

analyzed from National Agency of Public Registry. The average rental rate does not comprise payments for additional services and taxes.

Vacancy Rates

Vacancy rate is calculated as ratio of total vacant stock to total stock within the specified area. Vacant Stock is calculated as total currently vacant within the specified area.

Demand: The measurement plans of retail spaces, provided by GREMIC (Georgian Real Estate and Investments Management Company) and retail market characteristics of Tbilisi were analyzed. Based on above mentioned analysis assumptions about average floor space occupied by different segment of tenants were done:

Category	Subcategory	sqm
Banks, Finance, Insurance	Banks	150
	Microfinance Organizations	100
	Lombard	20
Bars, Restaurants, Entertainment	Restaurants	500
	Café-Bars	100
	Entertainment and gaming centers	200
	Fast Food	100
	Confectionaries	100
Clothes and Accessories	Clothes and Shoes	150
	Sports Shops	150
	Jewelry and Accessories	50
	Optic Shops	50
Consumer Goods	Consumer Goods	300
Food and Drink	Supermarkets	250
	Hypermarkets	3000
	Groceries	50
Health and Beauty	Clinical and Esthetic Centers	200
	Pharmacies	50
	Beauty Salons	40
	Perfume	100
	Dental Clinics	100
Other	Book Shops	30
	Toy Shops	100
	Other	100

Correctness of the information: The information used in the survey is objective and Colliers believes that the report reflects current conditions in the Georgian retail market. However, Colliers cannot guarantee the accuracy of third party data referenced in the report and cannot be held responsible for that element. "Colliers International Georgia" is not responsible for possible consequences of any actions taken by the consumer/reader of the given survey.



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annual revenue

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billion square feet
under management

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and staff

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