

A wide-angle photograph of the Batumi skyline, Georgia, viewed from across the Black Sea. The city features several prominent buildings, including a tall, slender tower with a blue glass facade and a distinctive curved structure. The background shows green mountains under a clear blue sky. The water in the foreground is dark blue with gentle ripples.

BATUMI COMMERCIAL REAL ESTATE

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Shopping malls

Currently, four modern shopping malls are operating in Batumi (Batumi Mall, Metro City Forum, Black Sea Mall and DS Mall). By 2025, at least three new malls (Grand Mall, Orbi City and World Trade Center) will be open in the city, increasing the current gross leasable area (GLA) in shopping malls threefold. According to the largest real estate developers the future supply of shopping malls might be even higher.

Vacancy rates, which remained stable in 2020, started to rise in parallel with the expanding GLA. According to TBC Capital estimates, vacancies will reach 24% in 2025 due to the accelerated supply.

Weighted average rents in Batumi's modern shopping malls fell drastically during the pandemic (-37% YoY in 2020). The temporary closure of malls, drop in tenants' revenues, rental holidays provided by malls and turnover based lease agreements were the main factors that led to this decline. However, rents fully recovered after the pandemic and stood at 18 USD per SQM in June 2022.

Considering the opening of new high-end malls and positive economic outlook in the region, we expect weighted average rent in Batumi's shopping malls to increase by 19% YoY in 2023 and additional 26% in 2024-2025.

FIGURE 1

GLA in modern shopping malls (000' SQM) and vacancy rate

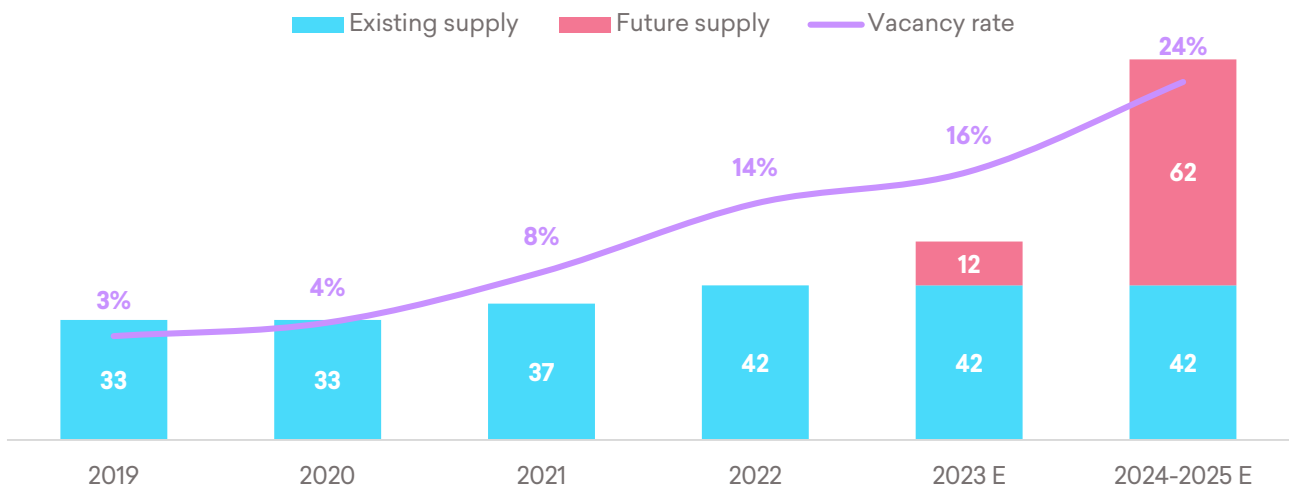
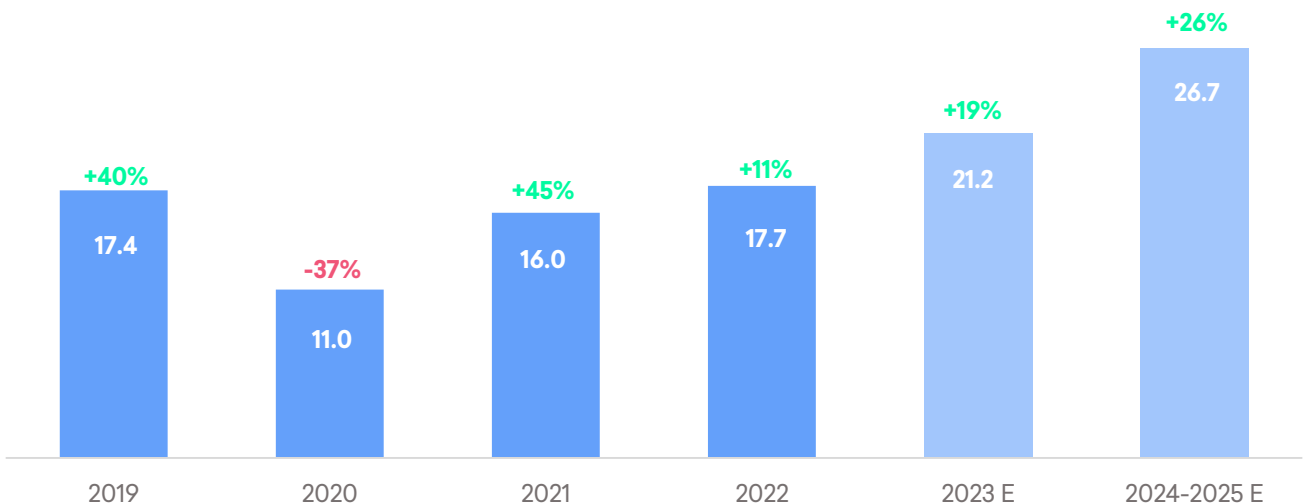


FIGURE 2

Weighted average actual rent in modern shopping malls (USD/SQM) and YoY change (%)



Source: TBC Capital

Street retail

Supply of retail properties in Batumi's high street has been gradually increasing in parallel with development of residential market and construction of multifunctional buildings. We expect the supply of GLA in Batumi's high street to expand by 5% YoY in 2022 and 9.2% in 2023-2024.

Weighted average actual rent fell by 11% YoY in 2020. Rents in contracts renewed or concluded during the pandemic were on average by 5%-10% lower compared to 2019. The pandemic had a negative impact on rental yield as well. Yield declined from 8.7% in 2019 to 7.3% in 2020. Similar to shopping malls, rents in Batumi's high street

have recovered (+4% in June 2022 compared to the June 2019). Rental yield also picked up, reaching 8.8%.

TBC Capital projects the growth of rents and yield in Batumi's high street to slow down in upcoming years due to higher competition from shopping malls.

Also, we expect that the emergence of new malls in Batumi will change the tenant structure in high street: retailers for clothing, consumer electronics, home goods will migrate to malls, while the share of FMCG and Pharmacy tenants will increase in high street.

FIGURE 3

GLA in high street (000' SQM)

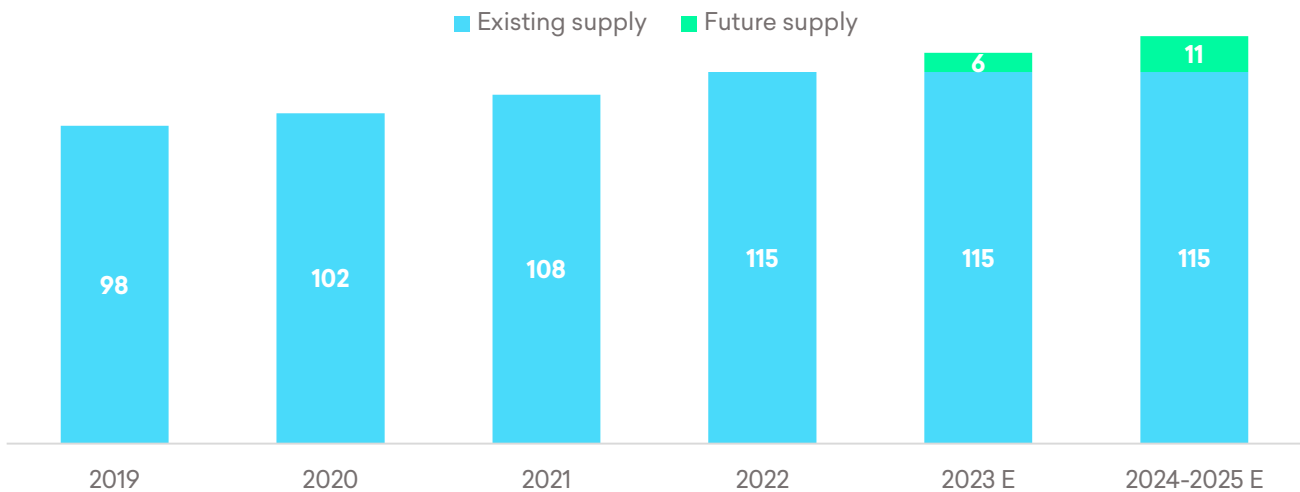
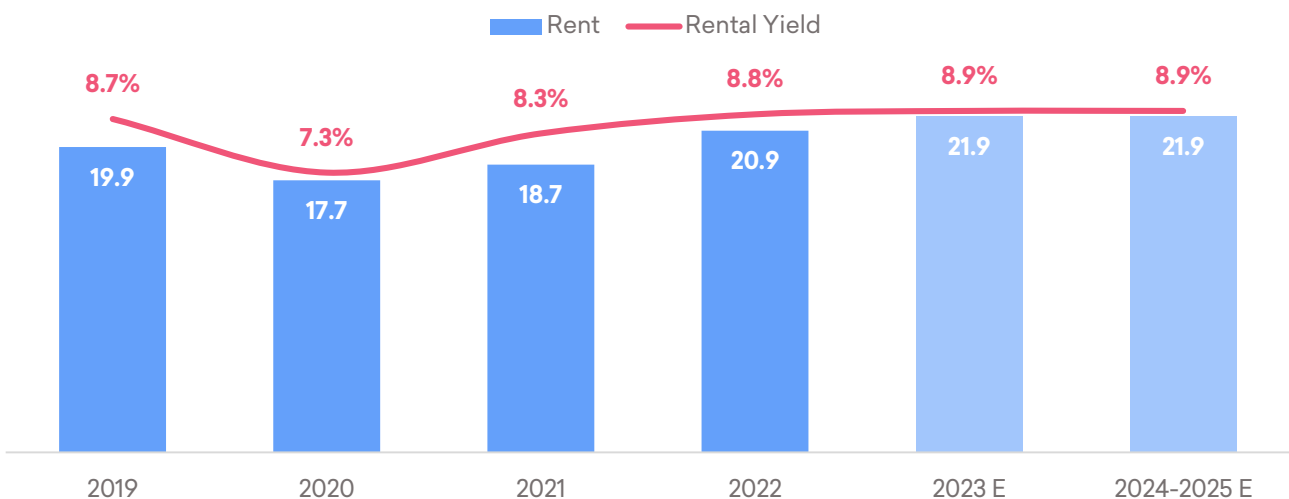


FIGURE 4

Weighted average actual rent in high street (USD/SQM) and rental yield (%)



Source: TBC Capital, Batumi City Hall, Colliers International

Offices

Office market is on the initial stages of development in Batumi. Only 1 modern business center (since 2020) operates in the city, while the supply of office space is limited. This is primarily driven by low demand on offices, as the economic activity in the city is concentrated in hospitality and real estate development sectors. The businesses operating in these sectors have offices in their own facilities (only 37% of total office space in Batumi is leasable, while 63% is self-occupied).

At the same time, accelerated migration and improved economic performance pushes the

demand on offices up. By June 2022, average asking rent not only recovered to the pre-pandemic level, but increased by 20% compared to the same period of 2019. We expect further increase in rent prices and rental yields in the upcoming years.

Also, the supply of office space will probably catch up with the pace of increasing demand. In September 2022, Terminal plans to open co-working space. Some large real estate developers operating in Batumi also consider to include modern business centers in their multifunctional building projects.



OFFICE SPACE

Existing stock
81 000 SQM

Self-occupied
63%



BUSINESS CENTERS

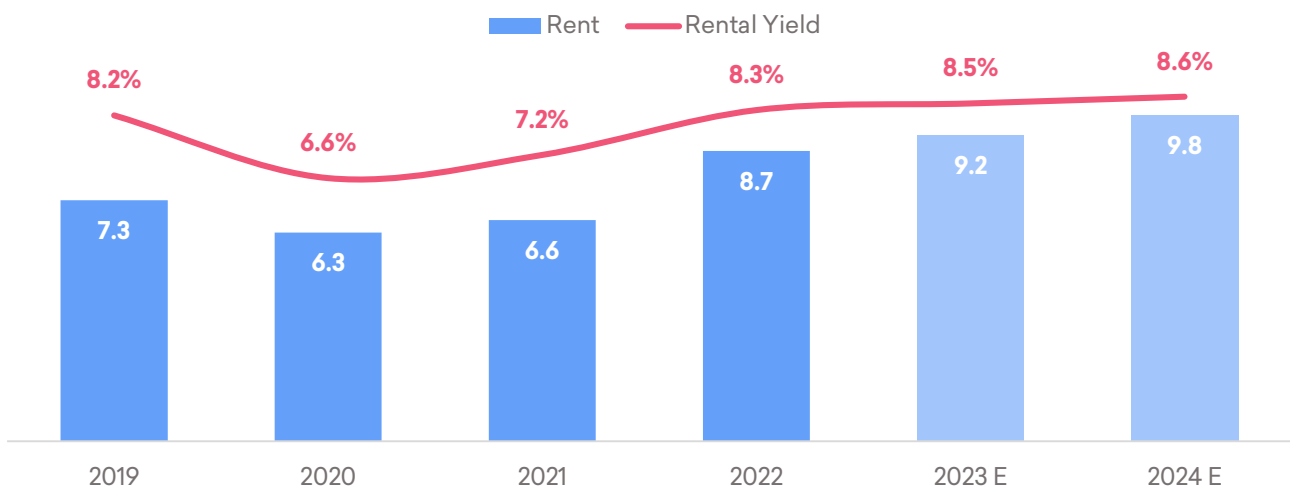
Existing stock
3 000 SQM

Average rent
18 USD (excl. VAT)

Vacancy rate
20%

FIGURE 5

Average asking rent in offices (USD/SQM) and rental yield (%)



Source: TBC Capital

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