

Georgia | Warehouse Market Report 2014



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Gebrüder Weiss, Tbilisi



Executive Summary

The total volume of warehouse space in Georgia amounts to around 1.8 million sqm, of which around 1.2 million sqm is owner-occupied and the remainder is leasable. The largest share of total leasable space is located in Tbilisi - 61%, with 23% -in Batumi 10%-in Poti and 6%- in Rustavi.

From the 627,000 sqm of leasable warehouse supply, 89% is dry storage and 11% cold storage. The total capacity of cold storage amounts to 243,700 tons.

A significant proportion of total leasable warehouse floorspace is classified as Class B (59%) and Class C (39%). Only 2% of total leasable warehouse supply in Georgia can be classified as A class space.

The broad categories with the highest occupied space are food and beverage, representing 42% of occupied space in listed warehouses and building materials - occupying 14% of stock. Logistic companies take up to 13% of space.

The warehouse market in Tbilisi is more developed than in other Georgian cities. The only A class warehouse storage in Georgia with a leasable area of 10,000 sqm is the recently developed facility by Gebrüder Weiss near Tbilisi Airport, which was fully occupied at the date of this research. The company plans to develop an additional 37,000 sqm as a second phase of development.

Even though Poti has a lower share in total stock than Batumi, warehouse real estate is more developed. The Free

Industrial Zone (FIZ) and Clearance Economic Zone (CEZ) in Poti provide better prospects for development of the warehouse market. It should also be noted that the average vacancy rate in Poti is lower than in Tbilisi and amounts to 15%. A new development by the international logistics company APM Terminals (independent business unit within the Danish-based Maersk Group), has been recently announced. The company is going to deliver 6,000 sqm of A class warehousing in Poti.

The vacancy rates in high class warehousing are lower than those in other classes. In December 2014, A class warehouse vacancy stood at 0%; the same figure is around 26% for B class and 41% for C class. The highest vacancy rate is reported in Rustavi (94%) and the lowest rate is seen in Batumi and Poti - (33%).

The average rent for dry storage A class warehouses in Georgia stands at around USD 11 per sqm net of VAT; the same figure for B class warehouses varies between USD 2.3-4.7 per sqm and for C class warehouses USD 0.5-2.4 per sqm.

The average rent for cold storage facilities in Georgia varies between USD 14-17 per ton net of VAT, depending on location and warehouse quality.



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 2003-2012, averaging 6.1 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 \$920 in 2003 to \$3,597 in 2013 (in current prices).

In the first half of 2014 the GDP growth rate amounted to 6%, exceeding projections by one percentage point. According to IMF, Georgia has one of the highest forecasted GDP growth rates among Eastern European countries and its neighbors during 2014-2015.

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.

The declared strategy focuses on union into European and Euro-Atlantic organizations. Joining the EU and NATO are among the country's top foreign policy objectives.

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 are Azeri – 6.5%, 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. The Association Agreement includes the setting up of a Deep and Comprehensive Free Trade Area (DCFTA), which is a core part of the accord.

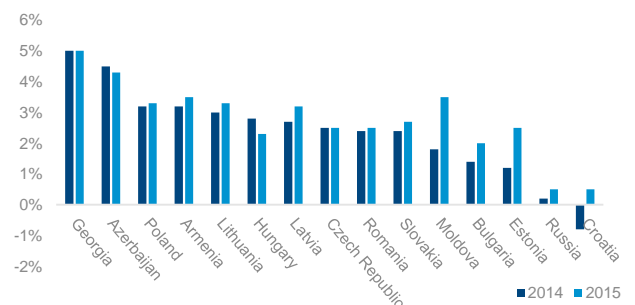
In August 2014 Moody's Investors Service international rating agency revised and improved the outlook on the sovereign rating of Georgia from "stable" to "positive". The rating is now affirmed at "Ba3".

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.

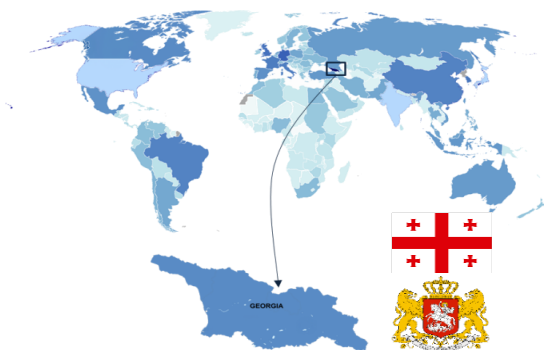
| Key Socio-Economic Indicators | 2010 | 2011 | 2012 | 2013 | 2014F |
|-----------------------------------------------|---------------|---------|---------|---------|-----------|
| Area | 69 700 sq. km | | | | |
| Population 2014 | 4.49 mln | | | | |
| Capital | Tbilisi | | | | |
| Currency (code) | Lari (GEL) | | | | |
| GDP at current prices, mil. USD | 11,636 | 14,438 | 15,846 | 16,140 | 16,947* |
| GDP - Real Growth Rate | 6.3% | 7.2% | 6.2% | 3.20% | 5.0%* |
| GDP - Per Capita 2013 | \$2,623 | \$3,231 | \$3,523 | \$3,600 | \$3,780* |
| 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 | \$2,628** |
| Total imports (mln. USD)-CIF | \$5,257 | \$7,058 | \$7,902 | \$7,885 | \$7,730** |
| Trade surplus/deficit 2013 (mln. USD) FOB-CIF | (3,580) | (4,869) | (5,527) | (4,977) | (5,102)** |
| Exchange rate - USD/GEL | 1.7823 | 1.6865 | 1.6513 | 1.6634 | 1.7659 |
| Exchange rate - EUR/GEL | 2.3643 | 2.3477 | 2.1235 | 2.2094 | 2.3462 |

*Forecast IMF
 **Jan-Nov 2014
 Source: www.geostat.ge www.nbg.ge www.imf.org

GDP Growth Forecasts, 2014-2015



Source: www.imf.org (World Economic Outlook-October 2014)





Iceberg Poti

Georgia – Country Profile

Business and Investment Environment

Following the Rose Revolution in 2003, the Georgian government increased efforts to reduce corruption in public and private sectors and sought to meet international standards. These efforts have resulted in significant improvements in 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. Georgia enjoys competitive trade regimes with many countries.

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.

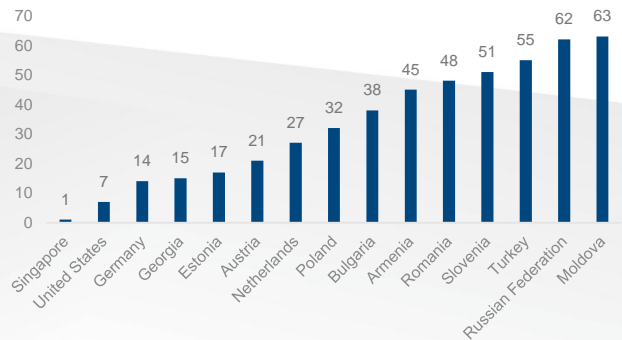
Four airports with a total capacity of 3,100 passengers per hour, serve the country in Tbilisi, Batumi, Kutaisi and Mestia. The total length of railway amounts 1,612 km, with capacity of 3.3 million passengers per year and the length of roadways amounts 19,109 km. Major sea ports are located in Poti and Batumi.

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. Currently, only 12 % of Georgia's hydropower potential is being utilized.

In 2012 9.694 billion kWh was produced in Georgia and consumption amounted 9.379 billion kWh.

Rankings on the ease of doing business



Source: www.doingbusiness.org

Georgia - Economic Overview

Georgia's economy sustained annual GDP growth of approximately 6.0% during 2004-2013, which was based on strong inflows of foreign investment and increased government spending. However, GDP growth slowed following the August 2008 conflict with Russia and sunk to negative 3.8% in 2009 as foreign direct investment and workers' remittances declined in the wake of the global financial crisis. The economy rebounded in 2010-2013 with average annual GDP growth rate - 5.7%. In the third quarter of 2014 FDI equaled 507.5 million GEL, which is the highest figure after the second quarter of 2008. Based on IMF data 5% GDP growth is expected in Georgia during 2014 and 2015.

Three main economic sectors in Georgia represent trade, manufacturing and transport & communications and are the leading sectors of the Georgian Economy.

The European Bank for Reconstruction and Development (EBRD), the Ministry of Economy and Sustainable Development of Georgia and the Entrepreneurship Development Agency (EDA) of Georgia signed a memorandum of understanding on 22 October 2014. The document provides a framework of future cooperation between parties for the successful implementation of the state program "Produce in Georgia". The government plans to inject 46 million GEL (USD 27 million) into private businesses to stimulate the creation of new industrial and agricultural enterprises in local markets. 65% of the amount will be spent on agricultural production, while 16 million GEL will be spent on industrial production of Georgian products.

Georgia – Foreign Trade Overview

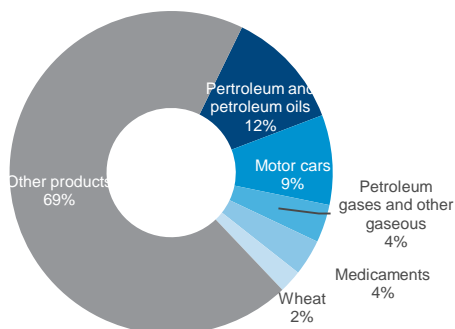
Georgia has signed the Association Agreement (AA) with the European Union, which included the Deep and Comprehensive Free Trade Area (DCFTA) agreement. The EU commission reported that, if implemented and sustained, the DCFTA could increase exports to the EU by 12% and imports by 7.5%. In the long-term, it could boost national income by USD 365 million (705 million GEL).

During the last four years, the import-export balance of Georgia varied between USD (5,465) million and USD (3,580) million. In December 2013 the balance was reported to be USD (4,965) million. During 2007-2013 the average growth rate of imports was 9.2% and, at the same time, the export rate was growing by 17.8%.

The major export commodities from Georgia are cars (24%) (the major part of the mentioned figure comes to re-export to Azerbaijan) and Ferroalloys (8%). Petroleum & petroleum oils and cars are major import commodities.

Azerbaijan, Armenia and Russia are the largest trading partners with 20%, 11% and 10% share of total Georgian export. China is a major source of imported goods, representing 20% of total imports.

Major commodity positions by imports in 2013



Source: Ministry of Economy and Sustainable Development of Georgia

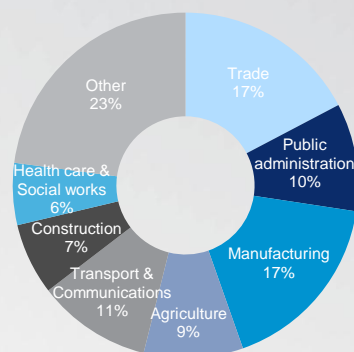
GDP at constant 2003 prices (bil. GEL) and real GDP growth rate



• Preliminary Data

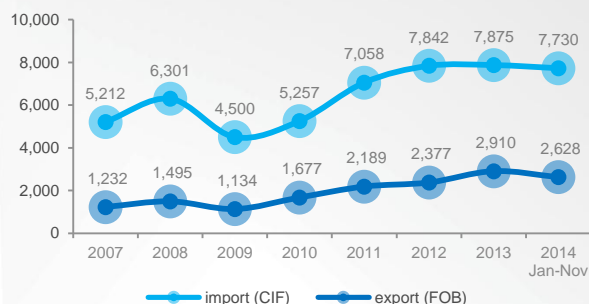
Source: National Statistics Office of Georgia, 2014 IMF data

Components of National GDP 2013



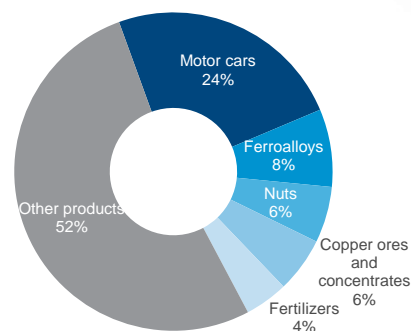
Source: National Statistics Office of Georgia

External trade of Georgia (mln USD)



Source: National Statistics Office of Georgia

Major commodity positions by exports in 2013



Source: Ministry of Economy and Sustainable Development of Georgia

Georgia – Transport and Logistics Infrastructure

Georgia provides significant investment opportunities in the manufacturing sector, which already contributes up to 12% to gross domestic product of the country and, since 2007, has attracted more than \$ 1.2 billion in investments. New opportunities are expected to be grasped by Greenfield investments in export oriented manufacturing sectors, for which access to the European market would be attractive. Therefore, together with international and local experts, the Government of Georgia is undertaking a deep analysis of competitive sectors in order to find ways of stimulating investment inflows, attracting new technology and know-how and creating high value-added production in the country.

From the perspective of transport and logistics, Georgia can serve as a gateway for foreign companies interested in the Caucasus/CIS region due to its geographic location and open business environment. Georgia is uniquely positioned to capitalize on increasing trade flows between Europe, the Caspian Region, Central Asia and China in the foreseeable future. The country offers the shortest route between the Black Sea and the Caspian Sea. The railway line connecting Georgia and Turkey is in the final stage of development and it will further facilitate trade in the entire region. The government is investing heavily in the development of road infrastructure, including highways and local roads.

Georgia has 19,109 km of public roads and 1,612 km of railway. Reconstruction of Georgia's central highway is one of the top priorities in the Government's infrastructure rehabilitation program. Most roads of international importance were reconstructed and upgraded in 2005.

the direction of Ukraine, Georgian Railway is expected to become more competitive. Completion of the Baku-Tbilisi-Kars (BTK) railway in 2015 will also stimulate advancement of Georgian Railway. Therefore, Georgia aspires to be, and can be, the best place for regional offices, regional stocks and various value chains.

Poti Sea Port is the largest port in the Republic of Georgia. The port currently serves as the European gateway for international trade in Georgia, Armenia and Azerbaijan and is ideally located to become a future hub for Central Asia trade. Poti Sea Port has experienced high growth over the last decade and the fundamentals for continued solid growth remain. APM Terminals Poti is operating Poti Sea Port in a joint venture with RAKIA. A plan to build a new deep sea port in Anaklia, which is located on the Black sea coast, has also been announced. The new port will take the country's logistic capabilities to a new level.

Georgia has four airports in different regions of the country. The largest one is in the capital city Tbilisi, operated by TAV Airports. The other airports are in Batumi, Mestia and Kutaisi.

Currently, modern warehouse and logistics facilities hardly exist in Georgia and are mostly owner-occupied. The only significant recent development is the first phase of the Gebrüder Weiss logistics park near Tbilisi Airport. The anticipated development of infrastructure and manufacturing in Georgia, combined with its increasingly recognized strategic location at the cross roads of Europe and Asia, will open up opportunities for modern industrial real estate.



Due to the fact that Russia eliminated discounts on transit in

Georgia – Warehouse Market Overview

The total volume of warehouse space in Georgia amounts to around 1.8 million sqm, of which around 1.2 million sqm is owner-occupied (65%) and the remainder is leasable (35%). The largest share of total leasable space is located in Tbilisi (61%), with 23% assigned to Batumi, 10% and 6% allocated to Poti and Rustavi, respectively.

Breakdown by Types

The total leasable stock is divided into dry and cold storage warehouses. The share held by dry storage warehouses is approximately eight times higher than the same figure for cold storage warehouses and accounts for 557,385 square metres. The leasable area of cold storage warehouses is around 11% of the total supply. The total capacity of cold storage amounts 243,000 tons.

Demand for cold storage warehouses is seasonal as it rises in the winter and falls in the summer. Accordingly, the average annual vacancy rate for dry storage warehouses is significantly lower than the same figure for cold storage warehouses. The vacancy rate in dry storage warehouses amounts to 30%, while the same figure in cold storage warehouse is around 46%. The lowest dry storage vacancy rate is reported in Tbilisi – 23%, and the highest in Batumi – 30%. The highest vacancy rate of cold storage warehouse appears in Tbilisi (51%) and the lowest in Poti (26%).

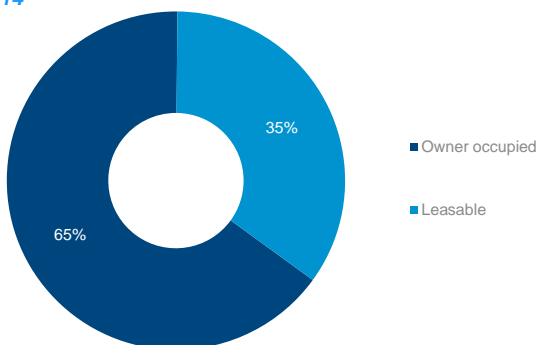
Breakdown by Classes

Gebrüder Weiss, located in Tbilisi, is the only supplier of A class warehouses in Georgia, providing 2% of the total leasable supply. Class B comprises 59% (371,333 sqm) of total supply. Leasable space provided by C class warehouses equals 245,903 sqm.

Demand for modern warehouses is high and, accordingly, the vacancy rate in A class warehouse equates 0%. The vacancy rate of B class warehouses is around 26% in Georgia. This figure does not differ significantly by cities and ranges between 24%-29%. The vacancy rate is the highest in C class warehouses and equates 41%. The highest vacancy rate is reported in Rustavi (94%) and the lowest figure is seen in Batumi and Poti (33%).

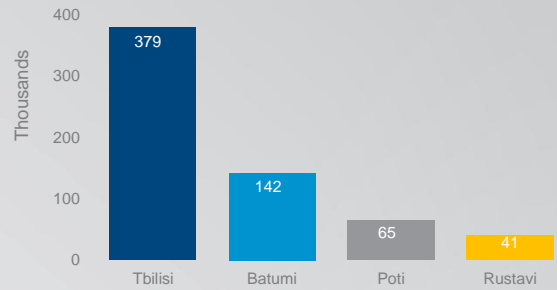
The categories with the highest occupied space are Food and Beverages representing 42% of occupied space in listed warehouses and building materials - occupying 14% of the stock. Transport companies take up to 13% of listed supply.

Total warehouse space distribution in Georgia 2014



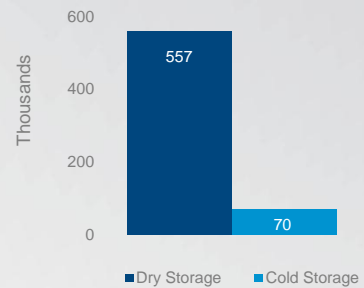
Source: Colliers International

Leasable warehouse supply distribution by cities 2014 (thousand sqm)



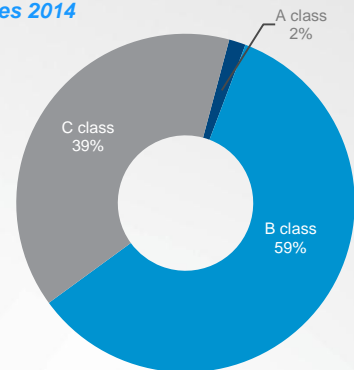
Source: Colliers International

Leasable warehouse supply distribution by types 2014 (thousand sqm)



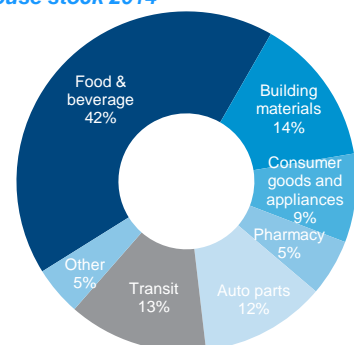
Source: Colliers International

Leasable warehouse supply distribution by classes 2014



Source: Colliers International

Demand distribution for leasable warehouse stock 2014



Source: Colliers International

Tbilisi – Warehouse Market Overview

The total amount of warehouse space in Tbilisi amounts to 1.3 million sqm, of which 910,000 sqm (70%) is owner-occupied and 380,000 sqm is leasable area. Modern European standard warehouse and logistics space did not exist until, in 2013, Austrian provider Gebrüder Weiss delivered 10,000 sqm of A class warehouse near Tbilisi Airport.

Breakdown by types

89% of total leasable stock is dry storage and 11% cold storage. The total capacity of cold warehouses in Tbilisi is around 170,000 tons. The biggest portion of dry storage is B class warehouses and the least portion A class warehouses.

Analysis of rental rate by types

The average rent in A class dry storage stands at USD 11.4 per sqm, in B class it equates to USD 4.7 and in C class – USD 2.4. The rent price in cold type storage is around USD 15.9 per ton for B class and USD 14 per ton in C class. A class cold storage is not available in Tbilisi.

Vacancy rate by types

The average vacancy rate in dry warehouses in Tbilisi stands at around 23% and for cold storage around 51%. The high vacancy of cold storage is mainly caused by seasonality. The average vacancy rate of A class warehouses in Tbilisi stands at 0%, B and C classes have 26% and 40% of vacancy respectively.

Key players

Gebrüder Weiss is the only supplier of A class warehousing in Tbilisi. A big proportion of supply is provided by local companies, which own recently built or refurbished buildings with additional warehouse facilities. Lilo 1, Zahesi 2007 and Transservice are some of the larger local suppliers.

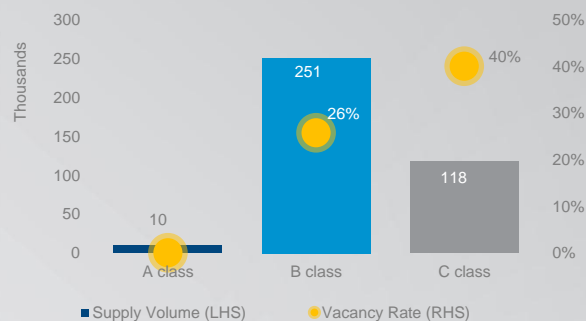
Consumer breakdown by categories

The highest share of occupied space in listed warehouses in Tbilisi comes from F&B companies and hypermarkets (48%), for example: Smart, Furchet Georgia, Carrefour, Natakhtari and Tolia. Another big proportion of demand comes from importers of auto parts, building materials and construction tools – 16% and 14% respectively. Among them should be mentioned Bosch, which recently opened its first large scale regional warehouse in Southern Caucasus at Gebrüder Weiss. Third and fourth place is occupied by local providers of consumer goods & appliances and pharmaceutical companies such as Aversi, PSP and GPC.

Issued construction permits

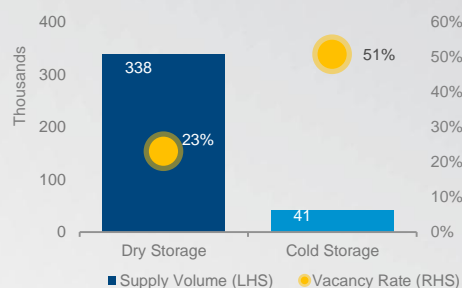
According to the National Statistics Office of Georgia, in 2010-H1 2014 around 500 permits were issued for the construction of warehouse buildings in Tbilisi, totalling 653,000 sqm. The majority of these permits represent small sized (< 3,000 sqm) buildings which are predominantly owner-occupied. During 2014, 91 construction permits were issued, of which the majority is owner-occupied or small-sized. None of them were suspended. In the next two years, six new leasable warehouses will be added to the market with total leasable area of 57,000 sqm.

Leasable warehouse supply distribution and vacancy rates by classes in Tbilisi 2014 (thousand sqm/%)



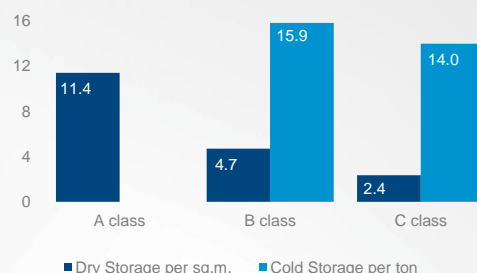
Source: Colliers International

Leasable supply distribution and vacancy rate by types in Tbilisi 2014 (thousand sqm/%)



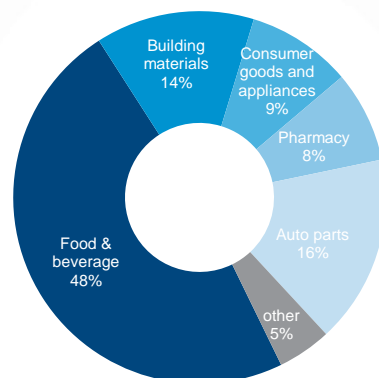
Source: Colliers International

Average warehouse rent in Tbilisi 2014 (USD per month excl. VAT and service charges)



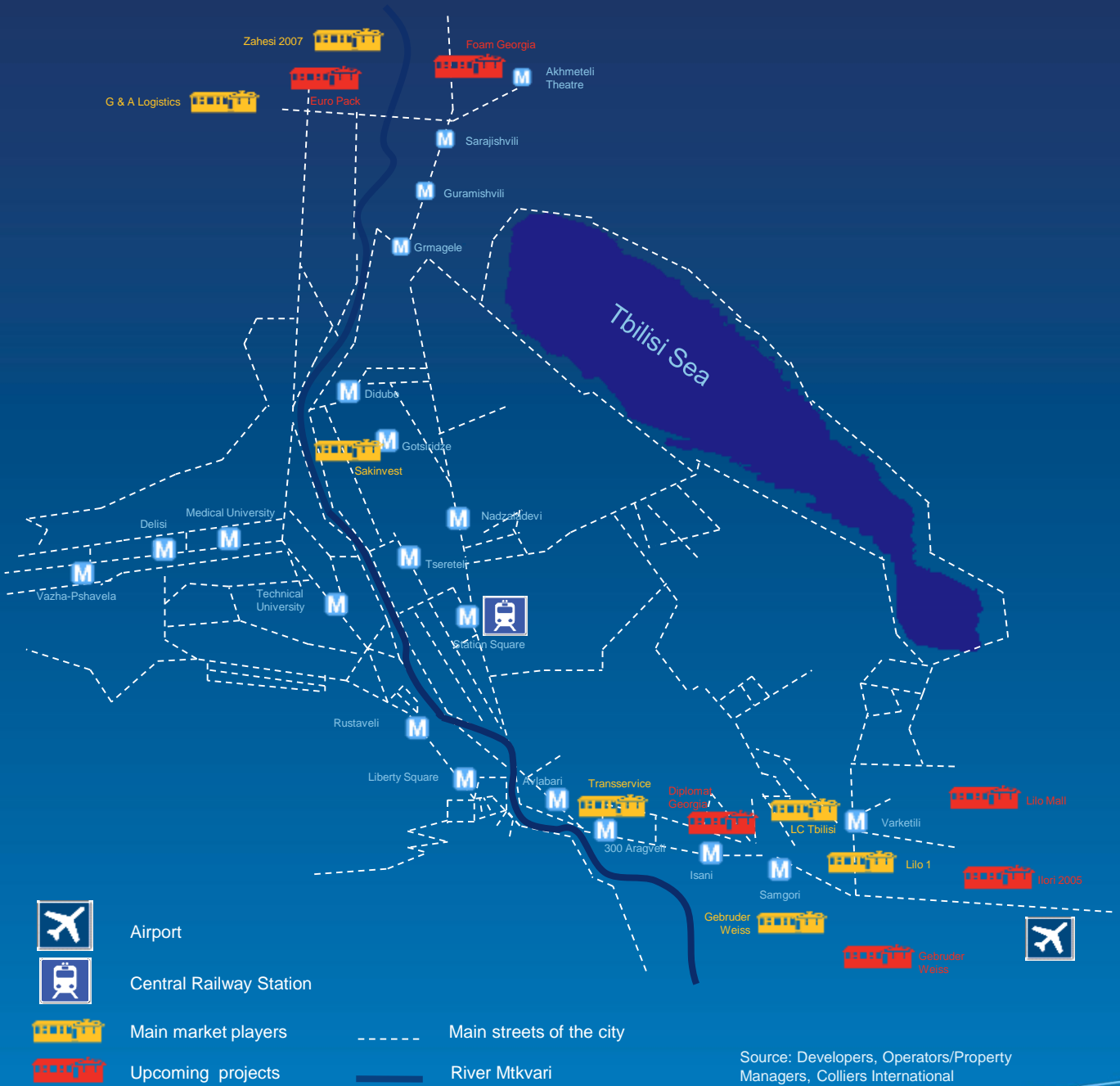
Source: Colliers International

Demand distribution in Tbilisi for leasable stock 2014

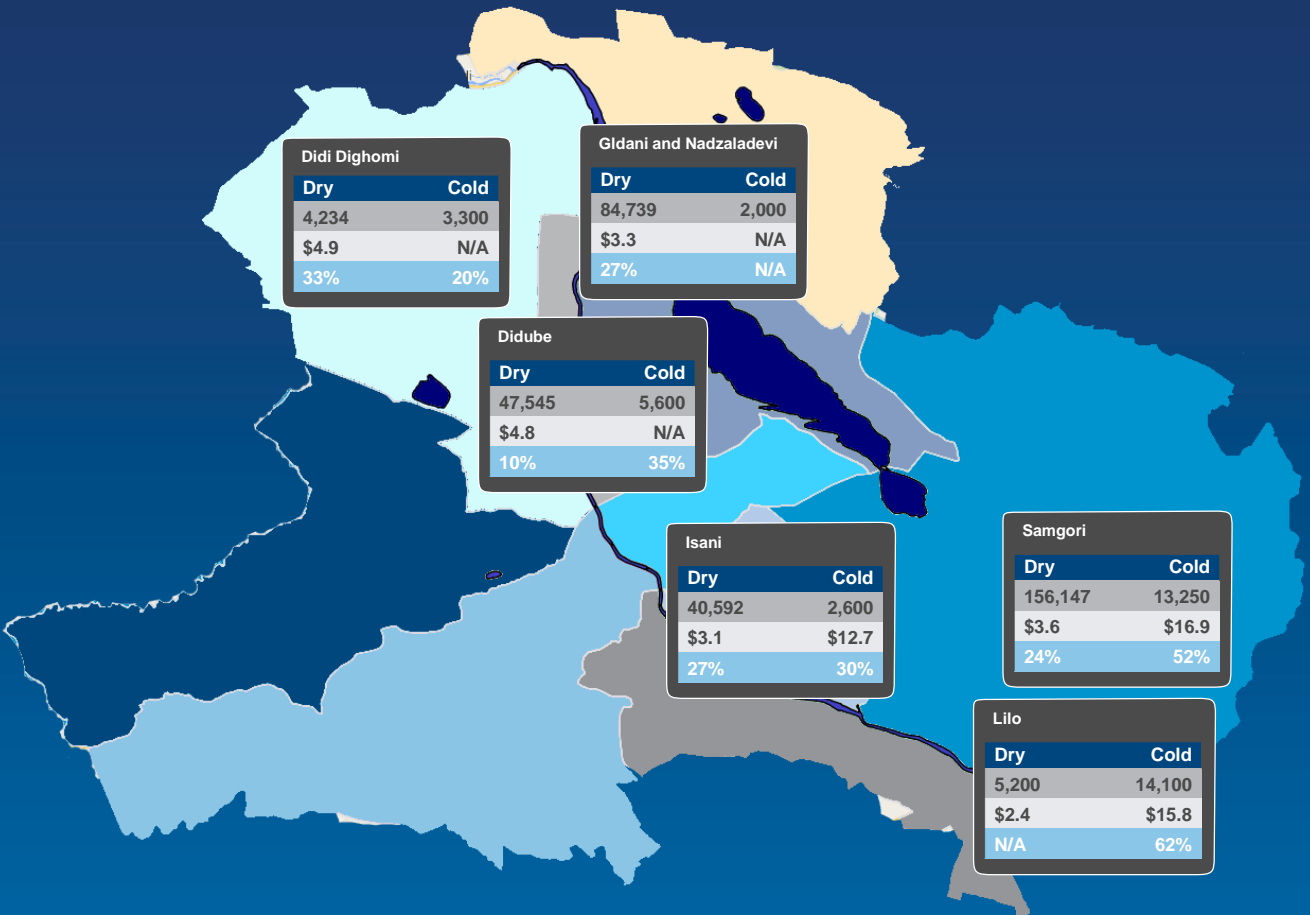


Source: Colliers International

Existing And Future Projects Map in Tbilisi



Warehouse Map of Tbilisi Districts



Key

| Warehouse type |
|---------------------|
| Gross leasable area |
| Average rental rate |
| Vacancy rate |

Source: Colliers International
 Note: Didi Dighomi is a part of Saburtalo district.
 Lilo is a part of Samgori district.

Batumi – Warehouse Market

Existing warehouse stock in Batumi amounts 280,000 sqm, of which 142,000 is leasable stock. 49% of the total warehouse floorspace is owner-occupied. The vast majority of warehouses in Batumi represent old, Soviet-period buildings, some of which have been renovated in recent years.

Breakdown by Types

The total leasable amount of dry storage warehouses amounts to 131,000 sqm and, the total area of cold warehouses is around 11,000 sqm. The total capacity of cold warehouses in Batumi is around 45,000 tons.

51% of total leasable space is B class warehouses and 49% -C class.

Analysis of Rental Rate by Type

The rental rate for B class dry storage warehouses exceeds the same figure for C class dry storage warehouses by USD 0.5 per sqm and equates USD 2.3 per month. The average rental rate for B Class cold storage warehouses is around USD 15 per ton.

Vacancy Rate by Types

The average vacancy rate for cold storage in Batumi stands at around 44% and is 14% higher than the same figure in dry storage.

The B class vacancy rate is around 29% and for C class warehouses the vacancy figure is 33%.

Key Players

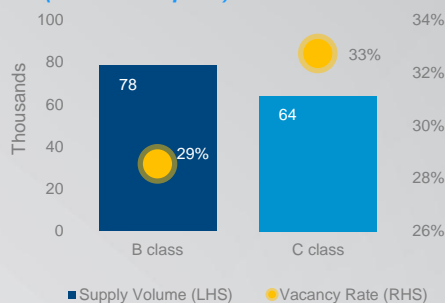
Subtropic, TBC Bank and Imperial 2000 are the main suppliers of dry storage in Batumi. Anagi LLC and Nati+ LLC are important suppliers of cold storage.

F&B producers together with hypermarkets are the major occupiers of Batumi warehouse markets, taking up 54% of the occupied space in listed warehouses. Most of them are well known Georgian and international brands such as Coca Cola, Natakhtari, Zedazeni, Kasteli, Nabeghlavi, Borjomi, Chveni Supra in F&B producers and Goodwill, G-mart, Furchet Georgia in Hypermarkets. A significant portion of leasable warehouse space is occupied by importers of building materials (Gorgia) and consumer goods and appliances (Elit Electronics, Techno Boom). These sectors take 24% and 12% of occupied space in listed warehouses, respectively.

Issued Construction Permits

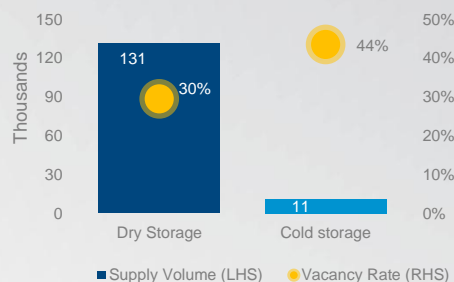
According to the National Statistics Office of Georgia, in 2010-H1 2014, 109 permits were issued for the construction of warehouse buildings in Batumi, totalling 105,000 sqm. The majority of permits represent small sized (< 3,000 sqm) buildings which are largely owner-occupied.

Leasable warehouse supply distribution and vacancy rates by classes in Batumi 2014 (thousand sqm/%)



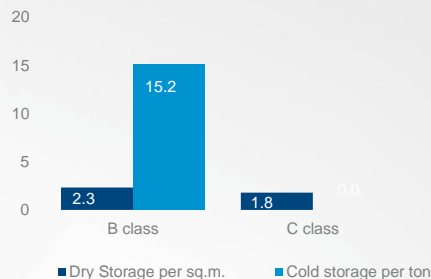
Source: Colliers International

Leasable supply distribution and vacancy rate by types in Batumi 2014 (thousand sqm/%)



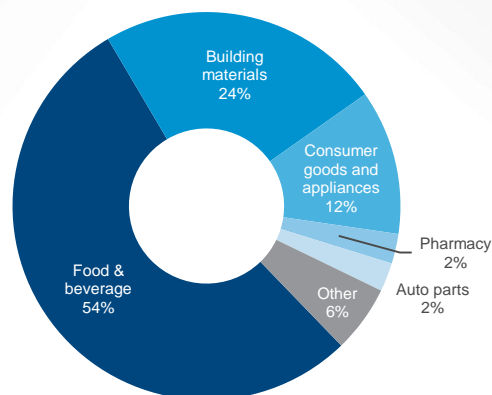
Source: Colliers International

Average warehouse rent in Batumi 2014 (USD per month excl. VAT and service charges)



Source: Colliers International

Demand distribution in Batumi for leasable stock 2014



Source: Colliers International

Existing And Future Projects Map in Batumi



Source: Developers, Operators/Property Managers, Colliers International

Poti – Warehouse Market

Total warehouse space in Poti amounts to 109,000 sqm, of which 44,000 is owner occupied and 65,000 sqm is leased space. The total capacity of cold storage in Poti is 28,000 tons.

The industrial sector is developing at a fast pace in the port city of Poti. The Black Sea Terminal in Poti (acquired by ATP Terminals) accounts for 20% of regional GDP. Also, other major enterprises are represented such as Tegeta Motors, Woodimpex and Trans Expedition Georgia.

64% of existing leasable warehouse and logistics stock in Poti is B class, while the other 36% is classified as C class. Modern European-standard warehouses do not exist, but it has been announced that international logistics company APM Terminals (independent business unit within the Danish-based Maersk Group) is going to deliver A class warehouse space for lease.

The prospects for the Poti warehouse market are positive, as A class storage is not currently represented. In 2010, the first Free Industrial Zone (FIZ) in the Caucasus region was established in Poti. Since then it has become more attractive to foreign companies which operate in the segment of transportation and trading.

Supply Breakdown by Types

72% of leasable warehouse space in Poti is dry storage and 28% cold storage. It should be noted that cold storage in Poti is in recently-built modern buildings and can be classified as B class space.

Analysis of Rental Rate by Type

Rents in Poti warehouses are measured per ton and not per sqm. The reason is that Poti represents a different type of warehousing, since it is a transit city and most goods are stored short term (few days) before customs clearance. The average rent in B class dry storage stands at USD 10.05 per ton and in C class it equates to USD 6.30; rent price in cold storage is around USD 17 in B class.

Vacancy Rate by Types

The average vacancy rate of existing leasable stock in Poti amounts to 15%. The average vacancy rate of dry storage equals 19% and the same figure in cold storage stands at around 26%.

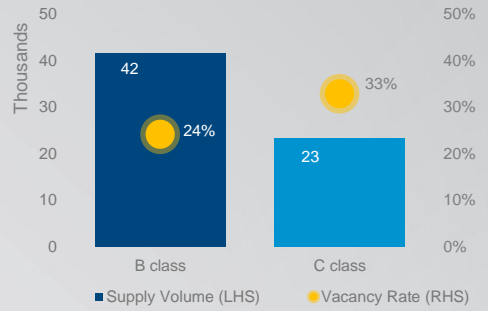
Key Players

The main suppliers of warehouse real estate in Poti are Georgian companies, such as Logitecks, American Monolith, Iceberg Poti, Barwil Georgia, CMT, GTE etc. 87% of total occupied warehouse space in Poti belongs to carriers, traders, transit and distribution companies such as Monterey Farms, South-Eastern Export Corporation, Dreyfus, Grainhard, Arlogic, Gianti, Magdus etc. Auto houses take around 10% of the total occupied area in listed warehouses.

Issued Construction Permits

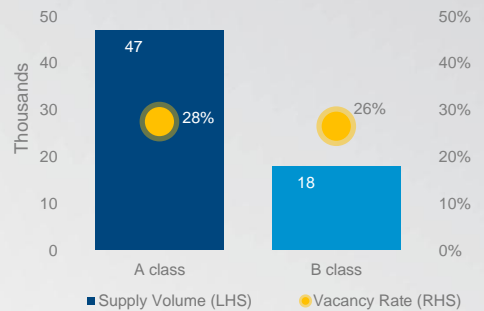
According to the National Statistics Office of Georgia, in 2010-H1 2014, 20 permits were issued for construction of warehouse buildings in Poti, totalling 35,000 sqm. The majority of permits represent small sized (< 3,000 sqm) buildings which are considered to be owner-occupied.

Leasable warehouse supply distribution and vacancy rates by classes in Poti 2014 (thousand sqm/%)



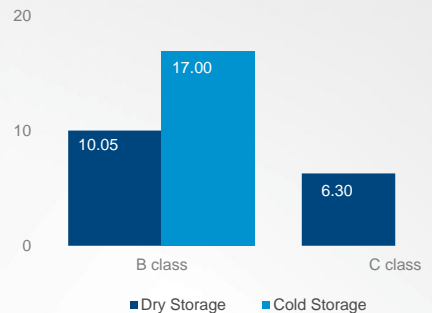
Source: Colliers International Georgia

Leasable supply distribution and vacancy rate by types in Poti 2014 (thousand sqm/%)



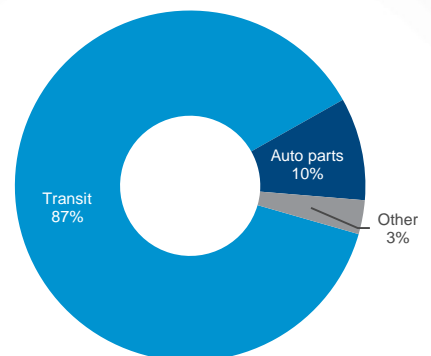
Source: Colliers International

Average warehouse rent in Poti 2014 (USD per ton per month excl. VAT and service charges)



Source: Colliers International

Demand distribution in Poti for leasable stock 2014



Source: Colliers International

Existing And Future Projects Map in Poti



Main market players



Upcoming projects



Main streets of the city



Airport



Central Railway Station

source: Developers, Operators/Property Managers, Colliers International

Rustavi – Warehouse Market

Despite its position as a former industrial centre in close proximity to Tbilisi, the warehouse market in Rustavi is less developed in comparison to other cities in Georgia.

Total warehouse stock in Rustavi amounts to 120,865 sqm, of which 66% is owner-occupied. All represented warehouses are old, Soviet-type industrial buildings, which can be classified as C class space.

Demand for warehouses in Rustavi is relatively low. Landlords do not have cause to renovate old buildings as existing occupiers are more or less satisfied by the general terms of agreement – poor conditions and low rent. Warehouses are mainly occupied by providers of building materials, marble and steel.

Leasable warehouses located in Rustavi are characterized as C class buildings and account for 40,600 sqm. Warehouse rental rate varies from USD 0.5 to USD 1 per sqm per month. The average vacancy rate equates 94%.

According to the National Statistics Office of Georgia, in 2010-H1 2014, 53 permits were issued for construction of warehouse buildings in Rustavi, totalling 33,000 sqm. The majority of mentioned permits represent small sized (< 3,000 sqm) buildings which are considered to be owner-occupied.



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Conclusions and Outlook

Of all sectors in the Georgian real estate market, the industrial market is the least developed. With the exception of the recently completed Gebrüder Weiss facility in Tbilisi, modern A-class space is non-existent and developer-led schemes have not yet started. The market is further characterized by a very high share of (local) owner-occupied stock and a limited amount of international occupiers.

After the collapse of Soviet Union state-owned industrial buildings came into possession of individuals. This event promoted the growth of the low class warehouse supply and currently, majority of this buildings are occupied by the local companies. International and local brands mainly take up A and B class warehouse space located in Tbilisi. It should be noted that low indices of exports is one of the major factors for obstacle the development of warehouse market.

Given the country's strategic position and potential as a gateway between Europe and CIS/Asia, it is anticipated that development of the warehouse market will accelerate in coming years. Increased investment in infrastructure, including the recently completed Kutaisi Airport, the Baku-Tbilisi-Kars railway and development of Georgia's port capacity will likely facilitate growth in the sector. Combined with Georgia's confirmed orientation to Europe, featuring the recently signed Association Agreement and DCFTA, these public initiatives should result in strongly improved conditions for growth of the industrial real estate market.

With current modern supply at a very low level and A-class vacancy at 0%, this potential is already evident. The sole A-class provider Gebrüder Weiss has recently confirmed its expansion plans in Tbilisi, fuelled by achieved rents of over USD 11 per sqm per month. Recent government support for local producers will likely fuel demand in the regions as well, with strong potential for centrally located hubs such as Kutaisi and Khashuri. Port-related cargo transport is developing well, although the gravitation is shifting towards the northern part of the Black Sea Coast, with recent developments in Poti and the confirmed government investment in a new port in Anaklia.

Governments stated policy and strategic location is giving Georgia the opportunity to become regional hub for the neighbor countries. Entrance of international large-scale distributor companies and progress of manufacturing industry will also accelerate the development of warehouse market in Tbilisi.

Given Georgia's relatively narrow economic base, the potential of the industrial real estate market will remain modest for the coming years, but with strong economic growth and public investment initiatives, the market is ready for further development.

Appendix 1

Registration of Property, Construction Permits

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

CIS: Commonwealth of Independent States

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 warehouse developers and owners, property managers, tenants, National Agency of Public Registry etc. all rents are calculated in USD per month net of VAT and service charges. Rents for dry storages are calculated per sqm except Poti, where it is calculated per ton. All rents for cold warehouses are calculated per ton.

Performance Indicator analysis by Districts: is based on the administrative borders of city districts. Market Conjunctures for different real estate segments were also considered during mentioned analysis and several districts were added/merged based on its importance in supply and demand.

Correctness of the information: The information used in the survey is objective and Colliers believes that the report reflects current conditions in the Georgian warehouse 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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64 countries on
6 continents

\$2.1

billion in
annual revenue

1.46

billion square feet
under management

15,800

professionals
and staff

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