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CREATING OPPORTUNITIES

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# Tbilisi Airbnb Market Outlook

April 2019



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# Terms and definitions

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**Rental** – property offered for rent via Airbnb

**Active rental** – property that was available for rent at least for one day in the last month

**Booked rental** – property that was booked at least once during the last month

**Unbooked property** – property that was not booked at least once during the last month

**Participation rate** – share of booked rentals in the active rentals

**Average daily rate** – average booked nightly rate + cleaning fees

**Revenue** (monthly) – the total nightly rate + cleaning fees earned during the last month

**Occupancy rate** – number of booked days divided by number of days available for rent during the last month. Properties with no bookings are excluded

**Percentile** - value below which a given percentage of observations in a group of observations falls

**90<sup>th</sup> percentile** – value below which 90% of observations in a group of observations falls

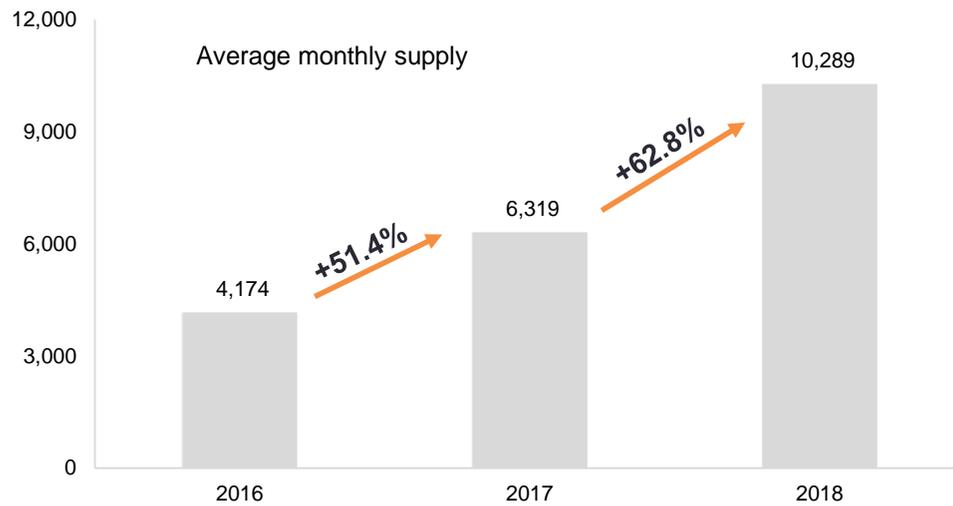
**Median** - value below which 50% of observations in a group of observations falls

Source: AirDna



# Airbnb supply increased 2.5x in Tbilisi over 2016-18

On average, more than 10k rentals were supplied monthly in 2018



Source: AirDna, G&T Research

Airbnb generated a market worth US\$ 23mn in 2018

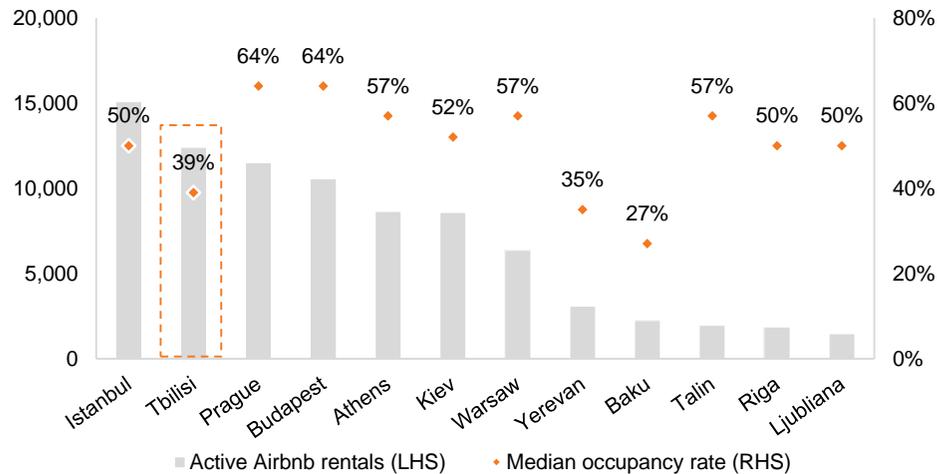


Source: AirDna, G&T Research



# Supply and demand imbalanced – oversupply evident

## Rapid expansion resulted in one of the lowest median occupancy among peers



Source: AirDna

Note 1: Properties with no bookings are excluded when calculating median occupancy

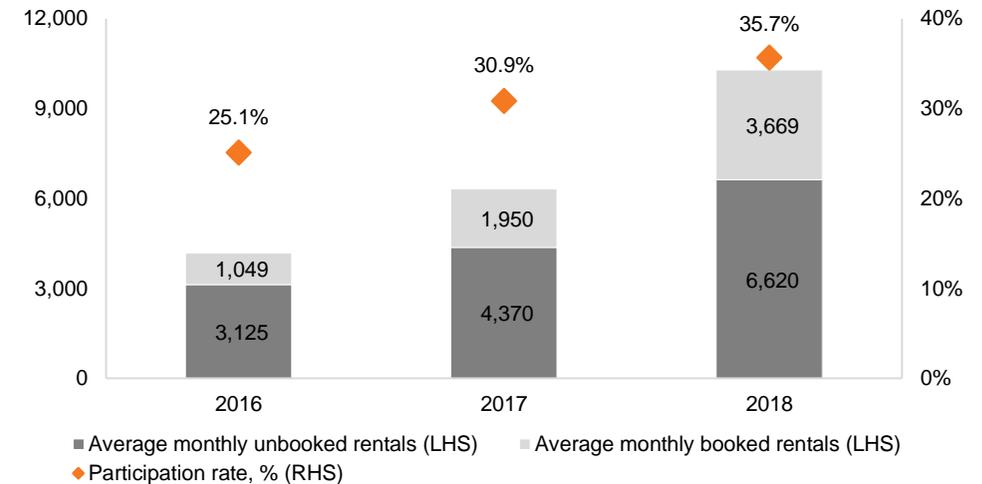
Note 2: Median occupancy calculation includes only entire home properties

Note 3: Data as of February 2019

## Supply

- Market is already oversupplied, but still continues growing – classic case of market overreaction. Notably, 64% of properties does not get booked at all while average monthly supplied rentals was up 62.8% y/y in 2018
- Oversupply is evident when compared to peers – supplied rentals in Tbilisi (12,403 rentals in Feb-19) only slightly below Istanbul and way above rest of peers
- We expect low performing properties to gradually leave the market and supplied rentals to be concentrated in Old Tbilisi mostly

## Moreover, almost 64% of total supplied rentals does not get booked at all



Source: AirDna, G&T Research

Note: Participation rate - share of booked rentals in total supply

## Demand

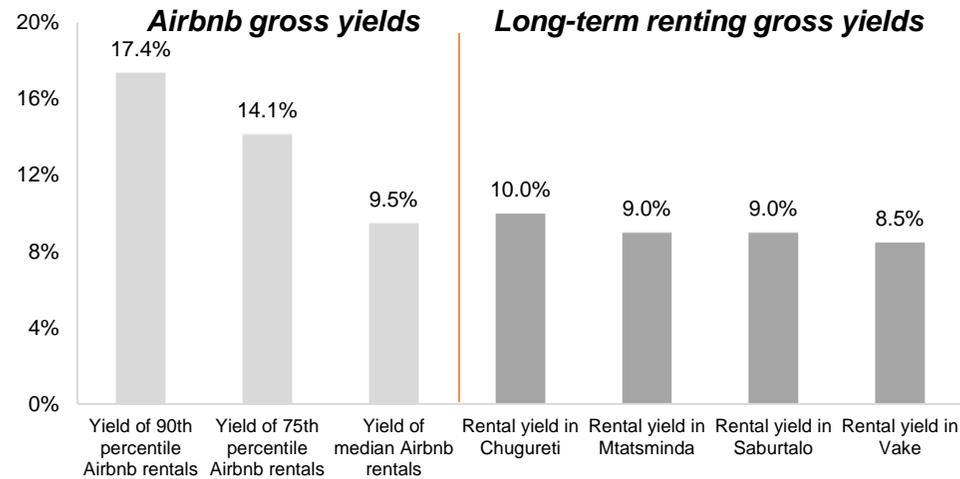
Despite demand growth outpacing supply growth, occupancy rates were up only slightly due to existing oversupply:

- Total demand nearly doubled in 2018 (+97.3% y/y, 562,320 rental/nights booked)
- Demand growth (+97.3% y/y) outpaced supply growth (62.8% y/y) in 2018, but was insufficient to absorb massive offerings on Airbnb
- As a result median occupancy was up slightly - 3.6ppts y/y to 48.4% in 2018



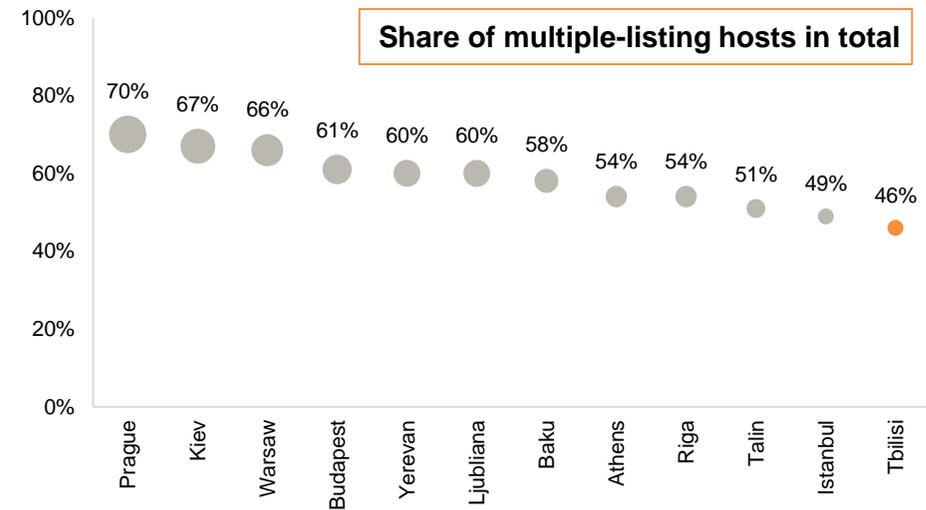
# Oversupply is driven by higher yields of Airbnb

## Above median Airbnb properties have higher yields vs. long-term renting



Source: G&T Research  
Note: Includes only entire home properties

## Airbnb business model in Tbilisi expected to match peers, where multiple-listing hosts absorb higher share of the market



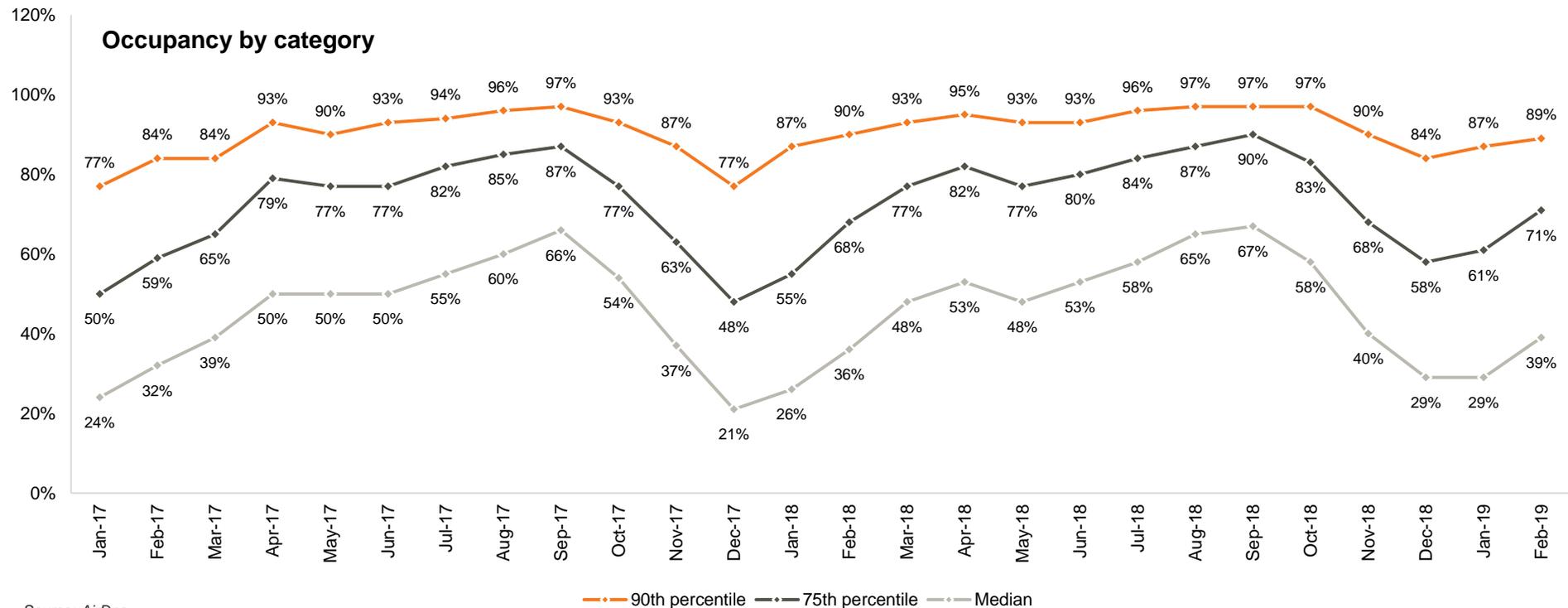
Source: AirDna

- **Airbnb is high-yielding investment for certain properties**, incentivizing real estate owners to rent flat on Airbnb instead of long-term renting. However, median Airbnb yields are similar to long-term renting
- **Airbnb stock is mostly concentrated in the Old Tbilisi**, which never was hotspot for long-term renting. Therefore, there is no sign of long-term rent price spikes in Tbilisi due to Airbnb
- Emergence of multiple listing hosts indicates that **buying or renting flats for sub-renting** has become successful business model in Tbilisi, as professional management improves performance of the properties
- **Survival of the fittest** - we believe, share of multiple listing hosts will increase in the future – share of multiple listing hosts in Tbilisi stands at 46% vs 58% peer average



# Top performers absorb biggest share of the pie

**Top performers (90th percentile, 319 properties) enjoyed above 92% average monthly occupancy, while median occupancy stood low at 48% in 2018**



Source: AirDna

Note 1: Properties with no bookings are excluded

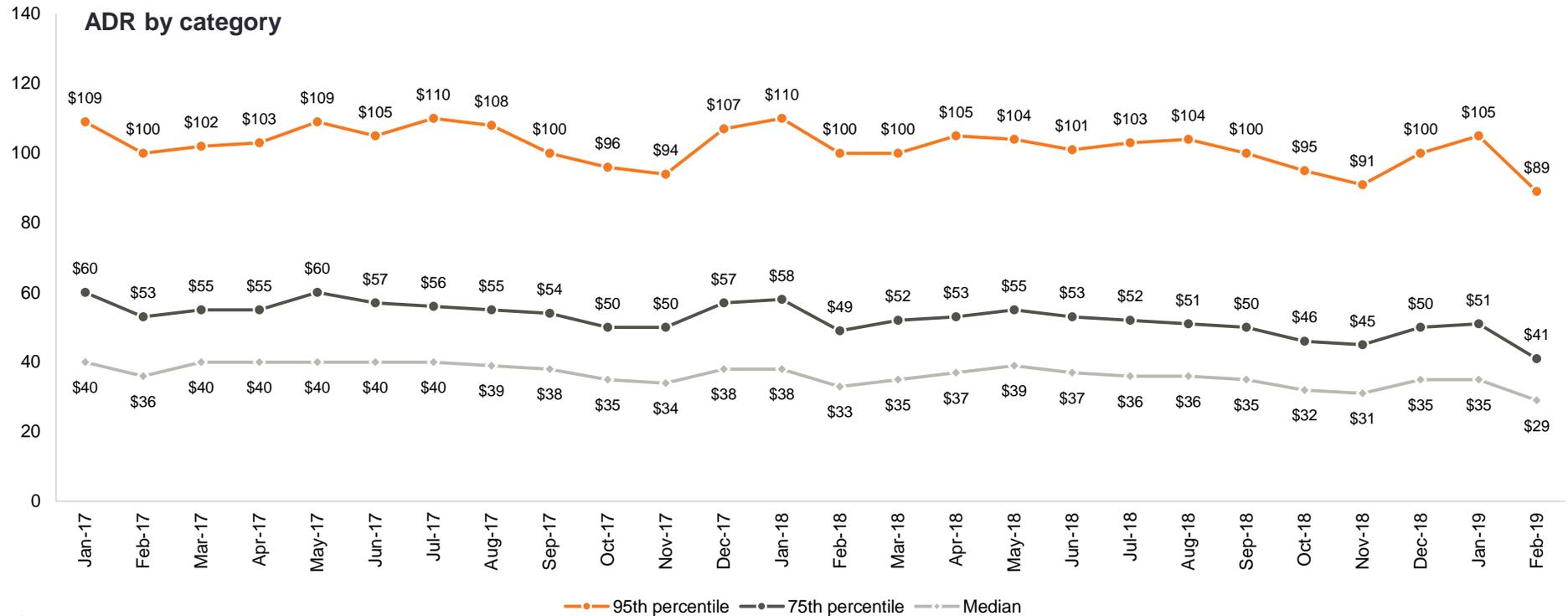
Note 2: Includes only entire home properties

- Demand is mostly absorbed by top performing properties (90<sup>th</sup> percentile, 319 properties), especially in the offseason (October through March)
- High-performing properties will benefit most from increasing demand in the future - occupancy rates for the top performers are expected to oscillate around 100% during high seasons similar to peer cities.



# Price gap also high

Top performing properties (95th percentile, 159 properties) enjoyed 2.9x more ADR than median in 2018



Source: AirDna

Note 1: Properties with no bookings are excluded

Note 2: Includes only entire home properties

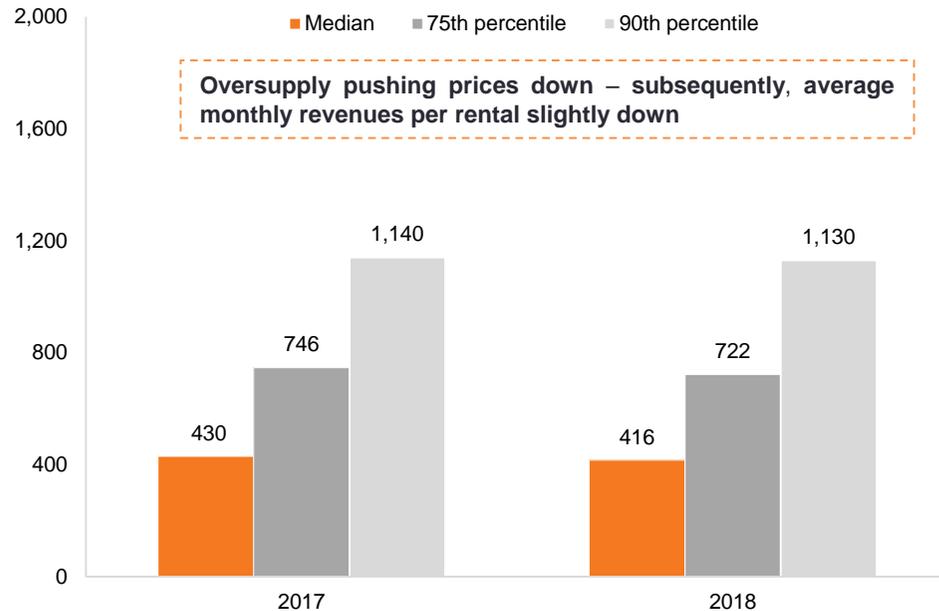
Note 3: 90<sup>th</sup> percentile for ADR is not available

- Average ADR of top-performing properties stood at US\$ 101.1 in 2018, 2.9x higher than median ADR of US\$ 35.3
- Oversupply pressures prices mostly in midmarket properties - ADR of top-performing properties was down 2.4% y/y in 2018, while median ADR was hit even harder (-7.8% y/y), illustrating that oversupply mostly pressures mid-market properties

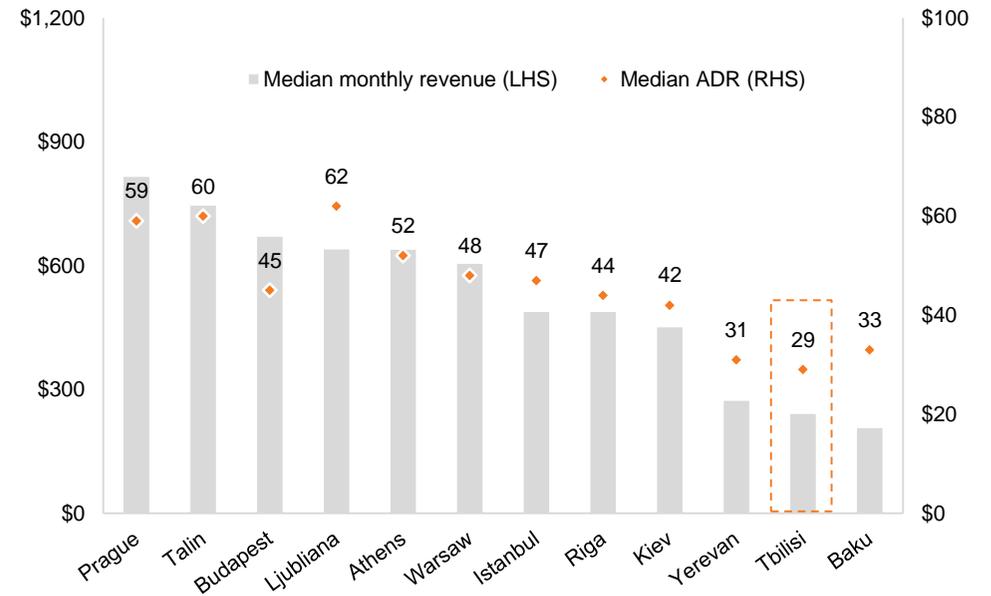


# Competition pressures revenues

Average monthly revenues per rental shrank in every category...



...making Tbilisi lowest income Airbnb market among peers

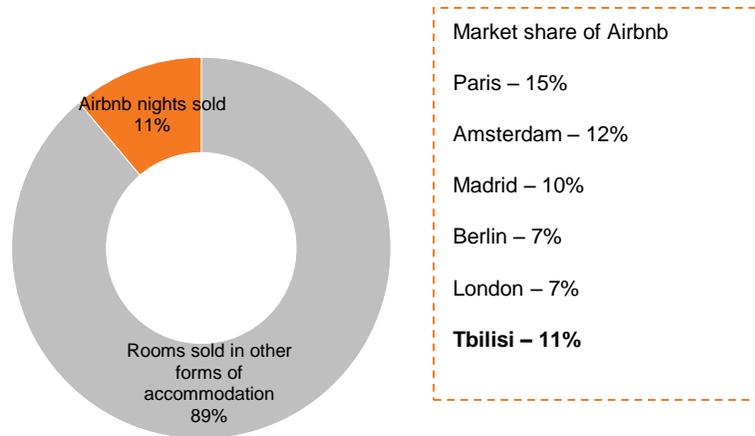


Source: AirDna, G&T Research  
 Note 1: Properties with no bookings are excluded  
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# Airbnb complementary to hotel industry

## Airbnb accounts for 11% of accommodation market in Tbilisi

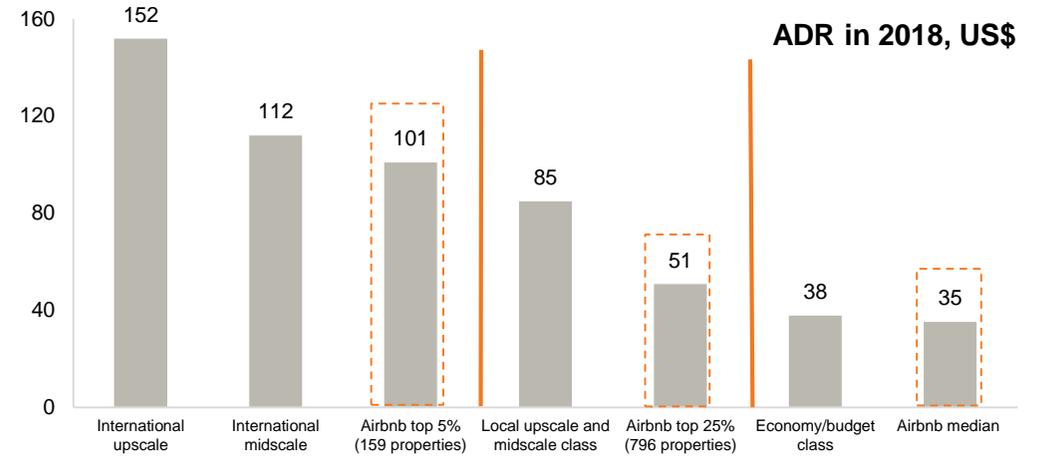


### Market share of Airbnb

Paris – 15%
Amsterdam – 12%
Madrid – 10%
Berlin – 7%
London – 7%
<b>Tbilisi – 11%</b>

Source: G&T Research, AirDna, Colliers International  
 Note: Properties with no bookings are excluded

## Airbnb is price competitive with hotel industry in respective segments



Source: G&T Research  
 Note: Top 5% is equivalent to 95% percentile. i.e. top 5% (183 properties) have ADR equal or higher than US\$ 101. Same applies for top 25%

### Regulations

Airbnb market in Paris, Amsterdam, Madrid, Berlin, London is regulated and have length of stay limits from 60 to 120 days – owners can rent their home only for limited number of days

Tbilisi Airbnb market is unregulated, but underperforms above mentioned regulated cities - Tbilisi Airbnb market accounts for 11% of accommodation market, similar to regulated cities share, which illustrates growth potential of Tbilisi in the future

# Key findings and expectations on Airbnb in Tbilisi

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## Question 1: Is Airbnb profitable for hosts?

It is. Top performing properties enjoy much higher yields compared to long-term renting, while yields of median Airbnb properties tend to be similar to long-term renting business.

Top performers on Airbnb expected to enjoy higher yields in the future in our view. However, part of median (or below) properties expected to gradually leave the market, because of similar (or lower) yields compared to long-term renting business.

## Question 2: How Airbnb affects long-term rental rates?

There is no sign of long-term rent price spikes in Tbilisi.

Airbnb stock is mostly concentrated in the Old Tbilisi, which never was hotspot for long-term renting business.

## Question 3: Is Airbnb price competitive with hotel industry?

Airbnb mostly competes with local midscale/economy/budget class hotels, offering lower prices to tourists.

We believe that Airbnb has largely been complementary to the hotel industry lacking budget accommodation. Airbnb benefits market and adds value to the tourism industry.

## Question 4: Will Airbnb's market share increase?

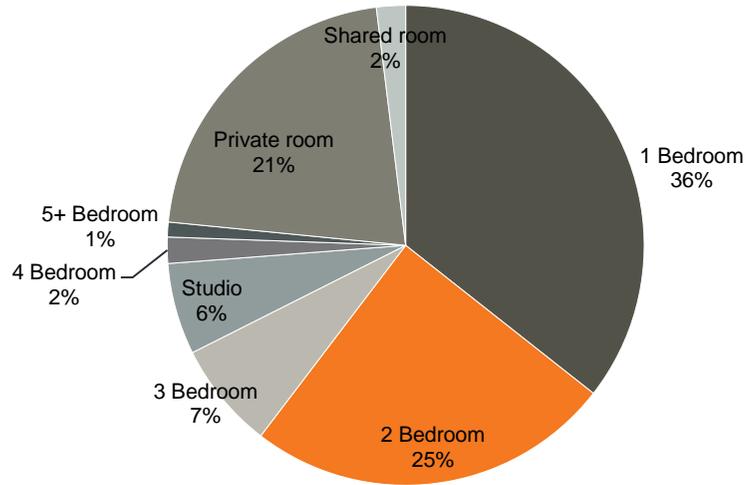
It will. Tbilisi Airbnb accounts 11% of market share, similar to peers, which have strict regulations and are more price competitive with hotel industry.

Taking into account tourism boom to continue in Georgia there is room for Airbnb growth in Tbilisi. This segment expected to gain maximum of 20% of the market size over next 5 years on the back of low yielding visitors.



# Annex 1: Key characteristics of Airbnb rentals in Tbilisi

## Rentals by size



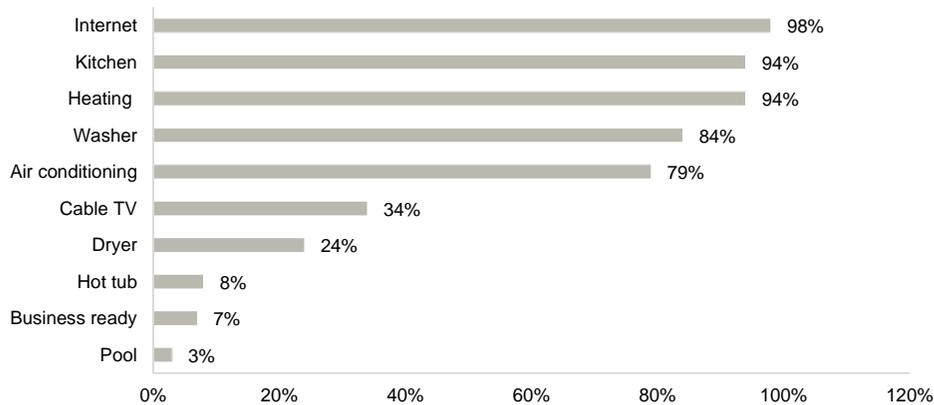
Source: AirDna

## Top 10 rentals by revenue

Rental	Annual revenue	ADR	Occupancy	Guest capacity
Property 1	\$79,426	\$296	83.0%	14
Property 2	\$63,083	\$256	69.0%	8
Property 3	\$57,640	\$200	89.0%	8
Property 4	\$49,188	\$212	66.0%	12
Property 5	\$47,107	\$179	75.0%	6
Property 6	\$40,904	\$154	73.0%	8
Property 7	\$40,006	\$147	75.0%	10
Property 8	\$36,920	\$125	93.0%	9
Property 9	\$36,720	\$360	34.0%	12
Property 10	\$34,471	\$145	68.0%	8

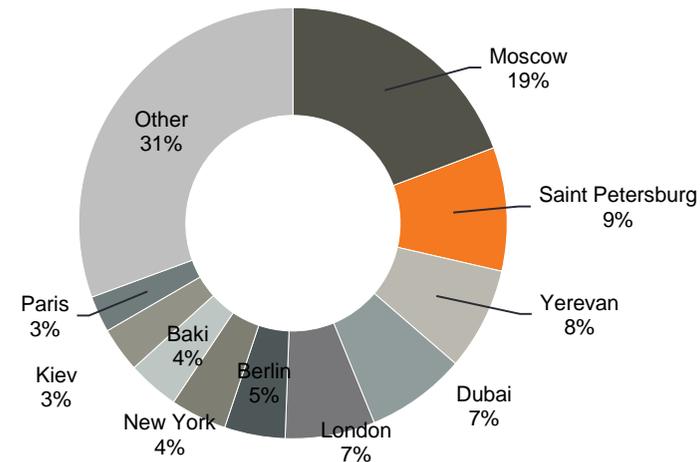
Source: AirDna

## Amenities of Airbnb rentals



Source: AirDna

## Origins of Airbnb guests



Source: AirDna

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