



**ENTERPRISE**  
GEORGIA

---

# Investment Proposal

Akhtala Health Resort

---

PREPARED BY:  
COLLIERS INTERNATIONAL GEORGIA

PREPARED FOR:  
LEPL ENTERPRISE GEORGIA

# Economic Overview

## Key Macroeconomic Indicators

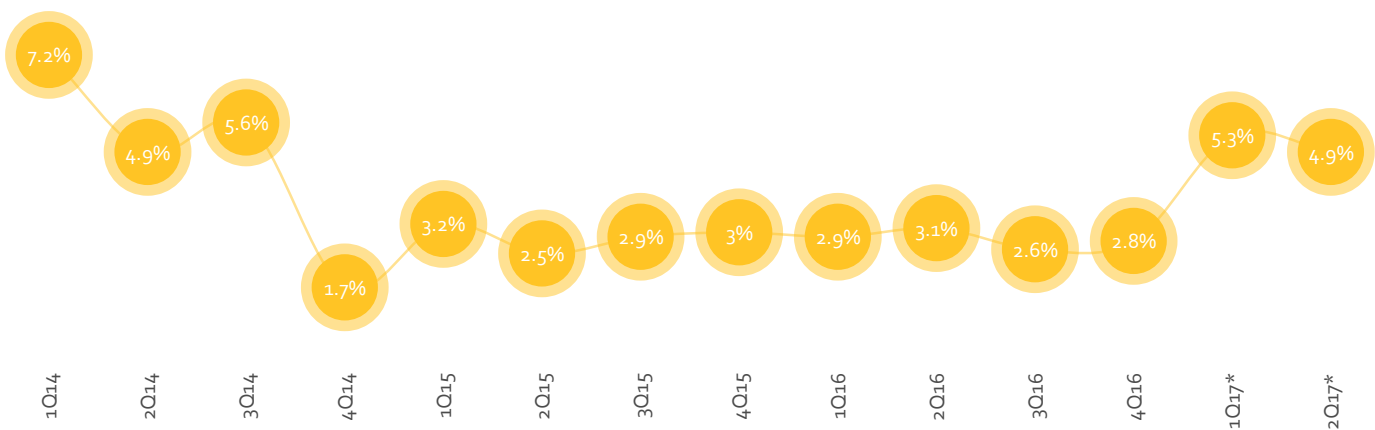
Georgia is the active economic center of the Caucasus. It offers the supportive environment for business, a liberal tax code, low corruption and openness to foreign investment.

Real GDP grew by 4.9% in H1 2017 (y-o-y). The growth was mainly driven by increase of exports and remittances, as well as pickup in tourist arrivals and positive economic trends in the U.S., Europe and neighboring Russia. Remittances increased considerably by 20% and exports increased by 30% in 1H of 2017 (y-o-y). According to the World Bank (2017) the projected

medium term average economic growth rate is 4.5%. The Government is also committed to fiscal sustainability and restraining current spending. Therefore, the fiscal deficit is expected to narrow in 2017-20.

In the H1 2017 Foreign Direct Investment (FDI) inflows in hotels and restaurants industry picked up and there are indications of revival. FDI in the real estate sector almost doubled in H1 2017 compared to H1 2016 and amounted to USD 95,4 million. The total FDI in H1 2017 amounted to USD 347 million.

Real GDP Growth, y-o-y change



\* Forecast  
Source: Geostat, Colliers International

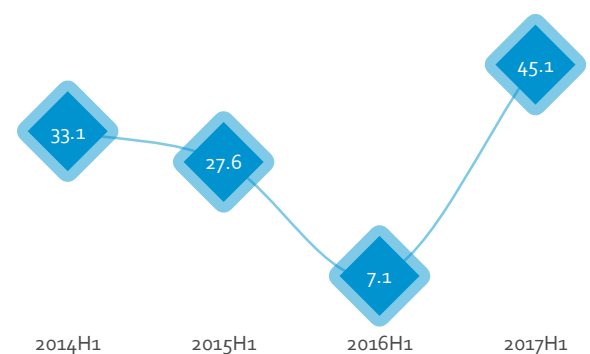
## Tax Climate

In order to boost the economic growth and attract investments Estonian-type tax model was adopted In 2017 that exempts undistributed earnings from the profit tax, and instead taxes distributed earnings only. Therefore, Georgia has a liberal tax code that includes only six types of taxes.

- Profit Tax (15%);
- Personal Income Tax (20%);
- Value Added Tax (18%);
- Import Tax (0%, 5% or 12%);
- Excise Tax (on a selected goods);
- Property Tax (up to 1%).

Georgia has Double Taxation Avoidance treaties with 52 countries.

FDI in Hotels and Restaurants, USD mln



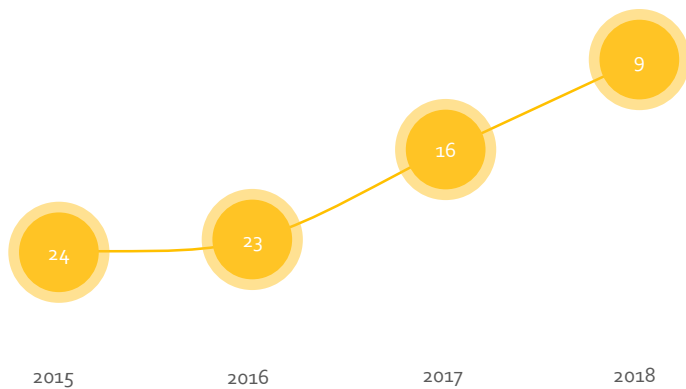
Source: Geostat, Colliers International

# Economic Overview

## Supportive Business Environment

According to the World Bank’s Doing Business 2018 report Georgia ranks 9<sup>th</sup> for ‘Ease of Doing Business’ across 190 economies; 4<sup>th</sup> for ‘Ease of Starting Business’, 4<sup>th</sup> for ‘Ease of Registering Property’. Georgia has been among the top improver countries four times in the past 13 years. It takes on one or maximum two days and no minimum capital requirements to register a new business. Georgia has improved its status as a free economy thanks to its fiscal policy, regulatory efficiency and open market policies. According to the ‘Heritage Foundation Index of Economic Freedom 2017’, Georgia’s economy is categorized as Mostly Free, ranking 13<sup>th</sup> across 178 countries.

### Ease of Doing Business Ranking



Source: World Bank, Colliers International

Georgia remains to be the least corrupt country in the region. According to the Corruption Perception Index 2016, Georgia ranks first in the area with the score of 57, which is a 5-point improvement from the previous year.

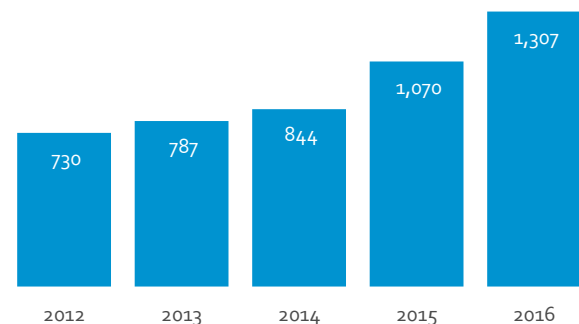
Foreign investors in Georgia are guaranteed and enjoy equal rights to those granted a physical and legal person of Georgia. After payment of taxes and other mandatory charges foreign investors are entitled to repatriate the earnings (income) gained from investments as well as other funds abroad.

## Host in Georgia Program

Government of Georgia provides financial and technical assistance to entrepreneurs involved in hotel industry in all regions of Georgia except Tbilisi and Batumi. Government co-finances franchising/management agreement fees (up to 300,000 Gel annually) for the first 2 years.

Government also provides different options of co-financing interest rates and provides collateral guarantees for the loans.

### Turnover in Hotels and Restaurants (GEL/mln)



Source: Geostat, Colliers International

## Tourism Overview

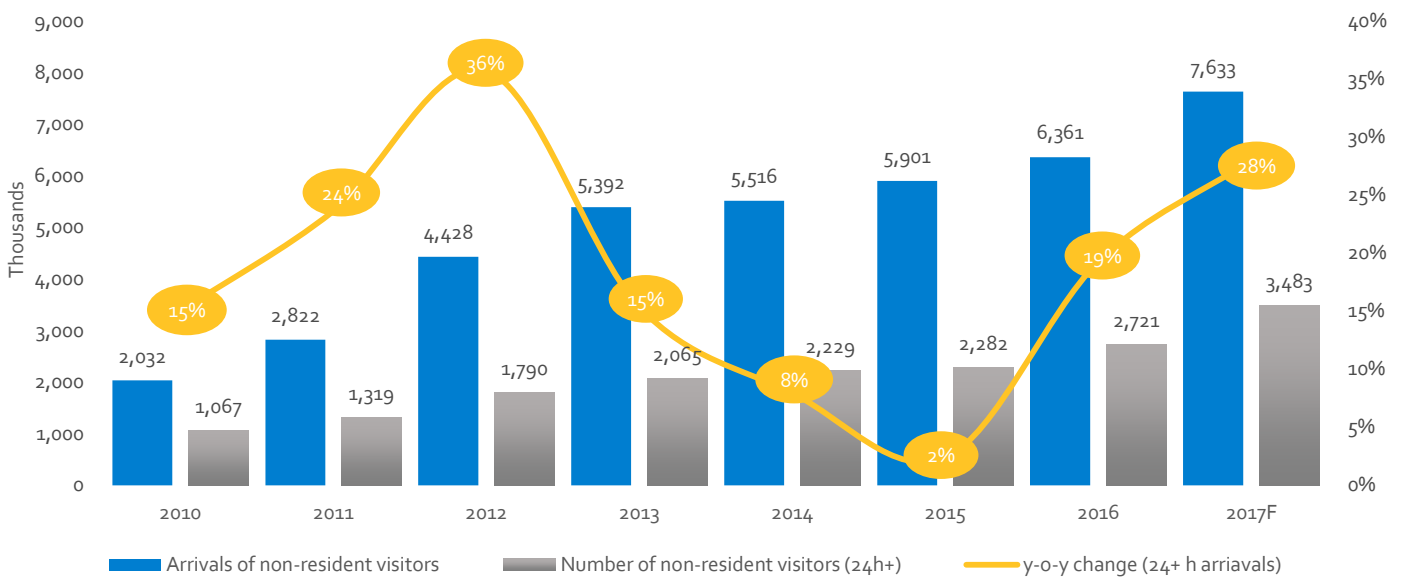
Through the first ten months of the year international visitation to Georgia is up 18.8% compared to the same period of 2016. As of October 2017, inbound tourism accounted for 6.8% of Georgia's economy. Tourist arrivals increased by 28% reaching 3,042,907 visitors.

The majority of visitors came from Azerbaijan, Armenia, Russia, Turkey and Iran. International visitation from Saudi Arabia, Kuwait and Iran showed the most significant growth by 172%, 150% and 123% respectively. Visits from the EU countries also showed positive trend. Visits from the U.K., Austria and Netherlands are up 40%, 37% and 35% respectively.

### Key Indicators, January-October, 2017

International arrivals	6,430,824
Tourist arrivals	3,042,907
# of visitors of protected areas	856,186
# of passengers in International Airports (Tbilisi, Batumi, Kutaisi)	3,550,175
Lodging capacity (# of beds) in Georgia	65,656

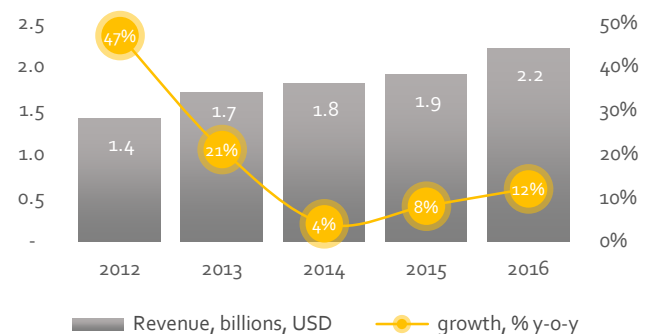
Dynamics of international visitors and tourists 2012-2017, thousands



Source: GNTA, Colliers International

Revenues from the tourism sector have been growing rapidly for the past seven years. Revenues in H1 2017 rose by 26% y-o-y and amounted to USD 1.09 billion. As of September 2017 international visitor spending also increased by 38% compared to the same period in 2016.

Revenues from Tourism sector



Source: Geostat, Colliers International

# Akhtala Health Resort

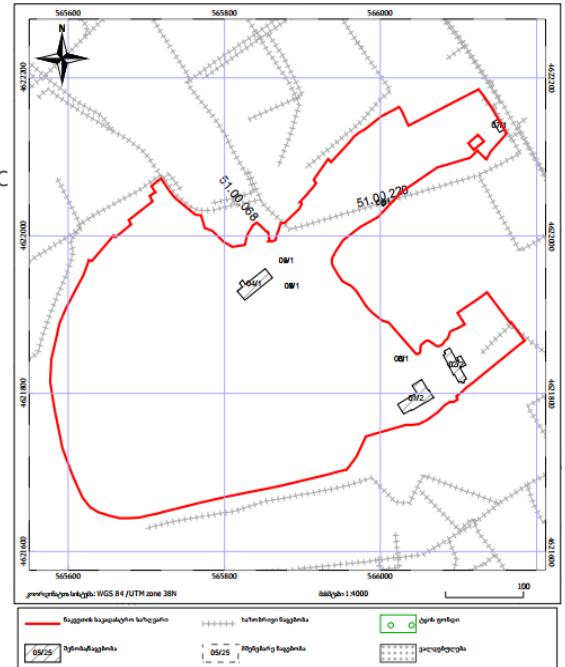
## Description

The property is located in the centre of Gurjaani, Kakheti, Georgia, with an immediate, easy access to the highway. It is integrated with the main recreational area (3.4 ha) in the town that has been rehabilitated few years ago. The property represents a peloid-health resort and is famous for its nonorganic mud that has unique medical capabilities.

There are three buildings located on the 17 ha land. Two of them still operate as a hotel and a treatment center. One of the buildings, currently in the poorest condition, serves as a warehouse. The buildings were built in 1937 when the resort started to receive guests.

The hotel is located on the right side of the central entrance of the subject property. The treatment center is located closer to the mud, offering variety of services such as massage, electric mud and other mud cure procedures.

Akhtala mud has unique features, that help to cure: Bone and Joint Diseases, Peripheral Nervous System Diseases, Abdominal Cavity Diseases, Gynecological Problems, Psoriasis, and Eczema.



## Specifications

Location: 9 Tamar Mephe Street, Gurjaani, Kakheti, Georgia

Total land area: 17 ha

Total Building area: 3,110 sqm

Cadastral Code: 51.01.60.505



## Macro-Location

The property is located in Kakheti, Georgia’s eastern region. Kakheti region occupies 18% of Georgian territory with an approximate population of 318,000.

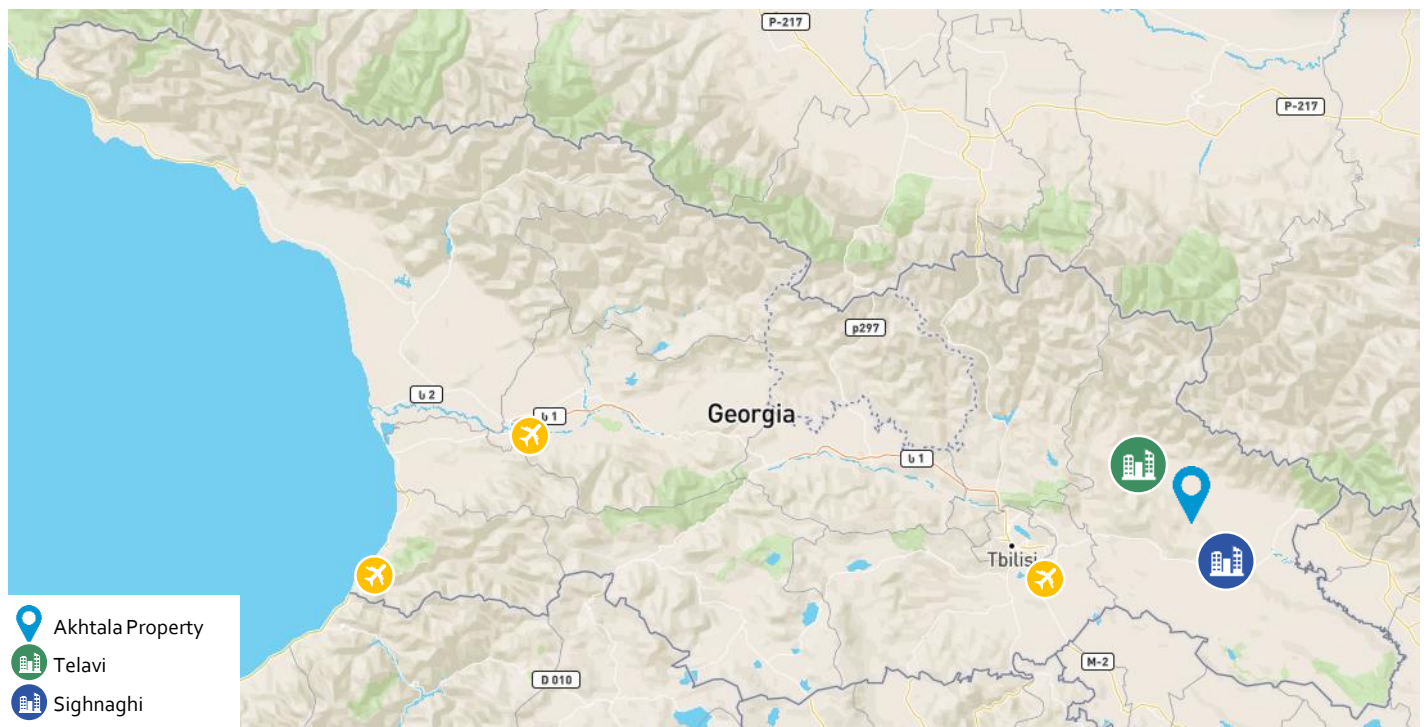
Kakheti is one of the most historic and diverse regions in Georgia. These factors have helped make the region become the most visited region in the country with the Caucasus Mountains nearby making for spectacular scenery. The Lagodekhi national park, the green valleys of the Alazani river, plain and semi-desert areas of Dedoplistskaro and Sagarejo district further contribute to Kakheti’s diverse geography.

Kakheti is best known for a variety of wines and its unique ‘maturation’ in clay earthenware vessels known as ‘Kvevri’. The region is also known for its attractions, including Alaverdi Cathedral, Davit Gareja, Gremi Church, Nekresi and Shuamta monasteries, the Alexander Chavchavadze family estate and house museum plus other leisure sights and activities provided by its proximity to the Caucasus Mountains.

Akhtala resort is located between the two most picturesque cities of the region: Telavi and Signaghi. The distances from the International Airports and important regional cities are as follows:

- Telavi – 36.7 km (45 minutes)
- Signaghi – 22.3 km (30 minutes)
- Tbilisi International Airport – 101 km (1.5 hours)

Exhibit 1 – Macro Location Map



Source: Mapbox

## Micro-Location

Akhtala resort is situated in the center of Gurjaani, by the Tbilisi-Kakheti highway. It is located around the park. A French clinic “Kakheti-Ioni” has the closet proximity to the property. It was built and equipped with the modern medical equipment under financing of general board of Yonne department of France, within the partnership relations between Kakheti region and Yonne department. The clinic offers a wide range of services, such as pediatrics, cardiology, neurology, laboratory, oncology, chemotherapy, dialysis, radiology, microsurgery. Other notable sites include furniture house “Embawood”, House of Culture and a public service hall to the southeast. Rest of the surrounding areas are mostly residential.



Exhibit 2 – Micro Location Map



Source: Google Maps

## Competitive Set

### The Hospitality Market of Relevance

By evaluating the occupancy, rate structure, market orientation, location, amenities, reputation and the quality of the area’s hotels in conjunction with the information gathered on the site visit and interviews we have identified two properties we consider will be competitors of the proposed hotel. These competitors together comprise 292 rooms, with the average ADR of USD 77, and 57% occupancy.

During 2018, two new hotels are planned to be developed that will become partially competitive with the proposed hotel.

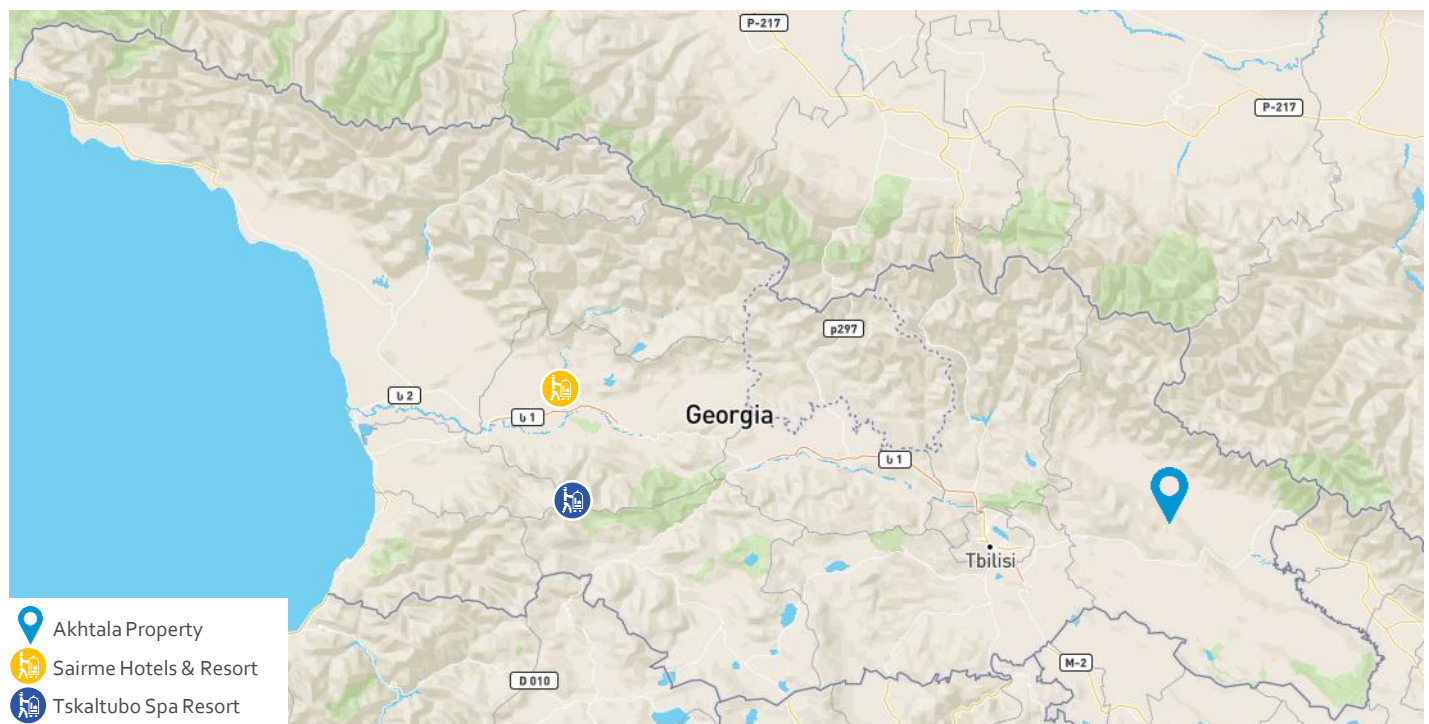
Exhibit 3 – Competitive Set of Hotels

Hotel	# of rooms	City
Sairme Hotels & Resort	155	Sairme
Tskaltubo Spa Resort	137	Tskaltubo
<b>Total</b>	<b>292</b>	
Average Daily Rate (ADR)		77
Occupancy Rate		57%

Exhibit 4 – Pipeline Projects

Hotel	# of rooms	City	Completion date
Radisson Tsinandali	120	Tsinandali	H1 2018
Hotel Meshakhte	120	Tskaltubo	H1 2018
<b>Total</b>	<b>240</b>		

Exhibit 5 – Competitive Set Location Map



Source: Mapbox



## Akhtala Health Resort

### Concept Development

Akhtala health resort combines 80 hotel rooms of midscale branding and a wellness center. As outlined in the research, the local mud quality is unique, in terms of its medical properties, on the regional level. We believe the primary customers of the property should consist of international travelers from the neighboring countries with the aim of medical care and rehabilitation.

The hotel is primarily targeted on solo travelers and couples and therefore we have included 75 standard rooms and 5 units for visitors with disabilities.

The leisure and recreation facilities include the gym, sauna and an indoor pool.

A stand-alone treatment center with the size of 700 sqm is included in the facility mix to provide mud therapies as well as other treatments.

Key Financial Results : Development Costs (excl. land)-\$6.4 m; EBITDA margin-46%; IRR (equity)-15%.

### Development Quantum

Hotel Rooms & Suites		
	Number	Size (sqm)
Standard	75	24
Disabled	5	30
<b>Total</b>	<b>80</b>	<b>1,950</b>
<i>Average Size per Room</i>		<b>24</b>
Food & Beverage Facilities		
	Covers	
All day Dining / Buffet	90	200
<b>Total</b>	<b>90</b>	<b>200</b>
Meeting Space		
	Maximum Capacity (theatre or banqueting style)	Area (sqft/sqm)
Meeting Room	60	150
<b>Total</b>	<b>60</b>	<b>150</b>
Leisure & Recreation Facilities		
Gym & Sauna		200
Indoor Pool (10m x 10m)		200
<b>Total</b>		<b>400</b>
Treatment Facilities		
Standalone treatment center		700
Other Facilities		
Surface Parking	30	900
Back-of-House (BOH) & Circulation		1,200
<b>Total</b>		<b>4,600</b>

## Financial Summary

### Profit & Loss Statement and Financial Returns (USD `000)

Operations	Totals	%	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Number of Rooms						80	80	80	80	80	80	80
Room Occupancy %						45%	54%	60%	60%	60%	60%	60%
Average Room Rate (USD)						70	72	74	75	77	79	81
Room Revenue	8,824	65%				920	1,131	1,288	1,321	1,354	1,388	1,422
Food & Beverage (F&B) Revenue	2,036	15%				212	261	297	305	312	320	328
Medical Revenue	2,715	20%				283	348	396	406	417	427	438
<b>Total Revenue</b>	<b>13,575</b>	<b>100%</b>				<b>1,415</b>	<b>1,741</b>	<b>1,982</b>	<b>2,032</b>	<b>2,083</b>	<b>2,135</b>	<b>2,188</b>
<b>Expenses</b>		<i>of total rev</i>										
Departmental Expenses	3,638	27%				379	466	531	545	558	572	586
Undistributed Expenses	2,172	16%				226	278	317	325	333	342	350
Management Fee	208	2%				*	*	40	41	42	43	44
<b>GOP</b>	<b>7,557</b>	<b>56%</b>				<b>809</b>	<b>996</b>	<b>1,094</b>	<b>1,122</b>	<b>1,150</b>	<b>1,178</b>	<b>1,208</b>
Reserves	407	3%				42	52	59	61	62	64	66
Taxes & Insurance	455	3%				75	72	68	65	61	58	55
Incentive Fee	403	3%				*	*	77	79	80	82	85
<b>EBITDA</b>	<b>6,292</b>	<b>46%</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>692</b>	<b>872</b>	<b>890</b>	<b>917</b>	<b>945</b>	<b>973</b>	<b>1,002</b>

\* Note : First 2 years management fee will be financed by State Incentive Programme.

Development Cost	Totals		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Construction Costs</b>		<i>of dev costs</i>										
Hotel	-4,800	75%	-720	-1680	-2400	0	0	0	0	0	0	0
Medical Facilities	-1,000	16%	-150	-350	-500	0	0	0	0	0	0	0
Contingency	-290	5%	-44	-102	-145	0	0	0	0	0	0	0
<b>Total for Construction Costs</b>	<b>-6,090</b>	<b>96%</b>	<b>-914</b>	<b>-2,132</b>	<b>-3,045</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Professional Fees</b>		<i>of dev costs</i>										
Planning, Permits & Surveying	-122	1.9%	-122	0	0	0	0	0	0	0	0	0
Site Supervision & Other Consultancy	-91	1.4%	-14	-32	-46	0	0	0	0	0	0	0
<b>Total for Professional Fees</b>	<b>-213</b>	<b>3.3%</b>	<b>-136</b>	<b>-32</b>	<b>-46</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Marketing Costs</b>		<i>of dev costs</i>										
Preopening Costs	-60	0.9%	0	0	-60	0	0	0	0	0	0	0
<b>Total for Marketing/Letting</b>	<b>-60</b>	<b>0.9%</b>	<b>0</b>	<b>0</b>	<b>-60</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Development Costs</b>	<b>-6,363</b>	<b>100%</b>	<b>-1,049</b>	<b>-2,163</b>	<b>-3,151</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Terminal Value Calculation	Totals		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Capitalisation	9,111		0	0	0	0	0	0	0	0	0	9,111
Sales Cost on Exit	-182		0	0	0	0	0	0	0	0	0	-182
<b>Terminal Value</b>	<b>8,929</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,929</b>

Performance	Totals		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
EBITDA	6,292		0	0	0	692	872	890	917	945	973	1,002
Development Costs	-6,363		-1,049	-2,163	-3,151	0	0	0	0	0	0	0
Terminal Value	8,929		0	0	0	0	0	0	0	0	0	8,929
VAT Paid	1,594		-189	-389	-567	124	157	160	165	170	175	1,788
VAT Recovered	-1,594		0	0	0	0	0	0	0	0	0	-1,594
<b>CF</b>	<b>8,857</b>		<b>-1,238</b>	<b>-2,553</b>	<b>-3,718</b>	<b>816</b>	<b>1,029</b>	<b>1,050</b>	<b>1,083</b>	<b>1,115</b>	<b>1,149</b>	<b>10,124</b>
<b>IRR</b>	<b>13%</b>											

Equity Contribution	-4,149		-647	-1,390	-2,113	0	0	0	0	0	0	0
Debt Contribution	-3,754		-619	-1,276	-1,859	0	0	0	0	0	0	0
Finance Cost	-1,863		-28	-113	-254	-338	-301	-261	-217	-170	-118	-62
<b>Total CF After Finance</b>	<b>6,995</b>		<b>-1,266</b>	<b>-2,666</b>	<b>-3,972</b>	<b>478</b>	<b>728</b>	<b>789</b>	<b>865</b>	<b>945</b>	<b>1,031</b>	<b>10,063</b>
Debt Repayment	-3,754		0	0	0	-408	-445	-485	-528	-576	-628	-684
Debt Balance			-619	-1,895	-3,754	-3,346	-2,901	-2,417	-1,888	-1,312	-684	0
<b>Equity CF</b>	<b>6,995</b>		<b>-647</b>	<b>-1,390</b>	<b>-2,113</b>	<b>70</b>	<b>283</b>	<b>304</b>	<b>337</b>	<b>369</b>	<b>403</b>	<b>9,378</b>
<b>Equity IRR</b>	<b>15%</b>											

# Disclaimer

---

Colliers International is a leading commercial real estate services company operating in 67 countries, providing a full range of services to real estate occupiers, developers and investors on a local, national and international basis. Services include brokerage sales and leasing (landlord and tenant representation), real estate management, valuation, consulting, project management, project marketing and research, and a recently added GIS services. Colliers International provides services across the following core sectors as well as many specialized property types: retail, office, hotel, industrial and logistics.

This brief appraisal of the given property is produced at the request of Enterprise Georgia's Investment Promotion Division.

Established by the Ministry of Economy and Sustainable Development of Georgia, "Enterprise Georgia" is a legal entity of public law aimed at development of Georgian enterprises. As the first state-owned institution mandated to facilitate development, growth and internationalization of country's private sector through use of different mechanisms, Enterprise Georgia operates within its three pillars: EG – Business, EG – Invest, and EG – Export.

As one of the EG Pillars, Investment Promotion Division plays a role of moderator between foreign investors and the Government of Georgia, ensuring that the investor gets different types of updated information and has means of effective communication with the Government bodies. The aim of the Invest division is to attract, promote and develop foreign direct investments in Georgia. It serves as a "One-stop-shop" for investors to support companies before, during & after investment process.



## CONTACT DETAILS

DIR +995 32 222 4477  
12 M.Aleksidze Street  
King David Business Centre  
0179 Tbilisi Georgia  
georgia@colliers.com  
www.colliers.com/georgia



**ENTERPRISE**  
GEORGIA

## CONTACT DETAILS

DIR +995 32 296 0010  
18 Uznadze Street  
0102 Tbilisi Georgia  
enquiry@investinggeorgia.org  
www.investinggeorgia.org  
www.enterprisegeorgia.gov.ge