



**ENTERPRISE**  
GEORGIA

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# Investment Proposal

Goderdzi Mountain Resort

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PREPARED BY:  
COLLIERS INTERNATIONAL GEORGIA

PREPARED FOR:  
LEPL ENTERPRISE GEORGIA

# Economic Overview

## Key Macroeconomic Indicators

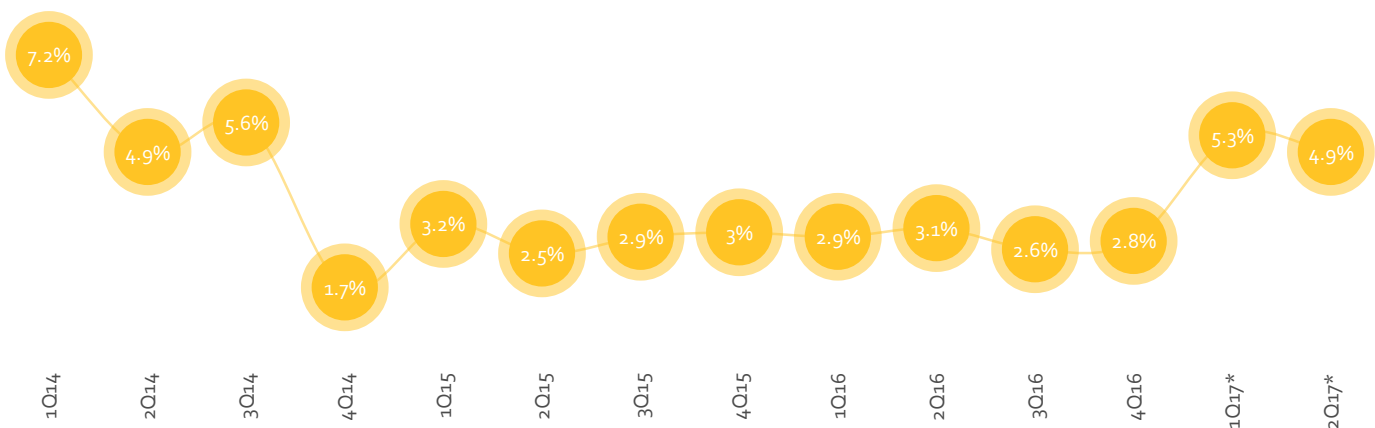
Georgia is the active economic center of the Caucasus. It offers the supportive environment for business, a liberal tax code, low corruption and openness to foreign investment.

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

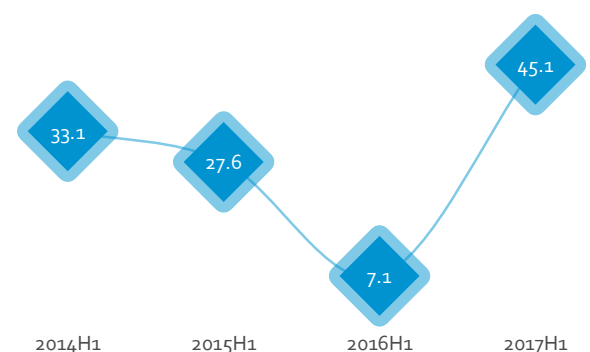
## Tax Climate

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



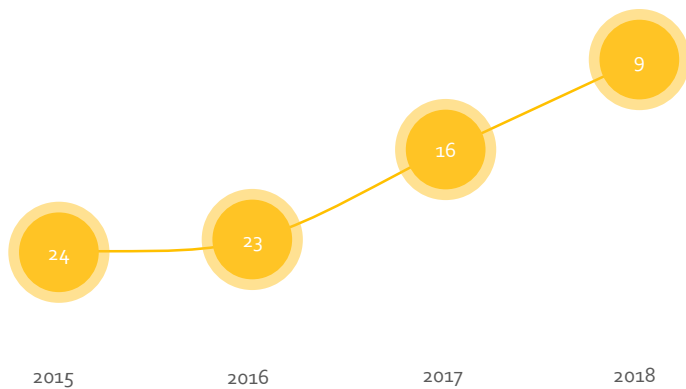
Source: Geostat, Colliers International

# 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.

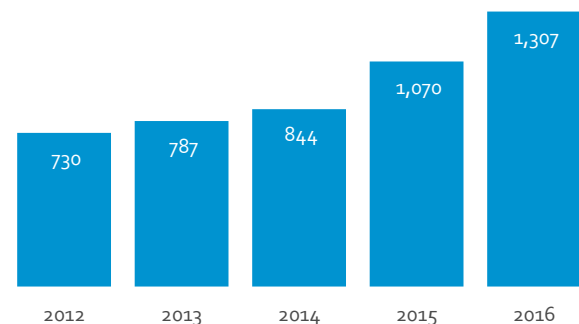
Foreign investors in Georgia are guaranteed and enjoy equal rights to those granted a physical and legal person of Georgia. After payment of taxes and other mandatory charges foreign investors are entitled to repatriate the earnings (income) gained from investments as well as other funds abroad.

## 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

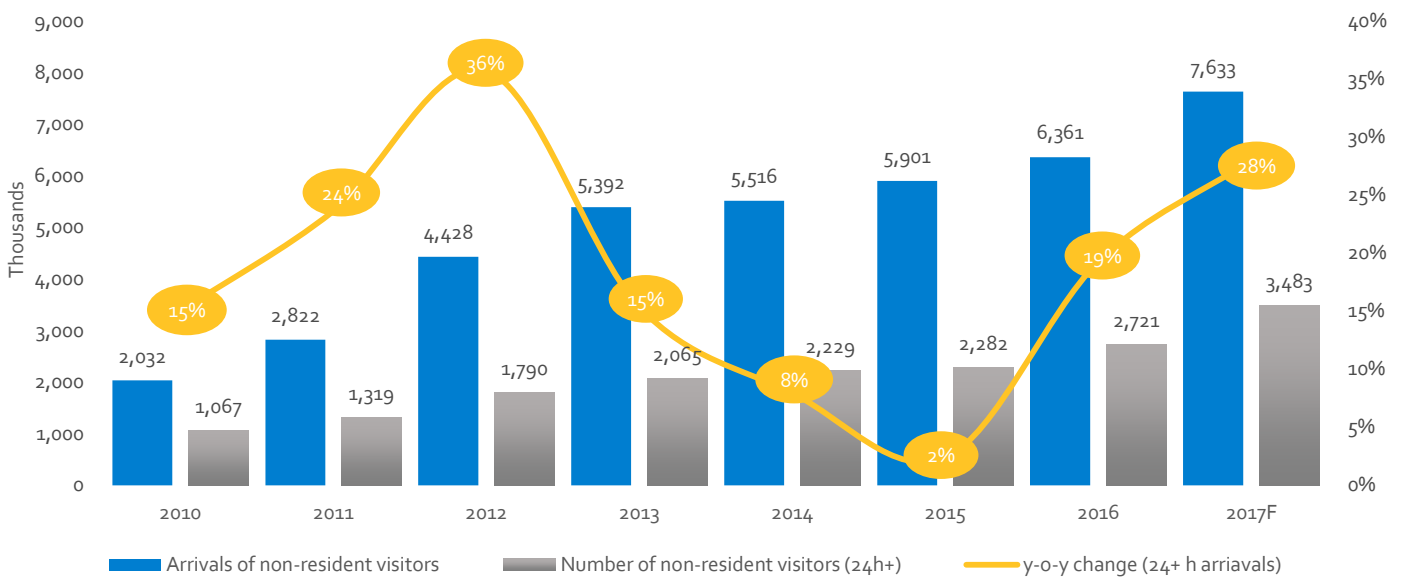
Through the first ten months of the year international visitation to Georgia is up 18.8% compared to the same period of 2016. As of October 2017, inbound tourism accounted for 6.8% of Georgia's economy. Tourist arrivals increased by 28% reaching 3,042,907 visitors.

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

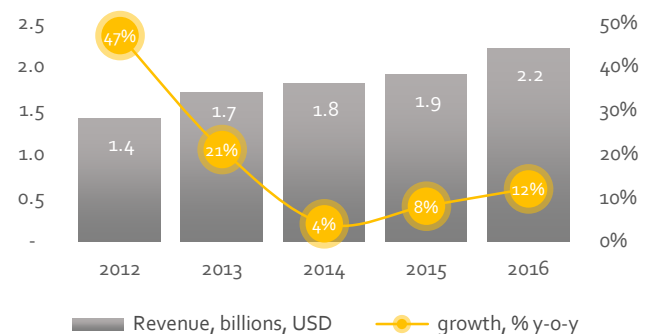
Dynamics of international visitors and tourists 2012-2017, thousands



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

# Goderdzi Mountain Resort

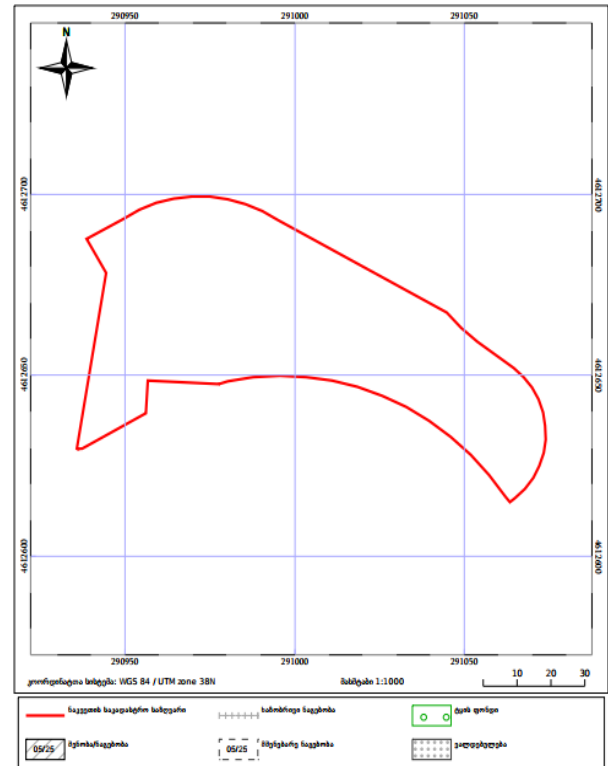
## Description

The property is located in a mountainous part of Adjara, in Khulo Municipality. Goderdzi mountain resort’s development began in 2011 and was opened in December, 2015. It is projected that the resort will accommodate 7,000 tourists at a time. The resort has two ski tracks, with a total length of 8 km. Goderdzi’s geographical location makes it a great place for a year-round mountain resort.

The subject land is situated about 200 meters away from the gondola lift station, giving it a convenient location during the ski season.

## Specifications

- Location: Riketi Temi, Khulo, Georgia
- Total land area: 5,488 sqm
- Cadastral Code: 23.14.36.224
- Status: Non-Agricultural Land



*Red circle gives rough indication of a subject land*



## Macro-Location

The property is located in the autonomous region of Adjara, southwest part of Georgia. Occupying about 4% (2,900 sq. km) of the country, with an approximate population of 339,000.

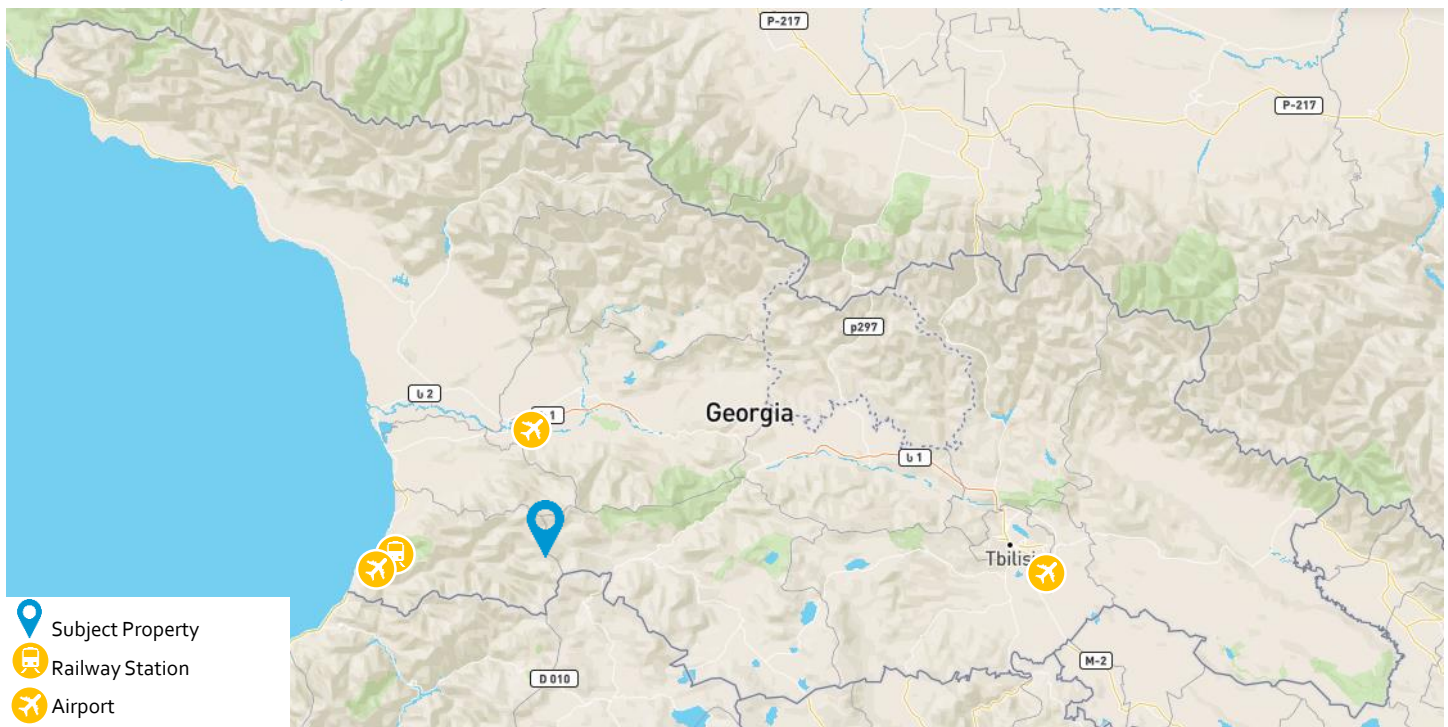
The capital of Adjara, Batumi became the second largest city of Georgia. The economy of the region consists mainly of three sectors: agriculture, transportation (sea port) and tourism. Since 2004 Batumi has been developing as the main sea resort of Georgia. In 2007 city also became the seat of the Constitutional Court of Georgia.

Goderdzi resort is located on the Batumi-Akhalsikhe (Samtskhe-Javakheti Region) road, 103 km away from Batumi and 85 km - from Akhalsikhe.

The distances from the Georgia’s international airports are as follows:

- Tbilisi International Airport – 504 km (9.2 hours)
- Kutaisi International Airport – 232 km (5.4 hours)
- Batumi International Airport – 103 km (3 hours)
- Batumi Railway Station – 110 km (3.2 hours)

Exhibit 1 – Macro Location Map



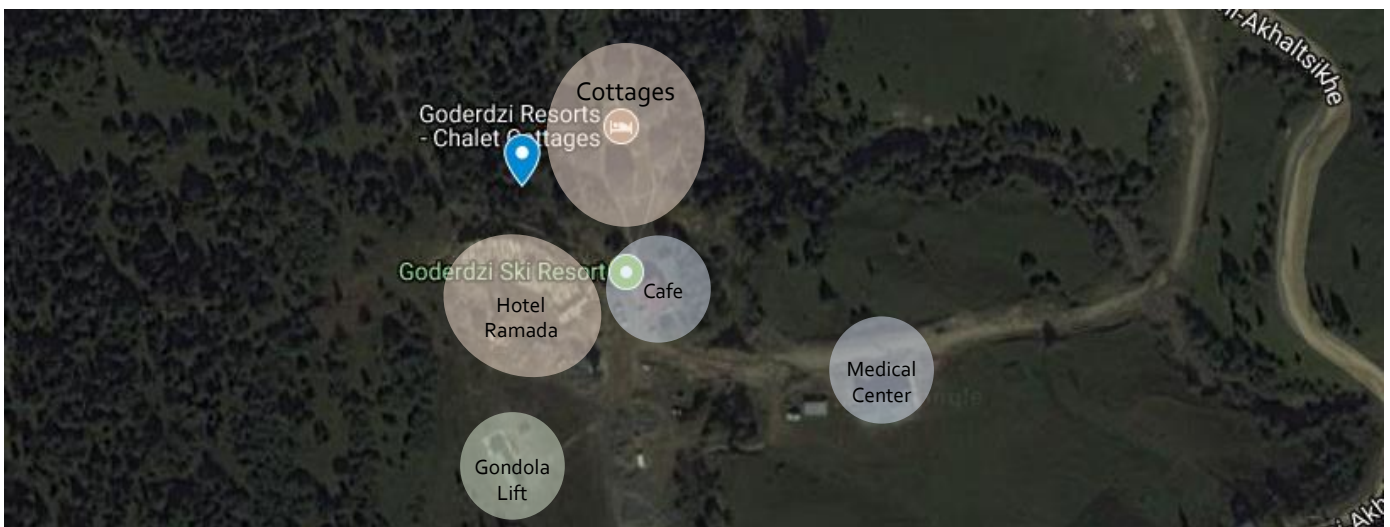
Source: Mapbox

## Micro-Location

The subject property is located at an altitude of 1,700 meters above sea level. By the east border lay six cottages, owned by the government and by the south side – Hotel Ramada, which is under construction. There are two other buildings in the surrounding area: café and a medical center. The privatization of nearby lands has already began and several other constructions are underway. The property is accessed by the Batumi-Akhaltzikhe road, which will be fully reconstructed by 2020, thus making it easier and faster to reach from both cities.



### Exhibit 2 – Micro Location Map



Source: Google Maps

## Market Dynamics

### Hospitality Market

Bakuriani and Gudauri are two major winter sports and recreation resorts in Georgia. Whereas Mestia, famous for unique traditional towers and picturesque mountain views has recently been renovated and developed into winter sports resort.

#### Supply

Nowadays, the only international hotel brand operating in Georgian winter resorts is Best Western Plus, which opened in 2017 in Bakuriani. Another international brand Radisson Blu Gudauri is scheduled to open by the end of 2018.

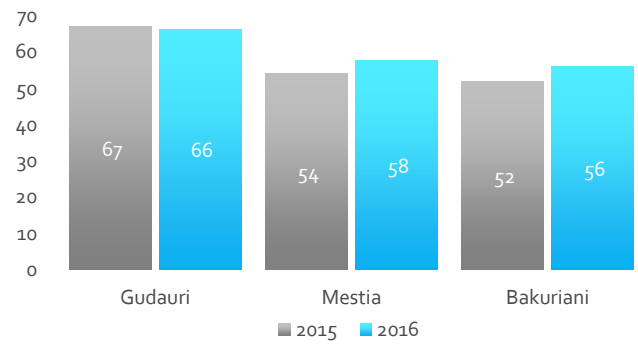
In 2016, three new accommodation facilities began operating in Bakuriani (without any addition in Gudauri and Mestia), adding 42 rooms and 122 beds to the resort's stock.

#### Performance Indicators

In 2016, the highest ADR (USD 66) was achieved by hotels operating in Gudauri. In comparison to the same figure in 2015, this represents a slight decrease. ADR in Hotels of Mestia and Bakuriani increased by 7% and 8%, making up to USD 58 and USD 56 respectively.

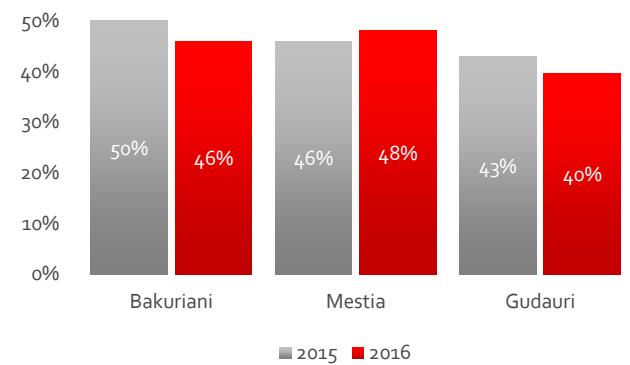
At 48%, the highest hotel occupancy rate was seen in Mestia. Bakuriani hotels dropped by 4% points to 46% compared to the previous year, while the Gudauri occupancy rate is the lowest with just 40%.

ADR in winter resorts (USD excl. VAT) 2015-2016



Source: Colliers International

Occupancy rate in winter resorts (annual) 2015-2016



Source: Colliers International



## 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 information gathered on the site visit and interviews we have identified thirteen properties we consider will be competitors of the proposed hotel. These competitor hotels in total represent 623 rooms, with the average daily rate (ADR) of USD 68, and 51% occupancy.

It should be noted that stats of Best Western Plus have not been included in calculations of the ADR and the occupancy rate, since it has opened recently.

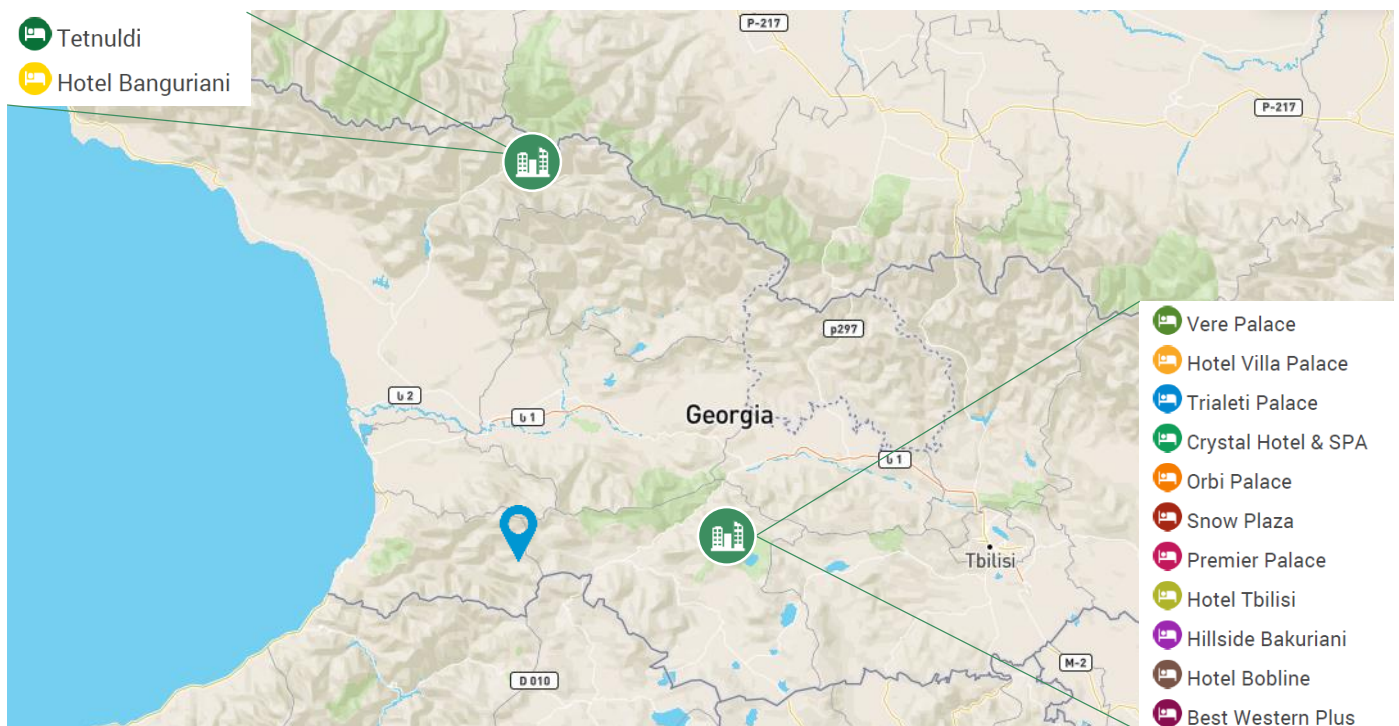
#### Exhibit 4 – Pipeline projects

Hotel	Location	# of rooms	Completion date
Rooms Hotel	Bakuriani	100	2018
Radisson Blu	Gudauri	105	2018
Ramada	Goderdzi	100	2019
<b>Total</b>		<b>305</b>	

### Exhibit 3 – Competitive set of Hotels

Hotel	Location	# of rooms
Vere Palace	Bakuriani	48
Hotel Villa Palace	Bakuriani	48
Trialeti Palace	Bakuriani	50
Crystal Hotel & SPA	Bakuriani	33
Orbi Palace	Bakuriani	50
Snow Plaza	Bakuriani	40
Premier Palace	Bakuriani	78
Hotel Tbilisi	Bakuriani	74
Hillside Bakuriani	Bakuriani	45
Hotel Bobline	Bakuriani	40
Tetnuldi	Mestia	36
Hotel Banguriani	Mestia	36
Best Western Plus	Bakuriani	45
<b>Total (rooms)</b>		<b>623</b>
Average Daily Rate (ADR)		USD 68
Occupancy Rate		51%

### Exhibit 5 – Competitive Set Location Map



Source: Mapbox

## Goderdzi Mountain Resort

### Concept Development

Goderdzi mountain resort comprises 82 units of a hotel accommodation of various types. The rooms are proposed to be distributed in the main hotel building and 8 stand alone cottages, operated by the single operator. Standard rooms with the average size of 24 sqm are mainly targeted at solo travelers and couples while larger rooms inside the building and the stand alone cottages are proposed to host a family and various group visitors.

The Food and Beverage (F&B) and leisure facilities include an all day dining and a lobby bar with a large adjacent space for sitting and socializing. A landscaped yard that unites the cottages with the main building will serve as a children entertainment area as well as gathering place for guests. The yard is proposed to be enhanced with sitting, lighting and basic leisure installations.

A sports equipment storage will provide the space for the guests' ski equipment. It should include a sports equipment rental unit as well.

A surface parking with a capacity of 70 cars should be sufficient for such type of development.

**Key Financial Results : Development Costs (excl. land)-\$5.5 m; EBITDA margin-4.9%; IRR (equity)-12%.**

### Development Quantum

<b>Hotel</b>		
<b>Rooms and Suites</b>		
	<i>Number</i>	<i>Size (m<sup>2</sup> or ft<sup>2</sup>)</i>
Standard Room	30	24
Family Room	20	35
Cottage Room	32	40
<b>Average</b>		
<b>Total</b>	<b>82</b>	<b>2,700</b>
<b>Average</b>		<b>32.9</b>
<b>Food and Beverage Facilities</b>		
	<i>Covers</i>	<i>Size (m<sup>2</sup> or ft<sup>2</sup>)</i>
All Day Dining	130	250
Leisure Space, Lobby bar		300
<b>Total</b>	<b>130</b>	<b>550</b>
<b>Other Facilities</b>		
Sports Equipment Storage		150
BOH & Circulation		1200
Surface Parking (70 spaces)	40	1200
Landscaped yard		2288
<b>Total GFA</b>		<b>4,600</b>

# Financial Summary

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

Operations	Totals	%	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Number of Rooms						82	82	82	82	82	82	82
Room Occupancy %						41%	49%	54%	54%	54%	54%	54%
Average Room Rate (USD)						57	64	67	69	70	72	74
Room Revenue	7,308	75%				690	926	1,083	1,110	1,138	1,166	1,195
Food & Beverage (F&B) Revenue	2,144	22%				202	272	318	326	334	342	351
Other	292	3%				28	37	43	44	46	47	48
<b>Total Revenue</b>	<b>9,744</b>	<b>100%</b>				<b>920</b>	<b>1,234</b>	<b>1,444</b>	<b>1,480</b>	<b>1,517</b>	<b>1,555</b>	<b>1,594</b>
<b>Expenses</b>		<i>of total rev</i>										
Departmental Expenses	2,339	24%				221	296	347	355	364	373	382
Undistributed Expenses	1,462	15%				138	185	217	222	228	233	239
Management Fee	190	2%				*	*	36	37	38	39	40
<b>GOP</b>	<b>5,754</b>	<b>59%</b>				<b>561</b>	<b>753</b>	<b>845</b>	<b>866</b>	<b>887</b>	<b>910</b>	<b>932</b>
Reserves	244	3%				23	31	36	37	38	39	40
Taxes & Insurance	395	4%				66	62	59	56	53	51	48
Incentive Fee	355	4%				*	*	68	69	71	73	75
<b>EBITDA</b>	<b>4,760</b>	<b>49%</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>473</b>	<b>660</b>	<b>682</b>	<b>703</b>	<b>725</b>	<b>747</b>	<b>770</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	-4,920	89%	-738	-1,722	-2,460	0	0	0	0	0	0	0
Landscape	-92	2%	-14	-32	-46	0	0	0	0	0	0	0
Surface Parking	-30	1%	-5	-11	-15	0	0	0	0	0	0	0
Contingency	-252	5%	-38	-88	-126	0	0	0	0	0	0	0
<b>Total for Construction Costs</b>	<b>-5,294</b>	<b>96%</b>	<b>-794</b>	<b>-1,853</b>	<b>-2,647</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	-106	1.9%	-106	0	0	0	0	0	0	0	0	0
Site Supervision & Other												
Consultancy	-79	1.4%	-12	-28	-40	0	0	0	0	0	0	0
<b>Total for Professional Fees</b>	<b>-185</b>	<b>3.4%</b>	<b>-118</b>	<b>-28</b>	<b>-40</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	-50	0.9%	0	0	-50	0	0	0	0	0	0	0
<b>Total for Marketing/Letting</b>	<b>-50</b>	<b>0.9%</b>	<b>0</b>	<b>0</b>	<b>-50</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>-5,529</b>	<b>100%</b>	<b>-912</b>	<b>-1,881</b>	<b>-2,736</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	6,997		0	0	0	0	0	0	0	0	0	6,997
Sales Cost on Exit	-140		0	0	0	0	0	0	0	0	0	-140
<b>Terminal Value</b>	<b>6,857</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>6,857</b>

Performance	Totals		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
EBITDA	4,760		0	0	0	473	660	682	703	725	747	770
Development Costs	-5,529		-912	-1,881	-2,736	0	0	0	0	0	0	0
Terminal Value	6,857		0	0	0	0	0	0	0	0	0	6,857
VAT Paid	1,096		-164	-338	-493	85	119	123	127	131	135	1,373
VAT Recovered	-1,096		0	0	0	0	0	0	0	0	0	-1,096
<b>CF</b>	<b>6,089</b>		<b>-1,076</b>	<b>-2,219</b>	<b>-3,229</b>	<b>558</b>	<b>779</b>	<b>805</b>	<b>830</b>	<b>856</b>	<b>882</b>	<b>7,904</b>
<b>IRR</b>	<b>11%</b>											

Equity Contribution	-3,606		-562	-1,208	-1,835	0	0	0	0	0	0	0
Debt Contribution	-3,262		-538	-1,110	-1,615	0	0	0	0	0	0	0
Finance Cost	-1,618		-24	-98	-221	-294	-262	-227	-189	-148	-103	-54
<b>Total CF After Finance</b>	<b>4,470</b>		<b>-1,100</b>	<b>-2,317</b>	<b>-3,450</b>	<b>264</b>	<b>517</b>	<b>578</b>	<b>641</b>	<b>708</b>	<b>779</b>	<b>7,851</b>
Debt Repayment	-3,262		0	0	0	-355	-386	-421	-459	-500	-546	-595
Debt Balance			-538	-1,647	-3,262	-2,907	-2,521	-2,100	-1,641	-1,140	-595	0
<b>Equity CF</b>	<b>4,470</b>		<b>-562</b>	<b>-1,208</b>	<b>-1,835</b>	<b>-90</b>	<b>131</b>	<b>156</b>	<b>182</b>	<b>207</b>	<b>234</b>	<b>7,256</b>
<b>Equity IRR</b>	<b>12%</b>											

# Disclaimer

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

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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.



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