



ENTERPRISE
GEORGIA

Investment Proposal

Kobuleti Sea Resort

PREPARED BY:
COLLIERS INTERNATIONAL GEORGIA

PREPARED FOR:
LEPL ENTERPRISE GEORGIA

Economic Overview

Key Macroeconomic Indicators

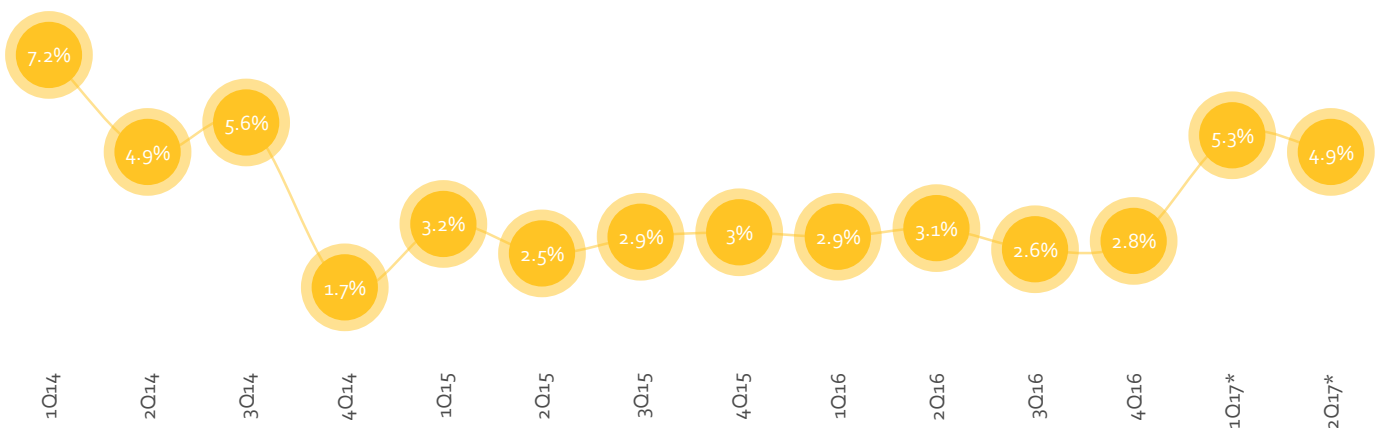
Georgia is the active economic center of the Caucasus. It offers the supportive environment for business, a liberal tax code, low corruption and openness to foreign investment.

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

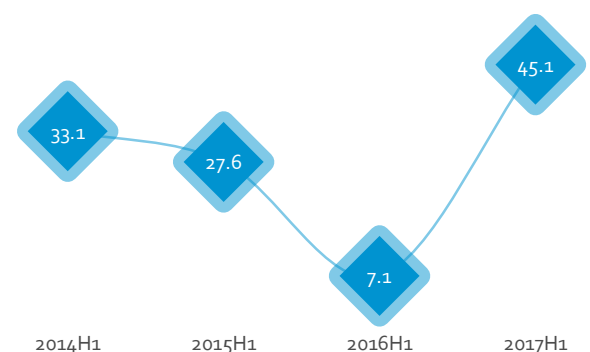
Tax Climate

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



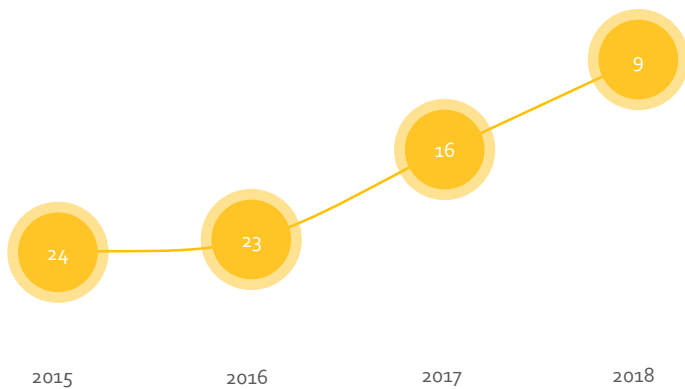
Source: Geostat, Colliers International

Economic Overview

Supportive Business Environment

According to the World Bank’s Doing Business 2018 report Georgia ranks 9th for ‘Ease of Doing Business’ across 190 economies; 4th for ‘Ease of Starting Business’, 4th 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 13th 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.

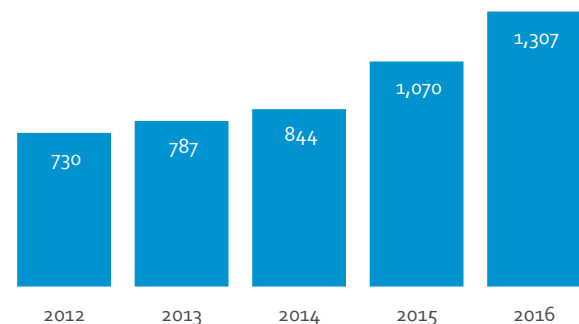
Foreign investors in Georgia are guaranteed and enjoy equal rights to those granted a physical and legal person of Georgia. After payment of taxes and other mandatory charges foreign investors are entitled to repatriate the earnings (income) gained from investments as well as other funds abroad.

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

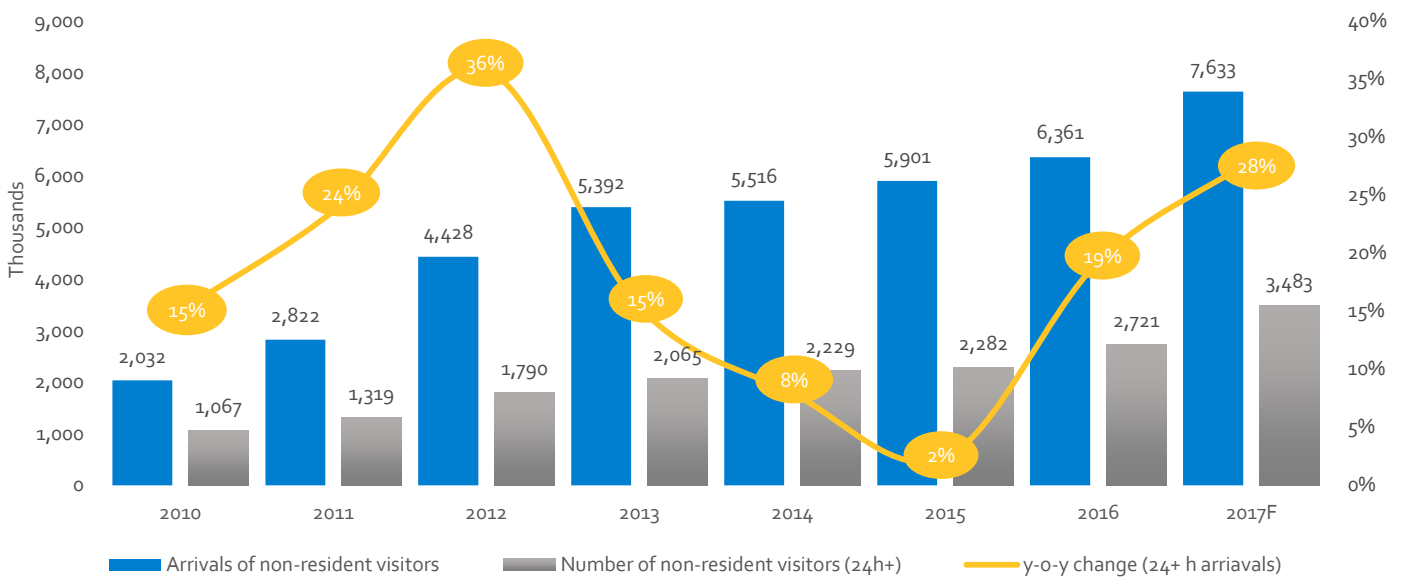
Through the first ten months of the year international visitation to Georgia is up 18.8% compared to the same period of 2016. As of October 2017, inbound tourism accounted for 6.8% of Georgia's economy. Tourist arrivals increased by 28% reaching 3,042,907 visitors.

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

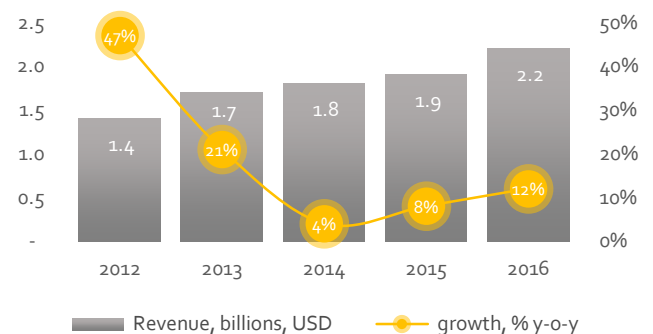
Dynamics of international visitors and tourists 2012-2017, thousands



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

Kobuleti Sea Resort

Description

The property is located on the David Aghmashenebeli avenue, the main street in Kobuleti. It is situated along the Black Sea coast on the wide strip of the beach. The property has the magnificent views over the sea and is ready to be renovated into a resort with a hotel and residential components, casino, Food and Beverage and the outdoor pool.

The property was a hotel, but the business folded in 1990s when its charms were sealed off from the Kobuleti resort. It's been unused for more than two decades. Currently, there is one main 15-storey building and additional six smaller supporting establishments in the need of reconstruction.

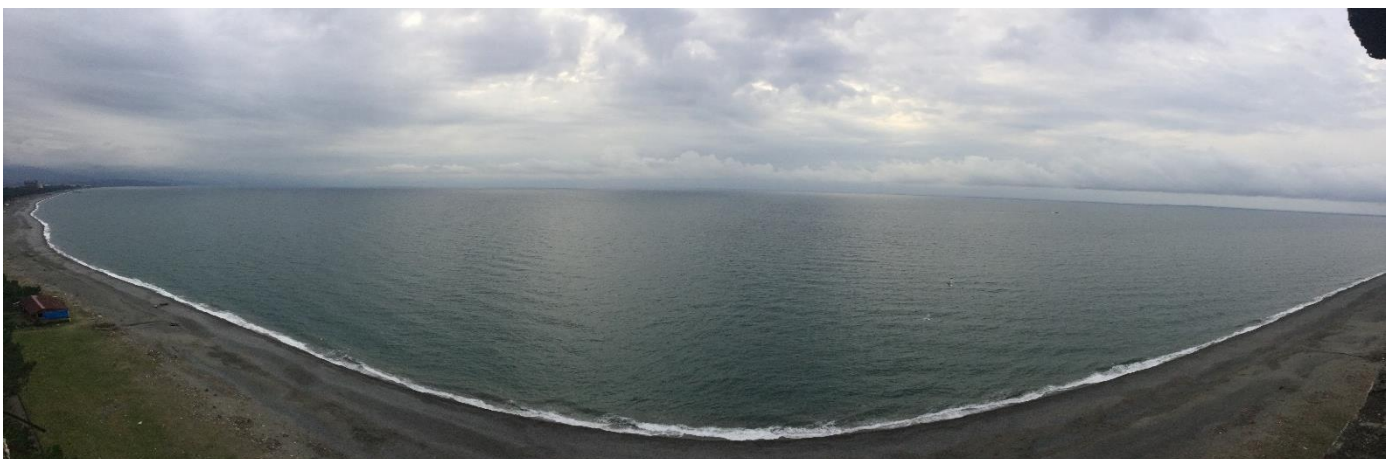
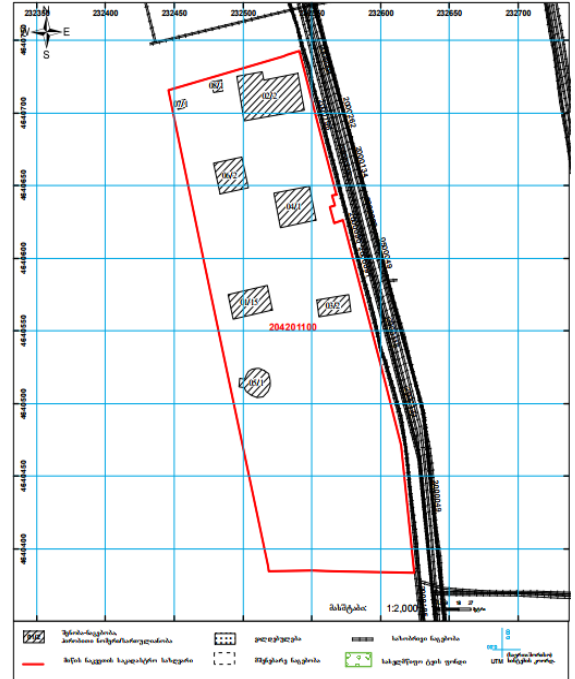
Specifications

Location: 313 Aghmashenebeli Avenue, Kobuleti, Georgia

Total land area: 3.8 ha

Cadastral Code: 20.42.01.100

Status: Non-Agricultural Land



Macro-Location

The Property is located in the autonomous region of Adjara, Southwest part of Georgia. Occupying about 4% (2,900 km²) of the country, with an approximate population of 339,000.

The capital of Adjara, Batumi became the second largest city of Georgia, due to the touristic breakthrough. 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.

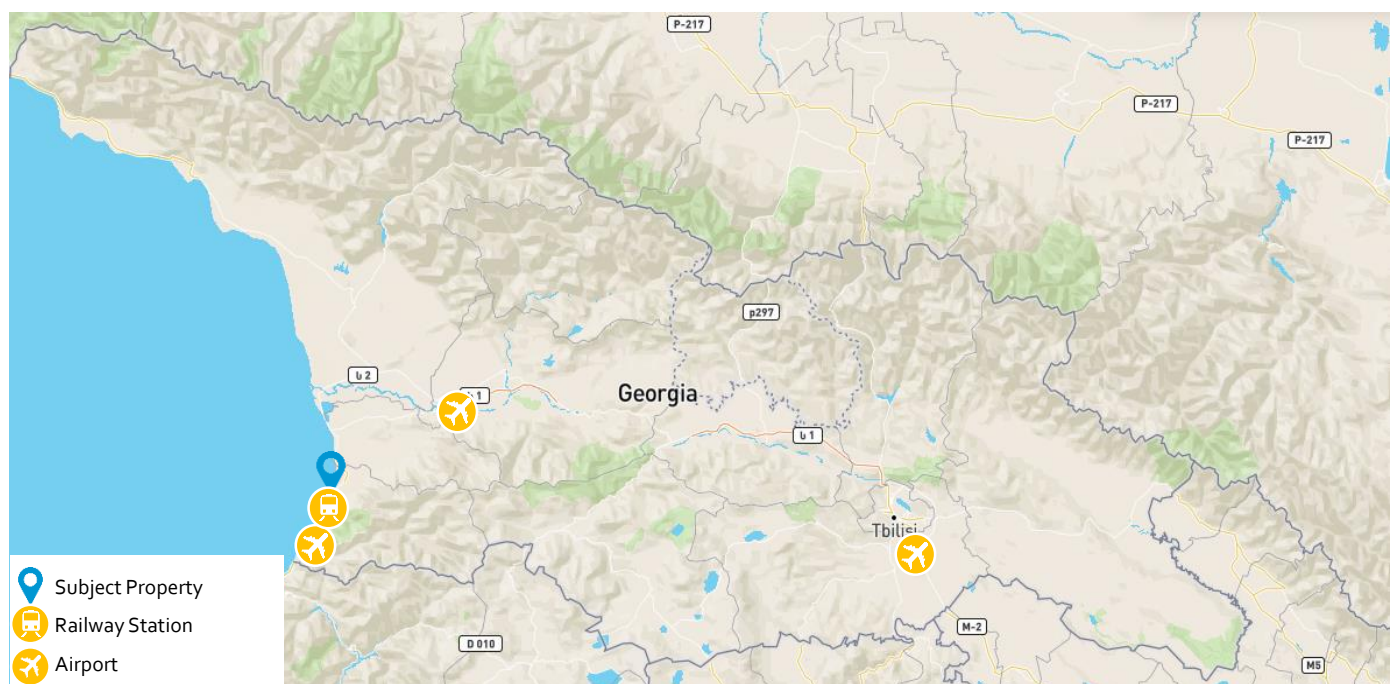
Kobuleti is a seaside resort, popular among Georgian and post-soviet tourists. Kobuleti municipality has bio-diverse nature, with Kintrishi Protected Landscape and Kobuleti Managed Reserve being part of it.

According to the Tourism and Resort Department of Adjara A.R. on average over 420,000 tourists have visited Batumi in recent years. The vast majority of guests visit Batumi for leisure and recreation, followed by visits for business purposes. Number of visitors in Kobuleti hotels amounted to approximately 60,000 in 2016.

The distances from the Georgia's international Airports are as follows:

- Kobuleti Railway Station – 7 km (12 minutes)
- Batumi International Airport – 39 km (1 hour)
- Kutaisi International Airport – 89 km (1.5 hours)
- Tbilisi International Airport – 353 km (5.2 hours)

Exhibit 1 – Macro Location Map



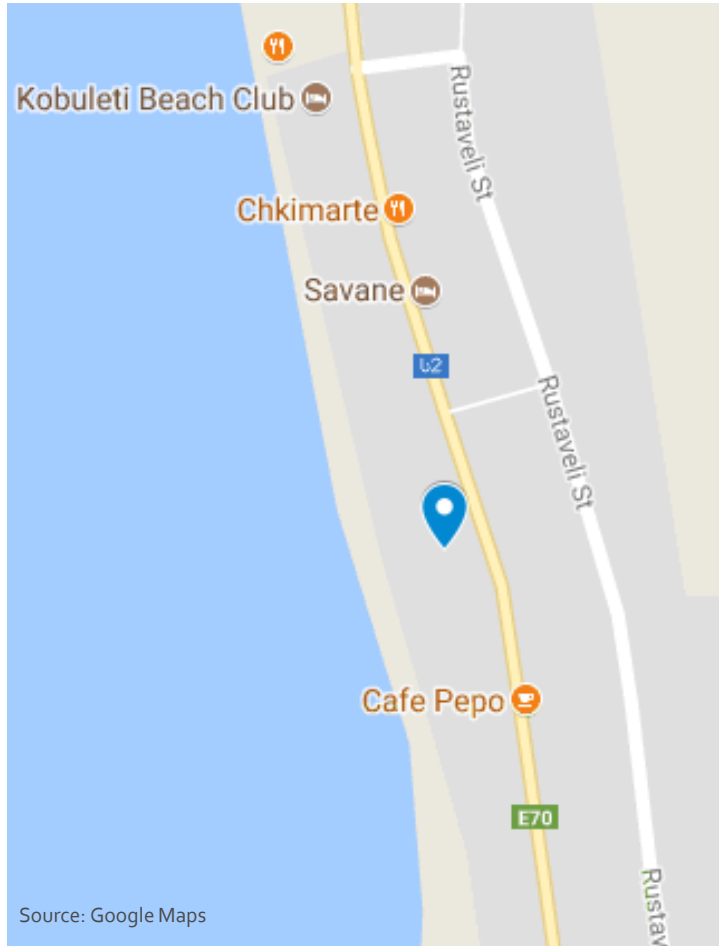
Source: Mapbox

Micro-Location

The property is situated by the north entrance of Kobuleti, on the beach. The immediate surrounding includes several family type hotels and cafes, while the rest of the area is mainly residential.



Exhibit 2 – Micro Location Map



Source: Google Maps



Market Dynamics

Hospitality Market

Supply

At the moment there is no international brand represented in Kobuleti hotel market. The only local up-scale hotel in the city is Georgia Palace Hotel & Spa, which has been operating since 2007.

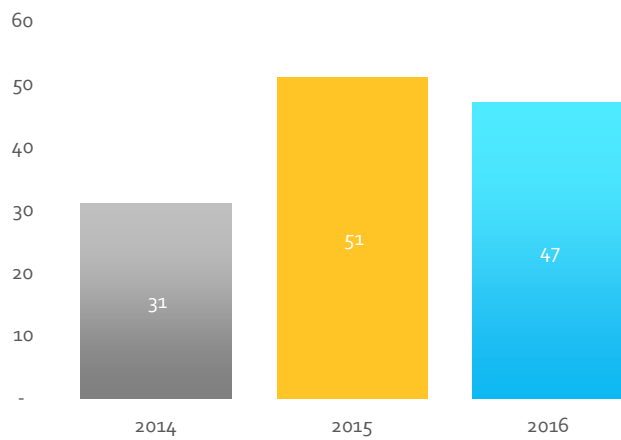
In 2016, ten new accommodation facilities began operating in Kobuleti, adding 265 rooms and 633 beds to the city's supply.

Performance Indicators

In 2016, the average daily rate (ADR) in Kobuleti stands at USD 47. In comparison to the ADR in 2015, this represents a 8% decrease.

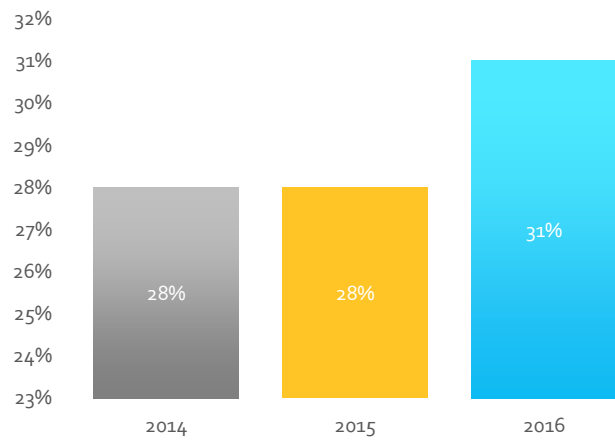
The occupancy rate in 2016 has increased from 28% to 31%.

ADR in Kobuleti (USD excl. VAT) 2014-2016



Source: Colliers International

Occupancy rate in Kobuleti (annual) 2014-2016



Source: Colliers International

Competitive Set - Hospitality

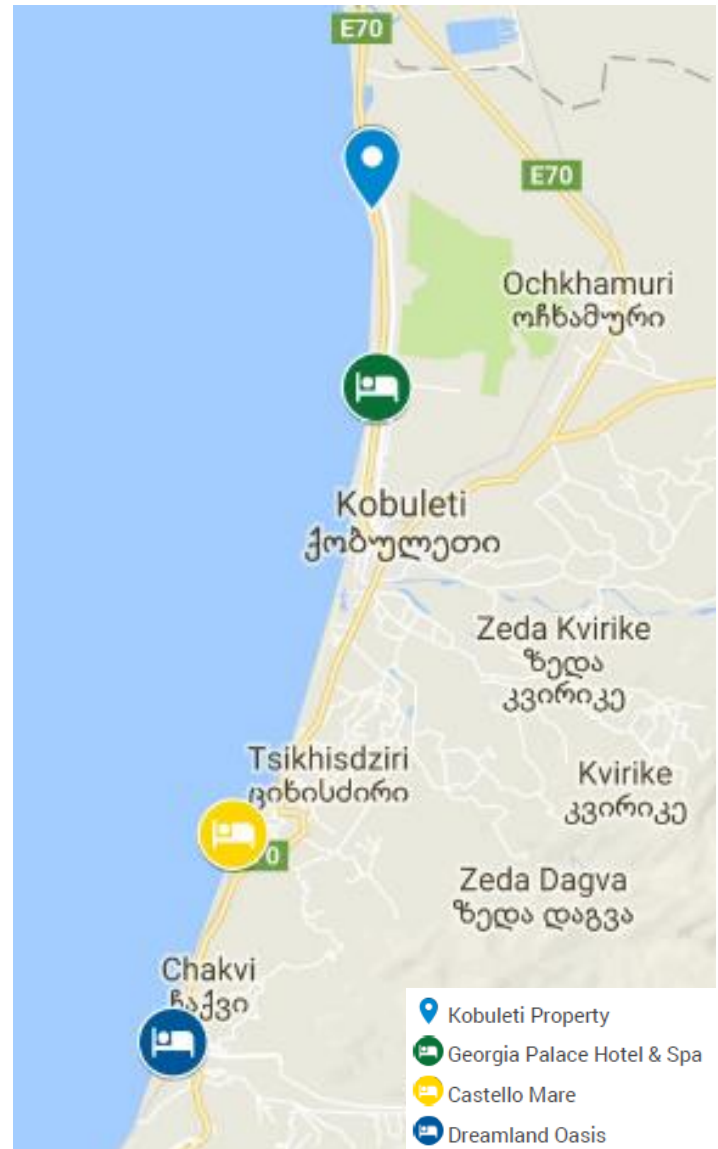
The Hospitality Market of Relevance

By evaluating the occupancy, rate structure, market orientation, chain affiliation, 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 three properties we consider will be competitors of the proposed hotel. These competitor hotels in total represent 422 rooms, with the average daily rate (ADR) of USD 106, and the occupancy rate 42%.

Exhibit 2 – Competitive set of Hotels

Hotel	# of rooms
Georgia Palace Hotel & Spa	157
Castello Mare	110
Dreamland Oasis	155
Total (rooms)	422
Average Daily Rate (ADR)	106
Occupancy Rate	42%

Exhibit 3 – Competitive Set Location Map



Source: Google Maps

Market Dynamics

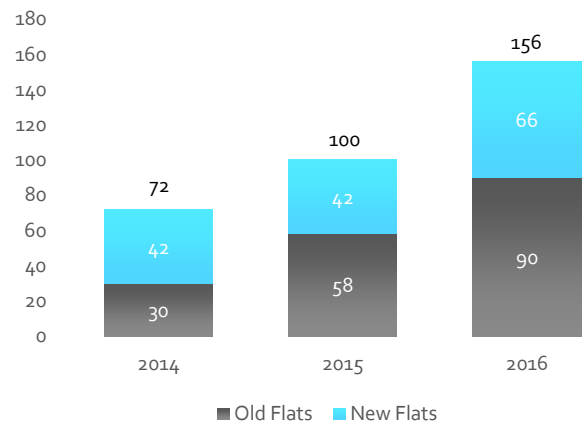
Residential Market

In 2016, there were 72 residential real estate unit transactions in Kobuleti that reflects a 56% growth compared to 2015. It should be noted that the number of newly-built flat transactions increased by 57%, while older flats saw 55% growth.

In 2016, the total transaction volume increased by 53% reaching at USD 3.7 million. Transactions within the older flat segment increased by 57%, while the same figure for newly-built flats grew by 49% when compared to the previous year.

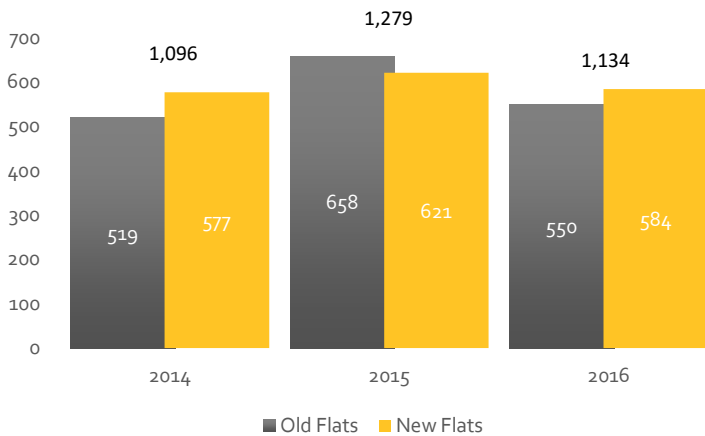
The selling price of newly-built residential flats in Kobuleti varies from USD 300 p/m² to USD 1,230 p/m². In 2016, the average selling price decreased for both old and new flats by 20% and 6% respectively.

Residential transactions by type of unit in Kobuleti 2014-2016



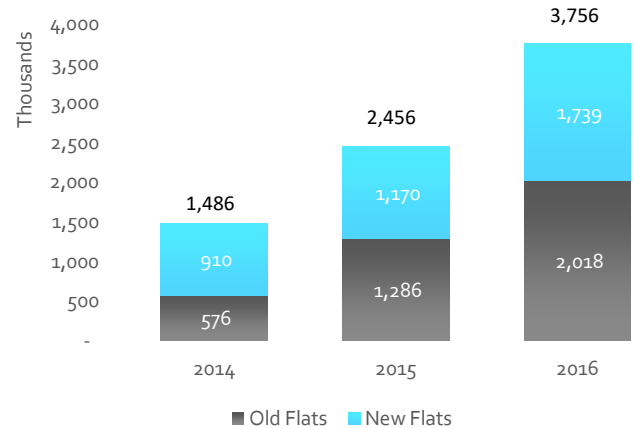
Source: National Agency of Public Registry, Colliers International

Average selling price on primary market by segments in Batumi (USD/m²) 2014-2016



Source: National Agency of Public Registry, Colliers International

Transaction volume of residential flats by type in Batumi (USD/Thousands) 2014-2016



Source: National Agency of Public Registry, Colliers International

Competitive Set - Residential

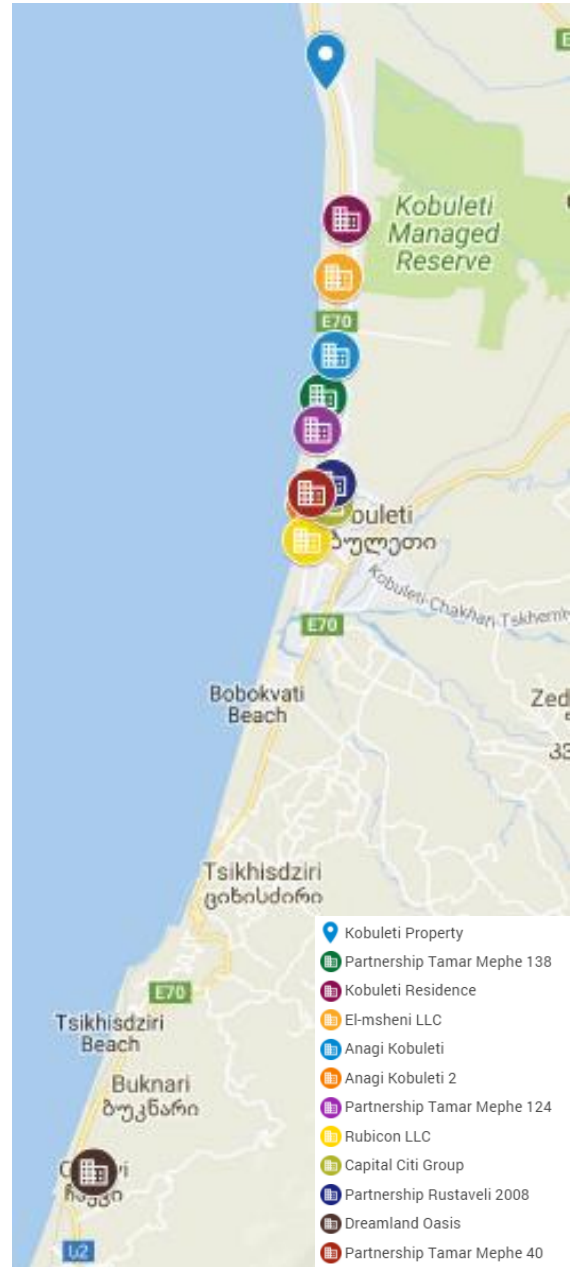
Residential Market

Eleven major existing residential projects have been identified as competitive projects. These projects supply 1,160 flats in total. The average weighted selling price in the competitive set of projects stands at USD 1,044 (net of VAT).

Exhibit 5 – Competitive set of residential projects

Project	# of units
Kobuleti Residence	313
Chakvi Dreamland Oasis	232
El-msheni LLC	72
Rubicon LLC	72
Anagi Kobuleti	50
Anagi Kobuleti 2	20
Capital Citi Group	95
Partnership Rustaveli 2008	40
Partnership Tamar Mephe 124	38
Partnership Tamar Mephe 40	100
Partnership Tamar Mephe 138	128
Total	1,160
Average weighted selling price (USD excl. VAT)	1,044

Exhibit 4 – Competitive Set Map



Source: Google Maps

Competitive Set - Casino

Casino Market

Since casinos are not represented in Kobuleti, therefore statistics from the neighboring city, Batumi, have been used. Four casinos have been chosen for the competitive set, which occupy gross leasable area (GLA) of 6,862 sqm. The average weighted rent price per sqm in the competitive set of casinos stands at USD 33.8 per month (net of VAT).

Exhibit 6 – Competitive set of Casinos

Project	GLA
Grand Casino Batumi LLC	1,625
Grand Palace Casino	1,120
Casino Peace in Sheraton	1,230
Club XO	2,887
Total	6,862
Average weighted rent price per sqm (USD excl. VAT)	33.8

Exhibit 7 – Competitive set of Casinos



Source: Google Maps

Kobuleti Sea Resort

Development Concept

The proposed seaside resort in Kobuleti comprises a midscale hotel, hotel type residencies and a retail space for the casino & F&B (Food & Beverage).

The hotel accommodation is to include 80 standard rooms with average size of 28 sqm. The facilities include an all day dining for the hotel and aparthotel residents and an outdoor pool with a pool bar. The latter is envisaged to be heavily visited not only by hotel guests but also by chance visitors during the high season.

The residential component comprises 160 apartments with an average size of 40sqm. We propose to deliver units in "turn key" condition excluding furniture installations.

The proposed casino and integrated F&B occupy 1500 of NLA (Net Leasable Area), enhancing the leisure and dining capabilities of the resort.

A surface parking with the capacity of 150 cars is assumed to be sufficient for such type of development. The part of the land, besides the footprint of the buildings and facilities, is proposed to be used as green spaces.

Key Financial Results : Development Costs (excl. land)-\$11.2 m; EBITDA margin-95%; IRR (equity)-20%.

Development Quantum

Unit type	Units	Unit net area	NLA (Net Leasable Area)	area mix	Gross to Net Ratio	Total GFA (Gross Floor Area)
Seaside Resort						
Aparthotel	160	40	6,400	63%	82%	7,805
Hotel rooms (Midscale brand)	80	28	2,240	22%	60%	3,733
Retail Space for Casino and F&B (Food & Beverage)	1		1,500	15%	90%	1,667
Total			10,140			13,205
Infrastructure						
Landscaping & Roads	1		-			856
Outdoor pool (25x15) & pool bar						1,200
Surface Parking	150	30	-			4,500
Total			-			6,556
Total Above Ground			10,140			13,205

Financial Summary

Profit & Loss Statement (USD `ooo)

Operations	Totals	%	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<i>of total rev</i>												
Hotel												
Number of Rooms						80	80	80	80	80	80	80
Room Occupancy %						38%	45%	50%	50%	50%	50%	50%
Average Room Rate (USD)						62	75	83	85	86	88	90
Total Room Revenue	7,969	67%				682	982	1,212	1,236	1,261	1,286	1,312
Food & Beverage & Meetings & Events Revenue	2,974	25%				254	366	452	461	470	480	489
Other Revenue	952	8%				81	117	145	148	151	154	157
Total Revenue from Hotel Operations	11,895		0	0	0	1,017	1,465	1,809	1,845	1,882	1,919	1,958
<i>of total rev</i>												
Expense												
Departmental Expenses	3,163	27%				271	390	481	491	500	510	521
Undistributed Expenses	2,141	18%				183	264	326	332	339	345	352
Management Fee	235	2.0%				*	*	45	46	47	48	49
GOP	6,356	53%				564	812	957	976	996	1,016	1,036
Incentive Fee	398	3%				*	*	77	78	80	81	83
Reserves	357	3%				31	44	54	55	56	58	59
Taxes & Insurance	345	3%				57	54	52	49	47	44	42
Total EBITDA from Hotel Operations	5,255	44%	0	0	0	476	713	775	794	813	832	852
Residencies												
Total NIA (Net Internal Area)				6,400	6,400	6,400	6,400					
% Sold				10%	25%	50%	15%					
Price per sqm				864	915	1017	1037					
Revenue												
Apartment Sales	6,268	100.0%		553	1,464	3,254	996	0	0	0	0	0
Total for Revenues	6,268	100.0%	0	553	1,464	3,254	996	0	0	0	0	0
<i>of total rev</i>												
Expense												
Sales & Marketing	313			28	73	163	50	0	0	0	0	0
Total EBITDA from Residences	5,954	95%	0	526	1,391	3,092	946	0	0	0	0	0
Retail Units												
Retail Unit NLA						1,500	1,500	1,500	1,500	1,500	1,500	1,500
Occupancy						40%	70%	90%	90%	90%	90%	90%
Monthly Rent per sq.m						20	20	21	21	22	22	23
Revenue	2,155	15%	0	0	0	144	257	337	344	351	358	365
Taxes & Insurance	78	4%				13	12	12	11	11	10	10
EBITDA from Retail Units	2,077					131	245	325	333	340	348	355
Total for All Revenue Sources	14,050		0	0	0	1,161	1,722	2,146	2,189	2,232	2,277	2,323
Total EBITDA	13,286	94.6%	0	526	1,391	3,699	1,904	1,100	1,126	1,153	1,180	1,208

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

Financial Summary

Financial Results (USD `000)

Development Cost	Totals		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Construction Costs		<i>of dev costs</i>										
Hotel Rooms & Facilities	-4,400	39%	-660	-1,540	-2,200	0	0	0	0	0	0	0
Apartments (Aparthotel)	-4,683	42%	-702	-1,639	-2,341	0	0	0	0	0	0	0
Retail Space for Casino	-1,000	9%	-150	-350	-500	0	0	0	0	0	0	0
Landscaping	-21	0.2%	-3	-7	-11	0	0	0	0	0	0	0
Surface Parking	-90	0.8%	-14	-32	-45	0	0	0	0	0	0	0
Contingency	-510	5%	-76	-178	-255	0	0	0	0	0	0	0
Total for Construction Costs	-10,704	95%	-1,606	-3,746	-5,352	0	0	0	0	0	0	0
Professional Fees		<i>of dev costs</i>										
Planning, Permits & Surveying	-268	2%	-268	0	0	0	0	0	0	0	0	0
Site Supervision & Other Consultancy	-161	1%	-24	-56	-80	0	0	0	0	0	0	0
Total for Professional Fees	-428	4%	-292	-56	-80	0	0	0	0	0	0	0
Marketing Costs		<i>of dev costs</i>										
Pre-opening Costs	-100	0.9%	0	0	-100	0	0	0	0	0	0	0
Total for Marketing/Letting	-100	0.9%	0	0	-100	0	0	0	0	0	0	0
Total Development Costs	-11,232	100%	-1,897	-3,803	-5,532	0	0	0	0	0	0	0

Terminal Value Calculation	Totals		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Capitalisation	10,977		0	0	0	0	0	0	0	0	0	10,977
Sales Cost on Exit	-220		0	0	0	0	0	0	0	0	0	-220
Terminal Value	10,758		0	0	0	0	0	0	0	0	0	10,758

Performance	Totals		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
EBITDA	13,286		0	526	1,391	3,699	1,904	1,100	1,126	1,153	1,180	1,208
Development Costs	-11,232		-1,897	-3,803	-5,532	0	0	0	0	0	0	0
Terminal Value	10,758		0	0	0	0	0	0	0	0	0	10,758
VAT Paid	2,306		-342	-590	-745	666	343	198	203	208	212	2,154
VAT Recovered	-2,306		0	0	0	0	0	0	0	0	-152	-2154
Total CF	12,812		-2,239	-3,867	-4,887	4,364	2,247	1,298	1,329	1,361	1,240	11,965
IRR	16%											

Equity Contribution	-6,119		-1,170	-2,121	-2,828	0	0	0	0	0	0	0
Debt Contribution	-5,496		-1,119	-1,933	-2,443	0	0	0	0	0	0	0
Finance Cost	-2,771		-50	-188	-385	-495	-441	-382	-318	-249	-173	-90
Total CF After Finance	10,041		-2,289	-4,055	-5,271	3,870	1,806	916	1,011	1,112	1,067	11,875
Debt Repayment	-5,496		0	0	0	-597	-651	-710	-774	-843	-919	-1,002
Debt Balance			-1,119	-3,053	-5,496	-4,899	-4,248	-3,538	-2,764	-1,921	-1,002	0
Equity CF	10,041		-1,170	-2,121	-2,828	3,272	1,155	206	237	269	148	10,873
Equity IRR	20%											

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