



ENTERPRISE
GEORGIA

Investment Proposal

Kutaisi Mixed-use Development

PREPARED BY:
COLLIERS INTERNATIONAL GEORGIA

PREPARED FOR:
LEPL ENTERPRISE GEORGIA

Economic Overview

Key Macroeconomic Indicators

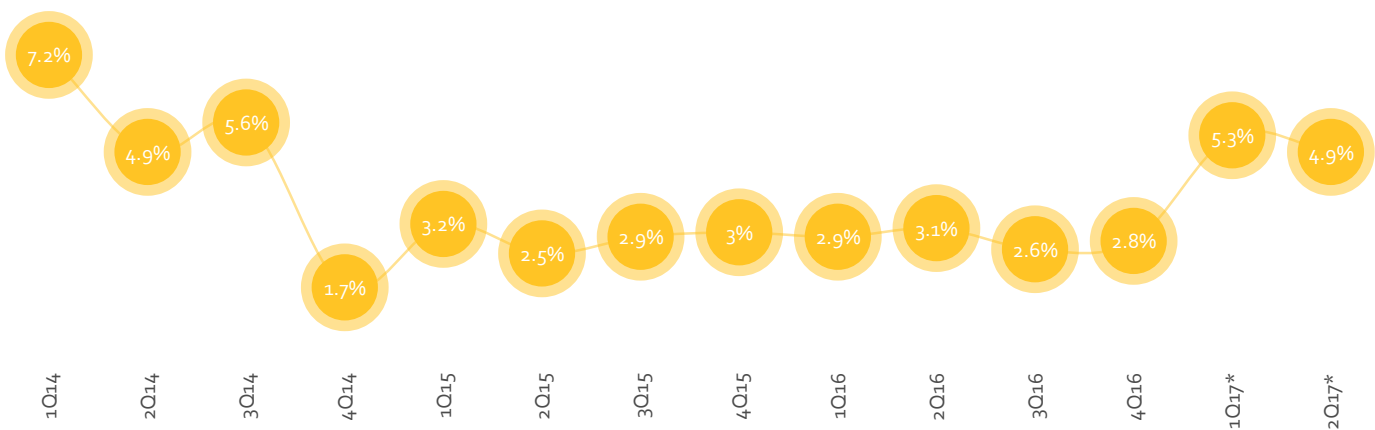
Georgia is the active economic center of the Caucasus. It offers the supportive environment for business, a liberal tax code, low corruption and openness to foreign investment.

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

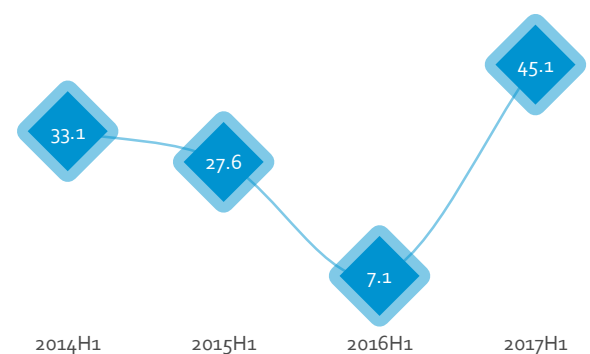
Tax Climate

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



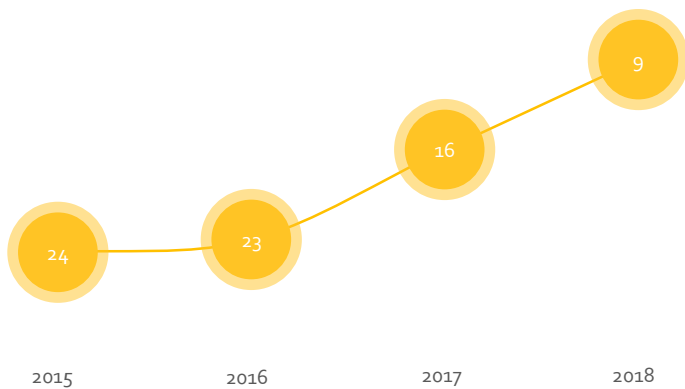
Source: Geostat, Colliers International

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.

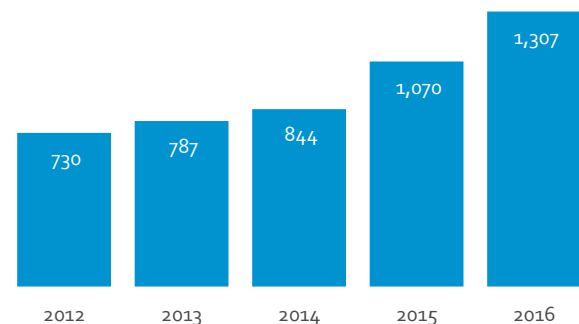
Foreign investors in Georgia are guaranteed and enjoy equal rights to those granted a physical and legal person of Georgia. After payment of taxes and other mandatory charges foreign investors are entitled to repatriate the earnings (income) gained from investments as well as other funds abroad.

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

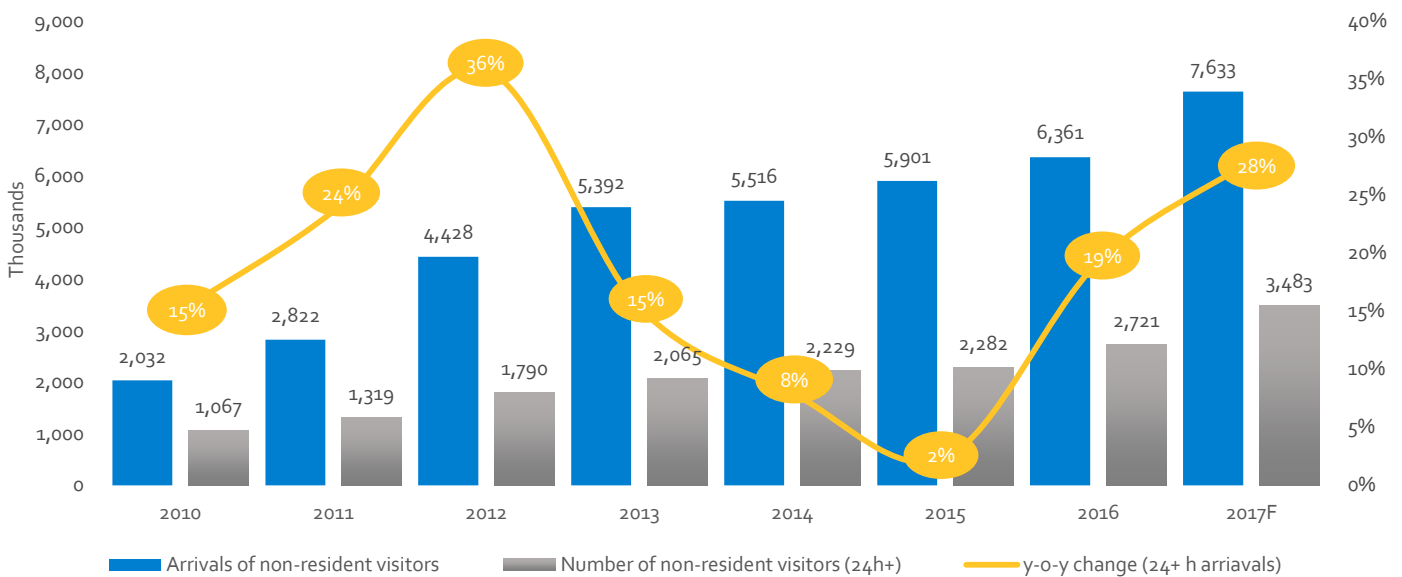
Through the first ten months of the year international visitation to Georgia is up 18.8% compared to the same period of 2016. As of October 2017, inbound tourism accounted for 6.8% of Georgia's economy. Tourist arrivals increased by 28% reaching 3,042,907 visitors.

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

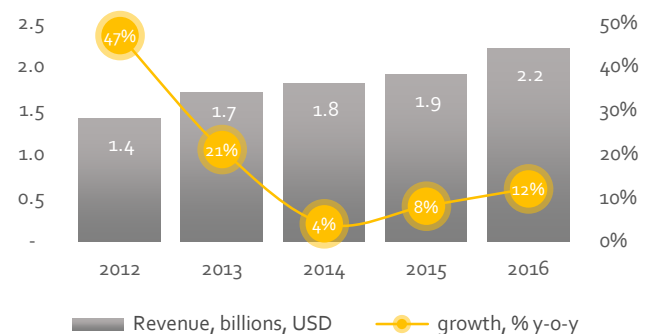
Dynamics of international visitors and tourists 2012-2017, thousands



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

Kutaisi Mixed-Use Development

Description

The property includes four main buildings, two of which are cultural heritage sites (colored in blue on the cadastral map). The rear buildings (colored in red) were used as a silkworm-breeding factory, but are vacant today.

The total floor area of cultural heritage sites is 1,037 sqm and the rest two buildings make up to 1,517 sqm.

Specifications

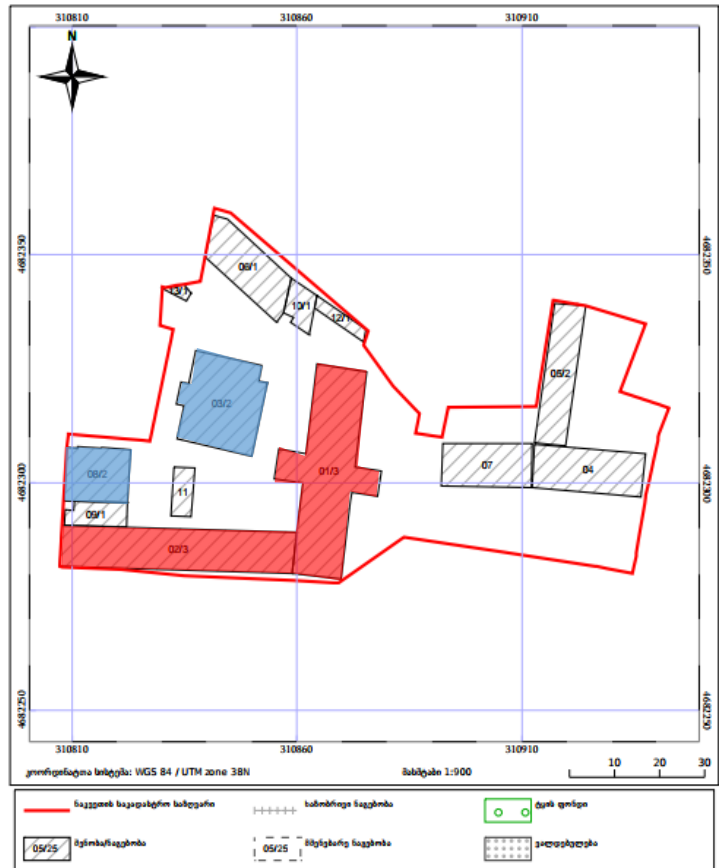
Location: 9 Tamar Mephe Street, Kutaisi, Georgia

Total land area: 6,234 sqm

Total Building area: 3,220 sqm

Cadastral Code: 03.03.21.542

Status: Cultural Heritage Site



Macro-Location

The property is located in Kutaisi, Georgia’s western region which occupies 9% of Georgian territory with an approximate population of 530,000.

In May, 2012 Parliament of Georgia was moved from Tbilisi to Kutaisi; therefore, Kutaisi became the legislative capital of Georgia. In addition, in September, 2012 was opened newly renovated Kutaisi International Airport. Currently, Wizz Air low cost carrier is the main airline operating in Kutaisi. The international destinations include Budapest, Warsaw, Berlin, Dortmund, Munchen, Milan, Larnaca, Sofia, Thessaloniki, Vilnius, Katowice and London. Due to the increasing popularity of the Kutaisi International Airport, the company is adding four new routes (Rome, Paris, Barcelona and Prague) from May 2018.

The main landmarks include the Bagrati Cathedral built in the XI Century by the first King of the Kingdom of Georgia - Bagrat III and Gelati Monastery built by David IV the Builder.

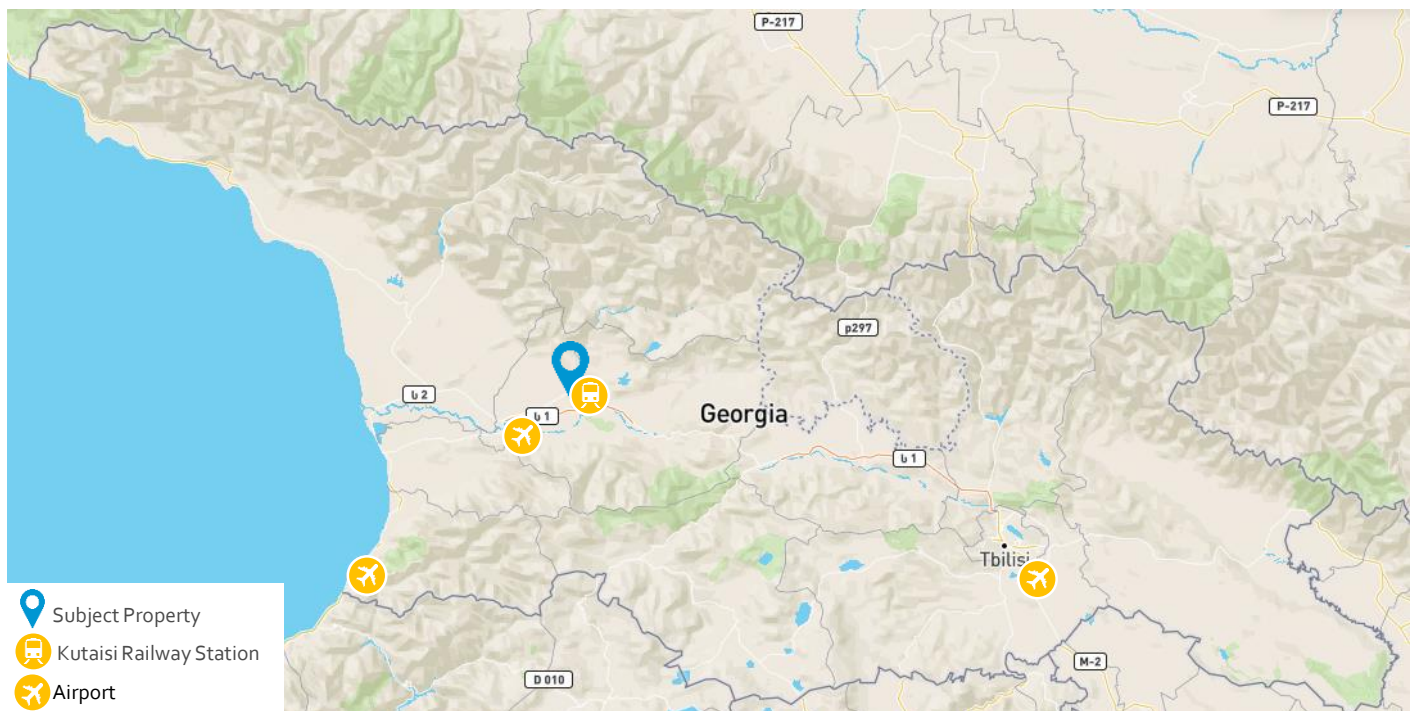
The Kutaisi city centre was also renovated in early 2008-2012. The monuments of cultural heritage were reconstructed, as well as infrastructure in the surrounding area.

Nowadays, transport infrastructure is undergoing significant improvements. The main streets and highways are rehabilitated, and few more are scheduled.

The distances from the International Airports and Kutaisi Railway Station are as follows:

- Kutaisi Railway Station – 1 km (6 minutes)
- Kutaisi International Airport – 23 km (26 minutes)
- Batumi International Airport – 155 km (3 hours)
- Tbilisi International Airport – 254 km (3.8 hours)

Exhibit 1 – Macro Location Map



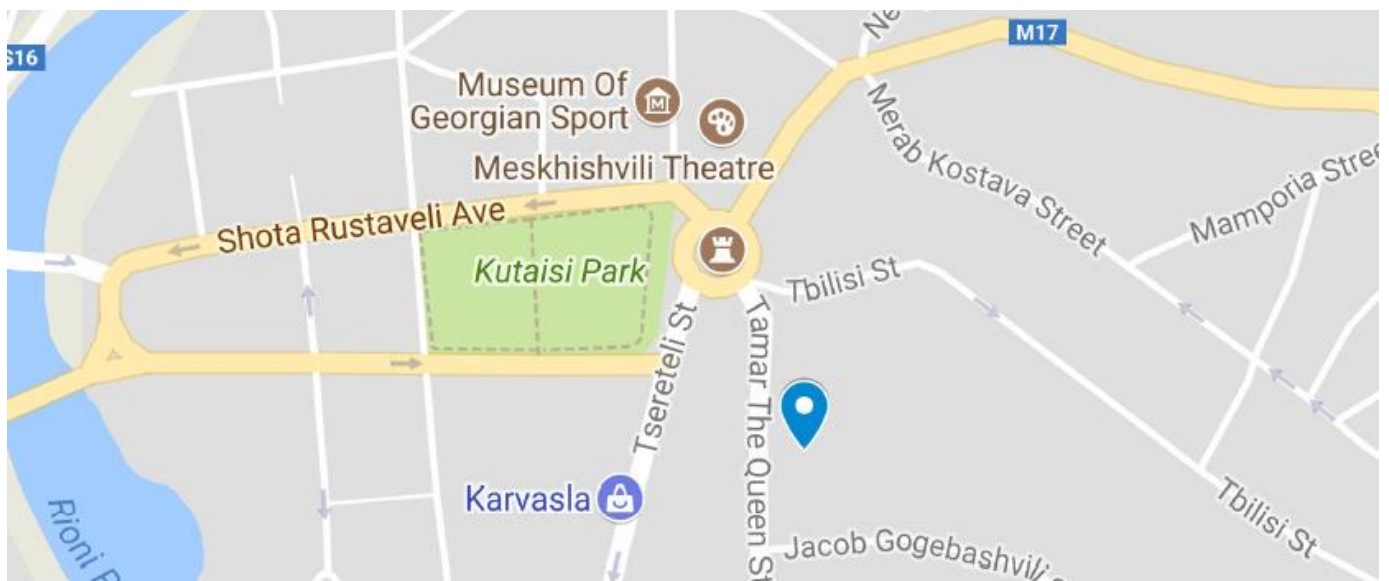
Source: Mapbox

Micro-Location

The property is located in Kutaisi’s central square, on Tamar Mephe Street. Nearby neighborhood includes Kutaisi park, Meskhishvili theatre, Karvasla SC, McDonald's and various retail spaces. The secondary streets are occupied by residential buildings.



Exhibit 2 – Micro Location Map



Source: Google Maps

Market Dynamics

Hospitality Market

Supply

In 2016, five new hotels opened in Kutaisi, adding 117 rooms and 268 beds to the city's stock. In the early 2017, the internationally-known midscale brand Best Western has been opened, adding 45-rooms.

32% of existing accommodation units are held by local upscale and middle class hotels (246 rooms), while the other 68% are provided by local budget/economy class establishments.

Performance Indicators

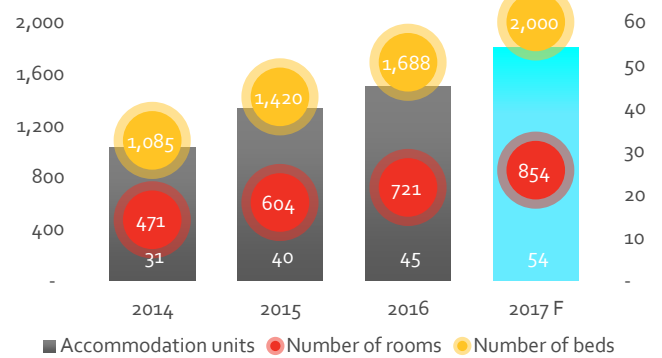
In 2016, Kutaisi's local upscale and middle class hotels accounted for the highest average daily rate (ADR) USD 50. The same figure for local budget/economy class hotels amounted to USD 25. In comparison to the same figure in 2015, this represents a 14% increase for both classes.

At 54%, the highest occupancy rate was seen in local upscale and middle class hotels, which reflects a 4% increase compared with 2015. The local budget/economy class also experienced a 3% increase.

Office Market

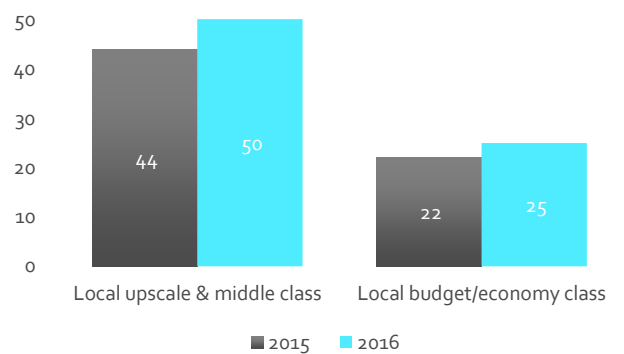
There is a shortage of business centres in Kutaisi. Retail spaces are often used as an office space. Most of the offices are owner-occupied. Typically, government institutions own office buildings. Demand on office spaces mainly comes from financial institutions, construction companies and tourist agencies.

Existing and upcoming supply in Kutaisi 2014-2017 F



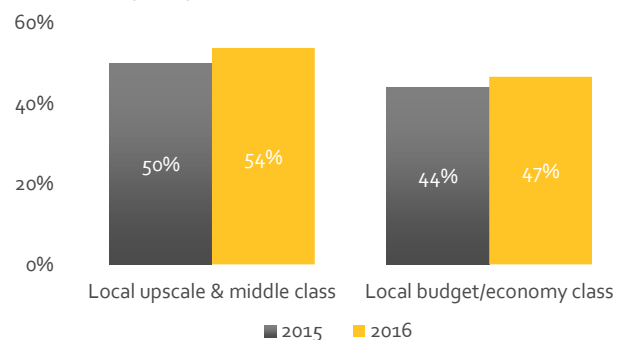
Source: Colliers International

ADR in Kutaisi (USD excl. VAT) 2015-2016



Source: Colliers International

Hotel occupancy rate in Kutaisi 2014-2015



Source: Colliers International

Market Dynamics

Retail Market

Supply

The Kutaisi's total leasable retail floorspace amounts to 136,684 sqm. The total supply of modern shopping centres increased from 27% to 39% in 2016. Despite this increase, the general quality of shopping centres remains very low. It is a common practice to sell individual retail units within shopping centres, which reduces the attractiveness of Kutaisi's investment market.

Demand

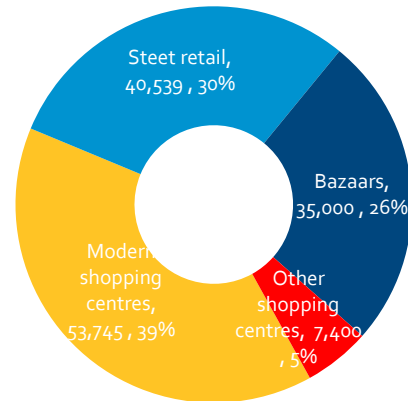
Retail space demand in Kutaisi is dominated by local, non-brand tenants (around 80%). The Household & Furniture category (25%) occupies the majority of the city's retail spaces, followed by the General & Service category (21%).

Performance Indicators

Old Kutaisi is both, the most prestigious and expensive retail rental location. In 2016, the weighted average rent both for shopping centres and as for the street retail increased by 6% compared to 2015.

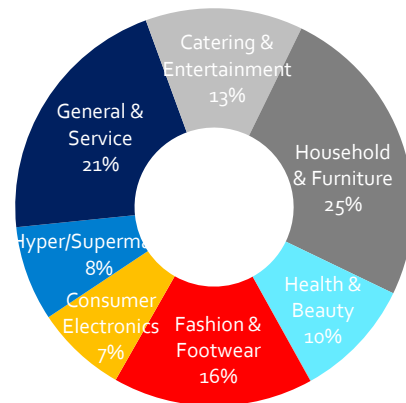
In 2016, the average vacancy rate in modern shopping centres (30%) decreased by 18% compared to 2015. The same figure for the street retail stands at 4%, with insignificant decrease against the previous year.

Retail space supply in Kutaisi (GLA m²)



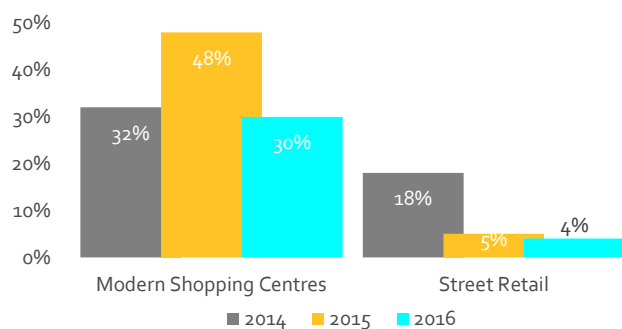
Source: Colliers International

Retail floorspace by category in Kutaisi



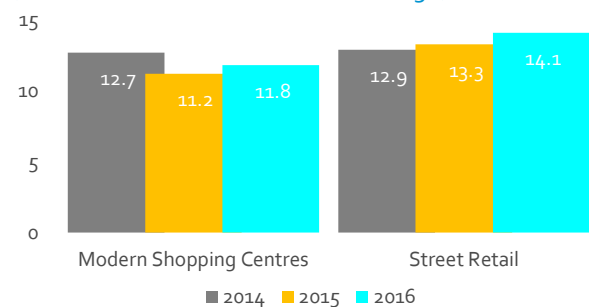
Source: Colliers International

Vacancy rate in Kutaisi



Source: Colliers International

Weighted average retail rent in Kutaisi (USD/m² net of VAT and service charge)



Source: National Agency of Public Registry, Colliers International

Competitive Set – Hospitality & Retail

Hospitality

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 eight properties we consider will be competitors of the proposed hotel. These competitors in total comprise 199 rooms, with the average daily rate (ADR) of USD 61, and 62% occupancy.

Retail

The retail market in the surroundings is mostly represented with service occupiers. We have identified several catering tenants with the weighted average rent of USD 16.

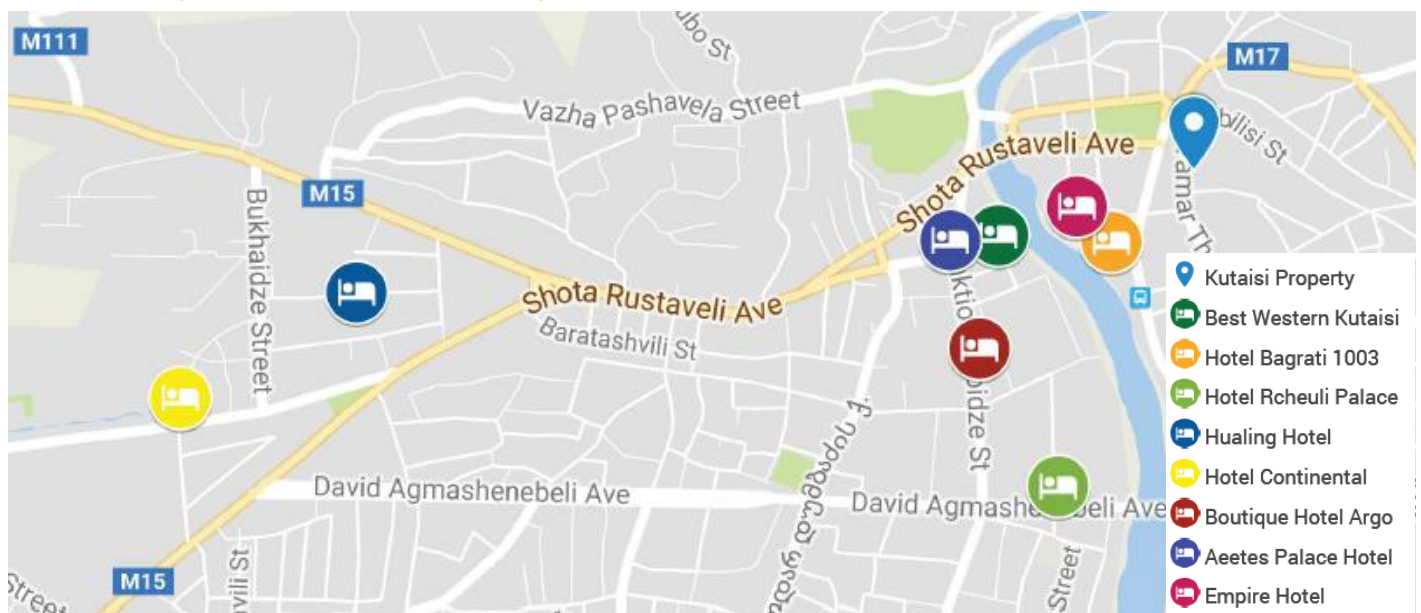
Exhibit 3 – Competitive Set of Hotels

Hotel	# of rooms
Best Western Kutaisi	45
Hotel Bagrati 1003	16
Rcheuli Palace Hotel	28
Hualing Hotel	37
Hotel Continental	10
Boutique Hotel Argo	23
Aeetes Palace Hotel	15
Empire Hotel	25
Total	199
Average Daily Rate (ADR) (USD excl. VAT)	61
Occupancy Rate	62%

Exhibit 4 – Competitive Set of Retail

Name	Category	Space (sqm)
Tea House	Catering	104
Café Caucasus	Catering	103
Restaurant Khvamli	Catering	90
Antre Batono	Catering	57
Average Space (sqm)		89
Weighted Average Rent (USD excl. VAT)		16

Exhibit 5 – Competitive Set (hotels) Location Map



Source: Google Maps

Kutaisi Mixed-use Development

Concept Development

The proposed mixed use development comprises a hotel, office and a retail area to form an Food and Beverage (F&B) cluster. The total gross floor area to be developed counts up to 8k sqm.

We propose to develop an internationally branded midscale hotel with a particular focus on business demand. The hotel accommodation is to include 80 standard rooms. We have included a breakfast facility and a medium sized meeting area divisible into small meeting rooms to cater to the needs of office tenants.

The office component comprises approx. 20 offices with an average size of 150m². The occupiers of the office space could benefit from the meeting facilities of the hotel. The property is to be delivered in shell condition with all the MEP (Mechanical, Electrical & Plumbing) and HVAC (Heating, Ventilation & Air Conditioning) installed.

The ground floor retail spaces including two historic buildings, the redevelopment of which is limited, are primarily targeted on F&B (Food & Beverage) tenants. The internal landscaped yard is proposed to form an outdoor seating for the F&B units and thus create a citywide dining destination.

A parking space for 50 cars is to be included at the underground level. The part of the land besides the footprint of the building is proposed to be used for a yard with an outdoor seating, servicing and a guest surface parking providing additional 15 parking places.

Key Financial Results : Development Costs (excl. land)-\$8.1 m; EBITDA margin-62%; IRR (equity)-16%.

Development Quantum

Unit type	Units	Unit net area	NLA (Net Leasable Area)	Area mix	Gross to Net Ratio	Total GFA (Gross Floor Area)
Business Center						
Offices	20	150	3,000	51%	78%	3,846
Hotel rooms	80	24	1,920	32%	65%	2,954
F&B Retail	5	200	1,000	17%	85%	1,176
Total			5,920			7,976
Infrastructure						
Landscaping & Roads	1					2,000
Underground Parking (Office & Hotel)	50	40	-			2,000
Guest Surface Parking	15	30	-			450
Total			-			4,450
Total Above Ground			5,920			7,976

Financial Summary

Profit & Loss Statement (USD `ooo)

Operations	Totals	%	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Hotel												
<i>of total rev</i>												
Number of Rooms						80	80	80	80	80	80	80
Room Occupancy %						45%	54%	60%	60%	60%	60%	60%
Average Room Rate (USD)						54	65	72	73	75	76	78
Total Room Revenue	8,296	88%				710	1,022	1,261	1,287	1,312	1,339	1,365
Food & Beverage Revenue	943	10%				81	116	143	146	149	152	155
Other Revenue	189	2%				16	23	29	29	30	30	31
Total Revenue from Hotel Operations	9,427		0	0	0	806	1,161	1,433	1,462	1,491	1,521	1,552
Expense												
<i>of total rev</i>												
Departmental Expenses	1,674	18%				143	206	255	260	265	270	276
Undistributed Expenses	1,697	18%				145	209	258	263	268	274	279
Management Fee	186	2%				*	*	36	37	37	38	39
GOP	5,870	62%				518	746	885	903	921	939	958
Incentive Fee	368	4%				*	*	71	72	74	75	77
Reserves	283	3%				24	35	43	44	45	46	47
Taxes & Insurance	378	4%				63	60	57	54	51	48	46
Total EBITDA from Hotel Operations	4,840	51%	0	0	0	431	652	715	733	751	770	789
Retail Units												
Retail Unit NLA						1,000	1,000	1,000	1,000	1,000	1,000	1,000
Occupancy						60%	70%	90%	90%	90%	90%	90%
Monthly Rent per sq.m						16	16	17	17	17	18	18
Revenue	1,188	8.9%	0	0	0	115	137	180	183	187	191	195
Taxes & Insurance	51	13%				8	8	8	7	7	7	6
EBITDA from Retail Units	1,137					107	129	172	176	180	184	188
Office												
Office & Retail NLA						3,000	3,000	3,000	3,000	3,000	3,000	3,000
Office Occupancy						60%	70%	85%	85%	85%	85%	85%
Office Monthly Rent per sq.m						13	13	14	14	14	14	15
Revenue												
Office Lease	2,769	21%	0	0	0	281	334	414	422	431	439	448
Total for Office Revenues	2,769	21%	0	0	0	281	334	414	422	431	439	448
Expense												
<i>of total rev</i>												
Management Fee	138	5%	0	0	0	14	17	21	21	22	22	22
Reserves	111	4%	0	0	0	11	13	17	17	17	18	18
Taxes & Insurance	151	5%	0	0	0	25	24	23	21	20	19	18
Total for Expenses	400	14%	0	0	0	50	54	60	59	59	59	59
Total EBITDA from Office	2,369	86%	0	0	0	231	280	354	363	371	380	389
Total for All Revenue Sources	13,384		0	0	0	1,202	1,632	2,027	2,068	2,109	2,151	2,194
Total EBITDA	8,346	62%				768	1,061	1,241	1,272	1,303	1,335	1,366

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

Financial Summary

Financial Returns (USD `ooo)

Development Cost	Totals		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Construction Costs <i>of dev costs</i>												
Hotel Accommodation	-4,400	54%	-660	-1,540	-2,200	0	0	0	0	0	0	0
Office	-1,923	24%	-288	-673	-962	0	0	0	0	0	0	0
F&B Retail	-647	8%	-97	-226	-324	0	0	0	0	0	0	0
Landscaping	-40	0.5%	-6	-14	-20							
Underground Parking (Office & Hotel)	-380	5%	-57	-133	-190							
Contingency	-370	5%	-55	-129	-185	0	0	0	0	0	0	0
Total for Construction Costs	-7,760	95%	-1,164	-2,716	-3,880	0	0	0	0	0	0	0
Professional Fees <i>of dev costs</i>												
Planning, Permits & Surveying	-155	1.9%	-155	0	0	0	0	0	0	0	0	0
Site Supervision & Other Consultancy	-116	1.4%	-17	-41	-58	0	0	0	0	0	0	0
Total for Professional Fees	-272	3.3%	-173	-41	-58	0	0	0	0	0	0	0
Marketing Costs <i>of dev costs</i>												
Letting Agent Fee	-50	0.6%	0	0	-34	-6	-10					
Pre-opening Costs	-100	1.2%	0	0	-100	0	0	0	0	0	0	0
Total for Marketing/Letting	-100	1.2%	0	0	-134	-6	-10	0	0	0	0	0
Total Development Costs	-8,131	100%	-1,337	-2,757	-4,072	-6	-10	0	0	0	0	0
Terminal Value Calculation												
Capitalisation	12,422		0	0	0	0	0	0	0	0	0	12,422
Sales Cost on Exit	-248		0	0	0	0	0	0	0	0	0	-248
Terminal Value	12,174		0	0	0	0	0	0	0	0	0	12,174
Performance												
EBITDA	8,346		0	0	0	768	1,061	1,241	1,272	1,303	1,335	1,366
Development Costs	-8,131		-1,337	-2,757	-4,072	-6	-10	0	0	0	0	0
Terminal Value	12,174		0	0	0	0	0	0	0	0	0	12,174
VAT Paid	2,221		-241	-496	-733	137	189	223	229	235	240	2,437
VAT Recovered	-2,221		0	0	0	0	0	0	0	0	0	-2,221
Total CF	12,339		-1,577	-3,253	-4,805	899	1,241	1,464	1,501	1,538	1,575	13,756
Project IRR	14%											
Equity Contribution												
Equity Contribution	-5,322		-824	-1,771	-2,728	0	0	0	0	0	0	0
Debt Contribution	-4,817		-789	-1,626	-2,402	0	0	0	0	0	0	0
Finance Cost	-2,388		-35	-144	-325	-434	-386	-335	-279	-218	-152	-79
Total CF After Finance	9,951		-1,613	-3,397	-5,130	466	854	1,129	1,222	1,319	1,423	13,677
Debt Repayment	-4,817		0	0	0	-524	-571	-622	-678	-739	-806	-878
Debt Balance			-789	-2,415	-4,817	-4,294	-3,723	-3,101	-2,423	-1,684	-878	0
Equity CF	9,951		-824	-1,771	-2,728	-58	283	507	544	580	618	12,799
Equity IRR	16%											

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.



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