



ENTERPRISE
GEORGIA

Investment Proposal

Libani Spa Resort

PREPARED BY:
COLLIERS INTERNATIONAL GEORGIA

PREPARED FOR:
LEPL ENTERPRISE GEORGIA

Economic Overview

Key Macroeconomic Indicators

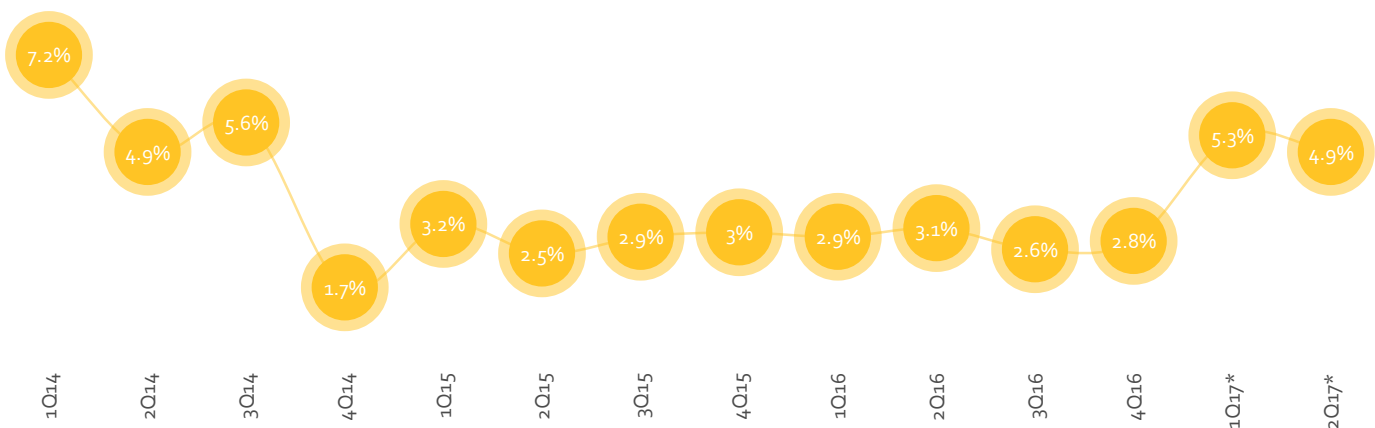
Georgia is the active economic center of the Caucasus. It offers the supportive environment for business, a liberal tax code, low corruption and openness to foreign investment.

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

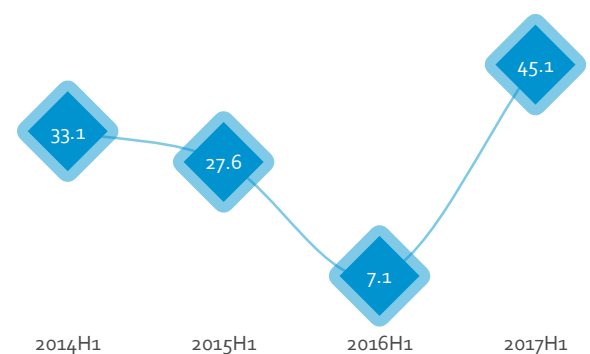
Tax Climate

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



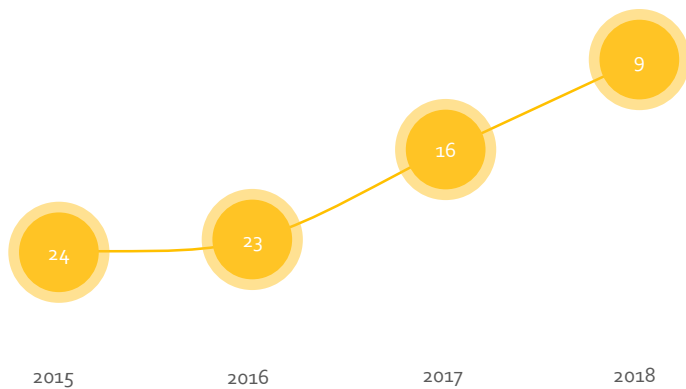
Source: Geostat, Colliers International

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.

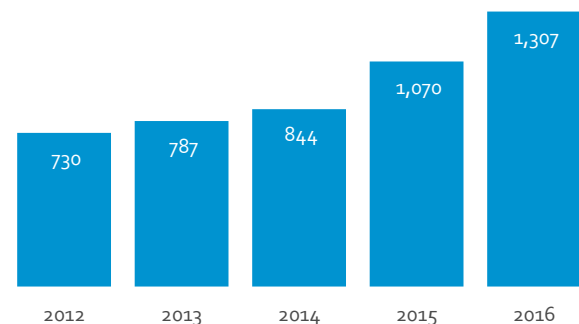
Foreign investors in Georgia are guaranteed and enjoy equal rights to those granted a physical and legal person of Georgia. After payment of taxes and other mandatory charges foreign investors are entitled to repatriate the earnings (income) gained from investments as well as other funds abroad.

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

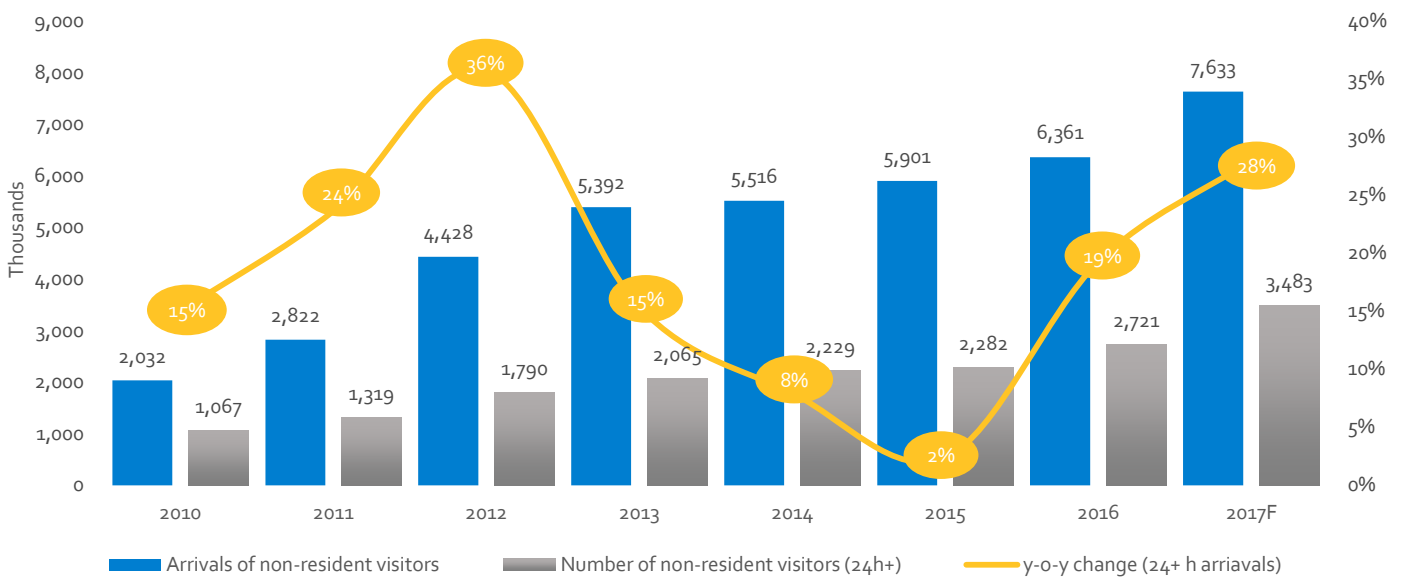
Through the first ten months of the year international visitation to Georgia is up 18.8% compared to the same period of 2016. As of October 2017, inbound tourism accounted for 6.8% of Georgia's economy. Tourist arrivals increased by 28% reaching 3,042,907 visitors.

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

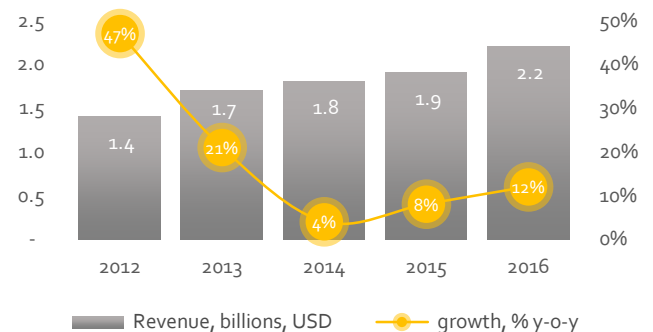
Dynamics of international visitors and tourists 2012-2017, thousands



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

Libani Spa Resort

Description

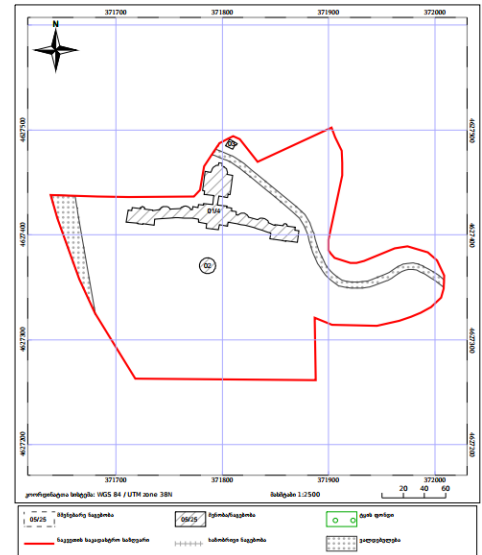
The property is located on a Trialeti mountain range, 1,370 metres above the sea level, in a resort Libani, which is a small village of 10 families, surrounded by breathtaking conifers forests.

The property represents a 3-storey building with a total area of about 9,000 sqm, located on a 5.2 ha land. The popular sanatorium was built in the first half of the XX Century.

In July 2017 the property became a cultural heritage site.

Today the building is in a poor condition and is in the need of reconstruction.

The subject property has two access points: from the north (from Borjomi, major Georgian resort) and from the south (from the city of Akhalkalaki).



Specifications

Location: Village Libani, Borjomi, Georgia

Total land area: 5.2 ha

Total Building area: ~9,000 sqm

Cadastral Code: 64.25.05.522

Status: Cultural Heritage Site



Macro-Location

The property is located in the mountainous region of Samtskhe-Javakheti, which occupies about 9% (6,413 km²) of Georgia. The regional center is Akhaltsikhe and the two main touristic destinations are the city of Borjomi and Bakuriani resort.

Bakuriani is recognized as one of the major winter resorts in Georgia that offers dozens of alpine slopes and cross-country trails, creating one of the most spectacular skiing and snowboarding destinations in the region. It is also a summer destination for families and active tourism.

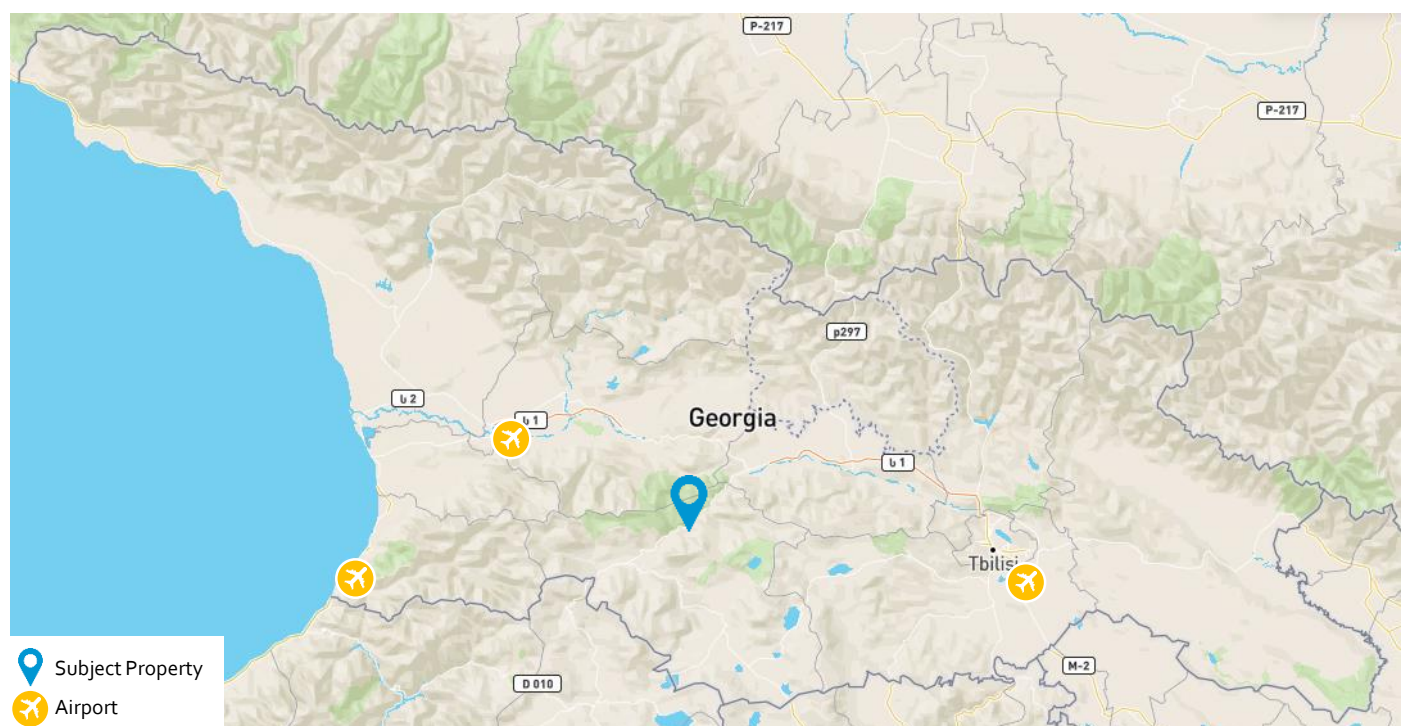
The city of Borjomi is famous for its mineral waters. Borjomi, due to its warm climate, mineral water springs and forests, has been a popular recreational destination since the early XIX Century, earning it name "The Pearl of Caucasus". The mineral water has health benefits and is still quite popular in the CIS countries.

Libani is situated between Borjomi and Bakuriani, other resorts in the area include: Likani, Tsemi, Tsaghveri and Mitarbi. In addition to the mountainous climate, the resort's resources include mineral water. The mineral water is used for drinking, as supplement for treatment of gastroenterological diseases.

The distance from the property to the main highway, Georgian part of European route E60, is 45 km. The distances from the international airports and two neighboring cities are as follows:

- Bakuriani – 18.1 km (28 min.)
- Borjomi – 21 km (21 min.)
- Kutaisi International Airport – 169 km (2.8 hours)
- Tbilisi International Airport – 198 km (2.9 hours)
- Batumi International Airport – 297 km (5.3 hours)

Exhibit 1 – Macro Location Map



Source: Mapbox

Micro-Location

Libani is a small village, with a population under 50. It is located at 1,370 metres above the sea level. The village can be accessed by two roads, both of which are in a need of reconstruction. As an alternative way of access, Libani also had a railway station for a local transport “kukushka”; however it is currently out of commission. The nearest village Tba, with a population of about 240, is located just 2 km away north of Libani.



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 four properties we consider will be competitors of the proposed hotel. These competitors in together comprise 518 rooms, with the average ADR of USD 117, and 59% occupancy.

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

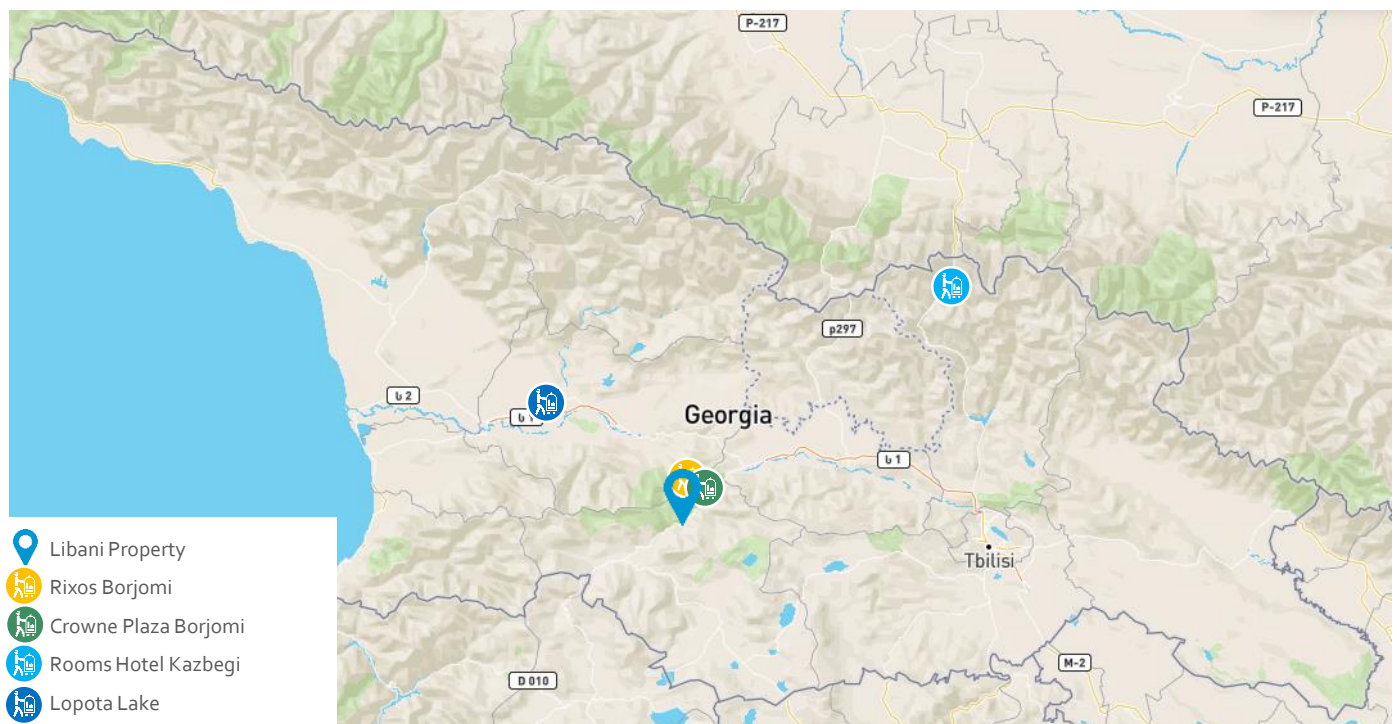
Exhibit 3 – Competitive Set of Hotels

Hotel	# of rooms	City
Lopota Lake Resort & Spa	110	Telavi
Rooms Hotel Kazbegi	156	Kazbegi
Rixos Borjomi	151	Borjomi
Crowne Plaza Borjomi	101	Borjomi
Total	518	
Average Daily Rate (ADR)	USD 117	
Occupancy Rate	59%	

Exhibit 4 – Pipeline Projects

Hotel	# of rooms	Location	Completion date
Radisson Tsinandali	120	Tsinandali	H1 2018
Abastumani Hotel	140	Abastumani	H2 2018
Rooms Hotel	100	Kokhta-Mitarbi	H2 2018
Total	360		

Exhibit 5 – Competitive Set Location Map



Source: Mapbox

Libani Spa Resort

Concept Development

The proposed spa resort development comprises 150 hotel rooms of upscale branding. The room mix includes 114 standard rooms, 20 larger (standard business), 10 suites and small number of family and disabled rooms. The average projected room size equals 31 sqm. Food & Beverage (F&B) facilities include an all day buffet style dining counting 130 covers. A signature restaurant / bar with a capacity of 40 covers is proposed to provide a more upscale option of dining to the hotel guests and visitors. We have included extensive conferencing and banqueting facilities since the hotel should target business meetings and medium size conferences. Also we envisage weddings as potential revenue source for the hotel. Recreation facilities include a medium sized spa center, gym, sauna and an indoor pool. We propose number of sports and leisure facilities like horse stable, tennis courts and a dedicated sports and a leisure center with multiple entertainment options inside of the building.

Key Financial Results : Development Cost (excl. land) - \$17.6 m; EBITDA margin - 37%; IRR (equity) - 11%.

Development Quantum

Hotel Rooms & Suites		
	Number	Size (sqm)
Standard	114	28
Standard Business	20	32
Suite	10	55
Disabled	2	30
Family room	4	45
Total	150	4,622
Average Size per Room		31
Food & Beverage Facilities		
	Covers	
All day Dining / Buffet	130	300
Restaurant/bar	40	200
Total	170	500
Meeting Space		
	Maximum Capacity (theatre or banqueting style)	Area (sqft/sqm)
Ballroom	300	500
Meeting Room 1	150	250
Meeting Room 2	50	100
Meeting Room 3	30	70
Prefunction Spaces	-	300
Total	530	1,220
Leisure & Recreation Facilities		
Spa, Sauna		400
Gym		150
Indoor Pool (20m x 10m)		400
Horse Stable & Yard		500
Tennis Courts		1200
Sports & Leisure Area		250
Total		2,900
Other Facilities		
Surface Parking (70 spaces)	70	1750
Back-of-House (BOH) & Circulation		2,165
Total	230	11,407

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						150	150	150	150	150	150	150
Room Occupancy %						44%	52%	58%	58%	58%	58%	58%
Average Room Rate (USD)						87	104	116	119	122	125	128
Room Revenue	24,418	62%				2,072	2,984	3,684	3,776	3,870	3,967	4,066
M&E Revenue	5,908	15%				501	722	891	913	936	960	984
F&B Revenue	7,877	20%				668	962	1,188	1,218	1,248	1,280	1,312
Other Revenue	1,182	3%				100	144	178	183	187	192	197
Total Revenue	39,384	100%				3,342	4,812	5,941	6,090	6,242	6,398	6,558
Expenses		<i>of total rev</i>										
Departmental Expenses	11,319	29%				960	1,383	1,708	1,750	1,794	1,839	1,885
Undistributed Expenses	8,664	22%				735	1,059	1,307	1,340	1,373	1,408	1,443
Management Fee	1,249	3%				*	*	238	244	250	256	262
GOP	18,151	46%				1,646	2,371	2,689	2,756	2,825	2,896	2,968
Reserves	1,182	3%				100	144	178	183	187	192	197
Taxes & Insurance	1,267	3%				210	199	189	180	171	162	154
Incentive Fee	989	3%				*	*	188	193	198	203	208
EBITDA	14,714	37%	0	0	0	1,336	2,027	2,133	2,201	2,269	2,339	2,409

* 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
Construction Costs		<i>of dev costs</i>										
Hotel	-15,000	85%	-2250	-5250	-7500	0	0	0	0	0	0	0
Road	-360	2%	-54	-126	-180	0	0	0	0	0	0	0
Landscaping	-500	3%	0	0	-500	0	0	0	0	0	0	0
Leisure Facilities	-290	2%	-44	-102	-145	0	0	0	0	0	0	0
Contingency	-793	5%	-115	-269	-409	0	0	0	0	0	0	0
Total for Construction Costs	-16,943	96%	-2,463	-5,746	-8,734	0	0	0	0	0	0	0
Professional Fees		<i>of dev costs</i>										
Planning, Permits & Surveying	-339	1.9%	-339	0	0	0	0	0	0	0	0	0
Site Supervision & Other Consultancy	-254	1.4%	-37	-86	-131	0	0	0	0	0	0	0
Total for Professional Fees	-593	3.4%	-376	-86	-131	0	0	0	0	0	0	0
Marketing Costs		<i>of dev costs</i>										
Preopening Costs	-80	0.5%	0	0	-80	0	0	0	0	0	0	0
Total for Marketing/Letting	-80	0.5%	0	0	-80	0	0	0	0	0	0	0
Total Development Costs	-17,616	100%	-2,839	-5,832	-8,945	0	0	0	0	0	0	0

Terminal Value Calculation	Totals		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Capitalisation	21,903		0	0	0	0	0	0	0	0	0	21,903
Sales Cost on Exit	-438		0	0	0	0	0	0	0	0	0	-438
Terminal Value	21,465		0	0	0	0	0	0	0	0	0	21,465
Performance	Totals		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
EBITDA	14,714		0	0	0	1,336	2,027	2,133	2,201	2,269	2,339	2,409
Development Costs	-17,616		-2,839	-5,832	-8,945	0	0	0	0	0	0	0
Terminal Value	21,465		0	0	0	0	0	0	0	0	0	21,465
VAT Paid	3,341		-511	-1,050	-1,610	240	365	384	396	408	421	4,297
VAT Recovered	-3,341		0	0	0	0	0	0	0	0	0	-3341
CF	18,562		-3,349	-6,882	-10,555	1,577	2,392	2,517	2,597	2,678	2,760	24,830
Project IRR	11%											
Equity Contribution	-11,472		-1,750	-3,747	-5,975	0	0	0	0	0	0	0
Debt Contribution	-10,393		-1,675	-3,441	-5,278	0	0	0	0	0	0	0
Finance Cost	-5,141		-75	-306	-698	-935	-834	-723	-602	-470	-327	-171
Total CF After Finance	13,421		-3,425	-7,188	-11,253	641	1,558	1,794	1,995	2,207	2,433	24,660
Debt Repayment	-10,393		0	0	0	-1,130	-1,231	-1,342	-1,463	-1,595	-1,738	-1,895
Debt Balance			-1,675	-5,116	-10,393	-9,264	-8,032	-6,690	-5,227	-3,633	-1,895	0
Equity CF	13,421		-1,750	-3,747	-5,975	-489	327	452	532	612	695	22,765
Equity IRR	11%											

Disclaimer

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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