



ENTERPRISE GEORGIA



INVEST IN GEORGIA



Investment Teaser

Kvareli Leisure Destination

PREPARED BY:
COLLIERS GEORGIA

PREPARED FOR:
LEPL ENTERPRISE GEORGIA

Economic Overview

Key Macroeconomic Indicators

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

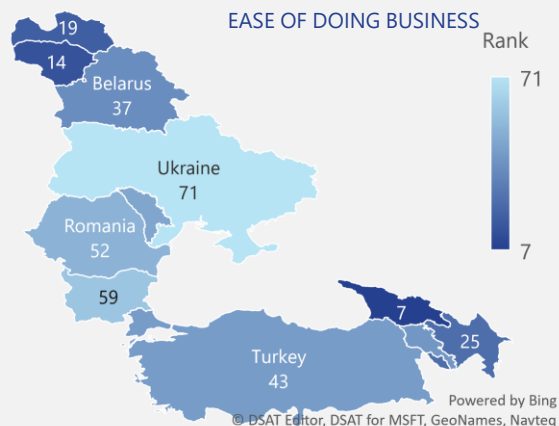
In 2019, the real GDP growth amounted to impressive 5.1%, well above the Caucasus region average of 3.7%. Annual export rate has been gradually increasing for the last four years and in 2019 the figure increased by 13% year-over-year. According to the updated data from Geostat, in 2019, the volume of FDI increased by a modest 0.3% (amounting to USD 1,311 million) compared to the previous year. Among the reasons for the decline may be the completion of magistral gas pipeline project, the transfer of several enterprises to the ownership of Georgian residents, as well as the reduction of non-resident direct investors liabilities.

In 2019, the total number of remittances amounted to USD 1.73 billion, reflecting a 10% growth compared to 2018. The main source markets are Russia (25%), Italy (14%), Greece (11%), USA (10%), Israel (9%), and Turkey (6%).

International Rankings

According to the World Bank's Doing Business report 2020, Georgia ranks 7th for "ease of doing business" among 190 economies, 2nd for "ease of starting a business", and 5th for "ease of registering property". Apart from this, in 2019, Fitch Ratings upgraded Georgia's Long-Term Foreign-Currency Issuer Default Rating from 'BB-' to 'BB' with a stable outlook. Registering a new business takes a maximum of two days and requires no minimum capital requirements. According to the 'Heritage Foundation Index of Economic Freedom 2020,' Georgia's economy is categorized as Mostly Free, ranking 12th across 180 countries. According to Transparency International, Georgia is the top performer among the Eastern European and Central Asian countries, as a least corrupted country.

Source: Geostat, Colliers International

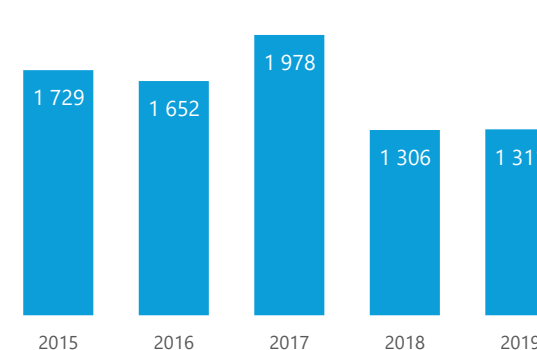


REAL GDP GROWTH (%/year)



Source: Colliers International, Geostat, IMF

FDI INFLOWS BY YEARS (mln, USD)



Source: Geostat, Colliers International

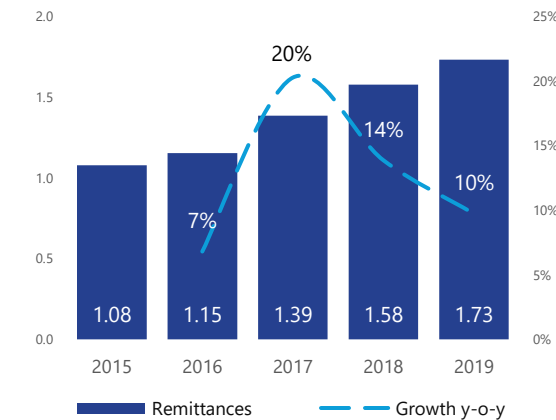
Tax Climate

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.

REMITTANCES (Bn, USD)



Source: Geostat, Colliers International

Tourism Overview

Key Tourism Indicators

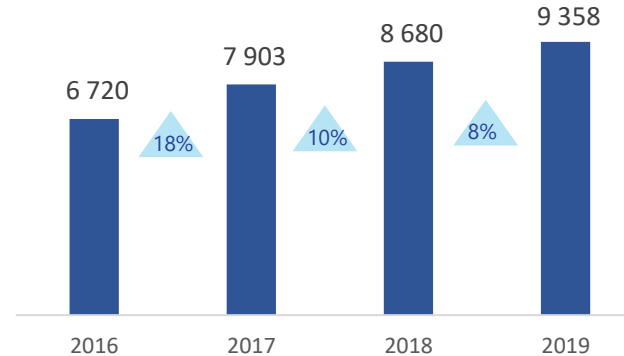
International traveler trips in Georgia have been growing rapidly in recent years. In third 2019, they reached a record number of 9,357,964, representing an annual growth rate of 8% (GNTA).

As for The number of tourist arrivals, the figure increased by 8.3% YoY constituting 65.7% (5.1 mln) of the total number of international visits (7.7 mln), while same-day trips stood at about 34.2%. Most tourist arrivals originated from Russia (23%), Azerbaijan (19%), Turkey (13%), EU countries (12%), and Armenia (11%). Despite difficulties related to US sanctions on Iran, the country remained in the list of top 15 countries of international visitors. Remarkably, in recent years, Georgia has become more attractive to the western Europeans, as the number of visits from EU countries increased by 21.9%. July and August remained the most popular months for visiting Georgia.

International travellers tend to spent more than 6 nights on average in Georgia. The statistical figure has decreased over the past three years, reaching 6.2 nights on average in 2019.

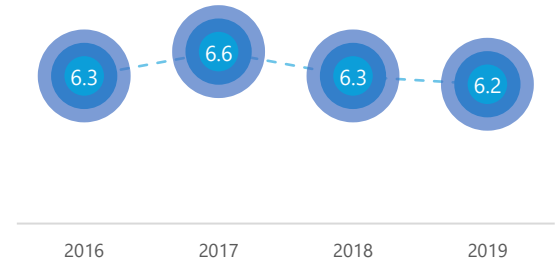
Road travel remains the main means of transport for international arrivals due to the large share of travellers from neighbouring countries in the total number of visitors. In 2019, this increased by 8.7%, representing 74.8% of the total. Air travel, the second most popular choice among travellers, increased modestly by 2.3%, and constituted 23.7% of the total.

INTERNATIONAL TRAVELER TRIPS BY YEARS (thousands)



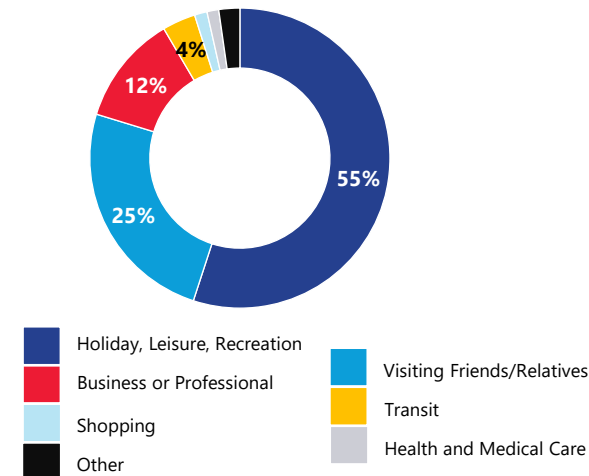
Source: Colliers International, GNTA

AVERAGE NUMBER OF NIGHTS SPENT



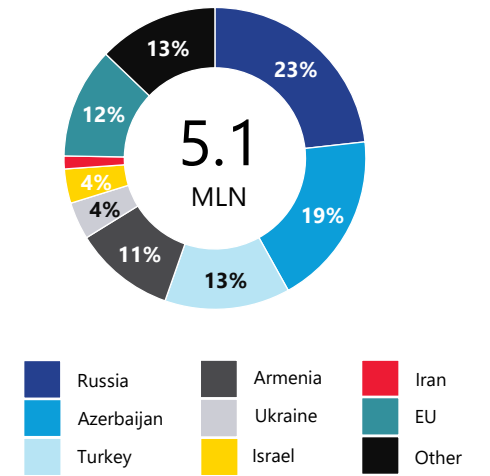
Source: Geostat, Colliers International

DISTRIBUTION OF VISITS BY MAIN PURPOSE, 2019



Source: Geostat, Colliers International

SHARE OF MAIN SOURCE MARKETS



Source: Geostat, Colliers International

Macro-Location

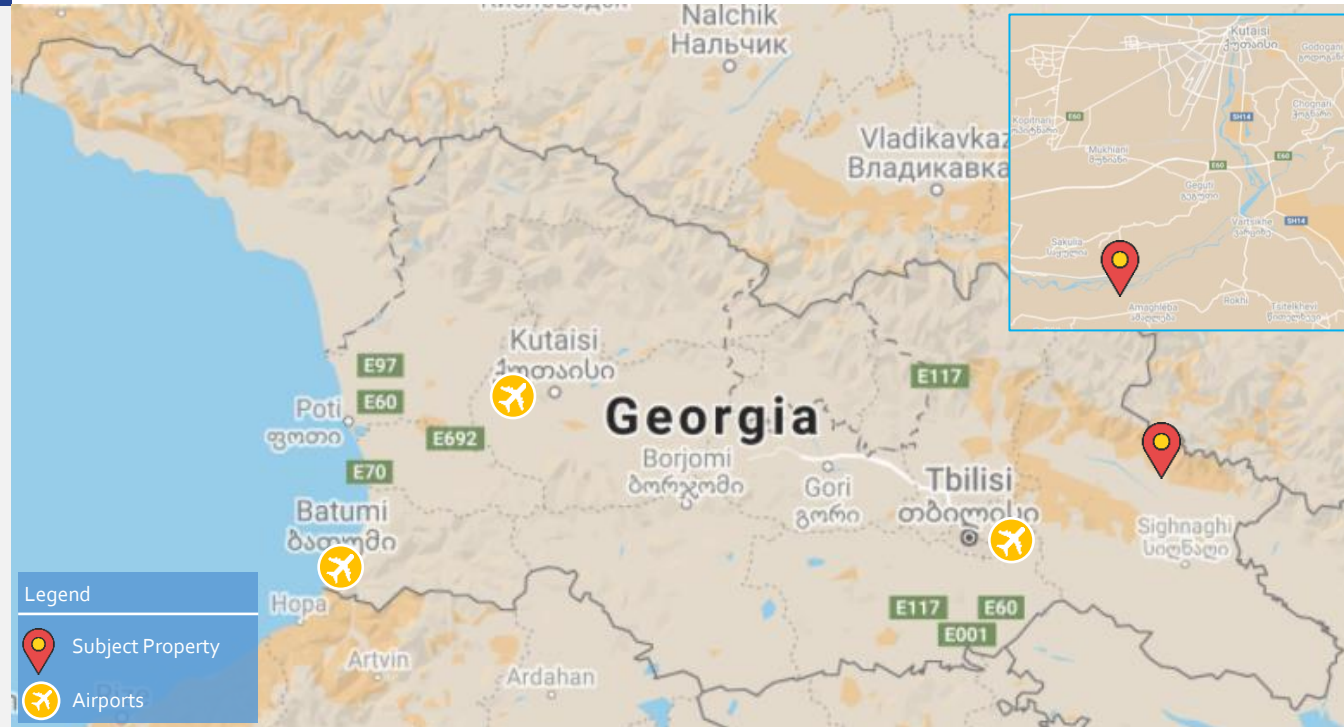
The subject property is situated in the historic region of Kakheti, in the eastern part of Georgia. The region is occupying 16% (11,375 sq. km) of the country, with an approximate population of 310,000. The population living in the region is almost equally divided between rural and urban settlements. The number of population in Kvareli municipality amounts to about 8.000 individuals.

The subject site is in close vicinity to Telavi, the regional center of Kakheti. In 2018, the Gross Domestic Product of the Kakheti region amounted to 2.3 billion Georgian Lari. Leading sectors in the region are manufacturing and agriculture.

Kvareli is located 130 km away from Tbilisi, approximately 500 km away from the sea-side resort Batumi and only 39 km from the regional center Telavi.

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

- Tbilisi International Airport – 130 km (2 hours)
- Kutaisi International Airport – 385 km (5.6 hours)
- Batumi International Airport – 510 km (7.8 hours)

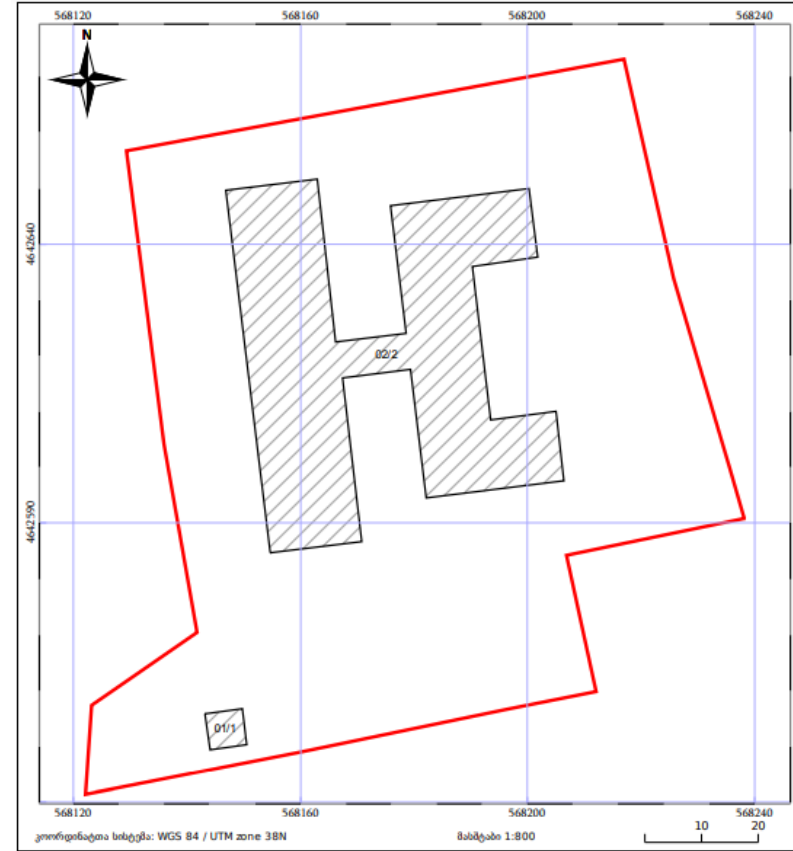


Kvareli

Description

The subject property is situated in the center of Kvareli in Kakheti region, approximately 130 km north-east from the capital Tbilisi.

Kvareli is located in the Alazani Valley, near the foothills of the Caucasus Mountains, it was the hometown of Georgian author Ilia Chavchavadze, whose house is preserved as a local museum. The area is in the center of the Kakheti wine-producing region, and the town itself is known for its Kindzmarauli wine.



Specifications

- Location: Kvareli (Kakheti), Georgia
- Total land area: 10,156 sqm
- Cadastral Code: 57.06.60.683
- Status: Non-Agricultural Land
- Buildings: N1-N2
- Improvement Area: approx. 3,400 sq m
- Estimated Property Price: 673,740 GEL

Source: National Agency of Public Registry, Colliers International

Micro-Location

As we have already mentioned above, the subject property is located in Kvareli. The studied land plot is located 2 minutes driving distance away from the entrance road from Telavi. The 300 meters road connecting the subject property to the main road is covered with asphalt.

Kvareli Hospital is located to the left of the subject property and Park of love - to the right. Two buildings are located on the land plot. The improvement area of the main 2-storey building is equal to c.3,360 sq m. The area of the additional building, that is located behind the main building, is c.40 sq m. Both of them needs renovation.



Set of Comparable Hotels

We have chosen a set of five hotels that, could be relevant comparables to the subject property because of their type, size, location or performance indicators.

The set consists of Kvareli Lake Resort, Kvareli Eden, Royal Batoni and Schuchmann Wines Chateau & Spa. Together these hotels comprise 178 rooms that can fit up to 420 guests at the same time.

During the 2019, the annual occupancy rate of the chosen hotel set amounted to 66% and their ADR was equal to USD 86.6 net of VAT. Revenue Per Room was USD 57.2 net of VAT.

Hotel	# Rooms	2019		
		ADR USD net of VAT	Occupancy	RevPar USD net of VAT
Kvareli Lake Resort	61	\$86.6	66%	\$57.2
Kvareli Eden	47			
Royal Batoni	31			
Schuchmann Wines Chateau & Spa	39			
Total	178			

Source: Colliers International



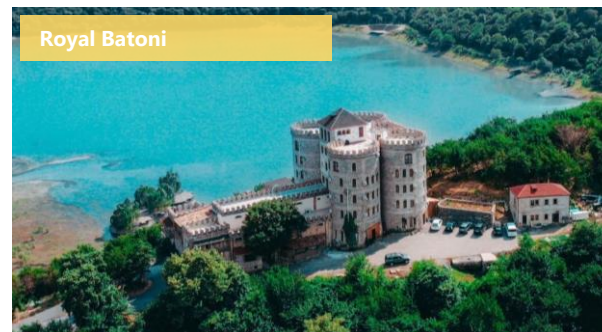
Schuchmann Wines Chateau & Spa is located in Kisiskhevi. The hotel features 39 rooms with the capacity of accommodating 78 guests. Schuchmann offers its guest a various service: culinary master classes, fun facilities, wine spa, swimming pool, wedding offer, conference & meetings, The conference room can accommodate up to 1,000 guests.



Hotel complex "Kvareli Eden" is located in Kvareli, on the right bank of the Bursa river, 135 km from the capital of Georgia, Tbilisi. The hotel is a few steps away from the center of Kvareli, where the museums, church and main sights of Kvareli are located. The hotel complex has high class rooms, restaurants, bars, conference hall, bowling, billiard room, tennis court, wine spa. Kvareli Eden features 47 rooms capable of accommodating 150 guests.



Located on the southern slope of Caucasus mountains, Kvareli Lake Resort spreads over 300 hectares of natural landscape. Kvareli Lake Resort was founded in September 2010. Originally, the resort featured a small, but very impressive hotel with panoramic views of the lake and the vast Alazani valley. Kvareli Lake resort features 61 rooms with the capacity of accommodating 122 guests.



"Royal Batoni" is located in a city of Kvareli, by Ilia's lake side, between the mountains of Kvareli and river Duruji. The guests of the Royal Batoni hotel have the opportunity to visit the ancient historical sites, enjoy fishing, cycling, use tennis, volleyball, basketball courts, and a football field, participate in the preparation of Georgian cuisine and taste Kakhetian wine. 31 rooms with the capacity of accommodating 70 guests are featured in the hotel.

Development Program

After conducting a thorough inspection of subject properties and analysis of the surrounding area, we have proposed a development program of a hotel in Kvareli. As far as we are concerned, the comfortably isolated environment, along with its impressive recreation gives us a great opportunity for creating a getaway hotel that will have a major focus on MICE and banquet hall and will incorporate wellness facilities. The development has a potential to become a new banqueting & conferencing destination of the eastern Georgia.

As already mentioned above, based on our development program the property features a hotel with 80 guestrooms. Out of which 70 rooms will be standard, with an area of 28 sq m and 10 rooms – suites, with an area of 40 sq m.

In the model there is inducted two food & beverage units. All-day dining restaurant with 80 covers and Bar & lounge with 40 covers will be located in the hotel building.

The hotel will feature a conference hall intended for 150 people with the area of 300 sq m. We have also introduced a 400 sq m banqueting venue for weddings and other types of large-scale gatherings, intended for 200 guests.

Based on the proposed quantum, the property will also feature an outdoor pool & bar with the total area of 600 sq m.

Hotel		
Rooms		
-	<i>Number</i>	<i>Size (m² or ft²)</i>
Standard Room	70	28
Suite	10	40
Total	80	2,360
<i>Average</i>		29.5
Food and Beverage Facilities		
	<i>Covers</i>	<i>Size (m² or ft²)</i>
All-day dining (hotel)	80	160
Bar & Lounge (hotel)	40	120
Total	120	280
Conference & Meeting Facilities		
	<i>Capacity</i>	<i>Size (m² or ft²)</i>
Conference Hall	150	300
Board Room	33	100
Banqueting Venue	200	400
Total		800
Leisure, Recreation and Sports Facilities		
Outdoor Pool & Bar		600
Total		600
Total GFA		4,914

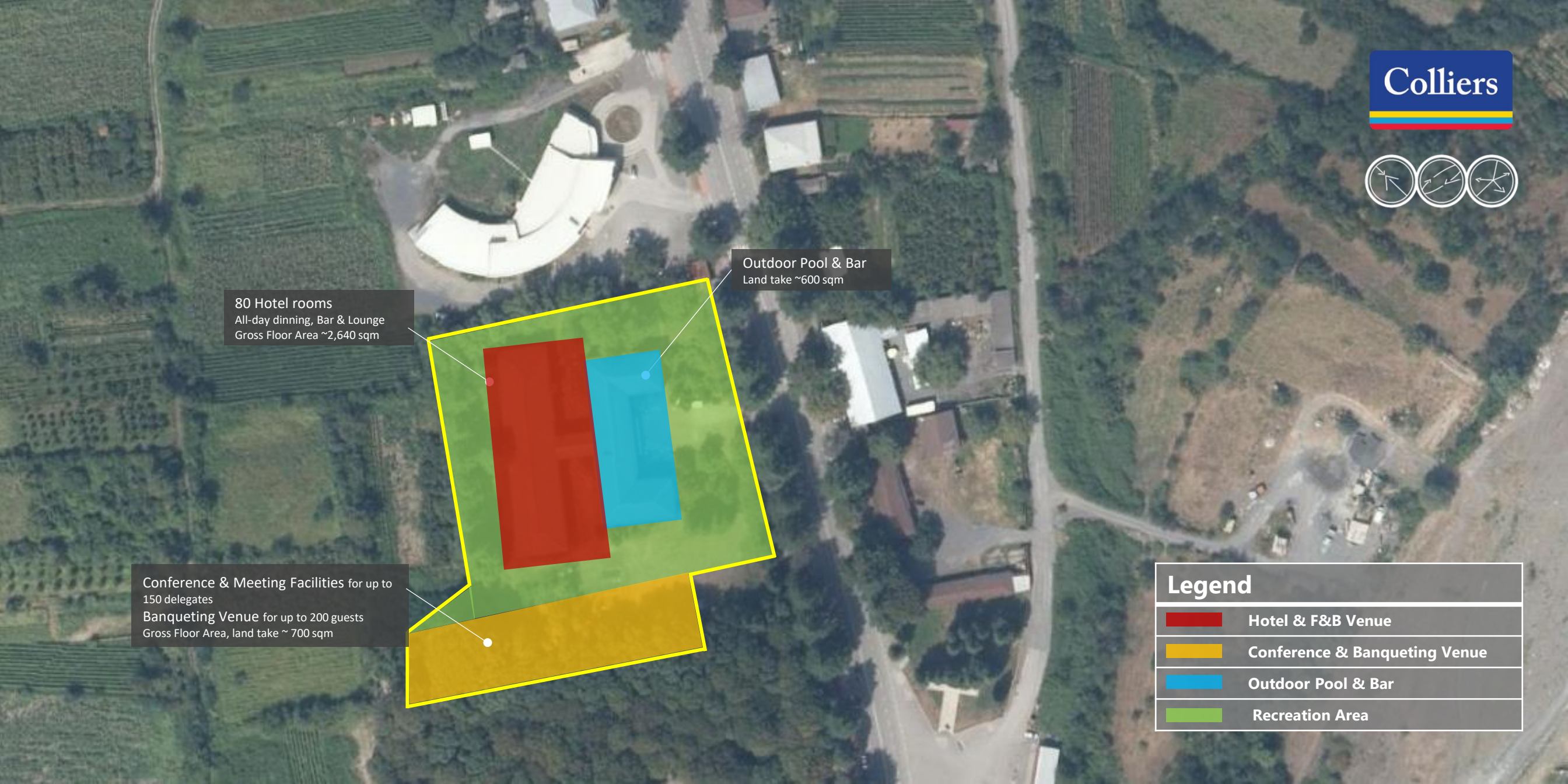


Outdoor Pool & Bar
Land take ~600 sqm

80 Hotel rooms
All-day dining, Bar & Lounge
Gross Floor Area ~2,640 sqm

Conference & Meeting Facilities for up to 150 delegates
Banqueting Venue for up to 200 guests
Gross Floor Area, land take ~ 700 sqm

Legend	
	Hotel & F&B Venue
	Conference & Banqueting Venue
	Outdoor Pool & Bar
	Recreation Area



Revenue & EBITDA

We have built up 10-year financial model for Hotel and Food & Beverage units based on tendencies of relevant markets of 2017-19 and the set of comparative hotels.

According to our model, the hotel is achieving EBITDA margin of 42%, which should be an attractive figure for the investor. ADR on the stabilized year of operations reaches \$80 and occupancy 58%, which is line with the hotels' performance of these class in Georgia. EBIDTA from hotel operations amount to USD 0.7 mln for the 2025. 70% of the hotel revenue will be made up by room revenue, 20% by food & beverage revenue, 8% will be made up by conference & banqueting and 2% by other services.

In total, EBIDTA from all sources in a 10 years period of time amounts to around USD 6.3 mln.

Operations	Totals	%	2023	2024	2025	2026	2027	2028	2029	2030
Hotel	<i>of total revenue</i>									
Number of Rooms			80	80	80	80	80	80	80	80
Room Occupancy %			44%	52%	58%	58%	58%	58%	58%	58%
Average Room Rate			68	76	80	82	83	85	87	88
Total Room Revenue	10,569	70%	864	1,158	1,355	1,382	1,410	1,438	1,467	1,496
F&B Revenue	3,020	20%	247	331	387	395	403	411	419	427
Conference & Banqueting	1,208	8%	99	132	155	158	161	164	168	171
Other Revenue	302	2%	25	33	39	39	40	41	42	43
Total Revenue from Hotel Operations	15,098		1,234	1,655	1,936	1,974	2,014	2,054	2,095	2,137
Expense	<i>of total revenue</i>									
Departmental Expenses	4,228	28%	345	463	542	553	564	575	587	598
Undistributed Expenses	2,869	19%	234	314	368	375	383	390	398	406
Management Fee	366	2%	*	*	58	59	60	62	63	64
GOP	7,636	51%	654	877	968	987	1,007	1,027	1,048	1,068
Incentive Fee	488	3%	*	*	77	79	81	82	84	85
Reserves	453	3%	37	50	58	59	60	62	63	64
Taxes & Insurance	407	3%	62	59	55	52	49	46	43	40
Total EBITDA from Hotel	6,288	42%	555	769	777	797	817	837	858	879
Total EBITDA from all sources	6,288		555	769	777	797	817	837	858	879

Development Costs & Performance Projections

Development Costs

We have distributed construction period across two years. 60% of the total construction cost is spent during the first year and 40% during the second year.

Acquisition cost of the property amounts to 3% of the total development cost. We have assumed 5% of contingency costs the total construction costs, which is reasonable ratio for this type of development. 4.6% of the total development costs are assigned to professional fees including planning & permits and Site supervision.

The total development cost of the model reaches USD 6.4 mln, out of which largest portion – 87% is made up by hotel construction costs.

Return Analysis

The Proposed hotel development is forecasted to generate terminal value of USD 8.6 mln by 2030 (terminal year) less sales costs, resulting in USD 8.5 mln cash inflow. The capitalization rate assumption is 10% (10x multiple) of projected EBITDA in 2030.

For the assumed finance structure (50% debt finance with 8% interest rate) the Equity investment needed is USD 3.4 mln. **The proposed development is projected to generate 15% IRR on invested equity funds and 196% ROE.**

Development Costs		%	2021	2022	2023
Acquisition Costs		of dev costs			
Acquisition Costs	-211	3%	-211	0	0
Total for Acquisition Costs	-211	3%	-211	0	0
Construction Costs		of dev costs			
Hotel	-5,600	87%	-3,360	-2,240	0
Contingency	-280	4%	-168	-112	0
Total for Construction Costs	-5,880	91%	-3,528	-2,352	0
Professional Fees		of dev costs			
Planning, Permits & Surveying	-176	2.7%	-176	0	0
Site Supervision & Other Consultancy	-118	1.8%	-71	-47	0
Total for Professional Fees	-294	4.6%	-247	-47	0
Marketing Costs		of dev costs			
Pre-opening Costs	-50	0.8%	0	0	-50
Total for Marketing/Letting	-50	1%	0	0	-50
Total Development Costs	-6,435	100%	-3,986	-2,399	-50

Terminal Value Calculation	Totals	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Capitalisation	8,789	0	0	0	0	0	0	0	0	0	8,789
Sales Cost on Exit	-176	0	0	0	0	0	0	0	0	0	-176
Terminal Value	8,613	0	0	0	0	0	0	0	0	0	8,613

Performance	Totals	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
EBITDA	6,288	0	0	555	769	777	797	817	837	858	879
Development Costs	-6,435	-3,986	-2,399	-50	0	0	0	0	0	0	0
Terminal Value	8,613	0	0	0	0	0	0	0	0	0	8,613
Total CF	8,466	-3,986	-2,399	505	769	777	797	817	837	858	9,492
Project IRR	13%										
Equity Contribution	-3,479	-2,072	-1,407	0	0	0	0	0	0	0	0
Debt Contribution	-3,192	-1,993	-1,200	0	0	0	0	0	0	0	0
Finance Cost	-1,642	-80	-207	-255	-255	-227	-196	-162	-126	-87	-45
Total CF After Finance	6,824	-4,065	-2,606	250	514	550	601	654	711	770	9,446
Debt Repayment	-3,192	0	0	0	-358	-386	-417	-451	-487	-526	-568
Debt Balance		-1,993	-3,192	-3,192	-2,835	-2,448	-2,031	-1,580	-1,093	-568	0
Equity CF	6,824	-2,072	-1,407	250	156	164	183	203	224	245	8,879
Equity IRR	15%										
ROE	196%										

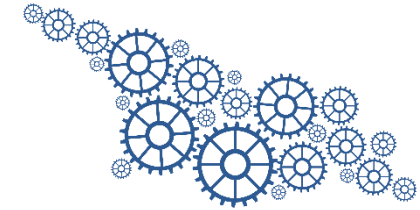


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This brief appraisal of the given property is produced at the request of Enterprise Georgia’s Investment Promotion Division. “Enterprise Georgia” is a government economic development agency, operating under the Ministry of Economy and Sustainable Development of Georgia. Its ultimate mission is supporting the achievement of long-term strategic goals of the Georgian economy through three major pillars. Namely: Enterprise Georgia – Invest, Enterprise Georgia – Business and Enterprise Georgia – Export. The agency focuses on increasing competitiveness of private sector, enhancing country’s export potential and promoting/ supporting foreign direct investments in Georgia

The Investment Division plays a role of moderator between foreign investors and the Government of Georgia, ensuring that the investor gets all 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 direct foreign investments in Georgia. It serves as a “one-stop-shop” for investors to support companies before, during and after investment process.



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