



Georgian Hospitality Sector Overview

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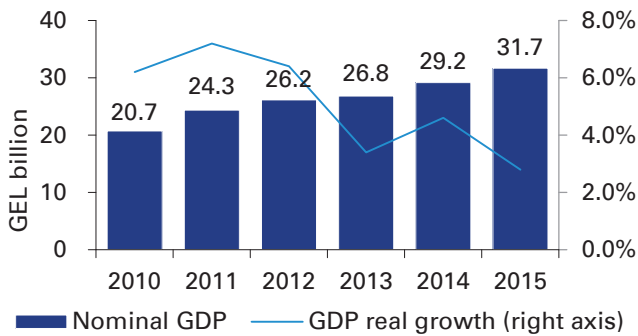


BASIS OF PREPARATION

The material presented in this publication is based on information acquired by KPMG from primary sources (including inquiries of 6 hotels in Georgia) and secondary sources. The purpose of this overview is to obtain principal information about the hospitality industry in Georgia, including the factors driving changes in demand and supply of hotel rooms, customer base, and common services provided by players in the hospitality sector.

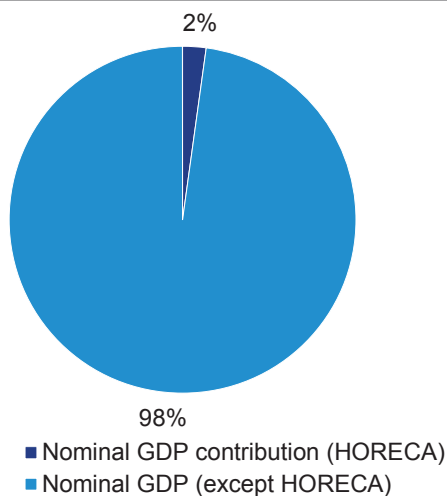


Key economics indicators



Source: National Statistics Office of Georgia

HORECA share in total GDP (2015)



Source: National Statistics Office of Georgia
HORECA – Hotel/Restaurant/Catering

Country facts

Capital	Tbilisi
Population, 2014 (beginning of the year)	3,720,395
Currency	Georgian Lari (GEL)

Source: National Statistics Office of Georgia

COUNTRY PROFILE

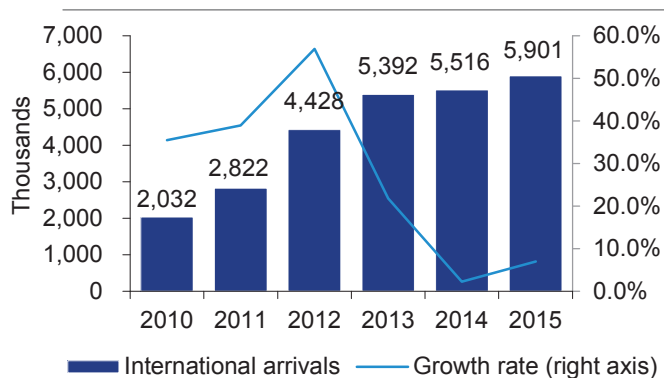
Georgia is located in the Caucasus region, at the crossroads of Western Asia and Eastern Europe. It is bounded to the west by the Black Sea, to the north by Russia, to the south by Turkey and Armenia, and to the southeast by Azerbaijan.

The country's unique culture, delicious cuisine, and exceptional hospitality attract visitors from all over the world. You can be skiing down the slopes of the Caucasus Mountains one minute and three hours later be sunbathing on the Black Sea coast.





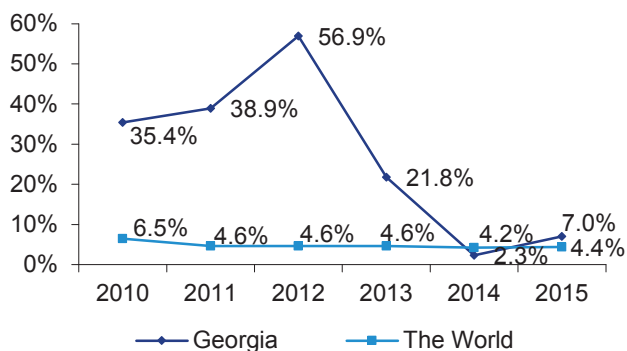
Incoming travelers



Source: Georgian National Tourism Administration

The graph below shows the comparison of growth rates of international arrivals globally and in Georgia from 2010 to 2015, and indicates the higher growth for Georgia over the past years. In 2014 the growth of international arrivals in Georgia has reduced down to the global rate but started increasing again in 2015.

Comparison of international arrivals World vs Georgia



Source: UNWTO, Georgian National Tourism Administration

Note: Number of international arrivals does not necessarily represent tourists due to transit arrivals

SECTOR HIGHLIGHTS

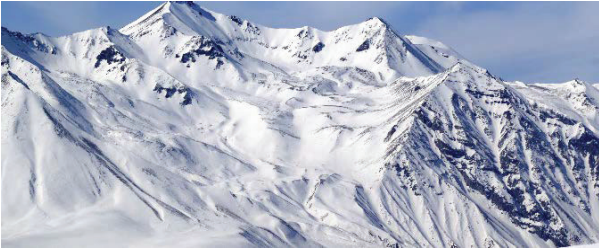
Tourism is among the fastest-growing industries in Georgia, and it has substantial potential for further development. In the past few years the number of visitors to the country has increased significantly, adding to the growth of other tourism-related sectors. The hotel industry, in particular, has been growing as foreign investment has increased and the number of foreign visitors to the country has risen.

International Arrivals

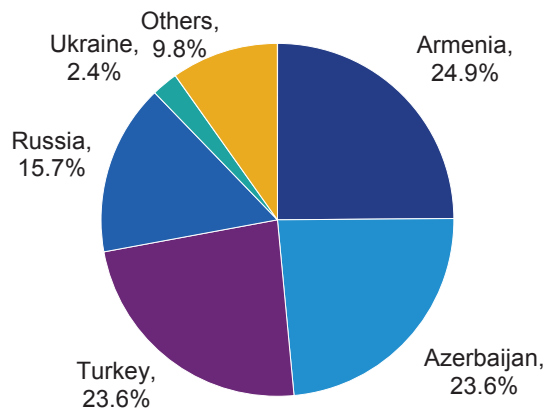
In 2015 the number of international arrivals in Georgia was 5.9 million, a 7.0% increase on the previous year.

According to a census conducted in 2014 the population of Georgia as at 1 January 2015 was 3.7 million. The number of international arrivals far exceeded the population number as at 1 January 2015.

A comparison of global growth rates and that of Georgia showed that during the last five years international arrivals in Georgia increased considerably faster than in the rest of the world. The number of tourists traveling internationally throughout the world was growing at a steady rate during recent years.



International arrivals by countries (2015)



Source: Georgian National Tourism Administration

SECTOR HIGHLIGHTS

According to the Georgian National Tourism Administration (GNTA), 68.1% of foreign visitors to Georgia in 2015 were from the Commonwealth of Independent States (CIS), 28.9% from the European Region (including Turkey, and excluding CIS countries), and 3.0% from other countries.

Visitors from CIS countries were predominantly from Armenia (24.9%), Azerbaijan (23.6%), and Russia (15.7%). Visitors from Turkey made up 23.6% of total international arrivals.

The data for the past few years demonstrate that the most popular season among international travelers is the summer, with the busiest months being July, August, and September. During this three-month period in 2015 the number of international arrivals stood at 2,159,031 (July: 737,898; August: 852,446; September: 568,687), which was a 10.5% increase on the corresponding period in the previous year.

Average receipts per international visitor amounted to USD 335 for the first three quarters of 2015.



Accommodation capacity (Q IV 2015)		
	Number of accommodation units	Bed capacity
Regions		
Tbilisi	313	13,168
Adjara	254	11,293
Samtskhe-Javakheti	201	7,850
Kakheti	156	2,887
Imereti	141	4,349
Samegrelo-Zemo Svaneti	140	2,750
Mtskheta-Mtianeti	129	4,181
Guria	56	2,998
Racha-Lechkumi	55	1,148
Kvemo Kartli	18	539
Shida Kartli	12	218
Total	1,475	51,381

Source: Georgian National Tourism Administration

There are fourteen internationally branded hotels operating in Georgia

Internationally Branded Hotels in Georgia		
Hotel	Chain	Location
Citadines Tbilisi City Centre	Citadines	Tbilisi
Mercure Tbilisi Old Town	Mercure	Tbilisi
Primavera	City Partner	Tbilisi
Best Western Tbilisi Art Hotel	Best Western	Tbilisi
Hotels & Preference Hualing Tbilisi	Hotels & Preference	Tbilisi
Holiday Inn	Holiday Inn Hotels & Resorts	Tbilisi
Radisson Blu Iveria Hotel	Radisson Blu	Tbilisi
Courtyard by Marriott Tbilisi	Courtyard by Marriott	Tbilisi
Tbilisi Marriott Hotel	Marriott Hotels & Resorts	Tbilisi
Radisson Blu Hotel Batumi	Radisson Blu	Batumi
Hilton Batumi	Hilton Hotels & Resorts	Batumi
Sheraton Batumi	Sheraton	Batumi
Crowne Plaza Borjomi	Crowne Plaza Hotels & Resorts	Borjomi
Rixos Borjomi	Rixos Hotels	Borjomi

Source: booking.com

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SECTOR HIGHLIGHTS

According to the GNTA, as of the end of 2015 there were 1,475 accommodation units, with a bed capacity of 51,381.

The capital Tbilisi holds the leading position in terms of the number of accommodation units (313) and bed capacity (13,168). The capital is followed by the Adjara Region, where Georgia's main sea resorts (Batumi, Anaklia, Kobuleti, etc.) are located. There are 254 accommodation units and 11,293 beds in the region.

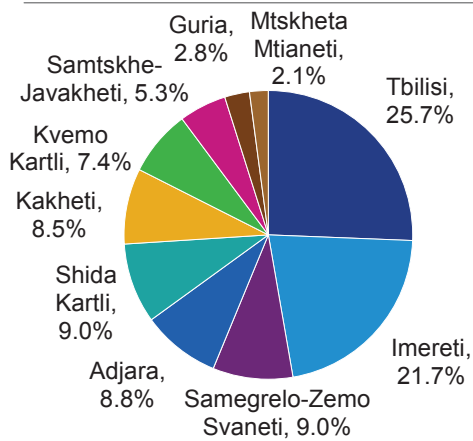
There are fourteen internationally branded hotels and more in the pipeline. Most of such hotels are located in Tbilisi.

Accommodation - International Visitors

During 2015, the most commonly used type of accommodation for foreigners visiting Georgia was hotels (65%). Around 18% of visitors stayed in a hostel, while 11% rented an apartment. The percentage of other types of accommodation units used amounted to 6%.



Travel Statistics - Georgian Residential Population



Source: Georgian National Tourism Administration

According to GNTA data, in 2015 residents of the Tbilisi and Imereti regions travelled the most, undertaking around 25.7% and 21.7% of domestic visits, respectively.

SECTOR HIGHLIGHTS

Main Purpose of travel - Georgian Residential Population

The majority (54%) of domestic visits were carried out for the purposes of visiting friends/relatives, followed by 11% for shopping trips, 10% for health and medical care, and 8% for holiday, leisure, and recreational purposes. All other types of travel made up 17% of domestic travel.

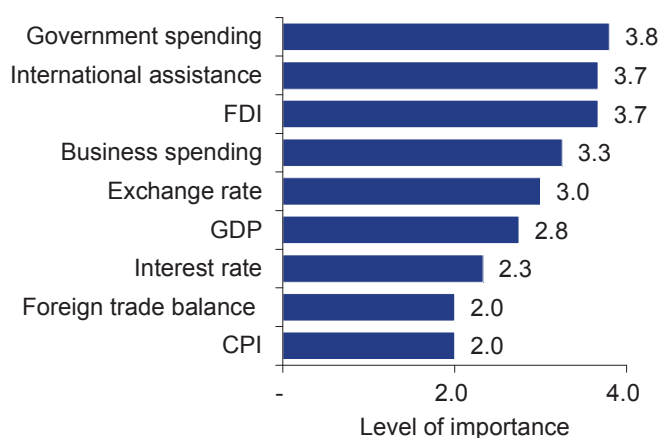


Factors affecting demand for Tbilisi hotels



* Ratings scale based on the level of importance
(4-high, 3-moderate, 2-low, 1-none)
Source: KPMG Analysis, Q 2 2016

Economic indicators



* Ratings scale based on the level of importance
(4-high, 3-moderate, 2-low, 1-none)
Source: KPMG Analysis, Q 2 2016

1 - Foreign Direct Investment
2 - Consumer Price Index

SECTOR HIGHLIGHTS

We identified the factors that influence the guests decisions. Based on the survey performed, friendliness of the staff, cleanliness of rooms and hotel location are the most important factors when choosing a hotel. Availability of fitness and beauty facilities is the least influential factor.

In addition, we determined the economic indicators that have an impact on the flow of visitors to Tbilisi. Government spending, international assistance and FDI¹ take the first three places respectively, while CPI² has the least influence on the visitors.

All the hotels participating in the KPMG survey offer the following facilities to the guests:

- Restaurant
- Car service
- Laundry
- Free Wi-Fi
- 24 hour security
- Refrigerator/ mini bar
- 24-hour front desk
- TV with local and international channels

The average occupancy rates of the hotels within the survey are presented in the table below. The other table provides prices of standard double hotel rooms in Tbilisi.

Average occupancy rate (2015)	
Peak season	84.0%
Shoulder season	65.8%
Low season	53.7%

Source: KPMG Analysis, Q 2 2016

Prices for standard double hotel rooms in Tbilisi (USD)			
Season	Low season	Shoulder season	Peak season
Budget	20-40	20-40	20-40
Midscale	60-80	60-80	60-80
Upscale	150-180	160-190	170-200

Source: KPMG Analysis, Q 2 2016



SECTOR HIGHLIGHTS

Government tourism strategy for 2025

The hotel sector, together with tourism, is further helped by supportive programs and financing from the Georgian Government. Developing tourism is a top government priority. By 2025 the government expects Georgia to be well known as a premier, year-round, high-quality tourism destination, centred on its cultural and natural heritage, high-class customer service, and tradition of hospitality. The government has established the following goals, which are planned to be realised by 2025:

- Create unique, high-quality visitor experiences
- Improve air access from high-spending markets and internal transport networks to facilitate the free flow of visitors to and within the country
- Improve data collection and market research capabilities in order to better ascertain the demands and preferences of higher-spending markets
- Use the above research and marketing resources to more effectively target and communicate with these higher-spending markets
- Improve visitor services, from transportation to accommodation
- In addition, the GNTA expects the number of international visitors to reach 11 million. It also expects the level of receipts from tourists to amount to USD5.5 billion, representing a 6.7% contribution to GDP, and for the number of Georgians employed in the sector to increase by 85%, reaching 333,564.

Pipeline and Upcoming Events



Information about upcoming hotel projects in Georgia is often difficult to obtain and even harder to verify. The information below has been obtained from various media and other sources and may not be completely reliable.

Millennium	The construction of this hotel in Tbilisi is funded by the UAE Abu Dhabi Group, with a total investment of USD40 million. The opening is scheduled in 2016.
Rixos	The luxury 5-star Rixos Hotel has been built on Gudiashvili Street. It will consist of 60 apartments and around 40 shops offering well-known brands.
InterContinental Hotels Group	InterContinental Hotels Group (IHG) announced the opening of the InterContinental Tbilisi in 2016. The 259-room hotel will operate under a management agreement with the existing owner-partner Adjara Group, a Tbilisi-based hospitality company.
The Radisson Blu Resort Tsinandali	The Radisson Blu Resort Tsinandali, located in the wine region of Kakheti, will welcome its first guests in 2016.
Hilton Hotel	Hilton Worldwide has announced the opening of a new hotel in the Georgian capital (Chavchavadze Avenue). It will open its doors in November 2016 and have 14 floors, 165 guestrooms, shops, restaurants, a business centre, a fitness centre, and an indoor swimming pool.
Sheraton Metechi Palace Hotel	After a large-scale reconstruction this 5-star hotel will be re-opened in Tbilisi by the end of 2016.
Hyatt Regency Tbilisi	The opening of the Hyatt Regency Tbilisi (located in the former building of the Ministry of Justice) is planned for 2017. The hotel will have 170 guestrooms.
Radisson in Gudauri	Red-Co (a local real estate development company) will invest USD15 million to launch a 105-room Radisson hotel in Gudauri. Radisson will open the five-star hotel in 2017.
Kass Boutique Hotel	Kass Boutique Hotel Group invests USD 25 million to construct a Kass Boutique Hotel on Gergeti Street in Tbilisi. The hotel will be opened in 2017.
Park Inn	Park Inn hotel by Silk Road Group was intended to be opened by the end of 2015 but is still under construction.
Pullman Hotel	The high-class French international hotel chain Pullman is opening a luxury hotel in Tbilisi (in the Axis Towers). The five-star Pullman Hotel will open in 2018.
Le Méridien	Starwood Hotels & Resorts Worldwide, in partnership with Red-Co Ltd, announced that its Paris-born Le Méridien brand will open in Batumi. The 110-room hotel will host visitors in 2018.
Luxury hotel in former Ministry of Agriculture building in Tbilisi	After seven years of suspended construction, the former building of the Ministry of Agriculture in Georgia's capital will be transformed into a luxury hotel. Granat LLC acquired the ownership title to the investment property and will invest USD20 million.

Pipeline and Upcoming Events



Tbilisi Open Air 2016	From 29 July 2016 till 31 July 2016 Lisi Wonderland will be hosting the Tbilisi Open Air 2016. More than 40 artists from 12 countries will be presented at the festival.
GEM Fest	GEM Fest 2016 will be held in Anaklia, Georgia, on the August 10-14th. During 5 days at its 5 stages the world famous artists are going to play their music non-stop.
Black Sea Jazz Festival	The festival will be held from 15 to 24 July 2016. It is expected to be the largest one in the history of the Black Sea Jazz Festival.
Check in Georgia	The project includes 19 concerts and 35 festivals that will be held during 2016. Maroon 5, Robbie Williams and Jose Carreras will be visiting Georgia within the project.

Hospitality & Leisure Consulting Services

Implementing hotel construction projects and managing hotel businesses are complex tasks. In addition to finding the correct strategy and position in the market, successful implementation depends on a realistic evaluation of the project's feasibility and careful planning.

KPMG can become your trusted advisor by providing the following services:

- Hospitality and leisure market analysis
- Analysis of the highest and best use of land plots
- Feasibility analyses in the hospitality and leisure industry
- Business plans for development projects in the hospitality and leisure industry
- Concept development and investment planning for hotel and leisure projects
- Assistance in the raising of finance for hospitality and leisure projects
- Financial model development and review
- Marketing strategy development
- International operator selection and negotiating hotel operating agreements on behalf of clients
- Valuation of existing properties and development projects in the hospitality and leisure industry
- Operational activity and economic feasibility analysis and preparation of optimisation strategies
- "Mystery guest" quality audits
- Financial, legal and tax due diligence
- Financial and tax deal structuring
- Investor searches
- Legal assistance and taxation advisory services



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