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RESEARCH

## Georgia's Tourism Sector

# *Tourism at Full Speed*



### Georgia | Tourism

Industry Overview

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## Terms and Definitions

APA – Agency of Protected Areas of Georgia  
CAGR – Compound Annual Growth Rate  
CEE – Central & Eastern Europe  
CIS – Commonwealth of Independent States  
EU – European Union  
GCAA – Georgian Civil Aviation Agency  
GCF – Georgian Co-Investment Fund  
GDP – Gross Domestic Product  
Geostat – National Statistics Office of Georgia  
GNTA – Georgian National Tourism Administration  
HoReCa – Hotels, Restaurants, Cafe  
IHRC – International Healthcare Research Center  
MIA – Ministry of Internal Affairs of Georgia  
MICE – Meetings, Incentives, Conferences, Exhibitions  
MRDC – Mountain Resorts Development Company of Georgia  
NBG – National Bank of Georgia  
PF – Partnership Fund  
TTCI – Travel & Tourism Competitiveness Index  
UNWTO – United Nations World Tourism Organization  
WB – World Bank  
WTTC – World Travel & Tourism Council



## Executive Summary

**The world has already rediscovered Georgia as a popular tourist destination.** Tourist numbers are already close to the country's population of 3.7mn. The total number of international visitors (tourists, transit and one-day arrivals combined) increased at a CAGR of 21.7% over 2008-17 and reached a record 7.5mn persons in 2017. With 3.5mn tourists in 2017, 2018 looks set to be another bumper year with tourist arrivals forecast to reach a new record of around 4.2mn – above Georgia's local population.

**Georgia managing to attract tourists from non-traditional markets.** Traditionally, visitors to Georgia have been more frequently from CIS countries and Turkey. However, the highly sought-after diversification of the arrival mix is evident, with the share of the top four source markets down from 88.1% in 2012 to 80.1% in 2017 as arrivals have increased significantly from the Middle East and Iran.

**Tourism is most flourishing part of Georgian economy,** which was otherwise affected by regional economic turmoil in 2015-2016. Revenue from the tourism sector of US\$ 2.8bn (18.1% of GDP) in 2017 helped to significantly reduce the country's current account deficit, when it fell to single digits at 8.7% of GDP for the year. Importantly, Georgia has never seen a decline in its tourist revenues – even in 2009 and 2015, beating peers which experienced reduced tourism revenues in those years.

**We estimate that tourist arrivals will more than double over the next five years** to 7.6mn – 2.0x Georgia's population. At this proportion, Georgia will overtake Hungary (1.6x), Slovenia (1.5x), Albania (1.4x) and Bulgaria's (1.2x) ratios from 2016 but will still be below the proportions found in Croatia (3.3x), Cyprus (2.7x), Montenegro (2.7x) and Estonia (2.4x) in 2016. The findings for Georgia seem reasonable as in the other countries mentioned above, tourist numbers used to double every five to seven years. Additionally, we do not exclude faster growth in tourist arrivals in Georgia given the quick success of on-going reforms in the tourism sector.

**Georgia generates far less than peer countries in terms of per arrival spending.** This is explained by 1) the dominance of neighbouring countries in its arrival mix; and 2) the low share of "real tourists" compared to peer countries. Despite the number of tourists doubling over 2012-17, per visitor spending only increased to US\$ 364.2 in 2017 from US\$ 318.6 in 2012. Efforts should be directed to lift per visitor spending toward the US\$ 500-800 level found in peer countries. In order to attract more high-yielding visitors, Georgia's tourism industry needs to focus on high-potential niche tourism products such as winter tourism, wine tourism, medical and wellness tourism, MICE tourism, and gambling.

**Visitor growth matched by consistent growth of accommodation sector.** Over 3,000 new hotel rooms were added to Georgia's accommodation stock in 2017. Without success in attracting high-yielding visitors coupled with an extensive pipeline of upscale hotels, we expect pressure on prices and occupancy rates in this segment. At the same time, budget accommodation still seems scarce considering the rapid expansion of the Airbnb market in 2016-17. The extensive pipeline for mid-market brands and increased interest in regional destinations also hint at an oversupply in the luxury hotel segment in Tbilisi.

**Insufficient infrastructure and scarcity of skilled labour remain major challenges.** Georgia meets the medical and sanitation requirements of a successful tourist destination, as well as safety and security standards according to different studies. However, the same studies identify underdeveloped tourism infrastructure as well as scarcity of skilled labor and service quality as key weakness in the sector.

**Tourism development is a key area of the government's four pillar of reforms introduced in 2016.** These reform targets aim to improve the relationships between towns and villages, to promote high-quality sustainable tourism development and to transform Georgia into a four-season tourism destination.



# 1. Tourism Sector Overview

## 1.1 Contribution of tourism to Georgian economy

**Growth in Travel & Tourism (T&T) outpaced that of the global economy for seventh successive year in 2017.** Despite the ever-increasing and unpredictable shocks from terrorist attacks and political instability, as well as health pandemics and natural disasters, worldwide T&T continued to show its resilience. According to the latest estimates from the World Travel & Tourism Council (WTTC), the sector generated US\$ 8.3tn (10.4% of global GDP) and 313mn jobs in 2017 – equivalent to 1 in 10 jobs in the global economy. Tourist arrivals reached over 1.3bn persons in 2017 and visitors are expected to reach 2.1bn by 2028 according to WTTC.

**Georgia's tourism sector is growing rapidly** thanks to the visa-free travel arrangements in place with over 100 countries, its rich culture, its improved accessibility and services, and general human curiosity. Georgia has managed to gain popularity in the world tourist marketplace rapidly; National Geographic recently included Tbilisi in its top 10 places to visit in 2018 and the Lonely Planet travel guide named Georgia as one of its top 10 destinations for 2018.

**In line with global trends, tourism has flourished in Georgia through regional and global headwinds over the last decade.** Tourism revenues posted an impressive CAGR of 22.4% in 2008-17 to reach a record high of US\$ 2.8bn in 2017 – an increase of 27.0% y/y. As a result, tourism revenues to GDP increased more than 5x during 2008-17 to 18.1% from 3.5%, respectively. The share of tourism exports rose to 35.9% of total goods and services exports in 2017 from 12.1% in 2008.

Figure 1: Tourism revenues to GDP

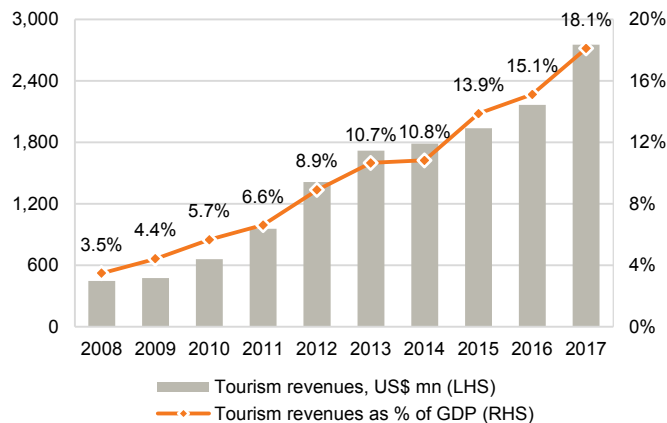


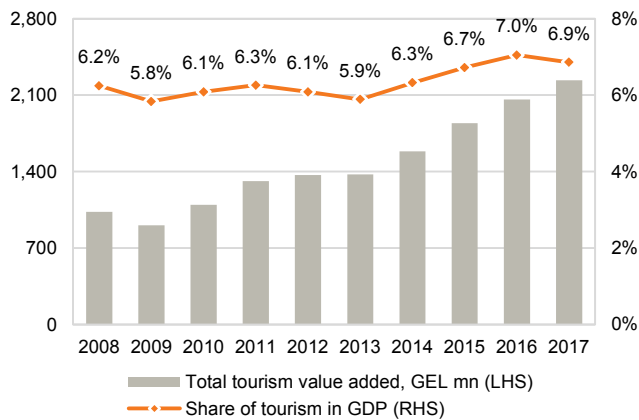
Figure 2: Tourism revenues to total exports



**Value added by tourism-related services accounted for 6.9% of GDP in 2017.** Travel companies held the largest share (33.3% of total) of tourism value-added, followed by transport (23.5%) and food establishments (23.1% of total). Besides these, the sector has wider effects on the economy through investment spending, the supply chain and other channels, which we estimate at 20-25% of GDP.

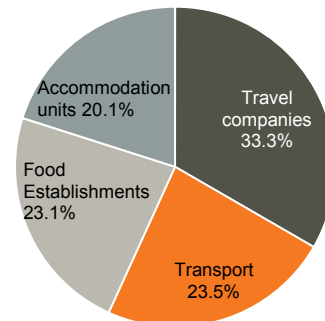


Figure 3: Share of tourism-related services in GDP



Source: Geostat

Figure 4: Composition of tourism-related services, 2017



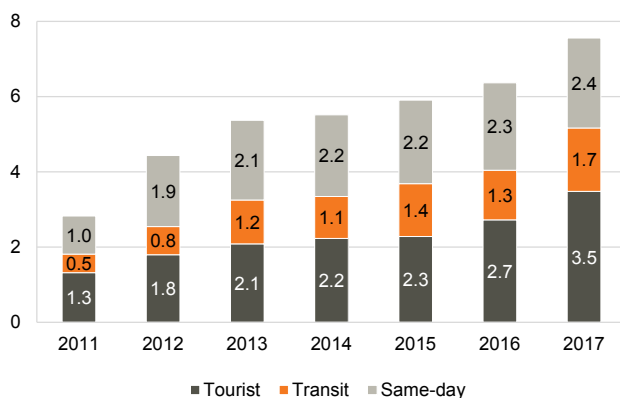
Source: Geostat

## 1.2 Visitor dynamics

The world has rediscovered Georgia as a popular tourist destination with tourist numbers already close to the country's domestic population of 3.7mn. The number of international visitors (tourist, transit and one-day arrivals combined) increased at a CAGR of 21.7% over 2008-17. After subdued growth during 2014-16, international arrivals increased 18.8% y/y in 2017 to a record level of 7.5mn persons. The tourist category (46.0% of total) drove the growth in arrivals as 3.5mn tourists visited Georgia in 2017. We expect 4.2mn tourists (+21.2% y/y) to visit Georgia in 2018 – more than the local population.

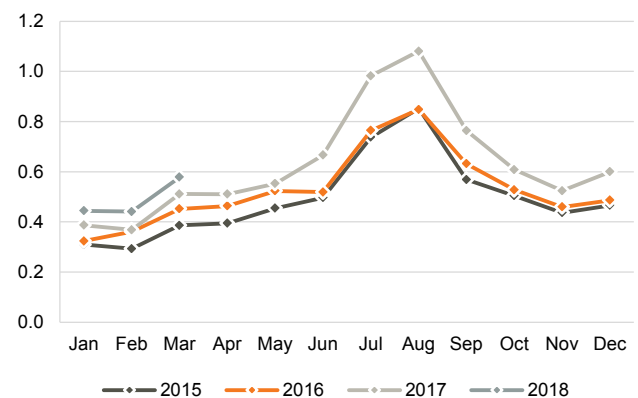
Traditionally most visitors come from CIS countries and Turkey although growth from other markets in 2017 was notable. The highly sought-after diversification of the arrival mix is evident, with the share of the top four (Azerbaijan, Armenia, Russia and Turkey) source markets down from 88.1% in 2012 to 80.1% in 2017 as arrivals increased considerably from the Middle East and Iran.

Figure 5: Breakdown of international arrivals, mn



Source: GNTA

Figure 6: Total international arrivals by month, mn



Source: GNTA





**Russian visitors contributed most to arrival growth in 2017.** With almost 1.4mn visitors (+34.1% y/y), Russia is one of Georgia's top four source markets. Since 2016, Russian tourists have shifted their interests towards Georgia as a result of the tense relationship between Russia and those countries that Russian tourists previously tended to visit (Ukraine, Turkey and Egypt).

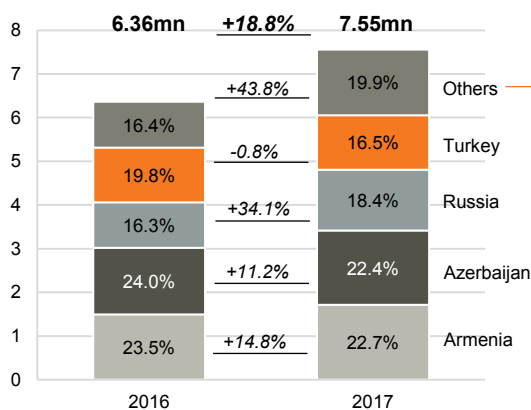
**Georgia is a popular choice for the rest of its neighbours.** Geographic proximity, visa-free travel and gambling are major attractions for Armenian, Azeri and Turkish visitors to Georgia in our view. As a cheap destination, the economic hurdles and currency depreciation in its neighbouring countries over 2015-17 largely benefited Georgia's tourism industry as arrivals continued to increase. Meanwhile, arrivals from Turkey rebounded strongly in 2H17 after a temporary decline in 2016 due to travel restrictions (related to the failed coup) introduced by the Turkish government as well as renovation works at the Georgia-Turkey customs check-point.

**Iran overtook Ukraine as the fifth largest source market in 2017.** After the visa-free regime was reinstated in February 2016, Iranian visitors to Georgia rose considerably, increasing almost 13x from just over 25,000 visitors in 2015 to almost 323,000 in 2017. Furthermore, due to strict regulations at home, Iranians tend to spend their holidays abroad and we expect greater inflows going forward as Georgia's popularity as a holiday destination increases among the citizens of Iran.

**Middle East countries emerging as breakthrough secondary source markets.** Visitors from the Middle East were up 84.4% y/y to nearly 163,000 in 2017 with Saudi Arabia, Jordan and Lebanon accounting for more than half of these. There is also growing interest from Israel and India. The Georgian government recently commenced talks with China to extend its visa-free travel arrangements for organised tourism from China. We expect the mix of arrivals to continue to diversify at a faster pace in the coming years.

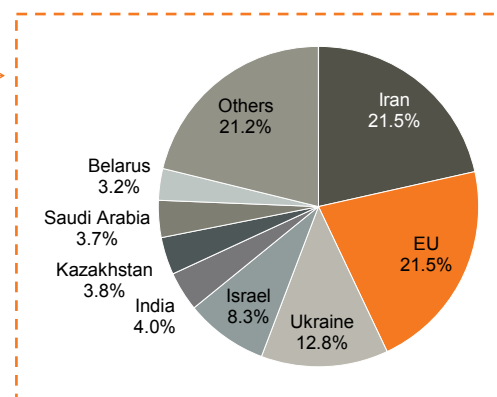
**Arrivals from EU expected to increase further.** European visitors were up 21.9% y/y to over 0.3mn visitors in 2017 with Poland, Germany and the United Kingdom counting for a nearly half of this growth. This is likely attributed to the improved air connectivity and further boost in EU arrivals expected in connection to the recently announced increase in direct flight routes.

Figure 7: International arrivals by country, mn



Source: GNTA

Figure 8: Secondary markets



Source: GNTA



## 2. Forecasts and Trends

**Tourist arrivals will more than double over the next five years by our estimates.**

We project 4.2mn tourists in 2018 and 7.6mn by 2022. Tourist arrivals already increased 28.4% y/y in 1Q18.

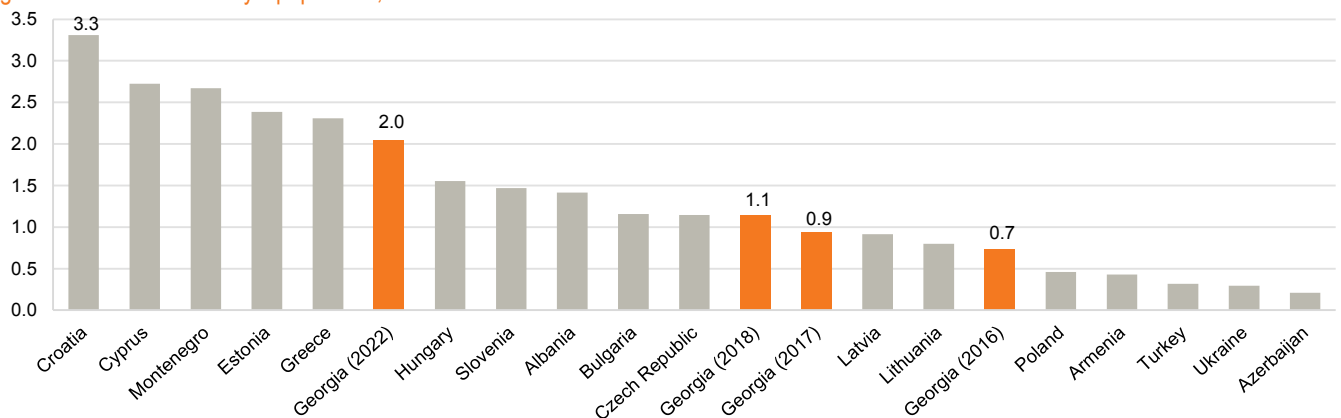
**Table 1: Tourist arrival forecast**

	2017	2018F	2019F	2020F	2021F	2022F
Number of tourists, mn	3.5	4.2	5.1	5.9	6.8	7.6
% change y/y	27.9%	21.2%	19.2%	16.8%	14.5%	12.3%
Tourism revenues, US\$ bn	2.8	3.4	3.9	4.4	5.0	5.7

Source: G&T Research

We have analysed monthly total international arrivals over 2005-2017 and used an autoregressive model to forecast tourist numbers for 2018-2022. Based on our forecasts, tourist arrivals are expected to more than double in the coming five years, meaning that 7.6mn tourists will visit Georgia in 2022 – 2.0x the country's population. This increase will see Georgia overtake Hungary (1.6x), Slovenia (1.5x), Albania (1.4x) and Bulgaria (1.2x) according to their 2016 ratios. However, this would still be below the proportions found in Croatia (3.3x), Cyprus (2.7x), Montenegro (2.7x) and Estonia (2.4x) in 2016. This finding for Georgia seems reasonable as in those countries mentioned above, tourist numbers have tended to double every five to seven years. Additionally, we do not exclude the possibility of tourist arrivals growing even more quickly on the back of the success of the on-going reforms in the tourism sector.

**Figure 9: Tourists to country's population, 2016**



Source: UNWTO, WB, Geostat, G&T Research

**Georgia generates far less than peer countries in terms of per arrival spending.**

This is explained by 1) the dominance of neighbouring countries (Armenia, Azerbaijan, and Turkey) in the arrival mix; and 2) the low share of “real tourists” and the elevated share of one-day and transit visitors compared to peer countries. Although the number of tourists to Georgia doubled over 2012-17, per visitor spending only increased to US\$ 364.2 in 2017 from US\$ 318.6 in 2012. The diversified arrival mix coupled with the prolonged average stay in Georgia (4.8 in 2013 vs 6.5 in 2016) are likely reasons behind this slight growth in our view. Therefore, per visitor spending in Georgia lags far behind that of its peer countries where visitors spend on average US\$ 500-800.

**However, caution should be taken in comparing per visitor spending across countries.** International data provided by World Bank is not aligned and per visitor spending is derived either from total arrivals or from only tourist arrivals. If we assume

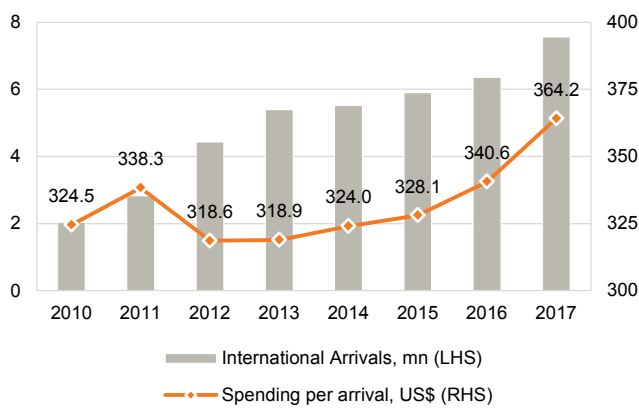




that out of the US\$ 2.8bn generated by tourism in Georgia in 2017 (which is calculated from the number of total international arrivals in Georgia), US\$ 2.2bn was generated by “real tourists” (as transit and one-day visitors are likely to spend considerably less), this brings per tourist spending up to US\$ 632.4 – in line with the country’s peers. Currently Geostat is working on a tourist survey which should provide a clearer picture on many tourist-related statistics. This should help us to better analyse international comparisons and trends in the sector.

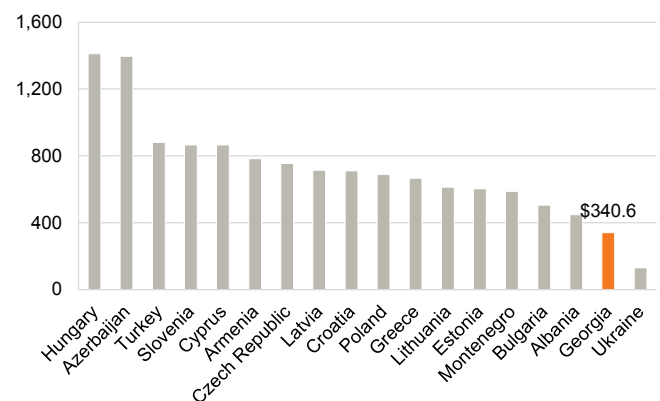
**We believe that the share of high-yielding visitors will gradually increase.** Georgia’s ambition to transform into a four-season tourism destination should increase average per visitor spending up towards its peer averages.

Figure 10: Spending per arrival, Georgia



Source: NBG, G&T Research

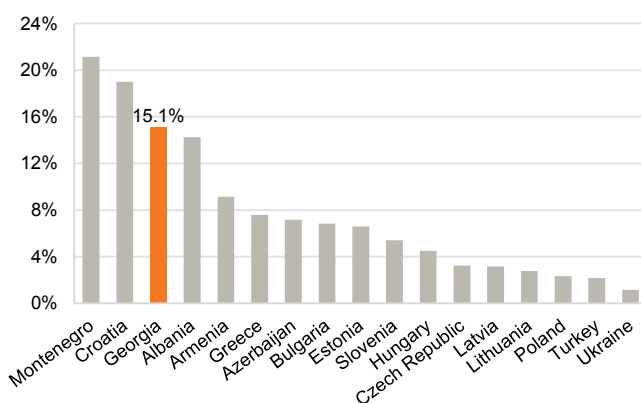
Figure 11: Spending per arrival, 2016 (US\$)



Source: WB

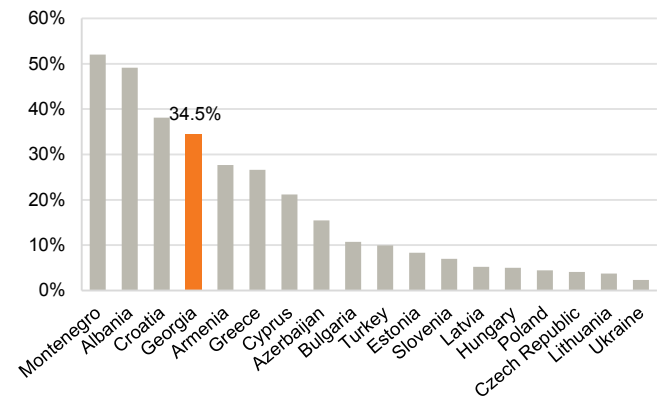
**Despite low per visitor spending, tourism revenues to GDP stood relatively high at 15.1% in 2016.** With this ratio, only Montenegro (21.1% of GDP) and Croatia (19.0%) rank higher than Georgia (15.1%) among its peer countries. Tourism is also a dominant part of total exports in Georgia (34.5%), and only Montenegro (52.0%), Albania (49.2%) and Croatia (38.1%) rank higher.

Figure 12: Tourism revenues to GDP, 2016



Source: UNWTO, WB

Figure 13: Tourism revenues to total exports, 2016



Source: UNWTO, WB

**Georgia has never seen a decline in tourist revenues (even in 2009 and 2015), beating peers.** The global financial crisis in 2009 and the commodity price slump in 2015 significantly reduced tourism revenues in Georgia’s peer countries yet its own tourism revenues have been consistently on the rise for the last 15 years.

## 3. Connectivity to Tourist Markets

**Road travel remains the most popular mode of transport (77.8%) but air travel gained the most in 2015-17.** Transportation by sea (0.5%) and railway (1.0%) hold small shares. The dominance of road transportation is largely due to the fact that most visitors are immediate neighbours (Azerbaijan, Armenia, Turkey, and Russia). However, growing interest from non-traditional markets has led to significant changes in tourists' modes of transportation. For example, 20.7% (1.6mn visitors) arrived by air in 2017, up from 13.0% in 2015 (0.8mn visitors).

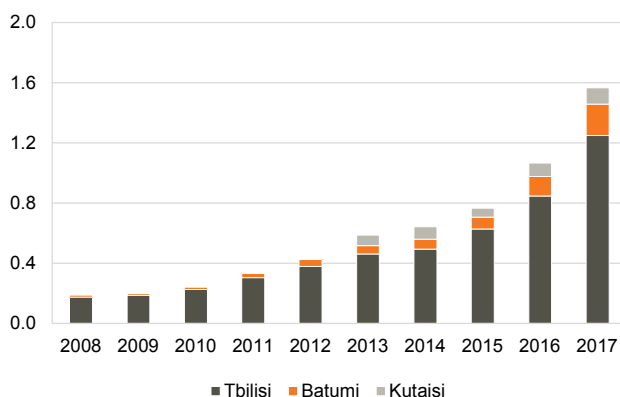
**Three international airports.** Tbilisi International Airport handled the most visits (1.2m visitors, up 47.5% y/y) in 2017, followed by Batumi International Airport (over 208,000 visitors, +61.0% y/y), and Kutaisi International Airport, which recorded almost 109,000 visitors (+19.6% y/y).

**Airport capacity in Georgia being upgraded, supporting tourism growth.** The capacity of Tbilisi International Airport nearly doubled from 2.4mn annual passengers to 4.0mn in 2017, while the construction of an additional terminal at Kutaisi International Airport, which will be directly connected to the Georgian railway, is on-going.

**Air travel expected to intensify in 2018.** Direct flights out of Georgian airports increased from 55 in 2016 to 81 in 2017. Flight frequency has also intensified at all three international airports. Eleven new airlines entered the Georgian market in 2017, bringing the total to 53 airlines offering regular flights from Georgia. This number is set to grow further following negotiations with European, Arabian, Indian, Chinese, and South Korean carriers to launch direct flights to Georgian airports.

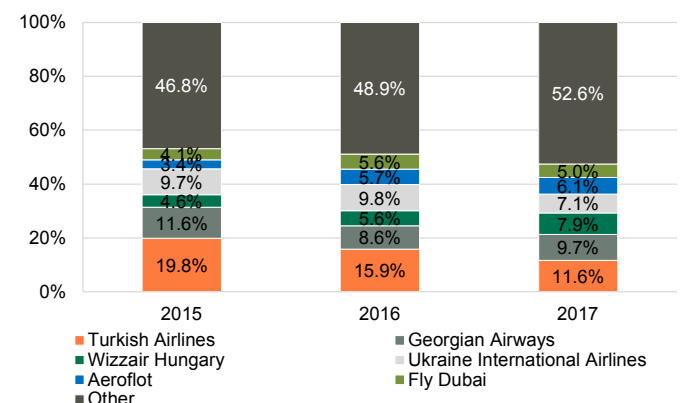
**Turkish Airlines' lead is on the decline with other carriers gaining.** The increased competition from budget carriers slashed Turkish Airline's market share to 11.6% in 2017 from 19.8% in 2015. Georgian Airways, the local flag carrier, is close behind, with 9.7% of the market – a figure that is likely to increase with eight new direct routes to be added in 2018. Meanwhile, Wizz Air's competitive position in the Georgian market strengthened from 4.6% in 2015 to 7.9% in 2017. The low-cost carrier operated flights to 11 destinations from Kutaisi International Airport in 2017. With the addition of new direct routes to Western European cities in 2018, Wizz-Air's market share is likely to increase.

Figure 14: International arrival breakdown by airport, mn persons



Source: MIA

Figure 15: Airline market shares in Georgia



Source: GCAA



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**Air connectivity with Asian markets and secondary airports in post-Soviet countries improved in 2017.** Four new direct routes and increased flight frequency significantly boosted arrivals from the Middle East (almost 163,000 persons) in 2017 with Saudi Arabia (+164.6% y/y), Jordan (+316.1% y/y), and Lebanon (+300.3% y/y) driving the growth. Iranian airlines also responded to the rising popularity of Georgia and offered year-round flights from Tehran, while seasonal flights were added from several secondary airports during the summer. The massive influx of visitors from post-Soviet countries was also matched by intensified air connectivity from regional towns in Russia and Ukraine.

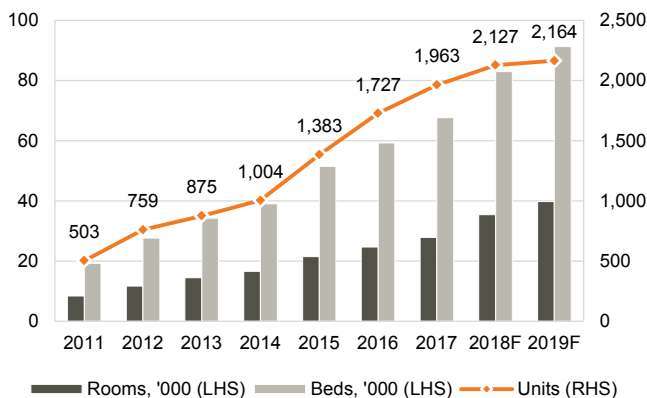
**Georgian government aims to incentivise domestic air travel.** According to the latest amendments to the tax codes, domestic flights are exempt from excise tax and VAT on aviation fuel and flight services, which should increase their affordability. Furthermore, the government has provided a GEL 10.8mn subsidy to ServiceAir, a company operating year-round domestic flights between Tbilisi, Batumi, Mestia, and the newly opened Ambrolauri airport. Currently, there are four domestic airports used for internal flights. In addition, Telavi Airport, which is currently only used for training purposes, expected to be renovated and transformed into a fully functional airport.



## 4. Accommodation Sector

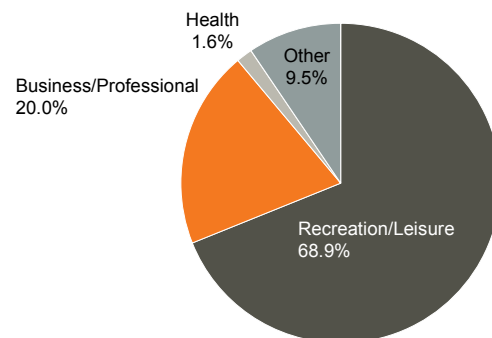
**Accommodation sector expanded consistently over last five years.** The 19.0% CAGR registered in hotel rooms over 2012-2017 was in line with the level of visitor growth to Georgia. Over 3,000 additional rooms (+13.3% y/y) were added to the total accommodation stock in 2017 and the total number of hotel rooms is expected to reach 40,000 by end-2019 from nearly 28,000 currently. However, there appears to be a tendency for delays and hold-ups with many projects in the pipeline usually finishing later than expected. Given the expected growth in arrivals, accommodation growth needs to continue steadily as bed penetration per 1,000 tourists lags behind peer figures (21.8 in Georgia vs 57.3 average in peer countries) as of 2016 figures. Domestic tourism is also driving demand for accommodation (see Appendix 1).

Figure 16: Accommodation stock in Georgia



Source: GNTA, G&T Research

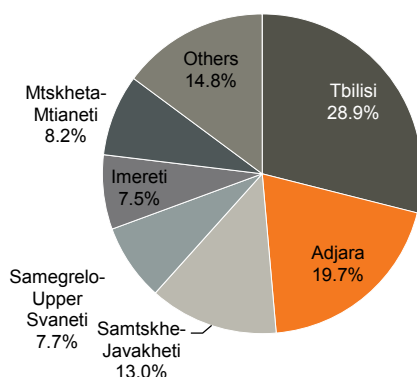
Figure 17: Hotel guests by purpose of visit, 2016



Source: Geostat

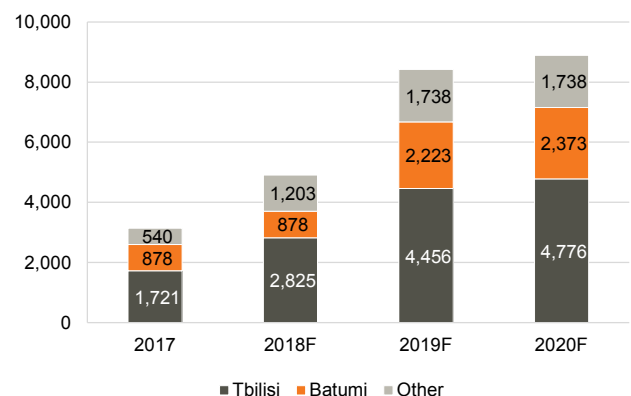
**Tbilisi was most active hotspot for hotel investments in recent years.** As of 2017, Georgia had over 1,963 registered accommodation units, with 27,907 rooms and 67,660 beds. The capital boasts the largest number of hotel rooms (28.9% of total) in the country with Adjara (19.7%) and Samtskhe-Javakheti (13.0%) being other hotspots for hotel development. However, investor interest appears to be shifting towards other regions of Georgia with the growth in room supply over 2018-2020 expected to be evenly distributed between Tbilisi and regional destinations.

Figure 18: Accommodation rooms by regions, 2017



Source: GNTA

Figure 19: Forecast of int'l branded hotel rooms in Georgia



Source: GNTA, G&T Research

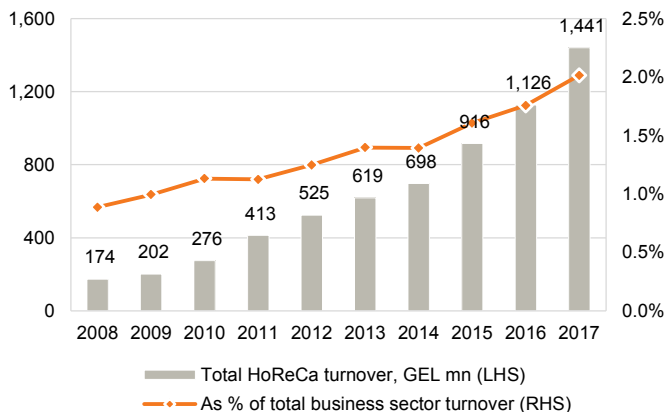


**Hotels and restaurants a popular choice for foreign investors.** FDI inflows into the hotels and restaurants sector amounted to US\$ 716.1mn over 2008-2017, accounting for 5.4% of total FDI.

**Hotel and restaurant turnover increased at a strong CAGR** of 26.5% over 2008-2017, reaching GEL 1.4bn in 2017. The sector is one of the largest employers in the Georgian economy but its low average salaries means that its total wage bill equates to just 3.7% of the total business sector wage bill.

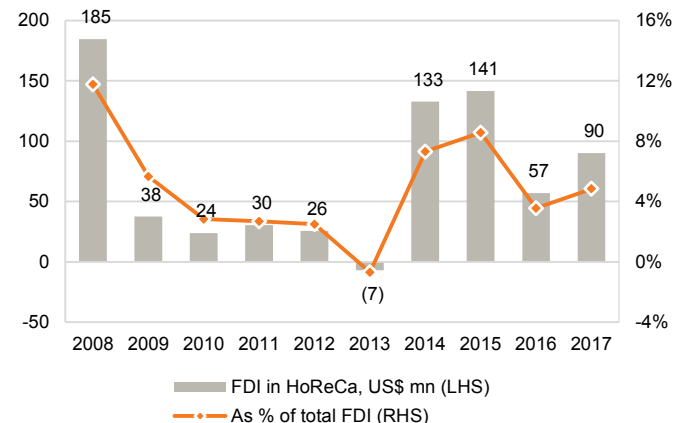
**Accommodation shortage evident despite consistent growth.** Based on a ratio of the average number of beds per 1,000 tourists/population in Georgia and peer countries, the bed penetration level in Georgia is 2.6x/3.8x lower than the average of its peer countries as of 2016 figures. This leaves significant upside potential for further investments in the accommodation sector.

Figure 20: HoReCa turnover



Source: Geostat

Figure 21: FDI in HoReCa



Source: Geostat

Table 2: Accommodation penetration ratios, 2016

	Penetration (per 1,000 tourists)		Penetration (per 1,000 population)	
	Accom. units	Accom. beds	Accom. units	Accom. beds
Italy	3.4	94.4	2.9	81.4
Croatia	6.0	71.5	19.8	234.9
France	0.4	62.2	0.5	77.1
Czech Republic	0.8	59.3	0.9	67.9
Greece	1.4	50.1	3.2	114.7
Spain	0.6	46.5	1.0	75.7
Poland	0.6	42.9	0.3	19.7
Bulgaria	0.4	39.8	0.5	45.7
Slovenia	1.1	37.3	1.6	54.8
Lithuania	1.2	33.5	0.9	26.5
Ukraine	0.3	30.2	0.1	8.9
Hungary	0.3	29.3	0.5	45.4
Cyprus	0.2	26.4	0.7	72.6
Latvia	0.4	26.3	0.4	23.8
Estonia	0.5	18.9	1.1	45.2
Average	1.3	57.3	1.3	61.0
<b>Georgia</b>	<b>0.6</b>	<b>21.8</b>	<b>0.5</b>	<b>15.9</b>
Average vs Georgia	2.0x	2.6x	2.9x	3.8x

Source: G&T Research, Eurostat, Statistic offices of respective countries



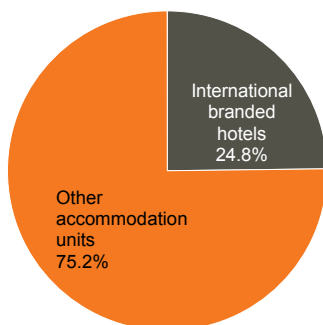
#### 4.1 Tbilisi accommodation market

**Tbilisi accounts for majority of existing and planned international branded hotels.** Currently, there are four five-star international branded hotels (10.4% of total room stock) in Tbilisi and nine others in the pipeline (see Appendix 2). Currently, the upscale segment is benefitting from the growing number of tourists visiting the country for leisure purposes.

**Tbilisi upscale segment becoming oversupplied, especially considering extensive pipeline.** The opening of three luxury hotels (500 rooms) in 2019 will further intensify competition in Tbilisi and will likely push hotel prices down, in our view. The way to mitigate this pressure is to use MICE tourism opportunities; however, the number of business and professional travellers to Tbilisi has remained flat in recent years and has been consistently decreasing as a proportion of the total hotel guests, standing at 24.6% of hotel guests in 2016, down from 47.9% in 2014.

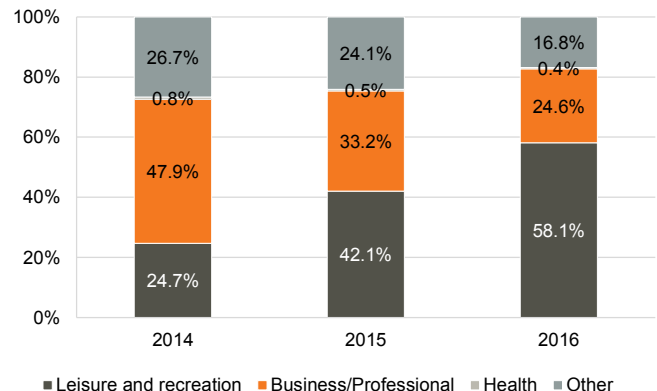
**Possible oversupply in upscale segment followed by increased investment in mid-scale segment hotels in Tbilisi.** A Ramada Encore and Moxy by Marriot have already opened in 2018. Hilton Garden Inn, Ramada Encore, Ibis Stadium, Hampton by Hilton, Park Inn Radisson and Wyndham Garden are notable mid-scale brands that are expected to enter the market over 2018-2020.

Figure 22: Rooms in Tbilisi by accommodation type



Source: GNTA, G&T Research

Figure 23: Purpose of visit in Tbilisi



Source: Geostat

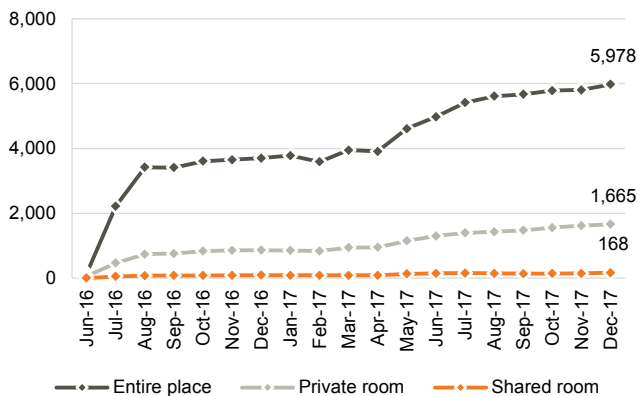
#### 4.2 Tbilisi Airbnb market

**Airbnb presence in Tbilisi growing at an astonishing pace, driven by lack of budget accommodation.** Over 2016-2017, the number of Airbnb listings in Tbilisi increased more than 4x from 2,500 properties in 2015 to 11,000 in 2017, generating a market worth US\$ 12.3mn. The most prevalent listings are one and two-bedroom apartments, which together account for 59.0% of listings in the capital. Notably, there are over 1,300 active hosts who provide two or more listings. It is safe to say that buying or renting multiple apartments in Tbilisi with the aim of sub renting via Airbnb has become a niche business model.



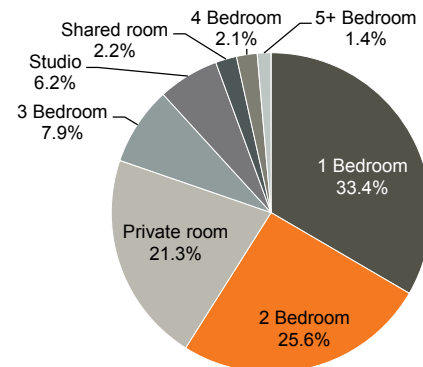


Figure 24: Active Airbnb rentals by months



Source: Airdna

Figure 25: Airbnb rentals by size

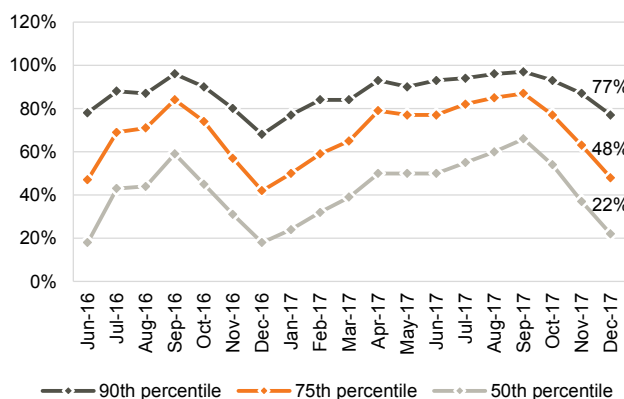


Source: Airdna

**Airbnb rentals increasingly filling gap in budget/economy accommodation segment in Tbilisi.** This is in line with how Airbnb currently fits in the global accommodation landscape. Only about 10% of its worldwide bookings are for business travel, so the largest impact is felt in the leisure segment where budget/economy accommodation is dominant. Occupancy rates for Airbnb rentals in Tbilisi have been on the rise in recent years with the median occupancy at 57.8% during high season (June-September) in 2017 compared to 41.0% during same period of 2016, while occupancy rates for the top 10% of properties increased 7.7ppts y/y to 95.0% during June-September in 2017.

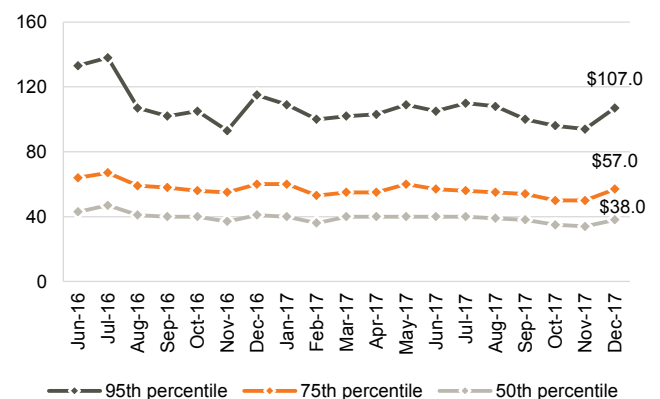
Average daily rates (ADR) in 2017 for median rentals in Tbilisi ranged between US\$ 30 and US\$ 40, while the ADR for the top 5% of properties started from US\$ 100-110. In comparison, based on our estimates, there is approximately 4,000-4,500 budget/economy class accommodation rooms in Tbilisi with the ADR at US\$ 40, based on Colliers' 2017 data.

Figure 26: Occupancy rates for entire place Airbnb rentals



Source: Airdna

Figure 27: Average daily rates for entire place Airbnb rentals



Source: Airdna

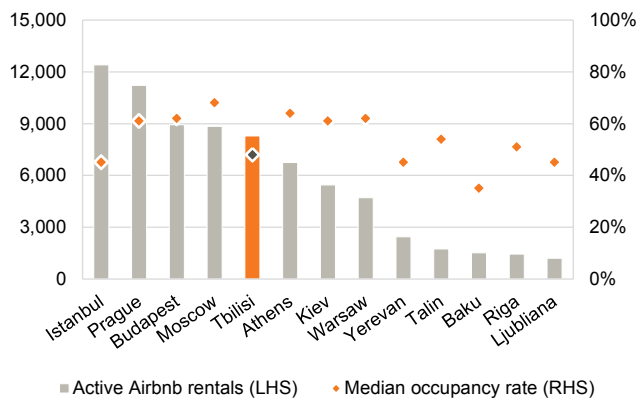
**Tbilisi Airbnb market slightly oversupplied at present, pushing down occupancy rates.** The number of active rentals in Tbilisi is considerably higher than in Warsaw, Kiev, Athens and other comparable tourist destinations in Europe. Subsequently, the surplus of properties is pushing down occupancy rates in the capital, which stood (48.0%) below the peer average (54.0%) in March 2018 (the gap is higher during low season).



**Revenues from Tbilisi rentals also falling behind peer averages.** In particular, compared to its peers, the median monthly revenues for all available listings in Tbilisi is lowest among peers. Currently there are many properties that have nearly 0% occupancy rates and it is likely that these properties will gradually leave the market. Subsequently, the revenues of the surviving rentals could be expected to gradually increase thanks to increasing demand from tourists. In addition, high-performing properties will benefit most from increasing demand, and occupancy rates for the upper 10% of rentals are expected to oscillate around 100% occupancy during high seasons. However, we also think that forecasted growth in tourism arrivals without a sufficient increase in budget accommodation may boost Airbnb listings.

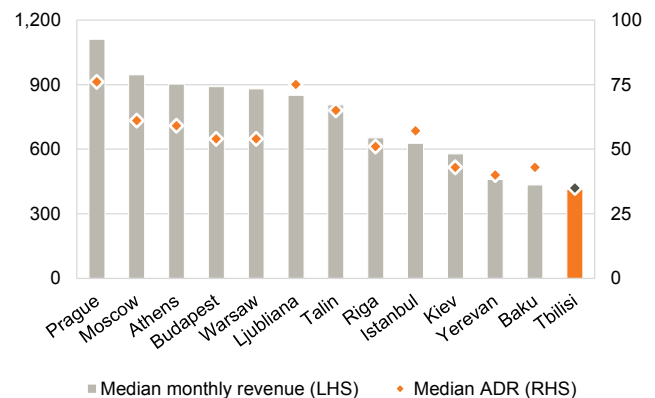
**No signs of regulations being introduced for Airbnb rentals in Tbilisi.** Regulatory issues are common for Airbnb in different cities in Europe and the United States, which has resulted in declines in booked nights and available listings. However, Tbilisi's Airbnb market is unregulated and there are currently no signs of new regulations being rolled out.

Figure 28: Peer comparison: active Airbnb rentals and occupancy rates in March 2018



Source: Airdna

Figure 29: Peer comparison: Airbnb monthly revenues and ADRs in March 2018, US\$



Source: Airdna

### 4.3 Regional accommodation stock

**Oversupply of Tbilisi market leading investors to shift their attention to regional cities.** Currently 12 international branded hotels (1,418 rooms) are operating in other regions (outside Tbilisi) of Georgia with 19 more (2,693 rooms) in the pipeline (see Appendix 3). Geographically, out of the six international branded hotels that opened in 2017, only one (Ibis Styles) was situated in Tbilisi while Best Western hotels opened in Batumi, Bakuriani and Kutaisi, and Wyndham Hotel and Golden Tulip opened in Batumi and Borjomi, respectively.

**International branded hotels also considering new locations outside Tbilisi.** Opportunities in the wine tourism industry are steadily attracting investors to Kakheti, which currently only accounts for 5.4% of the country's total hotel rooms. Currently, four new projects are on-going: midmarket brands Holiday Inn and Golden Tulip will be opened in Telavi, while the Rezidor Hotel group is expected to expand its flagship Radisson Blu Hotel in Tsinandali and the Adjara Hospitality Group (AHG) plans to open a small Rooms Hotel in Sagarejo.



**Accommodation scarcity is major setback for winter resorts development.**

Gudauri and Bakuriani need more accommodation stock and particularly of higher-class (see page 21). Notably, Red-co is planning to invest US\$ 150mn in Gudauri. The substantial project envisages the construction of 26 buildings and the addition of 4,200 beds including a 170-room Radisson Blu in 2018. The company has also received preliminary approval from Starwood Hotels and Resorts to open Sheraton and Four Points by Sheraton properties in the future. The unrealised potential of the Goderdzi winter resort, largely due to a severe shortage of accommodation units, has attracted investors. Alliance Group announced plans to open a Ramada Resorts, while Metro Atlas Georgia is planning to open a Metro Sky Tower in Goderdzi by end-2019.

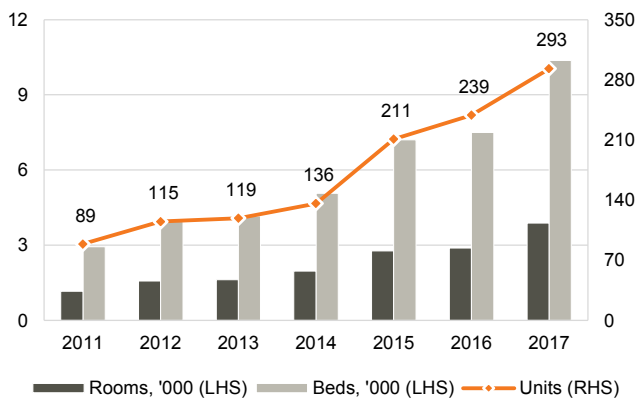
**GCF's extensive investment plans for Georgian seaside resorts are targeting new areas outside Batumi.**

Apart from a 220-room Paragraph Resort and Spa by Marriott's Autograph Collection brand opened in Shekvetili in 2017, GCF has two other five-star hotels in the pipeline for the Georgian seaside resorts of Ganmukhuri and Green Cape, with an estimated investment of US\$ 170mn. These are due to open in 2021. Furthermore, GCF announced plans to team up with the Silk Road Group to develop its US\$ 250mn Silk Tower project in Batumi.

**Adjara Hospitality Group continues to introduce innovative concepts to the Georgian hospitality market.**

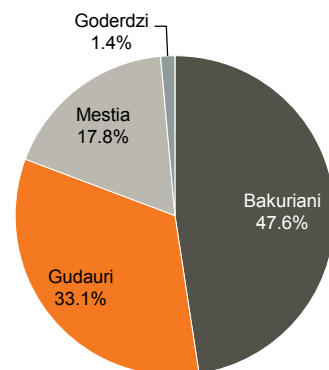
AHG currently operates a mid-scale Holiday Inn and two Rooms Hotels in Tbilisi and Kazbegi. AHG is also present in the budget accommodation segment. Lower-segment lifestyle hostel/hotel Fabrika was a success story and the company plans to enter the Batumi market with the same concept instead of the Crowne Plaza that had been previously announced. In addition, AHG will open a pioneering hotel in the newly established four season resort of Mitarbi in 2018 under the Rooms Hotel brand.

Figure 30: Accommodation stock of winter resorts



Source: GNTA, G&T Research

Figure 31: Accommodation stock by resort, 2017



Source: GNTA, G&T Research



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**BOX 1: Legal environment in hotel industry**

No special permits are required to develop and open hotels in Georgia but construction permits are required. These are issued by local self-government units for II, III, IV class buildings.

Registering a company is quick and easy. It is carried out by the National Agency of Public Registry and can be completed in a day.

Foreigners do not require special work permits. Citizens from nearly 100 different countries can enter Georgia for a year without a visa.

Relevant agreements between tourism ventures and employees charge 5% personal income tax compared to standard 20% rate.

In 2010, the Government of Georgia established free tourism zones in Kobuleti, Anaklia and Ganmukhuri. Investors were offered land plots for a symbolic price of 1 GEL and hotel activities are exempt from property and corporate taxes until 2026. The Government will also ensure that:

- a) The appropriate infrastructure (gas, water, sewerage system, electricity) connected to the hotel building is in good order or new infrastructure is built, if required;
- b) The hotel access roads are constructed and maintained;
- c) The parcel of land in the territory of each hotel is equipped with amenities and is landscaped within reasonable limits;
- d) Construction permit is issued under a simplified procedure for the hotel construction.



## 5. Niche Tourism

In order to attract more high-yielding visitors, the tourism industry needs to focus on high-potential niche products such as gambling, winter tourism, eco-tourism, wine tourism, medical and wellness tourism and MICE tourism.

### 5.1 Gambling

**Prohibition of gambling in the region places Georgia in a favourable position.** Gambling is banned almost completely in Turkey, Azerbaijan and Ukraine, while Russia, Armenia, and Kazakhstan have certain restrictions in place. This attracts gambling tourists to Georgia from its neighbouring countries.

Diagram 1: Regional gambling prohibitions



Source: G&T Research

**Batumi and Tbilisi have seen strong developments in the casino industry in recent years.** Batumi is home to 10 casinos with another 5 in the pipeline. The estimated number of visits to Batumi's casinos increased by 2.3x over 2013-2016 to 680,000 gamblers. Tbilisi, where the license permit fee stands at the maximum of GEL 5.0mn, is home to five casinos already with three more in the pipeline.

**Both Tbilisi and Batumi attract regional gambling tourists from neighbouring countries.** Foreigners made up 76% of visitors to the casinos in Adjara in 2016, based on data reported by gambling companies in the region. Batumi has become a gambling destination for Turkish visitors. Tbilisi attracts a wider array of Armenian, Iranian, Russian, and Azeri visitors, among others. Casinos in Tbilisi typically offer visitors gambling tours and accommodation in affiliated hotels.



**Table 3: Casino pipeline**

Hotel	Operator	City	Opening date
Stamba	Adjara Group	Tbilisi	2018
Sheraton	Rakia Georgia	Tbilisi	2018
Hilton	Granat Georgia	Tbilisi	2020
Euphoria Hotel	Metro Atlas Georgia	Batumi	2018
Alliance Palace	Alliance Group	Batumi	2019
Le Meridien Casino	Red-Co	Batumi	2019
Casino #1	AR Meridians	Batumi	2019
Casino #2	AR Meridians	Batumi	2019
Metro Sky Tower	Metro Atlas Georgia	Goderdzi	2019

Source: G&T Research

**Table 4: Existing casinos**

Tbilisi	Batumi	Others
Shangri la	Casino Iveria	Rooms Casino in Kazbegi
Casino Adjara	Casino Peace	Red-co Casino in Gudauri
Casino Iveria	Intourist Grand Palace	
Ambassadori Casino	Golden Palace Casino	
Jewel Casino	Europebet Casino	
	Casino Campione	
	Casino International	
	Princess Casino	
	Alliance +	
	Casino Adjarabet	

Source: G&T Research

**Incentives in place for development of gambling tourism in Georgia's resort areas.** The annual license fee for operating a casino in Georgia ranges from GEL 100,000 to GEL 5.0mn, depending on the region. Casinos commencing operations in Kazbegi, Tskaltubo, Signaghi, Bakuriani, and Gudauri – the government's target areas for tourism development – are exempt from the annual license fee. In addition, newly built hotels in Georgia's seaside resort towns with more than 100 rooms (80 in some cases) are exempt from the casino license fee for 10 years.

**Table 5: Casino permits and fees**

City	Annual gambling fees (GEL)	Quarterly duties (GEL)
Tbilisi	5,000,000	20,000-40,000 per table
Batumi, Kobuleti, Borjomi, Kachreti, Bazaleti Lake	250,000	20,000-40,000 per table
Akhaltzikhe	100,000	20,000-40,000 per table
Kazbegi, Tskaltubo, Signagi, Bakuriani, Gudauri	Exempt	20,000-40,000 per table
Rest of Georgia	5,000,000	20,000-40,000 per table

Source: Revenue service



## 5.2 Winter resorts

**Georgia is an attractive winter tourism destination.** The country boasts five distinct ski resorts – Gudauri and Tetnuldi/Hatsvali in the Greater Caucasus Mountains and Bakuriani, Kokhta-Mitarbi and Goderdzi in the Lesser Caucasus Mountains. Gudauri has been the leading ski destination in Georgia since its development in the 1980s, while Bakuriani has been a popular winter resort since the Soviet era. The Kokhta-Mitarbi, Goderdzi, and Tetnuldi/Hatsvali resorts were established in recent years and have considerable potential to develop into four-season destinations.

Table 6: Key data of Georgian winter resorts

	Number of ski pistes	Number of cableways	Total length of pistes	Top elevation	Distance from closest int'l airport	Number of rooms	Number of beds	Share of visitors in 2016-2017	Int'l branded hotels / in pipeline	Casino
Gudauri	20	11	70km	3,276m	135km	1,283	3,163	67.0%	0/2	Yes
Bakuriani*	23	15	27km	2,702m	176km	1,836	5,338	27.9%	1/1	No
Tetnuldi	9	5	30km	3,165m	213km	690**	1,628	2.2%	0/0	No
Hatsvali	5	4	7km	2,348m	213km	690**	1,617	1.8%	0/0	No
Goderdzi	4	3	8km	2,364m	104km	46	102	1.1%	0/2	No

Source: MRDC, GNTA, G&T Research

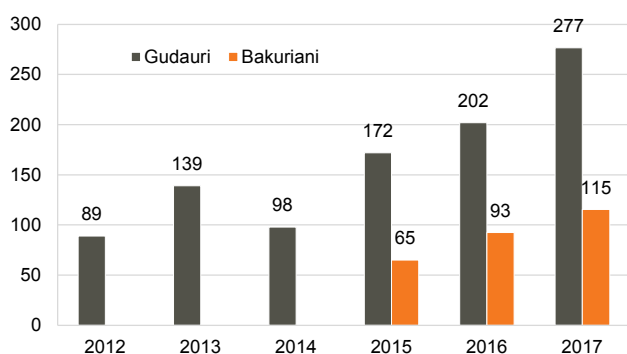
\*Kokhta-Mitarbi is included in Bakuriani

\*\*Accommodation of Mestia

### Visitors to mountain resorts reached a record high during the 2016-2017 season.

Thanks to favourable weather conditions, the season opened early in December in Gudauri and by the end of the year, all winter resorts were receiving guests. The total number of visitors to winter resorts exceeded 400,000 (+37.0% y/y) during the season. According to MRDC (the state entity responsible for the management and development of ski resorts in Georgia), foreign visitors accounted for 20% of total visits.

Figure 32: Visitors at major winter resorts, '000

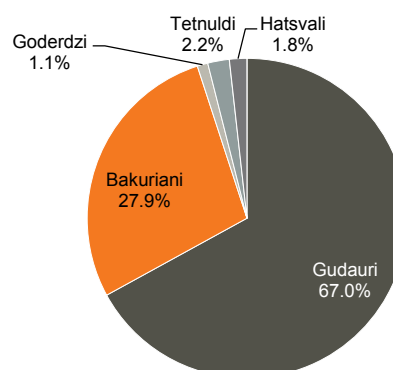


Source: MRDC

Note 1 - Bakuriani data is not available before 2015

Note 2 - Years indicate ending year of the season, 2017 stands for 2016-2017

Figure 33: Visitor breakdown by winter resort, 2017



Source: MRDC

**Gudauri remains Georgia's most popular ski resort, hosting more than 276,000 visitors during the 2016-2017 season, up 37.1% y/y.** The number of visitors to Gudauri has increased more than 3x over the last five years. The resort's proximity to the Russian border makes it especially attractive for Russian skiers. Some GEL 60.0mn is allocated under the 2018 state budget for the Kobi-Gudauri project with the aim of building a 7.5km Kobi-Gudauri cable car in 2018, connecting the Gudauri ski resort with Kazbegi. This will trigger Gudauri's significance as a year-round



destination, with early signs already in place. Moreover, GEL 12.0mn has been allocated in the state budget for the creation of an artificial lake in Gudauri for snow-making purposes, which should extend the winter season at the resort.

**Georgia aiming to host first major winter sports event – FIS Freestyle Skiing and Snowboarding World Championship - in Bakuriani and Gudauri.** Bakuriani hosted over 115,000 visitors in the 2016-2017 season, up 24.6% y/y. Bakuriani offers both alpine and cross-country skiing opportunities to visitors. The government plans to develop the winter sports infrastructure in Bakuriani, including an Olympic-standard biathlon track. Furthermore, an ice hockey, curling, and speed-skating rink, along with the reconstruction of ski-jumping hill infrastructure over the next few years, is also in the pipeline. Bakuriani was formerly a famous training facility for Soviet winter sports athletes and the government aims to revitalise the resort in this direction again. The project is valued at GEL 60mn and construction works will take two years. Georgia has also submitted an application to host the FIS Freestyle Skiing and Snowboarding World Championship in 2023 and will compete with France and Finland. The host country will be selected at the FIS Congress in May 2018. Furthermore, government plans to apply for 2030 Winter Olympics.

**First stage of development of four-season Kokhta-Mitarbi resort underway.** The development of this resort will be shaped by the masterplan prepared by the industry leader, Geode. A new 100-room ski-in ski-out Rooms Hotel as well as residential apartments will be built at the base of Kokhta Gora during the first phase of the project in 2018. The second phase entails developing a tourist zone in Mitarbi.

**Goderdzi ski resort has significant untapped potential.** The number of visitors at the Goderdzi (operational since 2010) resort during the 2016-2017 season was down 34.3% y/y to slightly less than 4,500 visits. Road access to the ski resort is problematic; however, by the beginning of the 2019-2020 winter season, the construction of new road infrastructure will be finished. Another limitation for the resort is a severe shortage of accommodation units. Currently, the resort can only host 150 visitors per night. This scarcity of accommodation has attracted investors and 10 hotels are currently under construction. Despite these bottlenecks, four-season nature of the resort, proximity to Batumi International Airport, high-quality snow, expected improvements in road infrastructure, the presence of gambling venues and 807,000 skiers in neighbouring Turkey could turn Goderdzi into an attractive and popular winter holiday destination.

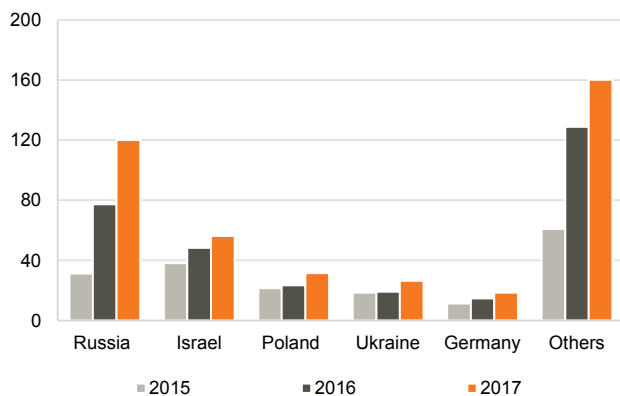
**Winter resorts in Svaneti also have strong development potential.** Tetnuldi, which has been operational since end-2016, hosted nearly 9,000 visitors during the 2016-2017 season, while nearby Hatsvali received over 7,300 visitors. The new 1,200m Mestia-Hatsvali chairlift, operational since December 2017, connects the Hatsvali ski resort with Mestia, eliminating the need to use road transportation to get to the slopes. A ski lift connecting Mestia to Tetnuldi is also in the pipeline. The main limitation of Hatsvali and Tetnuldi is transportation to the resorts. The closest international airport is 213km away while local Mestia Airport is highly dependent on weather conditions.



### 5.3 Protected areas

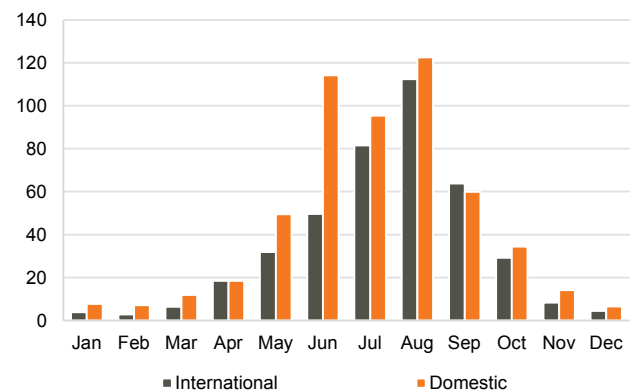
**Protected areas of Georgia have become a major attraction for domestic and international visitors alike.** The number of visitors to protected areas has more than doubled over the last three years to over 954,000 in 2017, with both domestic and international arrivals supporting growth. Russia (29.1% of total), Israel (13.6%), and Poland (7.6%) were the top drivers of growth in 2017, accounting for more than half of international visitors (413,000).

Figure 34: International tourists to protected areas, '000 persons



Source: APA

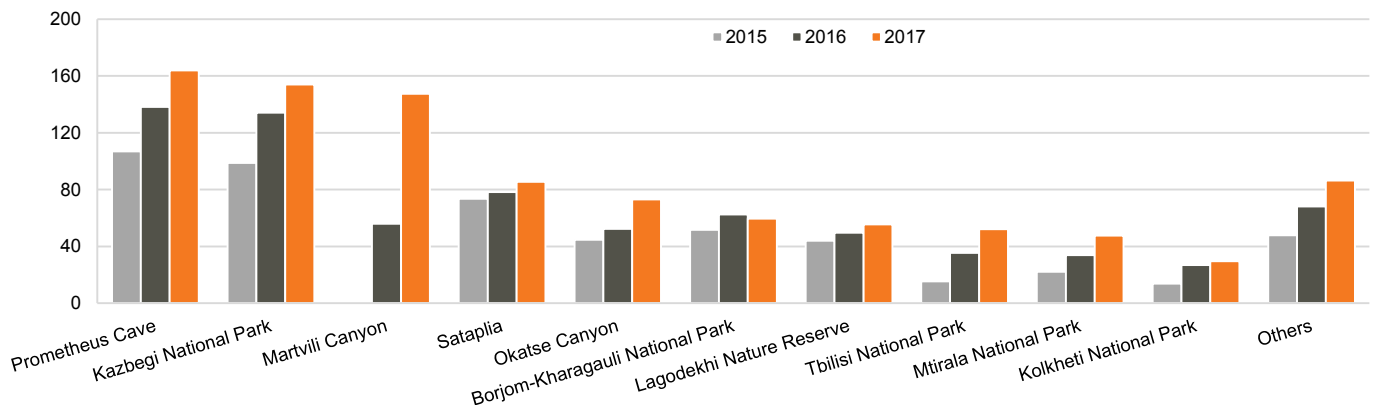
Figure 35: Monthly visits to protected areas in 2017, '000 persons



Source: APA

**The three most popular protected areas in Georgia are Prometheus Cave, Kazbegi National Park, and Martvili Canyon.** Combined, they hosted nearly half a million visitors in 2017, up 41.8% y/y.

Figure 36: Total visitors to protected areas



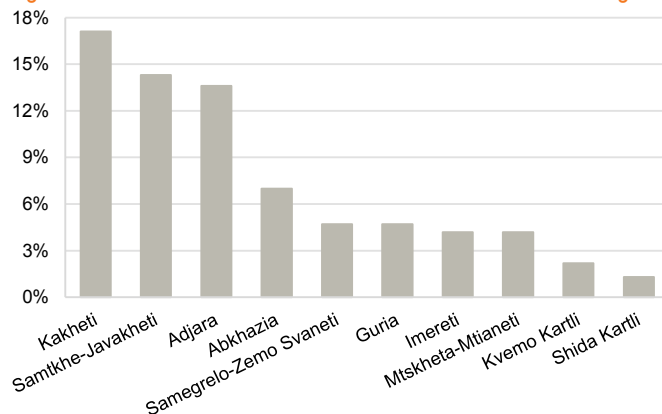
Source: APA

**Georgia has significant untapped potential to attract more adventure and eco-tourists.** Protected areas account for only 8.6% of Georgia's total terrestrial area – far below its peer average. For example, terrestrial protected areas account for 53.6% of the total land area in Slovenia, 40.5% in Bulgaria, and 37.7% in Croatia. The Agency of Protected Areas is developing a project to establish a new national park in the Racha region. The park would be located on 70,000ha between Oni and Ambrolauri, increasing the existed protected area in Georgia by approximately 13.4%.



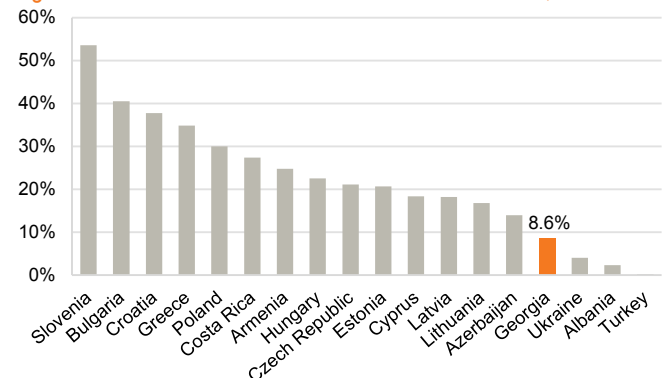
**Government offering public-private partnerships to investors for further development of protected areas.** The development of Tbilisi National Park, located only 21km from Tbilisi, is one such major project. The project, valued at US\$ 15.0mn, includes developing infrastructure for eco-tourism, extreme sports offerings, and the world's largest zip-line on eco-friendly territory. The Lagodekhi treetop walkway, modelled after Hainich National Park's 530-meter treetop trail, is another such project. The development cost is estimated at US\$ 1.5-3.0mn over a one-year implementation period. Yet another innovative project is the Sataplia Jurassic Park, leveraging the popularity of Sataplia's dinosaur trails at an estimated investment cost of US\$ 3.0mn.

**Figure 37: Protected areas as % of total terrestrial area in Georgia**



Source: APA

**Figure 38: Protected areas as % of total terrestrial area, 2014**



Source: APA, WB

## 5.4 Other niche tourism directions

**Tabori golf resort will be second resort in Tbilisi after opening of Tbilisi Hills golf club in 2017.** Becoming a golf destination creates new opportunities for any country to attract more high-yielding visitors. According to KPMG, there were more than four million registered golf players in Europe in 2016, the majority of whom originate from Western Europe and enjoy travelling abroad for golf. A lack of golf courses in the wider region makes Georgia an even more attractive destination as there are only three golf clubs in Azerbaijan and Armenia combined. Relatively larger competitors are Russia and Turkey, with 44 golf courses.

**Enhancing medical tourism can attract high-yielding visitors.** Approximately 11mn tourists travel worldwide for medical purposes annually and the market is valued at US\$ 100bn, according to IHRC. Medical tourism is in the development stage in Georgia. Currently opportunities lie in attracting medical travelers from low-income Asian and post-Soviet countries in niche medical areas like stomatology, cosmetic surgery, cardiology and fertility. In these directions the country is price-competitive vs other regional medical tourism destinations like Turkey and the UAE.

**Despite active facilitation of wellness and spa resorts by Partnership Fund, interest from investors is low.** The masterplan for Tskaltubo targeted the privatisation of state-owned buildings but only a few were sold. Tskaltubo, a popular resort during the Soviet era, has been struggling to attract tourists without having modern, internationally competitive facilities. The Partnership Fund also teamed up with Redix Group to restore the tourism infrastructure in Abastumani – another famous resort in Soviet times.



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**MICE tourism development could create further demand for upscale hotel segment.** MICE tourism attracts high-income business/professional individuals who usually stay at upscale hotels. Tbilisi hosted several high-profile events recently, including the Belt & Road Forum, 3<sup>rd</sup> Euro-Asian Mountain Resorts Conference and International Aviation Forum Connect 2018.

**Sports tourism another rising niche industry.** Sports tourism is the travel of persons for non-business reasons to participate, train or watch sporting activities. Georgia hosted several notable sporting events in 2017, including the Rugby U-20 World Cup in Tbilisi and Kutaisi, the Handball Youth World Championship in Tbilisi and the UEFA U-19 European Championship in Tbilisi and Gori. However, a lack of large sports venues and facilities hinders the country from hosting top-profile sporting tournaments.

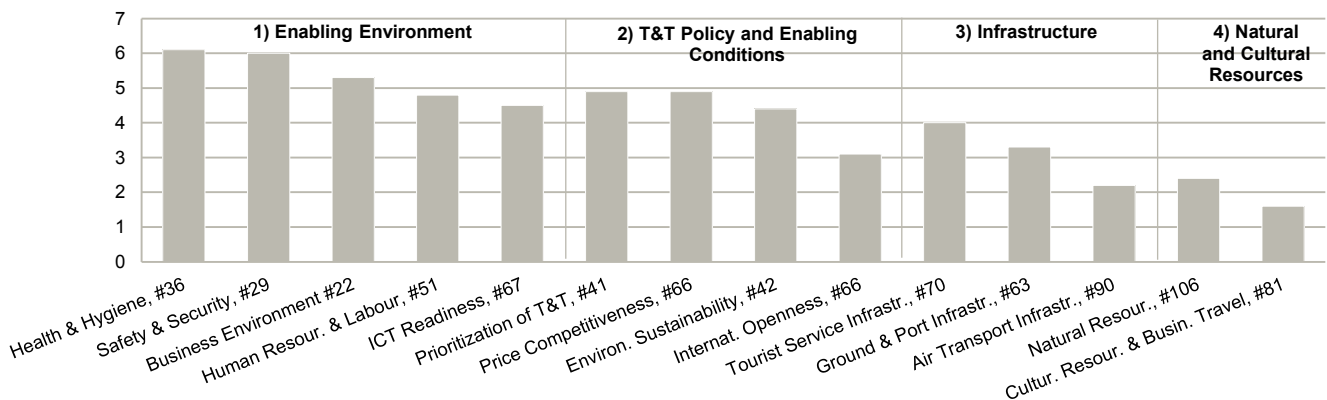
**Georgia positioned as destination for music and art festivals.** Apart from recognised international music festivals (Tbilisi Open Air, Batumi Jazz Festival, Gem Fest), the government launched a “Check in Georgia” program. The program brings high-profile artists and musicians to the country to improve publicity and awareness about Georgia and to attract music lovers.

## 6. Travel & Tourism Competitiveness Index

**Georgia ranks 70<sup>th</sup> out of 136 countries in the Travel & Tourism Competitiveness Index (TTCI) 2017**, published biennially by the World Economic Forum (WEF). In the previous edition, Georgia ranked 71<sup>st</sup> among 143 countries. Overall, Georgia's position in the index has hovered between 66<sup>th</sup> and 73<sup>rd</sup> since the index was launched in 2007. The four pillars evaluated by the index are:

- 1) Enabling Environment
- 2) Travel & Tourism Policy and Enabling Conditions
- 3) Infrastructure
- 4) Natural and Cultural Resources

Figure 39: Travel & Tourism Competitiveness Index 2017, ranking by pillars



Source: World Economic Forum

**Georgia has seen considerable improvements in its Business Environment and Environmental Sustainability sub pillars.** The most notable improvement compared to the 2015 edition was moving up 10 positions in the Business Environment sub-pillar, which was mainly driven by improved property rights and the efficiency of its legal framework. Georgia was ranked 43<sup>rd</sup> in the property rights category (85<sup>th</sup> in 2015), 53<sup>rd</sup> in the efficiency of legal framework settling disputes (71<sup>st</sup> in 2015) and 52<sup>nd</sup> in efficiency of legal framework challenging regulations (83<sup>rd</sup> in 2015). Other notable improvements include moving up in the Environmental Sustainability and Prioritization of Travel and Tourism sub pillars by 10 and 12 positions, respectively.

**Georgia ranks high in Health/Hygiene and Safety/Security sub pillars.** Georgia meets the medical and sanitation requirements of a successful tourist destination, ranking 1<sup>st</sup> in access to drinking water, while physician density per 1,000 inhabitants is assessed as 6<sup>th</sup> best. Furthermore, safety and security standards are met in Georgia with a high ranking for police reliability and low business costs of crime and violence.

**Georgia ranks poorly in Human Resources and Labour sub pillars.** While the country ranks extremely highly on ease of hiring foreign labour and has high primary/secondary education enrolment rates, skilled local labour remains a key challenge, as indicated by the lowest rankings in extent of staff training (123<sup>rd</sup> out of 136 countries), degree of customer orientation (104<sup>th</sup> out of 136 countries), and ease of finding skilled employees (122<sup>nd</sup> out of 136 countries).

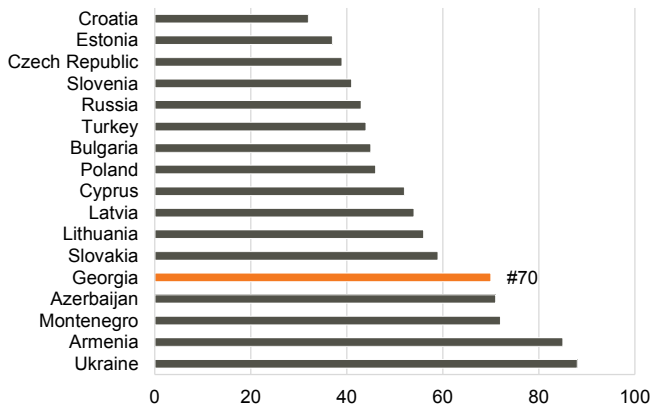
**Further development of tourist services and air transport infrastructure also considered as key areas for improvement.** Apart from the low rank in the quality of Georgia's air infrastructure, the number of operating airlines and aircraft departures





still remains low despite the recent boost in the country's civil aviation. A low score in the openness of bilateral Air Service Agreements (115<sup>th</sup> out of 136 countries) further stresses this issue. Furthermore, Georgia has very low results in the areas of stringency and enforcement of environmental regulations, wastewater treatment and share of protected areas in total terrestrial area.

Figure 40: Ranking of Travel & Tourism Competitiveness Index



Source: World Economic Forum



## 7. Government Initiatives

**Tourism development is one of the key areas in the four pillars of reforms that the government introduced in 2016.** These reforms target improving the relationships between towns and villages, promoting high-quality sustainable tourism development and transforming Georgia into a four-season tourism destination. The government is developing a spatial plan for the entire country as well as for municipalities, villages and coastal regions, including masterplans for established tourist destinations and for places offering untapped tourism potential. The aims of the reforms can be summarised as follows:

- Enhancement of tourism and road infrastructure, rehabilitation of roads for accessing cultural monuments and other attractions;
- Intensify marketing activities at targeted and potential (including high-yielding European markets) markets; notably the marketing approach will be diversified in different markets;
- Encourage marketing activities in the domestic market, which will contribute to domestic tourism development;
- Expansion of protected areas and promotion of eco-tourism, which is one of the major riches of the country;
- Development of different types of tourism (including adventure, medical, wine, etc.);
- Development of business tourism and incentivising and promoting investment;
- Emphasis on the training of service staff to increase the quality of service to international standards;
- Transformation of Georgia into a four-season tourist destination that provides new tourism revenues and stable distribution during the year;
- Further development of winter resorts based on development plans and also considering their utilisation during summer;
- Encourage public private partnership schemes for the creation and promotion of tourist products;
- Improvement of tourism-related surveys and data analysis, as well as methodologies to assess sector development.

**Georgia's National Tourism Strategy 2015-2025 identifies the key challenges in the sector and outlines the development goals for 2025.** The strategy was developed by GNTA, with support from the World Bank. The challenges highlighted are largely in line with the findings of the TTCl: air and road infrastructure, tourism infrastructure, preservation and promotion of cultural heritage sites. In addition, the need for targeted educational opportunities, enhanced market research, and improved marketing efforts is identified.

**Government of Georgia incentivising hospitality sector in regions.** As peripheral hotel development is lagging behind the capital, the government has initiated a hotel industry incentive program, administered by Enterprise Georgia. In particular, investors are being offered financial incentives and co-financing schemes to develop international branded hotels outside Tbilisi and Batumi. Furthermore, the program is also applicable to local hotel development and expansion. For non-branded hotels, the program still co-finances interest payments and consulting services and provides a partial collateral guarantee but at lower limits. Since the launch of the program, 42 hotel projects have been accepted with total investment reaching GEL 123.7mn and 1,200 rooms as of March 2018.



**Table 7: Financing criteria under “Host in Georgia”**

	Hotel development/expansion	Development of international branded hotel	Royalty fees co-financing
Co-financing of franchising/management fees for first two years	Not applicable	Up to GEL 300,000 annually	Up to GEL 300,000 annually
Co-financing of interest on bank loan	10%	10%	Not applicable
Minimum loan volume	GEL 200,000	GEL 200,000	Not applicable
Maximum loan volume	GEL 2,000,000	GEL 2,000,000	Not applicable
Partial collateral guarantee (50% of the loan) for first four years	Up to GEL 500,000	Up to GEL 2,500,000	Not applicable
Co-financing of consulting services	Yes	Yes	Yes

Source: G&T Research

Note: From 2017 loans only issued in national currency under the program

**Government launched “Film in Georgia” program in 2016.** The program provides a cash rebate of 20% for qualified expenses incurred in Georgia during production and an additional rebate (2-5%) is available if “Cultural Test” requirements are met. According to Enterprise Georgia, nine films have already been completed with the total budget reaching GEL 19.4mn and three other projects are on-going. The program has strong competitors in CEE countries providing similar incentives, however, it attracts Asian producers - four out of the nine completed projects in Georgia were Indian productions.

**Table 8: Financing criteria under “Film in Georgia”**

Products eligible for cash rebate	Min local expenditures	Audience coverage requirements (any type of agreement)
Feature film, internet/TV film	GEL 500,000	N/A
Drama/series, mini-series (including pilots)	GEL 500,000	In at least 3 countries outside Georgia
Documentary, animated film	GEL 300,000	N/A
Commercials, reality show, music video	GEL 300,000	In at least 3 countries outside Georgia

Source: G&T Research



## 8. Tourism Sector SWOT

### Strengths

- Investor-friendly legal and tax framework
- Low corruption and crime rates
- Ease of starting business
- Positive attitude of population to international visitors
- Ease of hiring foreign labour
- Visa-free regime with over 100 countries

### Weakness

- Further need of improvement in tourism infrastructure
- Lack of sufficient budget airlines
- Insufficient flight frequencies and destinations
- Shortage of skilled local hospitality staff

### Opportunities

- Shortage of hotels especially in regional towns
- Transformation into four-season destination
- Key tourist destinations still under development
- Untapped potential for eco-tourism and adventure tourism
- Development stage in wine tourism, medical & wellness tourism and MICE tourism

### Threats

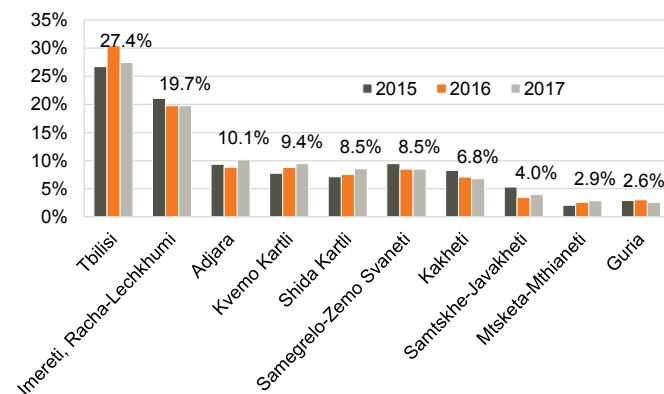
- Geopolitical situation
- Unfavourable economic environment in countries where most of Georgia's visitors originate
- Safety standards

Source: G&T Research

## Appendix 1 – Domestic Tourism

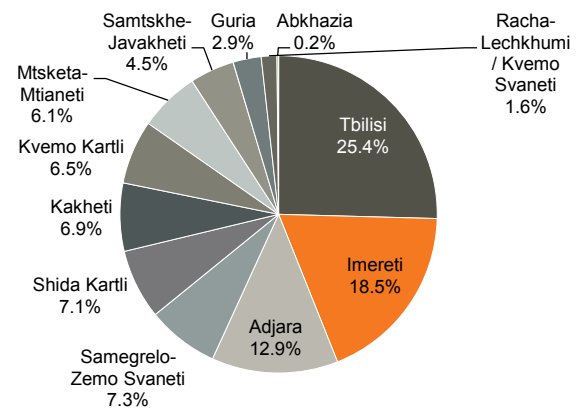
**Domestic tourism is an important contributor to tourism sector as incomes rise and lifestyles change.** Georgian citizens took a total of 12.6mn trips in 2017, down 2.5% y/y. Notably, this excludes regular trips taken by citizens that do not count towards domestic tourism, as per the UNWTO methodology. Tbilisi residents accounted for the biggest share (27.4%) of domestic visits, which is explained by the concentration of the country's high-income population in the capital, in addition to its population size. The most popular destinations for domestic travel were Tbilisi, Imereti, and Adjara, which together accounted for 56.8% of domestic travel.

Figure 41: Origin of domestic visitors



Source: Geostat

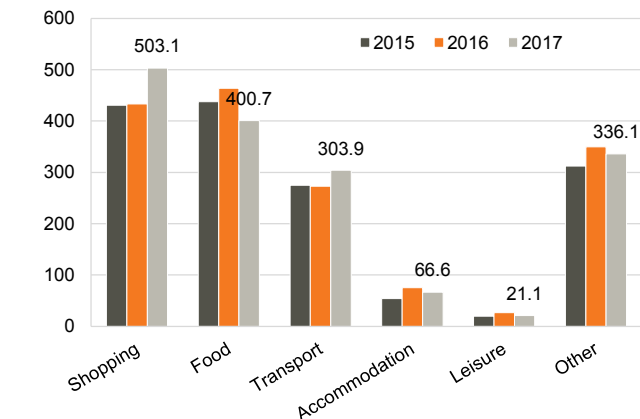
Figure 42: Domestic visits by destination, 2017



Source: Geostat

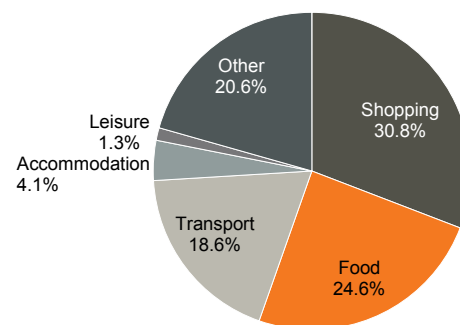
**Total expenditure by domestic visitors amounted to GEL 1.3bn (+0.6% y/y) in 2017.** Average expenditure per visit stood at GEL 129.1 (+3.2% y/y). The three largest expenditure categories were shopping (30.8% of total), food (24.6%), and transport (18.6%). Visiting friends and relatives remains the leading purpose of visits, with a 50.4% share in domestic travel. Trips taken for leisure/recreation purposes accounted for only 9.9% of domestic trips but that share has increased by 2.3ppts since 2014.

Figure 43: Total expenditure on domestic trips, GEL mn



Source: Geostat

Figure 44: Total expenditure by category, 2017



Source: Geostat



## Appendix 2 – Tbilisi Branded Hotels

**Table 9: Existing international branded hotels in Tbilisi**

Name	Developer	Address	Opening Year	Number of Rooms	Number of beds	Stars
Tbilisi Marriott	GMT Group	13 Rustaveli Avenue	2002	127	252	5
Courtyard Marriott	GMT Group	Freedom Square 4	2004	118	234	4
Radisson Blu	Silk Road Group	Rose revolution square 1	2009	249	498	5
Citadines	Amtel Properties Georgia	Freedom Square 4	2009	66	132	4
Primavera**	City Partner	8 Kuchisvili Str.	2010	28	36	4
Holiday Inn	Adjara Group Hospitality	26 May Square 1	2011	270	504	4
Rooms Hotel*	Adjara Group Hospitality	14 Kostava Str.	2014	126	252	No stars
Best Western	Best Western LLC	11 Apakidze Str.	2014	48	75	4
Hotels & Preference Hualing	Hualing Group	Josef Pilsudski Avenue	2015	247	363	5
Mercure Tbilisi Old Town	Maqro Construction	9 Gorgasali Str.	2015	108	194	4
Biltmore Hotel	Dhabi Group Georgia	29 Rustaveli Avenue.	2016	216	428	5
Ibis Styles	Maqro Construction	4 Tabidze Str.	2017	118	250	3
Moxy by Marriott	GMT Group, OPIC	Saarbrücken Square	2018	130	260	No stars
Ramada Encore Kazbegi Ave	M² Real Estate	15 Kazbegi Ave.	2018	152	250	4
<b>Total</b>				<b>2,003</b>	<b>3,728</b>	

Source: G&T Research

\* Member of Design Hotels

\*\* Member of City Partner Hotels

**Table 10: Pipeline of international branded hotels in Tbilisi**

Name	Developer	Address	Opening Year	Number of Rooms	Number of beds	Stars	Status
Golden Tulip	Block-Invest LLC	2 Aragveli Str.	2018	80	160	4	Finishing works
Ibis Stadium	Georgian Hotel Management	178 Aghmashenebeli Str.	2018	150	300	3	In progress
Rixos	City M LLC	3 Gudishvili Str.	2018	152	300	5	Finishing works
Pulmann - Axis Towers	Axis, GCF	37 Chavchavadze Str.	2018	220	440	5	In progress
Sheraton Metekhi Palace	RAKIA Georgia LLC	Ketevan Tsamebuli Str.	2018	220	440	5	Finishing works
Radisson Red	Commerce Group	Chavchavadze Ave.	2019	100	200	5	Announced
Holiday Inn Express	Neo-A	30 Pekini Str.	2019	121	240	3	In progress
Ramada Encore Melikishvili Ave	M² Real Estate	10 Melikishvili Str.	2019	125	190	3	In progress
Hampton By Hilton	Commerce Group	5 Melikishvili Str.	2019	130	260	3	In progress
Hilton Garden Inn	Redix, EBRD	64 Chavchavadze Str.	2019	170	330	4	In progress
Marriott Autograph Collection - Panorama Sololaki	GCF	Kojori Highway	2019	170	400	5	In Progress
Radisson Blu Telegraph	Silk Road Group	31/13 Rustaveli Str.	2019	189	350	5	Announced
Park Inn Radisson	Block-Invest LLC, PF	10 Chanturia Str.	2019	200	400	4	Announced
Hilton	Granat Holding	59 Kostava Str.	2019	206	350	5	In progress
Marriott Autograph Collection - Panorama Freedom Square	GCF	7 Freedom Square	2019	220	440	5	In progress
Wyndham Garden	Alliance Group	49 Chavchavadze Str.	2020	150	300	4	In progress
Hyatt Regency	Loyal Capital Group, PF	30 Rustaveli Str.	2020	170	340	5	Announced
<b>Total</b>				<b>2,773</b>	<b>5,440</b>		

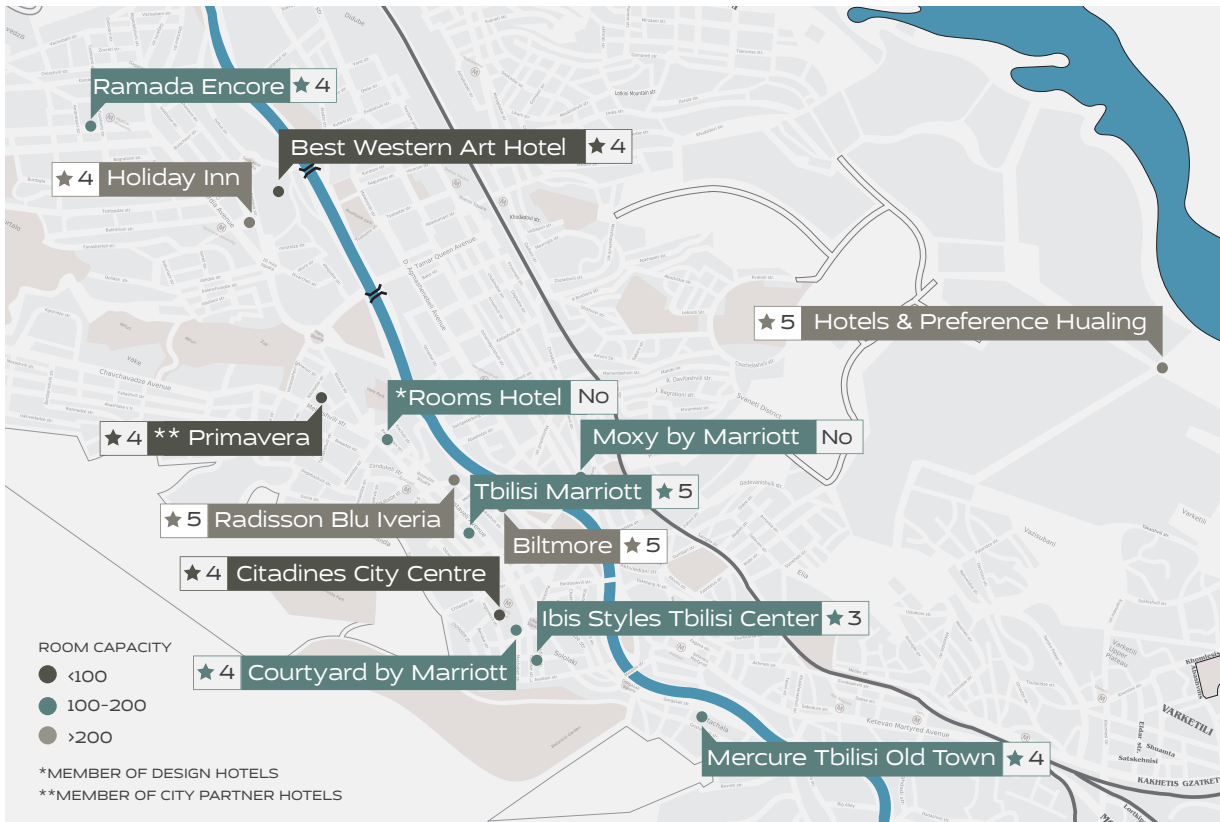
Source: G&T Research

Note: Pipeline subject to frequent changes



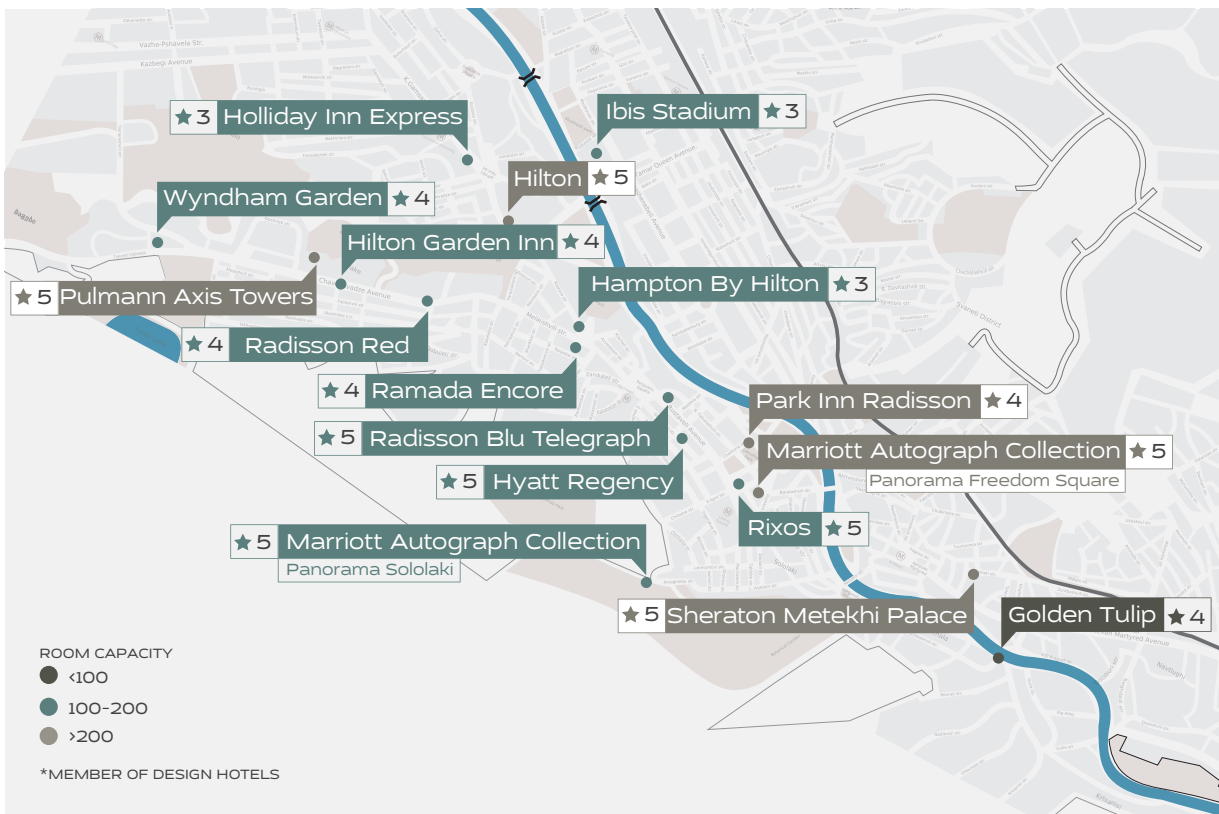


Diagram 2: Map of existing international branded hotels in Tbilisi



Source: G&T Research

Diagram 3: Map of upcoming international branded hotels in Tbilisi



Source: G&T Research



## Appendix 3 – Regional Branded Hotels

**Table 11: Existing international branded hotels in regions**

Name	Developer	Destination	Opening Year	Number of Rooms	Number of beds	Stars
Sheraton	Nurul Holding Inc	Batumi	2010	202	400	5
Radisson Blu	Silk Road Group	Batumi	2011	168	336	5
Divan Suites	Divan Group	Batumi	2014	65	130	4
Hilton	Hestok Limited, Orix Investor	Batumi	2015	247	494	5
Best Western Plus	Mgzavrebi Hotel Chain	Batumi	2017	50	100	4
Wyndham Hotel	Aktiv Batumi	Batumi	2017	146	335	4
Rixos	Kazmunaigaz Service Ltd, PF	Borjomi	2015	151	471	5
Crowne Plaza	Park Hotel LLC	Borjomi	2016	101	201	5
Golden tulip	Worldfound Universal	Borjomi	2017	17	40	3
Best Western	Mgzavrebi Hotel Chain	Bakuriani	2017	70	120	4
Best Western	Capitol Group	Kutaisi	2017	45	100	3
Rooms Hotel*	Adjara Group Hospitality	Kazbegi	2012	156	312	No stars
<b>Total</b>				<b>1,418</b>	<b>3,039</b>	

Source: G&T Research  
\*Member of Design Hotels

**Table 12: Pipeline of international branded hotels in regions**

Name	Developer	Destination	Opening Year	Number of Rooms	Number of beds	Stars	Status
Le Meridien	Red-Co	Batumi	2019	105	230	5	In progress
Courtyard Marriott	Alliance Group	Batumi	2019	150	300	5	In progress
Babylon Tower	Tam Geo LLC	Batumi	2019	168	336	5	Suspended
Swissotel	AdogGeorgia LLC	Batumi	2019	180	320	4	Suspended
Undefined Operator	AR Meridians LLC	Batumi	2019	200	400	5	In progress
Kempinski	GIMG LLC	Batumi	2019	232	350	5	Suspended
Ramada Plaza	Dar Building LLC	Batumi	2019	310	600	5	In progress
Courtyard Marriott 2	Alliance Group	Batumi	2020	150	300	5	Announced
Holiday Inn Telavi	JSC Hotel Telavi, EBRD	Telavi	2018	85	160	4	In Progress
Rooms Hotel	Adjara Group Hospitality	Mitarbi	2018	100	200	No stars	In progress
Golden Tulip	N/A	Telavi	2018	101	200	4	In progress
Radisson Blu Tsinandali	Silk Road Group, PF	Tsinandali	2018	120	200	5	In progress
Best Western executive residency	Mgzavrebi Hotel Chain	Gonio	2018	130	260	4	In progress
Rooms Hotel	Adjara Group Hospitality	Sagarejo	2019	40	80	No stars	Announced
Ramada Resorts	Alliance Group	Goderdzi	2019	100	200	4	In progress
Courtyard Marriott	Temur Chkonia	Kutaisi	2019	100	200	4	Announced
Ramada Encore Kutaisi	M2 Real Estate	Kutaisi	2019	125	240	4	In Progress
Metro Ski Tower	Metro Atlas Georgia	Goderdzi	2019	127	250	5	In progress
Radisson Blu Gudauri	Red-Co	Gudauri	2019	170	240	5	In progress
<b>Total</b>				<b>2,693</b>	<b>5,066</b>		

Source: G&T Research  
Note: Pipeline subject to frequent changes  
\*Member of Design Hotels



## Appendix 4 - Air Connectivity

Diagram 4: Regular direct flights to Georgia, 2017



Source: G&T Research

Bay of Bengal

Diagram 5: Seasonal direct flights to Georgia, 2017



Source: G&T Research



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