



REVIEW OF
HORECA SECTOR
Georgia, 2016

INTRODUCTION

Over the last decade tourism in Georgia has shown huge growth, transforming from an underdeveloped economic sector to a highly demanded and economically attractive industry. With the ambition of becoming a tourism hub and due to the government's extensive incentives together with the country's strong tourism potential, Georgia has improved performance indicators in hospitality sector and every year these ratios are increasing.

Key macroeconomic indicators in Georgia

Indicators	2016	Comment
GDP per capita (at current prices, USD)	3,853	Increase by 47% compared to 2010 year
Foreign Direct Investments (FDI) (million USD)	1,566	Increase by 102% compared to 2010 year
FDI per capita (million USD)	0.42	Increase by 141% compared to 2010 year
Economic freedom (The Heritage Foundation ranking)	13	123 rd place in the world in 1996
Ease of doing business (World Bank ranking)	16	112 th place in the world in 2006
Unemployment (%)	11.8	Decrease by 4.5 points compared to 2010

- ▶ International tourism arrivals more than doubled in 2016 compared to 2010 amounting to total 6,360 thousand visitors in 2016
- ▶ Inflows from international tourism increased by 229% that created USD2.2 bln of foreign exchange income in 2016 compared to 2010 and made the tourism sector one of the key pillars in Georgian economy (reaching up to 7.05% of GDP in 2016)
- ▶ The number of accommodation units reached up to 1,784 with the total number of rooms amounting to 24,628 and the number of beds amounting to 57,795 units.

Vast opportunities for different types of tourism are created due to the unique geographic location of Georgia (with the various and contrastive micro-climate zones) together with the rich cultural and historical heritage of the country. The government offers strong incentives to the local and foreign investors to unveil the attractiveness of different types of tourism, from sea and winter tourism to the wine, gaming, wellness & SPA and even medical tourism.

Over the past years, international upscale hotel chains, such as Radisson, Hilton, Rixos, Biltmore, Sheraton, Mercure, etc. have entered Georgian market, many of them still increasing supply by adding new hotels to reinforce their position on the market and diversify on various segments. Also, building of several new international hotel brands (Intercontinental, Hyatt Regency, Pullman Hotels & Resort, etc.) are work in progress.



Georgian accommodation sector is diversified through different segments of consumers by supplying different types of hotels which offer various levels of services, capable of satisfying demands of visitors as with low budget as well as the visitors that desire all-inclusive, full-service accommodation. In order to reveal the gap in current hotel supply and foresee the future outlook of the hospitality sector, BDO has conducted a research based on the generally accessible statistical data and the firm's own experience in the sector gained through involvement in various types of services offered to different leading hotels and tourism companies.

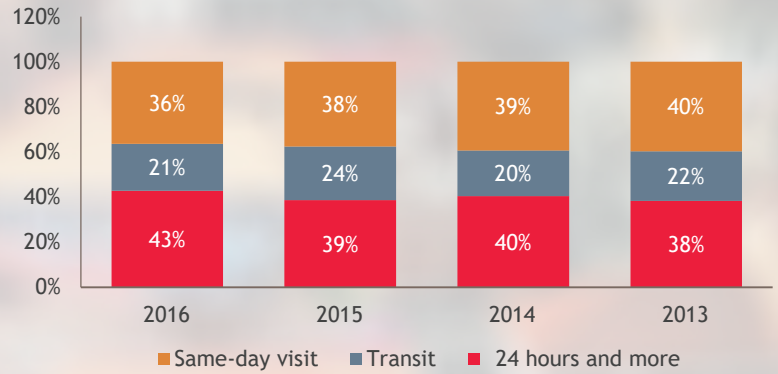
For the purposes of this research, hotels were divided into the following three main categories: Low-budget hotels (offering limited, low budget, low to medium quality services), mid-scale hotels (including local and international hotels, that offer high level, full assortment of services and qualify for four stars) and upscale hotels (including only international, full-service). The research showed that the low-budget hotel segment is under-developed and based on the market supply/demand trends in the past years, consideration should be made to the above-mentioned segments when planning future supply. Detailed analysis is represented on the following pages.

Times of Visit

	2016	2015	2014	2013
24 hours & more	2,720,970	2,281,971	2,229,094	2,065,296
Transit	1,321,344	1,400,835	1,114,036	1,188,791
Same-day visit	2,318,189	2,218,288	2,172,429	2,138,216
Total	6,360,503	5,901,094	5,515,559	5,556,101

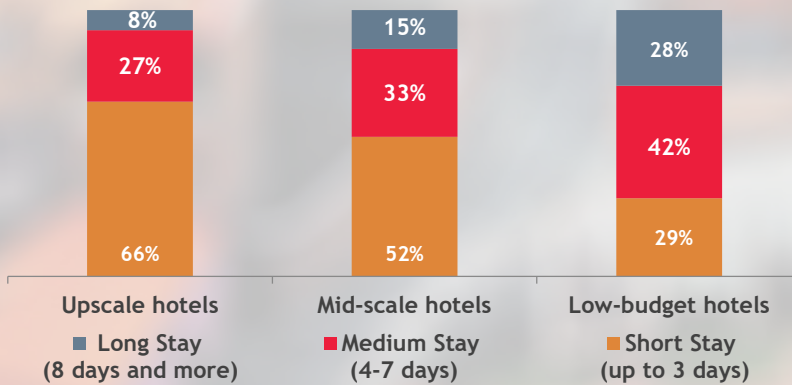
As seen on the chart, the share of visits for 24 hours and more increased from 2013 till 2016 when the number of arrivals for 24 hours and more peaked up to 2,720 thousand (43% of total visits). The trend indicates that the demand for longer stay accommodation units increases.

Times of Visit



source: GNTA

Hotel stay duration, 2016



BDO analysis shows that hotel visitors choose low-budget hotels for longer stays more often than mid-scale or upscale hotels.

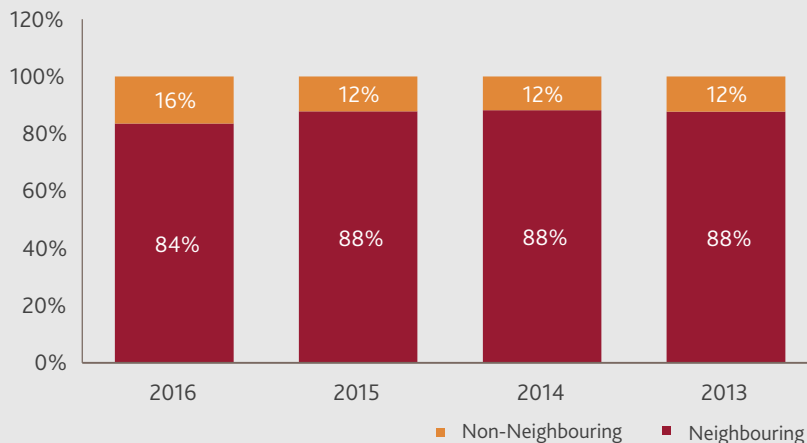
source: BDO Analysis

Note: Low -budget hotels except family hotels



Arrivals from neighbouring vs nonneighbouring countries

	2016	2015	2014	2013
Neighbour	5,315,451	5,180,010	4,863,165	4,732,529
Non-neighbour	1,045,052	721,084	652,394	659,774
Total	6,360,503	5 901 094	5,515,559	5,392,303



source: GNTA

Length of stay of international visitors has increased in the past years peaking up to average 5.6 days in 2014 up to average 5.6 days, that was followed by decrease in 2015 to average 5.1 days, while still amounting higher figure than 2013.

Average Length of Stay of International Visitors

Year	2015	2014	2013
Number of days (24 Hours)	5.1	5.6	4.8

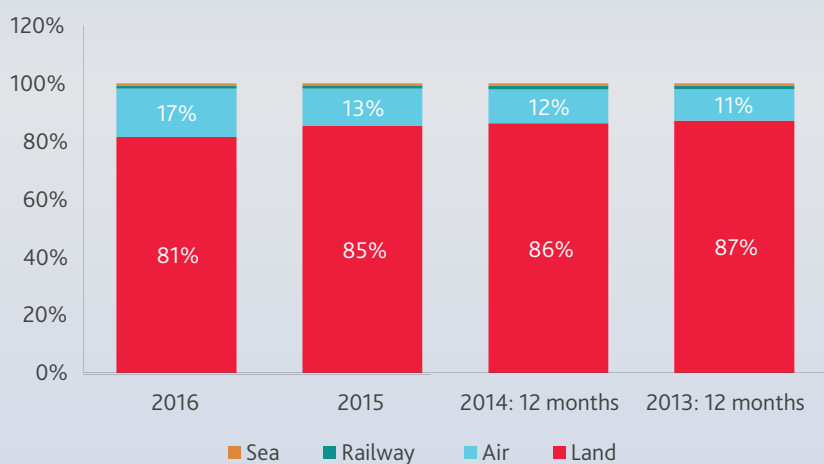
source: The Ministry of Internal Affairs of Georgia



Arrivals by border type

Type	2016	2015	2014: 12 months	2013: 12 months
Land	5,182,780	5,034,368	4,757,264	4,699,361
Air	1,066,597	764,588	643,088	585,727
Railway	60,389	62,664	71,515	62,976
Sea	50,737	39,474	43,692	44,239
Total	6,360,503	5,901,094	5,515,559	5,392,303

Increase of the share of arrivals through air borders may be linked to the increased proportion of visits for longer stays. Therefore, above-mentioned trend is reinforced with these statistics too.



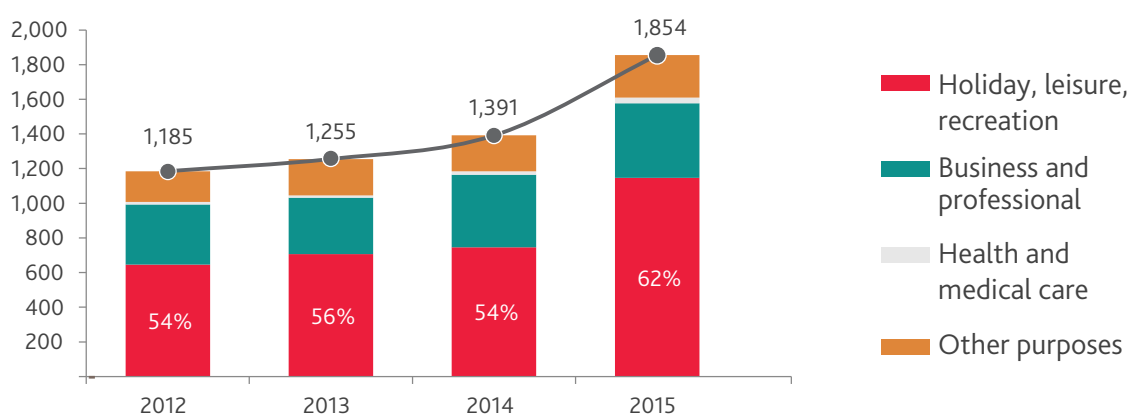
Source: GNTA



Number of visitors of hotels in Georgia by the purpose of visits

	2015	2014	2013	2012
Holiday, leisure, recreation	1,146,170	745,357	705,896	645,797
Business and professional	430,652	420,181	325,490	346,877
Health and medical care	32,582	19,162	13,510	15,009
Other purposes	245,103	206,749	210,595	177,454
Total visitors	1,854,507	1,391,449	1,255,491	1,185,137

Purposes of visits in hotels and hotel type facilities in Georgia ('000)



Source: GNTA

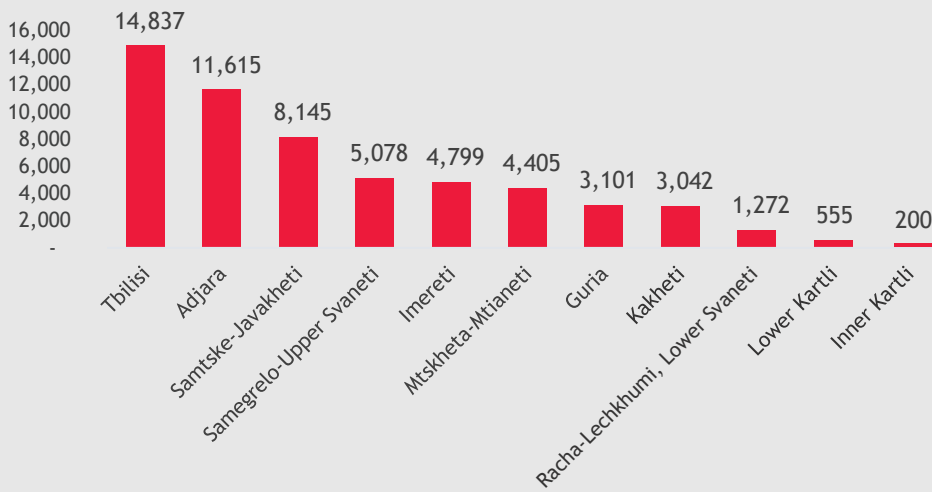
Increased demand on longer stay visits and therefore increased demand on low-budget hotels is shown through the statistics of the purposes of visits in hotels and hotel type facilities in Georgia.

The share of holiday, leisure and recreation purpose of visits in hotels and hotel type facilities in Georgia has increased drastically in 2015 compared to the previous years as seen on the chart.





Bed Capacity By Region, 2016



source: GNTA

In 2016 the number of low-budget hotel rooms are almost four times less than the number of mid-scale hotel rooms and nearly twice as less than the number of upscale hotel rooms, indicating the low supply of the budget hotel rooms on the market.

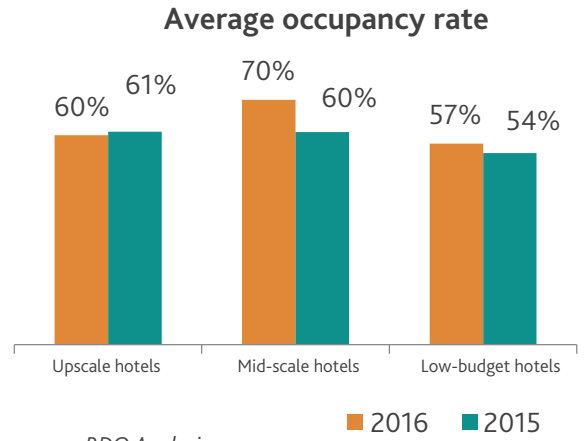
Distribution of Brand Hotels, 2016

City	Quantity	Number of Rooms	Number of Beds
Tbilisi	12	1,770	3,294
Batumi	4	682	1,360
Borjomi	3	268	706
Stephantsminda (Kazbegi)	1	156	312

Source: GNTA

The number of accommodation units registered in the database of GNTA is 1,765 with a total of 57,049 beds. Tbilisi has the largest numbers of beds - 14,837 (26%), followed by the Ajara region with 11,615 beds (20.4%).

As can be seen from chart, low-budget hotels have lower occupancy rates than mid-scale or upscale hotels. Comparably low occupancy rates in low-budget hotels somehow breaks the logical correlation between the number of supplied rooms and increasing demand on longer stay accommodation units. Generally, high demand on and low supply of hotel rooms result in higher occupancy rates, but according to the abovementioned statistics, this is not the case regarding low-budget hotels. This fact may indicate that there may exist other factors that have an influence on lower consumption of low-budget hotels.

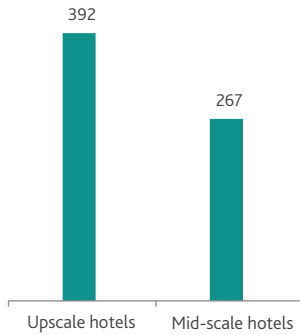


source: BDO Analysis
Note: Low -budget hotels except family hotels

One of the factors may be:

1. Mostly low-budget hotels are seasonal and situated in the coastal area or mountain
2. Under-development of the low-budget hotel segment
3. Lack of low-budget hotel segment awareness among visitors.

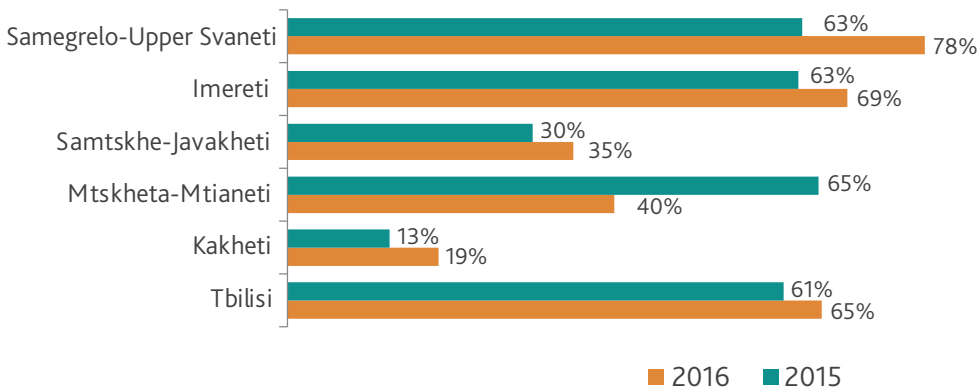
Average Room Rate, 2016 (in GEL)



source: BDO Analysis



Low-budget hotels occupancy rates by regions



It should also be noted that regional analysis of low-budget hotel occupancy rates revealed lower occupancy rates in Kakheti and Samtskhe-Javakheti region, while both regions are characterised with higher tourism attractiveness.

Source: BDO Analysis
Note: Low -budget hotels except family hotels

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