Colliers INTERNATIONAL

ENTERPRISE GEORGIA

INVEST IN GEORGIA

# Investment Teaser

## Telavi Mixed Use Development

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PREPARED BY:
COLLIERS GEORGIA

PREPARED FOR:
LEPL ENTERPRISE GEORGIA

# Economic Overview

## Key Macroeconomic Indicators

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

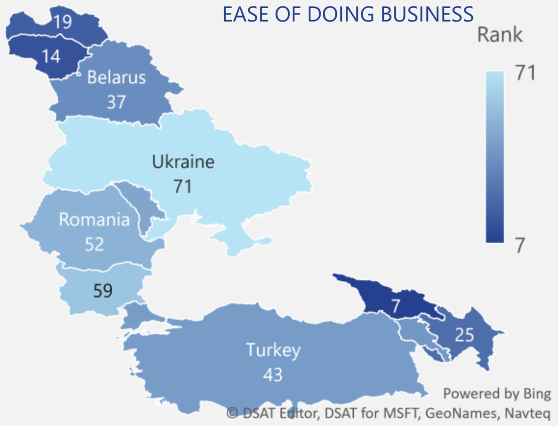
In 2019, the real GDP growth amounted to impressive 5.1%, well above the Caucasus region average of 3.7%. Annual export rate has been gradually increasing for the last four years and in 2019 the figure increased by 13% year-over-year. According to the updated data from Geostat, in 2019, the volume of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

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

## International Rankings

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

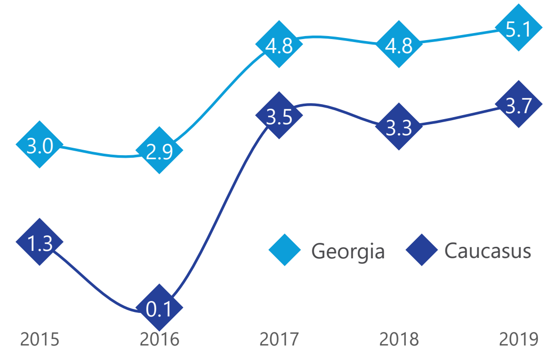
EASE OF DOING BUSINESS




Source: Geostat, Colliers International

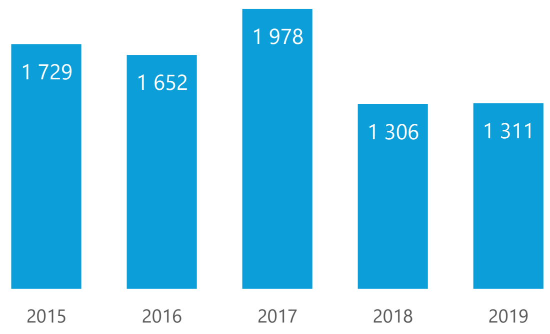


REAL GDP GROWTH (%/year)




Source: Colliers International, Geostat, IMF

FDI INFLOWS BY YEARS (mln, USD)




Source: Geostat, Colliers International

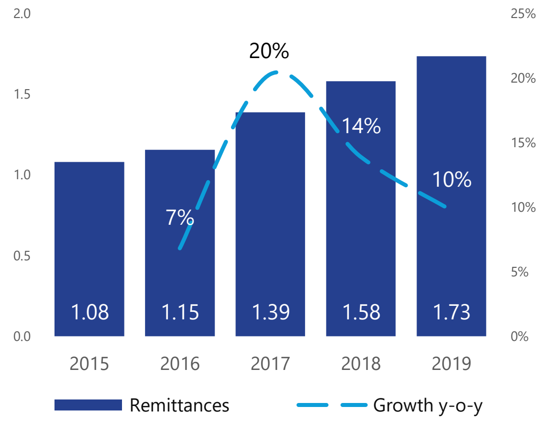
## Tax Climate

In order to boost the economic growth and attract investments Estonian-type tax model was adopted In 2017 that exempts undistributed earnings from the profit tax, and instead taxes distributed earnings only. Therefore, Georgia has a liberal tax code that includes only six types of taxes.

- Profit Tax (15%);
- Personal Income Tax (20%);
- Value Added Tax (18%);
- Import Tax (0%, 5% or 12%);
- Excise Tax (on a selected goods);
- Property Tax (up to 1%).

Georgia has Double Taxation Avoidance treaties with 52 countries.

REMITTANCES (Bn, USD)




Source: Geostat, Colliers International

# Tourism Overview

## Key Tourism Indicators

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

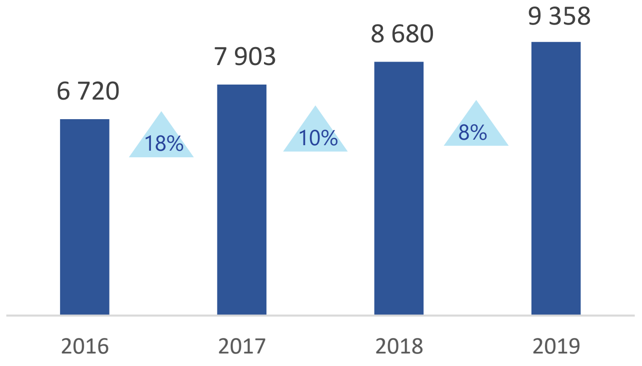
As for The number of tourist arrivals, the figure increased by 8.3% YoY constituting 65.7% (5.1 mln) of the total number of international visits (7.7 mln), while same-day trips stood at about 34.2%. Most tourist arrivals originated from Russia (23%), Azerbaijan (19%), Turkey (13%), EU countries (12%),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

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

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

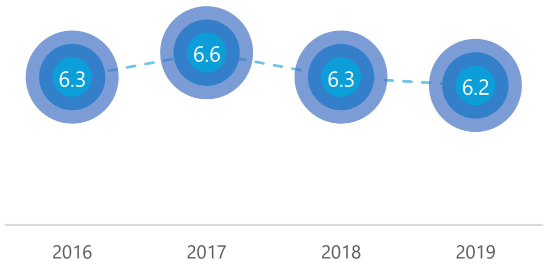


INTERNATIONAL TRAVELER TRIPS BY YEARS (thousands)



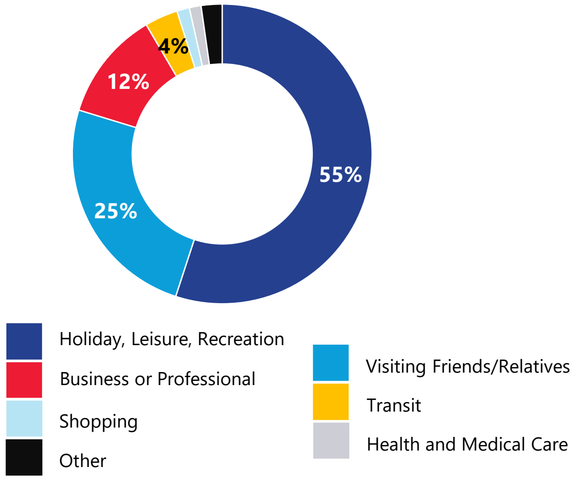

Source: Colliers International, GNTA

AVERAGE NUMBER OF NIGHTS SPENT



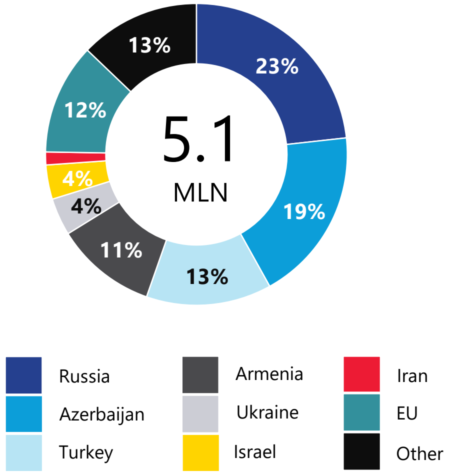

Source: Geostat, Colliers International

DISTRIBUTION OF VISITS BY MAIN PURPOSE, 2019




Source: Geostat, Colliers International

SHARE OF MAIN SOURCE MARKETS




Source: Geostat, Colliers International

# Macro-Location

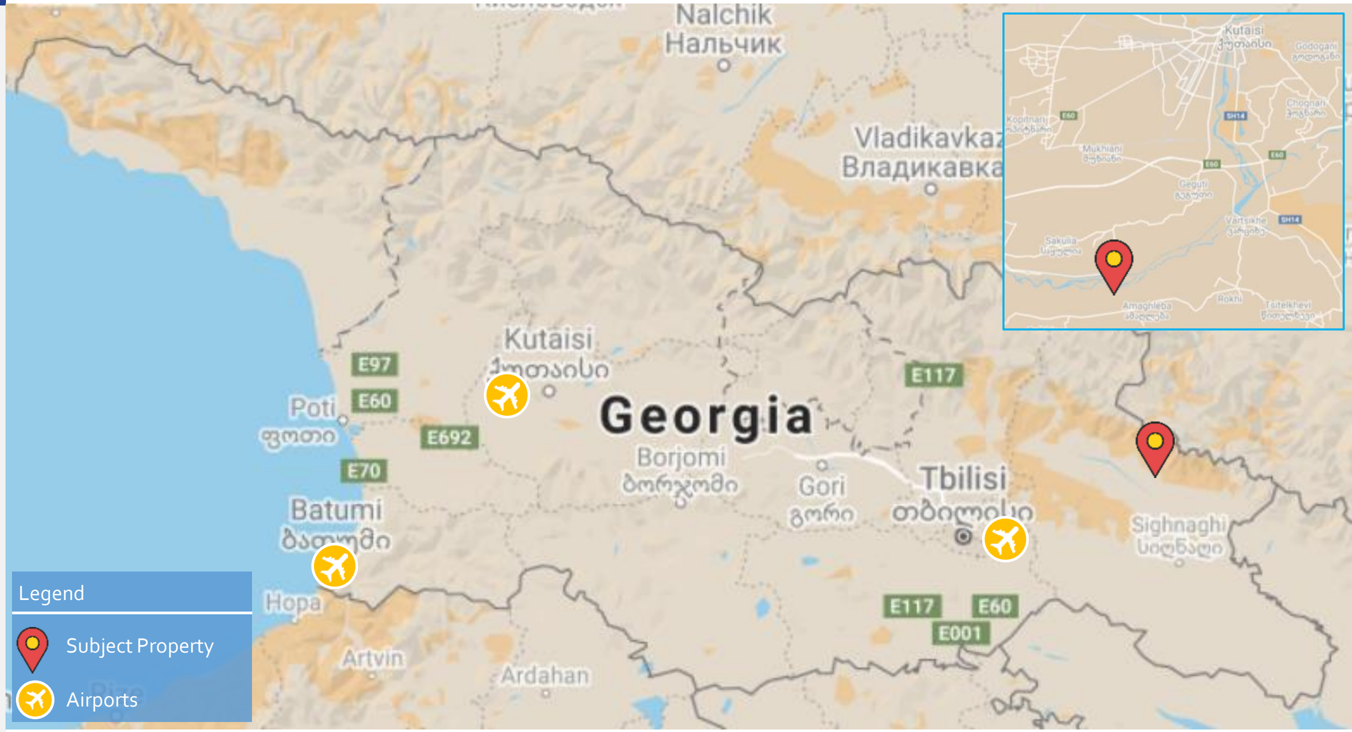
The subject property is situated in the historic region of Kakheti, in the eastern part of Georgia. The region is occupying 16% (11,375 sq. km) of the country, with an approximate population of 310,000. The population living in the region is almost equally divided between rural and urban settlements. The number of population in Telavi amounts to about 20.000 individuals.

In 2018, the Gross Domestic Product of the Kakheti region amounted to 2.3 billion Georgian Lari. Leading sectors in the region are manufacturing and agriculture.

Telavi is located approximately 80 km away from Tbilisi and about 460 km away from the sea-side resort Batumi.

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

- ➢ Tbilisi International Airport – 83 km (1.5 hours)
- ➢ Kutaisi International Airport – 338 km (5 hours)
- ➢ Batumi International Airport – 463 km (7.3 hours)



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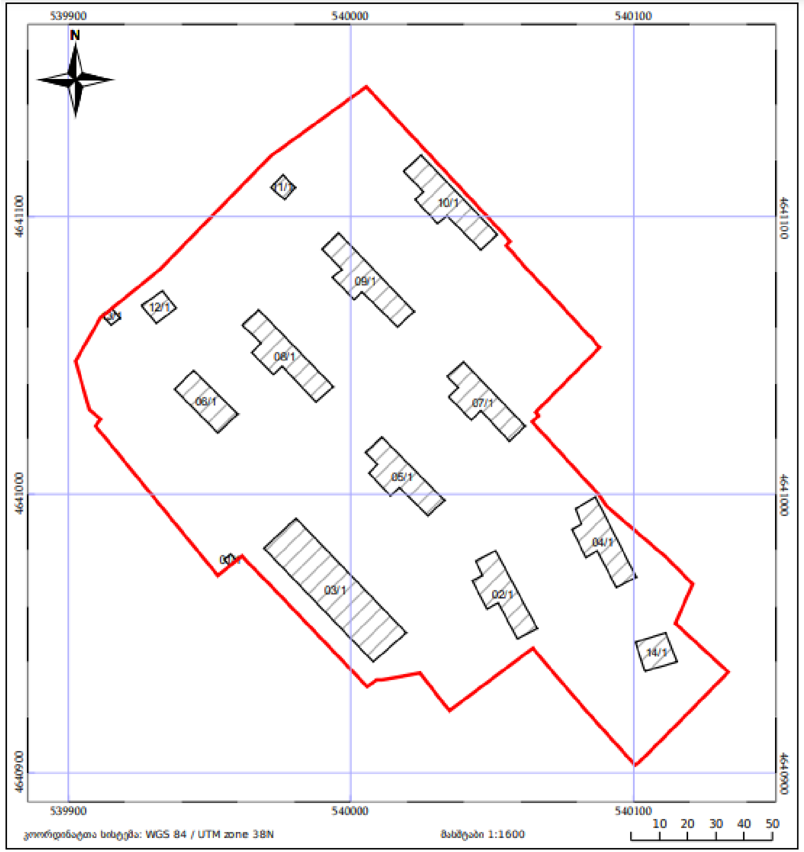
# Telavi

## Description

The subject property is situated near to the center of Telavi in Kakheti region, approximately 90 km east from the capital Tbilisi.

Telavi is the main city and administrative center of Kakheti region. Its population consists of about 20,000 inhabitants (as of the year 2014). The city is located on the foothills of the Tsiv-Gombori Range at 500–800 m above sea level. Telavi is considered as the centre of the Georgian winemaking. The town is also famous for its natural attractions and architectural monuments.






Source: National Agency of Public Registry, Colliers International

## Specifications

Location: 6 Chavchavadze St. Telavi, Georgia
Total land area: 28,217 sqm
Cadastral Code: 53.20.36.616
Status: Non-Agricultural Land
Buildings: N1-N14
Estimated Property Price: USD 1,410,000

# Micro-Location

As we have already mentioned above, the subject property is located Chavchavadze street, Telavi. The studied land plot is located 1.4 km driving distance away from the centre of the town. The 60 meters road connecting the subject property to Aghmashenebeli avenue is not covered with asphalt and is slightly sloped.

Buildings that are registered on the land plot are ruined. The surrounding of the property is mixed with small retail, residential and public properties. There is an emergency center and kindergarten behind the land plot, residential properties are located on the left/right side, small retail objects are situated in front of the land plot. JIBE Cash & Carry and Europroduct are located opposite the land plot.

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# Comparable Shopping Centre – Black Sea Mall Batumi

Black Sea Mall is located on Abuseridze street. It is a single-story shopping center that has been opened in 2017 by the MP development subsidiary of Wissol Group. The latter has invested more than 10 mln GEL in developing the project.

The mall's GLA is 5,754 sq m. Most of the floorspace is occupied by Carrefour. The shopping center has a parking space that can fit up to 120 cars. As of 2019 the mall was fully occupied by various tenants.

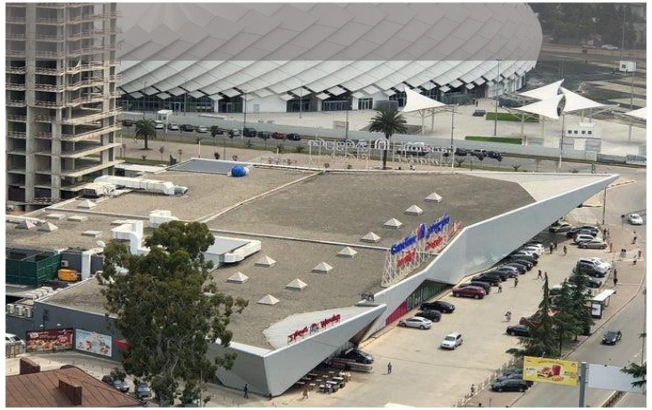
The main tenant at the Black Sea Mall is the hypermarket Carrefour, which occupies most of the mall's GLA (62%). The second largest categories represented at the mall are Catering and Household.

## Anchor Tenants

MINISO OVS DUNKIN' DONUTS Wendy's Carrefour

Black Sea Mal (Batumi)





# Development Program

After conducting a thorough inspection of subject properties and analysis of the surrounding area, we have proposed a development program of the mixed use development in Telavi. As far as we are concerned, the location of the land plot, as well as its characteristics gives us an opportunity for creating the modern mixed use property with retail, business and residential purposes. Considering the fact that there is no large shopping mall and business centre in Kakheti, the development has a potential to become a new business and retail hub in the region.

As already mentioned above, based on our development program the property features shopping mall building (7,500 sq m area) out of which 5,000 sq m will be for hypermarket and the rest 2,500 sq m for supplementary average-sized retail units.

The development will also feature the business centre with the total area of 3,000 sq m and residential complex (2,100 sq m). 35 flats with the average area of 60.sq m will be available.

Outdoor parking for up to 170 cars with the area about 5,000 sq m will be mutual for shopping mall, business centre and residential complex.



| Unit type | Units | Unit net area | NA | Area mix | Gross to Net Ratio | Total GFA |
|---|---|---|---|---|---|---|
| **Residential** | | | | | | |
| Apartments | 35 | 60 | 2,100 | 100% | 80% | 2,625 |
| **Total** | **35** | **60** | **2,100** | **100%** | **80%** | **2,625** |
| **Business Centre** | | | | | | |
| Offices | 30 | 100 | 3,000 | 91% | 75% | 4,000 |
| Integrated F&B | | | 300 | 9% | 75% | 400 |
| **Total** | **30** | | **3,000** | **100%** | **68%** | **4,400** |
| **Retail** | | | | | | |
| Retail Space | - | - | 7,500 | - | 70% | 10,714 |
| **Total** | | | **7,500** | | | **10,714** |
| **Other Facilities** | | | | | | |
| Outdoor Parking | 170 | 30 | | | | 5,100 |
| **Total Above Ground** | | | | | | **17,739** |

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Retail Centre
Gross Floor Area ~ 7,500 sqm
Parking & Landscaping
35 Residential Apartments
around 2 residential blocks
Gross Floor Area ~ 2,625 sqm
Business Centre with integrated F&B Venue
Gross Floor Area ~ 4,400 sqm
Legend
Residential Area
Business Centre with F&B Venue
Retail Centre
Parking & Landscaping

# Revenue & EBITDA

We have built up 10-year financial model for Retail, Business Centre & Residential units.

According to our model, the development is achieving EBITDA margin of 94%, which should be an attractive figure for the investor.. EBIDTA from shopping mall operations amount to USD 594,000 for the 2025. The figure from business centre operations will equal to USD 269,000 for the same period of time and from residencies USD 1.3 mln for the 2024.

Apart from the revenues from above mentioned properties, the development will benefit from operating integrated food & beverage unit, generating USD 37k income for the second year of operations.

In total, EBIDTA from all sources in a 10 years period of time amounts to around USD 8.2 mln.

| **Operations** | **Totals** | **%** | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Retail Units** | | | | | | | | | | | | |
| Retail Centre Leasable Area | | | | | | 7,500 | 7,500 | 7,500 | 7,500 | 7,500 | 7,500 | 7,500 |
| Occupancy | | | | | | 70% | 80% | 90% | 90% | 90% | 90% | 90% |
| Monthly Rent per sq.m | | | | | | 9 | 9 | 9 | 9 | 9 | 10 | 10 |
| **Revenue** | 5,009 | *100%* | 0 | 0 | 0 | 567 | 648 | 729 | 744 | 758 | 774 | 789 |
| Taxes & Insurance | 341 | 7% | | | | 57 | 54 | 51 | 49 | 46 | 44 | 42 |
| **EBITDA from Rental Units** | **4,667** | ***93%*** | | | | **510** | **594** | **678** | **695** | **712** | **730** | **748** |
| **Operations** | **Totals** | **%** | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| **Business Centre** | | | | | | | | | | | | |
| Business Center NLA | | | | | | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| Office Occupancy | | | | | | 50% | 70% | 85% | 85% | 85% | 85% | 85% |
| Office Monthly Rent per sq.m | | | | | | 10 | 10 | 10 | 11 | 11 | 11 | 11 |
| **Revenue** | | | | | | | | | | | | |
| Office Lease | 2,094 | *100%* | 0 | 0 | 0 | 180 | 257 | 318 | 325 | 331 | 338 | 345 |
| Integrated F&B | 268 | *100%* | | | | 36 | 37 | 37 | 38 | 39 | 40 | 41 |
| **Total for Office Revenues** | **2,361** | ***100%*** | **0** | **0** | **0** | **216** | **294** | **356** | **363** | **370** | **378** | **385** |
| **Expense** | | *of total rev* | | | | | | | | | | |
| Taxes & Insurance | 155 | 7% | 0 | 0 | 0 | 26 | 24 | 23 | 22 | 21 | 20 | 19 |
| **Total for Expenses** | **155** | ***7%*** | **0** | **0** | **0** | **26** | **24** | **23** | **22** | **21** | **20** | **19** |
| **Total EBITDA from Office** | **2,206** | ***93%*** | **0** | **0** | **0** | **190** | **269** | **333** | **341** | **349** | **358** | **366** |
| Operations | **Totals** | **%** | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| **Residences** | | | | | | | | | | | | |
| Residences | | | | 2,100 | 2,100 | 2,100 | | | | | | |
| Price per sqm (White Shell) net of VAT | | | | 636 | 648 | 661 | | | | | | |
| Sales Pace (% of total stock) | 100% | | | 15% | 35% | 50% | | | | | | |
| # of Apartments Sold per annum | 35 | | | 5 | 12 | 18 | | | | | | |
| **Revenue** | | | | | | | | | | | | |
| Apartment Sales | 1,371 | *100%* | | 200 | 477 | 694 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total for Revenues** | **1,371** | ***100%*** | **0** | **200** | **477** | **694** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Expense** | | *of total rev* | | | | | | | | | | |
| Sales & Marketing | 41 | | | 6 | 14 | 21 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total EBITDA from Sale of Residences** | **1,330** | ***97%*** | **0** | **194** | **462** | **674** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total EBITDA from all Sources** | **8,204** | ***94%*** | **0** | **194** | **462** | **1,374** | **864** | **1,011** | **1,036** | **1,062** | **1,088** | **1,114** |

# Development Costs & Performance Projections

## Development Costs

We have distributed construction period across three years. As of commercial properties, 30% of the total construction cost is spent during the first year (2022) and 70% during the second year (2023). Regarding residential complex, 10% of the cost is spent during 2021, 40% - during 2022 and 50% during 2023.

Acquisition cost of the property amounts to 14% of the total development cost. We have assumed 5% of contingency costs the total construction costs, which is reasonable ratio for this type of development. 2.1% of the total development costs are assigned to professional fees including planning & permits, Site supervision and other consultancy.

The total development cost of the model reaches USD 10 mln, out of which the large portion – 43% is made up by hypermarket construction costs.

## Return Analysis

The Proposed hotel development is forecasted to generate terminal value of USD 11 mln by 2030 (terminal year) less sales costs, resulting in USD 9.1 mln cash inflow. The capitalization rate assumption is 10% (10x multiple) of projected EBITDA in 2030.

For the assumed finance structure (50% debt finance with 8% interest rate) the Equity investment needed is USD 4.6 mln. **The proposed development is projected to generate 13% IRR on invested equity funds and 154% ROE.**



| Development Cost | Totals | | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| **Acquisition Costs** | | *of dev costs* | | | | | |
| Acquisition Costs | -1,411 | *14%* | -1,411 | - | - | - | - |
| **Total for Acquisition Costs** | -1,411 | *14%* | -1,411 | - | - | - | - |
| **Construction Costs** | | *of dev costs* | | | | | |
| Office | -1,980 | *20%* | 0 | -594 | -1,386 | 0 | 0 |
| Hypermarket | -4,286 | *43%* | 0 | -1,286 | -3,000 | 0 | 0 |
| Residential | -945 | *9%* | 0 | -420 | -525 | 0 | 0 |
| Roads & Landscaping | -120 | *1%* | 0 | -36 | -84 | 0 | 0 |
| Contingency | -391 | *4%* | -21 | -118 | -252 | 0 | 0 |
| **Total for Construction Costs** | -8,220 | *82%* | -450 | -2,485 | -5,285 | 0 | 0 |
| **Professional Fees** | | *of dev costs* | | | | | |
| Planning, Permits & Surveying | -123 | *1.2%* | -123 | 0 | 0 | 0 | 0 |
| Site Supervision & Other Consultancy | -82 | *0.8%* | -5 | -25 | -53 | 0 | 0 |
| **Total for Professional Fees** | -205 | *2.1%* | -128 | -25 | -53 | 0 | 0 |
| **Marketing Costs** | **of dev costs** | | | | | | |
| Letting Agent Fee | -130 | *1.3%* | 0 | 0 | -94 | -19 | -17 |
| **Total for Marketing/Letting** | -130 | *1.3%* | 0 | 0 | -94 | -19 | -17 |
| **Total Development Costs** | **-9,966** | ***86%*** | **-1,989** | **-2,509** | **-5,432** | **-19** | **-17** |

| Terminal Value Calculation | Totals | | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capitalisation | 11,137 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11,137 |
| Sales Cost on Exit | -223 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -223 |
| **Terminal Value** | **10,915** | | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **10,915** |

| Performance | Totals | | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EBITDA | 8,204 | | 0 | 194 | 462 | 1,374 | 864 | 1,011 | 1,036 | 1,062 | 1,088 | 1,114 |
| Development Costs | -9,966 | | -1,989 | -2,509 | -5,432 | -19 | -17 | 0 | 0 | 0 | 0 | 0 |
| Terminal Value | 10,915 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10,915 |
| **Total CF** | **9,152** | | **-1,989** | **-2,315** | **-4,970** | **1,355** | **846** | **1,011** | **1,036** | **1,062** | **1,088** | **12,028** |
| **Project IRR** | **12%** | | | | | | | | | | | |
| Equity Contribution | -4,609 | | -1,034 | -1,283 | -2,756 | 465 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Contribution | -4,637 | | -994 | -1,158 | -2,485 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance Cost | -2,035 | | -40 | -126 | -272 | -371 | -329 | -284 | -236 | -184 | -127 | -66 |
| **Total CF After Finance** | **7,117** | | **-2,028** | **-2,441** | **-5,241** | **984** | **517** | **726** | **800** | **878** | **960** | **11,962** |
| Debt Repayment | -4,637 | | 0 | 0 | 0 | -520 | -561 | -606 | -655 | -707 | -764 | -825 |
| Debt Balance | | | -994 | -2,152 | -4,637 | -4,117 | -3,556 | -2,950 | -2,295 | -1,588 | -825 | 0 |
| **Equity CF** | **7,117** | | **-1,034** | **-1,283** | **-2,756** | **465** | **-44** | **120** | **145** | **171** | **197** | **11,138** |
| **Equity IRR** | **13%** | | | | | | | | | | | |
| **ROE** | **154%** | | | | | | | | | | | |

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## Disclaimer

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

The Investment Division plays a role of moderator between foreign investors and the Government of Georgia, ensuring that the investor gets all types of updated information and has means of effective communication with the Government bodies. The aim of the Invest division is to attract, promote ad develop direct foreign investments in Georgia. It serves as a "one-stop-shop" for investors to support companies before, during and after investment process.

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