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# Gonio Resort Development

BUSINESS PLAN

PART A - SECTIONS 1 TO 6

MAY 2015

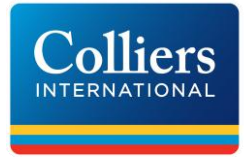
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PREPARED BY  
COLLIERS INTERNATIONAL  
IN ASSOCIATION WITH HOK



PREPARED FOR  
GEORGIAN NATIONAL INVESTMENT  
AGENCY (GNIA)





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# 1 EXECUTIVE SUMMARY

## GONIO RESORT

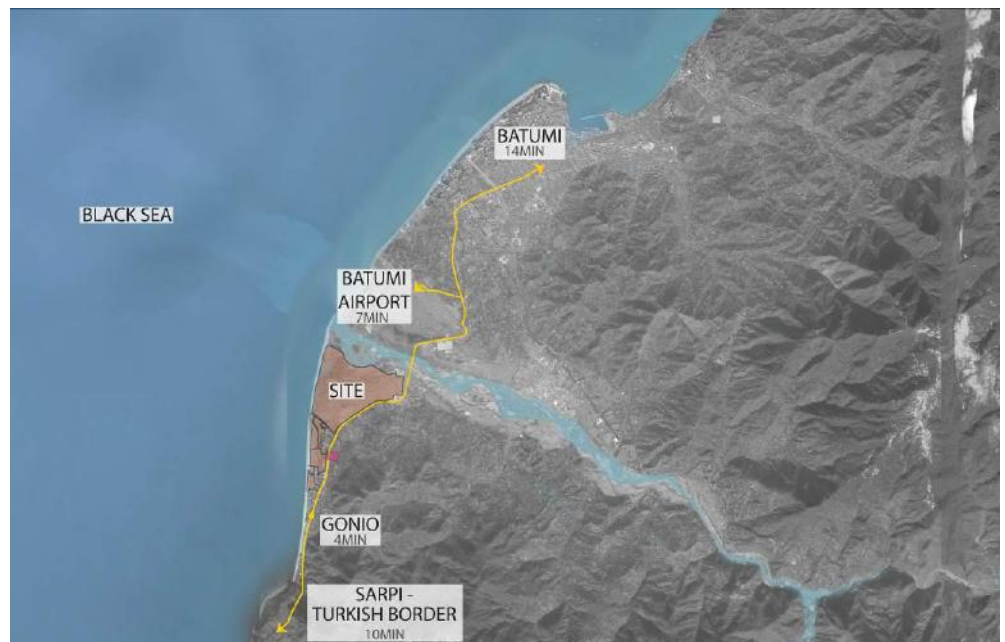
Gonio Resort will be a new destination for Batumi. It will provide activities and entertainment year round for tourists and residents and offer a new level of resort lifestyle not currently available in Georgia. It will be an international standard leisure-led mixed-use development.

Batumi is Georgia's most popular tourist destination and is located on the Black Sea in south west Georgia. The resort is located to the south of Batumi, on the beach just to the south of Chorokhi River. It is just 7 minutes' drive from Batumi International Airport, 14 minutes from Batumi and 10 minutes from the Turkish border at Sarpi, Georgia's busiest border crossing.

## THE SITE

The site is 315 hectares in total size. It comprises a large area of land previously used as a military training ground; and also stretches along the beachfront to land adjacent to the Gonio fortress, a Roman fortification visited by nearly 67,000 people each year.

### Location of the site



Source: HOK  
Gonio fortress is shown in pink

The climate of Gonio is subtropical with temperatures of 5°C to 28°C, and average highs over 20°C May to October. The onshore flow from the Black Sea to the mountains behind brings light rain throughout the year and thunderstorms in the warmest months. The Gonio Resort concept thus incorporates a significant 'covered' activity offer, not available elsewhere in Batumi, as well as provision to embrace the beach and warm weather attraction of the destination.

*The site and wider destination are described in Section 7, including analysis of strengths, weaknesses and opportunities.*

## THE MARKET CONTEXT

Georgia has made excellent progress in improving its business environment and now ranks just 15<sup>th</sup> in the World Bank's Ease of Doing Business rankings, one below Germany. This offers an attractive environment to investors. It is also increasing ties to the EU and has a medium term forecast GDP yearly growth rate of approximately 4.5%. Household income and expenditure is increasing rapidly and there is a continuously growing middle class able to spend on discretionary items and experiences such as leisure and tourism.

Tourism demand has grown enormously over the last 10 years. Indeed international visitation to Georgia reached 5.5 million in 2014. The most significant markets for Georgia were Turkey, Armenia, Azerbaijan and Russia. Land arrivals accounted for 85%, with the border with Turkey, close to Batumi, representing the most popular entry point. Air access has shown an increasing trend and key nationalities arriving at Batumi International Airport included Russian, Ukrainian, Turkish, Polish, Israeli and Belarussian, as well as many other nationalities.

Demand for overnight visits to Batumi and Adjara has shown an increasing trend, with most growth in international overnight visitors, which also represent the majority of overnight visitors.

The size of the market from which visitors might come to a new development at Gonio has been considered. This includes the domestic and international overnight visitors to Batumi and Adjara, the local population, and international day visitors to Adjara. Further there would be induced demand driven by the existence of the resort itself.

The most significant source markets for the resort are considered to be those from Georgia, Turkey, Russia, Armenia, Azerbaijan and Ukraine. Insight on these markets overall is provided. The market for property is also considered in the relevant section.

The tourism supply context shows that there are no real competitive developments in Georgia for Gonio Resort. An overview of key coastal tourism destinations in the Black Sea and Caspian Sea also show different types of destination that whilst attracting some tourists of the same nationalities provide a different kind of offer. Looking to the wider region including the Mediterranean and Red Sea, there are

several very popular destinations in attractive climates that are appealing to source markets but they are further away and sit in a different more global market.

Examples of masterplanned communities have also been considered. These are of interest as highly managed destinations with international standards. The opportunity at Gonio Resort is to offer a hybrid – a tourism, leisure and property offer that will be best in class in the region and managed to international standards.

*The market context is analysed in Sections 3 to 6. This includes the general and economic background in Section 3; tourism demand and potential source markets (Sections 4 and 5), and tourism supply and examples (Section 6).*

## THE COMPONENTS OF GONIO RESORT

Gonio Resort will comprise multiple uses. These will include:

- Leisure and entertainment
  - Waterpark with indoor and outdoor slides and pools
  - A lagoon with white sand beaches and crystal clear water
  - A lake where watersports activities can be enjoyed
  - A wide range of indoor and outdoor activities including bowling, mini golf, spa, gym, tennis, and an indoor activity hub with a variety of facilities for visitors to enjoy sports from table tennis to climbing, rollerskating to badminton, crafts, classes and activities for children and teenagers.
  - Sports pitches and a karting track
  - An entertainment quarter including casino, leisure arcade, karaoke, nightclub, cinema and outdoor festival space
  - A cultural quarter close to the Gonio fortress
  - Large natural area by the Chorokhi River, including trails and opportunities for bird watching
  - Access to the beach and promenade that runs the full length of the site
- Accommodation and residential property
  - A hotel and four aparthotels, with locations on the beach and by the lagoon
  - Residential property comprising apartments, townhouses, linked villas and villas. These will be low rise and offer a range of sizes from studios to 5-bed villas. They will be available for sale and many owners are expected will also rent them out
- Commercial and social
  - Cafes, bars and restaurants

- Kiosks, shops and commercial and social facilities for residents and tourists
- Enterprise area for small and medium sized enterprises (SMEs) and light industrial / logistics

The concept masterplan for the resort includes all above uses as well as infrastructure within and linking to the site.

### The Concept Masterplan



Source: HOK

*The concept for the resort is described more fully in Section 8 and the Concept Masterplan outputs present further detail about the concept masterplan.*

### DEVELOPMENT AND MANAGEMENT OF GONIO RESORT

It is envisaged that the resort will be developed by a masterdeveloper. This masterdeveloper, with any associated investors, will be identified by the GNIA and will be responsible for funding and constructing the infrastructure of the resort and leisure components etc. They are also likely to construct and sell several of the residential elements. The masterdeveloper would retain ownership of all the elements that they wished to, however, they may also wish to sell development

parcels to separate individual developers, particularly residential parcels and the aparthotels. All sales would need to be made with agreements of what can be constructed and with specified timescales.

Gonio Resort is envisaged as a 30 year project. The project is proposed to be developed over three main phases – Phase 1 of 10 years (years 1-10), Phase 2 of 10 years (years 9-18) and Phase 3 of 14 years (years 17-30). The masterdeveloper would further create several sub-phases to this programme.

### The Phasing Zones



Source: HOK

Once open, the resort overall will be managed by a company specifically set up for the purpose. This company has been dubbed 'InfraGonio' and will collect a service charge from every component of the resort. This will be used to manage the resort including maintenance of public areas etc.

*The development, ownership and phasing of the resort are discussed in Section 9. The role of the masterdeveloper is discussed in Section 16. 'InfraGonio' is described further in Section 15.*

## KEY RESORT COMPONENTS

### Residential

It is proposed for there to be 8,376 residential units within Gonio Resort once it is complete. In the first phase 2,359 are proposed. The units will be low rise and at a much lower density than in Batumi, offering an attractive resort lifestyle to owners and those renting.

The market for residential sales in Batumi is strong. Some projects have over ambitious expectations but those that are managed by experienced developers who price the units fairly and invest in good marketing are successful and achieve a good sales pace. This has informed the residential projections made.

The average price point across the resort in Phase 1 is projected as \$1,272 per m<sup>2</sup>, in 2014 year end prices. The average assumed construction cost is \$704 per m<sup>2</sup> (2014 YE). The proposed finish is high quality and the units would be turn-key ready to live in.

*Section 10 provides detail about the residential component and associated projections. .*

### Hotel and aparthotels

A hotel of 150 rooms is proposed. It will be located on the beach, with the casino adjoining it. The hotel is proposed to be of 4-star international standard and be branded by a well-recognised and experienced resort hotel operator.

Four aparthotels are proposed for Gonio Resort. In Phase 1 this would include a 200-room beach aparthotel and a 200-room aparthotel at the lagoon. In Phase 2 a 300-room beach aparthotel would be added, and an additional 200-room aparthotel in Phase 3. The aparthotels are envisaged to be managed by experienced international operators.

Hotels in Batumi currently trade well in high season but are challenged in shoulder and low season. Many new hotels have entered the market in recent years, especially at the upper-end, however there is a market gap for internationally branded mid-scale hotels targeting the mid-market, especially in a leisure resort context. This would be the proposition of the aparthotels at Gonio Resort. The occupancy of the hotels and aparthotels at Gonio Resort is expected to be assisted by the significant provision of leisure and entertainment facilities at the resort, which are also expected to extend the season.

The hotel is envisaged to be developed by the masterdeveloper in Phase 1. It could be sold to an investor once it has reached stabilised performance. The hotel is expected to achieve an occupancy of 59.8% and an Average Room Rate (ARR) of \$ 100 (inflated) in its stabilised year of 2022.

It is envisaged that each aparthotel project will be sold to an individual developer by the masterdeveloper. The apartments within might then all be sold to a single investor or to multiple owners. An indicative sales price for each aparthotel based on \$20,000 per key has been assumed.

*Section 11 provides detail about the hotel and associated projections; and also the aparthotels and expected sales values.*

## Leisure

Gonio Resort will offer a wide range leisure facilities and activities as described above. The most significant are the waterpark, 'activity hub' and lagoon.

The waterpark is proposed to be a core attractor to Gonio Resort and the structure for the indoor component an icon for the resort. It will be of international standard akin to the latest Center Parcs 'Tropical Paradise' at Woburn, UK. It is expected to draw visitors from a wide catchment as well as those staying in Batumi and at the resort. It is expected to attract 295,525 visitors in its stabilised<sup>1</sup> year of 2022.

The 'activity hub' represents a wide range of activities both indoor and outdoor next to the waterpark, and other activities spread across the resort. This provision will offer visitors an extensive selection of things to do, adding interest, footfall and spend to the resort proposition. With so many 'covered' activities protected from the rain, it is also expected to help extend the season and provide much needed leisure opportunities for Batumi's tourists to as well.

The lagoon offers a unique attraction to property owners and tourists staying at Gonio Resort. With its white sand beaches and crystal clear water it will raise the value of the apartments that surround it and create a driver for wanting to buy property and visit Gonio Resort.

*Section 12 provides detail about the leisure components and associated projections.*

## Casino

Batumi has become a very strong casino market and a major new international gaming hub over recent years. The casino at Gonio is proposed to fill an identified market gap for a 'leisure casino' positioned for the mid-market, including non-serious gamblers, domestic tourists and passing traffic. This will fit well within the resort context alongside other attractors in 'the Entertainment Quarter'.

*Section 13 provides detail about the casino component and associated projections.*

<sup>1</sup> Stabilised in terms of operational efficiency, however visitation will continue to rise due to larger visitation to the Gonio Resort overall

## Other components and infrastructure

Alongside the core components of the resort, there will be cafes, bars and restaurants (F&B – food & beverage provision), retail units for shops and for example car hire, and provision for social infrastructure such as a resort clinic has been allowed for. The eastern tip of the site also includes provision for an Enterprise Zone. This will include office and light industrial space.

The resort will of course require extensive infrastructure within and links to utilities and road infrastructure. There will also be an interface with provision of services provided by the municipality.

*Section 14 provides detail about the other commercial components. The infrastructure for the resort is discussed in Section 15.*

## PROJECTIONS

Projections have been made for each of the components of the resort and development costs estimated. A projected cash flow for the entire resort has then been projected.

In summary, the resort is projected to deliver:

- Unleveraged Internal Rate of Return (IRR) – 21.79%
- Using a discount factor of 15.00%, a total Net Present Value (NPV) of \$45,543,000 would be achieved

This analysis leads us to the conclusion that the proposed development is market and financially viable (subject to technical feasibility and subsequent refined cost analysis).

*Estimated development costs are provided in Section 17 and the projected cashflow in Section 18.*

## CONCLUSION AND NEXT STEPS

The Gonio Resort project presents an exciting opportunity for potential investors. It provides a unique offer to a growing market in a country with excellent growth potential.

The next stage is to undertake the necessary work to enable a masterdeveloper to be brought on board. Subsequently the masterdeveloper will then develop this exciting project further.

*Section 19 presents our conclusion and summary recommended next steps.*

## 2 THIS COMMISSION

### 2.1 OVERVIEW OF THE COMMISSION

The Georgia National Investment Agency seeks to progress development of the former military site at Gonio and related plots. Consequently Terms of Reference for Resort Development at the site were produced comprising a Business Plan and Concept Masterplan and the commission was won by Colliers International, in partnership with the masterplanners HOK. The contract is Consultancy Service Agreement #2/51 signed on 25 September 2014.

### 2.2 THIS DOCUMENT

This document presents the Business Plan for the Gonio Resort. It should be read in partnership with the Concept Masterplan.

The Business Plan encompasses market analysis, concept for the proposed Gonio Resort, proposed quantum of development, projections of performance and financial feasibility, and development recommendations. It acts as a basis for describing the project and its potential. It can be used to present the resort to potential masterdevelopers and investors. These parties will then undertake more detailed business planning as they evolve the project.

The Concept Masterplan encompasses analysis of key influences on the design; consideration of distribution of uses, circulation and value generation. Infrastructure and phasing are considered at a top level. This concludes with a masterplan at concept level, which defines a clear direction for the site and accompanies the Business Plan. The masterdeveloper would subsequently evolve this to Detailed Masterplan level.

### 2.3 THE CONSULTANTS

#### 2.3.1 COLLIERS INTERNATIONAL

Colliers International is a leading global commercial real estate company providing services to investors, owners and developers. The work for this commission has been managed by the International Hotels and Resorts Consulting team based in London. This team has experience of advising on resort development across EMEA. It has also been assisted by Mike Nuttall, a specialist in advising on casino development.

#### 2.3.2 HOK

HOK is a global design, architecture and urban planning firm. The work for this commission has been undertaken by the London masterplanning team. This team

has designed resorts around the world, as well as the Goderdzi Pass resort in Adjara that is currently in construction. HOK Planning Group works on resorts, urban regeneration projects, new cities and major events of world class standard.

## 2.4 THE PROCESS AND PARTIES INVOLVED

This work has been commissioned by the Georgia National Investment Agency (GNIA) and as such is the client for the project.

The creation of the Business Plan and Concept Masterplan has been a detailed process between August 2014 and April 2015. This process has included significant analysis and ongoing communication, including two workshops. The process has allowed for the presentation and discussion of firstly the market context and concept ideas, resulting in an agreed concept; secondly, the presentation and acceptance of the proposed quantum and draft feasibility; and thirdly the concept masterplan options and subsequent discussions, resulting in an agreed direction. This Business Plan and Concept Masterplan document present the final output of this process.

Key parties were invited by GNIA to attend the workshops held in Batumi to provide steering comment during the process. These parties included the following.

- Ministry of Finance and Economy of Autonomous Republic of Ajara
- Georgian Co-Investment Fund
- Department of Tourism and Resorts of Ajara A.R.
- World Bank
- Architecture and Urban Planning Department of the Batumi City Hall,
- Advisor to Government of the Autonomous Republic of Ajara,
- Civil Society Institute

It should be noted however that a full consultation process is not part of this commission. Parties will inevitably have considerable further input and comment that they wish to be considered as the project develops. This is important and such comment should form part of the inputs of the subsequent Detailed Masterplanning process and associated studies.

The formation of a Detailed Masterplan is a fully coordinated process with all relevant engineering disciplines, business and other inputs. It is a development of the Concept Masterplan at a much more detailed level and with more extensive and wide ranging inputs. It can also include parcellisation of the site and is suitable for applying for statutory permits. It usually includes design guidelines and typical building layout.

The Business Plan and Concept Masterplan set an initial basis for the project. The project will then continuously evolve. It is important to note the primary focus should now be in relation to obtaining technical viability and supporting studies, which could have a dominant influence on the project; and once these are completed other desired modifications and considerations to current plans can also be fed to the ongoing evolution of the project.

## 2.5 SUBSEQUENT ACTIVITIES TO THIS COMMISSION

This commission establishes a market and financially viable base for a resort development at Gonio and presents this with a Concept Masterplan. As described in more detail later in the report, subsequent activities to this commission will include technical viability, studies to support obtaining permissions, support in obtaining a masterdeveloper and investors, and detailed masterplanning and supporting studies.

## 3 GENERAL AND ECONOMIC BACKGROUND

### 3.1 INTRODUCTION

An understanding of the general and economic background of Georgia and the Autonomous Republic of Adjara is important in providing context to new development. This section considers geographical location, political overview, population, economic indicators, the business environment, labour force and employment, household income and expenditure, and economic forecasts.

### 3.2 GEOGRAPHICAL AND POLITICAL BACKGROUND TO GEORGIA

#### 3.2.1 GEOGRAPHICAL OVERVIEW

Georgia is a sovereign state located in the Caucasus region at the crossroads of Western Asia and Eastern Europe. Georgia covers a total area of 69,700 km<sup>2</sup> and is bounded to the west by the Black Sea, to the north by the Russian Federation, to the south by Turkey and Armenia, and to the east by Azerbaijan. Georgia's geographical location makes it an important energy transit state between Central Asia and Western Europe. As a result the energy sector continues to drive foreign investment in the country.

The capital of Georgia is the city of Tbilisi, which is situated on the banks of the Mtkvari River in the eastern part of Georgia. Batumi and neighbouring Gonio are situated in the Autonomous Republic of Adjara on the Black Sea coast in the south western part of Georgia. Exhibit A1 shows the location of Batumi in Georgia.

The site is located between Batumi and Gonio on the coast and only few kilometres from the Turkish border (Sarpi border). The main road connecting Turkey and Georgia runs adjacent to the site.

### Exhibit A1: Location map of Georgia



Source: Microsoft MapPoint

### 3.2.2 POLITICAL OVERVIEW

Georgia is a Presidential democracy with a 150-seat unicameral parliament. The legislative branch is made up of 77 members elected by proportional representation and 73 elected in single-member constituencies. Members serve four-year terms.

The changes to the constitution put in place by Mr. Saakashvili (former Georgian President, 2004 – 2013) before his election defeat, shifted many powers from the president to the prime minister and the parliament. The current head of state is President Giorgi Margvelashvili and the head of government is Prime Minister Irakli Garibashvili. The next parliamentary elections are due in 2016 with the presidential election due in 2018.

Georgia is a member of the Commonwealth of Independent States (CIS), the Organisation of the Black Sea Economic Cooperation and has been promised NATO membership at a later date. On 27<sup>th</sup> June, 2014 Georgia also signed an Association Agreement and Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU, which is expected to be ratified.

Georgia has been particularly effective in reducing regulations, taxes, and corruption. In 2012, billionaire Bidzina Ivanishvili and his Georgian Dream coalition defeated President Mikheil Saakashvili's United National Movement. After serving briefly as prime minister, Ivanishvili voluntarily resigned in November 2013 and named Irakli Garibashvili as his successor. The Georgian Dream coalition's political dominance was reinforced with a victory in the 2013 presidential elections.

### 3.3 POPULATION

Based on 2014 estimates, the population of Georgia was approximately 4.5 million inhabitants. Exhibit A2 shows the total population in Georgia by administrative division in 2014 and Exhibit A3 shows the population of the major cities in Georgia in 2014.

#### Exhibit A2: Population in Georgia by Administrative Division, 2014

2014	
<b>Georgia</b>	<b>4,490,500</b>
Tbilisi	1,175,200
Imereti	703,300
Kvemo Kartli	513,100
Samegrelo-Zemo Svaneti	476,300
Kakheti	405,000
<b>Autonomous Republic of Adjara</b>	<b>396,600</b>
Shida Kartli	313,800
Samtskhe-Javakheti	213,700
Guria	138,800
Mtskheta-Mtianeti	108,800
Racha-Lechkhumi and Kvemo Svaneti	45,900
Autonomous Republic of Abkhazia	-

Source: National Statistics Office Georgia

#### Exhibit A3: Population by Cities in Georgia, 2014

City	Administrative Division	2014
Tbilisi	Tbilisi	1,175,200
Kutaisi	Imereti	197,000
<b>Batumi</b>	<b>Adjara</b>	<b>161,200</b>
Rustavi	Kvemo Kartli	122,900
Zugdidi	Samegrelo-Zemo Svaneti	75,100
Gori	Shida Kartli	54,700
Poti	Samegrelo-Zemo Svaneti	47,800
Sukhumi	Abkhazia	39,100
Khashuri	Shida Kartli	38,600
Samtredia	Imereti	32,000

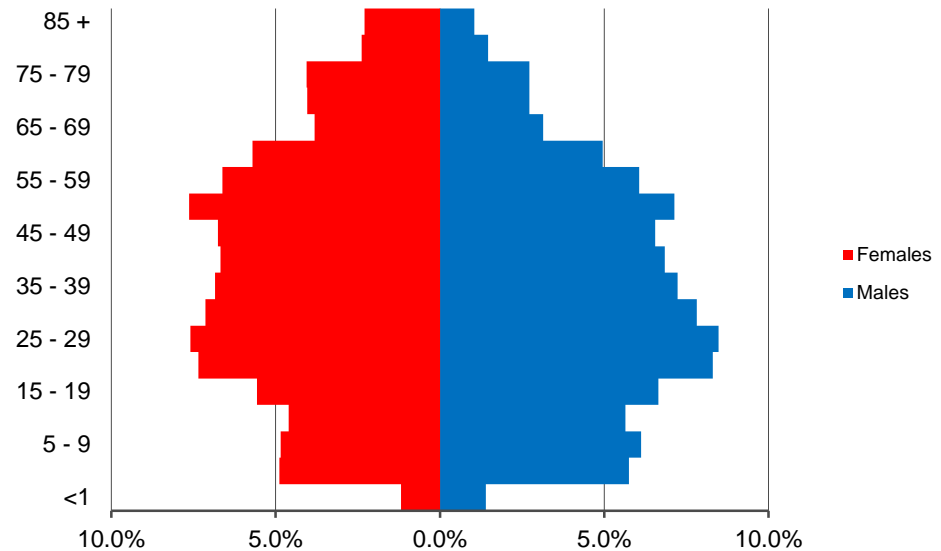
Source: National Statistics Office Georgia

Tbilisi is the largest city in Georgia both in terms of its area and population with approximately 1.18 million people, constituting almost 26% of the population of the entire country. Adjara is the sixth most populated administrative division in Georgia at nearly 9%. Batumi is Adjara is the third largest city in Georgia however with over 160,000 inhabitants (~3.6% of Georgia's population).

### 3.3.1 AGE DISTRIBUTION

The age and gender distribution of the existing population is shown in Exhibit A4.

**Exhibit A4: Population Age and Gender Distribution, 2014**



Source: National Statistics Office Georgia

The graph shows:

- The biggest share of the population is concentrated between 20 and 29 years old;
- More than 50% of the population is younger than 40 years old;
- Around 25% of the male population and 20% of the female are younger than 20 years old;
- Georgia has a relatively large young and middle aged population compared with other Western European countries where there is a much larger ageing population.

The distribution of ages means that there is a large existing working force in Georgia and that many are expected to join the working force in the following years.

### 3.3.2 ADJARA POPULATION

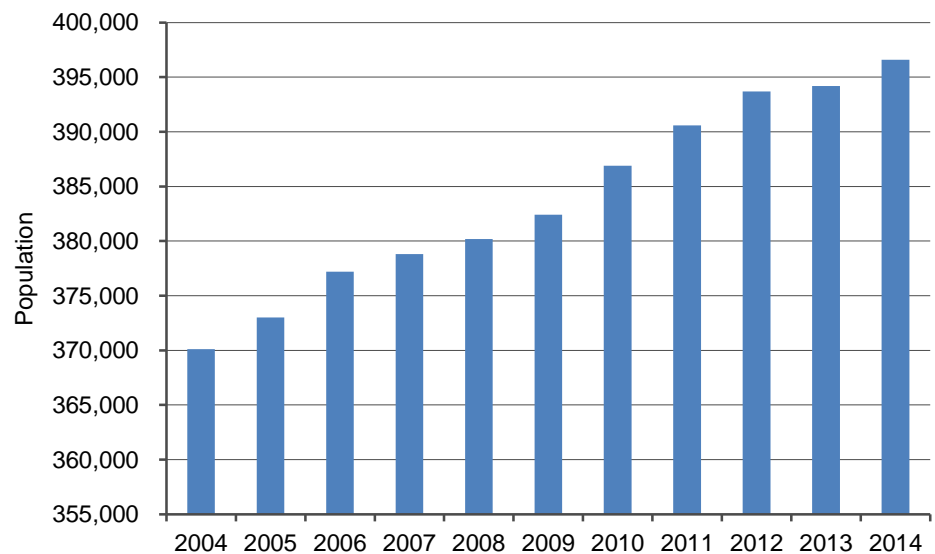
The population in the Autonomous Republic of Adjara was of 396,600 inhabitants in 2014. Exhibit A5 shows the total population split in Adjara by the different municipalities and Exhibit A6 illustrates the population evolution in Adjara over the past 10 years. There has been a steady growth in the overall population of Adjara. The city of Batumi dominates the region in terms of population location.

**Exhibit A5: Adjara Population by Municipality, 2014**

2014	
<b>Autonomous Republic of Adjara</b>	<b>396,600</b>
Batumi, City of	161,200
Keda, Municipality of	20,600
Kobuleti, Municipality of	93,300
Shuakhevi, Municipality of	22,900
Khelvachauri, Municipality of	62,500
Khulo, Municipality of	36,100

Source: National Statistics Office Georgia

**Exhibit A6: Adjara Population Evolution, 2004 – 2014**



Source: National Statistics Office Georgia

The city of Batumi is the home to more than 40% of the population in Adjara. There has been a total increase of 7.16% of population of Adjara in the past 10 years showing an average year-on-year rise of 0.69%. The population of the city of Batumi experienced a total increase of 34.11% in the past 10 years or a 2.98% CAGR. This is a key indicator of the increasing importance of Batumi as an economic city in the region.

### 3.4 NATIONAL ECONOMIC OVERVIEW OF GEORGIA

The wider economic climate and health of a region is an important factor in anticipating tourism demand. Typically, areas with strong economic performance indicators enjoy higher visitation rates than those performing badly. There is also evidence to support the proposition that growth in demand for accommodation and tourism is directly correlated to national GDP growth.

The historic and projected economic statistics for Georgia as at March 2015 are presented in Exhibit A7 below.

#### Exhibit A7: Key Economic Indicators for Georgia (Historical and Forecasts) - 2011 – 2020

	Historical			Estimation/Forecast						
	2011	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f	2020f
Real GDP growth (% y-o-y)	7.2	6.2	3.2	4.9	4.8	4.6	4.4	4.6	4.7	4.8
Consumer price inflation (av, % nat. measure)	8.7	-0.9	-0.4	3.1	2.9	3.3	3.1	3.7	4.0	4.0
Budget balance (% of GDP)	3.6	3.5	1.5	0.9	0.4	0.2	0.2	0.2	0.4	0.7
Current-account balance (% of GDP)	-12.7	-11.7	-5.7	-6.0	-5.6	-5.2	-4.6	-3.8	-3.0	-2.5
Exchange rate GEL/USD (average)	1.69	1.65	1.66	1.76	1.83	1.76	1.72	1.67	1.64	1.63
Exchange rate GEL/EUR (average)	2.34	2.10	2.20	2.36	2.02	1.85	1.84	1.83	1.96	1.96

Source: BMI March 2015

Following the Rose Revolution in 2001 the Georgian economy experienced a period of rapid economic growth until 2007 (GDP averaged 8.4%). The war with Russia in 2008 slowed the growth rate to 2.3% and the economy went into recession the following year contracting by -3.8% as the country also felt the effects of the global downturn. There was a strong recovery in GDP growth between 2010 and 2012 followed by a slowed rate at the end of 2012 and in 2013. In part this can be attributed to uncertainty surrounding policy following the election which caused businesses and consumers to put decisions on hold.

After 2013 GDP expanded by 4.9% in 2014 mainly due to higher trade with the EU and more positive investment growth. In July 2014 Russia decided to end the free trade agreement with Georgia, however, Georgia had signed a DCFTA with the EU which in turn made Georgia much less dependent on Russia. While the economy is not forecast to return to the levels of growth seen prior to 2008, the medium term outlook is positive with the economy forecast to expand at an average rate of over 4.5% per year.

Political risk remains the main downside risk to these forecasts and to Georgia's macro-economic stability, mainly due to Russia signing a military cooperation arrangement with the region of Abkhazia. Nonetheless an invasion of Georgia is highly unlikely given the crumbling of Russia, both in terms of economy and international reputation.

### 3.4.1 BUSINESS ENVIRONMENT

The government has received high marks from the World Bank for its anti-corruption efforts. Over the past year the Georgian Dream-led government continued the previous administration's low-regulation, low-tax, free market policies, while modestly increasing social spending, strengthening anti-trust policy, and amending the labour code to comply with international labour standards.

The government is finalizing its 2020 Economic Development Strategy and has already launched the Georgia Co-Investment Fund, a \$6 billion private equity fund with the mission to invest in tourism, agriculture, logistics, energy, infrastructure, and manufacturing.

Exhibit A8 illustrates the main rankings (2015 or latest available) for ease of doing business in Georgia.

#### Exhibit A8: Georgia Business Environment Rankings

Economy	Ease of Doing Business Ranking	Economic Freedom Ranking	Corruption Perception Index Ranking
Singapore	1	2	7
United States	7	12	17
United Kingdom	8	13	14
Sweden	11	23	4
Germany	14	16	12
<b>Georgia</b>	<b>15</b>	<b>22</b>	<b>50</b>
Bulgaria	38	55	69
Armenia	45	52	94
Romania	48	57	69
Turkey	55	70	64
Russian Federation	62	143	136
Azerbaijan	80	85	126

Source: World Bank Group (IFC), The Heritage Foundation, Transparency International

Georgia's economic freedom score is 73, making its economy the 22nd freest in the 2015 Index. Its overall score has increased by 0.4 since last year, primarily reflecting improvements in freedom from corruption, monetary freedom, and the management of government spending that outweigh a decline in labour freedom. Georgia is ranked 11th out of 43 countries in the Europe region, and its score is well above the regional average.

With a 2.6-point score increase over the past five years, Georgia has registered improvements in five of the economic freedoms, including freedom from corruption, the control of government spending, business freedom, monetary freedom, and investment freedom. Achieving its highest score ever in the 2015 Index, Georgia has advanced further into the category of "mostly free."

A decade of solid increases in economic freedom has contributed to the dynamic expansion of Georgia's economy. Sound public finances and policies that support

open markets have boosted prosperity and reinforced Georgia’s commitment to economic freedom. Not all of the pillars of economic freedom are fully entrenched however: rule of law remains weak, and the perceived level of corruption, though improving, is higher than the average of a European country.

Exhibit A9 summarises the tax environment in Georgia and shows why Georgia is ranked as the fourth least tax burdened country in the world.

**Exhibit A9: Georgia Tax Environment**

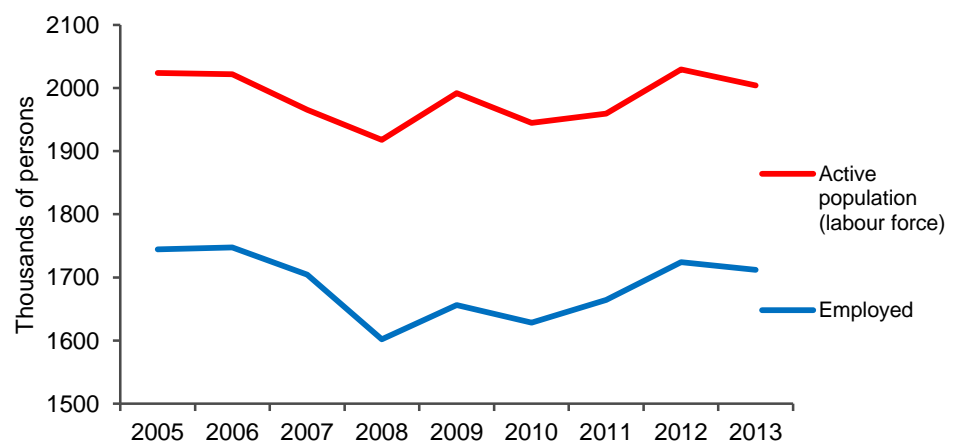
Georgia Tax System		
Number of Taxes	6	No payroll tax or social insurance Tax
Value Added Tax (VAT)	18%	No capital gains tax
Corporate Profit Tax	15%	No wealth tax and inheritance tax
Personal Income Tax	20%	Personal income tax for interest, dividend, royalty – 5%
Dividend and Interest Taxes	5% / 5%	Foreign-source income of individuals fully exempted
Property Tax	Up to 1%	Accelerated depreciation on capital assets Loss carry forward for corporate profit tax purposes (10 years)
Import Duties	0%, 5%, 12%	No restrictions on currency convertibility or repatriation of capital & profit Double taxation avoidance treaties with 47 countries

Source: Ministry of Economy and Sustainable Development of Georgia

**3.4.2 LABOUR FORCE AND EMPLOYMENT**

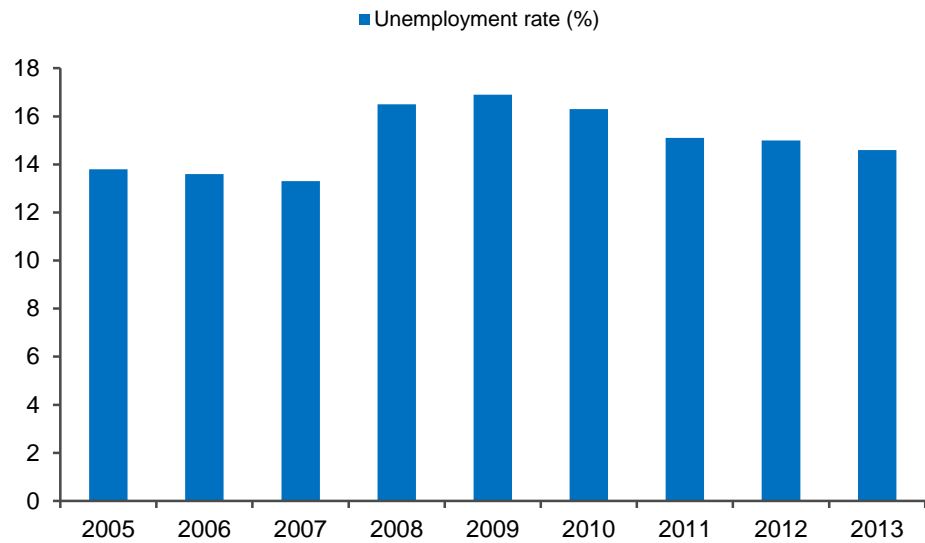
The labour force in Georgia is approximately 2 million people, with more than 1.7 million being actively employed. Exhibit A10 shows the evolution of labour force numbers and the employed population from 2005 to 2013. Exhibit A11 illustrates the evolution of the unemployment rate in Georgia over the same period.

**Exhibit A10: Labour Force and Employment Evolution, 2005 – 2013**



Source: National Statistics Office Georgia

**Exhibit A11: Unemployment Rate Evolution, 2005 – 2013**



Source: National Statistics Office Georgia

Over the past 8 years the labour force comprised on average 2 million people, decreasing slightly in 2013. It is anticipated to increase over the following years as the population older than 20 years continues to grow.

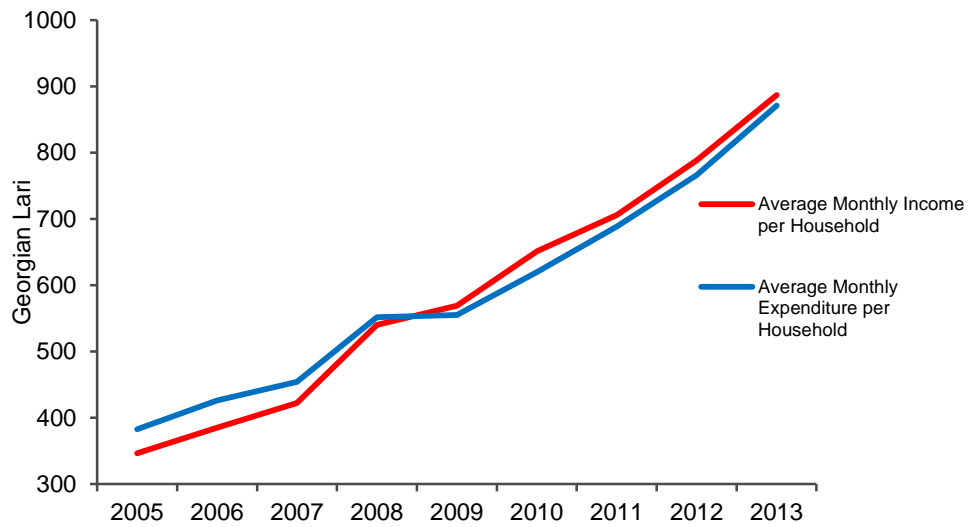
Unemployment rate has fluctuated over the period and is at a relatively high level at above 12%, however since 2009 it has steadily been decreasing. Further it is expected to continue falling. This highlights the improving economic environment.

**3.4.3 HOUSEHOLD INCOME AND EXPENDITURE**

Household income and expenditure have shown a steady year on year increase since 2005 through to 2013, with CAGR of 12.5% and 10.8% in the respective years. Exhibit A12 illustrates the evolution of average monthly household income and expenditure over the period between 2005 and 2013.

This data is useful to show the increasing trends. It is of course for the entire population however and so averaged levels appear low. Unfortunately data is extremely limited about only the upper and high income sectors of the Georgian population. A study by ACT research suggests approximately 60,000 inhabitants earn more than \$10,000 a year (excluding foreign remittances). Information about the upper tiers within this sector of society is unfortunately not available however.

**Exhibit A12: Household Income and Expenditure Evolution 2005 – 2013**



Source: National Statistics Office Georgia

Overall, income and expenditures have been rapidly increasing in Georgia highlighting that there is a positive economic environment. Disposable income is rising as well since growth of income exceeds expenditure growth. Consequently there is a growing middle class and expenditure for discretionary spending is increasing too.

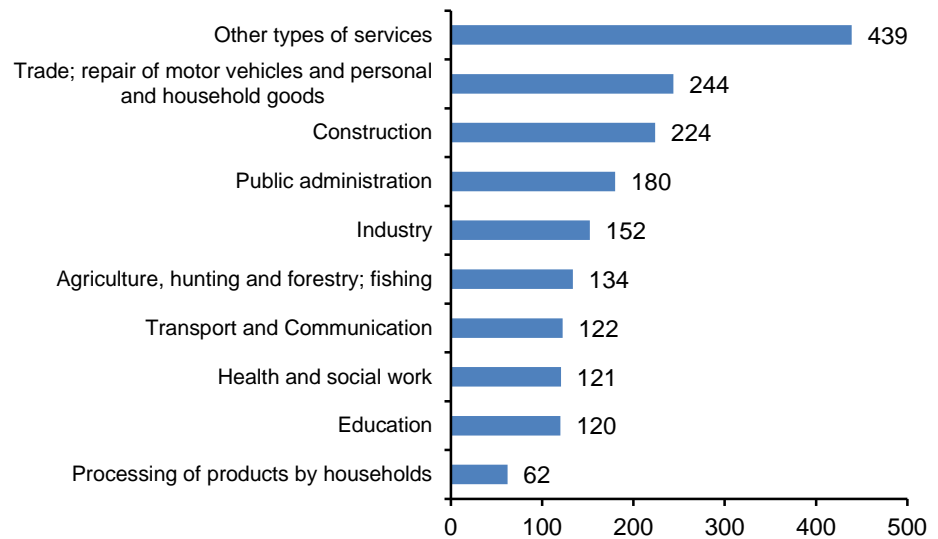
**3.5 LOCAL ECONOMIC REVIEW OF ADJARA**

Adjara is an Autonomous Republic within Georgia and is one of the largest administrative divisions in the country. Adjara is also one of the most popular tourism destinations in Georgia.

In 2013, Adjara accounted for approximately 8% of the country’s gross value added with the key economic sectors being trade and repair services of motor vehicles, personal and household goods (14%) followed by the construction sector (12%) and public administration (10%). Adjara’s total gross value added increased at a compound annual growth rate of 14% between 2006 and 2013.

Exhibit A13 shows the composition of the Gross Added Value by sector in Adjara for 2013. This shows a wide mix of sectors, with the strongest individual sectors being trade, repair of motor vehicles and personal and household goods; and the construction sector.

**Exhibit A13: Composition of Gross Added Value Adjara, 2013**



*At current prices, million GEL  
Source: National Statistics Office of Georgia*

**3.6 SUMMARY**

Georgia has made excellent progress in improving its business environment and now ranks just 15<sup>th</sup> in the World Bank’s Ease of Doing Business rankings, one below Germany. It is also increasing ties with the EU.

A challenge lies in the recent economic slowdown in Russia which will have some contagion effect on the Georgian economy and Russian-Georgian foreign policy behaviour. Increasing ties with the EU are aimed to minimise impact however and multilateral-funded investment projects throughout the country are intended to also minimise any slowdown.

In the medium to long term, Georgia is expected to continue its healthy economic growth as well as increasing economic and political freedom.

## 4 TOURISM DEMAND CONTEXT

This section analyses the tourism demand context for Georgia, Adjara and Batumi. It considers the major trends in terms of visitation statistics (volume, access points), means of transport and demand for hotel and guesthouses establishments.

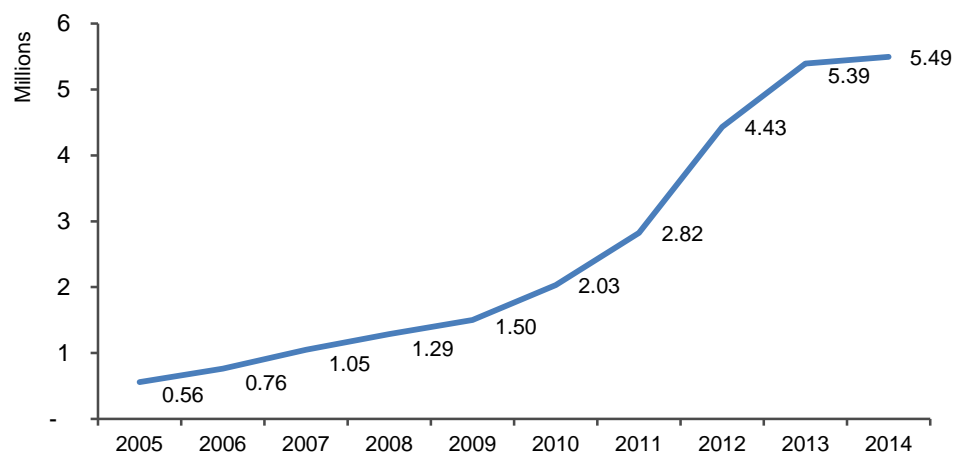
### 4.1 INTERNATIONAL TOURISM AND VISITATION TO GEORGIA

#### 4.1.1 INTERNATIONAL VISITATION

In 2014, Georgia received approximately 5.5 million international arrivals. These arrivals included all international arrivals to Georgia, including tourists, day visitors and those in transiting through Georgia.

International visitation to Georgia between 2005 and 2014 is summarised below.

**Exhibit A14: International Visitation – Georgia 2004 – 2014**



Source: Georgian National Tourism Administration

As shown in Exhibit A14, international visitation to Georgia has increased significantly over the last 10 years, with visitation increasing by a compounded annual growth rate of 28.9%, albeit from a low base of 0.5 million visitors in 2005. This growth was mainly driven by the development of tourism infrastructure such as tax-free incentives, development packages, large scale marketing campaigns and the internationalisation of tourism through enhancements in service and product quality. The growth was also driven, although to a lesser extent, by NGO and corporate activity in Georgia following the economic and political liberation from Russia and by the strengthening ties to Western Europe.

In 2014 Georgia experienced 1.9% year on year growth in international visitation, the lowest increase in the analysed period. This was largely due to a challenging economic year in Turkey, which is one of Georgia's most important source

markets. Between 2012 and 2014 Georgia experienced an average annual growth of 11.32% in total number of international arrivals. The table below shows the main forecasts, on a year-on-year percentage base, for the period of 2015 to 2019 for the main nationalities visiting Georgia. This shows continued growth in the key source markets and especially from Ukraine.

**Exhibit A15: Y-o-Y % Growth Forecast International Arrivals, 2015 – 2019**

Growth of Arrivals in Georgia %	2015	2016	2017	2018	2019
Turkey	8.7	6.2	4.0	2.0	1.8
Armenia	9.0	8.3	4.9	4.2	4.8
Azerbaijan	9.0	8.2	7.6	7.1	6.6
Russia	6.0	3.0	1.7	1.0	2.0
Ukraine	13.7	19.2	15.5	12.4	11.5
Iran	31.6	8.1	8.5	6.0	7.0
Iraq	0.8	0.3	0.0	0.0	0.0
Israel	9.2	5.8	3.1	2.1	2.8
Poland	6.6	5.6	3.8	3.9	3.6
Germany	-2.2	-1.8	1.5	0.8	2.9
USA	8.4	4.1	0.8	0.3	1.9
Greece	3.1	-4.4	-0.7	-0.5	1.4
Kazakhstan	9.0	5.3	2.6	1.5	3.3
UK	0.7	-0.3	-0.5	1.2	-3.4
France	-5.3	-4.8	-0.8	-1.6	1.1

Source: BMI, March 2015

**4.1.2 INTERNATIONAL TOURIST ARRIVALS AND DAY VISITORS**

In formal terms, a ‘tourist’ is a visitor who stays 24 hours or longer. For Georgia, it is estimated that there were 2.06 million tourist arrivals in 2013<sup>2</sup>.

In 2013, 38% of all international visits to Georgia lasted longer than 24 hours, 40% where same day visits and 22% were transit visitors<sup>3</sup>. One of the main reasons for the high proportion of day visits is the ease of access from countries like Turkey. For instance, gambling is legal in Georgia but not in Turkey and therefore many Turkish tourists travel cross the Sarpi border in order to gamble in Batumi and return within 24 hours to Turkey. It is worth noting however that day visitors can still have considerable spending power on touristic products during their short time of visit. There is also a major opportunity to encourage such tourists to stay longer and/or come with their families for example.

<sup>2</sup> Georgian National Tourism Administration

<sup>3</sup> Georgian National Tourism Administration

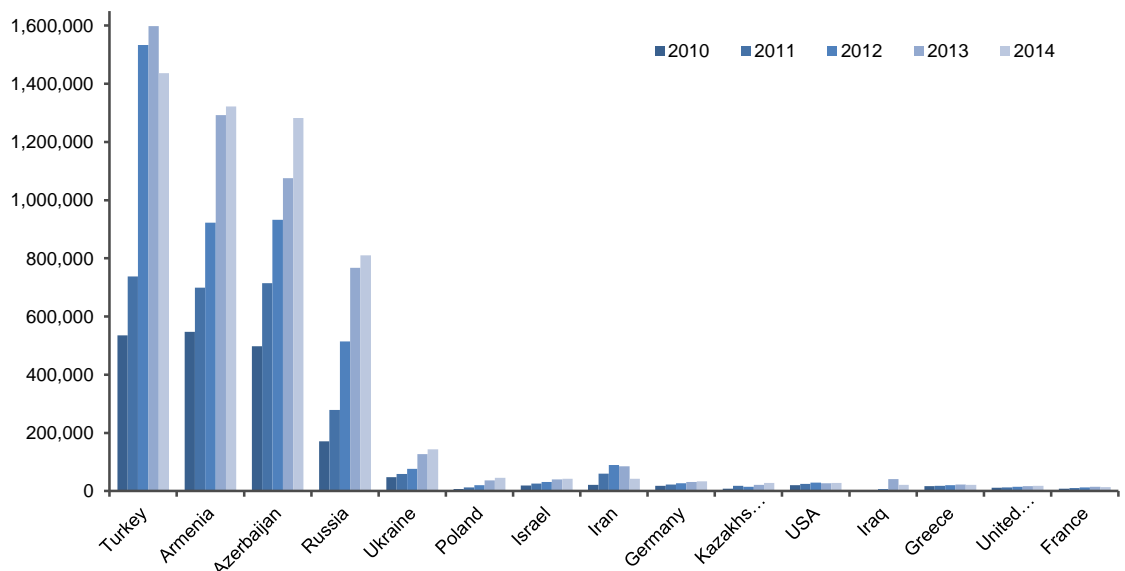
Applying the same proportions of types of visitors to 2014 figures, it is estimated that total 2.1 million international visitors were tourists staying longer than 24 hours, 2.2 million were day visitors and 1.2 million were transit visitors.

#### 4.1.3 SOURCE MARKETS

Primary source countries for visitation to Georgia are Turkey, Armenia, Azerbaijan and Russia. These markets as well as the significant domestic Georgian market are considered in detail in Section 5.

The main 15 source markets of international visitors to Georgia from 2010 to 2014 are shown in Exhibit A16.

**Exhibit A16: Main source markets of international visitors to Georgia, 2010 – 2014**



Source: Georgia National Tourism Organisation

The graph shows the following:

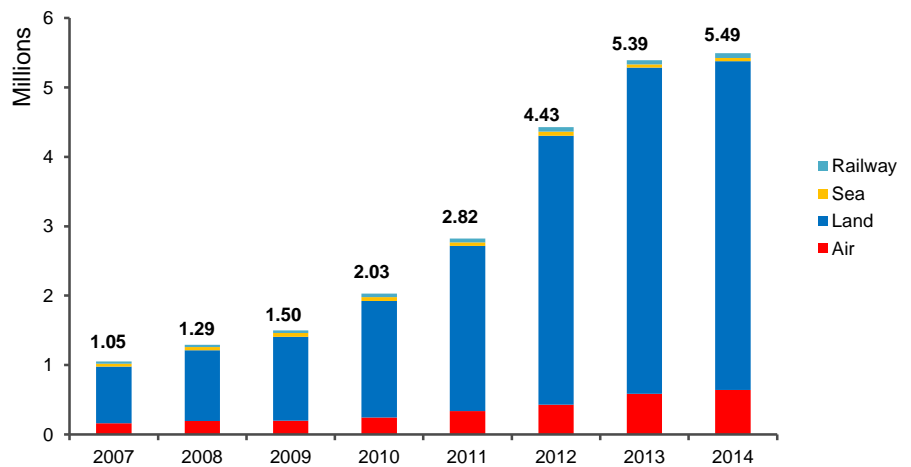
- Turkey, Armenia and Azerbaijan are by far the most important source markets for Georgia, accounting for a combined total of 73.5% of all international arrivals in 2014;
- Russia is also a significant source market and Armenia, Azerbaijan, Russia and Ukraine markets have all seen year on year growth between 2010 and 2014;
- Source markets like Poland (CAGR +46%) and Kazakhstan (CAGR +29%) have seen notable growth over the period as well, albeit still relatively minor markets when compared with the above.
- Other source markets, although very small, such as Iran and Iraq have seen a significant increase in tourist arrivals over the past years. However due to visa regime regulations, arrivals from these source countries experienced a sharp decrease in 2014 of -51.2% and -47.2% respectively.

#### 4.1.4 INTERNATIONAL ARRIVALS BY MEAN OF TRANSPORT

In terms of access to Georgia, land access is by far the most dominant mode. Arrivals by land totalled 4.7 million in 2014 (over 85%). This is due to the extent of land borders with key source market, and indeed neighbouring, countries. For non-neighbouring countries the dominant mode is by air.

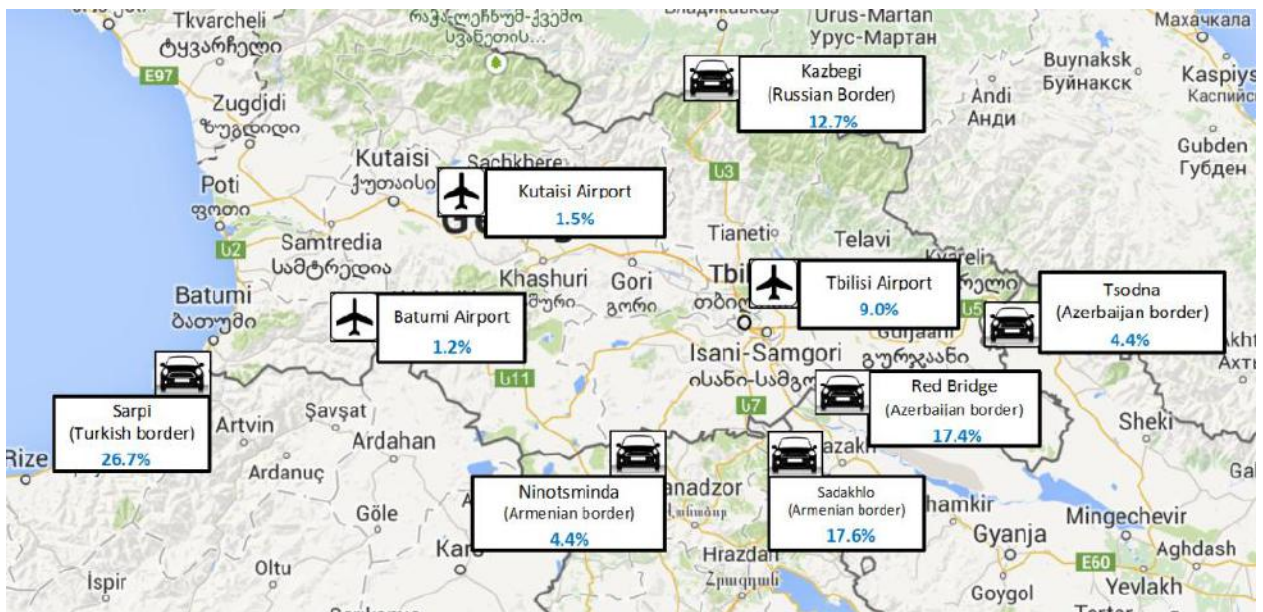
Exhibit A17 shows the international arrivals to Georgia by means of transport and Exhibit A18 shows the international arrival points in Georgia in 2014.

**Exhibit A17: International Visitor Arrivals to Georgia by Means of Transport, 2007 - 2014**



Source: Georgia National Tourism Organisation

**Exhibit A18: International Arrivals Points in Georgia by Border 2014**



Source: Georgia National Tourism Organisation, Google Maps

From the above map it can be seen that Sarpi border is the busiest, with 26% of all arrivals. Other land borders such as the Sadakhlo (17%) and Red Bridge (17%) are also important land borders.

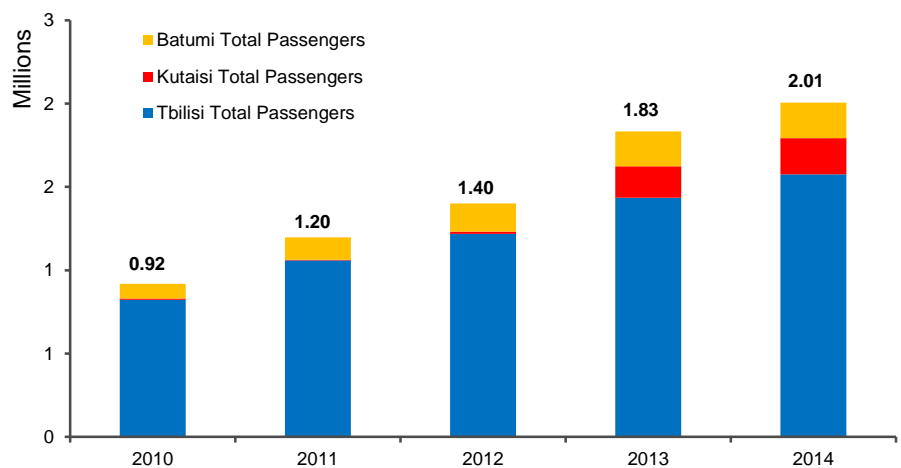
While the majority of visitors to the country arrive by land, the number of arrivals by air (0.64 million) has grown meaningfully by a compound annual growth rate of 21.8%. This is an encouraging indicator for future tourism demand to Georgia and it is expected that this trend will continue as airlift to the country improves.

### AIR ACCESS

Airport passenger trends are important indicators of tourism demand. For example, the majority of tourist passengers arriving by air are in need of hotel or short stay accommodation. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of an area. In 2014, 640,901 international visitors (11.7% of total international arrivals in 2014) arrived by air (for all Georgian airports), which represented an increase of 9.4% on 2013.

In 2014 just over 2 million passengers travelled via Georgian airports, with Tbilisi airport being the busiest (78.5% of total passenger movements). Exhibit A19 shows the total passenger movements (including all arrivals, departures and transit passengers as well as international and domestic travellers) for Tbilisi, Kutaisi and Batumi International Airports, 2010-2014.

**Exhibit A19: Airport Passenger Movements for Tbilisi, Kutaisi and Batumi International Airports, 2010-2014**



Source: Civil Aviation Authority of Georgia

The following can be observed:

- Passenger movements in Georgia more than doubled during the 2010-2014 period, rising by a yearly average of 21.6%.
- Kutaisi International Airport experienced the largest compounded annual growth rate (+132.8%) to reach 218,003 passengers in 2014. This was due mainly to the

renovation of the Airport in 2011 and 2012 (re-opened at the end of September 2012) as well as many agreements with low cost carriers such as WizzAir. Additionally the airport provides shuttle services to Batumi and Tbilisi after each arrival.

- Batumi International Airport has experienced important growth over the past years too (24.8% CAGR), highlighting the growing interest of Batumi as a tourist and business destination. In 2014 the airport handled a total of 213,439 passengers.

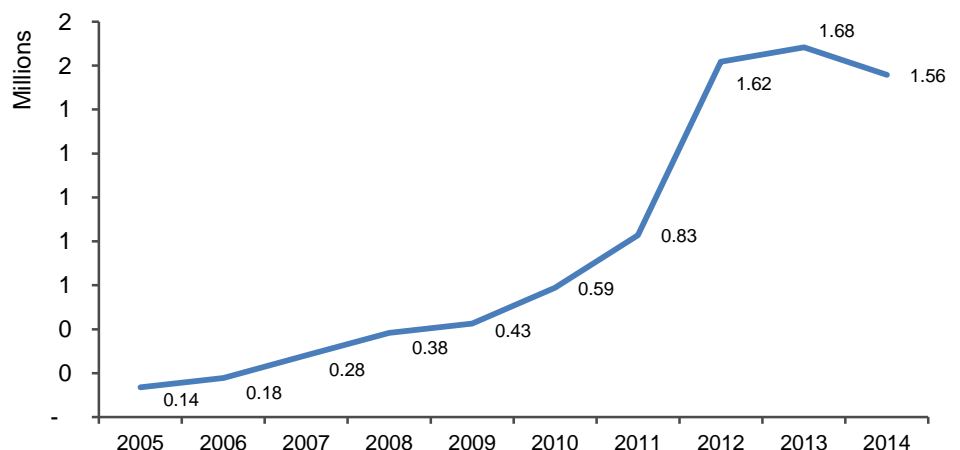
## 4.2 INTERNATIONAL VISITATION TO ADJARA

### 4.2.1 ARRIVALS AT ADJARA'S INTERNATIONAL BORDERS

In 2014 a total of 1.6 million arrivals were recorded at Adjara's international borders (Sarpi road border with Turkey, Batumi Airport and Batumi Port). The volume of these arrivals is shown in Exhibit A20 and the nationalities of the international arrivals in Adjara are displayed in Exhibit A21.

It should be noted that arrivals in Adjara from within Georgia are not recorded. The figures therefore exclude arrivals in Adjara from domestic travellers (a significant market) and international travellers who have entered the country through other borders such as Tbilisi Airport, Kutaisi Airport or land borders such as Kazbegi (Russia). This means that important tourism source markets in Adjara such as the domestic market, Ukrainians (arriving at Kutaisi airport) and Russians (arriving at other land borders and Kutaisi airport) are assumed to be underrepresented in the data shown.

#### Exhibit A20: International Arrivals at Adjara's International Borders, 2005 - 2014

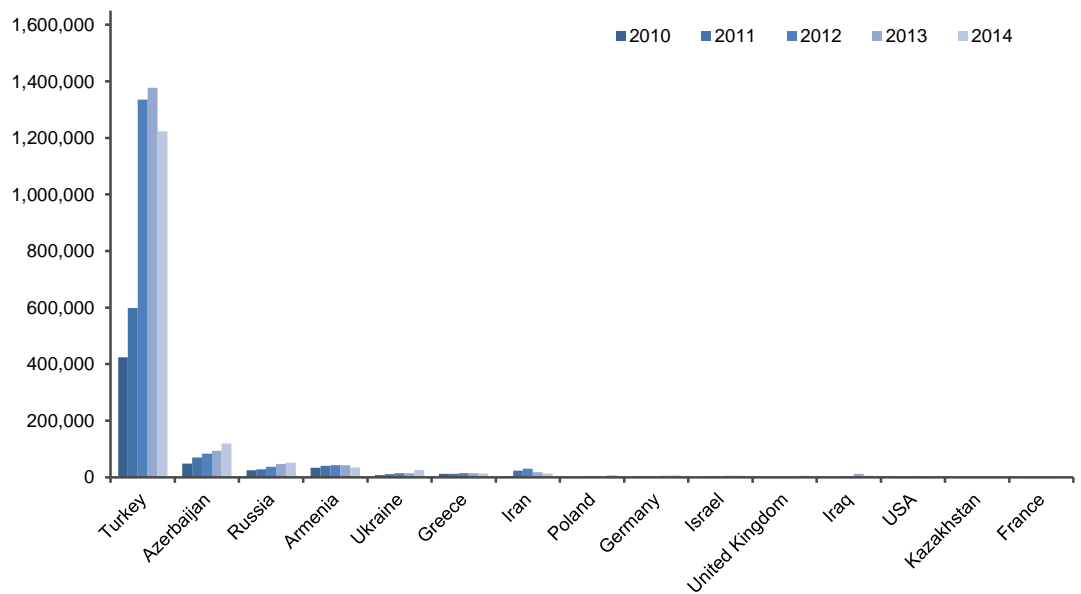


Source: Georgia National Tourism Organisation

The total number of arrivals at Adjara's international borders grew exceptionally over the last 10 years, with a CAGR of 31.1% despite a decline of 7.5% in 2014.

The most significant increase happened in 2012 with arrivals almost doubling in comparison to the previous year. This is, partly due, to the amendment in the gambling legislation (in November 2009) to exempt Batumi hotels with more than 100 rooms from paying the annual casino license fee for 10 years (previously GEL250,000 or approx USD150,000) and so many new casinos and hotels being established in the Batumi market in the years after.

**Exhibit A21: International Arrivals at Adjara’s International Borders by Nationality**



Source: Georgia National Tourism Organisation

The above table shows:

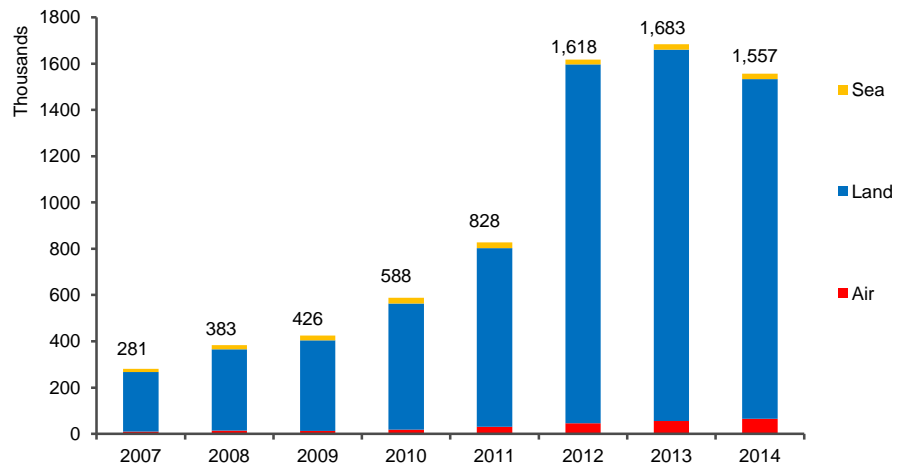
- Turkey is by far the most dominant source market of international arrivals in Adjara at over 1.22 million in 2014. This represents 78.6% of Adjara’s arrivals at international borders. Indeed this figure was even higher at 1.38 million in 2013. Despite the slowdown of the Turkish economy in 2014 the number of arrivals is expected to increase again in 2015.
- Other markets of significance were Azerbaijan (22% CAGR 2005-2014), Russia (32% CAGR 2005-2014), and Armenia (12% CAGR 2005-2014).
- The markets of Ukraine, Iran, Greece and Iraq were also notable over the period. Arrivals from Iran and Iraq are challenged as mentioned previously due to newly enforced Visa regulations.

As mentioned above, we believe that Ukraine and Russia are underrepresented in these figures.

#### 4.2.2 INTERNATIONAL ARRIVALS BY MEAN OF TRANSPORT

Exhibit A22 shows the international arrivals at Adjara’s international borders by means of transport for the period between 2007 and 2014. This shows the dominance of land arrivals, at 1.45 million in 2014.

**Exhibit A22: International Arrivals by Means of Transport in Adjara, 2007 – 2014**



Source: Georgia National Tourism Organisation

The following observations are interesting to note:

- International arrivals in Adjara have increased significantly since 2007 with a total CAGR of 27.7%.
- The preferred mode of arrival is land access with over 94% of all arrivals to Adjara.
- Airport arrivals have seen the highest increase, percentage-wise, of the three transport means. They grew from ten thousand arrivals in 2007 to 65 thousand in 2014, resulting in an average year-on-year growth of 30.6%.
- Arrivals to Adjara experienced a small decrease in 2014, mainly caused by a decrease of arrivals from Turkey.

#### AIRPORT ARRIVALS AT BATUMI INTERNATIONAL AIRPORT (BUS)

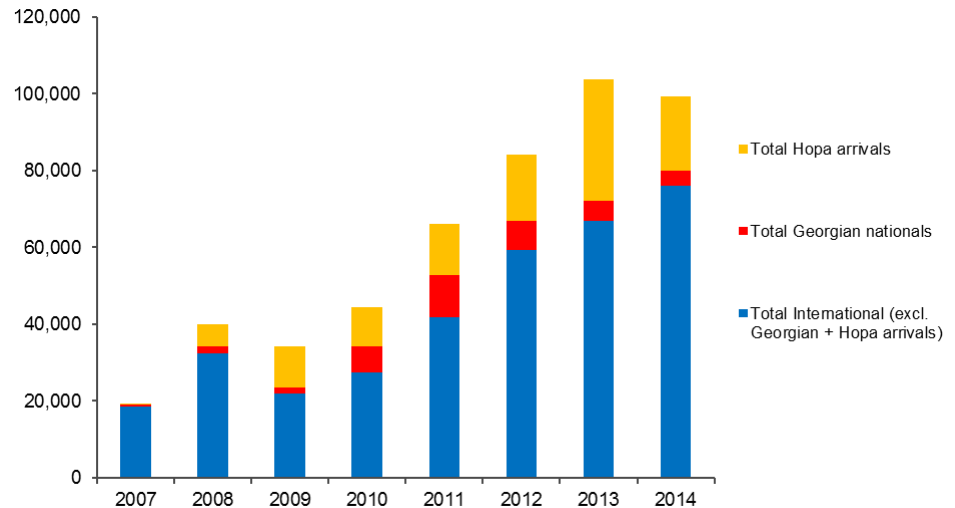
Total arrivals at Batumi International Airport (BUS) in 2014 were of 103,606, with 76,104 of those being international arrivals.

Exhibit A23 shows passenger arrivals for Batumi International Airport for 2007 - 2014. These statistics differ slightly with those in Exhibit A19 due to different organisations collecting this data. The source of the data presented below is the operator of the Batumi International Airport, TAV.

The arrivals are split by TAV into three different categories: total Georgian nationals, total Hopa arrivals, and total International (excluding the previous

categories). The airport is shared with Turkey and so ‘Hopa arrivals’ are all those arrivals that will go directly to Turkey and do not officially enter Georgia.

**Exhibit A23: Arrivals at Batumi International Airport, 2007-2014**



Source: Batumi International Airport, TAV Batumi

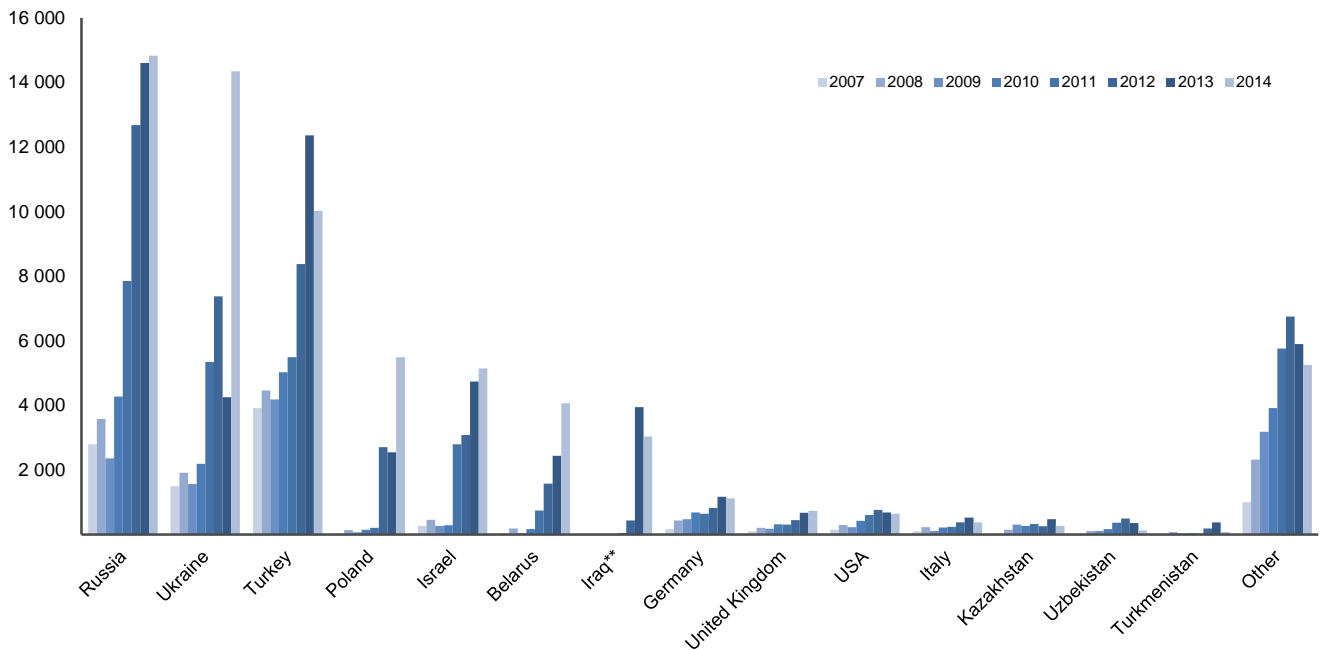
The following observations are made:

- Arrivals at Batumi International Airport have increased by more than 27% CAGR over the period.
- International arrivals constitute the majority of arrivals at Batumi International Airport, with over 70% of total arrivals. Furthermore international arrivals grew by 13.7% in 2014. The overall decline in 2014 was due to fewer Hopa arrivals.
- Following the re-opening of Kutaisi International Airport in 2012 domestic arrivals have gradually decreased at Batumi International Airport. The reason for this is the proximity of Kutaisi to other regions of Georgia in comparison to Batumi. Further, the majority of domestic tourists travel by car within the country.
- During the winter season, only Georgian Airways and Turkish Airlines operate from Batumi International Airport. In the summer season 2015, Belavia Airlines, S7 Airlines, Ukraine International Airlines and Dneproavia Airlines will restart their flights to Batumi. Additionally regular charter flights will operate from Poland in summer season again. Furthermore, it is speculated that Georgian Airlines will have Tel Aviv charters and Arkai Airlines plan to start Tel Aviv - Batumi flights during the summer period.

**BATUMI INTERNATIONAL AIRPORT ARRIVALS BY NATIONALITY**

Exhibit A24 shows the total number of international arrivals at Batumi International Airport from 2007 to 2014 by nationality. This sample has been collected by the Georgian National Tourism Organisation, rather than TAV. We believe that it still gives as an appreciation of who is flying to Batumi.

### Exhibit A24: International airport passenger arrivals for Batumi International Airport by nationality, 2007-2014



Source: Georgia National Tourism Organisation  
 \*\* Since 2009

The graph shows the most significant markets to be Russia, Ukraine and Turkey, with Russia and Ukraine each accounting approximately for 22% of total international arrivals. Notably Ukrainian arrivals increased by 237% in 2014, believed to be related to escaping the challenges experienced at its own Black Sea resorts.

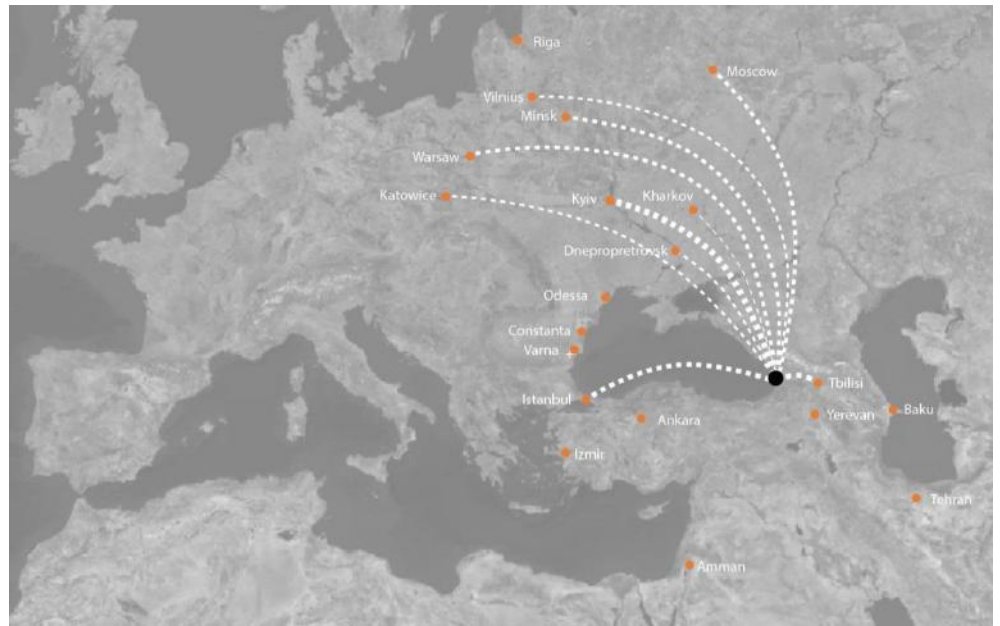
Turkey is an essential market of arrivals and shows a good long term growth trend. In 2014 however arrivals slowed due to the economy in Turkey but are expected to recover in 2015 as the Turkish economy improves.

Source markets like Israel, Poland and Belarus were practically non-existent in 2007 but now represent important markets for tourism in Batumi. It is expected that the interest from these and other markets will continue to increase as Adjara and Batumi improve their tourism infrastructure and offer. Iraq also showed good growth as a tourism market but unfortunately changes in the process for obtaining visas will modify this growth.

Kutaisi Airport lies outside of Adjara but represents an additional source of visitors to Batumi, particularly given the preference of low cost airlines such as Wizz Air to use this airport. Flight routes to Kutaisi Airport are from the source markets of Russia, Ukraine, Poland, Belarus and Lithuania.

It is interesting to see visually the flight routes to Batumi and Kutaisi. The exhibit below shows the key scheduled Summer 2014 direct flight routes. Charter routes would be additional to this.

**Exhibit A25: Scheduled flight routes to Batumi and Kutaisi International Airports, Summer 2014**



Source: Colliers International; graphical illustration by HOK

There is significant scope and capacity to increase flight routes Batumi and Kutaisi if demand for such flights can be demonstrated.

**4.3 OVERNIGHT TOURISM DEMAND ADJARA AND BATUMI**

In seeking to understand tourism demand to Adjara and Batumi it is important to consider overnight tourism data as well as arrivals data since no dataset available gives a complete picture of tourism demand.

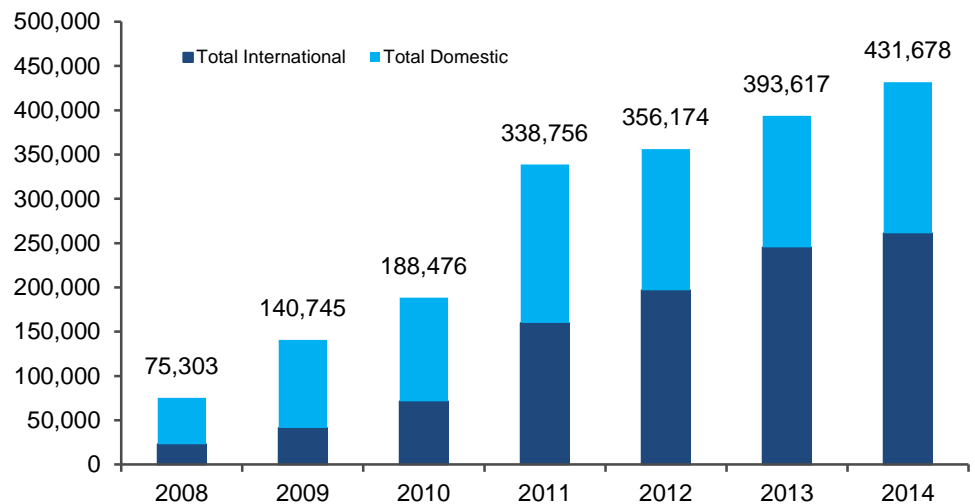
Data about overnight visitors has been collected by the Department of Tourism and Resorts of the Adjara Autonomous Republic. This represents the number of visitors staying overnight at official accommodation establishments (hotels and guesthouses). It does not cover visitors staying overnight in un-official / rented / private accommodation (a major market). It is also important to clarify that initially the number of visitors (staying any length of time) are discussed below, and not the number of nights stayed. Total nights stayed are then considered.

Although overnight visitors staying at un-official and private accommodation are not recorded, it is estimated by the Department of Tourism and Resorts of the Adjara Autonomous Republic that there are approximately the same number staying as in official accommodation establishments (i.e. there are roughly twice as many overnight visitors as officially recorded).

### 4.3.1 ADJARA OVERNIGHT VISITORS

The number of international and domestic visitors staying at official accommodation establishments in Adjara during the period of 2008 to 2014 is shown in Exhibit A26. In 2014 there were over 430,000 tourists staying at official accommodation establishments, of which approximately 60% were international visitors.

**Exhibit A26: Adjara International and Domestic Overnight Visitors at Official Accommodation Establishments in Adjara, 2008-2014**



Source: Department of Tourism and Resorts of the Adjara Autonomous Republic

From the above statistics it can be observed that:

- Overnight visitation in Adjara has increased significantly over the past years with a CAGR of 33.8% for 2008 - 2014.
- The number of international overnight visitors in Adjara has grown at a much faster pace than the domestic overnight visitors (CAGR 49.9% compared to CAGR 21.8%) and currently accounts for approximately 60% of all overnight visitors.
- Although domestic overnight visitation experienced a decline in 2012 (-10.7%) and 2013 (-7%) it recovered in 2014 (+14.9%) and it is set to continue developing as the Georgian GDP and economy continues to grow.
- A share of approximately 17% of the total international arrivals at Adjara's borders (see Exhibit A20) stay at official tourist accommodation in Adjara such as hotels and guesthouses.

Using the information above, if we calculate that there is nearly the same number of international tourists at un-official and private accommodation as at official accommodation<sup>4</sup>, we can conclude that roughly 33-34% of all international visitor

<sup>4</sup> Department of Tourism and Resorts of the Adjara Autonomous Republic

border arrivals in Adjara stay for more than 24 hours. This would have equated to approximately 522,000 international overnight visitors in 2014.

If (continuing with the above logic) we calculate the total number of domestic overnight visitors in Adjara for 2014, we estimate that there were approximately 341,000 domestic overnight visitors. This suggests a total of 863,000 international and domestic overnight visitors to official and un-official accommodation in Adjara in 2014.

#### 4.3.2 ADJARA OVERNIGHTS

The number of overnights (total nights stayed by overnight visitors) in Adjara has only been recorded by the Department of Tourism and Resorts of the Adjara Autonomous Republic since 2012. In 2014, 1 million overnights were recorded at official accommodation. Exhibit A27 shows the total number of international and domestic overnights in Adjara from 2012 to 2014.

##### Exhibit A27: Adjara Total Number of Overnights, 2012-2014

Year	Total Adjara	Change (%)	International Overnights	International Change (%)	Domestic Overnights	Domestic Change (%)	International Share (%)	Domestic Share (%)
2012	861,503	—	448,317	—	413,186	—	52.0	48.0
2013	946,197	9.8	542,485	21.0	403,712	(2.3)	57.3	42.7
2014	1,007,671	6.5	565,061	4.2	442,611	9.6	56.1	43.9
<b>Compound Annual Growth Rate 2012-2014 (%)</b>		<b>8.2</b>		<b>12.3</b>		<b>3.5</b>		

Source: Department of Tourism and Resorts of the Adjara Autonomous Republic

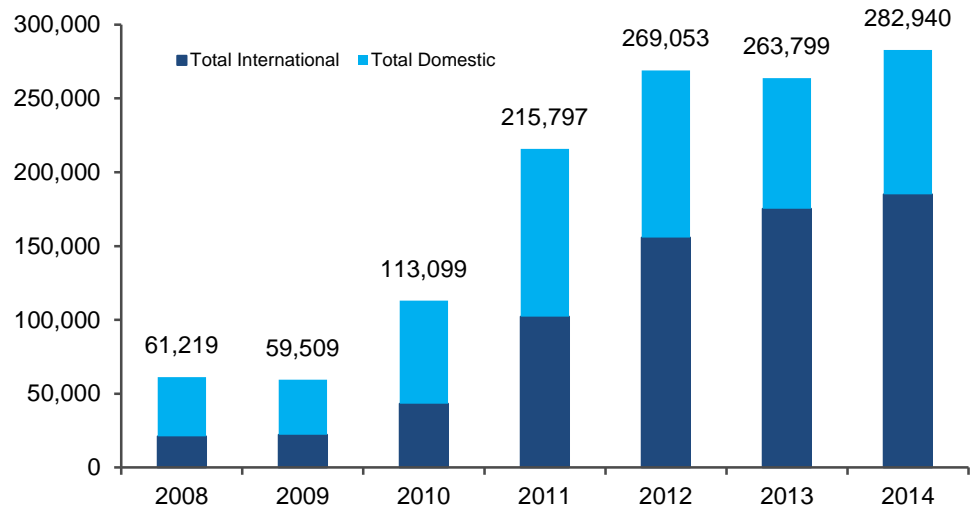
Key observations are:

- The total number of overnights grew considerably over the three year period.
- International overnights account for just a little more than half of the total overnights.
- When compared with the total number of overnight visitors in Adjara at official accommodation an average length of stay (ALOS) by overnight visitors can be calculated. In 2014 this was:
  - Average ALOS: 2.3 nights
  - International ALOS: 2.2 nights
  - Domestic ALOS: 2.6 nights
- Based on the assumption that there is the same number of people staying at un-official and private accommodation it is estimated that the total number of overnights in Adjara in 2014 exceeded 2 million overnights.

### 4.3.3 BATUMI OVERNIGHT VISITORS

In 2014 there were over 282,000 overnight visitors in Batumi. Exhibit A28 shows the number of international and domestic visitors staying at official accommodation establishments in Batumi during the period of 2008 to 2014.

#### Exhibit A28: Adjara International and Domestic Overnight Visitors at Official Accommodation Establishments in Batumi, 2008-2014



Source: Department of Tourism and Resorts of the Adjara Autonomous Republic

From the graph above the following can be observed:

- Batumi follows a parallel trend to Adjara with overall overnight visitation showing a strong growth over the period (CAGR 29.1%).
- Similarly, international overnight visitation rose more rapidly in comparison to domestic overnight visitors.
- A share of approximately 12% of the total international arrivals in Adjara (see Exhibit A20), stay in Batumi at official tourist accommodation such as hotels and guesthouses.

If we calculate the total number of international and domestic overnight visitors the same way as in the previous section, we estimate that in 2014 in Batumi there were 565,000 overnight visitors to official and un-official accommodation, of which:

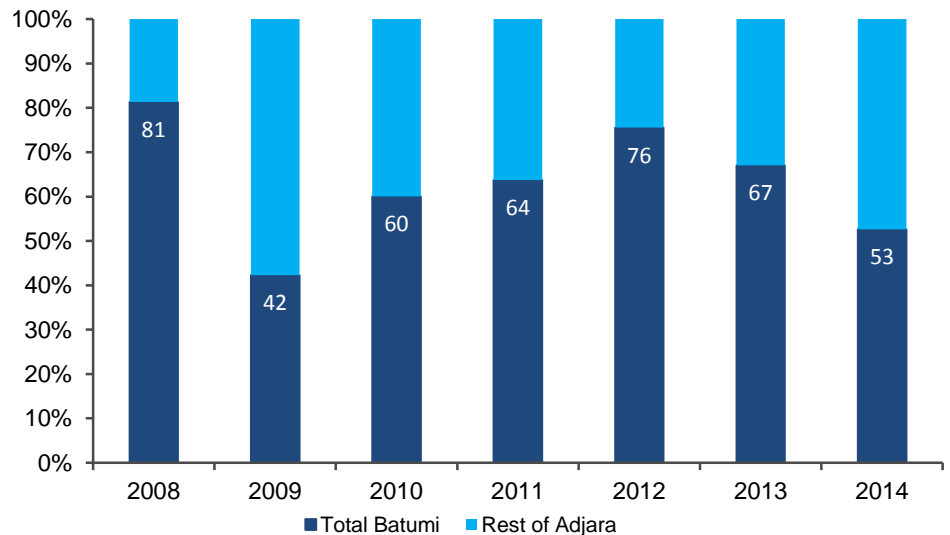
- 195,000 were domestic overnight visitors.
- 370,000 were international overnight visitors.

#### BATUMI'S SHARE WITHIN ADJARA

In 2014, 53% of all overnight visitors in Adjara were overnight visitors in Batumi. Exhibit A29 graphically shows the evolution from 2008 to 2014 of Batumi's total

share of Adjara international and domestic overnight visitors at official accommodation establishments.

**Exhibit A29: Batumi’s Share of Total Adjara International and Domestic Overnight Visitors at Official Accommodation Establishments, 2008-2014**



The city of Batumi recorded fluctuating values as a percentage of the total of Adjara overnight visitors. During years where domestic visitation was lower in proportion to international visitation, for instance in 2012, Batumi recorded a higher share of all overnight visitors (76%). We conclude that international overnight visitors prefer to stay in Batumi, where international, quality, branded hotels are situated. Domestic overnight visitors do not necessarily stay in Batumi itself, with an interest also in smaller types of accommodation such as guesthouses and less known locations.

## 4.4 SUMMARY AND OUTLOOK

### 4.4.1 SUMMARY

Georgia and Adjara have experienced one of the fastest tourism growths in the world in the recent years, at an annual growth rate of 29% over the last 10 years. It started from a low base but the growth is impressive.

Georgia is still considered as a regional tourism destination since it is highly dependent on neighbouring countries. Nevertheless, tourism and infrastructure improvements have enabled Georgia to attract many additional international source markets and this is a trend that is expected to continue as the government continues to foster tourism.

The primary source markets for Georgia area Turkey, Armenia, Azerbaijan and Russia. In Adjara, the Turkish market dominates arrivals. These are predominantly by land over the Sarpi, close to Batumi. Indeed day visitors from Turkey are a key market as well as overnight visitors. Dominant international markets for arrivals by air at Batumi International Airport are those travelling from Russia, Ukraine, Turkey, Poland, Israel, Belarus and Iraq.

Overnight visitors in 2014 in Adjara in official and un-official accommodation are estimated to have totalled 863,000, with an average length of stay of 2.2 nights by international tourists and 2.6 nights by domestic tourists. Total overnights stayed are estimated to have exceeded 2 million nights.

Batumi is dominant in Adjara for attracting overnight visitors, especially so with international visitors. In 2014 it is estimated that there were 565,000 overnight visitors to official and un-official accommodation.

Growth in visitors is expected to increase as trends continue.

#### 4.4.2 MARKET SIZE

It is particularly complex to estimate the market size from which visitors to Gonio Resort might come. This is due to the types of data that are and are not collected by different parties, with several data gaps challenging the process. To reach an indication however we have identified markets from which some meaningful statistics can be estimated. These are shown in Exhibit A30, with estimates of size for 2015. To reach 2015 estimates, growth on 2014 has been applied as 8.9% for international and 4.8% for domestic markets.

##### Exhibit A30: Market Size in 2015

Estimated Market Size	2015	Notes
<b>Day Visitors</b>		
<b>Excludes Overnight and Transient Visitors</b>		
Adjara Int Arrivals	678,402	
<b>Adjara Overnight Visitors</b>		
<b>Excludes Batumi Overnight Visitors</b>		
International	178,539	Includes Private and Un-official Acc.
Domestic	152,549	Includes Private and Un-official Acc.
<b>Batumi Overnight Visitors</b>		
International	403,271	Includes Private and Un-official Acc.
Domestic	205,035	Includes Private and Un-official Acc.
<b>Local Population</b>		
Adjara	237,754	Excludes Batumi population
Batumi	162,812	

#### OUTLOOK

In line with the forecasts for economic growth in Georgia and the neighbouring countries, visitation to the country is expected to continue to increase over the

coming years as Adjara and especially Batumi consolidate themselves as popular tourism destinations.

We have prepared two scenarios namely a 'cautious' and an 'optimistic' scenario. The cautious scenario is based on an 'as is' scenario, which considers current arrival forecasts by Business Monitor International. The optimistic scenario uses the 'as is' scenario as a base but also adds growth based on an assumption that Gonio Resort and other development in Batumi and Adjara will lead to greater induced demand for Batumi / Adjara than assumed for Georgia overall in Business Monitor International's forecasts. Forecasts for each scenario are shown in Exhibit A31 for the years 2015, 2020, 2030 and 2050.

### Exhibit A31: Forecast Market Size, Cautious and Optimistic Scenario, 2015-2050

Estimated Market Size	2015	2020	2030	2050	2015	2020	2030	2050	Notes
<b>Day Visitors</b>	<b>'Cautious scenario'</b>				<b>'Optimistic scenario'</b>				<b>Excludes Overnight and Transient Visitors</b>
Adjara Int Arrivals	678,402	810,791	988,349	1,468,635	678,402	1,062,599	1,730,863	4,592,494	
<b>Adjara Overnight Visitors</b>									<b>Excludes Batumi Overnight Visitors</b>
International	178,539	213,381	260,110	386,510	178,539	279,651	455,522	1,208,636	Includes Private and Un-official Acc.
Domestic	152,549	191,197	262,119	389,495	152,549	191,197	262,119	389,495	Includes Private and Un-official Acc.
<b>Batumi Overnight Visitors</b>									
International	403,271	481,968	587,517	873,019	403,271	631,654	1,028,898	2,729,972	Includes Private and Un-official Acc.
Domestic	205,035	256,980	352,304	523,505	205,035	256,980	352,304	523,505	Includes Private and Un-official Acc.
<b>Local Population</b>									
Adjara	237,754	249,882	276,025	336,803	237,754	249,882	276,025	336,803	Excludes Batumi population
Batumi	162,812	171,117	189,020	230,640	162,812	171,117	189,020	230,640	

## 5 SOURCE MARKETS INSIGHT

### 5.1 OVERVIEW

The key source markets have been discussed in the previous section. This section provides further insight on six key markets of interest: namely, Georgia, Turkey, Russia, Armenia, Azerbaijan, and Ukraine

Other countries that can be expected to be source markets for visitors to Gonio Resort include Iran, Iraq, Israel, Poland, Belarus and Lithuania, and of course guests may also come from numerous other countries.

Volume and value information for the six selected markets is dominantly informed by Euromonitor analysis. As is frequently the case with statistics however, figures vary between different sources and caution of interpretation should be exercised. Limited data is available for certain markets. To understand these markets better in Georgia more in depth surveys should be undertaken, especially with regard to the domestic market and their holidaying behaviour.

## 5.2 INSIGHT ON THE GEORGIAN DOMESTIC MARKET

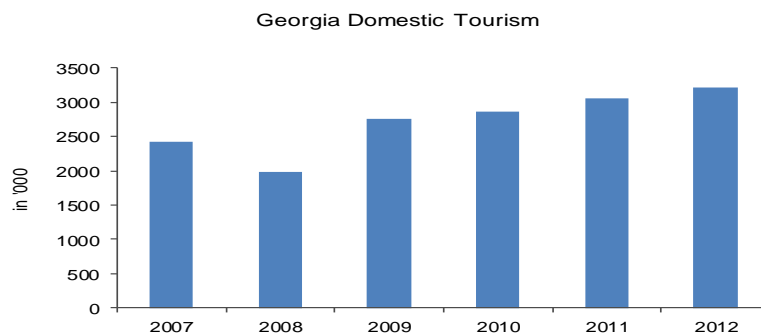
### COUNTRY SUMMARY

GEORGIA - Country facts																																																																			
Total Population	4.9 million (July 2014 est.)																																																																		
Gender	Male 47.6%; Female 52.4%																																																																		
Population pyramid	<p>The population pyramid for Georgia in 2014 shows a relatively stable population structure across age groups. The x-axis represents population in thousands, ranging from 0 to 205 for both males and females. The y-axis represents age groups from 0-4 to 100+.</p> <table border="1"> <caption>Population Pyramid Data (in thousands)</caption> <thead> <tr> <th>Age Group</th> <th>Male</th> <th>Female</th> </tr> </thead> <tbody> <tr><td>0 - 4</td><td>164</td><td>164</td></tr> <tr><td>5 - 9</td><td>150</td><td>150</td></tr> <tr><td>10 - 14</td><td>136</td><td>136</td></tr> <tr><td>15 - 19</td><td>122</td><td>122</td></tr> <tr><td>20 - 24</td><td>108</td><td>108</td></tr> <tr><td>25 - 29</td><td>94</td><td>94</td></tr> <tr><td>30 - 34</td><td>80</td><td>80</td></tr> <tr><td>35 - 39</td><td>66</td><td>66</td></tr> <tr><td>40 - 44</td><td>52</td><td>52</td></tr> <tr><td>45 - 49</td><td>38</td><td>38</td></tr> <tr><td>50 - 54</td><td>24</td><td>24</td></tr> <tr><td>55 - 59</td><td>10</td><td>10</td></tr> <tr><td>60 - 64</td><td>0</td><td>0</td></tr> <tr><td>65 - 69</td><td>0</td><td>0</td></tr> <tr><td>70 - 74</td><td>0</td><td>0</td></tr> <tr><td>75 - 79</td><td>0</td><td>0</td></tr> <tr><td>80 - 84</td><td>0</td><td>0</td></tr> <tr><td>85 - 89</td><td>0</td><td>0</td></tr> <tr><td>90 - 94</td><td>0</td><td>0</td></tr> <tr><td>95 - 99</td><td>0</td><td>0</td></tr> <tr><td>100+</td><td>0</td><td>0</td></tr> </tbody> </table>	Age Group	Male	Female	0 - 4	164	164	5 - 9	150	150	10 - 14	136	136	15 - 19	122	122	20 - 24	108	108	25 - 29	94	94	30 - 34	80	80	35 - 39	66	66	40 - 44	52	52	45 - 49	38	38	50 - 54	24	24	55 - 59	10	10	60 - 64	0	0	65 - 69	0	0	70 - 74	0	0	75 - 79	0	0	80 - 84	0	0	85 - 89	0	0	90 - 94	0	0	95 - 99	0	0	100+	0	0
Age Group	Male	Female																																																																	
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25-54 years	40.9%																																																																		
55+ years	28.4%																																																																		
Economy	World Bank Income level category: Lower middle income GDP per capita \$6,100 (2013 est) Unemployment rate 15% (2013 est) Population below poverty line 9.2% (2010)																																																																		

### DOMESTIC TOURISM

Estimates of the scale of domestic tourism within Georgia are presented below.

#### Exhibit A32: Domestic Tourism within Georgia



Source: Euromonitor, December 2013

### SPEND

A visitor survey undertaken in Batumi asked Georgian respondents about their spend during their stay in Batumi. The answers were that 19% of the respondents spend more than 100 GEL per day; and 45% of the respondents spend between 50 and 100 GEL per day.

## 5.3 INSIGHT ON THE TURKISH OUTBOUND MARKET

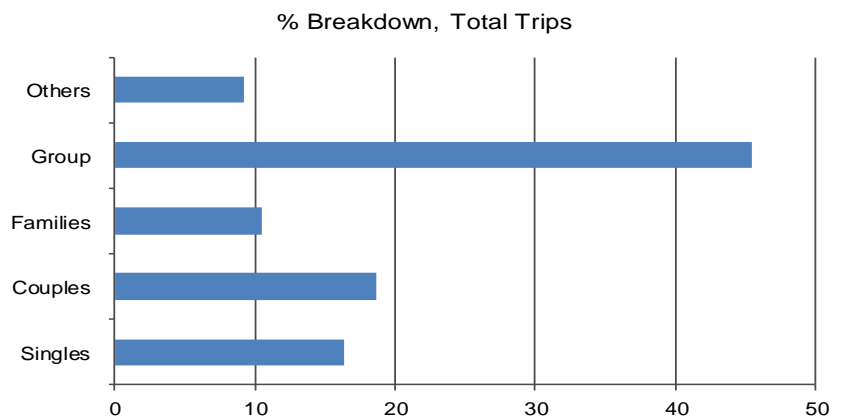
### COUNTRY SUMMARY

TURKEY - Country facts	
Total Population	81.6 million (July 2014 est.) 11.3 million in Istanbul, 4.2 million in Ankara (2011)
Gender	Male 50.5%; Female 49.5%
Population pyramid	
0-14 years	25%
15-24 years	17%
25-54 years	43%
55 + years	15%
Economy	World Bank Income level category: Upper middle income GDP per capita \$15,300 (2013 est) Unemployment rate 9.3% (2013 est) Population below poverty line 16.9% (2010)

Source: CIA World Factbook, World Bank

### FAMILY STATUS

#### Exhibit A33: Family status of outbound Turkish leisure trip takers, 2013



Source: Euromonitor

The biggest share of the Turkish outbound holiday market is dominated by groups of tourists travelling together. Couples and single Turkish nationals are also key at

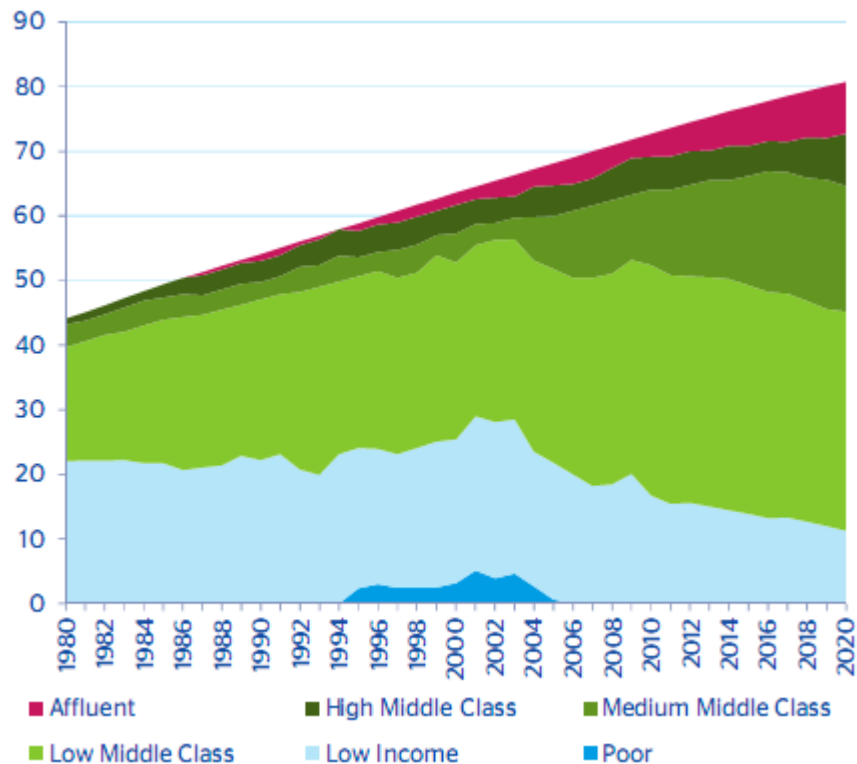
20%. We expect to see an increase in family holiday takers as the middle class continues to surge.

### INCOME BRACKETS

Turkey is experiencing significant change in its population income brackets, with a middle class boom in progress.

BBVA analysis shows that whilst the population was concentrated in segments up to the low middle class between 1980 and 2000, it is now changing dramatically and they project that 36 million people out of a total population of 81 million by 2020 will have a purchasing power within or above the medium middle class [BBVA 2013]. The graph below shows the population split between income brackets.

**Exhibit A34: Population of Turkey by range of GDP per capita (millions of people)**



Poor: up to 1,000 USD per year)	Low income: 1,000-5,000 USD
Low middle class: 5,000-15,000 USD	Medium middle class: 15,000-25,000 USD
High middle class: 25,000 to 40,000 USD	Affluent: over 40,000 USD

Source: BBVA Research

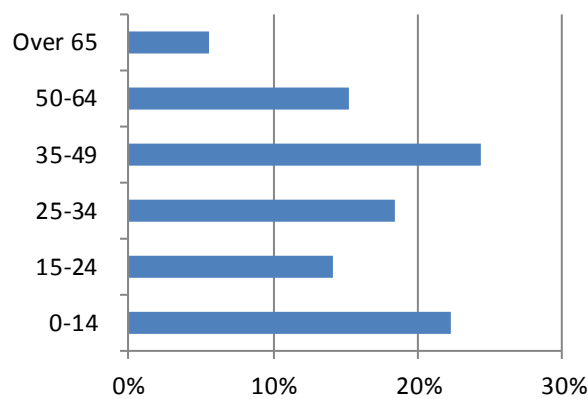
### HOLIDAYING MARKET INSIGHT

Since Turkey is a major tourism market, information is collected with regard to holiday takers. Insights are presented below.

### Size and Nature of the Holidaying Market

- The average entitlement is 14 days paid holiday and 11 days public holidays on working days.
- In 2013, there were an estimated 80.1 million holiday takers domestic and outbound according to Euromonitor.
- The age distribution of domestic and outbound holiday takers (shown below) suggests that children represent a key share of the market. This is currently most likely the domestic market but suggests opportunity to capture more families in outbound travel if appropriate attractions are available.

### Exhibit A35: Age of Turkish Holiday Takers 2013

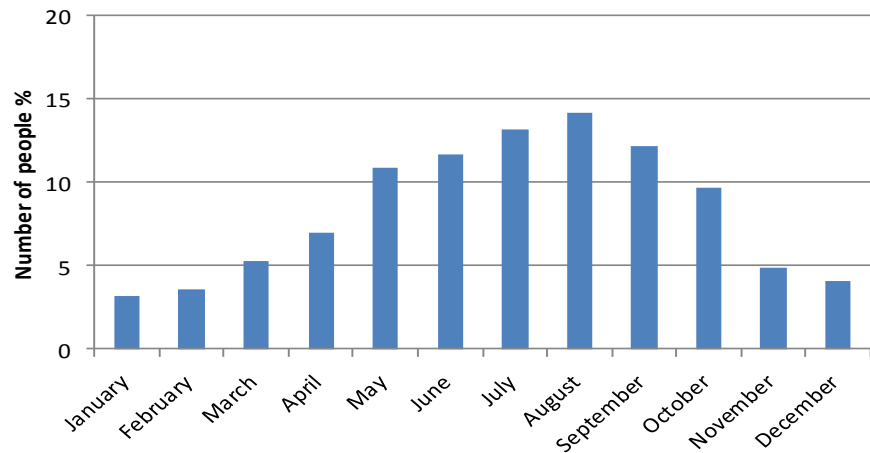


Source: Euromonitor

### SEASONALITY

May to September is the most dominant period for trips. The low and shoulder season are stronger amongst Turkish holiday makers than for the Russian market for example.

### Exhibit A36: Seasonality of Trips by Turkish Holiday Takers (domestic and outbound) 2013



Source: Euromonitor

### SPEND

- Balance of payment figures collated by Euromonitor suggest that in 2013 expenditure by Turkish holidaymakers was 9,400 million TRY (\$ 4,235 million). When considered in relation to departures in 2013 this equates to \$ 529 per departure.
- In 2013 outgoing expenditure of Turkish tourist in Georgia was 1,335 million TRY (\$601 million). When considered in relation to all departures to Georgia in 2013 this equates to \$ 517 per departure. By way of comparison for other markets it was Azerbaijan \$ 464; Bulgaria \$ 402; Russia \$ 523; Ukraine \$ 473. This suggests Georgia is holding its own reasonably well in attracting expenditure from Turks, particularly given the short trip length of many Turks in Georgia.
- A visitor survey undertaken in Batumi asked Turkish respondents about their spend during their stay in Batumi. The answers were:
  - 44% spends more than 200 GEL per day
  - 36% spends between 70-200 GEL per day

### POPULAR TOURISM DESTINATIONS

Georgia is the most popular destination for Turkish nationals. This is considered to be mainly due to legal gambling and the proximity to Turkey.

- Total domestic tourism in Turkey totalled 72.1 million trips taken in 2013 which accounts for 90% of all tourism trips taken by Turkish nationals.
- Outbound trips in 2013 were in total 8 million (10%) and the most popular destinations can be seen in the table below.  
[‘n/a’ means not available]

### Exhibit A37: Outbound trips from Turkey to key destinations, 2013

Country	# Outbound	%
Georgia	1,164,100	14.5%
Bulgaria	653,600	8.2%
Greece	598,900	7.5%
Cyprus	542,700	6.8%
Azerbaijan	365,200	4.6%
Iraq	331,700	4.1%
Germany	315,400	3.9%
Italy	232,100	2.9%
Iran	203,000	2.5%
Russia	115,000	1.4%
Ukraine	89,500	1.1%
Romania	n/a	n/a
Other Destinations	3,400,600	42.4%

Source: Euromonitor

If we compare the numbers compiled by Euromonitor and the official Georgian statistics of 1,597,438 arrivals in 2013 we can see there is a big discrepancy. This is often the case with different sources of data due to different methodologies. However, it is still useful to understand the significance of Georgia to the Turkish market.

### GROWTH

Growth of 19% CAGR is forecast for 2014-2018 for outbound departures. This compares with 9% CAGR 2008-2013. Outgoing tourist expenditure is also expected to see a value of 6% CAGR in constant 2013 prices, in comparison to 5% over previous years. This growth is expected due to improved economic conditions and a smoother political situation. Competitive flight prices, package holiday offers and increased levels of interest in other countries as a result of increasing levels of education are all considered to be factors for growth [Source: Euromonitor, August 2014].

### Exhibit A38: Outbound trips trends and forecast to key destinations on interest

	2014	2015	2016	2017	2018	CAGR
Azerbaijan	368,500	394,300	416,400	450,100	484,700	7.1%
Bulgaria	643,800	635,500	628,500	622,200	617,200	-1.0%
Georgia	1,575,000	1,927,800	2,307,600	2,750,700	3,267,800	20.0%
Greece	687,000	845,000	1,026,700	1,217,600	1,430,700	20.1%
Russia	119,600	124,700	131,900	138,800	145,700	5.1%
Ukraine	67,000	56,600	50,300	46,000	43,300	-10.3%
Other	6,091,700	7,449,200	9,111,600	11,080,600	13,413,700	21.8%
<b>Total Departures</b>	<b>9,552,600</b>	<b>11,433,100</b>	<b>13,673,000</b>	<b>16,306,000</b>	<b>19,403,100</b>	<b>19.4%</b>

Source: Euromonitor, August 2014

Forecasted growth for Turkish departures to Georgia is in line with the forecast for outbound departures to all countries as a whole.

## 5.4 INSIGHT ON THE RUSSIA OUTBOUND MARKET

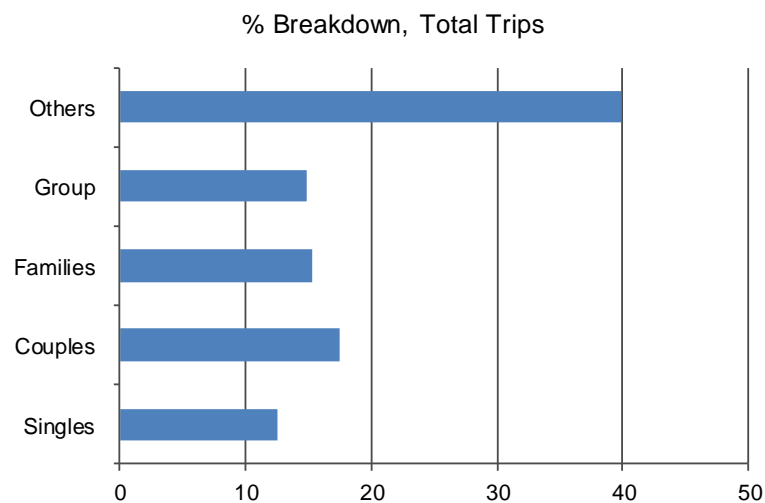
### COUNTRY SUMMARY

RUSSIA - Country facts	
Total Population	142.5 million (July 2014 est.)
Gender	Male 46.2%; Female 53.8%
Population pyramid	<p>The population pyramid for Russia in 2014 shows a relatively stable population across age groups, with a slight increase in the 55-59 age group. The population is split between males (left side, blue bars) and females (right side, red bars). The x-axis represents population in millions, ranging from 0 to 7 on both sides. The y-axis represents age groups from 0-4 to 100+.</p>
0-14 years	16.4%
15-24 years	10.7%
25-54 years	45.8%
55+ years	26.9%
Economy	World Bank Income level category: High income: nonOECD GDP per capita \$18,100 (2013 est) Unemployment rate 5.8% (2013 est) Population below poverty line 11% (2010)

Source: CIA World Factbook, World Bank

### FAMILY STATUS

#### Exhibit A39: Family status of outbound Russia leisure trip takers, 2012



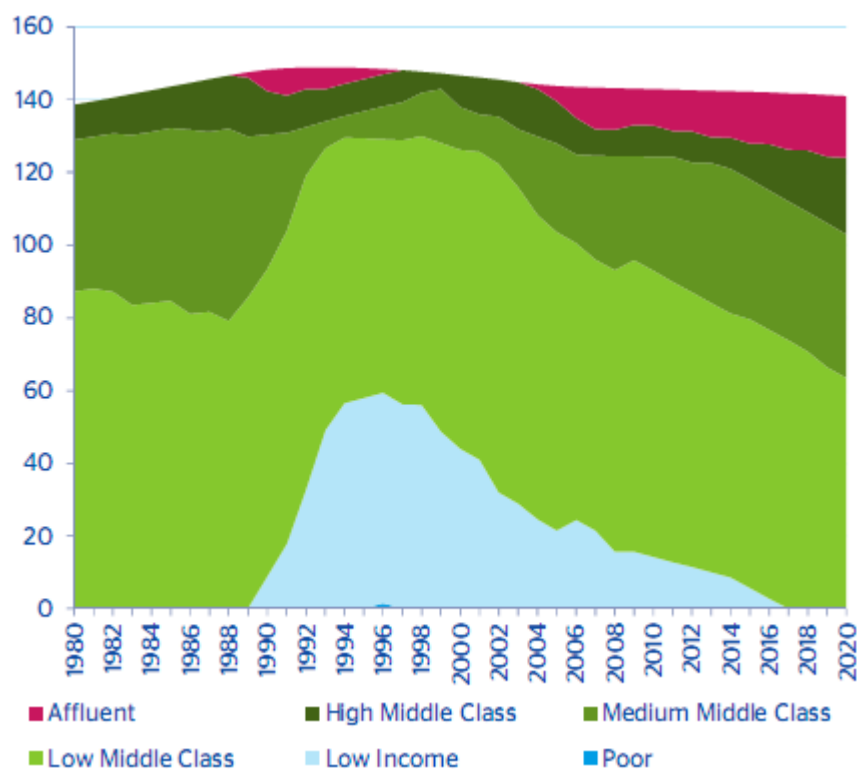
The biggest share of the Russian holiday makers is dominated by 'others'. Groups, families, couples and singles are evenly distributed.

### INCOME BRACKETS

The upper income classes are growing in Russia. The graph below shows the population split between income brackets as identified by BBVA.

BBVA analysis shows that whilst the population was concentrated in the low middle class up to the medium middle class between 1980 and 1990, however spending power decreased significantly during the 1990 – 2000 with a rise of low income class and a contraction of the affluent and high middle class. It is now changing dramatically and they project that Russia will not have a low income class by 2018.

**Exhibit A40: Population of Russia by range of GDP per capita (millions of people)**



Poor: up to 1,000 USD per year)	Low income: 1,000-5,000 USD
Low middle class: 5,000-15,000 USD	Medium middle class: 15,000-25,000 USD
High middle class: 25,000 to 40,000 USD	Affluent: over 40,000 USD

Source: BBVA Research

### HOLIDAYING MARKET INSIGHT

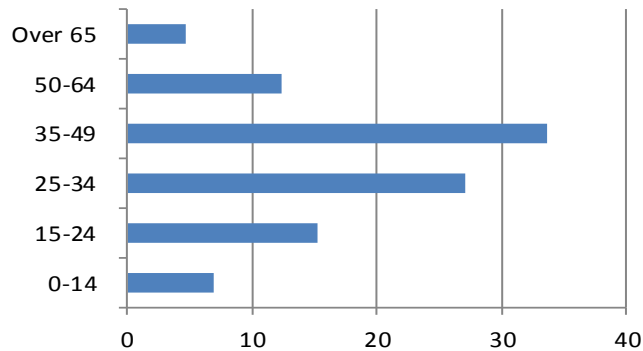
Russia is one of the biggest tourism markets and as a result information is gathered with regard to holiday takers. Insights are presented below.

#### Size and Nature of the Holidaying Market

- The average entitlement is 28 days paid holiday and 9 days public holidays on working days.

- In 2012, there were an estimated 143.7 million domestic and outbound trips according to Euromonitor.
- The age distribution of holiday takers shows the dominance of middle aged people and low share of children.

**Exhibit A41: Age of Russian Holiday Takers 2012**

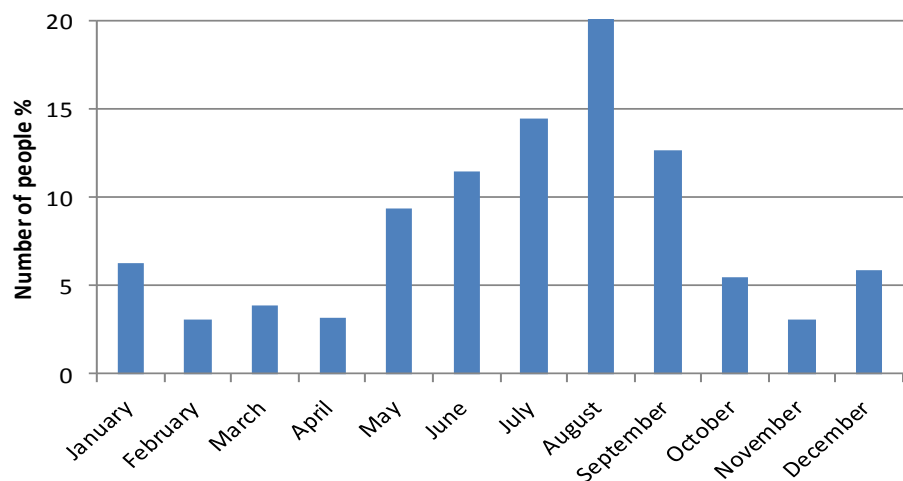


Source: Euromonitor

**SEASONALITY**

August is notoriously the most important month period for trips. Nevertheless May to September are also important periods for trips. Spring is a very weak period for holiday trips.

**Exhibit A42: Seasonality of Trips by Russian Holiday Takers 2012**



Source: Euromonitor

**SPEND**

- Balance of payment figures collated by Euromonitor suggest that in 2012 expenditure by Russian holidaymakers was 1,000 billion RUB (\$ 20,202 million).

When considered in relation to departures in 2012 this equates to \$ 451 per departure.

- A visitor survey undertaken in Batumi asked 'post soviet countries' respondents about their spend during their stay in Batumi. The answers were:
  - 35% spends in excess of 200 GEL per day
  - 44% spend between 70 and 200 GEL
  - 21% spend less than 70 GEL per day

### POPULAR TOURISM DESTINATIONS

- Total domestic tourism in Russia totalled 98.9 million trips taken in 2012 which accounts for 69% of all tourism trips taken by Russian nationals.
- Outbound trips in 2012 were in total 44.8 million (31%) and the most popular destinations can be seen in the table below.

**Exhibit A43: Outbound trips from Russia to key destinations, 2012**

Country	# Outbounds	%
Ukraine	9,510,500	21.25%
Other Destinations	7,973,200	17.81%
Finland	4,643,300	10.37%
Kazakhstan	3,235,600	7.23%
Turkey	2,842,100	6.35%
Egypt	2,350,700	5.25%
China	2,098,900	4.69%
Estonia	1,855,000	4.14%
Germany	1,294,400	2.89%
Thailand	981,000	2.19%
<b>Georgia</b>	<b>478,500</b>	<b>1.07%</b>
Bulgaria	n/a	n/a
Romania	n/a	n/a

Source: Euromonitor

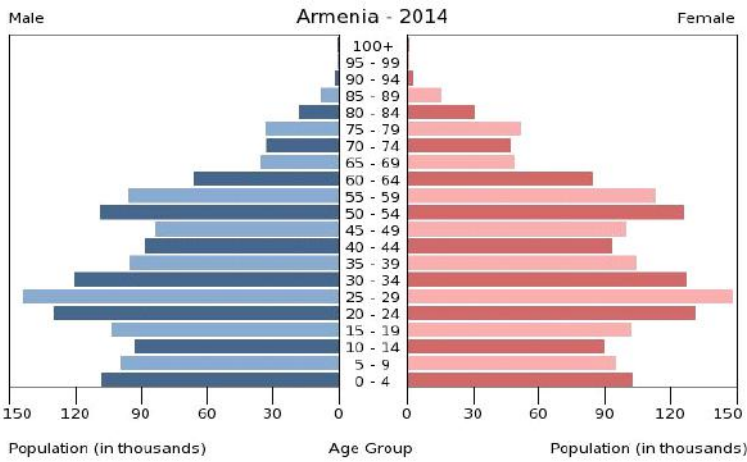
A good volume of Russians travel to Georgia, albeit that many other countries attract a greater number of travellers from Russia. Efforts have been made to ease travel from Russia in terms of cancellation of visa requirements for Russians travelling to Georgia for up to 90 days. This led to inbound arrivals from Russia rising by 72% in 2012 [Source: Euromonitor].

Forecasted growth in the Russia market needs to be reviewed in light of the current situation in Russia. Forecasts made by Euromonitor in November 2013 were for 6% CAGR for outbound trips, notably lower than for Turkey for example.

## 5.5 INSIGHT ON THE ARMENIA OUTBOUND MARKET

Note: Information about the Armenian tourism market is less recorded and less available than for more developed tourism markets. Top level information is presented below.

### COUNTRY SUMMARY

ARMENIA - Country facts																																																																			
Total Population	3.1 million (July 2014 est.)																																																																		
Gender	Male 47.1%; Female 52.9%																																																																		
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Economy	World Bank Income level category: Lower middle income GDP per capita \$6,300 (2013 est) Unemployment rate 17.3% (2012 est) Population below poverty line 35.8% (2010)																																																																		

Source: CIA World Factbook, World Bank

### HOLIDAYING MARKET INSIGHT

Armenia is a relatively small country with a limited number of people travelling. Information is therefore limited.

#### Size and Nature of the Holidaying Market

- The average entitlement is 20 days paid holiday and 12 days public holidays.
- In 2012, there were an estimated 1.32 million domestic and outbound trips according to Euromonitor. If this were 1 trip per person it would equate to approximately 43% of the population – for markets such as Russia this percentage is more than double.

### SPEND

- Balance of payment figures collated by Euromonitor suggest that in 2012 expenditure by Armenian holidaymakers was 221,750 million AMD (\$ 534

million). When considered in relation to departures in 2012 this equates to \$ 663 per departure.

- A visitor survey undertaken in Batumi asked 'post soviet countries' respondents about their spend during their stay in Batumi. The answers were:
  - 35% spends in excess of 200 GEL per day
  - 44% spend between 70 and 200 GEL
  - 21% spend less than 70 GEL per day

### POPULAR TOURISM DESTINATIONS

- Total domestic tourism in Armenia totalled 514,000 trips taken in 2012 which accounts for 39% of all tourism trips taken by Armenian nationals.
- Outbound trips in 2012 were in total 806,000 (61% of all tourism trips taken) and the most popular destinations can be seen in the table below.

**Exhibit A44: Outbound trips from Armenia to key destinations, 2012**

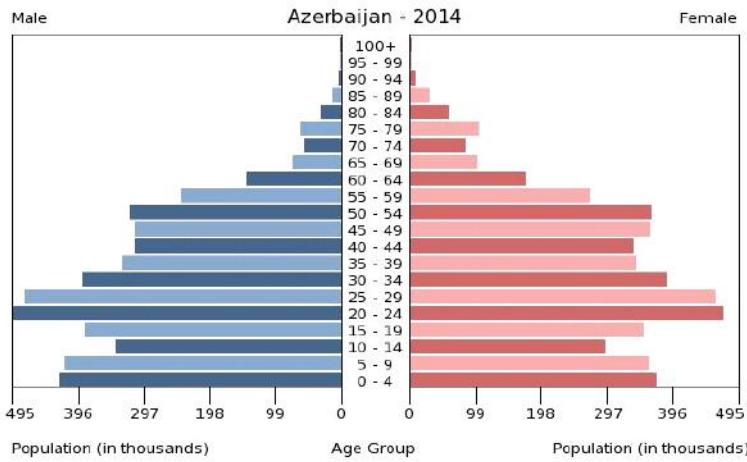
Country	# Outbounds	%
Georgia	293,500	36.39%
Russia	293,100	36.34%
Other Destinations	60,100	7.51%
Iran	47,400	5.88%
Turkey	18,400	2.28%
USA	17,100	2.12%
France	16,500	2.05%
Greece	15,700	1.95%
Spain	15,600	1.93%
Italy	14,200	1.76%
United Arab Emirates	11,700	1.45%
Egypt	2,800	0.35%

Source: Euromonitor

## 5.6 INSIGHT ON THE AZERBAIJAN OUTBOUND MARKET

Note: Information about the Azerbaijan tourism market is less recorded and less available than for more developed tourism markets. Top level information is presented below.

### COUNTRY SUMMARY

AZERBAIJAN - Country facts	
Total Population	9.6 million (July 2014 est.)
Gender	Male 49.5%; Female 50.5%
Population pyramid	 <p style="text-align: center;">Azerbaijan - 2014</p>
0-14 years 15-24 years 25-54 years 55+ years	22.7% 17.5% 45.1% 14.8%
Economy	World Bank Income level category: Upper middle income GDP per capita \$10,800 (2013 est) Unemployment rate 6% (2013 est) Population below poverty line 6% (2010)

Source: CIA World Factbook, World Bank

### HOLIDAYING MARKET INSIGHT

Azerbaijan is not particularly the biggest tourism countries and there are only a few official statistics that can be found on the specifics of the behaviour of the market.

#### Size and Nature of the Holidaying Market

- The average entitlement is 21 days paid holiday.
- In 2011, there were an estimated 4.13 million domestic and outbound trips according to Euromonitor. If this were 1 trip per person it would equate to approximately 43% of the population.

#### SPEND

- Balance of payment figures collated by Euromonitor suggests that in 2011 expenditure by holidaymakers from Azerbaijan was 824 million AZN (\$ 1,052

million). When considered in relation to departures in 2011 this equates to \$ 308 per departure.

- A visitor survey undertaken in Batumi asked 'post soviet countries' respondents about their spend during their stay in Batumi. The answers were:
  - 35% spends in excess of 200 GEL per day
  - 44% spend between 70 and 200 GEL
  - 21% spend less than 70 GEL per day

### POPULAR TOURISM DESTINATIONS

- Total domestic tourism in Azerbaijan totalled 706,000 trips taken in 2011 which accounts for 17% of all tourism trips taken by Azerbaijani nationals.
- Outbound trips in 2011 were in total 3,419,400 (83% of all tourism trips taken) and the most popular destinations can be seen in the table below.

**Exhibit A45: Outbound trips from Azerbaijan to key destinations, 2011**

	Country	# Outbounds	%
1	Iran	939,300	27.5%
2	Georgia	568,900	16.6%
3	Russia	558,000	16.3%
4	Turkey	525,300	15.4%
5	Other Destinations	486,300	14.2%
6	United Arab Emirates	230,100	6.7%
7	Ukraine	79,100	2.3%
8	Germany	32,400	0.9%
n/a	Romania	n/a	n/a
n/a	Bulgaria	n/a	n/a

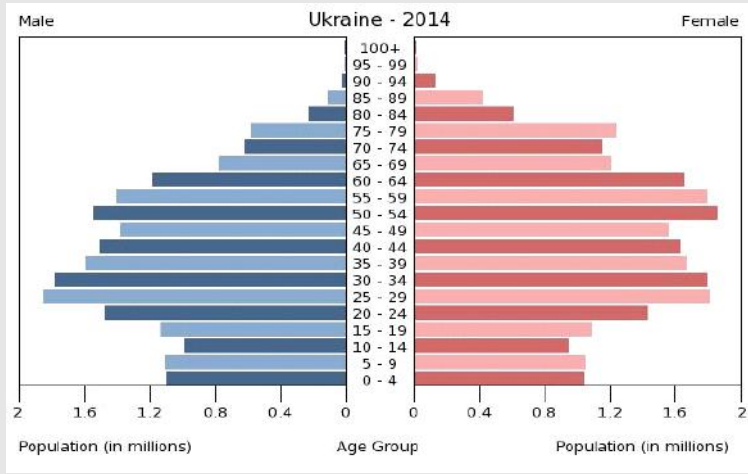
Source: Euromonitor

Georgia is a key destination for Azerbaijani tourists.

## 5.7 INSIGHT ON THE UKRAINE OUTBOUND MARKET

Note: Information about the Ukrainian tourism market is less recorded and less available than for more developed tourism markets. Top level information is presented below.

### COUNTRY SUMMARY

UKRAINE - Country facts	
Total Population	44.3 million (July 2014 est.)
Gender	Male 45.9%; Female 54.1%
Population pyramid	
0-14 years	14%
15-24 years	11.5%
25-54 years	45%
55+ years	29.2%
Economy	World Bank Income level category: Lower middle income GDP per capita \$7,400 (2013 est) Unemployment rate 8% (2013 est) Population below poverty line 24.1% (2010)

Source: CIA World Factbook, World Bank

### HOLIDAYING MARKET INSIGHT

Ukraine is a considerable tourism country, however due to the nature of tourism there are not many specific statistics on the profile of Ukrainian holiday makers.

#### Size and Nature of the Holidaying Market

- The average entitlement is 18 days paid holiday.
- In 2012, there were an estimated 86.4 million domestic and outbound trips according to Euromonitor. If this were 1 trip per person it would equate to approximately 195% of the population.

#### SPEND

- Balance of payment figures collated by Euromonitor suggests that in 2012 expenditure by Ukrainian holidaymakers was 2,161 million UAH (\$ 1,974 million).

When considered in relation to departures in 2012 this equates to \$ 184 per departure.

- A visitor survey undertaken in Batumi asked 'post soviet countries' respondents about their spend during their stay in Batumi. The answers were:
  - 35% spends in excess of 200 GEL per day
  - 44% spend between 70 and 200 GEL
  - 21% spend less than 70 GEL per day

### POPULAR TOURISM DESTINATIONS

- Total domestic tourism in Ukraine totalled 86.3 million trips taken in 2012 which accounts for 88% of all tourism trips taken by Ukrainian nationals.
- Outbound trips in 2012 were in total 10.7 million (12%) and the most popular destinations can be seen in the table below.

**Exhibit A46: Outbound trips from Ukraine to key destinations, 2012**

Country	# Outbounds	%
1 Russia	3,555,600	33.1%
2 Poland	1,773,200	16.5%
3 Hungary	851,200	7.9%
4 Turkey	692,100	6.5%
5 Belarus	579,800	5.4%
6 Germany	420,700	3.9%
7 Moldova	406,800	3.8%
8 Egypt	272,400	2.5%
9 Romania	263,900	2.5%
10 Other Destinations	1,846,200	17.2%
n/a Georgia	65,500	0.6%
n/a Bulgaria	37,200	0.3%

Source: Euromonitor, December 2013

## 5.8 TARGET SEGMENTS FOR GONIO RESORT

With regard to visitors at Gonio Resort, we believe many different people and segments will visit. Key target segments are identified below.

- Georgian domestic market
  - Summer family holidays
  - Short breaks year round for couples, families and groups of friends for leisure breaks and festivals/events
  - MICE market
  - Day visits from those living or staying in Batumi and Adjara

- Georgian expats
  - Georgian nationals living abroad and returning frequently to Batumi/Georgia for holidays. Those wishing to bring their families may be particularly attracted.
- Turkey
  - North eastern Turks visiting for short breaks and day visits - couples, families and groups of friends for leisure breaks and festivals/events
  - Casino-driven trips from Istanbul, north east Turkey and elsewhere in Turkey – individuals and individuals bring their partners and family for a wider entertainment short break.
  - Wider Turkish population looking for short break trips in shoulder and low season, when the driver is not beach holidays.
  - Larger groups for holidays organised by wholesalers

The Turkish outbound market to all destinations is forecast to grow over the coming years and spend also, so there is good opportunity for Gonio Resort to attract a good share of this.
- Russia
  - Families and independent travellers of the Krasnodar region (neighbouring cities for example Vladikavkaz) travelling by car for either short trips or for summer holidays (5-10 days).
  - Russian young professionals and middle aged from the Krasnodar region or cities with direct flights to Batumi travelling for leisure (mostly gambling). Some might be in couples and others bringing family with them.
  - Larger groups for holidays organised by wholesalers
- Armenia
  - Short trips up to 1-2 weeks, travelling by car.
  - Those looking for sea holidays – the Batumi area is the best option in the immediate surroundings; and the weather is not a concern.
  - Visiting relatives and family living in Georgia.
- Azerbaijan
  - Short trips up to 1-2 weeks, travelling by car
  - Those looking for sea holidays – again Batumi area is the best option for many unless they have interest in visiting Baku for their holiday.
  - Visiting relatives and family living in Georgia
  - Larger groups for holidays organised by wholesalers

- Ukraine
  - Holiday makers from Ukraine. Tourism to the Ukrainian coastline is compromised at present and Batumi-Gonio offers a better climate and potential for a much more attractive tourist offer.

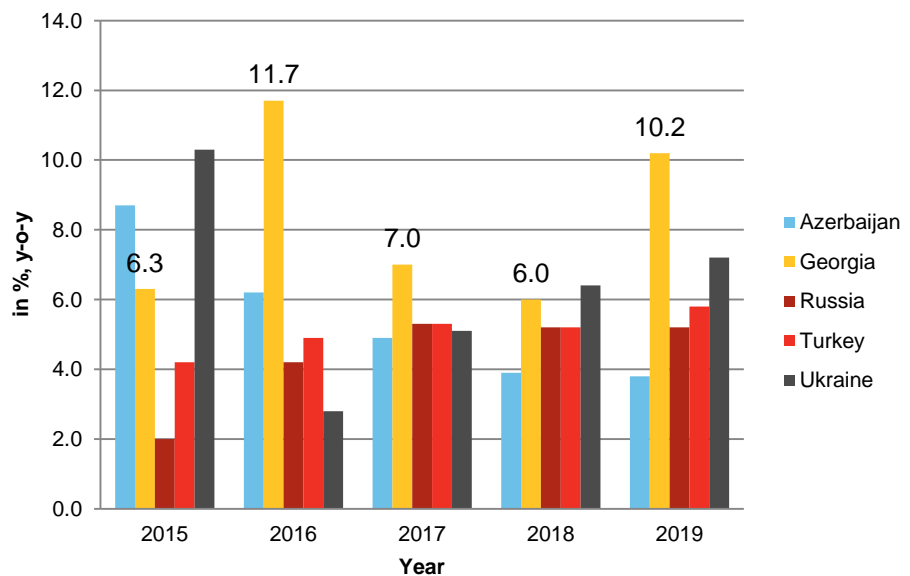
The volume of arrivals to Georgia from Ukraine is notable. The significance of Ukraine is believed to not to be reflected in figures of Adjara arrivals due to numbers arriving at Kutaisi airport. (The number then travelling to Batumi is unknown but expected to be notable.)

- Larger groups for holidays organised by wholesalers
- Other markets
  - Other markets will be attracted by packages and deals, key marketing efforts in specific countries; and packaged cultural, nature or multi-centre holidays.

### 5.8.1 GROWTH OPPORTUNITIES

Analysis of source market data suggests that there are growth opportunities for increasing the market attracted to Batumi/Gonio by focusing on the growing middle classes of key target markets. Indeed in Exhibit A47 we can see that in the near future the main target markets are expected to continue their household spending growth. With this in mind there is reason to believe in positive trends for visitation and interest in purchasing at Gonio Resort.

**Exhibit A47: Forecast Household Spending, PPP dollars, % y-o-y, 2015-2019**



Source: February 2015 Business Monitor International

We believe that if strong visitor drivers are provided at Gonio Resort there is an opportunity for the Batumi-Gonio area to increase its share within the following markets:

- Turkish middle class
- Russian middle class
- Russian young professionals
- Ukrainian middle class
- Azerbaijan high middle class
- Armenian high middle class

## 6 TOURISM SUPPLY CONTEXT

### 6.1 INTRODUCTION

This section provides insight of tourism destinations to provide a context to the proposed Gonio Resort. Firstly the key coastal tourism towns in Georgia are considered; then a selection from the Black Sea and Caspian Sea; followed by examples from the wider region.

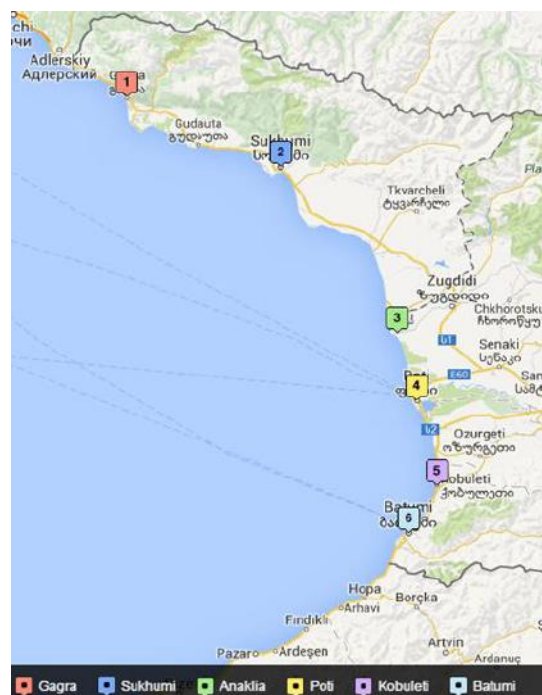
A selection of masterplanned communities are also shown to provide examples of how large areas of land can be developed into new masterplanned resort destinations.

### 6.2 RESORTS IN GEORGIA

The most popular resort destination in Georgia is Batumi. It is a favourite with the domestic market and also tourists from neighbouring countries. Batumi as a destination is considered throughout this report since it is part of the wider location of the Gonio Resort.

In Georgia there are no other big coastal towns competing with Batumi. There are a number towns and destinations along the Black Sea coast however and the key ones are considered below.

#### Exhibit A48: Georgian Coastal Towns



Source: BatchGeo.com , Google Maps

## 6.2.1 KOBULETI



Kobuleti is a popular destination mainly due to its long beach (course sand and small pebbles). Georgians like the atmosphere at Kobuleti because of its laid-back atmosphere and many visitors to the beach are day visitors that are staying in Batumi (approximately 35 minutes' drive). There is a selection of small hotels (20+ rooms) and guesthouses in Kobuleti, however none are internationally branded. Georgia Palace is the highest quality hotel in Kobuleti, with more than 150 guest rooms.

There is a small 'amusement park' at Tsitsinatela near Kobuleti. This however is relatively small and has a 'local' feel. The closest airport is the Batumi International Airport.

There are two major tourism projects in Kobuleti that have received some attention in terms of development of ideas however there is no evidence of recent progress with these:

- 'Free Tourism Zone' – 'pre-planned development area of 11.3 ha for 30 hotels'. Hotels of 33-60 rooms each proposed next to each other.



- 400 ha scheme of 'Kobuleti Golf Club Resort' of 85 villas (2,500m<sup>2</sup>), 140 cottages, hotel, athletic club, 9 and 18-hole golf courses. Proposed in 2012 but without more recent news.



### 6.2.2 ANAKLIA



Anaklia is a masterplanned destination that was initiated and led by the former Georgian President. The resort has not been developed to its completion and progress has recently stalled.

The resort has 3 hotels open which have from 42 to 106 hotel rooms and a waterpark with 8 key attractions. The area is marked as a 'Free Tourism Zone' with 'prepackaged hotel projects' that have a 1 GEL price for the land. In addition, there are proposals for the construction of a new sea port at Anaklia.



The closest international airports are Kutaisi (80 minutes) and Batumi (2 hours).

### 6.2.3 GAGRA AND SUKHUMI IN ABKHAZIA

Abkhazia is a coastal area on the northern part of the Georgian Black Sea coast. It is located in territory that is disputed and so not visited by Georgians but it is a popular destination for Russian tourists visiting the beaches. The accommodation is largely outdated and without international brands. The major towns in Abkhazia are Gagra and Sukhumi.



### 6.2.4 OTHER DESTINATIONS

There are other coastal towns and villages in Georgia attracting domestic tourists, but they lack scale as international destinations. An example includes Ureki, a small town with black sand and 16 small hotels and some guesthouses. Gonio (village), with its 7 small hotels plus several guesthouses, and neighbouring Kvariati are other examples running at a small scale. Poti is one of the most important port towns in Georgia, but it mainly focusing on trade and lacks tourism infrastructure and quality hotels.

Other key tourist destinations in Georgian include spa resorts such as Tskaltubo and Akhtala; and mountain resorts such as Gudauri, Mestia, Goderdzi, Bakuriani and Kazbegi (Stepantsminda). Skiing is popular in many of the mountain resorts, and also trekking, horse riding and bird watching.

### 6.2.5 ACTIVE PROPOSALS OF MASTERPLANNED COMMUNITIES NEAR BATUMI

In addition to mixed use tower block communities such as the developing Babillion Tower in Batumi, and stalled plans at other resorts, we are also aware of newly proposed masterplanned communities close to Gonio Resort.

### Dreamland Oasis at Chakvi



This is a proposed development on an 8 hectare site close to Chakvi, north of Batumi. It is proposed to include a 155-room hotel and 1,000 residential units, as well as pools, a small aqua park, sports, fitness and spa for resort guests. The first phase of the project is in construction. (Further information is provided in the residential market section.)

### Metrocity (Metro Atlas project) at the south of Batumi

Metrocity is a proposed development on 3.8 hectares of land on the southern side of Batumi behind the new boulevard. It is proposed to include 101,000 m<sup>2</sup> of construction comprising two five-star luxury hotels with casinos, a shopping mall with a cinema and approximately 470 residences. There is some mention of adding a marina. The level of investment is currently (April 2015) mentioned to be \$90 million with a proposed completion year to 2017.



*Source: Info Batumi*

These projects are of interest to note since they include a leisure mixed-use theme. They are however quite different to the Gonio Resort concept in terms of scale, style and location.

### 6.3 THE BLACK SEA AND CASPIAN SEA CONTEXT

It is interesting to consider the coastal tourism destinations beyond Georgia. These are presented below. The map shows a dotted yellow line which illustrates an indicative split between the tourism offer of the Black Sea and Caspian Sea; and that of the Mediterranean, Red Sea and Persian Gulf. Although some exceptions, the former are more focused on towns and cities visited by tourists and are less established / known internationally as resort destinations. The latter group include some already very successful and popular international resort destinations.

Exhibit A49: Overview of resort destinations in the wider region



Examples of key destinations around the Black Sea and Caspian Sea are presented below. These focus on towns, which are more akin for comparison to Batumi rather than Gonio Resort itself.

Examples from further afield and masterplanned resort communities are provided in the subsequent section.

### 6.3.1 SUNNY BEACH, BULGARIA



Sunny beach is a popular summer resort in Bulgaria. It is located on the coast of the Black Sea along 8km of sandy beach. The destination has more than 600 hotels and 300,000 beds as well as more than 200 restaurants, cafes, nightclubs, casinos and other entertainment facilities.

The resort started development in 1958 but it has always been a popular summer holiday destination. Since the joining of Bulgaria to the EU, travelling to Sunny Beach became more accessible for European travellers. Nowadays, Sunny Beach has established itself as a mass tourism destination and attracts guests from the UK and Ireland as well as from Germany; however Russia has the biggest share of international tourists.

Nevertheless, Sunny Beach has a poor reputation because of its popularity as a place of tourists getting drunk and consuming drugs and is considered to be over-developed and lack architectural and city planning.

### 6.3.2 GOLDEN SANDS, BULGARIA



Golden Sands is a major seaside resort destination in Bulgaria and is situated on the Black Sea coast. The development of Golden Sands as a tourist destination started in 1957 and it became a contemporary holiday destination in the following decades. Through the privatization of Golden Sands and the attraction of

considerable investments during the 1990s and the beginning of 2000s, Golden Sands has seen significant tourism development. It is estimated that there are around 30,000 hotel beds, as well as entertainment, retail, dining and a waterpark. There is also a protected national park next to Golden Sands. After its privatization, Golden Sands focused on avoiding overdevelopment and tried to maintain a sustainable share of hotel accommodation.



### 6.3.3 VARNA, BULGARIA



Varna is one of the largest cities in Bulgaria, with a population of 300,000. It is an important port and naval base as well as a major domestic and international tourism destination – it is known as Bulgaria’s “summer capital”.

International tourism is growing rapidly. The majority of international tourists from Western Europe are at the budget end of the market, mostly on package tours. For Russians and Ukrainians, on the other hand, Bulgaria offers a different character, a wider range of options (from modern low budget to high end) and a more permissive culture than domestic tourism destinations.

Scheduled and charter flights operate from destinations across Europe to Varna Airport, which acts as a gateway to other beach resorts like Sunny Beach and Golden Sands . Varna itself has “bucket and spade” reputation in Western Europe, but does have a portfolio of attractors including a well-regarded archaeological museum and an aquarium. The city also hosts an internationally famous summer

cultural festival. However, increasing tourism has produced a rapid growth in construction, much of it low budget and of inconsistent quality.

A proposal for a 190 hectare golf development has been made for land near Pomorie. It was proposed to include 4-star hotel, tennis courts, swimming pools, golf and tennis schools and accommodation for 24,000 in villas and apartments. The project was proposed in 2007 and was linked to investment by the Maltese company Kabland but appears to still not have materialised.

#### 6.3.4 **CONSTANTA AND MAMAIA, ROMANIA**



Constanta and Mamaia are popular tourist destinations in Romania. Constanta, a city of about 300,000 people, is the hub of the Romanian Black Sea Coast. The town has a long history and is one of Europe's busiest ports. It became a fashionable seaside resort during the 19th and early 20th centuries. Attractors in Constanta include city beaches, the old town and a cultural and heritage offer including important Roman archaeological remains. There are a good number of modern mid-range hotels in town.

Mamaia is located north of the town of Constanta, on the coast of the Romanian Black Sea and lies along an 8 kilometre long beach strip. Mamaia is considered one of the most popular beach holiday destinations in Romania and is often compared to Sunny Beach in Bulgaria. There are approximately 200 hotels in the area. Although compared to Sunny Beach, Mamaia is more expensive and as such many Romanians still prefer going to Sunny Beach. Hotel accommodation ranges from basic camping sites to mid-end hotels to 4- and 5-star hotels. There is also an aqua park, tourist amusements like mini golf and watersports, nightlife, casinos and a cable car gondola.

### 6.3.5 ODESSA, UKRAINE



Odessa is one of the biggest cities of Ukraine and serves as one of the most important seaport and transportation hubs in the Black Sea. Known as the Pearl of the Black Sea it is a favourite sea tourism destination for Ukrainian citizens and is also a historic and cultural city to visit. The accommodation quality in Odessa is fairly poor and it mostly consists of budget to mid-range hotels and a few serviced apartments. South of Odessa there are some beach resort hotels such as Maristella Club, Wellness, Spa and Resort.

Odessa however is located in a conflicted zone at the moment with the Ukraine and Pro-Russians war in the entire Crimea region and as such Ukraine might lose this popular sea holiday destination.

### 6.3.6 YALTA, UKRAINE



Yalta is a resort town of about 80,000 people in the Crimea. It is the highest profile international tourism destination on the Ukrainian Black Sea coast. Yalta is in a very attractive mountainous location and a popular gondola runs from the town to the top of the cliffs. The main focus of activity is a lively waterfront promenade with restaurants, casinos, tourist attractions and amenities; and the town has a good number of period hotels.

There are internationally famous cultural attractions in Yalta and nearby, including the imposing Lastochkino castle, the Livadia Palace, and the Chekhov Museum. The town's pebble beaches' tend to get very crowded in summer. The best beaches are about thirty minutes away at Cimese.

A short distance away in the resort town of Alushta, a 63-room Radisson hotel opened in 2008 in a refurbished period building. This was a sign of the new investment taking place in Black Sea resort. The Ukraine and Pro-Russians war in the entire Crimea region however now makes this a conflicted zone. Ukraine might lose a key sea holiday destination

Prior to the conflict a project for the Port of Yalta had been proposed to include a hotel, shopping centre, entertaining centre, 'Sea House', spa-centre and yacht club.



### 6.3.7 SOCHI, RUSSIA



Sochi is a city located on the coast of the Black Sea, in the region of Krasnodar, Russia. With a location between sea and mountains, Sochi has always been a major resort destination for Russians during both winter and summer.

Sochi was host to the XXII Olympic Winter Games and XI Paralympic Winter Games at the beginning of 2014. The city is also due to host the Formula 1 grand prix until at least 2020 and the FIFA World Cup Finals that are to be held in Russia in 2018.

The main infrastructural development of Sochi occurred in preparations for the Winter Olympic Games. The total investment extended to tens of billions of dollars. The development of Sochi for the Olympic Games had two different venues, the Mountain Cluster and the Coastal Cluster and included many different sporting venues, broadcasting centres and an Olympic Village in the coastal cluster comprising of 47 buildings. Several hotel developments also took place providing Sochi with modern hotel infrastructure. The construction of a Formula 1 racing track and a theme park were also part of the city development.

The city of Sochi started to benefit more from tourism thanks to the development achieved and exposure during the Olympic Games. However, with the political issues that Russia is experiencing, tourism in Sochi has cooled down.

The Sochi Federation Island was a mega-development that was announced in 2007. The concept of the development was the creation of an artificial island with a total area of 250 hectares and development of real estate (houses, villas, and apartments), hotel and restaurant facilities and entertainment facilities for up to 40,000 guests every day. There were some rumours of starting construction in 2012 but no further updates.



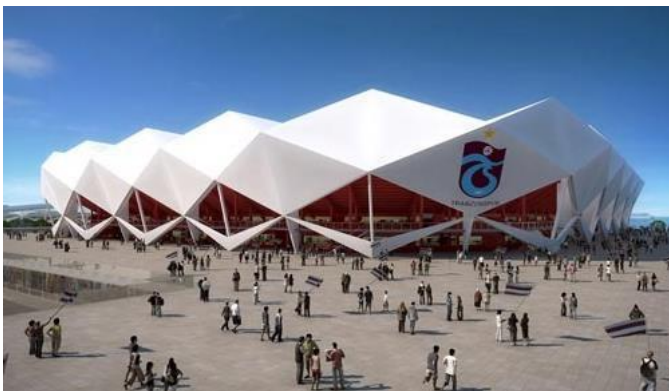
### 6.3.8 BLACK SEA COAST, TURKEY

The Black Sea coast of Turkey is not established as a beach tourism destination. With highly desirable resorts on Turkey's Mediterranean coast this area has not received the same attention.

The two largest towns on the north coast that are close to Georgia are Trabzon and Ordu. Ordu is twinned with the city of Batumi but is not an established tourist destination. Trabzon is mainly a shopping and cultural tourist destination and has only a few high quality hotels.



A new stadium, Akyazi Stadi, is currently under construction in Trabzon and is expected to be completed before the start of the 2015/2016 season. It will become the home of the Turkish Super League club Trabzonspor. It is being built on an artificially created land near the Black Sea in the Akyazi district, west of the city of Trabzon. The stadium will be a part of a large complex of sports and leisure facilities. The Akyazi Stadi will have a capacity of 42,000 seats and construction costs are estimated at \$88 million.



Additionally, the Eastern Black Sea Development Agency (DOKA) is aiming to establish a “Blue Route” in the eastern Black Sea area of Turkey, which is enjoying increased numbers of local and foreign tourists. Considerations include a cruise port at Trabzon, a water sports centre in Artvin, rafting areas on creeks and a yacht marina between Trabzon and Ordu.

#### 6.3.9 BAKU, AZERBAIJAN

Baku is the capital of Azerbaijan and is located on a small peninsula on the west coast of the Caspian Sea. Baku is the most developed destination in Azerbaijan and around the Caspian Sea.

Baku is not established as a beach tourism destination at present but is of interest in the region for its success in attracting several international brands including Four Seasons, Fairmont, Kempinski, Jumeirah, Hilton, etc, and vast luxury residential projects such as Port Baku Residences. The city also boasts some distinctive

architecture with HOK's Flame Towers and Zaha Hadid's undulating cultural centre, the Heydar Aliyev Center.



With regard to resorts, in 2012 a scheme was masterplanned called 'Fire and Water'. It was set to include 5-star hotel with 360 rooms, pitch and putt golf, sports and leisure facilities and 45 bungalows with a direct access to the sea through a lagoon. So far the construction has not started and is awaiting finance.

## 6.4 THE WIDER REGIONAL CONTEXT

Beyond the Black Sea and Caspian Sea regions there is of course a vast array of tourism destinations attracting international markets from around the world. The coastal destinations that are closest to Georgia and are very successful for tourism, particularly benefiting from favourable climates, include the Mediterranean region, Red Sea destinations, and Persian Gulf destinations. An example from each area is presented below.

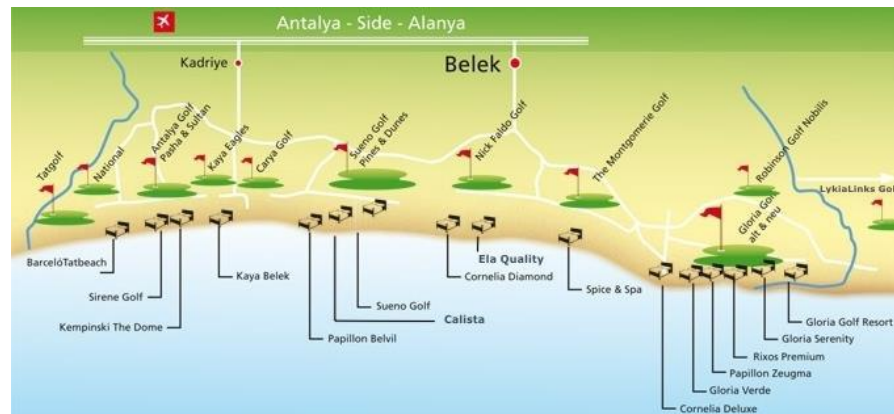
### 6.4.1 TURQUOISE COAST, TURKEY



The Turkish Riviera (also known popularly as the Turquoise Coast) is a term used to define the area of southwest Turkey encompassing the provinces of Antalya and Muğla, and to a lesser extent Aydın, southern İzmir and western Mersin. The combination of a favourable climate, warm sea, clear water and more than a thousand kilometres of shoreline along the Aegean and Mediterranean waters, as

well as abundant natural and archaeological points of interest makes this stretch of Turkey's coastline a popular national and international tourist destination. Western Europeans and Russians are particularly strong international markets and numerous charter flights serve the region.

Amongst the vast array of accommodation options from guesthouses, rental properties to 5-star hotels, are also new developments specifically for tourists in areas such as around Belek where numerous golf courses have been developed.



#### 6.4.2 THE RED SEA – EILAT IN ISRAEL AND EGYPTIAN RESORTS

The Red Sea with its warm and clear waters and good climate make it a popular destination.

At the tip of the Gulf of Aqaba is Eilat, Israel's southernmost city, a busy port and popular resort. However the city is now considered overdeveloped and has become less attractive for tourism as a result.

Key Egyptian resorts include Sharm El Sheikh and Hurghada, which have grown substantially as mass tourism has grown. They enjoy sandy beaches, numerous resort hotels and are particularly popular bases for those who enjoy snorkelling and diving to view the Red Sea's coral reefs.



There are numerous international hotel brands in the resorts and the destinations are very popular for tour operator packages.

### 6.4.3 PERSIAN GULF, UAE

Persian Gulf states are pouring millions of dollars into developing tourism in the hope of transforming the Gulf into a regional travel hub.

An example of tourist development includes the 2,500 hectare Yas Island project. It is located 25 minutes from Abu Dhabi and 45 minutes from Dubai, and seven minutes from Abu Dhabi International Airport.

Yas Island has seven hotels (3 to 5 stars) with several more planned, 57 restaurants, the 15 hectare Lost Pearl of Yas Waterworld of 43 rides and slides, Formula 1 Grand Prix circuit, Ferrari World theme park with its 200,000 m<sup>2</sup> roof making it the largest indoor amusement park in the world, 18-hole links golf course, malls for over 400 brands, indoor and open air entertainment venues, state of the art nightclub and extensive residential real estate. The development has three phases with 110,000 units in the second and third phases.



## 6.1 EXAMPLE MASTERPLANNED COMMUNITIES

As well as understanding the wider tourism context to developing a resort adjacent to Batumi, it is also useful to consider examples of other masterplanned resort communities. A selection is highlighted below.

### 6.1.1 EL GOUNA, RED SEA, EGYPT



El Gouna has been built by the resort developer Orascom. It is designed as a private self-sufficient town built on 10 km of the Red Sea coastline in Egypt. Established more than 20 years ago, the town is now home to a population of between 22,000 – 24,000 permanent residents and receives visitors from all over the world. It includes 16 hotels, 15 of which are controlled by Orascom, offering a total capacity of 2,707 rooms. They range from 3-star to 5-star.

As well as an 18-hole championship golf course and three marinas; El Gouna as a town also includes a European-standard hospital, a nursing institute, four schools, child daycare facilities, a library, a branch of the American University in Cairo (AUC), and TUB Berlin University. It also has around 420 outlets including restaurants, bars, shops, various services, and a vibrant town centre.

El Gouna comprises a total land area of 3,690 hectares, of which 25% (1,470 hectares) has been developed.

#### 6.1.2 TABA HEIGHTS, SINAI, EGYPT

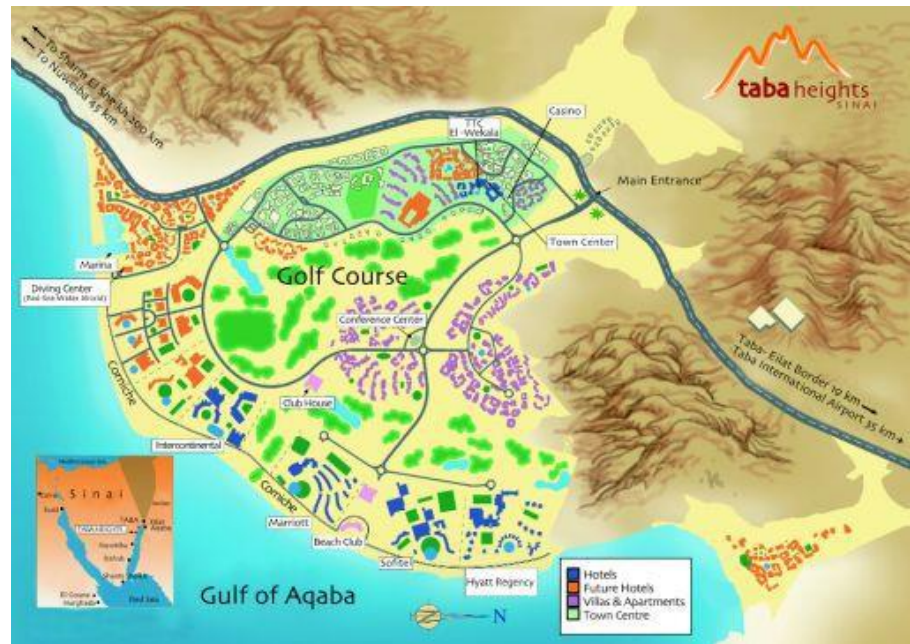


Taba Heights is located in Sinai, Egypt and is another Orascom development. The total area is 430 hectares, of which 250 ha have already been developed.

The resort includes 6 hotels with a total of 2,365 rooms. These are masterplanned along the beachfront. There are approx. 4,000 permanent residents (including staff) and so facilities are provided for medical care, child daycare, schools, etc.

The resort also features an 18-hole championship golf course and a marina with capacity for 50 yachts, waterworld and water activity centres. Other facilities include a town centre with cafes, bars, restaurants, retail and various spas.

Governmental issues with selling property on Sinai to foreigners is currently challenging progress.



### 6.1.3 APHRODITE HILLS, CYPRUS

Aphrodite Hills is 230 ha integrated golf resort in Cyprus. It includes an 18-hole championship golf course, a 290-room hotel (previously Inter-Continental and now owned by the tour operator TUI); and extensive range of villas and apartments. Facilities include a village square of retail stores, restaurants and bars; a retreat spa; tennis academy; and kids club. Aphrodite Hills has won wide recognition for many of its facilities including the spa and the hotel.



New phases of residential property are still being developed and sold. Current properties include 200 villas and 600 apartments and townhouses and well as 130 solely rental properties.



#### 6.1.4 PORTO MONTENEGRO, MONTENEGRO



Porto Montenegro is located in Montenegro and the site covers an area of 168 hectares. It is a very recent development focused around a world-class marina (~200 berths at present, ~450 more being built). Features include a hotel, branded residences and luxury real estate (villas to apartments) and a town centre including retail, cafes, restaurants and bars and other entertainment such as casinos, wellness and spa, and sports. The development is particularly popular with Russian tourists.

### 6.1.5 SMALLER MASTEPLANNED COMMUNITIES

At a smaller scale, there are numerous examples of golf resorts with a hotel, golf course and residences. These are typically of 80-170 hectares and focused around the golf offer, as well as complementary facilities such as a spa and other sports. An example on the Black Sea would be Thracian Cliffs in Bulgaria, a 164 hectare resort led by an 18-hole Gary Player golf course.

An interesting example targeting the mid-market are the Polaris World projects in Spain. These were designed around 18-hole Nicklaus Design golf courses and are gated resorts with 24 hour security. Polaris World has had a challenging history since the 2008 global crisis and Spanish property crisis. However four projects with are completed in the Murcia region of Spain. The images below are of La Torre Golf Resort.



## 6.2 SUMMARY

The tourism supply context shows the vast variation between the current Georgian coastal town offer, the towns around the Black Sea popular with tourists, the resort destinations of the wider region and examples of masterplanned resort communities.

The opportunity at the Gonio site is to create a hybrid. This draws on the managed-environment strengths and international standards of example masterplanned communities. It also acknowledges the location of the site close to a city already popular with tourists and the scale of the site, together allowing denser development than a golf-orientated resort but a more planned leisure-led environment than a town that has had to respond organically to growing tourism demand.

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# Gonio Resort Development

BUSINESS PLAN

PART B - SECTIONS 7 TO 9

MAY 2015

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PREPARED BY  
COLLIERS INTERNATIONAL  
IN ASSOCIATION WITH HOK



PREPARED FOR  
GEORGIAN NATIONAL INVESTMENT  
AGENCY (GNIA)



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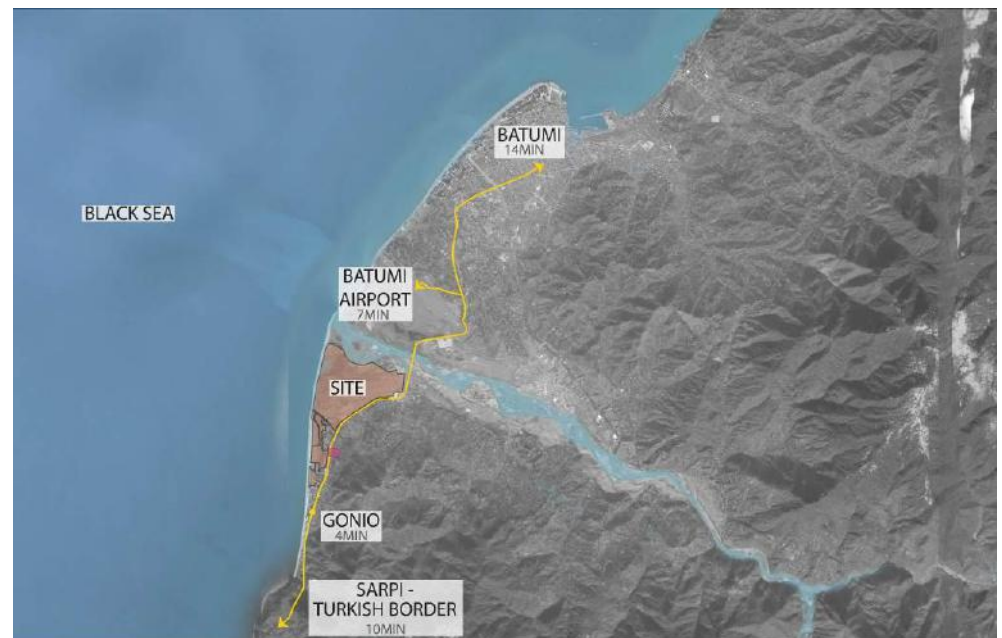
## 7 GONIO SITE AND DESTINATION ANALYSIS

### 7.1 THE SITE

#### 7.1.1 LOCATION

The Gonio Site is located on the Black Sea close to Batumi in south-western Georgia.

##### Exhibit B1: Location of Gonio site



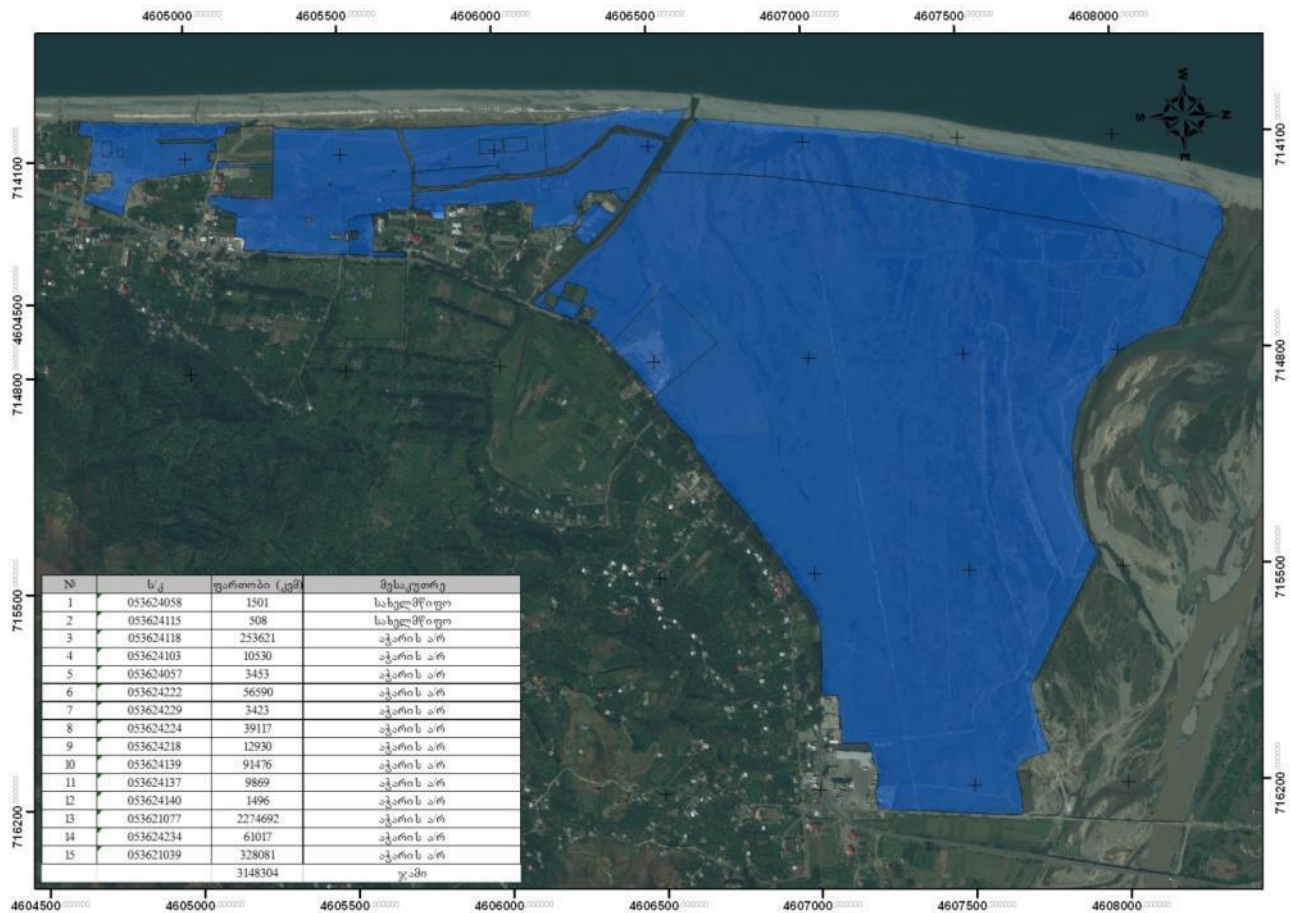
Source: HOK Gonio fortress is shown in pink

The site is positioned between the River Chorokhi and the village of Gonio. It is in close proximity to Batumi International Airport (7 minutes' drive) and Batumi city (14 minutes' drive). It is also close to the border with Turkey at Sarpi (10 minutes' drive), which is Georgia's busiest border crossing, crossed by 1.47 million international arrivals in 2014, not even including Georgian citizens.

#### 7.1.2 SITE DESCRIPTION

The site has a total area of 315 hectares. It comprises one large site and a number of adjacent or close smaller sites.

**Exhibit B2: Site for Gonio Resort (blue shading)**



Source: GNIA

The largest part of the site area, known as the polygon, was formerly used as a Russian military base and training ground. Indeed extensive clearing and de-mining of the site is required. Some work has already been done to achieve this and further deep cleaning is expected.

The site is essentially flat topographically and has limited tree growth due to its former use, except bordering the road to the south east. The land is relatively low lying with a high water table. The Chorokhi River borders much of the northern edge of the polygon and the Small Chorokhi stream the south west.

**Exhibit B3: View towards Batumi (to north)**



*Source: Colliers International*

**Exhibit B4: View towards the mountains (to south east)**



*Source: Colliers International*

The beach is a pebble beach and relatively steep sloping before and beyond the water line. The water has reasonable clarity and improves towards the south.

**Exhibit B5: Beach at the polygon portion of the site (view to south)**



*Source: Colliers International*

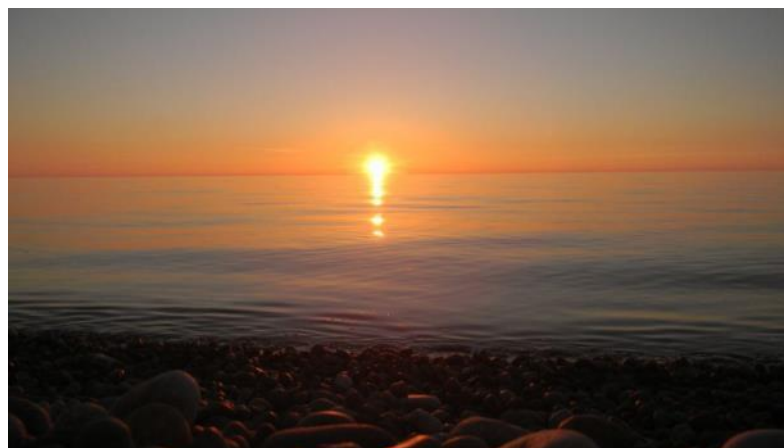
**Exhibit B6: Seafront promenade already built along the frontage at the southern portion of the site**



*Source: Colliers International*

Spectacular sunsets can be enjoyed looking out to sea to the west.

**Exhibit B7: Sunset view from Gonio**



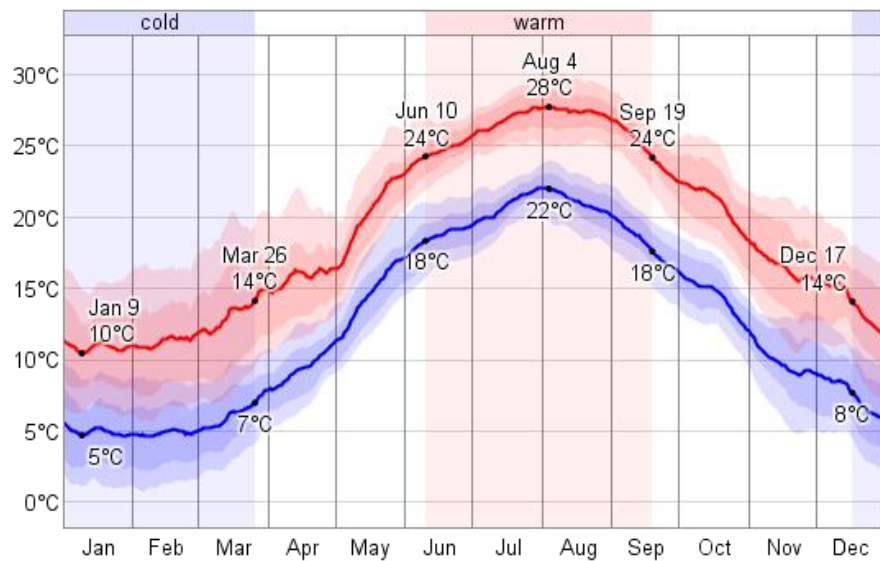
*Source: Panoramio - Petra*

The site and its attributes are considered in greater detail in the Concept Masterplan document.

### 7.1.3 CLIMATE

The temperature in Batumi varies between 5 °C and 28 °C. It is rarely below zero or above 30 °C. The graph below shows that a June to September are the warmest months and the temperature can be quite pleasant from April to November.

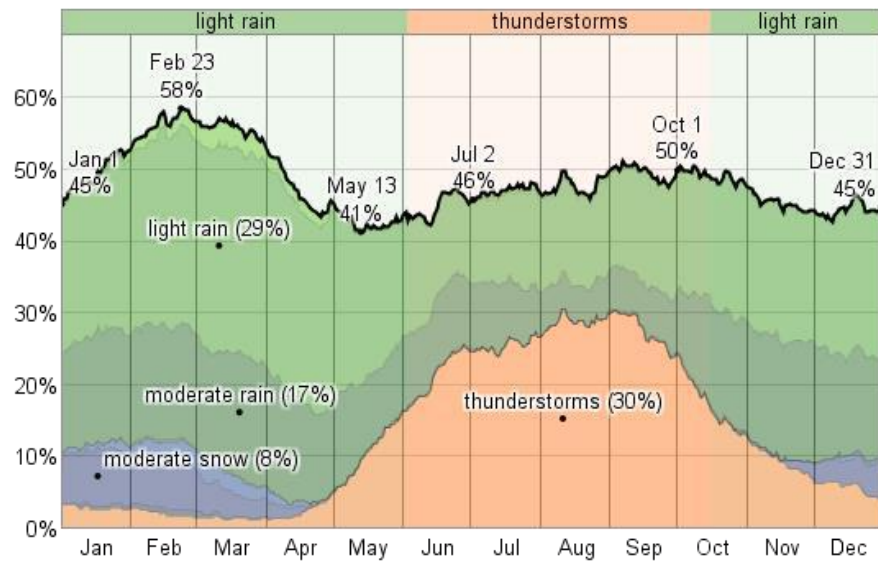
**Exhibit B8: Temperature in Batumi – low and high temperatures**



Source: [weatherspark.com](http://weatherspark.com)

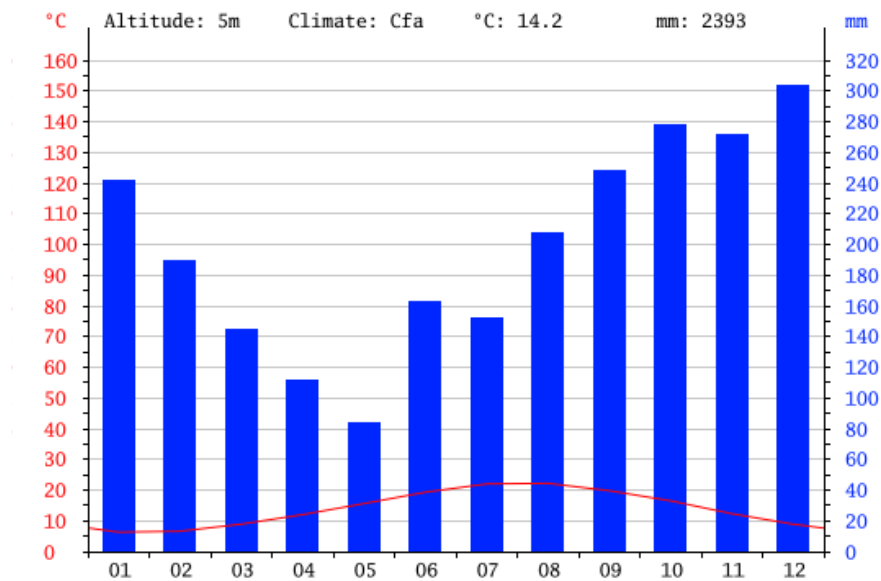
Batumi / Gonio lie at the northern periphery of the humid subtropical zone. The climate is heavily influenced by the onshore flow from the Black Sea and the hills behind meaning that there is rainfall throughout most of the year. This is typically light rain during most of the year and thunderstorms in the warmest months.

**Exhibit B9: Probability of precipitation in Batumi**



Source: weatherspark.com

**Exhibit B10: Summary Temperature and Precipitation in Batumi**



Source: climate-data.org

The prevailing wind is from the south east and is typically a light to fresh breeze.

## 7.2 THE WIDER DESTINATION

### 7.2.1 IMMEDIATE PROXIMITY TO THE SITE

#### BEACH

The beach along the coast between Batumi and Sarpi is a key attraction to visitors. The waters close to Batumi are well-frequented by bathers owing to its proximity to much of the holiday accommodation available. Bathers tend of stay in the first few metres of sea due to the shelving of the beach.

#### Exhibit B11: The beach at Batumi in August



Source: Colliers International

The water quality at Batumi is relatively poor since the beach is close to the port and city. Many tourists therefore prefer the clearer waters to the south of Chorokhi River and thus Gonio and Kvartiati are regarded well for their beaches.

#### Exhibit B12: The beach at Gonio



Source: trip-suggest.com (Archil Kik)

## BIRDS & NATURE

The skies above the Gonio site and certain areas within and close to the site are particularly important for birds.

Overhead, Gonio/Batumi is a renowned location for watching the southbound flight of raptors ('birds of prey' – eagles, buzzards, etc) on migration in autumn. On peak days, typically late September / early October, counts of raptors flying overhead can reach over 100,000, and on 2<sup>nd</sup> October 2014 over 280,000 of 20 different species in one day!

### Exhibit B13: Birds of prey on migration over Batumi & Gonio



Source: <http://blogbirder.blogspot.co.uk>

The River Chorokhi and associated wetlands are also popular locations for wintering birds and stop-over sites for others. Birds include grebes, herons, cormorants, egret, ducks, kite, coot, gull, wagtail, warbler etc. Indeed over 245 species are regular visitors.

**Exhibit B14: Birds at the River Chorokhi**



*Source: Colliers International*

**GONIO FORTRESS**

Gonio fortress is a Roman fortification opposite part of the Gonio Resort site. It is almost 5 ha in size and includes 18 towers. Earliest references to it date back to 1<sup>st</sup> century AD and it subsequently came under Byzantine, Ottoman and Russian influences. The site is believed to hold the tomb of the Apostle Mathew, It is also closely connected to the myth of the Argonauts. The site has yet to be fully excavated but there is a small museum in the grounds showing what has been found.

The main road from Turkey currently runs immediately past the entrance to the site and there is little at the site to embrace its potential as a tourist focal point. Despite this the site received 66,300 visitors in 2014 (and indeed a CAGR of 25% over the previous two years). There are also plans create more interactive experiences within the towers of the fortress and in front of it, but these require funding to progress further.

**Exhibit B15: Gonio Fortress – entrance and aerial view**



*Source: Colliers International and aerial image displayed within the museum*

**7.2.2 BATUMI**

Batumi is a resort city with a wide boulevard between the city and the beach and large managed public spaces in the city. Behind the boulevard is an eclectic selection of new high rise buildings, predominantly hotels and apartments and behind them the old wide streets of Batumi with quite charming character although in parts requiring some maintenance. Key recent investments in this area includes the Batumi Piazza, a hub of cafes and restaurants styled as a small version of Venice’s St Mark’s Square. The southern stretches of the city include high rise apartment buildings, including some new ones (not all complete) and many Soviet-style blocks.

The key tourism attraction offer of Batumi includes the following:

- Multiple casinos – a key draw for certain tourists
- Dolphinarium
- Cable car on Anuria Mountain, offering excellent views
- Events and cultural shows, including at the Batumi Art and Music Center
- Festivals (including Grafikart in June, Jazz in July, Classical Music in July/August, Birds in September, Animated Films in October)

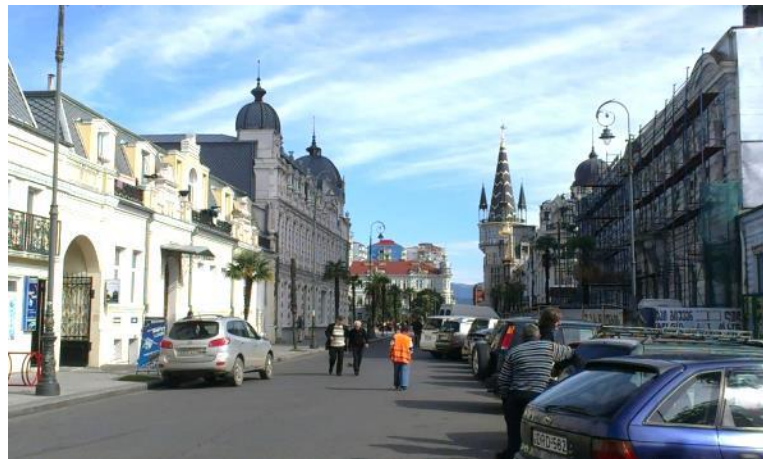
There are also proposals for further attractions, such as an aquarium but this is yet to be realised due to funding challenges.

**Exhibit B16: Batumi Boulevard fountains in high season**



Source: [openbatumi.com/en/explore/attractions/boulevard/](http://openbatumi.com/en/explore/attractions/boulevard/)

**Exhibit B17: Wide streets of Batumi**



Source: *Colliers International*

**Exhibit B18: Batumi night time skyline**



Source: [georgiantour.com/batumi](http://georgiantour.com/batumi)

To the north of Batumi (9km) are the Botanical Gardens. These stretch over 108 ha and are one of the biggest and richest botanical gardens in the world.

**Exhibit B19: Batumi Botanical Gardens**



Source: Botanical Gardens map and wikimapia.org

**7.2.3 ADJARA**

Beyond the coast, the wider offer of Adjara includes impressive mountainous landscapes and several protected areas – Mtirala National Park, Ispani Mire, kintrishi Reserve and Machakhela Transboundary Protected Area. In the winter tourists can also ski at Goderdzi Pass, and there are wine houses that can be visited along the road close to Keda. Adjara is also renowned for its cuisine.

**Exhibit B20: Mtirala National Park**



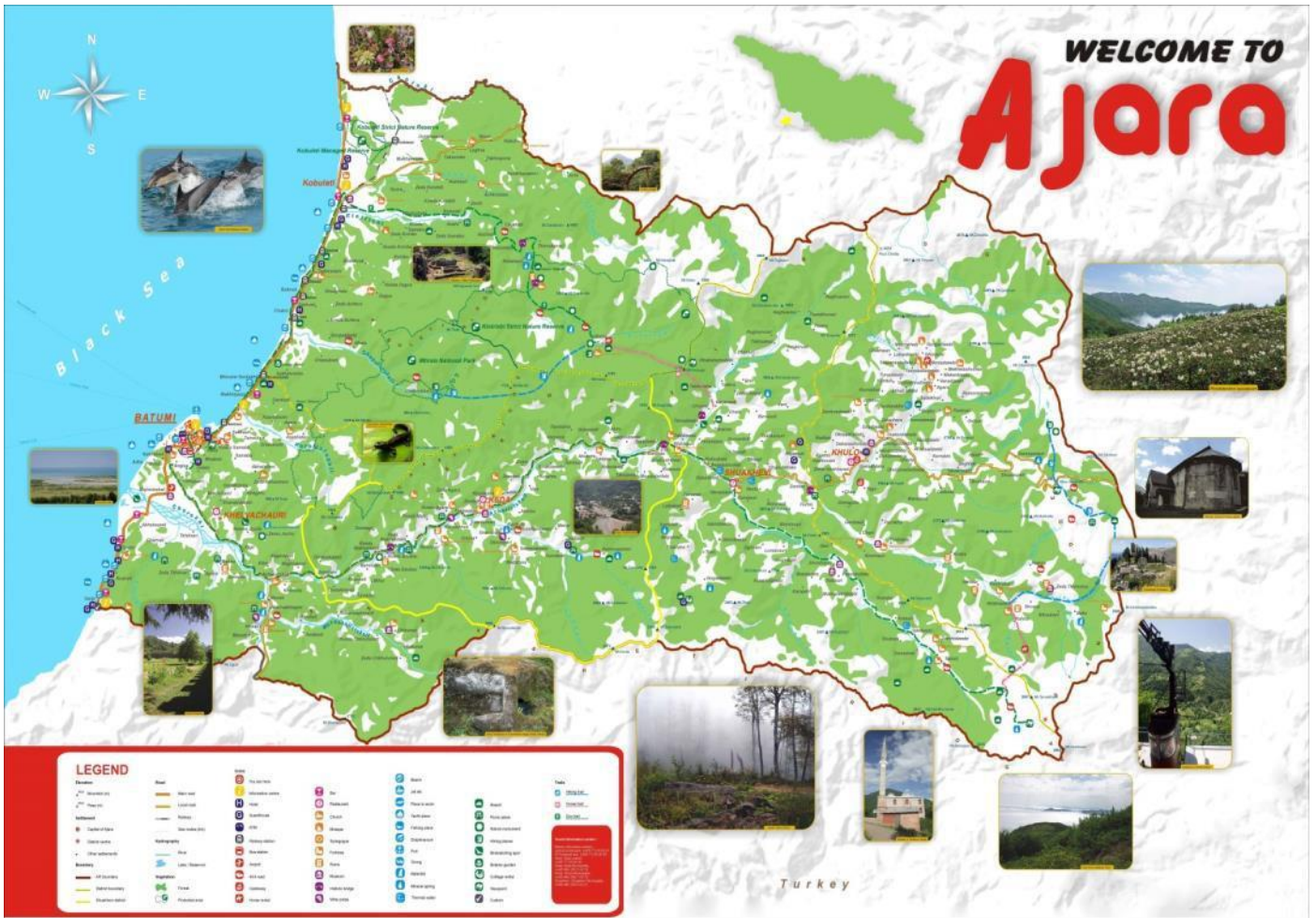
Source: elitetour.ge

**Exhibit B21: Tours of the mountains of Adjara**



Source: tkemalitour.com/

**Exhibit B22: Tourist map for Adjara**



Source: wikimedia.org

## 7.3 SITE AND DESTINATION ANALYSIS

In the tables below, the site is analysed from different perspectives that inform the concept and business planning. These include:

- SWOT analysis of the site itself
- Cross-check that the site is appropriate to be considering as a resort development given local competition
- Analysis of the wider destination context of the site and implications for the project
- Top level consideration of the inclusion of core components in a tourism and leisure led mixed-use development

### Exhibit B23: SWOT analysis of the site

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Direct beach access – 2km by polygon; and nearly ~1.5km by Gonio</li> <li>• Cleaner water than Batumi and especially further away from the river mouth. Favoured in area.</li> <li>• Summer and shoulder season temperatures are warm and winters not too cold</li> <li>• Good views to the mountains behind</li> <li>• Large site, unencumbered, open undeveloped land</li> <li>• Short drive time to Batumi (~10 mins)</li> <li>• Very short drive time to the airport (~5 mins)</li> <li>• Direct access for travellers from Sarpi border</li> <li>• Waterfront promenade already established in some places</li> <li>• Connection proposed by bridge directly to Batumi waterfront</li> <li>• Natural asset of river proximity</li> <li>• Natural asset of raptor flight route</li> <li>• Proximity of cultural asset of Gonio fort</li> <li>• Batumi: established fast growth of tourism and investment</li> <li>• Batumi: strong existing accommodation offer with international branded hotels</li> <li>• Batumi: developed offer attracting neighbouring countries citizens, especially for beach and gambling</li> <li>• Background context: gambling licences available</li> <li>• Background context: focus on transparency and friendly political environment for investment</li> </ul>	<ul style="list-style-type: none"> <li>• The climate is one of high rain, even in high season</li> <li>• Pebble beaches are less desirable than sand</li> <li>• The beach drops away quickly, limiting the bathing area (3m band)</li> <li>• Low lying water-logged land without view of the sea from ground level</li> <li>• Open land lacks characterful vegetation or undulation in most areas</li> <li>• Subject to flooding, and the land is being carved away by the river</li> <li>• Strong winds from the mountains</li> <li>• Storm surges from the sea</li> <li>• Land requires further clearing – land mines etc.</li> <li>• Currently unserviced site</li> <li>• The non-polygon part of the site is not all contiguous and has neighbouring development</li> <li>• Proposed road from Batumi will cut through the site, starting close to the beach</li> <li>• The busy main road cuts between Gonio fort and the site</li> <li>• Aircraft noise (though few flights at present)</li> <li>• Technical studies about the land are yet to be undertaken</li> <li>• Prostitution trading point at present</li> <li>• Local population is low income</li> <li>• The nature of the river and sedimentation limits how the estuary could be used (e.g. not marina)</li> <li>• Lack of leisure operator interest to Batumi currently</li> </ul>

## OPPORTUNITIES

- To create an additional driver of tourism to the area and complement Batumi
- To create an attraction for all weathers
- To create something for kids/families to do
- To complement a gambling trip
- Respond to growing tourism demand for Georgia and Batumi.
- To increase length of stay in the area
- To create something beneficial to the local population
- To create a showcase destination for Georgia, creating a sense of arrivals for visitors from the Sarpi border
- To enhance the offer to surrounding populations with limited coastal resort alternatives
- To create something that will benefit from such close proximity to the airport eg for conventions
- To enhance the experience around Gonio fort
- To attract the niche of birdwatching tourists
- To put check to the river claiming part of the site

## THREATS

- Hotel occupancy is currently low - demand needs to be created
- The season is currently short – need to extend and be able to make money in summer months
- Catchment area is limited by the sea, lack of major populations nearby, and flight access
- Tourist spend patterns are currently low – markets who are prepared to spend more need to be developed
- Development that is too large too soon will carry high risk, suppress prices and may not match evolving demand. Long phasing will be needed.
- Achieving visitor figures to support initial key attractor will be a challenge in early years
- Operator interest will be a challenge
- Batumi will continue to evolve as the site is developed – the market, leisure and competition could change. Gonio plans will need to be flexible and evolve with Batumi
- Risk from storm surges and flooding

*Source: Colliers International*

This analysis shows that there are some good strengths and many opportunities but also that there are a number of weaknesses and threats that complicate and challenge the development of the site.

The analysis below explores whether the site is appropriate to be considered for resort development in relation to local competition. In conclusion the strengths and opportunities definitely outweigh the weaknesses and threats.

### Exhibit B24: SWOT of Gonio as a resort development in relation to local competition

#### Strengths

- The Gonio site is adjacent to Batumi:
  - the most established and largest tourism destination on the Georgian coastline
  - existing international profile
  - already attracted significant investment
  - national level events held in the city
- Very close to the international airport and Sarpi border
- Adjacent to Gonio Fort – a significant historic site
- Mountain backdrop and close proximity for excursions
- Scale of the site allows for a major tourism project with its own heart and visitation drivers

#### Weaknesses

- Sand on beaches at some other locations, although no 'pure stretches of golden sands'. Tour agencies suggest Ureki is most popular for sand.
- Gonio itself lacks existing leisure facilities (eg in contrast to Anaklia water park)
- Other than the fort and cleaner beaches, Gonio doesn't have a specific tourism niche yet, in contrast to eg Tskaltubo spa town

## Opportunities

- To tap into the existing international profile and accessibility of the area
- To benefit from the existing strong tourism profile of Batumi and tourism investments
- To create a complementary resort offer to Batumi, raising the profile and attractiveness of the destination as a whole
- To help make a success of Batumi for tourism, especially in the shoulder season
- To create a destination that is much more than a local-level resort – international, domestic and local tourists

## Threats

- If other tourism projects take disproportionate share of investor's interest
- If major changes occur in plans for other coastal resort towns
- If Turkish resorts were to permit gambling (no expectation of this)

*Source: Colliers International*

Additionally, it is useful to consider the site, opportunities and threats in the context of the wider destination and especially Batumi. We do this Destination Analysis in relation to five key success factors:

- **Attractors** – These raise awareness and 'pull' the market, motivating the buying decision
- **Services** – These satisfy visitor needs and increase spending
- **Infrastructure** – Creates a smooth experience and sense of place
- **Management** – This ensures the destination operates effectively
- **Brand** – The articulation of the promise to be delivered

**Exhibit B25: Destination analysis and related opportunities and threats**

<i>Aspect</i>	<i>Strengths</i>	<i>Weaknesses</i>	<i>Significance to the project (opportunities and threats)</i>
<b>ATTRACTORS</b>			
Climate	<ul style="list-style-type: none"> <li>Good desirable temperature year round</li> </ul>	<ul style="list-style-type: none"> <li>High rainfall, even in summer months</li> </ul>	<ul style="list-style-type: none"> <li>Covered areas required</li> <li>Activities for when it is raining could attract strong demand</li> <li>Current short season is in part related to rainfall and season length is a key determinant of viability</li> </ul>
'Must see' attractors / distinctive features	<ul style="list-style-type: none"> <li>Casinos are a key draw to Georgia/Batumi since gambling is not permitted in neighbouring countries</li> <li>Batumi is the most developed beach resort area in Georgia</li> </ul>	<ul style="list-style-type: none"> <li>Lack of 'must see' attractors to attract tourists</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity to create 'must see' attractors to drive visits to Gonio and Batumi</li> <li>Consider opportunity for a differentiated casino offer</li> </ul>
Tourist experiences - beach	<ul style="list-style-type: none"> <li>The beach is extremely popular with visiting tourists</li> <li>Busy beach entertainment – bungee trampolines, water dodgems, etc.</li> <li>Pier with bar and restaurants allows greater sense of being by the water</li> </ul>	<ul style="list-style-type: none"> <li>The beach is pebbles and the water is less clear at Batumi</li> <li>Water-based experiences more limited in provision / take up than many resorts</li> <li>Shelving of beach means people just play in first 3 metres</li> <li>No beach access by boat along main beach</li> </ul>	<ul style="list-style-type: none"> <li>Clearer water at Gonio makes the beach more desirable than Batumi</li> <li>Consider providing more and different the water-based experiences</li> <li>Consider piers and platforms; and enhanced experiences at sea-land interface</li> <li>Possibility of creating a sand beach at a fresh water lagoon – 'Crystal Lagoons' technology</li> </ul>
Tourist experiences - other	<ul style="list-style-type: none"> <li>In Batumi there is a dolphinarium, small waterpark, lake park, etc.</li> <li>The Botanical Gardens north of Batumi are popular with families</li> <li>Gonio Fort south of Batumi is an interesting but underexploited asset</li> <li>The cable car experience has greater potential if there is more offered at the top, but the views are impressive</li> </ul>	<ul style="list-style-type: none"> <li>The range and extent of tourist experiences is less developed than many resorts – eg. limited water park; limited list of activities</li> <li>The quality is limited. The waterpark is only 5 years old but appears dated. The Botanic experience could be enhanced.</li> <li>The revenue generation for the current experiences is small. Gonio fort 3 GEL and a Botantics 8 GEL, waterpark 25 GEL</li> </ul>	<ul style="list-style-type: none"> <li>Consider further tourist experiences that could be provided</li> <li>Families are a key tourist market, although currently their spend is low</li> <li>Desirable for the project if the Gonio Fort experience is also enhanced</li> <li>Tour operators could sell twin centre holidays with skiing at Goderdzi Pass</li> </ul>

<p>Events</p>	<ul style="list-style-type: none"> <li>▪ Increasing number of high profile events, especially in summer – eg the Sukhishvilebi (ballet) at the ‘Batumi State Centre’ and DJs at the Mandarin Club</li> <li>▪ Events to drive visits – eg Jazz Festival in Batumi</li> <li>▪ Efforts to use events to extend the season eg. animated film festival in October</li> <li>▪ The Dancing Fountain displays with music create an experience to see every night</li> </ul>	<ul style="list-style-type: none"> <li>▪ More events needed, especially in the shoulder season</li> <li>▪ Underdeveloped MICE offer and lack of facilities for large conferences and exhibitions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Opportunity to hold events for tourists – reasons to visit and repeat visits</li> <li>▪ Opportunity of the Bird festival since the site is a strategic bird location</li> <li>▪ Opportunity to develop space for large conferences and exhibitions</li> </ul>
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<i>Aspect</i>	<i>Strengths</i>	<i>Weaknesses</i>	<i>Significance to the project (opportunities and threats)</i>
<b>INFRASTRUCTURE</b>			
Air access	<ul style="list-style-type: none"> <li>▪ Short travel distance to the airport</li> <li>▪ Good access to Tbilisi</li> <li>▪ Fair access to Istanbul and northern parts of Eastern Europe</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lack of direct routes to Western Europe and high spending tourists</li> <li>▪ Few flights per week to Batumi airport</li> <li>▪ Wizz Air operating from Kutaisi not Batumi</li> </ul>	<ul style="list-style-type: none"> <li>▪ Countries with direct flight routes are likely to supply the main international demand</li> <li>▪ Ease of access from Tbilisi will be important – flight timings significant for short breaks market</li> <li>▪ Demand growth needed across Batumi to justify new flights</li> </ul>
Road / car access	<ul style="list-style-type: none"> <li>▪ Short drive distance from the Turkish border at Sarpi</li> <li>▪ Road access means neighbouring country visitors do drive to Batumi</li> <li>▪ Tbilisi residents prepared to drive to Batumi</li> </ul>	<ul style="list-style-type: none"> <li>▪ Parking is expected to become an issue in Batumi</li> <li>▪ The roads do not feel particularly safe for non-local drivers</li> <li>▪ Car rental underdeveloped</li> <li>▪ Language barriers deter independent exploration</li> </ul>	<ul style="list-style-type: none"> <li>▪ Turkish population close to the border (including ethnic Georgians) significant for the project</li> <li>▪ Parking requirements on site</li> <li>▪ Possibility of ‘park and ride’ parking for Batumi if a good link</li> <li>▪ Transport needed by many visitors to be able explore the region</li> </ul>
Public transport	<ul style="list-style-type: none"> <li>▪ Bus routes were described by the Tourist Info Centre for accessing key locations</li> <li>▪ Rail access from Tbilisi and elsewhere and proposed station project</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tourists may lack confidence for travelling on the local bus routes, especially inland</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tourist branded buses / trams / boats could connect Gonio with the airport and Batumi</li> <li>▪ The Gonio site is large – a shuttle bus around the site could be considered; or golf buggies etc.</li> </ul>
Bike and foot access	<ul style="list-style-type: none"> <li>▪ Generally the main Batumi streets and boulevards felt safe even late at night</li> <li>▪ On street bike hire facility (although need to register)</li> <li>▪ Tourist signage in English</li> </ul>	<ul style="list-style-type: none"> <li>▪ Underexploited and/or under-marketed walking and biking tourist trips in the hills</li> </ul>	<ul style="list-style-type: none"> <li>▪ Desirable if the full walk / cycle ride from the Gonio site to Batumi feels safe by day and night. Activity along the route is important.</li> <li>▪ Tourist trips for walking / biking in the hills behind Gonio could be attractive</li> </ul>
Other transport	<ul style="list-style-type: none"> <li>▪ The cable car provides an attraction</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limited tourist experience at the top and limited revenue generation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Adds to the tourist interest in visiting Batumi area.</li> </ul>

Aspect	Strengths	Weaknesses	Significance to the project (opportunities and threats)
<b>SERVICES</b>			
Hotels	<ul style="list-style-type: none"> <li>International brands at the high end in Batumi</li> <li>Extensive supply of small hotels and guesthouses</li> </ul>	<ul style="list-style-type: none"> <li>Occupancy is a challenge in shoulder and winter months</li> <li>No international standard resort hotels</li> <li>Only small local hotels and guesthouses at Gonio and Kvarati</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity for international standard resort hotels</li> <li>Opportunity for mid market international brands</li> <li>Opportunity for hotels to also be base for exploring further afield – eg mountains</li> </ul>
Rental accommodation	<ul style="list-style-type: none"> <li>There is a market for renting accommodation</li> </ul>	<ul style="list-style-type: none"> <li>Some apartment rentals are extremely cheap (eg 100 GEL)</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity for a developed, quality accommodation rental offer</li> </ul>
Restaurants	<ul style="list-style-type: none"> <li>Georgian food &amp; wine well-regarded</li> <li>Quality restaurants in top hotels</li> <li>Piazza offers appealing outdoor dining</li> <li>Some beach/boulevard restaurants</li> </ul>	<ul style="list-style-type: none"> <li>Challenging for tourists to be able to identify the good choices</li> <li>Less outdoor dining / café culture than many resorts</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity for tourist-friendly authentic destination dining experiences</li> <li>Opportunity for more indoor-outdoor dining for all weathers</li> </ul>
Bars and clubs	<ul style="list-style-type: none"> <li>New beach clubs aiming for a differentiated / more managed beach experience – such as Mandarins</li> </ul>	<ul style="list-style-type: none"> <li>Less developed beach club offer than perhaps potential for</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity for destination bars, clubs and beach clubs</li> </ul>
Casinos	<ul style="list-style-type: none"> <li>Strong casino offer and rapidly growing market</li> </ul>	<ul style="list-style-type: none"> <li>Potential over supply</li> <li>Potential problems related to gambling</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity for gambling as part of broader leisure and entertainment mix</li> </ul>
Shops – convenience	<ul style="list-style-type: none"> <li>Small shops, mainly in Batumi</li> </ul>	<ul style="list-style-type: none"> <li>Very little retail by the beach except at the pier</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity for small shops / kiosks</li> </ul>
Shops – comparison goods	<ul style="list-style-type: none"> <li>Requirement of shopping centres has been identified and retail components are part of some projects in construction</li> </ul>	<ul style="list-style-type: none"> <li>Batumi Plaza not inviting</li> <li>Limited tourist shopping experiences – malls, boutiques, local crafts, local produce etc.</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity for tourist shopping</li> <li>Possibility for an ‘out of town’ shopping experience but within Batumi there is likely to be a better location for malls etc.</li> </ul>
Excursion agencies	<ul style="list-style-type: none"> <li>Opportunities to make excursions to interesting sites in the mountains</li> </ul>	<ul style="list-style-type: none"> <li>Limited provision by excursion agencies. (Tourist Information Centre suggested taking the bus.)</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity for a well-managed excursion offer to complement the onsite experiences for those staying at Gonio</li> </ul>

Aspect	Strengths	Weaknesses	Significance to the project (opportunities and threats)
<b>MANAGEMENT</b>			
Tourist Information	<ul style="list-style-type: none"> <li>Existence of Tourist Information Centres (TICs) in Batumi &amp; staff happy to answer questions</li> <li>Good online information</li> </ul>	<ul style="list-style-type: none"> <li>TICs deliver below their potential – lack of promoting ideas of things to do in Batumi</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity for making it easy for tourists to see what there is to do on and off the site and selling ideas to them – on the ground and online. Promotion, bookings, excursions</li> </ul>
Tourism management	<ul style="list-style-type: none"> <li>Tourism and resorts department exists</li> <li>Several successes to get to current position.</li> <li>Familiarisation trips run with journalists and tour operators</li> <li>Strategic plan at top level for Adjara regarding ways of working</li> <li>Awareness of more to do – eg proposed 2015 target markets survey and 2018 strategy</li> <li>Collaborative group between hoteliers and others being created</li> </ul>	<ul style="list-style-type: none"> <li>On the ground tourism strategies for Batumi and Adjara urgently needed</li> <li>Immediate action plan for Batumi area urgently needed</li> <li>Much more that can be done - dependent on resources, funding and experience from other destinations</li> <li>Official opening of tourist season was May 31<sup>st</sup> – suggests closed to tourism before then</li> </ul>	<ul style="list-style-type: none"> <li>Encourage fast tracking of delivering tourism strategies and action plans</li> <li>Public and private sector relationships will be important to developers of the site</li> </ul>
<b>BRANDING</b>			
Gonio as a destination	<ul style="list-style-type: none"> <li>Gonio Fort gives Gonio a brand recognition</li> </ul>	<ul style="list-style-type: none"> <li>Very limited promotion if any</li> <li>Not a destination on gobatumi.com</li> </ul>	<ul style="list-style-type: none"> <li>Increase profile of Gonio</li> <li>Gonio Fort area brand should also be developed further</li> </ul>
Batumi / Adjara as a destination	<ul style="list-style-type: none"> <li>Strong branding of Batumi</li> <li>Strong online presence - gobatumi</li> </ul>	<ul style="list-style-type: none"> <li>Adjara not a promoted region specifically – Batumi sites also promote Adjara</li> </ul>	<ul style="list-style-type: none"> <li>Increase profile of Gonio as linked to Batumi from tourism perspective</li> <li>Increase profile of Gonio within Adjara</li> </ul>
Georgia as a destination	<ul style="list-style-type: none"> <li>Strong Georgia presence at World Travel Market</li> <li>Georgia online portal for research but limited re promotion</li> </ul>	<ul style="list-style-type: none"> <li>Web searches confused with Georgia USA</li> <li>Georgia online sites limited in promoting black sea coast (also suggested as summer only)</li> </ul>	<ul style="list-style-type: none"> <li>Encourage review of profile given to Batumi and Adjara coastline</li> </ul>

Source: Colliers International

In summary, from our analyses we consider the major opportunities to include:

- Creation of a resort development
- Creation of a ‘must see’ attractor to drive visitors
- Provision of more things to do, especially in the daytime and poor weather
  - More kid / family activities

- Evening entertainment (non-casino) & destination dining
- Covered options for rainy days
- Activities and events that can help to extend the season
- Provision of more desirable beach experiences than the beaches by Batumi

We also think there is opportunity to:

- Tap into casino tourism
- Provide more water-based experiences and create a sandy beach
- Embrace water/sea-land interface – piers, boat trips, waterfront promenade, waterfront properties
- Acknowledge / embrace the neighbouring Gonio fortress

Particularly key challenges that influence the realisation of opportunities include:

- The population catchment area is not enormous
- Batumi as a destination is currently very seasonal and hotels are struggling to fill rooms outside of high season
- The market is typically a low spending market.

In addition, to support efforts to develop a resort at Gonio, we believe there is a significant complementary requirement of the wider area that lies outside of the scope of this work. This requirement includes:

- Batumi Tourism Strategy and Action Plan
- Events strategy to expand the season
- Branding and promoting Gonio, Batumi and Adjara as a year round destination not summer only with declarations of when the season opens and closes
- Greater sophistication in providing integrated tourism experiences and managed excursions
- Tourist information offices on the ground better inspiring tourists to do more
- Enhancement of Gonio Fortress as a tourist attraction
- Tourist transport links between Gonio and Batumi

The following analysis considers the core components of mixed-use development at the site with a primarily resort focus.

**Exhibit B26: Tourism & leisure led mixed-use development – core components**

	Existing?	Pros	Cons	Site opportunity
Key driver of visits to the site	Gonio beach, Gonio fort. Lacking higher profile draw / differentiator.	Key driver raises profile, differentiation and creates a distinctive reason to visit	Costly to provide built facilities	Having a key driver is considered a primary focus for making a success of the site.
Hotels	Yes in Batumi. Top end brands; no mid market international brands	Facilitate tourists visiting. Create onsite footfall. Packages can induce demand.	Commercially challenged when low occupancy. Nightly sales, not upfront sales.	Yes, but carefully pitched and phased.
Residential	Yes, lots of current and new supply in Batumi. Mainly cheap apartments	Facilitates footfall and community on site. Sales provide upfront funds.	Substantial newly built supply already in Batumi	Yes, but differently pitched to Batumi. Phasing and sales absorption pace significant
Casino	Yes in Batumi	Profitable. Draws people to visit.	Potential gambling problems.	Yes
Other tourism & leisure facilities	Some facilities in Batumi but limited, especially in poor weather	Facilitate good tourist experiences and activity. Opportunities to spend.	Variable profitability of different facilities	Yes, careful choice of mix re balance of good experience and revenue generation
Offices & commercial	Basic provision in Batumi. Limited demand.	Steady rental income. Encourages year round community.	Demand challenges	Small provision with opportunity to grow in later phases.

Source: Colliers International

The inclusion of the core components listed is positive. The concept and components are presented in greater detail in subsequent sections.

## 8 OVERALL CONCEPT

### 8.1 THE CONCEPT

The site will be developed as

‘an international standard leisure-led mixed-use development.’

The concept is to create a new destination that will attract tourists from national and international tourists and day visitors from Batumi, Adjara and north east Turkey.

The development will benefit from branding in due course. As a working title is called ‘Gonio Resort’ and the following key phrases suggests the type of experience that the destination will offer.

*The playful lifestyle*

*The place to be seen*

*Good times, year round*

*Creating memories*

*Experience life at its best*

*Come and have fun*

*Live life to the full*

*The way life should be*

#### 8.1.1 CORE DRIVERS OF VISITS

The core drivers of visits to the resort will be:

- Indoor-outdoor waterpark – an international standard waterpark providing year-round fun for all ages at an iconic destination
- Crystal lagoon – ‘the Maldives as your door’ – an enormous lagoon with white sand beaches and crystal clear water
- Indoor and outdoor sports and activities – from tennis, handball and football; to bowling, mini golf, and climbing; to Pilates classes, spa treatments and art classes; as well as exciting teenager and kids’ activities there will be vast range of activities for all ages and all weathers
- Casino and leisure arcade – facilities for both the serious casino visitor and separately for friends and families just wanting entertainment
- Cinema and events spaces – from outdoor shows and festivals, to the latest films in tourist languages, to concerts from the best names in international entertainment

#### 8.1.2 RESORT POSITIONING

The positioning of the resort is to provide the following:

- Affordable luxury

- International standards
- ‘Lifestyle’ not just ‘property’
- Quality time for families
- The fresh, trendy option for young adults
- The place to be seen / where friends meet

It is will provide the most appealing way to stay and visit Batumi by offering the ‘best of both’ – a resort lifestyle close to the city. Indeed there is also potential for the resort to help Batumi to become a shortbreaks capital for the region.

For domestic holiday tourists, the resort also offers exciting holidays closer to home. It is expensive to fly a family of four to an international destination but a ‘staycation’ can allow families to save on travel and splash out on fun.

## 8.2 THE RESORT COMPONENTS

The Gonio Resort will comprise several components. These are described in detail in subsequent sections of this Business Plan and financial projections provided for each component.

As an overview:

- A residential component. This will include apartments, townhouses, linked villas and villas.
- A hotel and aparthotels component.
- A leisure component. This will include a wider variety of activities and facilities including a waterpark, lagoon, activity hub of indoor and outdoor facilities, bowling, lake activities, sports, karting, leisure arcade, spa, gym, and cinema.
- A casino component.
- Other commercial components including shops, F&B (cafes, bars and restaurants), and small business units.

The resort will also include a wide expanse of natural land next to the Chorokhi River, a large lake, artificial lagoon, landscaping, infrastructure and social infrastructure.

## 8.3 THEMES OF THE RESORT

The Gonio Resort has several key themes to the offer. These are:

- Activity hub, waterpark and sports
- Entertainment

- Town centre, retail and F&B
- Culture
- Lagoon, lake, beach and nature
- Accommodation; and
- Enterprise

Some of these themes have focal areas within the resort and some a spread across the whole resort. An impression of the experience associated with each theme is presented below.

### 8.3.1 ACTIVITY HUB, WATERPARK AND SPORTS

The resort will provide a wide range of things to do for all ages and all weathers. These are described in Sections 12.

#### INDOOR ACTIVITIES

The indoor activities will range from waterpark slides and bowling, to kids play and indoor sports, to social games and spa experiences.

#### Exhibit B27: Example impression of indoor activities experience



Source: Third party images from other locations

**OUTDOOR ACTIVITIES**

The outdoor activities will range from kayaking to karting, team building to tennis, and mini golf to pro football training. The key provision for these activities includes the 27.4 hectare lake and outdoor pitches, courts and a karting track. The natural area will also be attractive for bird watching and cycling.

**Exhibit B28: Example impression of outdoor activities facilities experience**



*Source: Third party images from other locations*

The sports facilities will provide fun, activity and learning for those staying at Gonio Resort and visiting, as well as for the local population of Batumi and Adjara. The quality will also be appropriate for training purposes and mid-profile events. For example the football / rugby pitches are proposed to have a ‘3G’ surface that can be used year round, as used for example at the UK’s National Football Centre.

**Exhibit B29: Example impression of sports facilities experience**



*Source: Third party images from other locations*

### 8.3.2 ENTERTAINMENT

The entertainment facilities at Gonio Resort will particularly cater for adults of 20+ years. These facilities will attract individuals, couples and groups of friends and provide a mix of interest for all ages of adult. Key elements include the casino, nightclub with karaoke, and space for events such as music gigs. The leisure arcade, cinema and space for outdoor cinema and festivals will also mean that the family and older child market will find interest.

Loosely forming an 'entertainment quarter', the area will be a sociable destination, especially in the evening, and be the place to play and be seen.

#### Exhibit B30: Example impression of entertainment facilities experience



Source: Third party images from other locations

### 8.3.1 TOWN CENTRE, RETAIL AND F&B

The town centre will be a vibrant heart to the resort. It will be particularly busy during the day, and its proximity to mainly of the entertainment facilities will also make it popular in the evening. It will be a place of permanent shops, service facilities, cafes, bars and restaurants, as well as temporary markets and a focal point for festivals.

Cafes, bars and kiosks will also be located throughout the resort to provide drinks, small items to buy, and act as social focal points.

**Exhibit B31: Example impression of 'town centre'**



Source: Third party images from other locations

**8.3.2 CULTURE**

The Gonio Fortress close to the Gonio Resort provides an excellent impetus to create a 'cultural quarter' with the development area. This is proposed to be opposite the fortress. The land available that is within the Gonio Resort site is the southern portion of the land opposite and stretches to the sea.

The cultural quarter could provide facilities and experiences including the following:

- Georgian wine tasting
- Georgian food tasting – a delicatessen offering try and buy experiences, restaurant with a tasting menu, market stalls,
- Shops of quality souvenirs – crafts and foods made locally, potentially to view being made
- Gallery or museum

The area could be host to cultural events such food and wine festivals; dance and music events held outdoors, classes for learning Georgian cooking or crafts etc., and themed talks (history, archaeology, books, art) by admired individuals etc.

Currently approximately 66,300 people visit the Gonio Fortress each year. This is an impressive number given the current extremely limited level of value-added

experience to seeing the fortress walls. There is fantastic opportunity to make more of the location. Enhancement of the fortress experience itself is beyond the scope of this study, but the Gonio Resort site provides a good location for facilities that provide a better experience beyond the fortress.

**Exhibit B32: Example impression of the kind of offer of a 'cultural quarter'**



Source: Third party images from other locations

In addition to the 'cultural quarter' area around the fortress, the entertainment spaces close to the town centre at the heart of Gonio Resort also provide opportunity to embrace other aspects of culture such as music and film events etc.

**8.3.3 LAGOON, LAKE, BEACH AND NATURE**

Water and nature will be a particular attraction of Gonio Resort. The lake will offer a peaceful environment and pleasant views for the surrounding residential units, as well as a place for enjoying lots of activities. The natural area between the lake and Chorokhi River will also be appealing for walking, jogging, cycling, etc on trails, and watching birds from wooden lookout towers.

A lagoon at Gonio Resort will have crystal clear water and white sand beaches. It will create a stunning environment for the surrounding properties, and also a beautiful situation for swimming, sun bathing and gentle watersports.

The beach provides clearer waters than at Batumi and an area to play and enjoy swimming in the sea and sea watersport activities, as well as beachside cafes etc.

**Exhibit B33: Example impression of a ‘crystal lagoon’ offer**



*Source: Third party images from other locations*

**Exhibit 34: Example impression of a beach offer**



*Source: Third party images from other locations*

**8.3.4 ACCOMMODATION**

Accommodation will be provided throughout Gonio Resort, ranging from a hotel and aparthotels to apartments, townhouses, linked villas and villas for sale and rent. Different areas of residential will have a different feel.

**Exhibit B35: Example impression: residential – lakeside living**



*Source: Third party images from other locations*

**Exhibit B36: Example impression: residential and aparthotel – lagoonside**



*Source: Third party images from other locations*

**Exhibit B37: Example impression: residential – mountain view community**



*Source: Third party images from other locations*

**Exhibit B38: Example impression: residential – town centre / activity hub**



*Source: Third party images from other locations*

**Exhibit B39: Example impression: beach hotel and aparthotels**



Source: Third party images from other locations

**8.3.5 ENTERPRISE**

The site at Gonio Resort will also provide facilities for small and medium-sized businesses. An ‘Enterprise area’ is proposed which will include small and medium-sized units for offices, clean industry workshops and logistics.

**Exhibit B40: Example of facilities for business enterprises**



Source: Third party images from other locations

## 8.4 A YEAR-ROUND DESTINATION

The provision of all-weather facilities amongst the overall offer on the site has been a key element in defining the provision at Gonio Resort. It is important that the destination is attractive all year round, there is a lot to do all year round and there is a sense of life at all times.

The intention is to primarily stretch the shoulder seasons currently experienced in Batumi, and also appeal to the local population and visitors even in winter months.

Facilities that will be attractive even when it is cool or wet weather include:

- Covered indoor-outdoor pool 'swimming paradise'
- Covered leisure and sports – bowling, roller skating, badminton, squash, billiard tables, table tennis, fitness, etc.
- Covered kid's leisure – soft play, young kid's activity zone, teen games, social games etc.
- Covered leisure spa with indoor-outdoor heated swimming pool
- Indoor casino, nightclub, karaoke, bars etc.
- Indoor cinema
- Covered leisure arcade
- Shops, bars and restaurants connected by covered walkways
- Performance and convention spaces within the hotel/aparthotels and activity hub building for festivals, music and performance events, other leisure events, and business and conference events
- Business units for SMEs (Small and Medium Sized Enterprises) would also be in use year round.

We believe that these facilities will help to extend the season and attract visitors year round. Shoulder and low season visitors can be from all markets but are expected to primarily be from the domestic and Turkish market.

## 9 DEVELOPING THE RESORT

### 9.1 THE MASTERPLAN

The concept masterplan of Gonio Resort is shown below. This is presented at greater size and in more detail in the accompanying concept masterplan outputs produced by HOK.

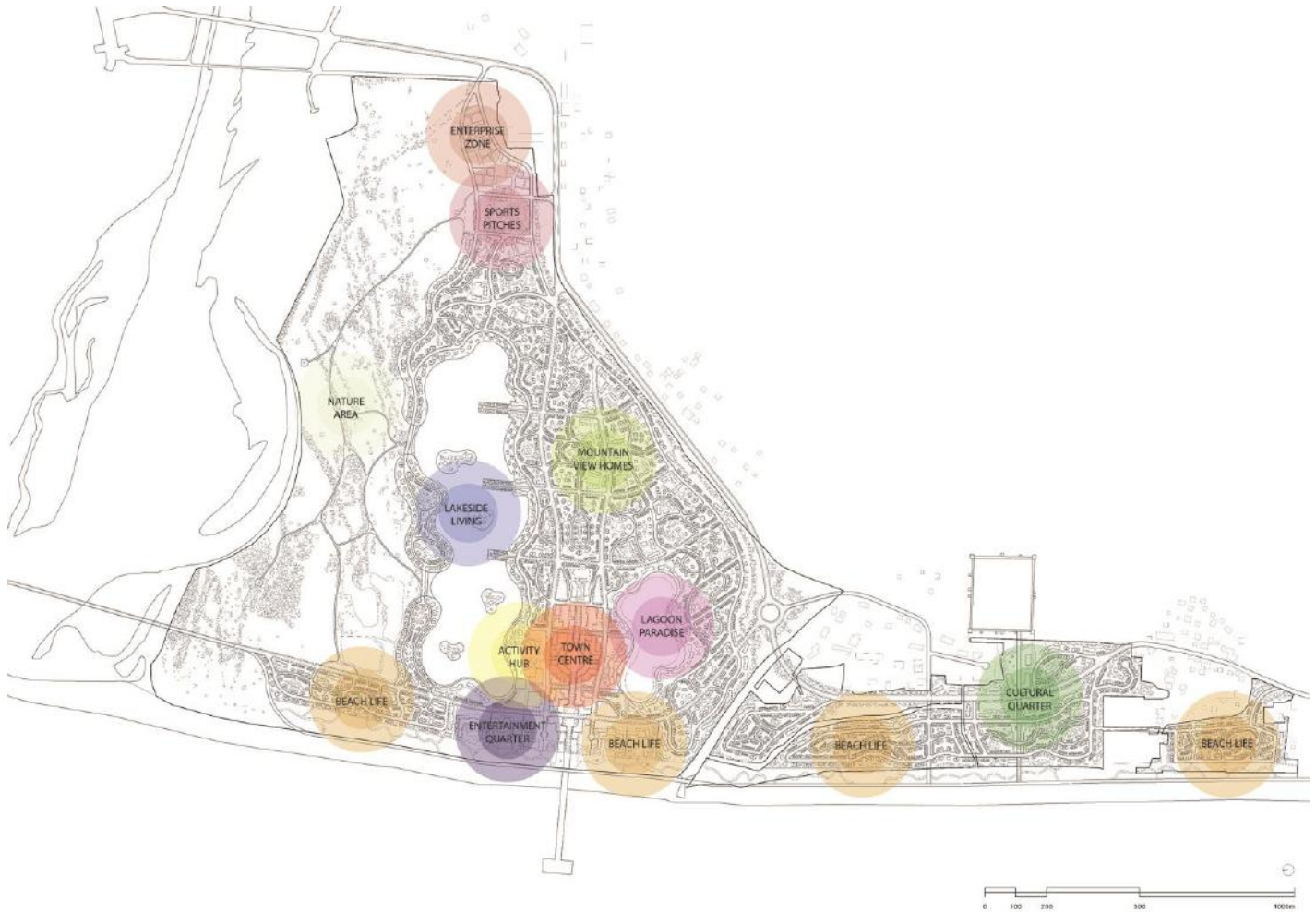
#### Exhibit B41: The Concept Masterplan



Source: HOK

The themes within the concept masterplan are illustrated in the annotated version below.

**Exhibit B42: Themes within the Concept Masterplan**

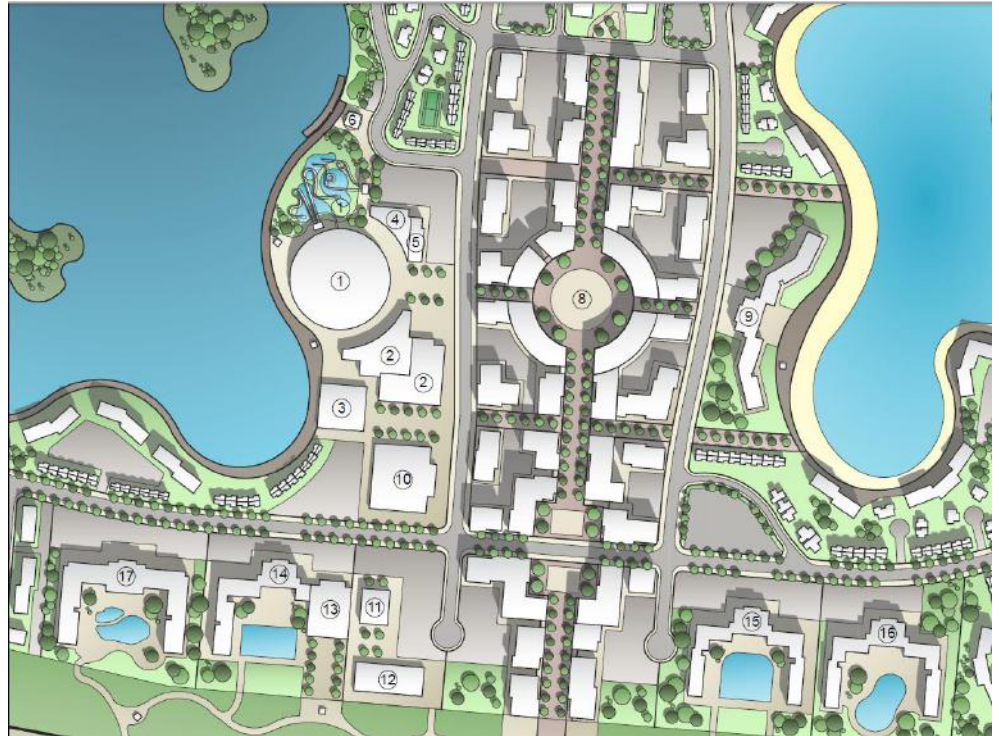


Source: HOK

The focal area of the resort around the town centre is shown in the following exhibit.

**Exhibit B43: Key buildings around the town centre**

1. Waterpark
2. Activity Hub
3. Spa
4. Gym
5. Bowling
6. Lake Activity Base
7. Mini Golf
8. Town Centre & Performance Space
9. Aparthotel – Lagoon
10. Cinema
11. Night Club
12. Leisure Arcade
13. Casino
14. Hotel
15. Aparthotel – Beach 1
16. Aparthotel – Beach 2
17. Aparthotel – Beach 3



Source: HOK

## 9.2 DEVELOPMENT AND OWNERSHIP OF THE RESORT

It is envisaged that the resort will have a master developer.

This master developer will be responsible for the development of elements such as waterpark, activity hub, hotel, casino, lake, internal roads, etc. The master developer may also decide to develop some of the residential elements of the resort or may wish to sell all or some separate residential parcels to individual developers.

The majority of the elements developed by the master developer are expected to remain in the ownership of the master developer. Some specific elements will pass to the municipality and others may be sold.

It is envisaged that there will be a company running and maintaining the resort and its infrastructure. This will be funded by a service charge paid by all components / owners within the resort. For working purposes, we have termed this company 'InfraGonio' – i.e. the infrastructure management company of Gonio. Details about this entity are described in more detail in Section 15.

It is suggested that the masterdeveloper retains control of the entire site, even with elements sold within. It is therefore suggested that any sales of land or property are made on a long leasehold basis with a share of freehold. This will enable control to remain centralised with the masterdeveloper and InfraGonio to be able to command service charges. The lease length is proposed such that sales prices are the same as if the ownership was purely freehold.

## 9.3 PHASING AND TIMELINE

The development of the project has been divided into three key phases – Phase 1, Phase 2 and Phase 3. These phases are considered as zones with regard to their geographical extent and as development stages with regard to their timeline.

### 9.3.1 PHASING ZONES

The phasing zones are shown on the next page.

**Exhibit B44: Phasing Zones shown on the Concept Masterplan**



Source: HOK

The phasing zones comprise the following.

**PHASE 1 ZONE**

- Waterpark
- Initial stage of the activity hub building
- Spa
- Gym
- Hotel
- Casino
- Bowling
- Nightclub
- The heart of the town centre and associated residential apartments

- Lagoon and initial offering of lagoonside residential and neighbouring communities
- Lagoon aparthotel
- Lake and initial offering of lakeside residential and neighbouring communities
- Initial offering of beachside residential and neighbouring communities
- Initial offering of mountain view residential and neighbouring communities
- First beach aparthotel
- Retail, food & beverage (F&B), commercial, social infrastructure and communal space / tennis courts associated with the above

Note a proposed pier is shown on the masterplan but lies outside of the development site boundary.

#### PHASE 2 ZONE

- Leisure arcade
- Karting
- Outdoor Sports Pitches of professional sizes
- Second stage of the activity hub building
- The surrounding areas of the town centre and associated residential apartments
- Lakeside residential and neighbouring communities
- Mountain view residential and neighbouring communities
- Beachside residential and neighbouring communities
- Second beach aparthotel
- Retail, food & beverage (F&B), commercial, social infrastructure and communal space / tennis courts associated with the above

#### PHASE 3 ZONE

- Cinema
- Performance space outdoor
- Lakeside residential and neighbouring communities
- Mountain view residential and neighbouring communities
- Beachside residential and neighbouring communities
- Initial offering of cultural area (close to the Gonio fortress) residential and neighbouring communities

- Third beach aparthotel
- Small business units and light industrial units
- Retail, food & beverage (F&B), commercial, social infrastructure and communal space / tennis courts associated with the above

### 9.3.2 PROJECT IMPLEMENTATION TIMESCALE

The project is envisaged as a 30 year project (2017 – 2046). Construction is envisaged between 2017 and 2043. The last year of residential sales would be 2046 and the last year of capital income cash flows would be 2047.

The project timeline across the three phases is shown in Exhibit B45.

Within each phase it is expected that the masterdeveloper will create a number of sub-phases. For example, the masterdeveloper is likely to wish to promote the lagoon residential at a different time to the lakeside and town centre residential. Further a developer will typically divide their units for sale into further phases even within the same area so that not all are brought to the market at the same time and a sense of urgency, limited release and price increase with rarity and market confidence can be created. All these various sub-phases would be specified by the masterdeveloper / developer as detailed specific schemes within the project develop.

### Exhibit B45: Project Timeline

<b>Phase 1 2017 - 2026</b>	
<b>Year / Overview</b>	10 years in total, comprising 1 year of preparation before sales and 9 years of sales. We envisage the resort 'opening' in year 2019, so there would be 8 years of people at the resort.
<b>2017</b>	Preparation and construction start: <i>Infrastructure related to the whole resort such as Lake and phase 1 specific Residential component</i> <i>Hotel</i> <i>Activity hub phase 1</i> <i>Waterpark</i> <i>Casino</i> <i>Commercial component</i> <i>All other leisure activities for phase 1 (gym, spa, bowling, etc)</i>
<b>2018</b>	Residential units pre-sales start Sale of Aparthotel Beach 1 land plot
<b>2019</b>	Resort opens (including all the above components) and available for occupancy Preparation and construction of the lagoon component start
<b>2021</b>	Lagoon opens and available for occupancy
<b>2022</b>	Sale of Aparthotel Lagoon land plot
<b>2026</b>	Target Phase 1 sales complete
<b>2027</b>	Last year of sales cash flows
<b>Phase 2 2025 - 2034</b>	
<b>Year / Overview</b>	Preparation of the Phase 2 zone can overlap with the Phase 1 selling phase. The Phase 2 selling phase is envisaged as 9 years. The whole phase will be of 10 years in total.
<b>2025</b>	Preparation and construction start: <i>Infrastructure phase 2 specific</i> <i>Residential component</i> <i>Activity hub phase 2</i> <i>Commercial component</i> <i>All other leisure activities for phase 2 (leisure arcade, karting, outdoor sports zone, etc)</i>
<b>2026</b>	Residential units pre-sales start Sale of Aparthotel Beach 2 land plot
<b>2027</b>	Phase 2 opens (including all the above components) and available for occupancy
<b>2034</b>	Target Phase 2 sales complete
<b>2035</b>	Last year of sales cash flows
<b>Phase 3 2033 - 2046</b>	
<b>Year / Overview</b>	Preparation of the Phase 3 zone can overlap with the Phase 2 selling phase. The Phase 3 selling phase is envisaged as 13 years.
<b>2033</b>	Preparation and construction start: <i>Infrastructure phase 3 specific</i> <i>Residential component</i> <i>Commercial component</i> <i>Business and light industrial district</i> <i>All other leisure activities for phase 3 (cinema, outdoor performance space, etc)</i>
<b>2034</b>	Residential Units Pre-sales start Sale of Aparthotel Beach 3 land plot
<b>2035</b>	Phase 3 opens (including all the above components) and available for occupancy
<b>2046</b>	Target Phase 3 sales complete
<b>2047</b>	Last year of sales cash flows

Source: Colliers International



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# Gonio Resort Development

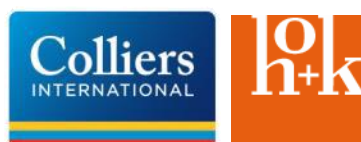
BUSINESS PLAN

PART C - SECTIONS 10 TO 19

MAY 2015

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PREPARED BY  
COLLIERS INTERNATIONAL  
IN ASSOCIATION WITH HOK



PREPARED FOR  
GEORGIAN NATIONAL INVESTMENT  
AGENCY (GNIA)



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# 10 RESIDENTIAL COMPONENT

## 10.1 MARKET UNDERSTANDING

### 10.1.1 CURRENT AND FUTURE SUPPLY

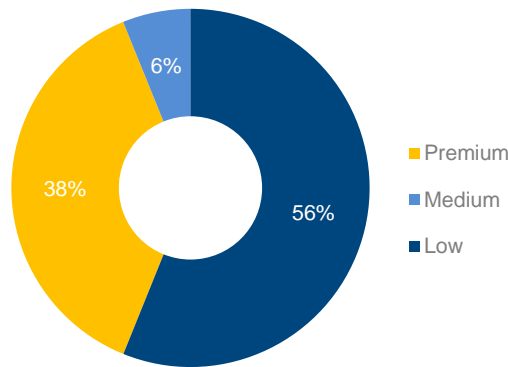
Currently there are 112 residential development projects in Batumi, with a total volume of 2,900,000 square meters of building area.

Segments within the market can be considered in terms of selling price as follows:

- Low segment           \$800 /m<sup>2</sup> and less
- Medium segment     \$800-\$1200 / m<sup>2</sup>
- Premium segment    \$1200 / m<sup>2</sup> and greater

The low segment represents 56% of development activity. Interestingly however in Batumi residential market the premium segment also represents a very high share at 38%. A small portion is represented by the medium category, which stands at 6% of total projects.

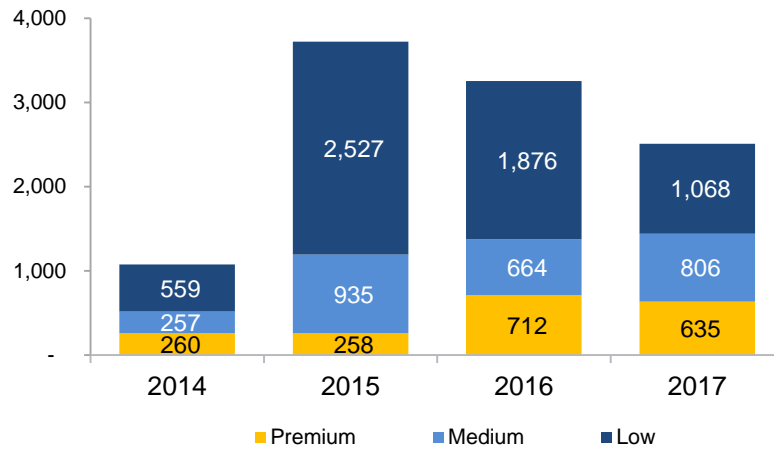
**Exhibit C1: Development projects in Batumi by segment**



Source: Colliers International

New supply is expected to reach 12,000 units between 2014-2017 in Batumi, the largest share of which is in the low segment category, almost 55%. The chart below shows the distribution of future supply by years of completion and the price segment.

**Exhibit C2: Upcoming residential supply in Batumi – number of units by segment**

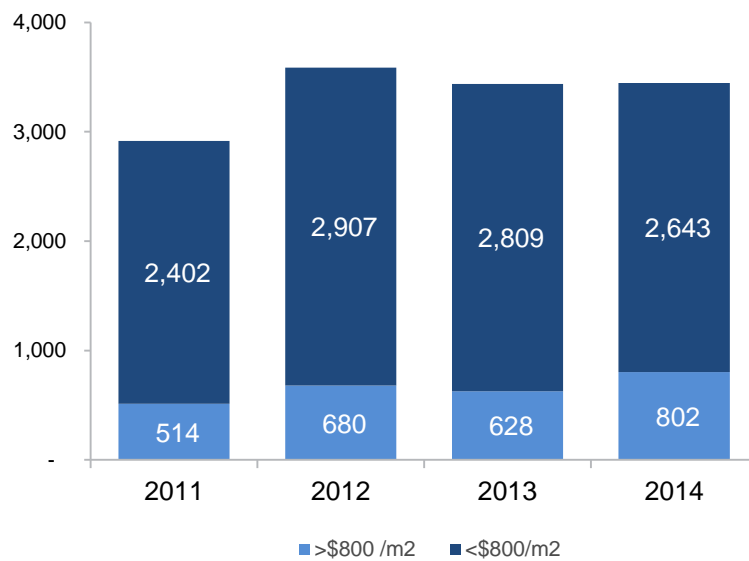


Source: Colliers International

**10.1.2 RESIDENTIAL DEMAND**

Transactions in Batumi have followed a fluctuated path. During 2012 transactions of residential units reached the highest point exceeding 3,500 transactions in the year. There was a slight drop in 2013 by 2%. In 2014 the number of transactions was slightly higher than 2013. Interestingly this includes 28% more transactions in the \$800+ / m<sup>2</sup> market than in 2013, leading to such transactions representing 23% of total 2014 transactions (18% in 2011).

**Exhibit C3: Transaction in Batumi 2011-2014 by price segment**

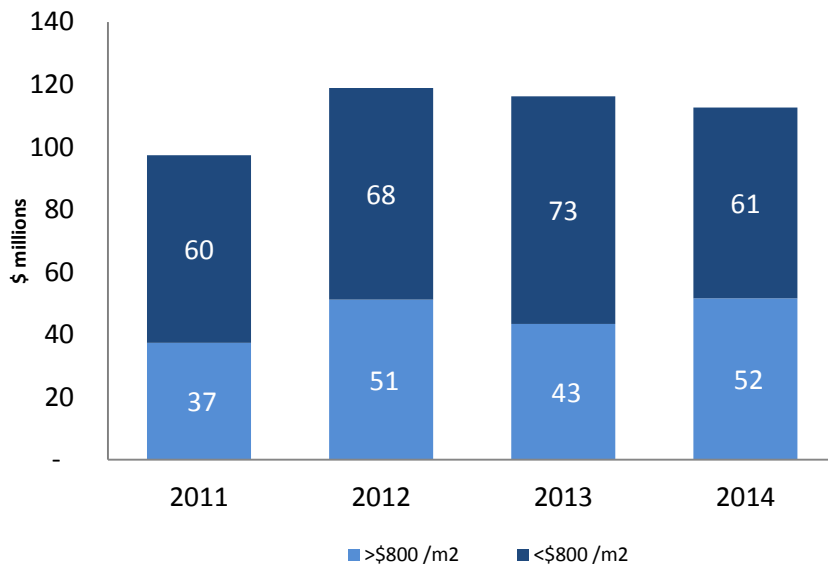


Source: Colliers International

In 2011 the total transaction value for the residential real estate market in Batumi amounted to \$97 million. In 2012 a growth of 22% was experienced and total transaction value peaked at \$119 million. In 2014 it totalled \$112.7 million.

The market value of \$800+ / m<sup>2</sup> price category had a large share and accounted for 46% of total market value in 2014 (larger than the previous 2012 high at 43%). The market value of this segment peaked in 2014 at \$52m, just higher than in 2012 despite a slightly less strong year than 2012 across the wider market.

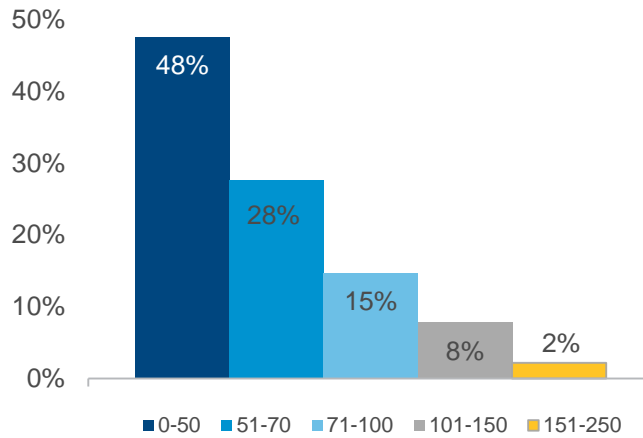
**Exhibit C4: Transaction in Batumi 2011-2014 by value (million USD)**



Source: Colliers International

The biggest portion (48%) of total transactions is for small flats (under 50 m<sup>2</sup>). This trend is common for every city of Georgia. Small-sized dwelling units are more liquid in the market compared with the larger apartments. Following this trend, construction and development companies are focusing on small-sized apartments. In addition to this market are those interested in slightly larger properties with 28% of transactions for 51-70 m<sup>2</sup> units. 10% of transactions are for units of 100 m<sup>2</sup> and above.

**Exhibit C5: Transactions in Batumi as distributed by size of unit (m<sup>2</sup>)**

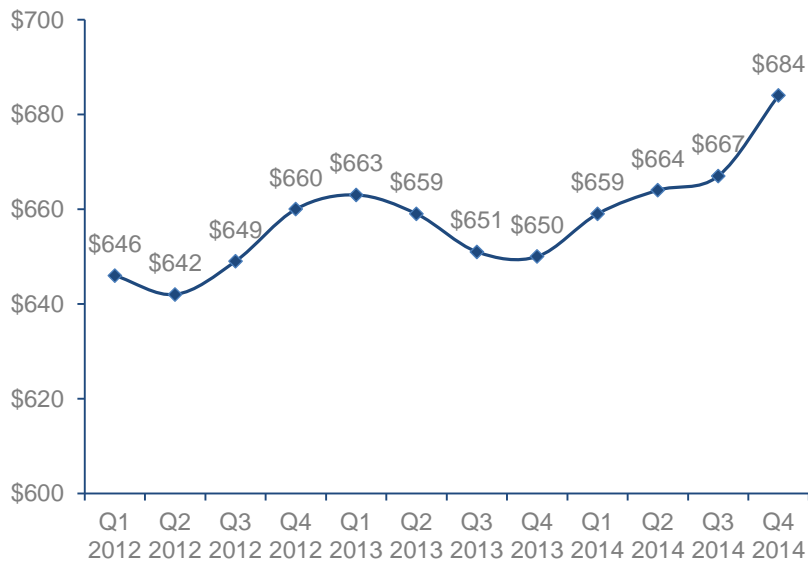


Source: Colliers International

**10.1.3 SELLING PRICE INDICES**

Although the average price by segment fluctuates by the projects for sale, the average selling price of all segments altogether is fairly stable. It varies from \$650 to \$670 per m<sup>2</sup>.

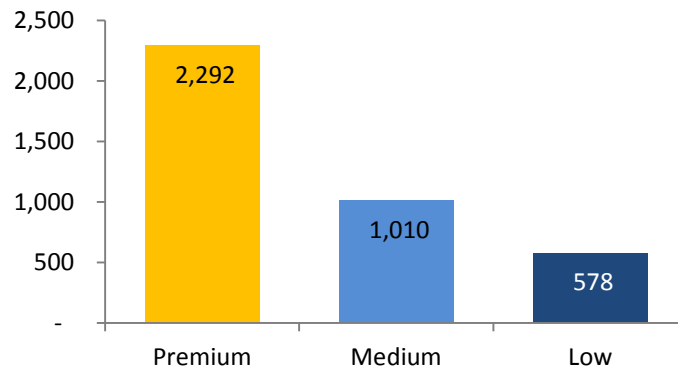
**Exhibit C6: Average selling price of transactions in Batumi 2012 –2014 (\$ per m<sup>2</sup>)**



Source: Colliers International

The average selling price of residential in Batumi varies by segment from \$580 to nearly \$2,300 per m<sup>2</sup>, as shown below.

#### Exhibit C7: Average selling price by segment in Batumi (\$ per m<sup>2</sup>)



Source: Colliers International

The average price of premium class in Batumi reaches \$2,292 per m<sup>2</sup>, which is higher than the equivalent figure in Tbilisi.

#### 10.1.4 EXAMPLE RESIDENTIAL PROJECTS

Examples of residential projects in and near Batumi are presented below following specific research of each development. These are selected as an insight to the range of success that has been achieved.

Some projects are overpriced and experiencing low sales volumes (for example Era Prestige) whilst others are carefully tuned to their chosen market, more fairly priced and supported with good marketing and so achieving impressive sales (for example Orbi Sea Towers).

**Subtropic City** Khimshiashvili str., Batumi



Land size: 8,310 m<sup>2</sup>; Footprint: 3,500 m<sup>2</sup>  
 GFA: 66,310 m<sup>2</sup>; NSA: 53,213 m<sup>2</sup>  
 # of floors: 19  
 # of units: 560  
 Average unit size: 70m<sup>2</sup>  
 Unit sizes vary 40-130 m<sup>2</sup>  
 Project duration: 2009-2014  
 Sales: 2010-present

Subtropic City is a large housing complex developed by Gumbati group, one of the largest developers in Batumi. The building is located in the heart of a newly developed residential district adjacent to the new public service hall.

**POSITIONING AND PROMOTION**

**Segmentation:**  
 50% expats in Russia & Ukraine,  
 20% Tbilisi residents  
 30% Foreigners (popular with Iranians until 2013 visa regulations)

**Project positioning:**  
 Good value deal with fair pricing compared to direct competitors such as Magnolia and Orbi

**Marketing activities:**  
 Active in 2011-12 and spent around \$300k in TV placement. Low budget now

Sales were organised through onsite and Tbilisi office. Onsite office operational only during the high season.

**SALES**

**Units sold: 496**  
**Average annual sales: 97 units**  
**Average Price: \$800**

Delivery condition is black shell with façade and common spaces fit out of moderate quality

Start of sales: \$600 min; end \$700-1400

In years 2010-2012 70% of stock sold, 10% in 2013, 7% in 2014, 13% still in stock

High season for sales July – September; and during sales promotion campaigns

Payment terms: 10 month interest free installments and mortgages available with several banks.

*Subtropic City is a very standard product on the Batumi residential market. A good example of a strong sales pace achieved through fair pricing and moderate marketing spend. Noteworthy also is that 70% has been sold outside of the country to expats and foreigners. These sales took place in their Georgian offices in Tbilisi and Batumi.*

Source: Colliers International

**Orbi Sea Towers** 15,17,21,23,25 Khimshiashvili str., Batumi



Land size: 11,086 m<sup>2</sup>  
 GFA: 78,515 m<sup>2</sup>; NSA: 56,006 m<sup>2</sup>  
 # of floors: 25-34  
 # of units: 1,524  
 Average unit size: 36.7 m<sup>2</sup>  
 Unit sizes <40 m<sup>2</sup> – 950; 40-50 m<sup>2</sup> – 489;  
 >50 m<sup>2</sup> – 85 units  
 Project duration: 2011 - present  
 Sales: 2011-present

Orbi Sea Towers is one of the largest holiday let orientated residential developments in Batumi, comprising three towers. The buildings are located just across Khimshiashvili Str close to the new public service hall building.

**POSITIONING AND PROMOTION**

Segmentation:  
 50% expats, mainly in CIS countries  
 30% Georgian residents  
 20% Foreigners

Project positioning:  
 Orbi positions the product as primarily a business opportunity, offering buyers to become their business partner by acquiring apartments for letting. Orbi operates the buildings including the letting and even acts as a tour operator by bringing in tourists to their properties for short-term stays.

Marketing activities:  
 Very active outdoor campaigns throughout the country and particularly in Adjara region. Sponsorships of big television shows.

Sales have been organised through their Batumi office and multiple offices in CIS countries (several in Russia, Ukraine and Kazakhstan). The offices in foreign markets are fully operated by Orbi and are a key component of their sales strategy..

**SALES**

Units sold: 1200  
 Average annual sales: 300 units  
 Average Price: \$1,005  
 (average of registered 860 transactions)

The delivery condition is low quality white frame. Fit out is offered for an addition \$300 per m<sup>2</sup> and furniture for an extra \$150 per m<sup>2</sup>.

Prices: \$800-2000

Sold 1200 units and registration of more than 300 transactions in progress

Payment terms: Mortgages without income checking both for residents and non-residents. Currently introducing very low down payment 5-10%.

*Orbi Sea Towers is one of the largest projects of the largest developer of Adjara region and is a very good example of the Batumi buy to rent market. The key to success of the Orbi development concept is the right positioning, the product itself (minimal unit sizes with minimal entry price) and a sales network comprising 6 offices across the CIS region. This combination has resulted in very successful sales to expats and foreigners. They have achieved 300 transactions annually for the Sea Towers project and over 500 transactions annually for all Orbi projects. The average price achieved is impressive, exceeding \$1000 mark for a low to medium quality white shell delivery condition.*

Source: Colliers International

**Era Prestige** 6, Baratashvili, / 7, Dumbadze str, Batumi



Land size: c2500 m<sup>2</sup>  
 GFA: 8,500 m<sup>2</sup>; NSA: 6,100 m<sup>2</sup>  
 # of floors: 6  
 # of units: 42  
 Average unit size: 130 m<sup>2</sup>  
 Units sizes 74-230 m<sup>2</sup>  
 Project duration: 2010 - 2013  
 Sales: 2010-present

Era Prestige is a city centre luxury housing project located in Era Square, one of the most prestigious places in Batumi.

**POSITIONING AND PROMOTION**

Segmentation:  
 40% Georgian expats  
 40% Georgian residents (20% Batumi + 20% Tbilisi)  
 20% Foreigners

Project positioning:  
 The project has been positioned as city centre luxury apartment offering in Batumi. The units sold are primarily because of their prime location, prestige and the visibility of the building rather than through marketing activities.

Sales are organised through the onsite office.

**SALES**

Units sold: 40%  
 Average annual sales: 4 units  
 Average Price: \$1,900

Delivery condition of the apartments is 'white shell'. Common areas are furnished and the sellable area is left in shell condition.

Start of sales: \$2000-2200;  
 End of sales: \$1800-2000

Sales started together with construction. 20% of stock sold in building stage, another 20% after its completion and 60% of apartments are still in stock.

Payment options: 24 month interest-free installments

*A typical city centre landmark project of Batumi that is overpriced and so less liquid. Very slow sales pace over the years, with prices dropping only slightly. Its unique location is likely to mean that it will eventually sell out after several more years at more or less the same pricing.*

Source: Colliers International

**Nurol Residence** 31, Rustaveli str, Batumii



Land size: c1500 m<sup>2</sup>; Footprint: 700 m<sup>2</sup>  
 GFA: 6,400 m<sup>2</sup>; NSA: 5,400 m<sup>2</sup>  
 # of floors: 9  
 # of units: 54  
 Average unit size: 100 m<sup>2</sup>  
 Units: 1 bed – 18 units; 2 bed – 23 units;  
 3 bed – 13 units  
 Project duration: 2010 - 2011  
 Sales: 2010 - present

Nurol Residence is a city centre luxury housing project located on the main avenue of Batumi, between Sheraton and Intourist hotels.

**POSITIONING AND PROMOTION**

**Segmentation:**  
 50% Foreigners (20% Turkish + 20% Armenian + 10% Russian)  
 40% Georgian expats (mainly Russia)  
 10% Georgian residents

**Project positioning:**  
 The project has been positioned as city centre luxury apartment offering in Batumi. The units sold are primarily because of their prime location, prestige and the visibility of the building rather than through marketing activities.

Sales are organised through the onsite office.

**SALES**

Units sold: 45%  
 Average annual sales: 5 units  
 Average Price: \$2,200

Delivery condition of the apartments is turnkey but including only kitchen furniture and appliances. Quality of fit out is of high quality.

Sales prices: \$1800-3500;

Sales started together with construction. 10% of stock sold in building stage, another 35% after its completion and 55% of apartments are still in stock.

Payment options: Not a wide variety. An agreement exists with TBC bank but there have been no mortgage transactions yet. Terms can be negotiated individually per case.

*A typical landmark project in the centre of Batumi, nearly all sold to foreigners and expats. Similarly to Era Prestige, the sales pace is very slow and liquidity low. Taking into the turnkey finishing the pricing of these two properties is very similar as well as sales results.*

Source: Colliers International

**Magnolia** Khimshiashvili str., Batumi



Land size: c15,000 m<sup>2</sup>; Footprint: 9,500 m<sup>2</sup>  
 GFA: 80,000 m<sup>2</sup>; NSA: 65,000 m<sup>2</sup>  
 # of floors: 12  
 # of units: 110 (after turnaround)  
 Average unit size: 59 m<sup>2</sup>  
 Units: <50 m<sup>2</sup> – 45 units; 50-100 m<sup>2</sup> – 58 units;  
 >100 m<sup>2</sup> – 7 units  
 Project duration: 2011 - 2012  
 Sales: 2011 - 2012

Magnolia is a large mixed-use property comprising approximately 1000 units with residential, office and retail uses. The development of the property was suspended in 2009 after most was sold but the developer became bankrupt. Afterwards in 2011, as a result of a turnaround, construction was resumed and completed in 2012 and the remaining 110 units were sold.

**POSITIONING AND PROMOTION (after turnaround)**

**Segmentation:**  
 60% Georgian expats  
 (50% Russia + 10% other)  
 35% Tbilisi residents  
 5% Foreigners

**Target Audience:**  
 Georgians living abroad, higher than average and high income.

The key attraction for the buyers was the vicinity to the sea (100m) and the 5000 m<sup>2</sup> courtyard with cafes restaurants and other leisure

Media mix: Television show: Face Control (R2), Television commercial placement, Myvideo.ge (foreign IP-s)

Sales were organised through onsite and Tbilisi office.  
 Onsite office operational only during the high season.

**SALES**

Units sold: 110  
 Average annual sales: 55 units  
 Average Price: \$990

Delivery condition was poor quality black shell.

Sales prices: \$780-1500  
 60% sold in 2011 and 40% in 2012.

Sales focused in the high season, with 75% of sales in July – September.

Payment terms: 30-50% down payment plus interest free installments for 6-12 months for the rest, mortgages 5-10% of sales.

*The sales of more than 50 units a year with an average price of nearly \$1000 per m<sup>2</sup> was a good achievement for a distressed project of this type, the building of which had been suspended for several years. The target segment of expats abroad was well selected and reached through internet medias supported with a local marketing campaign. It is also noteworthy that high quality landscaping of the courtyard played immense role in achieving the sales figures.*

Source: Colliers International

**Sunset Kvartati** Border of Gonio and Kvartati



Land size: 1,354m<sup>2</sup>; Footprint: 806m<sup>2</sup>  
 GFA: 7,857m<sup>2</sup>; NSA: 7,120 m<sup>2</sup>  
 # of floors: 8  
 # of units: 85 units  
 Average unit size: 65m<sup>2</sup>  
 Units: 45 m<sup>2</sup> – 57 units; 2 bed – 14 units;  
 superior 2 bed – 14 units  
 Project duration: 2010 - 2013  
 Sales: 2011 - present

Sunset Kvartati is an 85-room aparthotel located on the border of Gonio and Kvartati. The property has a private beach and food facility on the ground floor. It is independently managed and operated by the developer.

**POSITIONING AND PROMOTION**

**Segmentation:**  
 50% Tbilisi residents  
 50% Georgian expats (mainly Russia) and Foreigners

**Positioning:**  
 Project has been positioned as a third or summer home with income generating potential.

The property is managed by the developer itself who lets the apartments at the rate of \$100-130 per night. Occupancy is 80% during the high season

**Marketing activities:**  
 Sponsorships of events in Black Sea area, TV ads on second tier television channels, print, outdoor, web, and airline magazines.

Sales have been organised through the main sales office in Tbilisi and a supporting onsite office.

**SALES**

Units sold: 42  
 Average annual sales: 11 units  
 Average Price: \$1500

The delivery condition is turnkey, furniture included but no appliances (only AC).

Start of sales: \$1200;  
 End of sales: \$1400-1800

40% sold during construction, 10% after completion and 50% (43 units) are in stock.

Sales in the high season July – August; very low in other periods.

Payment terms: 24 month interest free with 30% down payment, negotiable now, mortgages very low.

*A medium quality aparthotel, but the owner is focused on operating the hotel and generating income from that - the sales pace is consequently quite slow and reliant on opportunistic sales.*

Source: Colliers International

**Dreamland Oasis** Chakvi, Georgia



Land size: 8ha, 1<sup>st</sup> phase – 4ha  
 NSA: 12,000 m<sup>2</sup>  
 # of floors: 4-13  
 # of units: 1<sup>st</sup> phase – 224, total 1000  
 Average unit size: 53m<sup>2</sup>  
 Units: Studios – 50 units; 1bed – 161 units; 2bed – 12 units  
 Project duration: June 2014 – est Dec 2015  
 Sales: 2014 - present

Dreamland Oasis is located close to the Black Sea coastal town of Chakvi and offers resort type property. Within the site is the fully operational 155-room Hotel Oasis and leisure facilities. The first stage of the development, which is planned to be completed by 2015, will deliver 224 units adjacent to the hotel. The facilities of the Dreamland Oasis will include multiple swimming pools (outdoor/indoor), an aqua park, sports and fitness facilities, spa and wellness center and multiple dining areas.

**POSITIONING AND PROMOTION**

**Segmentation (of reservations):**  
 70% Georgian residents (Tbilisi high income sector)  
 30% Expats and Foreigners (Armenians, Ukrainians, Russia, Azeri)

**Positioning:**  
 The project is positioned for buyers to benefit from short-stay lets, with a wide range of services offered. The letting service promises buyers 75% high season occupancy and a minimum gross annual income of \$4400 for a 2 bed apartment.

**Media mix:**  
 Online with an international reach; nationally across all medias including a TV campaign.

Sales are organised through 3 offices: a Batumi temporary boulevard office (showroom), Chakvi head office and a just-opened Tbilisi office.

**SALES**

Units sold: 55 reserved  
 Average annual sales: N/A  
 Average Price (est): \$1550

Delivery condition of the apartments is turnkey, including all necessary furniture, appliances and accessories like towels etc. Quality of fit out is expected to be upper medium quality.

Announced prices:  
 Start of sales: \$1285-1800  
 End of sales: \$1540-2200

Sales were delayed due to legal factors, now understood to be resolved. Interest expected primarily from May 2015 onwards.

Payment terms: 15 year mortgages (9%-11%) without income checking with Cartu Bank, down payment for non residents 40%, for residents 30%.

*Dreamland Oasis is a well-designed and packaged product with the concept of low density housing and a variety of letting services and various facilities. There is currently very little competition for this kind of development and taking into account the fair pricing for the turnkey condition (with some extras) and good financing options, smooth sales both locally and internationally are expected.*

Source: Colliers International

These case studies show that over ambitious developers or inexperienced ones have met challenges, but a well-informed developer who has realistic expectations of price, knows their markets and is prepared to invest in marketing and sales can make a successful residential project that sells well.

## 10.2 TYPOLOGIES OF RESIDENTIAL PROPERTY IN REFERENCE TO GONIO RESORT

Resort residential property is immensely popular across the world. The types of property offered in many resorts include apartments, townhouses, linked villas and villas. As can be seen in the international resort examples in Section 6 and the pictures below, in many integrated resort projects in developed tourism areas the offer focuses on low rise buildings. Of course high rise apartment blocks exist in some locations but these are typically found in tourist towns rather than integrated managed resorts where there is space available for lower rise buildings.

In the paragraphs and pictures below we illustrate the typologies of residential property considered for Gonio Resort. The architectural style can obviously vary from modern to pseudo-traditional, and can be linked to the architectural style of the region – for example many projects in Portugal seek to emulate the traditional Portuguese style.

### 10.2.1 APARTMENTS

Apartments can be in buildings of just a few apartments to several hundred. At Gonio Resort it is proposed that apartment buildings will not be high rise and will be quite distinct from the towers of apartments that have been built in Batumi.

Example images from other locations below give an indication of the type of building referred to when discussing resort apartments.



*Source: Third party images from other locations*

**10.2.1 TOWNHOUSES**

Townhouses exist in both an urban context and a resort one. The pictures below provide an indication of what is envisaged when discussing resort style townhouses. These can be adjoining properties of 2 to say 8 or 10 units. Each has its own front door to the street. The example on the left illustrates a townhouse of 2.5 storeys (where only part of the footprint area extends to 3 storeys).



*Source: Third party images from other locations*

**10.2.1 LINKED VILLAS**

Linked villas are similar to townhouses but have a more spacious feel.



*Source: Third party images from other locations*

**10.2.1 VILLAS**

Villas are detached properties and can be of any size. In a resort context they are typically 3-bed and larger units.



Source: Third party images from other locations

## 10.3 DESCRIPTION OF RESIDENTIAL AT GONIO RESORT

### 10.3.1 THE CONCEPT

The residential areas of the Gonio Resort are expected to become unique holiday properties set within a beautiful landscape and a well-cared for and secure environment.

The size of each property at the Resort is appropriate for the positioning of the resort and is well in line with the current demand for residential and vacation residential units in Batumi. Owners will enjoy a sense of space and privacy. Each property will be able to enjoy impressive views of the surrounding landscape and benefit from extensive leisure and lifestyle provision offered within the resort.

The residential units are intended to be sold as leasehold with a share freehold, such that a service charge can be collected under the lease terms. Each owner will benefit from a managed environment and the services provided by the resort such as security and maintenance of the communal landscaping in return for service charge payments, which will be mandatory for each owner.

### 10.3.2 TARGET MARKETS

The Gonio Resort is targeted at middle income / rising income individuals and high net worth individuals and their partners/ families seeking an 'affordable luxury' experience on the Black Coast consistent with the standards of experience they enjoy in their favourite locations elsewhere.

Those purchasing residential units at the Resort are expected to predominantly be individuals (as defined above) who currently already know Adjara and Batumi. They are expected to buy properties to enjoy for holidays and as second homes. A large proportion of purchasers, particularly of apartments, are also expected to be purchasing with the holiday rental market in mind so that the properties can also work as a business for them. Very few first home purchasers are expected.

The typical purchaser is expected to be in the 40 years and above age bracket. They are expected to be:

- Georgians with a good annual household income, from \$40,000+ and especially \$60,000+. This market might represent 40% of purchasers;
- Georgian nationals living abroad (expats). They are most likely to be expats in Russia, CIS and Europe. This market might also represent 40% of purchasers;
- Foreigners are expected to account for approximately 20% of owners, and particularly include nationals of Azerbaijan, Armenia, Russia, Ukraine and Turkey, as well as potentially other Eastern Europeans and other nationals.

Estimation of the mix of purchasers is based on market research, other projects in Batumi; and expert opinion.

### 10.3.3 RESIDENTIAL UNITS FOR SALE

It is proposed that a total of 8,376 residential units will be available for sale at the Gonio Resort. These will comprise apartments, townhouses, linked villas and villas. A mix of sizes will offer purchasers options between studios, 1-bed, 2-bed, 3-bed, 4-bed and 5-bed units.

The style of the residential units at Gonio Resort is intended to be of a resort nature rather than urban development, although some apartment buildings at the heart of the resort will have a more 'town' feel to them. The apartment buildings in the 'town' will be the tallest at between 4 and 6 floors. The wider residential offer will all be low rise at 2 floors for linked villas and villas and 2.5 floors for townhouses. This low-rise theme allows a leisure resort feel in keeping with resort developments in more mature markets, whilst also allowing residents to enjoy sea views from their upper floor despite the low lying land.

The townhouses in the resort are proposed in typically in stretches of between 3 and 8 units linked together. The linked villas typically comprise between 2 and 6 units linked together

The proposed standard for residential units at Gonio Resort is of high quality and to be sold as turn-key ready to live units. Price assumptions have been identified accordingly and this finish allows for a slight premium over units that are sold in a less finished state.

### QUANTUM AND PRICE ASSUMPTIONS

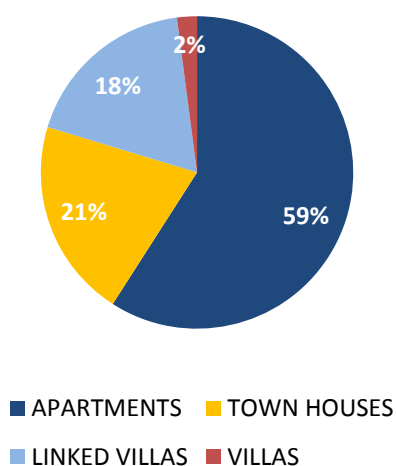
The proposed quantum and size of units is presented in Exhibit C8 below. This has been informed by our experience, comparable developments internationally and locally, and consideration of capacity of the site whilst achieving the desired 'feel' and concept of the wider resort.

### Exhibit C8: Proposed Residential Types and Sizes

Use/Type of Accomodation	Number of Units	Unit GFA (m2)	GFA Total (m2)	Unit Mix %
<b>APARTMENTS</b>				
1 bed	2,134	55	117,370	25%
2 bed	1,226	64	75	15%
3 bed	480	85	100	6%
Studios	1,108	43	50	13%
<b>Total / Average</b>	<b>4,948</b>	<b>63</b>	<b>312,720</b>	<b>59%</b>
<b>TOWN HOUSES</b>				
2 bed	948	85	80,580	11%
3 bed	587	115	67,505	7%
4 bed	192	135	25,920	2%
<b>Total / Average</b>	<b>1,727</b>	<b>101</b>	<b>174,005</b>	<b>21%</b>
<b>LINKED VILLAS</b>				
2 bed	820	101	82,649	10%
3 bed	556	134	74,504	7%
4 bed	152	188	28,517	2%
<b>Total / Average</b>	<b>1,528</b>	<b>122</b>	<b>185,670</b>	<b>18%</b>
<b>VILLAS</b>				
3 bed	101	156	15,775	1%
4 bed	53	219	11,607	1%
5 bed	19	331	6,289	0%
<b>Total / Average</b>	<b>173</b>	<b>195</b>	<b>33,671</b>	<b>2%</b>
<b>Total / Average</b>	<b>8,376</b>	<b>84</b>	<b>706,066</b>	<b>100%</b>

Source: Colliers International

### Exhibit C9: Proposed Residential Typology Mix



Source: Colliers International

Exhibit C10 shows the envisaged price points for each residential unit type at Gonio Resort.

### Exhibit C10: Price Points of Residential Units, Year End 2014 Prices

Use/Type of Accomodation	\$/m2 (Net of VAT)	Net Unit Price \$
<b>APARTMENTS</b>		
1 bed	1,300	60,775
2 bed	1,250	79,688
3 bed	1,150	97,750
Studios	1,350	57,375
<b>Total / Average</b>	<b>1,271</b>	<b>68,287</b>
<b>TOWN HOUSES</b>		
2 bed	1,300	99,450
3 bed	1,250	129,375
4 bed	1,200	145,800
<b>Total / Average</b>	<b>1,266</b>	<b>114,774</b>
<b>LINKED VILLAS</b>		
2 bed	1,300	131,029
3 bed	1,250	167,500
4 bed	1,200	225,134
<b>Total / Average</b>	<b>1,265</b>	<b>153,661</b>
<b>VILLAS</b>		
3 bed	1,400	218,663
4 bed	1,350	295,650
5 bed	1,200	397,200
<b>Total / Average</b>	<b>1,346</b>	<b>261,857</b>
<b>Total / Average</b>	<b>1,272</b>	<b>97,444</b>

Source: Colliers International

Over the selling period we have assumed that there will be real house price growth of 2%, 1% and 0.5% for the first 3 years of each phase. The inflation rate beyond 2018 is assumed to be 2%. These price growth assumptions recognise the likelihood of a minimal increase as per the actual market situation and therefore these assumptions could be considered conservative.

Throughout the development there will be a total of 1,491 residential units with direct views to the lake, lagoon, sea or reservation areas allowing for premium selling prices. A sales premium of 15% to these units has been assumed. In addition a total of 918 units will have second row views allowing for a 5% sales premium. An overview of the number of units with premiums can be seen in Exhibit C11 below.

### Exhibit C11: Premium Number of Residential Units, per Phase

Direct View	Phase 1	Phase 2	Phase 3	Total
Apartments	612	118	200	931
Linked Villas	119	116	189	425
Townhouses	25	22	41	88
Villa	15	9	23	47
<b>Total</b>	<b>772</b>	<b>265</b>	<b>454</b>	<b>1,491</b>
<b>2nd row/tier</b>				
Apartments	136	181	257	573
Linked Villas	43	46	49	138
Townhouses	55	53	100	207
Villa	-	-	-	-
<b>Total</b>	<b>233</b>	<b>279</b>	<b>406</b>	<b>918</b>

Source: Colliers International

#### 10.3.4 RESIDENTIAL SALES PACE PROJECTIONS

The expected sale pace for the residential element of Gonio Resort is presented in Exhibit C12. This estimation of sales pace is informed by an average of 289 units sold per year, which from the understanding of the market is considered reasonable given this will be split across a number of developments. This would represent approximately 8% of the actual (2014) Batumi residential transaction market. Excellent sales and marketing is expected and sales would be weighted towards the beginning of each of phase.

#### 10.3.5 RESIDENTIAL INCOME AND EXPENSE PROJECTIONS

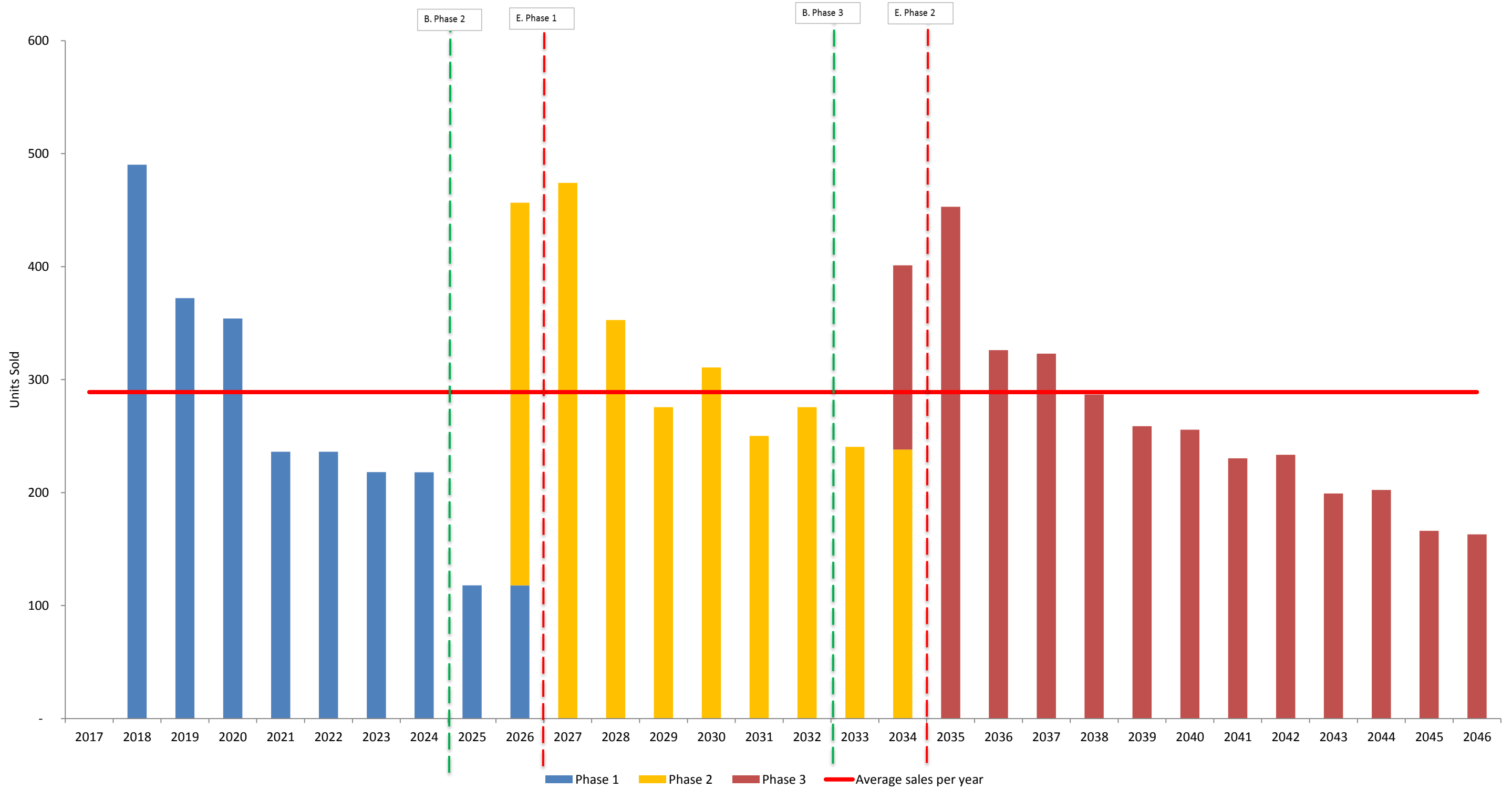
The projected income and expense estimations for the residential element at Gonio Resort are presented in Exhibit C13.

Exhibit C14 shows the income by type of residential at the Gonio Resort.

It is important to note that we have phased the cash-flows from the Residential units, meaning that the year when a unit is sold only 40% will be paid by the 'buyer' and the remaining 60% will be paid the following year.



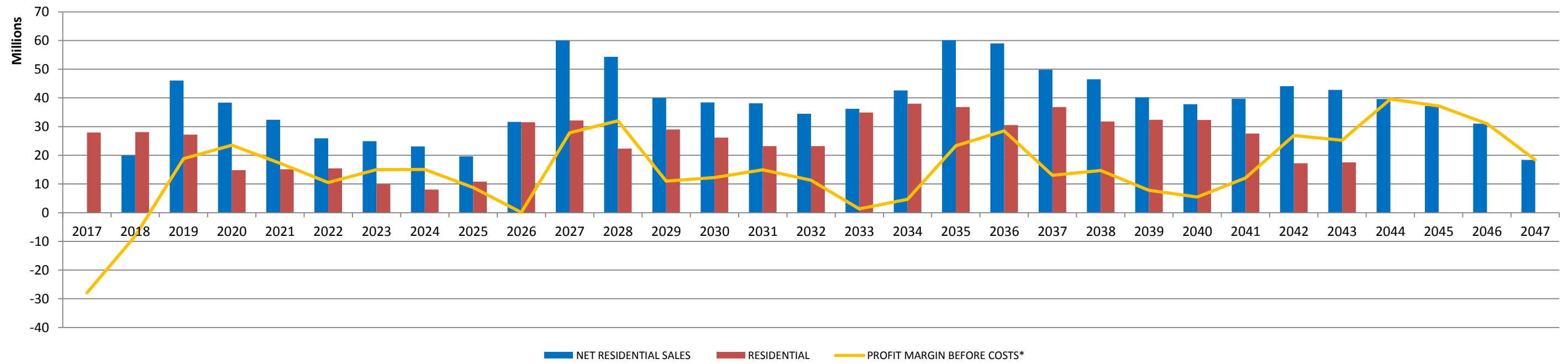
Exhibit C12: Residential Units Sales Pace 2017 – 2046



Source: Colliers International

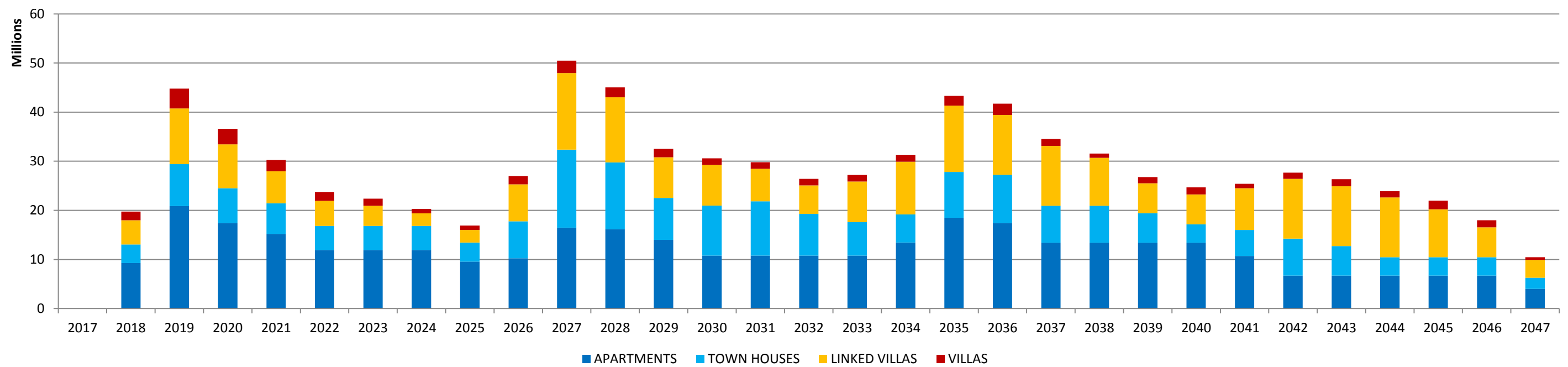


**Exhibit C13: Residential – Income and Expenses (\$)**



\*Before general infrastructure, contingency, price/design allowance, professional fees, etc.  
Source: Colliers International

**Exhibit C14: Residential – Income by Residential Type**



\*Cash flows  
Source: Colliers International



## 10.4 OWNERSHIP AND OPERATIONS RECOMMENDATIONS

The residential elements of the resort will be developed either by the masterdeveloper or by separate developers who buy the rights to do so. The funding of developing these elements will therefore be their responsibility and the resulting development will therefore be in their ownership.

It is envisaged that the developer will sell individual residential units to private purchasers. Some sales may be made off-plan and others during and post construction.

Private owners of properties may decide to use them purely for their own use; or they may rent them out to others. Such rentals may be arranged on a private basis for individual properties, or an agency may offer a 'rental pool' service.

Some owners may in fact buy properties as a business for rental rather than their own use. To facilitate this, the masterdeveloper or individual developer may wish to be the manager of a rental pool service. Alternatively they may wish to contract this out to a third party. This is a commercial enterprise since an income can be generated by charging a management fee to owners of the residential units who wish to use this service.

With a range of rental options, it envisaged that for many properties there will be several different visitors over a year, with some attracting different people every week. Others may however only be occupied for a few weeks a year by the owner or their friends.

Each owner of property at Gonio Resort will pay a service charge. This service charge will be paid to a management company, 'InfraGonio' for the sake of name, and this company will ensure the smooth running of the wider resort. This is described in more detail in Section 15.

# 11 HOTEL & APARTHOTELS COMPONENT

## 11.1 INTRODUCTION

The Gonio Resort will comprise a hotel and four aparthotels. This section commences with analysis of hotel demand and supply, which provides a context to all the hotel / aparthotel operations at Gonio Resort.

The section then considers the hotel and projections for it, akin in method to a feasibility study.

The aparthotels are proposed to be sold as land plots to developers and so projections take the form of land sale values.

## 11.2 MARKET SUPPLY

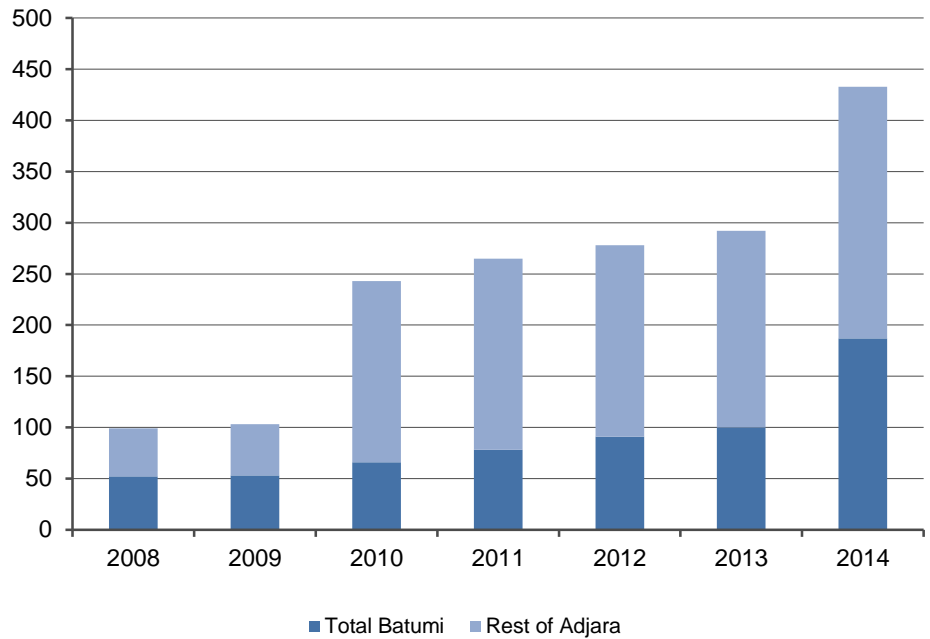
In 2014 the total number of hotel rooms in Georgia reached 16,786, with Adjara taking the biggest share of supply at 23%, followed by Tbilisi, the capital of Georgia with 21%.

**Exhibit C15: Number of Hotels & Guesthouses in Batumi & Adjara**

Year	Total Adjara	Change (%)	Total Batumi	Batumi Share (%)	Rest of Adjara	Rest of Adjara Share (%)
			Change (%)		Change (%)	
2008	99	—	52	52.5	47	47.5
2009	103	4.0	53	51.5	50	48.5
2010	243	135.9	66	27.2	177	72.8
2011	265	9.1	78	29.4	187	70.6
2012	278	4.9	91	32.7	187	67.3
2013	292	5.0	100	34.2	192	65.8
2014	433	48.3	187	43.2	246	56.8
<b>Compound Annual Growth Rate 2008-2014 (%)</b>		<b>27.9</b>		<b>23.8</b>		<b>31.8</b>

Source: Department of Tourism and Resorts of the Adjara Autonomous Republic

**Exhibit C16: Graph of Number of Hotels & Guesthouses in Batumi & Adjara**



*Source: Department of Tourism and Resorts of the Adjara Autonomous Republic*

Both exhibits above show that the number of hotels has increased significantly at a compound annual growth rate of 27.9%. Batumi’s 7 year growth rate is approximately 23.8% compared to Batumi region’s 31.8%. The year 2010 saw the highest growth, while 2014’s growth was also enormous. Batumi is not the only tourist destination in Adjara. Other regions in Adjara, excluding Batumi, have opened more hotels, but mostly low quality hotels and guesthouses. It is interesting to note that while other regions of Adjara may have grown quicker prior to 2014, in the year 2014, it was Batumi which experienced higher rate of growth than regional Adjara. There is an increase in tourism demand yet supply is lacking international quality accommodation. There are approximately 60 hotels in Batumi excluding guesthouses. The majority of hotels are small – average room count per hotel is 40 across 187 hotels and guesthouses.

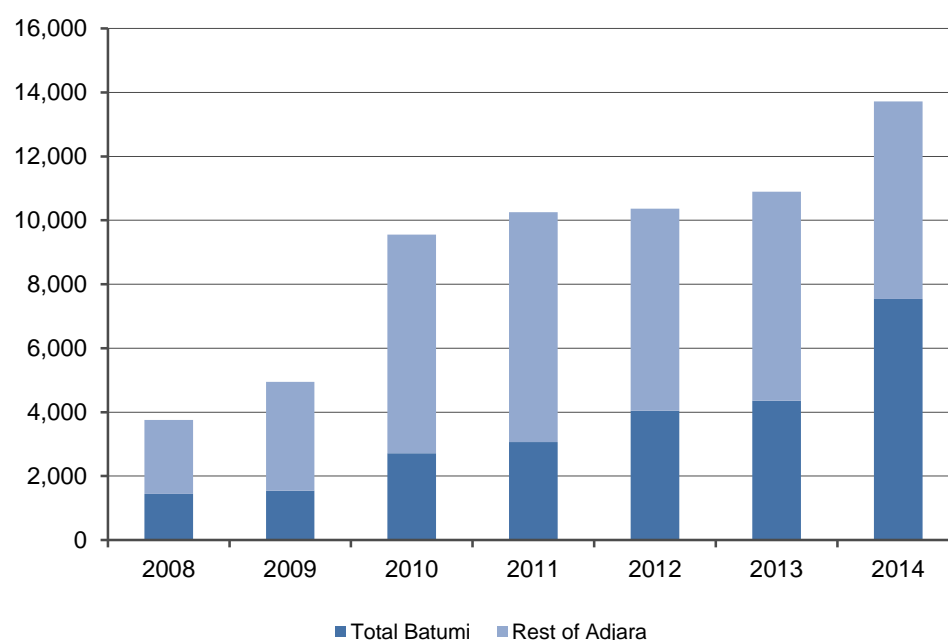
According to UNWTO, Georgia has one of the highest growth rates of international tourist arrivals during last three years yet it is one of the lowest figures for international tourism receipts. Furthermore, international midscale brand hotels and local upscale/midscale hotels in Tbilisi have experienced better performance indicators than several eastern European cities such as Riga, Bucharest, Vilnius and Zagreb.

**Exhibit C17: Number of Beds in Hotels & Guesthouses in Batumi & Adjara**

Year	Total Adjara	Change (%)	Total Batumi	Batumi Change (%)	Batumi Share (%)	Rest of Adjara	Rest of Adjara Change (%)	Rest of Adjara Share (%)
2008	3,755	—	1,442	—	38.40	2,313	—	61.60
2009	4,944	31.7	1,543	7.0	31.21	3,401	47.0	68.79
2010	9,549	93.1	2,715	76.0	28.43	6,834	100.9	71.57
2011	10,252	7.4	3,061	12.7	29.86	7,191	5.2	70.14
2012	10,367	1.1	4,042	32.0	38.99	6,325	(12.0)	61.01
2013	10,890	5.0	4,359	7.8	40.03	6,531	3.3	59.97
2014	13,715	25.9	7,545	73.1	55.01	6,170	(5.5)	44.99
<b>Compound Annual Growth Rate 2008-2014 (%)</b>		<b>24.1</b>		<b>31.8</b>			<b>17.8</b>	

Source: Department of Tourism and Resorts of the Adjara Autonomous Republic

**Exhibit C18: Graph of Number of Beds in Hotels & Guesthouses in Batumi & Adjara**



Source: Department of Tourism and Resorts of the Adjara Autonomous Republic

The Adjara region had in total approximately 13,715 beds as of 2014, which equates to a 7-year compound annual growth rate of 24.1%. Batumi’s 7-year compound annual growth rate is higher than Adjara’s at 31.8%.

The number of hotel beds has seen significant growth in recent years. Batumi accounts for approximately 40% of total number of beds. There are 3,536 hotel rooms in Batumi and approximately 7,545 beds (2014). Finally, all international accommodation in Adjara is located in Batumi.

### 11.2.1 BATUMI CURRENT HOTEL SUPPLY – MAJOR PLAYERS

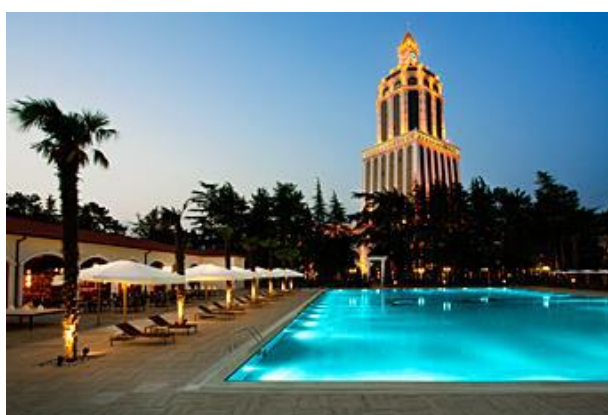
The currently hotel supply only has a few hotels of international quality and only two international branded hotels (both 5 star). There are no international three or four-star brands. These are shown in Exhibit C19 and described below.

#### Exhibit C19: Batumi hotel supply

	Hotel	No. of Rooms	Category / Star rating	Brand	Restaurants	Bars	Meeting Rooms	Meeting Space (sqm)	Meeting Space per Room (sqm)	Meeting room max. Capacity	Spa Treatment Rooms	Casino	Other Facilities
1	Sheraton Batumi Hotel	202	5	Sheraton	2	3	10 (6 private meeting rooms)	1,100	25 - 1073	10 - 1000 persons	2800m <sup>2</sup> - Turkish bath, sauna, jacuzzi, steam room, whirlpool	Yes - 16 gaming tables, 130 slot machines	•Fitness Centre •Indoor/outdoor and kid's swimming pool •Children's playground •Gym •Sport/recreation center •Tennis courts
2	Intourist Palace	146	5	Independent	2	3	3	n/a	n/a	14 - 200	Yes	Yes - live table games and slot machines	• Business centre with internet • Fitness centre/gym • Spa and wellness centre • Outdoor and indoor swimming pool • Bicycle rental • Beachfront
3	Radisson Blu Hotel Batumi	176	5	Radisson Blu	2	2	7	743	342	350 persons	1800m <sup>2</sup>	Yes - slot machines, blackjack table, 11 poker tables and 4 roulette tables	•Kid's Club and babysitting •Outdoor swimming pool and children's •Fitness Centre
4	President Plaza	32	5	Independent	2	2 (incl Buddha Bar)	Yes	No info	n/a	n/a	Yes	No	• Fitness centre/gym • Spa and wellness centre • Karaoke • Indoor swimming pool
5	Georgia Palace	156	5	Independent	3	5	5	542	27 - 346	500	Yes	No	• Tennis courts • Mini golf • Fitness centre/gym • Spa and wellness centre • Private beach area • Indoor and outdoor swimming pools • Bicycle rental

Source: Colliers International

### SHERATON BATUMI



Source: Third party images from other locations

The Sheraton Batumi has 202 rooms and belongs to the five-star category. It has two restaurants and three bars. There are ten meetings rooms and six private meeting rooms totalling 1,100 sqm. The maximum capacity is 1,000 people. The Spa is 2,800 sqm in size with Turkish bath, sauna, Jacuzzi, steam room and world pool. There is a casino with 16 game tables and 130 slot machines. Other facilities

include fitness centre, indoor, outdoor, kids' swimming pool, and playground and tennis courts.

### INTOURIST PALACE



*Source: Third party images from other locations*

The Intourist Palace has 146 rooms and is in the five-star category. It has two restaurants and three bars. There is some meeting space with capacity of 200 people. There is a Spa as well as a casino. Other facilities include, business centre, bicycle rental, wellness centre and beach activities.

### RADISSON BLU HOTEL



*Source: Third party images from other locations*

Radisson Blu Batumi has 176 rooms and is in the five-star category. It has two restaurants and two bars. There are seven meetings rooms and six private meeting rooms totalling 743 sqm. The maximum capacity is 350. The Spa is 1,800 sqm with Turkish bath, sauna, Jacuzzi, steam room and whirlpool. The casino has slot machines, 11 poker tables and 4 roulette tables. Other facilities include kids centre, fitness centre and babysitting.

## PRESIDENT PLAZA



*Source: Third party images from other locations*

The five-star President Plaza has 32 rooms and no brand association. There are two restaurants and two bars including one branded Buddha bar. Additionally, there are some meeting facilities as well as fitness centre, spa treatments, karaoke and swimming pool.

## GEORGIA PALACE



*Source: Third party images from other locations*

Georgia Palace is another independent hotel and has 156 five-star rooms. There are three restaurants, five bars and five meeting rooms. Meeting space is 542 sqm and can take 346 people. The Spa is 500 sqm in size. Other facilities include tennis, golf, wellness and bicycle rental.

### 11.2.2 BATUMI AND GONIO – OTHER PLAYERS

An selection of the other players in the Batumi and Gonio area are shown below. These are the newly opened Divan Suites, the soon to be opened Hilton, and an example of a small aparthotel in Gonio. This aparthotel is not considered competition for the Gonio Resort but is shown as an indication of the current offer in the Gonio area.

## DIVAN SUITES



*Source: Third party images from other locations*

Divan is an established Turkish hotel brand. The Batumi property has 65 rooms and was opened in 2014. It has a Spa centre, a restaurant offering Georgian and Turkish cuisine. The hotel is located in the centre of Batumi yet within 5 minutes' walk (less than 300 m) from the Black Sea beach. The hotel has two meeting rooms of which the largest is 105 sqm.

## HILTON BATUMI (OPENING JUNE 2015)



*Source: Third party images from other locations*

The Hilton Batumi has 247 rooms, restaurant, fitness, wellness and meeting facilities. It has 8 meetings and events spaces with the largest ball room measuring 385 sqm and capable of accommodating more than 260 people in banquet style. The hotel has three dining outlets – a lobby café, a ground floor casual restaurant and a top floor bar and terrace. The hotel will be open in June 2015 and is already open for booking.

## MGZAVREBI APARTHOTEL, GONIO



Source: Third party images from other locations

Mgzavrebi is an aparthotel chain that has its properties in Bakuriani, Batumi and Tbilisi. The concept of the company is to develop properties and sell most of them by units retaining small part in the buildings developed. They operate the property and collect commissions from various owners.

The 35-room property in Gonio is one of the most popular hotels in the area. It is open throughout the year and offers in-house restaurant, private parking and a 24-hour reception. The hotel rooms are air-conditioned and come with a flat-screen TV, a refrigerator, a balcony and a private bathroom. The restaurant serves Georgian cuisine, and a variety of drinks.

### 11.2.3 PIPELINE HOTEL SUPPLY

Exhibit C20 below lists the latest addition to supply to the Batumi hotel market and the pipeline hotel supply until 2017. Batumi's main existing and pipeline hotels are shown on a map in Exhibit C21.

#### Exhibit C20: Batumi Pipeline Hotels

#	Project	Category	Stars	# Rooms	Quoted completion date	Project type	Construction status	Address
1	Redix Group/Le Port	Local Upscale & Midscale	3	45	2014	Brownfield	Opened	Batumi, Gogebashvili Str
2	Maia Samadashvili/ Hotel	Local Upscale & Midscale	3	30	2014*	N/A	In Progress	Batumi, Gogebashvili Str 30
3	LLC Gzeli/ Hotel	Local Upscale & Midscale	3	159	2014*	Greenfield	In Progress	Batumi, Khimshlashvili/ Kobaladze Str
4	Grand Rixos Palace	International Upscale	4	76	2014*	Greenfield	In Progress	Batumi, Angisa Settlement
5	Hotel Tsikhisdziri	International Upscale	4	84	2014*	Greenfield	In Progress	Batumi, Tsikhisdziri
6	LLC Tour Invest/Hilton Batumi	International Upscale	5	170	2015	Greenfield	In Progress	Batumi, Rustaveli Str 40
7	Kempinski Hotel	International Upscale	5	253	2015	Greenfield	Suspended	Batumi, Nearby Riviera
8	Crowne Plaza	International Midscale	4	150	2015	Brownfield	In Progress	Batumi, Gogebashvili Str 10
9	LLC Marina Collizeum/ Hotel	Local Upscale & Midscale	3	104	2015	Greenfield	In Progress	Batumi, Khimshlashvili Str
10	Mersin Tourism/ Hotel	Local Upscale & Midscale	3	100	2016	Greenfield	In Progress	Batumi, Khimshlashvili/ Kobaladze Str
11	Cub Tower/ Hotel	Local Upscale & Midscale	4	180	2016	N/A	Planned	Batumi, Gogebashvili Str 8
12	Babilon Tower	Local Upscale & Midscale	5	198	Q3 2016	Greenfield	In Progress	Batumi, Rustaveli Avenue 20
13	Metro Atlas Project 1	Upscale (TBD International/Local)	5	100	2017	Greenfield	Planned	Batumi, Lech Kaczynski Street, New Boulevard
14	Metro Atlas Project 2	Upscale (TBD International/Local)	5	150	2017	Greenfield	Planned	Batumi, Lech Kaczynski Street, New Boulevard

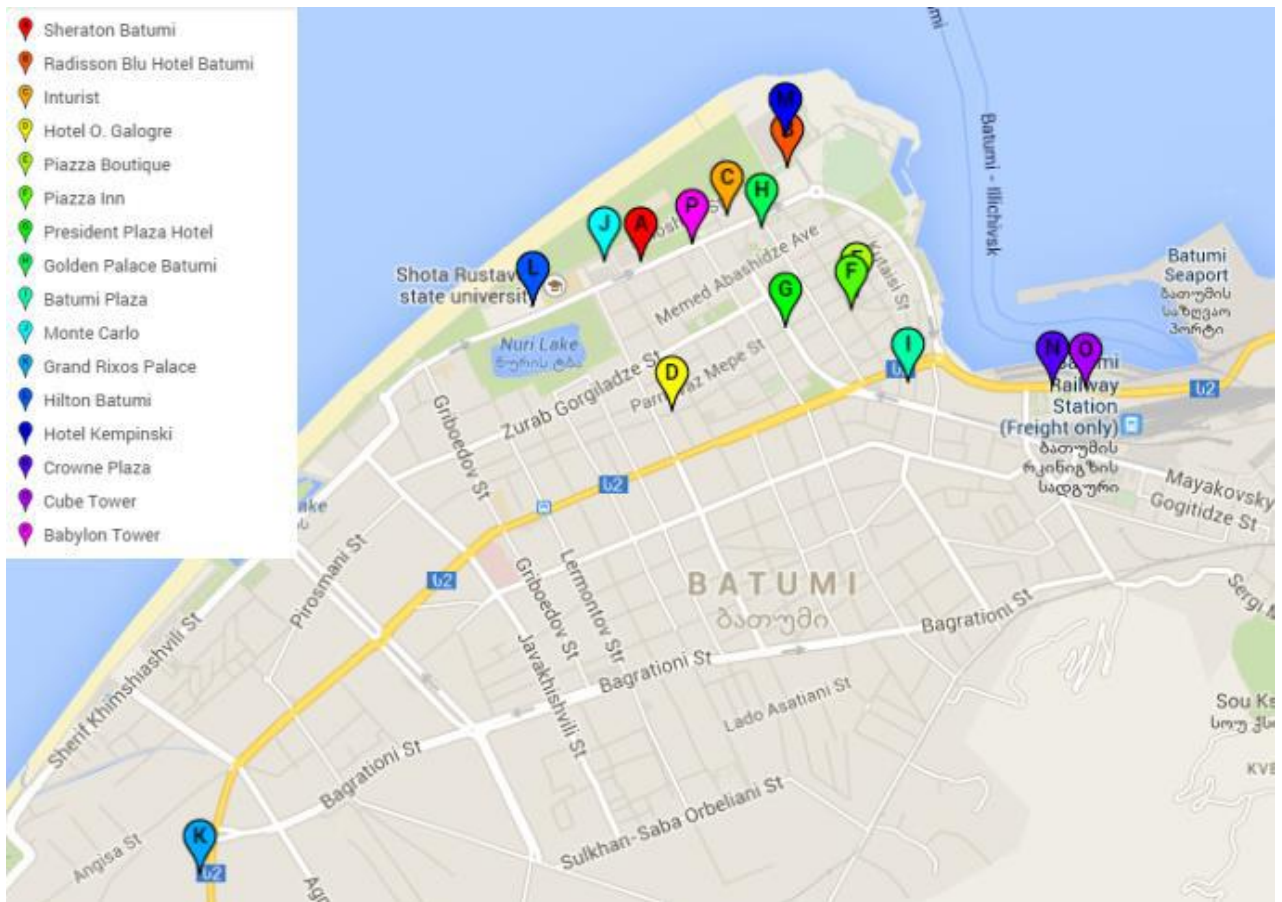
\*No evidence of availability for booking as at April 2015 – assumed to be delayed.

Source: Colliers International

Numerous hotels are in progress. There are four 3-star hotels, four 4-star hotels, three 5-star hotels in the supply pipeline at the current time.

The largest hotel currently being developed was the 253-room Kempinski hotel. However due to financial difficulties the project has been stalled until further notice. The Trump Towers project was also cancelled when there was a change in government.

**Exhibit C21: Batumi's Main Existing and Planned Hotels**



Source: Google Maps, Colliers International

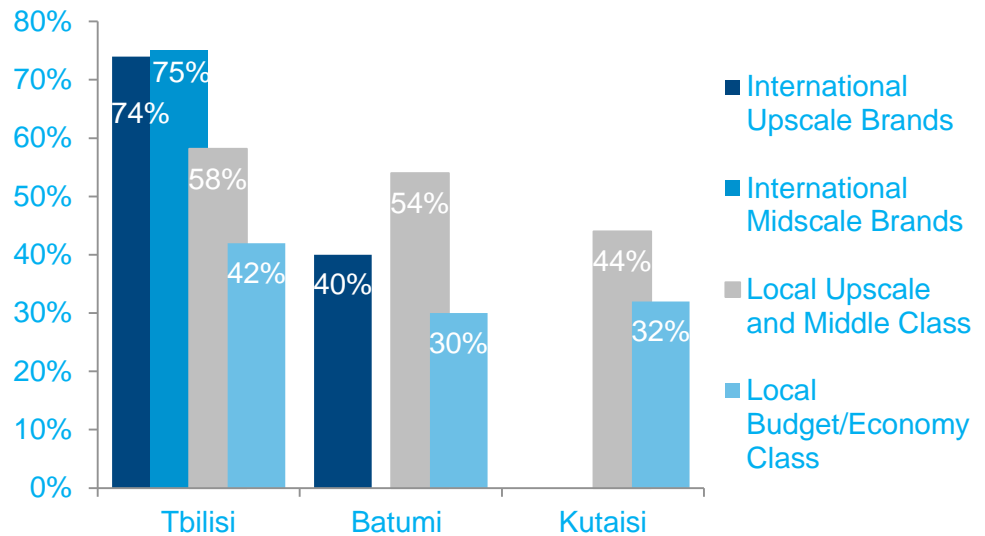
With growing visitation, the hotel market in Georgia is shaping towards a more complete market, which means a greater variety of hotel products. As several luxury hotels have been developed over the present decade, the market is starting to reveal a demand gap for internationally branded midscale hotel products. Up to 2017, Colliers International expects the total supply of international upscale brand hotel rooms to increase by 3.4 times and international midscale brand hotel rooms by only 1.7 times. This supports the case that there is a gap in the midscale market.

## 11.3 MARKET DEMAND

### 11.3.1 OCCUPANCY RATE

Occupancy rates for major hotel areas in Georgia are shown below by standard of hotel.

**Exhibit C22: Annual Occupancy Rate in Tbilisi/ Batumi/ Kutaisi 2014**



Source: Colliers International

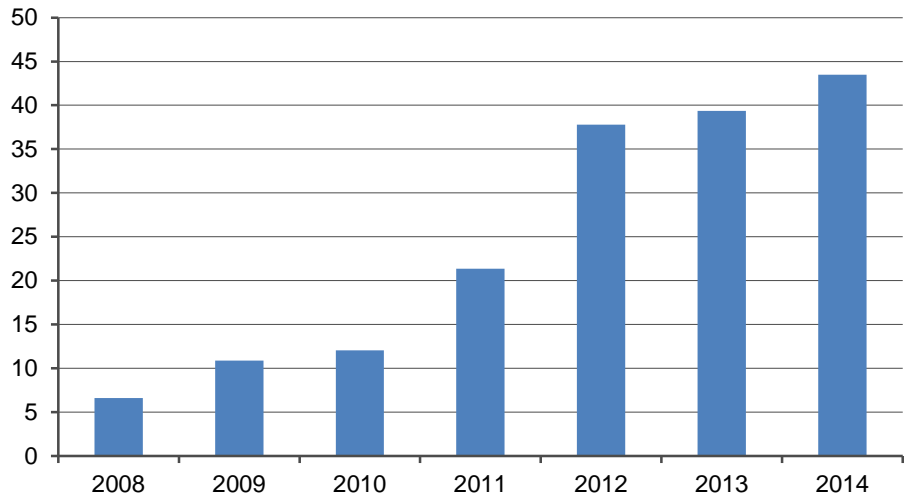
The occupancy rate in Batumi has increased significantly in recent years yet it is still low on a global city comparison level and in comparison to Tbilisi. Batumi hotel room occupancy is varies between 40%-54%, excluding the budget sector. It is highly seasonal at 95% on peak nights during the peak summer season and 12% during the low season in winter.

Interestingly, in Tbilisi it can be seen that the international midscale hotel sector is out performing international upscale and local upscale and middle class hotels. Further this is a sector that is not even represented in Batumi. This suggests an opportunity.

In Adjara, bed occupancy is recorded by the Department of Tourism and Resorts of the Adjara Autonomous Republic. This data is presented below by year and also month. This shows a good trend in increasing bed occupancy levels.

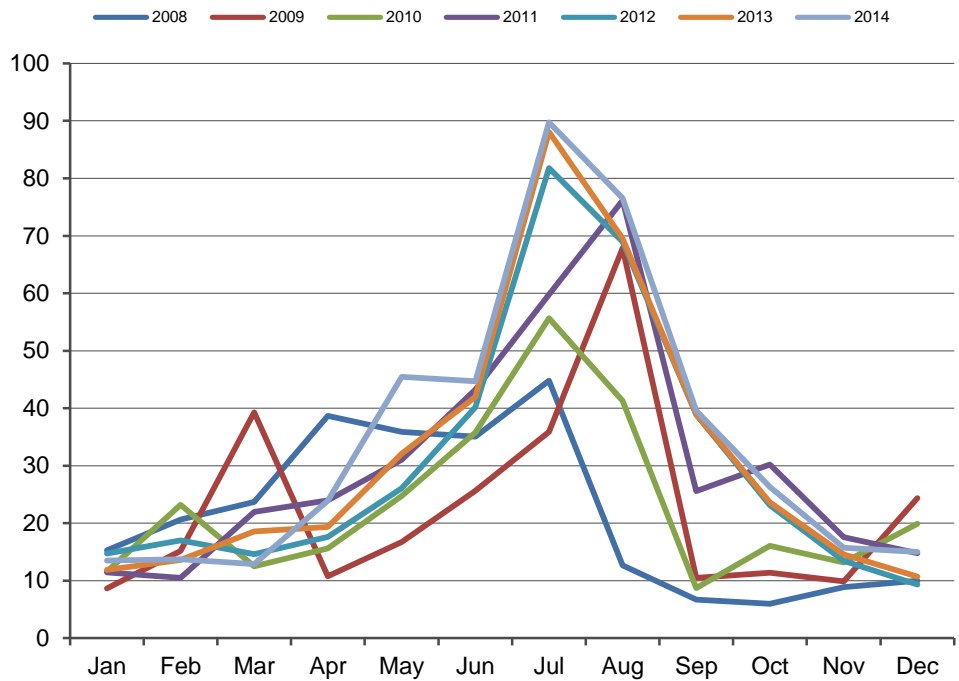
The seasonality is also improving significantly. It can be seen in Exhibit C24 that the shoulder seasons have been strengthened as well as the bed occupancy rising each year. Highest occupancy is experienced in July and lowest in the winter months as one would expect.

**Exhibit C23: Adjara Bed Occupancy (%) by year 2008-2014**



Source: Department of Tourism and Resorts of the Adjara Autonomous Republic

**Exhibit C24: Seasonality and Historical Performance – Adjara Bed Occupancy %**



Source: Department of Tourism and Resorts of the Adjara Autonomous Republic

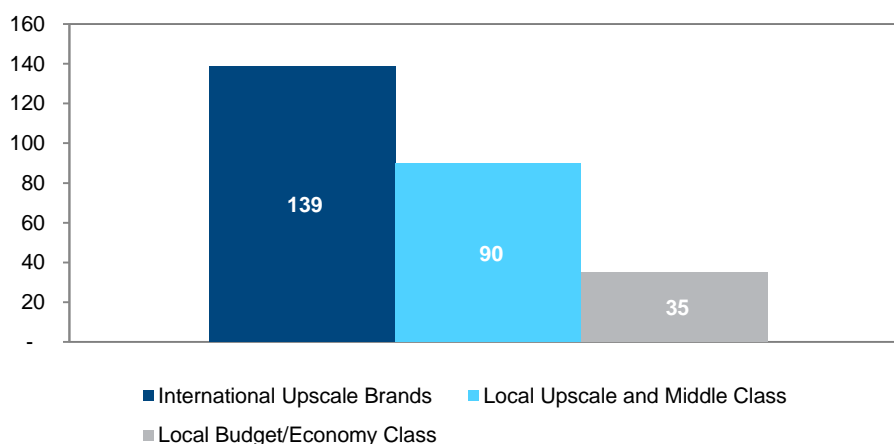
The nationality of hotel visitors is not recorded in the statistics available. It is therefore assumed to reflect the wider tourism trends with the non-Georgian guests including those from the key source markets of Turkey, Azerbaijan, Armenia and Russia as well as other markets.

### 11.3.2 AVERAGE DAILY RATE (\$)

For Batumi, the Average Daily Rate (ADR) for international upscale hotels was approximately \$139 in 2014. For local upscale and midscale hotels it was \$90 and for local budget and economy hotel is was \$35. As explained above the international midscale sector is missing in these figures.

It should be noted that ADR is not the same as the ‘rack rate’ / price that a customer pays at the hotel, it excludes VAT and any inclusive breakfast etc.

**Exhibit C25: ADR Batumi 2014, \$ excl. VAT**



Source: Colliers International

## 11.4 DESCRIPTION OF THE COMPONENT AT THE GONIO RESORT

### 11.4.1 OVERVIEW

At the Gonio Resort, it is proposed that upon completion of all phases there will be one hotel and four aparthotels. All of these are expected to be operated under recognised international brands.

The hotel is proposed to be a 150-room hotel of international 4-star standard. It is proposed to be built to the highest international standards for mid-market hotels and be positioned to attract mainly leisure guests (families, tour groups, FITs). Adjacent to the property will be a casino (see Section 13).

The aparthotels will offer a total of 900 guestrooms across 4 properties, comprising aparthotels of 200, 200, 300 and 200 rooms. It is intended that these will also be built to the highest international standards and attract similar segments.

The quality of the hotels at the Gonio Resort are proposed to complement the overall offer of leisure and tourist experience at the Resort and also provide additional facilities of high standards including a restaurant in each property, swimming pools, health & fitness facilities and executive boardroom-style meeting

and conference facilities where applicable. A schedule of the hotel and aparthotels, and their respective phases can be seen below.

**Exhibit C26: Proposed Hotels at the Gonio Resort**

<b>All Phases - HOTELS</b>					
	<b>PHASE</b>	<b>Rooms</b>	<b>Net Rooms Size</b>	<b>Gross m2 / Room</b>	<b>GFA Total (m2)</b>
Hotel - Beach (by Casino)	1	150	25	50	7,519
Aparthotel - Beach 1	1	200	30	45	9,091
Aparthotel - Lagoon	1	200	30	45	9,050
Aparthotel - Beach 2	2	300	30	45	13,461
Aparthotel - Beach 3	3	200	30	45	9,091
<b>Total</b>		<b>1,050</b>			<b>48,212</b>

Source: Colliers International

**11.4.2 ASSESSMENT OF THE HOTEL / APARTHOTEL OPPORTUNITY**

The exhibit below shows a SWOT analysis in relation to a hotel / aparthotel component at the Gonio Resort.

**Exhibit C27: Hotel / aparthotel components at Gonio – SWOT**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Proximity to beachfront (cleaner water than Batumi) and natural and cultural heritage at Gonio</li> <li>• Easy access from the international airport and Sarpi border</li> <li>• Very close to Batumi, especially when connected by a new bridge</li> <li>• Facilitator and driver of demand for core visitor attractions at the site. Wider leisure provision also proposed</li> <li>• Facilitator of tourist beach holiday stays at the site</li> <li>• No existing direct competition for international quality resort hotels in the Batumi-Gonio area</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of natural sandy beach for hotel access</li> <li>• Limited existing resort centre at Gonio</li> <li>• Lack of profile of Gonio in international markets</li> <li>• No proven supply of internationally branded beach resort hotels in Georgia due to lack of provision (Batumi Sheraton not considered a resort beach hotel)</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• To create a new hotel experience - differentiated product from that already available in Batumi</li> <li>• First mover advantage in mid-scale international, branded, quality resort hotels along the entire Georgian coast</li> <li>• Opportunities for also attracting other markets to hotels – e.g. different style of MICE offer; casino goes bring facilities etc.</li> <li>• To tap into the opportunity of being the closest hotels of scale / brand to the Sarpi border</li> </ul>	<ul style="list-style-type: none"> <li>• Introducing a new offer to the market – unproven in Georgia, although very established elsewhere</li> <li>• If there is a decline in visitors to Georgia or if domestic tourism to the coast / Batumi declines. (Evolution is expected though re resorts holidays to eg. Turkey, Egypt).</li> <li>• Relative prices of visiting different holiday destinations</li> <li>• If there is a change in regional/country level politics</li> <li>• If upscale hotels in Batumi compete with low midmarket level prices in a bid increase occupancy</li> <li>• If the leisure offer does not succeed in extending the season</li> <li>• If not easy beachfront access route to Batumi</li> </ul>

Source: Colliers International

Whilst there are a number of weaknesses and threats applicable to including hotel / aparthotels at the Gonio Resort, the conclusion is that there is strength and opportunity that should be pursued and it is important for a resort of this kind to have a good offering of short stay serviced accommodation. Hence the provision proposed. The identified market gap and opportunity is for providing internationally-branded resort hotel / aparthotels with large pools and facilities, targeting the mid-market segment.

### **DEMAND CONTEXT SUMMARY**

In addition to the market demand and supply context discussed above the following points are noted.

#### **Principal generators of demand**

In addition to the current generators of demand in the city of Batumi and Adjara, the following demand generators for the hotel and aparthotel accommodation at the resort have been identified:

- Attractors within the new resort – lifestyle, leisure facilities such as the waterpark, casino, beach access and others;
- Any events held at the site, for instance festivals, outdoor performances, small companies holding team building activities or weddings held at the resort;
- Other functions on the site – e.g. offices & trade, shopping opportunities, etc.
- The accommodation will also be an alternative to staying in Batumi, especially for leisure guests;

#### **Segments of demand**

Key segments of demand will include:

- Tbilisi residents – holidays, weekend trips;
- Tourists from regional/neighbouring countries – holidays and short breaks;
- Casino visitors;
- Other domestic tourists and visiting friends & relatives.

#### **Historical trends**

There has been a significant increase in recent years in supply and demand for quality hotels in Batumi, especially influenced by the casino market. There is however low supply of quality hotels in the mid-market segment and long-stay resort hotels.

The introduction of international hotel brands in Batumi is offering reassurance of guaranteed experiences. There is a limited existing quality hotel offer in Gonio itself however.

### Anticipated future demand trends

Wider trends of increasing tourism and longer season will influence demand. The existence of Gonio Resort and its facilities will also influence this trend. Further the experience offered is expected to increase family and holiday tourism.

Casino tourism is also expected to continue growing.

### COMPETITIVE CONTEXT SUMMARY

The proposed Gonio Resort hotel and aparthotels do not currently have direct competitors in the market and so would benefit partially from bringing a new product to the market.

Only partial competitors currently exist:

- International brand hotels in Batumi that compete for casino tourists and international tourists visiting for cultural purposes. These hotels have a higher pitch than the proposed hotels however;
- Midscale hotels in Batumi that compete for mid-market and price sensitive guests. Nevertheless as the proposed hotels are intended to be internationally branded they will benefit from international customer awareness and much greater marketing and sales reach; and
- Local hotels in Gonio village are small, unbranded and with very limited facilities. We expect the competition of these hotels to be minimal. These hotels might provide day visitors to the resort facilities however.

## 11.5 THE HOTEL

### 11.5.1 PROPOSED HOTEL

It is envisaged that the Hotel site will be developed into a mid-market hotel. It is assumed the hotel will comprise:

- 150 hotel bedrooms;
- All day dining restaurant;
- Bar lounge;
- Flexible meeting space devisable into several smaller meeting rooms;
- Main outdoor swimming pool with bar area;
- Health & fitness facility with a small spa;

- Appropriate back-of-the-house facilities.

### **GUEST ROOMS**

It is assumed that the rooms will be finished to a very high quality and will have features such as air conditioning, satellite television, safe and wifi as well as other amenities typically found in a quality resort hotel.

The interior design, quality of materials, furniture and guest accessories are expected to create modern and comfortable rooms. The rooms should be appropriate for the leisure tourist market and also the business market.

### **FOOD AND BEVERAGE FACILITIES**

It is envisaged that the food and beverage facilities will be mainly utilised by the Hotel's guest and some external guests. The food and beverage outlets will feature an all-day restaurant, a bar and a pool bar. The food and beverage outlets should be set out to be to meet market expectations. It is important to consider that many other F&B outlets will be available at the Gonio Resort.

### **MARKET PITCH AND TARGET MARKET**

As already identified previously the opportunity in the market is at the mid-scale level and not at the top of the market where international 5 star hotels are already present in Batumi.

At this point in time a larger number of current visitors to Batumi have a medium spend profile. By targeting the mid-market and families segments the hotel will be targeting a growing income class in Georgia and the region. It is important to note, however, that it is not the lowest spending/most price conscious segment of the market that is being targeted. The target segment can be defined as 'Families with increasing disposable income looking for affordable, value for money holidays'.

#### **11.5.2 PROJECTIONS MODELLING**

In this section we will analyse in detail the projections modelling for the hotel.

#### **DEMAND FOR HOTEL ACCOMMODATION WITHIN THE DEFINED COMPETITIVE SET**

In order to project the occupancy for the proposed hotel at the Gonio Resort we have used a 'demand build-up' model. This approach is used in markets where the proposed hotel is not directly comparable to other properties in the area. The approach takes account of an analysis of the existing hotel market activity but is different from a 'fair share' model, which is used when there are directly competitive hotels in the local area.

We have prepared a detailed projection of likely demand levels for each hotel market segment in the stabilised year of operation (2022) based on seasonality, analysis of demand drivers and existing demand information gathered during our field trip, including interviews with existing hotels' management, and analysis of the potential demand that the proposed hotel is likely to induce.

It is important to analyse demand by the use of individual market segments as each market segment exhibits unique characteristics as regards growth potential, seasonality of demand, price sensitivity, double occupancy, facility requirements and so on. We quantify the overall room night demand of each segment and use this as the basis to project the future for each market segment.

Demand for transient accommodation in the defined market area is generated primarily by the following four market segments.

- Segment 1 – Group Leisure
- Segment 2 – Individual Leisure or FIT (Fully Independent Traveller)
- Segment 3 – MICE (Meetings, Incentives, Conference and Exhibition)
- Segment 4 – Corporate

Based on market analysis and research, we believe these are the likely market segments that will generate demand for the proposed hotel at the Gonio Resort. The segments, and assumptions used to distinguish between them for modelling purposes, are described in more detail below.

Our estimates of the total number of room nights deriving from each of these segments take into account annual and weekly seasonality patterns.

We have built up demand by segment from the assumed opening year of operation in January 2019, to the stabilised year in 2022. The stabilised year is intended to reflect the anticipated results of the property over its economic life given its location and any and all challenges in the life cycle of a hotel.

### **Group Leisure – Profile, Characteristics**

The Group Leisure segment comprises guests whose primary motivation is leisure. These trips may have been put together by bespoke travel agents in a package, including multi-centre packages.

With regard to the Gonio Resort, this group is considered distinct from the FIT segment in that these guests are expected to book as part of a large group (even if travelling with people they do not know) and sometimes form part of all-inclusive packages. These people are expected to also take part in leisure activities across the resort even if they have bought an all-inclusive package.

The Group Leisure segment comprises guests who have purchased their stay through tour operators or travel agencies, or taken advantage of promotional

packages put together by the hotel. Demand from this segment is usually higher during holiday periods and the summer season. The hotel room rate is generally discounted in order to attract this segment during lower occupancy periods.

### **FIT (Fully Independent Traveller) – Profile, Characteristics**

The FIT segment is expected to be one of the most important customer segments for the proposed hotel. This segment is typically the highest paying, with guests often paying the hotel rack rate.

Fully independent travellers (FITs) are expected to typically be families travelling on their own or individuals with relatively high disposable income. FITs are assumed to travel for various purposes, including gambling, but are distinct from the 'Group Leisure' segment due to not booking the hotel specifically through a wholesale or discount travel agency or tour operator.

Fully Independent Traveller (FIT) comprises both foreign and domestic visitors who have purchased their accommodation directly with the hotel via the central reservations system, the internet or through upscale travel agencies. The holiday periods in July and August, at Easter and on bank holiday weekends are the periods during which this market segment generates the highest demand for hotel accommodation. Some discounted rates are available to attract this segment during lower occupancy periods.

This segment also includes guests booking directly with the hotel for weekend breaks and longer holidays. A sub-category of this segment includes individual leisure guest with a special interest in, for example, the casino.

This segment also includes guests booking directly with the hotel for weekend breaks and longer holidays.

### **MICE (Meetings, Incentives Conference and Exhibition) – Profile, Characteristics**

MICE demand in this segment is expected to be generated particularly by domestic companies but also regional and international companies holding small- and medium-sized meetings, conferences, training sessions, seminars, away days or product launches. Providing exceptionally high quality meeting and conferencing facilities within the proposed hotel is expected to allow capture of a good share of the market sector of the Batumi and Adjara existing MICE demand. However the nature of the facilities of the hotel will preclude it from working with very large scale events.

The location of the proposed hotel very close to Batumi International Airport could be used to create opportunities to build short stay conference packages and even some one day business seminars.

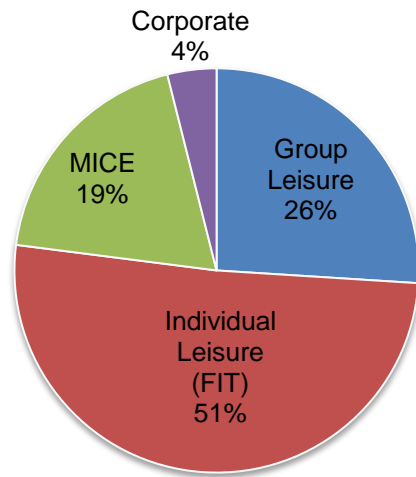
Room rates are often required to be discounted for MICE groups; however, it is important to attract this market segment because during low season months for FIT and Group Leisure segments, the MICE segment can provide important occupancy. In mature markets demand is typically high for conferences around spring and autumn. Summer is usually a slow period and winter demand can be variable.

**Corporate – Profile, Characteristics**

We expect corporate demand for room nights to be relatively low at the proposed hotel due to the resort location. The proposed hotel is not as close to key business demand generators as other hotels in Batumi, albeit businesses located in the local area and Batumi may generate some corporate demand at the proposed hotel. Corporate demand is typically strongest during the working week. Corporate demand is broadly correlated to the economic market conditions in source markets.

Below is the percentage breakdown of the market segments we expect the hotel to achieve in the stabilised year.

**Exhibit C28: Proposed Hotel – Assumed Stabilised Market Segmentation**



Source: Colliers International

Our monthly estimates by segment result in a total of 32,738 room nights in the stabilised year of operation with 26% of demand being from Group Leisure, 51% for Individual Leisure and FIT, 19% from MICE and 4% Corporate. As such, the market for the Hotel is assumed to be heavily dominated by the leisure segment.

## OCCUPANCY PROJECTIONS

Based on this market segmentation and the competitive position of the proposed hotel as a mid-scale property, we have forecast occupancy from January 2019 going forward, with stabilisation being reached in 2022. We project a stabilised occupancy of 59.8% in 2022.

The stabilised occupancy is intended to reflect the anticipated results of the property over its economic life given any and all challenges in the life cycle of the Hotel. Total room nights sold in stabilised year is expected to be 32,738 per year. The market segmentation of room nights is summarised in the following table.

### Exhibit C29: Estimated Captured Roomnight Demand – Proposed Hotel

Market Segment	Roomnights 2019	%	Roomnights 2020	%	Roomnights 2021	%	Roomnights 2022	%	Roomnights 2023	%
Group Leisure	5,961	27%	6,812	26%	7,664	26%	8,515	26%	8,515	26%
Individual Leisure	11,694	53%	13,364	52%	15,035	51%	16,705	51%	16,705	51%
MICE	3,744	17%	4,680	18%	5,616	19%	6,240	19%	6,240	19%
Corporate	831	4%	1,023	4%	1,214	4%	1,278	4%	1,278	4%
<b>Total</b>	<b>22,229</b>	<b>100%</b>	<b>25,879</b>	<b>100%</b>	<b>29,528</b>	<b>100%</b>	<b>32,738</b>	<b>100%</b>	<b>32,738</b>	<b>100%</b>
<b>Hotel Occupancy</b>	<b>41%</b>		<b>47%</b>		<b>54%</b>		<b>60%</b>		<b>60%</b>	

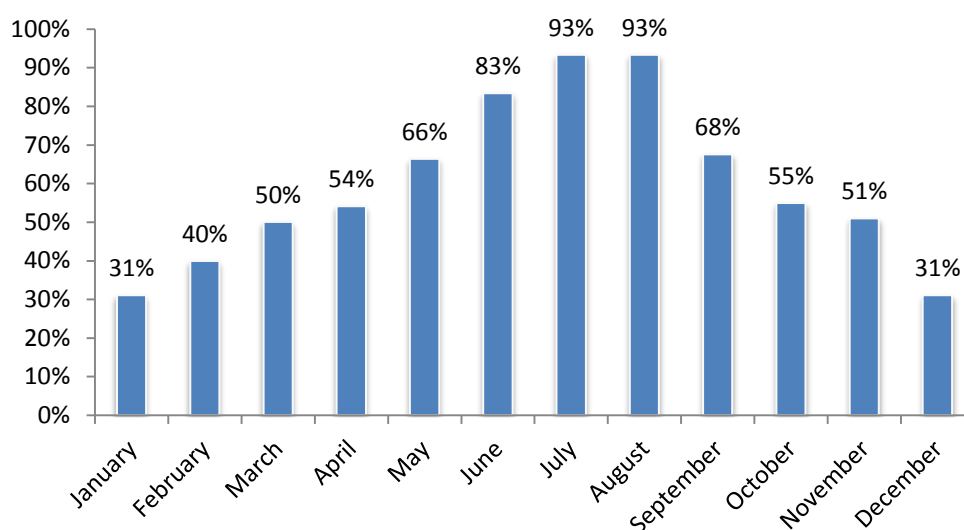
Source: Colliers International

Based on our analysis of seasonality by segment, we expect the summer months from May to September to be high occupancy months and April and October to be shoulder and low season months. Demand is expected to peak in July and August when Group and Individual Leisure demand expected to be complemented by demand from increased MICE and Corporate activity. The lowest occupancy months for the proposed hotel are expected to be December and January.

The stabilised occupancy is intended to reflect the anticipated results of the property over its economic life, given any and all changes in the life cycle of the Hotel. Thus, the stabilised occupancy excludes from consideration any abnormal relationship between supply and demand and non-recurring conditions that may result in unusually high or low occupancies.

The following graph illustrates monthly occupancy for the proposed Hotel in its stabilised year of trading (2022) illustrated as an estimated percentage of occupied rooms.

### Exhibit C30: Monthly Occupancy of the Proposed Hotel



Source: Colliers International

### FORECAST OF AVERAGE RATE

Our estimates of average room rates for the proposed Hotel divided by market segment are indicated in the table below.

The assumed prices have been estimated based on the actual performance of the current hotel market in Batumi plus consideration has also been given to how resort hotels typically perform. As previously discussed, we consider that the proposed hotel will not directly compete with the current hotel market in Batumi as it offers a unique product at a pitch that is not currently offered. We consider that the Gonio Resort will become a regional destination of highest standard and be able to charge accordingly.

In order to project the average room rate for the hotel we have made the following assumptions:

- The hotel will have a prime location within the Resort and is in close proximity to Batumi International Airport and the city of Batumi. This should enable the hotel to achieve a strong marketwide average room rate;
- The standard of the proposed hotel, which we consider will be positioned as the first, or an early entry, in the mid-market hotel of high international standards market, enabling it to achieve rates higher than the current, not directly competitive, mid-market supply once it has reached a stabilised level of trading performance;
- The hotel will benefit from branded management with the power of their distribution system;

- It is assumed that the Hotel will offer low and shoulder season discounts and will attract the lower yielding Group Leisure in these periods;
- The projected average rate is for a per room per night basis, excluding breakfast and VAT; and
- In forecasting the average rate of growth we have assumed a rate of inflation of approximately 2%, which we consider to be an appropriate long term average.

We have decreased the average rate by 8.1% in the first year of trading, by 8.6% in the second year and by 7.0% in the third year, a procedure common for new hotels establishing themselves in the marketplace.

### Exhibit C31: Projected Average Room Rate by Market Segment (\$)

Average Rate – Future Values										
	2019		2020		2021		2022		2023	
Group Leisure	63	27%	69	26%	74	26%	80	26%	81	26%
Individual Leisure	88	53%	95	52%	103	51%	110	51%	113	51%
MICE	78	17%	85	18%	91	19%	98	19%	100	19%
Corporate	88	4%	95	4%	103	4%	110	4%	113	4%
<b>Average</b>	<b>80</b>	<b>100%</b>	<b>86</b>	<b>100%</b>	<b>94</b>	<b>100%</b>	<b>100</b>	<b>100%</b>	<b>102</b>	<b>100%</b>
<b>Average Room Rate Growth Inflated)</b>			<b>8.1%</b>		<b>8.6%</b>		<b>7.0%</b>		<b>2.0%</b>	

Source: Colliers International

Our estimates of ADR are higher than those achieved by existing, not directly comparable, mid-scale hotels in Batumi. However, we feel that the different style of and high quality product proposed and the fact that the hotel will be the first in the Resort justifies the levels estimated. Our knowledge of pricing of mid-scale resort hotels supports this.

### FORECAST CONCLUSIONS

Based on the preceding analysis, the proposed hotel's occupancy and average room rate have been estimated as shown in Exhibit C32 in actual year values. This also shows revenue per available room (RevPAR) - Average Room Rate multiplied by Room Occupancy %.

### Exhibit C32: Proposed Hotel Occupancy, ARR and RevPAR (\$)

Year	Occupancy	Average Rate (\$)	RevPAR (\$)	Average Rate 2014 Prices
2019	41%	80	32	73
2020	47%	86	41	77
2021	54%	94	51	82
2022	60%	100	60	86
2023	60%	102	61	86

Source: Colliers International

### 11.5.3 TRADING PERFORMANCE PROJECTIONS

#### APPROACH

Based upon our preceding projection of occupancy and average rate and on our knowledge of comparable hotels' financial operating profiles, we have developed a ten-year forecast of income and expense for the proposed hotel. The forecast starts on 1 January 2019.

The forecast of income and expense is expressed in inflated US dollars (\$) as at the date of each projection year. The stabilised year is intended to reflect the anticipated operating results of the Hotel over its economic life, given any or all applicable stages of build-up, plateau and decline in the life cycle of the Hotel. Thus, income and expense estimates from the stabilised year forward exclude from consideration any abnormal relationship between supply and demand, as well as any non-recurring conditions that may result in unusual revenues or expenses.

In forecasting we use a fixed and variable component model. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy or facility usage. A projection can be made by taking a known level of revenue or expense and calculating the fixed and variable components. The fixed component is adjusted only for inflation, while the variable component is also adjusted for the percentage change between the projected occupancy and facility usage that produced the known level of revenue or expense.

#### DEPARTMENTAL REVENUE

##### Rooms Revenue

Rooms revenue is determined by two variables, occupancy and average rate, as discussed in the previous section and summarised in Exhibit C32.

##### Food and Beverage Revenue

The Uniform System of Accounts for Hotels defines food revenue as revenue derived from the sale of all food and drink in all the hotels outlets plus it also includes meeting room hire. We have assumed that the Hotel's food and beverage outlets are to be operated efficiently and that they will enjoy a good reputation in the local market and within the Resort. Our forecast food and beverage revenue results in approximately \$58 per occupied room (POR) in the stabilised year (2022).

##### Health & Fitness and Spa Revenue

We have estimated the income and expense projections for the proposed health & fitness club with spa facilities, based upon the assumption that the hotel will

operate it and that it will predominantly focus on serving hotel guests but will attract some non-resident demand for both the health & fitness facilities and spa treatments. However this facility will be small compared to the Gonio Resort which will have its own large scale Gym & Fitness centre and Spa facility. The revenues we have projected are a combination of spa treatments and retail revenue. Using this analysis we have forecast health & fitness and spa revenues at \$9 (POR) in the stabilised year (2022).

### **Other Revenue**

Other income in the case of the Hotel is comprised primarily of telephone, parking, laundry, dry cleaning and pay per view television. We have forecast other income of \$3 (POR) in the stabilised year (2022).

## **EXPENSES**

### **Rooms Departmental Expenses**

Rooms expenses consist of the cost of servicing the rooms and providing laundry and supplies. We have allowed for rooms expenses of \$21 POR in the stabilised year (2022). This is in line with industry norms for a hotel of this standard and location.

### **Food & Beverage Expenses**

Food and beverage expenses include all items of expenditure necessary to operate all of the hotel's outlets. Expenses will include all salaries which will make up a significant proportion of the total costs together with the cost of all supplies. We forecast such expenses to be in line with industry norms in the Batumi hotel market, and have allowed for a departmental cost of 55% of departmental income in the stabilised year of operation. Since the hotel will need to build up its level of business, we forecast higher a departmental cost percentage in the early years.

### **Health & Fitness and Spa Expenses**

We have assumed that the health & fitness and spa facilities will be operated by the hotel and we have allowed for expenses equal to approximately 65% of the total revenues in the stabilised year of operation.

### **Other Expenses**

Other expenses consist of the costs associated with the generation of other income, and are dependent on the nature of the revenue. Based on our experience and local market knowledge, we have forecast other expenses costs at 50% of revenue in line with industry norms.

### **Administrative and General Expenses**

Administrative and general expenses include the salaries of all administrative personnel and those not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category. Most administrative and general expenses are fixed. The exceptions are cash surpluses and shortages, commissions on credit card charges and provisions for bad debts.

We have forecast Administrative and General Expense at \$2,242 per available room in the stabilised year (2022). This is in line with industry norms for a hotel of this standard and location.

### **Marketing Expenses**

Marketing expenses consist of all costs associated with advertising, sales and promotion; these activities are intended to attract new customers and retain existing ones. The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controllable by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be forecast accurately.

We have forecast Marketing Expense at \$1,308 per available room in the stabilised year (2022). This is in line with industry norms for a hotel of this standard and location.

### **Property Operations and Maintenance Expense**

Property operations and maintenance expense is another expense category that is largely controllable by management. Except for repairs necessary to keep the facility open and prevent damage (to plumbing, heating and electrical systems, and so forth), most maintenance items can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone a required repair, they have not eliminated or saved the expenditure, but merely deferred payment until a later date. A hotel that has operated with a lower than normal maintenance budget is likely to have accumulated a considerable amount of deferred maintenance.

Property operations and maintenance is considered to be an operating expense; as such, it contains only those components that can be expensed, rather than capitalised. It is important to account for the capital replacement of items such as Fixtures, Fittings & Equipment in the reserve for replacement account, which is discussed later in this section.

We have forecast Property Operations and Maintenance Expense at \$1,494 per available room in the stabilised year (2022). This is in line with industry norms for a hotel of this standard and location.

### Utility Costs

A large portion of a hotel's utility consumption is relatively fixed and varies little with changes in occupancy. Other than bedrooms and meeting space, most areas of a hotel must be continually lit and heated or air conditioned, regardless of occupancy. The marginal utility cost of an additional occupied room is minimal.

We forecast the Hotel's utilities expense to stabilise at approximately at \$1,494 per available room in the stabilised year (2022).

### Management and Incentive Fee Expenses

The management fee expenses consist of the base fee and an incentive fee paid to the hotel management company that it is anticipated will be operating the Hotel. Some companies provide management services alone, while others offer both management services and a brand name affiliation. When a management company has no brand identification, the property owner can often acquire a franchise that provides the necessary image and recognition. Both prospective hotel management companies for the proposed hotel would both brand and manage the hotel.

Although most hotel management companies employ a fee schedule that includes a base fee (usually a percentage of total revenue) and an incentive fee (usually a percentage of defined profit), the incentive portion is often subordinated to debt service and does not appear in a forecast of net operating income before debt service. Although in such circumstances the incentive fee does not decrease the cash flow available for debt service, it does reduce the potential cash flow to equity, and must be accounted for in the forecast process and hence is shown as a deduction in our profit and loss statement.

As the decision regarding which hotel operator will be awarded the management contract has not been made yet, and the terms of the agreement will have to be negotiated, we have assumed a base management fee of 3% of gross revenue, and an incentive fee of 10% of the adjusted gross operating profit (AGOP). AGOP is defined as the GOP less the base management fee. This fee structure is in line with industry norms.

### Property Taxes

Based on comparable hotels in the area we have assumed that property tax will stabilise at approximately 1.5% of the total revenue in the stabilised year of the proposed Hotel (2022).

### Insurance Expense

The insurance expense category consists of the cost of insuring the Hotel and its contents against damage or destruction. It does not include liability coverage, which is a component of administrative and general expense.

We have forecast Insurance Expense 1.0% of total revenue in line with industry norms.

### Reserve for Replacement Expense

A replacement reserve for Fixtures, Fittings & Equipment is essential to maintain the quality, image and income potential of a hotel. Due to the fact that capitalised expenditures are not included in the operating statement, but nevertheless affect an owner's cash flow, a forecast and feasibility study should reflect these expenses by deducting an appropriate reserve for replacement.

Our industry experience indicates that a yearly reserve for replacement of 3-5% of total revenue generally is sufficient to provide the timely replacement of FF&E. Based on an analysis of comparable hotels, we consider that a reserve of 4% of total revenue is sufficient to provide funds to maintain the Hotel's competitive position.

As the proposed Hotel will be brand new, we have allowed a reserve for replacement of 2% of total revenue in Year One of operation, 3% of revenue in Year Two, 4% of total revenue in Year Three and onwards.

#### 11.5.4 TEN-YEAR PROFIT AND LOSS PROJECTION

The following projection of income and expense is intended to reflect our judgement of how a typical buyer would project the Hotel's operating results. The fourth year is considered to represent the ongoing stabilised trading position of the hotel. We first present a detailed five-year profit and loss statement, showing both per occupied room (POR) and per available room (PAR) columns, followed by a ten-year summary profit and loss statement.

## Exhibit C33: Five-Year Detailed Profit and Loss Projection – 2019 - 2023

Year	2019				2020				2021				2022				2023			
Number of Rooms	150				150				150				150				150			
Days Open	365				365				365				365				365			
Roomnights Available	54,750				54,750				54,750				54,750				54,750			
Roomnights Occupied	22,229				25,879				29,528				32,738				32,738			
Room Occupancy %	40.6%				47.3%				53.9%				59.8%				59.8%			
Average Room Rate	80				86				94				100				102			
RevPAR	32				41				50				60				61			
		%	POR	PAR		%	POR	PAR		%	POR	PAR		%	POR	PAR		%	POR	PAR
<b>Revenue</b>																				
Rooms	1,772	52.2	80	11,813	2,230	54.5	86	14,869	2,764	56.8	94	18,430	3,279	58.5	100	21,858	3,344	58.5	102	22,295
Food & Beverage	1,328	39.1	60	8,857	1,525	37.3	59	10,167	1,722	35.4	58	11,482	1,906	34.0	58	12,708	1,944	34.0	59	12,962
Spa	213	6.3	10	1,417	244	6.0	9	1,627	276	5.7	9	1,837	305	5.4	9	2,033	311	5.4	10	2,074
Other Income	83	2.4	4	554	94	2.3	4	625	104	2.1	4	696	114	2.0	3	762	117	2.0	4	778
<b>Total Revenue</b>	<b>3,396</b>	<b>100.0</b>	<b>153</b>	<b>22,641</b>	<b>4,093</b>	<b>100.0</b>	<b>158</b>	<b>27,289</b>	<b>4,867</b>	<b>100.0</b>	<b>165</b>	<b>32,445</b>	<b>5,604</b>	<b>100.0</b>	<b>171</b>	<b>37,362</b>	<b>5,716</b>	<b>100.0</b>	<b>175</b>	<b>38,110</b>
<b>Departmental Expenses</b>																				
Rooms	561	31.7	25	3,739	604	27.1	23	4,029	646	23.4	22	4,309	686	20.9	21	4,575	700	20.9	21	4,666
Food & Beverage	841	63.3	38	5,607	913	59.8	35	6,085	983	57.0	33	6,550	1,048	55.0	32	6,990	1,069	55.0	33	7,129
Spa	156	73.4	7	1,040	171	69.9	7	1,137	185	67.1	6	1,232	198	65.0	6	1,322	202	65.0	6	1,348
Other Income	48	58.3	2	323	52	54.9	2	343	54	52.1	2	363	57	50.0	2	381	58	50.0	2	389
<b>Total Departmental Expenses</b>	<b>1,607</b>	<b>47.3</b>	<b>72</b>	<b>10,710</b>	<b>1,739</b>	<b>42.5</b>	<b>67</b>	<b>11,594</b>	<b>1,868</b>	<b>38.4</b>	<b>63</b>	<b>12,455</b>	<b>1,990</b>	<b>35.5</b>	<b>61</b>	<b>13,267</b>	<b>2,030</b>	<b>35.5</b>	<b>62</b>	<b>13,533</b>
<b>Departmental Income</b>	<b>1,790</b>	<b>52.7</b>	<b>81</b>	<b>11,931</b>	<b>2,354</b>	<b>57.5</b>	<b>91</b>	<b>15,695</b>	<b>2,999</b>	<b>61.6</b>	<b>102</b>	<b>19,990</b>	<b>3,614</b>	<b>64.5</b>	<b>110</b>	<b>24,095</b>	<b>3,687</b>	<b>64.5</b>	<b>113</b>	<b>24,577</b>
<b>Undistributed Expenses</b>																				
Administrative & General	290	8.5	13	1,933	306	7.5	12	2,042	322	6.6	11	2,144	336	6.0	10	2,242	343	6.0	10	2,287
Marketing	154	4.5	7	1,029	169	4.1	7	1,125	183	3.8	6	1,219	196	3.5	6	1,308	200	3.5	6	1,334
Maintenance	193	5.7	9	1,289	204	5.0	8	1,361	214	4.4	7	1,429	224	4.0	7	1,494	229	4.0	7	1,524
Utility	193	5.7	9	1,289	204	5.0	8	1,361	214	4.4	7	1,429	224	4.0	7	1,494	229	4.0	7	1,524
<b>Total Undistributed Expenses</b>	<b>831</b>	<b>24.5</b>	<b>37</b>	<b>5,541</b>	<b>883</b>	<b>21.6</b>	<b>34</b>	<b>5,889</b>	<b>933</b>	<b>19.2</b>	<b>32</b>	<b>6,222</b>	<b>981</b>	<b>17.5</b>	<b>30</b>	<b>6,538</b>	<b>1,000</b>	<b>17.5</b>	<b>31</b>	<b>6,669</b>
<b>GOP Before Management Fees</b>	<b>959</b>	<b>28</b>	<b>43</b>	<b>6,390</b>	<b>1,471</b>	<b>36</b>	<b>57</b>	<b>9,805</b>	<b>2,065</b>	<b>42</b>	<b>70</b>	<b>13,768</b>	<b>2,633</b>	<b>47</b>	<b>80</b>	<b>17,556</b>	<b>2,686</b>	<b>47</b>	<b>82</b>	<b>17,908</b>
Management Fee	102	3.0	5	679	123	3.0	5	819	146	3.0	5	973	168	3.0	5	1,121	171	3.0	5	1,143
<b>Gross Operating Profit (GOP)</b>	<b>857</b>	<b>25.2</b>	<b>39</b>	<b>5,711</b>	<b>1,348</b>	<b>32.9</b>	<b>52</b>	<b>8,987</b>	<b>1,919</b>	<b>39.4</b>	<b>65</b>	<b>12,795</b>	<b>2,465</b>	<b>44.0</b>	<b>75</b>	<b>16,436</b>	<b>2,515</b>	<b>44.0</b>	<b>77</b>	<b>16,764</b>
<b>Fixed Charges</b>																				
Property Tax	54	1.6	2	357	64	1.6	2	426	74	1.5	3	496	84	1.5	3	560	86	1.5	3	572
Building Insurance	36	1.1	2	238	43	1.0	2	284	50	1.0	2	330	56	1.0	2	374	57	1.0	2	381
Incentive Management Fee	86	2.5	4	571	135	3.3	5	899	192	3.9	6	1,280	247	4.4	8	1,644	251	4.4	8	1,676
Replacement Reserve (RFF&E)	68	2.0	3	453	123	3.0	5	819	195	4.0	7	1,298	224	4.0	7	1,494	229	4.0	7	1,524
<b>Total Fixed Charges</b>	<b>243</b>	<b>7.1</b>	<b>11</b>	<b>1,619</b>	<b>364</b>	<b>8.9</b>	<b>14</b>	<b>2,427</b>	<b>510</b>	<b>10.5</b>	<b>17</b>	<b>3,403</b>	<b>611</b>	<b>10.9</b>	<b>19</b>	<b>4,072</b>	<b>623</b>	<b>10.9</b>	<b>19</b>	<b>4,154</b>
<b>EBITDA (1)</b>	<b>614</b>	<b>18.1</b>	<b>28</b>	<b>4,092</b>	<b>984</b>	<b>24.0</b>	<b>38</b>	<b>6,560</b>	<b>1,409</b>	<b>28.9</b>	<b>48</b>	<b>9,392</b>	<b>1,855</b>	<b>33.1</b>	<b>57</b>	<b>12,363</b>	<b>1,892</b>	<b>33.1</b>	<b>58</b>	<b>12,611</b>

Source: Colliers International



## Exhibit C34: Ten-Year Summary Profit and Loss Projection 2019 - 2028

Year	2019		2020		2021		2022		2023		2024		2025		2026		2027		2028	
Number of Rooms	150		150		150		150		150		150		150		150		150		150	
Days Open	365		365		365		365		365		365		365		365		365		365	
Roomnights Available	54,750		54,750		54,750		54,750		54,750		54,750		54,750		54,750		54,750		54,750	
Roomnights Occupied	22,229		25,879		29,528		32,738		32,738		32,738		32,738		32,738		32,738		32,738	
Room Occupancy %	40.6%		47.3%		53.9%		59.8%		59.8%		59.8%		59.8%		59.8%		59.8%		59.8%	
Average Room Rate	80		86		94		100		102		104		106		108		111		113	
RevPAR	32		41		50		60		61		62		64		65		66		67	
		%		%		%		%		%		%		%		%		%		%
<b>Revenue</b>																				
Rooms	1,772	52.2	2,230	54.5	2,764	56.8	3,279	58.5	3,344	58.5	3,411	58.5	3,479	58.5	3,549	58.5	3,620	58.5	3,692	58.5
Food & Beverage	1,328	39.1	1,525	37.3	1,722	35.4	1,906	34.0	1,944	34.0	1,983	34.0	2,023	34.0	2,063	34.0	2,105	34.0	2,147	34.0
Spa	213	6.3	244	6.0	276	5.7	305	5.4	311	5.4	317	5.4	324	5.4	330	5.4	337	5.4	343	5.4
Other Income	83	2.4	94	2.3	104	2.1	114	2.0	117	2.0	119	2.0	121	2.0	124	2.0	126	2.0	129	2.0
<b>Total Revenue</b>	<b>3,396</b>	<b>100.0</b>	<b>4,093</b>	<b>100.0</b>	<b>4,867</b>	<b>100.0</b>	<b>5,604</b>	<b>100.0</b>	<b>5,716</b>	<b>100.0</b>	<b>5,831</b>	<b>100.0</b>	<b>5,947</b>	<b>100.0</b>	<b>6,066</b>	<b>100.0</b>	<b>6,188</b>	<b>100.0</b>	<b>6,311</b>	<b>100.0</b>
<b>Departmental Expenses</b>																				
Rooms	561	31.7	604	27.1	646	23.4	686	20.9	700	20.9	714	20.9	728	20.9	743	20.9	758	20.9	773	20.9
Food & Beverage	841	63.3	913	59.8	983	57.0	1,048	55.0	1,069	55.0	1,091	55.0	1,113	55.0	1,135	55.0	1,158	55.0	1,181	55.0
Spa	156	73.4	171	69.9	185	67.1	198	65.0	202	65.0	206	65.0	210	65.0	215	65.0	219	65.0	223	65.0
Other Income	48	58.3	52	54.9	54	52.1	57	50.0	58	50.0	59	50.0	61	50.0	62	50.0	63	50.0	64	50.0
<b>Total Departmental Expenses</b>	<b>1,607</b>	<b>47.3</b>	<b>1,739</b>	<b>42.5</b>	<b>1,868</b>	<b>38.4</b>	<b>1,990</b>	<b>35.5</b>	<b>2,030</b>	<b>35.5</b>	<b>2,071</b>	<b>35.5</b>	<b>2,112</b>	<b>35.5</b>	<b>2,154</b>	<b>35.5</b>	<b>2,197</b>	<b>35.5</b>	<b>2,241</b>	<b>35.5</b>
<b>Departmental Income</b>	<b>1,790</b>	<b>52.7</b>	<b>2,354</b>	<b>57.5</b>	<b>2,999</b>	<b>61.6</b>	<b>3,614</b>	<b>64.5</b>	<b>3,687</b>	<b>64.5</b>	<b>3,760</b>	<b>64.5</b>	<b>3,835</b>	<b>64.5</b>	<b>3,912</b>	<b>64.5</b>	<b>3,990</b>	<b>64.5</b>	<b>4,070</b>	<b>64.5</b>
<b>Undistributed Expenses</b>																				
Administrative & General	290	8.5	306	7.5	322	6.6	336	6.0	343	6.0	350	6.0	357	6.0	364	6.0	371	6.0	379	6.0
Marketing	154	4.5	169	4.1	183	3.8	196	3.5	200	3.5	204	3.5	208	3.5	212	3.5	217	3.5	221	3.5
Maintenance	193	5.7	204	5.0	214	4.4	224	4.0	229	4.0	233	4.0	238	4.0	243	4.0	248	4.0	252	4.0
Utility	193	5.7	204	5.0	214	4.4	224	4.0	229	4.0	233	4.0	238	4.0	243	4.0	248	4.0	252	4.0
<b>Total Undistributed Expenses</b>	<b>831</b>	<b>24.5</b>	<b>883</b>	<b>21.6</b>	<b>933</b>	<b>19.2</b>	<b>981</b>	<b>17.5</b>	<b>1,000</b>	<b>17.5</b>	<b>1,020</b>	<b>17.5</b>	<b>1,041</b>	<b>17.5</b>	<b>1,062</b>	<b>17.5</b>	<b>1,083</b>	<b>17.5</b>	<b>1,104</b>	<b>17.5</b>
<b>GOP Before Management Fees</b>	<b>959</b>	<b>28</b>	<b>1,471</b>	<b>36</b>	<b>2,065</b>	<b>42</b>	<b>2,633</b>	<b>47</b>	<b>2,686</b>	<b>47</b>	<b>2,740</b>	<b>47</b>	<b>2,795</b>	<b>47</b>	<b>2,851</b>	<b>47</b>	<b>2,908</b>	<b>47</b>	<b>2,966</b>	<b>47</b>
Management Fee	102	3.0	123	3.0	146	3.0	168	3.0	171	3.0	175	3.0	178	3.0	182	3.0	186	3.0	189	3.0
<b>Gross Operating Profit (GOP)</b>	<b>857</b>	<b>25.2</b>	<b>1,348</b>	<b>32.9</b>	<b>1,919</b>	<b>39.4</b>	<b>2,465</b>	<b>44.0</b>	<b>2,515</b>	<b>44.0</b>	<b>2,565</b>	<b>44.0</b>	<b>2,616</b>	<b>44.0</b>	<b>2,669</b>	<b>44.0</b>	<b>2,722</b>	<b>44.0</b>	<b>2,776</b>	<b>44.0</b>
<b>Fixed Charges</b>																				
Property Tax	54	1.6	64	1.6	74	1.5	84	1.5	86	1.5	87	1.5	89	1.5	91	1.5	93	1.5	95	1.5
Building Insurance	36	1.1	43	1.0	50	1.0	56	1.0	57	1.0	58	1.0	59	1.0	61	1.0	62	1.0	63	1.0
Incentive Management Fee	86	2.5	135	3.3	192	3.9	247	4.4	251	4.4	256	4.4	262	4.4	267	4.4	272	4.4	278	4.4
Replacement Reserve (RFF&E)	68	2.0	123	3.0	195	4.0	224	4.0	229	4.0	233	4.0	238	4.0	243	4.0	248	4.0	252	4.0
<b>Total Fixed Charges</b>	<b>243</b>	<b>7.1</b>	<b>364</b>	<b>8.9</b>	<b>510</b>	<b>10.5</b>	<b>611</b>	<b>10.9</b>	<b>623</b>	<b>10.9</b>	<b>635</b>	<b>10.9</b>	<b>648</b>	<b>10.9</b>	<b>661</b>	<b>10.9</b>	<b>674</b>	<b>10.9</b>	<b>688</b>	<b>10.9</b>
<b>EBITDA (1)</b>	<b>614</b>	<b>18.1</b>	<b>984</b>	<b>24.0</b>	<b>1,409</b>	<b>28.9</b>	<b>1,855</b>	<b>33.1</b>	<b>1,892</b>	<b>33.1</b>	<b>1,929</b>	<b>33.1</b>	<b>1,968</b>	<b>33.1</b>	<b>2,007</b>	<b>33.1</b>	<b>2,048</b>	<b>33.1</b>	<b>2,088</b>	<b>33.1</b>

(1) Earnings Before Interest Tax Depreciation and Amortisation

Source: Colliers International



## 11.6 THE APARTHOTELS

It is envisaged that each aparthotel project will be sold to a developer. As such the section below considers that sale of plots.

Unlike a commercial or residential development the sale of the plots, the aparthotels are considered here on a per room basis rather than per square metre. The reason for this is that when selling such a property you are selling the opportunity for the developer to realise their return upon the completion of the hotel, when the developer will sell of the hotel to a third party investor. Typically hotel investors will use a value per room given that they will see the ability of a hotel room to generate cash flows and thus value the hotel on that basis.

The trading performance of each of the proposed aparthotels has been forecasted and used to calculate their future indicative values per room. According to this analysis a residual indicative value per room would be approximately and on average \$79,000<sup>1</sup> per room across the Resort. This indicative value per room is a residual estimated value after the developer's profit margin of 20% and additional development costs of 10%.

However, given that the aparthotel developer will take large construction and financial risks, thus when selling the land plots such residual values prices would be too high to compensate for that risk. We therefore believe that a \$20,000 cap per room would ensure interest from developers in the site and would also realise a good profit for the masterdeveloper selling the plot at low risk.

The following exhibits show a summary of the analysis as well as the expected cash-flows for the masterdeveloper when selling the hotel.

### Exhibit C35: Indicative Sales Prices

	Year of Sale	Rooms	Total Sales Price Per Key (\$)	Total Sales Price of Land	Total Sales Price of Land per m <sup>2</sup> to be built
Aparthotel - Beach 1	2018	200	20,000	4,000,000	440
Aparthotel - Lagoon	2022	200	20,000	4,000,000	442
Aparthotel - Beach 2	2026	300	20,000	6,000,000	446
Aparthotel - Beach 3	2034	200	20,000	4,000,000	440

Source: Colliers International

### Exhibit C36: Expected Cash Flow Income

Sale of Land (future values)	2018	2022	2026	2034	TOTAL
Aparthotel - Beach 1	4,312,349	-	-	-	4,312,349
Aparthotel - Beach 2	-	-	7,584,108	-	7,584,108
Aparthotel - Lagoon	-	4,671,029	-	-	4,671,029
Aparthotel - Beach 3	-	-	-	5,923,994	5,923,994
<b>Total</b>	<b>4,312,349</b>	<b>4,671,029</b>	<b>7,584,108</b>	<b>5,923,994</b>	<b>22,491,480</b>

Source: Colliers International

<sup>1</sup> In future values/ Includes inflation

## 11.1 OWNERSHIP AND OPERATIONS RECOMMENDATIONS

### 11.1.1 THE HOTEL

The hotel will be developed and funded by the masterdeveloper. As an operational business it would then stay in the ownership of the masterdeveloper for the first few years to ensure quality and that the project is finished in time. After the hotel has reached stabilised trading performance it could stay in ownership of the masterdeveloper or it could be sold to an investor.

We would recommend that the hotel is operated under a management contract with an international brand. The selection of the brand should be made very carefully since it will set the tone and perceptions of the whole Gonio Resort even though the other resort elements are not directly related to the hotel. The contract should also be negotiated carefully to ensure good terms for the masterdeveloper since generally this type of agreements are binding for 20-25 years hence.

As experienced international hotels and resorts consultants, we would be happy to advise further and assist in negotiation at the appropriate time.

### 11.1.2 THE APARTHOTELS

As stated, it is envisaged that each aparthotel project will be sold to a developer. The developer would then fund and develop their aparthotel. Apartments within can then either be sold to an investor may take on ownership of all the apartments; or to individual owners. In the case of the latter, each individual owner will also own a share of the condominium.

There will be a need to have specific clauses in the contracts when selling the aparthotel plots in order to ensure they are constructed and completed in time and according to the standards of the resort and the guidelines set out by the masterdeveloper. In this way consistency is achieved throughout the resort and no buildings are left abandoned half way through construction.

It is important that the aparthotels are operated by experienced operators to ensure good standards and strong occupancy. This could be a tour operator managed arrangement or a hotel / aparthotel brand.

## 12 LEISURE COMPONENT

### 12.1 OVERVIEW OF THE COMPONENTS

The leisure components are of major importance to the Gonio Resort. The variety, quality and quantity of the offer will drive the attractiveness of the resort for tourists, day visitors and the local population. This makes the component key in creating a destination and bringing interest to the site, enabling the residential and hotel / aparthotels to be successful.

In this section we provide a market context and top level projections for the main leisure elements at the resort, namely:

- The waterpark (indoor and outdoor);
- The lagoon; and
- “Activity Hub” including several activities spread around the resort.

### 12.2 WATERPARK

A waterpark provides a key attraction for tourists and local residents. Modern waterparks have interest for all ages, including some exhilarating slides for adults and multiple interests for all ages of children. Typically they are particularly popular with families. An indoor waterpark also offers an excellent activity for rainy or cold days, and can be open late for teenage and adult guests.

As defined by the International Association of Amusement Parks and Attractions (IAAPA), one of the most important international organizations in the leisure attractions segment, a waterpark is a park that “features water play areas such as water slides, splash pads, spray grounds (water playgrounds), lazy rivers, or other recreational bathing and swimming environments. Waterparks may also be equipped with some type of artificial surfing or body boarding environment such as a wave pool or a surf simulator attraction.” Waterparks seek to appeal to a variety of age groups.

There is a distinction between indoor and outdoor waterparks and some waterparks contain both indoor and outdoor components. Outdoor waterparks for the most part are located in coastal resort destinations with high year round average temperatures, where a long operating season is generally possible. Indoor waterparks are usually part of a wider leisure, retail and entertainment offer. They are generally located in urban or out of town locations near a major conurbation. Waterparks differ in size and scale depending on proposed market positioning and potential market demand.

The waterpark industry has seen significant growth over the past years and the sector is starting to consolidate, with waterpark operators growing and the offer

improving significantly. In the US waterpark provision is particularly prevalent. According to the 2013 Theme Index by Aecom and Themed Entertainment Association the waterpark worldwide market grew by over 7% year on year.

## 12.2.1 MARKET UNDERSTANDING

### LOCAL SUPPLY

Georgia has a small number of waterparks operating. Typically these are small outdoor waterparks of what might be considered a local standard. More recently an indoor-outdoor waterpark has been developed near Tbilisi (Gino Paradise), and an international company was involved in the development of Aqua Lazika at Anaklia. A selection of case studies is presented below.

#### Gino Paradise, Tbilisi Sea



Source: Third party images from other locations



Source: Third party images from other locations

Gino Paradise is located to the north of Tbilisi on the coast of the Tbilisi Sea. It opened its doors in 2014 during the summer. The development comprises approximately a total surface of 130,000 m<sup>2</sup>, 16,000 m<sup>2</sup> of built area including a main building of 6,000 m<sup>2</sup>. During the first six months of opening approximately 60,000 people visited the waterpark and projected figures for 2015 are 135,000 visitors.

Gino Paradise offers: 12 indoor and outdoor pools; restaurant and bars; a shoreline to the reservoir; outdoor waterslides; volleyball and football grounds; 45,000 m<sup>2</sup> of green area; the highest and fastest water toboggan in Eastern Europe including 6

slides. The entrance costs to the waterpark are: entry 3 hours 39 GEL (kids 27 GEL); the entire day 49 GEL (kids 35 GEL).

The development cost of the waterpark is reported to be of €19.3 million (approximately \$26.7 million). This equates to approximately \$1,669 / m<sup>2</sup>.

### Aqua Lazika, Anaklia



- LEGEND:
1. ENTRY GATES
  2. TICKETS/ADMIN
  3. CHANGEROOMS/LOCKERS
  4. SURF SHOP/FOOD AND BEVERAGE
  5. DOUBLE FLOWRIDER
  6. INTERACTIVE PLAY STRUCTURE AP350
  7. HOTEL ENTRY GATE
  8. FLOWRIDER STORAGE
  9. LAZY RIVER
  10. WAVE POOL(13 M)
  11. TUBE STORAGE
  12. ELEVATED DINING DECK
  13. SECONDARY FOOD AND BEVERAGE
  14. SHADED DINING TERRACE OVERLOOKING WATER
  15. VIP VILLAGE WITH SPAS
  16. BOOMERANG/CONSTRUCTOR COMPLEX
  17. AQUA LOOP/FREEFALL PLUS
  18. LAZY RIVER GROTTO WITH SOUND SYSTEM /SPAS UNDER SLIDES
  19. MASTER BLASTER
  20. SUPERBOWL INNER TUBE AND FAMILY RATTLER
  21. SERVICE YARD

DESIGNED BY:	DATE:	18/02/11
DRAWN BY:	DATE:	
SCALE:		
TITLE:	PRELIMINARY CONCEPT	
 <b>WHITE WATER</b> <small>Whitewater West Industries Ltd</small> <small>Whitewater West Industries Ltd</small> <small>10000 17th Street, Suite 100, Denver, CO 80202</small> <small>TEL: 303.440.1100 FAX: 303.440.1101</small>		
PROJECT:	AQUAPARK ANAKLIA GEORGIA	

Source: Third party images from other locations

It is reported that the Aqua Lazika waterpark is the biggest waterpark situated along the Black Sea Coast. It is an outdoor waterpark and with an estimated surface area of about 11,640 m<sup>2</sup>. It was designed by the Canadian company Whitewater West. The park has capacity for 800 visitors a day but their visitation numbers are not publicly available. It opened its doors in 2012 and it is reported that 150 people work there.

The waterpark facilities include: 8 extreme attractions, a lazy river, a merry slide, a wave pool and other elements. The entrance prices are of 40 GEL Adult, 20 GEL Child.

### Gagra (Abkhazia)



Source: Third party images from other locations

There is one waterpark situated in the Abkhazia region. It is an outdoor waterpark and limited information is available. It is not an area visited by Georgian nationals but popular with Russians. The surface area is estimated to be 3,700 m<sup>2</sup>.

### Dreamland Chavki



Source: Third party images from other locations

The Dreamland Chavki development is developing waterpark attraction. This is outdoor and at a small scale, likely to only be for resort guests. It will have approximately 4 slides ending in a small pool.

### Europark at Batumi, Tbilisi, Kutaisi and Telavi, Georgia



Source: Third party images from other locations

Europark operates 4 small sized waterparks in Georgia - in Tbilisi, Batumi, Kutaisi and Telavi. The park in Tbilisi is approximately 30,000 m<sup>2</sup> and 40 GEL at weekends

(30 GEL weekdays). In Batumi it is close to the promenade and approximately 12,000 m<sup>2</sup>, with an entry price of 25 GEL.

### SUPPLY IN THE WIDER REGION

Waterparks, both indoor and outdoor, are popular in the wider region, especially Eastern Europe. A selection of case studies of some of the larger parks from the region is presented below. These waterparks are not considered directly competitive to the one at Gonio Resort since geographically they are far apart and part of the wider tourism offer of each destination. The examples are provided as an indication of the current offer.

#### Treasure Island Ostrov Sokrovisch, Krylivka, Zaporizhska Oblast, Ukraine



Source: Third party images from other locations

This is an outdoor waterpark and the largest in Ukraine. It has a total area of 60,000 m<sup>2</sup> with around 34 different attractions. The waterpark can host up to 3,000 visitors at the same time.

#### “Cape of Good Hope” (Mys Dobroi Nadezhdy), Berdyansk, Ukraine



Source: Third party images from other locations

This outdoor waterpark covers an area of 50,000 m<sup>2</sup> with 31 slides. The park is themed with an ancient castle and it is structured so that visitors can move around the park without having to pass through the same attraction twice.

### Dream Island, Kyiv



Source: Third party images from other locations

Dream Island is an indoor waterpark in a built up area of Kyiv, forming part of an entertainment and trade centre. It is one of the largest indoor waterparks in Europe. The park is spread on a surface of 24,000 m<sup>2</sup> and has approximately 25 attractions. It is themed on a “pre-historic” topic hosting several wild plants, “animals” and lagoons.

### Limpopo, Ternopil, Ukraine



Source: Third party images from other locations

Limpopo is an indoor water park within an entertainment, hotel and recreation complex in the city of Ternopil. The park can accommodate around 400 visitors at the same time and it has a total area of 4,200 m<sup>2</sup>. It includes 10 attractions.

### Aquamarine Spa Hotel Resort Complex / Zurbagan Aquapark, Crimea



*Source: Third party images from other locations*

The outdoor Zurbagan waterpark is located in Svetastopol in the Park Pobedy district and opened in 2005. The surface area of the park is of 20,800 m<sup>2</sup> and it can host up to 2,000 guests at the same time. It mainly hosts adrenaline attractions such as the “Kamikaze” or the “Black Hole” and attracts a wide range of young teenagers, as well as kids and families. There are a total 7 swimming pools a varied F&B offer. The waterpark is part of a resort complex that includes its own beach, tennis, outdoor cinema and a hotel.

### Kva Kva Park, Mystishchi, Russia



*Source: Third party images from other locations*

Kva Kva Park is located approximately 15 km (1 hour drive time) northeast of the centre of Moscow. It is an indoor waterpark with an assortment of water slides and pools, as well as a spa, saunas, baths and a lagoon.

### Aqua Fantasy, Kusadasi, Turkey



Source: Third party images from other locations

Aqua Fantasy Aquapark & Hotel is an upscale outdoor waterpark complex located in Kusadasi, on the western coast of Turkey. It has over 22 pools & slides. The waterpark is part of a wider complex with two hotels with restaurants, bars, meetings space, fitness, spa, and beauty facilities. It can also hosts shows and concerts.

### AquaCity, Poprad, Slovakia



Source: Third party images from other locations

The AquaCity Resort is located in the mountains and built above a natural flow of geothermal waters. It features a waterpark, wellness spa and cryotherapy centre. There is also a 4-star hotel with restaurants and bars that is linked by indoor walkway to the park and the spa facilities. There are a further two 3-star hotels.

These examples show a wide mix of indoor and outdoor waterparks. This illustrates the popularity of the activity. There are limited examples of waterparks that provide both an indoor and outdoor experience of scale. Further few of the indoor waterparks can be considered inspiring at an international tourism level, nor offer an indoor and outdoor feel whilst indoors.

### 12.2.2 INSPIRATIONAL CASE STUDIES

The example case studies above provide an interesting insight of the current local and regional offer. Typically however the indoor waterparks appear are in functional building designs in urban areas, rather than resort style or iconic designs. The following case studies show the kind of design and feel that could be considered for Gonio Resort, where an indoor-outdoor feel would be particularly desirable.

#### CENTER PARCS - 'SUBTROPICAL SWIMMING PARADISE'

The Center Parcs resorts are renowned for their large domes with subtropical swimming paradises within. For many, these can be considered the 'best in class' of indoor water leisure experiences.

The most recent Center Parcs to open is at Woburn in the UK. Like many of the Center Parcs 'domes' it was designed by Holder Mathias Architects. The resort won the Best Hotel & Tourism Resort award at MIPIM 2015. The dome at the Woburn Center Parcs has a surface area of approximately 5,200m<sup>2</sup>.

#### Exhibit C37: Center Parcs Woburn, Bedfordshire, UK



Source: Third party images from other locations

Other examples of Center Parcs 'domes' are shown below. Waterpark slides form part of the facilities of the domes but a significant focus is given to pools with indoor-outdoor feel.

**Exhibit C38: Center Parcs Whinfell Forest, UK**



*Source: Third party images from other locations*

**Exhibit C39: Center Parcs Domaine des Hauts de Bruyeres, France**



*Source: Third party images from other locations*

**Exhibit C40: Center Parcs Sherwood Forest, UK**



*Source: Third party images from other locations*

The Center Parcs operating model is for guests only to the Center Parcs resort to be able to use the dome. This works very well for them given their wider resort business model and excellent catchment areas. It would not work well however we

believe in case of the Gonio Resort since the local population and tourists to Batumi are required to visit to achieve appropriate visitor numbers. This is also in the interests of broadening the Batumi tourist offer.

## OTHER EXAMPLES

### Massanutten Resort, Virginia, US



Source: Third party images from other locations

The Massanutten Mountain Resort is located in the US and is part of a complex where there is an indoor and outdoor waterpark. This includes 4,135 m<sup>2</sup> indoor space including 8 waterslides, an Adventure River, hot tubs and Flowrider surfing. The waterpark opened in 2005 and it is estimated to have cost \$23 million (~\$5,560 / m<sup>2</sup>). In 2008 the outdoor waterpark was added for \$3 million which included 8,175 m<sup>2</sup> (~\$370 / m<sup>2</sup>) with multi-lane mat racers, wave pool, water b-ball hoops. The admission fee to the resort is of \$38.

### Cariba Creek at Alton Towers, UK



*Source: Third party images from other locations*

Cariba Creek is an indoor and outdoor waterpark in the UK and is part of a larger amusement park. It comprises 4,000 m<sup>2</sup> indoor space and 1,000 m<sup>2</sup> outdoor. It can hold up to 1,200 people simultaneously and attracts approximately 600,000 visitors a year (of the ~2,500,000 attracted to the wider Alton Towers theme park).

### AquaWorld Budapest, Hungary



*Source: Third party images from other locations*

AquaWorld is one of the biggest indoor water theme parks in Eastern Europe. The waterpark is situated in a complex that occupies a total site of 8.6 hectares with a built surface area of 5.2 hectares. The complex includes a 309-room aparthotel, an indoor wellness centre and extensive conference and meetings facilities. Within the complex (including the private pools at the hotel and the separate wellness centre) there are a total of 21 pools, creating a total water surface area of more than 3,300m<sup>2</sup>. Regarding the dome, the total unsupported area under the dome is 4,200m<sup>2</sup>. The waterpark can hold up to 1,800 visitors at the same time.

## SUMMARY

There is lack of international standard and indoor waterpark provision at Batumi. In the wider region and especially Eastern Europe there are a number of examples of indoor waterparks, especially in or near cities, and outdoor waterparks. These are not considered directly competitive to one at Gonio Resort but do demonstrate the popularity of waterparks amongst the Eastern European market.

A waterpark fits well in a coastal tourism context, particularly where the beach offer is pebbled and steeply shelving. We consider there to be a significant opportunity at Batumi, as Georgia's biggest tourism city, for an international standard indoor waterpark with an outdoor component. This opportunity is reinforced by the challenge of rainy days experienced in Batumi. The Center Parcs style of waterpark building design is considered an inspiration for creating an indoor-outdoor feel to the covered component.

### 12.2.3 DESCRIPTION OF THE COMPONENT AT THE GONIO RESORT

#### OVERVIEW

The waterpark at the Gonio resort aims to be a game changer component. Unlike the majority of the waterparks in the wider region, the waterpark at the Gonio resort will be of the highest international standards and distinct for its iconic design and indoor-outdoor feel as well as facilities.

The indoor element of the waterpark will help to extend the tourist season and provide leisure opportunities for tourists and the local population even during the cooler months of the year. The outdoor element will enhance the offer during the warmer months. It will be relatively modest in size since it will be a complement to the indoor component.

The design of the waterpark building ('dome') is proposed to provide an indoor-outdoor feel and be inspired by examples such as Center Parcs, Massanutten resort in Virginia, US and Aquaworld Budapest.

The total surface area for the waterpark will be of approximately 13,988m<sup>2</sup>, including the dome, which will have a surface area of 4,072m<sup>2</sup>. This size has been based on consideration of the desired role of the waterpark tempered with appreciation of the market catchment, projected visitation and cost of construction to create a financially viable attraction.

The elements within the waterpark will be defined by a waterpark design specialist. An indication of the kind of facilities that can be provided and the ages they are popular with is shown below. Obviously a specialist can advise on the best mix for the Gonio Resort to balance a swimming paradise with slides and activities, to attract a range of ages, and to create a distinctive 'game changing' offer.

### Exhibit C41: Various waterpark components against broad market segments

	Children under 5 years old	Children 5-12 years old	Children 12-18 years old	18-24 years old	25-44 years old	45+ years old	Extreme sports enthusiasts	Competitive sports
Municipal swimming pool		✓	✓	✓	✓	✓		
Basic flumes		✓	✓					
Lazy river		✓	✓					
Toboggan ride			✓					
Wave pool			✓	✓				
Inflatables		✓	✓					
Baby pool	✓							
Matt slides		✓	✓	✓				
Tornado			✓	✓	✓		✓	
Master blaster			✓	✓	✓		✓	
Tipping bucket			✓	✓	✓		✓	
"Thrill" flumes			✓	✓	✓		✓	
Whirlpool			✓	✓	✓		✓	
Flow rider surf			✓	✓	✓		✓	✓
Whitewater			✓	✓	✓		✓	✓
Diving tank			✓	✓			✓	✓
Olympic swimming pool			✓	✓	✓			✓
High dive pool				✓	✓		✓	✓

*This matrix illustrates the range of different components available and the broad market segments that they target.*

*Source: Colliers International*

### MARKET PITCH AND TARGET MARKET

The waterpark component at the Gonio Resort will be a year round operation. It is aimed mainly to extend the season and also to encourage visitors to the resort all year round. The market pitch is at the mid and upper market, attracting tourists and locals who are prepared to spend a little more to a distinctive and exciting experience. It will particularly be targeted as the best place to go in Batumi on a rainy or cold day, as well as a fun destination year round. The waterpark is not intended to only be for kids and families. Sophisticated elements will be provided and late opening can be considered.

The main visitor experiences that are envisaged to be provided at Gonio Resort include the following:

- Fun experiences – whilst less thrilling than action rides, these appeal to small children and the 15 to 45 year old market;
- Action rides: these thrill rides providing excitement and a sense of “danger”. Typically usage will be dominated by kids, teenagers and young adults;
- Wellness experiences: these facilities appeal to those over 25 and especially those over 45 years old. The provision would complement that of the spa elsewhere within Gonio Resort;

- Regular Events: female only days, themed days appealing to the 15 to 45 year old market, kids parties, movies, late night opening etc.

The waterpark will also need to be refreshed to maintained interest with customers. This includes the introduction of new rides, especially the latest products. Clever marketing and creating a story around the introduction of a new ride can also have a great impact on visitor numbers and revenues.

The target market is expected to comprise the same visitors as those to the Gonio Resort overall, as well as a portion of the local population of Batumi and Adjara (396,000), and the local population in Turkey (nearly 1.5 million within a 3 hour drive time). The seven key demand segments are:

- Day visitors to Adjara and Georgia, a segment with great potential given the proximity to Turkey and the share of this source market in terms of day visits to Adjara;
- Adjara overnight visitors (excluding Batumi) - international and domestic;
- Batumi overnight visitors - international and domestic;
- Local population Adjara (excluding Batumi);
- Local population of Batumi;
- Gonio Resort overnight visitors staying in both hotel accommodation and vacation real estate; and
- Gonio Resort induced demand comprising people visiting the Gonio Resort to explicitly visit either the waterpark.

Around the world visitor numbers at waterparks can vary enormously as one would expect with any attraction and are determined by the scale of offer, level of investment, location and market demand. For example the Typhoon Lagoon park at Disneyworld Florida attracts over 2 million visitors a year; Wet 'n' Wild in Florida attracts ~1.26 million; and Alpamare Waterparks in Germany and Switzerland 400,000 – 500,000.

The waterpark at Gonio Resort is expected to attract 295,525 visitors four years after opening, and 349,501 visitors at then at the end of Phase 1 (2026). This number is expected to increase as tourism number to the region increase and the Gonio Resort offer and population grows.

#### 12.2.4 PROJECTIONS

Projections for the waterpark at Gonio Resort have been modelled. This has been based on the following assumptions, which have been informed by research and international experience.

- 4,075m<sup>2</sup> built dome surface area, over a site of 13,988m<sup>2</sup>;

- Construction of the dome to international standards and quality. The construction costs assumed are shown in Section 17;
- The waterpark will be built in 2017 and will take two years to complete; the waterpark will open in 2019; and
- The waterpark will be operated by a specialist third party.

The operational assumptions include:

- The indoor component (Dome) will have a maximum capacity of 1,800 visitors at the same time;
- There will be 3 F&B outlets, a retail/merchandising shop, miscellaneous entertainment activities and parking at the waterpark;
- Estimations of demand from the main seven segments identified above as markets visiting the waterpark. Visitation propensities by market have been assumed;
- Operational cost assumptions based on research, IAAPA Benchmark Studies and experience;
- An assumed year of operational efficiency achieved in year 4 of operations and we have termed this the stabilising year; although in fact visitation numbers to the Gonio Resort will continue to rise.

We have made the following price estimates at 2014 year end values (increasing by inflation thereafter).

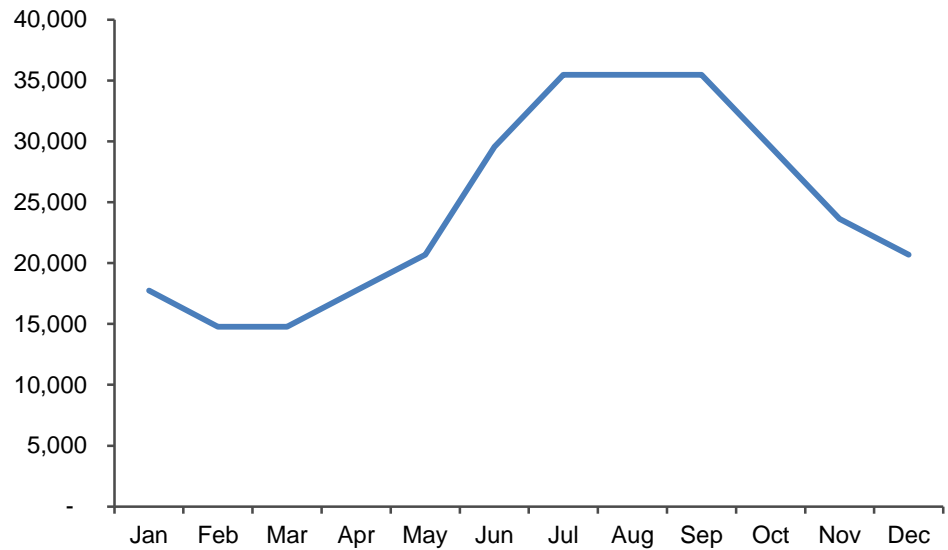
**Exhibit C42: Gonio Waterpark Pricing Assumption (\$)**

Pricing Categories	Ticket Price
Adults	17
Free of charge (kids U4, adults +70)	Free
Kids 4 to 12	13
Disabled + retired	12
Groups 20+	10
Special Groups	12
Packages	Special Price
Hotel Guests	10
Residents on-site	14
Passes	Annual Ticket Price
Annual for adults	51
Annual for kids 4 to 12	38
Disabled	37

Source: Colliers International

In year 4 of operations the following seasonality is estimated.

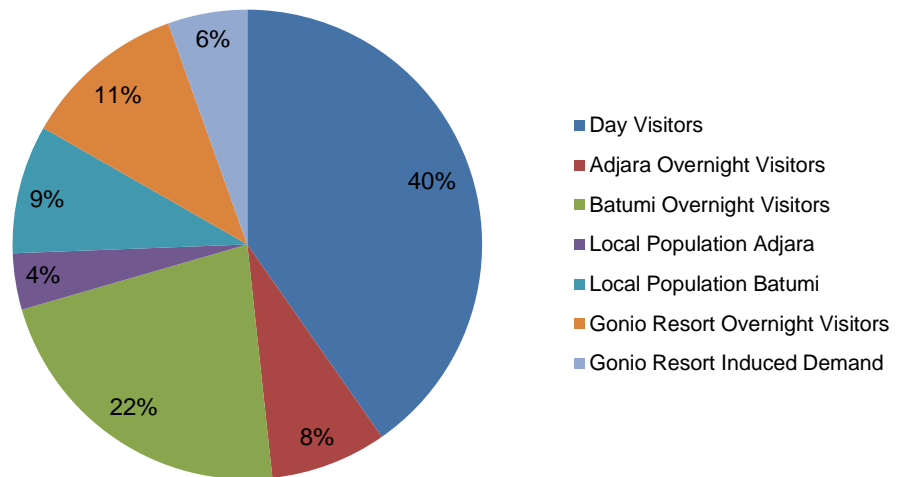
**Exhibit C43: Gonio Waterpark Seasonality, Year 4 Visitors per Month**



Source: Colliers International

In year 4 of operations the following segmentation is estimated.

**Exhibit C44: Gonio Waterpark Segmentation, Year 4 Visitation**



Source: Colliers International

Average spend for the fourth year of operations ('stabilising year') is estimated as follows. This is shown in \$ values in the stabilising year, values in \$ in 2014 year end and values in GEL in 2014 year end.

**Exhibit C45: Gonio Waterpark Average Spend in \$ and GEL**

Average spend overview	'Stabilising Year'	Today Values	Today in Georgian Lari
Admission fee	\$17	\$15	GEL 33
Food	\$4	\$3	GEL 7
Beverage	\$2	\$2	GEL 4
<b>Total F&amp;B</b>	<b>\$6</b>	<b>\$5</b>	<b>GEL 11</b>
Retail/Merchandise	\$1	\$1	GEL 3
Parking	\$1	\$1	GEL 2
Entertainment	\$1	\$1	GEL 2
<b>Total Other</b>	<b>\$4</b>	<b>\$3</b>	<b>GEL 7</b>
<b>Total</b>	<b>\$27</b>	<b>\$23</b>	<b>GEL 51</b>

*Numbers are rounded and thus can result in different 'sums'  
Source: Colliers International*

**12.2.5 FINANCIAL PROJECTIONS (ESTIMATED PROFIT & LOSS STATEMENT)**

Exhibit C46 below details the projected profit and loss for the waterpark from 2019 until 2028. The market size information used to inform these projections is the 'cautious scenario' presented at the end of Section 4.

**Exhibit C46: Gonio Waterpark Projected Profit & Loss Statement (\$)**

Year	2019		2020		2021		2022		2023		2024		2025		2026		2027		2028	
<b>Visitors</b>	<b>159,877</b>		<b>232,062</b>		<b>265,792</b>		<b>295,525</b>		<b>302,793</b>		<b>309,568</b>		<b>341,485</b>		<b>349,501</b>		<b>356,463</b>		<b>363,309</b>	
<b>Revenue</b>		<b>%</b>		<b>%</b>		<b>%</b>		<b>%</b>		<b>%</b>		<b>%</b>		<b>%</b>		<b>%</b>		<b>%</b>		<b>%</b>
Admissions	2,520,509	70.9	3,770,126	68.6	4,448,068	66.8	5,095,527	64.9	5,325,254	64.9	5,553,307	64.9	6,248,368	65.1	6,522,948	65.1	6,785,945	65.1	7,054,589	65.1
Food	386,817	10.9	677,217	12.3	876,566	13.2	1,084,136	13.8	1,133,013	13.8	1,181,534	13.8	1,329,417	13.9	1,387,837	13.9	1,443,793	13.9	1,500,950	13.9
Beverage	209,233	5.9	343,704	6.3	441,774	6.6	542,512	6.9	566,971	6.9	591,251	6.9	665,253	6.9	694,487	6.9	722,488	6.9	751,090	6.9
F&B	596,050	16.8	1,020,921	18.6	1,318,340	19.8	1,626,648	20.7	1,699,984	20.7	1,772,785	20.7	1,994,670	20.8	2,082,324	20.8	2,166,281	20.8	2,252,040	20.8
Retail/Merchandise	153,848	4.3	260,393	4.7	342,230	5.1	431,377	5.5	450,825	5.5	470,131	5.5	528,974	5.5	552,219	5.5	574,484	5.5	597,227	5.5
Parking	151,795	4.3	232,535	4.2	281,104	4.2	333,341	4.2	347,382	4.2	362,025	4.2	377,113	3.9	392,674	3.9	408,709	3.9	425,221	3.9
Total Other	437,512	12.3	703,846	12.8	897,119	13.5	1,127,074	14.4	1,176,899	14.3	1,227,067	14.3	1,350,425	14.1	1,408,757	14.1	1,465,759	14.1	1,524,118	14.1
<b>Total Revenues</b>	<b>3,554,071</b>	<b>100.0</b>	<b>5,494,893</b>	<b>100.0</b>	<b>6,663,527</b>	<b>100.0</b>	<b>7,849,249</b>	<b>100.0</b>	<b>8,202,138</b>	<b>100.0</b>	<b>8,553,160</b>	<b>100.0</b>	<b>9,593,464</b>	<b>100.0</b>	<b>10,014,030</b>	<b>100.0</b>	<b>10,417,985</b>	<b>100.0</b>	<b>10,830,747</b>	<b>100.0</b>
<b>Operating Costs</b>																				
Admissions	310,165	12.3	395,768	10.5	451,695	10.2	509,553	10.0	532,683	10.0	555,929	10.0	631,376	10.1	661,494.4961	10.1	690,554.9828	10.2	720,553	10.2
Food	236,513	61.1	301,810	44.6	361,003	41.2	433,654	40.0	453,339	40.0	473,123	40.0	537,332	40.4	562,964	40.6	587,696	40.7	613,226	40.9
Beverage	85,575	40.9	93,152	27.1	100,315	22.7	108,502	20.0	111,775	19.7	115,083	19.5	122,863	18.5	126,810	18.3	130,695	18.1	134,688	17.9
F&B	322,088	54.0	394,962	38.7	461,318	35.0	542,157	33.3	565,114	33.2	588,206	33.2	660,195	33.1	689,775	33.1	718,391	33.2	747,914	33.2
Retail/Merchandise	102,288	66.5	171,012	65.7	244,939	71.6	345,101	80.0	366,024	81.2	386,991	82.3	464,438	87.8	492,680	89.2	519,688	90.5	547,623	91.7
Parking	4,873	3.2	9,198	4.0	12,517	4.5	16,667	5.0	17,671	5.1	18,740	5.2	19,860	5.3	21,034	5.4	22,265	5.4	23,552	5.5
Total Other	185,604	42.4	275,400	39.1	370,698	41.3	506,711	45.0	535,217	45.5	563,865	46.0	663,893	49.2	701,877	49.8	738,382	50.4	776,136	50.9
<b>Total Costs</b>	<b>817,857</b>	<b>23.0</b>	<b>1,066,130</b>	<b>19.4</b>	<b>1,283,711</b>	<b>19.3</b>	<b>1,558,420</b>	<b>19.9</b>	<b>1,633,013</b>	<b>19.9</b>	<b>1,708,000</b>	<b>20.0</b>	<b>1,955,465</b>	<b>20.4</b>	<b>2,053,146</b>	<b>20.5</b>	<b>2,147,328</b>	<b>20.6</b>	<b>2,244,604</b>	<b>20.7</b>
<b>Total Departmental Profits</b>	<b>2,736,214</b>	<b>77.0</b>	<b>4,428,763</b>	<b>80.6</b>	<b>5,379,816</b>	<b>80.7</b>	<b>6,290,829</b>	<b>80.1</b>	<b>6,569,125</b>	<b>80.1</b>	<b>6,845,160</b>	<b>80.0</b>	<b>7,637,999</b>	<b>79.6</b>	<b>7,960,884</b>	<b>79.5</b>	<b>8,270,657</b>	<b>79.4</b>	<b>8,586,143</b>	<b>79.3</b>
<b>Payroll Expense</b>																				
Salaries	840,787	23.7	857,687	15.6	875,098	13.1	892,600	11.4	910,719	11.1	928,934	10.9	947,512	9.9	966,463	9.7	985,792	9.5	1,005,508	9.3
Tax and Benefits	210,197	5.9	214,422	3.9	218,774	3.3	223,150	2.8	227,680	2.8	232,233	2.7	236,878	2.5	241,616	2.4	246,448	2.4	251,377	2.3
<b>Total Payroll</b>	<b>1,050,983</b>	<b>29.6</b>	<b>1,072,108</b>	<b>19.5</b>	<b>1,093,872</b>	<b>16.4</b>	<b>1,115,749</b>	<b>14.2</b>	<b>1,138,399</b>	<b>13.9</b>	<b>1,161,167</b>	<b>13.6</b>	<b>1,184,390</b>	<b>12.3</b>	<b>1,208,078</b>	<b>12.1</b>	<b>1,232,240</b>	<b>11.8</b>	<b>1,256,885</b>	<b>11.6</b>
<b>Total Departmental Profit after Payroll</b>	<b>1,685,231</b>	<b>47.4</b>	<b>3,356,655</b>	<b>61.1</b>	<b>4,285,944</b>	<b>64.3</b>	<b>5,175,079</b>	<b>65.9</b>	<b>5,430,725</b>	<b>66.2</b>	<b>5,683,993</b>	<b>66.5</b>	<b>6,453,609</b>	<b>67.3</b>	<b>6,752,805</b>	<b>67.4</b>	<b>7,038,418</b>	<b>67.6</b>	<b>7,329,258</b>	<b>67.7</b>
<b>Undistributed Expenses</b>																				
Administrative & General	126,929	3.6	139,279	2.5	147,981	2.2	156,985	2.0	161,719	2.0	166,505	1.9	177,763	1.9	183,474	1.8	189,094	1.8	194,871	1.8
Marketing	371,049	10.4	446,994	8.1	497,351	7.5	549,447	7.0	571,598	7.0	593,893	6.9	661,263	6.9	689,576	6.9	717,024	6.9	745,328	6.9
Utilities	238,532	6.7	287,354	5.2	319,726	4.8	353,216	4.5	367,456	4.5	381,788	4.5	425,097	4.4	443,299	4.4	460,944	4.4	479,139	4.4
Repair & Maintenance	262,061	7.4	300,365	5.5	326,342	4.9	353,216	4.5	365,662	4.5	378,213	4.4	412,532	4.3	428,057	4.3	443,203	4.3	458,799	4.2
Security	36,961	1.0	37,711	0.7	38,465	0.6	39,246	0.5	40,031	0.5	40,832	0.5	41,648	0.4	42,481	0.4	43,331	0.4	44,198	0.4
Training	73,922	2.1	75,422	1.4	76,931	1.2	78,492	1.0	80,062	1.0	81,664	1.0	83,297	0.9	84,963	0.8	86,662	0.8	88,395	0.8
<b>Total Undistributed expenses</b>	<b>1,109,453</b>	<b>31.2</b>	<b>1,287,125</b>	<b>23.4</b>	<b>1,406,796</b>	<b>21.1</b>	<b>1,530,604</b>	<b>19.5</b>	<b>1,586,528</b>	<b>19.3</b>	<b>1,642,895</b>	<b>19.2</b>	<b>1,801,600</b>	<b>18.8</b>	<b>1,871,850</b>	<b>18.7</b>	<b>1,940,257</b>	<b>18.6</b>	<b>2,010,730</b>	<b>18.6</b>
<b>Total GOP before Management Fees</b>	<b>575,778</b>	<b>16.2</b>	<b>2,069,530</b>	<b>37.7</b>	<b>2,879,148</b>	<b>43.2</b>	<b>3,644,476</b>	<b>46.4</b>	<b>3,844,197</b>	<b>46.9</b>	<b>4,041,098</b>	<b>47.2</b>	<b>4,652,009</b>	<b>48.5</b>	<b>4,880,955</b>	<b>48.7</b>	<b>5,098,160</b>	<b>48.9</b>	<b>5,318,528</b>	<b>49.1</b>
Management Fee	71,081	2.0	109,898	2.0	133,271	2.0	156,985	2.0	164,043	2.0	171,063	2.0	191,869	2.0	200,281	2.0	208,360	2.0	216,615	2.0
<b>Total Gross Operating Profit</b>	<b>504,696</b>	<b>14.2</b>	<b>1,959,632</b>	<b>35.7</b>	<b>2,745,877</b>	<b>41.2</b>	<b>3,487,491</b>	<b>44.4</b>	<b>3,680,154</b>	<b>44.9</b>	<b>3,870,034</b>	<b>45.2</b>	<b>4,460,139</b>	<b>46.5</b>	<b>4,680,675</b>	<b>46.7</b>	<b>4,889,801</b>	<b>46.9</b>	<b>5,101,913</b>	<b>47.1</b>
<b>Fixed Costs</b>																				
Insurance	88,852	2.5	137,372	2.5	166,588	2.5	196,231	2.5	205,053	2.5	213,829	2.5	239,837	2.5	250,351	2.5	260,450	2.5	270,769	2.5
Cash Collection	17,770	0.5	27,474	0.5	33,318	0.5	39,246	0.5	41,011	0.5	42,766	0.5	47,967	0.5	50,070	0.5	52,090	0.5	54,154	0.5
Property Tax	53,311	1.5	82,423	1.5	99,953	1.5	117,739	1.5	123,032	1.5	128,297	1.5	143,902	1.5	150,210	1.5	156,270	1.5	162,461	1.5
Incentive Management Fee	25,235	0.7	97,982	1.8	137,294	2.1	174,375	2.2	184,008	2.2	193,502	2.3	223,007	2.3	234,034	2.3	244,490	2.3	255,096	2.4
Reserve	71,081	2.0	192,321	3.5	333,176	5.0	392,462	5.0	410,107	5.0	427,658	5.0	479,673	5.0	500,702	5.0	520,899	5.0	541,537	5.0
<b>Total Fixed Costs</b>	<b>256,249</b>	<b>7.2</b>	<b>537,573</b>	<b>9.8</b>	<b>770,329</b>	<b>11.6</b>	<b>920,053</b>	<b>11.7</b>	<b>963,211</b>	<b>11.7</b>	<b>1,006,052</b>	<b>11.8</b>	<b>1,134,386</b>	<b>11.8</b>	<b>1,185,367</b>	<b>11.8</b>	<b>1,234,199</b>	<b>11.8</b>	<b>1,284,017</b>	<b>11.9</b>
<b>EBITDA</b>	<b>319,528</b>	<b>9.0</b>	<b>1,531,957</b>	<b>27.9</b>	<b>2,108,819</b>	<b>31.6</b>	<b>2,724,422</b>	<b>34.7</b>	<b>2,880,986</b>	<b>35.1</b>	<b>3,035,046</b>	<b>35.5</b>	<b>3,517,623</b>	<b>36.7</b>	<b>3,695,589</b>	<b>36.9</b>	<b>3,863,962</b>	<b>37.1</b>	<b>4,034,511</b>	<b>37.3</b>

Source: Colliers International



## 12.3 THE LAGOON

### 12.3.1 CONCEPT

The concept for the lagoon at Gonio Resort is to have a very large waterbody at swimming pool level quality and with white sand beaches extending into it.

A provider of such facilities is a company called Crystal Lagoons, who have the patent for the technology to provide this environment. The typical size lagoons they operate is generally between 3 to 12 hectares. The lagoons have clear and clean water and this is provided at very low development and operating costs. The company claims that it can be up to ten times cheaper than developing a golf course of a similar size.

The company flags that Crystal Lagoons add value to real estate development through creating a driver of interest, increased sales velocity and higher sales prices in comparison to traditional real estate.

When compared to the Gonio pebbled beach, a crystal lagoon would bring idyllic beach life to the Gonio Resort through unimagined white sandy beaches and clear water, ideal for water sports and recreation. Further, the lagoon would create an additional 'front row' of waterside properties, adding value to the residential.

Crystal Lagoons comment that they can operate even in rain-intensive locations, and indeed this can compensate for water evaporation. They work with developers mainly through licensing agreements for providing their technology and ongoing operations assistance. They also provide a range of specification, design, engineering, operations and training services. All Crystal Lagoons around the world are monitored and operated remotely from a centralised Crystal Lagoons Control Center (CLCC).

### 12.3.2 CURRENT AND PROPOSED LOCATIONS OF CRYSTAL LAGOONS

The concept of Crystal Lagoons has proven to be very successful with over 60 projects already built around the world. Exhibit C47 shows the existing supply of Crystal Lagoons by country. It is evident that there is a significant lack of supply in Europe, Russia and CIS countries.

**Exhibit C47: Crystal Lagoon project locations**



*Source: Crystal Lagoons, BatchGeo, Google Maps*

Unsurprisingly a number of developers are interested in bringing a Crystal Lagoon into their project and so the company has received a number of enquiries. Globally the company comment that they have leads for over 150 projects, with some in development. Many of these potential projects may not come to anything but we are aware of the following in the wider region around Georgia that are listed by Crystal Lagoons as possible pipeline projects. There are shown on a map below.

- Bucharest, Romania
- Branesti, Romania
- Baku, Azerbaijan
- Aquapark, Ukraine
- Istanbul, Turkey
- Olivion Golf, Turkey
- Izmir, Turkey

**Exhibit C48: Crystal Lagoon potential pipeline projects**



Source: Google Maps

In addition, there is mention of Sokku Lagoon and Health Resort Complex Development in Russia but we are not aware of the locations of these.

We have requested further detail about the likelihood and timescales of these projects but Crystal Lagoons as a company will not disclose this for confidentiality reasons. Given current circumstances in Ukraine and Russia however we suspect that these projects will not progress quickly if they do at all; and for the other projects there is limited other internet sources associating them with Crystal Lagoons, which suggests they are only at the earliest stages of development if they progress at all.

Overall the maps show that there is not an existing Crystal Lagoon project in Europe, Russia or CIS at present. Further there are not any proposed projects close to Batumi.

Further, if new projects were to develop, it has been flagged to us that in Chile, where crystal lagoons have been operating for some years, there are at least 3 lagoon projects in a similar area to each other and each is very successful, suggesting that one does not have to be the only one in a wide region.

**12.3.3 CASE STUDIES**

A selection of Crystal Lagoon projects is provided below to provide insight on the proposition. The surrounding real estate development has been designed in quite contrasting ways, showing the wide scope of the opportunity.

### San Alfonso Del Mar, Chile



Source: *Crystal Lagoons*

The San Alfonso del Mar lagoon is 8 hectares and the wider development spreads over 30 hectares. The project initially was planned for a total of 400 units but after proving success the total number of units sold and developed was of 1,400. The lagoon was developed partly to assist the sales of apartments and partly due to the sea coast in the location not being ideal for swimming, relaxing and leisure.

### Citystars Sharm El Sheikh, Egypt



Source: *Crystal Lagoons*

Citystars at Sharm El Sheikh in Egypt is one of the biggest artificial lagoons in the world to date with a total lagoon area 12 hectares. The wider development is spread over 750 hectares, including 30,000 residential units. The development is situated inland, near the well-known resort of Sharm El Sheikh. The land had little or no commercial value before the development started.

### Playa Blanca, Panama



Source: *Crystal Lagoons*

Playa Blanca is inland from the sea coast and spreads over a total development site of 210 hectares with a lagoon of 7 hectares. A total of 2,060 residential units were developed with an estimated US\$800 million investment.

### Las Brisas De Santo Domingo, Chile



Source: *Crystal Lagoons*

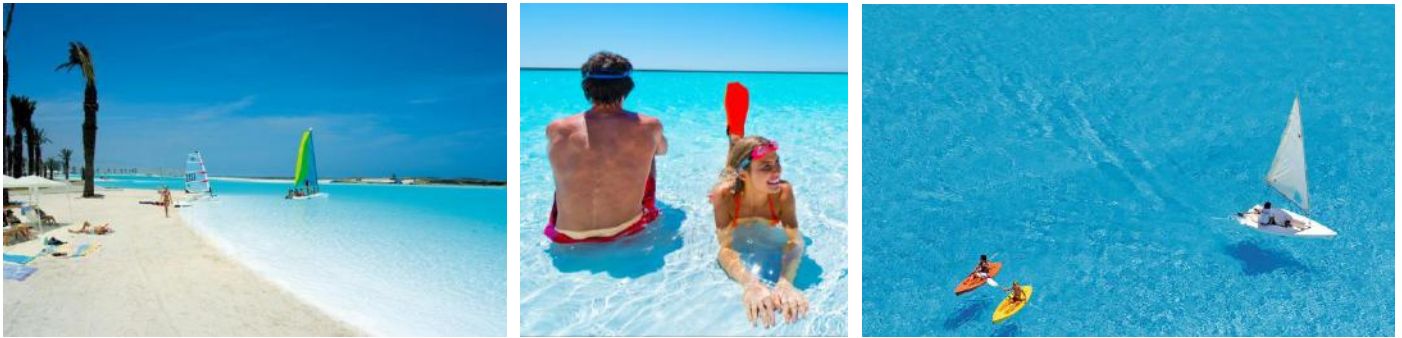
Las Brisas de Santo Domingo (Las Brisas) was originally developed as a 27-hole golf course real estate development. It did not become successful however until a crystal lagoon was built, when sales increased from 2 single family lots per year to 45. There are a total of 700 residential units spread over 300 hectares with an investment of approximately US\$420 million. The lagoon is of 2.2 hectares.

### SUMMARY

The Crystal Lagoon offer has proven itself as a valuable asset to sites where the beach is either not close or sandy or suitable for swimming. Also there is a proven history of the lagoons assisting real estate sales.

The overall experience of lagoons and example activities are also shown below.

**Exhibit C49: Crystal Lagoon images**



Source: Crystal Lagoons and third parties

**12.3.4 PROJECTIONS - COSTS**

**DEVELOPMENT COSTS/CAPEX**

The development costs for an artificial lagoon in the Gonio Resort were estimated upon the cost estimates by the Crystal Lagoons company.

According to Crystal Lagoons, the development cost for a 7 hectare lagoon is of US\$2.8 million including civil works, mechanical/electrical system, membrane system, control system, cleaning operation and miscellaneous costs. This is approximately US\$400,000 per hectare or US\$40 / m<sup>2</sup>. This average price can vary according to design, location condition of the site, etc. The proposed lagoon at the Gonio Resort will be of 5.58 hectares and it is therefore expected to cost around US\$2.2 million to develop.

**LICENSING FEES**

If the lagoon was to be constructed with Crystal Lagoons technology there would be licensing fees applicable. These would be:

- US\$300,000 as a non-refundable initial payment.
- 2% fee on gross proceeds received for the sale of residential units within the lagoon project boundary.
- 4% fee on gross proceeds received for the sale of land plots within the lagoon project.

For the purpose of our analysis we have assumed that such fees would be incurred at the Gonio Resort and have defined the lagoon project boundary to include the units that have a plot boundary with the lagoon.

**OPERATING / MAINTENANCE COSTS**

Crystal Lagoons offer a water monitoring (maintenance) service and they provide operating expenses estimates. These show estimates the costs of additives for the

water, electric costs for the use of the machinery/technology and staffing (estimated 8 staff) at a total of US\$25,000 per month or US\$560,000 per year. An annual escalation factor is applied at 3%.

## TOTAL COSTS

The main assumptions for the development of the lagoon are:

- The lagoon will be developed in Phase 1 with construction starting in 2019;
- Pre-sales for the units located within the lagoon will start in 2020 with the lagoon and units opening for occupancy in 2021;
- The development will affect 542 of all residential units developed in phase 1, meaning that 23% of the total residential units sold in phase 1 will have to pay 2% of the gross sales licensing fees;
- The same amount of units will also be able to benefit of an additional sales premium of 10%;
- There is 1 Aparthotel land plot that will be put up for sale resulting in a 4% of the sales proceeds to be paid as part of the licensing agreement;
- Costs are inflated.

The total projected costs for the lagoon can be found below.

### Exhibit C50: Projected costs for the lagoon operated by Crystal Lagoons, 2014 year end values (\$)

Lagoon Costs (\$)*	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
<b>Development Costs</b>											
<b>Total Development Costs</b>	<b>978,510</b>	<b>998,373</b>	<b>509,170</b>	-	-	-	-	-	-	-	<b>2,486,053</b>
<b>Licensing Fees</b>											
Initial Payment	329,927	-	-	-	-	-	-	-	-	-	329,927
Residential Sales	-	194,104	165,131	129,602	124,833	116,032	98,468	70,097	42,899	-	941,165
Land Sales	-	-	-	186,841	-	-	-	-	-	-	186,841
<b>Total Licensing Fees</b>	<b>329,927</b>	<b>194,104</b>	<b>165,131</b>	<b>316,443</b>	<b>124,833</b>	<b>116,032</b>	<b>98,468</b>	<b>70,097</b>	<b>42,899</b>	-	<b>1,457,933</b>
<b>Operating Costs</b>											
Daily operations	-	-	642,242	655,280	668,386	681,753	695,388	709,296	723,482	737,952	5,513,779
Water Monitoring	-	-	68,671	70,732	72,853	75,039	77,290	79,609	81,997	84,457	610,649
<b>Total Operating Costs</b>	-	-	<b>710,914</b>	<b>726,012</b>	<b>741,239</b>	<b>756,792</b>	<b>772,679</b>	<b>788,905</b>	<b>805,479</b>	<b>822,409</b>	<b>6,124,429</b>

\* Includes inflation

Source: Colliers International

### 12.3.5 PROJECTIONS: INCOME FROM THE LAGOON

Much of the benefit of the lagoon to Gonio Resort is intangible to measure since it forms part of the wider appeal of the destination and distinctiveness of Gonio Resort. Some specific income can be accounted for however in terms of additional sales prices achieved and income from visitors to the lagoon.

## REAL ESTATE ADDITIONAL INCOME

It is anticipated that sales prices for the 542 affected residential units in phase 1 will experience an uplift of +10% in relation to the average sales price at the Gonio Resort. The additional income of this by type of property can be seen in the table below.

### Exhibit C51: Projected additional income from lagoon real estate sales

Additional Sales Income	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Apartments	-	989,707	659,804	659,804	659,804	658,980	329,490	329,490	-	-	4,287,079
Townhouses	-	10,379	6,920	6,920	6,920	6,920	3,460	3,460	-	-	44,978
Linked Villas	-	-	-	-	-	-	-	-	-	-	-
Villas	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>1,000,086</b>	<b>666,724</b>	<b>666,724</b>	<b>666,724</b>	<b>665,899</b>	<b>332,950</b>	<b>332,950</b>	-	-	<b>4,332,057</b>
<b>Total Including Inflation</b>	-	<b>1,122,178</b>	<b>763,081</b>	<b>778,572</b>	<b>794,143</b>	<b>809,024</b>	<b>412,602</b>	<b>420,854</b>	-	-	<b>5,100,456</b>

Source: Colliers International

## “LIFESTYLE BEACH” AT THE LAGOON

It is proposed that, in the main, the lagoon beaches and water will have limited access to certain resort residents and aparthotel visitors and not be open to the general public. There will be demand by others to visit the lagoon however and it is important that this managed in way that provides income and does not allow ‘freeloaders’ to use the beaches etc.

It is therefore proposed that a “beach club” experience is offered to external guests, for which they have to pay. These would offer F&B offers and some water sport activities as well as beach access. It could be located adjacent to the aparthotel or with a bespoke kiosk base.

Projections have been based on an assumed spend by visitors to the lagoon beach club of over US\$15 per visit (US\$10 net after the deduction of miscellaneous costs such beverages etc.).

The costs of operating the lagoon overall have been modelled against this income to present a top-level P&L, shown below.

### Exhibit C52: Projected lagoon beach club income and lagoon operational expenses

Income in \$	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Visitation (people)	-	-	54,299	65,935	73,692	77,570	77,570	77,570	77,570	77,570	581,775
Revenues	-	-	932,197	1,154,932	1,316,623	1,413,637	1,441,910	1,470,748	1,500,163	1,530,166	10,760,377
Expenses	-	-	310,732	384,977	438,874	471,212	480,637	490,249	500,054	510,055	3,586,792
<b>Beach Club Income</b>	-	-	<b>621,465</b>	<b>769,955</b>	<b>877,749</b>	<b>942,425</b>	<b>961,273</b>	<b>980,499</b>	<b>1,000,109</b>	<b>1,020,111</b>	<b>7,173,585</b>
Lagoon OpEx	-	-	710,914	726,012	741,239	756,792	772,679	788,905	805,479	822,409	6,124,429
<b>NOI</b>	-	-	<b>(89,449)</b>	<b>43,943</b>	<b>136,510</b>	<b>185,632</b>	<b>188,595</b>	<b>191,594</b>	<b>194,629</b>	<b>197,702</b>	<b>1,049,156</b>

Source: Colliers International

## 12.4 LEISURE ACTIVITIES & ACTIVITY HUB

### 12.4.1 OVERVIEW

Leisure activities are of high importance for the appeal of Gonio Resort. A critical mass of activities drives interest to visit the whole resort and daily footfall within the resort.

The leisure activities are spread throughout the Gonio Resort. They are particularly focused in the 'Activity Hub' area adjacent to the waterpark 'dome', in the Entertainment Quarter, and in the sports area at the eastern tip of the site. Additionally tennis courts etc are provided within communal areas amongst residential communities.

For the purpose of projections at this stage all the main leisure activities with an income stream, other than the waterpark and lagoon, have been modelled together.

### 12.4.2 CONCEPT

The many leisure activities proposed to be provided have been indicated in Section 8 as part of explaining the overall concept of the resort.

The elements incorporated into the projections for this component include the following:

- Activity Indoor Hub Building
  - Entertainment activities
    - Crafts & classes
    - Children's activities
    - Teenage Activities
  - Activity hub indoor sports
    - Badminton
    - Climbing wall
    - Table Tennis
    - Roller Skating
    - Other Indoor Court sports
- Spa; and gym & fitness
- Nightclub, karaoke , bar
- Performance space outdoor
- Cinema
- Bowling alley
- Karting

- Mini golf
- Outdoor football and basketball pitches
- Leisure arcade
- Lake activities base

### 12.4.3 TARGET MARKET

The leisure component at the Gonio Resort is aimed mainly provide a range of high quality entertainment and amusement activities to the visitors of the resort and Batumi as well as the local population of Batumi and the city of Hopa in Turkey.

The wide ranging activities, and especially the indoor facilities, will help to extend the season at the resort and in Batumi, and provide excellent resource for the local population.

Visitors to the various leisure and entertainment activities will be of the same target markets as for the waterpark and thus the key segments are as follows.

- Day visitors to Adjara and Georgia, a segment with great potential given the proximity to Turkey and the share of this source market in terms of day visits to Adjara;
- Adjara overnight visitors (excluding Batumi) - international and domestic;
- Batumi overnight visitors - international and domestic;
- Local population Adjara (excluding Batumi);
- Local population of Batumi;
- Gonio Resort overnight visitors staying in both hotel accommodation and vacation real estate; and
- Gonio Resort induced demand comprising people visiting the Gonio Resort to explicitly visit either the waterpark.

The range of facilities means that there is provision for families, kids and young teenagers; as well as older teenagers, young adults and couples and older adults.

The majority of the activities are envisaged as remaining open all year round, although some will need to close when the weather makes them less appealing, for example the lake activities.

It is important that new activities are added regularly (especially within the indoor activity hub) to maintain visitors interest and encourage repeat visitation. Further excellent marketing and packaging of experiences will be very important to the success of achieving visitors and spend at the leisure activities.

#### 12.4.4 PROJECTIONS

The projections for this component have been informed by several assumptions. The proposed quantum and these projections have been based on research and international experience.

The leisure activities are assumed to start operations in 2019 and will be built progressively throughout the development of the resort as the demand for leisure activities rise.

The construction costs assumptions are included in Section 17.

We physical provision of key elements is modelled as follows:

- Activity hub building: 2,549 m<sup>2</sup> built indoor surface area in phase 1 and 1,498 m<sup>2</sup> built indoor surface area in phase 2;
- Indoor bowling alley of 501 m<sup>2</sup> in phase 1;
- Outdoor mini golf and lake activities base with a hut to store the necessary equipment of a total 175 m<sup>2</sup> built space in phase 1;
- Spa of 1,060 m<sup>2</sup> in phase 1;
- Gym & fitness of 611 m<sup>2</sup> in phase 1;
- Nightclub, karaoke and bar of 1,000 m<sup>2</sup> in phase 1;
- Leisure arcade of 1,006 m<sup>2</sup> in phase 2;
- Cinema of 2,024 m<sup>2</sup> in phase 3;

The following operational assumptions have been made:

- Each of the activities or clustered activities as appropriate will be operated by a specialist third party;
- The indoor activity hub will charge a lead admission fee of \$15 which will give access to many of the activities within the hub. However special activities such as badminton or classes/courses will have a small additional charge. This hub will also comprise some F&B outlets and small retail units (primarily for merchandising products);
- All of the other activities around the activity hub and the resort will not charge an admission fee but will charge per use;
- The main seven segments visiting the leisure activities will be those identified above and visitation propensities by market have been assumed;
- Operational costs assumptions have been based on research, IAAPA Benchmark Studies and experience;
- There is no stabilising year of operations since visitation numbers to the Gonio Resort will continue to rise.

The following price estimates have been made at 2014 year end values (increasing by inflation thereafter).

**Exhibit C53: Gonio Indoor Activity Hub Pricing Assumption (\$)**

Pricing categories	Ticket price
Adults	15
Free of charge (kids U4, adults +70)	Free
Kids 4 to 12	14
Disabled + retired	11
Groups 20+	11
Special Groups	11
Packages	Special Price
Hotel	8
Residents on-site	9
Kids group from 15	0
Sponsors	0
Passes	Annual Ticket Price
Annual for adults	45
Annual for kids 4 to 12	34
Disabled	32

Source: Colliers International

The average spend for the activity hub and for other key leisure activities are shown in the exhibits below. These are shown for year 4 (2022) \$ values, 2014 year end \$ values and 2014 year end GEL values.

**Exhibit C54: Gonio Activity Hub Average Spend in \$ and GEL**

Average Spend Overview	2022	2015	2015 GEL
Activity Hub Admission Fee	\$15.5	\$13.3	GEL 23.45
Activity Hub Entertainment	\$1.7	\$1.4	GEL 2.51
Activity Hub Indoor Sports	\$2.4	\$2.1	GEL 3.64
Total Activity Hub without Admission Fee	\$4.1	\$3.5	GEL 6.15
<b>Total</b>	<b>\$19.6</b>	<b>\$16.8</b>	<b>GEL 29.60</b>

Source: Colliers International

**Exhibit C55: Gonio Leisure Activities Average Spend in \$ and GEL, Base Year Values, End 2014**

Average Spend Overview	US\$ Future Values	US\$ Base Year Values	GEL Base Year Values
<b>Phase 1</b>	<b>2022</b>	<b>2014</b>	<b>2014</b>
Spa, gym & fitness	\$29.2	\$25.0	GEL 44.10
Nightclub, karaoke , bar	\$17.5	\$15.0	GEL 26.46
Bowling	\$17.5	\$15.0	GEL 26.46
Mini Golf	\$5.8	\$5.0	GEL 8.82
Lake activites base	\$17.5	\$15.0	GEL 26.46
<b>Phase 2</b>	<b>2030</b>	<b>2014</b>	<b>2014</b>
Leisure arcade	\$13.7	\$10.0	GEL 17.64
Outdoor Pitches (other)	\$9.6	\$7.0	GEL 12.35
Karting etc	\$13.7	\$10.0	GEL 17.64
<b>Phase 3</b>	<b>2036</b>	<b>2014</b>	<b>2014</b>
Cinema	\$10.8	\$7.0	GEL 12.35

Source: Colliers International

**12.4.5 FINANCIAL PROJECTIONS (ESTIMATED PROFIT & LOSS STATEMENT)**

Exhibit C56 below presents the profit and loss forecast for the leisure activities from 2019 until 2028, and Exhibit C57 displays the profit and loss forecast from 2029 until 2036.



**Exhibit C56: Gonio Leisure Activities Projected Profit & Loss Statement (\$), 2019 – 2028**

Year	2019		2020		2021		2022		2023		2024		2025		2026		2027		2028											
	Revenue	in \$	%	in \$	%	in \$	%	in \$	%	in \$	%	in \$	%	in \$	%	in \$	%	in \$	%	in \$	%									
Admissions	876,291		48.2	1,531,283		46.9	2,011,852		44.6	2,550,313		44.6	2,660,374		44.6	3,078,755		44.6	3,217,785		39.1	3,481,541		38.5	3,619,799		38.2			
Activity Hub Entertainment	89,325		4.9	156,683		4.8	211,845		4.7	272,381		4.8	284,135		4.8	328,820		4.8	343,668		4.8	357,600		4.2	371,839		4.1	386,605		4.1
Activity Hub Indoor Sports	128,670		7.1	233,600		7.1	311,883		6.9	396,103		6.9	413,196		6.9	478,178		6.9	499,771		6.9	520,031		6.1	540,737		6.0	562,210		5.9
<b>Total Activity Hub</b>	<b>1,094,286</b>		<b>60.2</b>	<b>1,921,566</b>		<b>58.8</b>	<b>2,535,581</b>		<b>56.2</b>	<b>3,218,797</b>		<b>56.3</b>	<b>3,357,705</b>		<b>56.3</b>	<b>3,885,753</b>		<b>56.3</b>	<b>4,061,224</b>		<b>56.3</b>	<b>4,225,851</b>		<b>49.3</b>	<b>4,394,116</b>		<b>48.6</b>	<b>4,568,614</b>		<b>48.2</b>
Spa, gym & fitness	106,339		5.9	249,269		7.6	378,295		8.4	479,543		8.4	500,238		8.4	578,908		8.4	605,050		8.4	629,577		7.3	654,645		7.2	680,642		7.2
Nightclub, karaoke , bar	255,213		14.0	427,318		13.1	655,711		14.5	863,178		15.1	900,428		15.1	1,042,035		15.1	1,089,089		15.1	1,133,239		13.2	1,178,361		13.0	1,225,155		12.9
Bowling	95,705		5.3	170,927		5.2	252,197		5.6	287,726		5.0	300,143		5.0	347,345		5.0	363,030		5.0	377,746		4.4	392,787		4.3	408,385		4.3
Karting etc	-		-	-		-	-		-	-		-		-		-		-		-		629,577		7.3	733,203		8.1	816,770		8.6
Mini Golf	106,339		5.9	178,049		5.4	235,384		5.2	287,726		5.0	300,143		5.0	347,345		5.0	363,030		5.0	377,746		4.4	392,787		4.3	408,385		4.3
Outdoor Pitches (other)	-		-	-		-	-		-	-		-		-		-		-		-		63,461		0.7	65,988		0.7	68,609		0.7
Leisure arcade	-		-	-		-	-		-	-		-		-		-		-		-		377,746		4.4	445,159		4.9	490,062		5.2
Lake activities base	159,508		8.8	320,488		9.8	453,954		10.1	575,452		10.1	600,285		10.1	694,690		10.1	726,059		10.1	755,493		8.8	785,574		8.7	816,770		8.6
<b>Total Other</b>	<b>723,104</b>		<b>39.8</b>	<b>1,346,051</b>		<b>41.2</b>	<b>1,975,541</b>		<b>43.8</b>	<b>2,493,626</b>		<b>43.7</b>	<b>2,601,236</b>		<b>43.7</b>	<b>3,010,323</b>		<b>43.7</b>	<b>3,146,258</b>		<b>43.7</b>	<b>4,344,587</b>		<b>50.7</b>	<b>4,648,505</b>		<b>51.4</b>	<b>4,914,778</b>		<b>51.8</b>
<b>Total Revenues</b>	<b>1,817,390</b>		<b>100.0</b>	<b>3,267,617</b>		<b>100.0</b>	<b>4,511,122</b>		<b>100.0</b>	<b>5,712,423</b>		<b>100.0</b>	<b>6,896,076</b>		<b>100.0</b>	<b>7,207,481</b>		<b>100.0</b>	<b>8,570,438</b>		<b>100.0</b>	<b>9,042,621</b>		<b>100.0</b>	<b>9,483,391</b>		<b>100.0</b>			
<b>Operating Costs</b>																														
Admissions	161,703		18.5	195,705		12.8	224,935		11.2	255,031		10.0	266,104		10.0	311,286		10.1	326,609		10.2	341,077.9743		10.2	356,025.5327		10.2	371,713		10.3
Activity Hub Entertainment	19,697		22.1	28,501		18.2	39,290		18.5	54,476		20.0	57,352		20.2	70,419		21.4	74,548		21.7	78,412		21.9	82,410		22.2	86,620		22.4
Activity Hub Indoor Sports	14,515		11.3	22,070		9.4	29,609		9.5	39,610		10.0	41,701		10.1	51,202		10.7	54,205		10.8	57,014		11.0	59,922		11.1	62,983		11.2
<b>Total Activity Hub</b>	<b>195,915</b>		<b>17.9</b>	<b>246,276</b>		<b>12.8</b>	<b>293,834</b>		<b>11.6</b>	<b>349,118</b>		<b>10.8</b>	<b>365,157</b>		<b>10.9</b>	<b>432,907</b>		<b>11.1</b>	<b>455,361</b>		<b>11.2</b>	<b>476,504</b>		<b>11.3</b>	<b>498,357</b>		<b>11.3</b>	<b>521,316</b>		<b>11.4</b>
Spa, gym & fitness	33,106		31.1	60,010		24.1	101,276		26.8	143,863		30.0	152,130		30.4	191,149		33.0	203,183		33.6	214,410		34.1	226,032		34.5	238,285		35.0
Nightclub, karaoke , bar	67,320		26.4	86,679		20.3	125,289		19.1	172,636		20.0	181,344		20.1	220,047		21.1	232,454		21.3	244,087		21.5	256,120		21.7	268,781		21.9
Bowling	45,716		47.8	57,322		33.5	76,132		30.2	86,318		30.0	90,065		30.0	105,358		30.3	110,544		30.5	115,441		30.6	120,500		30.7	125,810		30.8
Karting etc	-		-	-		-	-		-	-		-		-		-		-		-		146,386		23.3	187,969		25.6	224,360		27.5
Mini Golf	8,758		8.2	14,703		8.3	21,358		9.1	28,773		10.0	30,426		10.1	38,230		11.0	40,637		11.2	42,882		11.4	45,206		11.5	47,657		11.7
Outdoor Pitches (other)	-		-	-		-	-		-	-		-		-		-		-		-		6,323		10.0	6,599		10.0	6,888		10.0
Leisure arcade	-		-	-		-	-		-	-		-		-		-		-		-		65,481		17.3	80,212		18.0	90,812		18.5
Lake activities base	28,934		18.1	66,742		20.8	115,572		25.5	172,636		30.0	183,365		30.5	235,600		33.9	251,397		34.6	266,095		35.2	281,318		35.8	297,383		36.4
<b>Total Other</b>	<b>183,835</b>		<b>25.4</b>	<b>285,456</b>		<b>21.2</b>	<b>439,626</b>		<b>22.3</b>	<b>604,225</b>		<b>24.2</b>	<b>637,331</b>		<b>24.5</b>	<b>790,383</b>		<b>26.3</b>	<b>838,214</b>		<b>26.6</b>	<b>1,101,105</b>		<b>25.3</b>	<b>1,203,956</b>		<b>25.9</b>	<b>1,299,977</b>		<b>26.5</b>
<b>Total Costs</b>	<b>379,749</b>		<b>20.9</b>	<b>531,732</b>		<b>16.3</b>	<b>733,461</b>		<b>16.3</b>	<b>953,342</b>		<b>16.7</b>	<b>1,002,487</b>		<b>16.8</b>	<b>1,223,290</b>		<b>17.7</b>	<b>1,293,575</b>		<b>17.9</b>	<b>1,577,609</b>		<b>18.4</b>	<b>1,702,313</b>		<b>18.8</b>	<b>1,821,293</b>		<b>19.2</b>
<b>Total Departmental Profits</b>	<b>1,437,641</b>		<b>79.1</b>	<b>2,735,885</b>		<b>83.7</b>	<b>3,777,661</b>		<b>83.7</b>	<b>4,759,080</b>		<b>83.3</b>	<b>4,956,454</b>		<b>83.2</b>	<b>5,672,786</b>		<b>82.3</b>	<b>5,913,906</b>		<b>82.1</b>	<b>6,992,829</b>		<b>81.6</b>	<b>7,340,308</b>		<b>81.2</b>	<b>7,662,098</b>		<b>80.8</b>
<b>Payroll Expense</b>																														
Salaries	466,517		25.7	475,987		14.6	485,507		10.8	495,363		8.7	505,270		8.5	515,375		7.5	525,683		7.3	536,196		6.3	546,920		6.0	557,859		5.9
Tax and Benefits	116,629		6.4	118,997		3.6	121,377		2.7	123,841		2.2	126,317		2.1	128,844		1.9	131,421		1.8	134,049		1.6	136,730		1.5	139,465		1.5
<b>Total Payroll</b>	<b>583,146</b>		<b>32.1</b>	<b>594,984</b>		<b>18.2</b>	<b>606,884</b>		<b>13.5</b>	<b>619,203</b>		<b>10.8</b>	<b>631,587</b>		<b>10.6</b>	<b>644,219</b>		<b>9.3</b>	<b>657,103</b>		<b>9.1</b>	<b>670,246</b>		<b>7.8</b>	<b>683,650</b>		<b>7.6</b>	<b>697,323</b>		<b>7.4</b>
<b>Total Departmental Profit after Payroll</b>	<b>854,495</b>		<b>47.0</b>	<b>2,140,901</b>		<b>65.5</b>	<b>3,170,778</b>		<b>70.3</b>	<b>4,139,877</b>		<b>72.5</b>	<b>4,324,866</b>		<b>72.6</b>	<b>5,028,567</b>		<b>72.9</b>	<b>5,256,802</b>		<b>72.9</b>	<b>6,322,583</b>		<b>73.8</b>	<b>6,656,658</b>		<b>73.6</b>	<b>6,964,775</b>		<b>73.4</b>
<b>Undistributed Expenses</b>																														
Administrative & General	121,876		6.7	131,523		4.0	140,065		3.1	148,869		2.6	153,241		2.6	165,612		2.4	171,049		2.4	176,323		2.1	181,747		2.0	187,382		2.0
Marketing	169,071		9.3	188,642		5.8	205,715		4.6	223,303		3.9	230,907		3.9	256,465		3.7	266,374		3.7	275,871		3.2	285,658		3.2	295,871		3.1
Utilities	103,552		5.7	120,000		3.7	134,222		3.0	148,869		2.6	154,635		2.6	176,342		2.6	184,117		2.6	191,505		2.2	199,130		2.2	207,113		2.2
Repair & Maintenance	112,714		6.2	125,761		3.8	137,143		3.0	148,869		2.6	153,938		2.6	170,977		2.5	177,583		2.5	183,914		2.1	190,438		2.1	197,248		2.1
Cleaning	60,938		3.4	65,761		2.0	70,032		1.6	74,434		1.3	76,620		1.3	82,806		1.2	85,524		1.2	88,161		1.0	90,873		1.0	93,691		1.0
Energy	121,876		6.7	131,523		4.0	140,065		3.1	148,869		2.6	153,241		2.6	165,612		2.4	171,049		2.4	176,323		2.1	181,747		2.0	187,382		2.0
Security	35,050		1.9	35,761		1.1	3																							



**Exhibit C57: Gonio Leisure Activities Projected Profit & Loss Statement (\$), 2029 – 2036**

Year	2029		2030		2031		2032		2033		2034		2035		2036	
	Revenue	in \$	%	in \$	%	in \$	%	in \$	%	in \$	%	in \$	%	in \$	%	in \$
Admissions	3,918,656	38.2	4,079,834	38.2	4,246,951	38.2	4,416,621	38.2	4,565,550	38.2	4,719,871	37.9	4,879,784	37.9	5,045,496	35.7
Activity Hub Entertainment	418,524	4.1	435,738	4.1	453,588	4.1	471,708	4.1	487,615	4.1	504,097	4.0	521,176	4.0	538,875	3.8
Activity Hub Indoor Sports	608,628	5.9	633,662	5.9	659,619	5.9	685,970	5.9	709,102	5.9	733,071	5.9	757,908	5.9	783,646	5.5
<b>Total Activity Hub</b>	<b>4,945,807</b>	<b>48.2</b>	<b>5,149,235</b>	<b>48.2</b>	<b>5,360,158</b>	<b>48.2</b>	<b>5,574,299</b>	<b>48.2</b>	<b>5,762,267</b>	<b>48.2</b>	<b>5,957,039</b>	<b>47.8</b>	<b>6,158,868</b>	<b>47.8</b>	<b>6,368,016</b>	<b>45.1</b>
Spa, gym & fitness	736,837	7.2	767,145	7.2	798,570	7.2	830,472	7.2	858,477	7.2	887,495	7.1	917,564	6.8	948,724	6.7
Nightclub, karaoke, bar	1,326,307	12.9	1,380,861	12.9	1,437,427	12.9	1,494,849	12.9	1,545,259	12.9	1,597,491	12.8	1,651,615	12.3	1,707,702	12.1
Performance space outdoor	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cinema	-	-	-	-	-	-	-	-	-	-	-	-	513,836	3.8	796,928	5.6
Bowling	442,102	4.3	460,287	4.3	479,142	4.3	498,283	4.3	515,086	4.3	532,497	4.3	550,538	4.1	569,234	4.0
Karting etc	884,205	8.6	920,574	8.6	958,284	8.6	996,566	8.6	1,030,172	8.6	1,064,994	8.6	1,101,077	8.2	1,138,468	8.1
Mini Golf	442,102	4.3	460,287	4.3	479,142	4.3	498,283	4.3	515,086	4.3	532,497	4.3	550,538	4.1	569,234	4.0
Outdoor Pitches (other)	74,273	0.7	77,328	0.7	80,496	0.7	83,712	0.7	86,534	0.7	173,949	1.4	205,534	1.5	212,514	1.5
Leisure arcade	530,523	5.2	552,345	5.2	574,971	5.2	597,940	5.2	618,103	5.2	638,996	5.1	660,646	4.9	683,081	4.8
Lake activities base	884,205	8.6	920,574	8.6	958,284	8.6	996,566	8.6	1,030,172	8.6	1,064,994	8.6	1,101,077	8.2	1,138,468	8.1
<b>Total Other</b>	<b>5,320,555</b>	<b>51.8</b>	<b>5,539,402</b>	<b>51.8</b>	<b>5,766,317</b>	<b>51.8</b>	<b>5,996,670</b>	<b>51.8</b>	<b>6,198,890</b>	<b>51.8</b>	<b>6,492,913</b>	<b>52.2</b>	<b>7,252,424</b>	<b>54.1</b>	<b>7,764,354</b>	<b>54.9</b>
<b>Total Revenues</b>	<b>10,266,362</b>	<b>100.0</b>	<b>10,688,637</b>	<b>100.0</b>	<b>11,126,475</b>	<b>100.0</b>	<b>11,570,969</b>	<b>100.0</b>	<b>11,961,158</b>	<b>100.0</b>	<b>12,449,952</b>	<b>100.0</b>	<b>13,411,292</b>	<b>100.0</b>	<b>14,132,370</b>	<b>100.0</b>
<b>Operating Costs</b>																
Admissions	408,565	10.4	427,928	10.5	448,285	10.6	469,171	10.6	487,222	10.7	506,100	10.7	525,848	10.8	546,509	10.8
Activity Hub Entertainment	97,150	23.2	102,440	23.5	108,017	23.8	113,742	24.1	118,609	24.3	123,713	24.5	129,065	24.8	134,680	25.0
Activity Hub Indoor Sports	70,639	11.6	74,485	11.8	78,540	11.9	82,703	12.1	86,242	12.2	89,953	12.3	93,845	12.4	97,928	12.5
<b>Total Activity Hub</b>	<b>576,354</b>	<b>11.7</b>	<b>604,854</b>	<b>11.7</b>	<b>634,842</b>	<b>11.8</b>	<b>665,616</b>	<b>11.9</b>	<b>692,073</b>	<b>12.0</b>	<b>719,766</b>	<b>12.1</b>	<b>748,758</b>	<b>12.2</b>	<b>779,117</b>	<b>12.2</b>
Spa, gym & fitness	269,602	36.6	285,095	37.2	301,446	37.7	318,233	38.3	332,421	38.7	347,313	39.1	362,947	39.6	379,362	40.0
Nightclub, karaoke, bar	300,044	22.6	315,894	22.9	332,594	23.1	349,735	23.4	364,358	23.6	379,683	23.8	395,747	24.0	412,589	24.2
Performance space outdoor	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cinema	-	-	-	-	-	-	-	-	-	-	-	-	141,283	27.5	239,078	30.0
Bowling	138,283	31.3	144,836	31.5	151,726	31.7	158,795	31.9	164,905	32.0	171,295	32.2	177,978	32.3	184,971	32.5
Karting etc	254,888	28.8	269,893	29.3	285,734	29.8	302,001	30.3	315,714	30.6	330,113	31.0	345,236	31.4	361,121	31.7
Mini Golf	53,920	12.2	57,019	12.4	60,289	12.6	63,647	12.8	66,484	12.9	69,463	13.0	72,589	13.2	75,872	13.3
Outdoor Pitches (other)	7,567	10.2	7,925	10.2	8,300	10.3	8,685	10.4	9,018	10.4	26,983	15.5	35,876	17.5	37,515	17.7
Leisure arcade	100,827	19.0	105,962	19.2	111,369	19.4	116,918	19.6	121,672	19.7	126,651	19.8	131,867	20.0	137,331	20.1
Lake activities base	339,175	38.4	359,595	39.1	381,162	39.8	403,310	40.5	421,937	41.0	441,505	41.5	462,064	42.0	483,665	42.5
<b>Total Other</b>	<b>1,464,306</b>	<b>27.5</b>	<b>1,546,219</b>	<b>27.9</b>	<b>1,632,620</b>	<b>28.3</b>	<b>1,721,325</b>	<b>28.7</b>	<b>1,796,510</b>	<b>29.0</b>	<b>1,893,006</b>	<b>29.2</b>	<b>2,125,587</b>	<b>29.3</b>	<b>2,311,505</b>	<b>29.8</b>
<b>Total Costs</b>	<b>2,040,660</b>	<b>19.9</b>	<b>2,151,073</b>	<b>20.1</b>	<b>2,267,462</b>	<b>20.4</b>	<b>2,386,941</b>	<b>20.6</b>	<b>2,488,583</b>	<b>20.8</b>	<b>2,612,772</b>	<b>21.0</b>	<b>2,874,345</b>	<b>21.4</b>	<b>3,090,622</b>	<b>21.9</b>
<b>Total Departmental Profits</b>	<b>8,225,702</b>	<b>80.1</b>	<b>8,537,565</b>	<b>79.9</b>	<b>8,859,013</b>	<b>79.6</b>	<b>9,184,029</b>	<b>79.4</b>	<b>9,472,575</b>	<b>79.2</b>	<b>9,837,180</b>	<b>79.0</b>	<b>10,536,948</b>	<b>78.6</b>	<b>11,041,748</b>	<b>78.1</b>
<b>Payroll Expense</b>																
Salaries	569,016	5.5	580,396	5.4	592,004	5.3	603,844	5.2	615,921	5.1	628,240	5.0	640,804	4.8	653,620	4.6
Tax and Benefits	142,254	1.4	145,099	1.4	148,001	1.3	150,961	1.3	153,980	1.3	157,060	1.3	160,201	1.2	163,405	1.2
<b>Total Payroll</b>	<b>711,270</b>	<b>6.9</b>	<b>725,495</b>	<b>6.8</b>	<b>740,005</b>	<b>6.7</b>	<b>754,805</b>	<b>6.5</b>	<b>769,901</b>	<b>6.4</b>	<b>785,299</b>	<b>6.3</b>	<b>801,005</b>	<b>6.0</b>	<b>817,026</b>	<b>5.8</b>
<b>Total Departmental Profit after Payroll</b>	<b>7,514,433</b>	<b>73.2</b>	<b>7,812,069</b>	<b>73.1</b>	<b>8,119,008</b>	<b>73.0</b>	<b>8,429,223</b>	<b>72.8</b>	<b>8,702,673</b>	<b>72.8</b>	<b>9,051,880</b>	<b>72.7</b>	<b>9,735,942</b>	<b>72.6</b>	<b>10,224,722</b>	<b>72.3</b>
<b>Undistributed Expenses</b>																
Administrative & General	197,998	1.9	204,571	1.9	211,418	1.9	218,429	1.9	224,822	1.9	231,451	1.9	238,327	1.8	245,463	1.7
Marketing	317,244	3.1	329,468	3.1	342,256	3.1	355,363	3.1	367,024	3.1	379,163	3.0	391,803	2.9	404,969	2.9
Utilities	224,993	2.2	234,719	2.2	244,923	2.2	255,388	2.2	264,544	2.2	274,100	2.2	284,077	2.1	294,496	2.1
Repair & Maintenance	211,496	2.1	219,645	2.1	228,170	2.1	236,909	2.0	244,683	2.0	252,775	2.0	261,202	1.9	269,979	1.9
Cleaning	98,999	1.0	102,286	1.0	105,709	1.0	109,215	0.9	112,411	0.9	115,725	0.9	119,164	0.9	122,731	0.9
Energy	197,998	1.9	204,571	1.9	211,418	1.9	218,429	1.9	224,822	1.9	231,451	1.9	238,327	1.8	245,463	1.7
Security	42,751	0.4	43,606	0.4	44,478	0.4	45,368	0.4	46,275	0.4	47,200	0.4	48,144	0.4	49,107	0.3
<b>Total Undistributed expenses</b>	<b>1,291,479</b>	<b>12.6</b>	<b>1,338,868</b>	<b>12.5</b>	<b>1,388,371</b>	<b>12.5</b>	<b>1,439,101</b>	<b>12.4</b>	<b>1,484,580</b>	<b>12.4</b>	<b>1,531,866</b>	<b>12.3</b>	<b>1,581,045</b>	<b>11.8</b>	<b>1,632,207</b>	<b>11.5</b>
<b>Total GOP before Management Fees</b>	<b>6,222,953</b>	<b>60.6</b>	<b>6,473,202</b>	<b>60.6</b>	<b>6,730,637</b>	<b>60.5</b>	<b>6,990,122</b>	<b>60.4</b>	<b>7,218,093</b>	<b>60.3</b>	<b>7,520,014</b>	<b>60.4</b>	<b>8,154,897</b>	<b>60.8</b>	<b>8,592,515</b>	<b>60.8</b>
Management Fee	307,991	3.0	320,659	3.0	333,794	3.0	347,129	3.0	358,835	3.0	373,499	3.0	402,339	3.0	423,971	3.0
<b>Total Gross Operating Profit</b>	<b>5,914,962</b>	<b>57.6</b>	<b>6,152,542</b>	<b>57.6</b>	<b>6,396,843</b>	<b>57.5</b>	<b>6,642,993</b>	<b>57.4</b>	<b>6,859,258</b>	<b>57.3</b>	<b>7,146,516</b>	<b>57.4</b>	<b>7,752,558</b>	<b>57.8</b>	<b>8,168,544</b>	<b>57.8</b>
<b>Fixed Costs</b>																
Insurance	307,991	3.0	320,659	3.0	333,794	3.0	347,129	3.0	358,835	3.0	373,499	3.0	402,339	3.0	423,971	3.0
Cash Collection	51,332	0.5	53,443	0.5	55,632	0.5	57,855	0.5	59,806	0.5	62,250	0.5	67,056	0.5	70,662	0.5
Property Tax	153,995	1.5	160,330	1.5	166,897	1.5	173,565	1.5	179,417	1.5	186,749	1.5	201,169	1.5	211,986	1.5
Incentive Management Fee	295,748	2.9	307,627	2.9	319,842	2.9	332,150	2.9	342,963	2.9	357,326	2.9	387,628	2.9	408,427	2.9
Reserve	513,318	5.0	534,432	5.0	556,324	5.0	578,548	5.0	598,058	5.0	622,498	5.0	670,565	5.0	706,619	5.0
<b>Total Fixed Costs</b>	<b>1,322,384</b>	<b>12.9</b>	<b>1,376,491</b>	<b>12.9</b>	<b>1,432,490</b>	<b>12.9</b>	<b>1,489,247</b>	<b>12.9</b>	<b>1,539,079</b>	<b>12.9</b>	<b>1,602,321</b>	<b>12.9</b>	<b>1,728,757</b>	<b>12.9</b>	<b>1,821,664</b>	<b>12.9</b>
<b>EBITDA</b>	<b>4,900,569</b>	<b>47.7</b>	<b>5,096,711</b>	<b>47.7</b>	<b>5,298,147</b>	<b>47.6</b>	<b>5,500,876</b>	<b>47.5</b>	<b>5,679,014</b>	<b>47.5</b>	<b>5,917,693</b>	<b>47.5</b>	<b>6,426,140</b>	<b>47.9</b>	<b>6,770,851</b>	<b>47.9</b>

Source: Colliers International

## 12.5 OWNERSHIP AND OPERATIONS RECOMMENDATIONS

The leisure elements will be developed and funded by the masterdeveloper and the masterdeveloper will retain ownership.

Many of the elements will be operated by an overarching experienced third party leisure operator. For certain specific elements such as the waterpark, spa, cinema, lagoon and perhaps bowling, we would recommend operation by a specialist operator.

Each specialist operator will bring significant experience and ensure the international standards envisaged are achieved.

# 13 CASINO COMPONENT

## 13.1 INTRODUCTION

It is proposed that a casino will be developed within Gonio Resort. This section provides an overview of the current casino market, considering both the international market landscape, Georgia’s performance and supply, and supply in Batumi. The regulatory context in Georgia is also described.

The section then explores the specific opportunity at Gonio Resort, the proposed casino component, projections and further considerations.

## 13.2 MARKET UNDERSTANDING

### 13.2.1 THE INTERNATIONAL COMPETITIVE CONTEXT

It is estimated that the global casino and gaming sector had total gross gaming win of \$399,359 m in 2013, representing a compound annual growth rate (CAGR) of 5.4% between 2009 and 2013 [Source: PWC].

The performance of the sector is forecast to follow a similar pattern with an anticipated CAGR of 5.3% for the five-year period 2013-2018, which is expected to drive the sector to a value of \$518,205m by the end of 2018.

During the period 2008 to 2015 there has been a significant change in the mix of revenues across international regions as highlighted below. This has been driven by a combination of the growth of the Asian market, and Macau and Singapore in particular, and the decline in EMEA. This has been affected by the impact of the global recession and new regulations or restrictions that have curtailed spending in several countries. Russia, for example, had the largest casino gaming market in EMEA in 2006–07, and now has the smallest market in EMEA.

**Exhibit C58: Casino revenue share between international regions**

REGION	2008 % SHARE	2015 % SHARE
US	54.2	40.1
EMEA	18.2	10.0
Asia Pacific	19.4	43.4
Latin America	3.0	3.1
Canada	5.2	3.4

Source: PWC

### 13.2.2 EUROPEAN CASINO MARKET

The European casino market continues to be affected by the weak European economy with only a number of individual casino markets having shown growth in 2014 compared to 2013.

These annual increases vary from 1.9% in Estonia to a leap of 75.9% in Hungary, and are often explained by structural changes in the respective markets. The high growth percentage in Hungary for example can mostly be attributed to the growth in number and performance of slot machines in casinos, which experienced a 275% increase, due to the shutting down of all arcades hosting slot machines in the country.

The other six countries that saw improvements in their annual performance were Latvia, Romania, Lithuania, Slovakia, United Kingdom and Poland, with a rise of 4.8%, 5.1%, 7.4%, 10%, 10.2% and 18.2%, respectively.

In the United Kingdom, the growth of 10.2 percent was mostly realised by one major new casino in London and the table game performance from high rollers in London; and in Latvia, Romania, Lithuania and Slovakia the rise in overall results was mainly due to slot machines. The largest drop in annual revenues occurred in Greece with a fall of 9.7%, leaving a significant drop in revenues of 52% compared to 2009.

Common factors for the decline in revenues in the European casino industry since 2008 include:

- Economic recession
- Stricter regulations
- Introduction of smoking bans
- On-going and increasing competition from illegal online operators
- Increase in number of slot machine arcades on 'high streets' and growth in number of video lottery terminals

### 13.2.3 THE FUTURE OF EUROPEAN CASINOS

While all-inclusive hotel and casino resorts continue to flourish across the world, from Macau to South America, the casino industry in Europe and EMEA has remained largely unchanged for the last three decades. Europe and EMEA offers an opportunity for new casino resort destinations to be built especially in Eastern Europe and Russia.

It is also anticipated that casino operators will continue to utilise the advancements in gaming technology, look for new market/ jurisdiction opportunities and add more non-gaming amenities to strengthen both the customer offer and to increase their

spending. Additional associated developments are likely to include hotels, restaurants, shopping malls and nightclubs.

Further industry consolidation, as recently experienced in the UK, and new market entrants will also continue. A stable tax, duty and regulatory regime remains a key factor for all operators in all jurisdictions.

The relaxing and opening up of key markets such as Russia and Ukraine will also begin to have an effect on the overall European market in the coming years.

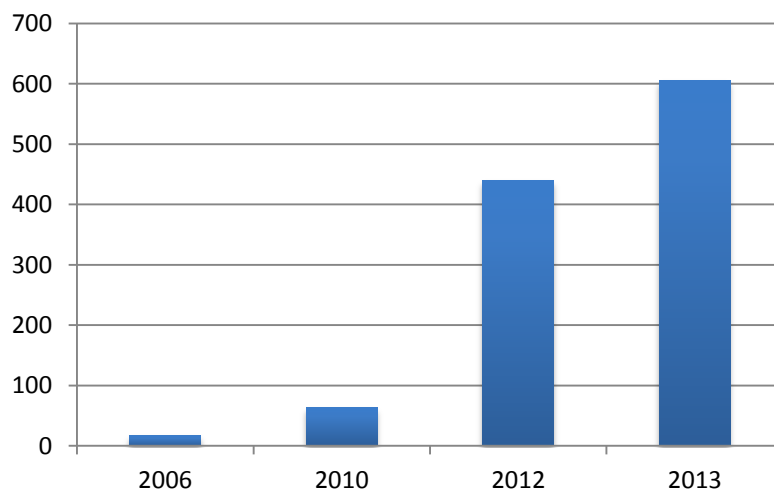
#### 13.2.4 THE CASINO ENVIRONMENT IN GEORGIA

Casinos have been permitted in Georgia since 1993. In the major conurbations there are the following operational casinos currently:

- **Tbilisi:** three casinos with four others currently under review and consideration
- **Batumi:** six with a further two due to open in 2015 and five others either in construction or under consideration

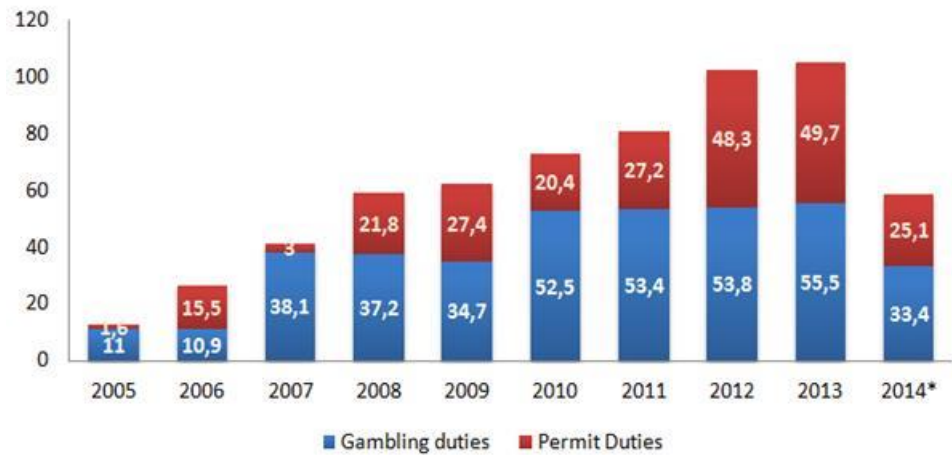
Total casino revenue (or the amount left behind by the customer and typically defined as a casino operator’s Gross Gaming Win or Gross Gaming Revenue), in Georgia has experienced enormous growth increasing from \$17m in 2006, to \$63m in 2010, to \$440m in 2012 and \$605m in 2013.

**Exhibit C59: Casino revenue (\$ million p.a.) for Georgia**



Source: Ministry of Economy and Sustainable Development

**Exhibit C60: Duties paid by gambling and gaming companies (GEL million) in Georgia**



\* 2014: Quarters 1 and 2 only

Source: Ministry of Economy and Sustainable Development

The market is anticipated to have grown further for the full year in 2014 and this growth will continue for the foreseeable future. Key factors influencing the growth include:

- Favourable licensing and tax conditions
- Extensive hotel and casino investment
- Introduction of new international hotel operators
- Proximity to countries where casino gaming is prohibited or limited including neighbouring Russia, Turkey, Ukraine and Azerbaijan
- Tourism from countries where customers have a high propensity to gamble
- More casinos opening in existing conurbations
- New casinos to open in new locations
- Increased competition
- International reputation as a casino hub
- Growth in customer participation and international tourism including total numbers, frequency of visit and length of stay

**13.2.5 LOCAL COMPETITIVE CONTEXT**

There are currently no casinos in Gonio or the neighbouring Kvartati. The nearest casinos are in Batumi, which is approximately 8 km away by road.

Batumi has become a very strong casino market and a major new international gaming hub over recent years. With six operational casinos, there is already a high concentration of casinos considering the size of the resident population and visitor numbers.

The six licensed casinos in Batumi are as follows:

- Casino Iveria: Radisson Blu Hotel, Ninoshvili St.
- Casino Peace: Sheraton Hotel, Ninoshvili St.
- Adjarabet Casino: Akhmeteli St.
- Golden Palace Casino: Golden Palace Hotel, Gamsakhurdia St.
- Casino Grand Intourist: Hotel Intourist Palace, Ninoshvili St.
- Europe-bet.com Casino: Chavchavadze Ave.







The commercial success of the casinos, the high, and increasing, visitation levels from international visitors and the anticipated growth in tourism and business markets means that more international hotels and casinos are continuing to be built.

Two more casinos are scheduled to open in Q3 2015. One to be operated by Casinos Austria International at the Hilton Hotel and Residences and another to be operated by Pasha International near Batumi port.

Another casino will open in the Babillon Tower project in 2016 and three other casino developments are already under construction. This would take the number to 11 casinos which will likely leave the casino market at the mid to high end of the market over saturated.

With the exception of the Europe-bet.com casino, which caters a lot more for the local market, all of the other casinos target international customers with a particular focus on customers from Turkey, Azerbaijan, Armenia, Russia and Ukraine.

The exhibit below presents the current Batumi casino provision.

<b>Provision at casinos in Batumi</b>	
<p><b>Casino Iveria - Radisson Blu Hotel</b></p> <p>74 slot machines 14 table games 2 touchbet roulettes 2,250 m<sup>2</sup> (approx.)</p>	
<p><b>Casino Peace - Sheraton Hotel</b></p> <p>127 slot machines 13 table games 3 touchbet roulettes 2,750 m<sup>2</sup> (approx.)</p>	
<p><b>Adjarabet Casino</b></p> <p>56 slot machines 8 table games 1 touchbet roulette 1,000 m<sup>2</sup> (approx.)</p>	
<p><b>Golden Palace Casino and Hotel</b></p> <p>58 slot machines 12 table games 1 touchbet roulette 1,100 m<sup>2</sup> (approx.)</p>	
<p><b>Casino Grand Intourist</b></p> <p>58 slot machines 10 table games 1 touchbet roulette 2,750 m<sup>2</sup> (approx.)</p>	
<p><b>Europe-bet.com Casino</b></p> <p>&gt; 120 slot machines 10 table games 2 touchbet roulette 2,000 m<sup>2</sup> (approx.)</p>	

Source: Global Retail Consultancy

Over and above the offline casino market in Batumi, is the increasing number and popularity of slot machines currently operating in stand alone gaming halls/ slot machine parlours. The vast majority of these are situated in down town Batumi next to the port, adjacent to the Europe-bet.com Casino and the main minibus interchanges. Typically these are c. 75-100 m<sup>2</sup> in size and house 40 - 60 slot machines and automatic roulette. There are also two bingo halls in Batumi.

Stand-alone sport betting shops are minimal although they are present. These are largely of a low quality fit out, service and presentation and are frequented predominantly by local customers.

Online gambling will also be present and increase as smartphone penetration, home internet penetration and Wi-Fi availability increases.

### 13.2.6 FUTURE COMPETITIVE MARKET SITUATION

The market in Batumi and the surrounding areas will only become more competitive in the years ahead with an increasing number of casinos operating; increased competition and potentially casinos starting to be opened elsewhere in Adjara and across the country outside of Tbilisi.

Notwithstanding this, an opportunity clearly exists for casino(s) to be included in the content mix at Gonio Resort due to the factors outlined in Gonio Resort specific analysis below. This includes the favourable macro factors; product differentiation and the fact that the Resort will create a significant demand in its own right.

As the gambling industry in Georgia is still, relatively, in its' infancy stage, international experience shows that the following remains important for successful and controlled industry growth:

- Regional and central governments to maintain close dialogue with the operators
- A stable and consistent tax and regulatory regime remains
- The number and locations of casinos is carefully controlled to balance tax returns, economic regeneration impact and private sector investment returns

## 13.3 REGULATORY OVERVIEW

### 13.3.1 CASINO REGULATION

The regulation covering casino gambling in Georgia is a straightforward and transparent process. One body, The Georgia Revenue Service (Joint Tax and Customs Administration) (GRS), is the agency responsible for all gaming and gambling in Georgia.

The following legislation governs gaming business in Georgia:

- The Law of Georgia on Licenses and Permits

- The Law of Georgia on License and Permit Fees
- The Law of Georgia on Organizing Lotteries, gaming and winning games
- The Law of Georgia on gambling business fee
- Joint Order N 611-1013 dated December 14, 2011 of the Minister of Finance of Georgia and the Minister of Internal Affairs of Georgia on Approving the Rules for Verifying the Compliance to Permit conditions by the Holders of Permit for Gaming and Other Winning Games
- The Head of the Financial Monitoring Service of Georgia Order N 94 dated July 28, 2004, on Approving the Regulations for Rule and Terms for obtaining, systemizing, processing and transferring of information by the persons organizing lotteries, gaming and other winning games to the Financial Monitoring Service of Georgia and on the Rule and conditions for obtaining, systemizing, processing and transferring information by casinos to the Financial Monitoring Service of Georgia

The GRS is responsible for issuing permits as well as regulating, controlling and supervising gaming. The GRS issues the following permits:

- Slot machine arcades
- Casino
- Totalisator
- Lottery
- Bingo
- Promotional drawing game

### 13.3.2 COMPLIANCE: REGULATORY AND LICENSE PERMIT REQUIREMENTS

All casino operator applicants need to secure the following permits from GRS where applicable to operate.

#### CASINO PERMIT

A casino premises permit is issued by GRS and the applicant is required to submit a scanned version of the following required documents via the electronic site of GRS. These documents include the following:

- Extract issued from the Entrepreneurs and Non-Entrepreneur (non- commercial) legal persons registry
- Receipt evidencing the payment of the permit fee (except the territories which are released from such a fee where applicable)
- Specific terms of the organization/arrangement which must include:

- List of gambling tables in the casino
- Name of the casino
- Factory number, year of manufacturing and manufacturer country of all equipment
- Minimal and maximal rates
- Gaming rules of the Casino
- Rules of conduct in the casino
- Rules of the games in casino
- Term required to consider any claims
- Samples of gaming chips

The period of time required to obtain the permit is determined by the applicant, with the following current prices:

- One working day: 2,000 Gel (~\$1,029)
- In 5 working days: 800 Gel (~\$412)
- In 10 working days: 400 Gel (~\$206)
- In 20 working days: free of charge

### **E-GAMING PERMIT**

A separate permit is required for organising e-gaming, which is only issued to land-based casino permit holders in Georgia.

E-gaming is only permitted for casino, slot machine, sports betting and promotional drawing games, although no company in Georgia is allowed to provide e-gaming services offshore.

### **GAMING VIA AN ELECTRONIC SYSTEM PERMIT**

This application requires the following documentation to be submitted:

- Address from where the games will be managed and organised
- List and description of the games
- Location where winnings will be paid
- Address of immovable property designated for the cash register
- Rules for registering a player
- Deposit/ balance management processes

- Website to contain the name of the organiser, legal address, telephone number, permit number, list of games and detailed rules of game
- In case of setting up by phone, a telephone registered in Georgia

### GAMING TAXES AND PERMIT FEES

Slot machines, table games and sports betting are all exempt from Corporation Tax. This does not apply to e-gaming operators.

Gaming taxes and permit fees are payable for casinos, slot machines, table games and sports betting as follows. These include both annual and quarterly fees.

#### Annual permit fees

**Casino annual permit** - The annual permit fees for a casino is set at GEL 5,000,000 (~\$2,572,800) over the entire territory of Georgia with a number of exceptions:

- Batumi;
- Area adjacent to the Bazaleti Lake of Dusheti;
- Gudauri recreation area;
- Bakuriani territory;
- Kobuleti;
- Borjomi;
- Tskaltubo; and
- Signagi.

In Batumi, the fee is typically GEL 250,000 (~\$128,640) per year. However, when a casino is sited in a newly constructed hotel with a minimum of 100 rooms, the annual fee is exempt for the first 10 years of operation.

**Totalisator** – This is a computerised system which runs parimutuel betting, calculating payoff odds, displaying them, and producing ticket. It is set at GEL 80,000 (~\$41,165) in the self-governing city of Batumi and GEL 40,000 (~\$20,582) in territories of other municipalities.

**Lottery, bingo, promotional drawing games** – The amount of annual permit fee is GEL 15,000 (~\$7,718) if a casino provides lottery, bingo and promotional drawing games.

#### Quarterly Fees

The amount of gambling fees is prescribed by Georgian law. The quarterly fee, as of January 2015, is as follows:

- Per gaming machine (slot): GEL 1,500 - 3,000 (~\$772 – 1,544)
- Per casino table: GEL 15,000 - 30,000 (~\$7,718 – 15,437)
- Per system-electronic game: GEL 30,000 - 60,000 (~\$15,437 – 30,874)

- Per cash desk: GEL 1,000 - GEL 15,000 (~\$515 – 7,718)  
per each cash desk of a gaming and/or winning game organized via a system-electronically located outside the facility organized under a permit for organising gaming and/or winning game.

## 13.4 CASINO AT THE GONIO RESORT

### 13.4.1 SWOT ANALYSIS

A detailed SWOT analysis in relation to including a casino at Gonio Resort is presented below. This is informed in particular by experience of the existing casinos in Batumi, which would provide the main competition.

Currently, the nearest casino to Gonio Resort would be the one opening in 2015 at the Hilton Resort & Residence approximately 8 km away. Two more casinos are currently planned at the Atlas Batumi development to open in 2017, which will be approximately 2 km closer to the proposed development.

STRENGTHS	WEAKNESSES
<p>Casinos are a major all year round attraction for both international tourists and locals</p> <p>Rapid increase and continued growth of tourist inflow from countries where gambling is either prohibited or limited</p> <p>High propensities to gamble amongst visitors from surrounding countries</p> <p>Positive economic impact on the local and regional economy that provides a further catalyst for investment and growth</p> <p>Strong local, regional and national government support</p> <p>Gradual simplification of the visa regime from neighbouring countries</p> <p>Annual permit fee exemption for hotels with more than 100 rooms</p> <p>Commercial and operational performance of the existing Batumi casinos</p> <p>Attractive sea location</p> <p>Opportunity for further differentiation and improvement in the local offer</p> <p>New market entrants raising standards and competition</p> <p>High level of security</p> <p>Attractive investment climate</p> <p>Strong political commitment to low and simple taxation</p> <p>VAT at 18%; Corporation Tax at 15%</p> <p>Double taxation avoidance treaties with a number of countries</p>	<p>Likely over supply of casinos with an over supply of gaming tables and slot machines</p> <p>Growth of machine arcades which provide competition plus often provide a low quality environment</p> <p>Potential increase in the negative image of gambling and growth in problems related to gambling amongst customers</p> <p>Lack of strictly enforced responsible gambling policies and procedures</p> <p>An evolving regulatory framework</p> <p>Poor levels of non-gaming offer inside the existing casinos</p> <p>Long term political support unknown</p> <p>Increased competition</p>

OPPORTUNITIES	THREATS
<p>New destination locations to be created away from Batumi</p> <p>A new culture of gambling to be created and presented as part of a broader leisure / entertainment destination</p> <p>Casino design and format to attract a new, different and broader visitor demographic</p> <p>Increase customer dwell time and frequency of visit</p> <p>Provide a range of leisure and entertainment attractions to support the gaming offer inside a casino</p> <p>Provide carefully managed and controlled gambling</p> <p>Implement effective responsible gambling policies and procedures</p> <p>Deliver exceptional customer service, driving loyalty and repeat visits</p> <p>Introduction of international casino operators to increase competition</p> <p>Provide major international poker tournaments</p> <p>Increase number of 'high roller' and junket business</p>	<p>Changes in political support as highlighted by the lobbying of the Parliament of Adjara in 2013 for a revision of the existing gambling legislation to potentially move them into a designated area away from the cities and villages</p> <p>How long will government legislation provide the current incentives and the consistent, attractive permit fee and tax regime</p> <p>Over supply of casinos</p> <p>Growth in problem gambling</p> <p>Limitation on gambling stakes and machine numbers</p> <p>Tight regulatory control</p> <p>Change in availability of flights to Batumi and Kutaisi airports from key destinations</p>

*Source: Global Retail Consultancy*

### 13.4.2 CASINO OPPORTUNITY AND POSITIONING

The casino at Gonio Resort is proposed to be a 'Leisure Casino' – a mid-market casino designed and operated more for non-international tourists, passing traffic and typically non-gaming tourists, rather than serious gamblers, is a proven operating model. This positioning is proposed following identification of a gap in the market.

The casino will attract relatively high footfall for its size and location but with a lower than average stake, or spend, per customer. All of the table stake and slot machine limits will reflect this approach. The casino will be positioned primarily to attract visitors from the following groups:

- Visitors to the destination including typically non-gaming tourists
- A small proportion of local residents
- Population local to Batumi and Adjara
- Customers resident in Turkey and those within a small drive time of the Turkish border at Sarpi
- Passing traffic to and from the Turkish border
- Tourists staying or visiting the area for non-gambling reasons – leisure, entertainment, holidays
- Overspill from Batumi's casinos

The 'typical' customer profile is likely to be more similar to those frequenting Europe Bet Casino in Batumi rather than Iveria at the Radisson, Batumi for example.

This differentiation, to the international casino-tourist oriented casinos in Batumi, will be created through:

- A relaxed and welcoming environment
- Design standards
- High standards of customer service
- Higher volume of low to average spending customers
- Smaller number of higher spending casino visitors
- Higher than average frequency of visit
- A different mix and type of table games
- Table games with lower minimum bets
- Lower denomination slot machines
- Increases in the payout percentage on slot machines
- Higher revenue mix towards slot machines than tables
- A wider range of complementaries, food and beverage, for customers
- Customer relaxation areas
- Provision of entertainment, live music, sports area and sports betting to add to the overall atmosphere
- Areas for local (non-money) card games and chess as an example between customers to be played
- Being part of a destination with a wide range of non-gambling entertainment such as cinema, bowling, music, bars and restaurants

#### 13.4.3 CASINO SIZE AND ELEMENTS

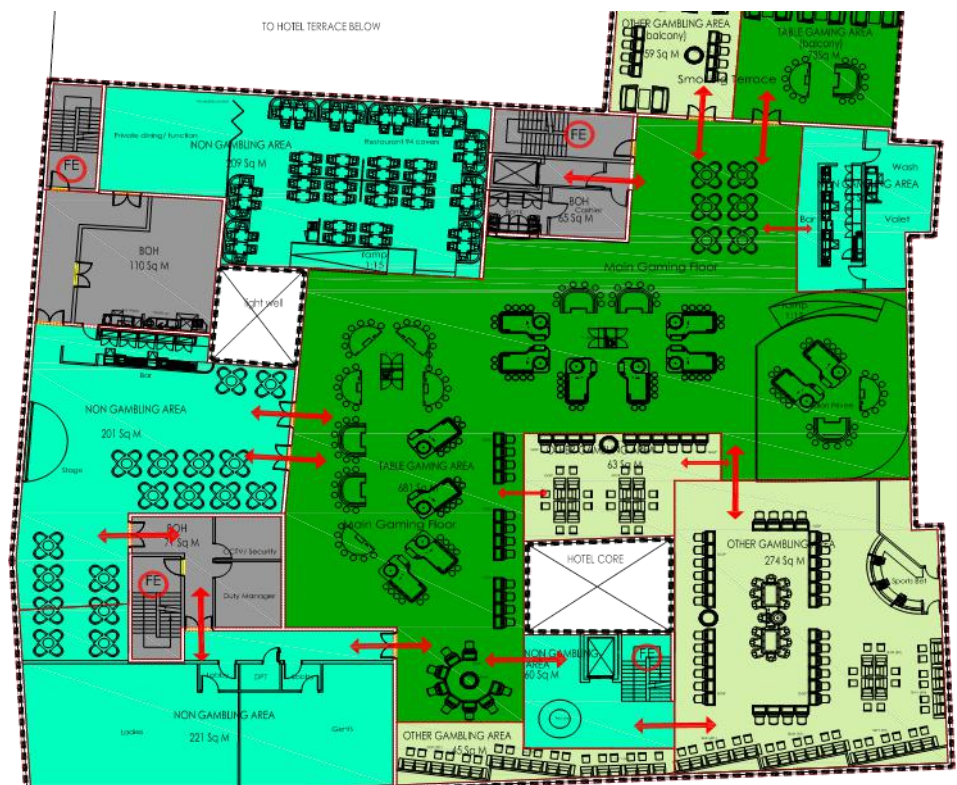
It is proposed that the casino is 1,200 m<sup>2</sup> in size and includes the following:

- Slot machines: 80
- Table games: 8
- Touchbet roulette machines: 2
- Sports betting to be available
- Sports betting to be provided
- Separate relaxation area for card games
- Bars, restaurant and associated entertainment

It is recommended that the casino will have the flexibility to increase the number of tables and slot machines as the business grows. This will allow for a lower cost capital, both fixed and operating, casino model from the outset and this has been reflected in the financial model below.

The exhibit below presents an example layout showing a wide variety of non-table gaming activities and space allocation including entertainment and stage, bars, feature restaurant, area for other gaming and relaxation area.

**Exhibit C61: Example casino layout**



Source: Global Retail Consultancy

## 13.5 FINANCIAL PROJECTIONS

### 13.5.1 ASSUMPTIONS

The following assumptions have been applied to the casino financial model. All of these have been based on primary and secondary research for a fully operational casino include start-up funds; gaming equipment; salaries and wages; and fixed and variable operating expenses.

**Start Up Fund Assumptions** (rounded numbers)

- Square metres: 1,200
- Gaming tables: 8

- Automatic Roulettes: 2
- Slot machines: 80
- Gaming Capital: \$465,000
- Depreciation: 5 – 10 years
- Pre-Opening salaries: \$230,000
- Marketing: \$115,000
- Pre-opening costs: \$98,484
- Operational Equipment: \$475,000
- IT equipment: \$25,000
- Sports betting: \$9,250
- Infotainment system: \$50,000

#### Staff

- Total employees: 112

#### Capital costs

- TOTAL: \$1,700,000
  - Design and planning: \$210,000
  - Fit out works: \$730,000
  - Builders Works: \$315,000
  - MEP works: \$450,000
- Gaming equipment: \$2,150,000

#### Fixed Operating Expenses

- Rent: \$64 per m<sup>2</sup>
- Marketing: 4.0% revenue
- Annual licence fee: Nil – on the basis of 100 room hotel
- Slot Machine Fee: \$2,607 per quarter per machine
- Table Fee: \$26,069 per quarter per table
- Cash desk Fee: \$8,690 per quarter per cash desk
- Automatic Roulette Fee: \$52,139 per quarter per AR
- Overhead expenses growth: +3% pa

### Sales Forecast

- Table spend per day: \$900
- Slot spend per day: \$100
- AR spend per day: \$1,330
- F&B spend per head per day: \$1

#### Revenue growth year on year

- Year 2: +15%
- Year 3: +12.5%
- Year 4: +7.5%
- Year 5: +5%
- Average spend per visit: \$70

### Seasonality and weekend trading impact

The seasonality of visits to Batumi and indeed the Gonio Resort means that the casino component will experience significant changes in its trading performance and volume due to seasonality through the year. This trading pattern applies to both the 'out of season' months, October to May inclusive, and the 'in season' months, June to September inclusive, as well as the difference between weekday and weekend trading.

Based on primary and secondary research the following assumptions have been applied:

- Oct to May inclusive: 30% of total revenue (4.5% per month of total revenue)
- June to Sep inclusive: 70% of total revenue (17.5% pm of total revenue)

#### Weekly mix of revenues:

- Weekdays: 35% of weekly revenue
- Weekends: 65% of weekly revenue

This seasonality will also have a direct impact on the amount of hotel rooms required by the casino operator during the week and year.

### 13.5.2 SUMMARY FINANCIAL MODEL

The summary profit and loss for the first five years of trading based on the above assumptions is presented below.

**Exhibit C62: Casino profit and loss projections (\$), 2019 – 2023**

Income in \$	2019	2020	2021	2022	2023
Tables Spend per day (GW/ GGR)	2,614,819	3,007,042	3,382,922	3,636,641	3,818,473
Slots	2,867,866	3,298,046	3,710,301	3,988,574	3,818,473
Automatic Roulette	970,013	1,115,515	1,254,955	1,349,076	1,416,530
F&B	112,940	129,881	146,116	157,074	164,928
<b>Total Income</b>	<b>6,565,637</b>	<b>7,550,483</b>	<b>8,494,293</b>	<b>9,131,366</b>	<b>9,218,404</b>
<b>Total Taxes and Duties</b>	<b>643,370</b>	<b>643,370</b>	<b>643,370</b>	<b>643,370</b>	<b>643,370</b>
<b>Salaries and Wages</b>					
Salaries and wages	1,369,512	1,410,598	1,452,916	1,496,503	1,541,398
Payroll Taxes and Benefits	156,809	161,513	166,359	171,350	176,490
<b>Total Salary and Wages</b>	<b>1,526,322</b>	<b>1,572,111</b>	<b>1,619,275</b>	<b>1,667,853</b>	<b>1,717,888</b>
<b>Fixed Business Expenses</b>					
Rent on business property	917,643	945,172	973,527	1,002,733	1,032,815
Marketing	262,625	270,504	278,619	286,978	295,587
Credit Card Charges	34,759	35,802	36,876	37,982	39,122
Staff Social Activities	7,786	8,020	8,260	8,508	8,763
Uniforms	31,144	32,079	33,041	34,032	35,053
Stationary/ sundries/miscellaneous	32,828	33,813	34,827	35,872	36,948
T & A	16,414	16,907	17,414	17,936	18,474
Maintenance	164,141	169,065	174,137	179,361	184,742
Telephone and Communications	32,828	33,813	34,827	35,872	36,948
Utilities	164,141	169,065	174,137	179,361	184,742
<b>Total Fixed Business Expenses</b>	<b>1,664,310</b>	<b>1,714,240</b>	<b>1,765,667</b>	<b>1,818,637</b>	<b>1,873,196</b>
<b>Other Expenses</b>					
Depreciation	603,718	603,718	603,718	603,718	603,718
<b>Total Other Expenses</b>	<b>603,718</b>	<b>603,718</b>	<b>603,718</b>	<b>603,718</b>	<b>603,718</b>
<b>EBITDA</b>	<b>2,127,918</b>	<b>3,017,045</b>	<b>3,862,265</b>	<b>4,397,789</b>	<b>4,380,233</b>

Source: Global Retail Consultancy

## 13.6 OWNERSHIP AND OPERATIONS RECOMMENDATIONS

The casino building will be developed and funded by the master developer and investor. There are then a number of options available to the investor.

We would recommend that the casino is operated by a third party operator.

### 13.6.1 INVESTOR OPTIONS

#### Landlord (investor) / tenant

- Landlord builds a 'black box' shell and leases the property to the casino tenant (operator)
- Tenant pays for all casino capital costs plus a rent to the owner either as:
  - Fixed rental fee per m<sup>2</sup> and/ or

- Profit/ revenue share and
- Potentially a minimum commitment of room nights in the hotel pa

### Management Agreement

- An experienced casino operator runs the casino on behalf of the investor for a management fee. This is typically set as a percentage of Gross Gaming Revenue plus a percentage of EBITDA with a minimum annual level agreed in advance

### Joint Venture

- A Casino JV is established with both Parties investing:
  - Investor/ landlord – providing the fit out and operational costs in return for a rent plus profit share
  - Casino operator – providing the gaming equipment costs in return for a management fee plus profit share

## 13.6.2 SELECTING AN OPERATOR

As part of the above options a casino operator/investor will need to be selected. This is typically concluded by running an operator selection process to attract, interview and complete all necessary due diligence to select the most suitable and compatible partner operationally and commercially.

The selection criteria typically include the following:

- Operational experience
  - Casino and other gaming
  - Alongside hotels
  - Other facilities
- International operational experience
  - Different jurisdictions
  - Demographics
  - Similar casino style/formats
  - Junket performance
- Proposed casino operation design and layout
- Regulatory track record
- Approach to responsible gambling

- Customer service track record
- Branding marketing and promotional approach
- Financial standing and ability to deliver the operation
- Robustness of casino financial model
  - Start-up funds
  - Salaries and wages
  - Operating expenses
  - Capital requirement
  - Profit and Loss
  - Cash flow statement
  - Visitor numbers
- Financial terms offered
  - Rent
  - Gross Win Share
  - Hotel rooms commitment
  - License payment

### 13.6.3 RESPONSIBLE GAMBLING POLICIES AND PROCEDURES

It will be increasingly important for all operators in Georgia to adopt clear and robust responsible gambling policies and procedures. Currently it is our understanding that whilst some operators are applying their own internal procedures, a uniform industry standard is not in place or being applied.

It is likely that the government will prescribe uniform Responsible Gambling policies and procedures to be applied, monitored and reported against for all casino operators. Notwithstanding any government action and interventions, it is imperative the operator selected for the Gonio Resort casino rigorously adheres to promoting and protecting responsible gambling.

This approach would include the following:

- Policies and procedures to promote responsible gambling
- Policies on how customers will be made aware of the risks of gambling and on how to gamble safely (e.g. advertising at premises and in the vicinity)
- Policy on identification of problem gamblers and the actions to be taken upon such identification

- Staff training to include awareness of problem gambling and procedures and customer service training
- Policy on cashless gambling, money laundering, allowing credit and use of credit cards
- Policy on monitoring of customers visiting the casino including gender, age, ethnic origin, reason for visiting the premises, home location
- Identification of security precautions and monitoring measures including security and CCTV systems
- Policy on banning persons and intoxicated and nuisance persons
- Policy on preventing underage gambling and underage access to the premises

# 14 OTHER COMMERCIAL COMPONENTS

This section considers the following the commercial components not covered in previous sections. This includes retail units, F&B units (food and beverage – cafes, bars, restaurants, and other), offices and light industrial units.

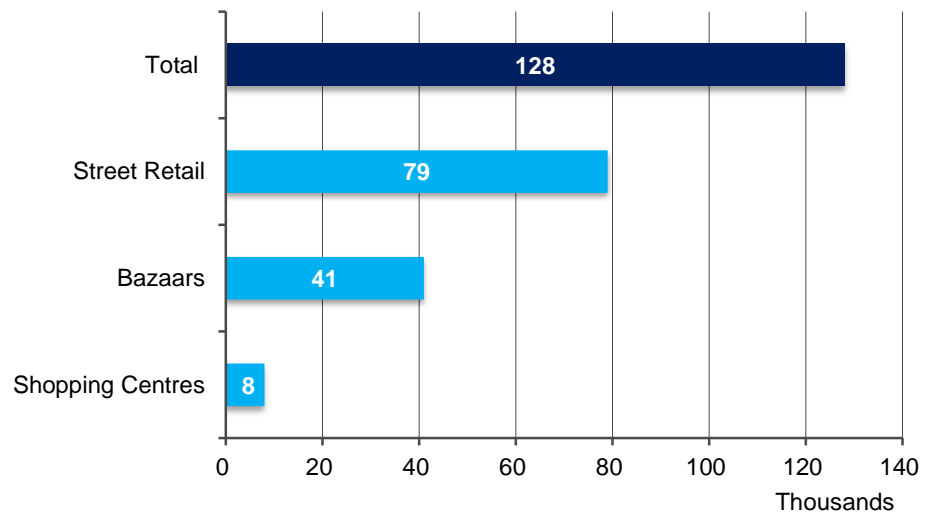
## 14.1 MARKET CONTEXT

There is limited data specifically of relevance to resort retail and F&B etc. and these elements are not appropriate for full market demand and supply analysis. Provided below however is some insight into the retail, office and warehouse markets in Batumi. It should be noted however that such provision is generally at a much larger scale of entity and extent than the units proposed within the Gonio Resort.

### 14.1.1 BATUMI RETAIL MARKET

There are in total 128,000 m<sup>2</sup> of retail space in Batumi. This comprises different types of retail as shown below.

**Exhibit C63: Retail Space Supply in Batumi 2014 (m<sup>2</sup>)**



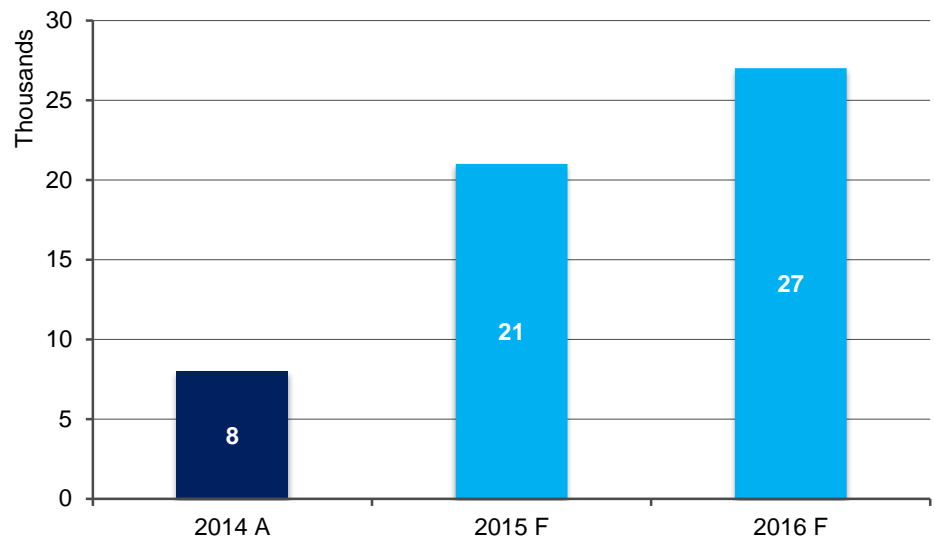
Source: Colliers International

The Batumi retail market is currently dominated by high street retail, accounting for 79,000 m<sup>2</sup> (62%) of the total retail supply in Batumi. The most popular high streets are Old Batumi, Chavchavadze Avenue, Gorgiladze Street and offer cafes, restaurants and fashion shops. Open markets or “Bazaars” constitute a significant proportion at 32% of total supply. The tenants of these are agriculture producers

and construction material suppliers. Currently there is only one shopping centre in the city, namely the Batumi Plaza, which is part of a mixed-use development in the city centre. The shopping centre has 8,000 m<sup>2</sup> of retail space, which is occupied by local tenants. Unfortunately it lacks the vibrant feel that was presumably intended.

During 2014 projects including shopping centres were announced attached to residential developments. Consequently shopping centre supply will increase by approximately by 3.3 times over the next 2 years.

**Exhibit C64: Future shopping centre supply in Batumi 2014 (m<sup>2</sup>)**



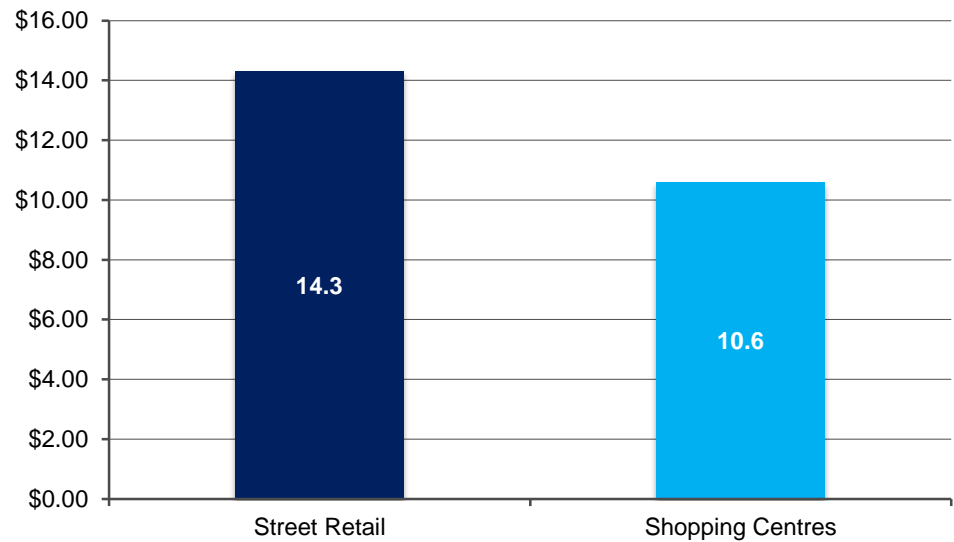
Source: Colliers International

**Demand**

Retail space in the city of Batumi is largely occupied by local non-brand tenants, accounting for approximately 81% of the total demand for retail space. Thus 19% of the demand is occupied by branded companies including fashion stores, financial institutions or food and beverage outlets. Modern supermarket chains are occupying retail space already and supermarkets like Carrefour are anticipated to enter the market as well. Fashion brands like United Colors Of Bennetton, Puma, and Bata are already present in the market and others are expected to join and are looking at Batumi with interest.

Retail rents average between \$10 and \$14 per m<sup>2</sup> in Batumi and exclude any additional charges such as service charge or Value Added Tax. Rents are higher in Old Batumi and Gorgiladze Street given that they are the most prestigious locations for retail. The average rent in these areas is \$16 per m<sup>2</sup>. Large scale tenants, for instance consumer electronics and furniture stores, are mainly located on Chavchavadze Avenue. The rents are in the range of \$12-\$14 per m<sup>2</sup>.

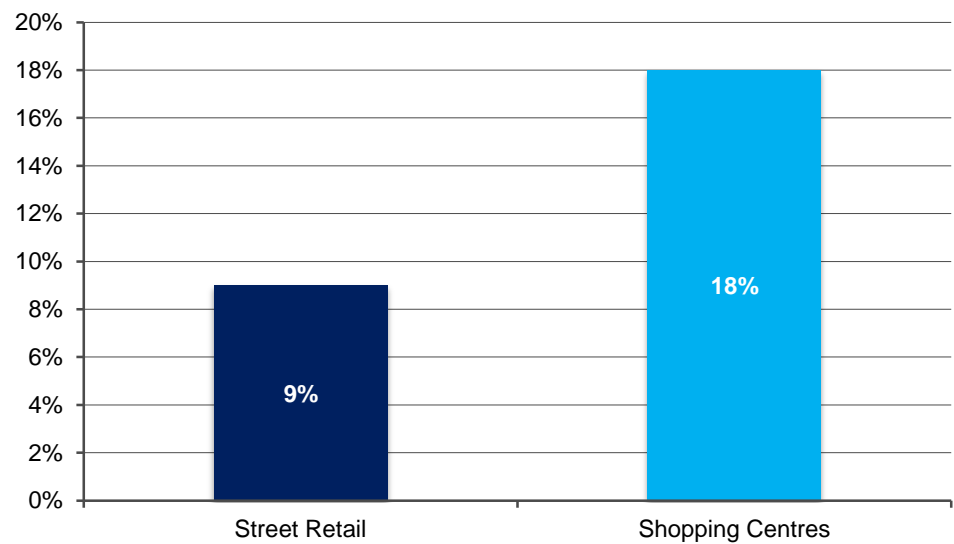
**Exhibit C65: 2014 Retail rents per month, Batumi (US\$ excluding service charges and VAT)**



Source: Colliers International

The vacancy rates for retail in Batumi are between 9% and 10% and approximately 18% for shopping centres.

**Exhibit C66: 2014 Retail Vacancy Rates**



Source: Colliers International

**14.1.2 BATUMI OFFICE MARKET**

In 2014 there was a total of 53,000 m<sup>2</sup> of office space in Batumi, with approximately 40,000 m<sup>2</sup> of it (75%) leasable. The average rent per m<sup>2</sup> per month is \$14.3.

Demand for business space has increased over recent years and is expected to increase further in the near future. This is driven by several factors causing an increase of inflows of international tourists and business people. Such factors include the serious changes and reforms of recent years significantly improving Batumi and Georgia's worldwide reputation; the investment climate becoming much more interesting with government cutting taxes and improving procedures; and the fast growth of Batumi as a tourist destination.

### 14.1.3 BATUMI WAREHOUSE MARKET

There are 280,000 m<sup>2</sup> of warehouse stock in Batumi. Only 142,000 m<sup>2</sup> are in the rental market however since 49% of the stock is owner operated. The majority of the warehouse stock in Batumi is out of date with being located in Soviet-period buildings and only a few units having been renovated in the recent years.

There are both dry and cold warehouses in Batumi and all are either B or C class. The warehouse market in Batumi is summarised below.

#### Exhibit C67: 2014 Batumi Warehouse Market Overview

Class	Sqm	% Share	Vacancy Rate%	Rent Price \$/m <sup>2</sup>
C Class	70,000	49%	33%	\$2.3
B Class	72,000	51%	29%	\$1.8
<b>Total</b>	<b>142,000</b>			

Type	Sqm	% Share	Vacancy Rate%	Rent Price per Ton
Cold	11,000	8%	44%	\$15.2
Dry	131,000	92%	30%	
<b>Total</b>	<b>142,000</b>			

Source: Colliers International

### 14.1.4 SUMMARY

The analysis above provides an insight on provision in Batumi. It suggests there is room for provision of a different type of retail, office and warehouse unit without strong competition with Batumi.

## 14.2 DESCRIPTION OF THE COMPONENT AT THE GONIO RESORT

### 14.2.1 OVERVIEW

Retail space, especially F&B outlets and clothing stores, will be of high importance to give the Gonio Resort a holiday destination feel. The extent of provision will also need to evolve as the resort evolves and expands through its phases.

Additionally the resort will potentially become the first point of interest for people crossing the Sarpi border from Turkey. As such there is good opportunity to attract such people to stop at Gonio Resort and enjoy the shops, cafes and restaurants. This will also help to add to the vibrancy of the resort.

The business / enterprise zone at the eastern tip of the site will also provide good up to date provision of units for small and medium sized businesses (SMEs). This would include offices, and small warehouses and light industrial units.

A schedule of the proposed retail and commercial units at Gonio Resort is shown below.

**Exhibit C68: Commercial and Retail Units at the Gonio Resort – All Phases**

<b>All Phases - COMMERCIAL</b>				
	<b>PHASE</b>	<b>Units</b>	<b>Unit GFA (m<sup>2</sup>)</b>	<b>GFA Total (m<sup>2</sup>)</b>
Kiosk	1	11	20	220
F&B/retai/commercial units	1	1	417	417
F&B/retai/commercial units	1	1	459	459
F&B/retai/commercial units	1	1	461	461
F&B/retai/commercial units	1	1	398	398
F&B/retai/commercial units	1	1	493	493
F&B/retai/commercial units	1	1	176	176
F&B/retai/commercial units	1	1	233	233
Kiosk	2	6	20	120
Kiosk	2	1	30	30
F&B/retai/commercial units	2	1	440	440
F&B/retai/commercial units	2	1	573	573
F&B/retai/commercial units	2	1	517	517
F&B/retai/commercial units	2	1	353	353
F&B/retai/commercial units	2	1	108	108
Kiosk	3	8	20	160
Kiosk	3	4	30	120
F&B/retai/commercial units	3	8	91	728
F&B/retai/commercial units	3	1	263	263
F&B/retai/commercial units	3	1	260	260
F&B/retai/commercial units	3	1	356	356
F&B/retai/commercial units	3	1	112	112
F&B/retai/commercial units	3	1	326	326
Kiosk	3	1	19	19
Enterprise zone 1	3	50	50	2,500
Enterprise zone 2	3	30	700	21,000
<b>Total</b>		<b>136</b>	<b>227</b>	<b>30,842</b>

Source: Colliers International

It is proposed that the Gonio Resort, throughout all phases, will comprise a total of 30,842m<sup>2</sup> of commercial space. Of this only 26,216m<sup>2</sup> will be leasable space. This would comprise 7,342m<sup>2</sup> of retail/ food & beverage/ commercial space, and 23,500m<sup>2</sup> of enterprise space.

The enterprise space is only proposed to be developed in phase 3 since this is when demand is expected to be strongest. It would be possible however to bring the development of the business / enterprise zone forward if desired or transformed into other uses if market conditions suggest in the future.

The development of the retail space at Gonio resort will be spread across the development, with the majority being concentrated in the town centre. Tenants would depend on the location within the resort but brands and established independent providers would be expected to be interested in the town centre area and local food and wine producers, craftsmen and artists would be encouraged to lease space in the cultural area. F&B retail tenants are expected to range between local restaurateurs, café and bar owners; to branded restaurants and bars as well as international fast-food chains.

### 14.3 PROJECTIONS MODELLING

The projections for the retail units have been split by phase. The following assumptions have been made in the projections modelling:

- Of all built Gross Floor Area for units only 85% will be leasable space due to net area sizes;
- Prices per m<sup>2</sup> in base year values of:
  - Phase 1: \$12 per m<sup>2</sup>;
  - Phase 2: \$14 per m<sup>2</sup>, reflecting a real price increase of 17%; and
  - Phase 3: \$10 per m<sup>2</sup>, a composite figure reflecting the lower prices for dry warehouse storage, the higher prices for cold warehouse storage, and the higher prices for retail in the town centre and beach areas.
- For each phase the units are constructed in the first three years of the phase:
  - 40% of construction completed in the first year and ready to be occupied in the second year;
  - 40% of construction completed in the second year and ready to be occupied in the third year, and
  - 20% of construction completed in the third year and ready to be occupied in the fourth year;
- Occupancy during the 3 phases follow the same patterns:
  - 50% vacancy rate in the 2nd year of the phase;
  - 30% vacancy rate in year 3;
  - 20% vacancy rate in year 4;
  - 10% vacancy rate in year 5;

- 5% vacancy rate in year 6 and onwards.
- Inflation is applied to the projections.

#### 14.3.1 PROJECTIONS

Exhibit C69 summarises net operating income generated from the commercial components at the Gonio Resort. They are separated by phase and show the first ten years.

## Exhibit C69: Commercial Components Income

### Phase 1

Phase 1	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Build Pace	40%	40%	20%	0%	0%	0%	0%	0%	0%	0%
m <sup>2</sup> built and finished (net)	971	971	486	-	-	-	-	-	-	-
Cumulative m <sup>2</sup>	971	1,943	2,428	2,428	2,428	2,428	2,428	2,428	2,428	2,428
Voids	100%	100%	50%	30%	20%	10%	5%	5%	5%	5%
Space occupied	-	-	1,214	1,700	1,943	2,186	2,307	2,307	2,307	2,307
Price per m <sup>2</sup> per annum (\$)	0	144	144	144	144	144	144	144	144	144
Total commercial income (\$)	-	-	174,848	244,788	279,757	314,727	332,212	332,212	332,212	332,212
<b>Total commercial income (\$) inflated</b>	<b>-</b>	<b>-</b>	<b>192,291</b>	<b>274,672</b>	<b>320,189</b>	<b>367,525</b>	<b>395,702</b>	<b>403,616</b>	<b>411,688</b>	<b>419,922</b>

Source: Colliers International

### Phase 2

Phase 2	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Build Pace	40%	40%	20%	0%	0%	0%	0%	0%	0%	0%
m <sup>2</sup> built and finished (net)	728	728	364	-	-	-	-	-	-	-
Cumulative m <sup>2</sup>	728	1,456	1,820	1,820	1,820	1,820	1,820	1,820	1,820	1,820
Voids	100%	50%	30%	20%	10%	5%	5%	5%	5%	5%
Space occupied	-	728	1,274	1,456	1,638	1,729	1,729	1,729	1,729	1,729
Price per m <sup>2</sup> per annum (\$)	168	168	168	168	168	168	168	168	168	168
Total commercial income (\$)	-	122,294	214,014	244,588	275,161	290,448	290,448	290,448	290,448	290,448
<b>Total commercial income (\$) inflated</b>	<b>-</b>	<b>154,582</b>	<b>275,928</b>	<b>321,654</b>	<b>369,098</b>	<b>397,395</b>	<b>405,343</b>	<b>413,450</b>	<b>421,719</b>	<b>430,153</b>

Source: Colliers International

### Phase 3

Phase 3	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Build Pace	40%	40%	20%	0%	0%	0%	0%	0%	0%	0%
m <sup>2</sup> built and finished (net)	8,787	8,787	4,393	-	-	-	-	-	-	-
Cumulative m <sup>2</sup>	8,787	17,574	21,967	21,967	21,967	21,967	21,967	21,967	21,967	21,967
Voids	100%	50%	30%	20%	10%	5%	5%	5%	5%	5%
Space occupied	-	8,787	15,377	17,574	19,771	20,869	20,869	20,869	20,869	20,869
Price per m <sup>2</sup> per annum (\$)	120	120	120	120	120	120	120	120	120	120
Total commercial income (\$)	-	1,054,435	1,845,262	2,108,870	2,372,479	2,504,284	2,504,284	2,504,284	2,504,284	2,504,284
<b>Total commercial income (\$) inflated</b>	<b>-</b>	<b>1,561,617</b>	<b>2,787,486</b>	<b>3,249,413</b>	<b>3,728,701</b>	<b>4,014,568</b>	<b>4,094,859</b>	<b>4,176,757</b>	<b>4,260,292</b>	<b>4,345,498</b>

Source: Colliers International

## 14.4 OWNERSHIP AND OPERATIONS RECOMMENDATIONS

The retail units, F&B units, offices and light industrial units will be developed and funded by the masterdeveloper. Occupiers of these units will then pay a lease.

The masterdeveloper may then choose to retain ownership of the units or may sell the properties with their leases in place to investors.

## 15 'INFRAGONIO' AND INFRASTRUCTURE

### 15.1 SERVICE CHARGE AND 'INFRAGONIO'

A service charge is applicable to all components of the resort, without exceptions, to cover for the maintenance and upkeep of the public areas at the Gonio Resort, such as roads, lighting and landscaping of the communal areas. It also covers the various services provided by the resort, namely: security, waste collection and resort management.

The service charge does not cover the upkeep or maintenance of individuals' private property. Those wishing to use such services would do so by separate agreement between the owner and the management company and would be charged accordingly.

The resort would be managed and serviced by an entity that, for the sake of a working title, we have called this entity 'InfraGonio' since it is responsible for the smooth running of the infrastructure of the resort. InfraGonio would collect the service charge and spend it provide to the services. It should be run as a profit-controlled company. The company could be sold and run privately in the future if desired.

### 15.2 INFRASTRUCTURE

#### 15.2.1 THE LAKE, NATURAL AREAS AND PUBLIC REALM

The lake, natural areas, landscaped spaces, event spaces, town centre and cultural quarter are all to be developed and funded by the masterdeveloper and will be retained in the masterdeveloper's ownership. They will be maintained by InfraGonio using funds from the service charge.

The beach and promenade lies predominantly outside of the site boundary and is envisaged to be maintained by the municipality. InfraGonio is likely to want to work with the municipality however ensure the desired beach and promenade experience of the resort is achieved.

#### 15.2.2 MAJOR ROADS, RESORT ROADS, BRIDGE AND PIER

The major access roads to and within the site and the junctions with the site are the responsibility of the government / municipality to develop using public funds. They would be owned and operated by the municipality. This would include for example the transit road that is realigned within the site and the road from the bridge through the site.

The other roads within the site providing circulation so that guests can reach their properties and the facilities would be funded by, developed by and the responsibility of the masterdeveloper.

The bridge over the Chorokhi River and the pier lie beyond the boundary of the site. They are the responsibility of the government / municipality to develop using public funds. They would be owned and operated by the municipality.

### 15.2.3 PARKING AND PUBLIC TRANSPORT

Parking provision will be developed and funded by the masterdeveloper and will be retained in the masterdeveloper's ownership. It will be maintained and operated by InfraGonio. It is envisaged that parking throughout the resort will be charged for and parking in non-designated areas prohibited. The charging is intended as a management strategy to prevent misuse and is not envisaged as a profit-making element.

Parking provision within the resort is shown in the exhibit below. This is provided across a number of locations. An assumed multiple of 21 m<sup>2</sup> per car space is used to identify the number of spaces<sup>2</sup>. This multiple allows for circulation between spaces.

#### Exhibit C70: Public parking provision at the Gonio Resort

	Total surface area m <sup>2</sup>	No. of parking spaces
<b>Public Parking</b>		
Phase1	2,731	130
Phase2	5,154	245
Phase3	8,443	402
<b>Total</b>	<b>16,328</b>	<b>778</b>
<b>Facilities Parking</b>		
Activity Hub - Water Park	2,422	115
Spa - Cinema	2,160	103
Lake Activity - Minigolf	187	9
Lesiure Arcade - Night Club	2,970	141
Hotel - Beach (by Casino)	1,698	81
Aparthotel - Lagoon	2,437	116
Aparthotel - Beach 1	2,395	114
Aparthotel - Beach 2	2,404	114
Aparthotel - Beach 3	1,543	73
Sports Area	2,528	120
<b>Total</b>	<b>20,744</b>	<b>988</b>
<b>Total</b>	<b>37,072</b>	<b>1,765</b>

Source: Colliers International

This provision is considered to be plentiful for the resort attractions and general requirements and is appropriate given the car-orientated society at present and

<sup>2</sup> As used in the UK by Conwy County Borough Council

large extent of the site. Going forward however visitors will also be encouraged to visit by walking, bike, public transport or arranged excursion vehicles.

It is envisaged that the municipality will run public transport to and from the site. This is recommended to include an electric tourist bus service along the whole stretch of the promenade from Batumi to Gonio. The current cycle hire scheme could also be extended. In addition it may be the private enterprises such as the hotel/aparthotels and casino wish to run their own services to Batumi and the airport. InfraGonio could consider running a shuttle service within the resort but this may be difficult to be viable financially and so is not currently included.

#### 15.2.4 UTILITIES

It is the responsibility of the municipality to bring utilities of adequate capacity to the edge of the Gonio Resort site. Detailed technical studies will be required in the future to determine what capacity is required.

Within the site, it is the responsibility of the masterdeveloper to ensure that utility services are provided to properties such as electricity, water and wastewater. These services will then be operated by an external utility operator.

#### 15.2.5 SECURITY, REFUSE COLLECTION AND PUBLIC SERVICES

The masterdeveloper will be responsible for providing resort security within the site and refuse collection from private resort areas to waste collection stations. These services will be funded and operated by InfraGonio.

The municipality will have an interface however in relation to public areas and collection from the site. For example the municipal police will have responsibility for public areas and may be called upon by the security services at InfraGonio for major incidents. Municipality waste collection would also service key waste collection stations within the resort.

Services such a fire brigade, ambulance, social services etc are the responsibility of the municipality.

Educational services are also the responsibility of the municipality. A permanent population that would require these services is not envisaged at the resort however.

#### 15.2.6 SOCIAL INFRASTRUCTURE

Gonio Resort is envisaged as a holiday destination rather than a new town with permanent residents and therefore the extent of social infrastructure required is expected to be minimal. This might include for example a medical clinic for resort guests. Elements such as a crèche are envisaged to be included within the activity hub offer and without a significant permanent population we do not envision the need for a school.

An assumption has been made for social infrastructure provision, with this space totalling 4,754m<sup>2</sup> GFA. This is considered to be more than adequate for purposes as a holiday resort. If the municipality wishes this could be reduced or increased - it is for the municipality to determine depending on envisaged uses. For example a university could be sited at the resort if there were the public funds and conviction to do so but this is not considered a commercially viable prospect and so has not been included.

Depending upon the use, the social infrastructure would be built and funded either by the masterdeveloper or the municipality, and operated by either InfraGonio or the municipality. A resort medical clinic for example would provide a facility that forms part of the smooth running of the resort for guests and so would be built by the masterdeveloper and managed by InfraGonio with day to day operation paid through the service charge and pay-per-use for medical requirements. An educational facility would be the responsibility of the municipality to fund, develop and manage however.

#### 15.2.7 STAFF

It is envisaged that resort staff will predominantly be employed from the local population and therefore live locally. Staff accommodation is therefore not provided for within the site.

#### 15.2.8 PROJECTIONS MODELLING

In modelling projections with regard to the service charge, all elements within the resort including the residential, commercial, leisure and other components are considered to be required to pay.

##### SERVICE CHARGE CALCULATION- RESIDENTIAL

Service charge has been levied as a flat cost of \$0.75 per m<sup>2</sup> per month / \$9 per m<sup>2</sup> per year and is based on the total built areas of the various residential unit types based on phases one to three.

With regard to the residential units service charges are assumed to cover:

- Repair and maintenance of the structure, exterior and internal shared areas of shared buildings, including shared lighting, heating, emergency alarms and door entry systems;
- Site management
- Services and Environment
  - Waste management
  - Pest control
  - Internal floral displays

- Estate cleaning
- External landscaping
- The services of Estate Officers
- Cleaning of shared areas including shared windows
- Insuring the building if it is a block of apartments

### **SERVICE CHARGE CALCULATION - COMMERCIAL AND LEISURE**

Service charge has been levied at \$0.75 per m<sup>2</sup> per month / \$9 per m<sup>2</sup> per year and is based on the total built area of the property.

With regard to the commercial and leisure units charges are assumed to cover:

- Site management
- The services of Estate Officers
- Services and Environment
  - Waste management
  - Pest control
  - Seasonal decorations
  - Internal floral displays
  - Estate cleaning
  - External landscaping
  - Marketing & promotions

Leisure facilities are charged only for 80% of the whole GFA built due to shared communal areas.

### **PROJECTIONS**

Exhibit C71 summarises net operating income generated from the service charge and assumes costs at 60% of total income.

**Exhibit C71: Service Charge 'InfraGonio'**

<b>COSTS</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
Total Income	-	-	489,503	857,851	1,008,129	1,227,476	1,370,127	1,516,577	1,631,537	2,097,312	2,479,914	2,761,902
Total Costs	-	-	483,551	649,980	768,976	930,569	1,043,401	1,159,507	1,247,608	1,594,909	1,898,064	2,121,507
<b>Operating income (\$)</b>	<b>-</b>	<b>-</b>	<b>5,952</b>	<b>207,871</b>	<b>239,153</b>	<b>296,907</b>	<b>326,726</b>	<b>357,070</b>	<b>383,928</b>	<b>502,403</b>	<b>581,849</b>	<b>640,395</b>

Source: Colliers International

## 16 ROLES AND PRIORITIES

### 16.1 GOVERNMENT ROLE AND SPENDING PRIORITIES

The recommended role and type of involvement of the Government is described below.

#### 16.1.1 ENABLING THE PROJECT TO COMMENCE

The next steps in enabling the project to progress beyond this Business Plan and Concept Masterplan are as follows:

- Assessment of the technical feasibility of the proposals and geo-technical potential of enabling the site
- Obtain the appropriate top level permissions for the development – for example initial planning agreement. Obtaining this is likely to include the completion of other studies such as environmental impact etc.
- If a masterdeveloper is not already identified, then a tender will need to be created for attracting a masterdeveloper for the site.
  - This will need to be supported by associated marketing material to promote the tender and opportunity.
  - A developer agreement will also need to be created specifying the role and expectations of the masterdeveloper.
- It is assumed that the site would then be sold to the masterdeveloper, who in the process will commit to responsibilities and achievement milestones
- It is envisaged that the Detailed Masterplan stage would be undertaken by the masterdeveloper and so this is discussed below. If however interested parties wish to see greater detail and associated studies sooner, the Detailed Masterplan and studies that will inform it could be undertaken by the government.

#### 16.1.2 ENABLING THE SITE

The most urgent priority to allow technical feasibility to be assessed is to make the site safe for research. It is understood that this requires de-mining to enable drilling to take place.

Further priorities for the government are as follows, with those carrying the greatest priority at the top:

- Site clearance and ensuring safety of the site for all studies

- Bring required services with sufficient capacity to cope with the proposed development to the edge of the site
- Creation of the major connecting roads within the site and road junctions road junctions at site access points
- Creation of the bridge across the River Chorokhi, if there is to be one
- Limit the River Chorokhi from encroaching further on the site

### 16.1.3 SUPPORTING THE RESORT AND ENHANCING EXPERIENCES

Government also has a role in enhancing the surrounding experience and connections to the resort. This includes:

- Development and enhancement of the beachfront promenade
- Development of a pier to allow sea access to the town centre and rest of the resort, and indeed indirectly to the Gonio Fortress.
- Development of public transport links between Gonio Resort and Batumi, and Gonio Resort and Gonio fortress. This could include an electric tourist bus that runs up and down the entire Batumi/Gonio promenade, and extension of the cycle hire scheme.
- Enhancement of the Gonio fortress experience to create a richer experience for tourists.

Within the Gonio Resort itself once built, the role of the municipality is described in Section 15.

### THE WIDER CONTEXT

A further governmental role, predominantly through the Department of Tourism and Resorts of Adjara, is in relation to enhancing the tourism offer of the Batumi and Gonio area as a whole. Key elements will include:

- Tourism strategy and action plan
- Tourist surveys to better understand the market and potential
- Events and festivals to broaden the season further
- Influencing air link improvements
- Further marketing of the area to promote visits
- Improved marketing of attractions within the area to visiting tourists, day visitors and those passing through

## 16.2 PRIVATE SECTOR ROLE AND PRIORITIES

The recommended role and type of involvement of the private sector is described below.

### 16.2.1 MASTERDEVELOPER

#### THE MASTERDEVELOPER'S ROLE AND PRIORITIES

The masterdeveloper will be responsible for the development of the entire site. They would also retain ownership of all elements that they wished to.

Once commencing, key priorities will be to build to the key infrastructure within the site – this would include the lake, waterpark, activity hub, town centre, hotel and casino, lagoon and Phase 1 circulation etc.

The masterdeveloper would also split the land into development parcels for selling to individual developers. These parcels are likely to be areas of land for predominantly residential development. Any purchaser would need to agree to specific terms with the masterdeveloper so that the masterdeveloper can ensure that every development fits to guidelines of design and operation, and will be completed and occupied within an agreed timescale. Parcelisation can only occur once a Detailed Masterplan has been completed.

It may well be that the masterdeveloper also wishes to retain and develop out some of the early residential areas themselves, or with a co-investor, to take advantage of the value added from the infrastructural investments made.

Especially after the first 5-7 years the masterdeveloper will be particularly well placed to sell development parcels at premium prices having added significant value from the development of the core resort.

#### Preparing the project

The following provides an indication of the earliest priorities prior to the project commencing. This list is not exhaustive but is provided as an indication of some of the matters to be considered. Many of these should occur prior to or in parallel with the Detailed Masterplanning process.

- Safety at the site for technical studies
- Analysis of the base conditions at the site:
  - Ground conditions: load bearing capacity and types of soil
  - Seismic analysis
  - Contamination (ex-military use, possible land mines and nearby landfill)
  - Topographical study (levels above sea levels and contours) and tree locations

- Sea erosion and storm surges from the sea
- Flooding from the river
- Ground water
- Analysis in relation to the proposed development
  - Technical and engineering viability and input
  - Traffic engineering
  - MEP engineering
  - Utilities location and capacity
  - Crystal Lagoon detailed advisory
  - Water engineering in reference to the lake
  - Waterpark advisory
  - Strategic environmental and social analysis
  - Cost consultancy
  - Consultation with appropriate parties
  - Planning permission advisory

Depending on the results of these studies it may be that additional analysis is required.

The masterdeveloper may also wish to consider specific sections of the first phase of the Detailed Masterplan for early development from a detailed business perspective in relation to individual investments and selection and negotiation with operators. The masterdeveloper will also want to set clear guidelines for any sections of land that are sold to third parties to develop.

### **CHARACTERISTICS OF THE MASTERDEVELOPER**

The masterdeveloper is likely to be an entity with funding for the initial development of the Resort. This entity could be a foreign developer if interest can be found. It is likely however to be a Georgian entity with which other investors can co-invest.

The entity would either already have a development team or, most likely, they would build one specifically for this project. Such a team could be created as a development company employing the talented and experienced that make up the team. These individuals would have managed and directed development of similar projects elsewhere in the world and certain members would also have a good understanding of development in Georgia. The bespoke development company would also be able to draw of the expertise of professional companies for analysis

and advice on specific elements – engineering, design, business, strategic, legal etc.

#### 16.2.2 OTHER PRIVATE SECTOR INVOLVEMENT

Further private sector involvement will stem from the masterdeveloper. This might include co-investors, individual developers who have purchased land from the masterdeveloper, third party advisors to the masterdeveloper, and operators of certain elements engaged by the masterdeveloper or individual developers. Further the 'InfraGonio' company could be run as a private sector entity.

Once the resort is developed and operating private sector entities will also be involved with regard to renting retail, F&B and commercial space; operating hotel and leisure elements; contracts with InfraGonio for certain services such public areas maintenance; contracts with owners/developers for the rental of residential units; running local tours etc. This is just a sample of the level of involvement of the private sector that will result from the development of the resort.

# 17 DEVELOPMENT COSTS

## 17.1 INTRODUCTION TO ESTIMATES

Development and infrastructure cost estimates are provided in this section.

All such costs included in the financial modelling for Gonio Resort are Colliers International estimates. These estimates are informed by data from a number of different sources including relevant comparators in Georgia, CIS countries and the region, and Europe where information had been provided by international costs consultants and contractors. Every project is different however and specific technical situations can have a key influence on costs. Colliers International are not cost consultants or specialist cost advisors and so all cost estimates provided should be considered highly preliminary and treated with caution. All costs should be explored further by specialists once the more specific circumstances of the development are known.

## 17.2 RESORT COMPONENTS CONSTRUCTION COSTS

The construction costs for each component of the resort are show in the table below. They are shown in 2014 year end values \$ per square metre:

**Exhibit C72: Estimated construction costs for resort components**

Component	Price (\$) / m <sup>2</sup>
<b>Residential</b>	
Apartments	700
Town Houses	700
Linked Villas	710
Villas	720
<b>Hotel</b>	
Hotel	1,480
<b>Other Components</b>	
Waterpark	7,500
Crystal Lagoon	40
Leisure and Activity Hub	2,000
Casino*	900
Casino**	5,425
Commercial	550

*\*Excludes required start-up funds*

*\*\*Includes required start-up funds*

*Source: Colliers International*

## RESIDENTIAL COMPONENT

The construction costs for the residential elements are based on Colliers International estimates and previous experience in Georgia. We note that these costs may appear high in comparison to the average construction cost in Georgia however these represent the costs of building high quality, turn-key (ready to live) residential units. Many buildings in Georgia have lower construction costs but these buildings have low quality finishing and sometimes do not even include windows in the building.

## HOTEL COMPONENT

The construction costs for the Hotel are based on Colliers International previous experience in the Georgia hotel market. These are estimated for a mid-scale hotel with all the appropriate facilities and furniture, fixtures & equipment ("FF&E"). These costs are only applied to the Hotel as the aparthotels will be sold on a plot basis.

## WATERPARK

The development costs of the waterpark have been estimated at \$7,500 per m<sup>2</sup> for the covered component. This totals \$30,540,000. This is a higher construction cost for a waterpark than the average indoor waterpark however it is intended to represent a waterpark with an international standard dome and the best and highest quality of all pools and slides.

Considerations informing this cost assumption include the following.

- The capital expenditure (excluding land) to building a standard sized indoor waterpark are in the region of €20m in Eastern Europe and €25 m in Western Europe.
- Colliers International held meetings with Edmond Shipway LLP (a project management, cost consultancy and building surveying company) and Holder Mathias (Architects) who have both worked closely with Center Parcs in the UK on the development of their indoor waterpark domes. At a very top level a cost of \$10,200 per m<sup>2</sup> was discussed as a rule of thumb for the high standard of a Center Parcs dome including fit-out, pools, etc. in the UK. Their 'domes' tend to have an areas of approximately 5,200 m<sup>2</sup>. It is noted however that labour costs in the UK are considerably higher than in Georgia.
- The Aquaworld indoor waterpark in Budapest is reported to have cost the equivalent of \$ 7,157 per m<sup>2</sup>, with a 'dome' of 4,200 m<sup>2</sup>.

## LAGOON

The building costs for the lagoon have been estimated based on information provided by Crystal Lagoons, the leading large-sized lagoons developer in the

world. For a medium sized lagoon, such as the proposed at the Gonio Resort, a development cost of \$40/m<sup>2</sup> is suggested.

### **LEISURE ACTIVITIES & ACTIVITY HUB**

The costs for the activities and activity hub have been estimated at \$2,050 / m<sup>2</sup>. This cost is an average from different examples such as an indoor sports and leisure centres in the UK; rules of thumb for Family Entertainment Centres; Leisure Arcade typical development costs; and other sources for eg. bowling, karting, etc. We consider this cost to be a reasonable average, even slightly generous, considering the leisure facility mix and the minimum design needed in a leisure arcade facility, karting, etc.

### **CASINO COMPONENT**

The casino component development costs have been provided by Mike Nuttall from Global Retail Consultancy. Mr. Nuttall has extensive experience in the casino consultancy field and has been actively involved in several of the major casino-related developments in Batumi. The costs are estimated at \$900 / m<sup>2</sup> without any FF&E and required start-up funds or \$5,425 / m<sup>2</sup> for a ready to open casino.

### **OTHER COMMERCIAL COMPONENTS**

The construction costs for the commercial components are based on Colliers International estimates and previous experience in Georgia. A cost \$550 / m<sup>2</sup> has been estimated. This includes \$400 / m<sup>2</sup> for a basic shell, excluding HVAC but it would cover basic installations and the shell finishing. In addition, \$150 / m<sup>2</sup> has been added for tenant improvement, however not complete fitting with the remainder of the fit out costs to be covered by the tenants.

## **17.3 INFRASTRUCTURE**

Infrastructure costs have been estimated by Colliers International based on previous resort development experience and various third party information sources. These should be regarded as highly preliminary and treated with caution. At the next stage of detail in the project's development it will be highly important that costings are provided by a cost consultant with Batumi experience and Professional Indemnity cover for their estimates.

The estimates and phasing of costs used in the financial modelling as shown the following table. It should be remembered that these costs assume a safe, cleared and serviced site to its boundaries. Linking roads, the bridge and pier etc. are not included since they would not be the responsibility of the masterdeveloper.

**Exhibit C73: Infrastructure Costs and Phasing (not inflated)**

	2017	2018	2019	Total Phase 1	2025	2026	Total Phase 2	2034	2035	Total Phase 3	Total All Phases
<b>Phasing</b>											
Lake	50%	30%	20%	100%	0%	0%	0%	0%	0%	0%	100%
Reservation Area	50%	30%	20%	100%	0%	0%	0%	0%	0%	0%	100%
Electricity	30%	30%	20%	80%	10%	0%	10%	10%	0%	10%	100%
Water & Sewage	30%	30%	20%	80%	10%	0%	10%	10%	0%	10%	100%
Roads & Circulation	30%	20%	10%	60%	10%	10%	20%	10%	10%	20%	100%
Trails	50%	30%	20%	100%	0%	0%	0%	0%	0%	0%	100%
Promenade	30%	30%	20%	80%	10%	0%	10%	10%	0%	10%	100%
Green Space	30%	30%	20%	80%	10%	0%	10%	10%	0%	10%	100%
Other Landscaping	30%	30%	20%	80%	10%	0%	10%	10%	0%	10%	100%
<b>Costs</b>											
Lake	1,369,600	821,760	547,840	2,739,200	-	-	-	-	-	-	2,739,200
Reservation Area	97,290	58,374	38,916	194,579	-	-	-	-	-	-	194,579
Electricity	809,304	809,304	539,536	2,158,144	269,768	-	269,768	269,768	-	269,768	2,697,680
Water & Sewage	809,304	809,304	539,536	2,158,144	269,768	-	269,768	269,768	-	269,768	2,697,680
Roads & Circulation	3,034,890	2,023,260	1,011,630	6,069,780	1,011,630	1,011,630	2,023,260	1,011,630	1,011,630	2,023,260	10,116,300
Trails	56,680	34,008	22,672	113,360	-	-	-	-	-	-	113,360
Promenade	54,216	54,216	36,144	144,576	18,072	-	18,072	18,072	-	18,072	180,720
Green Space	222,582	222,582	148,388	593,551	74,194	-	74,194	74,194	-	74,194	741,939
Other Landscaping	152,538	152,538	101,692	406,768	50,846	-	50,846	50,846	-	50,846	508,460
<b>Total (\$)</b>	<b>6,606,403</b>	<b>4,985,345</b>	<b>2,986,354</b>	<b>14,578,102</b>	<b>1,694,278</b>	<b>1,011,630</b>	<b>2,705,908</b>	<b>1,694,278</b>	<b>1,011,630</b>	<b>2,705,908</b>	<b>19,989,918</b>

Source: Colliers International

## 17.4 OTHER DEVELOPMENT COSTS

Other key development cost assumptions include the following.

- Contingency Fees 5.00%
- Price/Design Allowance 0.75%
- Professional Fees 6.00%
- Residential Sales Costs 5.00%

## 17.5 TOTAL DEVELOPMENT COSTS

The total development costs at the Gonio Resort in base year values (end 2014) are shown in the table below.

**Exhibit C74: Total Development Costs, US\$ Base Year Values, End 2014**

<i>in '000 \$</i>	<i>in Year End 2014 Values</i>	
<b>TOTAL DEVELOPMENT COSTS</b>	<b>Total</b>	<b>% of Total Cost</b>
RESIDENTIAL	493,465	73.11%
RETAINED HOTEL (BEACH CASINO)	11,128	1.65%
ACTIVITY HUB/LEISURE FACILITIES	22,350	3.31%
WATERPARK	30,540	4.52%
RETAIL, F&B AND BUSINESS UNITS	14,419	2.14%
CASINO	6,271	0.93%
CRYSTAL LAGOON	3,481	0.52%
INFRASTRUCTURE	20,480	3.03%
<b>BASE CONSTRUCTION COSTS</b>	<b>604,017</b>	<b>89.49%</b>
CONTINGENCY	30,201	4.47%
PRICE/DESIGN ALLOWANCE	4,530	0.67%
PROFESSIONAL FEES	36,241	5.37%
<b>TOTAL OTHER DEVELOPMENT COSTS</b>	<b>70,972</b>	<b>10.51%</b>
<b>TOTAL DEVELOPMENT COSTS</b>	<b>674,989</b>	<b>100%</b>

Source: Colliers International

The total size of investment is \$675.9 million over the life of the project in 2014 year end values. In future values (inflation) this would equate to \$905.7 million which can be split by phase as follows (in future values).

- Phase 1: \$262.1 million
- Phase 2: \$272.5 million
- Phase 3: \$371.1 million

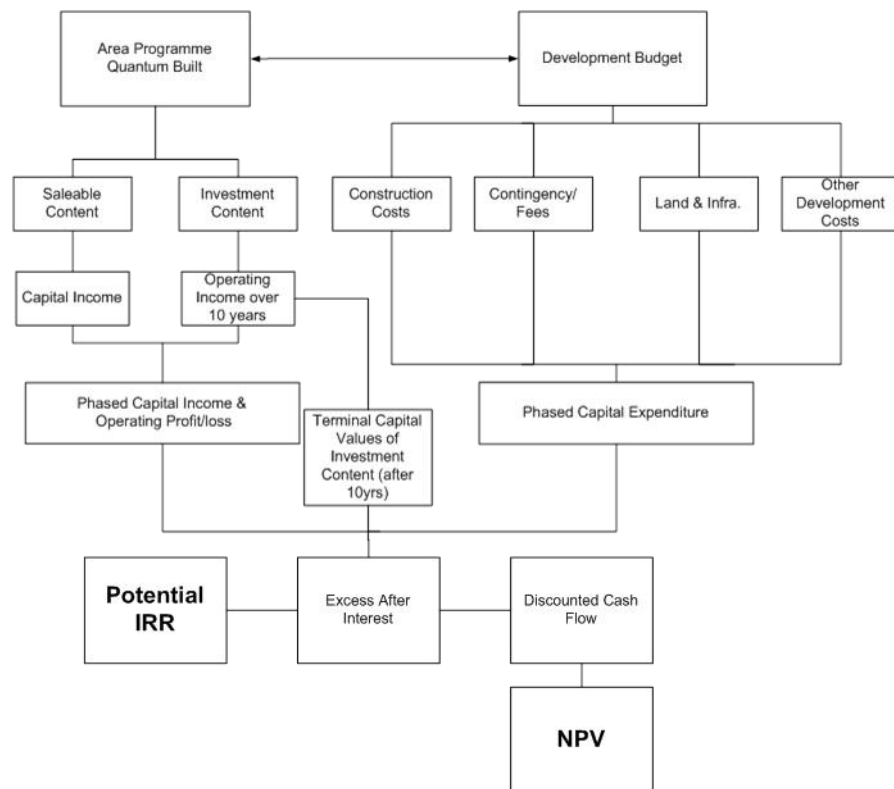
# 18 DEVELOPMENT APPRAISAL

## 18.1 FINANCIAL FEASIBILITY MODEL

Colliers International has created a bespoke model for the Gonio Resort project. This is a complex model that has allowed examination of the financial feasibility of key individual elements and the resort as a whole.

The model has also been designed to allow calculation of the NPV and potential IRR. The chart below summarises the inputs and outputs of the model.

**Exhibit C75: Financial Feasibility Model**



Source: Colliers International

## 18.2 SUMMARY OF THE FINANCIAL ANALYSIS

The financial results of the unleveraged base scenario are summarised in Exhibit C76. The table shows the potential income and development costs of the proposed Gonio Resort over 10 years. The summary section of the table calculates the EBITDA (earnings before interest, tax, depreciation and amortisation), and the cumulative surplus/deficit.

The forecast cash flow shows a significant deficit in the first seven years reflecting the substantial capital outflows required at the start of this project.

The terminal values of the operating elements of the resort (hotel, activity hub, waterpark, casino, etc) are calculated based on the capitalisation of the operating income in their tenth year of operation. The terminal values have been added to the income of 2028. These terminal values and investment analysis are shown below.

**Exhibit C76: Value of Retained Assets**

INVESTMENT ANALYSIS		IN '000 \$	
VALUE OF RETAINED ASSETS	TERMINAL CAP RATES	TERMINAL VALUES	
RETAINED HOTEL (BEACH CASINO)	12.0%	17,404	
ACTIVITY HUB/LEISURE FACILITIES	15.0%	30,216	
WATERPARK	15.0%	26,897	
CASINO	9.0%	64,004	
OTHER INCOME	20.0%	7,983	
<b>TOTAL RETAINED ASSETS</b>		<b>146,504</b>	
NPV (\$), AS OF 2029	DISCOUNT FACTOR		
RESIDENTIAL	10.0%	106,028	
APARTHOTEL LAND	15.0%	2,561	
<b>TOTAL RESIDENTIAL AND APARTHOTEL LAND</b>		<b>108,589</b>	
<b>TOTAL TERMINAL VALUES</b>		<b>255,093</b>	

Source: Colliers International

The following tables summarise the forecast cash flow for the proposed Gonio Resort project for the first 10 years and the forecast cash flow per phase.

### Exhibit C77: Summary Forecasted Cash Flow (\$)

IN '000 \$ / YEAR	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total 2017 - 2028
		0	1	2	3	4	5	6	7	8	9	10	
<b>INCOME (\$) (CAPITAL GAINS)</b>													
NET RESIDENTIAL SALES	-	20,496	47,471	40,087	34,103	26,766	25,781	23,963	20,336	32,617	61,963	56,246	389,827
SALE OF APARTHOTEL DEVELOPMENT SITES	-	4,312	-	-	-	4,671	-	-	-	7,584	-	-	16,567
<b>TOTAL</b>	<b>-</b>	<b>24,808</b>	<b>47,471</b>	<b>40,087</b>	<b>34,103</b>	<b>31,437</b>	<b>25,781</b>	<b>23,963</b>	<b>20,336</b>	<b>40,201</b>	<b>61,963</b>	<b>56,246</b>	<b>406,394</b>
<b>NET OPERATING INCOME (\$) (NOI)</b>													
RETAINED HOTEL (BEACH CASINO)	-	-	614	984	1,409	1,855	1,892	1,929	1,968	2,007	2,048	2,088	16,794
ACTIVITY HUB/LEISURE FACILITIES	-	-	(2)	1,002	1,747	2,486	2,609	3,094	3,244	4,087	4,321	4,532	27,121
WATERPARK	-	-	320	1,532	2,109	2,724	2,881	3,035	3,518	3,696	3,864	4,035	27,712
CASINO	-	-	2,128	3,017	3,862	4,398	4,380	5,322	5,428	5,537	5,647	5,760	45,480
OTHER INCOME	-	-	198	483	470	708	859	946	984	1,269	1,481	1,597	8,994
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>3,258</b>	<b>7,017</b>	<b>9,597</b>	<b>12,171</b>	<b>12,621</b>	<b>14,327</b>	<b>15,142</b>	<b>16,595</b>	<b>17,361</b>	<b>18,012</b>	<b>126,101</b>
<b>TOTAL INCOME</b>	<b>-</b>	<b>24,808</b>	<b>50,729</b>	<b>47,104</b>	<b>43,700</b>	<b>43,608</b>	<b>38,402</b>	<b>38,290</b>	<b>35,477</b>	<b>56,795</b>	<b>79,323</b>	<b>74,258</b>	<b>532,495</b>
BASE CONSTRUCTION COSTS	47,767	69,516	49,720	16,031	15,810	15,759	10,021	8,149	17,827	36,611	32,528	22,317	342,055
TOTAL OTHER DEVELOPMENT COSTS	5,613	8,168	5,842	1,884	1,858	1,852	1,177	958	2,095	4,302	3,822	2,622	40,191
<b>TOTAL DEVELOPMENT COSTS</b>	<b>53,380</b>	<b>77,684</b>	<b>55,562</b>	<b>17,915</b>	<b>17,667</b>	<b>17,611</b>	<b>11,198</b>	<b>9,107</b>	<b>19,922</b>	<b>40,913</b>	<b>36,350</b>	<b>24,939</b>	<b>382,247</b>
EBITDA	(53,380)	(52,876)	(4,833)	29,189	26,033	25,997	27,204	29,183	15,555	15,882	42,974	49,320	150,248
CUMMULATIVE SURPLUS/DEFICIT	(53,380)	(106,256)	(111,088)	(81,899)	(55,866)	(29,869)	(2,665)	26,518	42,073	57,955	100,929	150,248	

Source: Colliers International

Exhibit C78: Forecasted Cash Flow (\$)

INCOME (\$) (CAPITAL GAINS)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	TOTAL		
NET RESIDENTIAL SALES	-	20,495,531	47,471,129	40,086,627	34,103,042	26,765,641	25,780,745	23,963,137	20,335,792	32,616,574	61,962,708	56,245,972	41,445,546	39,767,575	39,491,853	35,710,269	37,509,465	44,070,405	62,162,528	61,077,897	51,583,464	48,090,830	41,590,162	39,117,839	41,077,077	45,614,002	44,288,862	40,985,189	38,483,541	32,098,949	19,059,129	1,193,051,482		
SALE OF APARTHOTEL DEVELOPMENT SITES	-	4,312,349	-	-	-	4,671,029	-	-	-	7,584,108	-	-	-	-	-	-	5,923,994	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,491,480	
<b>TOTAL</b>	-	<b>24,807,879</b>	<b>47,471,129</b>	<b>40,086,627</b>	<b>34,103,042</b>	<b>31,436,670</b>	<b>25,780,745</b>	<b>23,963,137</b>	<b>20,335,792</b>	<b>40,200,682</b>	<b>61,962,708</b>	<b>56,245,972</b>	<b>41,445,546</b>	<b>39,767,575</b>	<b>39,491,853</b>	<b>35,710,269</b>	<b>37,509,465</b>	<b>49,994,399</b>	<b>62,162,528</b>	<b>61,077,897</b>	<b>51,583,464</b>	<b>48,090,830</b>	<b>41,590,162</b>	<b>39,117,839</b>	<b>41,077,077</b>	<b>45,614,002</b>	<b>44,288,862</b>	<b>40,985,189</b>	<b>38,483,541</b>	<b>32,098,949</b>	<b>19,059,129</b>	<b>1,215,542,962</b>		
<b>NET OPERATING INCOME (\$ (NOI))</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>	<b>2032</b>	<b>2033</b>	<b>2034</b>	<b>2035</b>	<b>2036</b>	<b>2037</b>	<b>2038</b>	<b>2039</b>	<b>2040</b>	<b>2041</b>	<b>2042</b>	<b>2043</b>	<b>2044</b>	<b>2045</b>	<b>2046</b>	<b>2047</b>	<b>TOTAL</b>		
RETAINED HOTEL (BEACH CASINO)	-	-	613,871	983,934	1,408,784	1,854,525	1,891,615	1,929,448	1,968,037	2,007,397	2,047,545	2,088,496	2,130,266	2,172,871	2,216,329	2,260,655	2,305,869	2,351,986	2,399,026	2,447,006	2,495,946	2,545,865	2,596,783	2,648,718	2,701,693	2,755,726	2,810,841	2,867,058	2,924,399	2,982,887	3,042,545	65,450,122		
ACTIVITY HUB/LEISURE FACILITIES	-	-	(1,546)	1,001,986	1,747,361	2,486,301	2,609,152	3,094,166	3,243,594	4,086,502	4,320,977	4,532,352	4,900,569	5,096,711	5,298,147	5,500,876	5,679,014	5,917,693	6,426,140	6,770,851	6,906,268	7,044,393	7,185,281	7,328,987	7,475,566	7,625,078	7,777,579	7,933,131	8,091,793	8,253,629	8,418,702	156,751,253		
WATERPARK	-	-	319,528	1,531,957	2,108,819	2,724,422	2,880,986	3,035,046	3,517,623	3,695,589	3,863,962	4,034,511	4,210,196	4,535,458	4,730,058	4,929,904	5,098,844	5,254,725	5,333,540	5,580,529	5,692,140	5,805,983	5,922,102	6,040,544	6,161,355	6,284,582	6,410,274	6,538,479	6,669,249	6,802,634	6,938,687	136,651,725		
RETAIL, F&B AND BUSINESS UNITS	-	-	192,291	274,672	320,189	367,625	395,702	403,616	411,688	574,504	704,249	758,540	814,722	851,932	868,971	886,350	904,077	2,483,776	3,728,088	4,208,826	4,707,303	5,012,742	5,112,997	5,215,257	5,319,562	5,425,953	5,534,472	5,645,162	5,758,065	5,873,226	5,990,691	78,745,149		
CASINO	-	-	2,127,918	3,017,045	3,862,265	4,397,789	4,380,233	5,321,696	5,428,130	5,536,693	5,847,427	5,760,375	5,875,583	5,993,094	6,112,956	6,235,215	6,359,920	6,487,118	6,616,860	6,749,198	6,884,182	7,021,865	7,162,303	7,305,549	7,451,660	7,600,693	7,752,707	7,907,761	8,065,916	8,227,234	8,391,779	179,681,162		
CRYSTAL LAGOON	-	-	-	-	(89,449)	43,943	136,510	185,632	188,595	191,594	194,629	197,702	200,812	203,958	207,141	210,361	213,618	216,911	220,241	223,607	227,009	230,447	233,921	237,430	240,975	244,554	248,168	251,815	255,496	259,210	262,957	5,437,786		
SERVICE CHARGE	-	-	5,952	207,871	239,153	296,907	326,726	357,070	383,928	502,403	581,849	640,395	692,926	752,815	802,610	859,884	912,803	1,042,289	1,173,449	1,262,618	1,353,604	1,431,745	1,501,095	1,571,288	1,648,981	1,730,567	1,806,558	1,886,369	1,957,575	2,029,343	2,069,930	30,028,703		
<b>TOTAL</b>	-	-	<b>3,258,015</b>	<b>7,017,465</b>	<b>9,597,122</b>	<b>12,171,412</b>	<b>12,620,923</b>	<b>14,326,674</b>	<b>15,141,595</b>	<b>16,594,681</b>	<b>17,380,638</b>	<b>18,012,373</b>	<b>18,825,074</b>	<b>19,606,840</b>	<b>20,236,211</b>	<b>20,883,245</b>	<b>21,474,144</b>	<b>23,754,497</b>	<b>25,897,344</b>	<b>27,242,635</b>	<b>28,266,452</b>	<b>29,093,040</b>	<b>29,714,482</b>	<b>30,347,773</b>	<b>30,999,791</b>	<b>31,667,153</b>	<b>32,340,599</b>	<b>33,029,774</b>	<b>33,722,493</b>	<b>34,428,164</b>	<b>35,115,290</b>	<b>652,745,900</b>		
<b>TOTAL INCOME</b>	-	<b>24,807,879</b>	<b>50,729,145</b>	<b>47,104,092</b>	<b>43,700,164</b>	<b>43,608,082</b>	<b>38,401,668</b>	<b>38,289,811</b>	<b>35,477,387</b>	<b>56,795,363</b>	<b>79,323,346</b>	<b>74,258,345</b>	<b>60,270,620</b>	<b>59,374,414</b>	<b>59,728,064</b>	<b>56,593,514</b>	<b>58,983,609</b>	<b>73,748,896</b>	<b>88,059,872</b>	<b>88,320,532</b>	<b>79,849,916</b>	<b>77,183,871</b>	<b>71,304,644</b>	<b>69,465,612</b>	<b>72,076,868</b>	<b>77,281,155</b>	<b>76,629,461</b>	<b>74,014,964</b>	<b>72,206,034</b>	<b>66,527,114</b>	<b>54,174,419</b>	<b>1,868,288,862</b>		
<b>DEVELOPMENT COSTS</b>																																		
<b>CONSTRUCTION COSTS (\$)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>	<b>2032</b>	<b>2033</b>	<b>2034</b>	<b>2035</b>	<b>2036</b>	<b>2037</b>	<b>2038</b>	<b>2039</b>	<b>2040</b>	<b>2041</b>	<b>2042</b>	<b>2043</b>	<b>2044</b>	<b>2045</b>	<b>2046</b>	<b>2047</b>	<b>TOTAL</b>		
RESIDENTIAL	27,962,780	28,041,276	27,221,592	14,838,616	15,135,388	15,442,637	9,895,862	8,033,260	10,848,918	31,536,177	32,166,901	22,316,529	29,024,880	26,171,366	23,212,325	23,197,015	34,916,354	37,960,688	36,794,123	30,540,316	36,828,055	31,774,145	32,409,628	32,328,785	27,574,083	17,196,678	17,540,612	-	-	-	-	680,908,988		
RETAINED HOTEL (BEACH CASINO)	1,176,531	7,198,250	3,671,467	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,046,248	
ACTIVITY HUB/LEISURE FACILITIES	4,017,056	6,023,812	2,457,956	-	-	-	-	3,877,561	2,825,080	-	-	-	-	-	-	-	-	4,634,044	3,376,232	-	-	-	-	-	-	-	-	-	-	-	-	-	27,211,743	
WATERPARK	3,228,870	19,754,869	10,075,971	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,059,710	
RETAIL, F&B AND BUSINESS UNITS	564,850	575,978	293,777	-	-	-	-	-	496,148	506,071	258,096	-	-	-	-	-	7,017,070	7,157,411	3,650,280	-	-	-	-	-	-	-	-	-	-	-	-	-	20,519,682	
CASINO	3,315,201	2,028,306	1,379,384	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,722,891	
CRYSTAL LAGOON	-	-	1,308,437	1,192,477	674,301	316,443	124,833	116,032	98,468	70,097	42,899	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,943,987		
INFRASTRUCTURE	7,019,329	5,401,135	3,311,293	-	-	-	-	-	2,176,250	1,337,351	59,805	-	-	-	-	-	147,107	2,621,760	1,642,974	-	-	-	-	-	-	-	-	-	-	-	-	-	23,717,005	
SOCIAL INFRASTRUCTURE	482,516	492,022	-	-	-	-	-	-	329,914	336,512	-	-	-	-	-	-	-	337,952	315,985	-	-	-	-	-	-	-	-	-	-	-	-	-	2,294,901	
<b>TOTAL</b>	<b>47,767,132</b>	<b>69,515,649</b>	<b>49,719,878</b>	<b>16,031,093</b>	<b>15,809,689</b>	<b>15,759,080</b>	<b>10,020,695</b>	<b>8,149,292</b>	<b>17,827,259</b>	<b>36,611,289</b>	<b>32,527,702</b>	<b>22,316,529</b>	<b>29,024,880</b>	<b>26,171,366</b>	<b>23,212,325</b>	<b>23,197,015</b>	<b>42,080,531</b>	<b>52,711,856</b>	<b>45,779,595</b>	<b>30,540,316</b>	<b>36,828,055</b>	<b>31,774,145</b>	<b>32,409,628</b>	<b>32,328,785</b>	<b>27,574,083</b>	<b>17,196,678</b>	<b>17,540,612</b>	-	-	-	-	<b>810,425,155</b>		
<b>BASE CONSTRUCTION COSTS</b>	<b>47,767,132</b>	<b>69,515,649</b>	<b>49,719,878</b>	<b>16,031,093</b>	<b>15,809,689</b>	<b>15,759,080</b>	<b>10,020,695</b>	<b>8,149,292</b>	<b>17,827,259</b>	<b>36,611,289</b>	<b>32,527,702</b>	<b>22,316,529</b>	<b>29,024,880</b>	<b>26,171,366</b>	<b>23,212,325</b>	<b>23,197,015</b>	<b>42,080,531</b>	<b>52,711,856</b>	<b>45,779,595</b>	<b>30,540,316</b>	<b>36,828,055</b>	<b>31,774,145</b>	<b>32,409,628</b>	<b>32,328,785</b>	<b>27,574,083</b>	<b>17,196,678</b>	<b>17,540,612</b>	-	-	-	-	<b>810,425,155</b>		
<b>OTHER DEVELOPMENT COSTS (\$)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>	<b>2032</b>	<b>2033</b>	<b>2034</b>	<b>2035</b>	<b>2036</b>	<b>2037</b>	<b>2038</b>	<b>2039</b>	<b>2040</b>	<b>2041</b>	<b>2042</b>	<b>2043</b>	<b>2044</b>	<b>2045</b>	<b>2046</b>	<b>2047</b>	<b>TOTAL</b>		
CONTINGENCY	2,388,357	3,475,782	2,485,994	801,555	790,484	787,954	501,035	407,465	891,363	1,830,564	1,626,385	1,115,826	1,451,244	1,308,568	1,160,616	1,159,851	2,104,027	2,635,593	2,288,980	1,527,016	1,841,403	1,588,707	1,620,481	1,616,439	1,378,704	859,834	877,031	-	-	-	-	40,521,258		
PRICE/DESIGN ALLOWANCE	358,253	521,367	372,899	120,233	118,573	118,193	75,155	61,120	133,704	274,585	243,958	167,374	217,687	196,285	174,092	173,978	315,604	395,339	343,347	229,052	276,210	238,306	243,072	242,466	206,806	128,975	131,555	-	-	-	-	6,078,189		
PROFESSIONAL FEES	2,866,028	4,170,939	2,983,193	961,866	948,581	945,545	601,242	488,958	1,069,636	2,196,677	1,951,662	1,338,992	1,741,493	1,570,282	1,392,740	1,391,821	2,524,832	3,162,711	2,746,776	1,832,419	2,209,683	1,906,449	1,944,578	1,939,727	1,654,445	1,031,801	1,052,437	-	-	-	-	48,625,509		
<b>TOTAL OTHER DEVELOPMENT COSTS</b>	<b>5,612,638</b>	<b>8,168,</b>																																



**Exhibit C79: Summary Forecasted Cash Flow (\$) per Phase**

INCOME (\$) (CAPITAL GAINS)		Phase 1	Phase 2	Phase 3	TOTAL
NET RESIDENTIAL SALES		262,337,758	376,358,223	554,355,502	1,193,051,482
SALE OF APARTHOTEL DEVELOPMENT SITES		8,983,378	7,584,108	5,923,994	22,491,480
<b>TOTAL</b>		<b>271,321,135</b>	<b>383,942,331</b>	<b>560,279,496</b>	<b>1,215,542,962</b>
NET OPERATING INCOME (\$) (NOI)		Phase 1	Phase 2	Phase 3	TOTAL
RETAINED HOTEL (BEACH CASINO)		12,657,611	17,574,018	35,218,492	65,450,122
ACTIVITY HUB/LEISURE FACILITIES		18,267,516	41,246,339	97,237,397	156,751,253
WATERPARK		19,813,969	36,657,658	80,180,098	136,651,725
RETAIL, F&B AND BUSINESS UNITS		2,940,186	8,272,616	67,532,346	78,745,149
CASINO		34,071,769	48,471,689	97,137,705	179,681,162
CRYSTAL LAGOON		656,825	1,645,131	3,135,830	5,437,786
SERVICE CHARGE		2,320,010	6,285,571	21,423,122	30,028,703
<b>TOTAL</b>		<b>90,727,886</b>	<b>160,153,022</b>	<b>401,864,991</b>	<b>652,745,900</b>
<b>TOTAL INCOME</b>		<b>362,049,022</b>	<b>544,095,353</b>	<b>962,144,487</b>	<b>1,868,288,862</b>
DEVELOPMENT COSTS					
CONSTRUCTION COSTS (\$)		Phase 1	Phase 2	Phase 3	TOTAL
RESIDENTIAL		147,114,388	218,458,077	315,336,524	680,908,988
RETAINED HOTEL (BEACH CASINO)		12,046,248	0	0	12,046,248
ACTIVITY HUB/LEISURE FACILITIES		12,498,825	6,702,641	8,010,277	27,211,743
WATERPARK		33,059,710	0	0	33,059,710
RETAIL, F&B AND BUSINESS UNITS		2,436,825	14,432,577	3,650,280	20,519,682
CASINO		6,722,891	0	0	6,722,891
CRYSTAL LAGOON		3,943,987	0	0	3,943,987
INFRASTRUCTURE		15,731,758	3,573,406	4,411,841	23,717,005
SOCIAL INFRASTRUCTURE		974,538	666,426	653,937	2,294,901
<b>TOTAL</b>		<b>234,529,169</b>	<b>243,833,128</b>	<b>332,062,858</b>	<b>810,425,155</b>
<b>BASE CONSTRUCTION COSTS</b>		<b>234,529,169</b>	<b>243,833,128</b>	<b>332,062,858</b>	<b>810,425,155</b>
OTHER DEVELOPMENT COSTS (\$)		Phase 1	Phase 2	Phase 3	TOTAL
CONTINGENCY	5.0%	11,726,458	12,191,656	16,603,143	40,521,258
PRICE/DESIGN ALLOWANCE	0.8%	1,758,969	1,828,748	2,490,471	6,078,189
PROFESSIONAL FEES	6.0%	14,071,750	14,629,988	19,923,771	48,625,509
<b>TOTAL OTHER DEVELOPMENT COSTS</b>		<b>27,557,177</b>	<b>28,650,393</b>	<b>39,017,386</b>	<b>95,224,956</b>
<b>TOTAL DEVELOPMENT COSTS</b>		<b>262,086,346</b>	<b>272,483,520</b>	<b>371,080,244</b>	<b>905,650,110</b>
DEVELOPMENT SUMMARY (\$)		Phase 1	Phase 2	Phase 3	TOTAL
<b>EBITDA</b>		<b>99,962,676</b>	<b>271,611,833</b>	<b>591,064,243</b>	<b>962,638,752</b>
<b>CUMULATIVE SURPLUS / DEFICIT</b>		<b>99,962,676</b>	<b>371,574,508</b>	<b>962,638,752</b>	

Source: Colliers International

## 18.3 UNLEVERAGED INTERNAL RATE OF RETURN AND NET PRESENT VALUE

Based on the forecast of income and expense, the development costs and the terminal values estimated above, the project delivers the following:

- Unleveraged IRR: 21.79%
- Net Present Value (NPV): \$45,543,000

When calculating the above NPV we assumed a Cost of Capital/Discount Factor of 15%.

### Exhibit C80: Unleveraged IRR and NPV (\$ '000s)

IN '000 \$	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
EBITDA	(53,380)	(52,876)	(4,833)	29,189	26,033	25,997	27,204	29,183	15,555	15,882	42,974	49,320
TERMINAL VALUE												255,093
<b>CASH FLOW</b>	<b>(53,380)</b>	<b>(52,876)</b>	<b>(4,833)</b>	<b>29,189</b>	<b>26,033</b>	<b>25,997</b>	<b>27,204</b>	<b>29,183</b>	<b>15,555</b>	<b>15,882</b>	<b>42,974</b>	<b>304,412</b>
<b>UNLEVERAGED IRR</b>	<b>21.79%</b>											
<b>NPV</b>	<b>45,543</b>											
<b>DISCOUNT FACTOR</b>	<b>15.00%</b>											

Source: Colliers International

## 18.4 RISK REGISTER

Some principal risks to the business plan and financial forecasts are identified below. These are important to note. The risks mentioned are not exhaustive.

### 18.4.1 MARKET RISK

The market risk is related to the risk that the market will not respond to the development in the manner anticipated in the plan. The financial model can show a high degree of sensitivity to changes in price and sales absorption rates. If both of these were to move significantly in an adverse way it could seriously jeopardise the returns of the project.

There are also macro-economic risks with regards to economic and political climate that could have an effect on the projections.

### 18.4.2 INFRASTRUCTURE AND CONSTRUCTION COSTS RISK

There is considerable exposure to construction cost risk. At present the construction cost estimates in the model have all been prepared by Colliers International. They are no more than preliminary estimates and Colliers International is not a specialist cost adviser. If specialist cost estimates are significantly different the return on investment projections would be significantly different and could bring into the question the viability of the project.

The client should also engage the services of various technical advisors including geotechnical and hydrological advisors to provide guidance in engineering. An experienced cost consultant should also be appointed at the appropriate time.

There is also some risk to other costs, “off-site” infrastructure costs and bringing key services to the site.

#### **18.4.3 FINANCIAL RISK**

The financial risks for this project are considerable. The current state of the local and international debt markets is such that financial planning is extremely difficult and achieving a structure that de-risks the project should be a priority.

#### **18.4.4 PLANNING AND LEGAL RISK**

There is a risk in relation to the planning acceptability and approval process for the project.

There is also a risk in achieving acceptable legal agreements with any and all parties related to the project development, investment, ownership and operation of the resort.

It is recommended that the client seeks expert planning advice. Further the client should prepare and market test a set of terms and conditions of investment / sale so that legal and other related issues can be highlighted and dealt with in good time.

#### **18.4.5 OPERATING RISK**

In this report we identified the need for competent management of key elements within the resort such as the hotel, casino, waterpark and activity hub as well as the resort in general. Without this there will be poor maintenance and the service delivery will fail. This will jeopardise the long-term sustainability of the resort.

Further, the model attributes considerable value to retained assets on the assumption that they are well-managed and able to deliver the results as forecast. Should this not be the case the value of the retained assets could be significantly reduced.

We would recommend that an operator search, selection and negotiation process be carried out to obtain appropriately qualified operators for each of the components of the project.

#### **18.4.6 OVERALL DATA CAVEATS**

All information, analysis and recommendations made for clients by Colliers International are made in good faith and represent Colliers International’s professional judgement on the basis of information obtained. However, since the achievement of recommendations and forecasts depends on factors outside

Colliers International's control, no statement made can be deemed a representation, undertaking or warranty, and Colliers International cannot accept any liability should such statements prove to be inaccurate or based on incorrect premises. In particular, any projections, financial and otherwise, in this report are intended only to illustrate particular points of argument and do not constitute forecasts of actual performance.

## 19 CONCLUSION

This Business Plan and the associated Concept Masterplan provide a recommended direction for the development of the 315 hectares of land to the south of the Chorokhi River near Batumi.

The Business Plan analysis leads us to the conclusion that a market and financially viable development can be created at the site, subject to technical feasibility and subsequent refined cost analysis. Further, the creation of an international standard leisure-led mixed-use development as proposed in this plan has been identified to provide an attractive return on investment.

We believe this is an exciting project for the investors behind it and an excellent complement to the tourism offer of Batumi as a destination.

### 19.1 NEXT STEPS

Subsequent actions have been described in detail in this report. In summary however the next steps for the Gonio Resort project are:

- Safety of the site for technical research and initial technical studies to support the proposed development.
- Invitation for a masterdeveloper to progress the project, and for co-investment with the masterdeveloper.
- In relation, specification of responsibilities of the masterdeveloper and legal arrangements.
- Progression of preparing the project and the associated studies, design, analysis and negotiations.

Colliers International and HOK would be glad to assist GNIA in our areas of expertise as the project progresses.

## CONTACT DETAILS

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