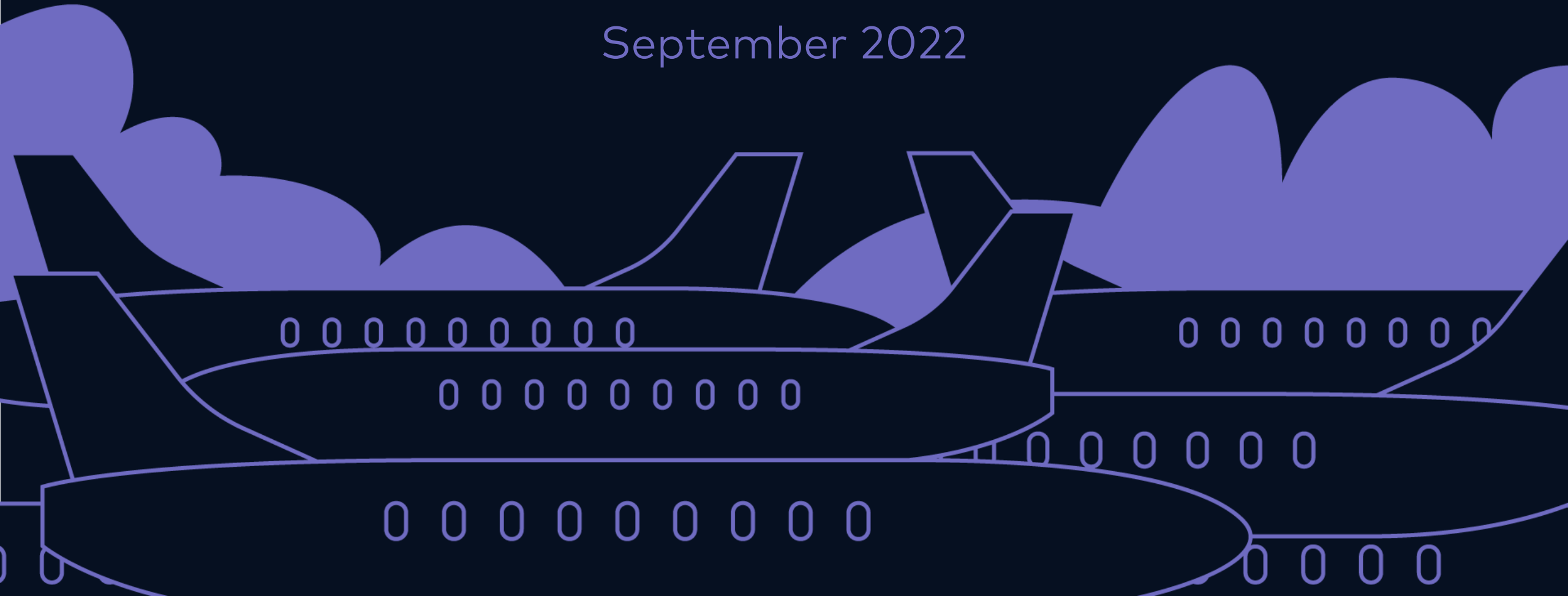




GALT & TAGGART
CREATING OPPORTUNITIES

Tourism overview

September 2022



1 Key findings

2 Global tourism sector recovery

3 Georgia's tourism sector recovery

4 Hotel supply and pipeline

5 Hotel industry performance



Key findings

Global recovery: tourism recovered quickly in 2022, almost identically everywhere. Georgia slightly lags global tourism recovery, as Russia-Ukraine war softened tourist arrivals mostly from EU countries.

Tourism recovery in Georgia: tourism recovery accelerated since May-22 after initial negative impact from Russia-Ukraine war; Tourist arrivals recovery stood at 56.8% in 1H22 and 78.7% in Jul-Aug 2022 vs pre-pandemic level. Tourism revenues are recovering faster than arrivals - 78.3% in 1H22 and 123.6% in Jul-Aug 2022 vs pre-pandemic level - explained by influx of migrants, high inflation and arrival mix (more tourists vs same-day arrivals). Hotel revenues recovered swiftly in the regions aided by domestic tourism also, while Tbilisi market still lags behind reflecting partial recovery in tourist arrivals.

Recovery by countries: tourists from Middle East and Central Asia already surpassed 2019 figures, while all neighboring countries lag behind pre-pandemic levels, e.g. in case of Azerbaijan border crossing is still limited.

Employment and salaries: employment partially recovered in hospitality sector in contrast of full recovery in other sectors. Salaries are growing, reflecting general trend in other sectors as

well as labor shortage. This will likely remain a long lasting problem for the sector as halt in tourism due to pandemic made sector less attractive for job-seekers.

Hotel supply: In previous years we saw oversupply risks in branded hotel segment mostly in Tbilisi, due to extensive pipeline. However, pandemic reduced interest toward a sector after years of investment boom. The medium and large-sized (30+ rooms) hotel room stock growth softened over 2020-22 and reduction in hotel construction permits hint on weaker investor interest. We expect gradual revival of investments mostly in regional hotel development amid faster-than-expected recovery in tourism and Georgia remaining popular tourism destination despite regional geopolitical tensions.

Forecast: We forecast tourism revenues to fully recover in 2022 vs pre-pandemic level and expect 10.0% y/y growth in 2023. Geopolitical tensions remain a key risk for a sector outlook.

Outlook: Georgia's tourism industry needs to focus on high-potential niche tourism directions such as winter, wine, medical & wellness and MICE tourism, we believe, in order to attract more high-spending visitors.



1 Key findings

2 Global tourism sector recovery

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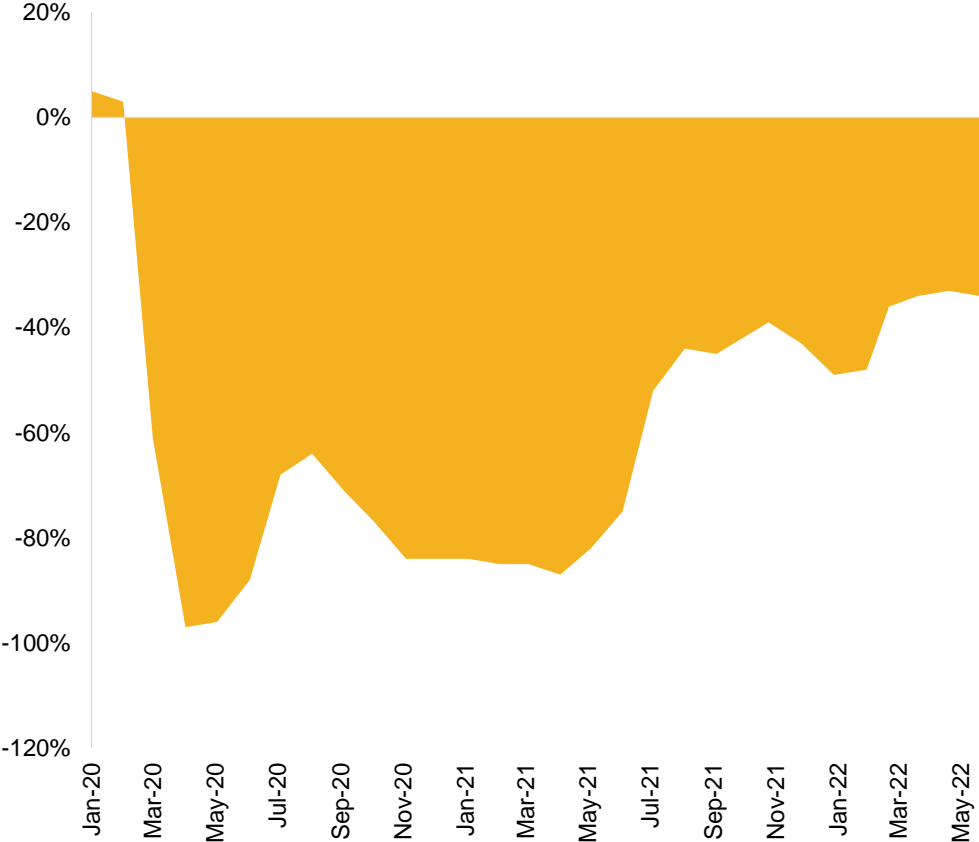
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Georgia lags international tourism recovery

Int'l tourist arrivals in Europe, % change vs 2019



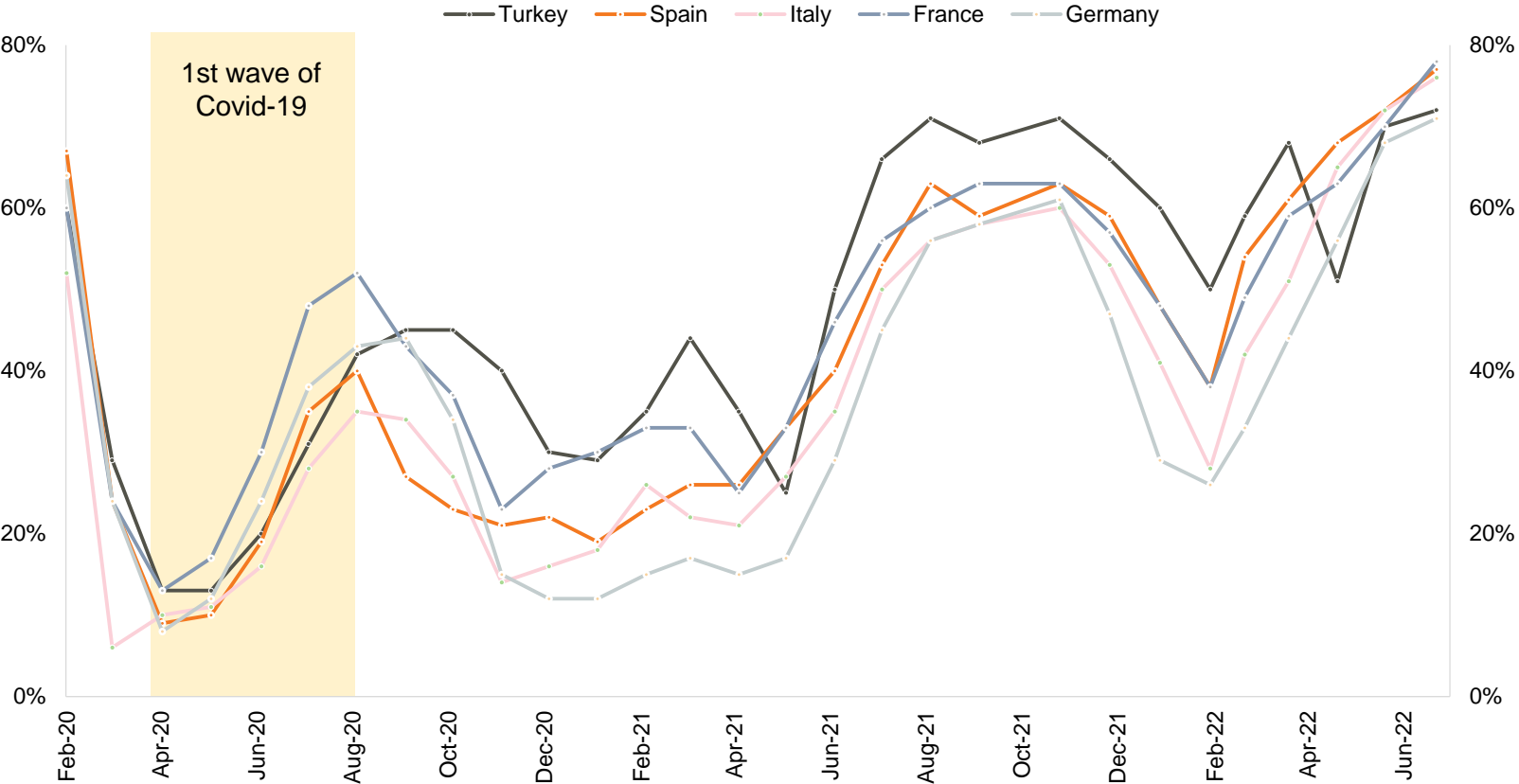
Source: UNWTO

Int'l tourist arrivals by countries, % change vs 2019

	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Turkey	-16%	-7%	-6%	-22%	-4%
Spain	-41%	-28%	-29%	-15%	-12%
Italy	-39%	-22%	-33%	-26%	
France	-43%	-34%	-31%	-30%	
Germany	-68%	-58%	-51%	-38%	-29%
Europe	-48%	-36%	-34%	-33%	-34%
Georgia	-47%	-45%	-52%	-48%	-38%

Occupancy rates almost back to pre-pandemic levels in Europe

Occupancy rates by country, %

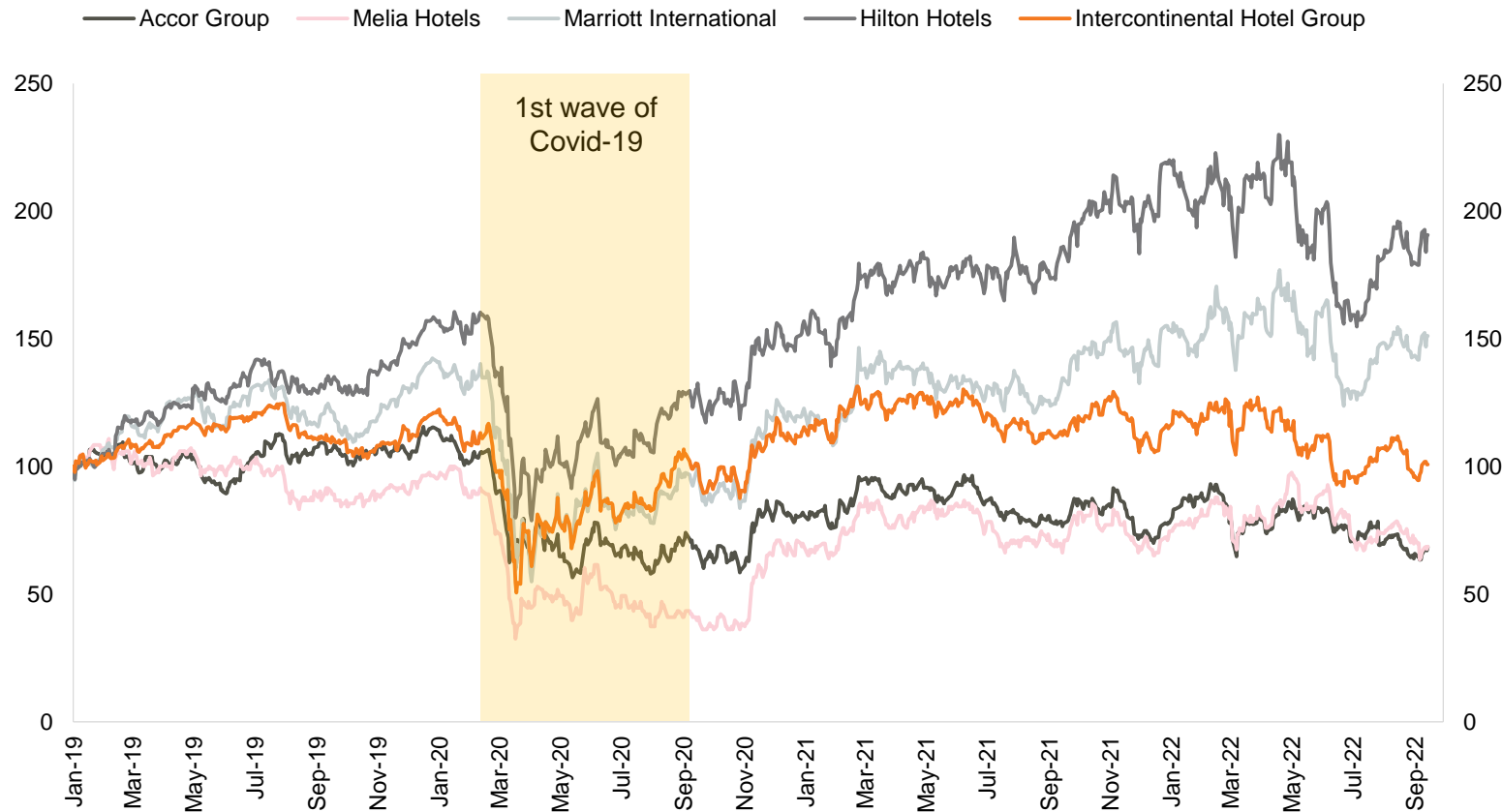


Source: UNWTO, STR Global

	Jul-22	YTD
Turkey	72%	62%
Spain	77%	62%
Italy	76%	55%
France	78%	60%
Germany	71%	50%
Europe	75%	57%

Improved outlook of the sector reflected in stock market

Stock price of selected hospitality brands, Jan-2019=100



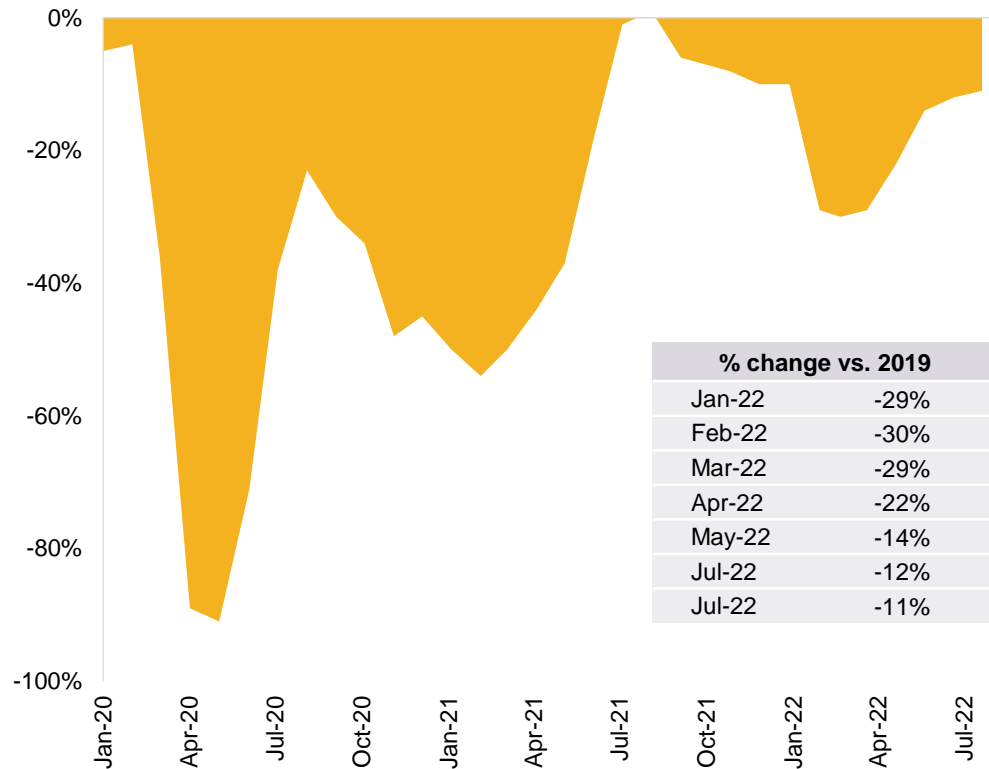
Source: Yahoo Finance
Note: data retrieved on September 15th

	Jan-19	Sep-22	Growth, %
Accor Group	100	68	-32%
IHG	100	101	1%
Melia Hotels	100	69	-31%
Marriott Int.	100	151	51%
Hilton Hotels	100	191	91%



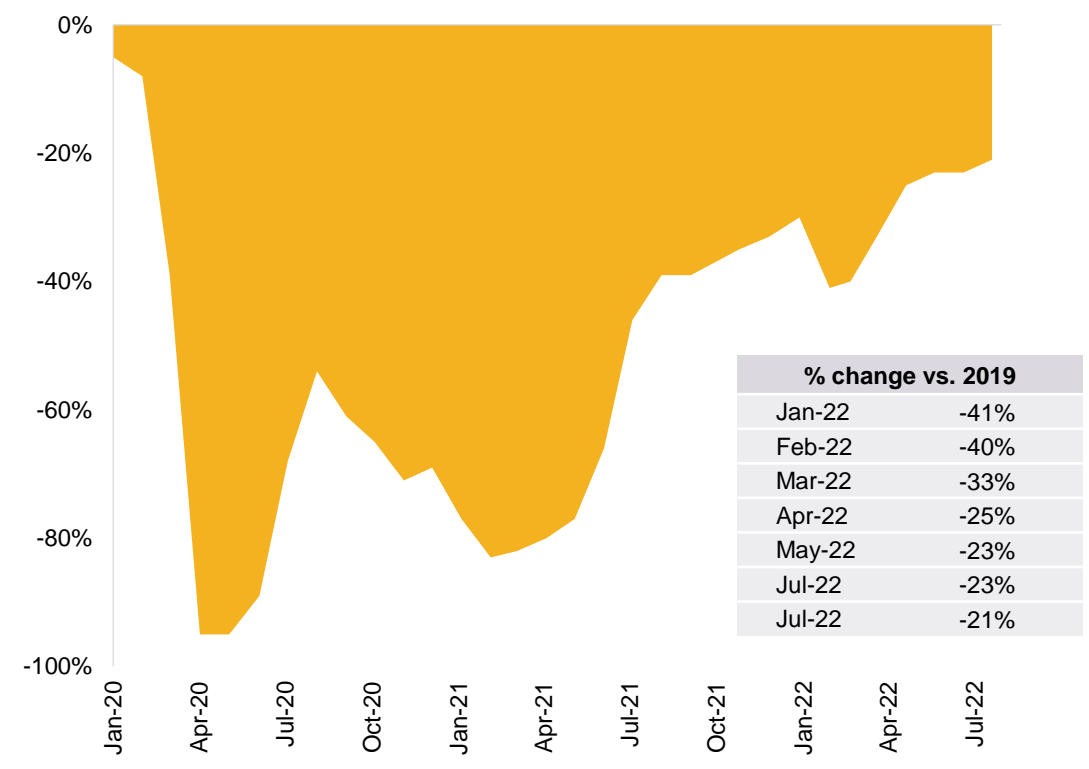
International flight capacity close to full recovery

Seat capacity in Europe - domestic flights, % change vs 2019



Source: UNWTO

Seat capacity in Europe - int'l flights, % change vs 2019

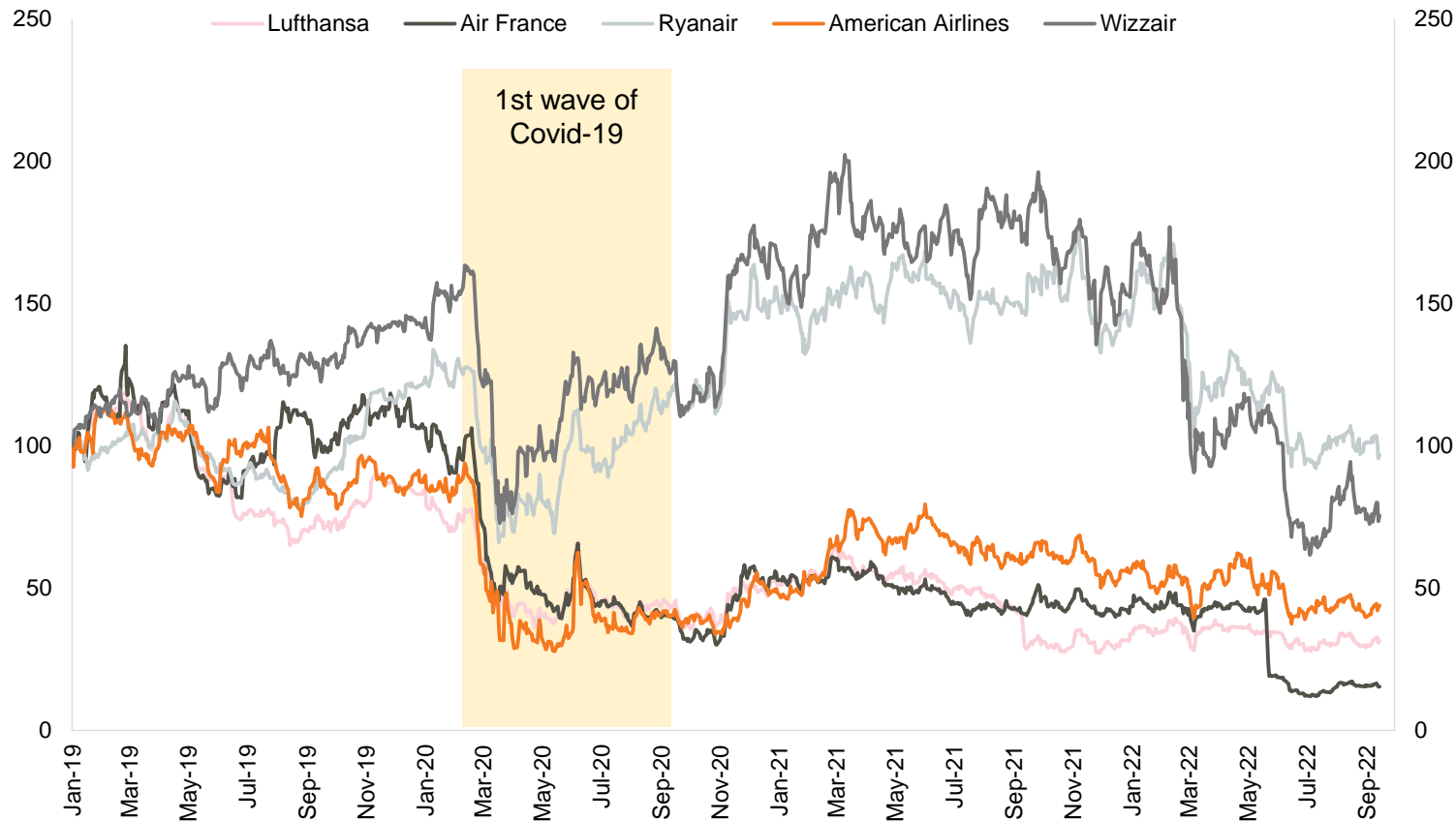


Source: UNWTO

Passenger traffic recovered at 79% of 2019 levels in Georgia in 8M19

Due to the long-lasting effect of pandemic, industry outlook remains weak

Stock price of selected airlines, Jan-2019=100



	Jan-19	Sep-22	Growth, %
Lufthansa	100	32	-68%
Air France	100	15	-85%
Wizzair	100	76	-24%
Ryanair	100	97	-3%
American Airlines	100	44	-56%

Source: Yahoo Finance
Note: data retrieved on September 15th



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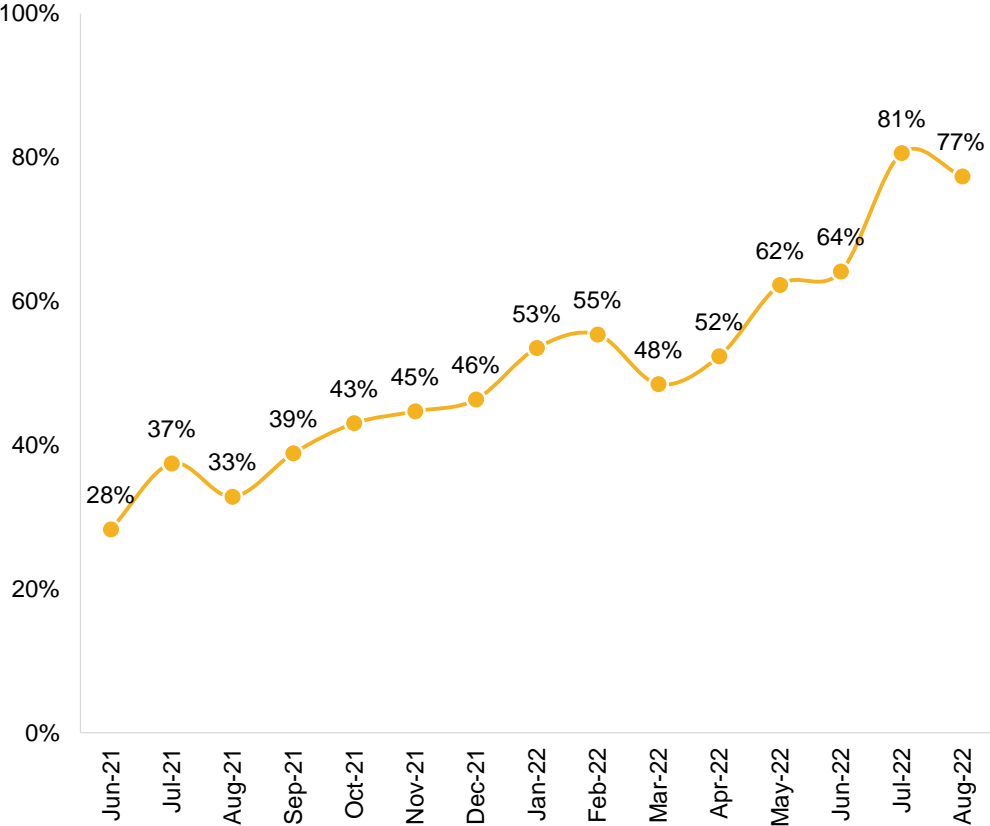
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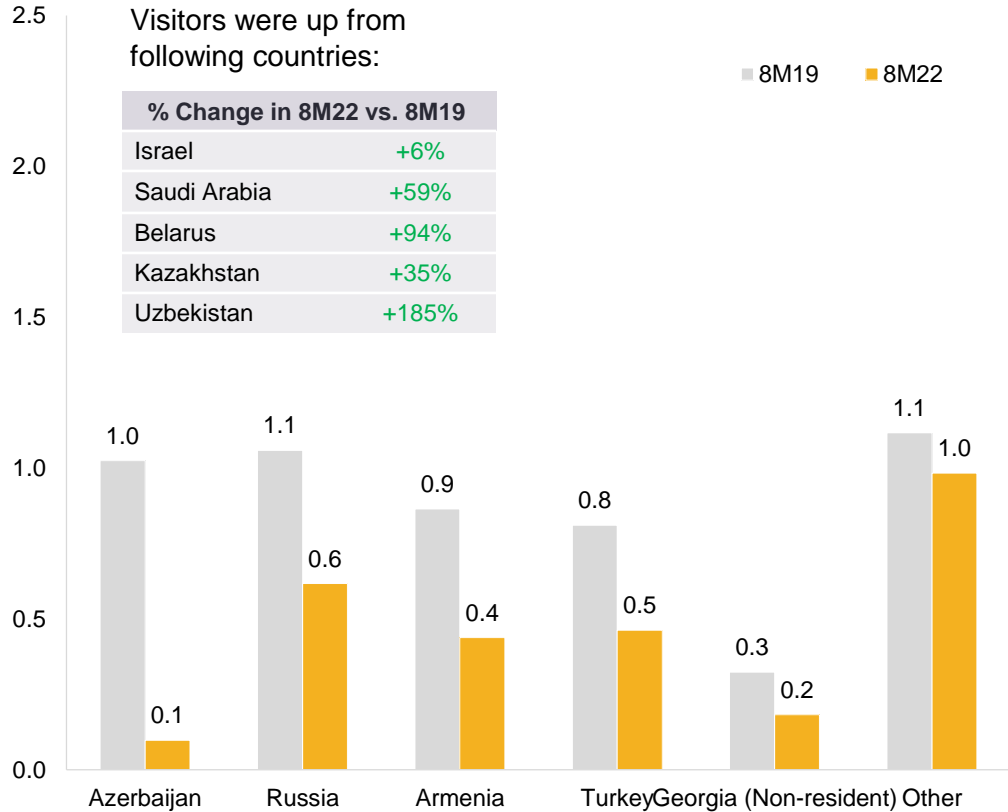
Tourism recovery accelerated since May-22 after softening due to Russia-Ukraine war

Recovery of tourists as % of 2019 level



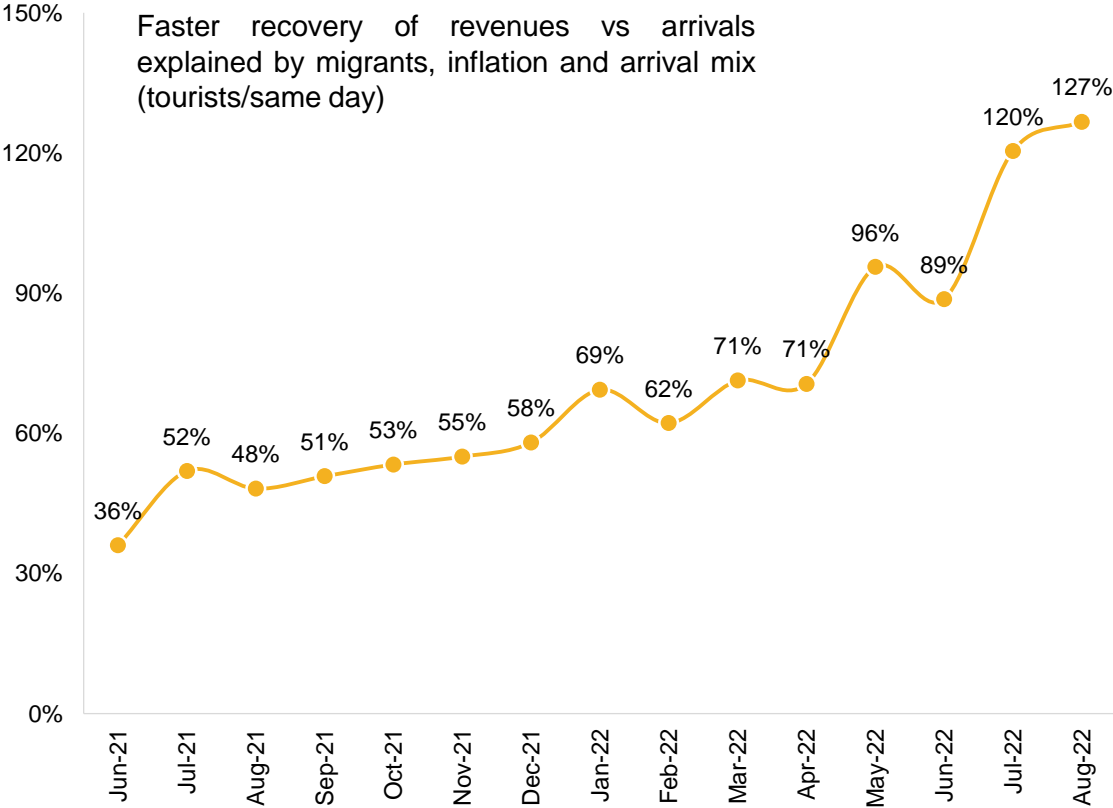
Source: GNTA

Int'l visitors from top-5 countries, mn visitors

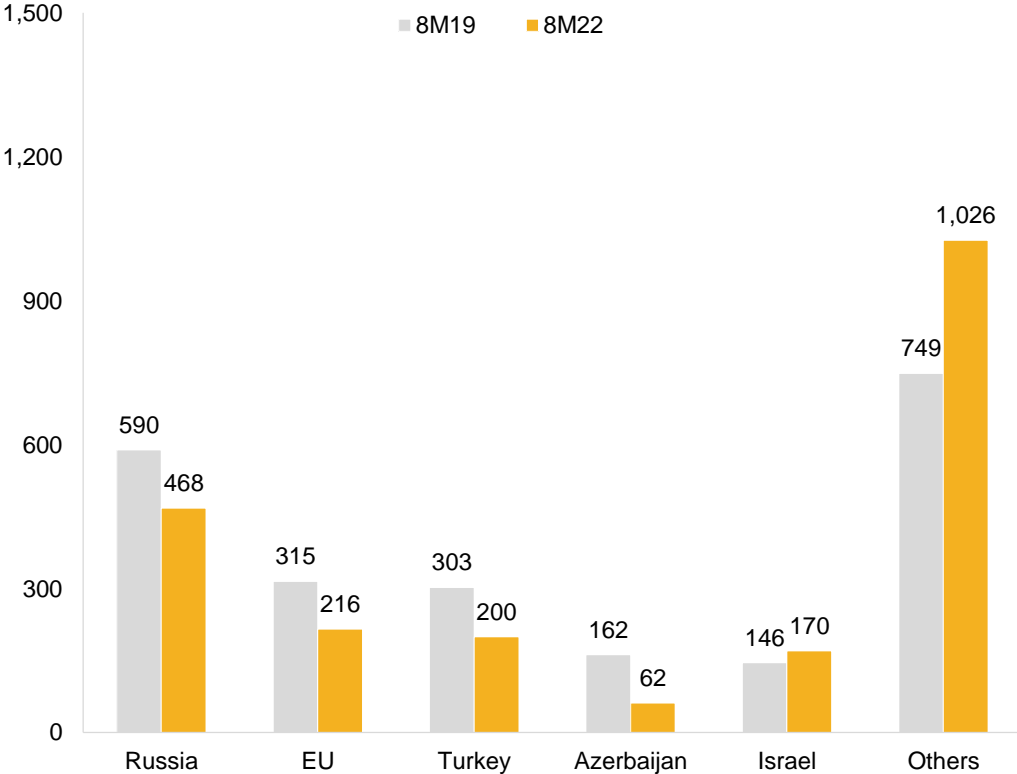


Tourism revenues surpassed pre-pandemic level since Jul-22

Recovery of tourism revenue as % of 2019 level



Int'l tourism revenue from top-5 countries, US\$ mn



Source: NBG
 Note: Data include migrants' (from Russia, Belarus and Ukraine) spending from March 2022.

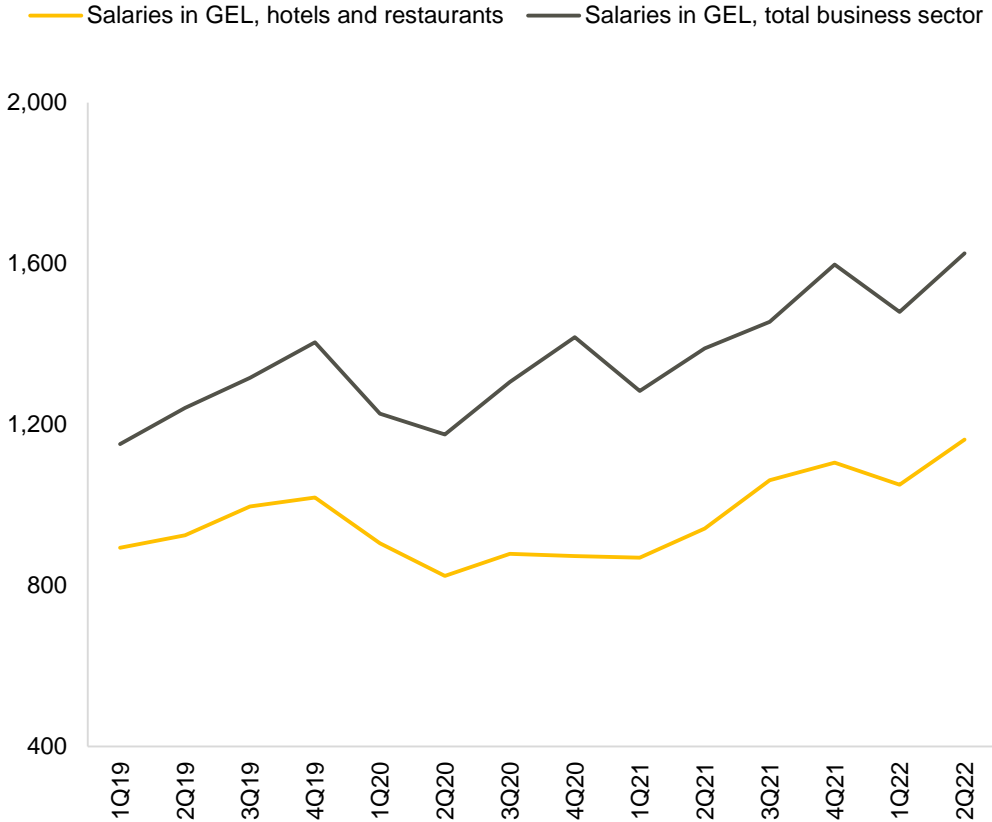
Hospitality sector: employment partially recovered, salaries up but growth lagging other sectors

Employment index: Hospitality vs other sectors
1Q19=100



Source: Geostat

Average salaries: Hospitality vs total business sector

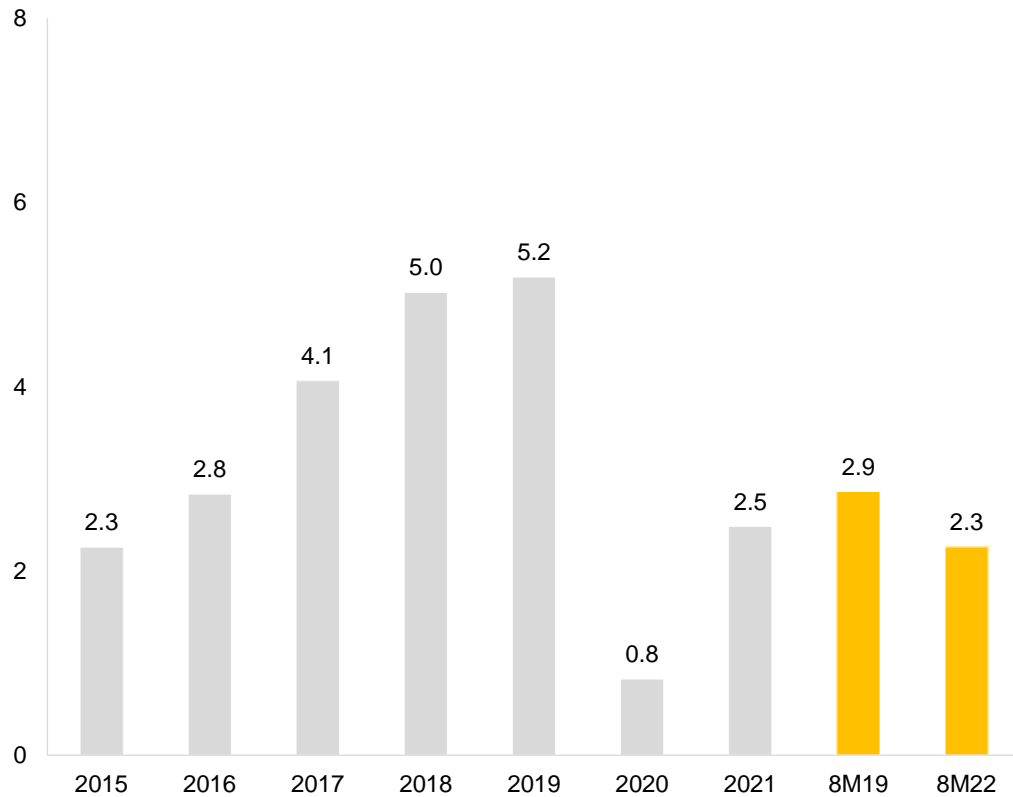


Source: Geostat



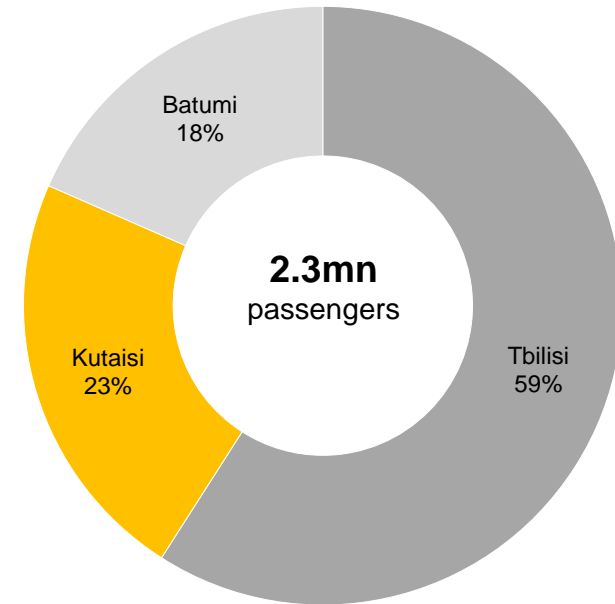
Passenger traffic almost back to pre-pandemic levels in regional airports

Passenger traffic at Georgian airports, persons



Source: GCAA

Passenger traffic by airports, 8M22

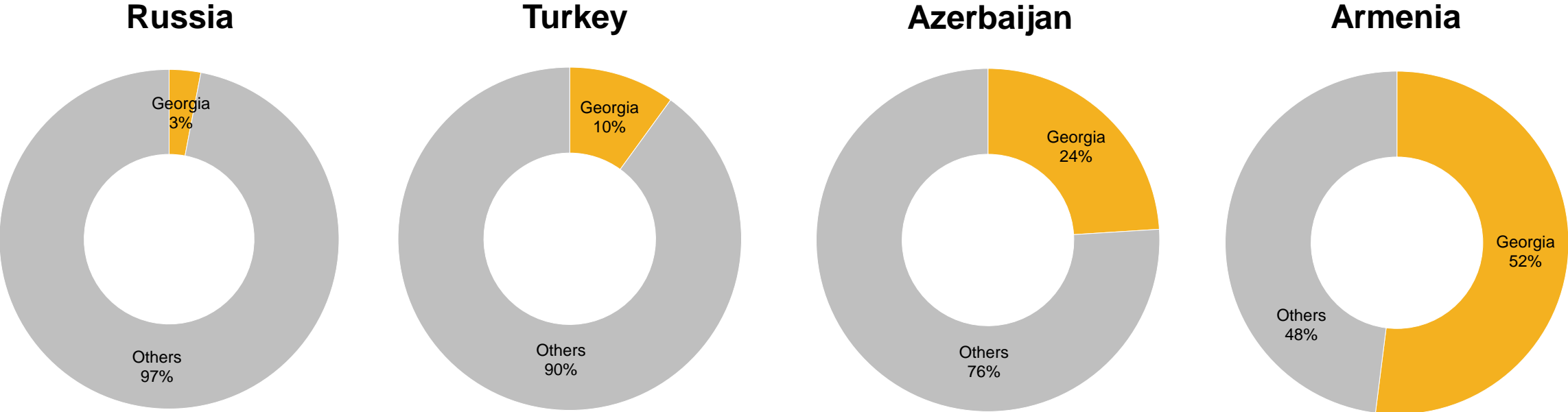


Recovery in 8M22 vs 8M19	
Tbilisi	71%
Batumi	94%
Kutaisi	95%



Georgia is most feasible option to travel for neighboring countries

Share of trips to Georgia in total visits in neighboring countries, 2019

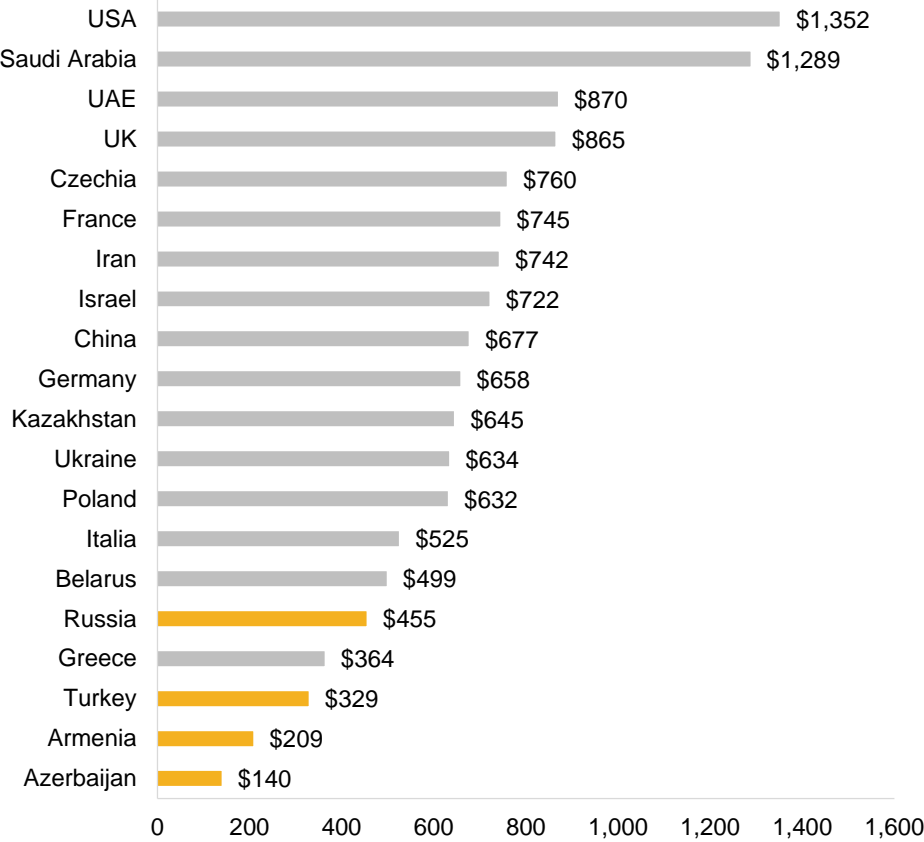


Source: Statistics offices of respective countries

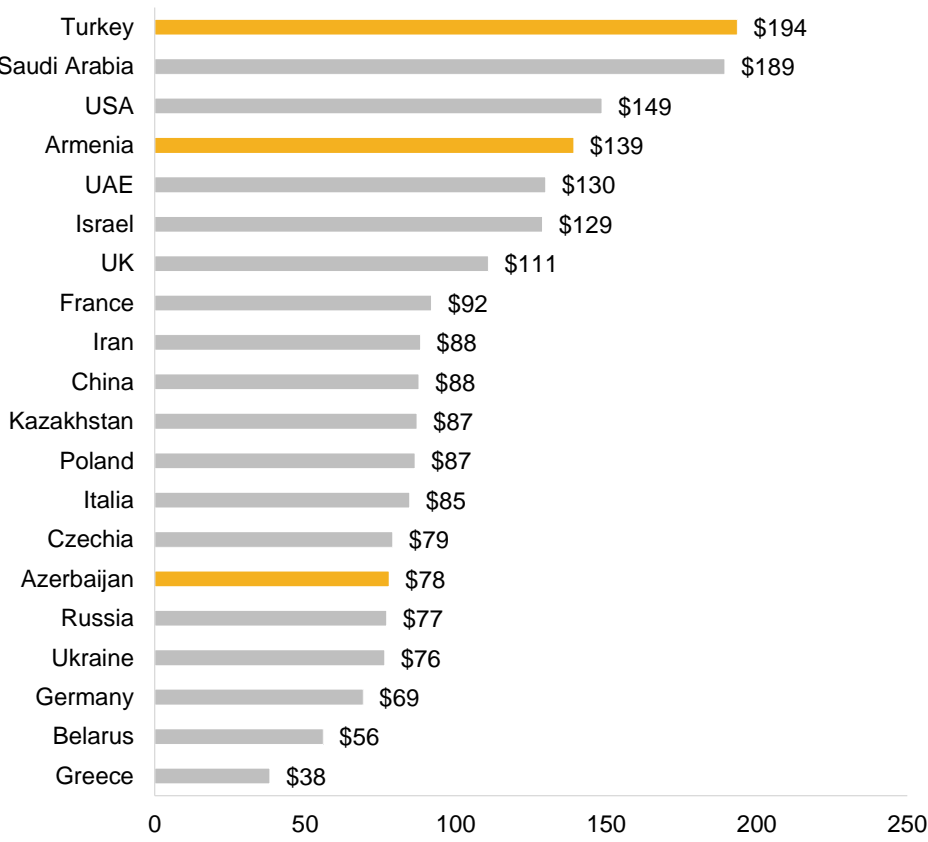


Visitors from neighboring countries spend much per day, but stay for a short time

Average expenditure per trip by countries in 2019, US\$



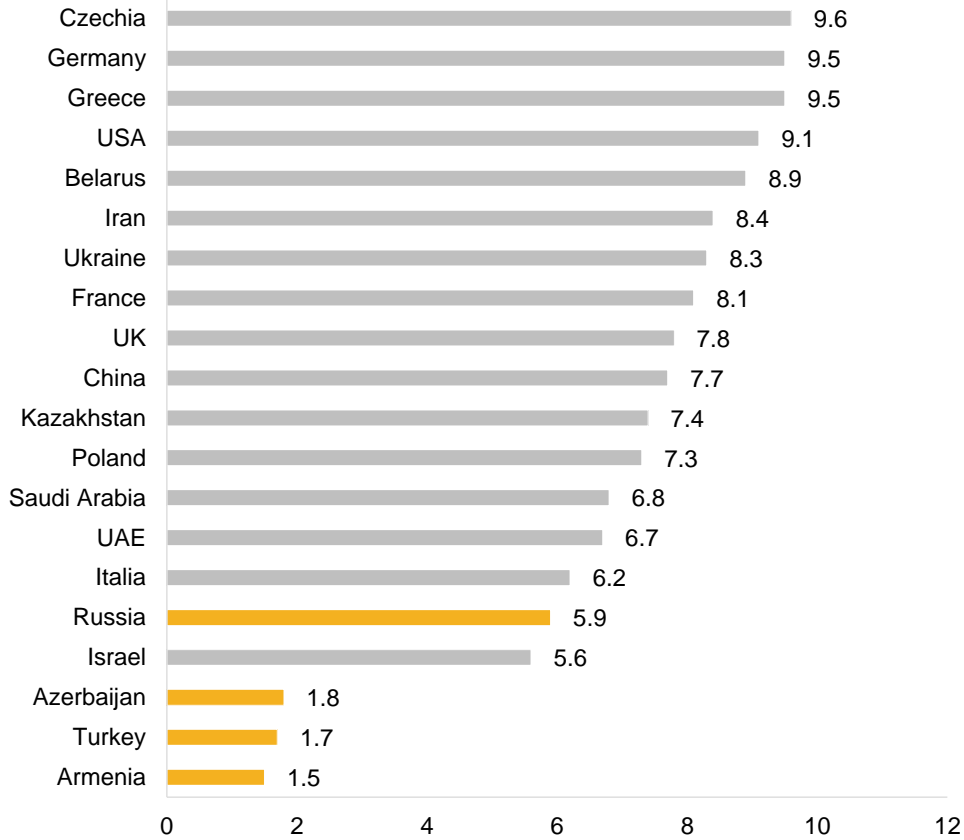
Average expenditure per day by countries in 2019, US\$



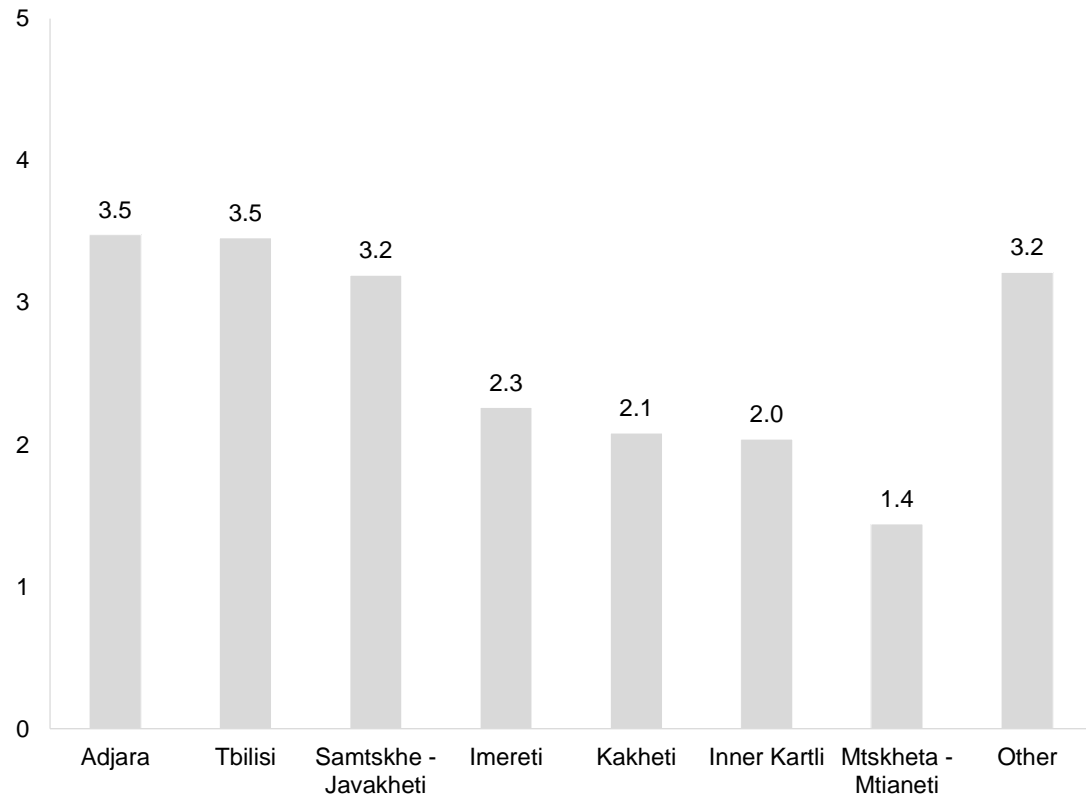
Source: Geostat Visitor Survey

Tourists stay on average 5-10 days in Georgia

Average length of stay by countries in 2019, days



Average length of stay by regions in 2019, days



Source: Geostat Visitor Survey



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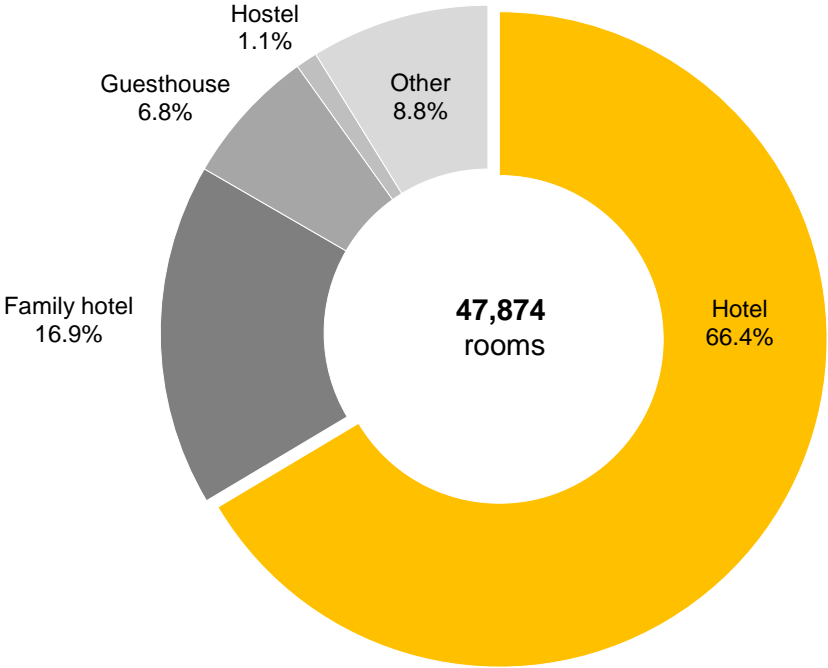
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Medium and large-sized hotels account for 41.3% of total room stock

Accommodation stock breakdown by category in 9M22, rooms



Hotel stock breakdown by size in 9M22

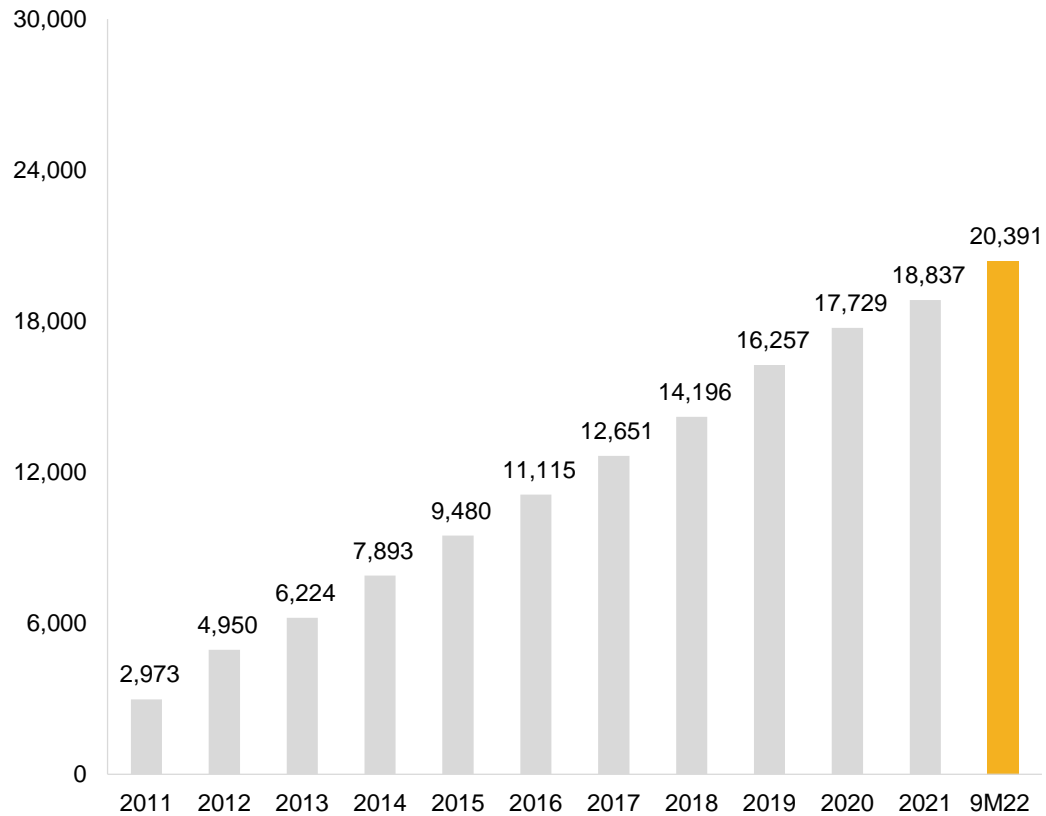
	Unit	Room	Bed
Total	1,157	31,809	71,813
<30 rooms	857	11,418	27,855
30+ rooms	300	20,391	43,958

Source: GNTA, Galt & Taggart Research



Medium and large-sized (30+ rooms) hotel room stock growth decelerated

Medium and large-sized (30+ rooms) room stock, rooms

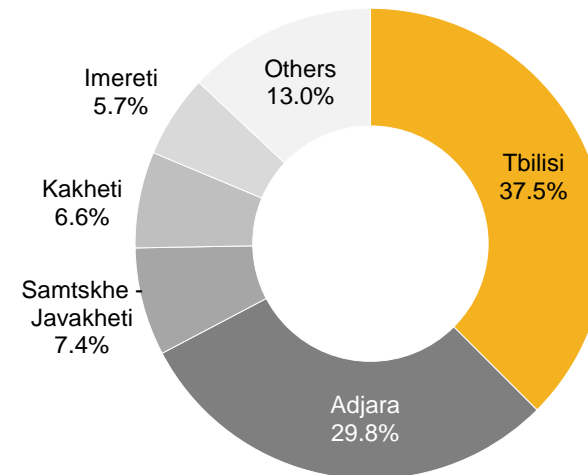


Source: GNTA, Galt & Taggart Research

Openings of medium and large-sized (30+ rooms) hotels

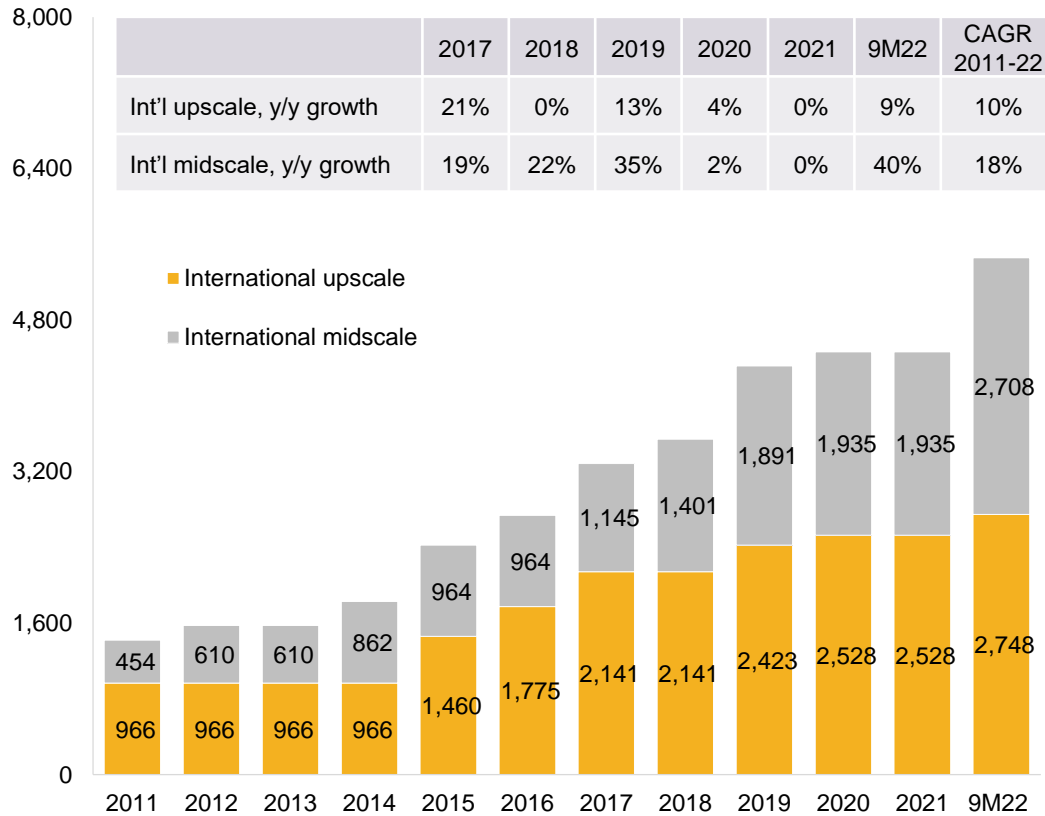
	2017	2018	2019	2020	2021	9M22
Hotels, units	25	30	32	18	20	19
Room stock, y/y growth	14%	12%	15%	9%	6%	8%

Medium and large-sized (30+ rooms) room stock breakdown by regions in 9M22, rooms



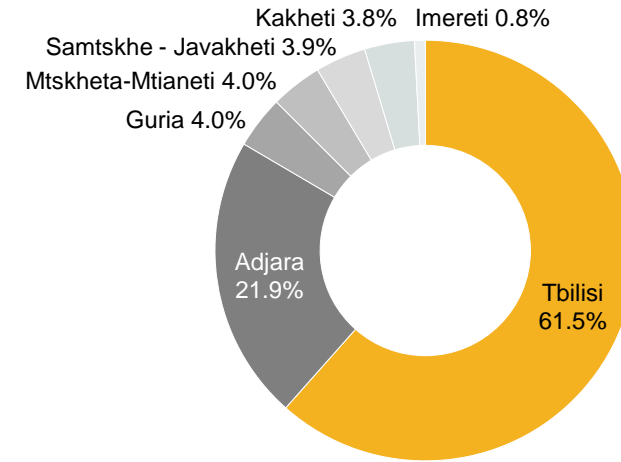
Branded room supply affected negatively by pandemic

Branded hotel room stock, rooms



Source: GNTA, Galt & Taggart Research

Branded hotel room stock by region in 9M22, rooms



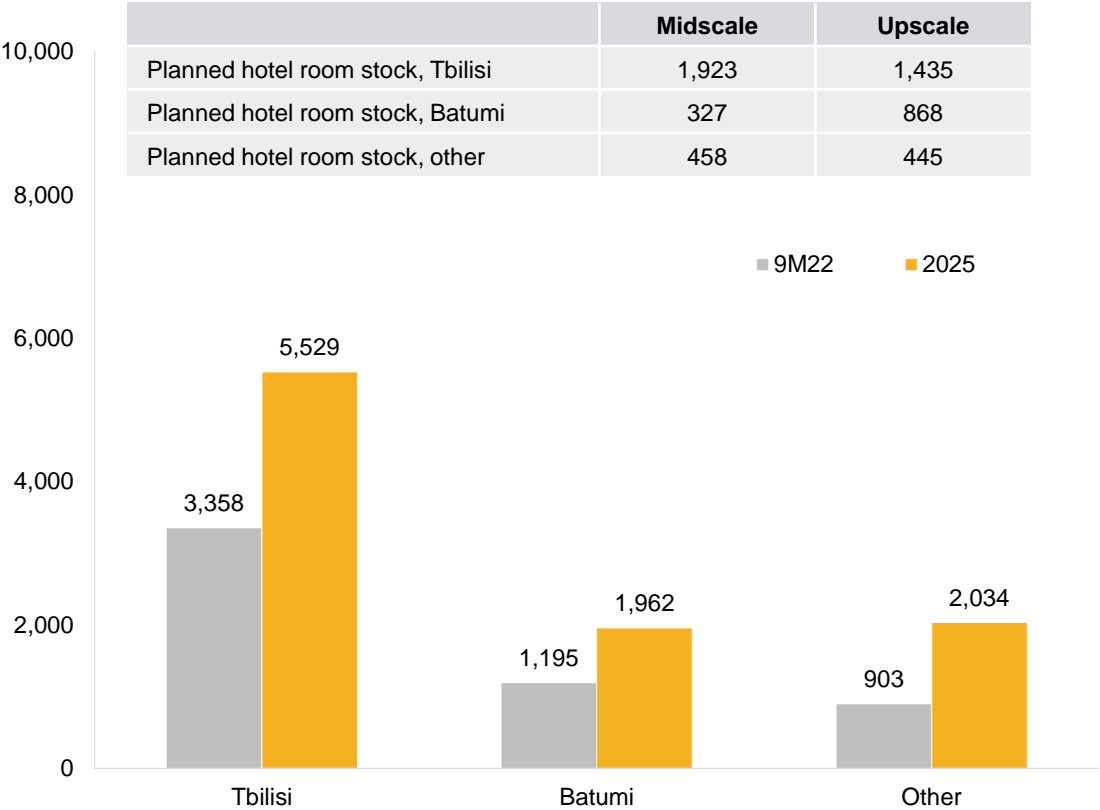
Branded hotel openings in 2022

Hotel	Region	Rooms
Pullman Axis Towers	Tbilisi	220
Hilton Garden Inn	Tbilisi	170
Ibis Budget Concert Hall	Tbilisi	137
Ramada by Wyndham	Tbilisi	125
Ramada Old Tbilisi	Tbilisi	107
Golden Tulip Design Tbilisi	Tbilisi	77
Courtyard by Marriott	Batumi	150



Many branded hotel projects cancelled due to pandemic, but pipeline still looks solid

Branded hotel room stock projection over 2022-25, rooms



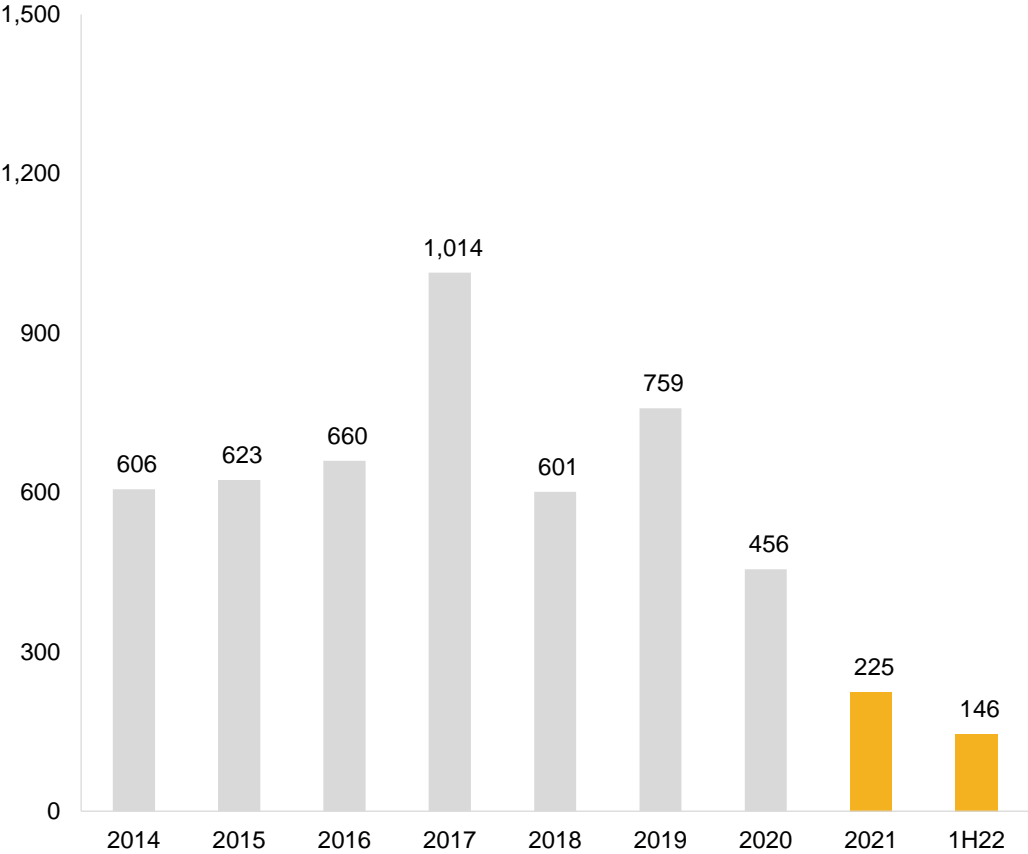
Source: Galt & Taggart Research

- There are 28 hotels with 4,344 rooms in pipeline over 2023-25. However, empirical evidence suggest considerably belated finishing of the projects.
- Majority of hotels in pipeline are planned for Tbilisi (52.9% of total), followed by Batumi (21.1% of total), while other regions account for 26.0% of room stock.
- Largest supplier of branded hotel stock is Georgian Co-investment Fund with 6 hotel around Georgia (total 990 rooms):
- Some 12 planned hotels in pipeline are suspended.



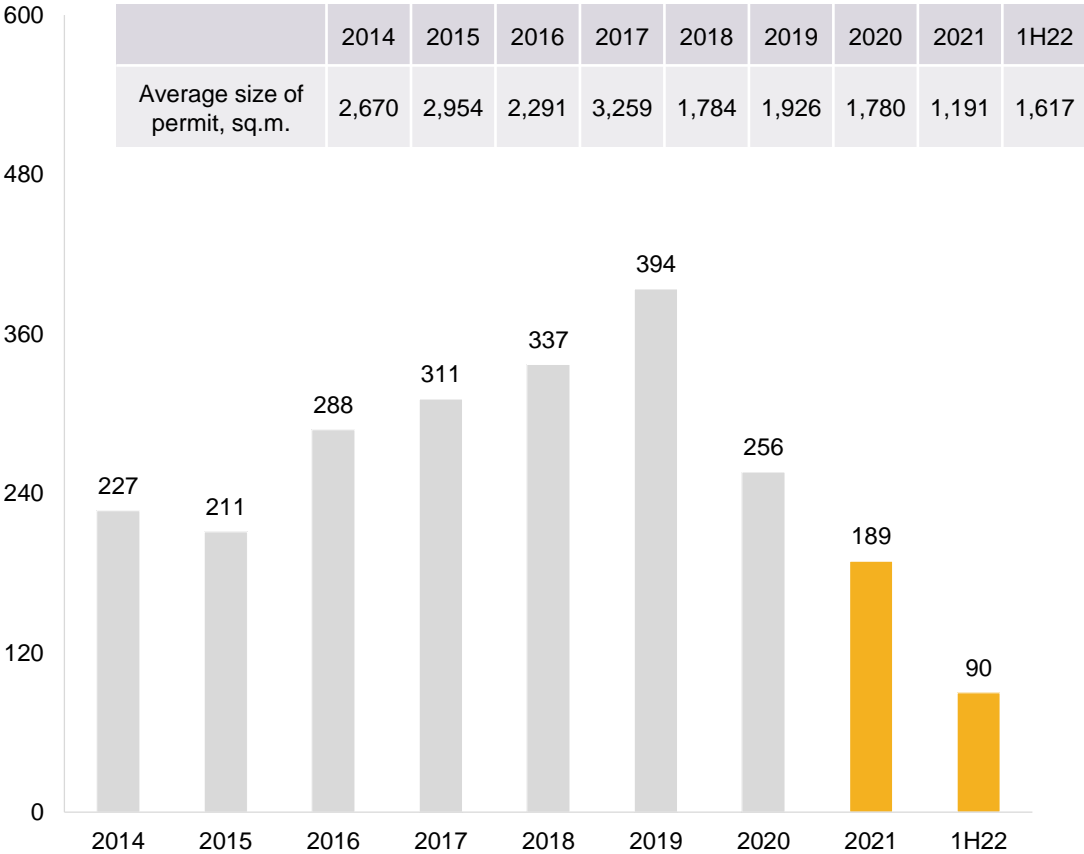
Hotel construction permits decreased drastically, average size also down

Hotel construction permit issuance, sq.m.



Source: Geostat

Hotel construction permit issuance, units

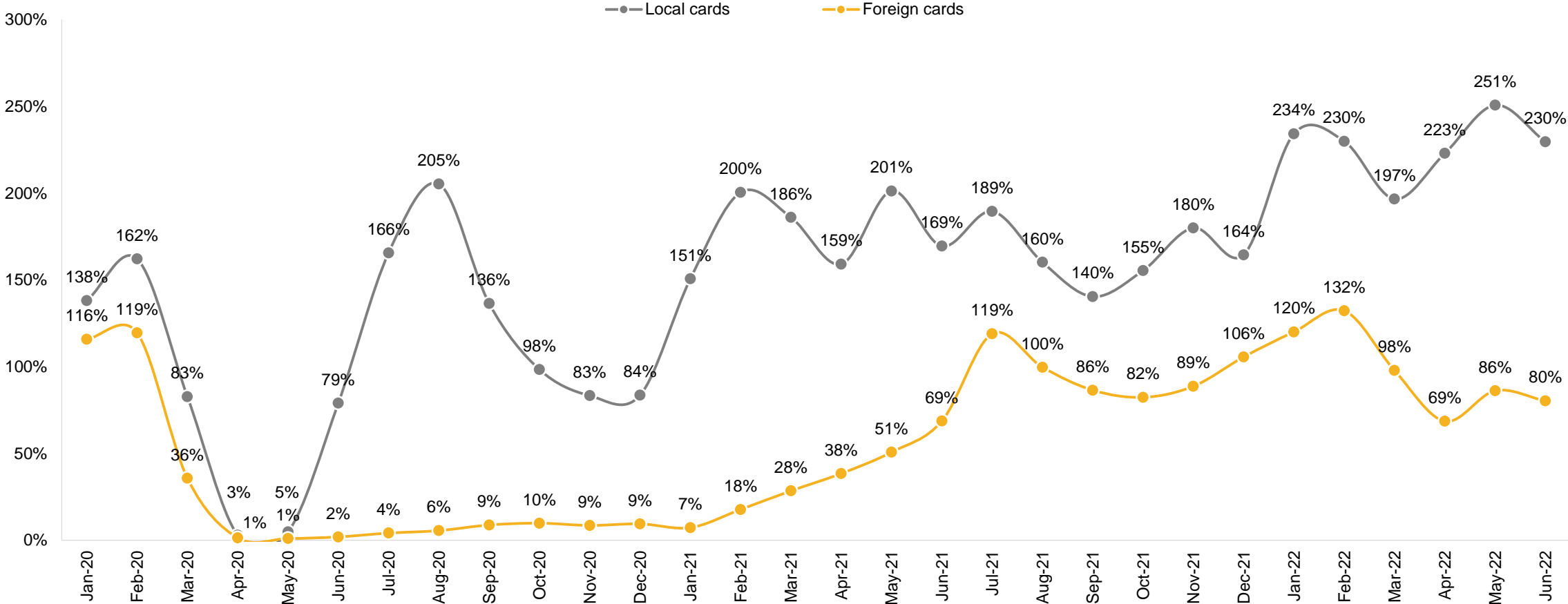


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Card payments by locals increased significantly since 2020

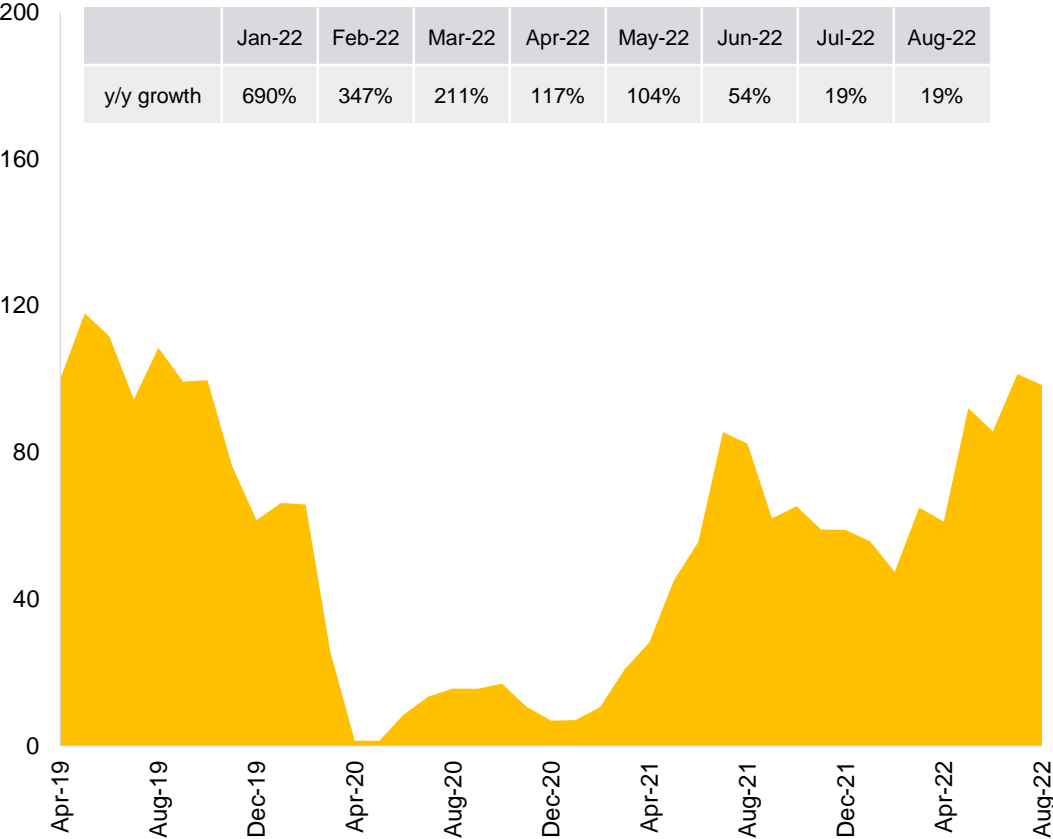
Card payments vs. 2019



Source: NBG

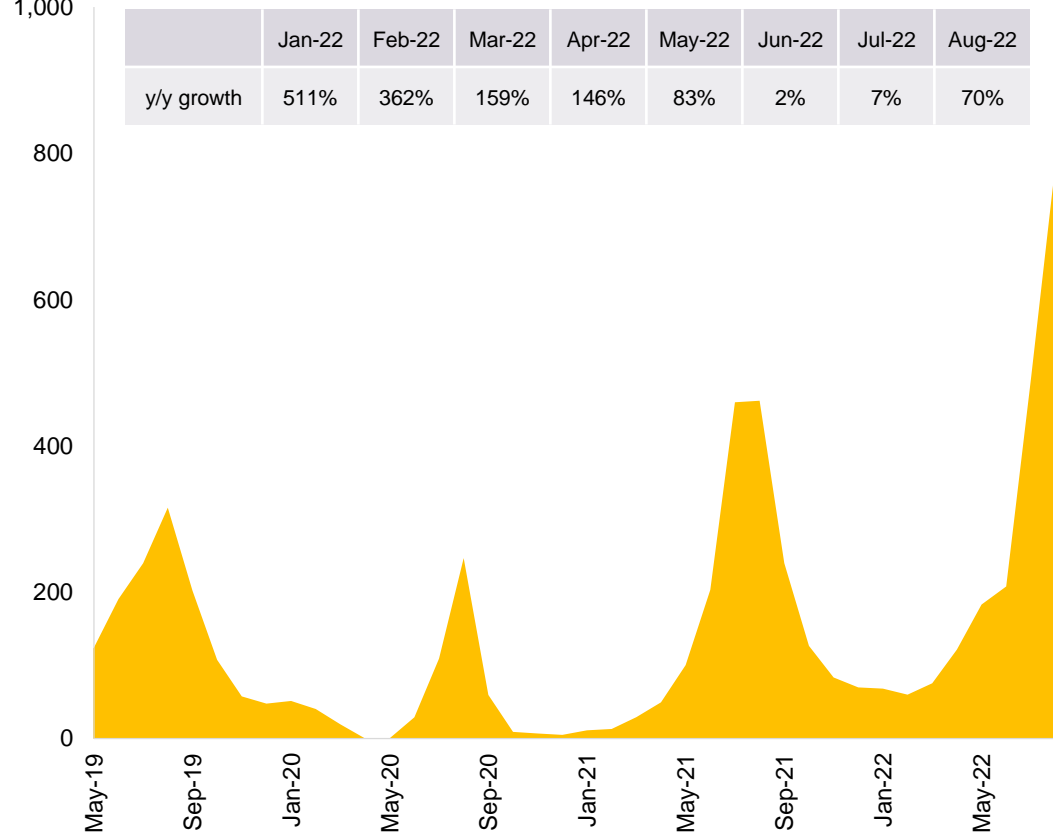
Pos payments in Tbilisi hotels gradually recovering, while payments surpassing pre-pandemic levels in Batumi

Index of BoG Pos payments in Tbilisi hotels, Apr-19=100



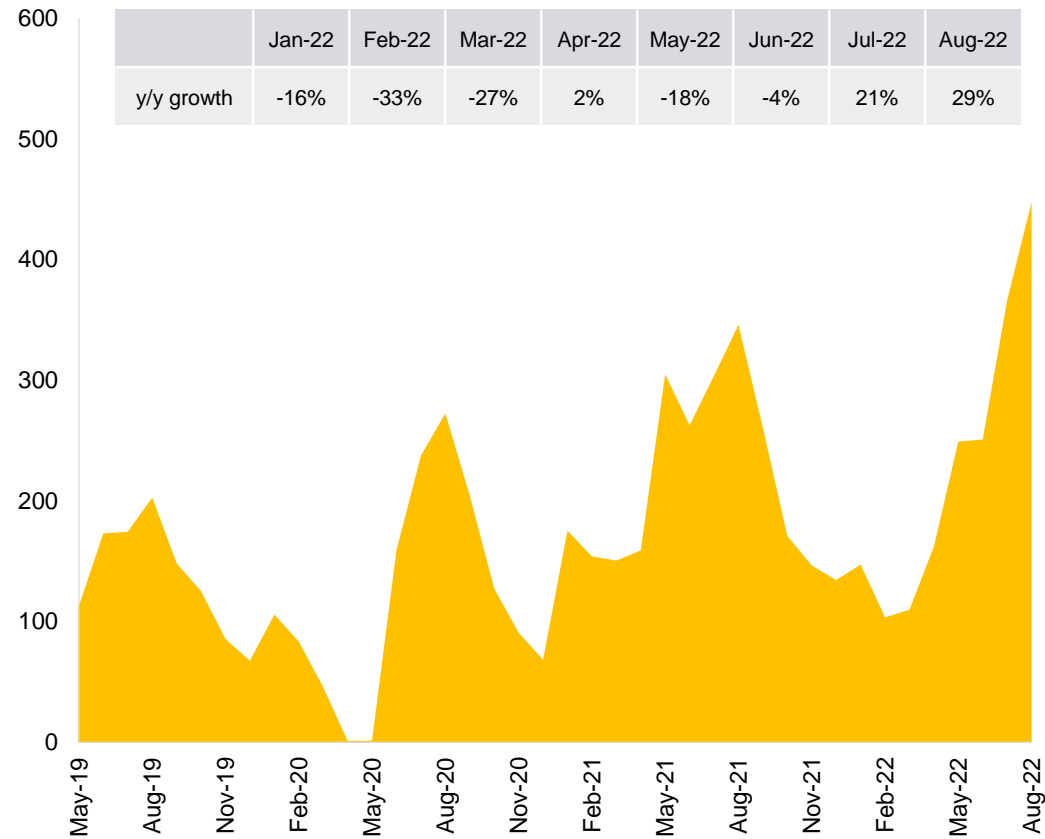
Source: BoG, Galt & Taggart Research

Index of BoG Pos payments in Adjara hotels, Apr-19=100



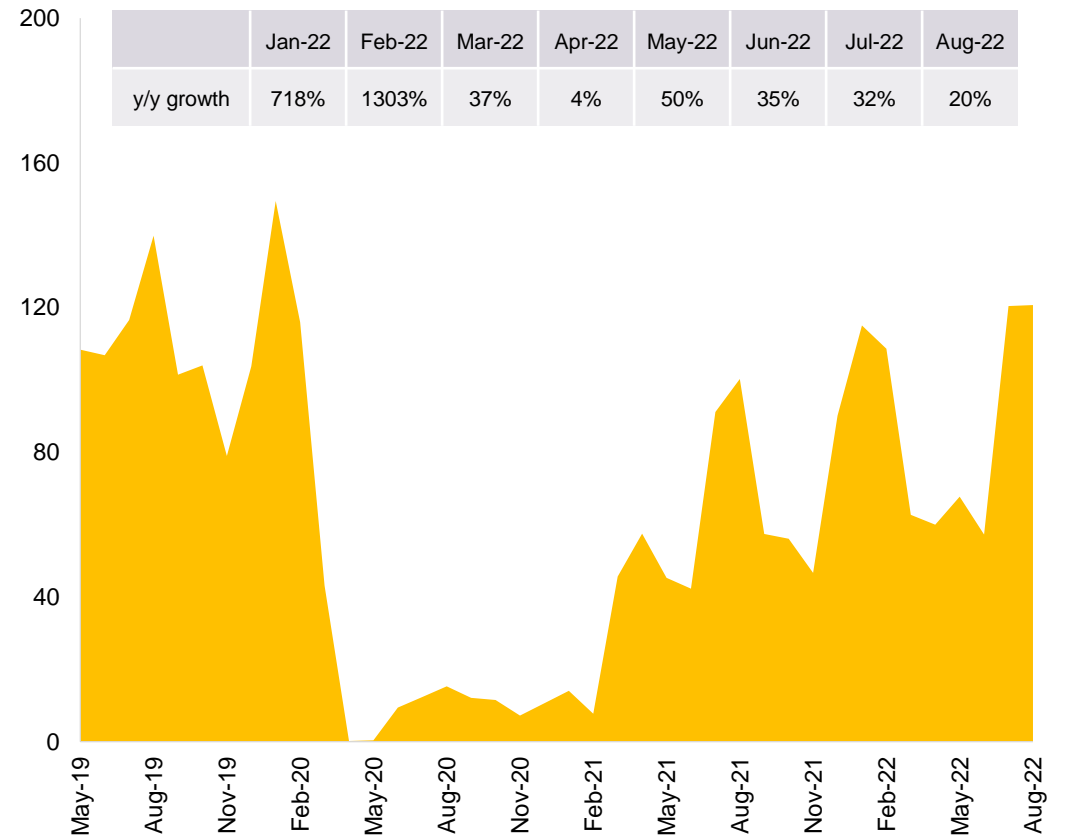
Pos payments in Kakheti hotels surpassing and gradually recovering in Mtskheta-Mtianeti to pre-pandemic Levels

Index of BoG Pos payments in Kakheti hotels, Apr-19=100



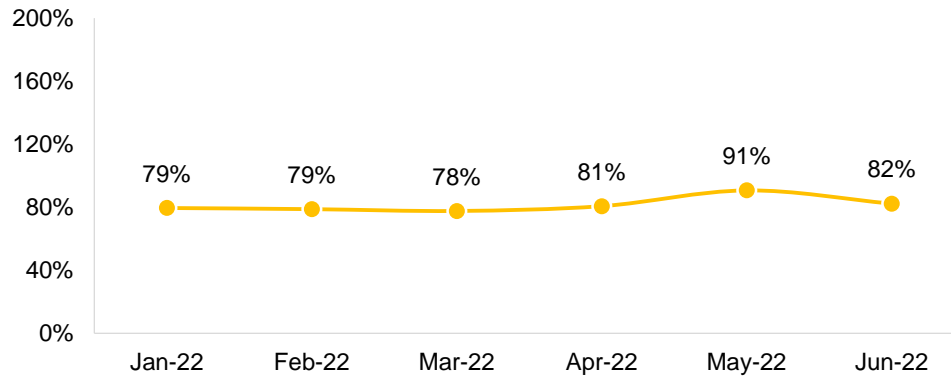
Source: BoG, Galt & Taggart Research

Index of BoG Pos payments in Mtskheta-Mtianeti hotels, Apr-19=100

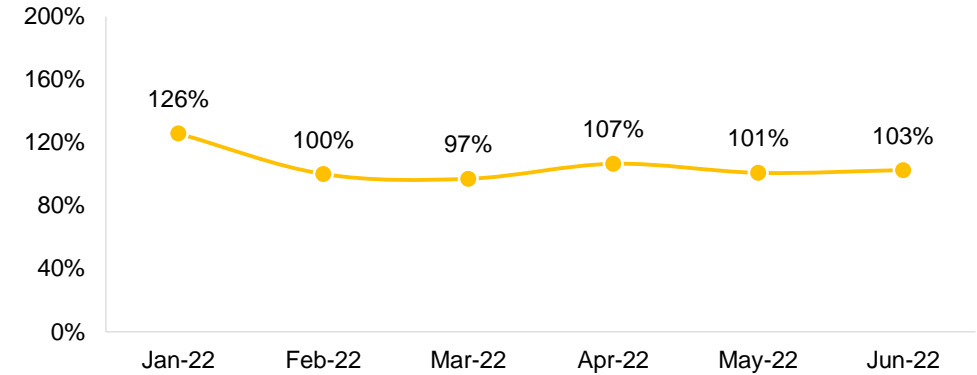


Faster recovery in regions also reflects domestic tourism

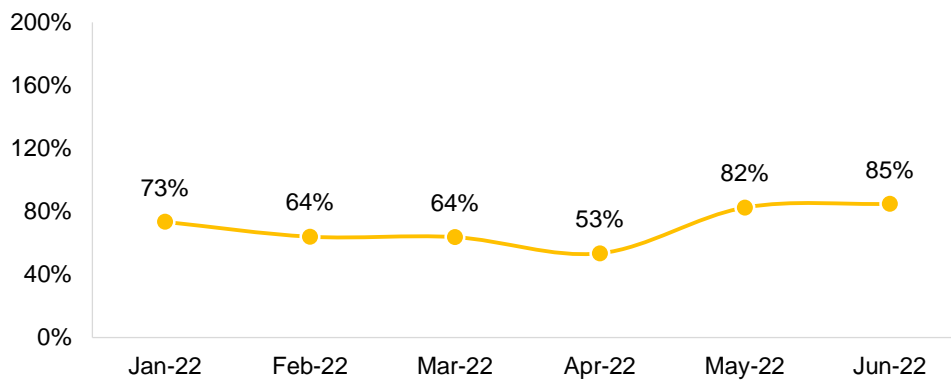
ADR recovery in Tbilisi



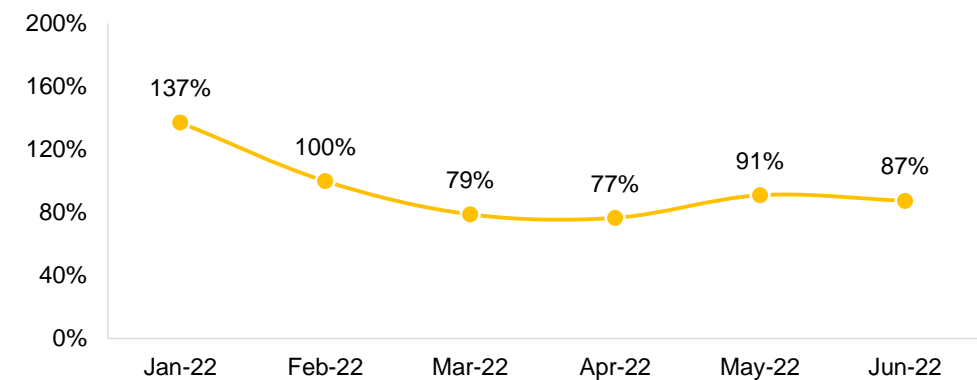
ADR recovery in regions



RevPar recovery in Tbilisi



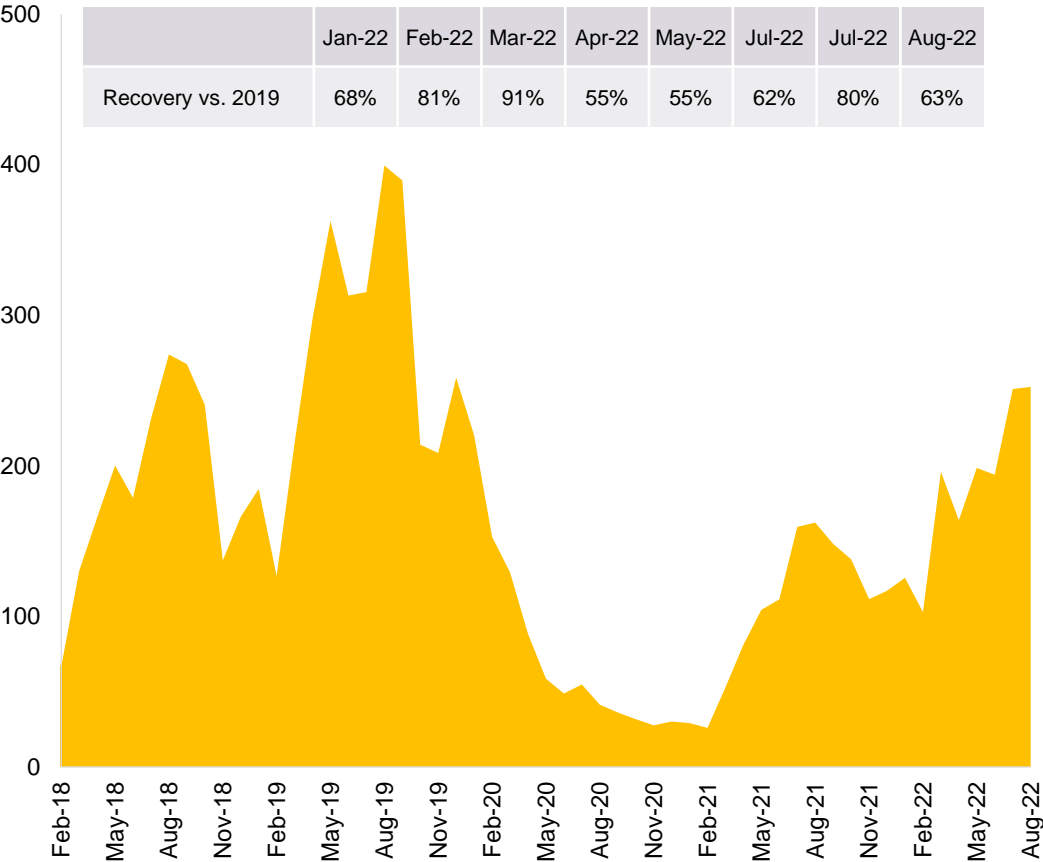
RevPar recovery in regions



Source: BoG, Galt & Taggart Research

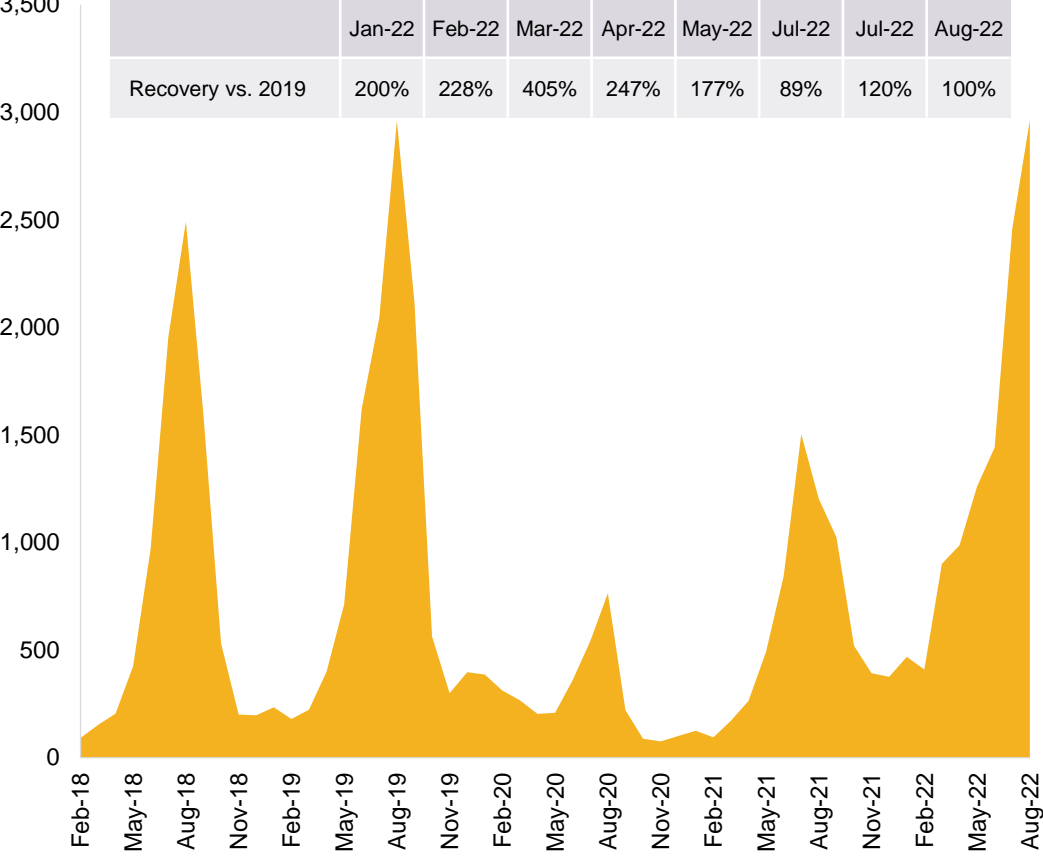
Annex 1: Airbnb demand surged in Mar-22 in Tbilisi, but decelerated since Apr-22 as landlords removed apartments from Airbnb for long-term renting

Index of Airbnb rental demand in Tbilisi, Jan-18=100



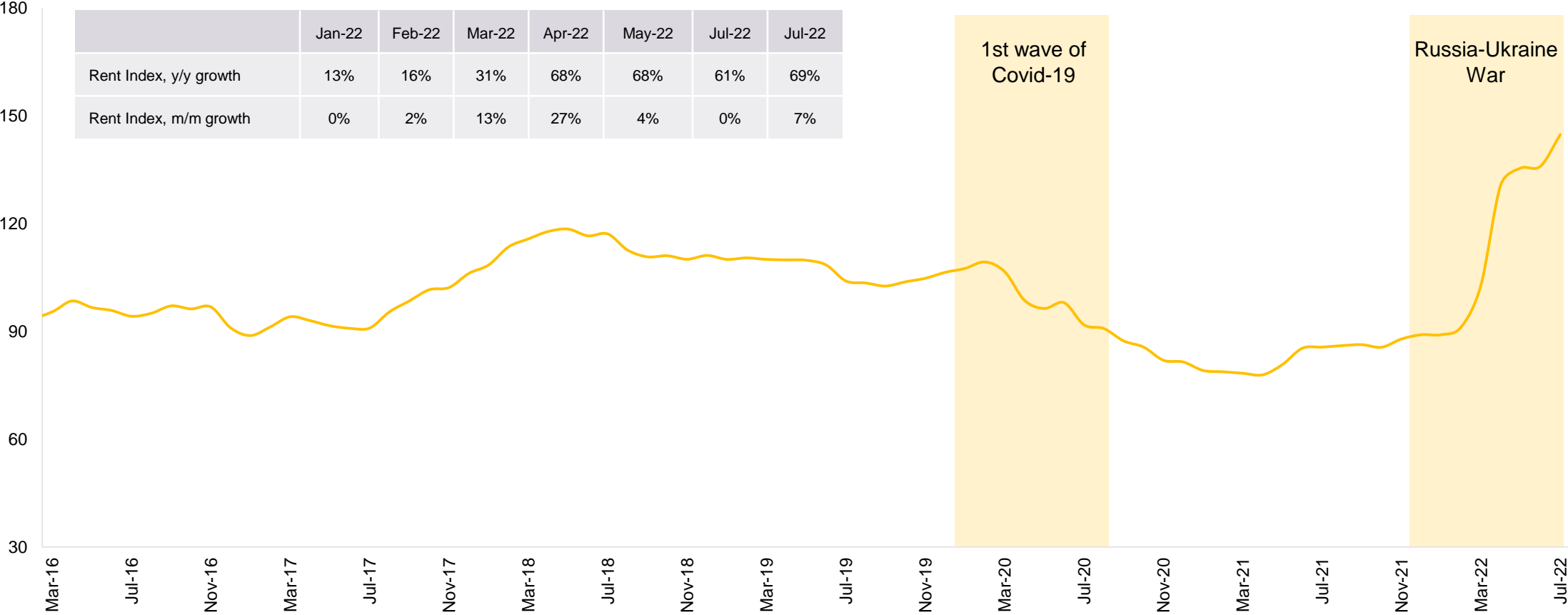
Source: Airdna

Airbnb rental demand in Batumi, index Jan-18=100



Annex 2: Preference for long-term renting is also witnessed by NBG's Real Estate Rent Index, which surged 68% y/y in Apr-22 (+22% vs. Apr-19)

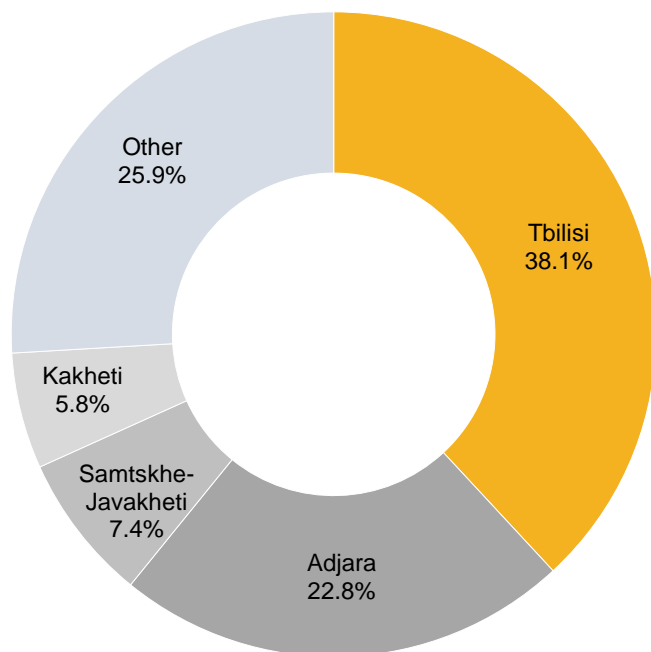
Rent index in Tbilisi, Jan-2016=100



Source: NBG

Annex 3: Hotel construction permit issuance down in every region

Distribution of hotel permit issuance by regions in 2021, sq.m.



Source: Geostat

Hotel permit issuance by regions, units

	2016	2017	2018	2019	2020	2021	y/y growth	vs. 2019 growth
Tbilisi	88	127	99	137	91	72	-21%	-47%
Adjara	110	102	120	122	70	43	-39%	-65%
Samtskhe-Javakheti	27	16	35	25	11	14	27%	-44%
Kakheti	10	12	16	21	20	11	-45%	-48%
Other	106	108	134	89	64	49	-23%	-45%
Georgia	288	311	337	394	256	189	-26%	-52%



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