



Research

Hospitality Sector in Georgia

Sector Snapshots

Issue 12

November 2024

Content



Research

Summary	3
Economic Impact of Hospitality Sector	4
Accommodation Units in Georgia	6
Infrastructure Project Pipeline	9
Hotel Prices in Georgia	10
Regional Hotel Prices in Georgia	11
Financial Analysis	12
SWOT Analysis	14
Future Outlook	15

Summary



- **Hospitality Sector in Georgia:** Georgia's hospitality industry benefits from the country's wealth of cultural and natural attractions, offering unique adventure, culinary, and other experiences. Supporting the growing interest in these offerings, Georgia has 3,198 registered accommodation providers, though most of them are small-capacity family hotels and guesthouses.
- **Economic Contribution:** The tourism industry remains a key driver of the Georgian economy, contributing 7% to GDP in 2023. However, its share in total turnover and value-added is still low.
- **Recent Expansion and Future Plans:** The hospitality sector has rebounded since the COVID-19 pandemic, with 238 new hotels opening from 2020 to 2023. Looking ahead, plans are in place for a further 324 accommodations to open by 2027. Of note, the bed capacity of the new accommodations planned for 2024-2027 is expected to be 130% greater than that of new accommodations opened in the 2020-2023 period. The majority of such expansion is taking place in Tbilisi and Adjara, while other regions lag behind due to a lack of investment.
- **Hotel Prices in Georgia:** Hotel prices in Georgia rose steadily from 2019 to 2023, especially for 3-star and 5-star hotels. Prices in Tbilisi, Kakheti, and Adjara are generally higher due to these regions housing more upmarket hotels, while Imereti and Samegrelo-Zemo Svaneti maintain more stable, lower rates.
- **Financial Performance:** The hospitality sector's financial performance has been volatile in recent years, impacted by the COVID-19 pandemic and related economic difficulties. While its profitability and liquidity improved between 2021 and 2022, the sector remains overleveraged, with a high reliance on borrowed funds that poses risks if external factors worsen.
- **Challenges:**
 - **Weak strategic planning:** The Georgia Tourism Strategy 2015-2025 has lacked effective enforcement, limiting its impact on industry growth.
 - **Underdeveloped Infrastructure:** Many rural areas are hindered by underdeveloped infrastructure, including limited transport options and outdated facilities, while the likes of Tbilisi and Batumi are better equipped.
 - **High Operational Costs:** Small and medium-sized enterprises (SMEs) face high operational costs stemming from taxes, regulatory fees, and inflation, thereby reducing profitability, leading many SMEs to operate informally.
 - **Limited Market Diversification:** The hospitality sector lacks diversification in terms of the markets it targets and attracts. The heavy reliance on tourists from neighboring countries and the insufficient targeting of high-spending international markets restrict revenue potential and limit the industry's ability to adapt to changing market conditions.
- **Future Outlook:** The future of Georgia's hospitality industry depends on a sustainable long-term growth strategy, with coordinated policies and a focus on high-value tourists. Key priorities here include infrastructure investment, addressing labor shortages, and simplifying regulations to attract investment. In addition, tailored financing for innovation will help to modernize the sector, while sustainable tourism practices will ensure long-term growth and preservation of resources

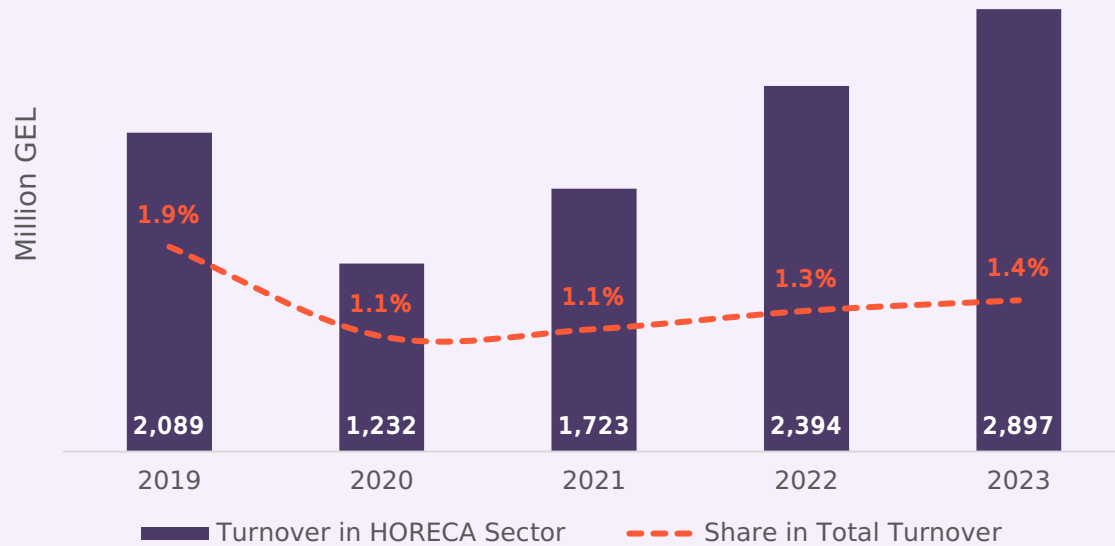
Economic Impact of Hospitality Sector

- **The tourism industry has long been a crucial part of Georgia's economy, contributing 7% to GDP in 2023.** While the sector experienced a significant downturn during the COVID-19 pandemic, it has been gradually recovering since then.
- **The turnover of the hotels, restaurants, and cafes (HORECA) sector reached approximately GEL 2.9 billion in 2023,** marking a 39% increase compared to 2019. However, despite such growth,

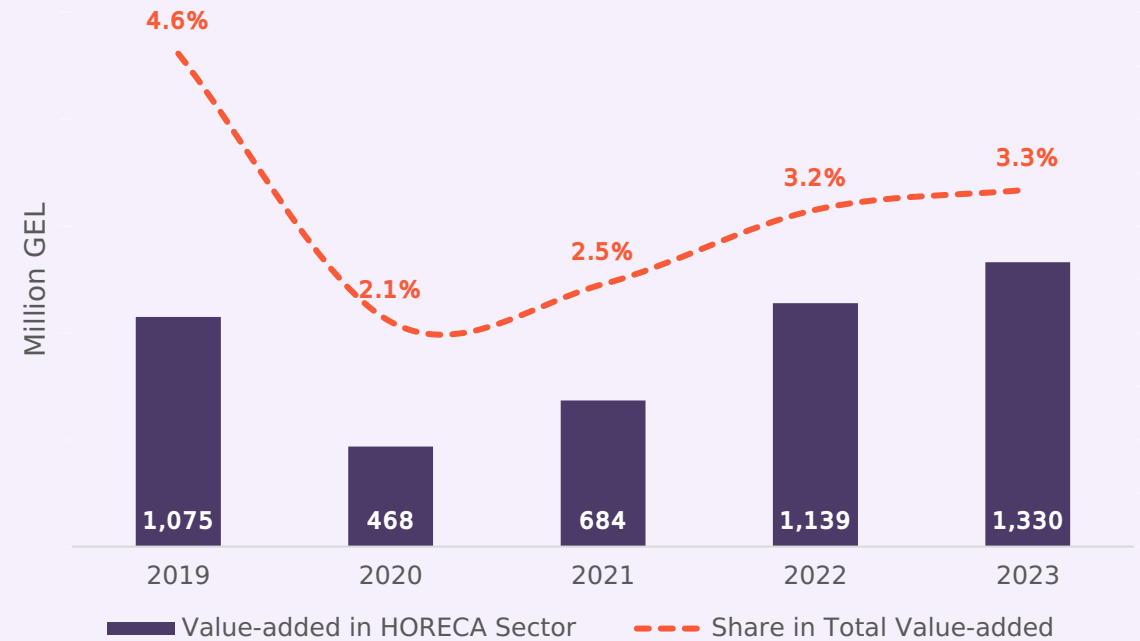
the sector's share in Georgia's total turnover remains low at 1.4%.

- **The value-added of the HORECA sector reached GEL 1.3 billion in 2023,** representing 24% growth compared to 2019. Similar to the situation regarding turnover, value-added generated by the HORECA sector makes up a relatively small portion of total value-added in Georgia.

Turnover in HORECA Sector



Value-added in HORECA Sector



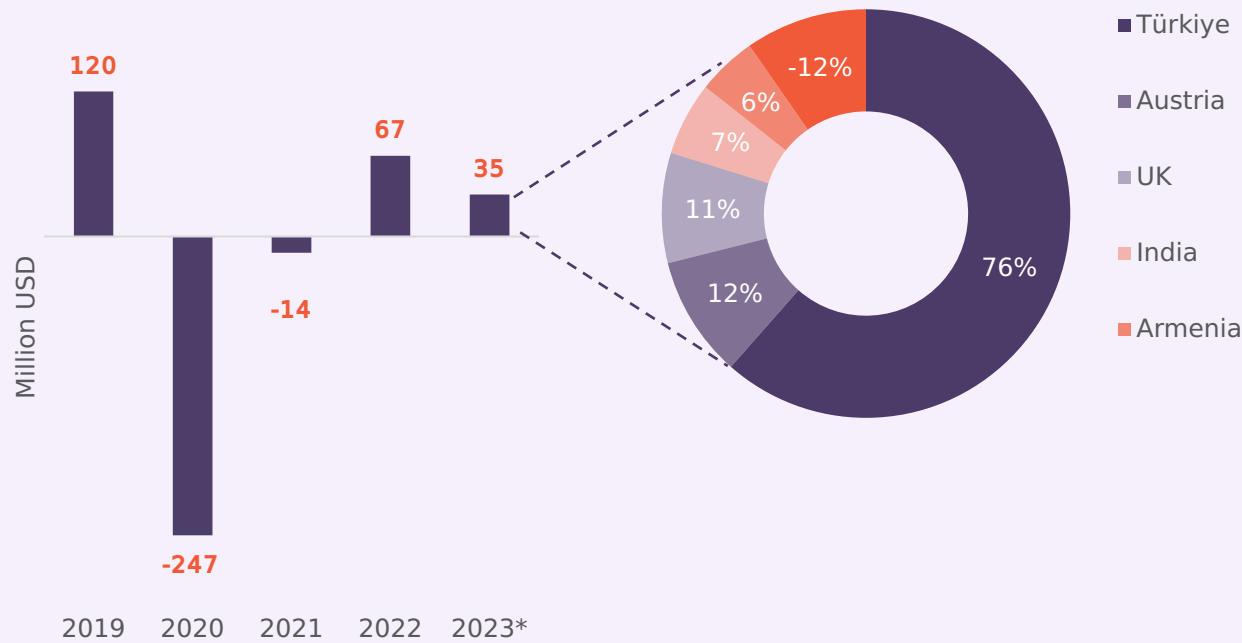
Economic Impact of Hospitality Sector

- **Foreign direct investment (FDI) in Georgia's HORECA sector has been volatile in recent years, heavily influenced by external factors.** In 2023, Türkiye was the largest investor therein, accounting for 76% of total FDI in the sector, followed by Austria and the UK. Though the prominence of Türkiye and Austria as key investors remained unchanged compared to 2019, other countries such as Russia, France, and Azerbaijan have reduced their investments since then. The overall share of FDI into Georgia allocated to the HORECA sector remains small,

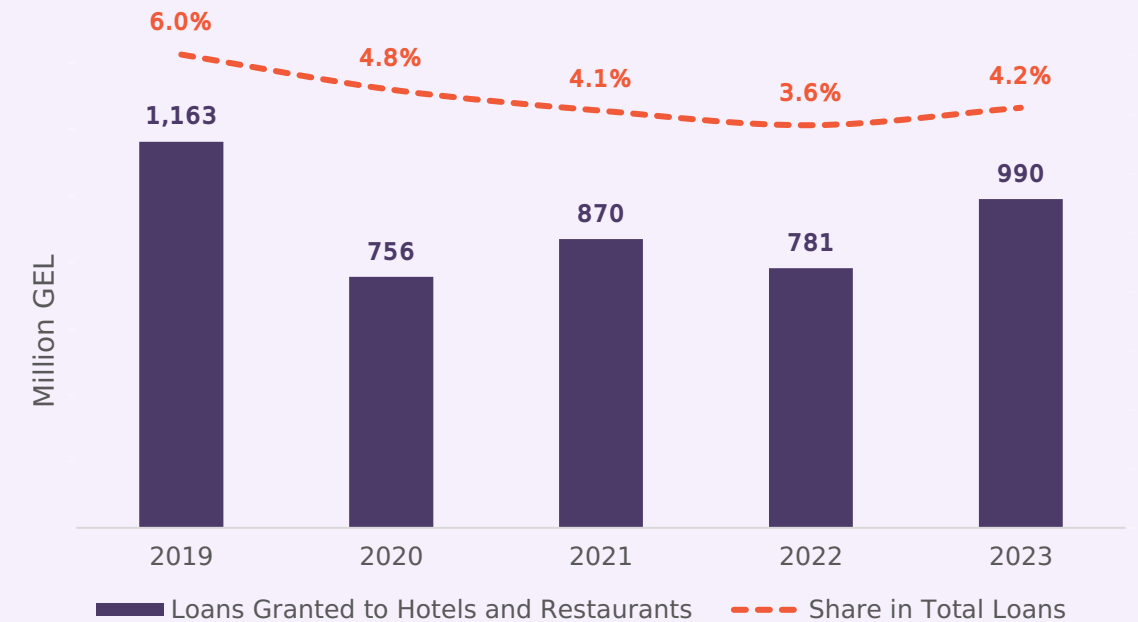
averaging around 5% of total FDI from 2017 to 2023 (excluding 2020-2021).

- **The COVID-19 pandemic led to a 15% decrease in commercial bank lending to hotels and restaurants between 2019 and 2023.** During this period, the HORECA sector's share of total lending also declined, reflecting banks' reduced interest in this sector compared to others.

Foreign Direct Investment in HORECA Sector



Loans Granted to Hotels and Restaurants by Commercial Banks

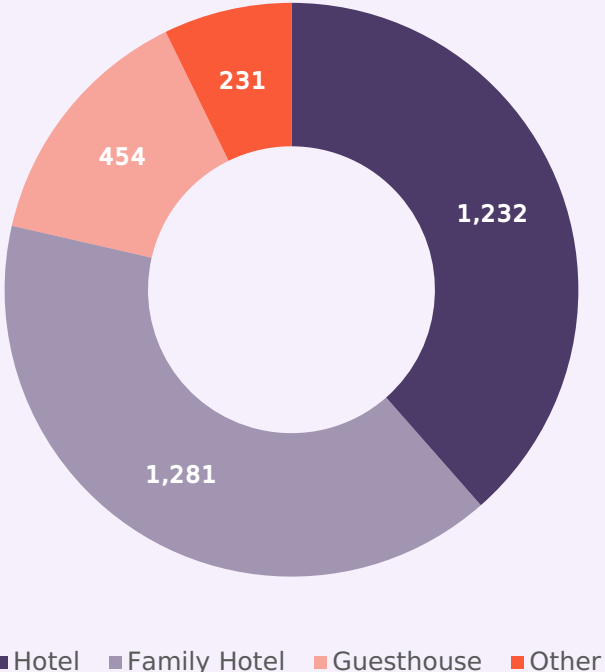


Accommodation Units in Georgia

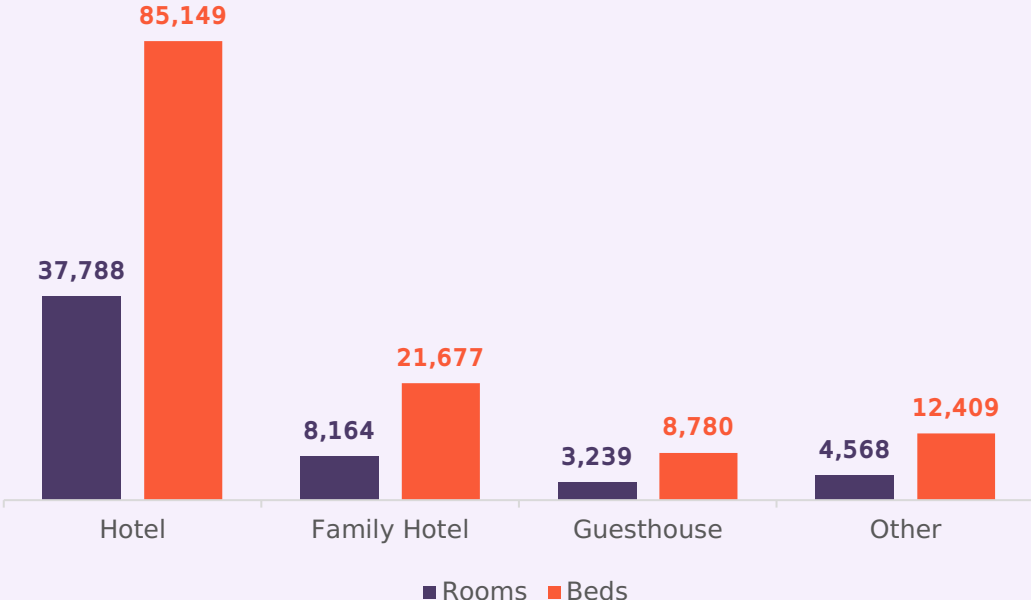
- In Georgia, there are **3,198 registered accommodation providers**, offering a total of 53,759 rooms and 128,015 beds.* Breaking down the types of accommodation reveals the leading role of family hotels (40% of all units), closely followed by hotels (39%). However, the current figures do not fully capture the reality of the industry, as **a substantial portion of small accommodation providers operate informally.**

- Despite the category's relatively high number of units, in national terms, family hotels account for only 15% of total room capacity and 17% of bed capacity. In contrast, **hotels, though fewer in number, provide the largest share of available rooms and beds.**

Accommodation Units by Type



Number of Rooms and Beds per Type of Accommodation



* As of February 2024.

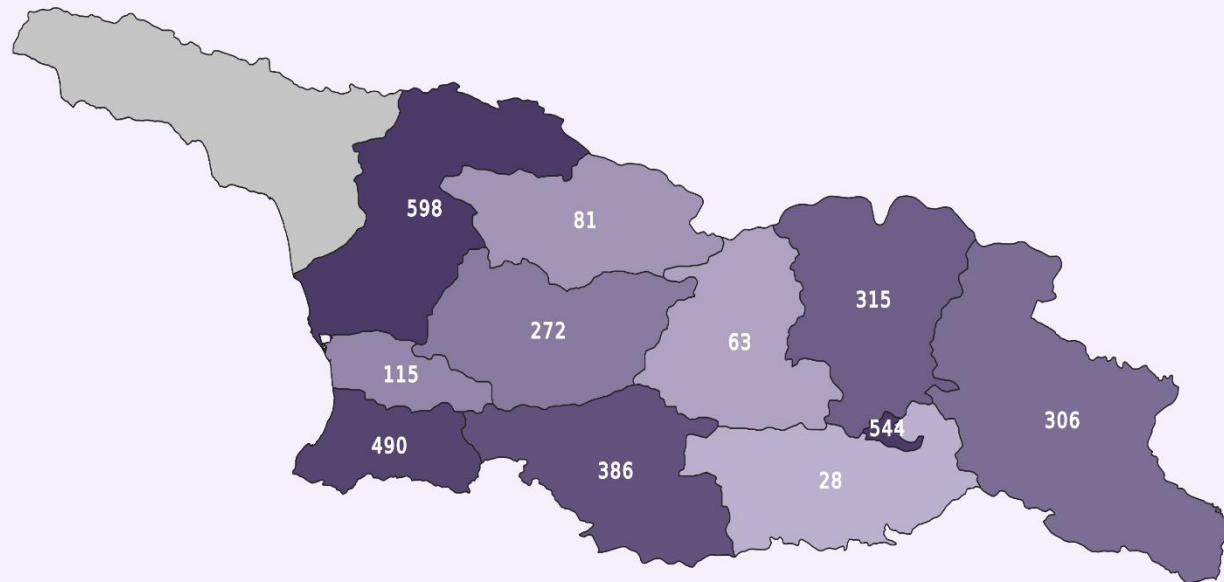
Accommodation Units in Georgia

- The regional distribution of accommodation units across Georgia shows that **Samegrelo-Zemo Svaneti accounts for 19%, ahead of Tbilisi (17%) and Adjara (15%)**. Notably, significant regional differences emerge when the type and density of these accommodations are considered.
- **Large-capacity hotels (i.e. those with 21 or more rooms) are predominantly located in Tbilisi and Adjara**, as the country's major tourism hubs. In contrast, other regions have lower

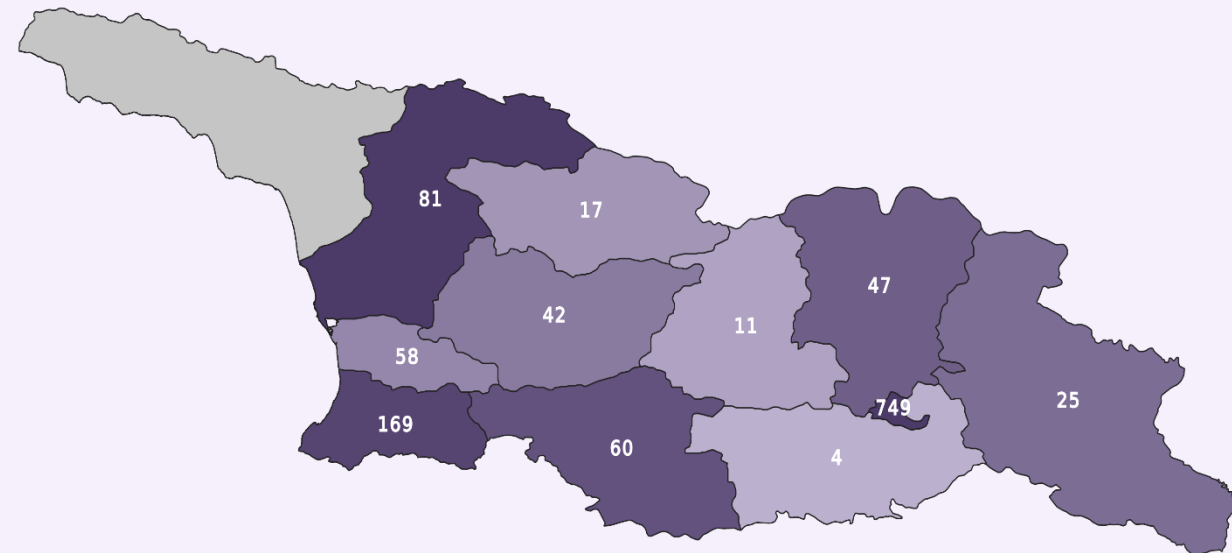
proportions of such establishments, and depend heavily on smaller-scale accommodations

- When examining the density of accommodation providers, **Tbilisi and Adjara have the highest number of units per square kilometer**. Meanwhile, in Samegrelo-Zemo Svaneti, home to the largest number of registered accommodation providers in the country, the distribution is more dispersed.

Distribution of Accommodation Units by Regions



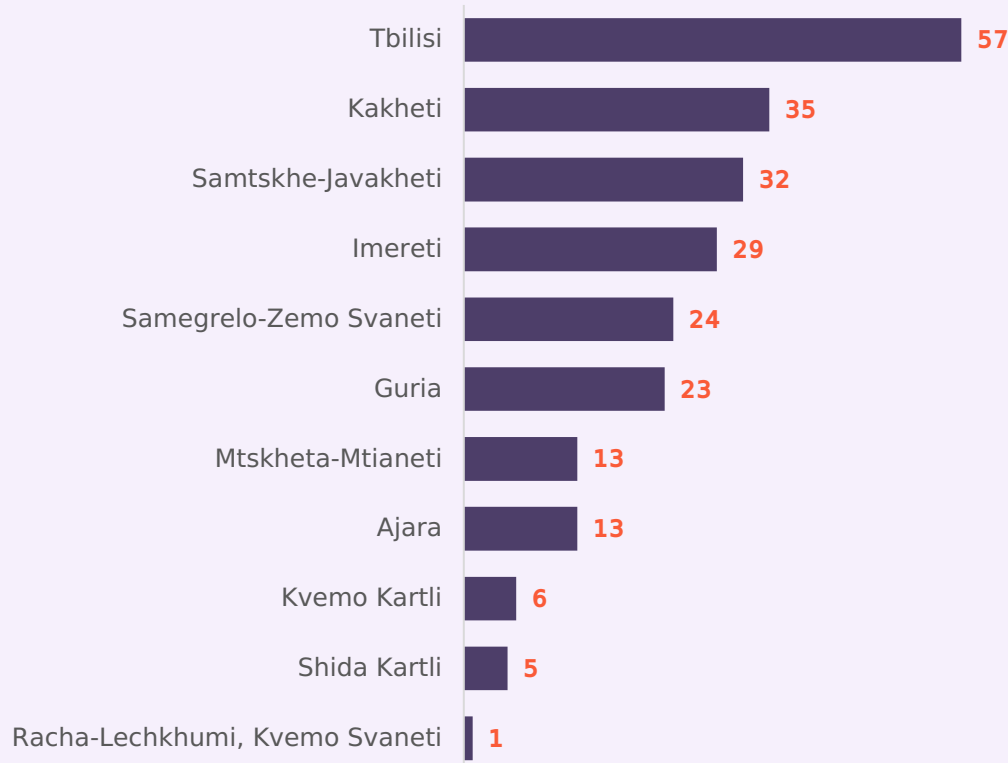
Concentration of Accommodation Units per 1,000 km² by Regions



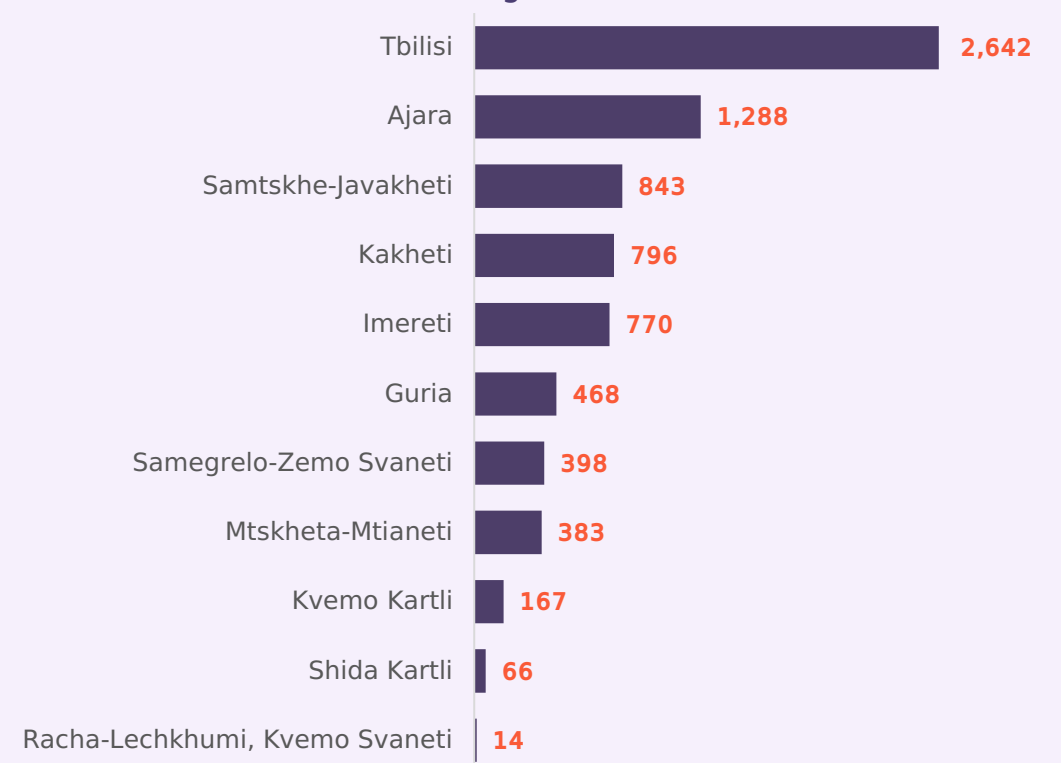
Accommodation Units in Georgia

- Despite the challenges posed by the COVID-19 pandemic, **Georgia's hospitality sector has continued to expand, with significant additions to its tourism infrastructure.** Between 2020 and 2023, a total of 238 new hotels were opened, adding 7,835 rooms and 16,133 beds (equivalent to 12% of the total current bed capacity in the country).
- Tbilisi has led this expansion with 57 new hotels**, followed by Kakheti (35) and Samtskhe-Javakheti (32). While only 13 new hotels opened in Adjara during this period, they were notable for their large capacity, contributing 1,288 rooms (second only to Tbilisi for that period).

Number of New Hotels Opened in 2020-2023 by Regions



Number of New Hotel Rooms Opened in 2020-2023 by Regions



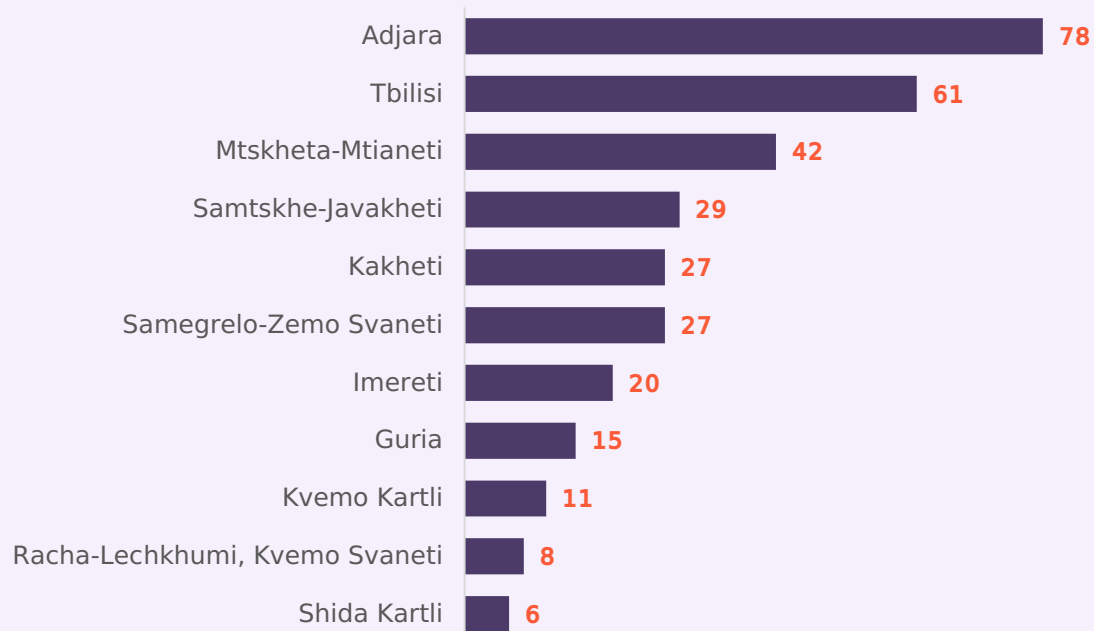
Infrastructure Project Pipeline

- Looking ahead, Georgia's hospitality sector is set for substantial growth from 2024 to 2027, with plans for many new accommodation units to be opened. These additions will significantly increase bed capacity, particularly in Adjara, Tbilisi, and Guria.
- In the short term, eight new hotels are expected to open by the end of 2024, followed by a further 18 in 2025. However, the pace of development is anticipated to slow thereafter, with only

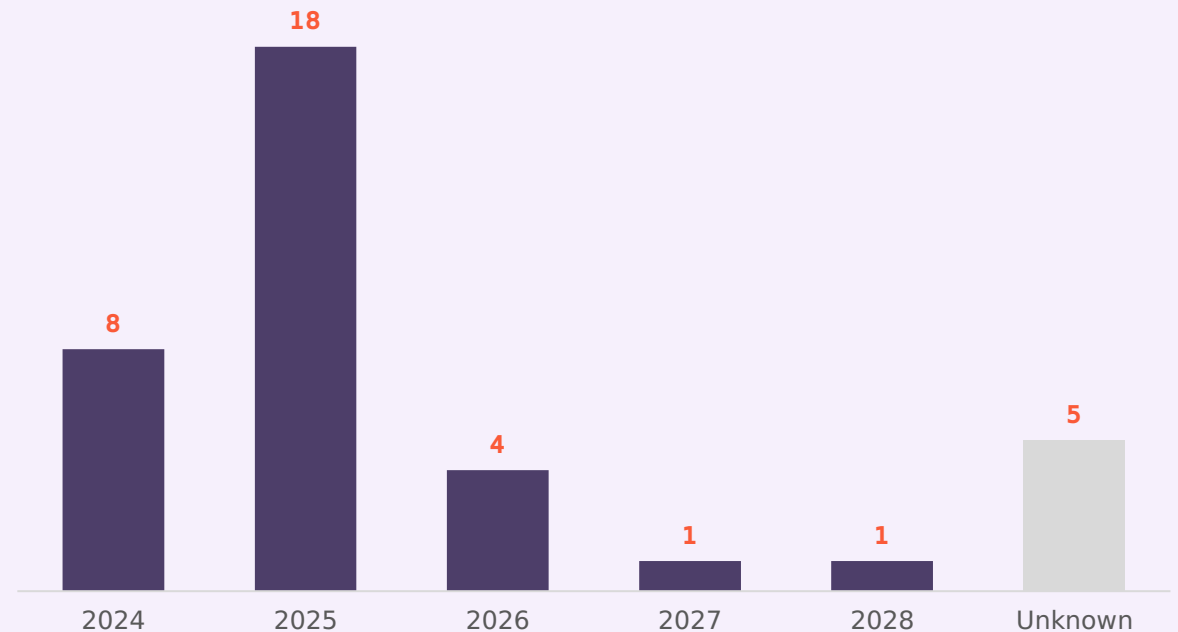
a few hotels expected to be completed, as most projects are still in their planning stages.

- Among the planned hotels, 17 are set to have 100 or more rooms. Notably, the largest hotels include Hilton Garden Inn Adjara and Hilton Tbilisi, each with 200 rooms, followed by Hotel Sololaki Hills (188 rooms), Ambassador Batumi (182 rooms), and Paragraph Golf & Spa Resort Tabori Hill (177 rooms).

Planned Accommodation Unit Construction by Regions in 2024-2027



Ongoing Accommodation Unit Constructions by Expected Completion Dates



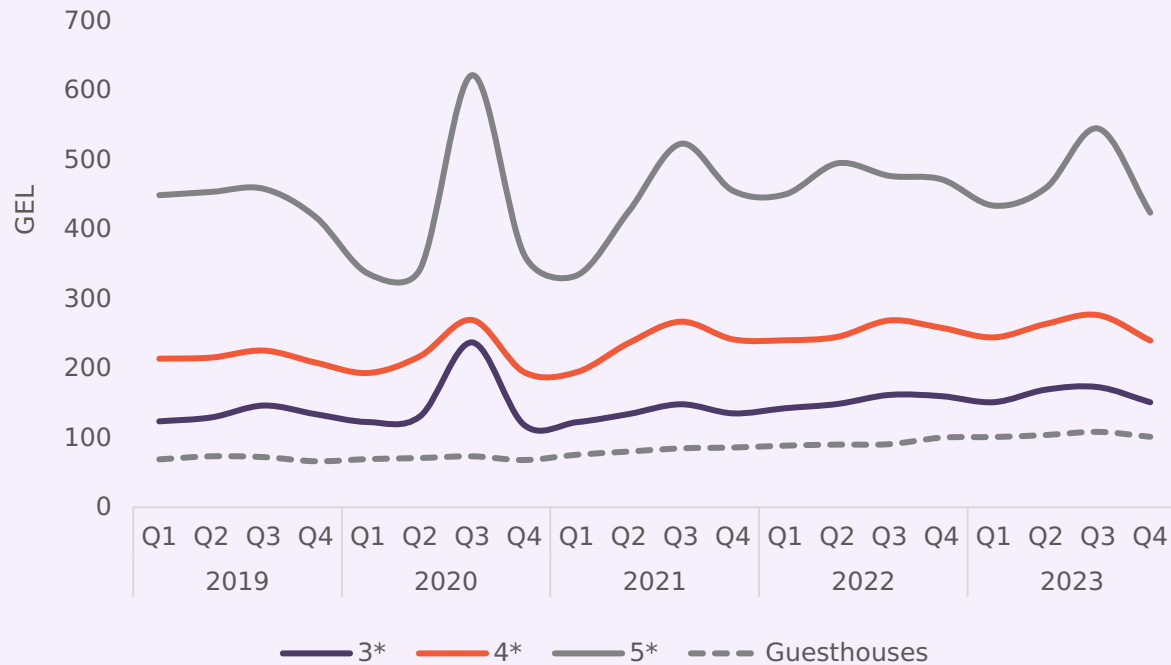
Hotel Prices in Georgia

- Average hotel prices in Georgia have been gradually increasing from 2019 to 2023, with an average annual growth rate of 12%. This has been driven primarily by the rising prices of 3-star and 5-star hotels (18% increase). In contrast, the average prices for guesthouses have increased by only 3% over the same period.
- Hotel prices fluctuated significantly during the COVID-19 pandemic, reflecting the impact of restrictions that were periodically introduced and lifted. **Since 2022, hotel prices have**

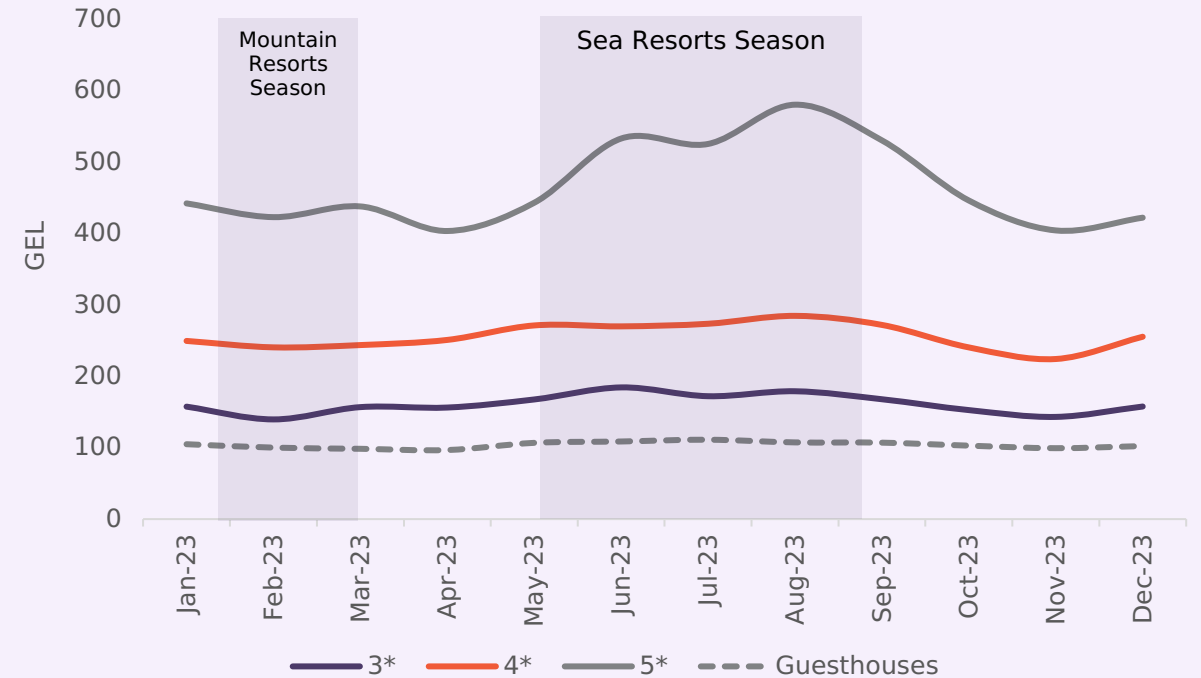
stabilized and returned to previously established growth and seasonal patterns.

- Hotel prices in Georgia are subject to seasonal rises, particularly for mountain resorts (from mid-February to the end of March) and even more significantly for seaside resorts (from June to mid-September). **These seasonal patterns are more pronounced for upmarket hotels and less so for budget hotels and guesthouses.**

Average Hotel Prices in Georgia

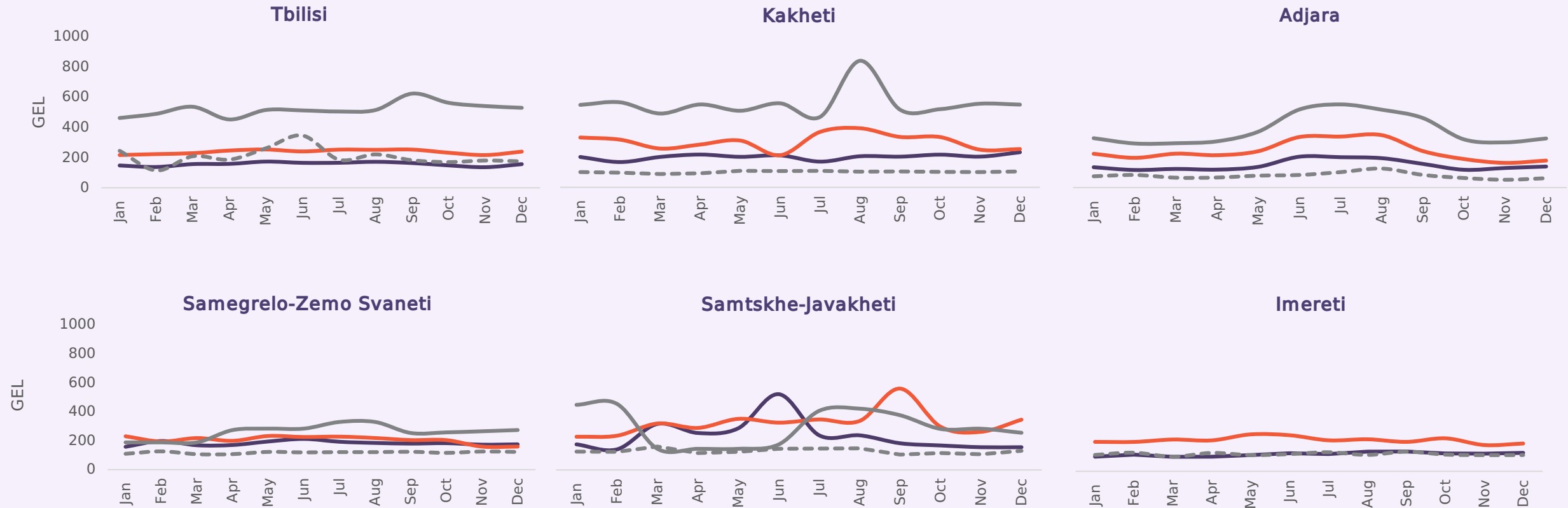


Seasonality of Hotel Prices in Georgia



Regional Hotel Prices in Georgia

- Among the selected regions, average hotel prices are higher in **Tbilisi, Kakheti, and Adjara**, where upmarket hotels are more concentrated. Seasonality is evident in Adjara region, with average price increases recorded during the summer for all categories.
- In contrast, such seasonal patterns are not as vivid in **Tbilisi, Kakheti, and Samtskhe-Javakheti**, where hotel prices fluctuate throughout the year. Meanwhile, regions such as Imereti and Samegrelo-Zemo Svaneti generally have lower hotel prices and no significant fluctuation.



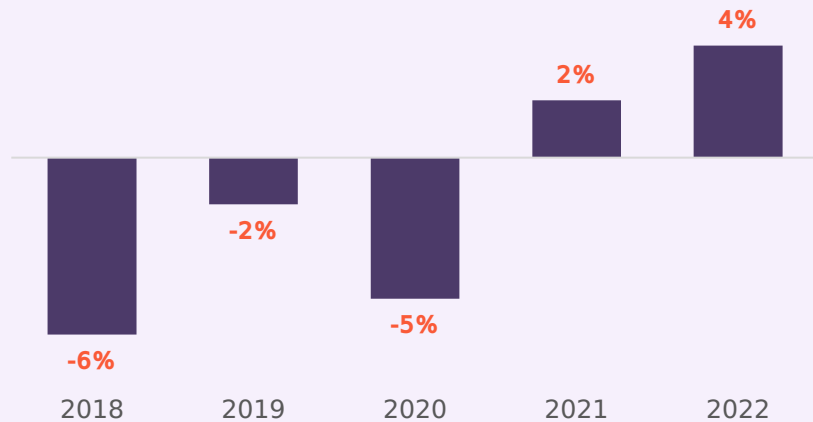
Financial Analysis: Profitability & Liquidity

- To gain a deeper understanding of the state of Georgia's hospitality sector, it is essential to also look at the **financial metrics and trends** reflecting the challenges the industry continues to face.
- The financial analysis* of Georgia's hospitality sector from 2018 to 2022 unveils significant volatility.** During this period, profitability was affected by the COVID-19 pandemic and other external factors, while even in the years before 2020 it had been suffering from dependence on loans and a lack of investment. The pandemic worsened the latter situation, but recovery began

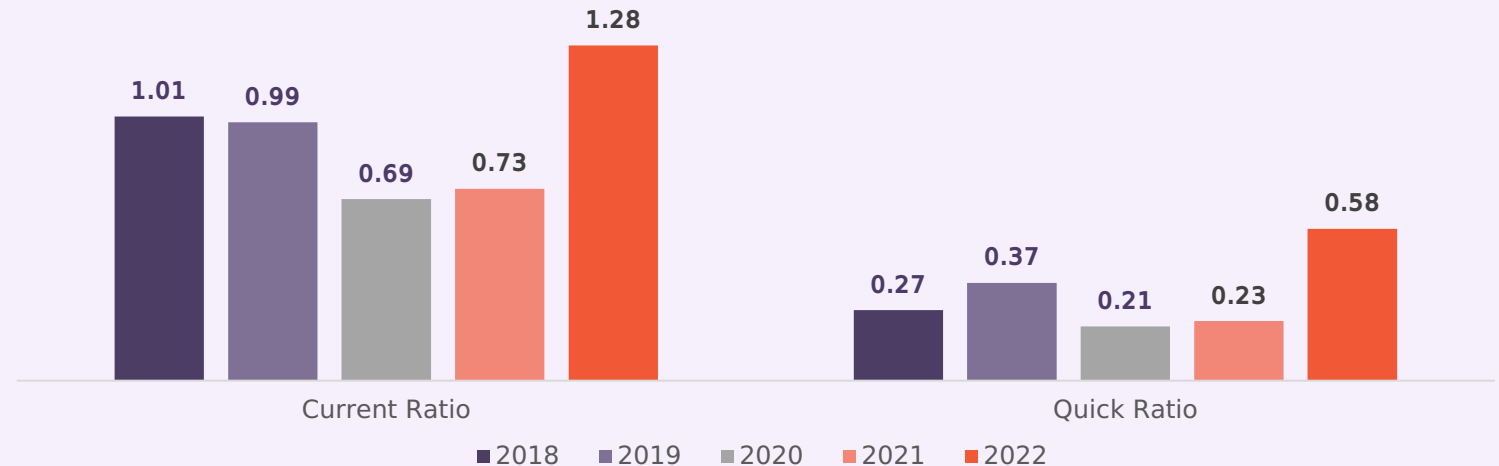
in 2021, supported by currency appreciation, and the following year this continued thanks largely to longer-term stays of visitors displaced by Russia's war on Ukraine.

- In terms of liquidity, the sector's current ratio in this period remained above 1.0, indicating stability.** Category I and III hotels generally maintained healthy liquidity, while Category II hotels improved in 2022.* From a regional perspective, Tbilisi hotels faced liquidity challenges in this time, while Batumi hotels performed better in that regard. Other regions struggled in 2020 but generally showed improvement by 2022.

Return on Asset Ratios for Hospitality Sector



Current and Quick Ratios for Hospitality Sector



*The top 30 companies of the hospitality sector (NACE code: 55 - Accommodation) by revenue were analyzed.

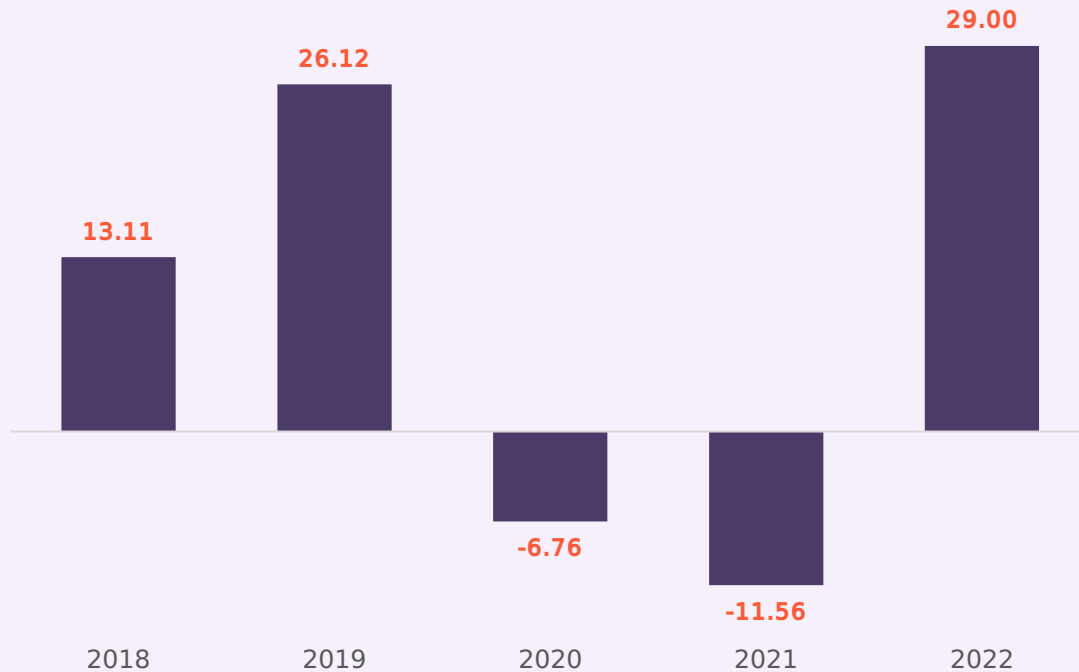
** Category I: an entity meeting at least two of the following criteria: assets > 50 million GEL, income > 100 million GEL, or employees > 250. Category II: an entity meeting at least two of the following criteria: assets ≤ 50 million GEL, income ≤ 100 million GEL, or employees ≤ 250. Category III: an entity meeting at least two of the following criteria: assets ≤ 10 million GEL, income ≤ 20 million GEL, or employees ≤ 50

Financial Analysis: Leverage

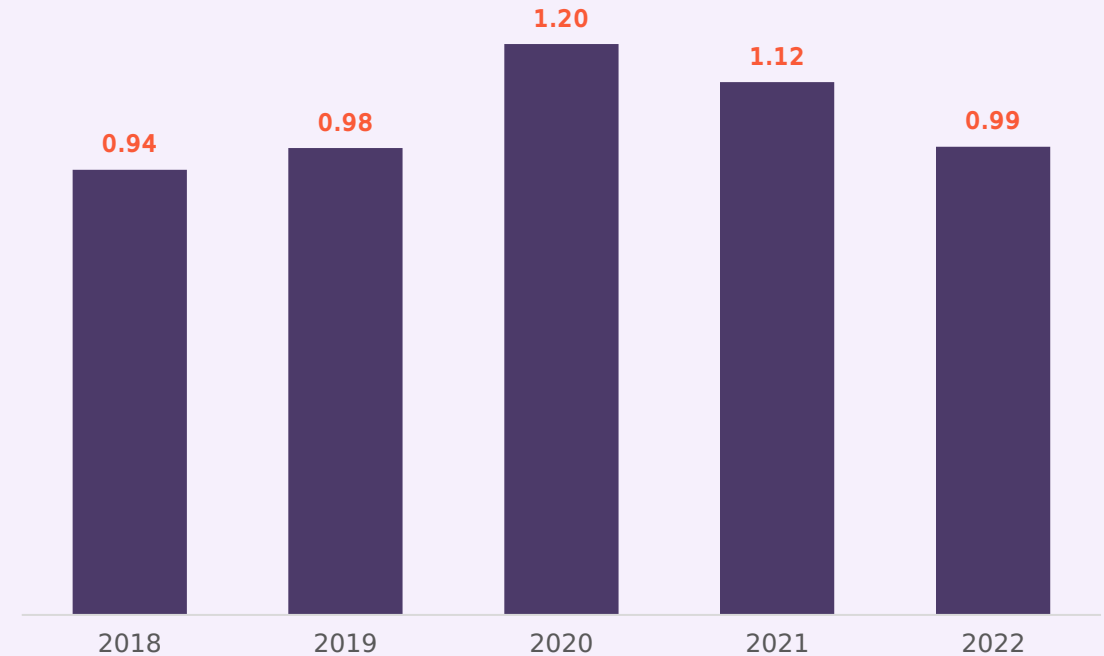
- **The sector remained overleveraged**, with negative liabilities-to-equity figures in 2020-2021 indicating worsening conditions followed by only a slight recovery in 2022, falling short of pre-pandemic levels. At the same time, the liabilities-to-assets ratio

also stayed unfavorable, near 1.0, reflecting persistent challenges albeit relatively low volatility. The sector's **heavy reliance on borrowed funds suggests ongoing financial difficulties**.

Liabilities/Equity Ratio for Hospitality Sector

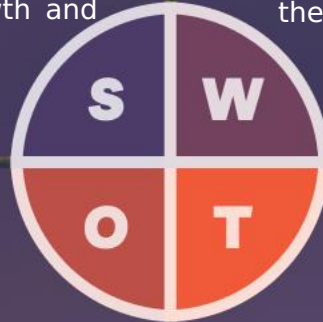


Liabilities/Assets Ratio for Hospitality Sector



STRENGTHS

- **Cultural and Natural Attractions:** Georgia's diverse heritage, landscapes, and unique attractions draw a wide range of international tourists.
- **Distinctive Offerings:** Adventure, cultural, and gastronomic tourism in Georgia give it a unique identity, appealing to niche markets.
- **Strategic Location:** Positioned at the crossroads of Europe and Asia, Georgia is easily accessible from both Western and Eastern markets.
- **Expanding Airline Connections:** The expansion of direct international flights to and from Georgia enhances its global connectivity, especially with key markets in Europe, the Middle East, and Asia.
- **International Brand Presence:** The presence of established international hotel chains in Georgia enhance its reputation as a reliable tourist destination.
- **Regional Development Initiatives:** Tourism clusters and destination management organizations (DMOs) promote local economic growth and cultural preservation.
- **International Assistance:** Support from organizations like the UNWTO and USAID boosts strategic frameworks, marketing, and destination management.



WEAKNESS

- **Weak Strategic Planning:** The Georgia Tourism Strategy 2015-2025 has lacked enforcement and stakeholder communication, limiting sector development.
- **Underdeveloped Infrastructure Outside Major Cities:** While cities like Tbilisi and Batumi are well-equipped in terms of infrastructure, many rural areas suffer from inadequate infrastructure, with limited transport options, outdated facilities, and underdeveloped tourism services.
- **Lack of Service Quality:** Workforce shortages, industry skills gaps, limited adoption of hotel ratings, and HACCP compliance challenges all hamper service quality.
- **Inadequate Data Collection:** Limited and inconsistent data reporting hinders performance assessment and decision-making.
- **High Operational Costs for SMEs:** High taxes, regulatory costs, and inflation all contribute to reduced profitability, pushing many SMEs into the informal economy.
- **Limited Market Diversification:** Reliance on tourists from neighboring countries and the insufficient targeting of high-spending markets limit revenue potential and sector resilience.

- **Increase Digital Presence:** Accommodation facilities could be more prominent on platforms like Airbnb and the consistency of online output could be improved.
- **Targeted Digital Advertising:** Strategies for targeting specific markets with tailored marketing materials could be developed.
- **Niche Market Growth:** Luxury, adventure, and eco-tourism segments could be expanded to attract high-spending visitors.
- **Public-private Partnerships:** Collaborations could be established to improve infrastructure and enhance the visitor experience.
- **SME Financing:** Tailored financing could support small businesses to grow and innovate.
- **Workforce Development:** Vocational training programs could address labor shortages and elevate service standards.

- **Political and Geopolitical Uncertainties:** Regional instability and domestic political developments create unpredictability, discouraging investment and affecting tourist confidence.
- **Environmental Impact:** Unregulated construction and poor environmental protection threaten key natural assets for tourism.
- **Economic Instability:** Inflation, low profitability, and overleveraging leave the sector vulnerable to financial risks and reduced investment.
- **Intense Competition:** Price pressures and limited differentiation, especially in Tbilisi, strain margins and reduce appeal for high-value segments.

OPPORTUNITIES

THREAT

Future Outlook



Research

- **Development of a New Tourism Strategy:** Georgia needs a new long-term tourism strategy focusing on attracting high-value tourists and sustainable growth. A 10-year plan, informed by stakeholder consultations and international expertise, should identify key gaps and align with national goals. Regular monitoring thereof and international cooperation would enhance its effectiveness and ensure accountability.
- **Coordination of Policies and Marketing Strategies:** Coordinating national policies and marketing efforts will be essential to attract high-spending visitors. Targeted campaigns should focus on Europe, the Gulf states, and emerging markets. Moreover, promoting cross-border tourism and geopolitical stability will also be vital to maintaining Georgia's appeal as a tourism destination.
- **Improved Labor Force:** Addressing labor shortages requires training incentives, simplified work permits, and a digital job platform. Accordingly, public campaigns could raise the status of careers in hospitality, while training programs could upgrade skills across the sector.
- **Infrastructure Development for Tourism Services:** Investing in roads, utilities, and tourist facilities will be key to improving the tourism experience. Relatedly, prioritizing infrastructure projects using tools like New Zealand's Tourism Infrastructure Fund would guide sustainable development and enhance inter-regional connectivity.
- **Public Sector Involvement in Investment Attraction:** The public sector must simplify regulations, offer incentives, and promote Georgia through global campaigns. Transparency and anti-corruption efforts would also build investor confidence, while investment councils could address sector-specific challenges.
- **Development of a Linkage Between the Aviation Industry and National Research:** Aligning aviation industry growth with research on high-value tourist markets would improve connectivity and attract premium visitors. Expanding the domestic flight network is also crucial to meet growing demand.
- **Sustainable Development:** Sustainable tourism should focus on preserving natural and cultural resources through zoning laws and conservation initiatives. Collaboration between government, communities, and environmental groups would ensure that tourism growth is sustainable.
- **Addressing Private Sector and Investment-related Challenges:** Tailored financing mechanisms and incentives for digital innovation and new hospitality products would modernize the sector. Meanwhile, co-financing schemes for airlines could expand connectivity and encourage investment in Georgia's tourism industry.

DISCLAIMER

The PUBLICATIONS presented on the website are prepared by Policy and Management Consulting Group (PMCG) only for informational and/or marketing purposes. Nothing in the PUBLICATIONS constitute, or is meant to constitute, advice of any kind, and the reader is responsible for their interpretation of all content and acknowledges that any reliance thereupon shall be entirely at their risk. PMCG cannot be held liable for any claims arising as a result of the reader's use of the materials.

The PUBLICATION is presented "as is" without any representations or warranties, expressed or implied.

Without prejudice to the general message of the first paragraph above, PMCG does not guarantee that:

- the PUBLICATION will be constantly available; or
- the information contained in the PUBLICATION is complete, true, accurate, or non-misleading.

PMCG reserves the right to modify the contents of PUBLICATIONS from time to time as it deems appropriate.

PMCG absolves itself of any liability of violations of other parties' rights, or any damage incurred as a consequence of using and applying any of the contents of PMCG's PUBLICATIONS. PMCG will not be liable to the reader (whether under contract law, tort law, or otherwise) in relation to the contents of, use of, or other form of connection with, the PUBLICATION.

The reader accepts that, as a limited liability entity, PMCG has an interest in limiting the personal liability of its officers and employees. The reader agrees that they will not bring any claim personally against PMCG's officers or employees with respect to any losses suffered by the reader in connection with the PUBLICATION.

The reader agrees that the limitations of guarantees and liabilities set out in the PUBLICATION disclaimer protect PMCG's researchers, officers, employees, agents, subsidiaries, successors, assignees, and sub-contractors as well as PMCG.

If any provision of this disclaimer is, or is found to be, unenforceable under applicable law, that will not affect the enforceability of the other provisions of the PUBLICATION disclaimer.

Giorgi Khishtovani
Research Director
g.khishtovani@pmcginternational.com

Nana Kajaia
Researcher
n.kajaia@pmcginternational.com

Nika Kapanadze
Researcher
n.kapanadze@pmcginternational.com

Gugula Tsukhishvili
Junior Researcher
g.tsukhishvili@pmcginternational.com

Mariam Jikia
Junior Researcher
m.jikia@pmcginternational.com

Giorgi Shogiradze
Junior Researcher
g.shogiradze@pmcginternational.com

Address: 61 Aghmashenebeli Avenue, 3rd floor,
Tbilisi 0102, Georgia.
Tel: (+995 32) 557 170 660
Email: research@pmcginternational.com
Website: pmcresearch.org