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TRENDS IN HOTEL MARKET DEVELOPMENT IN GEORGIA

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Summary. The Georgia hospitality sector is the largest exporter of services, and its contribution to the GDP is increasing yearly. The hotel sector is the largest in the credit portfolio of the banking system. Georgia's economy is more dependent on revenues from the tourism and hospitality sector. Hotel enterprises play a significant role in the country's economic development. The hotel sector increases revenues, including foreign exchange, creates new jobs, and contributes to developing tourism-oriented industries and social and industrial infrastructure.

The research aims to study the hotel business in the tourist market of Georgia and the demand and supply of hotels in recent years. The paper analyzes implemented and planned investment projects and identifies problems concerning the tax policy in the field, which often causes severe problems and affects business efficiency and competitiveness. Also, the specifics of sales, income from the hotel business, foreign and Georgian investments in the hotel business, and its results are intriguing. The research utilized surveys and interviews with various representatives of the tourism value chain. Both practical and theoretical materials were used in the research process, including statistical data, scientific works, and articles.

Keywords: Hospitality Sector, Hotel Business.

Introduction. In the tourism value chain, the accommodation industry has a primary role in the country's economic development. The sector increases incomes, creates jobs, attracts foreign investments, and promotes small and medium-sized business development. Accordingly, the hotel industry is the largest sector in the credit portfolio of the banking system. In the modern market, a hotel business can be run by owning property or real estate, managing operations, and franchising a brand [1]. The entry of international brands, the expansion of local hotel chains, and the introduction of new, innovative concepts lead to market diversification and increased competition. Modern hotel business operations are distinguished from other tourism industry sectors by ownership or real estate, operational management, and brand franchising.

The primary modern hotel business factors are the quality of service, security, satisfied customers, qualified personnel, and a comfortable environment. It is essential to consider various significant aspects for the effective functioning of the hotel business, how the hotel market in Georgia is changing and developing, what



challenges and opportunities this sector faces, and future development prospects. It is also necessary to understand the effective tax rates in the field, which often give rise to severe problems that affect business efficiency and competitiveness.

The paper discusses revenues from the hotel business, supply to the market, realized local and foreign investments, average annual ADR, and occupancy rate (Colliers). The problems of hotel business tax rates were analyzed.

Research methodology. The research utilized systematic and comprehensive approaches. Statistical methods were employed, including both quantitative and qualitative research techniques. Interviews were conducted using a questionnaire method with various representatives of the tourism value chain. Both practical and theoretical materials were used in the research process, including statistical data, scientific works, and articles.

Literature review. Numerous works by scientists and researchers have been written on hotel business development. K. Abuladze's book "Fundamentals of Hotel Business" discusses significant issues for the effective operation of the hotel business and how the hotel market in Georgia is changing and developing. The National Tourism Administration's 2019 Guide to Planning an Inbound Tourism Business discusses, among other topics, property management systems for hotels. Three types of business operations are discussed here: real estate ownership, franchising, and operations management. The information on the National Bank of Georgia website, "Survey of Tourism and Hotel Sector of Georgia," is interesting. The hotel business has been studied from different angles in the works of the following Georgian researchers: K. Abuladze, 2015; Kh. Berishvili, 2013; L. Dolikashvili, 2012; L. Korghanashvili, 2012; D. Shubladze, 2004; and others. A significant publication is M. Hotelier's "Practical Guide to the Hospitality Industry," published in 2018 with the help of the German Society for International Cooperation (GIZ). This organization facilitated the promotion of small and medium-sized businesses in the hotel sector. The paper uses the National Tourism Administration data of Georgia and Saxstat.

Discussion/Results. In the 21st century, the hotel industry can sell hotel services in the domestic market and abroad. Today, every hotel can compete in the international market with a very profitable and growing income [2]. The development of the hotel business in Georgia is growing daily, and the variety of hotels in the country's market creates a broad competition market. The hotel business activity field is distinguished by a high level of competition. Its goal is to satisfy the needs and wants of customers, create a comfortable environment for them, and ensure that their daily needs are fulfilled. Accordingly, the higher the culture of service and hospitality, the more demanding and attractive the hotel business becomes. The price of a hotel tourism product or service reflects not only its value but also its competitive advantage in the market. Moreover, pricing affects demand, revenue, profitability, and customer satisfaction. Hotel managers usually focus on three measurable indicators: occupancy rate, average daily rate (ADR), and revenue per available room (RevPAR). Out of these three indicators, the average annual and occupancy ratios play a significant role in the hotel business. The indicators of these ratios are influential and convey information about how the hotel operates successfully in the tourism market and how much demand there is for them. In Georgia, according to the latest data, in the first quarter of 2024, the occupancy of



high-budget hotels increased significantly, reaching an average of 46%, which reflects an increase of 5% compared to 2023. In addition, high-budget hotels average \$113, which is 5% higher than the 2019 pre-pandemic level. 2023 was fixed at 70% in the capital of Georgia. Prices in Tbilisi ranged from \$150-200 [3].

The number of accommodation facilities registered in the National Tourism Administration of Georgia database was 3,198, and the number of beds was 128,015. Adjara region is the leader with 33,851 (26%) beds, followed by Tbilisi - with 32,192 (25%) beds [4].

Table №1

Number of Accommodation Facilities by Type

Category	Number of Facilities	Number of Rooms	Number of Bed Places
Hotels	1,208	35,384	80,133
Family Hotels	1,279	8,157	21,650
Hotel Houses	455	3,251	8,800
Other	227	4,279	11,674

Source: National Tourism Administration of Georgia

In the given statistical tables, the indicators of hotels in the regions of Georgia in 2024 are discussed.

Table №2

Accommodation Units by Region

Region	Quantity	Number of Rooms	Number of Beds
Georgia	3198	53759	128015
Ajara	490	14319	33851
Guria	115	2169	5534
Tbilisi	544	14611	32192
Imereti	272	3356	8122
Kakheti	306	3245	7872
Mtskheta-Mtianeti	315	3168	7729
Racha-Lechkhumi, Lower Svaneti	81	567	1613
Samegrelo-Upper Svaneti	598	3841	9626
Samtskhe-Javakheti	386	7416	18672
Lower Kartli	28	480	1196
Inner Kartli	63	587	1608

Source: Georgian National Tourism Administration

Samegrelo-Zemo Svaneti, Tbilisi and Adjara share the first three places in the ranking of regions. However, if Samegrelo-Zemo Svaneti takes the first place in the number of accommodation facilities, Tbilisi is the leader in terms of the number of rooms, and Adjara is the leader in the number of beds, which means that the largest number of people can be accommodated in Adjara. (Table №2).

The development of a hotel tourism product includes various stages that are necessary for the creation of a new tourist service and its promotion:

1. **Idea generation and research** - generating and researching new ideas to see if there is potential for successful implementation of them.



2. **Projecting and planning** - detailed planning of the tourist product, including planning of routes, defining services, setting prices, and others.

3. **Testing phase** - involves testing the product on a small scale to identify flaws and opportunities for improvement.

4. **Launch and Marketing** - The official launch of the tourism product and its marketing campaigns to attract the attention of potential customers.

5. **Feedback collection and improvement** - Collecting evaluations and feedback from customers to ensure continuous product improvement. The tourism product represents a complex and multifaceted concept, which includes various elements and components whose effective combination and management ensure tourist satisfaction and a successful travel experience.

In 2023-2024, a total investment of 220 million GEL has been allocated for hotel development in the country. According to the report on last year's results and 2024 plans of the National Tourism Administration, the investment will increase to 1 billion GEL in 2024-2027. It is noteworthy that in the following years, the number of new jobs at accommodation facilities will reach 9,300 and up to 320 new accommodation facilities will be created across the country, and the number of beds will exceed 37,000 in 2024/27 [5].

In Georgia, not only foreign investors are characterized by a positive effect, but Georgian investments are also very significant in the hotel business. An example is the Bank of Georgia, which invested in hotel business development. The Bank of Georgia is actively involved in supporting the hotel sector. To promote the development of the hotel, the Bank of Georgia invested 9 million. In Avlabari, the historical district of Tbilisi, the mentioned amount was used for a 65-room hotel complex construction - Clocks Hotel Tbilisi. It is a project developed according to international standards. Currently, 52 people are employed in the hotel. The hotel complex opened in the spring of 2021, and as a result of its opening, an additional 70 jobs were created [6].

With the development of the hotel business, the wise use of the territories of small land countries becomes relevant and can be used for various purposes in terms of tourism. Where free tourism zones are found, investors are encouraged, and the land can be used thoroughly free of charge. In conditions where domestic markets are scarce and export opportunities are underdeveloped, there are a large number of destinations that are not economically active. Some situations make the current situation even harder in terms of climate, terrain, and faulty transport infrastructure [7].

The project "Make in Georgia" aims to attract foreign investments in our country and mediate between foreign investors and the Georgian government. It helps groups of interested investors to find various information and conduct valuable discussions with their local parties. "Produce in Georgia" significantly promotes the development of chain or family-type hotels. In 2024, the conditions of the co-financing mechanism of the program regulate hotel, tourist services, hotel, and balneological resorts industry, agro, and eco-tourism activities [8].

The program aims to maximize and increase the hotel market to develop various services, develop tourism in Georgia, and at the same time provide financial support.



A successful project of the "Make in Georgia" program is two cottages built in the yard of Otia Yoseliani's House-Museum, designed for the reception and accommodation of guests, their hospitality, and, most importantly, the local tourism development.

Local investments can:

- Increase the local tourist area;
- Create a new location in those regions where the tourism market is undeveloped;
- Promote the expansion of new tourist areas, attracting both local and foreign visitors;
- Create such a hotel complex, which will be adapted to any tourist so that the given tourist spot will become a contributor to the growth of the tourist market and the economy of the region;
- Make it possible to employ the local population;
- Increase awareness of geographically significant landmarks.

The development of the hotel sector in Georgia shows constant growth and dynamism, accompanied by the growth of the country's tourism potential.

In recent years, the flow of investments in the hotel sector has increased. That is evident from the entry of new international brands and the expansion of local hotel networks. The growth in investments contributes to improving infrastructure and enhancing service quality.

To continue operating and providing services, tourism organizations must strive to generate revenues in excess of expenses or effectively and efficiently use the financial resources they have been allocated. Even nonprofit and government organizations are being called on to generate more of their own funding and to gain better control of their expenses [9].

At the modern stage, business management is primarily art, science and colossal innovative work, therefore the main emphasis should be on new work methods, methods and technologies, and the approach to innovation should be based on market perspectives. A business develops like a living organism and goes through the following stages during its existence: birth, childhood, maturity and death. Accordingly, it is characterized by a life cycle. However, as a result of restructuring (modernization, reconstruction, rehabilitation), a new rise is possible. Each stage of the business requires its own strategy and tactics that reflect the changes in the internal and external environment that have occurred and are expected [10].

Conclusion. Thus, as a result of the research, the strengths of the hotel industry in Georgia were revealed:

✓ **Contribution of the hotel industry to the local economy** - The hotel industry, which has significant financial power, can certainly improve the local economy, so when a holidaymaker stays in a regional hotel, they consume both primary, local services and also other additional services, thereby increasing the income of the economy with a multiplier effect.

✓ **Hotel industry as the largest employer** - The hotel business is a massive sector that creates jobs in various positions.

✓ **High Margins of Hotel Industry** – Despite requiring substantial initial capital, the hotel industry remains a valuable investment due to its lower labor costs and



higher profit margins. High-profit margins are a key strength for the following sub-sectors within the hotel industry:

- High-class resort hotel
- Spa and wellness resorts
- Ordinary branded hotels

As for the weaknesses of the hotel industry, the following are highlighted:

• **High hotel rates** - High-end hotels charge substantial amounts for one night's stay. The problem with high prices is that, nowadays, these high rates are not affordable for middle-segment vacationers, so such hotels are losing most of their customers as most vacationers are middle class.

• **Unfavorable payment rates** - the hotel business is subject to an unfair tax structure, and many hotels have to increase their service fees. Therefore, the cost of services is sharply different and no longer attractive to customers.

• **Seasonality of the hotel business and dependence on tourism** - some hotel categories depend only on tourist flows, holidays, and seasons. This seasonality and dependence on tourism create a weakness in the hotel industry, as it is impossible to receive steady flows. Therefore, the hotel operates periodically, and the annual load factor is low. It is very challenging to predict high and low seasonality. That is why the income of the hotel business is not stable.

High tax rates for hotels increase their operating costs and directly affect the prices of services. High prices often discourage consumer demand, especially during tourist seasons when competition is particularly intense. As a result, hotels are forced to either reduce their profit margins or raise prices, which hinders market growth. The second problem is related to the complexity and diversity of tax rates. Different types of taxes, such as VAT (value-added tax), income tax, and local taxes, create additional bureaucratic burdens. Dealing with this type of variety and complexity is especially difficult for small and medium-sized hotels, which often do not have sufficient financial and human resources to complete tax reports correctly and on time.

A significant concern is the instability and unpredictability of tax rates and policies. Constant changes in tax laws create uncertainty and increase business risks. Hotel owners struggle with long-term financial planning because they cannot foresee future tax burdens. Solving these problems requires several strategic changes. There is a need to reduce and simplify tax rates, which will reduce the costs of hotels and increase their competitiveness. Also, the tax reporting process should be simplified and digitized, reducing bureaucratic burdens and improving reporting accuracy. Finally, ensuring a stable and predictable tax policy is crucial, as it allows businesses to plan their financial strategies in the long term.

Improving and simplifying the tax system will support the development of hotel businesses, increase their competitiveness, and create a more favorable environment for new investments. That requires the cooperation of the government and the business sector to create an influential and sustainable tax policy that will support the growth of the economy and the development of the tourism sector.

Thus, the development of the hotel sector in Georgia is closely related to the economic development prospects. These trends indicate the sector's growing potential and business opportunities, which contribute to stimulating the tourism sector's growth and creating new economic opportunities.



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ТЕНДЕНЦІЇ РОЗВИТКУ ГОТЕЛЬНОГО РИНКУ В ГРУЗІЇ

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Анотація. Сектор гостинності Грузії є найбільшим експортером послуг, і його внесок у ВВП щороку зростає. Готельний сектор є найбільшим у кредитному портфелі банківської системи. Економіка Грузії більше залежить від доходів від сфери туризму та гостинності. Значну роль в економічному розвитку країни відіграють готельні підприємства. Готельний сектор збільшує доходи, в тому числі валютні, створює нові робочі місця та сприяє розвитку орієнтованих на туризм галузей та соціальної та промислової інфраструктури.

Дослідження спрямоване на вивчення готельного бізнесу на туристичному ринку Грузії та попиту та пропозиції готелів за останні роки. У статті проаналізовано реалізовані та заплановані інвестиційні проекти та визначено проблеми податкової політики в галузі, яка часто викликає серйозні проблеми та впливає на ефективність та конкурентоспроможність бізнесу. Також інтригує специфіка продажів, доходи від готельного бізнесу, іноземні та грузинські інвестиції в готельний бізнес, його результати. У дослідженні використовувалися опитування та інтерв'ю з різними представниками туристичного ланцюжка өвартості. У процесі дослідження використовувалися як практичні, так і теоретичні матеріали, зокрема статистичні дані, наукові праці та статті.

Ключові слова: готельний бізнес, готельний бізнес.