



**FEASIBILITY ANALYSES
AND
PRELIMINARY DESIGNS
FOR SPA AND WELLNESS CENTERS
IN THE MUNICIPALITY OF
CESINOVO - OBLESEVO**

**Program: Innovative Solutions for Improved Access to Services at
Local Level**

*Feasibility Analyses and Preliminary Designs for Spa and Wellness Centers
in the Municipality Of Cusinovo-Oblesevo*

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Abbreviations Used

DFBOT	Design, Finance, Build, Operate and Transfer
EBT	Earnings before Tax
EBIT	Earnings before Tax and Interest
EBITDA	Earnings before Tax, Interest, Depreciation and Amortization
EPR	East Planning Region
IPA	Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
IRR	Internal Rate of Return
LRCP	Local Rural Competitiveness Project
MLSG	Ministry of Local Self-Government
NPV	Net Present Value
PPP	Public Private Partnership
SW	Spa & Wellness
SWC	Spa & Wellness Center
VAT	Value Added Tax
WACC	Weighted Average Cost of Capital

Executive Summary

UNDP Macedonia, in cooperation with the Ministry of Local Self-Government is implementing the Program “Innovative Solutions for Improved Access to Services at Local Level”. The aim of this project is to support Municipality of Cusinovo-Oblesevo in project assessment and development of the priority rural tourism infrastructure in village Banya. The purpose of this project is to assist the Municipality in preparing concept feasibility analyses and development of preliminary designs of Spa and Wellness Center and Youth Aqua and Wellness Resort.

Various necessary analyses and data collection procedures were conducted and several concepts were developed for possible solutions for Wellness Center and Youth Aqua and Wellness Resort on the designated plot. The results of the work and the description of various concepts are summarized in this Report.

The Report abounds with statistics of the tourism in the Republic of Macedonia, but it also directs to some international trends in the tourism and especially in the wellness industry.

Tourism industry in Macedonia has been continuously developing with increasing number of tourist visiting Macedonia, per all types of tourism, since 2000. Historically, it had a serious drop during the transition period and even more during the conflicts in the region at the beginning of the century, but has been visibly recovering ever since, especially driven by foreign tourists.

There is a growing trend of foreign tourists’ arrivals in the period of seven years observed, 2011 - 2017. By country of visits, the largest share of foreign tourists in the total number in 2017 is from Turkey, with a participation of 20,6%. Second and third largest percent is among the tourist visits from Serbia and Bulgaria, with 8,4% and 7,3 percent respectively.

Macedonia is abundant with geothermal waters with therapeutic and wellness effects. This spots Macedonia as a high-potential spa and wellness tourism destination. With over 60 thermo-mineral springs identified sites for spa and wellness centers, hotels and resorts, there is a vast potential for investment by revitalization and construction of new ones.

The spa tourism in Macedonia seems to be different in comparison to all other types, especially in terms of the average stay in nights per tourists. Spa resorts have profiled themselves as longer stay destinations where tourists stay in average between 7 and 8 per tourist as compared to the average for the country, staying between 1,7 and 1,8 nights.

Some common denominators of the spas is the following: spas are located in rural areas which is a potential for rural and eco-tourism for the benefits of the local community. In addition to the medicinal effects of water these spa sites have much to offer to the tourists: the beautiful nature, anthropogenic resources and local traditions, customs and national gastronomy. Together they make the tourism product. Near the spa centers there is rich fauna: deer, pheasant, partridge, hare, wild boar, wild sheep, bear, wolf, fox, trout, catfish, carp, barbell, etc. Some of the challenges for

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Macedonia's spa tourism sector include the low number of working spas, their poor technical condition, inadequate and worn out infrastructure, the scarcity of available accommodation, lack of financial resources and new investment opportunities. These spa centers have rarely been treated as tourist resorts. There may be qualified medical personnel in the spas but they lack qualified tourism personnel.

The wellness business has started to emerge as a notable industry around the world. Wellness describes a person's state of health as a continuum and is a dynamic process that is constantly changing. In this manner, outputs the industry offer are improved balance, spiritual, physical and mental health, social harmony, intellectual development, environmental sensitivity, occupational satisfaction and emotional well-being. This, together with the growing trend for conventional healthcare to be consumer-driven, indicates that wellness should be approached with enough flexibility to allow customers to personalize their services. The location of village Banya and its capacity and potential to grow seem more likely to be developed into such a concept of wellness location.

Global wellness industry is estimated as \$3.7 trillion industry, according to 2018 Wellness Trends, from Global Wellness Summit. It presents one of the largest and fastest growing industries. It grows in double digits and represents 5.1% of the global economic output. The growth of the wellness tourism of 14% is more than double of the growth in overall tourism sector (6,9%) for the period 2013 - 2015. The wellness industry involves: beauty and antiaging; nutrition, healthy food and weight loss industry; fitness & mind and body and preventive and personalized medicine. Some statistics was offered for aqua park resorts also. Aqua park is a share of the amusement park industry. The growth of the industry is estimated to be higher of 10% on annual basis. The various drivers and other determinants of these industries are presented in the report.

The report evaluates the competition with the purpose to identify what is missing and what would be competitive advantage of Spa and Wellness center in village Banya compared to other spa and or wellness centers in Macedonia and Bulgaria and Serbia. The competition has been observed based on whether they have or they have bit geo-thermal water with therapeutic effects and based on other services they are offering.

The report provides an inventory of possible government and international institutions providing support to entities in tourism, rural development, municipalities, etc.

The Municipality Cesinovo-Oblesevo has prepared ToR for preparation of a technical documentation for reconstruction, adaptation and construction of a spa center in the village Banya in 2017. This project proposal describes specific of the municipality and the investment location.

Village of Banya is situated at the foot of the Osogovo Mountains. In the middle of the village there is a geo-thermal spring. The name of the village is generated by the water spring. There is an asphalt road to the village. From the municipality building Banya village is on distance of about 3 km away. The distance from Kochani is 6 kilometers and from Skopje the distance is 120 kilometers. The distance from Stip is 24 kilometers. The border crossing with the Republic of Bulgaria is about 70 km away from the village. With the sports and recreation center Ponikva the same is connected with a local road of 7 kilometers. The village counts 469 inhabitants. It is located at an altitude of 370 meters. The surface of the dent is 10.4 km². In the area of the village there are many archaeological

excavations from ancient times. The village is characterized by authentic village vernacular architecture from Macedonian East Region. The spa in the village dates back to centuries ago. According to some legends it has existed since the Roman times. By the end of the 1980s, the spa was one of the well-known natural spa centers in Macedonia. Reportedly, there were visitors from Serbia, especially, sportspersons in period of rehabilitation after sport injuries.

Existing building was built in 1970. It is closed for operation since 1990s. It is ruined, and the inventory is completely destroyed¹. Still, the large but old neglected building testifies that the village of Banja was one of the most famous rural tourism centers in the country, with a source of thermal water whose temperature reached up to 82 ° C.

The springs in the village of Banya are characterized by specific hydrological, chemical-mineralogical and thermal properties, as well as by the capacity of the well water. The capacity of the water from the wells is 40 l / s with a temperature of 63 ° C, with a great potential for development of spa and wellness center in the region. The existing spa building was built in 1970, but it is not operational, and the inventory is completely destroyed. Next to the existing Spa building, there are hotel and restaurant buildings, which are completely ruined and need to be demolished and (re)constructed.

Nearby the existing Spa center, the Municipality plans to develop a Youth Aqua and Wellness Resort on the land owned by the municipally.

We have developed concept solutions for both projects:

Spa and Wellness project

- Concept Solution I: “Traditional Solution”
 - This is a small 3 stars hotel, with 20 rooms, existing spa, restaurant, same as it used to be in the past. The guests are only medical tourists financed by the Health Insurance Fund. This concept is completely unfeasible because the revenue source is very small to be able to cover for the costs, and even more the investment costs of the project.
- Concept Solution II: Modern Eco Spa and Wellness Resort
 - The philosophy behind this concept is transformative wellness experience. It comprises constructing completely new and modern eco wellness resort fine aligned with the rural and eco milieu. The solution is strictly demarcated from the previously given concept which is demarcation between ‘cure’ and ‘wellness’ concepts. The hotel is larger, 4 stars, 32 rooms, the spa still exists and the restaurant.
 - We present the results of a small survey that we did with some large companies in order to understand their potential interest in elements of wellness services.
 - This concept seems to provide a feasible project, although not very lucrative one, which probably means that the risk that something may go wrong may be high. The potential IRR from the pro-forma financial statements achieved 8,7% at the WACC if 12%.
- Concept Solution III: Extended Modern Eco Spa and Wellness Resort with Medical Tourism.

¹ Please see Annex: Findings of the Engineering Team from the Initial Engineering Evaluation

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- This is similar to Concept II, but it is larger. All old structures are to be torn down under this scenario, and one large and more functional building will be built with all the contents inside. This concept will need more significant changes in the urban plans of the municipality. The four stars hotel has 72 rooms and only commercial tourists. Corporate clientele membership business concept has been developed deeper than in Concept II.
- The financial feasibility of the concept is the higher, the IRR is around 11,8%, which means that the NPV, under the WACC of 12% is still slightly negative. Still this concept provides enough evidence that there could be a feasible business in the area if properly operated and managed.

Youth Aqua and Wellness Resort

Two concepts have been elaborated and are presented in the Report:

- Small Hotel and a Pool
 - There will be a hotel of 20 rooms, 3 stars for young population only.
 - The results of the financial analysis show that this is barely positive. The IRR based on the assumptions it is around 2,3% and the NPV is negative, under the WACC of 12 %
- Wellness Kitchen and Restaurant and a Pool
 - There will be a restaurant of 280 m² and a pool.
 - This last scenario is very simple and looks feasible financially. Of course, the main assumption is that there is a good Chef and a good menu with a Wellness kitchen as a concept, supplied from local produce to make a good and attractive restaurant viable. The IRR based on the assumptions it is around 11,7% and the NPV is slightly negative, under the WACC of 12 %.

Another option is also possible and this is a complete relocation of the intended premises in other, more attractive location, owned or operated by the Municipality. This may prove to be more visible option if it is not too far from the existing location. The water should be brought there and this might prove cheaper than doing all the demolitions of the existing structure. Another big problem is the sewage system in the village, which currently does not exist. If there is alternative location with better infrastructural amenities, this may be a viable option as well. Such option has not been analysed.

Once the Municipality has decided to proceed, they may choose the public-private partnership, regulated with the Law on Concessions and Public-Private Partnership as a model to have the investment made. The PPP contract would refer to obtaining a possibility for the construction and management of construction objects (spa complex, and the so-called youth center) according to the PPP model proposed in this study. The PPP contract, in accordance with the Law on Concessions and Public Private Partnership, can be concluded for a period of up to 35 years, that is, up to 30 years if the Law on Water regulates the allocation of a concession for use of water.

It is proposed that PPP is conducted as a public procurement of works, that is DFBOT model (Design, Finance, Build, Operate and Transfer) with the following structure:

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1. The preparation of a basic project and its revision, the elaborate for the protection of the environment, as well as other documentation necessary for obtaining the approval for building of the spa complex, and the so-called youth center is an obligation of the private partner.
2. Financing and building the capacities as defined in this study (spa complex, or so-called youth center) are an obligation of the private partner.
3. Operation of the capacities - spa concept, and the Youth Center for commercial needs is an obligation of the Private Partner. The private partner will also be in charge of maintaining the facilities in good condition. The private partner will operate and manage the business as will be defined in more detail in the PPP Agreement and previously in the necessary documentation for starting the PPP process.
4. Compensation: The private partner may charge the Municipality a one-time and annual PPP fee:
 - a. One-time (entry) fee paid by the Private Partner by concluding the PPP Agreement, which needs to be defined at a certain level, say a few times the annual fee. The one-time fee is realized in the first year of use.
 - a. Annual fee: The private partner would pay PPP fee to the Public partner - Municipality for the current year, expressed in% of the total income realized in the last year. The amount of the percentage will be determined in the bid evaluation procedure.
5. When the tender documentation for the invitation of potential private partners is prepared, they will be invited to compete on two grounds:
 - b. One-time fee and
 - c. Annual fee
6. The minimum amounts would be established by the Municipality, and private partners would be invited to make suggestions on both categories. The manner of paying the PPP fee will be closely regulated by the PPP Agreement.

Transmission: After expiry of the duration of the PPP project, the capacities that need to be in functional condition shall be transferred in the ownership, or in the possession of the Public Enterprise, if the PPP Contract is not extended.

The Law on Spatial and Urban Planning and the Construction Law are applied for the design and construction of the capacities. Regarding the legal regulations applicable to the PPP project, the Law on Construction Land should also be taken into account, or more precisely the provisions of Article 85, according to which the municipalities can implement a procedure for concession or public private partnership on construction land owned by the Republic of Macedonia assigned to permanent use upon prior consent of the Government of the Republic of Macedonia.

The PPP project would be implemented by the private partner through the establishment of a separate enterprise for this purpose, or through the establishment of a mixed-ownership company. The public and private partners could agree to form a majority-owned company of the private partner, whereby the public partner would receive a certain percentage of the company and on the basis of that it will earn a share in the annual profit of the company.

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A combination of models is possible, whereby the private partner would be required, in addition to participating in the profits, to pay a definite annual and perhaps one-time fee.

However, the analysis demonstrated that the projected financial results were not too financially abundant, which should be taken into consideration when designing the documentation and PPP requirements.

PPP documentation can be prepared for the entire space, that is, for the spa complex and for the youth center, or it can be prepared separately for the two projects. On the other hand, one set of documentation can be made, and it should be emphasized that the PPP agreement can be divisible, i.e. two private partners will appear for the two projects.

Background

UNDP Macedonia, in cooperation with the Ministry of Local Self-Government is implementing the Program “Innovative Solutions for Improved Access to Services at Local Level”. The aim of the program is monitoring issues related to decentralization and local governance in order to enable further advancement of the citizen oriented local governance. This project is part of the ‘Innovative Solutions for Improved Access to Services at Local Level’ program. Its aim is to support Municipality of Cesinovo-Oblesevo in project assessment and development of the priority rural tourism infrastructure in village Banya. The project is aligned with the priorities identified in the Program for Development of the East Planning Region and the Strategy for Local Economic Development for the Municipality of Cesinovo-Obleshevo. Specifically, the purpose of this project is to assist the Municipality in preparing concept feasibility analyses and development of preliminary designs of Spa and Wellness Center and Youth Aqua and Wellness Resort.

Objective of the Study

The objective of the study, as per the Terms of Reference of the Project, is to support Municipality of Cesinovo-Oblesevo in preparing concept feasibility analyses for Spa and Wellness Center and Youth Aqua and Wellness Resort².

In addition to the aforementioned, the assignments within the Project for identification and recommendations for efficient, practical and sustainable rural tourist destination solutions for the selected Spa and Wellness centers is development of preliminary designs for the Spa and Wellness center and Youth Aqua and Wellness Resort³.

Methodology of Work

When conducting the assignment we deployed the methodology of baseline data collection from the existing cadastral documents, technical and urban plan documentation in order to assess the optimal operations capacity, area of development, approximate staff, equipment and technology needs. We conducted a market research, brief competitive analysis, and we

² The ToR provides preparing concept feasibility analyses for Spa and Wellness Center and Youth Aqua and Wellness Resort in two tasks. Namely, concept feasibility analyses for Spa and Wellness Center was defined as Task 1 and concept feasibility analyses for Youth Aqua and Wellness Resort was Task 2. Throughout performing the initial activities Project Team came to conclusion that these two tasks cannot be observed as separate ones. Therefore, we suggested and it was agreed by UNDP office for adjustment on our activities and deliverables as one.

³ Task 3. All the deliverables are presented in this Final Report.

estimated approximate investment, operations costs, and revenues of the three alternative spa concepts. We developed preliminary designs and brief description of the current condition of the rural tourist buildings and description of the selected optimal development solution from the feasibility analyses. We conducted and provide technical report with description of the anticipated architectural, civil engineering, energy efficiency measures and technical equipment solution. We conducted preliminary technical and construction calculations and specifications and bill of quantities. As an output from the architectural work, we provide drawings - architectural site plans.

As an output from the overall analyses of three tasks we recommend the most feasible development alternative based on a brief cost benefit analyses. Additionally, we recommend a PPP model for future investments and operation.

This Study was prepared by AAG - Analysis and Advisory Group, architects from Arting and civil engineer Kokan Krstanoski.

Market Analysis

Objective of the market analysis in spa & wellness is to analyze the market and customer's forces shaping and driving growth, gather data from the industry and data from some (potential) customers about their views on spa and wellness services, to identify the push factors of tourists' expectations with the pull factors of offered services for their further alignment with the business model and business strategies and to provide some recommendations on strategically positioning SWC for growth of the business.

Our methodology uses existing market analyses - global, regional and national. We also performed a short survey of one of the targeted niche markets – business events and corporate wellness guests.

One special market, which already exists, is the group of subsidized patients. The Fund for Health Insurance subsidizes the stay of retired persons in spas and thus this group has become a substantial source of revenues for the existing spa facilities in Macedonia.

We believe that there is a special field that might provoke demand for the services of the spa and youth park, and this is the situation and trends in the wellness business and wellness economy as the key driver for the spa industry⁴. The wellness movement in its essence emphasizes a growing interest of holistic care for the physical health, mind, spirit, society, and planet.

We provide the analysis of these two segments further down in the study.

⁴ [SRI International. Spa and the Global Wellness Market](#)

Republic of Macedonia: Attractive Investment Location

Republic of Macedonia is a landlocked country located at the Balkan Peninsula. Macedonia has 25,713 square km and a population of 2,103,721⁵. It is a relatively small country with small economy. It ranks 150th in the world in terms of size and 146th country in the world in terms of population⁶. However it managed to portray itself as a friendly investment location and attractive tourist destination.

Republic of Macedonia is a candidate country for a membership in the European Union and has been awaiting the decision of the European Council to start official negotiations on accession which is the final step before full EU accession. With the most recent signing of Agreement with the Republic of Greece for resolving the long lasting name issue, it is expected that the main barrier for the approximation of the Republic of Macedonia towards EU and NATO will be removed.



Macedonia has developed a highly-liberalized foreign trade policy and has signed various bilateral agreements that give local companies free access to the European Union and other markets⁷, thus enlarging the space in for the businesses to operate and prosper.

It is well positioned and connected to Europe and the rest of the world by the crossroads of two main European transport corridors:

- Corridor X (Salzburg - Ljubljana - Zagreb - Beograd - Niš - Skopje - Veles - Thessaloniki, including Branch D: Veles - Prilep - Bitola - Florina - Igoumenitsa) and
- Corridor VIII (Durrës - Tirana - Skopje - Sofia - Plovdiv - Burgas - Varna). Including "Branch D": Veles - Prilep - Bitola - Florina - Igoumenitsa.

It also has good air traffic access by the two international airports, Skopje Airport and Ohrid, previously known as Petrovec Airport and Skopje "Alexander the Great" Airport and St. Paul the Apostle airport. The International Airport Skopje is modern, recently built facility, operated by Turkish TAV. It has been awarded the best airport in Europe for 2012 among airports in the category of up to two million passengers. Vast majority of the traffic goes through Skopje airport which offers number of direct flights to Serbia, Turkey, Croatia, Germany, Italy, Netherland, Austria, Hungary, Czech Republic, France, Denmark, Poland, Qatar⁸. Ohrid airport is underutilized, where most of the flights are concentrated during summer holidays.

⁵ The World Factbook, Central Intelligence Agency, USA, July 2017 est.

⁶ Idem

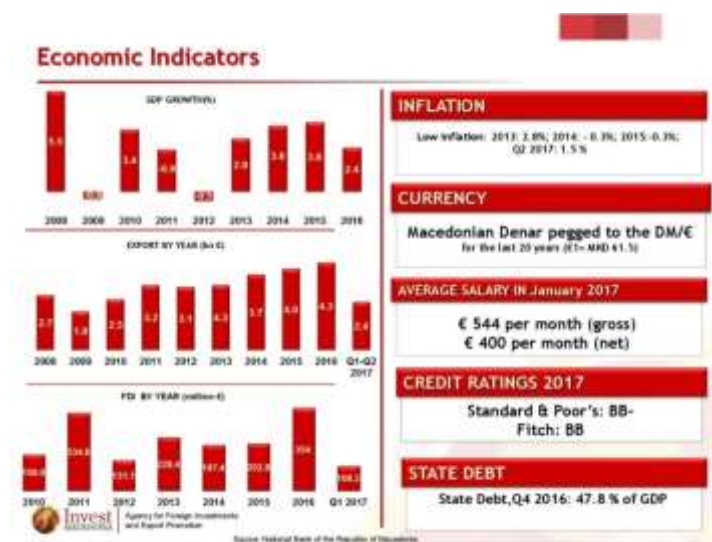
⁷ http://www.pwc.com/mk/en/about-us/Doing_Business_Guide.ihml (page 8)

⁸ <http://www.mepso.com.mk/Vesti.aspx?itemVID=266>

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Macedonia is characterized with stable monetary environment with one of the lowest inflation rates in the region and a stable currency. While the GDP growth rate seems modest (2.5% for 2017, 2.4% for 2016 and 3.8% for 2015) and country comparison to the world is 45th. The unemployment rate is constantly decreasing in the last 10 years. One of the key areas of reform was creating favorable taxation environment with flat tax of 10% for both personal income tax and corporate profit tax. Macedonia is ranking as third best country in the world by World Banks Doing Business 2018 Report with 4 hours company registration, ¼ of social contribution cut in 2012, modern electronic real estate cadaster, one stop-shop for cross border trading, liberalized visa regime.

Figure 1: Main Economic Indicators of the Republic of Macedonia 2017



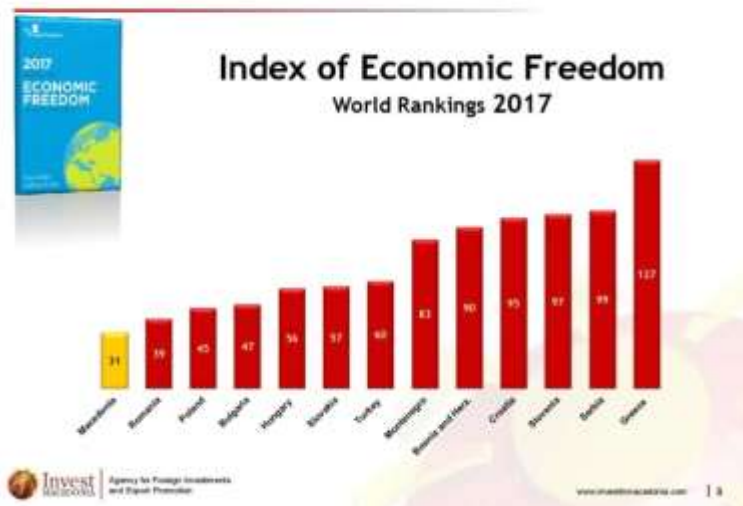
Source: Agency for Foreign Investments and Export Promotion of the Republic of Macedonia

GDP per capita is at the level of USD 5,245, and GNI at the level of USD 14,590 (World Bank data), ranking thus Macedonia in the family of upper middle income countries. When analyzing through Purchasing Power Parity (PPP) perspective, Macedonian GDP is significantly higher, reaching USD 31,55 billion, which places Macedonia as the 130th country in the world in terms of GDP PPP. GDP per capita (PPP) is at the level of USD 15,200.

Macedonia is constantly working on improving the business climate and enabling environment for businesses to operate in a fair and competitive manner. According to the World Bank Doing Business Report Macedonia has been progressing in the process of improving business climate since 2007. It was then ranked 92nd on the list of Ease of Doing Business compared to 23th in 2013 among 183 economies and has several times been acknowledged as the top reformer in the world (please see figure 2 and 3).

Figure 2: Rank of Countries According to the IBRD/IFC Doing Business 2017 Publication

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Source: Agency for Foreign Investments and Export Promotion of the Republic of Macedonia

Figure 3: Other Rankings According to the IBRD/IFC Doing Business 2017 Publication



Source: Agency for Foreign Investments and Export Promotion of the Republic of Macedonia

According to FORBES, Macedonia was ranked 37th on the list of the Best Countries for Business 2012 report, 43rd according to the report of the Heritage Foundation: 2014 Index of economic Freedom, 60th on the Global Competitiveness Index (GCI).

Tourism in Macedonia

Macedonian Government has recognized the potential of investing in tourism and it has become one of the top priorities for further development. As stated in the Government operational program, the potential is seen in the comparative advantages that Macedonia has, among other,



also in the field of eco - tourism, hunting and spa tourism. Based on the previous discussion is evident that investing in tourism in Macedonia could be something to think about when deciding where to invest.

Popular tourist guide **Lonely Planet** has put Macedonia as the in the top best countries to visit for 2014. It's #9 to be precise, while the top spot went to Brazil. In its guide, Lonely Planet describes the Macedonian capital as becoming increasingly visitor-friendly, with a bevy of cool new hostels, upscale wine bars and bistros, and one of southeastern Europe's best club scenes.

In addition to Skopje and the more established tourist sites such as Lake Ohrid, Mavrovo ski area and ancient Stobi, new things are happening elsewhere. Quiet Berovo, near the border with Bulgaria, is an up-and-coming contender on the spa-hotel scene.

Also in Macedonia's idyllic eastern half, sturdy old Kratovo – with Ottoman-era stone bridges and cobblestone lanes – is revitalising previously derelict Turkish mansions, attesting the bygone wealth of this old mining town. And in the arid central vineyard region of Tikveš, new quality wineries are catering to thirsty visitors - concludes Lonely Planet.

Statistics on Tourism

Tourism industry in Macedonia has been continuously developing with increasing number of tourist visiting Macedonia, per all types of tourism, since 2000. Historically, it had a serious drop during the transition period and even more during the conflicts in the region at the beginning of the century, but has been visibly recovering ever since, especially driven by foreign tourists.

Table 1: Distribution of tourists per type of tourism

	2011	2012	2013	2014	2015	2016	2017
Total	647.568	663.633	701.794	735.650	816.067	856.843	998.841
Skopje	141.386	152.412	168.623	181.835	220.212	228.602	300.772
Spa resorts⁹	27.441	27.430	28.405	29.532	29.169	28.276	32.189
Mountain resorts	71.309	68.809	68.745	64.707	62.335	56.491	58.752
Other tourist resorts	279.695	280.375	300.540	318.972	355.890	382.983	432.977
Other resorts	127.737	134.607	135.481	140.604	148.461	160.491	174.151
% of tourists per type of tourism							
	2011	2012	2013	2014	2015	2016	2017
Skopje	21,8	23,0	24,0	24,7	27,0	26,7	30,1
Spa resorts	4,2	4,1	4,0	4,0	3,6	3,3	3,2
Mountain resorts	11,0	10,4	9,8	8,8	7,6	6,6	5,9
Other tourist resorts¹⁰	43,2	42,2	42,8	43,4	43,6	44,7	43,3
Other resorts	19,7	20,3	19,3	19,1	18,2	18,7	17,4

Source: Calculated based on data from State Statistics Bureau, Publication: 8.4.16.01.847 and PX Web data base – ES368E16

⁹ According to MakStat tourist resort is considered to be a resort that meets the following conditions:

1. Attractiveness (natural beauties, mineral springs, cultural and historical monuments, cultural, entertainment and sports events, etc.);
2. Communications (accessibility, transport facilities, etc.);
3. Receptiveness (has accommodation and auxiliary facilities for providing services, for example: crafts and trade services, post (PTT) offices, parks, pools, promenades, etc.).

¹⁰ According to MakStat Other tourist resorts are resorts that possess other tourist attractions (for example: climatic, cultural and historical, transport, etc.), as well as riverside and lakeside resorts. In the statistical practice in the Republic of Macedonia, these are resorts situated on the shores of the natural and artificial lakes (Ohrid, Prespa, Dojran, Mavrovo Lake and others);

Other resorts that cannot be classified in the previous four groups, but which have accommodation facilities.

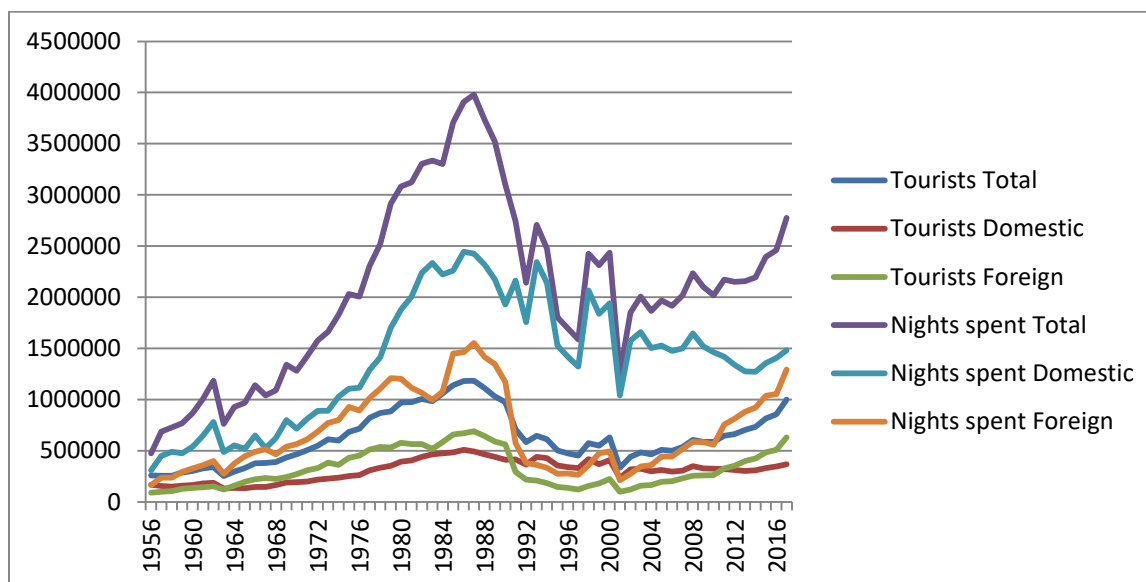
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Table 2: Number of tourist's nights per type of tourism

	2011	2012	2013	2014	2015	2016	2017
Total	2.173.034	2.151.692	2.157.175	2.195.883	2.394.205	2.461.160	2.775.152
Skopje	254.553	269.813	288.682	310.802	378.253	392.798	506.711
Spa resorts	220.640	216.516	222.362	224.374	215.541	227.919	245.074
Mountain resorts	161.382	144.293	144.125	135.518	136.436	125.185	125.589
Other tourist resorts	1.309.184	1.287.377	1.259.590	1.268.676	1.407.244	1.441.920	1.581.807
Other resort	227.275	233.693	242.416	256.513	256.731	273.338	315.971

As observable in Table 1 and Table 2, spa resorts have demonstrated growth in 2017 compared to 2011, especially in terms of nights spent in spa facilities. This is especially evident from the trends in the tourist nights per type of tourism where spa resorts rank way above mountain resorts and approach the level of city of Skopje. This leads to a conclusion that for both domestic and foreign tourist spa resorts are becoming increasingly popular.

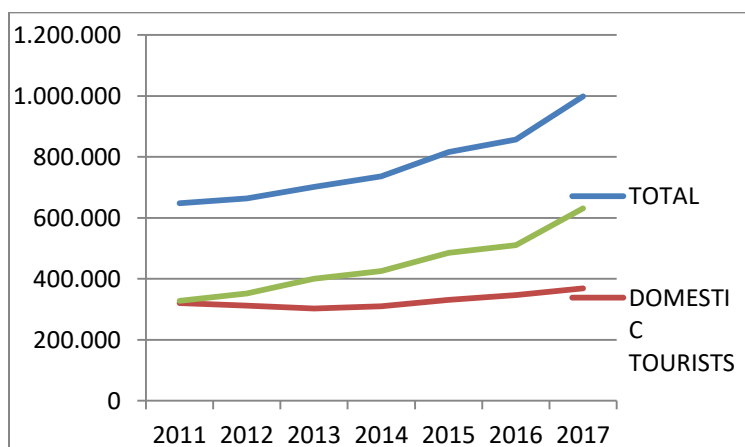
Figure 4: Tourist arrivals and nights spent, 1960-2017



Source: Calculated and presented based on data from State Statistics Bureau, Publication: 8.4.16.01 and PX Web data base

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Figure 5: Distribution of arrivals of tourists – domestic and foreign in the period 2011 - 2017



It is evident that there is a growing trend of foreign tourists' arrivals and nights spent, especially during the last several years. The distribution of tourists' arrivals by country is presented in the Table below:

Table 3: Tourist arrivals by country of origin in period 2011 – 2017¹¹

T-10: Tourist arrivals, by country of origin							
	2011	2012	2013	2014	2015	2016	2017
TOTAL	647.568	663.633	701.794	735.650	816.067	856.843	998.841
DOMESTIC TOURISTS	320.097	312.274	302.114	310.336	330.537	346.359	368.247
FOREIGN TOURISTS	327.471	351.359	399.680	425.314	485.530	510.484	630.594
Austria	5.681	6.275	8.376	7.603	8.602	7.387	8.367
Albania	13.614	13.412	16.982	17.561	18.493	20.862	21.194
Belgium	2.519	3.716	5.104	4.890	5.509	5.501	7.499
Belarus	1.151	329	314	266	478	430	446
Bosnia and Herzegovina	4.959	4.740	4.540	5.771	5.686	6.922	7.199
Bulgaria	18.541	19.815	20.914	26.480	29.314	36.982	45.958
Great Britain	6.139	6.278	6.935	7.317	8.465	8.856	11.396
Germany	9.822	11.306	13.065	15.542	17.939	17.067	23.544
Greece	45.509	43.976	46.184	42.677	38.829	40.504	44.931
Denmark	1.251	1.307	1.811	2.698	3.016	3.598	4.266
Estonia	260	390	336	443	488	338	608
Ireland	1.500	715	738	938	1.017	1.037	1.514
Iceland	137	99	107	117	144	210	514
Italy	7.140	7.926	7.894	10.213	12.444	11.515	11.124
Cyprus	675	570	792	582	772	551	1.114
Kosovo	9.829	9.613	11.887	11.000	13.950	17.070	17.494
Latvia	308	587	738	654	753	488	472

¹¹ Source: State Statistical Office of RM, Publication 8.4.16.01 and PX Web data base.

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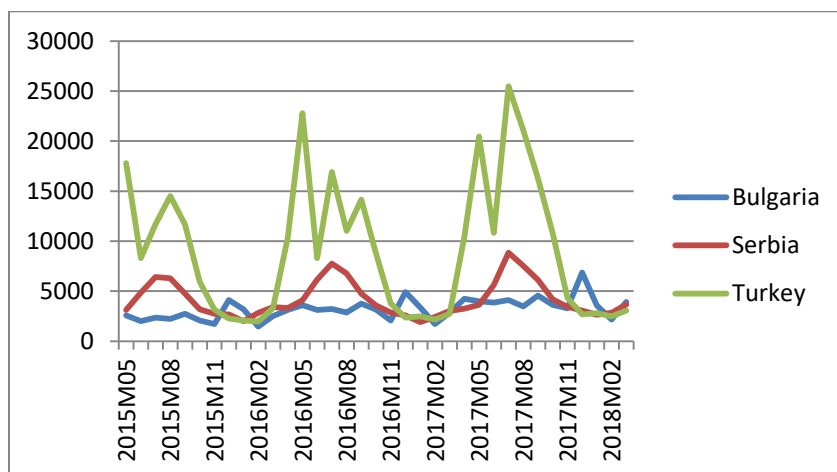
T-10: Tourist arrivals, by country of origin							
	2011	2012	2013	2014	2015	2016	2017
Lithuania	280	729	722	813	733	560	689
Luxembourg	107	71	134	144	97	269	172
Malta	60	274	61	251	271	143	526
Norway	1.212	1.499	1.638	1.621	2.216	2.762	3.887
Poland	6.758	7.490	12.980	15.972	17.054	12.268	22.281
Portugal	727	835	736	775	817	1.052	1.443
Romania	3.882	4.964	6.444	7.142	8.070	9.256	15.044
Russian Federation	3.545	3.613	4.538	4.666	4.325	4.213	6.555
Slovakia	1.099	1.277	2.551	2.361	1.364	2.337	2.539
Slovenia	14.063	13.252	13.404	14.486	11.463	9.971	12.815
Serbia	35.692	36.530	38.127	41.013	43.613	50.145	53.121
Turkey	39.251	50.406	68.124	63.567	90.857	105.738	129.708
Ukraine	1.042	1.699	3.017	2.415	2.516	3.576	4.245
Hungary	3.342	2.829	3.361	3.408	4.659	3.764	5.625
Finland	3.432	2.379	1.018	1.577	1.762	1.892	1.629
France	4.901	5.663	5.180	5.378	7.603	6.231	8.008
Netherlands	22.219	27.121	25.542	26.111	32.217	23.960	26.889
Croatia	13.885	13.939	12.722	15.392	15.135	13.318	15.860
Montenegro	3.522	3.197	3.498	4.802	4.762	5.755	5.981
Czech Republic	2.695	2.830	2.875	3.703	3.088	2.878	4.624
Switzerland	2.733	3.041	2.861	4.144	4.815	4.589	6.437
Sweden	2.702	2.654	3.421	4.989	5.617	6.495	8.557
Spain	1.726	1.801	1.972	1.931	3.151	3.659	6.012
Other European countries	2.947	2.458	3.175	2.747	2.596	2.838	3.649
South Africa	52	61	89	116	148	115	238
Other African countries	356	272	650	557	759	519	1.124
Canada	1.366	1.465	1.532	2.026	2.608	2.158	3.031
USA	8.082	7.773	9.258	9.155	10.186	11.495	15.163
Other North-American countries	636	287	707	416	458	602	405
Brazil	252	411	626	626	450	544	1.127
Other countries of South and Middle America	408	676	735	956	1.699	1.161	1.663
Israel	3.309	3.278	3.461	3.933	4.754	8.983	7.967
Japan	2.194	2.488	2.458	3.162	3.085	2.961	3.573
China	1.664	2.828	4.075	4.517	7.256	6.565	9.435
Korea (Republic of)	1.070	1.179	1.722	3.364	3.704	2.932	4.415
Other Asian countries	2.755	2.676	3.194	5.483	8.416	8.230	17.183
Australia	3.974	5.668	5.687	6.058	6.625	5.557	8.228
New Zealand	253	273	447	385	457	306	470
Other countries of Oceania	243	419	221	400	225	1.369	2.636

The growing trend of foreign tourists' arrivals is evident in the period of seven years observed, 2011 - 2017, as shown in the Figure 6. By country of visits, as shown in the table above, the largest share of foreign tourists in the total number in 2017 is from Turkey, within 20,6%. Second and third largest percent is among the tourist visits from Serbia and Bulgaria, with 8,4% and 7,3 percent respectively.

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There is an evident seasonal distribution of visitors (please see the Figure below). It is interesting that different is the pattern among observed most frequent foreign tourist coming from Turkey, Serbia and Bulgaria (please see next Figure). The tourists coming from Turkey have the peak in visit during the summer and in May (First of May) while the visit from Bulgarian tourists is rather stabile during the year with slight peaks during the New Year's and Christmas (December January) period of time. Again, the Serbian tourists are having Macedonia as a tourist destination during summer time.

Figure 6: Seasonal distribution of most frequent tourists by country: Turkey, Serbia and Bulgaria



Key Indicators for Macedonian Tourism

If observed through the key indicators perspective, the Macedonian tourism industry has shown significant growth within the past several years. We present values of the metrics measured by State Statistical Office during the last six years. Most evident is the growth in the participation of foreign tourists in the total number of nights spent by tourists. While there is a growth in the foreign tourist arrivals and tourist nights spent, average number of nights spent by foreign tourist is declining (annual rates of growth/decline for period 2012-2016: -0,04; -0,02; -0,02; -0,03). Net occupancy rate of bedrooms / bed places in hotels and similar accommodation and measured has also increased during the recent three years.

Table 4: Key indicators in Tourism, by years¹²

	2012	2013	2014	2015	2016	2017
Average number of nights spent – total	3,24	3,07	2,98	2,93	2,87	2,78
Average number of nights spent - domestic tourists	4,29	4,22	4,1	4,11	4,06	4,02
Participation of domestic tourists in the total number of arrivals of tourists, in %	47,1	43,05	42,19	40,5	40,42	36,87
Participation of domestic tourists in the total number of nights spent by tourists, in %	62,3	59,14	57,99	56,71	57,17	53,35
Average number of nights spent - foreign tourists	2,31	2,21	2,17	2,13	2,06	2,05
Participation of foreign tourists in the total number of arrivals of tourists, in %	52,9	56,95	57,81	59,5	59,58	63,13
Participation of foreign tourists in the total number of nights spent by tourists, in %	37,7	40,86	42,01	43,29	42,83	46,65
Participation of foreign tourists in hotels in the total number of arrivals of foreign tourists, in %	89,5	90,39	88,76	91,21	92,52	91,76
Participation of nights spent by foreign tourists in hotels in the total number of nights spent by foreign tourists, in %	87,3	87,95	86,92	90,18	91,2	90,56
Net occupancy rate of bed places in hotels and similar accommodation (NACE Rev. 2, I, 55.1)	0	0	22,54	22,99	22,01	24,3
Net occupancy rate of bedrooms in hotels and similar accommodation (NACE Rev. 2, I, 55.1)	0	0	36,14	37,18	35,07	39,3

¹² Source: State Statistical Office of RM, Publication 8.4.16.01 and PX Web data base.

Spa Tourism in Macedonia

Macedonia is abundant with geothermal waters with therapeutic and wellness effects. This spots Macedonia a high-potential spa and wellness tourism destination. With over 60 thermo-mineral springs identified sites for spa and wellness centers, hotels and resorts, there is a vast potential for investment by revitalization and construction of new ones.

Table 5: Distribution of Tourists' Nights per Type of Tourism

% of tourist nights per type of tourism							
% of tourists' nights per type of tourism							
	2011	2012	2013	2014	2015	2016	2017
Skopje	11,7	12,5	13,4	14,2	15,8	16,0	16,0
Spa resorts	10,2	10,1	10,3	10,2	9,9	9,3	9,3
Mountain resorts	7,4	6,7	6,7	6,2	5,7	5,1	5,1
Other tourist resorts	60,2	59,8	58,4	57,8	58,8	58,6	58,6
Other resort	10,5	10,9	11,2	11,7	10,7	11,1	11,1

Source: Calculated based on data from State Statistics Bureau, Publication: 8.4.16.01

And indeed the spa tourism in Macedonia seems to be different in comparison to all other types, especially in terms of the average stay in nights per. Spa resorts have profiled themselves as longer stay destinations.

Table 6: Average Stay in Nights per Type of Tourism

Average Stay in Nights Per Type of Tourism	2011	2012	2013	2014	2015	2016	2017
Skopje	1,8	1,8	1,7	1,7	1,7	1,7	1,7
Spa resorts	8,0	7,9	7,8	7,6	7,4	8,1	7,6
Mountain resorts	2,3	2,1	2,1	2,1	2,19	2,2	2,1
Other tourist resorts	4,7	4,6	4,2	4,0	4,0	3,8	3,7
Other resort	1,8	1,7	1,8	1,8	1,7	1,7	1,8
domestic	2011	2012	2013	2014	2015	2016	2017
Skopje	1,5	1,6	1,5	1,6	1,7	1,6	1,7
Spa resorts	8,3	8,0	8,0	7,8	7,6	8,2	7,7
Mountain resorts	2,2	2,0	2,0	2,0	2,2	2,3	2,3
Other tourist resorts	5,7	5,6	5,4	5,2	5,1	4,8	4,8
Other resort	1,6	1,5	1,6	1,6	1,5	1,5	1,5
foreign	2011	2012	2013	2014	2015	2016	2017
Skopje	1,8	1,8	1,7	1,7	1,7	1,7	1,7
Spa resorts	6,8	7,2	6,6	6,3	6,3	7,0	7,1
Mountain resorts	2,4	2,4	2,4	2,4	2,2	2,0	1,8
Other tourist resorts	3,0	3,1	2,7	2,7	2,7	2,5	2,5
Other resort	1,8	1,9	1,9	2,0	1,8	1,8	1,9

Source: Calculated and presented based on data from State Statistics Bureau, Publication: 8.4.16.01 and PX Web data base

Hotel accommodation is way above the rest of type of tourist accommodation with almost three quarters of million tourists in 2017 and almost 1,5 million nights. Followed by them is the tourism in houses, vacation apartments and rooms for rent, followed by spa facilities #. Still, it is

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evident that the spa tourists have remained stagnant during the years, which might be an indicator of the unused potential of this sector.

Table 7: Tourists per Type of Tourist Accommodation

Number of Tourists per Type of Tourist Accommodation							
	2011	2012	2013	2014	2015	2016	2017
Hotels	412 505	432 843	482 942	508 913	588 593	632657	744760
Motels	3 485	9 486	10 918	12 831	8 438	965	966
Boarding houses	2 031	2 298	2 295	2 371	1 636	11659	11767
Overnight lodging houses	4 563	5 108	5 354	7 464	10 034	1563	5686
Spa facilities	27 142	27 169	27 888	28 976	28 853	10735	12801
Mountain lodges and houses	648	716	978	1 400	1 184	28276	32189
Workers' vacation facilities	15 057	11 998	13 775	13 882	14 390	1152	1956
Children and youth vacation facilities	14 277	14 077	15 222	13 679	12 603	13842	12863
Youth hotels	3 543	3 630	3 428	3 588	3 439	11214	11131
Camps	17 539	17 882	16 199	15 903	12 084	11947	14425
Houses, vacation apartments and rooms for rent, total	115 736	104 537	99 951	103 592	111 168	117039	124949
Temporary lodging facilities	1 239	1 233	1 452	562	714	591	908
Sleeping cars	4 210	4 585	5 654	7 307	6 158	2617	3866
Uncategorized accommodation establishments	25 593	28 071	15 738	15 182	16 773	12586	20574
Total Tourist per accommodation units	647 568	663 633	701 794	735 650	816 067	856843	998841

Source: Calculated and presented based on data from State Statistics Bureau, ES367E16 generated by PX Web data base

Somewhat different is the situation with the spa tourists when the overall stay is observed. They become No 2 tourists in the country, accounting for around 10% of all tourists' nights in Macedonia. This might again be an indicator of the potential which may further be developed.

Table 8: Tourists' Nights per Tourist Facility

Number of Tourists' Nights per Type of Tourist Accommodation							
	2011	2012	2013	2014	2015	2016	2017
Hotels	887 543	936 891	1 004 770	1 044 887	1 206 912	1253495	1481347
Motels	5 429	17 191	20 083	23 566	17 234	1738	1462
Boarding houses	3 730	4 253	3 827	3 801	2 689	16081	17735
Overnight lodging houses	6520	7240	7668	11 476	14 932	4122	14697
Spa facilities	220053	216185	221687	223663	215 210	17666	22318
Mountain lodges and houses	1 460	1 146	1 467	2 003	1 718	227919	245074

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Number of Tourists' Nights per Type of Tourist Accommodation							
	2011	2012	2013	2014	2015	2016	2017
Workers' vacation facilities	63 325	49 115	51 239	50 597	49 522	1537	2333
Children and youth vacation facilities	64 622	61 619	67 775	63 812	48 613	46505	42244
Youth hotels	6 043	5 380	5 271	5 268	5 176	55153	48090
Camps	99 306	94 833	73 646	58 267	41 962	39845	56417
Houses, vacation apartments and rooms for rent, total	738 019	681 251	647 980	667 739	746 447	762544	793667
Temporary lodging facilities	5 011	7 962	6 231	3 004	2 929	2112	3479
Sleeping cars	4 210	4 585	5 654	7 307	6 158	2617	3866
Uncategorized accommodation establishments	67 763	64 041	39 877	30 493	34 703	29826	42423
Total accommodation units	2 173 034	2 151 692	2 157 175	2 195 883	2 394 205	2461160	2775152

Source: Calculated and presented based on data from State Statistics Bureau, ES367E16 generated by PX Web data base

Total accommodation capacity of spa 2009 – 2015 is given in the table below. The number of beds is not changing recent five years. This can be seen as an indicator for an investment potential. The following table presents accommodation in all other types of facilities which also serves in its comparative aspect.

Table 9: Accommodation capacity, by types of accommodation facilities

Number of beds							
	2009	2010	2011	2012	2013	2014	2015
TOTAL	26 390	26 189	69737	70287	70297	71 225	72 021
Hotels, total	5 142	5 651	13317	13884	14724	15 543	17 003
Hotels*****	688	709	1488	1680	1740	2 152	2 513
Hotels****	1 293	1 453	3715	3833	4170	4 483	5 363
Hotels***	728	963	3474	3730	3806	4 323	4 514
Hotels**	1 402	1 541	2393	2684	3092	2 753	2 729
Hotels*	1 031	985	2247	1957	1916	1 832	1 884
Boarding houses, total	31	31	71	115	109	109	109
Boarding houses**	13	13	17	17	17	17	17
Boarding houses*	18	18	54	98	92	92	92
Motels, total	129	159	371	670	673	699	662
Motels****	-	-	-	59	59	60	60
Motels***	-	-	-	109	177	177	177
Motels**	98	136	327	344	279	304	267
Motels*	31	23	44	158	158	158	158
Overnight lodging houses	78	90	184	195	238	336	386
Spas	418	538	1217	1217	1217	1 289	1 296
Mountain lodges and houses	10	10	60	44	41	45	45
Workers' vacation facilities	1 508	1 352	3996	3993	3851	3 911	3 562
Children and youth vacation facilities	1 592	1 431	6668	6674	6596	6 590	6 384
Youth hotels	24	24	48	48	48	48	48
Camps	2 903	2 784	8971	9011	9011	8 993	8 796

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Houses, vacation apartments and rooms for rent, total	10 624	10 827	26132	26232	26032	26 042	26 041
Temporary lodging facilities	267	506	1692	1584	1371	1 367	1 367
Sleeping cars	372	123	384	384	384	384	384
Uncategorized accommodation establishments	3 292	2 663	6626	6236	6002	5 869	5 938

Source: State Statistics Bureau, Publication: 8.4.14.01 and 8.4.16.01

Countries from which most tourists arrive in Macedonia are the neighboring countries: Greece, Serbia and Bulgaria as well Turkey as Macedonia's traditional partner in tourism. In the recent years, many tourists from the Netherlands and Germany have started to arrive in Macedonia, both in terms of arrivals and in terms of nights' stay, mostly because of the direct flight during the summer and the subsidies that the Government is offering to the tourist operators.

The most visited region (both from domestic and foreign tourists) in Macedonia is the Southwest Region, which is expected since city of Ohrid is the main tourist city in Macedonia. This region is followed by the Southeast Region where city of Dojran and lake Dojran is also largely visited by the tourist. The East region is the fifth visited region in Macedonia.

Table 10: Tourist arrivals, by statistical regions

Tourist arrivals, by statistical regions									
	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Total								
TOTAL	587.770	586.241	647.568	663.633	701.794	735.650	816.067	856.843	998.841
Vardar Region	9.448	10.572	12.064	15.867	17.196	20.667	24.308	26.064	26.145
	<u>12.680</u>	<u>13.054</u>	<u>13.615</u>	<u>18.865</u>	<u>20.747</u>	<u>23.035</u>	<u>25.907</u>	<u>30.568</u>	<u>31.775</u>
Southwest Region	257.480	234.665	249.746	251.462	264.826	269.547	298.057	322.334	368.924
Southeast Region	90.998	84.856	108.555	106.978	109.982	124.707	133.328	135.092	142.888
Pelagonia Region	50.740	69.712	76.469	72.054	70.312	65.527	62.019	58.355	63.549
Polog Region	31.596	31.828	29.153	29.884	30.823	29.143	29.143	27.318	30.124
Northeast Region	3.560	3.098	3.803	4.446	5.584	6.937	6.937	9.774	11.290
Skopje Region	131.268	138.456	154.163	164.077	182.324	196.087	196.087	247.338	324.146
Domestic									
TOTAL	328.566	324.545	320.097	312.274	302.114	310.336	330.537	346.359	368.247
Vardar Region	4.063	4.166	3.525	4.471	4.120	5.467	7.981	8.375	8.033
<u>East Region</u>	<u>8.135</u>	<u>8.463</u>	<u>7.948</u>	<u>12.275</u>	<u>13.582</u>	<u>14.306</u>	<u>16.751</u>	<u>20.643</u>	<u>19.947</u>
Southwest Region	170.127	154.731	147.877	140.993	130.020	125.320	136.637	151.347	164.459
Southeast Region	68.416	59.403	58.351	58.761	59.977	74.071	82.143	82.907	84.260
Pelagonia Region	38.902	55.546	61.384	52.422	49.635	44.533	40.447	37.012	38.074
Polog Region	17.500	17.350	16.196	17.098	15.491	15.886	14.565	13.805	14.150
Northeast Region	1.436	1.093	1.379	1.166	1.856	2.703	2.059	2.730	2.387
Skopje Region	19.987	23.793	23.437	25.088	27.433	28.050	29.954	29.540	36.937

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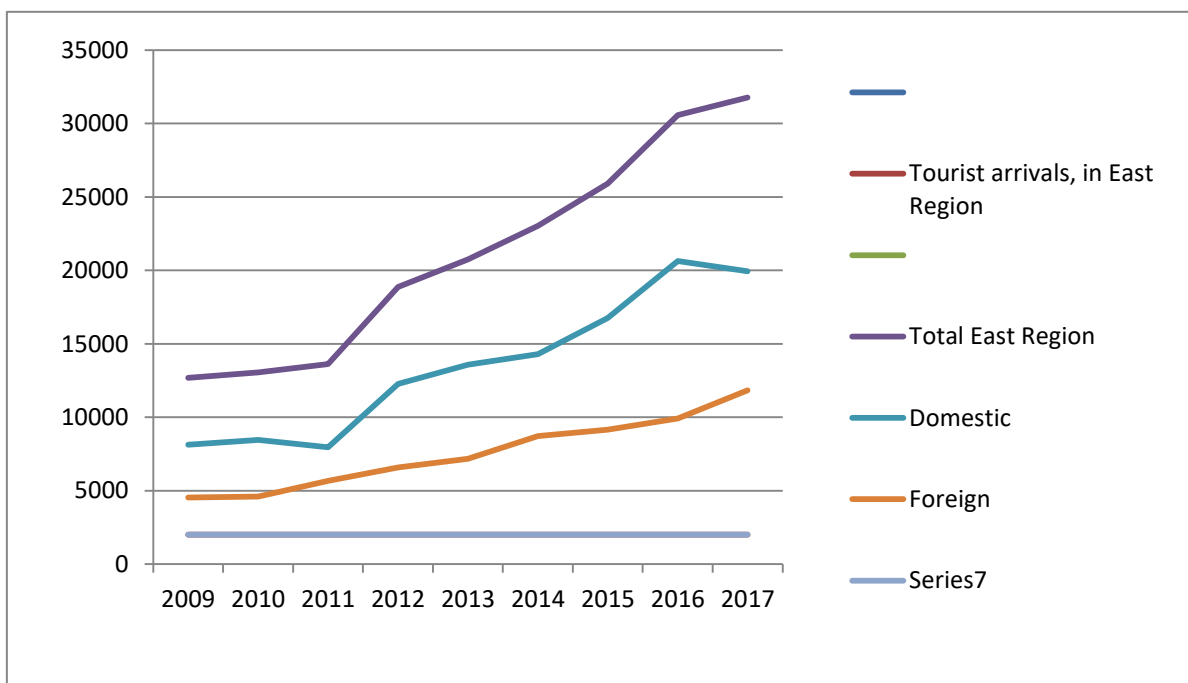
Tourist arrivals, by statistical regions

	2009	2010	2011	2012	2013	2014	2015	2016	2017
TOTAL	259.204	261.696	327.471	351.359	399.680	425.314	485.530	510.484	630.594
Vardar Region	5.385	6.406	8.539	11.396	13.076	15.200	16.327	17.689	18.112
<u>East Region</u>	<u>4.545</u>	<u>4.591</u>	<u>5.667</u>	<u>6.590</u>	<u>7.165</u>	<u>8.729</u>	<u>9.156</u>	<u>9.925</u>	<u>11.828</u>
Southwest Region	87.353	79.934	101.869	110.469	134.806	144.227	161.420	170.987	204.465
Southeast Region	22.582	25.453	50.204	48.217	50.005	50.636	51.185	52.185	58.628
Pelagonia Region	11.838	14.166	15.085	19.632	20.677	20.994	21.572	21.343	25.475
Polog Region	14.096	14.478	12.957	12.786	15.332	13.257	15.635	13.513	15.974
Northeast Region	2.124	2.005	2.424	3.280	3.728	4.234	6.066	7.044	8.903
Skopje Region	111.281	114.663	130.726	138.989	154.891	168.037	204.169	217.798	287.209

Source: State Statistics Bureau, Publication: 8.4.14.01, 8.4.16.01 and PXWeb

The growth of the tourists arrivals in the East Region is rising: in total for period of eight years, 2009 – 2017, growth rate is 2,51. For domestic tourists it is 2,45 and 2,01 for growth of foreign tourists arrivals (please see the figure below).

Figure 7: Growth of tourists' arrivals in the East Region



Concluding on the general view of spa tourism in Macedonia some common denominators are: spas are located in rural areas which is a potential for rural and eco-tourism for the benefits of the local community. Beyond the medicinal effects of water these spa sites have much to offer to the tourists: the beautiful nature, anthropogenic resources and local traditions, customs and national gastronomy. Together they make the tourism product. Near the spa centers there is rich fauna: deer, pheasant, partridge, hare, wild boar, wild sheep, bear, wolf, fox, trout, catfish, carp, barbell, etc.¹³. Literature is addressing on the challenges for Macedonia's spa tourism sector which include the low number of working spas, their poor technical condition, inadequate and worn out infrastructure, the scarcity of available accommodation, lack of financial resources and new investment opportunities. Furthermore, these spa centers are rarely treated as tourist resorts. There are qualified medical personnel in the spas but they lack qualified tourism personnel.

¹³ Thermal-Spa Tourism in Republic of Macedonia. Nako Taskov, phd. University Goce Delcev, Stip. 2011

Wellness business

The wellness business has started to emerge as a notable industry around the world. The underlying driver is the changing mindset as a prerequisite. The paradigm shift happens from reactive firefighting approach, treating problems and harming reduction, to a proactive, multidimensional, preventive and holistic approach when addressing the root causes of individual, societal and environmental challenges.

Wellness describes a person's state of health as a continuum and is a dynamic process that is constantly changing¹⁴. In this manner, outputs the industry offer are improved balance, spiritual, physical and mental health, social harmony, intellectual development, environmental sensitivity, occupational satisfaction and emotional well-being¹⁵. 'Well-being is the subjective perception of vitality (energy); it can be objectively described and measured and is a component of a person's health'¹⁶. Wellbeing tourism can be seen as a form of wellness tourism which is more oriented towards emotional motivation instead of using luxurious spas and wellness centers¹⁷.

Thus, the core of wellness is proactivity with self-responsibility - each individual taking charge of his/her own wellness, as well as behavior. This, together with the growing trend for conventional healthcare to be consumer-driven, indicates that wellness should be approached with enough flexibility to allow customers to personalize their services¹⁸. The location of village Banya and its capacity and potential to grow seem more likely to be developed into such a concept of wellness location.

Value of the Industry

Global wellness industry is estimated as \$3.7 trillion industry, according to 2018 Wellness Trends, from Global Wellness Summit¹⁹. It presents one of the largest and fastest growing industries. It grows in double digits and represents 5.1% of the global economic output. The growth of the wellness tourism of 14% is more than double of the growth in overall tourism sector (6,9%) for the period 2013 - 2015.

Highest and around third of the market involves beauty and antiaging; nearly 20% shares nutrition, healthy food and weight loss industry; while wellness tourism (over 16%) fitness & mind and body and preventive and personalized medicine are around 15% from the total of wellness economy.

¹⁴ Gottlieb Duttweiler Institute: Wellness 2030. The New Techniques of Happiness

¹⁵ Müller & Kaufmann, 2001

¹⁶ <https://www.cdc.gov/hrqol/wellbeing.htm>

¹⁷ D. Dimitrovski, A. Todorović / Tourism Management Perspectives 16 (2015) 259–265

¹⁸ SRI Institute, Spas & Global Wellness Market: Synergies and Opportunities. May 2010, Global SPA Summit

¹⁹ <https://www.globalwellnesssummit.com/2018-global-wellness-trends/>

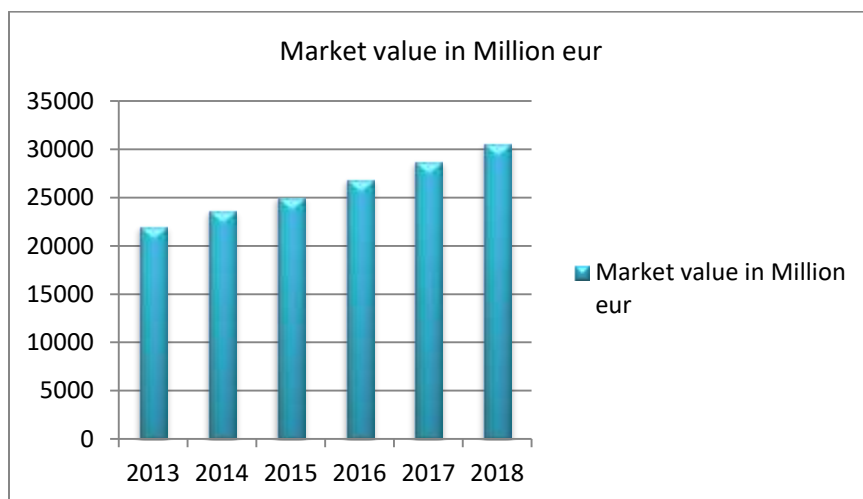
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Figure 8: Global Wellness Economy and Complementary Industries



The Eastern European market value of health and wellness reached 28 billion²⁰. Growing trend is presented in the table:

Table 11: Eastern European health and wellness market value 2013 – 2018



²⁰ Source: Statista.com

Water park industry

Aqua park is a share of the amusement park industry. According to Attraction Industry and Amusement Park Association (IAAPA) typical guests in water parks relating to demographic are: families with children 2-18 years of age and average guest stay is 2.7 hours. The growth of the industry is estimated to be higher of 10% on annual basis.

Drivers of the Growing Wellness Industry

Growth of the wellness industry is driven by several major trends, as: demography, population aging, mobility of people due to lowering travel barriers, decline of the medical systems, personal values of the consumers prioritizing health and wellness over material objects, and the evolving definition of health and wellness. These trends open new opportunities for spas to play a leading role in a paradigm shift toward more proactive ways of taking care of one selves. Besides identifying wellness as a key driver of the spa industry (89% of revenues), the corporate sector has responded favorably to this trend and has become a large consumer of spa services for its employees. Spas & Global Wellness Market: Synergies and Opportunities study by SRI International identifies that: 82% of industry respondents indicated they responded to the wellness movement over the last five years, and 91% of them yielded growth in revenues by these investments. Nine out of 10 industry respondents plan to make wellness-related investments in the next 5-10 years. Almost all of them believe their business will see growth from investments while 70% expect their investments to lead to more than 10% revenue growth.

In Macedonia, revenue from the health tourism, including those from the spas in 2013 was €73 million, according to Eurostat²¹. This revenue comprises also the revenue from the medical services delivered to foreign customers in specialized private hospitals. This is due to the reason that thermal baths are included within the health system. This amount of the revenue, measured in this way, is higher than the countries in the region, e.g. Serbia or Bosnia and Hercegovina. There is a vast potential for investment specifically in the spa and wellness. In order to develop a health and spa tourism, according to Kohl & Partner National Tourism Strategy for Macedonia 2016-2021, the destination needs to fulfill specific pre-conditions, such as:

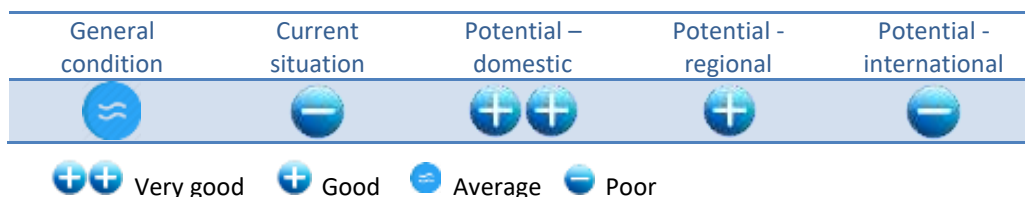
- Existence of thermal or mineral water
- Medical treatment and spa offer
- Manifold sport and activity possibilities

²¹ Balkan Wellbeing and Health Tourism Study. Budapest Metropolitan University 2013

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This study analyzed five parameters in relation to spa tourism given in the figure below. The five parameters are: general condition, current situation, potential (domestic), potential (regional) and potential (international).

Figure 9: Five parameters in relation to spa tourism as of Kohl & Partner National Tourism Strategy for Macedonia 2016-2021²²



This study of Kohl & Partner National Tourism Strategy 2016-2021 concluded with identification of positioning of Macedonian tourism on four main pillars: i. Skopje; ii. Lake Ohrid; iii. Macedonian culture and iv. nature experience. Consequently, spa and wellness tourism is addressing on one to two of the pillars of the National Tourism Strategy 2016-2021 which is nature experience and it is closely associated with the Macedonian culture²³ tourism.

The other source reviewed for the purposes of this study in market analysis is the Survey of the foreign tourist issued by Macedonian State Statistical Office²⁴ for the 2016th. The conclusions drawn within this source of market analysis, where 25 individuals during the summer months were surveyed are presented as follows.

The average nights spent in RM during the stay was 6,17 and the average length of stay in the spa facility was 4,56, almost double of the average length of stay in all types of facilities.

Table 12: Length of stay and expenditures of foreign tourists in spa, June – September 2016

	Average number of nights spent in RM	Average number of nights spent in the place of survey	Average expenses per person in RM, in denars	Average expenses per night in RM, in denars
Total	2,99	2,37	19 222	8 923
Spas	6,17	4,56	19 036	3 757

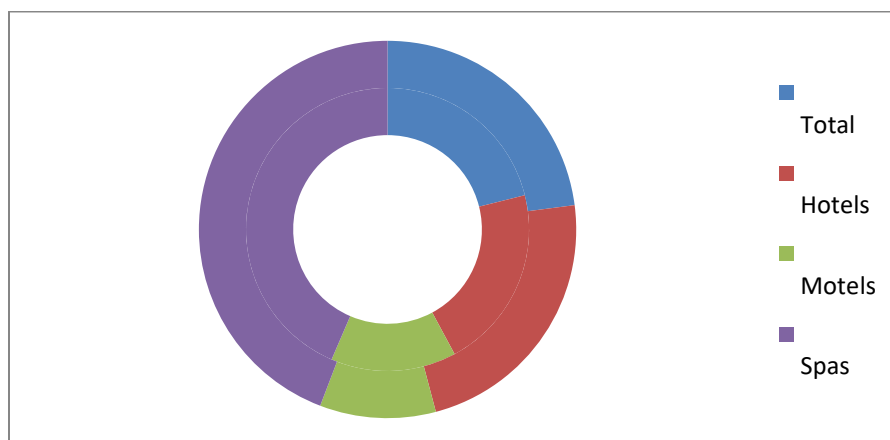
²² Source: Kohl & Partner National Tourism Strategy for Macedonia 2016-2021

²³ Macedonia is rich in historic sights but also the younger contemporary history and the current lifestyle is an important part of the Macedonian culture. This also includes traditional Macedonian cuisine, typical products, Macedonian festivals but also Macedonian wine.

²⁴ The survey, 8.4.17.02869, conducted in 2016 provides data on consumption, structure and social characteristics, length of stay and way of organization of foreign tourists' travels. The survey was carried out in the accommodation establishments with a representative sample on a highest level of the marks - 1617 tourists, out of which 1550 were surveyed.

Length of stay in spas which is highest and compared to other facilities is presented as follow in the figure below:

Figure 10: Average length of stay of foreign tourists, June-September 2016



The dimension of the group of tourists staying 8-14days is almost the same as group staying 4-7 days (46,7% and 45,7% consecutively) . Over 28 days stayed only 2,6% of the surveyeys. Major of the tourists stayed alone (47,4%), 19,7% came with partner, 16,9% stayed with members of the family and 19,1 with friends. In this sample there were no children under 14 years.

The age structure of the tourists shows pick of representation (67,4%) within the age group of 60-65 years, as of the table below:

Table 13: Age structure representation of foreign tourists according to Survey of the foreign tourist 2016th

Age group	Representation %
Up to 26	-
27-35	2,6
36-42	2,6
43-50	2,9
51-59	26,6
60-65	44,0
65+	21,3

Regarding the occupational representation of the spa guests within the survey the most represented are the elementary occupations, plant and machine operators, service and sales workers and skilled agricultural, forestry and fishery operators. The educational background shows predomination of the guests with primary school education.

The most represented within this survey of spas are the tourists traveling from Netherland, Serbia, Bulgaria, Germany and Turkey. Most of them are individually organizing their travel and stay (72,11%), while only minor percent (5,85%) are using travel agency services.

The evaluation of separate services/facilities in spas showed highest results for the health services and archeological, cultural sites and lowest are the scores on road network. As a summary , on the whole sample of this surveyed foreign tourists in Macedonia in 2016th restaurants, entertainment and road network were assessed as bad (scored with point 1 on

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Likert scale) and the people's friendliness is assessed highest (96,5%) together with the natural environment (84,4% on points 5 and 4).

Summarizing the market analysis we can draw these conclusions:

- The SWI is fast growing, highly resilient industry
- The wellness travel space, in very creative ways, is moving from experiential to truly emotional and transformative travel.
- The SWI is consumer-driven, indicates that it should be approached with enough flexibility to allow customers to personalize their services
- The existing foreign tourists in Macedonia mostly consume reactive / medical treatment
- Offering of the medical treatment and
- Manifold sport and other activities (e.g. hunting, workshops for crafts, etc.)
- Business and corporate wellness programs have high potential as target market. The services within this niche are:
 - Membership in spa & wellness programs
 - Counseling for health – physical activity, fatigue management, food
 - Team Building Activities customized;
 - Yoga, Pilates, Tai-chi
 - Gift vouchers for high performance employees;
 - Stress Management Programs;
 - Business Retreats / Workshops / Seminars;
 - employee coaching;
 - Wellness Kitchen (restaurant offering high serotonin meals)
 - Cycling in the nature

Competition

This section evaluates the competition with the purpose to identify what is missing and what would be competitive advantage of Spa and Wellness center in village Banya compared to other spa and or wellness centers in Macedonia and Bulgaria and Serbia. This evaluation is one more step towards defining three concept solutions for spa and wellness center Banya.

Analyzed spa entities could be assembled in several groups:

- all spas with geo-thermal water with therapeutic effects. Those are also contractors of Health Insurance Fund;
- Spas and wellness centers without geo-thermal water
- two spa and wellness centers in Skopje and geo-thermal water
- four centers in cross border region, Bulgaria and Serbia with well-developed and well established SWCs.

The first table gives a general overview, snapshot, of the competitor's competitive advantage. Whereas, next table excerpts prices of some of the SW services .

Table 14: General overview of the competitors

	Aurora Berovo	Katlanovo	Hotel Central Vinica	Debar Capa	Negorski Banyi	Car Samoil Strumica	Sirius, Strumica
Geothermal water		✓		✓	✓	✓	
Wellness	✓	✓	✓				✓
Medical		✓		✓	✓	✓	
Beauty		✓					
Fitness	✓		✓		✓	✓	✓
Membership		✓	✓				✓
Massage		✓		✓			✓
External Guests	✓	✓	✓				✓
Corporate Wellness	✓	✓	✓	✓	✓	✓	✓
Brain Fitness							
Distance from Banya, Kocani	1 h (60.3 km) via R1304	1 h 3 min (78.9 km) via A3, A3 and A1	19 min (17.4 km) via A3 and R1304	3 h 36 min (252.6 km) via A2	1 h 48 min (134.5 km)	1 h 21 min (94.7 km) via A4 and A3	1 h 20 min (94.1 km) via A3 and A4
Distance from Skopje	2 h 22 min (170.5 km) via A3 and R1304	20km	1 h 48 min 128 km	2 h 17 min (133 km)	1 h 46 min 151 km	2 h 16 min 167 km	2 h 5 min 157 km
Distance from Stip	1 h 34 min (89.5 km) via R1304 and A3	1 h 2 min (70.3 km) via A1 and A	42 min (40.7 km) via A3	3 h 25 min (235.1 km) via E65	1 h 30 min (107.4 km) via A1 and R1103	1 h 1 min (66.4 km) via A4	1 h 1 min (66.4 km) via A4
Distance from Probistip	1 h 37 min (94.5 km) via R1304	1 h 23 min (97.1 km) via A1 and A3	44 min (45.1 km) via A3 and R1205				

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	Aurora Berovo	Katlanovo	Hotel Central Vinica	Debar Capa	Negorski Banyi	Car Samoil Strumica	Sirius, Strumica
Advantage	Promoted Nature Activities - Horse riding, jeep safari	Close to Skopje (external guests, mostly private) Quality of water - medicinal effects Health Insurance Fund contract	Business guests from the region Events, weddings, etc.	Water quality - medicinal effects Albanian border High accommodation capacity Fango & hydro therapy, foreign tourists	Quality of water Border Greece Health Insurance Fund contract	Quality of water Border Greece Health Insurance Fund contract	Promoted, special packages business events bachelorette parties
Advantage of Banya	Geothermal water Rural, eco-tourism	East Region Foreign Bulgaria	Geothermal water Rural, eco, tourism	East Region Foreign Bulgaria	East Region Foreign Bulgaria	East Region Foreign Bulgaria	Geothermal water Rural, eco, tourism
Target	High end customers: Luxurious and intimate domestic individual, business events, diplomatic corps, rare foreign.	Mixed: Medical and High end - individual and diplomatic corps members in MK	Business guests Medium income tourists	Medical Low and medium, rarely high income tourist Foreign Albania	Medical Sportist Low and medium, rarely high Foreign Greece	Medical Low and medium, rarely high Foreign Greece	Business guests
Capacities		450 No of hotels - 3		300? Venec 30, Kosovrasti 75 rooms, Banjisht 50 r? No of hotels - 3	279 No of hotels 3	350	116 rooms 250?
Altitude / m		230		700			

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Geothermal water	Bushi spa and Wellness	TCC Grand Plaza	Sandanski Bulgaria	Strimon Bulgaria	Niska Banja, Serbia	Bansko, Bulgaria
Wellness			✓	✓	✓	
Medical	✓	✓	✓	✓	✓	✓
Beauty			✓	✓	✓	
Fitness			✓	✓	✓	✓
Membership	✓	✓	✓	✓	✓	✓
Massage	✓	✓	✓	✓	✓	✓
External Guests	✓	✓	✓	✓	✓	✓
Corporate Wellness	✓	✓	✓	✓	✓	✓
Brain Fitness	✓	✓	✓	✓	✓	✓
Distance from Banya, Kocani						
Distance from Skopje	120km	120km	150km, 2,7h	2 h 18 min (153.0 km) via A3	268mk, 3,5h	2 h 22 min (144.1 km) via A3 and Route 19
Distance from Stip	In	in			210km, 2,2h	
Distance from Probistip						
Advantage						
Advantage of Banya	Geothermal water Rural, eco, tourism	Geothermal water Rural, eco, tourism	Closer for domestic tourists Rural, eco, tourism	Closer for domestic tourists Rural, eco, tourism	Geothermal water Rural, eco, tourism	Closer for domestic tourists Rural, eco, tourism
Target	High end Individual foreign Corporate Membership Restoraunt	Individual Corporate Membership	Well developed The city offering restourants, shopping, etc.	Well developed The city smaller, still offering restourants, shopping, etc.	Well developed The city smaller, still offering restourants, shopping, etc.	Well-developed The city offering restourants, activities, shopping, etc.

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Table 15: Excerpt of the prices for some of the competitors services

Price / euro	Unit, add. specification	Aurora Berovo	Unit, add. specifi cation	Katla novo	Unit, add. specificat ion	Hotel Central Vinica	unit, specification	Debar Capa	unit, specification	Negorsk i Banyi	unit, specifi cation	Car Sam oil Stru mica
Wellness	90min	40 / spa for 2				5 guests						
Jacuzzi	20min	20										
Medical												
Beauty	anti-cellulite treatment 50 min	30										
Fitness												
Membership												
Massage	30min	20	60min	20				5				
External guests							9	6hrs/room included - day accommodation			15	
one day accommodati on			34			day-for 2 persons	35	for 1 person	one bedroom BB	24	20	
One day accommodation, FB			42				added medical therapy		24	FB	19	
Activities, e.g. horse riding	15min children	5								Poker tournament		
Special target offer	exclusive wedding										weddi ngs	
Children										up to 6yrs- free; from 6- 12yrs 50%		

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Price / euro	Unit, add. specification	Aurora Berovo	Unit, add. specifi cation	Katla novo	Unit, add. specificat ion	Hotel Central Vinica	unit, specification	Debar Capa	unit, specification	Negorsk i Banyi	unit, specifi cation	Car Sam oil Stru mica
Price / euro	unit, specification	Sirius, Strumica		Bushi spa & Well ness		TCC Grand Plaza		Sanda nski Bulgar ia		Strimon Bulgaria		
Wellness	Day	9	1h	40								
	for 2 pers, 1hr	18										
Medical										20		
Beauty												
Fitness & spa	Month	35	/		day	5						
Membership	Month	50			month	male 50 female 35						
Massage					1h	16						
External guests	Day	9										
one day accommodati on	hb+spa	45	day 2 pers	69	day-for 2 pers	80	day-for 2 pers with breakfast	62eur	day-for 2 pers with breakfast	52,6		
One day accommodation, FB							day-for 2 pers	86eur	day-for 2 pers	82,6		
Activities, horse riding												
Special target offer	bachelor(ette) party/pp	22					weddings					
Children		up to 3 yrs. - free; from 3-7 yrs. - 30%; from 8-12 yrs. - 50% ; from 13-15 yrs. - 70%										

The table below is the excerpt for the competitors' prices for aqua parks.

Prices / MKD	Skopje	Probistip
Adults	300	350
Children	300	300
Seasonal		4000
Special offers		
Couple		650
Family, one child (over 14 yrs.)		850
Family, one child (up to 14 yrs.)		800
Family, two children (up to 14 yrs.)		950
Family, two children (over 14 yrs.)		1100
Family, two children (up to 14 and over 14 yrs.)		1000
Pool and children pool only (mon-fri)		100

Source: Feasibility study for Aqua Park Dovledzik. Point Pro Consulting 2014

Guests Using Wellness Services – Demographics

Different segments of guests are using wellness services. For the purposes of this study, tourists are divided in few groups:

1. Domestic guests (overnight) are expected to travel from the Skopje Region, Vardar Region, Southeastern and Northeastern region. The western regions are not included²⁵. Please see the table below for the number of population by age groups.
2. Guests using membership services. They are traveling from the near cities and expected are the visits as per the age structure in the table below. This group comprises the group 5 in its composition.
3. Foreign guests are expected during the summer season, weekends and holidays (Eastern and Christmas). Those are traveling from Bulgaria, western part bordering to Macedonia²⁶
4. Events: organizational - business and NGOs.
5. Diplomatic corps, expats in Macedonia.

²⁵ The assumption is that resources as the healing geothermal water is satisfied in the western Macedonia with the Debar Capa spa and Katlanovo spa. Additionally, there are few wellness centers in western regions, Southwestern (Laki, etc). The road infrastructure is the additional reason.

²⁶ Incentivized and combining with shopping tourism

Table 16: Domestic guests, overnight, using wellness services, structure and geographic distribution by age

Municipality	Sum of 25- 27	Sum of 28- 29	Sum of 30- 34	Sum of 35- 39	Sum of 40- 44	Sum of 45- 49	Sum of 50- 54	Sum of 55- 59	Sum of 60- 64	Sum of 65- 69	Sum of 70- 74		%	No of expected guests	Structure
Berovo	564	393	921	900	835	933	918	992	982	785	560	8783	1,00%	88	0,01%
Delchevo	660	499	1179	1174	1150	1158	1206	1278	1197	1046	752	11299	2,00%	226	0,04%
Gazi Baba	3151	2165	5470	5957	6059	5382	5095	4758	4720	4432	3072	50261	5,00%	2514	0,40%
Gjorche Petrov	1720	1236	3456	3277	3215	2979	2879	2958	3044	2635	1844	29243	3,00%	878	0,14%
Karposh	2148	1538	4271	4441	4560	4696	4507	3997	4009	3710	2903	40780	15,00%	6117	0,97%
Kochani	1637	1111	2795	2813	2792	2630	2677	2752	2714	2349	1597	25867	3,00%	777	0,12%
Kratovo	406	257	685	661	620	608	786	805	703	604	384	6519	1,00%	66	0,01%
Kriva Palanka	841	580	1547	1538	1437	1311	1495	1568	1583	1274	753	13927	1,00%	140	0,02%
Kumanovo	5040	3490	8502	8559	8068	7370	7354	6926	6592	5362	3497	70760	1,00%	708	0,11%
Makedonska Kamenica	345	226	554	595	562	632	558	571	525	376	296	5240	3,00%	158	0,03%
Pehchevo	211	128	345	351	327	323	342	390	386	314	201	3318	1,00%	34	0,01%
Radovish	1368	996	2244	2020	2014	1958	2106	2030	1761	1397	991	18885	2,00%	378	0,06%
Shtip	2100	1542	3882	3824	3536	3116	3567	3801	3464	2777	1869	33478	5,00%	1674	0,26%
Skopje remain part and Sopishte	12726	9249	25047	26471	24658	22510	21142	19964	20302	19084	12261	213414	50,00%	106707	16,89%
Strumica	2377	1717	4536	4507	3971	3750	4066	4049	3900	3004	1914	37791	3,00%	1134	0,18%
Sveti Nikole	750	565	1367	1257	1185	1240	1343	1434	1275	1012	696	12124	1,00%	122	0,02%
Veles	2260	1661	4237	4182	3731	3717	3967	4013	3764	3071	2109	36712	2,00%	735	0,12%
Vinica	889	589	1568	1515	1417	1447	1481	1424	1277	1046	734	13387	1,00%	134	0,02%
Total	39193	27942	72606	74042	70137	65760	65489	63710	62198	54278	36433	631788	100,00%	122590	19,40%

Source: Calculated from the MakStat data

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Table 17: Expected guests using membership benefits for wellness services (spa, fitness, saunas, pools, etc.), structure and geographic distribution by age

Municipality	Sum of 25- 27	Sum of 28- 29	Sum of 30- 34	Sum of 35- 39	Sum of 40- 44	Sum of 45- 49	Sum of 50- 54	Sum of 55- 59	Sum of 60- 64	Sum of 65- 69	Sum of 70- 74	Sum of 75- 79	Sum of 80+	% participatio n	No of expecte d guests	Structur e
Cheshinovo-Obleshevo	275	191	495	461	501	473	502	532	505	461	332	233	276	1%	3	0,12%
Gazi Baba	3151	2165	5470	5957	6059	5382	5095	4758	4720	4432	3072	2311	1980	1%	20	0,78%
Gjorche Petrov	1720	1236	3456	3277	3215	2979	2879	2958	3044	2635	1844	1306	1126	1%	12	0,47%
Karbinci	185	139	300	254	237	285	282	249	185	150	120	129	123	1%	2	0,08%
Karposh	2148	1538	4271	4441	4560	4696	4507	3997	4009	3710	2903	2551	2872	3%	87	3,40%
Kochani	1637	1111	2795	2813	2792	2630	2677	2752	2714	2349	1597	1086	938	30%	282	11,01%
Makedonska Kamenica	345	226	554	595	562	632	558	571	525	376	296	176	153	7%	11	0,43%
Probishtip	668	424	1082	1051	1043	1033	1177	1315	1240	979	614	436	430	3%	13	0,51%
Radovish	1368	996	2244	2020	2014	1958	2106	2030	1761	1397	991	649	596	2%	12	0,47%
Shtip	2100	1542	3882	3824	3536	3116	3567	3801	3464	2777	1869	1416	1112	20%	223	8,70%
Skopje remain part and Sopishte	1272 6	9249 7	2504 7	2647 1	2465 8	2251 0	2114 2	1996 4	2030 2	1908 4	1226 1	8440	9194	20%	1839	71,78%
Sveti Nikole	750	565	1367	1257	1185	1240	1343	1434	1275	1012	696	535	551	5%	28	1,09%
Veles	2260	1661	4237	4182	3731	3717	3967	4013	3764	3071	2109	1612	1385	1%	14	0,55%
Vinica	889	589	1568	1515	1417	1447	1481	1424	1277	1046	734	465	455	3%	14	0,55%
Zrnovci	130	97	255	231	193	218	248	246	232	155	111	88	97	2%	2	0,08%
Grand Total	3035 2	2172 9	5702 3	5834 9	5570 3	5231 6	5153 1	5004 4	4901 7	4363 4	2954 9	2143 3	2128 8	100%	2562	100,00%

Source: Calculated from the MakStat data

Aqua Park Guests

Aside from the host - Cusinovo-Oblesevo municipality, one day tourists are expected to arrive from the rural and urban municipalities in the zone in radius of approximately 1,5 hour drive. Optimal is the distance up to 40-45 minutes, unless there is no such water park closer. This is a case with the municipalities Delchevo, Pehchevo, Berovo, Makedonska Kamenica. Expected are the guests from neighboring municipalities: Kočani, Karbinci, Zrnovci. Still, citizens from Štip, Lozovo, Berovo, Delchevo, Makedonska Kamenica, Novo Selo, Pehchevo, Radovich, Stip, Veles, Vasilevo, Strumica, Zrnovci are the in the first zone. The age of population selected is in the range of 5-35 years. The youngest are projected to be given free entrance. The total population within this frame of characteristics is estimated on 91.566. Regarding the percent of the population expected to use the services, and especially growing trend of visiting amusement parks, the IAAPA survey finds that 25% of visitors surveyed visited an amusement park within the last year, with 43% indicating they plan to visit an amusement park within next year.

After the completion of express road it is expected that Skopje citizens will be attracted and this sum up with 228.371 potential guests. Guests are country wide and regional if they have taken overnight trip (27%, IAAPA). The percent of surveyees willing to work in water parks is 28.

Table 18: First zone of visit: demographics in municipalities, age specific structure

Municipality	Population	Visitors %	Visitors no	Structure	Distance
Berovo	4.501	2%	90	0%	1 h (60.3 km)
Cheshinovo-Obleshevo	2.320	5%	116	1%	
Delchevo	5.669	5%	283	1%	59 min (57.4 km)
Karbinci	1.686	1%	17	0%	21 min (21.5 km)
Kochani	13.703	30%	4.111	20%	9 min 8.2 km
Lozovo	888	0%	0	0%	42 min 45.4 km
Makedonska Kamenica	2.771	1%	28	0%	40 min (34.8 km)
Pehchevo	1.705	1%	17	0%	1 h (62.9 km)
Probishtip	5.113	0%	0	0%	28 min (28.6 km)
Radovich	11.899	1%	119	1%	53 min 59.4 km
Shtip	17.795	30%	5.339	26%	24 min (23km)
Strumica	22.007	1%	220	1%	1 h 11 min (86mk)
Vasilevo	5.521	1%	55	0%	59 min (57.4 km)
Zrnovci	1.101	2%	22	0%	18 min (8.9 km)
Tourists	50.000	20%	10.000	49%	
	142.178	100%	20.417	100.0%	

Source: Calculated from the MakStat data

Government Program for Supporting Tourism Industry

Tourism plays a significant role in economic development and the Government of Republic of Macedonia is very eager to attract new tourists, but also new investments in tourism, in order to create new jobs and promote the cultural values and natural resources of Macedonia. The Government is firm at its intention to support the sector through various measures, policies, specific projects for construction of a modern tourism infrastructure and promotion of



Macedonia as an attractive tourist destination abroad. According to the Government Program for Development of Tourism, future development is seen in the comparative advantages that Macedonia has in tourism, especially in the field of eco - tourism, cultural, lake, winter sports, hunting, congress, spa, monastery, archaeological, rural, mountain and wine tourism. In this regard, the Government has undertaken and has committed to the following projects:

- Reduction of Value Added Tax (VAT) on tourism services and overnight accommodation, accommodation with breakfast, half board or full board from 18% to 5%;
- Reorganization of the Agency for Promotion and Support of Tourism in the Macedonian National Tourism Organization;
- Tour Operator and airline subsidies (€10 - €65 per tourist)
- Creating an integrated tourist information system with web - portal;
- Investments in improving the **tourism infrastructure** and encouraging transit tourism. In this direction, the following projects are planned:
 - Determination of sites for construction of hotels, motels, gas stations, modern and various tourist attractions along the corridors 8 and 10;
 - Providing a location to build a tourist attraction "Aqua Park" Corridor 10;
 - Construction of urban aqua park (alone or in partnership with the private sector) or encouraging the private sector to build;
 - Extension project for marking and setting tourist signs for a number of tourist places;
 - Continuing to attract investors to build hotels and other tourist facilities in Skopje, Ohrid, Struga, Prespa and Lake Doiran for tourism and Gevgelija, Bitola, Krusevo, Tetovo and Ponikva for winter tourism, as in other places;
 - Establishment of Tourist Development Zones on the Ohrid, Prespa and Dojransko Lake in cooperation with local government, in order to build the hotels and hotel complexes by offering a low starting price of land, utilities, the income tax allowance in the first 5 years and built infrastructure;
 - Engaging world renowned architectural office of making long term strategic development plan of the city and residential areas of the lakes for the next 20 years;
 - Extension activities to address the status of children's resorts for their conversion into hotels, motels and hostels;

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- Promotion of Macedonian cultural and tourist potentials in the domestic educational programs available for all generations;
- International branding – e.g. Macedonia Timeless Campaign
- Project "Eco Macedonia" for positioning the country as a tourist destination with untouched nature that offers high quality and authentic organic food.

In order to enhance the capacity of human resources in accordance with the needs of tourism and improve the quality of tourism services at the highest level, the Government is implementing the following activities:

- Compulsory internship for high school students in the field of tourism, as well as for students of the faculty of Tourism;
- Education of managers in tourism through cooperation with international tour operators where each year a group of managers from Macedonia will be able to spend one month in practical training;
- Support for the creation of training centers for tourism and hospitality, by providing vouchers for financial support and co-workers in tourism;
- Encourage cooperation between the local and foreign higher education institutions to develop specialized postgraduate programs in the field of tourism;
- Providing 30 scholarships annually for the best students and students in the field of tourism in collaboration with the tourism and hospitality retailers.

Building the image; a brand of tourism in Macedonia - Government will continue supporting the single unifying brand to promote Macedonia as a tourist destination in partnership with the business community through future Macedonian National Tourism Organization in the form of PPP, or direct private projects. It is committed to the creation of a single brand and implementation of marketing campaigns through:

- Continuing with the concept of a common branding by making unified promotional materials;
- Preparation of digital presentation of the overall tourist potential of the country;
- Preparing a site with information material and brochures for the tourism potentials of the country that will be freely available in all tourist destinations;
- At least twice a year organizing "Week of Macedonia" in different countries for presenting the tourism;
- Continuing the marketing campaign Macedonia Timeless and preparing reports for the most famous world and Macedonian media;
- Opening offices to promote tourism centers located in the main cities in the countries from where traditionally there is an inflow of tourists (the Netherlands, Sweden, Serbia, Kosovo, Russia, Israel and Turkey);
- **Expanding the network of "Tourism information centers" along the corridors 8 and 10, with at least six centers and wherever you need occur in significant tourist destinations.**

In order to improve **Alternative Tourism - Eco tourism and mountain tourism** the Government is implementing the following activities:

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- Provide assistance to 10 municipalities annually for development of strategies for the development of eco and alternative tourism;
- Develop the concept of urban recreation (active) tourism in 5 tourist locations;
- Provide support for the development and promotion of winter tourism in Sunny Hill, Mavrovo, Pelister, Kozuv, Krusevo and Ponikva;
- Project: Mega attractive ski resort "Sunny Hill". The project includes construction of new cable cars and ski lifts, snowmaking installation, a new hotel and other accommodation facilities;
- Further development of winter center Pelister via concessions of ski lifts and construction of new hotels;
- Support the building of additional commercial buildings and hotels in Mavrovo;
- Completion of the access road and construction of the necessary infrastructure to ski center Kozuv;
- Construction of a new ski lift and expansion of existing ski trails and other tourist infrastructure in Krusevo;
- Construction of the necessary infrastructure to access and monasteries Zrze and Treskavec;
- In cooperation with the city of Skopje, the construction of ski runs on the mountain Vodno;
- In cooperation with the city of Skopje, modernization and expansion of the amusement park in Skopje via PPP;
- **Promotion of Macedonia for Development of Congress and Research tourism;**
- Mapping of tourist attractions and marking of roads in regions wherever it is needed;
- Development of the canyon Matka into a tourist center with appropriate promotional material, sites for construction of service facilities and a direct bus line from Skopje;
- Development of tourism of the "Maleshevska Osogovski" region, by determining the locations for the construction of service and accommodation capacities etc.;
- Developing tourism program based on the concept of "active vacation", i.e. sports and adventure tourism, setting guidelines for at least 20 destinations annually for active vacation;
- Construction of 60 kilometers tourist recreational trails in the mountains (Sunny Hill, Pelister Ponikva, Kozuv, Mavrovo and Golak).

For the development of the spa (spa) and health tourism, the Government is implementing the following activities:

- Will be awarded concessions to explore the sources of hot water and sites for construction of hotels in the vicinity of existing bathrooms (Baths Debar, Katlanovska, Kumanovo, Kezhovica, Bansko and Negorci), as well as new locations;
- Will support the development of dental tourism promotion through active collaboration with the Association of Dentists.

Promoting wine tourism through:

- Making travel programs "wine road" for domestic and foreign visitors for organized visits to wineries and wine regions and tasting of traditional Macedonian wine and food, in collaboration with wineries, chambers of commerce and municipalities;

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- Discussing with the diplomatic missions of promoters and active approach to attracting foreign reputable tour operators that would include wine tourism services in its programs in Macedonia.

Cultural and religious tourism:

- Restoration and revitalization of the Old Bazaar;
- Infrastructure support and promotion of a number of historic buildings in the country (continuous);
- Promotion of Macedonian archaeological cultural heritage by organizing tourist groups for restoration and reconstruction of buildings of cultural and historical significance (continuous);
- Promotion of religious tourism and Ohrid as a "Balkan Jerusalem" (continuous);
- Investment in renovation, restoration and new facades of buildings (continuous).

Rural tourism:

- Networking and promotion of ethno-villages in various regions of Macedonia;
- Development of rural tourism through the use of open lines of European funds, IPARD program to encourage and develop this type of tourism;
- Exhibitions and promotion of ethno style, language, music and culture of the Macedonian villages from different regions of the country;
- Exhibitions and promotion of traditional architecture, the way of housing, folk art, handicrafts, customs and folklore;
- Promotion of catchment areas in the country;
- Integration of the Ethnological Museum with the museum to be built under the project 'Macedonian village';
- Project "Macedonian Village", the construction of 12 houses and accessories authentic buildings from all parts of Macedonia with its multi-ethnic values;
- Lake tourism, will continue to promote the activities of the three largest lakes Ohrid, Prespa and Dojransko lake, and implement programs for the development of other lakes, like in Krusevo, Veles, Berovsko, Mavrovo.
- Maintenance and preservation of the natural resources of Lake Ohrid and Ohrid.

Business incentives for building capacities for accommodation of tourists and improving services in the field of tourism, the Government is implementing the following activities:

- Development of small and medium enterprises operating in the tourism sector by subsidizing loans for construction, adaptation and arrangement of small accommodation;
- Continuing to subsidize foreign organized tourist traffic subsidy from 20 to 70 euros per tourist.
- Probably the most important programme for supporting the spa tourism is the programme for subsidizing elderly spa patients for their stay in spa centers, by the Fund for Health Insurance. This was sizeable assistance in the past, as explained below.

Health Insurance Fund assistance to spa patients as visible in the various spa centres

Fund for Health Insurance (FHI) concludes contracts with private health institutions which are delivering medical rehabilitation as: medical rehabilitation within special medical conditions and medical rehabilitation as a continuation of the hospital treatment. For the year 2017 Fund for Health Insurance ensured total budget of MKD 77.000.000.

In 2017 Macedonian spas increased their scope of services and achieved total revenue MKD 5,5 million higher than 2016 . It is 7% growth of the total revenue for all Macedonian spas who has signed a contract with FHI. Furthermore, higher scope of services and higher revenue in 5%, or MKD 4 million than contract was reported in 2016 compared to 2015²⁷.

Table 19: Spa Revenues in MKD 2017 from medical rehabilitation services within the contract with Fund for Health Insurance

	Contracted budget for 2017	Contribution % in total revenue of medical rehabilitation in specific medical conditions	Contribution % in total revenue of medical rehabilitation as continuation of hospital treatment	Total revenue
Katlanovska Banya	27.000.000	33,5%	66,5%	28.952.240
Debarska Banya	19.000.000	65,2%	34,8%	18.999.256
Negorski Banyi	16.000.000	60,9%	39,1%	18.741.280
Car Samoil Banya	15.000.000	48,6%	51,4%	15.791.064
Total	77.000.000	49,9%	50,1%	82.483.840

Source: Annual Report HIF

Other sources of access to finance - Grant Funding Opportunities

For the purposes of presenting further opportunities for access to finance in Municipality Cusinovo-Oblesevo in this section we list some of the financial programs and financial instruments from various international donors in Republic of Macedonia. These instruments most frequently establish possibility of using grants for further growth.

²⁷ Source: Annual Report Health Insurance Fund RM, 2017

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Table 20: Grant Funding Opportunities

Instrument	Donor	Description	Open call
IPA - Interreg	EU	One of the key instruments of the European Union (EU) supporting cross border cooperation through project funding. The purpose of the instrument is jointly addressing common challenges and finding shared solutions in environment, research, education, transport, sustainable energy, social services, public health, culture and more areas.	Municipality Cesinovo-Oblesevo participated with the project proposal in the open call in May 2018. The evaluation of the proposal is pending. The proposal was on the water analysis of geo-thermal water in village Banya.
LRCP – Local Rural Competitiveness Project	EU. Administered by World Bank	LRCP is based on a holistic approach to tourism development and destination management and will provide investment funding and capacity building to support sector growth, investment in destinations, and specific destination prosperity. The Project Development Objective of the LRCP is to enhance the contribution of tourism to local economic development and improve the capacity of the Government and public entities to foster tourism growth and facilitate destination management.	/ Deadline for Expression of Interest was April 30, 2018
IPARD	EU	One of the two objectives of IPARD is to contribute to the sustainable adaptation of the agricultural sector and rural areas in the candidate country. For Rural Tourism Axis 3 is applicable: Development of the Rural Economy Measures: <ul style="list-style-type: none"> • Improvement and development of rural infrastructure • Development and diversification of rural economic activities • Training 	

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Instrument	Donor	Description	Open call
• Technical assistance			
Agency for Financial Support in Agriculture and Rural Development	RM	Measures: 321 – Improvement of quality of life, up to 20 mio MKD 322 – Rural reconstruction and development, up to 20 mio MKD 323 – Preservation and improvement of traditional values in rural areas, up to 15 mio MKD	Yes, deadline 31 August 2018

Source: Project Team review

EU, IPA – Interreg, Cross-border projects for economic development, including cross-border mobility; joint local employment initiatives; information and advisory services and joint training; gender equality; equal opportunities; integration of immigrants' communities and vulnerable groups; investment in public employment services; and supporting investment in public health and social services.

The East Region in Macedonia

The East Region spreads along the Bregalnica River, over the basins of Shtip, Maleshevo and Pijanec and the field of Kochani. The region comprises 14.2%²⁸ of the total area of the Republic of Macedonia, with 8.5% of the total population, and 49.9 citizens per km². The number of population of 238136, according to census in 2002, and is estimated to be 230 387 in 2016.

The relief of the region is mixed - mountainous and open field (Cesionovo – Oblesevo) region and comprises the extremes of the east on the Republic of Macedonia. The natural, geographical, climate and hydrological characteristics give the potential for production of rice, especially in the Kochani Fields, Cesionovo-Oblesevo municipality, which is well renowned for its rice. The basins of Pijanec and Maleshevo are favourable for growing fruits and vegetables.

Due to the specific geological characteristics of mountain ranges, the region has a developed lead and zinc mining industry. Another important industry is the textile industry and a large number of textile manufacturing plants are located in this region. The mountainous terrains and geothermal springs in the region have great potential for development of eco, rural, spa and wellness, winter and alternative tourism.



The basic data for the region are presented in the figure below:

²⁸ MakStat publication: Regions of the Republic of Macedonia, 2017, ISSN 1857-6164

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Figure 11: East Region – basic data

Number of municipalities	11
Number of settlements	217
Total population, Population Census, 2002	181858
Estimated population, 2016	176568
Population density, 2016	49,9
Number of dwellings, Population Census, 2002	72248
Average number of persons per household, Population Census, 2002	3,1
Live births, 2016	1549
Deaths, 2016	1956
Natural increase, 2016	-407
Immigrants from abroad, 2016	135
Emigrants to abroad, 2016	27
Literacy rate of population over the age of 10, Population Census, 2002	96,1
Activity rate, 2016	62,3
Employment rate, 2016	52,0
Unemployment rate, 2016	16,4
Average gross wage per employee, 2016	24423
Average net wage per employee, 2016	16701
Number of primary and lower secondary schools, 2016/2017	92
Number of upper secondary schools, 2016/2017	14
Number of students in primary and lower secondary education, 2016/2017	13644
Number of students in upper secondary education, 2016/2017	5939
Number of graduated students from universities, 2016	579
Number of active business entities, 2016	5713
Number of enterprise births, 2015	572
Number of enterprise deaths, 2013	693
Number of enterprise deaths, 2014	534
Number of enterprise deaths, 2015	474
GDP per capita, 2014	244272
Number of beds, 2016	985
Number of tourists, 2016	30568
Number of nights spent, 2016	66515
Number of completed dwellings, 2016	438
Value of completed construction works, 2016, thousand denars	4419336
Number of issued building permits, 2016	356

Source: MakStat publication: Regions of the Republic of Macedonia, 2017, ISSN 1857-6164 p.117

Municipality Cusinovo Oblesevo – Hot Spring Vast Tourist Potential

Municipality Cusinovo Oblesevo is located in central site of the Kocani Field. It has an open field relief, mostly typical rice plantations with River Bregalnica as a main river. Mountainous relief on the foot of Osogovo and Plackovitsa Mountain spreads in part of the municipality. It is an agricultural and well recognized by rice plantation and production region.

Municipality has vast tourist potential²⁹ for eco- and rural tourism, which rests in the natural resources. The major resource lays in the geothermal hot springs. Historically this potential was unlocked and used by locals, still it was visited by the guests in radius of 400kms (southern Serbia). Spa center in village Banya is situated on the distance from 2km from Via Ignatia. It is an indication plus for the significance of the spa center Banya in the past. During 19th and 20th century and in the past decades, within the former Yugoslavia the spa center was one of the seven most important centers of national interests³⁰.

Additional Tourist Attractions in the Municipality Cusinovo-Oblesevo

The region abounds with various attractions which can be used for tourist addition to the spa and wellness resort and aqua site visitors. The Municipality has summed them up as follows:

1. Archeological site “Pilavo”, on the left side of the Bregalnitsa River close to the village Burilcevo. The site dates back to Neolithic period, or transition of stone to metal age. Pottery objects are typical, with various shapes decorated with curvy lines. The figures are presented in the Museum of Macedonia in Skopje.
2. Archeological site “St. Atanasij”, close to the village Spanchevo. On the hill near the church the site dates back to 4000 b.c. During the initial excavation was found the construction for religious purposes laden with pottery objects. Female ceramic figurines were excavated in 2007 near the village, by accident. The origin is evaluated to be in the Neolithic period. The funding for further excavation and research was approved by the Ministry of Culture. One of the representative findings from this site is an anthropomorphic male figure.



²⁹ Please see Tourist Attractions

³⁰ Strategy for Development of Rural Tourism in Municipality Cusinovo – Oblesevo, Epicentar consulting 2007

Other discoveries includes tools from prehistoric era, made of bones and rock, relief pottery, shell jewelry,

3. Archeological site Teranci. On the locality in village Teranci are excavated antique sculptures and grave monuments. It is a sculpture of the racing horse rider in action with chlamida lightly elevated and wrinkled on the influence of the wind. Around the horse legs there is a dog. This sculpture is in the lapidarium in Stip Museum. On the 7 kilometers from village Teranci there are remnants of wall and few houses.
4. Church St. Archangel Michail, Spanchevo. Portion of the frescoes in this church are old and valuable frescoes originating back in XVI - XVII century. During reconstruction in XIX century larger portion of the frescoes were damaged.
5. Monument of the first President of Krushevo Republic, Nikola Karev. Monument is constructed on the border between municipalities Cusinovo – Oblesevo, Kochani and Probistip, in a triangle flanked by villages Banya, Spanchevo, and Rajchani. Here is the spot where the death of first president of Krushevo Republic happened on 27 of April 1905.
6. Ilinden sporting games Cusinovo. It is a football tournament. It lasts one month and the finale is always on Second of August, on Ilinden. Recent two years chess is also introduced as a discipline.
7. Festivity of the Municipality Cusinovo-Oblesevo, 21st September. This is the first day and the onset of the rice harvesting season. It is a long tradition on this day of celebrating orthodox Saint Mary with the liturgy to pray for abundant crop.
8. Cusinovo-Oblesevo, European stork's village, 2013. The onset of this annual event was on 6th May 2013, when the Municipality [Češinovo-Obleševo](#) was given a status of a European Stork Village of white storks by the German EuroNatur. It is a network of similar communities participating in the programs for saving and protecting local stork population. According to the Macedonian Ecological Association, Municipality Cusinovo - Oblesevo has one of the largest stork populations with over 70 nests in Macedonia. Cusinovo is well-known by the largest and oldest nests in Macedonia. The climate, the surrounding rise fields hosting plenty of amphibian bird food and local citizens taking caring for storks enabling breeding are all propitious conditions for stork breeding. First week of May the Municipality is organizing a Festival celebrating coming back of stork. Folk and pop dance, small plays and traditional food are on the program. This event furthermore, is accompanied with the photography contest. Next year the Municipality will host the annual celebration of the EU association of stork villages.
9. Stork observatories. Two observatories were constructed by wood are recently built near Banya in village Ularci and park in village Cusinovo. It was part of the Project 'Wet roads and pastures' in collaboration of the Municipality with the German foundation EuroNatur.
10. With its position in the lowlands of the Breglanica River, the large rice fields are hosting a wide range of amphibians which the parent birds feed to their young. Around 166 stork chicks were bred in 2017. This community offers rich feeding grounds to the White Stork



as well as various herons. In Cesinovo there is the largest nest in Macedonia and it dates back in 1973.

11. Hunting on several areas: For the guests who are passionate for hunting experiences there are several hunting areas nearby Banya. In Skolarci and Polaki there are deer and wild boars. Sokolarci has a hunting productive area in 7.270 ha. Fox, wolf, hawk are the species without protection there. Under protection in Sokolarci are: wild rabbit and partridge. Near the River Bregalnitsa, one km from village Ciflik, there is peasantry on the area of 2000 m².
12. Celebrating vineyards and inns. Close to village Kucicino Saint Tryfon, is celebrated as a 'keeper of the vineyards and inns, and also of marital love and fidelity'³¹. St. Tryphon is being celebrated in the Orthodox world for centuries. It is a tradition on 14th of February on the St. Tryphon Festival to celebrate the onset of vineyard works and pruning grape vines.
13. Stip: eclectic experience – from historical sites to shopping. Stip is the largest city in Eastern Macedonia region. The tourist experience is diverse – it goes from the historic attractions to shopping in Stip, known also as the center of the textile in Macedonia. The ruins of the ancient Roman town of Astibo are located within a kilometer of the city center. Ruins of the Isar Fortress and the 14th-century St. Archangel Michael Church are on a hilltop close to the city center. Stip historic sites include magnificent mid-14th-century Holy Savior Church on the Otinja River. The mid-19th-century St. Bogorodica Basilica is popular for its impressive wood carvings and beautiful frescoes. The 16th-century Bezisten, old Turkish bazaar, is used as an art gallery. Other attractions in Stip include the Clock Tower, Husa Medin-Pasha Mosque, and the National Museum.
14. Ski on Ponikva. Osogovo Mountain, with its Ponikva center offers ski on couple of ski-lifts. It is approximately 30 kilometers from Banya.
15. Lake experience, Gradce. The man-made lake and reservoir is situated amongst the stunning mountains, on the foothills of the Osogovo Mountain. The zoo with (baby) deers is situated in the garden of the Hotel spreading downhill to terrain alongside the lake.
16. Fishing. Lake experience – Gradce
17. Osogovo Adventures. Over 200 participants in the hiking and mountain bicycle festival. There are two paths : one 48 km and the other 38 km. There is national and international participation.

Description of the Location in Village Banya

The Municipality Cesinovo-Oblesevo has prepared ToR for preparation of a technical documentation for reconstruction, adaptation and construction of a spa center in the village Banya in 2017. This project proposal describes specific of the municipality and the investment location.

Village of Banya is situated at the foot of the Osogovo Mountains. In the middle of the village there is a geo-thermal spring. The name of the village is generated by the water spring. There is an asphalt road to the village. From the municipality building Banya village is on distance of about 3 km away.

³¹ www.Macedoniacuisine.com

The distance from Kochani is 6 kilometers and from Skopje the distance is 120 kilometers. The distance from Stip is 24 kilometers. The border crossing with the Republic of Bulgaria is about 70 km away from the village. With the sports and recreation center Ponikva the same is connected with a local road of 7 kilometers. The village counts 469 inhabitants (Census in 2002). It is located at an altitude of 370 meters. The surface of the dent is 10.4 km². In the area of the village there are many archaeological excavations from ancient times. The village is characterized by authentic village vernacular architecture from Macedonian East Region . The spa in the village dates back to centuries ago. According to some legends it has existed since the Roman times. By the end of the 1980s, the spa was one of the well-known natural spa centers in Macedonia. Reportedly, there were visitors from Serbia, especially, sportspersons in period of rehabilitation after sport injuries.

Existing building was built in 1970. It is closed for operation since 1990s. It is ruined, and the inventory is completely destroyed³². Still, the large but old neglected building testifies that the village of Banja was one of the most famous rural tourism centers in the country, with a source of thermal water whose temperature reached up to 82 ° C.

One of the selected projects for the UNDP's "Innovative Solutions for Improved Access to Services at Local Level", is to assist the Municipality of Ceshinovo-Oblesevo in project assessment and development of the priority rural tourism infrastructure in village Banya. The project scope is construction and reconstruction of the Spa and Wellness centers in village Banya that are in line with the priorities identified in the Program for Development of the East Planning Region and the Strategy for Local Economic Development for the Municipality of Ceshinovo-Obleshevo.

The springs in the village of Banya are characterized by specific hydrological, chemical-mineralogical and thermal properties, as well as by the capacity of the well water. The capacity of the water from the wells is 40 l / s with a temperature of 63 ° C, with a great potential for development of spa and wellness center in the region. The existing spa building was built in 1970, but it is not operational, and the inventory is completely destroyed. Next to the existing Spa building, there are hotel and restaurant buildings, which are completely ruined and need to be demolished and (re)constructed.

Nearby the existing Spa center, the Municipality plans to develop a Youth Aqua and Wellness Resort on the land owned by the municipally.

We have developed concept solutions for both projects: three for the Spa and Wellness project and two concepts for Youth Aqua and Wellness Resort. The concepts are elaborated further down in this report.

Legal status of the land and some legal issues

The main parcel of land in the location of Banya was used by the Ministry of Health and the Municipality of Ceshinovo- Oblesevo had a legal process in order to get the right of use to it. Such a Decision was made by the Government just recently it was published in the Official Gazette of the

³² Please see Annex: Findings of the Engineering Team from the Initial Engineering Evaluation

Republic of Macedonia No. 94/22 May 2018. The Decision states that the immovable asset-building,, with the dimension of 729 m2 on ground floor, located on the street M. Tito, No. 1 in the village Banya, Property List No. 1063, Cadastre Parcel No 2796, part 1, which is owned by the Republic of Macedonia is transferred to the Municipality Cusinovo – Oblesevo for long-term use, with no fee for the use.

A previous decision of the Government, published in the Official Gazette of the Republic of Macedonia No. 40/ 2018, determines the excess of non-exploited quantities of mineral resource – geo-thermal water from the exploitation wells on the locality D.Podlog – Banya, Municipality Kocani and Municipality Cusinovo-Oblesevo. The excess of non-exploited quantities from the Decision for Concession of the Water to the Public Utility Company Water Supply from Kocani is determined to 77,2% of the maximum exploited capacity of 377 l/s. This Concession was granted to the Public Utility Company Water Supply in 2006. This Decision directs to the large exploitive capacity of the wells, which should be more than sufficient for the spa and for the existing Concession to the Public Utility Company Water Supply.

Natural Resources of the Village Banya

Geothermal water springs in village Banya are characterized with specific hydrological, chemical, thermal attributes. The capacity of the water is around 40l/s and temperature of 63°C. Initially this gives the advantage to the spa and wellness center project. According to the measurements during all seasons there is no variation in temperature which means that there is no influence, contact with atmospheric waters.

According to the chemical composition water belongs to the low mineralized thermal group of waters. Hydrogen carbonates are predominant in its composition, with low alkalinity. Sodium, potassium, calcium, magnesium, chloride, silicon, aluminum, iron, cuprum are as per the water analysis (see the table). Additionally, there are rare minerals in its composition as lithium, zinc, and rubidium.

The water was analyzed by the Technical University in Munich, Research Center Weiherstephan for Food Quality (please see the topics below) and Environment, which was granted by GIZ RED33 in 2006.

The mild moderate-continental climate with average annual temperature of + 15°C, richness with hyper thermal springs, high water temperature, vast and varied forests and clean air accompanies the conditions for treatment with natural factors.

³³ GIZ – RED Deutsche Gesellschaft für Internationale Zusammenarbeit, Regional and Local Economic Development (RED) in 2006

Analysis of the Geothermal Water

There was an analysis of the water conducted by D-r Ing. Klaus Litzenburger, from the Technical University in Munich, Research Center Weihestephane in 2006. A more in-depth analysis is planned to be conducted in partnership with the Foundation Economics and Law from Blagoevgrad, Bulgaria, through a cross-border cooperation with R. Bulgaria – IPA Interreg. The project with the total budget of EUR 51.804,00 will be a Study for examination of the qualities of the water in the Spa Center.

The first analysis has demonstrated the following features of the water:

Table 21: Analysis of the water from the Technical University in Munich, Research Center Weihestephane in 2006

Parameter	Unit	Value	Method
Chloride	mg/l	19,5	DIN EN ISO10304-1
Bromide	mg/l	0,08	DIN EN ISO10304-1
Nitrite	mg/l	<0,05	DIN EN ISO10304-1
Nitrate	mg/l	<0,01	DIN EN ISO10304-1
Hydrogen phosphate	mg/l	<0,1	DIN EN ISO10304-1
Sulphate	mg/l	83,9	DIN EN ISO10304-1
Fluoride	mg/l	1	DIN EN ISO10304-1
Hydrogen carbonate	mg/l	573	MEBAK I1.1.10
Calcium	mg/l	52,4	EN ISO 11885 E22
Magnesium	mg/l	13,5	EN ISO 11885 E22
m-value	mmg/l	9,4	MEBAK I1.1.11
Total hardness	°d	26,3	MEBAK I1.1.10
Calcium hardness	°d	7,3	EN ISO 11885 E22
Magnesium hardness	°d	3,1	EN ISO 11885 E22
Carbonate hardness	°d	26,3	MEBAK I1.1.10
Non carbonate hardness	°d	<0,1	MEBAK I1.1.10
Steady alkalinity	°d	23,8	MEBAK I1.2.1
Sodium	mg/l	158	EN ISO 11885 E22
Potassium	mg/l	12,4	EN ISO 11885 E23
Ferrum	mg/l	0,32	EN ISO 11885 E24
Cuprum	mg/l	<0,01	EN ISO 11885 E25
Zink	mg/l	0,01	EN ISO 11885 E26
Manganese	mg/l	0,04	EN ISO 11885 E27
Aluminum	mg/l	0,01	EN ISO 11885 E28
Silicium	mg/l	23,5	EN ISO 11885 E29
Lithium	mg/l	0,3	EN ISO 11885 E30

Source: UNDP Project “Innovative Solutions for Improved Access to Services at Local Level”

Health Benefits of the Water

The health benefits of the water and practice of use as traditional natural therapeutic site is evidenced in most of the strategic documents of Municipality, the region and on the national level. Still, more in-depth analysis is going to be performed in partnership with the Foundation Economics

and Law from Blagoevgrad, Bulgaria, through cross-border cooperation with R. Bulgaria – IPA Interreg.

The water in the spa center in the village of Banja is known to be suitable for treating the following medical conditions: musculoskeletal diseases; degenerative changes of joints and spine; osteoporosis; minor impairments of the central nervous system; diseases of the bile ducts and gall bladder; gynecological diseases; skin diseases, eczema, urticaria; hormonal imbalances; upper and low respiratory tract diseases including bronchial asthma.

Table 22: Medicinal effects of the Banja spa thermal water and the age range of potential guests

Medical conditions	Age	Man	Woman
Stomach Ulcer	30+	✓	✓
Gall-bladder diseases	40+	✓	✓
Musculoskeletal Disorders	40+	✓	✓
Trauma orthopedic & sport injuries	10+	✓	✓
Gynecological disorders	20+		✓
Neuralgic diseases	30+	✓	✓
Respiratory system diseases	5+	✓	✓

Current Condition of the Site

The Medical Center in Kocani was a beneficiary and was managing the spa center in Banya until mid-1990s. After the process of privatization, due to the problems with the ownership Medical Center transferred the therapeutic, physical medicine and rehabilitation unit in Kocani. Than the spa center terminated its operation. Ever since there were few attempts for reactivation the spa operation, still without any success.

Since May 2018 the long lasting problem with the ownership was resolved and Municipality Cusinovo Oblesevo is the only owner. Previously, there were problems by dual ownership between Municipality and the Government of the Republic of Macedonia. Also, several unfruitful initiatives to sectoral institutions were executed for restarting the spa operation. The Government of Republic of Macedonia approved performance of technical documentation for spa reconstruction.

Main condition as documented at our visit

The main elements of the site in village Banya were documented at our visit of the location.

Figure 12: A view on the location of thermal spa and hotel center in village Banya



1. Site Review

After the visit of the site and first review on the area where project work is proposed, the preliminary notes were taken for all locations and existing buildings that are subject of the projects. All cadastral plots were visited, the buildings were inspected and measured and photo documentation is prepared.

Figure 13: Aerial picture of the site



1. Medical spa center
2. Restaurant
3. Rooms for stationary treatment
4. Hotel
5. Technical rooms
6. Youth center

Source: UNDP, ToR

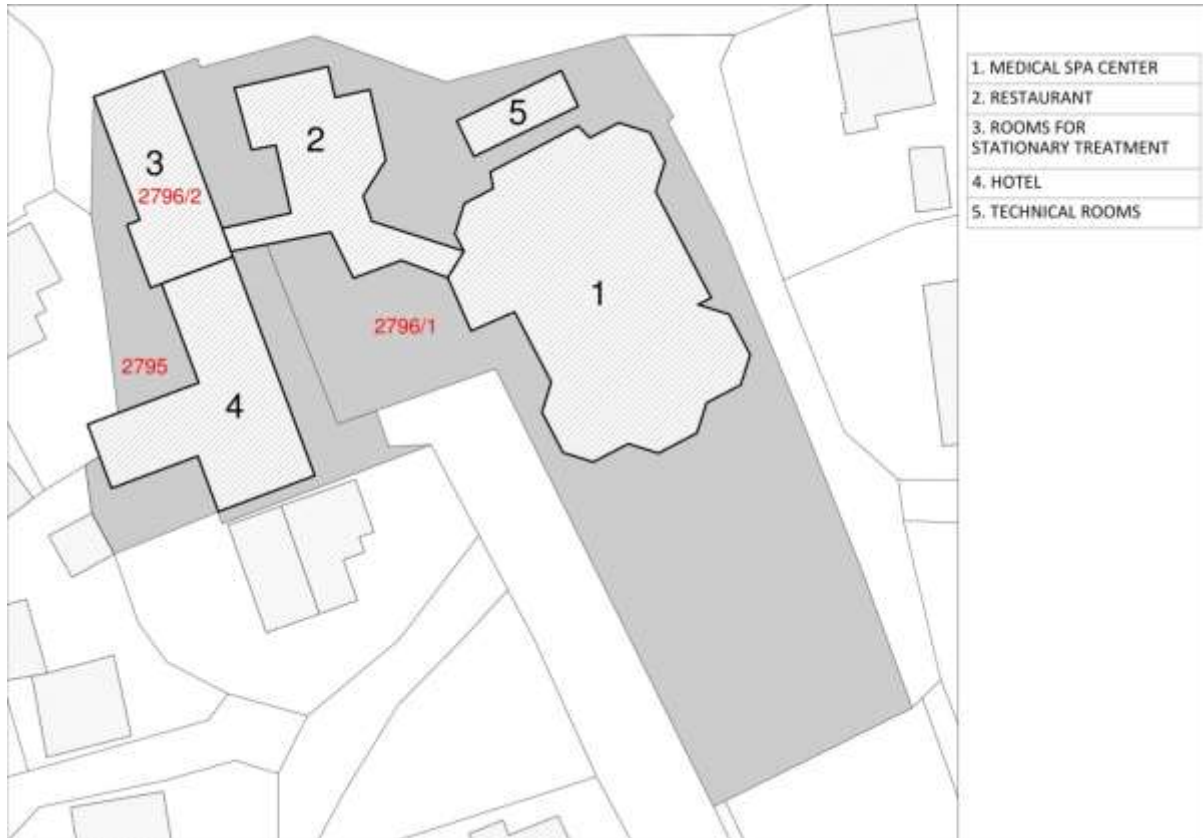
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The location occupies several cadastral plots that should be connected in two separate groups of buildings with different function.

The main facility is future Spa & Wellness center with an accommodation facility for guests that have cadastral plots No. 2796/1, 2796/2 and 2795 that are defining one building area of 3674m².

The future Youth Center will be positioned on cadastral plot No. 2858/1 and 2858/2 occupying approximately 1050m².

Figure 14: Architectural site plan Task 1



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Medical spa center

Figure 15: Architectural site plan for Medical Spa Center

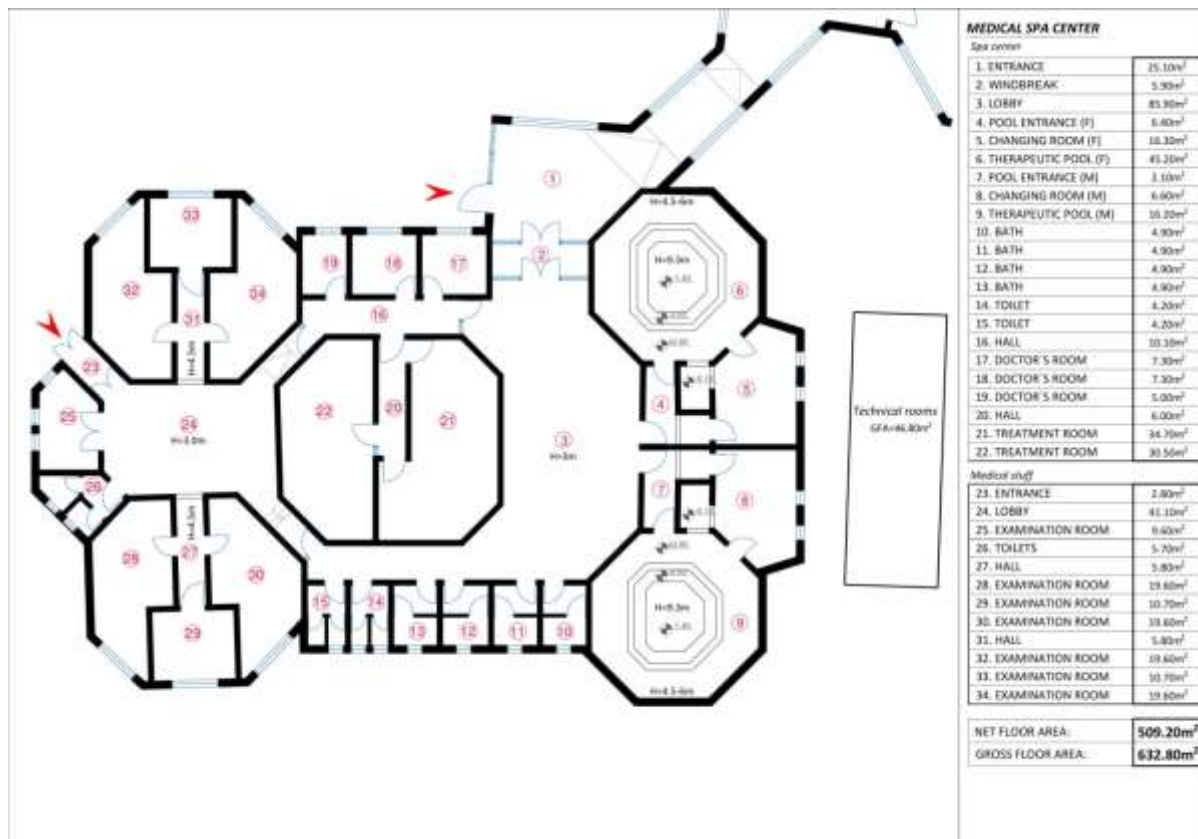


Table 23: Assessment of the current status of the Medical Spa Center

MEDICAL SPA CENTER		Condition of existing structure		
		Good	Medium	Bad
WALLS		✓		
CONSTRUCTION		✓		
WINDOWS/ DOORS				✓
FLOOR			✓	
CELLING			✓	
ROOF				✓
PLUMBING INSTALLATION				✓
ELECTRICAL INSTALLATION				✓
MECHANICAL INSTALLATION				✓

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The main building is medical therapeutic center that that was used only for medical purposes. In general, it is well organized from functional aspect, interesting and aesthetic architecture and consists therapeutic pools, treatment and therapy rooms, as well as staff and doctor`s rooms with gross floor area of 633 m². After analyzing the actual state of this building, our notes are that the structure and walls of the building are in good condition, but all other materials are completely ruined. Windows and doors are useless and very old, floors and ceilings have lot of damages and installations are out of order.

The actual condition of the building is presented on the photos as follows:

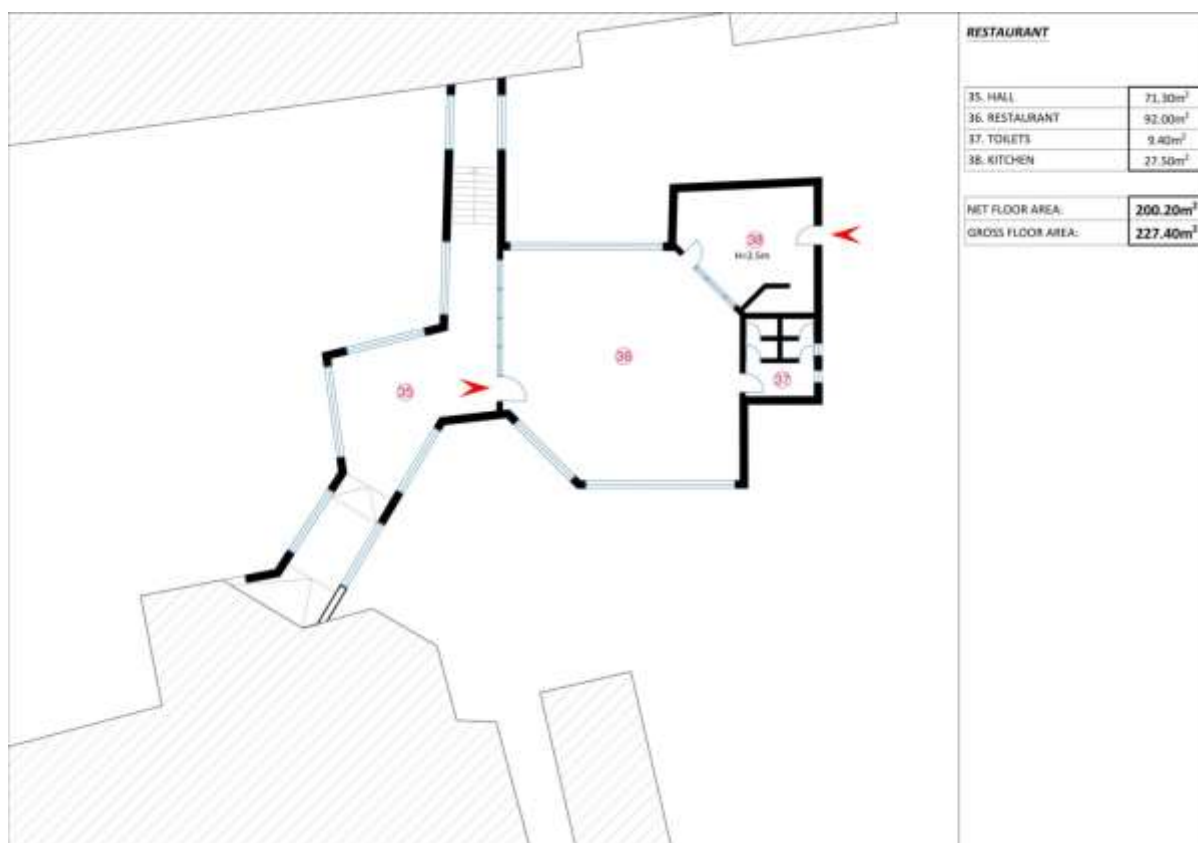
Picture 1: Set of pictures of the Medical Spa Center now





Restaurant

Figure 16: Architectural site plan for the Restaurant (current condition)



The Restaurant has gross area of 228m² and it consists of kitchen, small storage, dining room and toilets. This building is connected with the Medical center and accommodation facility with a long, covered corridor. The building was constructed in the same period as Medical Centre.

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Table 24: Review of the current situation of the restaurant

RESTAURANT		Condition of existing structure		
		Good	Medium	Bad
WALLS		√		
CONSTRUCTION		√		
WINDOWS/ DOORS				√
FLOOR			√	
CELLING			√	
ROOF				√
PLUMBING INSTALLATION				√
ELECTRICAL INSTALLATION				√
MECHANICAL INSTALLATION				√

Our analysis shows that the construction and walls are in good condition, but doors and windows, like those at medical spa center, are in useless. Furthermore, there are visible damages on floors and ceilings and installations are useless.

The actual condition of the building is presented on the photos as follows:

Picture 2: Set of pictures illustrating current condition of the building restaurant



Rooms for stationary treatment

Figure 17: Architectural site plan of the rooms for stationary treatment

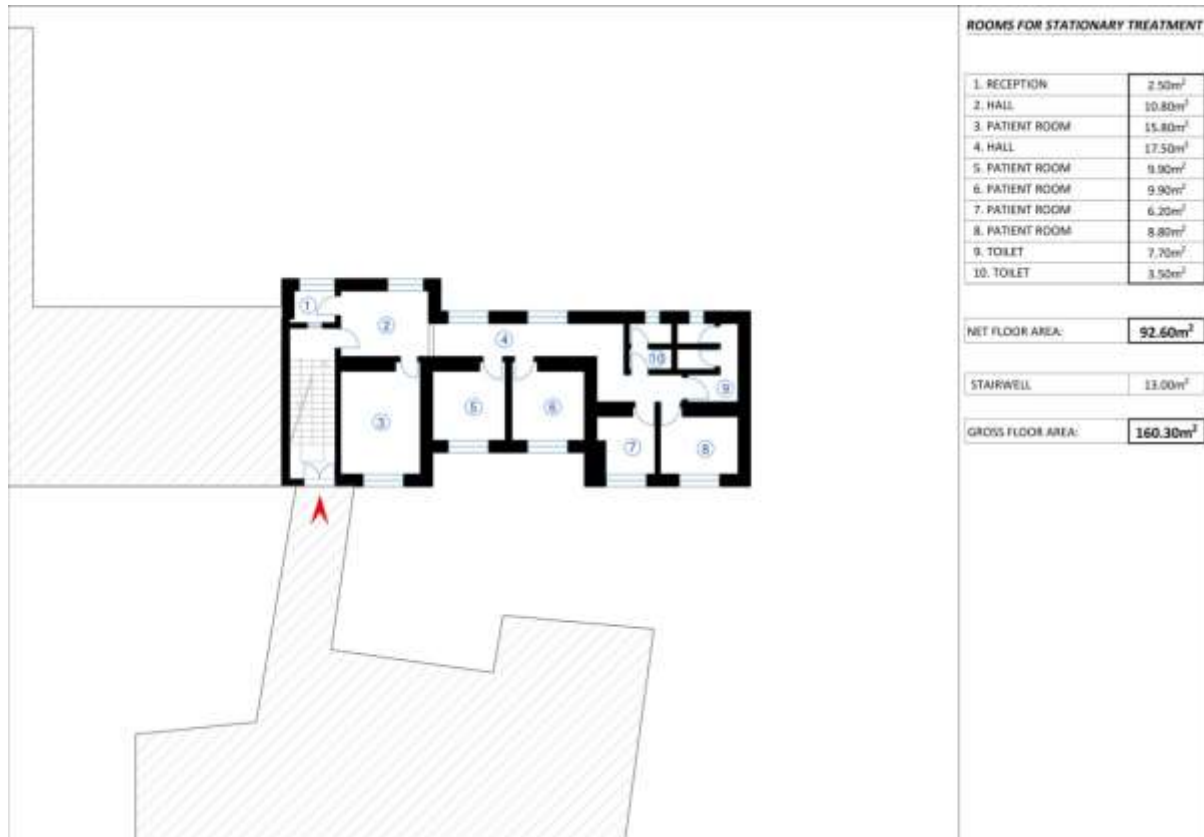


Table 25: Review of the current condition for the rooms for stationary treatment

ROOMS FOR STATIONARY TREATMENT		Condition of existing structure		
		Good	Medium	Bad
WALLS			√	
CONSTRUCTION		√		
WINDOWS/ DOORS				√
FLOOR			√	
CELLING			√	
ROOF				√
PLUMBING INSTALLATION				√
ELECTRICAL INSTALLATION				√
MECHANICAL INSTALLATION				√

This building occupies approximately 160 m². It is a very old building, completely dysfunctional for accommodation of the patients. The main issue is that the construction is pretty massive and it is impossible to redesign the floor plans. The rooms are very small, some of them, less than 8m² and with very low accommodation standard. The structure of the building is solid brick with concrete slabs above.

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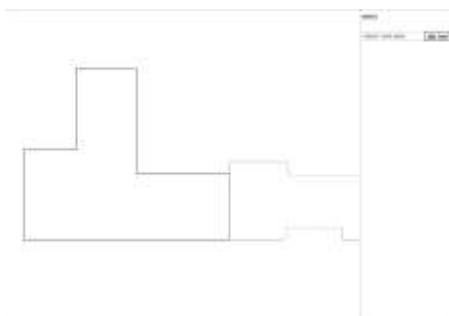
The actual condition of the building is presented on the photos as follows:

Picture 3: Set of photos for the building rooms for stationary treatment



Hotel

Figure 18: Architectural site plan for the hotel (current condition)



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Table 26: Review of the current condition for the hotel

HOTEL		Condition of existing structure		
		Good	Medium	Bad
WALLS				√
CONSTRUCTION				√
WINDOWS/ DOORS				√
FLOOR				√
CELLING				√
ROOF				√
PLUMBING INSTALLATION				√
ELECTRICAL INSTALLATION				√
MECHANICAL INSTALLATION				√

The space which was previously used as a hotel has gross area of nearly 281m². This building is in phase of demolition and it was impossible to be inspected. Some walls are already destroyed; the wooden slabs are ruined, as well as, the wooden roof structure.

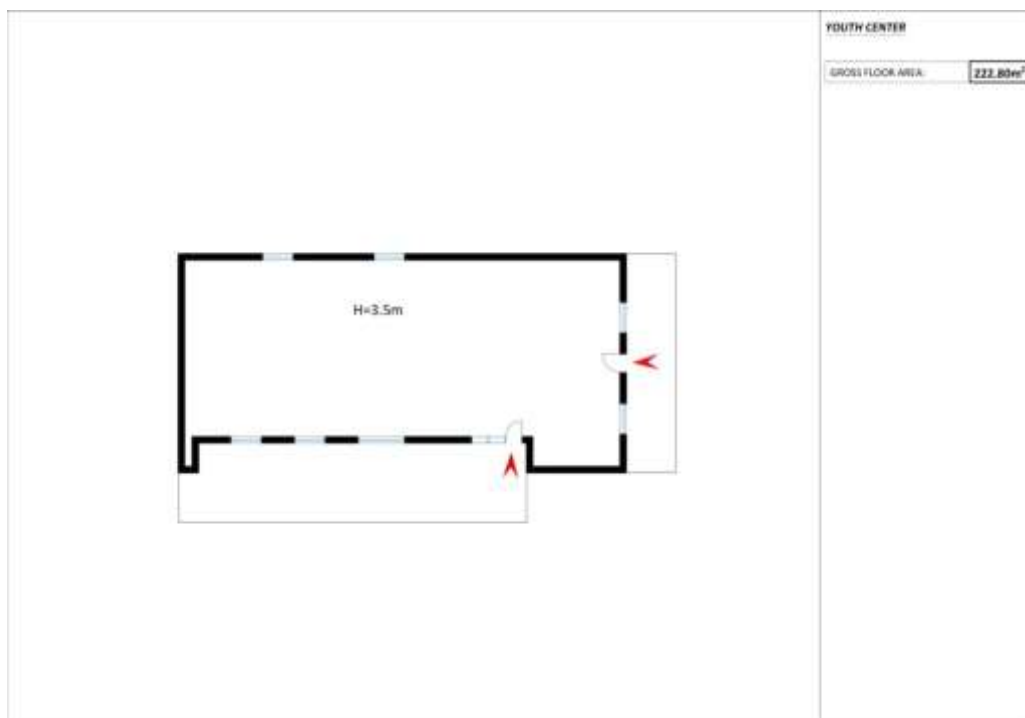
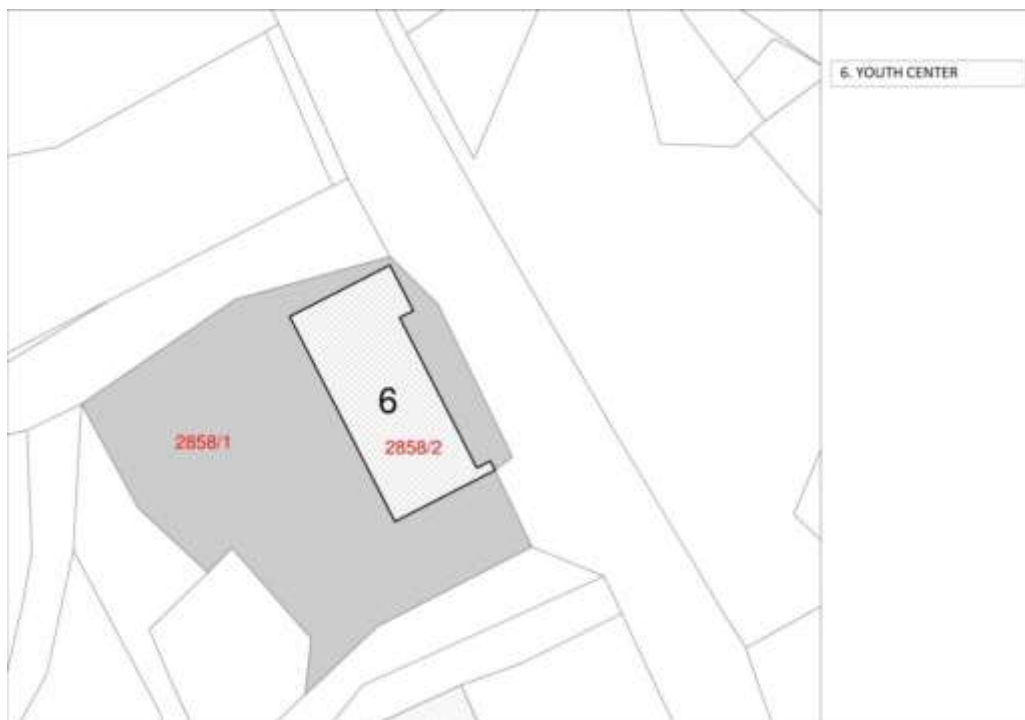
The actual condition of the building is presented on the photos as follows:

Picture 4: Set of pictures presenting current condition of the building hotel



Youth center

Figure 19: Architectural site plan for the youth center



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Table 27: Review of the current condition for Youth center

YOUTH CENTER		Condition of existing structure		
		Good	Medium	Bad
WALLS			√	
CONSTRUCTION			√	
WINDOWS/ DOORS				√
FLOOR			√	
CELLING			√	
ROOF				√
PLUMBING INSTALLATION				√
ELECTRICAL INSTALLATION				√
MECHANICAL INSTALLATION				√

The youth center has gross area of approximately 223 m². This is a very old building with massive, solid brick walls, wooden roof structure and demolished installations. The roof, doors and windows are in bad condition.

The actual condition of the building is presented on the photos as follows:

Picture 5: Set of pictures of Youth center



Concept Solution I: “Traditional Solution”

The main philosophy behind this concept is that the center will be reconstructed with the least possible costs. The main target customers will be the medical customers, mainly financed by the Fund for Health Insurance.

This concept comprises the following:

- Demolition of the hotel and the stationary rooms
- Construction of a hotel, 3 stars, with 20 double rooms or 40 guests
- Construction of the stationary rooms
- Reconstruction of the spa
- Reconstruction of the restaurant.

After the site survey, respecting the notes and state of all inspected buildings and the issue of the project, the technical proposal for reconstruction of each building, separately, is as follows:

1. Medical and Spa Center

The reconstruction of the building is possible. The structure of the building will be respected, as well as the architectural concept. It is necessary to change all installations, electric, plumbing, drainage and HVAC. Ceramic tiles, hydro insulation, new mortar on the walls, painting, new doors and windows should be previewed. New roof covering, thermo-efficient facade covering, rain drainage system are needed. All these activities will be allocated as positions in the detail project for reconstruction of the building.

The goal is to provide standard and comfort conditions for the user of the medical therapy after the reactivation of the Centre.

The estimated costs for this rehabilitation, according the gross surface of approximately 630m² of the building area are previewed as follows:

civil works	630	x	260 euro/m ²	163.800 euro
electric installation	630	x	60 euro/m ²	37.800 euro
plumbing and drainage	630	x	50 euro/m ²	31.500 euro
HVAC	630	x	130 euro/m ²	81.900 euro
=====				
Rehabilitation works	(500 euro/m ²)		total	315.000 euro
Basic equipment for the building	(60 euro/m ²)		total	37.800 euro
Medical equipment				approx. 120.000 euro
=====				
Grand total:				472.800 euro

This budget should cover all rehabilitation activities, basic furniture and medical equipment.

2. Restaurant

The reconstruction of the restaurant building can be accepted. The structure of the building is correct, as well as the architectural concept. It is necessary to change all installations, electric, plumbing, drainage and HVAC. Ceramic tiles, hydro insulation, new mortar on the walls, painting, new doors and windows should be previewed. New roof covering, thermos-efficient facade covering, rain drainage system are needed. All these activities will be allocated as positions in the detail project for reconstruction of the building.

The area of the kitchen and the restaurant can service the actual capacity of the guests accommodated in the existing design of the hotels. The connecting corridor participates in the total area of the building.

The estimated costs for this rehabilitation, according the gross surface of approximately 230m² of the building area are previewed as follows:

civil works	230	x	260 euro/m2	59.800 euro
electric installation	230	x	60 euro/m2	13.800 euro
plumbing and drainage	230	x	50 euro/m2	11.500 euro
HVAC	230	x	100 euro/m2	23.000 euro
=====				
Rehabilitation works	(470 euro/m2)			total 108.100 euro
Basic equipment for the restaurant	(60 euro/m2)			total 13.800 euro
Kitchen equipment				approx. 55.000 euro
=====				
Grand total:				176.900 euro

This budget should cover all rehabilitation activities, basic furniture and kitchen equipment.

3. Rooms for stationary treatment

This building occupies approximately 160 m². It is a very old building, completely dysfunctional for accommodation of the patients. Rehabilitation method is useless according the existing design of the building and actual structure.

The consultant's proposal is complete demolition of the building.

The estimated costs for the demolition of the building involve disassembling of the roof part, demolition of two floors of the building and cleaning the yard from existing foundations.

demolition works of the roof part	160	x	40 euro/m2	6.400 euro
demolition of the floors	320	x	80 euro/m2	25.600 euro
cleaning the foundations	160	x	40 euro/m2	6.400 euro
evacuation of the material				5.000 euro
=====				
Total:				43.400 euro

The reconstruction of the building is not acceptable because the existing one design doesn't provide normal accommodation of the guests. Complete demolition is proposal as most efficient way that will provide designing of completely new accommodation facility.

4. Hotel

This building of the hotel occupies approximately 280 m² per floor, 560m² in total. It is a very old building in phase of self-demolition. It is obligate to be completely demolished.

The estimated costs for the demolition of the building involve disassembling of the roof part, demolition of two floors of the building and cleaning the yard from existing foundations.

demolition works of the roof part	280	x	20 euro/m ²	5.600 euro
demolition of the floors	560	x	50 euro/m ²	28.000 euro
cleaning the foundations	280	x	20 euro/m ²	5.600 euro
evacuation of the material				10.000 euro
=====				
Total:				49.200 euro

The reconstruction of the building is not acceptable because existing design doesn't provide normal accommodation of the guests. Complete demolition is proposal as most efficient way that will provide designing of completely new accommodation facility.

New Accommodation Facility

HOTEL (buildings 3 & 4)

After the demolition of the existing accommodation and room facilities and cleaning of the location, a new building for the hotel is proposed. It will be stationary part of the future medical and wellness center.

According the old urban design, the new hotel should occupy the marks as existing ones. On the location with cadastral numbers 2796/2 and 2795 in total area of 852m², new building will use gross building area of 435m² on the ground floor. It means that almost 51% of the location will cover the ground floor of the new hotel. Other part of the location will be relaxing area with landscaping yard, pathways for access in the new hotel and medical center. All three buildings, the existing medical center, the restaurant and new hotel should provide capacity of 40 accommodate guests.

It is designed as three level building.

The basement of 435m² gross area will provide at least 340m² for some maintenance, technical rooms, laundry, ironing room, heating, plumbing, electric rooms etc. This floor can also accept small saunas, massage rooms, Turkish bath and other practicing rooms that will transform the medical concept in small relaxing and wellness center.

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The first floor will take 435m² gross area, that means 340m² net surface for 9 double rooms and lobby with an entrance and relaxing area.

The second floor provides 11 rooms laid on 400m² net surface. In total, 40 persons could be accommodated in this hotel.

The hotel will be 740m² net surface for guests, not calculating the basement. It means, at least 18.5m² per person that is very low accommodation standard in three star hotel.

The good point in this concept is that external guest can also use the medical center, as well as the restaurant.

The estimated costs for the building the new hotel are as follows:

A/ Basement

A.1	Civil works (foundations, structure, roof, floors, joinery, ceramic, doors etc.)	435	x	200 euro/m ²	87.000 euro
	electric installation	435	x	60 euro/m ²	26.100 euro
	plumbing and drainage	435	x	50 euro/m ²	21.750 euro
	HVAC	435	x	110 euro/m ²	47.850 euro
=====					
Total:					182.700 euro
Basement building average fees: 182.700 / 435m ² = 420 euro/m ²					

A.2	Hotel equipment for sauna, massage, bath etc.	34.800 euro
Basement equipment average fees: 34.800 / 435m ² = 80 euro/m ²		

B/ Ground floor + first floor

B.1	Civil works (structure, floors, joinery, ceramic, roof, facade, toilets, doors etc.)	943	x	390 euro/m ²	367.770 euro
	electric installation	943	x	70 euro/m ²	66.010 euro
	plumbing and drainage	943	x	70 euro/m ²	66.010 euro
	HVAC	943	x	120 euro/m ²	113.160 euro
=====					
Total:					612.950 euro
Ground floor + first floor building average fees: 612.950 / 943m ² = 650 euro/m ²					

B.2	Hotel equipment for lobby, rooms etc.	113.160 euro
Grand floor + first floor average fees: 113.160 / 943m ² = 120 euro/m ²		

A/ Medical and Spa Center

First concept uses three cadastral plots, 2796/1, 2796/2 and 2795 with 3.674m² in total. Respecting the existing buildings for the medical center and restaurant, as well as existing old urban plan, new

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accommodation buildings are designed on the same regulation borders as existing ones that are marked for complete demolition. In total, the building area will occupies. as follows:

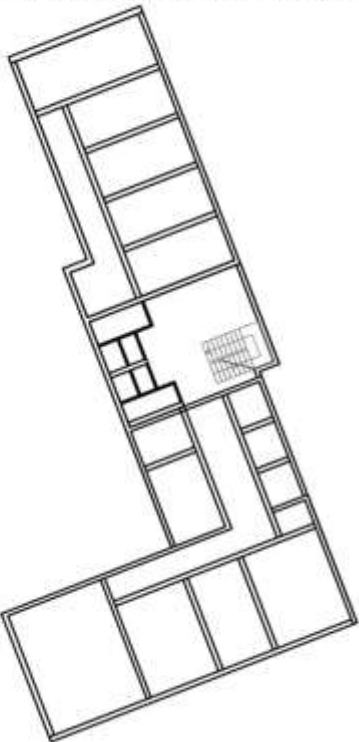
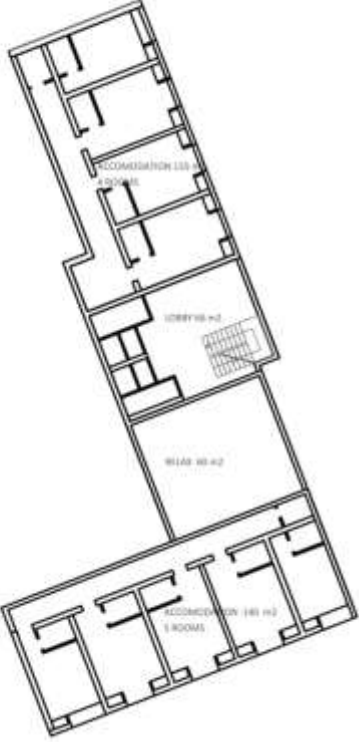
1. Medical center	630 m2
2. Restaurant	230 m2
3. Hotel	435 m2
=====	
=====	
TOTAL	1.295 m2

This area of 1295m2 compared with total location surface of 3674m2 means less than 36% of location occupancy that is quite a good percent. The rest of the location will be relax zone, park, landscaped yard, pathways, and additional relaxing areas as bars, parks, terraces of the restaurant.

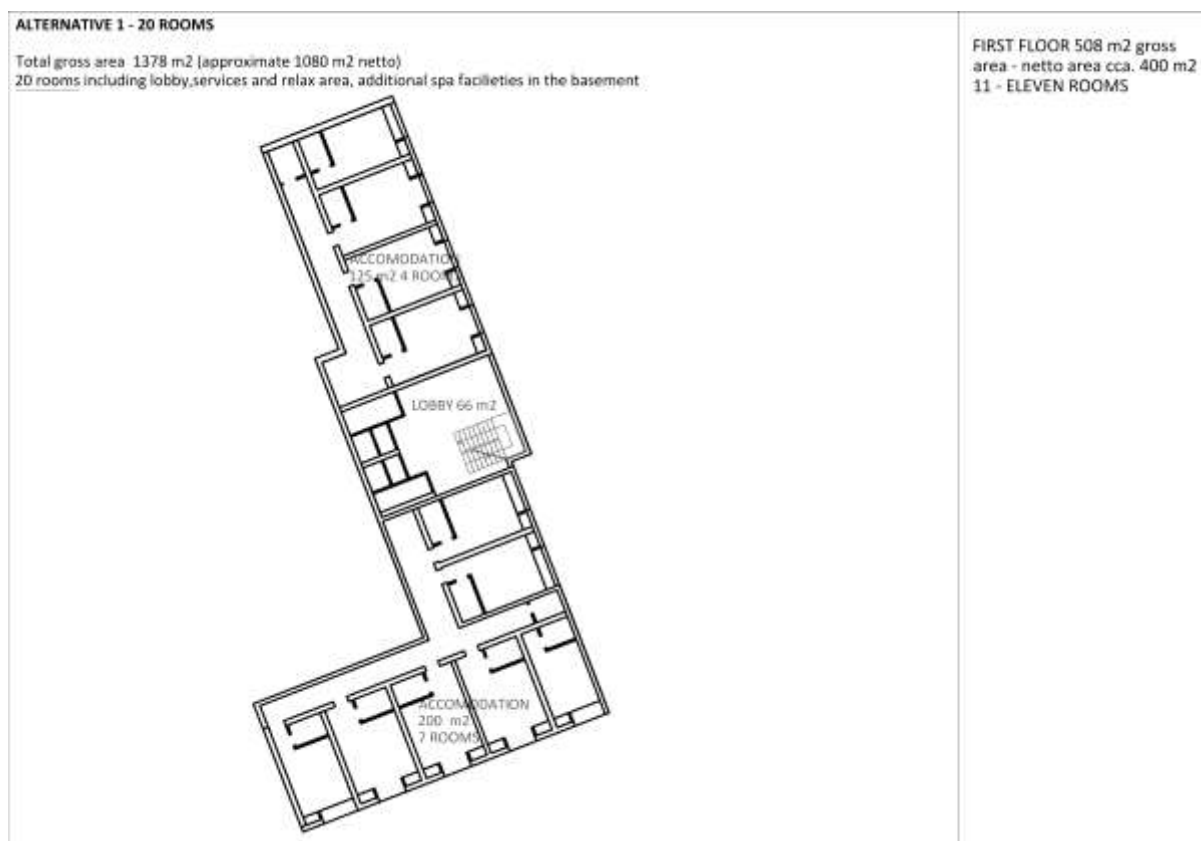
This concept will keep the existing buildings for medical center and restaurant with their complete rehabilitation as presented and estimated before. The accommodation facility means completely new hotel on three levels (basement and two levels with rooms for 40 guests)



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<p>ALTERNATIVE 1 - 20 ROOMS</p> <p>Total gross area 1378 m² (approximate 1080 m² netto) 20 rooms including lobby, services and relax area, additional spa facilities in the basement</p> 	<p>BASEMENT 435 m² gross area netto area cca. 340 m² sauna, massage, baths and service facilities (laundry, ironing, storages, technic rooms)</p>
<p>ALTERNATIVE 1 - 20 ROOMS</p> <p>Total gross area 1378 m² (approximate 1080 m² netto) 20 rooms including lobby, services and relax area, additional spa facilities in the basement</p> 	<p>GROUND FLOOR 435 m² gross area netto area cca. 340 m² 9 - NINE ROOMS</p>

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The figures are inserted in the table below.

MEDICAL & SPA CENTER				
CADASTRAL PLOTS	No	2796/1	2822	
	No	2796/2	166	
	No	2795	686	
Total location surface		m2	3674	
Total occupied surface		m2	1295	
		gross area	price/m2	
ESTIMATED COSTS:				
A	MEDICAL CENTER - COMPLETE RECONSTRUCTION	m2	630	
	civil works		630	260 163800
	electric installation		630	60 37800
	plumbing & drainage		630	50 31500
	HVAC		630	130 81900

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MEDICAL CENTER - COMPLETE RECONSTRUCTION				315000
Basic equipment				37800
Medical equipment				120000
MEDICAL CENTER				TOTAL 472800
B	RESTAURANT	m2	230	
	civil works		230	260 59800
	electric installation		230	60 13800
	plumbing & drainage		230	50 11500
	HVAC		230	100 23000
MEDICAL CENTER - COMPLETE RECONSTRUCTION				108100
Basic equipment for restaurant				13800
Kitchen equipment				55000
MEDICAL CENTER				TOTAL 176900
C	ROOM FOR STATIONERY TREATMENT - Demolition	m2	320	
	demolition works of the roof part		160	40 6400
	demolition of the floors		320	80 25600
	cleaning the foundations		160	40 6400
	evacuation of the material		1	5000 5000
MEDICAL CENTER - COMPLETE RECONSTRUCTION				43400
MEDICAL CENTER				TOTAL 43400
D	HOTEL - Demolition	m2	560	
	demolition works of the roof part		280	20 5600
	demolition of the floors		560	50 28000
	cleaning the foundations		280	20 5600
	evacuation of the material		1	10000 10000
MEDICAL CENTER - COMPLETE RECONSTRUCTION				49200
MEDICAL CENTER				TOTAL 49200
E.1	NEW HOTEL - BASEMENT	m2	435	
	civil works		435	200 87000
	electric installation		435	60 26100
	plumbing & drainage		435	50 21750
	HVAC		435	110 47850

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HOTEL - NEW BUILDING					182700
Basic equipment					37800
E.2	NEW HOTEL - STATIONERY-ACCOMODATION for 40 guests	m2	943		
	civil works		943	390	367770
	electric installation		943	70	66010
	plumbing & drainage		943	70	66010
	HVAC		943	120	113160
HOTEL - NEW BUILDING					612950
Basic equipment					113160
TOTAL					946610
F	LANDSCAPEING on total area of 3674m2 - 1295m2				
	Total are for rehabilitation and landscaping	m2	2379	10	23790
	Fence, pathways and basic infrastructure	m2	2379	35	83265
TOTAL					107055
TOTAL COSTS for CONCEPT 1 - Medical & SPA:					euro 1795965

The category of investment is as follows:

Preparation works	92.600
Renovation	530155
Building works	795650
New equipment	377560
=====	
TOTAL:	1.795.965,- euro

Tourist Profile

Customers within this solution are aged 40+, although there are broad distribution of guests by age. They mostly visit the spa center due to medical condition. However, wellness is an additional incentive. Guests are mostly local citizens and customers traveling from the Eastern region. With the completion of the express road tourists from Skopje Region and Vardar Region would have an easy access (40 minutes from Skopje). Thus, they become the expected guests, too. Furthermore, it is

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expected that there would be domestic tourists all around the country and sporadic foreign guests - private, especially visitors from abroad originating from Macedonia, particularly Eastern Region. Their presence is mostly with seasonal distribution - Christmas, Eastern Holidays and summer time.

SWOT Analysis of the Concept 1

SWOT of Existing Capacity & Medical Tourism Concept	
Strengths	Weakness
Geothermal water Medicinal effects of the geothermal water Municipality is the owner of the land Broad distribution of guests by age Tradition within the Eastern region (MK, Sr) Recognized as a major spa center for centuries Attract local and regional population Subsidies - Ministry of Health Medical spa center for the local and regional population³⁴ Satisfaction of the (people, business community) No pollution - Clean air	Small number of rooms/beds Small capacity of existing buildings Lack of medical skills and expertise on the local labor market High costs for establishment of medical unit High costs - fixed costs for medical staff Lacking sewage system Distance from Skopje - 106km, 1h 24min drive ³⁵ Mosquitos
Opportunities	Threats
New express road - app 40 minutes from Skopje. It is expected to be completed in 2019 Economic growth for the community PPP Accommodating tourists within the surrounding private houses, should enable enlargement of the capacity Completion of the new border crossing: Berovo Strumjani 2020 Access to finance - grants and financial instruments PPP, local community Urban - rural migration: Trend of citizens returning back to hometown Attracting guests from Skopje region, 617,646 people and Vardar Region 153,272 people Attracting human resources Attracting new investments Revitalization of the s. Banja and surrounding villages	Not sufficient revenues to justify the investments Further depopulation within the Municipality Political instabilities Insurance Fund contract changes (New) and existing competition

³⁴ Nearest medical spa is Katlanovo spa is 1 h 3 min (78.9 km) via A3, A3 and A1
Other nearest medical spa in the region is 1 h 21 min (94.7 km) via A4 and A3 in Strumica, Car Samoil

³⁵ Overcome by completion of the express road Skopje - Kochani

Financial analysis Concept 1

The main assumptions underlying the finances for this concept are the following:

- There will be 20 rooms with double occupancy rate, which means 40 guests in a full capacity. Practically all of them will be financed by the Fund for Health Insurance, or individually but for the same price which is EUR 20 for full board. The main reason for this is the fact that it is a low standard (3 stars) accommodation. The dimensions of the current location and the current urbanistic solution does not allow for a bigger hotel and more spacious rooms. If the whole capacity is used only for the Health Insurance Fund (HIF) subsidized clients, it would mean that the Spa would earn approximately 9 million MKD in the first year. This compares well with the current situation of the HIF subsidized clients, as explained earlier in the text. This amount is approximately 10% of all subsidized spa services in 2017 and is between $\frac{1}{2}$ and $\frac{1}{3}$ of what the other 4 large spas have achieved as services in 2017. With the quality of the water, Banya has the possibility to attract part of the existing guests from the other spas and probably create additional demand from this target clientele;
- The Capacity utilization ranges between 70% in first year and it gradually increases to reach 90% after year 5;
- We have made projections for the financial parameters for 10 years;
- We have used comparisons and indicators from similar businesses in order to make the projections and pro-forma financial statements for the next years;
- The guests from the hotel will be the main revenue stream for the spa business. However, they can also use some of the medical services that will be provided in the stationary rooms which will be located in the basement of the hotel. We assume that there will pay no additional moneys for such services, but they will be mainly fee earners from the out-of-hotel guests.
- In addition to the in-hotel guests, there will be some visitors who will be located in the village, or will come on a daily visit or treatment in the spa. The assumption is that there will be in average 20 such visitors daily, taking 1 treatment each and the fee for the service will be 4 EUR per hour.
- There may be some other physical treatments (massages, beauty massage, or similar treatments). For the purposes of this study, it is assumed that part of the capacity of the spa (5 rooms) will be rented to some service providers and the spa will take a rent, for EUR 200 a month.
- The restaurant will provide full board services to the hotel residents and they may spend additional EUR 1 per day for out-of-board expenses (because of the low-spending capacity and habits of the target clients) and for the non-residents, the lunch or other servings are assumed at the rate of 3 EUR per person and this is increasing over the years.
- The cost structure of various revenue services is as follows:
 - There is a small amount of material costs for hotel business (0,5 EUR per person per night),

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- The expenses for food for full board guests are assumed at EUR 5 per person per day,
- The main material cost for the spa is the cost of water, around 0,5 EUR per m3 with the consumption of 100m3 daily,
- Material costs for food and beverages in restaurants is estimated at 1/3 of the fee,
- It is assumed that there will be 22 employees in the first year and they will be gradually increased to reach 33 in Year 10 of project implementation. Their distribution in the first year is as follows:
 - 9 persons will be in the hotel
 - 4 persons will be in the spa and medical business
 - 4 persons will be in the restaurant and kitchen
 - 5 will be overhead.
- Costs for overhead are for marketing, utilities, maintenance, other costs and the overhead staff.
- Projected debt/equity ratio is 50%.
- WACC is assumed at the rate of 12%.
- The working capital assumptions are as follows:

WORKING CAPITAL ASSUMPTIONS	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Debtors Days (based on Sales)	20	20	20	20	20	20	20	20	20	20	20
Other Debtors Days (as a % of Total Revenue)	3	3	3	3	3	3	3	3	3	3	3
Inventory turnover (days) based on Sales Revenue	20	20	20	20	20	20	20	20	20	20	20
Operating cash (as a % of Total Revenue)	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%
Trade Creditors days (based on Operating Costs)	60	60	60	60	60	60	60	60	60	60	60
Other Creditors days (based on Operating Costs)	20,0	20,0	20,0	20,0	20,0	20,0	20,0	20,0	20,0	20,0	20,0

These working capital assumptions have been the same for all concepts and will not be repeated in the assumptions for the other concepts.

The above assumptions have been summarised in the following tables:

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Revenues:

Various sources of revenues										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues from hotel business										
capacity utilization %	45%	50%	55%	60%	65%	70%	70%	70%	70%	70%
average number of guests per day	18	20	22	24	26	28	28	28	28	28
- full board guests	18	20	22	24	26	28	28	28	28	28
Revenues from hotel business EUR	144.540	160.600	176.660	192.720	208.780	224.840	224.840	224.840	224.840	224.840
Sales per occupied room EUR	44	44	44	44	44	44	44	44	44	44
Sales per available room EUR	20	22	24	26	29	31	31	31	31	31
No of employees / No of rooms available for sale	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5
No of employees	10	10	10	10	10	10	10	10	10	10
No of employees / No of rooms occupied	1,1	1,0	0,9	0,8	0,8	0,7	0,7	0,7	0,7	0,7
Double occupancy %	100%									
Revenues from spa & medical activities										
No of treatments per day (guests)	36	40	44	48	52	56	56	56	56	56
No of treatments, non-residents	20	21	22	23	24	26	27	28	30	31
Fee per treatment (guests)	0	0	0	0	0	0	0	0	0	0
Fee per treatment (non-guests)	4	4	4	4	4	4	4	4	4	4
Revenues from spa & medical treatments	29.200	30.660	32.193	33.803	35.493	37.267	39.131	41.087	43.142	45.299
Revenues from other physical treatment activities (- -----)										
Rent for using capacities for physical treatment (5 rooms * 200 EUR a month)	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000
Average fee per activity	5	5	5	5	5	5	5	5	5	5
Revenues from other physical activities	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000
Revenues from the restaurants										
No of hotel residents full board, for drinks & other snacks per day	18	20	22	24	26	28	28	28	28	28
EUR per day	1	1	1	1	1	1	1	1	1	2
Nonresidents (number)	20	21	22	23	24	26	27	28	30	31
EUR per day	3	4	4	5	6	6	7	8	8	9

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Various sources of revenues										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues from restaurants	28.470	35.259	43.622	53.949	62.134	71.485	81.195	92.343	105.146	119.858
TOTAL REVENUES	214.210	238.519	264.475	292.472	318.406	345.592	357.166	370.270	385.128	401.997

And Expenses:

Expenses (without depreciation)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Expenses from hotel business										
Material costs (0,5 EUR per guest per night)	3.285	3.650	4.015	4.380	4.745	5.110	5.110	5.110	5.110	5.110
No of Staff (0,5 staff/guest)	9	10	11	12	13	14	14	14	14	14
staff/room ratio	0,5	0,5	0,6	0,6	0,7	0,7	0,7	0,7	0,7	0,7
Staff costs (EUR 500 gross average)	54.000	60.000	66.000	72.000	78.000	84.000	84.000	84.000	84.000	84.000
Expenses for food for full board (EUR 5 per guest)	32.850	36.500	40.150	43.800	47.450	51.100	51.100	51.100	51.100	51.100
Total expenses from hotel	90.135	100.150	110.165	120.180	130.195	140.210	140.210	140.210	140.210	140.210
Expenses from spa & medical business										
Material costs (water 100m3/day*0,5 EUR)	18.250	19.163	20.121	21.127	22.183	23.292	24.457	25.680	26.964	28.312
No of Staff (0,2 staff/guest)	4	4	4	5	5	6	6	6	6	6
staff/room ratio	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Staff costs (EUR 750 gross average)	36.000	36.000	36.000	45.000	45.000	54.000	54.000	54.000	54.000	54.000
Total expenses from spa & medical activities	54.254	55.167	56.125	66.132	67.188	77.298	78.463	79.686	80.970	82.318
Expenses from physical treatment activities										
Material costs (1% of revenues)	120	120	120	120	120	120	120	120	120	120
Expenses from restaurants and cafeterias										
Material costs (33% of revenues)	9.395	11.635	14.395	17.803	20.504	23.590	26.795	30.473	34.698	39.553
No of staff (1 staff per 10 visitors)	4	4	4	5	5	5	5	6	6	6
Staff costs (EUR 500 gross average)	22.800	24.600	26.430	28.292	30.186	32.115	32.881	33.685	34.529	35.416
Total expenses from restaurants	32.195	36.235	40.825	46.095	50.690	55.705	59.676	64.158	69.228	74.969
Total expenses from all activities	176.704	191.672	207.235	232.526	248.193	273.334	278.468	284.174	290.527	297.617

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Based on the above assumptions, the pro-forma budget for the next 10 years looks as follows:

Gross profit from individual activities										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Gross profit from hotel	84.630	90.675	96.720	102.765	108.810	108.810	108.810	108.810	108.810	108.810
Gross profit from spa and medical activities	-43.056	-42.509	-41.934	-50.331	-49.697	-49.032	-48.333	-47.599	-46.829	-46.020
Gross profit from physical activities	11.880	11.880	11.880	11.880	11.880	11.880	11.880	11.880	11.880	11.880
Gross profit from restaurants	-7.280	-4.409	-507	4.685	8.416	13.476	19.342	26.137	34.009	43.124
Gross profit from all activities	46.174	55.638	66.159	68.999	79.409	85.135	91.699	99.228	107.870	117.794
Overheads										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Marketing (1% from revenues)	2.982	3.227	3.488	3.770	4.031	4.136	4.253	4.386	4.537	4.708
Utilities (electricity, water, phones, other)	40.836	41.652	42.485	43.335	44.202	45.086	45.988	46.907	47.845	48.802
Maintenance (3%)	8.945	9.680	10.464	11.310	12.094	12.407	12.760	13.159	13.610	14.123
Other costs	12.000	13.200	14.520	15.972	17.569	19.326	21.259	23.385	25.723	28.295
No of overhead staff	5	5	5	6	6	6	6	7	7	7
Cost of salaries (EUR 800 gross)	48.000	48.000	48.000	57.600	57.600	57.600	57.600	67.200	67.200	67.200
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total staff, No	30	31	32	36	37	37	37	38	39	39
staff/room ratio	1,5	1,6	1,6	1,8	1,9	1,9	1,9	1,9	1,9	1,9
EBITDA	-66.588	-60.121	-52.798	-62.988	-56.088	-53.420	-50.160	-55.809	-51.046	-45.334
Depreciation	0	75.593	75.593	75.593	75.593	75.593	75.593	75.593	75.593	75.593
EBIT	-66.588	-135.713	-128.391	-138.580	-131.680	-129.012	-125.753	-131.401	-126.638	-120.927
D/E (50:50) interest (2%)	13.447	13.447	12.641	11.823	10.993	10.150	9.294	8.426	7.544	6.650
tax (10%)	0	0	0	0	0	0	0	0	0	0
Net profit / (-loss)	-80.035	-149.160	-141.032	-150.403	-142.673	-139.162	-135.047	-139.827	-134.183	-127.577

This concept is completely unfeasible because the revenue source is very small to be able to cover for the costs, and even more the investment costs of the project. Because of this we do not develop the balance sheet and cash flow not the NPV and IRR calculations, because they seem to be highly negative.

Concept Solution II: Modern Eco Spa and Wellness Resort

The philosophy behind this concept is transformative wellness experience. It comprises constructing completely new and modern eco wellness resort fine aligned with the rural and eco milieu. The solution is strictly demarcated from the previously given concept which is demarcation between 'cure' and 'wellness' concepts.

Tourist Profile

The tourists are couples, families with young children, individuals with medium and high income, broad age range - 25+ of guests, by geographic representation - domestic guests, all over the country excluded western regions, corporate clients, NGOs, sportists / sport teams, members of the diplomatic corp, expatriates, small groups of friends valuing eco-tourism and natural resources (please see the specific tourist segmentation in wellness guests).

Corporate Wellness and Corporate Events Survey

To extend the market analysis with our own data in this study, we surveyed the market niche targeting corporate clients for the bundle of services within the business events and corporate wellness programs.

When targeting employee wellness programs the starting position is a finding from the study by the [Harvard Business Review](#) that for every dollar invested in wellness, companies average a return of \$2.71 by way of increased productivity, decreased absenteeism, reduced healthcare cost and increased creativity and innovation.

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Figure 20: Organizations with happy employees achieve higher performance³⁶

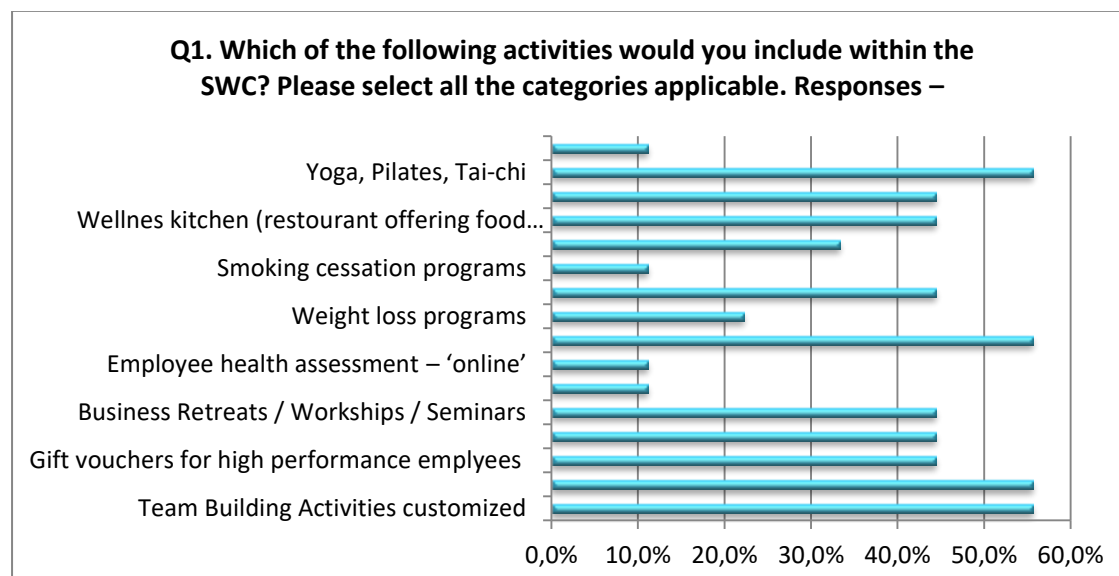


Our surveyed participants were mostly human resource managers and human resource business partners within ten large and medium enterprises with well-developed human resource management practices (in sum these corporations have over 3500 employees).

We did a four questions survey³⁷ where we plotted: i. the interest for specific services within spa & wellness center (SWC); ii. time-frame for using services; iii. reasons why the company hypothetically would stop using SWC services and iv. possibility of surveyee to express his/her suggestions and comments .

Our survey showed the highest interest of the respondents for services: a. Membership in spa & wellness programs and b. Counseling for health – physical activity, fatigue management, food, c. Team Building Activities customized; and d. Yoga, Pilates, Tai-chi. Second highest interest is for the services: a. Gift vouchers for high performance employees; b. Stress Management Programs; c. Business Retreats / Worships / Seminars; d. employee coaching; e. wellness kitchen (restaurant offering high serotonin meals) and f. Cycling in the nature.

Figure 21: Interest for specific services within SWC



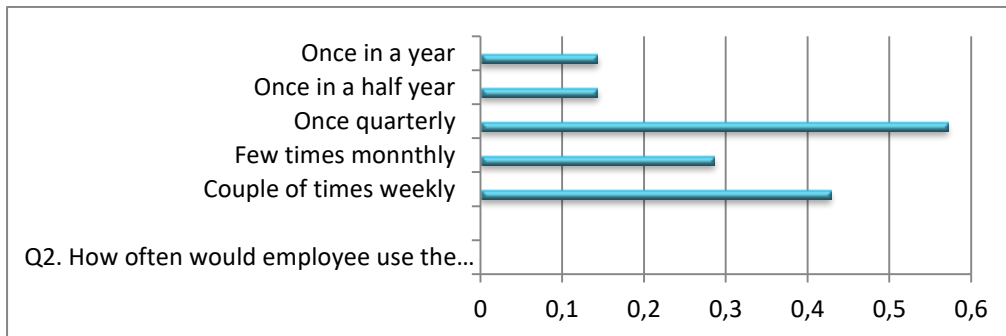
³⁶ 2018 Global Wellness Trends Report

³⁷ Please find the questionnaire in Annex

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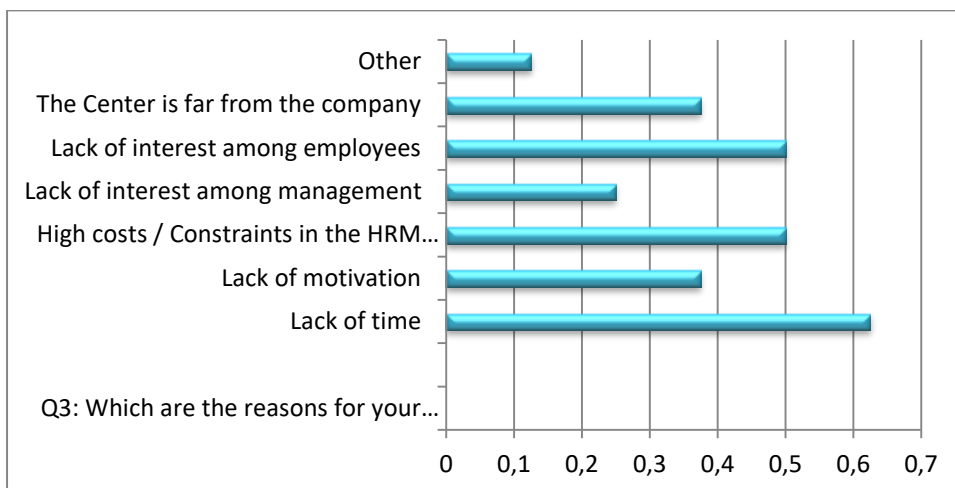
The most often use of the services is expected to happen quarterly (50% of the respondents, as presented in the figure below).

Figure 22: How often would employees use the SWC services



The most frequent reason for termination of using SWC services is lack of time. Still, the budget constraints and lack of interest among employees is seen as the second most frequent reasons for termination of using SWC services.

Figure 23: Reasons for termination of using SWC services



SWOT Analysis of Concept Solution II

Strengths

- in the center of healing thermal water spring
- no pollution, clean air, eco environment
- municipality is the owner of the land
- larger capacity for feasibility
- beautiful open country landscape and environment
- not densely populated surroundings
- unique ecosystem experience with natural herbs, remedies, fauna, etc.
- possibilities of open country activities as: walking, jogging, cycling, horse riding

- business, NGOs, sport events / visits
- migration - city to country
- stems from a tradition
- plenty of sunny days in the year and mild winter (up to 150 days for outdoor activities)
- open country landscapes, stunning rice plantations landscape, abundance of storks etc., can be used for an enhancement of mental and physical well-being
- activities like: mountain biking ; ski; hunting areas – Polaki, Sokolarci; lake experience, Gratce;
- art in the landscape, crafts workshops

Weakness

- Larger investment
- Lacking sewage system
- Distance from Skopje - 106km, 1h 24min drive³⁸
- Mosquitos

Opportunities

- Public-private partnership
- Local urbanistic planning documentation
- New express road - app 40 minutes from Skopje. It is expected to be completed 2019
- Economical growth for the community
- MSME startups
- Start up jobs
- Accommodating tourists within the surrounding private houses, enlargement of the community
- Completion of the new border crossing: Berovo Strumjani 2020
- Access to finance - grants and financial instruments PPP, local community
- Urban - rural migration: Trend of citizens returning back to hometown
- Attracting guests from Skopje region, 617,646 people and
- Vardar Region 153,272 people
- Attracting human resources
- Attracting new investments
- Revitalization of the village Banja and surrounding villages

Threats

- Feasible project, although not very lucrative one, which probably means that the risk that something may go wrong may be high
- Further depopulation within the Municipality
- Political instabilities
- Possible recession of the economy
- Insurance Fund contract changes
- (New) and existing competition

³⁸ Overcome by completion of the express road Skopje - Kochani

Financial analysis of the Concept Solution 2

This concept comprises the following:

- Demolition of the hotel and the stationary rooms
- Construction of a hotel, 4 stars, with 32 rooms
- Reconstruction of the spa
- Reconstruction of the restaurant within the hotel.
- Small pool of 150 m²

The construction components of this concept are presented below:

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Construction works	units	Gross area per unit (sq.m)	TOTAL gross area (sq.m)	Cost of building (euro/sq.m)	TOTAL investment (euro)
Building area (SPA)					
civil works	1	630	630	260	163.800
electric installation	1	630	630	60	37.800
plumbing and drainage	1	630	630	50	31.500
HVAC	1	630	630	130	81.900
Total rehabilitation works					315.000
Furniture and equipment					
Basic equipment for the building	1	630	630	60	37.800
Medical equipment					120.000
Total equipment					157.800
Total building and equipment					472.800
Restaurant					
Total restaurant demolition					38.590
Total rooms for stationary treatment demolition				TOTAL	43.400
Hotel					
Total costs of demolition of the roof					49.200

*Feasibility Analyses and Preliminary Designs for Spa and Wellness Centers
in the Municipality Of Cesinovo-Oblesevo*

Construction works	units	Gross area per unit (sq.m)	TOTAL gross area (sq.m)	Cost of building (euro/sq.m)	TOTAL investment (euro)
Building area Hotel					
A/ Ground floor					
Civil works	1	1000	1000	390	390.000
Electric installation	1	1000	1000	70	70.000
Plumbing and drainage	1	1000	1000	70	70.000
HVAC	1	1000	1000	120	120.000
Total basement					650.000
A/ First and second floor					
Civil works	1	1300	1300	390	507.000
Electric installation	1	1300	1300	70	91.000
Plumbing and drainage	1	1300	1300	70	91.000
HVAC	1	1300	1300	120	156.000
Total 1 & 2 floor					845.000
Basement	1	1000	1000	420	420000
Swimming pool	1	150	150	340	51000
Furniture and equipment					
Equipment for ground floor	1	1000	1000	120	120.000

*Feasibility Analyses and Preliminary Designs for Spa and Wellness Centers
in the Municipality Of Cesinovo-Oblesevo*

Construction works	units	Gross area per unit (sq.m)	TOTAL gross area (sq.m)	Cost of building (euro/sq.m)	TOTAL investment (euro)
Basic equipment for the building (fix&Furnt)	1	1300	1300	120	156.000
Equipment for utility space	1	500	500	80	40.000
Equipment for fitness	1	500	500	120	60.000
Total furniture and equipment hotel					376.000
Total hotel building and equipment					2.391.200
Total costs for building					2.614.890
Total costs for equipment					533.800
Total costs for demolition and reconstruction				TOTAL	2.945.990
INFRASTRUCTURE *					
Streets					
Rehabilitation of wells					105.500
Total area for rehabilitation and landscaping	1	2.379	2.379	10	23.790
Landscaping, fence	1	2.379	2.379	35	83.265
Total costs of the infrastructure					212.555
* relevant only for the proposed architectural plan					
TOTAL CONSTRUCTION COSTS					3.158.545

The main assumptions underlying the finances for this concept are the following:

- There will be 32 rooms with double occupancy rate, which means 64 guests in a full capacity. There will be no guests financed by the Fund for Health Insurance.
- The concept assumes targeting mainly corporate clients. It is assumed that 10 companies will purchase memberships for 20 of their employees / management at EUR 50 a month, for 6 months in the year. The Capacity utilization ranges between 45% in first year and it gradually increases to reach 70% after year 6;
- We have made projections for the financial parameters for 10 years;
- We have used comparisons and indicators from similar businesses in order to make the projections and pro-forma financial statements for the next years;
- The guests from the hotel will be the main revenue stream for the spa business. However, they can also use some of the medical services that will be provided in the stationary rooms which will be located in the basement of the hotel. We assume that there will pay additional moneys for such services, but they will be mainly fee earners from the out-of-hotel guests.
- In addition to the in-hotel guests, there will be some visitors who will be located in the village, or will come on a daily visit or treatment in the spa. The assumption is that there will be in average 20 such visitors daily, taking 1 treatment each and the fee for the service will be 4 EUR per hour.
- There may be some other physical treatments (massages, beauty massage, or similar treatments). For the purposes of this study, it is assumed that part of the capacity of the spa (5 rooms) will be rented to some service providers and the spa will take a rent, for EUR 200 a month.
- The restaurant will provide full board services to the hotel residents and they may spend additional EUR 3 per day for out-of-board expenses (because of the low-spending capacity and habits of the target clients) and for the non-residents, the lunch or other servings are assumed at the rate of 5 EUR per person and this is increasing over the years.
- The cost structure of various revenue services is as follows:
 - There is a small amount of material costs for hotel business (1 EUR per person per night),
 - The expenses for food for full board guests are assumed at EUR 8 per person per day,
 - The main material cost for the spa is the cost of water, around 0,5 EUR per m³ with the consumption of 100m³ daily,
 - It is assumed that there will be 30 employees in the first year and they will be gradually increased to reach 46 in Year 10 of project implementation. Their distribution in the first year is as follows:
 - 14 persons will be in the hotel
 - 6 persons will be in the spa and medical business
 - 5 persons will be in the restaurant and kitchen
 - 5 will be overhead.
 - Costs for overhead are for marketing, utilities, maintenance, other costs and the overhead staff.

*Feasibility Analyses and Preliminary Designs for Spa and Wellness Centers
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- Projected debt/equity ratio is 50%.
- WACC is assumed at the rate of 12%.
- The working capital assumptions are the same previously explained.

The above assumptions have been summarised in the following table:

*Feasibility Analyses and Preliminary Designs for Spa and Wellness Centers
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Revenues:

Various sources of revenues										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues from hotel business										
capacity utilization %	45%	50%	55%	60%	65%	70%	70%	70%	70%	70%
average number of guests per day	29	32	35	38	42	45	45	45	45	45
- full board guests	29	32	35	38	42	45	45	45	45	45
Revenues from hotel business EUR	420.480	467.200	513.920	560.640	607.360	654.080	654.080	654.080	654.080	654.080
Sales per occupied room EUR	80	80	80	80	80	80	80	80	80	80
Sales per available room EUR	36	40	44	48	52	56	56	56	56	56
No of employees / No of rooms available for sale	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5
No of employees	16	16	16	16	16	16	16	16	16	16
No of employees / No of rooms occupied	1,1	1,0	0,9	0,8	0,8	0,7	0,7	0,7	0,7	0,7
Double occupancy %	100%									
Revenues from spa & medical activities										
No of corporate memberships (10 firms, 20 staff, 6 months)	200	210	221	232	243	255	268	281	295	310
No of treatments, non-residents	20	21	22	23	24	26	27	28	30	31
Fee per membership	50	50	50	50	50	50	50	50	50	50
Fee per treatment (non-guests)	4	4	4	4	4	4	4	4	4	4
Revenues from spa & medical treatments	89.200	93.660	98.343	103.260	108.423	113.844	119.537	125.513	131.789	138.378
Revenues from other physical treatment activities (-----)										
Rent for using capacities for physical treatment (5 rooms * 200 EUR a month)	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000
Average fee per activity	5	5	5	5	5	5	5	5	5	5
Revenues from other physical activities	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000	12.000
Revenues from the restaurants										
No of hotel residents full board, for drinks & other snacks per day	29	32	35	38	42	45	45	45	45	45
EUR per day	3	3	3	3	4	4	4	4	4	5
Nonresidents (number)	20	21	22	23	24	26	27	28	30	31
EUR per day	5	6	7	9	10	10	11	13	14	15
Revenues from restaurants	68.036	82.782	100.442	121.690	139.700	160.011	178.239	198.964	222.555	249.441
TOTAL REVENUES	589.716	655.642	724.705	797.590	867.483	939.936	963.856	990.557	1.020.424	1.053.899

*Feasibility Analyses and Preliminary Designs for Spa and Wellness Centers
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And Expenses:

Expenses (without depreciation)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Expenses from hotel business										
Material costs (1 EUR per guest per night)	10.512	11.680	12.848	14.016	15.184	16.352	16.352	16.352	16.352	16.352
No of Staff (0,5 staff/guest)	14	16	18	19	21	22	22	22	22	22
staff/room ratio	0,4	0,5	0,6	0,6	0,7	0,7	0,7	0,7	0,7	0,7
Staff costs (EUR 500 gross average)	84.000	96.000	108.000	114.000	126.000	132.000	132.000	132.000	132.000	132.000
Expenses for food for full board (EUR 8 per guest)	84.096	93.440	102.784	112.128	121.472	130.816	130.816	130.816	130.816	130.816
Total expenses from hotel	178.608	201.120	223.632	240.144	262.656	279.168	279.168	279.168	279.168	279.168
Expenses from spa & medical business										
Material costs (water 270m3/guest p.a.*0,5 EUR)	8.640	9.072	9.526	10.002	10.502	11.027	11.578	12.157	12.765	13.403
No of Staff (0,2 staff/guest)	6	6	7	8	8	9	9	9	9	9
staff/room ratio	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Staff costs (EUR 750 gross average)	54.000	54.000	63.000	72.000	72.000	81.000	81.000	81.000	81.000	81.000
Total expenses from spa & medical activities	62.646	63.078	72.533	82.010	82.510	92.036	92.587	93.166	93.774	94.412
Expenses from physical treatment activities										
Material costs (1% of revenues)	120	120	120	120	120	120	120	120	120	120
Total expenses from [hysical treatment activities	120	120	120	120	120	120	120	120	120	120
Expenses from restaurants and cafeterias										
Material costs (33% of revenues)	22.452	27.318	33.146	40.158	46.101	52.804	58.819	65.658	73.443	82.316
No of staff (1 staff per 10 visitors)	5	5	6	6	7	7	7	7	7	8
Staff costs (EUR 500 gross average)	29.280	31.800	34.350	36.932	39.546	42.195	42.961	43.765	44.609	45.496
Total expenses from restaurants	51.732	59.118	67.496	77.089	85.647	94.999	101.780	109.423	118.053	127.811
Total expenses from all activities	293.106	323.436	363.781	399.363	430.933	466.323	473.656	481.878	491.115	501.512

We have introduced the assumption that part of the investment costs (50%) will be covered by a loan. This will mean that the income statements of the project will have to take that into account. Thus the P&Ls look as follows:

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<i>(in EUR)</i>	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Sales Revenue		589.716	655.642	724.705	797.590	867.483	939.936	963.856	990.557	1.020.424	1.053.899
Other Revenue	-	5.897	6.556	7.247	7.976	8.675	9.399	9.639	9.906	10.204	10.539
Total	-	595.613	662.198	731.952	805.566	876.158	949.335	973.494	1.000.463	1.030.628	1.064.438
Annual growth			11,2%	10,5%	10,1%	8,8%	8,4%	2,5%	2,8%	3,0%	3,3%
Operating Costs		436.415	472.318	518.533	569.932	607.736	649.671	661.320	683.816	698.121	714.026
Costs-to-sales		73%	71%	71%	71%	69%	68%	68%	68%	68%	67%
Annual growth			-2,7%	-0,7%	-0,1%	-2,0%	-1,3%	-0,7%	0,6%	-0,9%	-1,0%
EBITDA	0	159.198	189.881	213.419	235.634	268.422	299.664	312.174	316.647	332.507	350.413
EBITDA Margin		26,7%	28,7%	29,2%	29,3%	30,6%	31,6%	32,1%	31,7%	32,3%	32,9%
Depreciation	0	124.313	124.313	124.313	124.313	124.313	124.313	124.313	124.313	124.313	124.313
EBIT (Earnings Before Interest and Taxes)	0	34.886	65.568	89.106	111.321	144.109	175.352	187.861	192.334	208.195	226.100
EBIT Margin		6%	10%	12%	14%	16%	18%	19%	19%	20%	21%
Financial income (- expenses) net	-24.707	-23.030	-21.261	-19.356	-17.325	-15.132	-12.770	-10.331	-7.837	-5.252	-2.559
Interest income	0	659	1.008	1.472	2.040	2.748	3.602	4.512	5.454	6.462	7.555
Interest Expense	-24.707	-23.689	-22.269	-20.828	-19.365	-17.880	-16.373	-14.843	-13.290	-11.714	-10.115
EBT (Earnings Before Taxes)	-24.707	11.856	44.307	69.750	93.996	128.977	162.581	177.531	184.498	202.942	223.541
Income Tax	0	-1.186	-4.431	-6.975	-9.400	-12.898	-16.258	-17.753	-18.450	-20.294	-22.354
Net Earnings	-24.707	10.670	39.876	62.775	84.597	116.079	146.323	159.778	166.048	182.648	201.187

With the exception of the first year, the net earnings are positive. The starting year is the year of construction.

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The balance sheet and cash flow calculations are presented below:

<i>(in EUR)</i>	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<i>CURRENT ASSETS</i>	<i>0</i>	<i>74.143</i>	<i>81.726</i>	<i>90.141</i>	<i>99.165</i>	<i>107.190</i>	<i>115.659</i>	<i>118.335</i>	<i>121.842</i>	<i>125.170</i>	<i>128.892</i>
Excess Cash	0	131.786	201.593	294.306	407.927	549.587	720.467	902.450	1.090.719	1.292.420	1.511.039
Fixed Assets Net	3.158.545	3.034.233	2.909.920	2.785.608	2.661.295	2.536.983	2.412.670	2.288.358	2.164.045	2.039.733	1.915.420
Intangible assets		0	0	0	0	0	0	0	0	0	0
Available for Sale Financial Assets & other		0	0	0	0	0	0	0	0	0	0
<i>LONG TERM ASSETS</i>	<i>3.158.545</i>	<i>3.034.233</i>	<i>2.909.920</i>	<i>2.785.608</i>	<i>2.661.295</i>	<i>2.536.983</i>	<i>2.412.670</i>	<i>2.288.358</i>	<i>2.164.045</i>	<i>2.039.733</i>	<i>1.915.420</i>
<i>TOTAL ASSETS</i>	<i>3.158.545</i>	<i>3.240.161</i>	<i>3.193.238</i>	<i>3.170.055</i>	<i>3.168.387</i>	<i>3.193.759</i>	<i>3.248.796</i>	<i>3.309.142</i>	<i>3.376.606</i>	<i>3.457.322</i>	<i>3.555.351</i>
LIABILITIES											
Short-term Loans from Banks	24.707	0	0	0	0	0	0	0	0	0	0
Short-term portion of long-term loans	0	94.668	96.088	97.530	98.993	100.478	101.985	103.515	105.067	106.643	108.243
Accounts Payable and Other Liabilities	0	95.653	103.522	113.651	124.917	133.202	142.394	144.947	149.877	153.013	156.499
<i>CURRENT LIABILITIES</i>	<i>24.707</i>	<i>190.321</i>	<i>199.610</i>	<i>211.181</i>	<i>223.909</i>	<i>233.680</i>	<i>244.378</i>	<i>248.462</i>	<i>254.945</i>	<i>259.656</i>	<i>264.742</i>
Long -term Borrowings	1.579.273	1.484.604	1.388.516	1.290.986	1.191.993	1.091.515	989.530	886.016	780.949	674.305	566.062
<i>LONG TERM LIABILITIES</i>	<i>1.579.273</i>	<i>1.484.604</i>	<i>1.388.516</i>	<i>1.290.986</i>	<i>1.191.993</i>	<i>1.091.515</i>	<i>989.530</i>	<i>886.016</i>	<i>780.949</i>	<i>674.305</i>	<i>566.062</i>
TOTAL LIABILITIES	1.603.979	1.674.925	1.588.126	1.502.167	1.415.902	1.325.195	1.233.909	1.134.477	1.035.893	933.961	830.804
Share Holding Capital	1.579.273	1.579.273	1.579.273	1.579.273	1.579.273	1.579.273	1.579.273	1.579.273	1.579.273	1.579.273	1.579.273
Reserves			0	0	0	0	0	0	0	0	0
Retained earnings	-24.707	-14.036	25.840	88.615	173.212	289.291	435.614	595.392	761.440	944.088	1.145.275
TOTAL EQUITY	1.554.566	1.565.236	1.605.113	1.667.888	1.752.484	1.868.564	2.014.887	2.174.664	2.340.712	2.523.361	2.724.547
<i>TOTAL LIABILITIES AND EQUITY</i>	<i>3.158.545</i>	<i>3.240.161</i>	<i>3.193.238</i>	<i>3.170.055</i>	<i>3.168.387</i>	<i>3.193.759</i>	<i>3.248.796</i>	<i>3.309.142</i>	<i>3.376.606</i>	<i>3.457.322</i>	<i>3.555.351</i>

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The cash flows and the NPV and IRR calculations are presented below. The IRR, with the WACC of 12% amounts to 8,7%.

NPV and IRR Calculation											
<i>(in EUR)</i>	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
NOPAT	0	31.397	59.011	80.196	100.189	129.698	157.816	169.075	173.101	187.375	203.490
+ depreciation	0	124.313	124.313	124.313	124.313	124.313	124.313	124.313	124.313	124.313	124.313
Gross Cash flow	0	155.710	183.324	204.508	224.502	254.011	282.129	293.388	297.413	311.688	327.803
- investments	-3.158.545	0	0	0	0	0	0	0	0	0	0
Operating Free Cash Flow	-3.158.545	155.710	183.324	204.508	224.502	254.011	282.129	293.388	297.413	311.688	327.803
residual value (WACC 12%, 2% growth)											3.671.390
TOTAL	-3.158.545	155.710	183.324	204.508	224.502	254.011	282.129	293.388	297.413	311.688	3.999.193
NPV (WACC 12%)	-576.073										
IRR	8,7%										

This concept seems to provide a feasible project, although not very lucrative one, and also significantly lower than the WACC, which probably means that the risk that something may go wrong may be high.

Concept Solution III: Extended Modern Eco Spa and Wellness Resort with Medical Tourism

This concept comprises even bigger reconstruction. It consists of:

- Same as Concept 2 – only bigger.
Partnership with the medical tourism industry is creating to offer complementary services, like pre-op and post-op, recuperation, recovery, etc. One of the key aims for keeping traditionally existing medical tourism, aside from the collective memory of the citizens and their satisfaction, is need of the market for such services. Rehabilitation services, especially synergized with the healing water are a winning combination and what is missing on the East Region level. Spa and wellness center partners with conventional medical establishments to deliver complementary and integrated healing services. It partners with pharmaceutical and cosmetrical industry, too. As newly added revenue stream it gives opportunity for creating feasible option (please see financial analyses below).
- 72 rooms, 144 guests, 4 stars,
- Only commercial tourists,
- Includes commercial clientele with memberships: 10 companies providing 20 memberships each for their staff/management, 12 months a year
- EUR 40 is the price of full board,
- Demolition of all old structures,
- Involves change of urban plans.

According to the results from previous concepts and in order to find optimal solution for feasible project, completely new complex is provided. Respecting the actual location, existing wells, the connection with the village and close surrounding, we find out that correct decision is destroying of all existing buildings (medical center, restaurant and two accommodation facilities) and cleaning the location for completely new facility that will consist all necessary parts for one modern Spa & wellness Center.

Location will occupy three cadastral plots on total area of 3674m². The idea is to build one compact building that will serve all functions inside. The study shows that optimal number of guests is minimum 140. Respecting that number of guests, our proposal is to design three hotel floors, 24 rooms each. The design concept provides one main rectangular structure with some additional spaces on the ground floor.

The pattern floor is a longitudinal floor plan 52 x 16m with two side oriented rooms, connected with central corridor and communication part with stairs and elevators. There are 24 double hotel rooms that can accept 48 guests on each floor. The front rooms have balcony. Three typical floors are designed for total number of 144 guests. That number of guests guaranties positive business and covers the investment costs.

Ground floor is a bit larger than the other floors. It occupies 1780m² gross area. There is a big entrance and lobby area, a restaurant of 460m² that can serve approximately 250 guests, big

kitchen and terraces from the both sides of the restaurant. The side part of the floor plan is reserved for wellness and spa center. There is a dress room part, toilets, sauna and massage rooms, as well as big covered swimming pool with Jacuzzi and child pool. Total gross area of this part is around 635m². These wellness center will be attracted with an aperitif bar that will covers this area of pleasure and relax. Taking care to provide as more facilities as possible, the open pool is designed. There is also connection between two pools that makes open pool useful even in cold seasons. The guests can exit internal pool swimming through this connection. For spring, summer and autumn seasons, attractive garden surrounds the open pool.

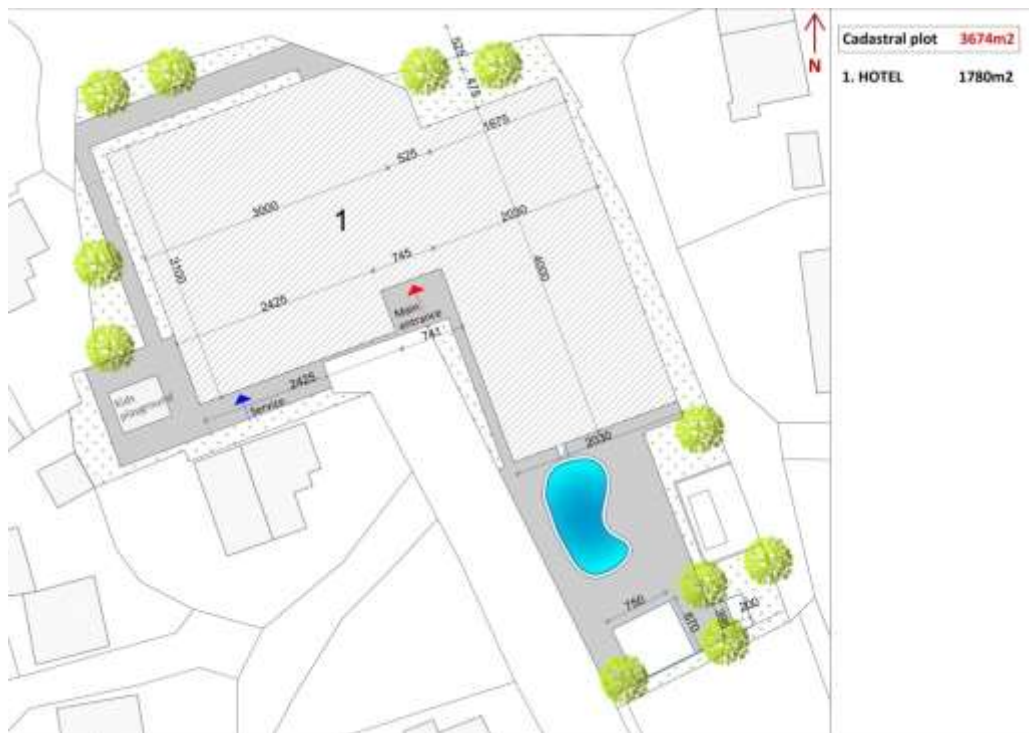
The basement is reserved for all services for the hotel as well as, electric room, boiler room, laundry, storage rooms etc. A part of the basement will be extension of the wellness and spa as fitness center with gym hall, Pilates and yoga areas.

The hotel will be 5420 m² gross area in total. Multifunctional ground floor, three accommodation floors, basement and attractive garden will provide four stars facility for 144 guests. It guaranties profitable business for modern bath and will accelerate whole business in the municipality. Many residential houses can serve this complex with private accommodation. The out sourced guests can also use the restaurant in the hotel, as well as spa center.

If this concept is feasible, the Municipality should change the Main Urban Plan or to provide LUPD (local urban plan documentation). According the design we are proposing, the new urban mark and percentage of building occupancy, as well as the height of the building will be determined in that urban documentation.

We present the designs of the proposed hotel in the next figures:

Figure 24: Preliminary design. Concept 3 - Position and layout of the hotel on the cadastral plot



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Figure 27: Preliminary design. Concept 3 - First floor of the Hotel

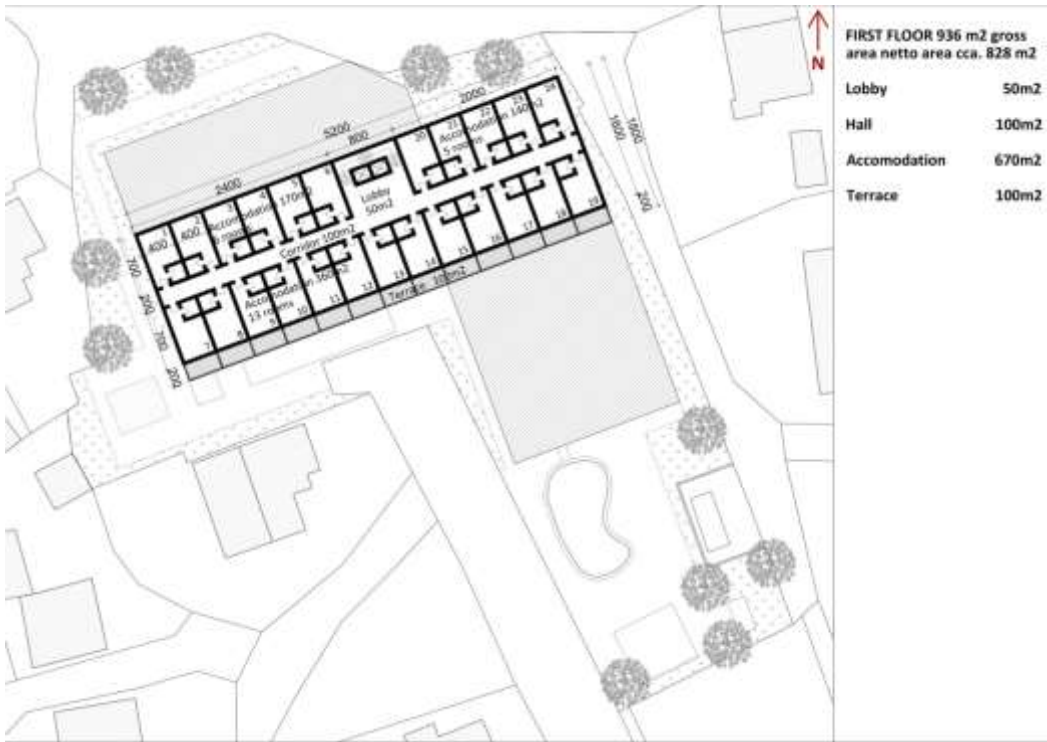
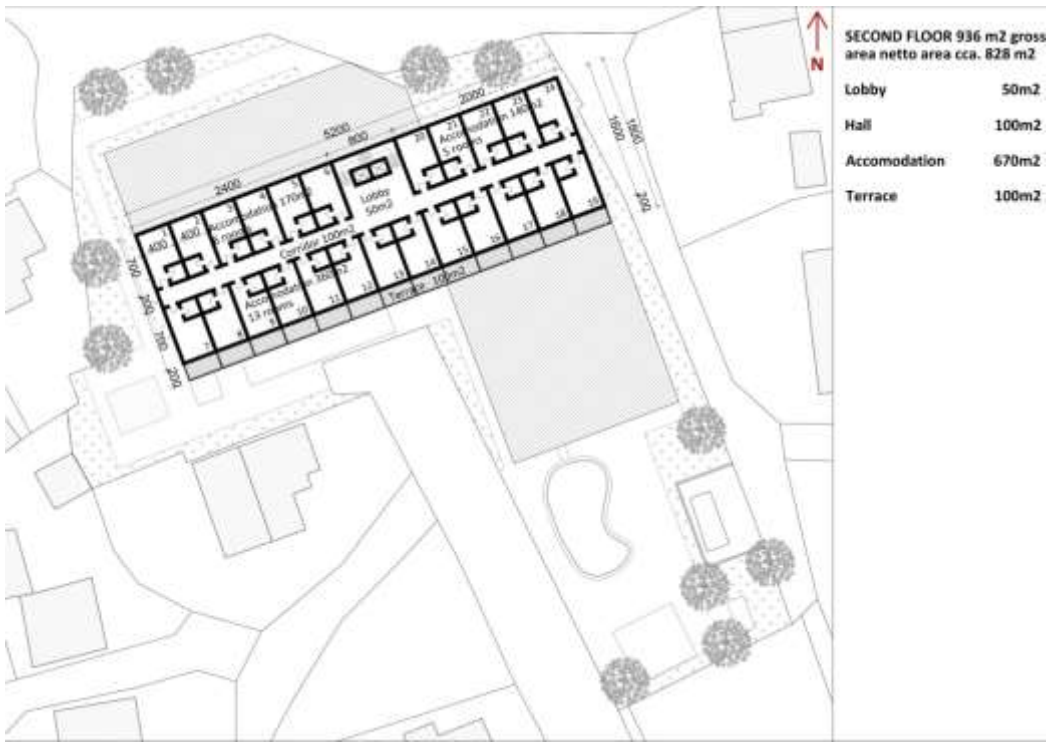


Figure 28: Preliminary design. Concept 3 - Second floor of the Hotel



Opportunities

- Public-private partnership
- Local urbanistic planning documentation
- New express road - app 40 minutes from Skopje. It is expected to be completed 2019
- Economical growth for the community
- MSME startups
- Start up jobs
- Accommodating tourists within the surrounding private houses, enlargement of the capacity
- Completion of the new border crossing: Berovo Strumjani 2020
- Access to finance - grants and financial instruments PPP, local community
- Urban - rural migration: Trend of citizens returning back to hometown
- Attracting guests from Skopje region, 617,646 people and
- Vardar Region 153,272 people
- Attracting human resources
- Attracting new investments
- Revitalization of the village Banja and surrounding villages

Threats

Same as Concept 2

Assessment of the rehabilitation requirements and consequent costs for the two thermal & mineral wells (B1 and B2) based on the selected most feasible solution

All of the above mentioned objects should be supplied with thermal water for the purpose of all objects. One part of the thermal water will be used for the pools and the patients. The other part of the thermal water will be used for heating of the objects.

There is a well B2 which was formerly used for this propose. We don't know what the current condition of this well B2 is. It is necessary to inspect the condition of this well, which was out of use for a long time and to rehabilitate it.

If the well B2 is in good or medium condition rinsing and purification with a pump should be carried out, which depends on the condition.

If the well B2 is in a very bad condition and is completely unusable we will have to make a new well.

Structure	Condition	Price
Well B1	Good / Medium	6.000 €
New Well B1	If the old well is very bad	15.000€

The thermal water from the well B2 should go through pipeline till Technical Room (Object No. 5) and from there again through pipeline to the other existing objects (pools, sauna, small pools, aqua park and other objects.)

Technical room is object No. 5 and this building occupies 50 m². It is a very old building and is completely dysfunctional. It is necessary to make a reconstruction and to change all installations, electric, plumbing and drainage. Ceramic tiles, hydro insulation, new mortar on the walls, painting, new doors and windows should be previewed. New roof covering, thermo efficient facade covering, rain drainage system are needed. All these activities will be allocated as positions in the detail project for reconstruction of the building.

Complete Reconstruction of the Technical Room is 400 euro/m² x 50 m² = 20.000 euro

In this Object No.5 – Technical Room should be equipped with pumps, filters, multi-channel valves, compensating pool, purifiers, pipe installation for supply and drainage of water and other accompanying things. This equipment costs 65.000 euro

As we already said the thermal water from the well B2 should go through pipeline till Technical Room (Object No. 5) and from there again through pipeline to the other existing objects (pools, sauna, small pools, aqua park and other objects.). The length of this pipeline is 200m. The pipeline is from PPR pipes and the estimated costs for the building the pipeline are as follows:

Cleaning the terrain – 500 euro

Land excavation – 4000 euro

Placement of pipes – 8000 euro

Piling up the pipes to the ground – 2000 euro

The total costs for building the pipeline is 14.500 euro

The figures are inserted in the table below

Table 28: Estimated costs for rehabilitation requirements for the two thermal & mineral wells (B1 and B2)

<i>Estimated costs</i>	
Renovation of the old well	6.000 €
Complete Reconstruction of the Technical Room	20.000 €
Equipment of the Technical Room	65.000 €
Building the pipeline	14.500 €
TOTAL COSTS (with old well)	105.500 €

NOTE: This is a technical proposal for reconstruction, adaptation and building. The precise calculations and prices will be given after the preparation of the project for utilization of the healing properties of geothermal sources in the East Planning Region in the village of Banja

Financial Analysis of Concept 3

This concept comprises the following:

- Demolition of the hotel, the spa and the stationary rooms
- Construction of a hotel, 4 stars, with 72 rooms and 144 guests⁴⁰
- Building of new spa
- Small pool of 150 m2
- Hotel, three star, 20 rooms, 40 guests

The construction components of this concept are presented below:

⁴⁰ For the purposes of this report we do not take in consideration the possibility of having 20 additional rooms devoted solely for the medical tourism financed by the Health Insurance Fund. We might introduce this for the final report.

*Feasibility Analyses and Preliminary Designs for Spa and Wellness Centers
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Construction works	units	Gross area per unit (sq.m)	TOTAL gross area (sq.m)	Cost of building (euro/sq.m)	TOTAL investment (euro)
SPA demolition					138.600
Demolition of Restaurant	1	227	227	170	38.590
Demolition for rooms for stationary treatment				TOTAL	43.400
Total rooms for stationary treatment				TOTAL	43.400
Total costs of demolition of the hotel					49.200
Demolition of the youth hotel					21.360
Demolition of all structures					291.150
Building area Hotel					
A/ Ground floor					
Civil works	1	1800	1800	360	648.000
Electric installation	1	1800	1800	70	126.000
Plumbing and drainage	1	1800	1800	70	126.000
HVAC	1	1800	1800	120	216.000
Total ground floor					1.116.000
B/ 1st, 2nd & 3rd floor					

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Civil works	1	3120	3120	360	1.123.200
Electric installation	1	3120	3120	70	218.400
Plumbing and drainage	1	3120	3120	70	218.400
HVAC	1	3120	3120	120	374.400
Terraces	1	104	104	200	20.800
Total 1 & 2 floor					1.955.200
Basement	1	1000	1000	420	420.000
Outdoor Swimming pool	1	250	250	350	87.500
Furniture and equipment					
Equipment for ground floor	1	1800	1800	120	216.000
Equipment for 1st, 2nd & 3rd floor	1	2808	2808	100	280.800
Equipment for SPA	1				120.000
Equipment for fitness sauna	1	500	500	120	60.000
Indoor swimming pool					100.000
Total furniture and equipment hotel					776.800
Total hotel building and equipment					4.404.700
Total costs for building					3.869.850
Total costs for equipment					776.800
Total costs for demolition and reconstruction				TOTAL	4.646.650
INFRASTRUCTURE *					

*Feasibility Analyses and Preliminary Designs for Spa and Wellness Centers
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Rehabilitation of second well	1				105.500
Total area for rehabilitation and landscaping	1	2.379	2.379	10	23.790
Landscaping, fence	1	2.379	2.379	35	83.265
Total costs of the infrastructure					212.555
* relevant only for the proposed architectural plan					
TOTAL CONSTRUCTION COSTS					4.859.205

The main assumptions underlying the finances for this concept are the following:

- There will be 70 rooms with double occupancy rate, which means 144 guests in a full capacity. There will be no guests financed by the Fund for Health Insurance for these calculations. The concept assumes targeting corporate clients and other citizens.
- 10 companies will purchase 20 memberships for their staff / management for EUR 50 a month for 12 months;
- The Capacity utilization ranges between 45% in first year and it gradually increases to reach 70% after year 6;
- We have made projections for the financial parameters for 10 years;
- We have used comparisons and indicators from similar businesses in order to make the projections and pro-forma financial statements for the next years;
- The guests from the hotel will be the main revenue stream for the spa business. However, they can also use some of the medical services that will be provided in the stationary rooms which will be located in the basement of the hotel. We assume that there will pay additional moneys for such services, but they will be mainly fee earners from the out-of-hotel guests.
- In addition to the in-hotel guests, there will be some visitors who will be located in the village, or will come on a daily visit or treatment in the spa. The assumption is that there will be in average 20 such visitors daily, taking 1 treatment each and the fee for the service will be 4 EUR per hour.
- There may be some other physical treatments (massages, beauty massage, or similar treatments). For the purposes of this study, it is assumed that part of the capacity of the spa (10 rooms) will be rented to some service providers and the spa will take a rent, for EUR 200 a month.

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- The restaurant will provide full board services to the hotel residents and they may spend additional EUR 3 per day for out-of-board expenses (because of the low-spending capacity and habits of the target clients) and for the non-residents, the lunch or other servings are assumed at the rate of 5 EUR per person and this is increasing over the years.
- The cost structure of various revenue services is as follows:
 - There is a small amount of material costs for hotel business (1 EUR per person per night),
 - The expenses for food for full board guests are assumed at EUR 8 per person per day,
 - The main material cost for the spa is the cost of water, around 0,5 EUR per m3 with the consumption of 100m3 daily,
 - Material costs for food and beverages in restaurants is estimated at 1/3 of the fee,
 - It is assumed that there will be 58 employees in the first year and they will be gradually increased to reach 89 in Year 10 of project implementation. Their distribution in the first year is as follows:
 - 32 persons will be in the hotel
 - 13 persons will be in the spa and medical business
 - 8 persons will be in the restaurant and kitchen
 - 5 will be overhead.
 - Costs for overhead are for marketing, utilities, maintenance, other costs and the overhead staff.
 - Projected debt/equity ratio is 50%.
 - WACC is assumed at the rate of 12%.

The above assumptions have been summarised in the following tables:

*Feasibility Analyses and Preliminary Designs for Spa and Wellness Centers
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Various sources of revenues										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues from hotel business										
capacity utilization %	45%	50%	55%	60%	65%	70%	70%	70%	70%	70%
average number of guests per day	65	72	79	86	94	101	101	101	101	101
- full board guests	65	72	79	86	94	101	101	101	101	101
Revenues from hotel business EUR	946.080	1.051.200	1.156.320	1.261.440	1.366.560	1.471.680	1.471.680	1.471.680	1.471.680	1.471.680
Sales per occupied room EUR	80	80	80	80	80	80	80	80	80	80
Sales per available room EUR	36	40	44	48	52	56	56	56	56	56
No of employees / No of rooms available for sale	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5
No of employees	36	36	36	36	36	36	36	36	36	36
No of employees / No of rooms occupied	1,1	1,0	0,9	0,8	0,8	0,7	0,7	0,7	0,7	0,7
Double occupancy %	100%									
Revenues from spa & medical activities										
No of memberships (10 companies * 20 staff, 12 months)	200	144	158	173	187	202	202	202	202	202
No of treatments, non-residents	20	21	22	23	24	26	27	28	30	31
Fee per treatment (guests)	50	50	50	50	50	50	50	50	50	50
Fee per treatment (non-guests)	4	4	4	4	4	4	4	4	4	4
Revenues from spa & medical treatments	149.200	117.060	127.233	137.483	147.813	158.227	160.091	162.047	164.102	166.259
Revenues from other physical treatment activities (-----)										
Rent for using capacities for physical treatment (10 rooms * 200 EUR a month)	24.000	24.000	24.000	24.000	24.000	24.000	24.000	24.000	24.000	24.000
Average fee per activity	5	5	5	5	5	5	5	5	5	5
Revenues from other physical activities	24.000	24.000	24.000	24.000	24.000	24.000	24.000	24.000	24.000	24.000
Revenues from the restaurants										
No of hotel residents full board, for drinks & other snacks per day	65	72	79	86	94	101	101	101	101	101
EUR per day	3	3	3	3	4	4	4	4	4	5
Nonresidents (number)	20	21	22	23	24	26	27	28	30	31
EUR per day	5	6	6	7	7	8	9	10	11	12
Revenues from restaurants	107.456	124.940	144.305	165.760	189.536	215.895	234.568	255.395	278.673	304.745
TOTAL REVENUES	1.226.736	1.317.200	1.451.858	1.588.682	1.727.909	1.869.803	1.890.338	1.913.122	1.938.455	1.966.683

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And expenses:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Expenses from hotel business										
Material costs (1 EUR per guest per night)	23.652	26.280	28.908	31.536	34.164	36.792	36.792	36.792	36.792	36.792
No of Staff (0,5 staff/guest)	32	36	40	43	47	50	50	50	50	50
staff/room ratio	0,4	0,5	0,6	0,6	0,7	0,7	0,7	0,7	0,7	0,7
Staff costs (EUR 500 gross average)	192.000	216.000	240.000	258.000	282.000	300.000	300.000	300.000	300.000	300.000
Expenses for food for full board (EUR 8 per guest)	189.216	210.240	231.264	252.288	273.312	294.336	294.336	294.336	294.336	294.336
Total expenses from hotel	404.868	452.520	500.172	541.824	589.476	631.128	631.128	631.128	631.128	631.128
Expenses from spa & medical business										
Material costs (water 270m3/guest p.a.*0,5 EUR)	19.440	20.412	21.433	22.504	23.629	24.811	26.051	27.354	28.722	30.158
No of Staff (0,2 staff/guest)	13	14	16	17	19	20	20	20	20	20
staff/room ratio	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Staff costs (EUR 750 gross average)	117.000	126.000	144.000	153.000	171.000	180.000	180.000	180.000	180.000	180.000
Total expenses from spa & medical activities	136.453	146.426	165.449	175.521	194.649	204.831	206.072	207.374	208.742	210.178
Expenses from physical treatment activities										
Material costs (1% of revenues)	240	240	240	240	240	240	240	240	240	240
Total expenses from [hysical treatment activities	240	240	240	240	240	240	240	240	240	240
Expenses from restaurants and cafeterias										
Material costs (33% of revenues)	35.460	41.230	47.621	54.701	62.547	71.245	77.407	84.280	91.962	100.566
No of staff (1 staff per 10 visitors)	8	9	10	11	12	13	13	13	13	13
Staff costs (EUR 500 gross average)	50.880	55.800	60.750	65.732	70.746	75.795	76.561	77.365	78.209	79.096
Total expenses from restaurants	86.340	97.030	108.371	120.432	133.293	147.041	153.968	161.645	170.172	179.662
Total expenses from all activities	627.902	696.216	774.231	838.018	917.657	983.240	991.408	1.000.388	1.010.281	1.021.208

The summarized pro-forma profit and loss statements for the next 10 years are presented below:

(in EUR)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10

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Sales Revenue		1.226.736	1.317.200	1.451.858	1.588.682	1.727.909	1.869.803	1.890.338	1.913.122	1.938.455	1.966.683
Other Revenue	-	12.267	13.172	14.519	15.887	17.279	18.698	18.903	19.131	19.385	19.667
Total	-	1.239.003	1.330.371	1.466.377	1.604.569	1.745.188	1.888.501	1.909.242	1.932.253	1.957.839	1.986.350
Annual growth			7,4%	10,2%	9,4%	8,8%	8,2%	1,1%	1,2%	1,3%	1,5%
Operating Costs		860.045	936.958	1.026.383	1.111.481	1.203.163	1.281.149	1.294.658	1.318.950	1.334.966	1.352.467
Costs-to-sales		69%	70%	70%	69%	69%	68%	68%	68%	68%	68%
Annual growth			1,5%	-0,6%	-1,0%	-0,5%	-1,6%	0,0%	0,7%	-0,1%	-0,1%
EBITDA	0	378.958	393.413	439.994	493.088	542.025	607.351	614.584	613.303	622.873	633.883
EBITDA Margin		30,6%	29,6%	30,0%	30,7%	31,1%	32,2%	32,2%	31,7%	31,8%	31,9%
Depreciation	0	185.054	185.054	185.054	185.054	185.054	185.054	185.054	185.054	185.054	185.054
EBIT (Earnings Before Interest and Taxes)	0	193.904	208.359	254.940	308.034	356.971	422.297	429.530	428.249	437.819	448.829
EBIT Margin		16%	16%	17%	19%	20%	22%	22%	22%	22%	23%
Financial income (- expenses) net	-37.963	-34.808	-31.606	-28.166	-24.453	-20.474	-16.172	-11.796	-7.374	-2.872	1.724
Interest income	0	1.636	2.653	3.876	5.339	7.033	9.016	11.039	13.073	15.149	17.284
Interest Expense	-37.963	-36.444	-34.259	-32.042	-29.791	-27.507	-25.188	-22.835	-20.446	-18.022	-15.561
EBT (Earnings Before Taxes)	-37.963	159.096	176.753	226.773	283.581	336.496	406.125	417.734	420.876	434.947	450.552
Income Tax	0	-15.910	-17.675	-22.677	-28.358	-33.650	-40.613	-41.773	-42.088	-43.495	-45.055
Net Earnings	-37.963	143.187	159.078	204.096	255.223	302.847	365.513	375.961	378.788	391.452	405.497

The pro-forma balance sheets in the first 10 years would look as follows:

*Feasibility Analyses and Preliminary Designs for Spa and Wellness Centers
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<i>(in EUR)</i>	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<i>CURRENT ASSETS</i>	<i>0</i>	<i>151.615</i>	<i>163.535</i>	<i>179.905</i>	<i>196.222</i>	<i>213.104</i>	<i>229.464</i>	<i>231.953</i>	<i>235.225</i>	<i>238.260</i>	<i>241.623</i>
Excess Cash	0	327.166	530.594	775.149	1.067.718	1.406.537	1.803.259	2.207.849	2.614.493	3.029.835	3.456.796
Fixed Assets Net	4.859.205	4.674.151	4.489.097	4.304.043	4.118.989	3.933.935	3.748.881	3.563.827	3.378.773	3.193.719	3.008.665
Intangible assets		0	0	0	0	0	0	0	0	0	0
Available for Sale Financial Assets & other		0	0	0	0	0	0	0	0	0	0
<i>LONG TERM ASSETS</i>	<i>4.859.205</i>	<i>4.674.151</i>	<i>4.489.097</i>	<i>4.304.043</i>	<i>4.118.989</i>	<i>3.933.935</i>	<i>3.748.881</i>	<i>3.563.827</i>	<i>3.378.773</i>	<i>3.193.719</i>	<i>3.008.665</i>
<i>TOTAL ASSETS</i>	<i>4.859.205</i>	<i>5.152.932</i>	<i>5.183.226</i>	<i>5.259.096</i>	<i>5.382.928</i>	<i>5.553.576</i>	<i>5.781.604</i>	<i>6.003.629</i>	<i>6.228.491</i>	<i>6.461.814</i>	<i>6.707.084</i>
LIABILITIES											
Short-term Loans from Banks	37.963	0	0	0	0	0	0	0	0	0	0
Short-term portion of long-term loans	0	145.641	147.826	150.043	152.294	154.578	156.897	159.250	161.639	164.063	166.524
Accounts Payable and Other Liabilities	0	188.503	205.361	224.961	243.612	263.707	280.800	283.761	289.085	292.595	296.431
<i>CURRENT LIABILITIES</i>	<i>37.963</i>	<i>334.144</i>	<i>353.186</i>	<i>375.004</i>	<i>395.906</i>	<i>418.285</i>	<i>437.697</i>	<i>443.011</i>	<i>450.724</i>	<i>456.659</i>	<i>462.956</i>
Long -term Borrowings	2.429.603	2.283.962	2.136.136	1.986.093	1.833.799	1.679.221	1.522.325	1.363.075	1.201.436	1.037.372	870.848
<i>LONG TERM LIABILITIES</i>	<i>2.429.603</i>	<i>2.283.962</i>	<i>2.136.136</i>	<i>1.986.093</i>	<i>1.833.799</i>	<i>1.679.221</i>	<i>1.522.325</i>	<i>1.363.075</i>	<i>1.201.436</i>	<i>1.037.372</i>	<i>870.848</i>
TOTAL LIABILITIES	2.467.565	2.618.105	2.489.322	2.361.097	2.229.705	2.097.506	1.960.021	1.806.085	1.652.160	1.494.031	1.333.804
Share Holding Capital	2.429.603	2.429.603	2.429.603	2.429.603	2.429.603	2.429.603	2.429.603	2.429.603	2.429.603	2.429.603	2.429.603
Reserves			0	0	0	0	0	0	0	0	0
Retained earnings	-37.963	105.224	264.301	468.397	723.621	1.026.467	1.391.980	1.767.941	2.146.729	2.538.181	2.943.678
TOTAL EQUITY	2.391.640	2.534.826	2.693.904	2.898.000	3.153.223	3.456.070	3.821.583	4.197.543	4.576.331	4.967.783	5.373.280
<i>TOTAL LIABILITIES AND EQUITY</i>	<i>4.859.205</i>	<i>5.152.932</i>	<i>5.183.226</i>	<i>5.259.096</i>	<i>5.382.928</i>	<i>5.553.576</i>	<i>5.781.604</i>	<i>6.003.629</i>	<i>6.228.491</i>	<i>6.461.814</i>	<i>6.707.084</i>

The projected cash flows, NPV and IRR are presented below.

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NPV and IRR Calculation											
<i>(in EUR)</i>	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
NOPAT	0	174.514	187.523	229.446	277.231	321.274	380.068	386.577	385.424	394.037	403.946
+ depreciation	0	185.054	185.054	185.054	185.054	185.054	185.054	185.054	185.054	185.054	185.054
Gross Cash flow	0	359.568	372.577	414.500	462.285	506.328	565.122	571.631	570.478	579.091	589.000
- investments	-4.859.205	0	0	0	0	0	0	0	0	0	0
Operating Free Cash Flow	-4.859.205	359.568	372.577	414.500	462.285	506.328	565.122	571.631	570.478	579.091	589.000
residual value (WACC 12%, 2% growth)											6.596.799
TOTAL	-4.859.205	359.568	372.577	414.500	462.285	506.328	565.122	571.631	570.478	579.091	7.185.799
NPV (WACC 12%)	-60.059										
IRR	11,8%										

This concept seems to provide for the best feasibility for the project. Whether it is feasible to run such a project, remains for the Municipality to confirm.

Youth Center Spot

In addition to the spa center, there is another location, on the same Cadastre Spot which can be used for other purposes of the ones previously discussed. The working heading of this call is Youth Center. We analysed it together, and then still present them separately, as we understood that there may be room for a separate use.

The two possible options that we present are the following:

- Small Hotel and a Pool and
- Restaurant and a Pool

The Concepts are rather simple, and such is the available plot – not very large and not many options are available. Any discussion of some larger water amusement part suffers from insufficiencies of space.

Concept 1 for the use of second plot: Small hotel and a pool

Financial analysis Concept 1 of the second area

The main assumptions underlying the finances for this concept are the following:

- There will be 20 rooms with double occupancy rate, which means 40 guests in a full capacity. They will be young people;
- The Capacity utilization ranges between 70% in first year and it gradually increases to reach 90% after year 5;
- We have made projections for the financial parameters for 10 years;
- We have used comparisons and indicators from similar businesses in order to make the projections and pro-forma financial statements for the next years;
- There will also be a pool, which will be visited 4 months a year, with warm water
- The cost structure of various revenue services is as follows:
 - There is a small amount of material costs for hotel business (0,5 EUR per person per night),
 - Expenses for food for full board guests are assumed at EUR 5 per person per day,
 - Main material cost for the pool is the cost of water, around 0,5 EUR per m3 with the consumption of 100m3 daily,
 - Material costs for beverages in the bar is estimated at 1/3 of the fee,

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- It is assumed that there will be 17 employees in the first year and they will be gradually increased to reach 25 in Year 10 of project implementation. Their distribution in the first year is as follows:
 - 8 persons will be in the hotel
 - 3 persons will be in pool
 - 3 persons will be in the bar
 - 3 will be overhead.
- Costs for overhead are for marketing, utilities, maintenance, other costs and the overhead staff.
- Projected debt/equity ratio is 50%.
- WACC is assumed at the rate of 12%.
- The working capital assumptions are the same as in the previous concepts. :

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The above assumptions have been summarised in the following table:

Revenues:

Various sources of revenues										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues from hotel business										
capacity utilization %	70%	75%	80%	85%	90%	90%	90%	90%	90%	90%
average number of guests per day	28	30	32	34	36	36	36	36	36	36
- full board guests	28	30	32	34	36	36	36	36	36	36
Revenues from hotel business EUR	204.400	219.000	233.600	248.200	262.800	262.800	262.800	262.800	262.800	262.800
Sales per occupied room EUR	40	40	40	40	40	40	40	40	40	40
Sales per available room EUR	28	30	32	34	36	36	36	36	36	36
Check	28	30	32	34	36	36	36	36	36	36
No of employees / No of rooms available for sale	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5
No of employees	10	10	10	10	10	10	10	10	10	10
No of employees / No of rooms occupied	0,7	0,7	0,6	0,6	0,6	0,6	0,6	0,6	0,6	0,6
Double occupancy %	100%									
Revenues from the pool										
No of visitors per day	100	105	110	116	122	128	134	141	148	155
No of days in the year of visits	115	121	127	133	140	147	154	162	170	178
Fee per day (2,5 EUR)	3	3	3	3	3	3	3	3	3	3
Revenues from the pool	28.750	31.697	34.946	38.528	42.477	46.831	51.631	56.923	62.758	69.190
Revenues from the bar by the pool										
No of visitors in the year	11.500	12.679	13.978	15.411	16.991	18.732	20.652	22.769	25.103	27.676
EUR per day (1 EUR per visitor)	1	1	1	1	1	1	1	1	1	2
Revenues from restaurants	11.500	13.313	15.411	17.840	20.652	23.908	27.676	32.039	37.089	42.935
TOTAL REVENUES	244.650	264.010	283.957	304.568	325.929	333.538	342.107	351.762	362.646	374.925

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And Expenses:

Expenses (without depreciation)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Expenses from hotel business										
Material costs (0,5 EUR per guest per night)	5.110	5.475	5.840	6.205	6.570	6.570	6.570	6.570	6.570	6.570
No of Staff (0,3 staff/guest)	8	9	10	10	11	11	11	11	11	11
staff/room ratio	0,4	0,5	0,5	0,5	0,6	0,6	0,6	0,6	0,6	0,6
Staff costs (EUR 500 gross average)	48.000	54.000	60.000	60.000	66.000	66.000	66.000	66.000	66.000	66.000
Expenses for food for full board (EUR 5 per guest)	51.100	54.750	58.400	62.050	65.700	65.700	65.700	65.700	65.700	65.700
Expenses for the pool										
Material costs (water 100m3/day*0,5 EUR)	18.250	19.163	20.121	21.127	22.183	23.292	24.457	25.680	26.964	28.312
No of Staff (0,1 staff/guest)	3	3	3	3	4	4	4	4	4	4
Staff costs (EUR 500 gross average for 3 months)	4.500	4.500	4.500	4.500	6.000	6.000	6.000	6.000	6.000	6.000
Total expenses from spa & medical activities	22.753	23.666	24.624	25.630	28.187	29.296	30.461	31.684	32.968	34.316
Expenses from restaurants and cafeterias										
Material costs (33% of revenues)	3.795	4.393	5.086	5.887	6.815	7.890	9.133	10.573	12.239	14.168
No of staff (1 staff per 30 visitors)	3	4	4	4	4	4	4	5	5	5
Staff costs (EUR 500 gross average for 3 months)	5.000	5.250	5.513	5.788	6.078	6.381	6.700	7.036	7.387	7.757
Total expenses from restaurants	8.795	9.643	10.598	11.675	12.893	14.271	15.834	17.608	19.627	21.925
Total expenses from all activities	135.758	147.534	159.462	165.560	179.350	181.837	184.564	187.562	190.864	194.511

The construction costs are presented in the following table:

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Construction works	units	Gross area per unit (sq.m)	TOTAL gross area (sq.m)	Cost of building (euro/sq.m)	TOTAL investment (euro)
Hotel - Youth Center					
Total costs of demolition of the youth center					21.360
Building area Hotel					
A/ Ground floor					
Civil works	1	250	250	360	90.000
Electric installation	1	250	250	70	17.500
Plumbing and drainage	1	250	250	70	17.500
HVAC	1	250	250	120	30.000
Total ground floor					155.000
First and second floors					
Civil works	1	500	500	360	180.000
Electric installation	1	440	440	70	30.800
Plumbing and drainage	1	440	440	70	30.800
HVAC	1	440	440	120	52.800
Total two floors					294.400
Basement	1	250	250	420	105.000

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Construction works	units	Gross area per unit (sq.m)	TOTAL gross area (sq.m)	Cost of building (euro/sq.m)	TOTAL investment (euro)
Outdoor swimming pool	1	120	120	350	42.000
Landscaping	1	1048	1048	50	52.400
Furniture and equipment					
Equipment for ground floor	1	250	250	120	30.000
Equipment for 1st and 2nd floor	1	440	440	100	44.000
Equipment for basement	1	200	200	100	20.000
Fitness, sauna in the basement	1				40.000
Total furniture and equipment hotel					134.000
Total hotel building and equipment					804.160
Total costs for building					670.160
Total costs for equipment					134.000
Total costs for demolition and reconstruction				TOTAL	804.160

Based on the above assumptions, the pro-forma budget for the next 10 years looks as follows:

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Gross profit from individual activities										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Gross profit from hotel	100.190	104.775	109.360	119.945	124.530	124.530	124.530	124.530	124.530	124.530
Gross profit from pool	5.997	8.031	10.322	12.898	14.290	17.535	21.170	25.239	29.790	34.875
Gross profit from restaurants	2.705	3.670	4.813	6.165	7.760	9.637	11.843	14.430	17.462	21.010
Gross profit from all activities	108.892	116.476	124.495	139.008	146.579	151.701	157.543	164.200	171.782	180.414
Overheads										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Marketing (1% from revenues)	2.447	2.640	2.840	3.046	3.259	3.335	3.421	3.518	3.626	3.749
Utilities (electricity, water, phones, other)	37.573	38.324	39.090	39.872	40.670	41.483	42.313	43.159	44.022	44.903
Maintenance (3%)	7.340	7.920	8.519	9.137	9.778	10.006	10.263	10.553	10.879	11.248
Other costs	12.000	13.200	14.520	15.972	17.569	19.326	21.259	23.385	25.723	28.295
No of overhead staff	3	3	3	4	4	4	4	5	5	5
Cost of salaries (EUR 800 gross)	28.800	28.800	28.800	38.400	38.400	38.400	38.400	48.000	48.000	48.000
Total overheads	88.159	90.884	93.769	106.427	109.676	112.551	115.656	128.614	132.251	136.195
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total staff, No	17	19	20	21	23	23	23	25	25	25
staff/room ratio	0,9	0,9	1,0	1,0	1,2	1,2	1,2	1,2	1,2	1,3
EBITDA	20.733	25.592	30.726	32.581	36.903	39.151	41.887	35.586	39.531	44.219
Depreciation	30.154	30.154	30.154	30.154	30.154	30.154	30.154	30.154	30.154	30.154
EBIT	-9.421	-4.562	572	2.427	6.749	8.997	11.733	5.432	9.377	14.065
D/E (50:50) interest (2%)	6.031	6.031	5.670	5.303	4.930	4.552	4.168	3.779	3.384	2.982
tax (10%)	0	0	0	0	182	444	756	165	599	1.108
Net profit / (-loss)	-15.452	-10.594	-5.097	-2.876	1.637	4.000	6.808	1.487	5.394	9.974

Without having to present the pro-forma financial statements, we notice that the projected budgets are not very affluent. We have calculated the IRR based on the above assumptions and it is around 2,3% and the NPV is negative, under the WACC of 12 %

Concept 2 for the use of second plot: Restaurant – Wellness Kitchen and Pool

Financial analysis Concept 2 of the second area: Restaurant – Wellness Kitchen and Pool

The main assumptions underlying the finances for this concept are the following:

- There will be a restaurant of basement and ground floor of 280 m2 gross area;
- There will be a restaurant area of around 200 m2;
- There will be approximately 80 guests a day, as an assumption of the full capacity of the restaurant and the capacity starts with 25% daily;
- It is assumed that they will spend EUR 10 a day per guest.
- Revenues will grow by 5% yearly.
- We have made projections for the financial parameters for 10 years;
- We have used comparisons and indicators from similar businesses in order to make the projections and pro-forma financial statements for the next years;
- There will also be a pool, which will be visited 4 months a year, with warm water
- The cost structure of various revenue services is as follows:
 - Main material cost for the pool is the cost of water, around 0,5 EUR per m3 with the consumption of 100m3 daily,
 - Material costs for beverages in the bar is estimated at 1/3 of the fee,
 - It is assumed that there will be 17 employees in the first year and they will be gradually increased to reach 18 in Year 10 of project implementation. Their distribution in the first year is as follows:
 - 10 persons will be in pool
 - 5 persons will be in the restaurant
 - 3 will be overhead.
 - Costs for overhead are for marketing, utilities, maintenance, other costs and the overhead staff.
 - Projected debt/equity ratio is 50%.
 - WACC is assumed at the rate of 12%.
- The working capital assumptions are the same as in the previous concepts. :

Possible layouts of the restaurant are presented below:

Figure 30: Preliminary Design. Concept 2, Task 2: Layout of the restaurant on the cadastral plot



Figure 31: Preliminary Design. Concept 2, Task 2 - Basement



Figure 32: Preliminary Design. Concept 2, Task 2 - Ground Floor



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The above assumptions for the restaurant's operation have been summarised in the following table:

Various sources of revenues										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues from the pool										
No of visitors per day	100	105	110	116	122	128	134	141	148	155
No of days in the year of visits	115	121	127	133	140	147	154	162	170	178
Fee per day (2,5 EUR)	3	3	3	3	3	3	3	3	3	3
Revenues from the pool	28.750	31.697	34.946	38.528	42.477	46.831	51.631	56.923	62.758	69.190
Revenues from the restaurant										
No of visitors in the year (100 a day, 20% capacity)	9.125	9.581	10.060	10.563	11.091	11.646	12.228	12.840	13.482	14.156
EUR per guest (15 EUR per visitor at start)	15	16	17	17	18	19	20	21	22	23
Revenues from restaurants	136.875	150.905	166.372	183.426	202.227	222.955	245.808	271.003	298.781	329.406
TOTAL REVENUES	165.625	182.602	201.318	221.953	244.704	269.786	297.439	327.926	361.539	398.596

Expenses (without depreciation)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Expenses for the pool										
Material costs (water 100m3/day*0,5 EUR)	18.250	19.163	20.121	21.127	22.183	23.292	24.457	25.680	26.964	28.312
No of Staff (0,1 staff/guest)	10	11	11	12	12	13	13	14	15	16
Staff costs (EUR 500 gross average for 4 months)	20.000	22.000	22.000	24.000	24.000	26.000	26.000	28.000	30.000	32.000
Total expenses from restaurants	38.260	41.174	42.132	45.139	46.195	49.305	50.470	53.694	56.979	60.328
Expenses from restaurants and cafeterias										
Material costs (33% of revenues)	45.169	49.799	54.903	60.530	66.735	73.575	81.117	89.431	98.598	108.704
No of staff (1 staff per 5 visitors a day)	5	5	6	6	6	6	7	7	7	8
Staff costs (EUR 500 gross average for 3 months)	7.500	7.875	8.269	8.682	9.116	9.572	10.051	10.553	11.081	11.635
Total expenses from restaurants	52.669	57.674	63.172	69.213	75.851	83.147	91.167	99.984	109.679	120.339
Total expenses from all activities	90.929	98.847	105.303	114.351	122.046	132.452	141.637	153.678	166.657	180.667

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The cost of construction is the following:

Construction works	Units	Gross area per unit (sq.m)	TOTAL gross area (sq.m)	Cost of building (euro/sq.m)	TOTAL investment (euro)
Hotel - Youth Center					
Demolition of the roof	1	248	248	10	2.480
Demolition of the floors	1	248	248	50	12.400
Cleaning the foundations	1	248	248	10	2.480
Evacuation of the material	1				4.000
Total costs of demolition of the youth center					21.360
Restaurant					
A/ Ground Floor					
Civil works	1	320	320	360	115.200
Electric installation	1	320	320	70	22.400
Plumbing and drainage	1	320	320	70	22.400
HVAC	1	320	320	120	38.400

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Construction works	Units	Gross area per unit (sq.m)	TOTAL gross area (sq.m)	Cost of building (euro/sq.m)	TOTAL investment (euro)
Total ground floor					198.400
Basement	1	280	280	420	117.600
Outdoor swimming pool	1	66	66	350	23.100
Landscaping	1	1048	1048	45	47.160
Furniture and equipment					
					0
					0
Equipment for kitchen	1		0	100	55.000
Total furniture and equipment hotel					55.000
Total hotel building and equipment					462.620
Total costs for building					407.620
Total costs for equipment					55.000
Total costs for demolition and reconstruction				TOTAL	462.620

Based on the above assumptions, the pro-forma budget for the next 10 years looks as follows:

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Gross profit from individual activities										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Gross profit from pool	-9.510	-9.477	-7.186	-6.611	-3.718	-2.474	1.161	3.229	5.779	8.863
Gross profit from restaurants	84.206	93.231	103.201	114.213	126.376	139.808	154.641	171.019	189.102	209.067
Gross profit from all activities	74.696	83.755	96.015	107.602	122.657	137.333	155.802	174.248	194.881	217.930
Overheads										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Marketing (1% from revenues)	1.656	1.826	2.013	2.220	2.447	2.698	2.974	3.279	3.615	3.986
Utilities (electricity, water, phones, other)	36.445	37.174	37.918	38.676	39.450	40.239	41.043	41.864	42.702	43.556
Maintenance (3%)	4.969	5.478	6.040	6.659	7.341	8.094	8.923	9.838	10.846	11.958
Other costs	12.000	13.200	14.520	15.972	17.569	19.326	21.259	23.385	25.723	28.295
No of overhead staff	3	3	3	4	4	4	4	5	5	5
Cost of salaries (EUR 800 gross)	28.800	28.800	28.800	38.400	38.400	38.400	38.400	48.000	48.000	48.000
Total overheads	83.870	86.478	89.291	101.926	105.207	108.756	112.600	126.366	130.886	135.795
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total staff, No	18	19	20	22	22	23	24	26	27	29
staff/room ratio	0,9	1,0	1,0	1,1	1,1	1,2	1,2	1,3	1,4	1,4
EBITDA	-9.174	-2.724	6.724	5.676	17.450	28.577	43.202	47.882	63.995	82.135
Depreciation	15.691	15.691	15.691	15.691	15.691	15.691	15.691	15.691	15.691	15.691
EBIT	-24.865	-18.414	-8.966	-10.015	1.760	12.887	27.511	32.192	48.305	66.444
D/E (50:50) interest (2%)	3.470	3.470	3.262	3.051	2.836	2.619	2.398	2.174	1.947	1.716
EBT	-28.334	-21.884	-12.228	-13.065	-1.076	10.268	25.113	30.018	46.358	64.728
tax (10%)	0	0	0	0	0	1.027	2.511	3.002	4.636	6.473
Net profit / (-loss)	-28.334	-21.884	-12.228	-13.065	-1.076	9.241	22.602	27.016	41.722	58.256

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The NPV and IRR calculation is presented in the following table:

NPV and IRR Calculation											
<i>(in EUR)</i>	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
NOPAT	0	-20.888	-14.930	-6.258	-7.016	3.786	14.026	27.437	31.924	46.728	63.387
+ depreciation	0	15.691	15.691	15.691	15.691	15.691	15.691	15.691	15.691	15.691	15.691
Gross Cash flow	0	-5.197	761	9.433	8.675	19.477	29.716	43.128	47.614	62.419	79.078
- investments	-462.620	0	0	0	0	0	0	0	0	0	0
Operating Free Cash Flow	-462.620	-5.197	761	9.433	8.675	19.477	29.716	43.128	47.614	62.419	79.078
residual value (WACC 10,5%, 2% growth)											1.028.010
TOTAL	-462.620	-5.197	761	9.433	8.675	19.477	29.716	43.128	47.614	62.419	1.107.087
NPV (WACC 12%)	-9.481										
IRR	11,7%										

This last scenario is very simple and looks feasible financially. Of course, the main assumption is that there is a good Chef and a good menu from local produce to make a good and attractive restaurant viable. Wellness kitchen is the option.

Discussion on the application of the public private partnership

The legal framework for public-private partnership is enlisted in the Law on Concessions and Public-Private Partnership⁴¹, which regulates the awarding of a public private partnership (PPP) contract. The PPP contract would refer to obtaining a possibility for the construction and management of construction objects (spa complex, and the so-called youth center) according to the PPP model proposed in this study. The PPP contract, in accordance with the Law on Concessions and Public Private Partnership, can be concluded for a period of up to 35 years, that is, up to 30 years if the Law on Water regulates the allocation of a concession for use of water.

It is proposed that PPP is conducted as a public procurement of works, that is DFBOT model (Design, Finance, Build, Operate and Transfer) with the following structure:

- 1) The preparation of a basic project and its revision, the elaborate for the protection of the environment, as well as other documentation necessary for obtaining the approval for building of the spa complex, and the so-called youth center is an obligation of the private partner.
- 2) Financing and building the capacities as defined in this study (spa complex, or so-called youth center) are an obligation of the private partner.
- 3) Operation of the capacities - spa concept, and the Youth Center for commercial needs is an obligation of the Private Partner. The private partner will also be in charge of maintaining the facilities in good condition. The private partner will operate and manage the business as will be defined in more detail in the PPP Agreement and previously in the necessary documentation for starting the PPP process.
- 4) Compensation: The private partner may charge the Municipality a one-time and annual PPP fee:
 - One-time (entry) fee paid by the Private Partner by concluding the PPP Agreement, which needs to be defined at a certain level, say a few times the annual fee. The one-time fee is realized in the first year of use.
 - Annual fee: The private partner would pay PPP fee to the Public partner - Municipality for the current year, expressed in% of the total income realized in the last year. The amount of the percentage will be determined in the bid evaluation procedure.

When the tender documentation for the invitation of potential private partners is prepared, they will be invited to compete on two grounds:

- One-time fee and
- Annual fee

The minimum amounts would be established by the Municipality, and private partners would be invited to make suggestions on both categories.

⁴¹ Law on Concessions and Public Private Partnership (Official Gazette of RM No. 06/2012, 144/14, 33/15, 104/14 and 215/15).

The manner of paying the PPP fee will be closely regulated by the PPP Agreement.

5) Transmission: After expiry of the duration of the PPP project, the capacities that need to be in functional condition shall be transferred in the ownership, or in the possession of the Public Enterprise, if the PPP Contract is not extended.

The Law on Spatial and Urban Planning and the Construction Law are applied for the design and construction of the capacities. Regarding the legal regulations applicable to the PPP project, the Law on Construction Land should also be taken into account, or more precisely the provisions of Article 85, according to which the municipalities can implement a procedure for concession or public private partnership on construction land owned by the Republic of Macedonia assigned to permanent use upon prior consent of the Government of the Republic of Macedonia.

The PPP project would be implemented by the private partner through the establishment of a separate enterprise for this purpose, or through the establishment of a mixed-ownership company. The public and private partners could agree to form a majority-owned company of the private partner, whereby the public partner would receive a certain percentage of the company and on the basis of that it will earn a share in the annual profit of the company.

A combination of models is possible, whereby the private partner would be required, in addition to participating in the profits, to pay a definite annual and perhaps one-time fee.

However, the analysis demonstrated that the projected financial results were not too financially abundant, which should be taken into consideration when designing the documentation and PPP requirements.

PPP documentation can be prepared for the entire space, that is, for the spa complex and for the youth center, or it can be prepared separately for the two projects. On the other hand, one documentation can be made, and it should be emphasized that the PPP agreement can be divisible, i.e. two private partners will appear for the two projects.

The procedure for awarding a PPP Contract would be carried out as following these steps:

The Council of the Municipality adopts a decision on initiating a procedure for awarding a public private partnership contract. The decision should include:

- an explanation of the justification for awarding an agreement for the establishment of a public-private partnership, including an explanation of the basis for identifying the type of the contract, taking into account the definition of a public-private partnership,
- assigning its goals,
- subject of public private partnership and the basic conditions for awarding a contract for the establishment of a public-private partnership,
- ownership of the facilities to be built;

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- in the case of an agreement for the establishment of a public-private partnership, the type of procedure from the Law on Public Procurement,
- the manner and the time frame within which the procedure will be conducted,
- evaluation criteria, and
- the amount of the fee for issuing the tender documentation.

In order to implement the procedure, a Commission for the implementation of the procedure for awarding a PPP contract is established. The Commission is formed by the Mayor of the Municipality. The Commission performs, in particular, the following:

- preparation of the tender documents, including the draft contract;
- organization of acceptance of the applications for participation and offers;
- determines the ability of candidates and determines candidates who have the right to continue their participation in the procedure;
- determines the ability of the bidders;
- provide explanations and provide additional information and documents;
- reviews and evaluates the bids and ranks the bidders with a proposal for the first ranked person to be elected;
- prepares a report on the evaluation of the bids;
- submit a proposal for annulment of the procedure;
- performs all other activities necessary for conducting the procedure.

The Commission prepares the tender documentation, including the draft agreement and determines the criteria for awarding the contract as an integral part of the tender documentation. The tender documentation should be prepared, based and derived from this study. After approval of the tender documentation by the Mayor, the Commission publishes an announcement for awarding a PPP contract through the ESPP.

The awarding of contracts for the establishment of a PPP is carried out by way of a notice that is organized and implemented as:

- Open call;
- Limited call;
- Competitive dialogue; and
- Negotiated procedure with prior publication of a notice.

It is proposed that the procedure be conducted through an open procedure.

The decision on election, on the proposal of the Commission, is adopted by the Council of the Municipality. A legal remedy is allowed against it: an appeal to the State Appeals Commission on Public Procurement, which postpones the signing of the PPP Agreement with the selected bidder.

Annexes

Annex 1: Survey Questionnaire