MINISTRY OF ECONOMY AND SUSTAINABLE DEVELOPMENT OF GEORGIA

Report No: ACS17735

G E O R G I A
Urban Strategy

H O U S I N G

January, 2016

GSU09
Europe and Central Asia

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Abbreviations and Acronyms

ABE	Apartment building extension
BoG	Bank of Georgia
CBD	Central business district
DA	Development Agreement
EC-LEDS	Enhancing Capacity for Low Emission Development Strategies
EE	Energy Efficiency
EU	European Union
EUR	Euro
FAR	Floor-to-Area Ratio
GDP	Gross domestic product
GEL	Georgian Lari
GHG	Greenhouse gas
GIZ	German International Cooperation
GoG	Government of Georgia
GTZ	German Technical Cooperation (now under the name GIZ)
HH	Household
HDI	Human development index
HOA	Homeowners association
HRHT	Human Rights House Tbilisi
IDP	Internally displaced person
ISSA	Institute of Social Studies and Analysis
LEPL	Legal entity under public law
LTV	Loan-to-value ratio
MoESD	Ministry of Economic and Sustainable Development
NBoG	National Bank of Georgia
NGO	Non-governmental organization
NPL	Non-performing loan
PPP	Public-private partnership
SDC	Swiss Agency for Development and Cooperation
SNiP	Soviet construction norms and rules
SSR	Soviet Socialist Republic
UN	United Nations
UNECE	United Nations Economic Commission for Europe
USA	United States of America
USD	United States Dollar
ZhEK	Public housing management unit (*Zhilishchno Ekspluatatsionnaja Kontora*)

Currency Equivalents (2015)

USD 1 = GEL 2.28
USD 1 = EUR 0.90

GEL 1 = USD 0.44
GEL 1 = EUR 0.39

EUR 1 = GEL 2.53
EUR 1 = USD 1.12

Executive Summary

The intent of this report is to establish a broad-brush understanding of the housing situation in Georgia, and provide strategic policy recommendations to inform Georgia's Urban Strategy. Given the absence of adequate data or previous studies on housing in Georgia, the report does not claim to be a detailed sector analysis covering the three major pillars of housing including land, infrastructure, and finance. Rather, the findings of this document are derived from qualitative field research, and include those issues highlighted by stakeholders (public agencies, private banks, housing developers, endusers, NGOs etc.) as the most critical. Accordingly, this report should be viewed as a starting point for the Government of Georgia to initiate a serious policy dialogue on housing.

Background

Despite the significant challenges presented by transitioning to from a centrally planned to a market-based economy, Georgia has made positive efforts to introduce regulatory systems and leverage market forces for urban development. Among former Soviet states, Georgia stands as an example of a country that has undertaken significant urban reforms to streamline planning processes, including a one-step process for property registration, and a "single window" mechanism for submitting planning applications. These types of urban reforms are examples of proactive efforts by the government to bring greater efficiency to urban management systems. According to the World Bank's Doing Business 2013 data, Georgia ranks number one across all 185 economies surveyed in terms of registering property, and number three in terms of dealing with construction permits.

Institutionally, Georgia is also developing relevant regulatory bodies and incorporating urban development into long-range strategic planning. In 2005, for example, the Ministry of Urbanization and Construction was incorporated into the Ministry of Economy and Sustainable Development. At present, the smaller Department of Spatial Planning and Construction Policy at the Ministry is in charge of a wide array of urban issues, including housing. Along with the creation of this Ministry and its ambitious mandate, the State has shown enthusiasm for implementing wide-scale spatial planning and construction projects like the reconstruction of the city of Batumi and the rehabilitation-renovation of Old Tbilisi, the Center of Kutaisi, Akhaltsikhe, Telavi, and the towns of Signaghi and Mestia.

Despite these efforts, Georgia's transition away from a centrally planned economy and the absence of a new national urban strategy has left a hole that has not been completely filled by modern planning instruments. Evidence of the incomplete transition manifests itself in Georgia's urban areas and housing sector for which no comprehensive, nationwide mid- or long-term strategy exists. The country's urban areas lack master plans or land use plans, and are characterized by urban sprawl, inappropriate building forms and densities, low quality construction, and poor maintenance of housing and infrastructure. New construction in main cities, especially in Tbilisi and Batumi, is often done by flouting existing building norms, and has resulted in excess building densities and building heights in some areas, and sprawl in others. . Moreover, the reliance on centralized planning and financing during the Soviet period left Georgia with little capacity or expertise in land use and zoning legislation, and has led to a series of challenges in terms of coordinating urban development and infrastructure provision at the national, regional, and municipal levels.

In the housing sector, the lack of rules and implementation of appropriate standards after independence has led to housing being a serious concern today, in terms of quality and affordability. Challenges in the housing sector are wide-ranging, and include: Lack of building maintenance (despite the legal framework for and the widespread existence of home-owners associations); poorly-

built and unsafe extensions to many Soviet-era apartment blocks; high cost of new housing relative to income levels; thousands of new residential buildings left incomplete or with unsold units as a consequence of the 2008 financial crisis; lack of access to affordable mortgage finance or housing microfinance for home improvements; absence of a comprehensive government housing subsidy program for the poor; and the inadequacy of the current social housing program.

Key Issues

A. Housing Stock: Quality and Quantity

Lack of housing data. The lack of basic information on the housing sector – especially that which links household need, size, and condition/ quality to income as well as market data including the rate of production, type, and prices of housing – makes designing, budgeting and targeting specific areas for policy intervention difficult. The common indicator to measure housing adequacy is the built up housing area per capita: Not only is this deceptive because the measure for housing supply is in fact a housing unit and that for housing demand is a household, but such sweeping averages conceal the large spatial variations that exist from city to city and across different areas within a city. For instance, the apparent "over-supply" of housing units in Tbilisi is deceptive: This number is derived from the total residential built up area divided by the average house size, and not an actual count of the housing units. It thus conceals the differences across neighborhoods that are old, dense, and poor, versus those that are new, less dense, and wealthy. It also does not account for the unknown number of housing units that are in too poor a condition to be counted as part of the stock.

Poor quality of old housing stock. Over 80 percent of Georgia's current housing stock was produced in the Soviet period, and much of it was of lower quality than in the Slavic and Baltic States. The units had little variety, and were built cheaply and quickly to accommodate the mushrooming urban population, especially in Tbilisi. From the late-1970s onwards, mass housing in the capital's peripheries and other cities often received infrastructure that was typically of very low quality and, in some cases, even incomplete. The qualitative deficits in Georgia's housing sector are characterized by several factors, outlined below:

> *Apartment Building Extensions (ABEs):* Since the late-1980s, a common practice was to increase residential space by typically extending and enclosing additional built up area to existing buildings. Such extensions were legal in Georgia and, until 1991, carried out by state building companies (Zheks), which applied prescribed norms. However, once the Zheks were broken up and controls removed in the 1990s, apartment building extensions became an informal, chaotic mass phenomenon. Such renovations continue to date, are typically done by non-skilled labor, negatively affect the physical appearance of the buildings, and in many cases, compromise their structural stability.
>
> *Lack of building maintenance and management:* The poor condition of Soviet housing blocks is an outcome of their poor construction quality, but also continued lack of maintenance, and more recently, the mass construction of ABEs. There is currently no record or centralized registry on the structural integrity and general condition of these structures. The City of Tbilisi introduced some initiatives, for example, the "Tbilisi Corps" program that provides financial and technical assistance to Homeowners Associations (HOAs) to improve common areas in the buildings, and other Georgian cities plan to follow suit. One of the successes of this program was the dramatic increase in the establishment of HOAs; however, the problem of very poor quality housing remains because the program was not scaled up due to lack of funding. Currently, there is no effective or enforceable regulation that obliges HOAs to maintain their buildings - either independently or through a management company. The general apathy and lack of awareness regarding the added value of a professional management company means that repairs are typically undertaken in an ad hoc manner

through unlicensed contractors who do not typically provide a warranty or exercise adequate quality control.

Quality and affordability mutually exclusive in "new" housing stock. The only good quality well-finished housing coming into the market is of the turnkey type, which is often in the premium segment and affordable only to Georgians in the very top income percentiles or to foreign buyers. The more affordable options include core-and-shell housing, characterized as either "black" or "white" frame construction, both of which are often of low quality.[1] In terms of value-for-money, they are not low-cost when compared to international prices: for example, a 35m^2 white-frame unit in Georgia would cost USD 25K in the peri-urban areas and USD 45K in or near the CBD; similarly, a 65m^2 unit would cost USD 45K in the peri-urban areas and USD 80K in or near the CBD. Black frame buildings often resemble construction sites and give the appearance of incompleteness, blighting Georgia's urban skylines.

B. Legal and Regulatory Hurdles

Lack of adequate city planning instruments. The lack of physical planning instruments and absence of any national level housing or urban development policy has led to sporadic planning and urban development that pose long-term challenges as Georgian cities grow. For example, only 8 cities and 4 resorts/ townships (i.e. 12 settlements in total) in Georgia have approved master plans, and this includes Tbilisi. Several attempts to implement changes in policy and define a spatial development strategy failed due to financial limitations and weaknesses in implementation capacity. Current spatial planning legislation is too lenient; existing bylaws and codes are rarely enforced and sometimes even deliberately violated. The city of Tbilisi, as early as 2001, prepared '*The Regulatory Rules of Land-use and Territorial Development*' based on clear zoning principles, which included provisions for the purchase of additional FAR by developers. This practice of 'buying' development rights is contradictory to the basic intent of a zoning plan, and has resulted in unmanageable densities in certain parts of the city and little or no development in others, and to the construction of unsightly and out-of-scale buildings in Tbilisi's CBD that mar the city urbanscape and skyline.

Lack of enforcement of building codes. MoESD is currently in the process of revising the Code for Spatial Planning with the support of GIZ. A draft Code has been prepared, which is expected to become the overarching Law for Urban and Spatial Planning by the end of 2015 at the latest. The success of the new code, however, will depend on the government's ability to enforce it.

Lack of standards or certification of materials. The end of Soviet central planning and urban development left the country few experienced builders; the construction sector lacks skilled professionals both in terms of quality and quantity. Furthermore, imported and locally produced materials are neither standard nor certified, and construction equipment dates from the Soviet era. It is not very difficult to get a building permit in Georgia – as recognized by the country's ranking in Doing Business 2014-15. However, the underlying efficiency might enable sub-standard construction because the documentation requirements for getting a building permit are much lower than in other countries. This may partly explain why construction quality in Georgia continues to be sub-standard inadequate in terms of safety, and often non-compliant with building by-laws. MoESD is currently reviewing and reforming the Construction Code to bring it up to international standards.

C. Technical Capacity in Housing and Urban Development

Lack of technical capacity. Technical (and financial) capacity in spatial planning, urban design and architecture are not sufficiently developed at the national or the local level. MoESD's Spatial

[1] The cheapest type of houses being produced are the shell-and-core or "black frame", which constitute the basic structure with no finishes on the exterior or the interior. These have the appearance of an unfinished or incomplete building. The "white frame" construction is finished from the outside, and only partially finished on the inside (light fixtures, sockets, cabinets, WCs, sinks etc. not installed). The least popular – and the most expensive – is the turnkey project, which is only prevalent in upper income housing.

Planning and Construction Policy Department is understaffed and lacks capacity to fulfill its obligations in the housing sector. Local governments, on the other hand, responsible for creating new master plans and issuing building permits, often lack the professional capacity to undertake these tasks. This is partially because decentralization has not been coupled with sufficient capacity building at the local level or fostering local cadres of planners and architects, and also because the Ministry's charter assigns only a few housing-related mandates to the Department, for example, to "propose recommendations for improvement of housing conditions on the basis of relevant surveys", and to "compile housing sector characteristics…".[2] Such limited competences cannot address the needed improvement of numerous problems in the housing sector.

Lack of empowerment of private professional associations. The existing professional organizations in the building and construction sector have so far been ineffective in realizing positive change. The training of professionals in the fields of planning, urban design, and architecture is very weak, and this is evident from the quality of the new buildings. The licensing of architects and builders is not rigorous: For example, professional licenses are not revoked upon poor or illegal professional performance. Several professional organizations exist including the Federation of Constructors, which has 15 commissions including housing construction, seismicity, training, and education, as well as the Association of Urbanists of Georgia, which has drafted several initiatives at the national level to develop a new system of urban planning. If empowered and treated as partners in discussions with government, these organizations have the potential to help improve professional performance and accountability in the sector.

D. Housing Market, Affordability, and Financing

Private developers focus on high-end dwellings. The housing price increase of the 2000s was excessive compared to the income levels and made housing unaffordable for the vast majority of citizens. According to local real estate experts interviewed, in 2011 only 10-15 percent of Georgia's population could afford a flat in the new housing estates. The largest volume of pipelined residential projects in Tbilisi corresponds to those districts with the highest share of transactions of large units (151-250 m^2), indicating that the market is oriented primarily towards high-end buyers.

Lack of affordability. Given the inability of a vast majority of households to afford new housing for rental or for purchase, it is not uncommon for middle-income households to trade-up within the older housing stock, or to construct ABEs as a means to generate additional living space in a market where the older housing stock is too small and new housing is unaffordable. . The poorest households, on the other hand, are left without any affordable market options, a situation exacerbated by the severe dearth of publicly funded housing assistance programs.

Informality in housing. The lack of housing options has led to increasing informality in the sector, common manifestations of which include squatting in state and municipal-owned structures and the lack of legal documents (proof of ownership, building permits, cadastral references, etc.). In other cases, informality is due to unsafe structures or ABEs that were constructed without permits and/ or in violation of norms.

Incomplete housing projects. The developer industry is still reeling from the effects of the financial crisis, and faces several challenges. The developers were hit particularly badly during the 2008-10 financial crisis: Many construction projects abruptly stopped due to a liquidity crunch resulting, in part, from banks retracting their construction loans. As a result, many developers went bankrupt, and the vast majority had to close their businesses. Today, there are some 8,000-10,000 dwelling units in about 130 buildings in Tbilisi alone that were abandoned at different stages of construction, affecting some 15,000 households. While the City of Tbilisi has undertaken some efforts to support developers to complete and sell these houses to people living in old run-down houses, which the city then acquires (in return for financial support to the developers), the inability to scale up these efforts

[2] See http://www.economy.ge/en/minister/deputy-minister-328/spatial-planning-and-construction-policy-department

remains a challenge. The financial crisis also affected endusers who made advance instalment payments to developers to finance construction, and were left without houses when some developers abandoned the projects in the aftermath of the financial crisis. This practice, also known as "selling hot air", continues to happen today despite the obvious underlying risks and unbalanced exposure of the buyers.

Commercial banks' subsidiary developer companies. Some commercial banks have subsidiary developer companies to whom they provide preferential construction financing and funnel potential buyers with favorable mortgages. This practice of banks engaging in real estate activities creates an unlevel playing field and inherent conflicts of interest. Such banks are likely to cross-subsidize their activities by taking a loss on their real estate operations in order to capture customers for their banking services.[3] For example, a bank that owns a development company may offer special incentives for buyers who are or become customers of the bank. This creates barriers for entry for small developers (and banks alike), hinders competition in the housing market, and limits the housing choices available to customers. The Bank of Georgia (private), for instance, provides cheap construction financing to its subsidiary developer company, M^2, along with favorable mortgage loans to bank clients buying residential units in M^2 developments.

Foreign currency and high interest mortgage loans. Mortgage loans are still relatively expensive, and continue to be offered in foreign currency to borrowers earning in Lari, posing a high risk of default in case of currency devaluation. The ratio of loans in USD versus GEL is about 50:50. USD loans are offered at a lower, fixed rate interest. Lari loans are offered at variable, higher rate interest. The USD loans continue to be given because reportedly the banks' long terms liabilities are in USD. While mortgages in USD are more popular and cheaper, the rates still range between 9% and 13%. Housing microfinance, on the other hand, has not picked up in Georgia, but could be a potential mid-way solution for people seeking to improve their homes.

'Grey' rental market. Georgia's cities face extremely high ownership rates and underdeveloped rental markets. Georgia's home ownership rate in 2005 was 95 percent. These high levels of home ownership are largely attributed to the mass privatization of state-owned housing after the fall of the Soviet Union. Tax policies governing rental income, which includes a 20% tax for rental income exceeding GEL 100,000 per year, has further driven the rental market 'underground'. This has resulted in a largely underdeveloped and pervasive informal rental market where, barring expat renters who sign officially registered rental contracts, rental deals are made through informal agreements or unregistered contracts that are not legitimate or enforceable.

E. Poor and vulnerable groups[4]

Inadequate public housing and social housing. Georgia's social housing stock is very small and the current program is not sustainable. While the social housing stock available is generally of good quality (e.g. the public housing built in several Georgian cities by the Swiss Development Corporation (SDC) since 2007), the volume falls far short of need; in all of Tbilisi, there are a total of approximately 60 social housing units. Rental contracts for social housing are for 10 years and are rent-free, which effectively makes it a non-revolving asset. Because the quality of the limited social housing is far better than that of the general housing stock, it has on occasion been forcibly occupied by ineligible households, and eviction is virtually impossible.

Inadequate IDP housing. There are some 250,000 internally displaced persons (IDPs), many of which do not have adequate housing. While some IDP households have been integrated into the social

[3] National Association of Realtors, USA. National Policy Against Mixing Banking and Commerce https://www.irem.org/File%20Library/Public%20Policy/NPAMBC.pdf

[4] Poor and vulnerable groups are defined here as those households either in the 20th income percentile or below or those who experience a higher risk of poverty or social exclusion from the general population.

fabric, the vast majority continue to live in either makeshift shelters or communal centers not originally intended for residential use and characterized by extremely unsanitary conditions and lack of maintenance. While ongoing government programs aimed at improving the conditions of communal centers and resettling some IDP households to residential units have seen some success, the coverage of these programs is, at best, limited.

Recommendations

The long-term safety, quality, and affordability of the housing stock may be achieved through proactive policy and actions by the GoG. First and foremost, it is recommended that the Government consider developing a national housing strategy that provides a clear direction on the government's objectives, the roles of the various stakeholders, and establishes some key targets and indicators. Other recommendations for reforming the sector are summarized in the tables below. A national strategy can potentially also help elaborate these recommendations, in terms of prioritization and sequencing, implementation roles, budgets etc.

Table 1.1: Policy, legal and institutional framework

Short term	Medium term	Long term
▪ Adopt and implement the new Construction Norms and Rules ▪ Develop a national housing strategy/ policy ▪ Create a dedicated housing department at the national level ▪ (Re)establish a national center focused on issues related to housing	▪ Amend legislation and provisions pertaining to homeownership and HOAs ▪ Develop a housing database ▪ Reform legal framework and build capacity in the fields of housing and urban planning ▪ Create a consolidated legal and normative basis for housing ▪ Improve standards and introduce licenses for architects and builders	▪ Empower professional organizations in the housing sector ▪ Enhance teaching and research in the field of housing

Table 1.2: Housing quality, management, and sustainability

Short term	Medium term	Long term
▪ Create centralized inventory of old buildings in poor or hazardous conditions ▪ Prioritize upgrading and property management of existing housing stock ▪ Establish HOAs in all multi-family apartment buildings ▪ Mandate HOAs above a certain number of members employ a professional management company	▪ Scale up existing programs to make improvements to multi-family apartment buildings ▪ Elaborate a flexible policy to structurally upgrade *Khrushchevkas* with ABEs ▪ Mandate independent and systematic technical supervision of construction	▪ Improve the education and training of construction, architectural, and inspection staff

Table 1.3: Housing market, affordability, and financing

Short term	Medium term	Long term
▪ Halt further production of "black frame" residential developments ▪ Introduce incentives for private developers to build affordable housing units ▪ Revise building and spatial requirements to reduce cost of construction ▪ Expand access to housing finance and microfinance for the purchase and renovation of housing	▪ Develop and expand the rental housing sector ▪ Review practices of "favored" lending to bank-affiliated real estate developers ▪ Enhance legislative framework governing mortgage loans	N/A

Table 1.4: Poor and vulnerable groups

Short term	Medium term	Long term
▪ Define a policy for the provision of social housing for poor and vulnerable groups ▪ Provide the homeless with temporary accommodations	▪ Legalize informal and illegal construction through incremental upgrading	N/A

Table 1.5: Spatial planning

Short term	Medium term	Long term
▪ Regulate the territorial expansion of urban settlements with land use plans and master plans	▪ Introduce planning regulations that prevent deterioration of urban spaces	N/A

SITUATION ANALYSIS

1. Introduction

1.1 Background

This report is a sector analysis of the priority area of Affordable Housing prepared for the Government of Georgia. Following the submission of the Georgia Urbanization Review by the World Bank to the Government of Georgia (July 2014), three priority areas were identified for further analysis as part of a supplemental task in support of the Georgia Urban Strategy. These three priority areas were:

- Decentralization and Establishment of an Effective Local Self-Governments (LSG) System
- Local Econommic Development (LED)
- Affordable Housing.

As part of the diagnositic Phase I of the supplemental strategy, this analysis of the priority area of Affordable Housing includes a housing diagnostic that presents a broad-brush picture of the country's urban housing market on several key components including:

- *Institutional and legal framework*: Identification of the key players including goverment agencies, NGOs, professional bodies, and other private sector institutions involved in housing/ land development and management; laws and policies governing the construction, sale/ purchase, and renting of land and housing and property titling and transfers; government programs related to housing and housing finance.
- *Identification and stratification of prevailing housing typologies*: This will involve a classification of all existing housing typologies in Georgia. Specified information will include key characteristics such as occupancy, tenure forms, structural specificaitons, legality, quality, access to infrastructure, etc.
- *Housing market trends*: Analysis of different housing products offered on the market including new construction, old construction, and rental housing as well as market demand for particular typologies. This will also encompass a presentation of different housing finance products being offered on the market for home purchase, construction, and renovation.
- *Housing affordabilty*: Household income brackets will be aligned with the affordable housing products offered on the market based on household income levels, household expenditure on housing costs, and access to different housing finance products.
- *Subsidized housing*: Presentation of varieties of social housing, housing for IDPs and other housing assistance programs for poor and vulnerable groups available in Georgia's cities.
- *Preliminary recommendations*: A list of recommendations addressing main bottlenecks in the housing market in terms of the provision of accessible and affordable housing for all income segments.

1.2 Scope and limitations

While every attempt has been made to comprehensively cover all various facets of the housing sector in terms of housing affordability, it is important to note that this is an early iteration of the document to inform the Georgia Urban Strategy. The reader is advised to view this report in light of the following constraints:

- *Scope*: The housing sector is a broad, mutli-faceted area of focus; the analysis and main recommendations contained within this document represent a broad-brush and preliminary picture of the sector and the actions/ interventions the Government of Georgia might take to address bottlenecks.
- *Limited data availability*: Despite the best efforts of the World Bank team and the Government of Georgia to gather and provide data for this analysis, significant data gaps remain particularly in the realm of housing market trends. Long-term data on the number of housing completions, the number of different types of housing units by geographical area, data on housing rental, and even data on household income and expenditure was either not

available or not exact. These shortcomings are highlighted as issues to address as part of the Urban Strategy.

1.3 Structure

This report is comprised of six chapters and a recommendations section covering all housing sector components outlined in section 2.1. These include:

- *Policy framework*: The evolution of housing policy in Georgia, including an outline of the programs in the housing sector at the national and local levels.
- *Legal and institutional framework*: Legislation pertaining to the housing sector as well as institutions active in the housing sector on issues of spatial planning and urban development.
- *Housing stock and quality*: Detailed typological analysis of the existing housing stock in Georgia including case studies of each typology.
- *Market trends*: Characterization of the volume, quality, and price of different housing products on the market including new housing, old housing, and rental housing. Includes also an abalysis of demand for housing in Georgia.
- *Housing affordability*: Analysis of what housing and housing finance products are affordabie for different income brackets. Housing affordability is examined for homebuyers taking out mortgage loans, homeowners conducting extensions or renovations to their properties, homeowners only paying for utilities, and renters.
- *Housing for poor and vulnerable groups*: Characterization of the different options for the poorest households (20th income percentile and below) and vulnerable groups including IDPs.
- *Recommendations*: The primary recommendation is to create a national housing strategy/ policy. Other recommendaitons are classified according to: Legal reform; institutional reform and capcity building; housing quality, management, and sustainability; housing market, affordability, and financing; poor and vulnerable groups; and spatial planning.

1.4 Methodology

A detailed review was conducted of relevant existing data and studies, building on the Georgia Urbanization Review of July 2014. A field mission was also carried out in Tbilisi (capital city) in January 2015. Meetings were held with relevant stakeholders to cover all sub-components of housing in the public, private, and non-governmental sectors (including banks, construction companies, developers, residents and tenants, and public sector officials). The fieldwork encompassed visits to different sites in Tbilisi featuring the typologies specified in this report, including visits to peripheral informal development, historical neighborhoods in the center of the city, new medium and large-scale residential developments, etc. These meetings and visits yielded important findings and data that have been used and referenced throughout this report.

Additional research for the report was conducted as a survey of residents in different typologies of residential structures in Georgia. Qualitative data from respondents has been gathered and included in this report along with indicative photographs of the housing typologies discussed.

Due to the lack of data from GeoStat and other official sources in regard to certain aspects of the housing sector, particular weight has been given to qualitative data gathered during the January 2015 mission to Tbilisi as well as a number of market analysis researches conducted by other institutions in recent years, which are cited in this report.

2. Policy framework and programs

2.1 Country Background

Georgia has a population of 3,729,500 people (2015),[5] and is one of three countries in the South Caucasus region that was formerly a part of the Soviet Union.[6] The country comprises nine regions. These regions do not have a legal status in administrative-territorial division of the country, but are used for coordinating lower tier territorial units – municipalities and self-governing cities – through regional administrative representatives (governors) of the president, and also serve as statistical units.

According to the 2014 UN Human Development Report, Georgia ranks 79th worldwide on the human development index (HDI), just behind Azerbaijan (ranking 76th), but ahead of Armenia (ranking 87th). However, in terms of GDP per capita, Georgia lags behind both regional neighbors as well as most former Soviet Union countries. Georgia experienced its worst economic blows immediately after the collapse of the Soviet Union: industries were strongly tied to Soviet enterprises, and production fell dramatically.[7] The GDP per capita was last recorded in 2013 at USD 2,157, equivalent to 17% of the world average.[8]

Georgia's high unemployment – 13% at the national level, and exceeding 20% in urban areas in 2013[9] – and poverty rate of 9.7%, are a consequence of a combination of factors. These include the 2008-2010 financial crisis, as well as the large population displacement that resulted from the ethno-political conflicts of the early 1990s and the 2008 Russia-Georgia war.

2.2 Demographic and socio-economic context

The demography and population dynamics have changed dramatically over last 20 years. There was a housing shortage during the Soviet period when the country's population was 5.4 million, 56% of which was urban. Over the two decades after (re)gaining independence, the country's population dropped by 20%, and the population living in urban areas reduced by almost 1 million.

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[5] Data from National Statistics Office of Georgia. The population data for 2015 is based on the preliminary results of General Population Census 2014 and the population increase (natural increase and net migration) data for the last 2 months of 2014.

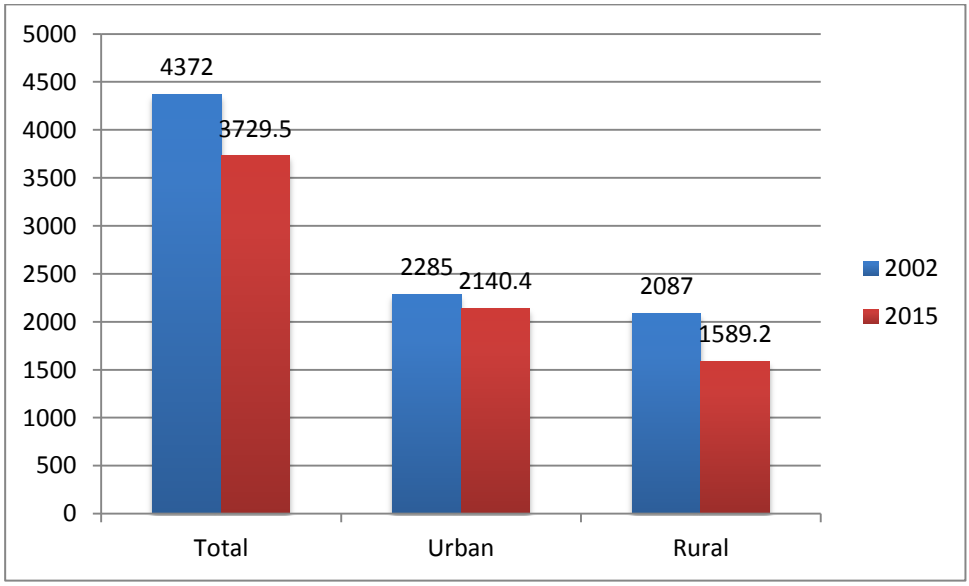
[6] The territory of Georgia, in the period of the Soviet power, contained two autonomous republics – Abkhazeti and Adjara, and one autonomous district/oblast – South Ossetia. Immediately after the dissolution of the Soviet Union in the early 1990s, two of them – Abkhazeti and South Ossetia – broke away, as a result of violent ethno-political conflicts, and fell under Russian control. After the Russo-Georgian war of 2008 these two entities declared independent statehood; however, they are not recognized by much of the international community, except for Russia, Venezuela, Nicaragua, and Nauru.

[7] UN Habitat. The State of European Cities in Transition: Taking Stock after 20 Years of Reform. (Krakow: IRM: 220, 2013), 213.

[8] GDP per capita in Georgia averaged USD 1880 from 1965 until 2013, reaching an all-time high of USD 3315 in 1985 and a record low of USD 680 in 1994. GDP per capita in Georgia is reported by the World Bank. (http://www.tradingeconomics.com/georgia/gdp-per-capita)

[9] GeoStat, 2013.

Figure 2.1: National Population of Georgia in 2002 and 2015, urban/ rural, thousands of persons

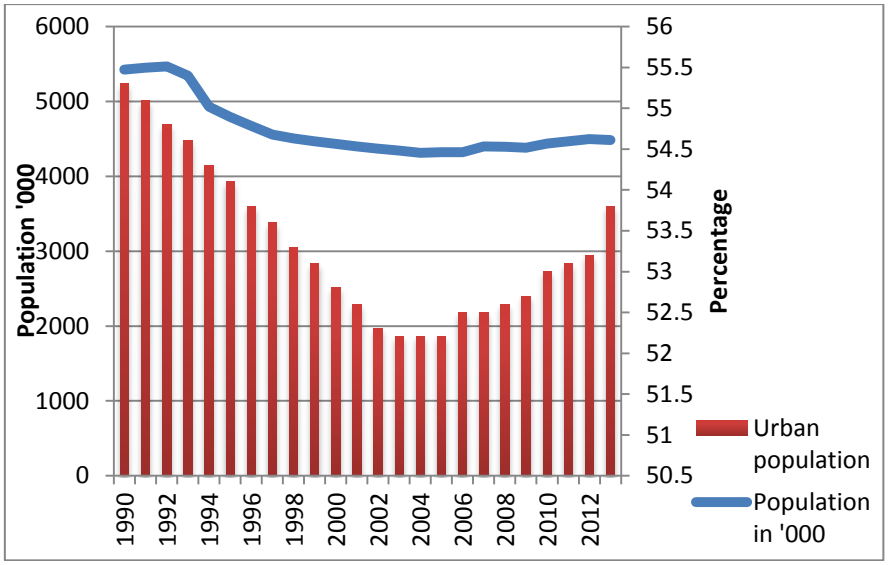


Note: Data from National Statistics Office of Georgia. The population data for 2015 is based on the preliminary results of General Population Census 2014 and the population increase (natural increase and net migration) data for the last 2 months of 2014.

All big cities except Zugdidi have lost population since 1989, with a more dramatic decline in Rustavi, Gori and Kutaisi (see Table 2.1), though urban populations have risen since 2002. This may, in part, be attributed to a reduction in crude birth rates and natural growth rates; however, the main factor for the huge population loss was emigration, which reached peaked in the 1990s, exceeding 1 million persons in total; the majority of out-migrants were urbanites. The inflow of rural migrants into cities did not fully compensate the outflow of the urban population; however, it significantly changed the quality of 'human capital' in urban areas. Other social and demographic characteristics of the population (e.g. fertility rate, median age, average family size, age-sex structure, etc.) also changed during this period.[10]

[10] Joseph Salukvadze and Giorgi Meladze. "Georgia: Migration, a main risk towards demographic future," in *Discovering Migration Between Visegrad Countries and Eastern Partners*, ed. Eross, Agnes and David Karacsonyi (Budapest: HAS RCAES Geographical Institute, 2014), 150-169.

Figure 2.2: Changes in population number and urban population (1990-2013)



Note: Compiled by the authors based on GeoStat annual publications/ yearbooks. See http://www.geostat.ge/index.php?action=wnews_archive1&qy=1&qy1=16&lang=eng

Table 2.1: Population changes in big and medium cities of Georgia during 1989-2012

City	Population			% of 2012 to 1989
	1989	2002	2012	
Tbilisi	1,246,900	1,087,000	1,172,700	**94.0**
Kutaisi	232,500	186,000	196,800	**84.6**
Rustavi	159,000	116,400	122,500	**77.0**
Batumi	136,900	121,800	125,800	**91.9**
Zugdidi	49,600	68,900	75,700	**152.6**
Gori	67,800	49,500	54,900	**81.0**

Note: Compiled by the authors based on GeoStat annual publications/ yearbooks. See http://www.geostat.ge/index.php?action=wnews_archive1&qy=1&qy1=16&lang=eng

However, the overall reduction of the urban population since 1989 has not diminish the demand for housing. Instead, people aspired for housing of higher standards compared to the Soviet period, when most families lived in relatively small houses (see Box 2.1).

Box 2.1: Georgia's housing policy during the Soviet period: Brief historical overview

The housing sector in Georgia has a peculiar history of development. It was – and to some extent, still is – largely determined by Soviet central planning methods, and state-owned housing. During the Soviet era, housing

policy served as one of the cornerstones of the official ideological doctrine of USSR. Land and real estate, including urban housing, were nationalized immediately after annexation of Georgia by the Soviet Red Army in 1921. An expropriation of real estate from 'the enemies' of the proletariat (i.e. aristocracy, bourgeoisies, wealthy farmers, traders and businessmen) and its redistribution among the working class took place in the early years after Sovietization. In order to accommodate the fast growing urban population, mostly resulting from rural-urban migration caused by a policy of socialist industrialization (in the late 1920-30s), the government adopted legislation and planning norms to assure minimal living standards for urban dwellers. In particular, they conducted 'communalization'[11] of the largest part of the existing housing stock, providing the citizenry with a minimum individual residential living space (usually less than 10 m^2/ person) with common domestic facilities (kitchens, bath, lavatories). The prescribed publicly-controlled limitations of living and personal space strictly limited individuals' rights to choose a residence, restricted internal mobility, and complicated the access to housing resources.

The communalization of urban dwellings, despite providing relative relief to mass homelessness, did not solve completely existing housing problems. This was because the urban population grew at faster pace, while a very limited number of good quality residential units were built throughout the Stalin period (1930-50s), and rarely so outside Tbilisi and a few larger cities.

The situation with housing changed dramatically during the '*Krushchev thaw*',[12] the period after Stalin's dictatorship. From the late 1950s and especially from 1960s, mass housing programmes were undertaken with the intent to solve the housing problems of a fast-growing population in the major cities. A housing campaign was launched with the slogan *'each family – separate apartment'*: it aimed at providing all citizens independent flats with domestic facilities. These interventions led to a rapid proliferation of low-quality, standardized apartment blocks under popularly applied name of '*khrushchevka*'.

From the 1970s onwards, more elaborate pre-fabicated multi-apartment residential units started being delivered. But even this could not meet the demand of the burgeoning urban population, in terms of the numbers of units delivered or the public's appetite for larger units (in part to accommodate the growing families). While multi-generational cohabitation in a single dwelling was not uncommon, it started to become less acceptable, even though this coincided with declining household sizes in the big cities. Thus, urban housing remained an acute social problem with long waiting lists for new flats in almost all urban centers. In the largest cities, waiting times of a decade or more were common. [13]

From the legislative and policy perspective, general provisions on Soviet housing were outlined in the '*Brezhnev's*' Constitution[14] of 1977. It clearly stated that the population's right to a dwelling is to be provided from the State housing stock, by supporting development of cooperative and individual housing construction, and fair distribution of housing among the population. Similar provisions became part and parcel of constitutions of all Soviet republics, including Georgia (see the Constitution of Georgian SSR of 1978). As a result, much of the housing stock remained under State ownership, represented by local governments and state enterprises and organizations; the dwellers of housing had the status of tenants/ lessees. Housing fees in the Soviet era was quite affordable for the population, and, hence, actually State housing provision had a 'social' function.

The 'Housing Code of Georgian SSR' adopted in 1983, more specifically defined legal aspects of housing affairs; it regulated the issues of housing tenure, responsibilities of tenants, apartment fees, apartment exchange regime, etc. Possession of any housing unit could be obtained after issuing of an '*order*' or a certificate/permission for occupation of a specified residential unit. However, social inequalities from a system of professional and other privileges also impacted the housing sector: while the 'norm of living space' defined by Soviet legislation was <9 m^2 per person, several population groups (e.g. scholars with academic degrees,

[11] 'Communalization' or creation of so called 'Communal apartments' occurred predominantly in old downtown residential buildings where working and middle-class families lived in subdivided, overcrowded apartments shared by several extended households (see Pacione 2009: 184).

[12] Refers to the period from the mid-1950s to the early 1960s when repression and censorship in the Soviet Union were reversed, and millions of Soviet political prisoners were released from GULag labor camps due to Nikita Khrushchev's policies of de-Stalinization; Nikita Sergeevich Khrushchev – First Secretary of the Communist Party of the Soviet Union in 1953-1964.

[13] UN Habitat, The State of European Cities in Transition: Taking Stock after 20 Years of Reform, 216-217.

[14] Named after Leonid Ilich Brezhnev – General Secretary of CC CPSU from 1964 to 1982.

members of artists and writers' unions, 'personal' pensioners, etc.) had a right to additional space (10-20 m²) or an extra room.

Nevertheless, despite all governmental efforts, housing remained an important socioeconomic problem for a large segment of the population in larger Soviet cities until the collapse of USSR. In the years of '*Perestroika*',[15] there were several large-scale efforts to resolve the prevailing 'housing hunger' in the country. One of the most remarkable efforts was the introduction of a state program, 'Habitat-2000'. It aimed not only at traditional goal of providing every Soviet household with its own apartment, but also at the gradual increase of living space. The program was utopian, but given the limited public resources available, even partial realization of this program would have required substantial private sector investment. Therefore, the last communist government in Georgia tried to achieve these goals within the confines of the existing housing stock. The government issued a decree and a resolution[16] allowing extension of existing living houses/spaces by building attachments, so called *pristrojikas* (in Russian*).* This applied to multi-apartment residential buildings of up to nine floors. The decree regulated the design, construction, and technical aspects, and established some rules on extension size/volume, sanitation and hygiene conditions, agreements among neighbors, etc. *Pristrojika* normally filled in balconies on the rear side of buildings or those overlooking courtyards.

At the beginning, construction works of *pristrojikas* were carried out by state building companies, and followed the prescribed procedures. However, after the collapse of the Soviet Union and the state construction sector, and especially after privatization of apartments in the 1990s, this process became unregulated. Tens of thousands of households built *pristrojikas* of unprescribed sizes and materials, and in unprescribed places, violating all norms of structural safety or urban aesthetics.[17] These practices lasted through the 1990s and early 2000s, resulting in the creation of a structurally unsound and visually unappealing housing landscape that is characteristic of Georgian cities.

2.3 Evolution of housing policy

The Soviet model of housing policy with complete state control and strong centralization cardinally changed after the collapse of USSR. Immediately after the independence, privatization of real property became one of the cornerstones of economic reform (see Box 2.2).

Box 2.2: Privatization of housing in Georgia

Georgia has one of the highest rates of privatized housing worldwide: 95% of the housing stock is privately owned. The context and history behind this is briefly summarized below.

In September 1991, the first national government elaborated and presented a draft document for consideration - 'On privatization of apartments' – which tried to implement the privatization process in a thorough and reasonable way. However, the government change in 1992 stopped that effort and gave a way to another, more populist, fast, and unjustified approach of blanket privatization. On 1st February 1992, the Cabinet of Ministers issued Decree No. 107, 'On Privatization of Dwellings in the Republic of Georgia', which transferred the ownership rights of apartments to their sitting tenants.

This practically 'free' transfer of houses or flats to setting tenants was carried out at the municipal level.

[15] Perestroika (the literal meaning is "restructuring") was a political movement for reformation initiated by the Communist Party of the Soviet Union during the 1980s (1986), widely associated with Soviet leader Mikhail Gorbachev and his glasnost (meaning "openness") policy reform.

[16] On September 22, 1987 the government issued a decree allowing the population certain building activities, for the first time involving the population in housing construction. The decisive push for the large scale construction of extensions came from a resolution of May 18, 1989—"On attaching of loggias, verandas, balconies and other auxiliary spaces to the state and cooperative houses at a cost of the dwellers/tenants" [author's translation].

[17] Joseph Salukvadze. "Market Versus Planning? Mechanisms of Spatial Change in Post-Soviet Tbilisi," in *Urban Culture and Urban Planning in Tbilisi: Where West and East Meet*, ed. Van Asche, Salukvadze & Shavishvili (Lewiston, Queenston & Lampeter: Edwin Mellen Press, 2009), 159-187.; Stefan Bouzarovski, Joseph Salukvadze and Michael Gentile. "A Socially Resilient Urban Transition? The Contested Landscapes of Apartment building extensions in Two Post-communist Cities." *Urban Studies.* Volume 48, issue 13, (2011), 2689-2714. [0042-0980 Print/1360-063X Online 1-26, 2010]

However, the Decree did not specify the legal status of the land plots on which this housing was built, or the duties of the new homeowners of multi-apartment blocks. The Decree envisioned that the Ministry of Urbanization and Construction would provide rules of maintenance; however, this did not happen, and there was no legal framework spelling out the obligations of apartment owners for property maintenance. By 2001, approximately 90% of Georgia's housing stock was privatized and about 450,000 families lived in multi-story privatized housing.[18]

The State *de-facto* handed over all responsibilities for building maintenance, utilities, insurance etc. to new owners. However, the inability and unwillingness of most new owners to pay for repair and maintenance resulted in a rapid deterioration of almost all apartment buildings in the city, and even their collapse, especially in the older parts of cities.

Besides privatization, numerous non-systematic and inefficient actions were undertaken by the government. For example, the Soviet 'Housing Code of Georgian SSR' continued to be used, and did not respond to the prevailing socio-economic context. The old housing legislation was occasionally used for regulating housing development, with some amendments along the way. The old Code was abolished in November 1997 when the new 'Civil Code of Georgia' was adopted. Chapter 4 of the Civil Code elaborates 'Apartment ownership in multi-unit houses', but the focus is more on the rights of the owners without adequate coverage of their responsibilities (for maintenance etc.).

A promising step was the foundation of 'Habitat-Georgia'[19] under the umbrella of UN Habitat. It provided the opportunity to launch studies and assessments of housing conditions in Georgia according to international standards, as well as to highlight the pressing housing issues to relevant governmental bodies. In 1996, 'Habitat-Georgia' prepared a national report on urban development and housing in Georgia for the second summit of UN Habitat in Istanbul. In 2001, it carried out research on 'The State of Urban Development in Georgia – 2000', in which housing issues were discussed explicitly. This report focused on aspects of housing such as: quality of housing stock, new housing developments, physical conditions of the existing housing stock, forms of housing ownership and leasing, legal aspects of landownership regarding new residential houses, etc. Notably, it also raised the issue of resuming of social housing construction in Georgia.

The acute issue of social ('communal') housing provision was discussed in an initial version of the law '*On Tbilisi – the Capital of Georgia*' (1998). However, it was withdrawn from the final version, suggesting the non-readiness and unwillingness of the authorities to tackle such a complex and socially sensitive problem.

The need to establish a regulatory framework for housing development was expressed in the early 2000s through several initiatives of professional associations of architects, urbanists, and planners. Among them, the launching of a competition on '*A Concept of Urban Development of Tbilisi*' in 2001 was most important. Based on this, in 2003, the architecture department of Tbilisi City Hall produced an important document, '*Reconciled Conception of Urban Development of Tbilisi*', which dedicated a chapter to housing issues in the capital city. However, the main ideas and findings of the works were not picked up by authorities for implementation until the 2010s.

The first national population census of Georgia of 2002 presented some information on the conditions of the housing stock, including outlining the vulnerable and homeless population. The 'Rose Revolution' of November of 2003 marked a new phase of socioeconomic development in Georgia, and it embraced the urban development and housing sectors. In 2004, a group of young revolutionary architects closely connected with new political elite issued the '*January Declaration*' with promises

[18] United Nations Economic Commission for Europe. *Country Profiles on the Housing Sector: Georgia*. (Geneva: United Nations Economic Commission for Europe, 2007), 9.

[19] 'Habitat-Georgia' by its legal status was a legal entity under public law (LEPL).

and plans to implement large scale urban programs and projects. The first steps were then taken to reform the institutional arrangements.

The institutional reorganization included the abolition of the Ministry of Urbanization and Construction; instead the Ministry of Infrastructure and Development was created. The new ministry started elaboration of a guiding policy document for housing - '*Framework of Housing Policy of Georgia*'. However, with the predominantly neoliberal approach of the Rose government, housing development was completely submitted to forces of a free market. Furthermore, decision-making in the field of urban planning, architecture, and housing was largely usurped by State authorities and a small group of well-connected developers. Key positions in urban planning entities were assigned to people without any training in the subject; the government did not consult with professional bodies or experts, and made the process of urban spatial development extremely non-transparent.

In 2005, 'Habitat-Georgia' was abolished. This was an abrupt discontinuation of Georgians' participation in the international network of urban laboratories, and prevented the implementation of a system of urban indicators.

Shortly thereafter, the central government undertook some steps to improve housing conditions in Georgian cities, starting with Tbilisi. In 2007, the President's order defined procedures to assure '*Legalization of Costless Transfers of Non-Privatized Living and Non-Living Spaces in Private Ownership to Rightful Tenants*'. In 2009, the '*State Purpose-Oriented Program of Rehabilitation of the Old Tbilisi*' was approved. This program involved revitalizing the old town by rehabilitating and upgrading old houses. However, the program has had limited coverage, both in terms of the area as well as the target population that received public assistance for home improvement.

Also in the late 2000s, the housing needs of vulnerable groups – including the IDPs that had hitherto stayed outside the government's spectrum of assistance – began to be addressed. However, these efforts were small-scale and fragmented, and largely initiated by NGOs and international donors. Examples include Roman-Catholic 'Caritas' that built the first homeless shelters in Tbilisi, and the Swiss Agency for Development and Cooperation (SDC) that constructed social housing in several Georgian cities.

This passive position of the government was coupled with a lack of data or research in the housing sector. It was only in 2006 that UNECE, with participation of international and local experts, launched a study of the housing sector of Georgia. Unfortunately, the findings and recommendations of that study – many of which are relevant even today – were not sufficiently recognized or implemented.

More recently, in 2012, in an attempt to close the data gap in the housing sector, the Spatial Planning and Construction Policy Department of MoESD conducted a household survey. Their publication on '*Urban Indicators*' (MoESD 2012) contain some interesting and useful facts and data on current housing conditions in the country. However, it only partially compensates the absence of comprehensive data, and is not well disseminated among the potential users. In 2013, an analytical document '*Social Housing – Georgian Reality in the Context of International Experience*' was prepared in collaboration with SDC, and is currently under review by MOESD. Its annex on '*Town-planning and architectural standards for social housing*' is particularly relevant.

The arrival of the new government in October 2012 dampened the pace of big, politically-backed urban and housing projects that were being carried out by the 'elite' stratum. Many such projects in the pipeline were cancelled, and others under implementation were temporarily halted (e.g. bypassing railroad in Tbilisi, Georgian segment of Baku-Akhalkalaki-Kars railway) or completely cancelled (e.g. new city of Lazika). Nothing tangible was offered instead, and this had a negative impact, especially in a situation where the market was still reeling from the impact of the 2008-10 financial crisis. The emphasis of the new government on local self-government reform was a positive step, but so far it has done little to systematically improve the housing situation or the urban environment.

2.4 Programs in the Housing Sector

2.4.1 National level

2.4.1.1 Social Housing programs

Since independence, the Central Government of Georgia has taken a largely passive attitude towards social housing, delegating this issue to local governments who, in turn, have neither the funds nor capacity to address this matter. The non-governmental sector has also been limited in its approach, implementing only projects addressing the homeless population to help them find temporary shelter.

Beginning in 2007, the SDC began implementation of a social housing project, "Social Housing in Supportive Environment".[20] Currently, there are 19 multi-unit social housing structures in seven Georgian cities as part of this project – Tbilisi, Batumi, Rustavi, Kutaisi, Gori, Zugdidi, Bolnisi. The numbers are, however, quite small. For example, in Tbilisi, a total of 52 families are housed in these buildings. All units are under municipal ownership and are managed by the local self-governments. The construction cost of the units was covered by the SDC, while local self-governments allocated land and provided infrastructure.

Due to the absence of a unified register of homeless persons or households living in inadequate conditions, selection of beneficiaries of the SDC social housing units was based on applications submitted by households to the local self-governments and Unified Database of Socially Vulnerable Households. To make the selection process transparent and sustainable, SDC developed guidelines for the selection of beneficiaries for each participating municipality. According to those guidelines beneficiaries should be socially vulnerable (disabled, war veteran, lone elderly, single parent with a child or children younger than 18 years of age), be in extreme poverty, and/ or live in inadequate housing conditions. In addition, the beneficiary should not own any immovable property. The selection process includes an evaluation of beneficiaries' physical and mental health, desire to find a job and ability to live independently without support from the state.

Once selected, beneficiary household signs a short-term contract with the local self-government. According to the contract, the beneficiary is provided with a fully equipped individual apartment without rental fees. However, all service expenses (e.g. electricity, gas, water, etc.) are to be covered by the tenant. Duration of the contract varies by municipality; for example, in Tbilisi social housing contracts are for 10 years. However, the economic situation of each household living in the social housing is evaluated annually for continued eligibility; when the socio-economic status of the household improves so that it might live in market-rate housing, beneficiaries are asked leave the social housing.

The SDC project constituted two and three-story multi-family buildings constructed of monolith concrete and brick. There are one, two, and three-room units with individual bathroom and toilet. The total area of the one-room apartment is approximately 28 m², while for the two-room apartment the area ranges from 35.5 m² to 41 m². Three-room apartments are approx. 60 m². As such, the area of SDC units is about average for the urban areas of Georgia, but the quality and appearance is far better than the average stock. Still, according to research[21] conducted by the Institute of Social Studies and Analysis (ISSA) in 2013, the main problem faced by beneficiaries in social housing is that they consider the living space too small. In addition, the general expectation among the majority of beneficiaries is that local governments will transfer social housing apartments into their ownership.

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[20] See SDC document [manuscript]. 2013. Social Housing – Georgian reality in the context of international experience. Tbilisi.

[21] Research of Social Parameters of Social Housing in Different Target Groups

Plate 2.1: A SDC social housing block in the Tbilisi district of Didi Dighomi

2.4.1.2 Energy efficiency programs

Energy efficiency became an important issue in Georgia from beginning of the 2000s. Georgia has signed several international, multilateral and bilateral agreements on implementation measures to increase energy efficiency and assure environmental conservation, including:

- PEEREA - Protocol on Energy Efficiency and Related Environmental Aspects;
- United Nations Framework Convention on Climate Change (UNFCCC);
- Kyoto Protocol, mechanisms of clean development;
- European Neighbourhood Policy;
- Green Book of EU;
- Memorandum of Understanding signed with the Kingdom of Denmark in 2004.

Based on these agreements, Georgia took responsibilities for harmonizing its legislation with international, especially European, standards by elaborating and adopting laws and standards on energy efficiency, renewable sources of energy, implementation of mechanisms of clean development, standards for construction and planning, etc. Of the few achievements in this field to date, the Parliament recognized the importance of energy efficiency by adopting a 2006 resolution on 'Main Directions of the State Policy in the Energy Sector'. However, apart from the new National Building Code dedicating a chapter to regulations on energy efficiency, no laws have been passed or projects initiated so far.

Seven Georgian cities have joined the Covenant of Mayors, a European cooperation movement involving local and regional authorities (Tbilisi (2010), Kutaisi, Batumi, Rustavi (2011), Gori (2012), Zugdidi and Poti (2013)). Signatories of the Covenant of Mayors voluntarily commit to increasing energy efficiency and the use of renewable energy sources on their territories. By their commitment, they support the European Union's 20% CO_2 reduction objective by 2020. The overall goal is to contribute to the development of an ecologically oriented economy and improvement of living and housing conditions. One of the main responsibilities of the program is the internal preparation of action plans for a sustainable energy sector and of a basic cadastral system for greenhouse gas emissions.

The only remarkable program enacted as part of this agreement to-date is Enhancing Capacity for Low Emission Development Strategies (EC-LEDS) Clean Energy Program[22], supported by USAID and managed by Winrock International Georgia. This program supports Georgia's efforts in climate change mitigation through energy efficiency and clean energy. The broader goal is to enable more responsible management and development of Georgia's natural resources. The objectives of the program include supporting Georgian municipalities in institutionalizing and implementing climate change mitigation measures, promoting and facilitating private sector investment in energy efficiency and green buildings, and building the capacity of the Government of Georgia to develop and implement a national Low Emission Development Strategy in support of the US-led EC-LEDS initiative.

The EC-LEDS Clean Energy Program comprises three components:

- Georgian Municipal Energy Efficiency, which will support at least 10 municipalities in quantifying and reducing GHG emissions, and institutionalizing climate change mitigation.
- Green Building Rating and Certifying System, which will introduce a voluntary system for rating and certifying green buildings in Georgia and build market demand for certified buildings.
- National EC-LEDS Working Group and Advisory Assistance, which would provide advisory assistance to the Government of Georgia to articulate concrete actions, policies, programs and implementation plans under the bilateral EC-LEDS initiative.

In order to reach EC-LEDS Clean Energy Program goals and build a clear understanding of the benefits of clean energy, energy efficiency technologies, green buildings and tools for their implementation, the program incorporates public outreach activities across all components. Outreach and communications goals include increasing citizen awareness that energy saving measures improve comfort in buildings and houses and reduce costs while decreasing GHG emissions and creating a positive image for EC-LEDS.

The outreach efforts also raise awareness of green building rating systems and benefits, targeted to households, private sector businesses and investors, and construction and development companies.
During the five years of the program, EC-LEDS Clean Energy is expected to reduce GHG emissions in Georgia by at least 236,372.[9] metric tons of CO_2 equivalent, facilitate up to USD 14 million in private sector investments in clean energy, and lead to energy savings of up to 315 GWh (the equivalent of approximately USD 22 million).

2.4.2 Local level

Over the last decade, some local housing projects have been undertaken, the most prominent one being 'Tbilisi Corps' initiated by the Tbilisi City Hall. With the assistance of the German Technical Cooperation Agency (GTZ, renamed in GIZ), the program is aimed at promoting the development of HOAs in the capital city.

The project was initiated due to the incompleteness and inconsistency of provisions on housing maintenance in the Civil Code of Georgia (1997). Preceded by the normative act (regulatory document) issued in 2002 by the Ministry of Urbanization and Construction of Georgia on '*Delimitation of Land Parcels Under Multi-Story Residential Houses'*, the Tbilisi Corps program sought to stimulate the inhabitants of multi-family buildings to establish HOAs to undertake building improvements in cooperation with City Hall.

Operating under the slogan 'Let's Together Improve our Living Environment', a municipal entity for Citizens' Participation and Integration, offered households public assistance for repair works of their

[22] See USAID Document. 2014. EC-LEDS Initiative Overview.
http://www.klimabuendnis.org/fileadmin/inhalte/dokumente/2014/Presentation_USAID_Georgia_EC-LEDS_Clean_Energy_Program_EN.pdf

buildings if they established HOAs and submitted applications for cooperation. The City Hall took technical as well as the bulk of the financial responsibility for such works, offering 50-80 percent co-funding for the repair of roofs, elevators, entrances and staircases, and damages to common spaces in multi-family apartment buildings. The Tbilisi Corps program served as a successful pilot project for the elaboration and adoption of the law '*On Home Owners Associations*' (2007) and facilitated the establishment of HOAs in Tbilisi and other Georgian cities.

Another successful program launched by Tbilisi City Hall is the Old Town regeneration project called 'New Life for Old Tbilisi'. During Tbilisi's credit-fuelled housing boom in the early to mid-2000s, there was an expectation that interest from investors in re-developing Tbilisi's Old Town, despite high density and strict limitations due to the architectural heritage preservation law, would halt the deterioration of historic housing stock. However, the bursting of the housing bubble during the 2008-2010 financial crisis, together with the 2008 Russia-Georgia war, suddenly brought private investment to a halt. At the time, property developers in Tbilisi had USD 700 million of unfinished buildings on their books, and banks were saddled with toxic debt. Construction came to a standstill, and many developers went bankrupt. In response, Tbilisi City Hall launched the New Life for Old Tbilisi project in 2009. Under the program, the government provided capital to developers as an incentive to complete the incomplete residential blocks (outside the historic center). Residents in dilapidated historic buildings could then opt to move into newly completed units, vacating their historic homes in the Old Town. The government then would then tender out the vacated property; and developers could subsequently redevelop and sell the historic houses, and use their proceeds to repay their original debts to the banks. This program, thus, sought toaddress the construction sector, banking sector, historical preservation of the Old Town, and quality of life for its residents, all at once.[23]

The program was successful in stimulating construction activities in the Old Town. However, the issue of protection of historic heritage sites and traditional housing landscapes remained a controversial topic. Only a year after the municipality disbursed its first funds under the program, 16 apartment blocks were finished by developers for a total of 500 families. That said, discussion continued on how to preserve the Old Town's historic character as developers undertook works on vacated properties. Ideas included securing agreement from the neighbourhood on development plans, as well as forming a 'parity council' to approve and supervise the work (comprised of the Ministry of Culture and the Tbilisi Municipality).[24]

Tbilisi authorities also undertook a program to inject confidence into the market by guaranteeing the purchase of all finished objects at the cost recovery price of USD 400 per m². This gave developers and banks alike some confidence, and while no significant transactions were realized, the announcement did lower the banks' perception of risk, thereby unlocking credits and encouraging developers to continue frozen projects.[25]

While the above mentioned programs are steps in the right direction in terms of stimulating the construction sector and injecting investments into the restoration of historic building stock, many challenges remain: Tbilisi, like some other Georgian cities, still has a large volume of deteriorated housing stock in its historical and central areas, as well as many incomplete buildings that blight the city's skyline and make it an unattractive destination for private investment.

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[23] Rebuilding Old Tbilisi: A new look for Old Tbilisi. Oct 6th 2010, http://www.economist.com/blogs/easternapproaches/2010/10/rebuilding_old_tbilisi

[24] Ibid.

[25] M. Gentile, Joseph Salukvadze & D.Gogishvili. „Newbuild gentrification, tele-urbanization and urban growth: placing the cities of the post-Communist South in the gentrification debate," in *Geografie*, 120, No, 2 (2015): 134-163.

3. Legal and institutional framework

3.1 Legal Framework

3.1.1 Legislation on housing

The existing legal and regulatory framework for the housing sector in Georgia is still underdeveloped. There are a few legal acts containing very general statements and some particular provisions regarding housing. However, there is neither a specifically targeted legislation, nor a legally adopted set of technical guidelines to comprehensively regulate activities in the housing sector.

The main law of the country, *'The Constitution of Georgia'* (adopted in 1995), with numerous amendments and editions, does not say much about housing or citizens' rights to housing. Article 37 indirectly addresses housing, as follows:

- *'3. Everyone shall have the right to live in healthy environment and enjoy natural and cultural surroundings. Everyone shall be obliged to care for natural and cultural environment,'*[26] and
- *'5. A person shall have the right to receive complete, objective and timely information as to the state of his/her working and living environment'.*

Article 39 states,

- *'The Constitution of Georgia shall not deny other universally recognized rights, freedoms and guarantees of an individual and a citizen, which are not referred to herein but stem inherently from the principles of the Constitution.'*

Additionally, Georgia ratified the 'Universal Declaration of Human Rights' in 1991. [27] Article 25 of this Declaration states:

- *'Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including <…>housing <…>'.*[28]

'The Civil Code of Georgia', adopted in 1997, provides several paragraphs that frame property relations in the field of housing. Book 2 of the Code is dedicated to 'Law of Things (Property)' and determines concepts and important issues of 'Property', 'Possession', 'Public Register', 'Ownership', and what is the most relevant for housing sector, 'Apartment ownership in multi-apartment buildings (Condominiums)' (Book 2, Title 3, Chapter 4). It clarifies upon general concepts of apartment ownership (Article 208), rights and grounds of its acquisition (Articles 209 and 210), subject of individual ownership and determination of shares in common property (Articles 211 and 212), registration of ownership of apartment in the Public Register (Article 214), and relations among apartment owners (Articles 215 to 232), including duty to repair dwelling (Article 231).[29]

Most provisions in the Civil Code pertaining to ownership in multi-apartment buildings are linked to a later law (adopted in 2007), '*On Home Owners Associations*' (HOA). In addition to the ownership issues covered under the Civil Code, this Law also focuses on the management, maintenance and development responsibilities of common property of HOA members (Chapter I, Article 2), and

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[26] Herein and elsewhere in the report English translation of provisions of the Constitution is cited according to the text presented at http://www.parliament.ge/files/68_1944_951190_CONSTIT_27_12.06.pdf, the web-site of the Parliament of Georgia.

[27] International agreements recognized and signed by Georgia are part and parcel of Georgian legislation and have a power of direct effect.

[28] See http://www.un.org/en/documents/udhr/index.shtml#a25

[29] Herein quotations are used according to a translation of the Civil Code by IRIS Center at the University of Maryland. See http://www.law.yale.edu/rcw/rcw/jurisdictions/asw/georgia/Georgia_code_civil.pdf

regulates relations between HOA and local government entities (Chapter VI). However, although the Law was considered relevant and progressive at the time of its adoption, some of its shortcomings have become evident over the years – for example, it does not envisage the granting of HOA membership to owners of units in formerly non-residential multi-unit buildings (e.g. schools, dormitories), which are currently occupied by many IDP households, as discussed later.

Adopted in February 2014, '*The Local Self-Government Code*'[30] defines the powers and responsibilities of local self-government bodies, i.e. municipalities, which includes: Spatial-territorial planning and determination of regulations and standards in the relevant field; Approval of urban planning documents, including the land use master plan, the regulation plan for landscaping, the regulation procedures for the use and landscaping of urban areas; Improvement of the municipal area and development of relevant engineering infrastructure; and Issuance of building permits and inspection of construction within the municipality (Chapter 3, Article 15, Paragraph 2d, 2e and 2k). Specifically with respect to responsibilities in the housing sector, the Law only states that local governments are responsible for the "provision of shelters to homeless persons and their registration" (Paragraph 2r), and there is no mention of the local government's role in the delivery of affordable or social housing.

Further, many housing-related legislative acts of the Soviet period that were repealed are yet to be replaced. Article 106.2 of the Constitution imposed upon the government an obligation to determine the consistency of old Soviet normative acts with the Constitution within a two-year period. This was not done. For example, the '*Housing Code of the Soviet Republic of Georgia*'[31] was abolished, and the '*Law on the Principles of State Housing Policy*' was drafted in 1997. However, it was never adopted, and has resulted in a vacuum in the country's legal and institutional framework for housing. Indeed, a decree of the Minister of Urbanization and Construction of Georgia from 5 February 2002 on the '*Prolongation of the Terms and Validity of Construction Norms and Rules and Other Normative Acts*' was passed requiring that normative acts from the Soviet period only be abolished upon the enactment of appropriate new rules.[32] Recently, the government (namely Spatial Planning and Construction Policy Department of under MoESD) embarked on the preparation of new construction norms and rules in line with international, especially European, standards. The document has been prepared and is expected to be presented to the Parliament in early 2015.

3.1.2 Legislation on spatial planning and urban development

The legal framework for urban development and town-planning is relatively better developed than for housing. In addition to the above-listed laws – the Constitution, the Civil Code, the Law on Home Owners' Associations, and the Local Self-government Code – which contain a few declarative statements related to general aspects of urban planning and development, there is a special legal act that regulates some important aspects of spatial arrangements in urban areas.

The existing system of spatial planning in Georgia is based on the Georgian law '*On Territorial Arrangement and Urban Planning*'[33] of 2005. It defines general principles and conceptions of urban planning and development, including:

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[30] '*The Local Self-Government Code'* repealed the '*Organic Law on Local Self-government*' of 2007 and three other laws including '*The Law of Georgia on the Capital of Georgia – Tbilisi*'. The previous organic law on local self-government also contained similar to the above-presented provisions. [The new Local Self-Government Code: Overview of the main novelties. Transparency International Georgia. March, 2014; available at http://transparency.ge/en/blog/new-local-self-government-code-overview-main-novelties]

[31] UNECE. *Country Profiles on the Housing Sector: Georgia*, 8.

[32] Ibid., 8.

[33] For the purposes of this report we use the title of this law in English according to the document '*Country Profiles on the Housing Sector: Georgia*' (e.g. see p. 25) prepared by UN ECE in 2007. More precise translation of the original Georgian title is: '*On Basics of Spatial Arrangement and Urban Development*' which is also used in some other documents and reports.

- definition of planning types and hierarchy (Chapter 2);
- balancing public and private interests in planning and construction processes (Chapter 1, Article 6);
- citizens participation (Chapter 1, Article 7);
- types and compatibility of planning documentation (Chapter 2, Articles 11 and 12);
- general rules of land-use planning in settlements (Chapter 4, Article 26),
- fixing principles and parameters of land-use (functional) zoning and building regulations, etc.

Among the multiple aspects of urban planning and development, there is also some mention of housing. For example, 'Creating for the population a healthy and secure environment for habitation and work' (Chapter 1, Article 4, Paragraph 1a); the creation of 'Space of equal opportunities', guaranteeing flawless and equal conditions for housing and business activities is also among main objectives (Chapter 1, Article 2b).

It is noteworthy, however, that several essential elements of the law have never have been enforced in reality. For instance, the provision that determines priority of public over private interests in the field of spatial planning and construction are systematically ignored. So is a provision on protecting and maintaining the natural environment and cultural heritage (see articles 6.1 and 6.2). Furthermore, some provisions of the law lack clear definitions in practical terms or the mechanisms for implementation. For example, it is unclear how (e.g. through which actions and procedures) the citizens' right of participation in urban development processes can be realized.[34]

According to this law, development of local planning and zoning documents and the issuance of building permits[35] is the responsibility of local governments.[36] However, in reality, the majority of local governments neither prioritize creation of new master plans nor have sufficient funds or capacity to undertake this task. Most cities in the country still do not have master plans other than those from the Soviet period which have expired[37] or are no longer relevant. Only 8 cities (Tbilisi, Batumi, Rustavi, Poti, Zugdidi, Ambrolauri, Kaspi, Chokhatauri) and 4 townships of recreation/tourism functions (Mestia, Bakhmaro, Ureki and Bakuriani) prepared master plans as of 2015. This has led to a situation whereby most urban areas in Georgia are growing sporadically and chaotically posing a severe problem at the national scale, and in the delivery of housing as well.

Over the last two decades, a few attempts were made to address this situation in spatial planning and construction. In the 1990s, statutory acts related to urban policy were prepared on a periodic basis, e.g. the 1996 *Order of the President of Georgia on Activities Endorsing the Management of Urban Development Process City-Planning and Construction*, and the 1997 *Programme and terms for open competition on the concept of urbanization of Georgia*, prepared by the Association of Urbanists of Georgia for the Ministry of Urbanization and Construction. Unfortunately, neither of these documents received political support."[38]

The Minister of Urbanization and Construction, the then relevant entity in charge of urban issues, issued a decree in February 2002, on the '*Prolongation of the Terms and Validity of Construction Norms and Rules and Other Normative Acts*' actually leaving Soviet regulatory system in place. However, such a decision did not prove to be efficient: often, while taking particular decisions,

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[34] See V. Vardosanidze, „Social Dimentions of Urban Development in Post-Soviet Georgia, The Quest for Participatory Planning in Shattered Social Landscapes" In *City Culture and City Planning in Tbilisi. Where East and West Meet*, ed. Van Assche, K., Salukvadze, J. and Shavisvili, N. (Lewiston: Mellen Press, 2009), 189-208.

[35] In the absence of a master plan individual applications must be submitted to relevant local bodies for further consideration.

[36] UNECE, *Country Profiles on the Housing Sector: Georgia*, 25.

[37] Their validity was extended up to 2004, with the Presidential Decree (February 2002) on '*Prolongation of the Terms of Validity of Master Plans*' (Ibid: 26).

[38] Ibid, 26.

decision-makers often ignored those rules referring to their obsoleteness, which aggravated disorder and chaos in spatial planning and construction sector.

Given the regulatory vacuum at the national level, the city of Tbilisi as early as in 2001 prepared '*The Regulatory Rules of Land-use and Territorial Development*', approved by the decision of the city council (#8-13, 01.08. 01). The 'Rules' were based on clear zoning principles of the urban territory. They determined: (i) all possible types of planning zones, and (ii) main building parameters for building development in each zone, including maximum and minimum indices (i.e. putting low and high limits, inside which parameters might vary). Among 11 functional zones defined by the 'Rules', one was residential, further subdivided into 6 housing/ residential (sub)-zones with fixed coefficients K-1 (ground coverage), K-2 (built-up area) and K-3 (green area).[39] For the sub-zones, along with the main residential function, other applicable types of land-use were also determined.

Based on the experience of the capital city, in 2008 the Ministry of Economy elaborated and approved the by-law (normative legal act) '*Main Provisions on Land-use and Building Regulation in Settlements*'. This document provided local self-governments with guidelines (like the 'Rules' in Tbilisi) for developing rules for spatial development of their territories. Indeed, they had to elaborate rules for particular settlements and ensure enactment of the 'Main Provisions'. Tbilisi City Council, accordingly, updated the Rules; however, in practice, deviation from the Rules was a common occurrence - for example, it was, and is still, legal to offer developers the option to buy an excess value of the K1 coefficient and, especially, the K-2 coefficient, which allows for much larger and taller buildings to be constructed than would be allowed per the Rules. This practice has had a very negative impact on many residential and historical areas of Tbilisi. However, all in all, despite these shortcomings, the Rules have still helped control the building development process by putting into frame an otherwise very chaotic and mismanaged process of urban growth.

3.2 Institutions in Housing Sector[40]

3.2.1 Public Sector

3.2.1.1 National level

Currently, the Spatial Planning and Construction Policy Department of the Ministry of Economic and Sustainable Development of Georgia is the principal responsible entity for housing and urban issues at the national level in Georgia. It is a relatively small entity that consists of two structural units: Division of Urban Development, and Division of Construction, and employs less than 20 permanent staff. At the same time, the functions/ tasks of the Department prescribed by the Ministry's Charter encompass a very wide spectrum of issues and activities (see Annex 2), which are not matched by the Department's limited size and capacity. The present institutional framework for housing, planning, and construction is a result of multiple institutional and structural changes made in the sector (see Box 3.1).

[39] K-1 defines maximum portion of a land plot that could be occupied by a building; K-2 defines maximum possible total built area of a particular parcel in a particular zone, adding together areas on all floors in the building; K-3 defines a minimum green area in a particular parcel.

[40] This section of the report is largely based on the provisions of the UN ECE document 'Country Profiles on the Housing Sector: Georgia', published in 2007 (Chapter 2).

Box 3.1: Institutional changes in the state housing sector

In the Soviet times, a State Committee for (Housing) Construction (*Sakhmsheni*, in Georgian) and Ministry of Housing and Utilities were responsible at the republican level for: (i) formulating and managing state policy regarding settlements and construction (including housing policy), and (ii) for resolving particular issues related to housing and communal (utility) services.

Since independence, the housing sector has undergone thorough institutional reorganization, resulting eventually in the complete elimination of a distinct housing entity. After transition, the Soviet-era state building entity retained its status and was converted into the Committee of Architectural and Building Affairs. In 1995, its status was changed and it was renamed the Ministry of Urbanization and Construction, absorbing the functions of the former Ministry of Housing and Utilities.

However, soon after the 'Rose government' came into power, the Ministry of Urbanization and Construction was reorganized to become Ministry of Infrastructure and Development. Shortly after the reorganization, functions related to housing and building development were transferred, although in reduced format, to the Ministry of Economic Development, the predecessor of the existing Ministry of Economic and Sustainable Development, which in turn also had experienced several reorganizations.

The Ministry's charter assigns several housing-related mandates to the Department, namely: "Propose recommendations for improvement of housing conditions on the basis of relevant surveys"; and "Compile housing sector characteristics…"[41] Such limited mandates cannot address the housing sector comprehensively, given its numerous and varied problems. Furthermore, none of the ten legal entities of public law (LEPLs) submitted to the Ministry of Economic and Sustainable Development focuses on housing issues.

Besides the Spatial Planning and Construction Policy Department at the Ministry of Economic and Sustainable Development, certain aspects of housing policy formulation and execution can also be identified in other Ministries: Ministry of Refugees and Accommodation; Ministry of Finance; Ministry of Labor, Ministry of Health and Social Affairs; and Ministry of Culture and Monuments Protection. In addition, the following Parliamentary Committees are concerned with housing issues: Budget and Finance, Human Rights and Civil Integration, Sector Economy and Economic Policy, Regional Policy, Self-Government and the Mountainous Region, Legal Issues, and Health Care and Social Issues.[42]

3.2.1.2 Local government

According to the laws 'On Territorial Arrangement and Urban Planning' and 'Local Self-government Code', the local government has the responsibility for land-use and territorial planning, zoning, construction permits and supervision, housing, and communal infrastructure development. These functions are carried out by 12 self-governing cities (Tbilisi, Kutaisi, Batumi, Rustavi, Poti, Zugdidi, Gori, Telavi, Ozurgeti, Akhaltsikhe, Mtskheta and Ambrolauri) and/ or municipalities (consisting of groups of urban and rural settlements). However, the decentralization process that started in 1994 according to the 'European Charter of Local Self-government' (1985), and which Georgia joined in 2004, is still incomplete. Many local governments remain, for the large part, unsustainable. Until very recently, particularly before adopting the new 'Local Self-government Code', enactment of which envisages further significant governance reforms, "the State still retained control over the local self-government through fiscal (local budgets rely mostly on direct and equalizing State transfers) and

[41] See http://www.economy.ge/en/minister/deputy-minister-328/spatial-planning-and-construction-policy-department

[42] UNECE, *Country Profiles on the Housing Sector: Georgia*, 13.

institutional set-up. There were cases of control and interference by the State in the responsibilities of local government, even where the law defined otherwise."[43].

At the regional level, in accordance with the '*The Local Self-Government Code*', most of the housing issues and many planning aspects are the responsibility of local self-government. These include management, maintenance, and new construction, developing an overall strategy for urban development, preparing master plans, issuing construction permits, and monitoring construction. However, apart from Tbilisi, Adjara is the only other region that has tried to undertake initiatives in urban development – from the perspective of spatial planning, affordable housing provision, etc. This might be explained by the autonomy of the region, suitable institutional arrangements, adequate human resources, as well as attempts to 'keep a distance' from central authorities. In 2013, the region prepared a document '*Spatial Arrangement Scheme of Autonomous Republic of Adjara*', which may be considered a good precedent for decentralization in the country. This document was preceded by two other works – '*General Land-Use Plan of the City of Batumi*' and '*Basic Historical-Cultural Plan of the City of Batumi*'. At the same time, the procedures and time frames applied for approval and further administering of documentation are not convenient and hinder timely implementation. In the field of housing, Adjara also started to elaborate innovative schemes for the construction of social housing.

At the municipal level, several local governments are active in spatial planning and housing. The municipalities of Rustavi, Poti, Zugdidi, Ambrolauri, Ckhorotsku, Kaspi and several others demonstrated interest in developing Land-use Master plans. However, lack of guiding instructions in the form of by-laws for this field of activity hinders such initiatives and slows down implementation.

3.2.2 Private Sector Stakeholders and Civil Society

3.2.2.1 Private sector: Developers and builders

Since the early 1990s building and development activities gradually have been transferred from the public to the private domain. Today, more than 90 percent of construction, including housing, is undertaken by approximately a hundred private companies of different sizes and capacities. Two thirds of the national construction market is controlled by 10 to 12 larger development and construction companies; the rest are small companies.

The construction sector has grown significantly over recent years, employing 60,614 persons at the end of 2014 compared to 21,344 in 2004. The number of persons employed dropped dramatically following the financial crisis of 2008, but rebounded to 2007 levels by 2011. Likewise, the production value of construction was GEL 1,162,700,000 at the end of 2014 compared to 383,700,000 in 2004.[44]

The non-existence of licensing for construction businesses, lack of quality control in construction materials or construction quality, and the low quality of the workforce, together with an inadequate regulatory framework and the absence of relevant construction norms continue to be among the main constraints to in the housing construction industry. Many developers built shell-and-core structures of the white and black frame variety in recent years, crowding Tbilisi's skyline with buildings that appear unfinished. Following the financial crisis of 2008-2009 and due to the frequent practice of pre-selling apartments to finance construction, many buildings have remained in various stages of construction.

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[43] Ibid, 14.

[44] National Statistics Office of Georgia, Construction data 2004 – IV 2014. <http://www.geostat.ge/index.php?action=page&p_id=467&lang=eng>

3.2.2.2 Civil society: Professional organizations

The lack of a robust group of civil-society organizations is increasingly hindering Georgia's housing sector; among them the following entities are most important:

- *The National Union of Architects of Georgia*, dating back to 1931, has more than 780 members and commissions on education and science, legislation, competitions, urban planning and ethics. A congress of all members is held every two years. The Union's aims to protect the rights of architects and to provide a platform for continuous training through participation in international events and conferences. It is also involved in the preparation of legislation for Parliament.

- *The Association of Urbanists of Georgia* was founded in 1990 and is an NGO. It has 50 members. Its main activities include the preparation of draft laws, participation in urban planning competitions and in urban development processes, consultations to the Government and the population, and participation in debates concerning urban development issues. The Association elaborates projects founded by local and international organizations. It also collaborates with governmental institutions, local municipalities, NGOs, the Georgian Technical University, the German Academy for Regional and City Planning and UN-HABITAT. The Association drafted several initiatives at the national level to develop a new system of urban planning. Currently, the Association is undergoing structural reorganization.

- *The Federation of Constructors* was established in 1999 and re-registered in 2005 as a non-governmental union. According to the 2006 report by UNECE, in 2006 the Federation had 7,000 individual and 30 organizational members. All organizations are private and involved in construction activities. The Federation has units in the cities of Tbilisi, Rustavi, Kutaisi and Poti in addition to 33 units in districts. It is represented by its president and honorary president. Its governing board consists of 16 members, and the Chair of Board is responsible for the Federation's juridical, financial and other governing issues. Among its 15 commissions are commissions on housing construction, legislation, ecology, seismicity, and training and education. The main activities of the Federation include consultations and recommendations to members, legislative initiatives; technical support to members, informational support to members; and distribution of different professional materials.[45]

- *The Developers' Association* was established in 2005 by eight larger private construction companies. Its aims are to protect private companies' interests, to analyze the existing situation in the construction market, to elaborate and implement its own construction standards, and to establish a code of ethics. The Association's members claim that they are not perceived by public authorities as partners in discussions concerning the construction sector. And while public-private partnerships are welcome, there have been few such partnerships initiated by public authorities. A lone example in recent years was the construction of the swimming pool in Batumi on a plot sold to developers by the municipality.

[45] UNECE, *Country Profiles on the Housing Sector: Georgia*, 20.

4. Housing Stock and Quality

4.1 Housing stock

Up-to-date statistics on Georgia's housing stock do not exist and/or are unavailable. The quantity, volume and structure of housing stock is unknown; and other important details about housing units are not recorded. Hence, for the purposes of this report, the best available sources have been used to arrive at approximate figures related to the above-mentioned parameters. Some relevant findings from secondary sources are stated below:

- The UN-Habitat review 'The State of Eastern European Cities in Transition' reports that Georgia had an estimated 90 to 100 million m² (built area) of total housing volume in 2010.[46] A UNECE report of 2007 stated that 'average housing space per capita was about 22.5 m² before the collapse of the Soviet Union.[47]
- By 2005, in urban areas, 67 percent of households were living in flats in multi-apartment houses. In comparison, in rural areas, 96 percent of rural dwellers were living in detached houses.[48] It may be fair to assume that the proportion of urban households living in multi-apartment houses has only grown since.
- In 2010, based on a household study conducted by the Ministry of Economic and Sustainable Development (Urban Indicators, 2012), more than a third of the entire Georgian housing stock was older than 50 years, and only less than 10 percent was constructed after independence. Meanwhile, over 50 percent of housing was produced between 1960 and 1990 during the communist construction boom in the form of multi-family *'khrushchevkas'*.[49]

While there is severe lack of data on housing in Georgia, the 2012 'Georgia Real Estate Market Overview' provides some limited housing data on composition and recent development in the housing sector, although only for Tbilisi and Batumi, presented in Table 4.1.

Table 4.1: Some parameters of housing stock in Tbilisi and Batumi

City	Housing units (#)	Average housing space per capita (m^2)
Tbilisi	339,106	24[50]
Batumi	88,732	NA

Source: Jones Lang LaSalle. Georgia Real Estate Market Overview: Residential Market Review 2012.

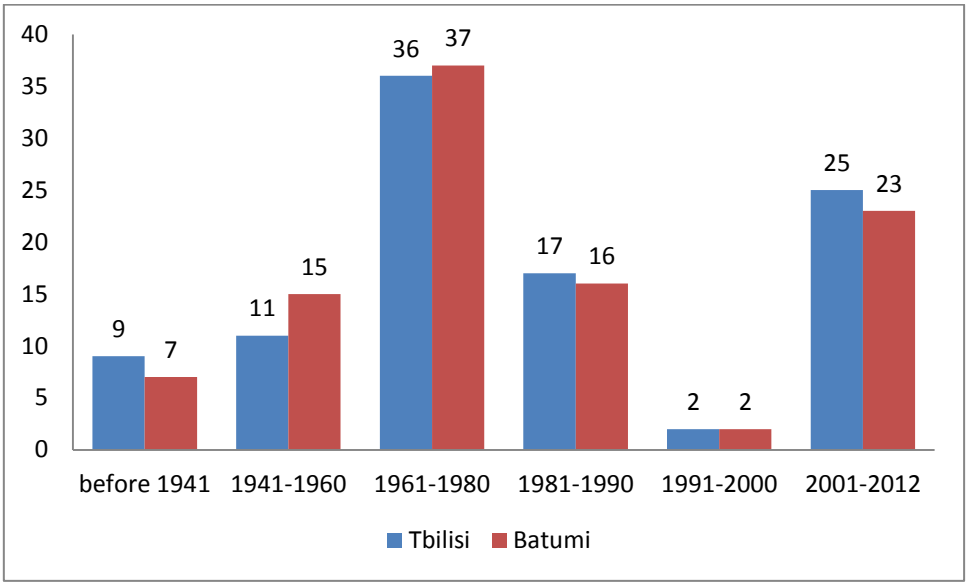
Tbilisi's population stands at 1,175,200, up 2 percent since 2009 (317,622 households, considering an average household size of 3.7). While this indicates a slight surplus of housing units (apx. 20,000) in Tbilisi, in-migration from surrounding areas and significant quality-related problems in the housing stock might eclipse this marginal surplus. It is important to bear in mind that these numbers are illustrative,.

A unique aspect of the housing stock in Tbilisi and Batumi is that, unlike many other cities in Georgia, a significant share of residential stock was built in the 2000s after nearly a decade of stagnation in the 1990s. A substantial increase of building production, including housing, also

[46] UN Habitat. The State of European Cities in Transition: Taking Stock after 20 Years of Reform.
[47] UNECE, *Country Profiles on the Housing Sector: Georgia*, 21.
[48] Ibid
[49] Jones Lang LaSalle. Georgia Real Estate Market Overview: Residential Market Report (2012), 1.
[50] Some other sources indicate that in Tbilisi, the per capita average is 16.1 m^2 (UN Habitat 2013).

happened over the last decade, despite a temporary contraction from 2008-2010 caused by the global financial crisis and the 2008 Russia-Georgia war.

Figure 4.1: Distribution of housing stock by period of building in Tbilisi and Batumi



Source: Jones Lang LaSalle. Georgia Real Estate Market Overview: Residential Market Review 2012.

An important and problematic issue in Georgia's housing stock is that of quality. Almost all big cities are home to units built in the first half of the 20th century that had been poorly maintained for decades. Much of this stock is, therefore, in quite a bad shape, except where local governments have facilitated their rehabilitation-reconstruction as in the Tbilisi. The housing blocks built in the 1960s, referred to as '*khrushchevkas*', are particularly problematic from aesthetic, structural, and thermal standpoints, especially if owners built extensions in the 1990s. Taking into consideration that almost all of Georgia sits in an earthquake prone/ seismic zone, such buildings and building extensions which fall below seismic standards pose a great risk.

Plate 4.1: Deteriorated housing stock in Tbilisi

Note: These Soviet-era housing blocks are located in the Didi Dighomi (left) and Dighomi (right) districts of Tbilisi

While the average per capita floor space of 24 m^2 in Tbilisi combined with 25 percent of stock built since 2001 might paint a bright picture, the reality is different: the severe deterioration of the 36

percent of the stock dating from the Soviet era and the disparities in density between neighborhoods highlight the housing backlog both in terms of quantity and quality.

While the ubiquitous building extensions to khrushchevkas and Stalin-style flats might provide families with sufficient living space, these structures are deteriorated, an aesthetic blight, and structurally unsafe. The 2007 UNECE[51] report rightly suggests that 'a part of the stock should be demolished due to natural structural deterioration, lack of maintenance, and the activities of residents. Some damaged houses were subject to demolition even before the 2002 earthquake, but after the earthquake the number of badly damaged houses in Tbilisi came to more than 20,000. In some districts, multi-family estates entered a process of "slumization". Unfortunately, it is not known exactly what portion of housing stock in Tbilisi and other cities should be considered degraded/ run down and in need of urgent reconstruction or replacement. The City Hall of Gori, for instance, estimates that only 3 percent of its housing stock is damaged is at risk, while a brief survey in Tbilisi suggests that the proportion is much higher.

In terms of the quantity of housing coming into the market, while the housing backlog is not visible from a national perspective, the problem becomes obvious at the city and neighborhood level. For example, pipelined projects in Tbilisi are concentrated in low-density upscale neighborhoods such as Vake (549,000 m^2 of pipelined construction) where the price of new construction is far out of reach of those needing new housing in the neighboring Didube district (with a density of 10,129 inh/km^2).

4.2 Housing typology

A long history of housing development in Georgia has resulted in visible differences in housing types and housing conditions both between cities and inside their different neighborhoods. The legacy of past housing developments and modern trends make the existing stock highly mosaic and heterogeneous – with distinct historical development, economic conditions, human capital, cultural characteristics, etc. Understanding the characteristics of different housing types, the balance between different housing types, and their location in a given city is critical in developing relevant plans for the enhancement of housing stock and quality of urban life.

That said, it is not easy to clearly distinguish particular types of housing and group them into more or less homogenous classes. The classification presented below, thus, is at best illustrative, and aims to provide a broad-brush understanding of the different types of housing – and their underlying characteristics and problems – in a simple but purposeful manner.

4.2.1 Collective/ multifamily housing (Privately owned)

4.2.1.1 Courtyard/ historic housing

The oldest housing stock in Georgia's big cities was built in the second half of 19th and the first half of 20th century. It was initially constructed either as residential units for families/ households or rental and/ or guest housing (*Доходные дома* / *Dokhodnye doma* in Russian). This stock normally occupies central areas of the traditional cities. This stock is comprised of 2-3-story buildings with an inner courtyard or 'atrium', enclosed with shared balconies or galleries.

[51] UNECE, *Country Profiles on the Housing Sector: Georgia*, 21.

Plate 4.2: Courtyard housing in central Tbilisi

In the 1920s the Soviet Government launched a process of communalization which caused dramatic densification of the existing urban housing stock; several families were forced to live in separate rooms of the same apartment, sharing a common kitchen and lavatory located inside or sometimes outside the main structure. Over time, better-off families left those buildings and move into newer, multi-family buildings with over three stories, while relatively low-income groups stayed in old buildings, joined by recent in-migrants from rural areas.

Currently, this old housing stock is in quite a precarious state. The structural safety of these buildings is questionable due to age and lack of maintenance, and some buildings that are still occupied pose a danger to their residents if left in their current state of disrepair. Deterioration is particularly evident in the floors, roofs, balconies etc. as well as the wooden elements.

Since the later years of the Soviet era, many residents of such houses have reorganized living spaces in order to attain a higher level of comfort. This often entails rearranging the previously common facilities such as kitchens and bathrooms for private use by one household, even if they are not connected to the apartment from the inside. Another common practice is the enlargement and consolidation of spaces – when a resident buys additional rooms for private use or builds an extension. These transformations take place across Georgia frequently; however, they require capital, and households that cannot afford such improvements continue to use shared facilities located in courtyards.

As mentioned above, in the late Soviet times, tenants of this housing stock usually belonged to the lower socioeconomic strata, including ethnic minorities. Even today, while property prices in the historical districts are relatively high, a large share of households living in those areas are poor, giving rise to conflict based on the disparate social composition and the historical-cultural value of old buildings. While poor owners' income might not be adequate to maintain buildings of cultural heritage value, they do not necessarily want to sell their units and, when they do, often ask for unrealistically high prices given the known demand. This is evident from the relatively low rents in relation to the sale prices of these houses: rents in Old Tbilisi and elsewhere in the central city districts are relatively low (USD 300-350 per month for a two-room apartment), while purchase prices are high (USD 38,000-45,000 for a two-room apartment).[52] New investment in the reconstruction of historical housing stock is limited – often because of the underlying construction restrictions in protected heritage zones, which makes such ventures commercially unprofitable for developers.

[52] Ministry of Economy and Sustainable Development of Georgia. Urban indicators, 18.

The poor physical condition of much of the old housing stock forebodes either gradual structural collapse or gentrification. While the latter seems to be a much better option, there has been some criticism of recent policies and programs developed by the Tbilisi City Hall (New Life of Old Tbilisi, Renovation of Aghmashenebeli Ave.), as well as in other big cities such as Batumi and Kutaisi, due to the outflow of the poor population from – and inflow of wealthier individuals into – the historic centers. Notwithstanding, there is recognition that these programs were the only chance for some of the poorest households to acquire adequate housing and, at the same time, a way to reinvigorate the old city and exploit its potential for economic development.

The outdated and obsolete infrastructure network is another problem that requires large-scale upgrading. Besides leakage from sewage and drinking water systems, the increased level of ground water caused by various activities in the historical part of Tbilisi and other cities has caused serious damage to the foundations of some buildings and, as a result, to their overall safety.

A key challenge facing the historic building stock is the mismatch between high historical and cultural value of the stock with its problematic physical condition and deteriorated infrastructure on the one hand, and low solvency of tenants, on the other. Consequently, there is an urgent need for a policy that would focus not only on the physical condition of historic housing stock, but also consider the well-being of its inhabitants.

Box 4.1: Tbilisi courtyard house

Location: Tbilisi, 81 Tsinamdzghvrishvili Street
Respondent: Female, < 25 years, employed

The "Tbilisi courtyard house" was built in the 19th century. It has an open inside yard, surrounded by the building's balconies. Individual apartments open onto the balconies, which are shared. The building is constructed of wood and brick. The current condition of the building is "*Normal*".

The respondent regards her family as medium-income with a monthly income of approximately GEL 1500. The respondent's family has lived in the house for several decades. The respondent's grandfather received the apartment from the organization he worked for during the Soviet era. The family recently sold another apartment in Tbilisi to improve the condition of the courtyard house, which included buying their neighbor's apartment and connected it to their own. The family is also renovating the combined units, and said that they "*are very attached to the place and do not want to move out*". The family periodically receives offers from investors to buy the building, though other residents offer unreasonable prices, deterring investors. Currently, the market price of the building is USD 600 per m².

The total floor area of the apartment in 54 m² with a living area of 48 m². The apartment consists of two large rooms and one small room; it has an individual kitchen, toilet and bathroom. The building is connected to electricity, piped water, sewage, gas, telephone, internet and cable television. All services are provided without interruptions, and the respondent indicated that the waster management system is good and the courtyard is clean. The family uses a domestic gas-heater in the winter and air conditioning in the summer.

Each family in the building has separate meters for utilities. The building does not have an elevator nor inner lighting in the entrance, as most families enter from the courtyard which is illumindated by street lights from outside. The inner courtyard is "*large, provides sufficient green space and, in general, is well arranged*". There are several one-car garages. Although the respondent's family does not have a garage, they rent out a detached garage for GEL 100 per month.

The central location is the strongest merit of the building. It ensures easy access to public transportation and social services. The large courtyard provides residents with a common space separated from the city and thus do not experience a lack of recreational area. In addition, its closed structure isolates the units from the public and protects them form street noise. The high temperature during the summer is the main problem for the residents.

In general, relationships between neighbors are quite positive, mostly because all residents have known each other for many years. However, the respondent complained about strong social control within the building.

Relations with the city government are managed by the president of the homeowners association.

4.2.1.2 'Stalin style' multi-apartment housing

A small proportion of Soviet-era multi-family housing blocks were constructed in the first three decades of the Soviet power as a housing strategy for the urban population. These housing blocks, erected from the beginning of the 1930s until the early 1950s, are commonly known as 'Stalin style' buildings. They are largely monumental structures constructed of pumice, concrete blocks, and bricks. In many cases, construction workers were German prisoners captured during the Second World War, which explains the high quality of construction. Stalin-style housing typically constitutes large apartments, with high ceilings, located centrally, and with historical value, and the owners are generally middle or upper-middle income households. They are regarded as quite prestigious and, consequently, owners are less willing to sell or move out of their units. However, many do invest in flats in newly constructed buildings (often for their children) while also retaining the old unit.

Plate 4.3: Stalin style multi-apartment housing block on Rustaveli Avenue in Tbilisi

Note: The façade on the left reflects the high quality of construction and desirability of Stalin style housing, though the back-facing façade on the right is characterized by deteriorated and structurally unsound apartment building extensions even in this centrally located district.

Some of the units in this type of housing were initially constructed for inhabitation by one family. However, due to their large size and a severe housing shortage, many flats were also nationalized and communalized from the 1920s through the 1940s. Exceptions were made only for high-profile Soviet officials, directors of large Soviet industrial plants, artists and families belonging to the intelligentsia.

This type of Soviet-era housing, despite its age, is less problematic in terms of infrastructure and living space in comparison to 'Khrushchevkas', which are the next generation of buildings, described below. However, as in the Khrushchevkas, residents of some Stalin-style buildings have constructed lateral extensions or additions to the upper floors without any technical analysis of the underlying structure. This is particularly the case for top-floor occupants who often assume the roof of the building to be their private property. Another constraint is posed by the fact that the residents often do not know one another, and this affects the quality of self-governance of the HOAs and the ability to make decisions on the maintenance of common spaces.

Box 4.2: Stalin style multi-apartment house

Location: Tbilisi. Baratashvili str. 10
Respondent: Female , 41-60 years, employed in academic sector

The Stalin style multi-apartment building has six floors with a mansard, which was added in the past three or four years, "*because the former President didn't like the appearance of damaged rooftops on old buildings*". The building was constructed in 1939-1940 and initially housed high-profile members of the Soviet government. The building consists of 108 apartments (the building has six entrances and six floors with three apartments on each floor) and was constructed by German prisoners. The building is constructed from bricks and concrete blocks, while a legal extension in accordance with architectural and engineering norms constructed 25 years ago is of concrete and steel. The overall condition of the building is good.

Originally, when the family moved in, the living area was 42 m^2. When the extension was built, the living area almost doubled and is now approximately 80 m^2. The total floor area is approximately 100 m^2. The flat consists of three bedrooms and one common room, which is also used as a bedroom when all the family members come together. Originally, the toilet and bathroom were separated, but 10 years ago the family renovated the infrastructure (i.e. water and sewage pipes) and merged these spaces. The renovation was conducted due to the poor condition of the pipes. The kitchen and lavatory are inside the house and privatized.

There is no storage or any other kind of auxiliary room, though the family has privatized a part of the roof for building a mansard, though this space has not yet been built. All tenants of the top floor reportedly privatized part of the roof above their apartments and have arranged or are planning to arrange a mansard. The family also owns an uncovered parking space near the entrance to the building.

The building is connected to electricity, piped water, sewage, gas, landline telephone and internet. Household waste is collected in containers in the courtyard. The family reported that their building was one of the first in Tbilisi to be provided with gas and other services since the late 1990s. The total maintenance cost for the family varies from GEL 100-300 per month and is reportedly affordable, as the family earns approximately GEL 13,000 per year.

The central location is a strongest merit of the house. The building is located close to the old town as well as central cultural and social institutions. This includes health services, schools, theaters, and public transportation. As such, the unit has a high market value; in 2013, an analogous 2-room flat without renovation was sold for USD 80 000. The price per square meter is thought to be approximatyely USD 1000. It is worth mentioning that rental rates in the neighborhood went up after Tbilisi Public Service Hall/ House of Justice was constructed in the area. The rental rate is now no less than USD 500 per month for such a flat. The family reported that even the small private houses constructed in historic courtyard homes in the area could be rented for no less than GEL 200 and that the vacancy rates are very low.

The organization of the surrounding space is not convenient for residents. Land which is technically common space for the building is now used for through traffic and parking not only for tenants, but also for visitors of the commercial institutions located in the neighborhood. Tennis courts nearby were the only place for recreation, but they were destroyed for new construction. Thus, bad ecological conditions and a lack of outdoor play spaces for children are the main reasons why the family wants to move into suburbs at least for the summer months.
The main problem inside the house is the absence of an elevator. Because almost every family includes at least one elderly person, the lack of an elevator presents limitations on accessibility. During the construction of the extension inhabitants seized space allocated for the elevator for their own private use.

Safety and sanitation are also concerns. The lack of public toilets in the area has turned the entrance of the building into a de-facto public sanitation facility. The entrance is also used by drug users. The family was also concerned that while the cost of municipal cleaning service is adjusted to the electricity bill, the service is of low quality and does not reach all areas of the common space, including the entryway.

The roof of the building is in need of repair, but the family does not have enough funds to build a mansard. Such a construction would also require the signature of the head of the homeowners association, who is not yet elected. It should be mentioned that family regards the roof as their property, because they live on the top floor.

Homeowners in the building are united into a single homeowners association, which is inflexible and difficult to manage because some tenants do not live in their flats permanently and without their signatures nothing can be decided. The family expressed that they would rather be in an association of residents in their entrance alone. The head of the homeowners association has changed several times and the re-election processes lasts several weeks.

The homeowners association has applied several times to the Tbilisi City Hall for technical assistance on small repairs by which the City Hall might provide 50 to 90 percent cofinancing for repair works. However, the application process was delayed and, consequently, the request was not granted. HOAs are often frustrated with such procedures as the City Hall's funding is limited and, even when awarded, does not go directly to HOAs but rather to a company selected through a tender, further delaying the process of disbursement. Additionally, raising the remainder of the funds from homeowners can sometimes prove difficult.

4.2.1.3 Khrushchevkas

Since the late 1950s, Soviet pre-fabricated mass-produced apartment blocks appeared in almost all cities in Georgia. The government constructed them to address the huge housing shortage – to ensure each household access to an individual flat. The first generation of this type of collective housing was the so-called 'Khrushchevka' blocks of flats, and typically were five stories tall. In the later years, Soviet pre-fabricated housing increased to 8 or 9 stories, and later up to 12, 14 and even 16 stories. Per the construction code, elevators were provided in buildings of 6-stories or higher. The buildings were built out of pre-fabricated concrete panels, which was the lowest-cost and highest-speed construction technology at the time.

Khrushchevka apartment blocks were built in clusters known as microrayons and provided with basic social amenities (i.e. kindergarten, school, shops, etc.). Each flat was provided with an individual kitchen and lavatory. One of the main characteristics of the first generation Khrushchevka housing was "go-through" rooms. All blocks were built in accordance with the prevailing standards at the time. (They were "improved" in post-Khrushchev projects from the beginning of the 1970s, when both the height of the ceiling and living space were increased; e.g. ceiling heights were increased from approximately 2.6 meters to 2.75 meters, and "go-through" rooms were excluded.)

Plate 4.4: Krushchevka apartment blocks

Note: The photo on the left features a car parked on an ABE, most likely for use as storage space.

Residents of the first and second wave of Khrushchevka blocks share similar problems. First, apart from those who created extensions to their units, residents of flats complain about lack of living space. (Note: These building extensions have been described later in this section as a distinct housing type.) Second, the arrangement of rooms is also reported to be problematic. Although the issue of the

durability, safety and strength of Soviet-era buildings is perceived differently by different residents, the fact that these buildings have crossed their prescribed lifespan of 25-30 years is a cause for concern. This is exacerbated by the fact that many flats have undergone major renovations (*remont* – in Russian and Georgian) involving changing the internal structure/ arrangement of rooms, sometimes even removing load-bearing walls.

Compared to the Slavic and Baltic States, the quality of Soviet era mass housing of the Khrushchevka variety was poorer in Georgia, with very little variety. The buildings were constructed cheaply and quickly to accommodate a mushrooming urban population. Housing quality was further compromised by contractors stealing construction materials – for illegal resale or for the construction of *dachas* (summer-houses).[53]

Despite the fact that all housing built during the Soviet era has the basic services (i.e. electricity, gas-supply, water, and sewage), the underlying infrastructure is old and, in many cases, requires repair or replacement. From the late-1970s onwards, mass housing outside Tbilisi and in its urban peripheries often received poorly operating or incomplete utilities and physical infrastructure. In many cases disputes between service providers and residents over the financial responsibility for installing new meters resulted in residents spending several hundred GEL on new meters while the service providers only covered the cost of installation..Notably, after independence central heating systems and centralized gas supply stopped in almost all houses, and were replaced with individual heating facilities fueled by electricity or gas that was serviced by private companies.

Another important aspect is installation and maintenance of elevators. There are two types of systems: First is 'money-box' system, where payment is made each time one uses the elevator (the minimum price is GEL 0.05); the second type is a pre-paid system, by which resident households collect money for elevator maintenance. Residents of the lower floors mostly prefer 'money-box' type, as they do not use elevator frequently; they believe that "*maintenance of the elevator should be covered by the tenants of the upper floors*."[54]

Relations with the government are executed through HOAs. This mostly concerns repairs and maintenance of shared facilities (i.e. roof, entrance, etc.). However, this system works well only in Tbilisi.

Khrushchevka housing as well as later Soviet projects are located almost in every urban district in Georgia, excluding historical areas. Residents of these so-called "sleeping districts" value the location of their houses because of its quietness and acceptable ecological condition. On the other hand, they complain about weak public transportation systems and lack of direct connections to central areas. However, while residents in units located along main streets value location due to accessibility, they feel discomfort due to noise, pollution and dust caused by motorized traffic.

Lack of green space and appropriate parking space is another common problem experienced by those living in Khrushschevka buildings. At the time of construction, the state did not envisage the high vehicle ownership experienced today, and the parking space provided then is inadequate to meet today's needs. Since the 1990s, residents resorted to find their own solution to parking, such as building garages in courtyards or using public spaces for parking. This has dramatically reduced the usable public/ collective spaces in courtyards and caused many conflicts between neighbors. In addition, over time, some garages have been transformed into commercial spaces (shops, beauty salons etc.).

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[53] UN Habitat, The State of European Cities in Transition: Taking Stock after 20 Years of Reform.

[54] Male, 26-40, late Soviet-project, Tbilisi: high education, middle income, address: Didi Digomi, Petritsi str. #1, apt.# 41 interviewd on May 2014.

Box 4.3: Khrushchevka

Location: Tbilisi. Guramishvili street, 39
Respondent: Male , 41-60 years, employed

The multi-flat four-story 'Khrushevka' style building was constructed in the 1960s. According to the respondent, the overall condition of the building is medium. At the time of construction the building was under state ownership. The respondent's father received the apartment from the government around 1970 to improve the family's living condition; before that the family lived in a more centrally located area in Tbilisi (Baku street). The respondent indicated that if he had sufficient funds, he would move to an individual detached house in a quiet suburb of Tbilisi such as Dighomi.

Currently, the respondent's family and his elderly parents share the apartment, which consists of three rooms. Its total area is 63 m² with 47 m² of living area. It is connected to electricity, piped water, sewage, gas, landline telephone and internet. Household waste is collected in containers in the courtyard. Several years ago the evaluated cost of this apartment was USD 40,000. Since then, the family spent at least USD 6,000 on renovations, which included replacing water pipes, plumbing fixtures, doors, windows and the installation of a central heating system (gas-boiler). The respondent indicated that he would not sell the apartment for less than USD 45,000.

The apartment is located on a corner of the building, which allows the family to use natural light and reduce their consumption of electricity. On the other hand, this location exposes the apartment to the cold in the winter so the family must spend more on heating. However, the family is planning on installing windows with better thermal insulation to reduce heating expenditures.

The respondent considers his household as medium-income with a monthly income of GEL 500-1000. He spends almost all of his income on living costs with the largest part of his income going towards heating and electricity. Besides this apartment, the family owns an individual house in a village in one of the regions of Georgia. While the family does not currently have a car, the respondent owns an individual garage in the courtyard of the building.

The building's location ensures easy access to all modes public transportation (three minute walk to closest metro station) and social services. There are several kindergartens and schools nearby, as well as a policlinic. In addition, there is a private emergency services located on the ground floor of the building.

Despite the availability of public transportation, private car ownership among the building's residents is quite high. This causes environmental problems and discomfort among tenants; the many private, covered garages constructed in the common area outside the building along with an open-air car park that coveres the unbuilt area leaves no common space left for recreation.

However, gardens separate the building from other residential blocks and there are trees along the adjacent highwa. Moreover, the respondent reported that clean and fresh air circulates to the building from the nearby river. The respondent reported that noise from traffic and loud conflicts between young men detracted from the setting.

Apartment owners in the building have formed a homeowners association, which has conducted renovation works on the building's roof and entrances with co-funding from Tbilisi City Hall. Approximately GEL 10 was collected from each family for these renovations in total. The installation of new entrance doors and an entry system (intercom) is planned.

4.2.1.4 Post-Soviet high-rise blocks

During the 2000s, new post-Soviet high-rise blocks started to occupy significant areas of the capital and some other big cities. The share of such new housing has since been growing. Small and medium cities did not experience this phenomenon: for example, Gori, Rustavi and Zugdidi did not see many new residential buildings erected in the last decade.

A major problem in these new housing developments is their lack of planning, which has resulted in inadequate spaces for green areas, parking, and public spaces. Blocking views and natural light of older residential buildings by new "pop-ups" is also frequent. According to the Developers' Association, much of the new housing construction is of relatively low quality, and this is a direct outcome of the low affordability levels of buyers: for example, units costing more than USD 800-1,000 per m^2 in the Saburtalo district of Tbilisi are not sellable. To keep prices low, developers and contractors often compromise on the quality of construction, and the surrounding environment.

A significant percentage of new construction is the *shell-and-core* product, which is essentially the skeleton of the building; the buyer is expected to put in the doors, windows etc, as well as all the finishes. Quality is a major concern in these buildings.

Fully finished multi-apartment buildings were previously more prevalent in the infill areas of central or other prestigious locations of big cities. More recently, such developments have started to appear in the peripheral parts of cities such as Tbilisi and Batumi, with an increasing number of large gated communities and condominiums. These are exclusive luxury apartments targeting wealthy buyers.

Box 4.4: Post-Soviet high-rise block

Location: Tbilisi. Mukhiani, 1st micro-district
Respondent: male 41-60 years, self-employed

The 14-story residential block of 168 apartments is one of a few newly constructed buildings in the district. It is located on a street that seperates a district mainly comprised of Soviet *post-Khrushevka* high-rise multi-apartment buildings from an area dominated by low-rise detached houses. The building is situated on the side of the street characterized by low-rise detached houses and therefore stands out prominently from its surroundings.

The apartment block consists of two identical modules with separate entrances and six independent apartments on each floor. It was built in 2011, however some apartments are still being finished by their owners because they were bought as shell-and-core units and are not yet occupied. The primary material of construction is reinforced concrete. The current condition of the building is good.

The respondent's family moved into the apartment one year ago from a nearby area by selling their original house and taking a mortgage loan to purchase the new unit. The 110 m² apartment cost USD 50,000. The family pays a monthly mortgage payment of GEL 400-500. The family bought the unit in 'white frame' codition, meaning that it had doors, windows, and plastered walls but required other finishing. The family also owns a one-room apartment in another part of Tbilisi, which they rent out for GEL 200 per month.

The apartment consists of three bedrooms and one living room, kitchen, bathroom and toilet. The building is connected to water, sewage, electricity and natural gas. The respondent complained that residents of this house have individual water meters and pay more for the water than residents of old Soviet residential buildings that receive their water bills based on a fixed rate determined by the number of registered individuals in a household. The respondent also mentioned that the apartment block is not ensured with landline phone and internet, there are no interior lights in the entrances and only one out of two elevators is working.

The common and public spaces surrounding the housing block are not planned, creating problems for the residents; the courtyard associated with the building does not have a playground for children nor sufficient space for parking. There is also significant noise pollution from the construction of another nearby residential building and a car-repair shop adjacent to the building. The nearby construction project generates construction waste, which litters the neighborhood. Overall, the respondent's primary critiques are the high price of the apartment

and poor quality of services.

4.2.1.5 Apartment Building Extensions

Since the late-1980s, and especially after independence when the national economy collapsed and incomes declined, constructing additional dwelling space by laterally extending units became a prevalent phenomenon. The construction of extensions was legal in Georgia during the Soviet era[55] and, until 1991, was executed by state building companies applying prescribed norms. However, after abolition of these state building companies and removal of controls in the 1990s, apartment extension became an informal and chaotic mass phenomenon. Adjoined to existing apartment units by non-skilled labor or the occupants themselves, these extensions pose a structural hazard, and have, in many cases, transformed the buildings into 'vertical slums'.[56]

These structurally and aesthetically questionable apartment building extensions (ABEs)[57] were constructed and remain at great seismic risk. In Tbilisi, the average amount of space represented by an ABE amounted to over 60 percent of the original living space, and was, therefore, quite an attractive option for households who needed more space. Many of these extensions were carried out without permission or appropriate safety standards, and many remain unfinished.

Plate 4.5: Apartment building extensions

Note: These ABEs are in the Dighomi district of Tbilisi. The ABEs in the background are fully or partially completed for all stories whereas the ABE in the foreground is under construction.

The emergence of a favorable political context for the construction of ABEs in Georgia was predicated on the chronic shortage of housing, and the historically low residential mobility in the Soviet Union. ABEs are directly linked to lack of dwelling space in Georgia; and the primary reason for their expansion lies in the need for *in-situ* adjustments to the size and functions of dwelling spaces, given the general lack of affordability of new housing.

[55] In 1989, the last Communist Government of Georgia issued a legal act permitting residents to expand their domestic living area by enclosing balconies, loggias and verandas or adding extensions to their apartments, provided they submitted the plans for building permission.

[56] Joseph Salukvadze, "Market Versus Planning? Mechanisms of Spatial Change in Post-Soviet Tbilisi," 180.

[57] S. Bouzarovski, J. Salukvadze, and M. Gentile, A Socially Resilient Urban Transition? The Contested Landscapes of Apartment building extensions in Two Post-communist Cities, 2689-2714.

Field research[58] suggests that the rise of the ABE phenomenon was also fuelled by cultural factors, as families who had recently migrated from rural areas felt a strong emotional attachment to cohabitation with extended family. Having adapted to their urban apartments, they preferred to increase the size to cater to multi-generational cohabitation.

The desire for additional residential space drove a significant share of the urban population to forgo safety, health and aesthetic concerns. This reveals a global phenomenon that moving to the city does not automatically turn people into *homo urbanus.* There is a tendency, especially among those newly arrived to urban environments, to apply rural preferences to city life, thereby reshaping the urban environment and practices.[59]

Box 4.5: Apartment Building Extension (ABE)

Location: Rustavi. Marjanishvili street 11
Respondent: Female , 41-60 years, housewife

The Khrushchevka block of flats in which the respondent lives was built in 1968 and has four stories and 44 individual apartments. The current condition of the building is poor. The respondent's family consists of three persons. She regards her family as poor. The respondent reported that her family receives a GEL 100 monthly allowance from the state. However, her family's living expenses are approx. GEL 600 per month.

The family received this apartment from the state during the Soviet era and are now authorized owners. In addition, the family owns a parking lot in the courtyard of the building, though they are unable to obtain the right of ownership from the Rustavi City Hall in order to privatize the plot of land. The family does not have a car.

Initially, the total area of the apartment was 57 m²; however, several years ago the family built an Apartment Building Extension, increasing the apartment's area to 77 m². According to the respondent, everyone in the neighborhood has built such extensions. The apartment consists of one bedroom, living room, kitchen, toilet and bathroom. It is connected to all basic infrastructure. Despite the extension, the respondent complained about insufficient living area. In addition, she reported that the height of the celling is too low, and that the apartment is in need of urgent repair, though the family does not have sufficient financial resources to undertake a renovation.

The family is not financially able to move into another apartment despite the respondent's dissatisfaction with her current living arrangement. Nonetheless, if able to do so, the respondent would move into a late-Soviet type apartment, so called "*Czech project*". According to the respondent, a desirable location for a new place of residence is the main street of New Rustavi, which is considered as a more developed part of the city. According to the respondent, evaluated monthly rent of the apartment is approximately GEL 200, though the respondent does not intend to rent the apartment out.

The respondent has good relationships with her neighbors. The neighborhood is safe and residents have easy access to social services and public transportation. The ecological condition of the area is poor due to a lack of green space. The neighborhood also has a weak relationships with the city government.

4.2.2 Social rental housing (Publicly–owned)

[58] This is based on a survey of 105 households in 6 different residential districts of Tbilisi, conducted by department of Human Geography at Tbilisi State University in 2008-10.

[59] S. Bouzarovski, S, J. Salukvadze, and M. Gentile, A Socially Resilient Urban Transition? The Contested Landscapes of Apartment building extensions in Two Post-communist Cities, 2689-2714.

This typology includes recently built public rental housing that is heavily subsidized, and is targeted to low income or vulnerable groups. Soviet-era housing stock that, in principle, was social rental housing (now privatized) is not included in this category.

4.2.2.1 'Collective centers' for IDPs

A significant number of internally displaced persons (IDPs) in Georgia (113,210 persons out of ~250,000) are concentrated in so called Collective Centers, i.e. buildings in which people displaced from Abkhazia or South Ossetia have settled themselves or were invited to settle.[60] Initially, these buildings were non-residential – including vacant or abandoned research institutes, kindergartens, hospitals, hotels, etc. – and then began to be used as housing (without much refurbishment). These Collective Centers are quite often located at a distance from the main residential areas of the cities, exacerbating the isolation of the IDPs geographically.

The state resettlement policy initiated in 2007 is intended to accommodate IDPs in newly constructed and renovated multi-family buildings designed and equipped specifically for residential use (unlike collective centers which were mainly non-residential buildings unfit for occupation). The resettlement policy has not yet been implemented in Tbilisi.

Table 4.2: Number of Collective centers in Georgian Cities

Settlement	Number of collective centers
Batumi	3
Gori	6
Zugdidi	391
Tbilisi	504
Rustavi	23
Poti	27
Kutaisi	109
Tskaltubo	34

Source: Social Service Agency of Georgia, Georgian Young Lawyers' Association

The living conditions improved significantly for the beneficiaries of the resettlement program. However, resettled IDPs complain of a lack of grocery and pharmacy stores, schools, healthcare facilities, etc. In contrast, almost 40 percent of those surveyed in Collective Centers assessed the living conditions as "inconvenient" or "very inconvenient". This trend was especially important in Tbilisi and Zugdidi, where collective centers have not been renovated for a long time. The problem of poor living conditions is exacerbated by limited access to public services.

More than half of the surveyed IDPs have not made any renovation or improvement to their dwellings. However, almost a quarter reported undertaking a substantial refurbishment of the living space while about 15 percent mentioned making only slight, "cosmetic" renovations. It seems that besides the poor economic situation of many households, an attitude towards "temporary" housing also contributes to such neglect to undertake improvements. It could be expected that IDPs would invest more in acquiring a new housing rather than paying for the renovation of what they consider as a non-permanent dwelling.

[60] The source for this section is a study "Coping with marginality and exclusion: can refugees communities successfully integrate into mainstream urban societies in Georgia?" a research project financed by Academic Swiss Caucasus Network (ASCN).

One-fifth of all surveyed respondents used surrounding land plots for "hobby farming". The figure was significantly higher in Kutaisi and Zugdidi (36% and 22% respectively). It is worth mentioning that agricultural products produced by tenants are not grown for sale but rather for self-consumption.
It is not a surprise that unemployment was the most important problem named by the respondents. This was followed by health problems and living conditions. Consequently, IDPs heavily depend on state monetary assistance and social security benefits, which comprise a large proportion of household income. Property ownership rights of IDPs in Georgia must be secured despite their hope of and until they return to their places of origin in Abkhazia and South Osettia.

Box 4.6: Non-residential building used for IDP resettlement

Location: Tbilisi. Former Kindergarten, 2nd micro-district, Gldani
Respondent: female, 41-60 years, unemployed

The building was originally a kindergarten constructed in the 1970s by the State but was converted into a collective center to accommodate internally displaced persons (IDPs) from Abkhazia and South Ossetia. The building has preserved its original shape and does not feature any additional extensions or attachments. The state renovated the building and transferred ownership rights to the sitting IDP tenants. The condition of the building is good.

The respondent's family owns an apartment in this former kindergarten and has occupied the space since 1994. Originally, the respondent's family is from Sukhumi, Abkhazia. Currently, three members of the household are living in the collective center. The respondent's family is almost completely dependent on remittances provided by the head of the household who currently resides in Russia. Although the respondent indicated that her family is willing to return to Abkhazia, they would stay in Tbilisi if a desirable housing opportunity would emerge.

Total area of the respondent's unit is 50 m² and consists of one bedroom, living room, individual kitchen, toilet and bathroom. The building is connected to water, sewage, electricity and gas. For heating, the family uses a wood-burning stove.

Although the building was recently renovated, poor maintenance and the poor quality of the initial renovation have left the structure in disrepair. The respondent reported that the roof was not repaired well during the renovation and that it leaks during heavy rains. The rooms are also too large too heat sufficiently, and the respondent indicated that her family does not use rooms during the winter that they cannot heat.

The respondent reported that her ties with her neighborhood and neighbors are very strong and the primary benefit of the building. The residents' relationship with the local government is also strong. Most IDPs in the building receive support from the State, including repairs and renovations.

4.2.2.2 Shelters for homeless

A limited number of homeless shelters serve the homeless population of Georgia which is of an unknown size. During the Soviet era, official figures states that there were no homeless people and the issue of homelessness was ignored through the transition to independence. Recently, the local public authorities in Tbilisi and several other big cities have recognized the existence of homelessness and have tried to address to this problem. Civil society and in particular NGOs (e.g. Human Rights House in Tbilisi) have played a considerable role in putting this issue on the government's agenda. The cities of Tbilisi, Batumi, Kutaisi and Gori have organized shelters for homeless citizens since 2013, at least in the winter months, though the capacity has been low (an estimated 200 individuals and possibly more are served in winter months).[61]

[61] Giorgi Janelidze, „Homeless people in Tbilisi". 19 September 2014. http://humanrightshouse.org/Articles/20431.html

Plate 4.6: Homeless shelter in Tbilisi

Source: Interpressnews, http://dfwatch.net/two-people-die-in-homeless-shelters-in-georgia-96447-25544

The GoG, at the behest of NGOs, have set up tents for homeless individuals on Moscow Avenue in Tbilisi since 2013. During the particularly cold winter of 2013-2014, 12 tents designed for 80 persons were set up on Moscow Avenue. The tents have remained functional and the Ministry of Healthcare estimates that 170-190 homeless people sleep in the tents every night. Homeless individuals are either escorted to the tents by a patrol police officer or request accommodation in the tents by going there themselves. The Tbilisi City Hall intends to construct a similar tent shelter in Lilo Settlement on the outskirts of Tbilisi. [62]

Those using the tents on Moscow Avenue and the homeless population in general come from a variety of backgrounds, though many have been evicted from their flats for a variety of reasons, sold their flats to cover the costs of medical treatment, or are victims of domestic violence. A lawyer working on a Human Rights House-implemented project on Article 42 of the Constitution that "the first problem of beneficiaries is the absence of social assistance, which means that majority of them do not have any income; the second is their lack of identification documents, which is naturally connected with financial resources."[63].

Human Rights House Tbilisi (HRHT) conducts constant monitoring of the homeless shelters in Tbilisi in the frame of the project Human Rights in the Regions. The project is implemented with financial support from the Embassy of the Kingdom of the Netherlands in Georgia. HRHT member organizations participate in the project, which, apart from monitoring, provides socially vulnerable groups with free legal and psychological consultations. According to these groups, issues such as access to heating, poor sanitation, poor water supply, noise, and drunkenness are reported to be significant problems in shelters.[64] Despite the downsides, the beneficiaries of the homeless shelter have 24-hour-watch of patrol police personnel and a medical unit.

The city of Batumi also offers a homeless shelter in a former kindergarten. Most residents are elderly people without family. The website of Batumi City Hall indicates that the shelter can accommodate 45 persons and provides them with breakfast, dinner and clean clothes. [65] Necessary medical

[62] Giorgi Janelidze, "Homeless people in Tbilisi" 19 September 2014. http://humanrightshouse.org/Articles/20431.html

[63] Ibid.

[64] In addition, Democracy and Freedom Watch states that: "The tents are heated with wood-burning stoves and have electricity and beds. Near the tents there are bathrooms and medical points, as well as a diner. Doctors work on-site according to 24-hour shifts". See http://dfwatch.net/homeless-people-sheltered-in-tents-in-tbilisi-16229-25358

[65] See http://www.batumi.ge/ge/?page=show&sec=29

treatment is also provided. Democracy & Freedom Watch reported that in the winter of 2014 three persons in Gori and six in Kutaisi used homeless shelters.[66] The nature and capacity of the shelters in secondary cities aside from Batumi is unknown.

4.2.3 Individual houses (Privately owned, "formal")

4.2.3.1 Individual detached

Individual detached housing is a single-family house, built of durable materials, on a land plot with a garden. The land plot is fenced with an individual entrance. Availability and quality of the infrastructure depends on the location. Inside the built-up areas of cities, these houses are adequately connected to electricity, drinking water, sewage, gas, and waste management systems. However, in peri-urban districts, which initially were villages but are now incorporated into cities, infrastructure is still a problem, essentially with respect to sewage and waste management systems in particular. Households living in detached houses, especially in peri-urban areas, often represent lower income groups.

Plate 4.7: Individual detached houses in Tbilisi

The sizes of land plots and ratio of the built-up area to the parcel differ by district. Detached houses in more developed areas have smaller courtyards with a higher ratio of constructed area to the land plot than those located in peri-urban areas. Moreover, people living in rural environments are more likely to keep livestock and grow crops than those living in urban areas. Kitchens and lavatories are typically located inside the house in urban areas; in rural-style and holiday-style houses, they may be outside.

Lack of funds to improve water and sanitation systems is cited as the main obstacle to upgrading.
The main advantage of this type of housing as emphasized by the residents is a high level of privacy. Nonetheless, when the number of families increases, the most common solution is to build an extension or annex to an existing building. Over time, such extensions and subdivisions of land transform a neighborhood of detached houses into a densified settlement.

[66] See http://dfwatch.net/two-people-die-in-homeless-shelters-in-georgia-96447-25544

Box 4.7: Individual detached house

Location: Tbilisi. Zaziashvili street #19, Chughureti district
Respondent: female, 41-60 years, unemployed

The one-story one-family detached house was built during the first half of the 20th century and originally belonged to the respondent's parents. Initially, it was built as a self-help house out of clay and stone, like other houses in the neighborhood. Over time, some parts of the house were rebuilt using bricks and concrete though the entire house is now in poor condition and in need of structural repairs.

The family that owns and lives in the house consists of five persons. Their total income is GEL 500 – 1,000 per month and usually is entirely spent on food and communal services. The family does not own any other dwelling and does not wish to change place of residence.

The total area of the land plot is 207 m² while the living area is 70 m². The house consists of two bedrooms and one storage room. The kitchen, bathroom and toilet are located in the courtyard. The family renovated the house with help from the municipality and the respondent reported that if the family had sufficient funds she would add an additional story.

The house is connected to infrastructure: sewage, water, electricity, gas, landline telephone and internet. The household waste is collected in containers on the street. The family uses a domestic gas-heater for heating during the winter. Water meters were recently installed in the neighborhood.
There is no social infrastructure in the neighborhood except for a sports school. However, residents have easy access to public transportation.

The location is the strongest merit of the house, as it is located close to the city center. While the house provides quiet and comfort, the respondent complained about the lack of recreational areas. In addition, a lack of parking creates problems for pedestrians, as drivers sometimes park cars on sidewalks. In general, the neighbors have good relations with each other. Residents can communicate with city government either through correspondence or face-to-face meetings with authority officials.

4.2.3.2 Individual attached

Individual attached housing is usually created through multiple transformations, extensions and additions to detached individual housing over the course of decades. Such dwellings come in various shapes and sizes, but all share the aspect of severe densification of the built-up space and overcrowding. The core elements of such houses are usually constructed with stones, blocks or other durable materials, while extensions are built of composite materials available to the household at the time of construction; in the worst cases, households will use plywood boards. In some cases, such transformations were constructed illegally through self-help. Although the structure of such attached individual houses varies greatly, such houses can generally be characterized as a number of semi-detached houses or several go-through rooms with shared walls developed around an inner courtyard.

Availability and quality of engineering infrastructure and services depends on the location of such housing. As is the case for detached individual houses, attached individual houses located in the developed districts tend to be connected to electricity, drinking water, sewage, gas supply and waste management systems. However, in contrast to detached individual houses, attached individual houses generally feature a shared kitchen, bathroom and toilet. Lavatory spaces are arranged either inside the house or in the courtyard depending on the availability of space. Electricity, gas and water meters are shared either by the entire house or divided for individuals in each household living in the same house.

Based on observations and in-depth interviews conducted in Tbilisi, densified, attached individual houses were formed during the last several decades by large families that could not afford alternative accommodation (buying a new dwelling). Consequently, in such cases, the household comprises members of large/ extended families spanning several generations. In some cases, attached houses emerged as a source of income for the family offering rental accommodation, transforming their homes into so-called "communal houses".

Attached housing may form larger estates or quarters, however, there are individual stand-alone cases as well. Research showed that in some cases, this type of housing was planned for demolition as part of city reconstruction master plans during the Soviet era and tenants were to be resettled in new multi-story houses. However, those reconstruction plans have never been fulfilled since the collapse of the Soviet Union.

The concentration of households in such settlements has led to infrastructure and maintenance issues, but also to problems regarding management and land titling. In many instances, households constitute relatives who are unable or unwilling to divide the property amongst each other, and this causes conflict and tension.

This type of housing is often unsafe and lacks in basic comfort; the occupants are lower income households who cannot afford structural upgrading, in part due to the difficulty and expense to prepare architectural projects and get building permissions.

Box 4.8: Individual attached house

Location: Tbilisi. Chikovani street
Respondent: Male, 25-40 years, unemployed

The respondent's attached house with a shared courtyard is one of many such houses along Chikovani street. Originally, the house was constructed out of clay and stone by rural migrants on squatted land by means of self-help in the 1940s. Since its construction, the house was extended and reconstructed to accommodate members of the extended family.

The current residents (the families of two brothers) inherited the house from their grandparents who had initially built it. The respondent's family, which consists of five individuals, is a vulnerable household and therefore receives a state allowance. The family spends the most of its income on food and cannot save enough to invest in their house.

The building is connected to the electricity network, through the family's electrical supply has been cut by the provider due to indebtedness. The family does not have gas though the gas network is available in the neighborhood. Drinking water is available in the courtyard only. A shared toilet is located in the courtyard and is used as a bathroom as well. The respondent's family cooks its food on a wooden stove, which is the only source of heating in the winter. The house consists of two go-through bedrooms with a total area of approximately 40 m^2. The property is not privatized due to disputes over the shared courtyard, which is approximately 20 m^2.

The central location was named as the strongest merit of the house. The respondent emphasized the house's proximity to 'Mziuri', one of the main parks in Tbilisi. The family therefore does not want to change their place of residence, but only to replace the house, which is in very poor condition.

4.2.4 Informal/ illegal houses

Informal/ illegal houses might be of very different form and quality; the main feature of this category is that structures exist (completely or partially) without official permission from relevant state authorities.

Based on observations and in-depth interviews conducted in Tbilisi, illegal individual housing can be found almost in any district of Tbilisi where squatters were able to find vacant land. In the peri-urban areas of Georgian cities, such self-help constructions can be either a household's primary dwelling or secondary house for recreational/ agricultural purposes. In many cases, the latter type belongs to the residents of the same area living in multi-family Soviet era housing blocks who can afford building such an additional structure. Informal housing can be in the form of either detached or attached structures. The structure and materials of informal constructions vary according to the disposable income of the households. Usually, this type of housing is not connected to any kind of infrastructure or utilities; in some cases, toilets are built without a sewage system.

'Informality' and 'illegality' in the housing sector are closely intertwined in Georgia. Formally, constructions without the proper permits from public authorities are prohibited; however, enforcement of the permitting process is very weak, and illegal construction is very prevalent. For instance, developers might build enclosed parking spaces in a multi-story building to comply with building codes but then convert those spaces into additional units for habitation. Similarly, developers will sometimes subdivide larger units into multiple smaller units after passing official inspections. Legalization of informal housing, on the other hand, can be requested through application to the City Council.

Box 4.9: Informal housing

Location: Tbilisi. Zemo Vedzisi settlement
Respondent: Female, 41-65 years, retired

The respondent's detached house is located on the edge of Zemo Vedzisi settlement in Tbilisi and borders a small cemetery. The current residents illegally settled and fenced this small land plot for agricultural purposes in 2007. At that time, they lived in a rental apartment in a multi-unit housing block in the same area. During the same year the respondent's household was evicted and became homeless after not being able to pay rent. As they couldn't afford to rent another apartment, the respondent's household decided to build a house on the squatted land.

The household built their own house without architectural plans or any legal permission from public authorities. Construction materials were mostly sourced from the neighbors, mainly timber and plywood boards. Currently the house consists of two rooms and is not ensured with any engineering or infrastructure. A wooden stove is used as the main source of energy to cook food and heat the house in the winter. The toilet, which is not connected to the sewage system, is arranged in the courtyard. Drinking water is provided by the neighbor through a garden hose twice a week. Although gas is available in the area, it cannot be provided inside such a house built of non-durable materials for safety reasons. The household gets electricity it from another neighbor who arranged wiring and an individual meter. Thus, the family pays this neighbor for the electricity they use. The land plot around the house is used for growing crops and gardening.

Although the construction of the house was illegal, the respondent reported that she has applied to city hall to legalize the house in order to avoid fines. However, she was unable to obtain authorization because the house is located in the Landscape Protection Zone where construction is not allowed. The respondent reported that she had borrowed GEL 150 to prepare the proper documentation only to be refused ownership rights and lives in fear of eviction.

Currently the respondent's household consists of ten persons, including four pre-school aged children and two elderly individuals. Only one member of the household is employed; hence, the family receives a state allowance, which is mostly spent on food and medication.

Relationship between neighbors is supportive and friendly. On the contrary, the respondent's relationship with Tbilisi City Hall is regarded as "unproductive". The respondent has contacted authorities several times by means of both correspondences and personal visits regarding legalizing the house and obtaining social support, though she has not received any response.

The respondent reported that her primary concern is the insecure tenure of the property. Another disadvantage is the absence of a proper toilet and bathroom, along with the unavailability of piped water.

4.3 Housing maintenance and management

The management of housing estates – 95 percent of which are in private ownership – remains unresolved in Georgian cities. 'New owners of property (mainly of flats in apartment blocks) appeared overnight without the requisite experience and resources to fulfil the obligations and responsibilities of property owner in terms of managing and contributing to the maintenance of structures and facilities.'[67]

In the Soviet era, housing stock was managed and maintained by public housing management units known as *ZhEKs* (*Zhilishchno Ekspluatatsionnaja Kontora*). *ZhEKs* belonged to the local government system (*gorispolkom*) and were distributed by territorial area in order to cover entire residential territories of urban settlements. According to prescribed technical norms they were responsible for building maintenance, regular and emergency repair of buildings and their common spaces such as elevators, roofs, etc. During the transitional period of the late 1980s through the early 1990s, they also collected building maintenance fees. Service provision by *ZhEKs* was, in general, of low quality and inefficient as *ZhEKs* themselves were quite corrupt. Nevertheless, the abolition of *ZhEKs* in the 1990s that coincided with mass privatization of apartments left a vacuum in the housing sector and resulted in further neglect of housing maintenance in Georgia. Private homeowners accustomed to living in state-owned and state-managed stock demonstrated a lack of ability to maintain their buildings. Furthermore, the privatization of flats was carried out without technical surveys and relevant documentation. As a result, there was no documentation of the buildings' technical or engineering details, leaving the new owners with little or no information to work with.[68]

Common spaces in privatized multi-apartment houses stayed were neglected for decades despite apartment owners' obligations to maintain them. The main problems that resulted in most cases included leaking roofs, broken elevators, lack of thermal insulation, ill-kept common areas, and structural issues.

Several municipal programs were initiated since the early 2000s to advance housing maintenance. Organizations such as the Urban Institute and GTZ (German Technical Cooperation)[69] have offered support to the central and local governments in establishing HOAs. During the period 2001-2003, a condominium development project under the "Local Self-Government Reform" program was undertaken. In 2004, the city of Tbilisi launched the Tbilisi Corps, a municipal unit tasked with implementing a program that supported the development of HOAs in the city, and provided financing to make improvements to the buildings.

The creation of HOAs has significantly improved maintenance, especially in Tbilisi. Under the Tbilisi Corps program, buildings managed by HOAs are eligible for municipal co-financing for the repair of common areas. Between 50 and 90 per cent of the renovation cost is covered by the municipality. Currently there are more than 6,000 HOAs in Tbilisi, meaning that almost all multi-family apartment buildings are run by an HOA. In other big cities of Georgia, HOAs have been established in some multi-family apartment buildings, although to a lesser degree; however, the number of HOAs is systematically rising.[70]

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[67] UNECE, *Country Profiles on the Housing Sector: Georgia*, 21.

[68] Ibid.

[69] Today GTZ acts under the name of GIZ (German International Cooperation).

[70] UNECE, *Country Profiles on the Housing Sector: Georgia*, 23.

4.4 Utility and service provision

Overall, provision of utilities, which were privatized over the last decade, is considered below standard because of gaps in connectivity, poor quality services, and obsolete facilities.[71] Tbilisi is generally better organized in than other areas of Georgia. Since the mid-2000s, electricity in most Georgian cities is supplied for 24 hours a day. However, residential heating remains problematic outside of Tbilisi. District and neighborhood heating has disappeared from most cities, including many areas of Tbilisi. Sewerage, gas and hot water is provided in Tbilisi but their delivery either problematic or completely absent in other areas of Georgia. The quality of drinking water is also not up to standard. Water and sanitation systems are also of low quality and suffer from damage. For those connected to services, private companies charge high service tariffs due to investments in systems' upgrading.

While the data infrastructure for service provision is not robust, the MoESD study 'Urban indicators 2012' illustrates the picture of service provision in Tbilisi and in Georgia by region.

Table 4.3: Proportion (%) of households provided by utilities and domestic services (2010)

Utility/ Service	Georgia	Tbilisi
Drinking Water		
1) Piped water into dwelling	48.4	95.2
2) Piped water to yard/plot	25.8	4.4
Sanitation: toilet with flush connected to piped water system		
1. Not shared	43.6	92.3
2. Shared	2.5	5.3
Bathroom facilities	57.7	92.4
Hot water		
1) Central system	0.1	0.2
2) Domestic system	22.3	51.6
Electricity	99.6	99.8
Natural gas: central system	42.2	89.4
Domestic heating	21.0	45.6
Telephone: landline	45.3	87.6

Source: MoESD. Urban Indicators, (Tbilisi, Georgia. 2012), 35-42

Even Tbilisi has connectivity problems in domestic heating, hot water supply, etc., while all other cities need urgent improvement of utility and service provision to ensure the livability. Perhaps Batumi is an exception to the rest of Georgia, having better indices in drinking water supply, bathroom facilities, sewerage.[72]

[71] Ibid.

[72] This is due to the fact that Batumi is a primary touristic city; as such, the Government of Georgia has invested significantly in the city's infrastructure. International and foreign agencies such as GIZ have also implemented projects in Batumi including the reconstruction/ rehabilitation of the water supply system.

5. Market trends

5.1 Demand

Real estate demand in Georgia is driven on one hand by wealthy Georgian households looking to upgrade to high-end units in Tbilisi and Batumi as well as foreign investors, and on the other by the need of a large segment of the urban population to move out of the cramped and dilapidated Soviet-era and pre-Soviet housing stock. The need for additional living space in the urban center is primarily due in-migration from rural areas and small towns, despite an overall drop in national population. While Georgia's population as a whole shrunk by 20 percent between 1990 and 2005 and is now approximately 3,729,500 (still below 1970 levels),[73] Tbilisi's population stood at 1,175,200, up 2 percent since 2009 (317,622 households, considering an average household size of 3.7). The number of residential transactions in Tbilisi has maintained a growth rate of close to 5 percent since 2009; and the total stock in Tbilisi stands at 344,000 dwelling units.[74] Since the privatization of Georgia's housing stock, the short lifespan of Soviet developments combined with a lack of maintenance has led to severe deterioration of much of the housing stock.

While the approximate number of housing units in Tbilisi (344,000 in addition to 21,000 units pipelined for 2013-2016) exceeds the approximate number of households (317,622), the significant deterioration of older housing stock and overcrowding in some areas of Tbilisi explain the high demand for new and more spacious construction. However, the relatively high income eligibility criteria for mortgage loans, and the high price point of new houses mean that most households have one of two options: (i) extend their dwellings (thus the prevalence of ABEs in recent years) or (ii) transact units of the same size, which are really quite small (the largest proportion of real estate transactions in Tbilisi are for small flats of under 50 m^2).[75]

5.2 Supply

5.2.1 New construction

There was little residential construction between the years 1991 and the early 2000s. During 2001-2004, the total annual number of commissioned residential construction sites in Georgia was quite low (between 300 and 500, with only 700 new apartments commissioned in 2004).[76] A huge regional imbalance was also evident during these years as Tbilisi was home to two thirds of total real estate development in Georgia. This is mainly because housing development in other cities is not as profitable for developers because of the relatively lower income levels of the local population in secondary cities, together with an abundance of vacant houses in depopulated settlements as a result of out-migration to Tbilisi.

The relatively improved economic situation from the mid-2000s generated increased demand for new and better quality housing. Following the privatization of real estate, housing construction moved from the public to the private sector and commercial housing projects began to emerge with significantly increasing volumes on a year-to-year basis. Private developers provided housing types non-existent in the Soviet times that were more spacious and comfortable and that attracted young families and wealthy city dwellers.[77]

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[73] Data from National Statistics Office of Georgia. The population data for 2015 is based on the preliminary results of General Population Census 2014 and the population increase (natural increase and net migration) data for the last 2 months of 2014.

[74] Colliers, "Tbilisi: Real Estate Market Report 2014" (2015), 25.

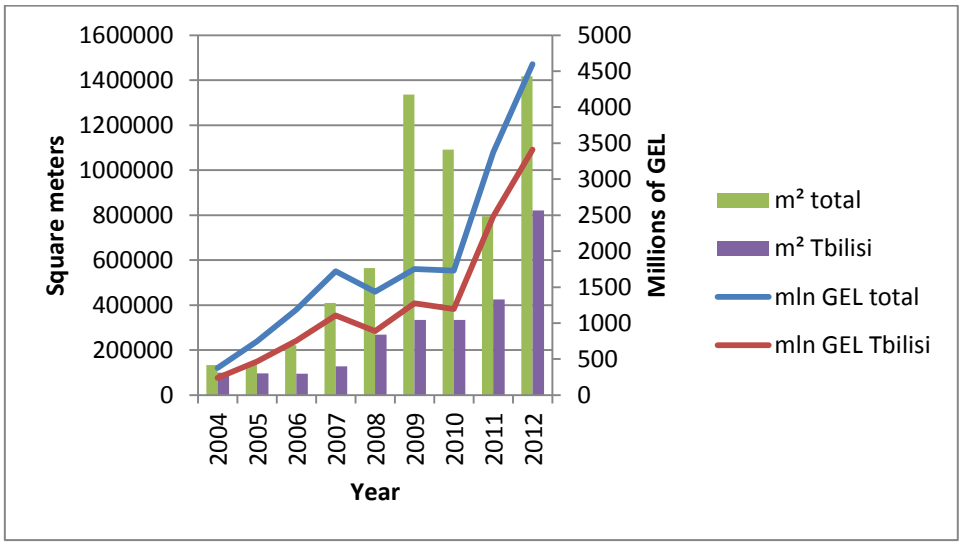
[75] Ibid.

[76] United Nations Economic Commission for Europe, „Country Profiles on the Housing Sector: Georgia," 23-24.

[77] UN Habitat, The State of European Cities in Transition: Taking Stock after 20 Years of Reform.

The residential construction sector delivered 21,000 new units in Tbilisi between 2013 and 2016.[78] This represents an average annual replacement rate of approximately 2 percent, twice the standard 1 percent (the standard provides for the replacement of the entire housing stock every century). The overall trend of growing construction activity is clear in figure 6.1, which shows in green and purple according to the left axis the volume of completed constructions by year for Tbilisi and Georgia as a whole. The corresponding lines show according to the right axis the value of completed constructions in millions of GEL. The growing trend in both volume and value of construction is in part due to banks' recent willingness to finance housing developments, although development finance is still limited to the largest players. Tbilisi's share in new construction, although decreasing, has remained disproportionally high in terms of production value.

Figure 5.1: Volume and value of construction works in Georgia and Tbilisi (2004-2012)



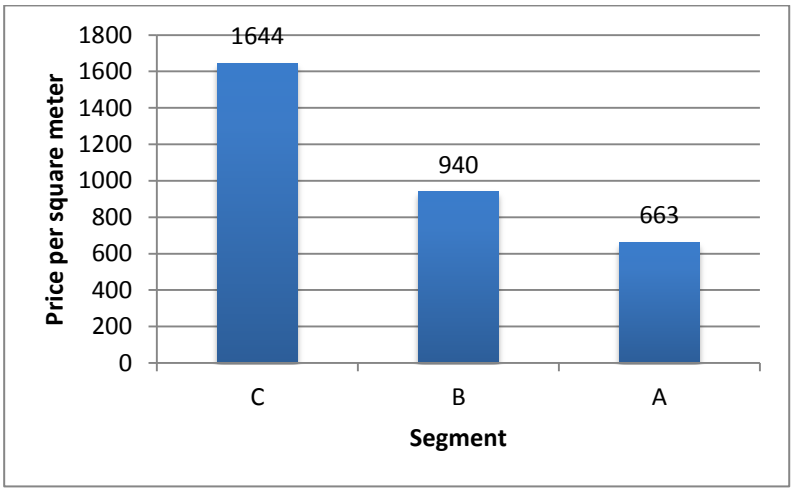
Source: GeoStat

The cost of new construction nearly tripled from USD 400 per m^2 in 2004 to USD 1,300 per m^2 in 2008, but has recently leveled off and not fluctuated more than several percent in the last two years. This dramatic increase in new construction has oriented the market to high-end developments rather than affordable units, with some buyers purchasing multiple units using foreign remittances, leading to a high vacancy rate. Market research conducted by Colliers shows that new developments are split into three price brackets: segment A sells from USD 400 to 800 per m^2; Segment B sells for USD 800 to 1,200 per m^2; and segment C sells for USD 1,200 and higher per m^2. Ongoing projects in Tbilisi are split evenly between segments A and B (45 percent each), with the remaining 10 percent constructed in segment C. The average selling price of transactions has fluctuated between USD 810 and USD 835 since 2012.[79]

[78] Colliers, "Tbilisi: Real Estate Market Report," 23.

[79] Ibid.

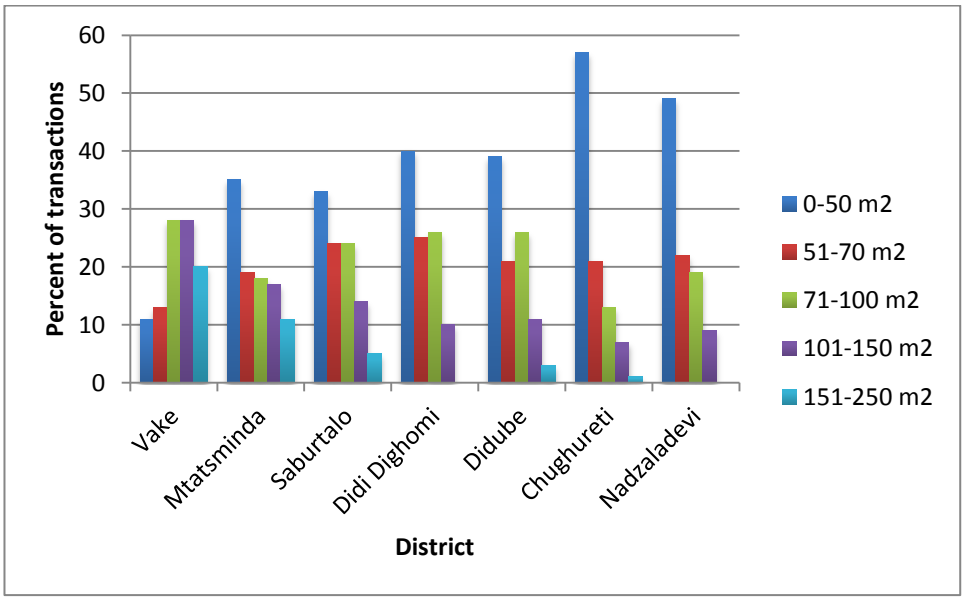
Figure 5.2: Average selling price of transacted units (new construction) by segment



Source: Colliers, "Tbilisi Real Estate Market Report 2014," 25.

New stock transacted on the market features large living spaces that are unaffordable; the largest volume of transactions in Tbilisi is therefore conducted on smaller units less than 50 m^2 that, while not newly built, most likely represent upgrading from deteriorated housing. Only in the outlying, high-end Vake district, which is home to several new developments were transactions of small units not prevalent and were transactions of the largest units (151 - 250 m^2) present in any significant way (20 percent of transactions).

Figure 5.3: Distribution of transactions by unit size in Tbilisi districts



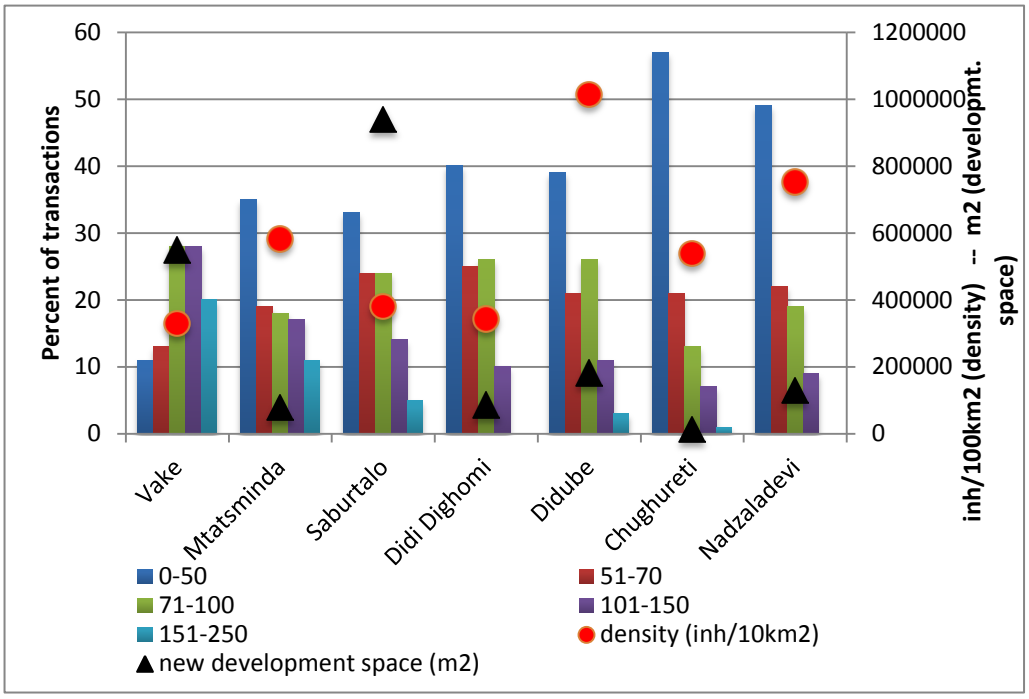
Source: Colliers, "Tbilisi: Real Estate Market Report 2014," 25.

New construction in Tbilis is targeted toward higher-income neighborhoods with low population densities, while no new major developments are planned for middle and low-income neighborhoods with high densities that are in the most need of better housing options. Figure 5.4 below illustrates the negative correlation between the volume of pipelined development space and the proportion of 0-50 m^2 dwellings transacted in any given district. While the lack of new development in dense areas might simply mean there is no more room left to build and that affordable housing is instead being built elsewhere, the positive correlation between the volume of development space and the proportion

of 151-250 m^2 dwellings transacted in any given district suggests that pipelined developments in Tbilisi are targeting higher-end market segments with larger dwellings, leaving residents of denser and poorer neighborhoods with few options. The negative correlation between population density and the volume of development space (the higher the density, the smaller pipelined development space) along with the positive correlation between population density and the proportion of 0-50 m^2 dwellings transacted in any given district highlight the market gap in supplying adequate replacement housing for households living in Tbilisi's most crowded and physically degraded areas.

Indeed, Vake has the second largest volume in ongoing and pipeline development (549,000 m^2) but paradoxically both the lowest population density (3,286 inh/km^2) and the highest proportion of 151-250 m^2 dwellings transacted (20 percent) of all Tbilisi districts including those not featured in Figure 5.4. As described below, the price per square meter is also highest in Vake, Mtatsminda, and parts of Saburtalo, all of which have among the highest volume of development space and lowest population density of the districts .

Figure 5.4: Correlation of population density and volume of housing project pipeline to size of dwellings transacted in Tbilisi districts



Source: Colliers, 'Tbilisi: Real Estate Market Report 2014," 25-26.

The main development projects in Tbilisi are clustered in the Vake and Saburtalo districts and are set for completion from 2015 to 2016. A combined six development projects between Vake (three) and Saburtalo (three) boast a total area of 314,405 m^2 with an average size of 52,401 m^2. The largest ongoing development in these districts is being led by Axis in Saburtalo with a total area of 114,218 m^2, set for completion in 2015.

Table 5.1: Major residential developments in Tbilisi

Area	Name	Developer	Plot size (ha)	Planned volume (m^2)
Tbilisi Sea	"Butterfly"	Chinese investor	401	6,000,000
Upper Krtsanisi	Golf Club	Spanish investor	331	100,000
Tbilisi Sea	Near butterfly	Municipality	282	NA
Lisi Lake	Lisi Development	GRDC	223	1,200,000
Digomi	New Tbilisi	Municipality	122	1,000,000

Source: Jones Lang LaSalle "Georgia Real Estate Market Overview 2012: Residential Market Report" (2012), Table 2: Tbilisi Main Residential Development Areas

In order to reach the lower income segments of the market, developers in Georgia have offered less costly shell-and-core projects,[80] sometimes known as white or black frame construction. White frame construction offers buyers fully constructed (and enclosed) but unfinished units in multi-family apartment buildings, while black frame construction offers unfinished, sometimes unenclosed units (i.e. without external glazing, doors, and windows). These units are meant to save the homebuyer the price share of finishes and even basic elements such as internal walls and electrical wiring, allowing each household to install those elements based on their financial capability. *Shell-and-core* practices comprise more than two thirds of all housing units delivered in Tbilisi and up to more than 90 percent in other big cities. It was only recently that the share of 'turnkey' fully completed apartments in the new housing stock started to grow again; a few 'gated condominiums' have even appeared in Tbilisi and Batumi.[81]

The central concerns in terms of *shell-and-core* construction are twofold: quality and aesthetic appearance. Black frame construction and frozen developments dating to the financial crisis lend Georgia's skylines a blighted appearance, which might discourage future investment and degrades the public image of Georgia's urban environments. Even the quality of other types of new construction is sometimes in question, as both imported and locally produced construction materials are not usually standardized or certified. Some construction equipment dates from the Soviet period, while the construction sector also lacks a significant cadre of local experts.

There is significant variation in the price per m^2 for new construction across Tbilisi districts; the price per m^2 in the expensive Vake, Mtatsminda, and parts of Saburtalo district can be 40 to 50 percent higher than the average price in Tbilisi.[82] The cost estimates of standard white frame construction per m^2 provide an accurate picture of the price gradient of new construction as one moves out from Tbilisi center towards the periphery across a number of dwelling sizes.

[80]In Georgia residential space can typically be provided at three different levels of completion: 'black frame', 'white frame' (both considered 'shell-and-core')and 'fully furbished'. The black frame essentially only includes the floor, walls and ceiling, as well as the front door and the windows. The white frame includes most interior work, but it excludes the kitchen and bathroom furnishings and appliances, which are the extras included in the fully furbished product. (M. Gentile, J. Salukvadze, and D. Gogishvili, „Newbuild gentrification, tele-urbanization and urban growth: placing the cities of the post-Communist South in the gentrification debate," in Geografie, 120, No. 2 (2015): 134-163.

[81] UN Habitat, The State of European Cities in Transition: Taking Stock after 20 Years of Reform.

[82] Colliers, „Tbilisi: Real Estate Market Report 2014", 27.

Table 5.2: Illustrative cost (USD) estimates of white frame construction per m^2 based on relative location in Tbilisi

	1 room (25-45 m^2)	2 room (45-70 m^2)	3 room (70-100 m^2)	4 room (100+m^2)
Tbilisi center	1,100-1,500	1,000-1,500	1,000-1,400	950-1,400
Between center and periphery	800-1,100	750-1,000	750-1,000	700-1,000
Periphery	600-900	550-850	550800	500-$800

Source: Estimates provided by Realtors.ge (Mikheil Dzagnidze), January 2015.

By taking the average estimated cost per size bracket from Table __ above and multiplying by different unit sizes, a picture of the price of new construction for Tbilisi city center, inner neighborhood, and periphery is obtained.

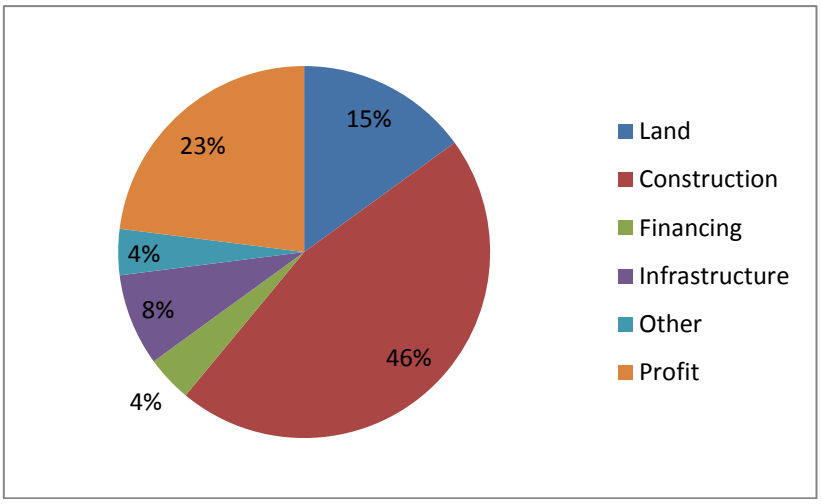
Table 5.3: Cost (USD) of white frame units in Tbilisi by number of rooms and size in m^2

	Small 1 room	Large 1 room	Small 2 room	Large 2 room	3 room	4 room
Size, m2	25	35	50	65	80	100
Tbilisi center	32,500	45,500	62,500	81,250	96,000	117,500
Between center and periphery	23,750	33,250	43,750	56,875	70,000	85,000
Periphery	18,750	26,250	35,000	45,500	54,000	65,000

Source: Estimates provided by Realtors.ge (Mikheil Dzagnidze), January 2015.

The rough breakdown of the price of housing in terms of land, construction, infrastructure, and profit is as follows: land -15 percent, construction - 46 percent, infrastructure - 8 percent, and profit - 23 percent. The zoning requirement mandating the provision of one parking space per unit has led to a greater investment in foundations in order to comply, albeit summarily, to this ordinance. It is common knowledge that many developers retrofit parking spaces into habitable dwelling units after inspection or that pre-existing larger units are subsequently subdivided in order to sell more volume without the added cost of constructing extra space for vehicles. This is one factor contributing on one hand to higher unit prices and on the other to suboptimal spatial arrangements. The relatively high profit margin of 23 percent is in part due to the lack of competition between developers. This is a result of mass developer bankruptcy following the 2008 financial crisis and the prevalence of subsidiary developers attached to banks who receive an unfair advantage in the market.

Figure 5.5: Breakdown of selling price of white frame construction by component



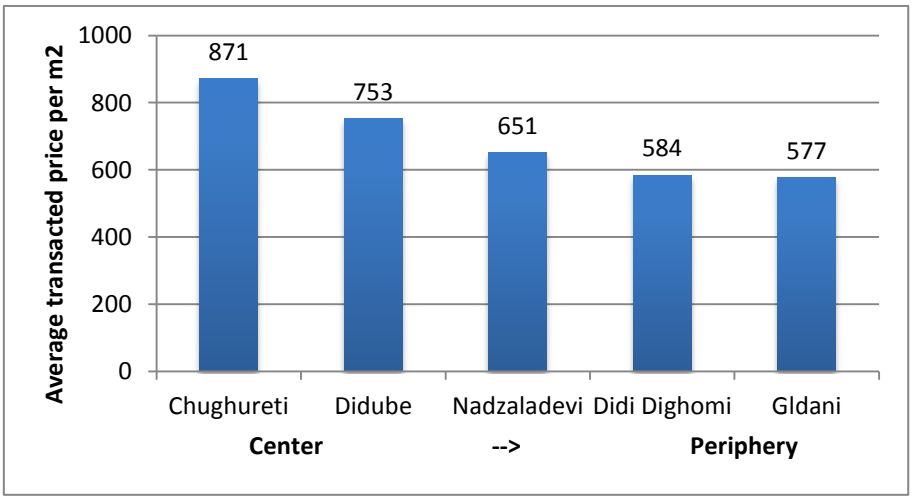
Source: Estimates provided by Realtors.ge (Mikheil Dzagnidze), January 2015.

5.2.2 Old housing

While accurate data are not available on the cost of old housing in Georgia, transaction data available for the Gldani, Nadzaladevi, Chughureti, Didi Dighomi, and Didube districts of Tbilisi are most indicative of old housing costs and transactions due to the complete lack/ low volume of ongoing or proposed new development on those areas. As illustrated in Figure 5.6, an overwhelming majority of transactions were conducted on dwellings in the 0-50 m^2 range in these districts (57 percent of transactions were conducted on such properties in Chughureti).

The average transacted price per m^2 in these districts decreases with increased distance from Tbilisi center. The price of old housing, even in Tbilisi center, begins far below that of new housing anywhere in the city; the average transacted price of primarily old housing in Chughureti district (Tbilisi center) is 22 percent below that in Mtatsminda, an adjoining but not fully central district in which 11 percent of transacted units were in the largest 151-250 m^2 range.

Figure 5.6: Average transacted price by district from Tbilisi center to periphery



Source: Colliers, "Tbilisi: Real Estate Market Report 2014," 26.

By taking the average cost per m^2 of units transacted in Chughureti as indicative of the cost of old housing in Tbilisi center, the parallel data from Nadzaladevi as indicative of costs between the center and the periphery, and the data in Gldani as indicative of costs in the periphery and multiplying the price data by different unit sizes, a spread of dwelling costs is obtained for old housing, presented in Table 5.4.

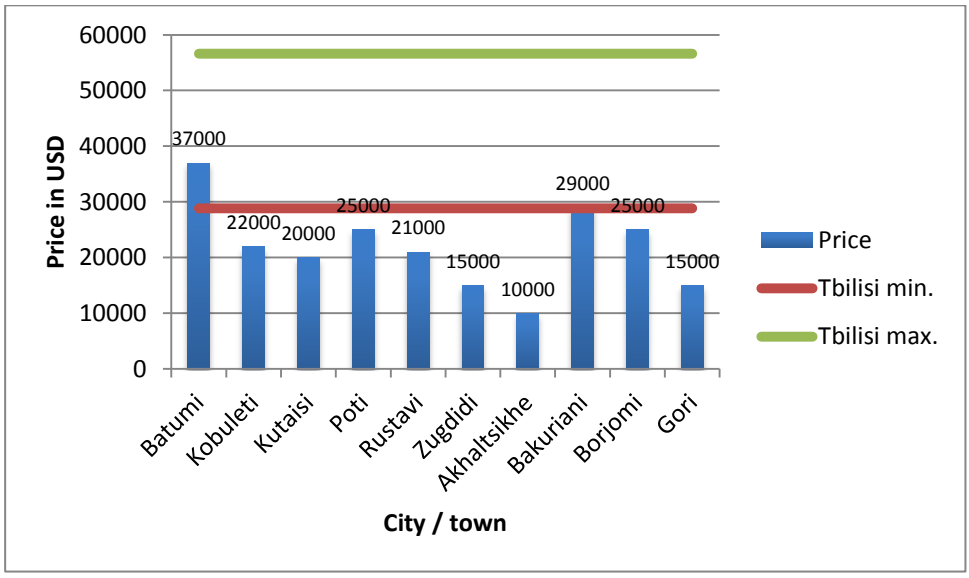
Table 5.4: Cost (USD) of old units in Tbilisi by number of rooms and size in m2

	Small 1 room	Large 1 room	Small 2 room	Large 2 room	3 room	4 room
Size, m2	25	35	50	65	80	100
Tbilisi center	21,775	30,485	43,550	56,615	69,680	87,100
Between center and periphery	16,275	22,785	32,550	42,315	52,080	65,100
Periphery	14,425	20,195	28,850	37,505	46,160	57,700

Source: Average price data obtained from Colliers, "Tbilisi Real Estate Market Report 2014". 26.

The median market price of a two-room dwelling in 2012 ranged widely in other Georgian cities. The range between the minimum and maximum prices of two-room dwellings in Tbilisi defined in Table 6.4 above was above all median prices of such dwellings in other towns and cities except for Batumi.

Figure 5.7: Median market price of two-room dwellings in Georgia



Source: Ministry of Economy and Sustainable Development of Georgia, Spatial Planning and Construction Policy Department; Colliers, "Tbilisi Real Estate Market Report 2014", 27.

5.2.3 Rental housing

Given the high rate of home ownership in Georgia, the "official" urban rental market is relatively small and underdeveloped. The largest category of rental housing comprises public units transferred to local governments (approximately 5 percent of the apartment stock). The private rental market is small and found mostly in Tbilisi. In 2004, only 1.7 percent of the stock was rented from private individuals.[83]

Landlords set the rents and most private leases are concluded informally without notarization or state registration. Rents in the private market in 2010 in Tbilisi for a standard two-room apartment varied from USD 100 per month in less expensive districts (e.g. Lilo) to USD 500 per month in more expensive districts (e.g. Saburtalo). Higher priced rental housing is primarily rented to companies or expatriates.[84] The rental market in other Georgian cities is even less developed than in Tbilisi and rental prices are consequently significantly lower (approximately USD 50-300 per month).

Rental is primarily conducted informally without a contract except for high-end vacation units in Batumi and units designated for expats in Tbilisi. The small size of the rental stock in Georgia is due to the cultural practice of buying as opposed to renting, the high rate of ownership as a result of post-Soviet privatization, and also taxes on rental income.[85] Many landlors advertise vacant rental units in newspapers, even if the landlord does not plan on paying taxes. Advertising through Real estate/ leasing agencies is also popular and entails a charge of 4 percent from the parties to the transaction. In general, personal connections are regarded as the safest and most convenient way of securing a rental property. While landlords and tenants might save money on informal rental transactions, such relations have no enforceable contract, which leaves both parties to the transaction vulnerable. Informal rental arrangements in Georgia sometimes include paying rent in advance, which means that landlords can evict tenants who have already paid at will. On the other hand, tenants can squat in rental units without paying leaving the landlord little recourse.

The cost of rental in Tbilisi has risen since 2010 in all areas of the city, though most notably in the periphery (by 34 percent) and in the Tbilisi center (by 21 percent). That said, the total average monthly rental price in Tbilisi remained nearly the same in 2014, rising from USD 334 to USD 340 in the first three quarters of the year.

Table 5.5: Rental cost per month by number of rooms (USD)

	Small 1 room	Large 1 room	Small 2 room	Large 2 room	Small 3 room	Large 3 room
Tbilisi center	270	330	360	450	490	600
Between center and periphery	220	270	290	350	370	460
Periphery	170	210	250	310	320	400

Source: Colliers, 'Tbilisi: Real Estate Market Report 2014," 28.

5.3 Impact of the Financial Crisis

While the global financial crisis of 2008-2010 realized a contraction in real estate investments and residential completions worldwide, the pre-crisis construction-financing strategy in Georgia termed

[83] UNECE, *Country Profiles on the Housing Sector: Georgia*, 21.

[84] See MoESD, Urban Indicators.

[85] Rental tax for private individuals is 5 percent while companies pay 20 percent since January 1, 2015 according to the Revenue Service.

‘selling air’ added to the impact of the crisis. Across Georgia, but especially in prestigious parts of Tbilisi from 2000 until 2008, the lack of adequate construction financing and the push to build large projects led some developers to sell units in multi-family apartment buildings before construction was finished. Buyers paid house payments in installments based on the stage of construction, and were offered substantial discounts towards the purchase. This money was used by the developers to finance the construction – partially or wholly. There was no legal protection for buyers whatsoever, and it is reported by market experts that developers sometimes used funds from buyers of one project to fund other projects in need of financing.

During the 2008-2010 financial crisis, banks retracted their financing, and many housing projects came to a halt. Buyers who had paid installments for the purchase of unfinished units had no legal protection and lost their money to incomplete projects. Many small and medium size developers went belly-up, and in many cases, banks declared them bankrupt and seized the underlying assets, usually incomplete residential buildings and unsold housing inventory. This, in part, also explains the high vacancy rate in residential buildings that persists to this day.[86] In Tbilisi, many such complete and incomplete housing projects were thus ‘frozen’ for undetermined periods of time.

Following the crisis and the freezing of many multi-story residential developments, the Tbilisi municipality intervened in 2011 with a guaranty to buy unsold apartments at USD 400 per m^2 should developments started in the post-crisis years go unsold. Because the price offered by the municipality was both above the cost of construction and below market price, the offer aimed to provide a win-win situation for all parties concerned: it offered developers a bold business opportunity, and the banks the opportunity to provide the much-needed financing for construction, and to release the ‘frozen’ assets which, in turn, helped reverse the negative equity in these incomplete buildings.[87] While the municipality did not allocate a specified budget to the initiative and never disbursed funds for the purchase of frozen units, the announcement helped to stimulate both the residential development and finance sectors.

While this effort, together with other public sector interventions, provided some respite, the economic instability resulting from the crisis and the associated unemployment caused many homeowners to default on their mortgage payments. This resulted in the foreclosure of thousands of housing properties and eviction of many households. Many housing developments that were financed by the buyers, and which technically belong to them, remain incomplete till today, and few homebuyers have regained their lost investments. As a result, ‘frozen’ and incomplete housing developments still dot Georgia’s urban skylines.

[86] While all evidence indicates a high vacancy rate, there are no data available in this regard.

[87] UN Habitat, The State of European Cities in Transition: Taking Stock after 20 Years of Reform.

6. Housing Affordability

Despite a boom in housing development and significant annual growth in the number of housing transactions in Georgia's cities, many Georgians cannot afford adequate housing. Middle and low-income households are trapped between unaffordable new housing developments and the lack of government subsidy programs targeted to those households unable to afford adequate living space (in terms of floor area and quality) and services. While middle-income households sometimes opt to construct ABEs or trade-up within the older housing stock, the poorest households are left without any affordable option given the dearth of social housing in Georgia.

This affordability analysis examines the affordability of housing purchase of old and new construction, as well as the affordability of rental housing. Due to the high percentage of Georgians who own dwellings privatized since the end of the Soviet era (85.6 percent in Tbilisi, 91.5 percent nationally), the affordability of paying for municipal services will also be examined.

6.1 Defining affordability

Housing affordability is defined as a relative standard that compares the cost of housing in relation to income or other economic benchmarks. The standard for affordable housing in any given context is then examined at different strata of the population and compared to a minimum adequate housing standard to paint a full picture of affordability.

This analysis employs the most widely accepted measure of housing affordability as a threshold of the percentage of net income that a household spends on housing costs. Housing costs are defined in this report according to Eurostat's definition, which includes mortgage payments, housing loans, interest payments, rent payments, utility costs, maintenance costs, and structural insurance costs.[88] Due to the unavailability of data for these component costs in Georgia, this analysis focuses on mortgage payments, housing loans, interest payments, rent payments, and utility costs. Unaffordable housing is defined by Eurostat as that which is beyond the cost overburden rate of 40 percent of net household income spent on housing costs. As a 30 percent cost overburden rate is also commonly accepted, both thresholds will be used as an illustrative range.

This analysis is divided into several sections to address the affordability areas of buying a dwelling with a mortgage and renting a dwelling. Given the high proportion of households who own housing stock privatized after the Soviet era (85.6 percent in Tbilisi, 91.5 percent nationally), the price of paying for municipal services without consideration of rent or mortgage payments will also be examined. This analysis uses household monthly household income from the Integrated Household Survey conducted by GeoStat in 2013[89] across different income percentiles and for different populations, as outlined in Table 7.1.

Table 6.1: Monthly household income percentiles for different populations in GEL

Income percentile	National	Urban	Urban homeowners	Urban renters
5	155	155	157	127
10	200	203	203	168

[88] Alice Pittini. Housing Affordability in the EU: Current situation and recent trends. (CECODHAS, Jan 2012), 2.

[89] Geostat. *Integrated Household Survey* (2013). http://www.geostat.ge/index.php?action=meurneoba&mpid=1&lang=eng; all household income data used in this report whether explicitly or to arrive at calculated figures is from this source.

25	335	352	337	315
50	581	651	581	570
75	982	1095	981	1007
90	1523	1686	1525	1516
95	2013	2254	2015	2012

Source: Integrated Household Survey, GeoStat 2013.
http://www.geostat.ge/index.php?action=meurneoba&mpid=1&lang=eng

6.2 Housing finance

The housing finance sector, like the finance sector as a whole, has expanded greatly in Georgia since the liberalization reforms following the Rose Revolution in 2003. From 1997 to 2005, credits grew by 85 percent, and the ratio of loans to GDP doubled between 2000 and 2005 alone. Consequently, there is a wide variety of finance options available for homebuyers. That said, strict income eligibility requirements along with high interest rates in comparison to neighboring countries make mortgage financing affordable only for the sixtieth income percentile and higher. Due to the short term of most loans offered by commercial banks (maximum of 15 years), monthly loan payments can take up a considerable proportion of a household's monthly earnings.

A standard mortgage loan in Georgia has a nominal interest rate of between 13 and 20 percent with a maturity of 10 to 15 years.[90] According to a 2007 report by UNECE, a homebuyer must have a salary of around USD 400 to be eligible for a mortgage from most commercial banks in Georgia. Average loan-to-value (LTV) ratios are 60-80 percent.

The total volume of mortgage loans issued in 2013 was GEL 4.03 billion, of which 37.44 percent were issued to private individuals.[91] During that same year, the National Bank of Georgia (NBoG) reported that mortgage loans from commercial banks comprised 48.8 percent of the credit portfolio (up 7.1 percent YoY in July, 2013).[92] According to the NBG, the average interest rate for mortgage loans in November 2014 was 12.1 percent; the average for foreign currency loans (USD or EUR) was 11.4 percent. In September 2014, 74 percent of mortgage loans were in foreign currency.[93]

According to the international auditing company KPMG, average weighted nominal interest on fixed-rate mortgage loans in Georgia is 15 percent (effective rate of 16.9 percent). Floating-rate mortgage loans are offered for an average of 7.4 percent (effective rate of 8.8 percent), but only in GEL.[94] However, the interest rate of GEL loans increased in early 2014 due to a readjustment in the refinancing rate set by the NBoG to 4 percent. The interest rate of mortgages in GEL is calculated from this rate.[95]

A range of mortgage and other financial products are available in Georgia from a variety of banks. Some of these products have been listed in Table 6.2, which includes both mortgage products and

[90] United Nations Economic Commission for Europe, „Country Profiles on the Housing Sector: Georgia", 2.
[91] Sarke News, "Mortgage Loans Increased by 10.8% in 2013" Sarke Information Agency, 29 January 2014.
[92] Sarke News, "Mortgage Loans Account for Almost Half of Total Crediting" Sarke Information Agency, 12 August 2013.
[93] Sarke News, "Interest Rate for Mortgage Loans Continues to Decline" Sarke Information Agency, 6 Nov 2014.
[94] Sarke News, "'KPMG': In Terms of Interest Rates on Mortgage Loans, Georgia Occupies Intermediate Position" Sarke Information Agency. 12 March 2014.
[95] PRIME, "Georgian Banks Increase Interest Rates on GEL Mortgage Loans" Prime News Agency All Rights Reserved, 24 February 2014.

microfinance products. Some commercial banks are also in the practice of offering preferential loans to borrowers buying units in developments constructed by banks' preferred developers. This practice also takes place with banks' subsidiary developers, most notable Bank of Georgia's developer company, M^2. Standard mortgage products generally have an income minimum requirement of between GEL 600 and GEL 950 and an interest rate from approximately 10 to 15 percent. While Liberty Bank offers mortgage loans with terms up to 30 years,[96] most banks offer a maximum of 15 years. The following sections will take mortgage loans offered by Bank of Georgia[97] and TBC Bank as indicative examples for the affordability analysis.

Table 6.2: Mortgage products offered in Georgia

Bank	Loan amount	LTV	Interest	Term	Minimum Income/ month
Bank of Georgia	USD3,000-175,000	80-90%	9% (effective 10.27%)	Up to 15 years	GEL 950
TBC Bank	USD2,000-500,000	…	10.25% (effective 12.13%)	Up to 15 years	USD 300
Basis Bank	GEL10,000-400,000	…	9.13% (effective 9.8%)	15 years	GEL 600
Bank Republic	From USD 2,000	…	12% (effective 13.6%)	Up to 15 years	USD 400
Liberty Bank	GEL5000 or USD/EUR 2500	…	15%	Up to 30 years	GEL 800
ProCredit Bank	USD500-100,000	…	13-16%	Up to 15 years	No minimum requirements

Source: Bank websites; Sarkme, "Expensive Mortgage and Profit-Oriented Banks" Sarke Information Agency, 11 July 2014; MoESD, Urban Indicators, 2012.[98]

6.3 Purchase of dwelling with mortgage

Considering the definition of affordability adopted for this analysis, Table 6.3 calculates the maximum monthly mortgage payment affordable for urban income percentiles.

[96] MoESD, Urban Indicators, 27.

[97] Bank of Georgia is a private bank, and should not be confused with National Bank of Georgia, which is the Central Bank.

[98] Data for some of the mortgage products listed differed between the various sources cited here. This is most likely due to dated information. Where available, the most recent data has been provided in this table.

Table 6.3: Maximum HH monthly mortgage payment affordable for urban income percentiles

Percentile	Urban income (GEL)	Urban income (USD)	30 percent of urban income (USD)	40 percent of urban income (USD)
5	155	73	22	29
10	203	96	29	38
25	352	165	50	67
50	651	306	92	122
75	1095	515	154	206
90	168	792	238	317
95	2254	1060	318	424

Source: Integrated Household Survey, GeoStat 2013.
http://www.geostat.ge/index.php?action=meurneoba&mpid=1&lang=eng

Given the diversity of mortgages offered by banks in Georgia as outlined in Table 6.2, this analysis takes mortgages offered by Bank of Georgia (BoG) and TBC Bank as indicative examples. TBC Bank advertises a USD 300 monthly income minimum for obtaining a loan, and publishes monthly payment data on its website for different housing sizes in cities and towns across Georgia.[99]

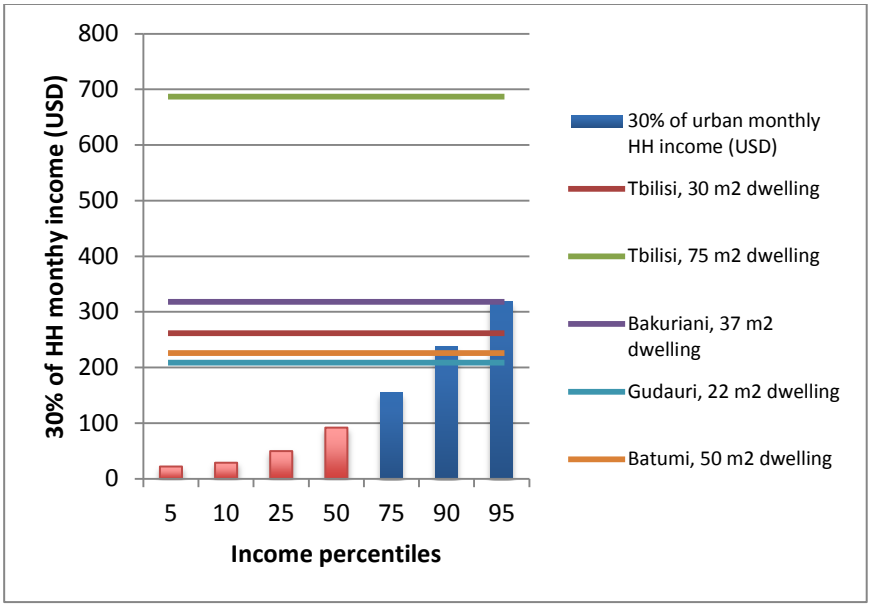
The TBC Bank USD 300 monthly income minimum means that only households in the top 50 income percentile in urban areas are qualified to receive a mortgage. As illustrated in Figure 6.1, assuming a threshold of 30 percent of monthly HH income spent on monthly mortgage payments, only the 90th income percentile and higher of urban households can afford mortgages from TBC Bank, to buy only the smallest unit offered in Tbilisi (30 m^2 priced at USD 27,180), and only marginally larger units in Bakuriani, Gudauri, or Batumi (37, 22, and 50 m^2, respectively). A larger 2-bedroom unit (75 m2) in Tblisi would require a payment of nearly USD 700 per month (illustrated by the green line), which would require 65 percent of the 95th percentile's HH monthly income. Income percentiles ineligible for TBC Bank mortgages are marked in red.

[99] **TBC Bank mortgage payments for different locations and dwelling sizes**

Total dwelling area (m^2)	Cost of dwelling (USD)	Monthly mortgage payment (USD, starting from)
Tbilisi		
30	27180	262
75	71250	687
95	76000	740
135	114750	1105
Bakuriani		
37	33030	318
Gudauri		
22	21755	209
Batumi		
50	23500	226

Source: http://www.tbcbank.ge/web/en/web/guest/mortgage-center

Figure 6.1: Monthly mortgage payments offered by TBC Bank compared to 30 percent of HH monthly income by percentile



Source: TBC Bank mortgage payment data: http://www.tbcbank.ge/web/en/web/guest/mortgage-center; Integrated Household Survey, GeoStat 2013. http://www.geostat.ge/index.php?action=meurneoba&mpid=1&lang=eng

Bank of Georgia offers the IPO+ loan for clients wishing to purchase, build or conduct renovations of their dwelling. This loan is offered in amounts from USD 3,000 to USD 175,000, for up to 180 months (120 for renovations). The annual interest rate starts at 11 percent, and the minimum monthly income requirement is set at GEL 950 (GEL 750 for renovations). Table 6.4 shows the monthly mortgage payments for different loan amounts, based on the value of a variety of dwellings.

Table 6.4: Monthly mortgage payment for different loan amounts based on dwelling cost (USD)

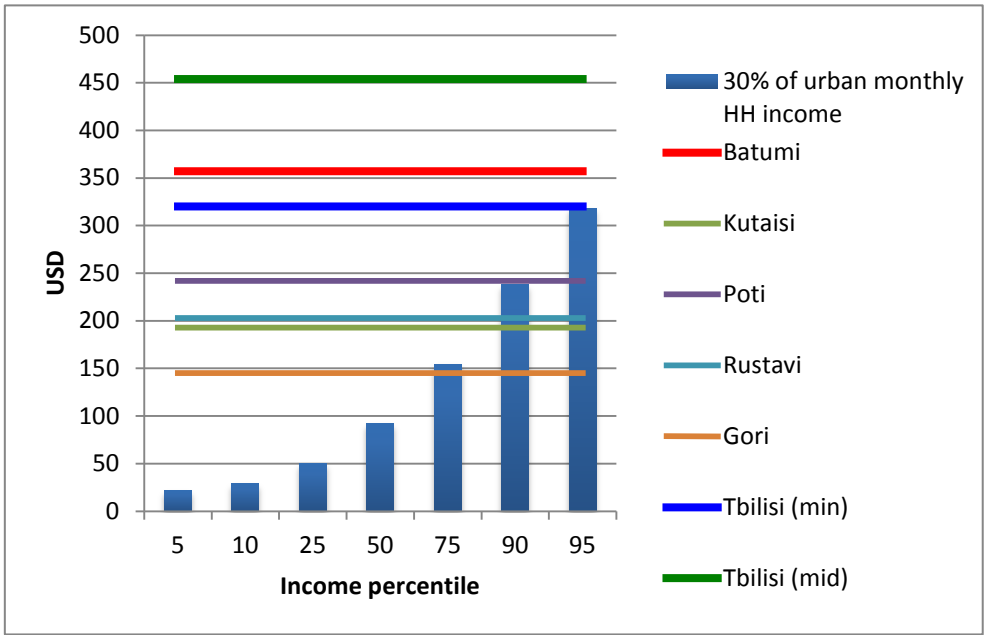
Dwelling type	Dwelling location	Dwelling price (USD)	Loan amount[100] (USD)	Monthly mortgage payment (USD)
Median market price for two room dwelling	Batumi	37000	31450	357
	Kutaisi	20000	17000	193
	Poti	25000	21250	242
	Rustavi	21000	17850	203
	Gori	15000	12750	145
50 m^2 unit by price segment	Tbilisi (min)	33150	28178	320
	Tbilisi (med)	47000	39950	454
	Tbilisi (max)	82200	69870	794

Sources: Median market price for two room dwellings: Urban Indicators, the Ministry of Sustainable and Economic Development;Tbilisi dwelling costs: Colliers report, p 27; Monthly mortgage payment: BoG online loan calculator (http://bankofgeorgia.ge/retail/en/loans/mortgages/ipo-plus)

[100] Assuming 15% downpayment.

As shown in Figure 6.2, which compares the monthly payments outlined above to income percentiles, while two-room (1-bedroom) dwellings in secondary cities and towns across Georgia might be affordable, the cheapest 50 m^2 dwelling in Tbilisi requires a monthly mortgage payment that is greater than 30 percent of HH monthly income for even the 95th income percentile. While BoG allows monthly payments to exceed even 50 percent of monthly gross income for high-income households, the fact that it should exceed 30 percent for a modestly sized unit at the lowest available price indicates overall unaffordability in the market.

Figure 6.2: Monthly mortgage payments on BoG IPO+ loan for properties in different cities compared to 30 percent of urban monthly HH income



Source: Monthly mortgage payment: BoG online loan calculator (http://bankofgeorgia.ge/retail/en/loans/mortgages/ipo-plus)

To obtain a broader picture of affordability, Table 6.5 lists total affordable loan amounts given monthly payments of 30 and 40 percent of HH monthly income on standard mortgages with a 180 month loan term at 11 percent interest.

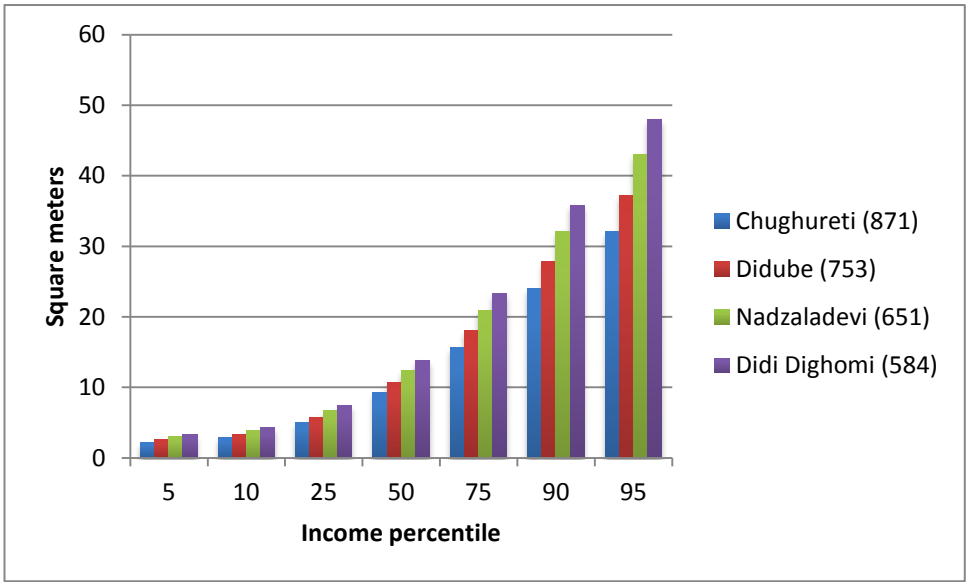
Table 6.5: Loan amounts (USD) affordable to urban households based on monthly payment thresholds

Income percentile (urban HH)	Loan amount based on monthly payment threshold	
	30 percent of monthly HH income	40 percent of monthly HH income
5	1924.14	2564.93
10	2523.56	3364.16
25	4363.19	5897.4
50	8077.67	10769.35
75	13590.42	18123.49
90	20926.07	27900.84
95	27978.3	37304.11

Source: Monthly mortgage payment: BoG online loan calculator (http://bankofgeorgia.ge/retail/en/loans/mortgages/ipo-plus)

Based on the affordable loan amounts presented in Table 6.5, the 50th HH income percentile, just under the income eligibility threshold for a BoG IPO+ loan, can afford only 14 m^2 in Tbilisi's least expensive district (Didi Dighomi, USD 584/m^2). The 95th income percentile can afford a 48 m^2 dwelling in Didi Dighomi, still within the bracket of smallest dwellings from 0-50 m^2. This indicates a lack of affordability of adequate floor space in terms of house purchase with a loan from a commercial bank in Georgia. Figure 6.3 shows the affordable floor space in square meters for different income percentiles in different districts of Tbilisi.

Figure 6.3: Minimum standard floor space compared to affordable floor space with IPO+ mortgages by income percentile

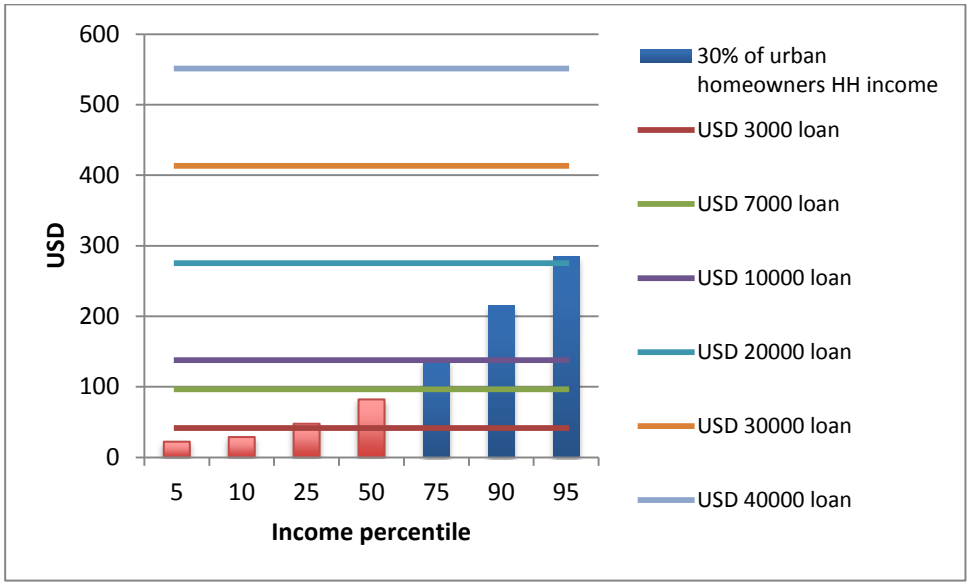


Source: Monthly mortgage payment: BoG online loan calculator (http://bankofgeorgia.ge/retail/en/loans/mortgages/ipo-plus).

6.4 Renovation loans

The need for dwelling upgrades and extensions, especially given the lack of affordability of purchasing a new dwelling, is widespread (as evidenced by the general deterioration of Georgian housing stock and ubiquitous ABEs). The affordability of renovation loans is illustrated in Figure 6.4. The red bars indicate households (in the lower income percentiles) who are not eligible for renovation loans from BoG, considering the GEL 750 monthly income cutoff.

Figure 6.4: Monthly loan payments for Bank of Georgia IPO+ renovation loans compared to 30 percent of HH monthly income for urban homeowners[101]



Source: Loan payment data obtained from BoG online payment calculator, http://bankofgeorgia.ge/retail/en/loans/mortgages/ipo-plus

Relatively small renovation loans are affordable to almost all income groups. For example, a USD 3,000 loan is affordable even to those in the 25th income percentile who are, in fact, not eligible for such a loan given the minimum monthly income requirement. A USD 10,000 loan is the largest renovation loan affordable to all eligible income percentiles.

6.5 Rental housing

Rental housing in Georgia is limited, and most stock is rented on the "grey" market. While rental housing comprises a small percentage of total stock in Georgia, small units on Tbilisi's periphery are affordable for the 50th percentile and higher, though these units also have experienced the most radical price fluctuations due to lack of supply.[102] Interviews with market experts in Tbilisi indicated that the rental market is primarily targeted towards expat renters with temporary residency.[103] Figure 7.5 shows that small rental units in the center of Tbilisi are affordable to those in the 75th income percentile and above. Even the smallest rental unit furthest from the center is affordable only for the 50th income percentile and higher. This highlights that those who are not in the highest income

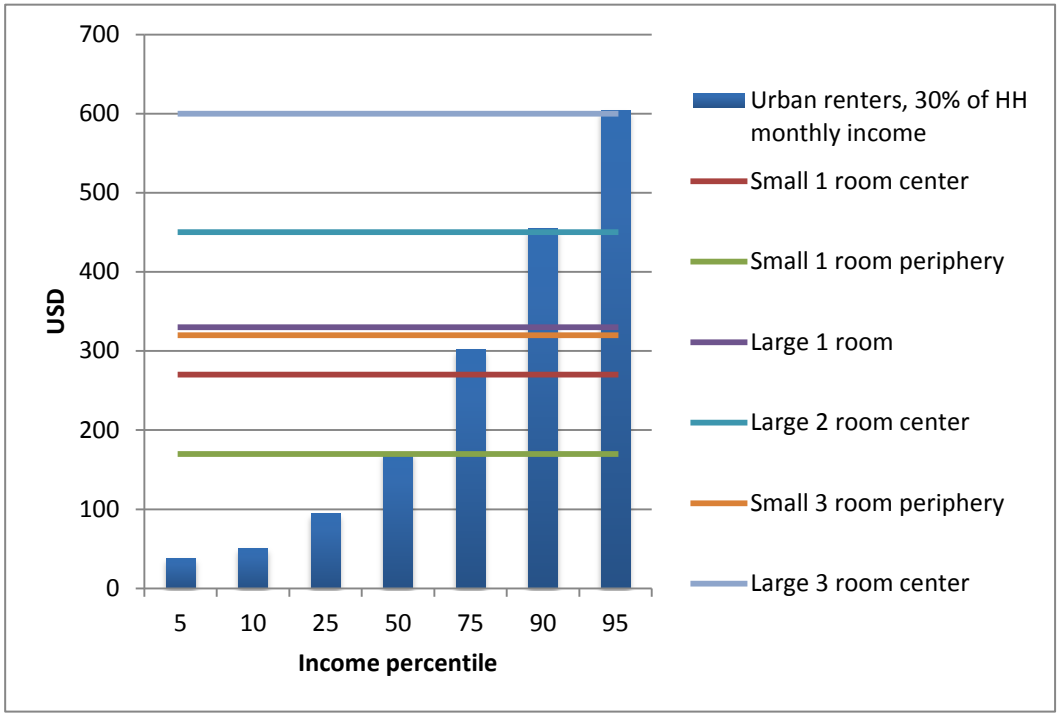
[101] Monthly loan payment calculation is based on a 120-month loan term (maximum term offered for IPO+ renovation loans by Bank of Georgia) at 11 percent interest (standard interest offered).

[102] Colliers, „Tbilisi: Real Estate Market Report 2014", 28.

[103] That said, the monthly HH income data for urban renters used in Figure 7.5 was below that of the average urban monthly HH income data in every income percentile.

percentiles are not necessarily able to rent adequate living space in urban centers – and neither able to afford home purchase or take a renovation loan.

Figure 6.5: Monthly rental prices in Tbilisi compared with 30 percent of HH monthly income of urban renters



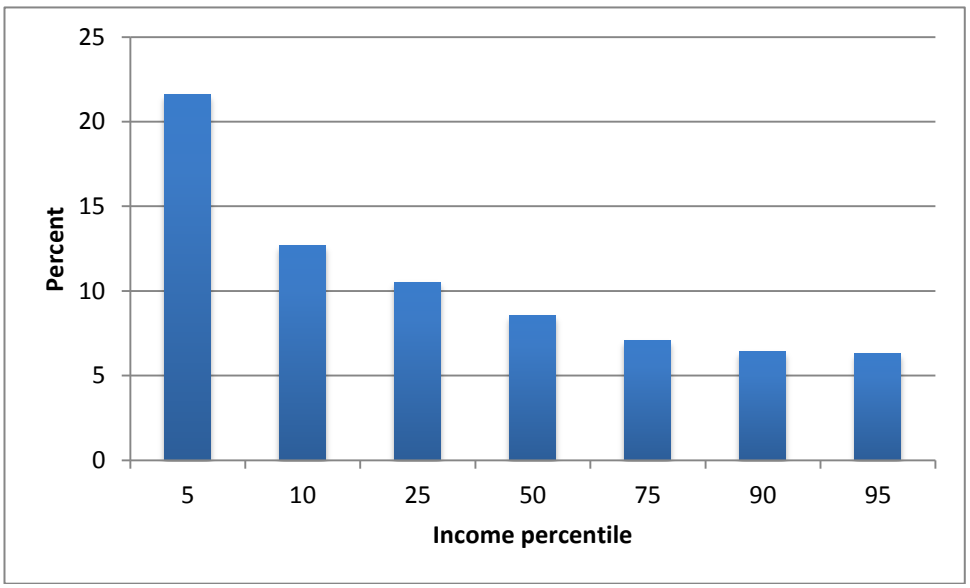
Source: Rental prices: Colliers,"Tbilisi Real Estate Market Report,"28.

6.6 Affordability of private ownership

In addition to the need for affordable loans to replace or upgrade existing units, the high degree of private ownership in Georgia points to the fact that in the interim, many household's primary interest is the affordability of housing costs such as heating, water, waste management, and basic maintenance. The only available expenditure data by income percentile is for energy costs, which give an indication of overall affordability of private ownership.

While the 50th income percentile and lower generally cannot afford to replace or take loans to conduct renovations of their housing units, they are also the most burdened by the cost of energy and most likely other household costs. A household within the 25th income percentile spends more than a third of its budget on heating. Additionally, there is a significant difference in the cost of heating between urban and rural dwellers; urban households pay an average of GEL 90.15 per month on energy, compared to rural households which pay an average of GEL 42.48 per month on energy.

Figure 6.6: Percent of household monthly income spent on energy costs by income percentile



Source: Integrated Household Survey, GeoStat 2013.
http://www.geostat.ge/index.php?action=meurneoba&mpid=1&lang=eng

7. Housing for poor and vulnerable groups

Poor and vulnerable groups are defined as those households either in the 20th income percentile or below or those who experience a higher risk of poverty or social exclusion from the general population. These groups overlap in Georgia with the IDP community and the urban poor who live in isolated and unique housing typologies and, accordingly, require tailored public interventions to ensure adequate and affordable housing solutions for their needs. For IDPs, this includes their physical integration into urban centers and out of dedicated IDP collective centers. For poor and other vulnerable groups, this includes expanding the stock of public housing and also provision of incremental upgrading to informal and illegal settlements.

In Georgia the definition of 'poverty' is based on the subsistence minimum and the deviation from median national consumption.[104] The subsistence minimum is defined for a working-age male, and is expressed in monetary terms based on the consumption goods that assure the satisfaction of minimal physiological and social requirements. The subsistence minimum is calculated based on the Georgian law on 'Rules of Calculation of Subsistence Minimum' (adopted in 1997) and the Order of the Minister of Health, Labour and Social Affairs of Georgia 'On norms and normative for composition of food basket necessary for determining the physiological requirements/ needs on food and energy and subsistence minimum'[105]

The subsistence minimum in Georgia was GEL 149.0 and median consumption GEL 217.0 at the beginning of 2014. Consequently, the indices of relative poverty were fixed and comprised 21.4 percent as a share of the population below 60 percent of the median consumption rate, and 8.4 percent as a share of population below 40 percent of the median consumption rate. In addition, the value and share of registered poverty is determined, which in 2013 amounted to 437,200 people, i.e. 9.7 percent of the total population (according to Geostat 2014 based on data from the Ministry of Health, Labour and Social Affairs).

Despite these data, the definition of poor and vulnerable groups is informal and somewhat arbitrary. Poor and vulnerable gourps are often correlated with social categories which depend on state support such as pensioners, displaced persons, handicapped/ disabled individuals, war veterans, survivors of conflicts (internally displaced persons), single mothers, etc. These social groups indeed comprise a majority of the registered (and presumably unregistered) poor in the country. This report relies on the definitions and statistics presented above.

7.1 Internally Displaced Persons

It is universally acknowledged that internally displaced persons (IDPs) comprise one of the largest vulnerable and impoverished groups of the Georgian society.[106] According to the latest data (2014) maintained by the Ministry of Internally Displaced Persons, Accommodation and Refugees, approximately 260,000 Internally Displaced Persons (IDPs) are registered in Georgia[107], comprising roughly 5 percent of the country's population. More than 70 percent of IDPs are concentrated in

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[104]Statistical yearbook of Georgia, 2014. (http://www.geostat.ge/cms/site_images/_files/yearbook/Yearbook_2014.pdf)

[105] Ibid., 49-50.

[106]Joseph Salukvadze, D. Sichinava, and D. Gogishvili. "Socio-economic and Spatial Factors of Alienation and Segregation of Internally Displaced Persons in the Cities of Georgia," in *Spatial Inequality and Cohesion*, *Studia Regionalia*, vol. 38. Ed. Marszał, T. &Pielesiak, I. (2014), 45-60.; P. Kabachnik, B. Mitchneck, and J. Regulska. *Return or Integration? Politisizing Displacement in Georgia*. (2012); B Mitchneck, O. V. Mayorova, and J. Regulska. "Post"-Conflict Displacement: Isolation and Integration in Georgia," in Annals of the Association of American Geographers, 99: 5 (2009), 1022 -1032; E. Koch. Displacement, Health and Humanitarianism in Post-Soviet Georgia. (An NCEEER working paper. University of Washington, 20012). [http://www.ucis.pitt.edu/nceeer/2012_825-12_Koch.pdf]

[107] http://mra.gov.ge/geo/static/55

Tbilisi and in the Samegrelo-Zemo Svaneti Region. IDPs in Georgia come from Abkhazia and South Ossetia and were relocated due to two major outbreaks of conflict in the 1990s and in 2008.

There are two subgroups of IDPs in terms of their resettlement accommodations. Individually accommodated persons comprise about 55 percent of all IDPs, while collectively accommodated IDPs account for the remaining 45 percent, approximately 113,000 persons. The representatives of the latter group are concentrated into collective centers that are generally located in the major urban areas of Georgia (Tbilisi, Zugdidi, Batumi, Kutaisi, Poti, Rustavi).

The buildings converted into collective centers were formerly owned by the government and generally do not satisfy basic standards of living. Originally designed as non-residential buildings (schools, kindergartens, hospitals, hostels, research institutes) these structures lack basic utilities such as sewage, gas networks and water supply. IDPs displaced after the 2008 Russo-Georgian war have been compactly re-settled and housed in specially built collective settlements along the East-West highway

Plate 7.1: Tserovani IDP settlement

Source: http://www.worldtravelserver.com/travel/en/georgia/airport_nataxtari_airfield/photo_46514831-tserovani-idp-camp.html

Shelter for collective accommodation has generally been allocated by the government. However, many IDP residents of collective centers have opted to find alternative accommodations. On occasion, IDPs were forcibly moved out of collective centers due to renovation works. Interestingly enough, almost one third of 900 respondents who were part of a recent research project across nine urban settlements claimed that they occupied dwellings, i.e. collective centers, forcibly.[108] The state has

[108] Data is presented based on the research project launched by the Department of Human Geography at Tbilisi State University, which focused on the case of collectively accommodated IDPs and patterns of their housing and spatial practices. Using a representative survey comprising 900 face-to-face semi-structured interviews, the department examined nine urban settlements of Georgia with the highest concentration of collectively accommodated IDPs, as well as in one collective rural settlement (Tserovani) that emerged after 2008 war between Russia and Georgia. For more details see: Joseph Salukvadze, David Sichinava and David Gogishvili. "Socio-economic and Spatial Factors of Alienation and Segregation of Internally Displaced Persons in the Cities of Georgia," in *Spatial Inequality and Cohesion, Studia Regionalia*, vol. 38, 45-60 ed. Tadeusz Marszał, Iwona Pielesiak (2014).; and "Coping with marginality and exclusion: can refugees communities successfully integrate into mainstream urban societies in Georgia" Scientific report of a research project financed by ASCN (2013). http://www.ascn.ch/en/research/Completed-Projects/Completed-Projects-Georgia/mainColumnParagraphs/09/text_files/file/document/Research%20Report%20Salukvadze.pdf

encouraged the privatization of publically owned dwellings occupied by IDPs. However, by 2012 only 20 percent of surveyed households lived in privatized dwellings. More than half of IDPs interviewed claimed that their shelter belonged to the state. Noticeably, in large cities collective centers were mostly privatized or were in the process of privatization. The privatization of such dwellings, albeit of poor quality and uncomfortable, gives IDPs a feeling of stability, creates a stronger bond between the IDP resident and his local community, boosts self-perception of social status and confidence, and motivates further integration into the local society.

Convenient housing is a cornerstone of IDP integration and quality of life, however few IDPs consider their current dwellings as such. IDPs rated their attitude towards their current accommodations as primarily neutral (37 percent) or negative (42 percent). Some IDPs improved their dwelling conditions independently: 4 percent extended the living space, 23 percent added bathroom facilities, 23 percent substantially refurbished their dwelling, and 16 percent mentioned “small (cosmetic) renovation”. But more than half did not (or could not) make any improvements to their current dwelling, which they consider as “temporary”. Only 38.2 percent of the IDPs claimed that authorities had helped them to improve their living conditions, while 58.7 percent reported that they had received no such aid.

Generally located in more remote areas of Georgian cities, some IDPs reported lack of services in their area of residence: 8 percent mentioned a lack of grocery shops, 5.6 percent a lack of schools, 9.1 percent a lack of ambulatory care facilities, 4.2 percent a lack of pharmacy shops, 3.9 percent a lack of kindergartens, and 1.3 percent a lack of public spaces. That said, the absolute majority expressed no complaints, which might be because households are thankful to have even simple shelter, but also because hosueholds might fear losing their modest accommodations if they expressed dissatisfaction towards the local authorities. Abstaining from criticism for fear of losing even unsatisfactory benefits is not unique to the IDP community, but common to other vulnerable groups who strongly depend on government support.

20.9 percent of the IDPs surveyed manage to use a small plots around or nearby their current dwelling for agricultural purposes, but reported that such activities constitute “hobby farming”, as the plots are very small and used for self-consumption. Land around collective centers is used for agricultural purposes by 73.3 percent of residents in Tserovani, 36.3 percent in Kutaisi, and 22 percent in Zugdidi.

Given the opportunity to change their place of residence, 42.3 percent of IDPs voiced a preference to move to a private house within a city. IDPs generally voiced preferences for dwelling types that most resembled those they left upon taking refuge: IDPs who came from rural areas preferred moving to a village house at three times the rate (21.2 percent) of those who came from urban areas (7.2 percent). Indeed, urban IDPs preferred a private city house (50.4 percent).

IDPs self-reported primary sources of income include state monetary assistance (equivalent to around USD 10 per person per month) and various types of state pensions.[109] Around 30 percent reported income from salaries of employed household members. A small proportion of IDPs (7 percent) reported receiving financial help from close relations (friends and relatives) living outside of the household. When the respondents were asked about their perceived economic situation, two-thirds considered themselves as "poor" or "very poor".

When it comes to the amount of monthly financial income, IDPs in the modal category, which united about 40 percent of the respondents, earn GEL 101 - 350 (approximately USD 60 - 210). The lowest-earners, who reported their income as less than USD 60, comprised 17 percent of the respondents. Respondents, whose income consists of USD 300 or higher, form only 11 percent of the group.

[109] Such sources of income were reported by 68% of respondents.

As it was mentioned above, the self-reported unemployment rate among residents of collective centers is extremely high; only 23 percent of respondents report themselves as employed. Residents of the capital city and Eastern Georgia are more likely to be employed than IDPs living in the urban areas of Western Georgia. Among those who are employed, about 45 percent are involved in a private enterprise, 38 percent are government employees (including school teachers) and the rest are self-employed. Not surprisingly, unemployment is considered as the most important obstacle to integration of improved quality of life among the IDP population.

7.1.1 Government interventions and IDP housing solutions

Beginning in 2013 the GoG implemented three programs aimed at providing 'durable housing solution' to the IDP population:

- The program for the resettlement of IDPs to rehabilitated and newly constructed buildings,[110] has since 2013 received 13,041 applications from IDP families. Long term accommodation has been provided to 1,353 IDP families under this program, while 10,500 applications are still under review.[111]
- The program for acquisition of individual houses and apartments for IDP has proven popular among IDP families and selection criteria are now regulated by Order N320 of the Minister of Internally Displaced Persons from the Occupied Territories, Accomodation and Refugees of Goergia. In 2013, 30 houses were acquired for IDP families under this program. Funding for the program increased in 2014 to GEL 2,000,000.[112]
- The program for acquisition and transmission of privately owned accommodations to IDPs has realized the acquisition of five facilities in which 202 IDP families were resettled.[113]

The project started in 2007 and since then, approximately 24,000 individuals were satisfied with long-term shelter. The rehabilitation process generally affected collective centers in urban settlements outside Tbilisi. Several new collective centers were constructed or organized in Batumi, Poti, Tskaltubo, Jvari and Rustavi.

Georgia's Action Plan for the State Strategy towards IDPs aims at increasing IDP integration into society. One controversial aspect of the plan is the relocation of collective center residents to newly constructed or renovated permanent shelters, which might improve living conditions but maintains the geographic isolation of IDPs, hindering their ability to integrate into the broader communities in which they live (e.g. cities in which collective centers are located such as Rustavi, Batumi or Poti).

A comparison between IDPs who were relocated to improved housing and those who remained in their original accommodations reveals gaps in terms of satisfaction with housing, economic opportunities and the process of integration. Not surprisingly, resettled IDPs are more likely to be satisfied with their current housing. The resettlement program did improve the living conditions of beneficiaries. In several in-depth interviews (in Tserovani) respondents referenced the inadequate quality of construction works,[114] which might have been a result of poorly qualified builders as well as the desire of GoG to re-accommodate IDPs as quickly as possible at the expense of quality.

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[110] approved by Order N320 09.08.2013 of the Minister of Internally Displaced Persons from the Occupied Territories

[111] http://Mra.gov.ge/eng/static/2657

[112] Ibid.

[113] Ibid.

[114]See 'Coping with marginality and exclusion: can refugees communities successfully integrate into mainstream urban societies in Georgia?' 2013. Scientific report of a research project financed by ASCN. Tbilisi State University

7.2 Informal and illegal housing

In Georgia informal housing is broadly defined and officially considered 'illegal' (*ukanono*). Informal housing still exists in Georgia, which hinders the effective operation of property markets. Squatting in state and municipal-owned structures and the absence of legal documentation (proof of ownership, building permission, cadastral reference etc.) are the most common causes of informality. In fewer cases informality is the result of unsafe structures and locations or extension of existing buildings without permit and/ or in violation norms and standards. The widespread nature of 'Do-It-Yourself' attachments/ extensions to multi-family apartment buildings in Tbilisi and other big cities significantly complicated matter of definition of what exactly is informal in such housing estates.

The formalization of ABEs depends simply on the local public authority's decision to do so, while cases of squatter dwellings or illegal conversion of non-residential property poses a more complex administrative issue, as does the absence of legal documentation. This situation is aggravated by the social status and solvency of the population occupying informal structures, as they usually belong to poor and vulnerable groups (e.g. IDPs, evicted tenants, etc.) that use informal housing as a last refuge.

However, there are cases in which other groups besides poor and vulnerable populations occupy informal/ illegal housing. This is prevalent on the periphery of Georgia's cities, where large plots of land are sometimes registered both with the larger urban municipality as well as an adjacent rural municipality. This is a result of the Soviet and the early post-Soviet policy to return urban enclaves that had been incorporated into urban municipalities during the Soviet era to their neighbouring rural communities/ municipalities. The consequent overlap of ownership and title led to informal activities in these areas (e.g. Ortachala gardens, Sairmis gora in Tbilisi). In other cases, ownership of land and structures was not properly documented, making those properties illegal/ informal (e.g. Lilo, parts of Avchala, Mukhiani in Tbilisi). Such cases of informality are also prevalent in summer house/ *dacha* developments, which in some cases now lie within city boundaries.

Informal settlements and housing estates sometimes lack communal services and utilities partially or completely. Many such informal houses do not meeting minimal safety and health standards. The resolution of such cases of illegality/ informality usually takes quite some time and effort on the part of the local government.[115]

There is no data available on the extent or volume of informal/ illegal housing in Georgian cities. However, their existence is evident in Tbilisi as well as in some other cities. Representatives of Batumi and Gori City Halls confirmed in the context of research on this topic the existence of informal housing in their cities and indicated their share in the entire housing stock as 1 and 5 percent, respectively. These figures likely do not reflect the true extent of informality and illegality in those cities.

7.3 Social Housing

There is a significant shortage of adequate social housing in Georgia. The fragmented interventions and unrealistically small-scale projects have had little impact so far given the sheer lack of volume (there are a total of approximately 60 social housing units in Tbilisi) and the lack of public sector

[115] However, there are procedures, albeit time-consuming and rather costly, to legalize informal/illegal properties; e.g. in Tbilisi an informal tenant/occupant should submit a cadastre sketch of a land parcel and building(s) to a special commission at the City Council, which involves appropriate entities at the city hall for checking and expertize (on overlap with other properties, conflict with neighbors, safety of building, etc.), and in case of positive reference would make decision on legalization; the commission fixes amount of payment (usually lower than market value), after payment of which issues an act on legalization, opening thus a way for property registration.

initiative to deliver social housing at volume; recent social housing initiatives in Tbilisi were implemented by the SDC, a non-government organization. There is no unified register of homeless persons or households living in inadequate conditions in Georgia.[116]

The SDC units, which were completed as part of a 2007 program and accompanied by a comprehensive technical manual on social housing construction, offer a positive precedent for further social housing development. That said, no subsequent public sector projects have been implemented.

Due to the lack of a unified register of needy households, potential beneficiaries must submit applications to receive an SDC unit to the local self-governments. The SDC created eligibility criteria by which beneficiaries should be socially vulnerable (disabled, war veteran, lone elderly, single parent with a child or children younger than 18 years of age), be in extreme poverty, and/or live in inadequate housing conditions. In addition, the beneficiary should not own any immovable property. The selection process includes an evaluation of beneficiaries' physical and mental health, desire to find a job and ability to live independently without support from the state.

Due to the limited volume of available social housing units in Georgia, there is no official application system or process for potential beneficiaries to obtain such a unit; consequently, there is no waiting list. In order to identify families eligible for getting social housing the "Rule of Assessment of Social and Economic Condition of Socially Unprotected Households" was introduced. It was approved by Order 31-1/1024 on the September 29th, 2005 from the Minister of Economic Development of Georgia. Article 3.2.a of the Rule states that "objective information is obtained by a social agent through visual observation of living conditions and by checking correspondent documents".

The condition of a dwelling is assessed using a 5-point scale and is focused on the following issues: general condition/ appearance of the dwelling, socioeconomic conditions of the family, hygienic condition of the dwelling, health and psychical condition of family members, drug and/ or alcohol addiction, presence of disabled persons, number of children including infants, and working skills and desire to be employed. The SDC has elaborated a guide for each municipality that is involved in the program to determine eligibility based on the agent's assessment.

Currently there the number of applications for the highly restricted stock of social housing in Georgia is unknown. While tenant contracts are set by the local authority and vary in term, the ten-year tenancy contract in Tbilisi locks a select number of beneficiaries into these units and does not fully realize the revolving nature of such a resource.

The SDC project realized two and three-story multi-family buildings constructed of monolith concrete and brick. There are one, two, and three-room units with individual bathroom and toilet. The total area of the one-room apartment is approximately 28 m², while for the two-room apartment the area ranges from 35.5 m² to 4.1 m². Three-room apartments are approx. 60 m². As such, the SDC units are of average size for the urban areas of Georgia.

[116] The Unified Registry of Vulnerable households does not indicate the of quality of housing/ accommodation for those registered (i.e. those recieving government subsidies). Even house tenure is not fixed. The focus is put on household income and household assets such as home appliances.

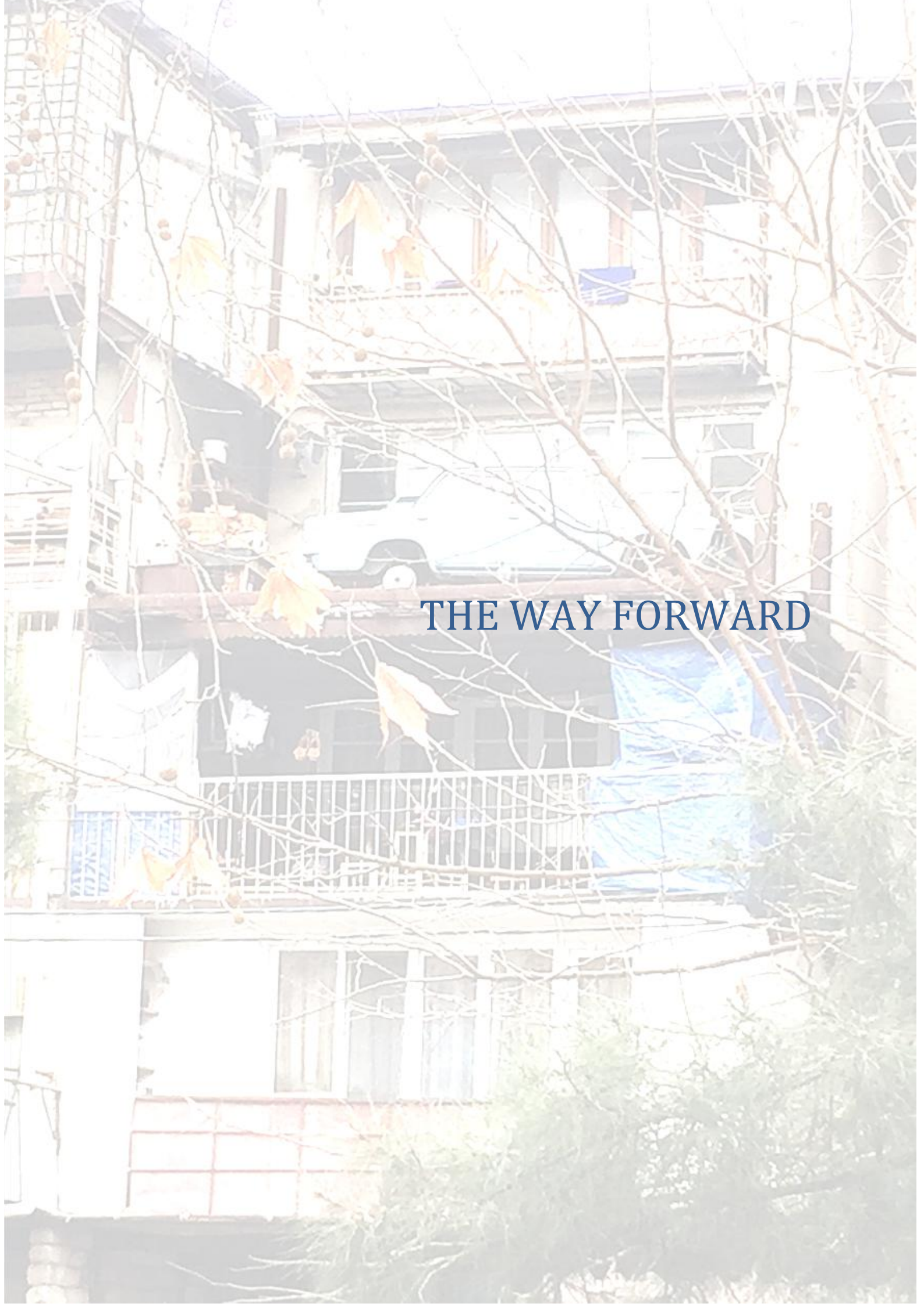
Plate 7.2: SDC social housing in Tbilisi

The GoG has referred increasingly to the issue of public housing, which indicates that there might be an effort in the near future to realize decent accommodations for poor and vulnerable households, including IDPs and socially disadvantaged families. While public sector budgetary allocations to social housing differ from city to city and city budgets do not indicate exact figures allocated for social housing, rough estimates of budgetary allocations for Tbilisi are indicated in Table 7.1 below.

Table 7.1: Tbilisi Budget by year in GEL '000

	2010	**2011**	**2012**	**2013**
Social protection	**121,017.2**	**80,314.6**	**74,164.6**	**138,781.5**
Including:				
Accommodation	1,307.1	1,931.3	2,111.3	NA
Program: Social housing in supportive environment	57.7	480.3	134.8	94.5

Source: Annual reports on budget fulfillment http://new.tbilisi.gov.ge/news/1500



THE WAY FORWARD

8. Recommendations

The review on the state of housing in Georgia unfolds numerous shortcomings and problems that the government may consider addressing in order to improve the living conditions of the country's population. Below are the main recommendations, grouped in 7 sections.

8.1 Develop a national housing strategy/ policy

First and foremost, there is a strong need for a national level housing strategy, one that is developed in close collaboration with, and endorsed by, all major stakeholders (e.g. central and local governments, developers/ business sector, citizens/ civil society). The Strategy should contain a strategic vision of urban development, an action plan, implementation methods, timeframe for activities, and indicators for assessment of implementation outcomes, and be integrated into overall socio-economic development strategies.

The following themes may be considered to guide the strategy:

- *Reform the legal framework, to* clearly target public sector assistance to the poorest (for example, the bottom 20% of the population).
- *Strengthen the institutional framework,* with clear roles and responsibilities for national, regional, and local levels of government, together with appropriate financing mechanisms and technical capacity to deliver these functions.
- *Improve the existing stock of dilapidated housing,* and in particular, ensure that they are sound in terms of structural quality, energy efficiency, and the households' modern day needs.
- *Introduce a proactive program to retrofit buildings at risk to earthquakes,* and build public housing to be used as transitional shelter for the residents.
- *Establish a Housing Fund* to provide streamlined financing for housing – to both government programs such as the Tbilisi Corps, as well as private sector creditworthy borrowers such as HOAs – particularly for home improvements.
- *Develop a subsidy policy for housing* that targets public assistance to the poor.
- *Increase the stock of Social Housing* using public sector funds and also by mobilizing private investments. (The EU average is 15-20% of total housing stock).
- *Create a vibrant rental housing market,* by increasing the supply of affordable rental dwellings through the private sector. (The EU average is 30% of total housing stock.).
- *Incentivize the private sector to increase the supply of new affordable housing* by, on the one hand, creating the right motivation and incentives for banks to lend, on the other, for private developers to build cheaper housing.
- *Improve the housing conditions of the poor and marginalized communities,* by expanding the menu of options for housing to include assistance for upgrading existing settlements, and providing adequate tenure security.
- *Promote energy efficiency and environmental sustainability,* by improving integrating financing with building and neighborhood improvements and EE measures.

8.2 Legal Reform

8.2.1 Create a consolidated legal and normative basis for housing

A legislative framework is recommended that encompasses provisions all aspects of the housing sector and related issues having to do with urban development. This includes provisions for the operation of homeowners associations and management companies, construction norms and standards,[117] licensing of professionals involved in the housing sector, construction and allocation of public/ social housing, etc. The normative basis of these provisions should correspond to recognized

[117] The Government of Georgia is currently in the process of passing the new 'Constructoin Norms and Rules' which will replace the Soviet construction norms and rules (SNiP) and represent a critical component of the new body of housing legislation.

international standards and should be coordinated with the proposed housing strategy. Finally, the legal framework will need to ensure that the gap left by the annulment of Soviet era housing legislation is adequately address with new laws and regulations.[118]

8.2.2 Promptly adopt and implement the new Construction Norms and Rules

New 'Construction Norms and Rules' designed to correspond with the European standards are set to replace Soviet construction norms and rules (SNiP) upon adoption by parliament. Its adoption and implementation is expected to raise standards and the level of order in the unregulated and sub-standard construction sector in Georgia. The adoption of these new Construction Norms and Rules should be accompanied by legal provisions for the enforcement thereof – through inspections during different stages of construction as well as post-construction – to ensure quality and also that developers do not violate those norms after receiving the approvals/ permits by subdividing housing units, converting parking space into living space, etc.

It is expected that the new construction norms and rules will inform an enhanced and more rigorous process of issuing building permits, which is currently under-developed and has led to the construction of poorly designed structures. Higher standards in this process will, however, need to be balanced with the current emphasis on speedy processing times and can be implemented within the current framework of a 'one-stop-shop' for building permits.

8.2.3 Amend legislation and provisions pertaining to homeownership and HOAs

The government may consider revising the legal framework governing HOAs to mandate the pooling of funds towards maintenance of common spaces and other assets in buildings. In addition, there is a need to modify associated laws and provisions to include the home owners in buildings previously designed for non-residential use, and to provide for proper cost-sharing and co-financing mechanisms for retrofitting/ renovation of these buildings. New legislation may also take into consideration the issue of distributing income earned from banners hung from building facades, etc. Given the urgent need for maintenance on many buildings, the legal system should also allow municipalities should facilitate individual and private sector initiatives through PPPs to offer HOAs maintenance services.

8.3 Institutional Reform and Capacity Building

8.3.1 Reform legal framework and build capacity in housing and urban planning

At present, the lack of by-laws along with inadequate capacity at the local level has kept local governments from drafting master plans. Three core issues require attention to enhance the role of local governments in housing activities: (i) provide local government staff with professional training to further build the capacity of public employees; (ii) enable the development of local housing policies with emphasis on affordable housing and social housing in accordance with general state housing policies and spatial development plans; and (iii) improve mechanisms to address issues of urban planning, construction, maintenance of housing stock and utility provision – both in terms of policy development as well as enforcement.

8.3.2 Create a dedicated housing department at the national level

The Department of Spatial Planning and Building Policy of the Ministry of Economy and Sustainable Development, which is currently tasked with responsibility for housing issues on a national level, lacks capacity and a focused mandate to address the wide and extensive variety of issues affecting the housing sector. The Department needs to be provided with a clear and dedicated mandate in the housing sector, and concurrently, expand its staff with relevant expertise and defined responsibilities. Unfortunately, seven years since its founding, the Department is still in need of structural enhancement and capacity building. The placement of the Department under the Ministry of Economy

[118] For example, while the '*Law on the Principles of State Housing Policy*' was drafted in 1997 to replace the '*Housing Code of the Soviet Republic of Georgia*' the new legislation was never adopted, and has resulted in a vacuum in Georgia's legal and institutional framework for housing.

and Sustainable Development is also an issue of the further consideration as its mandate is refined and capacity enhanced.

8.3.3 (Re)establish a national center focused on issues related to housing

A national center focused on issues related to housing presumably should exist under the United Nations format for strengthening of business partnership with international agencies like UN Habitat, UNECE, FEANSTA, etc. According to some stakeholders such as the Association of Urbanists of Georgia, the housing sector could greatly benefit from the creation of a special non-ministerial agency for housing (e.g. National Housing Foundation) in the form of a legal entity under public law (LEPL). Such an agency would be responsible for the organization of public hearings/ discussions, statistical collection and analysis of housing data (in collaboration with the National Statistics Office of Georgia (GeoStat)), and the preparation of strategic policy documents and action plans for state and local authorities.

8.3.4 Enhance teaching and research in the field of housing

The public sector may partner with academic institutions and professional think tanks in order to evaluate and diagnose comprehensive data collected on the housing sector. Such a partnership may focus on, for example, training to develop, process, and institutionalize data in order to use housing data to guide housing policy interventions.

8.3.5 Develop a housing database

The lack of basic information on the housing sector makes designing, budgeting and targeting specific areas for policy intervention difficult. There is a need to ensure systematic collection and availability of relevant information related to the housing sector by establishing collection mechanisms and a country-wide housing database. It is recommended that data on housing – such as household needs, size, condition, as well as market data including the rate of production, type, and prices of housing – countrywide be collected for each urban settlement and aggregated at the regional and national levels. The creation of an 'Urban Laboratory' format for building databases and monitoring processes and trends of urban and housing development, and elaboration of a system of urban indicators according to international experience is crucial. This will allow the budget and extent of energy efficiency, capital repair works, and design of social housing/ other housing subsidies to be determined according to the stratification of data on household composition, income, housing type, age, and condition. This task can be undertaken by both government agencies (namely GeoStat and special units in local governments) as well as non-governmental entities.

8.3.6 Improve standards and introduce licenses for architects and builders

More stringent standards for the licensing and maintenance of professional licenses in the housing sector are recommended, together with increased training of professionals in the field of planning, architecture, and urban design. Also, it may be advisable to introduce a clause to revoke professional licenses if standards or ethical practices are violated. Increased capacity, a more rigorous licensing process, and the revocation of professional licenses upon violation of standards will help improve the quality of construction and urban environments in Georgia.

8.3.7 Empower professional organizations in the housing sector

A public sector dialogue with professional organizations (associations of realtors, architects urbanists, etc.) in the housing sector is recommended. While such organizations already possess professional expertise in the various sub-components of the housing sector, the increased emphasis on professional standards and practices might be reinforced in members through such organizations. In addition, the public sector can both gain insight into and influence the private sector through such organizations.

8.4 Housing quality, management, and sustainability

8.4.1 Create centralized inventory of old buildings in poor or hazardous conditions

There is a need for a centralized inventory of old buildings in poor or hazardous conditions to inform the allocation of funds towards the upgrading and/ or replacement of old, deteriorating housing stock.

Further, by offering to co-finance (or fully finance) the initial technical expertise (assessment) of these structures, for example, the public sector can incentivize HOAs and leverage private sector investment to upgrade and/ or replace such structures.

8.4.2 Prioritize upgrading and proper management of existing housing stock

Additional programs aimed at the upgrading and proper management of existing, old housing stock need be developed and implemented. Although the last five years have witnessed several small and medium scale retrofitting and rehabilitation projects housing in the older parts of Tbilisi, the reach of these projects has proven small in comparison to need, while the concept and quality of renovation usually has sometimes led to conflict with the local population. Large numbers of old houses remain untouched in almost all Georgian cities, including buildings from the first half of 20th century and Soviet multi-family apartment buildings. Also, such upgrading efforts could be further expanded to include energy efficiency measures, aesthetic work to the building envelope (not just the front façade), structural improvements, and longer-term provisions for proper building management by the owners to maintain common spaces and facilities.

8.4.3 Establish homeowners' associations in all multi-family buildings

While tremendous progress has been made in the establishment of HOAs over the past few years, there are still many multi-family buildings without HOAs. It is important to establish HOAs in all multi-apartment residential structures to allow for more effective coordination of funds to maintain common spaces and assets and, if necessary, undertake other works on the building with or without coordination with government programs. HOAs can facilitate multi-lateral investment in capital improvements and upgrading, specifically in the form of co-financing from public budgets, bank loans taken by HOAs, and subsidies channeled to individual households unable to afford their co-financing portion of improvement works. HOAs would thus serve as a direct link between housing policy/ investments in the improvement of old housing stock and lower and middle class households.

8.4.4 Mandate HOAs above a certain number of members to employ professional management companies

Despite the prevalence of HOAs in multi-apartment housing in Georgia, the absence of management companies in many of these buildings has led to the neglect of common spaces and assets. Mandating that larger HOAs employ a professional management company will ensure systematic maintenance of their common property.

8.4.5 Scale up existing programs to make improvements to multi-family apartment buildings

The Tbilisi Corps program has been very successful in facilitating capital improvements in multi-family apartment buildings, and could well be consideredfor scaling up. Bringing this program to other cities and towns across Georgia will make such improvements more affordable to residents otherwise unable to undertake such works. Where existing programs fall short, other programs can be established to revitalize and rehabilitate old structures, especially in cases where tenants are members of poor or vulnerable communities.

8.4.6 Elaborate a flexible policy to structurally upgrade Khurshchevkas with ABEs

The development of a comprehensive inventory and evaluation of *Khrushchevkas* and other Soviet-time multi-apartment buildings is highly recommended. This inventory will inform relevant programs and policies to increase the structural safety and gradual replacement of such buildings, as required. Such a policy or program could include co-financing mechanisms for HOAs to commission upgrading works with a share of public money, or fully public disbursements for poor and vulnerable tenants. That said, the socio-economic status of residents will need to be taken into account in designing cofinancing mechanisms, ensuring that stakeholders invest in such works to the extent of their ability.

8.4.7 Mandate independent and systematic technical supervision of construction

It is recommended that independent technical supervision of construction sites and systematic checks of building quality, stability and safety be mandated in the new construction code and building norms

and rules, to be implemented by nominated entities. An inspection of building materials, insulation, etc. should be undertaken for all new construction. Special attention will be required for those buildings that were 'frozen' during the 2008-10 financial crisis as they may have been exposed to the elements and suffered structural deterioration. The special requirements for such buildings should be clearly defined under the new construction rules and norms, and be made compulsory. In addition, the code should elaborate on the frequency of inspections– both during and after completion of construction. This is to ensure that units have been built according to the originally approved plans for which the building permit was approved, and not been subdivided, or parking space has not been converted into living space, etc.

8.4.8 Improve the education and training of construction, architectural, and inspection staff

The capacity and knowledge of professionals currently involved in housing development in Georgia is inadequate, and should ideally be improved to correspond to internationally accepted standards (i.e. Master's degree in engineering or a related discipline). The latter should be trained to be able to handle new materials and tools, which require special skills and know-how.[119]

8.5 Housing market, affordability, and financing

8.5.1 Halt further production of "black frame" residential developments

The government may consider putting an end to the production of unfinished "black frame" residential housing by private developers. This will reduce the safety hazards associated with this shell-and-core product, such as the removal of load-bearing walls by owners and occupying unfinished structures. New regulations to this effect will oblige developers to complete the building to at least a 'white frame' level – including building facades and common areas – before handing over properties to customers. Such regulations should also specify the nature and quality of permissible repairs and retrofits conducted by individual homeowners to their property in order to prevent damage to common spaces, facades, etc.

8.5.2 Introduce incentives for private developers to build affordable housing units

In Georgia's housing market, 'quality' and 'affordability' appear to be mutually exclusive: the good quality 'turnkey' housing is largely unaffordable to the majority, and the black and white frame housing is affordable but of very poor quality. One way to address this is to have private developers to provide a certain percentage of 'affordable' units in new turnkey developments. Such units should be cross-subsidized by – but not differ in appearance or location from – market-price units in the same development (see Box 9.1).

Large-scale developments currently being undertaken on Tbilisi's periphery do not address the shortage of affordable housing, yet have been awarded subsidies by the municipality in the form of land and tax exemptions. Such developments will need to be subject to regulations mandating a certain percentage of affordable units be constructed. Given market mechanisms and cross-subsidization schemes, developers might not require subsidies to incentivize such provision of affordable housing at scale.

[119] This provision is from UN ECE 2007, 50.

Box 8.1: Incentivizing the private sector to deliver affordable housing

The private sector must be encouraged to go down market and build more affordable housing. Banks accordingly, must be encouraged to lend for such affordable housing. And in parallel, end users/ households/ communities must be encouraged and supported by the government, where necessary, to organize themselves and produce their own housing.

- *Package government land for middle and lower income housing development*

The normal tendency is for private developers to search for land that is easiest to acquire (typically larger agricultural tracts on the periphery of the city) and develop. This saves them the trouble of acquiring multiple small tracts of land and the uncertainties and delays caused by somewhat uncertain land ownership records. Out-of-town development encourages urban sprawl, increases the cost of utilities, and burdens roads not designed for the purpose. By contrast, near-city brownfield sites use existing infrastructure and provide greater convenience for the residents. Local authorities should package sites for development by undertaking all necessary acquisitions and offer them for sale on a competitive basis. By assembling the land and providing infrastructure, the local authority will remove a large part of the development risk. This will therefore make private sector investments on the land more competitive and lower cost. The housing built on the land may be for sale or rent.

- *Establish Public Private Partnerships*

Public-private partnerships (PPPs) in the context of housing provision can be understood as contractual arrangements between a government entity and a private company whereby the private company uses government resources (e.g. land, services) and shares risk by following government guidelines to provide affordable housing.

- *Form Development Agreements*

A Development Agreement (DA) is a contract between a private developer and the local authority, which is based on the concept of a quid pro quo. As a condition of granting approval to a developer to construct a certain number and type of housing units, the local authority requires that a percentage of those units be priced lower. As noted above DAs can be used to require private sector developers to provide social housing; in other cases, they may simply require that a certain percentage – for example 20% - be priced below, for example, EUR 50,000. This principle of Development Agreements is practiced widely in many parts of the world and does not deter the private sector from making investments. The same objective may be achieved with a similar tool known as “inclusionary zoning” or “inclusionary housing” in the USA and Canada.

8.5.3 Develop and expand the rental housing sector

The high level of private ownership in Georgia combined with increased in-migration to Georgian cities puts pressure on households to buy units, which is generally not affordable. While the rental housing market exists in many cities, it is mostly ‘informal’. This represents a loss, both in terms of municipal revenue, as well as the lack of legal protection offered to tenants and landlords alike. The current taxes and procedures to register and pay taxes on rental income should be reviewed to make the process more accessible to landlords, and reduce taxes for those earning under a certain threshold. In addition, municipalities can offer incentives (such as some of the subsidies offered to foreign developers building large-scale developments in Tbilisi) for developers to build rental housing (see Box 9.2).

8.5.4 Revise building and spatial requirements to reduce cost of completed construction

Box 8.2: Increasing rental housing in Georgia

The lack of rental housing and particular dearth of formal rental housing in Georgia acts as a major deterrent to labor mobility, causes difficulties for newly-weds, and inflates the rents of the limited stock available. Increasing the supply of accommodation for rent will make a major impact on housing supply, especially for lower income groups.

- *Remove tax disincentives for rental housing*

One way to boost the production of rental housing is to exempt rental income from tax – for up to a limit of, say, 5 units. This will have the effect of bringing many existing tenancies out of the grey economy and making it easier for tenants to insist on formal lease agreements, thus protecting their interests. This will also have the effect of increasing competition and thereby reducing rent levels.

- *Reform any pro-tenant rental policies*

Existing policy should be reviewed to ensure that an equitable balance is achieved between the parties: that is to say creating conditions in which exploitative rents, or demands for excessive advance payments are eliminated by an open market situation, balanced with powers for the landlord to evict tenants who abuse their rights by late or non-payment, damage to the property, creating nuisance to the neighbors, etc. The objective of such policies is to reduce disincentives for landlords to enter the market, thereby increasing the supply of rental housing. The dispute mechanism discussed below will be an important tool in reducing landlord/tenant conflicts – a major disincentive for some landlords.

- *Introduce a landlord/tenant dispute resolution mechanism*

The potential for landlord tenant disputes not only discourages owners from renting out their property, but also leads to very high up-front deposits etc. A simple arbitration procedure should be established to resolve such disputes cheaply and quickly. Ideally, there should be a compulsory arbitration procedure – which is cheaper, easier, and faster – before a dispute can be taken to court.

Current developments might have increased final costs due to mandatory spatial requirements and provision of parking spaces for unit owners without regard to location and surrounding infrastructure. As parking space is generally built on the ground floor or basement of multi-story residential developments, foundation works contribute an undue share to the final cost of housing units. Such a regulation can allow for different unit-to-parking ratios based on location and surrounding infrastructure.

8.5.5 Expand access to housing finance for the purchase and renovation of housing

The GoG and the banking sector may consider schemes to increase access to housing-related loans by households. This might include, for example, extending the terms on loans to reduce the monthly mortgage payment; offering government guarantees on mortgage loans that encourage banks to reduce their margins and hence reduce the effective interest rates they charge for housing loans; and introducing different types of home improvement/ renovation loans as many households cannot afford loans for housing purchase even under more favorable conditions, and because renovation is needed in much of the old Soviet-era housing stock in Georgia. These renovation loans could be targeted to both HOAs as well as individuals unit owners, who qualify to borrow to finance improvements at the building level or the unit level, respectively. However, it is important that the HOA legal framework and banking legislation related to non-collateralized lending be reviewed. To better inform housing finance-related policy a detailed review of the current mortgage lending practices (e.g. funding, portfolio performance, products, judicial experience, servicing practices, etc.) is also recommended.

8.5.6 Enhance legislative framework governing mortgage loans

Areview of foreclosure processes – done jointly by the public sector and banks – will ensure better collateral efficiency and enforcement rights thereon. There are instances of non-paying debtors not

vacating a foreclosed unit, which makes the enforcement of collateral virtually impossible.[120] The lack of adequate rules for auctioning such foreclosed property presents a bottleneck in the mortgage market. In parallel, the central bank should introduce a limited form of bankruptcy such that debts are written off after a set period of time. This would ensure that while banks are confident that they can enforce collateral in the case of nonpayment, the mortgage market allows debtors leeway in the form of restructured or rescheduled loans so as not to overburden the sector with NPLs.

8.5.7 Review practices of "favored" lending to bank-affiliated real estate developers

Some new regulations may be considered to restrict banks from offering development loans at discounted rates to developers affiliated with them (as subsidiary companies, in some cases). These banks also offer mortgage loans at more favorable terms to customers buying houses being built by bank-affiliated real estate developers. This practice of banks engaging in real estate activities creates an unlevel playing field and inherent conflicts of interest. Such banks are likely to cross-subsidize their activities by taking a loss on their real estate operations in order to capture customers for their banking services.[121] For example, a bank that owns a development company could offer special incentives for buyers who are or become customers of the bank. This creates barriers for entry for small developers (and banks alike), hinders competition in the housing market, and limits the housing choices available to customers. Policy may be developed based on a comprehensive review of the laws and regulations governing developer finance. This review would include construction finance and off-plan purchases by physical persons, equity developer investment instruments, etc.

8.6 Poor and vulnerable groups

8.6.1 Define a policy for the provision of housing for poor and vulnerable groups

A policy specifically targeted at poor and vulnerable groups, which defines instruments and schemes for the provision of adequate housing and services to these population segments, should be considered as an integral part of the national housing strategy (described earlier). This policy should include eligibility criteria for the target population – for example, those in the 20th income percentile or below, and/ or those at risk of poverty or social exclusion – and a strategy to increase the stock of social housing by leveraging the private sector in the delivery of social housing – through PPPs or other incentive schemes, and the conversion of vacant housing in urban areas. Social housing provision should be coordinated with a unified register of poor and vulnerable households by locality, including eligible IDP households currently housed in inadequate communal centers not originally intended for residential purposes. In addition to social housing, a program of rental vouchers may be considered to help IDP households integrate better into the urban and social fabric.

8.6.2 Provide the homeless with temporary accommodations

The government may consider expanding the accommodations for homeless people in some Georgian cities. However, such temporary shelters, especially in winter, and provision of non-residential spaces for vulnerable groups such as IDPs should not be viewed as a long term solution. Currently inhabited non-residential structures and temporary facilities should be considered for gradual replacement with decent social or affordable housing, and this should be a priority.

8.6.3 Legalize informal and illegal constructions through incremental upgrading

The main criterion for legalizing informal and illegal ABEs is building safety and compliance with building standards/norms/technical regulations.[122] The necessity to legalize such extensions was correctly emphasized in the UNECE report of 2007 (p.48), which advised the government to prepare

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[120] Provisions of the Civil Code (Title 3, Chapter 6) hinder mortgage lending, repayment, and sale of foreclosed property.

[121] National Association of Realtors, USA. National Policy Against Mixing Banking and Commerce https://www.irem.org/File%20Library/Public%20Policy/NPAMBC.pdf

[122] According to the Georgian legislation, technical regulations ('*technical reglaments*') are obligatory for fulfillment, not the standards.

legislation for such legalization. This issue remains urgent even today. That said, it is recommended that legalization apply only to those buildings that got extensions or additions in good faith, based on rules previously established by the Government; and in such cases, the owners bear a percentage of the costs to retrofit those parts of the buildings where the structures do not meet safety and stability requirements. In the case of ABEs which contradict the planning requirements and where construction was undertaken without the required permits, the owner of the building or structure may be considered responsible for all costs incurred. Abandoned and unfinished buildings and structures where no owners can be identified should be systematically surveyed to propose the most feasible scenario – demolition, public use, or sale to private ownership with certain possible restrictions for the future.[123]

8.7 Spatial planning

8.7.1 Regulate territorial expansion of urban settlements with land use plans and master plans

The territorial expansion of urban settlements, especially big and medium-sized cities, needs to be conducted in accordance with spatial planning documents, such as a land-use plan or master plan. It is recommended not to have overly prescriptive spatial plans s as was the case during the Soviet era but, instead, regulatory – for example, guiding the allocation of certain land-uses in particular parts of cities. Residential land use and housing development should be an integral part of such plans, with the areas and types of new housing developments and their technical and physical parameters identified. The development of new legislative framework for the effective use of land and for the promotion of real estate development may also be considered.

8.7.2 Introduce planning regulations that prevent deterioration of urban space

The deterioration of urban environments and residential areas is an especially acute issue in Tbilisi and several other big cities where the emergence of irregular and unjustified housing infill has overloaded traffic and utility infrastructure, reduced greenery and open public spaces, complicated service delivery, and disrupted historic urban skylines. Planning regulations and urban design guidelines can help enhance the architectural and aesthetic appearance of the urban environment. Such regulations and guidelines should aim to:

- Discontinue the practice of selling FAR, especially in historic or downtown neighborhoods of Tbilisi and other Georgian cities;
- Halt the '*privatization of sceneries*' by which new high-rises block views, negatively affect privacy, and increase noise, thus devaluing the market value of older property in the area (often as a result of developers buying FAR);
- Allow for the reorganization of inner spaces (especially courtyards) of Soviet era multi-family apartment blocks to increase livability and prevent the further 'privatization' and encroachment of collective spaces;
- Provide for sufficient parking space in new housing developments, and ensure that public spaces and walkability are preserved in old areas.

8.7.3 Strengthen the role of municipalities in urban planning

As part of Georgia's aim to join the European Charter on Local-Self Government, urban and spatial planning will become the exclusive competence of local governments. Municipalities should involve local expertise in developing urban planning frameworks.[124] At the same time, municipalities will need significant capacity building in the field of spatial planning, as well as adequate funding in order to undertake planning responsibilities. In addition, the legislative framework governing local governments' participation in urban planning will have to be strengthened, especially the body of by-laws regarding the drafting of master plans.

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[123] National Association of Realtors, USA. National Policy Against Mixing Banking and Commerce https://www.irem.org/File%20Library/Public%20Policy/NPAMBC.pdf

[124] UN ECE 2007: 51

8.7.4 Prioritize professional education in urban planning

The govern,ent may consider establishing a professional contingent in the field of spatial planning to build capacity at the local level, particularly in smaller cities and rural areas. A curriculum needs to accordingly be developed, for example, at the bachelors and masters programs at state universities. Currently, relevant academic units at Tbilisi State University and Georgian Technical University are participating in a European-funded TEMPUS project on curriculum development in architecture and urban planning. The project aims at developing harmonized curricula in the above-mentioned field among several European and post-Soviet universities, to enable them to develop compatible academic programs and issue double diplomas with a master's degree in urban planning. This endeavor could potentially be expanded and harmonized with the prevailing capacity building needs of local government in the field of spatial planning.

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Annex 1: Main functions of the Spatial Planning and Construction Policy Department [125]

- Define, implement, coordinate, manage and monitor the policy in the field of Spatial Planning and Construction Activities.
- Initiate, organize, analyze, implement and monitor the fulfillment of regulatory legislation of Spatial Planning and Construction activities, including Technical Regulations;
- Initiate, organize, coordinate, agreeing and monitor the fulfillment of regulatory design documentations of Spatial Planning at Trans-border, National, Regional and Local levels;
- Define the short, medium and long-term strategies of internal territorial development and Spatial Planning;
- Take part in International, State and Regional Program Projects in the field of Spatial Planning and Construction Activities.
- Cooperate with State, Autonomous Republics and local self-government; initiate, implement, coordinate and monitor the programs and projects of Spatial Planning and Construction and other activities determined by the legislation;
- Organizing and agreeing of Land Use Master Plans and development Regulatory Plans in recreation areas and zones subjected to special construction regulations;
- Take part in the administrative proceedings on issuing construction permits to the buildings in recreation areas;
- Take part in the process of the policy determination of land management countrywide, in the framework of their responsibilities; develop the methodologies for Spatial Planning tasks at the department or with the help of the group set up at the department and support local self-government bodies to set up planned groups and coordinate and monitor their works;
- Prepare and publish annual report regarding the development of Spatial Planning Documents countrywide;
- Propose recommendations for improvement of housing conditions on the basis of relevant surveys;
- Compile Housing Sector Characteristics; ensure public and business sector involvement in the process of defining the policy in the field of Spatial Planning and Construction Activities
- Support the educational process, including further retraining of specialists in the field of Spatial Planning and Construction Activities and take part in regulation of professional qualifications of the specialists in this field;
- Discussion and agreement of the candidates for compulsory expertise of particularly important buildings; development of uniform experts list and ensure its publicity
- Support development and implementation of new technologies and production of construction materials in the field of Construction activity according to the requirements of a modern demand;
- Create database and prepare annual report in the field of construction activity countrywide;
- Cooperate with International Organizations, organize meetings, seminars, conferences and implement the experiences in the field of construction activity.

[125] These tasks are defined by the Charter of the Ministry, dated 15.07.2010 #191. Sources: the website of the Ministry of Sustainable Economic Development (see http://www.economy.ge/en/minister/deputy-minister-328/spatial-planning-and-construction-policy-department), and the Georgian text of the Charter (see http://www.economy.ge/uploads/files/debuleba/ekonomikisa_da_mdgradi_ganviTarebis_saministros_debuleba_24.03.2014.pdf).