

## Housing in Georgia

By Irakli Zhvania, Tbilisi

### Abstract

Georgia's housing situation is typical for the South Caucasus region. Detached houses make up nearly 93 per cent of households in the countryside, whereas flats comprise 67 per cent of the households in urban areas. These numbers should be kept in mind when assessing the existing housing stock, as more than half of the residents of Georgia are in urban areas. The capital city, Tbilisi, is home to one quarter of the total population of Georgia.

### Privatization

In 1992, the government transferred ownership of apartments to residents by decree. Accordingly, no legislative framework defined the privatization of housing stock. Moreover, the privatization process was not well planned; it did not draw on any vision of housing policy or urban development strategy. Municipal authorities carried it out and transferred the housing almost for free, charging citizens only a tax on the transfer. This decree did not specify the legal status of the land plots under or next to multi-storey houses or the obligations of the owners. There was no attempt to envision the future of the housing sector after privatization was complete. The state did not provide any information about rights and management. Laws in the Civil Code regulate the privatization of houses, land and enterprises, but none of them say anything about the ownership of multi-flat buildings. The existing laws regulating housing ownership are not enough to manage this important part of the housing stock.

In 2004 the share of private ownership of dwellings was 94.5%. Only 1.7% of stock was occupied by renters. After the privatization of the housing stock, essentially a "give away" scheme, residents became owners overnight, without having any experience and capacities to fulfill

the obligations of property owners in terms of the maintenance and management of facilities. Although there are many similarities and common trends in the housing sector in post-socialist states, the scale of privatization in Georgia is very different from the situation in other transition countries. In many countries 20–30% of the stock could not be privatized, despite the fact that privatization programs gave properties to tenants almost for free. One of the reasons was the unwillingness of residents to take ownership of dilapidated housing units. The high costs of repairs, leaking roofs, broken lifts and numerous other problems reduced their desire to take over responsibility for maintenance.

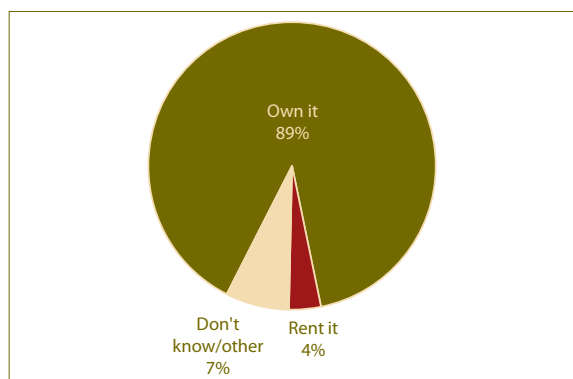
The process of privatization was not supported by technical surveys or relevant documentation of the flats and housing blocs. In fact most property lines remain undefined. Additionally, there were no clear provisions for the management of common property.

Most people and official bodies understood privatization as the complete transition from common ownership to private property. Common ownership was regarded as a remnant of the collapsed socialist system. Under Soviet rule, common ownership was a product of communist ideology. After the collapse of the USSR, everything connected to the "bad old system" was regarded as wrong, and something that should be discarded. Private ownership was seen as an achievement, a positive characteristic of the new and "good" capitalist system. For many, these two different kinds of ownership did not seem to work together. At the same time, the public sector did not pay attention to such important "details" of the housing sector. Acute socio-economic and political problems overwhelmed everything else. The newly-formed state structures did not have enough experience and institutional capacity to address these new legislative and regulatory problems.

### Technical Conditions

In 1989, in order to lower the intensity of protests against the Soviet system, the last Communist government issued a legal act permitting residents to improve their living conditions by expanding their living areas

Figure 1: Do You Own the Place Where You Live?



Caucasus Research Resource Centers. 2009 "Caucasus Barometer". Retrieved from <http://www.crrccenters.org/caucasusbarometer/> on 17 December 2010

by enclosing balconies, loggias and verandas or adding extensions to their apartments. The individuals who took advantage of this decree mainly lived in the Soviet-built block-housing units. As a result, residents added numerous structurally and aesthetically questionable extensions to their flats, adding unsafe structures in a region prone to earthquakes. Inhabitants erected private chimneys for fireplaces and gas-stoves on the facades of their apartment buildings, and redesigned windows and balconies. Buildings thus acquired a makeshift look, with structural extensions that exceeded a building's planned dimensions. It remains to be assessed how many of these extensions were actually carried out with proper permission and followed safety standards. Several of these "initiatives" remain unfinished due to socio-economic difficulties the owner encountered after they started work. In general, a major part of the housing stock in Georgia—regardless of its ownership—requires massive reconstruction. At the same time, some of the housing stock is naturally deteriorating, due to a lack of maintenance and the activities of residents. In fact, some damaged houses should be demolished.

The technical conditions of most buildings in Tbilisi deteriorated significantly in the thirty years since 1980. Mainly these buildings were erected during the first wave of mass construction, were designed to last 25 years and are now obsolete. Multistory houses constructed more recently have aged better.

The issue of technical conditions is very acute in the historical city center, where the main housing stock was constructed in the 19<sup>th</sup> century. In the majority of these cases, living conditions do not meet modern standards. In high-occupancy residential houses, residents expand kitchens, build out utility cores and add additional living space. Such construction has a negative effect on the technical conditions of houses. In 2009, the municipality in partnership with the private sector started a program to rehabilitate and reconstruct residential houses in the old part of the city. The residents there lack the financial means to better their living conditions. The aim of the project is to improve the architectural and urban image of the old district and attract private investors to these buildings in the hope that they will take responsibility for their maintenance. Unfortunately, this process includes removing some of the inhabitants to other locations.

### **Construction Boom**

In the mid-1990s, housing construction took off and became one of the most profitable markets of the early transition period. The necessity to renovate Soviet housing caused a boom in the number of brokerages. Private companies and developers bought entire apart-

ment buildings, demolishing them and constructing new houses up to four times taller. Constantly rising prices for construction materials forced them to build cheap and fast. To keep costs and prices low, builders did not pay attention to the aesthetic result of the materials and construction practices they used. In the 1990s and early 2000s, making a quick profit was the only aim at a time when the public authorities were weak and corruption and nepotism blocked the enforcement of laws. Because of these tendencies, many flats stayed empty while speculators bought and sold them.

The construction boom resulted in a low quality and poorly planned housing stock. Housing developments from this period suffer from low architectural quality. Poorly built new high-rise buildings do not fit into the historically established urban fabric of the city. Frequently, they significantly exceed heights allowed by official regulations, creating thousands of square meters of de facto illegal living space. The appearance of new commercial housing buildings has become a problem for the city. They stand as alien bodies within the urban grid. Building 10–15 stories in place of 4–5 drastically changed the environment of neighborhoods.

These negative processes have slowed or stopped since 2003–2004. The state has strengthened construction regulations and monitoring and made strong efforts to reduce corruption in these spheres. Now the main actors in the private development sector are big development companies, which carefully guard their reputation, use higher quality materials and generally rely on highly skilled professional architects. Nevertheless, many problems remained unsolved and the uncontrolled wild housing developments of the past damage the city's image, architectural heritage, environment and other aspects of the urban identity.

These changes and new developments in the housing market are most notable and problematic in Tbilisi, as it is the capital and the largest city with the most economic activity. It houses a large part of the country's population and is attracting new residents. The second most quickly growing city is probably Batumi, the harbor city with a large tourist industry, followed by Kutaisi, the second largest city in Georgia.

More and more Georgians are hoping to move from old Soviet-style flats into new apartments and improve their living conditions. Total residential stock per capita is one of the lowest in the Eastern Europe and average household size in Tbilisi is much higher than in any other Eastern European capital. According to the last census in 2002, the average household size was 3.5 persons. Most of the existing residential stock was built between 1945 and 1985 and is not of good quality. With the progressive increase of GDP per capita and dispos-

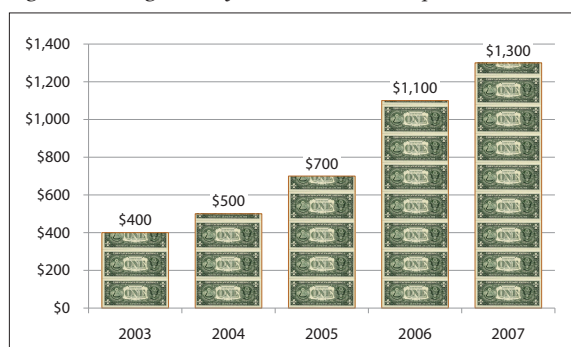
able income, the trend of abandoning old Soviet apartments accelerated and the demand for new residential property has been increasing.

The main actors in Tbilisi's real estate sector are domestic developers. Based on the data of the Georgian Statistical Department, the average living space per person in Tbilisi for the year 2002 was 12.2 m<sup>2</sup>. Based on this and Tbilisi City Hall information on completed residential projects from 2003 to 2006, the average living space per person does not exceed 17 m<sup>2</sup>. Real estate developers seek to buy land for their projects, but the boom in residential construction has reduced the number of available locations in attractive districts of the city. Housing construction activity is shifting to the mountain and forest areas surrounding Tbilisi. Developers now try to avoid complicated negotiations with the residents of the remaining small land plots in the city. They instead want better access to land for development. Regional expansion is a key strategic objective for developers. They try to benefit from low competition and gain first-mover advantage.

### Affordability

Prices for residential real estate properties significantly increased during 2003–2007. Figure 2 shows the growth of newly constructed “white frame” prices. During the years 2005–2007 selling prices of Tbilisi's residential properties, especially in the downtown area, increased considerably, compared to rental prices, which grew at a slower rate. Part of the price growth was fuelled by purchases for investment rather than of a place to live.

Figure 2: Average Price of White Frame Developments in Tbilisi



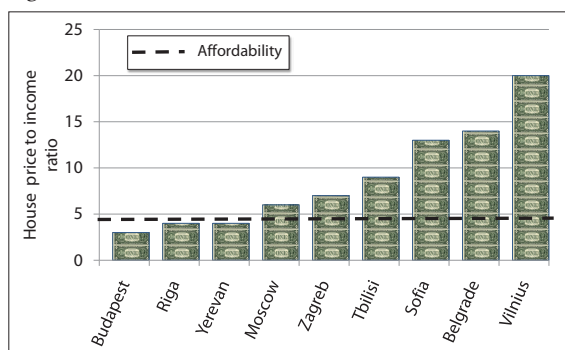
Source: Deloitte & Touche estimates

In western European countries, housing real estate generates 4–7% annual profit in the long term. In Georgia profit from sales varies from 50 to 100% with much shorter time horizons. Tbilisi, competing to be the business center of the Caucasian region, is open for investment and the real estate market is characterized by constant price growth. The prices were almost doubling every year until 2008. The global economic crisis

and short war with Russia decreased investments and stopped the price increases for residential areas and in some cases prices even began to drop. The number of apartments sold also fell. Most apartments continue to be sold in white frame, which is the standard product of Georgian developers, but competition is forcing them to offer additional services as well.

Due to very high prices, hundreds of thousands of people cannot afford to purchase newly constructed apartments. Housing units command high prices which continue to grow at a rapid rate. These increases are not accompanied by increases in income. In Tbilisi, house price to income ratios are extremely high in international comparison. Since a price to income ratio of approximately 4 or 5 is considered to be fairly acceptable, it shows that the level of affordability is low. Figure 3 shows that the house price to income ratio in Tbilisi, among other eastern European capitals, already in 1998 was above average. Since then, prices increased 6–8 times, while incomes have not kept pace.

Figure 3: House Price to Income Ratio



Source: 1998 UN Habitat Global Urban Indicators

Some analysts claim that privatization helped households accumulate some savings to soften the economic problems of the transitional period, or, in other words, the formation of the private housing market has provided some wealth to residents since they could command high market prices from their property after privatization. Indeed, some people sold their property to improve their living conditions and at the same time meet other basic needs, such as food or education, and moved to less desirable locations. Housing in better locations and conditions has become affordable only for well-off families, while the lower-middle income population filtered to outskirts areas or stayed in their previous homes but without the ability to improve their living conditions. Privatization and the private housing market in this way have enhanced the spatial concentration of low-income groups in less attractive districts of the city.

For households that moved, the main problems come a few years after they sold their original flat. When the money from the sale runs out, they again face the same financial problems and at the same time are living in worse locations with a much lower market price for their property. What they need is old building in a lively district, which some among them can help make livelier.

New residential buildings are not an unadulterated good for the city since they bring many disadvantages. The value placed on various advantages, or the penalties accruing from certain disadvantages, are given different weights by different people. Some people prefer more space for the money or equal space for less money to apartments in new houses offered by developers. Some

people would rather pay for improvements in their living conditions by selecting which improvements are most important to them, instead of being forced to buy a variety of improvements which all cost a lot of money.

High price housing developments cause social segregation and gentrification when the public sector does not intervene in housing issues. It is regrettable that in such a situation there is no governmental policy on housing and lower income groups are not provided financial mechanisms to be able to improve housing conditions. The housing sector should be a higher political priority. A national housing policy needs to be elaborated and the concept of social housing should be introduced.

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## Public Green Space in Armenian Cities: A Legal Analysis

By Arsen Karapetyan and Anush Khachatryan, Yerevan

### Abstract

This article examines the state of urban green spaces in Armenia. Overall, the amount of land devoted to green space is shrinking as a result of new construction. Armenia's existing legislation dealing with this issue is inadequate and should be updated to encourage more inventories of existing areas, monitoring of development, and participation, particularly by local government officials and the public.

### Overview

Armenia's population is distributed unevenly across its 49 cities, as Table 1 on p. 8–10 shows. At one extreme is the small town of Dastakert with 300 people; at the other is the capital Yerevan, with 1.11 million people. The level of economic activity also varies significantly across cities. Some urban areas have a high level of economic activity, which requires new construction that inevitably fills up increasingly scarce urban land plots.

The price of urban land is rising from year to year in Armenia, making the land currently devoted to green space particularly valuable. Since this green space is considered communal property, the municipalities control it and they are willing to issue construction licenses to build on this space. Typically, the municipalities permit construction of temporary buildings in these areas, which in practice become permanent structures. Ultimately, of course, it does not matter, whether the building is temporary or permanent—the green space is

destroyed once the construction takes place. The most important losses of green space are taking place in the central parts of cities as a result of in-fill construction.

The existing legal framework in Armenia regulating procedures and methodologies for maintaining green space does not meet the minimal requirements for preserving these sites. Similarly, the implementation of measures to compensate for damage to green space is inadequate.

Since the quantity of green space is constantly shrinking in Armenian cities, the situation is critical. In many cities (Yerevan, Gjumri, Vanadzor, Hrazdan, Sevan, etc.), park lands and squares are being converted to other uses. As a result, the state of the environment and the quality of life for townspeople is deteriorating.

### Statistical Analysis

To develop a systematic picture of the situation, we examined the existing statistical data on Armenia's green