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## Economic Commission for Europe

### Committee on Housing and Land Management

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#### Item 6(d) of the provisional agenda

Review of the implementation of the programme of work 2016-2017

Country profiles on housing and land management

## Draft Executive Summary of the publication “Country Profile on Housing and Land Management - Republic of Armenia”

### Note by the secretariat

#### *Summary*

The Committee on Housing and Land Management, at its seventy-fourth session on 7-9 October 2013, was requested by the delegation of Armenia to prepare a new Country Profile for its country, due to the changes in policies and institutions that had occurred since its first Profile.

The Committee approved the conduct of a new Profile, and preparations for it began in April 2015.

This document contains the draft Executive Summary of the Country Profile of Armenia. It provides an overview of the housing, urban development and land management situations in the country.

The Committee will be invited to approve the publishing of the Country Profile of Armenia (ECE/HBP/186).

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## A. Introduction

1. The Committee on Housing and Land Management (CHLM), at its seventy-fifth session, approved the preparation of a new Country Profile on Housing and Land Management for the Republic of Armenia.
2. This document contains the draft Executive Summary of the Country Profile of Armenia.

## B. Executive Summary

3. This summary provides an overview of the housing, urban development and land management situations in the Republic of Armenia.

### *General situation*

4. Armenia is landlocked and has a mountainous terrain. Of its total area, 68.9 per cent is occupied by agricultural land and 11.2 per cent by forests. Nearly all of its territory is situated in a seismically active zone, making it an earthquake-prone country. Very little land, therefore, is available for settlements; land resources are very limited.
5. Armenia was part of the former Soviet Union. Dissolution of said Union in 1991 took a heavy toll on the country's economy, due to its strong dependence on cooperation with other ex-Soviet republics and especially Russia. Armenia's GDP posted negative growth until 1993.
6. Armenia's economic reliance on remittances from abroad, especially Russia, remained after its independence, due to the very large number of the working-age population living and working outside of the country, and sending their remittances back to the country. According to the World Bank's World Development Indicators, Armenia ranked 10th globally in 2014 in terms of personal remittances received from abroad as a percentage of the country's GDP.<sup>1</sup> Total inflow amounted to USD 1.7 billion, and 83 per cent of this came from Russia. This is why the 1998 and 2014 Russian crises gravely affected the economy. There is very high unemployment, reaching 17.6 per cent in 2014.<sup>2</sup> Thirty per cent of the population is poor, and 2.3 per cent is extremely poor.<sup>3</sup>
7. Problems stemming from the post-communist transition were aggravated by the long-term effects of the 1988 Spitak earthquake. Lots of infrastructure, including housing, was lost as a result; some of it has never been reconstructed due to a lack of resources.

### *Housing sector*

#### Housing stock

8. The Spitak earthquake left many people homeless. The military conflict with neighbouring Azerbaijan resulted in flows of displaced persons at different times who needed housing. At the same time, the mass privatization of housing after Armenia's independence has caused the disappearance of social and public housing, creating a severe shortage of adequate affordable housing.

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<sup>1</sup> World Bank - <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS>

<sup>2</sup> Statistical Yearbook of Armenia 2015, "Labour resources of the Republic of Armenia", p. 51.

<sup>3</sup> Ibid., "Poverty Indicators", p. 106.

9. The legal and institutional framework for managing the housing sector in Armenia is inadequate. A long-term strategic approach is needed to further its development. There is also a need to elaborate a comprehensive national housing strategy with a view to improving the quality of the housing stock and the long-term sustainably. The Government is committed to reforming its housing sector, and this political will is important for introducing changes in the legislation which will promote sustainable housing in Armenia.

10. Because of the currently deficient legal and institutional framework, the condition of the housing stock is poor. Adequate maintenance, repair and management are badly needed, especially in the common areas. More than half of residential buildings need to be renovated, reconstructed or reinforced to make them energy efficient, earthquake resistant and fit for habitation again. Residential buildings that, after inspection, are declared unsafe for habitation (e.g., rundown buildings due to old age or lack of maintenance, those that have low earthquake resistance, etc.) are demolished when reinforcement, reconstruction or capital renovation is no longer possible for technical and economic reasons.

#### ***Housing maintenance and management***

11. One of the economic reforms launched after independence was the privatization of state-owned apartments. Its massive scale meant that 96% of dwellings were in private ownership by 2000. However, this also meant changes in the system of maintenance, repair and management of apartment buildings, which was the responsibility of municipal enterprises during the Soviet times. The 'new' homeowners were faced with a situation where they were not even aware of their rights and responsibilities concerning the maintenance, repair and management of their apartments and of the common areas. They did not have the knowledge and experience to maintain and manage them, and could not afford to invest in shared ownership of the common areas.

12. The multi-apartment buildings management system remains a major issue, despite succeeding reforms made by the Government, including the adoption of new laws, and amendments to some of the existing ones. Further reforms should be made, beginning with legislation that would ensure mechanisms for the participation of homeowners in the management of the common areas in multi-apartment buildings. These mechanisms should be made as simple as possible. Raising the awareness of homeowners as to their rights and responsibilities in the maintenance of their building, and their participation in maintenance costs, is also extremely important.

#### **Housing availability, provision and affordability**

13. Statistics show a high rate of housing availability in Armenia, influenced more by the decreasing population (because of emigration) and a large share of empty dwellings rather than an actual increase in the housing stock. Statistically, the country's housing availability rate is higher than that of Russia and Ukraine, and closer to the rates in Europe. Based on a different indicator, the number of dwellings per 1,000 inhabitants, Armenia is far behind Russia and Ukraine. Despite what statistics show on housing availability, the need for housing is significant. Results of the 2011 census show that 30,000 families are homeless and that approximately 30,000 more need better housing conditions.

14. Social housing stock is lacking in Armenia. Aside from deteriorating housing conditions, due to the aggravated economic situation, production of housing is also declining. Compared to the production of residential buildings in 1981-1990 alone, total residential buildings built after 1990 (a period of more than 20 years) was 65 per cent less.

15. Currently, Armenia has no legislation that ensures the development of affordable housing and the rental sector. The Government has adopted the National Strategy on Developing Social Housing Stock (2013), but it lacks regulations on a number of issues on social housing provision and the affordable rental sector. Under this Strategy, the

Government provides housing to vulnerable groups of the population under the public budget, and creates rental housing through public-private partnership mechanisms. However, budget limitations make it impossible to effectively address the issues. International organizations, such as the Swiss Agency for Development and Cooperation, Habitat for Humanity (HFH) Armenia, and the United Nations Development Programme (UNDP), cooperate with the Government to support the construction of social housing, home improvements and energy-efficiency improvements.

#### Energy efficiency and energy saving in the housing sector

16. The construction sector is one of the major consumers of energy in Armenia; energy consumption and greenhouse gas emissions are mainly related to the heating of dwellings. Buildings consume almost 28 per cent of primary energy resources.

17. After the collapse of the Soviet Union, Armenia has gone through a severe energy crisis. The start of the war over Nagorno-Karabakh, and the resulting economic blockade by Azerbaijan and Turkey, cut off Armenia's only source of gas and oil for its thermal plants. Four years prior to that, due to a massive earthquake, the Medsamor nuclear power plant, a source of roughly one third of Armenia's generating capacity, was shut down. The communal infrastructure was severely affected by this crisis, which was, at the same time, a strong incentive to initiating energy-efficiency programmes. Armenia, as a result, is ahead of its neighbouring countries in implementing energy-efficiency measures in its building sector.

18. The majority of the housing stock in Armenia consists of Soviet-era multi-apartment buildings with poor insulation and low quality construction, which were built without consideration for energy efficiency. Together with poor or no maintenance, this meant that the housing stock was a big energy consumer. Considering the energy saving potential of the residential sector, policies on climate, energy and housing have given priority to energy-efficiency improvements in the construction sector. A number of Government policy documents emphasize the importance of energy efficiency in the construction sector, and provide general plans of essential technical solutions. The Government has also taken actions to improve its legal and regulatory framework for energy efficiency, especially in the housing sector. An energy audit was also given a place in the Government's energy-efficiency priorities, and the "Procedure for carrying out energy audit" was adopted in 2006. Aside from a number of laws and regulations, energy efficiency is also regulated by international legal obligations. Under the United Nations Framework Convention on Climate Change, Armenia is committed to improving energy efficiency in buildings.

19. Some ongoing projects to improve energy efficiency in housing, in collaboration with international organizations, are: the UNDP-Global Environment Facility (GEF) project "Improving Energy Efficiency in Buildings" and the HFH Armenia project "Residential Energy Efficiency for Low-Income Households", to name but two. Loans from commercial banks and international financial institutions are also offered to support energy-efficiency improvement and energy saving in the residential sector.

#### Mitigation of disaster risks

20. Armenia is one of the 60 most disaster-prone countries in the world. Risks related to geophysical hazards (such as earthquakes, landslides and mudflows, hail storms, etc.) are very high. The 1988 Spitak earthquake alone did not only take the lives of thousands of people but also caused heavy damage to property, including houses (517,000 people were left homeless). The consequences of earthquakes such as Spitak only emphasize the importance of making the housing stock earthquake resistant.

21. The Government has adopted important laws and resolutions on seismic hazard reduction and emergency management. Design and construction regulations were also

revised and updated to reflect actual seismic hazards and to ensure more accurate identification of the seismic load on buildings and structures in the development of design and cost estimate documentation.

22. In 2012, the Government adopted the National Strategy on Disaster Risk Reduction, which aims to strengthen disaster resilience, to improve the safety of individuals and society as a whole, and to contribute to sustainable development.

#### ***Communal infrastructure and services***

23. As explained above, due to a severe energy crisis at the beginning of its independence, Armenia's communal infrastructure was badly hit and this, in turn, caused the quality of utility services to drop to a disastrously low level. The centralized heating supply was almost completely destroyed.

24. The Government has made efforts to reconstruct and develop its communal infrastructure and improve the quality of services of utility providers by using various mechanisms of public-private partnership and raising funds through international financial institutions and organizations. Engaging the private sector in public services provision is aimed at improving the quality of services based on international experience and standards, attracting private investment, and introducing modern and efficient systems of service management.

25. The Public Services Regulatory Commission set utility rates according to policy. The rates are set so that they fully cover the operating costs of providers. However, setting economically reasonable rates is constrained by the low income of the majority of households. A system of targeted assistance to low-income households is important at this point, and it is recommended to use the international experience of providing subsidies based on the assessed income of households.

#### ***Urban development and planning***

##### **Urbanization**

26. The growth of Armenia's urban population reflects the country's changing social and economic circumstances over the past century. Although urbanization levels have been on a downtrend in recent years, Armenia remains highly urbanized, with more than 63 per cent of its population living in urban areas. More than half of the urban population lives in Yerevan. Several challenges result from the country's rapid urbanization, including that of governance at national, regional and local level, and the need for specific policy instruments to address them. A more effective response to urbanization is hindered by a lack of intersectoral cooperation.

27. In the medium to long term, therefore, greater cooperation and coordination between all levels of government is needed to empower regional and local economies to promote economic growth. The Government is exploring new principles and practices for urban policy in the future as part of its preparations for Habitat III.

##### **Urban development**

28. At the national level, the General Settlement Plan of the Republic of Armenia, approved in 2003, sets out the broad strategic direction of the Government's national urban development policy. The Plan introduces a policy of restricting urban development in intensively developed areas, where 90 per cent of Armenia's 49 urban communities are located, where this could be harmful to the natural ecology of an area, to create a more balanced settlement structure.

29. At regional (“marz”) level, Area Planning Designs have been prepared for selected areas. Monitoring of these documents is undertaken at regional level. The work is funded by the state budget.

30. Responsibility for preparing Master Plans and Zoning Plans at the local level rests with the local authorities, according to the Law “on Local Self-Government”. Urban development activities within the administrative boundaries of communities are regulated by both the Master Plan of the Community (Settlement) and the urban development zoning plan, which constitute “urban development project documents”. So far, 43 out of 49 urban communities and 52 out of 866 rural ones have approved Master Plans.

31. Enforcement of the Master Plan rests with the State Inspectorate, which has responsibility for ensuring that development is in line with its provisions. At regional level, the head of the office of the region oversees compliance with the Area Planning Designs.

#### Regional development

32. In recent years, regional disparities have been increasing. Yerevan dominates the country’s economic growth performance, and has the highest levels of non-agricultural employment and the lowest poverty rates in the country. Disproportionate development reflects unfavourable socio-economic and demographic conditions, including a lack of infrastructure to support development, especially for settlements located far from the capital, those located in border regions and in mountainous areas, and those with unfavourable climatic conditions.

33. There is a need to promote regional cohesion in order to help reduce regional differences and attract people to less populated, especially rural, areas. However, this requires massive investment in transport and other infrastructure. The Armenia Development Strategy 2014-2025 highlights a range of challenges that need to be addressed by a targeted regional development strategy and, on the urban development side, efforts are already underway to address some of these challenges.

#### Spatial planning and urban development impacts on the environment, and resilience to disasters

34. Disaster risk reduction, particularly in relation to seismic risk, is a key priority for all levels of government in Armenia. Measures have been taken to address this issue and minimize the risk of environmental disasters and their impact, such as the development of policies for disaster risk reduction and the preparation of seismic hazard assessment maps. It is recommended to develop practical measures to address seismic risk, for instance, undertaking a review of disaster/seismic hazard assessment and risk reduction strategies in urban planning and development policies to ensure they reflect the latest learning and best practice.

35. Climate change adaptation is also a priority issue for Armenia. It is committed to limiting its greenhouse gas emissions and for the residential sector programmes were developed to improve energy efficiency. Further initiatives could help address the challenge of climate change in the country, as discussed in the recommendations chapter of the Country Profile.

#### ***Land administration***

36. Several important projects adopted in the early years of independence laid the foundation for effective land administration in Armenia, and contributed to the privatization of almost the entire land stock. Almost all agricultural land was transferred to private ownership, the cartographic coverage of Armenia was completed, all real estate was registered in the cadastre, property rights were secured, and a real estate transfer system based on the effective registration of property rights was formed.

37. Armenia provides efficient services of property and land rights registration for its citizens. Moreover, there are widely promoted mechanisms for resolving complaints and disputes. However, to ensure the effectiveness of the system, the taxation, registration and administrative elements of land management must be supported by accurate and updated maps.

38. Armenia has always been considered a leader among the countries of the former Soviet Union in creating land policies to address its land issues, but much remains to be changed, especially in its shortcomings in land management, land consolidation and the land market, which are based upon land valuation. Land parcels and buildings are valued separately. Armenia has adopted a real property mass valuation system but it is not based on market/actual value, and therefore does not meet international standards and the principles of the 2001 UNECE Guidelines. It is recommended to use the comparative sales analysis method (actual prices) as the basis for valuation, to enhance transparency and trust.

#### ***Financial framework***

39. The main source of financing for housing construction in Armenia is homeowners' funds. Housing construction under the public budget is limited. In housing renovation activities, very little is allocated from the public budget, since maintenance and repair is supposed to be the homeowners' responsibility. Energy efficiency in buildings is one of the priorities of the Government, but public funding for energy-efficiency improvement programmes focuses on industrial buildings. In the residential buildings sector, international organizations, with the support of the Government, carry out a number of pilot programmes that finance energy-efficiency improvements.

40. The rental sector in Armenia is not well developed. Private leasing is predominantly informal. Rent rates are not controlled by the State and, currently, rates are low since they are established without taking into account the need to repay capital investment.

41. Land parcels can be used as collateral for loans for private housing construction. Since real properties are valued based on cadastral values, which are low, banks are reluctant to take them as security.

42. The cost of housing is unaffordable for most Armenians. The Government is planning to provide rental housing at affordable rates to those who cannot afford to purchase housing, and for those who do not meet the criteria for participation in public housing programmes. Mechanisms for housing development and financing sources are currently being developed.

43. The mortgage market in Armenia is rather young, and is hindered by unfavourable forecasts by banks regarding the medium-term development of the housing market. Loans for housing construction are underdeveloped considering that there is a high demand for this type of loan. Banks prefer to deal with short-term commercial loans because they make a profit within a shorter time period.

44. A pre-requisite to housing finance development is the stable flow of long-term investments in the country's economy. Currently, Armenia receives limited long-term funding from foreign institutions and private investors. The Government should provide incentives to local businesses involved in large scale housing projects, including in the reconstruction and renovation of existing housing stock.

45. In developing housing finance mechanisms, the Government should make land and unfinished construction attractive for banks to take in as security when implementing construction projects.

46. In developing new credit products, including those focused on energy efficiency, the Government should take into account private lending institutions and support their

initiatives in developing accessible products to meet the demand for housing construction, renovation and energy-efficiency improvement. Suppliers of these products may become microlending organizations.

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