

This summary provides an overview of the housing and land management situation in Azerbaijan, covering general characteristics, challenges and policy recommendations.

***The country enjoys a strategic geographical location between Europe and Asia and has significant natural resources, including reasonably fertile soil, adequate for growing crops, and particularly oil and gas.*** However, its transition to a free market has been slow. Economic growth relies heavily on oil and gas, and efforts to diversify into non-oil sectors have had limited impact thus far. Poverty and unemployment remain problematic, especially for internally displaced persons (IDPs) and refugees. Despite Government policies encouraging people's return to rural areas, urbanization continues because cities such as Baku still offer more economic opportunities. In the meantime, the existing stock of multifamily housing is deteriorating as a result of hasty privatization processes and the lack of sufficient housing management and maintenance.

***Bureaucratic burdens and legal constraints undermine the coherent development of housing, encouraging urban sprawl and the construction of informal settlements.*** The general state of the Azerbaijani housing sector is defined by both context-specific issues and broader problems typical of transition economies. Specifically, there is a lack of systematic legislation in planning and construction, while building permit applications may often entail up to 30 steps. Equally important, there is a general absence of statistical data and proper real estate valuation mechanisms, which severely limits financing opportunities and people's access to affordable housing, further aggravating the problem of illegal settlements. All these challenges are interrelated and warrant further exploration.

***First, the institutional framework governing housing policies is unclear and overcrowded.*** There are too many actors dealing with scattered parts of Azerbaijan's housing sector, which undermines their accountability and efficiency.

***There is a significant lack of adequate human resources both in terms of numbers and individual skills.*** Institutions such as the State Committee for Urban Planning and Architecture are understaffed, despite the large number of students graduating each year from the Azerbaijan University of Construction and Architecture. From this angle, the communal services sector fares even worse, as there are no related courses for students and a shortage of utilities, maintenance and management specialists. The situation is not much better in the private sector, where there are few qualified valuers of real estate properties and limited personnel experienced in mortgage lending.

***There is a broad lack of access to reliable information and statistics on the housing sector.*** The State Statistical Committee publishes an annual yearbook titled *Construction in Azerbaijan*, which is useful to stakeholders in the industry. However, there is no complete record of buildings, physical infrastructure and housing stock, which makes it difficult to establish a land administration system with proper registration, standardized valuation mechanisms and a wider taxation base.

***In 2005 the GDP growth rate more than doubled compared to the previous years in the last decade. Moreover, the adoption of economic reform packages by the state enabled a stable improvement in the economic performance.*** In 2006, Azerbaijan had the highest gross domestic product (GDP) growth rate worldwide, at 34.5 per cent, mainly as a result of increased oil revenues from the record-setting oil prices in 2005. Despite the post-2007 slowdown, attributable to the global economic crisis and rising inflation rate, Azerbaijan's economy is still expanding at double-digit rates and is considered to be one of the fastest growing in the world. Economic situation in 2009 remained strong, with GDP at 9.3 per cent more than the GDP in 2008.

***The oil and gas sector has been consistently leading all other economic sectors in terms of growth ratio to GDP*** (Table 2) From 2006 to 2008, oil and gas revenues accounted for more than 50 per cent of the GDP. While the non-oil sector - led by construction, services and agriculture - has also been growing, the oil sector's share of the economy is so large that it warrants concern and limits economic diversification.

***The development of master plans for long-term spatial planning and urban development has been slow or non-existent, while the general framework remains the one inherited from the Soviet era.*** This has undermined the implementation of proper legislation and standards concerning new construction, exacerbating the lack of proper urban development control. Despite the recent prioritization of master planning, the focus is mostly on land use, without paying sufficient attention to environmental, communal and urban-economical aspects. Looking ahead, policymakers should not only update long-standing master plans, but do it through an open and transparent process that encourages feedback from local communities.

***Azerbaijan faces serious problems in terms of informal settlements and urban sprawl.*** About 30 per cent of the population lives in illegal developments, many concentrated in the Baku and Absheron regions. There are several drivers of this phenomenon. The lack of proper legislation and lax enforcement allow the spread of illegal housing, but the deeper causes are related to migration, primarily due to military conflicts, political instability and poverty. More recently, people from poor rural regions have begun moving to Baku in search of better employment opportunities, while oil-driven growth has further intensified urban sprawl. The problem of illegal settlements is also connected with the bureaucratic red tape involved in obtaining building permits and registrations. Tired of waiting, developers sometimes start construction after getting only preliminary permission; such projects often remain with unclear legal status.

***Relations between developers and owners are not properly regulated.*** Because housing units are cheaper to buy in the construction stage, some people prefer to acquire unfinished apartments and do the completion themselves. In the meantime, consumer rights remain unprotected and developers can get away with low-quality work and significant delays. Given the current financial crisis, many developers have frozen or abandoned construction projects, increasing the risk of failure to finish already sold units. The new Housing Code promises to clarify developer-owner relations.

***Many housing units have very poor utilities.*** While supported by State expenses, many IDPs live in collective centres with minimal utilities such as communal bathrooms. But even multifamily houses have poor heating and hot water systems and low-quality water supplies. Local authorities in charge of providing such services have limited resources, as the problem of non-payment is widespread among the population and there are no sufficient enforcement mechanisms.

***Finally, there are great challenges related to housing finance in Azerbaijan.*** A general lack of resources for maintaining apartments is apparent at both the individual and State levels. Privatization put many new owners in charge of maintaining deteriorating buildings from the 1950s, but many cannot afford such expenses. Moreover, the State maintains ownership of and responsibility for common areas, thereby discouraging competition between private maintenance companies. The State's resources are also severely limited by an underdeveloped taxation system in which property taxes are extremely low, while State properties, including common areas, are not taxed at all.

***As for the financing available for buying new properties, it is extremely expensive and limited.*** While growing, the mortgage sector remains underdeveloped, with extremely high interest rates, while microfinance institutions (MFIs) only provide small loans. The underlying problems relate to underdeveloped capital markets and the lack of appraisal standards, which make proper valuations of properties extremely challenging. Further efforts should also seek to educate consumers with respect to available financing.

Keeping in mind all of these challenges, this report recommends the following to improve the situation of housing and land management in Azerbaijan: (a) ***adopting a coherent and transparent institutional framework;*** (b) ***promoting the development of human capital in housing-related activities;*** (c) ***updating spatial planning in line with current realities;*** (d) ***improving the general regulatory framework and standards, and ensuring their enforcement fairly and consistently;*** (e) ***developing data processing and***

*statistics to create a complete mass inventory of units; (f) adopting and promoting social housing policies to cover all vulnerable groups; (g) completing privatization processes to grant unit dwellers ownership over buildings' common areas; (h) creating housing subsidy systems and facilitating private investment in housing; and (i) promoting the development of mortgage markets based on proper real estate appraisal systems.*

*Beyond such formal recommendations, it is important to recognize that any progress in the areas of housing and land management will depend on the political will of decision makers in Azerbaijan.* Without proper prioritization of these issues on the Government's agenda, improving people's access to decent, affordable housing will remain problematic. Recent measures and programmes implemented by the Government provide grounds for optimism, but there is still room for improvement. To that end, the solutions and recommendations presented in this report are straightforward and viable, but their implementation will ultimately require a stronger commitment from all relevant stakeholders in Azerbaijan.



Picture 1. Downtown Baku - coast of the Caspian Sea  
Source: UNECE