

# EXECUTIVE SUMMARY

---

## *Socio-economic conditions and housing policy framework*

Georgia's economy suffered severely with the collapse of the Soviet Union, and the situation further worsened with the armed conflicts following independence in 1991. Economic growth only started to accelerate again after 2000. More than half of the population lives below the official subsistence level. Total population of Georgia fell by almost one fifth to 4.4 million in 2002, mainly due to out-migration.

The privatization of the housing stock started in 1992, and by 2004 almost 95 per cent of the housing stock was privatized. The transfer of houses or flats practically for free to citizens, however, was carried out without an overall vision of urban planning and without specifying the duties of homeowners, especially in multi-family housing units. Although several attempts had been made to initiate a housing policy framework, so far only a limited set of general commitments has been expressed towards the international community.

## *Institutional framework*

At the national level, the Department of Urbanization and Construction of the Ministry of Economic Development (MED) is responsible for housing and urban planning. The system of local government is currently being restructured in an attempt to strengthen self-government. The corresponding Organic Law on Local Self-Government (2005) allows for the development of more viable structures and budgets. It is essential that responsibilities of local self-government units are accompanied by the necessary financial and human resources. The transfer of land ownership to local governments represents a step forward with regards to urban planning.

## *Existing housing stock*

A major part of the existing housing stock not only requires repair, but basic reconstruction of the main building structures to be carried out. Another part, showing damages due to natural deterioration, the 2002 earthquake or a lack of maintenance, may even be subject to demolition. Problematic extensions constructed by individual residents (balconies, additional rooms, chimneys, etc.) pose considerable challenges to the safety, functioning and appearance of buildings.

## *Housing maintenance and management*

After privatization, new homeowners had no experience or resources to fulfill the obligations and responsibilities with regard to the management and maintenance of the building and its facilities, especially in multi-family housing units. This led to a severe neglect of management and maintenance, and to a further deterioration in the quality of the housing stock. A number of pilot projects and useful initiatives have helped the growth of homeowners' associations. In Tbilisi, the municipality established a unit called the Tbilisi Corps as a contact body between the city and residents, to support the development of homeowners' associations and participate in renovation projects.

## *New construction*

The activity of the construction sector almost ceased after the collapse of the Soviet Union, and did not recover much until 2003. Still, the average size of most existing construction companies is too small to work efficiently, and the construction industry suffers from a lack of adequate legislative framework and the absence of principles for construction norms and a qualified workforce. Construction sites lack a system of safety measures. A draft Construction Code has been elaborated and is expected to be adopted soon.

## *Urban planning and heritage protection*

Comprehensive urban planning has not been applied after the independence of Georgia. Legislation is sporadic and incomplete. New master plans for most cities of Georgia have not been elaborated or approved.

This has led to a constant degradation of the urban environment and illegal construction activities. Some steps were taken to preserve buildings of historic interest, e.g. through the establishment of the Foundation of Cultural Heritage Protection of Georgia and the Old City Rehabilitation and Development Fund in Tbilisi and the listing of buildings of historical value. However, a number of historical buildings require renovation and urgent repair.

### *Utilities*

The provision of electricity and gas - the latter having become the basic means for heating - is not fully reliable. Parts of the distribution system are in poor technical condition. The rate of fee collection is reported to be low, and outside Tbilisi less than half of the customers are metered at all. At the same time, privatization of the energy sector has not made much progress. Water losses through depreciated pipelines and excessive use of water result in a high water consumption per household and day in Tbilisi of 743 litres. Almost all wastewater treatment facilities in Georgia are inoperable.

### *Affordable housing for vulnerable households*

The issue of affordable housing for vulnerable households is generally not addressed by the Government at present. However, there is a focus on the accommodation of internally displaced persons (IDPs). Other population groups that might not be able to meet their needs on the housing market include eco-migrants, the elderly, low-income families or disabled persons. In 2006, a Government Commission on the Development of the National Strategy on IDPs was established, led by the Ministry of Refugees and Accommodation. The Commission is composed of representatives of different Ministries, non-governmental organizations (NGOs) and international organizations. The Strategy has been approved, but does not deal with housing issues as it was initially planned. However, it is foreseen that it will include housing issues in the resulting action plan, which might provide a starting point for the formulation of an overall housing policy for all vulnerable population groups.

### *Public and private investment in housing*

Public investment in housing on the national as well as on the local level practically ceased after the collapse of the Soviet Union. At the same time the private sector was not immediately capable of taking over the role as the primary source of investment. Particularly on the local level, where the main responsibilities for the implementation of housing policies are located, financial and human resources are very tight and often only sufficient for performing basic administrative duties. Within the new system of local self-government, local governments will have the ownership of land within their boundaries transferred to them. The law does not foresee, however, that revenues from land sale are ring-fenced for housing purposes. In general, tax revenues both at the national and the local level increased significantly in recent years.

### *Mortgages and banking market*

The mortgage sector only started to develop in the last four years and experiences strong growth today. Leading banks provide mortgage loans at nominal interest rates of between 13 and 20 per cent. Longer maturities (10 years and more) have become available. Affordability of mortgage loans remains, however, limited as real interest rates are relatively high and a minimum salary of around US\$ 400 is required to apply for a mortgage loan with most banks. Average loan-to-value ratios are reported to be within a reasonable range of 60-80 per cent. A number of legal limitations contained in Civil Law constrain the further development of the mortgage market, in particular those relating to foreclosure and eviction.

The banking market started to recover from 1997 onwards. In 2005, credits grew by 85 per cent, and the ratio of loans to GDP more than doubled between 2000 and 2005. Long-term refinancing facilities for banks, however, are still very limited, thus constraining the ability for long-term lending.

---

*Recommendations*

From the above findings, the following set of 38 recommendations is put forward:

1. Greater political priority should be attached to the housing sector.
2. A national housing strategy should be elaborated.
3. Housing policies should be implemented by involving international donors and NGOs.
4. The capacity of the Ministry responsible for housing should be strengthened.
5. The cooperation between different Ministries and stakeholders in the field of urban development, housing and construction, under the lead of the MED, should be intensified.
6. Responsibilities of local authorities related to housing should be clearly defined.
7. The responsibilities of local governments related to housing should be reflected in their organizational structure.
8. Tailored training activities for local employees should be scheduled.
9. Priority should be assigned to the reconstruction, renovation and management of the already existing housing stock rather than to new housing construction.
10. Central and local governments should collect comprehensive information about the existing housing stock.
11. The preparation of legislation on the future of illegal buildings and structures should be initiated.
12. Housing maintenance schemes should be designed and launched.
13. A law on homeowners' associations and condominiums should be adopted
14. Governmental support for the further establishment of homeowners' associations should be provided.
15. Principles for national construction norms should be adopted.
16. The draft Construction Code should be rethought and adopted.
17. Education and training of construction professionals and workers should be improved.
18. Adequate urban planning documentation should be developed.
19. A comprehensive Land Code should be drafted.
20. The role of the municipalities in urban planning has to be strengthened.
21. Measures should to be taken to prevent new illegal construction.
22. Efforts to preserve historical buildings and districts should be continued and strengthened.
23. Central Government should formulate standards and objectives for the utilities sector.
24. Separate per household metering and fee collection should be intensified.

25. Utility infrastructure projects being carried out together with international organizations should be continued and expanded.
26. Housing policy should define instruments for the provision of affordable housing to all socially vulnerable households.
27. A housing needs assessment should be initiated.
28. Incentives for the private sector to increase the supply of low cost housing should be developed.
29. Municipalities should consider to what extent existing dwellings could be used for social housing purposes.
30. State or local government grants, loans, guarantees or equity share loans for essential repairs should be introduced.
31. Realistic standards should be defined for the quality of social housing.
32. Financial means for housing projects on the municipal level should be increased.
33. Legislation for the effective management of State-owned land should be drafted.
34. Legislation on land/real estate mass evaluation should be adopted.
35. Investment in housing should be encouraged.
36. Possibilities of public-private partnerships should be explored and adapted to the housing sector.
37. Legislation for mortgages needs to be amended, as set out in chapter V.
38. The development of a market-driven banking sector should be supported.