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Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Salukvadze, J. (2016). The Current State of Housing in Tbilisi and Yerevan: a Brief Primer. *Caucasus Analytical Digest*, 87, 8-11. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-88927-8>

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The Current State of Housing in Tbilisi and Yerevan: a Brief Primer

Joseph Salukvadze, Tbilisi

Abstract

This article provides a brief overview of current developments in the housing sectors of Tbilisi and Yerevan. It describes the factors that influenced the formation of the current housing landscapes of these two capital cities in the South Caucasus. Additionally, the article discusses the idiosyncrasies of housing financing and affordability.

Introduction: a Thorny Urban Transition

The state of housing in the South Caucasus remains a neglected topic in discussions of urban issues in the region. Despite exhibiting significant problems, housing issues rarely appear on the agendas of academics, policy makers, non-governmental organizations or popular commenters. This piece is intended to discuss key issues regarding housing in Tbilisi and Yerevan. More specifically, it will assess the current state of housing and financing problems and outline the status of affordable housing programs.

The privatization of the housing stock began in 1991, which enabled market operations to commence in cities in the South Caucasus. City governments were incapable of providing sufficient institutional support for the process of privatization. The rapid privatization of housing stock was based on the transfer to sitting tenants without any payment. Firstly, this led to super-homeownership, in which more than 85% of households own their homes. Additionally, the process created a new class of “poor homeowners” who were unable and/or reluctant to pay for the repair and maintenance of shared infrastructure and collectively owned spaces (e.g., façade, roof, elevator) in multi-apartment buildings, causing deterioration of the housing stock.

A lack of affordable housing and the deregulation of the planning system compelled poor households to find alternative solutions to meet their housing needs. One of the most notable solutions that emerged was the construction of vertically erected apartment building extensions (ABEs)¹. Indeed, this was a positive short-term solution that aided residents to improve their quality of life and promoted the circulation of investment capital. However, the long-term consequences are unclear, as municipal governments do not have a clearly defined policy for this type of construction.

The transition to a market economy created a new player—the developer. Small development/investment

agencies initiated in-fill construction in the central areas of the cities. New developments were unregulated and of a questionable quality, which was due mainly to the absence of updated and “modern” planning documentation, e.g., master plans or land use plans, and weak urban governance.

By the end of the first decade of the 21st century, particularly before the 2008 financial crisis, both cities witnessed a construction boom. On the one hand, this growth was driven by the improved economic situation in the two countries. On the other hand, members of the diaspora (in the case of Armenia) and economic migrants (in the case of both countries) became very active in purchasing real estate in the capital cities, as this represented a way for them to invest in and retain links with their home country.

There are several local determinants that affected the formation of the current context of housing in the two cities. In Tbilisi, the developers’ role and influence accelerated particularly after the “Rose Revolution” in 2003, the period of so-called “investor urbanism”². Although a new land use master plan was adopted in 2009, its implementation has shown that city government frequently adapts it to the needs of large investors. Applying the neoliberal ideology of the power elites to the Georgian reality without an adequate institutional infrastructure and legislative framework has diminished the role of urban planning in general.

Apart from the usual circumstances of post-Soviet transition, the housing stock of the Armenian capital was largely influenced by two major events that occurred in the 1980s. The 1988 earthquake in Spitak and the conflict in Nagorno-Karabakh produced a large number of homeless individuals who were housed in temporary shelters. Yerevan also housed most of the ethnic Armenian refugees who fled from their homes in Azerbaijan. Finally, a severe economic crisis severely restricted the development of the housing sector. Similar to many of the countries in the post-Soviet region, an absolute

1 Bouzarovski, S., Salukvadze, J. and Gentile, M. 2011. A Socially Resilient Urban Transition? The Contested Landscapes of Apartment building extensions in Two Post-communist Cities. *Urban Studies*. Volume 48, issue 13, year 2011, pp. 2689–2714 [0042-0980 Print/1360-063X Online 1-26, 2010]

2 Salukvadze, J. and Golubchikov, O. “City as a geopolitics: Tbilisi, Georgia—A globalizing metropolis in a turbulent region.” *Cities* 52 (2016): 39–54.

majority of the housing stock in Armenia had been privatized. Inequitable and very restricted access to financing prevented many Armenians (and citizens of Yerevan) from purchasing adequate housing units and instead drove them to informal practices such as building extensions and land squatting³. Currently, similarly to Georgia, new housing developments are almost exclusively constructed by the private sector.

Supply and Demand for Housing

Currently, the majority of the existing housing stock in both cities is the product of Soviet mass housing construction programs. The available housing structures consist of multi-flat apartment buildings that represent 60% of Yerevan's housing stock and the majority of the housing stock in Tbilisi. Official statistics estimate the overall amount of housing stock in Yerevan at 24 million square meters. A detailed analysis, which is available only for multi-flat housing estates, shows that the available housing stock is concentrated mostly in the Kentron (16%), Nor-Nork (15%) and Arabkir (14%) districts of Yerevan. The available per capita living space in Yerevan is approximately 22 square meters. Geographically, the largest per capita floor space is available in the prestigious Kentron and Arabkir districts.

Jones Lang LaSalle, an international real estate and investment management company, estimates that the total housing stock in Tbilisi is 30.2 million square meters. Total floor space per housing unit, according to the same source, is equal to 84 square meters. According to the Integrated Household Survey conducted by the National Statistics Office of Georgia, the total floor space of housing units occupied by Tbilisi residents is estimated to be 24.8 million square meters. According to the same source, the largest apartments are available in the rural areas of Tbilisi⁴ (84 sq. m. of living space on average⁵), as well as in the Saburtalo (81 sq. m) and Vake (59 sq. m) districts. The Saburtalo district, despite being a central and prestigious area, also contains parts of Digomi village, which explains the high per household floor area in this district.

A relatively small share (less than 10%) of households in Tbilisi and Yerevan live in estates constructed after Georgia and Armenia regained independence. Conversely, both cities experienced a construction boom in

the mid-2000s; however, the construction of new neighborhoods on the scale witnessed during the Soviet era has never occurred. Not surprisingly, only a handful of residents can afford to purchase newly constructed apartments. Household survey data from Tbilisi shows that new apartments are more spacious (on average, 70 square meters) and that their resident households have a higher monetary income.

Gradually, the existing housing stock in both cities has begun to deteriorate. The nearly complete privatization of the housing stock did not create sufficient incentives for private or communal involvement in housing renovation and maintenance. In the case of Yerevan, maintenance is typically performed through “*Zhaks*”—special municipal entities⁶. In terms of policy, energy efficiency remains an important policy issue in discussions of the quality of housing in Yerevan and Armenia in general. With the exception of private stakeholders, the state and international donors (EBRD, UNDP) are the most actively involved entities in designing policy approaches to reduce the amount of energy wasted on heating in the residential sector through public-private investment programs.

In Tbilisi, single attempts to address the housing problems have not acquired adequate political support. The only exception is the Tbilisi City Hall initiative “*Tbilisi Korpusi*”—a program aimed at renovating multi-apartment Soviet housing estates by means of establishing homeowners associations (HOAs). The program has continued successfully for several years and is still ongoing; it co-financed the renovation of a large share of the Soviet residential buildings in Tbilisi.

Tbilisi and Yerevan exhibit similar patterns in regard to the formation of demand for housing. External factors, particularly migration and related monetary remittances, play a significant role in the price formation of real estate in these cities. Remittances have a positive effect on the monetary income of a household, and it appears that they also improve the living conditions of the recipients. In Tbilisi, approximately 8% of households receive remittances, and these households report a monthly income that is 100 GEL higher (approximately 1100 GEL)⁷ on average than the income of households that do not receive money from abroad. Living conditions, measured as per capita floor space, are significantly higher for these households. The discrepancy is particularly notable in the capital of Geor-

3 Sargsyan, T.: Residential environmental conditions on housing estates in Yerevan. *Hungarian Geographical Bulletin* 62 (1) (2013) 121–130.

4 Following changes to the boundaries of Tbilisi and neighboring municipalities, several rural settlements were incorporated into the capital.

5 Living space represents the floor area of all rooms in the housing unit except the kitchen, the bathroom and auxiliary premises.

6 Vanoyan, M.: Housing Policy in Armenia: Condominium Activity. 2004

7 Georgian National Office for Statistics (2015): *Integrated Household Survey*. Available from Geostat: <http://geostat.ge/?action=meurneoba&mpid=1&lang=geo>

gia, where the difference in total floor space between the two groups is equal to ten square meters on average.

The described pattern generally follows an established trend in the countries of the former Soviet Union⁸. Moreover, in-depth interviews with property developers⁹ show that Georgians living abroad are the single largest buyers of newly built estates in Tbilisi. Yerevan's real estate boom before 2008 was also fueled mainly by buyers representing the country's large diaspora¹⁰.

How Affordable Is Housing?

Soviet-built apartments dominate the residential market in both cities, whereas new apartments generally represent 15–20% of the transactions in Tbilisi. Selling prices often depend on not only the quality of the housing but also the location and age of the structure. According to a residential market review conducted by Colliers International, the average selling price of a newly constructed apartment is approximately USD 750 per square meter, whereas properties purchased on the secondary market will cost a buyer approximately USD 690 per square meter. Housing prices are very diverse in the case of Yerevan—apartments located in the central Kentron district cost a hefty USD 1400 per square meter. The prices decrease when moving to the outskirts of the city and fluctuate between USD 500–650 on average¹¹. Similar to Yerevan, prices in Tbilisi differ depending on the location of the building.

Given this, few households are able to afford new apartments. An analysis of the household income structure in Tbilisi and Yerevan shows that the top 20% of households in the Georgian city according to monthly income earn USD 1040 per month on average. The households in Yerevan in the same income group receive USD 821 per month. Indeed, the residents of both cities spend most of their income on satisfying basic needs, such as food, clothing and utilities. Thus, there is a very little room to fit mortgages into family budgets.

The mortgage loan markets are also less accessible for the majority of the population. According to a study conducted by the World Bank¹², on average, the monthly

interest rate to purchase a medium-sized apartment in various locations in Tbilisi fluctuates between USD 320 to USD 800. Mortgage loans are even less affordable in Yerevan, where one can expect to pay USD 476 to USD 1000 in monthly payments for similar conditions. In short, mortgages are affordable for only approximately 20% of all households.

The two cities do not excel in terms of affordable housing programs. In Armenia, the state distinguishes two types of vulnerable populations that are eligible for affordable housing. Refugees and citizens affected by the Spitak earthquake of 1988, are offered social housing, whereas the state funds affordable housing programs for members of lower income groups through public-private partnerships. It is worth mentioning that a state program to develop social housing is part of the country's action plan for 2014–2025.

The largest groups benefiting from the social housing programs in Tbilisi are internally displaced populations (IDPs) from Abkhazia and South Ossetia. Collective centers that host a significant share of IDPs in Tbilisi are formerly non-residential buildings that were later converted to residential use¹³. The resettlement of IDPs is conducted by a special ministry of the government of Georgia. Currently, the main policy regarding supplying IDPs with housing is to provide them with long-term housing. This program involves granting permanent tenure and ownership rights to IDPs.

Municipal housing programs in Tbilisi are scarce. City hall is responsible for the short-term resettlement of households affected by a natural disaster or fire. The existing social housing programs are conducted with the help of international donors, in this case, the Swiss Agency for Development and Cooperation (SDC). The municipality also plans to construct two additional social housing estates for the homeless residents of Tbilisi.

Conclusion

The current developments in the housing sectors of Tbilisi and Yerevan are the products of transition processes and are significantly affected by the neoliberal policies pursued by the respective country governments. High real estate prices and restricted access to mortgage loans exclude a near-absolute majority of the population from participating in the real estate market and effectively prevent spatial residential mobility. Developers and resellers are primarily oriented toward premium buyers. However, housing is considered a secure

8 Stepanyan, V., Poghosyan, T., Bibolov, A.: *House Price Determinants in Selected Countries of the Former Soviet Union*. IMF working papers. 2010

9 Gentile, M., Salukvadze, J., Gogishvili, D.: *Newbuild gentrification, tele-urbanization and urban growth: placing the cities of the post-Communist south in the gentrification debate*. *Geografie*, 120(2), 2015

10 Manookian, A., Tolosa, G.: *Armenia's housing boom-bust cycle*. IMF, 2011

11 Yerkir Real Agency. *Price stat for apartment (m2)*. Retrieved from <http://www.yerkir-real.com/en/>. 2016

12 Mathema, A., Salukvadze, J., Budovitch, M. *Georgia. Urban Strategy. Priority Area IV: Housing*. World Bank. 2015

13 Salukvadze, J., Sichinava, D., Gogishvili, D. *Socio-economic and Spatial Factors of Alienation and Segregation of Internally Displaced Persons in the Cities of Georgia*. *Studia regionalia: Spatial Inequality and Cohesion*, 2013

way of investing capital. It is worth mentioning that neither of the cities maintain significant affordable hous-

ing programs that support households in need, especially young families.

About the Author

Dr. Joseph Salukvadze obtained a doctoral degree in Social and Economic Geography from Tbilisi State University. Currently he holds the positions of vice-rector of Tbilisi State University and full professor of Human Geography. Dr. Salukvadze has been awarded with a Fulbright Scholarship and he co-operated with various international development organizations as an expert in urban and land policy. He has published extensively and is a board member of three international academic journals.