

SECTOR OVERVIEW

A. Economic Overview

1. **Macroeconomic trends and performance.** Located at the crossroads of Europe and Asia, Georgia is an important node for regional trade flows and has a unique geographic advantage for market integration with the rest of the world, including the European Union (EU). In 2019, the gross domestic product (GDP) of Tbilisi, its capital, reached an all-time high of GEL25.2 billion. The leading sectors in terms of GDP breakdown were wholesale and retail trade (21%), real estate (12%), and construction (10%).¹ The country's economy grew robustly at 5.3% per annum from 2005 and 2019, despite major shocks.

2. Georgia's economic performance was strong before the pandemic, but the coronavirus disease (COVID-19) has negatively impacted the economy, affecting tourism, trade, remittances, and foreign direct investment. Real GDP declined 5.0% in 2020. The Lari depreciated by 4.4% year-on-year in real terms as inbound tourism and foreign direct investment plunged, although the National Bank of Georgia (the central bank) intervened to smooth the decline. Georgia is forecasting to return to economic growth of 3.5% in 2021 and accelerate growth to 6% in 2022 on the back of expected recoveries in tourism, private consumption, investment, and net exports.²

B. Government's Efforts to Boost the Housing Sector

3. Georgia has made efforts to introduce regulatory systems and leverage market forces for urban development. However, significant challenges remain in its quest to transition from a centrally planned to a market-based economy. Among former Soviet states, Georgia stands as an example of a country that has undertaken significant urban reforms to streamline planning processes, including a one-step process for property registration, and a "single window" mechanism for submitting planning applications. Such reforms are examples of proactive efforts by the government to bring greater efficiency to urban management systems. According to the World Bank's Doing Business 2020 data, Georgia ranks fifth among 190 economies surveyed in ease of registering property, and 21st in ease of dealing with construction permits.³ The Government of Georgia has placed a high priority on developing the housing sector and increasingly recognizes the role the private sector can play in addressing the housing needs of customers. The government, in light of the COVID-19 pandemic, has announced incentives and support packages to the private sector to build housing for urban low-income families. In May 2020, the government announced a support plan of GEL434 million for the real estate sector, which has been directed toward (i) subsidizing interest on mortgage loans, (ii) government guarantees for a portfolio of mortgage loans, (iii) providing housing for internally displaced persons (IDPs), and (iv) a state guarantee for the completion of unfinished residential real estate.⁴ The Anti-Crisis Economic Plan State Program provides a 4% subsidy on the annual mortgage interest rate for 5 years (footnote 4). The mortgage subsidy applies only to the purchase of newly constructed apartments and is issued for loans not exceeding GEL200,000, thus focusing on low to low-to-mid income households, which typically buy apartments in this range. A total of 8,443 loans were subsidized under the program from July to December 2020, with a total volume of about GEL827 million. The volume of loan varies from GEL89,000 to GEL111,000. Based on the

¹ Colliers. 2021. *Market Due Diligence Report*. Tbilisi.

² ADB. 2020. *Asian Development Outlook 2021: Financing a Green and Inclusive Recovery*. Manila.

³ The World Bank. *Doing Business*.

⁴ Government of Georgia. 2020. *Anti-Crisis Economic Plan. Support for the Development Sector*. Tbilisi.

above, the subsidy program mainly supports the economical/affordable segment of the residential real estate market (footnote 1). (Confidential information deleted.)

4. The vision of the Tbilisi Municipality is to create a livable, greener, more inclusive city, ensuring affordable, safe, and sustainable mobility and equal access to urban opportunities for all. The city aims to redevelop neighborhoods and provide affordable housing, recreational public spaces, including parks; improved public transport and amenities; sports facilities; and opportunities for the elderly, children, youth, and people with disabilities to participate in active city life, especially once the COVID-19 crisis has eased.

C. Housing Sector Overview

5. More than 80% of Georgia's housing stock dates from the Soviet era, most of which is of lower quality. Housing units built then had little variety and were built quickly and with limited budgets to accommodate the rapidly growing urban population, especially in the capital, Tbilisi. From the late 1970s onward, mass housing on the outskirts of Tbilisi and other cities was typically of very low quality and, in some cases, incomplete.⁵ The housing stock in Tbilisi is particularly problematic from aesthetic, structural, and thermal standpoints. Given that almost all of Georgia is earthquake-prone, such buildings and building extensions, which fall below seismic standards, pose a great risk. Other problems include natural structural deterioration and a lack of maintenance. As a result, the majority of the housing stock needs to be demolished and substituted with newer housing. Some housing had deteriorated and was subject to demolition even before the damaging 2002 Tbilisi earthquake. After the earthquake, the number of badly damaged houses in Tbilisi exceeded over 20,000.

6. Incomplete construction projects are another phenomenon in the housing sector in Georgia. Developers are still reeling from the effects of the financial crisis in 2008–2010, which caused a liquidity crunch and brought many construction projects to an abrupt halt. Consequently, many developers went bankrupt, and the vast majority closed. Only professionally run companies with solid management and robust financials survived. Tbilisi Municipality has been approaching credible developers to take over and complete unfinished residential projects to solve the social issue of unfinished apartments. The municipality's objective is to help provide housing to buyers who have already made down payments on those unfinished apartments, as well as to IDPs who do not have access to new housing of their own and are living in old, poorly constructed buildings.

7. **Growing residential supply and demand.** Real estate is the third largest sector of the Georgian economy, accounting for 12% of GDP in 2019. Developers mostly invest from their own accounts to fund residential real estate projects. The majority of developers invest equity ahead of obtaining bank credit. A significant portion of the financing comes from presales of apartments. From 2016 to early 2020, the market for newly built residential apartments in Tbilisi grew steadily. (Confidential information deleted.)

8. (Confidential information deleted.)

9. (Confidential information deleted.)

10. (Confidential information deleted.)

11. (Confidential information deleted.)

⁵ The World Bank. 2015. *Urban Strategy Housing Report*. Tbilisi.

12. (Confidential information deleted.)

13. (Confidential information deleted.)

14. (Confidential information deleted.)

D. ADB Sector Experience and Assistance Program

15. Asian Development Bank (ADB) has a strategic role to play in creating an enabling environment and strengthening urban development in Georgia. Making cities more livable is one of the operational priorities of Strategy 2030⁶ and a focus area of ADB's country partnership strategy, 2019–2023 for Georgia.⁷ The government reoriented urban sector operations in November 2016 with technical assistance (TA) support from ADB.⁸ The TA expanded ADB's 3E approach of Economy (competitive), Environment (resilience) and Equity (inclusive) to a 5E Livable Cities Approach by including Enablers (institutions and policies) and Engagement (stakeholders). ADB's livable cities approach puts people and community well-being at the center of urban development for making cities economically competitive, environmentally sustainable, low-carbon, resilient, and inclusive.⁹ ADB in 2019 approved the Preparing Integrated Solutions for Livable Cities TA and Livable Cities Investment Program - a project readiness financing loan of \$15 million (equivalent in euros) to prepare the \$120 million Georgia Livable Cities Investment Project for Balanced Development.¹⁰ The TA for Livable Urban Areas: Integrated Urban Plans for Balanced Regional Development approved in 2016 prepared integrated urban action plans for three urban regional clusters and Tbilisi through participatory planning and visioning as masterplans for the urban clusters including Tbilisi (footnote 8). The TA also supported preparation of the Inclusive Cities: Urban Area Guidelines—the first-of-its-kind guidelines in Georgia for adapting the built environment with universal design and accessibility standards for the older persons, persons with disabilities, women, and children, in compliance with Georgia's legal regulations for the application of accessibility and universal design for public spaces, including affordable residential housing complexes (footnote 10). These guidelines were endorsed by the Parliament of Georgia in 2020 and contributed to the national law for accessibility standards.¹¹

16. Under the One ADB approach, this private sector project will pilot incorporation of inclusive cities accessibility guidelines into its design (footnote 10). This is expected to provide strong market demonstration effects for housing development in Georgia and catalyze more private investment for livable cities in line with government and ADB development objectives.

⁶ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁷ ADB. 2019. *Country Partnership Strategy: Georgia, 2019–2023—Developing Caucasus's Gateway to the World*. Manila.

⁸ ADB. 2016. *Technical Assistance to Georgia for Livable Urban Areas: Integrated Urban Plans for Balanced Regional Development*. Manila.

⁹ African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank. 2019. *Creating Livable Cities: Regional Perspectives*. Manila.

¹⁰ ADB. 2019. *Georgia: Preparing Integrated Solutions for Livable Cities*. Manila; ADB. Georgia: [Project Readiness Financing Report: Livable Cities Investment Program in Georgia](#). Manila; and ADB. 2018 [Georgia: Livable Cities Investment Project for Balanced Development](#). Manila.

¹¹ Government of Georgia. 2020. *The Law of Georgia for Persons with Disabilities*; Government of Georgia. 2021. *Resolution No.732 Technical Regulation-National Accessibility Standards*. Tbilisi; and ADB. 2021. *Inclusive Cities: Urban Area Guidelines*. Manila.