Property expropriated at 28-times higher price



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Tbilisi

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1. Introduction

This research evaluates the Resolution made by Tbilisi City Assembly on December 23, 2016 and the supporting documents thereof, on the basis of which:

- For the purpose of preliminary, full and fair compensation principles in urgent and pressing public needs, Zviad Nazgaidze has been deprived of his real estate registered with the Cadastre Code # 01.14.14.002.092 (the adjacent territory to Kipshidze Street # 2, Tbilisi);
- ✓ The Tbilisi municipality-owned real estate with the Cadastre Code # 01.14.05.007.473 (Tbilisi, Saburtalo residential district, V quarter, Sandro Euli Street # 5) was transferred to Zviad Nazgaidze's ownership through the direct purchase privatization at the symbolic price of 1 GEL.

2. Rules for the Provision of Residence, the Cession of Real Estate Property rights and the provision of other Forms of Monetary Assistance to the Families who Suffered as a Result of the Natural Disaster June 13-14, 2015 in Tbilisi.

On July 5, 2015, Tbilisi City Assembly, in the Municipality of Tbilisi, approved the rule for the provision of residence, the cession of real estate property rights and the provision of other forms of monetary assistance to the affected families who suffered as a result of the natural disaster 13-14 June 2015 in Tbilisi. The rule defined the term of the affected individual (family) and as such were deemed the real estate owners *in the particular territory as specified by the Commission i.e. the entities stipulated in the Law of Georgia "On recognition of Property Rights of land Possessed (used) by Natural Persons and Legal Entities under Private Law"*, whose houses / apartments had been destroyed / damaged as a result of the natural disaster of June 13-14, 2015 in Tbilisi.¹

The real estate with the Cadastre Code # 01.14.14.002.092 located in the territory adjacent to Kipshidze Street # 2, Tbilisi, had also fallen into the zone of 13-14 June 2015 natural disaster. The real estate at the time of the natural disaster was in the ownership of JSC Bank of Georgia. However, *given that there existed no house / apartment in the real estate registered with the cadastre code # 01.14.14.002.092, the regulation of the City Assembly resolution did not apply to thereof.*

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¹Tbilisi City Assembly Resolution #17-66 dated as of July 5, 2015;

3. The Rules of Expropriation of Property for Pressing Public Needs

The rule of expropriation of property for pressing public needs with the provision of preliminary, full and fair compensation is regulated by the Organic Law of Georgia "On the Rule of Expropriation of Property for Pressing Public Needs".

According to the law: the urgent necessity is deemed to be any situation that poses real threat to life or well-being of individuals, state or public safety due to hostilities or state of emergency, ecological disaster, natural disasters, epidemics and epizooty risks.

It is true that the real estate with the Cadastre Code # 01.14.14.002.092 located in the territory adjacent to Kipshidze Street # 2, Tbilisi, had fallen into in the natural disaster zone, but at the moment of the expropriation of Zviad Nazghaidze's property by the Tbilisi municipality on December 23, 2016 there were no circumstances present in which any the following events might have occurred:

- ▹ Hostilities;
- State of emergency;
- Ecological Disaster;
- Natural disasters;
- Epidemics;
- Epizooty risks.

Accordingly, on December 23, 2016, i.e. the date of the real property expropriation, there were no threats to life or well-being of individuals nor the state or public security. In addition, none of the laws, and preliminary documents approved by the Tbilisi City Assembly and Tbilisi City Hall contain any information indicating at the reason for the public necessity and/or urgency for expropriation of Zviad Nazghaidze's real property.

4. The territory adjacent to Khipshidze Street # 2, Nazghaidze and Bank of Georgia

Zviad Nazghaidze obtained the ownership of the real property 1641 sq.m. in the territory adjacent to Kipshidze Street # 2, Tbilisi (cadastre code 01.14.14.002.092) pursuant to the Real Estate Purchase Agreement signed on November 12, 2012.² The price of the purchase object accounted for USD 200,000. According to the agreement, at the moment of the real estate purchase by Zviad Nazgaidze, the property was pledged in the JSC Bank of Georgia.

On December 24, 2013, JSC Bank of Georgia and Zviad Nazghaidze entered into the purchase agreement GA1017942/2, based on which the property had been transferred to the Bank's ownership.

²November 12, 2012 Real Property Purchase Agreement, the parties Zviad Nazghaidze and Sofio Katamadze. National Agency of Public Registry Resolution N 892012096838-03 dated as of November 12, 2012;

However, pursuant to the "Additional Provision #1" to the agreement, Zviad Nazgaidze was awarded a purchase option rights to be exercised prior to 1 July 2014. Upon the expiration of the above term, the option would be deemed invalidated.

Zviad Nazghaidze failed to exercise the option rights prior to July 1, 2014. Accordingly, immediately on July 1, 2014, he lost the right.

On October 30, 2015, Bank of Georgia applied in writing to the National Agency of Public Registry and requested to cancel the registration of the option rights. The Public Registry satisfied the Bank's request on November 3, which was reflected in the extract prepared on the same day.³

On November 29, 2016, "Bank of Georgia" and Zviad Nazghaidze signed a new purchase agreement in connection with the real estate with the cadastre code "01.14.14.002.092" located in the territory adjacent to Kipshidze Street # 2, Tbilisi. The Bank transferred the property ownership right to Nazghaidze on the condition that Nazghaidze was to make the repayment of the amount prior to December 30, 2016.⁴ According to the agreement between the parties, the purchase price accounted for GEL 23,867. However, the agreement determined a special purchase condition that the Buyer or Zviad Nazghaidze undertook the obligation to pay to the Bank:

- ✓ 1763 Georgian Lari and 84 tetri,
- ✓ 8078 Georgian Lari and 11 tetri,
- 42833 US Dollars and 87 cents.

The above amounts were the unfulfilled commitments before the Bank undertaken at various times for which Zviad Nazghaidze had been deprived of the ownership on the real property with the cadastre code "01.14.14.002.092".⁵

In the purchase agreement signed between the parties on November 29, 2016, the parties acknolwedge the pre-existing contractual relationship (Nazgaidze's failure to fulfill the obligation, appropriation of the pledge item by the Bank, the right of option awarded to Nazghaidze), but given that prior to July 1, 2014, Zviad Nazghaidze could not / did not exercise the right of option, the purchase agreement signed between the parties on November 29, 2016 was actually a new agreement.

5. Tbilisi City Hall and Nazghaidze's case

The 1641 sq.m real estate located in the territory adjacent to Kipshidze Street # 2, Tbilisi, was registered by the Public Registry in the ownership of Zviad Nazghaidze on November 30, 2016.

³ November 3, 2015 extract from the Public Registry (real estate cadastre code # 01.14.14.002.092);

⁴ National Agency of Public Registry Resolution N 882016824409-03 dated as of November 29, 2016. November 30, 2016 extract from Public Registry. November 29, 2016 Purchase Agreement # 01.14.14.002.092 /16 and #01.14.14.002.092 /16-001, the parties JSC Bank of Georgia and Zviad Nazghaidze;

⁵ November 29, 2016 Purchase Agreement # 01.14.14.002.092 / 16-001, the parties JSC Bank of Georgia and Zviad Nazghaidze;

On December 5, 2016, Zviad Nazghaidze applied in writing to Tbilisi municipality LEPL- Property Management Agency⁶ and submitted the letter of the Bank of Georgia dated as of the same day.⁷ In the letter the Bank stated that it agreed to transfer 1641 sq.m land plot located in the territory adjacent to Kipshidze Street # 2, Tbilisi, to the ownership of the Tbilisi Municipality under the following conditions:

- ✓ 129,308 Georgian Lari and 95 tetri shall be wire transferred to the account of Bank of Georgia;
- ✓ 42,833 USD and 87 cents equivalent in the national currency shall be wire transferred to the account of Bank of Georgia.

In lieu of this the Bank was obliged to apply in writing to the Public Registry within one business day from the transfer of the above funds and request the cancellation/removal of restrictions on the real estate.

From the contents of the Bank's letter it is unclear why Tbilisi City Hall had to make wire transfer of GEL 129,308 to the Bank's account, since according to the agreement signed between Zviad Nazghaidze and the Bank, Nazgaidze had undertaken to repay to the Bank in addition to 42,833 US Dollars and 87 cents 33,708 GEL and 95 tetri and not 129.308 GEL.

On December 6, the following day of Zviad Nazgaidze's application to Tbilisi City Hall on December 5, 2016, Tbilisi Government issued the resolution # 47.12.982⁸ concerning two issues. In particular:

Y To submit to the Tbilisi City Assembly for approval the issue on expropriation of Zviad Nazgaidze owned real estate property registered with the cadastre code # 01.14.14.002.092 with the principles of preliminary, full and fair compensation during the pressing public needs in mind;

To submit the issue for agreement to the Tbilisi City Assembly on the privatization with direct purchase form of Tbilisi municipality owned real estate (cadastre code 01.14.05.007.473) in favour of Zviad Nazghaidze.

6. Expert examination reports

In connection to Zviad Nazgaidze's case, three reports have been prepared by Levan Samkharauli National Forensics Bureau. The two of them refer to the real property located in the vicinity of Kipshidze Street # 2, Tbilisi, and the third to the land plot located in Tbilisi, Saburtalo residential district, V quarter, Sandro Euli Street # 5.

⁶ Zviad Nazghaidze's application # 01 / 10556-8 dated as of December 5, 2016;

⁷ The letter #29/14529 of Bank of Georgia dated as of 5 December 2016;

⁸ Tbilisi Municipal Government Ordinance 47.12.982 of 6 December;

According to the commodity expert report prepared by Levan Samkharauli National Forensics Bureau on 7 October 2016, the market value of the 5001 sq.m land plot located in Tbilisi, Saburtalo residential district, V quarter, Sandro Euli Street #5 registered with the Cadastre Code 01.14.05.007.473 dated as of 7 October 2016 was approximately 220,631 US dollars. The amount with the exchange rate of the time in the national currency accounted for GEL 515,460.⁹ In addition, 1200 square meters out of the 5001 sq.m. plot could be used for construction development, and the rest for the arrangement of recreational spaces and an open parking lot.

And this is the 5001 sq.m land plot located in Tbilisi, Saburtalo residential district, V quarter, Sandro Euli Street # 5, registered with the Cadastre Code 01.14.05.007.473 which Tbilisi municipality had to transfer to Zviad Nazghaidze.

As for the other two reports of the expert examination, both documents refer to the property in the territory adjacent to Kipshidze Street #2, Tbilisi, registered with the Cadastre Code #01.14.14.002.092. The first report was prepared on July 8, 2016, and the other on October 7. *At the moment of the preparation of both expert examination reports the property was registered in the ownership of the JSC Bank of Georgia. However, the expert examination was commissioned by Tbilisi Municipality Property Management Agency and not the Bank.*¹⁰

The commodity expert report prepared by Levan Samkharauli National Forensics Bureau on July 8, 2016 refered to the market price of the real property registered with the cadastre code #01.14.14.002.092 located in the territory adjacent to Kipshidze Street N2, Tbilisi and the Bureau had to determine the value of the property before the natural disaster of 13-14 June 2015 in Tbilisi. The Expert Bureau determined such a price at GEL 971.260.¹¹ With regard to the report of November 3 issued by the Forensics Bureau, it was made about the post-disaster value of the real property. According to the commodity expert opinion prepared by the Bureau, the value accounted for GEL 23.867.¹²

Later, on November 29, 2016, the purchase agreement signed between JSC Bank of Georgia and Zviad Nazgaidze provided the principal price in the amount of GEL 23,867 as stipulated in the expert report commissioned by Tbilisi Municipality LEPL Property Management Agency.¹³

⁹ Levan Samkharauli National Forensics Bureau commodity expert report # 005987816 dated as of 7 October 2016;

¹⁰Levan Samkharauli National Forensics Bureau commodity expert reports #004021616 dated as of 8 July 2016 and #006378716 dated as of November 3, 2016.

¹¹Levan Samkharauli National Forensics Bureau commodity expert report #004021616 dated as of 8 July 2016;

¹²Levan Samkharauli National Forensics Bureau commodity expert report #006378716 dated as of 3 November 2016;

¹³November 29, 2016 Purchase Agreement # 01.14.14.002.092 / 16-001, the parties JSC Bank of Georgia and Zviad Nazghaidze. Levan Samkharauli National Forensics Bureau commodity expert report #006378716 dated as of 3 November 2016;

7. Tbilisi City Assembly Commissions and Nazghaidze's case

The Order #47.12.982 issued by Tbilisi Municipal Government on 6 December was submitted to Tbilisi City Assembly on December 8.¹⁴ On the same day, the Chairperson of Tbilisi City Assembly issued a resolution on the commencement of the review procedures of the draft legal act.¹⁵ According to the resolution, the mandatory report on the issues had to be submitted by the following three commissions: Property Management and Finance-Budget Commission, Urban Planning and Municipal Utilities Commission, the Legal Issues Commission.

Based on the above-mentioned resolution, the Legal Issues Commission started to review the issues earlier than others, which can be evidenced by the Minute #35 of the Commission meeting of December 20, 2016. The issue related to Zviad Nazghaidze was 9th on the agenda to be discussed at the meeting. Tamar Matiashvili -the Deputy Head of Property Management Agency addressed the meeting concerning the issue. Given that the issue referred to the regulation "On the Rules of Expropriation of Property in Pressing Public Needs" set forth by the Organic Law of Georgia, Zurab Neparidze, the Assembly member, requested the provision of additional documents. In response Tamar Matiashvili said that "the Service will submit all the required documents in the nearest future." As a result, the minutes of the meeting noted out - *"The Legal Issues Commission resolved to adjourn the consideration of this issue until the addition documentations are submitted."*¹⁷⁶ The commission's decision was unanimous.¹⁷

The day after the meeting of Tbilisi City Assembly Legal Cases Commission of 20 December 2016, the Commission prepared a report related to the Order #47.12.982 issued by Tbilisi Municipal Government on 6 December. Although the meeting of the Commission adjourned the consideration of the issue related to Nazghaidze's real property until the provision of additional documents, and this was also indicated in the motivational part of the report, the last sentence of the resolution part ended with the following wording: - "Tbilisi City Assembly draft resolution shall be considered at the nearest meeting of the same Assembly.⁴¹⁸

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¹⁴Tbilisi Municipality Mayor's correspondence # 1/319690 dated as of 8 December 2016;

¹⁵ The Resolution # 04/20005 of the Chairperson of Tbilisi City Assembly as of 8 December 2016;

¹⁶ The Minutes #35 of the meeting of Tbilisi City Assembly Legal Cases Commission as of 20 December 2016;

¹⁷The vote results of the meeting of Tbilisi City Assembly Legal Cases Commission as of 20 December 2016;

¹⁸ The Resolution #04/20005 of Tbilisi City Assembly Legal Cases Commission as of 21 December 2016;

The official data has confirmed that Legal Issues Commission of Tbilisi City Assembly did not hold a meeting on December 21, 2017.¹⁹ Accordingly, this indicates that the report prepared on December 21 had to be attached to only the documents which the spokesman of the Tbilisi Municipality LEPL Property Management Agency noted out at the meeting of Commission held on December 20. However, it remains unclear how the following words appeared in the resolution part of the report dated December 21, - "*The Tbilisi City Assembly draft resolution shall be considered at the nearest meeting of the same Assembly.*"

Another commission of the City Assembly that discussed the issue pursuant to the Tbilisi municipal government Order #47.12.982 as of 6 December was Property Management and Finance-Budget Commission. According to the minutes of the Commission meeting of December 23, the issue related to Zviad Nazghaidze's case was presented to the Commission meeting by the Head of the LEPL Property Management Agency. The issue was voted in favour by the majority of the members present.²⁰ The Commission meeting according to the report prepared on the same day deemed advisable to consider the issue on the property expropriation as well as the real property transfer through the privatization with direct purchase at the nearest meeting of Tbilisi City Assembly.²¹

8. Tbilisi City Assembly Resolution and Nazghaidze's case

On December 23, 2016, an extraordinary meeting of Tbilisi City Assembly was held. The meeting agenda included 17 items including Zviad Nazgaidze's case as the 8th. Overall, the Assembly approved 3 Orders and 14 Resolutions at the extraordinary meeting on 23 December 2016. From the meeting minutes we learn that the resolution concerning Nazghaidze's case was approved by the majority of the Assembly members (21 in favor, abstained - 1, against - 0).²² According to the minutes "the issue was submitted by Carlo Laperadze, the head of Tbilisi City Hall LEPL "Property Management Agency" who explained that the privately-owned real property was located in the natural disaster zone, which is why its further development could not be carried out and therefore, the private and municipal owned properties needed to be alternated. "23

According to the resolution adopted by Tbilisi City Assembly regarding Nazghaidze's case, due to the pressing public urgency, the expropriation of Zviad Nazghaidze's owned 1641 sq.m land plot in the territory adjacent to Kipshidze street # 2, Tbilisi (Cadastral Code: 01.14.14.002.092) and registration

¹⁹ The correspondence #70/2110 of Tbilisi City Assembly Proceedings Department dated as of February 17, 2016;

²⁰ The Minute #34 of the meeting of Tbilisi Municipality Property Management and Budget-Finance Commission of 23 December 2016;

²¹ The Report #04/20005 of the Tbilisi Municipality Property Management and Budget-Finance Commission of 23 December 2016;

²² The Minute #32 of the meeting of Tbilisi City Assembly of 23 December 2016;

²³The Minute #32 of the extraordinary meeting of Tbilisi City Assembly of 23 December 2016;

thereof in the ownership of Tbilisi City Municipality should have been carried out under the following conditions:

- In compliance with the preliminary, full and fair compensation principles, to pay the compensation of the pre-disaster price of the property to be expropriated from Zviad Nazghaidze (cadastre code #01.14.14.002.092) in the amount of 971,260 GEL, which was determined under the expert report #004021616 prepared by Levan Samkharauli National Forensics Bureau on 8 July 2016;
- To make the compensation in the form of transfer of the ownership over GEL 515,460 worth 5001 sq.m. real estate located in Tbilisi, Saburtalo residential district, V quarter, Sandro Euli Street # 5, registered with the Cadastre Code 01.14.05.007.473 which has been evaluated by Levan Samkharauli National Forensics Bureau expert report #005987816 as of October 7, 2016 and to transfer GEL 455,800 to the bank account;
- > Out of the above GEL 455,800, 129,308 GEL and 95 tetri and 42,833 USD and 87 cents equivalent in Georgian Lari shall be transferred to the bank account of JSC Bank of Georgia in order to remove / cancell the registered liabilities/restrictions on 1641 sq.m. land plot in the territory adjacent to Kipshidze Str., # 2, Tbilisi (the cadastre code # 01.14.14.002.092), and the remaining funds to be deposited to the account provided by Zviad Nazghaidze;
- To transfer the ownership rights to Zviad Nazghaidze over the 5001 sq.m. land plot in Tbilisi, Saburtalo residentical district, V quarter, Sandro Euli Street # 5, registered with Cadastre Code #01.14.05.007.473 in the form of direct purchase privatization at a symbolic price (according to the agreement presented as an annex to the Tbilisi Municipal Government Order # 47.12.982 of December 6, 2016).

9. Events following the City Assembly Order

Tbilisi City Assembly approved the Order related to Nazghaidze's case on Friday, December 23, 2016. The next business day, i.e on 26 December 2016 Tbilisi Municipality LEPL Property Management Agency signed an agreement with Zviad Nazghaidze under which the municipality-owned real estate privatization in the form of direct purchase was carried out. Zviad Nazghaidze was awarded the ownership rights over the property at the symbolic price of one GEL.²⁴

On December 27, 2016, Tbilisi City Hall based on the resolution of the Tbilisi City Assembly performed two transactions. In the first transaction the total of 243,602 GEL and 57 tetri was wire transferred to Bank of Georgia and in the other transaction 212,197 GEL and 43 tetri was wire transferred to Zviad Nazghaidze's account.²⁵

²⁴The agreement of December 26, 2016 on the privatization of the real estate in the direct purchase form. The parties: Tbilisi Municipality LEPL Property Management Agency and Zviad Nazghaidze;

²⁵ December 27, 2016 payment orders #00294 and #00295;

It should be noted that at the moment of performing the above-mentioned transactions, the remittance details in Bank of Georgia's case were as follows: "Repayment of the obligation to JSC Bank of Georgia from the amount belonging to Zviad Nazghaidze- the affected person in 13-14 June 2015 natural disaster, and in Zviad Nazghaidze's case - "The transfer of the compensation to disaster-affected Zviad Nazghaidze in lieu of real property concession." However, it should be emphasized that during 13-14 June 2015 natural disaster in Tbilisi, Zviad Nazghaidze did not own the property located in the territory adjacent to Kipshidze Street # 2, Tbilisi (neither he had the option rights on the property), and therefore, it is impossible Zviad Nazghaidze to have been affected by the disaster.

Moreover, in the documents verifying the above transactions after the Treasury code (02 11 11), and the name we can read - "Provision of the residence for the disaster-affected individuals (families) and monetary compensation for the owners of the damaged vehicle".²⁶ *It is undisputable that the property expropriated from Zviad Nazghaidze fell into neither the housing provision nor the vehicle category. Accordingly, the use of this term was groundless.*

10. Natalia Nazghaidze and "Rustavi 2"

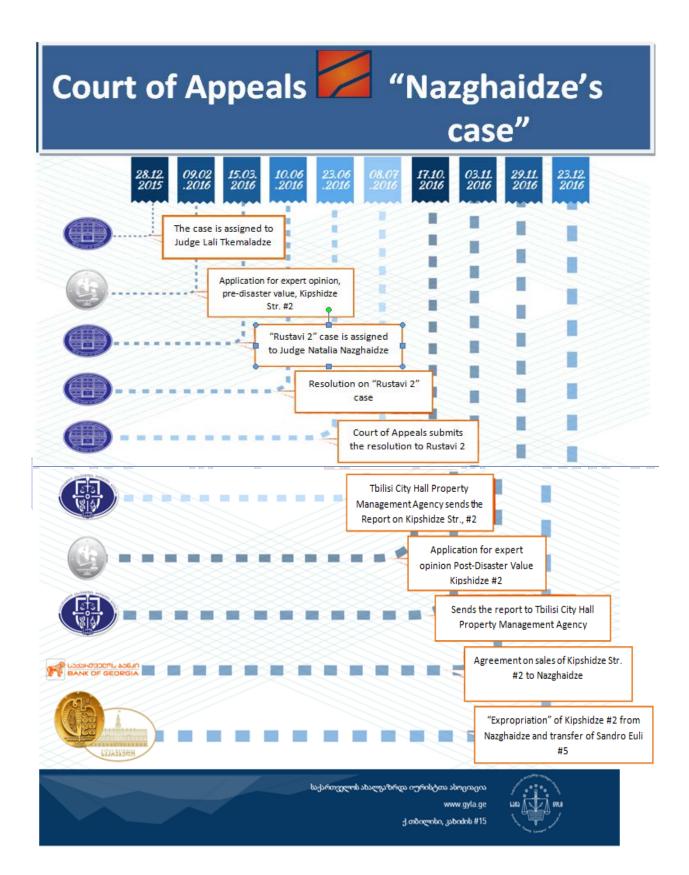
It is known to public that Natalia Nazghaidze, Zviad Nazghaidze's family member - is the judge of Tbilisi Court of Appeals who was handling the "Rustavi 2" case in the Court of Appeals. Below is presented the visual information about the administration of "Rustavi 2" case in the Court of Appeals, and Zviad Nazghaidze's property ownership transfer/expropriation process arranged chronologically.

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²⁶ December 27, 2016 payment orders #00294 and #00295;



Obviously, it is difficult to prove whether the expropriation of Zviad Nazghaidze's real property and transfer of GEL 971,260 as the compensation is directly linked to hearing of "Rustavi 2" case by Natalia Nazghaidze, through one thing is certain, the events coincide with one another. In particular:

- Natalia Nazghaidze was assigned the case after the Tbilisi Municipality Property Management Agency applied to Levan Samkharauli National Forensics Bureau for the preparation of the expert opinion on the real property adjacent to Kipshidze Street # 2;
- Prior to the preparation of the expert opinion and the transfer of GEL 971,260 to Zviad Nazghaidze by Tbilisi City Hall, Natalia Nazghaidze, the judge of Tbilisi Court of Appeals made a decision on "Rustavi 2" case.

11. Summary

During the natural disaster of June 13-14, 2015 in Tbilisi, Zviad Nazghaidze was neither the owner of 1641 sq.m. real property located in Tbilisi adjacent to Kipshidze Street # 2 nor had the option rights over the property;

- ✓ The Tbilisi City Assembly resolution # 17-66 dated as of July 5, 2015 about the regulation of Tbilisi municipality on the rule for the provision of residence, the cession of real estate property rights and the provision of other forms of monetary assistance to the affected families who suffered as a result of the natural disaster 13-14 June 2015 in Tbilisi shall not apply to the real property 1641 sq.m located in Tbilisi adjacent to Kipshidze Street # 2.
- At the moment of the expropriation of the real estate 1641 sq.m located in Tbilisi adjacent to Kipshidze Street #2, the application of the Organic Law of Georgia on the Rules of Expropriation for Pressing Public Needs was groundless;
- ✓ No legal acts and official documents related to the acts give any justification for pressing public necessity and/or urgency for the expropriation of Zviad Nazghaidze's real property.
- ✓ Zviad Nazghaidze was unjustly awarded the ownership rights over 5001 sq.m real property located in Saburtalo residential district, V quarter, Sandro Euli Street # 5, Tbilisi;
- ✓ It is unclear why Tbilisi Municipality LEPL Property Management Agency commissioned Levan Samkharauli National Forensics Bureau to prepare an expert opinion when the owner of the real estate 1641 sq.m. located adjacent to Kipshidze Street # 2, Tbilisi, was the Bank of Georgia, and not the Tbilisi Municipality;

- ✓ During the hearing of the case in Tbilisi City Assembly, the City Assembly did not have any relevant documentation to prove that there was present any pressing public needs and / or urgency for the expropriation of Zviad Nazghaidze's property.
- ✓ There is a likelihood that the Tbilisi municipality and Zviad Nazghaidze had previously entered into an agreement on the secure exporopriation of Nazghaidze's property and then the transfer of GEL 971,260 compensation by the municipality;
- ✓ Zviad Nazghaidze might have had communication with JSC Bank of Georgia on the above mentioned issue. The presumption is strengthened by the fact that Nazghaidze had to repay to the Bank the property value within a month. Logically, neither Nazghaidze nor the Bank might have known that the Municipality would confiscate Nazghaidze's property and make payment of the compensation in the amount of GEL 971,260;
 - The law enforcement agencies should enquire about the legal compliance of Zviad Nazghaidze's property expropriation and the form of direct purchase at a symbolic price, as the fact may include the traces of offence from relevant public officials.

