

*Latio*

# RESIDENTIAL MARKET REPORT

2020



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Certainty about the future and solvency have always determined the situation on the residential market. Residential construction can be the driving force that helps us recover from economic stagnation. The opposite is also possible, namely acceleration of the economic downturn, making housing more expensive at an inopportune moment. The discussion about the rapid rise in real estate tax payments is very untimely.



**EDGARS  
ŠĪNS**

Chairman of the Board  
at *Latio*



# REAL ESTATE MARKET IN LATVIA AND GLOBALLY



## Latvia

### January

- A good growth in the energy sector thanks to higher water flow. Adverse situation in wood processing. Weaker results in the processing industry, a decrease in the amount of cargo transported and a decline in demand on external markets. Economic activity mainly relies on domestic consumption.

### February

- The state budget is based on optimistic GDP forecasts (the MoF slightly adjusts them downwards). Recession in the cargo transit sector. Low lending activity in the banking sector.

### March

- Residents postpone travel and spending and avoid public places. Companies postpone decisions on new investments and business development. A state of emergency is declared in the country. The economy and foreign trade are balanced, and the state budget deficit is relatively low. Decline in economic activity. The state develops and implements a support programme to mitigate the effects of the crisis. The aviation, accommodation, catering and entertainment sectors are suffering severely. The production sector faces problems with closed borders, suppliers and new orders. Unemployment is rising.

### April

- The daily habits (shopping, leisure, etc.) of the population are changing; people are working remotely. The society has become less mobile; uncertainty about the future makes people revise their expenditures.

### May

- The main risks to the national economy are seen from the outside. The negative effects of COVID-19 are observed in almost all sectors. The role of the local market is growing. On 15 May, the borders are opened to the people of the Baltic States. Economic activity is starting to pick up.

### June

- The state of emergency in the country is lifted and many restrictions are eased significantly.

## Global

### January

- The China-US relations are improving. Industrial sectors are facing downturn. Domestic demand remains strong in most countries. Only the Chinese economy has been significantly affected by the virus.

### February

- Coronavirus has become the most significant risk to the world economy, and a recession is inevitable. Prices of oil and other raw materials are dropping. There is a deficit in certain categories of goods. Suspension of production, supply chain disruptions. Crisis in the tourism sector. Securities market turmoil.

### March

- Decline in industrial output. Production is partially resuming in China. The virus has affected Europe. Demand for oil is falling sharply, and oil prices have suffered the worst since the Gulf War. The first drop in the number of international tourists in the world since 2009. Large fluctuations on financial markets. The importance of the Internet and automation is growing. The number of US unemployment claims reaches new records every week. In Germany, the sharpest decline is seen in industrial production.

### April

- Unemployment is growing worldwide. The IMF reports that 50% of the world's countries have sought assistance to receive emergency loans. The world is facing the biggest crisis since World War II, with major economies showing a very sharp decline. Rapid decline in export orders and difficulties in the processing industry. National central banks and governments are implementing unprecedented fiscal and monetary incentives.

### May

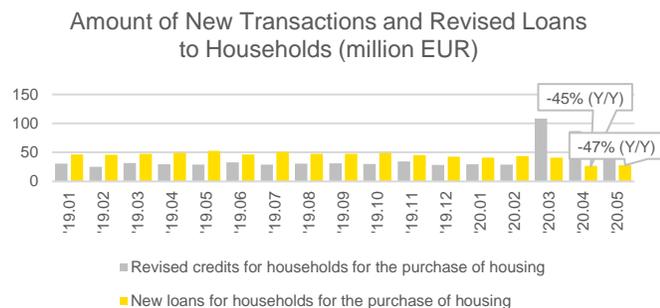
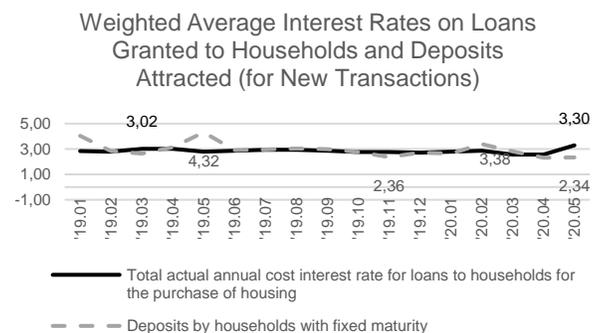
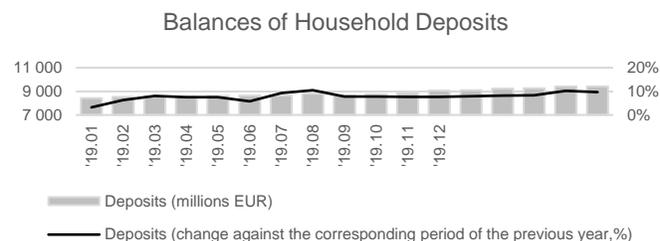
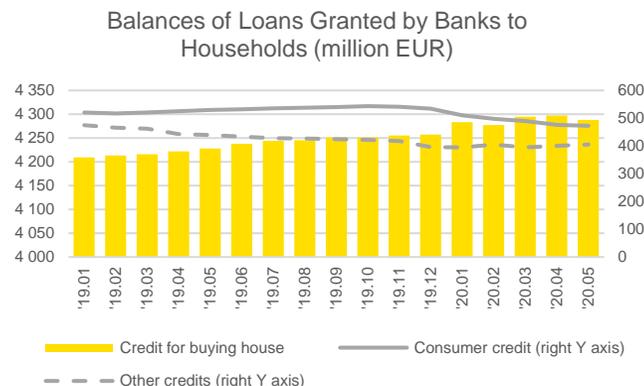
- The China-US relations have deteriorated again due to the virus. People cut spending and start saving. Mobility data show that Europeans have started moving around again. Widespread violent protests and riots in the US following the death of an African American detained by police. Protests against racism are starting in many parts of the world.

### June

- Measures to contain the spread of COVID-19 have a negative impact on the world economy. High uncertainty in the world; the virus has also hit developing countries severely. Social and ethnic tensions are escalating in the world. Protectionism is on the rise. Europe assumes that the worst stage of the economic crisis has been passed through.



## Data on Loans and Deposits



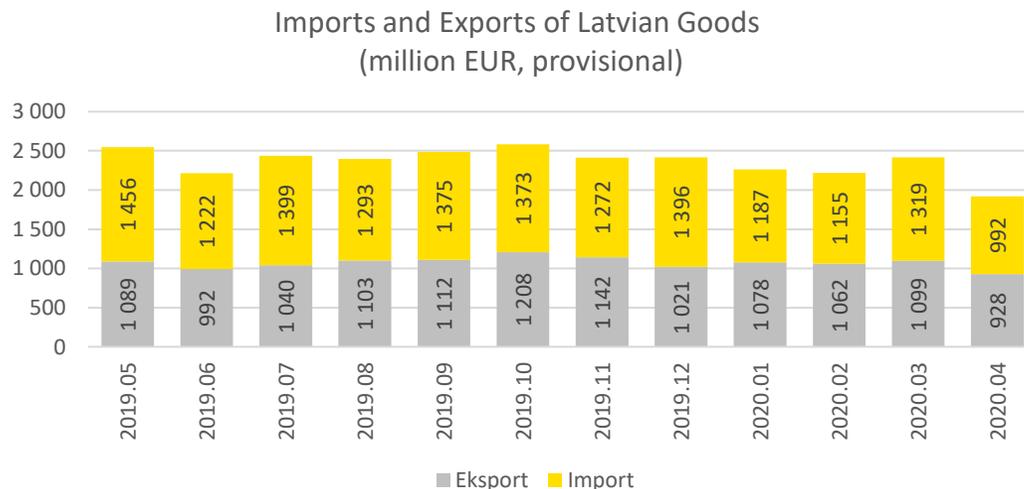
In response to COVID-19, households chose to save money instead of spending, as well as revise the terms and conditions of their loan contracts.

Balances of household deposits increased by 10% in April and May (compared to the corresponding period of 2019). Balances of loans granted to households were increasing monthly this year and decreased in May. Consumer credit has been declining since the beginning of the year.

According to the information by the Bank of Latvia, the increase in the amount of revised loans for house purchase starting from March is related to the state of emergency introduced during the COVID-19 pandemic.

The number of new loans decreased by 45% in April (compared to April 2019) and by 47% in May. Meanwhile, interest rates on loans to households for house purchase decreased in March, but increased again in April and May (the weighted average interest rate in May was 3.3%).

## Imports and Exports of Goods

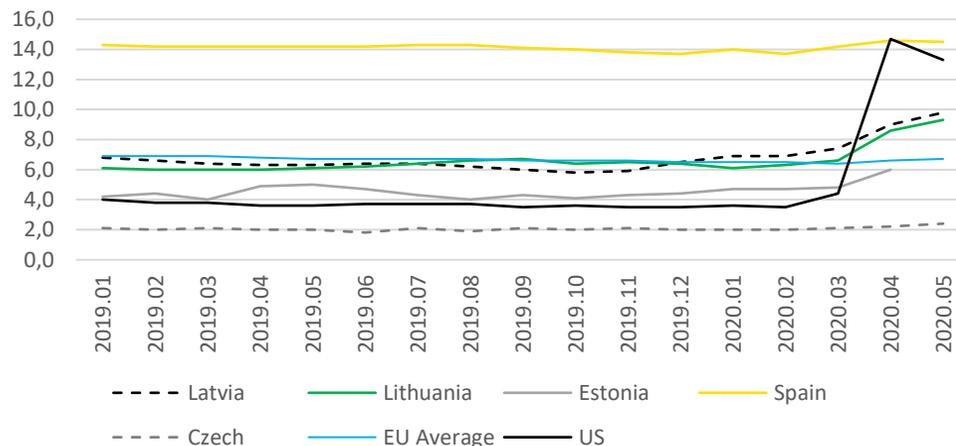


Imports and exports of EU goods dropped both in April and March, as COVID-19 made it more difficult to cross borders and led to reduced consumption and production.

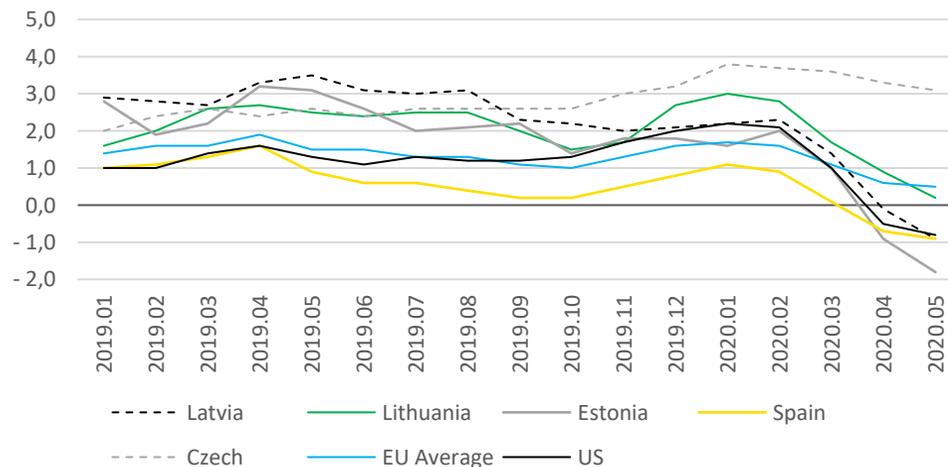
In March, compared to March of the previous year, exports in Latvia decreased by 1% and imports – by 8%, followed by a significant decline in April, with imports dropping by 27% and exports – by 14%.

## Unemployment and Consumer Prices

Unemployment rate by month



Changes in consumer prices by month



Unemployment in the EU grew at a slower rate than, for example, in the US (in April 2020, compared to April 2019, unemployment increased by 11 percentage points).

The highest unemployment rate in the EU was recorded in Spain (14.5%), but it was higher than the EU average before the pandemic. The lowest unemployment rate was recorded in the Czech Republic (2.4%).

In April, compared to March, the unemployment rate in the three Baltic states increased by 1.6%, 2% and 1.2% in Latvia, Lithuania and Estonia, respectively.

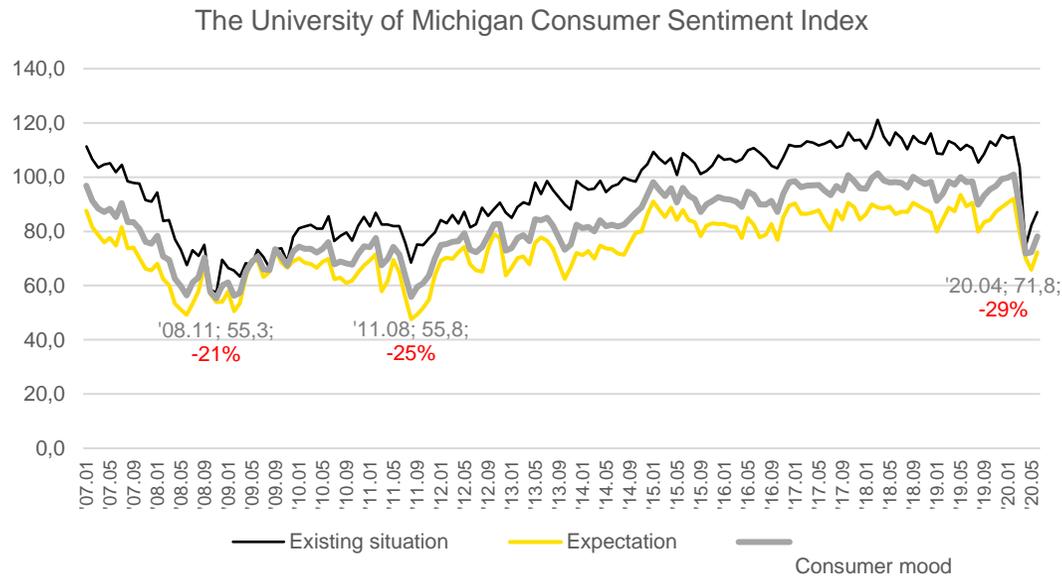
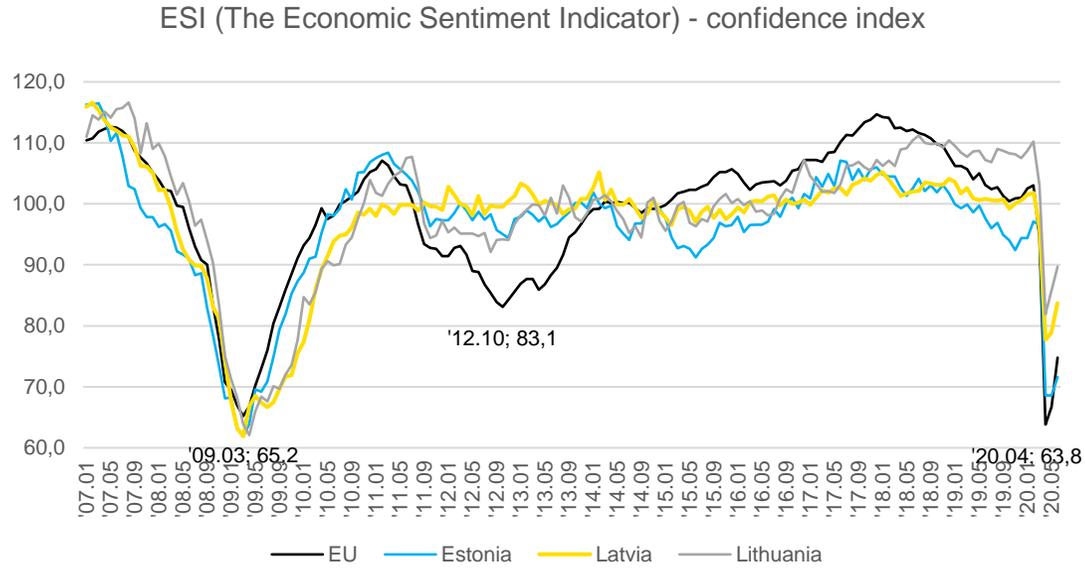
Following market rules, consumer prices began to fall in countries where unemployment increased. Deflation was observed in May in some of the countries studied (Latvia, Estonia, Spain and the US).

Data: Eurostat



# 8 CURRENT SITUATION

## Sentiment



Under the influence of COVID-19, the Consumer Confidence Indicator (ESI), which measures the EU sentiment, fell by 38% in two months.

The University of Michigan Consumer Sentiment Index, which measures the sentiment of the US population, fell by 29% over the same period.

A similar decline occurred in the US in 2008 due to the financial crisis (-21% over two months). The EU decline started in May 2007, reaching the lowest point in March 2009 and declining by 42% overall.

# RESIDENTIAL MARKET



## Latvia

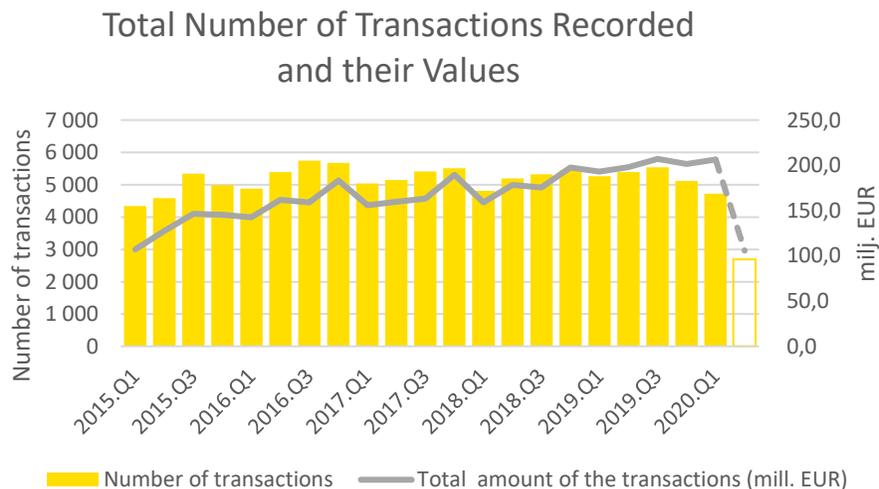
- No signs of overheating are seen on the residential market.
- The OECD published a study on housing affordability in Latvia. It concludes that Latvia has a poorly developed rental market (12% is rented), the market consists mainly of Soviet-era housing (66%), 34% of the population live in overcrowded housing and the purchase of housing is not possible for a large part of the population due to insufficient state support (44% of households are unable to qualify for state aid or meet mortgage requirements).
- *Altum* has been granted additional funding of EUR 35 million for increasing the energy efficiency of multi-apartment residential buildings.
- The conference *Housing Security and Energy Efficiency: The Common and the Different* was held in February, highlighting the problem of long-term non-payers, dependence on EU funding for renovation of buildings and poor housing quality.
- At the end of March, *Swedbank* announced that interest in housing loans had decreased, but had not stopped completely. People are more careful when assessing various risks. In mid-April, *Luminor* announced that the number of mortgage applications in the state of emergency had dropped by half, but lending had not stopped. Most properties are still purchased in Riga and the Greater Riga area (85% and 10%, respectively). Interest in purchasing private houses has grown. At the end of April, *Swedbank* announced that the number of applications for credit holidays had decreased. The number of clients who want to find out about their options to borrow for the purchase of housing has increased (the number of applications reached the same level as it was at the beginning of the year).

## Global

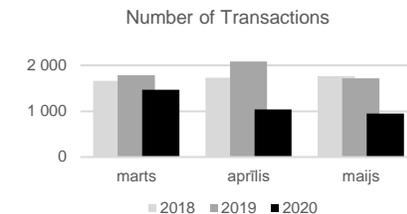
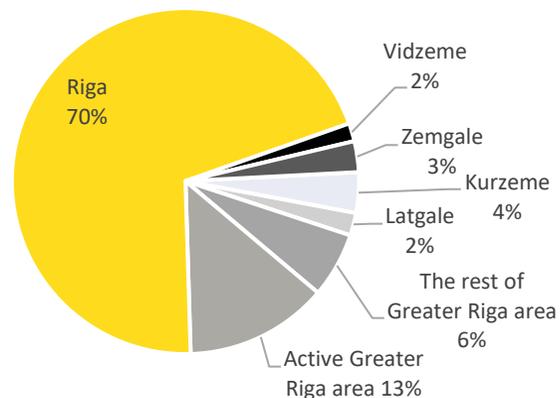
- Due to restrictions, the amount of transactions has decreased, but housing prices have remained virtually unchanged or increased in some places. For example, in the UK, prices decreased by 0.1% for the first time in June (year-on-year), *Nationwide* reports.
- Rapid growth of unemployment and uncertainty about the job situation and income are reducing the demand for housing.
- US mortgage rates hit record lows in June.



## Market of Apartments in Latvia



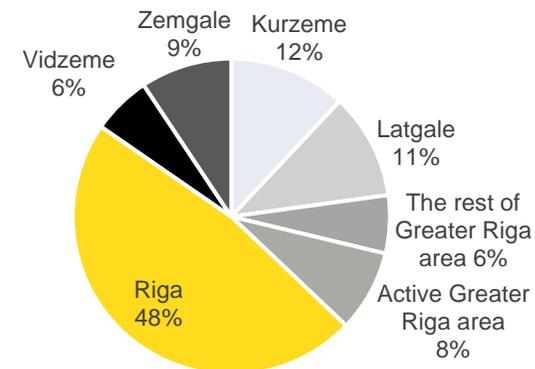
### Total Value of Transactions



### Demand Has Not Disappeared

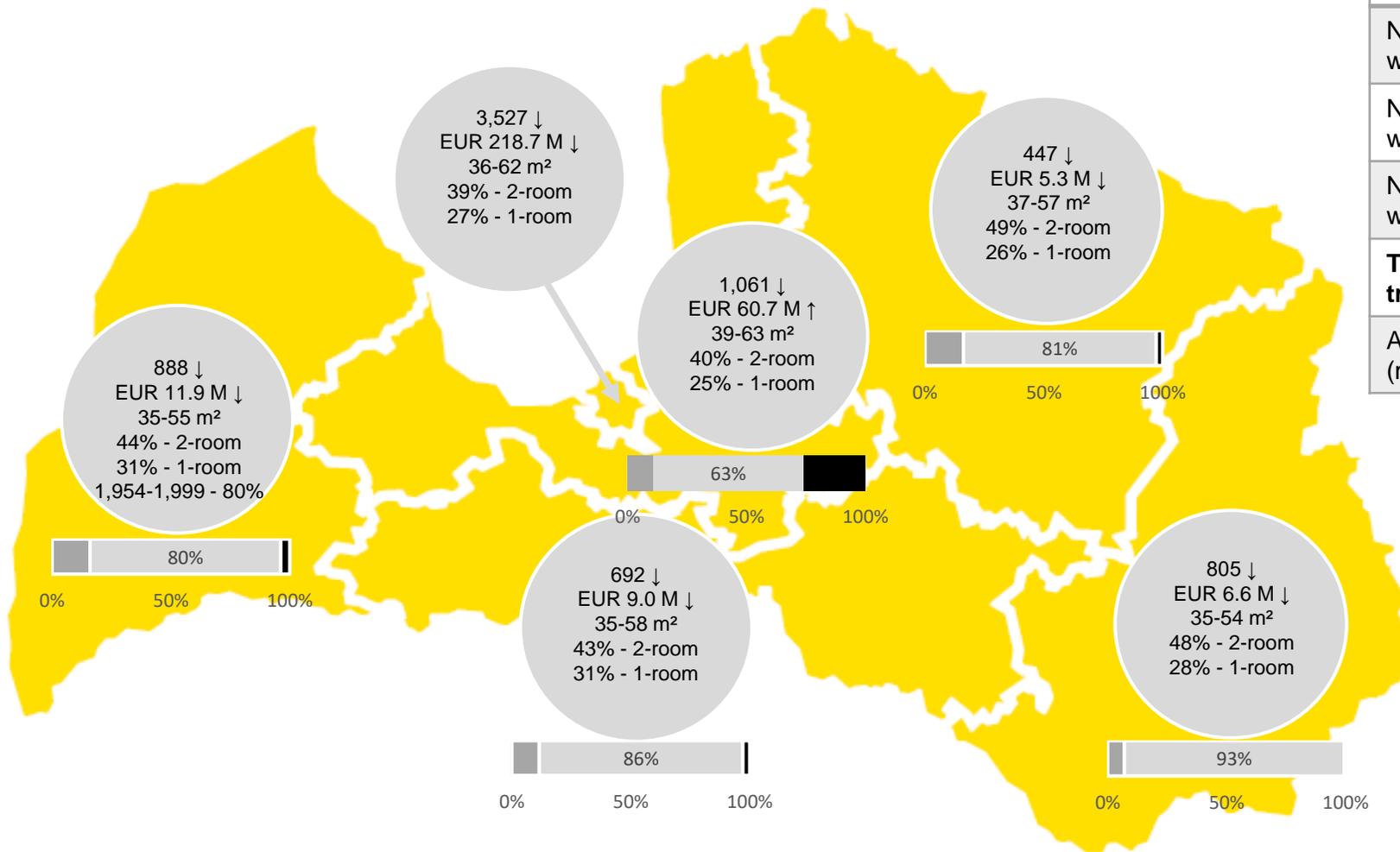
Demand (buyers' interest) for housing, including apartments, has not dropped significantly. The nature of the demand and the buyer's profile have changed. It is still possible to buy housing on credit, and a family with two adults earning an average salary can easily meet the *Altum* conditions. A monthly payment in these cases is still more advantageous than renting the same apartment. At the same time, the buyer has become more cautious, assessing more carefully the purchase and their future opportunities (in terms of the job and income). Meanwhile, banks are increasing requirements for lending conditions. In regions, the effects of the pandemic are not being felt significantly, and the majority of the country's population with opportunities is still facing a shortage of supply. There is a greater or lesser increase in interest in private houses across Latvia.

### Number of Transactions

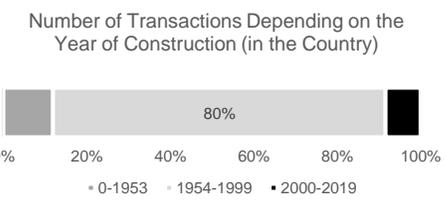


\* At the time of preparing this report, some of the transactions that took place in June were not registered with the Land Book.

## Market of Apartments in Latvia



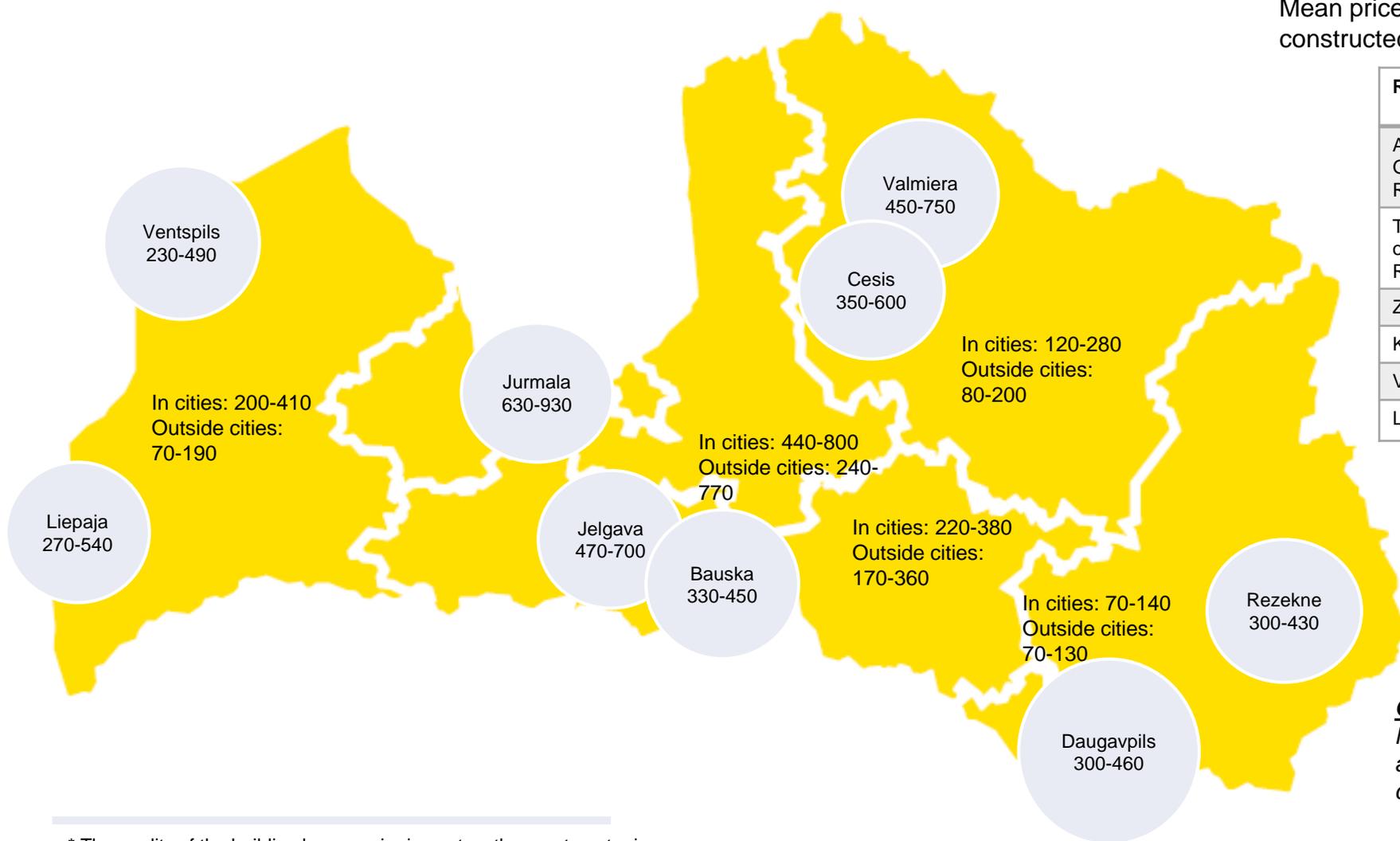
<b>Number of transactions</b>	<b>6,715 ↓</b>
Number of transactions with 1-room apartments	28%
Number of transactions with 2-room apartments	42% ↓
Number of transactions with 3-room apartments	24% ↑
<b>Total amount of transactions</b>	<b>EUR 284.9 million</b>
Average floor space (median)	51 m² (48 m²)



**On the map:**  
 Number of transactions and changes in the region  
 Total value of transactions and changes  
 Floor spaces most in demand  
 Number of transactions with 1-room and 2-room apartments  
 Number of transactions depending on the year of construction of the building

\* All the changes are presented by comparing the data for January-May 2020 to the relevant period of 2019. Other data are shown for the whole first half of 2020.

## Prices of Apartments in the Regions of Latvia



Mean price of a 1-room apartment in houses constructed from 1954 to 1999 (EUR)

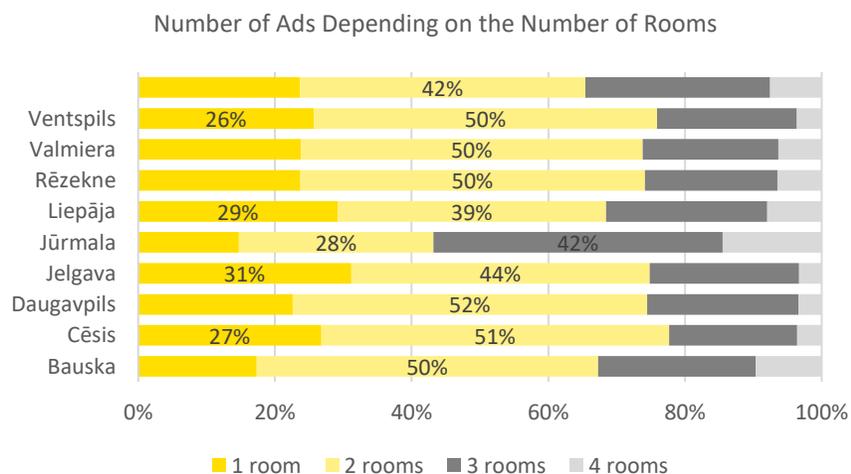
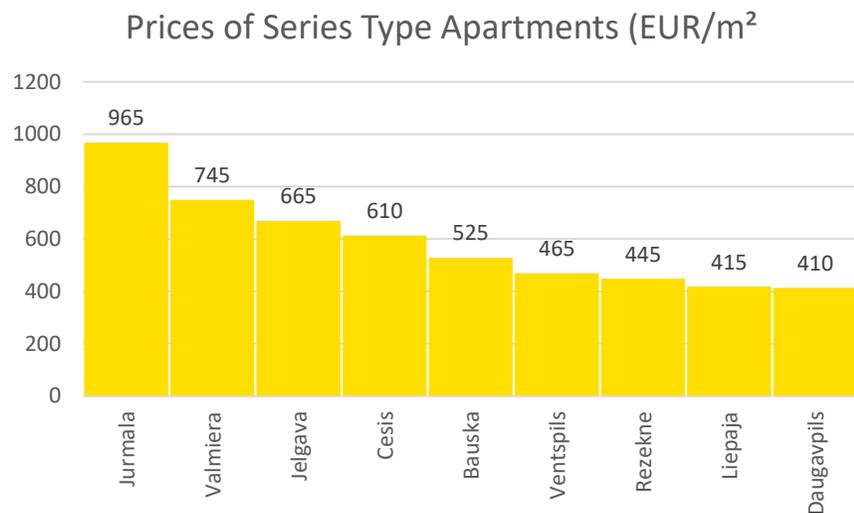
Region	In cities	Outside cities
Active Greater Riga	23,900	24,000
The rest of Greater Riga	16,200	11,900
Zemgale	14,500	11,000
Kurzeme	10,100	4,900
Vidzeme	8,000	4,700
Latgale	7,400	2,200

**On the map:**  
 Mean price in EUR per 1 m<sup>2</sup> in apartments in houses constructed from 1954 to 1999

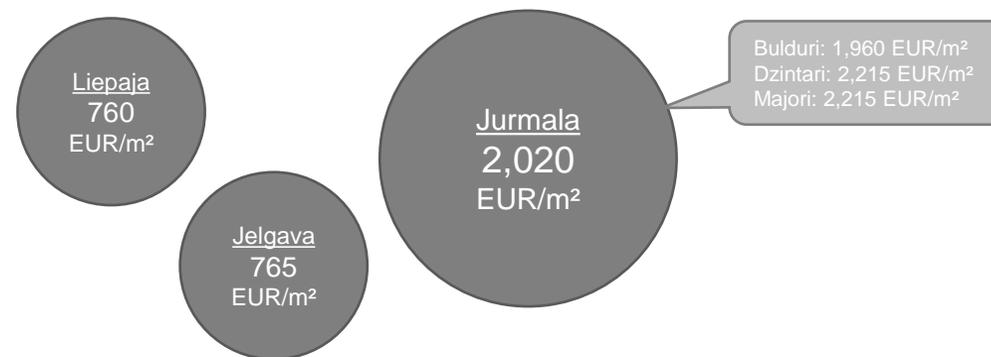
\* The quality of the building has a major impact on the apartment price.

\*\* Mean prices in cities are indicated without taking into account the cities marked separately (for example, the mean price of Kurzeme cities is calculated without the prices of apartments in Liepaja and Ventspils).

## For-sale Classified Ads in Latvian Cities



## Mean Price in New Developments



### Demand Has Not Dropped

In Liepāja, the market has become very active in the past 2 months, and observations show that the apartment market has almost returned to the state before COVID-19. This can be said both about the demand and supply of housing, which seem equal. Activity in the apartment market in Zemgale cities has decreased due to COVID-19, showing a lack of supply. The decision is also influenced by the possibility to buy a house instead of an apartment.

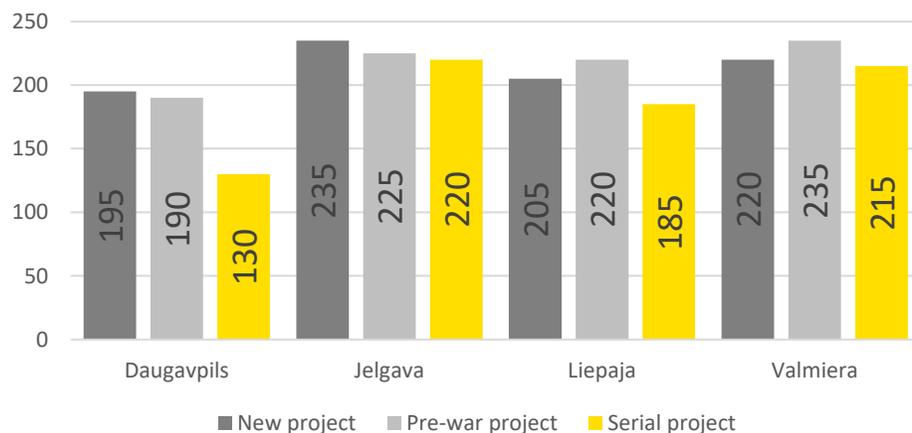
In Latgale cities, the demand for refurbished apartments with a built-in kitchen, where it is possible to settle down right away, is so high that they are mostly sold without the use of classified ad portals. Meanwhile, those who place an ad tend to sell the apartment within one day. Consequently, apartments in new developments rarely enter the secondary market. The apartments built last year were sold in a very short period of time without using ads. In Rēzekne, prices have increased over the past year, while in Daugavpils they have not changed. As the prices are significantly lower compared to Rīga, if necessary, a consumer loan is used instead of a mortgage loan to purchase an apartment.

## Long-term Rental Ads in Latvian Cities

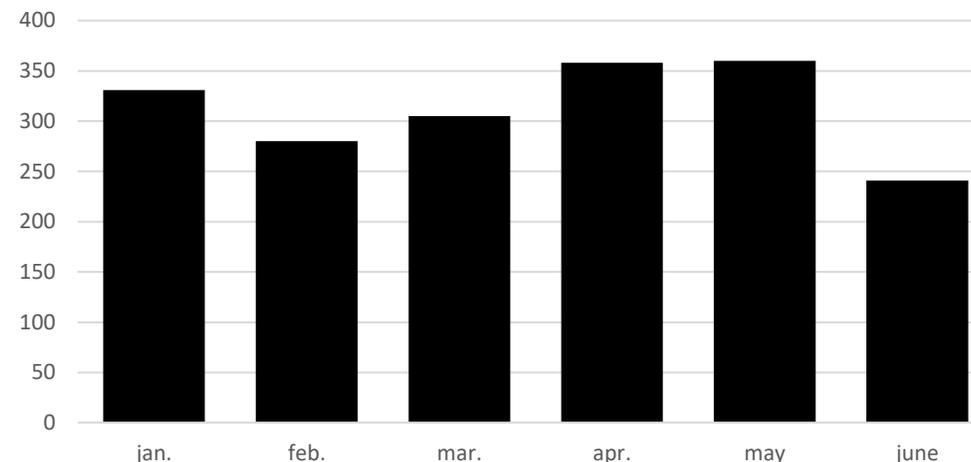
Mean Price in Series Type Developments



Mean Price (EUR/mon.)



Number of First Advertisements in these Cities, 2020



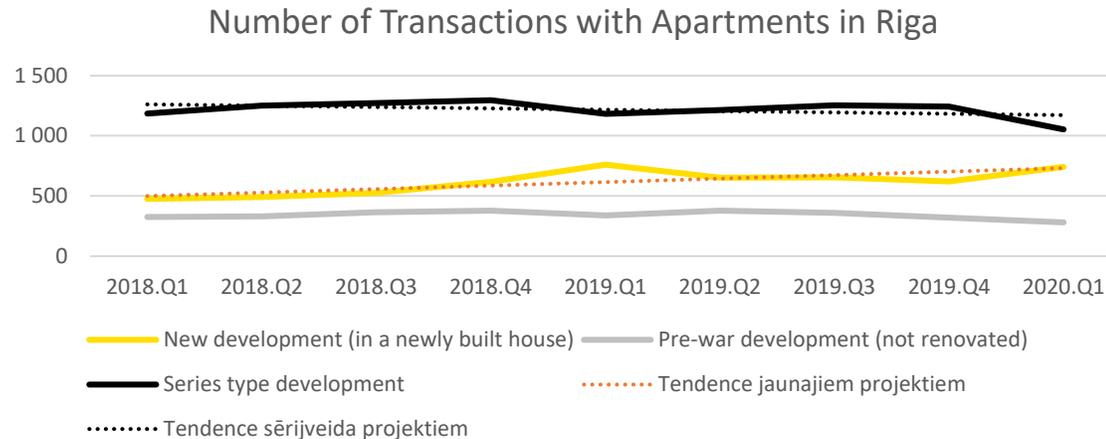
### Finding Tenants Does Not Present Any Difficulties

In Liepaja, unlike in Riga, short-term rent (including on *Airbnb*) has become more active in summer, as before (the prices have decreased compared to 2019). In autumn, these apartments will be offered for long-term rent (6 month-rent), as usual. This can be explained by the seasonal flow of tourists from Lithuania. Many Lithuanians own properties on the Latvian coast, including in Liepaja, and they gladly choose to relax here during also in the times of COVID-19.

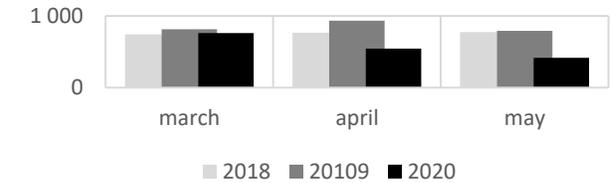
In Valmiera, there is a demand for both rent and purchase of housing, but the supply is insufficient. Not all offers are advertised, because finding a buyer/tenant is not difficult if the price corresponds to the market situation. Observations show that tenants are "waiting in a queue" for long-term rental offers.

The rental market in Zemgale cities is more active. Tenants of more expensive properties are looking for cheaper properties (if they are affected by COVID-19). Due to the lack of supply, houses that are offered for rent are rented out very quickly. Students also return to Jelgava and look for apartments for rent. Finding tenants is not a problem for landlords.

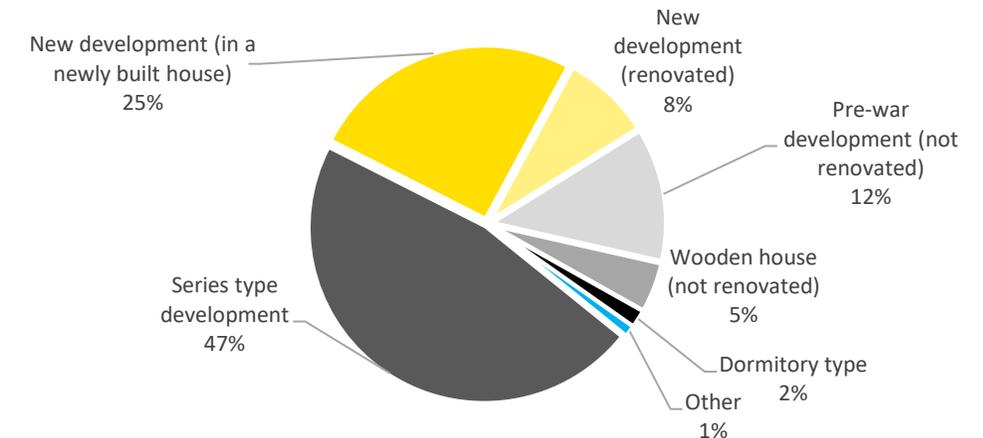
## Number of Transactions with Apartments



## Number of Transactions



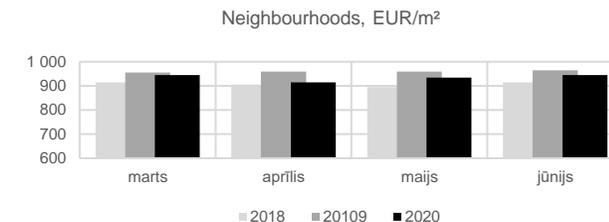
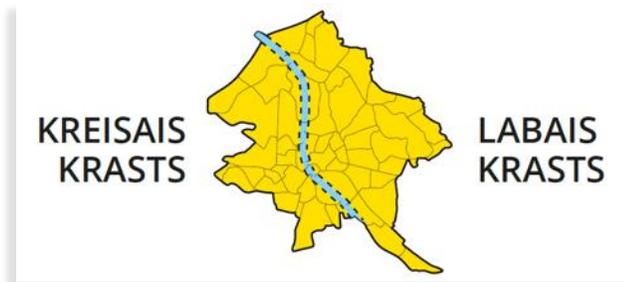
## Number of Transactions Depending on the Type of Building Development



### A 180-Degree Change in Demand

Transaction managers mention the change in the client's profile and needs as the main feature of the apartment market in Riga in the first half of this year. If at the beginning of the year there was a great interest of potential buyers in investment apartments that could be offered for short-term rent, now there is practically no such demand. Tourism is limited, arriving tourists are more cautious, so *Airbnb* apartments are empty or rented out for a long term. However, the demand for smaller apartments (approximately 30 m<sup>2</sup>) has not completely disappeared. They are bought assuming that the current problems are short-term. The new client today is a family who wants to buy land, a house or a larger apartment, providing an additional room there (in preparation for a negative escalation of the situation). At the same time, purchases have become more thought-out and rational. With the growing demand for larger apartments, the market began to feel the shortage of 3-room apartments in the most popular neighbourhoods.

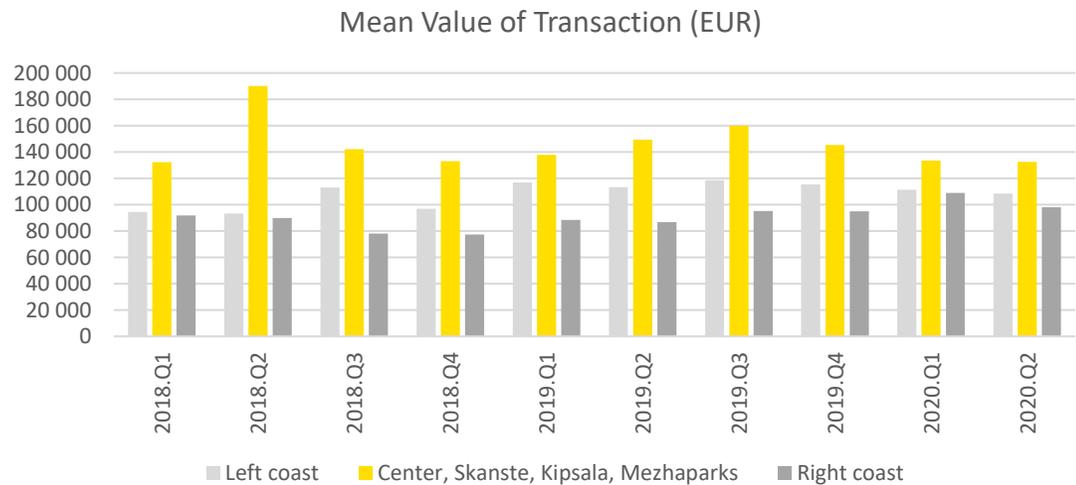
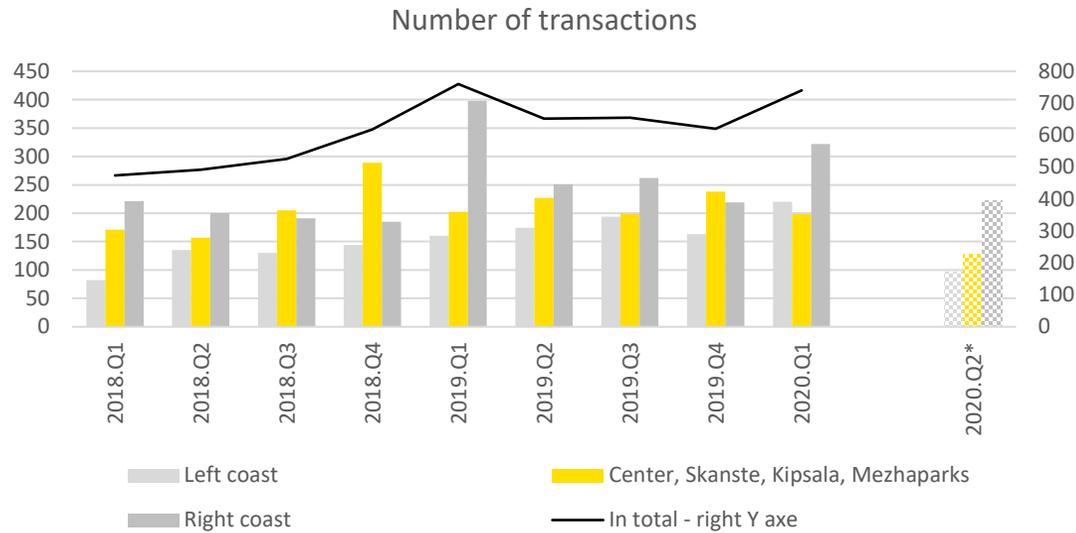
## Transactions with Apartments in Series Type Developments in Riga Neighbourhoods



<b>549</b> (↓31%)	<b>Number of transactions</b>	<b>1,026</b> (↓27%)
24%	Number of transactions depending on the number of rooms:	30%
45%	1 room	43%
29%	2 rooms	23%
	3 rooms	
<b>EUR 21.1 M</b> (↓31%)	<b>Value of transactions (change)</b>	<b>EUR 37.3 M</b> (↓28%)
<b>40-58 m<sup>2</sup></b>	<b>Floor spaces most in demand</b>	<b>36-56 m<sup>2</sup></b>
<b>49 m<sup>2</sup></b>	<b>Mean floor spaces</b>	<b>46 m<sup>2</sup></b>
<b>Imanta</b> (28%) – 930 EUR/m <sup>2</sup> (↓5%)	<b>Most popular areas (% of the total number of transactions) - mean price per 1 m<sup>2</sup> (change)</b>	<b>Kengarags</b> (21%) – 870 EUR/m <sup>2</sup> (↓1%)
<b>Ziepniekkalns</b> (19%) – 1000 EUR/m <sup>2</sup> (↑2%)		<b>Purvciems</b> (20%) – 980 EUR/m <sup>2</sup> (↓3%)
<b>Ilguciems</b> (13%) – 900 EUR/m <sup>2</sup> (0%)		<b>Plavnieki</b> (14%) – 1,000 EUR/m <sup>2</sup> (0%)
<b>New Lithuanian series</b> (22%) – 840 EUR/m <sup>2</sup> (↓6%)	<b>Most popular series (% of the total number of transactions) - mean price per 1 m<sup>2</sup> (change)</b>	<b>Series 602</b> (18%) – 980 EUR/m <sup>2</sup> (↑1%)
<b>Series 602</b> (19%) – 960 EUR/m <sup>2</sup> (0%)		<b>Khrushev brick series</b> (13%) – 900 EUR/m <sup>2</sup> (↓1%)
<b>Khrushev brick series</b> (15%) – 980 EUR/m <sup>2</sup> (↑6%)		<b>Old Lithuanian series</b> (12%) – 900 EUR/m <sup>2</sup> (↓2%)
<b>930 EUR/m<sup>2</sup></b> (↓1%)	<b>Mean price per 1 m<sup>2</sup></b>	<b>940 EUR/m<sup>2</sup></b> (↓2%)

\* All the changes are presented by comparing the data for January-May 2020 to the relevant period of 2019. Other data are shown for the whole first half of 2020.

## Transactions in New Developments



In Q2 2020, most transactions in and around the centre took place with the following developments:

- Park Residence (23 transactions);
- Blaumana 12 (15);
- Langeras nams (14)

On the right bank of the River Daugava:

- Krasta kvartals (72);
- Jauna Teika (67);

On the left bank of the River Daugava:

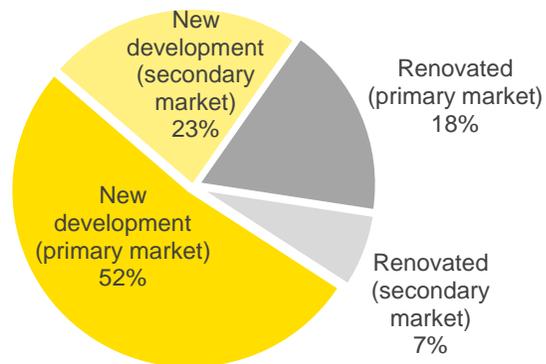
- Annas parks (17);
- Bisumuiza (14);
- Akacijas (13).

This year, a number of new developments (both new and renovated pre-war houses) were commissioned and/or sales of their apartments were launched, such as Green City, Terbatas 33/35, Avotu 4, Agenskalna Melodijas, Langeras nams, Schoolhouse Loft, Pales 11, Miera 5, Z-Towers, etc.

\* At the time of preparing this report, some of the transactions that took place in June were not registered with the Land Book; therefore, they are shown separately.

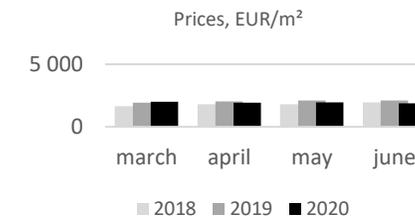
## Apartment Sales in New Developments in Riga

Number of Transactions in New Developments  
(1<sup>st</sup> half of 2020)

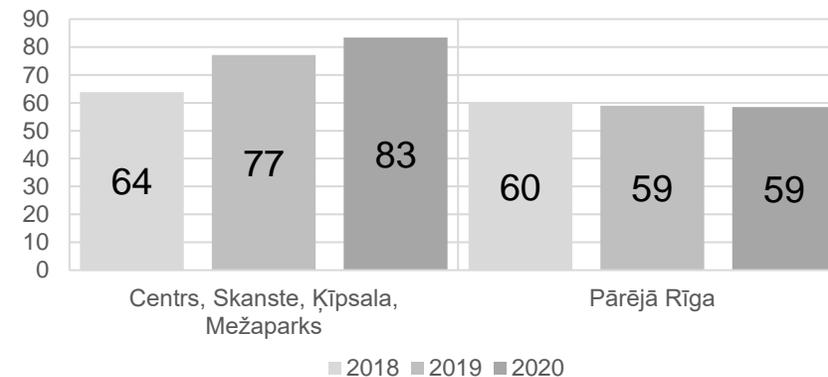


Mean Prices of New Developments on the Primary Market (1<sup>st</sup> half of 2020 and Changes Compared to the 1<sup>st</sup> half of 2019)

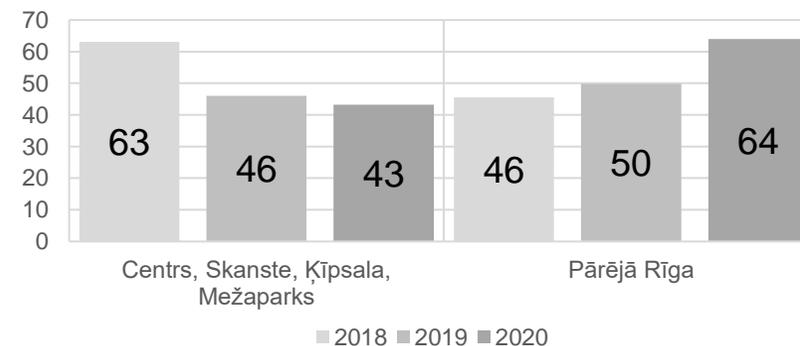
	New developments	Renovated pre-war buildings
Centre, Skanste, Mezaparks, Kipsala	2,540 EUR/m <sup>2</sup> (+4%)	2,080 EUR/m <sup>2</sup> (-2%)
Neighbourhoods (left bank)	1,900 EUR/m <sup>2</sup> (-13%)	1,820 EUR/m <sup>2</sup> (-7%)
Neighbourhoods (right bank)	1,840 EUR/m <sup>2</sup> (+12%)	*(not enough transactions)



Mean Floor Space in New Developments Sold on the Primary Market (m<sup>2</sup>)

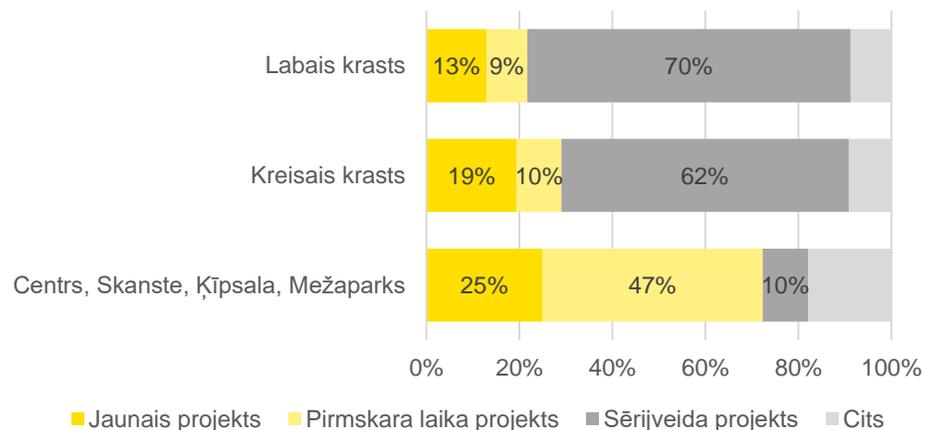


Mean Floor Space in Renovated Buildings Sold on the Primary Market (m<sup>2</sup>)



## Long-term Rental Offers in Ads

Number of Long-Term Rental Offers Depending on the Type of the House Development and Location

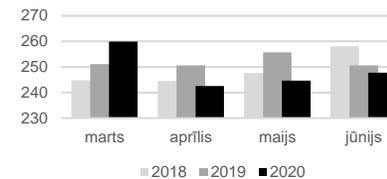


### Reluctant to Lower the Prices

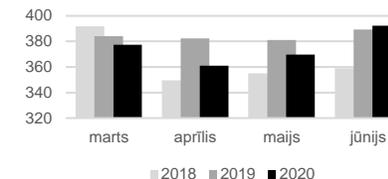
The long-term rental market has now been supplemented by apartments that were previously offered for short-term rent, as some landlords, adapting to the situation in the tourism industry, have opted for renting apartments for a longer term.

Owners of exclusive apartments have not changed prices. Sometimes the rent is negotiated, but such cases have always existed. In the state of emergency, many tenants asked landlords to reduce rents due to declining incomes or lost jobs. For reasons of solidarity, some landlords made concessions to the tenants.

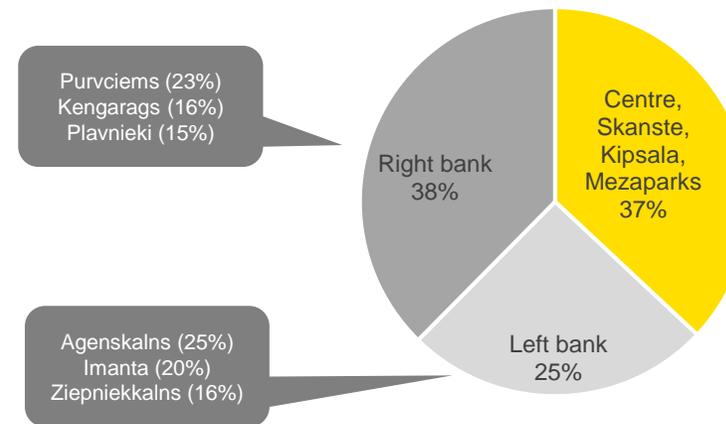
1-room, EUR/mon.



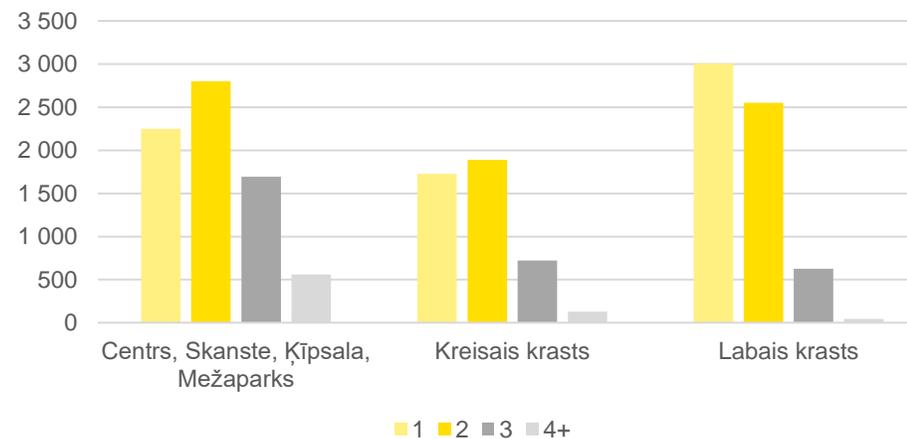
2-room, EUR/mon.



Number of Long-term Rental Ads

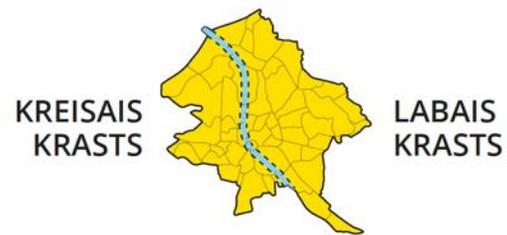


Number of Long-term Rental Offers Depending on the Number of Rooms



## Long-term Rental Offers in the Most Popular Neighbourhoods and Developments (EUR/mon.)

Neighbourhood (% of the L bank ads)	Development (% of the L bank ads)	1-room apartment	2-room apartment
Agenskalns (25%)	Pre-war development (29%)	220	325
	Khrushev series (25%)	240	310
Imanta (20%)	Series 602 (34%)	245	290
	Lithuanian series (32%)	235	280
Ziepniekkalns (16%)	Series 602 (25%)	230	295
	Series 119 (22%)	250	295

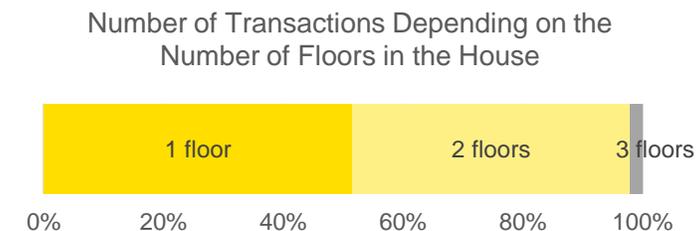
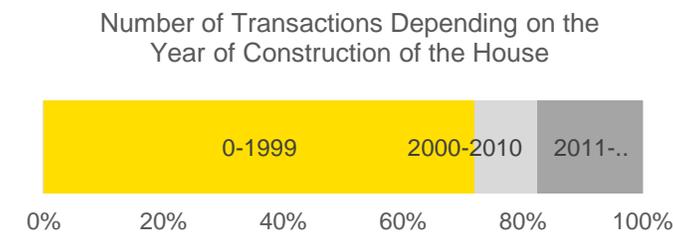
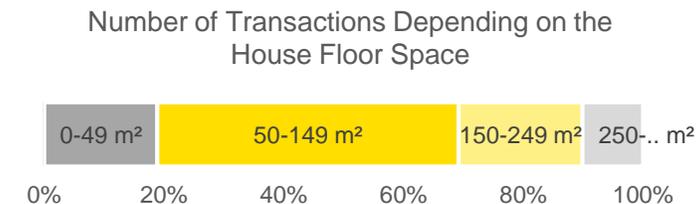
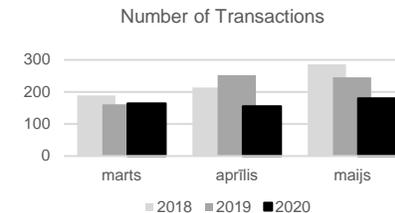
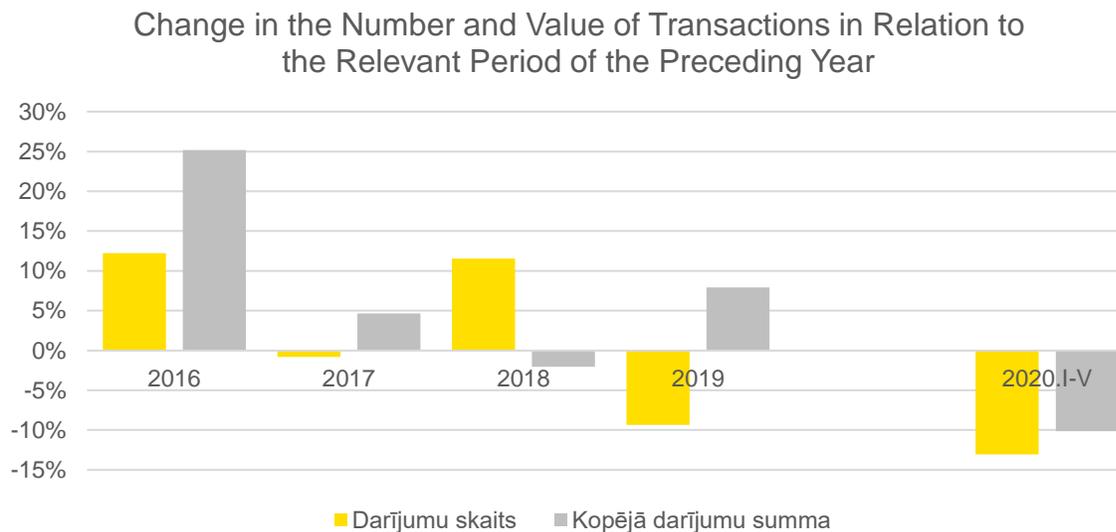


Neighbourhood (% of the R bank ads)	Development (% of the R bank ads)	1-room apartment	2-room apartment
Purvciems (23%)	Lithuanian series (23%)	235	290
	New development (16%)	240	350
Kengarags (16%)	Lithuanian series (50%)	230	260
	Khrushev series (14%)	220	260
Plavnieki (15%)	Series 602 (46%)	230	290
	Small-family series (25%)	230	

### CENTRE, MEZAPARKS, KIPSALA

Neighbourhood (% of Riga ads)	Development (% of the Centre ads)	1-room apartment	2-room apartment
Centre, Mezaparks, Kipsala (37%)	Pre-war development (58%)	255	380
	New development (30%)	335	550

## Private Houses



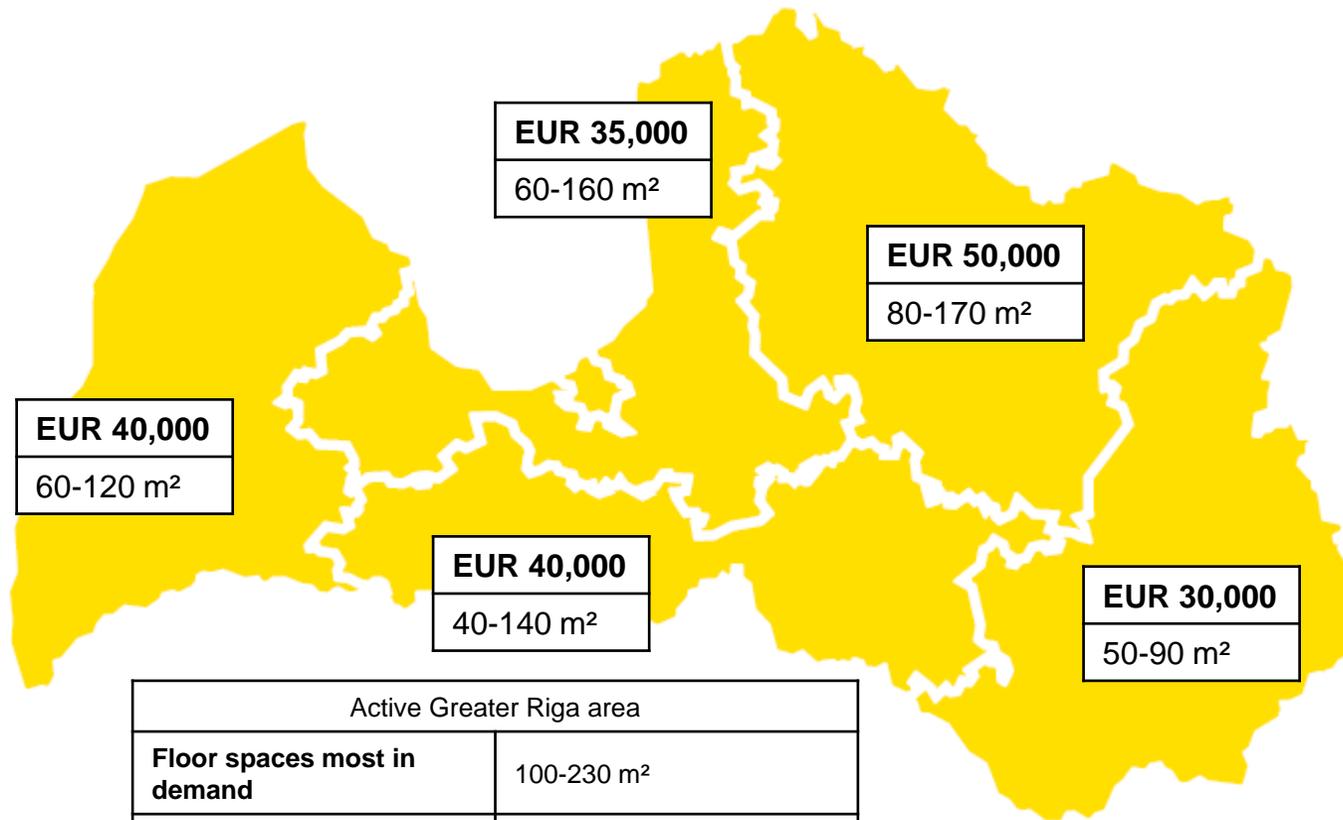
### Private House: An Alternative to Cramped Apartments

COVID-19 has made adjustments in people’s daily lives, and the long quarantine and/or self-isolation has led to a reassessment of the importance of housing in our lives. For many people in these months of emergency, housing was no longer just a place to spend the night and store their belongings, and the small apartments that were purchased for this purpose became cramped. Interest in purchasing private houses has grown substantially, as land acquisition and house construction is a long process.

Observations show that the interest in houses in Adazi has significantly increased, but there is a lack of supply. The price of a good house on offer exceeds EUR 250 thousand and most transactions take place using bank financing (including through *Altum*).

## Prices of Private Houses and Floor Spaces Most in Demand

\* The mean transaction values are specified for private houses with the floor space of 50-150 m<sup>2</sup> and constructed until 1999.



Active Greater Riga area	
<b>Floor spaces most in demand</b>	100-230 m <sup>2</sup>
<b>100-150 m<sup>2</sup>, constructed after 2000</b>	EUR 135,000
<b>150-200 m<sup>2</sup>, constructed after 2000</b>	EUR 180,000
<b>200-250 m<sup>2</sup>, constructed after 2000</b>	EUR 240,000

### There are Private House Transactions that Did Not Take Place in Previous Periods

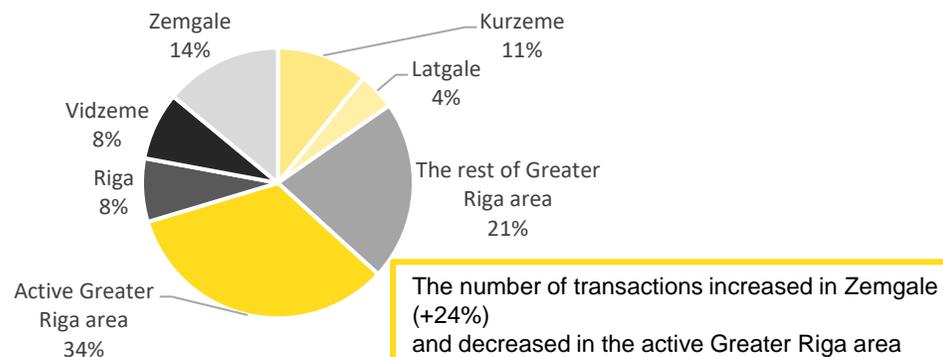
In Kurzeme, the demand for rural properties has significantly increased in recent months.

The demand for private houses has also grown in Zemgale cities, particularly in Jelgava and Iecava. It has been observed that interest has increased for summer houses in the areas of garden cottages. Some summer houses, which had been advertised for a long time without any interest shown in them, were successfully sold during this period. Buyers have a desire to spend time outdoors. The second feature is that they are ready to buy houses at a price higher than the market value set by a certified appraiser. For some potential buyers, the obstacle to buying a house is the cautiousness of banks (this is especially true for country houses in the regions).

In Latgale, just like before COVID-19, there is a demand for good and renovated houses. If they appear in the offer, they are bought quickly. Transactions most often take place with unrepaired houses with old windows and roofs built in the 1960s and 1970s, according to the offer.

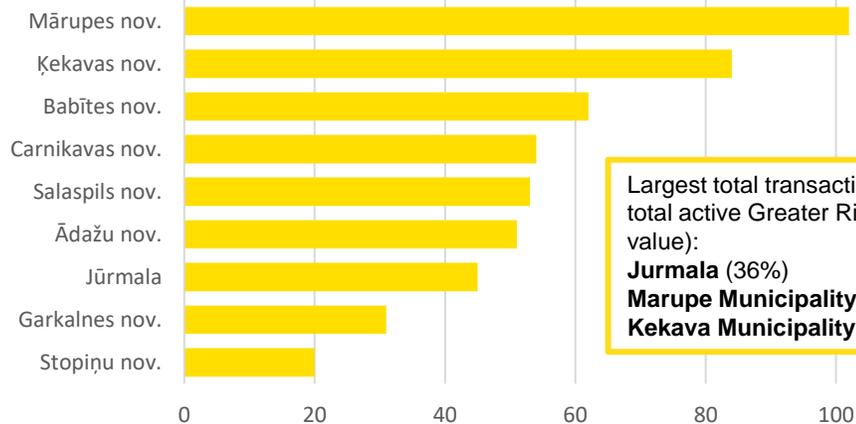
## Private Development Land

Breakdown of the Number of Transactions by Region

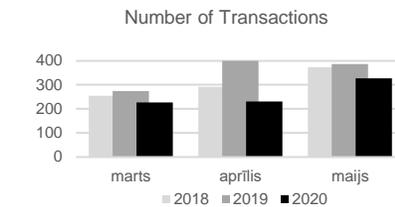


The number of transactions increased in Zemgale (+24%) and decreased in the active Greater Riga area (-22%)

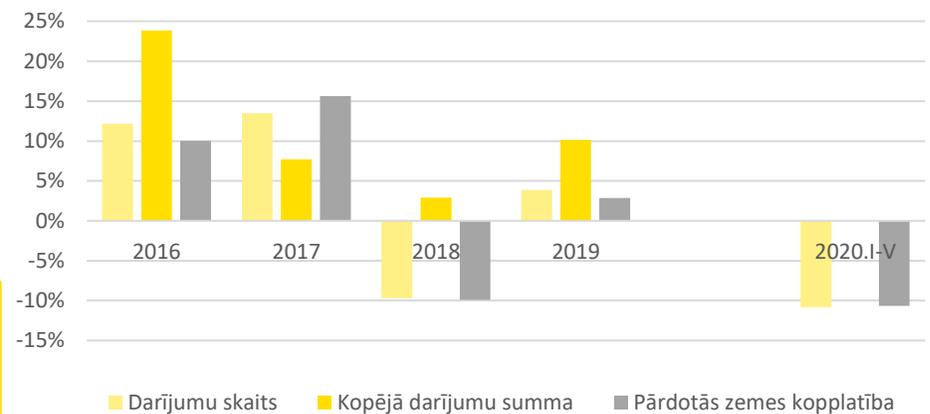
Number of Transactions in the Active Greater Riga Area



Largest total transaction values (% of the total active Greater Riga area transaction value):  
**Jurmala (36%)**  
**Marupe Municipality (18%)**  
**Kekava Municipality (10%)**



Change in the Number and Value of Transactions and Floor Area in Relation to the Relevant Period of the Preceding Year



**There is a Lack of Land Plots at Prices Affordable for Buyers**

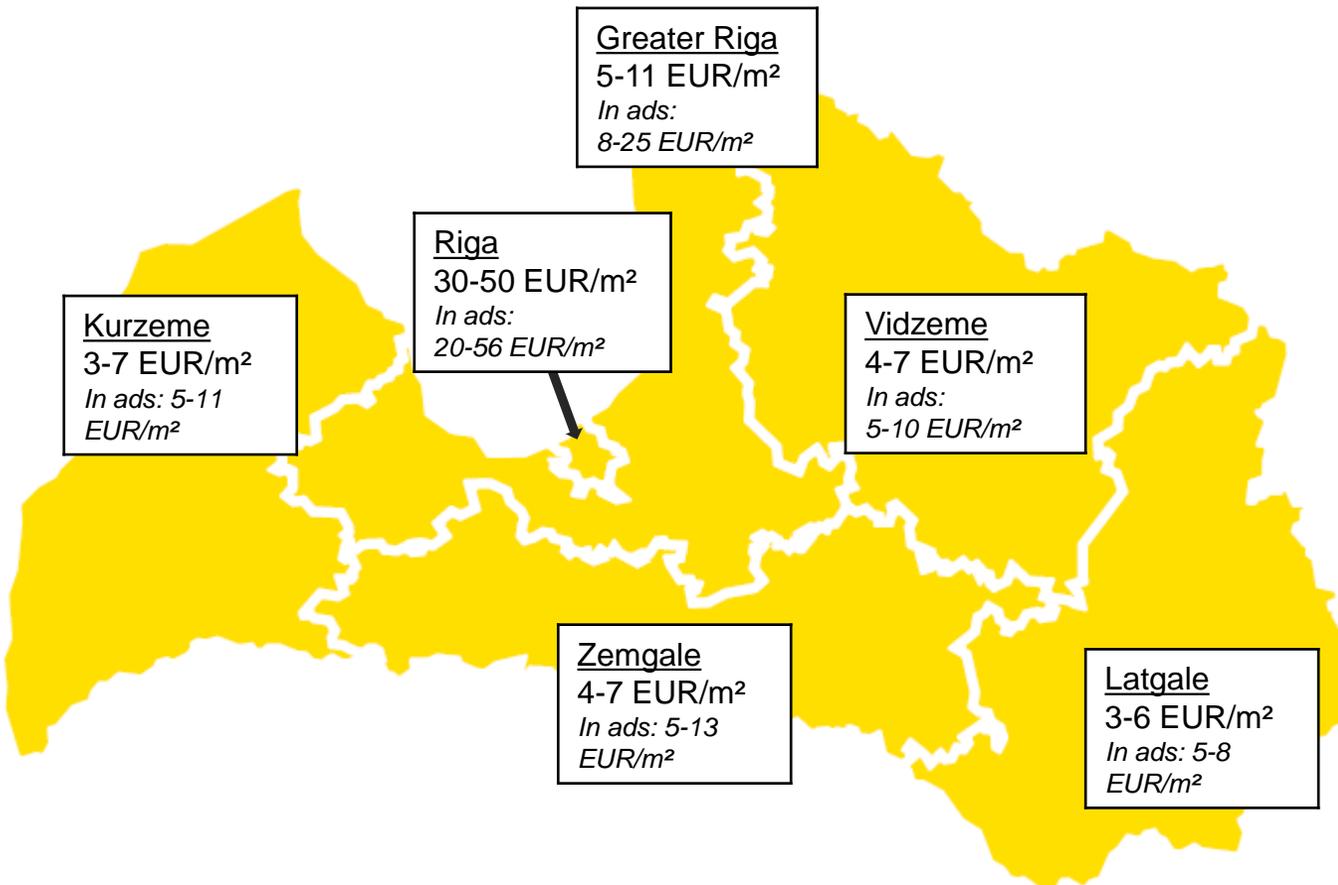
As a result of the impact of COVID-19, interest in purchasing private development land has increased in the active Greater Riga area. Observations show that the buyer is ready to allocate a larger amount of money for the purchase of land than before the pandemic (previously it was about EUR 35 thousand in the active Greater Riga area, but now it is up to EUR 50 thousand).

In the Greater Riga area, people often have to face a situation where there is demand but no supply. Such a situation has developed, for example, in Marupe and Bergi. Increasingly, people are faced with a situation where the buyer is waiting for the price to drop, but the seller does not want to bargain. However, there have also been cases where the buyer is willing to pay for the property above the market value determined by a certified appraiser.

Meanwhile, the land market in Zemgale is inactive.

Source: Data from the State Land Service and Latio, calculations by Latio

## Prices of Private Development Land



## Mean Prices in the Active Greater Riga Area (EUR/m<sup>2</sup>)

	Most frequently recorded sale price range
Adazi Municipality	9-21
Babite Municipality	12-27
Carnikava Municipality	8-23
Garkalne Municipality	7-26
Kekava Municipality	7-26
Marupe Municipality	13-27
Salaspils Municipality	7-12
Stopini Municipality	8-18
Jurmala	13-41

**On the map:**  
*The most frequently recorded sale price range in the relevant region.  
 The most frequently posted sale price range in the ads in the relevant region.*

# **CURRENT AMENDMENTS TO LAWS AND REGULATIONS**



## Current Amendments to Laws and Regulations Related to the Real Estate Sector, I

1. On 11 June 2020, the Saeima [Parliament] adopted the Law on Real Estate Agent Activities. The Law was proclaimed on 22 June 2020 and it **entered into force on 1 August 2020**.

The law sets forth that by **30 September 2020**, the Cabinet of Ministers must adopt the Cabinet regulations on the minimum scope and content of the further training of real estate agents, the amount of the supervisory fee and payment procedures, as well as compulsory professional civil liability insurance (CLI) procedures, minimum liability limit and risks.

**From 1 July 2021**, only real estate agents included in the register will be able to provide real estate brokerage services. The register will be maintained by the Ministry of Economics (MoE).

### The following persons can be a real estate agent in the future:

I. a natural person:

- 1) who has established an internal control system for the prevention of money laundering and terrorism and proliferation financing according to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing;
- 2) who has not been punished for committing an intentional criminal offence against property, or for committing an intentional criminal offence in national economy, or for committing a terrorism related criminal offence, or who has been punished for such offences, however, the criminal record thereon has been set aside or extinguished;
- 3) who has insured the civil liability related to his/her professional activities.

II. a legal entity or a partnership:

- 1) which has established an internal control system for the prevention of money laundering and terrorism and proliferation financing according to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing;
- 2) whose board members, members and beneficial owners (natural persons) have not been punished for committing an intentional criminal offence against property, or for committing an intentional criminal offence in national economy, or for committing a terrorism related criminal offence, or who have been punished for such offences, however, the criminal record thereon has been set aside or extinguished;
- 3) which has not been subject to a coercive measure — liquidation or restriction of rights that prevents the provision of agent services;
- 4) which has insured the civil liability related to its professional activities.

## Current Amendments to Laws and Regulations Related to the Real Estate Sector, II

2. On 27 February 2020, the Saeima adopted amendments to the **Law on Land Privatisation in Rural Areas**. Amendments to the Law were proclaimed on 10 March 2020 and entered into force on 11 March 2020.

As specified in the abstract of the draft law, Latvia joined the Organisation for Economic Co-operation and Development (hereinafter – OECD) on 1 July 2016, and in accordance with the OECD Codes of Liberalisation Latvia had committed to make amendments to national laws and regulations by 31 December 2019 to allow the acquisition of agricultural land also by nationals and legal entities of OECD member countries who are not representatives of the EU, the EEA or the Swiss Confederation.

The OECD has 37 member countries: Belgium, Denmark, Germany, France, Greece, Ireland, Iceland, Italy, Canada, Colombia, Luxembourg, the Netherlands, Norway, Austria, Portugal, Sweden, Switzerland, Spain, Turkey, the United States, the United Kingdom, Japan, Finland, Australia, New Zealand, Mexico, Czech Republic, South Korea, Hungary, Poland, Slovakia, Chile, Slovenia, Israel, Estonia, Latvia and Lithuania.

Thus, according to the procedure laid down in the Law on Land Privatisation in Rural Areas, land in rural areas may be acquired into ownership by nationals of the following countries:

- 1) the EU and the EEA member states: Austria, Belgium, Bulgaria, Czech Republic, Denmark, France, Greece, Croatia, Estonia, Iceland, Italy, Ireland, Cyprus, United Kingdom, Lithuania, Liechtenstein, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Finland, Spain, Hungary, Germany and Sweden
- 2) the Swiss Confederation;
- 3) the OECD countries which are not member states of the EU or the EEA: Canada, Colombia, Turkey, the United States, the United Kingdom, Japan, Australia, New Zealand, Mexico, South Korea, Chile and Israel.

In order to acquire agricultural land into ownership, the requirement regarding the proficiency of the national language at least at level B2 shall also apply to natural persons who are nationals of the member countries of the Organisation for Economic Co-operation and Development, as well as to persons having the right to represent the company, if they are nationals of the member countries of the Organisation for Economic Co-operation and Development.

## Current Amendments to Laws and Regulations Related to the Real Estate Sector, III

3. On 18 February 2020, the Cabinet of Ministers adopted the new **Regulations on Cadastral Valuation** (Cabinet Regulations No. 103), which entered into force on **21 February 2020**.

The provisions of Cabinet Regulations No. 103 which determine the calculation of the cadastral value of land, buildings and apartment property (Sections 7, 8 and 9) will enter into force on **1 January 2022**. Until 31 December 2021, the provisions of Cabinet Regulation No. 305 – *Regulations on Cadastral Valuation* of 18 April 2006 will apply in the calculation of the cadastral value.

*Key principles of the new cadastral valuation methodology:*

The cadastral value of land is determined according to the purposes of use: built-up land – according to the current use and non-built-up land – according to future use provided that the spatial plan allows development and the land unit is ready for development based on technical parameters. The cadastral value of built-up land is determined taking into account the actual development intensity. (Non-built-up land with a potential for development has a significantly higher cadastral value than non-built-up land where development is not possible. In areas where the existing development has a lower permitted intensity than planned, the land value is lower than the value of non-built-up development land or built-up land with a higher intensity of development).

The volume effect adjustment factor will no longer be applied to private houses that have not yet undergone a full cadastral survey. The owner of the building is obliged to get a cadastral survey performed and update the data of the cadastral object, but the current approach does not facilitate it. There is no reason to reduce the cadastral value if there is no information on the distribution of premises.

If a full cadastral survey has not been performed for a private house, the improvement effect adjustment factor  $K_{lab} = 1$  (meaning that there is electricity supply, sewerage and heating) is applied.

Taking into account that the indicator influencing the value of private houses is the construction period, the draft envisages to supplement the formula for calculating the cadastral value with a new adjustment factor  $K_{bp}$ .

### Private Houses

No.	Construction period (years)	Depreciation of the building, %		
		0–12	13–32	33–100
1.	until 1914	1.20	1.10	1.00
2.	1915–1945	1.10	1.00	1.00
3.	1945–1990	1.00	1.00	1.00
4.	1991–2000	1.20	1.10	1.00
5.	2001–2014	1.40	1.20	1.00
6.	from 2015	1.40	1.20	1.00

# TRENDS



## Trends in Latvia

- In the Greater Riga area, interest in purchasing land and private houses has increased;
- Renovated one-room apartments, which were readily bought for short-term rent last year, have partially lost their attractiveness;
- *Airbnb* apartment owners are forced to rent out apartments to long-term tenants and settle for a 20-50% drop in revenue during the summer months;
- Buyers who can afford it choose an apartment with one extra room, allocating it to the home office, being concerned about switching to remote work;
- Buyers are becoming more prudent and choose cheaper properties than they can afford.



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