

## CADASTRE REGISTER AND REAL ESTATE MARKET IN LATVIA

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**Abstract.** State Real Estate Cadastre in simplified meaning is data accumulation of real estate properties in the territory of the Republic of Latvia, including information on the land allotments, constructions, groups of premises and parts of land allotments as well as their owners, lessees and users, real estate tax items and tax payers. The Cadastre information system is used by real estate owners and lawful managers, municipalities and state institutions who act as administrators of property tax and land management policy executors as well as by property evaluators, developers, including banks and insurers. According to information rendered by the State Land Service of the Republic of Latvia, until 31 December 2009 in the Cadastre information system there were registered about 5.6 millions cadastre objects-properties and their constituent objects. Consequently, the authors of the study will analyze property items registered in the State Cadastre information system, thus achieving the objective of the study, it is, finding out the number of real estate objects in Latvia, classifying them according to the main purpose of the use, and getting to know the breakdown of these objects according to the ownership of the property as well. The basis of cadastral values is approved by the Cabinet of Ministers and it is registered in the Cadastre information system. Newly elaborated basis of cadastral values is approved until 15 June of the current year, but for calculation of cadastral values the approved basis of cadastral values are applied from 1 January of each year. Results of the performed analysis can be used for solving the problems of the real estate development in the national economy, as well as for clarifying its current state in Latvia taking into consideration analysis and evaluation of the present socio-economic system.

**Keywords:** Cadastre information system, real estate objects, real estate market, real estate development problem.

## 1. Introduction

In order to analyze the real estate market and to manage the creation and development of this market, the real estate objects are necessary to be structured, i.e., they must be separated or grouped in other homogeneous groups. Within the legislation, resolutions and systematization resource documents/guidelines; real estate classification is substantiated in a number of ways: physical status, by assignment/allocation, condition/quality, location, dimensions, property type (by property ownership), and legal status (usage rights). The State Land Service of the Republic of Latvia ensures registration of the real estate as a composite set of property objects, the land allotment, building, group of premises, part of the land allotment and the specific data (including type of land use and its changes) in the State Real Estate Cadastre Information System (hereinafter referred to as the Cadastre information system) as well as as well as providing the maintenance and improvements for the Cadastre Information System. Based on the above mentioned, the authors of this article have defined the objective of a study as: to identify the number of real estate properties in Latvia, to group them according to their main use and to ascertain the breakdown of the properties by ownership, and to provide an insight into the possibilities of problem resolution in the development of the real estate market in Latvia. Monographic, mathematical, statistical and economic

methods of comparison are used in carrying out the research.

## 2. Real Estate Object Structure and Classification According to Its Ownership Real Estate Classification According to Physical Status

Classification according to physical status of the property is identified as: land, buildings, and groups of premises. In all countries and throughout all ages the land has been the main instrument for the existence of a country.

Until the mid-fifties of the 20th century, in the Republic of Latvia registration of land users was performed in part by the use of registration cards and lists. This system was gradually changed introducing a unified document framework. The first to be implemented were the documents verifying the authorization of land use – legislation authorizing land use of State land. After that came the Farm Land Registers and regional State Land Registers. Simultaneously, plans and maps of varying content and scale were produced, which showed the location and boundaries of land allotments to be registered. Based on the previously mentioned documents, since 1957, the Republic of Latvia had a land balance figure of 6458.9 thousand hectares. (Review of the Administrative Territories and Territorial Units of the Republic of Latvia, on

January 1st, 2010. – in Latvian). In turn, from 2006, the State Land Service abandoned the existing land balance of 6458.9 thousand hectares and in its place prepared a Land Survey utilizing the actual registered data in the Cadastre information system as of 1 January of the current year, so as to reflect precise information of the registered land area. In the aforementioned Land Survey as of 1 January 2010 the total area of the State as registered in the Cadastre information system was 6 451 026.2 ha, but as at 1 January 2009 it was identified as 6 447 610.3 ha. At the same time it should be mentioned that as the proportion of surveyed land area increases, and also as the State Land Service carries out precise measurements of the State border the registered areas of land in the Cadastre information service system will attain ever greater precision.

Speaking of buildings, they are all registered in the Cadastre information system on the condition, that their survey measurements have been made in accordance to the Republic of Latvia Cabinet regulations No.182 as of 20 March 2007: “Regulations Regarding Specification of an Immovable Property Object“, which determines that the purpose of the cadastre measurement is to gain actual data about the building and the groups of spaces contained within as well as to get indicators characterizing the construction – capacity, physical condition, the main purpose of using the building and the groups of premises of the building, type of its use, materials used in construction - on the day of the cadastral survey of the structure (Regulations Regarding Specification of an Immovable Property Object: point 244., 2007. – *in Latvian*).

Buildings are classified as follows:

- Buildings which are stand alone, for long term use with a roof, which are accessible by people and which are suitable or intended for human and animal shelter or storage of objects (Regulations Regarding Specification of an Immovable Property Object. 2007. – *in Latvian*),
- Civil engineering constructions, within which are defined all constructions which are not classified as buildings (for example, railways, roads, bridges, highways, airport runways, dams). (Regulations Regarding Specification of an Immovable Property Object. 2007. – *in Latvian*).

In accordance with the records of constructions in the Cadastre information system as at 1 January 2010, there are 1 368 405 registered constructions, of which 1 339 193 or 97.9% are buildings, but 29 212 or 2.1% are civil engineering structures. (Review of the Administrative Territories and Territorial Units of the Republic of Latvia, on January 1st, 2010. – *in Latvian*).

The State’s Cadastre Information System as at 01.01.2011 shows that the total area of registered land is 6 447 720 ha, (Review of the Immovable Property cadastral objects in general registered in the state cadastral information system, January 1st, 2011. - *in Latvian*) which is comprised of land, settlement of ownership through the court, completion of land reform, under the jurisdiction of State and local government, the Land Reserve Fund and public waterways (property legal aspects

will be covered later), in turn, leased land covers an area of 53 096 ha. The number of construction objects registered is 1 392 337, but the registered building space is – 1 847 276.

At the same time when analyzing the real estate market, the following conditions should also be taken into account:

1. The definition of the concept of the real estate object as being a composite of land and property - in reality these are still separated and there exist two sub-markets, one for the sale and purchase of buildings and their space and the other for the sale and purchase or lease of land.
2. How can it be that the “goods” on the market can be both the buildings (bricks and mortar), as also separate parts of such – space within the premises? This creates some known difficulties in market analysis and brings one to the necessity of creating additional sub-markets.
3. The apartment (main item within the housing market) price does not include the value of the adjoining land or the price of the common space (e.g. stairwell etc), hence it is not unusual for the summary value not to be comparable to the value of the building. In addition, one residential building can contain apartments which are of a high quality (adequately reflecting the valuation) and ones that are completely different: apartments with a variety of different plans and kitchens of varying sizes in one style of building in two sections; the top floor of an exclusive building, etc.
4. Analogous to this, the real estate rental market for commercial/trade purposes shows itself as being a building space (not the building - bricks and mortar) rental market. Rent levels for space within a shopping centre can differentiate several times (for example, a tenant, who is well established – has a lower rent than the rest; a shop near the main entrance – a higher level of rent than one located in the depths of the upper floor, etc.) (Sternic, G.M. 2005: 20).

Details of the research conducted by the authors regarding real estate market trends in Latvia in 2010 will be described later.

### 3. Real Estate Object Classification by Function

As it is known, buildings and premises according to the type of their usage are classified as residential and non-residential. However, the intended functional purpose category is an essential composite part of real estate, a technically economic characterization – especially a characterization of commercial and industrial real estate land. It follows that:

- with the legislation of town planning overall regulations, land use has been approved,
- each category – technological, technical, sanitary, fire safety and so on, location, planning, building and operation,
- land rental rates and other expenses associated with the rights to land use,
- building construction estimates are the consolidated base indicators,
- operational use hand-over peculiarities,

- the average market return on investment, profitability, depreciation, liquidity, and so on, building/property indicators, which in a complicated way are connected, but often cannot be separated from the corresponding equipment indicators,
- pricing peculiarities, which are related to the regularities of core business (Sternic, G.M. 2005: 21).

With this, a detailed classification of real estate has been completed (first round – land and industrial real estate) in three levels: type, sub-type and category (profile). In the following list, types of real estate are highlighted with capital letters A, B, C, D un E; sub-types – with dot points; categories – with a dash.

**A. Land** The land distribution in Latvia is determined by targeted groups according to specific use and types of land use for the purposes of real estate property tax and cadastral valuation. For the newly created real estate allotments or those which do not have a defined category of use are initially defined in accordance with the local government’s territorial plan which identifies approved land use categories and gives approval for its building regulations. To ensure a uniform categorization of land use, its registration and identification procedures, land use is being systematized and each category is given a code in accordance with the land use classification system. In Latvia, according to the purpose of the real estate use, the land is classified into the following groups:

- 1) agricultural land,
- 2) forestry land and specially protected nature territories in which economic activity is prohibited by the laws and regulations,
- 3) land of privatized waterways, including lakes, rivers, ponds, etc.,
- 4) mining areas,
- 5) National park and recreational use of the land,
- 6) land for individual residential dwellings,
- 7) land for apartment house building,
- 8) commercial building land sites,
- 9) land for community based structures,
- 10) land for industrial use,
- 11) land for traffic management systems,
- 12) land for engineering and utilities construction (Review of the Administrative Territories and Territorial Units of the Republic of Latvia, on January 1st, 2010. – in Latvian).

The breakdown of the land into targeted classifications changes and is constantly updated.

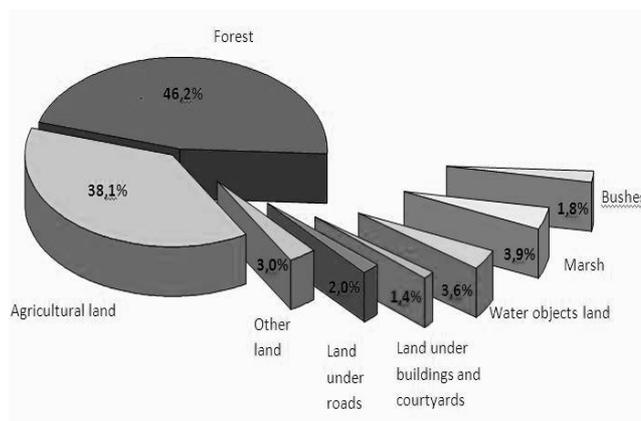
In accordance with information to be found in Table 1, the classification with the largest percentage of land use is the classification “agricultural land”. In 2009, 60.1% of land area was registered in this category within the State Real Estate Cadastre Information System (SRECIS). Area of the second largest classification group of land use "forestry land and specially protected nature territories in which economic activity is prohibited by the laws and regulations" in 2009 had reached 2 152 822.40 ha of land area. At the same time in the Land report there are 978 units of land for which the purpose of the land use is not specified and the area of such land makes 1 376.0 ha.

**Table 1.** The breakdown of the land into targeted classifications changes and is constantly updated

Code	Real estate use classifications	Area, ha	% of the total area registered in IS of the SREC
01	Agricultural land	3 876 363.1	60.1
02	Forestry land and specially protected nature territories in which economic activity is prohibited by the laws and regulations	2 152 822.4	33.4
03	Land of privatized waterways, including lakes, rivers, ponds, etc.,	126 466.6	2.0
04	Mining areas	29 002.0	0.4
05	National park and recreational use of the land	29 185.4	0.4
06	Land for individual residential dwellings	43 886.4	0.7
07	Land for apartment house building	10 932.4	0.2
08	Commercial building land sites	6 316.2	0.1
09	Land for community based structures	32 433.1	0.5
10	Land for industrial use	23 731.8	0.4
11	Land for traffic management systems	106 461,1	1,6
12	Land for engineering and utilities construction	12 049,7	0,2
13	Land use not specified	1 376,0	0,0
	<b>Total for the country:</b>	<b>6 451 026,2</b>	<b>100,0</b>

Source: Review of the Administrative Territories and Territorial Units of the Republic of Latvia, on January 1st, 2010. – In Latvian

With regard to the breakdown of the types of land use, according to the data of the land records, it is stable and in 2009 has not significantly changed (see Figure 1).



**Fig 1.** Land zoning in Latvian regions (Areas of the Regions registered in % on January 1st, 2010)

Source: Review of the Administrative Territories and Territorial Units of the Republic of Latvia, on January 1st, 2010. – In Latvian

According to the information provided by the State Land Service in recent years, there has been a decrease in the trend of land area used for agricultural purposes and an increase in the land area used for forestry.

### **B. Housing (Residential Buildings and Premises)**

- *High-rise apartment buildings, apartments* within these buildings:
  - apartments in high-rise apartment buildings,
  - accommodation space for permanent residency in institutional or overnight stay buildings classified motels, hospitals, schools etc),
  - high-rise apartment houses without adjacent territory as non-residential (health resort, hotels/ residential buildings and complexes with adjacent territory.
- *Stand-alone/detached houses with adjacent land:*
  - a traditional type houses (house ownership),
  - a new type houses (cottages, country houses),
  - cottage villages.
- *Semi-detached/duplex houses with adjacent land:*
- *Holiday houses:*
  - summer houses with land allotments,
  - garden houses, summer cottages with land allotments.

### **C. Commercial Real Estate Market:**

- *Offices:*
  - office buildings (Business centers),
  - office space in office buildings, administrative office buildings and buildings suited to office type usage,
  - sales office,
  - representative office,
  - entertainment areas (theatres etc)
  - hall,
  - conference room,
  - bank,
  - other.
- *Retail space:*
  - shop,
  - supermarket,
  - hypermarket,
  - shopping center,
  - pavilion,
  - pharmacy,
  - new or used car showroom,
  - other.
- *Cultural and entertainment specific real estate:*
  - Theatre, cinema, club,
  - recreational park buildings and structures,
  - water amusement park,
  - nightclub,
  - Bowling alley,
  - other
- *Food and Beverage specific real estate:*
  - Restaurants,
  - cafés,
  - bars,
  - other.
- *Service industry real estate:*

- public service point,
- beauty salon,
- money exchange,
- hairdressing salon,
- fitness center,
- Internet cafe,
- other.

- *Hotel /motel accommodation specific real estate:*

- hotel, motel, hostel,
- other.

- *Recreational Activity Specific Real Estate:*

- rehabilitation center,
- health resort, retirement home
- Medical center,
- other.

- *Parking lots/ stations, garages (for individual and collective use).*

- *Warehouses, storage facilities (warehouse - office).*
- *Vacant (non-specified use) non-residential space.*

### **D. Industrial Real Estate:**

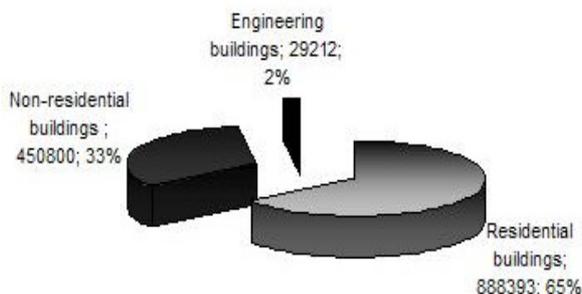
- Industrial and factory spaces, production specific buildings and premises,
- Industrial parks,
- Bridges, pipelines, roads, dams, and other engineering structures,
- Stations,
- Parking lots, garages with car service facilities, car repair workshop (garage – workshop).
- Petrol stations,
- Cold storage,
- Other.

### **E. Entertainment and Culture Specific Real Estate**

- Government and administrative buildings,
- Buildings used for science and research, educational institution buildings,
- Religious specific buildings,
- Other (Sternic, G.M. 2005: 22 - 24).

Not all buildings which are registered in the Cadastre information system are depicted on the cadastral map. Mapping of the buildings recorded in the Cadastre information system on the cadastral map is displayed according to the procedures determined in Section 129 and Annex 2 of the Cabinet Regulations No.193 "Regulations for the Registration of a Cadastre Object and Updating of Cadastre Data" of 23 February 2010. As it is determined by the Law of the Republic of Latvia of 20 February 1997 „Law On Recording of Immovable Property in the Land Registers” surface and underground utilities, pipeline routes, roads, streets, parking lots and other similar constructions are not recorded in the Land Register as separate items of property, transport associated structures, pipelines, communication and power lines and other engineering structures are not identified on the Cadastre map. In the last instance the Cadastre map shows only land allotments, on which aforementioned buildings are located. An incomplete 98.0% of the buildings mentioned in the textual part of the Cadastre information system are displayed on the Cadastre map.

The purpose of the use of the construction is determined in accordance with the documentation of the construction project, Operational Handover Deed or as indicated on the local government Certificate of Use Specifications (Review of the Constructions of the Republic of Latvia, on January 1st, 2010. – in Latvian).



**Fig. 2.** Building segment depending on usage type in Republic of Latvia as at 01.01.2010 (objects in Cadastre information system; % of total building amount in Cadastre information system)

Source: Review of the Constructions of the Republic of Latvia, on January 1st, 2010. – in Latvian

According to information to be found in Figure 2 the largest proportion of constructions is for residential buildings, which occupy 64.9% of all buildings, which is followed by non-residential buildings occupying a share of 33.0%, leaving the last place with 2.1% for engineering buildings.

Within the building classification, of the main types of use from the 24 types of use categories which are registered in the Cadastre Information System, in the Republic of Latvia the largest proportion is the residential auxiliary buildings, which make up 39.2% of those registered in the Cadastre Information System. To a large extent these influence the proportion of residential buildings, as in this group they take up 60.4% of the total amount of residential buildings. The proportion of other structures is significantly smaller. Following on from the largest proportion of the category of residential auxiliary buildings is that of non-residential farm buildings (almost 317 000 or 23.2% of the registered total number of buildings), then follow the stand alone / detached dwellings (almost 301 000 or 22.0%). The proportion of the type of use of the remainder of the buildings does not even exceed the 3% threshold (Table 2).

Classifying any object/structure within one or another functional use category is to be completed with professional care. It should be taken into consideration that the identified type of use for can be unfounded; the object/structure legally or in fact may not correspond to the use that has been identified and therefore the stated price. Unfortunately, within large mass offers, it is almost impossible to distinguish the valid use from the dishonestly declared use and that distorts the results of the statistics from the market research.

**Table 2.** The breakdown of the main types of use of buildings in the Republic of Latvia as at 01.01.2010

Code	Main purpose of use	Number of constructions (buildings) in the Cadastre information system	% of the total number of constructions
1101	Stand alone / detached dwelling auxiliary buildings	536 284	39.2
1110	Single apartment buildings	300 816	22.0
1121	Semi-detached / duplex dwellings	11 936	0.9
1122	Three or more apartment houses	38 562	2.8
1130	Community Housing – communal dwellings	795	0.
<b>Residential buildings in total:</b>		<b>888 393</b>	<b>64.9</b>
1201	Non-residential auxiliary buildings	32 673	2.4
1211	Hotel buildings	2 541	0.2
1212	Other short-term accommodation buildings	2 124	0.2
1220	Office buildings	7 357	0.5
1230	Wholesale and retail trade buildings	11 154	0.8
1241	Buildings for communication equipment, stations, terminals and such like buildings	2 619	0.2
1242	Garages	9 569	0.7
1251	Industrial/ Manufacturing buildings	20 987	1.5
1252	Reservoirs (water storage), bunkers, silos and warehouses	15 067	1.1
1261	Indoor Fun parks	1 179	0.1
1262	Museums and libraries	441	0.0
1263	Schools, universities and buildings for scientific research	3 827	0.3
1264	Medical or health care buildings	1 283	0.1
1265	Sports buildings	981	0.1
1271	Non-residential buildings of farms	316 893	23.2
1272	Cult buildings	1 139	0.1
1273	Historical or protected monuments/ memorials	72	0.0
1274	Other, non classified buildings	20 894	1.5
<b>Non-residential buildings in total:</b>		<b>450 800</b>	<b>33.0</b>
<b>Civil engineering constructions in total:</b>		<b>29 212</b>	<b>2.1</b>
<b>Grand total:</b>		<b>1 368 405</b>	<b>100</b>

Source: Review of the Constructions of the Republic of Latvia, on January 1st, 2010. – in Latvian

#### 4. Real Estate Classification According to Its Legal Status

Within the real estate market the current aggregate of real estate objects has been created historically (and continues to grow) from three sources:

1. Privatization: Registration of land ownership and its use has been completed in the Cadastre information system. The contemporary Cadastre history began in 1992, simultaneously with the land reform. Land property rights of individuals were officially renewed in 1993. Since 1996, the registration of buildings was also commenced and as of the year 2000 – apartment registration was commenced en mass. Currently, land reform in Latvia has entered a final phase and the Saeima has adopted the legislation “On the completion of privatization of State and municipal property and the utilization of privatization certificates”.

2. It is within the framework of the building sector (and outside of it) commercial building/construction and the establishment of the sales sector (first ever building real estate and sales market. For the first time ever buildings that have been built and objects which have been sold have been utilized by the purchaser for their own requirements (apartments – for residing in, office space – for the establishment of one’s own business structures; retail space – for one’s own business needs), a portion of them come into the sales or lease market for a second time. It should be noted that the practice of first-time home sales in the initial stages of construction, do not get registered as sale purchase agreements, but as an investment contract, a participation in the building process.

3. What is immediately brought into the secondary rental market (without the ownership change) - they are State and municipal property that is offered for leased by persons authorized by State and local government or offered for sub-lease - the balance holders - tenants (sub-market of the State property lease).

Real estate owner shall be a person whose property rights are strengthened in the Land Register or who has registered real estate (buildings and civil engineering constructions) in the municipality or in the State Land Service. In turn, the *lawful manager of real estate* shall be a person to whom during the period of land reform the land has been accorded ownership by recompense or the property rights have been renewed and the land is actually measured; person to whom the ownership rights of the buildings and civil engineering structures are renewed as it is determined by the law and who has taken them in the possession, as well as the person who has acquired possession of real estate due to inheritance rights or other basis. (Review of the Immovable Property cadastral objects in general registered in the state cadastral information system, January 1st, 2011. – in Latvian).

Evaluating the available data up until 01.01.2010 of the registered ownership of land areas according to ownership status (see Table 3) found in the Cadastre Information System, the leader is the category of individual ownership, leaving in second place land which is owned by local governments.

**Table 3.** Breakdown of land by ownership status (as at 01.01.2010)

Land ownership status	Number of land units	Area, ha
Personal property	661 930	3 355 761.3
Legal entities	66 037	615 279.9
Local government	22 582	96 291.0
State or state institutions	10 986	551 248.1
Co-ownership of mixed status	17511	13 465.3
Land ownership in total:	779 046	4 632 045.6

Source: Review of the Administrative Territories and Territorial Units of the Republic of Latvia, on January 1st, 2010. – In Latvian

*Land use* – this is the land shall be granted to individuals and legal entities for permanent use.

*Land within the jurisdiction of the State or local governments* - respectively, the State or the local government, through the Court is awarded the ownership of land upon which during the period of land reform, the property rights have not been renewed or has not been accorded ownership by recompense or the land has not been assigned for permanent use or long-term lease to private or legal persons and that land shall be entered in the Land Register in the name of the State or local government.

**Table 4.** Breakdown of the Land by Ownership Status in the Country in Total

Land Ownership Status	As at 01.01.2009.		As at 01.01.2010.	
	Number of properties	Area, ha	Number of properties	Area, ha
Land ownership	557 093	4409892.2	779 046	4 632 045.6
Land usage	93 677	1758714.8	53 079	186 693.5
Land for completion of land reform and the land awarded ownership by the Court to the State or Local Government	56 390	279003.3	-	-
Land awarded ownership by the Court to Local Government	-	-	113 238	199 508.2
Land awarded ownership by the Court to the State	-	-	30 777	1 405 726.1
Land for completion of the land reform	-	-	10 053	27 052.8
<b>Total for the country:</b>	<b>707 160</b>	<b>6447610.3</b>	<b>986 193</b>	<b>6 451 022.2</b>

Source: Review of the Administrative Territories and Territorial Units of the Republic of Latvia, on January 1st, 2010. – In Latvian

*The land for completion of the land reform* - the land upon which during the period of land reform, the property rights have not been renewed or has not been accorded ownership by recompense or the land has not been assigned for permanent use to private or legal persons, local governments or state institutions

Until 1 January 2010, as the privatization process of the land granted for the use has continued, the changes in the land breakdown by ownership status have taken place - previously ratified use of land allotments has changed the real estate classification of use to property status and the amount of the land in the jurisdiction of the state and local governments has increased and area of the lands needed for completion of land reform, which means, that local and state authorities have assessed the land and land allotments that are at their disposal, which are not needed for carrying out functions performed by local governments or state authorities, and which further shall be used for completion of the land reform

Regarding the classification of the constructions in the country according to the ownership status, the largest number of buildings – more than 1 052 300 objects or 76.9% of the total number of constructions registered in this category within the Cadastre Information System are in the ownership of land owners (see Table 5).

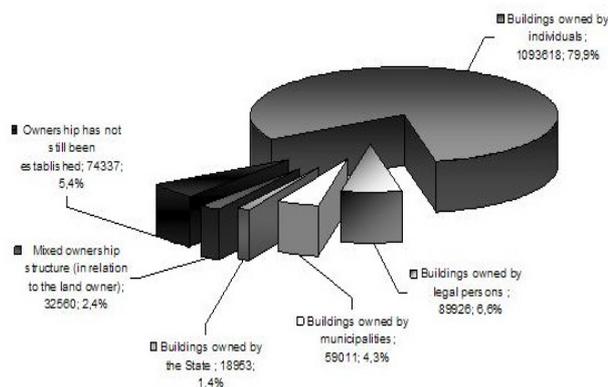
**Table 5.** Breakdown of buildings by ownership status as at 01.01.2010

Ownership status	Total for the country, number of properties	% of the total in the country
Owned by land owner/s	1 052 331	76.9
Not owned by land owner/s	120 433	8.8
Co-ownership of mixed status (with regard to the land owners)	10 511	0.8
Included within the ownership of the buildings	110 793	8.1
Ownership has not been established	74 337	5.4
<b>Number of buildings in the Cadastre information system:</b>	<b>1 368 405</b>	<b>100.0</b>

Source: *Review of the Constructions of the Republic of Latvia, on January 1st, 2010. – in Latvian*

Buildings for which ownership has not been established, mean that these are registered in the Cadastre information system as “without owner” buildings, connected to illegal construction.

Evaluating all information available regarding ownership status of the 1 368 405 buildings registered in the Cadastre information system till 1 January 2010 it can be concluded that major part of the buildings are owned by individuals (79.9%), significantly less number of buildings are owned by legal persons (6.6%), municipalities (4.3%) and the State (1.4%) (Figure 3).



**Fig 3.** Building segment depending on ownership status as at 01.01.2010 (objects in Cadastre information system; % of total building amount in Cadastre information system).

Source: *Review of the Constructions of the Republic of Latvia, on January 1st, 2010. – in Latvian*

Unfortunately, 5.4% of building ownership has not still been established.

## 5. Assessment of the Real Estate Market Development

As the need for shelter is as essential as food and drink, people have always been interested in real estate. The desire to acquire real estate has created a number of important pages of human history and been the cause of wars, conflicts as well as it has been a reason for important discoveries.

All around the world, economically built environment is taken as the basis of the theory for estimating real estate market value. The main risk factors for attracting investments and development of the real estate market are: economic instability, limitations of the local market, insufficient legal security for investments and unstable government. All the afore mentioned factors that affect both real estate management and property valuation as a business profile to a greater or lesser extent can today be observed in Latvia.

Throughout all ages society needs are changing and thereby changing the purpose of real estate use and types of real estate offers. For example, if till the beginning of 2008 property acquisition was dominating in the real estate market in Latvia then now there is a considerable extent of the rental segment.

Just as within the national economy of Latvia, so too within the entire real estate branch, the elections and changes in the law that could influence the realization of investment projects were very crucial in 2010. Also in the future, the housing as well as the commercial real estate market development will be closely tied to the State's economic activity and bank lending volumes.

The most active segment still is the identical plan built apartment blocks. In 2010 the housing market stabilized and prices were no longer decreasing, as they were observed in previous years.

A significant real estate market peculiarity that is characteristic to all housing market segments - qualitative offer for solvency and adequate price for overall market

situation is limited. Consequently, the potential buyers use a lot of time to find suitable housing. For instance, in the segment of individual houses, where is the biggest demand for qualitative houses of an average size and a price of around 100 thousand Euros, but due to the seller's credit larger and more expensive houses dominate in the offer.

In 2010 the total volume of housing transactions in comparison with the previous year slightly increased, however, part of that business activity was sustained by banks when developers and other the debtor assets in auctions were taken over by bank subsidiaries. This takeover and restructuring process will partly continue also this year.

Potential buyers have become much more cautious and queasy. Market segmentation, where the majority of buyers are looking for apartments in the best houses and more requested neighborhoods and very carefully evaluate the quality, takes place. In 2010, offer of high quality housing has sharply decreased in number, but as a positive fact worth mentioning is that the residential market segment is the first, in which in 2011 is expected to build new residential projects (The most important on the Immovable Market: There is an Activity, but not everywhere, 2010. – *in Latvian*).

The year 2010 began with the very high rates of unfilled commercial space (The most important on the Immovable Market: There is an Activity, but not everywhere, 2010. – *in Latvian*). Trade area is filled little by little, whereas office area –more slowly. Once there was a strict division between offices in classes, but now the price range is significantly narrowed, and too large difference in price is not even between the A and C class office premises. Due to a rotation of tenants, that should be linked to the price differentiation between high-quality commercial objects having good location and not as 'attractive' buildings that was observed in 2010, the segment of commercial objects is still inactive.

In the fall of 2010 there was a shortage of free warehouse and manufacturing space in the market. In different logistics centers it was difficult to find more than 500 sq. m of free space, because most of the warehouses were leased. Warehouse space starting from 200 sq. m to 1200 sq. m is the one mostly demanded; also the number of offers in this segment has decreased to a minimum. Not occupied areas in the logistics parks outside Riga are available, but the area offered there is relatively large - around 1000 sq. m (Review of the Rent Market, Autumn of the 2010. – *in Latvian*).

As for the investment market, it should be noted that according to the information that is publicly available both Eastern and Western investors have shown their interest in real estate development projects as well as in already finished constructions that ensure cash flow. At the same time, most of them wish to acquire assets at a discount price, but for now the market activity is very low. This is mainly due to the fact that most of the projects were developed at a time when land, construction, and other factors related to real estate development were expensive, but currently rental prices have significantly

declined, as a result of that the owners do not want and cannot sell the property at a lower price.

## 6. Conclusions

The main aim of the Cadastre Information System is to provide society with actual and precise information about the existing real estate objects, land allotments and their owners, lawful managers, users, tenants, objects which attract the real estate tax and identified tax payers within the State's territory.

Cadastral information shall be able to ensure data provision on actual condition of land resources in Latvia that is important issue for planning economic and business development, thus playing a more prominent role in development of national spatial infrastructure, as the information regarding each particular land allotment should be linked to the information about the legal status of the land allotment, the burden of land use and other related information. Often there are situations when the information provided by the State Land Service varies from the information available in the Land Register. Such situations should not appear, because the both aforementioned institutions operate in the field related to real estate. At the same time it should be noted that there are still incomplete information gathering process regarding real estate market - information from the primary sources on underlying transactions is not available and information on the leased property is not stored, which could be one of the future research directions.

Private nature of the transactions is characteristic to the real estate markets that are often characterized by insecurity of received information, difficult access and failures. Having shortages in gathering of publicly accessible information regarding real estate market and gaps in information provision system has also such consequence as very slow exchange of information among market players and an extremely wide range in which the degree of awareness of market competitors may change.

In order the real estate market of Latvia comes closer to the world's developed countries; it is necessary to know experience of other countries regarding real estate market development as well as carry out detailed analysis of all the weaknesses. Simultaneously a unified database system on the real estate market, its business transactions, influencing factors, real estate evaluation and management should be developed.

Within the research process, based on publicly available information, the paper/article intentionally gathered information on the number of real estate objects in Latvia, grouping those according to their main purpose of use and to ascertain the breakdown of objects according to their ownership categories. This gave the authors the opportunity to complete an evaluation, to determine the real estate market development tends in the near future within Latvia.

At the same time the authors of the study also conclude that the "core" of real estate market development policy should be directed towards identification of the socio-economic problems as in the current economic

situation, when it is difficult to observe legislative stability, organized mutual cooperation between the real estate market players would facilitate the increase of the economic potential.

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