

SCIENTIFIC INFORMATION

Purchase of real estate and land market in Latvia

Prodej nemovitostí a trh půdy v Lotyšsku

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PROCEDURES

To buy a house or apartment in Riga, Jurmala or any other nice place in Latvia is a pleasant but complicated task, especially for a non-resident. You will realize this upon reading a short guidebook written for buyers. A lawyer specializing in real estate will help you, making this task easier.

There are various kinds of real-estate property in Latvia: privatized and non-privatized apartments, land, land with buildings, floor space and assumed shares of all above types of property.

For real estate transactions and rights on the real estate to be established against third parties, transfers must be registered with the Land Registry. Entries in the Land Registry are made only on the basis of requests by the respective party or parties involved, authorised by a notary public.

After verifying the status of the property, you have to seek the competent legal advice to draft a real estate purchasing agreement. The documents and information required to make such an agreement are as follows:

- particulars of both the buyer and the seller;
- Land Register deed of the real estate property;
- the amount of the property to be bought (entire property or assumed parts of it);
- the purchase price.

By way of security against any unforeseen circumstances, it is advisable to use for payment an escrow account at a bank of your choice. This will cost from 50 to 250 lats, depending on the bank and amount of the deal. Regardless of these costs, you will have a guarantee that the seller will not be able to withdraw money from this account if in case it turns out that the real estate is encumbered or subject to other

prohibitions and so on. If no escrow account is used, a provision can be made under the purchase agreement, entitling the buyer to demand annulment of the deal if it turns out that the property is encumbered, burdened with tax debts or other liabilities, etc.

The purchase agreement must also specify persons authorized by both parties for submitting, receiving and signing documents related to re-registration of the property on their behalf.

The seller must state his right to dispose of the real estate as specified under the agreement and undertake to reimburse the buyer for all damages and costs incurred by him if it turns out otherwise. To avoid any misunderstanding about the subject of the purchase agreement, the agreement must specify the address and cadastral number of the property, as well as the number of the Land Register section in which it was entered. If there are any buildings situated on the real estate, they should all be listed in the agreement.

It would also be advisable that both parties should state in the agreement that they are aware of the property value and waive the right to claim annulment of the purchase agreement or adjustment of the purchase price due to excess loss. It should also be specified in the agreement that the property rights to the real estate will pass onto the buyer upon signing of the purchase agreement, thus avoiding any claims the seller may make afterwards.

In most cases, the local government has first right of refusal to the real estate available for sale, i.e., the real estate has to be offered to the local government on the same conditions as to the prospective purchaser. Local government has to decide on whether the right of refusal will be exercised within 20 days of the date of the offer.

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Local government does not have first right of refusal:

- to industrial facilities;
- to apartments;
- to real estate undergoing privatisation;
- to real estate which is exchanged for other real estate, or transferred without charge;
- to real estate which is sold by auction;
- if undivided interest in real estate is sold and the real estate remains in joint ownership of the original parties; or
- if third parties have first right of refusal to the real estate.

Apart from municipalities, the statutory right of first refusal is also held by:

- co-owners, if another co-owner is selling his assumed part of the property to a third party, unless co-owners have waived their right of first refusal under the agreement;
- co-heirs who have not received their endowed share, if the co-heir who has received his share in nature is selling his property or any part of it before expiry of a ten-year limitation;
- the state in respect of land in protected areas as well as upon sale of real-estate located in border areas;
- the state in respect to real-estate deemed as cultural heritage if sold by its owner;
- the owner of the building or land, if the building and land belong to different persons and do not represent a single unit of real-estate;
- administration of the Liepaja and Rezekne city special economic zones under the laws governing their operations.

Real estate sale is subject to a state duty of 2% of the value of the real estate, but the total is limited to a maximum of LVL 30 000 (EUR 50 000).

WHO IS ENTITLED TO PURCHASE THE LAND INTO OWNERSHIP IN LATVIA?

Below listed may be free to purchase land into ownership in Latvia:

- Latvian citizens,
- Enterprises registered in Latvia, where at least 50% is owned by Latvian citizens or legal entities registered in Latvia,
- Enterprises registered in Latvia, where 50% and more is owned by foreign citizens or legal entities, provided that the Agreement on Reciprocal Promotion and Protection of Investments is signed between Latvia and the respective foreign countries.

- Enterprises registered in Latvia, where Latvian citizens own at least 50%; or such enterprise is a common property of foreign and Latvian legal entities, provided that the Agreement on Reciprocal Promotion and Protection of Investments is signed between Latvia and the respective foreign countries.

RESTRICTIONS ON THE TRANSFER OF TITLE TO FOREIGNERS

Latvian laws impose certain limitations on foreigners purchasing real estate. Foreign legal entities and individuals are not allowed to purchase land in the following areas:

- land in the area of state borderland;
- land of nature preserved areas and in the territories of other natural parks;
- land of Baltic sea and Riga bay beach dune's protective zone;
- land of public waters protective zones, excluding territories for the purpose of construction according the territorial plans of municipalities;
- agricultural and forest land, if such land uses have been determined by territorial plan of the specific municipality;
- land of public (federal) mineral mines. The amendments of the Act (presumed by the Latvian Saeima in April 3rd, 2003) "On Land Privatisation in Countryside" determine restrictions for the above-mentioned persons concerning obtaining agricultural and forest during the seven-year transition period. The term of transition period is possible to postpone to a later time, but no longer than three years. Restrictions did not come into force only for those citizens of the EU member states, which chose farming as an economic activity and had continuously lived in Latvia during a three-year period, and have been involved with agricultural production for three years. However, legal entities of the EU member states will not obtain agricultural and forest land during the transition period.

For the purchase of all other land, certain restrictions apply to foreign entities and individuals. As a consequence, before the title can be registered with the Land Registry, permission has to be obtained from the local government of the respective city/district.

In order to obtain that consent, an application must be submitted indicating the purpose of use of the land to be acquired. If the purpose of use as indicated in the application does not contradict the general plan approved by the city or district, local government is obliged to grant consent for the transfer of the land.

If a general plan has not been developed or approved for the area, local government makes a decision after consultation the Ministry of Environmental Protection and Regional Development. If consent is denied, the decision may be appealed in a court of law.

Foreign legal entities and individuals may become shareholders in local companies which are not subject to the above restrictions, provided certain qualifying requirements for shareholding are satisfied.

Foreigners may buy buildings in Latvia. Foreign citizens can usually purchase land in Latvia through an investment in a Latvian company, and can acquire land directly if the municipality where the land is located grants special concession. Land can also be leased for a period of up to 99 years.

Land is subject to a real estate tax at a rate of 1.5%, charged to its assessed value. Buildings and structures are subject to a real estate tax at a rate of 1.5% of their average net book value in a calendar year. Dwellings and apartments owned by individuals are exempt from real estate tax through Dec. 31, 2003. Capital gains earned by individuals from the sale of Latvian real estate are tax-exempt unless the seller held the property for less than 12 months prior to the sale.

LAND MARKET

The moment of legal consolidation of Latvia integration into the EU as it was forecast created an objective basis for the growth of prices on real estate of Latvia. Such a growth is conditioned by the essential difference in the pricing systems of the European states. Higher prices on real estate in the member states of the EU are ensured by the bigger income of consumers of the real estate market. At this point, the tempos of the growth of prices in several segments of the real estate market of Latvia considerably surpass the tempos of the growth of the income of the local consumers. Such a contradiction brings about certain liquidity risks, the temporary bounds of which are hardly evaluated at the present time. Simultaneously, the rapid rise of prices sets up the conditions for the speculative game, which even stronger whips up the further growth of prices. This may ensue the instability factor on the real estate market in the future.

During the last one and a half years, the situation in some segments of the real estate market of Latvia could be characterized by means of not only economical but also emotional aspects.

Each of the below mentioned segments has certain peculiarities, causally-investigatory connections, which ensured the rise of prices. But all of them are interconnected by one common thing – a more or

less prolonged phase of instable development caused by the heightened demand.

LAND IN URBAN AREAS

In comparison with the previous year, the number of transactions involving land plots to be used as individual development sites increased in Riga, Jurmala and Liepaja. The highest increment was in Jurmala, where there was an almost fourfold increase in the number of such transactions – in comparison with the year 2002.

Like in the previous year, the highest price per m² of land meant for individual development was in Riga, the Riga Region and Jurmala. Due to the demand for „unpopular” land plots in Jurmala – on the other side of the railroad and in the Sloka Region, the price per square meter of land in Jurmala was EUR 16 per m², i.e. by 20% more than in the previous year. The average prices for individual land plots for development purposes in the zone of Jurmala with a construction permit reached EUR 110 per m².

Since in Riga there was a stable demand for land for development purposes and a relatively low offer of vacant development sites in the real estate market, and due to delays in privatisation of some development land plots, the average price per m² of land increased and amounted to EUR 16 per m².

In Liepaja and Ventspils, the average price for land for individual development purposes was EUR 7 per m², in Ventspils – EUR 3 per m². This year the average price for land development in Ventspils has dropped a little due to a large offer of development sites.

In the other regional centres of Latvia, the average price for individual development sites ranged from EUR 0.15 per m² to EUR 7 per m².

The activity of transactions in the market for development sites for trading office and industrial purposes prevailed in the biggest cities of Latvia – Riga, Jurmala and Liepaja. In the first two cities, the number of such transactions grew, on average, by 30%. The average land prices also increased, in comparison with the previous year, due to the general development of the said segment (sphere of services) of the national economy. The average price in deals involving development sites for trading office premises in Riga in 200 was EUR 35 per m², however, in the centre of city, the land price reached EUR 800 per m².

On the other hand, the industrial development land market was stable due to the offer. Consequently, there was no rapid price rise, but there was a tendency of purchasing development sites with the aim of changing the existing application for trading office construction. The average prices in the said segment

were as follows: Riga – EUR 25 per m², Jurmala – EUR 15 per m², and Liepaja – EUR 5 per m².

INDIVIDUAL DEVELOPMENT LAND IN RURAL DISTRICTS

The average increment in prices for land to be used as development sites in rural districts of Latvia, in comparison with the previous year, was about 20%. In general, in the rural districts of Latvia, as well as on the borders of the districts, the prices for development sites vary very much. In the rural districts of Kurzeme, the prices for land for individual development ranged from EUR 0.3 per m² to EUR 2.5 per m², in the rural districts of Zemgale – from EUR 0.4 per m² to EUR 7 per m², in the rural districts of Vidzeme – from EUR 0.3 per m² to EUR 4.5 per m² (exclusive of the land prices in the Riga Region) and in the rural districts of Latgale – from EUR 0.4 per m² to EUR 1.3 per m².

The abovementioned highest prices for land in the areas of Kurzeme, Zemgale and Vidzeme were registered in the districts located near the seashore since the highest demand was for development sites located in picturesque places – in the vicinity of the sea, lakes and rivers. The significant factors influencing the land price were the socio-economic situation (employment opportunities, infrastructure development level, availability of public objects) of a concrete territory (region or rural district) and its geographical location with respect to the capital city or regional centres. To certify the aforesaid, one can mention the Riga Region, where the average price range for land meant for individual development ranged from EUR 1 to EUR 9.5 per m², and two thirds of all the registered transactions took place in the Riga Region.

AGRICULTURAL LAND AND FORESTRY LAND

The average market price for agricultural land in Latvian rural districts stayed within the limits of EUR 170 per hectare (Latgale) up to EUR 430 per hectare (Vidzeme). The highest price for agricultural land (EUR 875 per hectare) was registered in the Riga region also showing the highest activity of the real estate market, which had a significant effect on the price of the land sold for that purpose in the whole

Vidzeme area. In 2003, the average increment in prices for agricultural land in the state as whole, as compared with the previous year, was 23%, but in the Riga Region – 60%.

In 2003, like in the previous years, land for agricultural purposes was bought (or rented) mostly in the Bauska, Jelgava and Dobele Regions (Zemgale area), i.e. the regions with the most fertile soil in Latvia.

Agricultural land plots with picturesque landscapes or those located by water are often in demand and purchased for recreational purposes. A significant share of agricultural land plots in the Riga Region was bought with the aim of dividing them into development sites for construction of dwelling houses. The price for the agricultural land purchased for that purpose rose as high as EUR 30 000 per hectare.

The average area of the sold agricultural land in 2003 was about 16 ha.

The range of rental payments for agricultural land is still very wide: from EUR 4 per hectare per annum (Latgale) to EUR 52 per hectare per annum (Zemgale).

Analysing the prices for agricultural lands and the activity of the agricultural real estate market in separate regions of Latvia, one can observe a very close consistent link between the land price and the real estate market activity, on the one hand, and the general level of socio-economic development within a concrete territory. When fixing the price for land, the market players definitely take into account the degree of agricultural land cultivation and the total area of arable land, as well as the location of a concrete real estate with respect to the capital and other major cities.

The average prices of forest lands (including newly planted forests) in the rural districts of Latvia in 2003 stayed within the limits of EUR 430 per hectare (Latgale) to EUR 700 per hectare (Zemgale), which was just a little in excess of the previous year's average level. The forest land prices were, above all, dependent on the value of newly planted forest and the location of the land, as well as on the timber purchase prices. It must be noted that in 2003 deals of purchase of woodcutting areas were registered. Such a customer choice may be explained by their intention of requesting the EU subsidies for forest restoration later on.

The area of an average land plot involved in the market deals in 2003 was about 13 ha.

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