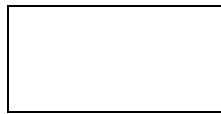


LATVIA



Report based on Exchange Programme documents provided by

Edvins Balsevics

Budapest, 2004

1 General Information

1.1 Geography

The climate of The Republic of Latvia is maritime, with wet, moderate winters. The terrain is low plain, the lowest point being the Baltic Sea with 0 m, and the highest point being the Gaizinkalns with 312 m.

The land use is divided into arable land: 29.67% , permanent crops: 0.47%, and other: 69.86% (2001).

It has an area of 200 sq km of irrigated land, but land in Latvia is often too wet, and in need of drainage, not irrigation, so approximately 16,000 sq km or 85% of agricultural land has been improved by drainage (1998 est.).



Figure 1 Map of The Republic of Latvia (CIA Factbook)

1.2 Location, Population and Economy

The Republic of Latvia is situated in Eastern Europe, bordering the Baltic Sea, between Estonia and Lithuania, and has a territory of 64,589 sq km, of which 63,589 sq km is land, and 1,000 sq km is water. Border countries are Belarus with a 141 km borderline, Estonia with a 339 km borderline, Lithuania with a 453 km borderline, and Russia with a 217 km borderline, and a 531 km coastline. Riga is the capital of The Republic of Latvia. In July 2004 the population was estimated to be 2,306,306, mainly consisting of Latvians (57.7%). There is a substantial minority of Russians (29.6%), and smaller groups of Belarusians (4.1%), Ukrainians (2.7%), Polish (2.5%), and Lithuanians (1.4%). The Republic of Latvia is a parliamentary democracy.

Latvia’s transitional economy recovered from the 1998 Russian financial crisis, largely due to the SKELE government’s budget stringency and a gradual reorientation of exports toward EU countries, lessening Latvia’s trade dependency on Russia. The majority of companies, banks, and real estate have been privatized, although the state still holds sizable stakes in a few large enterprises. Latvia officially joined the World Trade Organization in February 1999. Preparing for EU membership continues as a top foreign policy goal. The current account and internal government deficits remain major concerns, but the government’s efforts to increase efficiency in revenue collection may lessen the budget deficit.

By 2003 estimates it has a purchasing power parity of USD 23.9 billion, which is USD10, 200 per capita. The GDP's composition per sector is agriculture: 4.5%, industry: 24.5%, and services: 70.9% (2003).

2 Land Administration and Management

2.1 Land Titling and Registration

In Latvia, according to the law, the *State Land Service* (SLS) is responsible for land administration, dealing mostly with technical and bureaucratic activities. The main responsibilities of the State Land Service are the following:

- The State Land Cadastre: Address Register and SLS Archive
- Cadastral valuation
- Geodesy
- Cartography
- Surveying
- Technical valuation (inventory of buildings)
- Information System on State and Administrative boundaries
- Land administration
- Polygraph

The local authorities of land administration are the *9 regional offices*. The cadastre data, including cadastral mapping, must be replicated at the central database. The *Cadastral Register* contains detailed description about each property and land parcel, including the cadastral number and area of land parcel, descriptions of the building, cadastral value of land and buildings, encumbrances on real property and cadastral map of property boundaries.

The authority, ruling the legal registration and data distribution system, is the Land Book department of Court Administration under the Ministry of Justice. The Land Book is a juridical registry and a land book judge runs all 28 regional *Land Bank Offices*. These Land Bank offices execute the decision-making and the registration of ownership, but the registration itself is handled by the central database, the only legally valid source of data.

The Land Books provide the following information:

- Real property as mortgage unit (incl. land together with buildings, buildings without land, flats and non-residential premises),
- Property rights (owner and legal background),
- Restrictions on property rights (encumbrances, usage limitations etc.),
- Servitude as rights on usage another property,
- Mortgages,
- Other rights connected to the property (leaseholder, will agreements etc.),
- Historical information about real properties,

- Tax management.

Total number of real properties in each region registered in Landbook register

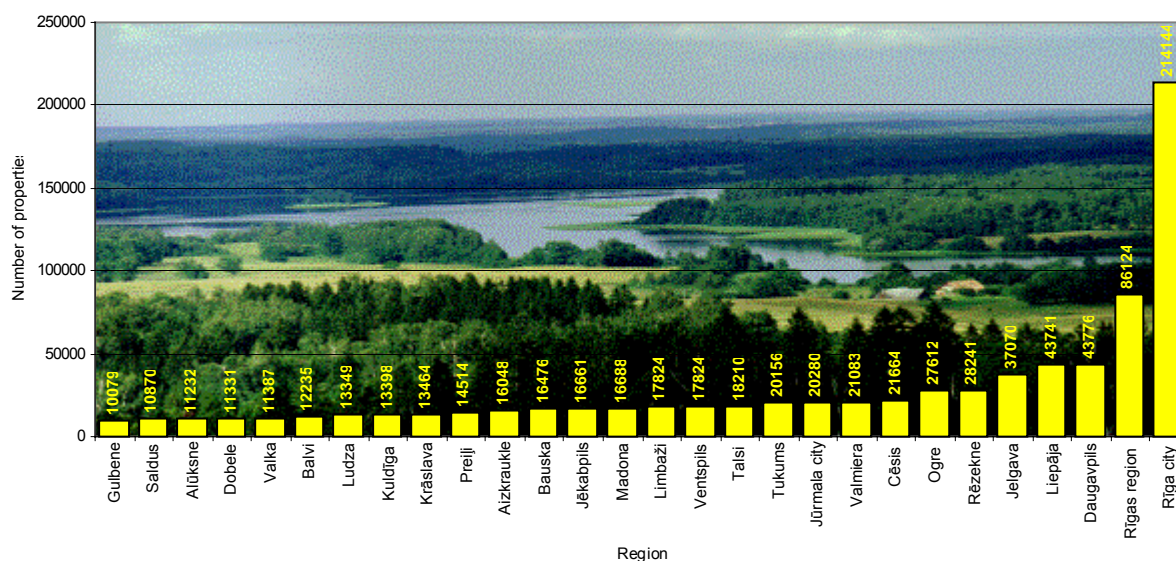


Figure 1 Data of Landbook department (www.zemesgramata.lv), from 1993 – 15.08.2004

A data distribution system was developed in 2002, where registered users are able to obtain actual information on ownership rights virtually. Both, the Cadastre and the Land book registration systems have been converted to an Oracle database with full data sharing capability. The cadastre registration system is built in the way that it is possible to link the maps with the text data and so provide a graphical interface to a land information system. The Cadastral Register and the Land Book are linked via cadastral numbers of the parcels within the property.

2.2 Land Consolidation

Land Reform started in 1990 after the re-establishment of the Independence of Latvia and implemented by local governments (decision-making), the State Land Service (technical implementation), and the Land Book Offices.

Several laws were passed by the Parliament concerning land privatization, which created a legal basis for land reform as well as for private land ownership. The Latvian Parliament revived the Land Book Law and the Civil Law of 1937 with some small changes in 1993, that Civil Law serves as the legal basis for every legal activity including land related matters. Specific problems concerning land-related matters, caused by the radical change from the Soviet system to the new legislation, were dealt with in a separate “Laws on Enforcement Procedure of Civil Law” and “Laws on Enforcement of the Land Book Law” (1993). For implementation of privatization policy of state property, the Parliament of Latvia passed the “Law on privatization of State and Municipal Property” in 1994.

Registration of land and property began in 1993 and was completed in 1999. By the end of 2001 were approximately 610.000 properties registered in the Land Book. The number of transactions and mortgages registered in the Land Book is rapidly growing (see Table 1.).

<u>Year</u>	<i>Real properties</i> (per year)	<i>Number of real properties</i> (cumulative)	<u>Transactions</u> (per year)	<u>Mortgages</u> (per year)
1993	340	340	32	7
1994	9722	10062	829	232
1995	26366	36428	2623	1021
1996	43011	79439	5548	2138
1997	54090	133529	11925	4643
1998	72252	205781	18865	10887
1999	117864	323645	25499	14778
2000	139052	462697	36936	24442
2001	121010	583707	50346	35686
2002	116330	700037	62765	50244
2003	74828	774865	81393	76048
2004 F	76696	851561	103944	104328

Table 2 Number of transactions and mortgages registered in the Land Book. Source: Landbook Department, www.zemesgramata.lv. (F- Forecast)

The average land holding has been estimated from all holdings registered in the land cadastre including cities and residential properties, were size of land plots usually vary from 600 – 2500 sq m. The average agriculture land holding size is about 60 ha.

By the legislation three types of real properties can be determined:

- Land with all objects which are not separable from land (The Civil Law);
- Buildings and tree stands without ownership on land below (The Law On Enforcement Procedure of Civil Law);
- Apartments and other premises.

2.3 Roles of the Public and Private Sectors

The land market is represented by both the public and the private sector in Latvia.

The State Land Service (SLS) has mixed funding, partly from the state budget, partly self-financing from service fees. The budget is centrally controlled and administrated and has to be approved by the Parliament every year. Municipalities have their own budget.

The responsibilities are divided as follows, see table 3:

Responsible Government	Tasks
State Land Service	Technical implementation of Land Reform; performs administration of real estate, inventory (cadastre) in the whole territory and visualisation of geographical information of the territory (geodesy and cartography).
Land Book Offices of the Ministry of Justice	Legal registration of ownership rights, decision-making
The Ministry of Justice, Land Registry Department	Management of Land Registry

Table 3) Role of the Public sector in Latvia

The private sector's involvement in the land market in Latvia is shown in table 5.

Responsible Organization	Tasks
Private real estate offices	Administration and management of selling land and buildings
Commission on privatization of buildings and apartments	Managing the privatization process of buildings and apartments
Associations of Surveyors of Latvia	Responsible for licensing of chartered surveyors and private survey companies
Latvian Mortgage and Land Bank	Mortgage lending; granting agricultural loans; responsible for servicing the ongoing process to privatize state and municipal property
State Real Estate Agency	Identification, listing, valuation, taking possession of and registration of state-owned real estate in the Land Registry; management, lease and operation of state-owned real estate

Table 4) Role of the Private sector in Latvia

The *Mortgage and Land Bank* of Latvia - Latvijas Hipoteku un zemes banka - was founded in 1993 with the purpose of aiding the development of the economy of the newly independent Latvia. The Bank is fully owned by Ministry of Finance, Latvia.

The private sector has been mostly involved in the land registration cadastral sector through field survey work for cadastral registration and mapping. The private sector has also undertaken market valuations for financial institutions and has responsibility for real property brokerage. There is however a commonly held view that valuation for taxation purposes should not be done by the private sector.

Every municipality has established the Commission on the privatization of buildings and apartments. Those commissions manage the privatization process of buildings and apartments. Many of municipalities also have the real estate offices dealing with real property administration and management within their territory. The Association of surveyors of Latvia is responsible for licensing of chartered surveyors and private survey companies.

LATVIA

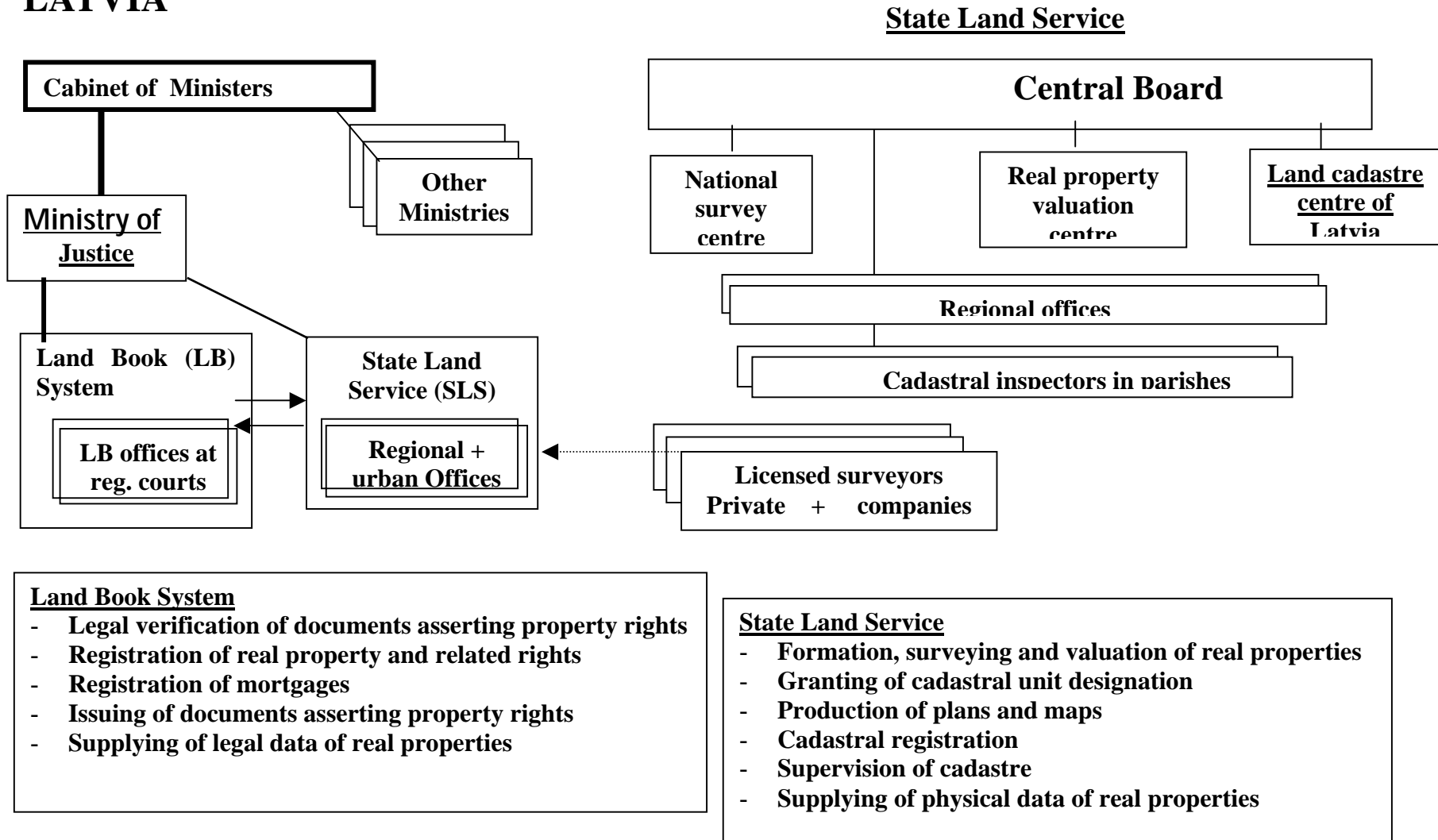


Figure 2 Organizational Chart of Land Administration

3 Financial Framework

3.1 Land tax

Land tax is estimated to be 1.5% of the cadastral value. In order to determine the real estate tax to be applied a given real estate object, the government uses the cadastral valuation system. “Cadastral” is simply a historical term meaning “mass” or “general”. Cadastral (or general) valuation is based on a consistent, neutral and predictable valuation system applied to real estate throughout the country. A general valuation is cheaper to administer than individually valuing each parcel of property. The information is centralized in the computerized database of the National Real Estate Cadastre.

Currently, cadastral valuation is applied also to buildings. Since the cadastral valuation of both land and buildings is introduced, there is comprehensive cadastral value of real estate, from which the applicable real estate tax is derived. According to the law “On Real Estate Tax” taxable persons are individuals, legal entities and non-residents that possess or hold Latvian buildings, constructions and land. Technological equipment is not taxable.

Local governments collect property tax and this provides funds to local administrations. Local governments can grant support of up to 90% property tax reductions for companies whose operations conform to their local/regional development strategies and spatial zoning.

According to norms of the given law the proprietors, users, legal owners or the tenants of the real estate on territory of the Latvian Republic estimate and pay the tax to the immovable property.

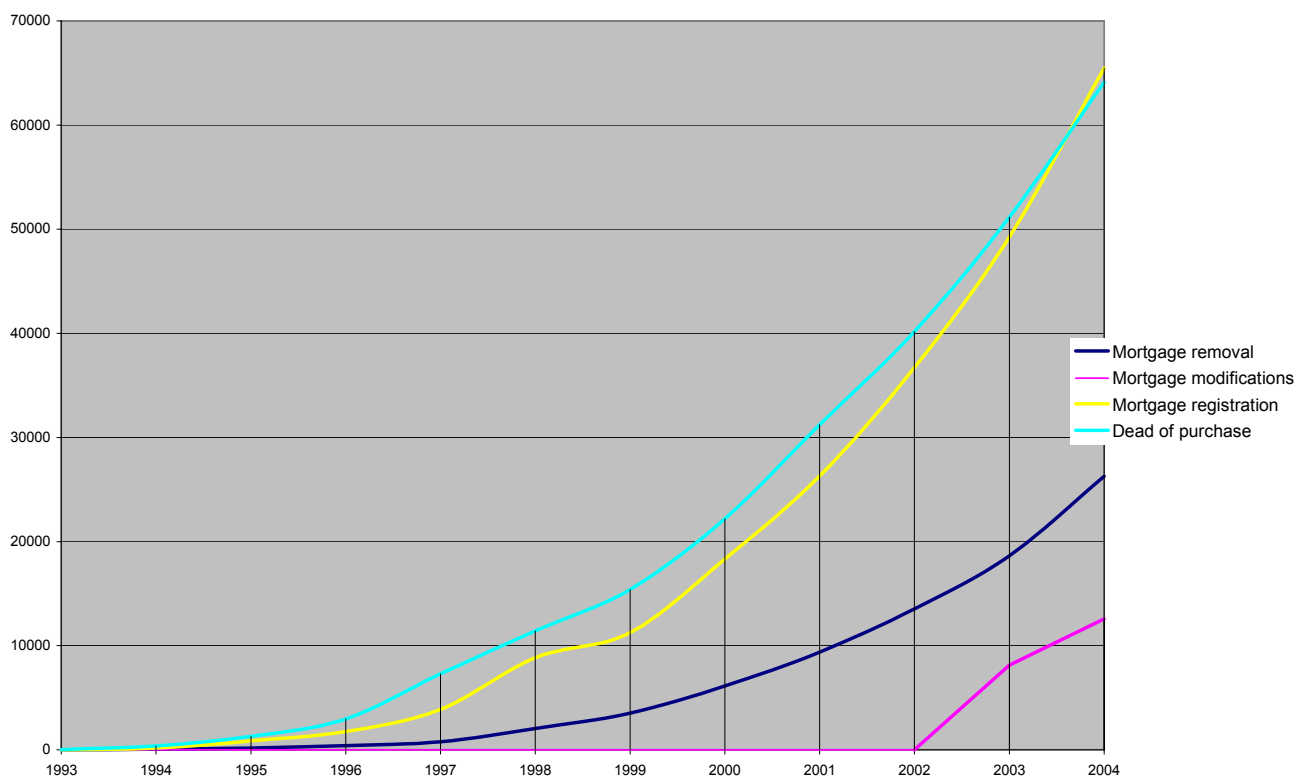
Both natural and legal persons are liable to pay land tax; the period of taxation is a calendar year. Property taxation principles have changed periodically during the last decade. In 2002, land and real estate tax were emerged into one single immovable property tax.

In general, the price of the agricultural land is very low while the price of the land in urban areas tends to be high. Due to the economic situation, people can’t buy large parcels in the urban area. The price of the parcel or the building is given by private real estate agencies.

Characteristics of Mortgages and Dead of purchase

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004* Forecast
Dead of purchase	20	373	1285	2954	7306	11421	15415	22195	31225	40176	51148	64126
Mortgage removal	0	55	164	395	770	2040	3513	6121	9380	13532	18646	26273
Mortgage modifications	0	0	0	0	0	0	0	0	0	0	8140	12574
Mortgage registration	7	177	857	1743	3873	8847	11265	18321	26306	36712	49262	65482

Data of Landbook department (www.zemesgramata.lv)



3.2 Mortgage

Mortgage, which is an independent variety of credit has been developed since 1998 that became very popular. For the present time most banks have mortgage in their services. The impetuous growth of popularity speaks of profitability and convenience of the mortgage crediting for banks, and client as well. The right to receive a credit have juridical persons, citizens of Latvia, permanent inhabitants of Latvia and foreigners, having permission for permanent residence and work in Latvia, as well as regular controlled income.

4 Legal Framework

4.1 Legal basis for land rights, adjudication, surveying, and registration

The constitution of Latvia was adopted in 1922, but it was annulled after the Soviet occupation in 1940. Now it has been renewed and is in force again. Legislative powers (citizens at and above age of 18) are vested in the elected 100-member Parliament that in Latvia is called Saeima. The legal base for all land and real estate matters in Latvia is the Civil Code, what historically was “imported” from Germany. Even before World War I German law was influencing the Civil Code, though at that time Latvia was part of the Russian Empire.

A certain Baltic Code of private Law of 1864, with German legislation partly as the model, served as the basic civil legislation in the part of the Baltic region, including present day Latvia. The code was in force in Latvia after the declaration of independence 1920. Latvian Civil Code replaced it in 1937. In same time a separate Land Book Law linked to the Civil Code, had been adopted. The principles of the German Civil Code and German Land Book Law served as the base of this legislation. It was abolished in 1940.

Cadastral part of subdivision and the procedures for amalgamating land parcels are regulated by the Regulations of Cabinet of Ministers on National Real Property Cadastre and Law “On State Land Service”. The Cadastre is an administrative register and contains technical data on property and owner. Registration in Cadastre has to be done only on the basis of the Local Government decision (the first registration), if it is about registration of transaction – document verified by notary should serve as basis for registration. The Land Book is a legal register by contents and decision of land book judge can be appealed directly in Senate of Supreme Court.

Documents proving ownership rights (for the first registration - decision of Local Government on the privatization of property; statement issued by the Central Archive proofing pre-1940 ownership; map of land boundaries issued by SLS) and legality of constructions together with special application form verified by notary should be submitted to the Land Book office for registration of title. All documents have to be examined by the judge. Judge is making decision for registration on the basis of documents submitted. Only transactions registered in the Land Book are legally valid. It is necessary to submit the notary’s verified application and document on transfer (purchase agreement, will, gift agreement and so one) to the local Land Book office. Also registration fee and transfer tax should be paid.

4.2 Brief description of each law connected to real estate

Civil Law of Republic of Latvia

In territory of the Latvian Republic all bargains with the immovable property are concluded according the Civil Law. The given law defines, that real estate can be got in property, and also be alienated, concluding agreements, inheriting etc. In Civil law are reflected general norms of legal regulation of the property. The civil Law concerns all subjects of the bargains, and also all kinds of immovable property in the Latvian Republic.

Land reform in cities of the Latvian Republic

According to the given law all persons can address the request for purchase and right to use land of urban administrative territories of the Latvian Republic.

Defined by law, following natural and legal person can receive the property right on land:

- a) Citizens of the Latvian Republic;
- b) State and self-management, state enterprises and enterprises of self-managements (authorized companies);
- c) Registered in the Register of the enterprises authorized companies:
 - If more than half of the authorized capital belongs to the citizens, state or self-managements - each subject separately or in common to several subjects,
 - If more than half of the authorized capital belongs to the natural or legal persons of those states, with which Latvia had concluded international contracts, authorized by Saeima before 31.12.1996. The above mentioned concerns also natural and legal persons of the states, with which the international contracts were made after 31.12.1996, in a case if the given contracts provide the rights of natural and legal persons registered in Latvia, to get the rights on land of the appropriate state,

- If more than half of authorized capital belongs to several subjects described in items a) and b) together,
- Have the status of public (open) joint-stock company, in a case if their shares are quoted on a share stock exchange;

d) Religious organizations registered in Latvia till 21.07.1940 years.

Other natural and legal persons, who are not mentioned in the first item of the given clause, can get land in property with restrictions, which are determined in the given section.

In item 21 and 22 are determined restrictions in purchase of land in property and first priority of the right to purchase land by self-managements.

Land privatization in the countryside

The given law regulates purchase in property of land in countryside (villages etc.). It is important to note, that the given law names concrete subjects of the bargain / a circle of persons, which have the right to make the bargains with land:

The right to purchase land in property, according to the Civil Law and other valid laws in Latvia, have:

- a) Citizens of the Latvian Republic;
- b) b) The state and state enterprises;
- c) c) Companies registered in the Register of the enterprises of Latvia;
- d) 4) Religious societies registered in Latvia, term of work of which from the moment of their registration in the Latvian Republic, and is not less than 3 years.

Other natural and legal persons, who have not been mentioned in the first part of 1 given clause, have the right to purchase land in property with restrictions named in the given section.

Besides, it is necessary to consider, that according to the given law the order of transfer of the property right on land is determined by the appropriate management. Both residents of Latvia, and non-residents of Latvia have the right for immovable property in village areas.

Law on Protected Areas

The norms of the given law provide the order of use of land in protected areas, in coastal zones (zone of cemeteries, territory of a presence of natural riches etc.) as well as the duties of the owners on use and management of land in protected areas.

Immovable Property in the Land book

The given law describes the order of entering property, property rights, as well as burdening with law of estate in Public register of immovable property of the Latvian Republic - Land book, which is carried out by branches of the Land book.

In the Land book, as a unique source of the public register, the rights on property are fixed. The property right on immovable property is completely confirmed only from the moment of entering record about it in the Land book. According the given law, as a result of fulfillment of any bargain with immovable property the property right to immovable property completely passes to the parties of the bargain, as well as to the third persons, only after registration of the bargain in the Land book.

5 Ownership Structure

5.1 Land Ownership

Latvia restituted land to former owners that land had been formally expropriated from its existent owners during the collectivization process. Latvia restituted land ownership rights on the basis of the old land boundaries, restoring the cadastral parcels to the pattern that existed on July 21, 1940. Cadastral maps and Land Book records from 1924-1940 were used as evidence for restitution.

The transition process had two stages:

1. Land use rights (not ownership) were granted to claimants by Land Commissions; and
2. Land ownership rights were restituted to former owners or their descendants or users of the land to purchase land, paying in vouchers. After registering in the Land Book, decisions regarding the validity of claims to land, were made by the local Land Commissions. The first stage was completed in 1997, and has been the second in 2001.

Land was restituted exclusively to native Latvians. More than 90,000 private family farms and 130,000 subsidiary farms have emerged as a result of land reform, and only the most sustainable privatized agricultural joint stock companies continue to operate. Latvia's parliament encouraged and focused on break-up of former collective farms even before the land was privatized.

Land tenure falls under three groups: private, municipal or state land; the most common tenure is private ownership. Private ownership rights can be registered under private or legal ownership, joint ownership also is quite often registered. Rights include full ownership, lease, mortgages, easements and other restrictions. Land and the buildings on the land may be owned separately.

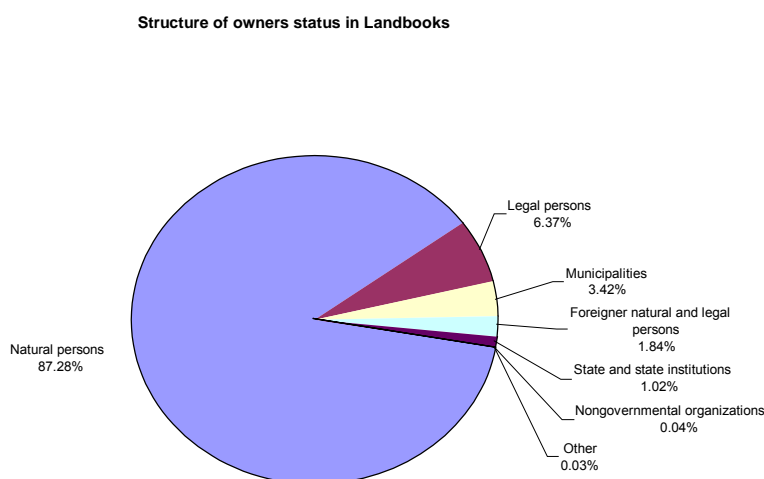


Figure 1 Data of Land Book Department (www.zemesgramata.lv), from 1993 – 2003

5.2 Foreign ownership

Generally, foreign citizens or companies may acquire legal title to land in Latvia through an investment in a Latvian company. Unless Latvia has signed an investment protection treaty with the foreign investor's country of residence, the foreign investor's participation in the company is restricted to 50% of the share capital. It is possible to acquire land directly, subject to a special concession granted by the municipality where the land is located. There are no restrictions on the acquisition of buildings by foreigners in Latvia.

5.3 Farm reorganization and Land Use

2003 was characterized by stable price growth for farmland. Land purchasing can be divided into the following categories by further utilization purpose:

- **Land for recreation.** This is currently the most active rural land group. Land is primarily in demand at picturesque sites near water i.e. along the whole coastline and on the banks of lakes and rivers, especially in the vicinity of Usma and Razna lakes and along the Abava, Venta, Ogre and Gauja rivers. Land prices (1-10 ha) are 2000 – 12 000 USD/ha. The price depends on location, distance from Riga and the size of the plot.
- **Land for agriculture.** Demand for and transactions with this type of land are relatively small and concentrated in regions favorable to farming – Zemgale (Bauska, Dobele, and partially Jelgava, Riga and Tukums districts). Prices here are 700 – 1300 USD/ha. The biggest demand is for 20 – 70 hectare plots.
- **Land for forestry.** Land is being purchased that consists of both agricultural land and forest. The objective of the purchases is to process the forests. Prices are determined by the value of the forest stands, location and access roads. Prices are 1000 -3000 USD per forest stand hectare.
- **Land purchases for speculative purposes.** Land is being purchased throughout Latvia. The decisive factor is that plots must not be smaller than 100 hectares. Land prices are 150 –300 USD/ha.

5.4 Land plots (for construction of industrial and public buildings)

Compared with other sectors of the real estate market, land for the construction of industrial and commercial facilities is growing most slowly and has the least stable prices. Since there is no actual vacant land for these purposes available in the territory of the City of Riga, land transactions for these purposes are taking place at location where manufacturing has previously taken place. Transaction prices vary greatly. In the central Riga area land plots with areas up to 3000 m² command prices of 120 – 600 USD/sq m. But divided off blocks with areas of 3000 - 10 000 m² are comparatively cheaper at 12- 25 USD/sq m.

Overall, when analyzing this real estate market sector – land for industry and the construction of publicly oriented buildings – it can be concluded that the increase in prices has been small comparing with other sectors. This is driven by the large supply of such areas, and also by the still incomplete national and municipal privatization process as a result of which property prices in this category do not always correlate with real estate market value criteria. However, irrespective of the relatively slow price increase, the overall trend is stable.

5.5 Land for building single-family houses

For several years in a row land has been the most stable sector of the real estate market. 2003 saw relatively even and stable demand in this category and corresponding price rises. Prices for land in Riga city have grown both for individual house construction plots and for commercial building plots.

Prices have increased in Mežaparks, reaching the 100 USD/sqm mark in places. Notwithstanding these high prices, there are still some places in Mežaparks where large areas (several hectares) are stuck in the privatization stage, and if after privatization this land is subdivided a certain reduction in prices can be forecast. Prices are also consistently high in Kipsala and there are also broad tracts of land that are not being used at present. Plots being offered for individual building are being subdivided from existing plots. Prices are currently 70 – 120 USD/sq m, however supply is very low.

5.6 Land in Riga city

The most active land market in Riga city is in Pardaugava, around Marupe, Ziepniekkalns and Šampeteris District. Individual land plots offered here are obtained both by subdividing old plots and by reclaiming and parceling land formerly used for market gardens or industrial purposes. The popularity of this area is driven by developed infrastructure (asphalted streets, communications, public transport) and a pleasant green environment with large stands of trees. Prices in these suburbs are 20-40 USD/sq m. There is also a supply of land and transactions in Plavnieki and Purvciems, and here too new plots are obtained through subdivision of existing plots or by reclaiming the land of former market gardens. Land prices here are 20 - 35 USD/sq m. Subdivision into individual plots is also occurring in the direction of Dreilini – Mežciems, which in future may be a relatively active district for the construction of individual houses.

5.7 Land around Riga

The market for land in the immediate vicinity of Riga is relatively active. The most popular area is still around Marupe, Pinki and Kekava. Individual building in Marupe County is taking place between existing plots and is encroaching ever further onto agricultural land towards Jaunmarupe and Olaine. Here there are differing price levels –prices for land on streets amidst existing buildings and infrastructure are 16 - 25 USD/sq m, while on recently reclaimed agricultural land they are 10 - 15 USD/sq m. The supply of land for building created through the subdivision of former agricultural land went up in 2003. Prices for such land plots (with areas of 1400 – 2000 m²) from 6 – 18 USD/sq m.

5.8 Land in Jurmala

As it had been forecasted, land prices in the City of Jurmala continued to rise. At the end of 2003, prices for plots adjacent to the sand dunes ranged from 110 USD/sq m in Asari to 180 USD/sq m in Dzintari – Lielupe. Factors determining the prices are the size of the land and building regulations. Prices have appreciably risen in those Jurmala suburbs where they were relatively low. In the area between the railway and the Lielupe River in the Asari – Vaivari district they are currently 20 - 35 USD/sq m (4-12 USD/sq m in 2002). Prices have also gone up in Kauguri, especially near the sea, and are currently 25 – 45 USD/sqm.

Biographical Notes

Mr. Edvins Balsevics is the Head of Data Distribution Department at the Ministry of Justice, Landbooks Division. He has experience in information technologies, e-commerce, data exchange and statistical processing. As Head of the Data Distribution Department, he is responsible for maintaining the Land Register Data Distribution System, customer support, marketing and accounting system.