

AGRICULTURAL LAND MARKET IN LATVIA

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ABSTRACT

This paper contains information about real estate market's development in Latvia's rural areas after the year 1991. The Agrarian reform's guidelines are described in the first part of the paper. Formation and particularity of development of real estate market in rural areas have been analyzed in the second part. Agricultural land, forest land and building plots (residential land) prices dynamics is given in the third part.

KEY WORDS

Agrarian reform (land reform), real estate market, agricultural land, building plot, residential land, average price

INTRODUCTION

For many centuries land relations in the territory of Latvia have been developed by different factors. In 19th century Latvians peasants obtained the rights to purchase land in heirloom. The new political situation and economical politic after the Declaration of Independence of Latvia on May 4, 1990 defined necessity of the agrarian reform which was inclined to make the first preconditions for gradual implementation of market economy in the State.

GUIDELINES OF THE AGRARIAN REFORM

Almost two month after accepting of the Declaration on June 13, 1990 the Supreme Council of Latvia accepted the resolution "On Agrarian Reform of the Republic of Latvia". It defined the land granting procedure for use or delivering it in ownership (by restitution of land ownership or granting it anew) and instructed to make up land commissions in all municipalities till September 1, 1990. Its aim was co-ordination and legal providing of activities of the land reform and for the Council of Ministers to prepare the draft law for the reform.

On November 21, 1990 the Supreme Council of the Republic of Latvia adopted the law "On Land Reform of the Republic of Latvia in the Rural Territories" known in history as the first law of economic reforms which regulated rights to acquisition of real estate after May 4, 1990.

To prevent from conflicts between different viewpoints and unwarranted interpretation of the law paragraphs they were publicized in central newspapers exactly after the first interpretation inviting the correct proposal address to the Commission of Agriculture and Forestry of Supreme Council. The letters might be in kind of suggestions but all the proposal have been correctly documented and analyzed, part of them were included as proposal of the commission in preparing the second interpretation of law project. The law of the land reform caused tremendous interest in society.

The idea of forming two main institutions of implementation of the agrarian reform is proved right: the political leadership of process and arbitration of land was trusted to the Central Land Commission but executive functions to the State Land Service. The collaboration is considered as successful in all the period of activities. Many significant problems created at the time of the agrarian reform were solved in common activities and they were hard predicated giving the legal base for the beginning of the land reform.

Important role was given to the fact that in legislation from the beginning was created precondition about rights to execute transactions with real estate only after registration of estate in the Land Book. This condition has prevented from situations of possible arguments that could start in exciting transactions with estates which rights of estate wouldn't be legally examined and approved.

The law "On Resumption of Validity and Procedure of Entering into Force of Land Book Law of December 22, 1937" was adopted on March 30, 1993.

Results of the agrarian reform

The Land Reform has changed significantly the ownership of land in Latvia. The situation on January 1, 2000 was following: from all the land of Latvia (6458,8 thousand ha) 37.4% was private property of natural persons, 0.8% legal persons, 0.9% municipalities, 0.3% State institutions. (In use of natural persons 19.3%, legal persons 1.8%, municipalities 6.2%, was managed by State institutions 29.2%), but 4.1% (266,1 thousand ha) was free State land.

FORMATION AND DEVELOPMENT OF THE REAL ESTAE MARKET IN RURAL AREAS

Formation and development of real estate market in rural areas began after the year 1991 and could be divided into 3 periods. Each period has its own characteristics. Factors influencing real estate market sometimes are similar, but results differ.

The first period (Early 90s).

The real estate objects (properties) formation is in process, few properties have been formed completely. Inhabitants in rural areas are intending to live in rural areas and manage a farm, but agriculture is not cost effective because of low agriculture production prices, not established agricultural production market and lack of the State subsidies.

Real estate market could not be considered as a market in common sense (however it exists). Objects for real estate market are few. Almost all purchases had happened near big cities and in coastal regions. Much prices are occasional because of lack of information and do not reflect the value of objects.

Building plots (mostly residential land) are prevailing on the real estate market.

The second period (Late 90s).

The Agrarian Reform is continuing. New properties have been formed and range of real estate market objects is broadening. The real estate market is much more active if we compare with real estate market in the early 90s.

Information's sources about real estate market prices are available, real estate market's participants are informed, and prices reflect properties values. Agricultural land still is not marketable because the previous problems are still significant. Agricultural land which can be transformed into building plots, agricultural land with forests, agricultural land in costal regions and in territories with nice landscape are prevailing in the real estate market. Agricultural land which can be used for other purposes (not agriculture) is marketable. As a result real estate market is more active (if we compare with the first period), but the spreading is the same – near big economics centers, in costal regions in regions with nice landscape. The biggest part of rural (territorially) areas is not involved into real estate market.

The third period (After year 2000)

Latvia is intending to enter European Union (EU). According to the "Law on Privatization of Land in Rural Areas" from May 1, 2011 citizens of the EU and legal persons registered in the EU Member States may acquire land on the same conditions as Latvian citizens. These

circumstances have hard affected real estate market not only in rural areas, but in cities too. Real estate market is active and non-predictable.

Building plots, land in costal regions and in recreation zones are still prevailing on the real estate market, but also positive trends for agriculture appear.

The State is developing program for agricultural land effective use (as a support for traditional agriculture), subsidies for agriculture from EU funds are available. As a result agricultural land is demanded and market prices are increasing. This period can be noted as beginning of development of agricultural land market.

REAL ESTATE PRICES, PRICES DINAMYCS

Real estate prices data base was founded by State Land Service of the Republic of Latvia in the 1998. Since then real estate prices are stored in this data base and have been used mostly for valuation and statistical purposes.

Every year (since 1998) Latvian real estate market review has been prepared. The aim of review is to provide an average price for different types of properties (residential plots, commercial plots, industrial plots, agricultural land, residential houses, apartments e.t.c.), and to reflect the main tendencies of the real estate market. The information about prices in rural areas and in cities is presented separately.

Average prices for agricultural land.

As it was said in the previous part, agriculture land market began noticeable development after the year 2000. Agricultural land prices are low and almost constant before the year 2000, although building plot prices and the State economics' results are increasing from year to year.

From the Table 1 we can see that agriculture land prices began to grow from the year 2001 and were almost constant (even decreasing) in previous years. The noticeable growth is in the years 2003 and 2004.

Real estate analysts are considering that this is because of Latvia's entrance into EU. Real estate analysts are, also, predicting growth of agricultural land prices in the next years.

Average agricultural land prices by year	
Year	Price (EUR/ha)
1998	228
1999	213
2000	199
2001	203
2002	221
2003	270
2004	363

Table 1

However agricultural land prices are very different within Latvia. The highest prices are in the central part of Latvia, where land is fertile and topography is suitable for agriculture. The lowest prices are in the Eastern part of the country, where land is sandy and topography is hilly.

The differences, between price levels, are shown in the table below.

Average agricultural land prices (EUR/ha)					
	2000	2001	2002	2003	2004
Vidzeme (North)	157	174	193	243	329
Kurzeme (West)	171	214	229	264	386
Latgale (East)	143	157	157	157	214
Zemgale (Central part)	314	343	357	400	617
Riga district*	429	300	529	843	767

Table 2

*Agricultural land in Riga district is not suitable for agriculture, but the prices are high because it is possible to transform agricultural land into building plots. Building plots are very valuable in this territory.

Average forest land prices.

Forest land prices do not oscillate hard within Latvia. The average forest land with forest prices are given in the table below. As we can see, forest land prices also had been affected by Latvia's entrance into EU.

Average forest land with forest prices (EUR/ha)					
	2000	2001	2002	2003	2004
Vidzeme (North)	480	463	489	553	741
Zemgale (Central part)	604	607	571	607	1286
Latgale (East)	497	429	400	471	750
Riga district	786	708	743	964	1575
Kurzeme (West)	434	386	400	514	911

Table 3

Average building plots prices (residential land)

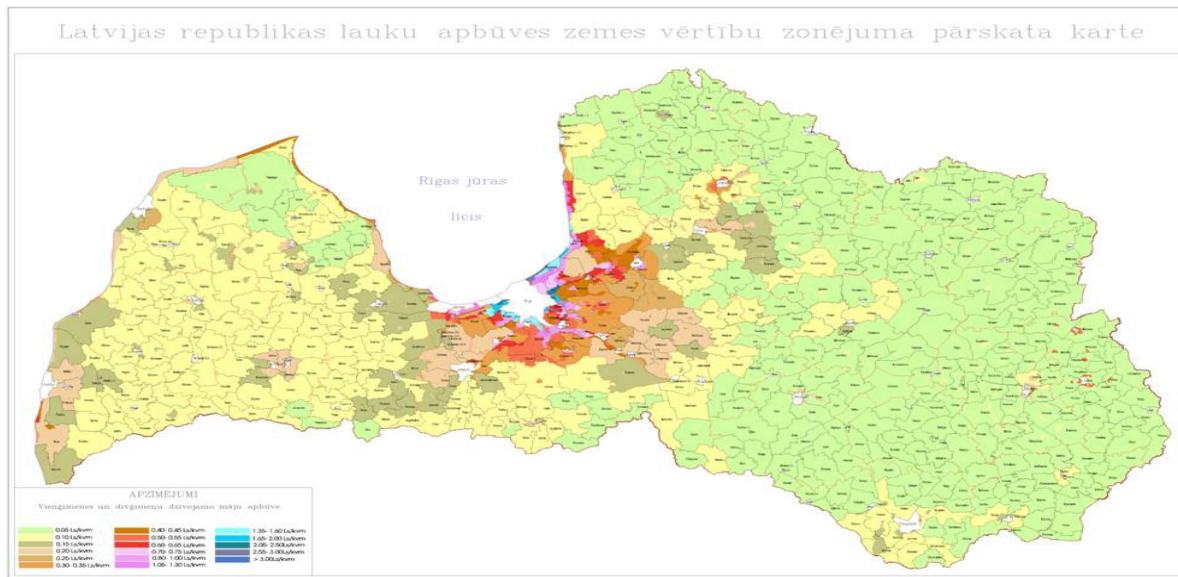
From the Table 4 we can see that lower border of average price is almost constant, but the upper border is increasing. This can be explained as following: real estate market becomes more active and new regions are involved into it, there fore the lowest boundary does not increase. The upper boundary is established by building plots prices in more active territories, market develops and prices grow.

Average range for building plots (residential land) by year (EUR/m²)										
	2000		2001		2002		2003		2004	
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
Price	0.07	3.14	0.14	3.42	0.14	4.30	0.21	6.00	0.28	12.42

Table 4

Building plots have been real estate market's objects since early 90s. Unlike agricultural land building plots prices have been increasing from year to year. Growth size is depending on the economics' results and the State wealth. If we compare building plots average prices (for each municipality) with total unemployment level or with size of income tax we would see the same tendencies – more high levels of economic indicators correspond to more high prices and vice versa.

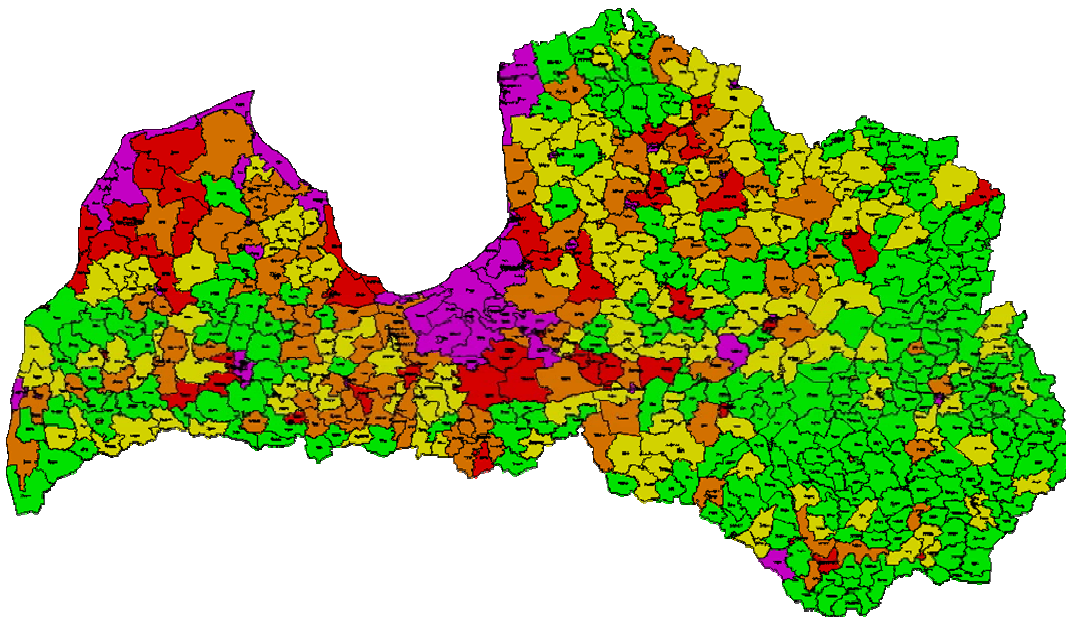
Average building plots prices



Color	Price range (EUR/m2)
Green	0.07
Yellow	0.15
Bottle-green	0.20
Brown colors	0.30-0.65
Red colors	0.70-0.9
Violet colors	1.00-1.85
Blue colors	1.90-4.30

Picture 1

Inhabitant income tax



Color	Tax range (EUR/inhabitant)
Green	<35
Yellow	35-50
Orange	50-70
Red	70-100

Violet	>100
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Picture 2

CONCLUSION

Real estate market's behavior can be considered as indicator, which shows how economy is developing. Process, which influences the State economy, also affects real estate market development and prices.

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