

## The Latvian Real Estate Market – Legal Challenges and Perspectives



2015 and the beginning of 2016 has been a relatively calm period in the Latvian real estate market, with neither significant ups or downs in the market itself nor any significant changes in the relevant regulations.

The industry continues to deal with restrictions implemented at the end of 2014, when limitations were set on the acquisition of agricultural land. With the aim



of restricting acquisitions of agricultural land by so-called inexperienced investors – i.e., persons not involved in agricultural production – limitations were set of 5 hectares for legal entities and 10 hectares for individuals, unless the private individual or legal entity of Latvian or EU origin is involved in agricultural production. Since the vast majority of land in rural areas is formally designated as being for agricultural purposes,

these restrictions often pose significant challenges for manufacturing companies wishing to acquire land outside of cities for the purpose of development of manufacturing or other production not related to agricultural activities (i.e., for construction of manufacturing plants and related purposes), even if the land at issue has not been used – and sometimes is not even suitable for – agricultural production. Discussions about changing the criteria by which the status of the land will be determined (i.e., whether the land is agricultural land or not) have been initiated.

In the beginning of 2016, a discussion of significant changes to the required real estate transaction format was initiated, involving a significant increase in the role of notaries public during the conclusion and registration phases of real estate transactions. The Ministry of Justice and the Council of Sworn Notaries are currently developing a proposal to establish a requirement that all real estate transactions be concluded in the presence of a notary public and in the form of a notarial deed. The intention is that the notary public will not only be obliged to verify the identities of the parties but also will be responsible for the content of the transaction itself – and some proposals even empower the notary public to revise the transaction price if the notary deems it inadequate to the market price. Such proposals have resulted in controversy, with many claiming that the increased role of notaries would significantly restrain the parties of a private transaction. Real estate market players such as developers, lawyers, and other real estate service providers mainly claim that, if this initiative is adopted, it will lead to a significant increase in transaction expenses and bureaucratic burdens, which are not justified for transactions solely within the private sector. Currently no specific proposal on the changes has been prepared and submitted; however, it is anticipated that this issue will continue to be controversial in the real estate area at least during most of 2016.

Amendments to the Civil Law were adopted in 2015 and should enter into force on January 1, 2017, providing more specific regulations to separate land and building ownership (as an exemption to the general rule that everything on the land be owned by the land owner). Although separate ownership of buildings was possible before the amendments – through specific, long-term land lease agreements – the almost complete lack of regulation raised questions about the status of ownership rights after the lease agreement expired, as existing law provides only that separate ownership is established during the validity of the lease agreement. By introducing a new category of “building rights”, the current amendments address those specific issues by providing clearer rules on the relationship between the owner of the land and the owner of the building during such building rights period as well as the rules of legal status and position of both after the expiration of the building rights.

Finally, as of 2016, electronic auctions have been introduced and implemented for bailiffs and insolvency administrators organizing auctions of real properties during recovery proceedings and insolvency proceedings. In contrast to direct auction (where all participants are required to arrive in person at a designated place at a designated time),

electronic auctions allow participants to bid for and purchase real properties online, thus easing the procedure and, it is hoped, facilitating more activity in this specific segment.

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