



*PRESS RELEASE*

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### **The real estate industry learns from its mistakes**

International Real Estate Federation (FIABCI) European Congress was held in Riga in September 26-28. It is a special honor for Riga, because no FIABCI Congress has taken place in any of the Baltic countries ever before.

The Congress was organized by FIABCI Baltic and Latvian Real Estate Association LANĪDA. Overall, more than 300 participants and experts from 35 countries, including the European Union and the United States, Canada, Russia, Brazil, India, Japan, Korea, Singapore, Nigeria, Belarus, Armenia, Kazakhstan and Ukraine, arrived to the Congress. They were presidents, shareholders and owners of the Leading realtor, developer and investment companies, leaders of national and international professional associations.

„Real estate returns to the economic scene. FIABCI is an international organization that is able to gather information from all over the world, so it is able to analyze the mistakes and make recommendations for the future to ensure that no mistakes of that kind ever happen again,” said Antonio Campagnoli, the European Regional President of FIABCI, at the opening of the Congress.

Absolute majority of real estate experts believe that the economic crisis has been overcome and a new period of growth has begun. It is very important to analyze the mistakes made in the pre-crisis period, to ensure that in the future they do not happen again. Edgars Šīns, president of LANĪDA, says: "In Latvia, the real estate industry is blamed for causing the crisis, which, in its turn, has created a negative attitude towards the industry as a whole. We appreciate our foreign counterparts for the inspiration to continue our work. One of the most important issues in the Congress is the one about granting of residence permits to foreigners who have invested in real estate. A similar system operates in several European countries, but the Latvian mechanism is regarded as one of the most effective and easily understood. Daniels Pavļuts, Latvian Minister of Economics, believes that the time has come to review the system, while other governments are trying to borrow the Latvian experience."

Analyzing the causes of the global economic crises that have been recurring at intervals of 16 to 18 years, Paul Batho, CEO of NARA, points out that most crises have been caused by banks' excessively bold lending policy which eventually caused increased risks in various industries, as exemplified also by the recent global economic downturn. So now the work needs to be done on regulation and development of various restrictions; governments of the countries affected by the crisis as well as international banking and sectoral supervisory authorities have been successfully doing this work. Looking at the causes, correlations and intervals of previous crises, it is likely that the next global economic crisis will take place around 2025, and it may be even more severe than the recently overcome one. "That is why today is the right time to develop a forward-looking framework in order to avoid that the next crisis destroys the entire global financial system."

GDP growth in the world shows that the crisis has been overcome: for example, in Germany it is 0.7%, in the United States 2.2%, in Great Britain 0.3%, but the most pronounced growth is observed in the Baltic states, including Latvia with its 5.6%.

Pēteris Strautiņš, economic expert of DNB Bank, points out that recent one has been the worst global recession since World War II. Nevertheless, rapid economic growth has started last year and continues this year in Europe, including the Baltic countries and especially Latvia, and there are no indications that suggest the risks of overheating. In Latvia, there is one of the lowest loan burdens for households, and looking at the projected GDP and household income growth, the real estate industry will recover from the crisis really quickly. Growth is expected in restaurant business and hotel business, and there will be a rapid expansion of production, which will grow faster than GDP. In terms of the euro's impact on attraction of new investors, P. Strautiņš believes that "the introduction of the euro alone will not make Latvia more interesting, but it will make it more comprehensible." Evaluating real estate business opportunities, the economist considers that it is a niche in which you can earn, but the market is very volatile. There is an increase of areas where the real estate is very cheap. This is due to the depopulation of the sites."

The Z Towers in Riga is regarded as one of the most promising and somewhat most unique real estate projects in Eastern Europe. The building will be put into operation in a year and a half, and currently parts of the building are offered for sale. There will be 30 floors in the Z towers, mostly the apartments, as well as the school, the kindergarten, the swimming pool and the offices. Restoration of historic wooden houses in the adjoining area is scheduled after putting into operation of the Z towers.

In the Congress, Farook Mahmood from India reported on private and public partnership projects and their contribution to the development of infrastructure, pointing out that Indian government in recent years is emphasizing the participation of private business in the development of national infrastructure by giving tax incentives and by prompt addressing of land acquisition issues in scheduled places for certain projects.

Reporters from several countries, including Cyprus, Spain and Ireland, emphasized the residence permits and even the possibility of granting citizenship in return for investing in real estate, similar to what is already happening in Latvia. In Spain, 2236 foreigners have purchased the property and, accordingly, have received residence permit in 2012. Ramon Riera Torroba, representative from Spain, stressed that this process has made a positive contribution in stabilizing the economy, so it should be developed further.

Kleovoulos (Lakis) N. Tofarides, representative from Cyprus, drew attention to the increase of the government's role in the development of the real estate market by providing tax credits and other incentives for the infrastructure construction, such as roads, marinas, golf courses, the availability of which plays an important role when a potential investor chooses the country where to invest. Cyprus residence permits also are being granted in return for investing in real estate.

Latvia is considered the promising place to invest in real estate for business people from Russia, CIS countries, China, India. A former politician, now a businessman Ainārs Šlesers believes that Latvia has a good potential to become a Europe's business centre, the European Singapore, the place where East and West meets. Riga will never be cheap, and that is how it should be. There is a need to develop Class A real estate segment to meet the demand from the successful business people.

Talking about the specifics of buying, selling and developing of Luxury properties, experts in the field agree that it should be considered a way of life, the source of emotional involvement, and that the acquisition of such properties is not regarded as the investment in the future profits. As the proof to the idea, Gian Carlo Bracco from Italy pointed out that Luxury property prices did not fall even in the deepest crisis. "Latvia has a good potential for the development of the Luxury segment because there are magical places in there, only no one knows about them," said Hovhannes Igityan from France. The expert drew attention that the buyers of the most expensive properties, such as the ones in Nice and Cote d'Azur, are the Chinese, Indian and Russian millionaires. For example, just recently an Indian citizen bought the property of 80 million euros in France.

Baltic real estate experts estimate that within the next two to three years, property prices in the Baltic capitals will rise and price differences in the context of the European market will decline, while now prices in the Baltics are up to four times lower than the ones in the old European capitals.

House price growth is expected, especially for Luxury class properties for which there is a growing demand. The most expensive Luxury properties are predicted in Riga and Jurmala, up to 10 thousand euros per square meter (this year, the most expensive property was sold in Riga for 8 thousand euros per square meter). As regards to Vilnius and Tallinn, forecasts are more moderate: no more than 5 thousand euros per square meter, because there, in contrast to Latvia, this segment of the real estate market is small.

**International Real Estate Federation (FIABCI)** is a non-political entity whose objective is to allow participants in the real estate industry to improve the quality and competitiveness of their activities through the sharing of knowledge, information and business opportunities at a national and international level. FIABCI is a federation of 100 national real estate associations, 65 Academic Institutions and 3000 individual members based in 65 countries. FIABCI enjoys Non-Governmental Organization (NGO) Special Consultative Status to the Economic and Social Council of the United Nations Organisation (ECOSOC).

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