

# Real Estate and Project Development News

During the last few months number of laws and regulations have been passed in Latvia which have an impact on construction processes, investment in the Latvian real estate and project development.

Below is our summary of the most significant developments.

## Overhaul of the Residential Tenancy Law

New Residential Tenancy Law entered into force on 1 May 2021 overhauling the old significantly outdated law on lease of residential premises which was in operation for more than 20 years. It is expected that the new law will provide a fair balance between lessors and tenants thus facilitating the availability of housing and encouraging developers to invest in residential buildings. According to some projections, an annual inflow of investments in range of EUR 100 million is expected in the Latvian residential tenancy sector.

The most significant changes concern the obligation to conclude the tenancy agreement with a fixed end date. In parallel the lawmaker has considerably eased the corroboration of tenancy agreements with the Land Register by making registration free of charge, and stating that the entries shall automatically cease on the fixed end date without any involvement by the parties. The agreements not registered with the Land Register will not be binding to the new owner in the event of change of title.

The agreements registered with the Land Register shall be subject to undisputed enforcement of obligations under the Civil Procedure Law, thus significantly relieving process of recovery of tenancy debts and eviction of debtors. According to calculations by the Ministry of Justice, the period required for debt collection and eviction shall be decreased from current 5 years to 6 months.

Along with encouraging future developments, one of the aims of the new law was termination or modernization of the rental agreements entered with tenants of denationalized buildings. Those agreements often were entered for indefinite period of time and on unreasonable financial terms thus distorting the rental market and precluding proper maintenance of the denationalized buildings. The new law introduces a transition period until 31 December 2036 at which point the old tenancy agreements will be automatically terminated, unless amended between the parties or claim for ordering amendments filed with the court before 31 December 2026.

## Amendments to the Construction Law

The latest amendments to the Construction Law have become effective in the second part of May introducing a number of changes which are hoped to speed up the development processes.

The most significant amendments concern permitting process, namely:

- in case if the supervising institution as the first instance has taken a decision to reject an appeal of the positive decision taken during the construction process (f.e., a note on completion of design conditions), a further appeal to the court shall not suspend operation of the decision and the developer will be entitled to proceed at its own risk;
- an appeal of a note on completion of construction commencement conditions shall not suspend its operation, thus allowing the developer to proceed with the works while the appeal is pending.

Before the amendments many development projects were delayed due to appeals from neighbors, NGOs, etc. The above amendments will provide more certainty in the development process and possibility to proceed

at the own risk. At the same time, the courts still will be able to accept decisions on interim measures suspending operation of the permits which seem prima facie illegal and may result in irreparable damage.

Further, if construction boards and other institutions have failed to issue permits, decisions and approvals within the terms specified under the law, it shall be considered that the respective permits, decisions and approvals are granted. The same will apply in respect of owners of utility networks and roads if they have failed to express rejection in respect of the works crossing their utility networks, roads or protection zones. However, those provisions will become effective only as of 1 July 2022 when the Cabinet of Ministers have set the list of situations in which those provisions will be applicable.

## Green Corridor for Large Projects at the Riga City Construction Board

A majority of significant real estate development projects in Latvia take place in the capital city, Riga. As of November 2020, the Construction Board of Riga City Council has adopted a principle of a Green Corridor for sizeable development projects in order to assist more speedy advancement of the largest projects.

At the current stage the Green Corridor is available in the permitting process of buildings of the 3<sup>rd</sup> category (including buildings with more than 5 floors, public buildings designated for 100+ persons, production facilities in excess of 1,000m<sup>2</sup> and warehouses in excess of 2,000 m<sup>2</sup>) and buildings of the 2<sup>nd</sup> category if they envisage construction of more than 100 apartments. In the perspective, the Construction Board intends to expand the corridor to other types of projects also.

The procedure of Green Corridor involves possibility of:

- preliminary review of sketches and parts of the design;
- issue of a building permit within 14 days (instead of a month);
- granting of a note on completion of design conditions within 10 days (instead of 15 business days);
- granting of a note on completion of construction commencement conditions within 1 business day (instead of 5 business days);
- appointment of a designated project manager for more efficient communication.

At its most the procedure may result in saving 71 days as compared to the regular permitting procedure.

## Real Estate Intermediary Activities Subject to Registration

As 1 July 2021 intermediary services related to real estate transactions may be offered in Latvia only by persons included in the Register of Real Estate Intermediaries maintained by the Ministry of Economics.

The requirement of registration is applicable to all individuals and legal entities who are engaged in extending offers, conducting negotiations, preparing and explaining terms of sale, lease or other transactions involving disposal with real estate. The registration requirement applies also to the EU citizens or entities registered in the member states if they are willing to offer intermediary services in Latvia.

A number of requirements apply to the operation of the intermediaries, including:

- a requirement to maintain an internal AML system;
- carrying of a third-party liability insurance;
- an annual reporting requirement on intermediary services agreements entered during the previous year;
- an annual qualification training.

Further, in the course of activities intermediaries are subject to a requirement to supply full and true information on the real estates in respect of which they render services, and on terms of transactions advised. Failure to make a full disclosure may trigger liability against the parties involved.

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