

Characteristics of Socio-Economic Issues and Their Possible Resolution in the Housing Market of Latvia

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Abstract — The aim of the research is to identify the main socio-economic issues in the housing market and to elaborate proposals for resolving them in order to stabilize the development of housing market in Latvia.

Within the framework of the research, real estate is evaluated as an object of real estate economics and an important real estate, as well as the housing market constituent of the national economy of Latvia. As socio-economic issues are important factors that affect the development of real estate market as well as housing market, a classification of the affecting factors is performed.

Socio-economic issues that affect the development of housing market are also defined in the research. A qualitative and quantitative evaluation of population change in the largest cities and rural regions of Latvia has been performed; moreover, the level of household income in Latvia has been evaluated, and the housing fund has been viewed as an important socio-economic issue.

Keywords — socio-economic issues; housing market; real estate; real estate market supply and demand.

I. INTRODUCTION

Since regaining independence in 1991, character and trends of the development of Latvian real estate market have shown that a majority of market participants lack knowledge and understanding of the functional nature of the real estate market, characteristics of the subject of transaction and socio-economic factors influencing the market supply and demand. Exactly these subjective characteristics of the market participants, who engage in various transactions in the real estate market, and their behaviour dictated, by these characteristics can explain several market development features and trends, which prove the significance of socio-economic issues influencing the market.

As residential construction increased rapidly, it promoted the development of the secondary housing market. The limited number of participants in the real estate market, the insufficient supply of new objects, many households' poor knowledge of market development processes, and formation of transaction costs contributed to a sharp rise in price in the major market segments. This provided an unexpectedly high income to domestic and foreign investors, who purchased real estate in 2003 and 2004.

Real estate price growth stopped in the second half of 2007, when the government took a number of effective

monetary and fiscal policy measures that were aimed mainly at limiting credits granted to households and other market participants. The measures taken by the government, without going into details, are considered to be sufficiently effective, but dilatory. The sharp price rise in the real estate market promoted an increase in the value of real estate market by significantly exceeding the long-term value of the corresponding property. As a result, many households pay loans on properties, the long-term value of which is considerably lower than the transaction price.

II. REAL ESTATE AND REAL ESTATE MARKET FROM AN ECONOMIC PERSPECTIVE

A. Theoretical Assessment of Real Estate Concept

In economically developed countries, real estate is one of the most important national treasures, because the market as a whole cannot be conceivable without the real estate market. To ensure the existence of labour market, capital market, product and service market or any other market, it is necessary to ensure that it owns or rents (leases) an appropriate real estate object.

On the one hand, real estate satisfies physiological, mental, prestige, safety, self-esteem and other human needs; on the other hand, it provides income to its owner. Regardless of the material and social status, people try to raise their funds in order to improve the living conditions, and they do it by all possible means and methods, focusing on a much higher level of income, more effective forms of employment. Naturally, the level of business activities in the country should increase, and the preconditions that ensure the financial recovery of economics should appear, which, in turn, form the basis for economic growth.

In the global economic literature, the term "real estate" is defined as land and any associated improvements that are permanently fixed to it.

As stated by H.Brox, M.Wolf and K.Larenz, in German legislation and case law immovable objects are enclosed parts of earth surface that are entered in the Land Register as independent real estate, including all its parts. Moreover, according to the law immovable objects are also treated as individual rights to an immovable object that are recorded in a

separate section of the Land Register, for example, residential property [1; 2].

Russian real estate economist G.Sternik (Г.М. Стерник) indicates that the land is the key element of property, because in the course of time the existing buildings, structures, etc. on the land wear out, but the land is not subject to depreciation, it remains physically unchanged and, therefore, has an eternal value. The oil and gold found in the plot is owned by the landowner, though, for example, in Latvia certain restrictions are imposed. Also in other countries there are restrictions on the ownership of the earth layer and air space [3].

As the notion of real estate encompasses a very large number of objects, definitions of real estate acquire a variety of interpretations. For example, E.Tarasevich, without going into details of real estate, in his publications shows a completely opposite point of view, by interpreting the real estate as property in the form of land, something related to land and which brings income [4]. E.Tarasevich's view is closely related to the fundamental principles of market economy, which state that resources are just as valid as they may be advantageously used. E.Tarasevich focuses more on real estate validity, availability and its value – tangible indications.

J.W.Reilly defines real estate as follows: real estate is a physical earth's surface in a particular area, the air space above it and everything below it, including any mineral deposits – whether corporeal or incorporeal, in pure form or as part of other things that can be used for any practical purpose. However, real property is the earth's surface, the air space above it, and the subsoil beneath it, and all the minerals and all things related to land, including buildings, fences and other structures, for example, a variety of upgrades and attachments [5].

The economic, political and social development of each country is determined and also influenced by real estate resources it owns – land, minerals, buildings, structures, etc. Real estate is one of the most important economic resources and one of the most important components of national wealth, which together account for 50% of all the world's resources.

RTU professor J.Vanags indicates that real estate or more precisely immovable property is the earth's surface, the air space above it, and the subsoil beneath it, including minerals, as well as all the buildings and other structures on the surface or below it. Compulsory indication of immovable property is geographical coordinates [6, 7].

The major features of real estate are closely related to the effect of factors influencing the market on the demand and supply shaped by market participants. Real estate transactions – their intensity and price – are considered the resulting feature of impact of different factors. From an economic point of view, the property must be considered an effective tangible asset, investment object and income generating tool.

The main economic elements of real estate are value and price, results of its expediency, the ability to meet different needs and interests of people. With the help of real estate tax, budgets of municipalities are formed, and various social programmes are implemented. The authors of research have

concluded that the economic activity subject is fully entitled to use the property in its possession in the best and cost effective way [8].

In foreign literature on economics that is related to the real estate economy, the term *Situs* is found, which means the interaction of a particular real estate object with the economic environment on at least five levels. In literature on real estate economics in the Latvian language, such a term and an analogue of this term is not found. When analyzing interaction of a specific real estate object with the economic environment at five levels, it should be noted that it is necessary to single out five main blocks that represent the neighbourhood, surrounding areas, commercial areas, and the whole region to analyse and assess real estate placement. Taking into account the fact that real estate positions are fixed and they have specific geographical coordinates, its environment has a substantial impact on a value of the object and characteristics of consumption.

B. Notion of Real Estate Market from an Economic Perspective

By comparing the characteristics of the market functions described in literature on economics and by applying them to the real estate market, the authors of research conclude that the real estate market is a set of certain conditions, factors and mechanisms by means of which the property rights and related interests are transferred, as well as prices are determined and land is allocated for different purposes.

The real estate market, as any other market, has a demand side and a supply side. Supply is the number of real estate objects available on the market for a certain amount of money. The demand is based on solvent potential buyers, who wish to purchase real estate in which they are interested.

All real estate markets have the same task – to set the price. In the rental market, price is formed according to the use of premises and rent duration, in the real estate market it is defined by the benefits of ownership.

The cyclical nature of real estate market development imposes the need for the national authorities to take a variety of measures – to change the factors influencing the market that would mitigate an adverse impact of particular phases of business cycle on the sustainable development of the market and on the ability of market participants to acquire the necessary real estate to improve their living conditions [6]. In many information sources, it is stated that the development cycles of real estate market do not coincide with economic cycles. Recession phase in the real estate market takes place before the recession in the economy as a whole, but the recovery starts earlier; thus, from the situation in the real estate market it is possible to evaluate the situation and trends in the national economy.

As F.E.Foldvary states, one of the first economists, who already in 1879 put forward the theory that real estate markets have a major impact on business cycles, was the U.S. economist Henry George. His theory was mainly based on speculations with land, without taking into account other important aspects of the real estate market [9].

The real estate market is specific and significantly differs from other markets. According to the authors of research, the main differences of the developed real estate market include a typical model of imperfect competition market and the following features and manifestations of the goods offered:

- a limited range and number of products offered on the market;
- each product on the market is different and unique;
- buyers and sellers are not sufficiently aware of the composition of goods and prices;
- a high price and limited number of buyers;
- real estate cannot be moved to another place, so that its price is largely determined by its location;
- real estate transactions are confidential, so that market participants can receive a limited amount of information;
- the regional character that establishes the dynamics of various market transactions in different regions of the country;
- comparatively large intervention of the country;
- a price is greatly affected by the climatic conditions;
- side-effects play an important role in price formation.

The authors of the article have compared the real estate market with the most popular one – consumer goods market (see Table 1).

Table 1. REAL ESTATE MARKET VS. CONSUMER GOODS MARKET
[developed by the authors]

Real Estate Market	Consumer Goods Market
A limited number of buyers and sellers	A lot of buyers and sellers on the market
Information about the market is not widely and freely available	Buyers and sellers are well informed about a situation on the market
Supply and demand are less flexible compared to other markets	Supply and demand are flexible based on the price
Products have low liquidity	Products have high liquidity
Supply and demand are imbalanced, and the balance is limited due to the price mechanism	Supply and demand are close to balance or they may be balanced with the help of price mechanism
Players may have difficulties in entering the market	The market is open to new members

By comparing the real estate market with the consumer goods market (see Table 1.), it can be seen that there are many differences, and thus it can be concluded that the real estate market is very specific and requires more research than it was conducted in Latvia so far.

III. SYSTEM OF SOCIO-ECONOMIC FACTORS INFLUENCING THE HOUSING MARKET

To systematize the factors influencing the real estate market, it is necessary to identify the factors and to determine the nature of their impact and trends. Systematization of factors facilitates a more detailed and more accurate

understanding of the real estate market behaviour in order to apply in time the most appropriate instruments of economic policy of a country for development of the market.

The factors influencing the real estate market represent a set of measures taken by the country or market participants that have a certain impact on behaviour of the current and potential real estate market participants at the demand and/or supply side.

The socio-economic factors influencing the real estate market as well as the housing market can be systematized by the following indicators [10, 11, 12]:

a) *impact on market equilibrium:*

- factors influencing demand;
- factors influencing supply.

b) *impact on market participants:*

- factors influencing behaviour of households;
- factors influencing behaviour of businessmen;
- factors influencing behaviour of public organizations;
- factors influencing behaviour of state institutions as market participants.

c) *socio-economic content:*

- fiscal factors;
- monetary factors;
- factors influencing competition;
- factors influencing foreign trade;
- factors influencing the flow of foreign investments;
- educational factors of market participants;
- factors contributing to home ownership for a particular social group etc.

d) *origin:*

- internal factors, which are created and driven by the market participants and the interaction between the real estate market and other domestic markets;
- external factors – factors that are in jurisdiction of state institutions of a country;
- transnational and global factors that are in jurisdiction of the EU and other unions;
- global factors, which are formed as a result of economic system interaction in certain countries or groups of countries.

e) *juridical character:*

- factors that affect real estate transactions;
- factors influencing the behaviour of market participants that forms market demand and / or supply, as well as other factors.

Fig. 1 illustrates the model of the formation and mutual influence of factors affecting the real estate market, including the housing market that is part of the real estate market.

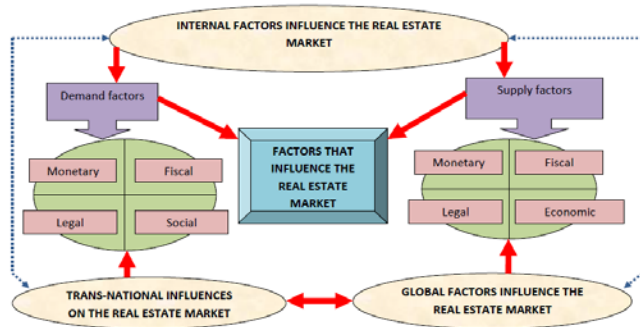


Fig. 1. The model of the formation and mutual influence of factors affecting the real estate market [developed by the authors]

As may be seen in Fig. 1, all factors created domestically are divided into two groups: the factors that influence the behaviour of market participants, who form demand, and the factors affecting market participants, who form supply. This does not exclude the possibility that one of the groups of factors affect market supply and demand entities.

The system of factors (see Fig. 2) determining the status and trends of supply and demand within the boundaries of a region, city, etc. is not exhaustive.

For example, it does not include political, national and even cultural factors, as well as the traditions and patterns of behaviour of residents, providing a very significant impact on the expectations and preferences of market participants, and thus on the supply and demand, as well as social and economic problems.

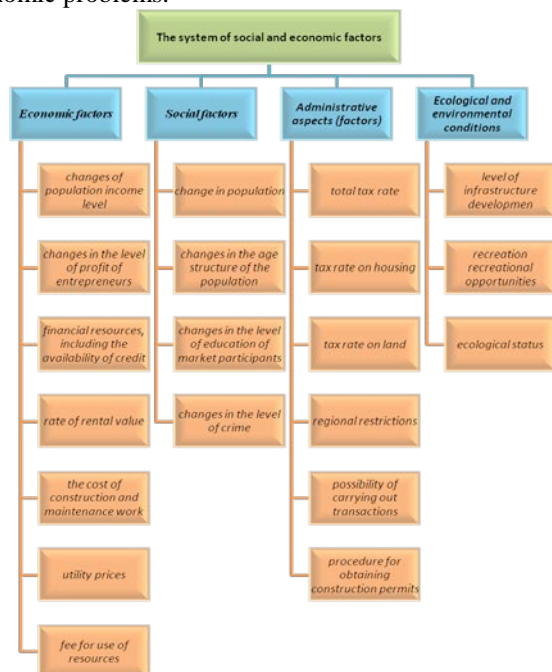


Fig. 2. The system of social and economic factors affecting supply and demand in the housing market [10, 11, 12]

It is important to note that the Latvian housing market is constantly affected by different transnational and global factors that influence both sides of market participants. Transnational factors are formed and affected at least in theory by member states of the unions; therefore, feedback has a two-

way direction. However, even a large country experiences difficulty in affecting global factors; therefore, the real estate market of each country is forced to adapt to the influence of global factors on the market participants.

The model depicted in Fig. 1 shows that transnational and global factors interact with domestic factors, which, mostly, have to adapt to the largest, in terms of quantity, and most powerful economic system. In order to protect the domestic market from unwanted convulsions caused by transnational and global factors, the respective state institutions influence the domestic factors to mitigate the adverse effects of external factors.

To identify more precisely the impact of various factors on market participants, it is important to note that the real estate market is a typical incomplete market; therefore, most factors influencing the real estate market are focused on reducing the negative impact of market imperfection on the character of market development.

IV. SOCIO-ECONOMIC ISSUES, POSSIBLE SOLUTIONS IN THE HOUSING MARKET

A. Assessment of the Population Change in Latvia

One of the socio-economic factors influencing the housing market is the population change in Latvia. The population change in the largest cities and rural areas of Latvia indicates that socio-economic policies implemented in the country do not correspond to the challenges posed by the socio-economic development of the world.

From 2005 to 2011, the number of residents decreased by almost 47.8 thousand, or 4.24% in the largest cities of Latvia. The largest decrease was recorded in Riga and Daugavpils, 31.6 and 7.5 thousand respectively. However, by the percentage distribution, the largest reduction was observed in Daugavpils and Rezekne, where the number of residents decreased by 6.8% and 6.18% respectively in 2005 [13].

Number of residents increased insignificantly just by 164 people or 0.29% only in Jurmala, while the lowest reduction related to the population change was observed in Jelgava, Liepaja and Ventspils. In these cities, the total number of people decreased by 2.8%, 3.71% and 3.73% respectively during the reporting period.

When many EU member states offer higher paying jobs, free higher education, and other social benefits to economically active residents of Latvia, even for the largest cities of Latvia it is difficult to compete in this global socio-economic system with obvious competitive advantages. Therefore, the activities of Jelgava, Riga and Jurmala municipalities are highly valued because they resulted in significant progress in urban socio-economic development, contributing to preservation of the number of residents.

Population decrease in urban and rural areas is relatively similar. This means that social and economic factors equally affect both urban and rural populations. Correlation method has been used to assess the mutual interaction of population change in the largest cities and rural areas of Latvia. As indicated by the population migration trends for many decades, the use of correlation method is based on the

assumption that the largest Latvian cities have greater social and economic competitiveness compared to towns and rural areas outside large and small cities.

Population change is affected by socio-economic factors, such as natural increase and net migration. Table 2 provides estimates of population change – natural increase and net migration.

Table 2. Factors Influencing Population Change [13]

Year	Total			%		
	Total population change	Natural increase	Net migration	Total population change	Natural increase	Net migration
2005	-21850	-10898	-10952	-0.97	-0.48	-0.49
2006	-19034	-10227	-8807	-0.85	-0.46	-0.39
2007	-17030	-9084	-7946	-0.77	-0.41	-0.36
2008	-28976	-6609	-22367	-1.32	-0.3	-1.02
2009	-42330	-7853	-34477	-1.96	-0.36	-1.6
2010	-45899	-10259	-35640	-2.16	-0.48	-1.68
2011	-32842	-9715	-23127	-1.58	-0.47	-1.11

As may be seen from Table 2, in 2005 natural increase, which is the difference between the number of births and the number of deaths in a given period of time, accounted for -0.48%, already in 2006 this indicator was -0.46%, while in 2008 it decreased to -0.3% that was significantly lower compared to natural increase in 2007 and 2009. In 2010, the indicator reached the same level that was recorded in 2005, i.e., -0.48%; however, in 2011 it declined by 0.1% to -0.47%. Hence, the natural population increase cannot be considered a reason for a decrease in the number of households.

According to the data provided in Table 2, in 2011 net migration accounted for 1.11%, which is a decrease by 0.67% compared to net migration in the previous year, as in 2010 it was -1.68%. The authors of the paper consider migration to be a socio-economic factor affecting the number of households. The 2011 Census data differ from the data provided by the Central Statistical Bureau of Latvia; however, this difference may be explained by the fact that a large part of the population moving to and starting a job in another country, does not inform the relevant national authorities.

According to a variety of surveys and studies, exactly the level of education is an important socio-economic factor because only those people with low levels of education cannot initiate changes or are unable to resist the negative moments of life and overcome difficulties, as evidenced, for example, by recent research on the introduction of the Euro in 2014.

The 2011 Census programme stipulated that the answer to the question regarding the level of education had to be given by the individuals aged 7 and over. However, according to recommendations of the UN Economic Commission for Europe and Eurostat, the Statistical Office of the European Union, aggregated data on the highest level of education

successfully obtained should be provided for persons aged 15 and over. As it was impossible to obtain information on the level of education of the population over the years at the CSB webpage, the authors of the study used the data available in the reports on the 2011 Census.

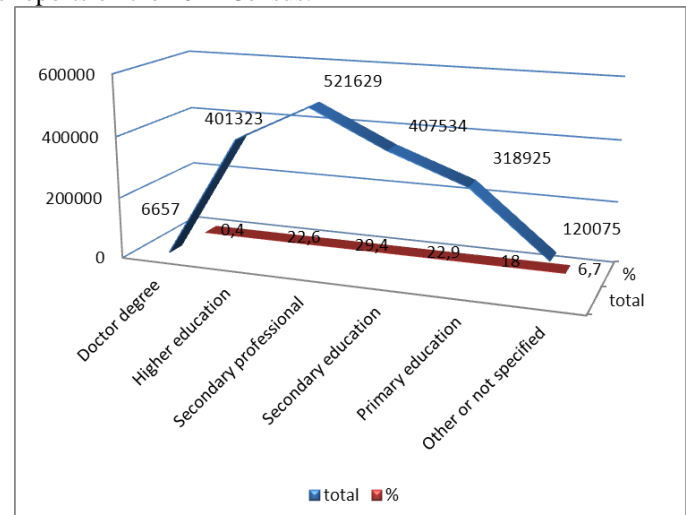


Fig. 3. The percent distribution of people with different levels of education [developed by the authors]

Based on data provided in Figure 3, it can be concluded that the Latvian population, who has secondary vocational education, accounts for 29.4%, and those, who have only secondary education, account for 22.9%. Higher education is obtained by 22.6% of the total population, while doctoral degrees in various sciences have been granted to 0.4% of the total population. The number of people, who have primary education / no formal education / pre-primary education or whose education level is not specified, accounts for 6.7%.

B. Income Level Assessment of Latvian Households

In the development of real estate market, an important social and economic problem is related to the level of Latvian household income, which enables people to improve their living conditions and to form a “movement” in the housing market. When income of the population increases, people devote most of their attention to real estate as an object of consumption or a prospective investment object.

If the level of household income increases, it leads to an increase in the amount of surplus funds, which can be directed by households for the purchase or rental of a house. An increase in income motivates households, whose current living space does not meet socially accepted norms, to buy or to move to larger and more relevant residential areas. This trend, in turn, leads to an increase in demand not only for residential areas but also for land.

It should be noted that when making a decision on granting a credit for the purchase of real estate, a credit institution also takes into account the amount of the household income. Banks have their own policy on housing credit. This policy envisages that in order to make a decision on granting a credit, the costs of housing needs (loan payment, utilities, insurance, taxes) should not exceed a certain proportion of the total household income. Therefore, an increase in household income, first of

all, will increase the number of households that can meet the minimum credit conditions set by banks, and, secondly, the growth of income can contribute to a decision made in favour of larger residential areas.

To smooth time series for disposable income of Latvian households per household (LVL, monthly), the following fourth degree polynomial function equations are used:

- a) analysing the monthly income of urban households, it is necessary to use function (1) in order to smooth time series:

$$y = 3.006x^4 - 54.36x^3 + 312.3x^2 - 564.2x + 586.1$$

with $R^2 = 0.962$ (1)

- b) analysing the monthly income of regional rural households, it is necessary to use function (2) in order to smooth time series:

$$y = 3.314x^4 - 59.39x^3 + 345.3x^2 - 662.8x + 591.8$$

with $R^2 = 0.973$ (2)

- c) analysing the monthly income of all households, it is necessary to use function (3) in order to smooth time series:

$$y = 3.165x^4 - 57.09x^3 + 329.6x^2 - 610.2x + 598.4$$

with $R^2 = 0.966$ (3)

Analysing the obtained results of smoothing of time series, it can be concluded that during the reporting period household income reached the maximum value in 2008, and then it decreased sharply. The indicators for 2011 and 2012 are not available in statistical sources.

A quadratic function has a non-constant nature characteristic of a sharp increase in income, which, in some way, may also reflect the economic development of a country or a growth cycle, followed by a rapid decline in growth and recession.

To smooth time series for disposable income of Latvian households per household member (LVL, monthly), the following fourth degree polynomial function equations are used:

- a) analysing the monthly income of urban households per household member, it is necessary to use function (4) in order to smooth time series:

$$y = 1.224x^4 - 22.18x^3 + 128.7x^2 - 238.2x + 245.8$$

with $R^2 = 0.961$ (4)

- b) analysing the monthly income of regional rural households per household member, it is necessary to use function (5) in order to smooth time series:

$$y = 1.030x^4 - 18.54x^3 + 108.3x^2 - 207.7x + 194.3$$

with $R^2 = 0.973$ (5)

- c) analysing the monthly income of all households per household member, it is necessary to use function (6) in order to smooth time series:

$$y = 1.185x^4 - 21.46x^3 + 125.0x^2 - 235.1x + 233.4$$

with $R^2 = 0.966$ (6)

Analysing the obtained results of smoothing of time series, it can be concluded that during the reporting period household income per household member reached the maximum value in 2008, and then it decreased sharply. The indicators for 2011 and 2012 are not available in statistical sources.

The comparison of the obtained values of correlation coefficient R^2 , which are greater than 0.95 but less than 0.99 (0.962, 0.973, 0.966, 0.961, 0.973, 0.966 respectively), allows concluding that there is a strong correlation link between the income of population, i.e., household, and an increase in the welfare level of state. However, it should be noted that, since the parabola is used, then these indicators are volatile in nature.

From 2004 to 2008, the disposable income of Latvian households increased year on year, and the sharpest increase was observed in 2007 compared to 2006, accounting for 46.58% in 2007 compared to 2006.

However, in 2008 the rate of household disposable income decreased sharply. During the reporting period, the maximum decrease in household disposable income was observed in 2009 and it accounted for -16.63%, while in 2010 it was -8.34%.

To smooth time series for the growth rate of disposable income of Latvian households, a fourth degree polynomial function equation (7) is used:

$$y = 0.874x^4 - 12.60x^3 + 54.85x^2 - 72.04x + 30.29$$

with $R^2 = 0.907$ (7)

The resulting time series indicates that there are no permanent trends observed regarding changes in disposable household income.

To understand an increase in the level of household income, it is necessary to consider the data on changes in GDP and average salary levels.

The economic growth of a country is best characterized by GDP indicators. Consequently, the authors of the paper will assess the growth of the national economy and the influence of recession on the welfare level of the population by analysing the GDP growth and decline.

Analysing the GDP at current prices in the country from 2006 to 2011, it was found that in 2008 GDP was reported 16,084,678 thousand LVL, which was the highest value.

In 2009, GDP significantly fell to 13,070,448 thousand LVL, thus reaching an even lower value than in 2007. Also in 2010, it continued decreasing; however, in 2011 there was a considerable increase – GDP accounted for 14,161,028 thousand LVL. In Latvia, after a sharp fall a gradual recovery has started.

From 2004 to 2008, the output of final goods produced in Latvia increased every year, and the most rapid increase was observed in 2007 compared to 2006.

To perform estimates and to smooth time series, a fourth degree polynomial function (8) was applied:

$$y = 0.072x^4 + 0.709x^3 - 15.12x^2 + 50.61x - 16.81$$

with $R^2 = 0.824$ (8)

In 2008, the growth rate of GDP began to decrease rapidly, and in 2009 it reached a threshold of the reporting period, i.e., -18.74% compared to 2008. In 2011, the situation started to improve, and compared to 2010 the growth of 11.17% was observed.

To determine socio-economic problems, the authors of research consider that it is necessary to examine the average monthly net and gross salary from 2006 to 2011, since the

amount of salary affects the income of society as a whole, which in turn influences the economic situation in both the real estate market and the consumer market.

From 2006 to 2008, there was an increase in salary, for example, in 2006 salary increased by 56 LVL or 18.54% compared to 2005; in 2007 it rose by 96 LVL or 24.12%. In 2008, salary growth slowed – it grew by 81 LVL or 16.91% compared to 2007.

In 2009 and 2010, salary began to decline – a decrease by 18 LVL and 16 LVL or 3.9% and 3.6% compared to the previous year. The year 2011 marks the beginning of a small increase in salary, if compared to 2010 the gross salary increased by 19 LVL or 4.09%.

There was the same situation with the net salary. The authors of research admit that these changes are related not only to the economic situation of the country, but also to the country policy in the tax area.

The data analysed above demonstrate that in 2008 the economic situation created the conditions under which the people had sufficient income. Assuming that there was also income as a result of shadow economy active activities, the level of income was even higher.

By analysing household income and related factors, the authors of research have concluded that the level of income serves as the reason for an increase in demand for real estate, and it is also an important socio-economic factor.

V. CONCLUSIONS

Having conducted research, the authors have come to the following conclusions:

1. The most important factor, which has been determining the development of different segments of the real estate market since 1998, is exactly the socio-economic factor, i.e., household income, business profit and the development of mortgage lending system.

2. By comparing the market function characteristics provided in literature on economics and applying them to the real estate market, it is possible to conclude that the real estate market is a set of certain conditions, factors and mechanisms by which the property rights and related interests are transferred, as well as prices are determined and land is allocated for different purposes.

3. By analysing the factors that affect the housing market, which indicate the socio-economic problems, it can be concluded that all factors influencing the functioning of real estate market can be divided into the following groups: monetary factors, fiscal factors, social factors, and legal factors, transnational and global factors.

4. The real estate market of Latvia is constantly affected by different transnational and global factors that affect both market participants forming the demand and those forming the supply. Transnational factors are formed and affected at least in theory by member states of the unions, so that a feedback has a two-way direction.

5. Socio-economic factors influencing the market do not affect the market itself, but the existing and/or potential market participants – entities forming the supply and demand

– the households, businessmen, government and public organizations.

6. Uneven development pace of the market is not conducive to the efficient use of resources not only in the corresponding market in terms of the production of goods sold, but throughout the whole national economy. Therefore, government intervention is necessary, because a variety of domestic factors is used that contribute to the sustainable development of the market, which to a great extent complies with the public interest.

7. Population change in the largest cities and rural areas of Latvia demonstrates that the socio-economic policy implemented in the country does not comply with the challenges posed by the socio-economic development of the world.

8. When many EU member states offer higher paying jobs, free higher education, and other social benefits to economically active residents of Latvia, even for the largest cities of Latvia it is difficult to compete in this global socio-economic system with obvious competitive advantages.

9. Towns and rural areas have considerably lower opportunities to maintain population compared to socio-economic opportunities in the largest cities of Latvia, as they have to compete not only with the social and economic opportunities offered by larger cities of Latvia, but also with opportunities provided by cities and towns of other countries. Therefore, population change in rural areas is considerably more sensitive to socio-economic changes in the country and in neighbouring countries.

10. The level of education is an important socio-economic factor because only those people with low levels of education cannot initiate changes or are unable to resist the negative moments of life and overcome difficulties, as evidenced, for example, by recent research on the introduction of the Euro in 2014.

11. Determinants of population changes in the largest cities and rural areas of Latvia, to a great extent, indicate that socio-economic policies implemented in the country do not comply with the challenges posed by socio-economic globalization of the world.

12. In the development of real estate market, an important social and economic problem is related to the level of Latvian household income, which enables people to improve their living conditions and to form a “movement” in the housing market. When income of the population increases, people devote most of their attention to real estate as an object of consumption or a prospective investment object.

13. If the level of household income increases, it leads to an increase in the amount of surplus funds, which can be directed by households for the purchase or rental of a house. An increase in income motivates households, whose current living space does not meet socially accepted norms, to buy or to move to larger and more relevant residential areas. This trend, in turn, leads to an increase in demand not only for residential areas but also for land.

14. By analysing household income and related factors, the authors of research have concluded that the level of

income serves as the reason for an increase in demand for real estate, and it is also an important socio-economic factor.

Based on the conclusions made during research, the authors have put forward the following proposals, which can serve as guidelines for future socio-economic research and may be useful to other interested parties:

1. The socio-economic analysis of the problems related to the development of the real estate market should be performed regularly based on the balanced and reasonable market research at a national level in order to detect trends and directions of changes in advance through the various relations of economic analysis among different variables.

2. From the socio-economic point of view, in relation to the implementation of housing policy according to main directions of the National Development Strategy, to solve social problems and to recover the economy of the country, the government could buy constructed or unfinished projects from the market participants to form new social housing programme or to provide subsidies as it is accepted elsewhere in the European Union and in the world.

3. The problem related to housing shortage can be solved by cooperation between contractors and municipalities that can build new apartment houses or renovate the existing ones, which are left by the residents. In these residential houses, a set of the apartments is owned by the contractor and part belongs to the municipality that can use it at its discretion, for example, as council houses. This situation would encourage a balanced population distribution environment and reduce the opportunities of developing an anti-social living environment, which is formed by the residents, who have a low level of income.

4. The government should consider the opportunity of granting targeted donations aimed at reconstructing buildings owned by municipalities into residential houses, completing the building process of the residential houses, the construction work of which stopped, or renovating residential buildings that are not rented anymore and purchasing residential property.

5. The government involvement in the economy would create new jobs not only in the sector of real estate, but also in construction, which can be considered the most important industry that affects the national economy of Latvia, thus increasing the level of GDP, as well as promoting the national and municipal rental market.

6. As a more favourable economic development system of the country is forming, the government should develop the mechanisms to support families with children, who purchased their initial home to satisfy basic needs – the need for housing,

thereby raising living standards and increasing the competitiveness of a region compared to other countries, where such supporting mechanisms operate.

7. The government should improve the public housing policy and participate more actively in the processes influencing the development of real estate market, contributing to the improvement of housing conditions for residents with lower income and devoting special attention to regions with a lower level of socio-economic development.

8. The government should develop and implement measures that stabilize the real estate market, thus contributing to the development of market according to the basic principles of sustainable development; moreover, special attention should be devoted to the regulation of factors determining total demand and the development of the construction industry in order to promote housing construction.

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