Strategy plan to enter Riga's real estate market

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This thesis is a project work where the final outcome is a strategy plan to enter Riga's real estate market.

The full purpose of thesis is to form an overview of the market conditions. The topic was agreed on in co-operation between the author and the commissioning company.

The thesis work will explain the current market conditions as well as present a general study of the estimates and forecasts of the market. The study includes an overview of the macroeconomics, targeting the country of Latvia. The key indicators are the nation's financial and political data.

The business environment is taken into account as a coherent environment, where visible and non-visible relations come into play. These relations act as the core for the thesis study. The study covers scenarios of the Latvian real estate market.

The thesis work includes legislative information on the real estate business to support the understanding of how the business environment is currently established. The business environment highly reflects the existing establishments of the real estate industry. As per related indicators of the market environment, insights into current house prices and rental yields are also provided.

The strategy part includes a preliminary entry plan and indicates key strategic viewpoints. These are adjusted to follow the commissioning company's current operations and interests.

Table of content

1   Introduction

This chapter will explain the background for the thesis, thesis topic, international aspect of the thesis, anticipated benefits of the thesis work, key concepts, risks and risk management and the case company.

1.1   Background

The purpose for this thesis is to create a suitable strategy to enter Riga's real estate market. The author will make a market analysis in order to create and support a suitable strategy approach for the commissioning company.

1.2   Project objective

The thesis will examine the current real estate market in Riga in form of market analysis. The analysis part will cover both renting and selling apartments. The topic was agreed on in co-operation between the author and the commissioning company.

Project Task 1 is to study the target country and its political, economical, social, technological, environmental and legal factors. This will be covered in SWOT and PESTEL analyses. This part will include data about the risks and opportunities that lie in the target country.

Project Task 2 is to make a market analysis of the current real estate market situation in Riga, Latvia. This step takes a deeper viewpoint in the data analysis.

Project Task 3 is an analysis of the competitors in the target field. This includes a part that will introduce possible co-operations with companies that operate in the target market.

Project Task 4 is a strategy analysis that will be made based on the earlier data gathering. This part covers entry plan and entry modes.

Project Task 5 is the above task results summarized. This part will have discussion based on the findings and data summary.

Project Task 6 is generalizing the results based on the earlier tasks. The results will include propositions for implementation of the strategy plan. This part will have recommendations and risks, pros and cons.

Based on the Project Tasks 1-6, the final outcome is the thesis work. Overlay Matrix is introduced in the form of a table.

Table 1 below presents the theoretical framework, the project management methods and the outcomes for each project task.

Table 1. Overlay matrix

Project Task	Theoretical Framework	Methods	Outcomes
PT 1	Data gathering	Data analysis, SWOT & PESTEL	Study of the target country
PT 2	Data gathering	Data analysis	Current market analysis
PT 3	Data gathering	Data analysis	Competitor & co-operation analysis
PT 4	Data gathering	Strategy analysis and entry plan	Entry mode(s)
PT 5	Result summarized		
PT 6	Generalizing results		
RESULT	FINAL OUTCOME THESIS		

The objective is the commissioning company's requirement to have an entry plan, which will suit the company's current operations. The objectives are divided into three parts; the general study over Riga (1), Riga's current real estate market (2) and final part is the strategy to enter the new market (3).

Figure 1. The objective and process work of the thesis

The Figure 1 explains the objective and process work of the thesis. The author will research and explain Riga's current real estate market. The general study over Riga will include SWOT and PESTEL analyses. The objective of Riga's current real estate market will include a competitor analysis. The strategy to enter the new market will include a study of possible co-operation and entry modes. Data will be gathered and analysed. After this, the results will be summarized and validity of data will be checked.

Data will be analysed from the viewpoint of market opportunity. This part will include the possibilities and risks of the market. Then data will be analysed from the viewpoint of the strategy entry. This part will include the strategy plan to enter the target market. In finalis-

ing part of the thesis work, the results will be generalized and met with the company's vision and goals.

1.3 Project scope

The target of the thesis is a strategic entry plan to Riga's real estate market, where the commissioning company is planning to enter. The thesis will be current in timing. Meaning that it will give a detailed analysis of the current market situation. The strategy plan is current on the choice of the strategy route. Data will be collected from suitable resources. The market changes continuously, and therefore all data will have to be up-to-date.

1.4 International aspect

The thesis topic is international in its nature. The thesis work is targeting Riga, Latvia. The commissioning company is Finnish and has no previous operations in Latvia.

1.5 Benefits

The benefit of the thesis is to give the commission company a strategic entry plan. The author will benefit of getting experience in creating a strategic entry plan and market analysis. The work will give a chance for the author to show skills of expertise and deepen the already existing knowledge.

1.6 Key concepts

The approach for the strategy is prescriptive. It will cover a thorough strategic analysis. This means, that the author will have an emphasis on the current market situation, the environment of Riga's real estate market. The strategy planning will acknowledge the commissioning company's vision, mission and objectives. The prescriptive approach of the strategy provides different options for the market entry as a goal of finding a rational selection and a strategic route for the author to follow. The end goal is to find a strategy, which will have a suitable structure and style for the company. (Lynch 2015, 20).

The author will study competitors and make a competitor analysis. Possible co-operations will be taken into account.

1.7 Case company

The commissioning company is a private sector real estate agency, which operates both in the field of renting and selling apartments. The company has special expertise in renting apartments. Additionally the company operates in all fields of real estate related business. The company operates with funds and private investors. Services include rental services, investment services and sales services. The business revenue of the commissioning company was 8 149 000 € in the fiscal year of 2015.

Currently, the commissioning company is operating in Finland and in Tallinn (Estonia). The company headquarters is located in Helsinki. The company has offices in Lahti, Tampere, Turku and Oulu regions. Currently the company employs around 100 people.

When agreeing on the topic of thesis work, the commissioning company requested a market research and a preliminary entry plan from the author. The request from the commissioning company is the central reason for the thesis work. The thesis work will include overview of the current markets of Latvia. The commissioning company will use the thesis as a material when planning internationalization actions.

1.8 Risks and risk management

The risks of the thesis work will include several issues. The author will have to make decisions on finding the right path for the strategy. The chosen strategy will support the commissioning company's goals and current operations. The emphasis will be on finding most suitable option for the commissioning company. The work will have a thorough analysis over Riga's current real estate market situation. The study outcome will have impact on the strategy plan.

Other risk is the validation of the gathered data. The data is the core for the entire strategy plan. If there is any mistake or lack of data, this will affect the strategy plan and therefore affect the outcome of the thesis work.

Risks will be taken into account through out the thesis process. The author will bare in mind the existing risks in all parts of the thesis work and process. The data sources will be chosen from the most reliable options. The author will gather data from several sources and then analyse the chosen data before using it.

1.9 Legislation and data issues

The thesis work will include Latvia's legislation on the parts, which touch the strategy and the field of possible operation(s). The legislation rules will be gathered from Latvia's national sources, the government of Latvia. The legislation rules will be presented in the thesis work.

The data of Riga's current market situation will be gathered also from official sources. This will include having to analyse the data from recent years, as well as analysing the findings that touch the future of the market. In real estate business, the cycles are analysed yearly and investors and companies are highly related to economic situations of the markets. Markets are affected on the financial states of the countries in question and also the bigger pictures, meaning that the world economy has high impact on the real estate markets.

1.10 Timeline and project management methods

The planned timeline of the thesis work and project management methods are introduced here.

The author will follow the timeline introduced in the table 2 below. This table will give direction of the timeline, which will be followed through out the thesis work. The author will start the timeline, the week 1, in the beginning of February and proceed according to the timeline plan. The thesis is finished during the 10 weeks.

Table 2. Timeline plan for the thesis work

Week(s)	PT's	Methods	Outcomes
1-2	PT 1	Data analysis, SWOT & PESTEL	Study of the target country
3-4	PT 2	Data analysis	Current market analysis
4-5	PT 3	Data analysis	Competitor & co-operation analysis
6-7	PT 4	Strategy analysis and entry plan	Entry mode(s)
7-8	PT 5	Data validation and result summary	Result summarized
9	PT 6	Data validation and generalizing results	Generalizing results Writing recommendations, pros & cons
10	Final week	Language and form check	Finalizing the thesis

2   Macroeconomic overview and analysis

This chapter will explain the current macroeconomic and macro-environmental overview and analysis of the market in detail. PESTEL and SWOT methods are included in the overview. More detailed market overview is explained in the segments concerning real estate. This part is crucial for the project work. Understanding the current market will define the strategic outcome of the thesis work.

2.1   PESTEL

The PESTEL method is used in the thesis to explain the current data of the target country, Latvia. PESTEL is highly acknowledged as a common framework method, which will help to understand conditions and possible risks related to it.

PESTEL helps to also position strategically the commissioning company. The environment, the capability, the purpose and the culture affects, where the company is strategically positioned. This helps to draw strategic choices and strategic action plans. (Johnson, Whittington, Scholes, Angwin, Regnér 2014, 32).

PESTEL includes political, economic, social, technological, ecological and legal factors that affect or might affect the company. PESTEL is looking into the macro-environment of the company in a detailed manner. (Johnson, Whittington, Scholes, Angwin, Regnér 2014, 33).

In the political part of the PESTEL, the role of the country (Latvia) and other possibly relating political factors are examined. A matrix can be drawn to help to see the politic relevance in relation to the company. (Johnson, Whittington, Scholes, Angwin, Regnér 2014, 34-36).

The economics in the PESTEL explains macro-economic factors, which includes elements such as exchange rates, differential economical growth rates and business cycles. These are researched and explained in a global viewpoint. It is important to understand, where the business stands, and how the markets are affected in the big picture. The prosperity of the economy has impacts on the markets and relating indicators, which define the market conditions in general. (Johnson, Whittington, Scholes, Angwin, Regnér 2014, 36).

The social part of the PESTEL looks into the culture and demographics, and their changes. Future expectations of the population growth rate, the aging population group and the

working age group, are all key social indicators. The social part looks also into the cultural attitudes and their changes. (Johnson, Whittington, Scholes, Angwin, Regnér 2014, 36).

PESTEL's technological part looks into areas such as the Internet. Usage and access of the Internet among the population is researched in this section. New technologies can have impact on some industries. The technology areas can help understand the situation of the country, how advanced it is. (Johnson, Whittington, Scholes, Angwin, Regnér 2014, 36).

The ecological part of the PESTEL concerns environmental factors, such as climate change, waste and pollution, and their affects. These can be specified as 'green' environmental issues, which are studied in a general level. The purpose is to find out, whether there is any affect that can be or become a threat. Some companies can even help to resolve environmental issues, depending on the operating field of industry. Relating environmental rules and regulations of the country are covered in this part. (Johnson, Whittington, Scholes, Angwin, Regnér 2014, 36).

The PESTEL's legal part looks into the country's legislation and regulations, and their possible changes. These are relevant for any business operation. For example legal changes might have affect on taxation, mergers and acquisitions. Sometimes these changes can also open new doors, such as liberalisation of foreign investments. (Johnson, Whittington, Scholes, Angwin, Regnér 2014, 36).

2.1.1 Political factors

This part explains in brief, the political system of Latvia and Latvia's role in international unions.

Latvia is a parliamentary republic. Latvia has been part of the EU since May 2004. Latvia joined EURO monetary system in 2014. Latvia has continuously increased the country's memberships in international organizations. Latvia has been a NATO member since year 2004 and WTO since year 1998. Latvia is planning full OECD membership this year (2016). (European Union 2016, Investment and Development Agency of Latvia 2016.)

Latvia's Head of the state is the country's president Raimonds Vējonis. He was elected by the Latvian parliament in 2015. The presidential term is a four-year time period. The head of government is the country's Prime Minister Māris Kučinskis. Latvia's political system Saeima has altogether 100 seats, which are divided among the political parties. Social

democrats party "The Harmony" (Sociāldemokrātiskā partija "Saskaņa") has at the moment 24 seats. Unity (Vienotība) has 23 seats, The Greens and Farmers Union (Zaļo un Zemnieku savienība) has 21 seats National Alliance "All For Latvia!" – "For Fatherland and Freedom/ LNNK" (Nacionālā apvienība "Visu Latvijai!" – "Tēvzemei un Brīvībai/ LNNK") has 17 seats, Latvia's Regional Alliance (Latvijas Reģionu Apvienība) 8 seats, For Latvia from the Heart (No sirds Latvijai) 7 seats. (Investment and Development Agency of Latvia 2016.)

Latvia's political situation is considered overall stable. It is positive, that the country is more involved with the international unions. Latvia is building up it's reputation to increase financial stability and to attract foreing direct investment (FDI).

2.1.2 Economic factors

This part looks into the economic factors of the nation of Latvia. The general financial information is important for the thesis topic, since it affects all business and consumption. Real estate field is highly affected in relation to nation's overall financial situation. The emphasis is on the general financial outlook of Latvia and detailed information as well as forecasts for the current year (2016) and the next year (2017).

Latvia's GDP contributes with exports by nearly a third. Because of the country's geographical location, Latvia has highly developed transit services. These services include wood and timber processing, food production, agriculture, machinery manufacturing and industries of electronics. The country's corruption is still a barrier to attract foreign direct investment (FDI). Other factors that are affecting the economic growth in a long-term are low birth rate and the decrease of the population. (Central Intelligence Agency 2016.)

Most of Latvia's banks, companies and real estate have been privatized. The Latvian state holds still substantial stakes in some of the largest enterprises. These include for example the national airline, Air Baltic Corporation, which is 99,8% owned by the Latvian state. (Central Intelligence Agency 2016.)

The country's economy experienced recession in 2008 due to a current account deficit and substantial debt exposure during the flip in the world economy. Latvia's GDP dropped 18 percentages in 2009 at the time of the collapse of the second largest bank. Currently Latvia has not yet reached pre-crisis levels, even though there has been visible growth. This has shown strongest in the export sector in the timeline of 2011-2014. (Central Intelligence Agency 2016.)

The country gained notable financial help from the International Monetary Fund (IMF) and the European Union (EU), among other international donors. This help-program ended successfully in 2011. (Central Intelligence Agency 2016.)

Table 3. Country forecast (European Union 2016)

Main features of country forecast - LATVIA

	2014			Annual percentage change						
	mio EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		23580.9	100.0	4.4	4.0	3.0	2.4	2.7	3.1	3.2
Private Consumption		14430.4	61.2	4.0	3.2	5.1	2.3	3.4	3.8	3.9
Public Consumption		4151.8	17.6	1.3	0.3	1.6	4.9	2.7	2.4	2.0
Gross fixed capital formation		5393.6	22.9	9.6	14.4	-6.0	0.5	2.1	2.8	4.5
of which: equipment		2062.6	8.7	10.8	12.0	-5.4	-4.5	-	-	-
Exports (goods and services)		14031.7	59.5	8.1	9.8	1.1	3.1	1.8	2.7	3.2
Imports (goods and services)		14561.7	61.8	7.9	5.4	-0.2	0.8	2.4	3.1	4.0
GNI (GDP deflator)		23541.0	99.8	4.3	3.3	3.5	2.4	2.6	3.0	3.2
Contribution to GDP growth:	Domestic demand			5.4	5.2	1.8	2.4	3.0	3.4	3.7
	Inventories			0.2	-3.5	0.4	-1.4	0.1	0.0	0.0
	Net exports			-1.1	2.3	0.8	1.4	-0.4	-0.3	-0.5
Employment				-0.5	1.4	2.3	-1.4	0.5	0.5	0.6
Unemployment rate (a)				12.9	15.0	11.9	10.8	9.9	9.2	8.6
Compensation of employees / head				10.6	6.1	5.0	8.5	6.1	5.2	5.5
Unit labour costs whole economy				5.4	3.5	4.3	4.6	3.8	2.5	2.9
Real unit labour cost				-0.5	0.0	3.0	3.3	2.8	1.3	0.5
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				6.0	3.6	1.3	1.2	1.0	1.2	2.3
Harmonised index of consumer prices				-	2.3	0.0	0.7	0.2	0.4	2.0
Terms of trade of goods				-0.5	-3.7	1.3	-0.8	1.0	0.5	-0.1
Trade balance (goods) (c)				-17.1	-12.1	-11.2	-9.6	-9.3	-9.0	-9.4
Current-account balance (c)				-8.5	-3.5	-2.1	-2.0	-1.9	-2.0	-2.2
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.6	-0.5	0.4	1.2	1.2	0.9	0.5
General government balance (c)				-2.4	-0.8	-0.9	-1.6	-1.3	-1.0	-1.0
Cyclically-adjusted budget balance (d)				-	-0.1	-1.0	-2.0	-1.9	-1.7	-1.6
Structural budget balance (d)				-	-0.1	-1.0	-1.7	-1.9	-1.7	-1.6
General government gross debt (c)				18.0	41.4	39.1	40.8	36.7	39.9	37.7

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

The table 3 indicates forecasts of Latvia's financial development, the real GDP, growth and contributions in annually estimated percentages. The GDP is estimated to see increase by 2017 as well as increase of private consumption, and public consumption decreasing. Gross fixed capital formations looks to be increasing as well. Annual increase in exports and imports of goods and services, additionally looking at the contribution of GDP growth as domestic demand is also increasing and slight changes in the net exports. Employment levels looks to be of 0.5 % in 2015/2016, and in 2017 at 0.6 %. The unemployment rate is looking to be annually dropping, facing the level of 8.6 % in 2017.

The possible risk factors of the forecast are equalized by the substantial growth of tourism and cost savings due to low energy prices, and the domestic business re-orientation towards new markets and products. These will help to balance the difficult external environment factors and politic domestic tensions. The consumer sentiment looks still quite

weak and substantial parts of the income gains are predicted as debt repayment and pre-caution savings. (European Union 2016.)

It looks that the exports are not growing as fast as imports, looking at volume terms. Yet, low energy price is bringing some terms-of-trade benefits in 2016's external balance. Current account deficit is looking to remain quite balanced at approximately 2 percentages of the nation's GDP by the end of year 2016. This looks to be slightly increasing by 2017. The exports grew slightly in 2015 as in terms of volume. The higher demand of trading partners is estimated to accelerate export growth, but rise in unit labor expenses are expected to bring negative impact on the shares of the export market. (European Union 2016.)

The unemployment rate is estimated to drop to 8.6 % by 2017. Yet the employment growth looks to be moderate due to undesired demographics and relatively high structural unemployment. It is estimated that high growth in wages is also affecting negatively to the demand of employment. This is concerning especially the higher unemployment regions. Nevertheless it is expected that during 2016, there is a slow down to the wage growth due to weakening adjustments of minimum wages. (European Union 2016.)

Inflation is remained low mainly as a result of the energy prices. At the beginning of the year 2016, the decrease of crude oil prices posed pressure in consumer price inflation as downward movement. The inflation is set to be around 0.4 % during 2016, amid the instant impacts of fuel prices, dragging effects on natural gas, transport services and heating. Estimation is, that inflation should reach 2.0% by the year 2017. (European Union 2016.)

Latvia's demand is supported by the low interest rates. During 2015 the lending activity started increasing and the interest rates decreasing. In the 3rd quarter of 2015, the newly taken loans of people increased approximately by 10 %. The retail lending grew additionally faster, by 23 %. These rates were reported by mortgage loans and consumer loans. The private consumption gets additional support by bigger wages and lower energy prices. (European Union 2016.)

Estimated government deficit for 2016 is to be declined to 1.0% of GDP. Mostly resulting measures of net-deficit-reduces to equivalent 0.4 % of GDP. It is expected that the personal tax revenues will be benefited due to wage increase. The growth of the government expenditure is driven by purchases and wages, in addition to increase of social spending.

Nevertheless, the growing number of pensioners remains. EU budgeted framework is expected to accelerate the capital spending in 2017. (European Union 2016.)

The budget deficit is estimated as 1.3 % of GDP in 2015. This is based on lower expenditure and stronger cash revenue outturn, than what was expected. Fiscal outlook was improved by solid tax collection. In the last quarter of 2015, the personal income tax revenue and dividend payments of state enterprises were better than expected. Increase of fuel consumption was linked to lower oil price. This was beneficial for excise duties. Growth of private consumption was out performed by VAT revenue as result of tax collection improvements. Amid capital spending exceeding plans, the current expenditure turned out lower than what was budgeted. This was particular visible in purchases of goods and services. (European Union 2016.)

The Growth of Latvia's economy looks improving and bank lending is supported by low-interests. Other beneficial factors are low energy prices. Nevertheless, exports are still weak due to difficult factors of the external environment. The fiscal position and the economical outlook of the nation have improved in 2015. The Investment and construction volumes have estimated to come up to 2.7% during 2015. The forecast of growth is estimated up to 3.1% during year 2016 and 3.2% during year 2017. The positive forecast is driven mostly by estimates of investment and private consumption volumes. (European Union 2016.)

Latvia's long term investment ratings as at February 2015 are 'A-' from Fitch Ratings, 'A3' from Moody's, 'A'- from Standard & Poor's and 'BBB' from R&I. (Investment and Development Agency of Latvia 2016.)

2.1.3   Social factors

This part looks into the social facts of Latvia, population and population division. This part includes unemployment rates, which are important from the economic point of view.

Latvian ethnic groups consist of Latvian 61.1%, Russian 26.2%, Belarusian 3.5%, Ukrainian 2.3%, Polish 2.2%, Lithuanian 1.3% and other 3.4%. The official language is Latvian, and it's spoken by 56.3%, Russian 33.8%, other 0.6% (includes Polish, Ukrainian, and Belarusian) and unspecified 9.4%. To be noted, these represent languages that are usually spoken at home. Religions of the people are Lutheran 19.6%, Orthodox 15.3%, other Christian 1%, other 0.4% and unspecified 63.7%. Population is approximately 1,986,705

in July 2015. Population in the country's capital Riga is around 621,000. (Central Intelligence Agency 2016.)
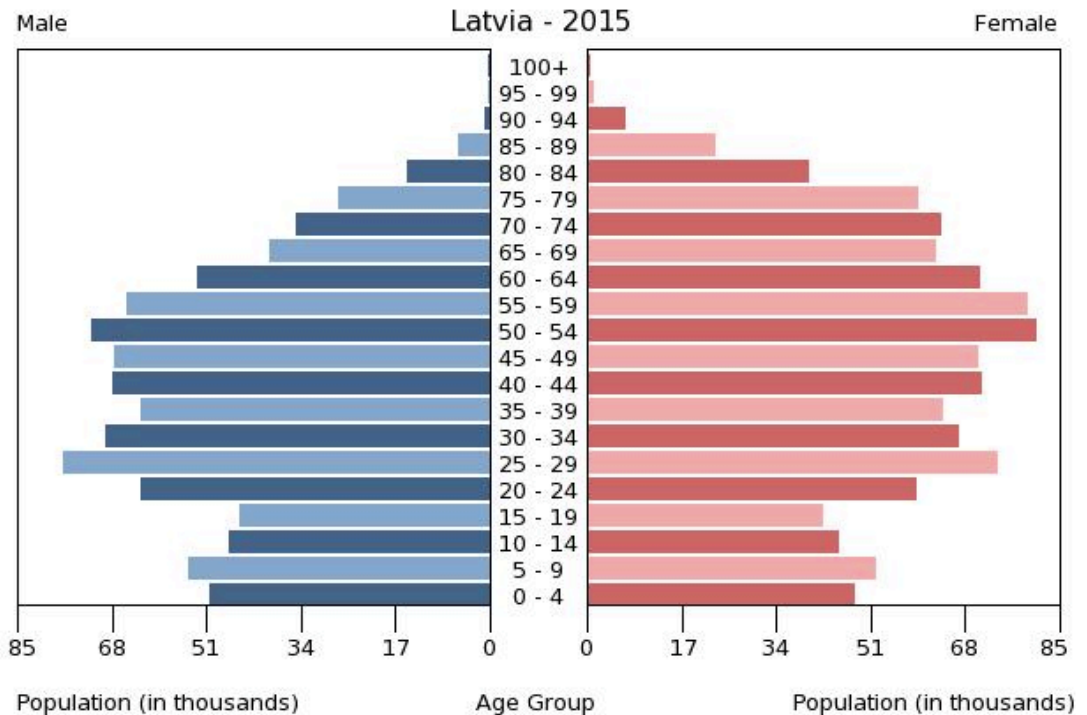

Figure 2. Latvia's population division in 2015 (Central Intelligence Agency 2016)

As pictured in the figure 2 above, Latvia's population consists of large numbers of middle-aged people. This can bring up challenges in the future years, once large quantities of population reach the retirement age. Nevertheless, there are large quantities of working aged people between years 25-40, who will remain working still for decades. The challenges are more visible once looking into the younger generations. When the youngest generations reach the working age, it looks that there will be more retired people than working aged. This will clearly generate challenges. It depends also how the population growth rate will continue. This is nevertheless a challenge further in the future.

Currently the population growth rate is approximately -1.06%. With the population's birth rate 10 births/1,000 population. Net migration rate is approximately -6.26 migrant(s)/1,000 population. Latvia's urban population is 67.4% of the country's total population. The rate of urbanization is negative, with -0.67% annual rate of change, measured from year 2010 to 2015. (Central Intelligence Agency 2016.)

Table 4. Unemployment rate (Central Statistical Bureau of Latvia 2016)

NB02. ACTIVITY RATE, EMPLOYMENT RATE AND UNEMPLOYMENT RATE BY SEX AND QUARTER by Year/Quarter, Share, Age group and Sex						
	Unemployment rate					
	15-74			15-64		
	Total	Males	Females	Total	Males	Females
2013/1st quarter	13.0	14.6	11.4	13.3	14.9	11.7
2013/2nd quarter	11.4	12.1	10.8	11.6	12.2	11.0
2013/3rd quarter	11.8	12.0	11.6	12.0	12.1	11.8
2013/4th quarter	11.3	11.8	10.8	11.5	12.0	11.0
2014/1st quarter	11.9	13.7	10.0	12.1	14.0	10.3
2014/2nd quarter	10.7	12.2	9.1	10.8	12.4	9.3
2014/3rd quarter	10.6	11.0	10.1	10.9	11.3	10.4
2014/4th quarter	10.2	10.4	10.1	10.5	10.6	10.4
2015/1st quarter	10.2	10.9	9.5	10.4	11.2	9.7
2015/2nd quarter	9.8	11.4	8.1	9.9	11.7	8.2
2015/3rd quarter	9.7	11.1	8.3	10.0	11.4	8.5
2015/4th quarter	9.8	11.0	8.7	10.0	11.2	8.7

The table 4 above indicates quarterly changes in the unemployment rates, both in totals and in genders. Latvia's unemployment rate was around 10 % in the end of the year 2015, as pictured in the table above. It is on a middle range considering other EU-countries. The unemployment rate has changed quite the same during years 2014 and 2015, facing only minor changes as can be seen in the table. Latvia faced unemployment rate of 13.3 % in year 2013, and has been able to decrease it to 10 % in 2015.

2.1.4 Technological factors

Considering Latvia's technological factors that touch the thesis work, most important is the availability and usage of the Internet within people and companies. Internet is a key factor of marketing in the field of real estate. Internet is the database where real estate agencies build the platforms to attract customers. Property advertisements include vast information of the apartment in question, including pictures and insights of the property. This is why the Internet has become the main channel for agencies.

Firstly the usage of computers, Internet and websites among companies in Latvia. This is examined to see whether the usage is generally on a standard level.

Table 5. Usage of computers, Internet and websites among enterprises (Central Statistical Bureau of Latvia 2016)

ITUG01. USE OF COMPUTERS, INTERNET AND WEB SITES IN ENTERPRISES WITH THE NUMBER OF EMPLOYEES 10 AND MORE (% of the total number of enterprises within the corresponding group) by Breakdowns, Year and Computer / Internet / Web site	2013			2014			2015		
	Computer	Internet	Web site	Computer	Internet	Web site	Computer	Internet	Web site
Total	97.4	94.2	55.7	98.1	96.0	55.9	98.2	96.8	59.0
..with number of employed 10–49	97.1	93.3	51.6	97.8	95.3	50.7	97.8	96.1	53.3
..with number of employed 50–249	98.9	98.7	74.5	99.6	99.3	78.4	100.0	100.0	83.8
..with number of employed 250 and more	98.9	98.9	92.1	100.0	99.5	94.8	100.0	100.0	94.6
Manufacturing (C)	97.4	93.2	57.6	98.4	95.6	60.0	98.7	97.4	64.3
Electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities (D;E)	100.0	99.0	57.0	98.6	97.6	59.3	100.0	100.0	59.2
Construction (F)	98.1	93.3	43.4	97.5	95.0	42.9	96.7	95.6	44.7
Wholesale and retail trade (G)	97.4	95.0	55.5	98.6	97.0	56.0	99.0	97.6	59.2
Transportation and storage (H)	96.9	93.7	41.0	98.9	96.3	39.5	98.5	97.0	47.9
Information and communication (J)	100.0	100.0	94.3	100.0	100.0	93.6	100.0	100.0	95.5
Real estate activities (L)	97.4	94.9	46.3	97.9	97.2	52.3	98.6	97.8	50.8
Administrative and support service activities (N)	96.6	90.6	67.1	94.3	91.3	...	95.4	93.1	61.5

The table 5 above indicates that the usage of computers, Internet and websites among enterprises are quite on high levels. The most important information that the table indicates is, that 97.8 % of real estate activities use Internet but the website usage is quite low with 50,8 %. The webpages doesn't have as important role as the other usage of the Internet. Looking at the averages, there are relatively high figures of the usage of the Internet generally among companies. This information indicates that company visibility in the Internet is high. Marketing for companies in the Internet is considered generally as the way of today's world. Customers also know this and expect it.

Then looking into the usage of the Internet among individuals. The table 6 showcases the population group by age and the usage of computers and the Internet.

Table 6. Computer and Internet usage of individuals

ITMG04. COMPUTER / INTERNET USAGE BY INDIVIDUALS AT THE BEGINNING OF THE YEAR (% of total population within the corresponding group) by Population group, Usage/ Frequency of usage, Year and Computer, internet						
Use regularly: (at least once a week)						
	2013		2014		2015	
	Computer	Internet	Computer	Internet	Computer	Internet
TOTAL	71.1	71.2	71.7	71.8	71.0	74.9
16-24 years old	97.6	98.1	96.8	96.8	93.8	97.0
25-34 years old	95.7	96.4	95.3	95.8	92.5	96.7
35-44 years old	85.9	86.2	87.2	87.4	83.4	87.8
45-54 years old	72.3	72.6	70.7	70.5	71.3	77.2
55-64 years old	50.4	50.3	52.7	52.3	55.2	58.7
65-74 years old	21.2	20.5	28.5	28.4	29.9	31.5

It appears that the highest computer and Internet usage is among 16 to 34 years old people where as older people use the least. This has to be taken into consideration when considering the marketing channels. Where as Internet is generally the most visible marketing channel for companies, there is a need for another way to reach the remaining old-

er people. There has been annual increase of the usage among 45 to 74 years old people, but still the numbers are much lower than compared to younger generations.

2.1.5 Environmental factors

This part explains Latvia's environmental factors and indicates the general environmental data of the country. As for any business, it is valuable to know and understand if there are some environmental factors that might cause issues.

Latvia's general state of environment is relatively good. Latvia has established a tradition of nature conservation and has one of the richest biodiversity among European countries. Latvia is also ranked one of the environmentally best nations of the world during the last decade. This is the Environmental performance index (EPI). Latvia was ranked 2nd of the World in 2013. To be noted, that the EPI ranking might not fully reflect the actual environmental footprint of the nation. Yet, the environment of Latvia can generally be stated as good. (European Environment Agency 2016.)

About 50 % of Latvia is forests and Latvia is populated sparsely. Latvia has declining number of inhabitants and the economy intensity is low per capita. Latvia does not face any real threats what comes to quality of air, water, services of municipality and degradation of land. However, small local environmental problems do appear, for example some parts of Riga face minor exceeding of air pollutants. Also there can be slightly polluted spots, which are dated back from history. (European Environment Agency 2016.)

Most recent records apply that Latvia has yet failed to implement more ambitious, new and efficient environmental policies. This has mainly resulted due to the financial crises. After 2013 there has been a slight drop in the EPI ranking. Nevertheless, this does not indicate that Latvia is facing environmental issues. Latvia's Environmental Policy Strategy (EPS) has already taken focus for more efficient actions in the time period of 2014 to 2020. Latvia's EPS does acknowledge the small weaknesses, which need more focus. (European Environment Agency 2016.)

Trans-boundary impacts have influence over Latvia. Local air quality is under the impact of long-range air pollution. Additionally, over half of the country's water resources are originating from the neighboring countries. This means that the country's water resources are under continuing threat over trans-boundary accidents and pollution. Outside the EU, the trans-boundary water management has remained problematic. Additionally transit business, which is crossing Latvia vastly, is another problematic issue. Pipelines and railway

traffic can cause environmental accidents, despite the fact that Latvia has well developed infrastructure. Roadside pollution is a cause from the heavy and light road transport. Overall Latvia is environmentally stable and does not face any strong threats. (European Environment Agency 2016.)

2.1.6   Legal factors

This part explains briefly the existing law system of Latvia, as a part of the country's PES-TEL profile. This does not go into detailed matters of the Latvian law.

The sovereign power of Latvia is hold by the citizens of Latvia. Latvia follows a civil law system. Part of the Latvian law is the European Union law, since Latvia is a EU member. The Latvian parliament 'Saeima' makes the law. Saiema represents the citizens of Latvia. Saiema ratifies Latvia's international agreements, additionally major public officials are appointed by the Saiema. The Latvian president proclaims the law. The government of Latvia implements the law and the Latvian judiciary interprets the law.
(The Latvian Institute 2015.)

In more detailed, the Latvian legal system is stated in the official Internet sites of Latvia. If the commissioning company decides to enter the Latvian real estate market, it would be recommended to hire legal help as general support.

2.2   SWOT

The SWOT method is used in the thesis work to gather both pros and cons for the strategy plan. SWOT will help to see and explain the underlying relations. SWOT looks systematically into details in order to explain possible underlying factors that are important for the thesis project.

SWOT includes areas of strengths, weaknesses, opportunities and threats. These factors can have an effect on the strategy plan and it's development. The results of the SWOT analysis can also be used as guidance for the possible future strategic choices. TOWS matrix chart can be drawn based on the results of the SWOT analysis. (Johnson, Whittington, Scholes, Angwin, Regnér 2014, 91-94).

Due to the topic of the thesis, the SWOT analysis is gathered from the viewpoint of the Latvian real estate market. The author has drawn the SWOT analysis based on the results that were found in PESTEL analysis and the research study.

2.2.1 Strengths

Latvia can be considered as a stable market environment, offering a good ground for a business. Being part of the European Union is a positive factor. Additionally, the nation is participating in other international unions and is most likely becoming an OECD country. These are positive facts considering the country's economics. Overall, Latvia is relatively well positioned. The macroeconomic factors do not carry large risks currently or in the near future.

2.2.2 Weaknesses

The real estate market is not blooming and there are no sudden changes expected. The possible outcomes of the entry to Riga's real estate market might not offer substantial benefits for the commissioning company. More challenging weakness are expected further in future, hence the aging people become pensioners and there is less working aged people. The market is fragile but no more than elsewhere.

2.2.3 Opportunities

The Latvian markets offer sound ground for real estate activities, with decent existing establishments. The industry has found balance in its activities and has recovered from the economic break down of 2008. The opportunities lie in the continuously developing, not fully enriched business environment. Bringing something new to the markets. Offering a service from a fresh point of view. The markets have existent key players, but it is not yet overcrowded. This leaves space for business opportunities.

2.2.4 Threats

The key issue of the strategy plan is, that does the market offer a foot ground for the commissioning company. The macroeconomic indicators do not fully answer whether a foot ground exist. Is the market truly open for a newcomer? Competition remains as a visible threat. Latvian people can be considered relatively national. This can be seen even in the country's political parties. Latvians might not choose to use a foreign real estate

agency. To win the target group's trust, there must be strings to pull. Such as adapting to the Latvian business environment, bringing Latvian standards highly visible.

2.2.5   TOWS matrix

The TOWS matrix is build based on the SWOT analysis. The table (6) TOWS matrix explains sights on how to deal with the external factors and implement internal activities to minimize threats and to see opportunities.

Table 7. The TOWS matrix

		Internal Factors	
		Strengths (S)	Weaknesses (W)
External Factors	Opportunities (O)	**SO** **Strategic Options** Commissioning company can use its role as the newcomer and create a spot in the market	**WO** **Strategic Options** Commissioning company can adapt their image to meet with the target market
	Threats (T)	**ST** **Strategic Options** Commissioning company can utilize their current service products	**WT** **Strategic Options** Commissioning company can differentiate them from their competitors

The table 7 indicates that the internal strength can be used in meeting the external opportunity. The commissioning company could use its role as a newcomer and create a spot in the market. In other words, there are benefits of being a newcomer. It is not seen only as an unbeneficial fact. It can generate a boost in the notability, because the company has not been operating in the market earlier. This has of course both pros and cons. Most important thing is to generate visibility and create a spot in the market.

To generate internal weakness with the external opportunity, the commissioning company could adapt their image to meet with the target market. This means that the company could fit their image into more a suitable image concerning the Latvian market. Adjusting the company image to fit with the target market. Adapting to a local business environment.

Facing external threats by internal strengths, the commissioning company could utilize their current service products, which are not offered by the competitors. This means that by offering a unique service product, the company could generate real value for its customers and for the company itself. Additionally turning internal weakness into a positive by differentiating them from the competitors.

TOWS matrix indicates some directions to which the commissioning company could turn to, hence dealing with external opportunities and threats and understanding internal strengths and weaknesses. The commissioning company could utilize a similar tool to draw relations between strengths and opportunities.

3   Current real estate market

This part looks into Latvia's real estate market in general. Latvia's house prices in indexes plus index changes. This is to understand how the market conditions look currently.

The focus of the strategy plan will be on renting apartments, targeting Riga, the capital of Latvia. The nation's house prices are affect by the rental market and likewise, therefore both parts are covered here.

3.1   Sale market and rates

Latvia experienced the housing bubble in 2008 when the high property prices decreased substantially. This was largely an effect of the global financial crises originating from the US.

The situation of Latvia's house price indexes is presented in the tables below.

Table 8. House price index and changes (Central Statistical Bureau of Latvia 2016)

PC07. HOUSE PRICE INDEX AND CHANGES by Year/Quarter, Indicator and Group						
	% over the previous period			% over the corresponding period of previous year		
	Dwellings - total (H.1.)	New dwellings (H.1.1.)	Existing dwellings (H.1.2.)	Dwellings - total (H.1.)	New dwellings (H.1.1.)	Existing dwellings (H.1.2.)
2013/4th quarter	2.6	5.4	1.8	8.2	13.9	6.7
2014/1st quarter	2.3	1.0	2.7	10.6	17.1	8.8
2014/2nd quarter	1.5	2.6	1.1	7.7	20.3	4.6
2014/3rd quarter	3.9	5.5	3.5	10.7	15.3	9.4
2014/4th quarter	-11.4	-22.3	-8.2	-4.5	-15.1	-1.4
2015/1st quarter	0.1	5.4	-1.3	-6.5	-11.3	-5.2
2015/2nd quarter	3.5	1.2	4.2	-4.6	-12.5	-2.3
2015/3rd quarter	0.3	0.2	0.4	-7.9	-17.0	-5.2
2015/4.ceturksnis	2.3	6.4	1.2	6.4	13.7	4.5

The table 8 above indicates the house prices and changes from the fourth quarter of 2013 until the last quarter of 2015. The indexes cover dwellings in total and then separately by new dwellings and existing dwellings. Then percentage changes for totals, new dwellings and existing dwellings, corresponding to the period of previous year.

The indexes concerning total dwellings varied between 1.5-2.6 %, from the fourth quarter of 2013 to the second quarter of 2014. The highest peak was reached in the third quarter of 2014 with 3.9 %. Then drastic drop in the fourth quarter of 2014, as the house price index of the total dwellings decreased to -11.4 % over the previous period. From the first quarter of 2015 the indexes of the total dwellings have remained between 0.1 to 3.5 %.

Looking at the indexes concerning new dwellings, they experienced similar changes. The last quarter of 2013 until the third quarter of 2014, the indexes varied between 1.0 to 5.5 %, then a drastic drop in the last quarter of 2014 decreasing to -22.3 %. Ending the last quarter of 2015 to 6.4 %. This means that the new dwellings experienced relatively more substantial changes in 2014.

Indexes of existing dwellings varied between 1.1-3.5 % in the time period of the fourth quarter of 2013 until the third quarter of 2014, then dropping to -8.2 % during the last quarter of 2014. The existing dwellings faced similar changes as new dwellings, but the changes were not as substantial.

The table indicates also percentage changes corresponding to the period of the previous year. What is interesting to note, is that the periods of last quarters of 2014 until the third quarters of 2015 are negative. This applies to new dwellings as well as existing dwellings and totals. The latest indexes concerning the last quarter of 2015 look that there is no

drastic changes compared to previous periods in the total. Yet, there are visible changes concerning new dwellings.

Table 9. House price index, 2010=100 (Central Statistical Bureau of Latvia 2016)

PC07. HOUSE PRICE INDEX AND CHANGES by Year/Quarter, Indicator and Group			
	2010=100		
	Dwellings - total (H.1.)	New dwellings (H.1.1.)	Existing dwellings (H.1.2.)
2013/4th quarter	125.80	175.27	117.14
2014/1st quarter	128.67	177.01	120.25
2014/2nd quarter	130.56	181.67	121.61
2014/3rd quarter	135.71	191.73	125.84
2014/4th quarter	120.18	148.88	115.54
2015/1st quarter	120.26	156.96	114.04
2015/2nd quarter	124.53	158.89	118.80
2015/3rd quarter	124.96	159.15	119.27
2015/4.ceturksnis	127.85	169.29	120.75

Table 9 shows the house price index as of 2010=100. The indexes are reported as totals, then new dwellings and existing dwellings.

The newest indexes from the last quarter of 2015 indicate that new dwellings have higher index compared to existing dwellings. We can also note that the indexes were reaching their highest peak in the third quarter of 2014. This applies for totals with the index of 135.71, new dwellings with 191.73 and existing dwellings with 125.84. After third quarter of 2014, the indexes decreased substantially in the last quarter of 2014. Totals decreased to 120.18, new dwellings to 148.88 and existing dwellings to 115.54. We can state that the new dwellings experienced the most notable change. Whereas existing dwellings faced relatively smaller change.

Between the first quarter of 2015 to the last quarter of 2015, the indexes were increasing slowly. Total dwellings increased from 120.26 to 127.85, new dwellings increased form 156.96 to 169.29 and existing dwellings from 114.04 to 120.75. This tells that the new dwellings faced yet again the largest changes.

Price changes of all residential properties are measured by the house price index, the HPI. The index includes newly build property and existing ones, which are purchased by the households. The HPI data is part of the macroeconomics imbalances procedure indicators, the MIP indicators. MIP is a set of early warning indicators for monitoring the imbalances of the macroeconomics. (Eurostat 2016.)

The HPI looks to have moderate changes, staying relatively stable. Prices should increase a bit when the households reach higher pay. This is an on-going subject of the Latvian government.

3.2　Riga's property renting market

This part of the thesis takes focus on the property renting market of Riga, including general indicators of the rental market, rental yields and formulas. This part starts with an insight to Latvia's consumer price indexes. More precisely, the actual rentals in Latvia's consumer price inflation.
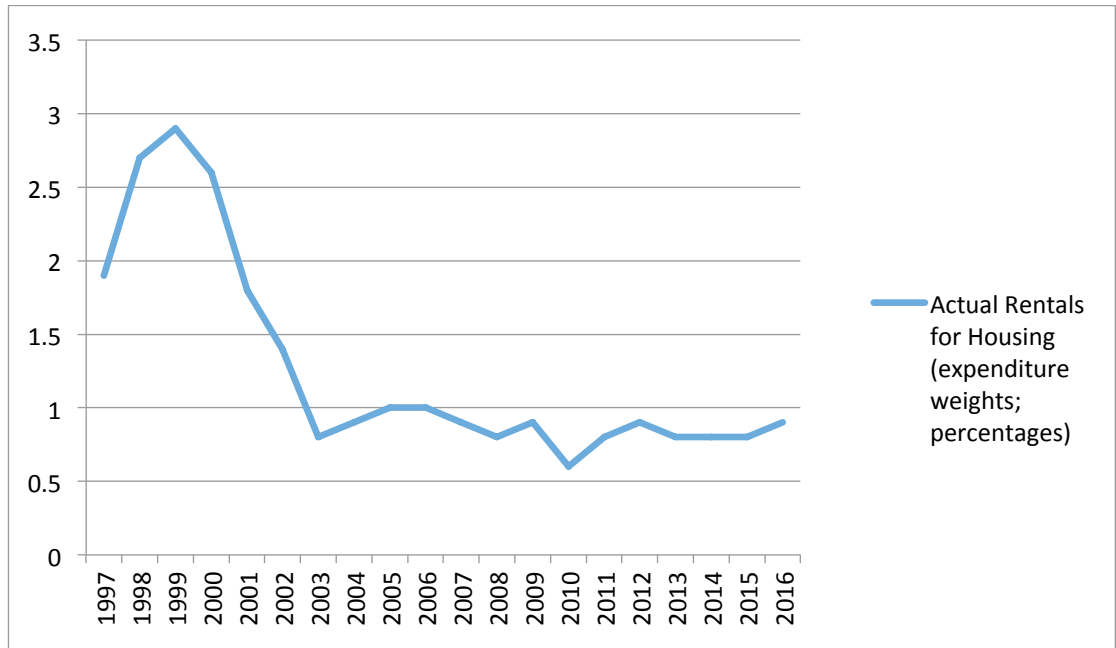

Figure 3. Actual rentals for housing, expenditure weights; percentages (European Central Bank 2016)

EU uses the Harmonised Index of Consumer Prices (HICP) to measure consumer price inflation. HICP is a macroeconomic statistic. The statistical office of the European Union (Eurostat) and the national statistical institutes compile HICP using harmonized statistical methods. The European Central Bank tries to maintain the annual inflation rates below but close to 2 percentages over the medium term, as measured by the HICP. (European Central Bank 2016.)

The Figure 3 explains the development of the actual rentals from the time period of 1997 up to current year 2016. We can note that the highest peak has happened in 1999/2000 with up to 2.9 %. From there after it has dropped drastically. Yet, another slight decrease in 2008/2009. Resulting to 0.6 % in 2010. Slow increase between years 2013-2016.

The figures indicate that Latvia's actual rentals are still behind from the EU goals of 2 %. In real life, HICP measures the development of prices. This is why the information is relevant to take into account in the market study of property rent rates.

Yields are briefly discussed next. This is to indicate that the author does understand yields concerning real estate business. The author understands the formulas and what the results indicate in real terms. Firstly, a look on an average price/rent ratio of Riga's city and suburbia flats.

Table 10. Riga's price/rent ratio (Global Property Guide 2016)

		COST (€)		YIELD (p.a.)	PRICE/SQ.M. (€)	
RIGA CITY - Flats		TO BUY	MONTHLY RENT		TO BUY	MONTHLY RENT
	45 sq. m.	113,760	496	5.23%	2,528	11.02
	75 sq. m.	217,575	796	4.39%	2,901	10.61
	120 sq. m.	362,640	1,286	4.26%	3,022	10.72
RIGA SUBURBS - Flats						
	50 sq. m.	78,550	343	5.23%	1,571	6.85
	120 sq. m.	185,880	826	5.33%	1,549	6.88

Last Updated: Jul. 03, 2015

Districts researched:
Riga City: Old Town (Vecriga), City Centre
Riga Suburbs: Purvciems, Teika, Mezaparks, Vecmilgravis
Source: Global Property Guide Definitions: Data FAQ See also: Update Schedule

The table 10 above demonstrates gross rental yields concerning Riga's city centre, including old town and suburbia, apartment sizes 45, 75 and 120 square metres. As pictured in the table 10, gross rental yield for a 45-squaremeter apartment in Riga center has been 5,23 % calculated in July 2015. A central 75-squaremeter apartment's gross yield is estimated 4.39 % and 120-squaremeter to 4.26 %. These percentages indicate that the smaller the apartment, the better the yield, what comes to centrally located apartments. As for the suburban apartment examples, the gross rental yields look relatively close to each other despite a notable difference in the apartment size. The table examples include a 50-squaremeter apartment in the suburb with 5,23 % gross yield and 120-squaremeter with 5,33 % gross yield.

Based on the data, it might be beneficial for the commissioning company to focus on suburbs with relatively stable net yields. In case the commissioning company would decide to get investment apartments from Riga. Centrally located small apartments also have similar yields. Therefore if the commissioning company would have investment apartments in Riga center, it would be beneficial to focus on small apartments.

Nevertheless, current or historical rental yields might not be accurate indicators for future performance. This is particularly true in heated real estate markets where prices would be soaring and renting prices stalling. What is to be noted also is, that the gross rental yield does not include annual expenses that concern the apartment. In practice this means, that a low net rental income would occur if the expenses were high despite the high rental yield. (Mortage Choice 2016.)

The formula for gross rental yield is the following:

$$Gross\ Rental\ Yield = \frac{Annual\ Rental\ Income}{Property\ Value}\ x\ 100$$

Compared to gross rental yield, a more recommended formula would be a net rental yield. Net rental yield gives more accurate prediction of the actual rental return. Net rental yield requires the estimated costs and expenses associated with the apartment, these include all ongoing expenses and fees, vacancy costs, purchasing and transaction costs. (Mortage Choice 2016.)

The formula for net rental yield is the following:

$$Net\ Rental\ Yield = \left\{ \frac{(Annual\ Rental\ Income\ -\ Annual\ Expenses)}{Total\ Property\ Cost} \right\}\ x\ 100$$
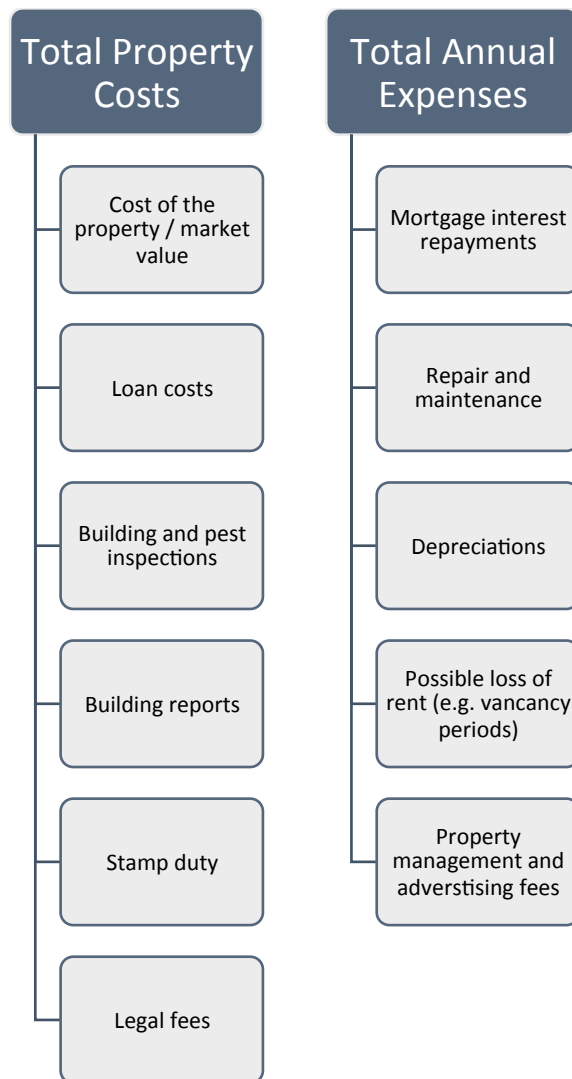
Figure 4. Total property costs versus Total annual expenses

The Figure 4 explains what can be included for the total property costs and the total annual expenses. Some cases might vary. There might be for example some extra annual expense. The total property costs include the actual cost of the property or the market value, loan costs, possible building and pest inspections, reports, stamp duties and legal fees. Where as annual expenses include mortgage interest repayments, repair and maintenance expenses, depreciations, rent losses, property management and advertising fees. (Mortage Choice 2016.)

In the net rental yield calculation, the actual outcome will be more accurate when there are more factors included. Nevertheless, it can be hard to estimate all the expenses associated. Software tools might offer help on calculations, such as purchasing property investment analysis tools and software. It is important to note that also net rental yield is based on factors beyond control, such as vacancy periods, maintenance costs and mort-

gage interest rates, to name a few. These factors can be largely volatile and have notable impact on the rental return. This explains, why rental yields should be considered only as indicators. It is important to take into account other relevant factors, such as location of the property. The overall return and investment value depends on the individual factors. (Mortage Choice 2016.)

The commissioning company does have experts who calculate and understand yields, and know how to use the yield formulas. Specified yields would be calculated and estimated by the commissioning company's experts thus the company would decide to have real estate investment actions in Riga.

3.3 Competitor analysis and possible co-operation

The top three competitors are Latio, Arco Real Estate and Ober-Haus. All three operate in Riga and have vast services in the real estate industry.

Latio reports itself as the real estate market leader in their webpage. Latio is visible in many Latvian media reports concerning the real estate industry. Latio provides analyses about the markets. Latio has multiple services in the real estate field. These services are residential brokerage, commercial property brokerage, property valuation, land surveying and spatial planning, legal services, residence permits, market analysis and reviews. (Latio 2016.)

Arco Real Estate has also vast services in the industry. These services include brokerage, development, property advisory and residence permits. Arco Real Estate has been operating in the real estate business for 21 years. The company operates in Latvia, Estonia and Bulgaria. (Arco Real Estate 2016.)

Ober-Haus operates similarly on many real estate areas. Ober-Haus Real Estate Advisors market themselves as the biggest real estate agency that is operating throughout the Baltics. Ober-Haus offers services of residential and commercial real estate, property management, property valuation, market research, investment advisory, market reviews and business valuation. Ober-Haus has been operating for 22 years. Currently the company employs around 275 people in 27 offices in the Baltic region. (Ober-Haus 2016.)

It might be beneficial for the commissioning company to co-operate with one of these largest agencies operating presently in the target market. Co-operation might bring value for the commissioning company. The most notable value would be the already existing

networks and the vast knowledge of the target market and related factors. There is also language issues to be considered. It would be best to recruit Latvian real estate professionals to work for the commissioning company.

Deciding on the co-operation, one of the key factors would be to research which company would offer the best networks and channels. The commissioning company might benefit from a co-operation with a company that operates throughout the Baltics. If the commissioning company would decide simultanously (or later) to enter elsewhere in the Baltics, they could co-operate with the same company in other Baltic regions.

3.4   Real estate association

The Latvian real estate association is introduced in this part. It can be considered beneficial to know about the industry related association. Usually countries have an existing association to offer validity for the companies that are members of the association.

The Latvian Real-Estate Association, LANĪDA, is a private non-governmental association of real estate agencies and agents. LANĪDA was founded to serve as a professional association to improve and develop the skills and knowledge of its members, assisting in the progress of their professional activities. The association's main purpose is to comply and protect the members' professional interests. (LANIDA 2016.)

It would be beneficial for the commissioning company to join LANĪDA, in case they would enter Riga's real estate markets. Being a part of the association would increase creditability and offer a good base for networks.

4   Real estate legislation and taxation

This part will introduce the current legislation and taxation system of the target country. These are relevant factors for the commissioning company and the thesis project itself.

4.1   Legislation

This part looks into the Latvian real estate legislation. This was taken into the thesis work to explain the very basic legislation of the target market and the industry in question.

Real estate property can be bought in Latvia either as an asset transfer deal or as a share transfer deal. In practice, these both are commonly used. (Kairans 2015, 23.)

In the asset transfer deal the sale of the property is done by signing a purchase agreement. Larger deals can include a preliminary agreement of the purchase or a letter of intent of the purchase. The preliminary agreement includes the main terms of the purchase. Terms include the price of the purchase, method of payment and deadlines of the purchasing progress. The first right of refusal is offered by the seller to the municipality or to the possible third party. The terms can vary. Common for municipalities is, that they carry usually 20 days duration concerning the first right of refusal. If the property is acquired by a party of the first right refusal, the purchase agreement signed between the parties is terminated. (Kairans 2015, 23)

Ordinary progress of the sales includes negotiations and concluding a bank agreement to open and maintain an escrow account for the sales. After the final sale is made, it is necessary to notify and register the property purchase to the Latvian Land Book, where the property is registered to the buyer. After the registration, the bank will transfer the purchase price to the seller. If third party financing is involved; e.g. bank, a mortgage is required as a security to the lender. Commonly the bank will then be a part of the escrow account agreement. In this case, the bank will take care of the transfer of the purchasing price. In the asset transfer deal, notary fees will apply for the registration in addition to regular stamp fees. (Kairans 2015, 23-25)

In a share transfer deal, which is used between companies, the parties sign an initial agreement of the purchase transaction 'The Letter of Intent'. The letter of intent is commonly non-binding, excluding clauses of confidentiality and exclusivity of the deal. The letter includes the subject of the purchase and the potential price but not the actual calculation of the price. (Kairans 2015, 23.)

In the share transfer deal, the buyer usually performs the due diligences, including tax, financial, environmental and other possible due diligences. This aims to identify possible risks of the purchase deal for the target company. The outcome of the due diligences can result in decreasing the price, changing the structure of the purchase or cancelling the process in total. In case the outcome of the due diligence is satisfying, the parties will draw transaction documents. The buyer usually makes the draft of the share purchasing agreement. After all terms and conditions are settled among the parties, the parties will then sign the documents of the purchase. If the deal is considered as a merger, the Latvian Competition Law is applied and there is a required time for closing the deal. In the final

steps, the registration of the sales is made in accordance to the Latvian Company register. Normal registration to the Latvian Land Book is also required. (Kairans 2015, 23-26)

4.2   Latvia's taxation system

This part explains the most important tax related matters of the target market.

The Latvian taxation system is adjusted by the Latvia's Ministry of Finance. The state taxation and customs policy is developed by the Ministry. The Latvian taxes and fees structure consists of state taxes, which are set by the Saeima. The Saiema is the parliament of the Republic of Latvia. State fees are applicable to the law on taxes and fees (LV). The council of local government issues binding taxation regulations. As Latvia is part of the EU, the European Union regulatory legislation sets the directly applicable taxes and other obligatory payments that are followed. (Ministry of Finance 2012.)

4.2.1   Corporate income tax and renting

Corporate income tax (CIT) is taxed at a rate of 15 %. (Ministry of Finance 2016.)

Private lessors pay 23 % value added tax (VAT) of the rental income. Rental income for companies is taxed in accordance to corporate income tax, that is 15 %. (Kairans 2015, 27; Ministry of Finance 2016.)

4.2.2   Sale of property and real estate tax

Real estate owners and legal possessors pay real estate tax as according on the value of the property, taxation 0,2%-0,4%-0,6%. General tax rate is 1,5% in relation to the cadastral value of the property unit. (Ministry of Finance 2016.)

Land and buildings that are owned by private persons or companies pay a real estate tax that is set in accordance to the area and can vary from 0.2-3 % of the cadastral value of the property. (Kairans 2015, 27.)

4.2.3 Acquisition

Stamp duty of 2 % is levied on the value of the property in case of acquisition of land or buildings in residential use. Non-residential buildings and land acquisition have a 2 % stamp duty that is charged in accordance to the real estate value. (Kairans 2015, 27)

5 Strategy plan

This part is the preliminary strategy plan for the commissioning company to enter Riga's real estate market. To build up a strategy plan, it is important to understand how strategy and its implementation work.

The key strategic approaches used in this thesis include the blue ocean strategy and a combination of the emergent and the prescriptive strategies. The strategy plan and process are covered in this part.

5.1 Strategic approaches

The Blue Ocean strategy works as a fundamental strategy approach in this thesis work. The Blue Ocean strategy was created by W. Chan Kim and Reneé Mauborgne, and is based on their analysis over creating new markets.

The Blue Ocean is a strategy approach, which aims to create and upgrade the offered value-by-value innovation. This makes the offered value as the core for the entire strategy. This kind of approach is called 'whole-system approach'. Whole-system approach considers value-innovation as a strategy in comparison to functional or operational value innovation. This approach aims to embrace the company's operations as a coherent, functional system. (Kim, Mauborgne 2015, 16-17.)
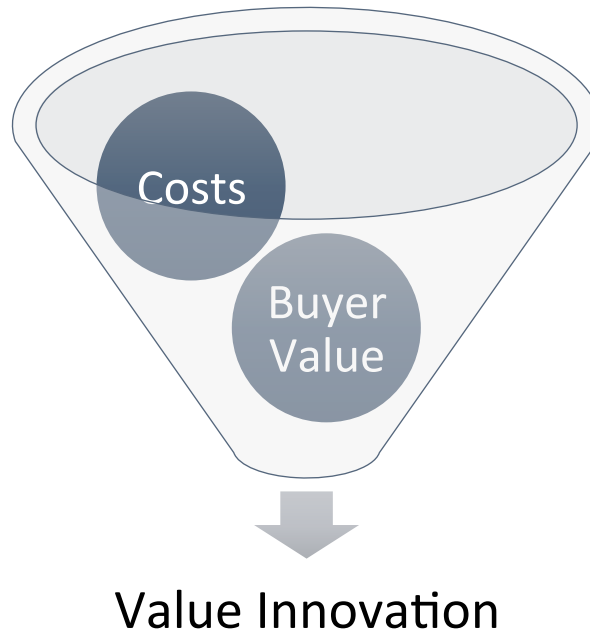
Value Innovation

Figure 5. Value Innovation

The cornerstone of the Blue Ocean strategy is value innovation. As expressed in figure 5, costs and buyer value generate the value innovation in the Blue Ocean strategy. But how is it really done? It is created by favourable action affecting the cost structure and value proposition towards the target customers, the buyers. (Kim, Mauborgne 2015, 17.)

For the commissioning company, this means that the service product should be brought to new dimensions by adding extra value for the customer. In rental service, this could be for example the service product by which the commissioning company provides as an extra guarantee for all rental assignments. Competitors do not provide this kind of extra guarantee for rental assignments. Therefore it is an instant value for the customers. The guarantee covers rent payment for the first year. The commissioning company could generate also other additional value for the customers, if the commissioning company could make findings through customer segmentations. Generating products to meet with the actual needs of the customers. The strategy method, which is chosen in the thesis work, supports prescriptive strategic management processes.

The prescriptive management process starts with developing and defining the organisation's objective. Then analysing the business environment and macroeconomics in detail, then developing the options of the strategy and selecting the option and implementing the chosen strategy. (Lynch, R. 2015, 32.)

5.2 Strategy method

The strategy to enter the new market would be a blue ocean strategy, where the new market is met in a way that risks are minimized and opportunities are maximised.

Based on the thesis work's research part, the strategy would be focusing on the rental side of Riga's real estate market. This approach takes into account the commissioning company's existing business strengths. This approach would use co-operation as a part of the strategy, a co-operation with a local real estate agency. The commissioning company would make enquiries and choose the best option for the co-operation.

There would also be a market research on the residential areas of Riga. This specified research could be provided by the local agency, as they already know the market well. Pricing of the services would be adjusted with the co-operating company. The service price would have to be adjusted to fit the range and also to give a competitive side to it. Customer segmentation and service products would be decided hence co-operation is agreed. The launch of the entry would be planned and executed, marketed via suitable channels or possibly through the existing channels of the co-operative company.

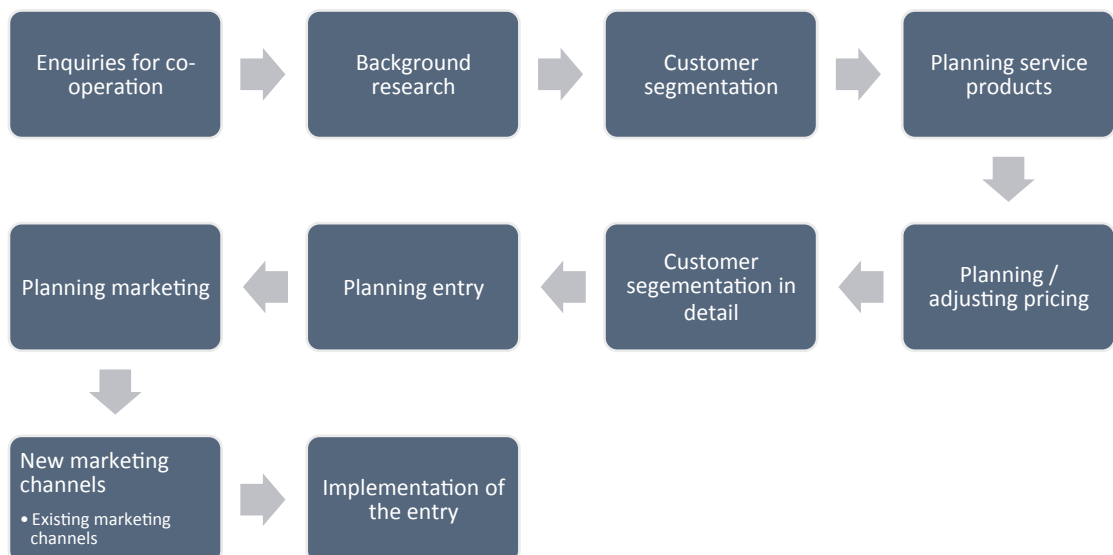The strategy process explained as figure:

Figure 6. Strategy process

The figure 6 explains the most important steps of the strategy process. Firstly co-operation would be used as a method to enter the market. For the co-operation, the commissioning company would make enquiries for the possible co-operations. Followed by thorough background research and preliminary customer segmentation. After co-operation would be settled and agreed, then service product development would be done. Next step would be to plan pricing. The pricing would be adjusted to meet with the existing market conditions in the most suitable way. This would be done in accordance to more detailed customer segmentation. Pricing and customer segmentation would be done in accordance to one another. After detailed segmentation and pricing, next step would be planning of the entry and marketing. Marketing would make use of the existing marketing channels but also generate new ones. Final step of the strategy process would be the actual implementation of the entry.

6   Discussion

6.1   Generalizing results

Based on the on findings related to the thesis work. The results are generalized in this part.

The key findings of the thesis work indicate that there can exist a business possibility in the market for the commissioning company, but not without proper preparations. Co-operations would be beneficial due to existing networks and adaption to the target market.

The real estate market itself looks relatively good in Riga, yet slow. The results were mainly positive. It's a sensitive market, and macroeconomics should be studied continuously.

Financial and environmental issues look positive. Riga being the capital, it carries most of the workplaces and is quite intensively populated. These are good factors for real estate business in Riga.

The strategy part of thesis includes a strategy process, which introduces key steps that the commissioning company could follow. Most important thing about the strategy would be careful planning in accordance to the actual implementation. The implementation should follow the planned process.

6.2 Conclusions and recommendations

Riga's real estate market appears to be quite stable at the moment with some positive outlooks. It can offer a working ground for the commissioning company but there are no immediate, large benefits. Then again this kind of entry to a new real estate market requires determination and long distance planning. Riga's market has already their local real estate agencies, which seem advanced and modern. Riga's market has existing real estate standards, which are followed by at least the largest agencies. Yet, there is space for newcomers.

As per the macroeconomic research results show, the nation's financial situation looks calm. There are upcoming improvements, which are already planted. Latvia becoming most likely an OECD country can open new doors for the nation. As a market environment, Latvia can be considered quite stable. This is positive. Additionally, the PESTEL analysis is overall positive with no alarming elements on the macro-environment. Latvia being part of the EU is a beneficial factor when planning to enter the market. Expected outlooks of the market appear positive.

The employment looks currently fine and should improve by 2017. Future challenges with the elderly people and the decrease of population doesn't concern the next decade but will be a challenge further in the future.

The commissioning company should consider all the elements related to the entry. It might be beneficial to build up a co-operation with an existing Latvian real estate agency and see what they could offer. The famous saying goes "if you can't beat them, join them". Then again, sometimes strategy requires more risk related steps.

Using the right kind of strategic tools, the commissioning company could save their time and effort as well as generate real value for the customers. Having a strategy plan and following a strategy process are crucial in succeeding with a new market entry.

6.3 Evaluation of own learning

The thesis work gave me a lot of additional knowledge of Latvia and the Latvian real estate market. The thesis topic made it possible for me to gather detailed information, which helped me to evaluate the bigger picture of the research topic.

The overall learning happened gradually. And the learning increased throughout the thesis study and writing. I studied a lot of macroeconomics and macro-environmental factors and benefited from the research work as the thesis topic touched vastly the financial factors of Latvia and the nation's current financial positioning. I am very interested in economics in general, and it was pleasant to learn more about them. Despite the difficulties of finding information I found it also as a motivational strength to try even harder.

I found the timing of the thesis work challenging which created additional pressure throughout the process. In the planning phase of thesis work, it seemed easy to schedule the work and create the steps to follow. Implementing the scheduled plan failed for numerous reasons and I had to adapt to a new schedule. Creating new work routines helped me to balance with the timing. I learned to use the study time more efficiently.

I tried different approaches to settle with the overall pressure and handle the stress. Eventually I found a writing and research approach that suited me the best. This was one of the key learning experiences, finding myself the suitable work way. It was challenging but I kept trying to find the solution.

One issue I faced during the thesis work was the limits to find actual numbers of the rentals and house prices of Riga. I came to a solution to study the rates and indexes, which were available. It was interesting to use them as indicators.

The topic felt challenging throughout the thesis work but I wanted to challenge myself. I can say it required a bit work on my side. I had to trust that I could find the right material and gather relevant information. With a topic touching closely macroeconomics, it's easy to lose track in the information turbulence and get caught in unnecessary information flow. I have never before researched real estate markets and I had to study them and also find understanding towards the market conditions. Additionally using my already existing business knowledge in the thesis study.

The thesis work was most interesting to me because it touched real topics, the real existing finance world of the Latvian real estate market. I am grateful that the work gave results and that the general study created an outcome which brought additional value in my own learning as well as in the form of the thesis project itself.

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