REAL ESTATE DEVELOPERS’ POSSIBILITIES OF INCREASING COMPETITIVENESS IN THE GLOBAL ENVIRONMENT CONDITIONS

Inara Repsa1, MBA; Rosita Zvirgzdina2, Dr.oec.

Abstract. In the era of globalization, the efficiency of production and demand is the sole criterion of circulated goods competitiveness. General globalization involved in the international circulation such goods as real estate, the production of which in the essence is construction. This study aims to look at real estate developers’ opportunities to improve their competitiveness in a globalizing world. In the study, globalization and competitiveness will be characterized in the context of the real estate market globalization, as well as the authors will give insight into the real estate market development and examine housing fund renovation in Latvia. In the final section, the authors will discuss and set out the main conclusions of real estate developers’ competitiveness promotion in the global environment.

Key words: real estate market, competitiveness, globalization.

JEL code: F63

Introduction

Globalization became the modern world system, which specifies the development of civilization. This process cannot be suspended or revoked, even with all the strengths and weaknesses; it is a historical fact. General globalization involved in the international circulation such immovable product as real estate, which became the object of international investment.

Some authors (Vassilieva and Glebova, 2010) indicate that in Latvia external environment is made up of public policy, including investment policy, which is one of the external factors that seriously affect the company’s competitiveness improvement opportunities.

To increase the competitiveness in Latvia, real estate developers use amendments to the Immigration Law adopted on July 1 2010 in the framework of the investors’ programme, which allows foreigners to obtain a temporary residence permit in Latvia for the investments in the real estate of the Republic of Latvia with this more involving Latvian real estate market in the globalization process.

The aim of this research is to look at real estate developers’ opportunities to improve their competitiveness in a globalizing world. To achieve the aim, the following tasks are set: 1) to describe the real estate market in the circumstances of competitiveness of globalization; 2) to take an insight into the real estate development in Latvia; 3) to explore the housing fund renovation possibilities in Latvia.

The study is based on the data and reports of the State Central Statistical Bureau, Office of Citizenship and Migration Affairs (OCMA), overviews provided by the State Land Service (SLS). The following research methods are used: monographic, analysis and synthesis, graphic and logical constructive method.

The real estate market competitiveness in a globalizing world

Competitiveness is one of the most important characteristic categories in goods and services markets as well as one of the most important factors in business affecting any operating companies in the economic sector (Fedotova, Geipele, 2009).

There are many different explanations and definitions of competitiveness, and according to Ketel, there may be disagreement and confusion in the research of this phenomenon, in the absence of a common language, a clear understanding of what is competitiveness. He also notes that the conceptual definition of the term of competitiveness cannot be true or false in the absolute sense; its compliance can be considered in relation with specific issues of research or policy. A common definition of
Competitiveness thus also reflects the common view of what will be used in the analysis (Ketel, 2006).

Competition, as competition between producers of goods, providers of the possibility of increased productivity and profits in the relevant market, is viewed at different levels - business, industry, regional, national level.

One of the worldwide-recognized scientists, the Nobel Prize winner in economics Krugman, P. believes that it is only possible to speak about the company's competitiveness, because at national level discussions on competitiveness can lead to pointless spending money, increasing corruption, besides public administration employees may lack expertise in providing effective policy. Krugman, P. argues that the concept of region's competitiveness is nothing more than just a competitiveness of enterprises in the region (Krugman, 1994). Krugman, P. believes that areas do not compete with each other directly, but are competing against other companies located within certain areas, thus seeing more usefulness to study the competitiveness of enterprises, rather than national competitiveness (Krugman, 1996).

Despite the fact that competition and competitiveness issue is widely discussed in scientific researches, Porter, M., the founder of the theory of competitiveness, notes that "competitiveness remains a concept that is not well understood, despite widespread acceptance of its importance" (Porter, 2004).

There is currently no single "competitiveness" definition. The main factors that allow diverse interpretation of that concept must be assessed by the researchers from different views, as well as the fact that the manufacturers are considered individual companies, sectors or the state economy as a whole.

Competitiveness is a relative concept, as a product or service that successfully competes in one market, in another market will not be competitive. This creates a need to set out the competitiveness in the internal and external market.

Consequently, in the overall formation of the competitiveness concepts, it is necessary to take into account all these phenomena parties. However, considering the experience of other countries, international competition is based on internal market competitiveness (Zaharov, Zokin, 2004).

By contrast, in the circumstances of globalization, business efficiency and uttering demand for the product is the sole criterion of competitiveness. Competitiveness is one of the most important categories characterizing goods and services market, as well as one of the most important factors in business affecting any economic sector in the business, defining the company's own competitiveness, including companies operating in the real estate market.

The real estate market development was traditionally viewed separately from the processes of globalization. It is set due to the features of the real estate - it is impossible to move it and sell abroad.

Modern communication technologies, the Internet, telecommunications unified claims on real estate objects; there were discovered similar trends in various state housing market development speeds.

According to expert assessment, real estate globalization takes place in the following directions:

• investment migration related to the real estate market opening for transnational investors (investors leave overheated markets);
• foreign buyers entering the market (in all countries);
• private investors enter the market (through real estate investment funds);
• rapid exchange of experiences, management, standards, technologies from developed markets to development (universality of scientific and technical ideas and standards);
• globalization ideology in architecture and construction (the same architects, engineers, designers design, build, decorate the buildings and manage them over all continents) (Brett, Schmitz, 2009).

These factors seriously affect national real estate markets.

The process of globalization, by interaction of different material markets, with a common raw material base use, enabled the establishment of relations as well as production, trade and financial inter-networking. Consequently, all of the processes that take place in the global economy affect each national market, including the market of Latvia.

The real estate market growth takes an important place in any country's economic development. The real estate market development is also dependent on the construction industry development (Geipele, 2014), since real estate’s production is essentially construction. Latvian construction industry’s competitiveness largely depends on the accessibility of raw materials that are produced in other countries.

By contrast, construction is one of the basic sectors of the economy. Development of this sector means a lot to the country and society, as it determines the availability of housing fund in the country. Ensuring access to housing is one of the most important tasks of the state social policy. It is necessary to carry out regular monitoring of the housing market situation for the timely adoption of the decision, which focuses on the development of the market.

**Insight into the real estate market development in Latvia**

Taking into account the background, the real estate and construction sector have to be seen in the interaction. By making a small insight into the real estate market development in Latvia, the author concludes that after calculation of macroeconomic development indicators of Latvia both industries take an important place.

**Construction and real estate sector’s proportion to the Gross Domestic Product (GDP)** is reflected in Figure 1. In 2015, the total sector proportion accounted for 17.5 % of GDP, which is almost 1/5 of the total national GDP.

![](image1.png)

*Source: authors’ construction based on the CBS data*

**Figure 1. Construction and real estate sector proportion to GDP (at current prices)**

As mentioned above, the availability of housing fund is one of the most important tasks of the national social policy.

The State Land Service's construction report for 2015 provides information on the construction division in the Republic of Latvia and its administrative areas of their main ways of use. According to the information provided, the housing fund makes up more than ¼ (26 %) of the total number of buildings (Figure 2).

![](image2.png)

*Source: authors’ construction based on the SLS data*

**Figure 2. Building distribution by the use in the Republic of Latvia 01/01/2016 (The data from cadastral information system; % of the total number of buildings)**

By contrast, the housing structure in Latvia is presented in Figure 3 and shows that the vast majority (25 %) of Latvian residential buildings were built in the period from 1946 to 1970, followed by residential buildings built in the period from 1971 to 1980 with 20 % share and...
19% of residential buildings built in the period from 1981 to 1990. Most (86%) of residential buildings in Latvia were built in the period up to 1990.

**Source: authors’ construction based on Brick&Smiles property brokers’ data**

![Figure 3. Residential building age structure in Latvia (%)](image)

**Figure 3. Residential building age structure in Latvia (%)**

Only 10% of residential buildings have been built from 2000 to 2011, which means that the housing fund in Latvia is changing and evolving relatively slowly, and the existing dwelling is getting older.

According to the Cabinet Regulations No.907 "Regulations Regarding the Survey, Technical Servicing, Current Repairs and Minimal Requirements for Energy Efficiency of the Residential House" of 28 September 2010 is specified an average lifetime for the mass production residential buildings. Depending on the type of the project series, it is 50 to 70 years, which means that for some of these buildings lifetime has already expired or will expire soon.

This finding calls for national policies to find ways to improve and develop the housing market, particularly - new projects in construction due to the structure age of apartment houses because the issue of the renewal of housing fund each year becomes more urgent.

**Possibilities of housing fund reconstruction in Latvia**

The housing fund reconstruction is possible both by constructing new residential buildings and renovating the existing ones. By contrast, the real estate market development requires investment, including foreign investment.

Keynes, J.M. believes that the state should stimulate investment, including foreign. He proved that the state expenditure raise would be compensated by the new tax payments, which would form under the influence of the production scale and employment growth (Olevskis, 2000).

In order to increase the attractiveness of the real estate market of Latvia to foreign investors, it is necessary to carry out package of foreign investment attraction measures, including the regulatory framework to promote the attractiveness.

In the framework of the Investor support program on 1 July 1 2010 were adopted amendments to the Section 23 of the Immigration Law, which allow foreigners to obtain temporary residence permit (TRP) in Latvia by investments in economy of Latvia, including investments in the real estate in the Republic of Latvia.

Foreign state investments in the most affect new housing projects, mostly apartment houses. That is due to aliens who bought new projects, both in terms of TRP and without them, were completed new projects started during the crisis (Aliens effect ..., 2014).

In turn, Porter, M. emphasizes that competitiveness can also affect state policy change (Porter, 1990). During these years, the Immigration Law was amended several times, specifying the conditions for issuing temporary residence permits to foreign investors. Changes in the Law conditions also changed the amount of investment, especially in real estate investments, which are seen in Figure 4.

---

*Tel.: +371 25495472. E-mail address: inara.repsa@gmail.com*
*Tel.: +371 26408253. E-mail address: Rosita@turiba.lv*
Conclusions and recommendations

1) Real estate is no longer a local market product. In globalization circumstances, it occupies a full place in the international market.

2) In the context of globalization, the company’s operational efficiency is the sole criterion of competitiveness.

3) The real estate production is construction, which is dependent on the availability of raw materials, especially those materials that are produced in other countries. It also determines the competitiveness of enterprises in the real estate sector.

4) The development of the real estate and construction industry is very important to the country; these sectors’ total proportion of GDP on average over the years is almost 1/5 of the total national GDP.

5) The real estate and construction industry’s development is also important for the public, because it determines the availability of housing fund in the country, which is one of the most important tasks of the national social policy.

6) 86% of the Latvia’s housing fund was built before 1990 and only 14% of apartment houses have been built between 1990 and 2011, which means that the housing fund in Latvia is changing and evolving relatively slowly, and the existing dwelling is getting old.

7) One of the housing fund renewal options is attraction of investment. In the framework of Investor support programme, in Latvia in 2010 there were adopted amendments to the Immigration Law, which allowed foreigners to obtain temporary residence permits for the investments in Latvian real estate. The amendments to the law successfully operated until 2014, when next amendments were adopted to the Law.

8) Continually legislative amendments do not allow the real estate industry to build a sustainable competitive improvement concept.
These conclusions encourage finding ways in public policy to improve and develop the legislation as well as the housing market, particularly - in new project construction because of apartment houses' age structure.

The legislator should make gradual changes in legislation related to the real estate development area, allowing entrepreneurs to plan their work in the long-term.

Considering the real estate globalization process as well as the public debate on the
current techniques to attract foreign investment in real estate development, the author believes that this study should be continued and more comprehensive analysis must be carried out to determine how much contribution temporary residence permits’ issuing provides for investment in real estate business to increase the competitiveness of the national economy as a whole.

Bibliography


12. MK 28.09.2007. noteikumi Nr.907 "Noteikumi par dzivojamas majas apeekosanu, tehnisko apkopi, kartejo remontu un energoefektivitātes minimalājam prasībām"/ Latvijas Vestnēslis, 156 (4348), 01.10.2010.


