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The Influence of Real Estate Market Cycle on the Development  
in Latvia

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**Abstract**

In the current study the free vibrations of stepped anisotropic rectangular plates on elastic foundation are considered. The anisotropic in this scientific article there are considered the main problems of real estate market cycle, the main interrelated economic aspects of the problem and their *connection* with real estate development. The research objective is to identify the main regularities of the influence of real estate market cycle on the development in Latvia, having paid special attention to economic aspects of the problem. In the research there have been used comparative, historical, statistical methods and the method of enumeration. On the basis of the conducted research the authors have provided recommendations for decreasing risks of development and unbalanced market cycle that will facilitate more effective decision-making promoting stable long-term development of the economy as a whole.

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*Keywords:* economic cycle; real estate market; real estate market cycle; development; influence; regulation.

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**1. Introduction**

Cyclical development of the economy demands from participants of the market the fast adaptation to changes of an economic situation in the country. *The rationale of the subject* results from changes on real estate market, decisions and actions, which are made and carried out by the government, households, public organizations and business sector, and affect the whole country and every single inhabitant, and also have high social significance.

*The research objective* is to identify the main regularities of the influence of real estate market cycle on the development in Latvia, having paid special attention to the period from 2004 to 2011. The identification of the main regularities will give the chance to define the main problems which real estate market participants face and the main tendencies of this market development. In the research there have been used comparative, historical, statistical methods and the method of enumeration. The conducted analysis will help to define the most important preventive measures for timely regulation of the economy in order to avoid its unbalanced development.

For achieving the objective the following tasks were set:

- – research of thematic scientific literature;
- – research of real estate cycles and their phases;
- – the analysis of real estate market cycle in Latvia during the period from 2004 to 2011;
- – selection and analysis of statistical information on this subject;
- – definition of the main problems connected with unbalanced development of real estate market;
- – identification of preventive actions for stable development of real estate market.

Real property is an essential commodity and the most expensive one. In particular, on the example of real estate market it is possible to see the main problem of the economy that is resource limitation and growing requirements of population. This

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problem was studied by many scientists, such as A. Smith [16], D. Ricardo [13], T. R. Malthus [12] and others. Nowadays a global tendency is an increase in population of the planet; in this regard the significance of real property is increasing. Also every year the issue of ecological building becomes more important.

The construction branch is one of the most important components in the structure of the country's GDP as construction of real property creates high additional cost and a large number of jobs that influences purchasing power of population and price level as a whole, and also many other indicators and processes. Changes on real estate market influence other sectors of the national economy. It is more difficult to name an indicator or processes which the situation on real estate market would not influence.

## 2. Characteristics of real estate market

*The real estate market* is the interconnected system of the market mechanisms providing creation, transfer, management and financing of real property. The real estate market represents set of regional and local markets which are significantly distinct from each other on price and risk levels, efficiency of real estate investments and etc. [2].

Creation and development of real property is a complex process which is called development.

Property development is [1]:

- a special type of entrepreneurial activity with the purpose of acquisition of income as a result of transformations of material processes;
- transformation (process) of real property as a result of construction (repair) and another work with buildings, facilities or land, or their transformation into another new real property (change of functional specifications) with higher cost than initial one.

The price of a construction project can strongly change over time; one of the main reasons is a speculative nature of real estate market. The real estate market can accumulate large amounts of money over a **relatively** short period of time, thereby breaking balance between the flow of goods and money.

If to speak about real property value for its potential consumer, in most cases during its development it will increase, though it is necessary not to rule out the possibility of **changing needs** of the market participants, therefore new real property value can decrease in comparison with the previous one. The cost of a construction project also depends on the cyclical phase of real estate market. In this regard it is necessary to pay special attention to decision-making on development and choice of the specific capital investment project.

The choice of the capital investment project is influenced by physical opportunity, legal permissibility, financial viability and availability, and economic efficiency [11]. Financial viability and economic efficiency is the purpose of the majority of projects. The preliminary analysis of the market and its cycle phases in perspective is of particular importance for successful development.

As a whole, the characteristics of real estate market are mainly defined by [1]:

- imbalance of supply and demand (supply of commodities on real estate market cannot quickly respond to change in demand);
- cyclical nature of real estate market;
- high degree of state regulation;
- increase in real property value with the course of time;
- low liquidity;
- limited number of sellers and buyers;
- low level of researches;
- high level of transaction expenses.

## 3. Interrelation between economic and real estate cycles

Economic cycle (business cycle, trade cycle) is periodic fluctuation of the level of business activity presented by real GDP [9]. There are the short business cycle (Kitchin cycle), the medium-term business cycle (Juglar cycle) and the long economic cycle (Kondratiev wave), and also Forrester's cycles, Toffler's waves and many others. The cycles differ in duration, intensity and other factors.

The purpose of monetary and fiscal policy of the state is stable *sustainable development* of the national economy and macroeconomics for avoidance of unbalanced cyclical development.

„The International Monetary Fund [6] suggests that governments facing speculative phases in their economies should implement measures to influence the volume and the characteristics of investment, such as taxes on short-term bank deposits and other financial assets.” [3].

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