



The Riga City real estate governance without strategic management and results

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Audit report

The Riga City real estate governance without strategic management and results

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Combined (compliance/ performance) audit “Governance and implementation of real estate projects of the Riga City Municipality Property Department and the Riga City municipal enterprises”

The audit was performed based on audit schedule No 2.4.1-6/2020 of the Fifth Audit Department of the State Audit Office of 20 January 2020.

The cover design includes a photo from the archives of the SAO auditors.

Summary

Main conclusions

The real estate governance model

The real estate governance system of the Riga City Municipality (hereinafter referred to as the Municipality) operates without strategic and coordinated management and without clear, achievable results.

The real estate governance model in the Municipality has been established historically several decades ago and does not correspond to the latest trends in real estate governance because it is decentralised and even fragmented, lacking standardised governance principles, lacking cost analysis of various processes and specific properties, lacking clearly defined planning document-based tasks and performance indicators, and lacking full-fledged control and evaluation procedures.

Out of the 30 criteria for good real estate governance assessed in the audit, one has not met 18 criteria and has completed 12 criteria only partially.

It follows from the title of the Riga City Municipality Property Governance Strategy¹ (hereinafter referred to as the Strategy) that it should include governance issues concerning all properties of the Municipality, but it is not the case. There are tasks assigned only to the Property Department of Riga City Municipality (hereinafter referred to as the Department), which manages approximately 30,000 real estate worth 1.5 billion euros² out of the real estate worth 2.1 billion euros in the total register of the Municipality³, and the Department spends at least 30 million euros for various real estate governance processes annually.

Other municipal institutions are not involved and connected in a single real estate governance system. Moreover, the Department has recommended one not to include key strategic tasks in the draft Strategy, and the Strategy does not contain those, for example, to carry out a structured assessment of the distribution of real estate possession.

Consequently, assessing what property governance results in one should achieve in the crucial directions of the Department's activities is impossible at present. They could be as follows:

- ☑ Property management - cost indicator per 1 m²; service quality indicators;
- ☑ Identification and assessment of the technical condition - the number of inspected buildings; technical condition and depreciation of buildings in %;

¹ Riga City Municipality Property Governance Strategy 2018-2023 (approved by Riga City Council Decision No 1864 of 19 December 2018 (Minutes No 41, Item 80)).

² As of 5 December 2019. E-mail from the Municipality of 13 December 2019.

³ According to the data of the Municipality's balance sheet for 2019: Land and buildings 1,955,011,801 euros, establishment of fixed assets and construction in progress 105,641,475 euros, investment properties 77,692,317 euros, and investment property transferred under trust 166,183 euros.

- ☑ Construction and improvement - number of objects, repaired and improved areas in m²; fulfilment of priorities;
- ☑ Leasing vacant real estate - profitability of leased objects; % of leased space out of spaces available for lease;
- ☑ Acquisition and expropriation of property - priorities, deadlines, costs.

The Municipality does not have arguments based on evidence, facts, and calculations as to why so many structural units and municipal enterprises are involved in real estate governance in the Municipality and why the Department has the specific scope of governance in terms of objects and functions, but other institutions have the same, similar, or different one. For instance:

- ☑ Both the Department and municipal limited liability company “*Rīgas nami*” lease office and commercial premises on lease in the territory of Old Riga and the city centre; both municipal “*Rīgas nami*” Ltd, the Department and the Municipal Executive Directorates lease garages owned by the Municipality; the Housing and Environment Department of Riga City Municipality (hereinafter referred to as the HED) leases real estate - a land plot and a crematorium building with all the equipment necessary for the provision of cremation services;
- ☑ “*Rīgas serviss*” Ltd manages the municipal real estate (various municipal buildings, including educational and pre-school educational institutions, libraries, and cultural centres); “*Rīgas pilsētņēmnieks*” Ltd manages the municipal real estate (municipal residential buildings); “*Rīgas namu pārvaldnieks*” Ltd manages the municipal real estate (privatised residential buildings); “*Rīgas nami*” Ltd manages the municipal real estate (various municipal buildings and municipal cultural and historical buildings).

The Municipality perceives the responsibility of real estate governance too narrowly, as they perceive it as the management of the real estate that is more visible to the population (educational institutions, libraries, etc.) instead of the strategic, development-oriented, and organised actions to get the maximum benefit from all real estate.

In such a situation, the action of the Municipality in real estate governance does not focus on economy and efficiency, which is incomprehensible to the stakeholders operating in the real estate sector. Existing actions also result in incomprehensible repair and development priorities, a formal approach to setting and monitoring strategic objectives, a lack of information transparency, unclear decisions, and uneconomic behaviour.

The historical and non-revalued functional division of property

In accordance with international trends in real estate governance⁴ the Municipality must manage real estate that is necessary for the implementation of its functions. In its turn, it should lease real estate that is not necessary for the implementation of municipal functions during the relevant period, but has prospects for future use, while the Municipality should dispose of non-promising real estate so as not to cause losses to the Municipality.

In the Municipality, real estate has been divided historically into 32 lists⁵ as per municipal functions. In addition, 57% of the real estate registered by the Department is not included in any list, thus the Municipality has been managing properties that are not necessary for the implementation of its functions for a long time. One has established those lists more than a decade ago to provide a legal basis for rejecting many privatisation applications⁶. The property perhaps is not necessary for the implementation of municipal functions at present but it would be necessary for economic operators to develop their business in the Municipality.

Unfortunately, the Department does not evaluate properties according to its own procedures⁷ setting the criteria for property evaluation, decision-making matrix and process map, which would help evaluating the prospective use of real estate in relation to the goals/criteria set by the Municipality itself such as quality, suitability, cost-effectiveness, etc. Moreover, the Department has not accumulated data to make a reasoned decision on the actions regarding real estate.

The information obtained during the audit outlines the deficiencies in the assessment of the perspective use of real estate that the Municipality possesses real estate that is not used for a long time and does not generate the maximum return, for example:

- ☑ There is real estate invested in the fixed capital of the municipal enterprise which is not used⁸;
- ☑ Potential leasehold is not maintained for a long time and are in poor technical condition⁹.

Private entrepreneurs also point to uneconomical holding of real estate, “The plans of the municipal enterprises are also unclear. For example, “*Rīgas pilsētņēmnieks*” Ltd has

⁴ Report “PuRE-Net & TWN Survey 2019, presented at Annual Conferences: Edinburg & Seul”, 10 September 2019, Bridget Workman. Quoted in the real estate portfolio development strategy of state-owned Joint Stock Company “*Valsts nekustamie īpašumi*” for 2020-2022, p. 15-16.

⁵ For instance, real estate in the environmental and transport sectors is grouped into eight lists.

⁶ Minutes of the interview between the State Audit Office and the Department on 14 November 2019.

⁷ Riga City Municipality Property Governance Strategy 2018-2023 (approved by Riga City Council Decision No 1864 of 19 December 2018 (Minutes No 41, Item 80)), p. 26-28.

⁸ There are 22 undeveloped land plots with a total area of 71.77 ha invested in the fixed capital of “*Rīgas pilsētņēmnieks*” Ltd, of which 17 are vacant and leasable land plots. “*Rīgas pilsētņēmnieks*” Ltd points out that 9 land plots are available for rent since 1 January 2021.

⁹ For example, the garages owned by the Municipality at 8 Vītola Street, 13 2nd Vecmīlgrāvis Avenue, 356G Brīvības Avenue, and 12 Tallinas Street.

reserved many land plots in Riga, but their use is not understandable to use as to when one will use those land plots, who will use them, and whether they will be used at all”¹⁰.

Completeness, reliability, and availability of information about real estate and its technical condition

The Department is a managing authority of the Municipality in the property governance sector¹¹, however, complete information on all the real estate belonging to the Municipality and on the technical condition of all properties is not available in its databases, and this information is not combined in one place.

For example, the municipal real estate inventory database included buildings that the auditors did not find in nature during the audit, according to the inventory data, there is a “Residential building” at 12 Lizuma Street, although in fact it is a cemetery area and no residential building is located in this area; at 15 Tālavas Avenue, there is a “Board administration building”, yet that building does not exist in nature. The Municipality’s website states¹² that garage No 17 located at 356G Brīvības Avenue is available for lease, although the garage does not exist at all.

The Municipality has not collected complete information on the technical condition of the buildings, as the Municipality has not performed technical inspections of all Group 2 and Group 3 buildings, for example, on the mechanical strength and stability of the building, fire safety, safety of use and environmental accessibility. The Municipality has also not performed an assessment of the technical condition of Group 1¹³ buildings such as sheds and garages owned by the Municipality¹⁴.

Thus, the Municipality has not complied with the statutory requirements¹⁵ as the Municipality has not issued a regulation specifying the scope, frequency, and priorities of maintenance activities in all Municipal real estate, and it has not provided full technical inspection of Group 2 and Group 3 public buildings, such as educational institutions.

Maintenance and refurbishment of buildings has not always been a higher priority and necessary at the right time and at the chosen site, such as renovating the school museum by

¹⁰ E-mail from “YIT LATVIJA” Ltd CEO of 23 December 2020.

¹¹ The Department Bylaws (approved by decision No 367 of the Riga City Council of 18 June 2013 (minutes No 117, par. 39).

¹² Available at <https://www.riga.lv/lv/informacija-par-brivajam-telpam>, viewed on 17 December 2020.

¹³ For example, a small building (one-storey building, including a shed and an auxiliary building whose construction area does not exceed 25 m²); a separate prefabricated one-storey building with a construction area of up to 60 m², including a container-type building or a construction product, except for a building where a hazardous installation is located.

¹⁴ E-mail from the Municipality of 20 November 2020.

¹⁵ Section 6.², Paragraphs 3 and 3¹ of the Law on Prevention of Waste of Financial Resources and Property of Public Entities; Section 191, 266 of Cabinet Regulation No 529 “Codes of Construction Practice for Buildings”.

spending 23,913 euros rather than introducing a fire detection system at the school, which was a mandatory requirement¹⁶.

The State Fire and Rescue Service (hereinafter referred to as the SFRS) and the State Construction Control Bureau (hereinafter referred to as the SCCB) have also identified deficiencies in the maintenance and operation of buildings. For instance:

- ☑ The SFRS has detected three times (2017, 2018, and 2019) that the technical condition of the mechanical ventilation system was not inspected and cleaned at the facility and the natural ventilation system ducts were not cleaned and inspected in Secondary School No 40. The SFRS has discovered that the Riga Volleyball School had not performed internal inspections of fire hydrants and their equipment four times (in 2016, 2018, 2019, and 2020);
- ☑ There are deficiencies identified in 10 educational institutions out of the 12 municipal educational institutions randomly checked¹⁷, which the SCCB has inspected. Of these, three educational institutions¹⁸ have deviations from the requirements that affect the safety of the building¹⁹. In addition, although one had identified those deficiencies in 2015 and 2017, nobody has still eliminated them at the time of the audit²⁰.

The non-fulfillment of the annual plan for maintenance activities of building engineering and communication systems in full also evidences the lack of planned activities of the Municipality. For example, maintenance of water supply and sewerage internal networks in Andrejs Pumpurs Riga Primary School No 11 and Secondary School No 19 was performed only twice out of the planned three times in 2019, while preventive maintenance of electrical installations at Pre-school educational institution (PSEI) No 68 and Secondary School No 40 was performed only once out of the planned two times.

Although non-implementation of the plan does not have direct financial consequences for the Municipality's budget in the short term, as the Municipality pays for the work performed only after acceptance of works, it may have an impact on the service life of the respective utilities and the spending of municipal funds accordingly in the long run.

¹⁶ Section 8 of Cabinet Regulation No 238 "Fire Safety Regulations" of 19 April 2016.

¹⁷ PSEI No 68 located at 9A Ādmiņu Street; PSEI No 106 located at 83 Ūnijas Street; PSEI No 182 located at 9 and 17A Dzelzavas Street; Fricis Brīvzemnieks Primary School located at 4 Zeļļu Street; Andrejs Pumpurs Riga Primary School No 11 located at 197 Maskavas Street; J.G.Herders Riga Grīziņkalns Secondary School located at 9 Lauku Street; Secondary School No 19 located at 9 Miglas Street 9; Secondary School No 34 located at 7 Vircavas Street; Secondary School No 40 located at 5 Tērbatas Street and 10 Akas Street; and Secondary School No 86 located at 10 Ilūkstes Street.

¹⁸ PSEI No 182 located at 17A Dzelzavas Street, PSEI No 106 located at 83 Ūnijas Street, PSEI No 68 located at 9A Ādmiņu Street.

¹⁹ Available at <https://bvkb.gov.lv/lv/eku-ekspluatācijas-uzraudzības-interaktīva-karte>, viewed on 24 November 2020.

²⁰ The Municipality indicated in letter No RD-21-321-nd "On the draft audit report in audit case No 2.4.1-6/2020" of 22 February 2021 that the deficiencies indicated by the SCCB at PSEI No 68 located at 9A Ādmiņu Street have been eliminated and documents are being prepared for the commissioning of the facility. The works at PSEI No 182 located at 17A Dzelzavas Street have also been completed.

Without timely identification of the technical condition of all buildings, the Municipality cannot plan their maintenance works in the life cycle of the building, thus it plans them within the budget of the current year and without setting priorities. This approach indicates that the Municipality does not assess fully at present which damage prevention is a priority with a greater impact on the safe operation of buildings and the preservation of buildings.

Cost accounting of real estate governance

The budget financing allocated for the maintenance, improvement, and development of the entire municipal real estate in the current year must be linked to thorough, planning document-defined, strategically managed and coordinated among sectors, priority and result-oriented activities.

Knowing the income and costs of each object is crucial for decision-making on an individual real estate object. For example, the largest state real estate manager VNI indicates²¹ that it distributes all expenses by objects by determining the profitability of each object²², which is the basis for further action with real estate such as using it for the performance of municipal functions, lease it, or sell it.

However, the Department does not record and analyse costs for real estate governance processes and individual activities or the financial results of an individual real estate object. In such a situation, neither the Department itself nor external evaluators can analyse the cost-effectiveness and effectiveness of the municipal real estate governance model.

When planning governance and especially management costs, evaluating the form of a cooperation agreement with municipal enterprises is also essential. For instance, the Department has paid 26,510,319 euros, including 4,600,964 euros of VAT²³, to municipal enterprise “*Rīgas serviss*” Ltd for the provision of real estate management services owned by the Municipality from 2015 to June 2020 in accordance with the signed agreement²⁴. If the Municipality had assessed what part of the work entrusted to “*Rīgas serviss*” Ltd was the delegation of an administrative task arising from municipal functions and would have formalised this task as a grant for performing administrative tasks in a regulation, then the Municipality would have saved financial resources for this part, as the payment is not subject to value added tax.

²¹ Minutes of the interview between the State Audit Office and VNĪ of 11 August 2020.

²² Profitability is determined by dividing a company’s net profit by its net turnover, by the company’s total or equity capital, or by its total assets. These indicators show the funds consumed or the volume of net sales (profitability is the difference between income and expenses for each of the real estate). Profitability is a measure of a company’s performance, expressed as a percentage, and the higher this percentage, the more efficient the company is. Minutes of the interview between the State Audit Office and VNĪ of 11 August 2020; Real Estate Portfolio Development Strategy of state-owned joint stock company “*Valsts nekustamie īpašumi*” 2020–2022; Marita Rurāne, Financial Management, Chapter 10, p. 231.

²³ E-mail from the Municipality of 22 December 2020.

²⁴ Agreement No RD-13-255-lī between the Municipality and “*Rīgas serviss*” Ltd of 11 February 2013.

The Municipality's activities in real estate transactions

One can improve the actions of the Municipality when acquiring and selling real estate and renting real estate from individuals and leasing out the municipal real estate, to get the maximum benefit from it. The following evidences that:

- ❑ Failure to assess the long-term impact of the decisions made by the Municipality;
- ❑ Lack of information available in the public space on vacant municipal property and lack of transparency in real estate transactions;
- ❑ The rent set by the Municipality for leasing out its real estate and shortcomings in the control over the execution of agreements.

Acquiring the municipal property

Since 2015, the Municipality has acquired 153 different real estate objects for the implementation of various projects²⁵. However, the Municipality has not specified any criteria, priorities, or plan for acquiring real estate, including a specific action plan for purchasing real estate to streamline the sectoral real estate²⁶, for instance, for purchasing the land under municipal educational institutions where shared property exists.

In addition, the process of purchasing real estate is not always substantiated sufficiently, and the Municipality has not always considered alternative possibilities to use the premises already in its ownership to achieve the goal before purchasing real estate. Thus, the Municipality has not ensured a transparent and open real estate acquisition process. For example, to ensure the operation of the Riga Chess School, the Municipality has acquired a group of premises (10 study rooms, a sauna, a swimming pool, a technical room, and two separate entrances) at 10 Pērnavas Street, Suite 94, on the semi-basement floor of the building of 258.9 square metres by spending 45,000 euros for this transaction. Although educational institutions have a practice of cooperating with other municipal institutions and agencies in the use of premises²⁷, and the premises of several educational institutions subordinated to the Education, Culture, and Sports Department (ECSD) of the Riga City Council²⁸ are located near the real estate at 10 Pērnavas Street.

²⁵ For example, for the ECSD and the Transport Department of the Department; for the Skanste neighbourhood revitalization project; to ensure the construction of the Rumbula-Dārziņi bicycle trail section.

²⁶ E-mail from the Municipality of 10 November 2020.

²⁷ For instance, the Riga Education and Informative Methodological Centre organizes adult non-formal education courses in 12 branches in Riga, in the premises of ECSD-subordinated institutions, including the Riga Natālija Draudziņa Secondary School, the Riga Primary School *Valodiņa*, the Primary School *Rīdze*, the Culture and Art Centre *Ritums*, and the Riga State Technical School. Annual report of the Riga Education and Informative Methodological Centre for 2019. Available at https://www.riimc.lv/media/RIIMC%20gada%20parskats_2019.pdf, p. 84, 85, viewed on 17 November 2020.

²⁸ For example, the Children and Youth Centre “*Rīgas Skolēnu pils*”, the J.G.Herder Riga Grīziņkalns Secondary School, and the Riga Secondary School No 6.

Moreover, the actions of the Municipality indicate long-term procedural shortcomings for more than a decade, e.g., the Municipality purchased multi-storey residential houses outside the administrative territory of the Municipality in 2008 and 2009 resulting in other local and regional governments receiving resident income tax according to the declared place of residence and the Municipality maintaining real estate for the needs of the residents of other local and regional governments on the territory of other municipalities.

In total, the Municipality owns eight residential buildings in the administrative territories of other municipalities. One must encourage cooperation between local and regional governments. Nevertheless, the Riga City Municipality has not obtained budget revenues of at least 1.4 million euros from resident income tax generated by residents accommodated in only three residential houses, although “Rīgas pilsētņēmnieks” Ltd still covers credit liabilities for the purchase of five buildings²⁹, whose outstanding lump sum is 7,365,900 euros³⁰ with a maturity of up to 2028³¹.

Also, when making a decision on the development of real estate at 11 Ziepju Street, the inconsistent action of the Municipality by selling real estate first and then repurchasing the same from an individual, has caused unnecessary use of administrative resources and wasteful use of financial resources of at least 131,226 euros.

Availability of information to individuals

The Municipality does not use all the possibilities of information circulation to attract as many potential business partners to the real estate transactions as possible and thus to promote competition. The opportunity to cooperate with private sector businesses in the sector, whose main activity is real estate transactions, is wasted.

Similarly, information about the Municipality’s vacant and market-available real estate objects is not widely publicised and this information is not available easily in one place because one provides only information about objects for lease mostly and publishes it on the website of the municipal agency in charge of the property.

The survey of private sector businesses provided information indicating the need to improve the availability of information on vacant real estate in the Municipality:

*Until now, the Municipality has not had the practice of informing real estate market participants regularly about the lease possibilities of its objects, building plots owned by it, etc.*³²

²⁹ 84 Strēlnieku Street in Sigulda; 4 Pasta Street in Baldone; 6 Dalbes Street in Olaine; “Silavējs” and “Vinterī” in Silakrogs, Ropaži Region.

³⁰ E-mail from “Rīgas pilsētņēmnieks” Ltd of 15 December 2020.

³¹ Except for the building located at 84 Strēlnieku Street in Sigulda, where the term of the commitment is 2024. E-mail from “Rīgas pilsētņēmnieks” Ltd of 15 December 2020.

³² Letter No 009/25.11.2020 from the Latvian Association of Real Estate Transactions of 25 November 2020.

The Municipality requires creating and maintaining a widely accessible and transparent information system, regular revision of the database by assessing and offering properties on the market that are not necessary for the Municipality to perform its direct functions/ tasks or that will not be needed after some time, and that could end up in the use of private sector in one way or another. There is no common database where one could see explicitly what exactly is available to businesses. From time to time, the expropriation of some property is started, but following the process is impossible³³.

An audit finding is an example of inappropriate ways and channels of publishing information on vacant leasehold, that is, garages belonging to the Municipality in residential areas are not used and leased for a long time (five years), although the auditors found several “notes” left by residents with an invitation to rent garages when surveying the sites during the audit.

Municipal action when leasing real estate

One determines the rent so that to cover a lessor’s expenses in full³⁴. However, the Municipality has not elaborated a methodology for calculating the rent. The accounting for the maintenance costs of the leasehold objects is not designed to determine the exact rent, which would include the part of the indirect costs attributable to both the maintenance of the site and the leasing process.

In monitoring and controlling the execution of lease agreements, the actions of the Municipality have not been economic, the concluded long-term lease agreements are not revised and rents are not updated according to the market situation, although the Municipality has provided such rights when concluding lease agreements. For instance, the lease agreement of the administrative building located at 7A Gogoļa Street³⁵ with the total leasable area of 1,565 m² concluded for 10 years for a monthly rent of 0.57 EUR/m², has not been reviewed and updated, although the agreement provides for the lessor’s right to review the lease by written agreement³⁶. The regulation³⁷ also stipulates the right of the Municipality when concluding new lease agreements currently to review it unilaterally and, if necessary, change the rent.

Given that the Municipality’s action in providing access to the information on real estate transactions does not ensure the application of the maximum number of potential business

³³ E-mail from YIT LATVIJA LTD CEO of 23 December 2020.

³⁴ Section 69 of Cabinet Regulation No 97 “Rules for Leasing Property of Public Entity” of 20 February 2018.

³⁵ Lease Agreement No DI-08-19-lī of 1 February 2008 and Agreement No 1/65 of 25 March 2010 between the Department and Riga City Police Headquarters of the State Police of the Ministry of Interior of the Republic of Latvia.

³⁶ Article 3.3 of Real Estate Lease Agreement No DI-08-10-lī of 1 February 2008 between the Riga City Council Property Department and Riga City Police Headquarters of the State Police of the Ministry of Interior of the Republic of Latvia.

³⁷ Section 6.1, Paragraph 1¹ of the Law on Prevention of Waste of Financial Resources and Property of Public Entities.

partners, and information on commercial property rents included in the market reports of real estate companies³⁸, there is a risk that real estate transactions take place at non-market prices. Those reports³⁹ indicate that prices for lowest-class office space range from 5 to 6.5 euros per m², while rents for retail space of 75 to 150 square metres in the city centre range between 16 and 25 euros per square metres, but the rents applied by the Municipality are several times lower. For example:

- ☑ Municipal institution “Riga Culture and Folk Art Centre Small Guild located at 3 Amatu Street and 5 Amatu Street in Old Riga hires out⁴⁰ basement floor space for office needs of 76.2 m² having set the rent at 1.40 EUR/m² (excluding VAT);
- ☑ Municipal company “Rīgas Dzemdību nams” (Riga Maternity Hospital) Ltd located at 45 Miera Street hires out⁴¹ premises for the provision of catering services of 122.9 m² having set the rent at 2 EUR/m² (excluding VAT);
- ☑ The Northern Executive Directorate of the Municipality has hired out⁴² a garage located at 356G Brīvības Avenue for a monthly rent of 31.5 euros (excluding VAT).

At the same time, according to publicly available information, for example, garage rent is 60 euros per month in the immediate area, 2 km away on Ropažu Street, rent is 60 euros per month 4.3 km away on Lizuma Street, and rent is 75 euros per month 5.3 km away on Starta Street⁴³;

- ☑ The Municipality has hired out⁴⁴ a land plot for the provision of paid parking services on Krasta Street without number (near Dzirnavu Street) of 847 m² for a monthly rent of 196.4 euros (annual rent of 2,357 euros excluding VAT).

One must note that despite the fact that the Municipality owns and hires out premises for administrative (office) needs, the audit has discovered that the Municipality leases premises from private owners for administrative purposes at the same time. Moreover, it does so paying the rent several times higher. For example, the Municipality leases premises (three floors) from four individuals for the needs of the Association of Municipal Cultural Institutions Museum “Riga Art Nouveau Centre” located at 12 Alberta Street and related activities (sale of souvenirs, coffee shop, and organisation of presentations). However, in addition to the above-mentioned premises, the second floor of the building of 136.6 m² is

³⁸ Latvian Real Estate Market Report 2017, Commercial Real Estate Market by ARCO REAL ESTATE Ltd. Available at https://www.arcoreal.lv/files/Tirgus_parskati/Komercipasumu_tirgus_parskats_2017.pdf. Commercial Real Estate Market Report 2017 by Kivi Real Estate Ltd. Available at <https://www.kivi.lv/tirgus-parskati/komercplatu-tirgus-parskats-2017-25>, viewed on 10 January 2021.

³⁹ Ibid.

⁴⁰ Agreement No KUIMG-16-49-lī of 29 January 2016 with TĪNE Ltd on the lease of non-residential premises located at 3 Amatu Street and 5 Amatu Street, Riga.

⁴¹ Agreement No RDzN-168/2017 of 16 August 2017 with KARELL Ltd on the lease of non-residential premises located at 45 Miera Street, Riga.

⁴² Lease Agreement with an individual on the garage lease located at 356G Brīvības Avenue, Riga.

⁴³ For example, <https://www.ss.com/msg/lv/real-estate/premises/garages/riga/teika/bkbel.html>, viewed on 26 November 2020.

⁴⁴ Agreement No RD-19-510-lī with LVM Group Ltd on the land plot lease at Krasta Street without number, Riga, of 17 May 2019.

also leased for administrative needs for 11.38 EUR/m² or 1,554.50 euros per month according to the agreement⁴⁵, which is at least 373,080 euros during the whole lease period.

Major recommendations

Following the audit findings and conclusions, there are 19 recommendations provided to the Municipality, whose implementation will result in the actions taken as follows:

- ☑ Identify all the municipal real estate and its technical condition and ensure the evaluation of the perspective use of the entire real estate portfolio;
- ☑ Define the principles of real estate governance based on economy, efficiency, and effectiveness and develop a single real estate governance strategy in the Municipality;
- ☑ Ensure regular assessment of the performance of the real estate governance by means of accurate accounting and analysis of the financial resources spent for real estate governance and monitoring and evaluating the implementation of the activities specified in the development planning documents of the sector;
- ☑ Purposeful and rational implementation of real estate development projects in the sectors in accordance with pre-set priorities;
- ☑ Facilitate transparent and justified real estate transactions, including the development of a methodology for the calculation of rents and setting the criteria for priorities and elaborating a long-term plan for the acquisition and expropriation of real estate;
- ☑ Ensure transparency in real estate transactions, including the improvement of the methods and channels for information publication.



There are 19 recommendations provided to the Municipality for the improvement of real estate governance.

⁴⁵ Agreement No DI-11-166-lī of 22 March 2011 with four individuals on the premises used by the Riga Municipal Association of Cultural Institutions “Riga Art Nouveau Centre” located at 12 Alberta Street, Riga.