Technical Assistance – Market Studies of Pipeline and Stakeholders

Latvia

October 2024

Disclaimer

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A **comprehensive analysis of social infrastructure investment** in nine EU countries is a key objective of the project

Introduction – Project in focus

The project is initiated by the **Council of Europe Development Bank** who has hired **PricewaterhouseCoopers**, through the support of InvestEU Advisory hub, to identify market gaps and potential investment opportunities, with stakeholder engagement playing a crucial role in enriching the study's findings.

Project overview and goals

- The project, led by the **Council of Europe Development Bank (CEB)** and executed by **PricewaterhouseCoopers (PwC)**, is financed by the **European Commission under the InvestEU Advisory Hub**. This signifies a strong commitment from the EU to enhance social infrastructure.
- The aim is to **map the current state of social infrastructure investments** in nine EU countries, notably including France. This involves a comprehensive assessment of market conditions, funding availability, and potential investment opportunities.
- **The study aligns with InvestEU's broader goals to stimulate investment across the EU**, specifically targeting the development and enhancement of social infrastructure.

Methodology and phased approach

1. **Phase One - Desk Research**: In the initial phase, PwC conducts extensive desk research to collate and analyse existing market data and studies. This phase establishes a foundational understanding of the investment landscape in the targeted countries and identifies key stakeholders.
2. **Phase Two - Direct Market Interviews**: Following the desk research, the second phase involves conducting interviews to gather firsthand market insights from identified stakeholders. This step is crucial to enrich the analysis with real-world perspectives and data.
3. **Comprehensive Evaluation**: The combination of desk research and direct interviews ensures a thorough and multi-dimensional analysis, providing a detailed picture of the current market and identifying key areas for potential investment.

Stakeholder engagement

- **The CEB and PwC are actively engaging with principal stakeholders to gather insights and respond to specific inquiries**. This collaborative approach is essential for validating the study's initial findings and enriching the overall analysis with diverse perspectives.
- Through this engagement, the **CEB seeks to build a network of informed and interested parties**, fostering a collaborative environment for future projects and investments.
- Post-study, stakeholders will have opportunities to remain involved in ongoing dialogues and initiatives led by the CEB. This continued involvement is aimed at translating the study's findings into tangible investment actions and partnerships.

Limitations

The main project limitations consisted of reduced data availability, which was mitigated through involvement of local experts who provided estimates, and in some cases, additional data access. As well as, access to stakeholders for the phase 2 interviews, which resulted in some segments being covered by only one interview.

1

Introduction

Although the Latvian economy grew by almost double that of the EU average, it was recently affected by the high inflation

Introduction – Overview of Latvian's Economy

Latvia's economic forecast

The GDP growth of Latvia was positive in all years since 2018, with the exception of 2020 (caused mainly by the COVID-19 pandemic). Since 2018 the GDP grew by 7,59, which is almost double as high as the EU-27 average GDP growth (CAGR of 4,02%). Also, the GDP per capita has been increasing steadily in Latvia (CAGR of 2,35%), however, the increase is smaller than the overall GDP growth rate.

The unemployment rate has been decreasing in all years since 2018, with the exception of 2020, which also represents the highest unemployment rate in this period. The lowest unemployment rate in this period was recorded prior to the COVID-19 pandemic (in 2019) and it still cannot be equaled, during the economic recovery after COVID-19, partially also due to the high price pressures, which were a direct consequence of the war in Ukraine.

Latvia	2018	2019	2020	2022	2023	CAGR
Population (mil.):	1,93	1,92	1,91	1,90	1,88	**-0,77%**
GDP bn (current EUR)	29,15	30,68	30,27	33,62	39,06	**7,59%**
GDP growth	3,99	2,57	-2,30	4,28	2,76	**n/a**
GDP per capita (EUR)	12,14	12,54	12,33	12,98	13,32	**2,35%**
Unemployment	7,4	6,3	8,1	7,6	6,9	**n/a**
HICP (annual % change)	2,6	2,7	0,1	3,2	17,2	**n/a**

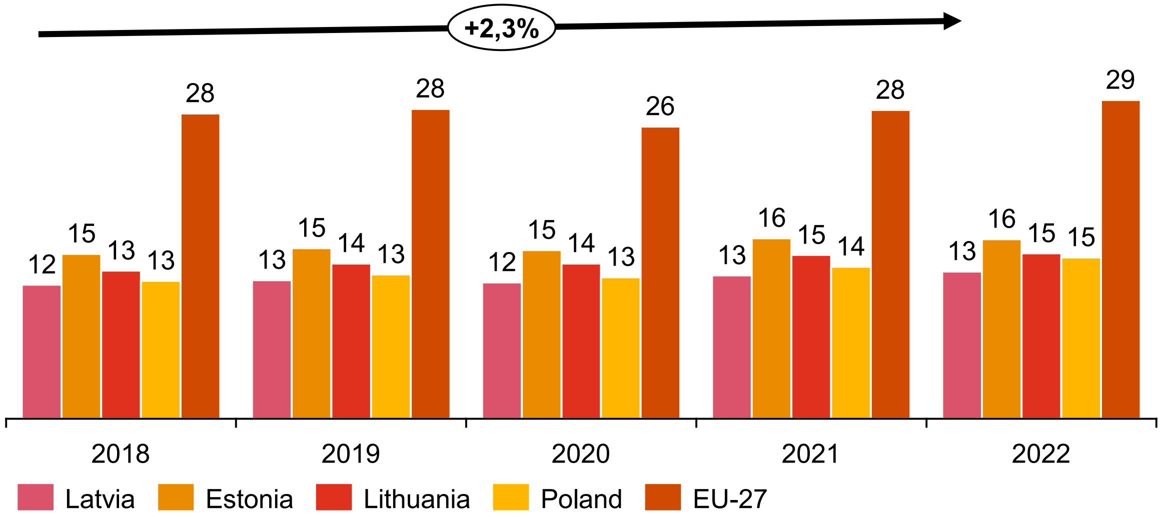
GDP per capita and inflation

Latvia's economic recovery post COVID-19 has been heavily affected by one of the highest inflation rates in the EU, which are a direct consequence of the war in Ukraine. Inflation is projected to decrease in the next years, thus positively impacting economic growth.

Latvia's GDP per capita has been growing with a CAGR of 2,3% and has risen from EUR 12,1k in 2018, to EUR 13,3k in 2022, just under the 50% threshold of the EU-27's average at 28,8k.

Latvia has the lowest GDP per capita in its peer group (Baltic states and Poland), however, as projected by IMF it is expected to increase significantly until 2028.

GDP per capita of Latvia and a basket of countries (EUR ths.) 2018–2023

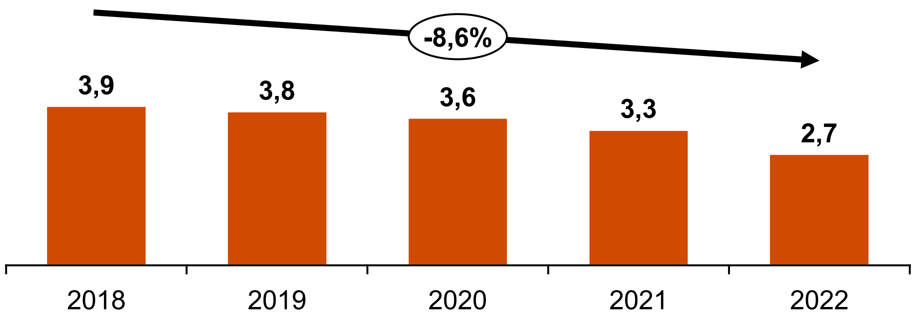


Sources: Eurostat, OECD, IMF, PwC analysis

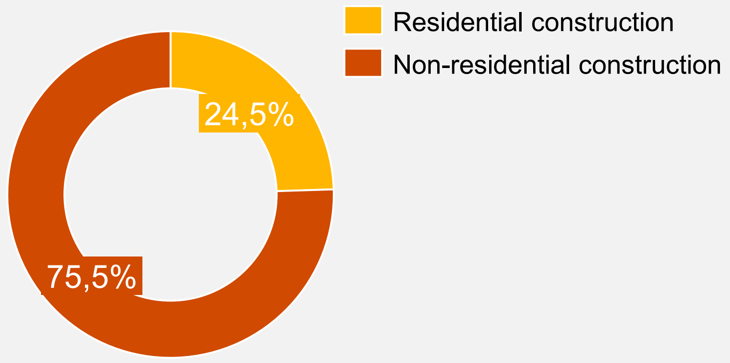
Although the construction industry value is decreasing, some positive developments are evident in recent years

Introduction – Overview of the Construction Sector

Buildings construction industry value, in EUR bn



Construction works value share, by subsector, 2022



Recent years have seen a sharp decline in the Latvian construction industry, with the COVID-19 pandemic further slowing down progress in 2020. Meanwhile, Latvia's construction industry has experienced a compound annual growth rate (CAGR) of -8,6% between 2018 and 2022, reaching a real gross output of EUR 2,7 bn from building construction. In contrast, the construction industry of the neighbouring countries Lithuania and Estonia has been growing, with respective CAGRs of approximately 4,6% and 2,7% over the same period, (valued at EUR 4,7 bn and EUR 3,9 bn respectively).

Due to the COVID-19 pandemic and related measures, GDP has significantly declined in Latvia. However, the number of enterprises has grown by 48,6% from 2010 to 2020, with 31.903 currently in operation. Most of the growth in the construction sector can be attributed to an increase in architectural and engineering activities. Meanwhile, the construction sector has seen a 27,4% increase in the volume of production from 2015 to 2020, primarily driven by a 48,8% increase in building construction. Employment in Latvia's broad construction sector has also increased by 38,1%, with 144.831 people currently employed. This growth is mainly attributed to an increase in individuals employed in the architectural and engineering activities sub-sector.

To address the need for skilled workers, increase efficiency, and enhance the quality of construction services, Latvia has implemented a construction industry development strategy for 2017–2024.

Residential construction

The residential segment accounted for EUR 0,72 bn in 2022, equating to 24,5% of the industry's value. Construction of residential buildings in Latvia is supported by a heavy preference towards home ownership (~83%). The decline of the segment is partially also influenced by the high inflation of goods and services in Latvia.

Non-residential construction

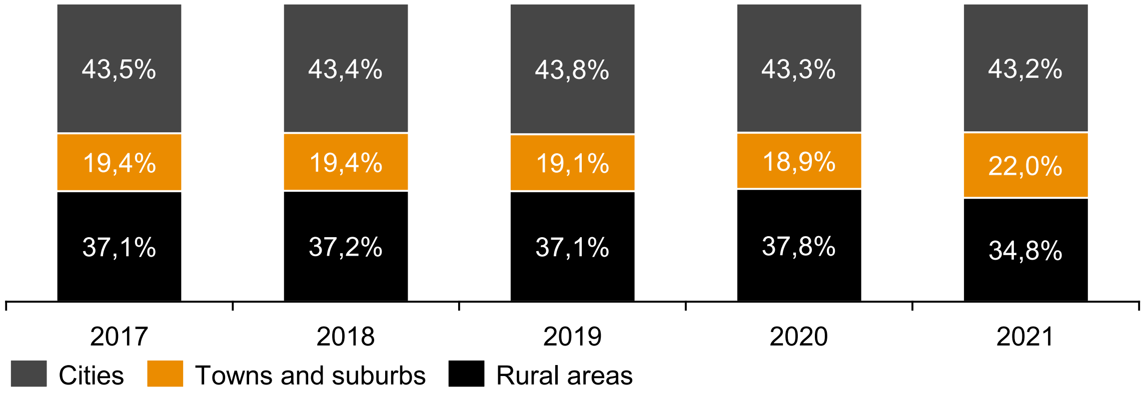
The non-residential segment accounted for EUR 2,07 bn in 2022, equating to 75,5% of the industry's value. The value of the segment dropped from the pre-pandemic level (from 2019) by 28,3%.

Sources: Eurostat, EMIS, PwC analysis

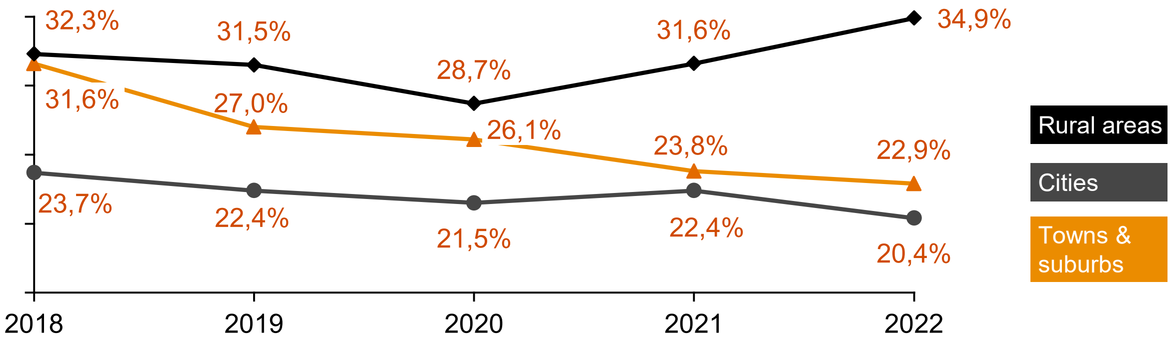
Latvia’s population is declining, with a sizeable share of the population living at risk of poverty or social exclusion

Introduction – Overview of Latvia’s population

Share of population, by degree of urbanisation, in %



People at risk of poverty or social exclusion by degree of urbanisation, in %



The population of Latvia has been reported at 1,88 million people in 2022, and projections indicate it will decline to 1,86M by 2025 and even further to 1,76 million by 2030.

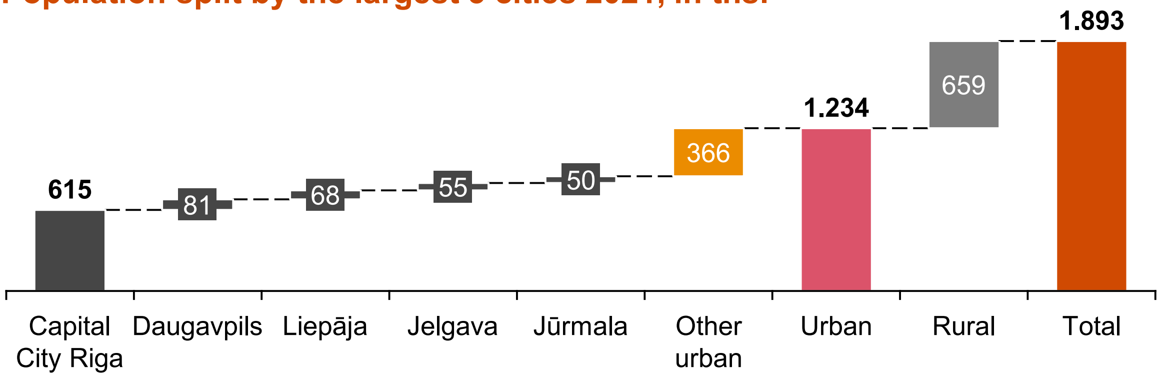
Official data shows that approximately two thirds of the population lived in urban areas, while one third lived in rural areas. Approximately half of the urban population lives in the capital city of Riga, with the remainder living in smaller cities spread across Latvia. The second largest city (Daugavpils) is more than 7,5x smaller than Riga.

The share of people living in cities has stagnated in the past 5 years, while the share of people living in towns and suburbs has been slowly increasing in the same time period.

The combined population of the largest five cities and their surroundings amounts to 868k or about 46% of the total population of Latvia, therefore indicating a strong centralization of population in a limited number of cities.

The share of people at risk of poverty and social exclusion is relatively high, especially for people living in rural areas, where it has also been increasing in the last two years. This indicator is slowly decreasing for people living in towns and suburbs as well as cities.

Population split by the largest 5 cities 2021, in ths.



Sources: Eurostat, PwC analysis

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Affordable social housing

There is an **evident need for social housing,** however **more policy support** from national level is required

Social and affordable housing

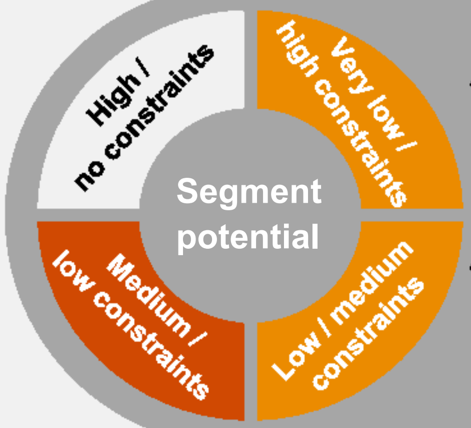
Key conclusions – Phase 1

- Municipalities are responsible for providing social housing, and contribute significantly to the creation of new social dwellings.
- To address the issue of housing affordability in Latvia, the Latvian government established the Housing Affordability Fund in mid 2022.
- The average rental prices have been steadily increasing since 2015 (31%) due to a limited number of new supply, whereas the average housing price has increased by 84% from 2015 to 2022.
- Currently there are approximately 7k people waiting for social housing in Latvia, thus representing immediate demand.

Key conclusions – Phase 2

- Stakeholders have identified that there is a notable absence of new housing construction beyond Riga, with Valmeira, Jelgava, and Liepaja facing the biggest challenges related to housing.
- It has been identified that fewer and fewer people can afford new housing, and have to resort back to Soviet era buildings, which come with large renovation costs.
- There is a notable lack of housing policy on the level of the national Government, which hinders stakeholders in developing projects.

PwC Assessment



There is a notable need for affordable housing in Latvia, as the housing gap is increasing in the previous years.

Potential for outside financing is mainly evident in medium-term as presently there is still sufficient funding from EU funds

Key Segment Data

24,3% people living in low quality housing

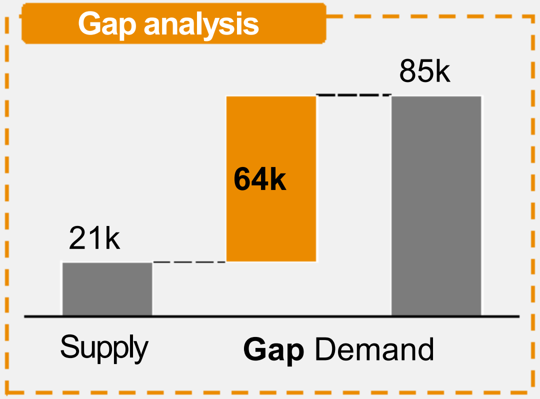
83,2% share of home ownership

7,2bn est. financing needed

9,4% rented at reduced price/free

7k households on a waitlist

20% cannot afford housing



Social housing is provided by local governments, however, most of them also provide various other forms of support

Social Housing – General Overview (1/2)

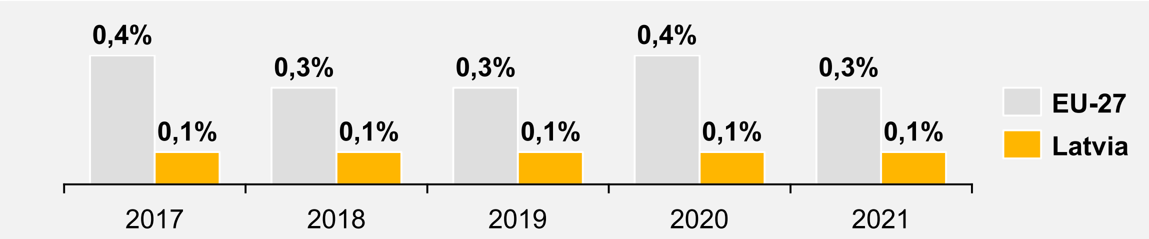
Social Housing definition and oversight

As per Article 96 of Section VIII of the Latvian Constitution, the housing policy aims to ensure that every citizen, has the right to adequate housing. The lead ministry for housing policies in Latvia is the Ministry of Economics of the Republic of Latvia, whereas municipalities are responsible for providing social housing and contribute significantly to the creation of new social dwellings.

The law "On Assistance in Solving Apartment Issues" outlines the criteria for individuals who are eligible to receive assistance in resolving housing-related problems. As per this law in Latvia, social housing refers to "social houses" and "social apartments" that are rented out by municipalities to households in need, at affordable rates. Other forms of help include housing benefits, different types of allowances, providing temporary residential premises, municipal assistance in repairing residential premises, and assistance in renting, purchasing or constructing living space.

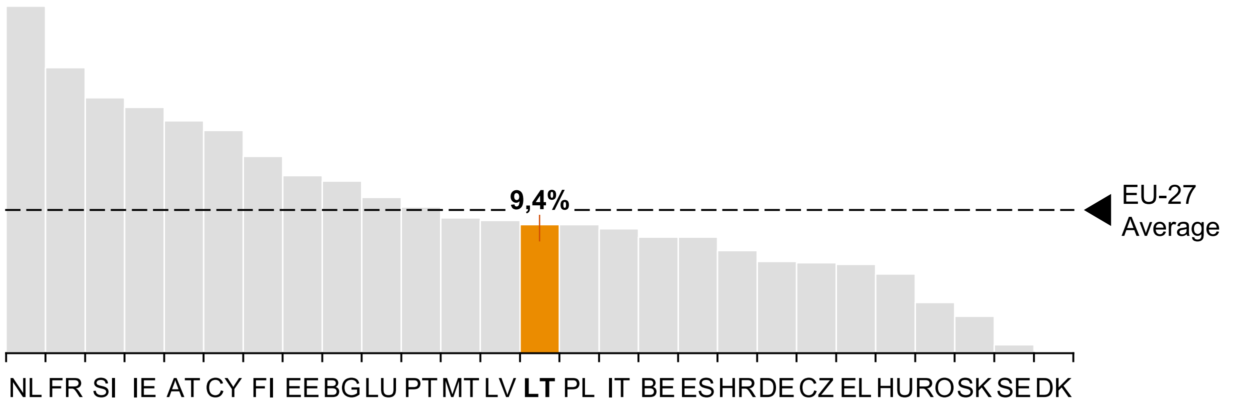
To address the issue of housing affordability in Latvia, the Latvian government established the Housing Affordability Fund in mid 2022. This financing model aims to promote affordable housing, however, as of now not many projects have been financed by the fund.

Government spending on social housing, in % of GDP



Sources: Eurostat, World Bank, OECD, PwC analysis

Tenants, rent with reduced prices or for free in Europe (2022, %)



Responsibility for social housing

The social apartments and houses are owned and managed by the local government. Municipalities are obliged to provide rental apartments, provide apartment allowance and provide various social services that indirectly or partially solve the housing problem.

In the area of housing quality, Latvia has achieved significant strides. The percentage of people who live in poor quality housing has decreased by more than a third since 2005 (from 40% to 24,3% presently).

Some municipalities offer additional benefits to ease the housing burden on the residents. The municipality of Riga partially covers utility costs (e.g. 25% for heating and 50% for water and wastewater) and provides social housing at a rent of EUR 0,06 per m^2. The municipality offers a housing adaptation allowance for people with disabilities, enabling them to hire a construction company to carry out adaptation works to improve the accessibility of their residences.

Latvia’s housing market is defined by high homeownership rates due to extensive privatisation in the 1990s

Social Housing – General Overview (2/2)

Tenure Breakdown

Latvia's rate of home ownership in 2022 was above the EU-27 average, standing at a little over 83% of all dwellings equivalent to approximately 687k dwellings. Out of those, ~14% (or 116k dwellings) were owned with a mortgage or a loan, while 69,1% were owned without a loan (or ~571k dwellings) and 16,8% (or ~139k) were rented in 2021. Among the rented dwellings, 6,6% of tenants are renting at market price while 10,2% are renting at a reduced price or for free, this translates to ~55k and ~84k, respectively.

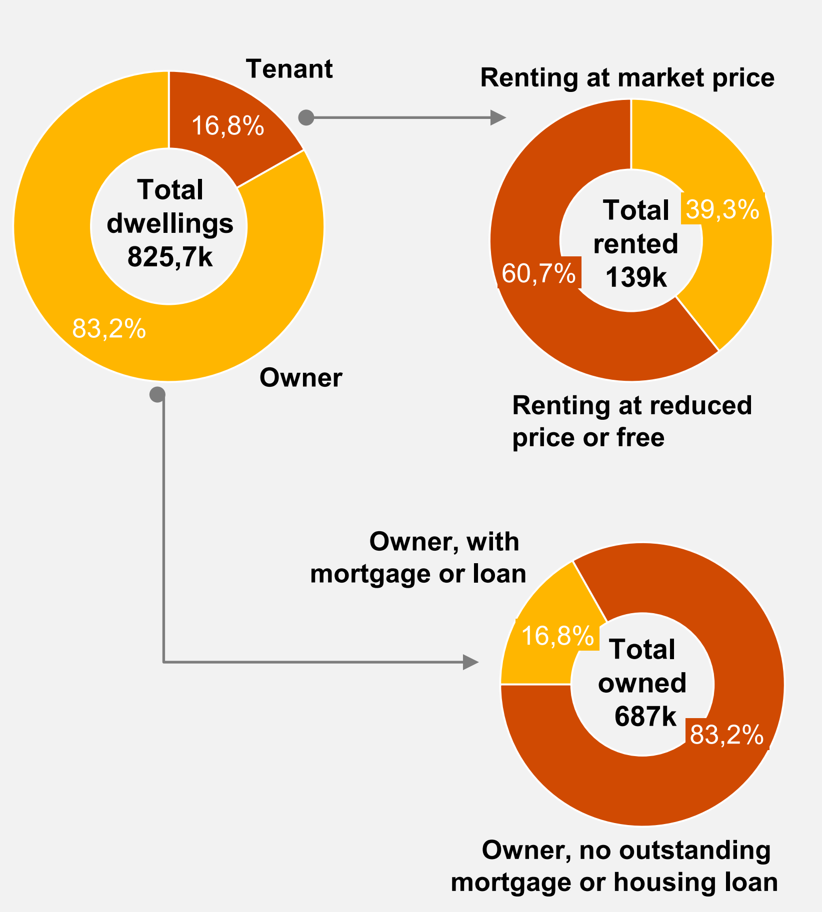
Between 2010 and 2022, homeownership rates fluctuated. In 2010, the rate peaked at 84,3% before declining in the following years. In 2015, it hit a low point of 80,2%. The observed trends were in line with the EU-27 average. As of 2022, the rate stands at 83,1% and this high homeownership rate can be attributed especially to the law "On privatization of state and municipal residential houses” (Par valsts un pašvaldību dzīvojamo māju privatizāciju) which came into effect in 1995. The law provided tenants with the possibility to privatize state and municipal residential houses, thus increasing the homeownership rate (Latvia has the 8th highest homeownership rate among the EU-27 countries).

The number of rentals fluctuated between 15,7% (in 2012) and 19,8% (in 2015 and 2019). Currently, as of 2022, the total share of tenants stands at 16,9%. Throughout the past 12 years, Latvia has maintained a homeownership rate above the EU-27 average (69,9% in 2021). Additionally, the percentage of tenants in Latvia is lower than the EU-27 average, currently at 30,1% in 2021 and has been decreasing in the past years.

In 2021, national statistics indicated that 23,8% of dwellings, or 252,9k, were unoccupied by permanent residents in Latvia.

Rental market

There is a shortage of rental properties in Latvia, with less than ~7% of all buildings in the country constructed in the past 20 years. This has resulted in high demand for apartments, particularly among students who require temporary housing during the semester and have vacant rooms in the summer. In addition, refugees from the war in Ukraine have also been seeking rental properties in the past two years. As a result of the limited supply and high demand, the average rental price has been steadily increasing since 2018.



Sources: Eurostat, PwC analysis

Overcrowding rates in Latvia are the highest among the EU-27 countries and the number of good quality housing stock is low

Social Housing – Key Issues

Preference for subsidies, and low investment in public stock

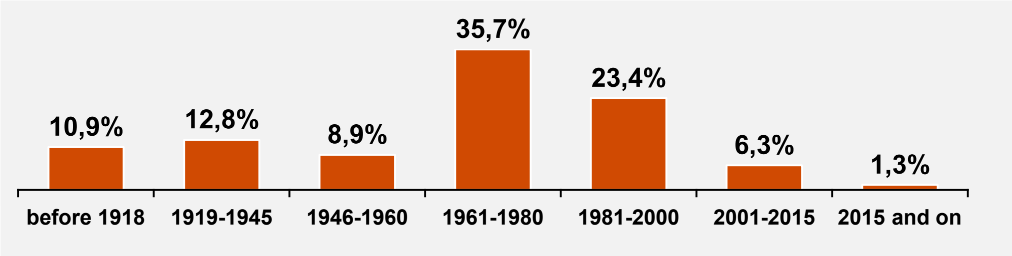
Only a small fraction of the housing stock in Latvia, a bit more than 1%, was built in the last seven years (or 13,6k). Moreover, roughly 35,7% of homes were constructed between 1961 and 1980 when Latvia was still part of the Soviet Union. Latvia has the highest overcrowding rate compared to the other EU-27 member states, which can be partially attributed to a low share of high-quality housing. The majority of buildings, about 70%, have been categorized as energy inefficient with ratings of category F or E, representing the lowest categories in energy efficiency categorisation. Only 2% of buildings have been rated as energy efficient with category A. Consequently, the cost of maintaining these buildings has increased by 67% in the past decade. Unfortunately, due to the energy crisis, these costs are expected to rise even further.

Overcrowding in 2021 was at 41,3%, thus significantly exceeding the average for the EU-27 member states of 17,3%. The typical living space per person in traditional homes in Latvia is 32,3 m^2.

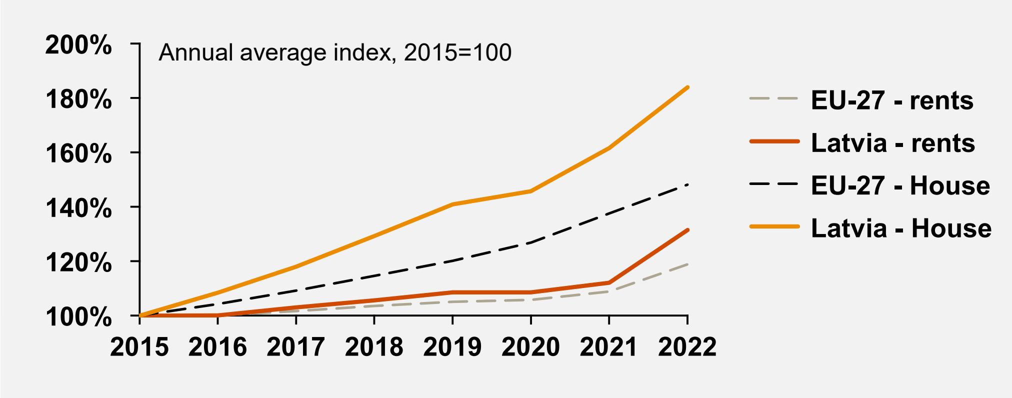
In Latvia, only 0,2% of the state and municipal budget is assigned to social housing. This percentage has been the same for the past four years (with a slight deviation from 2015 to 2017 – 0,3%). Due to the low investments, the number of newly constructed social dwellings was relatively low, therefore resulting in very small increases in the total housing stock. However, with the implementation of the Housing Policy, the situation is expected to improve.

Between 2015 and 2022, the average housing price in Latvia rose by 84%, which is 1,7 times higher than the EU-27 average of a 48% rise. The increase in rent in the same period was smaller (31%). Both rates showed linear growth until 2020 after which they started to grow exponentially because of the COVID-19 pandemic. The average annual net income per person increased in the same period in Latvia by 80% (from 6.815 EUR to 12.315 EUR). The growth of earnings was in line with the growth of housing prices. Nevertheless, housing affordability still remains a challenge in Latvia, especially for low-income households.

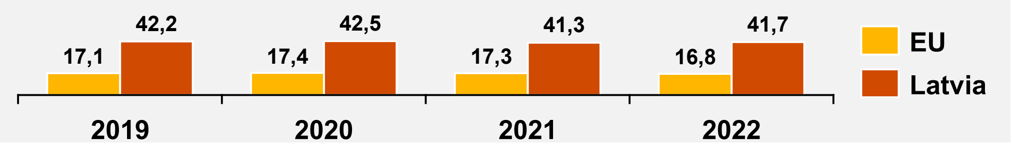
Conventional dwellings by year of construction (%)



Movement of house and rent price rates in EU-27 and Latvia



Share of overcrowding rate, in %



Sources: Eurostat, Official statistics of Latvia, PwC analysis

A significant portion of the population cannot afford to purchase a home, and even one-fifth cannot afford to rent

Social Housing – Market Demand

The housing stock is concentrated around the capital

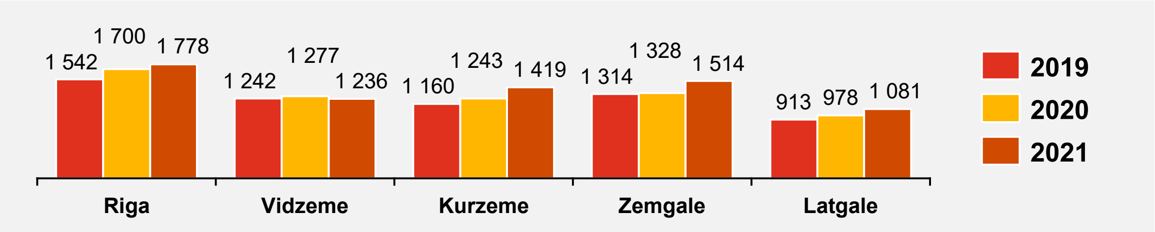
In 2022, 83% of Latvia's housing stock was owned by homeowners, reflecting the country's strong preference for homeownership, which is higher than the EU-27 average of 69%.

The highest demand for apartments was observed in the Riga region, where approximately 53% of the population resides. This trend is consistent with other EU-27 member states, where there is a concentration of population towards the capital. Following Riga, the regions with high demand for apartments were Pierīgas, Kurzemes, and Latgales.

There were 21.452 real estate purchase contracts for apartments (9.831 of these in Riga) with an average value of EUR 48.088 (EUR 70.089 in Riga) and 10.286 real estate purchase contracts for Land and building immovable property (1655 of these in Riga) with an average price of EUR 80.366 in Latvia in 2021 (EUR 185.120 in Riga). Demand has decreased in the last year as a result of many buyers being unable to obtain loans due to rising interest rates and a decline in their purchasing power as a result of high inflation.

The calculation on the right considers the ability to purchase a home with a mortgage loan for a first home, at a commercial bank (SEB), for a 50m^2 dwelling. It is assumed that 40% of the household income is spent on repayment. The calculation for terms of the loan is done for a repayment period of 20 years, and a 15% down payment (commercial terms of the bank).

Monthly mean net income by Latvian planning regions (2021, EUR)



Almost one-fifth cannot afford to rent or buy a home

It is assumed that the average price in Latvia per square meter is EUR 1.701 and is calculated as the average price of sqm in the city centre and outside of the centre. Using the average price, the price for a 50 sqm apartment is 85.050 EUR. After a minimum of a 15% downpayment, required by the bank's commercial terms (SEB Bank), a loan period of 20 years, the loan amounts to EUR 72.292k, with the current 6,27% APR resulting in a monthly instalment of EUR 521. This calculation shows that making a purchase of a home is inaccessible to the first 4 deciles (330k out of 826k households).

When assessing what share of people can rent an apartment with the same characteristics, with an average rent of EUR 266, it was observed that only two deciles can't afford to rent such an apartment (165k out of 826k households).

Average total income per household (2022, deciles)

Decile	EUR	40% HH income, EUR
D 1	423,2	169,3
D 2	637,7	255,1
D 3	913,5	365,4
D 4	1.166,7	466,7
D 5	1.472,3	588,9
D 6	1.722,7	689,1
D 7	2.025,1	810,0
D 8	2.276,8	910,7
D 9	2.633,3	1.053,3
D 10	4.495,1	1.798,0

Sources: Eurostat, Official statistics of Latvia, PwC analysis

Rent
Buy

The supply of social housing in Latvia is insufficient to meet current demand and the majority of it is in bad condition

Social Housing – Market Supply

Access to social housing

In Latvia, the number of building permits per m^2 of useful floor area increased by 44% over the past seven years, or from 480 m^2 to 693 m^2 per 1000 people (the EU-27 average was 788 m^2 per 1.000 people in 2022).

Among the newest dwellings (built over the last 7 years), 42,7% were built in Pierīga and 42,6% in Riga. Older dwellings (built before 1961) have the highest percentage of vacant homes (35,3%), however, for buildings constructed after 2010, the proportion of vacant homes is still high, with 34,2% of all new homes constructed in the previous 10 years being vacant on a long-term basis.

76,2% of all homes are permanently occupied, while 23,8%, are vacant, reserved for seasonal use, and used as second homes. The vacancy rate has gone up by 3 percentage points since 2011.

Local governments owned 19.911 apartment properties and 1.232 single-dwelling houses in Latvia in 2020. After denationalization in the mid-90s, the majority of housing owned by local governments remained in very poor condition. Only a small number of these dwellings has been renovated. Most of the properties are owned by the municipalities of Riga, Liepaja, and Daugavpils.

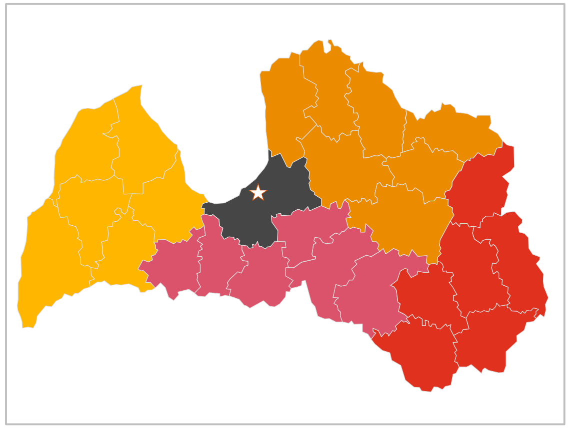
The lowest quality dwellings can be found in the Latgale planning region, where there is the highest rate of persons who live in unsatisfactory housing conditions. Latgale has the highest rate of people with leaking roofs, damp walls/floors/foundations, or rot in window frames or floor (~30%) as well as a high share of people who have no fixed bath or shower (~24%).

The poor condition of real estate in Latgale is therefore also connected with the lowest price of real estate amongst Latvian planning regions. The lowest share of persons living in several unsatisfactory housing conditions was observed in the Riga region.

The rate of persons which indicated several unsatisfactory housing conditions (2022, %)

Region	Other type of toilet (no flush toilet)	No fixed bath or shower	Dwelling too dark, not enough daylight	Leaking roof, damp walls/floors/ foundation
Riga	2,5	3,5	5,2	13,6
Vidzeme	15,7	15,5	6,1	23,7
Kurzeme	8,7	8,5	5,2	19,4
Zemgale	9,0	10,6	3,5	14,1
Latgale	21,8	24,3	6,1	29,6

Split of municipal social assistance of household benefits by expenditures (EUR) and number of recipients (households)



Region	Expenditures (million EUR)	Households (ths.)
Latvia	***29,35***	***48,58***
Planning Regions		
Riga	16,31	17,05
Vidzeme	2,38	5,39
Kurzeme	3,36	8,11
Zemgale	2,95	6,39
Latgale	4,35	11,63

Sources: Eurostat, Official statistics of Latvia, Local news outlets, OECD, PwC analysis

3

Student housing

Past projects were **focused on renovations,** with **notable identified need** in developing **new construction**

Student housing

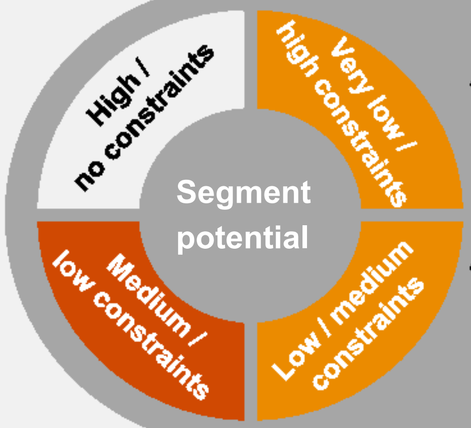
Key conclusions — Phase 1

- In Latvia, universities that do not have on-campus housing often provide off-campus options for students called "student hotels". These hotels are managed by the university but are not located near the campus.
- The share of students living in dormitories is decreasing, which can be partly attributed to the COVID-19 pandemic restrictions. Moreover, approximately 23,8% of students residing in dormitories are discontented with the conditions provided.
- The shortage of available spaces can be observed only at the start of the year; as time progresses, the situation changes and there may be open spots that become available even in the middle of the academic year.

Key conclusions — Phase 2 (Student housing & universities)

- Stakeholders have outlined that most of the projects so far have been focused on renovation of existing dorms, which also includes improving the energy efficiency of the buildings.
- The universities have to prepare five-year development plans, which are then aligned with both Municipalities and the Government before gathering support.
- In addition to planning to develop new student housing buildings, the universities are also planning to invest into university infrastructure (mainly research and innovation facilities).

PwC Assessment

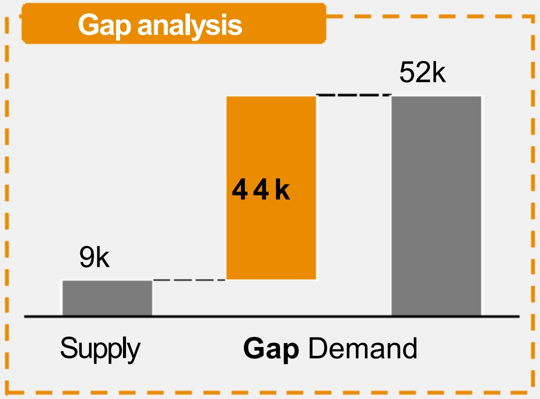


There is identified shortage of spaces in student accommodation, which is most evident at the start of the school year

Development of new projects can be complex due to need to align with several stakeholders

Key Segment Data

- **19%** students living in dorms
- **49%** renting at commercial terms
- **23%** unsatisfied with PBSA prices
- **13%** share of foreign students
- **14,6%** CAGR - foreign students
- **8.5k** total supply of beds



The majority of students live in a private flat or at home, while less than 20% live in dorms or other types of student housing

Student Housing – General Overview

Student housing options

There are several housing options in Latvia: about 19% of the Latvian student population lived in dedicated student accommodation.

1 **Accommodation provided by universities**
Most of the universities in Latvia provide on-campus dormitories that can accommodate one to five people. Students can reserve university housing for at least five months, and in case they wish to leave before that, they will need to pay for additional months. The prices for the rooms differ based on the room type and the quality of the room. The average rent is EUR 200 per month, which has increased over the past year due to inflation and heating costs.

2 **Student Hotels/Apart-Hotels**
In Latvia, universities that do not have on-campus housing often provide off-campus options for students called "student hotels". These hotels are managed by the university but are not located near the campus. There are different types of rooms available (single, double and family), and students are required to reserve them for a minimum of three months. The price range is from EUR 150 to 280 per month.

The rest of the student population (49%) lives outside organised student accommodation.

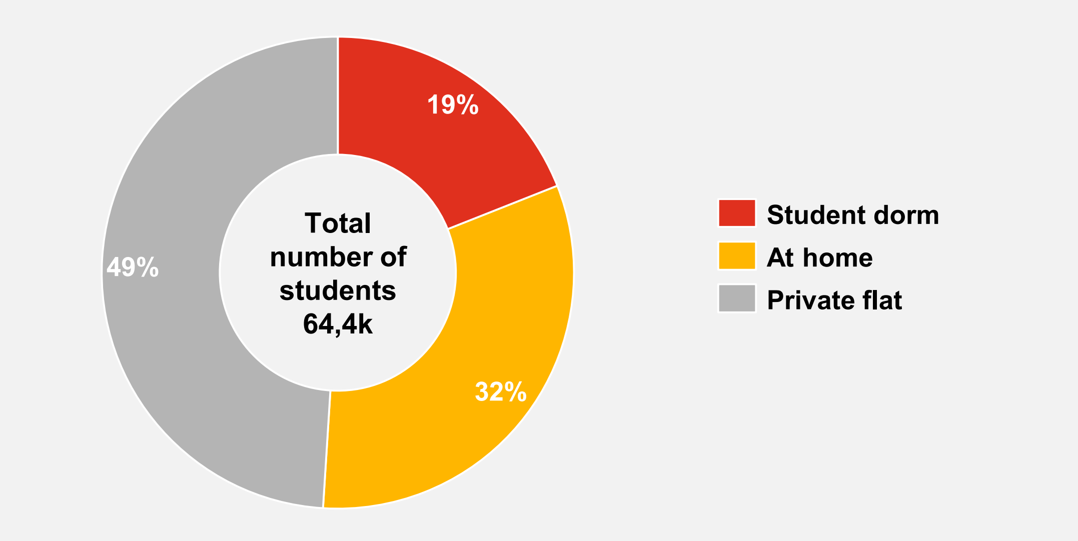
3 **Private rooms or flats**, private accommodation is a comparatively expensive housing option. There are both furnished and unfurnished apartments available throughout Latvia. Monthly rent can range from EUR 250 to 600, depending on the type (room or flat), location and amenities of the apartment. In some areas, rent can go up to EUR 900 per month.

4 **Living at home and commuting to university**
Approximately 32% of students pursuing higher education continue to reside with their families.

Private operators offering additional accommodation for students

Students have the option of staying in homestay housing, which involves renting out spare rooms in the homes of families. Some rooms come with private entrances, kitchens, and balconies, while others include just bedrooms. Students can rent homestay accommodation for either a long-term or short-term stay, depending on their preference. However, this option can be expensive in cities, with prices ranging from EUR 510 to 720. On the other hand, rents in rural areas are considerably lower and more affordable. Additionally, many families offer meals to their homestay guests.

Split of students per type of accommodation, (2021, %)



Sources: Eurostat, Official statistics of Latvia, Eurostudent database, PwC Analysis

Due to the increasing prices and low rate of state budget scholarships, students often work to finance their studies

Student Housing – Key Drivers

The condition of student housing is not ideal

In Latvia, most of the higher education institutions are situated in Riga, leading to a one-way student mobility flow from rural areas and small towns to larger cities, mainly Riga. Latvian students have one of the highest employment rates in Europe, with 63% working in paid jobs during the academic year. These jobs are mainly to finance their daily expenses and pay for the necessities they cannot afford otherwise.

Scholarships are only available to a small percentage of students, with 13% receiving state budget scholarships. These scholarships do not make up a significant portion of their income structure. Therefore, they mainly rely on their salaries to cover their expenses during their studies. Housing and food are the main expenses for all students, with housing alone accounting for almost a third of their monthly expenses (30%). Some universities offer a social program for students in need of financial assistance with a 50% rent rebate for those in dormitories.

Looking at housing data, we can observe that in recent years more students are living alone or with a partner/spouse, and fewer students are living in dormitories during their studies. The decrease in the share of students living in a dormitory can be partly attributed to the COVID-19 pandemic restrictions. Approximately 23,8% of students residing in dormitories are discontented with the conditions provided.

Latvia is a popular choice among international students as a study destination. As of 2021, the number of foreign students was 10.025. In the last 7 years, it went up by 90%. The mobility of students plays a crucial role in the growth of universities and the economy of Latvia.

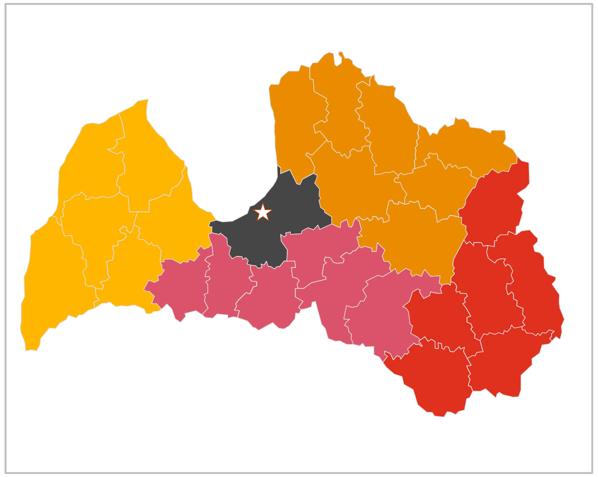
It is only during the start of the school year that a shortage of available spaces can be observed. However, as time progresses, the situation changes and there may be open spots that become available even in the middle of the academic year.

Price of student accommodation

Student housing type	Price / month
University accommodation	EUR 69–380
Student hotels	EUR 150–280
Rental market (rooms or flats)	EUR 250–1.000

Prices vary depending on location and foreign students typically pay higher prices.

Split of higher education level students, by region (2022)



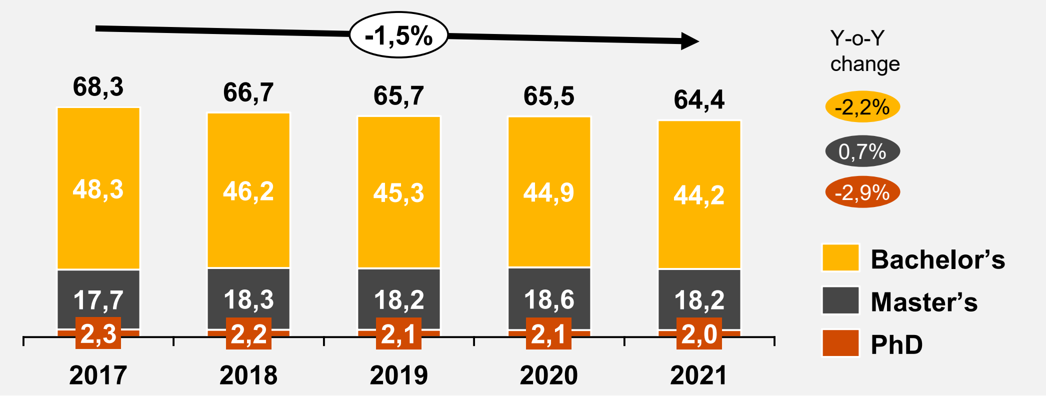
Region	Average (EUR)	%
Latvia	***477.971***	***100%***
Planning Regions		
Riga	306.614	64,1%
Vidzeme	34.453	7,2%
Kurzeme	44.639	9,5%
Zemgale	43.336	9,1%
Latgale	48.929	10,2%

Sources: Eurostat, Official statistics of Latvia, PwC analysis

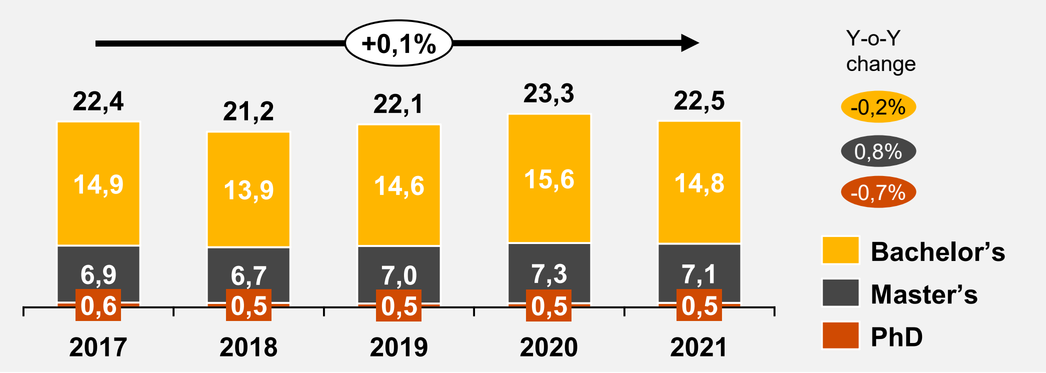
The total number of students is decreasing, however, the number of foreign students has been increasing in recent years

Student Housing – Market Demand

Number of tertiary education students, in ths.



Number of newly admitted student per year, in ths.

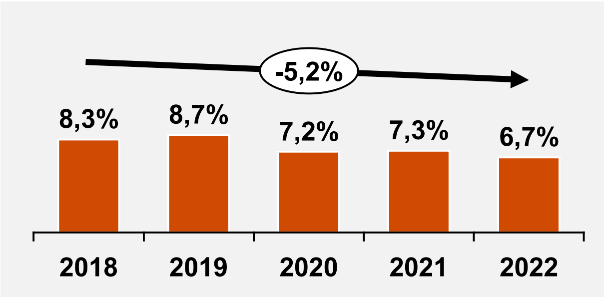


Record low number of enrolled students in the academic year 2022/2023

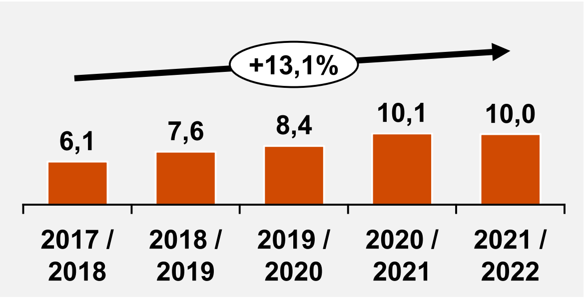
During the academic year 2022/2023, Latvian higher education institutions saw a decrease in the number of students entering their schools. Specifically, 26,4 thousand students enrolled, which is the lowest number recorded in the past ten years and represents an 8,9% decrease compared to the previous academic year. As a result of this drop, it is likely that there will be less demand for student housing in the future. Some of the rooms are also occupied by Ukrainian refugees.

In the current academic year, Latvian higher education institutions welcomed 4.000 new mobile students, an increase of 213 students compared to the previous year. However, this number is still lower than the pre-pandemic level and is 20% smaller than the number of mobile students at the beginning of the 2019/2020 academic year. Presently, there are 10.025 mobile students in Latvia, which is a 2,7% increase from the previous year. More than half of all students (50,3%) attend the three largest universities in Latvia, namely the University of Latvia, Riga Technical University, and Riga Stradiņš University (all located in the capital), thus indicating a strong centralisation of students towards the capital.

Number of early leavers from education, (% of the total student population 18–24)



Number of foreign students studing in Latvia, in ths.



Sources: Eurostat, Official statistics of Latvia, PwC analysis

All Latvian universities offer either on-campus or off-campus accommodation assistance for their students

Student Housing – Market Supply

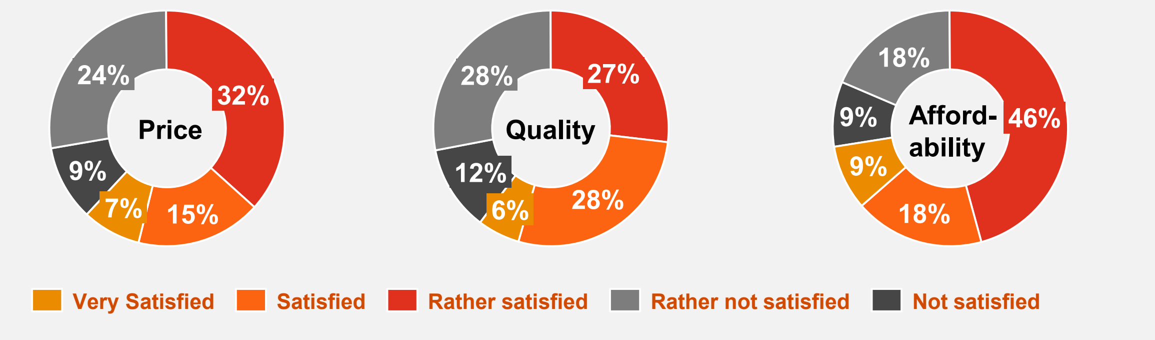
Market supply

Throughout Latvia, there are approximately ~12,3k beds available in public dorms. Due to inflation and an increasing demand, rents in both central Riga and its surrounding areas have significantly increased over the past year, impacting students and decreasing the affordability of student housing options.

Over half of the student population (50,3%) in Latvia is enrolled in the three largest universities – the University of Latvia, Riga Technical University, and Riga Stradiņš University, which are all situated in the capital city. This results in a concentration of demand for student housing in the city, leading to an increase in the cost of accommodation for students in Riga. In Riga, there are 22 public dorms and numerous private accommodation options, as private investments in student housing are focused almost solely on the capital.

Approximately two thirds of students are satisfied with various characteristics of their dormitories, nevertheless one third is not satisfied with the price, quality, and affordability of student dormitories. The quality of dormitories represents the worst aspect of public dormitories, with the state of dormitories being a well-known problem in the past.

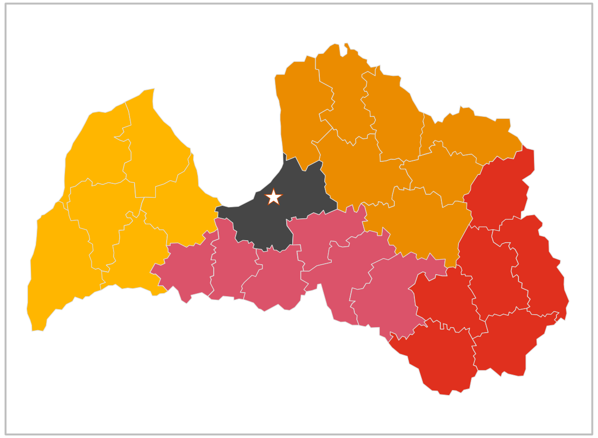
Survey results* of satisfaction with dormitory characteristics, in %



At the beginning of the academic year, all beds in student housing are usually occupied. However, as the semester progresses, some students decide to move out for various reasons, leaving empty rooms. Universities have observed that the demand for on-campus housing can be mainly attributed to foreign students (including Erasmus students and those pursuing basic education in Latvia).

To meet this demand, new private and public student housing accommodations are being built in Latvia, mostly in Riga. These living spaces will offer better living conditions, and more amenities compared to older dorms or rental apartments. The quality of their living quarters is a top priority for students, especially foreign students, who constitute a significant percentage of those living in dorms.

Split of public dorms, by region (2019)



Region	Number
Latvia	***37***
Planning Regions	
Riga	22
Vidzeme	3
Kurzeme	2
Zemgale	7
Latgale	3

*The remaining share up to 100% is represented by respondents who answered that they do not know

Sources: Official statistics of Latvia, local news sources, Eurostudent, PwC Analysis

4

Universities and vocational training centres

In Latvia, **student body is concentrated to three largest universties,** with more than 78% students being located in Riga

Universities

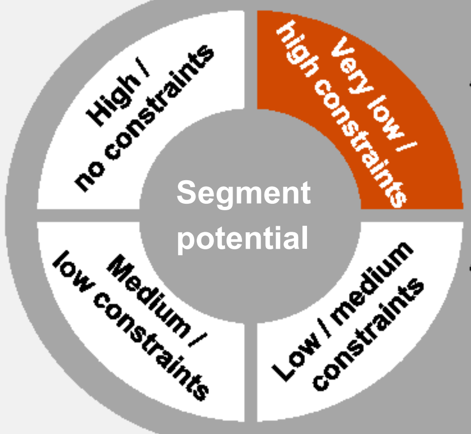
Key conclusions – Phase 1

- The total number of institutions for tertiary education is 52, of which 32 are public, and 20 are private.
- The total population aged 18-24 years is predicted to decrease by 2050 (CAGR - 0,9%), consequently the number of students is expected to also follow this trend.
- More than half of all students (50,3%) attend the three largest universities in Latvia (all located in the capital), thus indicating a strong centralisation of students. The majority of universities 78%, are located in the Riga region, while the remaining 22% are spread across other regions.

Key conclusions – Phase 2

This segment has not been shortlisted for phase 2.

PwC Assessment



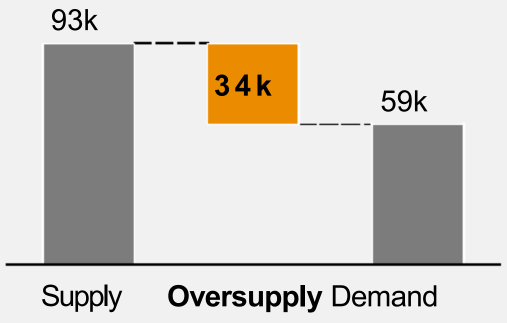
High centralisation of students in three largest universities' may impact the segment financing and ticket sizes.

The existing oversupply is expected to increase further, if number of professors is to remain the same and the trend of number of students will remain decreasing.

Key Segment Data

- **50k** students in public institutions
- **12,5k** students in private institutions
- **38,5%** share of private HEIs
- **14,6%** CAGR - foreign students
- **-1,8%** CAGR – tertiary students
- **-1,2%** CAGR - newly enrolled

Oversupply analysis



Higher education is organised on a three-level structure with a high share of students studying in private universities

Universities – General Overview

Organisation of tertiary education in Latvia

Latvia has three levels of higher education: Bachelor, Master, and Doctor. Universities and colleges offer academic and professional higher education programs, scientific research, and artistic creativity. Colleges offer first-level professional higher education programs and can function as either a college established by a higher education institution or an independent educational institution. The Latvian tertiary education system is composed of both, public and private higher education entities.

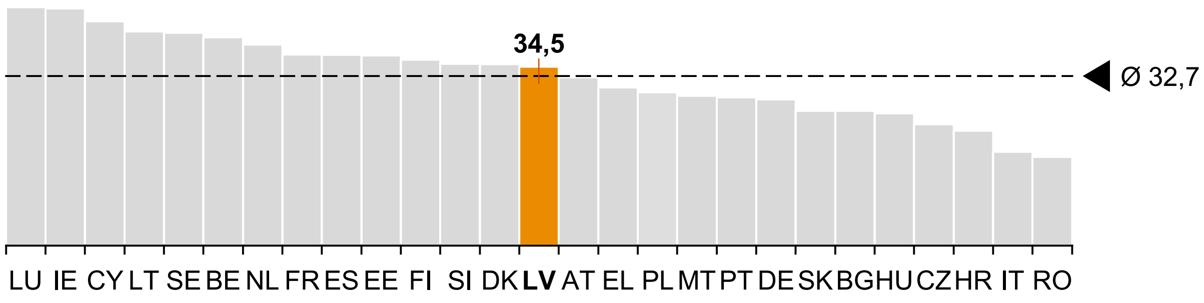
In Latvia, both academic programmes and professional programmes exist. Academic programmes are based on fundamental and/or applied science. They usually include a thesis at the end of each stage and lead to a degree. Professional programs are divided into two cycles. The first cycle, also known as college education, lasts for 2–3 years. The second cycle can be completed after the successful completion of the first cycle and lasts for 2–3 years. The first cycle programs aim to prepare students for complex professions, such as bank staff, business specialists, IT specialists, legal assistants, and engineering technicians. The second cycle enables individuals to perform complex tasks while adapting to changing conditions, manage resource allocation, and oversee the work of other specialists and workers.

Bachelor programmes typically last 3–4 years (180–240 ECTS), while short cycle programmes (vocational/technical/polytechnic courses) last 2–3 years (180 ECTS). To be accepted to a Bachelor's level study, a student must have completed upper secondary education, passed national centralised secondary education examinations, and met course prerequisites.

In 2022, there were 62,4k students in total in Latvia, 79,8% (49,8k) of which attended public institutions, and 20,2% (12,6k) attended private institutions. General government expenditure on tertiary education is 1,0% of GDP, which is higher than the EU-27 average (0,7% of GDP).

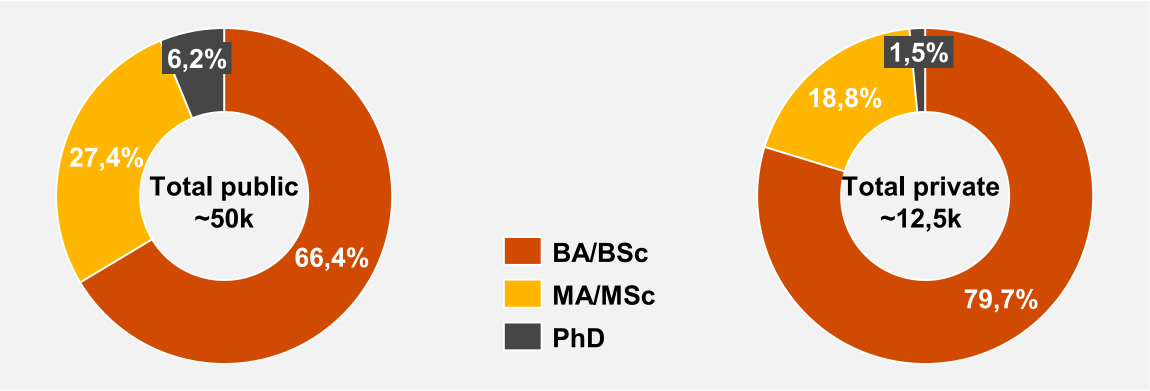
The total number of institutions for tertiary education is 52, of which 32 are public, and 20 are private, thus indicating a relatively high importance of the private education institutions in the Latvian tertiary education system.

Share of population with university degree, 2022, in %



Split of students by public institutions, 2022

Split of students by private institutions, 2022



Sources: Eurostat, Official statistics of Latvia, PwC Analysis

The population aged 18–24 is expected to decline by 2050, while foreign students' enrolment is increasing in recent years

Universities – Key Drivers

While the target population is declining, other factors positively impact the segment

Population growth for the segment of the population aged 18–24, as a key driver of potential demand for university students in Latvia, is predicted to continue on a gradually decreasing slope, with a CAGR of 0,9% over a 30-year period.

Latvia is proving to be increasingly popular with foreign students. In the academic year 15/16, 5,2k foreign students studied in Latvia, however, in the next seven years this number almost doubled, reaching over 10k in the academic year of 21/22. This represents a CAGR increase of 14,6% for the period of the last five academic years.

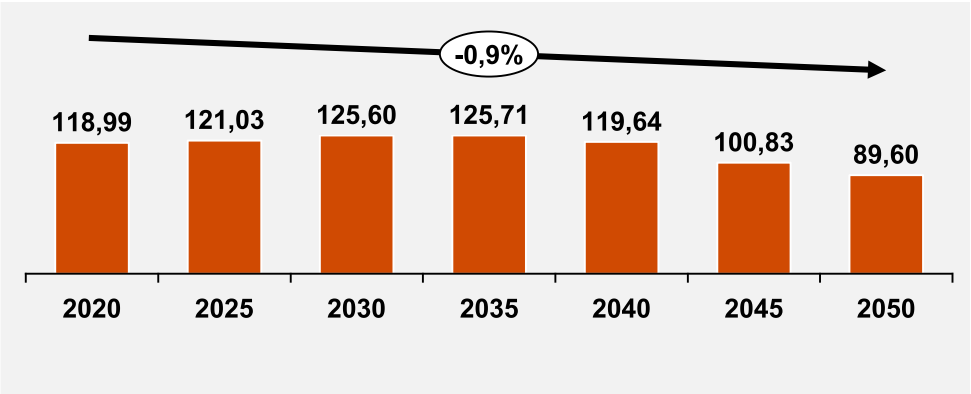
About 85,3% of recent graduates are employed within 3 years of finishing their studies, which is above the EU-27 average of 82,4%. This number has been growing in the last five years, with the exception of 2020 and 2021 due to COVID-19.

University tuition varies among institutions, as each of them can establish its own fees. Tuition amounts per academic year start at about EUR 900 for most affordable institutions and can go up to EUR 5k (Masters) or 7k (PhD). International students, defined as students outside the EU, EEA, and Switzerland, pay higher fees. In Latvia, students do not pay tuition fees for state-subsidised places, while the remaining students pay the fees, which are defined by the individual higher education institution. Universities, both private and public, offer tuition at reduced fees, based on various criteria such as the household total income, disabilities, merit, or support with loans, additionally, loans from the state budget are also available.

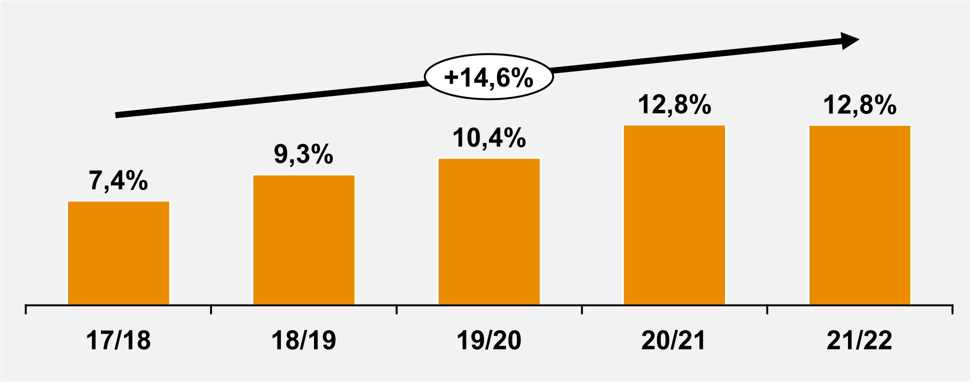
Average university tuition, per year, in EUR

Bachelor's degree	Master's degree	PhD	MBA programs	Most common tuition fee
EUR 900–4.950	EUR 2.300–4.950	EUR 2.300–7.350	EUR 2.000–20.000	EUR 2.200

Predicted population, 18–24-year-old, in ths.



Share of foreign students



Sources: Eurostat, Official statistics of Latvia, University websites, PwC analysis

The number of newly enrolled students is in decline, while the share of early leavers from education is improving

Universities – Demand

PhD students represent the only growing segment of students

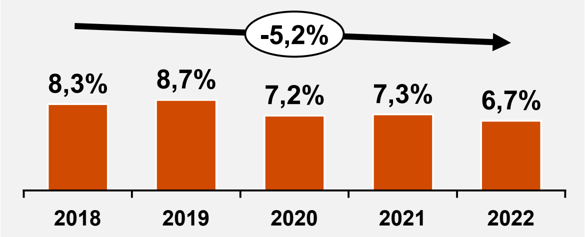
The total number of students in Latvia has been decreasing by 1,8% y-o-y and has reached 64,4k students enrolled in BAs, MAs and PhD (ISCED 6–8) programmes in 2022. Additionally, ~13k enrolled in Short-cycle tertiary education (college) (ISCED 5).

The majority of students are enrolled into bachelor's studies (69,1%), followed by Masters (25,7%) and PhD students (5,2%). The number of students in Bachelor's and Master's programmes is decreasing, by 2,2% and 2,0%, respectively, while the number of doctoral students is increasing, by 7,4%.

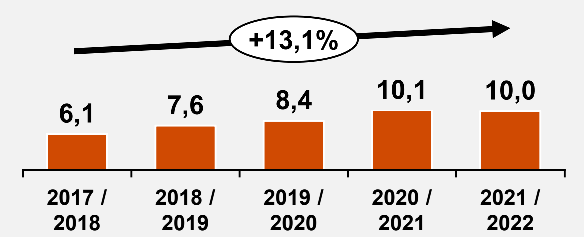
The number of newly enrolled students is decreasing at the rate of 1,2% y-o-y. A decrease has been observed in Bachelor's and Master's segments, by 1,1% and 2,0% respectively. The number of new enrolments into PhD studies is increasing at a rate of 5,2% y-o-y. The number of early leavers is decreasing, by a rate of -5,2%, and the number of foreign students is growing significantly, at a rate of 13,1% y-o-y.

The largest group of foreign students studying in 2022/23, around 17% or ~1,7k students, are from India, which was even higher before Covid 2,7k (or 26,8%). The second largest group of foreign students studying in Latvia are from Uzbekistan (~1,3k students), followed by Ukraine (~1,2k students). In total, there were students from 123 different countries studying in Latvia in 2022.

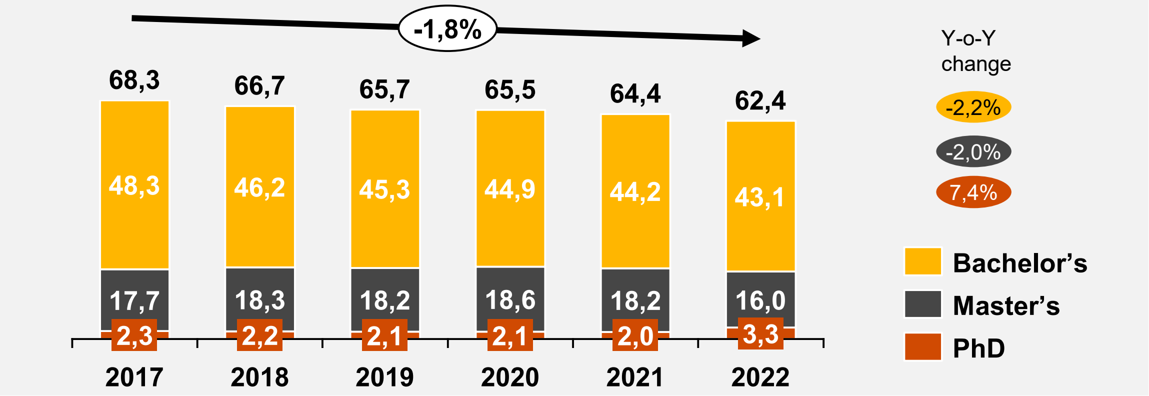
Share of early leavers from education, (% of total student population 18–24)



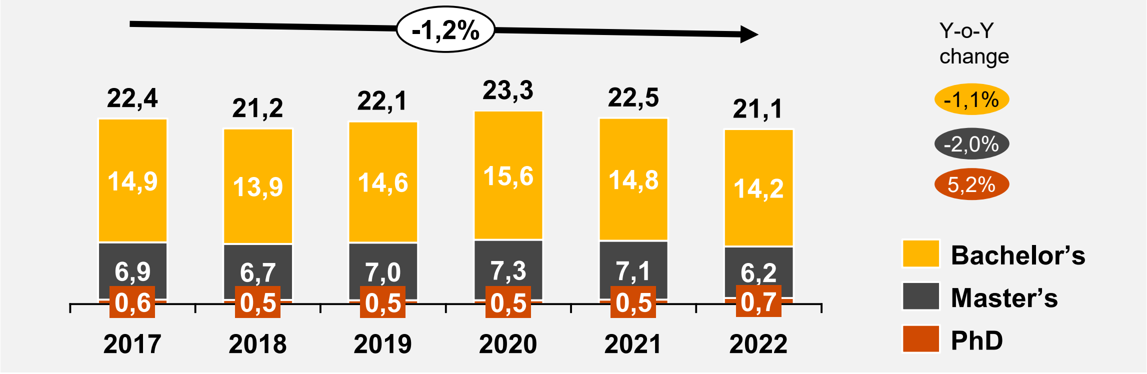
Number of foreign students, in ths.



Number of tertiary education students, in ths.



Number of newly enrolled students per year, in ths.

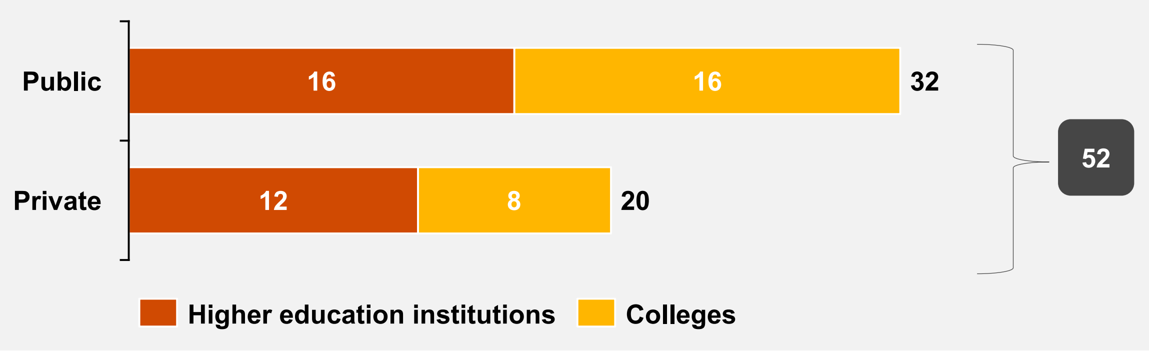


Sources: Eurostat, Official statistics of Latvia, PwC analysis

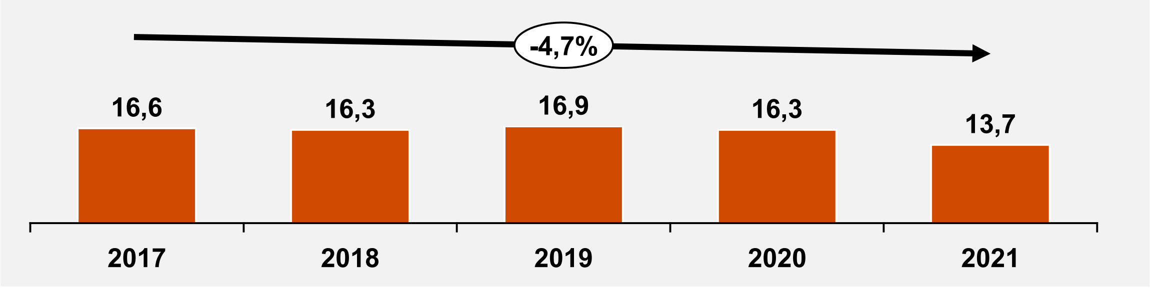
The number of higher education institutions has decreased in recent years, while the perceived quality has increased

Universities – Supply

Number of tertiary education institutions, 2022



Student-teacher ratio



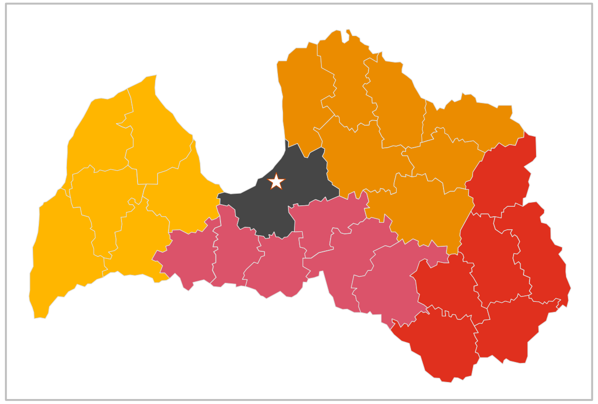
There are 16 public Higher education institutions (Academies and Universities) and 16 colleges in Latvia. These institutions are attended by about 58,5k students (ISCED 5–8). Meanwhile, there are also 12 private Higher education institutions, and 8 ecclesiastical colleges that are providing education to about 16,8k students (ISCED 5–8).

The majority of universities 78%, are located in the Riga planning region, while the remaining 22% are spread across other planning regions.

The largest university is the University of Latvia which has ~15,2k students and ~1,4k academic staff, followed by Riga Technical University with 13,3k students and ~900 academic staff. More than half of all students (50,3%) attend the three largest universities.

The calculated student-to-teacher ratio has been decreasing in recent years, reaching 13,7 in 2021 (from 16,2 in 2017), resulting in a CAGR of -4,7%. This indicates an increased quality of the tertiary education system in Latvia.

New entrants of higher education institutions and colleges (ISCED 5–8) by place of residence, 2022



Region	Number	%
Latvia	***26.460***	***100%***
Planning Regions		
Riga	11.545	43,6%
Vidzeme	2.421	9,1%
Kurzeme	2.858	10,8%
Zemgale	2.515	9,5%
Latgale	2.990	11,3%

Sources: Eurostat, Official statistics of Latvia, Directorate-General for Higher Education, PwC analysis

5

Pre-school facilities

Private early childhood education providers **are subsidiesed to fill supply insufficiencies**

Pre-school facilities

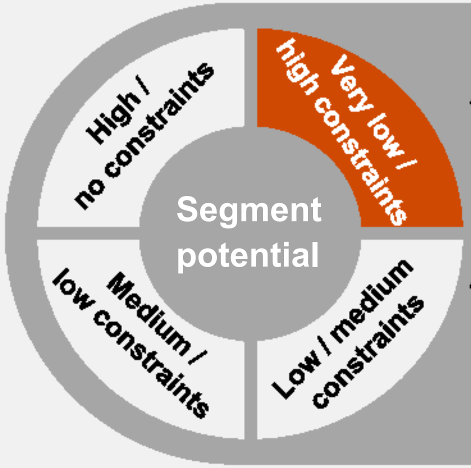
Key conclusions – Phase 1

- Since 2002, pre-school education is available from the age of 18 months and is compulsory for 5 and 6-year-old children. Pre-school education is offered through kindergartens and preschool educational groups in schools.
- According to the Education Law, municipalities are responsible for covering the costs of private service providers if a local government is unable to provide enough spaces in public institutions.
- The share of children enrolled in preschool facilities per 1.000 citizens is the second highest in the EU and is thus significantly higher than the EU average.

Key conclusions – Phase 2

This segment has not been shortlisted for phase 2.

PwC Assessment



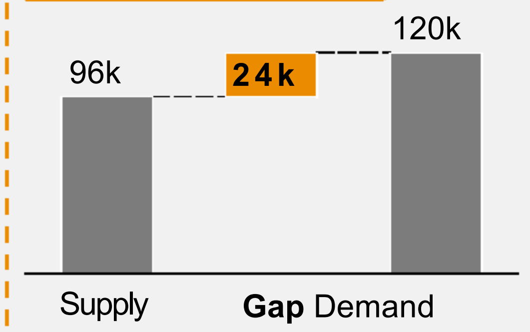
Early childhood education is provided mostly in public facilities, however, half of the regions are facing capacity constraints.

While the current gap remains relatively high, it is expected to significantly decrease due to demographic changes.

Key Segment Data

- **54** children/ 1000 enroled
- **33%** up to 3 y.o. enrolled
- **93%** aged 3 – 6 enrolled
- **11%** children in private institutions
- **7k** children in pre-schools queues
- **1/2** regions facing capacity constraints

Gap analysis



Latvia has the second highest number of children enrolled in pre-school education among all EU-27 member states

Pre-Schools – General Overview

One of the highest enrolment shares in the EU

Preschool education in Latvia is a part of the general education system. Since 2002, pre-school education is available from the age of 18 months and is compulsory for 5 and 6-year-old children (pirmsskolas izglītības vadlīnijas). Pre-school education is offered through kindergartens (bērnudārzs) and preschool educational groups in schools (pirmsskolas izglītības grupas pie skolām).

All children in Latvia are entitled to free public preschool education. The local governments provide preschool education and are covering the costs associated with managing preschool facilities. However, there might still be a charge for the children's daytime meals and/or extracurricular activities.

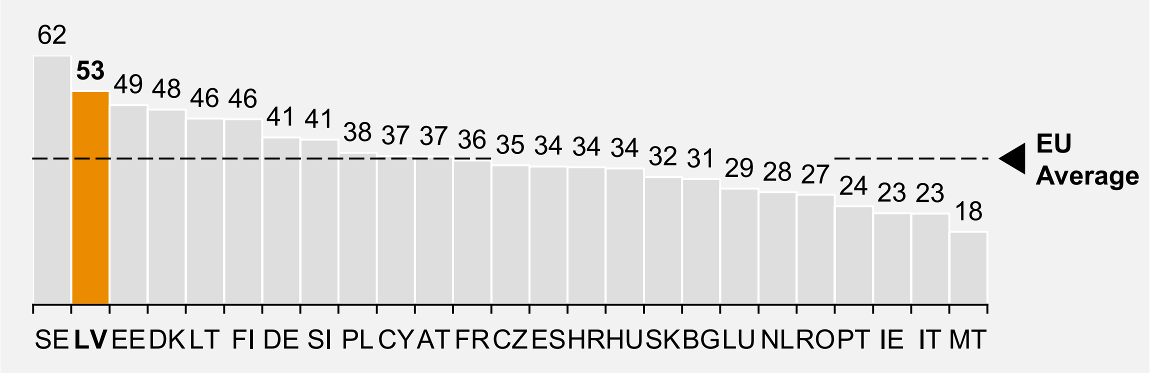
According to the Education Law, municipalities are responsible for covering the costs of private service providers if a local government is unable to provide enough spaces in public institutions and a child attends the educational programme at a private educational institution or uses a childcare service provider.

In 2023, the average support of local governments attending pre-school education was EUR 307,43 for children aged below 5 years, while it was slightly lower for children aged 5 to 6 years (EUR 216,44).

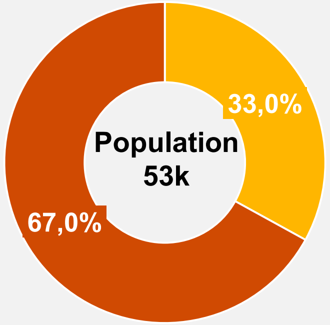
Latvia has faced shortages of ECEC places in recent years. This trend was driven primarily by internal migration from rural to urban areas and is expected to continue in the future.

The share of children enrolled in preschool facilities per 1.000 citizens is the second highest in the EU and is thus significantly higher than the EU average. In 2022 more than 96k children were enrolled in pre-school education facilities in Latvia, which represents roughly ~70% of all children aged between 0 and 6.

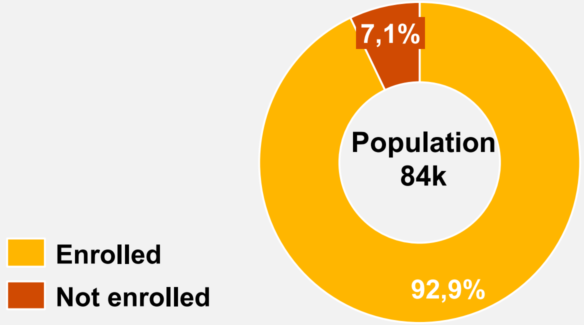
Number of children enrolled to pre-school facilities, per 1000 citizens, 2021



Share of children aged up to 3, enrolled in pre-schools, 2022



Share of children aged 3–6, enrolled in pre-schools, 2022



Sources: Eurostat, European Commission, Statistics Latvia, PwC analysis

While the number of children is decreasing, the enrolment rates remain above the EU average in almost all age categories

Pre-Schools – Key Drivers

Decreasing number of new-born children and children in general

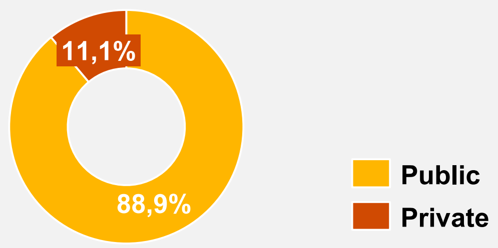
The number of preschool-aged children has been decreasing in the past five years with a CAGR of -1,5% y-o-y, resulting in a total decrease of around 8k children in this period. The decrease in Latvia was almost two times higher than the decline of the EU-27 average number of pre-school-aged children (CAGR of -0,8% y-o-y).

The number of new-born children has been decreasing at a CAGR of -4,4% y-o-y, which is in line with the decreasing number of children aged 0–6 years. While the age groups of 0–3 and 3–4-year-old children have been decreasing since 2018, the number of children aged 5–6 years has been growing in the same period. The fertility rate in Latvia stagnates at 1,6, which is in slightly higher than the EU-27 (Latvia = 1,58, EU average = 1,53). The fertility rate in Latvia is projected to slightly improve with a CAGR of 0,1% until 2050.

Enrolment rates are lower for children aged 0–2 years, which is primarily caused by the relatively long paid maternity leave (19 months from the child's birth).

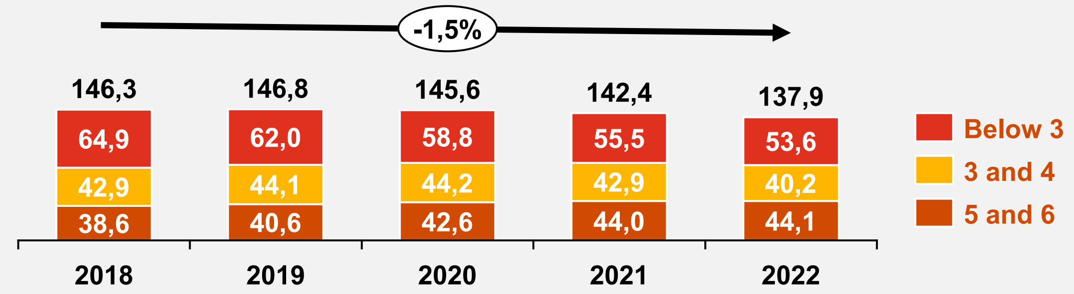
	0–2 y/o	*3 y/o*	*4 y/o*	*5 y/o*	*6 y/o*
Share of enrolled children	33,1%	90,9%	90,0%	94,5%	95,7%

Split of children between public and private institutions

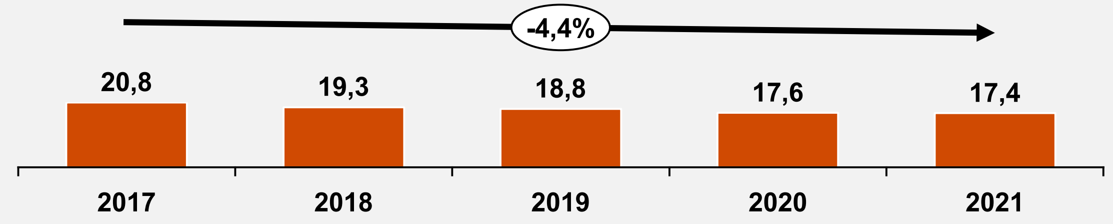


In 2021, public institutions had a dominant role, as almost 89% (or ~89K children) of the total enrolled children attended public pre-school facilities. Private institutions were attended by approximately 11% (~11k children) of the total enrolled children.

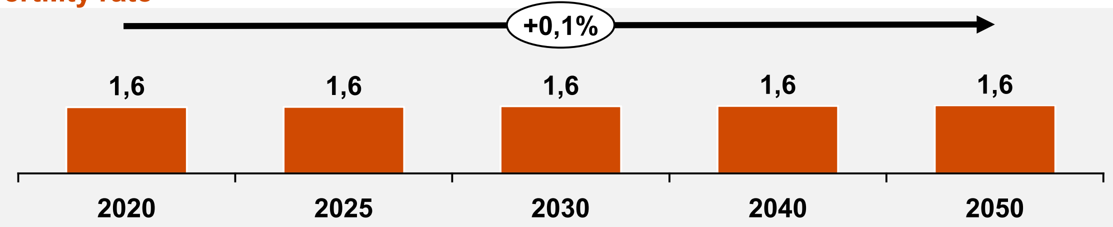
Number of children aged 0–6, in ths.



Number of new-born children, in ths.



Fertility rate



Sources: Eurostat, Statistics Latvia, UN data, PwC analysis

Even though the number of children is decreasing, there is still a queue in half of Latvia's regions

Pre-Schools – Demand

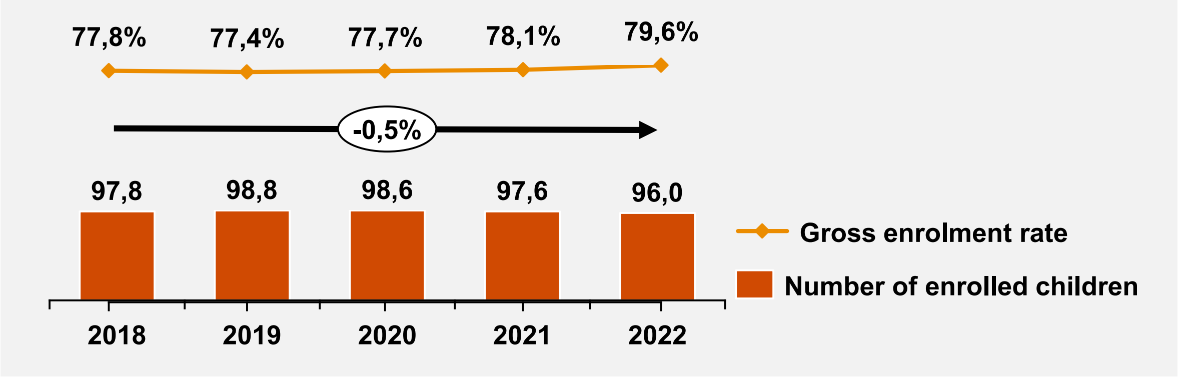
Overall enrollment rate has been increasing in recent years

The number of enrolled children in pre-school education decreased in the last five years with a CAGR 0,5% y-o-y, however, the gross enrolment rate has been slowly increasing in the same period. In 2022 it was at 79,6% for the children aged 1 to 6 years and roughly 89% for the children aged 2 to 6 years.

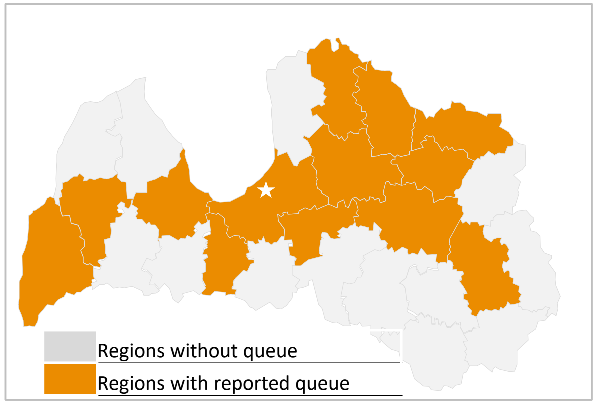
Planning regions with higher populations have a higher share of children aged 1 to 6 years enrolled in pre-school education. National statistics data for 2022 suggest that there were more children attending pre-school education in urban areas in Latvia.

According to the data from Latvia's Ministry of Environmental Protection and Regional Development, 6868 children were in a queue in a local government pre-school educational institution. The largest number of children for whom a place in public pre-school institutions was not provided was in Riga's planning region, where more than 60% of children were in the queue.

Number of enrolled children (1–6 years old) (in ths.), and gross enrolment rate (in %)

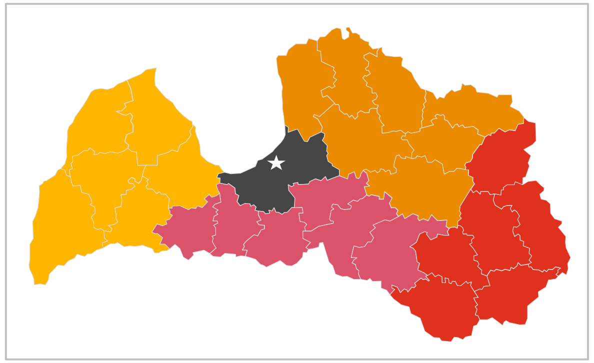


Number of children in the queue to local government pre-school educational institutions (2022), in %



Region	Number	
Latvia	6.868	
Planning Regions		
Riga	4.152	60,4%
Vidzeme	538	7,8%
Kurzeme	503	7,3%
Zemgale	1.548	22,5%
Latgale	127	1,8%

The number of enrolled children in pre-primary education by planning region (2022), in %



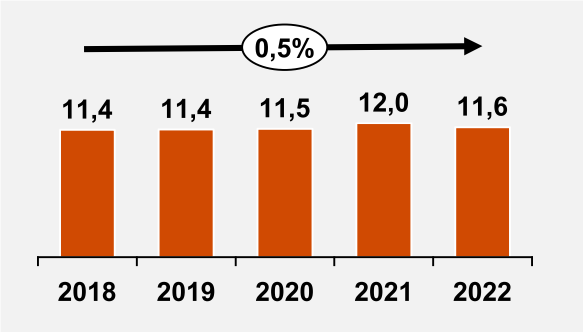
Region	Number	
Latvia	98.031	
Planning Regions		
Riga	53.396	54,5%
Vidzeme	9.958	10,2%
Kurzeme	11.835	12,1%
Zemgale	12.025	12,3%
Latgale	10.817	11,0%

Sources: Eurostat, Official Statistics of Latvia, PwC analysis

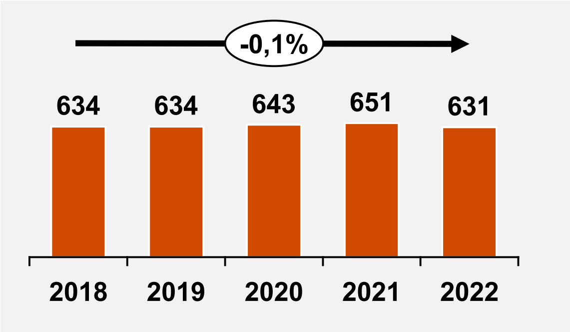
The number of pre-school facilities has decreased, but there is still a shortage of staff across all regions in Latvia

Pre-Schools – Supply

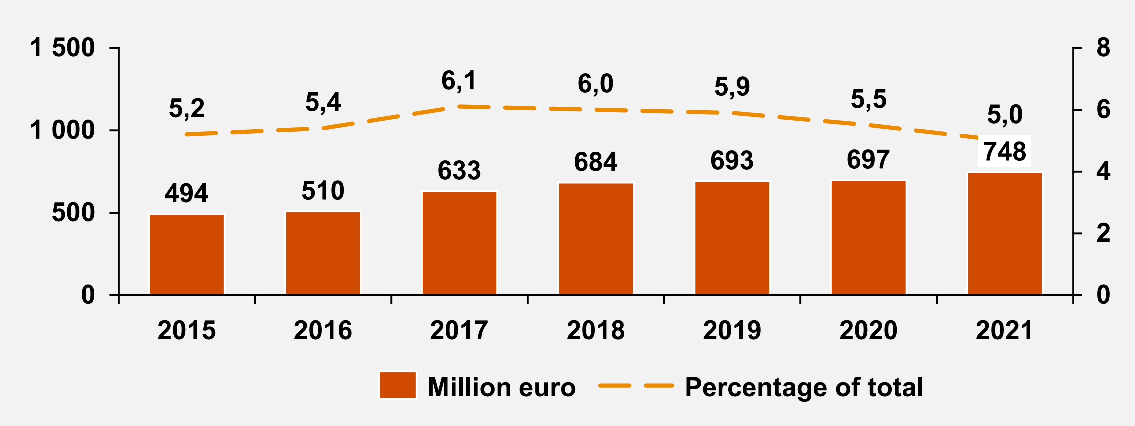
Number of pedagogical staff, in ths.



Number of pre-schools institutions



GDP invested in pre-school facilities in % GDP and in million EUR



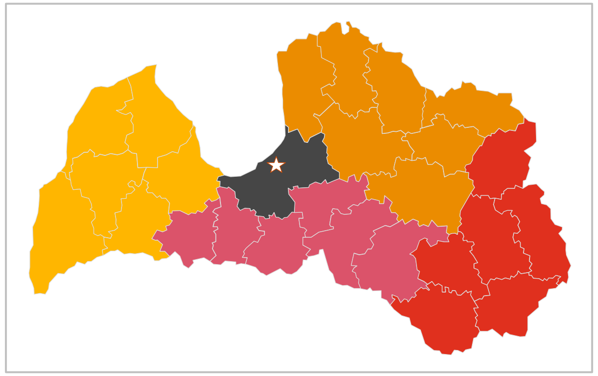
Supply of pre-school education for children

Between 2017 and 2022, the number of public and private institutions offering pre-school education places in Latvia was 631 and has decreased minimally in the last years (from 634 in 2018 to 631 in 2022).

However, during the same time period, the number of caretakers has grown by 0,5% y-o-y. The number of pedagogical staff per institution has also increased over the past 5 years, by 0,4, rising from 18 in 2018 to 18,4 in 2022. The ratio of children to pedagogical staff has also risen, from 10,3 in 2017 to 11,4 in 2021, with a 2,6% CAGR y-o-y. This figure is lower than the EU-27 average of 12,5 children per caretaker, thus indicating a better quality of services in Latvia as there are more caretakers available for each child.

Lastly, investments in pre-school facilities as a percentage of GDP have been decreasing from 2015 to 2021, while the total amount invested in pre-school facilities has been growing in the same time period.

Share split of total pre-school places by region (2022, %)



Region	
Planning Regions	
Riga	57,5%
Vidzeme	9,2%
Kurzeme	12,7%
Zemgale	10,3%
Latgale	10,3%

Sources: Eurostat, Official Statistics of Latvia, PwC analysis

6

Hospitals


PISO 1
ASCENSOR
SANITARIO
BANCO DE SANGRE
TERAPIA NEONATAL

There is evidence of the segment being in **the development phase,** driven mainly by **public players**

Hospitals

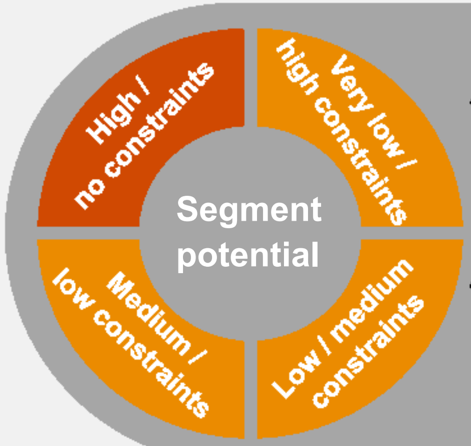
Key conclusions – Phase 1

- Healthcare system in Latvia is funded mainly by the general tax revenues, however it is characterised by high degree of out of pocket expenses, accounting for 32% of the expenditure, which is more than twice the EU average of 15%.
- Majority of hospitals (85,4%) is in public ownership, with also a majority of hospital beds (91,3%), thus indicating that the private segment is mainly small and focused on outpatient care.
- Some of the key identified issues are the cost of healthcare, as reported by the Latvia's citizens, as well as waiting lists, which is in line with the identified quotas and high out-of-pocket expenses.

Key conclusions – Phase 2

- Stakeholders have identified that the segment is currently in development phase, especially in light of merging hospitals to increase efficiency.
- The real estate is owned by the State, while the specific hospitals manage the infrastructure, which adds additional layer of complexity in approving development projects.
- Rising prices and the impacts of the COVID-19 and the War in Ukraine has resulted in a shortage of allocated funding to the hospital segment.
- The majority of projects come from development of new infrastructure, while it is assessed that the present equipment is sufficient.

PwC Assessment



Hospitals are mainly in the process of constructing new buildings without adding extra capacity

There is a notable gap in funding, as the current allocations have been agreed before COVID-19 pandemic

Key Segment Data

82 number of hospitals

9,7k number of hospital beds

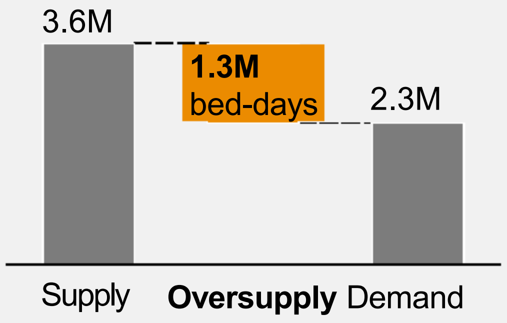
14,6% share of private hospitals

8,7% of hospital beds are private

6,0 average length of stay days

65,2% utilisation rate of beds

Oversupply analysis



Healthcare is mostly financed by the government, with high out-of-pocket expenses that are above the EU average

Hospitals – General overview

Definition of the segment and ownership

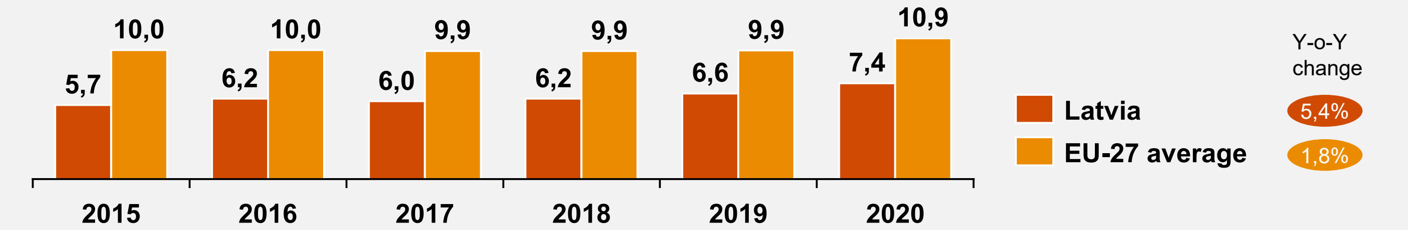
Latvia's healthcare system is funded by general tax revenues and provides universal health services. The constitution guarantees access to basic medical care, but the benefits package is more limited than in other EU-27 countries. Some services, such as dental care for adults, rehabilitation and physiotherapy, hearing aids for adults, sight correction, and pregnancy termination without medical or social grounds, are not included in the benefits package.

Even if services are included, access may be limited due to the annual quotas. If the quota for one year is met, patients have to either wait until the following year or pay out of pocket. This leads to high out-of-pocket costs, which accounted for around 32% of the total health expenditure in 2020, more than twice the EU-27 average (15 % or 15,70 EUR). Out-of-pocket payments provide access to a wide range of healthcare services from both public and private providers.

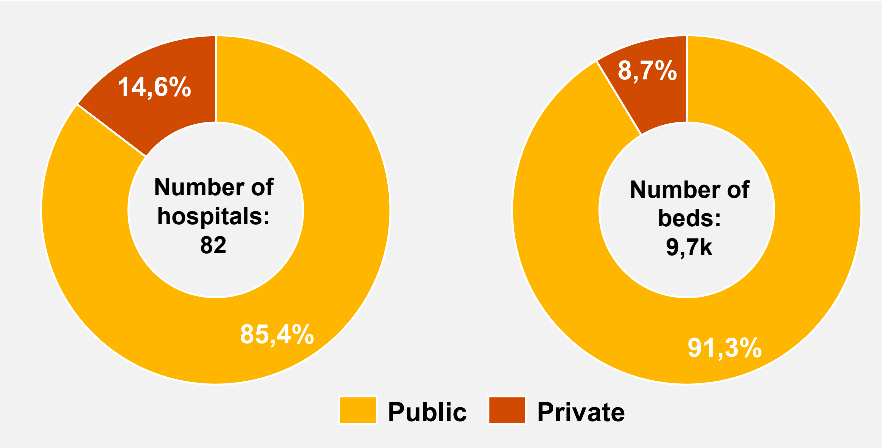
The latest available data shows that in 2021 there were 82 total hospitals out of which 70 (or ~85%) were public hospitals, while the rest 12 hospitals (or ~14%) were privately owned.

The majority of healthcare financing in 2020 came from compulsory health insurance collected through earmarked taxes, accounting for around 64% of all financing schemes. Voluntary health insurance funds cover around 4% of the total health expenditure, and households' out-of-pocket payments account for around 32%.

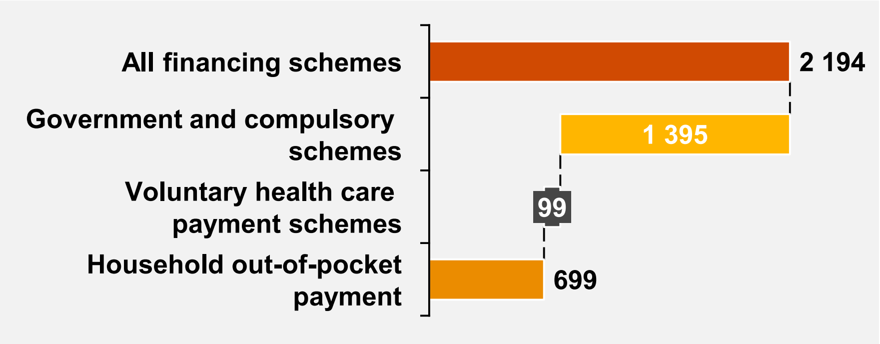
Health care expenditure of GDP, %



Healthcare ownership, 2021



Expenditure by financing scheme, 2020, EUR per capita



Sources: Eurostat, Official Statistics of Latvia, OECD, PwC analysis

Hospital beds’ distribution follows population distribution, with key issues being long waiting lists and cost of healthcare

Hospitals – Key Issues (1/2)

Definition of the segment and ownership

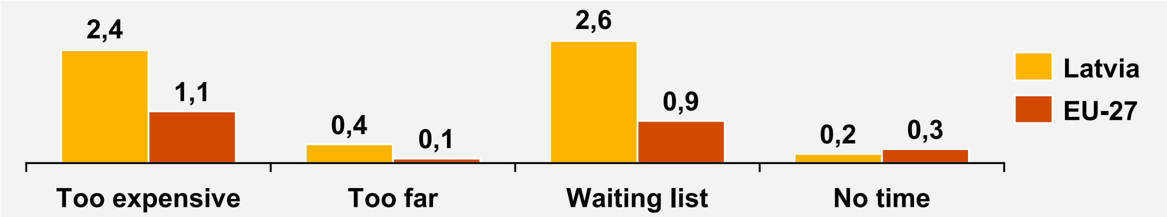
As compared to the EU-27 average, healthcare in Latvia is perceived as too expensive, and it presents a self-reported unmet need for ~2,4% of the total population aged 16 or above (EU-27 average was ~1,1%).

Largest self-reported unmet need are the long waiting lists, reported by ~2,6% of the total population. For comparison, the EU-27 average for this category was ~0,9%, which is 2,8 times less than in Latvia.

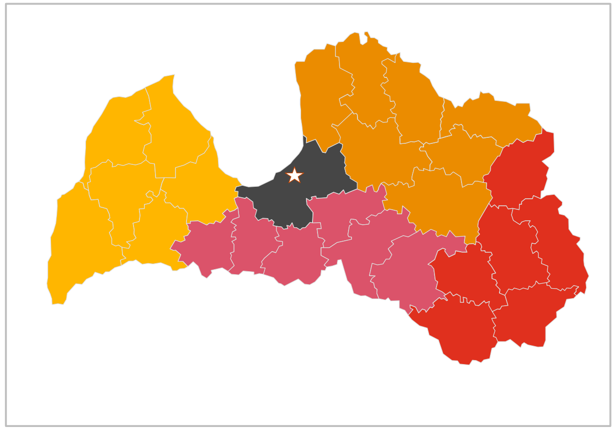
The regional split of hospital beds is in line with the population split. The region with the majority of the population i.e. the Riga region (a combination of the Rīga region and Pierīga region), which holds 52,5% of the Latvian population, also has the majority of hospital beds (54,3%).

According to the national statistics, the number of doctors entitled to practice medical profession per 10.000 thousand population is decreasing by 1,2% y-o-y, reaching 34 doctors per 10k inhabitants of Latvia. The number of nurses remained relatively stable across the years, dropping slightly by -0,1%.

Self-reported unmet demands of population by reason (% of population 16+), 2022

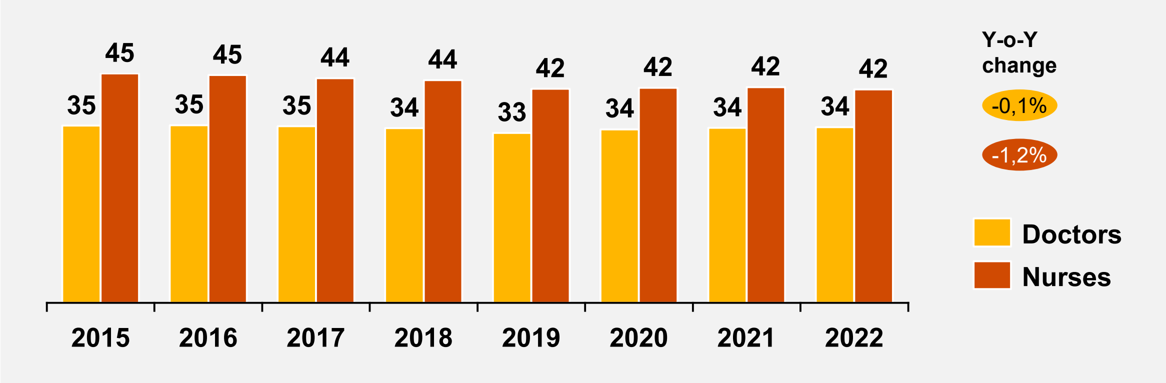


Regional split of hospital beds (HB) and population (POP) 2021



Planning regions	% HB	% POP
Riga	54,3%	52,5%
Vidzeme	9,6%	9,7%
Kurzeme	8,4%	12,5%
Zemgale	9,3%	12,0%
Latgale	18,4%	13,3%

Number of doctors and nurses, per 10 thousand population

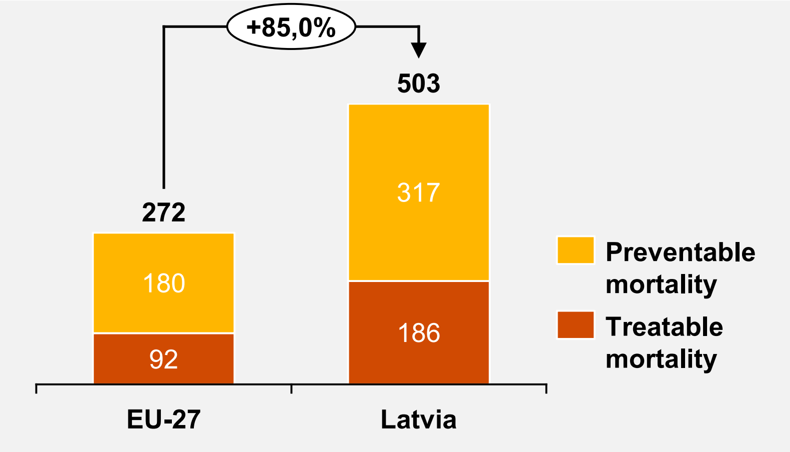


Sources: Eurostat, Official Statistics of Latvia, Health Statistics Database Latvia, OECD, PwC analysis

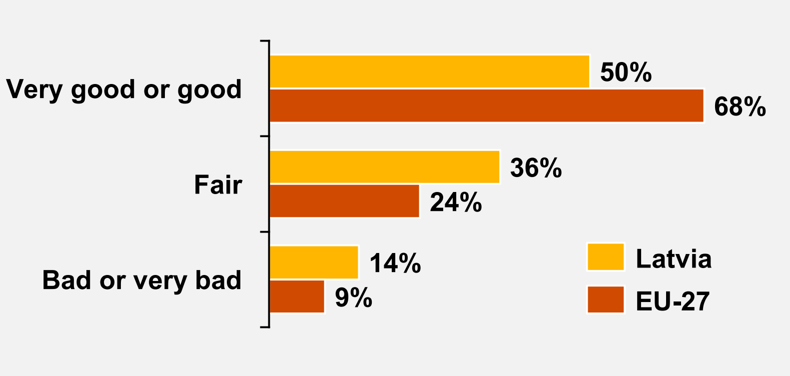
Latvia has very high levels of both preventable and treatable mortality, compared to the EU's average

Hospitals – Key Issues (2/2)

Mortality rate compared to EU-27 average, 2020



Self-perceived health and risk factors, 2022



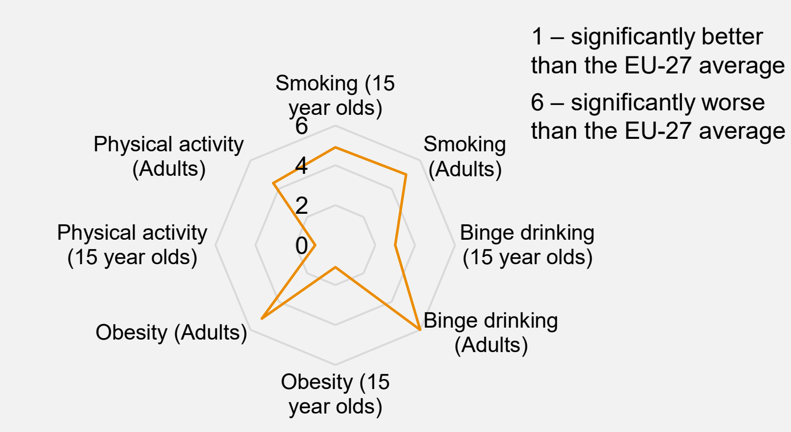
Life expectancy in Latvia remains among the lowest in the EU-27 standing at 75 years, which is close but lower than the EU average of 80 years. The life expectancy was increasing throughout the years, however it was disrupted by the COVID-19 pandemic. The gender gap in life expectancy is a bit less than ten years and is the highest in the EU. Latvia's mortality rates from both preventable and treatable mortality were the fourth highest in the EU in 2020.

In 2022, there were ~34k total deaths in Latvia. Circulatory system diseases contributed to the largest share of deaths (49,4% or ~16,9k deaths), out of which ~20% (or ~7k deaths) were due to Ischaemic heart diseases. Neoplasms contributed to ~18% of total deaths (or ~6,2k deaths). Stroke was fatal to ~ 15% of people or ~5k deaths. It is followed by deaths related to COVID-19, which accounted for ~12% of total deaths or ~4k. Lung cancer, breast cancer, prostate cancer, and stomach cancer combined were fatal for ~6% or 2k people.

In 2022, ~50% of the population aged 16 and above perceived themselves as in good or very good health, which is ~18% lower than the EU-27 average. Moreover, on average ~5% more people perceived themselves as in bad or very bad health (~14%) than in the EU (~9%).

Out of all EU-27 members, data for 2021 has shown that Latvia had a ~6,4% share of children with unmet needs for medical examination or treatment, which is significantly higher than the EU-27 average at ~3,6%. Additionally, Latvia reported the highest share of children with unmet dental care standing at 7,7%, significantly higher than the EU average at 4,4%.

Latvian people show a high inclination to risky behaviour. Smoking represents a major health issue in Latvia. The share of daily smokers of cigarettes among persons aged 15 and over in Latvia is the third highest among the EU-27 countries, same as obesity and binge drinking.

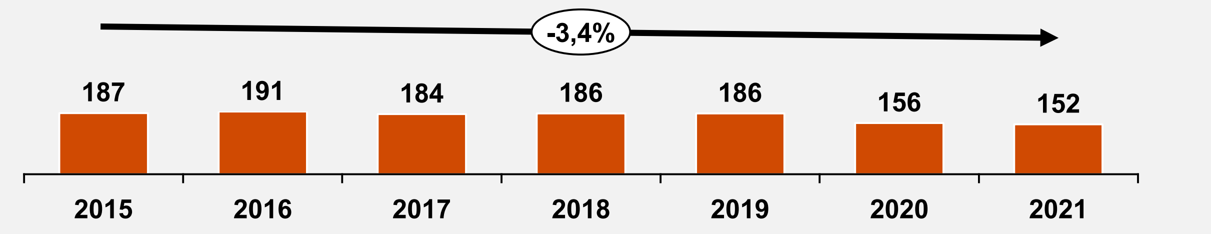


Sources: Eurostat, Official Statistics of Latvia, OECD, PwC analysis

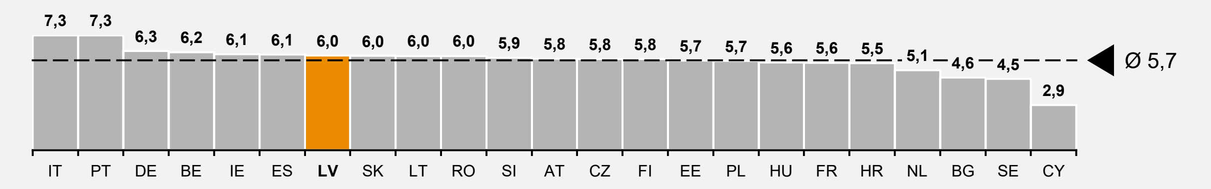
The number of hospitalisations has been decreasing, driven by the high degree of consultations with primary care physicians

Hospitals – Market Demand

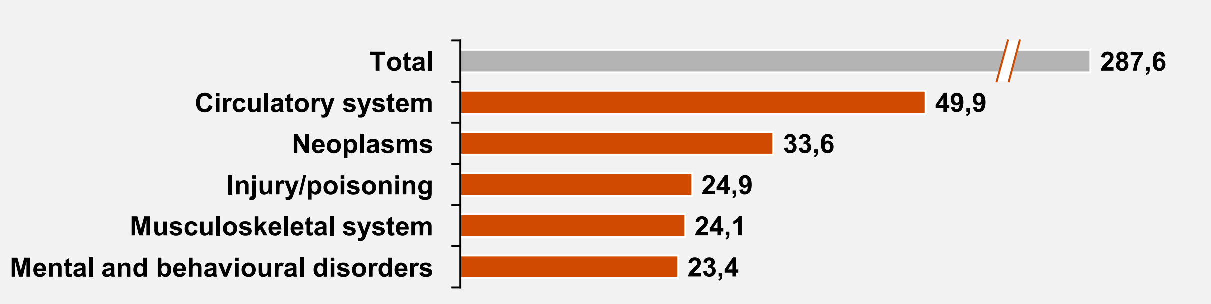
Number of hospitalised persons per thousand population Latvia



Average in-patient length of stay across EU-27 in days in 2021 (curative care)



Hospitalisations of in-patients, per main causes (2021), in ths.



The data indicates a decrease of hospitalisation of ~3,4% on a yearly basis. In addition, the latest available data up to 2020 shows that the total mortality rate, consisting of preventable and treatable mortality, has been decreasing at a rate of ~1,7%.

Consultations of a medical doctor per inhabitant steadily rose from 2015 to 2019, increasing by ~0,8% on a yearly basis reaching 6,1 consultations per inhabitant, when they declined by ~16,4% in 2020 as compared to the previous year and reached 5,1 consultations per inhabitant. This can be attributed to the effect of the COVID-19 pandemic considering that in 2021, consultations almost reached pre-pandemic levels, totalling 6,0 consultations per inhabitant. Compared to other EU-27 countries, Latvia is close to the EU average of 6,1 consultations of a medical doctor per inhabitant.

The average length of stay in Latvia was a little over the EU-27 average (~5,7 days) with 6,0 days. In 2021, among selected diseases, patients diagnosed with mental and behavioural disorders had the longest average length of stay, on average they spent ~25 days in hospitals. They were followed by patients with diseases of the circulatory system who spent on average ~8,2 days in hospitals. Patients diagnosed with diseases of the musculoskeletal system on average spent ~7,6 days in hospitals, followed by patients diagnosed with neoplasms who spent on average ~7,1 days in hospitals. Patients being treated from injuries or poisoning spent on average ~6,4 days in hospitals, while patients with COVID-19 spent on average ~10,6 days in hospitals.

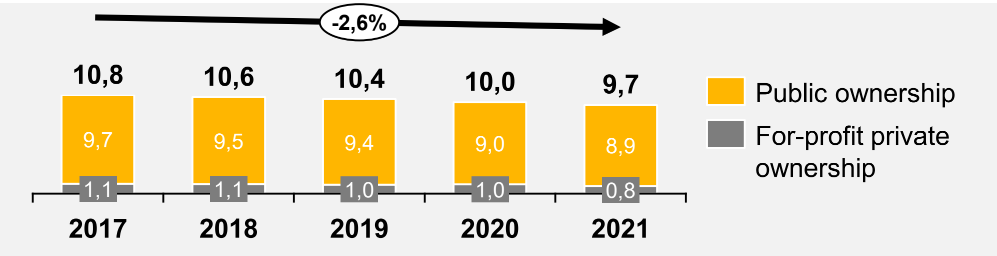
Hospital discharges of in-patients were among the highest for patients diagnosed with mental and behavioural disorders and circulatory system diseases and with the second and third highest average length of hospital stay right after alcoholic liver disease (only 506 discharges), thus this segment is one of the two key drivers of demand for hospital beds.

Sources: Eurostat, OECD, PwC analysis

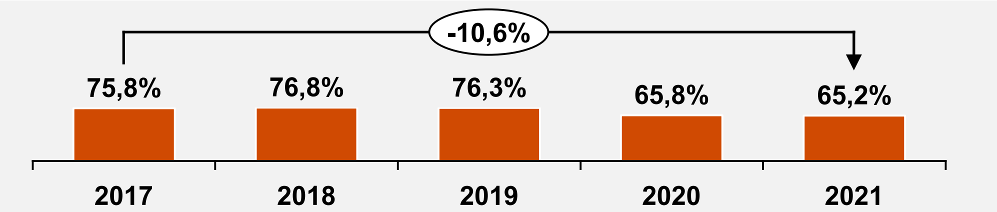
There is a decreasing supply of hospital beds, closely following the demand, however there are still plenty of spare capacities

Hospitals – Market Supply

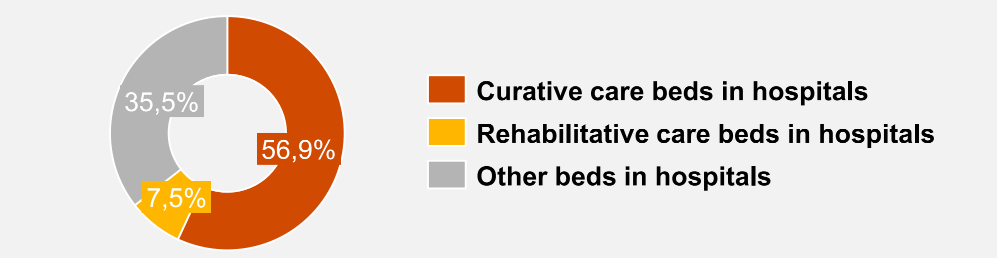
Number of hospital beds in ths.



Utilisation of current bed capacity in Latvia



Capacity by type of bed, 2019



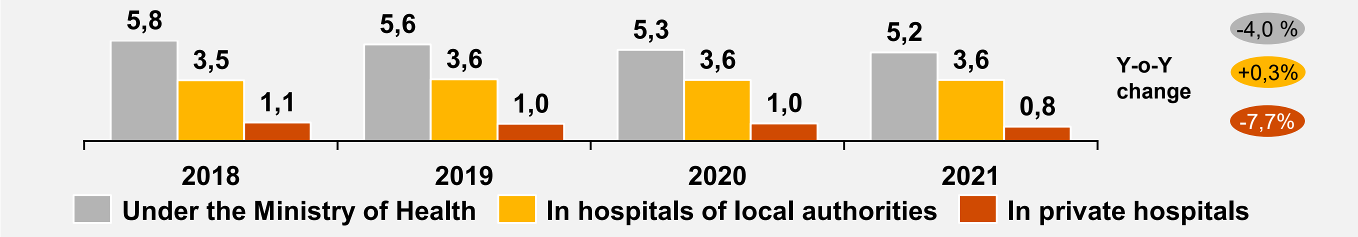
According to the official statistics, in 2021, there were in total ~9,7k beds available in Latvia's hospitals. Since 2017, in the five-year period, the number of total hospital beds has been decreasing with an annual rate of ~2,6%. This is in line with the declining trend of the EU-27, indicating that overall, healthcare medical treatments and procedures became more efficient and effective, thus decreasing the amount and length of in-patient stays. Furthermore, better prevention and more prevalent outpatient procedures contribute in great deal to reducing the avoidable hospitalisations.

Official statistics show that utilisation of bed capacity has reached its lowest value in 2021 (~65,2%), meaning hospital beds were unoccupied 34,8% of the time.

Most of the hospital beds, ~57% or ~5,9k beds, are hospital beds intended for curative care, while about 7,5% of total hospital beds (~0,7k beds) are intended for rehabilitative care, followed by ~13,6% of beds dedicated to rehabilitative care (~1,4k beds), and the remaining ~22% of beds (~2,8k beds) of the total supply are commissioned for other uses.

The number of hospital beds operated by the Ministry of Health and private hospitals decreased in the period from 2018 to 2021 by -4% in case of MoH and -7,7% in case of private operators, while the number of beds under local authorities remained mostly stable increasing by 0,3%.

Change of number of hospital beds by the type of provider in ths.



Sources: Eurostat, OECD, Health Statistics Database Latvia, Official Statistics of Latvia, PwC analysis

7

Retirement / elderly / nursing homes

Retirement homes affordability remains a key issue, with government spending falling behind the EU average

Retirement homes

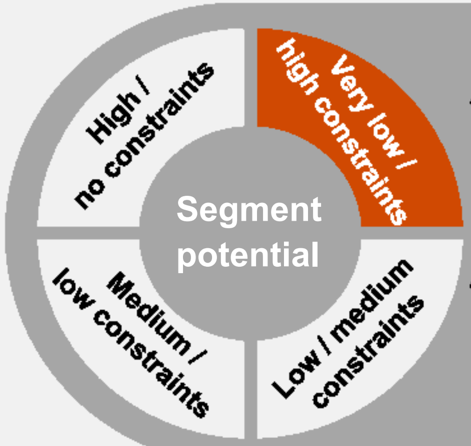
Key conclusions – Phase 1

- Demographic factors indicate that the demand for LTC services in Latvia will increase slightly in the future, as the projections indicate a 0.6% CAGR growth of 65+ segment of the population.
- Additionally, the projected life expectance is expected to increase by 3.5 years, further growing the demand.
- Government spending on long-term care in Latvia is low, with only 0,67% of GDP spent on LTC, which is significantly lower than the EU average of 1,8%.
- One of the key identified issues is the poverty risk of the elderly, where 42,6% of the population aged 65 of over are at risk of poverty of social exclusion, more than double of EU average of 20.2%.
- The average cost of nursing home is 156% larger than the average monthly pension – meaning that majority of elderly cannot afford long term care services.

Key conclusions – Phase 2

This segment has not been shortlisted for phase 2.

PwC Assessment

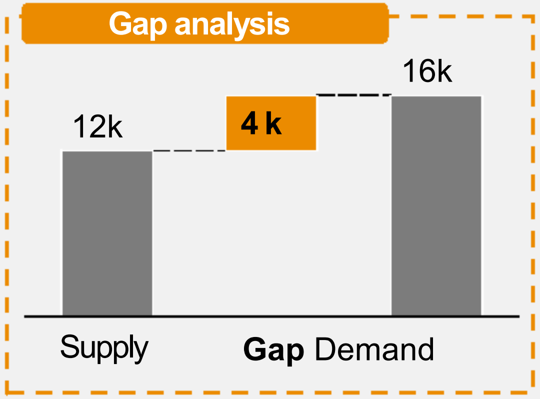


Investments in the segment are relatively low, with the segment being highly fragmented.

Organisation of the segment in Latvia is fairly complex, with vast types of services falling under the scope of LTC.

Key Segment Data

- **100** number of residential homes
- **6,1k** beds in residential homes
- **33,1%** old-age dependency ratio
- **319k** people aged 65+
- **1.5x** LTC cost to avg. pension
- **3,9k** immediate existing gap



Local authorities are responsible for operating retirement homes in Latvia

Retirement Homes – General Overview

Characteristics of the system

The long-term care system in Latvia is highly fragmented, with a range of services available to different population groups. It is also organised and financed from different sources of public funding. The scope of services include: (1) day care centres – offering social care and social rehabilitation services, (2) home care service – received by the person who cannot take care of themselves without assistance, (3) service apartments – owned by municipalities and provide service to people with severe functional disorders, (4) long term care – is institutional care for persons who cannot cope independently offering 24 hours assistance.

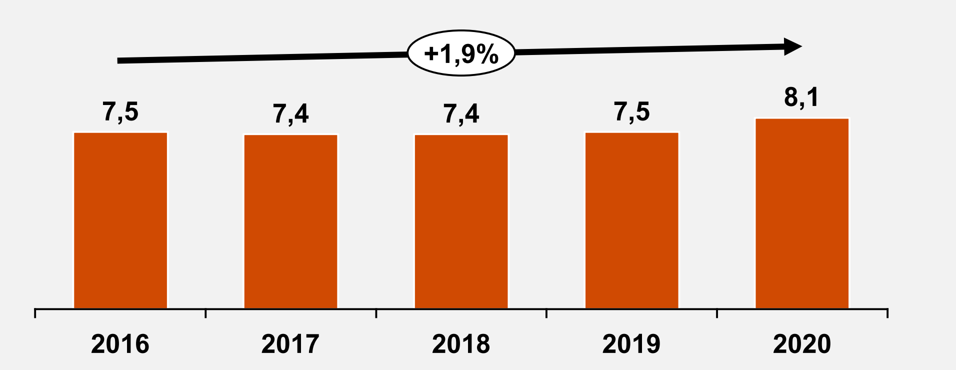
It is predicted that the population of Latvia will continue to decrease, resulting in a higher number of elderly people who will require long-term care, which will influence this segment in great deal, considering that almost 39% of people aged 65+ have required long-term care in Latvia in 2019, which is significantly higher than the EU-27 average of 26,6%.

In accordance with the Law on Social Services and Social Assistance (Sociālo pakalpojumu un sociālās palīdzības likums), each local government establishes a service office that provides social assistance and delivers social services to residents. Municipalities are mandated to offer services to those in need of care, which may be provided by the municipality itself, NGOs, or for-profit companies. Local authorities may also choose to provide additional long-term cash benefits to recipients, or their caring relatives, although this is not legally required. In recent years, family members have frequently provided informal care, receiving this cash benefit.

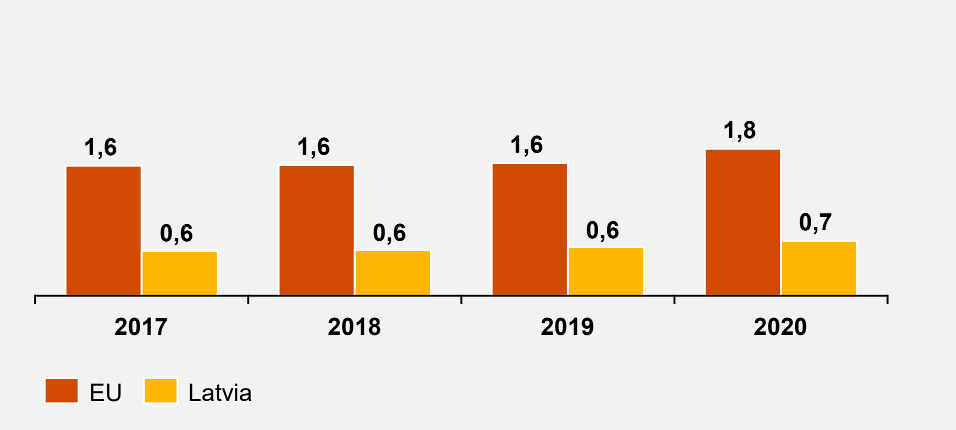
Long-term care facilities are required to accept everyone who is in need of assistance regardless of their age if they meet requirements for care stipulated by the Law.

Government spending on long-term care in Latvia is low, with only 0,67% of GDP spent on LTC, which is significantly lower than the EU average of 1,8%.

Expenditure on pensions percentage of GDP



Government's expenditure on LTC as a % of GDP



Sources: Eurostat, Official Statistics of Latvia, PwC analysis

Over one-third of the population is older than 65 years, with the majority requiring care when reaching 70 years

Retirement Homes – Key Drivers

Latvian healthy years after retirement are below EU-27 average

The life expectancy in Latvia is lower than the EU-27 average. In 2021, men had an average life expectancy of 69,8 years, while women had an average life expectancy of 79,6 years.

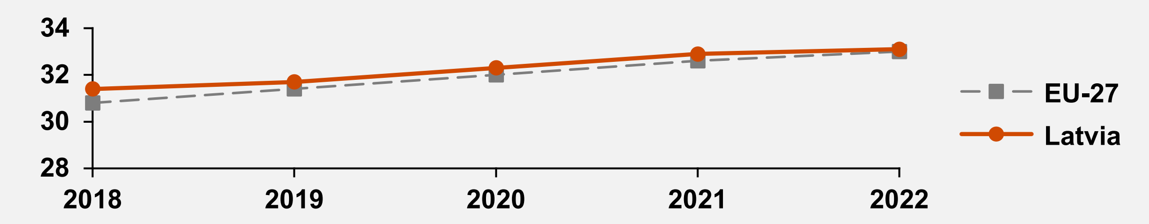
At age 65, Latvians can expect to live for 13,8 more years if they are male and 18,7 more years if they are female. This is lower than the EU-27 averages of 18,3 years for men and 20,9 years for women. On average, men at 65 can expect to live healthily for 4,4 more years, and women for 5 more years before requiring specialized care.

The old-age dependency ratio (population 65 and over) in Latvia is 33,1%, which is the same as the EU-27 average of 33,0%.

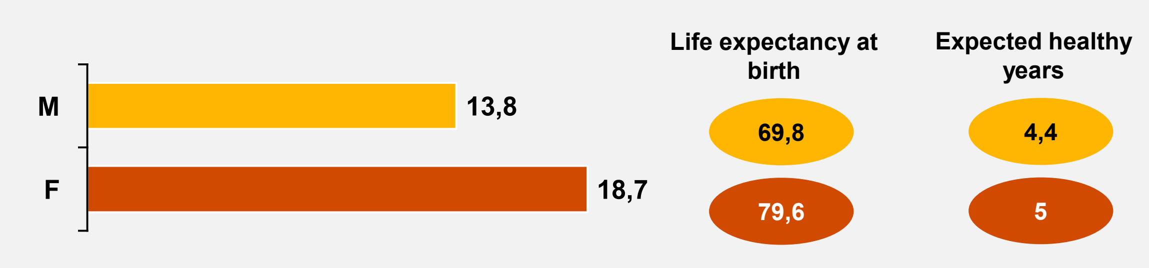
In 2022, the percentage of elderly (aged 65 and over) in Latvia who lived at risk of poverty or social exclusion was 42,6%. This is more than twice the EU-27 average of 20,2%. This means that out of the total number of elderly in Latvia (approximately 526,5k people in 2020), around 224,3k elderly are at risk of poverty. The majority of pension recipients (65%) received a pension between EUR 101 and EUR 500, with an average pension at EUR 450.

This issue is further increased by the fact that the average nursing home cost is more than twice of the average pension, meaning that the majority of the elderly cannot afford the cost of the LTC home.

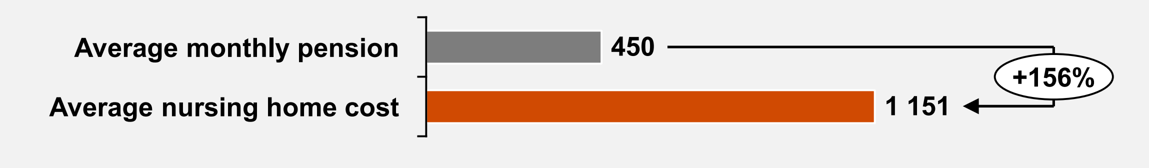
Old-age dependency ratio, in %



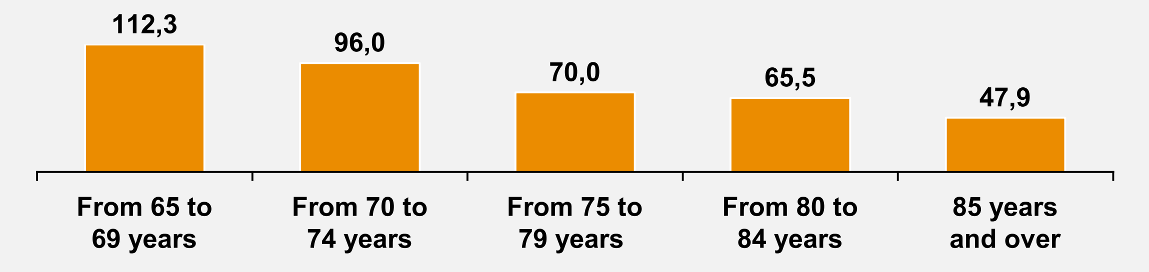
Average life expectancy at age 65 (2021)



Pension and monthly fees for retirement homes, per month, in EUR



Population aged 65+ in 2022, in ths.



Sources: Eurostat, Official Statistics of Latvia, PwC analysis

The demand, driven by the ageing population, is increasing, while the supply has been decreasing at a CAGR of 1,2%

Retirement Homes – Demand & Supply

Demand

In Latvia, we have identified the main driver of growth of demand for this segment to be the projected increase in the population of senior citizens. The group of elderly people aged 65 and over is projected to increase by ~0,6% on a yearly basis, reaching ~ 305k people by 2035, and the group of people aged 80 or over is projected to increase annually by 0,3%, reaching ~116,9k people by 2035.

Life expectancy for males aged 65 is projected to increase by 3,5 years until 2035, reaching 16,3 years, and for women by 2,5 years, reaching 21 years.

All this is indicating a projected increase in demand for LTC services in the coming years.

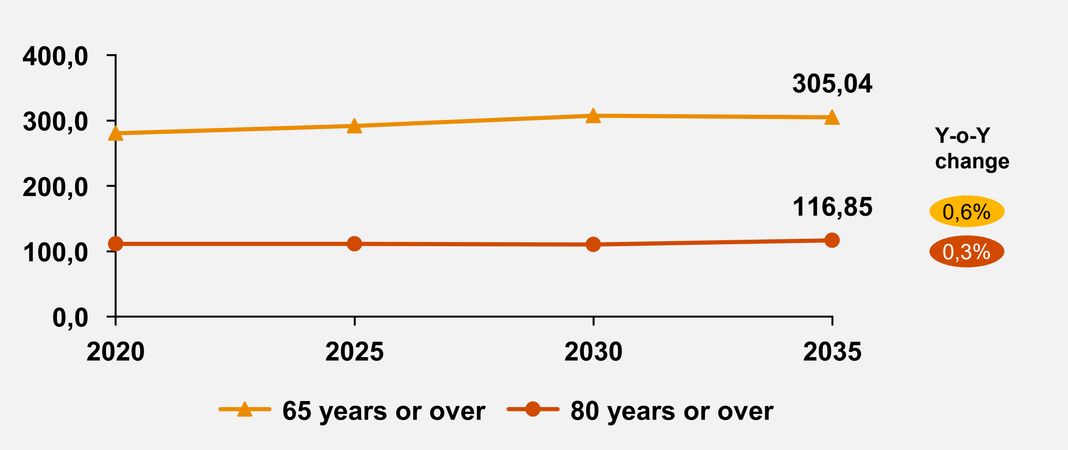
Supply

In 2022 in Latvia there were 112 long-term care and rehabilitation centres for adults, most of them were owned by local governments (89%). The number of long-term care centres is dropping with a CAGR of ~1,7% y-o-y from 2018 to 2022. At the same time, the number of residents older than 62 years has remained mostly the same.

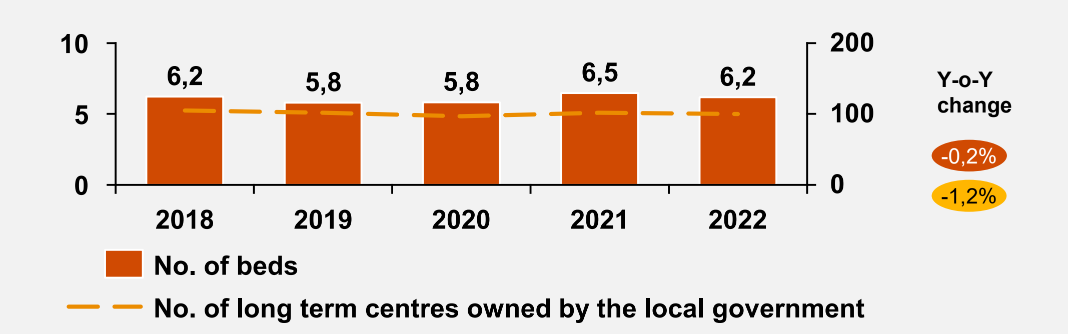
The average monthly price for a bed in a long-term care facility was on average 1k (max is EUR 1.582 and min is EUR 761) in Riga. The prices have increased in the last few years throughout the whole country, and it is predicted that the prices will increase additionally in the next year due to higher costs of heating and food. If a client or their provider cannot afford a social care or social rehabilitation service, the local government budget will cover the costs according to Cabinet procedures.

Additionally, it should be mentioned that in recent years we have observed a trend where schools have been converted to retirement homes. By 2022 at least 14 schools have been converted or are in the process of being converted into a retirement home.

Population projections for elderly, in ths.



Number of residents (in ths.) in long-term care centres owned by Local government



Sources: Eurostat, Official Statistics of Latvia, Local News Outlets, OECD, PwC analysis