

# Sale of agricultural land in the Czech Republic after accession to the EU

## *Prodej zemědělské půdy v České republice po vstupu do EU*

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**Abstract:** This contribution concerns the current situation and development of sales of state agricultural land. There mentioned in detail are some conditions attached to subsidies provided by the programme "Land" (for purchase of land from private owners) and Support and Guarantee Farm and Forestry Fund. General methodology of agricultural land evaluation for purposes of the Czech saving Bank Ltd. providing mortgage credits is also mentioned in the article

**Key words:** land market, market price, state land, revenue, return value

**Abstrakt:** Příspěvek je zaměřen na současný stav a rozvoj prodeje zemědělské půdy ve vlastnictví státu a na podmínky poskytování podpor z programu „Půda“ pro nákup pozemků od soukromých vlastníků. Podrobně jsou uvedeny podmínky, za jakých se poskytují podpory z prostředků Podpůrného a garančního rolnického a lesnického fondu. Je uvedena rámcová metodika oceňování zemědělské půdy pro účely úvěrového řízení při poskytování hypotečních úvěrů pro Českou spořitelnu a.s.

**Klíčová slova:** trh s půdou, tržní cena, státní půda, nájem, výnosová hodnota

## INTRODUCTION

Stagnation and even slight decline have lately marked the sale of agricultural land in the EU countries. Scepticism about the future of European agriculture caused by the fear of international competition after the liberalisation of international trade and impact of diminishing agricultural subsidies and decline of guaranteed prices in connection with the Common Agricultural Policy of the EU slowed down acquisition of agricultural land. Little interest in buying of land is also caused by the attitude of young people towards farming. On the other hand, a rising number of older farmers with nobody to take over the family farm is holding the land because of stable income from the relatively high revenues from rented land. Another reason for keeping land is the possibility of using it as collateral for long-

term mortgage credits (Němec 2004). Rising share of rented land is typical in the process of land concentration, which is a gradual but permanent tendency in European agriculture.

On the other hand, there was a significant recovery of the agricultural land market before the approaching accession of the Czech Republic to the EU, especially because of the rising sale off of agricultural plots of land owned by state. At the beginning of 2004, this process was joined by the program "Půda" (Land) announced by the Czech Government.

The aim of the program "Land" is to make possible for active farmers to buy land from private persons, which they were previously renting. In frame of this programme, the Support and Guarantee Farm and Forestry Fund (PGRLF) endows long-term loan interest payments, which private farmers can obtain from banks (at present from Česká spořitelna a.s.,

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The significant motivation for the purchase of agricultural land by active farmers is:

- concerning state land purchase – advantageous price of sold land (for the prices of current price regulations of the Ministry of Finance) in the long term repayment regime (as much as thirty years)
- concerning privately owned land (predominantly from physical persons) – there is an advantageous long-term PGRLF-supported mortgage credit from the banks
- farming of one's own land is becoming a significant stabilising factor of any entrepreneurial activity in the agriculture. This is partially so because of financial support from the EU funds, as well as from the national means.

On the other hand, there are many reasons for selling the land on the side of the owners that are not actively farming. The main reasons are:

- the rent from agricultural land is very low, frequently below 1% of the official price of the land (in EU countries it is as much as 3% of the market price). What's more, in some areas the user just pays land tax owed by owner;
- because of long-term severance of relationship between owners and users (more than 90% of the agricultural land in the Czech Republic is rented, while in EU-15 it is only 34%), owners mostly lost historical relationship with their plots of land;
- by selling his or her agricultural land (which the owner is not farming anyway), the owner gets immediate ready capital that can be more profitably invested elsewhere;
- in comparison to other EU-15 countries, under current circumstances the bank sector does not consider agricultural land to be good for mortgage credit (the only exception being "Land" programme).

For these reasons, there is certain overhang of supply over demand for agricultural land for farming purposes in the Czech Republic. Despite of all that, many owners procrastinate with the sale of their plots of land and wait for more favourable times hoping for a more pronounced rise of the prices of agricultural land, which is at present much cheaper than in the neighbouring EU countries.

In this contribution, we are taking closer look at the state of the sell-off of state owned agricultural land, the land appraisal process and the conditions for granting loans in the frame of the government support programme "Land".

## **SALE OF AGRICULTURAL LAND OWNED BY STATE**

Denationalisation of agricultural plots of land under the Act No. 95/1999 Coll., as amended, On Selling of Land brought a considerable rise in activity on this field. From 1999 to December 31, 2003, 132 158 plots of land were transferred. (Their overall area was 120 848.4 ha, i.e. 24% of the overall presumed supply of state land 500 000 ha). Out of this number, the plots of land in total area of 116 969.8 ha and in purchasing price of 5 660.8 mil. CZK were sold and the remaining plots with area of 3 878.6 ha were transferred free of charge to municipalities and public universities.

In 2003, the acreage of 71 787.2 ha of land was transferred. Out of it, the land in overall acreage of 70 576.8 ha was sold for the price of 3 229.4 mil. CZK and another 1 223 ha was transferred for free to municipalities and public universities.

The average area of sold plot of land on year to year basis fell by 10% in 2003, from 1.17 ha in 2002 to 1.06 ha. The average price for 1 m<sup>2</sup> fell by about 6% from 2002, from 4.89 CZK/m<sup>2</sup> to 4.58 CZK/m<sup>2</sup>.

If this trend of selling agricultural land in the possession of state will be kept, it can be realistically expected that sell-off will be completed by 2009 i.e. about two years before the cessation of the agreement upon the moratorium on the selling of agricultural land to foreigners – physical persons.

## **THE SALE OF AGRICULTURAL LAND IN THE POSSESSION OF PRIVATE PERSONS**

Until now, the sale of agricultural land by private persons (mostly physical persons) was prevailing, above all for their transformation into construction plots. The decisive share of these sales were plots of land under 1 ha, the plots over 1 ha comprised about 10% of all closed deals.

The program "Land" should provide the impulse for the change of the structure of sales of agricultural plots of land. The subsidy through the PGRLF is designated for mortgage, which covers maximally 90% of the price of the purchased land. For the year 2004, the PGRLF set aside the amount of CZK 500 mil. At the average price of 52 000 CZK/ha of agricultural land, it would be possible to buy about 50 000 ha of agricultural land in 2004, if there was satisfying demand and the will to sell on the side of landowners.

Buyer (mortgage loan applicant) must comply with the following conditions:

Table 1. Transfer of land under the Act No. 95/1999 Coll., in the years 2000–2003

Section of sell of land	Unit	2000	2001	2002	2003	Total 31. 12. 2003
	ha	85.1	307.5	303.1	129.5	830.2
§ 5 communities paid	mil. CZK	22.4	112	49.5	15.2	207.7
	CZK/ha	263 304.2	364 303.9	163 163.7	117 214	250 174.4
	ha		0.9	70.4	245	316.3
§ 5 garden, cottages owners, paid	mil. CZK		0	9.4	23.5	32.9
	CZK/ha		27 328.2	134 182.1	95 807.2	104 139.8
	ha	4.3	58	222.4	427.8	712.6
§ 5 owners of buildings, paid	mil. CZK	0.8	16.2	54.5	92.3	163.8
	CZK/ha	190 667.4	278 528.4	245 054	215 635.1	229 813.1
§ 5 communities, public schools, paid	ha	197.3	1 061.7	1 401.1	1 210.4	3 878.6
§ 5 together	ha	286.7	1 428.1	1 997.3	2 012.8	5 737.8
	ha	1.2	11.8	19.5	72.1	104.7
§ 6 owners of neighboring plots	mil. CZK	0	0.7	2.2	4.3	7.2
	ha	365.5	6 227.3	31 745.6	64 465.1	102 803.4
§ 7 restitutioners, SHR, partners of trade companies, owners over 10 ha	mil. CZK	30.5	335.6	1 536.3	2 898.3	4 800.8
	CZK/ha	83 554.2	53 898.6	48 394.3	44 959	46 698.6
	ha	21.5	1 273.8	5 669.9	5 237.2	12 202.5
§ 8 public tender for other persons	mil. CZK	1.5	36.3	214.7	195.9	448.4
	CZK/ha	69 229.7	28 531.1	37 862.5	37 398.2	36 744.5
Transferred total	ha	674.9	8 941.1	39 439.4	71 787.2	120 848.4
– sale of land	mil. CZK	55.3	500.8	1 866.5	3 229.4	5 660.8
	ha	360.3	6 668.3	33 052.5	61 978.1	102 059.8
– payment on 30 years mortgage	mil. CZK	30.8	347.4	1 578.6	2 756.2	4 713
	CZK/ha	85 539.7	52 102.7	47 759.3	44 470.1	46 179.3

Source: Annual report PF CR

Elaborated: J. Němec (VÚZE), J. Vodolán (PF CR)

- he has to farm the land he is about to acquire on the basis of rent contract with the owners of the land – non-state subjects for at least three years
- the precondition, from which are excepted young upstart farmers under 40 years of age
- the acquired land must be free of any lien with exception of lien connected to the granting of mortgage loan for the financing of land purchase
- by December 31, the buyer is required to submit to the Fund yearly statement by the relevant agricultural agency that he is still farming on the land in question
- buyer must commit himself to farming on the acquired land for at least ten years to prevent speculation with land.

In his application for subsidy by the Fund, the buyer must submit:

- mortgage contract
- debtlessness – certificate of the ZA MoA CR (district agency of ministry of agriculture),
- owners title (not older than 3 month) in case that the supplicant farms on his own plots of land in the cadastral area or neighbouring cadastral area the acquired land belongs to
- real cadastre estate notice proving the seller's ownership of land that he is about to sell (not older than 3 month)
- purchasing contract or other documentary proof of willingness of seller to actually sell the land

- proposition to record purchased land into the real estate cadastre
- document from the Land Cadastre of the CR showing the geographical position of the purchased land (cadastral map),
- appraisal of the plot of land by the certified court appointed appraiser or by the person that is allowed to appraise the property under the Small Business Act and who is listed on the list approved by bank and the Fund.

Since February 20, 2004 when the program “Land” was started to July 27, 2004, 69 persons from various districts of the CR applied for support for the purchase of privately owned land in the overall acreage of 2 542 ha and the total price of CZK 87 699 000 – i.e. cca 3.45 CZK/m<sup>2</sup>.

#### APPRAISAL OF AGRICULTURAL LAND FOR THE PURPOSE OF LOAN PROCEDURE IN THE PROCESS OF LOAN APPLICATION

By the Act No. 530/1990 Coll., on bonds, there is for mortgage loans being used the usual price, which is established with regard to permanent bonity quality of the mortgaged real estate and the revenue achieved when the land is properly farmed.

Opposite to that, the determined price or administrative price is the price established for fiscal purposes under the price prescription i.e. under the Act No. 151/1997 Coll., on Appraisal of Property and under its execution Order of the Ministry of Finance No. 540/2002 Coll., as amended (Order No. 452/2003 Coll.) (Smrčka, Rejfek 1998).

The revenue value of the real estate is a stock which must be deposited so the interest from this stock equalled to net profit from the real estate in question. The permanently removable revenue for agricultural land can be established from gross annual rent effect (HRRE) based on the usual and conscientious operation in the given place and time.

Gross annual rent effect can be expressed from the normal production and from normative costs for various soil-climatic conditions characterised by the individual bonited soil-ecological units (BPEJ). the VÚZE elaborated the HRRE price list for each of 2 199 BPEJ.

After the accession of the CR into the EU in 2004, subsidies from the EU funds can be also added to profits from agricultural land. For the years 2004–2006, the system of simplified payments will be used (Doucha 2003). This system includes the payments from the EU funds plus national top payments. Starting

2007, it is previsionsed that the support will be paid according to the system of separate payments valid for all countries of the EU-25. The revenue from the accepted subsidies up to 2012 can be considered on 1 ha interest-bearing risk free rate in amount of 29 800 CZK. In less favourable areas (LFA) and in the areas with environmental limitations, there will be additional subsidies from the Horizontal Rural Development Plan (HRDP) added to subsidies, which can significantly rise the total amount of subsidies per 1 ha of agricultural land.

#### ESTABLISHMENT OF USUAL PRICE OF AGRICULTURAL LAND IN HRRE FOR THE ČESKÁ SPOŘITELNA

To establish market values of agricultural land for Česká spořitelna a.s. (Hrdlička, Němec 2004) comes from the presumption that the yield from agricultural land after subtracting the coherent costs is the pivotal factor of the creation of value. The values of the HRRE for each soil-ecological unit can be considered the objective value of the expected annual net yields. Capitalisation measure (*d*) for the establishment of the value of agricultural land was set at 8%. The average market value of agricultural land is then the sum of capitalised yields and awarded subsidies (DOT).

The market value of agricultural land is then adjusted by the index of appraised plot of land. The index of appraised plot of land  $I_0$  expresses the relationship of agricultural plot of land to distance from the village, shape of the plot, access to the plot and position in countryside or in protected area. It ranges from 0.94 to 1.05 where distance from the community centre is between 0.85 and 1.00; the shape of the plot ranges from 0.90 and 1.00; the access to plot is from 0.95 to 1.05; protected natural area is between 0.7–1.00).

**The resulting** usual price (OC) established by yield value from the HRRE is:

$$OC = [(\sum HRRE_{BPEJ} : d) \times I_0] + DOT$$

If there is a lien on the purchased plot of land, the price of the plot of land is influenced by this burden. In some cases, this burden can render the real estate in question practically non-saleable in foreseeable future.

The price of the purchased plot of land established this way (but more frequently by a bigger number of purchased plots) then becomes the basis for granting client the mortgage loan that can cover up to 90% of established usual price.

## CONCLUSION

The sale of state agricultural land as well as land belonging to physical persons to current renters makes it possible to consolidate the concentration of land as well as the current structure of agricultural enterprises, especially business companies (a.s., s.r.o.) and big enterprises belonging to physical persons. The position of macro-enterprises will likely get stronger. These are companies with the total area over 1 000 ha of agricultural land. Their share in the total area of farmed land is 61%, which is without precedence in any member country of the EU. These companies comprise and will comprise the main clientele of banks for mortgage loans for the purchase of agricultural land. With regard to the fact that current ownership of rented land is very dispersed and the owners of agricultural plots of land are not always prepared to sell the land they owe, the process of selling and buying of agricultural land by the sole buyer – client, will be long-term process, frequently in multiple stages. These stages can to a considerable degree influence the price of plots of land for sale. The later agricultural plots of land will be bought, the bigger will be their purchase price at otherwise constant customary price used in application procedure for mortgage loan. At present (i.e. July 27, 2004) the average price of land being

sold with the help of the support program “Land” is around 3.45 CZK/m<sup>2</sup>, i.e. by 30% lower than the average official price of agricultural land in the CR. It can be soundly expected that after the current very dynamic development of the selling of agricultural land, there will be an inhibition in this activity and at the same time the prices will rise as is the case in the countries of the EU-15 at present.

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