FACTORS IMPACTING THE LAND PRICE

The eight New Member States of the EU (NMS-8) display a development deficit as compared to the 'old' EU countries. This is also expressed in the form of low per capita Gross Domestic Product (GDP) and in price levels that are far below those of the EU-15 countries. Over the past few years this situation has not undergone any fundamental changes (Table 1). The prices of agricultural land in the NMS, converted into euro, fit in perfectly with the general picture: they too, with the exception of Slovenia, are lower than those in the EU-15. The exchange rates are the reason for price levels in the EU-15 being higher than in the NMS. In addition, the Common Agricultural Policy (CAP) of the EU, with direct payments per area unit, contributes to the higher land prices in the EU-15.

In countries with a rather liberal agricultural policy and a somewhat developed land market, apart from the exchange rates, principal factors influencing land prices are: the quality of land, climatic conditions, availability of water, conditions for the use of machinery, the distance to the most important markets and the rural infrastructure. This, however, applies only to land that has been used agriculturally in the past and is supposed to be used that way also in the future. In areas where a future dedication of land to possibly other utilization purposes can be expected, other factors are important for the price development, such as the attractiveness of land for non-agricultural utilization.

LAND TODAY

In the NMS the market of agricultural land is underdeveloped. Those parts of the population that would be interested in purchasing land for agricultural purposes are hardly in the situation to finance such purchases. When individual persons, corporations or cooperatives want to operate a farm on land not in their property, they try to lease it.

For foreigners, several restrictions still apply to the acquisition of land. In the 1990s, land became in fact a non-tradable good in the sense that the law strongly impeded sales to foreigners. However, there was a black market for those instances: foreigners got into the market with the support of domestic stooges who acted officially as buyers. In the last few years

The paper was prepared for the seminar of the RIAFE Prague “Economic condition for use of land funds in the Czech Republic after the accession to the EU”. 11–15 October 2004, Špindlerův Mlýn, Czech Republic.
before EU accession, some countries made access to their land markets more easy for active farmers from foreign countries.

Agricultural land in the NMS-8 is now predominantly in private hands. Despite a certain concentration process, land property has so far been split into small plots owned by many landholders. Only a fraction of the agricultural area is still state-owned. In Slovakia, Hungary and the Czech Republic, large-scale farms cultivate predominantly leased land. In parts of Poland and in Slovenia, farming done by small farmers who have operated their own land for years plays the most important role. In Poland these little farms co-exist with big market-oriented farms averaging over 500 hectares and working with modern technologies. Although these big farms cultivate just about 15 per cent of total used agricultural area, they produce half of the agricultural production for the market. In the Baltic states, private small-scale farms are now dominating as against the former large-scale enterprises (kolkhozes and sovkhozes).

The price of land in the individual NMS is varying to a great extent, mostly depending on income level and purchasing power. There is a huge span between high and low prices on the land markets of these countries. The closer the land is located to the capital city, and the higher the average income in that capital, the higher is the price of agricultural land.

Statistics face the problem that the land price results from two different transaction types: in the first case, the prices refer to land that has so far been used agriculturally and will presumably continue to be used that way also in the future, without real prospects of a later change to non-agricultural uti-

Table 1. GDP and price level in the NMS, international comparison at 2003

<table>
<thead>
<tr>
<th>NMS-8</th>
<th>GDP at nominal exchange (ER) (€ billion)</th>
<th>At purchasing power parity (PPP)</th>
<th>Real GDP growth (1990 = 100)</th>
<th>Price level compared to EU-15 (PPP/ER) %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(€ billion)</td>
<td>(PPP) per capita (EU-15 = 100)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NMS-8</td>
<td>487</td>
<td>1 054</td>
<td>43</td>
<td>123</td>
</tr>
<tr>
<td>Estonia</td>
<td>7</td>
<td>14</td>
<td>43</td>
<td>104</td>
</tr>
<tr>
<td>Latvia</td>
<td>9</td>
<td>22</td>
<td>38</td>
<td>79</td>
</tr>
<tr>
<td>Lithuania</td>
<td>16</td>
<td>36</td>
<td>42</td>
<td>88</td>
</tr>
<tr>
<td>Poland</td>
<td>185</td>
<td>396</td>
<td>43</td>
<td>135(^1)</td>
</tr>
<tr>
<td>Slovakia</td>
<td>29</td>
<td>63</td>
<td>48</td>
<td>117</td>
</tr>
<tr>
<td>Slovenia</td>
<td>24</td>
<td>33</td>
<td>68</td>
<td>130</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>76</td>
<td>149</td>
<td>60</td>
<td>110</td>
</tr>
<tr>
<td>Hungary</td>
<td>72</td>
<td>136</td>
<td>55</td>
<td>119</td>
</tr>
<tr>
<td>Croatia</td>
<td>25</td>
<td>44</td>
<td>41</td>
<td>98</td>
</tr>
<tr>
<td>Macedonia</td>
<td>385</td>
<td>1 129</td>
<td>32</td>
<td>79</td>
</tr>
<tr>
<td>Russia</td>
<td>44</td>
<td>246</td>
<td>21</td>
<td>54</td>
</tr>
<tr>
<td>Ukraine</td>
<td>44</td>
<td>246</td>
<td>21</td>
<td>54</td>
</tr>
<tr>
<td>EU-15</td>
<td>9 284</td>
<td>9 284</td>
<td>100</td>
<td>130</td>
</tr>
<tr>
<td>Germany</td>
<td>2 137</td>
<td>1 991</td>
<td>99</td>
<td>122</td>
</tr>
<tr>
<td>Austria</td>
<td>223</td>
<td>217</td>
<td>111</td>
<td>131</td>
</tr>
<tr>
<td>Greece</td>
<td>153</td>
<td>196</td>
<td>74</td>
<td>141</td>
</tr>
<tr>
<td>Portugal</td>
<td>133</td>
<td>175</td>
<td>69</td>
<td>135</td>
</tr>
<tr>
<td>Spain</td>
<td>741</td>
<td>865</td>
<td>87</td>
<td>139</td>
</tr>
<tr>
<td>USA</td>
<td>9 608</td>
<td>9 964</td>
<td>141</td>
<td>145</td>
</tr>
<tr>
<td>Japan</td>
<td>3 817</td>
<td>3 245</td>
<td>105</td>
<td>118</td>
</tr>
</tbody>
</table>

\(^1\)1989 = 100

Source: wiww, AMECO

Table 1. GDP and price level in the NMS, international comparison at 2003

The price of land in the individual NMS is varying to a great extent, mostly depending on income level and purchasing power. There is a huge span between high and low prices on the land markets of these countries. The closer the land is located to the capital city, and the higher the average income in that capital, the higher is the price of agricultural land.

Statistics face the problem that the land price results from two different transaction types: in the first case, the prices refer to land that has so far been used agriculturally and will presumably continue to be used that way also in the future, without real prospects of a later change to non-agricultural uti-
lization. In the second case, the transactions refer
to agricultural land that is bought for the purpose of
non-agricultural utilization, in particular for building
projects. In this latter case, small areas – up to 5 or
10 hectares – are sold at comparatively high prices.
In areas close to cities and other zones attractive
for non-agricultural business, the latter type of land
transaction is the rule – in fact, there are no more
transactions concerning agricultural land as such.
We therefore consider only those land transactions
that involve over 5 or 10 hectares as decisive for the
price of agricultural land.

In Slovenia, the country with the highest income and
agricultural subsidies, prices of agricultural land are
accordingly the highest: at more than EUR 11 000 per
hectare, they are close to the EU-15 average (Table 2).
Among the remaining NMS, Hungary shows the highest
prices thanks to the high quality of land for agricul-
tural purposes (the best in the NMS region). When
located close to the EU-15 border, agricultural land
in Poland, Slovakia, the Czech Republic and Hungary
has been in great demand by foreign farmers, in par-
ticular those from Germany and Austria, regardless of
the lower quality of soil. This fact increases the land
price. As a rule, it concerns purchases of agricultural
land without the expectation of later changes in the
land use categories. Although foreigners intending to
lease agricultural land meet with less obstacles, they
cultivate only a small part of the total used agricultural
area in the NMS.

EU ACCESSION AND THE CAP REFORM

The national agricultural policy in the NMS has been
mainly determined by the EU’s Common Agricultural
Policy (CAP), although there have been a few tran-
sitional regimes such as for animal welfare, veteri-
inary standards and land transactions. In Copenhagen
(December 2002) several accession countries agreed,
with respect to the liberalization of the land market,
on a transition period of seven years after accession
to the EU. Following tough negotiations with the
EU, Poland managed to agree a transition period of
twelve years. Slovenia has opened its land market
immediately after its EU accession.

In 2003 EU Commissioner Fischler presented rela-
tively radical proposals concerning the reform of
the CAP. These were accepted in a reduced form in
Luxembourg. The agreed reform package determines
simultaneously the financial framework for agricultural
expenditures up to 2013. The basic reform goals are
sustainability of agriculture and its stronger market
orientation. The Commission aims to reach these
goals mainly through a partial decoupling of direct
payments from production results as well as through
a reduction of the market price support. Both issues
are targeted at a decrease of market prices and finally
at reducing the agricultural surpluses. The lower
market price support should open the door for higher
expenditures for direct support (payments). These
two instruments for the support of agriculture are
incorporated in the so-called ‘first pillar’ of the CAP.
Such budgetary restructuring is essential because of
the strong increase in the number of farmers after
the EU enlargement. Apart from the restructuring
within the first pillar, part of the money saved (by
lower market price support) is to be invested into
rural development, the so-called ‘second pillar’ of
the CAP. This far-reaching programme is to operate
with the unchanged total CAP budget as it is based
rather on restructuring.

Also after the completion of the transition period
in the year 2013, the CAP rules should be effective

---

Table 2. Agriculture: selected indicators of some NMS

<table>
<thead>
<tr>
<th></th>
<th>Year</th>
<th>Poland</th>
<th>Slovakia</th>
<th>Slovenia</th>
<th>Czech Republic</th>
<th>Hungary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used agricultural area (UAA)</td>
<td>2002</td>
<td>18.413</td>
<td>2.442</td>
<td>0.486</td>
<td>4.280</td>
<td>5.867</td>
</tr>
<tr>
<td>% of total territory</td>
<td>2002</td>
<td>58.9</td>
<td>49.8</td>
<td>24.0</td>
<td>54.3</td>
<td>63.1</td>
</tr>
<tr>
<td>Hectares per capita</td>
<td>2002</td>
<td>0.477</td>
<td>0.454</td>
<td>0.244</td>
<td>0.416</td>
<td>0.577</td>
</tr>
<tr>
<td>Employment in agriculture in % of total employment</td>
<td>2002</td>
<td>19.3</td>
<td>6.2</td>
<td>9.2</td>
<td>4.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Price of UAA in Euro per 1 hectare</td>
<td>1997–1999</td>
<td>1 064</td>
<td>1 000*</td>
<td>11 000</td>
<td>1 334</td>
<td>1 507</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>1 100*</td>
<td>1 155</td>
<td>11 000*</td>
<td>1 074**</td>
<td>1 500</td>
</tr>
</tbody>
</table>

*Estimate; **2003: over 5 hectares
without essential changes, it settles lower direct pay-
ments per hectare or per farmer in the NMS, in euro
terms, compared to the EU-15. Direct payments are
based on the reference areas and reference yields, as
agreed in Copenhagen: to be exact, they are based on
a reference period (the last two or three years prior to
EU accession) when both cultivated areas and yields
were smaller than in the EU-15.

LAND PRICE CONVERGENCE

It is expected that after a number of years of EU
membership, the difference between the general price
level of the NMS and that of the EU-15 will diminish
or perhaps disappear completely. This convergence
process will be driven by higher inflation rates in the
NMS, by nominal appreciation of the currencies, or
by a combination of both factors.

It is not very likely that this process will take place
quickly and that the price differences will disappear
in the foreseeable future. As is well known, the dif-
ference between the price levels of the northern EU
countries and those of Greece, Spain and Portugal
have not disappeared until today. The land price in
the NMS will climb more quickly, in relation to the
EU-15, than the general price level – at least after
the liberalization of the land market; and at least for
regions bordering the EU-15 countries and for regions
where the land quality, the climate and the size of
farms are favourable for farming. Regardless of these
factors, the development of the general price level
will play a more important role for the increase in the
nationwide average land price in the NMS than the
introduction of the CAP, although the hectare-based
Single Area Payment Scheme (SAPS) may influence
the price rise.

ECONOMIC SIGNIFICANCE OF LAND
PROPERTY IN THE FUTURE

The effect of the increase in land prices on agri-
culture will not be uniform. For landowners involved
in farming, higher land prices will mean an increase
in the value of their property, but not an increase in
their production costs. For some of them, the higher
land price may represent an opportunity to abandon
farming and to sell their land to neighbouring farmers
who wish to enlarge their farms, or sell it to non-ag-
icultural investors, expecting or actively operating
in changes of land use categories.

Another picture emerges for large agricultural com-
panies that operate on leased land. The owners of
that land are as a rule a multitude of persons holding
small plots but living in the cities, being employed in
the non-agricultural sector. For the management of
large companies, land is an input for which they must
pay regularly. At present the rent prices are low, but
this will change along with rising land prices. Higher
land prices will lead to higher rent prices and the
farmers in large companies will be confronted with
higher charges, resulting in higher production costs.
To sum up, whereas the landowners will profit from
the opening of the land market to foreigners, farmers
cultivating leased land will suffer.

EFFECTS OF HIGHER LAND PRICES

If the CAP reform is finally implemented in the
currently envisaged form, the result may be that in
favoured regions, both in the EU-15 and in the NMS,
efficient large-scale farms will emerge that benefit
from economies of scale. The farmers in these regions
will be supported by the partially maintained links
between direct payments and production (partial
decoupling). This fact will stimulate production
in order to raise farmers’ revenues. In those areas
where large-scale companies are already operating,
a concentration processes may take place, resulting
in a declining number of farms. Also in countries
that would completely decouple direct payments
from production quantities, farmers could try to
increase their income: they may concentrate on the
production of goods whose production volume is
not controlled by the EU.

In less favoured regions, the expected price decline
of agricultural products will gradually encourage
part of the owners to lease or to sell their land. Some
farmers will seek their main income outside of the
agricultural sector and will use farming just as an
additional income in the form of semi-subsistence
farming or will merely operate subsistence agricul-
ture. Others may try to find market niches or to pro-
duce and directly sell high value-added goods. Small
farmers in the NMS operating in the less-favoured
areas dispose of some comparative advantages such
as better environmental standards. In fact they may
provide ideal preconditions for producing labour-
intensive high-quality organic foods. The main issue
is consumers’ confidence, provided by transparent
rules and strict inspections of organic foods. Thus,
regulations directed at origin of products and at trade
marks must be coupled with consumers’ easy access
to the organic foods markets.

The future development of the land market will
face many dilemmas and uncertainties. For instance,
despite the comparative advantages of economies of scale, large-scale farming contradicts the philosophy of sustainable agriculture. It appears that in the future the size of farms, especially in Europe, will increasingly be linked to the issue of ecologically sustainable agriculture. Also the hardly predictable exchange rate development will play an important role. A further appreciation of the euro against the US dollar may increase the cost of guarding against the risk of EU farm-gate prices dropping. The future policy pursued by the European Central Bank may have a greater impact on European agriculture and thus on the land market than the CAP reform and the effect of a liberal future WTO agreement.

Contact address:
Dipl.-Ing. Zdeněk Lukas, Wiener Institut für Internationale Wirtschaftsvergleiche, Oppolzergasse 6, A-1010 Vienna, Austria
e-mail: lukas@wiiw.ac.at