The Invincible LAND

Land Market Review Ukraine

Q2'2024

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1. FARMLAND MARKET PERFORMANCE IN Q2 AND JUNE 2024

THE FARMLAND MARKET IS RECOVERING

KEY MARKET INDICATORS	
Total land registered in the State Land Cadastre	**44,9 mln ha (74,4%)**
Agricultural registered land in the State Land Cadastre	**33,0 mln ha (77,2%)**
Average normative monetary value of arable land	**28 924 UAH/ha**
Average weighted amount of lease for plots of agricultural land designated as communal property (at land auctions)**	**8 755 UAH/ha**
Average weighted price of purchase and sale of a plot of agricultural land of destination**	**44 306 UAH/ha**
Area of farming lands used as a pledge of farming loans***	**15 460 ha**
The average number of purchase and sale transactions per day in June 2024.	**264**
The average size of the land plot of the sale agreement	**2,24 ha**
The number of concluded purchase and sale agreements total	**254 803**
Area of registered purchase and sale agreements, total	**571 647 ha**

*according to "Prozorro
.Prodazhi" data from 01.01.2024 to 01.07.2024, larger plots receive more weight when calculating the average price per hectare
** average price weighted by area from 01.01.2024 to 01.07.2024; larger plots receive more weight when calculating the average price per hectare; 1% of the most expensive and 1% of the cheapest plots are not considered.
***From 01.01.2022 to 31.12.2023

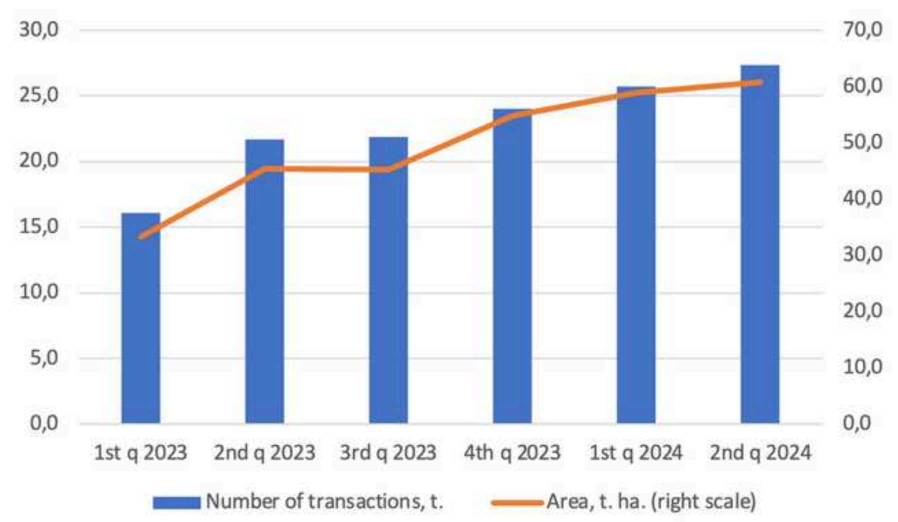
THE AGRICULTURAL LAND MARKET IS RECOVERING

The agricultural land market in Ukraine continued to recover in Q2 2024. In total, 27.3 thsd ha of land sales transactions took place in the Q2 of 2024, covering a total area of 60.8 thsd ha. These indicators are 6.3% higher than in Q1 2024 in terms of the number of transactions and 3.3% higher in terms of the area of land in circulation.

The main growth factor in the Q2 resulted from the record growth of the land market in April 2024, represented by 10.3 thousand sale and purchase transactions with a total area of 22.5 thousand hectares. After that, the market volumes declined in May (9.0 thousand transactions with a total area of 19.8 thousand hectares) and in June (8.0 thousand transactions with a total area of 18.5 thousand hectares). Probably, this slowdown is due to the limited liquidity of agricultural producers, as the sowing campaign was already carried out in May-June, but the harvest has not yet begun, which limits the financial resources of agricultural producers. There may also be supply constraints. After all, amid rising land prices, landowners may wait to sell after the land market is opened to legal entities. These hypotheses need to be verified and do not exclude the influence of other factors.

As for the market development potential, we can assume that there is a certain seasonality in the market. This was observed last year, when after the peak of agricultural land sales in May 2023, the market volumes declined in June and July, and started to grow again in August 2023. Should a similar pattern be observed this year, we will be able to argue that the land market has a clear seasonality and market liquidity is lowest in the months when agricultural producers incur the highest costs and have limited liquidity, and potentially in the months when farmers are most involved in field work.

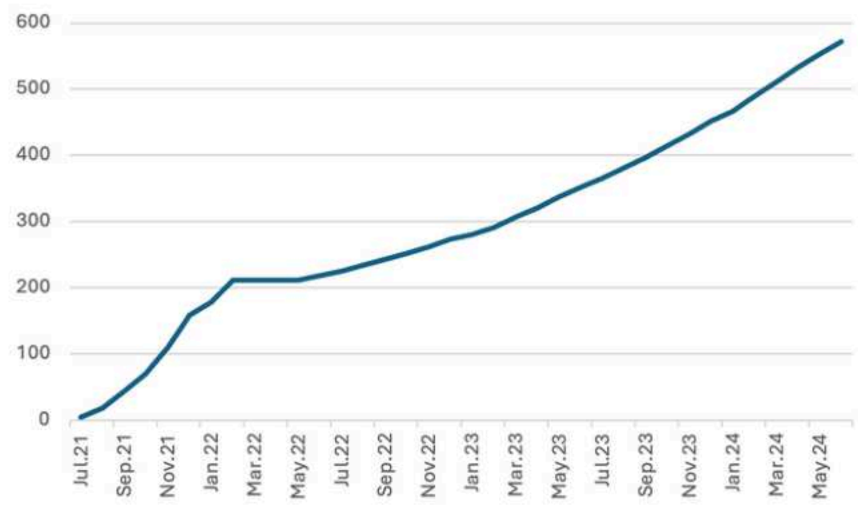
Fig. 1. Dynamics of agricultural land sale and purchase transactions in Q2 2024 compared to Q1-4 2023.



* According to the State Geocadastre for the period from 01.01.2023 to 30.06.2024

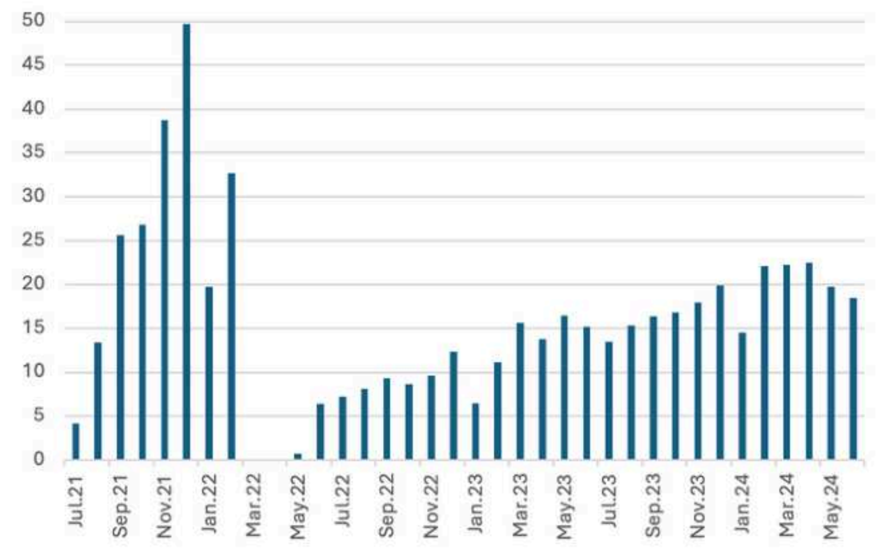
In general, land market volumes continue to recover after the start of the full-scale invasion, but have not yet reached the level before the full-scale invasion. In the last 6 months before russia's full-scale invasion of Ukraine, the average monthly volume of agricultural land market was 32.2 thousand hectares. In the second half of 2022, the average monthly market volume was 8.8 thousand hectares, in 2023 - 14.9 thousand hectares, and the average monthly figures since the beginning of 2024 are 19.9 thousand hectares of farmland sold. Recently, the pace of market recovery has slowed somewhat. Currently, average monthly market volumes are about 38% lower than before the full-scale invasion. At the same time, the area of agricultural land under contract has decreased by more than 20% since February 2022 due to the occupation and hostilities. The land market in the regions close to the active hostilities zone is operating in a very limited mode. Due to security risks, deals are almost impossible to conclude in Kherson, Zaporizhzhia and Donetsk regions. One of the possible indicators that can demonstrate the potential size of the market in the future is the percentage of agricultural land in circulation. In developed markets, on average, about 1% of the total amount of agricultural land is in circulation annually. If we extrapolate the figures for the first half of 2024 to the whole year and exclude areas where the land market is hampered by hostilities, then in 2024, 0.8% of the total agricultural land will be in circulation, which is almost in line with developed markets. A significant increase in the area of land in circulation (several times) seems unlikely due to the hostilities and the occupation of part of Ukraine's territories. On the other hand, given the trend of monthly growth until February 2022, it can be argued that if not for the full-scale war, the average monthly volume of land in circulation would have been significantly higher than 32.2 thousand hectares. Therefore, the land market has the potential to grow in the short term.

Fig. 2. Dynamics of purchase and sale transactions (cumulative), thousand ha.



* According to the State Geocadastre for the period from 01.07.2021 to 30.06.2024

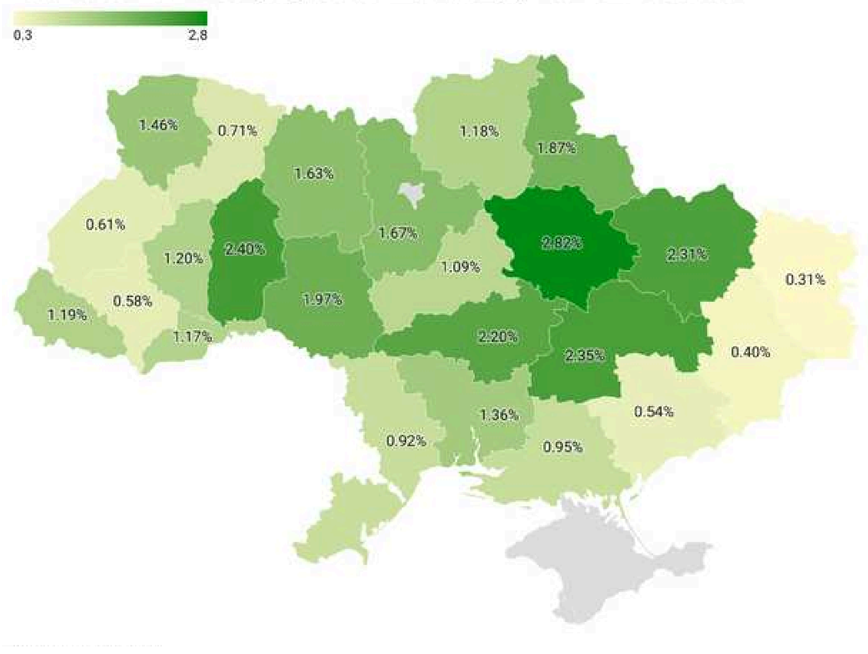
Fig. 3. Dynamics of the volume of sales and purchase transactions (monthly), thousand ha.



* According to the State Geocadastre for the period from 01.07.2021 to 30.06.2024

In total, over the three years of the agricultural land market's existence, 1.38% of all agricultural land in Ukraine has been in circulation, excluding regions where the land market is hampered by active hostilities - 1.68% over the three years of the land market. Thus, Ukraine is twice as far behind developed markets, where the turnover of agricultural land reaches 1% annually, mainly due to unprovoked aggression by russian federation. In one of the previous editions of the report, we calculated that 120 thousand sale and purchase transactions totalling 355.5 thousand hectares were not concluded due to the war, which is equivalent to an additional 0.86% of the total amount of agricultural land in circulation. It is noteworthy that the market indicators in the most liquid regions of Ukraine, despite the war, are in line with those of developed markets. Thus, in the most liquid region of Ukraine - Poltava region - 2.82% of the total amount of agricultural land in circulation was in circulation over the three years of the land market's existence.

Fig. 4. Share of land in circulation in the total area of agricultural land in the region



* According to the State Geocadastre for the period from 01.07.2021 to 30.06.2024

LAND VALUE HAS INCREASED SIGNIFICANTLY

With the opening of the land market to legal entities, the weighted average land price has increased significantly. While the weighted average price in the Q4 of 2023 was UAH 37.8 thousand per hectare for all land sold, in the Q1 of 2024 it was already UAH 42.0 thousand per hectare, up 11.2%. The upward price trend continued in the reporting quarter: in the second quarter of 2024, the weighted average price was UAH 43.5 thousand per hectare for all land sold (+3.7% compared to the previous quarter and +15.3% compared to Q4 2023). Prices for the so-called commodity land were even higher at UAH 44.8 thousand per hectare. Comparing the weighted average prices from June 2024 to December 2023, the weighted average price for all land increased by 18.6% from UAH 37 thousand per hectare to UAH 44.0 thousand per hectare. Even though the price in June decreased by 3% compared to prices in May 2024, which were the highest on record in the agricultural land market and reached UAH 45.3 thousand per hectare for all sold land and UAH 46.3 thousand per hectare for so-called "commodity" land. Thus, the capitalisation of the agricultural land market increased by UAH 285.6 billion between December 2023 and June 2024.

As for the total volume of the agricultural land market, the aggregate value of all land alienated through sale and purchase has amounted to UAH 25.3 billion since the market was launched. It is worth noting that all prices mentioned in this review are official prices for the sale and purchase of agricultural land, which are recorded during the registration of transactions. The real value of agricultural land may be higher, as most sales transactions are concluded at a price that does not differ from the normative monetary value (minimum sale price for formerly moratorium land) by more than 2%. Therefore, the true market volume may be significantly higher, as well as the true price. At the same time, due to the fact that the share of transactions concluded at a price equal to the NAV is constant over time, the change in price both in time and geographically reflects the variability of prices on the market. Therefore, while absolute land price values should be interpreted with caution, the percentage change in price over time reflects market dynamics.

Fig. 5. Dynamics of weighted average prices, thousand UAH/ha.

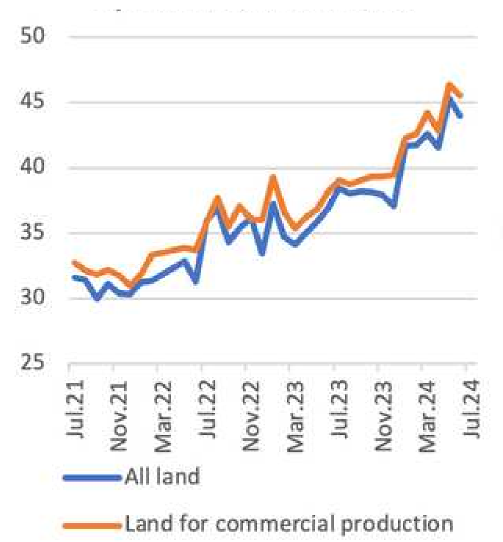


Fig. 6. Dynamics of weighted average prices, thousand $/ha.

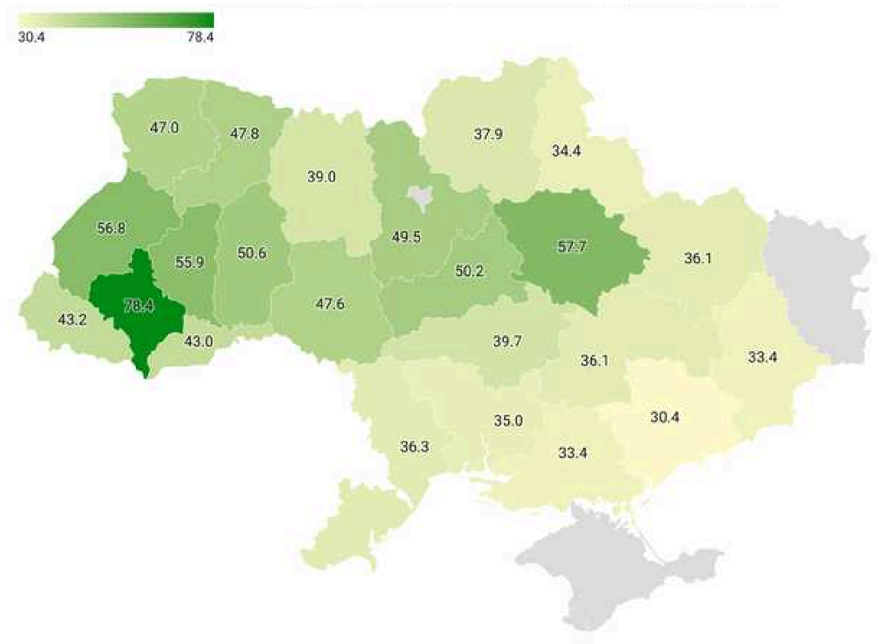
* According to the State Geocadastre for the period from 01.07.2021 to 30.06.2024

Speaking about the dynamics of changes in agricultural land prices, it is worth noting that despite the growth of the nominal value of land in hryvnia, which outpaced inflation in 2024, we have not seen a significant increase in prices in US dollar terms over the entire period of the market's existence. While in July 2021 the weighted average price of a hectare of agricultural land was USD 1,161 per hectare, in June 2024 it was USD 1,086 per hectare. This is due to the significant weakening of the hryvnia as a result of the full-scale invasion. Thus, the average monthly hryvnia to dollar exchange rate in June 2024 was 40.48 UAH/USD, while in March 2024 the exchange rate was 38.66 UAH/USD, meaning that the hryvnia devalued by 4.7% during this period.

In the regional context, the highest prices for land in 2024 were recorded in Ivano-Frankivsk, Poltava, Lviv, and Ternopil regions. The lowest prices were recorded in the regions that were most affected by the hostilities - Zaporizhzhia, Donetsk, Kherson, Sumy regions.

We estimate that the high prices in the western regions of Ukraine are likely to be due to the restrictions imposed on the market, resulting in high transaction costs. Thus, according to market participants, prices for transaction execution vary between UAH 12-15 thousand per transaction. Given that the average size of a 'marketable' plot in Lviv region is 0.5 hectares and 0.4 hectares in Ivano-Frankivsk region (according to the data on inheritance of transactions in these regions), the cost of a land plot may be commensurate with the cost of transaction execution, and this may simply reduce the motivation to enter into such transactions. Therefore, sale and purchase deals in these regions are concluded with larger plots (on average 0.7 ha in Ivano-Frankivsk region and 1 ha in Lviv region, which is almost twice the size of inherited plots) and plots with probably better soils, which leads to high average prices in these regions. The hypothesis that high prices in these regions are caused by the exclusion of less valuable plots from circulation is also supported by statistics on the percentage of land in circulation: these two regions have the least liquid land market in the whole of Ukraine (with the exception of Donetsk and Luhansk regions, where the share of land in circulation is lower due to the effects of the war), with the share of land in circulation at around 0.6% for both regions compared to the average for regions not affected by the occupation at 1.68%.

Fig. 7. Weighted average prices by region in 2024, thousand UAH/ha.



* According to the State Geocadastre for the period from 01.01.2024 to 30.06.2024

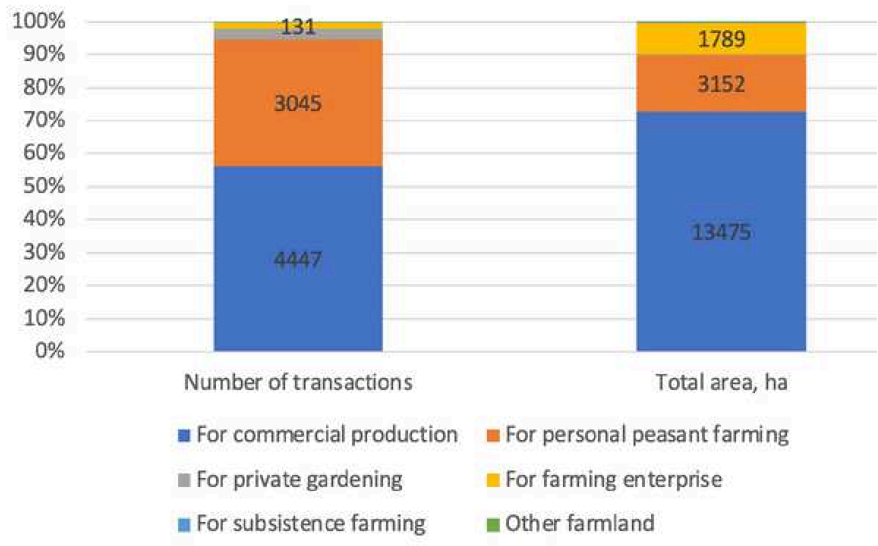
EX-MORATORY LAND DOMINATES IN CIRCULATION

In June 2024, as before, the ex-moratory land dominated the circulation. These are the so-called commodity land and land for private farming (land of individual farmers).On average, 56% of transactions are concluded for commodity land and 39% for land for personal farming. Due to the larger average plot size, commercial farmland accounts for 73% of all land sold, while private farmland accounts for 17%. Another category that is relatively small in terms of the number of transactions (2%), but large in terms of area due to the large size of plots, is land for farming - 10% of the area of all agricultural land sold.

The data for June is generally very similar to the figures for Q2 2024. During this period, 56% of transactions were for commodity land (73% of the total area of plots sold), 38% for agricultural land (18% of the area of plots sold), and 2% for land for farming (9% of the area of plots sold).

The structure of the land market in terms of designated purpose is rather consistent. The share of commodity land in circulation in Q1 2024 was 57% of the number of transactions and 73% of their total area, while 38% of transactions concerned agricultural land with a share of 19% of the total area of land sold, and the same figures for farming land were 1% and 8%, respectively.

Fig. 8. Distribution of purchase and sale agreements according to the purpose of the land plot in June 2024.



* According to the State Geocadastre for the period from 01.06.2024 to 30.06.2024

PARTICIPATION OF LEGAL ENTITIES IN THE LAND MARKET

Starting from 1 January 2024, legal entities were granted the right to purchase agricultural land. At the same time, the limit on the purchase of land "in one hand" increased from 100 to 10,000 hectares. At the time, some market participants expressed concerns that large players could accumulate large areas of farmland. In the first half of 2024, these assumptions were not confirmed.

In the first six months after the land market was opened for legal entities, a total of 823 legal entities exercised the right to purchase agricultural land. During this time, they concluded 7.2 thousand transactions covering a total area of 21.5 thousand hectares. Thus, the share of legal entities in the agricultural land market (by the area of purchased land) was 18.0% during this period.

Fig. 9. Area of plots purchased by legal entities.

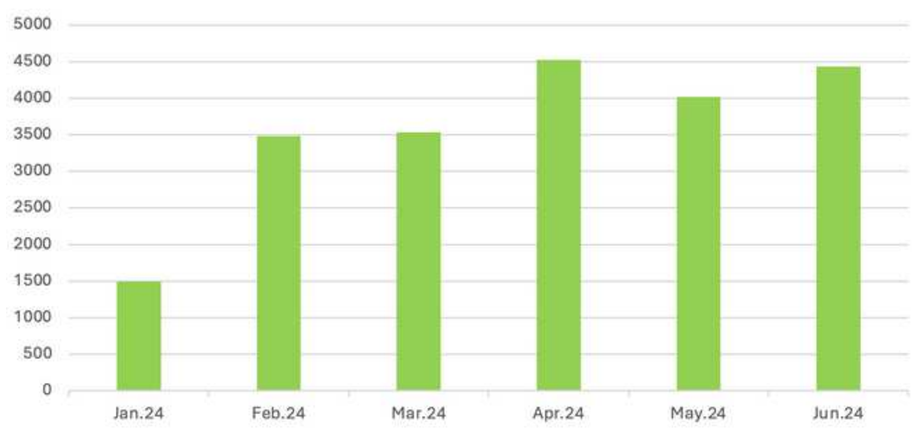


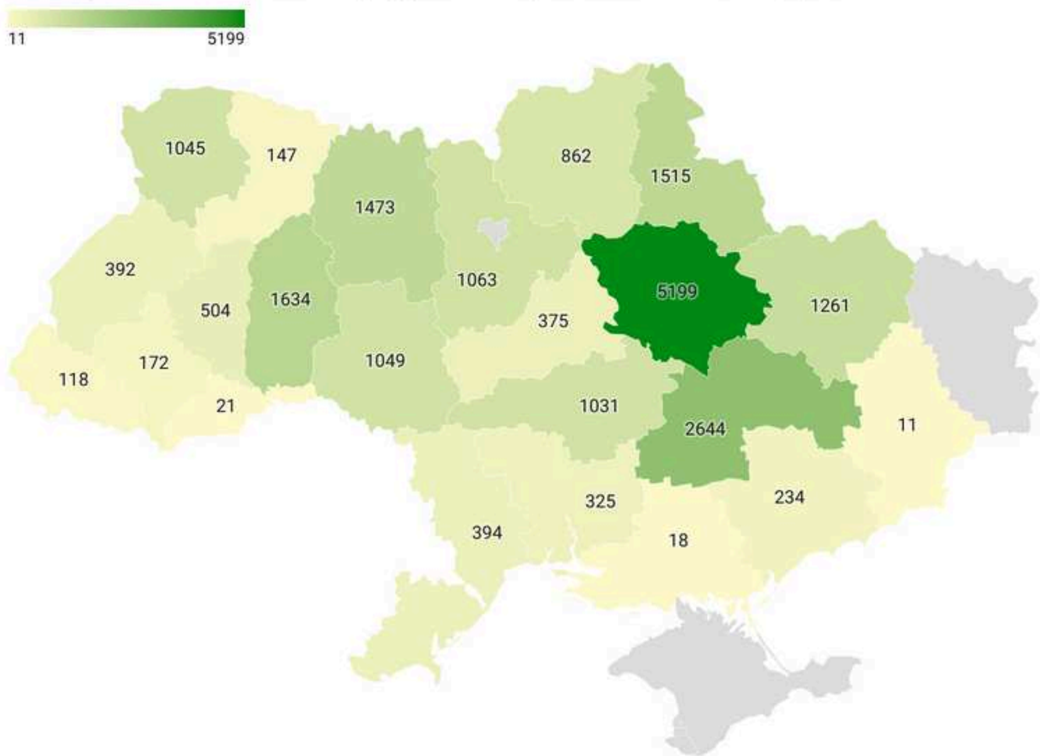
Fig. 9. Area of plots purchased by legal entities

The total area of land acquired by legal entities remained stable in Q2 2024. At the same time, as the area of land acquired increased in the second quarter, the share of legal entities in the market also increased. While the share of legal entities in the first quarter was 14.5%, in the second quarter this share was already 21.3%. This was primarily due to the increased activity of legal entities in the land market in the second quarter, which affected their market share. Thus, in Q2, the number of legal entities that entered into at least one sale and purchase transaction increased significantly. While in the Q1 of 2024, 436 legal entities acquired at least one land plot, in the Q2 there were already 612 of them.

The majority of land plots acquired by legal entities are formerly moratorium lands. Among the land acquired by legal entities, 75.2% is commercial land and 23.5% is land of individual farmers (which was also partially under the moratorium until July 2021).

The area of plots acquired by legal entities in 2024 is unevenly distributed across the regions - 24% are located in Poltava region. Other leading regions include Dnipro (12% of the area of land plots acquired by legal entities), Khmelnytskyi (8%) and Sumy (7%) regions. Legal entities have not acquired any land in only two regions of Ukraine, a significant or all part of which is temporarily occupied by russia - in Luhansk region and in the Autonomous Republic of Crimea.

Fig. 10. Area of agricultural land purchased by legal entities in 2024, ha



* According to the State Geocadastre for the period from 01.01.2024 to 30.06.2024

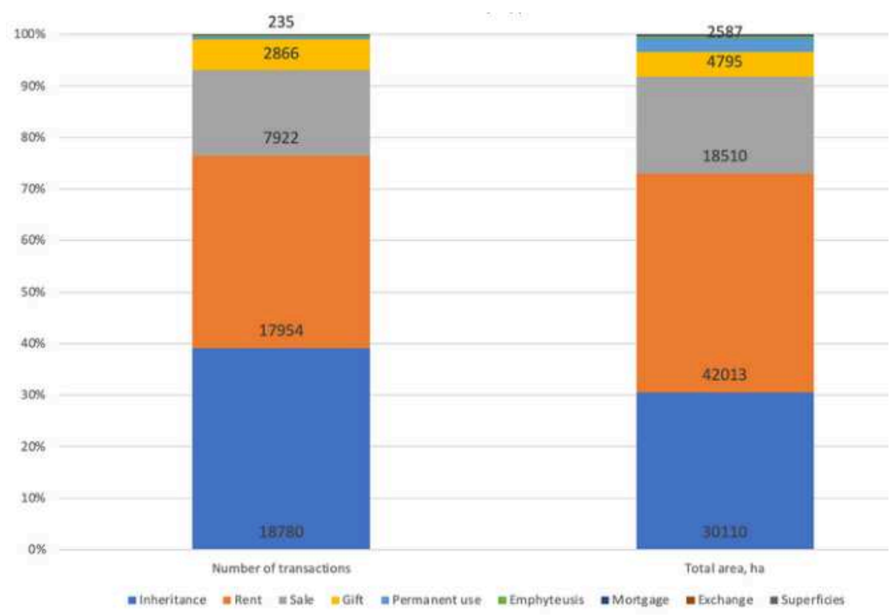
Due to the small number of land transactions involving legal entities and their uneven geographical distribution, it is not yet possible to compare directly the prices of land acquired by individuals and legal entities. Instead, a comparison of the median price increase relative to the normative monetary value (NMV, which is the minimum sale price for formerly moratorium land) for individuals and legal entities is very revealing. Thus, the median ratio of the price of transactions concluded in 2024 by individuals to the NAV is 1.01. This means that for 50% of transactions involving individuals, the sale price does not exceed the NAV by more than 1.0%. The same indicator for legal entities is 1.70, meaning that in 50% of transactions concluded by legal entities, the transaction price exceeds the NAV by more than 70%. This discrepancy may indicate either that legal entities are willing to pay a much higher price for agricultural land or that legal entities are more motivated to declare the real price of the transaction in official documents instead of indicating the minimum allowable price with the difference paid in cash.

LAND LEASE MARKET DOMINATES THE LAND PURCHASE AND SALE MARKET

As in previous periods, in June 2024, lease (18.0 thousand contracts), inheritance of land plots (18.8 thousand) and sale and purchase transactions (7.9 thousand) dominated among the transactions with agricultural land. According to the results of Q2, 62 thousand inheritance transactions with a total area of 98.3 thousand hectares, 75 thousand lease agreements with a total area of 186.5 thousand hectares, and 27 thousand sale and purchase agreements with a total area of 60.7 thousand hectares were concluded. At the same time, in the first quarter of 2024, 72.8 thousand lease agreements with a total area of 186.6 thousand hectares, 62 thousand inheritances of land plots with a total area of 100 thousand hectares, and 25.5 thousand purchase and sale transactions with a total area of 58.8 thousand hectares were concluded. Thus, compared to the previous quarter, there are no significant differences in the structure of transactions on the land market, and the lease market is approximately three times larger than the market for the sale and purchase of agricultural land.

Comparing the figures for Q2 2024 with the same period in 2023, there was a significant decrease in the number of lease agreements and an increase in the number of land sale and purchase agreements. In Q2 2023, a total of 104.7 thousand land lease agreements were concluded with a total area of 309.6 thousand hectares. Thus, the number of lease agreements decreased by 29% in terms of the number of lease agreements and 40% in terms of the area of lease agreements.

Fig. 11. Land agreements by type of transaction in June 2024.



* According to the State Geocadastre for the period from 01.06.2024 to 30.06.2024

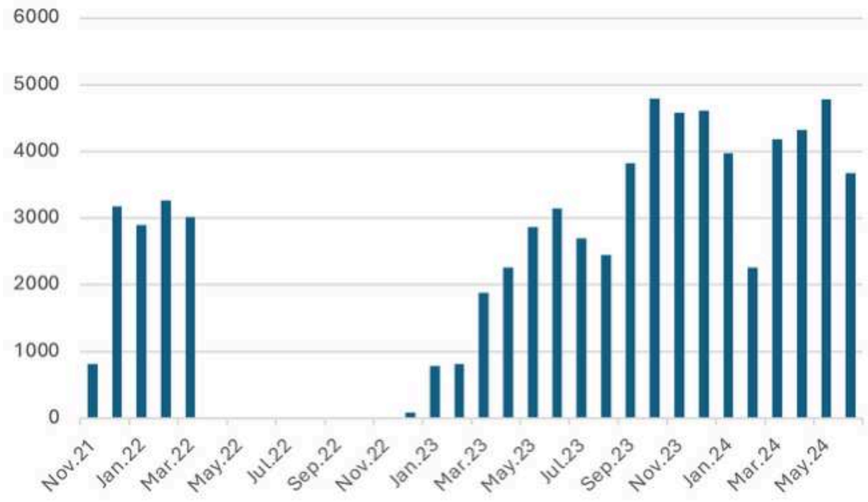
LAND AUCTION VOLUMES INCREASED BUT DID NOT EXCEED LAST YEAR'S PERFORMANCE

Since October 2021, municipal land has been leased through electronic auctions on the Prozorro.Sale platform. Since then, 8334 municipal agricultural land plots with a total area of 71.2 thousand hectares have been successfully leased, bringing UAH 623.5 million in revenue to communities annually. Over the entire period of land auctions held on the Prozorro.Sale platform, the weighted average lease price is UAH 8.8 thousand per hectare, with a weighted average starting price of UAH 2.4 thousand per hectare. Thus, land auctions on the Prozorro.Sale platform provide an effective and transparent mechanism for leasing communal land.

In Q1 2024, the volume of auctions for municipal land lease rights was significantly lower than in Q4 2023. Thus, in Q1 2024, 1309 successful auctions were held with a total area of 10.6 thousand hectares. In Q2 2024, the volume of land auctions partially recovered and amounted to 1599 successful bids for lease of municipal land with a total area of 12.8 thousand hectares. Thus, compared to the Q1 of 2024, the volume of auctions in Q2 increased by 24% by number of plots and by 23% by the total area of leased municipal plots. At the same time, the figures for the Q2 of 2024 were 2% lower than the figures for the Q4 of 2023 by number of leased plots and 9% lower by the total area of leased municipal plots.

In June 2024, 434 land plots with a total area of 3.7 thousand hectares were successfully leased, compared to 603 plots in May with a total area of 4.8 thousand hectares and 562 plots in April with a total area of 4.3 thousand hectares.

Fig. 12. Dynamics of sales of lease rights at land auctions, ha.



* According to Prozorro.Sale data for the period from November 2021 to June 2024

Despite the decline in volumes, the weighted average prices for land lease at land auctions remain stable. Thus, in Q1 2024, the weighted average annual lease price was UAH 8.5 thousand per hectare, and in Q2 2024 - UAH 8.4 thousand per hectare. In June 2024, the weighted average price of agricultural land reached UAH 8.7 thousand per hectare. In general, after a significant decline in lease prices at land auctions as a result of the full-scale invasion, there has been no recovery in lease prices at auctions.

The weighted average cost of land purchase and sale in Q2 2024 is approximately equal to the cost of 5 years of land lease through electronic auctions. Such a small gap between purchase and lease prices indicates that official purchase and sale prices may be understated and do not reflect the real market value of land plots.

2. ANALYSIS OF THE LEASE MARKET FOR AGRICULTURAL LAND

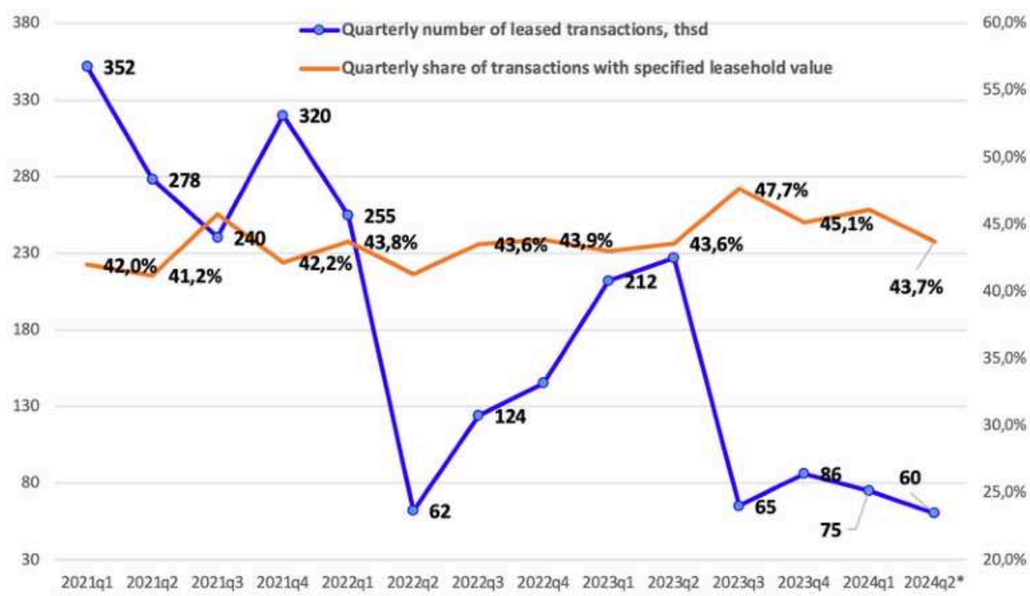
Unlike the market for the purchase and sale of agricultural land under moratorium, which has been operating since July 2021, the market for leasing of land plots has been operating for many years. In this analytical review, we have analysed data on lease transactions from January 2021 to May 2024.

During this period, 2,613,643 transactions covering 6,205,210 ha were concluded, of which 43.4% of transactions (1,143,175 transactions covering 2,778,526 ha) the price of leasing a plot was specified.

VOLUMES OF THE MARKET FOR LEASING OF LAND

The full-scale invasion of russia has negatively affected the farmland leasing market. Thus, the lowest number of land lease transactions was observed in the second quarter of 2022. During this period, 62 thousand agreements covering a total area of 128.5 thousand hectares were concluded, which is almost 2.8 times less than the average number of quarterly registrations of lease agreements by the number of transactions (175.6 thousand) and 3.24 times less by the area (417.4 thousand hectares). The largest number of quarterly registrations of land lease transactions occurred in 2021.

Fig. 13. Dynamics of farmland lease transactions by quarters, 2021-2024.

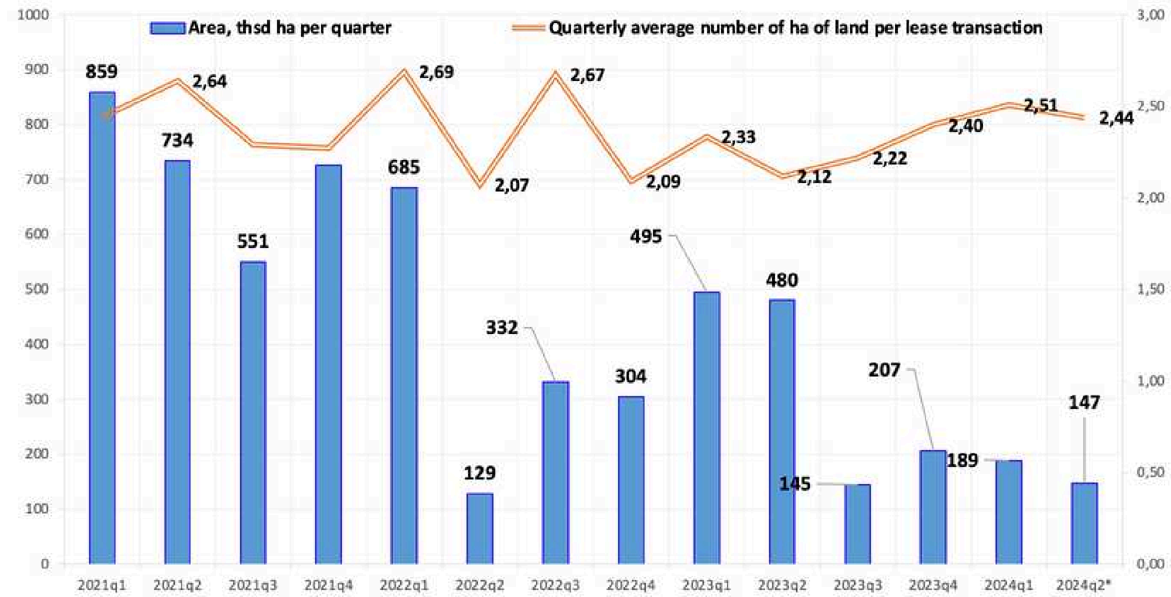


* The number of transactions in Q2 2024 was calculated as the sum of two months - April and May, as data for June was not yet available.

Thus, in Q2 2022, the area of leased land decreased by almost 82.5% compared to Q2 2021. Only in the first 2 quarters of 2023, the volume of leased land increased significantly, although it was still 34.6% lower than in the corresponding quarters of 2021.

According to the analysed data, the average quarterly area of leased farmland was 2.35 hectares. At the same time, the average size of the leased land plot since Q4 2023 has returned to the pre-war levels of 2.44-2.51 ha.

Fig. 14. Dynamics of farmland lease by quarters, 2021-2024.



* The volume of farmland leases in Q2 2024 was calculated as the sum of two months - April and May, as data for June was not yet available.

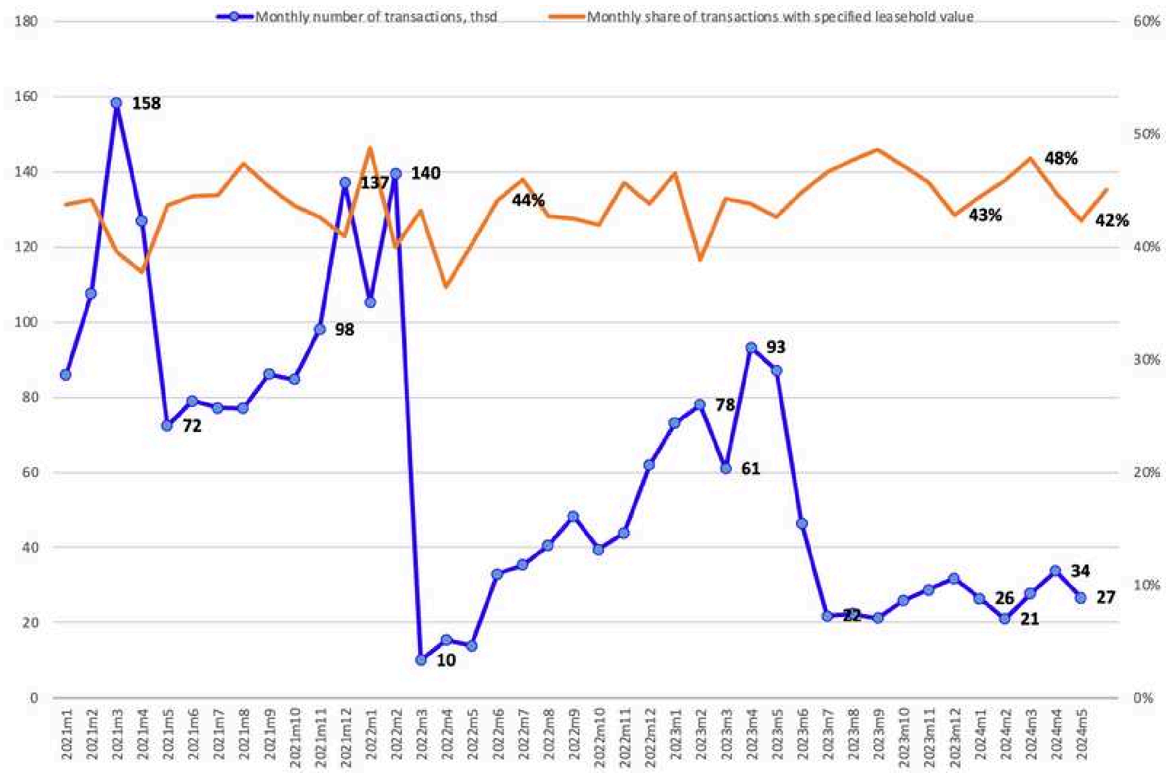
The volume of farmland leases in Q2 2024 was calculated as the sum of two months - April and May, as data for June was not yet available.

On a monthly basis, the situation remains almost the same as in the quarterly breakdown.

Starting from July to October 2023, lease agreements for less than 22 thousand land plots with a total area of 144.9 thousand hectares were registered monthly. In 2024, the situation improved somewhat: the monthly number of registrations of farmland lease rights ranged from 20.9 thousand to 33.8 thousand land plots with an area of 55.95 thousand hectares to 82.75 thousand hectares.

The lowest rate of registration of the value of the lease right was observed in the second and third months after the start of the full-scale invasion - 58.9% and 51.1%, respectively

Fig. 15. Dynamics of farmland lease transactions by months, 2021-2024.



* The number of transactions in Q2 2024 was calculated as the sum of two months - April and May, as the data for June was not yet available.

GEOGRAPHICAL DISTRIBUTION OF THE AGRICULTURAL LAND LEASING MARKET

The top three regions with the highest number of lease transactions from January 2021 to the end of May 2024 were Lviv, Chernihiv and Sumy regions. The least number of transactions was carried out in Zakarpattia, Donetsk and Luhansk regions (since the beginning of 2023, no lease agreements have been concluded in Luhansk region, as this region is almost completely occupied by russia).

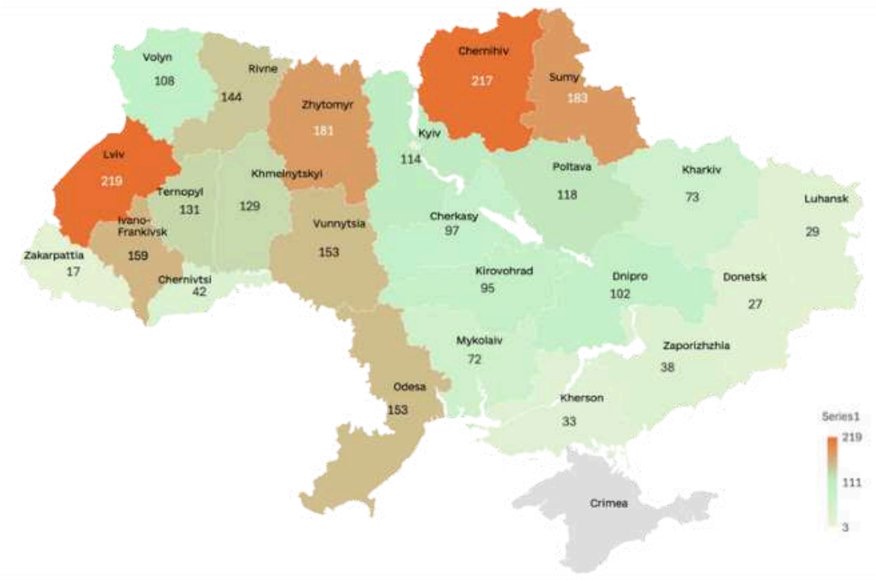


Рис. 16. Number of transactions of farmland lease in the regions, from January 2021 to May 2024.

At the same time, the leading regions in the share of transactions with the specified rental value are Zakarpattia region (82.1%), Kyiv city (81.3%) and Luhansk region (67.3%).

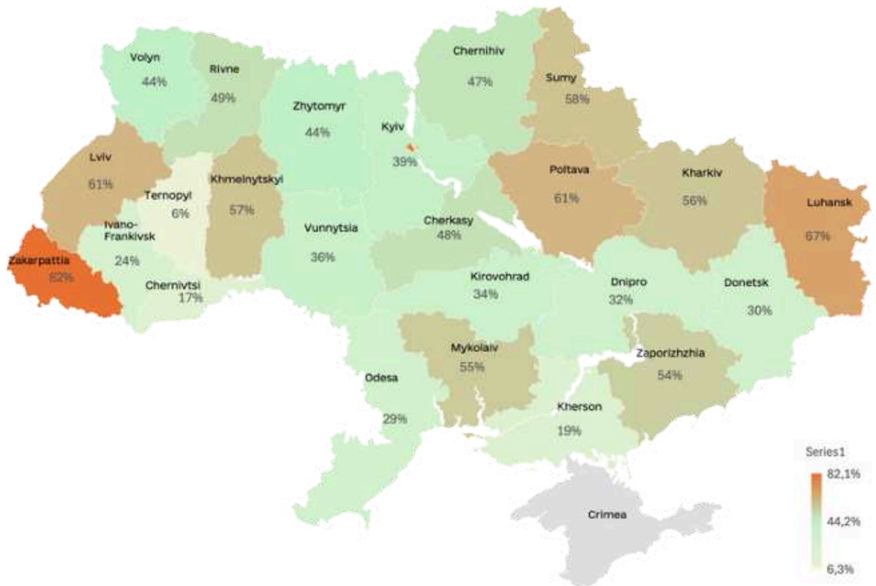
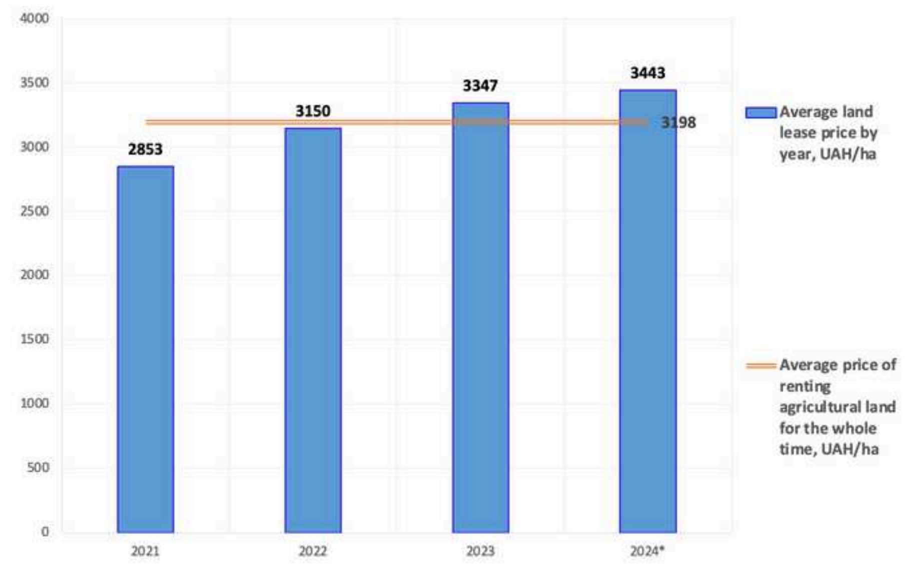


Fig. 17. Share of transactions with specified value of the leased land plot by region, from January 2021 to May 2024.

ANALYSIS OF PRICES ON THE LEASE MARKET OF AGRICULTURAL LAND

Over almost three and a half years of observations, the average annual price of 1 hectare of farmland lease amounted to UAH 3198/ha. (Fig.6)

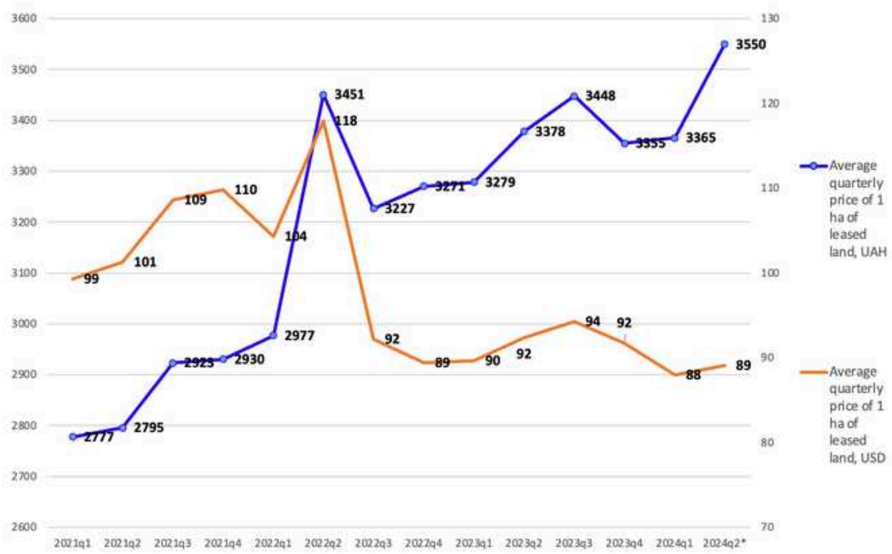
Fig. 18. Dynamics of average annual prices on land lease, UAH/ha.



The average price of a hectare of farmland in Q2 2024 amounted to UAH 3,550, which is 5.1% more than in the same period of 2023 and 5.4% more than in Q1 2024.

In general, the average price per 1 hectare of farmland is growing annually in national currency, which is not the case with the value of land in US dollars. Thus, starting from the 3Q of 2022, due to the growth of the official dollar exchange rate[1] from UAH 29.25/USD in the 2Q of 2022 to UAH 35/USD, respectively, the average quarterly lease price per hectare in dollars has been steadily decreasing. As of the Q2 of 2024, the weighted average price per 1 hectare of farmland is 88-89 USD.

Fig. 19. Dynamics of average quarterly prices of agricultural land lease UAH/ha and $/ha.



* To calculate the average price for the relevant periods (year, quarter, month), all prices for land lease below the 5th percentile and above the 95th percentile were excluded.

On a monthly basis, during the full-scale invasion, the lowest price per 1 hectare of farmland was in January 2023 and reached UAH 3078/ha. In 2024, the lease price reached its maximum value of almost 3725 UAH/ha in May 2024.

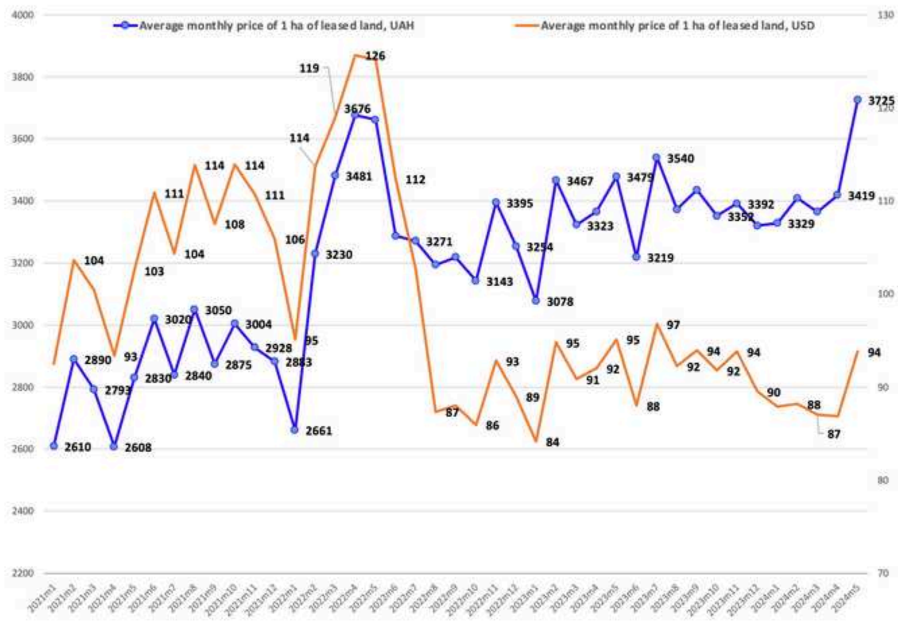


Fig. 20. Dynamics of average monthly prices of agricultural land lease UAH/ha and $/ha for the period from January 2021 to May 2022.

PRICES FOR LAND LEASE BY REGION

In terms of regions, the highest average prices for leasing of a hectare of land, excluding Kyiv, were recorded in Cherkasy (4315 UAH/ha), Kyiv (4311 UAH/ha) and Poltava (4174 UAH/ha) regions, and the lowest in Luhansk, Mykolaiv, Kherson and Zaporizhzhia regions.

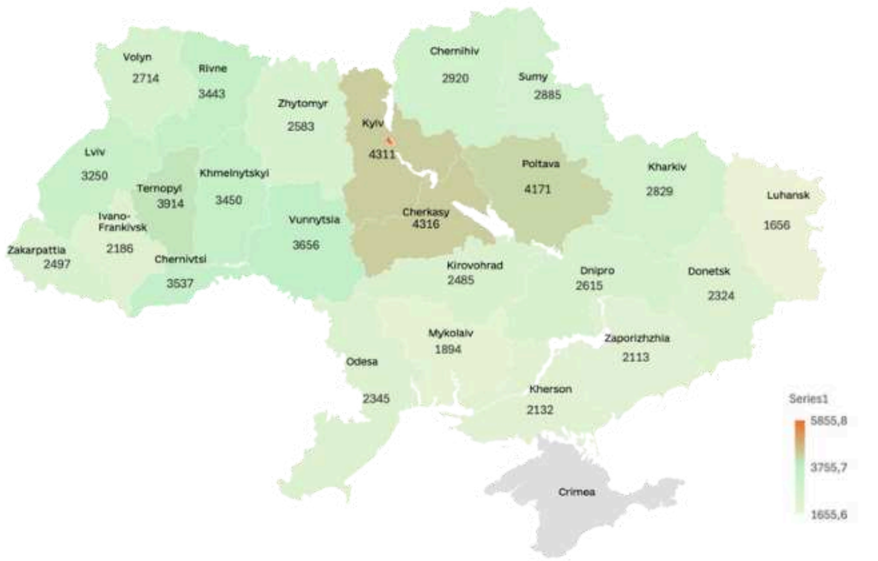


Fig. 21. Average price of agricultural land lease for the period from January 2021 to May 2024.

3. PORTRAIT OF LEGAL ENTITIES PURCHASING AGRICULTURAL LAND

Fields of activity

According to the analysis of agricultural land purchase and sale transactions involving legal entities, most of the transactions were concluded by legal entities whose main activity is directly related to agriculture (NACE 01.XX). Transactions concluded by such legal entities made up 83.5% of the total number of transactions involving legal entities, or 85.4% of the total area of agricultural land acquired by legal entities in the first five months of 2024 (14.5 thousand hectares out of 17.0 thousand hectares of land acquired by legal entities). Among them, 93.2% of transactions were concluded by companies whose main activity is the growing of cereals (except rice), leguminous crops and oilseeds.

In addition, a significant share of transactions involving legal entities (7.71%), albeit much smaller, was concluded by legal entities whose main activity is leasing, management and sale of movable and immovable property (NACE 68.20, 68.10 and 68.32). Such transactions accounted for 7.76% of the total area of agricultural land sold to legal entities in the period under review (1.3 thousand hectares).

Table 1. Top 10 fields of activity (NACE) of legal entities purchasing agricultural land

NACE	Share of transactions	Share of area
01.11 Growing of cereals (except rice), leguminous crops and oilseeds	**77.80%**	**80.29%**
68.20 Renting and operating own or leased real estate	**6.89%**	**7.08%**
01.50 Mixing farming	**1.41%**	**3.26%**
64.30 Trusts, funds and similar financial entities	**1.46%**	**1.25%**
46.21 Wholesale of grain, unmanufactured tobacco, seeds and animal feeds	**0.66%**	**1.12%**
01.41 Raising of dairy cattle	**2.67%**	**1.04%**
52.10 Warehousing and storage	**0.58%**	**0.67%**
70.10 Activities of head offices	**0.51%**	**0.67%**
68.10 Buying and selling of own real estate	**0.60%**	**0.46%**
10.91 Manufacture of prepared feeds for farm animals	**0.63%**	**0.39%**

AGROHOLDINGS[1]

Among the land acquired by legal entities, 38% (34% of the total area) of transactions were concluded by legal entities that are part of agricultural holdings. We define agricultural holdings as agricultural producers linked by holding relationships and having a land bank of more than 11 thousand hectares. However, the average size of the land plots they acquired is smaller (2.61 hectares) than that of legal entities that do not belong to holdings (3.05 hectares). Thus, legal entities belonging to agroholdings purchased 34% of the total area sold, or 5.8 thousand hectares, during the first five months after the land market was opened for legal entities.

Of these, 4.0 thousand hectares were acquired by agroholdings with a total land bank of more than 50 thousand hectares. At the same time, only 17.7 hectares of agricultural land were purchased by the largest holdings with a land bank of more than 100 thousand hectares.

PLACE OF REGISTRATION

Among the agricultural lands acquired by legal entities, almost a quarter (23.4%) of transactions were concluded by legal entities registered in Kyiv region or Kyiv city. Also, a significant part of transactions was concluded with legal entities from Poltava (18.3%), Sumy (12.0%), and Volyn (9.6%) regions. Companies mostly bought land plots located in the region of their registration - the share of such transactions amounted to 76.1%.

Table 2. Distribution of legal entities purchasing agricultural land by place of registration

Region	Share of transactions	Share of area
Kyiv region	**23.39%**	**21.45%**
Poltava region	**18.34%**	**24.03%**
Sumy region	**12.03%**	**6.75%**
Volyn region	**9.59%**	**5.60%**
Dnipro region	**5.10%**	**10.66%**
L’viv region	**4.15%**	**2.15%**
Kharkiv region	**3.49%**	**5.02%**
Ternopil region	**3.32%**	**2.20%**
Khmelnitsky region	**3.13%**	**2.36%**
Zhytomyr region	**3.01%**	**2.52%**

[1] The list of legal entities belonging to agricultural holdings was obtained from the Tripoli portal (https://tripoli.land/ua/agrokholdingi-ukrainy)

Region	Share of transactions	Share of area
Chernihiv region	**2.82%**	**2.31%**
Kirovohrad region	**2.62%**	**4.88%**
Vinnytsia region	**2.26%**	**2.50%**
Ivano-Frankivsk region	**2.04%**	**0.85%**
Mykolaiv region	**1.11%**	**1.51%**
Cherkasy region	**1.11%**	**1.39%**
Odesa region	**1.11%**	**1.15%**
Rivne region	**0.77%**	**0.35%**
Zakarpattia region	**0.37%**	**0.53%**
Chernivtsi region	**0.10%**	**0.31%**
Zaporizhzhia region	**0.07%**	**1.38%**
Donetsk region	**0.05%**	**0.07%**
Kherson region	**0.03%**	**0.05%**

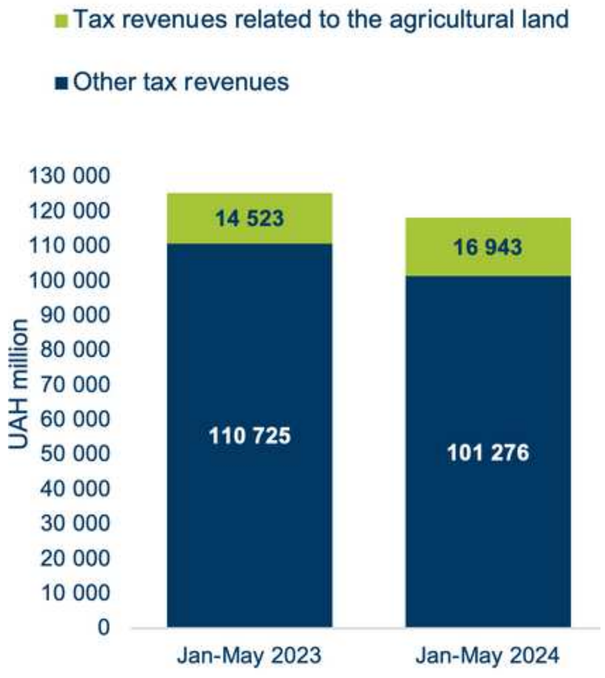
4. REVENUES TO COMMUNITY BUDGETS AS A RESULT OF LAND MARKET FUNCTIONING

The turnover and use of agricultural land yields significant revenues for territorial communities. Thus, the following tax revenues related to agricultural land are paid to community budgets:

- rent for the use of communal land;
- land tax;
- Single tax on agricultural producers;
- Personal income tax (PIT) received from the lease or sale of land plots;
- in some cases, the minimum tax liability (MTL).

According to the latest budget data from the official web portal of the Ministry of Finance of Ukraine OpenBudget, in January-May 2024, due to the turnover and use of agricultural land, community budgets received more than UAH 16.9 billion. These revenues exceeded the figure for the same period in 2023 by 17%. This growth is extremely important in the context of a decline in other community tax revenues - by 6% in the first five months of 2024 compared to the same period in 2023. These opposite trends are explained by the activity at competitive online auctions for the lease of communal land and the indexation of NGOs on the one hand, and the redirection of personal income tax paid by the military to the state budget in full on the other. Thus, compared to 2023, agricultural land has become a more significant source of funding for public expenditures of communities. While in January-May 2023, tax revenues from agricultural land accounted for 11.6% of all tax revenues, in the same period in 2024, it was 14.3%.

Fig 22. Tax revenues of communities, UAH mln.

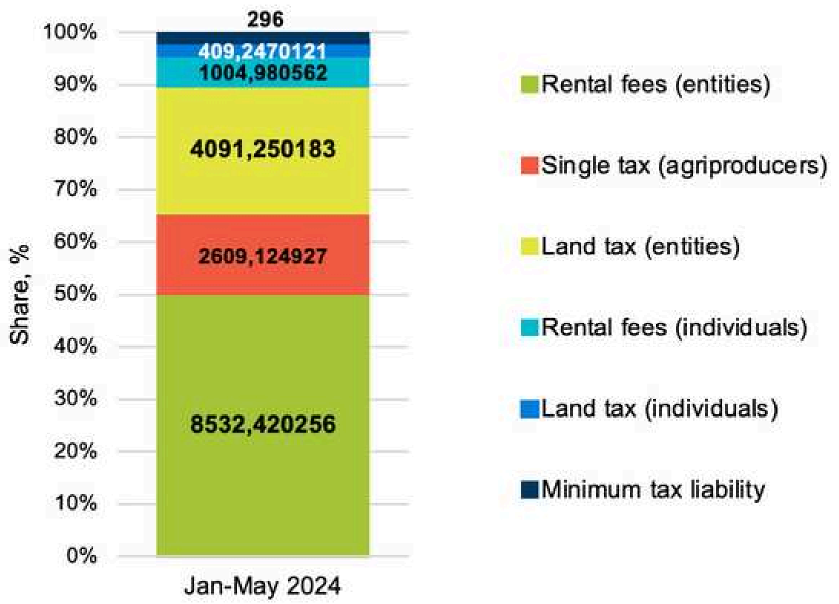


* Own calculations based on OpenBudget data of the Ministry of Finance of Ukraine

The lease of communal agricultural land remains a key factor in filling community budgets in the land market. Between January and May 2024, communities received UAH 9.5 billion from the lease of communal land, which is 23% more than in 2023. The conclusion of transactions at electronic land auctions on the ProZorro.Sale platform and the indexation of NGOs explain the positive trend in rental payments. Legal entities, mostly agricultural enterprises, are the main tenants of communal land, paying about 90% of all rent to communities (UAH 8.5 billion).

Fig 23. Community budget revenues related to agricultural land, UAH million.

* Own calculations based on OpenBudget data of the Ministry of Finance of Ukraine



Between January and May 2024, community revenues from land tax payments by individuals and legal entities reached UAH 4.5 billion. The growth of these revenues is somewhat slower compared to rent - by 10% year-on-year.

In January-May 2024, agricultural producers operating under the simplified taxation system paid UAH 2.6 billion in single tax to community budgets. Revenues from this category of budget revenues decreased by more than 2% compared to the same period in 2023. The personal income tax in the form of the minimum tax liability (MTL), which started in April 2023, brought an additional UAH 0.3 billion to communities. Despite the gradual increase in revenues from the payment of the MIT, this tax has not yet become a significant source of budget revenues, bringing communities less than 2% of budget revenues related to agricultural land and only 0.25% of all community tax revenues

Fig 24. Community budget revenues related to agricultural land, UAH million.

* Own calculations based on OpenBudget data of the Ministry of Finance of Ukraine

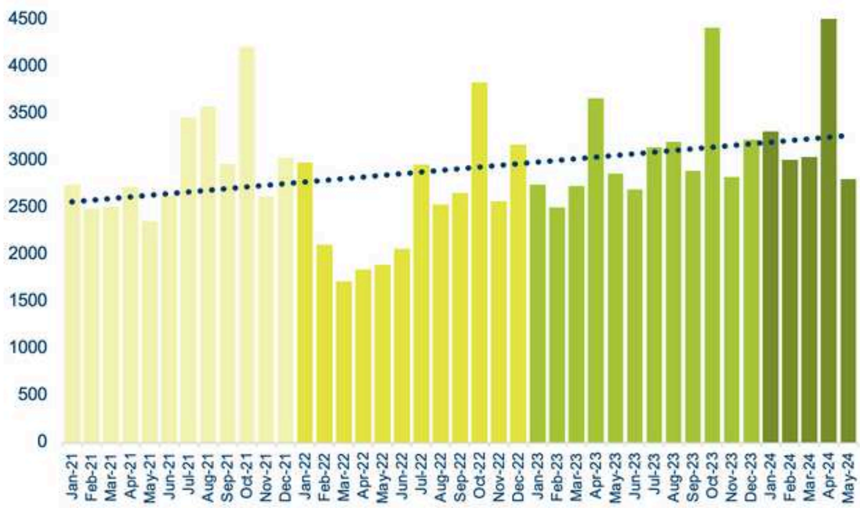
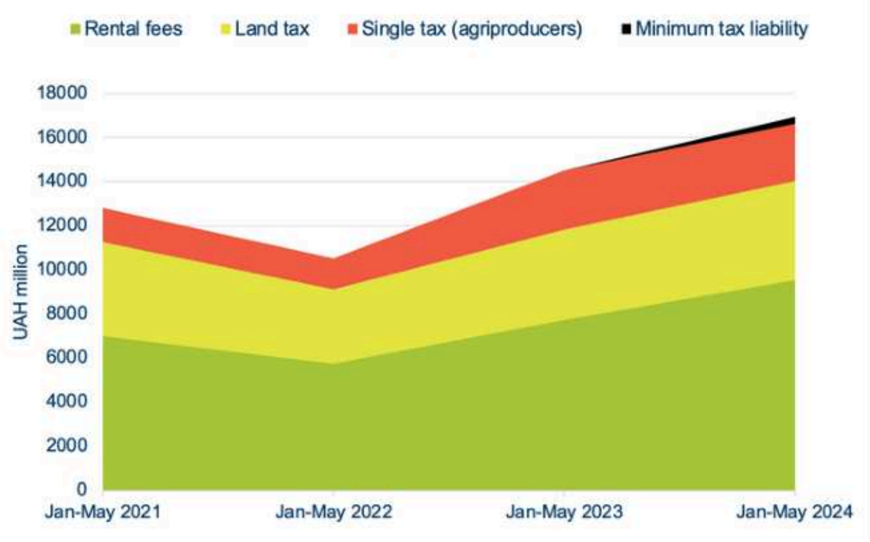


Fig 25. Dynamics of community budget revenues related to agricultural land, UAH million.

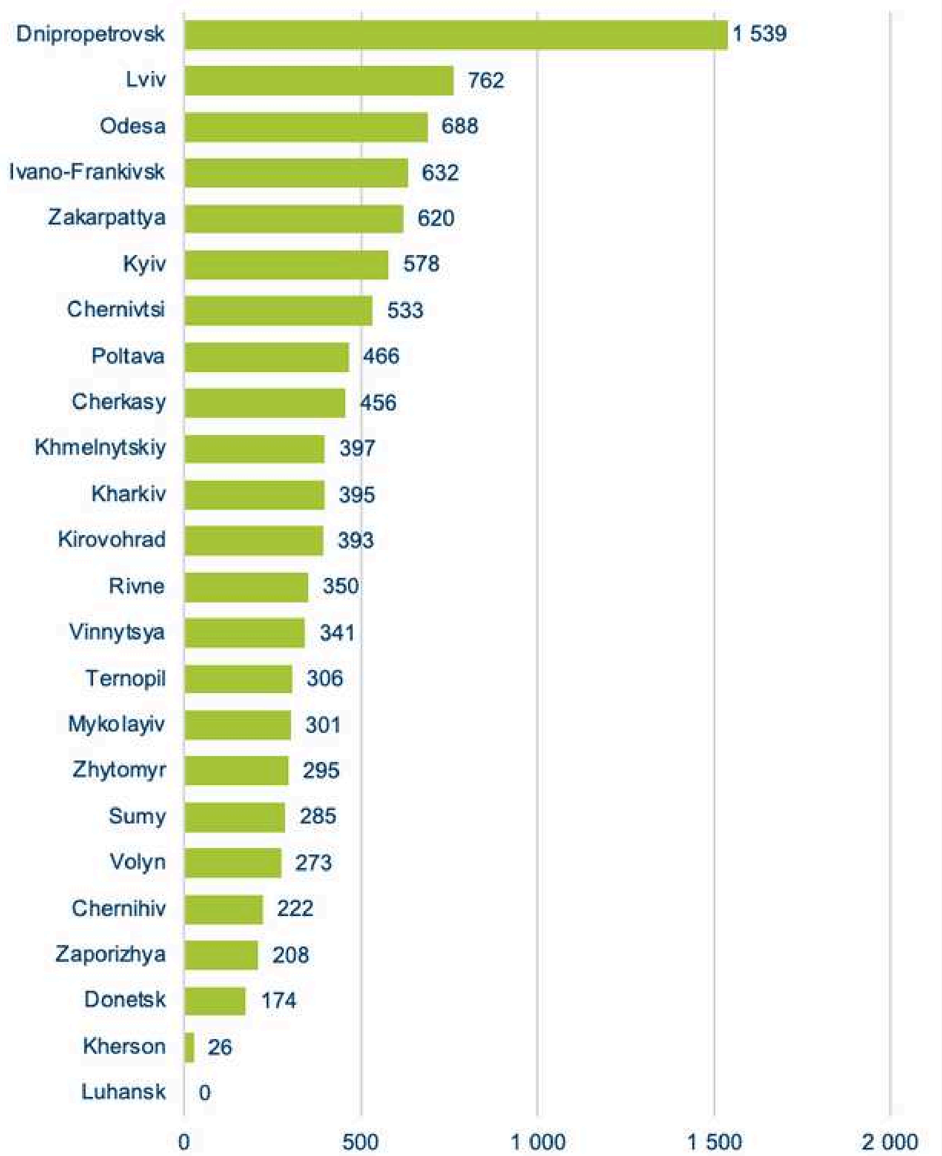


* Own calculations based on OpenBudget data of the Ministry of Finance of Ukraine

Among the regions, in January-May 2024, the largest revenues to community budgets related to agricultural land came from Dnipro (UAH 3.9 billion), Odesa (UAH 1.8 billion), and Poltava (UAH 1 billion) regions. The recovery of such revenues in Kharkiv and Mykolaiv regions is important - 28% and 31% annual growth, respectively. These regions are close to the front line, and thus are subject to active shelling and offensive actions by Russia. Land-related revenues are extremely low among the communities in the regions where a significant part of the territory is under temporary occupation by the russian federation. In January-May 2024, the budgets of the communities of Luhansk region received UAH 0.7 million, and Kherson region - UAH 52 million.

In terms of relative budget revenues related to the turnover and use of agricultural land, in terms of the area of such land, the leader in the first five months of 2024 is still Dnipro region - UAH 1,539 per hectare. This is three and a half times higher than the national average of UAH 429 per hectare. The communities of Lviv (UAH 762 per hectare), Odesa (UAH 688 per hectare), Ivano-Frankivsk (UAH 632 per hectare) and Zakarpattia (UAH 620 per hectare) regions also receive significant relative revenues.

Fig 26. Tax revenues of communities related to agricultural land, per agricultural land area, in January-May 2024, UAH/ha.



* Own calculations based on OpenBudget data of the Ministry of Finance of Ukraine) and the State Statistics Service

5. WAYS TO IMPROVE THE LAND LEGISLATION OF UKRAINE

In Q2 2024, there were certain changes in the legislation governing land relations.

In particular, there have already been some progress in the transformation of the right to permanent land use. A resolution was adopted that defines the list of state-owned agricultural land plots that are withdrawn from the permanent use of state-owned enterprises and institutions and transferred for permanent use without changing the intended purpose to the operator of the Land Bank - the State Enterprise Agrarian Investment Fund.

In order to fully reorganize state-owned agricultural enterprises that own land plots on the right of permanent use, it is necessary to reorganize them into state-owned LLCs and transfer such land to them for lease, followed by subleasing such land to private and other agricultural enterprises. The launch of auctions for the sale of sublease rights to state-owned land is scheduled for August 2024, with the transfer of land to be completed by October 2024. It is expected that land auctions for certain land plots will be held daily. Plots with existing crops will be put up for auction after the harvest.

In other areas of land legislation improvement, work continues on the preparation of draft regulations.

Particular attention should be paid to reforming the mechanism of free land privatization, which contributes to their economically inefficient use and corruption risks. The introduction of transparent mechanisms will create a level playing field for all market participants and provide more revenues to local budgets through lease auctions.

In addition, work is underway to implement a pilot project on mass land valuation based on actual prices of land plots, real estate, and other indicators. This will ensure an objective determination of taxes and rental rates, as well as help resolve land disputes. The introduction of public access to information on land resources and assessment results will increase market transparency.

As part of the obligations to harmonize legislation with EU requirements and with a view to further European integration, amendments to the land legislation of Ukraine are being developed to include information on land for organic production and forest plots in the State Land Cadastre; to ensure transparency and fairness of the procedure for compulsory alienation of land, especially for defense purposes; land relations in the areas of urban planning and energy; allowing local authorities to determine zones for alternative energy facilities through urban planning documentation, thus promoting the development of green energy.

An important aspect of reforming land relations and developing horticulture is to authorize the sale of state and communal land under perennial plantations.

Implementation of these measures will help create an efficient, transparent and balanced land market in Ukraine, which will ensure the protection of citizens' rights, promote food security, economic growth and sustainable use of natural resources.

CONTACTS

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https://t.me/kseagrocenter

Contacts:
Center for Food and Land
Use Research (KSE Agrocenter)
agrifood@kse.org.ua

agrifood@kse.org.ua