The Invincible LAND

Land Market Review Ukraine

August 2024

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KSE Center for Food and Land Use Research

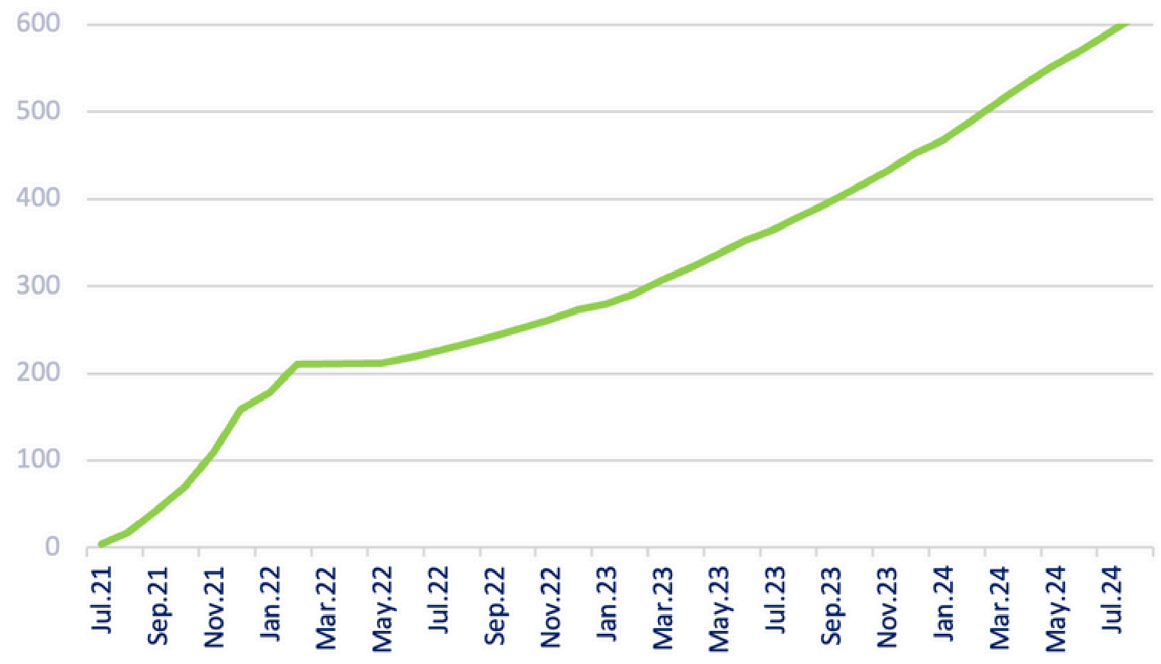
KEY INDICATORS OF THE AGRICULTURAL LAND MARKET IN UKRAINE	
Total land registered in the state land cadastre	**44.9 mln ha (74.4%)**
Agricultural land registered in the state land cadastre	**33.0 mln ha (77.2%)**
Average normative monetary value of arable land	**28 924 UAH/ha**
Weighted average rent for municipally owned agricultural land plots (at land auctions) *	**8 559 UAH/ha**
Weighted average sale and purchase price of agricultural land **	**44 893 UAH/ha**
Loan secured by agricultural land with an area of***	**15 460 ha**
Average number of sale and purchase transactions per day in August 2024	**302**
Average size of plot in a sale and purchase transaction	**2.24 ha**
Number of purchase and sale transactions, total	**273 164**
Area of registered sale and purchase transactions, total	**611 832 ha**

* According to Prozorro.Sale, from 01.01.2024 to 01.09.2024, larger plots are given more weight in the calculation of the average price per hectare.
** area-weighted average price for the period from 01.01.2024 to 01.09.2024, larger plots are given more weight in the calculation of the average price per hectare, 1% of the most expensive and 1% of the cheapest plots are not taken into account in the calculation.
*** From 01.01.2022 to 31.12.2023

LAND MARKET IN AUGUST 2024

After a decline in May-June 2024, the land market grew for the second month in a row. In August 2024, its volume reached 9.3 thousand purchase and sale transactions involving plots with a total area of more than 20.4 thousand hectares. This is 4.9% more than in July in terms of the number of transactions and 4.2% more in terms of the area of land put into turnover. Compared to June of this year, the market grew by 17.1% in terms of the number of transactions and by 9.7% in terms of the area of land involved. At the same time, the market volume is still lower than in April 2024, which saw the highest volume of transactions since the full invasion. Compared to the monthly average in 2023, the market volume in August 2024 was 34% higher in terms of the number of transactions and 37% higher in terms of the area of land put into turnover.

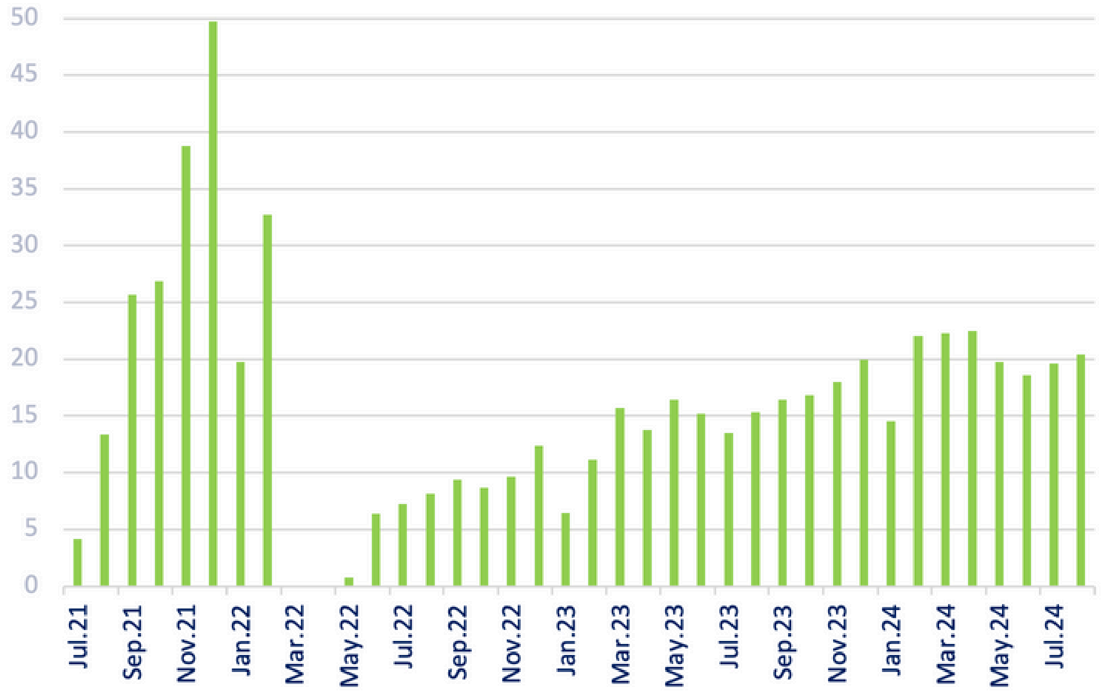
Fig. 1. Dynamics of the volume of purchase and sale transactions (cumulative), thousand ha.



* According to the StateGeoCadastre for the period from 01.07.2021 to 31.08.2024

Since its opening in July, the total volume of the land market has reached 273.1 thousand transactions involving 611.8 thousand hectares. Thus, by the end of May this year, 1.48% of the total area of all agricultural land in Ukraine was in turnover, or 1.8% if we count only those regions where the land market is not complicated by hostilities or occupation.

Fig. 2. Dynamics of the volume of sale and purchase transactions (monthly), thousand ha.

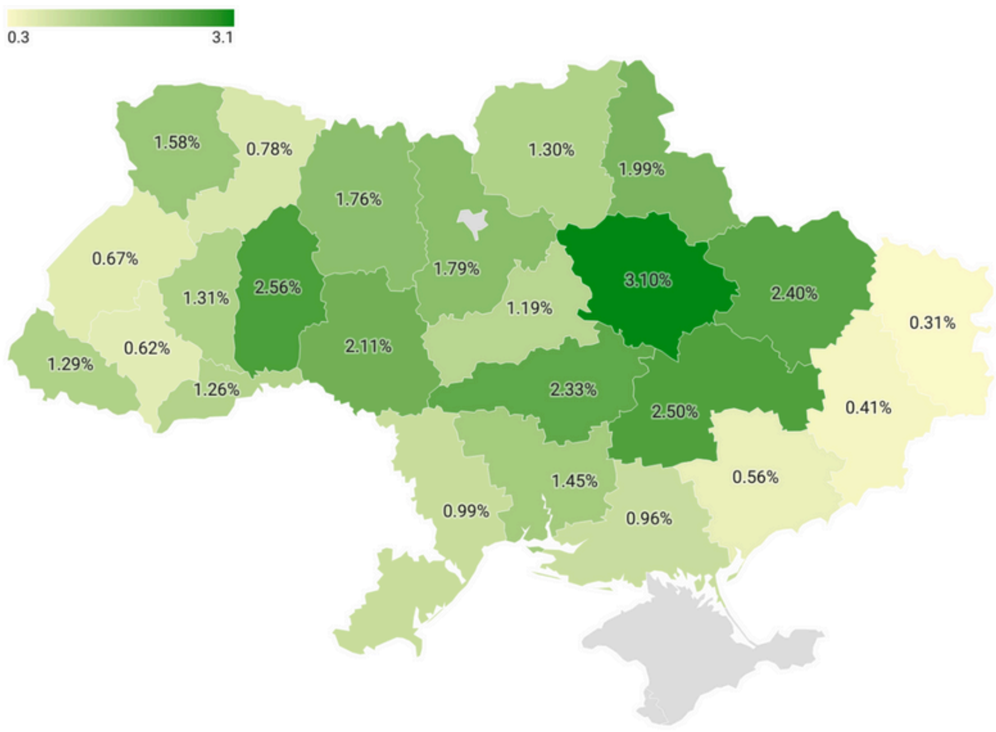


* According to the StateGeoCadastre for the period from 01.07.2021 to 31.08.2024

If we extrapolate the results of the first 8 months of 2024 to the whole year, this year 0.58% of all agricultural land in Ukraine will be in turnover, or 0.76% excluding the areas where the full functioning of the market is hampered by hostilities and occupation. Thus, the agricultural land market in Ukraine is close to the indicators of countries with established land markets, where at least 1% of agricultural land comes into turnover annually, and still has some potential for growth.

Over the entire period of time since the agricultural land market has been established in Ukraine, the share of land in turnover in Kharkiv, Dnipro, Khmelnytskyi and Poltava regions has exceeded 2.4%. The most liquid region of Ukraine is Poltava region, where, despite the full-scale invasion, the share of agricultural land in turnover has reached 3.1% since the market opened.

Fig. 3. Share of land in turnover of the total area of agricultural land in the region



* According to the StateGeoCadastre for the period from 01.07.2021 to 31.08.2024

AGRICULTURAL LAND PRICES SLOWLY FALLING

In August 2024, the purchase and sale prices of agricultural land showed a moderate decrease compared to the previous month. The weighted average price of all types of agricultural land in August was 2% lower than in July and amounted to UAH 45.0 thousand per hectare, while the price of land with the designated purpose 'for commercial agricultural production' (so-called commodity land) was 1% lower than in July and amounted to UAH 46.5 thousand per hectare. It is worth noting that the sale price of agricultural land in July was a record high (in national currency, not adjusted for inflation) for the entire period of the land market's existence, so the basis for comparison was high. At the same time, prices in August 2024 were 21.3% higher than on the eve of the opening of the agricultural land market for legal entities in December 2023.

Fig. 4. Dynamics of weighted average prices, thsd. UAH/ha

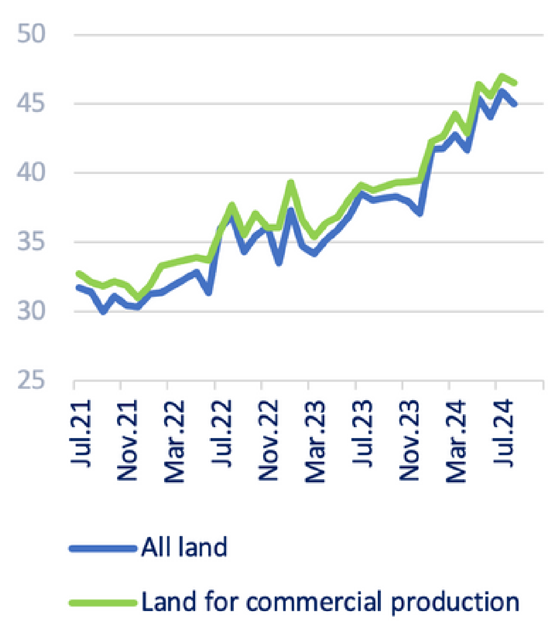
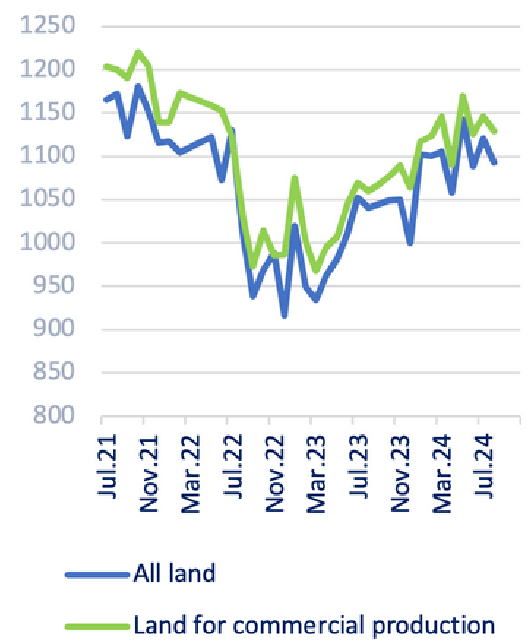


Fig. 5. Dynamics of weighted average prices, $/ha

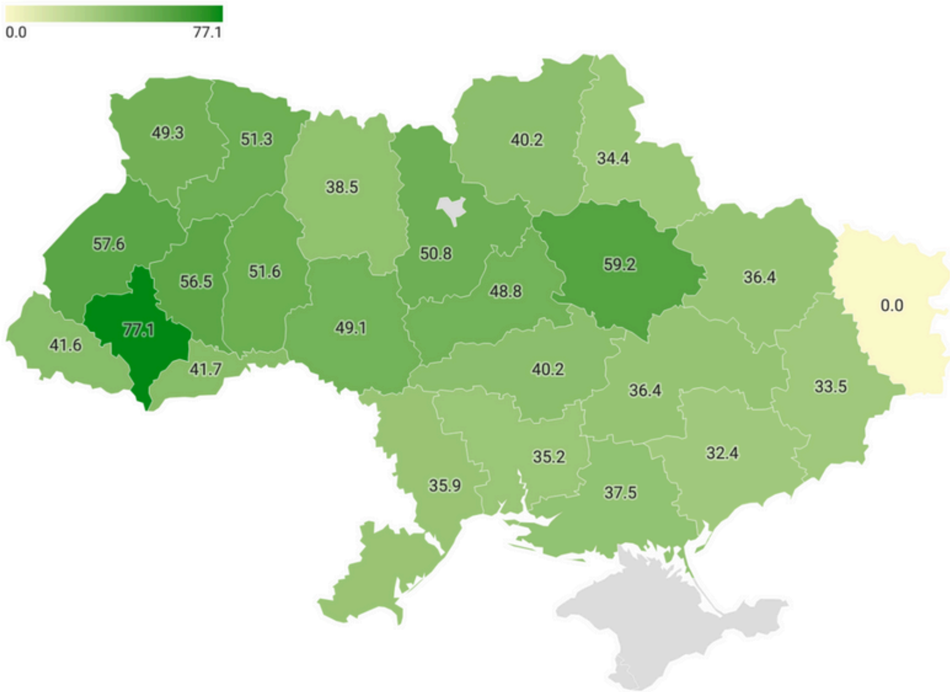


* According to the StateGeoCadastre for the period from 01.07.2021 to 31.08.2024

It should be noted that these prices are based on official data registered in sales transactions. At the same time, market prices for land may be significantly higher, as most transactions are registered at a price that does not differ by more than 2% from the Normative Monetary Value (NMV), the minimum price set by law for former moratorium land.

Since the share of transactions concluded at a price equal to the NMV is constant from month to month, the percentage change in the price of transactions reflects the percentage change in the market price of agricultural land. We observe that, despite slight price fluctuations between January 2024, when legal entities became full participants in the agricultural land market, and July 2024, land prices remained significantly higher compared to the same period in 2023. Thus, the opening of the market to legal entities led to structural changes in the land market and increased the value of land.

Fig. 6. Weighted average prices by region in 2024, thsd. UAH/ha



* According to the StateGeoCadastre for the period from 01.01.2024 to 31.08.2024

SHARE OF LEGAL ENTITIES IN THE LAND MARKET REMAINS STABLE

From 1 January 2024, legal entities have been granted the right to acquire ownership of formerly moratorium agricultural land, provided that they are established exclusively by Ukrainian citizens who have not been sanctioned. Since the beginning of this year, the limit for the acquisition of agricultural land by one person has also been raised to 10,000 hectares.

Since the opening of the land market for legal entities, 1,057 companies have exercised the right to purchase agricultural land, of which 358 companies purchased at least one plot in August 2024. This is in line with the previous month (when 366 legal entities purchased at least one land plot) and exceeds the figures of the previous months. Given that 23.5 thousand agricultural producers in Ukraine are engaged in the production of grains and legumes, and 18.5 thousand agricultural producers are engaged in the production of sunflower, the share of legal entities in the land market has significant potential for growth.

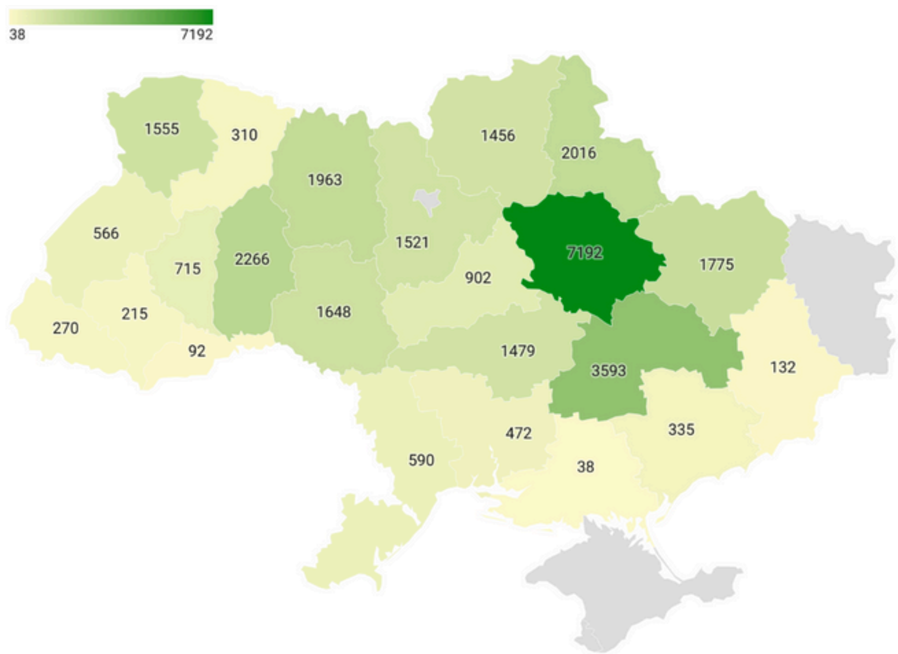
Since the beginning of 2024, legal entities have bought 10712 plots with a total area of 31.1 thousand hectares, of which 4.8 thousand hectares were bought in August 2024, which is the same as in July 2024. The share of legal entities on the land market in June-August 2024 was stable and amounted to 23.5-24.5%.

The vast majority of land acquired by legal entities is former moratorium land. Of the more than 10,700 plots acquired, 8,041 are 'commodity' plots and another 2,531 are plots designated for 'personal farming', most of which were also under moratorium. Thus, only 139 of the plots acquired by legal entities in August 2024 were not under moratorium.

The share of land acquired by legal entities in 2024 is unevenly distributed across the regions: 23% of the total area of such land is located in Poltava region. The leading regions also include Dnipropetrovsk (12% of the area of land acquired by legal entities) and Khmelnytskyi (7%) regions. Only in two regions of Ukraine – Luhansk region and the Autonomous Republic of Crimea, which are occupied by Russia – did legal entities not acquire any land.

A comparison of the median price increase for individuals and legal entities buying agricultural land reveals an interesting result. The median ratio of the price of transactions concluded by individuals in 2024 to the Normative Monetary Value, which is the minimum sale price for former moratorium land, is 1.01. This means that in 50% of transactions involving individuals, the sale price does not exceed the NMV by more than 1%. The same indicator for legal entities is 1.77, i.e. in 50% of cases of transactions concluded by legal entities, the transaction price exceeds the NMV by more than 77%. This discrepancy can be explained either by the fact that legal entities are willing to pay a much higher price for agricultural land, or by the fact that legal entities are more motivated to reflect the real price of transactions in official documents, instead of indicating the minimum allowable price and paying the difference in cash, as individuals often do. We will explore this issue in more detail through econometric analysis in the next quarterly Land Market Review, to be published in October this year.

Fig. 7. Area of agricultural land acquired by legal entities in 2024, ha

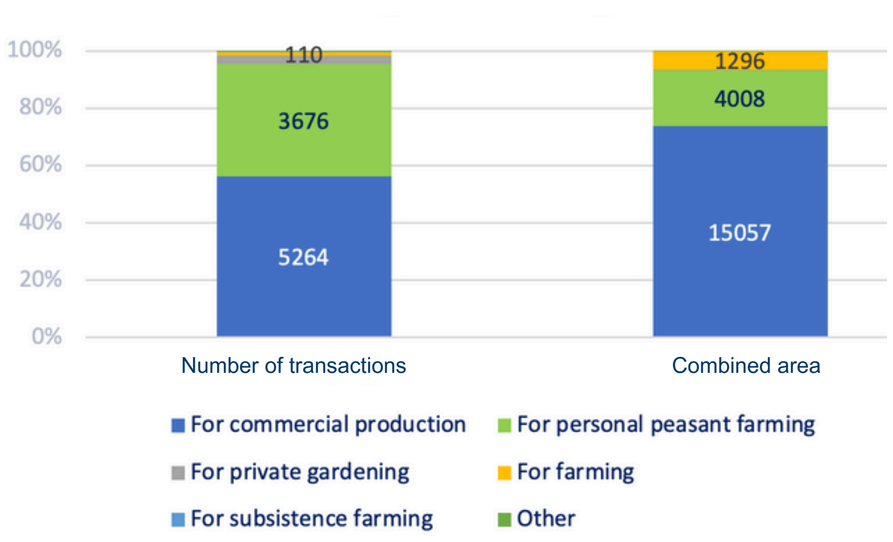


* According to the StateGeoCadastre for the period from 01.01.2024 to 31.08.2024

FORMER MORATORIUM LAND IS PREDOMINANTLY IN TURNOVER

As in the previous months, sale and purchase transactions in August 2024 were mainly made with so-called ‘commodity’ land (56%) and land for private farming (39%), a significant part of which was under a moratorium until July 2021. At the same time, due to the larger average area of land plots, commodity land prevails in terms of land in turnover (74% of all land in turnover in May 2024), while land plots for private farming account for only 20% of the total area of land for which sale and purchase agreements were concluded in August 2024. Another 6% of the land area in turnover was land for farming.

Fig. 8. Breakdown of sale and purchase transactions by land plot purpose in August 2024



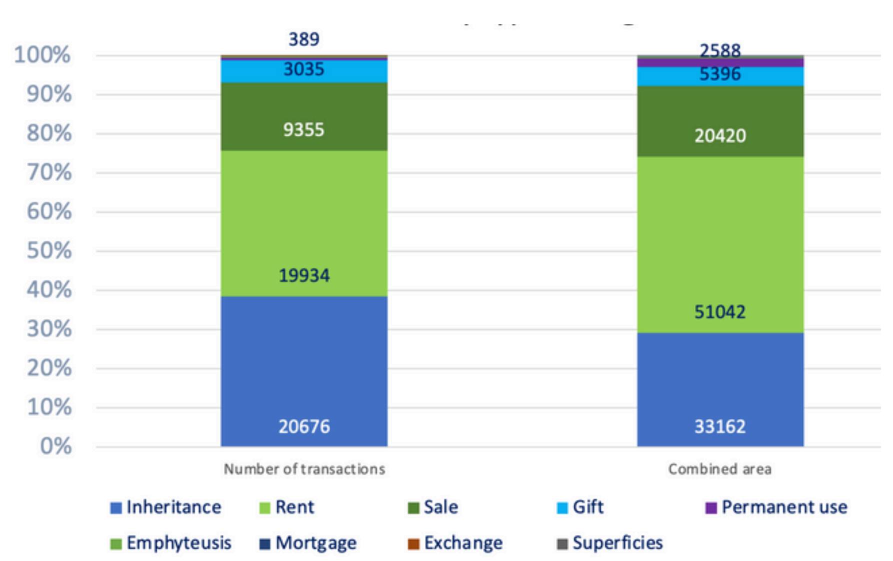
* According to the StateGeoCadastre for the period from 01.08.2024 to 31.08.2024

The number of agricultural land lease agreements concluded in August 2024 reached 20.0 thousand and exceeded the figures for July (17.5 thousand) and June (18 thousand) of 2024. At the same time, it remains significantly lower than the number of agricultural land lease agreements concluded in May (25 thousand) and April (32 thousand) of 2024. It is also 20% lower than the average monthly figures for the first and second quarters of this year, at 25 thousand leases per month.

Among the 53.6 thousand transactions concluded in August 2024 concerning agricultural land, inheritance (20.7 thousand), lease (20.0 thousand) and sale and purchase (9.3 thousand) prevailed.

The total area of concluded lease agreements amounted to 51.0 thousand hectares, while the total area of land sold was 2.5 times less – 20.4 thousand hectares. In addition, in August 2024, 56 cases of transfer of agricultural land plots into mortgage with a total area of 191 hectares were recorded.

Fig. 9. Land deals by type of transaction in August 2024

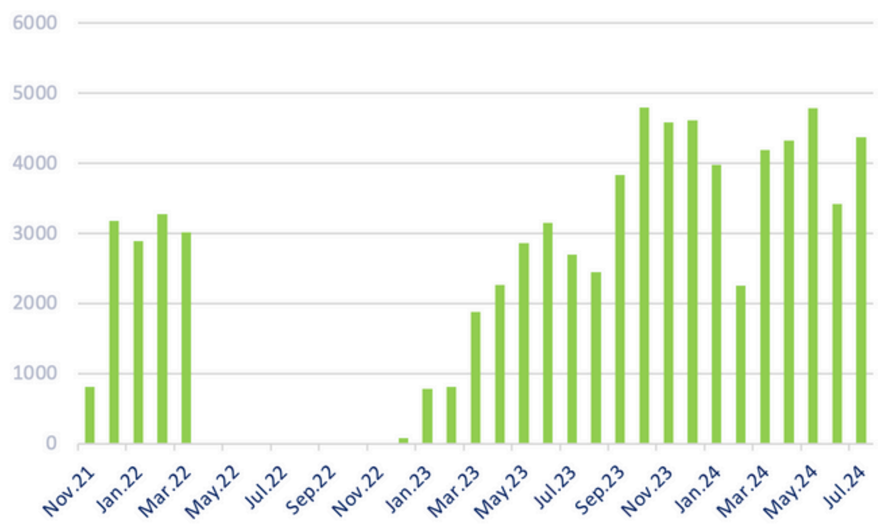


* According to the StateGeoCadastre for the period from 01.08.2024 to 31.08.2024

LAND AUCTIONS IN AUGUST 2024

Since October 2021, communal land leases have been conducted through electronic auctions on the Prozorro.Sale platform. Since then, 9245 communal land plots with a total area of 78.8 thousand hectares have been successfully leased, bringing UAH 674.8 million in annual revenues to communities.

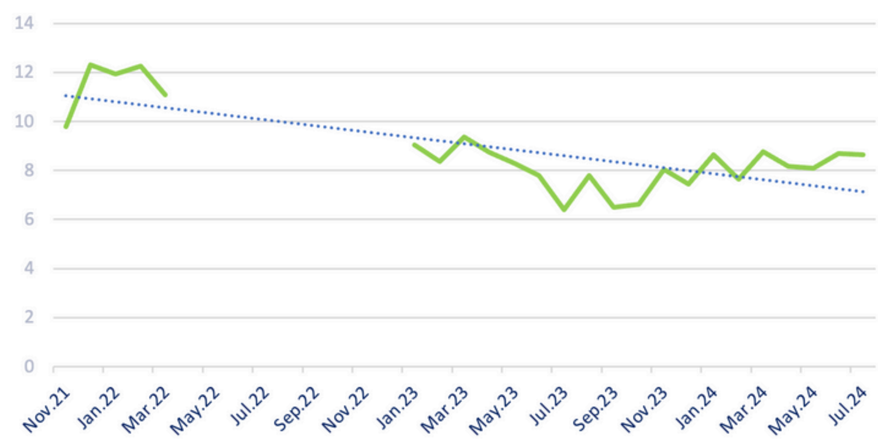
Fig. 10. Dynamics of sales of lease rights at land auctions, ha



* According to Prozorro.Sale data from November 2021 to August 2024

In August 2024, the Prozorro.Sale platform hosted 436 successful land auctions for lease rights to communal land with a total area of 3.6 thousand hectares. Compared to the previous month, the number of successful auctions in August this year decreased by 12%, and the area of leased communal land was 14% smaller. The absolute record for the number of successful auctions was set in May 2024, when 603 plots with a total area of 4.8 thousand hectares were leased.

Fig. 11. Dynamics of prices at land auctions, thsd. UAH/ha



* According to Prozorro.Sale data from November 2021 to August 2024

Despite the fact that lease prices at land auctions in August 2024 exceeded the July figure by 5% and amounted to UAH 8.3 thousand per hectare, such price growth is unlikely to be sustainable. Over the past six months, the weighted average price of land lease at land auctions has fluctuated between UAH 7.9 and 8.8 thousand per hectare, showing no steady upward or downward trend in land values and still remaining significantly lower than before the full-scale invasion. Prices over the past six months have shown some fluctuation, but have remained stable overall.

REVENUES TO COMMUNITY BUDGETS AS A RESULT OF THE LAND MARKET

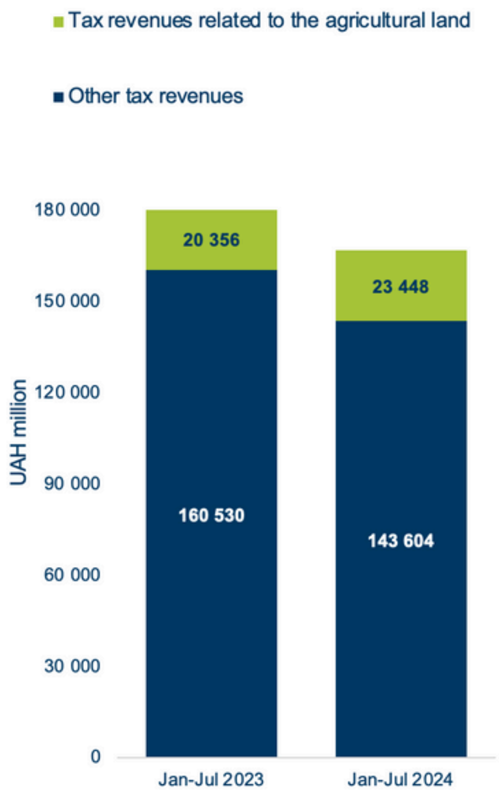
The turnover and use of agricultural land generates significant revenues for territorial communities. Thus, the budget revenues of communities include tax revenues related to agricultural land such as:

- 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 certain cases, the minimum tax liability (MTL).

The dynamics of budget revenues from the turnover and use of agricultural land has maintained a trend of recovery and growth since the beginning of 2024. According to the latest data on budget revenues from the official web portal of the Ministry of Finance of Ukraine OpenBudget, in July 2024, the turnover and use of agricultural land brought UAH 3.5 billion to the budgets of communities. This revenue is 13% higher than in 2023. July was marked by the continuation of the 2024 trend of a decline in other tax revenues of communities. The drop in other tax revenues to community budgets caused by the redirection of personal income tax paid by the military to the state budget in July 2024 amounted to almost UAH 2.5 billion, of which about 16% was offset by an increase in revenues related to agricultural land.

In total, in the first 7 months of 2024, over UAH 23 billion in tax revenues were received by community budgets as a result of the turnover and use of agricultural land, which is 15% more than in the same period of 2023. Thus, the share of revenues related to agricultural land in the total tax revenues of communities increased from 11% to 14% during the year, which demonstrates the importance of the land market for maintaining and strengthening the financial capacity of communities.

Fig. 12. Tax revenues of communities, UAH million

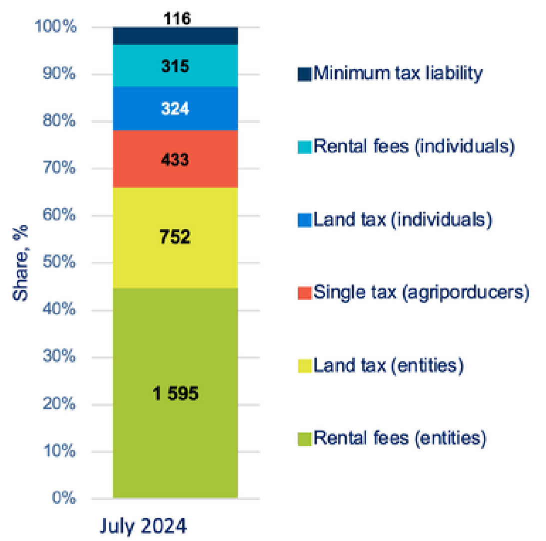


* Own calculations based on OpenBudget data (Ministry of Finance of Ukraine)

The increase in payments for lease of communal agricultural land was a key factor in the growth of community revenues from the turnover and use of agricultural land. Thus, in July 2024, leaseholders of communal land paid UAH 1.9 billion to communities, which is 11% more than a year earlier. The main factors behind this growth were the indexation of the normative monetary valuation in early 2024 and the continuation of competitive electronic lease auctions on the Prozorro.Sale platform. Legal entities are the largest leaseholders of communal land. They paid almost UAH 1.6 billion in rent to community budgets in July this year.

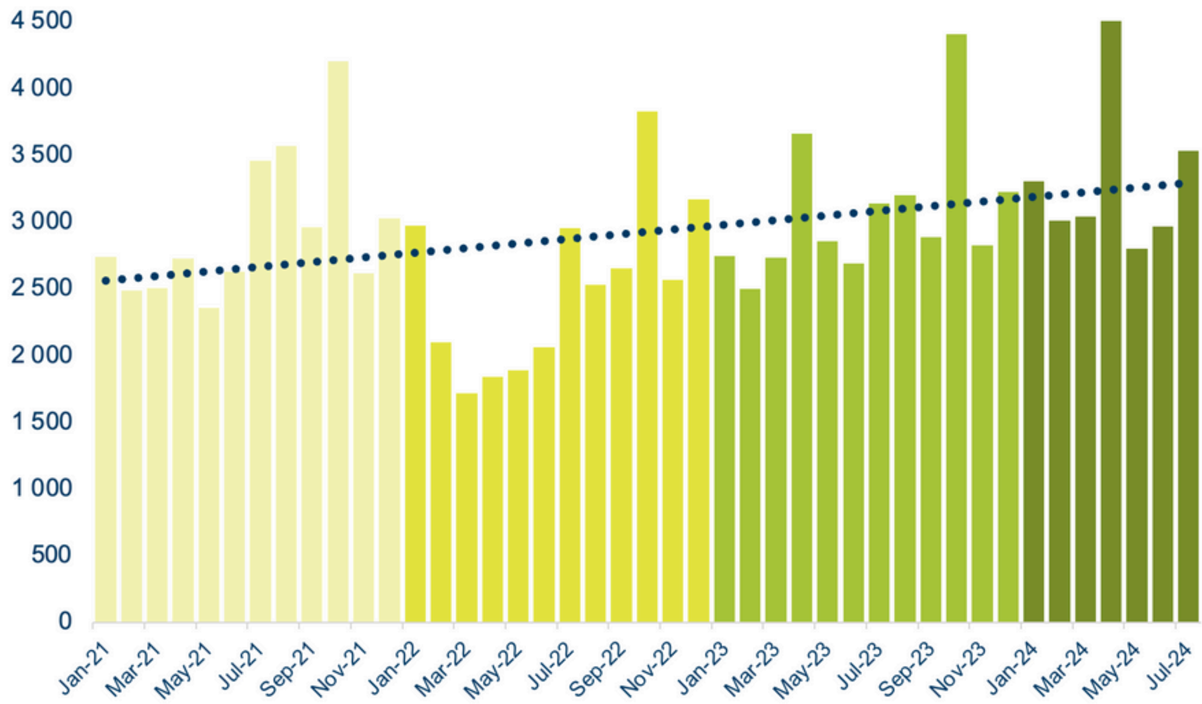
There has also been a recovery in budget revenues from land tax payments. Thus, land tax payments to community budgets in July 2024 reached UAH 1.1 billion, which is 12% more than in July 2023. In July 2024, the decline in local budget revenues from the payment of the single tax by agricultural producers operating under the simplified taxation system, which was also observed in June this year, continued. Thus, communities received UAH 433 million of this tax, which is 5% less than a year earlier. The communities' finances were also positively affected by the increase in revenues from the minimum tax liability (MTL). In July 2024, the payment of the minimum tax liability amounted to UAH 116 million, which is the largest monthly revenue from this tax since the beginning of the year.

Fig. 13. Budget revenues of communities related to agricultural land, UAH million



* Own calculations based on OpenBudget data (Ministry of Finance of Ukraine)

Fig. 14. Dynamics of budget revenues of communities related to agricultural land, UAH million

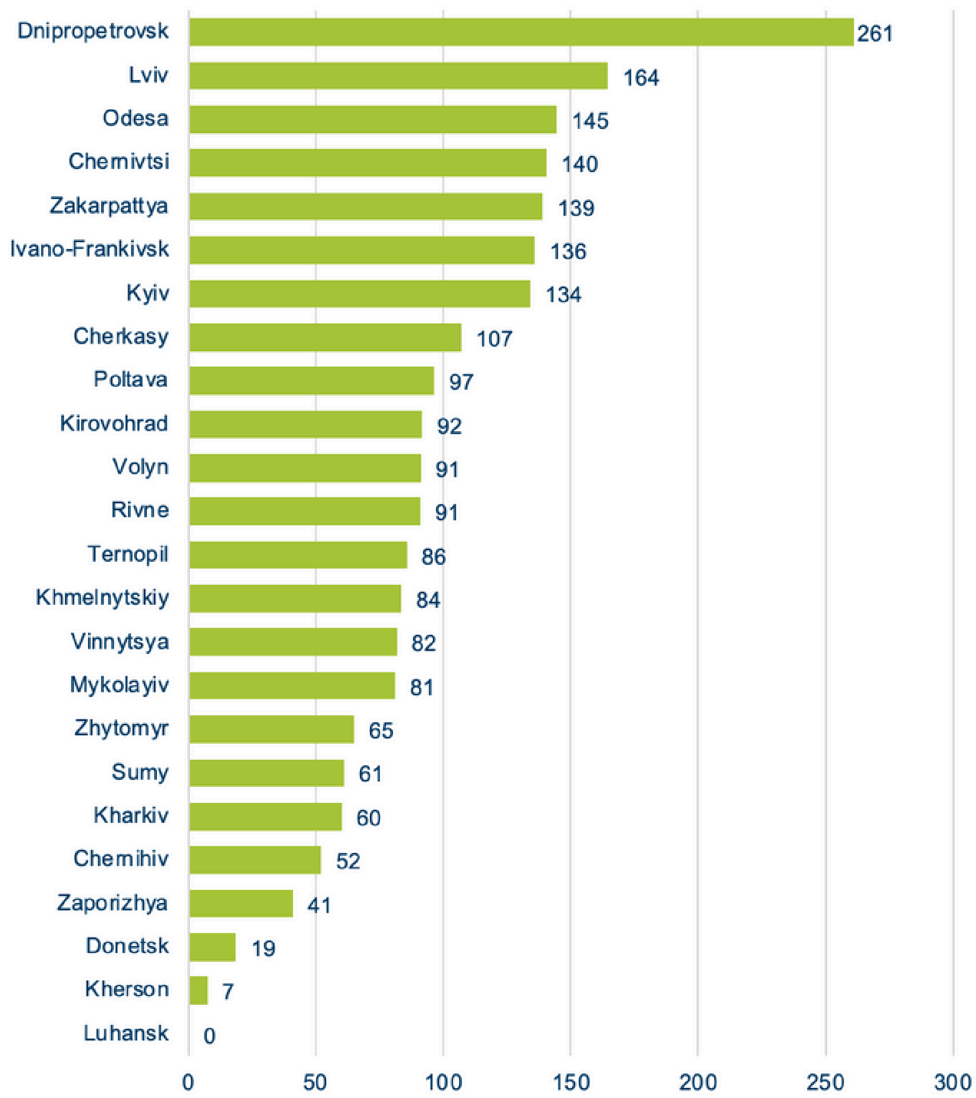


* Own calculations based on OpenBudget data (Ministry of Finance of Ukraine)

The leading region in terms of budget revenues from the turnover and use of agricultural land as of July 2024 is Dnipropetrovsk region – UAH 656 million. For this region, agricultural land is an important source of revenue for community budgets and accounts for 18% of all tax revenues. Communities in Odesa (UAH 374 million), Kyiv (UAH 216 million), and Poltava (UAH 209 million) regions also have high revenues from agricultural land. However, for the communities of the regions that are in the epicentre of hostilities or a significant part of which is temporarily occupied by the Russian Federation, revenues related to the turnover and use of agricultural land are still very low. Thus, in July 2024, the amount of such revenues to the budgets of communities in Luhansk region was UAH 100 thousand, in Kherson region – only UAH 15 million, and in Donetsk region – UAH 38 million. In addition to the overall decline in budget revenues in these regions, the exemption from a number of taxes in the areas of active hostilities is an additional, albeit justified, factor in reducing the role of agricultural land in filling local budgets.

As before, the leaders in terms of budget revenues per unit area of agricultural land are the communities of the Dnipropetrovsk (261 UAH/ha), Lviv (164 UAH/ha), Odesa (145 UAH/ha), Chernivtsi (140 UAH/ha), Zakarpattia (139 UAH/ha) and Ivano-Frankivsk (136 UAH/ha) regions. Overall, in July this year, communities across Ukraine collected an average of UAH 90 of budget revenues per hectare.

Fig. 15. Tax revenues of communities related to agricultural land per agricultural land area in July 2024, UAH/ha



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

LAND LEGISLATION UPDATES

In August 2024, the Draft Law (No. 11335 of 12 June 2024) 'On Amendments to Certain Legislative Acts of Ukraine on Improvement of the Mechanism of Provision of Land for the Armed Forces' was adopted. The draft law is aimed at simplifying the procedure for changing the purpose of particularly valuable land and forest plots so that they can be used for the deployment and operation of military units of the Armed Forces of Ukraine and other military formations. The current legislation does not provide for the use of such land for defence purposes, although some forest areas are of strategic importance for the defence of the state. The adopted amendments will allow the use of these territories for the placement of defence equipment and military facilities and will regulate all legal issues related to their use. The main objective of the draft law is to create a legal framework that will allow military units and institutions to effectively use these lands for national defence.

On 21 August, the Draft Law No. 9549 'On Amendments to Certain Legislative Acts of Ukraine on Simplifying the Procedure for Allocating Land Plots for the Development of Digital Infrastructure' was adopted in its entirety. It aims to simplify the procedure for granting electronic communications service providers the right to use land plots for the development of digital infrastructure, which will accelerate the coverage of Ukraine with 4G mobile communications and high-speed internet.

The authors of the draft law justified the need to adopt the draft law by saying that the procedure for allocating land plots for the deployment of digital infrastructure is too long and complicated.

Thus, before the first reading, the draft law had the following provisions:

- shortening the timeframe for reviewing applications for land allocation for communication facilities;
- introduction of a land easement for accelerated access to land plots for providers;
- possibility of temporary placement of infrastructure facilities in the de-occupied territories to ensure communications;
- simplification of lease procedures and monetary valuation of land plots.

However, the version of the draft law prepared for the second reading contained provisions that pose a risk of corruption. In particular, there is an article regulating the expropriation of land and other real estate in the Uzhhorod district of the Zakarpattia region during martial law. This expropriation is carried out for the purpose of locating defence industry facilities, enterprises of critical importance to the state, relocated enterprises and transport infrastructure.

The following mechanism of expropriation is proposed:

- the decision on expropriation shall be taken by the Zakarpattia Regional State Administration upon the proposal of central executive authorities or relevant enterprises;
- owners of land and other real estate are notified of the decision and may agree to the sale. If they do not agree, the property may be expropriated;
- the value of the expropriated property and the losses caused by the alienation are compensated in the amount of three times the value of the property.
- expropriation also applies to unclaimed shares and land plots without an owner, if information about them is not entered in the cadastre.

This mechanism poses the following corruption risks:

- the possibility of expropriation by decision of the administration without clear control and appeal mechanisms may create conditions for abuse of power;
- expert valuation of property can be manipulated, leading to unfair compensation to owners;
- limiting the ability of owners to appeal against decisions in court regarding the very fact of expropriation creates risks of violation of rights;
- expropriation may be initiated by companies interested in obtaining the property. This can lead to corrupt arrangements between companies and the authorities.

CONTACTS

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