



The Invincible
LAND



Land Market Review Ukraine

Q4'2023



THE FARMLAND MARKET IS RECOVERING BUT IS STILL BELOW THE LEVELS BEFORE THE FULL-SCALE INVASION

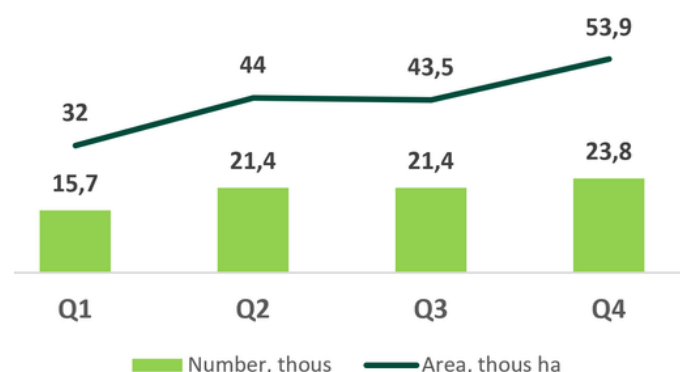


Capitalization of the agricultural land market continues to grow

The turnover of farmland increased by 58% to 172.9 thousand hectares in 2023 compared to 109.5 thousand hectares in 2022. The highest number of land transactions was recorded in the 4th quarter of 2023 – 23.8 thousand agreements for a total area of 53.9 thousand hectares.

Since the farmland market opening in July 2021, 195,900 sales agreements for a total area of 432,200 hectares have been concluded. So, as of January 1, 2024, 1.05% of all agricultural land in Ukraine was in circulation.

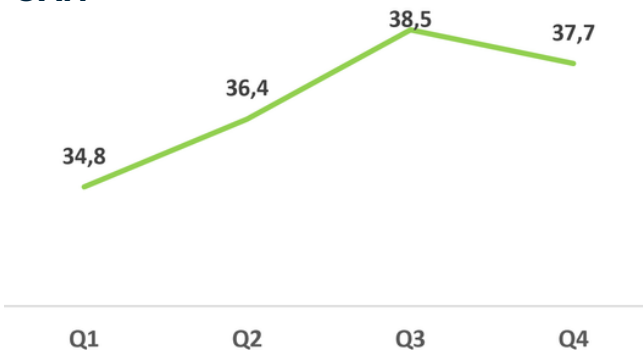
Fig. 1. Dynamics of sales transactions of agricultural land in Q1-Q4'2023



* Based on the data of StateGeoCadastr

The weighted average price for agricultural land increased during 2023 by 8.3%, outpacing the annual inflation rate. Therefore, the nominal capitalization of the market increased by \$2.46 billion in 2023 and by \$5.5 billion since the land market opened.

Fig. 2. Weighted average price of 1 ha of agricultural land in Q1-Q4'2023, thousand UAH



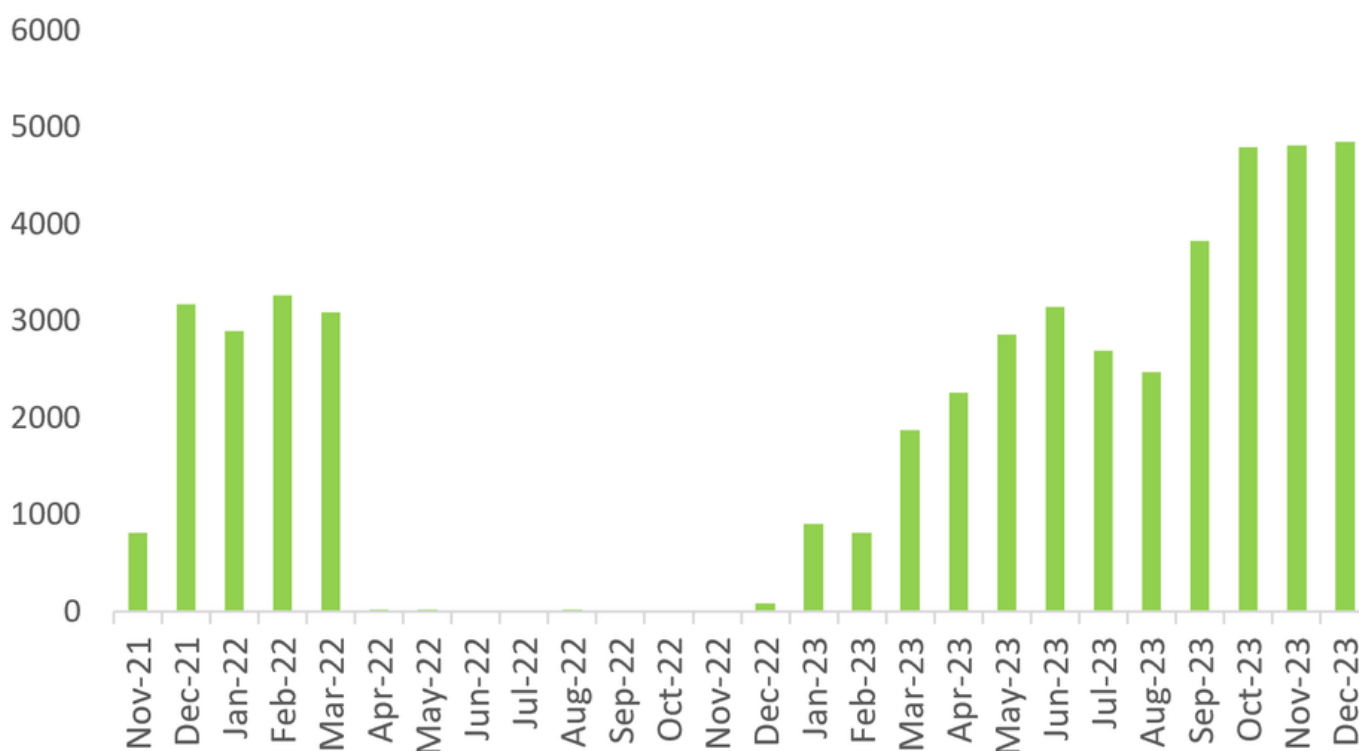
* Based on the data of StateGeoCadastr

The volume of sales of communal land lease rights at Prozorro. Sales increased more than four times throughout 2023 – from 402 auctions of 3.6 thousand hectares in the 1st quarter to 1,677 auctions of 14.5 thousand ha in the 4th quarter. Since November 2021, when electronic auctions on the Prozorro Sales platform started, 5,504 plots of communal agricultural land with a total area of 48.7 thousand hectares have been successfully leased, bringing communities an annual revenue income of UAH 428.5 million.

In 2023, Ukraine's land market partially recovered from the consequences of Russia's full-scale invasion, but its daily volumes were still lower than before. In the second half of 2023, 529 hectares were sold daily, 37% less than before February 2022.

According to our calculations, 120,000 agreements for a total area of 355,500 hectares have never happened due to the Russian invasion. Thus, the war-induced land market losses in Ukraine amounted to USD 325 million or UAH 12.4 billion.

Fig. 3. Sale of lease rights at land auctions, ha



* Based on the data of Prozorro.Sales

Farmland value increased by 10% or USD 5.5 billion

For more than two years since the opening of the agricultural land market, the value of land has risen by 10%, equivalent to an increase in the value of potential collateral by 5.5 billion USD.

Fig. 4. Dynamics of weighted average prices for agricultural land, thousand UAH/ha



* Based on the data of Prozorro.Sales

Fig. 5. Dynamics of weighted average prices for agricultural land, \$/ha



* Based on the data of StateGeoCadastr

Considering the current 0.35 liquidity ratio of farmlands as collateral, the increase in land value could generate USD 1.9 billion of additional loans. For comparison, at the end of 2023, the volume of bank debt in Ukraine's agricultural sector amounted to approximately USD 3.5 billion. More active use of land as collateral would allow for a several-fold increase in financing for the farm sector and landowners.

Due to the land market opening for legal entities on January 1, 2024, land value will likely increase by approximately 40%. Therefore, the capitalization of the land market will grow to almost USD 50 billion. The potential volume of the land-secured bank financing would amount to USD 17.5 billion. That would allow closing the gap in the funding of the Ukrainian agricultural sector, which currently amounts to about USD 21 billion, and thus meet the needs for short-term financing and investments in reconstruction and development.

At most, the further development of the land market, increasing its transparency, will contribute to the growth of the land liquidity ratio to the indicators of developed countries - at the level of 0.6-0.8, which will automatically double the potential lending volume.

Agricultural land generates 12% of local communities' budget revenues, but it can bring more

In 2023, the dynamics of the budget income of local communities (hromadas) from agricultural land significantly improved compared to 2022 (+22%) and 2021 (+5%). At the same time, the growth rate of hromadas' total tax revenues in 2023 was much higher (+29% compared to 2021). The full-scale war slowed the growth in land revenue, as land users in occupied territories and the territories with active hostilities were exempted from land tax and rent. In addition, in 2022, the normative monetary valuation (NMV), the basis for imposing land tax, was not indexed. For 2023, 5.1% NMV indexation has been applied. So, in 2024, more active growth of local budget revenues from the circulation and use of agricultural lands can be expected.

In 2023, thanks to the circulation and use of agricultural land, hromadas' budgets received UAH 36.9 billion, over 12% of their total tax revenues. The lease of communal land generated the largest share. In 12 months of 2023, local communities received UAH 19.8 billion in rent. However, most of these revenues came from leases concluded from 2013 to October 2021 using the offline auction procedure or through direct contracts in a non-competitive and non-transparent manner.

For comparison, during 2015-2021, 331,000 hectares of agricultural land were leased under the old procedure, almost seven times more than the amount of land transferred through land auctions at Prozorro.Sales after November 2021.

The amount of land leased during the last 20 years is unknown. However, even if we take the available data for 2015-2021 and assume that the share of land leased through online auctions is 13% (the upper limit), the increase in annual rental income of hromadas due to the complete transition to Prozorro.Sales can amount to about UAH 29 billion. Some communities are already following this path and have leased agricultural land at Prozorro.Sales for 5-15% of their annual tax revenues.

Another potential source of increasing community income from the circulation and use of agricultural land is expanding registration of farmlands in the State Land Cadaster (SLC), which currently accounts for 77%. Land plots not registered in the SLC fall outside the transparent market; therefore, such land cannot be officially sold, leased, or taxed. The potential for the growth of community budget revenues due to the registration of all agricultural land in SLC may surpass UAH 10 billion, or 60% of the current spending of local governments on education.

Only 10% of loans in agriculture are secured by land

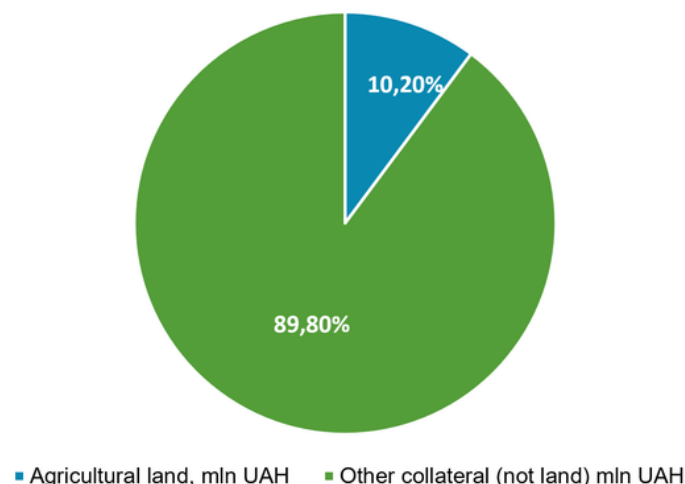
Since the land market became operational, the total amount of investments in the purchase of agricultural land amounted to UAH 17 billion. Of them, UAH 9.5 billion (56%) had been invested after the beginning of the full-scale invasion of Russia.

As of December 2023, Ukraine's agricultural sector received UAH 115.81 billion as bank loans. Of them, 47.5% (UAH 54.1 billion) were issued for up to 1 year to replenish working capital. Loans with more than a year term for financing capital investments make up 53.5% (UAH 56.7 billion), of which only UAH 3.7 billion were long-term loans for more than 5 years. 75% of loans were issued in the national currency.

The average ratio of borrowed funds per hectare of agricultural land in Ukraine is UAH 2,792/ha. At the same time, it is significantly higher in some regions, for example, in Kyiv (UAH 21,53/ha), Lviv (UAH 5,552/ha), Ternopil (UAH 5,759/ha), and Khmelnytskyi (UAH 3,198/ha) regions. Among the new loans from March 2022 to December 2023, about 10.3% (for UAH 357 million) were secured by agricultural land. The total area of farmland used as collateral is 15.5 thousand hectares.

The share of agricultural land in the collateral structure increased by 4% in the second half of 2023 compared to the average value in May 2023.

Fig.6. New agricultural loans issued in March 2022–December 2023



** Based on the data of the National Bank of Ukraine*

The Partial Credit Guarantee Fund in Agriculture (PCG) has become operational in Ukraine. The Fund will cooperate with banks on lending to farmers with up to 500 hectares of land. PCG will extend the guarantees for investment loans for up to 7 years, loans for farmland purchase for up to 10 years, and working capital loans for up to 3 years, with a maximum loan amount per borrower of UAH 30 million.

LAND MARKET NEWS

January 1, 2024

The second stage of land reform started in Ukraine. It gives legal entities the right to purchase farmland and increases the upper limit of land one person owns to 10,000 hectares. Current regulations and procedures must be revised to improve the mechanism for checking new landowners and the concentration of land per buyer, establish safeguards against potential abuses by land buyers, and further enhance the transparency of the land market.

January 1, 2024

On this day, the implementation of the Law of Ukraine #3272-IX, adopted on July 27, 2023, to create a transparent procedure for subleasing state lands used by state enterprises on the right of permanent use, should have started. However, the Cabinet of Ministers of Ukraine failed to adopt the necessary regulations on time, so the sale of sublease rights of state agricultural land did not begin on January 1, 2024, as provided by the law.

January 15, 2024

The Agrarian Committee of the Verkhovna Rada recommended for the first reading Draft Law #10027, which proposes to renew the free privatization of state and communal agricultural lands by war veterans and their family members for personal farming. The legislative

initiative does not align with the State Anti-Corruption Program for 2023-2025 and can have negative social and corruption impacts. The KSE Agrocenter recommends maintaining the ban on the free transfer of land into private ownership for the martial law period and focusing on reforming the free land privatization scheme, as stated in the State Anti-Corruption Program.

January 23, 2024

The Cabinet of Ministers of Ukraine adopted Resolution #80, "On Amendments to the Procedure for the Use of Water Fund Lands," which establishes rules and restrictions for the use of lands with water objects, coastal protective strips, hydro-technical structures and other territories related to water resources. The resolution regulates the implementation of water protection measures and the construction and operation of water management. It determines the conditions for granting and terminating the right to use the lands of the water fund under Ukrainian legislation.

January 26, 2024

The Partial Credit Guarantee Fund in Agriculture (PCG), a non-banking financial institution founded by the Cabinet of Ministers of Ukraine, has become operational in Ukraine. The Fund will cooperate with banks on lending to farmers with up to 500 hectares of land.

PCG will extend the guarantees for investment loans for up to 7 years, loans for farmland purchase for up to 10 years, and working capital loans for up to 3 years, with a maximum loan amount per borrower of UAH 30 million. The Fund is sufficiently capitalized to start operations thanks to the European Union's grant of EUR 10 million for the World Bank Project "Strengthening the Fund for Partial Credit Guarantees in Agriculture."

January 26, 2024

The Cabinet of Ministers of Ukraine adopted Resolution #86, "On Amendments to Certain Resolutions of the Cabinet of Ministers of Ukraine Regarding Electronic Identification and Electronic Trust Services in the Field of Land Relations." It amends various resolutions on electronic identification and electronic trust services in land relations and updates requirements for electronic documents and procedures for their certification. It improves electronic identification mechanisms in the context of land management and land valuation.

February 2, 2024

The Verkhovna Rada of Ukraine adopted a Draft Law (#9627 dated 21.08.2023) that envisages a simplified procedure of changing agricultural land to land for industrial and energy facilities. Implementing the specified norm on changing the purpose of land use without the consent of local self-government

bodies raises legitimate concerns. This approach undermines the rights of local communities and their ability to control the development of their territory, especially in matters related to land use and ecology. Assessing all potential risks will be possible only after adopting the relevant sub-legislation. However, it is already clear that depriving communities of a role in decision-making will hurt their motivation to develop and implement comprehensive spatial development plans.

CONTACTS

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<https://agrocenter.kse.ua>

<https://t.me/kseagrocenter>

Contacts:

Center for Food and Land

Use Research (KSE Agrocenter)

agrifood@kse.org.ua

agrifood@kse.org.ua

