



The Invincible
LAND



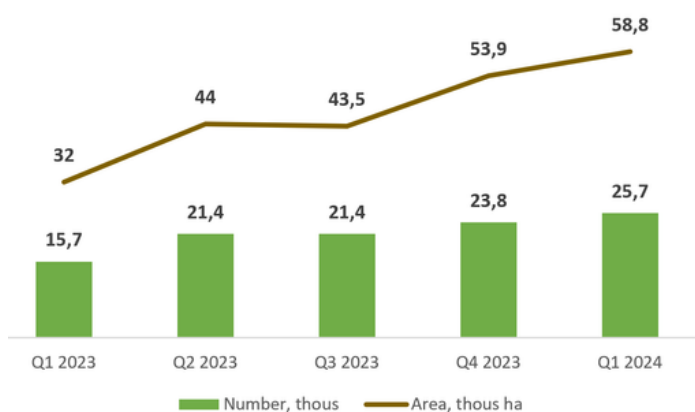
Land Market Review Ukraine

Q1'2024

THE FARMLAND MARKET CAPITALIZATION HAS INCREASED BY MORE THAN US\$ 5.1 BILLION SINCE THE BEGINNING OF 2024



Fig. 1. Dynamics of sales transactions of agricultural land in 2023 and Q1'2024



* Based on the data of StateGeoCadastre

Since July 2023, the agricultural land market has seen a steady trend towards an increase in the number of purchase and sale agreements.

Former "moratorium" farmlands are in the most significant demand — lands with the intended purposes "for commercial agricultural production" and "for personal peasant farming" are the most transacted farmlands in the market.

In total, in Q1 2024, 25,700 sale agreements for agricultural plots with a total volume of 58,800 ha were concluded, which is 7% higher than in Q4 2023, which was a record number of agricultural land sales since the start of the full-scale Russian invasion.

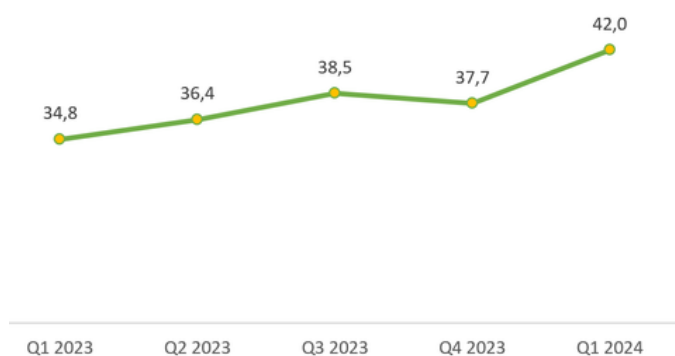
Since the land market opening on July 1, 2021, 227,500 sales contracts covering 510,800 hectares have been concluded. Thus, 1.24% of the total agricultural land in Ukraine has been in circulation.

Farmland value increased by 11.2% in Q1 2024

According to the results of the first three months of 2024, the weighted average price of a hectare of farmland increased by 11.2%.

It amounted to UAH 37.7 thousand in Q4 2023, while in Q1 2024, the farmland price increased to UAH 42,000/ha. Thus, the capitalization of the agricultural land market has increased by UAH 202.5 billion (\$US 5.1 billion) since the beginning of the current year.

Fig. 2. Weighted average price of 1 ha of agricultural land in 2023 and Q1'2024, thousand UAH



* Based on the data of StateGeoCadastre

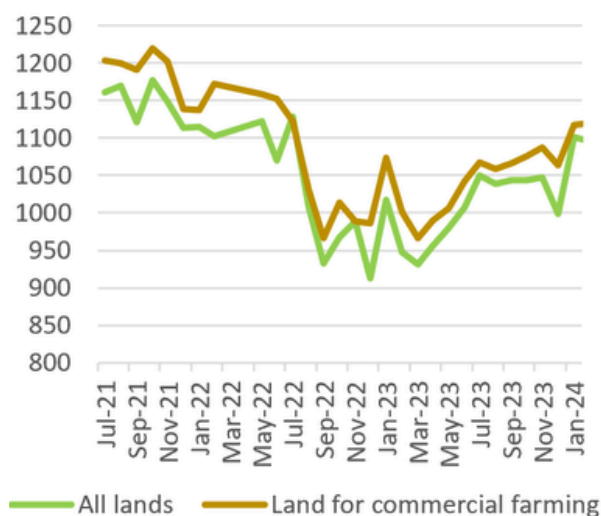
Therefore, Ukraine's agricultural land market thrives despite the full-scale war and a limited farmland sales model. The National Bank's recent decision to increase farmland's liquidity ratio from 0.35 to 0.5 is evidence of this. That has already opened an opportunity for the agricultural sector and landowners to attract an additional \$US 25 billion in financing, comparable to the

annual financial needs of agrarians and landowners. NBU revised the liquidity ratio after careful and long-term evaluation of statistical data and analysis of the land market, including the data of the "The Invincible Land" analytical project, implemented by the KSE Agrocenter team with the support of the USAID AGRO Program.

Fig. 3. Dynamics of weighted average prices for agricultural land, thousand UAH/ha



Fig. 4. Dynamics of weighted average prices for agricultural land, \$/ha



* Based on the data of StateGeoCadastre

Farmland value increased by 11.2% in Q1 2024

On January 1, 2024, the farmland market opened for legal entities. Before January 1, only individuals were allowed to buy farmland. In January-March 2024, 436 legal entities purchased 2,957 agricultural plots with a total area of 8.5 thousand hectares.

At the end of last year, some experts expressed fears that the large agro holdings would accumulate significant farmland areas. According to the results of Q1 2024, these fears look unjustified. The share of legal entities in the land market in Q1 2024 was only 14.5%, while the rest of the transactions, as before, were between individuals. At the same time, opening legal entities' access to the land market positively affected land market liquidity and market transparency.

Due to the small number of land transactions involving legal entities and their uneven geographic distribution, we have yet to directly compare the prices of land purchased by individuals and legal entities. Instead, comparing the median price increase relative to the normative land value (NLV, which acts as the minimum selling price for former moratorium lands) for individuals and legal entities gives an interesting result. The median ratio of the land sales price

concluded in 2024 by individuals to NLV is 1.009. That means that for 50% of transactions involving individuals, the selling price does not exceed the NLV by more than 0.9%. A similar indicator for legal entities is 1.58, i.e., in 50% of purchases conducted by legal entities, the transaction price exceeds that of NLV by more than 58%.

Such a discrepancy may indicate that legal entities are willing to pay a much higher price for agricultural land or are more motivated to reflect the actual price of the transaction in official documents instead of specifying the minimum allowable price with an additional cash payment of the difference.

Land auctions remain the most effective and transparent tool for leasing communal lands

The volume of farmland rent auctions of communal land through "Prozorro.Sales" platform grew throughout 2023 from 389 successful auctions with a total area of 3.5 thousand hectares in Q1 2023 to 1,636 successful auctions with a total area of 14,000 hectares in Q4 2023. Volumes of successful land rent auctions for communal land in Q1 2024 were significantly lower than in Q4 2023.

In Q1 2024, 1309 successful auctions were

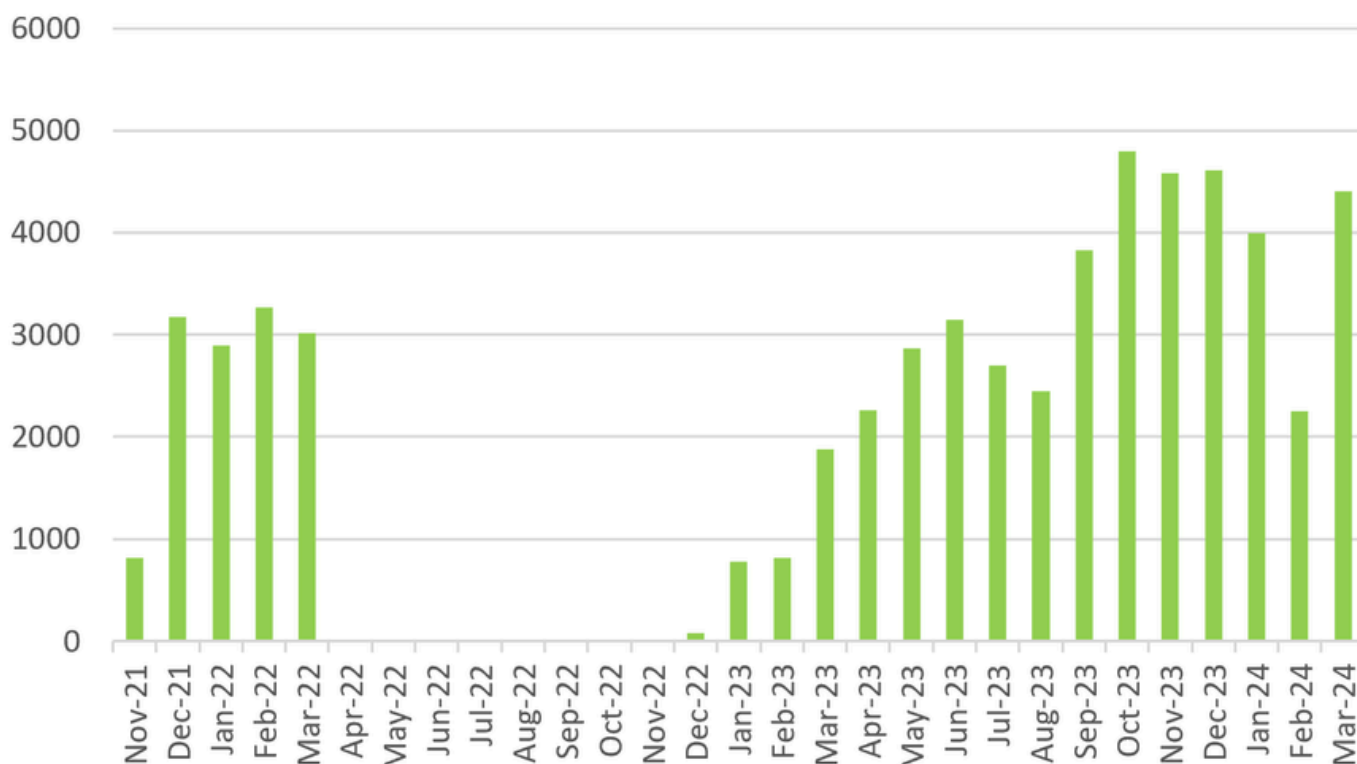
completed, covering a total area of 10.6 thousand hectares. Therefore, the number of successful farmland rent auctions fell by 20%, while the transacted area decreased by 23.9%.

At the same time, the average quarterly land prices on land auctions are increasing, reaching UAH 7,620 per hectare in Q4 of 2023 and UAH 8,979 in Q1 of 2024. This increase is primarily due

to the rise in land auction prices in March 2024, when the price reached UAH 9.97 thousand per hectare.

The weighted average sale price for farmland in Q1 2024 equals the cost of renting land plots through farmland auctions for 4.6 years. Such a small gap between land plots' sale and rental prices suggests that official sale prices are inaccurate and do not accurately reflect the actual market value of sold parcels.

Fig. 5. Sale of lease rights at land auctions, ha



* Based on the data of Prozorro.Sales

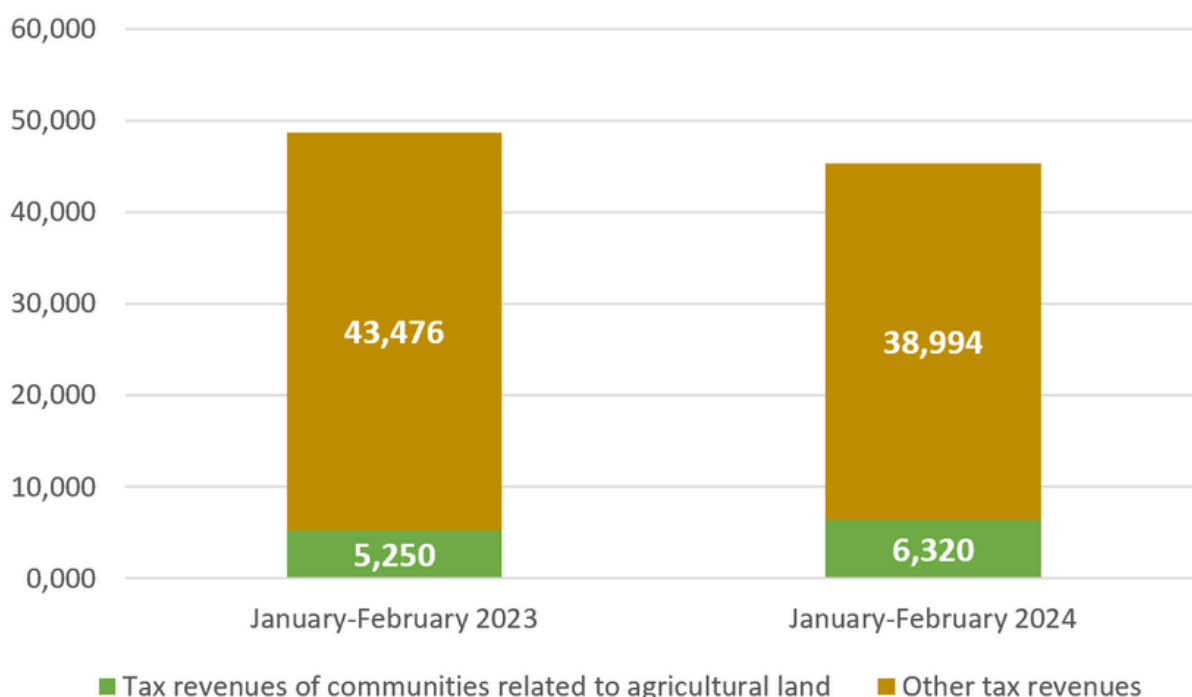
Agricultural land generates 13% of local communities' budget revenues.

According to data from the official web portal of the Ministry of Finance of Ukraine, in February 2024, taxpayers transferred UAH 3 billion in taxes related to the use of lands to local budgets. Revenues continue to increase, surpassing a comparable indicator for February 2023 by more than UAH 500 million (+20%). The growth also reflects the trend of the growing role of the agricultural sector in the system of public finances of communities after the redirection of personal income tax paid to military personnel to the state budget. From January 2024, the increase in revenues related to agricultural land compensated for a quarter of the decrease in other tax revenues of communities. In February

2024, taxes related to agricultural land provided 13% of all municipal tax revenues (compared to 10% in February 2023).

The basis of the incomes of communities related to agricultural land is stably made up of rent payments from communal land - more than UAH 1.8 billion in February 2024. High activity in recent months at farmland auctions on the "Prozorro. Sales" platform, as well as the indexation of NGOs, are factors in the growth of rental payments by 21% compared to the corresponding period of 2023. The growth of rental income drives the general increase in community tax revenues from the circulation and use of agricultural land. The principal lessees of communal lands for agricultural purposes are legal entities (mainly agricultural enterprises), providing 90% of all rental income.

Fig. 6. Budget revenues of communities, million UAH



Pricing of the irrigated land

Irrigation is one of the critical issues in increasing productivity and competitiveness in the Ukrainian agricultural sector. The full-scale Russian aggression against Ukraine caused significant damage to Ukraine's irrigation. After the full-scale invasion started, a major part of irrigated land was occupied. As a result of the explosion of the Kakhovka Dam, the water supply to 306,500 hectares of irrigated land ceased. Only one of the four irrigation systems operating in the South of Ukraine (the network of irrigation systems of the Odesa region) is functioning.

According to the results of the regression analysis, plots located in village councils with irrigation networks are 12.7% more expensive than others. At the same time, it should not be concluded that the difference between the price of a plot with irrigation and a plot without access to irrigation networks is only 12.7% because, in our analysis, villages with irrigation networks include both plots with access to networks and without access to networks. If a similar study were conducted to identify areas with access to irrigation networks, the difference between such areas and areas without such access would be significantly higher.

LAND MARKET NEWS

February 16, 2024.

The Cabinet of Ministers of Ukraine adopted the Government's Priority Action Plan for 2024. The activities in the land sector defined in the decree of the Cabinet of Ministers of Ukraine dated February 16, 2024, No. 137-r "On approval of the plan of priority actions of the Government for 2024" include:

- Launching a support program to compensate agricultural producers for the costs of humanitarian demining of farming lands.
- Creating a system for determining land demining priorities based on economic and social importance.
- Development of draft laws to support the agricultural sector through land consolidation and market liberalization.
- Improving electronic interaction between the State Land Cadastre and the State Register of Real Estate Rights systems.
- Providing land surveyors with the status of state cadastral registrars.
- Approval of the procedure for land and soil monitoring.
- Conducting a state land inventory.
- Digitization of land management documentation.
- Creating a transparent market for leasing state agricultural land through the "Land Bank."

April 6, 2024.

The National Bank of Ukraine has [amended](#) Resolution #351 and increased the liquidity ratio for agricultural land from 0.35 to 0.5. Under current farmland prices, this enables an additional US\$ 5.3 billion in loans to the farm sector and landowners, which is already much greater than the current agricultural debt of about US\$ 3.5 billion. NBU reconsidered the liquidity ratio after carefully assessing the land market statistics information and analysis, including those produced by the USAID AGRO supported project of KSE "Invincible Land". Another necessary amendment is assigning a high liquidity ratio of 0.85 for the guarantees provided by the Partial Credit Guarantee Fund to small farmers under 500 ha. The Project "Invincible Land" has also supported heavily the PCG analytically.

April 24, 2024.

The draft law "On introducing changes to some legislative Acts of Ukraine on the protection of interests of land shares owners, as well as application of administrative procedures in the field of land relations" (No. 11150), was adopted by Verkhovna Rada of Ukraine in the 1st reading. Irrigation is one of the critical issues in increasing productivity and The draft law introduces the following

provisions, which have significant implications for land management and legislation in Ukraine:

- Reinstatement of the obligation to upgrade the qualifications of certified land surveying engineers (currently, the norm is suspended for the martial law period).
- Prolonging by one year of the pilot project when certified land surveyors can enter information into the State Land Cadastre.
- Bringing the Land Code of Ukraine and other legislative acts in the field of land relations into compliance with the Law of Ukraine "On Administrative Procedure."
- The extension (from 2025 to 2028) of the term of registration of "unclaimed shares."
- Elimination of inconsistencies between the laws "On Land Management" and "On Land Appraisal" (one of them gives the right to carry out work on land management and land appraisal to both legal entities and FOPs, the second—only to legal entities).
- Exclusion of the obligation to carry out an expert monetary assessment of land plots during land auctions to acquire the right to sublease a land plot.
- Bringing the powers of local state administrations to dispose of state-owned land by the Law of Ukraine "On the procedure for solving certain issues of the administrative-territorial system of Ukraine" in connection with the cancellation of the status of cities of district and oblast significance, urban-type settlements.

- Abolition of the need for approval by landowners and land users of land management projects regarding the organization and establishment of boundaries of the territories of the nature reserve fund and other nature conservation purposes, health, recreational, historical and cultural, forestry purposes, water fund lands, and water protection zones, restrictions on the use of lands and their regime-forming environment objects, if such a project is a component of scientific project documentation in the field of cultural heritage protection.
- Establishing a new type of land easement - the right to place (without carrying out capital construction) objects of recreational infrastructure and engineering infrastructure necessary for their operation and maintenance.

The draft law should have positive implications for the land market, except for the last provision, introducing a new type of land easement. On the one hand, the definition of this type of land easement is logical because temporary recreational facilities exist on lands for any purpose. However, on land plots of state and communal ownership, the establishment of such land easements (which are established without conducting land auctions) can be used as a method of bypassing land auctions for acquiring land lease rights.

CONTACTS

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More details about the USAID AGRO are available at:

<https://www.facebook.com/usaaid.agro/>

More about KSE Agrocenter:

<https://agrocenter.kse.ua>

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