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Poland

Agricultural Situation

Update on Land Values

2007

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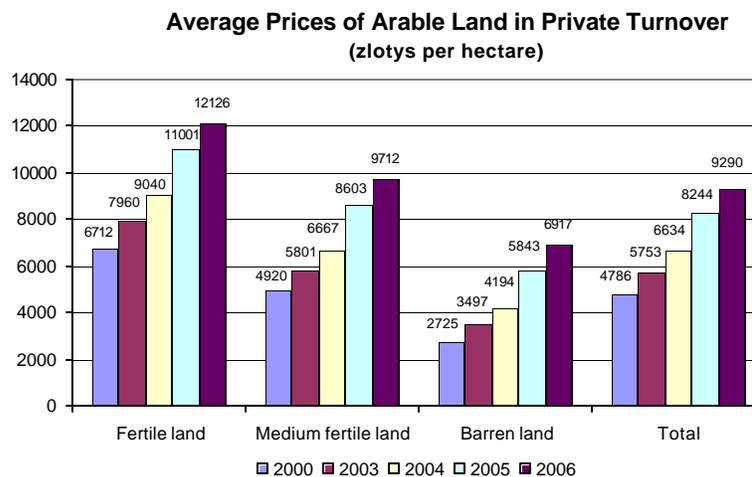
Ed Porter, Piotr Rucinski

Report Highlights:

Agricultural land values have increased 60 to 100 percent since about a year prior to Poland's accession to the EU in May 2004. Area-based direct payments to farmers, depletion of land stocks from privatization of former state farms, and strong demand for real estate investments are the major forces driving land prices up. Higher land prices have yet to force major structural changes in agriculture, but are expected to eventually.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Warsaw [PL1]
[PL]

Prices of agricultural land in Poland continue to rise as demand remains strong while the supply of land for sale falls, especially land formerly held by the government. Between 2003 and 2006, arable land values rose over 60 percent to 9,290 zlotys (US\$ 3,200) per hectare.



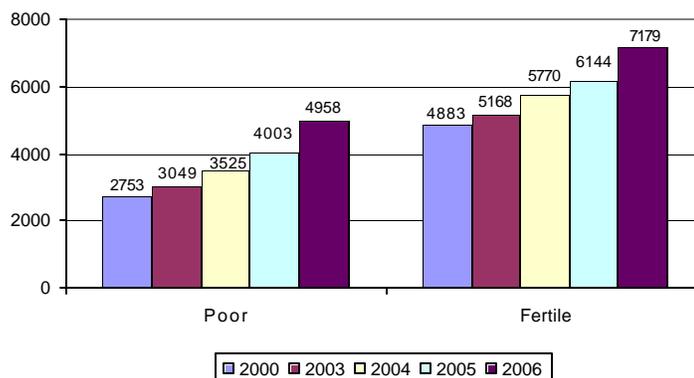
Prices for low quality, infertile agricultural land almost doubled during this period, while prices for medium fertile and fertile land increased 67 and 52 percent, respectively.

The major factors behind the increase in agricultural land prices are:

- Decoupled EU direct payments
- Investment demand, including from foreign investors in other EU countries
- A declining supply of government owned land as fewer former state farms are available for sale
- Purchases by small business owners in order to qualify for lower social insurance premiums available to farmers
- Purchases of agricultural land for vacation homes

EU accession has had a significant impact on land values in Poland (see also GAIN report PL7007). In 2006, farmers were granted EU direct payments amounting to PLN 590 (US \$200) per hectare. The Institute of Rural Economics estimates that area-based EU direct payments comprise 25-30 percent of total farm income. In the case of large farms, this revenue has become an important source of funding for additional land purchases. For small farmers, the additional income has permitted them to remain in farming. In addition, in 2007 the Polish government modified the structure of direct payments for livestock farmers. As a result, farmers raising livestock now receive additional payments based on the area of pasture and meadowland they own. In expectation of this change, prices for poor quality and fertile meadowland surged by 24 and 17 percent respectively, between 2005 and 2006.

**Average Prices of Meadows in Private Turnover
(zlotys per hectare)**



Officially, the area of agricultural land sold to foreign investors is marginal. Between 2000 and 2005, such sales accounted for only 0.3 percent of the total area of agricultural land sold. It is difficult, however, to precisely evaluate the area of agricultural land purchased by foreign investors, as in many cases they are part of a partnership with Polish citizens.

The structure of social and health insurance charges has enticed many small business owners to purchase small farms in order to qualify for the lower insurance payments farmers pay. Non-farm business owners pay ten fold higher social and health insurance premiums than farmers, whose insurance costs are subsidized by the government.

Since the fall of communism in 1989, the majority of land from former state farms has been sold or leased to farmers. About 400,000 hectares remain available for sale, out of an estimated 4.7 million hectares that originally were held by the Agricultural Property Agency (APA), the government agency responsible for the privatization of former state farms. In 2006, the APA sold 107,000 hectares of state land, 30 percent more than a year earlier, at an average price of PLN 7,400 (US \$2,550). (Note: Approximately 2.0 million hectares of the 4.3 million hectares considered unavailable for sale are under long-term leases and expected to be sold to current leaseholders.)

Soaring housing prices, both in urban and suburban areas, have created strong incentives for real estate investors to purchase agricultural land suitable for construction. In addition, increasing demand for vacation homes has helped drive up land prices. This is a new trend in Poland. As household incomes have risen, so to has demand for vacation homes in rural areas and it is common to see new homes surrounded by cultivated fields. This trend is expected to continue.

Land prices vary significantly across regions. They are highest in the Wielkopolskie and Kujawsko-Pomorskie Provinces of northwestern Poland due to productive soils and a long history of agricultural production. In Mazowsze and Podlasie Provinces, land is expensive due to proximity to Warsaw, the capital. The lowest prices are in the Podkarpackie Province in southern Poland due to the low quality of the land.

Despite the price surge, average agricultural land prices in Poland reportedly remain ten times lower than average land prices in the former EU-15 countries, a fact that has not gone unnoticed by citizens in other EU member states.

The increase in agricultural land prices has not yet impacted farm consolidation. Local farmers are not anxious to sell their land and due to EU payments, even subsistence farmers have continued to hold onto their property. In 2005, there were only 3,200 sales of agricultural land recorded. In comparison, there are an estimated 1.8 million farmers in Poland, nearly all of whom own their farms outright.

This current situation is expected to change, however, as the farm population ages and older farmers eventually sell out. Under the EU's rural development program for 2007-2013, farmers older than 55 years of age can receive pension payments, if they transfer their farms to their children or to another farmer. The son or daughter must be under 40 years of age and new to farming, for the transfer to qualify under the program. They also must have adequate professional qualifications to farm and submit a development plan for the farm.