Characteristics of land market in Hungary at the time of the EU accession

Charakteristika trhu s pôdou v Maďarsku v období vstupu do EÚ

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Abstract: The Agricultural Economics Research Institute has launched a research project with the aim to analyse the Hungarian land market and the changes occurred since the EU accession as well as to present the tendencies of the development. The statistical data on the land market is rather deficient and cannot be considered representative, therefore, we also included some empirical experiments summarising experts' opinion referring to all the counties of Hungary. In our paper, we provide our statements and conclusions. The survey shows that the landed property market in Hungary is in a state of anticipation. Demand is primarily for outstanding and good quality land of favourable location in certain countries or larger plots of arable and forestry land. Characteristically, the poorer quality, less accessible land of less favourable location in the neighbourhood of the depopulated, cul-de-sac villages is in oversupply. Scattered, wedged properties of small size or of unclear ownership (undivided common land) are difficult to sell. Many of the vendors are older people with subsistence worries or people who obtained the title by compensation but do not wish to get involved in cultivation. Increasingly more buyers are well capitalised farmers, who wish to increase their holdings, or to unite their property (by land swap). Another significant group of buyers wish to invest into landed property located in the neighbourhood of larger cities, at popular sites, next to main roads or motorways. According to our survey, in the immediate years before the EU accession land and lease prices increased significantly, many fold in relation to quality. Increases in land prices are due to a process of convergence to the EU prices intending to take advantage of the projected unified land market. Increases in lease prices are due to apportioning of the projected land based support between owner and lease holder. According to land sale experts (estate or realty agents) the land market will in the 5–10 years liven up resulting in increases in land and lease prices, although the extent of this cannot yet be prognosticated.

Key words: land, land market, land policy, land property, land use

Abstrakt: Výskumný ústav ekonomiky poľnohospodárstva zahájil výskumný projekt s cieľom analyzovať trh s pôdou v Maďarsku a zmeny, ktoré nastali od vstupu do EÚ, ako aj prezentovať vývojové trendy. Štatistické údaje o trhu s pôdou sú nedostatočné a nemôžu byť považované za reprezentatívne, preto sme zaradili aj niekoľko empirických pokusov, ktoré sumarizujú názor odborníkov, vzťahujúcich sa na všetky župy v Maďarsku. V našom článku poskytujeme naše stanoviská a závery. Prieskum ukazuje, že trh s pozemkami v Maďarsku je v stave očakávania. Dopyt je najmä po kvalitnej pôde s výhodnou polohou v určitých krajoch alebo po väčších pozemkoch ornej a lesnej pôdy. Charakteristicky nižšia kvalita, menej dostupná pôda so znevýhodnenou polohou v blízkosti neosídlených a nedostupných obcí v ponuke prevažuje. Roztrúsené, nesúmerné pozemky malých rozmerov alebo nejasného vlastníctva (nedelené obecné pozemky v spoločnom vlastníctve) sa predávajú len s veľkými ťažkosťami. Mnohí predávajúci sú starší ľudia s existenčnými ťažkosťami alebo ľudia, ktorí získali nárok na kompenzáciu, ale neželajú si, aby pôda bola obrábaná. Stále viac kupujúcich predstavujú dobre situovaní farmári, ktorí chcú zväčšiť svoje vlastníctvo, alebo zjednotiť svoje pozemky (výmenou pozemkov). Ďalšia významná skupina kupujúcich chce investovať do vlastníctva pozemkov situovaných v blízkosti väčších miest, na vyhľadávaných lokalitách, vedľa hlavných ciest alebo diaľnic. Podľa nášho prieskumu v bezprostredných rokoch pred vstupom do EÚ významne narástli ceny pozemkov a prenájmu, úmerne vo vzťahu ku kvalite. Narastanie cien pozemkov je spôsobené procesom konvergencie cien v EÚ s úmyslom využiť výhody plánovaného zjednoteného trhu s pôdou. Nárast cien za prenájom pôdy je spôsobený rozdeľovaním plánovanej podpory na pôdu medzi vlastníka a nájomcu. Podľa znalcov z odboru predaja pozemkov (realitní agenti) trh s pôdou bude 5–10 rokov na vzostupe, čo spôsobí nárast cien pozemkov a prenájmu, hoci rozsah takéhoto vzostupu nie je ešte možné v súčasnosti predpovedať.

Kľúčové slová: pôda, trh s pôdou, pôdna politika, vlastníctvo pôdy, využitie pôdy

Most recently, a great number of articles and papers dealing with the land policy, land property, land use and land market were published (Burgerné 2002, 2003; Dorgai et al. 2004; Szűcs, Csendes 2002; Tanka 2000), however, the facts and data on the tendencies and the development of the land market are not known.

The Agricultural Economics Research Institute launched last year a research project to analyse the characteristics of the Hungarian land market with the aim to present the situation and tensions of the land property, land use and the changes occurred as well as to make preparations for the development of an information system.

The empirical analysis summarising the practical experience constitutes the essential part of the research; its aim is to present for all the counties of Hungary the characteristics of the land market, land policy as well as the expectations before and after the Accession. The county offices of the Ministry of Agriculture (in Győr-Moson-Sopron, Vas, Veszprém, Tolna, Csongrád counties) and the regional organisations of MOSZ provided information on the current situation and the developments expected.

MOTIVES AND PARTICIPANTS OF THE LAND MARKET

In general, the results of the survey show that on the Hungarian land market – in spite of the intensification – the policy of drift is characteristic. The potential sellers are waiting (speculating) for the prices to rise and the intentions of the buyers are constrained by the lack of capital and the dilemma whether to acquire property or to rent.

The development of the demand and supply depends on numerous factors, such as the quality of the arable soil, the location, the situation, the type of farming etc.

The demand has increased in some regions of high golden crown values and of favourable situation in certain counties of Hungary as well for arable land and forests of large areas (Győr-Moson-Sopron and Somogy county). In other regions of poor soil quality, of unfavourable situation, located at the dead-ends as well as in the neighbourhood of villages with ageing population and if they are difficult to reach, there is no demand and the supply market is characteristic. In addition to these, it is difficult to sell small areas (under 1 hectare) of scattered location and when the property situation is not settled, for example, in the cases of undivided properties.

A significant part of sales contract includes areas of arable land; the demand for vineyards and fruit plantation is rather low, with the exception of the traditional wine growing areas, where the number of buyers "for prestige" is increasing.

The sellers of agricultural areas are mainly elderly farmers with problems of subsistence or the proprietors who obtained the land by inheritance or compensation but do not wish to do farming. The motives of the sale are the lack of money and the low income-generating capacity of the sector. The difficulties of the sale and the delayed payments of the price of the property bring the farmers into troubles, which might also lead to indebtedness.

Among the buyers, we can also find farmers with capital, who buy land in order to increase the size of their farms or to consolidate their areas (exchange of land); among them, there is a great number of entrepreneurs of family farms.

The other part of the buyers buys land in order to invest or to speculate. They are looking for areas in the neighbourhood of large cities, in popular regions and close to long-distance roads and highways.

THE SCATTERED PROPERTY STRUCTURE AND THE UNDIVIDED PROPERTIES SET BACK THE OPERATION OF THE LAND MARKET

In Hungary, arable land was in fact unmarketable up to 1989 due to the dominance of the state and cooperative ownership of land. As a result of the social and economic transition of the country at the beginning of the nineties, the property structure changed radically and private property was restituted by various entitlements. The transformation brought about the dominance of private property – similar to the European practice – and in consequence of this, the property structure established is extremely scattered. As a result of the privatisation, 5.6 million hectares were passed into the ownership of private persons; thus the average land area acquired by one person is only 2.2 hectares of land.

The small and sometimes scattered location of the land area as well as its fragmented status decreases the market value of the land and limits the chances of sale. The land market is also held up by unsettled rights of the property and its use as well as it is difficult to contact the proprietors registered. It is a special problem of the property structure that on one fifth of the agricultural area (on 1.5 million hectares), communities of joint ownerships were established and as such the areas of the individual proprietors are in fact unmarketable (in spite of the purpose to sell). Undivided properties limit not only the land market but also the cultivation, as the proprietors can only rarely agree on the use of the parcels in joint ownership and therefore they often rent such parcels (Biró et al. 2005).

There are more and more proprietors who apply to the land registration offices for demarcating their property because of sale; in the case of 80% of such areas applications for division were submitted to the offices. It is difficult to divide the area because there are rather scattered properties in these joint ownerships (1–2 Golden crowns[1] or Golden crown fillers!) and a significant part of the proprietors are unknown or unreachable. Lacking an executive decree it is the civil code, which regulates the cancellation of joint ownerships (the measurement of the properties). This is why instead of the agreement, of two thirds of the proprietor anonymity is required, which is almost impossible.

INCREASING LAND PRICES AND LARGE EXTREMES

Land prices are affected by numerous factors varying by regions. The interviewees thought that the most important factors are the type of farming, location and position of the area as well as the quality of soil. Large areas in one unit increase the prices. It is more difficult to market the areas under the nature conservation or which are in small distance from the areas of nature conservation. Foreign buyers may also increase the prices mainly in the western part of Hungary.

By considering the fact that there is a great number of factors which have an effect on the land prices, it is not surprising that the prices vary a lot, not only by regions but also within one county. The survey showed that in general the prices fluctuate between HUF 150 thousand and HUF 1 million/ha, the national average is between HUF 300–800/ha. There are several counties from where prices over HUF 1 million were reported (Baranya-, Békés-, Pest-, Győr-Moson-Sopron-, Hajdú-Bihar-, Somogy-, Vas-, Szabolcs-Szatmár-Bereg counties), which reach already the average land prices[2] in France and Finland but which is still only half of the land prices of the old Member States (EU-15) and only one fourth of the prices in Spain (EUR 19 046), one eighth of the prices in the Netherlands (EUR 36 439) and twelfth of the prices in Luxemburg (EUR 53 297). Regarding the Hungarian national average, large fluctuation can be seen in Fejér and Nógrád County; the price of areas of low soil quality is HUF 10–50 thousand while the areas of 42 Golden crowns in Hajdúság are sold for HUF 1.4–1.7 million/ha. Higher prices are also paid for areas where it is expected to convert into urban areas (in Vas county HUF 1.5 million/ha, or in the vicinity of medicinal baths, for example in Bükk, HUF 2–3 million/ha). The results of the survey are also confirmed by the data of the website on land market (http://www.foldbroker.hu) (Table 1).

We could see the increase of the land prices in each county, which also confirms the opinion of those who do not wish to sell their land because they expect the prices to rise.

INCREASING LAND LEASE

In Hungary the share of land lease is increasing against the areas of own property; at present the share of area on lease in 52%. The large demand for

Table 1. Land prices by areas, 2005

Title	Quality (AK)	Accessibility	Economic environment	Price (1 000 Ft/ha)	Price (€/ha)
West Danube	15–25	good	good	400–600	1 481–2 222
South Danube	15–30	average	average	300–400	1 111–1 481
Budapest (surroundings)	15–25	good	good	500–2 000	1 852–7 407
Great Plan	15–40	average	average	300–500	1 111–1 852
North Hungary	5–15	average	weak	200–300	741–1 111

*exchange rate: 1 € = 270 Ft

Source: http://www.foldbroker.hu

[1] The unit of land quality measurement is golden crown (GK, in Hungarian: AK) in Hungary. <15 AK: weak; 15–25 AK: average; 25–35 AK: good; 35AK< very good.

[2] Refers to the prices of the EU-15 of 2000/2001.

land lease was significant mainly before the accession. Numerous owners decided to lease out due to the failure of farming and to lacking capital. Parallel to the increasing demand, a great number of contracts were renewed, due mainly to the favourable financing of production and to tax free contracts of the duration of more than 5 years. When contracts are renewed, on the one hand, in the earlier contracts the duration of 1–2 years were extended by the parties for 5 year or even more and, on the other hand, the rental fees are increased, in some cases significantly. Contracts were cancelled mainly due to overdue payments or to lack of cultivation.

In general, the rental fee is fixed in "wheat kilograms" determined on the basis of Golden Crowns (kg wheat/GC/year), that is, its price in HUF (based on the stock exchange price of wheat in the middle of summer). In contracts concluded earlier, the amount was calculated on the basis of the price of wheat guaranteed by the state. From last year, instead of the guaranteed price, the intervention buying up price should be taken into account but most leaseholders are not willing to accept it. It is characteristic for the contracts concluded most recently that the rental fee in determined in a fix amount, HUF/ha/year to be increased by the rate of inflation accordingly.

The development of the rental fees is influenced by the area subsidies to which the leaseholders are entitled and which lead to the increase of the rental fees. The proprietors in general determine the fee to be paid in a certain percentage of the subsidies (mainly 40–50%), which is also included in the rental fee. There are cases when a proprietor requests the total amount of the subsidy instead of a rental fee.

At present, the rental fee of an area of the average soil quality is HUF 500–700/GC/year (25–30kg wheat per GC per year), that is HUF 12 thousand per year; in the cases of good quality soil it may reach HUF 1 000–1 200/GC/year; of poor quality soil, 400–500 per GC/year is the general fee.

Following the accession, the rental fees increased significantly, by Golden crowns by HUF 100 on average, however, the fees paid for good quality soil increased more, by HUF 200–300.

THE FACTORS INFLUENCING THE RENTAL FEE

In addition to the quality of the soil, there are numerous factors, which may have an effect on the development of the rental fees. The fees are higher if the area can be easily reached, it is large and is an independent property, if it can be irrigated and is suitable for intensive fruit and vegetable production.

The extent of the fee does not depend significantly on the region or county where the area is situated. The fees are somewhat lower than the national averages in Bács-Kiskun and Nógrád county and higher in Fejér county. The areas in close distance to the border to Austria are exceptions. In the counties of the West Transdanubian region, the foreign leaseholders pay a much higher – sometimes even 2–3 times higher fees than the Hungarian ones. Concerning the amount of the fees and the terms of the contract of lease – with a few exceptions – there are no significant differences between the contracts concluded by legal and natural persons. Contracts with natural persons are characteristic mainly for the lease of small areas, they are more flexible and can better adjust to the terms of the contract. On the contrary, the landowners are willing to lease out large areas to associations; in general, both the confidence and security seems to be stronger towards associations. However, sometimes they consider private persons more reliable regarding payments or at least "more reachable".

In Vas county, the associations in foreign ownership and the Hungarian associations established recently pay higher fees, while the cooperatives regarding their financial situation are in a more disadvantageous position.

In Baranya county, the individual farmers are able to pay higher rental fees. In Bács-Kiskun county, the interviewees mentioned that the transformed cooperatives lease the land from their retired member for a lower price and in exchange they provide them some social services. In Tolna county, the situation is similar; the share of transformed cooperatives and economic organisation is significant in the land use; in addition to the rental fee, they provide some products to their retired renters.

In some settlement, even the giving over the right of using the land is a general practice, mainly in the case of family members. In Hajdú-Bihar county (in small settlements), it is characteristic that the leaseholders farming on large areas cartelise in order to maintain the rental fees at a low level.

In general, it holds true for the whole area of Hungary that the rental fee paid for agricultural land in state ownership is lower than the market fee. However, this fact – due to the low share of areas in state property – does not affect in general the development of the rental fee. The areas in state property are generally leased by large-scale associations, who may have benefit from the low fees to be paid over the other farmers of the region.

Another influential factor is when the producer is willing to pay a higher rental fee than the market price owing to the rotation required for the production of a profitable crop (for example, sugar beet).

THE DURATIONS OF THE CONTRACTS ARE LENGTHENING

Earlier the duration of the contracts of lease was only 1–2 months but after the introduction of the exemption of taxes for contracts longer than 5 years, the durations of the contracts has increased to 5 years in average. Another argument justifying the 5 years' duration is that the duration of accountability of the programmes of the National Rural Development Plan is also 5 years. In Komárom-Esztergom and Zala counties, the majority of the contracts, that is 70–75%, are of 10 years' duration. The associations of legal entities conclude contracts for longer durations than individual farms.

The effect of the accession on the duration of the contract is also ambiguous. A part of the experts in the counties forecast that the durations would lengthen in order to ensure safe production, while others think that short durations will become more general.

Experts of land registration think that according to the land lease, regulations in force can guarantee safety for the leaseholder only if the duration of the contract is fixed and is long (10–15 years). However, it is only possible if the lessor and the leaser can agree, because the present regulation does not require a minimal duration. This might cause problem in those regions where the lessors are in a more advantageous negotiation position and they can determine the term of the contract.

Contracts of lease of long durations are also important in the case of applying for credit as financial institutions can only provide credits if the durations are long. By summing it up, we can say that the present legislation does not provide a safety for plantations and livestock breeding.

MEASURES AND REGULATION WITH AN EFFECT ON THE LAND MARKET

The experts interviewed made several proposals for the amendment of the present legislation concerning the duration, the fees, and other terms of the contracts. They think it would be necessary to define in the Act on Land the minimal duration of the contract of lease even if following the introduction of the exemption of tax it increased from 1–2 to 5 years.

The upper limit of the duration of the contracts would also be determined, or rather guidelines would be provided by regions for the determination of the fees. It would be important to determine the rental fees in a uniform way, on the basis of intervention price of winter wheat and thus the inflation could be taken into account.

They also made some proposals for simplifying the bureaucracy of the contracts, which might lead to decreasing the number of verbal contracts. The sanction of the breach of contracts would be stricter and the legal protection of leaseholders would be increased. Similar to several Member States of the Union, for land lease skills and qualifications would be required. According to the most recent draft, the planned governmental measures (ensuring area for animal breeding plants, pre-emption right of the leaseholders) will expectably intensify the land market, however the extent of the impacts can hardly be forecast and for this further analyses are required.

EXPECTED CHANGES OF THE LAND MARKET

The unambiguous opinion of the experts is that the intensification of the land market can be expected. A motive of land acquisition is the expected increase of the land prices; this will encourage the land purchase for investment. Land purchase might also be encouraged by the fact that production can mainly be ensured on land in own property. However, the tendency that the number of farmers who choose farming as a full time job is decreasing and this strengthens the land lease. Therefore, in the future land lease will increase and a slight increase in sale is expected. The opinions of experts in Győr-Moson-Sopron county are somewhat opposing; they think that the reason is the increasing area used for industrial and other purposes (housing). However, on the long-term they expect that the financial situation of farmers will improve and the role of land lease generated by lifting the ban on land acquisition of associations will also increase.

On the long-term, that is of 5–10 years' time, the increase of the rental fees and of land prices are expected to increase. However, the opinions of the experts vary a lot regarding the extent of the increase and the development of the Hungarian prices compared to the European prices. Some experts think that even after one decade the Hungarian land prices will be down to the average prices of the Union, but others forecast that due to the favourable weather conditions and good soil quality, the prices will exceed the average price level. The extent of the increase in land price depends mainly on the efficiency and profitability of farming as well as on the amount of subsidies obtained. We can forecast that rental fees will increase by a larger extent than land prices.

By summing it up, we can conclude that due to the short time elapsed since the accession and to the uncertainties of the subsidies, no significant change can be seen in the land market. The increase of the fees can already be seen in several counties but may be another 2–3 year are required to be able to analyse the changes reliably.

CONCLUSION

Our paper analysed the Hungarian land market and the changes occurred since the EU accession and the survey shows that the landed property market in Hungary is in a state of anticipation. In the long-term, that is of 5-10 years' time the increase of the rental fees and of land prices are expected to increase. However, the opinions of the experts vary a lot regarding the extent of the increase and the development of the Hungarian prices compared to the European prices. Some experts think that even after one decade the Hungarian land prices will be down to the average prices of the Union, but others forecast that due to the favourable weather conditions and good soil quality, the prices will exceed the average price level. The extent of the increase in land price depends mainly on the efficiency and profitability of farming as well as on the amount of subsidies obtained. We can forecast that rental fees will increase by a larger extent than land prices.

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