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**CONDITIONS OF AGRICULTURAL LAND PRICES DEVELOPMENT IN  
POLAND**

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**ABSTRACT**

The aim of the paper has been to diagnose factors determining agricultural land prices, classifying them and determining which of them plays the most important role. The considerations were based on selected subject literature, the results of researches conducted by other authors, as well as analysis of statistical data from the Central Statistical Office of Poland and Eurostat. Factors determining agricultural land prices in Poland can be divided into two groups: 2) Market: supply and demand for agricultural land allotted to agricultural production; supply and demand for agricultural land that can be, in compliance with the binding law, allotted to purposes other than agricultural; simultaneous functioning of two market segments - private (on which a majority of land trading is conducted among farmers) as well as the state market segment – the Stock of Agricultural Property of the State Treasury managed, on behalf of the owner - the State Treasury, by the state institution - the Agricultural Property Agency; profitability of agricultural production. 2) Non-market: historical conditions – dominance of private property in Polish agriculture, both in the market economy and in the previous economic system; tradition, culture - passing farms from generation to generation; Poland's accession to the European Union and covering Polish farmers with common agricultural policy instruments; ending the transitional period of purchasing Polish agricultural properties by foreigners on 1 May 2016. After this period, the hitherto limitations (special permits) for foreigners in purchasing agricultural properties in Poland were lifted.

**Keywords:** *Agricultural Property Agency (APA), price of agricultural land, agricultural land market.*

**INTRODUCTION**

Economists consider land, next to capital and labour, as a classical production factor. They underline that land is a limited and immobile asset, which significantly affects the specification of the land market. Furthermore, they also draw attention to its basic function, that is, food production (Marks-Bielska, 2014a; Milczarek-Andrzejewska and Zawali ska, 2015). The key determinant of the market mechanism, including the scale of trading in agricultural properties, consists in the price of this stock. At first, agricultural land prices were significantly diversified depending on the quality thereof. Empirical studies prove that currently, the quality

of land determines agricultural land prices to a negligible extent. These results from the possibility to conduct agrotechnical treatments improving soil properties as well as purchasing properties for purposes not related with direct agricultural production. Currently, the determinants of agricultural land prices are as follows: agricultural raw materials' prices, productivity of land, level and character of agricultural subsidies, as well as designating production areas (Dige 2010).

In the case of transactions covering whole farms, the unit price per ha of property decreases together with the size of the subject of trade. Land prices are also affected by: the proximity of the purchased plot with previously owned lands, and then soil valuation class, the possibility of using the property alternatively, the type of agricultural land, and the supply of land in a given area. Land prices are also influenced by the profitability of the agricultural sector. A deteriorating income situation frequently causes postponing the decision on selling land by small farms, and the increasing profitability of agriculture causes an increase in the demand for land, which contributes to an increase in the price thereof (Majchrzak, 2015).

Each plot of land, if it only has any value from the economic point of view, has its price. Not because the input for production thereof increased, but because it fulfils specific functions and constitutes a source of future benefits – it generates income.

Prices of natural resources, including land, developing in free markets and resulting from demand-supply relations constitute an indispensable condition of rational economy (Ma niak, 2013). The price of land in the developed market economy plays a significant role, since it constitutes an element of investment profitability in agriculture, a basis for the financing of any activities in a farm with outside capital (in particular in the case of bank loans, where it constitutes grounds for mortgage debt insurance), as well as the primary and most stable component of a farming family's assets (i. e. property, capital). Moreover, as a component of assets it is the object of inter-generational transfers of goods or market turnover (sale) (Klank, 2008).

We deal with land price primarily when there are natural or legal persons who express their willingness to purchase it. This price is determined by, for example, comparing its value to the value of other land, the price of which is known. Land price can also be determined on the grounds of the land rent it gives. In another approach, the land price constitutes the cost that must be incurred by a person who does not have land and wants to utilise it by purchasing or leasing it.

Land prices are very diverse, according to the usefulness of particular land plots, soil quality and their natural fertility, the situation in the market, the condition of the environment, etc. Irrespective of spatial diversity, prices also change over time (Ma niak, 2013; Marks-Bielska and Lizi ska, 2015).

Agricultural land price in the market economy is decided not only by its supply and demand. It results from specific, aforementioned features of this stock, and covering the land market with state interventionism. Legal provisions concern, e. g. land allocation due to its quality (the best, fully agriculturally valuable land cannot be allocated to afforestation or to construction – this status cannot be changed in the case of every agricultural land plot).

In Poland, due to the characteristics of the ownership in agriculture before the system transformation which started in this economic sector at the beginning of the 90s<sup>1</sup>, two simultaneously functioning and intertwined agricultural land markets (private and state) developed (Marks-Bielska, 2014a).

The aim of the paper has been to diagnose the factors determining agricultural land prices, classifying them, and determining which of them plays the most important role.

### **MATERIALS AND METHODS**

Achieving the aim required reviewing the subject literature, referring to the results of relevant researches conducted by other authors as well as the analysis of secondary data. Statistical data from EUROSTAT, the General Statistical Office of Poland (GUS), the Agricultural Property Agency (APA), the Ministry of the Interior, and reports of the Institute of Agricultural and Food Economics – National Research Institute (IAFE-NRI) *Market of Agricultural Land... 2005-2015* by Sikorska (ed.) were used. The report has been prepared under the implementation of Task 2, within Topic II, entitled: "Social polarisation versus economic stability in the development processes of agriculture and rural areas" as part of the Multiannual Programme of IAFE-NRI on "The Polish and the EU agricultures 2020+. Challenges, chances, threats, proposals".

### **RESULTS AND DISCUSSION**

The land market in Poland can be conventionally divided into two segments – the private market (called neighbourly trade between private entities) and the state market (among others, state land included in the Stock of the Agricultural Property of the State Treasury managed by the state institution – the Agricultural Property Agency)<sup>2</sup>. These markets are intertwined.

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<sup>1</sup>In Poland, in contrast with the majority of Central and Eastern Europe countries, before the start of system transformation, the ownership structure in agriculture was characterised by a dominance of private farms (individual and cooperative), which constituted 99.9% of farms, having 75.7% of agricultural land, utilising 81.1% of the total amount of agricultural land being utilised by the total number of farms. In 1990, state farms utilised 18.7% of the whole of agricultural land (18.9% of farms being used) and generated 77.3% of global, 76.3% of final, and 73.1% of commodity agricultural production.

<sup>2</sup>After 1989, during system transformation, ownership transformation processes took place in Polish agriculture, as a result of which, among others, state farms were to be privatised. Pursuant to the Act of 19.10.1991 on the management of the agricultural property of the State Treasury (Journal of Laws of 1991, no. 107, item 465, as amended), state farms were eliminated and included in the Stock of the Agricultural Property of the Treasury. Furthermore, lands from the State Land Fund (SLF) and the ones purchased by the Agricultural Property Agency (APA) on the private market were also included in the Stock. In Poland, this Stock is managed by the state institution appointed on the grounds of the aforementioned Act – the Agricultural Property Agency (APA), until 2003 known as the Agricultural Property Agency of the State Treasury. As of entering into force the act on agricultural system development (2003), the activities of the Agricultural Property Agency refer not only to the state agricultural property market, but also to monitoring the transactions of transferring the ownership of agricultural property on the private market (Marks-Bielska, 2013).

Currently, the trade in agricultural properties in Poland is regulated by, among others, the act on agricultural system development (Journal of Laws of 2003, no. 64, item 592). The intention of the adopted provisions was to accelerate the land concentration process and to improve the agrarian structure (Marks-Bielska and Babuchowska, 2013).

In the private market the supply of land intended for sale is limited, both by the benefits resulting from features thereof (among others, receiving subsidies from EU funds, the possibility of cheap insurance provided by the Agricultural Social Insurance Fund (ASIF)<sup>3</sup>, as well as the date of ending the period limiting the purchasing of land by foreigners – 1 May 2016, since in Poland, a negotiated 12-year, so-called, transitional period regarding a lack of possibilities of purchasing Polish land by foreigners without a permit from the Minister of the Interior was binding) (Sikorska, 2013; Marks-Bielska, 2014b).

The characteristic phenomenon in the agricultural land market comprises the difference in prices received by the Agricultural Property Agency (lower prices) and in the trade among farmers<sup>4</sup>. Land is sold by this state institution predominantly in the territory of northern and western Poland, where state land supply remains higher and, at the same time, the demand is lower, especially from individual farmers.

The price of the property of the Stock of the Agricultural Property of the State Treasury is set at an amount not lower than the value of this property, which is determined by an independent appraiser<sup>5</sup> selected through tender, on the grounds of local market research. The price of the agricultural land can also be set at an amount not lower than the total value of the land determined with a stipulation of the estimated rates of one hectare and the price of 100 kg of rye, in compliance with the provisions on agricultural tax and the values of these land components indicated by an appraiser. In practice, the valuation with estimated rates is used relatively rarely (Sikorska, 2013).

The starting price of properties sold through tender is set at an amount not lower than the value of a given property. Furthermore, costs incurred preparing the property for sale (e. g. costs related with collecting necessary documentation,

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<sup>3</sup>Owners (users) of a farm can buy insurance in ASIF. This insurance is cheaper than insurance in the Social Insurance Fund (ZUS), covering social groups other than farmers. As a result, sometimes farm owners conducting additional (apart from agricultural) or basic (other than agricultural) economic activity benefit from insurance in ASIF.

<sup>4</sup>However, it should be underlined that this comparison has a limited cognitive value, as prices in the neighbourhood market refer to arable land, and in reference to the Treasury land, agricultural lands (arable land, grassland and waste lands) are taken into consideration. These are not identical categories.

<sup>5</sup>Methods from a comparative approach (comparison in the pairs method and the average price adjustment method) are most frequently used in the valuation of non-developed agricultural land included in the Stock of the Agricultural Property Agency. Both methods consider property features to have a significant impact on the value of agricultural property (Kurowska et al., 2014).

valuation costs, surveying works costs) are also taken into consideration (Kryszk et al. 2014).

The dynamics of land prices in 2014 in comparison with 2004 in Poland were higher in the state market (730. 00%) than in the private market (598. 65%). This may have resulted from boosting the sale of state lands and reluctance to divest land, which, apart from incomes from production, can also generate other incomes (e. g. related with common agricultural policy instruments), as well as an expected increase in prices after ending the transitional period of the purchasing of agricultural properties by foreigners. An amendment to the act on agricultural system development (passed by the Sejm of the Republic of Poland on 5 August 2015, signed by the President – 27. 08 2015, entered into force – 1 May 2016) is also of importance, as pursuant to this act it has been forbidden in Poland to sell agricultural land from the Stock of the Agricultural Property of the State Treasury for five years since the effective date of this legal act.

In the years 2003-2014 the biggest boost in agricultural land prices, both on the private and the state markets, was observed in 2004 in comparison with 2003 (on the private market 138. 61%, and on the state market – with the contribution of the Agricultural Property Agency – 150. 54%), as well as in 2008 in comparison with 2007. However, in this case the discrepancies between the private and the state markets were smaller than earlier (136. 89% on the private market and 138. 06 – on the state market) (fig. 1). Poland's accession to the EU (1 May 2004) and covering Polish agriculture with common agricultural policy instruments contributed, among others, to the increase in land prices in 2004.

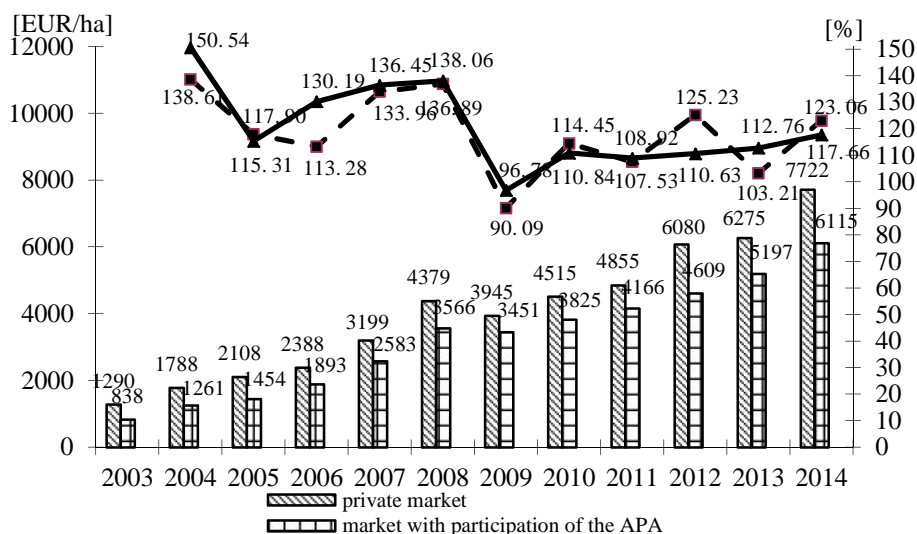


Fig. 1. Agricultural land prices on private and state markets (with the contribution of the Agricultural Property Agency – APA) and dynamics of prices on these markets [previous year = 100%]

\*Source: authors' own elaboration on the grounds of GUS and EUROSTAT data.

Results of the analysis conducted by Zawali ska (2011) showed that the common agricultural policy (joint pillars I and II) increases average prices of agricultural land by approximately 27%, in comparison with the situation that would exist if such a policy was non-existent. Pillar I causes an increase by approximately 21%, and pillar II by approximately 6%. Therefore, the impact of pillar I on the increase in the land prices is definitely higher than the one of pillar II. On one hand, it results from a difference in the form of granted support, and on the other, from the difference in the amount of support between pillars. In the case of pillar I, direct payments are higher and are granted in a form directly related with land, i. e. area subsidies per hectare within a uniform and supplementary area payment. In the case of pillar II, funds are paid in the form of different economic instruments, frequently not directly related with land, such as: investment subsidies (e. g. on modernisation activities), covering costs (e. g. of training, functioning of a production group), income transfers (e. g. structural rents) and only a part of activities is executed in a form of area payments (for areas of less favoured areas) (Milczarek-Andrzejewska and Zawali ska, 2015).

Due to the fact that the value of land in Poland is lower than in EU-15 states, it can be expected that (after ending the transitional period in the purchasing of agricultural land by foreigners) the availability of land for community citizens will contribute to increasing the price of land to the average price binding in the EU. The increase in the price of this basic production factor in agriculture that is intrinsically limited will also be affected by the forecasted increase in the demand for food (Marks-Bielska, 2014b).

In Poland, the private-family form of farm ownership dominates, which is expressed in, among others, passing on farms by way of donation, and a low tendency of sale, in particular in the case of gifted or inherited agricultural land. Intentions with regard to owned land concentrate around passing it to the next generation in the family. These facts strongly suggest the strong impact of informal institutions on the agricultural land market in Poland. This state of affairs is also affected by the historically based attitude of Polish farmers to land as a cultural and symbolic value.

A land purchaser, depending on his or her needs and preferences (e. g. land quality, location, future intention – cultivation, investment, construction) or expected increase in land prices (e. g. 2004 – Poland accession to EU, 2016 – the end of the transitional period for the purchasing of land properties by foreigners) is willing to allot a given amount to purchase a particular agricultural land plot. The price level, both in trade among farmers as well as the price of the land of the State Treasury managed by the Agricultural Property Agency, is primarily developed by the market, but it also depends on the instruments of the common agricultural policy and the national policy concerning this production factor.

The agricultural land market reflects the general macro-economic situation and structural changes in agriculture. The accession of Poland to the European Union and, therefore, the appearance of various forms of financial aid, including direct subsidies, the value of which depends on the size of a farm, contributed to an

increase in interest in purchasing agricultural land. Thus, the accession to the European Union was a special period in land price development in Poland determining this process.

The price of land can be decided by the type of rent expected by the owner or future buyer. Land rent is usually defined as extraordinary revenues constituting a difference between increased costs resulting from particular land features. These costs can also be related to agrotechnical procedures, conducted or intended investments, or other technical, economic and legal activities.

Agricultural land prices depend on many factors, among others, demand, the economic situation of farmers, the profitability of agricultural production, location, the size of plots, and the possibility of changing their use.

Agricultural land management is a significant component of agricultural policy as well as the development of rural areas. Despite the fact that a vast majority of the aforementioned stock in Poland is privately owned (predominantly by individual farmers), more and more often they become private-public good. The aims, directions and methods of managing agricultural land stocks are more and more frequently set not only from the point of view of land as a basic production factor in agriculture, but also as main values important for the whole society (natural, cultural and aesthetic values, etc.). The problem consists in combining an improvement in the effective use of agricultural land as a basic agricultural production factor, and land as a carrier of goods for the whole society. The success of this conception depends on higher remuneration for the execution of social aims. However, in order to effectively execute tasks within the use of stocks of agricultural land resulting from multifunctional agriculture, it is necessary to improve the education and skills of farmers in the scope of agricultural production, as well as regarding the execution of the aims of non-production farms (Marks-Bielska and Żukovskis, 2011).

Demand limitations in agricultural land trade will be influenced by decreasing stocks of land owned by the State Treasury. Purchase and sale transactions in this market segment will cover land purchase by previous leaseholders (this will be possible five years after the amendment of the act on agricultural system development entering into force, as of 1 May 2016), which, as an effect, will not significantly influence changes in agrarian structure.

Land in the economic dimension is a natural factor of a country's wealth, a production factor that is unique in location and structural meaning, a fixed and immovable asset, an object of value, which significantly influences legal provisions regulating trade in agricultural land. The aim of legislated legal acts in this scope is to, predominantly, conduct a relevant policy aimed at developing agrarian relations in a given country, in particular, desirable area structure.

An important component of these regulations is the supervision of purchase and sale transactions in which foreigners also participate. Factors that can limit their participation in the agricultural property market consist in provisions regarding, among others, the period and place of residence of a potential buyer of agricultural land, or his or her professional experience related to agriculture.

Factors determining agricultural land prices in Poland can be divided into two groups:

1. Market:

- supply and demand for agricultural land allocated to agricultural production;
- supply and demand for agricultural land that can be, in compliance with the binding law, allotted to purposes other than agricultural ones;
- simultaneous functioning of two market segments - private (on which a majority of agricultural land trading is conducted among farmers), as well as the state land market – the Stock of Agricultural Property of the State Treasury managed on behalf of the owner - the State Treasury, by a state institution – the Agricultural Property Agency;
- profitability of agricultural production.

2. Non-market:

- historical conditions - dominance of private property in Polish agriculture, both in the market economy and in the previous economic system;
- tradition, culture - passing farms from generation to generation;
- Poland's accession to the European Union and covering Polish farmers with common agricultural policy instruments;
- ending the transitional period of the purchasing of Polish agricultural properties by foreigners on 1 May 2016. After this period, the hitherto limitations (special permits) for foreigners in purchasing agricultural properties in Poland were lifted.

### CONCLUSION

Identifying which factors are the most important and which are less important in Polish conditions is very difficult and requires in-depth research. Due to the specification of land (non-enlargeable, immovable, limited good), the State's intervention in the agricultural land market is necessary. Agricultural land is a multifunctional good constituting not only a basic factor of agricultural production, but also a natural, market and capital good (agricultural land price has been dynamically increasing); therefore, it is necessary to protect this stock and manage it reasonably.

On the grounds of the recent amendment of the act on agricultural system development that entered into force on 1 May 2016, in Poland state intervention in the agricultural land market is higher than previously. The introduced changes, concerning, among others: impeding the sale of properties included in the Stock of the Agricultural Property of the State Treasury for a period of 5 years from the entering into force of the aforementioned act, preferring leasing as a form of utilising the agricultural lands of the State Treasury, the pre-emptive right vested in the Agricultural Property Agency regarding both transactions in the private market (individual farmers), as well as stocks and shares in the commercial companies being the owners of agricultural properties (the pre-emptive right is also vested in the lessee being an individual farmer) were maintained in order to eliminate the possibility of speculative purchases of land. A ban was introduced on selling or



giving agricultural property into the possession of other entity without court consent for 10 years since the day of purchasing it (with the exception of the Agricultural Property Agency and local government units). Agricultural land can be purchased by individual farmers<sup>6</sup>.

Upon the consent of the President of the Agricultural Property Agency expressed in an administrative decision, which is appealable to the Minister of Agriculture and Rural Development, agricultural properties can also be purchased by entities giving a guarantee of due performance of agricultural activity. The consent to purchase agricultural property can also be obtained by a natural person intending to start a family farm. In the case of a lack of consent to purchase agricultural property, the Agricultural Property Agency, upon the seller's application, is obliged to purchase this property at the market price.

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<sup>6</sup>Individual farmer – a person having agricultural qualifications, personally running a farm of an area not larger than 300 ha (family farm) and residing on this farm for at least several years, who is subject to farmers' social insurance in its full scope if the farm area exceeds 20 ha of agricultural land.

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