

# **Rural Land Markets in Central and Western Europe**

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**Key words:** Central European Countries (CECs), Western European Countries (WECs), Rural Land Market, Ownership Structure.

## **ABSTRACT**

After the World War II political dictatorship, one party system and socialist command economy were introduced in the Central European countries, whereas in Western European countries political democracy and market economy have remained.

In the early 90's there were political and economic changes in Central Europe introducing the multi-party democracy and market economy. These countries carried out mass privatisation, compensation and restitution procedures to establish and develop active land markets.

As a result of their efforts the real estate and land markets have started functioning but especially the activity of rural land markets are still very poor comparing them with the Western European countries.

This paper makes a comparison between the Western and Central European rural land markets based on questionnaires issued by the FIG Commission 7 working group 3 on Land Markets and on statistics, presented by the Working Party on Land Administration (WPLA) of the United Nations Economic Commissions for Europe (UNECE)

The paper focuses on the basic conditions under which the rural land markets are operating and includes the following topics.

Legal and institutional framework, Ownership structure, Land lease conditions, Land consolidation, Land pricing and mortgaging of agricultural land

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## 1. INTRODUCTION

The FIG Commission 7 Working Group 3 on Land Markets started its activities in 1998. As a first step we worked out a detailed working plan for the period 1998-2002 aiming to collect information concerning the activities of land markets from all over the world. We also aimed to present a summary and real picture about land markets and related activities at the end of the four years work.

To get sufficient information the Working Group 3 issued two series of questionnaire to Commission 7 delegates and other professionals for completion. The Questionnaire II has focused on issues of rural land markets. There are two reasons of dealing with activities of rural land markets with special interest.

A. 1, The urban land market is properly working not only in developed countries but more or less in developing countries and countries in transition as well. In CEC s there are several economic incentives resulted active urban land markets and the value and price of urban lands and properties show not much difference and are sometimes similar to those in Western European countries.

Some incentives.

- no restrictions for foreigners, legal persons buying urban properties
- increasing value of foreign investments in industrial and residential properties
- permanently increasing value of urban land and property
- good business investing in urban properties for local and foreign investors as well
- CEC s approaching to EU

A. The agricultural land as property is more sensitive question in every nations especially in developing countries and countries in transition and rural land markets are less active and not self regulating in these countries comparing it with the developed world.

There are several reasons of differences between the developed and developing world but this presentation would like to focus on some basic conditions under which the rural land markets are operating.

The size of this presentation doesn't allow us to deal with every region, continent in comparison and the number of information we have received from Latin America, Africa and Asia is also not enough to make conclusions.

In respect of above we have chosen Western and Central European countries with similar historical background before the World War II. but different political and economic system after 1945 and changes in Central Europe at the beginning of 90s.

We have received, selected and evaluated information from the following countries

Western European countries:

- The Netherlands
- Denmark
- Germany
- England and Wales
- Sweden
- Finland
- Greece
- Austria

Central European countries:

- Czech Republic
- Hungary
- Poland
- Slovak Republic

## **2. HISTORICAL BACKGROUND**

Before the World War II there was political democracy and market economy in the majority of European countries including Central European countries.

There was no big gap between the western and central European economies, the operation of legal and institutional framework concerning land and property was similar in European countries. However it's true that the activities of land markets in economies was not so important factor between the two world wars due to the feudal like ownership structure of rural land, relatively much of agricultural lands was owned by big owners, landlords. This situation has been changed in WECs after the World War II and functioning of active land markets became key component of the market economy.

After the World War II Europe has been divided into two.

Political dictatorship, one party political system and so called socialist command economy was introduced in the majority of Central European countries whereas in Western European countries political democracy and market economy have remained.

In the socialist countries private properties including agricultural lands were nationalised and the state became the major owner of lands and other properties. The legal and institutional framework concerning land and the banking system was also changed and adjusted to the new situation required by the political dictatorship and the command economy.

In the early 90s there were political and economic changes in Central Europe introducing the multi party democracy and market economy. These countries carried out mass privatisation, compensation, restitution processes to establish and develop an active land market. As a

result of their efforts the real estate and rural land markets have started functioning but especially the activity of the rural land markets is still very poor comparing it with land markets in Western European countries.

After the World War II in the Western European countries when they have been recovered, the activity of land markets became more and more important and they fit their legal and institutional framework concerning land according to the demands required by the market economy and the society.

The presentation aims to describe the legal, institutional and economic conditions of the rural land markets in Central and Western Europe. These conditions can be considered as key indicators of the operation of rural land markets and includes the following topics:

- Legal and institutional framework
- Ownership structure
- Land lease conditions
- Land consolidation
- Land pricing and mortgaging of agricultural land

The description and comparison of the key indicators between the Western and Central European countries can give explanations what are some of the reasons of the poor performance of rural land markets in the Central European countries.

We have to point out that the description based on the questionnaires completed by country representatives, figures and data have been received from them.

## **2.1 Legal and Institutional Framework**

In Western European countries the legal framework concerning lands and properties has been existing since long time according to the requirements of the market economy influencing the land markets. There is land law, land registry law, land consolidation law, land lease law in each country supporting the rural land markets, although the legal environment and institutional framework is varying from country to country but must fulfil the demands required by the society and the market economy.

In Central European countries before 1990, the legal framework concerning lands and properties was fit to the requirements of the command economy and the one party socialist political system. The state had the privilege in ownership according to law and it was quite common to regulate the rate of the private ownership. The land law, land consolidation law supported the nationalisation and collectivisation of agricultural lands and the final political aim was the 100 % of state and co-operative ownership. However, collectivisation was implemented differently in each country due to the different historical background and political situation and thus resulted different mixture of property rights.

The institutional framework in the Central European socialist countries also served the political and economic aims of the socialist regimes though the operation of land registry and

cadastre- as the most important infrastructures for land markets- was also different in the Central European countries.

In the former Czechoslovakia and Poland the operation of land registry and cadastre was not continuous, in Hungary there was a fully operational land registry without any gap during the socialist period.

In respect of above the task concerning the legal and institutional reforms was very different in the Central European countries but it was common to implement the registration of new ownership resulted the mass privatisation, restitution, compensation processes.

The technical modernisation, computerisation of the land registry and cadastre was also essential because these institutions have been far behind competing with the similar Western European institutions.

The Central European countries started the development and modernisation of institutional framework together with the legal changes as well. The harmonisation of laws concerning lands and properties, with the legal environment in EU countries was also important because the majority of Central European countries are candidates for EU membership.

At the end of 90s, according to the evaluation of completed questionnaires the Central European countries have developed the legal and institutional framework like Western European countries earlier. More or less the 100% of properties have been registered (except Poland where only 60%) and each country covered by cadastral maps.

The legal registries have been automated but the automation of cadastral maps hasn't been completed. A good quality of digital cadastral mapping is very expensive and long term task. It seems now that the legal and institutional framework in Central European countries is similar but the performance of land registries and cadastres is still poor competing with the Western European countries.

The short transfer time is very important factor in a well operational land market therefore the good performance of institutions is essential requirement by land markets.

The average transfer time in the land registry in Western European countries is 1-5 days, in Central European countries is 30-90 days, but sometimes 1-2 years, creating backlogs.

There are several reasons of poor performance of land registries and cadastres in Central European countries.

A. The mass privatisation, restitution, compensation concerning land and properties have multiplied the number of transactions, changes. Land registries and other institutions haven't been prepared for the new situation resulted by the political and economical changes.

B. In some countries the legal, institutional, technical modernisation of land administration must be implemented simultaneously with the registration of the result of mass privatisation, restitution, compensation processes.

- C. The yearly number of transactions in Central European generally more than in Western European countries due to the privatisation processes and the introduction of the market economy.

	No. of parcels	No. of transactions
Germany	50,2 million	1, 5 million
The Netherlands	7,5 million	450 000
Hungary	9,2 million	2, 4 million
Poland	25 million	1, 4 million

- D. Lack of sufficient quality staff. The reasons: poor education of new staff and low salaries for civil servants.
- E. The technical modernisation, computerisation of land registries and cadastres have not been completed.

## 2.2 Ownership Structure

The privatisation processes generally completed in Central European countries but there are still quite a lot pending cases in the Czech and Slovak Republic even in the eastern part of Germany because of unknown original owners and other legal problems.

Apart from some difficulties specified above, the ownership structure of agricultural land is very similar in the Central and Western European countries at the end of 90s. In the Western European countries the private ownership is 60-80 %, in the Central European countries is 55-80 %, but according to the latest figure in Hungary the rate of private ownership is 87%. The ownership structure in Central Europe should be good enough for functioning the rural land markets but there are elements, influencing the performance of rural land markets negatively.

- Fragmentation of agricultural lands, resulted by privatisation processes
- Many of the new owners are not professional farmers
- Restrictions of buying agricultural land by foreigners and legal persons
- In some countries, like in Hungary, there are black, pocket contracts between foreigners and local owners, unregistered.

## 2.3 Land Lease Conditions

The rate of leased lands is very similar in Western and Eastern European countries. The average rate of leased lands is 30-40 % of the total area of agricultural land.

The half of Western European countries has no official land lease registration. In Central Europe only Czech Republic has no official registration. Land lease is also regulated by law

in Central European countries so land lease conditions don't influence the activity of the rural land markets negatively.

## **2.4 Land Consolidation**

Land consolidation projects have been effective tools in Western Europe since long time to support the agriculture and improving the activity of rural land markets. The land consolidation today serves not only agricultural purposes but supports the rural development, modernisation of road network and development of recreation facilities. There are very well functioning legal and institutional framework for implementing land consolidation projects. The state is always the major financier with contribution by owners.

The land consolidation will be the most important procedure in Central Europe in the near future creating economic agricultural property structure. During the privatisation processes the agricultural lands have been fragmented, the major part of state and co-operative farms have been allocated for compensation and restitution purposes.

The Central European countries approaching to EU and there are very strict requirements by EU for subsidising agricultural production, therefore the creation of economic property structure is essential. In respect of above land consolidation projects in Central European countries will serve agricultural purposes at the beginning.

In the majority of Central European countries special land consolidation law is existing, except in Hungary, but there are certain difficulties to start the implementation of major land consolidation projects.

- A. There is no special institution for implementing land consolidation in CECs.
- B. Land consolidation can be implemented by democratic way only. During the socialist period it was a tool for nationalisation and forming co-operatives. Professional farmers have very bad memory concerning land consolidation and the state must convince them about the advantages of land consolidation projects.
- C. The state must be the major financier of projects and it's essential to find financial sources for the expensive and long term procedures.

I am sure without land consolidation the rural land markets in Central Europe will not functioning properly.

## **2.5 Land Pricing and Mortgages**

The market value and price of agricultural land in Western European countries is high and marketable with real estates, however the price of agricultural land varying in different countries depends on the nature (extensive-intensive) or the importance of agricultural activities. In respect of the high value, the agricultural land can be mortgaged easily allowing land owners and tenants for investment and supports the efficient rural land markets.

The average price of arable land in USD:



The Netherlands	27,000	Germany	18-25,000
UK	10 –11,000	Denmark	10,600
Greece	7,500	Finland	4-5,000
Sweden	2,000	Austria	17,000

In Central European countries the price and therefore the market value of agricultural land is very low comparing with the price in Western Europe and not marketable with real estates. This is the reason of restrictions of buying agricultural land by foreigners and in some countries by legal persons. Banks don't accept agricultural land as collateral of mortgages.

Professional farmers have no sufficient financial sources, legal persons, foreigners are restricted to buy agricultural land. The state wants to protect local farmers by law until the conditions will change. Legal restrictions are understandable but the legal conditions and lack of mortgages concerning agricultural land resulted the poor performance of rural land markets in Central European countries.

In questionnaires there were not many replies from Eastern European delegates about the price of agricultural land except from Hungary and Poland.

The average price of arable land in USD

Hungary	6-700	Poland	800-1,000
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Comparing the price of agricultural land in the Western and Eastern European countries we can see the significant difference and it's quite obvious that states try to protect local farmers and restrict the buying of land by foreigners and legal persons for speculative purpose until the financial sources will be available for local farmers.

The reasons for these higher land prices in the WECs could be the relatively high profitability of agricultural production due to advanced production technology and protection of the agricultural market by the European Union and also the circumstance of a more competitive land market because of a relatively strong general economic development and the need to preserve land for environmental reasons

### 3. CONCLUSIONS

We have selected and examined few important key indicators concerning the operation of rural land markets in Western and Central European countries.

It's a fact that urban land markets are properly working but the activity of rural land markets are very poor in the CECs.

The legal and institutional framework serve and influence the activity of urban and rural land markets as well. Today the legal and institutional framework in CECs is similar to WECs but the performance of institutions concerning land administration sector is still not perfect. In

respect of above the poor performance of institutions can't be the reason of the less active rural land markets in CECs.

The ownership structure of agricultural land is also similar in the CECs resulted the privatisation processes. The rate of the private ownership is 60-80 % in the Western and Central European countries. It seems the ownership structure in CECs is good enough for functioning rural land markets properly.

The rate of leased agricultural land is about 30-40 % in both part of Europe, land lease activities are regulated by law in CECs as well, therefore the land lease conditions don't influence the activity of rural land markets negatively.

### **3.1 The Reasons of Poor Performance of Rural Land Markets in CECs**

1. At the beginning of 90s the rural population, local farmers have been one of the losers of changes however they were compensated and became owners of agricultural lands but they didn't have sufficient financial sources for investing and buying more lands in spite of the low price.
2. Because of the above mentioned circumstances governments wanted to protect local farmers, land owners issuing restrictions of buying agricultural land by foreigners and legal persons. As a result of restrictions the price and the market value of agricultural land remained low.
3. The privatisation processes have resulted the fragmentation of agricultural but there are no major land consolidation projects until now. In the majority of CECs land consolidation law is existing but the lack of special institutions and financial sources have delayed the implementation of land consolidation projects.
4. The market value and price of agricultural land is still very low in the CECs compering with those in the WECs. Because of the low market value of agricultural land banks don't accept land as collateral of mortgages, professional local farmers have no other sufficient financial sources. States must find out solutions to support local farmers financially if they do not want to keep restrictions for longer period. Without available financial sources for them investments in agriculture (resulting in a more efficient agricultural production) is not possible the market value and price of agricultural land remain low and the performance of rural land markets will remain poor for long. This resulting in a lot of disadvantages particularly for those countries approaching to the European Union.

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International Expert, Nigeria 1977-79, 1982-86

**Practical experience:** cadastral surveying and mapping  
International expert in cadastre, and land registry matters 1977-  
Advisor, consultant in EU Phare projects “ Computerisation of Land Offices “ in Hungary, 1991-  
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