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# Global Forum on Crop Production

Joint initiative of:



&



agri benchmark

## Land Cost and Land Profitability – A global Perspective

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Global Partners:

syngenta



JOHN DEERE

ufop



# Content

- 1. Outline of the analysis**
- 2. Land Rents & Land Prices**
- 3. Profitability Indicators**
- 4. Conclusions**

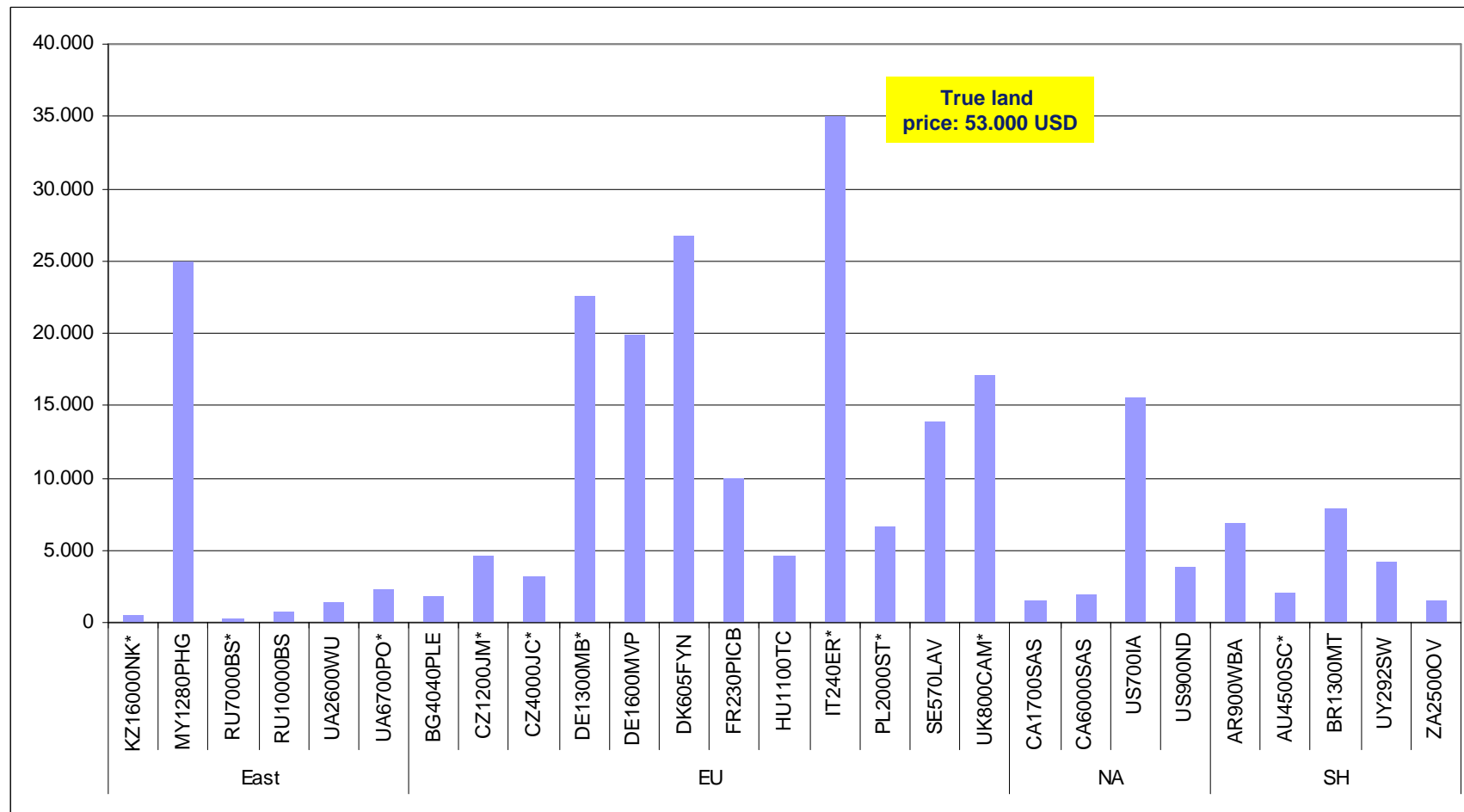
## **Outline of the analysis (I)**

- 1. In the EU land markets are heavily influenced by direct payments.**
- 2. Ground rent (profit plus land rent) is the key indicator for profitability of land use.**
- 3. The ability of land lords to capture value generated by farming can be measured by the share of land rents in ground rents.**
- 4. As far as land cost and land purchase prices are concerned, respective values for Ukraine and Kazakhstan have to be treated with great caution – no real land market do exists.**
- 5. We can't convert into figures: political risks and development of inflation as well as exchange rates.**

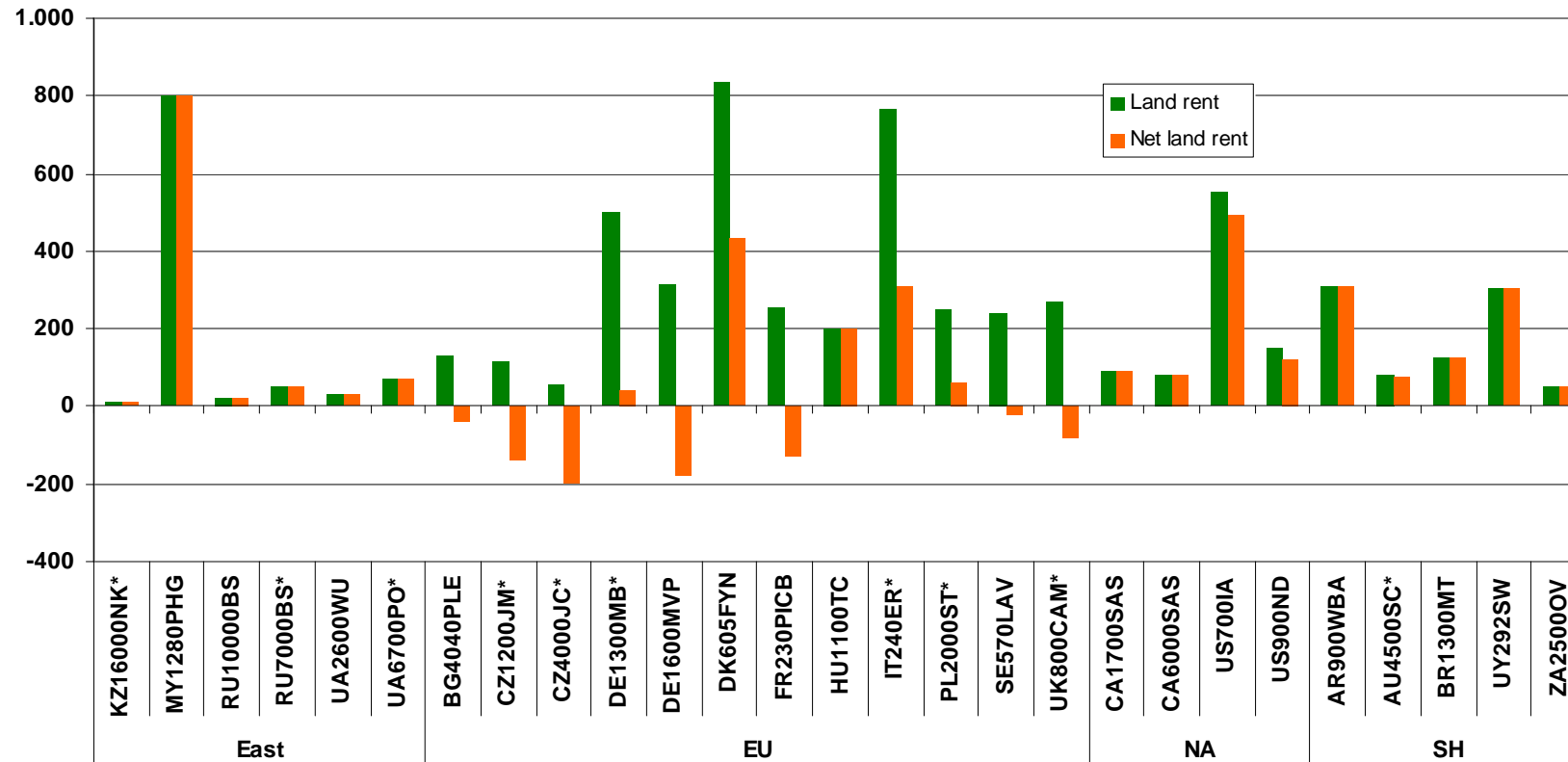
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# Land Purchase Prices for *agri benchmark* Farms (2010, in USD/ha)



## Land Rents and Net Land Rents\* for *agri benchmark* Farms (2008 – 2010, in USD/ha)

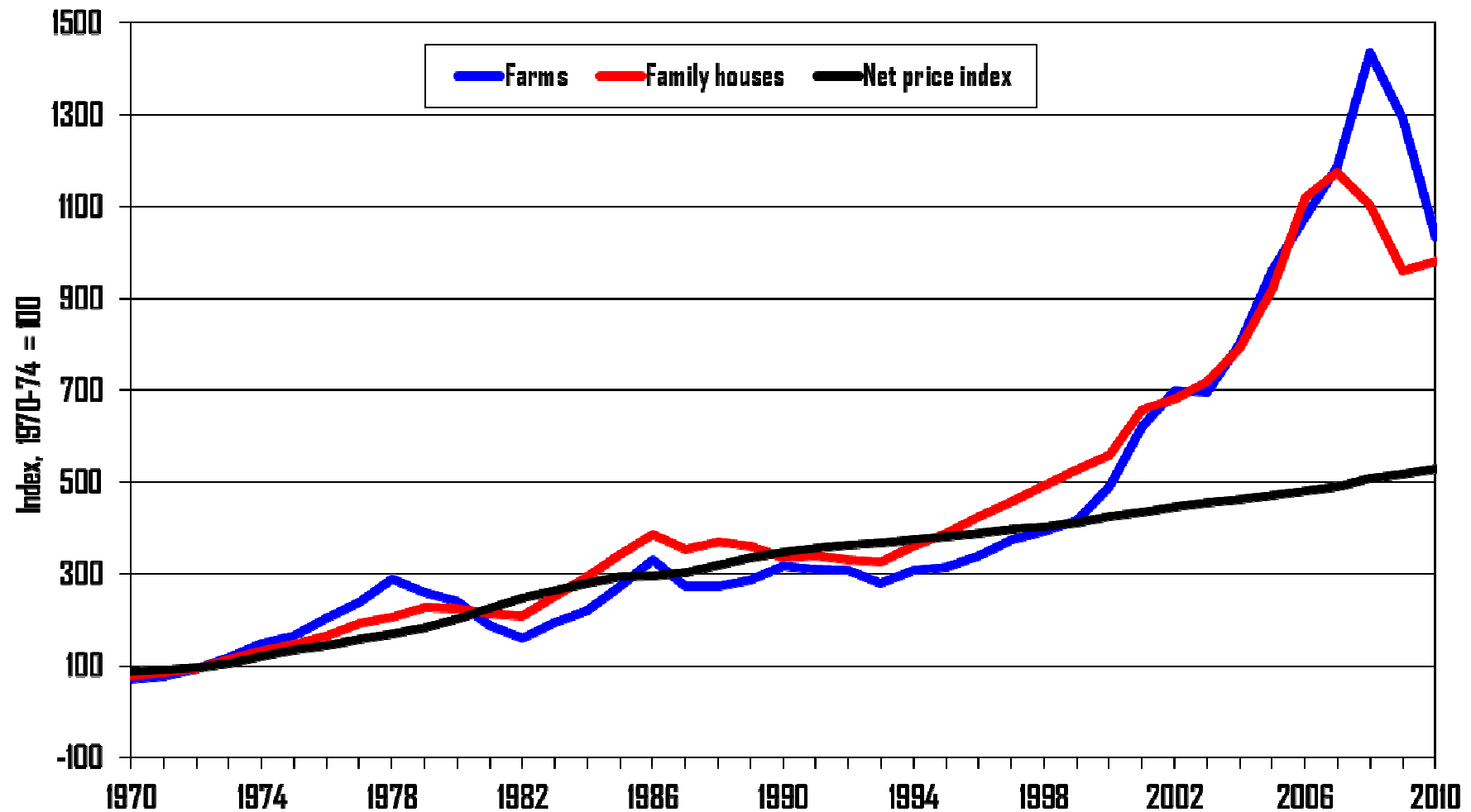


- Compared to developed land markets such as USA or AR gross rents for EU farms are on the same level (exceptions: DK and IT – high land prices because of livestock production & horticulture)
- But: including direct payments (net land rents), EU land rents are very low or even negative.

# Land Rents in Denmark

- **Models:**
  1. **Fixed Land Rent**
  2. **Variable I = Cereal price based adjustment**
  3. **Variable II = Cereal price based adjustment + share of decoupled payment**
  
- **Levels of Land Rent**
  1. **Sandy soil without irrigation 550 USD/ha (decoupled payment + 170 USD/ha)**
  2. **Average soil 700 – 850 USD/ha**
  3. **High potential (sugar beets, vegetables, high demand for land) 1.000 – 1.500 USD/ha**

# Development in Property Prices, Denmark



Source: Danmarks Statistik, own calculations

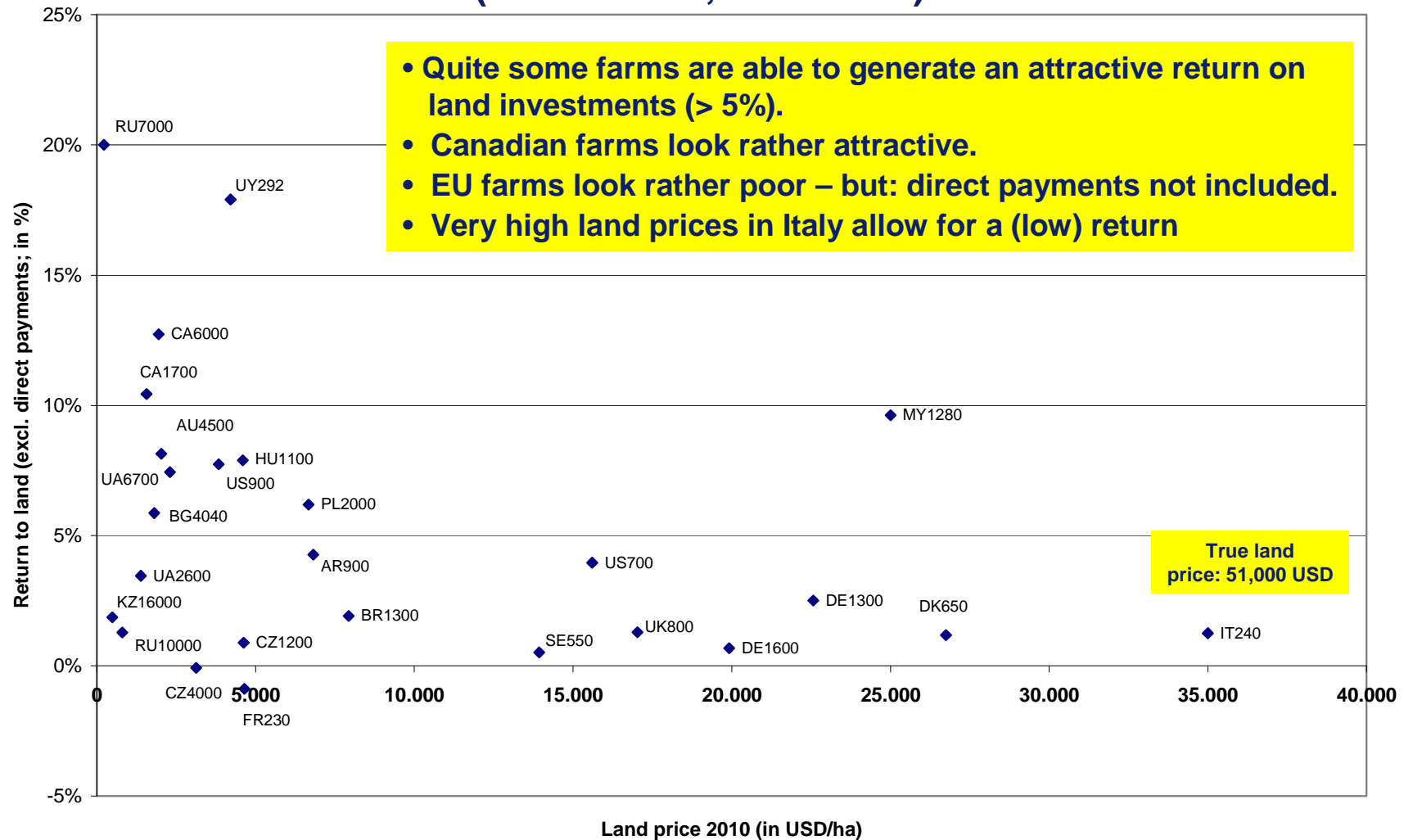


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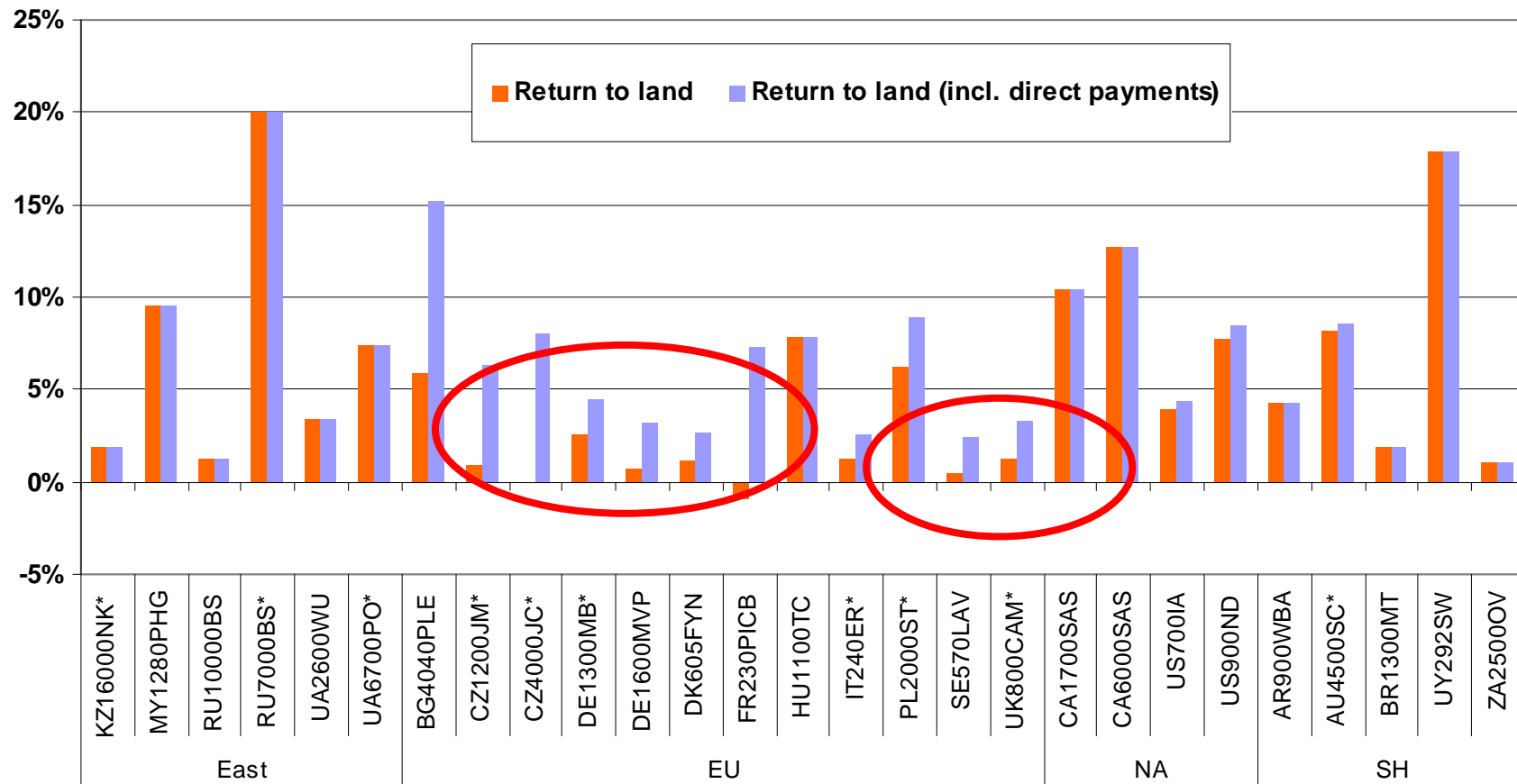
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# Ground Rent as Return to Land

(2008 – 2010, in USD/ha)



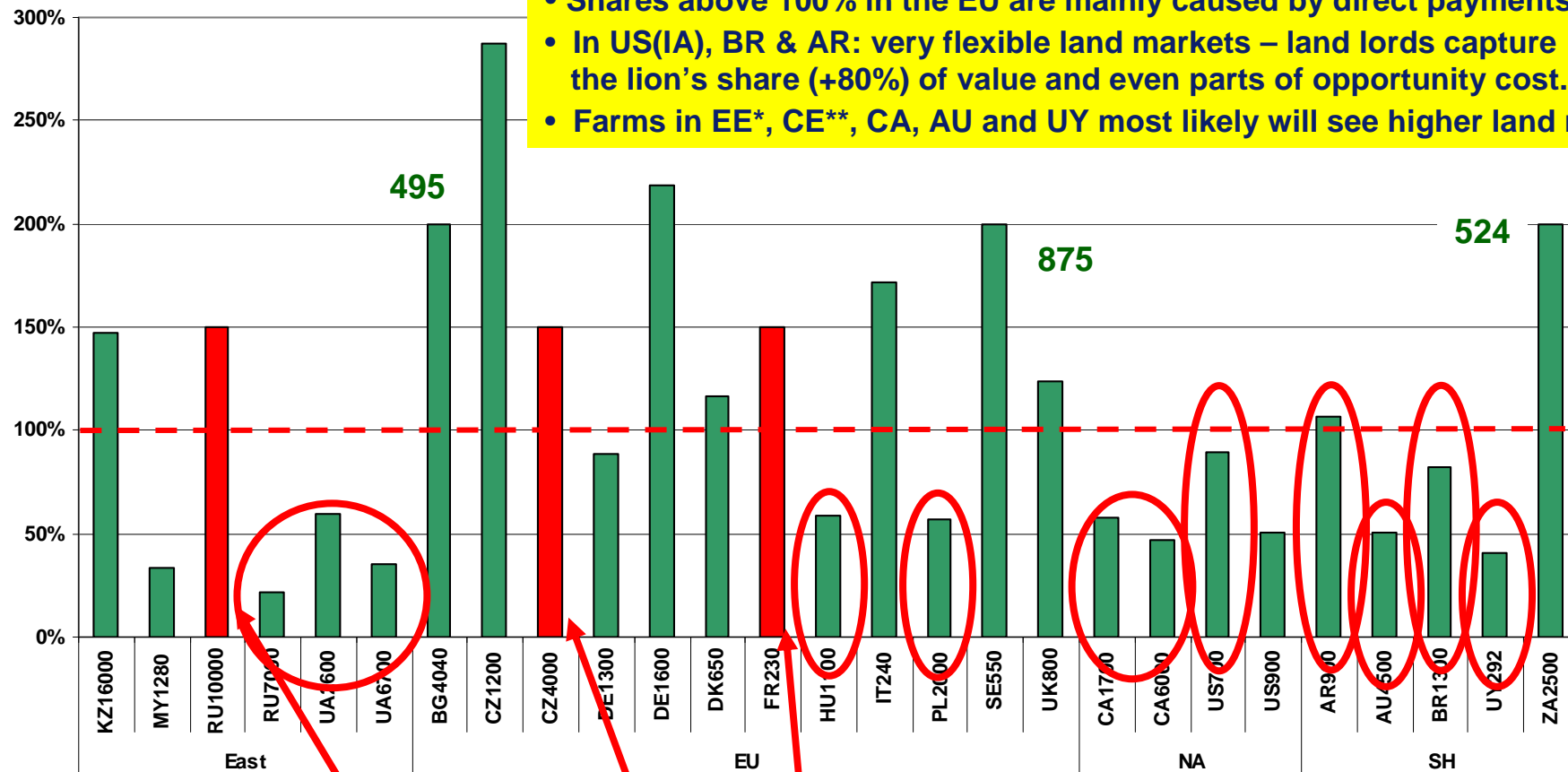
# Returns to Land w/ & w/o Direct Payments (2008 – 2010)



- w/o direct payments returns to land are very low or even negative for many EU farms.
- However, including d.p. land on EU farms becomes relatively attractive (3% to +5%).
- CA, UY, USA(ND), MY, RU (?) seem to be interesting places to run farms.

# Land Rents as a share of Ground Rent (excl. direct payments; 2008 – 2010)

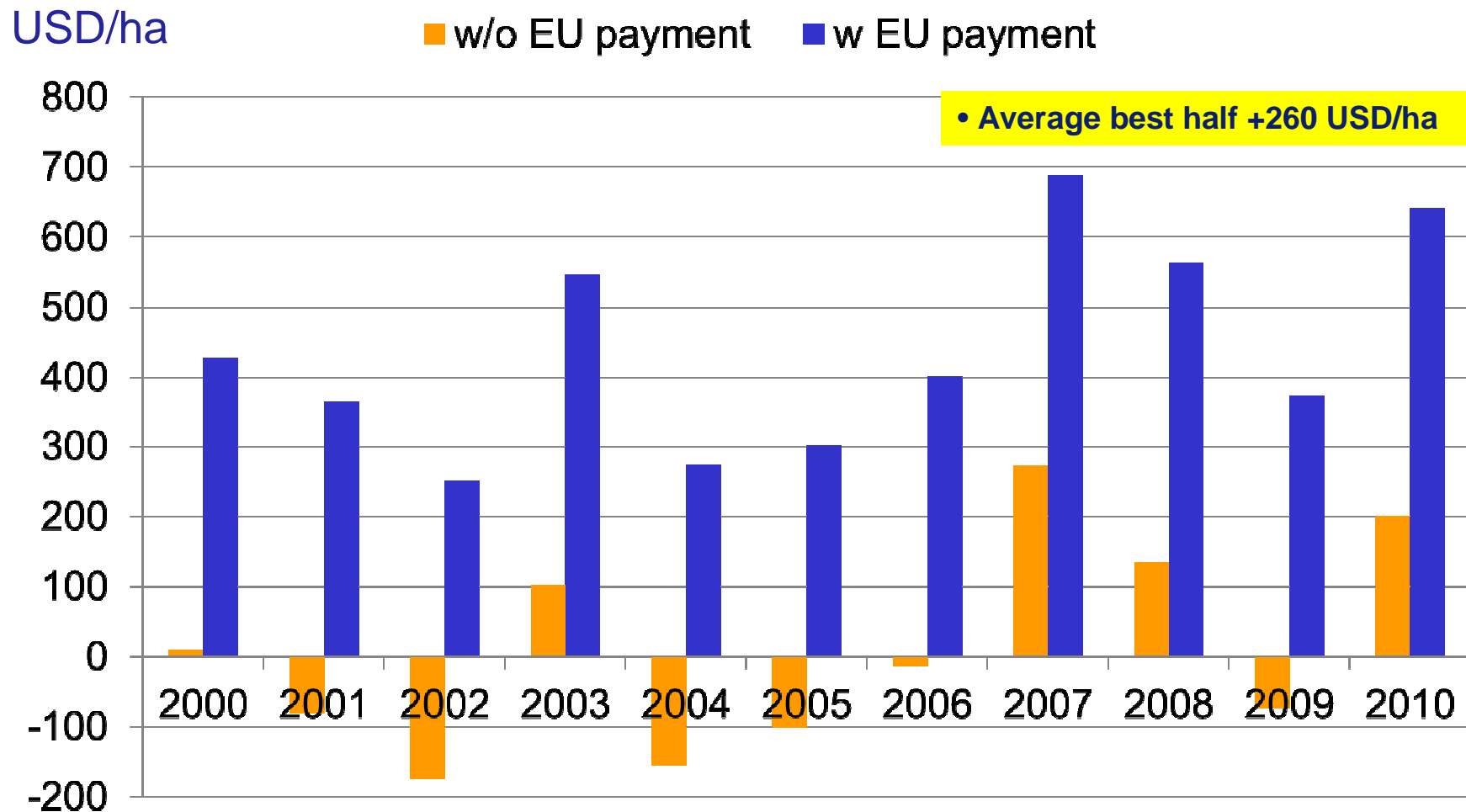
- Shares above 100% in the EU are mainly caused by direct payments.
- In US(IA), BR & AR: very flexible land markets – land lords capture the lion's share (+80%) of value and even parts of opportunity cost.
- Farms in EE\*, CE\*\*, CA, AU and UY most likely will see higher land rents.



Negative ground rents, hence this figure has no meaning.

\*EE = Eastern Europe; \*\*CE = Central Europe

# \*Ground Rents w & w/o EU payment Operating Analyses (average *Patriotisk Selskab*)



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## Conclusions (I)

1. While gross land rents in the EU are similar to the rest, net land rents (land rent  $\cdot$  direct payments) are rather low or even negative.
2. Also when looking at return to land, w/o direct payment EU farms look rather unattractive. However, when including direct payments, investments in land become economically.
3. Given high returns to land in UY, CA, RU, UA, US, CA, AR further investments in land and increasing land values seem to be likely.
4. Given the share of land rent in ground rent it seems advisable to actually farm in UY, UA, CA and not just go for a land lord status.

## Conclusions (II)

5. In developed land markets land lords are able to capture up to 100 % and more of the ground rent.
6. Low value shares for land lords can be found for farms in EE- and CE-countries as well as in AU and UY – significant increases in land rents can be expected.



# Knowledge is our Business



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