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## **Selected Issues of Managing Agricultural Real Estate Comprising the State Treasury-Owned Agricultural Real Estate Resources in Poland**

### **1. Introduction**

Significant system transformations were initiated in 1989; apart from other things, they regarded changes in the ownership structure of agricultural farms.

During the previous period (1944–1990) there were State Agricultural Farms as well as privately owned farms. The former were created after World War II from the National Rural Real Estates, the National Horse Breeding Farms and the National Plant Cultivation Farms. There also existed the National Land Fund, comprising the land which – for various reasons – was not included in the State Agricultural Farms.

State Agricultural Farms were based on land which had comprised private landed estates. The features of the state farms included a low level of efficiency, an excessively developed system of social benefits and a low level of management. The deficit of the farms was covered by state subsidies. Implementation of market principles in the Polish economy after 1990 resulted in the bankruptcy of some of the farms and closure of others, regardless of their economic results.

1 January 1992 was the effective date of the Law of Managing Agricultural Real Estate of the State Treasury. The period of intensive transformation in the agriculture began with the taking over of the state farms by the State Treasury-owned Agricultural Property Agency and their allocation. The agency was later transformed into the Agricultural Property Agency (APA). Taking into account the tempo and scope of changes in the Polish agriculture, this study focuses on the issues related to managing real estate by the Agency. It also examines the influence of the Agricultural Property Agency on the structure of agricultural farms. It emphasises the actions performed by APA which are related to sale and lease of the real estate accumulated by the State Treasury-owned Agricultural Real Estate Resource.

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## 2. Transformations in the Polish Agriculture after 1945

Polish agriculture is still waiting for a radical reform of its structure. The state-run policy in the period from 1945 to 1989 supported the development of the State Agricultural Farms and Agricultural Production Cooperatives.

Until 1990 no serious structural changes took place in private agricultural sector. This preserved the situation where there are many inefficient small farms. Poland was the only country of the “socialist block” to have a majority of private farms despite progressive nationalisation and collectivisation. Before 1989 as much as 77% of the total agricultural land was still owned by private farmers.

In 1950, the agricultural land in Poland totalled 20.4 million ha. The transformations that took place in Polish agriculture in the period from 1945 to 1989 included the following phases:

1. granting property rights to land holders, according to the principles of agricultural reform of 1944;
2. forced collectivisation (1952–1956);
3. establishing the State Agricultural Farms (after 1956);
4. the crisis of Polish agriculture (1980–1989);
5. restructuring of Polish agriculture and implementation of the market principles (after 1990);
6. adjustment of the agrarian structure of the Polish rural areas to the conditions imposed by the European Union (after 2004).

It must be emphasised that the ownership structure is highly spatially diversified. The mean share of land owned by the non-private farms in 1980 amounted to 25.5% on the national scale. In the north and west of the country it exceeded 50%, while in the central and southern part it did not exceed 10% of the total agricultural land. This diversity in the spatial distribution of the state and cooperative property in agriculture had an additional effect on its character.

Implementation of market principles after 1990 resulted in establishing the State Treasury Agricultural Property Agency in 1991. However, the following characteristic features of the Polish agriculture can still be identified:

- a considerable portion of the population associated with rural areas and agriculture,
- a small average area of farms,
- relatively low productivity of work,
- disadvantageous structure of mechanisation,
- fragmentation of productivity resources,
- a high share of small farms, producing mainly to satisfy their own needs.

In the years 2004–2007 significant progress was recorded in dismantling barriers of Polish agriculture – which was caused by Poland’s accession to the European Union and the influence exerted on private agriculture by the APA.

### **3. The Agricultural Property Agency and its Effect on The Transformations in Agriculture after 1991**

The Agricultural Property Agency was established by the Law of Managing State Treasury-owned Agricultural Real Estate of 1991 and began its activities on 1 January 1992. The Agency was to take over the whole agricultural real estate owned by the State within 2 years. Upon the takeover, the Agency became the sole entity to manage the real estate. The Agency’s tasks included restructuring and privatisation of the state sector in agriculture.

In the years 1992–1996, the Agency’s activities focused on:

- taking over real estate to incorporate it in the State Treasury-owned Agricultural Real Estate Resource,
- restructuring and privatisation of the property by its sale, lease or transferring free of charge to entitled entities,
- payment of the liabilities taken over from the former State Agricultural Farms.

By 1995 the Agency had finished taking over the agricultural property, at the same time having sold 22 thousand hectares of land (the years 1992–1995) and leasing for the first time about 2.5 million ha of land. In 1996 the “Programme of Agricultural Settlement on the Land Owned by the State” was initiated. The real estates covered by the programme were leased. Unfortunately, the programme covers only a limited part of the resources (ca 14 thousand hectares). The Law of Agriculture of 2003 changed the name of the State Treasury Agricultural Property Agency into the Agricultural Property Agency, extending at the same time its statutory tasks by exercising the right of pre-emption and buy-out of the real estate acquired by other entities [1, 3]

At the same time, a principle was implemented of separate planning and execution in managing the property of the Agency and the State Treasury – owned Agricultural Property Resource. In 2003 the Resource contained the real estate owned by the State Treasury with an area of about 3 million ha. Most of the land was leased under lease agreements for many years.

Structural transformations related to ownership are associated with:

- sale to the lessees of the whole or part of the real estate leased by them under the right of pre-emption,
- exclusion from the existing lease agreements of part of the land for separate allocation (so called exclusion clauses),
- restructuring followed by further allocation of large real estates returned by lessees due to expiration or termination of lease agreements.

Such actions promote rationalisation of farm size. Conditions are also created for enlarging part of the private farms.

As of the end of 2006 the resource contained 2.64 million ha of land. The land was allocated as follows (Tab. 1).

**Table 1.** Allocation of the land from State Treasury-owned Agricultural Property Resource in 2006 r.

Form of allocation	Area [ha]	% of the Resource area
lease	1 905 607	72.2
administration	2 304	0.1
durable administration and perpetual usufruct	89 181	3.4
lending and life usufruct	37 047	1.4
in the process of allocating	386 248	14.6
foreign land in the Resources	219 050	8.3
TOTAL	2 639 437	100%

Source: National Land Register and APA Register.

Managing the state-owned agricultural property is in particular related to:

- developing and improving the area structure of family farms (below 300 ha);
- rational use of the production potential;
- restructuring and privatisation of the State Treasury property used for agricultural purposes;
- trade in real estate and other components of the property (agricultural purposes);
- administering the property;
- securing the property;
- initialising work related to managing land owned by the State Treasury;
- supporting the establishing of private farms on state-owned land;
- creating new jobs in connection with restructuring state owned farms;
- providing material and financial assistance to former employees of the State farms;
- other tasks arising from the regulations on developing an agricultural system (e.g. exercising the right of pre-emption and right of redemption).

Therefore, the main form of the land allocation is leasing, followed by such forms as:

- rent by individuals or legal entities,
- transferring it free of charge to State Forests for afforestation,
- contributing it to a commercial company.

#### 4. Sale as a Form of Allocation of Land

According to the earlier assumptions, sale is the main form of permanent allocation of real land from the State-owned Agricultural Property Resource. The dynamics of the process is shown in table 2 and figure 1.

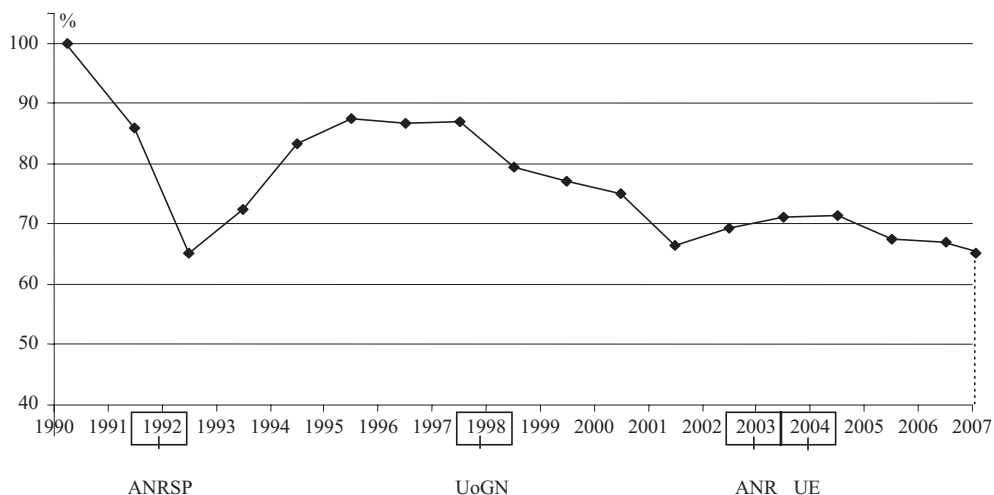
**Table 2.** Sale of land from the Resource in the years 1992–2007

Year	Sold area – thousands of hectares	Dynamics of sale; previous year = 100
1992	9.5	100
1993	49.0	516
1994	65.4	133
1991	115.4	176
1996	192.6	167
1997	149.4	78
1998	146.5	98
1999	119.0	81
2000	120.1	101
2001	147.0	122
2002	159.0	108
2003	101.7	64
2004	104.5	103
2005	108.3	104
2006	107.4	99
2007	103.0	96
Summary	1 798.0	

Source: Reports of the APA and statistical data.

Since the beginning of its activities, the Agency has sold nearly 1.8 million ha. The largest amounts of land have been allocated in the Province of West Pomerania and in the Province of Warmia and Mazury. In 2007, 46 thousand auctions were organised to sell real estate. Increasing interest of farmers in purchasing land was observed despite a decreasing number of large organised agricultural real estates. There are frequently more than 5 potential buyers at such auctions. The price of 1 ha of agricultural land is higher than the market value, as established by real estate appraisers.

Over 100 thousand ha on average were sold to individuals each year.



**Fig. 1.** Dynamics of agricultural land trade in Poland in the years 1990–2007 (1990=100%)  
UoGN – the effective date of the law of real estate management

This was because after 1995 potential investors treated the purchase of agricultural real estate as an investment which would bring significant profit in future, which is associated with such features, as:

- return on investment outlays,
- profit from leasing land,
- financial profit in the form of EU subsidies for individual farmers,
- rent related to changes in the use of land situated in the zones close to big cities and industrial facilities.

The basic reasons have been identified which are taken into account by purchasers of agricultural land; these are:

- durability in time and increase in the value of real estate,
- the possibility of using as a mortgage collateral,
- relative stability of operational income.

Indeed, agricultural real estate maintains its value in the long term. The value increases in cycles every dozen or so years and seems to be resistant to external factors. However, the rate of return on investment in agricultural land is only about 4%.

## 5. The Land Owned by the State Treasury in 2007

The structure and use of the land owned by the State Treasury in Poland in 2007 is shown in table 3.

**Table 3.** State Treasury land by registered group and type of use [ha]

Land included in a register group (as per the cadastre)	Total area	Total agricultural land	Forest and afforested land	Total built-up, urbanised and communication area	Ecological areas, water, other land and wasteland
Land included in the State Treasury Agricultural Resource	2 464 022	2 100 905	82 422	11 207	269 488
Land held by State Forests	7 540 621	179 774	7 157 509	16 138	187 200
Land in durable administration of state-owned units, excl. the State Forests	591 449	52 569	153 830	94 404	2 690 647
Land incorporated in State-owned Real Estate Resource	265 018	73 542	48 943	71 610	70 923
State-owned land transferred for allocation to the Military Property Agency	19 154	1 462	10 312	1 439	5 940
State-owned land transferred for allocation to the Military Agency of Residential Facilities	2 786	322	336	1 254	1 063
Other State-owned land	469 570	106 374	86 733	154 526	121 936
State-owned land put to perpetual usufruct	318 750	92 432	24 800	161 712	39 807
State-owned land 1.01.2007	11 671 368	2 607 379	7 564 885	512 289	986 815
Share of State-owned land in the total land	37%	14%	80%	66%	150%
State-owned land 1.01.2006	11 811 344	2 723 548	7 585 954	532 277	969 565

Source: The Chief Geodesist – the National Land Register

Table 3 indicates that the land included in the State Treasury-owned Agricultural Property Resource covered the area of 2.46 million ha (including 2.10 million ha of agricultural land).

In total, the State Treasury owns 37% of the total land in Poland (14% of which is agricultural land). The total area of land owned by the State Treasury in 2007 amounted to 11.67 million ha.

The main units holding the State Treasury land include:

- State Forests 7.54 million ha,
- State Treasury-owned Agricultural Property Resource 2.46 million ha,
- Other land owned by the State Treasury 0.47 million ha,
- State Treasury land put to perpetual usufruct 0.32 million ha.

This indicates that in 2007 the State Treasury-owned Agricultural Property Resources accounted for a considerable part of the overall structure of the land owned by the State Treasury.

This is manifested in the role of the Agricultural Property Resources in shaping the agrarian structure in Poland.

The Agency absorbed agricultural land owned by the State Treasury, regardless of who had previously owned it. [2]

Structural transformations were continued in 2007 by means of:

- sale on auctions or sale to lessees of a part or whole of the land they leased on the pre-emption principle,
- re-restructuring and further allocation of large real estates returned from lease,
- organising restricted auctions for farmers who want to enlarge their farms,
- owner's supervision of the manner of using the property of the Resource,
- assigning agricultural land of low usability in agricultural production for other purposes (local government units, state forests).

## 6. Summary

When incorporating large real estates to the Agricultural Property Resources, the Agricultural Property Agency restructured it by isolating smaller economic units. This made it possible to meet the expectations of potential buyers. Since the beginning of its existence, the Agency has offered nearly 2.8 million ha for sale and over 7.1 million ha for lease; some real estates have been leased several times. This has been effected mainly through auctions – over 600 thousand have been organised.

Since 1999, the APA has been organising restricted auctions. This has made it possible to actively influence the changes in the agrarian structure. It regards mainly farmers who want to enlarge their family farms (up to 300 ha).

The sale of real estates from the resource is still the main form of permanent allocation of agricultural land. Therefore, the Agency monitors changes of prices and rents paid by purchasers and lessees. There is also a possibility to transfer land from the Agricultural Property Resources to entitled entities.

This regards in particular the State Forests, church legal entities and local government units.

The main type of temporary allocation of land from the Agricultural Property Resources is its lease. Major lessees are individuals (about 98%). A relatively small group includes entities with foreign capital.



The Agricultural Property Agency, as the owner, supervises the performing of obligations arising from the agreements related to the land allocation. One of the methods of such supervision is checking how the obligations arising from such agreements are performed.

The following conclusions have been drawn:

- Nearly a three-fold increase in prices of sold real estate was observed in the years 2004–2007.
- Profits that can be gained from owning agricultural land (EU subsidies, a possibility of leasing) should encourage investors to invest more capital in this type of real estate.
- Persistent disproportions between prices of agricultural land in Poland and in other EU countries and easier access of foreign capital will still remain a stimulus to purchase agricultural land.
- Polish investors face obstacles in the form of legal regulations, such as, for example, the possibility to exercise right of pre-emption by the Agency.
- Subsidies from the EU that have been paid to Polish entities after 2004 resulted in slowing down:
  - the sale of agricultural land,
  - individual farmers expanding their farms,
  - investor groups seeking and purchasing agricultural land.

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