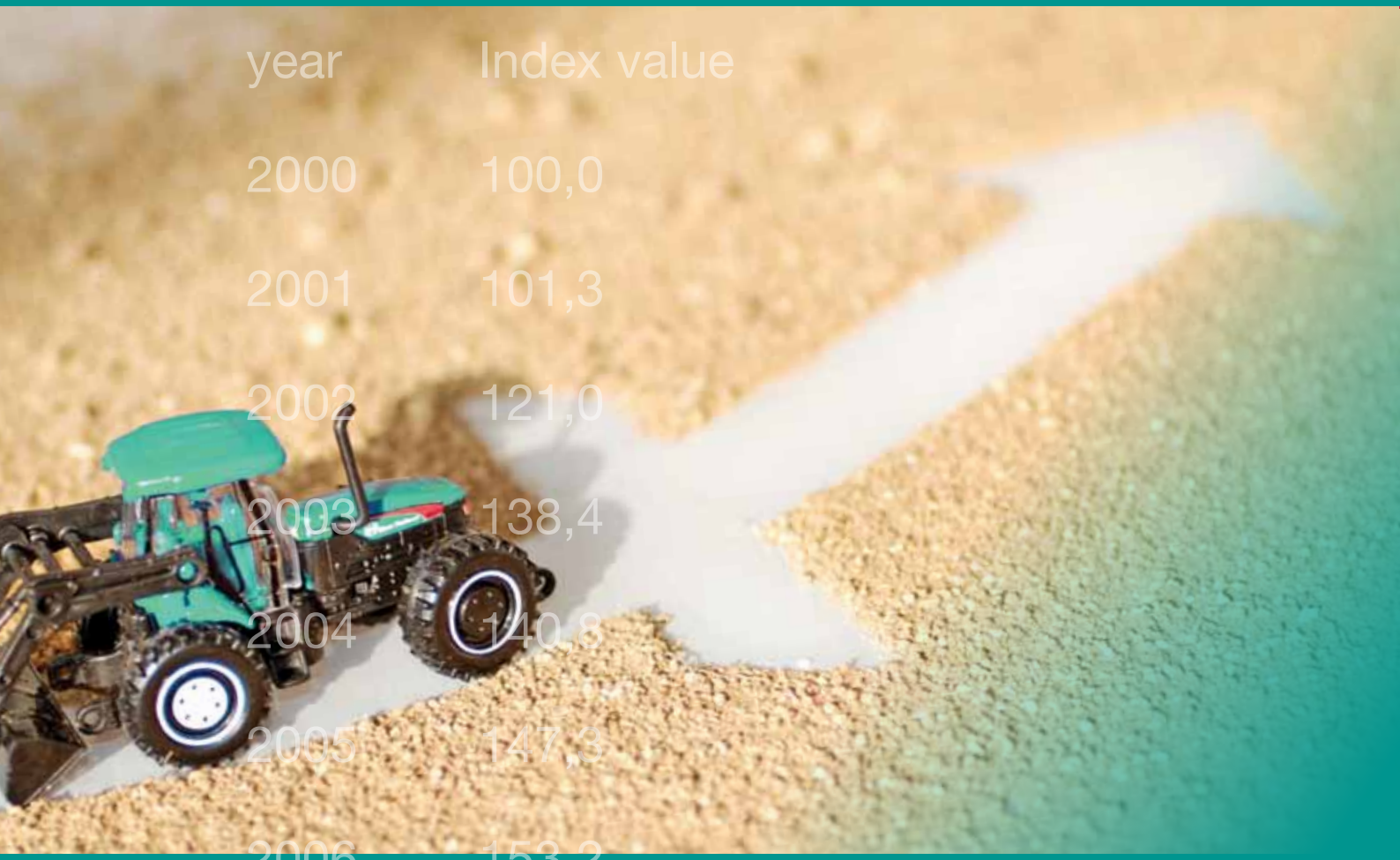
FHB Agricultural Land Price Index 2011



year	Index value
2000	100,0
2001	101,3
2002	121,0
2003	138,4
2004	140,8
2005	147,3
2006	153,2
2007	158,0
2008	176,6
2009	191,1
2010	192,1
2011 h1	201,3

FHB index

FHB Agricultural Land Price Index

1. FHB Agricultural Land Price Index – land prices have doubled in the last 10 years

The first **FHB Agricultural Land Price Index** was published in November, 2010[1]. In this issue, we publish the latest index values that were updated by transactional data of the second half of 2010 and the first half of 2011. The FHB Agricultural Land Price Index - unlike the FHB House Price Index that is published quarterly - is updated on a yearly basis.

According to the new data of FHB Agricultural Land Price Index, prices on the land market continue to rise in spite of the crisis; **nominal prices have doubled in the last 10 years**.

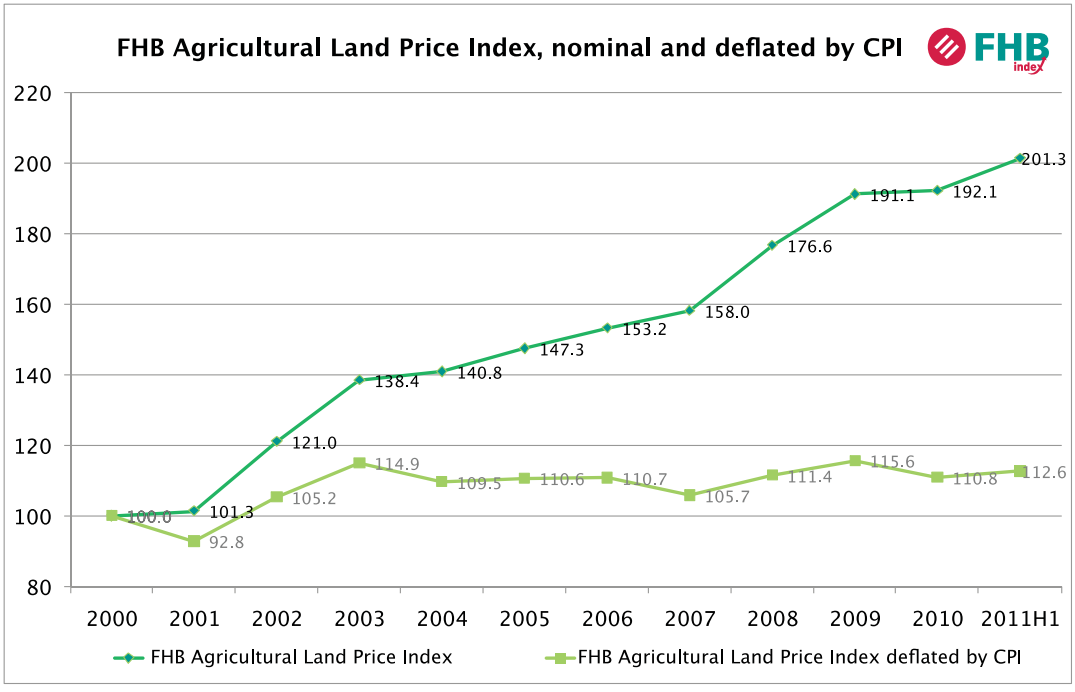


Chart 1: The evolution of FHB Agricultural Land Price Index

In the first half of 2011, land prices increased by 4.8% (Chart 1). Although prices only grew by 0.5% in 2010 – which was a relatively small rise compared to the previous years and it even meant a downturn in real terms – the 4.8% increase of nominal prices in the first half of 2011 brought the result that land prices have shown a significant growth, both in nominal and in real terms (the latter was 1.6%) ***(Chart 2).***

1 Our first issue is available at: http://www.fhbindex.com/FHB-Index/downloads/FHB-Agricultural-Land-Price-Index/Archive

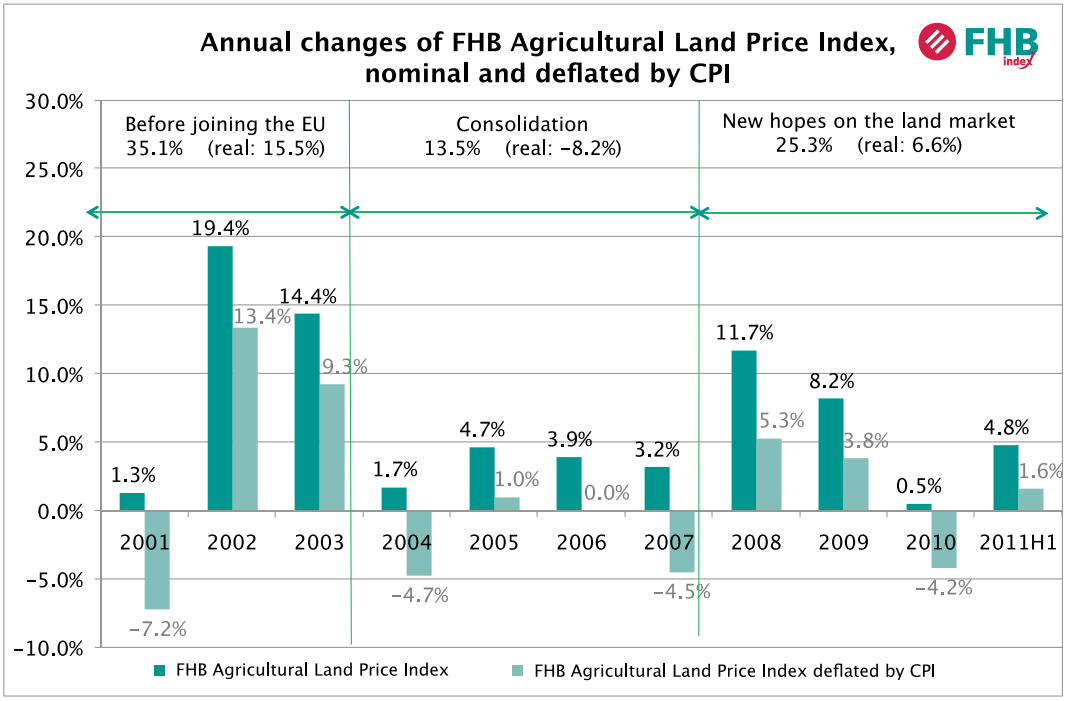


Chart 2: Annual growth of the FHB Agricultural Land Price Index and its breakdown into three periods

Since prices have started to grow again after last year's uncertanties, the period called 'New hopes' is deemed to continue. Last year's halt in prices is even more conspicuous if we consider the fact that – excluding the period when optimistic expectations drove the market after joining the EU – there was always a strong correlation between the growth of land prices and the yields earnt by agricultural activities (Chart 3). The explanation for this is that the agricultural entities spend one part of the profit directly for the purchase of new territories to expand their capacity of production.

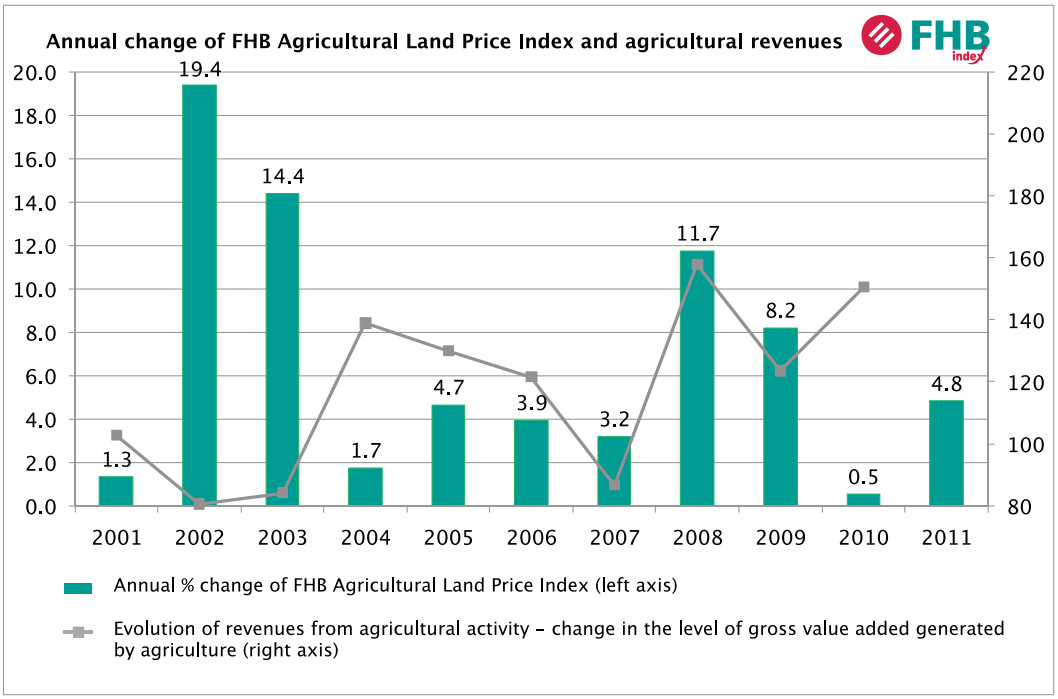


Chart 3: Annual change of FHB Agricultural Land Price Index and agricultural revenues

In 2010, however, for certain reasons this relation did not take effect. The economic and financial crisis made lending scarce in the agricultural sector – just like in the whole economy – therefore in financing their new equipments (e.g. tractors), farms had to rely more on their own equity than external sources. Demand – thus the upswing of land prices – was also deferred by the government postponing auctions scheduled for 2010, as state sellings had always had a stimulating effect on the land market.

On 20 December 2010, the European Commission gave its consent for the prolongation of the land purchase moratorium of Hungary. The derogation – in force until 30 April 2014 – allows the Hungarian government to prohibit legal entities and foreign citizens to purchase land in Hungary. One of the most important arguments in favour for the extension of the moratorium was that so far the difference between land prices in Western Europe and Hungary could not be dissolved. The agricultural sector is of strategic importance in Hungary – the next three years will provide enough time for the government to establish a legislative framework that not only allows the opening of the land market according to the EU regulations, but will also promote the rights and interests of small Hungarian farms as well as the greater competitiveness of the agricultural sector.

According to our data of the first half of 2011, the rise of Hungarian land prices has continued. The renewed prolonagation of the land purchase moratorium and the governmental measures expected for 2011, as well as the new legistlations under preparation have set clear directions for the future of the land market, which broke investors resistence to launch new purchases. The optimistic expectations have had a positive effect on prices. It is also likely that the extra revenues generated in 2010 appeared with a slight delay in 2011 as an asset for land purchase. Chart 4 and Table 1 below show average yearly price changes in the three periods. It can be stated that in **spite of the crisis, land prices underwent a notable rise,** although a smaller one than in the golden period before joining of the EU.

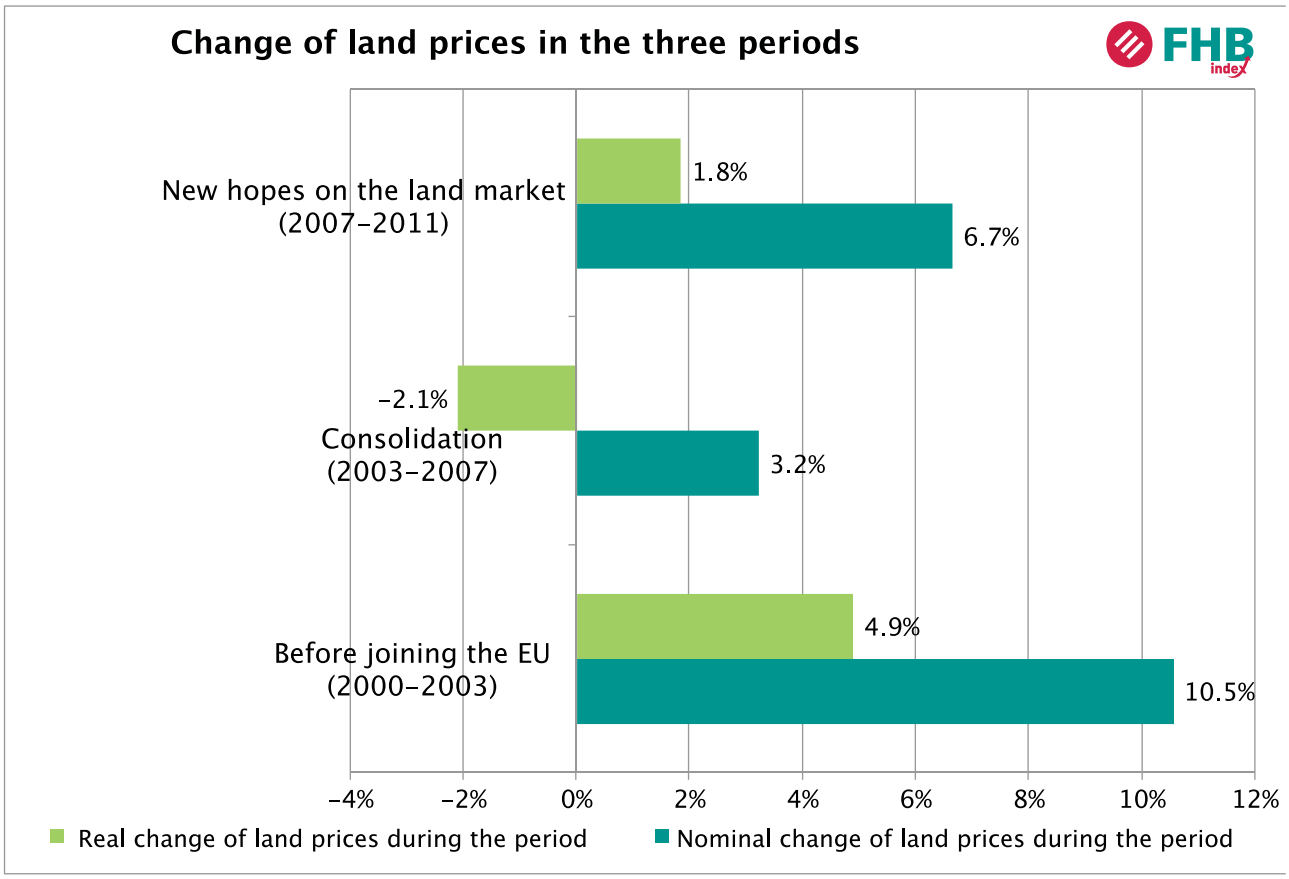


Chart 4: Change of land prices in the three periods

The stable growth of land prices is even more exceptional if we compare it to other kind of assets or alternative capital goods, as we explain it in more details later.

	Before joining the EU (2000-2003)	Consolidation (2004-2007)	New hopes on the land market (2008-2011)
Nominal change of prices during the period	35.1%	13.5%	25.3%
yearly average yield	10.5%	3.2%	6.7%
Reall change of land prices during the period	15.4%	-8.1%	6.6%
yearly average yield	4.9%	-2.1%	1.8%

Table 1: Change of land prices and yearly average yields in the three periods

2. Regional differences

Price changes by geographical regions clearly show that the general tendency is that **price growth in the most expensive regions has slowed down, while in regions with average price levels prices converge upwards and closer to each other. Prices are lagging behind slightly only in Northern Hungary and the Northern Great Basin where prices are historically the lowest.**

In the recent years, **the most stable growth was observed in the Southern Great Basin.** Here, the increase in prices is permanently continuous (Chart 5). According to the data registered, land prices both in Central Hungary and Central Transdanubia have overcome the values in Southern and Western Transdanubia (for the categories by price level and price growth see ***Chart 6).***

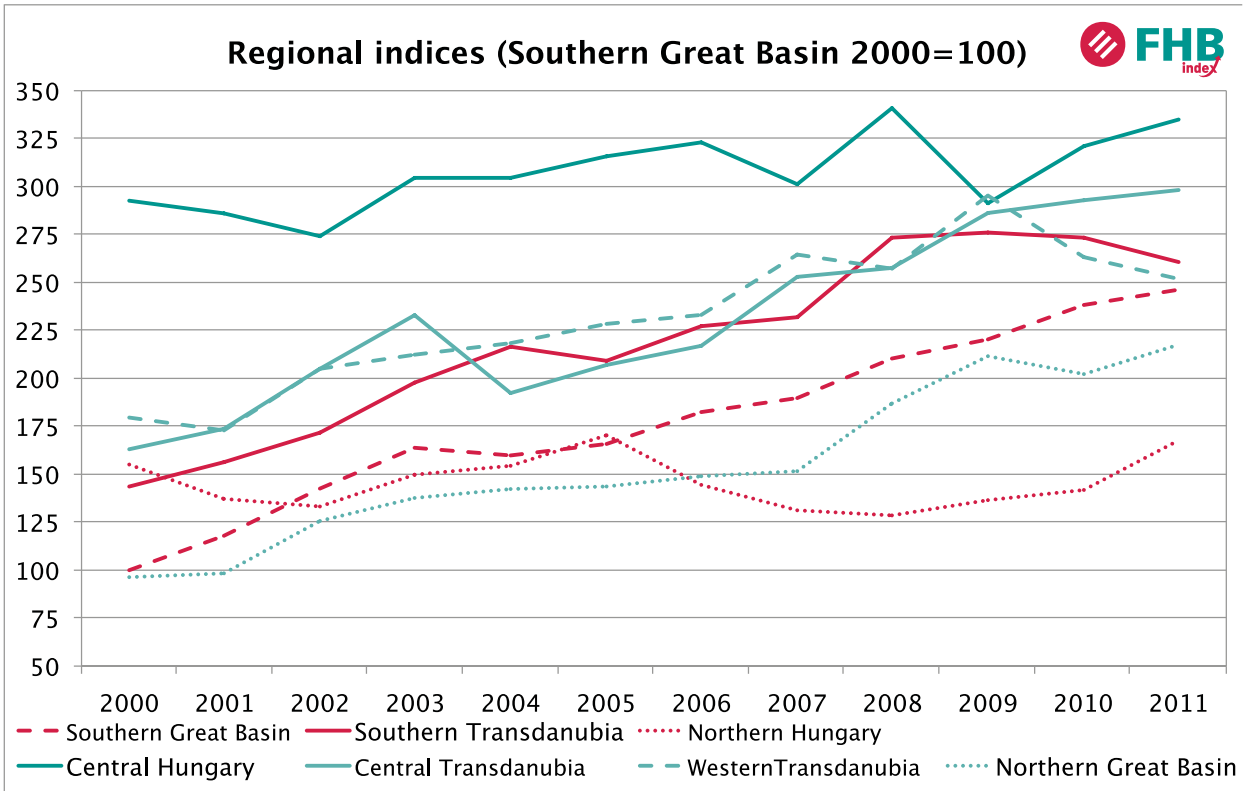


Chart 5: Evolution of land prices by regions in Hungary

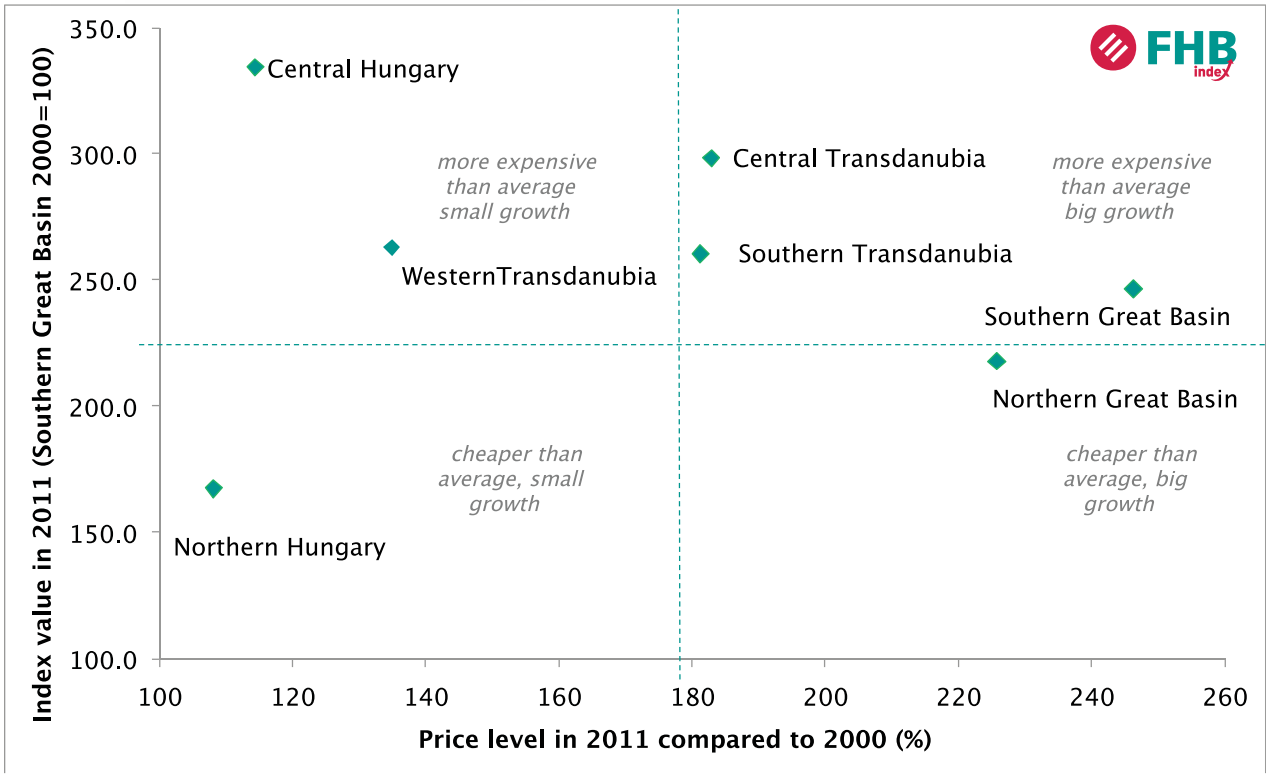


Chart 6: Relative land prices and their growth by regions in Hungary

Regional price differences are also affected by the tendency that in lower priced regions more transactions took place than in regions with lands of good quality and good location. Number of transactions of areas with a higher value is lower because supply is more rigid, the concentration of territories is higher and no state auctions have taken place.

The recent price drop in Southern Transdanubia and Western Transdanubia – where prices were continuously rising before – can also be considered as a result of the fact that only lower priced lands were released on market in these regions.

3. Differences by land types

Considering the most important land type, that is arable land, it can be stated that the relation between the average prices of regions changed only to a limited extent in 2010 (Chart 7).

The average price for arable land in 2010 was already over HUF 600 thousand per hectare (2010: 601 thousand HUF/ha, 2009: 576 thousand HUF/ha). In Central Hungary many of the purchases are brought about for speculative reasons, nevertheless it can be stated that the most expensive agricultural lands are still located in this region.

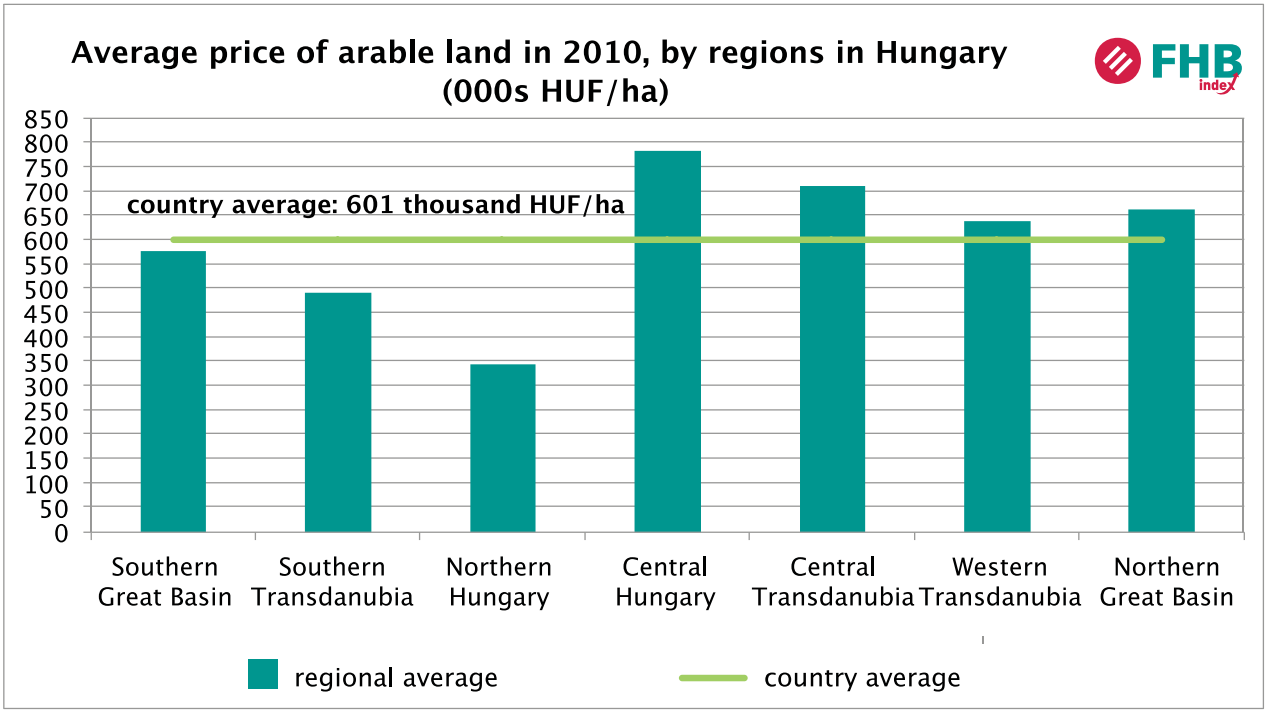


Chart 7: Average price of arable land in 2010, by region in Hungary

Chart 8 below shows the relative prices of each land type. It can be observed that **the average selling price for meadow and permanent grassland does not even reach half of the price of areas categorised as vineyards or kitchen gardens.** The deviation within the categories stems from the differences in size and quality of the lands sold.

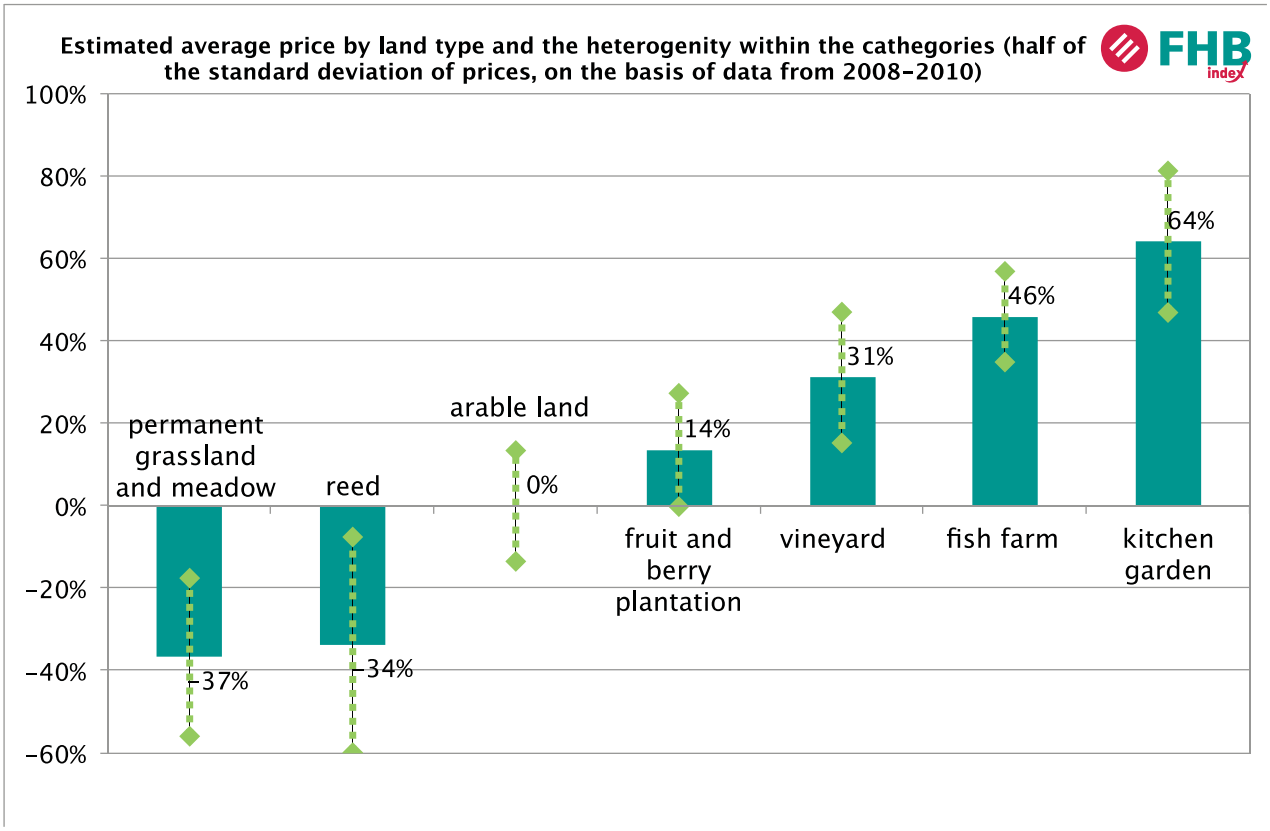


Chart 8: Differences in price by the utilisation of land
(FHB Index calculation, the chart does not include forests and wooded areas)

Analysing price changes by the utilisation of land, it can be observed that fruit and berry plantations as well as vineyards – compared to the other land types – have suffered a relative loss in value (Chart 9). The reason behind this might be the fact that the people who decide to start up a plantation often buy old (overused) lands that need to be renewed or replanted. The price dynamism of arable lands, woods and permanent grassland shows a clear upswing compared to the previous period. The exceptional yields generated by the cultivation of crops and similar plants had a strong influence on driving up the prices of arable land.

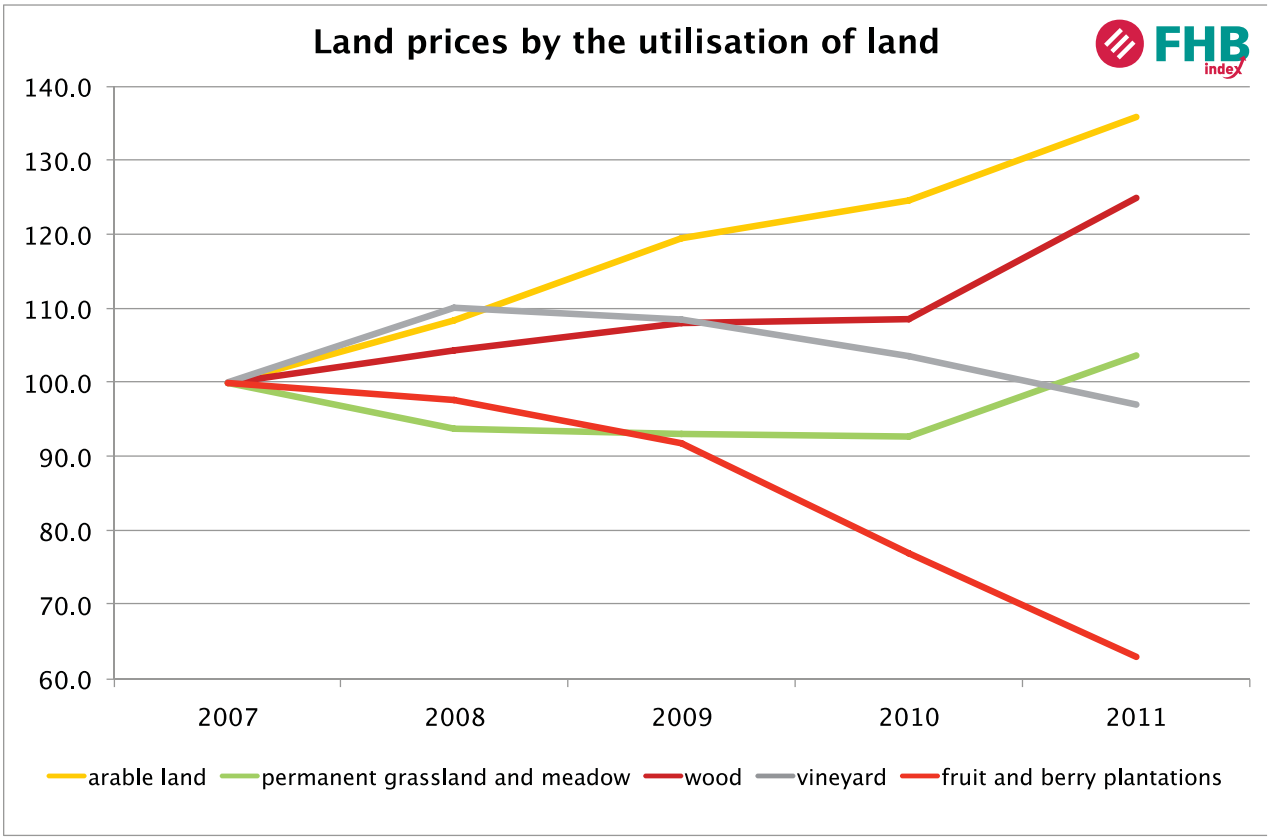


Chart 9: Evolution of prices by the utilisation of land since 2007 (FHB Index calculation)

4. A crisis resistant and yielding investment

The FHB Agricultural Land Price Index confirms the general assumption that **the evolution of land prices is fairly stable,** ascending conservatively and it is less vulnerable to fluctuations than other investment facilities (Chart 10 and 11). **Agricultural land has maintained its value even compared to other real assets and capital goods – it can thus be concluded that agricultural land is a crisis resistant investment.**

At the same time, yield on agricultural land is significant; compared to shares or properties, substantial part of the yield stems from cash flows generated by the investment. Land-based subsidies can provide 5-10% revenue of the land's value, and utilisation can further benefit the investment.

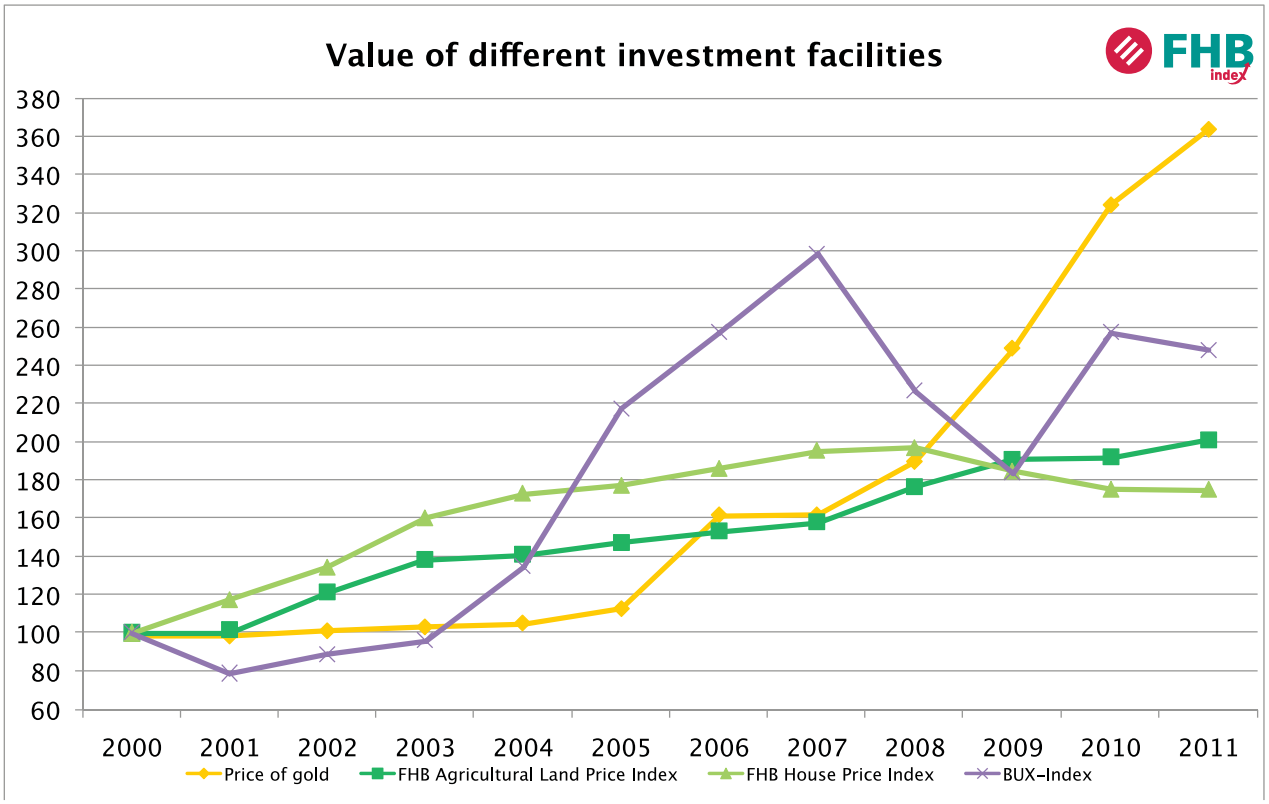


Chart 10: Evolution of the value of investment facilities (Source: FHB Index calculation)

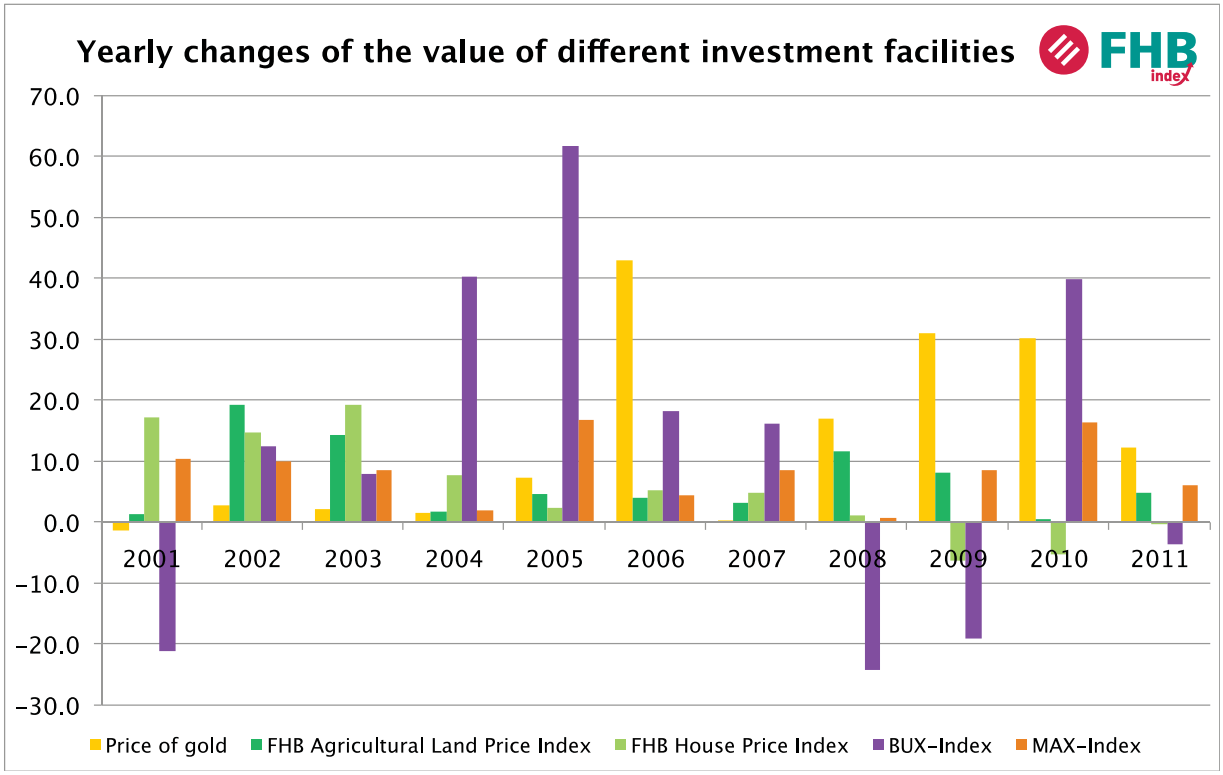


Chart 11: Yearly changes of the value of different investment facilities (Source: FHB Index calculation)

5. Methodology and definitions

The Agricultural Land Price Index was computed on the basis of almost 900 thousand data received from the Duty Office; the data processed cover the period between 2000 and the first half of 2011. The value of the index is **normalised with the average for the year 2000, i.e. the average index value in 2000 is** *100.*

Data filtering
In order to ensure that the Index reflects real market trends, our analysis only includes transactions that have been confirmed by FHB's property surveyors. The purpose of the FHB Agricultural Land Price Index is to measure the changes in prices of lands that are actually utilised; i.e. our experts have filtered data that may refer to speculative investments when the land is bought only in the hope that it will later be upgraded to be municipal territory.
It is important to note that in our calculations we did not take into account the possibility that – according to professional experience –, due **to the widely used documentation practices intended to reduce taxes and duties, there can be a 15-25% difference between the registered data and the real selling prices.**

Our database gained 10% in size during the last year; after filtering it includes now more than **330 thousand transactional data** that serve as a basis for FHB Agricultural Land Price Index.

Correction of the changing composition of lands

Similarly to FHB House Price Index, FHB Agricultural Land Price Index was also prepared by hedonic method. Lands sold in different periods have different characteristics, thus the evolution of average prices are affected by the composition of the lands sold. By managing this composition effect, the **hedonic method** helps us to detect the real changes in prices. The most important factors we have taken into account are the size, the location and the utilisation of land.

In the last 10 years, parcel sizes have grown. While in 2000 a typical (median) transaction covered 1 hectare land, by 2011 this number has risen to more than 2 hectares. If we have a closer look at the average parcel sizes, the same trend can be observed even sharper: according to our data the average size within the transactions was 4 hectares, while in 2011 the same number is already over 12 hectares.
We have also considered the **differences between regional markets.** We have filtered the significant effect of the fact, that by the end of our observation period relatively more transactions took place in low-priced regions.

Present issue of FHB Agricultural Land Price Index also includes the detailed presentation of the evolution of land prices in a regional breakdown.

The improving quality of data also enables us to include the effect of the **utilisation of lands** on our index. The differences in prices between land types are also presented in our analysis.

The difference between average and typical transactions

Among the data observed, there are a significant number of areas that are considerably – twenty-thirty times – bigger or more expensive than the typical (median). The average and typical indicators thus can show very different values: **the average can be a lot bigger than the typical**, as the unusually big or expensive lands raise the average. Therefore, we always publish the indicator that – according to experts – reflects market conditions the best.

To our partners

Experts of agricultural land at FHB Banking Group provide services for both residential and corporate clients, in the fields of agricultural land based financing as well as loans secured by agricultural land. Over the 14 years of the Bank's operations, FHB's professionals have ensured the highest level of land related banking and valuation expertise for our partners and clients. We are always ready to take any requests from farmers, residential and corporate clients, as well as orders from governmental or business customers.
Further analyses and details of FHB Agricultural Land Price Index are available in our special offers.
We are pleased to respond to any enquires including also other types of real estate,

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