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## DYNAMICS OF THE LAND MARKET AND LAND USE IN BULGARIA

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### ABSTRACT

The land market has a special place in the system of fundamental socio-economic categories. Functioning of the land market is related to the special role of land as a factor of production and natural resource that is integral to the realization of human activity.

Agricultural land in Bulgaria is increasingly becoming an investment asset in which the risk is most diversified. Investors achieve consolidation of market principles by buying small plots and merge into large arrays thus creating conditions for effective farming.

**Key words:** agricultural land, land market, land use

### INTRODUCTION

Land market takes its particular place in the system of the fundamental socio-economic categories. The functioning of land market is connected with the particular place of the land as a principal production resource in agriculture, an important factor of production and the development of land relationships which reflect the relationships among citizens, legal persons, local authorities of self government in respect of land possession and disposition.

Under the conditions of a developed market economy the land, along with the rest of production resources, is an object of purchase and sale. Similarly to other goods land is sought after, offered, brings revenue and has a price.

Private land ownership is supposed to make its use more efficient. Land market ensures stable rights over land possession, the opportunity of transferring it from one person to another and a land price, corresponding to its real value.

In a broad sense land market is a combination of relationships and connections having a

regulating influence on the processes of land possession, use and disposition. In a narrow sense – it is a mechanism of redistribution of land through determined economic forms – sale, purchase, lease, mortgage, donation and heritage. This mechanism secures the change of the land rights from one owner to another. The legal persons on the land market are land owners, land users, leaseholders and the state.

Land market contributes to the determination of efficient users, to the concentration of land resources in their possession and use, to ensuring a rational and ecologically friendly land use and to the solution of important socio-economic tasks.

### MATERIAL AND METHODS

The main approach in this study is the use of instruments for the statistical analysis of development. Statistical methods offer big opportunities for a broad and complete research of phenomena in their development. In the research of dynamics of agrarian land market the character and intensity of changes are measured and described. The growths as absolute and relative values are determined and the rates of increase are measured on this basis.

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The trend in the development of the agrarian land market depends on the action of permanent reasons with regular characteristics along with them, short-term, occasional reasons, causing bigger or lesser fluctuations in the development of phenomena during different periods, are analyzed...

In order to show the main trend, included in the dynamic row analyzed, the graphic method for equalization is used.

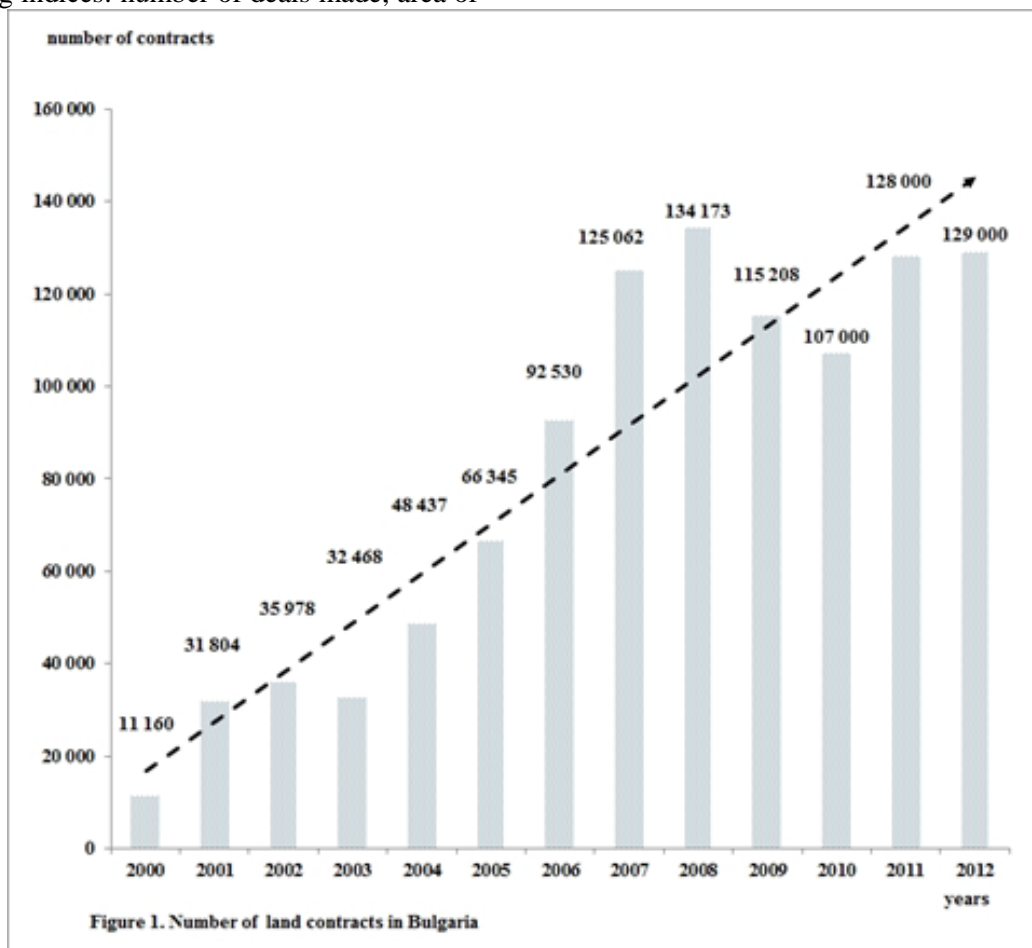
**RESULTS AND DISCUSSION**

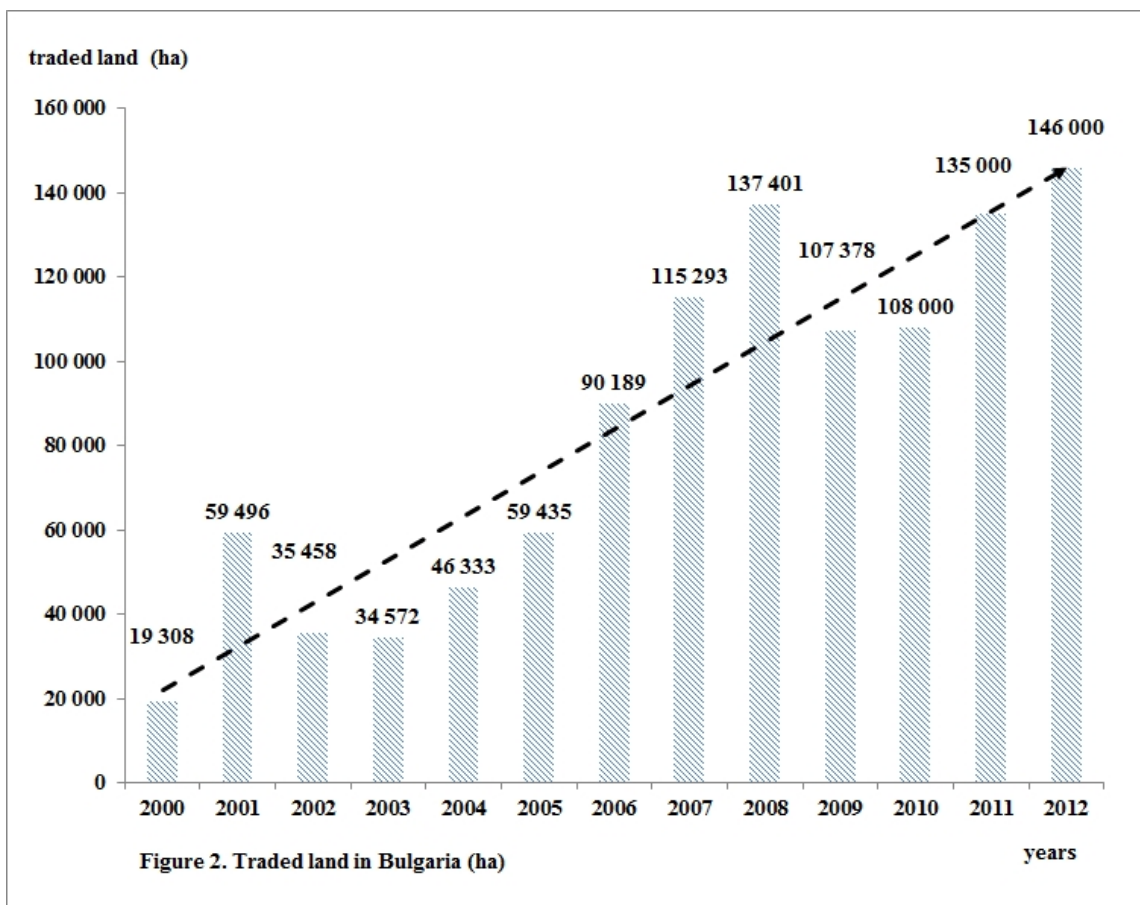
The opportunity for purchase, sale and lease of agricultural land has a positive influence on the growth of agricultural production. For example, the more efficient farmers can buy or lease land from less efficient ones, land owners can obtain additional revenue without working in the agricultural sector. In addition, those who need additional capital have assets which can be imported into a statutory fund.

The analysis of the status and trends in the development of the purchase-sale market of agrarian land has been made according to the following indices: number of deals made, area of

land sold, average price of land for agrarian purposes. Indices, observed during the 2000-2012 period (**Figure 1 and Figure 2**) show that the land market in Bulgaria is becoming more and more active and dynamic. Growth of the indices is reported every year. The market was passive and unattractive till 2003, but it became more active during the 2003-2006 period and the number of the deals made increased by about 40% on average per year. This trend changed during the next two years (2009 and 2010) of the period observed. The main reason is the world financial and economic crisis which influenced Bulgarian agriculture as well. There was an intensive offer of land by the owners who did not want a higher price – it was a way of solving financial problems. There was no competitiveness among buyers and this led to the decrease in the land price.

During the last two years the agrarian land market has been characterized by a remarkable dynamics in respect with both prices and demand and supply. In 2012 a record level of deals and prices was reported.



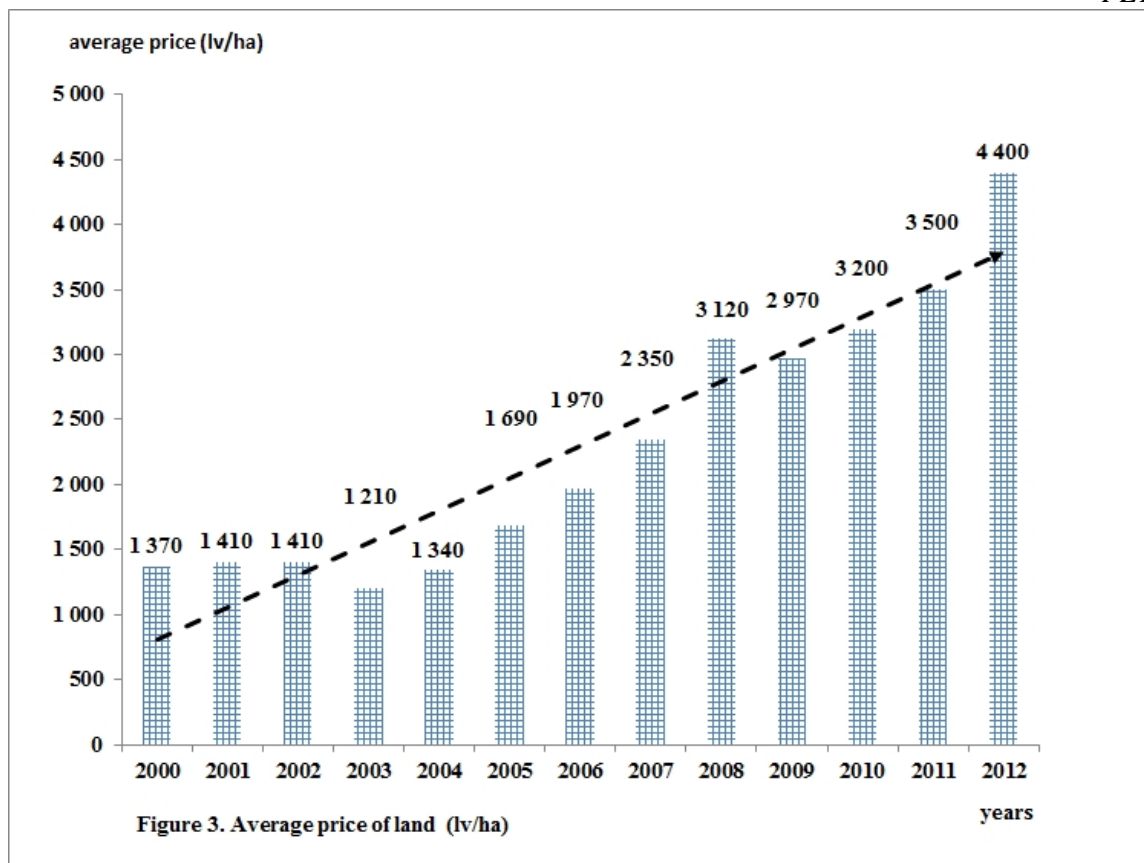


The average price of agrarian land is completely conditional. At the secondary market the price is many times higher because land with added value is sold, concentrated in a determined area or it is of a strategic importance for a particular buyer. This land does not have the same price for the leaseholder in a given area and the investor. That is why we cannot calculate an average price and draw conclusions about a particular region, and, moreover, about the whole country. In spite of that the land price was on a constant increase during the period observed. **(Figure 3).** Agrarian land funds offering larger areas on lease covering several thousands hectares with an average surface of the estate of about 250 hectares sold the land at a price of about 75 BGN/ ha. In some of the cases prices were higher. The sales of “Advans Terafond” ADSIC were 120 BGN/ha and it is expected to be kept unchanged for the good estates at the secondary market. At the same time small arable land areas are offered at 31 BGN/ha with an average price

of agrarian land of 44 BGN/ha in 2012. The price analysis must be divided into primary and secondary market. The primary market is decreasing gradually and is exhausting all the possibilities.

In 2011 and 2012 a big percentage of the deals were on the secondary market. The primary market is between the land heir and the buyer. The secondary market is between investors, who bought land years ago, added value by making the estates larger and who are selling with a good profit. Secondary market is a particularly good criterion for the market stability as a whole holding 40% of the deals made during 2010 and 55-60% for 2012.

The analysis of the land on lease market shows that this form of land disposition by the owners is a priority. The land reform during the nineties and the restoration of private property resulted in dividing up of the land and its possession by a lot of owners.



A considerable part of the land owners live in the towns and do not have the opportunity and the desire to cultivate their land by themselves. The expectations for a higher price of the agrarian land do not stimulate its sale and the leasing becomes the form, preferred by the owners for the implementation of their possession. The lease is a form of land consolidation and the small agrarian producers, who do not have enough money to buy their own land, prefer it. At the same time, the possession of small, dismembered land lots by numerous owners is a factor, impeding the leasing relationships – a lot of contracts have to be signed and the lots might not be consolidated if only a part of the owners want to give their land on lease or on rent.

When we compare the lease market and that of the purchase and sale according to the index of deals made during the last three years we see that the leasing contracts are by 40% more than the deals for purchase and sale, but the surface of the land leased is three times more.

The analysis of the same indices for the previous years shows a more markedly expressed trend of increase - the surface of the land on lease is over

ten times more than that of the land sold. By comparing both markets during the previous years the same trends have been observed: a considerably bigger activity of the lease market than that of purchase and sale of agrarian land.. The lease is a principal market mechanism for the optimization of the land use and a source of additional income, paid in money or in kind.

Agrarian land occurred to be a stable asset with good profitability which is not influenced by the crisis. Dynamic market attracts participants of different types. These are investment unions, farmers, investors from other branches, persons with liberal professions - lawyers, notaries, doctors.

Investment unions have clearly defined strategies and follow their policy with different portfolios.

In the farmer-investors group two sub profiles are formed: those, who invest in the agrarian land with the clear vision why they do it, are focused on the production and foresee a profit from their investment. For agrarian producers who buy land with a definite purpose in places,

important to them, the risk is extremely small and it might be due to bad management.

But there is another type of investors who invest by force of habit. A big part of them cultivate between 0,5 and 200-300 hectares of land. If the farm is based only on cereal crops and the land is 100 hectares it is inefficient. Along with this farm must compete with farms having 1 000-1 500 ha.

The third interesting type of investors is those with speculative purpose.

The market is very interesting and particularly dynamic, but the investment in land has to be done with precaution and professional approach, by estimating the real returnability. Usually the current profitability which has to be reached is a minimum of 7% so that the investment is successful.

The main buyers are the leaseholders who begin intensely investing in the purchase of agrarian land in order to guarantee their business in the long term plan.

The increase in the number of big investors and the presence of big owners of agrarian land give an impetus to the whole development and modernization of agriculture in Bulgaria. A lot of specialists share the opinion that under the conditions of the global financial crisis agriculture is a point of support of each economy and its assets are agrarian lands. They remain an attractive and secure investment opportunity.

From being a totally non-liquid asset, which can be sold with difficulty, and at a very low price, agrarian land in Bulgaria turned into a good sought after and its price increased several times. ADSIC, investing in agrarian land, which have had a fairly big profit, played an important role for this and thus they protected themselves from the crisis. A fair number of companies have already invested in land as an additional activity to their main activities. The predictions for the years to come are about price increase.

Well functioning land markets allow its transfer to those who can use it in the most productive way, which is a stimulus for investments and improvement of agricultural technologies. The land ownership and the clearly defined

possession rights are connected with a number of other advantages such as an access to credit requiring land as a guarantee.

## CONCLUSIONS

The following conclusions can be drawn from the research made:

The agrarian land market was weak and unattractive till 2003. For the 2004-2009 period the market was particularly active and dynamic as a result of the negotiations on the accession of Bulgaria to the EU, the EU membership and the implementation of CAP by direct payments per surface. Since the autumn of 2009 the market has narrowed because of the expected changes in payments in kind and the negative influence of the financial and economic crisis.

Consolidation of the lots will lead to the increase in investment returnability because of better opportunities for economies from the scale and implementation of modern agrarian practices and this will increase the land demand on behalf of big agrarian producers, traders and agrarian unions. The concentration of agrarian lands is becoming a leading method for the increase of its value at the expense of a more aggressive primary buying out of areas which has been typical for the last several years. This leads in turn to the enhancement of the secondary land market.

After the accession of our country to the EU in 2007 agrarian producers in Bulgaria receive subsidies from EU for each hectare of arable land as a result of which the returnability per hectare increases.

Because of its geographic location and its long lasting traditions Bulgaria has particularly suitable conditions for the development of agriculture. Nowadays it hasn't reached the levels from the past yet and its full potential.

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