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Russia land buyers may be focusing on wrong region

The clamour by investors in Russian farmland for sites in the south may be misguided, with the Central Black Earth region offering better returns at current prices, a leading analyst said.

Prices in Russia's South soared 23% last year, hitting $2,500 per hectare in Krasnodar, underpinned by ideas that the region has a more stable climate than some other areas, besides being close to the Black Sea ports which carry most of the country's grain exports.

Stockholm-listed agricultural producer Trigon Agri highlighted this thinking when it quit land in Samara, further east, for farms in the southern state of Rostov where prices, pegged by SovEcon at $1,400 per hectare, are second only to those in Krasnodar.

And that seems to reflect a broader perception, with SovEcon managing director Andrey Sizov Jr saying that farmland investors "always talk first about the South. People are very focused on it.

"It is the one area where there are many buyers, but not many people willing to sell, because of the rising prices."

'Better returns elsewhere'

However, with farmland values in Krasnodar now "slowly approaching" those in eastern European Union countries such as Bulgaria or Romania, investors should reassess their strategy.

"It is easy to understand why the South is so popular. For instance, being close to ports makes it easier to price you grain.

"However, they are likely to get better returns elsewhere," with SovEcon rating as a better bet the Central Black Earth Region, where prices rose more slowly last year, by 10%, to about $500-650 per hectare.

"Medium term, Central Black Earth region land has the highest upside."

Livestock factor

Although the region is far from the Black Sea, meaning its grain prices should in theory be discounted to up for extra costs of transporting to port, crop values are being supported by increasing local demand, with the area proving a centre livestock industry expansion.

"I think people misunderstand," Mr Sizov said.

"Grain prices in the Black Earth region are not so much

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lower than in the South, because of the large livestock companies," which provide a market for feed crops.

Reliance on imports

Separately on Wednesday, sugar-to-sunflowers business Rusagro revealed that production at its livestock operations, which are based in the Black Earth region, soared 88% year on year to 43,000 tonnes in the October-to-December quarter.

Its fodder production more than doubled to 130,000 tonnes.

Russia's government has encouraged domestic meat production in an effort to reduce the country's reliance on imports.

This campaign has met with particularly success in poultry, with Russia's chicken imports falling by more than 40% since 2009, when it was the top buyer.

Imports of beef and pork have remained broadly stable, with growing domestic consumption balancing out production increases.

'Lack of new major investors'

SovEcon said that the rise in Russian land prices last year was driven by demand from existing operators "gradually expanding their land banks", and noting a "lack of new major investors".

Foreign-backed operators active in the market include NCH Capital, which invests through AgroTerra, and RZ Agro, which is backed by members of the Louis Dreyfus family as well as Russian oil-to-telecoms conglomerate Sistema.