Rural

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Overview

The current Royal Commission into the banking sector has turned its attention to the agriculture sector and, in part, has brought to mind the value of independence in a valuation process.

Herron Todd White is an independent property valuation company that is not involved in selling rural property. Our services include market research; pre and post-acquisition valuations; tax depreciation assessments on income producing assets; plant and equipment valuations and rental determinations.

Herron Todd White undertakes work for individual, family and corporate farm owners; investors and lenders; and the purpose of our work ranges from mortgage security; financial reporting; portfolio assessments; stampduty assessments; retrospective assessments for capital gains determination; family law (or other legal matters); and local, State and Federal Government asset reporting.

The team around the country have reported that in many regions, and/or commodity sectors, there is a continuing strength in the market, however, in some of these places the market appears to have reached a point where the economics of the values being paid are hard to reconcile with underlying production and returns (when considered on a stand-alone basis).

If there is an increase in risk in a market, engaging with an independent advisor, or in our case valuer, is one way to help inform a view without bias and our team, nationally, remains available to assist our clients in their due diligence.

This month some of the team make comment about the water market in their local areas. To say that values in these markets remain strong is an understatement. We also have an analysis of some government buy back in Southern Qld and how this may be considered by the market.

On behalf of all the team, we hope our readers and clients have closed off a successful 2018 financial year and look forward to a positive 2018/19 year in the agricultural sector. There is still plenty of interest in new forms of capital seeking to enter the sector and if we had some good wide spread rain that would be the biggest boost to the market.

Contact:
Tim Lane - ph: 07 3319 4400

North Queensland

North and north-west Queensland grazing property markets are a hive of activity at the moment.

Earlier this year, everyone waited for rain, sold a few cows off and waited and waited....then it fell...for a bit!

Property selling and buying decisions were also delayed. Usually, the bulk of the selling period is over by June. Not this year.

Until recently, the pricing of most of the sales has been reasonable. In some instances, the sales have been in line with or slightly above existing value rates (dollars per hectare).

In the last month though, there has been some market chatter and sale prices that are far in excess of reasonable capital value growth. Buyer beware! Buyer be prudent! Vendor be happy!

It is intriguing sometimes to listen to the market chatter and buyers suddenly increasing their offers merely on the grounds of emotional speculation.

Why, because so and so is likely to want to buy that property too! Really?

What about the earnings off that property, did they change?

Did the operating costs of the property suddenly get lower?

Are the future capital gain prospects so good that you think that paying too much today is worth it in the long run? What capital growth rate are you seeking to achieve over the short or long term?

To buy or not to buy is a tough call. You would all know situations where graziers are caught with cattle and no grass, so they buy under compulsion. This situation is arising at present. You would assume that the buyers have done their budgets, considered their options and made prudent property investment decisions given their financial and business position.

Grazing property market value rates have been increasing in some districts over the past year or so and for some particular reasons, may continue to do so in the second half of 2018. This is a positive phase of the market cycle.

So, where is everything at for the rest of 2018?

- Winter rain. Recently there have been rainfalls around. Typically speaking, for red soil country types, forest and those with Buffel Grass, then this is a little boost along until the next rain. For black soil areas with Mitchell grasses that have hayed off, this rain is dangerous.
- Cattle markets. Prices usually do soften from say March to June. Will they bounce back with winter rain in New South Wales? Will they firm with the looming shortage of slaughter cattle? Will there be any live export issues as a result of the sheep matter in Western Australia?
- Interest Rates. Interest rates have been low for some time now. There is suggestion in the newspapers that rates are likely to start rising in the next twelve months.
- Defence Activity. Gossip is mixed as to the outcome and progress of the Defence purchases near Greenvale. Should they go ahead, then this is expected to affect values as vendors in that situation seek replacement cattle stations.
- Southern buyers. There has been interest from central and southern Queensland buyers who are short on grass. In a couple of instances some vendors have achieved positive pricing outcomes. If it rains in their home country, then this interest may dissipate.
- Australian Dollar. With stronger than expected retail growth in the last period and a softening of the American currency, a stronger Australian dollar is expected.

While long term sensible capital growth is what you as stakeholders seek to achieve, irrational capital price trends present their own myriad of issues.

Prudent pre purchasing due diligence is required at all times.

Contact:
Roger Hill - ph: 0418 200 046

Darling Downs

The Federal Government's proposed buy back of underground water within the Upper Condamine Alluviums, whilst highly commendable, may now result in the creation of a new peak in the cycle of the market.

Owners of groundwater now have the opportunity to sell part of their entitlements back to the Government under the "Restoring the Balance in the Murray Darling Basin" program. This is groundwater that they have not historically been able to access and are unlikely to ever be able to access going forward. The end result will be a win for the farmers and this will create three options for them:

- Pay back Debt;
- Further develop existing on farm infrastructure; or
- Further capital acquisitions.

The Government Proposal

Under the "Restoring the Balance in the Murray-Darling Basin Purchasing Program", the Australian Government has committed $3.1 billion to purchase water for environmental purposes. This program is part of the Sustainable Rural Water Use and Infrastructure Program. On 2 June 2014, the Australian Government released the Water Recovery Strategy for the Murray-Darling Basin. The strategy outlines the Government's approach to recovering water for the environment in the Murray-Darling Basin, whilst maximising positive outcomes for farmers and communities. This includes prioritising water recovery through infrastructure investment over water purchasing which is limited to 1,500Gl.

(Source: www.agriculture.gov.au)

Current Recoveries as at 31st December 2017

Shared zone (all units in gigalitres)	Local target SDL reduction	Shared target SDL reduction	Total target SDL reduction	Total recovery progress	Total recovery remaining
Upper Condamine Alluvium	40.4	N/A	40.4	2.7	37.7

* Groundwater recovery does not contribute to the surface water recovery target of 2750 GL.

** SDL (Sustainable Diversion Limit)

(Source: www.agriculture.gov.au/water/mdb/progress-recovery)

It is quite obvious that to date the Government's approach was not working and a new way had to be tried as less than 8% of the target SDL has been achieved with the majority of this coming from the Central Condamine Alluvium.

Further Initiations

On 19 April 2018, the Federal Government subsequently opened a new tender round to voluntarily acquire groundwater back from farmers within the Upper Condamine Alluviums. They subsequently undertook a new approach by announcing the maximum price at which they are prepared to acquire water. This differs from previous tenders whereby no such price announcements were made.

This price schedule is as follows:

Table 4 Maximum Prices and volume limits

Groundwater management area	Sub-area	Maximum Price per ML	Volume limits (gigalitres)
Central Condamine Alluvium	1	$1,900	37.409 across these areas in total
Central Condamine Alluvium	2	$2,000	
Central Condamine Alluvium	2S	$2,100	
Central Condamine Alluvium	2-3	$1,950	
Central Condamine Alluvium	2-3S	$2,100	
Central Condamine Alluvium	3	$1,900	
Central Condamine Alluvium	3-3	$1,900	
Central Condamine Alluvium	4	$1,800	
Dalrymple Creek Alluvium	1	$1,650	4.994 across these areas in total
Dalrymple Creek Alluvium	2	$1,750	
Dalrymple Creek Alluvium	3	$1,750	
Oakey Creek	1	$1,700	
Oakey Creek	2	$1,750	
Oakey Creek	3	$1,850	
Oakey Creek	4	$1,850	

(Source: www.agriculture.gov.au)

If we look at the Central Condamine Alluvium (CCA) which involves the bulk of the water buy back volumes (currently 86,066Ml of Nominal Entitlement which will be reduced to a maximum of 37,409Ml or 43.5% of the current nominal volume), we understand that all licence holders will be initially geared down to the equivalent of 50% of their Nominal Allocations with that then reduced by a further 13% in order to achieve the target of 37,409Ml.

Within the CCA, there are multiple sub areas and currently the long term average Announced Allocations of the respective Nominal Allocations are included here.

This will ultimately mean therefore that all holders of groundwater licences within the CCA (apart from those within Sub Area 2 (3) and Transitional Zone 3 (3) which are already on 50% restrictions) will potentially lose a further 20% of their allocations over time so as to allow the government to meet its target.

Water Year	Sub Area							
				Transitional Zones			Transitional Zone	
	1	2	2S	2(3)	2(3S)	3	3(3)	4
2010/11	70%	70%	100%	50%	100%	70%	70%	70%
2011/12	70%	70%	100%	50%	100%	70%	70%	70%
2012/13	70%	70%	100%	50%	100%	70%	50%	70%
2013/14	70%	70%	100%	50%	100%	70%	50%	70%
2014/15	70%	70%	100%	50%	100%	70%	50%	70%
2015/16	70%	70%	100%	50%	100%	70%	50%	70%
2016/17	70%	70%	100%	50%	100%	70%	50%	70%
2017/18	70%	70%	100%	50%	100%	70%	50%	70%
Average	70%	70%	100%	50%	100%	70%	55%	70%

(Source: www.agriculture.gov.au)

Variation to Previous Tenders
However this tender now appears to differ from previous tenders or individual private sales of groundwater in that the Federal Government will effectively buy the unusable portion of a right.

For example, if we assume that a groundwater licence holder within Sub Area 2 (3) had a nominal allocation of 1,000Ml, historically they have only been able to access 50% of this right. If they decided to sell a 50% share, they would be left with 500Ml, but would still only be able to access 50% of that remaining right or 250Ml going forward.

Now, subsequent to the announcement of this tender, it appears the farmer will be able to utilise the full 100% of the remaining 500Ml and will receive a maximum price of $1,950 per Ml for the 500Ml they sell to the Federal Government. Their position going forward will remain unchanged in that they will continue to gain access to 500Ml of groundwater per annum but will potentially have a one off windfall of $975,000 (500Ml @ $1,950/Ml).

In relation to the other sub areas however, where announced allocations are higher than 50%, the position will be slightly different. For example, within Sub Area 2 with an announced allocation of 70%, a farmer with a nominal allocation of 1,000Ml has historically been able to access 700Ml only. Previously if they sold 50% of that right, they would only continue to be able to access up to 70% of the remaining 500Ml or 350Ml.

Now if they sold 50% of their right, they will be paid $2,000Ml for the 500Ml, but the net effect of the sale will see their water right reduce from 700Ml to 500Ml, a loss of 200Ml which they can no longer access going forward. They will still have a one off windfall, but not to the same extent.

The end result will be that over the next period as this voluntary tender progresses, many farmers will receive a one off cash injection if they decide to sell part of their rights to the Federal Government. This will provide a cash injection into the market which could see the market continue on its upward projection somewhat longer than it may have otherwise done.

Peak of the Market
In summary, we have seen exceptional growth in the value of quality farming country over the past two years or so on both the Bongeen and Jimbour Plains. Now whilst there is a level of discussion within the market place broadly that we may be approaching the peak of this market cycle, it is perhaps too early to call this within this location. Given the nature of the underlying lands, the fact that "they just don't make this country anymore" and the potential for the Federal Government to inject a one off financial boost into the local market through the buyback of groundwater, there still may be further potential for growth to occur within this particular market sector, notwithstanding the current dry conditions and the poor winter crop outlook.

Contact:
Doug Knight and Steve Cameron - ph: 07 46 397 600

Echuca
Buoyed by the rising value of water, irrigated cropping and grazing holdings continue to be strong performers in the marketplace with agents reporting good demand and prices regularly exceeding vendor expectations. This has been a continuing trend for nearly 12 months. As one vendor interviewed recently noted, they anticipated to realize in excess of $1.1 million when the property was offered to market. After 24 hours, the property sold to several neighbours for an amount in excess of $2 million. Further discussions with an agent indicate a selling price 10% to 15% in excess of the initial list price (three months ago) albeit with a significant water component.

Contact:
David Leeds - ph: 0418 594 416

Mildura

While there have been few recent substantial sales to report on, there are a number of large properties currently being marketed. The result of these will be closely watched to see the mood of buyers and whether any of the recent Federal government changes affecting foreign buyers have had any effect.

The Adveq Almond portfolio, which comprises 12,000 hectares of almond trees, originally developed by Timbercorp under a Managed Investment Scheme structure between 2001 and 2007, is being offered for sale. The scale of this portfolio is impressive and we expect that a number of institutional buyers will show interest. The agent's comments suggest the current owners are hopeful of achieving a sale price above $300 million.

Meanwhile, a 370 hectare wine grape vineyard at Lake Cullulleraine is also being marketed. The pace of the recovery in the wine grape industry is increasing and it is expected that a number of local producers and corporate buyers will be keen to acquire it in order to take advantage of stronger grape prices being offered by wine companies. Interestingly, this asset was also developed by a Managed Investment Scheme (Great Southern) during the early 2000's. The current owner purchased this vineyard in a badly neglected state in 2011, reportedly for the value of the associated irrigation water entitlement. They stand to make a tidy profit from their preparedness to buy a distressed asset.

The third property of note is a 1,200 hectare horticultural greenfield site at Trentham Cliffs, just to the east of Mildura. This land is well suited to a variety of tree crops and is expected to receive strong interest, given the shrinking supply of available development land.

The substantial increase in rural values throughout north western Victoria over the past 2 to 3 years has seen unwelcome repercussions on council rating valuations, with many farmers reporting their local government rates have increased by up to 40% in recent years. The fact that farm land values have appreciated to a much higher degree than all other property types is, however, hard to dispute. Farming lobby groups are currently working hard to change the mechanism for how rates are set.

Contact:
Graeme Whyte - ph: 0427 210466

NSW Far North Coast

Anecdotal reports are of positive harvest news for those macadamia farmers that did not suffer storm damage earlier in the year. Solid yields and very good kernel recoveries have been noted. Further, there is a shortage of good quality macadamia farms listed for sale.

The sugar cane harvest has kicked off on all three rivers. CCS levels are very positive this early in the year at around 11 CCS. World sugar prices are very challenging at the moment at around 12.25 cents per pound US, due to a world surplus in stocks. NSW Cane growers are expecting over $30 per tonne at mill average CCS for the 2018 harvest. A good quality sugar cane farm on the Clarence River has sold by tender for $1.365 million, including the crop. This 91.76 hectare property included a good machinery shed with power connected and indicates a land value of around $13,000 per hectare. We understand it was purchased by a cane farmer which, in recent times, is not the usual as macadamia farmers have been very active in this market segment.

Cattle grazing properties are continuing to attract strong demand, although recent conditions have been dry and challenging pasture conditions.

Contact:
Paul O'Keefe - ph: 0409 763 573

Southern NSW and North East Victoria

The general southern New South Wales and northern Victorian market continues to display signs of strength and resilience. The recent positive rainfall outcomes across the Albury and northern Victorian areas has also served to allay any concerns that were beginning to appear because of the extended dry period.

With regards to recent transactions, we are aware of a property approximately 50 kilometres north of Albury that has just gone under contract. This property is all open, mostly arable, improved grazing country, typical of the area and has transacted at approximately $8,300 per hectare, excluding the added value of the buildings in place. This is in line with recent agents comments about the area which indicated that the area to the north of Albury has been achieving $3,000 to $4,000 per Acre ($7,400 to $9,800 per hectare).

Recently, a number of valuations in the far western New South Wales area to the north and north east of Broken Hill have been undertaken. It has been interesting to note the change in what the market has been prepared to pay on a dollar per DSE rate for typical open grazing country in the area. Previously, (up until late 2016) DSE rates in the $200-$350 range would have been expected, however, now all of the sales analysed indicate rates in the $400 to $500 range. Whilst initially this was concerning when the rates were reviewed in comparison to the rates paid for higher rainfall inside tablelands country to the east, it became apparent that the relative ratio of dollars per DSE rates paid between the tablelands country and the far western country is still similar to what it has been. Now that far western country is at $400 to $500 per DSE, we see that the tablelands country is now $600 to $700 plus per DSE, whereas previously, rates were mostly in the $450 to $600 range. These elevated rates equate to significant strengthening in the corresponding underlying land value. The exact dollar per hectare rates vary with the carrying capacity of the country involved however, in general we would expect country to the north of Broken Hill to be in the $90 to $100 per hectare range.

Despite the deteriorating seasonal conditions, it appears that the 'Buckanbe' has gone under offer. This is a 40,000 hectare, very well located grazing property on the Darling River just downstream of Tilpa. Whilst we are not aware of the negotiated outcome, we would expect it to achieve approximately $150 per hectare overall. Will review the prediction next month!

Contact:
Scott Fuller - ph: 0427 077 566

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