HERRON TODD WHITE RURAL

Rural

June 2019

Overview

The election is run and won and it has rained in a few places – but more is generally needed. In addition, in large parts of NSW and Southern Queensland a lot of rain is still needed to see a real shift in forward. Therefore, buyer activity has settled down from the fervour of six to eight months ago.

The current conditions have also seen buyers of grass from the south purchase northern sheep and cattle blocks at near, or new, records land rates per hectare.

So, what happens when more general and widespread rain does occur?

We saw demand reduce from Central Queensland buyers looking north as soon as cyclone Trevor rolled past and provided good relieving rain in many areas, but the Southern buyers are still coming – but who are they?

This month, Roger Hill in the North (where most of the rain has fallen) has investigated this question is a great summary of the action. I am also aware of some recent transactions broadly centred around Longreach region which were grass buyers from NSW being Wagyu cattle, sheep operators from the New England and Sheep operators from North West NSW. Many may be surprised at the sheep buyers, however the development of fencing to manage predation has provided a great opportunity now for sheep in this traditional sheep country and a growing presence in the coming years will not surprise too many people. On two of these acquisitions, I'm led to believe the purchasers did not look at any infrastructure – just the grass and water – and made offers pretty well on the spot and for either early settlement or at least access rights to get hungry mouths onto good grass.

Good luck to the vendors of such property, however a return to normal seasonal conditions and general rain will take out this buyer bias in some of these areas which will, in all likelihood, see values on forward transactions below some of the current rates being paid. The value of engaging an independent valuer in a transaction assists parties to understand long-term value. This helps set aside the motivation of a buyer or seller in a sale and can be a valuable insight for future value movements.

Tim Lane
National Director - Rural

North and South Coast NSW

Oysters: The NSW Oyster Aquaculture industry has experienced a significant change over the past 12 to 18 months with capital investment from the NSW government and co-investment funding from First State Super into Australia's Oyster Coast (AOC), a collective of oyster farmers along the NSW coast. In addition to the funding into AOC, there has been increased investor interest that appears to be targeting operations that are well managed, have relatively modern oyster lease development and are of a larger scale.

The industry was once dominated by somewhat relatively small-scale ad hoc approaches to the overall oyster operations, which is still evident in some estuaries, however the introduction of the NSW Oyster Industry Sustainable Aquaculture Strategy and development of Environmental Management Systems covering specific waterways has led to these operations having to become responsive and develop into coordinated, efficiency-oriented businesses that operate toward best practice standards.

It may be viewed by some of the smaller operators that this increasing set of operating requirements may act as a constraint, however for others it will provide a clearer pathway for implementing appropriate practices that in the longer term should provide an improved return on investment.

The industry has also seen more investment into improved production techniques such as new production materials and oyster culture technology. Operations that have upgraded to the more modern production techniques are proving to be more sought after by the competing larger operators looking to expand.

Mildura

We have seen a lower volume of rural sales during the first half of 2019, which is not surprising given the extremely dry start to the year. However there is evidently still demand for better standard rural assets, and the sales which we have seen suggest values are holding at similar levels to 2018.

A well managed 131-hectare wine grape vineyard located to the north of Mildura has recently sold at levels which show an average $32,250 per hectare for the area planted to vines. The vineyard has a history of good yields and relatively low costs, but also contains a high percentage of Chardonnay, which currently offers lower returns per hectare than most other varieties. The lower Australian dollar is helping maintain stronger prices for wine grapes and there is a feeling of optimism that returns will continue to improve.

The table grape industry has enjoyed another successful harvest, with fruit quality mostly good and strong export prices. We expect to see growers continue to plant new varieties, which will see ongoing demand for the remaining vacant land parcels in the irrigation districts. A corporate buyer recently acquired an 85-hectare aggregation in the Red Cliffs district, planted mostly to table grapes but also with some wine grapes, at a price which equates to around $80,000 per hectare for the better table grape varieties and between $27,000 and $36,000 per hectare for the area planted to wine grapes.

The much higher cost of leasing irrigation water compared to levels applying up until mid-2018, is expected to see buyers remain cautious about committing to large scale, greenfield developments. This position could change if we see a wetter than average winter and spring in the Murray River catchment, however there is increasing commentary around whether the Murray Darling basin can supply additional permanent tree crops. It is likely that we will see much less greenfield development over the next few years.

Nearly all of the Mallee has been dry sown to cereal crops this season, many of which are just starting to emerge following some rain in early May. We would expect to see few sales in the Mallee between now and November, with confidence levels (and bank balances) heavily dependent on how the coming season unfolds.

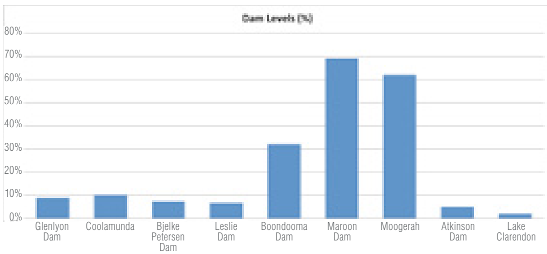
Darling Downs

The market continues to tick along with a number of transactions occurring for both traditional family scale grazing or mixed farming assets. There has also been some corporate activity in the broadacre farming space, albeit low. The market is however considered to be influenced by the lack of supply which in part is underpinning land values.

It is a common theme where those purchasers of country have previously attempted to acquire land either by auction terms or private treaty but missed out due to strong buyer competition or more favourable contract terms such as a cash offer. As a consequence, many of the sales over the past 12 months have been acquired by anxious purchasers with the sole objective of securing country and moving forward with their business plans and objectives. We note that in recent times, it has been the clients asking us as valuers what the market is doing given there are some mixed signals that may be suggesting we are at or near the peak.

As a consequence, many of the sales over the past 12 months have been acquired by anxious purchasers.

The dry seasonal conditions are definitely on the minds of many cattle and broadacre producers. Despite some reprieve in seasonal conditions in late March, there isn't a solid body of feed now leading into drier winter months. Some areas particularly on the southern Downs and around Westmar haven't received enough rain to create run-off to fill low dam storages. Therefore, the prospect of a difficult winter ahead is a concern for many. To highlight the lack of run-off generally in the south-eastern part of the State, the graph identifies the various dam storage levels as of late May which support irrigators, graziers and various town communities.



On the transaction side, we have seen strong interest for quality farming country south of Toowoomba with the sale of Willow Springs, a 110.4 hectare holding, developed to irrigated farming with sound structural improvements and well-presented. The holding has both ground water and an allocation entitlement from Kings Creek of combined 174 megalitres. The property sold for circa $24,900 per hectare to a local small cropping enterprise seeking additional land. The much-speculated sale of Pony Plains to the west of Wandoan sold under action terms on 29 March for $13.3 million or $3,322 per hectare ($1,344 per acre). This is a 4003.59 hectare mostly Brigalow scrub that had significant coal seam gas development including a worker's camp. The marketing agent for the property indicated that compensation payments received over a five year average were circa $1 million per year. The sale did include an attractive income stream which appears to reflect a premium. Broadly in the market as the gas industry has transitioned from development to operation, landholders who have negotiated strong annual compensation payments have the potential to achieve increased values. A compensation payment normally accounts for the initial disturbance head of claim, which is considered to have the greatest impact


Source: HTW

at the development stage as wells are drilled and connected to gathering lines etc. Once the infrastructure is in place and the grazing business is back to a similar operation, the impact is considered much less intrusive.

It is very difficult to achieve the same level of return per hectare under a grazing operation compared to the compensation received for the land developed to wells or other infrastructure. Hence why similar compensate payments to landholders can be considered a benefit due to providing a secondary income stream which is not subjected to seasonal conditions or commodity market prices.

North and North West Queensland

Grazing property market dynamics are evolving rapidly in the wake of the shock of the monsoonal events earlier this year.

At this stage of 2019, 13 cattle stations have sold and at least three more will be sold while this article goes to press.

In 2018, 26 cattle stations sold across north and north- west Queensland.

The year on year north and north-west Queensland grazing property market score card is as follows (table right).

Downs – Winton, Hughenden, Julia Creek, Kynuna
Busiest market area in the year to date. Vendors have taken the opportunity to exit while there was good demand post the monsoonal event in the first week of February.

There was a narrow gap before it rained down towards Longreach, then towards Springsure and then Cunnamulla. In that gap, this district was riding the crest of opportunity for sales activity.

LANDFORM	YEAR	NUMBER OF SALES	BOTTOM $/HA	TOP $/HA
Downs - Winton, Hughenden, Julia Creek, Kynuna	2019 (year to date)	9	$308	$432
	2018	11	$239	$358
Year on year change:			129%	121%
Downs - North of Hughenden (not basalt) to Julia Creek	2019 (year to date)	Nil		
	2018	2	474	492
Mixed sweet channels/downs/breakaways over the Diamantina River (Middleton/Boulia/Dajarra)	2019 (year to date)	2	46	83
	2018	2	88	148
Year on year change:				Unreliable (too much land type variation)
Cloncurry and Gulf of Carpentaria	2019 (year to date)	Nil		
	2018	Nil		
Year on year change:				Tightly held. Strong local demand.
Desert Uplands	2019 (year to date)	1		$186
	2018	2	$96	$389
Year on year change:				Unreliable (too much land type variation)
South of Charters Towers to Belyando River	2019 (year to date)	1	Nil	$738
	2018	1	Nil	$641
Change			Nil	115%
North of Charters Towers and Hughenden (inc basalt) to Mt Garnet, Georgetown, Einasleigh	2019 (year to date)	5 (not including Defence acquisitions)	$34	$327
	2018	8	$57	$583
Year on year change:			60%	56%
Croydon, Normanton forest	2019 (year to date)	Nil		
	2018	1	$30	

RURAL

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Interest and enquiry came from central Queenslanders, southern Queenslanders and Northern Territorians.

As it turns out, only one-third of these sales in this region were local buyers, one buyer is from the Northern Territory and the rest (almost two-thirds) are central Queensland operators.

Now that it has rained to some extent in these other areas, the spotlight will dim somewhat in this region and the spike will be over.

Grass growth was not as prolific as first expected.

Initially the broader cattle industry sought to agist in this area. When the cattle market dropped further at Roma, New South Wales and in the Northern Territory, local graziers saw the opportunity to acquire drought priced stock and do a trade.

Some local graziers did not take agistment on or do a trade. They calculated that with the grass that actually grew, the grass budget matched the post flood cattle numbers and chose to play the sit card.

Going forward, due diligence will need to be prudent for both vendors and buyers. The price ranges have risen strongly by 21% to 29% year-on-year. Given that a portion of the market sales last year were already driven by grass demand, then both the buyers and the vendors should be prudent in the forthcoming price negotiations.

From here, the market has a choice:

1. Take a breath – no sales get over the line for the rest of the year;
2. Rationalise – vendors recognise that this was a rare event and lower their pricing to last year's levels (or lower); or
3. Given the broader regional perception that this market area is so much cheaper than that black soil stuff in central and southern Queensland, trot ahead and grow from here!

It is interesting to note that the forest country hectare rates in recent years have risen to those similar to downs country.

Now that the election is over, may the free market decide!

Both buyers and sellers need to be seriously prudent in this next market phase.

North of Charters Towers and Hughenden (including basalt) to Mt Garnet, Georgetown, Einasleigh

This market area sold well last year. For years, there had been a limited number of transactions, particularly in the basalt areas.

Last year did see some grass buying from out of district buyers (drought affected central Queenslanders), however mostly the buyers were locals taking the opportunity to acquire more good country.

This has happened again this year with most buyers being local districts and just a couple of southern buyers. There has been interstate enquiry. Only one of these has gone to contract at this stage.

Demand is moderate (for second grade country) to strong (for blue ribbon country) for breeding stations in this area. Given the dry conditions in the south, the higher and more reliable rainfall in the north is attractive.

Defence has acquired cattle stations in the Greenvale area for the purpose of establishing the Singapore Training Area. The vendors may well enter the market over the next two to three years.

It is interesting to note that the forest country hectare rates in recent years have risen to those similar to downs country. The quality of forest country and apparent seasonal safety of the region have been contributors.

Forest country hectare rates vary so much with land classification, land condition and infrastructure. This makes the score card look like the lower end value rate has softened. This is only because there is a contract on some lighter granite country at present, yet there wasn't a similar type sale last year.

The top of range hectare rate from last year has yet to be surpassed this year.

Given the interest in Baronta Park (Prairie), Rocky Springs (Mount Surprise) and Reedybrook (Greenvale), the top of the range hectare rate parameter is likely to be set very shortly.

It is likely that there will be another six sales in the area too as the year progresses.

Once these sales occur (three named, three are quiet at this stage) then the parameters for the score card will certainly confirm last year's value rates and perhaps a steady value rate rise at year end.

Overall

Across the north and north-west, the year did get off to a wild start. However, the property market has been busy to say the least.

As the year progresses, there are another nine cattle stations that are likely to sell this year.

No doubt there will be a couple of quiet sales that fly under the radar.

In all, this will result in a similar number of cattle station sales for this year as last year.

The variance will be in the pricing:

A. There is a risk of some price rationalising in the downs;

B. It appears that once the expected sales in the forest country to the north of Charters Towers and Mount Garnet, Mount Surprise, Georgetown and Einasleigh settle, then existing value rates from last year will be upheld and perhaps reveal a steady growth rate.

Central West Queensland

Severe drought conditions over much of Queensland has seen attention focused on properties which have some grass reserves, particularly in central western and north-western Queensland.

Very strong demand saw a rush for grass for properties selling with adequate pasture reserves. 13 properties in the central western Queensland region have sold in the past three months, compared to 19 sales for the whole of 2018. Values are well above previous levels by up to 25% or more for the odd isolated sales.

We are of the opinion that values are at or near a market peak and we caution that this possibly brief period of strong demand could be a short-lived price spike.

However, given the widespread drought conditions that have been and still are being experienced over much of the region for the past five to seven years, maybe the region's values are just playing catch-up to other areas of the state. Lack of grass has certainly prevented some producers from listing their properties for sale, but reasonable rainfall in some areas of the central west has given those producers wishing to sell an opportunity to get out.

Initial demand was from drought-stricken producers in the Northern Territory and Queensland, with some New South Welshmen now heading north. Some properties have sold to sheep producers for the first time in nearly 30 years.

Some of the recent sales have been to producers who have had expansion plans in mind, but drought conditions have brought matters to a head earlier than expected. Therefore, once seasons return to widespread favourable conditions, a lot of these recent sales may not hit the market again in the short-term.