HERRON TODD WHITE RURAL

Rural

July 2019

Overview

This month, the rural team have taken a look and what constitutes entry-level property in their service areas. What's available for those at these beginning price-points and how is this segment of the market is set to perform?

Tim Lane

NSW North Coast

The NSW North Coast has very strong underlying rural lifestyle values for many rural properties, particularly those closer to the beaches and towns. There are many smaller scale farms operated on a weekend basis as the owners are employed off farm or the farm is totally managed or operated by share farmers or lessees. Many of these farms are not viable operations on a stand alone basis.

Entry level for macadamia nut farms is possible below $1 million for build up style blocks without a house and sheds. The market below $1.5 million is tight if there is a reasonable house, sheds, some plant and equipment and a mature macadamia orchard of a minimum of ten hectares. At present, ten hectares of mature macadamia orchard, whilst quite profitable at current commodity prices if operated well, is not considered a viable stand alone operation having regard to some potential variations in seasonal conditions and average commodity prices over a longer term historical period.

At present, the market for viable stand alone operations likely exceeds $2 million. There has been capital growth in recent years as the commodity price and the rural residential property market has firmed. Listings of macadamia farms for sale are limited, however the analysis of sales indicates $75,000 to $100,000 per mature orchard hectare excluding structural improvements, crop, plant and equipment and balance land, with the top end of the range expected to have very good presentation, row spacings, production and verifiable history of production.

There are various horticultural pursuits including blueberries, avocados, nurseries etc, however in very general terms, over $1.5 million would be required to be considered as viable allowing for seasonal fluctuations in prices and conditions.

For sugar cane farms, there are build up style blocks that sell for below $500,000, but they would not be viable operations on a stand alone basis. On current commodity prices, many sugar cane farms are not particularly profitable. Macadamia nut farmers have been active purchasers of sugar cane farms, but some farms that have sold for the purpose of continuing to grow sugar cane have been in the $1 million to $2 million price bracket in good cane growing areas. Values above $1.5 million would likely include a house, sheds and some plant and equipment, but a lift in commodity prices is required for these to be strictly considered stand alone viable operations at the moment. These farms, excluding structural improvements, crop, plant and equipment and balance land indicate in the range of $10,000 to $15,000 per sugar cane cultivated hectare. The most apparent avenue for capital gain is in the underlying rural residential value and from external industries demanding the land, such as the macadamia industry. The macadamia purchasers have paid over $20,000 per hectare for some cane land, so this is a logical point of capital gain.

Dairy farm sales are very few. Beef cattle grazing sales are common and there are many entry level build up style blocks that can start from relatively low value levels below $500,000. Viable stand alone beef grazing properties have not been common over the past 12 months. Investments in the $2 million and $3 million range would be expected to obtain some sort of viability.

Paul O'Keeffe

Central West and Western NSW

The drought continues relentlessly in the Central West and Western areas of New South Wales.

The majority of northern and western New South Wales has received limited rain year to date. Pockets in the western area including along the Darling River east of Wilcannia and up to Bourke and across to Enngonia were lucky enough to have received rain events around Easter and subsequent follow-up falls. Some of these property owners have had the best start to a season in some years. These are of course the minority.

There was limited winter crop planted in the Central West cropping areas. With the seasonal window closing quickly, we are facing the potential of another missed winter crop or at best below average yields.

Rural property listings across all regions have reduced in number and therefore transactions as well. With the limited offerings we are seeing the auction pass-in rate and days on market increase as the expectations of vendors exceeds the market demand offered by purchasers. Unfortunately, the poor seasonal factors and limited cash flow are weighing heavily on expansion plans from sound equity purchasers, even on the back of post-election stability and an interest rate cut. A military solution is required and General Rain is the answer.

Allister Rodgers

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Central Tablelands

The Central Tablelands rural market appears to be progressing in a similar positive direction as it has over the past several months, although activity is low in the market and any general trend is difficult to gauge.

There remains a reasonable level of demand, with limited properties for sale and this balance may support value levels somewhat, however buyer optimism may slow and stabilise somewhat with the continued dryer than average seasonal conditions and the prospect of a difficult winter with below average feed available.

The main overriding fundamentals driving market activity in the broader rural market do remain in a reasonable position and this may maintain some market activity over the coming months.

Craig Johnstone

Southern and Western NSW

Over the past few months, we have been discussing where we feel we are in the terms of our property clock. Generally we have felt that we were at the top of the current cycle with the only proviso being that good rainfall could see the market continue on as it has over the past three years. This rainfall has eventuated over a number of areas and where we may have expected to see some softening and we are seeing a continuation of the activity levels across most areas of New South Wales. General sales volumes did peak approximately three years ago with reduced sales volumes each year since. This drop in sales volume has also helped maintain current value levels. There are still areas in New South Wales, particularly in the north-west around Walgett and also further west to the areas between Broken Hill and Tibooburra where there still remains critically drought affected areas. These areas are still experiencing demand but not to the same extent as in the areas of central New South Wales, Riverina where some relieving rainfall events have been encountered.

The major concern for new entrants is that the firming of most markets over the past two to three years created a spike in property values.

One recently settled sale is that of Taltatni which is located approximately 15 kilometres downstream of Albury on the northern side of the Murray River. This 312 hectare property was improved with a set of steel cattle yards and machinery shed and transacted at $5.5 million, or approximately $17,500 per hectare, which would be considered to be at the very upper end of current market expectations, however is reflective of its prime riverfront location, good soils and highway frontage.

A recent auction in western New South Wales was that of the property Riverside Station which is a 7,700 hectare property approximately 30 kilometres from Wilcannia. This property enjoys a 14 kilometre frontage to the Darling River and is improved with a five-bedroom homestead, workshop, basic quarters, shearing shed, sheep and cattle yards. The property also has a 1,800 hectare cultivation consent which allows for cultivation activities following a flood event. The country consists of a mix of open softer grey clay loams along the river running to red sandy loams. Initially marketed with expectations of between $1 million to $1.2 million, we believe this has transacted slightly above this level which would indicate an achieved per hectare rate of $169 approximately. These figures, if confirmed, will show the continued strong interest in western grazing country.

Scott Fuller

Mildura/Sunraysia

The theme for this month is the more affordable end of the rural markets.

Entry level property values often reflect the balance of risk and return. The bad news for new entrants or others intending to expand their operations in the horticultural sector in this region is that many of our key local horticultural industries have experienced sustained growth and high commodity prices on the back of many factors including a lower Australian dollar, improved access to some key export markets and reduced global supply. This has resulted in strong demand across virtually all irrigated operations and has made it more difficult for new entrants to afford these assets.

The major concern for new entrants is that the firming of most markets over the past two to three years created a spike in property values. Value levels appear to have now levelled, particularly in the almond, citrus and table grape market sectors.

Another sector which appears to have cooled somewhat is greenfield development sites. Whilst there appears to be a large cash pool from investment funds, the ongoing dry conditions in the Murray Darling catchment dams, uncertainty of allocations and indeed the current price levels of irrigation water entitlements has resulted in a degree of nervousness from investors. The concerns may be justified given the low (zero) allocations to NSW Murray and Murrumbidgee General Security water licences which had a flow on effect to levels paid in the temporary market which saw levels peak at around $600 per megalitre in the early part of 2019. The recent increase in the cost of leasing temporary water has made many growers and investors question the economics of turning water into dollars, particularly to greenfield operations. Demand for this type of property will always be cyclical, however there remains several opportunities to acquire and land bank this type of property, generating some return from dryland farming pending any future development.

Wine grape returns have improved, off a low base, but at current levels are little more than break even particularly for those using leased water allocations, however there is considered to be a reasonable chance of vineyard value appreciation in the medium term.

A strategy for a buyer with a lower risk profile would be to consider purchasing dryland cropping country in the Millewa district of north-west Victoria, where levels have pretty much stagnated in recent years due mainly to the below average rainfall. This is in contrast to the southern Mallee regions where value levels have almost doubled over the past four years in some cases. We note that solar companies have moved into the area over the past two to three years and many landholders have been approached to lease suitable land for their operations.

The alternative for new entrants is to lease land under a long term lease arrangement for this type of country, which can provide a kick start without the large initial capital outlay. For a passive investment in agricultural land, this could provide opportunity.

Shane Noonan

Echuca/Deniliquin/Bendigo

The bank managers Herron Todd White Deniliquin deal with on a day-to-day basis advise that most farmers in the area make about two to three per cent return on their capital, excluding capital gains. Therefore, in real terms, that means $20,000 to $30,000 return per $1 million of capital.

Therefore, a living area with a value in the vicinity of $5 million including water would typically provide an income of $100,000 to $150,000.

Anecdotally, most farmers without off-farm income in the area would have farms including water that would at least equate to $5 million in value.

Broadacre irrigation arrived in the Deniliquin area post the Second World War. The area saw large scale soldier settlement with the typical farm being 259 hectares (640 acres) with a water right that equated in today's terms to 250 mega litres per annum.

An entry-level, former soldier settler's block now costs in the vicinity of $1 million excluding water, hence based on banking advice would provide an annual income of about $20,000 to $30,000. To make a living on a farm of this size requires off-farm income.

Like most rural areas, aggregation is a big factor, with several larger scale operators owning in the vicinity of ten former soldier settlers blocks. Any viable farmer owns at least three farms plus water.

Interestingly, values in the area have doubled since about 2013, with income according to farmers, bank managers and accountants remaining largely unchanged, hence in 2013 a living area would have had a capital value of around $2.5 million.

John Henderson

North and North West Queensland

Starter opportunities are as rare as hen's teeth in north and north-west Queensland.

The opportunity to enter the agricultural sector is difficult on its own, let alone trying to enter the property side of the equation, if that is your goal.

Often, the comment is made that you have to inherit it to get it... is that true though? Is it a Furphy? There are plenty of examples of graziers and farmers getting around who started with nothing and ended up on the land. No matter if the property is inherited or not, as an agricultural business person, learning to be profitable is a core requirement.

At a time when it is near impossible to find country to lease or agist, the supply of starter blocks in the beef industry is a real issue in north and north-west Queensland. It certainly is difficult for a future grazier to get a business established in the beef sector.

Perhaps the perception of what is a beef cattle starter block is an issue? Perhaps the why is also an issue? Or is it that there are not enough blocks around each of the country towns?

Cows   Source: HTW

So, what is expected of a starter block? How big? What price range? How many cattle should it carry?

This first layer of questions provides perspective as to the expectations of the potential entrant into the market. This allows the reality of checking if the expectations are real or a Furphy in their own right.

Take, for instance, the recent sale of Baronta Park near Prairie. In your eyes, is that a starter block? Baronta Park sold to an established local grazier. As a starter, if you can put down a deposit or find the collateral, then good on you. The property sold for $1.65 million with some cattle. Apparently, it has consistently run 400 breeders and there is an area of Stock Route to apply for to help the grazing area. A question of a few financiers reveals that a 20 to 50 per cent deposit would be required. So, depending on the financial structure, about $300,000 to $750,000 is required.

To put that into perspective, it would take a while to build up a share portfolio of that scale! Perhaps this market pricing segment reflects a second or third rung in the progression to becoming a land baron.

There is a thinly traded market segment from $330,000 to $750,000 dotted across the region. This price range would indicate the need for equity or a cash contribution of between $66,000 and $150,000 at a 20 per cent deposit (80 per cent loan-to-value ratio) or $110,000 to $225,000 at 30 per cent deposit (70 per cent loan-to-value ratio), plus your cattle and plant.

The scale of these blocks is small. They carry a few cows or horses, so the cash flow contribution from the enterprise will not be big. At least some of these blocks do have a cottage though.

For areas around Mount Isa, Julia Creek, Richmond and Hughenden, there are a limited number of blocks in the system. This presents its own problems for aspiring land holders. Certainly, there are rural residential parcels available from time to time, however this rung in the investment journey to buying a Baronta Park equivalent is missing.

Often, the comment is made that you have to inherit it to get it... is that true though?

Subdivision of larger holdings close to these towns may be an option. In some market areas, there may be a demand factor that would provide a handsome profit to the existing land holder. This might be food for thought for those potential vendors around these towns.

Charters Towers certainly has a full spectrum of rural residential and starter blocks. The starter blocks there are getting few and far between as well at present. There has been some price movement to reflect this. Now an affordable starter block is even smaller and you may have to feed that bronco or steer too.

So where have there been sales?

- Prairie – Tower Paddock sold to a mustering contractor at public auction for $330,000 in April 2018. Okay, sure, it's not Nappa Merrie, but it is a start for the buyer to get into the property investment ladder.
- Torrens Creek – Hazelrig sold privately via private negotiation for early $600,00s and it has a house too.
- Tangorin – Of same namesake sold privately for a couple of hundred thousand dollars more. It's a bit larger, has a high percentage of Landsborough Creek channels within it, a house and shed too.

These sales are in locations that do not suit everyone, however in each case, they suited someone to make a start. Some of you may not even know where Tangorin is or how important the township was in the history of Hughenden and Muttaburra.

Alas, all is not lost though; there are other opportunities and good news stories. There is a small block (runs about 20 weaners) with a liveable shed for sale near Ingham for $220,000. Certainly, this block is an option for someone to build some equity and use it as a rung in the ladder towards buying that bigger property.

Even though the sugar price is not sitting sweet at the moment, the cane industry does offer more affordable options for an agricultural manoeuvre. There are few new entrants to the market in the Herbert and Burdekin areas, yet there are farms for sale at affordable prices. Is this an option?

While attending a cane farm valuation a few years ago, the farmer told the story of his why:

"I was paying off a $700,000 principal place of residence in Townsville with after-tax money. So, I sold that, bought a cane farm for $600,000. It has a house and shed. The cane covers the rates, insurance, production costs and I live in a pre-tax position."

This story has been heard a couple of times in the cane sector. Another story was told the other day: "I work on a mine site and wanted to do something on my days off so I bought a small cane farm. It's nearly paid off, so now I am wondering if I should grow my operations towards having a living area tonnage".

It's good to hear some good news stories. There are some people who are making a start in the cane and horticultural sectors.

Not all is doom and gloom for the beef sector, however not having that entry level rural block market segment between residential and larger scale operations is causing a problem.

There are success stories in the beef sector. They share similar characteristics to those in the cane and horticultural areas:

- The buyer is profitable in their existing business or personal investments (if an employee);
- They seek out other rungs in the ladder to grow their equity in order to acquire the larger operation. They have investments in either shares, residential or commercial property.

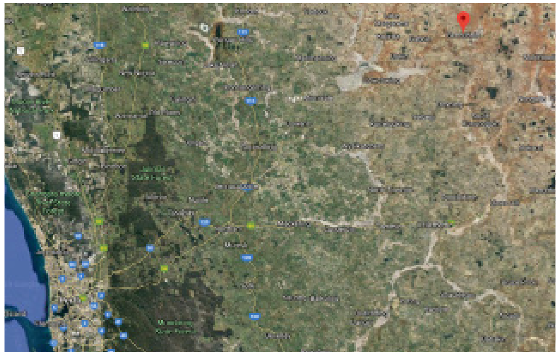
Until seasonal conditions improve, cattlemen will continue to find it difficult to get agistment or country to lease to build their herds, so perhaps a strategic approach using alternative investments is needed until that equity pool is large enough.

Roger Hill

Western Australia

Western Australia is still considered in some regions to provide good value in comparison to other Australian states and territories and also across the developed agricultural world. The state is very diverse from cattle stations in the northern pastoral regions to vineyards in the south- west and many other agricultural, horticultural, silvicultural and aquaculture land uses in between. We consider that the entry level in Western Australia would initially be at a hobby farm level in areas which are affordable for a scale which can develop some level of return and then build on from there. A number of areas surrounding the Perth metro area, south-west and great southern have been heavily influenced in the last couple of decades by rural lifestyle purchasers driving land values beyond limits to make a commercial return and what would be considered entry level rural. We therefore would look to the wheatbelt areas and the medium to low rainfall areas that have lower land values however also have lower yields and are more susceptible to drought conditions, so not without risk.

We did a quick search and for $460,000 you can buy 1,259 hectares or 949 arable hectares at Bencubbin in the eastern wheatbelt.



Bencubbin Source: Google Maps

For a purchaser looking to get into agriculture this is an affordable level and scale with residential improvements. The asking price equates to $485 per arable hectare which outside of pastoral regions would be considered one of the lowest price points in the country.

This scale would not be viable as a sole source of income however someone interested in agriculture could work in the industry in the surrounding areas and use this as a starting point to build a viable operation and also use as accommodation. Current livestock and machinery prices will make it difficult to stock and crop the property straight away and require additional investment, however the use of contractors for cropping or building a mob of sheep over time can limit the initial capital outlay required. Benchmark surveys indicate that the low rainfall region can produce up to 1.7 t/ha of wheat and carry 2.4 DSE/winter grazed hectare.

A number of good seasons have seen demand for cropping and grazing properties increase with values increasing accordingly across a number of wheatbelt regions. This area has been subject to drought conditions and therefore subject to higher risk of not providing a return and therefore capital gains will likely be lower. We do however note that the continuous development of agricultural technology and plant varieties is resulting in an potential increase in yields and returns and these developments could have a significant impact on the production potential of the lower rainfall areas which has the potential to flow on to capital gains.

Northern Territory

The sale of the 3,882 square kilometre breeding block Kalala, strategically located at the junction of the Stuart Highway and Carpentaria Highway near Daly Waters (276 kilometres south of Katherine) was finally consummated with a settlement late in March after being on and off the market since 2016. We understand that the deal was negotiated in December 2018 at around $58 million (WIWO) with an estimated 20,000 head of Brahman and Brahman cross females plus followers and plant and equipment. The assessed sale price (bare) appears to analyse out to mid to low $30 million. We understand that the property had been relatively well tested over the marketing period with inspections from a mix of potential foreign, interstate and local buyers (including some fairly high calibre players). The property finally sold to Rallen Australia Pty Limited, a company associated with the Langenhoven family of South Africa who reportedly have a permanent base in Sydney. The Langenhovens entered the beef industry in Australia only five months before with the purchase of two Roper River District cattle stations, Mt McMinn (810 square kilometres for $4.96 million) and Big River (708 square kilometres for $5.5 million). The sale indicates continued strong confidence in the northern live export sector.

We also note that during February / March the sale of a rare Darwin region floodplain cattle station was negotiated. The transaction remains under contract with settlement pending and therefore details remain confidential at this stage, however we understand that the potential new owner will be an existing Northern Territory pastoral leaseholder who will background their northern breed on the floodplains over the dry season for sale into a South East Asian feedlot later in the year near the wet. If the deal is consummated at settlement, it is likely to set a new $/AE record for floodplain country in the Territory.

At the time of writing the $130 million walk-in, walk-out deal to sell Auvergne, Newry and Argyle Downs in the Victoria River District and West Kimberley as part of the Consolidated Pastoral Company disbursal to Vietnamese agricultural and finance company (CAIT) was still under contract with settlement pending.

Pastoral Feed Outlook

Just prior to the impact of ex-Tropical Cyclone Trevor in late March which delivered more than 100 millimetres of rain to parts of the Gulf, Barkly and Plenty/Simpson Districts of the NT, the Department of Primary Industry and Resources (NT) Pastoral Feed Outlook was released for the March quarter.

KEY	Green = low risk	Orange = watch	Red = high risk
KEY	↑ = increasing trend	↓ = decreasing trend	↔ = steady

	Northern Territory Pastoral Districts											
Indicator	Darwin	Katherine	VRD	Sturt Plateau	Roper	Gulf	Barkly	Tennant Creek	Northern Alice Springs	Plenty	Southern Alice Springs	Comments
2018/2019 total pasture growth	↓	↔	↓	↓	↓	↓	↓	↓	↓	↓	↓	Arrows indicate trend compared to the long-term median (for this time of year)
Current estimated standing biomass	↑	↑	↑	↔	↑	↓	↓	↔	↓	↓	↓	Arrows indicate trend since previous quarter
Current fire risk	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	Arrows indicate the trend since previous quarter
Current seasonal outlook	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	Arrows indicate the trend since previous quarter and taking into account the forecasted model predictions

Source: Northern Territory Government, Department of Primary Industry and Resources

The report revealed that the majority of the Northern Territory (apart from the Top End and patches in the Katherine District) looks set for a significantly reduced productivity over the 2019 dry season with well below average rainfall recorded for the 2018/2019 wet season. We note that ex-Tropical Cyclone Trevor delivered drought-breaking rain to parts of the Gulf District, south-east parts of the Barkly Tablelands, parts of the Plenty and Southern Alice Springs districts, effectively bringing their annual rainfall up from below average to around average and for the Plenty district, to above average (refer rainfall decile map).

A summary of the forecast feed conditions from the Pastoral Feed Outlook report is:

"Feed conditions have dramatically deteriorated in several districts in the past four months. The predicted late onset to the northern wet season materialised and total rainfall is some of the lowest on record for some districts. As at 1 March 2019 a large part of the NT from about Larrimah down to Alice Springs has experienced below-average pasture growth for the 2018/19 season. The majority of this area is experiencing extremely low growth (lowest 10% of years on record). As a result, large areas of the Barkly and Alice Springs districts in particular, are currently showing low to extremely low levels of standing dry matter"

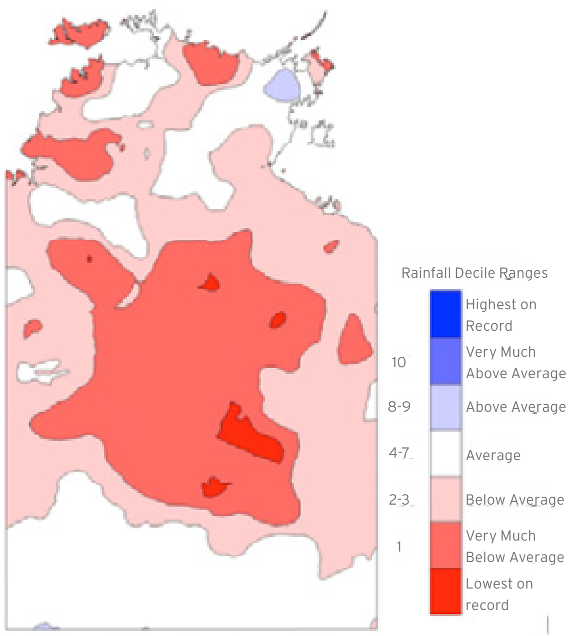
The table above from the Pastoral Feed Outlook summarises the situation Territory wide.

Darwin Floodplains

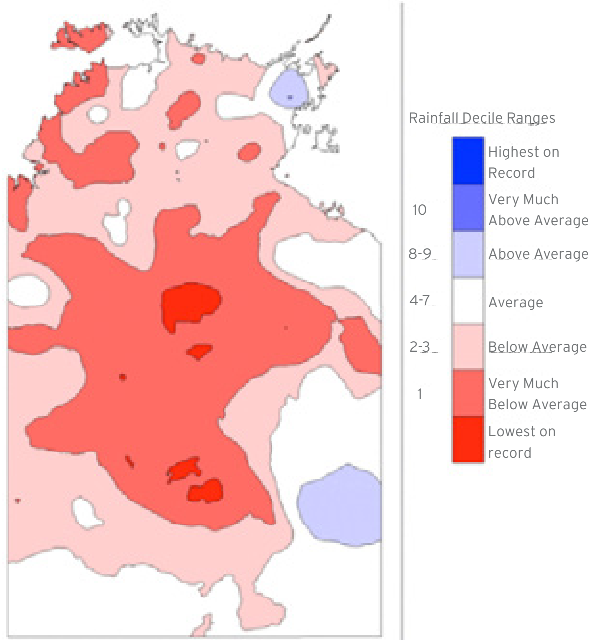
A recent inspection of some of the Darwin floodplain properties (between Darwin and Kakadu National Park) reveals generally below average inundation levels. These sub-coastal floodplains are predominantly on the lower reaches of the main rivers of the region. While the wet season in the Top End has been generally below to well below average to date (refer BOM Rainfall Decile map below) some floodplain properties may still effect reasonable flooding in response to at least average wet season falls over their river catchment systems.

Overall, there are seven floodplain pastoral leases including (south-west of Darwin): La Belle Downs, Welltree, Litchfield and Elizabeth Downs and (east of Darwin) Koolpinyah, Woolner and Marrakai, plus

Northern Territory Rainfall Deciles: 1 October 2018 to 28 February 2019 (pre Cyclone Trevor):



Northern Territory Rainfall Deciles: 1 October 2018 to 31 March 2019 (post Cyclone Trevor):



Source: Northern Territory Government, Department of Primary Industry and Resources

four Perpetual Crown Leasehold grazing properties: Opium Creek, Melaleuca, Swim Creek and Carmor Plains. Combined, they offer approximately 210,000 hectares of highly productive sub-coastal floodplains and represent about the only green feed left in the Territory come the middle of the dry season. The best floodplain pastures comprise wild rice grass, Kazungula etc on the shallower floodplains, para grass to Aleman grass where moderately flooded, through to native and olive hymenachne in the deeper channels. The limited number of floodplain stations is very tightly held and are very popular for agistors hoping to add another 70 kilograms (more or less) liveweight over six months of the dry, ready to export in November/December when the live export prices are traditionally on the rise. The poor 2018/19 wet season flooding is likely to see cattle accessing the floodplains much earlier than normal (usually May/June), but the grazing period and bulk of feed is likely to be significantly reduced and so too subsequent productivity.

In response to the feed shortfall across much of the Territory, land agents are reporting increased enquiry for Top End and Katherine properties that still have reasonable supplies of grass, however listings of such remain slim. As mentioned previously, we note the recent contract for sale of a Darwin floodplain. We are also aware of several northern pastoralists with grass quickly straining up fence lines in anticipation of rising demand for agistment country.

Frank Peacocke

HERRON TODD WHITE RURAL