Rural

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RURAL

Overview

I have recently completed trips to Melbourne, Rockhampton and Adelaide out of Brisbane and at a time when the ground should be a patchwork of green with winter crop, it is clear from 31,000 feet just how dry it is everywhere.

The impact of the current situation is absolutely being felt by individual businesses but as yet has not fully reflected in the property market. A slower rate of sales is evident and any country for sale with good grass could be sold many times over, but very few actually exist.

Those businesses with water rights and security including horticulture are strongly contested and there is increasing demand for water rights with values heading towards $5,000 per mega litre in the Victorian market. The government is also active in the water markets, adding to price pressure.

Across the board there is pressure in the market place and some levelling out of values after three years of strong growth would not be a surprise. The irony could be that if there was widespread rain for a summer and a full winter crop program, that could spark a level of enthusiasm that may kick the market again.

This month the team have been asked to reflect on the current seasonal conditions in their local area and what impact is being seen in their local markets.

Enjoy this month's review and fingers crossed for rain for everyone soon.

Contact:
Tim Lane ph: 07 3319 4400

Rural

The rural market has had a strong 2018 period, built off the tail winds of continued downward pressure on the softening Australian dollar from the January high combined with a dominant agricultural industry within Australia that has strengthened further in the 2017/18 period. However, the severity of Australia's drought has now received national and international attention being brought to the forefront of the news. Victoria is now in potentially one of the worst droughts ever recorded, with the region currently experiencing a one in 20-year rainfall shortage with crop harvesting potentially at 10% to 15% of its usual yearly harvest.

The worsening drought conditions forecast are expected to make a considerable impact on GDP growth, with Citigroup forecasting that if current conditions continue and the expected drop of 20% in farm production does occur, GDP growth could drop half a percentage point, which is equivalent to approximately $5 billion in export production. The Reserve Bank of Australia caution that rural exports could be affected for the foreseeable future even though they have had a short term rise due to many farmers forcing cattle prematurely to slaughter due to inability financially to keep them. The weather later in 2018 is still forecast to continue dry conditions. Farm sector GDP dropped 15% in the March quarter and that trend is likely to continue.

The drought hasn't totally eviscerated the rural market, with a relatively high demand for large scale farming from international investors continuing, whilst Chinese interest has seemingly diminished to a certain extent. The March 2018 quarter saw a reduction in rural sales, down 4.6% over the previous period, however the volume of sales increased to reach $67.8 billion, which was a 0.7% increase on the previous period, showing that the sector has still seen some growth even in a subdued market.

However with all that is going on there still seems to be an appetite for investment and the outlook for the rest of 2018 looks positive, with land values increasing in line with agribusiness which is expected to continue into the future. Even though the drought is topical and in the immediate term, it is expected that long term impacts that could shape the rural market are starting to play out. Increased feed costs for livestock are expected to continue to rise and combined with the ongoing climate change debate in full swing at the moment with uncharacteristically warm months recorded, this could play a significant role in future land values within the rural market in the longer term.

NSW North Coast

The NSW North Coast is currently dry with cold nights but has not yet suffered as severely as the more western areas. In terms of livestock there is still some cattle feed and adequate stock water generally. The feed gap in this location is traditionally during winter and early spring. It is a summer dominant rainfall location and graziers will be eagerly awaiting the late spring and early summer storms.

Macadamia growers are mostly located near the coast and will be seeking rain from September onwards for the flowering period. A successful flowering is crucial for the 2019 macadamia nut crop and growers will not want moisture stressed trees as almost all orchards are rain fed.

Sugar cane growers on the lower peat soils will have just enough moisture to plant sugar cane when the soil temperature rises above 17 degrees Celsius. Some heavy clay soils may be too dry to plant until some rainfall is received. Harvesting conditions are ideal given the dry conditions. CCS levels are very good for this time of the year with Condong Mill around 12.4, Broadwater Mill around 13.2 and Harwood about 12.9. This reflects the dry conditions and low ash levels (impurities such as soil etc).

Irrigators who pump from rivers and streams will be getting nervous as almost all of the rivers and creeks relied on are unregulated (do not have a major storage dam) and when water flows, drop pumping restrictions are triggered which limit the water that can be taken. This may affect dairy farmers, blueberry growers and other intensive horticultural operations in particular.

(Source: Herron Todd White)

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New South Wales

Whilst there remains some positive sentiment in the rural property market across New South Wales the ongoing drought is starting to have an impact on some buyers' decisions to pursue rural property. Despite this, agents are still reporting higher levels of enquiry than they have experienced in the past several years, however a lack of supply is evident as landholders are waiting for improved seasonal conditions before trying to market and sell. We are seeing continued sales across most areas of New South Wales, particularly higher rainfall areas, however due to the negative climatic conditions encountered over the past 18 months there have generally been lower sales volumes. We expect this trend to continue while the area receives below average rainfall.

The continued dry seasonal conditions across large parts of New South Wales are limiting the market's enthusiasm for expansionary activities. It is our opinion that the positive cash flows generated in most areas during the past two years have been funnelled into debt consolidation rather than any expansionary movements.

Contact:
Angus Ross - ph: 0427 235 600

Central Tablelands, Central West

There appears to be a slowing of sales activity in the rural market at present. This is mostly influenced from the supply side with potential sellers waiting for their properties to be more presentable to the market before listing. We understand that there is still reasonable enquiry from buyers, but this is becoming subdued.

All properties we have visited recently are feeding stock and have experienced a colder than average winter.

Contact:
Craig Johnstone - ph: 0477 800 004

Mildura

The ongoing dry conditions are creating challenges for a wide cross section of our rural community. This year is looking a lot like 1982, which is the last time grain growers in our regions faced the prospect of no harvest. With many farmers now running continuous cropping programs and with no livestock to fall back on, the next 12 months will prove a testing time.

Many graziers in western New South Wales are fast running out of water as well as feed. Most have spent significant sums buying in hay, grain and pellets, but are now questioning whether to quit stock if they have sufficient condition to be saleable rather than keep buying in feed. Hay and grain are becoming very difficult to source and more expensive each month.

While this is a pessimistic outlook, we note that farmers in this region are bred to be resilient and we expect the majority will have sufficient capital or equity to ride out at least the next 12 months. History also shows that few people list their properties for sale during drought conditions and so we expect the number of sales to dry up over the next six to 12 months.

Having said this, there has been patchy rain throughout some sections of the Victorian Mallee and some growers in these locations may yet harvest a crop and reap the benefits of high grain prices.

Irrigators are also getting no help from the sky and face using more water earlier in the spring than they usually need to. The cost of leasing annual allocation is now stuck above $300 per ML, which will impact on the return for particularly wine grapes but also higher value crops such as almonds, citrus and table grapes. There has been significant development of these crops over the past four to five years, much of which is reliant on leased water. Any rationing of water will flow through to lower yields, further exacerbating the current shortage of some wine grape varieties.

We expect that concerns around the cost of water could reduce buyer demand for horticultural properties, however this will only become evident over the next six months or so. Returns remain good for most commodities which will justify the cost of leasing water, even though it will reduce profit. There have been good snow falls in the Murray catchment area and we note that there is still time for any substantial rainfall event in September to create good run off and increased allocations.

A recent noteworthy sale is Cowra station, a 4,300 hectare mixed farming operation located 25 kilometres west of Mildura and with extensive frontage to the Murray River. This property has been primarily used for grazing and dryland cropping, however has some existing irrigation infrastructure and potential for expansion of this enterprise. The property had been on the market for many years, waiting for a buyer intending to undertake some form of irrigation development.

Contact:
Shane Noonan - ph: 0427 735 328
Graeme Whyte - ph: 0427 210 466

Echuca

The season is precariously placed along the border region with many requiring significant falls to guarantee crops. Historical management and resulting soil condition has never been more evident than the current season with paddocks either side of some roads showing substantially different vigour and harvest potential reflecting the organic matter content, sowing times and general management practices. As one farmer in the Riverina said in the second week of August "if we don't get rain in the next two weeks, the crop will be finished".

A sharp rise in allocation water prices (refer Goulburn 1A Allocation Trading graph below) will be likewise creating some difficult decisions for those with irrigation development weighing up the likely final commodity prices with the opportunity cost of irrigating versus selling their allocation on the market.

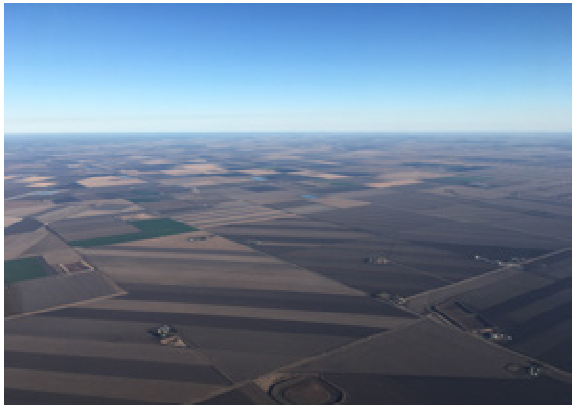
Allocation trade in the 1A Greater Goulburn Trading zone:

(Source Victorian Water Register)

Contact:
David Leeds - ph: 0418 594 416

Southern Queensland

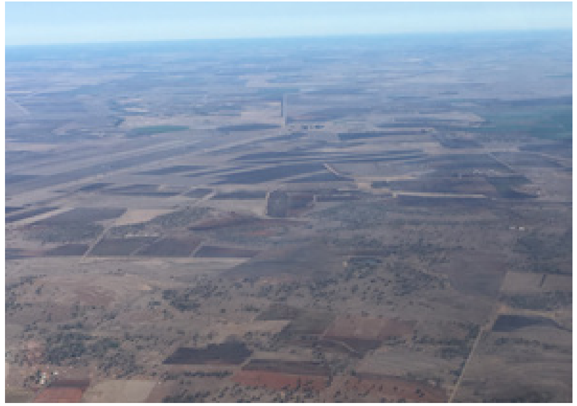
It's been a pretty ordinary August in the south-east of the state with continued dry conditions, fires and the annual Ekka winter westerly winds turning up on cue. The dry seasonal conditions are firmly in place on both the inner and southern Downs farming regions. Winter cropping within the normally secure



(Source: Herron Todd White)

farming areas is very sparse. The concern now is looking ahead for this year's summer cropping season with poor moisture profiles and limited water in storage for either planting or pre-watering. For the Felton area, some 167 mm (6.7 inches) has been recorded for the year to date, about half that recorded in comparison to the same period last year. For the 2017 year the overall total was still about 70% off the long term average. Overall market confidence in this area is still positive.

In western Queensland, the season isn't any better especially west of Morven. For example, Cheepie has received 65 mm (2.6 inches) for the year to date. With all the present media attention generally centred south of the border, you have to take your



(Source: Herron Todd White)

hat off to the resilience of the graziers in western Queensland. For many they are now entering their sixth year of drought and have been running their businesses either on a retained skeleton breeder herd or have opted to drove cattle or seek alternative agistment. The market in these areas has not seen the same value growth of country further east. There have been some firming value trends particularly holdings that demonstrate a diversity of country of say Downs, alluvial frontage or Mulga. It's also one area of the market that we have seen external influence impacting on values with the competition by carbon abatement brokers and proponents. One could also assume many of the landholders who have decided to register a carbon abatement project have done so under the pressures of seeking alternative income streams due to the drought. The significant capital investment in exclusion fencing has no doubt been viewed positively but the general feeling is that once the season breaks, those who have the ability to control wild dogs and vermin will be able to capitalise on improved productivity. With the strengthening in the wool markets it's likely to create opportunities for graziers wanting to diversify back into sheep or increase market demands from potentially existing southern producers seeking further country.

Generally, every Shire west of the Dividing Range in the southern part of the state is drought declared with the exception of the Western Downs Shire. Between Wandoan and Taroom, between 350 mm to 490 mm have been recorded for the current year and broadly the country is reasonably pastured. This sector of the market has historically been very strongly competed for by local producers, particularly those who have benefited from additional income streams created by the coal seam gas industry. With the current seasonal conditions, we are now seeing out of district buyers looking at buying country in the area as demonstrated by the sale of Loch Craig. The property sold at auction on 2 August for $3,446 per hectare ($1,394 per acre) with reports the sale result may have been influenced positively given the property was well grassed and the successful bidder had immediate access for 600 head. The auction had nine registered bidders and was sold under the hammer to a northern New South Wales angus stud producer.

Contact:
Stephen Cameron - ph: 0438 180 278

Central Queensland

The extended drought in central western Queensland has restricted the market to a few sales of properties which have been reasonably well grassed. While demand is a little patchy, generally properties have sold to strong competition, mainly from producers seeking grass. Values have generally increased, particularly in the Blackall district, where rates have reached unprecedented levels. Recent sales include Fairlea, Athol and Tarbarah at Blackall, and Stockholm, Elis and Verastan in the Muttaburra district.

Relative to the western districts, the higher rainfall areas throughout the Central Highland and Dawson Valley are experiencing mixed seasonal conditions. The supply of rural property remains tight and in this regard the market's reaction to the dry season is difficult to gauge, however the few sales observed in recent months offer no indication of an easing of values.

Contact
Will McLay - ph: 0428 612 457

North Queensland

Necessity is said to be the mother of invention. Perspective though, gives us the benefit of wisdom and the ability to handle or drive change.

The seasonal conditions being experienced in the eastern seaboard at present are providing the platform and opportunity for the evolution of agricultural business and land management. This is positive for northern grazing property markets in the future.

The evolutionary pressure that is upon agriculturalists is challenging the paradigms of what Australians know as being conventional agriculture. The descriptive of conventional practices can only draw on the wisdom of learnings since the arrival of the First Fleet. Yet within that time frame, eras have come and gone.

Since the late 1800s, North Queensland rural land uses have included flocks of sheep, mobs of cattle, hand cut sugar cane, aquaculture, horticulture and tobacco to name a few. Each of these uses have endured their own economic cycles of development, expansion and contraction. Northern Queensland property values too have been able to cycle accordingly in the free market environment.

However, North Queensland's rural property markets are still in their infancy when you really think about it.

The modern era, as we know it, is presenting its own macro economic pressures to drive new evolutionary pressures. The rise of consumerism, society ideology and government policy are massive drivers influencing rural land uses, management and in turn, the rural property markets. To some extent this is a new form of interventionism.

In recent weeks, through the media, the image of rural property owners has changed. A glimmer of the modern, educated, risk calculating agriculturalist has emerged. This draws a line in the sand for the old Australian psychology of the tall poppy syndrome.

Up until the last month, the image of dry country, stock in poor condition and the battling land holder has portrayed the industry to the urban and international market place. Traditionally, tall poppy syndrome meant that if a farmer or grazier was doing well in the face of adversity, there would not be a word spoken, it was taboo to speak of it. Industry members have shattered this.

The message is clear. Yes, business conditions are varied at present, however it's part of being in the industry and there are risk management strategies being employed and that the strategies for success are in place for varying seasonal conditions.

This leadership is of benefit to northern industry evolution and in turn, northern property market dynamics. These people are not arrogant to the humanistic needs of people in these extreme situations - what they are showing is that the industry is evolving and it's happening quickly.

In the face of adversity, this display is showing that the rural industry is targeting the needs of consumerism, addressing society's ideologies and attempting to get on with business in accordance with policy changes. All this, while trading in less than ideal conditions.

Northern rural property markets have a different dynamic and spread of risks. In recent years there has been a substantial shift in land ownership in North Queensland as a result of the implementation of succession plans.

The combination of this change of ownership and the recent public displays of industry evolution will have an effect on rural property markets in North Queensland. This is relevant for both grazing and farming property markets.

Society's influence on farming practices along the Barrier Reef coast is being embraced. There are farmers who have redesigned their farms so that water recycling and variable speed pump systems are being utilised. In time, there will be sales evidence to confirm the market value effect of these modern designs. Is it going to be upside for the farm that has been redesigned or are conventionally designed farms going to be discounted?

Commercially speaking, it is likely to be a bit of both. The price spread between a good farm rate per hectare and an old farm rate per hectare is likely to widen.

The same concept is likely to be shared by the larger grazing property market. Stations that are improved for modern commercial management and land management will evolve to see a greater price range compared to the conventionally grazed counterpart.

Why though is the north likely to benefit? Take the whole eastern seaboard into consideration. Which region has the benefit of market diversity and seasonal rainfall?

North Queensland has the opportunity to apply the learnings from southern farming systems, land development and risk management as the modern evolution continues.

Considerations as the northern industry matures include:

- Cost and availability of water to implement irrigation projects;
- Infrastructure – roads and rail development to manage the costs of delivering produce along the supply chain or to end markets;
- Energy – costs of pumping and fuels not just for irrigation, but for production;

- Renewable energy – given the direction of the solar and wind industries, the opportunity to tap into an income from having a site on farm or on a cattle station will be of benefit, while the current political system focuses on this industry;
- Environmental incomes – carbon income that arises from the Emissions Reduction Scheme encourages a new way of thinking about the use and practices of land.

Each of these items are considerations that will contribute to driving the modern commercial agriculturalist as they apply the wisdom of our short history of land use in this country. In turn, they will affect the use and value of the respective property markets in North Queensland.

Contact:
Roger Hill - ph: 0418 200 046