Rural

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Overview

The last month of the year is upon us and it seems that 2018 is a blur - a year which has seen many new sale records in terms of prices paid in many regions and commodity classes. Water has been the big mover in most markets and with the continued investment and activity in the horticultural markets as well, this recent pricing in dry conditions may have a bit more to run, although our team is reporting resistance now at the $5,000 per megalitre level down south.

The biggest factor influencing 2018 has been the wide spread dry conditions which have brought significant media attention and government action into drought policies and funding schemes. Ultimately wide spread and soaking rain over a numbers of months is the real thing the market is looking for as the economic impact of the dry conditions will start to be felt the longer these conditions remain.

So with 2018 almost behind us, I took the opportunity of gathering many of the Rural team to Brisbane to discuss what is happening in the market and also look at what else is influencing the valuation landscape. We have seen many changes in the industry and technology continues to evolve. The team at Herron Todd White Rural is always looking for better tools and techniques to assist deliver high quality and accurate valuation assessments for our clients.

Below is a photo of many of the team and one thing this picture does highlight is our national coverage and with that comes a great understanding of the local and regional market place in which our experienced team works. Over the two days, the team heard from Tim McGavin from Laguna Bay Pastoral about what drives institutional capital, Rabobank talked about credit and commodity markets and we compared notes about what each business was seeing in the market. The team also heard from valuation insurance industry underwriters and claims officers which was an interesting discussion. Other topics covered included new technology platforms, plant and equipment valuations, market cycles and much more. It was great to get the team together and connect as a group.

Rural Team 2018 *(Source: Herron Todd White)*

Just a reminder that we will be having our annual market updates in Melbourne on 27 February 2019 and in Brisbane on 1 March 2019 which are all locked in. Put place holders in your calendars. Invites will be issued early in the new year.

Thank you to all our readers, clients and media representatives for your support this year and we look forward to 2019 and hope much of the country receives the much needed rain we are all hoping for.

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NSW Central Tablelands

Generally, 2018 saw demand for rural properties remaining strong throughout the year, although there was not the volume of supply and stock available to meet that demand.

The rising value levels seen in 2017 appeared to continue throughout 2018.

A notable Central Tablelands sale in 2018 was that of Farrentoureen, Barry, selling for $4.5 million in July 2018. Farrentoureen is a 407-hectare high rainfall grazing property located 16 kilometres south of Blayney. This sale analyses to show a strong $9,525 per hectare (excluding buildings) for open arable grazing country. We are aware of several following sales nearby to the south in the Woodstock achieving a price per hectare rate (excluding buildings) of between $7,500 and $8,250 for their typical open arable grazing country components.

The most active buyer group throughout 2018 in the Central Tablelands appears still to be local farmers seeking nearby and neighbouring land to expand their existing enterprises, along with out-of-district farmers relocating into the area.

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NSW North Coast

Macadamia nut tree farms continue to be in strong demand and sales listings in relative short supply, although value levels appear to have stabilised in the general range of $50,000 to $85,000 per planted hectare. The strong commodity price for macadamias of $5.20 per kilogram at 33 per cent kernel recovery and 10 per cent moisture continues. The relative lack of availability of red basalt flood free vacant land on the plateaus has prompted the push into the flood liable sugar cane land river flats.

The current relatively low and challenging world sugar prices have dictated that sugar cane farmers find it difficult to compete for properties listed for sale. Anecdotal reports are that there has been a significant purchase of prime sugar cane land south of Ballina at Pimlico for the purpose of macadamia nut tree planting.

Bartletts Road, Stotts Creek *(Source: Herron Todd White)*

The beef cattle market continues to be strong, whilst dairy remains subdued and there is significant uncertainty for North Coast chicken broiler farmers post the 2017 exit by Baiada in south-east Queensland. The surplus of vacant chicken broiler farms in south-east Queensland closer to the Brisbane based processors than the NSW North Coast broiler farms creates an uncertain environment as transport costs of the processors impact.

There has been increased interest in wholesale nursery properties after a prolonged subdued market for these types of specialised assets. A controlled environment horticulture property at Caniaba with one hectare of glasshouse is listed for sale by tender.

Blueberries have had some challenges with weather including frost and hail. The avocado industry is not large on the NSW North Coast but there is some expansion and also bananas to a limited extent,

Bartletts Road, Stotts Creek *(Source: Herron Todd White)*

Tweed Valley Way, Stotts Creek *(Source: Herron Todd White)*

perhaps in response to disease issues in the North Queensland banana plantations. Tea tree plantations continue to quietly expand, although this is a market segment characterized by limited property sales transactions.

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Mildura

2018 has proven to be another year of strong demand and increasing values for most of the enterprises found in our region. While much has been written about the drought conditions affecting north-western Victoria and western New South Wales, this has not to date resulted in any significant reduction in demand. Buyers, whether at a corporate or family level, appear to be taking a longer-term view.

One of the more significant recent transactions is for a large scale diversified horticultural holding at Colignan, 55 kilometres south-east of Mildura, which is reported to have sold for $50 million. The purchaser, Hong Kong based CK Life Sciences, will enter into a 20-year lease to the Costa group, who are understood to have purchased the machinery and growing crop on the property in a separate contract. This sale was previously announced in early 2018, but with a lease to Nutrano, however Nutrano pulled out of the purchase of the business, requiring a new deal to be negotiated.

Interestingly, the final sale price for the real estate and water share component is $4 million higher than was negotiated earlier in the year, which reflects the growth in value of irrigation water entitlements during 2018.

One of the surprises of the year has been the rapid increase in value of irrigation entitlements and

(Source: Ruralco)

the much higher cost being paid to lease annual allocation. In our February Month in Review article, we highlighted the risk that a dry winter could see the cost of leasing water rise significantly, however we don't think anyone expected to see this cost exceed $400 per megalitre.

The variation in the cost of leasing temporary water entitlement during the past few years is highlighted in the chart above.

Water brokers advise that much of the recent demand for the leasing of irrigation water entitlement has come from cotton growers further east on the Murrumbidgee river who are seeking to ensure they can meet their production committed through forward contracts locked in when cotton prices were higher. This has reduced the available water for local horticulturalists and caused the price of water to spike in recent months.

Demand has also been strong for permanent irrigation water entitlements, with sales of Victorian Murray River zone 7 High Reliability Water Shares nudging $5,000 per megalitre, before slipping slightly to around $4,850 per megalitre at the time of writing.

While we have seen a large number of sales of greenfield development sites occur in 2018, all at much stronger prices than we saw in the preceding two to three years, we expect this activity to have now peaked, due to the higher cost of leasing and buying water.

Evidence of the resilience in the drought affected Western Division of New South Wales includes the recent auction of Rosewood Station, located midway between Ivanhoe and Wilcannia. This property had good fencing and stock water improvements, with a recent history of running dorper sheep, however had very little standing feed at the time of sale. The sale price of approximately $4.47 million equates to just over $160 per hectare, which is a remarkable result in a drought year. The property is understood to have been acquired by two adjoining landholders who will split the property.

2018 will also go down as the first year to see dryland cropping country in the Mallee region of north-western Victoria crack the $2,470 per hectare barrier ($1,000 per acre in the old money). Two small parcels of land located in the Murrayville district sold at auction in April for just over this rate. While the buyer would no doubt have been hoping for a better season, the higher grain prices on offer this year will at least partially offset the lower yields.

The other noteworthy development in our region during 2018 has been the sight of large scale solar farms taking shape. There have been five developments commence within 100 kilometres of Mildura, with more proposed. Work on Australia's largest solar farm, to be constructed south of Balranald, is expected to commence shortly. This development will occupy part of a 1,000 hectare site and is being designed to have capacity of 255 megawatts.

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Echuca

The rural market has had an undeniably strong year with significant gains across most sectors, the highlight being the strong gains in the water market. Cropping and grazing markets suffered from significant under supply right up until the spring period when a lack of rainfall resulted in a reduction in the demand across these sectors.

One of the headline properties to hit the market was Gerry Harvey's failed foray into the dairy business. Coomboona Holsteins, a state-of-the-art, total mixed ration (TMR) dairy holding was purchased by interests associated with the Perich family, one of the largest (if not the largest) TMR dairy farm operators in the country. The property was put to the market by Ferrier Hodgson and has reportedly sold after an expressions of interest campaign through Elders closed on 16 August. It is anticipated that supply from the farm will be used to fill orders associated with Freedom Foods' recently constructed factory in Shepparton. While the transaction itself was heavily reported on the back of the high-profile vendor and the circumstances under which it came to the market, terms of trade in the dairy industry remain under significant duress in the north of the state on the back of high feed prices, limited water allocations, high temporary water prices and average milk prices.

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Central QLD

Bundaberg

Macadamia orchards in the Bundaberg area have been in strong demand over the past year. Overseas purchasers were active in the market with two macadamia properties selling for $7.8 million each and another for $20.6 million, reflecting $85,000 to $100,000 per irrigated treed hectare. Sales at and prior to the start of the year were reflecting $35,000 to $40,000 per irrigated treed hectare.

Irrigation country in the Bundaberg area has been in strong demand over the past year, however the top end of the market (the good red soil scrub) appears to have plateaued at $100,000 per irrigated hectare with the lower end (the grey soil forest) playing catch up. Property values at this end of the market have increased from $20,000 to $25,000 per irrigated hectare. While the majority of these properties were sugar cane farms, they were being purchased by macadamia farmers

Mackay

Mackay Sugar's final tonnage for the 2018 crushing amounted to 4.67 million tonnes compared to 4.97 million tonnes in 2017. The Percentage of Recoverable Sugar (PRS) was 14.3 compared to 13.37 in 2017. Dry conditions, through the growing season adversely impacted yield but assisted sugar content. The price of sugar is low at US$0.29 compared to the most recent peak of US$0.49 in October 2016.

As had been the case in recent years due to mill break downs, there is no stand over cane. Growers are now more confident in milling operations and are looking forward to a better crop in 2019. In addition to this, Mackay Sugar has received a non binding indicative proposal for recapitalisation from German-based sugar manufacturer Norzducker AG which could result in capital improvements to mills.

Cane farm sales continue at a steady pace. Recent sales activity around the Kuttabul area north of Mackay has occurred due to well established local growers acquiring additional areas. Values remain stable.

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North and North West Queensland

As the year draws to a close, the greatest Christmas gifts of nature are falling from the sky. Rain has not yet been widespread and much more is needed, however gossip is abuzz with such great news.

As we near the end of 2018, the following provides reflection:

- East of the Great Divide – was dry to the south, talk to the north was of the Defence Training area negotiations. Limited number of cattle stations offered to the market. 100 per cent clearance to a mix of local and southern buyers,

Four family scale operations: ranged in price from $4.3 million to $10 million. Land rates ranged from $225/ha improved to $641/ha improved,

Two Starter blocks: Land components ranged in price from $1.2 million to $1.9 million. Land rates ranged from $251/ha to $431/ha,

- West of the Great Divide had a busy year – patchy grass to the south.
- North of the tick line – One key sale at $14.1 million at $311/ha improved and another investment grade sale at circa $40 million,
- Frontage band – Three smaller scale operations ranged in price from $1.3 million to $2 million showing $474/ha to $487/ha improved,
- South of the tick line to say Corfield, Winton and even out to Boulia– Eight sales ranging in price from about $3.4 million to the mid teens revealing a range from $88/ha to around $400/ha improved. This year there was strong activity in the larger aggregations within this region.
- Starter blocks – Two sales this year of starter blocks (run 100 to 300 head). Price range was $330,000 to $800,000.

Key local drivers for the year ahead include:

1. There is a lack of stations on the market in all market segments (starter blocks, small, family/mid and large-scale operations).
2. Cattle price is expected to be good: if it rains, there will be restocker demand, if it does not rain then there will be short supply of Live Export and finished types.
3. Defence purchases may present new buyers into the marketplace who will be looking for replacement stations.
4. Southerners looking north to the good country.
5. Investment vehicles are likely to be looking around for financial security options in light of global economic conditions.

How good the wet season is, influences property market decisions for the year ahead. What type of country comes on to the market for sale and its condition will be a feature of the year ahead.

Grass recovery does not just happen. Careful management in the years prior is required. Take the following photo that was taken in the last month while flying between jobs.

If these two stations were offered to the market in 2019, just because of the market drivers mentioned above, how would the market price in the land condition issue?

(Source: Herron Todd White)

2018 has seen substantial impact of social pressure influencing the agricultural sector. Even in the face of drought, evolutionary pressure is here. Drought has varying impacts to business performance and property values.

In the face of threats of competition from industrial food production and consumerism, the food and fibre sector has the best opportunity in front of them, to produce food and fibre, naturally.

North and north west Queensland rural property market sectors have performed well in 2018 with the market drivers in positive territory for a good start in 2019.

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Darling Downs

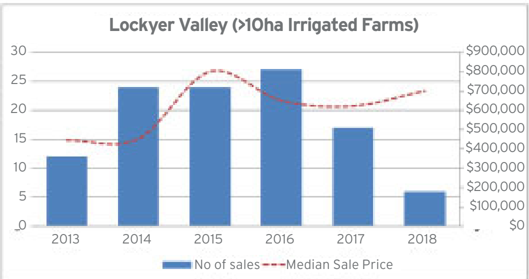
For many in southern Queensland and northern New South Wales, some welcome rain was received in late October. Falls of between 150 and 300 millimetres was received on the Darling Downs and some good falls have been recorded for those under the right cloud as far west as Charleville.

It wasn't drought breaking, however was very welcome all the same. Up until that weather system, many farming operators on the Inner Downs were looking at a pretty grim summer ahead. Although moisture profiles were not full, the rain had come early enough in the season when many began to plant on the optimism of likely further rains to be received. The generally dry hot and windy conditions post this event have taken some of the confidence of a likely reasonable season ahead. The Bureau of Meteorology has recently updated the medium chance of rainfall for December to February which is on even odds for areas out as far as Miles and south to the Border Region and gradually reduces further west.

One thing we have noticed when driving around the region is the number of narrow destructive storm belts that have gone through, the most notable being a storm that went through the Kumbia and Tansey areas in the South Burnett on 11 October that impacted stone fruit and avocado growers and another in late October that destroyed small crops in the Fassifern Valley. One could expect that this year's storm season could unfortunately bring more than just rain and it may be a good time to consider reviewing insurance policies.

In a market cycle where demand is outweighing supply, the seasonal conditions up until recently have had very limited impact on property values with the exception of some grass purchases. The sale of Belarka on the Jimbour Plains in August demonstrates the confidence in the broadacre farming sector, achieving $10,846 per hectare at auction. The value is considered to have set a new benchmark level for dryland country. Broadly, sales evidence in the region is few and far between, however those filtering through are generally still reflecting a firming in land values.

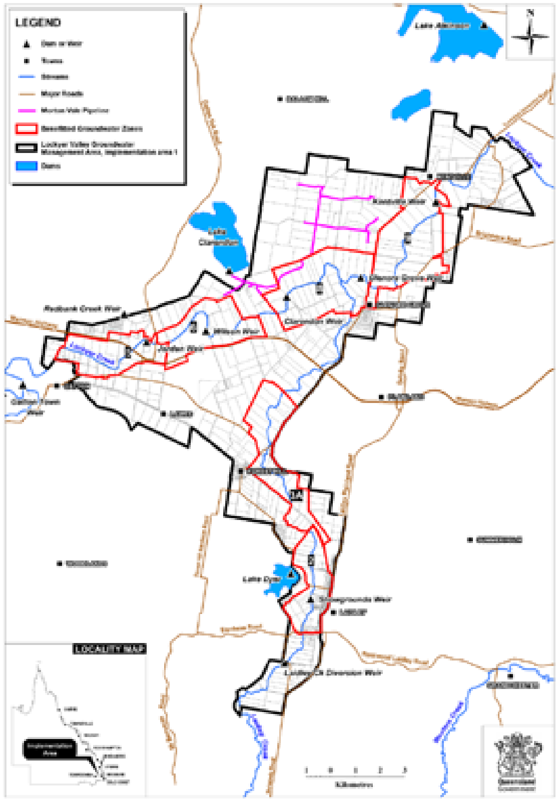
The Lockyer Valley is no exception to weakening sales trends, with five sales of irrigated small cropping farms above ten hectares occurring for the year to date. This trend would appear to be down about 50 per cent when considered in comparison to 20 sales transacting for the previous year. The pressures of seasonal conditions and commodity prices has likely played a role in weakening demand but also notably there have been a limited number of true farming holdings presented for sale. The recent release of the much-anticipated Draft Water Plan (Moreton) as at 31 October has created some discussion amongst stakeholders within the central Lockyer Valley. The plan's intention is to convert area licences within the various unsupplemented systems to water allocations and further regulate the ground water management areas by issuing volumetric limits. Within the central Lockyer Valley, there are six identified benefited groundwater zones. Under the Draft Plan, the total volume of water allocated is 13,670 megalitres between the zones with some 4,255 hectares of irrigable country. The average allocation between the zones varies between 2.8 megalitres and 3.5 megalitres per hectare, with an average across all zones at 3.2 megalitres per hectare. What this will mean for irrigators will ultimately depend on their existing water efficiencies and types of crops grown. Crops that have a higher annual water usage or those that are currently using a higher water rate may need to reduce farming area or find water efficiencies to counter the loss. Alternatively, under the Plan, water will be able to be traded either permanently or temporarily which



(Source: Pricefinder)

will ultimately create a water market and therefore should shortfalls in available water exist, will push farms into potentially purchasing additional water.

Figure 1 - Central Lockyer Valley Water Supply Scheme



The lending sector will also need to consider their security position as the allocations will effectively be a separate title and therefore can be sold separately to the land.

Overall, given the concerns expressed by various farmers and interested business groups surrounding the inaccuracy of the water modelling and potential increase in costs, this will likely stall market demand within the salad bowl whilst the uncertainty of maintaining a viable productive industry exists.

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West Australia

2018 in West Australia has once again seen a number of ups and downs as the year have progressed.

Once again we had a dry start to the seeding season for a number of areas however summer rains aided with subsoil moisture and with some receiving above average winter (growing season) rainfall a number of regions will likely record above average results.

2018 also saw another incident in the live export industry with an exporter having licences cancelled and creating pressure on the sheep meat industry.

The cropping regions continued to see strong demand from local and corporate purchasers with over 30 sales of properties transacting over $3 million being recorded to date. Major sales in the cropping regions included the Hassad cropping portfolio and the grange being purchased by a corporate purchaser. Local demand was also evident with an auction held in the Great Southern region of the state resulted in a new regional record with a value of $5,200 per arable hectare ex-buildings. Sales information indicates that on average you are likely to yield 3 ton of wheat to that arable hectare and therefore in basic terms it equates to an investment in land of $1730 per potential ton of wheat yielded.

This year also witnessed the Nicolletti cropping operation being put to market with a number of parties being invited to tender. To date a sale has not yet been confirmed.

Another sale of note was the purchase of the Watershed winery in the Margaret River region of South West WA which was purchased by Vasse Felix owned by the Holmes A Court family for $18.5 million in June. This property has an established cellar door, restaurant and winery to compliment to 80 hectares which will reportedly take Vasse Felix vineyards to an area of more than 300 hectare which will make them one of the largest producers of premium wines in the Margaret River wine region.

The pastoral regions recorded eight station sales to date with the sale of Maroonah/Mangaroon Station in the Gascoyne Region being the highest purchase price at $6.85 million. We note that the Gascoyne region was also home to the second highest purchase price of $2.95 million0 which was for Boolathana Station north of Carnarvon.

Overall 2018 has seen confidence in the West Australian agricultural industry continues with investment continuing in a number of sectors. It was also heartening to see truck of hay heading east to help out those drought affected farmers in the Eastern State and there is a lot of empathy in WA for those struggling.

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