# Rural

November 2019

## Overview

As we draw towards another year end it will be interesting to see how this year is remembered in the rural sector. We have endured another bone-dry season in many parts of Queensland, New South Wales and Victoria and the West has also had a tough winter crop season relatively speaking compared to the previous five years there. Only parts of South Australia and Victoria along with Tasmania have any really good stories to reflect on season wise. That aside, the values being offered in many regions for a variety of property and commodity types are still at high levels and clearly many are prepared to look past the current dry conditions in their purchase decisions.

The grass buyers have been and gone from North Queensland earlier this year, water seems to be in the media every week now for one reason or another and interest rates have continued to fall which is supporting the sector along with the softening of the dollar. Yet in all of that we also have less corporate or international transactions (outside of the horticulture sector) than the prior two or three years and some bigger corporate assets are on the market which may be de-aggregated in part or full by larger local family operators.

So, "What does this mean for the market overall?" is the question and now so much more the answer is, "It depends." Does it rain or not over late spring and summer? How is access to capital for expansion and also working capital going to be made available and what terms will be applied as restocking, crop funding etc come to next year?

The number of properties now looking to be sold by expressions of interest rather than auction or private treaty also suggests the market itself is not quite sure which way things will tip. A large widespread rain event (not that one is forecast) would shift the activity and may bring more sellers to the market, however there are a lot of empty paddocks to restock as well, so activity will go to that side of the business. It is clear in beef, sheep and wool that rebuilding of production will take a while even on a changed seasonal outlook. The horticulture market still has to work though the water supply and demand equation as tree maturity increases and higher value crops draw more of the water asset's demand in systems. The value of bores has been now clearly established whereas they were often overlooked or undervalued by many buyers previously.

*So, "What does this mean for the market overall?" is the question and now so much more the answer is, "It depends."*

Only in hindsight will we know the real answer however I feel that 2019 will be a defining year for many operators (corporates and families) as they review their business plans, cash flows and risk assessments of the opportunities that will present.  It may be that timing for many however will start to slow down as businesses re-establish their base before further expansions occur broadly.

## Western NSW

The current level of large scale agricultural land on the market continues to test the market, with the likes of the Midkin Aggregation coming on the market and now purportedly selling for $300 million, Harvard University's properties in western New South Wales which are worth circa $200 million, the full RIFA Portfolio now on the market along with some smaller corporate level holdings in the Albury area and central New South Wales. You would think that the dry climatic conditions being experienced across the state would temper any expansionary activity however this is not the case.

Apart from these larger scale corporate level properties, there are a number of smaller properties changing hands at value levels that show the market continuing to increase. Recent examples of this are:

- **Eurella Station, Ivanhoe** - This is a 25,600 hectare parcel located approximately eight kilometres north of Ivanhoe which was sold by private treaty by Landmark Harcourts Deniliquin for $4.4 million. This equates to $172 per hectare overall and approximately $550 per DSE.  This property was improved with a five bedroom homestead, machinery shed, four stand shearing shed and good sheep and cattle yards.

This sale is in close proximity to Rosewood Station which sold in November 2018 for $165 per hectare. We are also aware of an offer and acceptance on a property in the same general area that was purchased approximately two years ago and now is under offer at a value level that will show a 27% increase over that period. While this appears high, it is in line with most areas in New South Wales.

The Ivanhoe area is proving to be an active location in terms of property being offered for sale. The holding Cross Roads Station is being marketed by a new entrant to the rural sales scene, Border Real Estate.  This is a 27,000 hectare grazing property located to the north-east of Ivanhoe which has attracted solid levels of interest with approximately 35 enquiries. This property has a current capacity of approximately 8,000 DSE. The recent sales indicate that this property should achieve greater than $4 million. It will be interesting to see the result once the expressions of interest period closes.

Another property further to the north-east of Cross Roads is Koonaburra which is being offered to the market via a Facebook campaign and also through Elders Real Estate. This property is approximately 40,000 hectares and has an asking price of $55 per acre or $136 per hectare. This property has areas of Mallee and thicker timber. After taking into consideration these areas, the asking price would be considered a strong sale if achieved.

These two properties are located in an area which has received some level of rainfall and as such there are areas of feed and grass available. This has been one of the major contributing factors to the level of interest is being shown. Discussing the situation with one of our clients, they pointed out that their budgets indicated that the cost to purchase grain and hay to feed their drought stricken stock was approximately four times that of the cost of going out and purchasing a property that would accommodate the same level of stock. This is a function of the extremely low interest rates currently being experienced. This option is really only available for those that have a very strong balance sheet but is indicative of what can be achieved in the current low interest rate environment.

## Mildura

The price of leasing irrigation water this season continues to rise, causing plenty of headaches for our local horticultural community.

In mid-August, temporary water was trading for around $625 per megalitre which was well above prices we have seen in recent years and reflected concerns that the supply of water would be tight this season. The largest supply of leased water generally comes from New South Wales Murray General Security Licence holders and by mid-August it was clear that this class of entitlement was likely to have a zero allocation for the second year in a row. An allocation of even five per cent or ten per cent would have brought a significant volume of water onto the market and eased prices, however that is not going to happen this season.

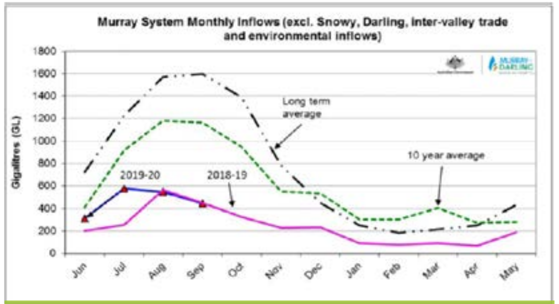
Over the past two months the position has worsened, with the realisation that Victorian licence holders are now unlikely to get a 100 per cent allocation and the cost of leasing water has risen another 30 per cent, to now be around $800 per megalitre.

It is normal for the Victorian resource manager to open the season on 1 July with a low allocation, which then increases as the extent of winter and spring rainfall becomes evident. Inflows to the main storage dams (Dartmouth, Hume and Eildon) have been dismal this season and holders of Victorian Murray licences are now faced with the very real possibility that allocations might only reach 50 per cent. They have gradually crept up to 40 per cent at the time of writing.

*The current level of large scale agricultural land on the market continues to test the western New South Wales market.*

This creates the double whammy of putting many normally secure irrigators into a position of having to lease water, as well as significantly reducing the supply available from licence holders who would otherwise be in a position to lease out all or part of their entitlement.

The Murray Darling Basin Authority publishes a weekly report showing inflows to the Murray River system and the latest chart highlights the current predicament.




Source: MDBA weekly report 9 .10.2019

Our region has faced this position before, most recently during the millennium drought, when irrigators endured two consecutive years when allocations for Victorian Murray licences reached 43 per cent and 35 per cent respectively. That event was brutal and forced many irrigators to abandon their plantings and cease farming.

The key difference this time around is that commodity prices are much better than they were in 2007 and 2008 and local irrigators can now justify spending the exorbitant sums required to maintain production from their citrus, vines and almond trees. Of course, this only increases demand, which in turn increases the cost and helps explain the current predicament. The only thing which will prevent the cost increasing to $1,000 per megalitre by mid-summer would be above average rainfall in north-eastern Victoria over the coming summer, which at present seems very unlikely.

On a more positive note, we are seeing some diversification in our farming base with the establishment of a large scale medicinal cannabis facility just outside Mildura. The development is being undertaken by Cann Group Limited, who has purchased a modern juice processing facility that was originally developed to process carrot juice and started construction of a three-hectare glasshouse facility. They are well underway in their plan to create a vertically integrated business that can tap into the growing global demand for medicinal cannabis.

## Central Western QLD

The rural property market in central western Queensland strengthened significantly in 2019 as droughted producers from the Northern Territory, central Queensland and New South Wales competed to secure limited numbers of well grassed properties.

Sales activity has generally been confined to areas from Longreach to west of Winton, with values increasing by up to 25 per cent on levels seen from 2010 to 2018. The Blackall and Barcaldine area had its run in 2018, but dry conditions in this region have seen the market focused further west, where good rainfall totals have seen a large number of well grassed properties hit the market.

Sales data has seen nearly 40 properties sell in 2019 to date, up from around 20 in 2018.

While the majority of purchasers have been chasing grass, in some cases they are bringing forward expansion plans due to current drought pressures. Most are looking at a longer-term investment, not a short-term quick fix. Sheep producers, principally from New South Wales, have also been active in the region for the first time in nearly 30 years.

The increase in values has been due to the strong demand and limited properties for sale, but is also riding on the back of significant land value increases in the eastern half of Queensland, coupled with low interest rates. Some producers are also securing land rather than pay very high agistment rates which is extremely limited, preferring to pay off their own property rather than someone else's.

Demand is still evident, at this late stage of the year, with two properties in the Winton district recently going under contract and market attention now focused on the smaller scale, reportedly well grassed Aramac property, Caber Feidh, which goes to auction in early November.

## North and North West Queensland

Recent rain in the Charters Towers area has lifted eyes towards the sky. There has been some good moisture in the sky with clouds building in the afternoon. Recent events have developed with isolated thunderstorms delivering up to 24 millimetres in the odd spot and barely spit in others.

The old saying rings in the ears that where the first break of the season is, that is where it will fall for the oncoming wet season. These are early falls, however they have had immediate effect on the minds of land holders.

Last wet season, the Charters Towers area (more so to the north) had regular steady rain events. A cracking season for some!

From an agricultural perspective, this district has lots to offer. Since the area was thrown open to cattle grazing in the 1860s, agriculture has endured the tribulations of drought, disease, flood, commodity market cycles and property market cycles.

Property market cycles have endured cattle slumps, a millennial boom, a live export ban and now strong demand exists with limited country for sale.

At four of the last five auctions in this district, neighbours were successful in expanding their holdings. The auctions of Somerset, Maitland Downs, Reedybrook and Myrrlumbing certainly provided varying gauges of market depth from under bidders. There have been a few privately negotiated transactions to neighbouring land holders. This degree of demand is somewhat different to the post live export ban period where there was limited market interest in northern cattle breeding assets.

Auction results have been:

- Maitland Downs - $9.85 million ($712/ha, $288/acre) walk in walk out;
- Somerset - $4.3 million ($296/ha, $120/acre) bare of livestock, plant and equipment;
- Reedybrook - $5.67 million ($603/ha, $244/acre) walk in walk out;
- Myrrlumbing - $5.9 million ($373/ha, $150/acre) walk in walk out.

As usual, it depends what you apportion to cattle and plant, but our bare/improved land rate range from these sales is from $296 per hectare ($120 per acre) to $538 per hectare ($217 per acre).

Even though these are sales to neighbours, one cannot forget the depth of underbidding to take the buyer to the auctioneer's drop of the gavel.

Given the recent rain, last year's seasonal conditions, cattle demand, interest rates and slim pickings for buyers, only time will tell whether the broader market starts to push value rates higher. Certainly, the property market conditions are in the vendor's favour at present. With both neighbours and vendors confident in their property investments and the future, it is very difficult for prospective buyers to invest at present.

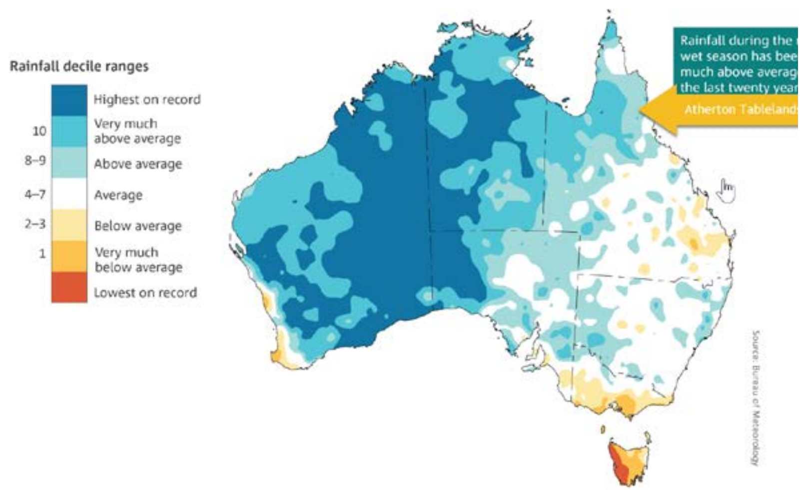
## North Queensland

The depth of the horticultural market in far north Queensland will be tested with a large mixed avocado and sugar cane property being offered to the market.

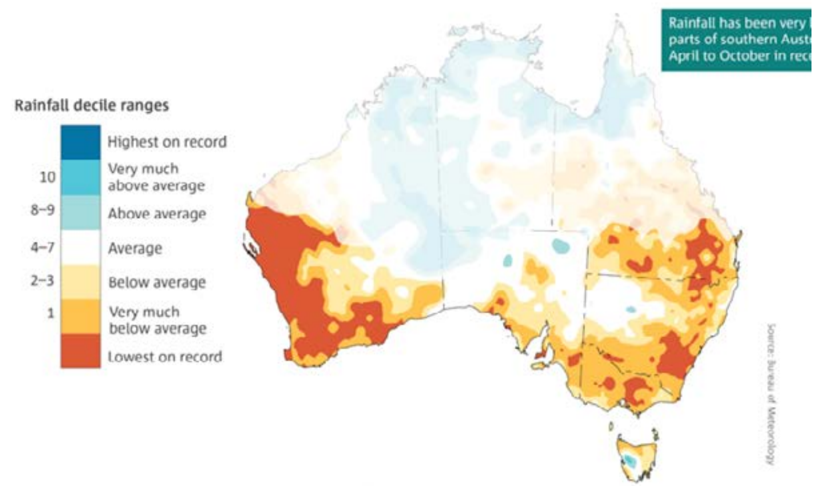
The property, located at Arriga, comprises 1,576 hectares developed with 31,483 young Hass variety avocado trees and a sugar operation producing around 120,000 tonnes per annum. The irrigation water allocation of 8,732 megalitres is one of the larger allocations in the region. Combined with extensive structural improvements and supporting infrastructure, it is expected to generate interest from corporate buyers and local larger family operators.

*Property market cycles have endured cattle slumps, a millennial boom, a live export ban and now strong demand exists with limited country for sale.*

The market for well-watered Atherton Tableland grass country continues to be strong with numerous recent sales to western graziers and others seeking drought proof fattening country. The latest is a 120-hectare piece at Moregatta on the southern Tablelands that sold under the hammer for $1.24 million at auction with strong interest. The sale analysed to $7,802 per hectare ex-structures. What makes it a bullish sale is that it was a deceased estate / administrator's sale in run down condition requiring repairs, however this is consistent with the recent bullish trend. Reliable high rainfall is the main driver in this market with rainfall throughout the Atherton Tablelands ranging between 1,500 millimetres and 2,500 millimetres per annum. Recent wet seasons in north Queensland have been above average and this is consistent with Bureau of Meteorology rainfall statistics borne out in the below illustration. If rainfall trends continue, it is likely that Atherton Tableland grass country will be a hot spot for west graziers for many years to come.




Northern wet season (October–April) rainfall deciles for the last 20 years (1998–99 to 2017–18). A decile map shows where rainfall is above average, average or below average for the recent period, in comparison with the entire national rainfall record from 1900.




April to October rainfall deciles for the last 20 years (1999–2018). A decile map shows where rainfall is above average, average or below average for the recent period, in comparison with the entire rainfall record from 1900. Areas across northern and central Australia that receive less than 40 per cent of their annual rainfall during April to October have been faded.

RURAL

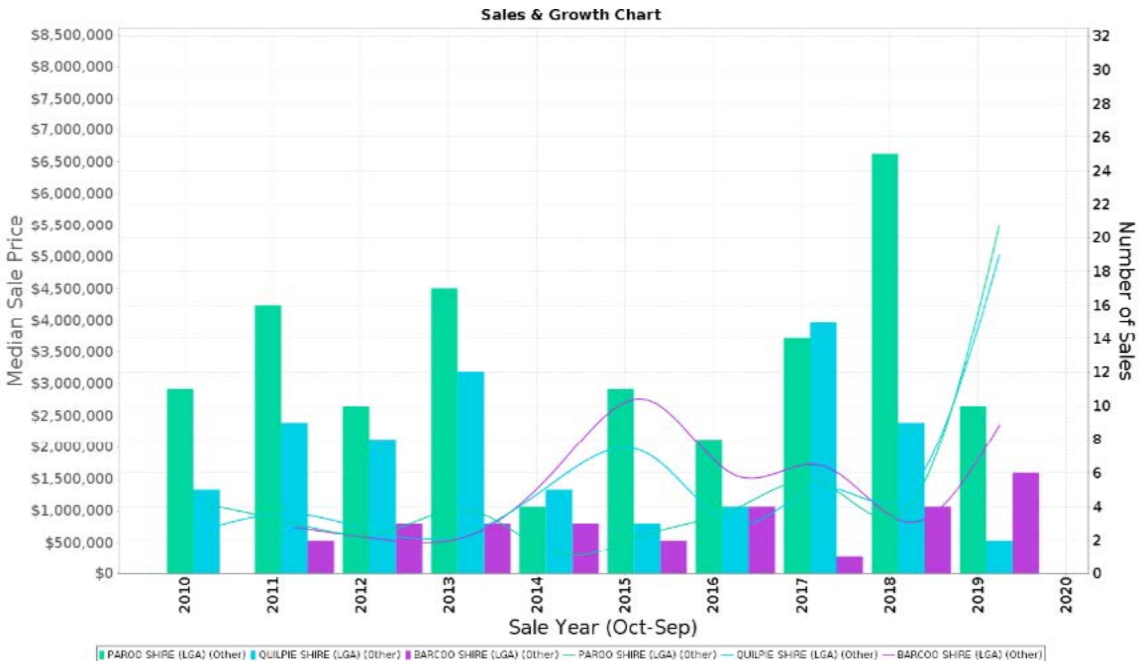
HERRON TODD WHITE RURAL

## Darling Downs

We are now in the middle of spring. The daytime skies are blue and the haze of dust in the air is creating some spectacular sunsets and sunrises, just to look at the bright side.

I'm starting to be convinced that Hughie has simply forgotten how to rain in the south-east. The hot and windy days are compounding the dry conditions. In our travels, many landholders frequently ask where the driest part is observed. In my opinion, it would have to be in the south-east corner to south of Toowoomba through to Stanthorpe. Many paddocks that were once grazing now appear as fallow cultivation country due to being eaten out to bare ground. A real concern should it rain is the potential impact of significant soil erosion due to very little ground cover - much of the country has turned to a fine powder. The latest Bureau of Meteorology climate outlook statement for November to January indicated the chance of receiving above median rainfall for the south-east is between 25 and 30 per cent and slightly better moving west where the Balonne Shire is 40 to 50 per cent. For graziers in the south-east and particularly in the Southern Downs region, where the majority of stock water requirement is provided by surface water only, the outlook is becoming desperate as dams are drying up rapidly.

With the dry seasonal conditions, it is now evident that this is impacting on market confidence with very few transactions of scale in the south-east region. One sector of the market that has shown improvement in the liquidity is in far western Queensland and primarily those holdings benefiting from either rain or flood waters from February and March events further north. Market activity in the Paroo, Quilpie and Barcoo Local Shires over the past eight months has increased on the back of improved seasonal conditions.




The purchasers are a combination of local and outer district landholders seeking additional country, but the major market driver is those seeking grass. The increase in buyer demand has created a broad firming in value trends over a relatively short period. This trend may consequently soften should further follow-up rain not be received this summer, where any firming in values observed in the short term maybe attributed to those grass purchases.

Some recent transactions in the region include:

- Clifton Station, Windorah - a 48,800 hectare holding under contract;
- Canaway Downs, Eromanga - a 93,316 hectare holding selling for $8.137 million in May;
- Coniston, Windorah - a 28,500 hectare holding under contract;
- Retreat, Windorah - a 142,601 hectare holding reportedly sold for $20 million including stock and equipment.

We are also aware of a pending sale in the Cunnamulla region that will show the continuing strengthening for river frontage country, with further details to be provided when publicly available.