Rural

HERRON TODD WHITE RURAL

Overview

This month I have asked the team to review their local horticulture marketplace given the level of activity nationally in the sector. We have commented for a couple of years about the increasing sales, new entrants and land values in this sector which is also having a knock-on effect in part to water values. What is driving this market, where is it sitting in the cycle and ultimately how sustainable are the commodities all become common questions for our team.

There is no doubt that permanent plantings either nut, grapes, citrus or avocados are setting new records around the country. This is on the back of large increases in commodity prices as a function of export growth or for Avocadoes domestic demand. The growth here is also very much globally with South America now reporting that security is required on avocado farms to avoid theft given the value of the commodity today.

The question of value for the land, finding established assets to acquire and looking for land suitable and then taking development risk are all being investigated by those in the various industries, but there is a lot of supply to come through over the next 2-4 years in most of those commodities. The teams' summaries are below with a special report from Doug Knight and Stephen Cameron of our Darling Downs office about the avocado sector.

Special Report

The market for orchards / horticultural properties has weakened over the past 10 years with the industry facing difficulties due to a highly competitive import market and strong Australian dollar.

This has resulted in a number of orchards being removed (especially for stone fruit) and an alternative use has been found. During this period the demand for rural lifestyle properties also increased and subsequently decreased which resulted in values increasing to levels above what is considered to be commercially viable for the horticultural industry.

The lifestyle market is now facing a correction and downward pressure has been placed on rural land values to come back to levels which are viable for horticulture and agriculture.

We note in the last three decades the emergence in the South West of less traditional rural pursuits including avocados, floriculture and vineyards. Avocados, in particular, have seen an increase in price for the fruit as public consumption has increased through various marketing schemes.

This is backed by the Australian Avocado Industry Strategic Plan 2011-2015 that reports 'Australia currently consumes 2.7 kilograms of avocado per capita (2009-10), an increase of more than 106% in the last decade' and also by visiting any local café and looking at the menu.

The increase in demand had resulted in an increase in producers expanding operations by planting more trees and looking for land which is suitable and has adequate water supplies.

This, in turn, has seen demand for properties with established avocado orchards increase with rural agents in the south-west reporting growers are actively seeking established properties or developed horticultural properties suitable for converting to avocados.

This is confirmed by the sale of a 94-hectare property on Appedene Road, Deanmill within the Shire of Manjimup for $1,750,000 in June 2017. This property has been used as a Capel Vale vineyard with extensive water supply and was purchased a local avocado producer who is currently removing the vineyard with a view to planting avocados.

It is important to also note that whilst demand is currently outstripping supply the increased number of trees being planted in the past 2-3 years will lead to an increase in supply when the trees reach maturity at 5 years and therefore prices could potentially decline.

David Abel

Central Queensland

The horticultural markets across the Central Queensland region comprise a tale of two fortunes. On one hand, there has been very high demand for well developed corporate scale farms, and on another hand, smaller scale assets have met limited interest when offered for sale.

The critical difference is the commodity established on the land and the efficiency offered with scale. Table grapes and citrus farms with planting to lemons and export mandarin varieties have reached new value levels as a direct result of strong commodity prices over recent seasons.

In this respect, a continuation of farm gate returns will be crucial to the longevity of current value trends. While there have been a handful of acquisitions by established family operators, market agents have emerged as the new primary buyer in many cases, seeking to complete supply integration and secure major retail clients.

Bottom line pressures persist for small-scale operators as a result of volatile domestic market prices, and despite the recent revitalisation of interest for horticultural assets broadly, a substantial number of these farms remain 'quietly' on the market.

Overall, the future of horticulture is in our view positive. Oversupply issues for some domestic commodities are slowly finding balance as Asian demand adds to absorption of the product. Further, trade conduit with Asian is becoming more secure and reliable, which should foster industry growth and accelerate the conversion of lower returning agricultural land (sugar cane, irrigated grains, intensive beef) to more profitable horticultural industries.

Will McLay

Bundaberg

The demand for macadamia nut plantations in the Bundaberg district has strengthened dramatically over the last 6 months.

Recent sales of macadamia nut plantations have occurred such as 168.99 hectares sold for $7.88 million with a total of 97 hectares planted to irrigated macadamia nuts and 421 hectares sold for $20.6 million with approximately 184 hectares planted to irrigated macadamia nuts.

These sales reflect a value of approximately $85,000 per irrigated treed hectare excluding structures and balance land. Previous sales were reflecting values at approximately 50% of this level.

The demand for potential macadamia nut land is strong also and this has been reflected in the sales of lesser quality irrigated cultivation country with values also showing strong increases.

Recent sales of grey soil, forest irrigated cultivation country selling for $25,000 per irrigated cultivated hectare excluding structures and balance land

Tony Bailey

Mildura

Horticulture has been the backbone of the Mildura region since the late 1890's, and the region's growth and prosperity have to a large degree fluctuated in line with the fortunes of the local horticultural sector. The region suffered during the millennium drought, with low water allocations, high exchange rates and poor commodity prices impacting on all local industries. Many growers exited the wine grape, dried fruit and citrus industries in the 10 years up to around 2013, and many more were forced to sell their permanent irrigation water entitlements, in order to reduce debt.

Since 2014 we have seen a remarkable turnaround in commodity prices. The turnaround has been all the more remarkable because the improvement has benefited virtually all producers. The drivers of change have been widely attributed to strong demand from mainly China - but also other Asian export countries, combined with a more favourable exchange rate, and an improved irrigation allocation outlook. Drought conditions in California at this time also saw international investors look to Australia. The first industries to show signs of recovery were almonds and table grapes, with orchard/vineyard values increasing rapidly in 2014 and 2015. Values rose significantly between 2014 and 2017, however, appear to have stabilised more recently.

Buyers also saw opportunities to buy both vacant land and underperforming wine grape vineyards, in order to establish new almond and table plantings. This further reduced the wine grape supply. Citrus growers needed a few more seasons of better returns to restore confidence, however, since 2016 we have seen a strong rebound in orchard values, and an expansion in new plantings. Values of better standard citrus orchards have doubled since 2015, and tree nurseries have full order books for the next 2 years and beyond.

Wine grape returns, which were diabolical for over 10 years, started to improve in 2015, and are now at the stage where well-managed vineyards are generating positive cash flow.

The days of picking up a bargain-priced wine grape vineyard are now behind us, with values up by around 70% since 2015.

We are now at the stage where there are many growers wanting to expand their plantings, however, the available supply of developable land, and possibly irrigation water delivery capacity, is quickly diminishing. Almond growers are estimated to have planted at least 15,000 hectares of new land in the past 3 years. The citrus and table grape industries have expanded significantly, but to a smaller degree and we are starting to see new wine grape plantings

One of the drivers of expansion is the availability of new varieties of citrus and table grapes, with existing growers not wanting to remove their current, profitable plantings, in order to plant new ones. It is hard to see anything in the short term de-railing the current optimism, but history suggests that horticulture is a volatile industry.

The same things which caused pain in the past are largely outside of our control. Drought (low water allocations), exchange rates and the strength of export markets are unpredictable. Hopefully, we don't see all three of these issues act negatively at the same time.

There have been a number of long-held, family farming operations sell in the past 18 months, with these growers capitalizing on the strong corporate demand and deciding now is a good time to retire.

In some cases the buyer has taken on the production risk, however, we have seen a number sell subject to a lease-back, with the rent set as a percentage of the sale price. Some of these rents may turn out to be challenging if commodity prices reduce.

Two large properties currently being advertised for sale will be a good litmus test of value movements. A table grape vineyard in Merbein is back on the market, after being purchased on a WIWO basis by Murray River Organics for over $9 million in late 2016. The second property is a portfolio of 8 almond orchards, covering approximately 20,000 hectares, which was purchased by a consortium of international institutional investors in 2014.

The sale of this portfolio is subject to the existing lease to Olam International, and it will be interesting to see how the market perceives this portfolio 4 years on from the previous sale.

Graeme Whyte