Rural

September 2019

Central and Western NSW

The drought continues its hold on the top half of New South Wales with little to no hope of any winter crop coming to fruition. Our observations are that the property market has not notably changed in recent months, albeit on the back of limited offerings. Vendors are generally not committing to listing their properties due mostly to the poor seasonal conditions and sub-optimal presentation. Vendors who are offering properties are maintaining a relatively strong reserve price in any sale campaign. The pass-in rate at auction has increased with some vendors still wanting bullish outcomes in a market that has purchasers holding off buying decisions. Buyers are showing signs of hesitation with limited cash flow from their existing holdings and any potential purchase property with little to no crop or stock feed.

Myroolia - Part Romani, Bourke   Source: realestate.com.au

An interesting auction offering is coming up at Bourke on 29 August with Myroolia (18,522 hectares) and part Romani (9,497 hectares). The properties are located approximately 125 kilometres north-west of Bourke in the Fords Bridge area. The interesting aspect is that both properties have carbon projects. We are yet to see any real sales evidence of New South Wales Western Division properties with carbon projects and income. We look forward to analysing the effect, if any, on capital value with future project income and the perceived view on property value post the first ten years' income from carbon.

Once again with another month gone, we need a substantial break in the season and reinstatement of cash flow or we may start to see some pressure on property values.

North Coast NSW

A shortage of listings of rural properties for sale is a feature of the current market on the New South Wales North Coast. Strong demand is apparent and continues for macadamia farms. A number of recent sale transactions of reasonable size macadamia farms have occurred which indicate analysed values in the range of $70,000 to $100,000 per mature orchard hectare during mid 2019. This is an increase from late 2018 and early 2019 when the top of the analysed value range was broadly indicating $85,000 per mature orchard hectare.

The sugar cane farm market is subdued as the world sugar price is down to US11.47 cents per pound. Subsidised Indian sugar continues to impact negatively. Dry conditions have encouraged some growers to bale post-harvest sugar cane residues for mulch purposes.

The beef cattle property market remains solid. A shortage of sales listings and sales is a feature of this market sector as well.

The pass-in rate at auction has increased with some vendors still wanting bullish outcomes.

Sugar cane mulch bales   Source: HTW

Sugar cane mulch bales   Source: HTW

New England & North West NSW

Widespread snow throughout the southern reaches of the New England has offered some moisture, however there continues to be little widespread rain with the drought still affecting the majority of the New England and North-West.

Rural listings throughout both regions remain low which is contributing to the lack of recent sales. We are noticing that there continues to be an increase in neighbour to neighbour sales despite the drought conditions and the sales that are occurring are reflecting that the market is holding steady with no evidence of major decreases in value.


Snow in New England Source: HTW

Mildura

We have seen reduced activity at the higher end of the horticultural market in 2019, following a period of four to five years when there had been regular sales negotiated for properties above $10 million. This reduction in activity is likely to be due to a number of factors, including fewer high value properties being listed for sale and concerns around the impact of low irrigation entitlements.

Many of the higher value sales which occurred in the period from 2014 to 2018 involved long standing family farming vendors who had waited patiently for a return to good commodity prices to improve confidence levels, and then sold as part of their retirement plans. The result was a higher than normal number of such sales during this period, remembering that values had been depressed for an extended period prior to 2014.

There has been significant investment in downstream processing capacity, which demonstrates long term confidence in the region's key horticultural industries.

Having said this, there are still a reasonable number of larger scale horticultural properties on the market in both the Sunraysia and Riverland regions. Our observation is that these are now taking longer to sell, suggesting that buyers have become more discerning. The high cost of leasing irrigation water entitlement, currently just over $600 per megalitre, is likely to be weighing on investment decisions and we expect that sales activity will remain subdued until we see a return of higher irrigation water allocations and a subsequent reduction in cost.

While we have seen fewer sales of rural properties so far in 2019, there has been significant investment in downstream processing capacity, which demonstrates long term confidence in the region's key horticultural industries.

The Duxton Vineyard Group has just announced its purchase of the Stanley winery, situated just outside Mildura, from Accolade Wines. Accolade, which is one of the largest wine companies in Australia, has expanded its Riverland facility and decided that the Stanley winery, which has capacity to crush 80,000 tonnes of fruit, is surplus to its requirements. The Duxton Vineyard Group has rapidly expanded its production base in the Mildura region through vineyard acquisitions over the past five years and now operates 2,400 hectares of vineyards, which they estimate produces 60,000 tonnes of fruit annually, equivalent to over 20% of the fruit coming out of Sunraysia. They will be hoping to gain increased profit margin resulting from processing grapes into both bulk juice and wine and have indicated that they may also contract crush some fruit for outside growers.

Another private wine company, Weilong Holdings, completed the first crush from its new winery in 2019. Weilong also acquired a large area of wine grape vineyards in the past five years, mostly at depressed prices, and saw vertical integration as their next logical step. The facility has been designed to eventually process up to 80,000 tonnes per annum and is the first new winery to have been built in this region in over 15 years.

Bright Light Agribusiness, a large, privately owned almond growing business with a number of orchards along the Murray Valley, is understood to have commenced construction of an almond hulling plant at their Hattah property, approximately 70 kilometres south-east of Mildura. The facility will have capacity to handle 25,000 tonnes per annum and will allow the company to also move up the value chain.

We also expect to see expansion in the capacity of local citrus packing facilities over the next one to two years, in order to handle the significant increase in production resulting from new plantings of navel oranges and easy peel varieties.

Western Australia

We are well over half way through the year and Western Australia has had some rain events in many agricultural regions after a dry start. These are variable, as you would expect, however travelling around the cropping regions in the last month, I have seen some well-established crops and some flowering.

This month we have a look at some sale transactions that have happened across the Western Australian land mass developed for agricultural purposes. At the start of the year in January, Minni Downs, Mount Sheridan Road, Varley was purchased for $8.9 million. This property was formerly three farms known as Fretwells, Mini Downs and Rockwater that were aggregated into one. The property has a total land area of 7,556 hectares and is serviced by two sets of structural improvements including houses and sheds. That sale price reflects $1,178 per hectare improved.

Later in the year in May and further south, the Green Range locality Kangaroo Valley sold for $5.2 million. This property is approximately 1,375 hectares developed for cropping and grazing with structural improvements including a four-bedroom house and a number of sheds. This property is reasonably close to Albany on the South Coast and has highway frontage. Analysis of the sales price indicates $3,780 per hectare improved.

Staying in the south of the state and heading north-east to the Goldfields-Esperance pastoral region, we note that the Balladonia Aggregation is currently under offer. This aggregation includes four stations known as Balladonia, Nanambinia, Woorlba and Noondoonia with a total land area of 671,277 hectares. The property is rated to run 6,300 cattle units and the advertised sale price WIWO was $8.5 million or $1,350 per cattle unit.

There have also been a number of other transactions over this time period and the confidence needle continues to lean towards the positive side of the scale.

Wide open plains Source: HTW

Northern Territory

The sale of the 3,797 square kilometre breeding block, Manbulloo, strategically located at the junction of the Stuart Highway and Victoria Highway at Katherine (300 kilometres south of Darwin) settled around mid July as part of the CPC property sell-down. The deal was negotiated with Cross Pacific Investments Pty Ltd who we understand is a mix of foreign (the Americas) and local investors. The recorded settlement price for the property was $23.4 million. Full details remain confidential at this stage however we understand that the property sold bare of livestock, plant and equipment, but was subject to a leaseback to CPC (terms of lease remain confidential) and was also subject to an existing agistment agreement over a small portion of the property. Our analysis of the reported contract price, assuming the sub-lease is at market levels, indicates a reasonably sound acquisition. This buyer has reportedly been actively investigating the grazing land market in the northern half of the Northern Territory.

The 3,036 square kilometre property, Mount Skinner, situated around 270 kilometres by road north-north west of Alice Springs has also settled (end of July) for close to $7.5 million (real estate) in a circa $9 million to $9.5 million WIWO sale to a South Australian pastoral family looking to expand their operations into the Northern Territory. At the time of sale, the property was reportedly coping with the same very dry conditions being experienced by many other stations in the Alice region. This sale falls in line with the continuing theme of strengthening value levels for Centralian pastoral land which has been sustained by strong competition for the tightly held leases now for at least three years.

Another Centralian station, Idracowra (4,628 square kilometres) around 240 kilometre drive south of Alice Springs, was recently listed to go to auction on 9 September, however not much less than three weeks later, it has reportedly already secured a buyer. We are aware of reasonably strong interest from several Alice Springs region pastoralists for this property, which reportedly still requires significant pastoral development to bring it up to industry standard. Again, the very dry conditions have not dampened strong demand for grazing country in the Alice.

We also understand that Scott Creek Station (1,018 square kilometres) with frontage to the Victoria Highway, around 65 kilometres south-west of Katherine is currently under contract for sale at around its asking price. It had been marketed since around March 2019. Full details remain confidential at this stage, however the deal was reportedly

It has been an extremely active six or so months on the pastoral front in the Northern Territory.

negotiated on a bare basis (excluding livestock, plant and equipment) and we understand that the potential buyer requires FIRB and Ministerial approval for sale completion. We understand that the purchaser has also recently acquired other grazing country in the Northern Territory and that an agistment agreement for around one year for use of the entire pastoral lease was also struck at the date of contract. The reported contract price indicates a strong desire for the purchasers (if the deal is consummated at settlement) to continue with hay cropping over approximately 1,400 hectares of land subject to ongoing rehabilitation after having been overrun with heavy weed infestation and suffering erosion issues (we note that several thousand hectares of the property were originally cleared in the 1970s for broad scale cultivation of hay and sorghum crops to supplement native pastures on the property, however a large proportion of this area was resumed by regrowth of native timbers and weeds).

We are also aware of two other pastoral holdings currently on the market in the north of the Northern Territory with offers accepted.

It has been an extremely active six or so months on the pastoral front in the Northern Territory and our analysis of the 2019 sales so far indicates widely ranging dollar per adult equivalent value levels from around $1,500 through to nearly $3,000 (bare of stock and plant). From my reading into it, the huge variation can be put down to an equally wide range of opinions on the long-term productive capacity of the lease of purchasers, vendors, financiers, land agents and valuers.

As a valuer who has inspected most of these stations more than once over the past twenty years, a consistent approach to assessing productivity across these leases provides me with a fairly accurate picture of which buyers have clearly overestimated.

There are one or two pastoral leases that have just hit the market for sale in the Northern Territory. If they sell, it will be after only two or three years since they were acquired. That's a very quick turnaround and the marketing process should be intriguing to say the least.

North and North West Queensland

According to the graph below, the Other North Queensland (typically forest breeding country) has softened from the spike last year. This is not the case.

Last year saw some good quality basalt country sell which created the perception of a general increase in the market. Also, this was fuelled by some stronger priced transactions whereby southern graziers were seeking grassed country for drought relief.

This year has seen some lighter Desert Uplands and Croydon forest sell in the mix.

The reality is, that last years index average is high, due to a lack of Desert Uplands and Croydon country selling.

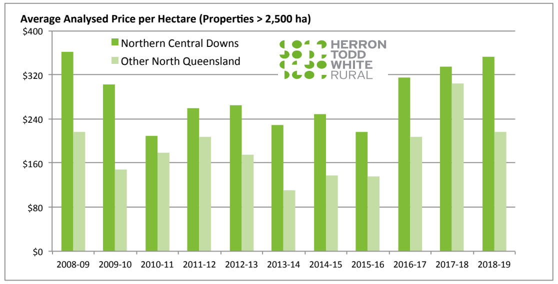
Conversely, this year is low due to the lack of the good basalt sales.

The current Forest country (Other NQ) average is actually somewhere towards the centre of the 2017 and 2018 index results.

The Northern Central Downs had a spike of higher priced sales in late February and into March this year.

Graziers from the Northern Territory, Central Queensland and Southern Queensland drought affected areas anxiously purchased downs country amid the perception that there was going be a substantial body of grass following the monsoonal flood event. This was not the case.

The sales evidence since March does indicate a general strengthening on last years sales, certainly not to the extent of the February/March pricing. Once the transactions settle that are currently under negotiation, it is expected that the full year average index will be slightly lower than it is now.



RURAL

HERRON TODD WHITE RURAL