HERRON TODD WHITE RURAL

Rural

May 2019

Overview

Markets up and markets down seems to be the state of play and it's all directly related (which is logical) to the seasonal conditions being experienced nationally. With that comes uncertainty which is now starting to play out in values and sales activity.

In the north, properties which benefited from the monsoon and cyclonic rains of February and March are being brought to market with good grass cover. They're quickly snapped up by grass buyers from the south.

Elsewhere around the nation, our teams are reporting a slowing of corporate interest (not in any one commodity either) with local buyers dominating activity at present.

So, what does this all really mean? Our local updates will cover off the impacts more specifically but overall, there is a higher sense of caution in the market place emerging. Good properties are still being acquired and grass buyers are active, however secondary locations, under developed property and those in hard drought conditions are finding it harder to attract willing buyers.

The general view of our professionals is that many regions are towards the market peak in values and other than A-grade properties, we may start to see a flattening of the growth rates for a period of time. There is an element of fatigue also emerging in operators and another failed winter crop season with a poor spring break may see a shift in the supply side of the rural market if pressures, including financial ones, start to build.

NSW North Coast

Since last month's report, there have been very welcome good falls of rain across the NSW North Coast. The NSW North Coast is a productive rural high rainfall location that also has strong lifestyle attributes. Coastal farms are relatively close to beaches, holiday towns and infrastructure. Buyers of income producing rural properties often benefit from a strong underlying rural lifestyle value component applicable to the property.

Macadamia tree farms have traditionally been established on the elevated frost free red basalt soil plateaus. Irrigation is almost non-existent on these rain-fed macadamia tree farms. There is limited available land for expansion of new macadamia tree farms on the red basalt plateaus at viable prices as it can be difficult to find suitable land for less than $50,000 per plantable hectare. To secure suitable land, purchasers are buying higher, less frost prone sugar cane farms with alluvial clays and black peat soils on the Richmond and Clarence River flood plains for macadamia tree farm establishment at more affordable prices, mostly in the $15,000 to $20,000 per hectare range. Flood free duplex type sandy loam over clay soils former cattle grazing or forestry properties are also being purchased in the Clarence Valley for macadamia tree establishment.

Other land uses attracting interest on the red basalt plateaus of late in particular are established wholesale nurseries. Wholesale nursery buyers are attracted to the favourable climate for growing compared to the southern parts of Australia, labour supply, good infrastructure and properties with sound supplementary irrigation water. Existing established nursery businesses and product lines are also attractive. The strength of the avocado commodity price, good well drained soils, and elevated and frost free red basalt soil plateaus are attracting interest for prospective avocado tree farm establishment if there is sufficient sound supplementary irrigation water.

Nursery Source: Herron Todd White

Soya beans & sugar cane Source: Herron Todd White

The NSW North Coast is renowned as a store weaner cattle breeding area. The better quality basalt soils are always sought after, however there are significant areas of sandstone formation land that may not have as high a carrying capacity nor the same potential for fattening of livestock as the basalt soils, but nonetheless are good quality breeding properties when pasture is improved for the production of store weaner cattle.

Dairy farms have traditionally been located on the alluvial river and creek flats with access to water for irrigation of pastures. The difficulties faced by the dairy farm sector have been well documented nationally. There are very few dairy farms sold in this location and if they were put to the market, would face strong competition from rural lifestyle or cattle graziers and in some locations for summer and winter cropping rotations such as soya beans and barley or for tea-tree farm establishment.

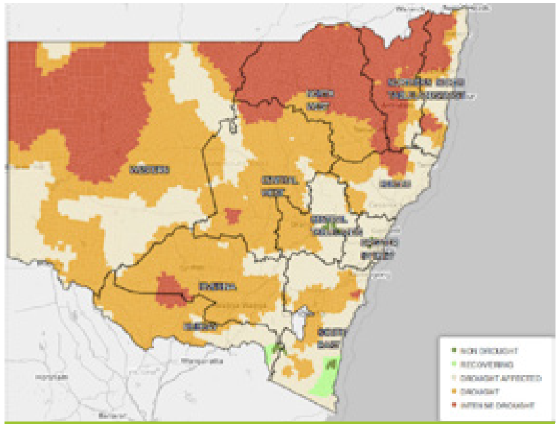
North-West and Northern Tableland NSW

North-West NSW and the Northern Tablelands are still suffering from one of the worst droughts on record. Early widespread rain in late March and early April was welcomed, however unfortunately there has been no significant follow up rain to build on the earlier falls. As we move closer to winter, it is likely that the conditions currently being experienced will continue and any remaining stock on hand will continue to need supplementary feeding or will need to be sold.

Mapping and information sourced from the NSW Department of Primary Industry indicate the extent of the drought across New South Wales. As seen in the below map the majority of the north-west and northern tablelands are either in intense drought or classified as being in drought or drought affected.

Major dam storages within the Tamworth region are holding at around 26% at Chaffey Dam and 29% at Dungowan Dam. Irrigators within the Peel Valley have had cut backs on water allocations, both regulated river water and aquifer, with access to 0.38 megalitres per share for regulated river water and 0.69 megalitres per share for aquifer water.

The falls in late March have had limited impact on the dams' capacities and without significant falls it is likely that there will be continued cut backs on allocations. General security entitlement holders may be subject to no allocation in the event that Chaffey Dam falls below 20 gigalitres.



NSW Drought map Source: NSW Department of Primary Industry

Central & Southern NSW

The continuing dry conditions across most areas of New South Wales are beginning to have an impact on some of the achieved values recorded for sales.

We are aware of a vendor who sold country in early 2018 for $2,000 per hectare excluding buildings and recently sold an adjoining property which had similar soils for $1,800 per hectare excluding buildings. Whilst this is an isolated case and we have limited evidence supporting a softening of the market, it does indicate the market is becoming a little tighter and that the capital looking to deploy in agriculture is beginning to place or take into consideration the negative attributes of assets on the market. Previously we have seen the pressure to acquire assets override the possible negative impact of either poor fencing, limited water development or general access.

The general temporary transfer water market at present is at a level that makes it difficult to justify growing some crops which have previously been considered as the main staple of a valley. This is particularly the case for cotton in some of the southern valleys as these growers are now competing with landholders who have permanent plantings which require significant water volumes to maintain production.

When looking at water allocations, most operators will look to achieve a profit level of between $300 and $350 per megalitre. Current temporary allocation values for the Lachlan River Valley are approximately $300 per megalitre, between $450 and $500 per megalitre for the Macquarie Valley and $600 per megalitre for the Murrumbidgee.

Some operators in the valleys are taking the opportunity to temporarily transfer the allocations within the system to achieve profit levels similar to what they are able to achieve growing a crop, with significantly less risk both in terms of seasonal influences, management and price. In addition there are no operating expenses to be encountered and as such this is proving an attractive option. Many operators have forward sold their production and as such need to grow enough crop to fulfil the contract, however surplus water is being sold on the temporary market.

An interesting observation is the perceived water use of irrigated cotton which is generally in the eight to ten megalitre per hectare range. Cotton appears to be bearing the brunt of the social media campaign against crops that are perceived to have a high water usage. I suspect that the horticultural crops currently being developed across areas of the basin will be the next target, as water usage for almonds and other nuts can be in the 12 to 15 megalitre per hectare range and we are aware

The general temporary transfer water market at present is at a level that makes it difficult to justify growing some crops.

of some properties using up to 18 megalitres per hectare due to the dry seasonal conditions.

We believe that the general water market is in a state of flux as the new horticultural crops within the valley and the higher gross margins available are resetting value levels for both aquifer and surface water and this is impacting the level of these crops grown.

Central Tablelands NSW / Central West NSW

The Central Tablelands and the Central West of New South Wales remain very dry. Across the tablelands, the upcoming colder weather and frosts will begin to limit the effectiveness of any rainfall we may go on to receive.

We continue to see signs in the market that would indicate we may be about to enter a period of general slowing and a more stable trend of growth in the coming year. Unfortunately, there is not a solid body of sales evidence available (in particular, re-sales) to quantify a slowing or to firm up our opinion of which way the market is trending.

Regarding the question of what are the main elements buyers look for most in rural properties in this area, following are some of the observations we have gathered from buyers and landowners in our daily work.

Naturally, the productivity of the land is always central and the level of pasture, fencing and water improvements that support this have always been considered key features. These factors also feed into ease of management. We see that rainfall history is considered carefully by buyers, in particular in areas where it varies relatively markedly like the Neville and Woodstock district between Cowra (630 millimetres) and Blayney (800 millimetres), or within the Kybean Valley. We are also often reminded of the importance of soils and soil health in buyers' minds.

Access is a significant factor adding to marketability and appeal. In most cases, having a particularly extensive road frontage to several sides of a property or dissecting a property in one or two directions are positive features. Having access, or nearby access to a highway is clearly a positive feature, in particular one such as the Mid-Western Highway or the Lachlan Valley Way that provides a direct link to CTLX, STLX and other selling centres for the properties located along them.

We have noted in a previous Month in Review that a property's proximity to town is a key feature in a buyer's mind and this was made evident throughout 2017 with a number of relatively strong sales of properties located within close proximity (five to ten kilometres) of their town. This is an important feature.

The residential and recreational elements of a commercial rural property, aside from its agricultural utility, are often mentioned to us. In most cases, having an appealing residence or residences and established gardens adds to a property's attraction. Naturally, good views along with river and creek frontages are elements that add to the residential and recreational amenity of a rural property.

Mildura

At this time of year, state water authorities provide indications of opening irrigation allocations for the 2019/20 irrigation season. For South Australian irrigators, the opening allocation will be at least 14 per cent, with water availability projections indicating that there is just under a 60 per cent likelihood that allocations will increase to 100 percent by June 2020 (source: Department of Environment and Water; S.A. Government).

For NSW Murray irrigators, it is widely expected that General Security Licence holders will have opening allocations of zero per cent. At the time of writing, there is still a shortfall in water reserves to guarantee a 97 per cent opening allocation for High Security Licences, with the New South Wales share of water held in the Hume and Dartmouth storages approximately 1.5 million megalitres lower than at the same time in 2018 (source: Department of Industry; NSW Government).

For Victorian Murray irrigators, the current forecast is that opening allocations under average inflow conditions (between now and 1 July) will be 12 per cent, but that if inflows remain below average, the opening allocation could be zero per cent, rising to 53 per cent by February 2020. For Victorian irrigators, there is a very real chance that allocations will not reach 100 per cent next season (source: Goulburn Murray Water).

The biggest single influence on the cost of leasing temporary water in the southern basin is the volume of water made available through New South Wales Murray General Security water allocations. A repeat of a zero per cent allocation for General Security Licences next water year will see temporary water prices remain at high levels, placing pressure on budgets and hurting all industries. Temporary water prices have increased

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to around $600 per megalitre in the past week, with irrigators keen to source carry over water for next season.

Accurate predictions around future allocations are of course impossible, with the final outcome depending on rainfall over the coming winter months. The predictions do, however, give irrigators some basis on which to plan for the coming year, based on their individual circumstances and their perception of whether the dry conditions are going to continue throughout 2019.

There are several properties currently being advertised for sale which have the potential to be connected to the proposed expansion of the Lower Murray Water's irrigation district and this will be a good test of demand for greenfield sites. Lower Murray Water intends to extend a pressurised water supply into two areas west and south-west of Mildura, with landholders able to connect in exchange for contributing to the cost of the water supply infrastructure. The high cost of leasing temporary water would be expected to curb buyer interest.

A recent dryland sale involves a 1,094-hectare aggregation of six lots in the Manangatang/Swan Hill region of the Victorian Mallee. The agent received over twelve offers, with the vendor accepting an offer for the whole property from a New South Wales grazier. The sale shows around $2,500 per hectare for the 960 hectares of better cropping land with heavier country showing much less. The property had nominal building improvements.

Another recent sale is of the dryland cropping property known as Coonamble Farms in the Carwarp area (40 kilometres south of Mildura) which was purchased by a New South Wales Western Division station owner after an extended on-off marketing period over a number of years. The property contains 2,935 hectares of which approximately 2,470 hectares is considered cleared arable cropping land being a mix of good red sandy loam to some inferior heavy and stone country. Improvements include a modern dwelling with good domestic improvements, good shedding and ancillary structures. The sale will show between $800 and $900 per hectare for the better arable land.

The above two sales were both purchased by New South Wales farmers and graziers with the continued dry conditions in south-west New South Wales likely to be a motivation for diversifying their operations.

North and North West Queensland

Consolidation continues as north and north-west Queensland picks itself up and looks to move on from the monsoonal events earlier this year.

Railway, highway and cattle property infrastructure repairs are being conducted efficiently and at an incredible rate of knots. None of these works are upgrades - the north has been waiting for years for much needed repair expenditure to be done to both the railway line and Flinders Highway between Mount Isa and Townsville.

For the northern economy to recover and grow, continued investment and development of infrastructure is required. The number of ore (from the north-west mineral province) and cattle trucks on the Flinders Highway at present are clear indicators of the sheer demand for infrastructure to move product.

Domestic tourism is also a major user of these roads. The grey nomads are an important sector and the caravan season has just begun. One can imagine the number of caravans and road trains on such a narrow stretch of road this year.

Connector highways to secondary routes have also been bearing the brunt of the overflow from the disruption to key northern facilities. Time will tell whether these connectors and the remaining network are going to be repaired or upgraded.

Cost of road transport (as opposed to rail) to the mining, rural and urban sectors is substantial. For the northern economy to grow rather than slow, a focus on northern infrastructure is required. Profitable industry makes for positive contributions to society, state and national product.

Given the difficult global economic times, surely the avenue to invest and develop northern industries is an attractive option. It is no secret that the north offers water, soil, minerals and is in close proximity to Asia Pacific trading partners.

While the repairs have gone on, the grass, herbage and weeds have made use of the available moisture to grow. The grass and herbage has started to hay off in the recent weeks.

The weed response has produced an explosion of Prickly Acacia and Parthenium. This is a risk issue to the wider community to say the least.

There have been some stellar examples of business and industry leadership to make use of the disrupted situation this year. In some instances, decisions have been made to:

1. acquire cattle from drought affected areas for a trade. There were some very good opportunities for northern graziers to do business with drought affected southern and Northern Territory cattlemen. Recent rain in central, southern and south-western Queensland has now closed the door somewhat on trade opportunities;
2. sell land to southern buyers. There was a narrow window of opportunity where some key sales

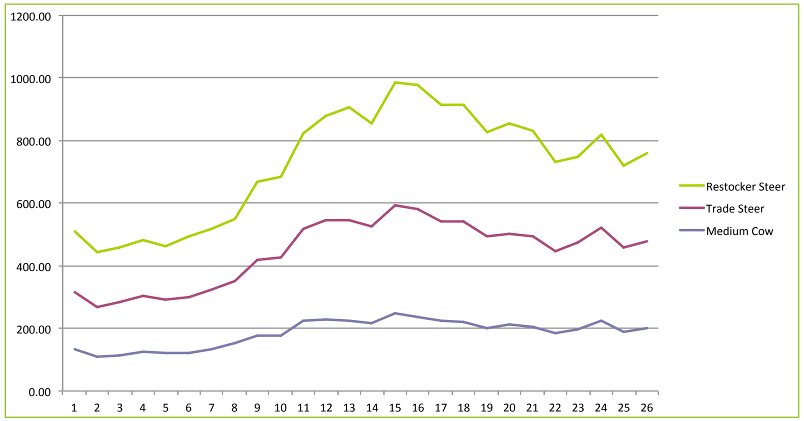
occurred to buyers from down south and even the Northern Territory. This was beneficial to those who took the opportunity to meet the market and exit. Buyer interest has softened in recent weeks;

3. plant forage crops (dry land) to graze cattle; and
4. maintain post flood stock numbers. In some instances, the grass budget for the year ahead matches the post flood herd number.

So, where to from here? Cattle markets have generally softened in recent years from a peak in 2017. Typically, this has been due to increased supply of stock as the drought continued. When the rain occurred in central, western and southern Queensland recently, the restocker market kicked immediately.

Grazing property market value levels are hovering around the 2008/2009 peak levels.

The graph below shows that the forest type land classifications have seen the strongest market growth. This is mostly due to the sales of some better quality forest country in the past two years. These were basalt land types to the north of Hughenden, Pentland and The Lynd.



Some acquisitions were neighbouring transactions and some were for the grass. It is critical to understand not only the sale property itself, but also the motivations and circumstances of the parties involved before simply quoting market activity.

The trend in north and north-west Queensland grazing property values has been contrary to the cattle market. This may indicate the trigger for the next market cycle (to a consolidation phase) where a lag occurs between the cattle market and property values.

There are some recent transactions in the Richmond (downs country) area that have exceeded those levels. These were purchased for grass as southern graziers looked to protect their positions in the face of drought. There has been very little local buyer activity. Given the business disruption in the year to date, locals may not be too active in that market area for the rest of this year. It may not be until next year that the market chooses whether to confirm the current value levels or not.

There are a number of forest country cattle stations under negotiation at present. Unlike the past year, these do not include the good quality basalt forest country. These stations are in the Georgetown and Mount Garnet out to say Einasleigh patch.

Most of the buyers in these northern forest cattle breeding country deals are locals. At this stage, the value rates being discussed are within existing parameters for the same country types over the past three years.

Certainly, this combination offers a market signal for market price equilibrium to remain stable in the foreseeable future.

In the meantime, repairs to infrastructure will continue, enabling the primary industries and travelling public to move on and benefit the state and national product growth.