Rural

HERRON TODD WHITE RURAL

Overview

As we move into the last quarter of the year, many people look forward to more relaxing activities.

Discussions around the pending wet season and summer rainfall have increased, not surprisingly given that the consequences of missing out a summer crop or grass growth would place a lot of strain on most market segments. This is probably being reflected to some degree in the cattle market for property sales where there have been less transactions in the past six months or so (the Northern Territory has had three settled sales for the whole of 2018 thus far), but some solid sales nonetheless.

The CPC sale of Nockatunga and the Gunn Agri purchase of Abingdon Downs north of Georgetown in North Queensland illustrate that properties of scale are still being transacted and at good money. There has also been some decent but patchy rain in Queensland and New South Wales; nowhere near drought breaking as yet but early activity which hopefully translates into a true northern wet season. If this rain does arrive, expect to see more property come to the market and it will be interesting to see how this increase will be met by demand.

The team this month has been busy completing current work and also providing advisory support and due diligence on some larger acquisitions for potential purchasers and we are gearing up to a strong finish with 31 December reporting work for international clients. Amongst this activity, the team is getting together for two days of professional development and a chance to connect face-to-face which is not often possible given the work undertaken and the remoteness of some offices. Speakers at the event include insurers, financiers, investment managers and more.

It is also time to look at next year and planning has commenced for the 2019 national market updates in Melbourne and Brisbane with more details to be advised next month and date claimers sent out.

Enjoy the rest of the update from the team.

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New South Wales Tablelands and Central West

Demand for rural properties remains reasonably strong at present.

On the supply side, the number of listings and properties being offered to the market appears to have eased throughout 2018 to this point, due in part to the extended dry seasonal conditions. As a result, sales volumes have eased. This decreased supply and limited stock available has been generally insufficient to meet the current buyer enquiry and demand and may buoy value levels somewhat, despite the presently poor seasonal conditions.

Though fewer, the sales that have occurred over the past few months indicate the same strong growth in values that occurred during the busier 2017 and are showing that the rural market is maintaining the upward trend demonstrated in 2017.

Listings of rural properties have now increased significantly over October and the undersupply seen so far in 2018 has now corrected. The current stock of properties contains a reasonably broad mix of rural assets that would appeal to a broad cache of rural buyer types.

The most active buyer group appears to still be local and neighbouring-district farmers seeking nearby land to expand their existing enterprises.

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Southern New South Wales

The southern rural market continues to show its strengths with recent sales indicating continued strong per hectare rates achieved. An example of this is the property Mirradong at Adelong. This 674 hectare property is five kilometres south of Adelong and consists of approximately 30 per cent arable country with the balance open grazing which had been well improved with pastures. Average rainfall is 800 millimetres per annum. The improvements include a well presented four-bedroom weatherboard homestead and large modern machinery shed and workshop. The property sold for $6.2 million which equates to $9,190 per hectare or $3,719 per acre. This is in line with other recent sales and was purchased by a local family looking to expand.

Another sale in the Wagga/Holbrook district set a district record on a dollar per hectare basis. The property Jandera, is located 42 kilometres south-east of Wagga Wagga and 50 kilometres north of Holbrook in the well regarded Kyeamba Creek area. This property is 340 hectares and has benefited from a long-standing fertiliser improvement program. Rainfall is 625 millimetres with improvements consisting of good steel cattle yards, ten-box horse stable, machinery shed and a large four-bedroom home. The property sold at auction for $3.7 million which equates to $9,850 per hectare or $3,986 per acre.

Recently we have been doing a large volume of valuation work in the central and western areas of New South Wales and it appears that the recent rainfall over much of this area has sparked elevated or renewed levels of expansionary interest. The drought has had its impact on cash flows, however there is a reasonably high level of positive sentiment regarding future prospects and the rainfall to the areas south-west of Nyngan through to Warren have certainly had an impact on people's perceptions of the future.

The rainfall even catches valuers out sometimes, as evidenced by the photo below.

(Source: Herron Todd White)

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New South Wales North Coast

The New South Wales North Coast has rapidly changed from dry to wet with rainfall recorded of over 350 millimetres in some parts during September and October.

The macadamia nut farm market remains strong with a strong commodity price and limited listings of properties for sale. A recent sale of a farm for more than $2 million with house, sheds and plant equipment indicated about $76,000 per planted macadamia tree hectare excluding structural improvements. This was a farming family to farming family sale which is generally typical of the market.

Chinese based interests purchased a macadamia farm aggregation in the Dunoon locality in late 2015 for over $17 million. This is not an uncommon circumstance on the New South Wales North Coast for institutional scale purchases.

The sugar cane farm market remains subdued as world sugar prices plummeted recently to around US $0.09 per pound with subsidised Indian sugar impacting the market, but recovered in October to just under US$0.14 per pound with expectations of a smaller than anticipated Brazilian crop. A good quality cane farm near Murwillumbah has sold, indicating in the vicinity of $11,000 per sugar cane cultivated hectare excluding structural improvements. It is intended that the farm be continued as sugar cane use and is understood to be a farming family to farming family sale too.

The beef and dairy cattle market is generally dominated by family farm type purchasers. The large-scale sales of ex-managed investment scheme forests during 2017 were mostly purchased by family farm purchasers for cattle grazing and the operators of the sugar mill power cogeneration plants at Broadwater and Condong to source the timber for burning fuel and then remediate the land for cattle grazing.

The horticultural market is predominantly family scale except for the large Costa blueberry and raspberry farms at Dirty Creek near Coffs Harbour.

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Mildura

The agricultural sector remains quite active in regard to transactions and whilst it may be perceived that foreign interests are dominating the purchase of many larger assets presented to the market, there appears to be many local farmers and syndicates active and successful in many transactions.

The main demand currently is for larger parcels of land with soil types suited to almonds, citrus or table grapes or indeed already established horticultural properties. Purchasers have been mostly corporate buyers for almonds and a mix of corporates and smaller local family run businesses for citrus and table grape holdings.

An example in our immediate region of a local investor purchase is the sale of probably the largest farm in Victoria known as Telopea Downs, located 90 minutes north-west of Horsham. This large aggregation (47,677 hectares) which Hassad Australia purchased in 2012 was recently sold to the McBride family from South Australia for a reported $70 million for the real estate component.

Another transaction in the Mildura region involved a large greenfield horticultural development site which transacted for in excess of $11.5 million and was purchased by local investors to be initially developed to wine grapes. There was significant interest from foreign investors however the local investor group was ultimately successful.

Three recent sales of smaller greenfield development sites in the Koraleigh (New South Wales) area and one in the Nyah region of north-west Victoria have been snapped up by local interests for between $4 million and $8 million.

A large scale citrus, table grape and wine grape holding in the Colignan area (50 kilometres south of Mildura) was purchased in late 2017 by the Fresh Produce Group, which is a vertically integrated Australian grower and marketer.

On the flip side was the recent purchase of a large wine grape vineyard at Lake Cullulleraine, 50 kilometres west of Mildura, which was secured by a Canadian Pension Fund for a reported $16 million. This property was also in strong demand from local investor groups, with the sale price representing a significant premium over levels previously seen for wine grapes.

We are of the opinion that the strong growth in dryland and horticulture values may be approaching peak levels. We consider a contributing factor to this comment for horticultural properties is the spike in the cost of buying both permanent water entitlements and leasing annual water allocation, which reduces the comparative returns of horticultural activities.

The spike in water values is largely attributable to ongoing dry conditions in the Murray River catchment dams, with resulting low allocations to New South Wales Murray and Murrumbidgee General Security water licences. Strong demand has seen the cost of leasing annual allocation rise to around $380 per megalitre in recent weeks.

It appears that growers of local horticultural crops who rely on leased allocations are committed to leasing water and will not let these prices cause any change to their program this year. The most pain will be felt by wine grape growers, many of whom will see the entire benefit of rising wine grape prices cancelled out by the extra cost of leasing water.

Meanwhile, the cost of buying permanent High Security irrigation entitlements also rose throughout 2018 and is currently around 40 per cent higher than this time last year. The market appears to have paused in recent weeks, with a number of larger parcels being passed in at auction. It appears that smaller parcels of between 20 and 30 megalitres are currently more saleable than larger parcels, which is in contrast to what has occurred in the past. This suggests some depth of demand from local irrigators wanting to top up their water holding.

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North and North-West Queensland

The toughest phase of the decade is confronting the north and north-west Queensland grazing property markets.

In the post GFC market, potential property purchasers sat down, diligently prepared budgets and considered the business fundamentals of potential property acquisitions. Meanwhile, there have been some moderate capital gains despite the below average seasonal conditions.

Of late, the due diligence dynamic has changed. The market has the potential now to change gears.

Up until now, the general market commentary has accepted the motivations as to why a purchaser has paid a certain price for their new property. No matter if a reasonable price or strong, the market has accepted the reasoning, then rationally moved on and taken these sales in its stride. This may change.

Despite the steady value increases in recent years of say five to ten per cent, the perception of a strong price can be anywhere from ten to thirty per cent higher than existing market parameters.

Earlier this year, local buyers were paying prices in accordance with existing market parameters. Then, for a while there was the odd southern buyer paying a higher price to secure some grass. You might think that this is elementary market dynamics. Yes, you are right; the southern grass buyer story has been flogged around more than a 1970s vinyl on the record player!

The choice now of the local buyers to pay such a premium is where challenges for the market arise. This is a phase of the property market cycle where the free market can either price in rational growth or make history and enter boom territory.

There are a number of different buyer scenarios emerging at present:

1. Local grazing families that have just spent ten years consolidating their balance sheets and lowering their risk. Some have sold assets to reshape their balance sheets, others have paid down debt:
2. Local graziers seeking replacement stations as a result of one of their stations having been acquired. Negotiations are continuing in the Greenvale area for the Singapore Alliance military training area;
3. Southern graziers seeking lower cost country to breed and more reliable seasonal conditions;
4. Southern graziers who have had country acquired seeking replacement opportunities;
5. Investment vehicles seeking to capture the favourable returns. Now that southern country has increased in value, their percentage yield returns have dropped, making the north look attractive until yield compression kicks in again.

For potential sellers, this is a pretty good phase of the market cycle to offload an asset.

This does not mean that it's time to be greedy; buyers are not that euphoric or naïve. There is a lack of mid to large-scale cattle stations on the market at present. The ball is in the seller's court to make the decision to sell a station or hold. This can be a tough decision, particularly when there is the potential for achieving a higher price in the year to come.

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Rural Northern Territory/Kimberley

The only pastoral sale to have settled over the past two months in the Northern Territory was Margaret Downs (608 square kilometres, Sturt Plateau district), however we are aware of two other medium scale cattle stations in the Roper district that are currently under contract to two different buyers and another larger scale lease reportedly in the final stages of negotiation (details remain confidential). Legune Station (1,789 square kilometres, northern Victoria River district) was also reported in the press in mid-October as having contracted for sale. There remains an estimated 77,890 square kilometres (or 7.789 million hectares) of pastoral land being actively marketed for sale throughout the Northern Territory and Kimberley. This comprises 21 pastoral lease operations in the Northern Territory, two leases and one Aboriginal owned station in the Kimberley region of Western Australia.

The Margaret Downs sale showed around $4 million for the property (excluding added value of stock and plant) and was picked up by some experienced young local pastoralists looking to become more permanently established in the live export region. The property has a fairly consistent spread of predominantly red to brown gravelly earth forest country traversed in the west by the seasonally running Dry River and has traditionally carried a mixed Brahman herd of around 5,000 head. There is reasonably good groundwater and good potential for lifting productivity.

After several months of negotiation, Brisbane based AAM Investment Group (AMMIG) has reported in the press that they've contracted to purchase the pastoral lease of Legune and will sublease part of the property back to the Seafarms Group to develop their huge prawn farm. AAMIG funds, invests and manages a series of agricultural and commercial development assets for its members including livestock supply chain investments, regional saleyards and commercial property developments. In late 2017, Seafarms negotiated with the then station owners for an option to purchase the property on the basis that a 30-year renewable non-pastoral use permit was granted (under the Northern Territory Pastoral Land Act (PLA)) to permit the development of the first stage of Project Sea Dragon (PSD) aquaculture facility. At this stage, we understand that Seafarms will now sublease from the new owner, AAMIG (subject to settlement), that area of the property dedicated to the PSD development. AAMIG reports that they will continue to run the live export dedicated cattle herd on the balance pastoral lands which will also be further developed for pastoral use. Full details of the contract price remain confidential, however is expected to reveal a continued demand for live cattle export dependant pastoral country in the Northern Territory with the exception, however, that this deal did offer a point of difference with the proposed additional income stream offered by the proposed sublease to Seafarms. We note that the final investment decision by Seafarms for PSD is yet to happen and that the Legune location will be utilised as the land based prawn grow-out facility which will have to operate in conjunction with other ancillary aspects of the PSD project at other locations in the Northern Territory and parts of Western Australia including:

- quarantine, founder stock facility and back-up breeding centre at Exmouth (Western Australia);
- breeding program proposed to be located at Point Ceylon at Bynoe Harbour;
- hatchery site proposed to be located in Darwin;
- processing plant proposed to be located near Kununurra;
- export facilities utilising existing port infrastructure by third parties at either or both Wyndham and Darwin.

It may be just as well that Seafarms managed to secure their Diversification Permit for the prawn farm when they did because the potential for developing pastoral leasehold land for non-pastoral uses under the PLA may have just become a bit more difficult to achieve with recent changes to the Non-Pastoral Use Application Guidelines. This particularly relates to additional reporting now required on the potential impacts of development on regional biodiversity with any environmental issues under the Environmental Assessment Act (Northern Territory) or the Environment Protection and Biodiversity Conservation Act (Commonwealth) possibly needing referral to the Northern Territory Environment

Protection Agency. In addition, public notifications of a proposed change to the pastoral use will also require Land Councils, registered native title body corporate and registered native title claimants to have 90 days to comment (which is 60 days longer than under the original provisions).

Diversification Permits relate to development of parts of a pastoral lease for uses other than for the pastoral use such as:

- production of agricultural products that are not going to be utilised on the pastoral lease but used for off-lease consumption;
- horticulture activities;
- forestry activities.

On the freehold grazing, agriculture and horticultural property front, the market has been quite active with a couple of recent sales, all to local operators. Edith Springs (9,620 hectares, 38 kilometres north-west of Katherine) resold after four years for around $4.56 million (last sale was $4 million, however the property was a little run down in the current sale) and we are aware that a 20,000 hectare-plus Crown Leasehold property not far to the west of the latter has also just contracted for sale off the market to a local buyer after reasonable competition from other locals (full details remain confidential at this stage). There appears to be reasonable demand at present from Territorians looking to secure grazing or farming blocks in the $2 million to $4.5 million price range.

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