HERRON TODD WHITE RURAL

Rural

December 2019

Overview

With 2019 all but closed, it has been an interesting year dominated by weather related events and the water debate. Add in the banking enquiry and adjusted lending conditions now becoming evident with many borrowers, one could easily think the market values would be under pressure to reduce but that has not been the case in 2019.

In most regions and commodity classes, near or new record prices have been evident this year. The cost of debt is low from an interest rate perspective however the real cost to repay debt as we know is a borrower's marginal tax rate and that has not altered however often appears overlooked in any discussion around affordability.

The team has reflected on the past 12 months' activity and provides some thoughts for readers with an overall view about being cautious in the current market as there does appear to be some recent sales which have not fully met vendor expectations and a consolidation year in terms of asset value growth would not surprise.

As we look into 2020, the team will host events in Melbourne and Brisbane in the last week of February to once again provide the formal picture of the year that was and also provide our perspective of the 2020 year. We are also pleased to advise that the team from Mercado Analysis will be providing a commodity overview on the main classes of beef, sheep, wool and grains to help put into perspective some of the background to what is influencing buyer and seller activity.

We wish all clients in the fire affected regions our best and hope for rain for them all soon as we do the entire eastern states and hope everyone can have a safe and happy festive break.

Dry weather and numerous bushfires dominate the landscape at present on the NSW North Coast.

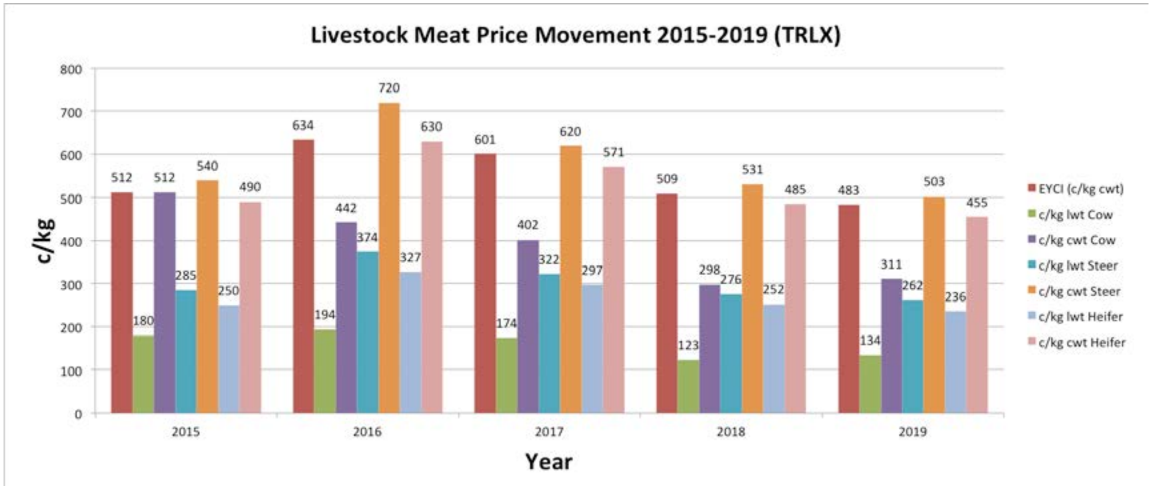
Tamworth

We are continuing to witness a decrease in cattle livestock prices for unfinished cattle in the Tamworth region with the general quality of the yardings being well below average. We have researched the Eastern Young Cattle Indicator (EYCI) for the past five year period together with store sales from the Tamworth Regional Livestock Exchange (TRLX) for cows, steers and heifers which shows a downward trend across most beef cattle classes.

The table below shows the results of our research.

NSW North Coast

Dry weather and numerous bush fires dominate the landscape at present on the New South Wales North Coast. The rural property market theme during 2019 has continued the strong demand for macadamia nut tree farms and cattle grazing properties. There have been some sales of specialised properties. These include a 12.14 hectare going concern wholesale nursery property at Rous of which the real estate interest sold for $1.925 million in November, and a 183.4 hectare contract breeding unit piggery supplying weaners located at Kilgra which sold for $2.84 million in August. The upcoming auction in December 2019 of a 5,974 avocado tree farm at Fishermans Reach will be of much interest for this market segment.



RURAL

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The sugar cane farm market remains relatively subdued with continued low world sugar prices during 2019. The dry conditions during 2019 will likely have some negative impacts on the 2020 New South Wales North Coast sugar cane crop, particularly in the Broadwater and Harwood Mill areas. The continued flow of subsidised Indian sugar onto the world market disappoints many in this industry. On a positive note many growers, particularly in the Condong Mill area have been able to take advantage of dry conditions by cutting the cane green and bale a significant proportion of the post harvest leaf residue.

Soya bean growers will be attracted to reported grain pricing of $800 to $850 per tonne delivered for edible standard beans. Adequate soil moisture for planting will be an issue.

Mildura/Sunraysia

There is always some unpredictability about how rural markets will perform and 2019 has been no exception.

The recent sale of Koleya Park, a 2,170-hectare dryland farming property in the central Millewa district, highlighted that even in a region where drought has resulted in successive crop failures there is demand for farming land. The buyer came from a southern region where the significant value growth over the past four to five years has made buying large parcels of land very expensive and was prepared to offset the risk of lower yields in a marginal rainfall area with the potential to buy a relatively large parcel of land at an affordable price.

The sale price, which equated to $610 per hectare for the arable land component, shows that values in the Millewa have remained stable over recent years, despite the impact of drought.

Most dryland farmers in the local Millewa region have had an extremely poor year, but you only have to drive 100 kilometres south from Mildura to find crops that received maybe an extra 20 millimetres of in-crop rainfall and as a result produced reasonable yields. While there have been few sales in the Mallee region during 2019, we expect that demand in the Mallee will remain strong. A couple of notable sales in the Chinkapook and Piangil West areas of the Mallee showed higher values from previous levels, with better arable cropping land showing between $2,600 per hectare and $3,275 per hectare.

In the Western Division of New South Wales, we continue to observe strong demand for well improved properties, particularly if they have some standing feed. A pending sale of two significant properties in the Menindee district and two in the Ivanhoe district will show much higher values from previous levels. One of these properties previously sold in 2017 and if the current sale proceeds, it will show around a 20 per cent increase in value over two years.

Irrigators throughout the Murray Darling basin have all been affected by low irrigation allocations and the resulting high cost of leasing water via the temporary market is causing plenty of headaches for the vast majority of local horticulturalists. After several years of water being able to be leased for below $200 per megalitre, this cost rose to around $400 per megalitre at the start of 2019 and looks set to finish the year at over $900 per megalitre.

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Most Victorian Murray irrigators expected that they would once again receive close to 100 per cent allocations in 2019/2020 and the mid-year realisation that they are only likely to receive around 50 per cent has pushed many normally self-sufficient irrigators into the temporary market.

The high cost of leasing water will cause some growers of lower value crops such as white wine grapes and dried fruit to re-assess whether they can continue growing these crops next season. There is a real risk that the dried fruit industry will contract significantly in 2020 should the cost of leasing water remain above $500 per megalitre.

Values of citrus orchard and table grape vineyards appear to have remained relatively stable for the past 12 to 18 months following a significant spike between 2014 and early 2018. Returns from these crops have been strong, which has helped build some resilience among growers.

The high cost of leasing water and concerns around water availability has not surprisingly put a brake on the expansion plans of many irrigators. Further contributing to this slow down was the decision by the Victorian state government in late 2018 to apply a moratorium on the issuing of Water Use Licences for greenfield development sites in order to cap the extraction of water. A number of dryland properties that are suited to horticultural development have now been sitting on the market and it appears that we are now well past the peak for this class of property.

However, there is always an exception, as shown by the recent sale of a 977-hectare parcel of land in the Robinvale district at a price that shows a healthy capital gain over its previous sale in 2015. This property was developed many years ago for large scale vegetable and salad crop production and is currently being used for that purpose, however is understood to have been purchased by a local table grape growing family intending to complete a large scale vineyard development.

The strength of this sale is likely to have been influenced by the current moratorium on issuing Water Use Licences to develop virgin land in Victoria.

Southern Queensland

We would have liked to finish the year on a positive note, however reflecting back on the 2019 year it has been one of the driest years on record unless something dramatically changes in the next few weeks. In the south-east part of Queensland much of the talk is not when the drought will likely break but how much longer producers can sustain such conditions. There has been plenty of talk surrounding how it is impacting rural producers and many of the town water supplies are on restrictions or at critical water levels.

According to the Bureau of Meteorology recording station, the following annual totals for the 2019 year to date as at mid-November are summarised:

- Toowoomba Airport - 324 mm (12.96");
- Clifton – 155.6 mm (6.2");
- Texas Post Office - 130 mm (5.2");
- Charleville – 228 mm (9.1");
- Cunnamulla – 157.2 mm (6.3");
- Dalby – 154.4 mm (6.1");
- Gatton – 187.5 mm (7.5").

Many of these areas in south-east Queensland have only recorded circa 25 per cent of the annual average rainfall, which has been further compounded by previous dry years. The issue now with the days warming up and strong south-westerly winds has been bush fires in the southern part of the state. Large areas have been impacted including property losses in local townships, surrounding grazing country and state forestry plantation assets. All we can hope for by Christmas is some reprieve to dampen the risk of continued fires.

The drought conditions are undoubtedly having an impact on broad market confidence with a weakening in sales trends in the south-east. Those areas that have been lucky enough to be under a storm cloud or received flood waters down the western channels systems are currently experiencing strong demand. In the Quilpie district, there have been a number of transactions over the past six months including:

- Conliston, a 28,500 hectare holding sold for $4.8 million or $168 per hectare;
- Retreat, a 142,601 hectare holding that reportedly sold for $17 million excluding livestock and equipment reflecting $119 per hectare;
- Clifton Station, a 48,800 hectare holding sold for $4.15 million WIWO;
- Canaway Downs, a 93,316 hectare holding selling for $8.13795 million including plant and equipment;

Many of these transactions reflected a strengthening in values which is likely created by those chasing grass. Further east however there has been a weakening sales trend. In some areas, country in the Meandarra and Southern Downs areas, particularly those reliant on surface water, are now fully destocked. Despite the poor conditions the market to date seems to have been holding, however should the seasons not improve in 2020 there is a real and high risk that low buyer confidence may weaken value trends. The low costs of borrowing and low Australian dollar has assisted with underpinning the market to date.

On a finishing note and given that this is the last issue before Christmas, it is only appropriate to touch on the pork industry.

Pig meat consumption in Australia has continued to rise and is second only to the rise experienced in poultry consumption. Pig meat consumption fell in 2017/2018 to approximately 25 kilograms per capita but expected growth forecasts that pig meat consumption per capita will increase to 27 kilograms per capita by 2020/2021. The outbreak of African Swine Fever (ASF) is likely to impact on future demand for Australian pork but also for blood stock as impacted countries such as China try to rebuild their herds. It's been reported that China will have a shortage of 10 million tonnes pork by the end of the year.

Despite the real risk of ASF reaching Australia, some growers are seeing it as a real opportunity to expand by acquiring other grower facilities or converting and expanding existing facilities into larger full farrow to finish operations. Australia is very well positioned to capitalise on these market and growth potentials in the industry especially as it has suffered to some degree over the past few years with falling pig prices and increased operational costs. However, should the industry be successful both our border and farm gate security must be at the highest standards. We are aware of two recent transactions of grower facilities in the south-east being circa 5,000 to 6,500 Standard Pig Unit (SPU) operations that on analysis reflected between $120 to $200 per SPU.

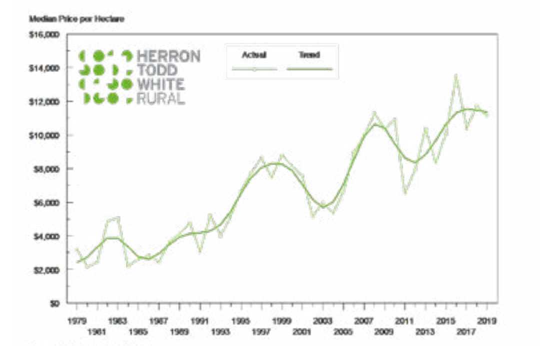
We wish all our clients and readers a merry and safe Christmas and a successful and wet new year.

North Queensland

The market continued to surprise for coastal horticultural land in far north Queensland throughout 2019. Despite sustained low sugar prices and continuing volatile banana prices in 2019, sale numbers and sale prices were quite healthy. The sale of a $5 million grazing and banana farm on red soil country west of Innisfail was a welcome boost for the beleaguered banana industry, still dealing with the outbreak of the Panama Tropical Race 4 fungal outbreak further south in the Tully Valley. There have been very few sales of going concern banana farms in recent years, which is mainly due to the fear that the TR4 outbreak may spread, however to date, this has been unfounded. A sale of this magnitude is a strong vote of confidence in the industry, particularly as the sale was to a long term local grower. A total of six sales over $1 million during 2019 was a positive sign for the local Cassowary Coast sugar, banana and grazing industries.

Figure 1 shows the median per hectare sale price of rural property sales in the Cassowary Coast region. Reported sale prices included in the analysis do not necessarily relate directly to land values, as the source data does not separate out the value of any buildings, machinery, crop or livestock included in each sale. Our analysis covers all rural properties 20 hectares or more in size and excludes sales that are not arm's length transactions, such as intra-family and part sales.

As a general trend, Figure 1 shows fluctuating value growth during the 1980s, strong value growth through the 1990s and then a steady fall from 1999 until 2003, which coincided with a collapse in world sugar prices. Values rose strongly again from 2003 to 2008, before dropping through to 2011 when sale values also reflected property damage from Cyclone Yasi. Though values have tended to recover since 2011, prices over the past three years can best be described as flat. The median rural property price thus far during 2019 stands at around $11,000 per hectare. Over the entire period from 1979 to 2019, rural property values in the region have increased at a long term average trend



Source: HTW

Figure 2 shows the median per hectare sale price of rural property sales in the Cassowary Coast region according to the type of property. Property types are distinguished according to land use codes assigned by the Queensland Department of Natural Resources, Mines and Energy. Despite considerable inherent fluctuation due to the often low numbers of sales involved, the figures indicate a distinct price differential for cane and horticultural (banana) land over and above grazing uses, with the latter providing the floor to the market. That differential all but disappeared during the early 2000s, but is now back in evidence again.

Source: HTW

The period from 2004 to 2008 saw the plantation timber industry become a major buyer of farming lands in the Cassowary Coast region, with three timber companies in particular acquiring over 10,000 hectares of mainly former cane land for plantation forestry purposes, at values ranging from $9,000 to $12,000 per hectare ex-structures. The Tully Sugar Mill responded to the loss of significant areas of productive sugar lands by purchasing a number of larger farms, even though in some instances timber companies were paying up to 30 per cent above those that traditional sugar producers were willing to pay. With the demise of the MIS forestry companies there was some easing in rural land values as many of the plantations involved were subsequently bought back to revert to cane or banana production, but this process has now well and truly run its course.

Though Cyclones Larry and Yasi severely damaged crop production and property in the region, the ultimate effect of the cyclones on underlying market values was relatively slight. This arises as

The market continued to surprise for coastal horticultural land in far north Queensland throughout 2019.

the market over the longer term tends to factor in events such as floods and cyclones that are prone to occur in the region from time to time.

Land values for sugar cane farms currently range between $8,000 and $12,000 per planted hectare inclusive of stools, exclusive of buildings, crop and machinery. Land suitable for conversion to banana production is towards the upper end of this range. Land values for banana farms currently range between $20,000 and $25,000 per planted hectare inclusive of stools and irrigation, exclusive of buildings, crop and machinery, although sales are non-existent in the Tully Valley and very limited further north in the Innisfail locality.

North West Queensland

The north-west Queensland flood affected 13.5 million hectares in February.

Demand peaked within a month of the monsoonal event. The expectation was that a substantial body of grass would grow post flood. This would have been the only available grass in Australia given the national drought situation.

Demand was driven by out of region buyers. Initially phone calls were for agistment or country to lease. There was no country available for lease or agistment. The only option for drought affected graziers was to purchase country.

This saw six downs blocks sell within a short period thereafter. It was sell time! Not every property sold. Those who played hard ball too much still have their country. Those who saw the opportunity of a good price took the money that was on the table and settled their deal.

Towards the end of the rain event, the rapid drop in temperature created havoc for livestock. Cattle had endured enough, but the temperature drop is reported to have had the main impact.

This cooler temperature is thought to have impacted grass response too. As a result, not the greatest body of grass grew. Of note is a rain event in June where there were warm temperatures that followed. More grass (and better quality) grew in the ensuing period.

For the purposes of market perspective:

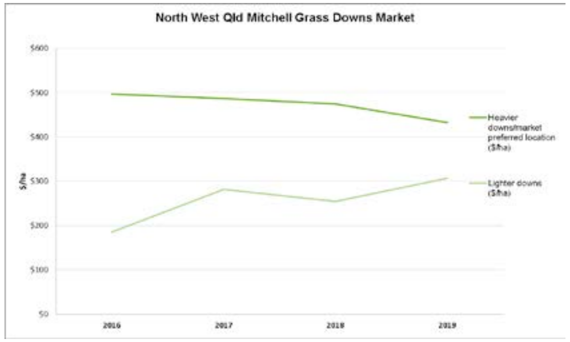
2016 Mitchell Grass Downs market conditions:

- Sales included a full range of lighter downs to good quality Flinders River frontage country.
- Sales included highly sought after country to the north of Julia Creek and Neila (golden triangle market area).
- Local buyers were active.

2019 Mitchell Grass Downs market conditions:

- High volume of lighter to mixed downs transactions.
- Best sale is a good piece of country, however not frontage country. Better country was not for sale.
- Etta Plains has not been included (emerging higher and better agricultural use).
- Apart from Etta Plains, there were no sales in the golden triangle to the north of Julia Creek or Richmond.
- Dominant demand from out of region buyers.

The graph below shows the top and the lower priced sale hectare rates for each year.



Going into 2020, sellers and buyers will need to have their wits about them and do their homework properly before making property sales or purchasing decisions.

There are many dynamics at play that need to be considered. Food for your thoughts includes:

- Low interest rate environment - the cost of debt is low. Bond markets indicate that this phase of the cycle could be around for a while. This is positive in the first instance, however what happens down the track when there is a rise in interest rates?
- Cattle prices - market sentiment is positive for the northern cattle prices and market security.
- Rain - well, there are a few storm clouds brewing, so we shall all wait and see. If it does rain all the way down the eastern seaboard, the market chatter is that this downs country will come off the boil. Perhaps there will be a couple of new owners who will sell to retract their business back to their home territory. On the other hand, perhaps their home country will take a while to recover once it rains. Having moved cattle to the Downs, they may do very well on the back of strong cattle prices and keep their new Downs blocks. The market may

just level off for a while too.

- Northern development - there are irrigation schemes on the horizon. Should these come into play, then the northern agricultural sector (and property market) will take advantage of new opportunities that arise.

The new year brings many challenges to north and north-west Queensland.

Compliments to all for the 2019 Christmas period and the wet season.

West Australia

As the year draws to an end in Western Australia, a number of records are being set and unfortunately, it is at the speed that the headers are able to cross the paddocks.

The 2018/2019 near record harvest and high commodity prices resulted in many farmers seeing in this year on a high. This translated into confidence in the market place and a number of properties were purchased along with a number of new machines and big boy's toys. Unfortunately, like other states, the climate has not been kind this year and many areas have had very low rainfall which has resulted in a poor start and finish with yields significantly down as a result.

Some areas also suffered from frost with crops being cut for hay and in one area I heard that a producer donated the hay to eastern states to help feed stock in the drought ridden areas. As they say, every cloud has a silver lining and in this instance, we witnessed the testament to the character of country folk that although facing adversity, you can still lend a hand to those worse off.

Some sales of note this year included the settlement of the Nicoletti cropping and grazing portfolio and the Galati family have expanded their vegetable growing operation to Lancelin north of Perth. There is also a recent report that Erregulla Plains at Mingenew is now under offer to an un-named corporate purchaser. This property has been owned and operated by the Smart family for a number of generations and spans 22,191 hectares of the mid-west cropping and grazing regions. After the Nicoletti sale, this will be one of the largest transactions in Western Australia for 2019 and is evidence of the continued purchaser demand from international and corporate purchasers in the Western Australian cropping regions.

Elsewhere in the state, a sale of note in the south-west that transacted early in the year was a vineyard and wine storage property located at Clews Road, Cowaramup that sold for $7.6 million. The property includes 104 hectares of land which is predominantly developed with mixed variety vineyard and wine storage. The property has significant dams supplying irrigation to the vineyard and is located within the Margaret River wine region which is known for premium quality wines.

We have also continued to see the clearing of timber plantations and reversion to grazing or cropping as commodity prices and demand for quality land continues. Costings vary from $500 to $1,500 per hectare dependant on the works program and standard of rehabilitation required.

Overall, the year which started on a high has finished on a low for some however as noted above it was great to hear about the spirit of the bush so many people talk about and I am sure everyone will spare a thought for those who are doing it tough this year either due to drought or fires.