HERRON TODD WHITE RURAL

Rural

March 2019

Overview

The 2019 selling season has had a slow start in most regions due to the various seasonal conditions and both vendors and buyers appear to be a bit more circumspect just now.

The ongoing issue and debate in the water market is also having an impact on sentiment but it is the cost of temporary water in the southern water markets which is a bigger concern for growers with permanent plantings. The impact on returns where there is a reliance on temporary water access coupled with the dry season and potential policy changes on water access and use all suggest that the assets that have been hot in the market place in the past two to three years may slow down in activity at this time.

The other national influence that is still being played out is the environment and conditions applied to access debt capital post the Royal Commission report release. International capital is still around but not at the same scale as two years ago. Domestic non-debt capital sources are continuing to emerge with new and smaller funds running or being launched. It's unclear how that capital will fill any potential gaps created by a fall in traditional debt funding and I will be watching this space with interest over the next six to 12 months.

On a brighter note, the commodity outlook for sheep, wool, cereals, pulses and the majority of horticulture all look positive. Now we just need rain from about an hour north of Longreach to Bairnsdale in Victoria and everywhere in between to help kick some confidence back into the sector more broadly.

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NSW CNNV

Tamworth

The drought in the Tamworth region continues which is having a significant impact on the number of rural properties on the market and the level of demand from prospective buyers. The short to medium term seasonal outlook which is looking like the dry conditions may continue into winter is also concerning for buyers.

Since the start of 2018, there have been approximately 25 rural and rural lifestyle sales of property in excess of 200 hectares in the Tamworth region, which is down from approximately 48 rural and rural lifestyle properties sold in 2017/2018. The predominant buyers are in the lifestyle category who have off-farm incomes, with some neighbor-to-neighbour sales also occurring.

With very low on-farm incomes over the past 18 to 24 months, and in some cases over 24 months, sellers are under increased pressure with evidence to suggest they're needing to reduce asking prices to meet the market.

At this stage, with a low turnover of sales transactions, it is harder to gauge how the drought is affecting rural values. There are a handful of properties purchased in 2016 and 2017 that have been re-listed for sale. When or if they sell will give a better idea of how the drought is affecting land values.

Boorowa Source: Herron Todd White

Mudgee Source: Herron Todd White

From the sales that have occurred, it appears that the median hectare rate has steadied and remains firm. We are yet to see a significant drop in rural land values.

Central Tablelands

The Central Tablelands NSW market appears to be tracking as it did throughout most of 2018, where the number of properties being offered to the market appears to have eased and the volume of sales is less than we were seeing in 2017.

Whilst the supply of properties has eased, demand

Michelago Source: Herron Todd White

for rural holdings remains reasonably strong at present. This demand has been evident at recent auctions where there are still a good number of active bidders contesting.

This balance of supply and demand for rural property has buoyed value levels somewhat, despite the present poor seasonal conditions.

The (fewer) rural holdings that have sold recently indicate that value levels remain strong and the general levels we saw the market climb to in 2017 and 2018 remain in place.

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Mildura

Sales activity appears to have slowed considerably over the past few months. This is not surprising in the dryland cropping and grazing sectors given the impact of the drought in western New South Wales and poor crop yields throughout north-western Victoria. As expected, few properties are being put to the market, with prospective vendors biding their time until better seasonal conditions arrive before presenting their properties to the market for sale.

In the horticultural space, there has also been little recent sales activity. Late summer is typically a slow period, as many of our local producers are preoccupied with their harvests. Early reports suggest average to slightly above average yields for almond crops as well as table and wine grapes. Good news for wine grape growers are prices of around $600 per tonne for most red varieties this season, which is 50 per cent higher than what was being offered two years ago and should ensure continued investment by growers. The improved prices are less pronounced for white varieties such as Chardonnay.

Irrigation water availability remains a key concern. The cost of leasing water is currently just under $500 per megalitre, which is a significant cost for those irrigators reliant on leased water. The risk of ongoing dry conditions in the catchment is affecting confidence and is considered to be contributing to a reduced number of horticultural property sales. Local agents also confirm reduced demand for greenfield sites, due mainly to the spike in water prices.

A large-scale almond orchard in the Renmark region, which has further development potential, is currently being advertised for sale. The outcome will be keenly watched as it will be a good litmus test for corporate investment in the local horticultural space.

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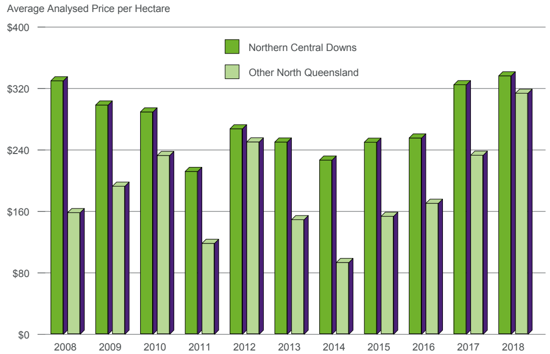
North and North-West Queensland Grazing

The graph below shows the trend for north and north-west Queensland grazing land values for the last cycle.

Key features:

- Northern Central Downs is the mot efficient market to depict the trend.
- Other North Queensland areas had greater variance due to the composition of sales occurring. For instance, in the last year, there has been some very good quality basalt sales, yet nothing from the lighter forest areas to balance the data set.
- Post GFC, the trend initially saw less settled sales activity and a softening of value rates.
- The effects of the temporary ban on live exports and the drought can be seen as creating the dead cat bounce trend (2011 and 2014).
- Grazing property market values have been on the rise in recent years.

NQ Grazing Property Prices*



* Properties > 2500ha
Source: HTW Analysed Sales

- The cattle market peaked in September 2017. Since then, the drought has influenced the market and there has been a 30 per cent softening in the commodity rate.
- The market has been confident that once a traditional wet season occurs, the cattle market would recover from its drought affected position.
- Contrary to the commodity trend, the market increased its value rates for the underlying grazing land. Confidence in the industry and its future was showing.
- There is a phase in this cycle where returns on assets compress to a point of zero economic profit. Based on the drought affected cattle market, this may well have been reached in the last year.

- Depending on the season this summer, land values were generally expected to continue to rise into 2019.

Cattle Prices

* Average NQ saleyard price of 200-330 kg D2 Restocker Steers
Source: RBA, MLA

So, now that this event has occurred in north and north-west Queensland, where to for value rates?

- Given that it is still dry in Central Queensland, Southern Queensland, New South Wales and the Northern Territory, a unique position has arisen whereby north Queensland and north-west Queensland have at least got some grass. Possibly the only area in Australia with grass!
- Despite the impact on cattle numbers in the north, demand from southern and western graziers for agistment is increasing. Agistment is only one option being discussed. Others include leasing, profit share and delayed payment for the northerners to acquire the cattle. Either way the opportunity for the land to generate income is there.
- The demand for such rental opportunity is not expected to outweigh the economic performance of the land had the event not occurred.

Property market efficiency:

- Market efficiency refers to how quickly (and to what degree) a market reprices an asset based on new information.

The share market is the most efficient market we know. Brisbane unit prices following the flood were efficient in that stakeholders could follow the trend. The sale volume of units in that market affected by the flooding was such that buyers could enter the market at a substantial discount (up to 30 per cent in some areas) and capitalise on the market recovery over time.

North and north-west Queensland grazing property markets have a much lower volume of sales from year to year.

The area affected by the flooding can be cut into two market areas: north of the Flinders Highway and south of the Flinders Highway. The area to the north of the Flinders Highway is tightly held. It has moderate to high levels of grazing productivity. The local market knows this and the investor market knows this.

Should an opportunity arise to acquire a cattle property in this area, if the first person does not pay a prudent asking price then the second will. Current grazing land value rate ranges for small to mid scale stations are from $308 per hectare to as high as $495 per hectare for frontage country.

The area to the south of the Flinders Highway does have some good creek systems. Seasonality risk does increase though. There are more settled sales in the area from Winton to Hughenden and Julia Creek than the northern market area.

Mitchell Grass germination has been good in areas. Time will tell the quantum of grass budget and also how much Flinders Grass grows. This mix of grasses provides opportunity for central Queensland, southern Queensland and Northern Territory graziers until such time as seasonal conditions improve in their home districts.

This area has endured some varied seasonal conditions in recent years and there are graziers who are ready to exit, so the area is likely to see a number of sales occur.

Existing value rates range from $260 per hectare to $345 per hectare for country with channels. Again, while grass is in demand from central, southern Queensland and Northern Territory graziers, a diminution in value rates as an immediate result of the recent events will be minimal.

The current market of demand from external districts (unfortunately being so dry) is a unique situation for the affected areas of north and north-west Queensland grazing property markets.

When considering recovery from the catastrophic event, the affect is primarily on the businesses and infrastructure. Yes, infrastructure is part of the property. Even if a vendor throws his hands in the air and sells with no infrastructure, then the market is not efficient enough to say if there is any diminution of value – even five to ten per cent in the short term.

At this point in time, the affected area finds itself in a unique position where the unfortunate seasonal conditions of central, southern Queensland and the Northern Territory and the market inefficiency is expected to provide insulation from a negative impact on north and north-western Queensland grazing land value trends.

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Darling Downs

Despite the floods in the north, very little or no rain has been received in the southern part of the state.

For many in the south it has been disappointing not to get any benefit from that extraordinary monsoonal weather event. Some falls of up to 50 mm were recorded north of Quilpie but that band of scattered rainfall generally went north of the Carnarvon Ranges.

The continued dry and hot conditions are just making the season all that much harder to manage, with some western holdings now trucking water. In our travels, there aren't too many properties that aren't supplementing livestock to various degrees either using cotton seed, pellets or liquid supplements.

The Australian Bureau of Meteorology issued its latest forecast for the March to May period, which generally identifies a 60% chance of southern Queensland receiving median rainfall being sub-40%. It also predicts the chance of exceeding the median maximum temperature of higher than 80%.

60%

chance of receiving median rainfall for southern Queensland being sub-40% for the March to May period.

So, if you were a betting person you would think the odds are favouring continued hot and dry conditions. This is unfortunately a time where difficult decisions will need to be made given we are on the tail end of the summer storm season. The possibility of rain to relieve producers currently feeding their core herds on the hope of rain is now becoming less likely. The positive that may come from the rain in the north is the likely opportunity to lease or agist country from graziers in the south.

Despite the dry conditions, market demand remains strong, but generally for better quality country. Kevin Graham Consulting on behalf of David Campbell recently took the aggregation of Wongalea, Romona and Topwater to auction on 14 February. The 5,842 hectare aggregation of the three non-contiguous holdings were offered as a whole which was purchased by an Augathella grazier for $14.5 million. The aggregation was quite diverse with country ranging from superior Brigalow scrub to areas of poorer forests developed to both broadacre cultivation and areas of remnant timber. Wongalea was also developed with a licenced 999SCU feedlot and Topwater was developed with coal seam gas wells with a conduct and compensation agreement annual payment received.

Broadly, agents are stating that enquiry remains strong despite the seasonal condition. Some western Queensland graziers are actively in the market seeking country to spread their herds however there isn't much country available in the south that would fall in the category of a grass buy. Let's hope by the time this goes to publication that Cyclone Oma brings some relief.

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Echuca-Moama

Sales activity in the Goulburn Valley has spiked on the back of strong corporate activity at a couple of levels: one as the hunt for water security heats up with a significant corporate interest making multiple large-scale acquisitions on dairy properties with strong underground water reserves; and another corporate player looking to acquire former dairy assets with a view to re-purposing them for other irrigated pursuits.

It will be interesting to see how this activity affects the local dairy industry given the incredibly high temporary water prices and significantly reduced terms of trade in that particular sector.

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South-East Regional Australia

The rural property market in south-east regional Australia has been providing exceptional investment and growth for many owners over the past 24 to 36 months, however more recent data is beginning to display a patchwork of growth and static activity depending on commodity type, location and buyer profile. In recent years nearly everything brought to market has achieved exceptional money after short marketing periods.

There may be numerous answers for this patchwork activity such as tightening credit conditions from the banking Royal Commission, reduced business confidence, softening commodity prices, sky rocketing inputs such as feed grain at over $400 per tonne or irrigation water at over $500 per megalitre or drought conditions, but all indicators suggest that the rural sector has had the hand brake pulled on, albeit if only for a little while or until a major event occurs.

We are seeing a lot more secondary type assets now hitting the market and it is a time for buyers to be aware and ensure they undertake sufficient due diligence. The majority of quality rural assets have now been extracted from the market and the remainder of owners will hang on for the next cycle. These secondary assets may have a lot of "development potential", marginal country, no or limited security of water or access or less than ideal improvements or make up. Buyer, beware!

Despite this, the few sales that are occurring continue to maintain strong value levels at the present time.

Assuming only a relatively short period of high input prices, the dairy and viticulture sectors appear to be the sectors to be part of over the coming years.

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Western Australia

A number of above average growing seasons has resulted in strong demand from both local and corporate investors. Values are likely to remain strong as demand surpasses supply. Reduced debt levels have allowed expansion opportunities for local purchasers and driven investment in land development and farm infrastructure. Corporate demand has continued with investors looking to diversify portfolios across the country. Investors will be keen to improve productivity and efficiency as they take a longer term view to sustained success.

A number of large rural landholdings are currently on the market as sellers seek to capitalise on recent high returns and favourable growing conditions. There are currently six broadacre grazing or cropping properties on the market over 4,000 hectares, including Minnie Downs at Varley, Kenandra Farm at Beacon and Ripplemead Farm at Bruce Rock.

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In the pastoral regions, the Balladonia aggregation in the Shire of Dundas is currently on the market with an asking price of $8.5 million. The iconic station includes significant plant and in excess of 5,000 head of cattle.

The dairy industry took another blow this month when Western Australia's largest milk producer, Ross Woodhouse, announced that he was seeking expressions of interest for the sale of his 13 farms covering over 4,000 hectares. Mr Woodhouse's unexpected departure from the industry comes after as many as eight farmers reportedly retired or left the industry in 2018.

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Northern Territory

The first pastoral transaction to settle this year following negotiations over Christmas is Pine Hill Station. The 2,686 square kilometre perpetual pastoral lease is located 180 kilometres north of Alice Springs with Stuart Highway frontage. It sold for over $11.2 million WIWO with around 5,400 head plus plant and equipment. The vendor, a Filipino property developer who owns other agricultural and grazing assets in New South Wales, sold the property after just under three years ownership to a local pastoralist who first moved to the region back in 2016 and retains fattening country in Keith in South Australia. At this stage and accounting for the improvement to the property during the vendor's tenure, the sale looks like showing a lift in land value since the April 2016 sale in the order of 20 to 25 per cent which appears to be in line with the general range of pastoral sales over that period. The marketing agent reports good interest from a number of local pastoralists.

The same vendor is also marketing for sale Epenarra Station (2,658 square kilometres) which is reasonably well located midway between Alice Springs and Mount Isa (about 550 kilometres each way). It has reportedly attracted strong interest over the relatively short marketing period (about one month for EOIs) with a deal reportedly now in advanced stages of negotiation. As historically is the case, pastoral country in the Alice Springs region remains tightly held. Despite the occasional dry spells, if stocked sustainably and with appropriate herd genetics, the gross margins per kilogram of beef produced in this region tend to be superior relative to the northern regions of the Northern Territory.

At the date of writing, settlement was still pending on Consolidated Pastoral Company's contract for sale to Vietnamese agricultural and finance company, CAIT, for Auvergne and Newry in the Victoria River District and Argyle Downs across the border in the Kimberley. We are also aware of off-market negotiations for the sale of a small number of pastoral holdings (in aggregation) in the Alice Springs district and also some strong offers on a Top End pastoral lease (details confidential) which we will monitor with interest.

After around five years of fairly consistent strengthening in Northern Territory pastoral land values, confidence to invest appears not to have waned at all despite record high value levels (specifically $/AE of productive capacity or beast area values). However, our analysis of pastoral sales over this period reveals a clear disparity in the wide range of perceptions buyers have of what constitutes sustainable long term carrying capacity. If a consistent approach is taken to the assessment of productive capacity across the range of country types and climates on pastoral blocks throughout the Northern Territory and Kimberley (as this valuer attempts to do), then significant variance in $/AE of carrying capacity resulting from a sale becomes clear. For example, we analysed eight typical live export dependant northern breeder blocks that sold over a two year period beginning in February 2017. These properties had some differences relating to access etc, however were generally considered to be broadly comparable and should be expected to show a value range in $/AE of perhaps 30 per cent (for land fenced and watered). However, the actual range was 87 per cent from $745/AE to $1,390/AE (average was $1,190/AE). We note that these two sales were only one month apart, of similar scale, similar overall access and were located in comparable live export dependant districts. However, our investigations reveal that one property was purchased at a realistic carrying capacity assessment, while the other was purchased at a price reflecting an unsustainable one. The test will come when these properties eventually resurface on the market, potentially some years down the track. Their weaning rates and land condition (monitored by the Pastoral Lands Board) will tell the story and potentially, so will the sale price. Caveat emptor!