Rural

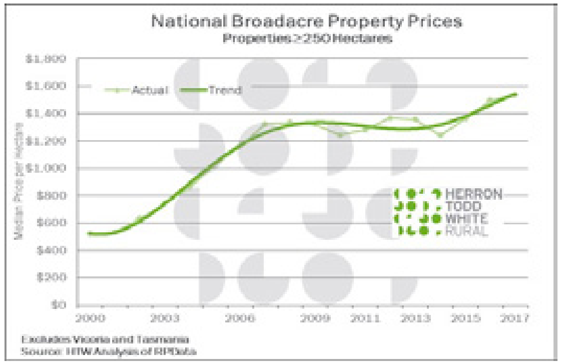
HERRON TODD WHITE RURAL

Overview

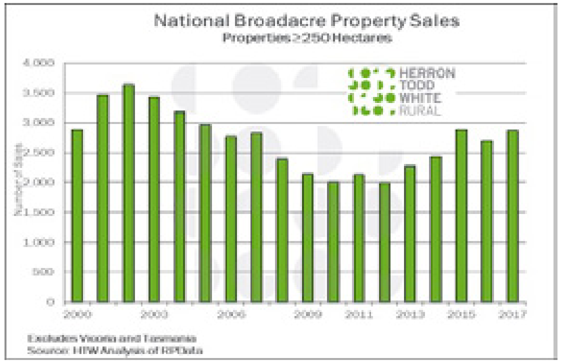
By the time this Month in Review is out, we will have delivered our national overview of the market for the 2017 year, and what a year it was. The trend line for value over the medium to long term with growth rates by state is as follows:

2000-2017	NSW	7.0%
National 6.6%	QLD	8.0%
	WA	3.2%
	SA	6.4%
	NT	5.3%

Nationally the picture is reflected in graph 1 below.



The other side of the story is transaction volumes and area as reflected in graph 2



Sales volumes are back to 2005 to 2007 levels, just before the last cycle peak:

Year	No	Hectares Sold
2015	2,886	13,532,397
2016	2,699	21,322,561
2017	2,868	10,255,971

So do higher values, tightening supply and market enthusiasm in the sector mean we will see history repeat? Some of the current economic fundamentals are different to 2007/2008 but will they be maintained? Many clients I speak with are certainly scratching their heads about how to reconcile some of the asking prices in the market. For those attending our Melbourne or Brisbane events, we will endeavour to help interpret the market place.

A summary of the national market will be posted to our website following the presentations.

The FIRB announcement on 1 February adds another layer of intrigue to the market and many have already commented on the possible impact. Just another factor for buyers and sellers to consider moving forward.

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Toowoomba

2017 was an exceptionally positive year for the rural market in general which increased significantly over the year. Despite ongoing political issues, mostly at a federal level, (which may begin to sap confidence if these linger well into 2018) and a very dry second half of 2017 through southern Queensland and northern New South Wales, we saw property sales occur at what can only be classed as strong levels. These sales were not confined to one sector but were occurring across multiple sectors. Broadly I think it would go unchallenged to suggest that the overall market in southern Queensland and northern New South Wales increased by 10% to 20% during 2017.

We also saw evidence that suggested that over the course of 2017, the market in some of the more highly regarded regions (i.e. the plains country around Moree and on the inner downs west of Toowoomba) went to new levels, with multiple sales in recent times of smaller non-viable holdings. The majority of these sales reflected the emergence of quite a substantial level of adjoining or near neighbour premiums in the order of 15% to 25% above the market value (or is this now becoming the new market value?).

What a difference a short break over Christmas makes. Contrast those comments with the position we find ourselves in now. 2018 has opened up very quietly with few new listings coming onto the market. However from a Queensland perspective, the storm clouds are beginning to gather metaphorically speaking with a great deal of angst anticipated over the course of the next few months.

The big dry is continuing with no sign of a general break on the horizon. Much of the state is now being impacted and the recent run of hot weather will burn any feed that may have developed through recent storm events. The one saving grace is that historically a large percentage of dry spells have broken in the autumn so we still have some time up our sleeves yet. Fingers crossed.

The storm clouds I refer to are completely man made and come in the form of proposed changes to the current vegetation management laws. Whilst we are not yet privy to what the government is proposing, the money is on that it will mirror what parliament attempted to introduce in 2016. Whilst it was ultimately defeated then, this time it would appear that the government has numbers on its side.

Identified as the *Vegetation Management (Reinstatement) and other Legislation Amendment Bill 2016*, in a nutshell, it centred on the following:

"The Bill prohibits clearing for high value agriculture and irrigated high value agriculture, reinstates protections for high value regrowth to freehold and indigenous land, extends the existing protections for regrowth vegetation in watercourses to the Burnett-Mary, Eastern Cape York and Fitzroy Great Barrier Reef catchments, reinstates parts of the riverine protection framework under the Water Act 2000 and reinstates the reverse onus of proof and removes the mistake of fact defence for vegetation clearing offences. The Bill also makes amendments to the Environmental Offsets Act 2014. "

Source:www.cabinet.qld.gov.au/documents/2016/Aug/ResVegBill/Attachments/Report.PDF

If the legislation is reintroduced in the above format and is proclaimed into law, any portion of freehold land identified as Proposed Category C will be reclassified as Category C – either High Value Regrowth Vegetation or Least Concern Regional Ecosystem and will be unable to be cleared without approval. The resultant direct impact on the market value of that portion of land could therefore be considerable.

Added to the uncertainty, the previous proposed legislation attempted to reverse the onus of proof to effectively require landowners to prove their innocence. It also attempted to eliminate the defence of mistake i.e. clearing undertaken in good faith but ultimately on the reliance of incorrect mapping that may have been provided to the landowner.

Constantly amending or changing legislation (especially if it is highly controversial) because of the political whims of the government of the day naturally creates uncertainty. Uncertainty has the potential to impact on development which in turn will lead to a stifling of investment that may ultimately impact on the value of any property or business caught by any resultant change to legislation.

This proposed vegetation management legislation has the potential to impact across many geographical locations and multiple industry sectors including the grazing, broadacre farming and irrigation communities as expansion will be curtailed. We believe this legislation will be regressive in nature and therefore any landholder caught will be greatly impacted. This has the potential to create a two or multi-tier market through no fault of the landowner.

A multi-tier market leads to a whole lot of other issues, not the least of which is the inability of land owners to further invest in their properties because they are unable to access sufficient capital to reinvest. This has the potential to have a snowballing effect on land values generally and specifically on those properties caught by this legislation.

The one weapon a land owner has at their disposal is a Property Map of Assessable Vegetation (PMAV). PMAVs are a great management tool and greatly assist to insulate properties (and by association the long term viability of entire business enterprises) against any adverse impacts expected to arise through the introduction of this legislation if it is in a form identical or similar to the 2016 proposal.

The market in general has historically looked favourably on the existence of PMAVs on rural properties and I believe that barring a change to the way PMAVs work, they will really come into their own in the future.

We wait with bated breath and hope that the government does take seriously the bush's concerns. The bush just wants certainty going forward.

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North Queensland

Necessity is the mother of invention. Maybe northern agribusiness capitalism is proving this philosophy right now.

Perhaps the evolution of agribusiness capital is here. Yes, the best thing that can come out of this drought is the changing of focus towards positive mindsets and evolution of collaborative business and regenerative methods. The interactions between natural land systems, resources, business activity and property investment have some serious dynamics. Stakeholders are living in challenging and changing times.

Much of this evolution has been brought about by a mix of a generational changing of the guard with a lack of regular rainfall, sprinkled with an ever changing regulatory framework.

For years there has been discussion about the ageing demographic of farmers and graziers. In the past ten or fifteen years, the agricultural sector has seen a return of the younger generation.

For many reasons, the 1980s and 1990s was an era in the agricultural economy when there was a lack of young people seeking the rural lifestyle, its spills and to enjoy its fruits. The human capital equation is not the same anymore. This is not to say that the rural sector is overrun with job applicants and all the family wanting to return. There is simply a healthier demographic now than there was.

The collaborative families are enjoying this change. There are older heads of businesses working with the younger generation to pass on the baton. In these cases, the pride is eminent. Poking out from under the shade of a drought resistant hat bash is a squint of satisfaction in the direction of the inter-generational business relationships. The drought has been a catalyst to this next phase in both the farming and grazing sectors.

If you take a look at how the drought has affected some grazing properties, the use of fiscal grants has repositioned those assets so that they are now better watered for the long run. When this drought kicked in, there were so many issues that arose. In particular, dams dried out, grants were snapped up, pipelines laid and tanks installed.

Yes, at that point in time, it was hard to see past the issue of getting water to drought stock and any grass that may offer substance for survival. Now, those pastoral areas have lower risk watering systems and better water point distribution.

Drought is not a good thing - it is devastating - but it certainly has been the catalyst for change and evolution of these assets. It's been a tough start for the new business owners and managers. They certainly will not forget the lessons learnt either. Perhaps, that too is where a silver lining is.

It would seem that the next generation does respect the lessons learnt and taught by the older generation, however are keen to implement changes in technology to achieve operating cost efficiencies and yet embrace regenerative practices to improve their land condition and animal health. A win-win situation. Couple this with a low interest rate environment, good industry stewardship and things are looking pretty good for the future of agribusinesses in the north.

Evolution for the better is not just arising in the grazing sector. Take a look at the Burdekin sugar cane farming practices and farm designs. No matter whether the claims of affect on the Great Barrier Reef by farming practices are true or not, the pressure on farmers along with the high cost of electricity has bought about substantial changes in farm designs and practices.

Change is not easy; the catalyst may not be pretty and may not even be tangible, however there are benefits to business production costs as well as the environment, which are complementary.

What these changes mean for the respective property markets will be interesting. Awareness arises when facilitating change. Be it an awareness of farm drill and watering system design on a sugar cane farm or the interrelationship of rangeland land system utilisation and infrastructure on grazing properties; if the market has been naïve to these factors in days of old, perhaps the new wave will price in the spread of these factors in their due diligence.

An analogy that may be helpful to potential buyers is taken from buyers of motels:

"If you cannot achieve a good occupancy and room tariff rate due to the condition of the motel rooms that you are looking to buy, then why pay full price to buy the motel in the first place? The economics have to stack up and be reflected in the purchase price."

Given the tough agribusiness conditions experienced in recent years, the catalyst of change has certainly arrived and is influencing buyer due diligence, industry direction and appears to be giving rise to a changing property market environment.

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Bundaberg
High demand for land suitable for macadamia trees in the areas close to Bundaberg has now been absorbed and there has been a rapid increase in the volume of sales of cane land beyond a 20 kilometre radius of the city centre. Properties in these secondary locations are now being acquired by macadamia growers with values commonly exceeding $20,000 per hectare, well above the level recognised for equivalent property by the cane land buyer.

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Echuca
Graziers and croppers continue to be active in the market with limited demand for dairy. Interestingly from a water position, results from the Victorian Water Register are at odds with local brokers' experience with February trade results seeing a decline in values, particularly for Goulburn 1A and Murray Zone 6 water, while brokers are generally reporting strengthening demand. It will be interesting to see how this plays out with the result likely to be significantly impacted by trading rules and trade through the Barmah Choke. In all other systems, demand has continued to push to record levels with NSW General Security Water close to $1,400/ML and some trades recorded for high security water in excess of $4,000/ML.

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Mildura
Last month we highlighted the high confidence levels currently evident throughout most of our local horticultural industries. One of the positive outcomes from this is the renewed demand for small to medium parcels of land within Sunraysia's irrigation districts.

The downturn in the wine grape industry coincided with drought conditions during the mid 2000s, with the result that many properties in the irrigation districts were either dried off or cleared during the past decade. The area planted to wine grapes in the Sunraysia and Swan Hill region peaked in 2006, however is estimated to have declined by 25% (equivalent to around 6,000 hectares) between 2009 and 2015. The area planted to dried vine crops reduced by around 2,500 hectares during the same period (source: SunRise Mapping and Research report).

The result was a patchwork of dried off and under-maintained vineyards, which was not only unsightly but also meant a lot less economic activity and revenue for bodies such as Lower Murray Water, who deliver water throughout the irrigation districts.

Source (RPData.com)

Buyers have mainly been locally based table grape growing families, however we have also seen buyers move from the Robinvale district, 85 kilometres to the south-east of Mildura, who were finding themselves priced out of that market. From 2008 to 2012, many of the dried off vineyards in the Mildura region were almost unsaleable, however recent sales have shown levels of around $17,000 to $20,000 per hectare during 2016 and 2017 and closer to $25,000 per hectare now. Robinvale growers who are faced with a market prepared to pay over $45,000 per hectare for equivalent land see the Mildura region as affordable.

This recent activity will provide opportunities for many local businesses supplying items such as machinery, sheds, coolrooms, trellis materials etc.

A number of high value horticultural sales were finalised in late 2017. A large scale property at Colignan, primarily planted to citrus but also including areas of wine grapes and table grapes, sold on a walk in - walk out basis, including a modern citrus packing shed. This property had been developed over a 40 year period and was one of the district's larger holdings, with a planted area of around 400 hectares. The sale price reflects levels in excess of those indicated by other recent sales of smaller properties, confirming the strong interest currently evident from corporate buyers.

Meanwhile, a 430 hectare almond orchard at Lake Powell was purchased by a UK based private equity firm. The sale price was at the upper end of the range of other sales over the past three years, notwithstanding the fact that the price of almonds has reduced over the past three years from over $10 per kilogram to around $7 per kilogram, which is in line with the longer term average price. The vendor purchased this property, which was in a somewhat under maintained state, in 2012 for approximately $3.8 million. At the time of this earlier sale, almond prices and confidence in the industry were very low.

The wine grape harvest is currently in full swing, with reports that yields for white varieties are slightly down on average levels. Prices for contracted growers are expected to be up for most varieties by around 10% over 2017 levels, although it is interesting to note reports that some wineries are offering higher prices to uncontracted growers, as they seek to ensure they obtain their required intake of grapes this season.

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Southern & Western New South Wales

The general market in southern and western New South Wales continues to show strengthening signs. Generally we have seen the level of sales activity drop slightly, however this is a reflection of a lack of stock rather than a softening of market interest overall. In far western New South Wales we are seeing new benchmark levels set in dollar per DSE rates achieved. For example, the sale of Berta Station which is a 43,500 hectare holding with a carrying capacity of 10,000 DSE located 120 kilometres south-west of Broken Hill on the South Australian border recently sold for $5.38 million which equates to $124 per hectare overall. From a productive capacity basis this equates to $527 per DSE. These rates are generally seen in tablelands country in far higher rainfall areas. Like all market activity there are always outlying sales and it appears that this sale is one of those, however it does indicate the willingness of buyers in the current market to stretch the normal excepted boundaries in terms of a value perspective.

Two examples of the level of strengthening within the current market are some revaluations we are now undertaking. We have recently visited a large mostly arable grazing property in the Cootamundra area which we last valued in June 2016. Our current assessed value for the same property has risen by 26.7% over the 19 month period, with a number of solid large-scale sales to support this assessment. This equates to 1.4% per month over 19 months which is quite phenomenal. We have also revisited some larger grazing properties to the north-east of Broken Hill which were last valued in late 2014. Our current assessment indicated a 28.8% rise in overall value which equates to 9% per annum - still a strong result.

We are often asked about the market, where we are in terms of the property cycle and whether buyers should be active in the heated market that currently exists. Generally our view is that as long as buyers are informed, knowledgeable about current market activity and aware of the most likely movements in value levels over the next five years (which when we peek this year will be reasonably flat), then participating in the current market can be justified. When building a business plan for a rural purchase at present, it would be prudent not to allow for any capital growth in the short to medium term as this same situation occurred back in 2008. Our experience then indicated that generally the market in New South Wales peaked in late 2008 and general value levels softened slightly and then were steady for a number of years. There were a number of corporate purchases made at this time and our relationship with these assets over the ensuing years showed that the original value levels were not reached again for approximately six to seven years. While we are not saying that the market will perform exactly the same, it does have a history of repeating and our expectations are that a similar scenario will result over the coming 12 to 18 months. The difference in 2018 is that our interest rates are at record lows and are still encouraging investment from within the industry, so we may just see the golden period continue for a bit longer yet!

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