Rural

HERRON TODD WHITE RURAL

Southern Queensland

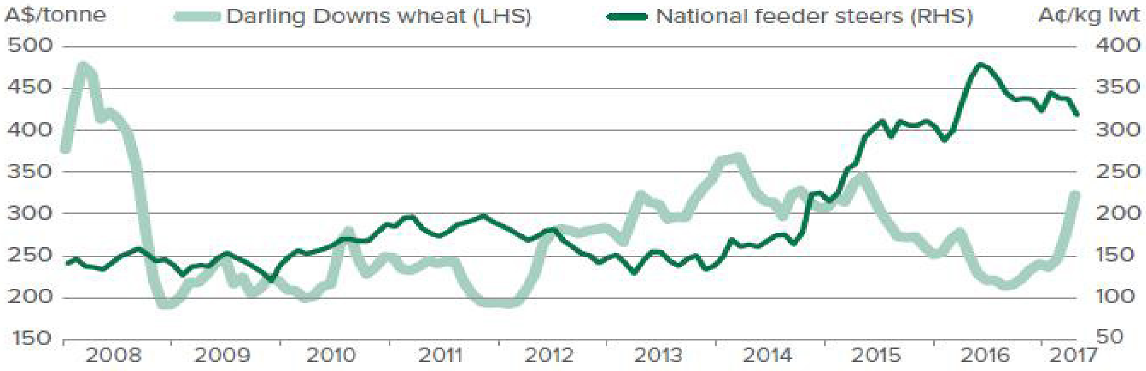
By now some early spring storms should have passed through but here we are in the middle of September and still no sign. Any rain received now will more than likely be of no benefit to winter crops and may hinder any producers who are in a position to harvest, especially those with any early crops. Travelling throughout the Downs over the course of the past two to three weeks, I was quite surprised at the amount of crop that was a) actually planted and b) still struggling on. Crop conditions certainly improve the further west you go and it has become obvious that the tail of Cyclone Debbie which extended to the inner west through the Meandarra/Inglestone/Moonie regions provided a great deal of benefit back in March. That event effectively topped up the moisture profile in the region thus guaranteeing a winter plant. However it has all but remained dry since with very little in crop rain received over the course of the past three months. Some crops sighted appeared in good condition with very little stress evident and while there is every possibility that some commercial returns will be evident, the overall tonnage will be way down.

The big dry has placed huge pressure on the feedlot game. With an all-time record of almost 1,100,000 cattle currently on feed (86% of national capacity) including 57.5% of those in Queensland (90% of Queensland capacity), the price of feedstocks are on the way up as evidenced by the below graph. Whilst this will provide opportunities for Southern Australia to tap into expected shortfalls in the north, freight will form a big component of the cost. Those operators with long forward feed orders will be insulated to a degree but it is expected to hit home with smaller custom feeders and short term operators. Adding to this volatility, the opportunity for sorghum is both very uncertain and a long way off. Southern Queensland and northern New South Wales need a big break now.

We have previously alluded to the strengthening irrigation market in Southern Queensland with a rush of sales evident over the course of the past few months. Recent local sales that we can now report include:

- Bandawing: A 760 hectare holding near Bowenville sold for $8.025 million to NAPCO. The holding adjoins the Wainui Aggregation to its south-west and will be a great add on. It contains some 310 hectares of developed flood and 84 hectares of pivot irrigation underpinned by a good mix of viable water rights. The sale price appears to be generally in line with other recent purchases.

Figure 4: Feed grain and feeder steer prices



Source: MLA Lot Feeding Brief August 2017

Rural

- Campbells: a 937 hectare holding at Tummaville recently sold for $12 million to Chinese interests with other holdings in the general region. The holding is developed with 430 hectares of spray irrigation and a further 170 hectares of flood irrigation, again underpinned by a viable mix of water rights. This sale can best be described as fully firm especially given that some months ago when it first came onto the market, the general expectation was somewhat less. We also understand that the same interests have acquired other holdings in the region, but we are not in a position to confirm this.

There are still more unconfirmed sales in the region that are yet to filter through and will be reported on in future, however it is like a light bulb has just been switched on. The attraction to the Inner Downs in our opinion appears to be that they just don't make any more of this country and we need to get a foothold. We expect that this will be the driver of further sales in the following months.

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Western Victoria and South Australia
Rural market activity continues to display strong confidence in western Victoria and south east South Australia with buoyant prices continuing to be paid in nearly all commodities with the exception of dairy and poultry, which remain slow following the milk price cuts and retreat of Baiada from Victoria in 2016.

Dairy farmers remain cautious in their operational management and are seldom looking to expand their land holding in southern Australia despite some farmers maintaining reasonable returns. This sector remains largely reliant on improved international terms of trade and seasonal conditions.

In the cropping sector, the Wimmera and Mallee regions of Victoria appear to be set for another good season following good winter rains and a cool growing season. The presence of canola flower is currently abundant as farmers prepare for windrowing and harvest. Frost damage remains a risk and murmurs of some damage through the Mallee is evident. Mice are likely to again be a problem for farmers this harvest. Traditional higher rainfall areas such as the south-east of South Australia and the western districts of Victoria in some areas have suffered from water logging but will likely still experience a good season. Strong prices continue to be paid in both the corporate and private sectors for cropping country, with Warakirri Asset Management recently purchasing approximately 8,000 hectares near Boort in an off market transaction and the most recent sale of cropping land around Horsham showing just under $10,000 per hectare improved for a smaller add on block. Two assets of note on the market at present are the Hassad cropping assets on the Yorke Peninsula and Eyre Peninsula in South Australia with an expected combined value of circa $70 million. These assets in addition to Raby Station in NSW, follow Hassad's recent sales of Clover Downs and Kaladbro Station.

The grazing sector continues to perform strongly on the back of maintained strong lamb and wool prices, despite the drop in beef price from circa 650 cents per kilogram carcase weight in June 2017 to today's price of 515 cents per kilo. Graziers remain largely in expansion mode with demand currently outstripping supply of quality grazing land in most areas. Some sales such as a few around Penola and Robe in the south-east of South Australia are displaying a circa 30% increase from prices paid 12 months previously.

The sleeper sector appears to be viticulture which has largely flown under the radar for the past 12 months despite improving prices and increased demand. The sector has largely been overshadowed by the hype of demand for other horticulture assets such as table grapes, almonds, citrus and avocados in warmer climate regions such as the Sunraysia and Riverina. Recent sales in the cool climate South Australian regions of Coonawarra and Barossa, Tasmania's Tamar Valley and Victoria's Pyrenees regions are continuing to display varying levels of improvement in value for quality wine grape plantings with some vineyards displaying 30%

plus increases in value in the past 12 months. This remains a sector to watch over the next 12 months as corporate buyers shift their focus.

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Echuca

Rental yields across the local market vary markedly depending on the motivation of the landlord. Many handshake agreements are between older farmers looking to gradually wind down and depending on the relationship with the tenant they may be happy to let the property at an amount that essentially covers the cost of the property (for smaller sized or unusual parcels) on the basis that the tenant is maintaining things such as weeds, applying fertiliser and ensuring that the property is being run in line with district best practice.

In areas where land is scarce there tends to be stronger competition and this can result in higher prices being paid, although interestingly the rental might be offered to a neighbour with whom the landlord enjoys a good relationship in favour of higher rental from a neighbour they despise.

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Mildura

With new investors on the agri sector the market has seen an increase in leasing activity across many commodity classes. This month the team has been challenged to review their local market and provide a snapshot of what is occurring, rates of returns, terms evident, and drivers of the sector whether sale and lease back or buy to lease. We have also seen renewable energy projects very active across many parts of the country and what impact this is having on the rural lease market.

There is currently strong demand for horticultural assets from both local and international corporate buyers. These buyers have a sense that the current strong returns being generated from key Asian export markets to Asia will be ongoing and are also attracted to our stable political climate. A number of these transactions have involved lease back agreements, with the vendors keen to capitalise on the improved land values and the purchasers more interested in getting a consistent return and not having to worry about the production risk.

The resulting yields for horticultural assets have mostly shown around 8.5%, with some as low as 6.5% and some above 10%. Given that these are intensively managed operations, involving permanent plantings with sophisticated irrigation systems, we would expect yields to normally sit above 8%.

To date, leasing evidence for horticultural properties has only involved large enterprise properties (greater than say 200 hectares of plantings). The smaller end of the scale is still dominated by family run businesses and these owners are reluctant to trust the management of their properties to a lessee.

Leasing of smaller dryland properties is much more common. The main driver of this is the ageing nature of the farming base, coupled with the trend to move to continuous cropping. Many older farmers are not prepared to justify the cost of buying the specialised seeding and spraying equipment required for this type of farming operation and so choose to lease out the farm.

Younger farmers are more prepared to take on the risk of buying better equipment and crop larger areas, but as a result cannot afford to buy additional land. Leasing of additional land has become popular as a result. Typical lease agreements in the Mallee region of north-western Victoria involve five year terms and commencing rents of around $75 per hectare to around $100 per hectare, which shows a yield of around 5% to 6%. We expect this trend to continue to grow.

One of the more interesting recent developments is the growth in demand to lease arable land from companies wishing to establish large scale, flat plate solar farms. To be attractive, sites must be relatively level and be sited within close proximity to a high voltage power line. There have been multiple sites in north-western Victoria and south-western NSW selected by these companies. While it is not yet clear how many of these will proceed, they all appear to be offering very attractive long term leases, usually of around 30 years, at rents which are well above levels on offer from more traditional farming tenants.

It will be interesting to see how the market in the renewable energy sector evolves. In some ways it would seem more logical for the solar proponents to simply buy their sites, however this has not been seen to any great extent yet. We expect that there would be strong buyer interest in a securely leased solar farm site, given the strong rents and long lease terms currently being offered.

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Country NSW

Market conditions are still strong in central and western NSW despite the prolonged dry weather event currently in place, resulting in winter crop non plant and crop failures across the north. The line is apparent from Parkes south, progressively getting better the further south you go, whilst the north of the state ranges from marginal to zero crop and limited stock feed options.

On a positive note, the final tranche of the Cobbora Holding Company (CHC) property auctions was held on Thursday, 14 September 2017 with a full clearance. The market was strong with well above expected results achieved on the offered properties. The recent auction catalogue and final offering generated $10.9 million, a further sign of the underlying strength of the rural property market at present. The entire sell down of the project has now realised a total of $70.8 million for the NSW State Government.

Several recent sales we are aware of:

Curraweela, Taralga - sold at auction in Goulburn by Elders Real Estate on 18 August 2017 for $1.238 million. Curraweela is a 441 hectare part open cleared part (say 60%) dense recreational timbered property located 18 kilometres north of Taralga. Our analysis of this sale indicates $5,250 per hectare for the better open arable basalt third of the property.

The Bridge, Borenore - sold at auction in Orange on 30 June 2017 for $7.8 million. The auction was very well attended and included a number of active bidders. The Bridge is a productive 613 hectare grazing property located 18 kilometres west of Orange. The property features a substantial architecturally designed 5-bedroom dwelling (approximately 557 square metres) with extensive established gardens including a solar heated pool and a tennis court. This sale highlights the current strength in the market for such properties. It is also a reflection of the depth in this market.

The small farm / rural lifestyle market remains strong for well located properties with good lifestyle appeal. This is demonstrated by the sale of the 98.63 hectare Applegrove, Duckmaloi Road, Oberon, selling on 18 August 2017 for $1.16 million. Building improvements are limited to a basic set of cattle yards and machinery, with the sale analysing to a land value of $1.135 million. This market class is also currently very active in some places.

The recreational market for dense native timbered bush blocks across the Central Tablelands continues to track in that general value band of $275,000 to $400,000. We understand that the large recreational block Abarella, Burraga is under offer for $380,000. This is a relatively remote dense timbered recreational block with long frontages to both the Abercrombie River and Isabella River.

A recent re-sale that demonstrates the strengthening market is Wingarra, Bylong - a productive 910 hectare mixed farming property located in the Bylong Valley with some pivot irrigation and water licence, sold on 12 January 2017 for a consideration of $4.5 million. Wingarra previously sold for $4.175 million in September 2014.

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Northern Territory / Kimberley

Our recent conversations with a range of pastoral industry stakeholders including estate agents, property owners, potential investors and financiers, indicate a general consensus that the market for pastoral land in the Northern Territory and Kimberley must be approaching somewhere close to midnight on the property clock. Nearly every sale we've analysed over the past 36 months has shown value levels higher than the previous sale, but when will be see the inevitable fall in sale price? At some stage market sentiment is expected to become more cognisant of a market, the prime commodity of which has been gradually falling in value (EYCI down from $665 c/kg in April to 515 c/kg today or down from 717 c/kg same time last year; live export steers ex Darwin down from 380 c/kg in February to 320 c/kg today or from 350 c/kg same time last year). However, a recent visit to the Alice Springs region to analyse some cattle station sales has demonstrated to us that, at least over the past three months, we aren't seeing things slow down – yet. Sentiment remains strong.

The $13 million (WIWO) sale of Coniston Station, 285 kilometres north-west of Alice Springs on the southern fringe of the Tanami Desert has recently settled. The 2,170 square kilometre perpetual pastoral leasehold property sold to its well established pastoral neighbours with around 5,000 plus head mixed herd (Droughtmaster and Droughtmaster cross) and basic P&E. The motivation for the acquisition appears to have been improving efficiencies through increasing scale and there was also the opportunity to further improve the property (more water points, upgrading infrastructure etc).

The sale reflects the synergies achievable to the neighbouring owner. It is the most recent sale in the region and a leading one at that and also shows once again that the Alice Springs region remains as tightly held as ever. There was reportedly good interest at the auction and the under-bidder was reportedly also within range of the end sale price. Coniston follows on from the sale back in June of Napperby (which adjoins Coniston to the south) and which sold WIWO for $20 million to the vendor of Ambalindum and Numery.

Despite the weaker EYCI and live export prices, pastoral property values appear to be at top end of current market expectations. Typically we have seen a fair correlation between price of cattle and property values and despite the commentary above being a little contradictory to this, it is the general sentiment conveyed to us from the pastoral industry that as margins erode, then so too will profitability. However, the anticipated downward cycle is based on the assumption that market participants remain fully informed, but as shown many times over the past decade, this is a factor which cannot always be assumed. Buyer profile is an important consideration in the analysis of market activity, particularly one in which foreign investors (often with end commodity markets potentially far more profitable than prevailing traditional commodity markets) are such active market participants.

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