

Rural





Overview

Welcome to 2018 and I hope our readers have enjoyed a nice festive season.

How this year pans out on the back of a second very strong year in the agriculture sector will be interesting to see. Normally over the break we see activity slow down and transactions not really start to kick in until February, but such is the sector at present that there have been some people clearly working over the holiday season and there are new sales being reported already this season. The horticulture sector is the current flavour of the month with almost anything of scale and permanent crop related attracting strong buyer interest. This could be grapes, avos, citrus, etc. Strong underlying commodity prices, positive demand outlooks and relatively consistent input costs are helping the sector deliver strong earnings and hence attracting the interest.

On the broader acre grazing and cropping there has been a drying off again in many regions. Western Queensland has still has not broken to a good wet season and time is fast moving past when this may occur. Fingers are crossed that the current build up in the north can trigger much needed state wide rain. The winter crop program was down on the 2016 crop and some of the big money in the chick pea market has come out with tariffs imposed by India. So in short, there are a few emerging headwinds in this

sector. Beef prices are stable but down from highs, yet the sheep and wool sector remains very strong and not too affected as yet by the strengthening dollar.

This year is shaping as one where the trend line for values may start to waver in many regions and commodity classes. The team reports that in most areas around the country, sale values are now at all-time highs. How high they will go is the question for many market players this year.

As in prior years, we will endeavour to address this question in our annual market updates held in Melbourne on 28 February and Brisbane on 2 March. If you are interested in attending either event and have not received an invite as yet, please get in touch with me at rural@htw.com.au. This year we have Mick Keogh, Chairman of the Australian Farm Institute, as a keynote speaker. He will discuss the current opportunities in the sector and what needs to happen to help capture this nationally.

Contact:
Tim Lane - Ph 07 3319 4400

Southern Queensland

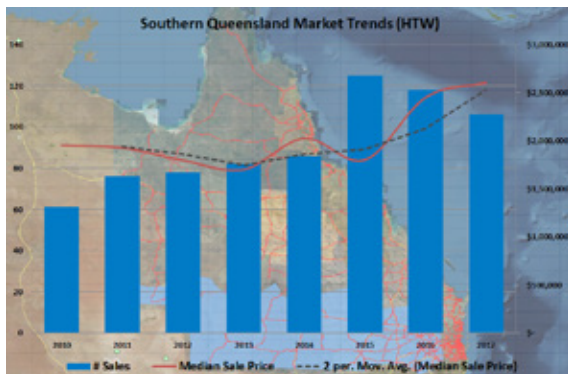
Well, another year has passed and generally the past 12 months saw continued strengthening within the agriculture marketplace of south-east Queensland. Strong beef prices at the beginning of the year primarily continued to drive demand. Similar levels

of property value growth were also reflected on the Inner Downs for broadacre dryland and irrigated farming country. Broadly some of the key points observed for 2017 were:

- Significant strengthening in land values for good quality assets for both quality finishing cattle country and also farming assets that demonstrate scale, quality and water;
- Bulk of the market purchases were by existing family operators acquiring additional country. The corporate market appears to have been dragged along and required to compete strongly for country with those near neighbours;
- Significant premiums over and above that previously demonstrated in the market for near or adjoining owner purchasers;
- Continuation of drought conditions in western Queensland has to a large degree hampered the market recovery;
- Significant capital expenditure on cluster or exclusion fencing in the southern and western part of the State;
- Some volatility in cattle pricing towards the end of the year has softened beef confidence, although from a high base;
- Evolving water market (surface and ground) in Queensland with trading of water rights increasing.



Looking at the southern part of the state from the Brisbane Valley through to the Northern Territory border for country greater than 1,000 hectares, there has been an increase in the median sale price of 7.5% from the previous year and 31% for the past two years. When considering the liquidity of the market, the number of sales has however decreased by about 10% each year. In part we consider this has been caused by the lack of quality listings available but also for country west of Charleville many landholders are holding off listing until seasonal conditions improve. On the other hand within the mixed farming area from Surat to Condamine and south to Moonie, sales in 2016 increased by 10% but notably appear to have weakened over the past six months. The 2017 year is likely to show a 10% reduction in sales from the previous year. Below is a graph showing the market trends since 2010 for the broader southern Queensland rural market:



Overall and just simply looking at the market data, with the continued weakening in sales volumes, are we approaching the top end of the market cycle? The volatility in commodity markets and the strengthening Australian dollar now trading at US\$0.80 (with some economists advising the Australian dollar is also currently undervalued) will ultimately impact on farm returns. On the other hand, the broader outlook of the agriculture industry is very positive with significant interest shown by corporates wanting to either secure consistency of supply, fully integrate into the supply chain or simply invest in agriculture as a passive investor underpinned by strong farm returns.

Now we are in a new year the market has been slow to kick off with agents advising limited enquiry for early January. The big hurdle at present on how the market evolves is the current extreme dry and hot seasonal conditions. Some storm rainfalls were received over the Christmas and new year period that provided some relief east of Roma but also some heavy rain and large hail caused crop and infrastructure damage east of Dalby. With no follow up rain to date for January, the country has dried off significantly and crop stress is also now evident broadly across the region. Graziers in western Queensland near Blackall and Augathella have been required to reduce numbers and are therefore sending large numbers of cattle to sale

as meat works reopen after the Christmas period. There is no doubt the present dry conditions are hampering market activity but unfortunately the current seasonal conditions are becoming more common than not. With some local authorities now in their fifth year under drought declared status, some graziers are at the point of thinking that it's now beyond a joke and it's got to rain one day.

Let's hope the seasonal conditions have changed for the better by the time this goes to publication and is old news and agriculture in 2018 enjoys a wet and prosperous year for all involved.



Contact:
Steve Cameron - Ph: 07 4639 7600



North Queensland

Now that the monsoonal trough is active and in the area, let the rain fall!

These past three months have been so dry. Many cattle station green dates have either just passed or are nearing.

A paradigm of selling down quickly and restocking slowly is emerging in the north. It is positive to note the shift and is further explored in the Wambiana trial updates (worth printing out for your wet season reading!).

The selling down quickly and restocking slowly strategy is growing and evolving from the old wait until Easter to see if it rains and then sell down. This proactive business leadership is a positive sign for the strength of the industry and its stewardship.

Also, it's a good strategy for land and pasture condition management. More and more graziers have been doing more with less in the past year.

Another emerging trend at present is to challenge the mindset of heavy stocking pressure to meet financial commitments. The result has been a degradation of pasture composition and land condition. By backing off the emphasis of loading up

country, the business performance indicators (gross margins and kilos per hectare) have been improving.

This trend in evolving the industry paradigms is likely to continue to change in the next year, either by leadership choice or as a result of the reduced herd inventory because of the good prices in the last couple of years.

Not only is the link between pasture condition, stocking pressure and business performance likely to continue to evolve in the year ahead, so too is the likelihood of property sale prices reflecting the land condition.

During the last year, we worked with various purchasers in their due diligence processes. In doing this, examples arose whereby pasture composition and land condition were very much factors in the eventual property purchase price.

Some business people have no intention at all of selling down. The business strategy behind this is to maintain and grow the enterprise scale even in the face of adverse seasonal conditions. These graziers know that they have to get bigger. They are confident in the long term outlook for cattle businesses.

Graziers who are looking to maintain or grow their numbers have been on the search for agistment country. Unfortunately, due to the general lack of spare grass, there aren't many options available. Agistment rates may rise substantially this year on the back of short supply. The same goes for country becoming available to lease.

Depending on how much and where the monsoon delivers the rain, this situation can be positive for the property market.

This is often a good phase of the property market cycle for the northern forest country, where southern graziers look north for the reliable rainfall. Watch these market areas this year for increased activity in the next year.

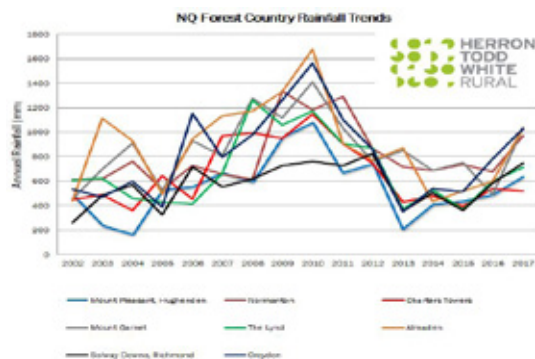
The wet season has started already north of the line from say Chillagoe and Mount Garnet west to Normanton. There has been a narrow band of rain events south along the ranges from Georgetown towards Hughenden.

It is interesting to note that there is quite a lot of variation in rainfall reliability in this area. The general market thinks that these higher rainfall areas have high seasonal reliability. As a point of interest, we



have sought to model this and test the detail from say the 2002 drought to now (16 years).

There are general seasonal macro patterns of 2005 (low rainfall), 2010 (substantial rainfall) and recent drought years. Take a closer look at which areas have the greatest range of variability.



Contact:
Roger Hill - Ph: 07 4724 2000

Echuca

Average yields and prices have done little to slow down the rural market in almost all markets save for dairy which continues to struggle under the weight of softening global commodities. While the cropping sector has been particularly bullish in 2017, graziers appear ready to join the party with several relatively

strong sales in the Riverina and central Victoria. Notably there has been a real depth in the market with corporate buyers and private owners competing to varying degrees across almost all segments.

Contact:
David Leeds - ph: 03 5480 2601

Central Tablelands / Southern Tablelands NSW

There may be a slowing of sales activity at the moment but this could be just that it seems slower because of Christmas, so, it's too early to say that sales activity is slowing.

I am currently about to value two properties for mortgage purposes that are sales and both of these show very strong rates per hectare. They both benefit from being located very close to (on the very fringe of) their towns of Orange and Young. I'm thinking that with the 2018 year off to a start in the Central Tablelands, with these two very strong sales being the starters, we can be saying that the market is still strong and isn't showing signs of steadying.

I see that in The Land article of 11 January 2018, "Strong Market For Locals", several well-known agents were quoted as saying the market has been showing quite unprecedented strength, at levels one may see only once in their career. I'm thinking this isn't overstating it and is fairly accurate for this market ending 2017 and starting off 2018.

Seasonal conditions: Relatively very dry at the moment.

Contact:
Craig Johnstone - ph: 1300 784 899

Central and Western NSW

The rural property market across all areas of central and western New South Wales appears to be continuing in a very bullish manner. Regardless of seasonal tightness the market demand continues to outstrip supply. We are analysing sales that are continually breaking records and well in advance of market expectation.

The cotton crop is developing well in the Macquarie and Lachlan Valleys. Yield expectations are sound and with cotton pricing well in advance of \$500 per bale many producers are selling forward with confidence. Tighter seasonal conditions are advancing sell off of livestock and increased numbers have put some pressure on returns.

Recent sales of note include:

Roadview, Narromine: 1,252 hectare cropping property located approximately 22 kilometres south of Narromine. Sold for \$4.2 million.

Edithville, Gin Gin, Trangie: 1,511 hectare flood irrigation and dryland cropping property located approximately 30 kilometres north-east of Trangie.



2,600 mega litres of Macquarie River general security water entitlement. Sold for \$8.45 million.

Old Narwonah and Myall, Narromine: 1,288 hectare flood irrigation and dryland cropping property located approximately 22 kilometres south-west of Narromine. 1,220 mega litres of aquifer water and 1,469 mega litres of Narromine Irrigation Board of Management Scheme entitlement. Sold for \$8 million.

Contact:

Allister Rodgers - ph: 1300 784 899

Western Victoria and South East South Australia

Following on from 2017, 2018 is likely to be another exciting year in the rural sector for much of the south-east of South Australia's and Western Victoria's land owners, farmers and investors. The market remains heated with demand significantly outstripping supply in most areas. Recent large scale transactions include Mt Shank near Mount Gambier (circa \$50 million WIWO) and Corinella's purchase of SAF's Lake Bolac cropping assets (circa \$14 million). Warakirri's purchases around Boort and Hassads Assets in northern South Australia continue to be the focus point for many conversations. Local and corporate sales continue to break price barriers and grazing sales above \$500 per DSE are becoming more common.

Livestock prices remain above longer term averages and grain prices appear to have passed the bottom of the market. Coupled with the current low interest rate environment and the global economic climate, the rural market appears to be only going one way in the short term. Despite many market participants' view that the market is heated and close to correction, supply and demand characteristics do not appear to agree, with demand significantly outstripping supply in these regions. As a result, 2018 is likely to shape up to be another big year.

Contact:

Angus Shaw - Ph: 03 5332 7181

Mildura

It is hard to see any reasons for the current buoyant rural property market not to continue throughout 2018. The current property cycle is remarkable for the fact that virtually all local commodities are enjoying above average returns, with the outlook for most commodity prices currently being very favourable. At the same time, there is a large pool of corporate buyers targeting Australian agriculture.

Buyers are actively chasing most types of horticultural property as well as cropping and grazing enterprises and appear prepared to pay historically high prices for properties that provide good economies of scale and have a good standard

of improvements. There also continues to be large scale greenfield development of almonds, olives, table grapes, citrus and to a lesser extent dried fruit, however the pool of available land for such development is getting smaller.

Some of the trends we expect to see during 2018 include:

- A large number of sales continuing to be negotiated in off market transactions, with both buyers and sellers willing to by-pass real estate agents. In most cases, buyers are directly approaching owners of properties deemed to suit their requirements.
- The price gap between highly improved and just average standard properties will narrow. It will get harder to find highly improved properties and buyers will likely become more pragmatic as a result.
- There will continue to be sales of wine grape vineyards where the purchaser intends to redevelop to a higher returning crop.
- As the market moves through the current cycle, there will be some properties purchased for prices that are subsequently viewed as being at above market levels.



The foundations for the current good export returns for commodities such as citrus, table grapes and almonds date back to many years of patient market development combined with the signing of free trade agreements with key Asian countries. The ability of growers and marketers to ensure all market protocols are met will be the key to maintaining these lucrative markets. Maintaining a competitive exchange rate will also be important.

The other main factor affecting the horticultural sector will be the irrigation water outlook. There was above average winter rainfall (and snow fall) during 2016 and 2017, which contributed to high allocations in the Murray Valley and readily available temporary water on the leasing market. The cost of leasing water has been mostly below \$130 per megalitre for the past 18 months. Forecasting future rainfall is beyond my brief, however history suggests that there will be a drier winter during one of the next few years and that at some stage, irrigators will have to face the prospect of paying more for temporary water.

One of the more noteworthy recent sales is of Petro Station, which is a large scale cropping and grazing property located in south-western New South Wales, approximately 60 kilometres north of Mildura. This property, held under NSW Western Lands lease, included approximately 8,400 hectares of good standard cropping country. The sale shows over \$900 per hectare for well regarded arable land, but

located in an area with an average rainfall of around 290 millimetres

Meanwhile, the purchaser of this property sold an 1,130 hectare parcel of mostly arable land adjoining the Robinvale irrigation district for approximately \$4,500 per hectare, which showed a healthy 240% capital gain in the three years they owned it. The purchaser of the Robinvale property is an established table grape growing family, who intends to complete a large scale horticultural development. This last sale highlights how quickly market sentiment in the horticultural sector can shift.

Contact:
Graeme Whyte - Ph: 0427 210466

Northern Territory

2018 in the Northern Territory and Kimberley dawns with another sale in the Alice Springs district reflecting continued strong demand for central Australian pastoral land. (The property is under contract and details remain confidential at this stage.). Conways Station (1,392 square kilometres) in the Roper region has finally settled for \$5.795 million (assessed bare), up from the \$3.2 million purchase price in March 2006 (a few water and fencing improvements were made plus a new homestead developed in the interim - we note that the sale was actually negotiated back in mid 2017). There have been no more sales to report over the Christmas

period which is historically a quiet time for property inspections.

Presently, pickings are a little slim for cattle stations in the NT or Kimberley. The following list (not exhaustive) includes stations that are being actively marketed for sale:

Kalala (3,760 square kilometres, Daly Waters)

Tarlee (586 square kilometres, via Mataranka, Sturt Plateau)

Legune (1,789 square kilometres plus 1,063 square kilometres under grazing licence, northern Victoria River District)

Middle Creek (602 square kilometres, Sturt Plateau)

Flying Fox (895 square kilometres, Roper District)

Kiana (3,318 square kilometres, Tablelands/NT gulf region),

Sturt Downs (Perpetual Crown Lease, 678 square kilometres, Katherine/Sturt Plateau).

There may be other properties out there that are quietly testing the market without any formal advertising (in fact, the recent Alice Springs transaction mentioned above was negotiated in this manner) and we have recently become aware of two cattle stations scheduled to come to the market within the next month and one of them has significant scale.



Given the generally widely held view within the industry that pastoral values must be somewhere near peak levels, it will be interesting to see how many other pastoralists head to the market over the next six months to take advantage of the historically high property values. Potential property purchasers and vendors will be weighing up how the weaker demand from Indonesia for export steers (heading closer to 300c/kg, currently around 320c/kg ex-Darwin due to the strengthening Australian dollar, competition from cheap buffalo meat imports etc) and weaker demand from Vietnam, versus the potential growth in the China live cattle market will impact on demand for pastoral land in the foreseeable future. It appears that many are also waiting to see if the domestic cattle market will also weaken if the drought affecting two-thirds of Queensland doesn't break (we note that the Queensland Government's seasonal outlook for the Queensland summer indicates a slightly higher than normal probability of exceeding median rainfall across much of Queensland).

Meanwhile in the NT, the wet season has been a little patchy to date, but still, our rainfall map looks a lot healthier than Queensland's. The northern rainfall onset for the NT (ie. the accumulation of at least 50 millimetres after 1 September when enough rain has fallen to stimulate plant growth after the dry season) began in late October for much of the Alice

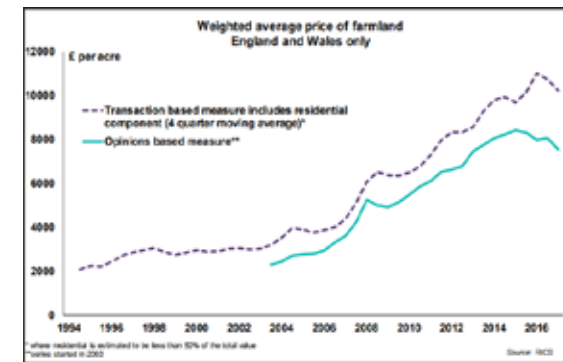
Springs region (much earlier than average), parts of the Plenty district, the eastern part of the Barkly Tablelands and the pastoral country north of the Sturt Plateau. The Top End has had total rainfall ranging from around 600 to 1200 millimetres, while total falls for the balance of the Territory to date amount to between 150 and 250 millimetres but there is a chunk of the western Barkly (north and south of Elliot) that has still not received much rainfall for grass at all to date. However, it is generally not until around mid-January that the southern inland regions of the NT typically reach the 50 millimetre onset benchmark.

South West WA

After a slow and dry start in 2017, the year was shaping up to be a hard one for cropping regions, however late winter rainfall helped lift expectations and confidence with above average yields recorded in some but not all regions. As we enter 2018, confidence across many of the West Australian cropping regions is high however these tend to be in the medium to high rainfall areas with some of the marginal and low rainfall areas continuing to face difficult conditions. The high to medium rainfall areas continue to perform well and land supply has started to dry up with land values on the increase as farms expand and corporate and international purchasers continue to invest in the region. It appears that the perception both locally and

nationally or internationally is that Western Australia is still relatively cheap when considering yields and potential returns.

Originally coming from the UK where values from cropping land can be upwards of 10,000 pounds (AU\$17,500) an acre (demonstrated in graph and table below) you can see why the impression of land being cheap is a valid one.



	Farmland prices England and Wales											
	Barn and opinion based			Farmland transaction based - g				Farm-kg average - Car acres		Yield		
	Wg price	Wg sale	Wg price	Wg price	Price index	No. of sales	AGG sales	Wg sale	Wg price	Wg sale	Wg price	
£/acre	£/acre	£/acre	£/acre	1995=100	reported	1000s acres	£/kg	£/kg	£/kg	£/kg		
H1-2016	1,862	1,862	1,743	11,559	80	254	123.3	75	138	53	54	1.5
H1-2017 (p)	1,541	1,570	1,704	9,501	473	176	128.1	75	146	53	54	1.5

Source: https://www.rics.org/Global/RICS_RAU_Rural_Land_Market_Survey_H1_2017_Summary.pdf





There are however other factors at play in the UK including European subsidies and very low interest rates.

On a domestic front, I was asked the question early in 2018 during an inspection "do you think WA arable land is cheap?" when cropping land in the Green Triangle South Australia is valued at \$7,400 per hectare for land that yields similar to land that is valued at \$2,500 per hectare in Western Australia. This is probably due to a number of factors including rainfall, soil type and population however it is a valid point when making a comparison across the country. So when taking into account that confidence is high and with some areas being considered cheap, it is likely that we will see continued demand and increases in land values throughout 2018, although most likely in the better performing regions.

Living in the South West, I have witnessed first hand that the rumour mill is working overtime regarding the 2017 reported \$180 million sale of Jasper Farms Avocado business located in Busselton's surrounding rural localities. This business has been developed over a number of years and is the largest in West Australia with a significant water supply. It is unlikely that this year or in the years to come we will see another sale of this magnitude however this is already reportedly giving a significant boost to the confidence of the West Australian avocado breeders, growers and plantation owners.

The dairy industry in general continues to remain subdued with milk prices remaining around the 50 cents per litre mark. On a positive note though the new owners of Brownes are reportedly looking to re-start cheese production in the South West which is likely to give a boost to producers' confidence and potentially will help with some over supply issues.

The north-western pastoral regions continued to see station sales activity in 2017 on the back of strong cattle prices, however prices are now starting to level off or dip. It is likely that we are at or just past the peak, with 2018 likely to see a slowing in pastoral property sales activity and values levelling off.

Overall in 2018, the rural property market is considered to have a positive outlook with market confidence being high across some market sectors. Demand is likely to continue to outstrip supply in many of the reliable cropping regions with values continuing to increase. There is however one factor that can change confidence very quickly and if I could predict it accurately I would be a very popular person - rainfall. The current BOM prediction for 2018 is that February to April will be wetter than average which is another contributing factor to the positive outlook for 2018.

Contact:
David Abel - Ph: 08 9388 3274