# Rural

HERRON TODD WHITE RURAL

## Rural Overview

Another financial year is almost closed and we continue to see strong interest in most regions nationally, as well as the majority of commodity classes. As we forecast 18 months ago, the supply and demand for land to transact as developed holdings has largely been picked over and we are seeing a lot more interest in greenfield sites for horticulture-related activity as well as renewals energy projects. This demand pressure is being played out in North Queensland with Roger Hill from the Townsville office reporting a large number of pastoral assets under or about to go under contract, his summary is well worth a look.

For most other regions the demand is tempered a bit by the ongoing and widespread dry conditions and it will be interesting to see the impact of this dry on demand towards the latter part of this year. Currently, agents are still generally reporting demand exceeding supply. If this demand pressure and potential new capital into the sector (this being a global trend not unique to Australia), continues to build then we may see the point soon where return outlooks go beyond viable parameters, the market will ultimately make those decisions.

With another tax year about to close and given the ongoing transactional activity in the market, this is a timely reminder to our readers that our rural valuers can assist purchasers with the creation of a tax depreciation schedule on an acquisition. This report can be provided to your accountant and complies with the ATO requirements for the creation of a schedule of depreciation. The service has been part of Herron Todd White for 11 years and we undertake this work nationally on every type of agricultural and investment property you can imagine. If you have bought a property recently, or in the past 3 years even, and have not had an assessment undertaken then you should be contacting your local Herron Todd White office to get a quote and guidance on the outcome. A typical grazing holding could easily attract $30,000 pa or more annual deductions and with a fee to undertake fully tax deductible and about 1/10th the annual benefit this really does make sense for many.

I wish you all well with the year close and would also like to thank our dedicated rural team for their ongoing work effort this year.

**Tim Lane**

## Darling Downs

The past month we have noticed both graziers but also Inner Downs farmers are discussing the fair seasonal outlook for the winter season ahead. The Bureau of Meteorology has recently revised their rainfall forecasts issued on the 31st of May for the period between June to August. The chance of receiving median rainfall for much of South-East and Southern Queensland is between 25% to 35%, hence likely dry conditions ahead.

Many grazing operators in the Condamine and Moonie areas have punted on receiving some rain given planting on minimal moisture. With the dry conditions we are seeing the migration of kangaroos also impacting on early fodder crops. Those operators that have undertaken significant expenses in constructing exclusion fencing or forming part of a cluster group will now be able see the benefits, subject to controlling the kangaroo population within the boundary confines.

With a large number of graziers undertaking such development it has been timely for merino graziers with the Eastern Market Indicator closed at 2,011 ac/clean kg at the end of May. This is up 38% from the previous year which will provide a significant boost to wool producers. A common question in the market is 'how much does a property with exclusion/ cluster fencing add value'? It's a difficult question to definitively answer as there have been only a small handful of sales that have sold with similar fencing. It's further difficult to analyse such sales in a rising market given does the premium reflect the added value of the fence or broad strengthen in land values.

Ultimately when property values stabilise we will be able to more accurately analyse the evidence to address this question.

However, the simple fundamentals to determine the added value over a conventional fence will be reflective by the improved productivity of a property either through increased weaning rates by reduced wild dog attacks and or reduced grazing pressure by kangaroos or damage to crops by wild pigs for example.

On the market front we are seeing the continued demand for either good quality country or landholder purchasing neighbouring country to secure further scale.

**Stephen Cameron**

## North Queensland

Th The property marketing season is well and truly underway in North and North West Queensland.

While the market was slow to get going this year, sale volumes have hit the double digits.

There are eleven cattle stations in the process of going under contract or under contract at present and due to settle within the next month.

It is likely that a few more contracts will be signed within the next month.

The marketing season is late this year, due to vendors and purchasers waiting to see how, when and

what rain fell.

Where is the activity:

- Charters Towers – Four of the current contracts are in this area.
- Desert Uplands – Two properties under contract and sold very well following a spell and good rain.
- Downs – Four properties under contract.
- Far North Qld – Two stations are under contract.

What are the key messages:

1. Condition - Stations with grass and land in good condition will market well as there are purchasers looking for land with grass and country that is in good condition.
2. Quality – Blue ribbon country will always sell, however purchasers are still being picky with secondary country types.
3. Profitability – Purchasers have not just been going in and buying without considering the viability of their acquisition either within their existing portfolios or in accordance with their broader business (of farm for the starter markets) interests.
4. Summary - Successful deals have arisen from realistic vendor expectations around price, land type, land condition, weed status and infrastructure.

How about the prices:

Prices appear reasonable at this point in time. So far Two of the current contracts are resales within the last five years. They are within the realms of their last sale hectare rate. (One is the same, the other is higher however there has been capital works done on that property).

One of the current contracts is a resale from within the five to eight year period. This resale is showing a stronger hectare rate.

Yes, there have been some improvements done to that station and the land is in a better condition, however, when these are considered, there is a value increase in this resale.

Bearing in mind the number of years between these two sale events occurring, the increase is considered prudent and reflects a percentage rate of capital value growth typically found over the longer term.

There are a few stations to be auctioned in the coming month. At this stage things are looking rational in the marketplace as shown by the three re sales mentioned above. However, there is a change in the wind for some higher pricing.

A gear change may well occur as the year progresses, depending on the following drivers:

- The rare opportunity arises to acquire a top shelf, blue ribbon station that is in very good condition.
- Should it stay dry in central and southern areas, there may be new purchasers come into the local market.
- Or if winter rain falls.
- Cattle market picks up. The cattle market has softened, yet the property market sentiment is that suggests that land values should be rising!
- Interest rates stay low.
- And depending on how the Defence Force negotiations for their intending purchases in the Greenvale / Charters Towers area go.

There is good grass to the north of Julia Creek and Cloncurry, however this area is tightly held and typically not for sale.

Opportunity does exist at present in the Croydon to Einasleigh districts and down to Hughenden where there has been good rain. Some of the stations in these districts are in good condition with good bodies of grass.

To date, purchasers appear to be doing their sums prior to spending their money, they know when to walk away and not go into the silly money zone.

For vendors, knowing when to hold or fold your cards is a skill on its own.

## Mildura

Optimism remains high in almost all local industries and there appears to be a number of potential buyers available for most properties being placed on the market.

One of the sectors enjoying much stronger demand is for land suited to greenfield horticultural development. There are currently a number of buyers seeking to acquire sites suitable for planting to almonds, citrus, table grapes and dried fruit. This activity is extending from small parcels of land within irrigation districts to large sites of over 1,000 hectares.

The price paid for temporary water allocations has spiked over the past three months from levels of around $100 per megalitre in January 2018 to up to $190 per megalitre in the past week as irrigators try to balance their water accounts at the end of the season. Most irrigators applied higher than average rates of irrigation water in the past season as a result of the much drier than average summer and autumn.

Many local irrigators rely on the use of leased allocation and they will be hoping that the catchment has a third consecutive wet winter and spring in order to maintain a strong supply of water over the next six months.

A dry winter will likely see the price paid for temporary water remain above $150 per megalitre.

The demand for temporary irrigation water is likely to remain high, with the majority of the greenfield developments referred to above expected to rely almost entirely on the use of leased allocation. There is growing disquiet in the local irrigation community, with the level of proposed development having the potential to both inflate the price of temporary water and also test the capacity to supply sufficient water in peak periods.

Many locals hold fears that the over-extraction of water in the northern half of the basin is now being repeated in the southern basin and that existing irrigators could face restricted access in periods of peak demand.

The wine grape industry continues to report strong export demand. Wine exports were up 16% to $2.65 billion in the past year, with almost all of the increase attributed to China. Exports to China increased 51% to $1.04 billion.

The national value of wine exports has increased by 50% over the past four years. This growth is due almost entirely to a steady increase in the average price per litre rather than increased volumes and the higher price has now started to flow through to growers' hip pockets.

**Shane Noonan**

## South West Victoria

There is confidence returning back to the marketplace in dairy regions within south west Victoria. These regions have been somewhat removed from the continuing strong land values in grazing and cropping sectors experience by the majority of the state. This is no doubt as a result of the milk price clawback during the 2016/17 season. However, on the back of farm gate prices opening higher than initially forecasted and the Murray Goulburn/Saputo transaction now finalised, there is likely to be strong demand for milk and a change in the current milk supply landscape present in the market.

Similar to other Dairying locations throughout southern Australia, corporate interest is again on the rise after being relatively subdued for the previous 12-24 month period. Enquiry and demand for well-established dairy farms have increased with several corporate entities either acquiring or looking to acquire well-established dairy farms situated within close proximity to Cobden and Warrnambool.

Although the demand has risen, institutional buyers are asset conscious and only well-improved farms are receiving this increased interest. Farms that are poorly presented or have obsolete dairy infrastructure are receiving little interest in the marketplace. These are commonly being purchased by large neighbouring farmers wishing to expand their current dairy operation or graziers wanting to acquire land within a higher rainfall bracket.

Benjamin Mugavin

## Tasmania

Corporate activity in Tasmania is heating up as many pension funds, high net worth investors and corporate buyers continue to seek out affordable rural assets with reasonable return parameters. Examples of such recent activity can be evidenced by Laguna Bays recent purchase of a number of dairies in the north-west of the state, Farmright/PSP's purchase of Sustainable Agri Funds Cradle Coast dairy asset for a reported $25 million or TRT Pastoral's purchase of SAF's King Island Aggregation for $45 million. The grazing and dairy space are not the only sectors of corporate interest in Tasmania at present with berries and permanent plantings such as cherries and vineyards also seeing growing enquiry and due diligence as a result of Tasmania's ever-improving irrigation schemes and security of water, in addition to a lower more attractive price point relative to the mainland, ultimately improving investor returns. Current corporate listings of note in Tasmania include the 21,861-hectare Rushy Lagoon dairy/grazing enterprise with a price tag of circa $70 million and the 8,580 hectare RMS forestry portfolio which both provide great opportunities for corporate level investment in an improving market.

On a more local front, our recent attendance at AGfest, Tasmania's largest rural field day, further confirmed the buoyant local attitude in the Tasmanian rural economy which has been backed up by evidence of strong value improvement in many recent smaller local transactions, especially in the irrigation sector.

Angus Shaw

## Northern Territory

Despite the growing number of cattle stations hitting the market in the Northern Territory, its been a slow year on the sales front with the only sale so far being "Mount McMinn" (809.6sqkm, Roper River District) which is currently under contract (settlement is reportedly early in June). Full details remain confidential at this stage however we understand the buyer to be South African.

We said things were a bit slow, however, the bush telegraph has kicked into gear as the month closes with the word of a multi-station acquisition in the Alice Springs region. Again, details are yet to be confirmed however we are aware that a multi-property deal is in advanced stages of due diligence and negotiation -  can't say, however, will hopefully be able to report back next month.

Overall however, it would appear that Territory pastoralists are becoming more aware that now must be a reasonable time to dispose of a property or two given the combination of record pastoral prices, declining live export prices, the mothballing of the odd abattoir and a forecast increase in the cost of borrowing a dollar, because recent listings in the north of the NT are steadily mounting.

Including the recent Consolidated Pastoral Company pastoral portfolio listing, there is now an estimated 54,000 square km (or 5,400,000 ha) of pastoral land being actively marketed for sale in the Northern Territory/Kimberley. This comprises 22 pastoral holding operations in the NT and two in the east Kimberley.

Meanwhile, following the discovering Citrus Canker (a contagious disease of citrus) in a Darwin nursery earlier this year which led to restrictions on the movement of plants as well as the destruction of affected plants, the NT Department of Primary Industry and Resources (DPIR) has unfortunately just confirmed the disease on a property in Katherine.

We note that it appears the disease has only struck "backyard" citrus trees and not any of the Top End's commercial orchards at this stage.

In May the DPIR issued special restrictions on the movement of host plants in order to contain the spread of citrus canker.

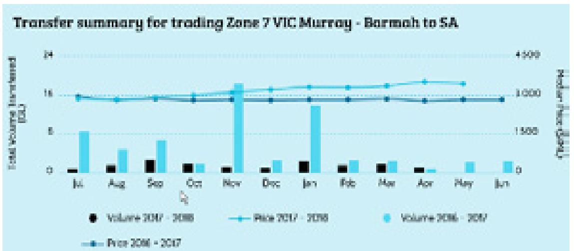
The control area now covers the greater Darwin area and beyond, south to Adelaide River, east to Kakadu, west to Dundee and the whole of the Katherine LGA. However, one commercial-scale lemon grower recently reported to us that they have still been able to export their fruit given they had the necessary biological control protocols in place with DPIR.

This is fortunate given the reported excellent yields recently (March - April harvest) and the strongest citrus prices for many years.

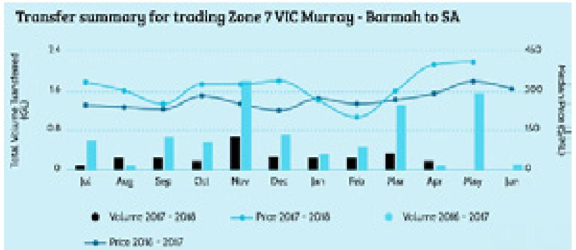
Frank Peacocke

## Echuca

Without doubt the mover in the market has been water with all classes rising sharply in the past 12 month period. The following graph depicts the water register records for Murray (Trading Zone 7) and demonstrates the prices achieved over the past two seasons for High Reliability Water Shares:




The market for Low Reliability Water has likewise seen significant gains notwithstanding the usual seasonal spike as irrigators look to secure parking opportunities for carryover water at the end of the season:




Recent auction results demonstrate a spike in water prices up to $3900/ML for Victorian water while NSW High security water has tipped over $4,000 per ML after trading in a band of $3,300 to $3,600 per ML in the preceding twelve month trading period. It will be an interesting ride if the current dry conditions continue.

David Leeds