Rural

HERRON TODD WHITE RURAL

Overview

It seems everywhere we look at the moment there is pressure in the agriculture sector impacting operators. From live export shut down risk in the west, strawberry contamination, the drought creeping further south and limited forward prospects – all the above go to highlight how fragile a basic need of providing food can be. The longer-term impacts for those in these industries is still yet to be felt but the positive has been the consumer response to recognise that people's living and ultimately consumer prices are all at the end of these scenario's.

The risks involved in agriculture with seasonal and commodity prices are hard enough to manage let alone adding more cost, losing markets either locally or internationally and yet it seems that allot of capital is prepared to look through those risks in the current strong market cycle of values.

There are many positive aspects in agriculture at present and the tree nut industry is certainly one of those. This month, David Nilon provides a snapshot of the sector and what has occurred over the past few years with a big focus on the increased production being planted in all varieties. I heard even pecan nuts have a three-year waiting list to obtain root stock for planting.

The other side of production is the demand side which it appears, for most products we grow in Australia, is still very strong. The grains sector is reflecting that with record high prices. With limited supply prospects for wool, lamb/mutton and pretty well every horticulture product we produce, it's hard to think of a commodity out of favour outside milk in the fresh end of the market.

In basic economic theory supply and demand drive market prices and that in turn drives supply triggers. That being the case having a sense of when the demand pressure is fully absorbed by the supply of primary products will see a tipping point for prices and returns to growers in the short term at least. As such, the market continues to find new price levels for any properties currently.

Agents have reported a lack of stock and anything with water and a body of feed attracts interest. It seems, however, that demand for property is still exceeding supply and firming values would still be expected until the underlying commodity economics kick in regards supply balancing demand.

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Northern Tablelands New England NSW

With large areas of New South Wales still in an extended drought, buyers are looking for opportunities to purchase property in higher, more reliable rainfall areas. Areas with average annual rainfall in excess of 1,000 millimetres are continuing to attract buyers with a number of recent sales 75 kilometres south of Walcha in the Nowendoc area.

Some key sales in the Nowendoc area include: Emu Tops which sold in June 2018 for $2.85 million, reflecting $3,562 per acre for the 800 acre holding; Fernleigh which sold for $3.8 million in May 2018 reflecting $2,205 per acre for the 1,723 acre holding; and The Two Mile which achieved a sale price of $9.9 million in May 2018 for the 2,910 acre holding, reflecting $3,400 per acre.

To the east of Walcha, in a 1,000 millimetre average rainfall area, the sale of Enfield North for $10.1 million in March 2018 confirms that buyers are willing to look past the current drought to secure properties that have the added rainfall security. Enfield North is a 3,774 acre holding with an estimated carrying capacity of 1,000 cows, reflecting $2,676 per acre or $10,100 per cow area improved.

In the New England, demand continues for medium to large scale grazing properties. Maiden Creek in the Wollomombi area 60 kilometres east of Armidale sold in March 2018 for $8.85 million. This 4,510 acre holding was located in a 900 millimetre average annual rainfall area and had an estimated longer term carrying capacity of 800 cows, reflecting $1,962 per acre or $11,063 per cow area improved. Other sales include Yonda at Guyra which sold in April 2018 for $3.97 million. This is a 1,237 acre holding located 16 kilometres from Guyra in a 900 millimetre average annual rainfall area with a reported carrying capacity of 400 cows, reflecting $3,209 per acre or $9,925 per cow area improved.

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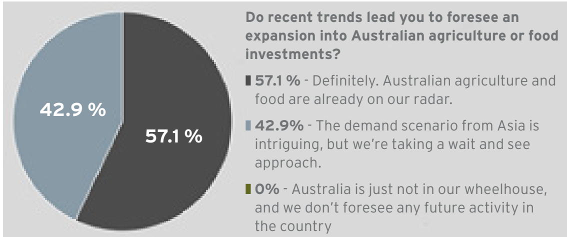
Southern NSW

During the course of discussions with some corporate purchasing parties, we are starting to see a change in the way the market is perceiving what can be achieved in terms of yield. Previously we have discussed market expectations in terms of returns when looking at rural properties and generally we have seen yields of five per cent with some even getting to six per cent. With the strong increase in underlying land value seen over the past twelve months in particular, there is strong resistance from lessees to adjusting rates to reflect the original yield achieved when the lease was created. This resistance is coming from the fact that general income from rural commodities, whilst still good, has not improved in line with the underlying land value. This situation is a repeat of the 2006 to 2008 period where we also saw strong growth in underlying value. At this time many leases were in the 3.5 per cent to 4.5 per cent range and we would expect that general leasing rates will soften to four per cent to 4.5 per cent.

The volume of capital looking to deploy in agriculture in Australia continues to be a surprise and this deployment is seeing unsolicited offers for large scale rural properties made on a regular basis. Whilst previously we have indicated that we felt that the market was at or near its current peak for this cycle, I am beginning to wonder whether this cycle may have some further development to go. Whilst there are some short term negative seasonal conditions, our experience is that the underlying market sentiment is still very positive and this coupled with record low interest rates and generally positive returns for livestock may just see some continued upward pressure on the market, particularly if we see any sort of rain event in the next month or so.

The Global Ag Investing Weekly recently took a poll of their readers across the globe and asked a question regarding whether Australian agriculture is on their radar or not. The interesting results are to the right.

We have just been undertaking some work in the Riverina area and have analysed the sale of Delta which is 55 kilometres north-west of Jerilderie and 50 kilometres north-east of Conargo. This is a 8,381 hectare mixed irrigated and grazing property. The sale included approximately 550 hectares of laser levelled flood irrigation with a balance consisting of mostly open to lightly timbered good grazing country. The property was well improved with homestead, manager's residence, workers' cottages, machinery sheds and wool shed.



Source: Global Ag Investing Weekly

This property sold for $10.025 million. After analysing this sale and allowing for the developed irrigation country, it appears that the open-hay plains grazing country has sold for $975 per hectare ex buildings. This is seen as a very strong result and indicates $780 per DSE when viewing the grazing country in isolation. This is uncharted territory for the Riverina and indicative of the strength of the current market.

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Mildura

We continue to see strong commodity prices for most of our local produce. With wine grape returns now 30% better than pre-2015 levels, it is probably the first time in a generation that all of our local industries, both horticultural and cropping and grazing, have the ability to return a decent cash flow. Unfortunately, the ongoing dry conditions will take away the ability for many dryland producers to enjoy these returns in the current season, but the breadth of strong commodity prices is still noteworthy and helps explain the strong demand for rural land in our region.

The much stronger commodity prices are due to a combination of Free Trade Agreements, favourable exchange rates and rising consumer demand as a result of improved affluence in many Asian countries. The current success of these markets has not occurred overnight and credit should be given to some of the leading packers and growers of citrus, table grapes and almonds, who have been quietly building relationships with these markets over the past decade.

China has been the standout market in recent years, with the increased value of fruit and vegetable export trade with China summarised in Table 1.

TABLE 1: FRESH FRUIT EXPORTS TO CHINA

	2014/15	2015/16	2016/17	2016/17 change to LY	2016/17 vol share	2016/17 Value
Value $A Million	55.6	175.8	244.8	39.3%		
Volume Tonnes	24,691	61,784	87,642	41.9%		
A$ per kg	$2.25	$2.84	$2.79	-1.8%		
	Tonnes	Tonnes	Tonnes			A$million
Table Grapes	4,892	29,936	41,196	37.6%	47.0%	148.4
Oranges	14,216	23,034	34,159	48.3%	39.0%	59.3
Mandarins	5,007	7,789	9,812	26.0%	11.2%	21.5
Cherries	324	791	373	-52.8%	0.4%	7.6
Peaches & nectarines	-	-	1,866		2.1%	7.0
Mangoes	60	83	80	-3.3%	0.1%	0.5
Apples	151	92	138	50.3%	0.2%	0.3
Grapefruit	-	18	-	-100.0%	0.0%	-
Lemons & limes	40	42	-	-100.0%	0.0%	-
All other	-	0	17	++	0.0%	0.3
Total	**24,691**	**61,784**	**87,642**	**41.9%**	**100%**	**244.8**

(Source: ABS(2017) via ITC Trademap; AHEA Fresh Fruit & Vegetable Export/Import Statistics (2016/17)

At the institutional level, it is understood that negotiations to buy the Adveq almond portfolio are close to finalisation, with the final sale price expected to show a healthy fifty per cent gain over its purchase price in 2014. This asset in some ways represents a land banking opportunity, with the benefit of a rental stream for the next 13 years and potential to either take control of production or renew a lease in 2031.

At the smaller end of the scale, we note the recent sale of several table grape vineyards in the Robinvale

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district at levels of between $70,000 per hectare and $85,000 per hectare for the better standard varieties. There is little remaining developable land within the Robinvale irrigation district, contributing to healthy competition for any established vineyards placed on the market.

The recent re-sale of Noraleigh, an 890 hectare former dryland cropping property located near Toolyebuc in south-western New South Wales, demonstrates an increase of approximately 65 per cent over its previous sale in 2016. This property is suited to horticultural development and was marketed as being shovel ready. Analysis shows over $9,000 per hectare for the arable land component, which commences 1.5 kilometres from the Murray River and contains good standard loam soils, well suited to citrus, almonds and other deep rooted tree crops.

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Toowoomba

China US tariff war impacts Australian Nut Industry

"China has imposed retaliatory tariffs of between 15 per cent and 25 per cent on US$2.75 billion worth of US imports, including nuts, frozen pork and wine, in response to US import duties on aluminium and steel announced by the Trump administration."

The Australian nut industry, like many other primary industries, has been caught in the middle with collateral damage on this year's crop as some sellers are no longer able to access this market. The current trade war between China and the US may provide export opportunities for the Australian industry in the short term, provided that product from overseas is not dumped on the Australian market. In the mid- to longer-term, the industry will continue to develop stronger trade links with China to secure long term markets.

The impact on the US has resulted in additional tariffs of between 15 per cent and 20 per cent for their nut products entering China.

The China Australia Free Trade agreement tariffs of between 10 per cent and 25 per cent on Australian nuts will be completely phased out by January 2019.

China is a major buyer of Australian nuts with over $63 million in sales in 2015-16 (ABS) and solid increases in sales over the past two years. Tree nuts are the country's largest horticultural export forming over 50 per cent of horticultural goods sold overseas.

China is the world's second largest buyer of imported food after the US with over A$130 billion in 2016. Australia is China's sixth largest supplier of food with exports of A$5.3 billion and continued solid annual increases in double figures.

The macadamia industry is breaking into China's growing demand for this nut with demand in 2017 at 50,000 tonnes in shell, or 26 per cent of global demand or more than the entire Australian crop. By 2020, about 24,000 hectares will be planted to macadamias with kernel production greater than 18,500 tonnes. Export value will exceed $280 million.

The pecan industry in the US is continuing to expand at all time high rates with record planting in southern US. Industry experts are saying plantings are sustainable, and that it will take another 30 years of planting to catch up with global demand. The Australian industry is also seeing record plantings with new entrants into the market. The export market is chasing large nuts which is limiting the varieties planted. The area under pecans is 1,350 hectares. Production is about 3,000 tonnes in-shell (1,650 tonnes kernel).

The almond industry is forecast to harvest over 82,000 tonnes kernel weight this year which is slightly up on last year's crop. Late season frosts have been a worry for many growers. Australia is the second largest producer of almonds in the world. In 2015, the area under production was 31,115 hectares, producing a record crop of 82,509 tonnes.

The walnut industry is expecting a harvest of 13,000 tonnes in line with the previous year. This is a significant increase in production over 2016 of

6,000 tonnes in-shell, with a farm-gate value of $30 million and export value of $15 million. Approximately 3,600 hectares of mature and developing trees were under cultivation in 2016. This number is expected to rise to more than 4,300 hectares by 2021 as current growers expand their orchards and new growers enter the industry in current and new regions. Webster Limited is the largest walnut grower, owning or managing more than 3,100 hectares of orchards. When mature, these orchards are expected to produce over 18,000 tonnes in-shell per annum.

The pistachio industry is expecting a harvest of 2,300 tonnes which will be a record for the industry. The area under production was 950 hectares in 2015.

Chestnuts have had good growing conditions with a crop of 1,300 tonnes expected which is in line with previous years. In 2016, chestnut production was valued at $8.5 million (LVP). In 2016 there were around 1,300 hectares containing approximately 200,000 chestnut trees. The industry estimates that with more trees planted, production will rise to approximately $9.8 million by 2020. The industry is primarily focused on the domestic market with approximately two per cent exported, mainly to Asian markets.

Hazelnuts have had a mixed growing season with yields of 210 tonnes expected. In 2016, hazelnut production was valued at $1.7 million (LVP). The industry is set for

Australian Tree Nut Area Planted & Production

Area planted, hectares	2011	2016	2021	2025
Almonds	26,944	36,000	44,000	46,000
Macadamias	18,000	19,000	25,000	26,000
Walnuts	2,790	3,590	4,340	4,500
Pecans	1,400	1,800	2,300	2,700
Chestnuts	1,240	1,440	1,640	1,800
Pistachios	900	1,100	1,600	2,000
Hazelnuts	140	1,370	2,220	2,760
Total Area Planted, hectares	**51,414**	**64,300**	**81,100**	**85,760**

Production, tonnes	2011	2016	2021	2025
Almonds, kernel	37,626	80,140	109,000	130,000
Macadamias, in-shell	28,500	50,000	58,000	65,000
Walnuts, in-shell	3,455	6,000	16,866	17,490
Pecans, in-shell	3,375	4,009	4,193	4,908
Chestnuts, in-shell	2,000	2,500	3,000	3,200
Pistachios, in-shell	1,100	1,950	2,300	3,500
Hazelnuts, kernel	79	170	2,553	3,174
Total Production, tonnes	**76,135**	**144,769**	**195,912**	**227,272**

Value (farm-gate), AU$ million	2011	2016	2021	2025
Almonds	188.0	641.1	872.0	1,040.0
Macadamias	90.0	250.0	300.0	315.0
Walnuts	13.8	30.0	67.4	71.0
Pecans	18.6	22.1	23.1	27.0
Chestnuts	10.0	12.5	15.0	16.0
Pistachios	10.5	23.0	25.0	35.0
Hazelnuts	0.4	1.7	22.5	31.7
Total Value, AU$ million	**$ 331.3**	**$ 980.4**	**$ 1,305.0**	**$ 1,535.7**

Source: Australian Nut Industry Council 2016

continued expansion with approximately 200 hectares planted, consisting of around 100,000 trees. The industry estimates hazelnut production in 2021 will be 2,550 tonnes with a value of $22.5 million. The area under production is about 1,400 hectares, including young orchards yet to come into commercial bearing. New areas of hazelnut plantings have extended into southern New South Wales, eastern Victoria and throughout wider regions of Tasmania.

The Australian nut industry has increased revenue by 250 per cent over the past five years and is predicted to exceed $2 billion by 2030 based on new planting and productivity research investment. The table shown is a summary of the Australian nut industry.

The long-term outlook for the industry is of continued growth with new plantings across all nut types at all-time highs. The increase in research and development dollars from industry and government is assisting in productivity gains and new marketing initiatives are targeting value adding to the raw nut product. The industry is proactive in improved integrated orchard management techniques which are targeting canopy health, drainage and moisture conservation and plant health. Established growers are continuing to expand their plantings and new entrants bring scales of economy to the industry.

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Bunbury and surrounds

Demand for West Australian farm land continues to grow in the cropping and grazing regions as solid winter rain events across a number of regions increase the confidence that the prediction of achieving an above average result this growing season is likely.

The purchaser profile in the market place includes interstate, international and local purchasers looking to capitalise on the good seasons and high commodity prices. It is also apparent that relativity seems to still be front and centre for some purchasers with land prices in some areas still considered relatively low in comparison to other parts of the country, the southern hemisphere and developed world. An example of this is arable land values from where I originate in North Yorkshire in the UK which are the equivalent of approximately AU$36,000 per arable hectare ex buildings. On average, you are likely to yield ten tonne of wheat to that arable hectare and therefore in basic terms it equates to an investment in land of $3,600 per potential tonne of wheat yielded. A recent auction held in the Great Southern region of the state resulted in a new regional record with a value of $5,200 per arable hectare ex buildings.

Sales information indicates that on average you are likely to yield three tonne of wheat to that arable hectare and therefore in basic terms it equates to an investment in land of $1,730 per potential tonne of wheat yielded.

It must be noted that the UK is subsidised, subject to different market influences and proximity to markets and not as prone to droughts (with the exception of this summer 2018) which are all factors likely to influence the investment. This basic example does however give some level of understanding to the relativity argument that West Australian land is cheap given that land investment for potential tonne of wheat can be half of that in other countries.

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