HERRON TODD WHITE RURAL

Rural

February 2019

Overview

It is a happy new year to all our readers and I am sure the majority are looking towards the skies to see what rainfall may eventuate in the early part of this season.

Rain in the next two months will, in my opinion, be the biggest factor to influence the rural land market in 2019. A return to sound seasonal conditions would support and possibly see some increased market activity on the buy side; no rain two years in a row in New South Wales and Victorian regions currently doing it tough could cause other financial pressures which may bring supply of property to the market. Financier support for those who require carry-on finance and the terms of such support will be interesting to observe in the coming months.

As the 2019 year kicks off and memories of beaches and good waves fade, we will deliver our annual rural land market review in Melbourne on 26 February and Brisbane on 1 March to look at how the 2018 year closed out and provide our view of what we expect to see in the current year. Invitations have been issued to those on our list, however if you are interested in attending either event, please contact rural@htw.com.au and if there are places available we would love to accommodate you.

ANNUAL RURAL LAND MARKET REVIEW

Melbourne: 26th February

Brisbane: 1st March

To look at how the 2018 year closed out and provide our view of what we expect to see occur in the current year.

As for the current market activity, there are not a lot of new sales to report given the time of year however the team has some observations this month that are well worth a review.

Contact:
Tim Lane Ph: 0401 998 648

NSW North Coast

The macadamia nut tree farm industry has been very strong in recent years off the back of a strong commodity price which, to a significant degree, is a result of strong Chinese demand.

Growers will be eagerly awaiting the 2019 harvest pricing from local processors. Anecdotal evidence suggests there may be a slight softening in the 2019 harvest price although it is noted that the China and Australia Free Trade Agreement (ChAFTA) has progressively reduced tariffs on macadamias exported to China since 2015 and we understand that as of 1 January 2019, the final 10 per cent tariff for macadamias has been eliminated.

There are very few listings of macadamia farms for sale and apparent continued strong demand from purchasers. The limited supply of macadamia farms and vacant land suited for planting macadamias for sale in the traditional flood free plateau areas will likely see the continuing trend of macadamia farmers purchasing flood plain sugar cane farms to plant macadamia nut trees.

Macadamia Orchid Source: Herron Todd White

Sugar cane farmers have found it difficult to compete with macadamia farmers as the world sugar price has been depressed, in part a result of subsidised Indian sugar. The world sugar price is currently around US 13.1 cents per pound which is an increase from the lows of 2018. The Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) free trade agreement came into effect on 30 December 2018 and this may have some positive effects for local sugar producers.

All local agricultural industries including blueberries, avocados, beef and dairy will no doubt be watching closely the impacts of the trade agreements on market access and commodity prices.

Contact:
Paul O'Keeffe Ph: 0409 763 573

Mildura

Low interest rates, a competitive exchange rate and good demand from Asian export markets are keeping smiles on the faces of most local horticultural producers. There is nothing to suggest that these conditions won't continue throughout 2019, which would result in four successive years of strong commodity prices for citrus, table grapes and almonds. Wine grape prices are also expected to continue their improvement in the coming season.

However, the region is currently vulnerable with respect to irrigation water security and producers are looking nervously at their water budgets and wondering what the cost of leasing water will be. Up until the middle of 2018, the cost of leasing temporary water had been fluctuating at between $45 and $140 per megalitre, which is a pretty attractive price.

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In the past six months, this cost has quickly escalated to $430 per megalitre and with the catchment very dry, there are concerns that if water allocations stay low in 2019, this cost could go higher. The majority of larger irrigators in our region rely to some degree on leased water.

Fortunately, the strong commodity prices being received are expected to make this cost affordable for most producers, however it will reduce enthusiasm for anyone contemplating expansion. We also expect to see buyers becoming more cautious when considering any purchase of irrigation properties.

The biggest impact will likely be felt in the wine grape sector, where profit margins are lower, and also for greenfield development sites. Much will hinge on whether rainfall in the catchment areas is above or below average during the coming year.

A similar theme is expected to play out in the pastoral and cropping sectors. Commodity prices are forecast to remain strong, however many producers require at least average rainfall to enjoy the benefit. Despite the currently very dry conditions, we expect to see solid demand continue for both grazing and cropping land, with only a limited number of properties expected to be offered for sale.

The demand for rural and pastoral holdings has not waned, with some strong sales recorded in late 2018 across the Western Division of New South Wales and outback South Australia, including Rosewood Station between Wilcannia and Ivanhoe, along with the reported sales of Netley Station (approximately 75,700 hectares) just south of Broken Hill and Moorabie Station (approximately 73,550 hectares) in the Milparinga area at well above previous levels.

A significant sale in the South Australian pastoral region in December 2018 is that of Clifton Hills Station, regarded as the second largest holding in Australia (behind Anna Creek), which has been purchased by well-known Alice Springs based operators. The property comprises 1.65 million hectares, located on the Birdsville Track about 820 kilometres north-east of Adelaide and is reported to have sold on a walk-in-walk-out basis at close to $40 million.

Agents report that rural property, even during the current dry conditions, continues to generate strong interest from a variety of investors including Australian families, institutions and existing pastoralists, and this demand is expected to continue throughout 2019.

Contact:
Graeme Whyte Ph: 0427 210466

North and North-West Queensland

True to form, as the Batters faced up at Charters Towers for the 2019 Goldfield Ashes Cricket Carnival, the Monsoon Trough turned up to play ball.

Charters Towers (and to the north) had already enjoyed some earlier falls of rain. Further west, there had been no such luck.

In the last month, western graziers started planning their sell down of stock. As the threat of an uncertain wet season appeared on the horizon, proactive risk management and hard decisions were made.

This shows the positive evolution of risk management in North and North West Queensland.

Having endured varying inferior seasonal conditions since 2013 there is little grass in reserve. Lessons have been learnt about grass budgeting and short selling livestock. Careful selection has gone into what cattle have been kept on country to ensure heard recovery is as quick as possible.

This is not doom and gloom. This is smart risk management. If a late wet season arrives, then the country will have a chance to recover. Also, cattle that have been sold down early have become money in the bank.

A dry landscape Source: Herron Todd White

The property market for 2019 has started off with surprising levels of activity. There are off-market negotiations and contracts being exchanged for a number of cattle stations. This will enable respective parties to restructure their businesses for the future. Despite the dry, pricing appears to be reasonable and in line with existing parameters.

Naturally, the cattle station marketing period will not start for another month or so.

There is also a surprising amount of infrastructure development occurring. Fencing, new cattle yards and water improvements are underway, particularly in the north-western districts. This really is a positive sign and a demonstration of industry confidence.

Common goals for fencing programs are for land type management and investment to lower operating costs. This is typically for that first or second split of the larger paddocks in accordance with country type. The return on investment at that level of intensity appears positive for those landholders.

Exclusion fencing is making its way into the region. These are certainly a positive development with many good stories regarding return on investment from southern areas. The larger, compounding returns on investment are consistent with the land condition within the fenced area. These fences are not a band aid for poor land management practices. The progressive land condition managers are reporting superior returns and are excited for the future.

Capital development programs are not the only positive sign in the industry. Despite the softening in cattle prices in recent years, there are some strong fundamentals at play this year. The Australian dollar and interest rates are both low at present. For an export orientated economy, the low Australian dollar is good for competitive commodity pricing in the global marketplace. The continued low domestic interest rates are of benefit to northern property owners. You can thank the slumps in the residential markets in capital cities for helping out with this situation.

As a side comment, one thing to keep an eye out for is inflation of farm foods as a result of the drought. That being said, the coastal areas of North Queensland have had some good rain from the two cyclones that failed to deliver widespread rain to inland areas. This may mark the start of the change in the interest rate cycle.

Either way, these two key fundamentals are in favour to help move the north and north-west through the year.

Taking a look at property markets round the ridges:

Contact:
Roger Hill Ph: 07 4724 2000

District	Season	Property Clock	Comment
Charters Towers (say from the Bellyando north to Mt Garnet)	Northern areas have had the better rainfall to date from the two cyclones. Southern areas have had some patchy rain. Good rain around Burdekin Dam/Collinsville.	10 to 12 O'clock with demand strong for good quality country.	Recent market activity in Basalt areas has seen some solid market pricing. Nearby and neighbours are active. Potential for increased demand on the back of the military acquisitions.
Desert Uplands - Pentland to Prairie and south to say Aramac	Very patchy falls so far. One strong fall at Prairie itself (stopped at the garden fence) earlier in the season.	9 to 11 O'clock.	Quiet achiever. Often overlooked.
South of the line -(Hughenden to Julia Creek)	One or two very small showers here and there. Stock numbers being lightened off.	10 to 12 O'clock.	Depending on what rain falls in the next month or two will determine how this year goes in this region.
Frontage band - Hughenden to say Nelia	Again, one or two showers so far. Stock numbers being reduced.	11 to 12 O'clock.	High demand area. Good number of settled sales in the Hughenden area in the past year. The materialising of irrigation developments may give rise to changes of use and increased value rates.
North of the Frontage band	Earlier rain to the north of Hughenden was welcome!	11 to 12 O'clock.	Moderate to high demand area.
Georgetown / Croydon / Normanton	Not the greatest start from the two cyclones, clouds are starting to form though	9 to 10 O'clock.	When it rains up here and not down south, demand increases. There could be some healthy demand in these areas this year.
Gulf of Carpentaria	Dry at present. Some good grass south of Burketown.	12 O'clock.	Strong demand, investor driven market area. Tightly held.
Western Gulf down to Boulia	Northern area starting to see some clouds. Rain orders are in.	9 to 10 O'clock.	The Barkly has been very dry and Boulia the same. Depending on the rain order being received on time will determine property market activity this year.

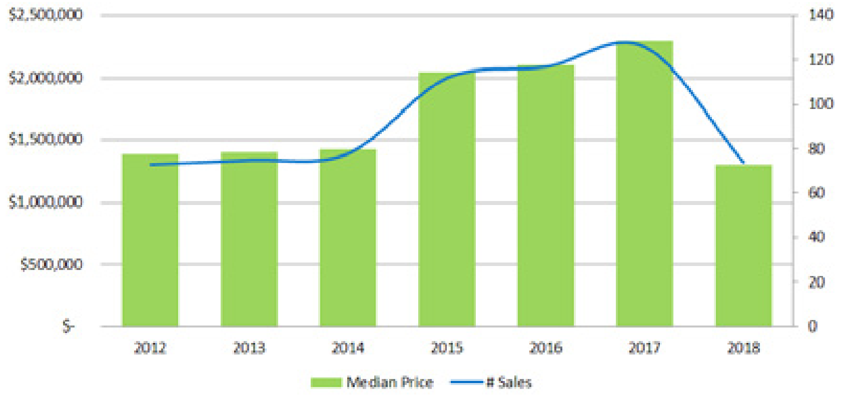
Darling Downs

The start of 2019 has been hot and dry for much of southern Queensland. The low-pressure system from ex-Cyclone Owen unfortunately was a disappointment for many hoping it would bring some rainfall reprieve.

The dry westerly conditions have again dried off pastures and crops planted on sub-optimal moisture profiles are showing signs of crop stress. For many in western Queensland, this will now be the sixth year of drought for the likes of the Murweh, Maranoa, Balonne and Quilpie Shires. It was evident in mid-January that many producers have taken the opportunity to further reduce stock numbers with large numbers of cattle going through the Roma and Toowoomba markets even prior to processors opening up after the Christmas break. For the mid-January sales, some 10,153 head were sold through the Roma store sales which highlights the present dry seasonal conditions.

Despite the seasonal conditions, property values remain strong throughout most market areas. We are aware of further pending sales in the Roma locality which are indicating that land values are remaining strong. Further to the south we are also aware a contract of sale to purchase The Homestead after it passed in at auction for $3.8 million ($355 per hectare) in mid-December. The holding is a 10,695 hectare (26,427 acre) aggregation about 50 radial kilometres south of Surat. Generally containing Red Box, Ironbark and Sandalwood block with a small area of opportunity cultivation and having reticulated water, adequate fencing and a portion contained within a cluster.

Open Downs Source: Herron Todd White



Source: Pricefinder

Within the northern New South Wales New England area, transactions of larger scale grazing holdings are few and far between. We are aware of a pending sale of Isla, a 1402-hectare aggregation to the east of Tenterfield offered by expressions of interest that closed on 14 December 2018. The details of the sale remain confidential however it does demonstrate that demand for larger, well positioned holdings is strong.

In summary for the year ending 2018, values across both grazing and farming markets reflected a firming in trends. In some instances, the market appeared to pay over and above either by near or adjoining owners seeking scale. Grass buyers were evident in the market towards the later part of the year.

The most notable trend though is the weakening sales volumes. Most agents are indicating they have a large list of buyers seeking country however are finding it difficult to obtain listings. With the simple fundamentals of supply and demand, these factors are undoubtedly driving values; demand is assisted through buyer confidence within the agriculture industry as a whole.

Above is a graph of sale trends within southern Queensland from the Brisbane Valley through to Birdsville for country above 1,000 hectares. The graph identifies that sales rates are now as low as they were in 2012. The graph however shows that the median value has declined which is a statistical representation of the data, created by the reduced number of high value assets that have transacted, hence reflecting a contradiction to our interpretation of the market. Overall it's expected that 2019 will remain steady for country east of say Mitchell, however should good rain be received in the next month or two, it's likely we will see an increase in the number of listings in western Queensland. In saying that, it's also likely that demand may also increase on the back of improved seasonal conditions. Alternatively, should a break in the season not occur, this will likely have the opposite effect and has the potential for some anxious vendor properties being offered to the market.

Contact:
Stephen Cameron Ph: 0438 180 278

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Western Victoria and South East South Australia

2018 displayed a continued strong market for rural land in most of western Victoria and south-east of South Australia, with a number of large transactions occurring at maintained strong value levels. These transactions included the sale of Fernleigh, Cairn Curran, Woolbrook, Mokanger/Lewana for $15 million and Mount Fyans for $37 million. All sales displayed a strong improvement in value trends from the previous twelve months and the re-sale of Mt Fyans displayed a real increase in value of circa eight per cent over the two years it was held by Harmony Beef, with little capital improvement.

The year ahead is likely to see a slower demand for rural property with much of the A-grade farm stock already having changed hands. Whilst supply should remain relatively tight, reduced demand is expected to slightly soften competition and values towards the later part of 2019.

Values in the deep southern dairy belt are envisaged to improve slightly from a low base and the remainder of the cropping and grazing market is likely to experience limited to static growth.

Movements in interest rates and commodity prices remain the most critical impacting factors for the year ahead despite the drier than average season in many parts.

Contact:
Angus Shaw Ph: 0448 906 075

Western Australia

2019 is shaping up to be another interesting year for agriculture in Western Australia.

Whilst the eastern states are suffering from severe droughts, Western Australia has reportedly experienced its second largest grain crop in history, together with high grain prices resulting in a record $6.5 billion boost to the state economy.

The live sheep export matter continues with plans afoot to halt live sheep trading during the northern hemisphere summer months. The Department of Water Resources has also proposed implementation of Heat Stress Standards changes which is in consultation with industry bodies. Northern pastoralists are likely to be watching the situation carefully as fears mount that the live sheep export restrictions may flow on to other live exports including cattle and goats.

2018 was another tough year for the Western Australia dairy industry. Uncertainty over contracts and industry structure continued and low autumn and winter rainfall resulted in diminished feed stores across much of the great southern and south-west zones. Depleted bottom lines have seen as many as eight farmers retire or leave the industry in the past twelve months.

Cropping regions continue to see strong demand from local purchasers following a number of above-average growing seasons and reduced debt levels allowing for expansion opportunities. Corporate demand has continued with investors looking to diversify portfolios across the country.

In 2019, the result of the above noted agri-economic and political situation is likely to see a reduction in demand for grazing properties as uncertainty over the future and financial pressures are front of mind.

In the cropping regions that have had a good year, we are likely to continue to see strong demand for land both from the local and corporate sectors. Values are likely to be strong as demand surpasses supply, however I'm sure purchasers will be mindful that along with good years, bad years can also happen and therefore the link between investment in land and average returns continues to be fundamental in the acquisition of property.

We are also likely to see an increase in investment in land improvement and farm infrastructure in 2019 with a view to improving productivity and operational efficiencies.

Contact:
David Abel Ph: 0408 489 667