HERRON TODD WHITE RURAL

Rural

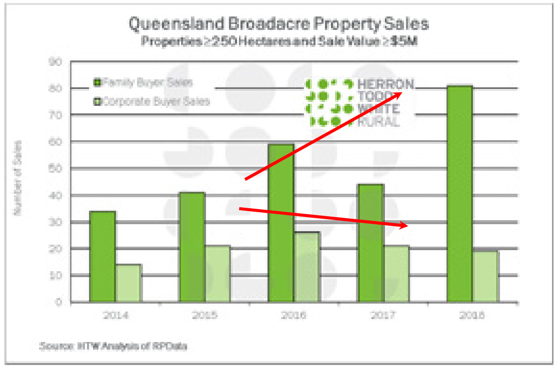
April 2019

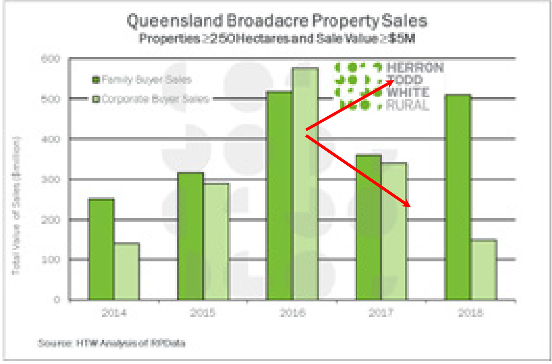
Overview

As this update is being penned, there is some hope of cyclones Trevor and Veronica bringing much needed rain to many drought-affected regions of the country and, fingers crossed, the falls are wide spread and of sufficient volume to make a positive impact. It seems that from earlier this year the fatigue factor of a long dry summer and poor outlook had started to impact sales activity for many regions with an air of caution in the market place.

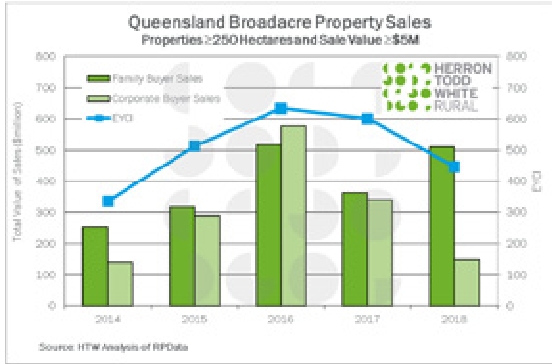
The cattle market has highlighted this with the EYCI falling from 4 February 2019 475c/kg to a low of 385.25c/kg on 8 March 2019 and a rebound back to 441.25 as at 21 March 2019 on the back of some rain falling and forward prospects. Agents still report good interest and grass buyers are active from Longreach north, however other buying decisions are being deferred and the corporate buyers are not as active as previous years.

This fact is demonstrated in the two charts below which highlight the family buyer is now the dominant buyer in the Qld market place by volume but also value of transactions which is a shift from 2016 where the corporate market drove the buying activity.





When the EYCI is then overlayed with the corporate activity the correlation for commodity price to sales activity is very clearly seen.



If the rains do fall as currently forecast and the market kicks again, it will be very interesting to see if the buying momentum is maintained or if some of the fatigue from the dry softens this side of the equation. We may also see an increase in supply of property with grass come to the market on a wider area than the North Qld flood zone so the agents may get very busy again. We'll have to wait and see whether this means increased prices being paid above current market peaks, however action over the next two-to-three months may well set the scene for the next 18 months or so.

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Central and Western NSW

The rural property market in the Central West of New South Wales continues to maintain reasonable levels of interest. Listings have been somewhat subdued for 2019 due mostly to the drought and sub-optimal presentation factors. However any properties that have been marketed realistically have been selling with the appetite to purchase still strong.

A very active rural agent indicated recently that sales are still relatively strong on the back of limited listings. They indicated that 12 months ago there might have been ten to 12 interested parties in a listing, now that number is five or six. This validates that the market is still active and orderly marketed and well-priced properties are moving at satisfactory rates.

The Western Division of the state in the more marginal area's sales have definitely slowed, with very limited transactions occurring. The drought has a very big hold on a large area and paddock feed stocks are all but exhausted. Stock have been sold down and that will continue as no one is confident of a break in the season.

Even goats are struggling for feed especially tagged animals behind wire. We recently valued a medium sized station in far west New South Wales with full goat fencing and saw only four kangaroos on a one-hour driving inspection and they were under trees near water points and weak.

While these drought conditions continue there will be limited offerings of property in the western

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areas of New South Wales. Our observations and discussions with agents indicate that when the season breaks properly there will be numerous offerings of property (potential over supply) and plenty of choice for purchasers. This would normally facilitate a flattening of rates and we expect that will happen.

Overall, so far the drought has had some slowing of transactions and little effect on values and overall interest in rural property, however we are now in March and the early fodder crops and canola planting is not happening. Major rain events need to occur in the very short-term as no one can afford another tough winter with no crop or pasture growing rainfall events.

Even goats are struggling for feed.

The major factor now and until there is a break in the season is cash flow and the confidence to service debt.

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Central Tablelands

Demand for rural properties remains reasonably strong at present.

It appears there is a broad enough cache of buyer types, with their different needs and intentions for acquiring property, to support this demand. In our conversations with landholders and potential buyers of properties that are for sale, we learned of a number of varying philosophies about purchasing property in times of drought.

The number of properties being offered to the market has eased throughout 2018 and 2019, due in part to the extended dry seasonal conditions. As a result, sales volumes have eased.

This trend of tightened supply is a continuation of what was seen throughout the past three months and throughout 2018.

This tighter supply and limited stock available, in the face of reasonably strong demand, may uphold value levels somewhat.

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New England & Northern Tablelands

As reported in the March Herron Todd White Month in Review, the north-west slopes and plains continue to suffer from an extended drought. With dry conditions throughout much of this north-west region, buyers are looking further afield to areas that have fared better than the majority of New South Wales.

There are still pockets within the New England and Northern Tablelands that have been lucky enough to have received rainfall events that other areas missed out on. These areas are becoming sought after from buyers looking for that added longer-term security of higher rainfall and also immediate feed for stock. There have been a number of more recent sales around Guyra, Ben Lomond, Tenterden, Ebor and Wongwibinda with sale prices indicating that buyers are prepared to pay premium prices to secure country that is carrying a large body of feed. While there is demand, there are lower numbers of listings for larger acreage holdings which is contributing to a decrease in the number of sales.

Oban View, located to the north-east of Guyra, sold under the hammer in March 2019 with good buyer interest reported. This 855 hectare holding was the first substantial listing in the area since mid to late 2018.

We anticipate that demand will remain strong for properties located in areas of higher rainfall.

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Central & Southern NSW

The weather has played an interesting part in the property matrix over the past 18 months. Generally when we have seen depleted cash flows through lack of feed, eventually there has been a corresponding drop in market interest due to the inability to service any expansionary ideas. Up until recently, from our perspective, it has not had the greatest impact on the general property market however over the past eight weeks we have begun to see decisions made on farm that have been prompted by the lack of cash flow and debt servicing ability. While this has had some softening effect on the level of interest within the general market place there is still solid market participation at auctions and marketing campaigns, albeit at a lower level than previously experienced. This drought impact is not as evident in the corporate sector as a majority of these purchases are undertaken with funds under management and not borrowings. In fact we are seeing an increase in activity of smaller corporate players at present, particularly in central New South Wales around the Forbes district where a number of the smaller entities have been active searching for properties in the $3 million to $7 million range.

We are aware of a transaction under contract at present in central New South Wales which does involve one of the smaller corporate entities mentioned which has been purchased on a sale and lease back agreement. The lease equates to a four per cent return on initial investment. This would be reflective of the general market now in terms of yields with most tenanted properties in the 3.5 to four per cent range. This is a reflection of the substantial increase in underlying land value which has resulted in compression of yields as tenants are unwilling and unable to afford the previously accepted yield range of 4.5 to five per cent.

A recent sale in the Riverina which has just settled is the property called The Peak. This property was put out for tender rather than auction and received significant interest from local landholders and nearby landholders looking to expand. This is a 659 hectare property subdivided to five main paddocks and improved with a basic machinery shed and silo. Soils are good quality red loams typical of the area. The property is located 25 kilometres north-east of Barellan and 25 kilometres south-east of Weethalle. It has now settled and indicates an overall improved value of $3,188 per hectare which equates to approximately $1,290 per acre. This is a particularly strong sale and would be considered to be setting new benchmark levels for the area to the south of Weethalle.

When we look at the property clock of an area, knowing when we have hit the top of the market is always a retrospective analysis.

In other words, we will only know we have hit the top of the market after we have passed it.

We have previously reported the sale of Forest Vale in the southern Riverina area around Holbrook and Gundagai. This is a 1,165 hectare open grazing property in a well-regarded location on the Hume Highway and the sale included substantial improvements including a fully renovated circa 1902 homestead. The reported purchase price of the land was $13.25 million which equates to $11,373 per hectare overall. Whilst this appears only marginally in front of other smaller area sales in terms of achieved dollar per hectare rates, it is not until we know the details of the balance of the contract that we will be able to accurately assess the real price paid for the land itself. However after consideration of the reported price and the scale of the property involved, I believe we will look back at this sale and call it the peak of the market for this area.

Mind you, only time will tell.

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NSW North Coast

The New South Wales North Coast has been relatively fortunate with weather conditions in recent years however the recent summer has been very dry and hot. January in particular for most localities had almost no rainfall. BOM rainfall recordings were broadly 23 to 41 per cent of the median rainfall for summer and temperatures were hotter than average. This weather has impacted significantly because summer is a crucial growing period on the New South Wales North Coast. Sugar cane, soya beans, corn, pastures and livestock, stock water dams and some horticultural crops have been affected to varying degrees depending on the luck of isolated rainfalls and whether there is other infrastructure in place to assist water availability.

The weather impact on the macadamia nut industry is not as evident at this stage. Harvest has commenced. Some processors have announced 2019 harvest pricing of $5.40 per kilogram nut in shell at 33 per cent kernel recovery and 10 per cent moisture. This is an increase from the 2018 delivery price of $5.20 per kilogram. This market sector remains very strong with strong demand for macadamia nut farms. There are very few properties listed for sale and indications are of values continuing to firm off the back of strong net incomes and pleasant lifestyle locations. Recent sales of macadamia farms indicate mature orchard values of broadly $70,000 to $105,000 per hectare.

This weather has impacted significantly because summer is a crucial growing period on the New South Wales North Coast.

Clarence River at Alice — Source: HTW

Clarence River at Plains Station — Source: HTW

The sugar cane crop will be reduced in 2019 for the whole crop and possibly 2020 for two year old crops as a result of this recent dry summer period. On the back of very low world sugar prices, this crop reduction is a potentially significant impact for growers, sugar mills and the community. The sugar industry relies on crop tonnage throughput to the sugar mills as there are significant fixed costs of infrastructure and the relatively large direct and indirect labour force employed in the three mill locations. The continued strong commodity prices for macadamia nuts and competition for land is also impacting the sugar cane crop as macadamia farmers purchase sugar cane land. Summer cropping of soya beans has been severely impacted with a substantial reduction in plantings. Finishing of corn crops has been restricted with some of this crop likely to be used for fodder.

Pastures and stock water for many beef and dairy graziers are struggling. Farmers relying on pumping irrigation water from rivers and streams are significantly impacted other than the relatively small number who rely on Toonumbar Dam west of Kyogle which is currently at 74 per cent capacity and irrigators can pump 100 per cent of allocations. Toonumbar Dam is the only regulated dam on the New South Wales North Coast other than farmers having their own on farm dam storages. Irrigators relying on unregulated river and streams are prevented from pumping water when low flows trigger cease to pump rules. Cease to pump has occurred in many localities.

The impacts of the summer's hot dry weather on property values are difficult to determine at present but lower rainfall will likely result in lower production and lower farm annual incomes for many farmers, which logically may challenge their ability to purchase land. This is a high summer rainfall area and a lot of effort historically has been put to drainage of rainfall events. There are few contingencies in this location other than rainfall in the short term and in the long-term, farmers relying on irrigation of crops, pasture or horticulture from unregulated rivers and streams constructing their own on farm water storages or ground water bores so that they have reliable water supplies when there are low stream flows. Graziers have been active in attempting to install bores for stock water and some may consider constructing more farm dams for stock water and to supplement crops. Whilst the New South Wales North Coast can be very wet, none the less it is expected that in the future farms with access to safe supplementary water other than from rainfall will be sought after.

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Mildura

Water is on everyone's mind at present, with irrigators nervous about allocations in the coming season and the dryland and grazing sectors nervously waiting for an autumn break.

There have been a number of sales of smaller horticultural properties within the irrigation districts during recent months and it appears that at this sub 20 hectare level, purchasers remain active. The volumes of irrigation water required are relatively small and at this scale, the possibility of paying high costs for temporary irrigation entitlement in 2019/20 appears not to have curbed buyer appetite yet. Commodity prices for most of our local produce and in particular table grapes and citrus are at above long term historic prices and this is driving current buyer activity.

A current example of a small dried fruit property sale involves a 9.5 hectare vineyard in Merbein West, which shows around $34,000 per hectare (ex water) for good standard vines. This is in line with

Water is on everyone's mind at present.

market expectations and around double the price we would have expected to see three years ago.

Sales of larger scale horticultural properties have been slow in recent months and it is considered that irrigation water security is contributing to the slowing demand. We note that several vendors have started including the opportunity to lease some or all of the necessary irrigation allocation for several years, but they may have to also consider doing so at rates which are lower than the current $465 per megalitre spot market in order to help alleviate these concerns.

Many graziers in south western New South Wales have now been feeding stock for a long time. Strong commodity prices have helped finance this decision, however we would expect many landholders are now focused solely on maintaining what they have, rather than expansion. There still appears to be strong underlying demand for grazing country and we don't expect to see values fall, however buyers and sellers will be waiting until there are better seasonal conditions before negotiating any sales.

There have also been fewer than normal sales of dryland cropping properties in the Mallee region during the past few months, reflecting the nervousness in this sector. We would normally expect to see sales activity ramp up between October and February, in order to give buyers the opportunity to plan their winter cropping programs, however both vendors and purchasers appear to be waiting to see what coming months bring.

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Echuca

Broadly speaking, most markets have held on to gains achieved in the preceding years which provided strong gains on historical levels on the back of several good years and improved demand. The exception has been dairy which has seen some significant challenges around reduced terms of trade through increased costs and insufficient gains in farm gate milk price to offset the increased costs. In fact, the value of dairy farms to a large extent has been static for an extended period with limited demand.

Other cropping and grazing holdings are delicately poised and as per normal, we are all looking to the forecast to see when the autumn break might arrive noting that it does not normally arrive until mid-May. Drier than average seasonal conditions (and inflows to the major water storages) will create massive challenges firstly for the dairy sector and secondly for the broader irrigation district which is already in short supply based on the trade of allocation reaching its highest price ($530 per megalitre) since the millennium drought ($1,100 per megalitre). Average seasonal conditions including a reasonable autumn break for dryland farmers will likely see dryland assets continue to rise after taking pause for much of 2018.

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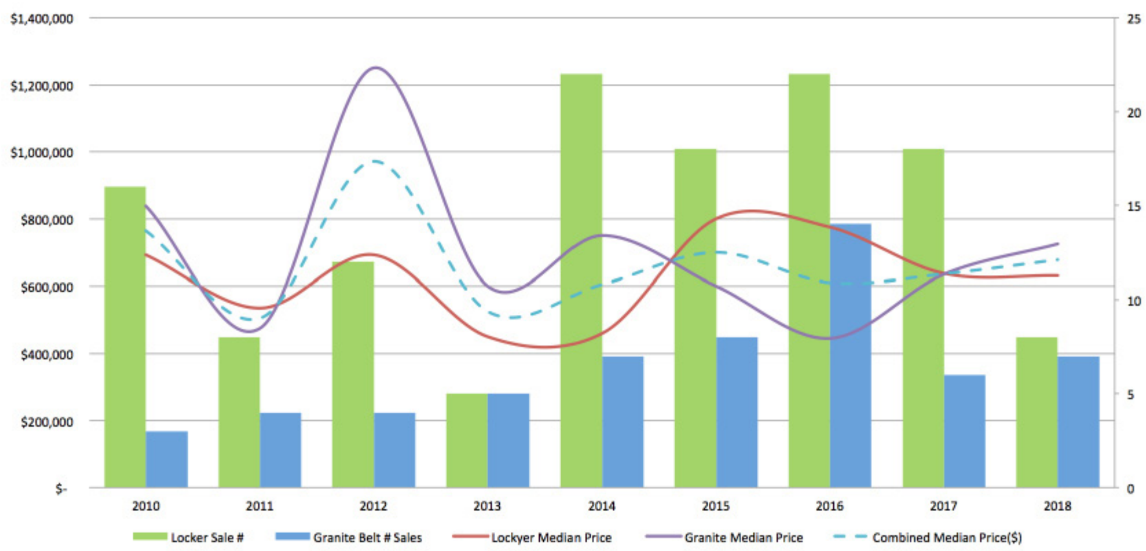
Darling Downs

Just prior to the rain in south-east Queensland, we were starting to hear some noise of weakening market confidence especially on the Inner Downs. This is likely due to the exceptionally dry conditions leading up to the mid-March rainfall where the Downs and the north-west received circa 20 to 80 millimetres. Although the rain is very welcome, it's not drought breaking and the issue in many areas

Sales Lockyer and Granite



Granite Belt Crops Source: HTW

that still remains, particularly for irrigators, is the lack of surface water and the depletion of ground water aquifers. Driving around both the Granite Belt and Lockyer Valley there is the general observation of the sheer lack of plantings of small cropping country. Irrigators on the Granite Belt have been carting water in order to maintain existing crops, although considered a temporary solution due to the costs involved. In late February, the Border Rivers and Moonie Water Plan was issued that will allow for both the permanent and temporary trading of water within the various zones. This will unlikely provide any short-term relief to growers, however some irrigators will likely see this as an opportunity to acquire further water to secure supply. Alternatively, those generally smaller less viable operators may look at selling water on a temporary or permanent basis to have access to cash flow.

Within the Lockyer Valley where significant depletion of ground water is being experienced, the Queensland Department of Water has gone back to the drawing board regarding implementing the controversial Central Lockyer Water Plan. There is no doubt the system needs to be regulated to maintain the most productive country in the south-east Queensland. I don't think anyone would disagree that it's not going to be easy to get the balance right between achieving sustainable water without impacting the profitability of the agricultural industries. The previously put forward draft was undoubtedly going to have an impact on growers. Any impact on the medium to long term profitability in any business will ultimately impact its market values.

Overall between the two small cropping markets there has been a decline in transactions for the 2018 year albeit at a low base. Below is a graph of the relativity between the Local Authorities which broadly reflect similar market trends over the past nine years for irrigated and non-irrigated cropping country between 20 to 200 hectares. Notably the median sale price between both areas is at or slightly below 2010 levels.

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