PGG Wrightson Real Estate

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Rural Property Pulse

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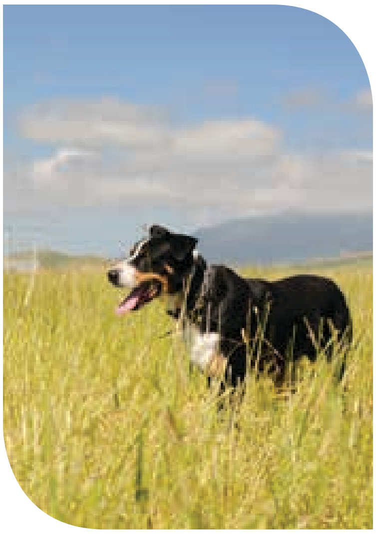

Market imbalance favours sellers, despite uncertain payout forecasts

As you will see inside the Summer 2014 edition of PGG Wrightson Real Estate Limited's quarterly newsletter, a number of significant farm sales were transacted in various parts of the country throughout the spring. These indicate that, despite declining dairy payout forecasts and diminishing auction trends, which are causing concern for some, a strong appetite for investment in New Zealand agriculture still prevails.

While dairy forecasts have slipped from their previously spectacular heights, sheep and beef prices are looking good. Milk price projections will almost certainly bounce back in the medium to long-term. Dairy also has an auspicious future, as do other sectors of the New Zealand rural economy, and prospects remain optimistic across the board. Fundamentally, the world's appetite for the consumption of protein, not just dairy, continues to grow at a rate that production cannot keep pace with.

Farm sales through the spring clearly demonstrate what we have known for some time, which is that the market has been operating under an obvious supply-demand imbalance, with plenty of purchasers eager to acquire rural property and few farm owners actually prepared to sell.

What is occurring is that, although dairy farmers are facing some challenges with the payout forecast, for other land uses and for those with a longer-term outlook on dairying, demand to invest in or consolidate farm ownership has not abated. In fact, if anything, it is stronger than ever.

Of course, everything is cyclical, and what the market has not fully tested just yet is how deep and strong that demand to purchase farmland really is.

Anyone thinking about offering property to the market over the next few months should carefully bear this in mind. Demand still overreaches the supply of good rural properties, particularly in dairy, but also in breeding and finishing properties, and beyond the pastoral sector. How long that will continue is the unknown factor.

All sectors are interlinked, though at present dairying represents the critical mass. If payout forecasts bounce back before the end of this season and farm owners decide to stay in the game rather than selling, the imbalance in favour of the vendor could hold indefinitely. However, if forecasts stay at present levels for a more sustained period then the pool of motivated prospective purchasers could dry up and those who hold on to try to catch the market at its pinnacle may rue the decision.

Agribusiness is a series of calculated risks, of which property ownership is one of the most acute.

Assuming the current trends continue through the summer, we can look forward to rural property market activity rising steadily over the coming months. Overall farm values should hold their present levels. Although, in those parts of the country where quality properties are scarce, prices may edge up.

Beyond dairying, it is easier to confidently predict that buyers will continue to outstrip sellers right throughout the summer and beyond.

PGG Wrightson Real Estate leads the rural property market. We are responsible for around one-third of all New Zealand farm sales. Our understanding of the rural sector is unmatched, as are the experience and knowledge that our sales team brings to selling farm property.

Our comprehensive sales network covers the whole country. We know how to deliver our clients the objectives they seek.

Whether you wish to buy or sell property over the coming months, there is no better time to act than now. We look forward to hearing from you.

Peter Newbold
General Manager
PGG Wrightson Real Estate Limited

Recent nationwide sales demonstrate strength of demand

"...exceeding the farm's 2011 rateable value by 15 per cent. Its new owners intend to use the property for dairy support."

Although only a limited number of properties are on the market in most regions, the following recent significant sales indicate that demand remains high.

On 2 October, a 207 hectare grazing property at Waituna West in Manawatu sold by auction for $3.9 million, totalling $18,800 per hectare and exceeding the farm's 2011 rateable value by 15 per cent. Its new owners intend to use the property for dairy support.

On 3 October, a 79 hectare dryland bare block at Hororata, Central Canterbury, sold at $2.63 million or over $33,000 per hectare. This property has shares in Central Plains Water, which will provide irrigation to the area within the next few months.

A 99 hectare dairy property close to Hamilton with well-developed farm infrastructure and milking 320 cows sold on 3 October for $6 million or approximately $60,000 per hectare without dairy company shares.

On 7 October, a 60 hectare property at Oxford, North Canterbury, was sold under the hammer at $1.67 million or in excess of $27,000 per hectare. This is a well-set-up smaller farm, presently leased and conservatively farmed as a cattle-finishing unit.

A 601 hectare Hawke's Bay grazing, breeding and finishing property sold by auction on 30 October for $6.4 million. Located 22 kilometres south-east of Havelock North and currently farming in excess of 6000 stock units based on the productive part of the property, the sale equates to in excess of $11,600 per hectare.

In late October, a 587 hectare dryland dairy farm and run-off at Sherwood near Fairlie in South Canterbury sold for approximately $13 million or around $22,000 per hectare. With average rainfall over the last 10 years of 974 millimetres, the property carries a milking herd of approximately 850 mixed age cows and has historically produced in the order of 400 kilograms of milksolids per cow per annum.

A 185 hectare dairy property in Tomarata, Northland, sold by private treaty for $6 million exclusive of dairy company shares on 3 November. Selling for $32,500 per hectare, this farm was at the upper end of Northland dairy properties with a mix of contour and soil types and has produced 176,000 kilograms of milksolids milking 450 cows.

A 200 hectare Bay of Plenty farm milking 380 cows 28 kilometres north of Taupo sold at auction on 6 November for $3.8 million. With annual production of 130,000 kilograms of milksolids, the farm has an effective milking platform of 130 hectares, utilising the balance for heifer grazing and a pine plantation. At an auction with three bidders in the room and one on the phone, its sale to a local dairy farmer comfortably surpassed the 2013 rateable value of $3.34 million.

A 60 hectare North Waikato dairy property that produced 85,000 kilograms of milk solids last year sold at auction on 11 November for $5.8 million. This sale included shares and milk solid entitlements in Tatua Dairy Company. When the latter are deducted the sale value equates to around $80,000 per hectare, which is a record price for a New Zealand dairy farm.

> *"Farms generally come to the market accompanied by detailed documentation that requires careful due diligence and time before a prospective purchaser will commit."*

Documentation essential for successful farm transaction

Investors recognise the compelling value proposition around New Zealand agriculture and seek to participate. Those already actively farming clearly also understand the potential returns and, when the business case for a particular property is proven, financiers will step forward to provide willing support.

In recent months, some corporate buyers have become slightly more hesitant as indications of less positive milk payout forecasts sink in, although this effect waned as spring progressed and the underlying willingness of large investors to participate in the sector returned to the fore.

These investors and increasingly those with a more traditional farming mindset will undertake strict due diligence before committing to purchase land. This is particularly the case for those who require finance before purchasing.

When making purchase decisions, such buyers will inevitably focus primarily on rates of return rather than the likely appreciation of the asset they are taking on. They will base decisions around the transaction on close analysis of the property's documented inputs, returns and overall business case. This evaluation will include farm consultant reports, soil testing records, fertiliser regimes, stocking rates and production histories.

Farms generally come to the market accompanied by detailed documentation that requires careful due diligence and time before a prospective purchaser will commit. In fact, properties without comprehensive business information are likely to sell at a discount to account for the risk undertaken by the purchaser. If a new owner needs to spend money to develop the farm to the level required to maximise its production, that investment will be deducted from the transaction price.

For those considering testing the market and offering land for sale, preparation, maintenance and presentation of this data are therefore essential parts of the marketing process where extra care will be well rewarded.

A closer look...

Sheep and Beef

Encouraged by favourable commodity prices, willing buyers of well-presented sheep and beef farms are concentrating on their preferred locations, which include central Waikato and King Country. Although supply and demand for dry stock farms remains approximately in balance, location is an increasingly critical factor as proximity to accessible schooling and social life becomes ever more important to farming families, who are less and less willing to send their children to boarding school. For example, a recently listed 146 hectare finishing or dairy support farm in Waerenga, approximately 17 kilometres to Te Kauwhata and the Auckland to Hamilton motorway, has garnered much greater interest compared with similar although more remote properties. Sales values have remained consistent. In late October, a 515 hectare farm within 20 kilometres of Hamilton sold by tender for $6.6 million: Again, location playing in its favour.

North Island Dairy

Coincidental with announcements on reduced payout forecasts, market activity in North Island dairy land dipped in September. As spring progressed, however, confidence returned. A number of properties came onto the market, generally intermediate size listings between 70 and 120 hectares, catering for both first farm purchasers and those further advanced in their dairy careers. Recent notable sales include a 300 hectare Central Plateau forestry block selling for conversion to dairy at $12,500 per effective hectare and a well-located Whakatane dairy farm selling for $56,000 per hectare. Buyer enthusiasm remains steady and corporates have renewed their enquiry into the availability of dairy properties. With interest and currency exchange rates both favourable, and purchasers focused more on long-term gain than short-term payout forecasts, market activity should remain steady throughout the summer, with values unlikely to fluctuate.

South Island Dairy

Although no substantial sales proceeded in Canterbury in the early spring, based on the imbalance between supply and demand, all indications are that the market remains fully firm. Demand is strongest for irrigated properties with capacity for 350 to 400 cows, which range in price from $50,000 to $56,000 per hectare, excluding dairy company shares. In Southland, due to the milk payout drop, some vendors held back from the market and fewer farms changed hands than for the spring period last year. Southland values for upper-end dairy property presently sit in the $40,000 to $47,000 per hectare bracket, with mid-range properties fetching around $10,000 per hectare less, excluding dairy company shares. Corporate buyers are again evident in Canterbury, particularly since the election result reduced a degree of uncertainty, although they may also be more sensitive than local buyers to another fall in dairy return forecasts.

Viticulture

Several vineyards have changed hands during winter and spring, which, with pruning completed and last season's fruit supply payment banked, is traditionally a busy time for viticulture property transactions. Generally, the market has remained firm, with new listings meeting a steady level of enquiry. International buyers have been active, with Chinese and Australian interests purchasing well-located established 50 hectare blocks recently, all subject to Overseas Investment Office approval. As spring progresses into summer, those keen to sell viticulture land can be confident of finding buyers. Overseas markets have increased sufficiently to now meet and exceed the capacity of New Zealand's wine producers, which is creating positive outcomes for the market in viticulture property. Vineyards in the better locations are selling for up to $200,000 per hectare, while sales between $160,000 and $170,000 have become common.

Horticulture

Well-founded industry predictions suggest that the price for G3 kiwifruit will drop to $6.00 this season, down from $9.56 per tray last season. Growers will set budgets accordingly and a hiatus is likely in the previously bullish market for orchards. Despite that, a good 5.84 canopy hectare G3 orchard in well-established kiwifruit country 15 kilometres south of Te Puke sold in late October for $400,000 per canopy hectare. Meanwhile, although few are currently on the market, the right green kiwifruit orchard in a favoured location will still fetch up to $350,000 per canopy hectare. These values should be tested in early December, once the crop is set and budgets more accurately prepared. In summer, activity in horticulture property is likely to increase as smaller orchards with houses on-site come onto the market to tempt urban-based holidaymakers who fancy a change of pace.

Cropping

With dairy returns uncertain, the traditional premium for fertile arable soils appears to have re-established. Over the past few years, this has eroded as cropping farms sold for dairy conversion. While arable land sales are rare, one well-presented and productive irrigated cropping farm between Rakaia and Chertsey in Mid Canterbury sold in the spring, in line with current market values, between $46,000 and $49,000 per hectare, with the new owner continuing its land use. Similar farms listing in summer look set for comparable outcomes as arable farmers have regained their motivation to match or better what dairy farmers will pay to obtain land. In some instances, dairy grazing property offered for sale could even end up sown back in crops. As summer proceeds, so long as supply-demand ratios hold, the market for arable land should remain fully firm.

Forestry

An imbalance of supply over demand for export logs, which resulted in an inevitable dip in prices, constrained the market in forestry property through the winter. Since then, a trickle of new spring enquiry suggests renewed interest in forestry as an investment. Log prices are also recovering, which is likely to re-energise confidence in the market for mature forest property. Flat forest-land recently offered for sale in Canterbury and suitable for conversion to pasture met an enthusiastic market. Owners of other forests similarly affected by catastrophic wind in September 2013 may take a lead from this and also put their property in front of a market motivated by land use conversion. In the meantime, quality listings remain in short supply, although a few are in the process of preparation for sale, with a view to listing in the summer.

High Country

Over the past 18 months, significant high country transactions have been scant. Despite some demand being apparent, without listings, it is difficult to gauge how strong or deep that is. Potential offshore purchasers may take note of the lower New Zealand dollar, which will theoretically make high country property more attractive to them. However, the current prices for beef and lamb will dissuade high country owners from going to the market, most preferring to sit tight and take the favourable returns on offer from their production. With few high country properties listed for sale and a reasonable level of demand, some owners might decide to sell in the near future and would therefore stand to cash in. However, even if a limited number do take that option, the overall market dynamic, with low levels of activity, is unlikely to alter any time soon.

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