PGG Wrightson Real Estate

Issue 19 | Autumn 2015

Rural Property Pulse

Contents

Prestigious listings will test the high country market

A few weeks ago, local and offshore media picked up on suggestions that wealthy overseas interests were buying isolated New Zealand properties to use as 'secret boltholes' in case civil unrest threatens their own countries.

Lack of activity in high country property sales and, in particular, little sign of Overseas Investment Office scrutinity, suggests that, in reality, high-net-worth foreigners holing up in the back country is no more than a good story. However, two current prestigious listings will test the high country market and overseas investors are likely to take an interest.

Craigieburn Station in the Central Canterbury foothills is one of the high country's best-known properties. An approximately 11,600 hectare property in the hands of the same family for four generations, it is often referred to as the 'jewel in the crown' of the Canterbury high country.

Although less well known, Mason Hills, Waiau, a 2,542 hectare pastoral farm with a spectacular alpine outlook and impressive infrastructure, is equally enticing. Its proximity to thriving Hanmer Springs and Kaikoura, skiing, fishing and mountains, and its development into a genuine large-scale sheep and cattle unit will ignite widespread interest.

Of late, the high country sector has been quiet and where land sells, it is usually to a neighbour rather than outside purchasers. However, properties of the calibre of Craigieburn and Mason Hills have not been available so it remains to be seen whether they will sell locally or offshore.

Although we regularly receive overseas enquiry for high country property, of late, this has not translated to sales, as price expectations of vendors and potential purchasers are not at the same level. Going through the Overseas Investment Office can also present a hurdle for some foreign owners.

Instead, recent sales of notable high country properties have been to locals. These include 3,139 hectare Castle Hill Station in Central Canterbury, which sold in March last year to a Darfield farming family; 2,923 hectare The Doone, located in Lyford, Inland Kaikoura, which sold to a neighbouring farmer in early 2014; and Bendrose Station and Roboro Downs in South Canterbury, which both sold in the middle of 2014 to local interests.

An exception to recent high country sales to locals, blue chip Awatere viticulture, sheep and tourism property, 700 hectare Castlebrae, sold to a Chinese investment group in autumn 2014.

While the high dollar and regulatory constraints have stalled foreign investors, the currency exchange is now relatively in their favour so they may come back into play. Alternatively, cashed up local interests are usually strongly motivated to purchase high country property whenever it comes onto the market. They inherently understand the vital place such properties have in the history, ecological diversity and identity of New Zealand, and that passion fuels their determination to buy.

Whether Craigieburn Station or Mason Hills sell to local or overseas interests, and for how much, will provide an important benchmark for the high country sector, which may also have ramifications for the wider rural property market.

It will be interesting.

Peter Newbold
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Kiwifruit orchardists stand firm to effect remarkable turnaround in values

During February, values for kiwifruit land reached new record levels, with an orchard planted in gold kiwifruit vines topping $490,000 per canopy hectare and others set to exceed $500,000.

Kiwifruit orchardists, who own and trade in these properties, have experienced turbulent times over the past five years. They have prevailed over these challenges and are now reaping the benefits. Their story deserves to be more widely known.

Pseudomonas syringae pv. Actinidiae, widely known as Psa, is a bacterium, or virus, that can result in the death of kiwifruit vines. Psa was first detected in New Zealand in the Bay of Plenty in November 2010. Since then, the disease has spread widely throughout the Bay of Plenty and to other kiwifruit-growing districts. Initially, it devastated crops, particularly the higher-value gold varieties, leaving those in the horticulture sector in a state of high anxiety.

Prior to the outbreak, with export prices buoyant, kiwifruit orchards planted with the gold variety were changing hands for at least $400,000 per canopy hectare, while green kiwifruit land was selling between $165,000 and $180,000 per canopy hectare. Immediately before discovery of Psa, Zespri had introduced a number of new varieties. To make the most of these, growers were buying orchards intending to cut over and replace green kiwifruit stock with the new cultivars, and prices for green kiwifruit orchards kicked up by approximately 20 per cent. Once the disease took hold, the sector went into crisis mode. Banks tightened lending criteria and, within six months of the outbreak, orchard prices were 20 per cent below values for comparable properties sold the previous year. Sales volumes plummeted: Pre-Psa, in the first seven months of 2010, 80 kiwifruit orchards changed hands, while from January to July 2011, the equivalent figure was seven.

By the end of 2011, the situation was even worse. With the virus detected on vines from Whakatane to Waihi and an estimated 24 per cent of orchards afflicted, kiwifruit property investment had become purely speculative, based on little more than land value. Offers of $60,000 per canopy hectare were tabled for orchards that would have changed hands two years earlier for five times that amount. Some growers looked to convert from kiwifruit to avocadoes, even though achieving returns from doing so would take four to six years. Gold kiwifruit, previously the star performer, was the worst hit with production of these varieties drastically reduced and orchards impossible to sell.

Right through until mid-2013, times continued to be tough. By this time, growers had begun to learn how to live with the virus, understanding that climatic variables determined how severely vines suffered, and that Psa thrived in wetter conditions. Knowing more about this enemy had a rapid impact on the kiwifruit orchard market, uncertainty retreated, more resistant cultivars were identified and nurtured, and orchard prices have tracked steadily upwards since, to and beyond where they were before Psa first appeared.

Sales have been spectacular, particularly through spring and summer 2014/15. Gold kiwifruit is once again the shining star. One large gold orchard sold in late October for $400,000 per canopy hectare, fully regaining the value it had prior to the virus. It only took a few more months for that to rise yet further for similar properties, going to and through the $500,000 benchmark.

While it has been a remarkable turnaround, as noted on the back page of this newsletter, the returns fully justify these values and, as long as the supply of desirable horticulture properties continues to lag behind demand, prices paid for orchards will continue to rise.

"Gold kiwifruit is once again the shining star ...fully regaining the value it had prior to the virus."

"Market forces are currently reigniting demand for dairy commodities, while the global milk supply's rampant growth is now easing."

Global dairy market volatility provides challenges and opportunities

Dairy markets have displayed the full spectrum of volatility over the past 12 months, resulting in farmgate milk prices falling from record highs to dismal lows.

Prices typically move in approximately three-year cycles. Generally, the New Zealand dairy season does not coincide exactly with either a protracted period of extreme high prices nor a prolonged series of rock-bottom lows. However, this is precisely what has happened in both the past and current seasons. Dairy commodity prices were at record levels in the 2013/14 season before falling away sharply in the first half of 2014/15.

With global milk supplies expected to ease, dairy commodity prices are now tracking back upward, providing an opportunity for demand to catch up. Although global milk supplies are currently still growing, the rate of growth has already slackened. Milk output is expected to ease further, as farmers across the globe react to the low milk prices by curbing production. Due to the combined effects of drought and low milk prices, milk flow from New Zealand is likely to be well below normal in the latter months of the season, which the market has also factored in.

New Zealand's volatile milk price provides both challenges and opportunities. When milk prices are low, closer scrutiny of expenses is prudent which, in turn, will boost profit margins still further during good seasons. During tough times, less proficient farmers will be motivated to move out of dairy into industries that better suit their particular skill base. Low returns therefore also provide an opportunity for efficient producers to expand their dairy holdings by acquiring the assets of those who are moving on.

Long term, the outlook for New Zealand's dairy industry remains solid. Market forces are currently reigniting demand for dairy commodities, while the global milk supply's rampant growth is now easing. As a consequence the upward price trend means the outlook for 2015/16 is considerably better than the current season.

Susan Kilsby
Dairy Market Analyst
NZX Agrifax

A closer look...

Sheep and Beef

Sales of sheep and beef properties have been stable through the summer, with values and volumes of transactions similar to 2013/14 levels. Interest in the sector has remained solid. Some commentators have suggested that, below the premium end of the market, demand for rural property is slipping. This has not been evident for sheep and beef farms. Instead, indications are that few new listings will come forward in the autumn as farmers prefer to capitalise on elevated returns, while demand for farm land appears likely to remain consistent. If so, prices should increase and purchasers will look more favourably on properties that have been on the market for some time already. Price and location are the major factors affecting the market, with a more remote property generating less appeal that a similar farm in a more favoured district.

North Island Dairy

After dropping in September as milksolid payout forecasts fell, confidence in the market for North Island dairy land rebounded through late spring and early summer. Enquiry climbed to extraordinary levels, culminating in sales at strong values, particularly for farms in the supply catchment of niche Waikato dairy cooperative, Tatua. Accurately foreseeing autumn market activity, however, is awkward. Though demand for North Island dairy property should continue to exceed supply, particularly if financial institutions maintain liberal lending policies, some observers predict that unserviceable debt could grow to a degree that leaves banks less comfortable over the next few months. If so, the dairy property market could rapidly alter. Such a scenario is speculative, however, and although exceptionally dry climatic conditions could also exacerbate concerns, recovering global dairy trade auction prices should help to maintain faith in the sector's long-term prospects.

South Island Dairy

Various factors held the South Island dairy property market back during the summer. In Southland, between November and January, although values remained steady, only eight farms sold compared to 16 for the same period last year. In Canterbury and Otago, sales were even fewer, though values also remained firm, between $54,000 and $56,000 per hectare for well-irrigated farms with good infrastructure. While uncertain returns are slowing the market, the climate, particularly on the east coast, is of greater concern. With unirrigated land suffering acute soil-moisture deficit and irrigation schemes rationing water, farms are not at their best so farmers are reluctant to list. While it has been a sellers' market for a prolonged period, during the next three months, the balance could change as current values prompt more vendors to list property, particularly given the uncertainty the industry faces over the next 12 months.

Viticulture

Despite a series of challenges for growers this season, confidence in the market for viticulture property remains high. After a cooler than average winter, followed by an extended frost-risk period that most growers successfully negotiated, the industry enjoyed a relatively settled flowering and was looking forward to an above average yield of good-quality grapes. However, the onset of drought conditions as the summer progressed left most irrigation schemes cut off by February. As a consequence, without water, the long-term impact on this year's vintage is potentially dire. Nevertheless, underlying positive indicators have supported deals worth over $200,000 per hectare for established vineyards in prime areas, the major companies are undertaking extensive plantings, and property suitable for new planting is at a premium, with some appraisals estimating values for bare land at over $100,000 per hectare.

Horticulture

Demand for gold kiwifruit production blocks in preferred locations overhelmingly exceeds supply, escalating values. An orchard sold for over $490,000 per canopy hectare in late January, with others set to exceed $500,000. Similarly favoured green kiwifruit orchards are changing hands for $350,000 per canopy hectare. Properties are selling within a week of listing, with tender the optimum sale method. Buyers include growers expanding their holdings and investors capitalising on the sector's excellent returns. Orchards with houses are a slightly different market, available at around $1 million for a house plus generous income-producing lifestyle. A shortage of listings might stifle the autumn market, with interest rates offering owners little incentive to sell: When a 12 to 15 per cent return on investment is achievable from an orchard, growers will be disinclined to sell when the alternative is to put their capital in the bank at only three per cent.

Cropping

With listings and sales of arable farms scarce through the summer, determining the exact state of the market is problematic. As in most other sectors, demand exceeds the supply of property suitable for cropping, particularly due to drought-like conditions in the South Island dissuading owners from selling. This shortage of supply presents as the major factor influencing the market and will not change unless a flood of new arable farm listings arises, which is unlikely. In terms of value, indications are that little has altered since a limited number of farms changed hands late last year in the range between $46,000 and $49,000 per hectare. One new development is the likely availability of dryland farms in the Mid Canterbury foothills within the Barrhill Chertsey Irrigation Scheme supply area. Subject to them receiving water, these farms should achieve values in the $24,000 to $28,000 per hectare range.

High Country

As noted on the front page of this newsletter, two recent prestigious listings will provide strong market indicators for the high country sector over the next few months. Craigieburn Station, Cass is one of the high country's most respected properties and Mason Hills, Waiau is an extensive hill farm with many high country traits. Considerable market reaction to both is likely, as properties of the calibre of these two are rarely offered. While enquiry for high country properties is always steady, the relatively high New Zealand dollar in recent years has hindered foreign interest in these properties. That, however, may be changing so we could see elevated interest from foreign purchasers in Craigieburn and Mason Hills. Alternatively, cashed-up local dairy farmers seeking a change of pace and new challenges have purchased high country property over the past few years, and may also end up with these listings.

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