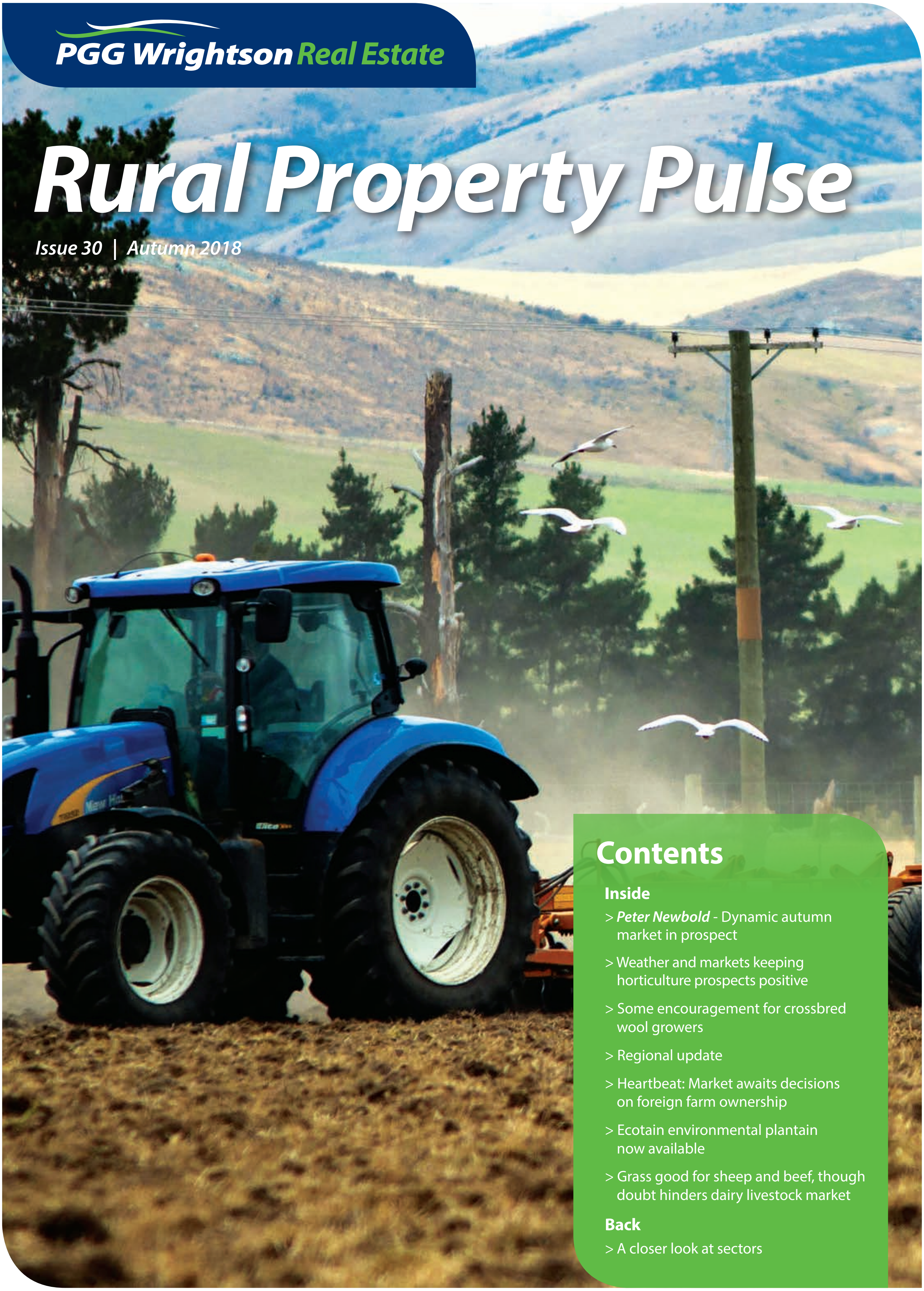
PGG Wrightson Real Estate



Rural Property Pulse

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Dynamic autumn market in prospect

As you will see in this edition of the Rural Property Pulse, this summer's market for rural property featured various highlights.

Demand for sheep and beef farms, viticulture and horticulture properties ranges from steady to spectacular. In most instances, among farmers and growers in these categories, confidence is up, export markets are willing and climatic conditions are driving excellent yields.

That said, insufficient listings are holding back the market for all these land uses as farmers and growers choose to make the most of the propitious circumstances by farming on rather than cashing in. Any dry stock farmers and kiwifruit growers considering listing property should be encouraged by the high level of buyer demand and can expect a warm reception from an under-supplied autumn market populated by a gallery of eager purchasers.

Undoubtedly, there are some significant issues in the rural sector, including banks reducing their exposure to agriculture and rural property, uncertainty around the impact of the government's changes to the overseas investment guidelines, and water quality concerns, which are all creating grounds for disagreement on land values between some buyers and sellers. These are temporary factors that should all work their way through the system relatively soon, with the market adjusting and increasing in activity levels when that correction occurs.

For those of us who see the glass as more than half full, what we can look forward to in the autumn is considerable attention directed towards a selection of desirable listings in various regions. These cover most land use types, particularly those that are generating the best export returns.

During the next few months, we expect some high-profile listings of prestigious farms and orchards will set the scene for fierce competition from a pool of well-resourced buyers.

It should be an interesting autumn.

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Weather and markets keeping horticulture prospects positive

A wet spring and warm summer, with plenty of sunshine, advanced the maturity of berry and summer fruits, bringing the harvest forward. As crops ripened well in advance of what would normally be expected, there was plenty of fruit available in domestic markets over Christmas and the holiday season. Later maturing crops, such as grapes and apples, were also well ahead of schedule so during mid and late summer, harvest periods were running a fortnight to a month ahead of normal seasonal conditions, depending on location.

Crop quality was challenged due to the dramatic change to the weather patterns in January and February. Pest and disease management has consequently been a greater issue than growers would like.

Growing conditions, however, have been favourable for all crops, including covered crops such as tomatoes, vegetables and flowers.

Some of the earlier maturing fruits, including soft fruit, cherries and berries, were plentiful at Christmas, though missed out on the markets that follow in the new year. Later cherries in Central Otago would normally run through into mid-February. This year, the later varieties were ripe almost in line with the earlier ones so, by the time the Chinese New Year market occurred in mid-February, the product had already been and gone. Early harvests also left fruit competing with produce from South America and Australia.

Approaching grape harvest, netting has gone on the vines and a fair season seems to be in prospect for viticulture, subject to local weather conditions remaining good through March and April.

Tasman received rainfall during January three times the average levels. Continuing good growing conditions through autumn bode well for the pipfruit harvest, though growers need warm fine days and cool nights to bring the colour out of their apple varieties, and too much humidity could pose a challenge with that.

Prices are holding up in export markets and demand for New Zealand produce remains steady to firm. Those producing avocados, kiwifruit and apples should continue to enjoy positive returns. Expecting to remain well-rewarded for their efforts, growers are responding accordingly, with development in horticulture continuing and conditions for investment set to remain favourable.

Significant investment is occurring in kiwifruit, apples, cherries and avocados. Much of this is phased, with land preparation taking place initially, followed by greater investment when planting is required. For kiwifruit in particular, with Zespri signalling additional G3 licences, growers will be presented with considerable opportunity, but a dilemma on where to plant this crop. Those orchardists who seek to capitalise will either have to pull out existing crops, cut over and graft onto less highly rewarding varieties, or buy and develop bare land.

This report was prepared in consultation with PGG Wrightson's Fruitfed Supplies, a leading horticultural service and supply business servicing New Zealand's major horticultural regions.

Some encouragement for crossbred wool growers

Coarse crossbred wool growers have had some encouragement recently, albeit the recovering prices are coming off a low base. Signs of improvement are perceptible, though slight, especially given the strength of the New Zealand dollar versus the United States dollar.

Renewed market activity, from India and China, drove this in the early part of 2018. This momentum has persuaded growers to shift wool, although crossbred wool returns remain barely sustainable. Passing rates are well back on what they were last year as growers are tending to meet market values.

Lambswool prices have been strong, especially at the finer edge with market demand largely for wools 30 micron and finer.

New Zealand halfbred and merino wool is currently out of its selling season, however prices in Australia remain very positive based on demand from the leisure apparel market and the Italian suiting sector.

Also encouraging, we are starting to see more media commentary around the environmental sustainability of biodegradable woollen products. This is a positive for wool, given that there is more and more emphasis and knowledge on the risks and environmental challenges from plastics and synthetics.

In the meantime, there remains a reasonable stockpile of crossbred wools, although this has diminished to a degree from earlier in the season. We are currently in the peak of North Island and Southland shearing seasons, creating a heavy flow of wool into store.

Growers should continue to concentrate on their preparation standards. Where this has declined, the value of wool has been penalised compared to better prepared, better coloured wools.

This report was prepared in consultation with PGG Wrightson's Wool team.

Regional Update

Northland

Although quiet at the start of summer, Northland's rural property market picked up somewhat post-Christmas. Values of dairy farm transactions were consistent with similar properties sold last season, and interest was shown by both local purchasers and those from outside the region. As in other regions, plenty of rain provided abundant feed and, although demand for sheep and beef properties is reasonable to strong, listings are in short supply. Northland's autumn property activity is therefore likely to remain steady, rather than spectacular. With buyers evident, albeit cautious, those considering taking property to the market, particularly fattening farms, should expect a positive response, as long as they are realistic about values. One autumn listing sure to attract attention is a well-located and widely admired 159 hectare Waipu beef finishing unit selling for the first time since 1853.

Waikato

Seventeen Waikato dairy farms sold during November 2017, close to the record number for the month in any recent year. After that, however, summer sales activity in the region reduced considerably. Various factors contributed to this, including doubt around the new government's intentions relating to overseas ownership, and uncertainty on where the dairy payout will end up this season. While farms at the top end of the region's market continue to sell well, at prices considerably above where they would have been a few years ago, there is little interest in those properties with less obvious appeal. Waikato dairy farmers who want to buy have already done so, while the others are more focused on paying back principal and interest than increasing their landholdings. Any possible market change during the autumn will be gradual rather than dramatic.

Bay of Plenty, Central Plateau and South Waikato

Kiwifruit, particularly orchards growing the G3 variety, set the tone for the Bay of Plenty's rural property market, and demand currently outstrips supply. Groups of buyers are coming together to achieve some purchases. Sales exceeding $1 million per canopy hectare occurred early in the season. In prime kiwifruit country, a Paengaroa dairy farm is for sale, currently worth approximately $45,000 per hectare, though with around 60 per cent of its area suitable for kiwifruit, the latter is valued at $100,000 per hectare, this prior to any development or planting. Meanwhile, interest in dairy property, keen pre-Christmas, dropped away in the new year; a Rotorua hill country property sold for $11,700 per hectare; and there is some interest in forestry blocks following the government's announcement on forestry development last year, though this will take some time to transition to sales.

Wanganui and Taranaki

Rural property sales in Taranaki and Wanganui were limited through spring and summer, particularly sales of dairy farms. Farms in less admired regions are attracting few prospective buyers. Several spring campaign listings remained unsold through the summer and, where dairy property is concerned, it is a buyer's market. Taranaki dairy farms that did sell achieved prices between $40,000 and $45,000 per hectare. With financiers taking a conservative line on lending criteria, and a degree of uncertainty among farmers around consenting issues for dairy, the market is unlikely to accelerate during the autumn. As always, properties with scale and location are the exception to this trend, and will continue to sell well. At present, that is particularly apparent for sheep and beef farms, where an undersupply of good quality properties for sale is evident throughout the region.

Manawatu, Wairarapa and Horowhenua

As elsewhere in the country, Wairarapa, Manawatu and Horowhenua dairy farm listings remain abundant. Those properties regarded as marginal for dairy, or carrying challenges around environmental compliance and consenting, are struggling to attract buyers. Meanwhile, listings of sheep and beef farms are tight so properties with scale and location are selling well. One such farm, Allandale, an admired 393 hectare Greytown grazing property, sold as two blocks at the end of November. These comprised 75 hectares to a local dairy farmer for use as a run-off and dairy support property, and the 236 hectare main block, which sold to a neighbouring dairy farmer, who will integrate this into his own property. Each block sold for approximately $26,000 per hectare. A large north Wairarapa hill country property is likely to go to the market in autumn and will attract considerable interest.

Hawke's Bay

With plenty of feed available, summer activity around Hawke's Bay rural property was buoyant. A shortage of listings was the only factor holding back the market. Those farms that were offered for sale sold well. Demand for sheep and beef properties of 550 hectares or more is particularly evident, and remains unmet. Transactions during the summer remained firm at up to $1400 per stock unit carrying capacity or from $10,000 per hectare up. Since the election, enthusiasm from overseas investors has waned, though some are determined to follow through on their intent to participate in the Hawke's Bay rural economy. While they are now likely to face higher barriers, they appear to still have opportunities to make an acceptable business case to the Overseas Investment Office, particularly around forestry property and development.

Nelson and Marlborough

As in much of the rest of the country, demand for Nelson and Marlborough dairy properties was subdued during the summer, with vendor expectations exceeding what purchasers were prepared to pay. How quickly this gap closes remains to be seen. For pastoral and viticulture land, however, relatively few properties were offered for sale, with eager purchasers on hand to acquire those that were. Farmers motivated to capitalise on abundant feed produced by the exceptional climatic conditions rather than going to the property market. Recent notable sales include a 234 hectare Okaramio farm that changed hands in January for $2.25 million and an extensive 1134 hectare Seddon hill block that sold in February for $2.75 million. Meanwhile, a 500 hectare St Arnaud grazing block should create strong interest when offered for deadline sale in the autumn.

Canterbury

Two North Canterbury sheep and beef farms sold well in November: 843 hectare Randolph Downs, north of Amberley, and 583 hectare Timpendean, at Weka Pass. Both well-regarded properties, each drew considerable interest before changing hands for around $1200 per stock unit. Through summer, the volume of sales reduced, with relatively few farms for sale. Canterbury dairy farmers are not offering property to the market in the same numbers as in other regions, though the buyers' market for dairy property elsewhere is providing the region's potential purchasers with greater choice and therefore reducing their price expectations. Interest in larger dairy units is restricted. Canterbury properties demonstrating environmental sustainability will attract market interest. Hurunui Water Project shareholders are set to determine whether their scheme will proceed in March, though this date may be extended. Land use change and property transactions will be made based on that decision.

Regional Update

West Coast

West Coast dairy farmers intend to see out the trough in the cycle that continues to afflict them, even when the outlook in other regions has improved. With local co-operative, Westland Milk Products' payout currently projected at between $6.20 and $6.60, most farmers should be in the black, though are generally focused on repaying debt. While banks are being patient with their clients, few of the region's farmers are motivated to buy or sell land in such a market. In a positive indicator for the future, Westland Milk recently announced that large corporate farmer, Southern Pastures LP, will supply the company from the 2018-19 season, adding an extra 4 million kilograms of milksolids to Westland's annual collection. Such a positive statement should help raise confidence in the region, which will eventually translate into increased rural property market activity.

Mid and South Canterbury

Enthusiasm to purchase Mid and South Canterbury dairy and arable properties was lower than anticipated during the summer. Farmers are wary of *Mycoplasma bovis*, which first surfaced during the spring and continues to cause local anxiety. This is one factor that has made identifying purchasers for larger dairy properties particularly challenging. Smaller farms are also proving difficult to sell. However, one Mid Canterbury arable listing, a 127 hectare Dorie property, is likely to change hands early in the autumn, and will be closely watched. Some farmers are showing signs of financial strain, though with banks apparently applying little overt pressure to date, it may take some time, if ever, before that transforms into an increase in property listings. Otherwise, interest in the region's sheep and beef farms is stronger and, the better the quality, the more satisfactory the sales outcome.

Otago and Central Otago

Dry conditions have prevailed in Otago since the start of the year, with many farmers exiting surplus livestock to more northern regions. Summer rural property market activity was slow, with few sales being completed since Christmas, although Central Otago lifestyle and residential properties did transact in reasonable volumes. Several attractive listings are receiving plenty of attention, particularly in South Otago though, in most cases, prospective buyers need to sell before they can purchase. Some financial institutions have tightened their lending criteria and are not initiating new borrowing at present. While product prices, schedules and interest rates have never been better, these financial constraints have curtailed rural property sales in Otago, frustrating both vendors and purchasers. This situation is likely to continue in the autumn.

Southland

Southland's rural property market was active early in summer, with new properties offered for sale and buyers keen to take advantage. Grounds for optimism included improved dairy prices, a stronger lamb schedule and beef returns remaining firm. However, as summer progressed, drought conditions took their toll and buyers became more concerned with what was happening on their own farms than pursuing other business opportunities. Those sales that did occur remained at values consistent with farm transactions during the spring. Buyers are predominantly local. One listing that is worthy of serious consideration is the 490 hectare property at Waimahaka, Southern Southland. This property is located in a reliable farming district and is an exceptionally well presented medium scale sheep and beef unit with further options to dairy graze in the future.

Heartbeat: Market awaits decisions on foreign farm ownership

When the new government was sworn in last year, one of its first priorities was to tighten policy around foreign ownership of New Zealand property.

This issue has created doubt and a gap between buyers and sellers on the perceived value of certain farms.

Only a minimal proportion of farm transactions involve foreign ownership.

Of the approximately 1,000 rural and farm sales PGG Wrightson Real Estate processes nationwide in an average year, the number involving non-New Zealand residents or corporations is statistically insignificant, typically between one and two per cent of all rural property sales.

For the clear majority of farm sales, buyers are local. For any salesperson marketing a farm, the first option is always to foster 'through the fence' relationships. A neighbour, or someone else nearby, is invariably the most likely farm purchaser. Overseas investment changes will not affect that, other than for a handful of sales each year.

However, perception is important, and removing foreign investment was always likely to pressure values. How it now plays out depends on how the Overseas Investment Office (OIO) applies the amended rules. We are still waiting for the first approvals of sales pending under these new guidelines so, as yet, we do not know whether there will be any value adjustment.

Once the OIO starts to announce decisions under its new guidelines, that uncertainty should be resolved. To have foreign investment taken out of the equation, even if only temporarily, and even if only for a small fraction of transactions, has altered perceptions on values. They should come back into line once the true picture is revealed.

Logically, with so few sales involving foreign investment, what is most likely is that these changes will make no appreciable difference to the value of rural property transactions. However, only when the market witnesses that will perceptions around this issue relax again, at which point the number of sales will start to resume at a more normal rate.

Ecotain environmental plantain now available

Proprietary seed company, Agricom, has commercially released Ecotain environmental plantain.

In September 2017, Agricom announced research findings that showed the natural, environmentally friendly forage cultivar can significantly reduce nitrogen leaching from urine patches on livestock farms.

Ecotain comes out of the Greener Pastures Project, which combines research and expertise from Agricom, Massey and Lincoln Universities, and Plant and Food Research. In parallel with the DairyNZ-led Forages for Reduced Nitrogen Leaching (FRNL) programme, the Greener Pastures Project has a comprehensive series of peer-reviewed scientific papers to support findings on Ecotain.

Agricom Science Lead, Dr Glenn Judson, says, depending on the factors at play on-farm and the extent to which Ecotain is used, the reduction in nitrogen leaching is significant.

"In one of the research programmes, where Ecotain is used in what is likely the optimal way, there was a reduction in nitrogen leaching by as much as 89 per cent from the urine patch.

"We know that the urine patch is the greatest source of leached nitrogen. You have a cow, for example, grazing across a large area of pasture, about 140 square metres per day. When they urinate, they're depositing a high concentration of nitrogen into a small area relative to the size they were grazing, and that small area is the urine patch.

"The plants and soil surrounding the urine patch can't absorb all that nitrogen so it's easily leached away below the root zone and also into the water table. Research is showing us that controlling the nitrogen in the urine patch is the most practical way to reducing nitrogen leaching on-farm," he said.

Research has demonstrated that not all current cultivars or breeding lines of plantain can reduce nitrate leaching from the urine patch through the four aspects Ecotain can: dilute, reduce, delay and restrict. Ecotain increases the volume of cows' urine (which dilutes the concentration of nitrogen), it reduces the total amount of nitrogen in animals' urine, it delays the process of turning ammonium into nitrate in the urine patch, and it restricts the accumulation of nitrate in Ecotain-growing soil.

From an agronomic perspective, Ecotain can be easily incorporated into a farm system without compromising quality. Suitable as a two- to three-year crop option, Ecotain provides autumn and winter growth that is critical for capturing nitrogen during wet conditions. It also contributes invaluable dry matter production, typically at times of the year when ryegrass struggles, particularly in summer and early autumn.

For more information, visit www.ecotain.co.nz.

Grass good for sheep and beef, though doubt hinders dairy livestock market

Abundant grass due to an unusually moist summer has given many farmers plenty of options, and they are making decisions in the livestock market accordingly.

Across most of the North Island, the plentiful feed has caused a slowdown in the supply of sheep and beef stock which, in turn, has driven prices up. Farmers who want to sell will do so at good values and most retain the luxury of choice. As it is likely to be late April before we see any change in the weather, grass will continue to grow and famers will continue to enjoy plenty of options.

However, one cloud on this otherwise auspicious horizon for sheep and beef farmers is facial eczema, which thrives in the prevailing warm, humid weather. In those regions where this is most likely to present issues, farmers can mitigate the threat, though need to be proactive about it.

Beef cattle prices are similar to last year, while sheep prices have risen by 20 to 30 per cent. March weaner fairs will dominate the cattle market for the next few weeks, with all suggesting similar levels to last year, which was an historic high.

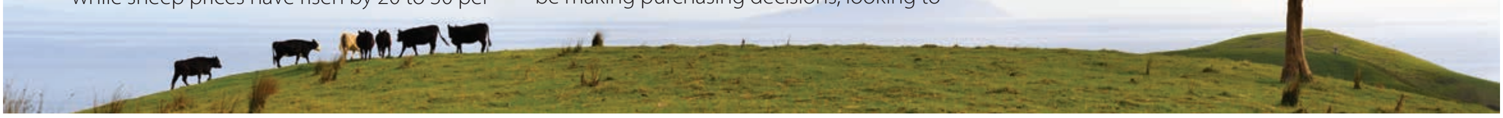
For dairy livestock, the dynamics are different. Confidence among some farmers is brittle, persuading them to delay purchase decisions, though they will have no choice but to act before the end of the season. Uncertainty has arisen around the fluctuating Global Dairy Trade results and the *Mycoplasma bovis* outbreak. In addition, the number of dairy farms on the market is not inspiring confidence.

Pregnancy testing and scanning is under way and, with some reports of high empty rates, those farmers who are affected will be making purchasing decisions, looking to replace animals. This should bode well for any upcoming clearing sales.

Market activity around herds and heifers being signed up on forward contracts will increase as autumn progresses. In late summer, herds were selling between $1600 and $1900 per head and in-calf heifers from $1400 to $1650.

Enquiry will continue through the autumn, though the quality of stock on offer is likely to diminish as the season progresses.

This report was prepared in consultation with PGG Wrightson's Livestock team.



Sheep and Beef

Demand for sheep and beef farms was strong during the summer, the sector benefiting from favourable climatic conditions, plenty of feed and continuing buoyant product prices. Confidence is high, reflected in the number of less sought after North Island dairy farm listings under consideration by sheep and beef farmers contemplating decommissioning the cowsheds. Values of established sheep and beef farms are steady, ranging from $3,000 to $4,000 per hectare for manuka properties, $6,000 to $7,000 per hectare for grazing properties at the lower end of the range, and $14,000 to $15,000 per hectare for premium level farms, although the best located properties will command more than that. Demand exceeds supply. Properties offered in the autumn should sell well. Notable summer sales include a 252 hectare Te Kuiti grazing property that sold at auction in December for $3.5 million.

North Island Dairy

While the summer market for North Island dairy farms began strongly, with plenty of activity in November and December, sales then slowed. Most action before Christmas was clustered around the top-end Waikato districts, where transactions ranged from $65,000 to $95,000 per hectare, values even to slightly firm on what has prevailed previously. In most instances, however, there was only one buyer per property, rather than a multiplicity of competing purchasers. After Christmas, when those previously motivated to buy had already done so, market intensity reduced. Although there is no shortage of listings, uncertainty around the payout and the new government, and farmers concentrating on repaying debt, have held buyer enthusiasm in check. These factors should ease gradually through the autumn, though probably not in time to re-energise the market before the end of the current milking season.

South Island Dairy

Buyers for Canterbury's larger dairy farms are scarce as uncertainty around overseas investment affects value perceptions. In Southland, summer dairy farm sales were on par with the corresponding period last year, though dry climatic conditions and the *Mycoplasma bovis* outbreak distracted farmers from the market as summer progressed. Good recent South Island sales include a 142 hectare Thompsons Track, Mid Canterbury farm, which achieved just above $57,500 per hectare when purchased by a local dairy farmer to expand the family holdings, and a 337 hectare farm at Mokotua, Invercargill, which sold in excess of $10 million, also to a neighbour. Values for Canterbury farms sit between $52,000 and $58,000, with a premium for those with better water. Southland values remain relatively unchanged, in the early $40,000s per hectare for the upper end of the market, and from $20,000 to $30,000 per hectare at the lower end.

Viticulture

With harvest fast approaching, this summer's climate has been conducive to a particularly plentiful crop. Due to the periods of heavy rain in January and February, however, botrytis and disease pressure is significant. Several eight to 10 hectare vineyards are coming to the market, where they will meet excellent demand. Historically high prices mean established vineyards are ranging from $250,000 to $300,000 per canopy hectare. Demand exceeds supply for all types of viticulture property. Interest from the larger corporates is focused on bare land suitable for future expansion, while the mid-size wineries are buying smaller blocks and contracting vineyards to bolster their supply of fruit. Private individuals, meanwhile, are looking to gain a foothold in the wine industry, where the outlook is positive, and the number of people seeking to invest mirrors the same demand in the kiwifruit sector.

Kiwifruit

This season's kiwifruit property market started spectacularly in October with a series of gold kiwifruit orchards selling between $1.05 million and $1.076 million per canopy hectare. While there were no further sales at this level during the summer, that was due to the lack of listings, rather than exhaustion of demand. Existing interests in the sector, as well as other investors eager to become involved, are driving this demand for kiwifruit property. Opportunities to buy, however, are limited. Some orchards growing green kiwifruit did change hands during the summer, fetching approximately $400,000 per canopy hectare. As growers move towards harvest in the autumn, listing activity should recommence. While orchardists sustain elevated returns on investment, and with positive commentary from Zespri on the prospects for G3 gold kiwifruit, any softening of the high values at which property is transacting is unlikely.

Pipfruit and Stonefruit

Pipfruit and stonefruit property sales were unexceptional through the summer. Demand to buy exceeds the supply of properties for sale. Although several orchardists did consider going to the market, most of these are looking to move to another property rather than exit the sector. With limited listings available and nowhere suitable for vendors to move on to, more definite activity did not therefore eventuate. Factors inhibiting the summer market, particularly among Hawke's Bay orchardists, included the dry conditions and the changeable weather patterns. As the land greened up late in the summer, the visual appeal of orchards improved, providing encouragement for those considering listing to sell. For pipfruit, at least, owners should be more willing to sell as fruit ripens and harvest approaches. Any that decide to proceed to the market in the autumn should be met positively and can expect a satisfactory outcome.

Cropping

Demand for Mid Canterbury's premier arable properties is always high. Within a tightly confined area of the district, transactions typically occur between established cropping farmers. Sales likely to be completed in late summer and early autumn look set to remain consistent with current benchmark prices for these sought-after farms, between $45,000 and $50,000 per hectare. Competition for these properties from dairy farmers, previously a feature of the sales, is not evident at present. Although the volatile weather has kept farmers on edge, heading conditions in February were favourable. Mixed spring weather, however, resulted in cereal crops between 1.0 and 1.5 tonnes per hectare below average. More arable farms will come to the market through March, April and May. While these should receive plenty of attention, the quality of their water allocation and irrigation infrastructure will determine how well they sell.

Forestry

Forests approaching maturity, including land and trees, are selling between $25,000 and $30,000 per hectare. After harvest, purchasers stand to net around $30,000 or more per hectare for the timber, depending on its quality. Investment interests are prepared to pay up to $4,000 per hectare for undeveloped land suitable to plant trees. Blocks of at least 200 hectares are most keenly sought after. China, Korea, India and Japan are all in line to purchase New Zealand logs, driving export prices for timber to a 12-year high. Supply and demand in forestry property is finely balanced and, when given the opportunity, investors and new buyers are enthusiastic participants, anxious to look at any suitable land offered for sale. As forestry is a long-term investment, this situation is likely to evolve through the rest of 2018, rather than altering radically.