PGG Wrightson Real Estate

Rural Property Pulse

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Farmer confidence setting the scene for positive spring rural property market

For farmers approaching spring, many factors provide grounds for optimism. Meat companies paying $8 per kilogram for lambs, the beef schedule holding firm, the weakening currency suggesting returns could stay positive for a while longer, and interest rates remaining at all time lows. These are positive trends that should encourage anyone, particularly sheep and beef farmers. Although the dairy payout has wavered slightly, it is still high enough to keep dairy farmers positive that the current season will treat them well.

In horticulture, the news is also rosy, with plenty of development in many horticulture regions, as growers and investors take advantage of buoyant demand from eager export markets.

For sheep and beef, the excellent levels of confidence based on record returns are reflected in the demand for breeding and finishing farms in most regions. This sector is definitely a sellers' market, and anyone who offers a sheep and beef farm for sale in the spring can expect a satisfactory result.

While some caution remains around dairy property, this may well change during the spring, particularly in October and November. More farms are likely to come to the market during this period and, in general, there are buyers for these.

One exception to that is the market for larger farms, where corporate purchasers are less evident. Since last year's general election, with the new government making its stance on foreign ownership of land clear, an important class of buyer has been removed from the market, and any farm listed is attracting less attention than would have been the case before October 2017.

In fact, this is affecting all areas of the rural property market. Overseas interest in investing in horticulture is as enthusiastic as it is in dairy. With the change of government, foreign buyers have also suspended their interest in the horticulture market, which is enabling local corporates and iwi to take a less pressured approach to these opportunities.

This absence of overseas buyers has also resulted in a change in the perception of value, which is most apparent for dairy farms. As the spring market proceeds, vendors may need to adjust their expectations on what their property is worth. As noted, we expect an increase in the number of dairy properties offered to the market this spring. Those looking to sell these farms will need to pay careful attention to market commentary regarding value, or risk ending up without a sale.

Once this value correction takes place, which it inevitably will during the coming months, the market for dairy property should regain momentum.

Spring is the most important time in the rural property calendar. This spring is set to be a big one, with plenty of attractive listings across most regions likely to draw strong interest from a motivated gallery of buyers.

This edition of Rural Property Pulse aims to provide useful information to anyone seeking to enter the market this spring, whether as a buyer or seller. If that is you, my colleagues at your local branch of PGG Wrightson Real Estate are standing by to hear from you, and to help you to achieve whatever objectives you have set in the market this year.

We look forward to hearing from you.

Peter Newbold
General Manager
PGG Wrightson Real Estate Limited

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Encouraging market means weather will dictate spring

South Island sheep and beef livestock transactions in recent months were generally low key, as is usually the case during winter. Mild climatic conditions through most regions and the lamb schedule rising to $8 per kilogram provided encouragement for farmers, which resulted in increasing demand for store lambs.

This year's scanning rates of in-lamb ewes throughout the country have also been positive, meaning few dry ewes are coming to the market. At a clearing sale in Otago in mid-August, good quality capital stock in-lamb ewes sold on average for $258 each. At the same time, records tumbled at the annual Marton and Feilding Hogget Fair, with a top price of $250 and an average of $185 across some 15,000 hoggets.

In the North Island, *Mycoplasma bovis* made four-day calf sales difficult to predict. Calf numbers through the sales were down on previous years, though demand for top calves was solid. Below the premium level, volumes are lower, which could indicate stock shortages for the dairy beef market as spring progresses.

Although plenty of farmers are seeking quality beef cattle, the kinder winter and the encouraging schedule give vendors the confidence to hold onto animals longer and maximise returns.

As spring charges pastoral growth and feed takes off, demand for trading cattle will follow. Few store cattle came to the market in the last few months and, by October, they are likely to be keenly sought after.

Deer farmers are enjoying record schedules, with velvet returns also strong, which is just reward for those in this sector who have patiently held firm over many years.

Mycoplasma bovis hangs over the dairy livestock market, at least in some regions. Anxious to reduce the risk of infection, farmers are rearing calves themselves and calf rearers are going onto farms to buy feeder calves, rather than purchasing through the saleyards. Calving has progressed satisfactorily, though calves were dropping later in the Waikato, where it was a particularly wet winter.

In most regions, farmers are reporting that cows have come through the winter in excellent order. After calving, they are therefore coming into lactation in good condition and milking well. While this provides a basis for confidence, as spring proceeds, the next step will be for the weather to deliver and pasture to take off, setting up a productive season.

If so, demand for in-milk cows is likely to be high through the spring, although that could vary between regions, and timing will depend on when spring conditions really start in various parts of the country. Availability will be the key. If every dairy farmer is looking for in-milk cows, supply could be an issue.

Dairy farmers are also enquiring early for service bulls for the upcoming season. On the back of *Mycoplasma bovis*, traceability and NAIT documentation are fully in the focus of purchasers, who need to be sure where a bull has come from. Farmers now effectively need a passport for any animal they intend to bring onto a farm.

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

Regional Update

Northland

A mild, wet winter looks set to usher in a vibrant Northland spring selling season, with sheep and beef farms in healthy demand. Likewise, horticulture is thriving, and avocado, kumara and kiwifruit properties will attract purchasers. Meanwhile, interest in dairy properties began in early August, including from outside the North. Despite Fonterra's reduced payout, and the threat of *Mycoplasma bovis*, enthusiasm for dairy is not dampened. Northland remains a viable region for a first dairy farm, with other farm types also set for spring listing. Supply and demand of rural property appear well balanced so, although an active spring market is indicated, any change in values is unlikely.

Waikato

This winter's Waikato market was buoyant, with sales equalling and surpassing those from last winter. Across most farm types, prices firmed, though that could reflect the better quality of farms offered compared to last year. Winter enquiry, especially from vendors, indicates a busy spring. With sheep and beef returns positive, buyers outside the dairy sector are confident. Waikato's horticulture market is also strong. With few of last season's listed rural properties left unsold and plenty of buyer interest, anyone bringing a farm to the spring market can expect a positive reception, with prices remaining firm.

Bay of Plenty, Central Plateau and South Waikato

Kiwifruit accounts for much of the Bay of Plenty's market. Although demand for gold kiwifruit orchards has pushed values above $1 million per canopy hectare, owners are choosing to profit from returns rather than capitalise on values. Spring listings will probably remain scarce. Demand for sheep and beef property is strong. As elsewhere, the dairy market is overcoming negative value perceptions that have prevailed since the general election. Financiers seeking to reduce rural sector exposure are also holding interest in dairy back. Deals are with existing or adjoining owners and market newcomers are less apparent.

Lower North Island

Farm listings through Taranaki, Wanganui, Wairarapa, Manawatu and Horowhenua were scarce during winter, and likely to remain tight through spring. However, demand for property is steady, mostly from existing farmers and families seeking to expand or establish the next generation. Although interest is from both those outside the region and neighbours, most recent sales have been to local purchasers. Low interest rates are one of the factors motivating buyers. However, these are a negative factor for sellers, as putting sale proceeds into a term deposit is less attractive than continuing to farm, particularly when prices for fat lambs and cattle are so high.

Hawke's Bay

A limited number of Hawke's Bay farms sold in June, with values approaching $12,000 per hectare. As winter proceeded, fewer properties were listed. With sheep and beef income well above last year, farmer confidence is growing. Several farmers in their 60s and 70s recognise this is a good time to sell, including some who held back pending decisions on the Ruataniwha irrigation scheme, which now looks unlikely to proceed. When their farms come to the market, they should attract attention. Meanwhile, interest in forestry land is evident, with lower performing farms drawing interest from corporates intent on planting trees. Their plans and budgets support purchases around $6,000 per hectare.

Nelson/Marlborough

Several Nelson and Marlborough properties sold well in winter, including a 500 hectare St Arnaud grazing block sold in April for $2.6 million; a well-established Murchison sheep and beef property sold in May above $3.5 million, and a 147 hectare Kaikoura deer block sold in March above $4 million. In the dairy market, a 93 hectare Murchison farm sold in April for more than $2.1 million. Although

Exceptional recent sales of rural property

Maungatautari, Cambridge

A 92.5 hectare Cambridge dairy farm sold at auction in late May for $11.1 million, or almost $120,000 per hectare, a record for a Waikato dairy farm. Held in the same family for the past 120 years, the new owner intends to continue farming this property, running it in conjunction with an existing equine operation. At a lively auction, four different bidders tabled 55 bids before the hammer fell.

Awamoko, North Otago

Altavady, a 623 hectare Awamoko, North Otago pastoral farm, sold in early May. In the same family ownership for three generations and presenting various farming options, though traditionally raising sheep and beef, the property was purchased for development as a grazing unit to support existing Waitaki Plains dairy farmholdings.

Mahoenui, King Country

A 1026 hectare finishing property at Mahoenui sold in June to a purchaser local to the King Country. A farm comprising 80 per cent cattle country and 20 per cent sheep country, with three houses, excellent fencing, infrastructure and water, it changed hands consistent with other recent sales in the locality.

Rotherham, North Canterbury

Ayrburn Farm, a well-established and well-developed 185 hectare irrigated Rotherham, North Canterbury property attracted considerable interest as a finishing block before selling to an established local farmer for dairy support in late April. It sold at a value consistent with other recent sales in the Amuri district.

Regional Update

uncertainty around *Mycoplasma bovis* hindered the dairy sector, Marlborough viticulture land and sheep and beef farms remain in demand. Several appealing listings, including increasingly rare large blocks with vineyard potential, will keep the region's spring market active.

Canterbury

Lack of enthusiasm for dairy meant fewer listings than normal on Canterbury's winter market. Overseas buyers took a spell and vendor confidence ebbed. One approximately 100 hectare North Canterbury finishing farm sold in June for $20,000 per hectare. Potential purchasers of sheep and beef farms are evident, particularly those looking to add 40 to 70 hectare grazing blocks to existing properties. With relatively few listed, those offered have attracted plenty of interest. Several sought after North Canterbury properties will come to the spring market. Values for sheep and beef farms are likely to hold steady.

West Coast

After prolonged low market activity, local co-operative, Westland Milk Products has entered a more prosperous phase, giving West Coast farmers optimism. Late winter purchaser enquiry, including from outside the region, could accelerate by October or November. Entry level farms, around 100 hectares, producing 100,000 kilograms of milksolids annually, and priced between $15,000 and $25,000 per hectare, are available, and compare favourably to other regions. West Coast property is a sensible investment for dairying families seeking to establish younger members. Increased optimism and generational change unleashed after being withheld for a few years should result in spring and summer farm transactions.

Mid and South Canterbury

Plenty of Mid and South Canterbury spring sheep and beef and drystock farm listings should come forward. Although some dairy farmers seek grazing blocks to establish standalone units and protect against *Mycoplasma bovis*, caution prevails. A few South Canterbury corporate farms went on the winter market, stocking 1,000 cows or more. With overseas buyers no longer as active, superannuation funds focused on diversifying portfolios to horticulture and viticulture and New Zealand-based families capable of large investment limited, purchasers are scarce. Smaller dairy farms offered in spring should sell well, consistent with autumn sales, when top tier properties transacted between $50,000 and $53,000 per hectare.

Otago

A strong Otago spring rural property market is indicated, particularly for sheep and beef. Several grazing properties from 1,500 to 10,000 stock units will be offered for sale. Favourable commodity prices persuaded many to list, encouraging those considering ending farming careers that now is an excellent time to sell. An enthusiastic and active local gallery of purchasers awaits, generally existing farmers looking to increase scale. With plenty of new listings, the imbalance between supply and demand of Otago rural properties is set to be corrected. As in Canterbury and Southland, caution prevails among Otago dairy farmers.

Southland

In the region most affected by *Mycoplasma bovis*, Southland drystock blocks are attracting increased demand. Dairy farmers seeking to improve self-sufficiency by isolating herds were eager to purchase 70 to 100 hectare properties, or lease land, though during calving, the region's dairy property sector was otherwise subdued. Meanwhile, an $8 lamb schedule, the beef schedule remaining firm, the weakening currency, and interest rates staying low make prospects for sheep and beef farmers excellent. Demand for Northern Southland arable property is high, selling above $25,000 per hectare. Most classes of Southland farm listed for spring sale can expect a positive reception, with current values for capital stock at excellent levels.

Outstanding spring listings

Menzies Ferry, Southland

A 154 hectare dairy farm at Menzies Ferry, Southland, milking 400 cows on a grass-based system, and meeting the requirements for the organic premium of $2 per kilogram of milksolids from November 2018, is for sale. With two homes and a modern 54 bail rotary cow shed, it has a 550 cow consent until 2022.

pggwre.co.nz/INV28584

Andrew Patterson
B 03 211 3144 | **M** 027 434 7636

Cooks Beach, Coromandel

Flaxmill Avocados, at Cooks Beach, Coromandel, is a 14.8 hectare property rated among New Zealand's finest avocado orchards, situated among some of the country's most sought after lifestyle locations. It comprises 1100 16 year old Hass avocado trees, carrying an estimated 30,000 trays of fruit, which are included in the sale, and is for sale by tender, closing on 11 September.

pggwre.co.nz/TAR28700

Andrew Fowler
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Crossbred and fine wool proceeding along separate paths

Fortunes for coarse crossbred wool growers and those growing fine wool continue to operate along completely different trajectories, with the latter enjoying much greater prosperity.

During May and June the market for crossbred wool exhibited signs of improvement, albeit from a low base. However, this softened again in late June and early July, with a degree of recovery through early August.

Fine woolgrowers, meanwhile, enjoy continued positive conditions, with their market reaching new highs, largely driven by severe drought in Australia, which has negatively impacted on wool volumes and quality from across the Tasman. Continued demand for fine wool from the leisurewear sector and the Italian suiting market underpin buoyant prices. All indications are that growers of merino wool will continue to fare well through the coming season.

For crossbred wool growers, the market through and beyond the spring looks set to be trending slightly positive compared to where it has been most recently. China is in the process of tidying up some environmental issues, including some parts of its scouring industry, which is a helpful step. Foreign currency exchange trends will also provide some encouragement for woolgrowers.

Farmers looking to maximise their wool returns this season should take care to maintain the best possible levels of preparation.

In recent months, wool sales have featured higher than normal passing rates and pre-auction withdrawal of lots. Those considering setting a reserve should consider their calculations. Rather than just focusing on a price, it is worth also considering the impact of wool degrading in the bale prior to its eventual sale, and what the delayed return could otherwise have been used for within a farming business.

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

Farmer confidence reflected in seed purchasing decisions

Farmer investment in pasture development was a feature of the winter seed market.

More grass to grass cultivation is occurring than in recent years, as farmers look to improve their pasture. Whereas, in the past five or so years, the emphasis has mainly been sowing to shift paddocks from cropping to grass, the seed varieties farmers are now purchasing underline the importance they are placing on regrassing land already in pasture. This requires ongoing commitment. A rise in farmers investing in regrassing is a sure sign of confidence in the sector.

Rather than buying in feed, seed purchasing trends indicate farmers are increasingly looking to grow feed on farm, and seeking out ways to utilise every square centimetre of their land. Strong demand for run-off blocks has been a feature in many regions over the past few months. Those buying such properties are following through with their seed purchases, taking the opportunity to improve soil fertility and maximise the feed they can take off.

Environmental conditions are a factor in seed purchasing decisions. Farmers are planning ahead for when they will need feed, identifying gaps in their projected feed supply, and deciding when and what they plant based on achieving as much flexibility as possible from the feed they will have available for their stock. For example, building flexibility into farm management helps enable individuals to avoid finishing lambs at the same time as everyone else, a tactic that will gain an obvious advantage from meat company schedules.

One positive trend in the seed market in recent months is the uptake of new brassica hybrid product, Raphno, which is a radish and kale cross that is finding favour with those lamb finishers who realise that total meat production per hectare is a key driver of their farming system. Farmers are always looking to gain an advantage and, for those with confidence, this variety offers clear benefits.

Also of benefit, to those who know how to find it, is the value of investing in proprietary brands rather than common seed. Proprietary seed is more expensive for a reason: it has had considerable innovation, research and development invested in it before being offered to the market. In return for this price premium, proprietary seed offers the opportunity to farm more sustainably and maximise farm assets.

During the season ahead, farmers will be well advised to take care around crop rotation. For those crops susceptible to disease, over-cropping can lead to problems. Careful rotation can help maximise yield and ensure problems with over-cropping are avoided.

This report was prepared in consultation with PGG Wrightson Seeds.

Horticulture markets and benign winter maintain grower confidence at high levels

Within their various sectors, growers approach spring in a positive frame of mind.

In Hawke's Bay and Nelson, the pipfruit sector had an extended harvest, which meant packing was prolonged, with packhouses operating longer than they generally plan for. In vineyards, pruning was the focus, preparing vines for the coming season and the 2019 vintage.

Reflecting high levels of optimism in horticulture, development activities are proceeding, particularly in viticulture, kiwifruit, avocados and cherries, with the latter featuring heavily in Central Otago and Hawke's Bay.

In Marlborough most of the prime land for viticulture is already taken up, meaning the establishment of new vineyards is reduced compared to recent years. While demand for increased production remains heavy, new viticulture development is slowing down as wineries consolidate after several years of extensive developments, requiring large capital investment .

For some horticulture crop sectors, development is putting pressure on the availability of stock for planting, particularly avocados and cherries, where demand is reflected in a considerable waiting list for trees from nurseries around the country.

While these developments are positive, expansion comes with challenges, which could impact on the supply and demand equation in some sectors. Where developers have not undertaken all the necessary preparation, risks could eventuate in securing export markets, and uncertainty could arise around the availability of labour and the management of logistics.

Continued good news from export markets eager to take New Zealand horticulture produce is driving the optimism that is motivating development. Apples and kiwifruit are the mainstays. Fruit selling well into expanding Asian markets is a good news story for apple growers.

While the winter weather could indicate a fertile spring ahead, it is too early to predict that with any confidence.

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.

Sheep and Beef

Activity in the property market for sheep and beef farms was buoyant through the winter, with the quantity of transactions equalling, or in some cases exceeding, sales for the same period last year. Although statistics suggest prices have firmed slightly rather than an actual increase, that may be due to the better quality of farms offered for sale this year compared to last. General optimism in the sheep and beef sector indicates a busy spring, with inquiry during the winter, especially from potential vendors, at higher than normal levels. Cyclical issues around farm ownership and career progression are the main factors motivating those who seek to sell, particularly as older farmers consider increasingly complex compliance issues. One notable winter sale was a well-appointed 1026 hectare finishing property at Mahoenui, which changed hands consistent with other recent sale in the southern King Country.

North Island Dairy

A 92.5 hectare property on the outskirts of Cambridge, held in the same family for 120 years, sold at auction in May for $11.1 million. Purchased by a neighbour, this sale equates to just short of $120,000 per hectare, a record for a Waikato dairy farm. Although prices for dairy land elsewhere appear to have firmed slightly over winter, that possibly reflects the superior quality of farms transacted recently rather than increased market appetite. A busy spring North Island dairy farm market is likely, with steady inquiry from potential vendors through the winter and some attractive farms poised to list. With the risk of *Mycoplasma bovis* preoccupying many farmers, demand for smaller blocks and grazing farms, which will enable dairy operations to become more self-sufficient, is likely to rise. Farm prices should remain reasonably firm through the spring.

South Island Dairy

With caution prevailing in the sector, particularly around *Mycoplasma bovis*, few winter sales of Canterbury or Southland dairy farms were completed. Two Northern Southland properties did change hands. Each of approximately 400 hectares, both were purchased by the same New Zealand-owned corporate buyer for between $24,500 and $28,000 per hectare. Although other dairy farm sales were rare, demand for grazing blocks is strong, as farmers seek to make themselves self-sufficient, keeping stock isolated from infection. Blocks from 50 to 100 hectares, with water, are particularly sought after. Once spring milk testing clarifies the *Mycoplasma bovis* status of individual properties likely on or before 15 November, more South Island dairy farms may come to the market. Some potential purchasers are waiting to see if any affected farmers will be encouraged to sell. While there is uncertainty, discounts might be anticipated.

Viticulture

Prices are firm across all classes and sizes of viticulture land as market interest remains high. Winter sales of Wairau Valley bare land, with good water rights, ranged from $30,000 to $65,000 per hectare. Several larger development blocks in Marlborough's fringe areas sold to corporate buyers at around $25,000 hectare. Some changed hands without being actively marketed. Marlborough-based Spring Creek Vintners Limited purchased a 130 hectare Seddon property in June, while the New Zealand Super Fund acquired a sizeable established vineyard in the Awatere Valley. Additional large development blocks will list for sale for 2019 planting. Increased market activity is indicated in spring, as some desirable listings in strategic Marlborough locations, with secure water will be offered for sale. Meanwhile, considerable vineyard development is under way in the Matapiro district, west of Hastings, where corporate growers are expanding rapidly, with a huge number of plantings.

Kiwifruit

Although demand for gold kiwifruit orchards is at benchmark levels, rather than cashing in, owners prefer to take the excellent returns their crop is expected to generate in the coming season. Property sales were therefore scarce during the winter, and listings are unlikely to come forth in great numbers in the spring. For those sales that do proceed, existing orchardists are the dominant purchasers. One small Paengaroa orchard, including a house, sold consistent to benchmark levels during July. Twelve months ago, the best gold kiwifruit orchards were changing hands at $800,000 per canopy hectare. Now value expectations sit above $1 million. For highly favoured green kiwifruit orchards, $450,000 per canopy hectare, excluding the crop, is the going rate. Continued price rises will depend on support from financial institutions, which may regard anything higher than current levels as unsustainable.

Pipfruit and Stonefruit

Demand for pipfruit and stonefruit orchards and development blocks remains high, though owners are reluctant to sell. Corporate growers are looking to buy in Hawke's Bay. Prices for suitable bare land range from $100,000 to $150,000 per hectare. Irrigation and loam soils are the starting point, with water reliability and soil fertility determining value. Suitable orchards are often attached to lifestyle properties, which are also under strong demand. As the productive land within these properties is generally leased, the owners are not selling. These scenarios will probably prevail through the spring, meaning sales are likely to be rare. Anyone willing to sell should therefore do well. However, some Hawke's Bay wineries are reviewing contracts due to varieties losing popularity, with vineyard owners therefore considering converting to pipfruit or stonefruit, which could help appease some of the demand for suitable land.

Cropping

Returns for feed and malting barley, feed and milling wheat, and white clover are ahead of last year by anything from five to 25 per cent, providing encouragement for arable farmers. Dairy farmers seeking to improve their self-sufficiency in the face of the *Mycoplasma bovis* outbreak also provide cropping farmers with additional options. Benchmark prices for cropping farms sit between $50,000 and $56,000 per hectare and are unchanged for more than 12 months. One or two properties selling favourably in Mid Canterbury's arable 'golden circle' in September may encourage others to test the spring market. In these properties, purchasers are mindful of land and water regulations constraining nitrate use. This is encouraging some innovation around land use. Purchase of additional smaller blocks to augment a larger cropping farm could become a more significant feature as this trend develops.

Forestry

With New Zealand logs under strong demand from overseas markets, particularly China and India, enthusiasm for forestry property remains high. Currency exchange trends are further improving the equation for exporters. Forestry activity continued through July and August, including in regions where the weather traditionally curtails winter operations. Independent companies seeking to source timber through the purchase of trees and land are in the market for suitable property. They need to enhance the supply of logs into their processing businesses for domestic and export markets. Any forest properties listed for spring sale should be well received and vendors can expect positive outcomes. Transactions for forests planted in the mid 1990s and now approaching maturity currently sit between $25,000 and $30,000 per hectare. With demand exceeding supply and the market favouring the seller, those values may well firm in the coming months.