PGG Wrightson Real Estate

Rural Property Pulse

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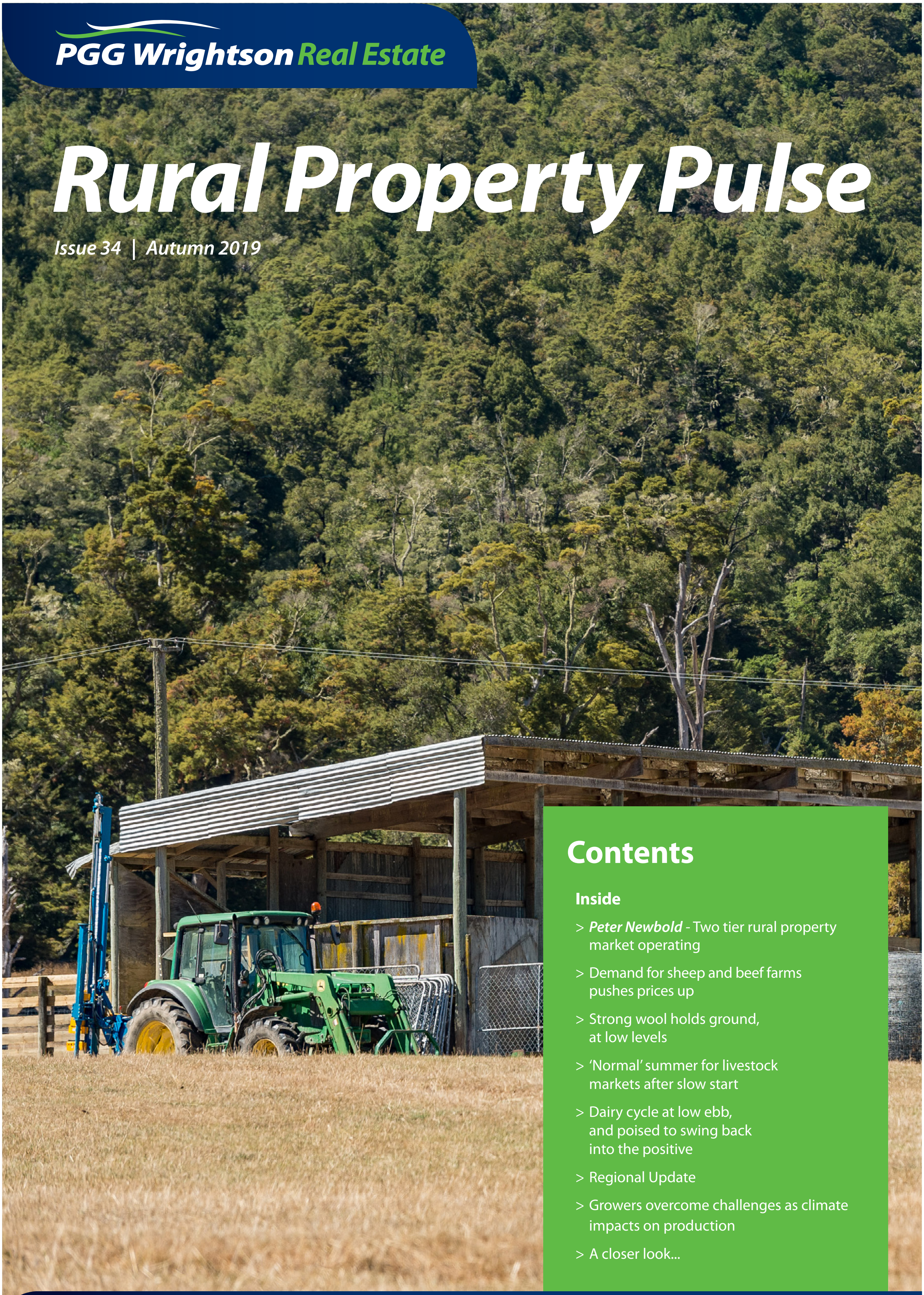

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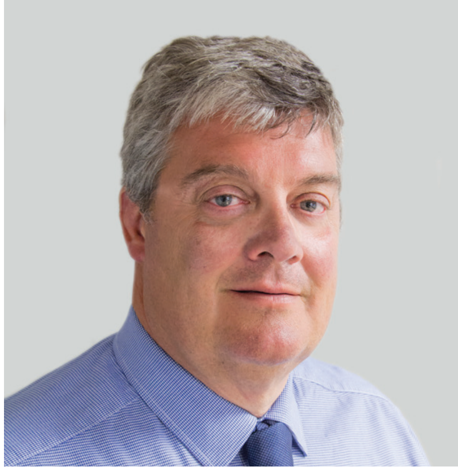


Two tier rural property market operating

This edition of the Rural Property Pulse highlights that the market for property in the primary production sector is currently operating on two tiers: for dairy, purchasers are cautious and activity is light; in all other sectors, buyers and sellers are active at above average levels, with several exceptional sales.

Farmers are faced with some significant issues. Uncertainty surrounds several important government policy initiatives, which include water quality and land use, capital gains and overseas investment. While some of these are at or approaching resolution, until they are fully clarified farmers will remain concerned, and will not have sufficient confidence to move with purpose.

Meanwhile, and not unrelated, banks are reviewing their exposure to agriculture and rural property.

Dairy is where the stakes, and the uncertainty, are highest and therefore that sector has seen reduced levels of activity during the summer.

When there is uncertainty, disagreement arises between buyers and sellers on what land is worth. While real, these disagreements are temporary factors that should all work their way through the system by the end of this year, with the market adjusting and increasing in activity levels when that correction occurs.

Meanwhile, those in the sheep and beef, viticulture and horticulture sectors are generally doing well, feeling confident and in many instances, looking to extend their property holdings.

Sheep and beef farmers are thriving, record prices for lamb and a strong, stable beef schedule indicate that farmer confidence is likely to continue through an active autumn in the rural property market. In some districts, particularly the upper North Island, sheep and beef property values have firmed notably with more substantial rises in the better located areas.

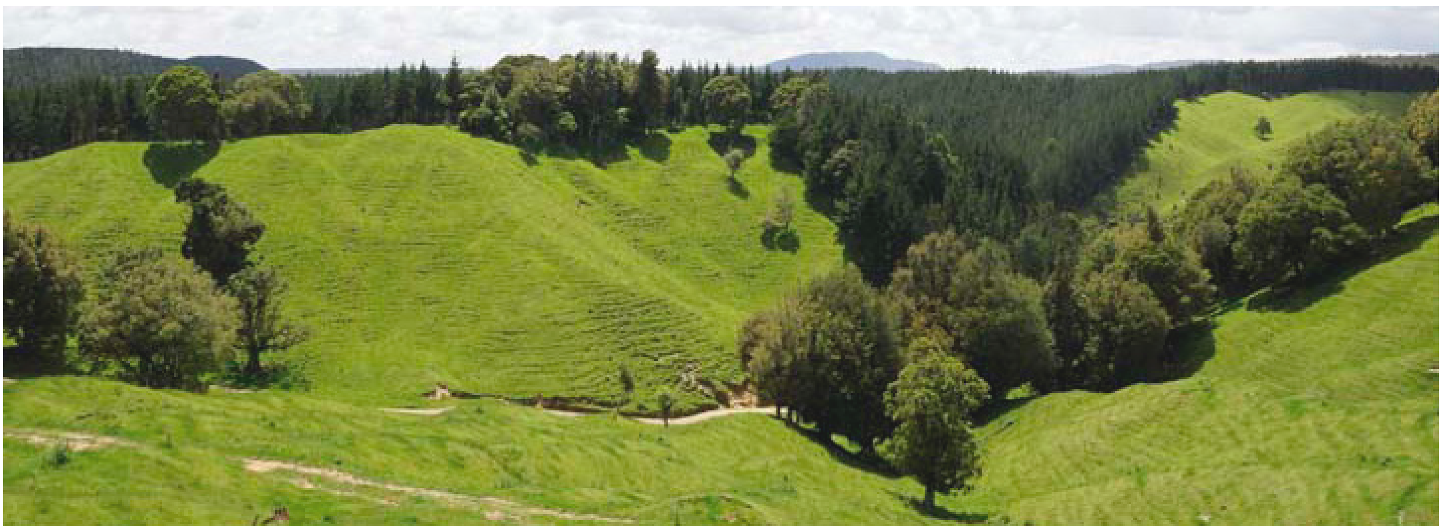
Likewise, returns for those growing kiwifruit and grapes are excellent and plenty of investors, as well as existing growers and entities, are motivated to enter or expand their holdings.

In these sectors, however, insufficient listings are holding back the transfer of property as farmers and growers choose to make the most of the returns on offer from the present export markets by farming on, rather than capitalising on the demand for their land.

Demand for property in each of these sectors therefore exceeds supply. Anyone with a farm, orchard or vineyard to sell in the coming months can look forward to a satisfactory sale. Those who list will be whole-heartedly welcomed by a gallery of eager purchasers.

This two level market, one set of dynamic operating in dairy, and another trend occurring is set to continue during the autumn, though the dairy sector may see more activity in the spring.

Peter Newbold
General Manager
PGG Wrightson Real Estate Limited



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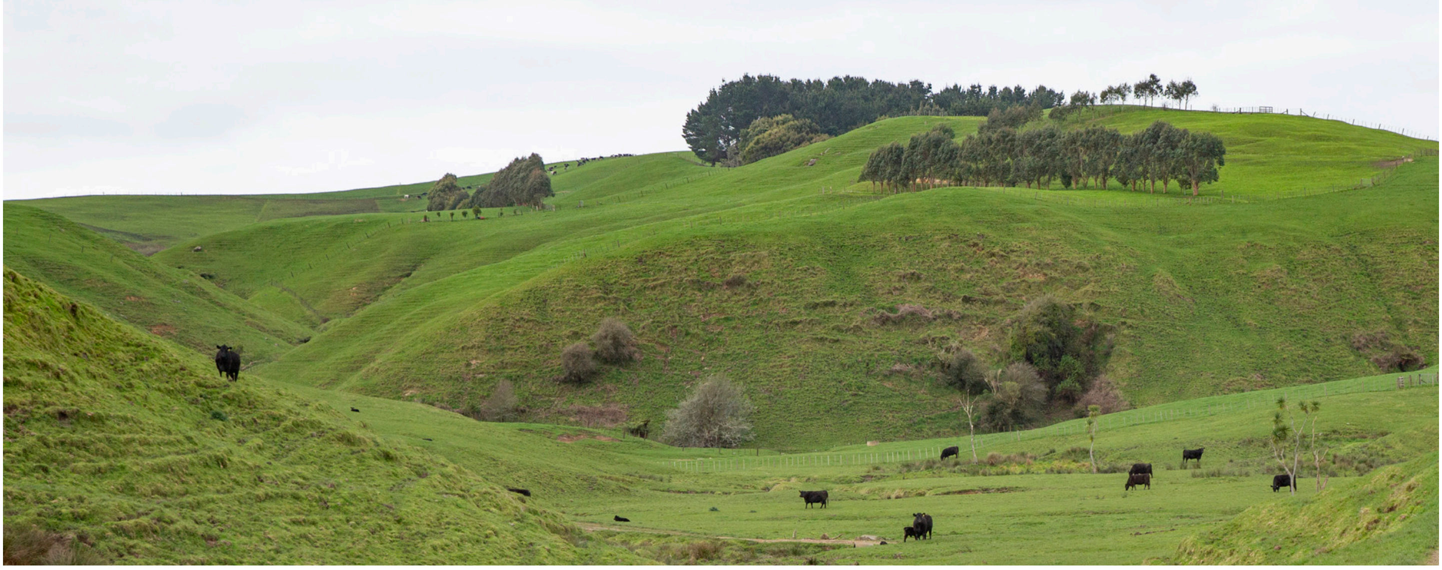
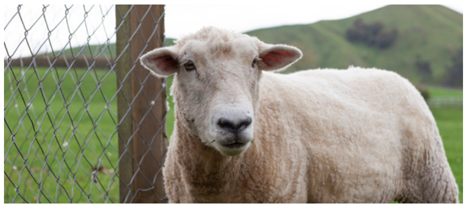


Demand for sheep and beef farms pushes prices up



Several sheep and beef farms have sold in the past few months with a lift in prices suggesting that confidence in the sector remains strong.

Regions where significant sheep and beef property activity has taken place recently include west Waikato, the King Country, Hawke's Bay, North Canterbury and South Otago.

Recent sales include:

- Grassy Downs, a 286 hectare, Tauwhare, Waikato farm, carrying around 4,500 stock units and offered for the first time in 58 years, sold prior to Christmas after a tender process, in two separate transactions, a downland block selling for $16,000 per hectare and cropping capable flats for $60,000 per hectare.
- Hauiti, a 474 hectare Mahoenui, King Country breeding and finishing farm, in the same family for the last 60 years, which sold in January firm on local values.
- Tahuna, a 580 hectare predominantly flat Waipawa, Hawke's Bay property changed hands in early November, bought by a local farming family after a tender process.
- Brookfields, a 241 hectare Te Pohue, Hawke's Bay farm that sold just prior to Christmas firm on current values.
- Big Bush, a 339 hectare Nelson Lakes sheep and beef farm, also changed hands just prior to Christmas firm on recent values shortly after a tender process.
- Mandamus Downs, an 844 hectare Culverden, North Canterbury farm sold in December firm on local values, after being held in the same family for 110 years.
- Manahune, a 249 hectare Glenmark, North Canterbury breeding and finishing property, specialising in prime lamb production, sold after 102 years in the same family in November following an auction campaign.
- Waiau Pastures, a 400 hectare irrigated Parnassus, North Canterbury property sold in early February.
- Lambourne, a 353 hectare Clydevale, South Otago property, carrying approximately 4,000 stock units changed hands in late October for around $20,000 per hectare.
- Waikerikeri Run, a 916 hectare hill country grazing property on the Dunstan Range, with a large QEII covenant, which sold satisfactorily in January after a tender process.

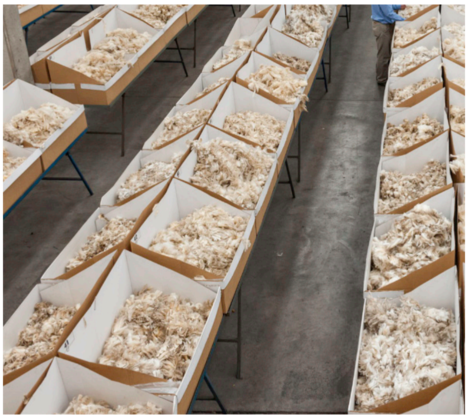
One thing that might hold back sheep and beef property transactions during the autumn is the sector's own strength.

With the positive fundamentals in the red meat sector some farmers who might otherwise consider selling will be tempted to hold on and reap the cashflow rewards from the returns on offer. This may not be wise. Farmers pondering retirement would be well advised to act now in order to capitalise on the many willing buyers looking for quality farms this autumn.

Timing is everything.

Strong wool holds ground, at low levels

Prices for strong wool held their ground during the summer, albeit at low levels.



Due to the wet spring weather, and humid conditions through the summer in many districts, there was more colour in the wool consigned to market than normal. Without careful preparation, and every effort to keep colour readings as low as possible, discoloured wool results in discounted returns.

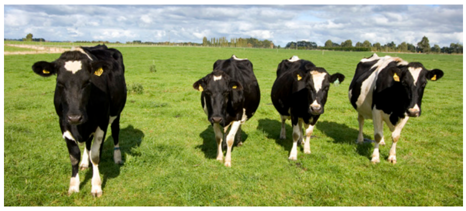
Lambs wool, particularly in the finer micron range and with better preparation, was in particular demand and sold well.

One positive for the market: passing rates remain low, which means the supply-demand equation is reasonably well-balanced and wool is moving through the pipeline without significant impediment.

While New Zealand fine wool is currently out of its selling season, which will not resume until August, growers will be encouraged that prices for Australian merino and halfbred wool are moving upwards again and likely to remain firm as steady demand continues from the leisure apparel market and the Italian suiting sector.

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

'Normal' summer for livestock markets after slow start



Pasture production early in the summer, excellent meat company schedules and dairy returns moving in a positive direction, kept livestock sales strong through the summer.

In the market for sheep and beef, the main focus was on ewe fairs and lamb sales.

Under solid demand, the best ewes sold for more than $300 a head while the bulk of the stock transacted was valued between $250 and $280. Demand was particularly notable for two tooths and AD ewes, as continued confidence in the sheep industry encouraged farmers to replace animals culled last year, and increase flock numbers, endeavouring to address the shortage of good breeding stock.

Sales of store lambs witnessed similarly strong demand, at least until mid-February, when the dry conditions across most of the South Island's east coast dominated farmers' decision making. This should pick up again at the start of autumn when cropping farmers look to bring in lambs to fatten during the coming months. Store lamb prices are ranging from $3.30 to $3.40 per kilogram.

Meanwhile, after a relatively quiet early summer, the dairy livestock market lifted as the new year progressed.

With Global Dairy Trade prices going back into the positive, and a favourable growing season through most of the country, buyers were prompted to start taking action, vendors became more motivated to sell and the market found its level.

Prices for herd sales, contracted for 1 June delivery, generally ranged from $1600 to $1850 per head, with exceptional herds making $2000 or more, while rising two year old in-calf heifers sold between $1450 and $1750 per head.

Demand for autumn calving cows was good. Mostly these changed hands for immediate delivery priced between $1600 and $1800 per head. Trade was brisk and supply became tighter as the summer drew on.

With precious few dairy conversions taking place this season, the dairy livestock market did not receive the consequential lift in demand that occurred in previous years. Following *Mycoplasma bovis*, while some farmers are repopulating their herds, that is also having little material impact on the market.

Prices and activity for dairy livestock have returned close to the levels they have been in recent years. As in normal years, better quality, realistically priced animals sold first. As the season proceeds, livestock of lower quality comes to market and fewer animals are transacted. On that basis the present positive values will continue through the next part of the season, though will ease off as the quality of the stock dips.

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

Dairy cycle at low ebb and poised to swing back into the positive

Growth of the dairy sector, associated with significant escalation in the capital value of property, appears to have reached a cyclical low. Farmers able to diversify, or with property suited to alternative land use, are leading the market into a new phase.

Dairy expansion, whether from land conversion or the acquisition of existing farms, peaked around five years ago, and has now slowed. In some cases it has even reversed.

Land values are easing and dairy properties are taking longer to sell. Spring and summer, traditionally the rural property market's busiest time, have been subdued.

Dairy is at the sharp end of several challenging factors. Dairying land use appears to be receding from its high tide mark, with an emerging number of farms across the country switching to horticulture, cropping and sheep and beef finishing.

These new conversions are an emerging trend, likely to become more noticeable in the next few years.

For example, a marginal Bay of Plenty dairy farm might go back into horticulture. Additionally, small Pukekohe cropping operations are under pressure for conversion to residential or lifestyle use, which is in turn pushing growers out to seek quality land around Matamata, converting that to grow vegetables.

Those sectors where the returns are greater are coming to the fore and properties suitable for different land use are being converted accordingly. When greater value resides in putting a farm into a different land use, the market is acting swiftly to make the change.

While it is not a sign the dairy industry is in demise, on present trends it is unlikely to grow bigger.

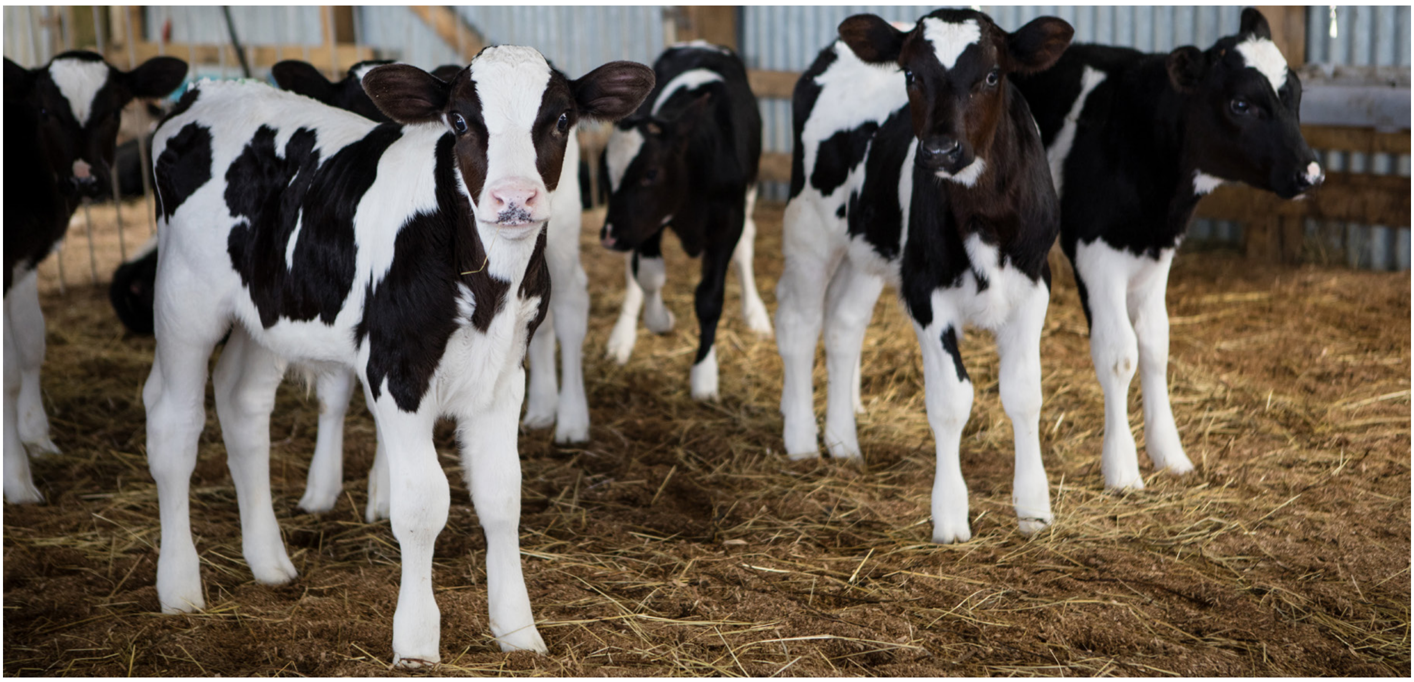
According to the Real Estate Institute, supported by observation on the ground, several farms have switched from dairy farming back to sheep and beef in Northland, southern Hawke's Bay, Wairarapa and Southland. These farms include established dairy farms and newer farms converted more recently.

A significant number of dairy properties are currently on the market, particularly in Waikato. In many instances, aspiring vendors and prospective purchasers ascribe different values to these properties. Where agreement cannot be reached, farms will not sell. When both parties are prepared to compromise, everyone is able to progress.

There is little demand for second or third tier dairy properties. Only the most admired, with the highest specifications in the most favoured localities, are still selling well.

While sale volumes remained largely unchanged, the number of farms listed for sale has risen, particularly in Waikato, though these numbers seem set to also rise in other regions as 2019 progresses. Generational change is a constant. Those who do not wish to deal with more testing compliance regimes, or who are struggling with the availability of farm labour, are opting to leave the sector.

We currently appear to be at the bottom of the cycle. Reviewing the statistics, 2014 was the peak. Although market activity has waned since then, sales should start to pick up in autumn, then again next spring, as vendors and purchasers revise their expectations on values and re-align with each other.



Regional Update

Northland
Although Northland's summer rural property market featured several good listings, few transactions eventuated, with lack of confidence in the dairy sector accounting for the relatively light activity. Meanwhile, despite returns remaining healthy for red meat, those farmers are not so far motivated to increase their holdings by acquiring additional property. Although there is some interest in land for kiwifruit around Kerikeri, and that sector is particularly positive, this is also yet to result in transactions. For those Northland farms that did sell, local buyers took advantage, with sales to neighbours the most frequent outcome. If slightly increasing activity towards the end of summer is an accurate indicator, purchasers should be a little more forthcoming during the autumn, and sales negotiations may edge closer to completion. Financiers finding greater enthusiasm for dairy would also help re-energise the region's rural property market.

Waikato
When suited to use other than dairy, Waikato rural property came under close scrutiny in the summer, changing hands for elevated values. A three year waiting list for avocado seedlings indicates one land use trend. Drystock properties in the region's sought after locations strengthened in both value and volume of sales, with the latter approximately 30 per cent ahead of the quantity of sales in summer 2018. In other categories, the market is holding steady, although poorer quality and unfavourably located dairy farms are particularly difficult to sell, unless priced at a level that will sustain economic use as finishing or support blocks. Post-Christmas, inquiry was subdued and few new listings were offered to the market. As those considering selling re-evaluate their options, particularly if they are willing to reduce their value expectations, autumn market activity could increase.

Bay of Plenty, Central Plateau and South Waikato
Kiwifruit sets the tone for Bay of Plenty rural property. Gold orchards in sought after localities are changing hands for $1.2 million per canopy hectare, while green kiwifruit orchards are selling up to $400,000 per canopy hectare, with a premium of an additional $100,000 possible where vines can be cut over and grafted with the gold variety. So long as enough growers offer orchards for sale, activity through the autumn and winter should remain brisk. As in other regions however, demand for dairy property is muted as uncertainty persists around land and water use regulations, while banks reduce their exposure to agriculture, creating a gap between vendor and purchaser pricing expectations. Around Rotorua, demand for drystock farms is lively, though owners of these prefer to retain their properties, increasing their self-sufficiency against the threat of *Mycoplasma bovis*, leaving willing purchasers unsatisfied.

Lower North Island
Reflecting much of the rest of the country, the summer rural property market in Taranaki, Wanganui, Wairarapa, Manawatu and Horowhenua was busy for sheep and beef, though quiet for dairy. Sales for the former included a 272 hectare Cheltenham, Feilding finishing property, which sold in December for $9.9 million. During autumn, prolonged dry weather may delay the introduction of some properties to the market, possibly delaying marketing campaigns until April and May. Demand for quality lower North Island sheep and beef property remains unmet as those inclined to sell are holding on to make the most of the excellent returns on offer. If that changes, they may live to regret their reluctance to move sooner. Meanwhile, a few fringe dairy properties in Pahiatua and Wairarapa have sold to sheep and beef operators intending to de-commission their dairy sheds.

Hawke's Bay
Hawke's Bay's rural property market progressed well during the summer. Several of the region's sheep and beef farms have sold recently, with firm prices suggesting that confidence in the sector remains strong. This looks set to continue through an active autumn. Local purchasers are to the fore and prepared to pay premium prices to secure land that will increase their holdings. A handful of appealing farms will list for autumn sale. Timoti, a 260 hectare Waimarama breeding property wintering up to 2,500 stock units, is one of several that should be well received by an enthusiastic market where demand exceeds supply. Forestry is underpinning the value of less favoured Hawke's Bay sheep and beef properties with premium values for land suitable for trees, when well-located relative to the port and roading, firming to more than $6,000 per hectare.

Tasman
During late spring and early summer local climatic conditions for pastoral farming, arable and horticulture enterprises were excellent. However, the Tasman region suffered a drier start to 2019 than most would prefer, resulting in Nelson's catastrophic fires and challenging conditions elsewhere, including water restrictions. Much of the rural property on offer prior to Christmas sold well, including viticulture development blocks with good rights to water. Big Bush, a 339 hectare Nelson Lakes sheep and beef farm, also changed hands firm on recent values shortly after a tender process. Farms are generally selling to purchasers from within the region. Sheep and beef farmers repaying debt and paying tax makes a positive situation for rural property sales. With few Nelson and Marlborough farms available, any that come to the autumn market should be eagerly welcomed by motivated purchasers.

Canterbury
Some notable North Canterbury sheep and beef breeding and finishing properties sold well during the summer. These include 844 hectare Culverden farm Mandamus Downs, 249 hectare Glenmark property Manahune, and Waiau Pastures, a 400 hectare irrigated Parnassus property. These sales illustrate that willing buyers will come forward for properties with scale and productivity. Any farms with similar credentials offered to the autumn market should be well received. Properties carrying fewer than 5,000 stock units drew less attention. Meanwhile, as in several other regions, potential purchasers of dairy property are hesitant. Factors including tighter environmental regulations and the removal of overseas investors have persuaded some that a price correction in the sector may take place. They are holding back until that occurs. Any autumn correction for dairy property values would provide impetus for the Canterbury market, though is not inevitable.

West Coast
Although the weather was excellent and grass abundant, despite its best efforts, local co-operative Westland Milk Products was unable to offer its suppliers returns to match those of companies elsewhere. With most of the region's farms in dairy, and Westland's payout not sufficiently above $6 to give farmers confidence, the West Coast's summer rural property market activity was scarce. Farm values in the region start at around $20,000 per hectare, considerably lower than in other regions. With good systems, these properties will sustain 2.5 cows per hectare, which should provide a fair return on efforts, even with a $6 payout. However, without a minimum of 50 per cent equity, new entrants to ownership will not secure finance to support purchases. This situation is unlikely to change during the autumn, or any time until forecast returns can be consistently elevated.

Mid and South Canterbury
Despite the listing of several excellent Mid and South Canterbury rural properties in the summer, the market was not especially responsive and few transactions resulted. Value expectations among purchasers are possibly between five and ten per cent below those of vendors. Purchasers and their financiers are paying particular attention to balance sheets

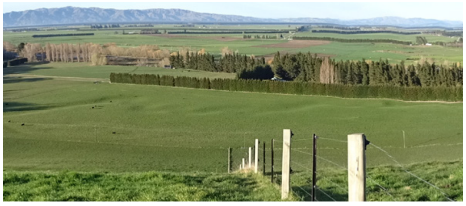
and to a farm's productivity under new land and water use regulations. Nitrogen budgets have become a key component of any sale, and without a balance sheet strong enough to take on additional debt, a cautious approach to any new purchase is inevitable. Forest Downs, a 319 hectare bull beef finishing farm between Geraldine and Fairlie, going to auction at the start of March, should give a reliable gauge of where the Mid and South Canterbury rural property market sits, and may provide a lead for increased activity during the autumn.

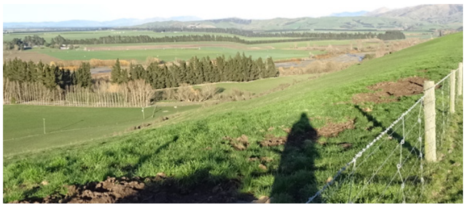
Otago

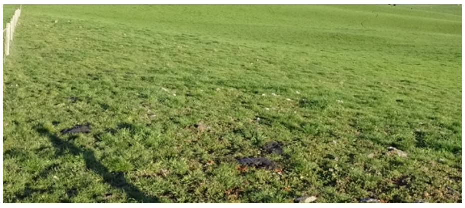
Otago's summer rural property market focused mainly on the sheep and beef sector. Demand for quality properties above 4,000 stock units was strong across the region, and particularly in South Otago, including from purchasers based in Canterbury and Southland intending to relocate. Owners of such farms considering selling would be well advised to act during the autumn to take advantage of what is definitely a sellers' market for this size and scale of property. Prospective purchasers seeking fine wool properties were also evident in the summer. Waikerikeri Run, a 916 hectare hill country grazing property on the Dunstan Range, with a large QEII covenant, sold satisfactorily after a tender process. South Otago properties also sold well. Although activity in the dairy sector was subdued, a 159 hectare Henley, Taieri Plains dairy farm did sell, purchased by a local buyer with other investments in the dairy sector.

Southland

Although Southland's summer rural property market started slowly, sales of dairy and dry stock farms picked up through December and January as more vendors accepted a market correction. Most of the interest was from local buyers, although dairy sector interest from the North Island was also noted. Corporate activity around Southland farms is more apparent than elsewhere in the country, with yields in the region sufficient to attract investment. However, in line with other regions, larger dairy properties are difficult to sell. While Northern Southland dry stock farms are well sought after, after a busy spring, few were offered for summer sale. During autumn steady market activity is likely. Sheep and beef properties in the $2 to $3 million range should continue to sell well, with most likely purchased by farmers in near proximity. Banks are supporting purchases of cash positive businesses.







Growers overcome challenges as climate impacts on production

In several districts, summer threw up more production challenges than most growers would prefer. However, with export markets continuing to hold New Zealand product in high regard, their efforts should be well rewarded.

Dry conditions, and wind in some areas, became increasingly problematic, nowhere more so than in Tasman. Aside from the region's large fires, growers faced implications around fruit and vegetable development. Bringing a crop through to harvest requires water, however the extreme dry conditions in Tasman have brought about unprecedented levels of water restrictions across the region.

Among those growing vegetables, the wet spring at the start of this growing season meant crops were planted late, which in turn has resulted in a late harvest, impacting on returns and cashflow, aside from reduced yield for some crops. However, current market returns for vegetables have improved for those who have been fortunate to avoid the harsh growing conditions. Returns from onion exports are significantly up on recent years and may be the highest in living memory.

Early fruit varieties, particularly early cherries, also felt the impact of the wet spring and early summer. However, late summer fruit crops, including late variety cherries and apricots, are high on quality, though lower in terms of volume due to frost in spring.

This summer's berry fruit season was short, with a tighter than normal window to harvest boysenberries and raspberries.

Apple growers have commenced what will hopefully be a positive harvest, although the wetter than normal December in Hawke's Bay placed extra pressure on crop and disease management. Meanwhile, the same weather conditions in the same regions mean the viticulture sector will have a lighter than average vintage this year, with increased vigilance required by growers to manage mildew.

For those growers in a position to deal with the challenging conditions, the returns this season should be satisfying.

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.

A closer look...

Sheep and beef

Several strong sales of sheep and beef property were recorded in the summer, including in west Waikato, the King Country, Hawke's Bay, North Canterbury and South Otago. One such, a 286 hectare, Tauwhare, Waikato farm, carrying around 4500 stock units and offered for the first time in 58 years, sold prior to Christmas after a tender process, in two separate transactions, with the main block selling for $16,000 per hectare and the cropping capable flats for $60,000 per hectare. In some districts, particularly the upper North Island, sheep and beef property values have lifted by as much as 15 per cent in 12 months, and more in the better located areas, which is powerful encouragement for those farmers considering retiring. Purchasers tend to be neighbours, motivated to consolidate their holdings, while others are similarly keen to upscale to larger blocks.

North Island dairy

Various factors combined to thwart activity in the North Island's summer property sector. For the months of December and January, sales statistics were at or near record lows. Farmers are wary of environmental regulation, the downstream effects of the restricted overseas investment regime and cashflow. Their confidence deficit not helped by the warm, dry January and February suggesting production could be curtailed early. Few North Island dairy farms are being offered for sale, and demand from prospective purchasers is scarce. Among the less well regarded dairy properties, buyer enquiry is better where there is potential for land use change, though even there buyer and seller value expectations may not align. While a market correction during the autumn may provide new impetus, it is likely to discourage any farm owner, other than those with a compelling reason to go to the market.

South Island dairy

Demand for South Island dairy properties was low during the summer. In Canterbury, including Mid and South Canterbury, what purchasers will pay for high specification spray-irrigated units in the most sought after localities has eased between $5,000 and $7,000 per hectare. However, there were too few listings, insufficient inquiry and not enough sales activity to fully validate this correction. In Southland pricing expectations range from $35,000 to $38,000 per hectare at the better end; $28,000 to $33,000 per hectare for mid-range dairy farms, where demand is strongest; and in the low to mid $20,000s for the region's least sought after properties. Market impetus for South Island dairy farms is unlikely to increase in the autumn, in fact it is more likely to be the end of September, after calving, before more properties are offered and more purchasers renew their interest.

Viticulture

Several smaller Marlborough vineyards sold in summer as vendors were prepared to meet the market. Development blocks with good rights to water remain in keen demand from corporate buyers. One such, a 166 hectare Awatere property, was offered for spring sale, with a deal likely to be confirmed by early autumn. Another Awatere property, with exceptional water storage already in place and up to 110 hectares suitable for Sauvignon Blanc or Pinot Noir, will also attract attention. Approaching the end of summer, buyers were looking at vineyards for post-harvest possession, by which time most crop outgoings will be expended and the year's yields apparent. With the extraordinarily dry February affecting several irrigation schemes, tonnages and returns for the 2019 harvest will be down. This will have an impact on the market with continued downward pressure on smaller vineyard block prices likely.

Kiwifruit

Values for optimum Te Puke gold kiwifruit orchards sit at $1.2 million per canopy hectare. A handful of these properties sold during the summer, and a few more are likely to as autumn proceeds. However, relatively few are on the market compared to recent years as growers prefer to reap the returns of high export demand. Outside the crop's heartland, a 9.86 hectare gold kiwifruit orchard at Haumoana, near Clive in Hawke's Bay, producing around 14,000 trays per hectare in an early start area, with a house on the property, sold for $10 million in early February. As Zespri issues licences to grow 750 hectares of additional gold kiwifruit per annum until 2022, demand will continue. Much of that will be met by converting green kiwifruit orchards. However, new development blocks are also highly sought, including beyond the Western Bay of Plenty.

Pipfruit and Stonefruit

Demand for Hawke's Bay pipfruit and stonefruit property outran supply during summer, and is likely to remain unmet through autumn, meaning realistically priced orchards offered for sale should sell well. Recent sales included an 8.3 hectare Havelock North apple orchard, with a small coolstore, which sold for $1.25 million. A 7.68 hectare property midway between Hastings and Napier, with a modern home and a peach, plum and nectarine orchard was offered for sale by tender in late February. Like many pipfruit and stonefruit properties, this combines horticulture with lifestyle, attracting interest from prospective owners, including from outside the region, seeking to live there while leasing out the orchard. Several larger new orchard developments are in process, up to 30 hectares, generally on leased land, including in Puketapu, Havelock North and Haumoana. These are scheduled to start producing in 2020.

Cropping

Due to the warm January, this summer's harvest was completed relatively quickly and early. However, wheat yields were down two to three tons per hectare and the wet spring meant a poor white clover harvest. While oats and other crops were average, cropping farmers with properties of 350 hectares or more still anticipate a drop in gross income between $300,000 and $400,000, or 13 to 18 per cent below average. Without that spare cash, additional land investment this year is unlikely, particularly when vendor expectations for premium cropping farms exceed $50,000 per hectare. Any owner considering selling will likely withhold until next year. One high quality property for sale with strong buyer interest is a 385 hectare irrigated arable, lamb finishing and deer unit at Newland, 10 kilometres east of Ashburton. Its sale will be closely monitored by the market.

Forestry

Export demand for New Zealand logs remains steady. India is becoming a more important market, alongside China. Domestic demand for timber also pushes business through local mills. Demand for forest property is tied directly to these trends. Prices for mature forests sit firm at between $25,000 and $30,000 per hectare, while premium quality forestry, with convenient access to ports, is changing hands at $40,000 per hectare. Bareland blocks suitable for forest plantation, between 20 and 100 hectares, are selling in the $5,000 to $6,000 per hectare range, with some Hawke's Bay properties selling for more. Existing forestry interests account for most investment. As purchasers can either buy land or just cutting rights, overseas investment regulations have not altered the market. With little likelihood that export demand will drop, the seller's market is set to continue in the forestry property sector.