PGG Wrightson Real Estate

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Price correction for dairy amid broader market buoyancy

Among growers in the horticulture sector and sheep and beef farmers, a positive mood is propelling the rural property market forward. For dairy, however, the situation is more cautious.

Kiwifruit orchards are selling at record levels, with hundreds of millions of dollars committed to future investment; viticulture development is steady; pipfruit and stonefruit property is being closely held by growers while some large developments are pending; and returns for farmers in the red meat sector have been at record levels for a sustained period.

In specific areas of the country well-resourced parties are enhancing their holdings of land suited to growing trees to generate carbon credits. While this may appear as competition for traditional farming, it is also a partnership opportunity from which sheep and beef farmers might diversify revenue.

Conversion of land use is part of each of these trends. Land use change to increase productivity has happened throughout the history of New Zealand agriculture; probably more so now than in recent memory.

Meanwhile, sales of dairy farms have been scarce for at least 12 months. For properties that have sold, prices are softening.

Banks are concerned about their overall exposure to the rural economy and the debt carried by farmers. Some farmers are under pressure to improve their equity levels by paying down debt. This is challenging for many, particularly in the dairy sector. Banks also appear to be adhering more strictly to their lending criteria, making it more difficult for farmers to secure finance for rural property purchases. We are therefore in an unusual position while interest rates are at sustained lows, commodity prices are riding high, including excellent returns for dairy farmers, and climatic conditions are generally favourable. However, the dairy property market is at best static on low levels of activity.

Among tier two and three dairy farms recent transactions indicate a ten to 15 per cent price reduction. For larger tier one farms, scarce sales make precise trends difficult to gauge. However, a correction of between five and ten per cent appears likely.

For farmers keen to enter the rural property market, securing finance has become the biggest challenge. Anyone seeking to purchase needs to consider every possible option. That prolongs the whole process. Those who are highly motivated, or under financial pressure, are in the market. Many others, particularly sheep and beef farmers otherwise ready to capitalise on their careers, are opting to bank the generous returns on offer this season and hold off on exiting the farm just yet. While this is creating a shortage of quality sheep and beef properties, we know there is a groundswell growing that will bring more farms forward for sale in the coming months, particularly in the spring.

Anyone considering selling a dry stock farm, orchard, or vineyard will be met by a favourable market. However, those looking to quit dairy property will find it more demanding than in recent years, particularly since lending criteria became so awkward.

Those vendors who act early, who understand why a price correction has occurred, and who acknowledge what purchasers need to work through to secure finance should achieve the best outcome in these circumstances.

For more detailed information on this or any other issue relating to rural property, please contact your local PGG Wrightson Real Estate office.

Peter Newbold
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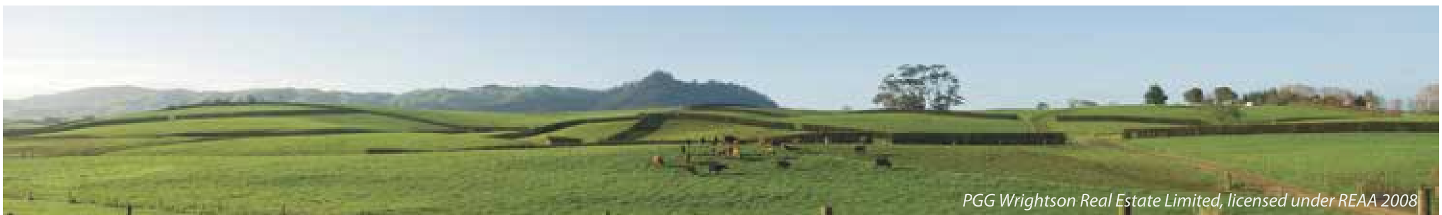
PGG Wrightson Real Estate Limited



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Heartbeat - Over-subscription of kiwifruit licences indicates sector's strong investor appeal

Zespri's 2019 process granting its annual quota of new licences to grow the lucrative gold kiwifruit variety signals the strong attraction the sector has for investors.

Successful growers committed more than $200 million to the new licences. However, a substantial sum of potential investment was returned to unsatisfied growers unable to secure any of the 2019 quota of licences, possibly amounting to as much as $300 million.

Zespri notified in early May that it had issued new licences to grow 700 hectares of gold kiwifruit and 50 hectares of organic gold kiwifruit for the 2019/20 growing season. With a total of 750 hectares of licences available, applications totalled 1848 hectares, meaning the offer was almost two and a half times over-subscribed. Approximately 54 per cent of the allocated licences are for new developments. Growers paid a median price for the licences of $290,000 per hectare, plus GST.

Many, and in particular the larger growers, were planning to add significantly to their current operations. However, it appears that most of the new licences have gone to smaller developments. Those larger operators are growing green kiwifruit, planning to cut them over and graft the vines with the gold variety. As they have not received licences, they will need to wait another 12 months to implement their plans, and will likely bid higher to secure the 2020 licences.

Premium orchards already growing gold kiwifruit are currently selling for $1.2 million per canopy hectare, while the most heavily producing green kiwifruit properties are selling as high as $500,000 per canopy hectare. Depending on locality, bare land blocks suitable for kiwifruit development in the Bay of Plenty are valued from $200,000 per hectare up.

Winter is usually a quiet time for kiwifruit property transactions. With such strong demand evident through the licencing process, once increased sales activity resumes in the spring, the $1.2 million per canopy hectare benchmark price is unlikely to soften.

New rural online trading platform offers farmers a 'virtual saleyard'

bidr®, an innovative online rural trading platform recently launched in New Zealand, has been welcomed by the rural community.

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Described as a virtual saleyard, this new rural marketing channel was developed by PGG Wrightson in consultation with their livestock customers.

This real time marketing channel, which to date has specialised in feature sales (including stud bull sales, store lamb and bull sales, along with dispersal sales), has been embraced by farmers and livestock agents around the country due to the strong results achieved.

In the months to come bidr® will continue to extend its product offering, for example, from 1 July regular weekly auctions will commence.

PGG Wrightson General Manager Livestock and bidr® Chair Peter Moore is delighted with the results bidr® has achieved to date.

Peter Moore said, "The development of bidr® has taken place over a number of years as it was important for us to get it right. The input from our agents and customers during the development process provided us with valuable insight. This collaborative approach allowed us to deliver this new channel successfully and we are pleased at how well the wider market has embraced it. The livestock business is constantly changing and bidr® is an example of our focus on innovation and our commitment to future-proof our business to the benefit of our customers.

Some of the key benefits of bidr are:

- we have put in place strict protocols and an accreditation process for listing livestock to provide this confidence to all parties involved;
- by trading stock online in real-time, it offers farmers much greater flexibility to buy or sell as and when suits them, while opening up a wider audience of buyers and sellers;
- due to reduced animal movements (due to less transportation) provides for greater stock welfare benefits relative to other sale channels.

Although initially focused on livestock, bidr® will in the future extend its product offering to enable farmers and agents to bid, buy and sell all things rural online. So there will be more to come soon.

For more information head to www.bidr.co.nz

Strong wool market giving positive signals

Good coloured crossbred wools of all types are meeting strong demand, realising a significant rise in prices over recent months, including a ten per cent increase at auctions held throughout April. Among these, finer crossbred wools have led the way.

Most signs are positive and the crossbred wool market seems to have finally bottomed out to usher in a recovery, albeit a slow one. However, a significant degree of discoloured wool is still coming forward for sale including stocks that have been held back since last season. Where these wools are showing their age, selling them is proving more challenging.

Through the coming months the new season's wool should continue to be enthusiastically received by buyers. Lamb wool and hogget wool, which are at the finer end of crossbred types, with good colour, are particularly highly sought after.

Meanwhile, in the fine wool sector, prices for Australian wool have eased recently as China lifted restrictions on importing wool from South Africa. New Zealand fine wool is off season at present and based on excellent growing conditions, the quality of New Zealand's fine wool clip this year should again be outstanding. Therefore, when they do go back to market from July, fine wool growers of both merino and halfbred should again find their clip well sought after.

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

Weather and outlook for return influencing livestock markets

Sheep, beef and deer sales positive, bulls trending favourably; dairy livestock ***sales sluggish.***

In autumn livestock markets, sheep sales began strongly, particularly in the South Island, with excellent pricing and attendance at on-farm sheep sales early in the season. Sales of sheep in the fine wool categories were especially notable.

However, as the season progressed the country became drier, causing serious impact in several North Island regions. Hardest hit was the King Country where some locals suggested it was the region's driest for 50 years. As a consequence much stock sold in saleyards across the rest of the North Island ended up going to the East Coast or Hawke's Bay, where warm, moist, perfect growing conditions made for one of the best seasons ever, enabling farmers to carry all stock through and holding off selling to the works until late autumn.

Although conditions improved with some rain in those North Island regions where it had been driest, subsequent grass growth was superficial and winter feed is likely to be patchy.

In the South Island the focus was on selling store lambs, with stock from Southland and Otago heading to finishing farms in Canterbury. Demand for lamb has strengthened on the back of confidence in the overall outlook and rising schedules for late winter and early spring. Stock numbers going through South Island sales are on par with recent years and autumn rates of grass growth suggest little pressure for farmers to finish their stock at a particular date. Store lamb prices therefore remained firm through autumn.

In the South Island prices paid for calves between late March and early May dropped on average by $100 from where they were last year, taking the market to a level more realistically in line with schedule prices. Despite the correction, the market is still positive and vendors have been happy with the results.

South Island markets for adult cattle were a little more sluggish. Farmers are waiting for kill space, have not yet finished cattle they bought last year, or are intent on taking them to optimal weight. Longer term, the market outlook is positive for manufacturing beef, which lines up with prime beef projections.

Dairy livestock markets reflect the generally low morale and uncertainty in the sector. Through April and May stock prices dropped by 20 to 25 per cent, reflecting the lower volumes and inconsistent availability of feed conditions. After dairy herds have settled in early June, and as winter progresses, those who have decided to leave the sector will already have done so, and anyone who has quality stock to sell through that period should meet with a positive reception in the market.

Deer farmers, meanwhile, are prospering, positioning their venison and velvet on the world stage. They were busy selling weaners through the autumn, when demand outstripped supply, and those farmers specialising in finishing deer fell short of the stock numbers they sought. As land use change around carbon credits becomes more prevalent, deer farmers have identified a niche for their stock to survive and thrive on country shared with trees, under management plans that would not suit sheep and cattle, further enhancing their positive outlook for overseas markets.

This year's bull sale season commenced in mid May. On-farm sales received greater emphasis and patronage than the national sales that marked the start of the season. In the initial weeks, all breeds were well-received, with Simmental, Angus and Herefords all achieving better than expected results and high clearances. Expectations that there would be a correction were not fulfilled, at least not at the start of the season, as farmers continue to respond well to breeders' endeavours to keep on advancing genetics in ways that meet market demands.

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

Regional Update

Northland

Northland's autumn rural property market was more subdued than is normally expected at this time of year, with few exceptional sales. Banks are adhering more strictly to their lending criteria for rural business, meaning motivated purchasers must explore other options for finance. Consequently, the sales and negotiation process for many transactions has been prolonged. Vendor pricing expectations are generally realistic, which means when purchasers are able to secure finance, sales will proceed. As in other regions, activity in the dairy property market has been subdued, and is likely to remain so through the winter. Rural property listings are short in the Far North, Whangarei and Rodney, though in good supply elsewhere in the region. Some kiwifruit growers may look north during the next few months to activate licences to grow the G3 variety, which were granted in the autumn by Zespri.

Waikato

With dairy dominant in Waikato, the region's rural property market through autumn reflected that sector's downbeat state. Transactions by volume reached a low ebb not previously seen since the 2011 global financial crisis, and sales are insufficient to determine how far values have dropped. Among these transactions, one in central Waikato signalled for completion before the end of the autumn tells its own tale: comprising several titles totalling 250 hectares, the likely purchasers of this Te Awamutu dairy property, which has previously produced more than 500,000 kilograms of milk solids per annum, intend to milk goats on the farm. Waikato's rural property market looks unlikely to deviate from the current trends through winter. Spring, however, should see a traditional lift in activity, possibly boosted by banks, though vendor finance may also play an increasing role in facilitating sales as the season progresses.

Bay of Plenty, Central Plateau and South Waikato

Kiwifruit fortunes play a significant role in the Bay of Plenty's rural property market, and with the sector confirming record profits after an excellent season, prices for orchards are buoyant, albeit few growers are inclined to sell. As in much of the rest of the country, the region's remaining market was flat through autumn, with sales scarce and dairy values softening by up to 15 per cent. One significant sale was a 159 hectare drystock farm between Rotorua and Taupo: historically in sheep, it sold at auction in late April for $2.65 million to a local intending to raise beef. As elsewhere, bankers are encouraging farmers to improve their equity positions, which invariably means sacrificing new property acquisitions. Several fresh listings should come onto the spring market, though these will only sell if buyer and seller price expectations align.

Lower North Island

Activity in the Lower North Island's autumn dairy property market was subdued. Farmers who might sell are reluctant to accept a softening in values. Although significant winter market activity is unlikely, that should change in the spring as vendors ought to become more willing to adjust their pricing expectations. For sheep and beef, demand for quality lower North Island property remains unmet as potential sellers prefer to make the most of the excellent returns on offer. Low interest rates are failing to inspire anyone who might otherwise be ready to exit farm ownership. Renewed interest in carbon trading has increased enquiry for potential forestry land. Several traditional Tararua, Wairarapa and South Wairarapa hill country farms have changed hands for conversion to forestry. Purchasers are paying more for these properties than sheep and beef farmers would, although that premium is difficult to gauge.

Hawke's Bay

Autumn's rural property market held steady in Hawke's Bay, with good climatic conditions and grass growth encouraging new sheep and beef listings through until the end of the season. While interest rates are low, and returns from pastoral farming generally positive, property values remain firm. Renewed interest in carbon trading and associated government initiatives have increased enquiry for land suited to forestry, which in turn is underpinning the value of some of the traditional grazing farms that are changing hands. Demand for finishing and cropping land is also strong. Although, as traditionally occurs, the market is likely to drop away as the winter progresses, indications are that several appealing Hawke's Bay properties should be offered for spring sale, including some of the region's most keenly sought after, which the present predominantly positive market is likely to welcome.

Tasman

As in other regions, Tasman's autumn rural property transactions were typically neighbours selling to neighbours. Greater diversity of land use gives Nelson and Marlborough farmers the strength to withstand the uncertainty prevailing in some other regions. A shortage of listings means plenty of competition for farms that are genuinely for sale, while those that have come to the market are well received. Farmers are assessing the potential returns from the government's tree planting and carbon credit programmes, boosting the already positive story around growing timber, which is underpinning some pastoral sales in the region. Change of land use from dairying or sheep and beef to horticulture is also adding premiums to farm values for other sales. High beef, deer and lamb returns and continued optimistic dairy projections suggest confidence should continue into the spring, with a busy rural property market.

Canterbury

Strong returns and confidence in the red meat sector meant Canterbury's autumn market activity focused on sheep and beef. Any listing with scale, above 300 hectares or carrying more than 5,000 stock units, was keenly sought after. One such farm, Pass Stream, in the Amuri district, sold at auction in early May for $4.3 million, while Mt Sylvia, an intensively developed 291 hectare Horsley Downs, Hawarden farm with irrigation potential, should draw interest leading into winter. A 300 hectare Waimakariri district pivot irrigated support block and finishing farm should likewise attract positive attention. Meanwhile, even though the milk payout is at encouraging levels and forecast to remain there, interest in Canterbury's dairy property market is limited, mainly due to the levels of equity required to purchase, also to prevailing concerns about environmental issues, which are persuading financiers and investors to pause.

West Coast

On the West Coast the rural property market has been static for a prolonged period. It remained so during the autumn. Few significant transactions have occurred for several months. Plenty of farms are available for sale, generally at realistic prices. However, confidence is patchy, demand low and any potential buyers can afford to be selective. While this is unlikely to change in the coming months, the Board of local co-operative Westland Milk Products is proposing its sale to a subsidiary of Chinese dairy company Inner Mongolia Yili Industrial Group, with a vote on the offer scheduled for the region's dairy farmers in early July. If this proceeds, once the dairy sector adjusts to the new ownership, it should improve prospects for West Coast farmers, which in turn will re-initiate more significant rural property market activity.

Mid and South Canterbury

After the government abandoned its capital gains tax proposal in April, Mid and South Canterbury rural property market activity increased noticeably. Sales of A grade dairy properties during May indicate a drop of eight to ten per cent in value compared to recent years. Where vendors adjust their expectations, more sales are likely. Several dairy properties are set to list for spring sale as financiers monitor their exposure to agriculture and caution their borrowers' around equity levels. One keenly monitored autumn listing, Forest Downs, a 319 hectare Cattle Valley beef finishing property between Geraldine and Fairlie, was offered for sale by auction in early March. Although no bids were received at the auction, negotiations proceeded with several interested parties, with a sale eventuating to a farming family from the wider district, as has been typical of recent sales.

Otago

As in other regions, red meat returns are motivating Otago purchasers to expand their current land holdings. Farms exceeding 5,000 stock units, however, are not being readily offered, meaning demand for sheep and beef property exceeds supply in East, West and Central Otago. However, in South Otago, where a dry autumn has reduced enthusiasm, market activity is less evident. Where farms are offered for sale, neighbours are generally prevailing to buy. Dairy sector activity meanwhile is subdued. Financiers observing stricter lending criteria means farmers lack the capital required to purchase. Indicating that, despite few sales the appetite for dairy property remains. A 105 hectare Momona farm was offered for lease in May, generating strong demand and multiple offers. Although a traditional quiet winter market is likely, several Otago sheep and beef farms, and dairy properties, should list for spring sale.

Southland

Although interest in smaller properties is steady, buyers are struggling to secure the equity needed to purchase larger Southland farms. For the nine months to the end of April, the region's dairy farms sold at around half the volume for the corresponding period 12 months earlier. Average values rose slightly, though the higher quality of properties sold accounts for that, and overall a dairy property price reduction, consistent with other regions, appears to have occurred. While few new listings were offered through the autumn, more properties are likely to come to the spring market, particularly from vendors willing to accept the revised values. Meanwhile, for Southland dry stock farms, the value and volume of transactions was almost constant from 2018 to 2019. Plenty of quality sheep and beef finishing properties are for sale in the south of the region.

Harvest generally favourable for growers in all sectors

Growers generally experienced a satisfactory harvest, with activity diminishing as autumn progressed. Drought conditions during a large part of the summer in various regions posed challenges in several sectors, particularly grapes, though those with reliable water for irrigation were rewarded with an adequate crop.

As autumn drew to a close, growers in all sectors began preparing for the upcoming growing season, while keeping an eye on export market returns. In most cases these are encouraging, particularly for kiwifruit. Zespri reported a record operating revenue of $3.14 billion for the 2018/19 season, as strong international demand, coupled with growth in both the volume and value of kiwifruit last season, is driving the fruit's enduring success. Zespri shareholders are expected to earn total dividends of $0.92 per share in the 2018/19 financial year, compared to $0.50 in 2017/18.

Earlier, Zespri's annual allocation of licences to grow its lucrative G3 Sungold variety was substantially over-subscribed.

Mild autumn conditions helped progress developmental work for further planting of a number of permanent crops, including avocado, cherries, apples and grapes, across regions from the Far North to Central Otago.

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

More drystock properties of greater than 100 hectares sold this summer and autumn than for the corresponding period in 2018. At the same time, contrary to usual statistics, sheep and beef farm sales are outpacing sales of dairy farms. Values, however, have remained approximately consistent with where they were last year. Puketotara Station, an 1145 hectare finishing property near Huntly, sold by tender in May for $10.6 million. A 481 hectare Mahoenui farm, previously running cattle and used for dairy support, sold in May for $4.8 million, with its new owner intending to plant it in trees. Other farms in districts that have traditionally been in sheep and beef, particularly through the central and lower North Island, have attracted similar interest, stimulated by changes signalled to the New Zealand Emissions Trading Scheme and government policy on carbon credits.

North Island dairy

Sales of North Island dairy property hit a low during recent months, with fewer transactions than for any autumn since the 2011 global financial crisis. Slow grass growth, the lukewarm public perception of farming, compliance challenges and cash flow issues all contributed. Overall debt in the agriculture sector, persuading banks to adhere more strictly to their lending criteria, therefore making it more difficult for farmers to secure finance for rural property purchases, has consolidated this absence of confidence. In such circumstances a softening in property prices is likely, and values appear to be back around 15 per cent compared to last year, though with so few sales, comparisons are imprecise. While a better payout forecast and the removal of plans for a capital gains tax may improve the outlook in spring, any recovery is likely to be slow and unspectacular.

South Island dairy

Even though the Fonterra payout is sitting between $6.50 and $7 per kilogram of milk solids, and interest rates have never been lower, the mood in the South Island dairy sector is cautious. In Southland, from a total of 17 sales in the 12 months to May, eight dairy farms sold for more than $7 million, ranging from $20,000 to $37,000 per hectare. Environmental compliance and bankers applying stricter lending criteria are subduing the desire of purchasers. Buyers and sellers do not currently agree on where property values lie. Canterbury sales are so scarce that conclusions about pricing trends are meaningless. Meanwhile, for those completed Southland sales, values have decreased by up to 15 per cent. As more vendors accept that values have softened, dairy farm listings should rise in the spring, with sales to follow.

Viticulture

A difficult grape harvest, due to the extreme drought conditions that affected Marlborough during the summer, resulted in production for Wairau Valley growers dropping by as much as 15 per cent. Vineyards without reliable irrigation suffered severely restricted fruit yields. Awatere growers fared better, with good flowering and harvest conditions resulting in a very satisfactory season. Consequently, autumn sales of viticulture properties have been slower than in recent years, with smaller blocks proving particularly difficult to sell. Restrictions around supply contracts, where a property is already tied to a specific winery, are constraining some sales. In other instances, vendor price expectations are out of line with those of purchasers, while elsewhere overcapitalisation of houses on smaller vineyards is holding back purchasers. A shortage of root stock for planting also means new viticulture development is going to be less than in recent years.

Kiwifruit

While premium gold kiwifruit orchards are changing hands for $1.2 million per canopy hectare, few are on the market as growers are focused on this season's harvest. Beyond that, generous export returns and bank interest rates falling short of the crop's return on investment potential will deter orchardists from offering property. Zespri granted its annual quota of new licences for gold kiwifruit in early May. Licences were markedly over-subscribed. One significant autumn listing was a 44.21 canopy hectare Galatea orchard. With optimal soils, climate and altitude and excellent scale, it ranks as one of the country's best kiwifruit properties. Comprising 35.82 canopy hectares in G3 Sungold and the balance in Hayward Green, the orchard was offered for sale by tender in May, with bids closing in late June. This listing attracted considerable attention, and its sale will be keenly monitored.

Pipfruit and Stonefruit

Although global markets for pipfruit and stonefruit are flourishing, and this season's harvest was generally satisfactory, few orchard sales of any significance took place during the autumn as growers opt to reap the export returns rather than capitalise on demand for land. Corporates in Hawke's Bay are still seeking property to lease and the number of new trees being planted is increasing every year. Large areas are coming out of process cropping, into a range of licenced apple varieties, though demand for new orchard land remains unmet. A large investor with overseas backing has bought 130 hectares in Central Hawke's Bay, intending to create tracts of apple orchards in a district outside the traditional pipfruit heartland. Unlike in some other horticulture districts nationwide, residential development is generally not taking good Hawke's Bay pipfruit and stonefruit land out of production, at least, not at present.

Cropping

None of Mid Canterbury's premium arable farms sold during the autumn. Although values have softened from the purchasers' perspective, vendors are not yet prepared to drop the asking price below the $46,000 to $50,000 per hectare that was the benchmark last season. Increasingly restrictive environmental stipulations are dissuading farmers, and their financial backers, from purchasing any cropping land offered to the market. While farmers take time to become more attuned to strict monitoring of inputs and greater care in the management of nitrate leaching, sales will remain challenging to negotiate. Some of Mid Canterbury's most keenly sought after arable farms will be listed for sale from September on. For reasons of environmental compliance, however, these will need to continue with their present farm use, or be subject to a discount, in order to sell.

Forestry

Demand from China and India for logs, as well as domestic construction, underpins a healthy market for mature forests, which are selling between $25,000 and $30,000 per hectare, with premium quality forestry up to $40,000 per hectare. A 390 hectare South Otago property, with trees maturing over the next five years and 340 hectares available for re-planting, attracted strong interest following its late autumn listing. Bareland 20 to 100 hectare blocks suitable for forestry are selling between $5,000 and $7,000 per hectare, though any winter listing will not be planted until next year due to a tree shortage. Changes signalled to the New Zealand Emissions Trading Scheme are set to raise the value of otherwise unproductive or marginal rural land. So far, this is having more impact on the North Island rural property market than in the South.