PGG Wrightson Real Estate

# Rural Property Pulse

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## Contents

# Highly active spring rural property market likely

Favourable climatic conditions through the winter bode well for the spring. In most primary production sectors the positives do not end there as international markets are driving demand for New Zealand's produce ever higher. Depending on what they produce farmers have multiple reasons to feel positive which has translated into most sectors of the rural property market.

We are seeing plenty of good spring listings of sheep and beef farms in most districts with every indication that these will be met by strong demand. Historically sheep and beef farming progresses in cycles. If so, it appears we are currently at or approaching the high point of the curve. Should history repeat, those considering cashing in on the red meat sector's present excellent fundamentals, and exiting at the top, are probably making a wise decision.

Horticulture is also enjoying the benefits of the excellent demand that New Zealand's powerful international brand stimulates for our produce. That flows directly to the rural property market, nowhere more clearly than in kiwifruit, where record values are surpassed virtually every quarter, where Zespri's licences to grow the coveted gold variety were over-subscribed by almost 150 per cent this year and where demand to invest in the sector shows no sign of abating.

Changing land use has been a constant throughout the history of New Zealand agriculture, and with many sectors so buoyant, there is no shortage of investor confidence in trying something different. We can see that, for example, with the reach of horticulture extending into Northland and Waikato, the footprint of hops doubling over the past five years in the Tasman region, viticulture taking almost all the available land in Marlborough's Wairau and Awatere valleys, and increasing apple production on what was traditionally Hawke's Bay sheep and beef country.

Forestry is another land use change attracting plenty of attention in several districts. While some may not regard this trend as positive, the increasing awareness and possibly burgeoning value of carbon credits, provides farmers with an additional income stream that for many will be thoroughly welcome and is generally most applicable to country previously classed as low in production value.

Although it has a major role in the nation's economic fortunes, the dairy sector is currently framed by uncertainty. While dairy property sales have trended down for the past two years an increasing number of farms are likely to list for spring sale. How soon they will sell is difficult to predict. Some purchasers are awaiting a price correction while others are finding it difficult to secure the finance they will need if they are to buy. An increase in the volume of dairy property sales is probable in the coming months though this is not likely to be instant. In some districts a ten to 15 per cent correction in dairy farm values is indicated. If this is substantiated, compared to the past few months the volume of sales between now and the end of 2019 should rise.

Spring is the busiest season for those of us involved in rural property. With so much going on the spring of 2019 is set to be a momentous one.

Whether you are considering entering the market to buy or to sell this edition of Rural Property Pulse will provide you with plenty of useful information to assist with any market decisions you make. In addition my colleagues at your local branch of PGG Wrightson Real Estate are standing by to take your call and to help achieve whatever objectives the market can deliver for you this year.

We look forward to hearing from you.

**Peter Newbold**
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PGG Wrightson Real Estate Limited

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# Heartbeat – Pressure on dairy sector creates opportunities for the well prepared

Although forecasts and returns are positive other factors are constraining the dairy sector.

Costs associated with increased obligations around environmental compliance, such as land and water use, effluent discharge and carbon emissions are cutting into profit margins, persuading some dairy farmers to exit the industry.

Fonterra's announcement in August of a loss for the 2018/19 financial year is a concern and will hurt its shareholders' cashflow and equity.

When the government altered the rules around overseas investment a significant tranche of purchasers of larger dairy farm businesses withdrew from the market, creating a ripple effect that reduced the confidence of those who would otherwise buy medium size and smaller properties.

What is also evident is that bankers are now strictly applying their lending criteria around any rural business with dairy at the front and centre of that.

These factors are directly impacting rural property transactions. According to the Real Estate Institute of New Zealand (REINZ), compared to the previous 12 months, in the year to 31 July 2019 the volume of dairy farm sales dropped by 38.4 per cent. However, on the statistics available, values have remained consistent, and the REINZ Dairy Farm Price Index, which adjusts for differences in farm size and location, rose 15.2 per cent in the three months to July 2019 compared to July 2018.

From a practical perspective, what opportunities and challenges does this scenario present for anyone operating in the rural property market?

If you are selling, put yourself in the shoes of those who would buy your farm.

As well as the productive capacity of the property, purchasers will take into account factors including water consents, infrastructure, environmental compliance levels and which catchment zone a property is located in. All these variables will have a bearing on the relative merits, and therefore market value, of a farm. For vendors, ensuring you have good documentation to cover all those aspects is essential, otherwise you will not realise the true value of your farm.

If you are thinking of selling, you are not alone. Plenty of dairy properties are on the market nationwide and more will come forward as the spring progresses. Although there is interest, buyers have yet to demonstrate any great commitment or urgency to secure them. In an uncertain market those who are looking are conscious of where the market is sitting and will therefore be circumspect when they table any offer.

In such circumstances it may take a significant readjustment in values to increase the volume of transactions back towards a 'normal' level. Although it is too soon for this to show in the REINZ statistics, in several regions a correction of ten to 15 per cent appears to be in process.

In light of the limitations around rural lending, anyone who assumes they will be financed into a new farm purchase this spring without doing their sums first is risking disappointment. Those who work through the options with the bank, ascertain what level of support they are likely to receive, and then go out to look at a property are likely to achieve a more successful outcome.

That kind of preparation will essentially turn you into a qualified buyer which will give you a distinct advantage in the upcoming busy spring rural property market, giving you a greater chance to achieve positive results.

# Trade dispute a negative influence for wool markets

*Prices for crossbred wools were steady throughout the winter, albeit at low historical levels. Significant premiums are being paid for the best full wool types with good preparation.*

Growers of wool with those characteristics are benefiting in the vicinity of 40 to 50 cents clean. Good to best quality styles for all wool types, where growers maintain high preparation standards, will be well rewarded.

The New Zealand fine wool selling season has only just begun. We are therefore reliant on the Australian market for signals throughout the winter months. After values remained steady through the early part of winter, latterly, following three weeks with no auctions, prices for Australian fine wool fell substantially. Global financial uncertainty, and in particular the trade dispute between the United States and China, adversely affected the market.

For growers of all wool types, world financial forces are outside their control. These forces have a direct bearing on wool price and will continue to be monitored closely to understand future impacts, not only for wool, also for wider global markets.

As a consequence, those growers with forward contracts for their wool have 'locked in' prices and are not subject to the immediate market effects of world financial uncertainty, which can influence values.

Regardless, high preparation standards for any wool consigned for sale is key to maximising returns. Higher levels of vegetable matter content are notable this season compared to last and vigilance is necessary in the woolshed.

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

# Good returns encouraging diversification and development for horticulturists

Winter tends to be a quieter season for the horticulture sector. In between harvest from the previous year and spring planting, it is a time best spent planning and preparing.

Considerable capital development took place through the winter, reflecting the present buoyancy among growers, corporates and investors. This was particularly evident around cherries in Central Otago, apples in Hawke's Bay, avocados in Northland and hops around Motueka in the Tasman district. In the Bay of Plenty meanwhile, following exceptional demand in the autumn for licences, kiwifruit development included a mix of new plantings and grafting the gold G3 variety onto mature rootstock previously supporting traditional Haywards Green kiwifruit.

Looking forward to spring, the outlook across all segments of the horticulture sector is positive. Pricing has been stable and, based on enduring international demand for New Zealand's horticultural production, the beneficial returns are predicted to continue.

Through the spring pest monitoring becomes important, nutritional management for crops is a priority, soil and leaf testing will preoccupy growers, and in a number of districts, as bud break commences frost protection may become critical to protect crops.

Trends in land use change will continue to capture attention. Urban sprawl putting pressure on traditional vegetable growing land around Pukekohe is one part of the picture, though Northland dairy farms converting to avocados, and farms in Matamata and Canterbury changing to vegetable production, is also evident.

In some areas, dairy and sheep and beef farmers are motivated to look at different options with their land, where suitable. Wherever possible building horticulture crops into their programmes, and therefore diversifying income streams, is a sound strategy.

***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.***

# Mild winter and strong export demand encouraging for sheep and beef farmers

*Winter throughout the country was generally kind. Sufficient rainfall and mild conditions accelerated the recovery for those districts hit by drought last summer and most seem to be well set up for spring with plenty of feed available.*

A productive season will further enhance the optimism of farmers already encouraged by export prices. This is particularly evident with continued strong demand for beef, driven by China, while global demand for lamb is also at or approaching record levels, with propitious fundamental market conditions for sheep meat.

Chinese focus on issues around food quality standards makes New Zealand's red meat a particularly desirable brand, giving the big Chinese businesses more options. This is a long term trend that has increased recently and is likely to gain further momentum this season. Currency depreciation over the past few months also favoured New Zealand's sheep and beef farmers.

Through the winter, farmers have been confident in their livestock purchases. Kind weather meant lambs were finished earlier than normal, creating extra demand for any stores available. Only a few breeding ewes went through the South Island saleyards, with virtually nothing available under $200. Well-bred cattle also sold positively.

Another trend in livestock markets is the enthusiastic adoption of online trading. An outstanding example of this was the first online sale of South Island deer via the bidr platform, characterised as a cloud-based saleyard.
A Southland breeder's pedigree hinds were offered at a sale in August. Registrations and bids were high, with farmers from as far afield as the Bay of Plenty purchasing. Average prices exceeded reserves by 165 per cent. As bidr was only officially launched in early July, such a positive result, and the apparent appetite for online livestock trading in New Zealand, looks set to genuinely expand farmer's future options.

Meanwhile, trade in dairy livestock was light during the winter, with few quality animals available. Demand exceeded supply, so prices were buoyant. Anything available sold well, indicating that in the spring, farmers offering stock with any quality will be well received by the market.

Towards the end of the winter sales of mixed age dairy cows ranged between $1400 and $2000 per head. Even for lesser cows prices were strong. Boner cows have been similarly scarce with the meat value holding them up.

Because neither quantity nor quality has been exceptional, when the right dairy animals become available, the market has upside.

Younger stock are also in short supply. Significant enquiry from China in August focused on rising one year heifers. Less stock available than at this time last year strengthened the market.

Without significant numbers of animals being traded, supply and demand is driving values. Where quality is available, it is selling well.

Running through to mid October, the dairy bull sale season features sales throughout the country through saleyards and on-farm.

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

# Regional Update

## Northland

Northland's winter rural property market was active, though sales were scarce as buyers and sellers awaited confirmation of finance before completing deals. Farmers are motivated to enter and leave property, so solutions will emerge in due course. Northland dairy farm transactions sit at the bottom of their cycle, and some of the region's lower performing properties have sold for conversion to high input intensive beef, which could be a trend that continues into spring. However, motivation to move into dairying, or expand within the sector remains, meaning that those inclined to leave will find purchasers, subject to the latter securing finance. Several Northland sheep and beef and grazing blocks will be listed for spring sale, and should attract interest from motivated buyers, though how easy it will be for them to finance purchases is presently unclear.

## Waikato

Waikato farmers enjoyed good winter conditions, which provided abundant grass, resulting in smooth progress through calving and lambing. Banking sector constraints subdued the region's rural property market. Through the spring the following rural property trends are likely to prevail in the region, continuing what was evident during the winter: steady interest in larger drystock farms, compared to little activity associated with dairy property. Meanwhile for smaller non-dairy farms the level of market attention will depend on land-use capability. As the season progresses and spring campaigns commence, the Waikato rural property market is likely to swing more heavily in favour of buyers than sellers. In an increasingly complex market, prospective buyers need to present a compelling case to obtain finance, while vendors must resolve issues such as deferred maintenance, incomplete records and compliance if they are to achieve optimum results.

## Bay of Plenty, Central Plateau and South Waikato

In the Bay of Plenty's winter rural property market, there was a distinct difference between horticulture, where demand for kiwifruit orchards and bare land suited for development was heavy, and the dairy sector where activity was subdued. Among several winter transactions in the sector, a substantial kiwifruit orchard with a mix of green and gold blocks sold in July in line with current benchmark values. Any flatter Bay of Plenty land, or blocks that can be contoured, located under 100 metres above sea level, will attract intense interest from growers and investors. Several Western Bay of Plenty dairy farms will come to the market in the spring, and other listings elsewhere in the region are also likely. However, continuing uncertainty around government policy, Fonterra's performance and lending criteria is likely to constrain the region's spring market for dairy property.

## Lower North Island

Rural property market activity through Taranaki, Wanganui, Wairarapa, Manawatu and Horowhenua was slow during PGG Wrightson's past few months, as is typical during the winter. Smaller blocks, however, have sold well as existing farmers and farming families seek to expand their operations or establish the next generation into farm ownership. For sheep and beef farms, in particular, demand in the lower North Island is evident. While several good listings in this category will be offered to the spring market, they will be well sought after, such that the demand will only be partially satisfied. As in other regions, prospective purchasers are reporting that their bankers require high levels of certainty before providing finance to Initiate rural investment. This is unlikely to become any easier during the spring in which case those requiring finance to secure a transaction may need to be innovative.

## Hawke's Bay

Hawke's Bay's rural property market had a subdued winter, with limited transactions. Activity focused on property coming onto the spring market. Record prices for lamb and strong, stable returns for beef mean Hawke's Bay breeding and finishing farms will be well sought after in the coming months, and for those considering exiting, the cyclical market appears to be at the top of its current curve. Along with buoyant protein prices demand for forestry, primarily to sequester carbon, is having a significant impact with more than 8000 hectares of Wairoa farmland in the process of conversion with more likely. Meanwhile, with plenty of properties on the market, and uncertainty in the sector, a readjustment in values may be indicated for dairy properties in the region. Fundamentals for Hawke's Bay's other key sectors, horticulture, viticulture and arable, remain strong.

## Tasman

Several Nelson and Marlborough sheep and beef farms will come to the market in spring including some with excellent scale. In a profitable and optimistic period for red meat they should be well received by buyers. An approximately 800 hectare South Marlborough high country property will attract attention, also offering potential to plant trees and sequester carbon. Other Marlborough sheep and beef properties with scale are listed for spring sale. Expansion of the hop industry is driving a portion of the region's rural property market. Tasman district land growing hops expanded by almost 120 per cent between 2013 and 2019 and is set to increase further as the international craft brewing market responds positively to the locally developed proprietorial hop varieties that can only be grown under license and are most suited to that area.

## Canterbury

Although Canterbury's rural property market had a typically quiet winter, the spring should be busy with both buyers and sellers preparing to act, particularly in the sheep and beef sector. Several potential vendors were weighing their options during the winter, making it likely that some of the region's more desirable farms will be offered to the market in October or November. Kind winter weather put Canterbury in better condition than for many years. Along with strong commodity prices, this encouraged farmers to more actively seek to add to their holdings, generating plenty of potential buyer demand. One notable sale of 1415 hectare Waiau medium hill country property, Mt Terako Station, was finalised in June at a price firm on recent values for the farm's locality on the Inland Road. Dairy sector uncertainty means property activity there is subdued.

## West Coast

Shareholders proceeding with the sale of Westland Milk Products to Chinese dairy company Inner Mongolia Yili Industrial Group dominated the West Coast's rural sector through the winter. Although the sale has been approved and settled, buyers interested in West Coast rural property are likely to take at least another 12 months to become sufficiently comfortable with the new arrangement before committing to the purchase of farms. By that time the first payout will have been made, more certainty will develop in the relationship between farmers and the new owners and Westland Milk's suppliers will be more used to not having to concern themselves with the obligations of share ownership. In the meantime, the West Coast's mild winter added further optimism in the region's rural sector, accelerating grass growth and boding well for production through the upcoming milking season.

## Mid and South Canterbury

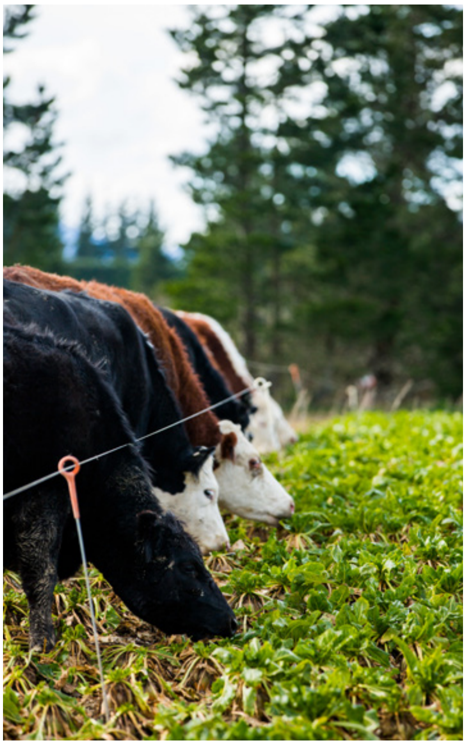
Mild weather and good commodity prices activated the region's winter rural property market, accelerating the retirement and succession plans of many farmers. Among spring listings are several substantial arable, grazing and finishing properties including a 385 hectare spray irrigated Newland lamb and deer farm described as one of the most outstanding properties within 10 kilometres of Ashburton; a 451 hectare Waitohi dryland farm; a 360 hectare Hinds dryland property; a top quality 480 hectare Methven finishing farm; a 620 hectare Ruapuna property; a versatile 490 hectare Cave farm currently a mix of arable and intensive cattle fattening; and a 150 hectare irrigated property, with a substantial herd home and consent to milk 360 cows, also in Cave. Those spring marketing campaigns that started early were well received with plenty of potential buyers taking a close interest in the farms on offer.

### Otago

Otago's rural property market during the winter met expectations, with regular enquiry for property on offer and sales proceeding as per normal for the time of year. Transactions were generally between local buyers and sellers, with farmers typically consolidating or augmenting their businesses. Several interesting properties will come to the market in the spring, including a portfolio of large sheep and beef units held by a corporate farm business in Taieri and Central Otago. Some dairy and grazing properties will also list for sale. Purchaser interest in these is likely to be positive with the mild winter, adequate rainfall and good cashflow all encouraging for the region's farmers. Interest in forestry is helping underpin the lower end of the market and Central Otago horticulture and viticulture properties continue to meet strong demand when offered for sale.

### Southland

REINZ statistics show values for Southland farm sales have been stable for the past two years. Dairy properties averaged $30,000 per hectare through that period, while sheep and beef farms consistently remained in the $14,000 to $15,000 per hectare range. Early indications suggest several Southland dairy farms between 140 and 200 hectares will come to the spring market. Barnhill at Castlerock, a 1025 hectare Lumsden breeding and finishing unit, will attract serious buyer interest as listings of larger sheep and beef farms may be tight due to owners seeking to make the most of favourable export returns. Several sheep and beef farms previously offered for sale have tended to sell for dairy grazing, though that trend appears to have eased. Any farm offered for spring sale in the $1000 to $1200 per stock unit range is likely to be well received.



## Celebration of Excellence

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Congratulations to **Tauranga** on winning

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## Sheep and beef

Favourable climatic conditions through the past few months mean sheep and beef farmers in most regions are approaching the spring in an optimistic frame of mind. Several benchmark sales of sheep and beef properties took place during the winter, including a 470 hectare King Country farm, which sold in July for $4.8 million for conversion to forestry; a 504 hectare North Waikato farm, which sold in August for $4.5 million; and a 354 hectare Kawhia dry stock harbour front farm, which sold in June for $4.45 million. Farm prices appear to be strengthening, and new listings of sheep and beef properties are gaining ready attention from the market, based on continuing high commodity prices at the upper end and supported by changes to the New Zealand Emissions Trading Scheme and government policy on carbon credits at the lower end.

## North Island dairy

North Island dairy farms have sold at minimal volumes in recent months, even by normal winter standards. Farming's low ranking in public perception, compliance challenges and cash flow issues all had a negative impact on confidence. Securing finance to purchase rural property is a substantial challenge. Prices are under pressure and are unlikely to increase while current conditions prevail. However, more dairy properties came onto the market through the winter, ahead of the traditional spring selling season, and earlier than would usually be the case. Prospective vendors of these farms apparently believe a run of properties will be listed for sale as the spring progresses and see the advantage of staying ahead of the market. Whether or not their theory is correct an increase in dairy property market activity is likely to take place later in the season.

## South Island dairy

Over the past two years REINZ statistics show Southland dairy farms sold on average at $30,000 per hectare, a consistent value through that period, albeit the volume of dairy properties transacted is lower now than 2017/18. Meanwhile, owners of the best Canterbury dairy farms expect to sell around the $52,000 per hectare mark, though recent transactions have been rare. A good supply of Southland dairy properties, ranging from 140 to 200 hectares will come to the spring market. Canterbury vendors are also likely to list property. Those who can demonstrate the environmental compliance of their farms, now and in the future, will be better positioned to find willing buyers in what is shaping as a challenging market. Potential buyers in Southland are more abundant, mainly farmers with existing operations in the region who are looking to expand.

## Viticulture

During a typical winter, limited transactions of existing vineyards and development blocks proceeded, though potential purchasers are preparing to increase activity, subject to securing financial support. Generally the interest is from wine companies and existing private growers seeking to purchase strategically. With Marlborough land suitable for viticulture development almost fully utilised, two rural properties listed for spring sale, one of 131 hectares in the Wairau Valley and one of 228 hectares in the Awatere Valley, will both command attention from the market. Both have water for irrigation and both have contours suited to vines at a scale that will attract corporates. While in general the sellers' market for viticulture property is likely to prevail through the spring, some smaller vineyards listed for sale are not motivating purchasers due to the overcapitalisation of housing on them.

## Kiwifruit

One of the country's largest and best kiwifruit orchards sold in June for a value equating to $1.25 million per canopy hectare for the gold kiwifruit portion, and $600,000 per canopy hectare for that producing green. Although this is a record, with the property recording annual orchard gate returns of $250,000 and $100,000 per hectare for gold and green respectively, the price is grounded in business reality. Several larger than average orchards will list for spring sale, once the vines are pruned and tied down. After Zespri granted 700 hectares of gold kiwifruit licences at $290,000 per hectare, an offer over-subscribed by almost 150 per cent, growers are speculating on the licence price increasing substantially next year. Meanwhile, the sector eagerly awaits news on licences to grow the new red kiwifruit variety, after trials indicate a positive reception in export markets.

## Pipfruit and Stonefruit

With exports of New Zealand apples going from strength to strength, demand for land to plant new orchards in Hawke's Bay is keen. Expansion and continued sales growth resulted in one leading grower moving to a new, larger packhouse during the winter, while elsewhere the market demand is evident from the many orchardists replacing old apple trees with the new licensed varietals that are helping to establish such a strong position for New Zealand produce in export markets. Through the winter, this demand has placed pressure on tree stock, which is posing problems for the developers. Sizeable holdings are coming out of process cropping into a range of apple varieties, though demand for new orchard land remains unmet. When it does become available, prices for Hawke's Bay bare land suitable for growing apples range from $100,000 to $150,000 per hectare.

## Cropping

With this year's contracts for feed barley and grass seed generally better than ever, confidence among arable farmers is high, though some are focusing on improving their equity position, which will temper demand to purchase property. Transactions through the winter indicate that at the lower end of the arable sector values sit between $42,000 and $43,000 per hectare, rising to $45,000 to $46,000 per hectare for better appointed properties. A small number of Mid Canterbury's premium arable farms will be offered for sale this spring. As usual, purchasers of these will most likely be existing farmers in the district. Compared to last year, vendors have reduced pricing expectations by between eight and 12 per cent. However, this is influenced by the factors creating uncertainty in the dairy sector as much as by what is happening for cropping farmers.

## Forestry

Although reduced demand through China's wet season has resulted in export prices for timber softening by $25 to $30 per tonne in recent months, the drop in the New Zealand dollar and the continuing strong domestic market has compensated, meaning the sector remains upbeat. Speculation focused on changes to the New Zealand Emissions Trading Scheme, which is making trade in carbon credits more lucrative, is another boost. Current pricing expectations for land sit between $25,000 and $30,000 per hectare for mature forests, up to $40,000 per hectare for premium quality forestry and between $5,000 and $7,000 per hectare for bareland blocks. With trees planted between 1990 and 1994 now almost ready for harvest, forests from that era are well sought after, particularly with the carbon credit aspect. At least one significant forest property is likely to list for sale in the spring.