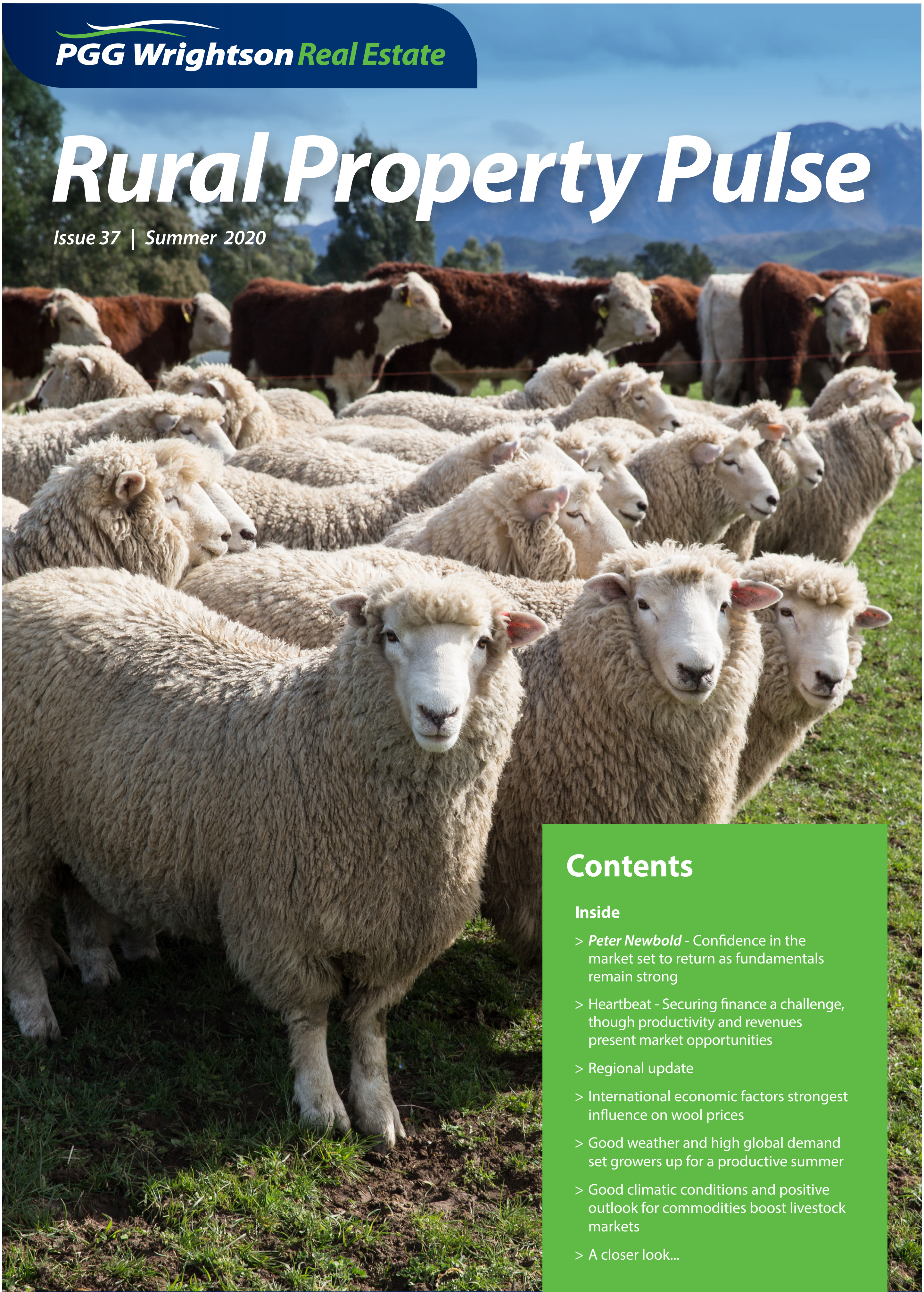
PGG Wrightson Real Estate

Rural Property Pulse

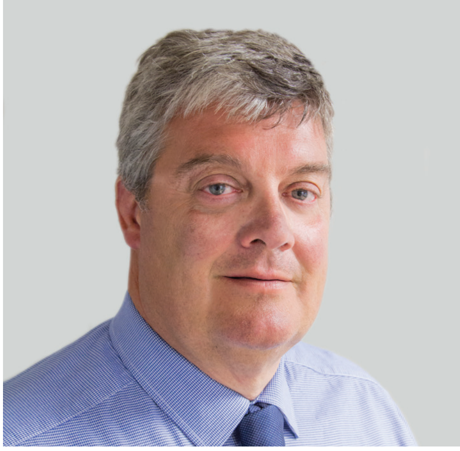
Issue 37 | Summer 2020



Contents

Inside

Confidence in the market set to return as fundamentals remain strong



Spring arriving late and tighter conditions around bank finance left us with a subdued rural property market in recent months. Farmers are dealing with uncertainty on several fronts, which will generally leave many too cautious to consider buying or selling farm land.

However, the Reserve Bank announcement to lenders late last year will hopefully lead to increased confidence within the banking sector resulting in a more proactive approach to lending (see page 3 for more on this).

Good growing conditions, excellent prices for most commodities and the Reserve Bank's announcement all point towards increased momentum in the rural property market during summer and autumn. With farmers better understanding the uncertainty that has prevailed around pending or recently adopted regulations to manage nitrate leaching and carbon emissions, they will see that the underlying fundamentals of world markets remain strongly in their favour.

Increased activity is likely to start in the sheep and beef sector, which is more removed from both the environmental pressure and the tighter banking criteria that applies to dairy. This is already visible with December seeing key sales of both sheep and beef and arable properties along with encouraging signs of horticulture properties coming to the market.

In regions including King Country, Eastern Bay of Plenty, Hawke's Bay, Tasman, North and South Canterbury, Otago and Southland there is plenty of activity and several excellent sheep and beef properties for sale, attracting motivated buyer's interest. In the Waikato, where in recent months property listing levels have been lower than expected, December has seen an increase in activity. Where purchasers have the financial wherewithal, transactions will occur. For those that cannot secure a loan in the usual fashion, via a bank, alternative measures are likely to emerge.

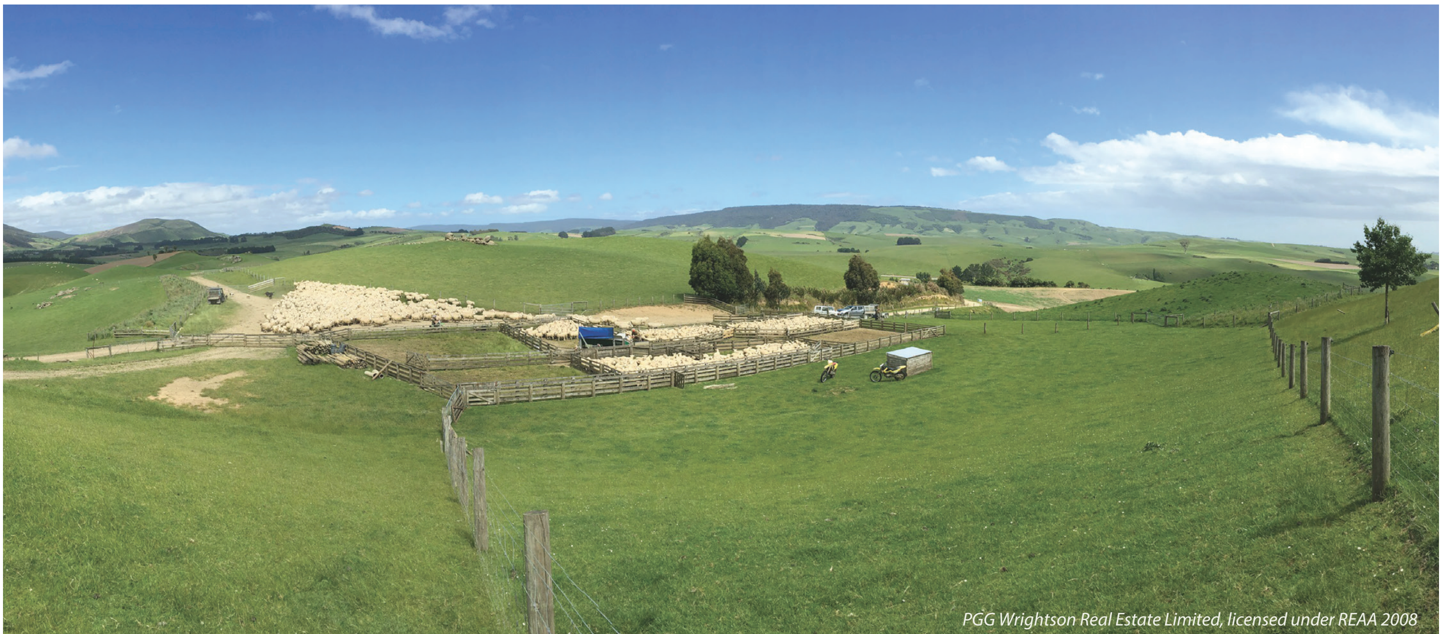
Dairy property transactions were held in check during the spring. While the payout continues to trend to the positive, the motivation to buy increases and the reasons to hold back diminish. At present there is a mismatch in the dairy sector between the price expectations of buyers and those of sellers. Eventually, as the uncertainty noted above is resolved, we expect this discrepancy will reduce and the market for dairy farms will resume at more normal levels.

Whether you are interested as a buyer or a seller of rural property, this edition of Rural Property Pulse will give you an insight into the present state of the market.

For further guidance, please drop by or contact one of my colleagues at your local branch of PGG Wrightson Real Estate. They have the experience, networks and objectivity to help you achieve your business objectives when it comes to the sale or purchase of a farm.

We look forward to hearing from you.

Peter Newbold
General Manager
PGG Wrightson Real Estate Limited

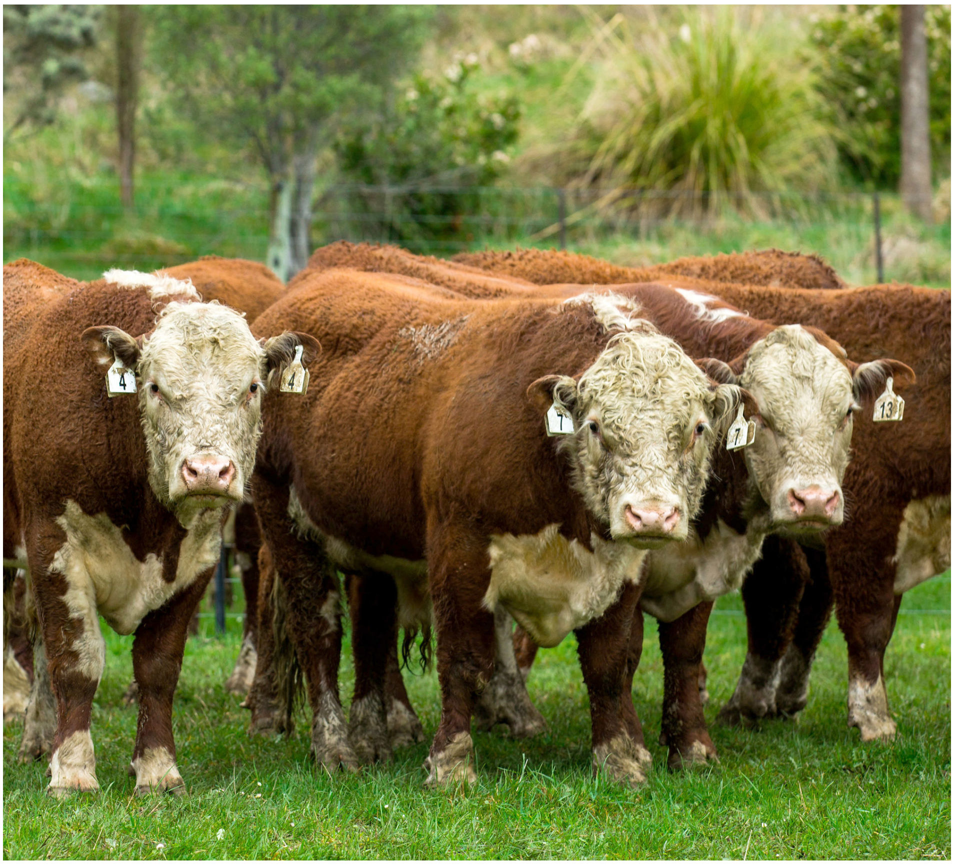


PGG Wrightson Real Estate Limited, licensed under REAA 2008

Rural Property Pulse is published quarterly by PGG Wrightson Real Estate Ltd, PO Box 292, Christchurch 8140.

Heartbeat – *securing finance a challenge, though productivity and revenues present market opportunities*

In the early weeks of a new production season, positive growth and elevated revenues are evident in most sectors of the rural market.



While short to medium term returns are encouraging, concerns in banking circles associated with exposure to the rural sector are hindering farmers' access to finance. This derives from the greater capital requirements placed on banks, including the Reserve Bank's review of the capital framework applying to locally incorporated banks and guidelines on liquidity risk. It is also amplified by the prospect of farmers facing higher operating costs through environmental compliance and future standards that will exceed the status quo.

This uncertainty is having an effect on more intensive businesses, including dairy farms, which potentially face more intense scrutiny relating to environmental compliance as well as carrying higher exposure to debt.

Late in 2019 the Reserve Bank announced final decisions on its review. Banks have seven years to rectify their equity position. Potentially this is a new positive, with banks no longer unsure of where they stand, therefore possibly able to take a more positive and proactive approach. Time will tell whether this makes it easier for farmers to secure finance. If so the rural property market should become more active. If not, farmers will need to adapt to the new conditions, which will happen, though may take some time.

These financing challenges carry some benefits including strong competition among banks for good farming clients. In due course, if there is no easing in the coming weeks, they are also likely to encourage farming businesses to seek out alternative funding options. Equity partnerships, agricultural investment companies and alternative land use are all mechanisms that banks may look upon more favourably.

Another impact on the rural property market, notable in several regions, is that vendors who have subdivided larger holdings are finding it easier to sell. That strategy is based on understanding your purchaser and the market. Farms are generally more likely to sell to buyers looking to augment an existing property, rather than take over a fully functioning unit, particularly at a time like this when there is a degree of market uncertainty. That being the case, a 100 to 200 hectare parcel of land will offer more options to more potential buyers than a 500 hectare block. For the purchaser there is a more manageable capital requirement associated with a smaller block of land.

Granting finance of $1 to $2 million for a smaller block, rather than $7 to $8 million for a full economic unit, is a much easier decision for the bank to make.

Clearly a series of important issues is creating uncertainty, which is taxing farmer confidence. These include requirements around carbon emissions and regulations relating to freshwater management, as well as bank lending.

In terms of revenue and demand however, New Zealand agriculture is thriving. Commodity prices have been excellent for several years, with plenty of reasons to believe that they will remain strong through the coming season and beyond. Horticulture exports are buoyant and the dairy payout is predicted to sit around $7 this year, which should leave every dairy farmer with money in the pocket or at least in a less stressful equity position. Even more clearly, red meat prices look likely to exceed the record levels set in the 2018-19 season.

Around the market for sheep and beef farms interest in the market is firm in several districts. With two or three seasons of buoyant prices for red meat behind them, positivity in the market has accumulated, and farmers are increasingly motivated to buy and sell property.

For those farmers who have no obligations around succession, and assuming their environmental compliance plans are in order, now would be an excellent time to capitalise on the years of hard work by offering their property to the market.

Regional Update

Northland

Several Northland and Auckland farms were listed for spring sale. While potential purchasers are active, obtaining finance is a challenge. Vendors prepared to be flexible, for example, leaving some money in the property, are more likely to sell in such circumstances. An 84 hectare Hunua property attracted exceptional attention when it was offered for spring sale. Approximately 30 tenders were lodged for the former dairy farm on flat to easy rolling land six kilometres east of Papakura. It sold in two parts, both to local farmers intending to augment existing farm. Another spring listing that attracted plenty of buyer interest was an 1124 hectare dairy portfolio around Ruawai, 30 kilometres south of Dargaville, which also has soils suited to vegetable production. Its likely summer sale will be a clear market indicator for rural property in the region and wider.

Waikato

Despite all indications suggesting strong productivity and excellent commodity returns across most primary production sectors, rural property market activity in Waikato during through recent months has been at a low level. Important environmental compliance issues are expected to arise in the region in the near future, impacting on farming practices. Farmers are apprehensive about these and have prioritised meeting them ahead of paying attention to the property market. Otherwise steady interest in larger drystock farms remains thwarted due to the absence of support from financiers. Although alternative lending options might arise, they are not yet evident. While the region's supply of farm listings exceeds the market's enthusiasm level, it is still lower than anticipated due to the difficulty of securing finance, which is discouraging those who might otherwise make Waikato rural property available for sale.

Bay of Plenty, Central Plateau and South Waikato

Demand for orchards and Bay of Plenty land suited for kiwifruit development is strong, though such properties were largely absent from the market as 2019 ended. Growers are likely to become more active as the new year progresses. In Rotorua several dairy farms listed for spring sale, though inclement weather, uncertainty in the sector and the difficulty of securing finance held purchasers back. A 164 hectare Reporoa farm that changed hands for $45,000 per hectare gave encouragement to other vendors. Activity around Whakatane and the wider Eastern Bay of Plenty exceeded the same period last year, including two notable listings: a 203 hectare Whakatane dairy property recently re-developed to surpass likely future environmental requirements; and a top producing 314 hectare Nukuhou North dry stock grazing and finishing farm. How quickly these find new owners will send clear signals to the market.

Lower North Island

Plenty of new listings came onto the spring rural property market through Taranaki, Wanganui, Wairarapa, Manawatu and Horowhenua, covering a range of farm sizes and land use types. Smaller sheep and beef properties were greeted enthusiastically by purchasers while, as in other regions, dairy farms were more difficult to transact, with conventional financing proving problematic. A 155 hectare East Taratahi irrigated grazing property, just south of Masterton, sold at a good level to a local purchaser in late November while a 199 hectare flat to easy undulating Pohangina property 22 kilometres north east of Feilding, used for dairy support and finishing sheep, was also set to sell well later in the summer. With positive commodity returns likely to continue, a firm market for lower North Island sheep and beef farms should prevail, with prices holding up well.

Hawke's Bay

As in other regions, tightened financing criteria has restricted sales of Hawke's Bay farms. One significant transaction was Oakbourne, a 410 hectare farm mainly finishing bullocks 37 kilometres east of Waipukurau that sold in late winter between $11,000 and $13,000 per hectare, firm on current Central Hawke's Bay values; while Cabbage Tree Flat Station, Waimarama, a large coastal sheep and beef property 34 kilometres south east of Hastings, changed hands in October. Both transactions indicate that enthusiasm for good properties remains strong. A 243 hectare Elsthorpe grazing property and a 557 hectare Patoka hill country breeding property both attracted reasonable interest when presented recently, and the speed with which they find new owners will set the tone for the market in the coming months. In the sheep and beef sector buyer numbers are tight, though good farms are always sought after.

Tasman

Although spring and early summer listings of Tasman farms were scarce, those that came forward attracted plenty of attention. A 61 hectare coastal finishing block at Best Island, Richmond, a 215 hectare Upper Moutere forestry and grazing block, and an 843 hectare Ward hill block all sold well prior to Christmas after mid-November listing. Prospects for sales in the new year remain firm. Any sheep and

beef property on offer is attracting interest from neighbours. Earlier a 175 hectare dairy farm in Kohatu, Tapawera, 52 kilometres west of Nelson, sold in late October to a corporate agribusiness investor for conversion to a hop garden, reflecting considerable recent interest in hops within the tightly defined area where they are well established. As in other regions demand is supported by strong pastoral returns and underpinned by carbon farming interest.

Canterbury

Prospects for a large community irrigation scheme around Hawarden, North Canterbury, became more likely in December, providing the market with greater certainty, which should stimulate interest among purchasers through summer and autumn. Notable December sales included Birchdale, a 660 hectare sheep and beef breeding and finishing property at Masons Flat, which sold in excess of $1200 per stock unit; and Achray, a 418 hectare Rotherham farm, both transactions indicating the market's good appetite for North Canterbury sheep and beef breeding and finishing units with scale. Previously a 90 hectare irrigated dairy support and beef finishing block in the Waimakariri District sold in August between $24,000 and $26,000 per hectare. While interest in dairy is more limited, farm owners seem prepared to 'farm on' given current strong milk values, even for those who might otherwise opt to sell if buyers were more forthcoming.

West Coast

A 688 hectare drystock property at Kotuku near Lake Brunner, finishing beef cattle and sheep, attracted considerable market interest when listed for sale in the spring and may change hands during the summer. Elsewhere, in a region where dairy dominates, suppliers of Westland Milk Products'are gradually becoming accustomed to the local processor having passed out of the co-operative model into the ownership of an overseas purchaser. After a lengthy decision process, that sale was finally completed during the winter. Once the first full season payout is made under the new ownership regime, farmers are likely to become more confident about the future and rural property market activity may resume. Until that time, the supply of dairy farms offered for sale will continue to outweigh demand from prospective purchasers. A buyer's market therefore prevails on the West Coast with buyer inquiry just starting to kick in.

Mid and South Canterbury

Rural property activity in Mid and South Canterbury has been brisk in recent months, with listings receiving plenty of attention from motivated purchasers. As in other regions, the sheep and beef sector has been at the forefront. Those who subdivided larger holdings are finding the market is responding well. With buyers most likely looking to augment an existing property, rather than take over a fully functioning unit, a 100 to 200 hectare parcel of land offers options to more potential buyers than a 500 hectare block, as well as a more manageable capital requirement. Southland farmers looking to move north have featured in the local market, prompted by uncertainty around changing local environmental regulations and the accompanying land and water plans. They appear to prefer districts with greater certainty and a more mature market that better understands the new conditions.

Otago

Although spring was late arriving south of the Waitaki River, plenty of summer activity appears likely in the region's rural property market, particularly around sheep and beef farms, where notable properties listed for spring sale include several large Central Otago hill country stations. Scaling up, scaling down and succession planning are ongoing drivers for vendors and purchasers. Having enjoyed good returns for the past couple of seasons, those approaching the end of their careers are now choosing to exit farming in a favourable market, while land values are holding firm and stock returns are high. At the same time there is a well populated bench of buyers, mainly genuine farming families looking for additional land. At the lower end of the market, forestry investors are active in Otago, particularly paying attention to land located conveniently to the port.

Southland

An unseasonably cold, wet spring kept the Southland rural property market in check. As elsewhere, uncertainty associated with carbon emissions, freshwater management plans and bank lending criteria also held farmers back. With warmer weather finally arriving in late spring, a productive summer and excellent returns through most commodity classes are indicated. Whether that will coax farmers back to the property market remains to be seen. By late spring buyer interest had built, with prominent listing Barnhill at Castlerock, a 1025 hectare Lumsden breeding and finishing unit, selling to local buyers. Meanwhile, interest in a 728 hectare Tapanui fattening and cropping unit was strong. Those looking to expand larger sheep and beef farms are particularly motivated to buy. After spring's late arrival, good weather and attractive listings should see Southland's rural property market build in intensity during the summer months.

International economic factors strongest influence on wool prices

After its annual hiatus through the winter, New Zealand's fine wool selling season re-commenced in early spring, largely mirroring the situation in Australia. Prices paid at Australian fine wool auctions have fluctuated in recent months, with New Zealand values following on, though consistently remaining at the top end of those cycles.

Meanwhile prices for crossbred wools remained steady through spring and early summer, at low historical levels.

Strong underlying demand for fine wool is driven by economic factors, largely influenced by world financial markets, and trade sanctions. Crossbred wool values are influenced by the same forces, albeit demand is considerably lower.

Quantities of crossbred wool offered recently were relatively low through the period when growers focused on lambing. As such positive price movements were experienced at auction sales. Market response to crossbred wool in the coming months will depend on the quantity and quality of wool offered. Climate influences, the degree of colour in the clip and growers will need to remain vigilant around their preparation in order to maximise the value of their wool.

One particular wool purity issue highlighted recently is that growers must be aware of the problems that can be caused by the use of sheep markers. Where sheep are marked for farm management purposes, such as to identify whether they are carrying singles or twins, there is potential to detrimentally affect scoured wool quality. If these marks are not able to be washed out in the scouring process it has significant financial implications to wool growers, wool exporters and processors, as well as compromising New Zealand's reputation for producing the world's best wool.

Growers should therefore ensure that any raddle marks are removed at shearing time.

On the positive side, there is more discussion through global wool supply chains regarding consumer views on the sustainability and biodegradable characteristics of wool and its future potential in the global fibre market. As these issues become more prominent, New Zealand crossbred wool growers should gain increasing financial benefit.

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

Good weather and high global demand set growers up for a productive summer

Spring is always a busy time for growers. This year that was certainly the case with pressure on to reach key milestones in continuing developments ahead of the summer.

These developments typically focus on corporates diversifying beyond dairy and sheep and beef, adding horticulture to their portfolios. In most instances and in various different districts that entails planting apples, avocados or cherries to meet growing export demand. Increased cherry production in Central Otago, for example, mainly from land previously used for grazing, is projected to double the national crop of export cherries, which are finding ready markets throughout Asia.

In several districts, especially in the South Island, growers were confronted with frost pressure during the spring. As wind machines are part of most new horticulture developments in the higher risk localities, frost fighting to ensure crops are protected was generally easily managed.

A severe hailstorm struck Hawke's Bay in late September, affecting stonefruit and pipfruit, though it hit relatively early in the season and the extent of the damage will become more apparent closer to harvest.

In those regions where large scale vegetable production is a key land use, including Pukekohe, Ohakune, Hawke's Bay, Levin and Canterbury, wet weather delayed planting crops out. Similarly, cool South Island weather set the apple and grape seasons back seven to ten days behind where they usually are.

Regular spring chores include controls and monitoring for pests and fungicide, along with fertigation to keep growing crops in optimum health.

Growers can look forward to a busy summer, with the positive market outlook providing plenty of encouragement and excellent prospects for a profitable season.

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.

Good climatic conditions and positive outlook for commodities boost livestock markets

In the livestock market for sheep and beef, recent activity has been buoyant with animals in top condition and commanding top dollar.

In the sheep and beef sector this spring's livestock market has been buoyant, with animals in top condition and commanding top dollar.

After a climatically slow start to the spring, growing conditions have been excellent, a positive scenario reinforced by the situation in China, where African swine fever has had a devastating impact on pork production.

Pigs are being culled in China at a huge rate, and the country is estimated to be facing a ten million ton shortage of protein by the end of 2019. That will have important ramifications for New Zealand red meat production, which is well placed to partially fill the gap.

Some informed industry estimates suggest that it will take Chinese pork producers 15 to 20 years to fully recover from the epidemic. That presents the New Zealand red meat industry with a chance to become permanently established in China at a more substantial level than previously, offering an alternative protein that Chinese consumers are likely to acquire a taste for.

Vietnam, the Philippines, North and South Korea, Laos, Myanmar and Cambodia are also struggling to contain the disease, which has reportedly reduced China's pig herd by almost half in the last 12 months.

This global situation is helping drive demand for lamb, mutton and beef.

In December focus will shift to the store cattle market. Where previously farmers were taking a selective approach around beef types with the improved outlook, the net is wider with beef and dairy cross cattle all well sought after.

Clearance rates through the dairy bull season were satisfactory, particularly with extra bulls to sell, though values were down slightly on last year.

Ram sales commenced in the North Island at the end of October, continuing into the new year. Early sales reflected confidence, with farmers prepared to re-invest in animal quality, ensuring they can supply product that meets consumer requirements.

Early sales included Waimai Romney, Te Akau, where all 80 rams offered were sold, averaging $2890, with the top lot selling for $5400; Nikau Coopworth, Waikato rams averaged $2059 for a top price of $4000; at Grassendale, Wairarapa Beltex Suftex cross rams achieved a total clearance at an average of $1613 per head; and at the Mana Romney, Gladstone on-farm sale 30 out of 32 rams sold, averaging $1550 with the top ram fetching $3000.

While the dairy livestock scene is less buoyant, positive global dairy trade trends provide encouragement for this season's payout. Unexpectedly strong interest is already showing in forward contracts on herds for May and June delivery. Farmers seeking quality need to be in early to secure the best. Export heifers exiting the country for China in high numbers may have repercussions later in the season resulting in low stock availability, justifying early action. Additionally, dairy beef is a big focus approaching the summer. Sales of 100 kilogram weaners started well in the North Island, with early indications that trading levels will track last year's sales, boosted by positive beef schedules.

PGG Wrightson's 'Go' credit products, funding client livestock trading, continue to be well received, easing cashflow by enabling sheep and beef farmers to buy, finish and onsell stock before paying for them. Meanwhile, the company's wholly-owned new Bidr business, providing those trading livestock with access to a virtual nationwide saleyard, is also building momentum and achieving positive results bringing buyers and sellers together.

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

A closer look...

Sheep and beef

In several districts market interest in sheep and beef farms is firm, driven by two or three seasons of buoyant returns for red meat, which have left farmers increasingly motivated to buy and sell property. However, where stronger links to the dairy scene prevail, farmers are apprehensive about the impact of compliance issues. Several banks seem to have tightened their rural lending criteria, largely relating to dairy, though also apparently being applied to pastoral farm purchases. Wherever they are coming to the market, the most productive sheep and beef farms in favoured locations and with well-maintained infrastructure are attracting plenty of interest from enthusiastic buyers. For many in the sheep and beef sector, particularly those reaching an age where retirement beckons, this summer and autumn shapes as an ideal time to capitalise on their careers and offer land to the market.

North Island dairy

Recent sales of North Island dairy farms have been minimal. Despite a favourable payout forecast, compliance hurdles and farming's low standing in public perception are eroding farmer confidence. Although those with strong intent will find other ways to fund purchases, conventionally financing dairy farm transactions has become a substantial challenge. Alternative land uses are motivating some buyers, for example a 110 hectare Te Kawa dairy farm sold in October for conversion to milking goats. Three of the more notable spring listings were a 203 hectare property five kilometres west of Whakatane incorporating many future-focused features; a 127 hectare Waharoa, Matamata farm that produced 271,000 kilograms of milk solids last year; and a 246 hectare Arapuni farm producing around 264,000 kilograms of milk solids from 520 cows. How these sell as the summer proceeds will provide clear signals to the market.

South Island dairy

In spite of positive trends in the global dairy trade and prospects for a $7 plus payout, which should improve the financial position of farmers by the end of the season, demand for dairy farms in Canterbury and Southland during the spring was lacklustre. Premium Canterbury farms with good water that might have fetched $56,000 to $58,000 per hectare two years ago are now valued between $46,000 and $51,000 per hectare, assuming a buyer can be located. In Southland spring's late arrival held the market back. A 156 hectare farm at Lochiel, south of Winton, converted to dairy to a very high standard in 2015 was offered to the market in November, generating strong buyer interest. While farm incomes are strong limited financing options are likely to continue to inhibit the market.

Viticulture

After a limited quantity of viticulture property changed hands privately during the spring, a 14 hectare sauvignon blanc vineyard on the outskirts of Blenheim sold to a local family in December slightly above $250,000 per hectare. Several other strong recent sales underline the continued demand for viticulture properties. Wine companies and existing private growers are the prospective purchasers, seeking to buy strategically. Water for irrigation and contours suited to vines at sufficient scale add value to any suitable Marlborough bare land left undeveloped. Given the diminishing land resource, and suitable grazing properties with potential for viticulture development now almost fully utilised, pricing expectations have reduced slightly in the past 18 months, though remain fundamentally strong. Through the rest of the summer the underlying conditions for a sellers' market for viticulture property are unlikely to change.

Kiwifruit

Aside from a minimal number of private sales, few kiwifruit orchards were offered to the market early in spring, which is normal for this time of year. Those listed in late spring received strong enquiry from existing orchardists motivated to expand their holdings. Previously, benchmark values for transactions of the best performing orchards in the most sought after Bay of Plenty districts equated to $1.25 million per canopy hectare planted in gold kiwifruit and $600,000 per canopy hectare for land producing the standard green variety. As summer proceeds, once pollination is completed and the fruit has set on the vines, market activity in orchard transactions may increase, in which case these values may be tested once again. Based on recent trends and assuming the quantity of properties offered for sale remains strictly limited, there is little chance of these prices coming down.

Pipfruit and stonefruit

With few spring listings and keen demand for Hawke's Bay land suitable for pipfruit and stonefruit, anyone selling will attract plenty of attention. Several larger pipfruit interests are looking for land, either to purchase or lease. Two significant bare land sales occurred in recent months, west of Hastings and near Havelock North, both valued between $132,000 and $134,000 per hectare. Significant quantities of apples have been planted in Hawke's Bay in the past few months, including on land previously used for viticulture. Land planted in cherries is also expanding in both Hawke's Bay and Central Otago. In the latter region smaller bare blocks are changing hands at around $100,000 per hectare, while larger blocks, including of 100 hectares or more, are valued at $50,000 to $60,000 per hectare. Some cherry development in Central Otago is being undertaken in partnership with existing owners.

Cropping

Production and the markets indicate that cropping farmers can look forward to a more financially rewarding season this year than last. However, as in other sectors, traditional lenders have tightened their criteria for financing rural transactions. Any farmers seeking to expand their property holdings will therefore need to find capital beyond the conventional sources. Smaller spray irrigated Mid Canterbury arable properties changed hands in the spring at between $41,000 and $45,000 per hectare, a softening of the market. Summer transactions in South Canterbury also look likely to result in reduced values compared to recent years. Several large Mid Canterbury farms will go to the market in the summer. Subdividing each of these into three or four smaller blocks will help facilitate sales, particularly in terms of raising finance, though also in relation to nitrate management.

Forestry

Good enquiry was evident during the spring for established mature or semi-mature forests. Several purchases of forests, or land for trees, received Overseas Investment Office approval through the winter, as documented in the news media. A 729 hectare forest in Clinton, South Otago, well placed relative to ports and with 328 hectares planted in 1993 and 1994, listed for sale in late spring, commanding plenty of interest. Export prices have dropped in recent months, with A grade logs now fetching between $115 and $120 per ton, a 20 per cent reduction. However, the five year average is steady and the only likely impact of the weaker market will be short term, as farmers with small mature plantations grown for superannuation purposes hold off on harvesting for another season or two. Demand through the summer is likely to remain steady.