



# Rural

April 2020



## CEO'S ADDRESS

This month we've faced historic challenges as a nation - and the shift has been swift and devastating in terms of economic and community fallout.

What has become apparent, however, is great leadership and a sense on common purpose have galvanised Australia toward finding solutions. It's on this front Herron Todd White is leading the conversation in our field of expertise. We have been actively engaged with a wide range of stakeholders throughout our property and finance sectors.

The health of our agricultural sector is imperative as now, more than ever, the broader public realise the security of primary producers'

output is critical to our country's survival.

We've never needed the rural sector more, and we at Herron Todd White are honoured to be playing our part in supporting the sector through expert advice build on decades of experience.

Stay safe and productive. We look forward to the other side of this challenge and the resurgence of nation's solid economy and enviable liveability.

Gary Brinkworth  
CEO



reasons that agriculture assets were attractive to fund managers and sovereign wealth funds was they were an uncorrelated asset class to equities and other property type assets and seen as a base store of asset wealth. It will be interesting to see how the Australian super industry looks at agriculture post this event as a large proportion of the capital has come from international funds compared to domestic funds. Next month we will provide some commentary about early signs of the market impact.

Stay safe for now.

## NEW ENGLAND/NORTH WEST

The rural market in the New England region remains relatively strong with increased interest and upward pressure on values evident. The long-term drought conditions in the region appear not to have reduced the appetite for prospective buyers, particularly from local landholders looking to expand. The recent sale of Pandora, 14 kilometres south of Walcha, shows the demand from neighbours looking to expand. The property recently sold at auction on 5 March 2020 for \$9699 per hectare (\$3927 per acre), which was a strong result given the holding was largely unimproved grazing.

Since July 2019 there have been approximately 18 rural sales of properties in excess of 200 hectares throughout the Walcha, Uralla, Armidale and Uralla shires with some additional sales yet to settle.

Whilst the number of sales is lower compared to the previous financial year, the median price per hectare continues in an upward trajectory. We feel this is a combination of the increased

## Overview

The content of this month has altered in the past week and so the focus is about our ability to support our clients. With the limitations on people movements, the Herron Todd White national footprint remains open to continue to work with clients, owners and financiers to help keep business as usual occurring. The way our team may need to deliver this work will be challenged, however with the largest rural footprint of any valuation business in the country, our team has the local expertise to continue to deliver services.

At the time of writing, it is not yet clear if our industry is deemed an essential service, however finance is and as a supplier of support services to

finance we can play our part. The main message I wish to convey to all clients and from all of our team is that we will work with you all to help deliver outcomes, so please reach out to any one of our 64 offices across the country or direct to any of our team. The main contacts for each location can be found in the link below.

<https://www.htw.com.au/property-valuation/agribusiness/>

An interesting observation of the past three weeks or so has been the performance of many agricultural-related stocks in the listed market space. They have seen some reductions but in many cases only single digit corrections and not the large percentage falls of other sectors. One of the main

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demand from local landholders and neighbours expanding and the lack of listings leading to increased competition.

As at the time of writing this review, we find ourselves and the country in an unprecedented situation in regards to COVID-19. It is too early to predict what impact this will have on the rural market and our team will continue to monitor the rural market and report any relevant observations on the rural sector and market over the next six to 12 months.

### NSW North Coast

Farmers on the New South Wales North Coast are like most farmers in that they relentlessly attempt to maintain or increase production and control or lower operating costs. The sugar cane industry has been under some commodity price pressure in recent times with low world prices, as well as externally from the purchase of farms for planting macadamia nut trees and tea trees to a lesser extent. Sugar cane farmers have long worked in a co-operative fashion and share harvesting and planting equipment in various well-organised farmer group structures to defray capital and operating costs. In more recent times, some farmers, particularly in the Condong Mill Area, have changed farm practices to growing all one year old cane instead of a mix of one and two year old cane. Earlier in the season, sugar producing and ratooning varieties and minimum tillage has promoted this practice of growing only one year old sugar cane. The experience of growing only one year sugar cane is higher levels of overall farm production.

This region is renowned as a prolific beef store weaner producer historically popular with tableland and western graziers. Although many weaners may still be sold to be grown out or finished in the

western areas or feed lots, many beef graziers are improving pastures and genetics so that they can sell their product at higher live weights and gain a higher value and return per head.

There has been limited sales activity in 2020. Some sugar cane farms in the Condong Mill area are reportedly sold or under contract and an avocado farm at Fishermans Reach is reportedly under contract.

### Mildura

The agriculture sector at the time of writing appears to be somewhat protected from the economic devastation being wreaked on other parts of the economy by the Covid-19 outbreak.

The huge amount of uncertainty resulting from the outbreak is likely to stall some property sale negotiations, however the fundamentals for food production remain sound and we expect that sales will eventually resume and that the impact on values will be less than for other property sectors.

The 15 percent slide in the exchange rate to current levels of around US \$0.57, will help maintain export returns for our local horticultural economy, even though there will be issues around accessing some of our key markets. We note that domestic market prices have risen in some cases due to concerns about shortages of supply.

An issue for some of our labour intensive industries (think manual harvest of table grapes and citrus) will be the availability of casual labour. Many growers rely on sourcing itinerant workers

from Pacific or south-east Asian countries and this will be less available. An early shout out to fit people looking to make some money in the Australian outdoors.

One of the industries that will have to adapt this season is the almond industry, following the destruction of a huge number of bee hives in the summer fires. Almonds rely on bees for pollination and the simple economic theory of supply and demand will see the cost rise significantly. Bee keepers are looking for ways to bulk or split their colonies in time for the August pollination season and in some cases, almond growers will need to accept lower than ideal bee densities.

### Darling Downs

It's become very topical of late with financiers, landholders and agents asking how the continuing strengthening in land values will impact on future markets. An established beef cattle producer recently indicated on an inspection that they were looking to diversify to reduce debt as part of a succession planning strategy. The relationship between farm debt and returns provides no easy solution for family members to take over from their parents. The grazier acknowledged the challenges of running a viable grazing operation on the Darling Downs when he said that land prices are too expensive to be running breeders. The financial viability and challenging Australian climate have forced some long standing grazing models to evolve to remain economically relevant, as for the majority of businesses in Australia at present. The transition to trading cattle will

*On the upside, agri investments will likely be viewed more positively by investors seeking tangible assets underpinned by the world still needing to feed itself.*



allow greater turnover and spreading cash flow. The recent sudden spike in cattle prices however has created some anxious caution in the market where we are also seeing some conservative buying despite ability to run higher numbers but in some cases trying to spread risk through providing agistment on surplus country.

The rural market in south-east Queensland is starting to witness a slight increase in the number of listings on the back of much needed rain. We are expecting the strong demand to continue as any potential purchasers prior to the rain would view assets more favourably now that they have the ability to stock. At this stage the continued strong demand will likely create a firming in values in the short term until supply equalises buyer demand particularly for grazing assets. The broadacre farming market hasn't seen the same level of buyer demand, especially towards the back end of 2019 when the drought was impacting on market confidence and despite the rain, cash flow won't exist until crops are harvested.

As we are seeing the country go into lock down due to the Coronavirus, this will have an impact on many business and financial markets. To a large degree, the agri sector has been insulated from its effects to date, however the ability to source fertilisers, chemicals, parts, labour etc will likely be affected at some stage. Further risk will also be created by any uncertainty in the financial markets, which will ultimately have the potential to create low investor confidence. On the upside, agri investments will likely be viewed more positively by investors seeking tangible assets underpinned by the world still needing to feed itself.

A recent pending sale north-east of Dalby, comprising Bottle Tree softwood scrub merging to Ironbark grazing block was placed under contract



Mitchell and Flinders Grasses haying off Wockingham Creek, east of Kynuna Qld Source: HTW

following three inspections within the first week of listing and reflected circa \$5,100 per hectare excluding structures. The pending sale reflects the continued strong demand evident in the market for smaller scale assets. Further west near Roma, the market remains strong with the sale of Iona, a 1,543 hectare holding south of Wallumbilla for \$6.4 million (\$4,148 per acre) to a neighbour at auction.

### North and North West Queensland

As urban society grapples with the virally affected new world, agriculturalists are flat out producing food and fibre to feed and clothe society.

Yes, the graziers and farmers are feeling the pinch of COVID-19. Farmers around Bowen



New Man Made Lake at Hughenden Qld Source: HTW

in particular are used to biosecurity and horticultural crop security risks. Measures have been in place for years to manage the risk of disease. That is the heart and soul of producing the healthy food that society demands. This is a major salad bowl production area of Queensland and may now also serve as a good source of employment while the hospitality sector struggles.

As the pandemic is endured, society is looking to the agricultural sector to continue to produce an abundance of clean and safe foods. This realisation is a stark contrast to the way farmers and graziers have felt for years: that urban society does not care about the agricultural sector.





## Will this period reset the balance of policy and land management practices for a collaborative future?

The pandemic is serving to close the gap between urban communities and their country cousins. Australia is lucky to have its standard of food security and as this pandemic is navigated, the world will demand the same. Our trading partners need to eat.

The low Australian dollar is of benefit to competitiveness for the sale of our safe and nutritious products on the global market. Perhaps the new dawn of agriculture is upon Australia! What will that look like? Will this period reset the balance of policy and land management practices for a collaborative future?

This does not mean boom time for agricultural property markets. Yes, property market sentiment is positive. Unlike urban residential markets, graziers are still pushing ahead with their interest in acquisitions and expansions. The pandemic has reduced the hot air value talk, which is a healthy thing for the rural property markets.

North and north-west Queensland has a limited supply of rural land on the market. Demand is moderate to strong in the small to middle scale property sizes.

This does not mean that it's time to ask unrealistic prices. In the words of Banjo Paterson, "No use to try for fancy riding now". The pandemic has served to place a head check on purchaser frivolity. Vendor prudence is required as the pandemic continues and commodity supply chains redesign themselves.

Not only is the pandemic a property market risk checker, so too is the season. There are parts of north and north-west Queensland that have not

had the best season. There are districts that have had a cracker of a season. Cattle are being sold off accordingly to southern markets where there have been better seasons. This southern demand has served to mask the market while the supply chain issues around ports and meatworks are sorted.

At this stage, rural property markets in the north and north-west Queensland appear stable. Stakeholders are considering their risks and implementing protocols to protect their health while they continue to grow an abundance of healthy and safe food.

### Cairns

Growers in far north Queensland are adapting to changes in climate and consumer trends in many different ways. The threat of drought and reduced irrigation water allocations and the continued popularity of the avocado has led to change in northern horticultural industries.

#### Adaptions to climate and consumer trends

The threat of a repeat of the 2016/17 drought is never too far away from the minds of irrigators in Mareeba and the Atherton Tablelands. The news that construction of a new irrigation dam appears unlikely in the foreseeable future is cause for some concern, particularly given the high number of recent avocado and citrus tree plantings in the Mareeba and Dimbulah Irrigation Area. Growers have adapted to water security concerns by constructing dams that utilise existing overland runoff and recycled irrigation water that would normally go to waste. The benefit of these on farm dams is that they are not regulated by Sunwater, therefore the water is free from regulatory



New recycled water and run-off dam - grape orchard at Dimbulah Source: HTW

charges and the danger of reduced allocations. To improve the efficiency of these dams, growers are also upgrading their pumping infrastructure with variable speed drives which have resulted in significant savings on their electricity bills.

Composting has emerged as a major new industry in the horticultural area in far north Queensland. A large composting facility known as Shark Recyclers has been constructed in Bibbohra, north of Mareeba. It is reported to be a next-generation facility that is the largest licensed compost and soil conditioning manufacturing facility in Queensland. The following benefits of next-gen composting are reported as:

- Improvement in soil nutrition;
- Reduction in chemical fertiliser usage;
- Improvement in soil structure;
- Increased organic matter;
- Increased water retention;
- Increased microbial activity;
- Increased yield; and
- Also may assist in reducing phytophthora and other soil borne diseases.

Source: sharkrecyclers.com.au



The above adaptations have helped growers in far north Queensland to expand into the profitable avocado sector. The recent sale of a mixed avocado and sugar cane property in the Mareeba district for nearly \$60 million demonstrates the changing market. Many growers have successfully transitioned from traditional mango and other tropical fruit crops to Shepard and Hass avocados, chasing the insatiable consumer demand for avocados. Fruit prices in recent seasons have been very profitable with sales of going concern avocado farms very rare as growers have tended to hold on to these assets to take advantage of super profits. Nearly 50,000 trees have been planted in recent years in the Mareeba and Atherton districts as growers look to cash in on continued high prices.

### Fall Armyworm

The recent outbreak of the Fall Armyworm (*Spodoptera frugiperda*) in the farming areas of South Johnstone, Tolga and Lakeland is cause for concern. This is the first sighting of the worm on mainland Australia.



Fall Armyworm

Source: abc.net.au

The worm has the potential to significantly reduce production for economically valuable species such as cotton, wheat, rice, sorghum, sugar cane and certain fruits and vegetables. In fact, it is reported to feed on more than 350 plant species. Previously the species had only been found in the Torres Strait

region. No damage has been reported to date however pesticide treatment can be expensive. Preventative measures for biosecurity agencies and farmers are to restrict the moth's range by controlling it with pesticide in affected crops. Less destructive species of armyworms are already present in Australia.