RURAL & AGRIBUSINESS
2017

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Weather conditions remain patchy

Much of Northern Australia has been experiencing patchy rainfall events, and although the monsoon is active, very high rainfall events and cyclones have not yet occurred this season. Much of central Australia has received good rainfall relative to monthly averages, but the eastern and western parts have missed out on summer rains to this point.

According to the Bureau of Meteorology, the outlook for the remainder of the summer season is for drier conditions for southern and central Queensland and northern New South Wales, but wetter for Western Australia and the Northern Territory. However, they note that this expectation of higher rainfall for the states reliant on tropical events will ease after this month.

North Australian Beef enjoying strong trading

Current strong conditions for the beef industry continue to mirror 2016, namely being a combination of low supply numbers, competition between re stockers and meatworks buyers and solid domestic demand for beef. Added factors such as low

Rainfall percentile (Nov 16-Jan 17)

www.longpaddock.qld.gov.au
domestic interest rates, a stable Australian dollar and increased international demand have supported investment in beef cattle properties in the latter part of 2016.

Domestically, prices remain historically strong with a slight correction in the Eastern Young Cattle Indicator (EYCI) down from the highs of spring 2016 at above 700 cents/kg cwt, to about 650 cents/kg cwt in February 2017. These market indicators are still far higher than conditions experienced in 2013 and 2014 as shown in Graph 1.

This increase is due to declining numbers in the national herd and unpredictable rainfall which has resulted in a fall of 20 per cent in slaughter numbers compared to 2015. This has also been combined with the strong demand from international markets.

Globally the supply of beef is expected to reach record production levels over the next few years and Australian producers are expected to experience greater competition from South America which may result in some easing in pricing.

In summary, expectations are that these conditions will continue for 2017 if seasonal conditions remain favourable as tension is created by producers trying to rebuild and restock. Demand for beef is likely to remain steady to strong in the domestic market with increased demand expected from international markets.

The strong demand for beef has had, and will continue to have a significant impact upon investors both domestically and internationally, wanting to access the beef producing market. Rural properties geared towards beef production will be some of the most sought-after assets by agribusiness investors in 2017.

Some of the most notable transactions are the S Kidman & Co portfolio, expansion of Hughes Pastoral Company through the purchase of “Tumbar”, the historic “Nappa Merrie” in the Channel Country of Queensland, part of North Australian Pastoral Company, Western Grazing Company’s “Tanbar” and “Rocklands” and SAWA Pastoral Company’s portfolios. These sales have set the benchmark for further large cattle portfolio sales throughout the Australia.

On analysis these sales are showing strong support on a $/Adult Equivalent basis, with premiums paid for stocked, well-presented properties with location, scale, good development and sound reputations. Given the mix of investors present in the market place, we note that there is an increasing requirement to provide detailed backgrounds regarding the past performance of properties to complete the higher end transactions. Feedback from our international clients is that the RIRB’s tightened reporting requirement have created timing problems and an added layer of complication in securing transactions.

**Outlook for Beef**

Due to the current low supply of cattle/low Australian beef herd, it is likely that the supply/demand tension will continue for at least the medium term. Given the current seasonal conditions, this period could well be extended as re-stockers are unable to move until pastures are sufficient to support a rebuilding program. According to Meat and Livestock Australia expectations are for some downward pressure on the market in the latter part of the year, as an increase in beef production begins to take effect. Their analysis of future prices received however, suggests that higher than long term average prices can be supported by stronger fundamentals in the market place.

This in turn will continue to support demand for beef properties going forward. We expect that there will be further investment by both the international, national corporate and domestic sector, as further clarity around seasonal conditions, demand and supply, trade agreements and economic conditions is gained.

After a period of strong demand and improved values for grazing land, we expect that values will generally plateau and there is potential for the market to differentiate for quality. We expect to see the strong demand for grazing properties to continue in 2017, however, it will be difficult to match the quantum of investment after the Kidman, SAWA and NAPCo transactions in 2016.
Southern Beef

The sales for large scale grazing operations Australia wide is very strong with a mix of both domestic and international interest. The northern beef industry received most of the publicity, which is partly due to the majority of the industry being located there. The southeastern states of NSW and VIC have both recorded multiple sales, or the aggregation of multiple vendor properties in excess of $20 million which are quite notable. Active buyers include:

- Paraway Pastoral Company
- Rifa Salutary
- Laguna Bay Agricultural Fund
- Gina Rhinehart’s Hancock Prospecting Pty Ltd (HPPL).

Paraway Pastoral Company (Paraway) have recently been the most active in the prime beef areas with extensive acquisitions of holdings and aggregating of smaller holdings to establish operational scale. They have invested in excess of $103,000,000 for three aggregations in northern NSW, not allowing for any livestock or plant and equipment.

Perhaps the most significant transaction has been the recent Paraway’s acquisition of part of the Sundown Pastoral aggregation’s properties of “Paradise” and “Newstead”. The details of the transaction are still confidential with reports that the land sale comprised about $78 million. Paraway have also recently aggregated a number of holdings (now known as “Burmah Station”) in the Graman region, which is situated approximately 50 kilometres from Inverell. Another of Paraway’s acquisitions includes “Aberbaldie Station” which is situated approximately 20 kilometres from Walcha.

Rifa Salutary (Rifa) recently acquired a number of aggregations in northern NSW, including the “Alpine” Aggregation near Warialda and Gravesend; “Cooplacurripa” in the Gloucester-Nowendoc district, and the “Middlebrook” aggregation near Nundle. “Alpine” comprised four smaller holdings that were aggregated for a total price of $13.31 million. It has an approximate area of 3,856 ha.

“Cooplacurripa” was reportedly acquired for approximately $29 million. It comprised a large holding of approximately 22,000 ha with an Adult Equivalent (AE) rating of approximately 11,000 AE. The holding was acquired from Bydand Pastoral which acquired the property in the mid 2000 for approximately $12 million. The property ran approximately 3,500 cows with replacement heifers (approximately 1,200) with capability to run an additional 1,100 to 1,200 steers on a trade basis. Progeny were generally sold off as weaners into the strong northern NSW weaner markets. The property is regarded more as a breeding enterprise than a fattening and finishing / backgrounding enterprise and this is reflected in the low $/AE of $2,600 and $1,318/ha.

“Middlebrook” was settled in September. It comprises “Middlebrook Park” and “Kooroon”, which are located south of Tamworth and comprise an area of approximately 8,000 ha.

Laguna Bay in the last month have acquired “Banongil Station”
for circa $50 million. It is one of the Western Districts (Victoria) largest mixed farming and grazing holdings. It comprises 6,880 ha and was sold walk in walk out including 30,000 sheep, 2,400 Angus cattle, full station plant and 1,500 ha of winter crop.

Hancock Prospecting (HPPL) has been active Australia wide. Ms Rinehart has been acquiring beef cattle holdings across all major production regions. HPPL’s recent acquisition in NSW includes Glencoe at Mendooran for approximately $31.5 million bare. The property comprised approximately 10,000 ha.

In summary the level of investment by the above parties is as follows:

- Paraway Pastoral Circa $100 million bare
- Rifa Salutory Circa $100 million bare
- Laguna Bay Circa $55 million WIWO
- HPPL Circa $31.5 million bare

The acquisitions reflect that the market and appetite for quality holdings is very strong at present. Many of these would not have sold unless vendor expectations were meet. Demand is strong as there is an increase in new capital investment from a variety of investors who believe agriculture is a good investment in the longer term. Some are professional investment funds seeking to broaden exposure to this market, whilst many are also seeking to improve access to critical mass as part of a larger value chain.

Beef is certainly very topical at present with cattle prices recently hitting record levels and likely to be remaining above long term average levels for the foreseeable future. This is being driven by strong domestic cattle demand as producers rebuild herds and abattoirs compete for limited supply.

With grain prices likely to remain low for the next couple of years due to a growing world stock pile, many mixed cropping and grazing operators will take advantage to convert some of the cropping to cattle or sheep production. Recent value increases for grazing land are outstripping cropping land based on Colliers International valuation and transaction staff's experience. This is after a period of little growth and low activity.

The demand for these large quality assets being driven by a number of factors including:

- Limited opportunities;
- Neighbour to neighbour sales keeping outside money from coming in;
- Not just a real estate play with big picture perspectives important.

There will be a bigger distinction between assets of varying quality and as consolidation occurs tightly held quality assets may well appreciate above current levels. With high values we expect to see more intensive management that should be derived from more specialised operations. Sundown Pastoral is a prime example of a high quality asset with significant specialised “operating systems” in place. This may have been a differentiator in determining value. In theory a buyer can move in and continue the same high performance production system without having to try and re-establish system from the start. The systems in place ensure a high reliability of replication that has proven to perform. This is agribusiness and the driver of value is strongly correlated to earnings.
Horticulture enterprises are capital intensive and are characterised by long lead times to positive cash flows, market instability as well as climatic volatility. However, given the risks, the returns can be considerable, with horticultural industries considering some of the most efficient food production systems based on the land and water resources required.

Recently, capital flows into horticultural investments have swung from debt to equity, in particular, in the form of joint ventures, sale and lease back scenarios and through public share offerings. These inflows have targeted a range of horticultural assets from intensive tomato and blueberry developments to large scale almond orchard developments.

With the significant developments that are currently occurring in the almond sector, investment has come in the form of a number of structured investment models, primarily utilising leasing options. The two largest almond producing companies, Olam Orchards Australia and Select harvest Limited are both currently involved in a numerous large scale developments, with both having hybrid lease / development agreements in place. Such structures appear to be increasingly common as they provide different investors with exposure to different risk profiles, while collectively providing the sufficient capital requirements for development.

Olam Orchards Australia are the largest almond grower in Australia, and the second largest grower globally, with approximately 14,000 hectares currently planted, however all the land assets are held in long term tenancy agreements with private equity company Adveq and Rural Funds Management.

In 2016 Olam Orchards Australian completed the development of 1,882 hectares of orchard across two properties in the Riverina which are leased from the Rural Funds Group. A further 1,281
is to be developed in 2017. Rural Funds Group are listed on the Australia Stock Exchange and have a diverse portfolio of agricultural assets that are leased to a range of operators, with 60 per cent of the portfolio’s value in almond assets.

In 2015 Select Harvest Limited transacted three properties subject to a lease with a development agreement for a total investment sum of $170 million to a First State Super. The agreement was similar to the Olam / Rural Funds Group deal whereby, the initial transaction totalled approximately $70 million and included 994 hectares of established almond orchards. The development of a further 1,226 hectares is to be carried out by the lessee with all capital expenditure capitalized into the total lease base and leased at 8.50 per cent.

A number of produce companies have recently floated with great success with the market capitalisation well above the net asset value of the company, clearly representing the intangible value associated with the enterprises.

The Costa Group listed on the ASX in July 2015 with a commencing market capitalisation in excess of $600 million. Since this time, the value of the shares has increased substantially with the market now valuing the company at over a $1 billion. The Costa group has a focus on four key produce categories; berries, mushrooms, truss tomatoes and citrus. In 2016 Costa Group entered into an acquisition agreement with Macquarie Agricultural Funds Management to purchase a 300 hectare aggregation of avocado orchard with a 20 year lease agreement to Costa Group for approximately $50 million. Similar agreements with Macquarie Agricultural Funds Management are likely to occur as Costa Group looks to grow market share through the supply chain.

We understand that a recent entrant to the produce marketing sector – Nutrano Produce Group is moving towards an initial public offering having secured Sevenfields and Abbotsleigh citrus portfolio in 2016 that includes almost a 700 hectares of citrus orchards across New South Wales, Victoria, Queensland and Northern Territory. The acquisition is understood to total approximately $85 million.

The most recent agricultural company to be listed on the ASX was Murray River Organics in December 2016. The company is involved in producing and marketing dried grapes (rasins). Despite the company’s brands only recently being established, the company is currently valued at twice the nominated net asset value (as at December 2016). One of the largest properties controlled by MRO is subject to a lease arrangement for 25 years with Arrow Funds Management that commenced in December 2015 with a passing rental of 10 per cent.

Webster Limited is the only listed agriculture company highly exposed to horticultural markets that has a trading price that values the company at a similar value to the asset value. Webster owns in excess of 2,000 hectares of walnuts across Tasmania and the Riverina. The orchards are secured by a large water entitlement portfolio and large interests in cotton production.

An interesting IPO that occurred in late 2016 was the Duxton Water Portfolio. The company owns a portfolio of water entitlements that are leased to a number of related agricultural entities at initial yields of between 5.50 per cent and 6 per cent. The investment vehicle allows long term exposure to water entitlements, without the volatility of allocation trading or forward sales. To date there has been minimal overall variance to initial market capitalization at the time of floating.

The above graph illustrates the Net Asset Value to market capitalisation of the various agricultural companies that are listed on the ASX that have exposure to horticulture.
Reports from Wine Australia demonstrate that demand for Australian wine continued to grow in 2016. The weaker Australian dollar and the trade agreement with China have contributed to a strong recovery in sales to export markets in particular to China. China is now Australia’s third most important export market after the USA and the UK for our wine exports. In the UK market there appears to be a shift towards bottled wine which grew by six percent at the expense of bulk wine which fell by 14 per cent. This improvement is even more significant in the context of a six per cent higher wine grape crush in 2016 (1.8 million tonnes) which is 100,000 tonnes greater than the 2011-2015 average of 1.70 million tonnes.

Wine Australia’s Vintage Report for 2016 shows the total value of the 2016 crush rose 21 per cent; and average wine grape prices increased overall by 14 per cent - the highest since 2009. The greatest proportionate increase in wine grape prices was for higher grade red varieties during the year. Shiraz is still the dominant variety and accounted 46 per cent of the crush with accounting for Cabernet Sauvignon 27 per cent. Chardonnay remains the dominant variety for white wine accounting for 47 per cent followed by Sauvignon Blanc at 12 per cent.

South Australia is the dominant producer state and accounted for 51 per cent of the total crush. The largest increases in total crush where from the more temperate regions. Some of the key regions which contributed to the growth were Langhorne Creek up 57 per cent, McLaren Vale up 47 per cent and Barossa Valley up 24 percent. Above average rainfall throughout 2016 should see yields for the 2017 vintage in line with long term averages or slightly above according to discussions with industry participants. The cooler and wetter summer has however created ripening problems and we are now looking at a late and compressed vintage in cooler climate regions.
The Australian wine industry is dominated by several very large producers which together account for 85 percent of total production. The bulk of the remainder are producers which typically crush less than 500 tonnes. Interestingly in 2016, winery owned grapes accounted for a higher proportion of the total crush up to 32 per cent compared to 28 per cent in 2015. Renewed interest from large wineries looking to secure supply of mid tier quality grapes has contributed to this jump in winery grown grapes, according to Wine Australia.

After significant falls in the average price of grapes in 2008, growth in property prices stagnated, which resulted in longer sale periods for assets and limited scope for increasing capital values. The increase in average wine grape prices for key varieties from the 2016 vintage is another sign that things are improving. The first 6 months of 2016 characterized by a number of transactions involving large commercial vineyards in the warm inland areas. In particular the Murray Darling and the Riverland regions. Most notably the huge Del Rios Vineyard at Kenley near Swan Hill was purchased by the agribusiness group goFARM and is being converted to almond production. The Del Rios operation previously contributed approximately 25,000 tonnes of the Murray Darling - Swan Hill regional crush.

Buyer focus, both domestic and international, shifted to the temperate regions in the last half of 2016, resulting in transactions in Wrattonbully, Padthaway, Langhorne Creek, and McLaren Vale. There has been considerable interest in the public marketing campaign for the sale of Ballast Stone Estate Wines in Currency Creek. Across most campaigns we are seeing an increase in the depth of enquiry which is a positive sign. This however has not resulted yet in jumps in the value of assets, but the signs are positive that during 2017 there may be some modest price growth for mid tier and above assets.

Major producers such as Casella, Treasury Wine Estates, Accolade and Seppeltfield have all made acquisitions over the last year. Casella Wines continued to expand its holdings, purchasing famous Morris Wines in Rutherglen from the Pernod Ricard group and vineyards in McLaren Vale. Market leader Treasury Wine Estates also purchased vineyards in McLaren Vale as well as Wrattonbully to name a few, on the back of very strong half yearly results released in February. Accolade Wines purchased Lion's wine grape industry assets, including well known brands Petaluma, St Halletts and Tatachilla. Kingston Estate and Andrew Peace Wines have been active purchasers of large scale vineyard assets in the last 12 months.

The 2017 vintage is currently underway and the outlook at this stage is positive. The impact of Brexit on the market for Australian wine in the UK remains uncertain. It may be an opportunity for growth however the drop in the value of the Sterling is not helpful in the immediate term. The recovery in demand from China for our wine is a boon for the industry. As the terms of the free trade agreement mature the importance of China will continue to grow. Improved depth of enquiry for sales campaigns is likely to continue into 2017 which may lead to some increases in pricing for assets over the medium term.
Idyllic seasonal conditions created unprecedented volumes across the majority of Australia’s grain belt. Total Australian winter wheat production numbers exceed 32 million tonnes, with some districts recording historically high yields per hectare for grains and oil seeds. In many instances, the record volumes offset the soft prices currently being endured for most cereal grains. Wheat production is the largest grain type grown in Australia, accounting for over 68 per cent of total production in 2016. Consumption and feed sales domestically are a small proportion of the production with around 70 percent of the total production forecast to go to export markets.

Globally grains production is forecast to peak to highest levels recorded, although forecasts for wheat production which is Australia’s largest crop is expected to fall by around two per cent. Global grain consumption both for as feed and food is expected to continue to grow for grains over the coming year. Despite this world oversupply of grain, cropping land values have increased at unprecedented rates over the last half decade, having improved by up to 30 per cent in southern Australia and between 10-20 per cent in northern areas, of more marginal rainfall.

Given the strong likelihood of a continuation of La Nina climate conditions, it is reasonable to assume an average or above average crop yields for the 2017/18 winter harvest. Current forecasts are suggesting a 2.4 percent increase in production of wheat for the coming season.

Recent estimates of the Australian winter crop predict a record forecast increase of 12 per cent, which tops the previous yield of 2011/12 by 29 per cent.

All categories of winter crops including pulse, lentil, canola, wheat and barley have increased forecast yields in the year ahead, given La Nina seasonal conditions.

The favourable exchange rate will continue to spur demand from our major trading partners, at current values, with any significant increase unlikely in the short term due to abundant global grain surpluses. Current forecasts suggest wheat prices are likely to remain stable as ending stocks of wheat remain high after the current bumper crops. Feed grain prices which have reached record levels are expected to ease into 2017 due to softer demand from the Chinese market.

Historically low borrowing costs combined with improved cash positions for many producers has created a pool of confidence not seen for many years. This has resulted in a more aggressive acquisition strategies by individual producers, and corporate Fund Managers, who are searching out opportunities in a market relatively starved for choice.

### Wheat World Estimates (million tonnes)

<table>
<thead>
<tr>
<th>All grains (million tons)</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17 Forecast</th>
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</thead>
<tbody>
<tr>
<td>Production</td>
<td>716</td>
<td>730</td>
<td>736</td>
<td>752</td>
</tr>
<tr>
<td>Trade</td>
<td>157</td>
<td>153</td>
<td>164</td>
<td>168</td>
</tr>
<tr>
<td>Consumption</td>
<td>698</td>
<td>715</td>
<td>720</td>
<td>738</td>
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<tr>
<td>Carryover stocks</td>
<td>190</td>
<td>205</td>
<td>221</td>
<td>235</td>
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</table>

Source: Colliers Edge

### Total Grains – Supply and Demand summary

<table>
<thead>
<tr>
<th>All grains (million tons)</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>2,007</td>
<td>2,048</td>
<td>2,005</td>
<td>2,094</td>
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<tr>
<td>Total Supply</td>
<td>2,348</td>
<td>2,461</td>
<td>2,458</td>
<td>2,569</td>
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<tr>
<td>Total use of which:</td>
<td>1,935</td>
<td>2,008</td>
<td>1,983</td>
<td>2,062</td>
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<tr>
<td>Food</td>
<td>650</td>
<td>666</td>
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<td>677</td>
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<tr>
<td>Feed</td>
<td>840</td>
<td>889</td>
<td>878</td>
<td>917</td>
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<tr>
<td>Industrial</td>
<td>318</td>
<td>326</td>
<td>329</td>
<td>338</td>
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<tr>
<td>Closing stocks</td>
<td>413</td>
<td>453</td>
<td>475</td>
<td>507</td>
</tr>
</tbody>
</table>

Source: Colliers Edge
The nation’s buoyant wool industry is filled with opportunity and optimism as it rides a wave of success.

The industry hasn’t seen returns like those being experienced at present for many years with some growers reporting their best returns in 20-30 years.

The Eastern Market Indicator (EMI), which is derived from a combination of the basket of wool produced in Australia, has risen from 1088 cents/kg in 2014 to 1437 cents/kg in 2017.

The nation’s flock average currently stands at 21 micron with this micron indicator rising from 1213 cents/kg in 2014 to 1439 cents/kg in 2017.

The outstanding performer in the past 12 months has been 17 micron wool which has rallied from 1320 cents/kg in 2014 to 2040 in 2017. In just the past 12 months it has jumped from 1563 cents/kg to 2040 cents/kg.

A major sell-off of sheep during years of drought has resulted in a huge reduction in the nation’s wool clip and it was inevitable the time would come where demand would far outweigh supply and the industry would experience a shortage of wool.

Australian Wool Network (AWN) wool technical manager/auctioneer Kelvin Shelley said competition was certainly driving the current market.

“The amount of bidding I am witnessing in the auction room is unbelievable and unprecedented,” he said.

“The European market has been great with China and India also very active.”

The finer end of the market is seeing a massive increase in returns with growers receiving more than $2,000 a bale.

Australia is currently producing half the wool it did in the 1980s creating much greater competition. Demand is also being driven by consumers who are looking for renewable, environmentally-friendly fibres especially with an increase in the number of next-to-skin products being manufactured.

Sheep numbers remain low however the national flock should increase by the end of the 2016/17 season to 73 million head with wool production up by 2.2 per cent to 332 million kilograms greasy.

There is every reason to be extremely optimistic about the future of wool.

AWN wool and sheep specialist/risk management Brent Squires says marketing strategies are definitely paying off.

“Australian Wool Innovation, the nation’s peak industry body, is doing great things with marketing and we are seeing the benefits of that,” he said.

“Here at AWN we are giving wool a regional brand and putting a story to the product which people like. They get a good feeling when they know where their wool is coming from and this is helping drive wool sales.”

There are amazing opportunities out there for wool growers. People investing in sheep can lock in good forward prices and there is no reason not to expect high returns down the track.

Excellent returns for wool and sheep are also providing a boost for property prices. Demand for properties being sold on a walk-in, walk-out basis is very high with stock being so difficult to purchase. The livestock game is very good and people want properties which are ready to go with good quality stock so this is really being reflected in property prices.

By Kelvin Shelley
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Source: Australian Wool Network
Australia’s chicken meat industry is a significant employer and contributor to Australia’s regional and metropolitan communities. 20 years ago the global demand for meat was around 173 million tonnes, of which poultry made up 23 per cent. Today, the annual global demand for meat sits at 260 million tonnes, with poultry now comprising 35 per cent or 90 million tonnes. Australia’s demand for chicken meat mirrors this global trend. In the last 20 years, Australia’s production of chicken meat has increased by over 160 per cent, with Australians now eating chicken more than any other meat according to the Australian Chicken Meat Federation Inc.

The industry conservatively estimating that over the past decade chicken meat consumption has grown consistently averaging approximately 4 per cent per year. According to Australian Bureau of Statistics data, as at 30 June 2016 the total value of poultry slaughtered was approximately $2.75 billion which represents a 5.3 per cent increase over the previous financial year period.

The industry operates through modern and highly regulated and efficient supply chains with a focus on bird welfare. It has high barriers to entry with sophisticated climate controlled shedding and a high level of hands-on, technically minded and experienced management required of its growers.

Importantly, the production of chicken meat in Australia is highly efficient in comparative terms with one kilogram of chicken meat taking 35 days, 2 kilograms of grain and 3,000 litres of water to produce. This compares very favourably with other forms of protein. Furthermore, prices for chicken meat have remained relatively stable over the last 30 years ($7 to $11 per kilogram) due to huge efficiencies gained through improved genetics and growing systems over that period. For the corresponding period beef has typically risen from $6.00 to $30+ per kilogram.

The supply chain simplistically involves breeder farms which supply fertilised eggs to hatcheries which in turn provide young chickens to the grower sheds. These are typically large air conditioned sheds that are either enclosed or free range, with the only difference in sheds being the latter allows birds to forage in external yards if desired. Both styles of sheds are required to comply with RSPCA requirements associated with items such as perching facilities and bird densities as well as usual feed and water requirements.

A summary of some of the key risk areas and opportunities within the sector are:

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable farm revenue profile for investors</td>
<td>Disease outbreak (biosecurity protocols are in place within the industry but risk remains)</td>
</tr>
<tr>
<td>High barriers to entry</td>
<td>Fire or natural disaster</td>
</tr>
<tr>
<td>Highly efficient industry – cost advantage over competing protein looks assured</td>
<td>Experienced labour shortages in regional areas</td>
</tr>
<tr>
<td>Advances in animal husbandry and bird genetics</td>
<td>High labour costs vs international competitors – any increase in cheap imports</td>
</tr>
<tr>
<td>Low inventory costs – grower does not own the birds or feed, and does not have transport costs</td>
<td>Public perceptions around animal welfare</td>
</tr>
</tbody>
</table>

The distribution of national production is shown on the next page, with the table overleaf showing the percentage of production by state:
Total Grains – Supply and Demand summary

<table>
<thead>
<tr>
<th></th>
<th>NSW per cent</th>
<th>VIC per cent</th>
<th>QLD per cent</th>
<th>*SA per cent</th>
<th>*WA per cent</th>
<th>TAS per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per cent of total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>slaughterings</td>
<td>30.4</td>
<td>23.6</td>
<td>218</td>
<td>15</td>
<td>9</td>
<td>N/A</td>
</tr>
<tr>
<td>(total = 563,258,500 birds)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per cent of total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>chicken meat produced</td>
<td>31.7</td>
<td>23.3</td>
<td>21</td>
<td>15</td>
<td>9</td>
<td>N/A</td>
</tr>
<tr>
<td>(total = 1,046,169 tonnes)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

*Colliers International estimate as figures for the two states are combined
Source: Australian Chicken Meat Federation Inc (referencing ABS Catalogue No 7215.0 - “Livestock Products Australia”)

2017 Colliers Outlook

Production is now concentrating within the three key areas being the Murraylands/Lower North in SA and Tamworth and Griffith in New South Wales. The reasons for the increase in development within these areas is understood to be the relative affordability of land for development, good access to water and processor services, and relative ease of development approval. We also understand that expansion is intended within Western Australia to reduce interstate import reliance.

Australia’s market is dominated by two major processors namely Baiada Poultry and Inghams Enterprises who between them account for more than 70 per cent of chicken meat production.

Baiada’s announcement of the impending closure of its Victorian operations has undoubtedly caused disturbance in the industry, however it is still too early to accurately determine the effect of loss of contract on a broiler farm values. The saleability and achievable value of farms will be a case by case situation and depend ultimately on such things as the value of the underlying land and the level of the demand for alternative uses. However, it does seem that values are likely to come under pressure for Victorian Broiler Farms that are without a secure grower agreement with one of the remaining processors in that state. A flow on effect may be that those older farms reflecting higher levels of obsolescence may come under competition as superior farms displaced by Baiada’s withdrawal seek alternative processor support.

The large expansion in grower sheds occurring in the Griffith region and a recent restructuring in grower agreement format within the Inghams Group are not expected to impact on farm gate profitability in the next 12 month period. However, should expansion reach a point whereby there is surplus shed space available for growing then we can see the potential for a slowdown in growth of bird payments or possible re-pricing of returns to growers.

Finally the success of institutional owners such as RFM Poultry and the Primary Infrastructure Fund, as well as the sale and leaseback of Inghams Poultry assets has drawn the attention of corporate and institutional investors to the sector.
Western Division property market heats up as goat prices boom

With cattle prices and cattle producing property sales occupying the majority of media attention throughout Australia, the rise of the ‘underdog’ goat market is proving to be an investor’s dream with low cost inputs and significant demand for the meat, leading to greater profits for producers than ever before.

From what was once a pest inhabiting the Western Division, producers have adapted from traditional merino and cattle enterprises to opportunistic harvesting of goats with some larger operators now expanding into breeding and fattening enterprises.

Since 2011, goat prices have increased by 75 per cent resulting in a sharp increase in the demand for land throughout the Western Division. The goat market has been spurred on by a number of factors including the low Australian dollar, free trade agreements and a surge in exports.

Over the past two years land values in the Western Division have increased considerably with the number of properties on the market at historically low levels as local producers hold onto land and continue to reap the benefits of the increase in goat prices. Colliers International has undertaken an analysis of transactions of grazing properties in the Western Division incorporating the Local Government Areas of Cobar, Bourke, Wentworth, Central Darling and the Unincorporated Region over the period from June 2011 to December 2016. During this period the rolling average (10 year) land rate per hectare has increased 58 per cent from $48 per hectare to $76 per hectare.

The majority of purchases have been by local producers expanding existing enterprises and paying top dollar for any land available. In combination with the strength in red meat prices these buyers have been additionally encouraged by record low interest rates and improved seasonal conditions.

The graph above shows a number of sales analysed by Colliers International against the fortnightly price of goat (sourced from Meat and Livestock Australia). In the early 2000’s land was transacting in the Western Division for under $12 per hectare. Analysis of the last 20 transactions that were in excess of 5,000 hectares disclosed an average improved rate of $58 per hectare.

If seasonal conditions remain favourable and goat prices continue at or near current levels, we expect the limited availability for land in the Western Division to persist. For those properties offered to the market within the next 12 months we are likely to continue to see a high level of interest mirroring the global growth in demand for goat meat and expanding export potential.
The Australian dairy sector has experienced some challenging market conditions over the past six months with steep cuts to farm gate milk prices and challenging seasonal conditions in the first half of 2016 impacting sentiment.

The supply imbalance in global dairy markets appears to be slowly returning to equilibrium, with many commentators of the view that milk prices in 2017-18 will trend above the current levels of around $5.00 per kilogram of milk solids which is widely seen as break-even for some enterprises.

Dairy farm sales volumes in all major regions have been very low over the past 12 months. The majority of the larger dairy sales have occurred off market, with lower order farms hotly contested by graziers looking to revert back to traditional livestock breeding or finishing enterprises. This strong appetite from graziers has transpired into strong values being achieved for dairy out paddocks which in some instances have achieved land rates in-line with sales of operating dairies. We have seen a sharp rise in Best Area Equivalent (BAE) and Dry Sheep Equivalent (DSE) rates being paid for farms with some transactions showing rates upwards of $500/DSE in regions which traditionally were reflecting rates 20 to 25 per cent below this figure, two years ago.

The recent changes in farm-gate milk prices haven’t halted corporate interest for dairy farms. Colliers International are aware of no less than five new market entrants which are closely scrutinising the market with a view of acquiring farms in 2017/18. Many Corporate buyers have been chasing scale (500+cow dairy operations) with the majority of the recent sales below this size.

The adjacent graph depicts dairy values expressed as the sale price/kgMS produced from the farm. We have imputed production figures based on statistics summarised in the Dairy Farm Monitor Project in the respective locations.

Dairies in Tasmania and Gippsland are some of the most valuable dairies in the Australia. Typically these two regions are the most reliable from a seasonal point of view, can accommodate higher stocking rates and attract a premium over rates reflected in Northern Victoria and the Western Districts. South Australia has seen limited sales activity since the middle of 2015 mainly focussed in the lower South East.

The recent opening of the Union Dairy Company factory at Penola and Blue Lake Dairy Group’s factory at Tantanoola will provide further competition for milk in South Australia and the Western Districts region of Victoria. This additional processing capacity is likely to be another positive factor to drive a recovery in farm gate prices in the second half of 2017 which should underpin demand for dairy land. In addition we have seen milk production decline by around 8 per cent in 2016 (calendar year) as a result of farmers exiting the industry and challenging seasonal conditions which both impacted supply.

The medium term fundamentals remain very sound for dairy with the industry highly suited to corporate investment. Processors are offering attractive bonus payment schemes to suppliers which can provide scale and consistent production. Colliers International are of the view the industry offers strong prospects of upside in property values in the medium term given the growing corporate interest in the industry the potential for upside in property values in the medium term.
Cautiously confident

Property prices in the rural sector continued their upwards trend over 2016. This is despite slightly lower annual sales turnover and a relatively challenging year at the farmgate. However, many are looking past the short-term position, eyeing up the long-term favourable attributes of New Zealand’s primary production sector.

Replicating years past, property quality remains paramount. Farms showcasing this necessary selling attribute received the bulk of the attention from local and offshore investors over 2016, a trend that will continue in 2017 and beyond.

All eyes are on the global economic and political situation influencing the strength of our dollar and opportunities for trade agreements. Export revenues are forecast to accelerate by mid-2017, supported by a global market that values New Zealand’s product quality and safety.

Highlighting the sector’s overall confidence is the latest Rabobank survey of farmers’ expectations for their own business performance over the next 12 months. Overall 42 per cent of the country’s farmers expected their own farm business to improve. This is up from the 34 per cent recorded in the December 2015 quarter.

Offshore activity rising

New Zealand continues to be an attractive location for offshore purchasers. Approximately $3.5 billion worth of transactions were approved by the Overseas Investment Office (OIO) between 2013 and 2015, according to KPMG’s recent analysis of OIO considerations. Agribusiness accounted for 13 per cent of the $26.3 billion of total transactions. By way of example, Real Estate Institute of New Zealand (REINZ) total farm sales turnover between 2013 and 2015 was $11.9 billion.

Dairy and milk processing provided the greatest level of offshore investment at 38 per cent of total OIO agribusiness transactions during the period, just over $1.3 billion. China is the largest foreign investor in this sector, accounting for 28 per cent of activity, according to the analysis.

Showcasing China and Hong Kong’s presence, they represented: 30 per cent of the wine industry, 15 per cent of the beef and sheep industry and 38 per cent of the forestry industry. Despite the dominance, the investment made in other sectors by China and Hong Kong investors was much larger.

Although smaller overall, agribusiness was United Kingdom and Europe’s largest sector for investment at 25 per cent of the period’s gross consideration. United States investors accounted for 40 per cent of the freehold land acquired. This compares to a combined 26 per cent of freehold land purchases by China, Hong Kong and the United Kingdom.

Dairy sector’s resurgence

It was a year of two halves for the dairy sector. Confidence in the long-term outlook for the sector returned in the second half of the year, after limited activity in 2016 due to reduced short-term prospects.

Positive global demographics and the growth in protein consumption, particularly from emerging markets, provides the sector’s underlying growth opportunities. This has led to competitive purchasing activity, but the focus remains on high-quality farms in well-established areas.

Illustrating the turnaround in the sector’s overall property pricing fortunes was the REINZ All Farm Price Index, created in conjunction with the Reserve Bank of New Zealand (RBNZ). The index showed prices rose 4 per cent between 2015 and 2016.

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The Dairy Farm Index was up just 1.9 per cent for the year, but the sector’s end-of-year reprisal instigated a nine per cent increase in prices in the three months to December.

Meat and Wool’s mixed results

Production and prices for meat and wool has had a challenging second half of 2016 with meat and wool prices typically reducing after supply outweighed demand. Projections from Ministry of Primary Industries (MPI) latest Situation and Outlook for Primary Industries (SOPI) report indicates that values over the first half of 2017 are still likely to be lower than past years.

Offsetting this trend over the next five years will be the rise in global volumes, especially for beef export demand from China. However, the revenue focus shifting from values to volumes may be challenging for those not well-established or unable to undertake the change. This may provide some short-term purchasing opportunities.

Well located, resourced farms with access to suitable water supply remain the key attributes when it comes to value, however, these opportunities seldom present themselves to the market and purchasing conditions remain competitive when they do. This was especially noticeable in recent sales examples in the Hawke’s Bay. A 382 hectare farm at 378 Ridgemount Road in Tutira, approximately 40 minutes north of Napier City, traditionally run as a sheep and beef farm, has been held in family ownership for over 50 years. The property sold for $2.2 million, which was 57 per cent above CV. Another recent sale includes the 249 hectare sheep and beef farm known as Mokopeka Station at 366 Maraetoteara Rd, 20 kilometres from Havelock North that sold for $3.355 million, which was 19 per cent above CV.

Forestry, horticulture and viticulture remain strong

Currently the darlings of the agribusiness and rural sector, existing demand as well as future growth prospects remain strong for these three sectors. This will see steady competition and new price benchmarks being set for the best sites, a feature of the market illustrated in 2016 and early 2017. A recent sale of a 66 hectare kiwifruit orchard that sold for $40.2 million shows how swiftly and positively the market has turned around from recent years after the PSA bacterial disease.

Innovation and demand in the horticulture and viticulture sectors are key to this confident outlook buoying property demand. The growth in export value to $6.3 billion by 2021, according to MPI data, will be led by kiwifruit exports and supported by strong ongoing growth for wine and apple and pear exports.

The forestry sector is relishing in the strength of local and offshore consumption with projected export revenue to reach $5.3 billion in the June 2017 year. Log export volumes reached a record level in the year to September 2016, according to MPI data.

China remains a key market for the sector, which supports a growing construction industry. New Zealand log exporters are now the largest supplier into the expanding Indian market, while Canadian demand is refocussing towards the US. This leaves further opportunities for New Zealand into other key markets. The global lift in residential and commercial construction provides a stronger outlook for the next few years.

Servicing these growth rates will be an increase in harvestable stock over the next five years. However, the property that enables future production targets will be keenly sought after by local and offshore investors. This signals competition for property, rising prices and a bright future for the sector.
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SOLD

94 properties totalling over 862,000 hectares with a value in excess of $560 million

Banongill Station
Western District, VIC
Confidential
Large scale 17,000ha sheep and cattle station

Riveren & Inverway Station’s Victoria River Downs Region, NT
Confidential
A large scale beef operation covering over 550,000ha sold to HPPL including 41,300 head of cattle

Lynora Downs
Via Rolleston QLD
$25 million
4,876ha of irrigated and dryland cropping land sold to ASX- RFF

Littore Group Vineyard Portfolio
NSW & VIC
Circa $47 million
Approximately 1,300ha of vines & modern winery and packaging facility

Markdale
Binda, NSW
Confidential
Iconic Southern Highlands property comprising 2,551ha with renowned gardens and homestead

Oakville Produce Group (Potatoes)
NSW & SA
Confidential
Horticultural land, water and packaging facilities

Del Rios Vineyard
Kenley, VIC
$22.5 million
Approximately 900ha of vines and high security water assets

Dooloogarah
Via Injune QLD
$8 million
A recognised cattle property covering 42,300 ha. Sold to Aust. Country Choice to complete an aggregation

Aberbaldie Station
Walcha, NSW
$11.5 million
A large scale, productive and well established property in the Walcha district

Glencoe Station
Mendooran, NSW
$31.5 million
Large scale 9935ha beef and grazing property located in the Central West region of NSW

Rosehill Farm
Kangaloon, NSW
$4.8 million
Located on 45 hectares of rolling hills and woodlands, a stylish estate showcasing the ultimate luxurious country lifestyle

Springbank
Gundowring, VIC
$5 million
Country estate located in Kiewa Valley with panoramic views of beautiful countryside

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883 assets totalling over 3.534 million hectares with a value in excess of $3.3 billion

Forestry Portfolio
National Forestry
222,515 hectares of forestry land over 587 plantations

Horticulture Portfolio
VIC & QLD Horticulture
Integrated enterprise producing various citrus crops including; Mandarins, Navel Oranges and Lemons

Cropping Portfolio
NSW Cropping
Four large aggregations with a combined area of approximately 28,600 hectares

Vineyard Portfolio
TAS Wineries & Vineyards
Portfolio of five vineyards with a 2,000 tonne winery.

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Vineyard Portfolio
TAS Wineries & Vineyards
Portfolio of five vineyards with a 2,000 tonne winery.

Dairy Portfolio
VIC and NSW Dairy
Portfolio of eight dairies located throughout Victoria and southern New South Wales

Almond Properties
VIC Horticuture
Two almond orchards located in northern Victoria along the Murray River

Tierawoomba Aggregation
QLD Pastoral Portfolio
An aggregation of approximately 124,000 hectares and 40,000 head of Wagyu cross

Namoi Cotton Gins
QLD & NSW Cropping
Part of Namoi Cotton Alliance facilities

Darling Downs Fresh Eggs
Pittsworth, QLD Poultry
Six sheds of 210,000 layers capacity, two rearing sheds 80,000 chicken capacity

Cropping Portfolio
WA Cereals, pulses & oilseed
Three dryland cropping holdings in the wheatbelt district of Wongan Hills

Acquisition Negotiation
SA Infrastructure - drainage
Acquisition of a corridor for surface drainage construction

Northern Land Council
NT Compensation assessment
Compensation assessment of a High Voltage powerline through Aboriginal land

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