RURAL

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Independent Property Advisors

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PROPERTY MARKET OVERVIEW

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National Overview

Frank Peacocke

National Rural Property Market Overview

- Effects of GEC/GCC still hurting confidence.
- "Climate change" or not, its still a political issue and government policies (water buyback schemes etc) had a direct impact by propping up irrigation water values.
- A rural property's productive capacity now the key to finance.
- Reduced confidence to invest levels and markets are taking a "wait and see" approach.
- **2009 sales volumes** down 35% to 60% of peak level years between 2002 – 2005.

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National Rural Overview

- Market correction rather a crash because the boom came from a low base in many cases.
- Holding of values at 2007/08 levels (generally for higher rainfall, less intensive pastoral areas (Top End NT, WA, North Queensland, pastoral NSW), or
- Easing values of 5% to significant falls of 20% in some areas.
- Appreciating values in some cases – Victoria – despite the drought.

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Other Emerging Trends

There is Longer Term Optimism:

- That commodity prices will increase significantly with forecast population rises, declining land and water resources and concerns of "food security".
- There is evidence if increased inquiry across Australia from off shore sovereign and private equity funds looking to invest in Australian Agriculture for the reasons above.

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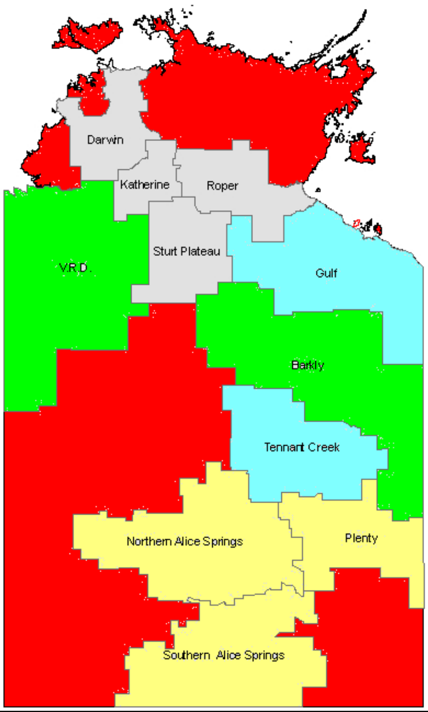

The Northern Territory Rural Market

- Dominant use is pastoral - cattle stations
- 220 pastoral Leases in NT average size 3,200 sqkm (or 790,000 acres) of which:
- 65% privately owned, 20% company and around 15% Aboriginal interests
- Mainstream production is breeding (18-24 mth old feeder steers), some fattening on the Top End floodplains and Alice Springs regions in season.
- Freehold rural land limited to Katherine, Douglas Daly region, Adelaide River, Mataranka) – around 120,000ha.
- Balance is Aboriginal freehold (red area)

Northern Territory – Pastoral

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- Pastoral market peaked in 2008 after 7 years of unprecedented growth (25% pa).
- Two separate property markets:

  Large corporate – active

  Smaller private - flat

- Main activity has been in the top value parameter.

Northern Territory - Pastoral

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- Supply is currently high - 10% of all leases currently for sale.
- Long selling periods and same expected for 2010.
- But vendors are sitting tight.
- Sale volumes are low - only five deals done in last 12 months

Northern Territory - Pastoral

- Grazing values in the better pastoral regions of the NT have flat-lined.
- Increasing supply of non-corporate class cattle stations may to experience a downward adjustment during 2010.

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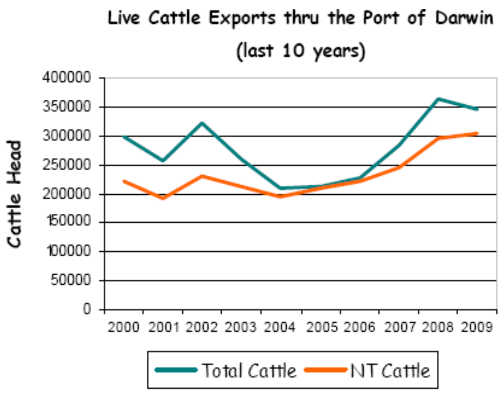
Live Export Market Underpinning Confidence



Source: NTCA

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
No. of Cattle	222,669	193,172	229,796	212,520	205,204	210,558	225,413	247,281	295,539	304,808

Source: NTCA

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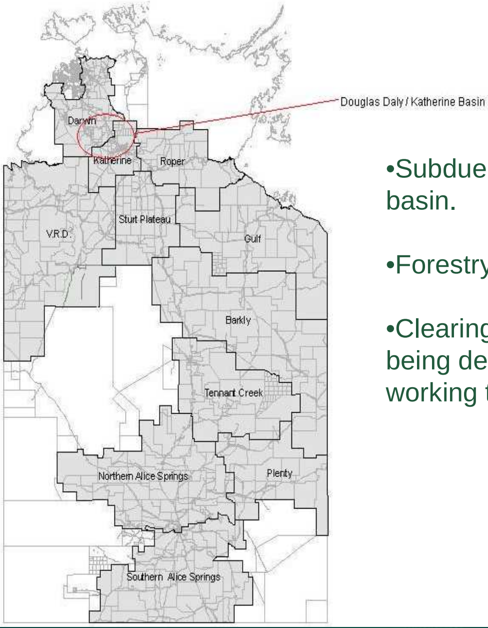
Dryland and Irrigation



- Subdued interest in the Katherine/Daly basin.
- Forestry MIS have quit the market
- Clearing and ground water allocation is still being debated – farmers and government working toward an allocation solution.

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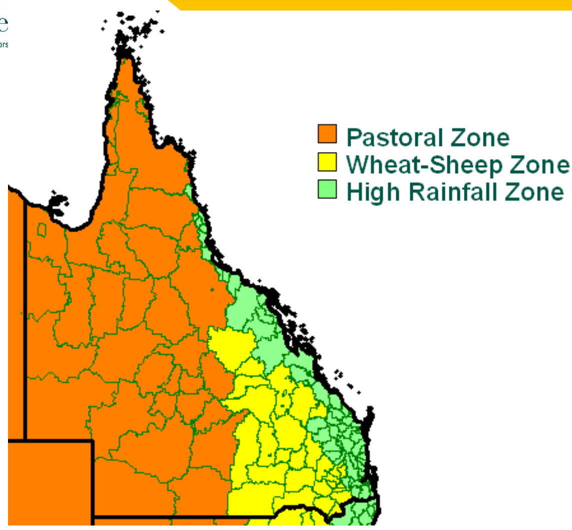
Queensland Rural Property Market



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Queensland Analysis:

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2000 – 2007 Queensland

- General increase in land values of between 2½ and 3½ times.
- First 3 to 4 years, catch up due to the general "flat-lining" in values throughout much of the 90's.
- 2003 Stanbroke aggregation sell-off was the growth catalyst.
- 2006 to 2007 - value increases not sustainable due to reducing rates of return
- 2006 to 2008 Grass acquisitions added to land values.

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Queensland Analysis:

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Post 2007

- A general reduction in values in the order of 5% to 20%.
- Some areas have flat lined since 2007.
- A market correction rather than a crash as it has taken years to adjust.
- Value = Location/Industry/Quality and Development of the holding
- 2008/2009 – The volume of sales has reduced significantly.
- Vendors now becoming price realistic.

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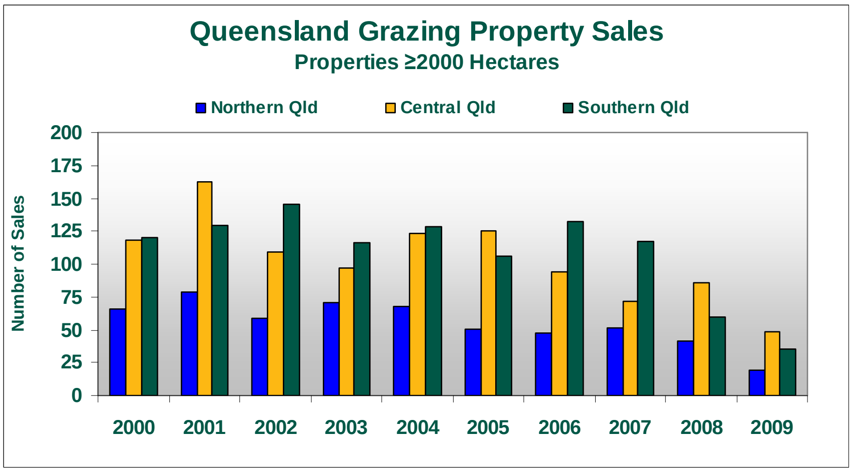
Land Sale Volume Trends 2000 - 2009



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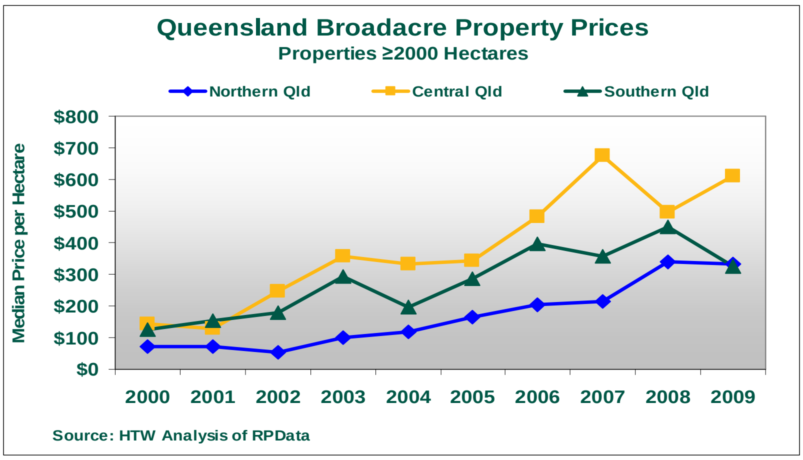
Land Sale Value Trend 2000 - 2009



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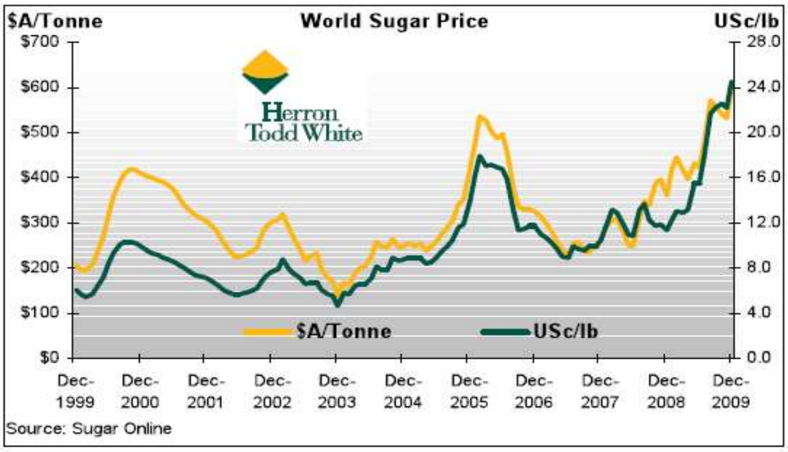
North Queensland – Sugar Price



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2010 Onwards - North Queensland

- Forestry MIS sector now absent from the market.
- Values generally flat in the short term.
- More improved activity expected over the next 12 months.

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2010 Onwards - Central Queensland

- A maintenance of current values just back off the peaks in the short term.
- Central Queensland mining still very active.
- Very little interest being expressed in irrigation country.
- Grazing still dominated by large family interests.

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2010 Onwards – Southern Queensland

- Biggest adjustment in values still being felt in Southern Queensland.
- Mining/Gas Exploration expansion.

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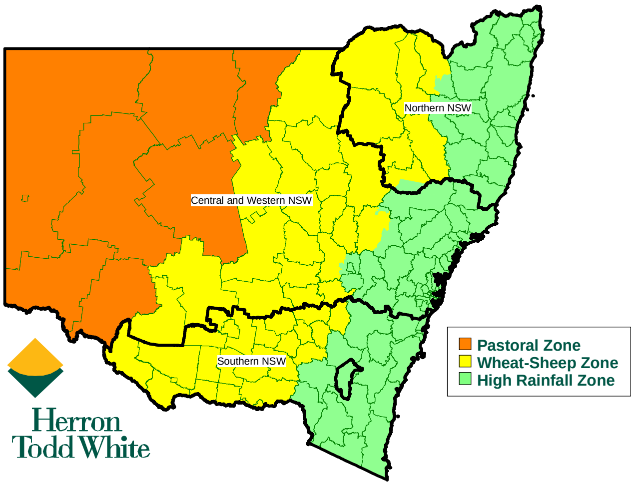
NSW Rural Property Markets Snapshot:



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New South Wales Market Analysis:

- Sales volume across the state in 2009 was 38% of their peak levels in 2002/03.
- Resulted in increased listings, longer selling periods and some downward pressure on values, as there is less competitive tension in the market.
- The reduced number of buyers are now are now much more discerning in their property selection process and there is no urgency to act.
- Value levels appear to have eased by 5 -15% in many areas from their 2007/08 peak levels. Although, there are still sales in higher rainfall areas and the pastoral zone which indicate a holding of values at established levels.
- Urban “trophy hunters” have cleared out.

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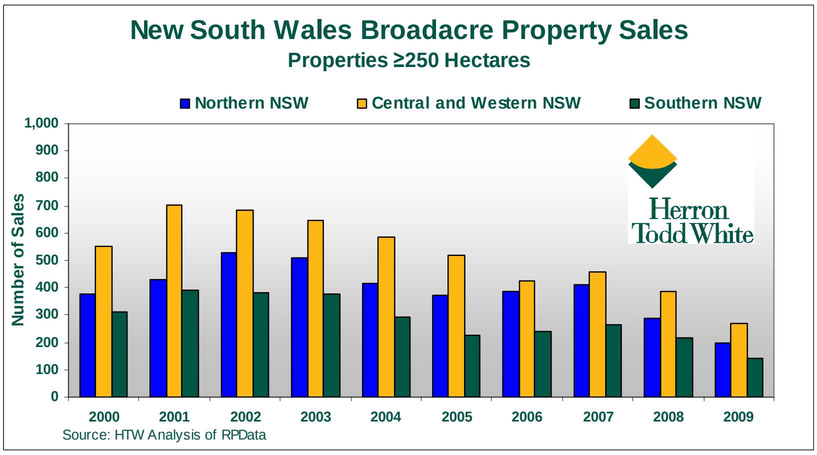
Rural Property Sale Volume Trends 2000 - 2009



Source: HTW Analysis of RPData

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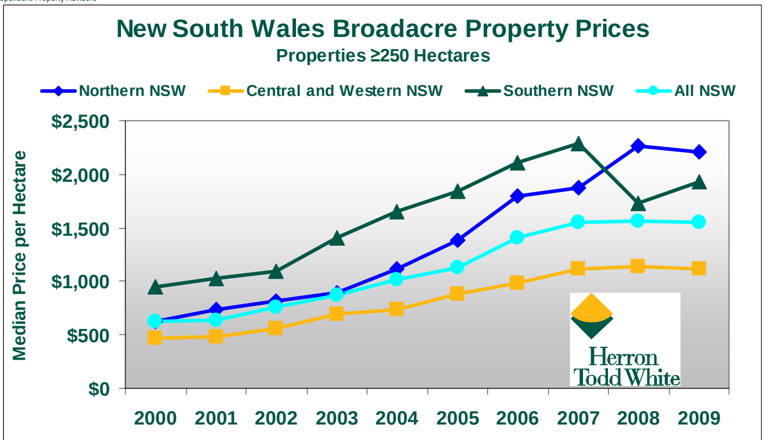
Rural Property Sale Price Trend 2000 - 2009



Source: HTW Analysis of RPData

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New South Wales Market Analysis: The Influence of Water

- Good rainfall has boosted confidence and cash flow prospects, which were very grim prior to Christmas.
- Government buybacks of water entitlements has been propping up the value of water entitlements.
- General consensus is without the government, Macquarie water values would be significantly lower,

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New South Wales Market Analysis: The Influence of Water

- As government funding start to retreat into bringing back government budgets to surplus budgets as opposed to deficits one would think funding for future buy backs may become more difficult to secure.

Wine Grape Vineyards:

- The market for wine grape vineyards in the Mudgee, Cowra, Orange, Young and the upper Hunter districts has collapsed.
- Some cases selling for 25% of what they worth at their peak. Often selling for land and water value only.
- Examples where the vineyards have been sold on the basis that the vines will be removed and the property will be converted back to traditional mixed farming and grazing or vegetable operations or are being bought as rural lifestyle holdings.

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Conclusions and Outlook- NSW

- Short term “softness” in the property market to remain
- Values to remain at current levels or decline
- Follow up rain needed
- High entry price (particularly for younger entrants) is a serious dilemma, as is tighter lending criteria – pastoral zone more affordable
- Recent weather may alleviate climate change uncertainty
- A very difficult time to be valuing in NSW.

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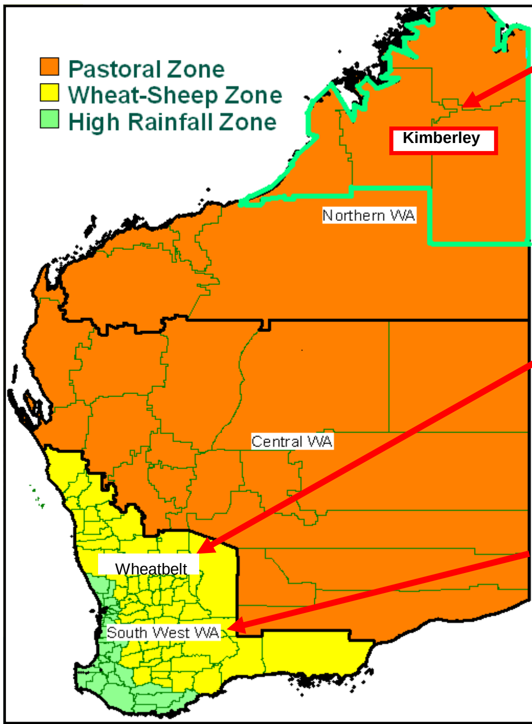

- Dominant use – pastoral cattle stations - 106 pastoral leases
- Mainstream production is breeding 18-24 mth old feeder steers for live export through Wyndam, Broome and Darwin.

- Values follow seasons and yields
- Consolidation for economies of scale
- Institutional investors enter to diversify portfolio’s

- Diverse area: dairying, viticulture, horticulture, plantation and forestry.
- Stronger lifestyle market propping up values of apparently non viable proper
- Little impact from GEC

Kimberley - Western Australia:

- No sales in 2009.
- Relies heavily on the live export market through Broome in west Kimberley and Wyndham in the east.
- Wyndham live export port becoming more reliable and is to be expanded to accommodate more cattle and higher frequency of boat loadings – attracts $1.50/kg in dry season for live export steers and $1.90 to $2 during the wet
- W.A pastoral lease tenure seen as being inferior to the NT perpetual leasehold system.

Ord River Irrigation Area (ORIA) Kununurrawa WA:

- Value levels expected to hold at 2007/08 levels based on strengthening live export market and low supply of properties for sale – still around $10,000 - $12,000/irrigated ha forblack soil country.
- Massive development potential with at Stage 2 of the ORD and the Federal Governments $220M Ord-East Kimberley Development Plan – release of initial 8,000ha of agricultural lots in 2011.
- However, current demand for irrigated land in the Ord difficult to determine with limited sales in 2009 and tight supply given that the Indian Sandalwood tree growers now occupy around half of the irrigation land in the valley.

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Victorian Overview

Mick Eason

Seasonal Conditions

Climate change – is it real?

Historical Trends **1998-2007 V 1961-1990**

Region	Temperature	Rainfall
North East	0.5°C Warmer	12% reduction
Goulburn Broken	0.4°C Warmer	17% reduction
North Central	0.6°C Warmer	15% reduction
Mallee	0.4°C Warmer	13% reduction
Wimmera	0.1°C Warmer	16% reduction
Western District	0.2°C Warmer	10% reduction
West Gippsland	0.4°C Warmer	13% reduction
East Gippsland	0.6°C Warmer	10% reduction
Average		**13% reduction**

Source: HTW analysis of CSIRO data

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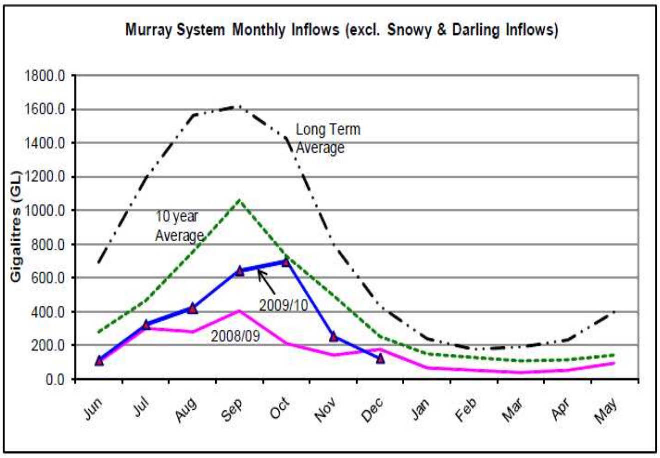
Seasonal Conditions

Town	Average 1951 - 1980	Average 1981 - 2010	% Difference
Clydebank	612.21	574.39	-6%
Echuca	464.28	385.19	-17%
Koroit	845.88	735.04	-13%
Horsham	422.63	417.87	-1%
Irymple	301.96	255.65	-15%
Hume Reservoir	721.86	692.70	-4%
Average			**-9%**

Source: HTW analysis of CSIRO data

Inflows To The Murray System



- Perceptions
  - regional
  - farmers
  - dry patch
  - natural cycle?
- Capital city beat up?

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General Market Trends

- Price appreciation
- Water trading - recent price trend has been propped up by government buy back scheme
- Sales volumes – decrease
- Dairy sector – hard times recently – very few sales – closure of Leitchville factory
- Sale examples – Madowla Park Tandou
- Corporate buyers
- NVIRP – subsidizing irrigation rationalisation

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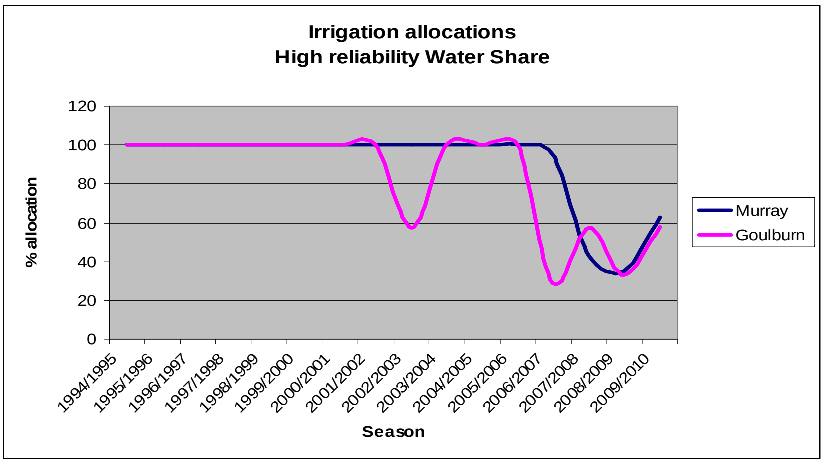
Goulburn – Murray
Irrigation Allocations 1995 - 2010



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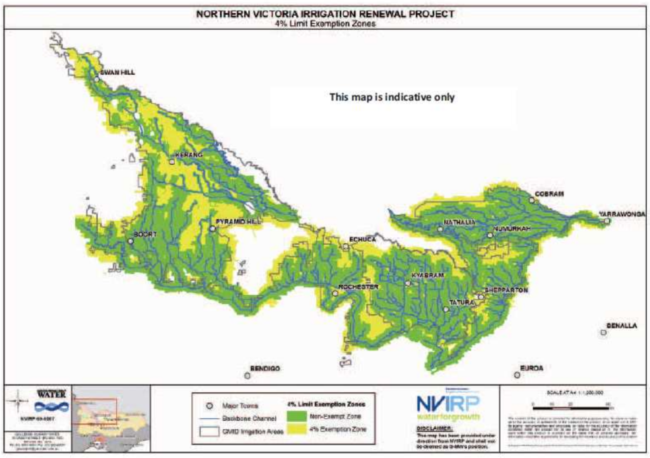
NVIRP



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Irrigation Areas

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- Current allocation Murray 63% - Goulburn 58%
- Values stable
  - More than 50% of sales now occurring whereby value of water is contracted separately to land.
  - Decisions are made on current tradable price for water plus and improvements value.
  - Significant number of “stripped” irrigation block sales
  - Prices vary greatly $300-$400/acre for poorer salt affected country ie Kerang to $1,000-$1,200 per acre Echuca
  - Variation affected by Delivery Share on land ie the amount of water permitted to be delivered to the land.
  - Location – in respect of Backbone channels
  - Horticultural properties – no demand - rationalization
  - Ageing profile of farmers a problem – skill transfer proving difficult.

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Valuation of Water

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- API Accredited Specialist Water Valuer
- HTW team members completed a course in October 2009
- Edward McEniry, John Henderson, Chris Cleary, David Shuter

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Predictions

- Market activity to improve but not significant. Capital appreciation expected in short term
- Expectation of improved seasonal conditions,
- More corporate players in market
- Aggregation of smaller holdings to larger properties seeking economies of scale.
- As world emerges from the GFC - someone has to feed the world – China & India

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THANK YOU

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