

HERRON TODD WHITE

RURAL PROPERTY MARKET OVERVIEW

2011



VICTORIA

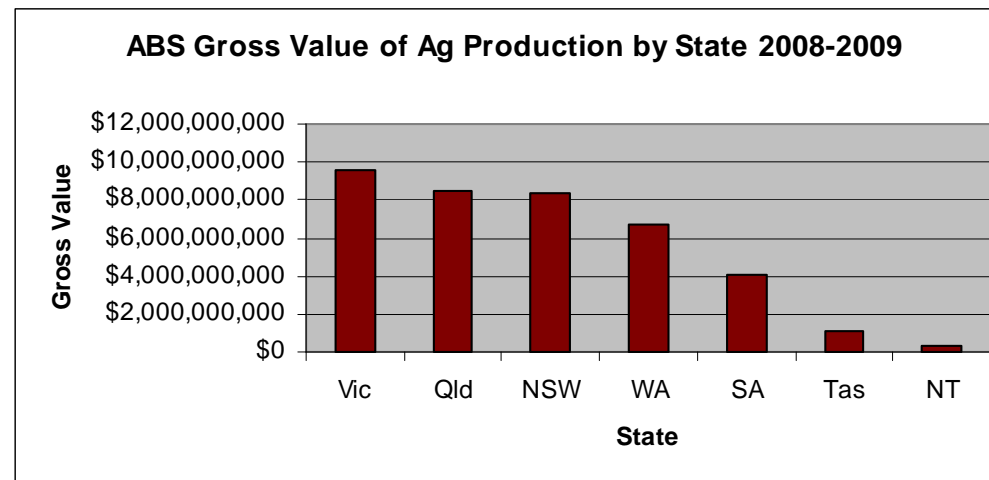
Rural Market Update

Graeme Whyte

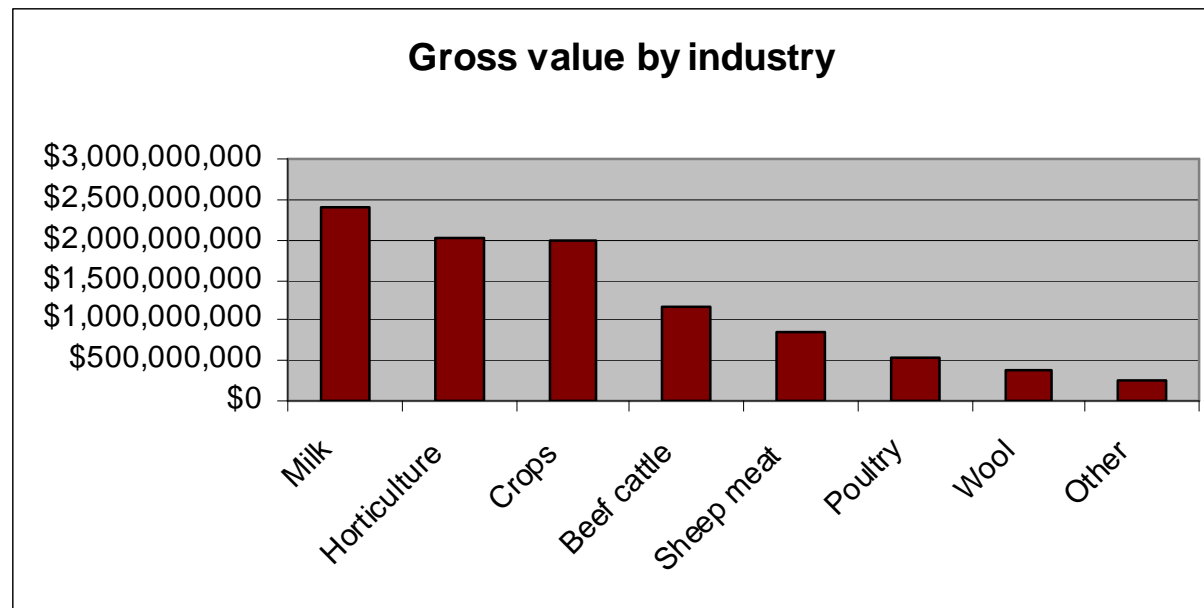
- Most values (apart from cropping) still off the peak of 3 – 4 years ago
- Farmers confidence levels up; though catch up time for most after tough 3 – 4 years
- Low volume of sales expected to continue



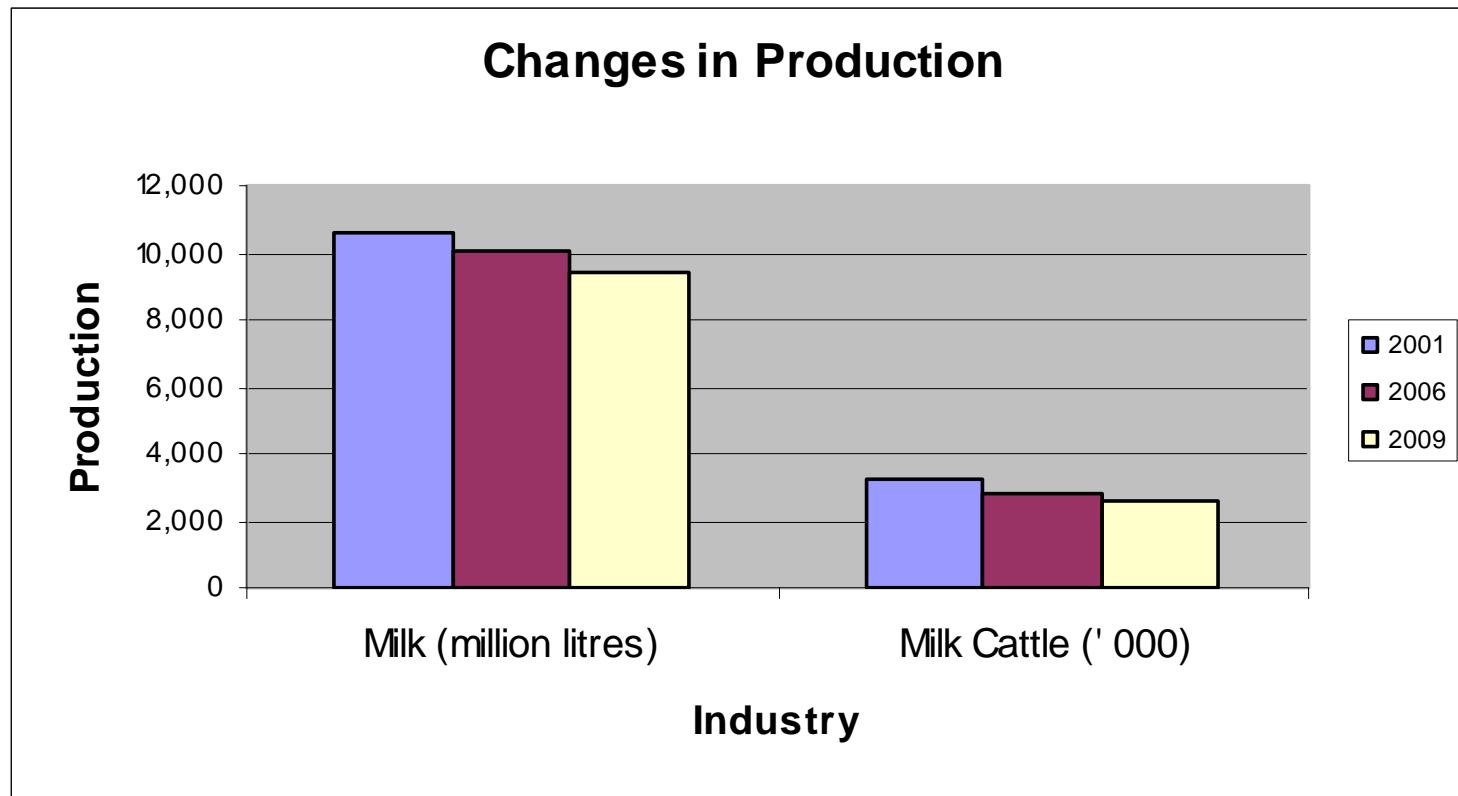
- 2008-2009 farm gate value of Victorian agricultural production is **\$9.6 billion** (approx)
source: ABS Value of Agricultural Commodities Produced
- This makes Victoria the most productive state
(by gross value)



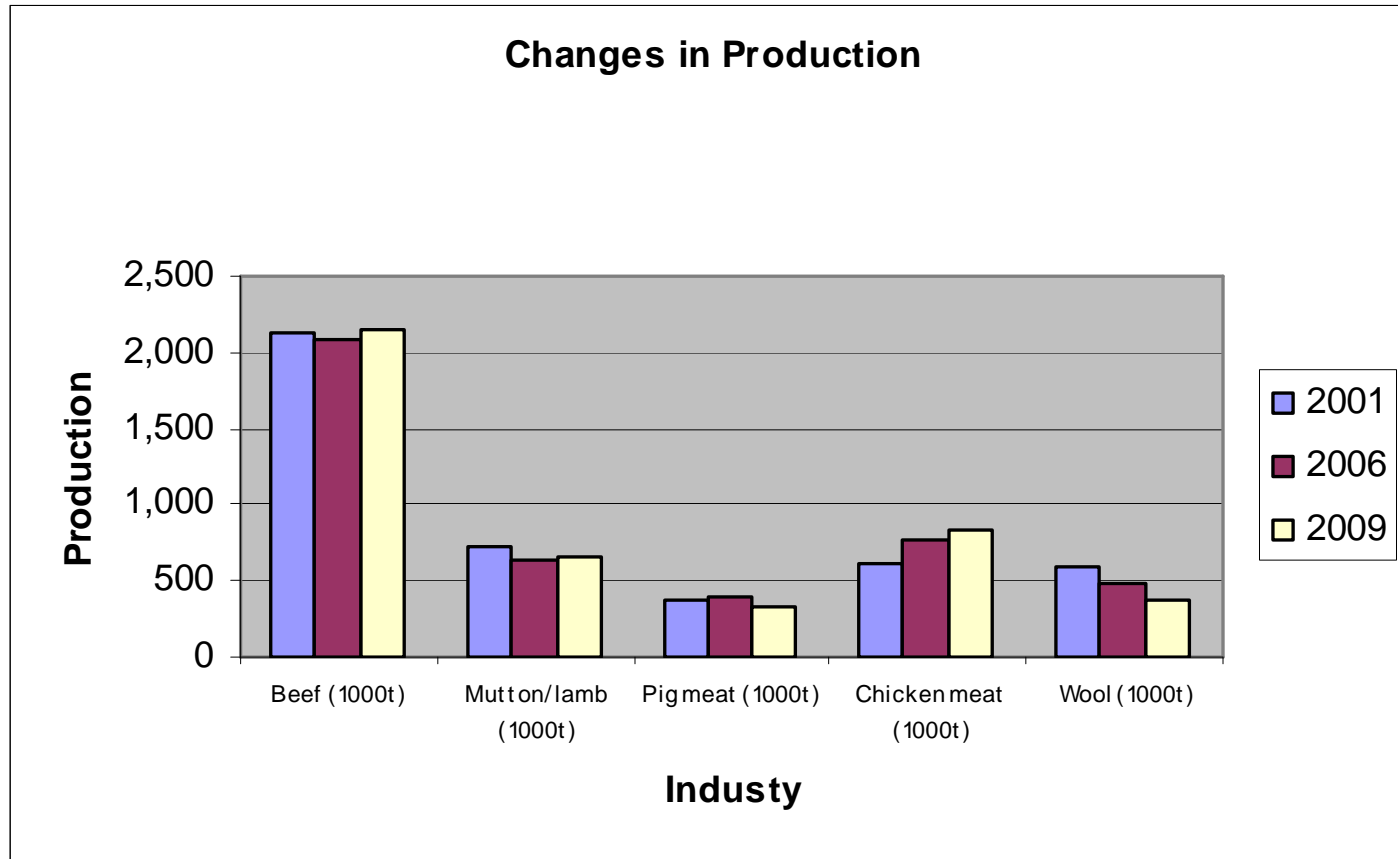
- Dairy, horticulture & cropping generate two thirds of state income source: ABS Value of Agricultural Commodities Produced



Winners and losers



Winners and losers



According to Rabobank (Dec 2010):

- **49%** of Vic farmers expect economy to improve.
- **94%** intend to maintain or increase level of investment.

Never underestimate the resilience & underlying optimism of farmers.

Confidence underpinned by wet 2010



- **Commodity prices**
(milk, grain, meat, wool) are mostly good despite persistently high \$A.
- **Milk:** around 40c/litre.
Slightly higher than 2009.
85% of product is exported



- **Grain:** weather damage, but good returns due to global short supply of feed wheat & high yields.
- **Beef:** Eastern young cattle index over 380c/kg, up 40% on Dec 2009 (demand from re-stockers).
- **Lamb:** Prices 20% higher than Dec 2009 (flock re-building)
- **Wool:** Up 10% on 2009 levels (& higher lift for fine wools)



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What does this mean?...

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- Exception: dryland cropping country.
- Mallee region values increased in past 3 years.
- Similar trend in northern Vic/ Wimmera.
- Grains industry benefited from technological advances = improved yields.
- Move to continuous cropping contributed to reduced national sheep flock
- Yet to see significant overseas investment

- Storages full and full allocations likely for next 2 – 3 years.
- Temporary water down to \$20/ML
- Govt main buyer of permanent water: “lumpy” market.

Latest gov't tender	Avge price \$/ML
Goulburn	\$1,860
Murray - below choke	\$1,833
Murray - NSW High	\$2,072
Murray - NSW General	\$915

- 2011 sees uncertainty around **entitlement**, rather than **allocation**. (Basin Plan).

- Demand evident for large, productive farms, but no lift in values yet.
- Water cheap/easy again
- Decoupling of water expected in nearly all sales
- Inferior farms turned into lifestyle properties.
- Floods will break a few businesses.
- NZ buyers drying up – interest from China.
- Possible resurgence

- “Catch up” time for most, after difficult period from 2007 to 2009.
- Few sales in the last 18 months
- Best country fetching \$20,000/ha.
- Selective demand for 400+ cow dairies
- Limited overseas interest



- Demise of Managed Investment Schemes (MIS) taken floor out of the market
- Presently enjoying good livestock prices
- Low rates of return – makes it hard to use debt to expand
- Cost of stocking new properties limits ability to expand enterprises
- Recent sales of MIS forestry assets to national and international corporates

Wine grapes

- Can it get any worse?
- Many sales show no added value for vines, trellis
- Production further affected by fungal disease in 2010
- Is very much a global business and high A\$ makes us uncompetitive, even at current dismal prices.
- Irrigators have/will sell water to retire debt



TAX DEPRECIATION & REPLACEMENT COST ESTIMATES

Adding Value – Mitigating Risks

Adding Value

Tax Depreciation Schedules (TDS)

Mitigating Risk

Replacement Cost Estimates (RCE)

Income Tax Assessment Act 1997

To compensate the taxpayer for reduction in value of items used in the production of taxable income; assessed as;

- Building Works (Capital Works - Division 43)
- Structural Improvements (Capital Works - Division 43)
- Plant & Equipment (Capital Allowances – Division 40)

A tangible benefit for all property investors ...

800+ ATO listed rural *Capital Allowance* items

• Agriculture	• Coffee, Olives, Nuts
• Nursery	• Poultry
• Mushroom Growing	• Pig Farming
• Hydroponics	• Aquaculture
• Vege & Cane Growing	• Forestry & Logging
• Fruit Growing	• Fishing

■ Investor Benefits

- Reduced income tax liability
- Increased cash flow
- Cost of TDS report is fully tax deductible
- Lost years can be claimed back
- Report can be utilised for up to 40 years

Replacement Cost Estimates

- Estimates of **COST** and therefore do NOT represent the ‘Valuation’ of a building / property
- Derived from the estimated / likely current day Cost of Construction
- Also incorporate **Removal of Debris, Cost Escalation, Professional Fees & Authority Fees.**

Under Insurance

- **Up to 1/3 of properties likely to be under-insured ... as a result of ...**
 - Ignorance of Owners (and/or Insurers)
 - CPI and BPI often move at different annual rates, typically off an incorrect 'base'
 - Poor estimating practices and methodologies
 - Adopting an over simplified \$/m² approach

Benefits of Herron Todd White preparing your reports

- Registered Tax Agent
- Competitive pricing
- Quick turn-around
- Detailed site inspection
- Detailed report
- National coverage, servicing 98% of Australia
- Supplementary services (CGT Valuations, Market Valuations, etc)
- Independent – est.40+ years, 58 offices, 700+ staff

NATIONAL OVERVIEW

Doug Knight

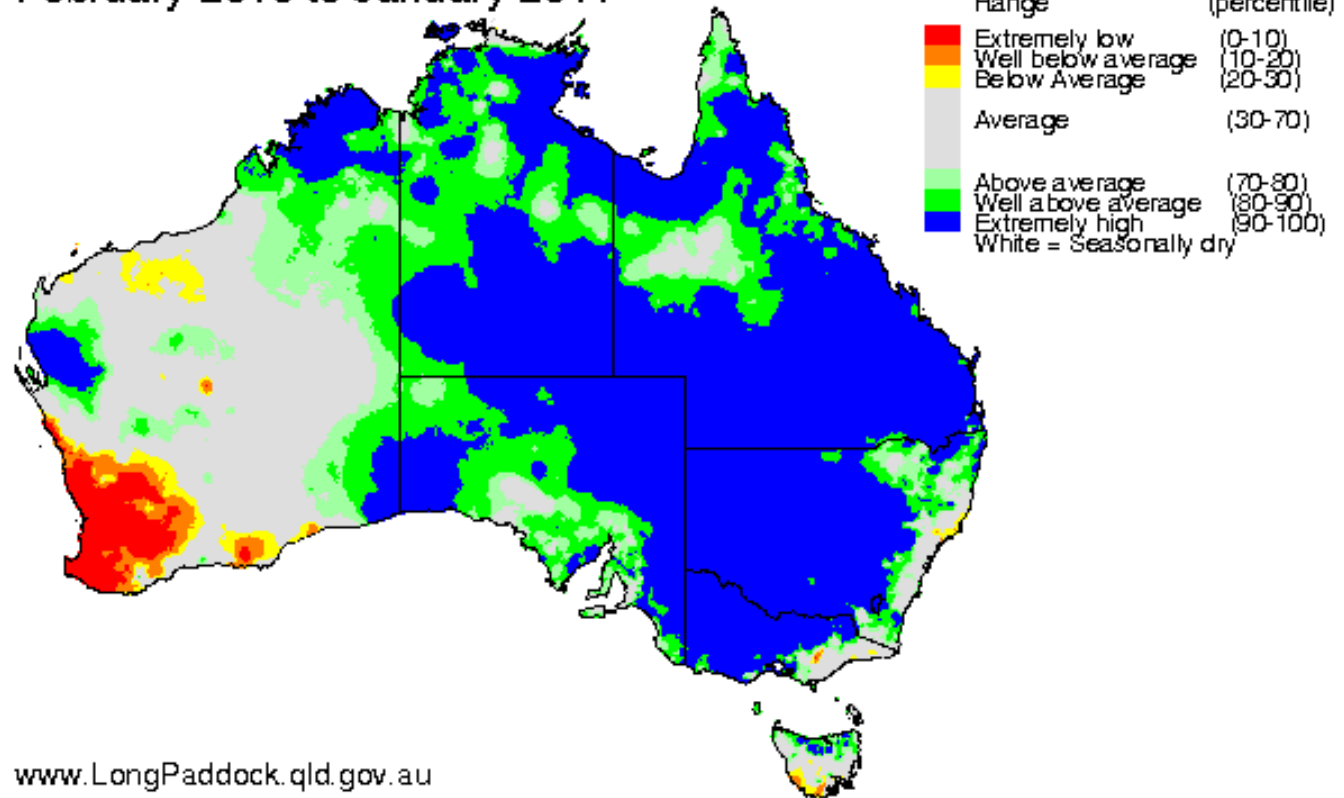


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Seasonal Conditions

Rainfall Relative to Historical Records February 2010 to January 2011

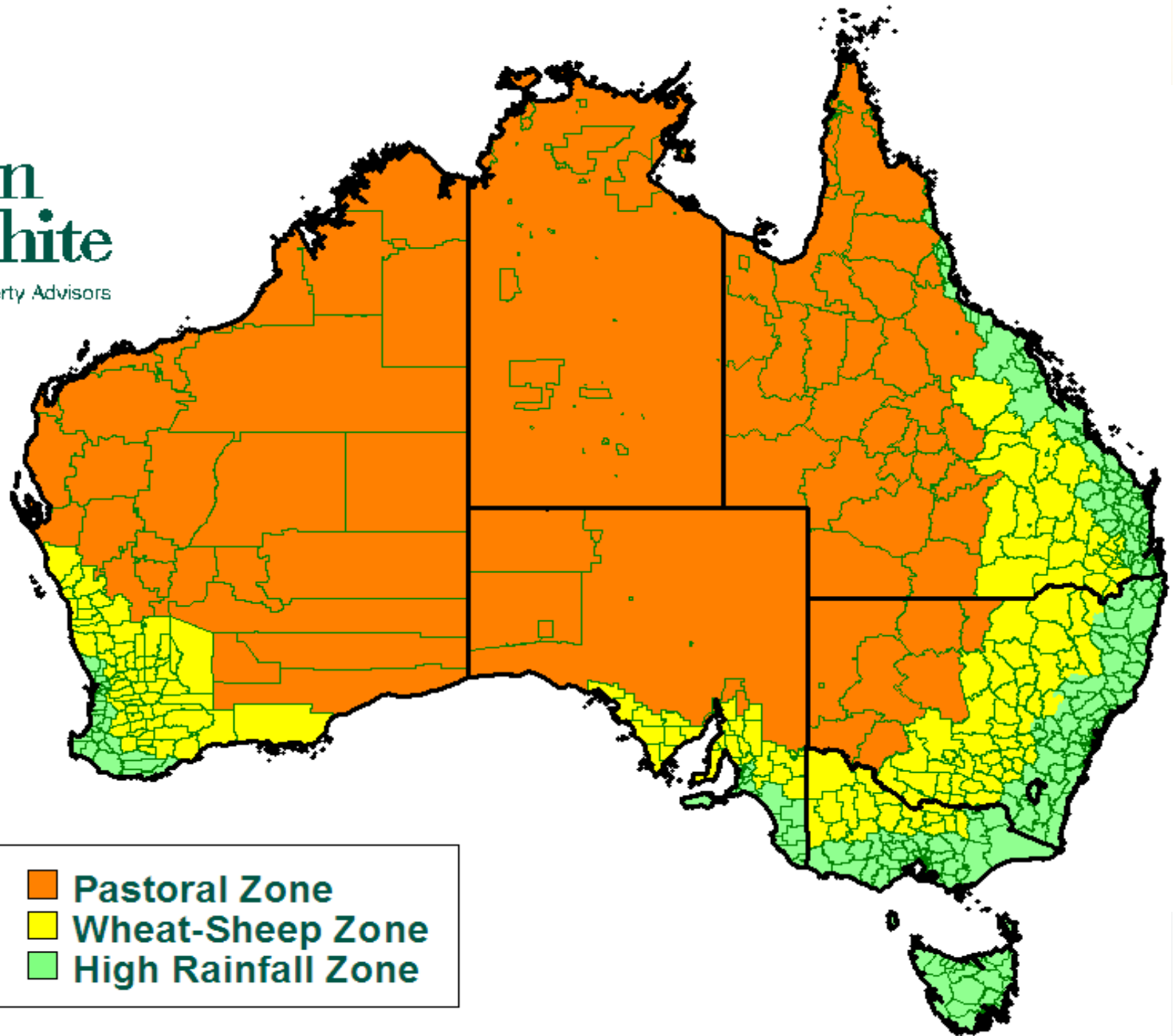


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- Still a mismatch in vendor and buyer price expectations
- Still over supply in most markets
- Reduced access to finance still adversely impacting on the market (forcing sellers and limiting buyers).
- A rural property's productive capacity and debt serviceability and adjusted loan to value ratios are key to accessing/maintaining finance.
- Expectations of long term capital gain reduced and buyers now looking for Return on assets (and even IRR's)
- Recent rural commodity price movements are now changing these results.

- Cotton - excellent
- Sheep meat – excellent
- Beef – very good
- Grains – solid
- Wool – very good
- This combination creates the best rural commodity price outlook for several decades – as long as it lasts!

- Commodity prices and land values link.
- 2 to 3 year time lag.
- Inability to stock a property with record values for livestock.

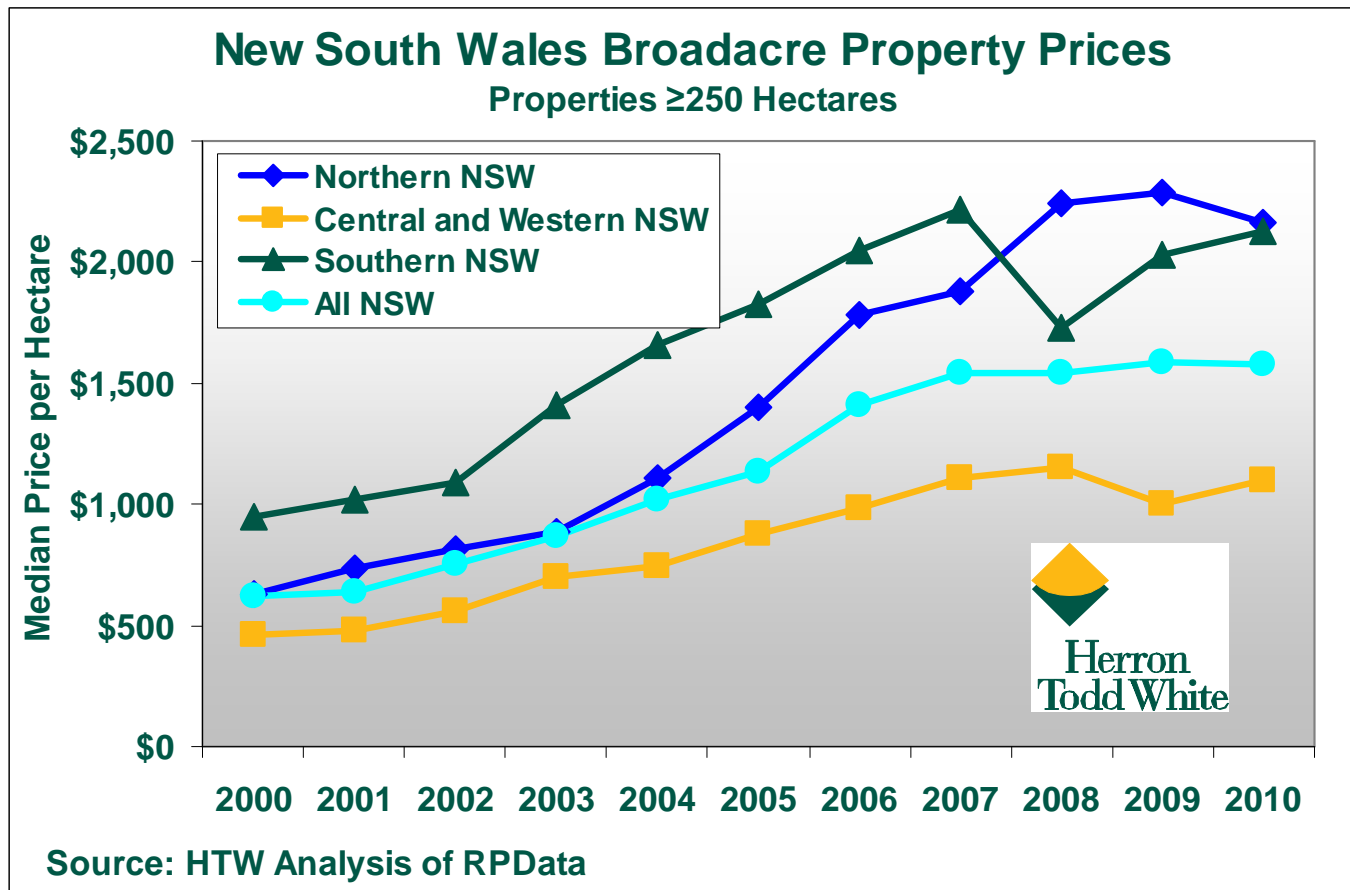
The four major market points:

- Sales activity has slowed
- Value levels have stagnated
- Trend to continue - short term
- Opportunities are emerging

The image consists of a yellow and dark green background. The yellow area is on top and the dark green area is on the bottom. The right side of the image has a white corner cutout effect, making it look like a page being turned. The text "New South Wales" is centered in the yellow area.

New South Wales

Rural Value Property Trends



Property Sector Activity

Pastoral zone

- Relatively steady.
- Decreasing demand for marginal cropping country.
- Sales activity levels down.

Wheat/Sheep zone

- Levels remained relatively stable.
- Some districts showing slight increases.
- Market stopped – limited sales evidence.

10 Year Land Value Annual Growth Rates

Northern NSW	13.2%
Central and Western NSW	9.1%
Southern NSW	8.4%
All NSW	9.7%
All QLD	15.0%

- In NSW over the last 24 months we have identified approximately \$300m worth of foreign investment. Approximately 75% of this was of property already in foreign ownerships.
- We would expect foreign investments vehicles to be the dominant purchaser in the corporate rural property sector into 2011.

The image consists of a yellow and dark green background. The yellow area is on top and the dark green area is on the bottom. A white corner cutout is visible on the right side, creating a layered effect. The word "Queensland" is written in black text in the center of the yellow area.

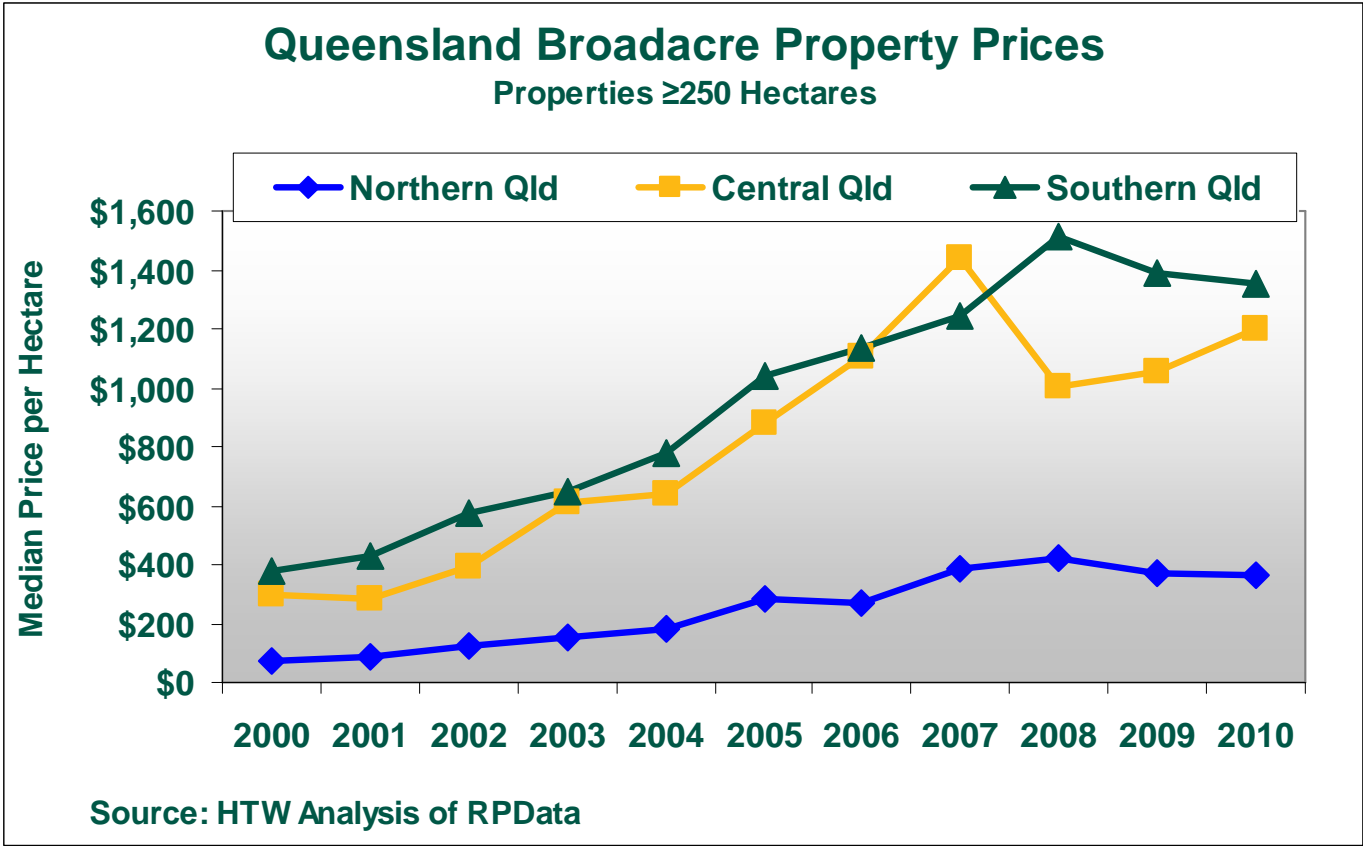
Queensland

Economic Impacts of the Floods



- **Cotton** - 300 to 500,000 bale loss due to floods.
- **Livestock** - big demand by re-stockers, slaughter rates down in the short term.
- **Bananas** - total wipeout from Cyclone Yasi.
- **Grain** – short term pain, long term gain.
- Cost of repairs and maintenance will bottom line hard in 2011.

Value Trends

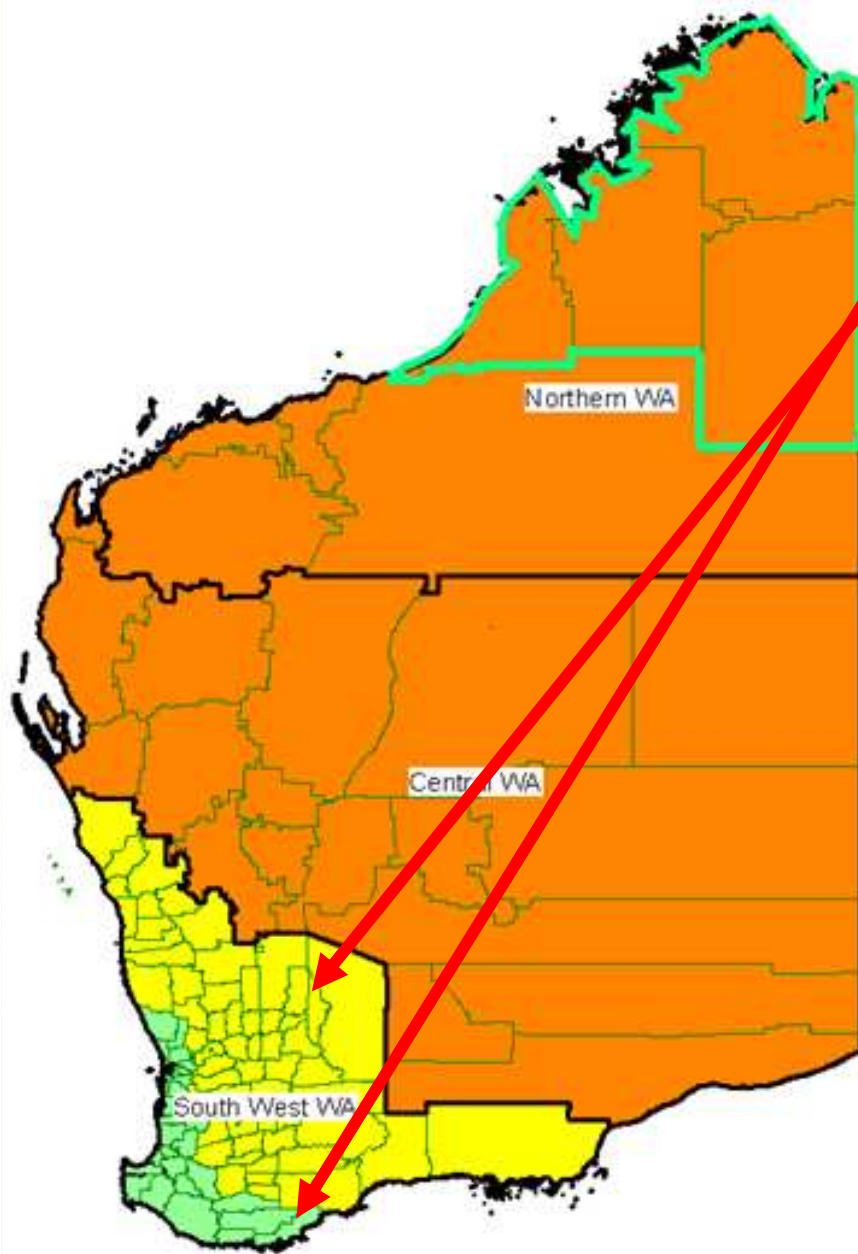


- \$ 1.2 Billion invested across all Queensland Ag. sectors in 2009/2010
- Approx 4.5 million hectares
- UK responsible for almost 50% with balance from all parts of the globe.
- Industries include beef, timber, sugar, sheep

Western Australia

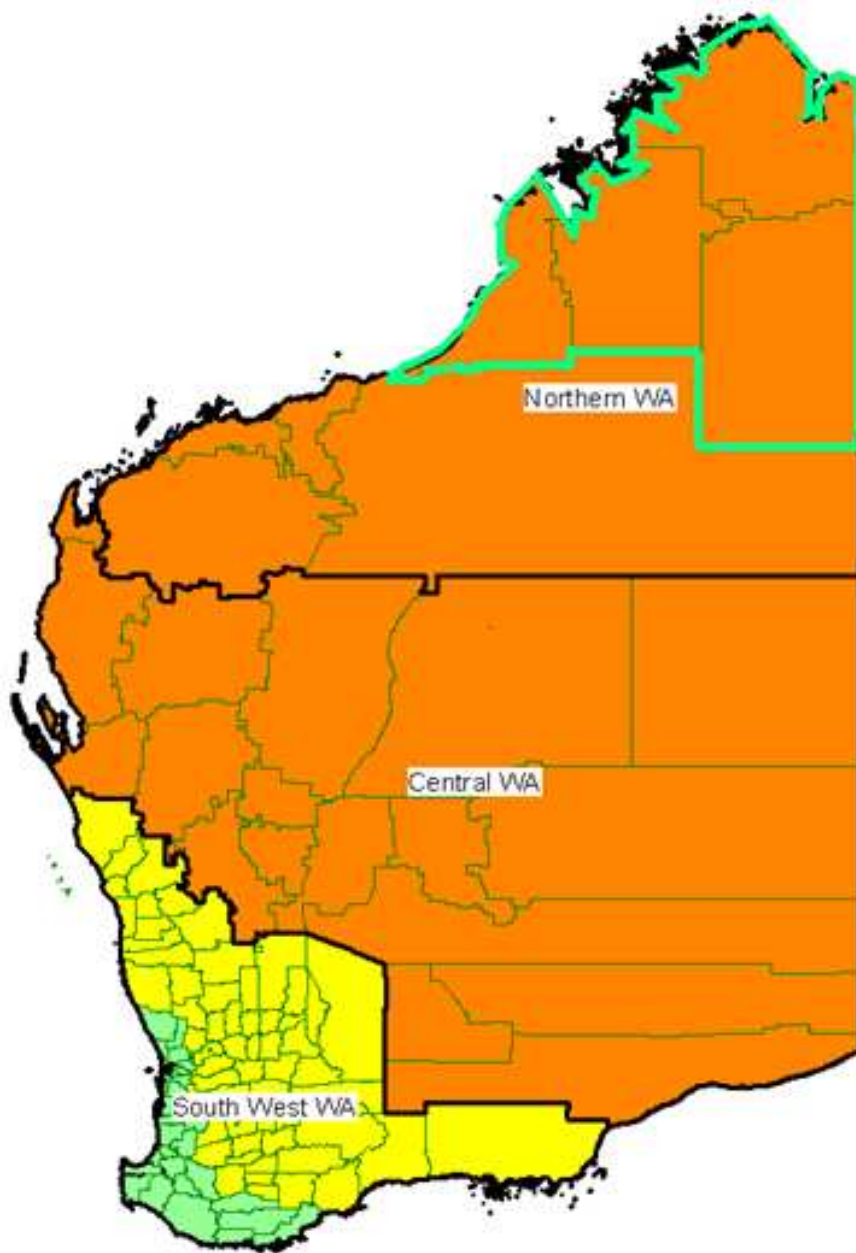
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Wheatbelt / broadacre



- Below average rainfall and cereal yields below average.
- Few sales in 2010/11 – a number of auctions fail to reach reserve.
- Market sentiment suggests a 25% reduction in values but no sales to confirm.
- More optimism in traditional wool growing areas given stronger wool and fat lamb prices

Western Australia - Kimberley



Kimberley

- Mainstream production is breeding feeder steers for live export through Wyndam, Broome and Darwin
- Only 2 sales since 2009 (Moola Bulla and Wallal)
- Indonesian weight and permit restrictions but export numbers through Broome still good.
- Diversification permit opportunities.
- W.A pastoral lease tenure seen as being inferior to the NT perpetual leasehold system.
- Asking prices reflect around 15% to 20% drop from peak.

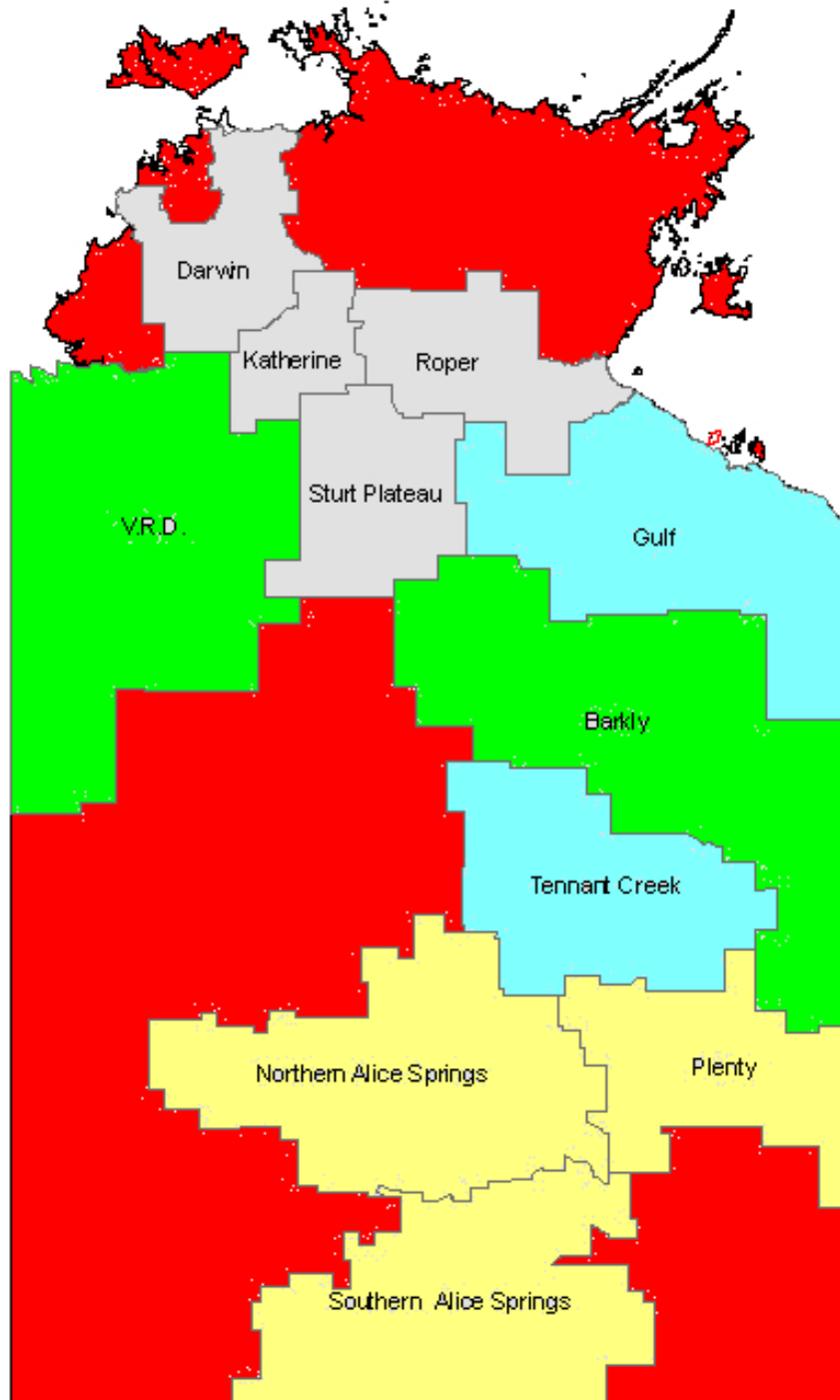
Ord River Irrigation Area (ORIA)

- No definitive sales evidence to speak of in the last 3 years.
- Sandalwood tree growers now occupy around half of the irrigation land in the valley.
- Value levels has been around \$10,000 - \$12,000/irrigated ha for black soil country.
- A handful of failed sale attempts for good quality, well developed irrigation property over the last 12 months suggests downward pressure on irrigation and dryland values
- Development potential with Stage 2 of the ORDs' \$220M Ord-East Kimberley Development Plan – release of initial 8,000ha of agricultural lots in 2011.

The image features a graphic design with a yellow upper section and a dark green lower section, separated by a curved boundary. The yellow section is on the left and top, while the dark green section is on the bottom and right. The text "Northern Territory" is centered in the yellow area. The entire graphic is set against a white background with a subtle drop shadow effect.

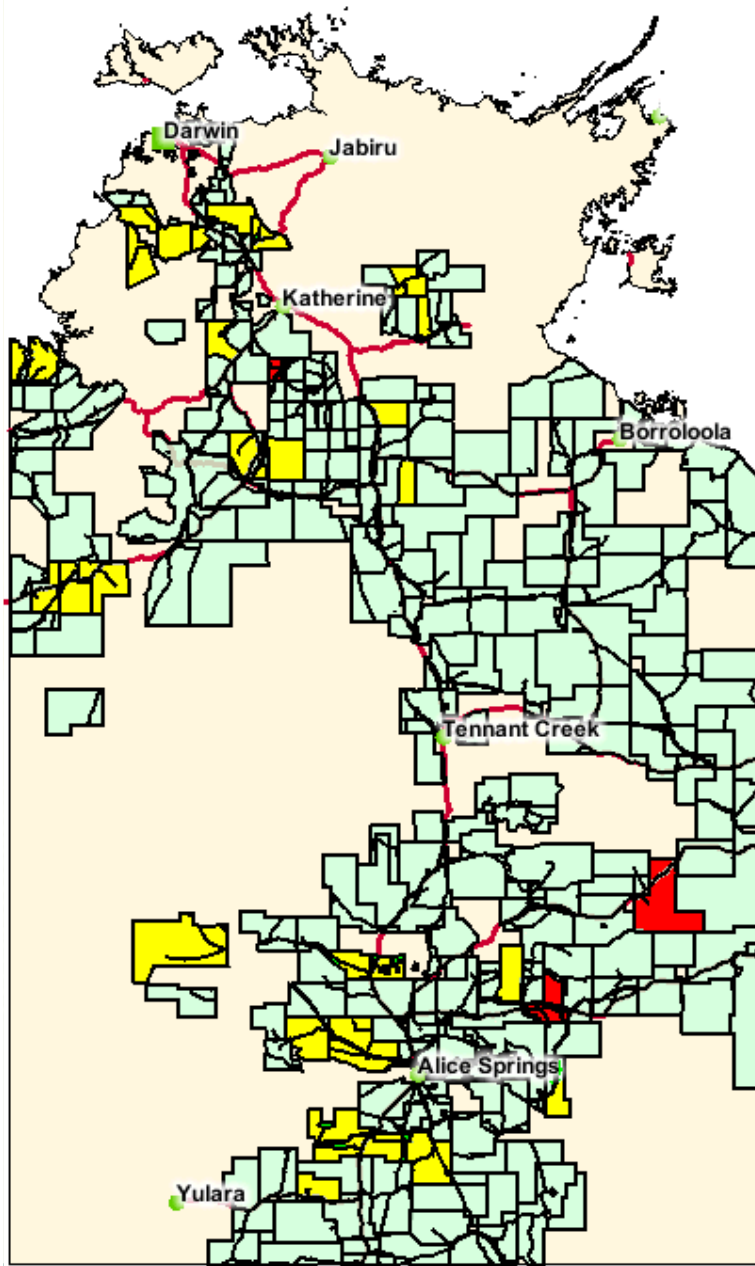
Northern Territory

Northern Territory



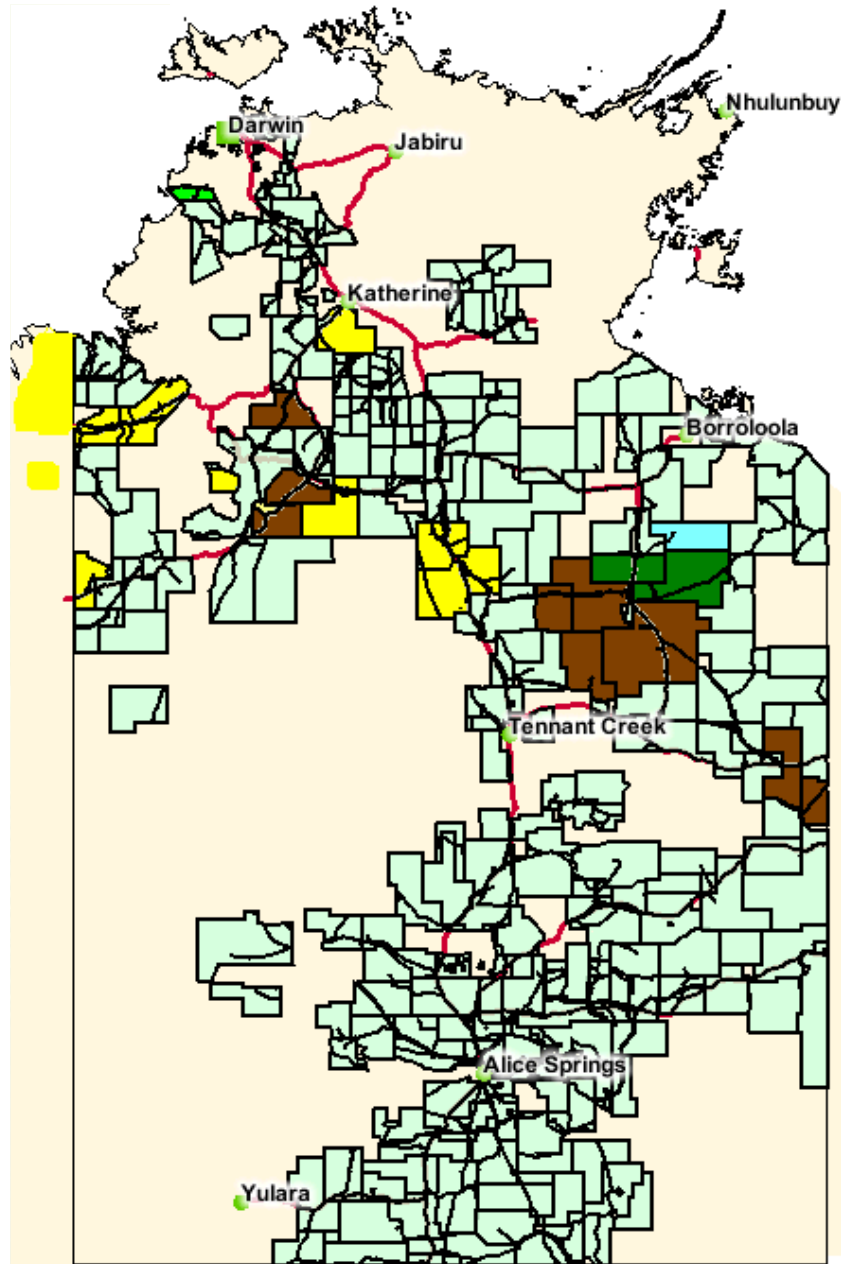
- NT is 1/6th of Australia's land mass, 1% of its population.
- 45% Pastoral Lease, 1.8% rural freehold, balance mainly Aboriginal freehold and national park.
- Only 220 pastoral Leases
- 65% privately owned, around 15% Aboriginal interests and 20% company (a relatively high percentage of which is under foreign ownership/control).
- Mainly breeding country with 500,000 head annual turnoff, 55% of which goes to Indonesian as 18-24 month old feeder steers (or at least it used to).

Pastoral Supply & Demand



- 27 pastoral leases “officially” on the market for sale.
- Sales volumes down.
 - only 3 sales in 2010
 - only 6 sales in 2009
- “Killarney”, “Riveren/Inverway/Bunda” in Victoria River District for sale.
- Likely selling prices are still around 600%+ higher than they were in 2001.

Foreign Investment



- English Private equity firm Terra Firma - \$450m (shaded yellow)
- Macquarie Pastoral Fund's Paraway Pastoral (green)
- Dubai-based IFFCO Poultry become major shareholder in AACO (shaded brown).
- RMW Agriculture, Australian majority held private company supported by international investors (light green)
- We would expect foreign investments vehicles to be the dominant purchaser in the corporate rural property sector into 2011.

- Easing of values and stronger commodity prices will improve returns
- Secure a productive market then buy property cheap.

Disclaimer

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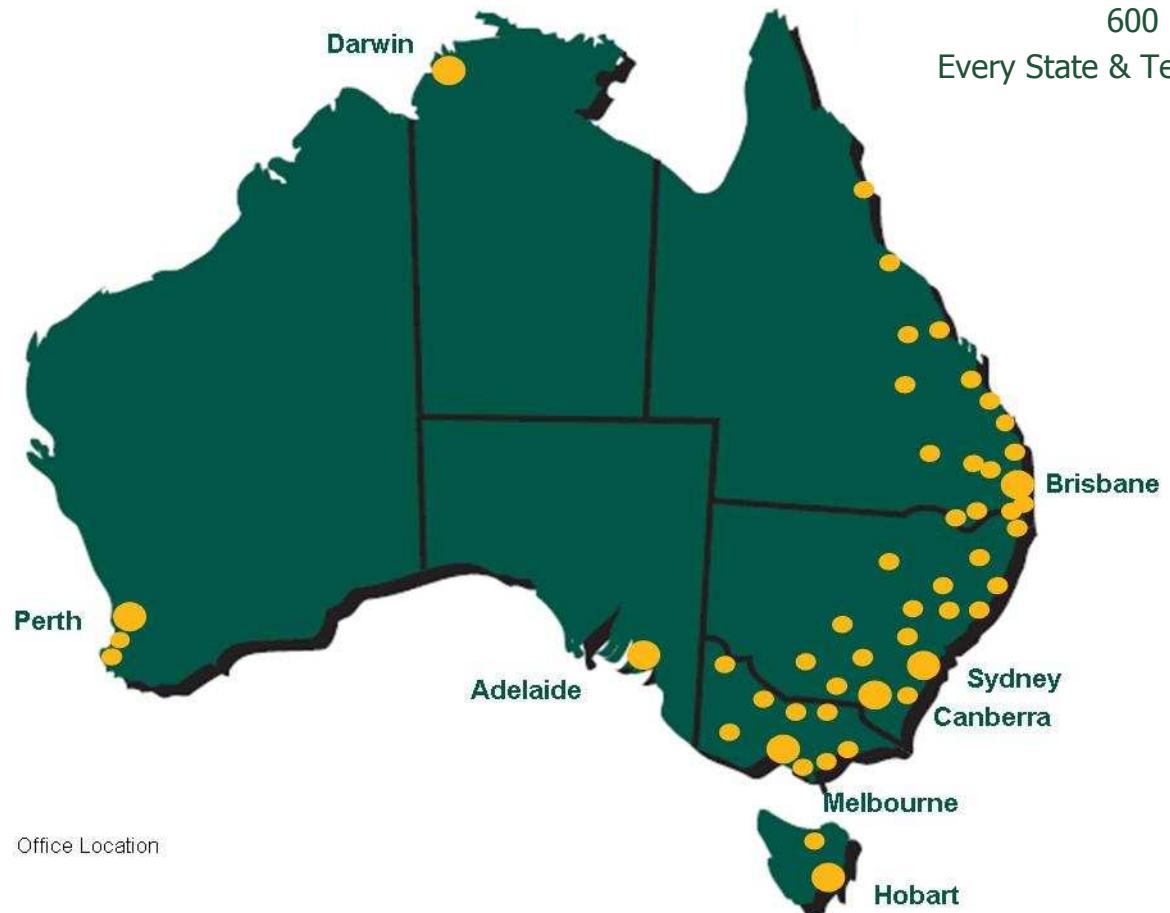


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Thank you

58 Offices
600 People
Every State & Territory



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