COMMERCIAL RETAIL **INDUSTRIAL** RURAL

ROBIN GARDINER

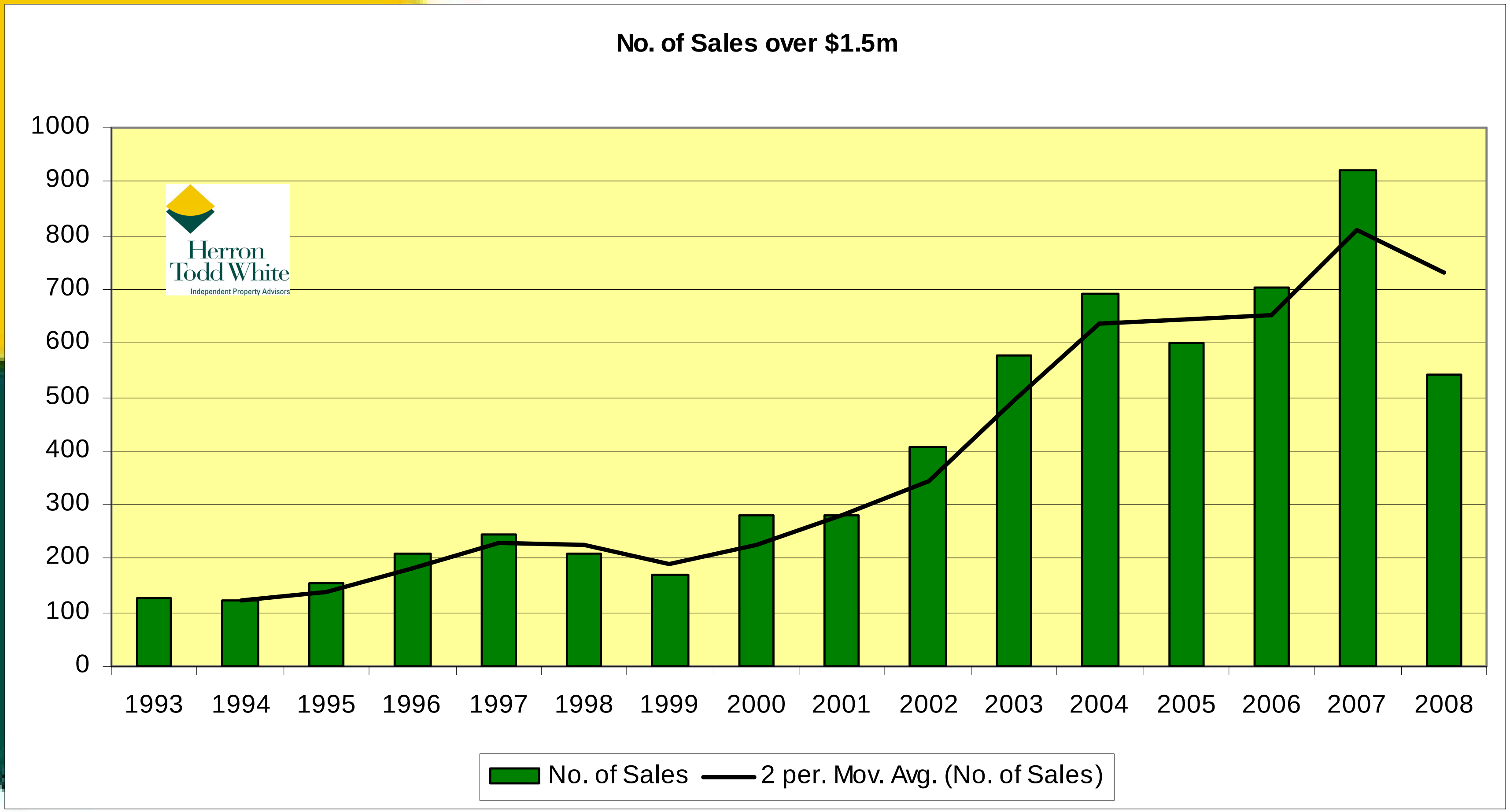
New South Wales

Rural Property Market

WHERE HAVE WE COME FROM?

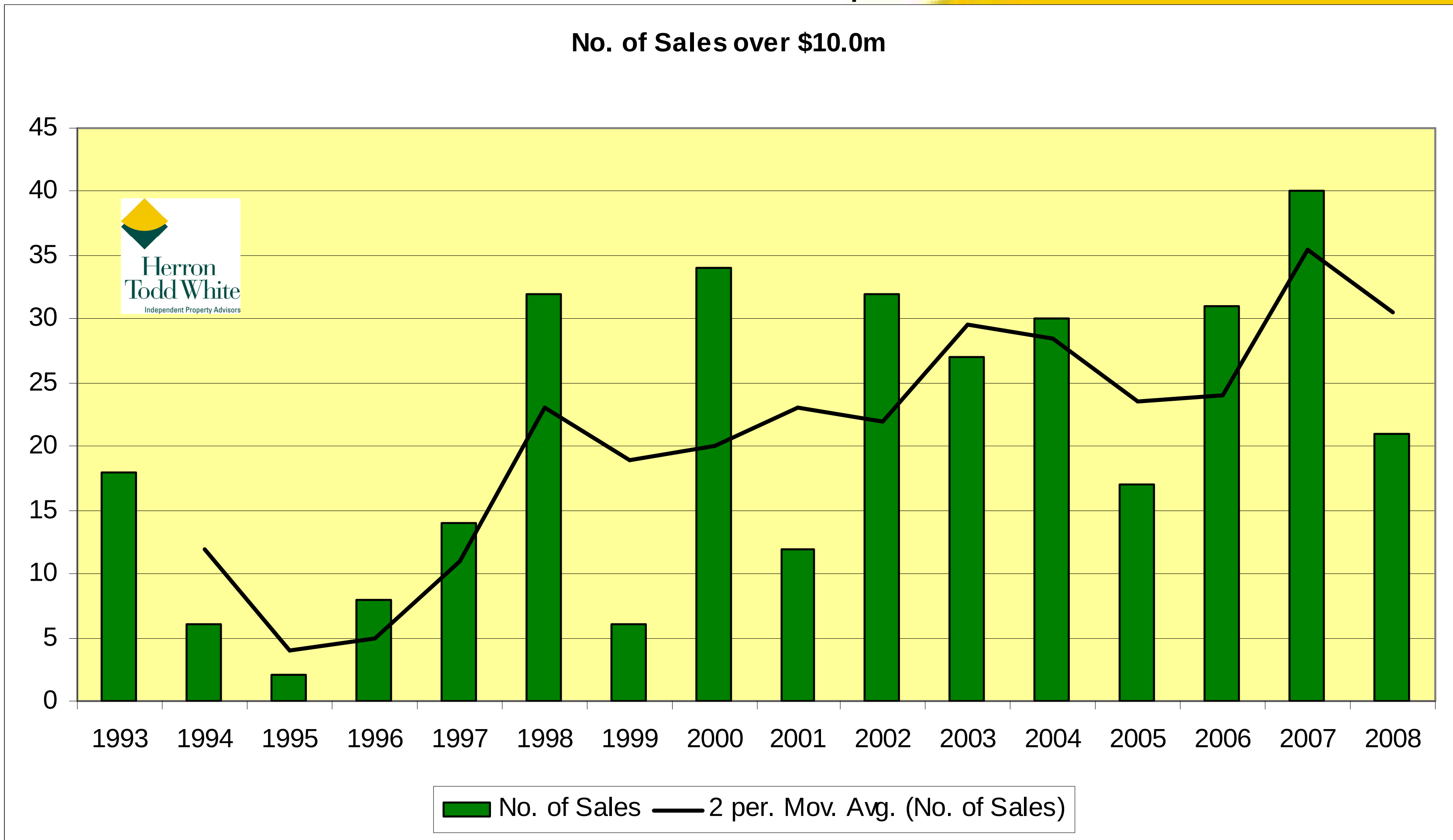
To get some sense of what the level of activity has been in the NSW rural property market it is interesting to see how the volume of rural property sales has changed over time (albeit without adjustment for price escalation).

The following graph illustrates the volume of rural property sales in NSW over the past 15 years. This is “raw” data and includes all sales of rural property throughout NSW for property priced at $1.5M or more.



The sales volume statistics indicate that the "bull" market that took off in about 2001/2002, peaked in about 2007 and this is also supported by an analysis of individual property values across much of NSW.

Prolonged drought, particularily in southern NSW, together with acute water shortages for irrigators was already causing the market to slow in 2007/08, before the "GFC" loomed upon us.



WHAT ARE THE CURRENT DRIVERS OF THE MARKET AND WHERE IS THE MARKET AT IN NSW?

Market sentiment has taken a “hit” as a result of the “GFC” and the impact (real and perceived) of tighter credit in the economy.

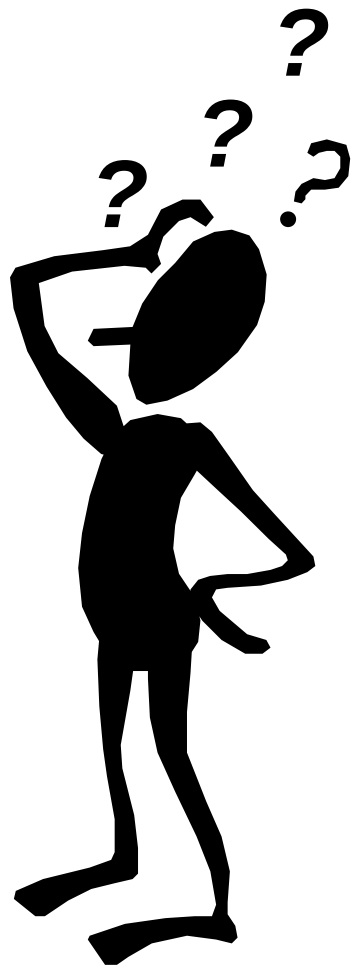
Most agents report a distinct lack of “liquidity” in the market – an increasing number of buyers are becoming increasingly reluctant to purchase, since many believe they are in a falling market – why buy?

Agents, financiers, vendors, purchasers (and valuers?) are becoming less confident about the value of property and hence an increase in the number of properties going to auction, as opposed to private treaty.

Generally, the fundamentals for investing in rural land in NSW remain relatively sound, however, ongoing drought in southern NSW (7 out of the last 8 years), continued low water allocations throughout NSW (poor cashflows), water politics and human nature, mean that investment levels (sales volumes) are currently in decline in most regions.

- The high net wealth individual investor out of Sydney/ Brisbane or Melbourne has too many other problems to worry about to be considering investing in rural property at present, as they have traditionally done
- Corporate/Institutional investors (Macqaurie Pastoral, PrimeAg, IAI etc) have been very active and have assisted in propping up the top end of the market where supply is traditionally tight – positive long term outlook
- The bottom end of the market, as is usually the case, is coming under the most downward pressure
- A two tiered market appears to be developing, with better quality property (cropping and grazing) in sound higher rainfall areas holding value, unless the vendor is "forced to sell", whilst inferior quality property in more marginal rainfall zones or in serious drought where the vendor is more anxious, is experiencing downward price pressure and low demand.
- Government (State and Feds) have been active in the water market ("Toorale",Bourke, Tandou, Menindee etc) and have put upward pressure on water values

WHERE IS THE MARKET HEADING????



No one really knows the answer to this.
Past experience suggests that unless NSW producers experience a sharp downward correction in rural commodity prices (look at dairy!) across several sectors, and /or credit becomes much tighter (who knows?) and seasonal conditions deteriorate, than the “long term investment” physic of the market will prevail and “cushion” values from falling drastically, as is occurring in other asset classes.

Sharply lower interest rates will benefit those who don't have a fixed loan however cheaper money is only useful if you can get access to it. Therefore our banks and rural industry financiers hold a very important card in the short to medium term.

Declining production costs (fertilizer, fuel, chemical, feed etc) will greatly assist existing operations in 2009, but may not be enough to entice expansion and property acquisitions, whilst the worst of the "GFC" is reportedly yet to hit us in Australia.

Once the GFC storm passes, we expect that rural property investment will rebound, so long as seasonal conditions are favorable.

Herron
Todd White

Independent Property Advisors