Month in Review Agribusiness

February 2024

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CEO address

Welcome to our February edition of Month in Review

Welcome everyone to our first edition of Month In Review for 2024.

The first months of each year are an opportunity to contemplate what's to come, and conclusions are inevitably reached through the lens of what occurred during the preceding 12-month period.

Significant, and sometimes unexpected, changes were the hallmarks of 2023. Interest rate movements were undoubtably the headline, with many commentators speculating that rising rates combined with the weight of borrowers moving from low fixed-interest rates to higher variable rates would be a catalyst for a mass sell down. It was expected that an increase in listings combined with reduced borrowing capacity among buyers would drive down values.

But this perspective proved too narrow. The basic value principle of supply vs. demand came to pass. We simply had too few housing options to meet the needs of a rising population base, so values increased across most major centres. Our five largest capital cities saw house prices increase by anywhere between three and 15 per cent during the year.

The good news for property owners is that this growth trend looks set to continue in 2024, although most probably at a steadier pace. The reason is current metrics point toward continued low supply and high demand.

The cycle of interest rate rises is either at (or extremely near) its end – the rate hold by the RBA on 7th February shows this new iteration of the Reserve is taking a more cautious approach to easing inflation. With rates on hold – or even potentially dropping – expect buyers to be a bit more bullish on price when securing a home.

Demand isn't going anywhere. Along with domestic housing needs, we continued to see an influx of new arrivals from overseas. Net migration in 2023 was over 500,000 people. While current forecasts are for this volume to be much lower in 2024, the final number is still likely to be well above the long-term average. These people are arriving in the middle of a rental crisis too, all of which feeds into price growth metrics.

Both increased transaction numbers and buyer confidence are feeding into current statistics as well. A recent report by the Australian Financial Review revealed auction clearance rates in the first full week of February hit their highest level in over 18 months, and their highest in Sydney in over two years.

A sub-section of the buyers pool that will be well worth watching this year are those high-net-worth individuals. These purchasers are often market leaders who are not dramatically affected by interest rate movements or cost-of-living issues. Our observation is that this purchaser group have, on the whole, increased their cash reserves throughout 2022 and 2023, and many are ready to invest. This might be in a trophy home (I would not be surprised if price records were broken in several location this year) or in prime commercial holdings. As such, assets with sound fundamentals and secure tenancies should trade well in 2024.

So, a look across this month's submissions should be a cause for cautious optimism among property owners and industry stakeholders. Conditions heading into 2024 appear more favourable now that they were a few years back, and while none of our residential teams are predicting "boom" results, the consensus is that capital gains will return to a steady, long-term averages in most markets.

For readers interested in commercial real estate, our teams discuss the outlook for office markets in 2024. There continues to be challenges around the evolving workspace and flexibility arrangements – a highly relevant topic given the recent implementation of industrial relation legislation.

Finally, our rural valuers deliver their thoughts on the year ahead. After years of sustained growth across several primary industries, many believe this year might be one of consolidation and more muted outcomes. Of course, you'll need to read their thoughts to gain a full appreciation of what may occur in rural during 2024.

Please enjoy our February 2024 edition on Month In Review.

Gary Brinkworth
CEO

EXECUTIVE ADDRESS

HERRON TODD WHITE

Southern NSW

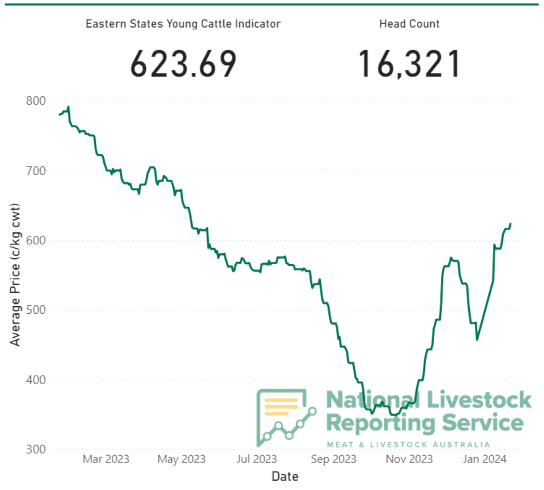
The outlook for the rural property market in southern NSW and northern Victoria in 2024 has transitioned from one of uncertainty to a more positive vibe given a turn in seasonal conditions and the anticipation that we are near, or at, the end of the current interest rate cycle. The forecast for a dry period over the summer has not come to fruition with several rain events delivering above average rainfall totals in December and early January across most of NSW and heavier flood events in Victoria. This, along with a kick in livestock prices, has seen a degree of optimism return to the rural property market. Further interest rate increases seem less likely as inflation appears to be declining and as long as the season holds we do not foresee any significant changes to land values in the near future. Buyer activity for small to medium scale mixed farming holdings has slowed however as operators look to reduce debt levels rather than expand which had been their main focus in 2022 and 2023.

Going forward we predict continued heightened activity in the larger corporate scale segment of the market as more pension money flows in from overseas. There are several large transactions occurring at present in both the cropping, tree nut and large scale mixed farming sectors. Typically these are existing corporate operators selling to new entrants into the market following redevelopment or value adding previous acquisitions held over the past few years, or in the case of nut trees acquisitions new development block purchases in the Murrumbidgee Irrigation Area.

Andrew Garnsey
Valuer

Southern Qld / Northern NSW

If I was asked to speculate on property market futures towards the end of October 2023, I believe the widespread dry conditions and the collapse of the Eastern Young Cattle Indicator (EYCI) would've had me feeling considerably more bearish than I do today. While the rain has been extremely welcome in those many lucky areas, the recovery in the cattle market is particularly important for sustained property values moving forward.



Eastern Young Cattle Indicators Source: MLA

I believe, as a whole, the rural property market in our region is peaking. We continue to see strong demand in tightly held markets and those rural lifestyle areas. That said, it is noticeable that in many regions listing numbers and selling periods appear to be increasing. This also suggests a likelihood of more challenging market conditions moving forward for second-tier properties, properties lacking presentation or holdings placed on the market under pressured circumstances.

If you are looking to sell in 2024, I would suggest adopting a fair asking price rather than seeking to eclipse rates demonstrated by peak sales in 2022/2023. Also be mindful of available property already listed in your region and the asking price of those properties. Your property will be effectively competing with other listings, for the attention of potentially fewer buyers moving forward.

As we transition from a seller's market, to hopefully a market in equilibrium, buyers will have more choice. This transition in market dynamics will increase the likelihood of a property becoming stale on the market. As such, it would be prudent to engage an independent property valuer early in the process to give you some unbiased advice and help guide your decisions.

With this said, it's important to note that markets and macro-economic factors can change quickly and for unexpected reasons. I'm not aware of anyone who predicted the eventual upside which would impact the property market due to the Covid pandemic through lower interest rates and strong commodity prices.

At this stage sales evidence continues to support the peak values seen in 2023 and in some regions continued growth and demand is evident. Consequently, as should always be the case, I would suggest making your property investment decisions Weekly Commodity Report 19/01/2024

As we transition from a seller's market, to hopefully a market in equilibrium, buyers will have more choice.

HERRON TODD WHITE

Wheat **$430/t (H2)**

Down -2.3%

Australian wheat prices were lower again this week with light demand from export markets. The USDA raised its forecast of world ending stocks.

Source: Profarmer

Barley **$323/t (feed)**

Down -0.9%

Local barley prices eased with feedlots reporting they are well-covered, while a high supply of malting barley is expected to sell into China.

Source: Grain Central

Sorghum **$410/t**

Down -1.2%

Sorghum prices have softened as trade interest from China has eased, while sowing progress across Australia is estimated to be 90% complete.

Source: Riverina Australia

Cotton **$702.8/bale (Cotlook 'A' Index)**

Up 4.4%

Cotton futures were higher this week despite the USDA forecasting lower world consumption and higher production, though the US cotton crop was down.

Source: USDA

Oilseeds (Canola) **$591/t**

Down -0.2%

Canola prices were down slightly following offshore market trends. Volatility in oil prices and soybean harvest have been key influences on canola.

Source: Profarmer

Pulses (Chickpeas) **$784/t**

Steady

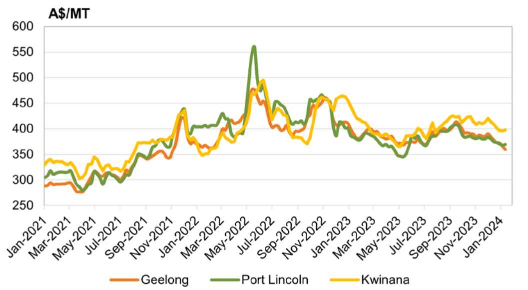
Australian chickpea exports were 38,138 tonnes in November, down 53% from October. Lentil exports rose 26% in November to 123,222 tonnes.

Source: Grain Central

Weekly Commodity Report 19/01/2024 Source: NSW DPI

on long-term trends, goals and pricing. At the time of writing the EYCI is back above 600c/kg and wheat remains well above $350/tonne. Similarly, the price of many other farm gate commodities, while no longer at peak levels, still remain good by long-term averages. These prices, if maintained, will help to underpin a stabilisation of the property market moving forward.

Figure 1 APW Geelong, Port Lincoln & Kwinana - weekly average



Sources: Refinitiv, profarmer

mecardo

Wheat price per metric tonne Source: Mecardo

Lamb **704c/kg (NTLI cwt)**

Down -9.3%

Lamb prices eased off the post-recess highs the previous week, as yardings rose 9%. The Australian sheep flock is at the highest level since 2007.

Source: MLA

Wool **1,196c/kg (EMI)**

Down -1.4%

High wool volumes led to lower prices for much of the market, with the Merino fleece sector recording the largest price declines. Carding types rose.

Source: AWI

Commodity prices Source: NSW DPI - Weekly Commodity Report 19/01/2024

Sugar **$747/t**

Up 6.8%

Raw sugar futures rose even as news from Brazil indicated sugar production for the 2023-24 season was 25% higher than year-ago levels.

Source: QSL

Sugar prices Source: NSW DPI - Weekly Commodity Report 19/01/2024

Bart Bowen
Director

Echuca/Deniliquin

The current market remains relatively steady however is showing some signs of divergence between vendors and purchasers. In some instances, there has been a shift in price point expectations between vendors and purchasers which has resulted in some properties sitting on the open market for extended periods of time. However, in certain scenarios – particularly where there are interested neighbours – there is still strong inquiry. In contrast, in areas where neighbours are not interested, they have become a harder sell and may require a discounted price if there is urgency.

The general outlook in northern Victoria and the broadacre irrigation areas of south-west New South Wales is for the market to remain relatively steady in the next 12 months. The direction of interest rates, commodity prices, input costs and ongoing seasonal conditions will be significant influences on where the rural market trends over the next 12 months. Levels of uncertainty surrounding these factors appear to still be at the forefront of landowner's minds.

Recent wet years have resulted in high storage levels across dams supplying the Murray irrigation areas of southern New South Wales and northern Victoria. The temporary market for water (New South Wales Murray River above the Barmah Choke - Zone 10) has seen recent transactions range between $25 and $70 per megalitre. We note that in the dry year of 2019/2020, water on the temporary market reached $600 per megalitre.

Doug Arnold
Valuer

Mildura/Sunraysia

As we enter the first quarter of 2024 and contemplate the year ahead, I want to take a moment for some reflection. It's interesting to look back on our February 2023 Month In Review submission about our prediction on what we thought may evolve throughout 2023. Here's a brief snapshot below.

- Factors at play that could impact Australian agriculture in the first half of 2023 include weather conditions as the 3 years of La Nina weakens; inflationary concerns; the extent of any further interest rate rises and the resilience of commodity prices.
- Horticulture - expected to see continuing challenges including continued low global prices for almonds and red wine grapes. Some optimism that citrus and table grape returns will be stronger in 2023.
- Leasing irrigation water is expected to stay low in 2023 and possibly into 2024.
- Returns from citrus, table grapes and red wine grapes are set to remain low through 2023, and further falls in value for wine grape properties could be expected.

Now we sit at the start of 2024. Looking across the year to come, many of our concerns and themes are somewhat consistent with our outlook from 12 months ago.

- The dryland cropping values - Given the significant appreciation in values further south, we expect the ripple effect to continue to be felt in our region.
- We also expect to see a continuation of strong demand for grazing land in south-western NSW.
- Corporate buyers are likely to weigh up the cost of capital more closely than smaller family farming businesses. We may see larger assets become harder to sell in 2023.
- In summary market fundamentals suggest an increasing likelihood that 2023 will see a cooling of the strong value increases we have seen across some of the sectors of the past 2 years.

Now we sit at the start of 2024. Looking across the year to come, many of our concerns and themes are somewhat consistent with our outlook from 12 months ago. Interest rates, inflation/input costs and seasonal conditions continue to be the talking point of the rural market.

While horticulture sector might appear to be in a holding phase, we consider the continuation of low-cost irrigation water and improved export demand across most of the major horticulture sectors will result in above average production in 2024.

Australian almond production is set to rise after a challenging 2023 with global demand growing. It's forecast that almond exports will increase on the back of reduced tariffs to some key export markets. It's also noted however that almond prices remain near their lowest level for the past 20 years.

The dryland cropping and grazing sector values which cooled from sharp rises in the previous two-to-three years are likely to remain relatively subdued in marginal rainfall locations at least.

The cattle and sheep sector have experienced a challenging 12 months, however early signs suggest that prices will improve, however, on a more gradual scale as compared to previous spikes of 2021 and 2022.

The significant increase in interest rates over the last 18 months have been met with generally good seasonal conditions which in many cases have suppressed the burden of the increase in borrowing costs. The direction of these interest rates throughout 2024 is unknown, however we know the impact of this can be greatly affected by the confluence of other driving factors in seasonal conditions and commodity prices.

The improvement of supply chain issues and a contraction in inflation has reduced many farming input costs comparatively to 12 months ago which has been favourable. However, we do note that they are still relatively high compared to historical levels. Again, how the seasonal conditions play out across 2024 will be of critical importance. The La Nina conditions displayed resilience through 2023 however the continuation of these seasonal conditions is forecast to be unlikely.

HERRON TODD WHITE

Overall, the outlook for the rural market over the next 12 months, while mostly cautiously positive, is expected to remain steady. That said, the confluence of unfavourable factors affecting the rural markets are likely to deliver challenges.

Shane Noonan
Director

Nut sector

The Australian Nut industry continues to grow and be a major producer in the world market. 2023 was a year some nut growers would like to forget with difficult growing conditions impacting on yields and World market forces reducing prices quite substantially which resulted in some cases in reduced crop returns for Almond, Walnut and Macadamia growers.

While prices fell marginally for Pecan growers, seasonal conditions ranged from floods in northern NSW to near drought conditions in Qld. The Hazelnut industry saw the exodus of Ferrero from Australia with its 2665-hectare NSW Riverina property cleared of trees and offered for sale. Water security, ever changing seasonal conditions and increased operating costs are forcing the industry to be more proactive in ensuring long term sustainability and viability with increased levels of R & D.

New spatial mapping undertaken by ag-specialists LandIQ shows that approximately 62,000 hectares is planted to Almonds in Australia. The impact of Varroa mites in the Bee industry has resulted in an increased planting of self-fertile varieties due to concerns over bee availability and pollination costs. The main producing areas are as follows:

- Sunraysia approximately 35,000 hectares (56 per cent of aggregate)

XGxgxgx Source: David Nilon

- Riverina region of NSW approximately 15,000 hectares (24 per cent of aggregate)
- Riverland region approximately 11,000 hectares (17.6 per cent of aggregate)
- Western Australia approximately 820 hectares (1.3 per cent of aggregate)
- Adelaide approximately 700 hectares (1.1 per cent of aggregate)

The Australian almond crop estimate for the 2024 season of 164,700 tonnes (kernel weight equivalent) is 59.4 per cent higher than the 2023 season which was approximately 30 per cent down on previous years. The 2024 estimate is more aligned to average yields across the five growing regions in Australia. Global pricing is expected to be marginally better than last year. (Source: Australian Nutgrower)

There are approximately 40,320 hectares planted to Macadamias on the east coast of Australia with approximately 41 per cent located in the Bundaberg region and 26.6 per cent in the Northern Rivers region of NSW. Approximately 1100 hectares has been planted in the Bundaberg region since 2022.

The Australia Pecan industry experienced a difficult year in 2023 with unseasonal floods causing major damage to orchards across northern NSW and near drought conditions in Qld. Yields were well below average however quality was much improved over 2022. Prices reduced by approximately 10 per cent to 15 per cent compared to the highs of 2022 with market expectations for 2024 to be similar.

The Australia-India Economic Cooperation and Trade Agreement (ECTA) that came into force in December 2023 holds many export opportunities for the Australian nut industry. The Macadamia industry was one of the big winners with tariffs reduced from 30 per cent to 21 per cent and to be totally removed by 2028.

The overall outlook for 2024 is much improved over 2023 with improved seasonal conditions and a general firming in prices from last year.

David Nilon
Senior Valuer & pecan grower

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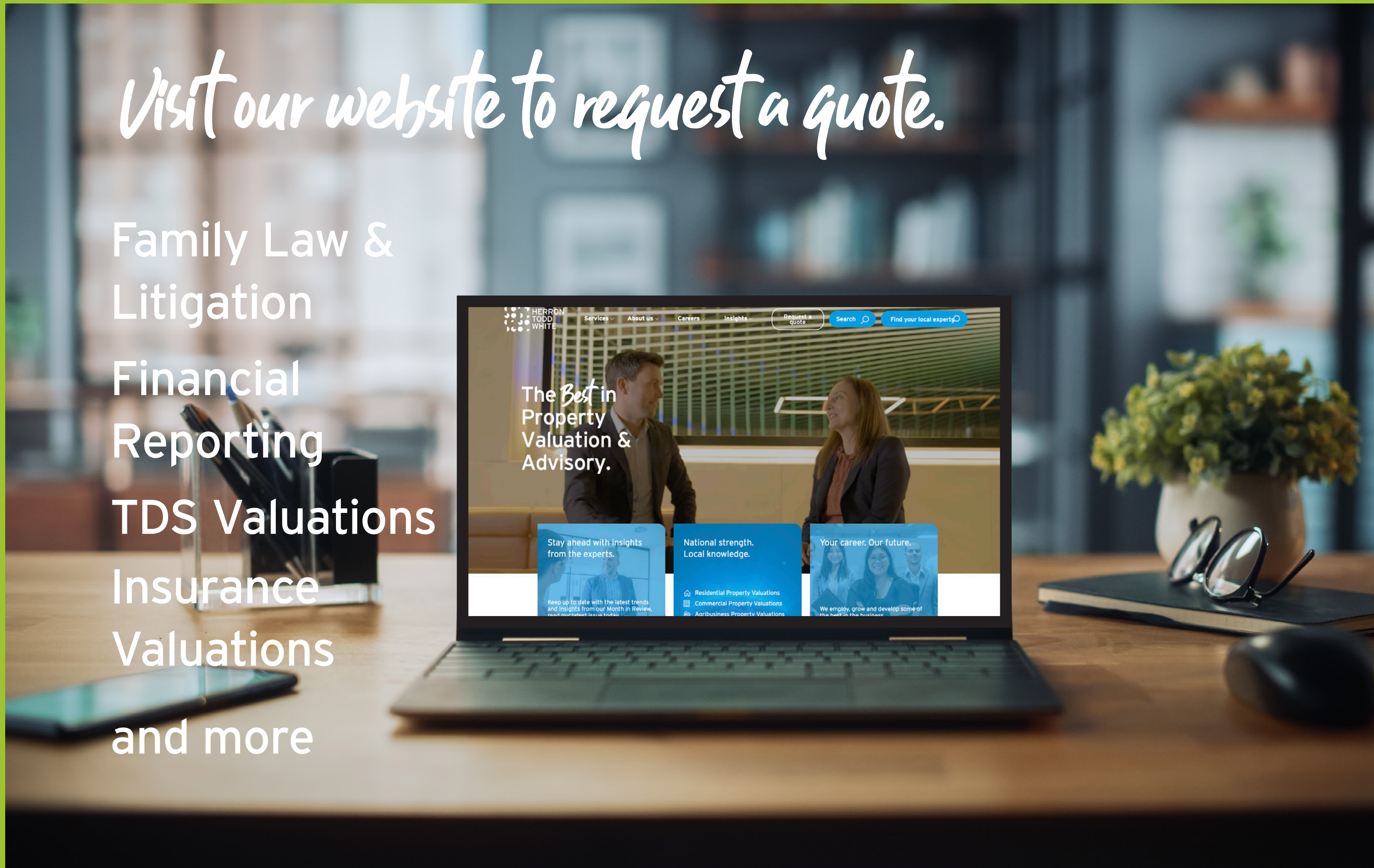

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