Month in Review

Agribusiness - September 2024

The Month in Review identifies the latest movements and trends for property markets across Australia.

CEO's Address

Welcome to our September edition of Month in Review

Land is the scarce and finite resource which anchors all structures from houses and unit blocks through to inner city office towers, industrial developments and retail accommodation.

While built structures inevitably depreciate, land rarely diminishes in value and is frequently repurposed as property cycles continue, and cities evolve. Land is the scarce and finite resource which anchors all structures from houses and unit blocks through to inner city office towers, industrial developments and retail accommodation.

This month's contributions in our residential space explore how this basic component is being treated by buyers and sellers across the nation. Because land is fundamentally the same resource, our report could well be regarded as the ultimate exercise in relativity.

While we have covered the end product in terms of vacant homesites in this report, it's interesting to also consider the foundational raw resource that is greenfield englobo land, i.e. original sites prior to subdivision or development.

We live in unusual times. In major capital-city growth corridors, rapidly rising construction costs would ordinarily render development of many sites unfeasible, and negatively impact englobo land values. However, the relentless population surge currently being experienced continues to drive developable land markets higher, and essentially overpowers the impact of higher construction costs. However, where is the break point?

The reality is that it is still far cheaper to create housing in outer suburbs and fringe areas. Increasing supply in such locations is far quicker and cheaper than more central medium density urban development. This is bolstering englobo land prices, and developers are continuing to land bank accordingly.

We are however possibly starting to see the break point come in the inner city areas of major cities, where construction activity is well below the levels required to satisfy current demand, and only sites which can command premium end prices are stacking up.

On the commercial side, the greatest user and driver of demand for land is the industrial market. In recognition of this, entry-level industrial investment is the theme we've homed in on in this issue of Month in Review. While now moderating, there has been exceptionally high demand for land in strong growth areas. Across most major centres, good quality developable land in the industrial sector is scarce and this has driven price growth. Demand and price growth for the end product is, however, strong enough to justify higher construction costs and longer development time frames.

For other commercial asset classes, land take up is far more gradual as the increased construction cost environment has impacted the feasibility of new development with lesser levels of demand and extremely tight profit margins now being the norm.

Comprehending the complexities and nuances of land markets is a skill earned via years of experience and repetition, and Herron Todd White has the most comprehensive team of high-level professionals in the nation. It is essential for stakeholders to talk to our specialist teams in any given asset class to determine their most profitable property strategy.

Finally for our rural readers, one of Australia's most respected professionals, Graeme Whyte, delivers comprehensive coverage of horticultural property markets around the country. For those with an interest in the sector, this month's rural report is essential reading.

Please enjoy our September edition of Month in Review.

Gary Brinkworth
CEO

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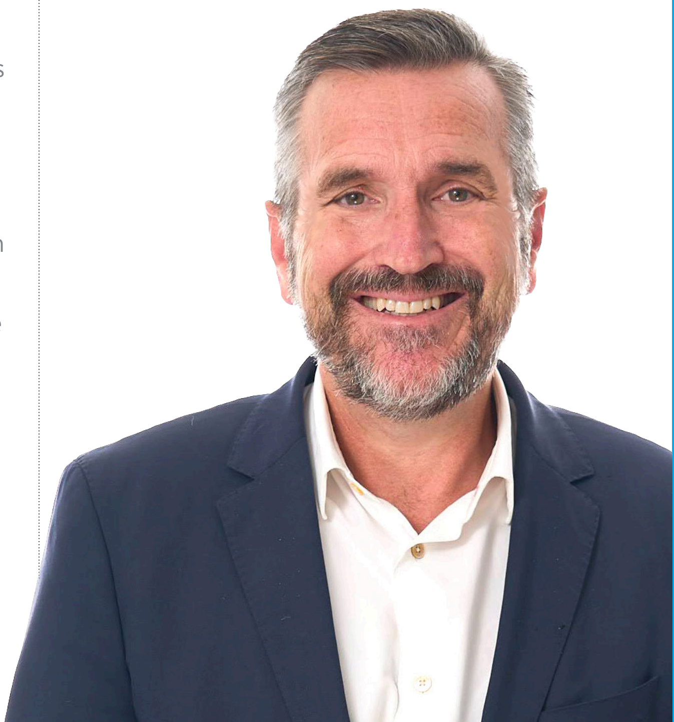


HERRON TODD WHITE

Australian Horticulture

September 2024

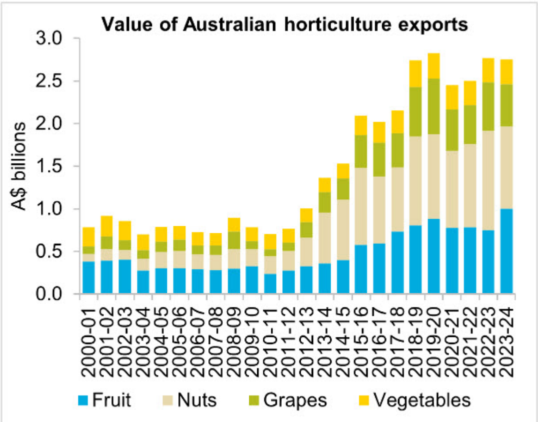
Australian Horticulture

> *At the corporate level, buyers looking to partner with a proven tenant rather than owner operate the asset can complicate the sale process due to the need to find both a tenant and a purchaser.*

Australia has a diverse horticultural sector which continues to evolve to meet changing markets. This month we will focus on several of the key industries and look at what is influencing property values in 2024.

Much of the horticultural sector is heavily reliant on export markets and it is useful to see how the value of horticultural exports has tracked over recent times.

Gross export revenue for some of the key industries is shown in the following chart.



Gross exports — Source: Ruralbank and GTA

The three largest industries, in terms of export revenue, are nuts (primarily almonds and macadamias), fruit (primarily citrus, but also stone fruit) and table grapes. All three of these industries have significantly expanded their export markets over the past 15 years, which in turn has supported expansion of the area under production.

After a period of rapid growth between 2012 and 2020, the value of exports declined slightly in 2021 and 2022, before recovering somewhat in the past two years. Industry observers are forecasting further growth in the coming year, subject of course to favourable seasonal conditions.

The trend line in the above chart provides a pretty good correlation to farmer returns and farm values. Values of many horticultural asset classes rose dramatically between 2012 and 2020, and then either plateaued or reduced by around 10 per cent in response to lower commodity prices, higher cost of production and disrupted export markets.

Agents are currently advising that at the corporate level there is often more interest from buyers looking to partner with a proven tenant rather than owner operate the asset. This can complicate the sale process due to the need to find both a tenant and a purchaser. In some cases, the vendor is willing to enter into a leaseback arrangement, however in the absence of a ready-made tenant, some deals are proving hard to finalise.

Nuts

The 2024 almond harvest has resulted in a return to more normal yields following a run of weather affected harvests between 2020 and 2023. The 2024 crop is expected to reach approximately 160,000 tonnes, up from approximately 110,000 tonnes in 2023. The global almond price has improved in the past year, but is still stubbornly below longer term average levels. Growers are making money, but not at the levels they were seeing prior to 2021 and this has seen reduced demand for any orchards that are marketed.

There is positive news around growth in export demand from both China and India and some early commentary around lower than expected yields in California (their harvest started in mid-August). These factors could see some further upward movement in global almond prices in 2025.

A number of medium to larger scale almond orchards are currently being marketed in the Sunraysia and Riverina regions, however agents are reporting that buyers are cautious and not currently prepared to meet vendor expectations.

The global macadamia price is also below longer-term average levels and this is dampening buyer demand for any orchards put to the market.

Citrus

The main navel and mandarin season in southern Australia is nearing completion, with growers enjoying stronger returns in 2024 than they did between 2021 and 2023. The improved returns are the result of a number of factors including a return to average rainfall rather than the wetter than average conditions experienced in previous years. This has helped with good fruit quality and higher pack outs. The average bin price has also been helped by a significant increase in fresh juice prices. Growers who for many years had only been receiving around $30 per tonne for their "over-run" fruit are this year receiving over $350 per tonne for the fruit diverted to juice.

The higher juice price is a result of global shortages following poor crops in North and South America. Drought in Brazil and citrus greening disease in Florida have significantly reduced supply from the two largest juice producing regions. However history shows this can quickly turn around and we don't expect high prices for juicing oranges to necessarily turn into a long term trend.

There have been few sales of citrus orchards in the past 12 months, which we attribute to existing growers needing to rebuild their balance sheets after several years of poor returns. We note that there is a pending sale of a medium size orchard in the Riverina region which will show that value levels for better standard orchards have held up over the past three years.

There have been some recent receiver sales in the Burnett region of Queensland, with these sales showing lower value levels, reflective of sub-optimal management leading up to their sale.

There are also several large-scale citrus orchards currently for sale in Western Australia, which are understood to be receiving some corporate interest. In summary, there are corporate buyers active in the larger orchard space, however buyers are discerning, while at the lower end of the scale, activity remains slow.

A consequence of this rationalisation will be the closure of several wineries.

Wine Grapes

This industry is currently showing mixed fortunes, depending on where you are and what you grow. Producers in cool climate areas, particularly those producing white wine varieties, are enjoying good prices, often up to $4000 per tonne and showing confidence in their industry. There have been several recent sales of small scale vineyards in the Yarra Valley and also in Tasmania, with these sales showing strong levels.

However, growers in the inland areas, particularly those growing traditional red varieties, have few reasons to smile. Wineries continue to hold large inventories and prices are unlikely to improve for several years. Vineyards will continue to be cleared and redeveloped to other crops.

There are two medium to larger scale wine grape vineyards in the Mildura region currently being marketed and these will provide a good barometer as to where buyers think values sit.

The wine grape industry is expected to continue to undergo rationalisation, with smaller growers exiting and established larger growers getting bigger. To be a sustainable grower in an inland region currently requires large areas of predominantly white varieties, producing yields in excess of 35 tonnes per hectare. Vineyards skewed to red varieties are expected to continue to have extended marketing periods in the short term.

A consequence of this rationalisation will be the closure of several wineries. Treasury Wine Estate closed its Mildura winery in 2023. This winery had a crush capacity of approximately 100,000 tonnes, although production in recent years had been less than 60,000 tonnes. It is understood that a buyer has been found for the site, who will convert it for an alternative use. The sale price will represent a fraction of the facility's replacement cost.

Table Grapes

Southern Australia's growing regions experienced slightly lower-yielding crops and mostly good fruit quality in 2024, which helped keep markets in balance. Prices were slightly better than in 2021 to 2023 and while the results were a bit patchy, most growers appear to have had a better year. On the back of this we have seen two sales in the Robinvale district, which show "ex water" value levels of between $90,000 per hectare and $100,000 per hectare, which is broadly in line with levels seen – two to three years ago. The purchasers in both cases are local family growers.

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Director

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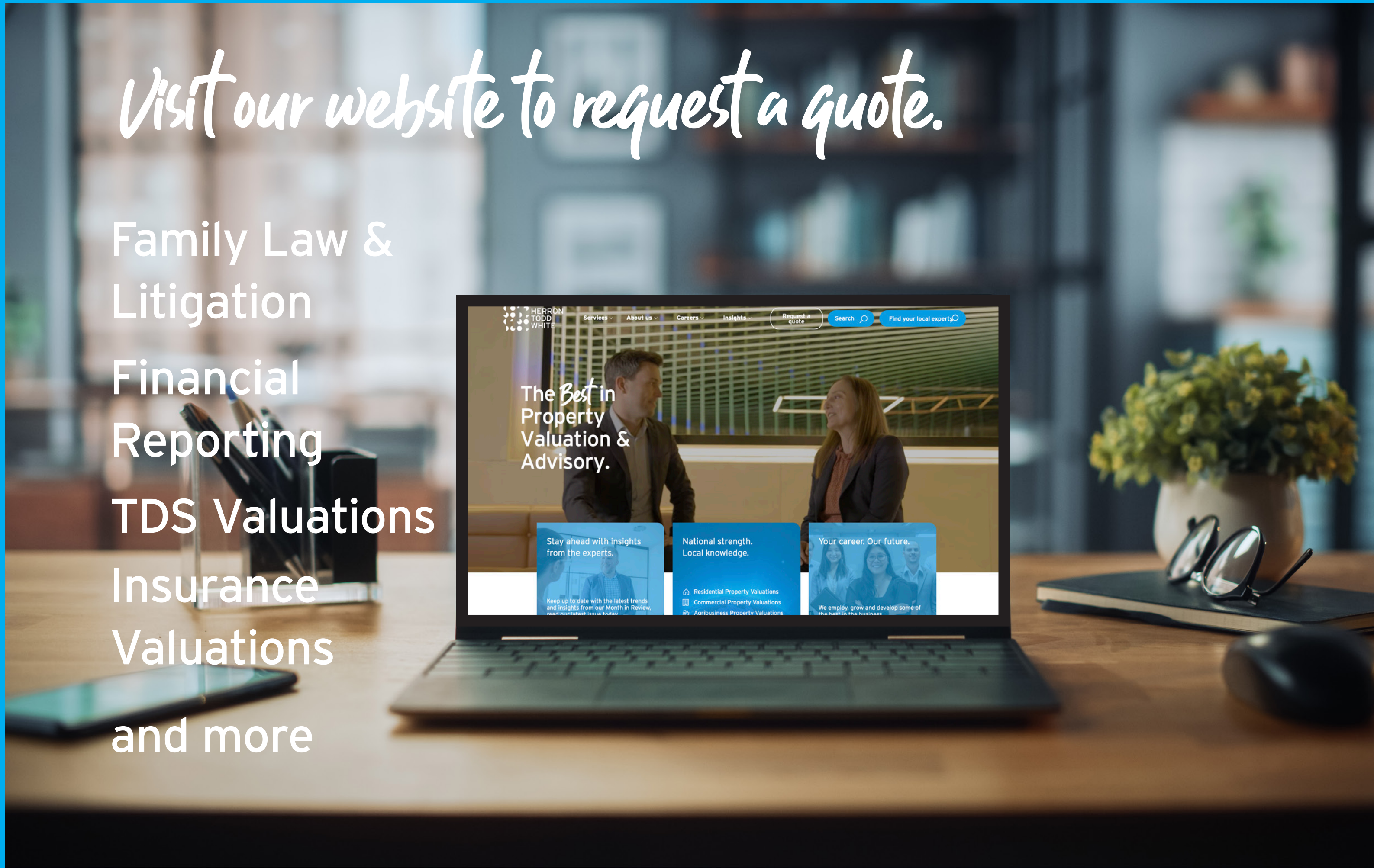

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