Month in Review

Agribusiness - October 2024

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

CEO's Address

Welcome to our October edition of Month in Review

Our reports each month consistently illustrate both the diversity and inter-relatedness of property markets across Australia. What happens on a national and international scale has ramifications for market activity, but local drivers also contribute substantially to value shifts across each population centre.

Because of this, I've been struck by disparate moves in Melbourne's residential real estate prices compared to those in other major capital cities. It begs the question, "Is Melbourne's performance a lead indicator for other Australian markets?"

Melbourne's house price has trended lower at a time when most other major centres have seen value growth. Double digit annual gains in Brisbane, Adelaide and Perth, along with a solid increase in Sydney's median, are contrary to Melbourne's median-price decrease. This has seen Melbourne go from being the nation's second most expensive capital city to its sixth in a relatively short period.

What's been behind this shift in relativity? There are a few interesting data points to track when contemplating this.

Firstly, sales activity remains relatively robust in Melbourne. Its proportion of transaction volumes remains similar to those for Brisbane, Adelaide and Sydney. So, it isn't inactivity that's impacting prices.

Supply is another consideration too. Recent reports indicate Melbourne has created more new housing in the past 10 years than other capitals, and that higher density as a proportion of all housing has increased too. This would suggest demand for certain types of accommodation is being satisfied by supply, which would result in softer price movement.

There are other considerations as well. Overall population growth in Victoria has remained comparable to other states and territories, fuelled in large part by new overseas arrivals. Of course, a recently announced federal-level cap on international student visas in 2025 could dramatically impact this. Meanwhile, Victoria's net interstate migration (NIM) is flat - not a great outcome for housing demand but it is a move away from the negative NIM of recent years.

Taking in this sample of information, along with many other data points and comments from our on-the-ground specialists, I'd suggest Melbourne's property price is unlikely to quickly "bounce back" towards long-term relative norms compared to other capitals. Instead, current information suggests Melbourne values will remain subdued with eventual gains over a much longer period than some might hope. I'd also venture that other capital city prices will see their markets fall back to long-term average growth rates in the future.

Certainly, increased competition among lenders for business at a time when rate cuts are on the horizon might imply enquiry levels are softening, which doesn't normally bode well for overall property market activity.

History shows that Australia's capital city property markets do tend to return to a relative normalcy, but the Melbourne experience indicates the rebound will be relatively conservative and extended this time around.

It's a lesson in why the complexities of Australian property require specialist advisors to combine broad market understanding with localised, on-the-ground experience. This is exactly the sort of expert guidance you receive from our teams at Herron Todd White.

Please enjoy our October edition of *Month in Review*.

Gary Brinkworth
CEO

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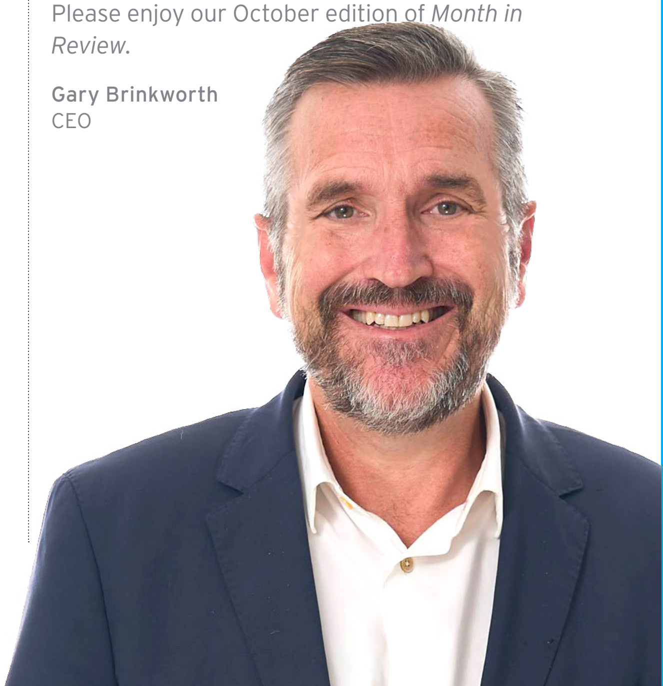

EXECUTIVE ADDRESS

Australian Grazing

This month our rural valuers are generally reporting diminished market sentiment for grazing properties around the country compared to a year ago, and certainly compared to the strong competition during what we are now seeing as the peak of the grazing land market around 2022 to early 2023. However, while sentiment has waned and selling periods have generally lengthened, in most cases value levels appear to be holding at their historic highs – for the short term at least. While there are definitely other economic headwinds that have contributed to a stalling in demand for grazing land (particularly interest rate hikes) it is clear that the scale and pace of decline in livestock prices during 2023 from their record highs in 2022 impacted heavily on the confidence to invest in grazing land. But this year we saw one of our most influential markets, cattle, gradually inch its way back towards a longer-term average price, and along with modest to reasonable optimism for increased export demand (particularly to the US who are rebuilding their herd from a seventy year low) there is now more stability and modest confidence in that market. There have also been better than expected, average to above average seasonal conditions across large areas of eastern Australia in the year to date, which, coupled with the stabilised cattle market, is underpinning grass sales in some regions. To some extent, the forward-looking stability in the cattle market combined with what remains of significant cash reserves generated on grazing properties by extraordinarily high earnings between 2019/20 and 2022 appear to have countered the impact of rising costs and other economic headwinds, for the short term at least. However, not all sectors have been treated so kindly, as observed in coverage of Central West Queensland where our valuers report declining confidence in the market for sheep and goat grazing land given the more severe decline in those two livestock markets (with the exception of the lamb market which has been above average).

Central West NSW

Suboptimal seasonal conditions in early to mid 2023 saw nervousness across the livestock sector in New South Wales. This was further exacerbated by a suboptimal rainfall outlook from weather forecasts at the time. What ensued was a premature sell down of livestock and subsequent lowering of livestock values through increased sale volumes. There were examples of trading stock sold in somewhat of

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a panic which in some cases crystallised trading losses. At the same time, within this environment many larger livestock operators had their herd and flock devalued and as a result their equity levels were negatively impacted. Cashflow and debt management became front of mind. This led to some softening of enquiry for property as potential purchasers put expansion plans on hold. The ultimate realisation of the favourable seasonal conditions (in contrast with the forecast) has led to better positioned purchasers returning to active status in the market, albeit they can be more selective with increased volumes of spring listings available to choose from. Overall the market is currently stable for A-class property (although most properties are experiencing more days on market) and B- and C-class property is flattening to slightly discounted.

New England

Heading to the north-east into the New England region, similar market sentiments to the Central West had been prevailing, with a noticeable softening of enquiry. However a strong start to spring seasonal conditions, which continue to unfold very well in the large livestock carrying areas of the New England north-west around Armidale, Inverell, Walcha, Gunnedah and Tamworth and the north coast areas around Casino and Lismore, has seen cattle prices under increasingly upward pressure as the pastures bulk up in these areas. There is now an increasing likelihood of a locally-charged grass-fed market eclipsing overseas market signals, provided favourable conditions continue to roll on into the warmer months across south-eastern Australia.

Central Western QLD

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rain started to get very patchy and some areas received little follow up. Then winter arrived with several weather fronts dropping only spoiling rain, then large areas of frost events. In short, all standing feed is now of minimal nutritional value, with virtually no protein. Producers are feeding large amounts of supplements to counter the poor pastures so any saleable cattle are hitting the saleyards in order to reduce feed costs. The market is holding up reasonably well. Blackall Saleyards has seen cattle numbers up to 6500 in recent weeks, and is selling fortnightly. When it comes to the smaller animals, goat and sheep producers are generally pessimistic about the current market. While goat prices have lifted from their early 2024 lows (bottoming at $2.30 per kilogram and currently around $3.50 per kilogram), there are still major bottlenecks in killing capacity, mainly caused by labour supply issues. Wait times to get space at abattoirs can be out to months, and numbers able to be trucked are well below what producers are hoping for.

The second issue is booming goat numbers, due to their ability to breed up extremely quickly. Restricted killing space and rising numbers can only see the price remain very volatile in the short to medium term. Sheep producers have been a little better off, although the market has been fluctuating markedly throughout the year. Lamb prices have been reasonably strong, and above 2023 rates, however prices for older wethers and ewes have been far more volatile. Looming closure of the live sheep trade will only put more downward pressure on prices. And for the wool producers, well, things are even more ordinary.

Wool prices have not kept pace with production costs, with many growers in the region reporting over 40 per cent of wool sales being chewed up in the shearing process, exclusive of mustering costs, chemical treatments and crutching etc. Lack of shearers has also led to producers being told when they have to shear by contractors, the reverse of the usual situation, where producers book the time of shearing to fit in with their animal husbandry program and labour availability. In short, small animal producers are in a lot of pain, with many becoming quite disillusioned and pessimistic about their ability to stay producing goats, sheep or wool. Cattle are a lot cheaper and easier to run (compared to sheep), with lower labour requirements, but take a lot more feed to keep going in drought periods, which are quite frequent in Central Western Queensland. Cattle producers are having a better time of it, but still have large feed and supplement outgoings until the season breaks. Subsequently, sheep and goat producers have not been active in the Central Western Queensland grazing land market for some time due to depressed prices. All the sales this year have been to cattle producers. Rates have varied according to location, grass cover and standard of improvements. Poorly improved properties with good grass cover have sold in the $5500/AE to $6000/AE range, while better improved blocks with a good standard of fencing and water are peaking in the $7000 to $7500/AE plus range, with superior properties around the Blackall region showing $12,000 to $14,000/AE. These rates are on par with (for the lower end) or above 2023 values.

Southern Qld / Northern NSW

Seasonal conditions across southern Queensland and northern New South Wales are generally well improved on this time last year. This difference has certainly been reflected by the Eastern Young Cattle Indicator which is approximately 40 to 45 per cent higher than the same time last year. The improvement in pricing held up through a dry winter period across much of our coverage region. This appears to indicate that the long awaited and heavily discussed rebuild of the American beef herd is finally positively impacting the Australian market. Similarly, the National Trade Lamb indicator has also strengthened, sitting approximately 95 to 100 per cent higher than this time last year.

As a result of these factors, confidence levels appear to have also lifted somewhat from those noted towards the end of 2023. That said, high interest rates and continued strong input prices do appear to be resulting in a shift from the seller's market we had previously been experiencing. Many properties placed to market are avoiding or cancelling auction campaigns in favour of the increased flexibility provided by private treaty and expression of interest. Continued strong demand is notable for first start and rural lifestyle properties, particularly when these properties are positioned in relatively close proximity to urban amenities.

Our local market has seen some larger aggregations become available and the large family operators and corporate interests required for a successful sale have materialised in many instances. That said, the frequency of district record price setting by recent property sales across most market segments has certainly slowed. Most sales are now occurring within an expected market range and some cheaper sales are becoming more common. The prevalence of feedlots and intensive livestock property on the market has also had a notable increase in supply over the past six to 12 months and is likely a reflection of improved margins with lower feed costs, current high levels of demand for feedlot space and the resulting large numbers of cattle on feed, particularly with regard to feedlots.

While a valuer never likes to generalise, a few recent sales provide a price-point guide summarised as follows:

- Oakey, evidence shows circa $40,000 per hectare (excluding structures) for centre pivot irrigation with permanent water allowance;
- North Star, black to red clay loams transitional Brigalow to Box circa $10,000 per hectare excluding structures for dryland cultivation;
- Durong, mixed Brigalow to forest grazing circa $5300 per hectare excluding structures overall (blended rate);
- Moonie, largely Brigalow Belah grazing circa $4500 per hectare excluding structures overall (blended rate);
- Charleville, large scale grazing typical red mulga circa $510 per hectare excluding structures overall (blended rate).

In addition, we are seeing a number of sales reflecting the following on a breeder area, though such analysis is subjective and location or attribute dependant:

- Inner Downs and South Burnett grazing typically $10,000 to $20,000 per adult equivalent
- Western Mulga Lands $5,000 to $10,000 per adult equivalent.

Northern Territory and Kimberley (WA)

Over much of the Northern Territory and in the eastern Kimberley, an above average 2023/24 wet season was enjoyed which translated into average to well above average pasture growth across these regions.

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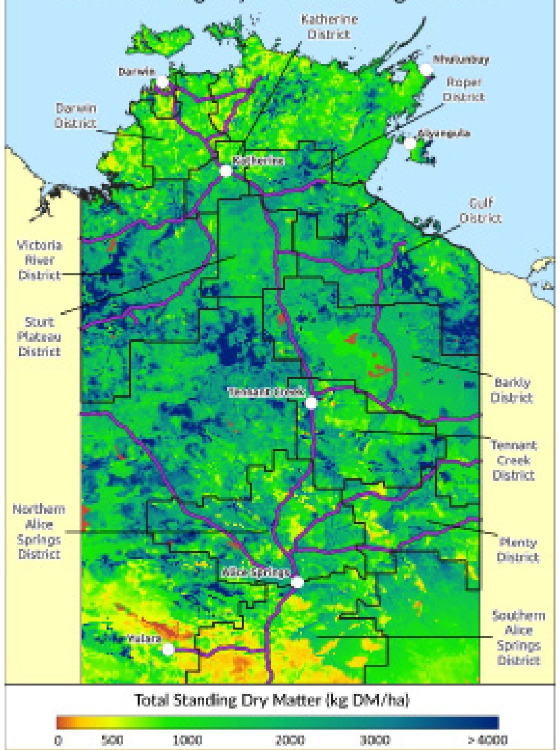
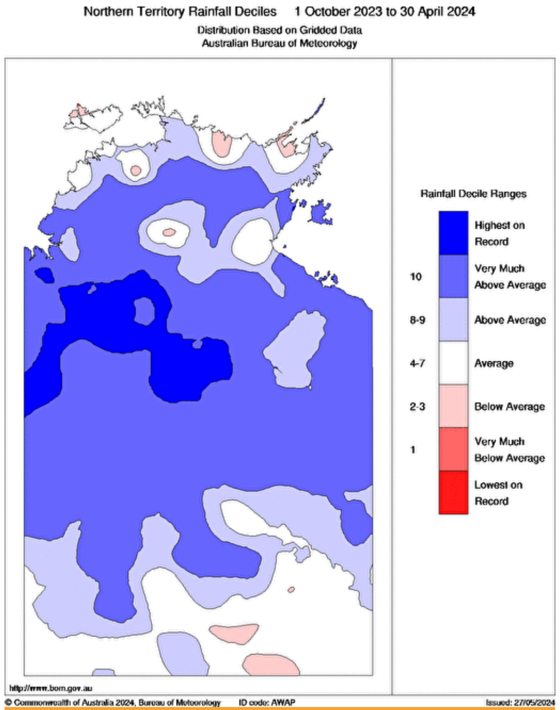
Total Standing Dry Matter 1st August 2024



Source: Northern Territory pastoral feed outlook - May to August 2024

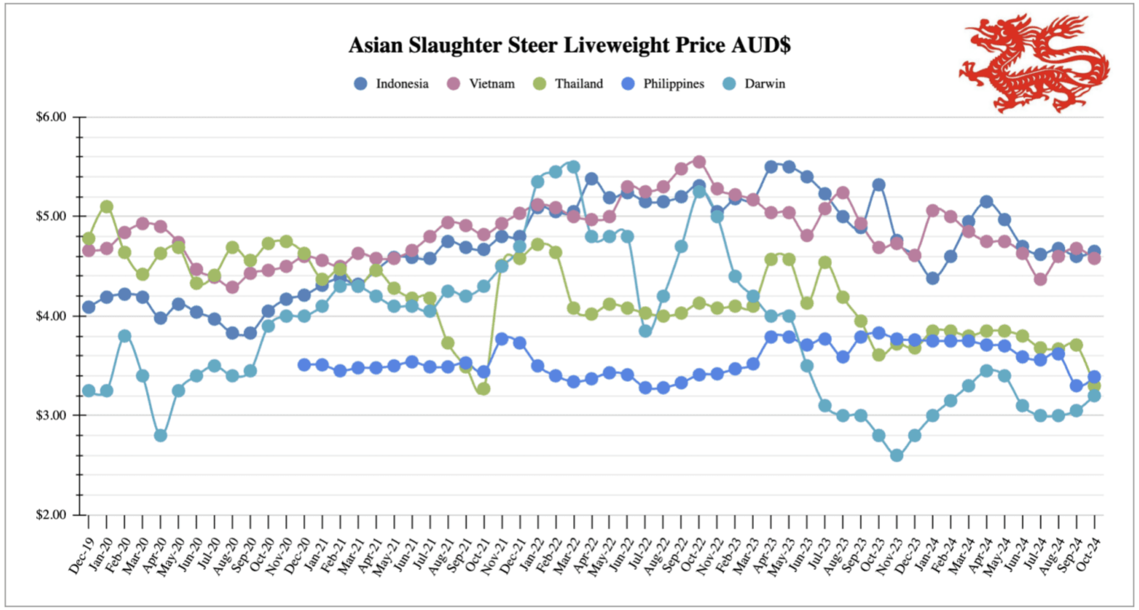


Source: BOM

The strong season (followed up by some helpful winter rains in the interior) has gone some way towards reducing the impact on net farm incomes due to lower cattle prices being received across the board. In the Northern Territory (northern half) and Kimberley for which Indonesia remains the key market destination for live cattle, the Darwin feeder steer price hovers around $3.20 per kilogram (live weight) which is a long way down from the giddy highs of $4.70 per kilogram enjoyed in late 2022 but is far better than the $2.60 per kilogram being handed over in late 2023. The gradual recovery is due to new client enquiries and the re-emergence of clients which had disappeared during the high Australian cattle price cycle and the approval of several ESCAS abattoirs. It is noted however that there hasn't been a substantial change in demand from key export destinations, and it remains doubtful that exports will rebound to pre-COVID levels.

The fluctuating nature of Australian export feeder cattle prices (in Indonesia in particular) is a concern given northern Australia's heavy reliance on this market. The symbiotic relationship between Australian suppliers and the Indonesian cattle industry, which has been dependent on efficient feedlots, continues to be disrupted by the Indonesian government's intervention in exercising its significant control over the animal protein market by using trade agreements, disease control initiatives and productivity programs that often undermine commercial investment capabilities (in feedlots) and rising feed costs, and the abattoirs lack both the throughput volume and technical capabilities to compete with cheaper, imported frozen products

The Indonesian government has recently made significant decisions regarding meat imports. In 2024, it has allocated a quota of 100,000 tons of buffalo meat imports from India to a state-owned enterprise and additionally, the private sector in Indonesia has been granted permission to import 50,000 tons of Indian buffalo meat. ID Food, a government-controlled holding company, is also set to import 20,000 tons of beef from Brazil. These decisions are significant for Australian live cattle exports. The shift towards buffalo and beef imports from India and Brazil may influence the demand for Australian products and shows a growing narrative of a shift away from Australia.



Source: SE Asia Report, Dr Michael Patching

The Alice Springs region is more immune to the impacts of the live export trade given cattle grown in this region head to markets at all points of the compass. Being predominantly more Bos taurus based herds compared to the Bis indicus dominant north, the Central Australian turn-off typically follows market trends such as the Feeder steer and EYCI.

As for how the cattle market is impacting on pastoral land values in 2024, we only have two sales to guide us in the year to date. Murray Downs (5595 square kilometres) located approximately 385 kilometres north of Alice Springs in a 355 millimetre mean annual rainfall district sold in September to a well-established Queensland private cattle company for $42 million WIWO which showed between $2800 and $2900 per adult equivalent (assessed bare). This is in line with the range of the most recent Alice Springs region sales such as Yambah (sold in mid-2023), Neutral Junction and Mt Doreen (both August 2022), and Aileron (January 2024) suggesting that despite weaker cattle prices, the pastoral land market in the Alice region is just going sideways.

The only other northern Territory sale in the year to date has been Woolner, a 647 square kilometre Darwin region floodplain block which sold in June to Rallen Australia for $49 million (bare) showing over $5000 per adult equivalent. There are only a handful of these rare floodplain properties in the Top End which provide about the only green feed available in the second half of the dry. These properties have traditionally attracted significant premiums over and above traditional non floodplain breeder properties and depending on their access, typically can sell Indonesian steers towards the end of the season when prices are at their best. Again, this acquisition by Rallen Australia who have significant other breeding properties through the north of the Northern Territory is an expression of the faith the industry still has in the live export market despite the burgeoning headwinds.

Frank Peacocke
Director