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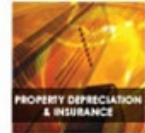
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Agri property investment returns differ from other classes

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Daily Property News

RURAL & AGRIBUSINESS

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by Liz Jordan

5 min read





ANALYSIS of global agricultural property investment through the past quarter century has shown a low correlation with returns from shares, listed property, fixed interest and cash in Australia, according to Atchison Consultants.

Meanwhile, separate Colliers International research suggests a positive outlook for the agribusiness sector in 2018 across Australia and New Zealand, with increased investment numbers and commodity prices in some sector driving up land values further.

Atchison Consultants' *Global Agricultural Property Index* collected data from 10 countries, including Australia, representing 30% of global agricultural production, and analysed numbers from the World Bank and OECD.

Income return in the 25 years to December 2015 was shown to be 6.3% per annum, with 1.8% volatility. Capital returns came in at 4.7% with volatility of 2.3% per annum, and total return was 11.0% per annum with 2.2% annual volatility.

The aggregate government interest rate was 4.3% and consumer price inflation was 2.7%.

Variability of rainfall and commodity prices were the primary impacts on the profitability of agricultural production and were applied in general variability of returns.

The Colliers report forecast challenges for the beef export markets this year in the form competitors including the USA, Brazil and India bump up production, but increasing demand from the Chinese market offers an upside.

While the domestic market continues to feel the squeeze as the Coles and Woolworths price wars have seen growing pork and chicken consumption.

However, it said commoditised offerings remain largely unaffected. There is a brighter outlook for Angus and Wagyu products, with the "increased food service and menu changes offering premium and well-marketed beef brands and breeds".

Northern New South Wales and southern Queensland have been key property purchases areas for conversion or expansion of Wagyu activity with "significant corporate and private companies securing assets with reliable historic property performances, predictable weight gains data combined with low historic land price downside volatility".

Suitable Wagyu country satisfying that criteria commands premiums of 15% to 20%, with further upside if existing supply chain relationships can provide immediate benefit to new owners post-transaction.

Growing export markets are driving up prices for premium vineyards and regional brands, namely in South Australia's Barossa Valley and McLaren Vale and the Yarra Valley in Victoria, after a "significant period of stagnation" in values.

Market activity in these popular regions has been boosted by some significant transactions, notably sales to market leaders Treasury Wine Estates and Casella Wines, and by continued inquiries from prospective Chinese buyers.

"High street locations in the Yarra Valley and Mornington Peninsula are continually being sought after by established wine companies and tourism operators alike. Both wine regions are popular amongst day trippers, with Melbourne's population forecast to double over the next 30 years.

"We have seen instances where strong premiums have been paid to gain a foothold into these tightly held locations. Recent sales in the Barossa Valley for smaller, high quality, planted holdings for example, show rates above \$200,000 per hectare for iconic red varieties and over \$100,000 per hectare in the Yarra Valley and McLaren Vale for super premium plantings,"

Ongoing high demand to sheep and wool production properties will see more upward pressure on property values, and current demand for high quality grazing assets in both pastoral and high rainfall regions is outpacing supply.

"We expect interest to come from both private family operations looking to further expand and corporate/ institutional grade investors. With the strong returns achieved for sheep meat and wool, we expect cropping operators who have historically solely focused on grain, oilseed and pulse production to incorporate sheep into their enterprise in an attempt to diversify and improve their farm profitability."

The citrus orchard market is enjoying its strongest market conditions in several years, Colliers said, driven by the increased profitability largely due to China's demand for Australian product.

"This increased profitability of citrus enterprises coupled with the lack of buying opportunities for purchasers, is placing significant upwards pressure on orchard values. These market dynamics have encouraged a spike in demand for mature citrus orchards in recent months and market activity has been boosted by some notable transactions showing nearly 100% increase in values in less than three years for mature orchards comprising sought-after varieties.

"Owners of quality citrus assets are undoubtedly better placed than they have been for a long time."

Recent institutional investor debutants in the citrus market include CK Property Holdings, Prime Value, Costa Group, Blue Sky Agriculture and Agriculture Capital.

The popularity of chicken meat amongst Australian consumers will see well located, modern broiler farms remain one of the stronger cash generating investments in the agricultural sector.

More affordable secondary cropping regions will become more attractive due to both price and the offer of greater efficiencies of scale, but as grain prices remain stagnant Colliers expects operators holding diversified, investment mandates to look to incorporate high value wool and lamb into their enterprise to improve farm EBITDA.

Farmers are also tipped to increase the planting area of higher-value legume crops such as chickpeas and lentils to margins, should wheat and barley prices remain subdued.

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