



# Rural Report

In an age where data is readily available, technological innovation has created great efficiencies, and driverless cars are on the horizon, there are still a great number of challenges facing the agriculture and Rural Valuation sectors in New Zealand.

Nutrient leaching is no new topic, however, it is one that continues to make headlines in the face of increasing public scrutiny of the agriculture sector. We are seeing nationwide that nutrient limitations are being set in an ever-increasing number of areas, including in our own back yard. In general, it can be said that nutrient limitations are indirectly restrictive of current farming intensity. Therefore, potential purchasers of property and Valuers need to be aware of nutrient restrictions on properties. We are predicting that moving forward, purchasers and lenders will be placing more emphasis on the productive capacity of farming properties and what it can return financially under such nutrient leaching limitations.

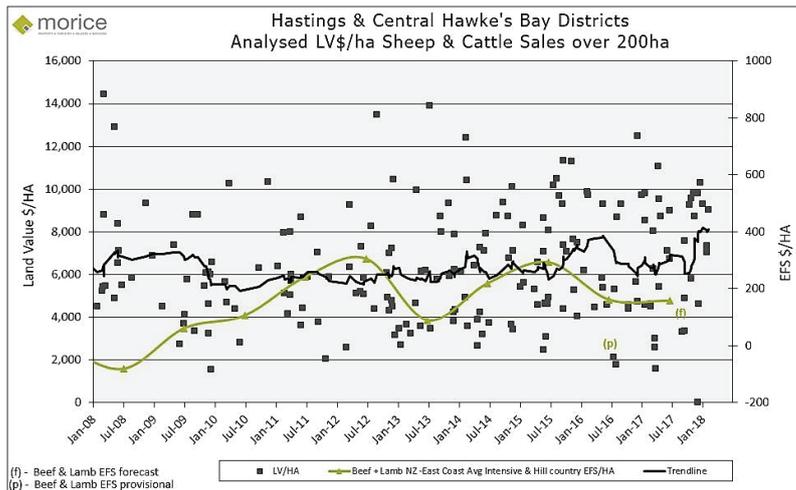
The new Labour-led Government, with the support of the Green party, has caused much uncertainty in the New Zealand agriculture sector since its induction late last year. With consultation currently underway on a Zero Carbon Act that would see New Zealand a net zero carbon emissions country by the year 2050, and talks of entering agriculture in the ETS, it is increasingly likely that regulation will only tighten on farmers. The prospect of a carbon bill, initially likely only equal to 5% of a farm's emission, will see the need for better understanding of farming enterprises. We believe that further regulation will have an impact on both farm profitability and farm value, which creates a need for potential purchasers, owners of property and Valuers to comprehend the impacts of farming practices on cash flows, and therefore, what a purchaser is willing to pay for a property.

In recent years both sheep and beef breeding farmers and finishing farmers have received good returns, with increasing overseas demand, and in more recent times, the lower New Zealand dollar pushing commodity prices higher than long term averages. However, restrictions on nutrient leaching from farmland, and thus productive capacity of land, coupled with increasing compliance costs are likely to have an effect on the highest and best use of farmland in the near future. The potential inclusion of agriculture into the ETS may see a shift to more conservative farming practices, and even a shift to alternative land uses, with forestry currently being a strong sector on the back of both export log prices and carbon price. Both landowners and Valuers are increasingly having to be aware of the strength of various industries when assessing land as to its highest and best use, and therefore, value.

## Market Outlook

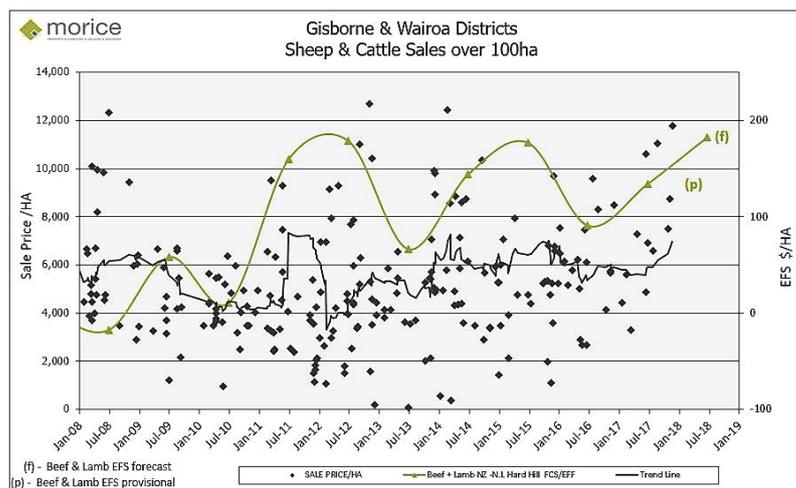
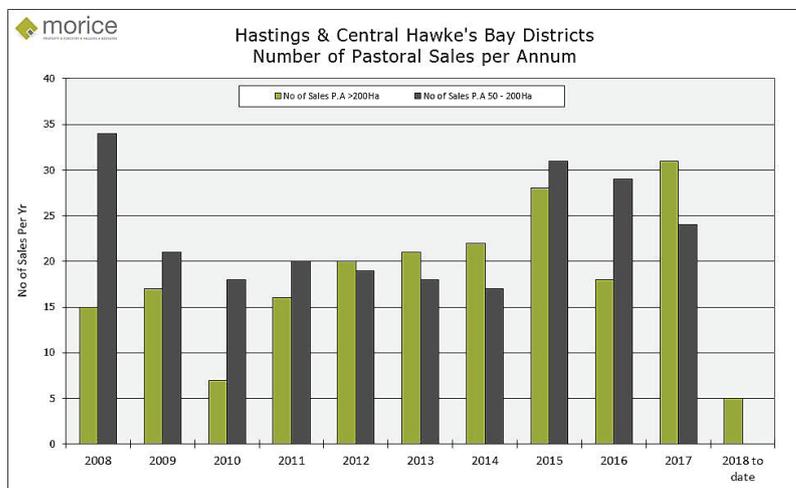
Sector	Productive Land Value Range (\$/ha)	Outlook
Pastoral - Dairy	15,000 - 28,000	Steady
Pastoral - Finishing	7,000 - 15,000	Flat
Pastoral - Breeding	3,000 - 12,000	Increasing
Orchards (Land & Tree Value)	75,000 - 130,000	Steady
Grapes - Gravels (Land & Vine Value)	110,000 - 150,000	Soft
Grapes - Other areas (Land & Vine Value)	80,000 - 120,000	Soft
Premium Cropping	80,000 - 110,000	Increasing
Secondary Cropping	45,000 - 65,000	Increasing
Forestry - post -1989	2,000 - 5,000	Increasing
- pre -1990	1,500 - 3,500	Increasing

# sheep & cattle



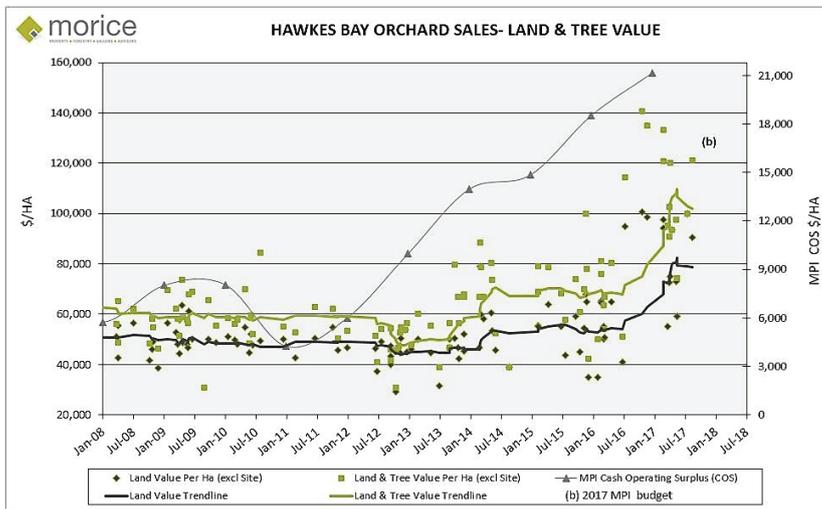
## Hastings & Central Hawke's Bay Districts

- Land values for 2017 remained steady off a larger sales base than previous years with spring sales providing mixed results.
- 2017 was a mixed farming year however was generally profitable for breeding farmers which saw a large number of listing in spring.
- In 2017 there was a strong demand for well-located properties.
- We have seen a small number of sales thus far in 2018 which have achieved similar land values as those seen in 2017.



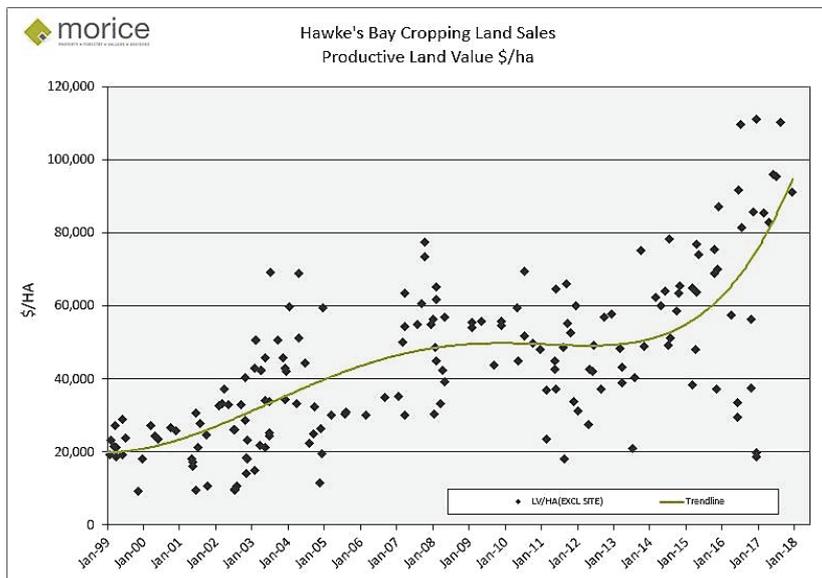
## Gisborne & Wairoa Sales

- Strong returns for the breeding country has a more stable market in the Gisborne/Wairoa location.
- The number of sales in 2017 dropped from 2016 however average sale prices have increased markedly.
- Most demand in the region is from good to large scale operators looking for high quality farms in order to expand their current operations.
- Forestry and honey likely to have some impact on farm values in the near future.
- There have been several sales pushing above the \$10,000/ha mark.



# orcharding

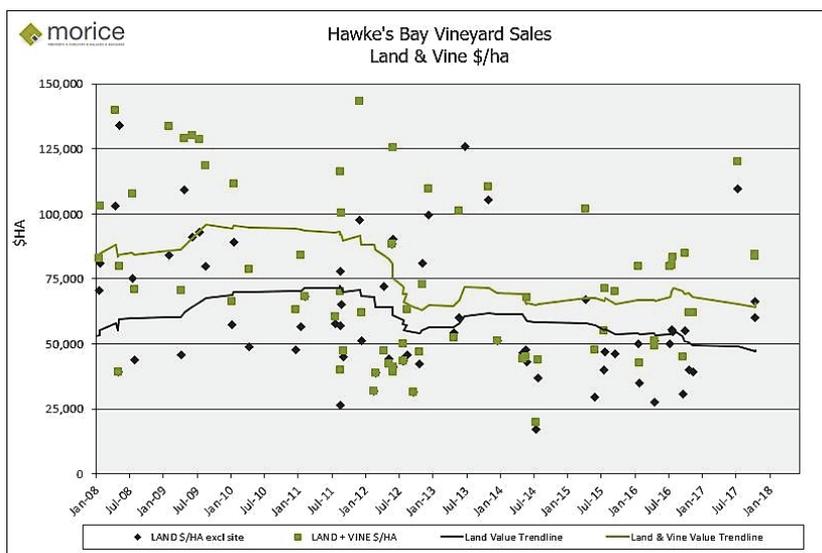
- Current unprecedented demand emerging from investor-type buyers, with very strong sales being achieved.
- The 2017/18 season looks promising with steady production levels and strong offshore demand as a result of a small European crop which is reported to be down by 20-30%.
- Strong returns being achieved. Premium prices for niche varieties.
- There is strong demand for well-located, good-quality orchards with water being an emphasis.
- Larger scale apple companies with majority of overseas ownership finding land purchasing difficult due to the high cost & time delays of Overseas Investment Office (OIO) decisions.



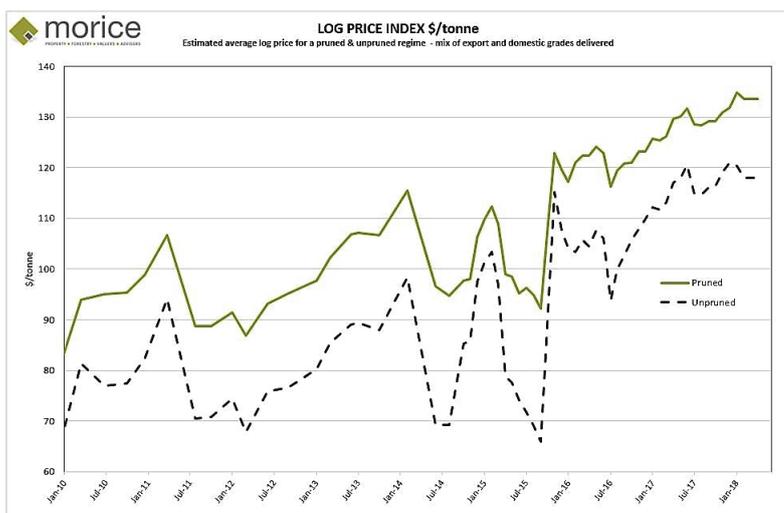
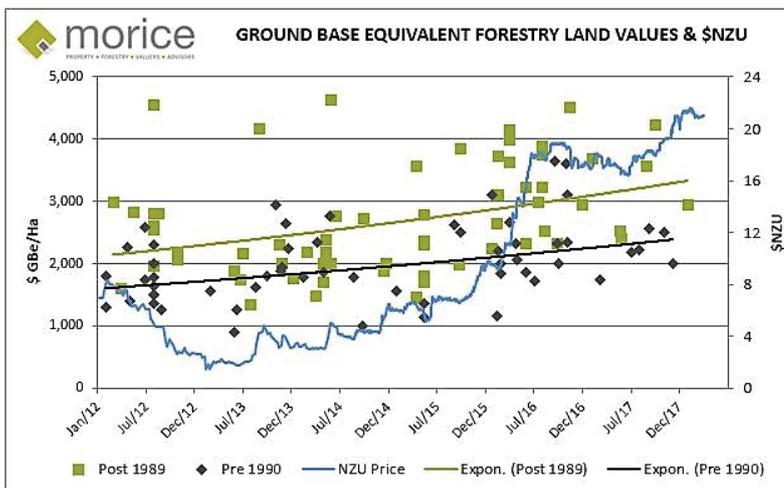
# cropping

- 2017 saw a smaller number of cropping properties come onto the market.
- Properties that did come on to the market generally sold well.
- Strong competition from the pipfruit sector has increased demand for primary cropping land and has caused an increase in both primary and secondary cropping land values.

# viticulture



- Marlborough remains the premium grape growing region in New Zealand, generating worldwide demand and achieving good premiums for its produce.
- Wine exports are forecast to increase on the back of favourable growing conditions and increased volume.
- Profitability remains low for growers due to stationary grape prices.
- Hawke's Bay produces 80% of total Merlot supply however prices have not increased for approximately eight years.
- There are a number of vineyard properties on the market; some commentators suggest it is cheaper to buy contract HB wine than to grow it.



# forestry

- NZU price is hovering around \$20.00-\$21.50 over the previous quarter; current spot \$21.20.
- Forward curves to 2023 indicate 3.5% annual growth in NZU price.
- Continued strong demand for well-located forestry properties.
- Opportunity to joint venture with the Crown for new post-1989 plantings as part of the One Billion Trees program. The Crown takes a 30 year Forestry Right with financial stake in the tree crop with land rental paid. Carbon options are left for the landowner.
- National and Environmental Standard for plantation forestry (NES-PF) comes into effect 1 May 2018. Creates nationally consistent regulations for forest activities including afforestation, pruning, thinning to waste, earthworks, river crossings, forest quarrying, harvesting, mechanical land preparation and replanting.
- Land has been classified into four categories with regard to erosion susceptibility. Areas more susceptible to erosion will have stricter requirements and may require resource consent.
- Average log price index for pruned regime \$134/tonne, unpruned \$118/tonne, an increase of \$4 and \$1 per tonne respectively from the same period last year.
- Continued strong demand for export and domestic prices.
- Critical to understand the value of your woodlot if harvesting or offering a lump sum sale.

# dairying

- In March 2018 Fonterra increased the forecast Farmgate milk price from \$6.40/kg MS to \$6.55/kg MS.
- Spring 2017 saw a record number of dairy farms come on to the market nationwide however OIO restrictions, climatic factors and constant social pressure likely played a part in reducing demand for such properties.
- A sale of a large scale dairy property in Central Hawkes Bay illustrates there is still demand for good properties with reliable water.
- In Hawkes Bay the majority of dairy listings are in southern Hawke's Bay. We understand the market is slow, particularly for properties within the Horizons One Plan region. This is likely due to the uncertainty around nutrient limits and what this will mean for farmers going forward.

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