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Rural revolution

Australia’s rural and agribusiness sector is undergoing a revolution as investors begin to recognise the industry’s long term potential. Positivity amongst market participants is growing as macro-economic conditions improve farm gate returns whilst also increasing investment from both foreign and domestic sources. A falling Australian Dollar, free trade agreements with major Asian partners and the overarching driver of food security have now had a discernible impact on the Australian rural property market with a number of regions and sectors beginning to experience growth in land values.

New Zealand is currently experiencing short term headwinds with regard to farm-gate pricing for the dairy industry, the nation’s largest export commodity. However, there remains strong confidence in the long-term health of the rural and agribusiness sector as New Zealand’s viticultural, beef and sheep industries begin to gain momentum, which has been reflected in some notable rural property sales throughout 2015.

By Peter Willington
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Australia and New Zealand’s position and reputation as exporters of high quality produce has provided the catalyst for a number of significant transactions in the rural and agribusiness space. This momentum is anticipated to continue into 2016 with Colliers International continuing to experience growth in enquiry at all levels ranging from the private landholder through to institutional investors.

As foreshadowed in last year’s report, 2015 was a turning point for the Australian beef industry. We have witnessed record prices for producers in southern markets in conjunction with unprecedented demand from existing and emerging export markets that are currently supplied by Northern Australia. Subsequently, overall market confidence has increased substantially and resulted in the sale of a number of substantial landholdings with expectations that these conditions will continue in the medium term.

Renewed interest in Horticultural operations has transpired on the back of a favourable Australian dollar and free trade agreements opening up Asian markets. Large scale almond and citrus assets have been the focus of considerable interest driven by a counter seasonal advantage against some of the world’s largest producing nations.

Australia’s wine sector is beginning to show signs of emerging from the impacts of a sustained period of oversupply. Farm gate prices remain low, yet growers continue to persevere with substantial gains in the value of exports providing a new dawn that has awakened some of the industry’s biggest players.

The cotton industry maintains its position as a leader in innovation and productivity. Continued improvements in water use efficiency on the back of lower availability and long term increases in average yields across all basins, has seen it become an industry favoured by corporate investors.

Finally, an area of increasing interest is Australia’s water market. Its advanced legislative structure in the global context has resulted in the continued growth in investment from a wide range of sources. Particularly, as the improved outlook for the large majority of Australia’s rural industries drives demand for a finite resource that is essential to production.
The current environment for beef in Australia has resulted in an increase in exports previously unseen in Australian agricultural history. These increases are due to a number of simultaneous factors including global demand, a weakening Australian dollar, a shortage of breeding stock, and recent rains in previous drought affected areas.

Domestically, prices remain very strong with the Eastern Young Cattle Indicator (EYCI) reaching a record 600c/kg in early 2016 resulting in a 39 per cent uplift in average prices between 2015 and 2016. This price increase is due to declining numbers in the national herd; unpredicted rainfall during the El Nino period; reduced slaughter numbers through Australian Abattoirs and also the strong demand from international consumers.

Beef exports have exceeded previous records for three consecutive years and as previously stated is predicted to sustain solid margins. However, it is noted that export volumes will decrease as a result of an increase in slaughtering of female cattle to 28 per cent based on a five-year average.

The Australian dollar is expected to stabilise at current levels for the medium term driving continued demand for Australian beef in Asia. This demand will also increase the need for reliable property to raise cattle, which in turn will positively impact medium sized beef enterprises.

It is reasonable to expect the past volatility of the cattle trade will be reduced with the signing of various Free Trade Agreements by our major trading partners, particularly China, with its anticipated increased levels of beef consumption in the years ahead. Combined with the anticipated drop in the Australian herd size to a 20 year low, the optimism about beef can justifiably continue into the medium term with the only mitigating factor being potential increased supply of pork and beef from the US and Brazil.
The probability of a La Nina weather pattern in the year ahead is emerging, meaning re-stockers are now competing with feedlots and processors. There is every reason for optimism in the beef industry in the medium and long-term, with wealthier populations having an insatiable appetite for clean green protein in their more westernised diets, a trend that will continue in the years ahead.

Stock numbers will continue to have an effect on property sales in 2016. As supply is reduced, properties with significant stocking rates will be an attractive factor for potential investors. Additionally, given that cattle prices are at historically high levels and the national herd size is shrinking, restocking is a notable expense. Therefore, properties offered to the market on a walk in walk out basis represent the potential to acquire a herd without the high costs associated with freight and the complexities involved in purchasing new stock. As a result properties offered with stock included are expected to attract significant interest.

High confidence is fuelling interest in the beef market with demand not only from domestic investors but also from international investors and institutions. This had a significant impact upon property sales over the last year with some considerable assets exchanging hands in the last 12 months. Many of which, have sold to private net worth investors. The most notable event occurring at present in the cattle industry is the marketing of the Kidman and Co Ltd aggregation of properties with the sale set to occur in the early parts of 2016. It is reported that half of the potential bidders are from overseas including parties from China, Switzerland and America. The other half comprises domestic investors including super funds, investment syndicates or high net worth individuals. With approximately 160,000 head of cattle and with cattle prices at record levels it can be seen as an attractive investment for higher end agribusiness investors.

AUSTRALIAN BEEF PRODUCTION AND EXPORTS

![Australian Beef Production and Exports Chart]

Source: Colliers Edge
A reduction in value of the Australian dollar as well as free trade agreement with Japan, North Korea and China are among a number of key drivers that are encouraging a fresh wave of optimism and investment in the horticultural sector.

Recently there has been an influx of investment and interest in large scale horticultural assets, notably almonds and citrus. Australia enjoys some distinct advantages in comparison to other almond and citrus producing areas such as California, Chile and Spain. Australia also enjoys a closer proximity to the rapidly growing export markets in Asia, has strict quality control parameters and is counter seasonal to California (largest producer and exporter of both almonds and navel oranges).

**Almonds**

Over the past five years export sales of Australian almonds have quadrupled. In 2014-15 almonds were Australia’s most valuable horticultural export product with annual export sales totalling approximately $422 million. In the current financial year export sales are expected to exceed $600 million, largely due to the 2015 crop being 10,000 tonnes larger than that of 2014.

Since 2001 the total area planted to almonds in Australia has increased from 5,244 hectares to 28,967 hectares. The rate of planting reached a peak in 2007 when 7,389 hectares of new almonds were established. Since 2007, planting has slowed, however it is expected a further 5,500 hectares, or thereabouts will be planted in 2016.

Despite Australia being the second largest producer of almonds globally, it represents less than 10 per cent of total world production, with California being the largest producer. Over the last 5 years, California has also increased the area planted to almonds by approximately 74,000 hectares (double Australia’s total planted area).

This rapid expansion has had an influence on the price of Californian land, with the overwhelming majority of land acquisitions for development to tree nut crops (almonds, pistachios, walnuts). However the drought conditions and subsequently the ongoing ground water issues are beginning to slow this expansion. Australia is experiencing a similar increase in interest for land that is suitable for tree nut crops. Generally tree nuts favour subtropical dry climates (between 30° and 45° laterals) with access to substantial volumes of water for irrigation purposes. These factors have led to an increase in interest for land and water assets for prospective ('greenfield') development sites along the Lachlan, Murrumbidgee and Murray Valley (throughout NSW, Vic and into SA). These properties generally have;

- access to large volumes of water for irrigation,
- soils suitable for horticultural developments (generally free draining), and
- often comprise existing irrigation infrastructure including pumping infrastructure/mainlines.
In part the large variance between Australian and Californian orchards is that typically, land in California transacts inclusive of water rights. Given there are far more transactions of orchards in California, the light blue shaded area represents the range of the average rate per hectare.

The five most recent almond transactions that have occurred in Australia are illustrated as a gross rate per hectare, including the average land rate of the planted area as well as the water apportionment on a rate per hectare (where entitlements where included).

ALMOND ORCHARD VALUES: AUSTRALIA VS CALIFORNIA ($/HA)

<table>
<thead>
<tr>
<th>Australian Transaction (Land Component) $/HA</th>
<th>Australian Transaction (Water Component) $/HA</th>
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Australian dollar, coupled with the recent China – Australia Free Trade Agreement has led to increased optimism given the phased reduction and removal of all import tariffs.

AUSTRALIAN CITRUS EXPORTED TO CHINA

Source: Citrus Australia 2015/Colliers Edge

Over the past five years the volume of citrus exported to China has increased significantly. The recent reduction in the value of the

Citrus

The citrus industry is one of Australia’s largest fresh fruit exports at an estimated 158,000 tonnes. Australian citrus is exported to numerous countries around the world worth approximately $202 million in 2014. Despite this, Australian exports only make up a relatively minor part of worldwide trade, accounting for approximately 2 per cent of global trade. Approximately 30 per cent of Australian production is sold on the domestic market whilst nearly 25 per cent is exported. The balance (45 per cent) is processed for fresh juice or frozen concentrated orange juice (FCOJ).

AUSTRALIAN CITRUS PRODUCTION BY REGION

Source: Citrus Australia 2015/Colliers Edge

Over the past five years the volume of citrus exported to China has increased significantly. The recent reduction in the value of the
It would be easy for the casual observer of the wine grape market to conclude that nothing much has changed in the last twelve months. Conditions in the industry remain challenging, reflected in continued low profitability and low prices achieved for the sale of wine industry property assets. Growers have, however, remained resilient in the face of increasing costs and low average grape prices. The 2015 crush of 1.67 million tonnes (down from 1.74 million in 2014) indicates that there was little structural correction in terms of the supply/demand equation. Furthermore there is continued debate about the efficiency of the Wine Equalisation Tax (WET) and its effect on industry behaviour. There appears to be a general consensus that WET reform is necessary, if only to exclude New Zealand producers from benefitting at Australian tax payers’ expense.

Wine Australia in its export report for 2015 states that the value of Australian wine exports rose 14 per cent to $2.1 billion, being the highest since pre-GFC levels. In the same period export volumes increased by 6.4 per cent. The same report showed that Asian countries, led by China, were responsible for the largest share in Australia’s wine export growth by value. At the same time Australia’s presence in its traditional markets (UK and Europe, USA) returned to growth also after sustained years of contraction.

Clearly this is better news for an industry which has been struggling to arrest a downward trend in export value since the GFC. The devaluation of the Australian dollar is contributing to Australian wine being more competitive on foreign shelves and the lower dollar has offset margin pressure from UK supermarkets. Prominent producers have enacted strategies to market their branded products in international markets to capitalise on these trends.

Treasury Wine Estates 2015 results show a marked turnaround in its performance and a considerable improvement in net profit over the previous financial year. Australian Vintage Limited’s reported results for the same period were not as spectacular, yet the company is optimistic. It is expecting that improved efficiency and more favourable market conditions will increase net profit for the current year. The looming stock exchange listing of the assets of Accolade Wines will be interesting in terms of the disclosure of information for another of the industry’s major participants.

At this time it remains too early to point to the wine industry’s improved international performance as a trend. Nevertheless, the statistics are very encouraging. Anecdotally we are aware of
producers responding by locking in grape prices for the next three years and in contrast to previous vintages, we understand that most of the 2016 vintage has been exhausted. This however does not necessarily translate into higher grape prices for growers who, on the whole, will continue to be price takers until there is a fundamental favourable improvement in demand for wine grapes.

Transactions

The highlights of the 2015 calendar year were the sale of several small vineyard holdings in the Barossa Valley and the transfer in ownership of a significant segment of the inland irrigated vineyard sector. A total of 4,500 hectares of vineyard plantings in the Riverland, Murray Darling and Riverina have changed hands over the past 12 months, the equivalent of 100,000 tonnes of fruit, making up approximately six per cent of the annual total crush.

The largest sale of the year was the Littore Group’s vineyard portfolio of 1075 hectares in the Murray Darling region. At the time of writing the Del Rios vineyard (approximately 900 hectares of plantings) near Swan Hill, owned by Belvino Investments has been listed with Colliers for sale or lease.

The market for real property assets in the wine industry remains thin. The industry is populated by a host of small and medium sized enterprises. If 2015 is any guide there is an appetite for the larger vineyard assets, albeit at prices well below replacement cost, with associated secure water entitlements.
The Australian cotton industry continues to lead the world in production and productivity. Features of the industry include strong property rights in water and land; high quality management; globally recognised high quality cotton and highly efficient production systems.

According to the Cotton Research and Development Corporation (CRDC), during the period from 2000 to 2014 cotton Australian growers have increased water efficiency by 40 per cent and reduced their insecticide use by 95 per cent. In comparison to the world, Australia’s cotton yields, on a per hectare basis, have increased from 500 kilograms (2.2 bales) per hectare in 1961 to 2,200 kilograms (9.6 bales) per hectare in 2013. The world average only increased from about 275 kilograms (1.2 bales) per hectare to 750 kilograms (3.3 bales) per hectare. These drivers of production and profitability influence property and water rights values.

Since publication of this data, the 2014 and 2015 crop seasons showed that productivity gains continue to be achieved. The average irrigated crop yields across all regions were close to 12 bales per hectare. Individual properties achieved yields in excess of 16 bales a hectare.

Since publication of this data, the 2014 and 2015 crop seasons showed that productivity gains continue to be achieved. The average irrigated crop yields across all regions were close to 12 bales per hectare. Individual properties achieved yields in excess of 16 bales a hectare.

The above graph demonstrates average yields (bales/hectare) across all of Australia’s cotton regions. The trend shows fluctuations due to seasonal conditions, water availability, and the proportion of dryland cotton. Overall, it shows a trend of increasing average yields, which is a driver of value.

Australia is the envy of many nations struggling with water use, water rights and sustainable management of our resource. Our streams are managed to meet ecological targets and our aquifers are utilised within their sustainable limits based on recharge of these aquifers. Investors in Australian irrigation properties should have confidence that they are underpinned by a robust system of water property rights that protect stakeholders, water users and the environment.

Water access and water rights have been a large driver in enhancing production and productivity gains and consequently value. Tradeable water rights provide a benchmark for operators to make complex decisions evolving around further investment, such as:

- Do we buy another property?
- Do we buy more water?
- How efficient are we now?
- Can we be more efficient and produce more?
- What is the $/ML cost for efficiency gains?
- How do efficiency gains compare with the purchase price of water ($/ML) on the permanent trading market?
To answer these questions requires a thorough understanding of an irrigation farm’s resources of land and water. In many cases the complexity of various water resources translates to a lack of transparency for potential buyers and financiers, which, if addressed would help owners to realise the full potential of their irrigation enterprise. A logical process to follow can be illustrated as below.

**Water resources**
- Supplemented allocation (Qld)/entitlement (NSW)
- Unsupplemented allocation (Qld)/supplementary entitlement (NSW)
- Overland flow access
- Storm water runoff

**Hydrology study or water budget**
- Reliability of resource for each water resource type
- Capacity of on-farm storage facilities
- Developed field area
- Catchment area
- Average annual runoff

**Accounting for losses to environment**
- Transmission losses
- Evaporation and seepage
- Efficiency of irrigation method

**Long term average annual yield (LTAAY)**
- Megalitres

**Crop water requirements (ML/Ha)**
- Megalitres per hectare (ML/Ha)
- Calculated using local crop water requirements

The sophistication of today’s cotton industry has resulted in a change to the typical buyer profile should medium to large scale cotton properties be offered to market. Ten to fifteen years ago the usual buyer was another grower of similar scale. The likely buyer these days could easily include a pension fund or institutional investor from the Americas, Asia or Europe. This class of investor is interested in return on investment and reliability of production.

The current purchaser profile is generally classed as passive investors not seeking to maintain a direct interest in the management of the property. This type of investor is able to assist where the next generation of farmers does not have the access to capital to buy their own farms or to buy family members out. Sale and lease back is also being broadly considered and used as part of an expansion strategy by some existing family operations. It is providing access to capital not previously available through traditional channels.

The outlook for the market for irrigation farms continues to remain stable if not improving. Short term market drivers such as cotton and cotton seed prices and water supply are variable. Cotton prices would appear to be stable with global production forecast to be declining in the near term.

There is generally more activity around the cotton property market when storages are at or near capacity. The season started with limited water in many regions, and there has now been rain across many areas, however not early enough to improve the area planted. The outlook is for a wet summer and if the water storages are recharged, production outlook for the following cotton season should be improved.

The market is presently considered to be benefitted by the falling Australian dollar to the US Dollar in line with the decline in hard commodity values globally. This is likely to see improved interest as Australia, which was seen as good value to invest before, and is now even better value.
Water scarcity is a global reality — global water use doubled from 1960 to 2000 and is projected to grow twice as fast as oil consumption by 2030 (source: Reuters 2013). Throughout the world, the distribution of water is generally inefficient and many countries are grappling to develop and implement market based solutions to address water rights and allocation.

Australia’s Murray-Darling Basin is one of the most established markets in the world. Legislation was enacted in 1994 to allow for the separation of land and water rights, however, it wasn’t until the early 2000s that trading markets became meaningfully active. The Murray Darling Basin covers 14 per cent of Australia’s land area and accounts for almost 40 per cent of national agricultural production. The water trading market has driven the trend towards high value farming activities by enacting a market price signal that is reflective of the availability, cost of supply and importance of water resources.

Allocation prices have been trending upwards largely as a result of increased demand in a period of drier conditions reducing dam inflows. The appetite for permanent entitlements remains strong on the back of an expanding number of investors who are looking to generate yield by selling of allocation to end users. Additionally, substantial growth in permanent plantings (particularly almonds) and the expansion of the cotton industry in the Southern Murray Darling basin is also driving increases in prices.

Following the establishment of water trading in Australia there was a high level of market volatility for water allocation (for temporary water) in the Murrumbidgee and NSW Murray systems. This was further exacerbated by drought conditions that severely restricted the volume of available water. As the market became more established, water users gained an increased understanding behind market dynamics and seasonal conditions in the Southern basin improved. Subsequently the weighted average market trading price for allocation has stabilised in recent years.

The sophistication of the Australian water market framework is best contextualised by outlining the frameworks in operation in other countries.

**Chile**

Water rights are derived as a per centage of water available, resulting in the transfer of risk from water shortage to rights’ holders. Buyers and sellers have the ability to execute short-term sales of, specific volumes, annual leases or permanent sales, however, regulation of these transactions remains limited.
South Africa

Regulation was introduced in the late nineties and is considered one of the most advanced water frameworks in the world. The South African framework is differentiated from others by the ability for existing water rights to be re-allocated or reduced if a water catchment is over-licensed. The framework is widely considered to be well designed, however, conclusions are difficult to draw as trading remains limited to small volumes in local areas.

United States

Water trading varies by state, with each state administering an independent water code and system of water rights regulated by state based authorities. California, Colorado, Arizona and New Mexico all practise water trading.

California is the largest irrigation area in the United States, and one of the largest in the world, making up almost 20 per cent of America’s irrigated farmland. In contrast to the Australian Market, over of 500 irrigation districts throughout the central valley have various water trading mechanisms, comprising different governance on the tradability of surface water.

Irrigators have increasingly relied on groundwater sources in the face of increasing demand and scarcity of surface water as drought conditions prevail. Until recently groundwater has been subject to minimal regulation. However in 2014 the Sustainable Groundwater Management Act was introduced, meaning by 2020 regulation on the use of water from groundwater sources will be enforced.

State of market

There has been a sustained increase in price of both water entitlements and water allocation in the last twelve months. Weighted average prices for high security/high reliability water have increased substantially in the second half of 2015.

MURRAY RIVER WATER ENTITLEMENTS

![Murray River Water Entitlements Chart]

Source: NSW Office of Water/Vic Water/SA Water/Colliers Edge

Prices have been under upwards pressure from increased demand in a period of drier conditions. Demand has increased as investors have entered the water market, generating yield by selling off water allocations to end users, whilst substantial growth has occurred in permanent plantings (particularly almond plantings) increasing base water use.

The increasing sophistication of the Australian water market is driving the emergence of new water instruments. The leasing of water and “forward delivery” contracts are becoming more commonplace, allowing for alternative investment vehicles while also providing irrigators with alternate method of accessing water and in many cases moving water from a variable cost to a fixed cost.

Looking forward, it is expected that water entitlement values will remain high for the next twelve months underpinned by increased demand for water from recently established permanent tree crops as they expand and mature. Further upwards pressure will come from continued low inflows that are expected. The Bureau of Meteorology is forecasting reduced rainfall as El Nino conditions persist until the second half of 2016. As a result it is likely we will see the price for allocation water also climb as authorities withheld from releasing allocation to water users.

AVERAGE WATER STORAGE CAPACITY – MURRAY DARLING BASIN 2015-2015

![Average Water Storage Capacity Chart]

Source: Bureau of Meteorology/Colliers Edge

Gundaline Station, Carrathool NSW

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Australia’s chicken meat industry plays a significant role in Australian rural sector and in the broader Australian economy. The industry is one of the leading economic drivers of many rural and regional communities. The industry is well established and highly regulated, yet predominantly undertaken by family-owned companies. As a result many companies have a long term involvement and investment in the sector including a history of loyal production with a key processor.

Data published by the Australian Chicken Meat Federation Inc, indicates both the growing demand for chicken meat in domestic markets and increasing share of global demand for meat products. Domestic consumption of poultry meat products has increased from 31.4 kilograms per person in 2000 to a projected 47.1 kilograms per person in 2016. 20 years ago the global demand for meat was 173 million tonnes, of which poultry made up 23 per cent; Today, the annual global demand for meat sits at 260 million tonnes, with poultry now comprising 35 per cent or 90 million tonnes.

Australia’s demand for chicken meat mirrors this global trend. In the last 15 years, Australia’s production of chicken meat has increased by 185 per cent. To satisfy this demand, Australian producers are forecast to produce over 1.15 million tonnes in 2015-16 up from approximately 620,000 tonnes on 2000-01. Interestingly, slaughtering for the corresponding period has increased from 399 million birds to 628 million birds (up 157 per cent) reflecting improvements in genetics and production systems within what is a highly modernised industry.

The production chain for chicken meat commences with breeder operations. Imported genetics are carefully preserved in great grand-parent, grand-parent and parent breeder flocks with the latter producing fertile eggs which are sent to specialised hatcheries where day-old meat chickens are shipped out to grower facilities (broiler farms). It is at this point that the control of the birds is handed over to contract growers who manage the growing environment for the processor companies. The processor retains ownership of the birds and supplies all feed during the growing period.

There is a tendency for hatcheries, feed milling operations, broiler farms and processing facilities to be located around hub areas to create efficiencies in transport costs and minimise bird transport. Breeder farms tend to be located in more isolated positions to minimise disease risk in the valuable breeding stock. In addition fertilised eggs are easier to transport longer distances in climate controlled vehicles.

There are seven privately owned Australian chicken meat processors who are responsible for 95 per cent of the chicken meat consumed in Australia. The two major processors are
Baiada Poultry and Ingham Enterprises who between them account for more than 70 per cent of chicken meat production. Shed design has changed drastically in the past fifteen years, with a shift from smaller curtain sided cross flow sheds to larger tunnel ventilated sheds. Initial tunnel sheds featured exposed truss construction however along with incremental modifications and improvements to heating and cooling systems, there has been a move towards internal “clean skin” shed design for ease of cleaning and improved air circulation. These sheds provide a closed system growing environment for disease control purposes, however more recently, market demand has led to a significant expansion in free range broiler production. New free range sheds incorporate pop-out doors and fenced outdoor range areas enabling the birds to roam and forage.

Transactional activity

As an asset class poultry farms are relatively tightly held and therefore tend to be more thinly traded than many other intensive livestock operations. This has until recently been particularly the case with breeder facilities due to the tightly held nature of these assets by the processing companies. Broiler farm operations typically tend to transact on capitalisation rates (EBITDA) of between 11 and 13 per cent. The softer end of the yield range is indicative of older farms with significant capital upgrade requirements.

In the past three years a notable trend has emerged of processors extracting capital for redeployment within their businesses by selling breeder facilities on long term leaseback arrangements. Both Inghams and Baiada Poultry have successfully undertaken such transactions with institutional and high net worth private investors. These investors are showing a keen appetite for what are securely covenanted, long term investments. Yields have tended to fall in a range between 9.5 and 12 per cent depending on the age, scale and location of the farms.

In terms of market activity in the period, the most notable transaction to occur in the poultry sector was the public and extensive offering of the Ingham’s portfolio of industrial and agricultural assets by TPG Private Equity. These assets were ultimately sold to US-based WP Carey in a sale and leaseback transaction. The portfolio included a total of 11 industrial assets comprising hatcheries and feed mills whilst the “agricultural assets” comprised 20 poultry breeder farms, located throughout all states of Australia.
The Pork Industry in Australia accounts for approximately 2.13 per cent of total farm production by value or approximately $890 million annually. The industry comprises of approximately 1,500 farmers across most states of Australia, with the greatest concentration of farms occurring in New South Wales, Victoria and Queensland.

PORK NUMBERS BY STATE

Source: Colliers Edge

In recent years, the historically strong Australian dollar coupled with relatively high feed costs and reduced export returns has limited the pork industry’s growth throughout Australia. Data provided by ABARE indicates that pig numbers declined between 2006 and 2013 from approximately 2.73 million head to approximately 2.1 million head.

Several factors combined to limit growth during this period including:

- Strong growth from imports and falling export levels fuelled by a price dynamics resulting from a strong Australian dollar.
- Rising input costs including feed and utilities.
- A reduction in the number of growers in the industry.

Over the period, however, pig meat consumption within Australia increased per capita. The increased consumption volumes have been supported by imports of processed small goods from the United States, Denmark, Canada and Holland.

October 2015 figures provided by Australian Pork Limited report showed a moving average annual increase of 2.5 per cent in the total number of pigs slaughtered for domestic consumption, with a further increase (6.4 per cent) in the total value of Australian pork exports. In 2015 Australia’s biggest export market was Singapore which took a total 13,633 tonnes as at October 2015. Other large importers of Australian pork were New Zealand with 4,735 tonnes and Hong Kong 3,378 tonnes.

Domestic pork prices increased sharply during 2015 led by a combination of factors including the lower $AU and the relative...
increases in the cost of alternative meats products. Statistics released by Australian Pork Limited report price increases of approximately 17 per cent at the farm gate between January 2015 to January 2016 on the Eastern Seaboard.

The market for piggeries in Australia has been subdued over the past three to five years. However, interest for pork assets appears to have been renewed recently. The marketing campaign for the GROWventure Piggery, a partially modernised 500 sow enterprise at Eudunda in South Australia attracted substantial interest.

GROWventure sold in November 2015. Our estimate of the initial return on investment available was in the range of approximately 16 to 18 per cent against the enterprise. This is considered representative of a relatively modern and efficient facility with room for further expansion in the current market.

Overall, facilities that have transacted since 2014 have experienced extended selling periods and concluding a sale has proved difficult. Obtaining capital has been a primary hurdle for new entrants and few existing participants have sought to expand, which resulted in fewer buyers competing in the asset class.

Properties which have been publically marketed for sale typically have dated infrastructure, with the industry move to “Sow Stall Free” breeding systems causing some older piggeries to become at least partially obsolete. The lack of quality offerings has made it difficult to determine what sort of premium might be applicable for larger more efficient enterprises which offer good economies of scale or have modern infrastructure.

The outlook for 2016 is one of increased gross margins and improved industry activity resulting from:

- Improved farm practices
- Lower AUD
- Increased domestic and export demand
- Lower feed cost
- High price of some competing meat products

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The Australian dairy sector has continued to attract high levels of investment over the past 12 months. Many of these investors have reported to have been attracted by the sound long term prospects of the industry. Domestic demand, our limited exposure to the bulk commodity market (in comparison to NZ) and investment from new industry participants has somewhat insulated the Australian dairy industry against the volatility of global dairy trade auctions in 2015.

Dairy Australia estimates “a capital injection of up to $16 billion AUD is needed by 2020” to regain Australia’s share of global dairy trade lost over the last decade. A lower AUD has brought some welcome relief to exporters which make up around 35 per cent of production, predominantly in the form of processed milk products.

The China-Australia Free Trade Agreement (ChAFTA) will progressively reduce the considerable tariff advantage New Zealand has under its bilateral FTA with China. Under ChAFTA, tariffs on Australian dairy exports will be progressively eliminated by 2025 across all dairy products. The growing middle class in China, which is only expected to increase as the one child policy is phased out, will also provide an added boost for Australian dairy exports, most of which are already destined for Asian countries.

Over the past 12 months investment has occurred across the entire supply chain of the industry. Domestic private investors have concentrated their buying efforts on smaller operations that milk around 250 to 400 cows. Corporates including Australian Dairy Farms Group, Aquila, ACE, AAG, Beston Global Foods and Midfield Meats have focussed on larger farms milking over 400 cows.

The increased corporatisation of the agribusiness sector through investment of listed entities, the theme of the editorial of this report, was particularly evident in the dairy industry.

Harvey Norman Holdings (ASX: HVN) acquired a 49.9 per cent stake in Coomboona Holsteins for $25M together with a cash advance loan of $9 million. The Coomboona aggregation of several free stall barns located in Northern Victoria produce around 10,000 litres per cow per annum. The aggregation has approvals in place to milk in excess of 3,000 cows and expansion was underway at the time of sale in September 2015.

Beston Global Foods (ASX: BFC) has purchased three dairies in South Australia to meet the milk requirements of its processing plants. The company purchased the former UDP factories located at Jervois and Murray Bridge and holds a stake in the B.-d. Farm Paris Creek dairy company based on the Fleurieu Peninsula in South Australia. Dairy forms a key plank in the company’s philosophy to meet the rising demand for high quality food products particularly from Asia.
Moon Lake Investments acquired Van Diemen’s Land (VDL) Company, Australia’s largest aggregation of 25 dairy farms located in North West Tasmania. The transaction has been widely reported as purportedly $280 million walk-in walk-out. The sale was subject to FIRB approval (obtained in late February 2016) and various other conditions and will be one of the largest agribusiness acquisitions of 2015-2016.

Corporate and Institutional buyers have attempted to extract higher returns from assets through pooling milk across a portfolio of farms. Pooling facilitates volume bonuses and the ability to vertically integrate to supply niche markets abroad. Our Asian trading partners’ growing appetite for clean, green and safe dairy foods is a compelling good news story for the industry.

Transactions

Sales activity was most prominent in the first half the 2015 calendar year with the finalisation of some high profile farms including Pedra Branca, Melro Park, Taravale, Hodsmans, Mowbray and Tarraville.

There has also been strong demand for investment in the processing sector with Australia’s largest milk processor Murray Goulburn floating on the ASX in July 2015 through a $450 million unit trust. The prospectus forecast milk prices for FY2016 would finish around $6.05 per kilogram of milk solids. This may be considered a good result if achieved given the deterioration of the international market for milk-based commodities. Industry commentators are of the belief that the abolition of production quotas in the European Union (EU) together with Russia’s continued embargo of EU dairy products, is likely to delay any imminent recovery in dairy bulk commodities until the second half of 2016.

2015 DAIRY SALES EXPRESSED AS A $/COW

<table>
<thead>
<tr>
<th>REGION</th>
<th>$/COW LOW</th>
<th>$/COW HIGH</th>
<th>KEY INFLUENCERS ON VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SE South Australia</td>
<td>6,000</td>
<td>9,000</td>
<td>Volumes of underground water and per centage of irrigation land</td>
</tr>
<tr>
<td>SW Victoria</td>
<td>6,000</td>
<td>8,000</td>
<td>Proximity to Warrnambool and rainfall</td>
</tr>
<tr>
<td>Gippsland, Vic</td>
<td>6,500</td>
<td>9,000</td>
<td>Proximity to Melbourne, rainfall and irrigation water</td>
</tr>
<tr>
<td>Northern Vic Murray NSW</td>
<td>5,000</td>
<td>8,000</td>
<td>Water sources, irrigation method and soils</td>
</tr>
<tr>
<td>Tasmania</td>
<td>6,500</td>
<td>10,000</td>
<td>Soils, topography, rainfall and size</td>
</tr>
</tbody>
</table>
Due to growing global demand for Australian lamb the industry will continue to see the transition from traditional Merino based enterprises to crossbred prime lambs.

The transition is occurring due to the growing demand and strong prices on the back of a weakening Australian dollar. Demand from international markets will continue to gather pace which will put increasing pressure on already strained flock numbers. The shortage of prime lamb is mainly attributed to the drought conditions in Australia’s major sheep regions and a shrinking breeding flock.

Australia’s biggest competitor for exporting lamb is New Zealand, which is predicting lower production and decreased stock available for export. Australian lamb producers will be able to capitalise on New Zealand’s shortage to boost their farm gate profits and establish new market partners.

Demand from the US, EU, Middle East, China, Canada, Korea and Taiwan will continue to grow but will be heavily influenced by the availability of the lamb supply. The heavy demand and low supply places stronger pressure on domestic markets and consumers will ultimately be paying more. This should translate to higher farm gate prices for producers and a higher return on investment.

The highly anticipated Lambassador ‘Operation Boomerang’ advertisements by Meat & Livestock Australia has been released with latest figures suggesting that the campaign has been successful. Increasing beef prices at domestic retail should see consumers shifting to lamb.

With a growing trend across the globe of consumers engaged with the provenance of their food, the demand for prime lambs will see consumers opting to pay a premium for superior products.
or recognised branded meat. Product consistency will be the key to building long term consumer loyalty as the increasingly aware consumer is quick to abandon operators that are perceived to compromise on quality or safety of the product.

The current forecasts for lamb production are down from 2015 numbers but predicted to stabilise and then increase later in the year. Lamb sales methods are seeing a change with a decrease in paddock sales and a shift towards over the hook carcass weight based sales. The auction method has remained at a steady rate throughout 2011-2015.

Heavier carcass weights and higher lambing rates due to breeding and climate conditions, combined with improved national lambing rates will build flock numbers to supply the growing domestic and international markets.

HERD NUMBERS VS SLAUGHTER NUMBERS VS AVERAGE CARCASS WEIGHT

The China-Australia Free Trade Agreement will see the continued elimination of tariffs which will allow Australian farmers to compete with New Zealand for greater trade and profits. The current import tariff for Australian sheep meat of 23 per cent will phased out over an eight year period.

China is estimated to be feeding 21 per cent of the world’s population on only 8.5 per cent of the world’s arable land. As consumer incomes grow so will their appetite for protein such as premium prime lamb.

There is an increase in sales of lamb based enterprises from neighbour to neighbour who are looking for greater scale or additional land for family members. The improving profit margins are providing the younger generation with confidence to stay in the industry and see it as a profitable and rewarding career.

There is also increasing demand from domestic and international buyers looking to expand current operations and first time buyers entering the market looking to capitalise on the growing food demand in Asia.

NATIONAL TRADE LAMB INDICATOR 2008 TO PRESENT

Source: MLA/Colliers Edge

Gindurra, Canowindra NSW
Valued by Colliers International

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Long-term views on property purchasing in many established regions has outweighed short-term pricing concerns at the farmgate. Approximately 1,788 farms were sold in the year to December 2015, slightly lower than the previous year. However, a surge in sales activity in the three months to December 2015 (+12.6 per cent) showed confidence remains in the long term outlook according to data from Real Estate Institute of New Zealand.

Driving purchasing confidence in the sector is the forecast growth in export revenues from a global market that values New Zealand’s product quality and safety.

Demand side drivers such as rising incomes, increasing urbanisation in Asia along with the relaxation in the one-child policy in China provide ongoing export revenue growth opportunities for the rural and agribusiness sector in New Zealand.

Fluctuations between global demand and supply in tandem with the high debt levels of the sector continue to create challenges for the unprepared. However, greater access to more markets through free trade agreements, such as the Trans Pacific Partnership, should boost the number of markets and opportunities for exports reducing short-term volatility.

Many of our major trading partners have a robust growth outlook which will continue to support higher levels of demand for New Zealand commodities.

The New Zealand Institute of Economic Research (NZIER) predicts major trading partner growth to average 3.5 per cent per annum over the next five years. High-end value commodities such as lamb leg and middle cuts and wine remain popular in the United Kingdom and European Union. A return to growth in demand for dairy, meat, wool, wood and seafood from Asia will continue to boost revenue opportunities.

The Reserve Bank of New Zealand’s rhetoric to try and reduce the exchange rate may gather more momentum in 2016. The economic growth in other countries may assist in softening the dollar to long-term averages. This should increase pricing competitiveness and gross revenue across the agricultural sector.

The ministry for primary industries (MPI) forecast New Zealand’s primary industries’ revenue to rise by approximately 17 per cent over the next five years.

It is expected that sales activity for the remainder of 2016 will be moderate. A number of properties were brought to market in 2015 that have been tightly held for generations. Steady international purchasing activity from North American and European purchasers will continue along with rising interest out of Asia.
Resilient dairy sector supports positive 2016 outlook

The dairy sector had a challenging 2014-2015 season. New Zealand relies on the demand for dairy commodities from offshore markets which have access to multiple supply channels. The 34 per cent rise in dairy export value in the year to June 2014 was an example of global demand for dairy commodities far outweighing global supply, which returned to more moderate levels in 2015.

Following a bumper 2014/2015 season with a payout of $8.40/kgms plus dividend, consensus forecasts for dairy payouts remain low for the 2015/2016 season at around low to mid-$4/kgms. A potential rise slated for the following season is forecast which could see payouts in the mid-$6/kgms as demand rises again. Small, but positive, rises in the global trading auctions recently will assist with growing optimism of the sector’s future performance. According to MPI the next five years will provide a compound annual growth rate in dairy export revenue of 6.8 per cent per annum to June 2019, driven mainly from price rather than volumes.

Sales activity and lower interest rates will create an attractive environment for investors in dairy production farmland, particularly in established areas such as Canterbury and Waikato. Lower confidence mid year which saw average values decline, was abated in the last quarter of 2015. The REINZ Dairy Farm Price Index (which adjusts for differences in farm size and location) rose 11.4 per cent in the three months to December 2015 compared to the three months to November. Less prominent regions will feature more in 2016 with an increase in purchasing opportunities. Some operators that do not have a clear succession plan are looking to exit after challenging seasons at a time of buoyant sale prices.
While strong El Nino conditions were experienced over December and January, forecasts of the intensity and duration have lowered since the December peak. Recent rainfall in both the North and South Island has helped soil moisture deficits. This will reduce the flow-on financial impacts of drought on the agricultural, business and retail sectors. However, there will still be some impacts on the economy given the preparation in reducing livestock undertaken by farmers to weather the drought.

The positive underlying features of the sector and growth opportunities ahead support the investor purchasing intentions. Local buyer enquiry will keep values rising, especially by those who are able to expand their current operations. International buyer enquiry from Europe and North America will continue, supported by strengthening enquiry from Asia.

AVERAGE RAINFALL ANOMALIES DURING PAST EL NINO SUMMERS

Source: NIWA

Sheep and beef prices on the rise

Rising prices for sheep and beef meat is supporting purchasing demand for non-dairy pastoral farmland. Farmgate prices for beef have traded above last years’ prices since mid-2015, boosting the outlook. The increase in inventory locally and offshore may contribute to short-term pricing changes, however, the outlook for demand remains solid. This will keep purchasing demand for property at cyclical highs.

Sheepmeat surpassed 2014 prices in late 2015 with a notable increase in exports to the European Union. Demand should remain buoyant over 2016 as global inventory continues to reduce.

Highlighting the ongoing confidence in New Zealand’s red meat industries is a recent purchase announcement by Chinese state-owned Shanghai Maling, the country’s largest meat processor. Shanghai Maling will inject $261 million in cash into Silver Fern Farms, New Zealand’s largest meat processor, for a 50 per cent interest.
Other notable property sales that were recently completed include the Lochinver Station, Big Ben Station and Kawakawa Station.

The 13,800 hectare Lochinver Station sold to local farming group Rimanui Farms for a confidential sum. An earlier application to purchase the site for (what we understand to be) a lower price by a Chinese subsidiary of Shanghai Pengxin was rejected by the Overseas Investment Office (OIO).

Big Ben Station, made up of approximately 3,418 hectares of sheep and beef farmland in Canterbury was purchased by USA owned, Coleridge Downs Limited. The company intends to integrate it with existing farms in the area to capitalise on efficiencies.

Kawakawa Station Limited (58.5 per cent UK and 41.5 per cent Singapore ownership) has purchased 1,379 ha of freehold and a 786 ha leasehold interest in Kawakawa Station for an undisclosed sum.

**Viticulture basking in strong environment**

Wine is New Zealand’s sixth largest export according to MPI figures with approximately $1.4 billion revenue recorded in the year to June 2015. Exports continue to show promising growth in volume and value due to the reduction in the exchange rate and a shorter 2015 harvest impacted by climatic conditions.

Warmer conditions in 2016 may boost the sector’s output, assisting with global inventory levels. Australia, USA and the UK continue to be our biggest export countries. Steady increases in export values will be driven by growth in other destination markets and the growth in established countries, especially the US. Forecasts are for export values to increase to $1.6 billion in the year to June 2019, according to MPI, up 18 per cent.

Demand for freehold and leasehold interests in vineyards is rising in established areas as existing operators look to increase grape supply to meet production and sales growth. Many well-established operators are acquiring and incorporating existing holdings with nearby properties to increase scale. Recent notable examples include further acquisitions by Accolade Wines and Cloudy Bay Vineyards. The 41.25 ha of land at Stone Creek Vineyard associated with the label Morton Estate was also purchased by Lion Beer, Spirits and Wines NZ in early 2015 for $6.8 million. This followed the purchase of the brand in 2014.

Ruawai Farm, Puketapu Hawke’s Bay
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Littore Portfolio
Moolabool, Vic & Wentworth, NSW
Confidential
1,240 hectares of vines on 6,118 hectares, water assets of 7,000mL. Modern bottling & packing facility.

Glencoe Station
Mendooran, NSW
Circa $30 million
Prime agricultural land utilised for superior beef production.

Tongy Station
Uarbry, NSW
Circa $20 million
Thriving 4,637 hectares beef and sheep enterprise.

Howcroft 1 & 2 Vineyards
Mundula, SA
$9.5 million
Combined 412 hectares of vines on land 537 hectares, 100% red wine grape plantings.

Redturn Farm
Lake Mundi, Vic
$8.1 million
1,180ha grazing and cropping property with 3,019mL of underground water.

Agripark
Moree, NSW
$6.6 million
Premium bulk grain handling and packing facility now expanding.

Opal Creek Feedlot
Qld
$6.2 million
30,000 head licenced capacity.

Cookothama
Darlington Point, NSW
Confidential
341 hectares of vines, 294 hectares of olives on 883 hectares. 2,903mL water entitlements.

Woodlana Station
Cassini, Kangaroo Island, SA
$4.7 million
2,823.7 hectares large scale grazing property.

Kongal Seeds
Keith, SA
$3.6 million
546 hectares seed cleaning business and mixed farming.

Dunrossie & Stenhouse
Qld
$3.47 million
35,055 hectares Mitchell Grass Downs breeding and grazing property.

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Horticulture Portfolio
Adelaide Plains & Riverland SA
Horticulture
Horticultural properties including potatoes, onions and other mixed horticulture.

Cropping Portfolio
Lake King, WA
Cropping
Large scale cropping portfolio in the south east wheat belt in Western Australia.

Forestry Portfolio
WA & NT
Forestry
40,750 hectares of Sandalwood and Mahogany plantation land.

Wine Industry Portfolio
National
Wineries & Vineyards
National portfolio of wine industry assets including wineries, cellar doors and vineyards.

Rail Corridor Land
SA
Cropping
Land acquisition advice for a potential rail corridor.

Kalanga
Toobeah, Qld
Cropping
Large scale irrigated and dryland cropping operation comprising approximately 13,000 hectares.

Dryland Cropping Portfolio
NSW
Cropping
Three large aggregations with a combined area of approximately 20,300 hectares.

Almond Orchard Portfolio
SA, Vic & NSW
Horticulture
Portfolio of three almond properties located along the Murray River totalling approximately 4,100 hectares.

Gundaline
NSW
Irrigated Cropping
Large scale irrigation holding located in the Riverina district of NSW totalling approximately 14,900 hectares.

Casella Portfolio
SA & Vic
Viticulture
13 vineyards located throughout the Barossa Valley, Limestone Coast, Langhorne Creek, Adelaide Hills and King Valley in SA and Vic.

Ceres Agricultural Portfolio
Warialda & Moree, NSW
Cropping/Grazing
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