

# property Research

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RESEARCH

## NATIONAL RURAL REPORT

### RURAL MARKET RECOVERY CONTINUES

**Despite the adverse impact of the drought conditions which have affected a majority of the country, farm sales activity has remained at multi year highs over the early part of 2013.**

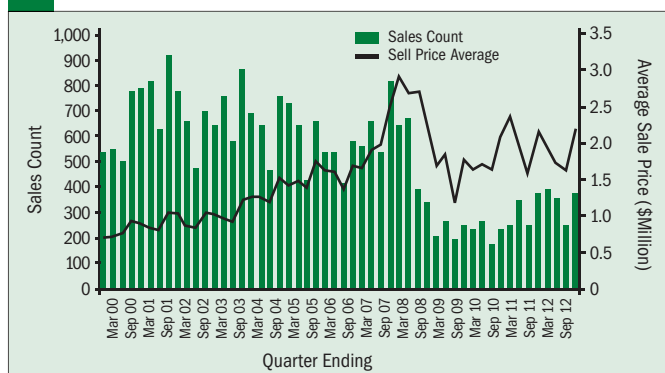
The latest figures show the market has maintained the momentum which was evident in 2012 when activity reached its highest level since early 2009.

A total of 1,365 farm sales were concluded during the 2012 calendar year, an increase of 13% on the 2011 total. This is up 53% on the cyclical low of 905 sales recorded in 2010 according to transaction statistics released by the Real Estate Institute of New Zealand (REINZ).

Sales values also closed the year up, with the all farm average value reaching \$2,221,850 at the December quarter. This figure has been topped only once, in March 2011, since ending 2008 at \$2,282,665.

The latest report from REINZ shows sales volumes still up on recent years albeit that there are signs that the drought is beginning to impact the market, particularly in respect of supply, with the number of listings falling. In the three months ending February 2013, 379 sales were recorded by REINZ up from 351 in the corresponding period of 2011 and the 204 completed transactions in 2010. The total is however, down on the 399 sales completed in the three months to January 2013.

### NEW ZEALAND FARM SALES VOLUME vs AVERAGE SALE PRICE



Source: REINZ, Bayleys Research

Agency reports advise that there has also been a change in the profile of sales with the proportion of distressed and mortgagee sales falling, particularly during the latter part of 2012. While stressed sales were a significant feature of the market, many genuine vendors were reluctant to put property up for sale

because of uncertainty over where values were sitting. However, this dynamic has changed with a greater proportion of open market sales. Higher volumes of sales are also providing greater confidence to both buyers and sellers. Good quality offerings are selling quickly and in parts of the country there is a shortage of listings, as opposed to reluctant buyers, which is holding down sales activity.

### POSITIVE LONG-TERM OUTLOOK BEHIND PROPERTY RECOVERY

The continuing rural property market recovery indicates confidence in the long-term future for New Zealand's rural sector. Commodity prices and exchange rates have been volatile over recent years, reflecting the uncertain global economic environment. However, the longer term drivers of demand for agricultural products, primarily a growing world population and expanding middle class, remain a constant.

### ANZ EXPORT COMMODITY PRICE INDEX WORLD PRICE vs \$NZ



Index (July 1986=100)

Source: ANZ Bank, Bayleys Research

Having peaked in April 2011, commodity prices declined sharply until mid 2012, shedding 20% of their value according to the ANZ commodity world price index. The strength of the New Zealand dollar exacerbated the fall, with the ANZ New Zealand dollar index declining by 26% between March 2011 and August 2012. The value of New Zealand's main export commodities ended 2012 down compared with the close of 2011, with dairy prices reducing by 7% and meat, skins and wool by 12.5%.

Recent data though is more encouraging. The world price index has risen on each of the last 7 months, to February 2013, recovering to 275.3, an increase of nearly 9% from the cyclical low reached



Homebush, Canterbury sold for \$8,000,000

in July 2012. Despite the New Zealand dollar having continued to strengthen, the New Zealand commodity price index has still registered a gain of approximately 5% since it reached a cyclical low in August of 2012.

The rise in the index has been driven by the dairy sector as reflected in the results of recent Global Dairy Trade (GDT) auctions. At the 19th March auction, product prices surged by 14.8% with the price of whole milk powder reaching its highest level ever. This latest spike in prices is primarily a consequence of the drought conditions which has led to a fall in production and raised concerns over a possible supply shortage. It should be noted however that prior to the impact of the drought becoming clear with prices rising in 10 of the 11 events up to March 19th, with average prices rising 42% over that period and 14% between the beginning and mid March as supply concerns grew. As a result of the spike in prices Fonterra has raised its end of season payout forecast twice since December from \$5.25 per kilogram of milk solids to \$5.80.

There are also signs that the Free Trade Agreement (FTA) signed with China in April 2008 is beginning to have a beneficial impact upon the New Zealand export sector. In December of 2012, lamb exports to China totalled 11,053 tonnes, a threefold increase compared with December 2011.

Total lamb exports to all countries for the full year were up 9% at 281,100 tonnes, reversing a decline of 3% recorded in the first half of the year. Final figures for the year show that China is now the largest destination (by volume) for New Zealand lamb with this market accounting for over 21% of exports. The 60,400 tonnes of lamb sent to China in 2012 was an increase of 60% on the previous year. This dramatic rise in shipments has pushed the traditional main meat market of the UK into second place. Notwithstanding, trade with the UK still rose by nearly 10% in 2012 and accounted for 20% of the total lamb volume exported by New Zealand.

The increasing importance of China and the Asian region is highlighted in research conducted by the ANZ bank which concluded that New Zealand's agricultural sector could add \$550 billion of revenue in the next 40 years if it could maximise the potential of growing Asian markets.

The ANZ report states that since the year 2000 emerging economies had shifted from accounting for one third of the world's economic growth to two-thirds and China accounted for about half of that growth. The report goes on to say "Around 45 million people each year in Asia are moving from rural areas to cities. By 2050, it is predicted that three-quarters of the world's population

will urbanise and many people will be living in megacities. As this process of urbanisation and industrialisation continues, it will continue to drive growth in China."

The report suggests that world demand would require at least 60% more agricultural output by 2050 compared to 2005-07. Should bio-fuel uptake and the economic growth of developing countries accelerate, demand for agricultural products could more than double over this period.

## IMPLICATIONS OF DROUGHT

By mid March the entire North Island had officially been declared a drought zone by the government. The latest governmental estimate of the cost to the national economy of the extended dry spell is \$2 billion, a major proportion of this being a result of the impact on the rural sector.

The most noticeable implications for primary industry will be in relation to production and prices. Dairy farmers are being forced to dry off herds earlier than usual, clearly cutting dairy production. Westpac Bank's economists have predicted that milk production could fall by as much as two percent in the 2012/2013 season compared with last year, the first fall in five years.

The fall in output is being tempered by increasing prices as the market reacts to the potential shortage in supply. As stated above, prices in the latest Global Dairy Trade Auction surged by 14.8% at the March 15 auction. While welcome news it is unlikely that this will fully compensate farmers for the lost production.

The meat sector is facing a different scenario with production likely to lift and prices, as a result, almost certainly to come under downward pressure.

Whilst most sectors will be adversely impacted by the drought, the hot dry weather has conversely held benefits for the Kiwifruit industry in that it has curbed the spread of the PSA disease which decimated crops in 2012.

Many farmers of green Kiwifruit and the new G3 gold Kiwifruit have this season been able to produce large crops.

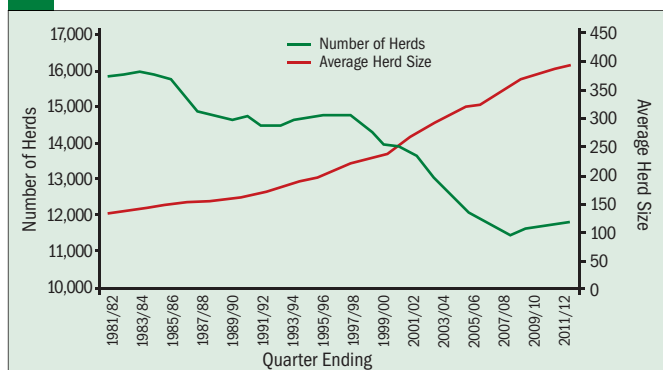
In respect of the rural property market, there are signs that the drought conditions have slowed sales primarily, according to the REINZ, a result of a fall in the number of listings. Farmers are more reluctant to bring their property to market if it is not looking good although issues such as time of year and profitability are also factors.

## THE INEXORABLE GROWTH OF THE DAIRY SECTOR

The growth of the dairy sector in recent years is clearly illustrated by the latest edition of New Zealand Dairy Statistics issued by Livestock Improvement Corporation (LIC) and DairyNZ. The report, which covers the 2011/12 season, shows that cow numbers have reached 4,634,226, an increase of nearly 21% since the 2005/06 season when the total stood at 3,832,145.

A majority of the growth has occurred in the South Island where conversions have resulted in herd numbers rising sharply. The spike in conversion activity has reversed the trend of falling herd numbers brought about by farm amalgamation and which had been a near constant theme for nearly 40 years. In 1974/75 there were 18,540 dairy herds in New Zealand but herd numbers fell

## NUMBER OF DAIRY HERDS vs AVERAGE SIZE OF HERDS



Source: LIC

as low as 11,436 in the 2007/08 season. Since then they have increased to 11,798 as dairy farm development in the South Island has led to 500 herds being added to the South Island inventory. Over the same period, North Island numbers have increased by just 138.

The sharp increase in farms has seen the South Island share of herds increase from 20.9% in 2007/08 to 24.5% in 2011/12 while the share of cows has increased from 31.3% to 37.1%. On a national basis, total effective hectares in dairying have reached 1,638,546 having been 1,436,549 in 2007/08. The median production per hectare across all dairy farms sold in January 2013 was 1,047kgs of milk solids – the highest ever recorded by REINZ in a month.

This growth in the dairy sector is also being reflected in farm sales across the country with both farmers and investors actively looking for acquisition opportunities encompassing both existing dairy units, dairy support units and farms with potential for conversion.

## CANTERBURY LEADS PROPERTY MARKET RECOVERY

Sales activity levels rose in 11 of the 14 regions measured by REINZ in 2012. Sales numbers were greatest in Canterbury which has led the trend to dairy conversions in the South Island and where 239 sales were reported by REINZ in 2012, up by nearly 30% on 2011. While well up on the 126 sales recorded at the trough of the market in 2009, sales volumes are still significantly below the average of just over 340 per annum which prevailed in Canterbury between 2000 and 2008.

The Waikato region experienced the second highest volume of sales in 2012, at 174, up from fourth place in 2011. The Waikato region's climb in the rankings was due to a sharp increase in the sale of dairy farms, with transactions doubling from 28 in 2011 to 57 in 2012. Southland, where a significant number of dairy conversions have also taken place, was the third most active market with 151 sales, similar to 2011, followed by the Manawatu/Wanganui region with 137.

The Auckland region saw the greatest lift in activity, with sales volumes rising by close to 85% to 122 driven by significant increases in the grazing and finishing sectors. The Nelson region also experienced a sharp lift in sales with total transactions rising from 53 in 2011 to 95 in 2012. This was the result of lifts in sales of grazing land, up to 44 from 23 and in horticulture and viticulture, up from 9 to 26 as activity returned to the vineyard market.

## REGIONAL SALES FIGURES

	MAR 12	JUN 12	SEP 12	DEC 12	TOTAL
Northland	25	32	14	22	93
Auckland	24	22	36	40	122
Waikato	57	39	25	53	174
Bay of Plenty	25	25	12	16	78
Gisborne	9	10	6	12	37
Hawkes Bay	11	19	15	12	57
Taranaki	26	21	5	26	78
Manawatu/Wanganui	44	44	15	34	137
Wellington	9	16	7	11	43
Nelson	14	24	25	32	95
West Coast	8	8	7	6	29
Canterbury	62	61	55	61	239
Otago	30	37	27	27	121
Southland	53	48	20	30	151
<b>New Zealand</b>	<b>397</b>	<b>406</b>	<b>269</b>	<b>382</b>	<b>1,454</b>

Source: REINZ

Given continuing uncertainty in the global economic and political landscape, it is likely volatility will remain a feature of commodity markets which will in turn impact upon property markets. It is also probable that a stubbornly high New Zealand dollar will continue to have a significant impact on farm gate returns and act as break on property prices. Farm values, and funding for property acquisitions, are now more closely aligned to income returns and less influenced by future capital growth potential.

On the other side of the ledger, a continuation of low interest rates for some time to come and an improving outlook for the New Zealand economy will have a stimulatory effect on all property markets, including the rural sector. As previously outlined, longer term prospects for New Zealand's rural sector also remain extremely positive with demand for New Zealand agricultural products growing strongly in the emerging economies of Asia and Latin America. A combination of these factors should continue to generate demand for rural property from farmers, particularly those looking to amalgamate or expand, and to a lesser extent from both onshore and offshore investors wanting to increase their exposure to what is perceived to be a strong growth sector of the New Zealand economy.



Managapai Caves Road, Whangarei sold for \$4,100,000

## NATIONAL LIFESTYLE REVIEW

In line with the wider residential market, the lifestyle property sector experienced a surge in sales activity and upward pressure on prices throughout 2012.



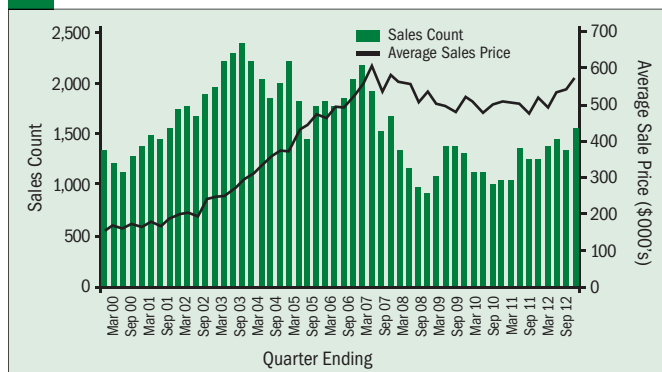
## REGIONAL SNAPSHOT

Region	Sales Volume (December Quarter)			Average Sales Price (December Quarter)		
	2011	2012	% Change	2011	2012	% Change
Northland	95	118	24%	\$369,288	\$418,039	13%
Auckland	231	333	44%	\$869,699	\$932,806	7%
Waikato	168	198	18%	\$484,258	\$543,199	12%
Bay of Plenty	78	106	36%	\$587,522	\$494,013	-16%
Gisborne	6	12	100%	\$189,267	\$631,958	234%
Hawkes Bay	61	59	-3%	\$460,309	\$483,174	5%
Taranaki	25	50	100%	\$471,830	\$444,510	-6%
Manawatu and Wanganui	96	133	39%	\$345,165	\$376,765	9%
Wairarapa and Wellington	60	89	48%	\$483,025	\$532,663	10%
Marlborough and Nelson	63	85	35%	\$570,904	\$570,036	0%
Canterbury	237	245	3%	\$545,154	\$575,025	5%
West Coast	11	13	18%	\$250,250	\$262,392	5%
Central Otago	73	73	0%	\$455,243	\$524,532	15%
Southland	48	39	-19%	\$357,042	\$369,782	4%

Source: REINZ, Bayleys Research

According to REINZ statistics 1,554 lifestyle property transactions were completed in the final quarter of 2012, the highest three monthly figure recorded since the corresponding period in 2007. Annual sales totalled 5,747, more than in any year since 2007. The increase in sales activity has had an impact on prices with REINZ figures showing a national average sales price of just over \$593,000 in the closing quarter of 2012. The December quarter figure reflects an increase of approximately \$70,000 or 13% on that recorded in the opening quarter of the year.

### NEW ZEALAND LIFESTYLE SALES VOLUME vs AVERAGE SALE PRICE



Source: REINZ, Bayleys Research

While full March quarter figures are not yet available, sales evidence from January and February points towards the increased values being maintained.

The average sales figures for lifestyle property can be volatile due to the fact that the sector comprises both bare land and improved premises and therefore a change in proportion of sales between the two sectors can impact the figures. That having been said the December quarter figure is higher than at any time with the exception of mid to late 2007, the peak of the last property cycle. Sales volumes over the final three months of 2012 when compared with the corresponding period in 2011 were up in 11 of the 14 regions tracked by REINZ. In Central Otago the sales volume was the same in both periods, in Hawkes Bay the sale count fell by just two and in Southland 39 sales were recorded compared to 48.

The Auckland region provided the highest average sales prices and generated the highest volume of sales with sales volumes up 44% on the December 2011 figure.

245 sales were recorded in the Canterbury region. This figure was up only slightly on the 2011 total, however this is primarily due to the fact that sales volumes in the region have been elevated since early 2011, a consequence of new buyer groups entering the market following the February earthquake. These new buyers fall generally into three separate groups.

1. Redzoners, i.e. households moving from Red Zoned areas of the City (i.e. land has been so badly damaged by the earthquakes it is unlikely that it can be rebuilt on for a prolonged period).
2. People arriving in the area and working in earthquake recovery
3. Business people whose companies are associated with earthquake recovery

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