



New Zealand Rural Land Co

The Rural Land Investors

24 October 2023

Market Update

The New Zealand Rural Land Company (NZX: NZL) provides an update on the rural property market and industry conditions.

NZL's current portfolio is comprised of 11,710 ha of high-quality pastoral land across Canterbury, Otago and Southland, and a further 3,137 ha of permanent forestry land in the Manawatu-Wanganui region.

Pastoral Land Prices Update

Rural land prices have remained resilient throughout 2023 against challenging economic conditions. A recent report released by Colliers Valuations observed that over the last 12 months the value of dairy properties have remained resilient even in the face of lower milk price forecasts with Colliers stating, "Dairy farm values continue to hold on the back of reduced milk payout forecast".

REINZ reports that over the last three months the REINZ's Dairy Farm Index has decreased less than 1% (-0.93%).

Colliers' Canterbury Dairy Farm Index also shows a slight easing of Canterbury dairy farm values in the first half of 2023, but as of 1 September 2023, the index still remains +17% higher than June 2020. Colliers consider that the 2022/2023 season represents a stabilisation of New Zealand dairy land prices in the property cycle.

The Colliers report referenced can be found here: <https://www.colliers.co.nz/en-nz/real-estate-research/new-zealand-dairy-property-market-report>

NZL's annual revaluation of its land assets will take place in December 2023, with results released in February 2024.

Milk Price Update

As dairy farm prices have a degree of correlation with the milk price both REINZ and Colliers' indices reflect the impact of Fonterra's August, 2023 \$6.75/kgMS mid point milk price. This mid point price is beginning to look conservative for the current season.

The Global Dairy Trade (GDT) auction that took place on 17 October 2023 saw a fourth consecutive price increase, which now implies a milk price of \$7.90/kgMS versus Fonterra's August 2023 \$6.75/kgMS mid point.

NZL sees this as a positive development as the GDT serves as a proxy for milk price and thus on-farm profitability which is reflected in market sentiment and farm prices.

NZL continues to be well positioned in a high inflationary environment as NZL's leases are all triple net leases; with CPI linked rental adjustments; and historically property values tend to track well with inflation.

A portion of NZL's properties will experience rental increases on July 2024, due to CPI linkage. Strong GDT trading lends support to our tenants' profitability at this time as the implied milk price of \$7.90/kgMS represents a premium to NZL tenants' breakeven milk price.

Futures Market Update

Futures for 2024/25 are now seeing trades at \$9.00/kgMS this is clearly a significant step up from the current season and only serves to support the overall sector outlook and land prices.

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