

Welcome to the Morice Hawke's Bay rural property market commentary.

### RURAL BAROMETER

A short term snapshot of where we consider land values are heading.

Sector	Land Value Range (\$/Ha)	Outlook
Pastoral – Dairy	\$13,000 - \$22,500	Decreasing on account of reduced payout
Pastoral – Finishing	\$7,000 - \$12,000	Decrease
Pastoral – Breeding	\$3,500 - \$9,000	Decrease
Orchards (Land & Tree value)	\$50,000 - \$60,000	Steady
Grapes – Gravels (Land & Vine)	\$100,000 - \$130,000	Decrease due to over supply. Minimal action as capital required for process rather than expansion
Grapes – Other Areas (Land & Vine)	\$60,000 - \$80,000	Decreasing on account of over supply. Some contracts currently not being renewed
Cropping	\$50,000 - \$60,000	Good demand due to increased product returns
Forestry Land	\$1,000 - \$2,800	Steady. Little activity as cannot compete with farming sector

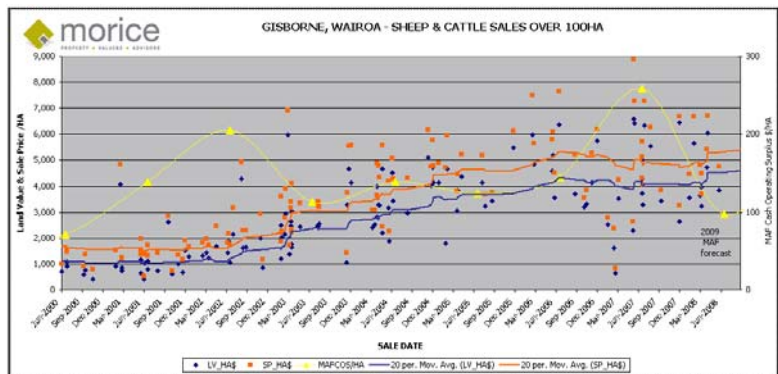
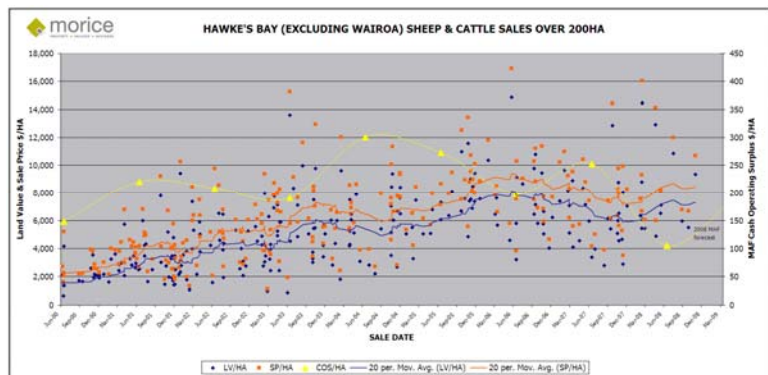
### SHEEP & CATTLE REPORT

The graphs to the right shows analysed sheep and cattle sales over 200 hectares in the Hawke's Bay locality (excluding Wairoa) and of Gisborne & Wairoa sheep and cattle sales over 100 hectares.

Each sale analysed has two dots, with the orange square representing the net sale price per hectare and the blue diamond representing the land price per hectare. A moving average trend line has also been included for the sale price and land values per hectare.

The third series of markers, being yellow triangles, is sourced from the MAF Sheep and Beef Monitoring Reports.

Current market conditions are affecting a reduced number of monthly sales for pastoral properties. This has come about due to the extreme volatility of international financial and equity markets where sourcing funds has become more difficult, especially where purchaser's have low equity.



The sheep and beef commodity index is down some 19.8% (NZ\$) when compared to the same period as last year. This has mainly been brought about by a weak demand for prime beef cuts in Asia as well as a slowing US economy. Lamb markets are still relatively strong although top end cuts are becoming harder to sell and the lower supply of lambs should keep margins tight.

There has been little market evidence over the 2008 spring/summer period to measure pastoral land values with most auctions during this period being passed in or subject to conditional contracts. This theme is congruent nationally where a recent BNZ report stated that during January and February 2009, nationwide there were only seventy-three and seventy-five farms sold respectively, being a decrease of 63% and 72% from a year earlier. Also they noted that sales in the three months to January 2009 were down some 58% from a year ago.

On balance we consider that pastoral land values are some 10% – 25% back on peaks previously seen during 2008. We are also of the opinion that the dairy sector will have less influence on the sheep and beef land values and that neighbour premiums seen in the past will be of less influence as, going forward, farmers are generally now in a consolidation period of managing debt. There could be some reprieve if the exchange and interest rates reduce further which could provide some stimulus in the market.

### DAIRY REPORT

The credit crunch has had a significant affect on commodity prices, and especially dairy produce where dairy (US\$) commodity prices have reduced some 54.7% when compared to the same time last year. There has been some respite as the NZ\$ has fallen some 36.2% over the same period.

World dairy prices are continuing to decrease and Fonterra are now looking for space to store produce in anticipation of a price recovery. There are also concerns in the market due to the reintroduction of European Union export subsidies. This will not only effectively keep prices low but potentially push them lower than would be the case without subsidies in place.

In response to the financial crises and reduction in commodity markets, the 2008/2009 Fonterra payout forecast was announced at \$6/kg milk solid in November 2008 and more recently \$5.10/kg in January 2009. In December 2008 Westland Milk Products announced a payout for the 2009 year of between \$4.10 - \$4.40/kg milk solid. This is a considerable reduction from the May 2008 Fonterra payout of \$7.90/kg milk solid.

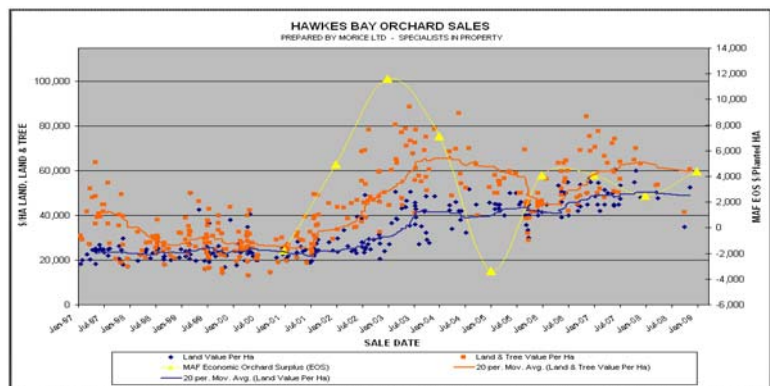
The Westland payout is forecast in line with the average payout from 2002 - 2007 which equates to some \$4.20/kg milk solids. Commentators are suggesting that the \$5.10 payout announced by Fonterra in January 2009 could be further reduced if the global economy continues to deteriorate. We are aware of one bank basing dairy farm budgets on \$4.70/kg milk solid payout for next season.

In summary we consider that, at present, farming conditions are difficult due to falling payouts, high costs of production and summer drought conditions in Hawke's Bay. There could be some reprieve with the falling of interest and exchange rates.

There have been virtually no Hawke's Bay sales since the financial crises to gauge current dairy values. Analysis of market conditions in the Canterbury, Taranaki and Bay of Plenty regions is also limited however indicate values are some 15% – 25% back on peaks seen during 2008.

### ORCHARD REPORT

The graph to the right shows analysed orchard sales in Hawke's Bay. Each sale has been analysed to show a land value per hectare (blue diamonds) and a land and tree value per hectare (orange squares). A trend line has been incorporated through the two sets of data. The third series being yellow triangles is sourced from the MAF Horticultural Monitoring Reports. This represents the Economic Orchard Surplus for pipfruit orchards in the Hawke's Bay locality.



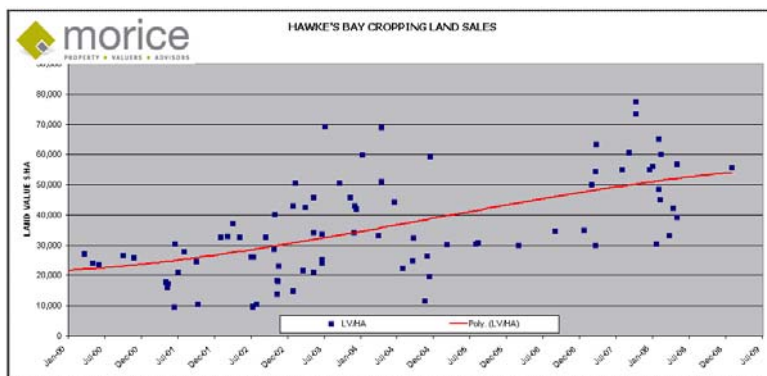
Production expectations for the 2008 - 2009 pipfruit harvest indicate high volumes for the region however the strength of demand for the pipfruit on the world market is uncertain at this point. Issues of note are difficulties with obtaining credit, levels of uncertainty with price and demand, and business risk associated with achieving payment for sales. Price levels in New Zealand will be supported by an approximate 36.8% reduction in the exchange rate from the same period last year. Cost of freight this year has increased primarily as this is paid in US\$.

There has been little sales activity in the market over the last 12 months. Demand for small to medium scale orchards has reduced as a result of a higher incidence of climatic risk with many orchardists now concentrating on their own orchard operations rather than considering expansion.

The outlook for this coming season is still uncertain and while there are negative issues surrounding the sale of pipfruit production, there are also positive factors and a balanced view is for a cautiously optimistic outlook.

### CROPPING REPORT

The graph to the right shows analysed sales of cropping properties in Hawke's Bay from January 2000 to date. Also included in the graph is a trendline indicating a steady increase of values since 2000.

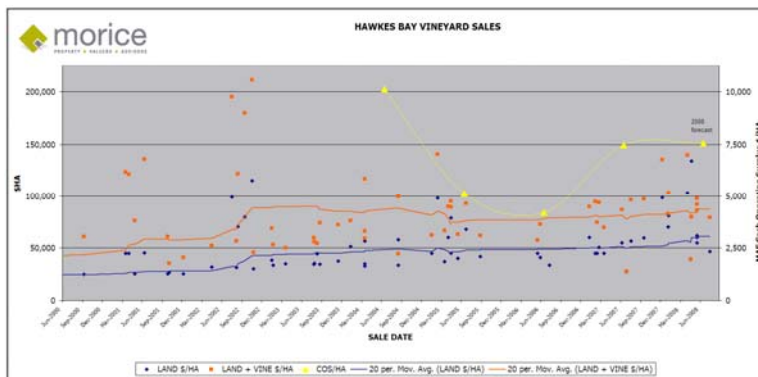


It can be seen that there has only been one sale in January 2009 since the last batch of sales around January – May 2008. The January 2009 sale is of interest as it was a larger scale, bare land cropping block of some 76ha. This property sold at auction for \$4.3M after spirited bidding by two main parties. The successful purchaser had been leasing the property for some time and had invested improvements into it, while the under-bidder was looking for a large parcel of land to establish in apple orchard. The analysed land value per hectare was \$55,500 for predominantly Fardon and some Meeanee Series soils. This is the first sale for some time on the Heretaunga Plains of a large parcel of bare land and overall it is considered that it sold very well.

With international food resources diminishing resulting from more land being utilised for bio-fuels, the effect of droughts, floods and other natural disasters, there has been a general increase of food prices across all sectors. This is expected to benefit all New Zealand cropping land in the long term with the outlook being for further increases in value for this type of land, particularly larger sized units where economies of scale can be obtained.

### VINEYARD REPORT

The graph to the right, shows analysed vineyard sales in Hawke's Bay from June 2000 to date. Each sale has been analysed to show a land value per hectare (blue diamonds) and the land and vine value per hectare (orange squares). A trend line has been incorporated through the two sets of data.



The third series (being yellow triangles) represents the economic surplus for vineyards in the Hawke's Bay locality and sourced from the MAF Horticulture Monitoring Reports. This represents the economic surplus for vineyards in the Hawke's Bay locality.

It can be seen since 2002, that vineyard values have been relatively stable. The Hawke's Bay viticulture land values are still significantly less than Marlborough and Otago values which have created their own specialised

recognition in the international marketplace. Hawke's Bay is generally noted as a good producer of many varieties of grapes compared to Marlborough which has specialised in Sauvignon Blanc and Otago with Pinot Noir.

The demand for viticultural properties in Hawke's Bay has virtually stopped since the 2008 harvest. This has been brought about by the low returns to growers from last season's crops. The outlook for 2009 has always been less than favourable due to an increased supply (approximately a further 2000ha of producing vineyards this year) and a reduction in demand created by the international credit squeeze. The outlook for the contract grower type vineyards is also less favourable with the major grape purchasing companies reducing the price and quantity of grapes grown by contractors in favour of using their own grapes. It is therefore considered that there will be quite a strong negative impact on vineyard prices over the next few years as the continued increase in production from vine plantings occurs and a reduced domestic and international demand for the products.

It is expected the market will remain relatively flat in the next few years until grower returns improve. Many factors affecting returns for viticulture include the value of the New Zealand dollar, liquor taxes, production, processing and competition from imported wines. With the industry requiring a large investment in processing to cater for the significant increase in vineyard plantings in recent years, it is unlikely that higher returns will filter down to the contract growers in the short to medium term. Therefore returns for contract grower vineyards is expected to remain reasonably flat

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