NOTICE TO GROWERS IN 2004 – 2008 PROJECTS

Dear Grower,

In our last announcement on 23 April 2020 we advised that insurance proceeds had been received and that we were despatching letters to Growers that week which we achieved.

Each letter to Growers dealt with the calculation of the payment each Grower was receiving together with rehabilitation of the Forestry Right Land.

We have received a number of typical queries from Growers on matters which are dealt with hereunder so that all Growers are kept informed.

Insurance

Question

I understood that I was insured for $3,000 per hectare but the amount I received was less than this. Why was the full amount not received?

Answer

In our letter of 24 April 2020 we advised that the insurance proceeds are not a simple calculation of $3,000 times the number of hectares/timberlots owned (some Growers may have insured for a higher amount). This is because the area insured only relates to actual standing timber. Over time part of the plantation ceases to exist due to deaths of some of the plantings however caused by mother nature – this is referred to as the survival rate. The Forests NSW reports regularly update the size of the plantations which can be seen on our website.

As the insurer will not insure non existent trees, you can only insure existing trees. The actual area of trees on a timberlot is slightly less than 0.5 hectares due to the survival rate. The precise calculation varies from plantation to plantation. The insurance premium you were charged in 2019 related only to the actual trees in a plantation. The amount of your insurance payout has been calculated in accordance with the above adjustments.

Additionally, the policy provides for an excess of 1.5% which has been deducted from the insurance proceeds otherwise payable to you.

Rehabilitation

Question

Why do we have to rehabilitate the destroyed plantations now when the cost of doing the work now will likely be more expensive than if we delayed rehabilitation for a couple of years? Also why are the costs quoted by Forests NSW so high and why do they have a 20% mark up on quoted costs?

Answer

When the plantations have been destroyed, in this case by fire, the Manager, on behalf of Growers, is obligated under the Forestry Management Agreement to rehabilitate the Forestry Right Land before it is handed back to the Trustee of the Land Trust. Rehabilitation is not optional. The process must occur and to delay such would be to increase the costs payable by the Grower. Noxious weeds such as blackberries need to be managed on an annual basis. The annual cost quoted by Forests NSW for spraying is $279 per hectare –please refer to letter to Growers dated 24 April 2020.

Additionally, when a preferred contractor is engaged, the work will not be able to commence until the total funds required to pay for the rehabilitation of each Project, are actually received by the Manager. The collection process may well delay the commencement of rehabilitation work, hence it is critical that the funds be received from Growers as quickly as possible once invoices are issued.

The rates being quoted for rehabilitation work are similar to charges the Manager has paid for land establishment for past Projects and we do not see any indication that excessive rates are being quoted because of the large area of destroyed land to be rehabilitated. Before a contractor is engaged we will be ensuring that several quotes have been received and assessed. We are not sure of the basis upon which some Growers have suggested that Forests NSW quotes are higher than normal as no documentary evidence to support that proposition has been submitted.

Where Forests NSW have quoted for a particular task at cost plus 20%, that is because they have been unable to accurately assess the cost of the work and instead have elected to quote on a "cost plus " basis where the 20% represents their overheads and profit margin.

The Grower is ultimately responsible for the rehabilitation of the Forestry Right Land – refer to our letter of 24 April 2020.

Sale of Land

Question

Why are you rushing to sell the land whilst values are down? Because of the Corona Virus, I believe that 2020 will be the worst year to sell land. Why not retain the land and use it for non forestry purposes?

Answer

The Manager is not "rushing " to sell the land. The rehabilitation process which has to occur before the land is handed back to the Trustee of the Land Trust, will take place in an orderly manner as detailed above.

We have no indication that land values are 'down'. Indeed our experience is quite the contrary - in respect of recent land sales entered into by the Manager in its own right we have found that the rural property market is very buoyant which is confirmed by a recent article in the Financial Review dated 6 May 2020 (attached) which noted that the price of a hectare of farmland rose 13.5% in 2019 and 10.75% in 2018.

The Manager has no authority nor expertise to utilise the land for purposes other than forestry activities.

Uninsured Growers

Question

As an insured Grower, I am concerned that I may be subsidising uninsured Growers who may not have funds for the rehabilitation costs. What happens if a Grower refuses to pay their share of rehabilitation costs?

Answer

As noted above and in the letter of 24 April 2020, the cost of rehabilitation must be paid for by Growers and whilst it is unfortunate for Growers who were uninsured, the liability for payment of rehabilitation costs remains. In the event that a Grower refused to pay for their share of rehabilitation costs, then the Manager would have to pursue recovery of the outstanding amount.

Also as noted above, rehabilitation work cannot proceed until all funds have been received so that the Manager is able to enter into a binding contract with the contractor.

Rental Fee and Discounted Harvest Proceeds (2006 – 2008 Projects)

Question

Why is a Rental Fee being paid and why is a Rental Fee being levied based upon Discounted Harvest Proceeds when there will be no harvest proceeds received from plantations destroyed by fire?

Answer

The Project documents provided for the Grantor of the timberlot to receive 10% of harvest proceeds or alternatively where the plantations were destroyed, 10% of the insurance proceeds. Where Growers have elected not to insure their destroyed plantation interests, they must pay a fee equal to 10% of Discounted Harvest Proceeds (DHP). DHP is a notional calculation (because there are no actual harvest proceeds upon which to base a calculation) which was prepared by BDO who received input from Biovalue Pty Ltd an Independent Forester who has previously valued the Growers' forestry assets.

Share of continuing plantations (2005 and 2007 Projects)

Question

How many timberlots do I have in the continuing plantations?

Answer

You hold the same number of timberlots now that you held at commencement of the Project and therefore you are not disadvantaged because harvest revenues are pooled amongst Growers. Harvest proceeds are shared pro rata the number of timberlots a Grower has in proportion to the total number of timberlots held by all Growers in a Project.

Ongoing Information For Growers

Question

How will the Manager keep me informed?

Answer

The Manager has kept all Growers informed promptly as events have occurred from commencement of the fires until receipt of the insurance proceeds and the subsequent distribution of those funds. The next significant event to be put in place is the rehabilitation of the Forestry Right Land which has been dealt with in the answers above and the letter of 24 April 2020. Rehabilitation of the Forestry Right Land will take some considerable time to complete and Growers will be kept informed with updates on each specific Project by way of announcement on our website.

Growers will be forwarded invoices for their share of rehabilitation costs as soon as a preferred contractor is selected to perform the rehabilitation work.

Growers should recall that prior to the fires, the Manager requisitioned Grower meetings including valuation reports on the forestry assets, all at its own cost, to provide Growers with an opportunity to sell their interests if they so desired. There was no obligation for the Manager to requisition such meetings but it chose to do so as a service to many Growers who had indicated their wish to sell out of their respective forestry schemes.

In summary, the Manager will continue to act in the best interests of Growers in accordance with its obligations under the Forestry Management Agreement.

We will keep you informed by posting any further relevant information in respect of your Project on our website at www.agriwealth.com.au

Yours sincerely,

Wayne C Jones
Director
20 May 2020

Farm prices up despite drought, fire and flood

Larry Schlesinger

Rural property showed its resilience as an asset class in 2019 with the median price of a hectare of farmland rising 13.5 per cent, despite drought, floods and bushfires, according to Rural Bank's latest *Australian Farmland Values* report.

This was higher than the 10.7 per cent recorded in 2018 and the strongest pace of annual growth recorded since the bank began compiling its report in 2015.

Rural Bank said it expected farmland values to continue to grow in 2020, but at a reduced rate compared to the growth seen in the past six years.

"While farmers are grappling with new challenges from the COVID-19 pandemic and the ongoing impact of drought and bushfire, agriculture, as an essential industry, has a long track record of getting through difficult times such as these," said Rural Bank chief executive Alexandra Gartmann.

All states – apart from Queensland – recorded strong gains in 2019 led by Western Australia where prices surged 28.2 per cent on the back of above average growing seasons and high cereal prices.

Driving the growth in prices was the biggest drop in transaction volumes in 25 years, with Rural Bank recording 7164 deals in 2019, a fall of 13.2 per cent on the prior year.

Growth spurt

Farmland values, 2019

State	Median price (% YoY)	Transaction volume (YoY)
WA	+28.2	-4.6
SA	+18.4	-8.3
NSW	+17.2	-19.8
Vic	+12.1	-12.9
Tas	+11.1	-5.8
Qld	-0.8	-7.8
NT	-53.9	-36.2
National	+13.5	-13.2

SOURCE: RURAL BANK

In NSW, where more than $3 billion worth of farmland changed hands in 2019, the median price per hectare increased by 17.2 per cent, the sixth consecutive year of growth.

"Reliable, good quality properties that did list were met with solid demand and sold well at a local level," said Rural Bank's head of sales for the east, Jonathon Hewitt.

"Grazing properties were in high demand in southern regions of the state, driven by favourable commodity prices and a lack of listings."

Queensland recorded $2.5 billion worth of farmland sales, but prices remained flat as a higher proportion of lower value properties changed hands.

In Victoria, the median price per hectare increased by 7.1 per cent in 2019, the fourth year of consecutive growth, with just over $1 billion of deals occurring.

South Australian farmland values rose 18.4 per cent in 2018, with stronger demand from farmers seeking to expand and diversify operations into new geographies, identified as a key driver of growth.

"Increased interstate interest has been an element of this stronger demand," said Rural Bank's head of sales for the west, James Robinson.

In its latest outlook report, Colliers International said it expected rural property values to hold firm in 2020 on the back of global food demand, favourable growing conditions and a low Australian dollar, despite the potential for COVID-19 to disrupt supply chains. Ms Gartmann said Rural Bank's latest report showed the remarkable consistency farmland offered as an asset class – particularly if people looked beyond short-term volatility and seasonal vagaries.

"We saw another year of value growth in 2019 across almost every state and territory, demonstrating not only the underlying strength of agriculture's base asset in farmland, but of the sector overall," Ms Gartmann said.

"While land values change from year to year, Australian farmland has delivered an average compound annual growth of 7.5 per cent over the past 20 years."


AFR Wednesday 6 May 2020
www.afr.com | The Australian Financial Review
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Australian farmland has had an average compound annual growth of 7.5 per cent over the past 20 years. PHOTO: ANDREW QUILTY