



Rural property an investment opportunity many overlook

It's not just city dwellers that are amazed – or in some cases bemused – about the resilience of the Australian property market. Farmers have also seen the value of their acreages skyrocket, with some analysts pondering whether the increases have exceeded the ability of the earnings potential of the land.

According to Rural Bank's annual report on farmland values, the median price of Australian farmland rose 12.9 per cent in 2020 – to \$5907 per hectare. This marks the seventh consecutive year of growth, with farm values increasing at a compound annual rate of 7.6 per cent over 20 years.

The 2020 increase was spurred, in part, by the easing of the drought and booming commodity prices, along with the realisation that the Covid-19 pandemic would not temper agricultural demand. It's not just an Australian phenomenon. The UN's Food and Agriculture Organisation's (FAO's) food price index stood at 127 points in May 2021, a circa 40 per cent year-on-year increase. The index is also only a touch below its record high of 137.6 points achieved in February 2011.

Back home, the Australian Bureau of Agricultural and Resource Economics forecasts winter crop conditions to be well above average, but with regional variations. "The opening to the winter crop season was promising ... with favourable late summer and autumn rainfall in most cropping regions in Western Australia, New South Wales and Queensland," it says in its June crop update.

On this evidence, it's somewhat surprising that investors have not shown more interest in rural-based investments. Where they have shown interest, listed agricultural companies have provided a broad exposure to the theme.

ASX agricultural stocks include the diversified Elders, landowner Rural Funds Management, beef producer Australian Agricultural Company, wheat handler Graincorp and almond grower Select Harvests. However, a listed entity will generally move in line with the market, removing the benefits of diversification that investing directly in rural property can provide.

Another investment option is fractional investment that allows farmers to raise capital while retaining a significant portion of their landholding, with mutual benefits flowing to investors, farmers and financial advisers. For investors, it offers:

- Limited funds to be spread across multiple rural property assets, providing diversification through different geographic locations and agricultural usage.
- Enables a socially responsible investment. Investing in rural property can relieve farmers of bank debt and enable them to make capital investments that improve productivity and, in turn, reinvigorate rural communities.
- Enables co-investment with the farmer. In any situation where the person driving the investment has 'skin in the game', they will work hard for positive outcomes.
- Provides security. Fractionalised property is an asset of a registered managed investment scheme and the property title is held by a registered custodian.
- Transparency. Each property asset is segregated into a sub-fund, so returns and costs pertinent to each property are kept separate and applicable to investors in that property only

For farmers, it offers:

- The opportunity to sell a portion of their equity to enable expansion and investment, which in turn provides the farm business with a mechanism to improve economies of scale
- Increased financial flexibility and security. Family-run farms have been under strain from increasing debt, which in turn limits borrowing capacity to purchase more land and grow the business.

For financial advisers:

- Fractional rural property investment provides an opportunity for Advisers to add value to clients by providing exposure to a true growth asset, one that is generally uncorrelated with other growth assets.
- They can easily invest a portion of their clients' portfolio in rural property and take advantage of this emerging thematic. A liquidity facility allows investors to trade out when they are ready to do so, subject to the availability of a buyer.
- Returns are in the order of 5% gross rent plus 7% + capital growth
- Fractional rural investment offers the potential for enhanced fees by including direct rural property investment in client asset allocation strategies.

In an Australian first, in 2017 DomaCom crowdfunded the \$858,000 purchase of Doyles, a western district beef property, delivering a 43 per cent return since inception for the 94 investors, over and above a four per cent rental yield. Since then, DomaCom has looked to continue to revolutionise farm ownership with its fractional investing model, with its Rural Farmland Strategy designed to acquire quality agricultural properties in the range of \$1 million to \$5 million.

The properties can be suitable for grazing, cropping or other areas of food production. The acquisition may be in syndication with other investors, the property vendor or a next-generation farmer.

It's an investment that won't be everyone's cup of tea. But for those interested, it's worth noting a Rural Bank report that showed there were 8187 farm deals in 2020, a 14.5 per cent increase. But this rebound was from record low levels in 2019 and the number of transactions is still about 40 per cent below the peak levels of two decades ago.

The longer-term trend of declining transactions means opportunities are becoming less frequent. Thus, tightening access to suitable parcels of land and increased competition for fewer parcels will play a role in driving increased values. So, for those who want to ride the sheep's back – figuratively, not literally – now is the time to get advice on this form of investment.

For further information on fractional investment in rural farmland or other property types go to www.domacom.com.au or email sales@domacom.com.au

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