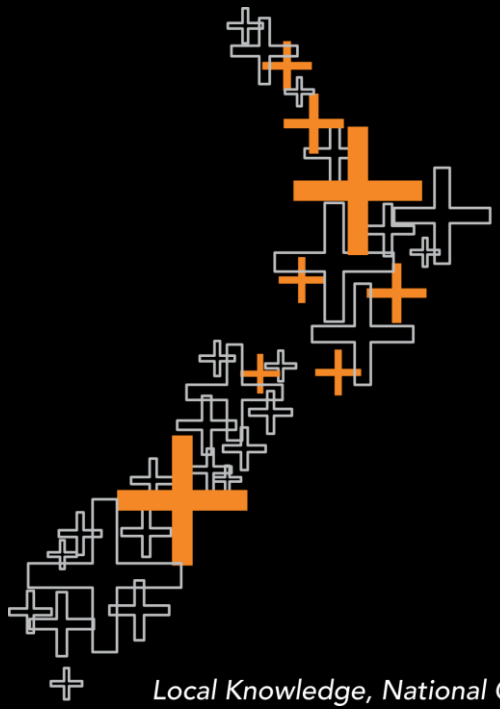
TelferYoung

Valuers Property Advisors

# Nutrient Management

Martyn Craven



*Local Knowledge, National Coverage*

# Introduction

- Rule 11 – Lake Rotorua Catchments
- Land Value Implications
- Regional Policy statement impact
- Variation 5 – Lake Taupo Catchment comparison

# Regional Policy Proposals

- Nutrient benchmark for nitrogen, phosphorous, loss 2001-2004 via overseer inputs
- Proposed revised benchmarks 2015 all properties 740 hectares or > 10 kg N/ha/yr
- 2015 – reduced NDAs range based on Rule 11 benchmark + sector averages

| **Dairy** | **Kg N/ha/yr** | **Drystock** |
|---|---|---|
| < 40 → 30 | | > 27 → 20 |
| 50 → 37.5 | | 20 → 15 |
| > 55 → 40 | | < 14 → 10 |

- Farm Nutrient Plan and Resource Consent by 2017 – managed reduction to 2032 NDA target

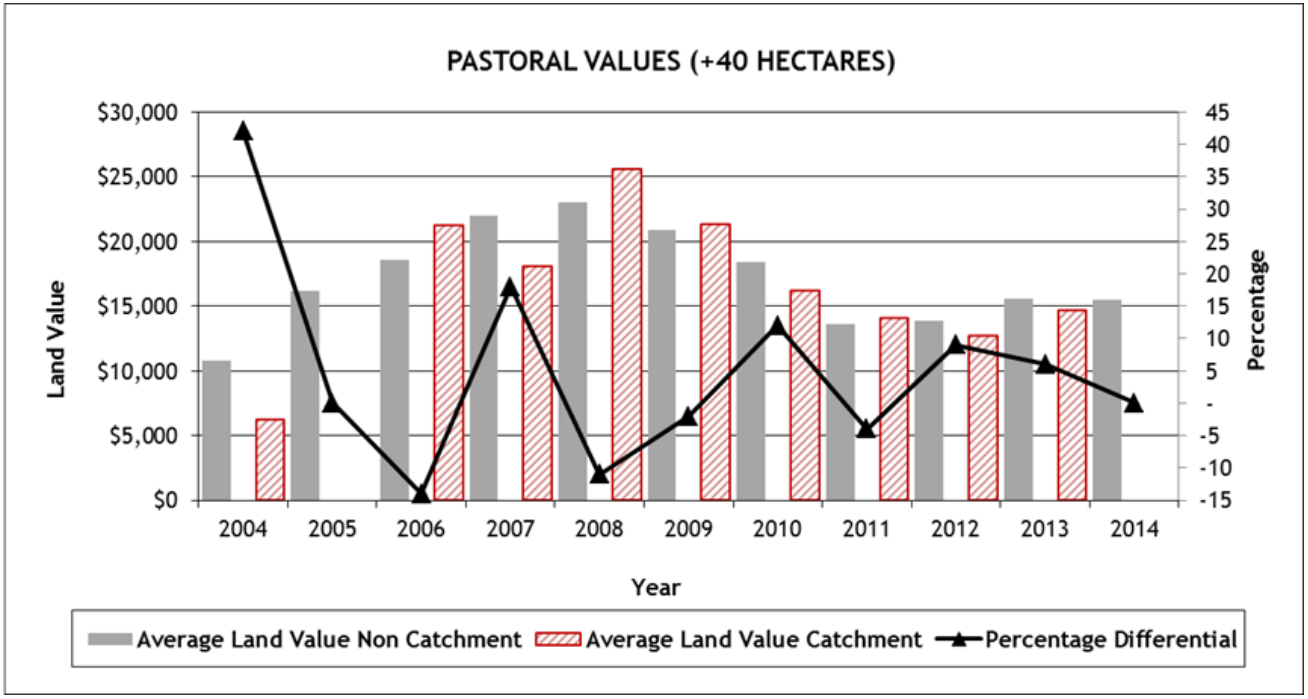
# Variation 5

+ Overseer benchmarks for Nitrogen 2002-2005
+ Allows trading of units

# Land Value = Perceived Benefit of Land Use Rights

Benefits affected:

+ Future land use change (H&B)
+ Potential intensification limited (existing use)
+ Imposition of regulatory costs (form filling)
+ Uncertainty (risk)

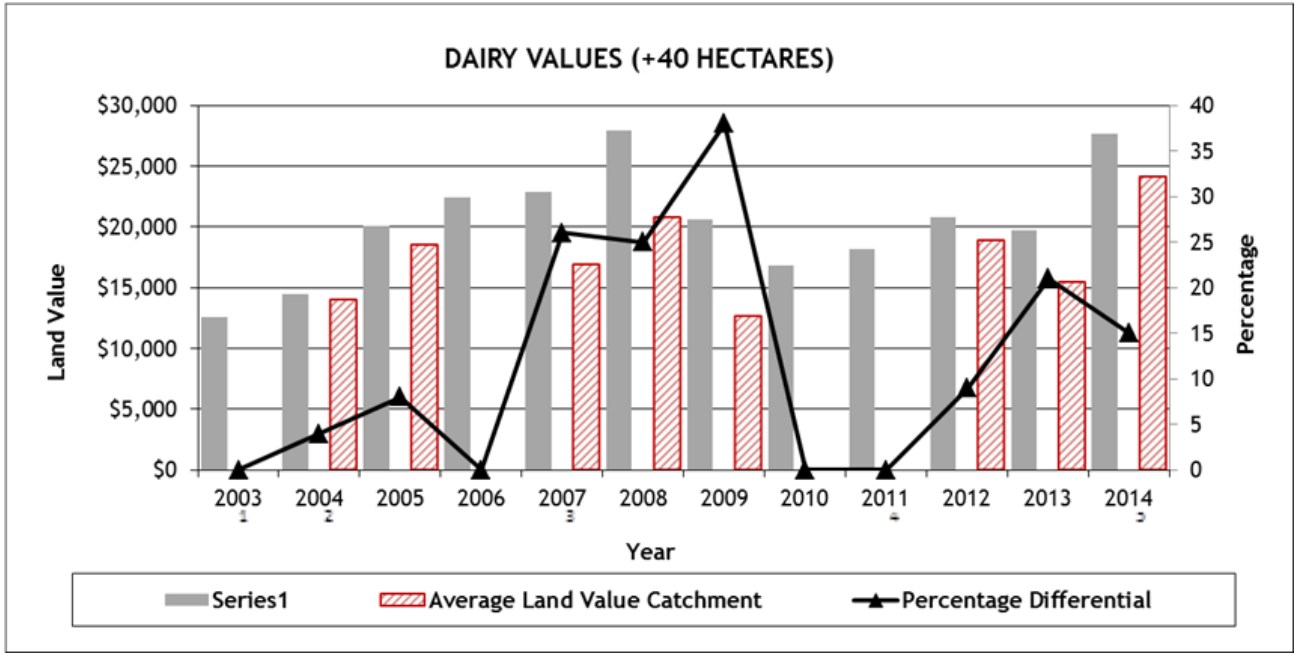



*Example:*
*Average bare land value inside and outside the catchment (after Valuer adjustments) for each year. Percentage differential between bare land values for sales in the catchment or outside of the catchment each year shown by triangle (percentage figure shown on right-hand axis).*

Data further amended by Valuer adjustment for specific property factors (i.e. additional Titles, zoning, lake views) in attempt to exclude non farming value factors likely to impact on sale price.

# Conclusions

- Non-amended data analysis shows no discernible correlation
- It can be asserted that there is a detrimental value impact due to location within Lake Rotorua catchment.
- Following valuer adjustment - between $4,564/ha (42%) and -$2,660/ha (-14%).
- The value differential for properties outside the catchment is reduced to $3,858/ha - $873/ha.
- Differentials in contour, size and productive capacity limit the reliability.
- We are of the opinion a negative value impact 10-20% for location within the catchment, dependent upon economic capacity.

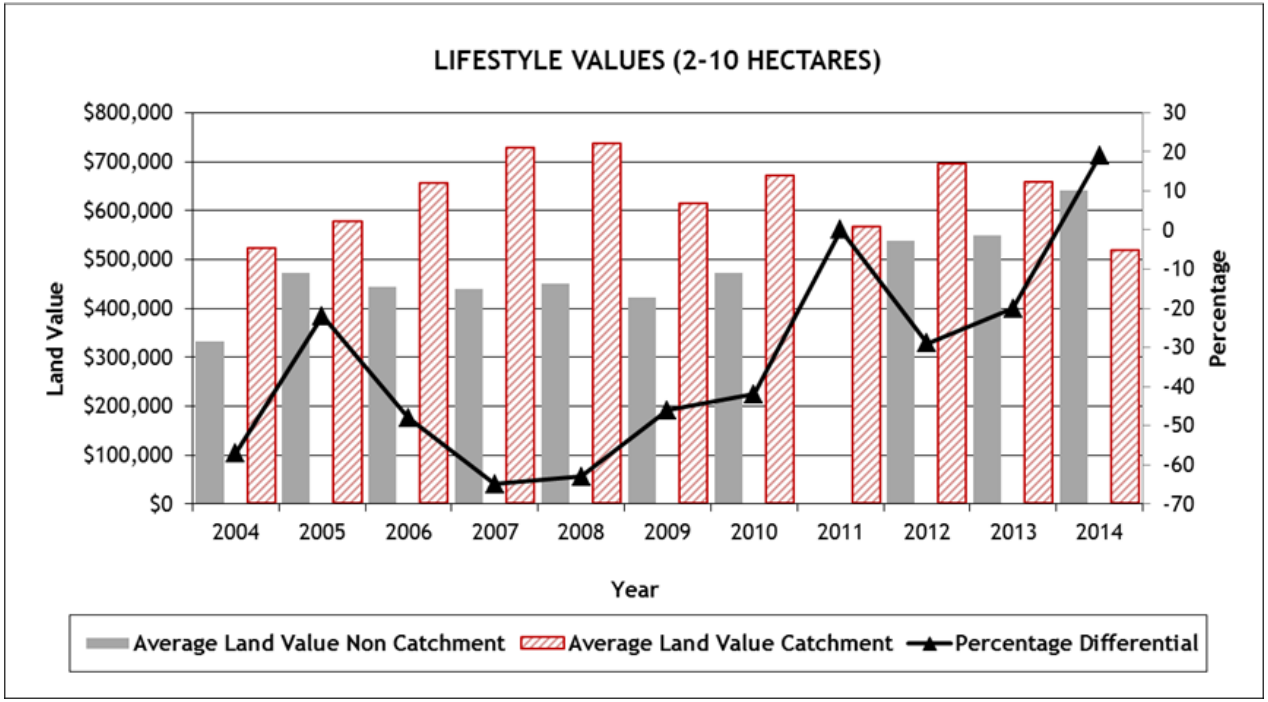



Notes:

1. 2004 –adjusted for significant additional value - native bush/non-productive.
2. 2005 – one lake catchment sale adjusted for subdivision potential.
3. 2008 – one lake catchment sale excluded due to zoning, development land acquisition.
4. 2012 – adjustment to purchase price for adjoining owner premium.
5. 2014 – adjustment to non catchment to exclude lower quality farms.

# Conclusions

- Relatively clear conclusion that dairy farm property values are detrimentally impacted by location within lake catchment.
- Range of $525/ha to $7,920/ha (4%-38%).
- More detailed analysis derives values to a common denominator. On this basis the value variation is considered not to be as volatile/varied as the data results.
- Valuer's detailed analysis that there is a negative value impact 15-20%
- The negative impact is highest where the allocated nutrient units promote that dairying will become marginal in terms of being able to carry sufficient cow numbers.



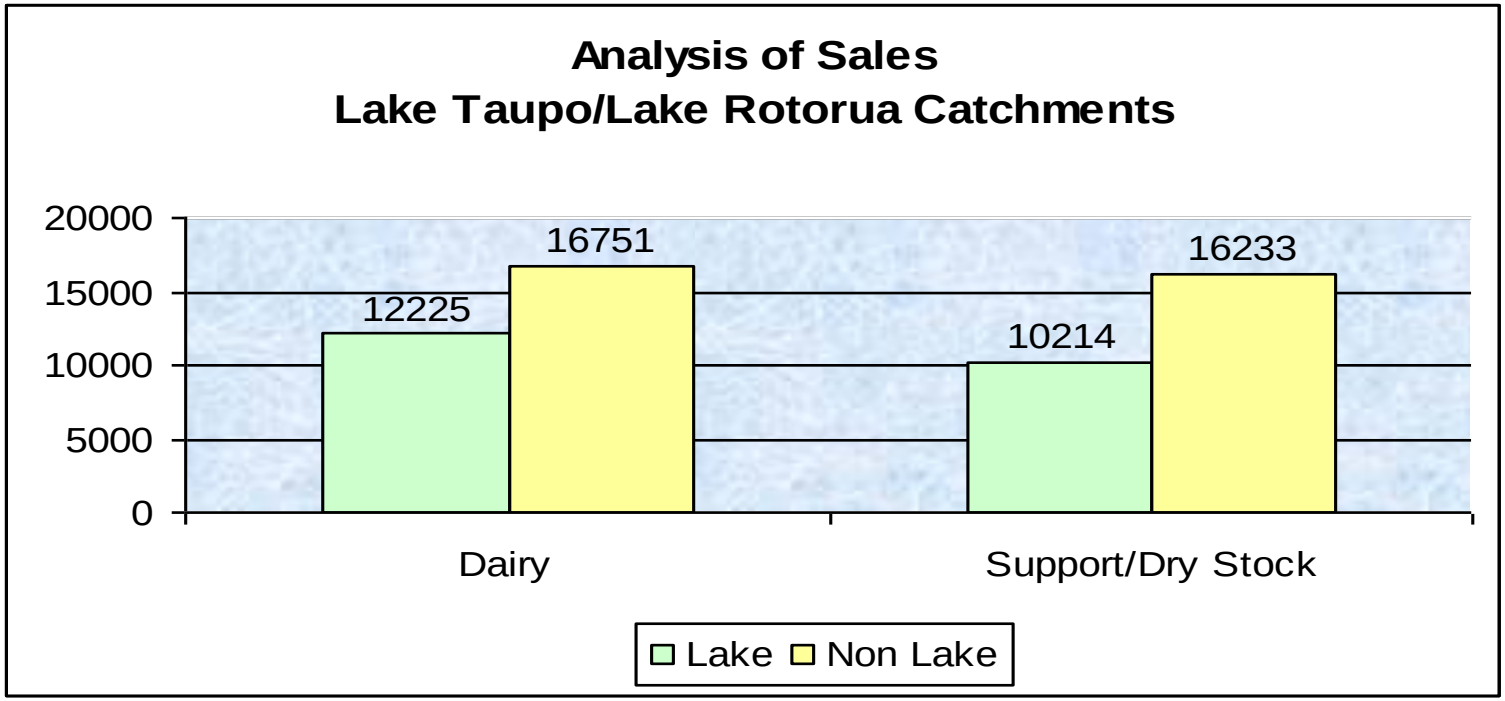

- Values for lifestyle properties significantly higher on average for location within lake catchment as opposed to outside of lake catchment.
- Main value driver for lifestyle purchasers is location, being primarily proximity to Rotorua, lake views or other amenity value.
- Subjective Assessment approx. 5%.

# Rule 11 - Summary

- Considered to introduce a nominal 10% reduction of value.
- Further 5%-10% reduction considered dependent upon the actual nutrient allocation (higher % where low nutrient benchmark).
- Regional Policy statement proposal expected to create further 10%-15% reduction by reducing farming capacity marks.
- Rule 11 and the RPS - impact on property values highest where assessed benchmark results in the land's highest and best use potentially not being feasible.
- RPS - where NDA of a dairy farm falls to minimum allocation, it will become difficult to farm viably and owners may be forced to consider a less intensive land use.

# Scenario 1

- Benchmark allows land's highest and best use, restriction limited to future intensification
- Analysis of sales Lake Taupo/Rotorua catchments 2007-2012



# Financial Impact

| Dairy | Drystock/Support |
| --- | --- |
| 27% | 37% |

$4,500 to $6,500 per hectare on current values
Dairy 2013 – average land value $25,000
$6,750 to $9,250 per hectare

# Scenario 2

- Benchmark prohibits highest and best use
- Land suitable for dairy but restricted to dry stock
- Analysis of dry stock/dairy support value differentials at 2009 values

Average dairy farm value (13) $26,164 eff ha

Non dairy (21) $16,930 eff ha

$ 9,234 eff ha

Source: TelferYoung Database

# Nitrogen Units - Current Values

- Assume dairy 40 – 55 N
- Good support dry stock 20 – 25 N
- Differential 20 – 30 units N
  $6,500 - $9,750 = $325/unit
- Evidence - Taupo units of N $300 - $400/N
- Rotorua Catchment:

| | | | |
|---|---|---|---|
| 6,360 ha dairy @ 40N | = | 255,000 NDA | $146m ($23,000/ha) |
| Drystock @ 18N | = | 115,000 NDA | $95m ($15,000/ha) |

= $365/unit plus a risk /profit allowance

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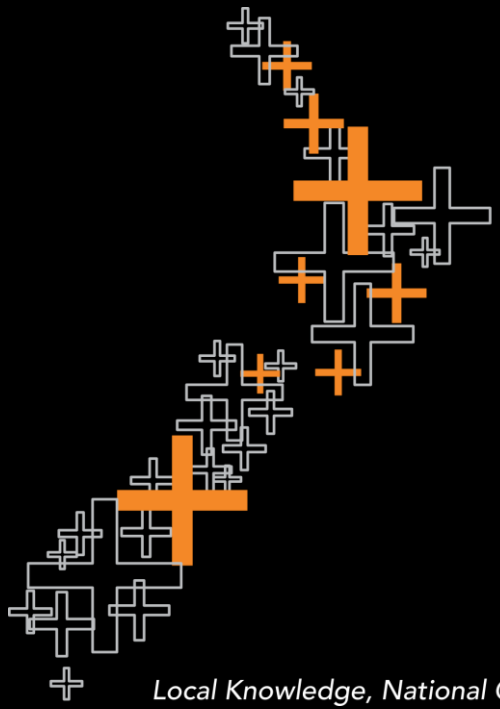

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