

FINANCIAL REVIEW

SE **Property**
HD **Funds seek set-and-forget rural assets**
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Appetite is growing among fund managers for large, rural assets they can lease back to institutional-grade operators in a high-yielding "set-and-forget" investment approach.

Dave Bryant, managing director of Rural Funds Management, which has about \$320 **million** worth of rural assets under management, told The Australian Financial Review there were large pools of investment capital – ultimately retirement savings – seeking assets with reliable cash flows and where assumptions could be made about future capital growth.

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"This fits perfectly with agriculture assets leased to counter-parties," he said.

RFM, which has about \$320 **million** worth of agricultural assets under management, spun off \$250 **million** worth of vineyards, almond groves and chicken farms into the Rural Funds **Group** (RFF) in February, establishing the only listed agricultural **property** trust on the ASX.

RFF's almond groves are leased to almond grower, Select Harvests, its seven vineyards properties are leased to Treasury Wines and its 17 chicken farms are leased to chicken broiler RFM Poultry which grows chickens for large private producer Baiada. The average lease term is 13 years.

Mr Bryant said RFF would pursue other investments on the back of future **equity** raisings and would widen its investment profile once there was further yield compression.

"We can balance our portfolio, to generate the income the market expects. Our vineyards and poultry assets are both returning around 10 per cent" he said.

Colliers International agribusiness valuer Tim Jelbart said there was an appetite for **commercial**-grade assets returning between eight and 10 per cent. Passive investment

"The large funds are buying a passive type of investment, which they then lease back to an established operator.

"Most of these deals are struck on a triple net leases (meaning all operational costs are borne by the tenant) Lease terms range from five to 10 or even as long as 20 years," he said.

Mr Jelbart said this type of investment had been happening in vineyards for quite a while. Examples include Belvino Investments, the former Challenger **Wine** Trust, now majority owned by **Hong Kong**-listed CK Life Sciences. The trust manages 7300 hectares of vineyards spread across Australia and New Zealand and recently acquired another vineyard in New Zealand. "Before they **buy** anything, they structure an agreement with the future tenant," Mr Jelbart said.

The **sale** of poultry producer Ingham Enterprises to private **equity group** TPG in a **sale** and lease back deal was another example of the passive investment strategy, Mr Jelbart said.

But, veteran agribusiness valuer Sam Paton questioned the long-term viability of these investment schemes, which he said had failed in the past and were propped up by "unrealistic rental arrangements".

"The best custodians of land are the cashed-up owner-occupiers who have been in the game for long time and who **acquire** land as they make more money. Owner-occupiers wait for counter- cyclical opportunities and **buy** under-pressure assets at good prices."

Mr Paton said some funds were paying "rock star prices" and then selling the assets at heavy losses once lease terms expired.

Herron Todd White rural valuer Tim Lane said in the **firm's** June report there was an emerging investor profile seeking long-term returns of between seven and nine per cent prepared to "lease country on a long-term basis to operators that wish to deploy their capital in the enterprise and not the land".

Key points Fund managers after long-term returns are looking at agricultural operations. Critics say owner-occupiers do better with assets than long-term passive investors.

CO ocbhvj : Rural Funds Group

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