



Profitability. Sustainability. Competitiveness.

# Land price, debt and equity impacts on Rotorua farms

STAG 21 July 2015

# Impacts of limits on land values

- Very new area – we are making up new methods as we go
- Not that rational at the moment
- Needs new skills in the sector – heavier focus on productivity, costs and EBIT
- Need to consider both equity positions and capacity for debt servicing.

# Rule 11 impacts recap

Telfer Young Report:

- Dairy ~ 10% loss
- Drystock ~ 10-20%
- Small blocks ~ 10-25%
- Lifestyle ?

Other impacts are ADDITIONAL.

# Range allocation impacts on land price

	"Range" allocation					
	Opt LU 50% frictions		5000ha no frictions		5000ha 50% frictions	
	Cost at \$60/kg	per ha	Cost at \$118/kg	per ha	Cost at \$444/kg	per ha
Dairy	\$ 1,600,644.24	\$ 318.58	\$ 3,147,933.67	\$ 626.53	\$ 11,844,767.38	\$ 2,357.47
Dairy support	\$ 197,064.34	\$ 145.11	\$ 387,559.87	\$ 285.38	\$ 1,458,276.12	\$ 1,073.79
Sheep and dairy	\$ 162,860.85	\$ 54.16	\$ 320,293.00	\$ 106.52	\$ 1,205,170.26	\$ 400.79
Sheep and beef	\$ 528,662.87	\$ 79.12	\$ 1,039,703.64	\$ 155.60	\$ 3,912,105.22	\$ 585.47
Forestry	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total farm	\$ 2,489,232.29	\$ 107.45	\$ 4,895,490.18	\$ 211.32	\$ 18,420,318.98	\$ 795.14

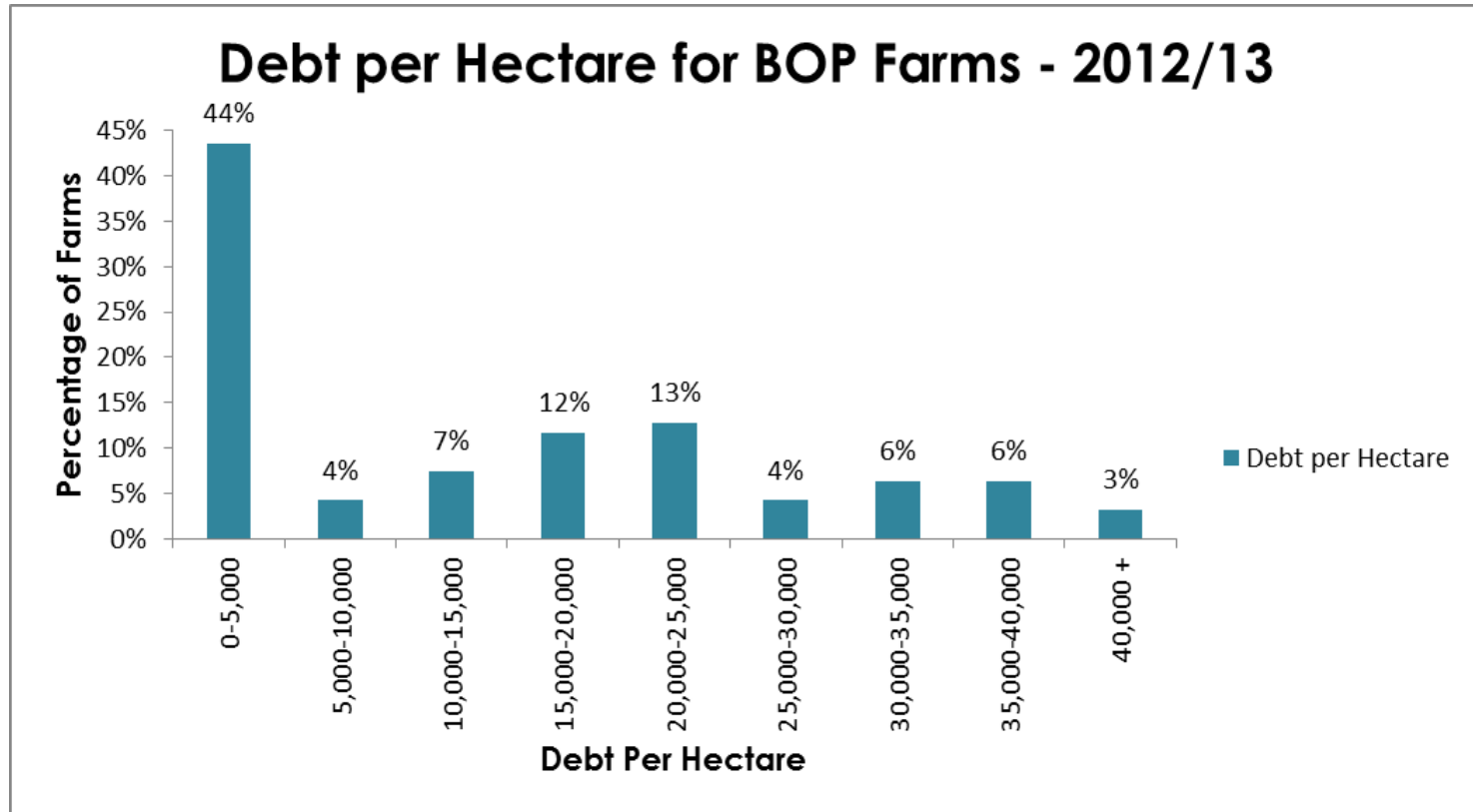
Land values based on recent sales:  
 \$14,550/ha drystock, \$20,307/ha dairy

# Natural capital allocation impacts on land price

	"Natural Capital" allocation					
	Opt LU 50% frictions		5000ha no frictions		5000ha 50% frictions	
	Cost at \$61/kg	cost per ha	Cost at \$118/kg	cost per ha	Cost at \$551/kg	cost per ha
Dairy	\$ 3,841,626.72	\$ 764.60	\$ 7,431,343.49	\$ 1,479.06	\$ 34,700,595.44	\$ 6,906.47
Dairy support	\$ 217,853.03	\$ 160.41	\$ 421,420.62	\$ 310.31	\$ 1,967,820.02	\$ 1,448.98
Sheep and dairy	\$ 67,026.05	\$ 22.29	\$ 129,656.95	\$ 43.12	\$ 605,432.04	\$ 201.34
Sheep and beef	\$ 299,335.40	\$ 44.80	\$ 579,042.24	\$ 86.66	\$ 2,703,832.84	\$ 404.65
Forestry	-\$ 1,895,174.04	-\$ 267.10	-\$ 3,666,074.37	-\$ 516.69	-\$ 17,118,703.19	-\$ 2,412.68
Total farm	\$ 2,530,667.16	\$ 109.24	\$ 4,895,388.93	\$ 211.32	\$ 22,858,977.14	\$ 986.75

Land values based on recent sales:  
 \$14,550/ha drystock, \$20,307/ha dairy

# Distribution important



Younger debt will have some correlation with EBIT (i.e. land productivity) which has implications for **debt servicing**.

# Equity

- Not enough data for statistical strength
- Take an average value for land price
- Assume low end 15% equity, high end 85%
- Enables comparison for both dairy and drystock.

# Equity impacts

RANGE	\$ Impact	Impact % asset value	Net equity – high debt (0.85)	Impact % equity – high debt	Net equity - low debt (0.15)	Impact % equity – low debt
Dairy support	-\$1,073.79	-7%	\$1,108.71	-49%	\$11,293.71	-9%
Sheep and dairy	-\$400.79	-3%	\$1,781.71	-18%	\$11,966.71	-3%
Sheep and beef	-\$585.47	-4%	\$1,597.03	-27%	\$11,782.03	-5%
Dairy	-\$2,357.47	-12%	\$688.58	-77%	\$14,903.48	-14%

Natural Capital	\$ Impact	Impact % asset value	Net equity – high debt (0.85)	Impact % equity – high debt	Net equity - low debt (0.15)	Impact % equity – low debt
Dairy support	-\$1,448.98	-10%	\$733.52	-66%	\$10,918.52	-12%
Sheep and dairy	-\$201.34	-1%	\$1,981.16	-9%	\$12,166.16	-2%
Sheep and beef	-\$404.65	-3%	\$1,777.85	-19%	\$11,962.85	-3%
Dairy	-\$6,906.47	-34%	<b>-\$3,860.42</b>	-227%	\$10,354.48	-40%



# Risks

- Debt servicing at risk
- On average, range scenario not likely to result in negative equity – but some will have bigger impacts
- Natural capital catastrophic for dairying