

What farm details investment buyers are looking for

Marcus Elgin is executive chairman of AAG Investment Management and has executed farm land purchases on behalf of corporate investors which have topped \$390 million during the last four years. He says comprehensive soil health and yield data is rarely available on Australian farms when his company is undertaking due diligence on prospective properties. It's a different situation in the US.

"In some countries like the USA, soil mapping per property is public information, along with yields, rotations and in some cases full soil test history. Sadly, that is not the case in Australia, where soil mapping is "Department of Minerals" stuff, and is likely to be accurate to within five kilometres," he says.

The soil health and enterprise performance Elgin is looking for when undertaking property due diligence includes:

- Soil type information
- Soil test data (complete analysis) and ideally over a three to five year period
- Water test data from bores or surface diversions (particularly is water is used for irrigation)
- Cropping history (for crops – sowing rate, inoculants used, fertiliser used at planting, post planting, chemicals applied, relevant timings, rotations, resistance issues with chemical.
- For pasture – stocking rates and types of animals grazed, management system, supplementary feeding regime, what grasses/pasture was planted and when, what was used to improve pasture production.
- Fertiliser history, plus any other soil conditioners used (manure, liquids, lime, gypsum).
- Chemical use history
- Crop yields bearing in mind the above. Livestock requires a different set of performance parameters to judge what was "taken out"
- Machinery used to plant the crop (it gives an idea about tillage systems, compaction, possible hardpans etc)
- Post harvest management (burnt, left, prickle chained)
- Rainfall records on that block, both whole of year and growing season rainfall.

"Ultimately, due diligence data tells us what the return per hectare was on that farm for the last three plus years, compared to the management system employed. That tells us what the gross and net income was, and allows us to extrapolate to what we think the net income could be. We can then work back to see under which of those scenarios the Return on Investment/Return on Capital

Employed (includes working capital and other exposures such as machinery leases/ Internal rate of return (ROI / ROCE / IRR) that we need can be achieved,"he says.

But Elgin points out that that while having really good records decreases the risk for the investor, it does not necessarily increase the price or even assure a sale.

"Good records are like a two edged sword: they also prove under performance, and demonstrate that the farm is not worth what the vendor wants. Buying land is easy, buying good land is very much harder," he says.

Growth Farms Australia manages eastern states properties for a range of corporate investors. It currently has around 110,000 hectares under management across 40 properties. Chief executive, David Sackett says it is usually difficult to source crop, livestock and soil health data from prospective sellers.

"It is often difficult to get accurate and long-term data from owners, plus the information shows what has been achieved under current management which may be very good or may not be that good."

To compensate Sackett says soil tests are one of the tools used for property appraisal. In addition Growth Farms Australia use readily accessible tools such as the French Schultz



Marcus Elgin says comprehensive soil health data is rarely available for Australian farms.

water use efficiency model and in some cases APSIM and meets with local advisors who know the property for their assessment.

He says a farm's livestock performance is harder to determine than crop yields because measurement of carrying capacity, usually expressed in dse's can be based on a wide range of criteria. For example do farmers calculate annual average or autumn/winter grazed dry sheep equivalents because they give very different answers?

"We look at what has happened (numbers, lambing/calving time, sales etc) but place more emphasis on what we think the place will do based on our assessments and the system we would run, which will be influenced by some benchmarks and possibly some modelling through something like Grassgro. Soil tests, fertiliser and lime history and pasture assessment are really important here," Sackett says.

Asked about buying decisions between a well-managed farm with a good resources base versus a more degraded property in the same district, Sackett says in his experience good farms are undervalued and poor farms are overvalued so this provides good opportunities for astute buyers.

"However, some low production farms can be turned around quickly and if you buy those based on historical productivity, they can be cheap buying because we have seen plenty of cases where production can be lifted by 20-30% in a year or two and with that, profits might be increased by 50%.

For example, addressing P deficient soils, particularly if there is a good base of pasture present can give quick and very good returns. However, if productivity is low say because of surface and deep soil acidity, reversing that is a long and expensive process and a farm with that sort of problem will probably be always too expensive.

"In the acquisition process it can be easy to become overwhelmed with information – the key is to be able to work through it all, know what matters most and be able to put it all together to see how the business is likely to perform and what the risks are," he says.

– Patrick Francis