



# New Zealand **Rural Land Co**

The Rural Land Investors

ACQUISITIONS, TENANT AND LEASING  
POLICY

13 NOVEMBER 2020

[www.nzrlc.co.nz](http://www.nzrlc.co.nz)

listed on:





## Acquisitions, Tenant And Leasing POLICY

### 1 Statement

- 1.1 New Zealand Rural Land Company Limited (**NZRLC**) will acquire New Zealand rural land across agricultural sectors and lease it to experienced tenants that undertake agricultural activities (**Tenants**).
- 1.2 NZRLC's objective is to purchase high quality rural land at a discount to intrinsic value, and for increases in capital value attributable to that rural land over time increasing the value of rural land assets on NZRLC's balance sheet.
- 1.3 NZRLC's intention is to be a landlord only. This will provide a clear separation of land and agricultural operations and mitigate the traditional investment risks in agriculture (which Tenants will assume). NZRLC considers that its leasing proposition is attractive to Tenants as they can allocate their capital towards growth in their agricultural operations.

### 2 Acquisition Strategy

- 2.1 NZRLC, through its manager New Zealand Rural Land Management Limited (the Manager), will look to initially contract acquisitions of large-scale dairy land.
- 2.2 NZRLC will look to acquire rural land around New Zealand in order to spread its land value risk, ensuring that it is not over exposed to one region and protect against regional fluctuations in land value. In the long term, NZRLC will also look to acquire rural land in agricultural sectors other than dairy, which will further diversify its risk portfolio.
- 2.3 Rural land for acquisition will be assessed against the following general characteristics:
  - 2.3.1 Climate:** Limited history of localised extreme weather events such as drought;
  - 2.3.2 Production:** Historical milk production, efficiency on a per cow and per hectare basis and productive capacity;
  - 2.3.3 Capacity:** Ability to support appropriate herd sizes and opportunities to increase capacity by acquiring adjoining land;
  - 2.3.4 Infrastructure:** High quality infrastructure with modern and efficient milking sheds, worker accommodation and irrigation systems; and
  - 2.3.5 Environmental:** Holding all necessary resource consents, sustainable fertiliser use and other best environmental practices;
  - 2.3.6 Farm Size:** The ability to support large scale operations; and
  - 2.3.7 Skilled Labour:** Location and availability of skilled labour.
- 2.4 NZRLC will also investigate opportunities to acquire rural land that a Tenant owns with a view to leasing the land back to the Tenant who would have operational familiarity combined with the release of considerable capital to invest in their operations.
- 2.5 On identifying a potential acquisition, NZRLC will run a detailed due diligence process to assess the appropriateness and value of the rural land prior to committing to acquiring it. The Manager will lead due diligence and acquisition negotiations, with external, specialist consultant support where required. Due diligence will also involve commissioning an independent valuation of that rural land and a review of environmental law compliance.

- 2.6 Due diligence will specifically seek to identify any capital expenditure requirements or improvements on the rural land. NZRLC will develop a budget during its due diligence enquiries that includes a general capital expenditure allowance having regard to the specific requirements of the rural land, ensuring that an appropriate allowance is made for maintaining each property and replacing items at the end of their useful life. The capital expenditure allowance will be an important factor in determining the purchase price and the lease terms it is prepared to enter in respect of that rural land
- 2.7 NZRLC will acquire rural land only where it has a binding commitment to lease that rural land in place with an appropriate Tenant. Any acquisition contracts must be conditional on this requirement. A prospective Tenant will be expected to be heavily involved in the due diligence process, focusing on operational due diligence.
- 2.8 At the conclusion of due diligence, the Manager will report to the Board of NZRLC (the **Board**) on the due diligence investigations, proposed acquisition terms and proposed leasing arrangements and make a recommendation to proceed or not. The Board will assess the due diligence outcomes against NZRLC's investment strategy and decide whether or not to proceed with an acquisition.
- 2.9 Where the Board decides to proceed with an acquisition that constitutes a major transaction under the NZX Listing Rules (where the value of the acquisition exceeds 50% of NZRLC's market capitalisation), NZRLC will seek shareholder approval.
- 2.10 NZRLC will fund acquisitions from cash reserves and from debt (with debt limited to 30% of NZRLC's net asset value). Debt will, subject to the 30% limit, generally be sought on interest only repayment terms. NZRLC will also provide first mortgage security over the rural land acquired to secure NZRLC's borrowings. NZRLC part fund acquisitions through a placement of ordinary shares in NZRLC to a vendor and may also require vendors to escrow or enter restricted security deeds in respect of the ordinary shares that they receive.
- 2.11 NZRLC's rural land assets will be independently valued every year to determine a fair value of those rural land assets for inclusion in NZRLC's audited accounts.

### 3 Leasing and Tenant Strategy

- 3.1 Tenants will be selected based on:
- 3.1.1 an operating history which shows strong performance and experience;
  - 3.1.2 strong balance sheets or able to provide other suitable security, and ability to service rent obligations;
  - 3.1.3 calibre of management and governance; and
  - 3.1.4 farming practices - sustainability, environmental compliance and animal health and welfare.

#### NZRLC's Criteria for Selecting Tenants

NZRLC selects Tenants based on the following criteria:



3.2 NZRLC will seek to include in its leases minimum terms based on the following:

- 3.2.1 Term:** A minimum lease term of 10 years, having regard to the asset class with rights of renewal to be agreed on a case by case basis with a target of an initial weighted average lease term of 10 years across its land portfolio.
- 3.2.2 Rental:** A minimum gross lease rate (being the annual rental payable divided by the acquisition cost of that leased land expressed as a percentage) of 4.5% to be negotiated by NZRLC with rural land vendors and Tenants respectively, with consumer price index (CPI) rent reviews every three years. Ratchet clauses will be sought where appropriate.
- 3.2.3 Security:** Tenants will be expected to hold and maintain equity of at least six times their annual rental obligations or provide other suitable security for their lease obligations to NZRLC (such as guarantees, bonds or charges over milk payments). Security arrangements such as bonds, charges over milk proceeds and/or supporting guarantees will be sought where appropriate.
- 3.2.4 Operating Expenses:** To be met by Tenant.
- 3.2.5 Maintenance:** The Tenant is to be generally responsible for the costs of maintenance of the land, buildings and amenities during the term, however this will be negotiated on a case by case basis as the arrangements will need to reflect the age and quality of the specific buildings and amenities in question together with any intended capital improvements.
- 3.2.6 Capital Expenditure:** Capital expenditure for improvements will be a defined obligation of NZRLC to meet when an improvement is at the end of its useful life. Other capital expenditure for improvements will be agreed on a case by case basis with Tenants, having regard to the needs of the particular property to be efficient for the Tenant's operations.
- 3.2.7 Land Use Guidelines:** Covenants to be included to require the Tenant to:
  - a. Land Use:** sustainable land use appropriate to the asset class.
  - b. Environmental:** farm in accordance with resource consents, applicable law and industry best practice.
  - c. Animal Welfare:** comply with the Animal Welfare Act 1999 and other applicable legislation and codes.
  - d. Access:** allow access to NZRLC or its agents at least annually for the purpose of reviewing compliance with the lease terms.
  - e. Health and Safety:** have best practice policies and compliance with health and safety requirements to support the safety and wellbeing of persons that are present on the land at any time.

NZRLC will regularly monitor a Tenant's compliance with Land Use Guidelines.

- 3.3 Leasing arrangements must be approved by the Board as part of approving an acquisition, with that decision being based on information and recommendations presented by the Manager.
- 3.4 Where a Tenant breaches the terms of a lease, NZRLC may require them to take remedial action or take Court proceedings for damages resulting from the breach. In an instance of a material breach of a lease, NZRLC may also seek to terminate the lease and replace the Tenant. NZRLC will look to build a list of potential Tenants to ensure that it can minimise the time that it takes to find a suitable replacement Tenant.