BUDDLE FINDLAY

New Zealand for sale but to whom?

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There are a number of factors which make New Zealand assets (particularly rural land) look like great buying for overseas investors at the moment. However, the current situation also presents good opportunities for domestic investors with a long investment horizon.

While the recent increases in the Global Dairy Trade Price Index are encouraging, the slowing Chinese economy seems likely to spell the end of the commodities boom in dairy and other primary products. This, in turn, will put pressure on farmers and the price of rural land. It is therefore not surprising that anecdotal evidence suggests that there are a number of vendors in, or about to enter, the market for rural land (although, interestingly, the quality of listings remains high and, as yet, there is limited suggestion of forced sales).

These factors, combined with recent New Zealand dollar weakness, mean that overseas investors may not see New Zealand land as fully priced as it has been in the recent past. In addition, underlying overseas demand for New Zealand productive land is thought to remain strong. For these reasons, the Overseas Investment Office may see an upswing in applications in the short to medium term.

A reasonably unscientific survey of previous waves of overseas investment suggests that there have been trends in overseas investment in the past. High country stations seemed to be in vogue in the late nineties and early 2000s. More recently, dairy assets appear to have been particularly targeted. No doubt further trends will be observed in the next wave of investment.

One trend that the Overseas Investment Office might do well to encourage is domestic co-investment with, rather than outright sale to, overseas investors. The 2010 amendments to the Overseas Investment Regulations specifically identified New Zealand participation in the management, governance or ownership of an overseas investment in sensitive land as a factor which the Office and responsible ministers could take into account when determining an application. This factor seems particularly appropriate now when a number of good rural operators will be under pressure and looking to recapitalise.

There are a number of factors which make New Zealand assets (particularly rural land) look like great buying for overseas investors at the moment. However, the current situation also presents good opportunities for domestic investors with a long investment horizon. Domestic investors may not have the benefit of the currently favourable exchange rate but they might also see the current climate as an attractive one in which to co-invest with existing rural businesses. This will particularly be the case if they can do so while preserving their tax position and without incurring any undue risk.

This objective can be achieved in a number of ways but New Zealand's limited partnership regime provides a means by which overseas investors can safely and efficiently invest in rural New Zealand while still allowing varying degrees of local participation. Here's hoping that it's a model which finds favour with current rural operators, global and local investors and the Overseas Investment Office.

This article was written by Mark Odlin, partner in our corporate and commercial team, for the National Business Review (NBR) on 18 September 2015.

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