Closing the Deal: Politics and Economics of Tenure Review

Ann Brower
Senior lecturer in public policy
Lincoln University
Christchurch, NZ
Benmore, Dalrachney, Longslip, Ben Avon, Birchwood Stations

Gilbert van Reenen
A Gold Studded History

These unique blocks in the historic Bendigo area are situated on the banks of the Clutha River - bordering riverfront reserve. With wide open vistas to green pastures, each block has access to the river and enjoy a stunning panorama of snow-capped St Bathans and Pisa mountain ranges. Just 30kms to Wanaka, 20kms from Cromwell and one hours drive to Queenstown Airport.

<table>
<thead>
<tr>
<th>Lot</th>
<th>Price</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lot 1</td>
<td>$285,000 + GST</td>
<td>3.9ha</td>
</tr>
<tr>
<td>Lot 2</td>
<td>$295,000 + GST</td>
<td>3.39ha</td>
</tr>
<tr>
<td>Lot 3</td>
<td>$325,000 + GST</td>
<td>3.74ha</td>
</tr>
<tr>
<td>Lot 4</td>
<td>$245,000 + GST</td>
<td>3.7ha</td>
</tr>
</tbody>
</table>

Fully serviced sites with water, power and telephone

Gordon Stewart
Cromwell First National
Office: 03 445 1748
Mobile: 021 212 3497
Email: gordon@homesforyou.co.nz
Web: www.homesforyou.co.nz

Bob Mercer
Apsiring Realty Ltd, Wanaka
Office: 03 443 0131
Mobile: 027 231 7387
Email: bob.m@locations.co.nz
Web: www.locations.co.nz
FOR SALE

Gibbston Valley

442 9000

Five acre Serviced House sites

CONTACT Cameron Reed 021 790 152

WEB belleproperty.co.nz
The legal setting

• Land is "suitable or adaptable primarily for pastoral purposes only." (Land Act 1948)

• “A pastoral lease gives the holder—
  (a) The exclusive right of pasturage over the land:
  (b) A perpetual right of renewal for terms of 33 years:
  (c) No right to the soil:
  (d) No right to acquire the fee simple of any of the land.”
(CPLA 1998 § 4(a-d)
(replacing and repeating Land Act § 66)

The geographic setting

Crown pastoral estate

2.4M hectares

10% of NZ
The Policy Setting


Crown buys lessee’s interest in 42%, and
Lessee buys Crown’s interest in 58%.

Prices paid in each deal are classified.
Feb 2006: Aggregate equalisation payments reveal Crown paid $18.5 million, on net.

Feb-Aug 2006: Farmers argue $18.5M is fair, because farmers have perpetual rights of exclusive possession, which equate to freehold.

Aug 2006: Minister of Lands releases prices paid in each deal.
Lake Wanaka
Glendhu Golf Resort Plans Unveiled
(Southland Times, 2 May 2007)

18,957 ha
privatised

4767 hectares
conserved

Crown paid farmers
$263,000
Richmond Station, Lake Tekapo

Deal signed August 2006:

Privatised 6139 hectares (including 9km of shoreline)
Conserved 3471 hectares (higher altitude)

Crown paid new owner $325,000

Interest group flip-flop: Enviros say stop, farmers say please continue.
Crown’s valuation: highest best use of 540 ha of Tekapo lakefront = ‘most definitely’ deer farming

Difference in value between pastoral leasehold and freehold = $42,200 = $78 / hectare

Ignores option to develop that arises with freehold ownership.

January 2008: New owner of Richmond applies for, and obtains, consent to subdivide without public consultation.
Tenure review — chances are you’ve got absolutely no idea what this phrase means. Despite nearly 20 per cent of the South Island being carved up and some of the country’s most precious landscapes coming under threat, people are only just starting to wake up to its enormous effects. MIKE WHITE travels south and unravels a process that even the government is now desperately trying to rein in.

High Country Hijack

MIKE WHITE IS A NORTH & SOUTH SENIOR WRITER.
Q1: How do we explain the equalisation payments in tenure review?
   Value of property rights exchanged?
   Crown hold-out for a good deal?
   Lessees’ hold-out for a good deal?
   Crown closing the deal at any cost?

Data: calculated value of Crown’s interest in each lease =
\[ \frac{P_{\text{lessee}}}{P_{\text{lessee}} + P_{\text{Crown}}} \]

Q2: Does tenure review give rise to windfall gains?

Data: ratio of on-selling price to price to privatise =
\[ \frac{P_{\text{lessee}}}{P_{\text{onsell}}} \]
Predicting payouts ...
Runholders’ ideal case

Percentage of original lease area privatised
Demand curve for freehold land:
Price per ha by size

not near lake or
Queenstown, Wanaka

near lake or
Queenstown/Wanaka
Crown’s demand curve for conservation land

Crown’s ideal case

Percentage of original lease area privatised
If each party bargains with equal force ...
What if the Crown capitulates?

Agency capture hypothesis

Percentage of original lease area privatised

Crown's interest
Asymmetric information and Principal agent problem hypothesis

What if the Crown pays whatever it takes to close the deal?

Percentage of original lease area privatised
Bargaining

Agency Capture

Principal Agent Problem
Q1: Results
Q2 Results: \[ y = \ln\left(\frac{\text{Farmer's onselling price}}{\text{Crown's selling price}}\right) \]
Q2: Economics of landscape change

- 77 leaseholds subdivided into 865 freehold parcels
- 177 freehold parcels on-sold (47,000 ha).
- 28 runholders bought freehold to 102,306ha for $6.9M;
- Then sold 46% of the freehold for $135.7M.
- On average, farmers on-sold land at 2696 times the price at which they bought it.
- Multiplier varies from 1.8 to 27,096, median = 992,
  STDEV =
Is the multiplier due to subdivision alone?

<table>
<thead>
<tr>
<th>Name of Former Leasehold</th>
<th>Hectares Privatised (1)</th>
<th>Total Paid for Freehold (2)</th>
<th>Hectares Onsold (3)</th>
<th>Total Price Paid for Onsold Land (4)</th>
<th># Parcels Onsold</th>
<th>((\frac{4}{3}) / (2/1))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avalon</td>
<td>1352</td>
<td>$134,000</td>
<td>1341.19</td>
<td>$2,264,000</td>
<td>1</td>
<td>17.03</td>
</tr>
<tr>
<td>Brookdale</td>
<td>1027</td>
<td>$106,000</td>
<td>1029.98</td>
<td>$2,000,000</td>
<td>1</td>
<td>18.81</td>
</tr>
<tr>
<td>Mataura Valley</td>
<td>4322</td>
<td>$164,858</td>
<td>4357.00</td>
<td>$9,000,000</td>
<td>1</td>
<td>54.15</td>
</tr>
<tr>
<td>Raglan Run</td>
<td>1583</td>
<td>$84,500</td>
<td>1574.00</td>
<td>$2,000,000</td>
<td>1</td>
<td>23.80</td>
</tr>
<tr>
<td>Spotts Creek</td>
<td>3344</td>
<td>$282,600</td>
<td>3306.00</td>
<td>$2,030,000</td>
<td>1</td>
<td>7.27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11628</td>
<td><strong>$771,958</strong></td>
<td>11608.17</td>
<td><strong>$17,294,000</strong></td>
<td>5</td>
<td>19.81</td>
</tr>
</tbody>
</table>

*Note: LINZ has no record of Raglan Run. Spotts Creek is within 10km of Queenstown.*
Policy setting post-2006

June 2007: Cabinet stops privatisation of lakeside land. Minister must approve the price of each deal before Crown signs.

Nov. 2008: New government elected.


“Some spheres of life seem to lie entirely beyond the shadow of the law.”

(Ellickson 1991)