

A scenic landscape of a valley with mountains and a blue sky with clouds. The foreground is a field of tall, golden-brown grass. In the middle ground, there are rolling hills and mountains with patches of snow. The sky is bright blue with scattered white clouds.

# Closing the Deal: Politics and Economics of Tenure Review

Ann Brower  
Senior lecturer in public policy  
Lincoln University  
Christchurch, NZ





**Richmond Station, Gilbert van Reenen**









**Benmore, Dalrachney, Longslip, Ben Avon, Birchwood Stations**

**Gilbert van Reenen**





Richmond Station, Gilbert van Reenen





Rees Valley

Gilbert van Reenen







# Bendigo



## Bendigo Reach

### 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 enjoys 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.

Lot 2	\$285,000 + GST	3.9ha
Lot 3	\$295,000 + GST	3.39ha
Lot 4	\$325,000 + GST	3.34ha
Lot 7	\$245,000 + GST	3.7ha
Lot 8	\$245,000 + GST	3.9ha

Fully serviced sites with  
water, power and telephone



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Cromwell First National  
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Mobile: 021 212 9697  
Email: [gordon@homesforyou.co.nz](mailto:gordon@homesforyou.co.nz)  
Web: [www.homesforyou.co.nz](http://www.homesforyou.co.nz)

Bob Mercer  
Apsiring Realty Ltd, Wanaka  
Office: 03 443 0131  
Mobile: 027 221 7387  
Email: [bob.m@locations.co.nz](mailto:bob.m@locations.co.nz)  
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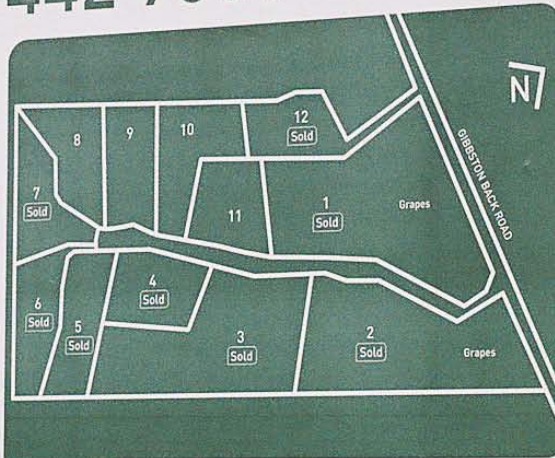
WENTWORTH

PEREGRINE



# FOR SALE

Gibbston Valley  
442 9000



Five acre Serviced House sites

**CONTACT** Cameron Reed 021 790 152

**WEB** [belleproperty.co.nz](http://belleproperty.co.nz)

**belle**

PROPERTY WREINZ

first in lifestyle property



## 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

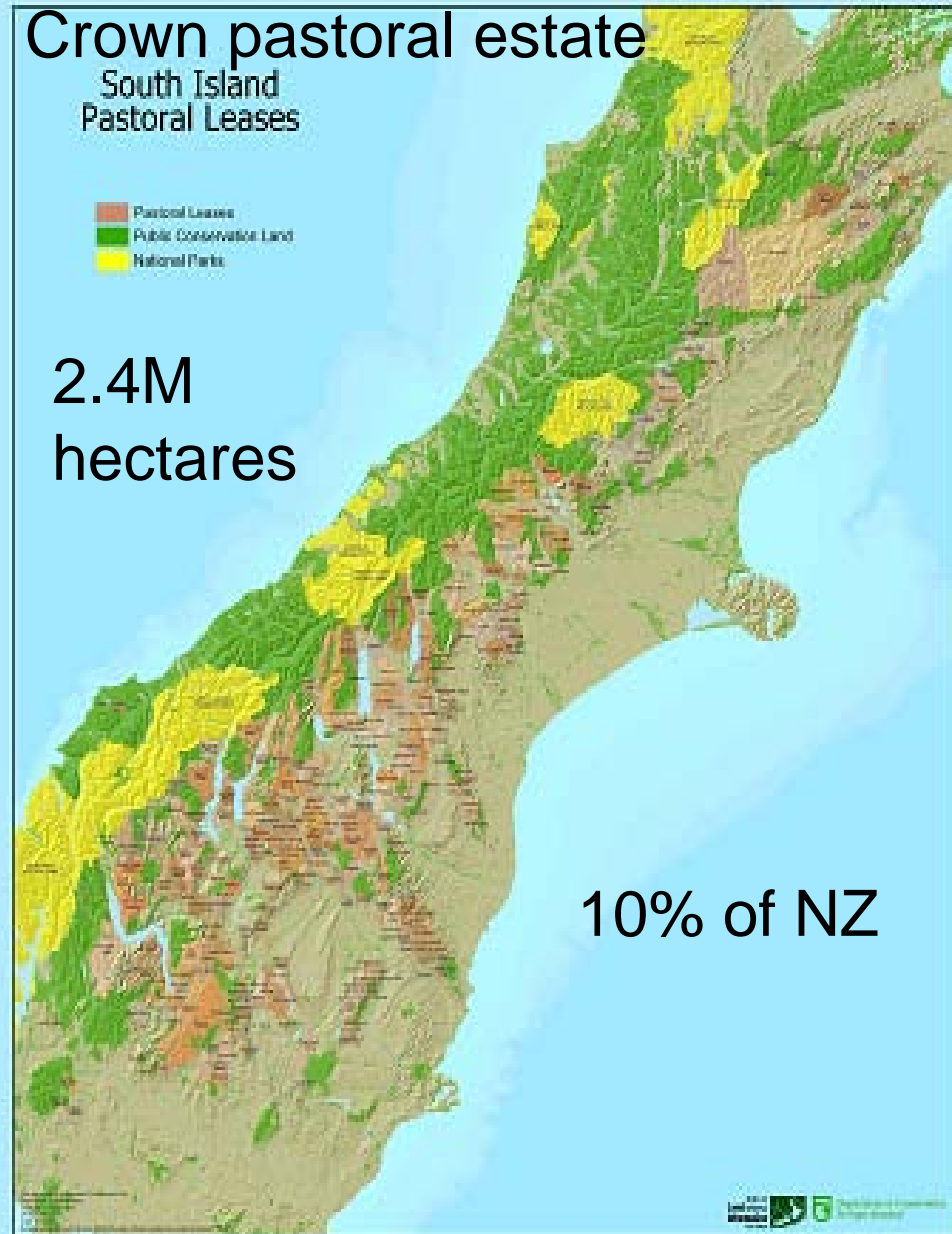
### Crown pastoral estate

South Island  
Pastoral Leases

Pastoral Leases  
Public Conservation Land  
National Parks

2.4M  
hectares

10% of NZ





## The Policy Setting

1992-2006: Land reform splits pastoral land: 58% freehold, and 42% conservation (DoC).

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







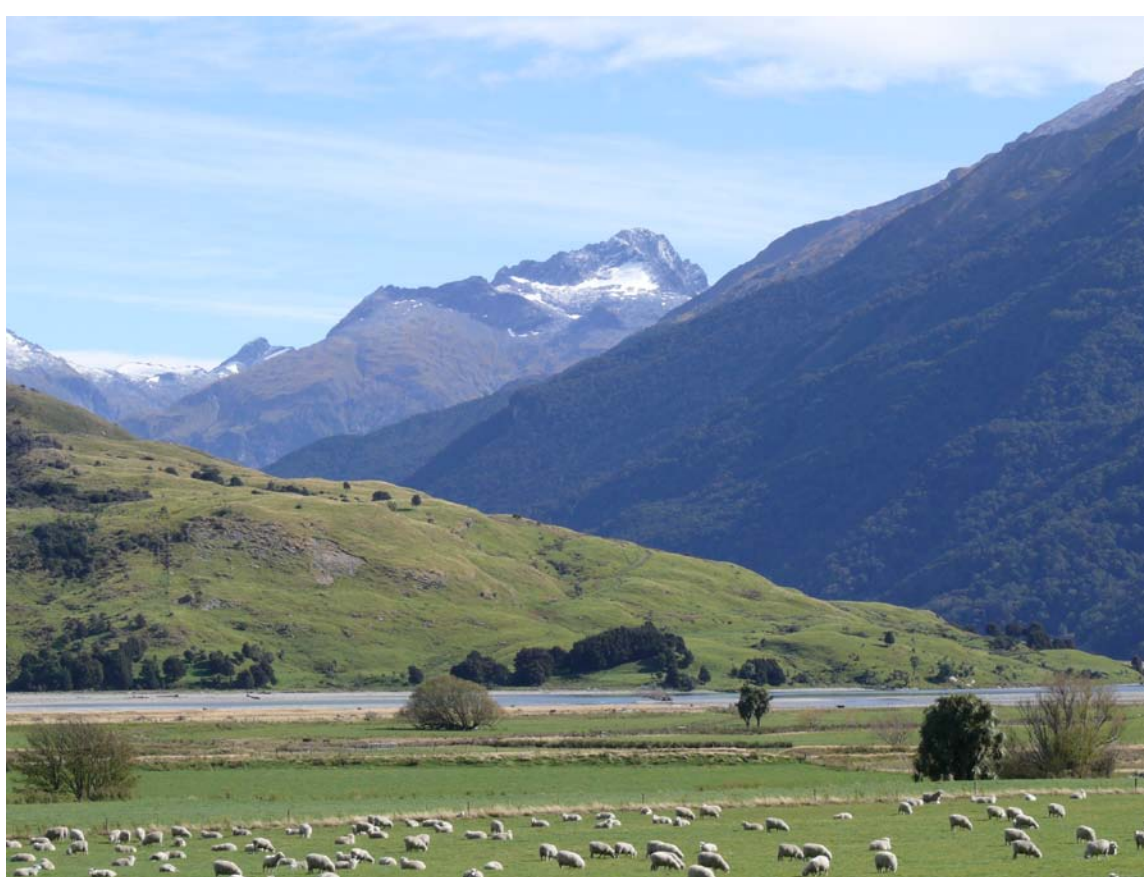
4767 hectares  
conserved

18,957 ha  
privatised

Crown paid  
farmers  
\$263,000

Glendhu Golf Resort Plans Unveiled  
(*Southland Times*, 2 May 2007)





## **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.

GILBERT VAN BEEMEN

Quintessential kiwiana: Lake Tekapo (with the controversial Richmond Station, at left) remains unblemished — for now.



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 =

$$P_{\text{lessee}} / (P_{\text{lessee}} + P_{\text{Crown}})$$

Q2: Does tenure review give rise to windfall gains?

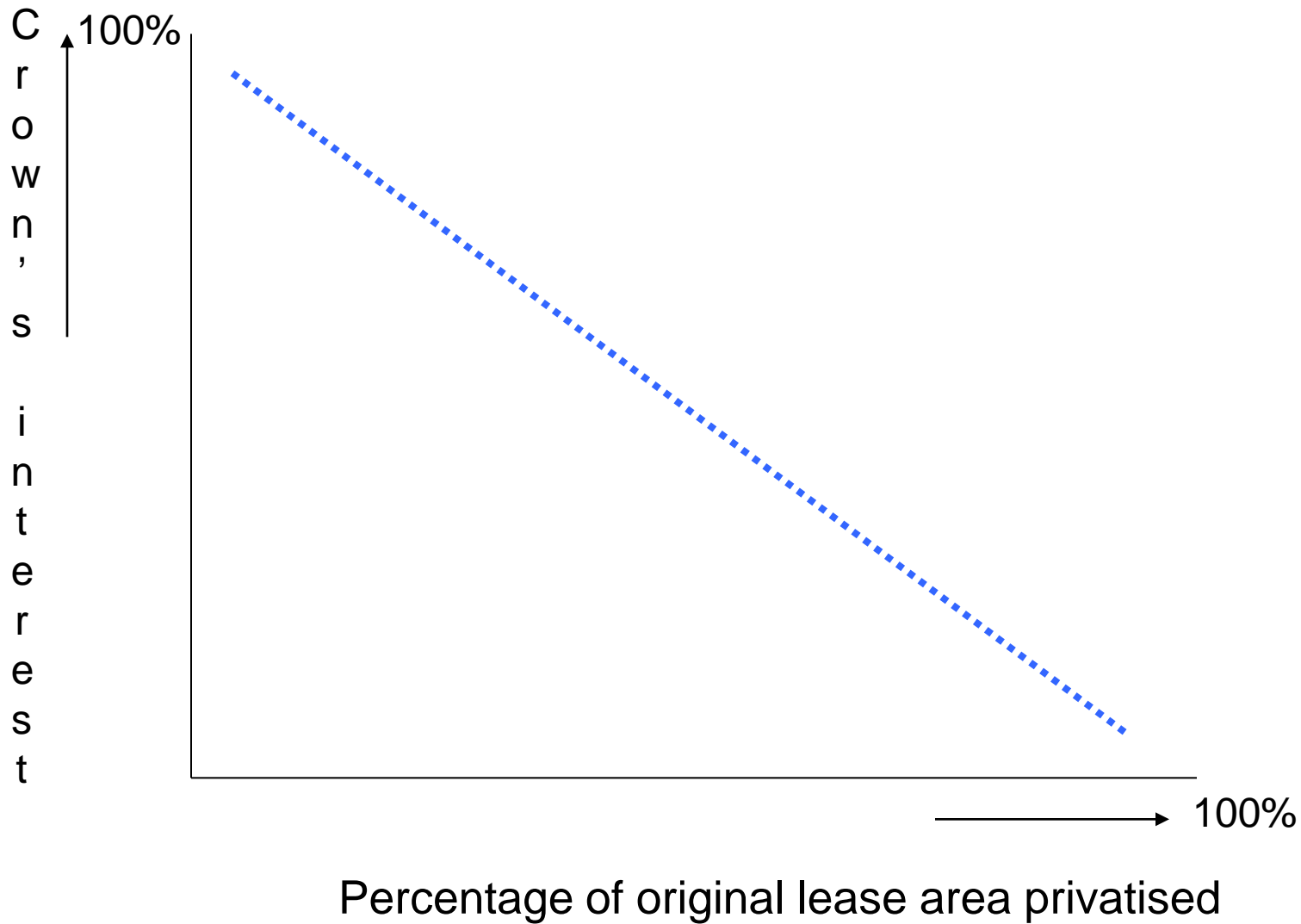
Data: ratio of on-selling price to price to privatise =

$$P_{\text{lessee}} / P_{\text{onsell}}$$



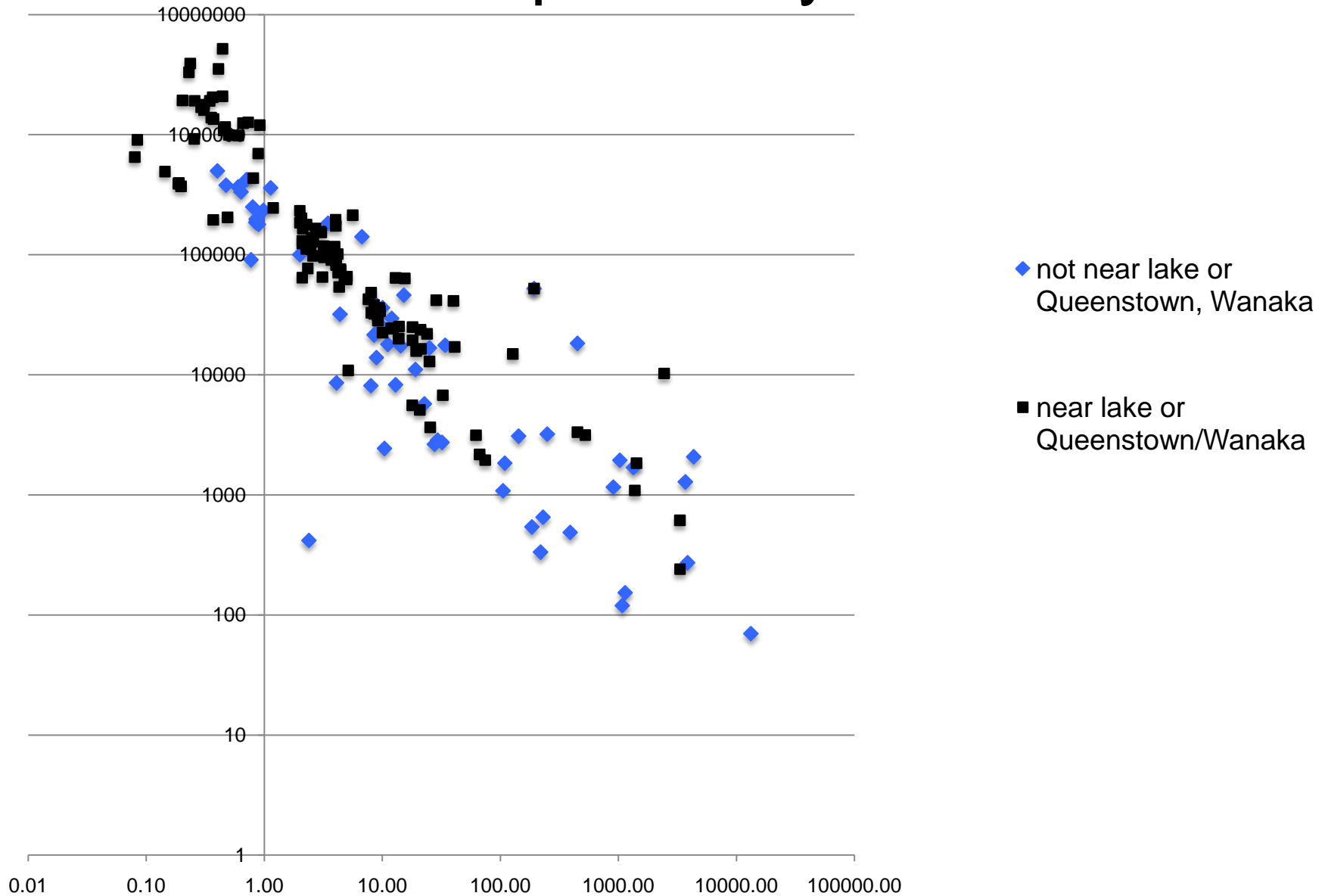
# Predicting payouts ...

## Runholders' ideal case



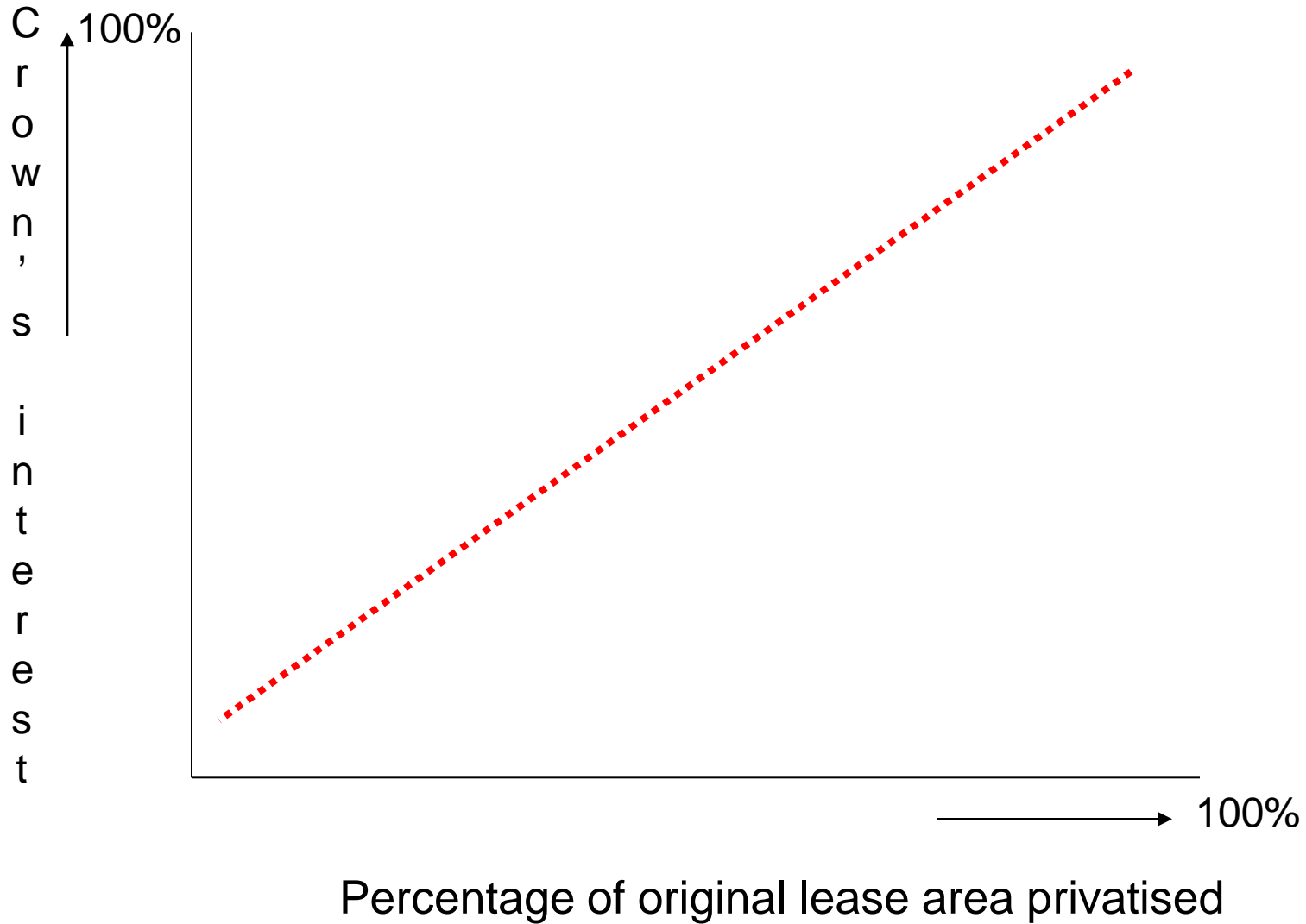


# Demand curve for freehold land: Price per ha by size



# Crown's demand curve for conservation land

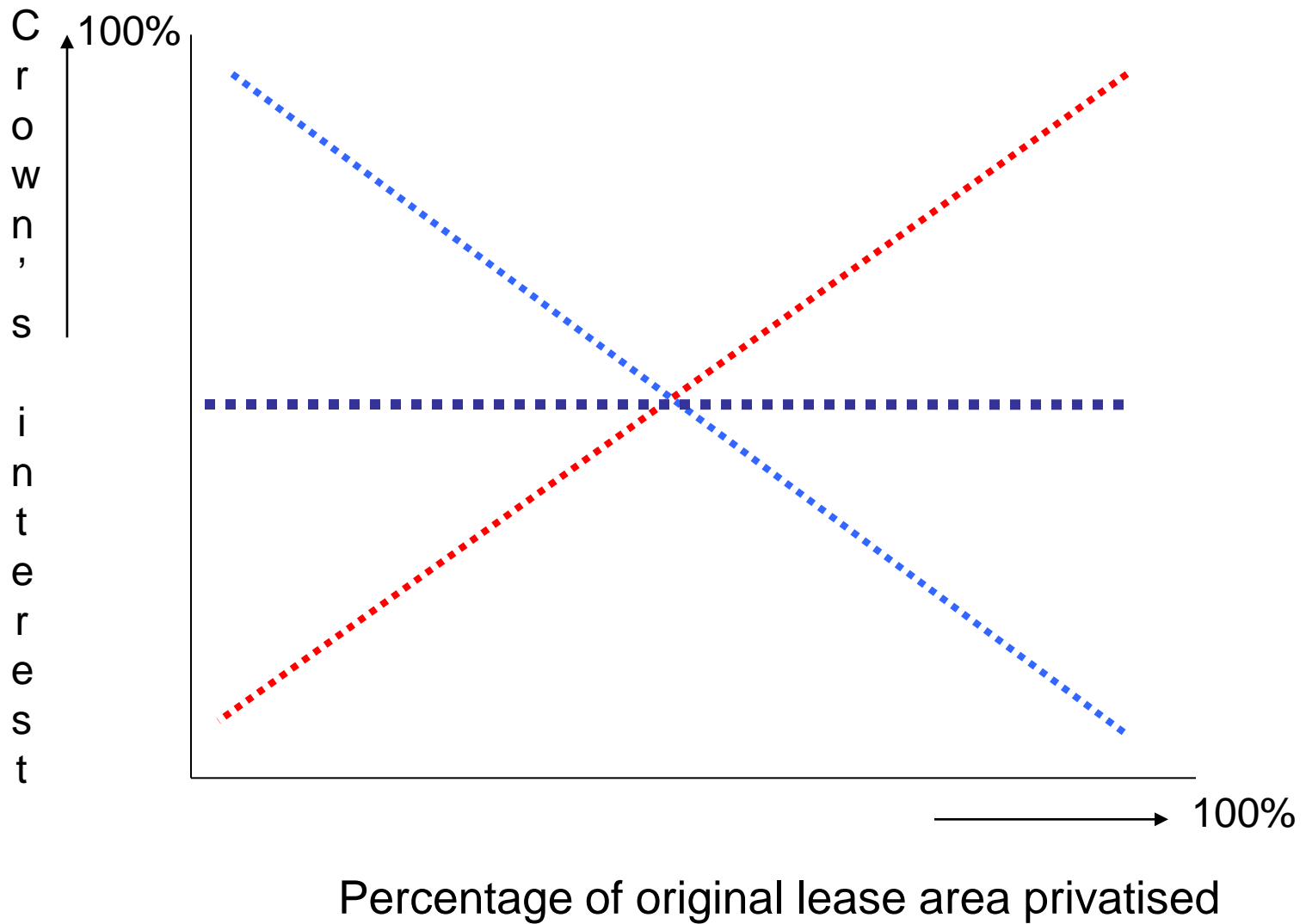
## Crown's ideal case



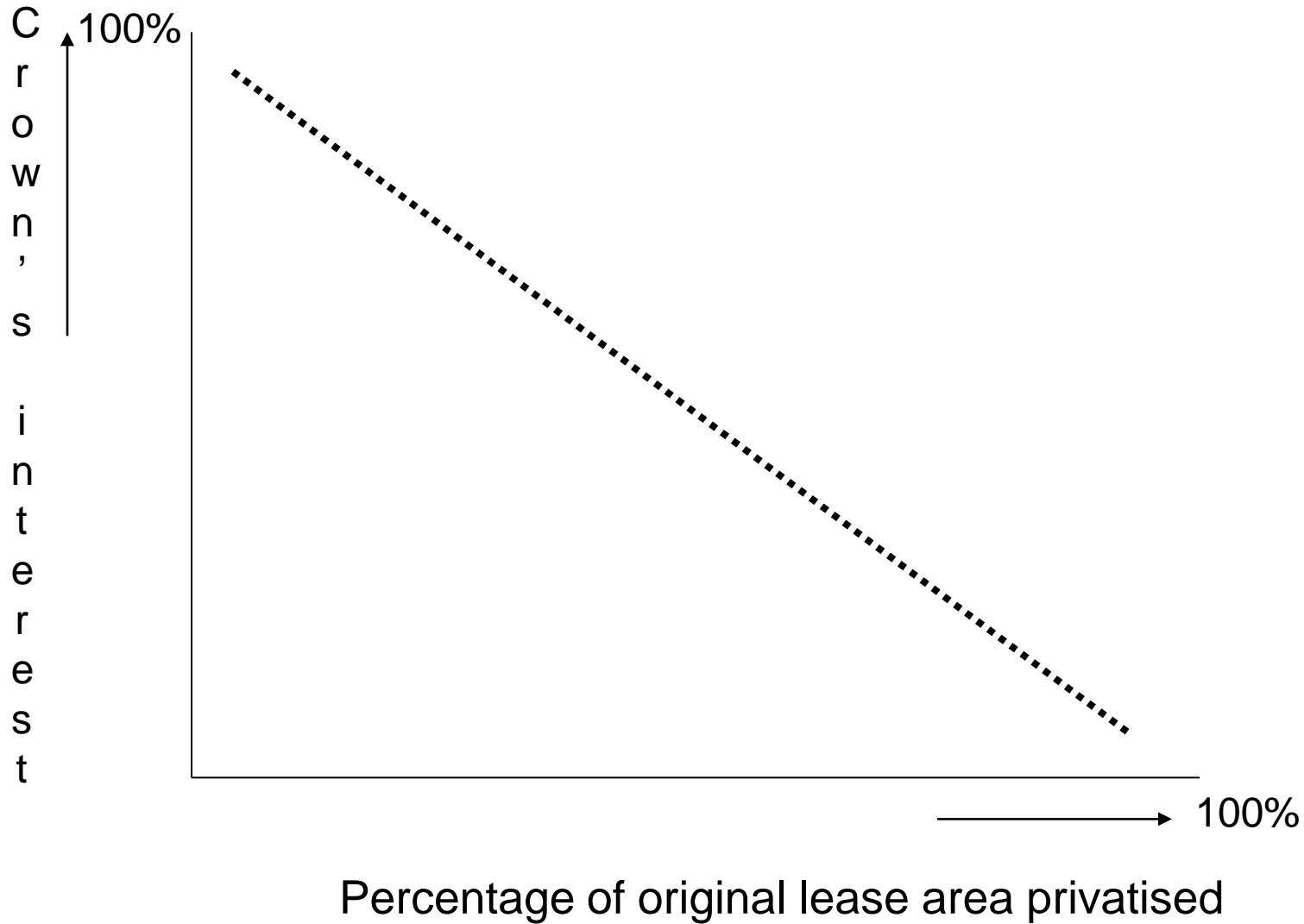


Bargaining hypothesis

If each party bargains with equal force ...

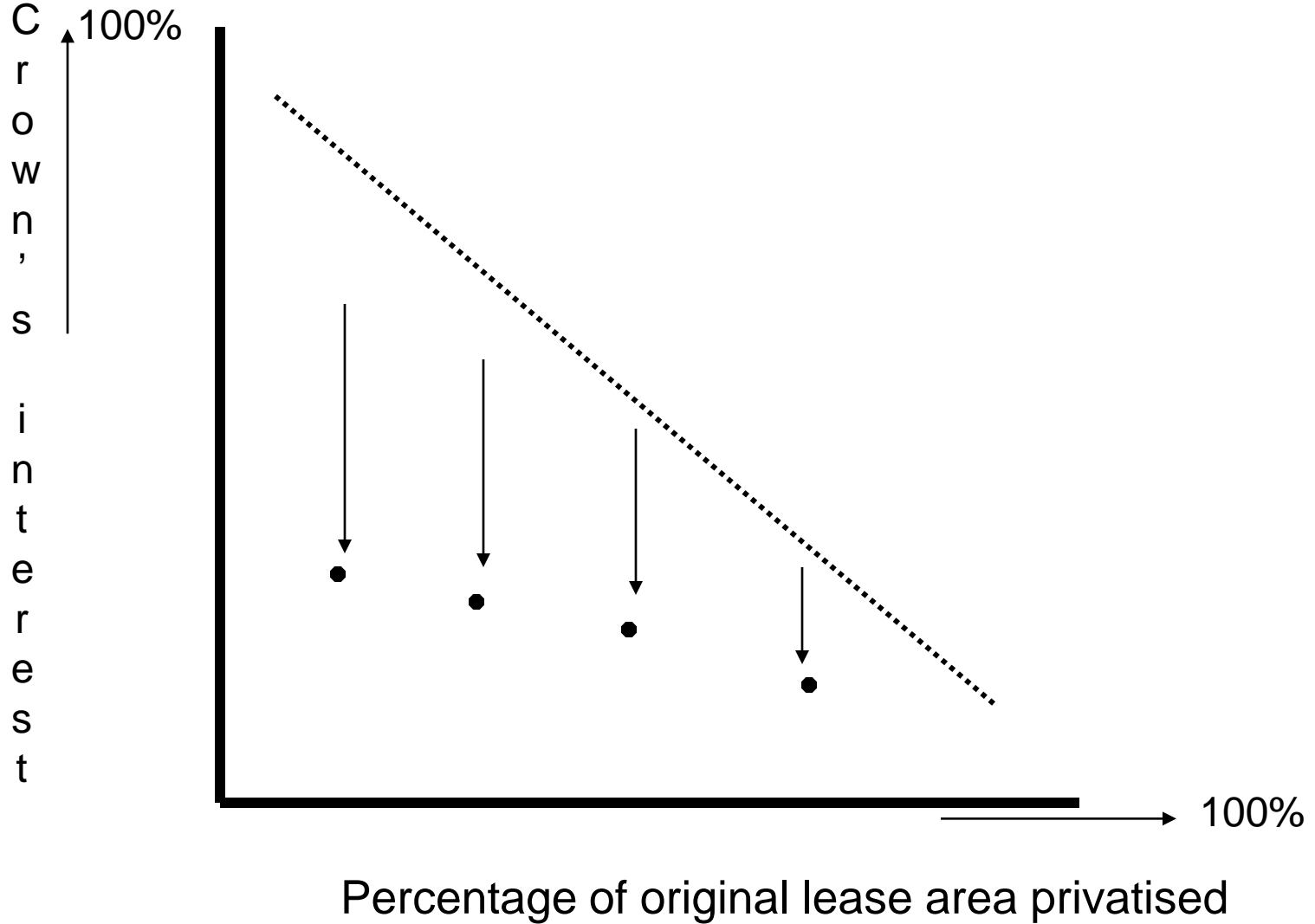


# What if the Crown capitulates?





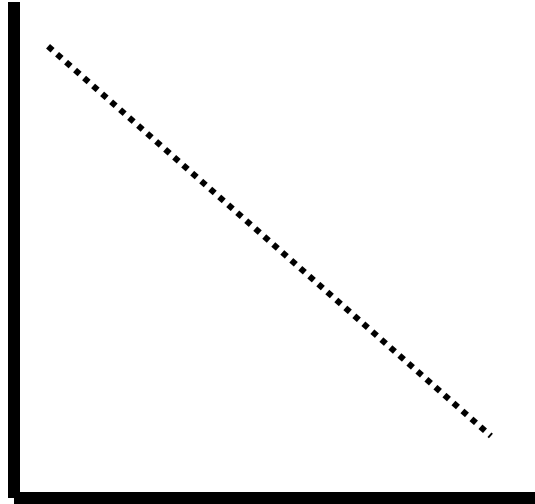
# What if the Crown pays whatever it takes to close the deal?



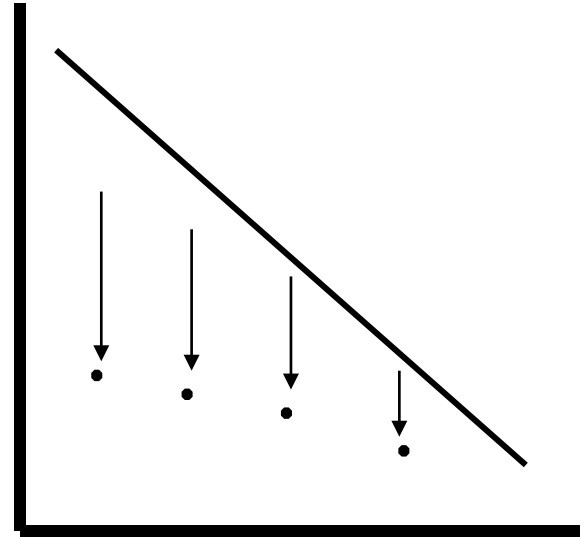
Bargaining



Agency Capture

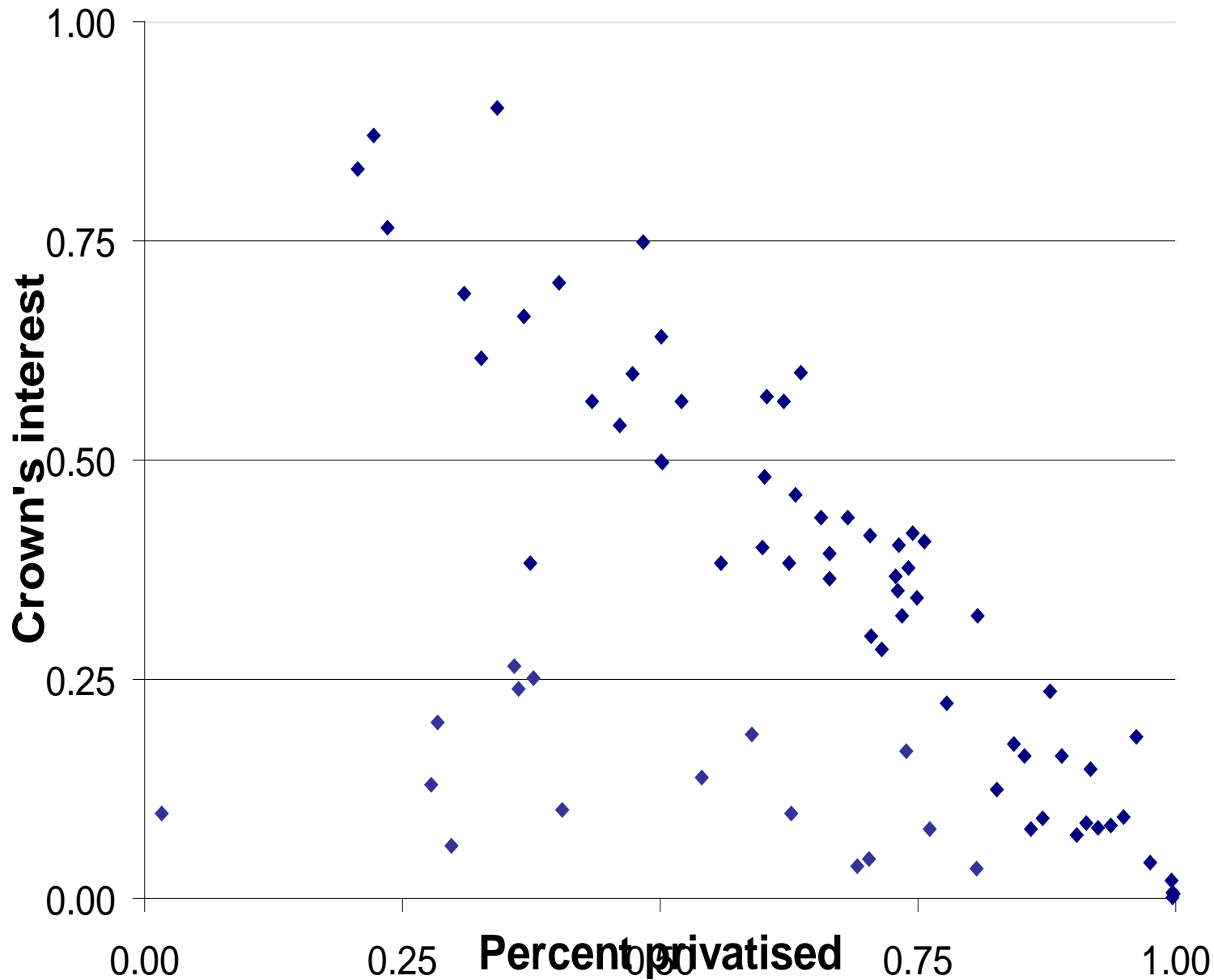


Principal Agent Problem

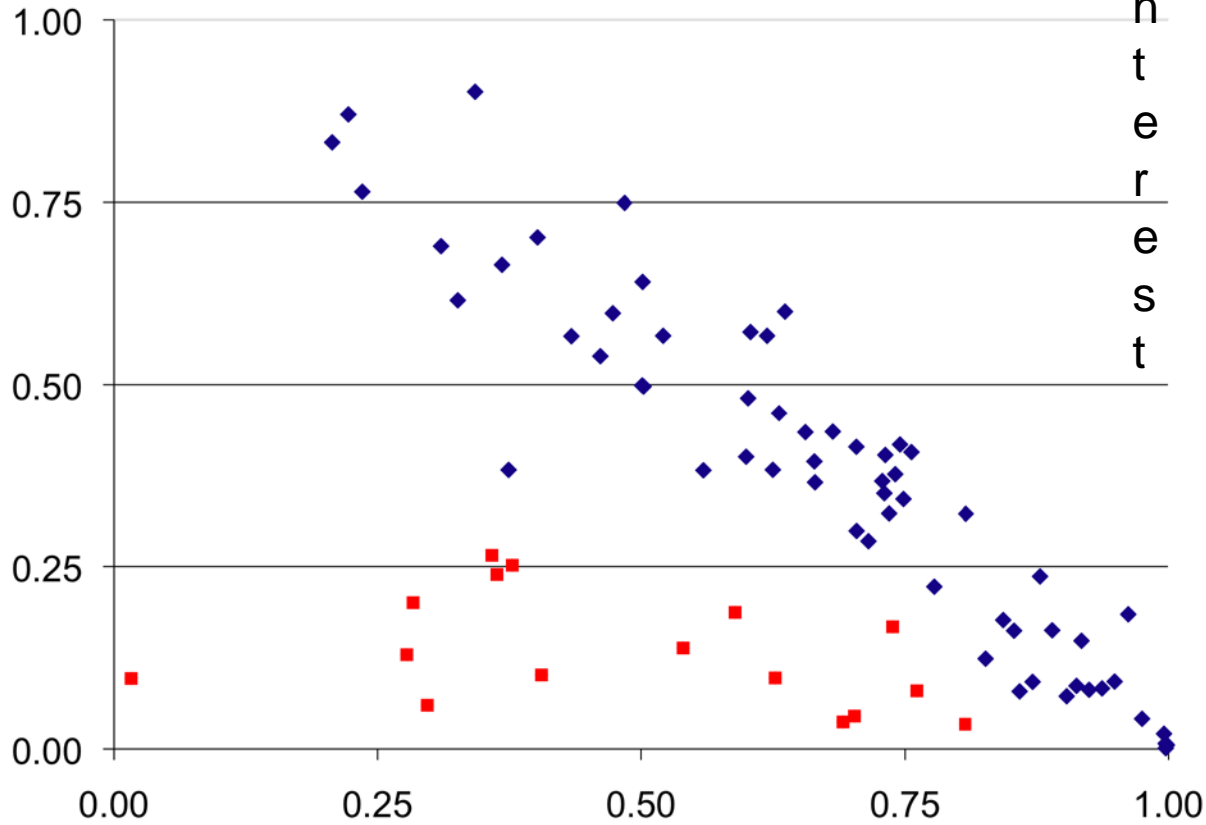




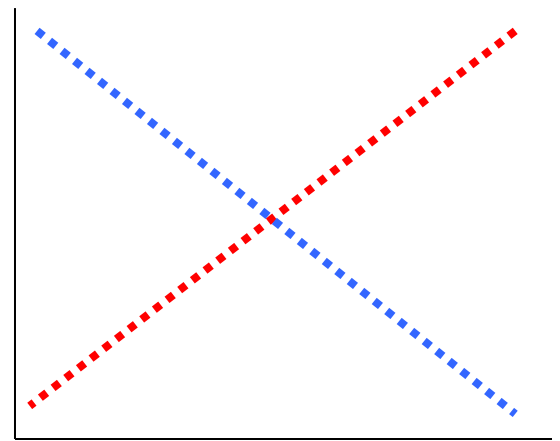
# Q1: Results



# Q1: Results



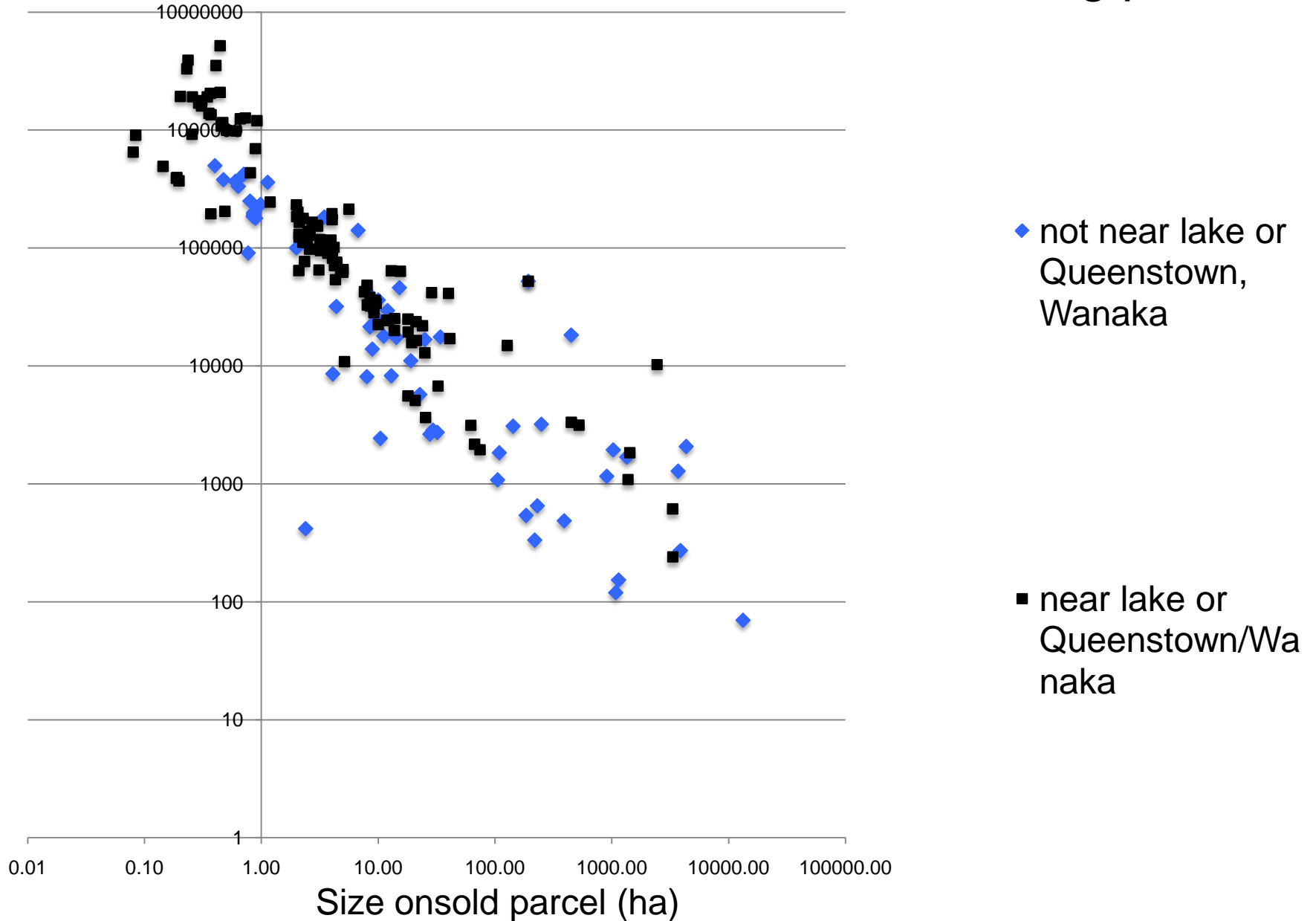
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# Q2 Results:

$$y = \ln\left(\frac{\text{Farmer's onselling price}}{\text{Crown's selling price}}\right)$$



# 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 onsold 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 2a. Cases in Which Runholder Onsold His Entire Freehold**

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

*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.**

**Sept. 2009: Policy reverts to pre-2006 policy.**

**Oct. 2010: Government announces no more land to conservation.**

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

(Ellickson 1991)

