

# **SOUTH ISLAND HIGH COUNTRY OBJECTIVES**

## **REVIEW OF VALUATION METHODOLOGY IN TENURE REVIEW**

### **TERMS OF REFERENCE**

**30 MARCH 2005**

#### **Purpose**

The work to be undertaken is a comprehensive review of the valuation methodology used in valuing lessor and lessee interests in tenure review. The review will require the expertise of an experienced valuer who can:

- assess the current methodology in terms of its ability to deliver accurate and fair outcomes consistent with the government's high country objectives and relevant legislation; and
- make recommendations on changes to the methodology if appropriate to better meet those outcomes.

#### **Background**

##### *Tenure Review*

Tenure Review is a process established under Part 2 of the Crown Pastoral Land Act 1998 (CPLA) which enables the protection of significant inherent values on pastoral lease land (preferably through the return of relevant pastoral lease land to full Crown ownership and control), while enabling the disposal of land capable of economic use in freehold title. Where land is to be disposed of as freehold title, tenure review involves the exchange of the lessee's interest in the pastoral lease, for the land to be disposed of as freehold (with or without protective mechanisms).

In August 2003, the Government adopted ten high country objectives in order to ensure that Crown land in the high country is managed in accordance with Government policy. One of these objectives is that the Crown obtains a fair financial return on its high country assets.

##### *Valuations for tenure review*

In 2001, LINZ reviewed and reported on the methodology used by LINZ in providing *Tenure Review Valuation Reports* for use in determining the payment to be made for the exchange of interests in the pastoral lease land. As a result of this work a current market valuation methodology was adopted and is used by LINZ in the tenure review process.

Unlike the valuation of pastoral leases for rent review purposes, a tenure review valuation is not constrained by legislation and accordingly, should, at all times, reflect all aspects of the market that may apply to the interests of the lessee and the Crown.

Pastoral leases are therefore valued for tenure review in accordance with a normal market assessment. The current practice adopted by LINZ involves the valuer first assessing the current market value of the pastoral lease property as leasehold based on comparable sales of leasehold properties. Secondly, the valuer assesses the current market value of the proposed freehold land resulting from tenure review as if it were freehold sold on the open market, based on comparable sales. The difference between these valuations is the amount that one party will pay to the other depending on which party is paying the greatest value for the other's interest in the pastoral property. Where the lessee is able to freehold the majority of the lease the lessee is likely to pay the Crown. Where a significant portion of a lease is retained (by the Crown for the conservation estate) the settlement is likely to require a payment by the Crown.

### **Outcome sought**

The Crown seeks assurance that the payments being made on the completion of tenure reviews, particularly given increasing land values in the South Island, are delivering accurate and fair outcomes consistent with the Government's high country objectives (notably a fair financial return to the Crown on its high country assets).

This review will inform a report by LINZ to the Minister for Land Information on what changes, if any, need to be made to better reflect the Government's high country objectives. This will require investigative research and valuation expertise.

### **Review Methodology**

In undertaking this review, it is expected that the reviewer will:

- (i) review the current valuation methodology for valuing interests for the purpose of tenure review, including interviewing the valuers involved in the preparation of that methodology;
- (ii) determine whether all valuations undertaken in the process of tenure review take into account full market potentialities and restrictions under the lease;
- (iii) determine whether, in the current market conditions, the value of the lessee's interest forms a significant part of the overall freehold value, and what the implications are for the value of rights to be exchanged after tenure review;
- (iv) meet with key stakeholders to understand their concerns with the current valuation methodology (including the High Country Accord, Council of Outdoor Recreation Associations of NZ, Federated Mountain Clubs of NZ, NZ Institute of Landscape Architects, Public Access NZ Inc, Royal Forest and Bird Protection Society, NZ Fish and Game Council, Ngai Tahu, High Country Committee of Federated Farmers and the NZ Historic Places Trust);

- (v) undertake a comparative analysis of *statutory* valuation methodologies in other contexts such as:
  - a. acquisitions under the Public Works Act 1981;
  - b. the resumption of possession of land held under lease or licence pursuant to s117 of the Land Act 1948 for the purposes of a road, street, mining or other public purpose;
  - c. the setting apart of land as reserves under s167 of the Land Act 1948;
- (vi) undertake a comparative review of other relevant statutory-based valuation exercises (such as the work undertaken for the West Coast Maori Reserve Land Act leases in Taranaki, where the statutory rent of 4% was changed to reflect market rents);
- (vii) undertake a comparative review of similar market-based valuation exercises (e.g. ‘Glasgow leases’ or privately-owned leases such as the Manchester Unity lease);
- (viii) determine what other options might apply to the valuation of interests in the context of tenure review;
- (ix) evaluate these options against the status quo based on criteria including:
  - a. whether relevant market evidence exists;
  - b. how well the methodology takes into account different protective mechanisms (such as easements and covenants);
  - c. whether the exchange of interests is ‘fair’;
- (x) have the evaluation peer reviewed by an appropriately qualified valuer (e.g. nominated by the President of the New Zealand Institute of Valuers).

## **Support**

LINZ will provide internal support for any meetings with stakeholders.

## **Timeline**

The review is to be presented to General Manager Policy, LINZ (and other officials) on a date to be agreed with LINZ in order to inform a report to the Minister for Land Information.

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