

THE IMPLICATIONS OF LEASING VERSUS SELLING

CROWN LAND FOR SUMMER HOMES

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# CHAPTER 1

## THE OBJECTIVES AND THE PROBLEM

### I

#### THE OBJECTIVES

The purpose of this study is to compare the alternatives of leasing versus selling of crown land for summer homes and to formulate a policy accordingly. The policy is divided into two parts: a long-run policy which should satisfy long-run objectives and a transitional policy which should be used to cover the move from the present policy to the long-run policy.

In considering whether to sell land or to lease it, the following objectives will be used as a basis for choosing the best alternative. The long-run objectives will be considered first.

1. The revenue received from cottagers for land and services should be equal to or greater than the costs incurred by the Province for provision of the same.

The notion that beneficiaries pay the costs of services that they receive involves important equity and efficiency arguments. A price could be set that would be low enough to allow members of all income groups to purchase or lease land. However, a fee that is lower than the market price should not be used to redistribute income because there are more equitable and efficient means to do this. This method of income redistribution is not specifically designed to redistribute income and it only affects people who desire to own recreational land and who can afford to put a cottage on the land - usually people in the higher income groups. If a price was set that was higher than the market price, the market price of all recreational land in Manitoba would increase since the

Province is in a monopoly position. The quantity demanded would decrease and the opportunity to buy recreational land in Manitoba would shift to higher income groups. Increasing numbers of Manitobans would buy land in Ontario. Also, the closer that prices approximate those that would prevail in a perfectly competitive market, the more efficiently goods and services are allocated. Consequently, charges that are in line with costs preserve efficiency as well as conform to the ideal that those who receive benefits should pay their costs.

To fulfill this objective:

(1) The return to the Province from recreational land should equal the opportunity cost of allocating that land for cottage development. The opportunity cost of an action is the value of the best alternative opportunity given up by choosing the action rather than the alternative. Therefore, crown land should not be allocated for cottage development if a greater return could be realized on it from other uses. If the Province sells the land to the highest bidder it will receive revenue from the sale that could replace the sale of bonds. Accordingly, if the Province leases the land, the land should yield a rate of return equal to the provincial bond rate - at a minimum. The provincial bond rate is taken as the opportunity cost because it is advantageous for the Province to expand its activities until the returns from these activities are equal to the bond rate. More specifically, the past year's weighted mean bond rate is suggested.

(2) The costs of services provided by the Province should be fully charged to the cottager who obtained the benefits from those services. The revenue and cost accounts for services should balance annually.

2. The Province should have flexibility in planning and development of its mineral and water resources.

To fulfill this objective:

(1) The Province should have protection from potential legal action arising from lake level fluctuations caused by it or one of its authorities and from damage caused by mineral exploration and development. Rules based on the concept of responsible government should protect the cottager from unjust treatment. (The right to damage with impunity is not implied.)

3. The Province should have the power to control environmental quality.

This power should not be transferred to local governments until they show their willingness and ability to maintain environmental quality. Experience has shown that if there are no regulations concerning environmental relationships or enforcement of such regulations is lacking, cottage areas frequently turn into recreational slums, pollution results, and cottages are laid out in a haphazard or crowded fashion<sup>1</sup>.

To fulfill this objective the Province must have:

- (1) The power to zone land.
- (2) The power to control cottage standards.
- (3) The power to control air, land and water pollution.

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<sup>1</sup> Bowman, Joan, "The Recreational Function and Related Problems of the Winnipeg Beach - Sandy Hook Section of the Lake Winnipeg Shoreline", M.A. Thesis, University of Manitoba, 1966.

4. The Province must have the option to revert privately held recreational land for public use and should use the least-cost means of reserving this option.

To fulfill this objective:

- (1) The landholder must be fully aware of the possibility of the reversion of land.
- (2) Arrangements citing the conditions for reversion and the method of calculation for payment to the cottager for his cottage must be made in advance.
- (3) The administration of reversion should be simple.
- (4) There should be a minimum of political pressure put on the legislature because of reversion.

In addition to the land allocation objectives from a governmental viewpoint, the objectives of the cottager must be taken into account. The above objectives, as they stand, should be acceptable to a buyer or leasee. However, he has the additional objective of security of investment. Consequently the addition to the land reversion objective is necessary:

In the case that the Province reverts land to public use, the landholder will be given sufficient length of notice and will be paid the market value of the cottage.

## II

### THE PRESENT POLICY

The Province has been leasing land for summer homes since 1930. This policy was used to generate revenue from crown lands, to control the standard of summer homes, to ensure that the land would not be used for other purposes, to prevent the formation of recreational slums, and to

protect the Province from legal action due to water level fluctuations caused by the Province or one of its agencies and due to damage caused by mineral exploration and development.

#### A. Allocation

Presently a potential leaseholder who makes the highest "bonus bid"<sup>2</sup> receives an annual permit to occupy the land. Annual permits are renewed until the potential leaseholder constructs a cottage that fulfills building standards that are required by the Province. Once building standard requirements are fulfilled, a lease is made for 21 years with an option for renewal for another 21 years. The leasee covenants to maintain the building and land in a condition required by the Province.

#### B. Pricing

Eighty-seven percent of the leases are reappraisal leases. Lease fees are established by the government and it has the option to re-establish them at five-year intervals.<sup>3</sup> Thirteen percent of the leases have a maximum payment clause of either \$20 or \$30 per year and reappraisal of these leases is not possible once the maximum has been reached. However, no reappraisals resulting in lease fees of over \$30 have been made to date on the remaining 87 percent of the leases. If the land is not in a rural municipality, the leaseholder pays a \$20 to \$35 lease fee that covers all service costs and land rent. If the land is in a rural municipality,

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<sup>2</sup> A bid for the right to occupy the land.

<sup>3</sup> A land rental charge of six percent of current market land value has been suggested in a recent government paper. If this suggestion was implemented land rental (excluding service costs) on eighty-seven percent of the leases would range from \$45 to over \$100 per year.



the landholder pays taxes for services and a \$20 to \$35 lease fee that covers land rent and garbage collection cost. Costs for a hypothetical cottage are shown in the following table.

TABLE I  
COMPARISON OF HYPOTHETICAL ANNUAL COST OF "COTTAGES"  
VALUED AT \$5,000 IN DIFFERENT LOCATIONS\*

Location of "Cottage"	OWNERS COSTS				
	Provincial Lease rate	Garbage Collec- tion	Local Tax	Cost to Owner	Provincial Subsidy of Service Costs
1) Private land in R.M.	-	-	\$150	\$150	none
2) Private land in Prov. Parks in unorganized places	-	-	-	-	\$150
3) Crown Land in Prov. Parks in unorganized places	\$20-\$30	\$5	-	\$25-\$35	\$150
4) Crown Land in Prov. Park in R.M.	\$20-\$30	\$5	\$150	\$175-\$185	none
5) Crown Land in R.M.	\$20-\$30	-	\$150	\$170-\$180	none

\* Assume a \$1500 assessment with a 100 mills tax rate. The assumption that Provincial costs are \$150 annually cannot be proven but it does not appear to be an unreasonable figure, since "leisure home" owners receive road services (incl. snowplowing) plus all the amenities of the park. The above table was modified from a recent government paper.

### C. Legal Liability

The Province and Manitoba Hydro are not subject to "any liability...for any damage for any kind whatsoever caused or purported to be caused in respect to the demised premises by the raising or lowering of the level of any of the waters bordering upon or adjacent to the said demised premises". Also, "the lessor may, in his absolute discretion

withdraw...from the demised area any portion or portions of the within land which, in his opinion may be subject to flooding" during the term of the lease. Also, there is a provision in the lease that states that neither the crown nor the holder of mineral rights on the leased land shall be in any way liable for any damage resulting from mining operations on the within or adjacent land.<sup>4</sup>

#### D. Reversion of Land

On the termination of the lease, the leasee may remove any buildings, fences or other improvements which may have been erected by him on the land during the term of the lease. The contract makes no provision for payment for any improvements made by the leasee if the land is to be reverted before the term of the lease is due as well as after the lease expires.

### III

#### PROBLEMS WITH THE CURRENT POLICY

##### A. Collection of Revenue

The main objection to the present leasing policy is that the revenue received by the Province for land and services is less than the costs it incurs for their provision. Thirteen percent of the 5230 leases in effect in 1970, the last of which will expire in 1978, contain a maximum rental clause of \$20, \$30 or \$40 per year. This fee covers services as well as land rent. The legislature has been reluctant to raise lease fees on the remaining 87% of leases that have no maximum clause. However, a logical justification for the raising of the fees

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<sup>4</sup> Information obtained from a lease form currently used by the Province.

should lessen this reluctance of the legislature. Further, in the past the legislature has shown reluctance to adjust lease fees at the stipulated 5-year periods because the adjustment would entail an increase which would be unpopular politically. And even though the legislature may raise the lease fees at a 5-year adjustment date so that the principle of total revenue is equal to total cost is maintained, the whole painful, unpopular process must be gone through again at stipulated 5-year periods in the future. In order to save the legislature the pain of making an unpopular political decision every 5 years, a flexible lease fee<sup>5</sup> or the alternative of selling land has been suggested. The practicality of these suggestions will be considered here.

#### B. Reversion of Land

Further, even though the leasee has been allowed to remove his buildings and improvements when the lease terminates and the Province wishes to use the land for other purposes, the leasee may not find it feasible to move his cottage. It has been suggested that the leasee should receive payment for his cottage if the Province requires the land - whether the lease has expired or not - and the method for setting the amount of payment should be agreed to in advance. However, the process of expropriation may deal more effectively with such a situation. The merits of each method of land reversion will be examined.

#### C. Further Issues Related to the Lease Versus Sale Question

In the current leases the Province has full protection from legal liability due to water level fluctuations caused by it and due to

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<sup>5</sup> Revenue received should equal costs incurred each year.

damages caused by mineral exploration and development. However caveats or easements may be just as effective.

Also, the Province has adequate control of environmental quality under the current leasing system. However similar control may be available over crown land allocated by sale because the pending amendments to the Crown Lands Act will provide zoning powers.

Consequently the relative advantages of leasing versus the sale of crown land for summer homes needs examination.

## CHAPTER 11

### THE ALTERNATIVES

#### I COLLECTION OF REVENUE TO MEET COSTS

Objective: The revenue received from cottagers for land and services should be equal to or greater than the costs incurred by the Province for provision of the same.

#### A. The Returns from Land

##### 1. Sale

Obviously, if the Province sold a lot the present worth of the return from the land is equal to the sale price. The sale would provide revenue that could replace the sale of bonds. For example, the annual cash flow from a \$1000 perpetual bond yielding 8% is \$80. The present worth of this income stream in perpetuity is:

$$\begin{aligned} \text{P.W. of bond} &= \frac{\$80}{1} + \frac{\$80}{1+.08} + \frac{\$80}{(1+.08)^2} + \dots + \frac{\$80}{(1+.08)^n} \\ &= \frac{R}{i} = \frac{\$80}{.08} = \$1000 \end{aligned}$$

and

P.W. from sale of lot = \$1000

Consequently, the cash received by the Province from the sale of a lot is equal to the present worth of a stream of perpetual interest payments on a Provincial bond that is equal in value to the lot.

#### Advantages of Collection of Revenue from Land from a Sale Policy

1. There would be no problem of defining a land rental based on the market value of the land as there is in the present leasing policy.

2. More information would be obtained about the market value of recreational land as a result of the sale policy. This would facilitate the adjustment of land rent on existing leases.

## 2. Lease

The returns from leasing or selling land are equal when the lease and sale markets are in equilibrium. *Consequently,* ~~conversely~~, the benefits from leasing or buying are also equal.

The costs to a cottager from leasehold and ownership of land will be illustrated below:

- (1) Assuming that there is no increment in land value (capital gain) and the lease and sale markets are in equilibrium:

- (a) Annual opportunity cost of ownership (oc) is:

$$oc = V_t(i)$$

where  $V_t$  = value of land in year  $t$

$i$  = bond interest rate

assuming that  $V_t = \$1000$  and  $i = .08$

$$oc = \$80$$

- (b) Annual land rent ( $R_t$ ) to be paid on leasehold on the same land is:

$$R_t = V_t(i)$$

$$R_t = \$80$$

- (2) Lease and sale markets are in equilibrium but the actual rate of increment in land value is  $g$  and  $i > g$ .

- (a) The opportunity cost of ownership in year  $t$  is:

$$\text{o.c.} = (\text{interest payments foregone}) - (\text{increment in land value})$$

$$= i(V_t) - g(V_t)$$

$$= (i-g) V_t, \text{ let } g = .05$$

$$= (.08-.05) \$1000$$

$$\text{o.c.} = \$30$$

(b) The annual land rent to be paid on leasehold is:

$$R_t = (i-g) V_t$$

$$R_t = \$30, \text{ as in a.}$$

If  $g > i$  and assuming that  $R_t = 0$ , the benefits from ownership are greater than the benefits from leasehold. The leasee is limited to benefits derived from land use. However, the owner received benefits of land use plus a rate of return  $g-i$  above the land use benefit.

#### Lease Alternative 1

According to the equations given below, the present value of income received from land rent on a perpetual lease is equal to the original market value of the lot. The market value of the land in year zero ( $V_0$ ) reflects a stream of recreational services the land renders and an anticipated rate of capital gain ( $\hat{g}$ ). If an error is made in estimating  $\hat{g}$  (and thus  $V_0$ ) this error is reflected in the assessment of the annual land rental for the remainder of the lease. However, future disagreements about the amount of annual land rent to be paid on a lease would be minimized by setting the market value and thus the present value of the lease in advance.

#### Method 1

The present value of income received from land rent for a lease with a term of  $n$  years is expressed in the following equation:<sup>6</sup>

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<sup>6</sup> For simplicity it is assumed that payments are made at the end of the year.

$$R_o = V_o \cdot i$$

$$P.W._o = R_o \sum_{t=1}^n (1 + i)^{-t}$$

when:  $R_o$  = constant land rental payment set in year 0

$i$  = provincial bond rate

$t$  = time in years

$V_o$  = market value of the lot at  $t = 0$

It is evident that this model of income flow is the same one as used in the policy of sale of land where income from the sale of land replaces the sale of provincial bonds. The present worth of both income streams are identical.

#### Advantages

1. The province captures the market value of the land from a lease policy.
2. The province has captured the anticipated capital gain in the land by basing land rent on the market price of the land.

#### Disadvantages

1. Assuming that the value of recreational land will be increasing in the future, a leasee who takes out a lease at a point in time later than another leasee will pay a higher land rental. This may lead to criticism of the policy although other commodities are priced this way.
2. Since the leasee pays a constant land rental, this may lead him to believe that leasehold and ownership are synonymous. If the land increases in value the leasee overpays land rent in the initial years and underpays it in the later years because he pays a constant land rent.



### Method 2

The annual land rental would be based on the market value of the land and capitalized with the provincial bond rate minus the capital gain rate on the lot. The present value of a perpetual land rental income from the lease in this method of rental calculation is equal to present market value of the lot. The present worth of the stream of land rental income is:

$$P.W. = \sum_{t=1}^n (i - g_t) V_0 (1 + g_t)^t (1 + i)^{-t}$$

The annual land rent is:

$$R_t = (i - g_t) V_0 (1 + g)^t \geq 0$$

$$\text{where: } V_t = V_0 (1 + g)^t$$

$$R_t = \text{land rent for period } t \geq 0$$

$$i = \text{provincial bond rate}$$

$$g_t = \text{rate of capital gain in period } t$$

$$P.W. = \text{Present worth of income stream}$$

$$V_t = \text{market value of the lot in period } t.$$

The land rent in method 2 increases each year by a proportionate amount equivalent to the increase in land value <sup>if  $g$  is constant,</sup> whereas land rent in method 1 is constant.

For example, if the bond interest rate was 8% and the increment in land value was 6%, the capitalization rate would be 2%. The land rent would be based on the capitalization rate and the market value of the land. The remaining 6% in income would be captured from the increased value of the land.

With this system of land rental assessment, a person pays the same opportunity cost or land rent if he either buys or leases the land. If the person bought the land he would capture the capital

gain in the land. If he leased the land under this system, the Province would capture the capital gain, but the leasee could collect an 8% income on his investment from interest payments on money that he did not have to put into land. For example, for any given year, assume that the expected capital gain is 6% and the opportunity cost is 8%. If one owned the land, he would expect a 6% income in capital gain in land value and would pay a 2% net opportunity cost as a result of owning the land. If he sold the land and decided to lease similar land from the province, he would pay a 2% land rent and would forego 6% income in capital gain in the land but would collect 6% net income on his investment via interest payments on a provincial bond after paying his rent.

#### Advantages

- (1) The land rental rate is flexible and is equal to the cost of owning land.
- (2) The perpetual stream of land rental income would be equal to the market value of the land at the time the lease was originally taken out.
- (3) Province captures the anticipated capital gain in the land as it occurs. This anticipated capital gain is a part of the market price of the land.
- (4) It would be possible to reassess land rentals on currently held leases so that they would equal land rentals on new leases.

#### Disadvantages

- (1) If the capital gain rate ( $g$ ) was always equal to or greater than the bond rate ( $i$ ), the leasee would not pay any land rent and the Province would receive all of its income in increases in land value.

However, the Province must revert the land to receive cash income from the land. It is highly probable that the province will not revert the majority of the leased lots and thus it would fail to capture a portion of its income. To protect against such an occurrence, the Province could set a minimum rate of return in land rent for any period, say 2%. Also, if the value of the land increases at a rate of 8% per annum or more, this indicates that the market is under-estimating the value of the land. This should not occur for any great length of time. For example, a lot worth \$1,000 initially would be worth \$4,661 in 20 years and \$46,902 in 50 years given that its value increased 8% per annum.

(2) It is difficult to estimate the annual rate of increment in land value in a manner that is accurate enough on which to base annual land rent.

(3) This method of land rent assessment may be expensive to administer.

### Method 3

Because the real estate market has heterogenous products and infrequent participation of buyers and sellers, the appraisal of land value is an art and not a science. Final estimates of value are deemed reasonably accurate if they are within 5%, plus or minus, of actual market value realized by subsequent and open sale. Consequently a 5-year prediction on the rate of increment in land value can be used to average error in annual prediction in the rate of increase in land value.

This method differs from method 2 in that a 5-year prediction in the rate of increment of land value is used instead of using an

annual assessed rate of increment. However, the present value of the stream of lease payments in each method will be equal.

The model of land rental calculation for method 3 is shown below:

$$P.W. = \sum_{i=1}^n (i - g) V_o (1+g)^t (1+i)^{-t}$$

where:  $R_t = (i - g) V_o (1+g)^t$

and  $R_t = \text{land rent in period } t$

$i$  = past years mean provincial bond rate

$\hat{g}$  = predicted annual rate of increment in land value

$g$  = actual annual rate of increment in land value

P.W. = present worth of the income stream

Again, the present worth of a perpetual stream of interest payments from a provincial bond bought with money received from selling the lot is equal to the present value of a perpetual stream of land rental payments received from leasing the lot when payments are calculated by this method. The above method of land rental calculation differs from method 1 in that by method 3 the land rent increases each year in a proportionate amount equivalent to the increase in land value. That is, if the value of the lot increased 5% each year, the land rent would increase 5% per annum. For example, if the bond rate is 8% and the expected increase in value on the lot is 6% per annum, then the capitalization rate would be 2% per year. The land rental would increase 6% per year as based on the lot's original market value. At the end of the 5-year period, the value of the land would be appraised to find out if the predicted capital gain was similar to the actual capital gain. A new capital gain prediction

would be made and land rentals would be adjusted on the basis of the new prediction and the present value of the land rental already paid by the leasee.

### Advantages

(1) The leasee would pay an increasing amount of land rent each year which would reflect the increasing value of land. This should negate to some extent the belief that ownership and leasehold are synonymous.

(2) There would be no problem in defining and collecting a land rental that would be based on the market value of the land.

(3) All leasees on land of similar market value will pay the same land rent.

### Disadvantages

(1) This system of land rent assessment may be difficult to explain to the leasee. It is important that he know the basis and method of his land rent calculation.

### Lease Alternative 2

The basic premise in this section is that the province capture the realized as well as the anticipated capital gains from the land.

The land rent would be based on the provincial bond rate and the current market value of the land. The land rent is:

$$R_t = i \cdot V_t$$

$$P.W. = \sum_{t=1}^n i \cdot V_0 (1 + g)^t (1 + i)^{-t}$$

where  $V_t = V_o (1 + g_t)^t$   
 and  $V_t$  = current market value of the lot.

The symbols used are the same as those used in Alternative 1.

#### Advantages

(1) As the rental rate would be flexible because it corresponds to the opportunity cost of funds to the province and the changing value of the land, there should be no problem with adjustment of land rent.

(2) Government derives maximum revenue from the land by charging twice for capital gain - once for anticipated capital gain which is reflected in  $V_o$  and once for realized capital gain as reflected in  $V_t$ .

#### Disadvantages

(1) This land rental would be difficult to justify to the legislature. The market value of land contains within it a value for anticipated capital gain. Thus, if the Province sets a levy for land rent by capitalizing the market value of the land by bond rate and then it adjusts the land rent as the market value of the land increases, it is collecting the capital gain twice. One charges once for anticipated capital gain by using market value as a base for capitalization. This is based on the fact that market value of recreational land is higher if people expect the value of recreational land to increase in the future. Secondly, one charges for realized capital gain by increasing the land rent when the market value of the land increases.

Under this scheme the province could lower the land rent if the market value of the land decreased and thus it would pay for

potential capital loss, as well as collect potential capital gain. This would provide some justification for it to capture realized capital gain. However, a person desiring to use land for a summer home would still be at a financial advantage to purchase land on the private market because there is a greater probability that the value of recreational land will increase rather than decrease in the future.

(2) This is an inefficient allocation of land because the price charged for the lease is greater than its market value. There will be a decrease in quantity demanded for recreational land supplied by the Province. More Manitobans will buy land in Ontario.

### Lease Alternative 3

The annual land rent to be paid by the leasee would be put up for auction. The highest bidder would obtain the lease. A minimum land rent reserve bid could be used so that development costs would be recovered and a minimum acceptable land rental fee would be collected<sup>7</sup>.

The leasee would pay the same land rent that he originally bid throughout the term of his lease. The lease should be long enough to give the leasee security of tenure over the life of his cottage. The land reverts to the crown at the end of the lease. If the Province decides not to revert the land, the new land rent could be adjusted to equal current land rent bids for similar land. The value of the lease would be:

$$P.W. = \sum_{t=1}^n R_b (1 + i)^{-t}$$

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<sup>7</sup> If the government decides that bids are not high enough, fewer lots could be put up for auction at the next auction.

where  $R_b$  = leasees annual land rental as expressed  
by his bid

$i$  = mean government bond rate

$t$  = time in years

P.W. = present worth of lease

It would be difficult to estimate the rental income received from this method of allocation.

#### Advantages

(1) Land rent on current leases could be revised on the basis of the bids received on the auction.

(2) Since the leasee bids a land rental fee for the use of a lot for a specified length of time and under specific conditions, the government has strong grounds for reverting land for public use.

(3) The land rental will not be an issue since the leasee has set it himself and it is based on a competitive market.

#### Disadvantages

(1) There could be initial opposition by current leaseholders to this method of land rent assessment as a different method of assessment is now used. Also since they took out their leases at a period when demand for recreational land was lower, they probably could have obtained their lease at a lower land rental than can the current leaseholders.

#### Lease Alternative 4

The land rent would be based on the market value of the land and an administratively set rate of return that would be acceptable



to the province as well as the leasee. The value of the lease is expressed in the following equations:

$$P.W. = \sum_{t=1}^n r (1 + g)^t V_0 (1 + i)^{-t}$$

$$\text{and } P.W. = \sum_{t=1}^n R_t (1 + i)^{-t}$$

The annual land rent is equal to:

$$R_t = r (1 + g_t)^t V_0$$

$r$  = an administratively set rate of return (for example: 5%, or provincial bond rate minus 2%)

$i$  = bond rate

The arbitrarily set rate of return is traditional. It is probable that the leasees would be willing to accept a four to five percent land rental rate based on the market value of the land.

#### Advantages

- (1) The land rentals could be adjusted every year.
- (2) There would be no problem of adjusting land rentals on current leases so that they would be in line with new leases.

#### Disadvantages

- (1) Since the rental fee is arbitrarily set, the Province will affect the market price of recreational land because they will either subsidize or overcharge the leasee in all cases when  $r + g$  does not equal  $i$ .

## B. Return of Service Costs

### 1. Administrative Costs

Ward and Associates<sup>8</sup> estimate that in 1964 the total salaries, wages and other overhead costs of the Lands Branch directly applicable to the administration of cottage and commercial leases was at \$14,500. A work-time analysis led to the conclusion that 25% of the time of the people involved in the administration of cottage lots is spent on the leasing of new lots. Thus 75% of the total cost - \$10,875 - was spent on administration of the 5230 existing leases. This is equal to \$2.07 per lease/year. If the lots were sold, presumably there would be no such administrative cost. These costs are higher now due to the increased cost of labor - say \$3-\$4/lease/year. This is negligible. Administrative costs should be paid by the leasee if the Province desires to obtain a rate of return on land from lease that is equal to rate of return from sale.

### 2. Recovery of Development Costs

Development costs should be recovered by taking into account the increased value of the land due to development (i.e. construction of roads, provision of sewer and water, etc.). Hence, land rent or sale price should be greater due to the increased value of the land due to development. A minimum lease land rental or sale reserve bid to cover development costs and to provide a minimum return on land could be used by the government. The alternative for a leasing policy is the recovery of development costs with an upset bid. However, if

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<sup>8</sup> Joseph B. Ward and Associates, Schedule of Fees and Rentals - Manitoba Provincial Parks, Winnipeg, 1964.

the lease is terminated by the government, the leasee may complain (with some justification) that he has a partial ownership in the land as he has paid for its development and is responsible for its increased value.

Development on cottage land could continue until the rate of return on development is equal to the opportunity cost of provincial funds.

### 3. Maintenance Costs

It is possible to obtain revenue from cottagers that is equal to cost of providing their services under either lease or a sale policy. The costs should be itemized on each landholder's fee statement as well as being separated from the land rental fee, if applicable, so that the landholder knows how much he is paying for each service.

If the land is under lease, it is suggested that a clause be inserted into the lease to enable the Province to reassess maintenance fees without notice so that there is a balance each year between the costs incurred and the revenue received from supplying these services.

If the land is owned by the cottager, service costs could be paid by taxes. Taxes could be based on the costs of services rendered or on the assessed value of the property.

## II

LOCAL GOVERNMENT STRUCTURE FOR PROVISION OF  
SERVICES AND COLLECTION OF COSTSA. Cottages in Unorganized Areas1. Alternative 1 - Administrative and Maintenance Costs based on  
costs of services rendered.

Method 1 - Large cottage assessment regions could be set up (ex. Flin Flon region, The Pas region, Whiteshell region). This would equalize locational differences in cost for services supplied to cottagers, and revenue received from them.

Method 2 - Local improvement districts could be set up. The elected representatives of the improvement district would request services from the province. Each cottager in the improvement district would be charged equally for the services. Thus if one district would want roads to be ploughed in the winter, they would be charged for this service and districts that do not request this service would not have to pay for it.

The formation of cottage owners associations should solve the problem of provision of services for winter use of cottages.

2. Alternative 2 - Administrative and Maintenance Costs based on  
taxation of real property.

A Crown Land Tax Act be enacted that would enable Provincial taxation of all occupied crown or privately owned land in unorganized areas to pay for local services. Local improvement districts should be set up under this act that would have involvement of local people. This act would work similarly under a sale or lease.

## B. Cottages in Organized Areas

### (a) Lease

Cottages in organized areas obtain the right to vote in municipal elections. The municipality would charge the cottager for services. The government would charge the cottager a land rent only.

### (b) Sale

Privately owned land in organized areas that is used for summer homes should be treated like all other privately owned land.

## III

### REVERSION OF LAND AND COTTAGES

Objective: The Province must have the option to revert recreational land from private to public use and should use the least-cost means of reserving this option.

### A. Reversion of Land

While a leasee possesses the rights to property for the term of the lease, the lessor is entitled to repossess the land, known as the reversionary right, upon termination or breach of the lease.

Although the province could revert land from private ownership under its right of eminent domain as well as its reversionary right under lease, it is the author's opinion that reversion of land under lease would result in less cost to the province. Also, there would be a greater probability of the land reverting to public use under lease because less political pressure against its reversion would be put on the government.

In the process of expropriation the courts have tended to award a price for land that has been higher than its initially appraised value because the benefit of the doubt about the market value of the land has

gone to the owner. The costs for legal fees and administration has further increased the cost to the province. Also, the right of eminent domain may be more difficult to use in the future because the law has become more stringent. Expropriation has been an unpopular process in the past and it may be more so in the future.

By the use of the reversionary right to revert leased land, the province is foregoing the income received from the land but presumably is reverting to put the land to a higher valued use. However, the province knows in advance how much it must pay for the land.

Even though the lease may have terminated, the process of reversion will be unpopular. However, land reversion under lease will be less difficult politically and less expensive financially than under a sale policy.

#### B. Purchase of Cottages

The fate of the cottage when a lot is reverted to public use will be a contentious issue and the government should not find itself in the position of paying inflated prices for a cottage. Provision must be made within the lease structure for moving the cottage or obtaining the cottage at a "fair" cost when the land is needed for public purposes or when the cottage has outlived its usefulness and the area must be redeveloped.

While the government must avoid the alienation of land for public recreational purposes and avoid the necessity of paying excessive prices to obtain the use of their own land there are other factors that must be recognized as follows:

1. Summer homes are a justifiable part of the recreational concept.

2. The lowest cost use can be attained if they are furnished and maintained by whoever uses them.

3. For the leaseholders to construct cottages and maintain them in a good state of repair and attractiveness there must be a security of investment.

The security of investment for the leaseholder and the ability of the government to make the most economic use of land are not incompatible within the structure of a lease. The security of investment for the leaseholder must lie in the following principles.

1. Long range planning - if the government owned and rented all the cottages it would be necessary for them to plan the location of the cottages, their orderly development and the introduction of new facilities according to a long range plan in order to achieve the best pattern of revenue and expenses. They could not afford to build and tear down cottages in less than twenty years. The same condition of planning should apply for the leaseholder.

2. Redevelopment and reversion of land - If, as a part of redevelopment and reversion of land, it is necessary to take out a section of cottages, they should be ones that have outlived their usefulness and the leaseholders must recognize that they have been given security of tenure over the useful life of the cottage. To do otherwise will jeopardize the security of the leaseholder. If the cottage is to be taken out before this time the leaseholder must be compensated for the value of the cottage.

To permit effective long range planning in both the physical and economic sense while establishing a reasonable security of tenure the payment to be made for the cottage must be established well in advance of the date that the property is required. It is recommended that the

leasee be paid the appraised value of the cottage. The method of appraisal that municipal tax assessors are using at that time should be applicable. This method of appraisal should be written into the lease. Cottages should be removed or replaced only as part of a redevelopment project or where the land will be used for public recreation since the government must not put themselves in the position of buying up a cottage at an expropriation figure and then using it for a lower valued purpose.

Provision should be made for appeal if the cottager feels that the appraised value by municipal method is less than his appraisal of the value.

#### C. Moving of Cottages

Where a cottage leaseholder has built a good quality cottage, maintained it and improved it so that it keeps its value, he also should have the option of moving the cottage if he feels that it has a value in excess of the appraised value.<sup>9</sup> The government must always reserve sufficient building lots to permit moving cottages from the areas that are to be redeveloped. The government should pay the cost of moving the cottage within the subdivision or to a subdivision nearby. The amount paid should not exceed the appraised value less scrap value. Consideration should be given to issuing building permits to designs that will allow the cottages to be moved when required. A clause stating the maximum amount the government will pay for a cottage could be put into the contract.

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<sup>9</sup> Option should be made to be able to move the cottage to a back tier lot if no front tier lot is available.



## IV

PROTECTION FROM LEGAL LIABILITY

Objective: In order to preserve flexibility in use of its minerals water resources, the province must have protection from potential legal action arising from lake level fluctuations caused by it or one of its authorities and from damage caused by mineral exploration and development.

A. Sale of Land

The province could put a caveat on the title that would protect it from liability due to water level fluctuations that have been caused by it. It could add another caveat that would protect it from liability due to damages caused by mineral exploration and development. An easement could be put on the title to allow the province or a private developer to enter the land for mineral exploration and/or development purposes.

B. Lease of Land

The same legal protection that the caveats and easement would provide under a sale policy could be provided by covenants in a lease contract.

However, even though the province may have protection from legal liability to preserve flexibility in resource use it may be less susceptible to political pressure groups of landholders who would desire the allocation of resources in their interests if the land were leased by the province.

## V

ENVIRONMENTAL QUALITY

Objective: The province must have the power to control environmental quality. This power should not be transferred to local governments until they are able and willing to maintain environmental quality.

#### A. Cottage and Lot Standards

With a lease policy, the Province could control the standards of cottages and the condition of the lot (ex. cutting of trees) with the use of a covenant in the lease. The lease is held subject to conditions contained within it. Enforcement of the conditions is easy when the leasee wishes to transfer or renew the lease.

With a sale policy, title could be withheld until a cottage is built that conforms to requirements that are set by the Province. A caveat giving the standards could be put on the title. However, the standards may be difficult to enforce under this system. Also, enforcement available under conditions of lease transfer or renewal are not available under sale.

#### B. Zoning

Regardless of whether the land is in an organized or an unorganized area, the Province could zone (ex. control the use to which land is to be put, control lot size) land via covenant in a lease policy or via caveat or statute in a sale policy. (Amendments to the Crown Lands Act that are pending will enable the province to sell crown lands and to control the use of the land). However, a change in a zoning covenant may be possible at the termination of a lease. This is not possible with a caveat.

#### C. Health Regulations and Pollution Control

The Province has statutory power to control health regulations and pollution under the Public Health Act and the Clean Environment Act. These powers apply whether the land is leased or sold.

## CHAPTER 111

### THE RECOMMENDATIONS

## I

OPTIMAL POLICY

Because the market value of the land is the most efficient price at which to allocate land and a return equal to market price on the land could be collected from either a lease or sale policy and because the reversion of land, maintenance of environmental quality and protection from legal action objectives are fulfilled more completely under a leasing policy, it is suggested that a leasing policy as outlined below be implemented.

A. Collection of Revenue

1. Land Rent - A land rental fee be assessed as outlined in lease alternative 1, method 3.

$$\text{where: } R_t = (i - \hat{g}) V_0 (1 + g)^t$$

In order to simplify administration of land rent, lots of approximately equal value, say plus or minus 10%, should be grouped together and assigned an equal basic price. Because a tender system breaks down when a large number of lots are offered for sale and tenders do not approximate the market as well as an auction, an auction should be held to determine who gets the leases<sup>10</sup>. The person making the highest bonus bid obtains the right to lease. The basic price of the lot would represent the present value of the land rental income (in perpetuity) that would be paid by the leasee.

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<sup>10</sup> Reserve bids should be allowed. Also, the auction via the bonus bid captures a return on land additional to its net lease value. Further, when  $\hat{g} > i - 2\%$  a minimum rate of return from the leaseholder for land use, say 2% of current

If bonus bids on similar land increase at future auctions, then one knows that basic prices of the land have increased. The Province could then raise the basic prices on land at future auctions. Also a land market has been established by this method and the actual rate of increase in land value could be calculated.

To predict the increment in land value, a land value index could be constructed with the use of a multiple regression or multiple discriminant analysis. The components of land values (ex. distance of land from a population centre, physical characteristics of the neighbourhood, amount of leisure time, etc.) would be the independent variables and the market price would be the dependant variable. Assessed values may be substituted for the market value in the analysis if sufficient market prices were not available.<sup>11</sup> The land value index should give sufficiently accurate data on which changes in land rent could be based. The land market via bonus bids could be used to check the prediction. Construction of other theoretical models of the land market could be attempted.

In order to capture the increased value of surrounding land after the first cottages are built on a lake, the leasing of land should be controlled. Only a small number of leases should be let in a subdivision in any year. Only after the area starts to develop should additional lots be offered for lease in order to obtain a higher bonus bid.

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<sup>11</sup> E. L. David, "The use of assessed data to approximate sales values of recreational property" Land Economics, Feb., 1968.

#### B. Service Costs

Local improvement districts should be set up and service costs be assessed on the cost of services rendered and not on the assessed value of the cottage. Service costs should be added as a separate item and would be assessed so that total revenues are equal to total costs of services rendered. Leaseholders in organized areas should be assessed only a land rental fee if the Local Government provides them with services.

Cottagers should be given the choice of establishing local improvement districts (cottage owners associations). The ones that desire to establish these associations could then request services that they desire and would pay for the ones that they receive. The cottage areas that do not desire to form associations would pay a mean value for standardized services rendered in a larger accounting district (ex. The Whiteshell Area, The Pas Area). Development costs should be included in the basic price of land.

#### C. Reversion of Land

If the Province wishes to revert land at the termination of a lease, the assessed value of the cottage, as assessed by the municipal assessment method in use at that time, be paid to the leasee. Provision should be made to move cottages. Consideration should be given to moveable cottage design requirements and leases only be issued for this type of cottage.

#### D. Environmental Quality

Provision in the present lease is satisfactory.

### E. Legal Liability

Provisions in present lease are satisfactory. Check if there are provisions for entry onto the land for mineral exploration and development.

## II

### TRANSITION POLICY

The transition policy is to be used to cover the move from the present policy to the optimal policy. The objectives of the transition policy are:

1. Existing contracts must be honored by the Province. Although the Province has the power to break these contracts, this would result in a loss of confidence by people contracting with the Province.
2. The management of existing leases should be brought into line with long-run objectives as soon as possible.
3. New leases should conform with long-run objectives.
4. Study should be made on the optimal method of establishing local improvement districts.

Although existing leases should be honored by the Province, each lease could be changed when it is renewed and present leaseholders should be advised of this step immediately to forewarn them. The change should make it identical to new leases being issued at that time.

The key to a smooth transition from the present policy to the optimal one lies with an information program aimed at the present leaseholders. The majority of the existing leases could and should have their land rents and service fees raised immediately. It is essential that this fee increase be adequately explained. Letters of explanation for a fee increase, especially the initial one, should be sent to all leaseholders

in this year's fee statement. Lease fees on existing contracts that contain a maximum fee clause could be raised when the leases are up for renewal. The land rents on all other current leases could be adjusted after the market value of the land was appraised and the rate of increment in land value was obtained. This would be possible shortly after a few groups of lots would be auctioned and a land value index would be established.

New leases, in order to conform with long run objectives, should follow guidelines as outlined in the optimal policy. Construction of theoretical models of the land market should be attempted in order to obtain the rate of increment in land value. A multiple regression analysis of the components of land value or a multiple discriminant analysis is suggested.

A study should be made on the optimal method of establishing local improvement districts. The opinions of cottagers regarding the type of local government they desire should be obtained. The administrative costs of alternative types of local governments should be calculated.

## APPENDICES



## A. CAPITAL GAINS ANALYSIS

A simple regression testing the change in recreational land value with changes in time was run on lots sold in five adjacent subdivisions on Balsam Bay on the southwest shore of Lake Winnipeg. The purpose of the test was to obtain some information about rate of capital gain in cottage land in Manitoba. Although the test is specifically applicable to southwest shoreland of Lake Winnipeg only, it may aid some in forming opinions about the rate of capital gain in cottage land in other parts of the Province.

All sales prices are for unimproved lots.<sup>12</sup> Three subdivisions were divided into front tier and back tier lots. The other two subdivisions consisted of front tier lots only. In the following equations:

$Y_t$  = market price of the lot per effective front foot in year  $t$

$g$  = annual rate of increment in land value - in percent

$t$  = time in years

$Pr$  = probability

$n$  = number of observations

$MBV$  = mean building value in the subdivision

### Back Tier Lots

Almdales Cove, Plan #6310  $Y_t = 2.45 (1.064)^t$

where:  $Pr (7.7 \leq g \leq 5.1) = 0.95, n = 23$

$MBV = \$2100, t = 13$

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<sup>12</sup> Land values were obtained from the Municipal Assessment Division, Department of Municipal Affairs.

Sunset Beach, Plan #6408  $Y_t = 5.49 (-1.019)^t$   
 where:  $\Pr (0.6 \leq g \leq -4.4) = 0.95, n = 17$   
 $MBV = \$2000, t = 11$

Lakeshore Heights, Plan #6664  $Y_t = 5.78 (1.089)^t$   
 where:  $\Pr (19.9 \leq g \leq -2.1) = 0.95, n = 16$   
 $MBV = \$2000, t = 6$

#### Front Tier Lots

Lakeshore Heights, Plan #6664  $Y_t = 10.30 (1.084)^t$   
 where:  $\Pr (9.8 \leq g \leq 6.7) = 0.95, n = 21$   
 $MBV = \$4000, t = 9$

Sunset Beach, Plan #6408  $Y_t = 5.09 (1.074)^t$   
 where:  $\Pr (9.8 \leq g \leq 5.0) = 0.95, n = 17$   
 $MBV = \$2200, t = 11$

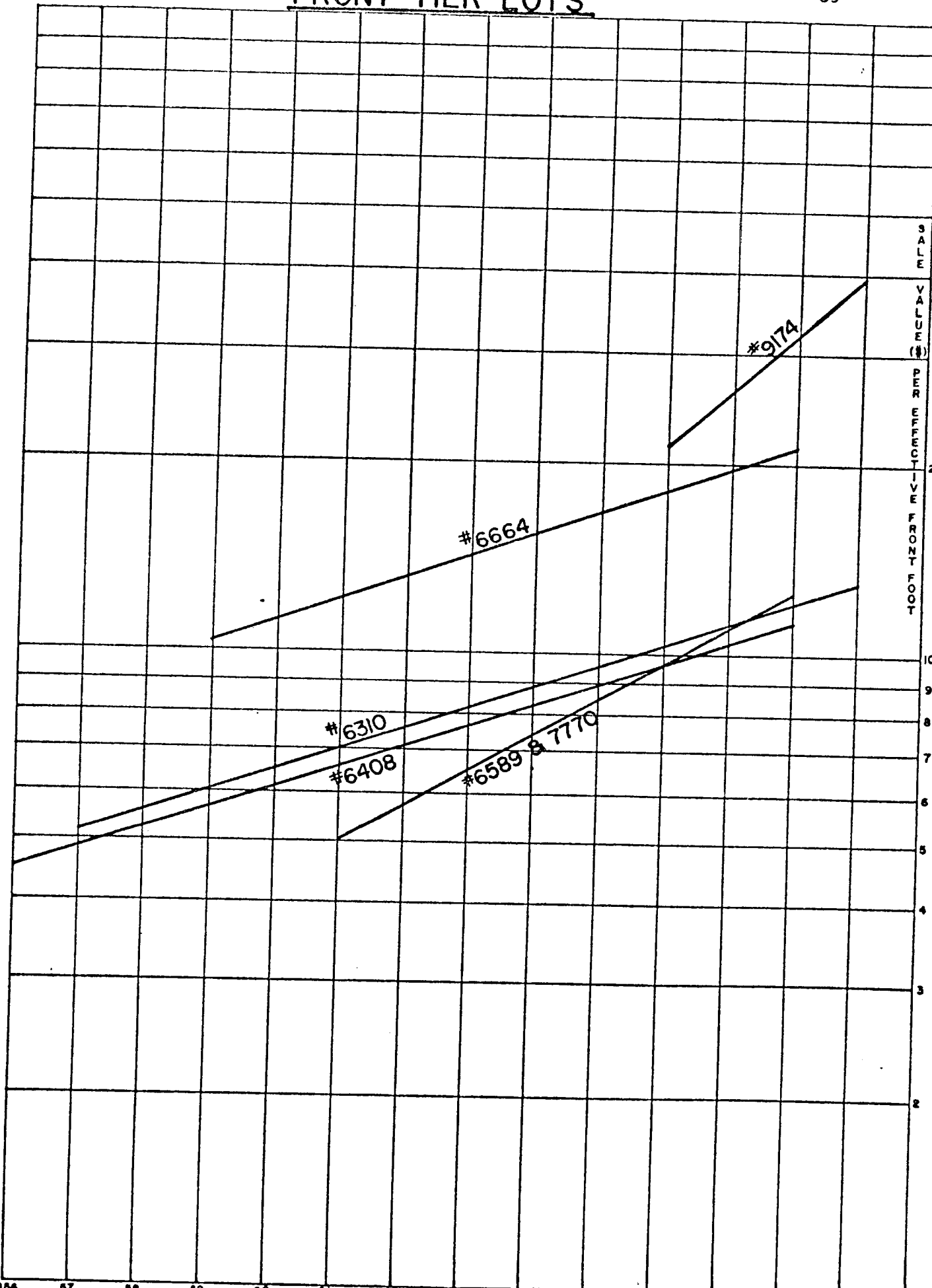
Almdales Cove, Plan #6310  $Y_t = 2.50 (1.132)^t$   
 where:  $\Pr (19.9 \leq g \leq 6.5) = 0.95, n = 6$   
 $MBV = \$2800, t = 12$

Birch Grove, Plan #6589 and #7770  
 $Y_t = 5.23 (1.133)^t$   
 where:  $\Pr (16.6 \leq g \leq 11.0) = 0.95, n = 15$   
 $MBV = \$2600, t = 7$

Lakeshore Heights, Plan #9174  $Y_t = 21.50 (1.228)^t$   
 where:  $\Pr (25.8 \leq g \leq 19.9) = 0.95, n = 22$   
 $MBV = \$5500, t = 3$

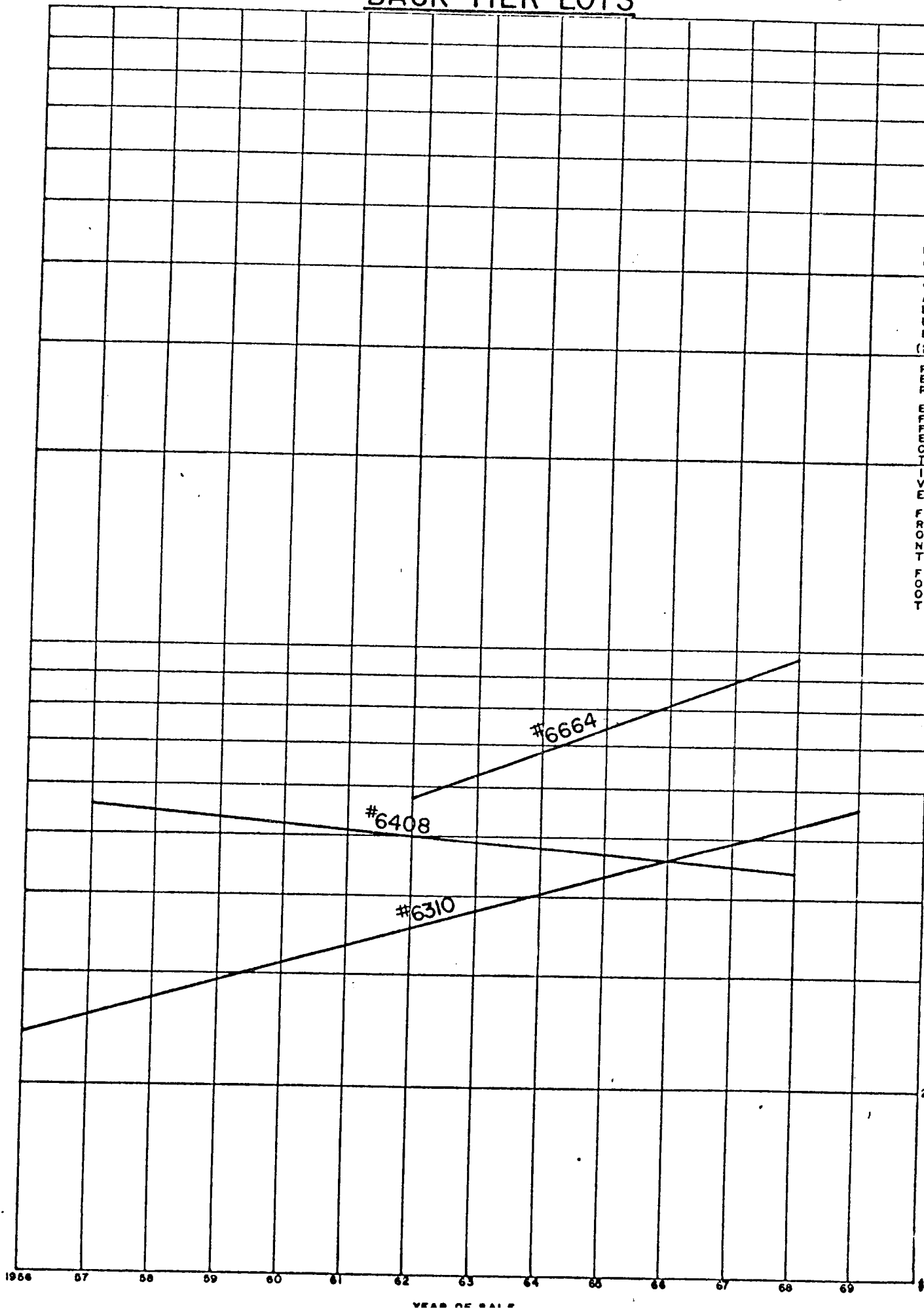
# FRONT TIER LOTS

39



# BACK TIER LOTS

40



A few tentative generalizations can be made from the above data. Sales prices of lakefront lots have doubled within the last ten years although there is much variation in individual sales values<sup>13</sup>. Back tier lots have increased 3% to 4% per year but there is much variation in market prices between subdivisions as well as in market prices within subdivisions. The character of the neighborhood (as expressed by the assessed value of the buildings) has affected the land prices. The neighborhoods in which there were more expensive cottages tended to contain the more valuable land. Also, the highest sales prices occurred in a subdivision on Class 4 land (Canada Land Inventory Recreational Potential Index) and the lowest prices occurred in a subdivision with Class 3 land. Both subdivisions were rated as suitable for cottaging.

#### Market Value of Recreational Land in Other Areas British Columbia

Ward and Associates reports that prices for summer home lots near Vancouver in 1964 were:<sup>14</sup>

##### Crescent Beach

<u>Description</u>	<u>Size</u>	<u>Total Price</u>	<u>Front Foot Price</u>
waterfront lots	50 x 100	\$10,000-12,000	\$200-240
second row lots	50 x 100	\$ 6,250- 8,000	\$125-160

##### Beach Grove-Boundary Bay

waterfront lots	50 x 100	\$7,500	\$150-175
second row lots	50 x 100	\$8,500	\$ 90-100

<sup>13</sup> E. L. David and W. B. Lord, Determinants of Property Value on Artificial Lakes, University of Wisconsin, Dept. of Ag. Econ., College of Agriculture and Life Sciences, Madison, 1969.

<sup>14</sup> Joseph B. Ward and Associates, Development Plan - Cultus Lake Park, Vancouver, 1963.

All lots are privately owned and can be occupied on a 12 months per year basis, and are subject to Municipal Taxation on a "land and improvements" basis.

#### Ontario

The Toronto Globe and Mail<sup>15</sup> reports that land on Muskoka Lakes is worth \$80 a foot frontage and up and land near Bigwin ranges from \$80 a foot to \$120. Land is selling this year for \$80-\$200 a foot frontage on Lake Simcoe and it has been increasing in price by 20% annually.

It is interesting to speculate whether recreational land in Manitoba will be selling at such (prohibitive?) prices in the future.

In July, 1970, Ontario auctioned 72 summer home lots located in the Kenora area. The mean price paid per lot was \$1521. Every lot was sold to a Manitoban. This suggests that if the government desires to develop its recreational resources to increase its rate of economic development, more summer home lots must be leased or sold in the future.

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<sup>15</sup> August 28, 1970, p.87.

## B. OCCUPATIONAL AND INCOME ANALYSIS OF COTTAGERS

As one may assume that occupations and income groups to which cottagers belong would be of some value in aiding to identify the people one is dealing with as well as to aid in deciding how quickly rents could be raised, they are presented here.

### Occupations of Seasonal Home Owners in the Whiteshell (1970)<sup>16</sup>

<u>Occupation</u>	<u>Number</u>	<u>Percent</u>
Professional, technical, non-farm, managers, proprietors	60	43.4
Farmers	2	1.4
Clerical, salesworkers, service workers	14	10.2
Craftsmen, skilled workers, unskilled workers <sup>17</sup>	49	35.6
Insurance and real estate	8	5.8
Retired	5	3.6

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<sup>16</sup> Obtained from records in the Department of Tourism and Recreation.

<sup>17</sup> There were relatively few unskilled workers in this category.

### Annual Income of Wisconsin Cottage Users<sup>18</sup>

	<u>Resident (1959)</u>	<u>(1965)</u>	<u>Non-resident (1959)</u>
Less than 3,000	7.7	5.8	5.9
3,000-4,999	13.6	6.5	8.3
5,000-5,999	13.4	12.8	9.5
6,000-6,999	12.5	15.3	9.2
7,000-9,999	21.4	21.8	22.1
10,000-14,000	13.6	10.7	19.5
15,000+	15.8	37.8	20.2
Median income 1959	\$7,300		\$9,000
Estimated 1968 \$'s (22.5% inflation)	\$8,943		\$11,000

Annual taxation of seasonal housing including site in 1959 was \$102.  
In 1965 it was \$187.

### Annual Income of Muskoka, Ontario Cottage Owners, 1968<sup>19</sup>

	<u>Number</u>	<u>Percent</u>
under \$3,000	9	2.5
3,000-5,999	23	6.3
6,000-7,999	31	8.4
8,000-9,999	48	13.2
10,000-14,000	78	21.5
15,000-24,999	75	20.7
25,000+	52	14.4
no answer	47	13.0
Median income	\$10,400	

<sup>18</sup> State of Wisconsin, Dept. of Resource Development, Private Seasonal Housing, 1966.

<sup>19</sup> Project Planning Associates Limited, Recreation and Community Development of the Canadian Shield Portion of Southern Ontario, St. Johns, Nfld.



The average Municipal Tax paid by the cottagers was \$178.

It is interesting to note that the Wisconsin studies report that 35% of the cottagers in 1959 and 25% in 1965 owned cottages earned \$6,000 per year or less. However, in Muskoka only 17.2% of the cottagers earned \$8,000 or less in 1968. With such variation in results it would be difficult to generalize the findings of these studies to include the situation in Manitoba. (Why can so many people own cottages with less than \$6,000 income in Wisconsin and not in Muskoka? Perhaps Muskoka attracts the "richer" clientele.) If people with incomes of less than \$6,000 can own cottages in Wisconsin there is no reason why they cannot do so in Manitoba.

Most cottage owners in the Whiteshell belong to the professional, technical, managerial, proprietary, and skilled occupational groups. This should put them into the "middle" and the higher income groups. They should be able to afford an increase in fees to a non-subsidized level without any gradual increments.

## C. DEVELOPMENT OF A RESORT CENTRE

If the Province desires to promote economic development, it could consider the feasibility of selling a large block of land to a developer who would agree to develop a cottage service resort centre. The developer would recover sufficient of his costs in providing the central facility and infrastructure from the appreciation in value of adjacent real estate which returns to the developer through the sale or rental of land.

A recent ARDA report states that the balance between immediate and direct benefits derived from private recreation development and the cost incurred by local governments in the provision of the infrastructure is not always favorable. The sale of undeveloped land to a developer who would provide the infrastructure would shift the risk of losses (as well as gains) to the developer.

The sale of land to development companies can serve two further related purposes. Firstly, it would prevent the economic decline of existing cottage service centres by providing an employment base and ensure that service centres in the process of development would be economically viable in the future. Secondly, well planned recreational centres would retain local recreationists and attract ones from out of the province.

There is a distinct probability that before the turn of the century, a program similar to ARDA could be required to rescue submarginal recreational regions and tourist development entrepreneurs in some parts of North America if care is not exercised in development procedures. In some resort areas the leakage factor is known to be close to 100%.<sup>20</sup> The

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<sup>20</sup> W. M. Baker, The ARDA Program in Relation to Recreation and Tourism, ARDA condensed research report - CR #1.

local population either lacks the capital or entrepreneurial initiative and skill to take advantage of the situation. For example, unplanned cottage service centres in the Muskoka area of Southern Ontario have shown a deterioration and are in need of economic development.<sup>21</sup> People began to sense, in the late 1950's, that the environments of many of the tourist and cottage service centres were less rustic but rather more slapdash and unnecessarily inconvenient. The rising disenchantment was aided by a new technology that permitted people to bring familiar amenities with them from the city to the cottage. This occurred to the detriment of the local shopkeeper who found that his biggest competitor for cottage sales was the family station wagon filled with city purchases destined for the cottage fridge, freezer or boathouse. The number of ownership transfers were high and the local goodwill trade built up over the years became an increasingly less dependable portion of cottage service centre trading.

Several factors are evident that will affect cottage and resort development in the Shield during the coming years. The 1970's will likely generate more demand for non-water oriented winter and summer activities. Special year-round resorts and winterized cottages with full services will follow, increasing the employment base of the service and retail activities.

Skiing was the first activity to attract off-season use of cottages. The ownership of skidoos has doubled in the last year and has contributed heavily to increased winter recreation. It is projected that skidoos will equal motorboats in terms of popularity. The number being used in Ontario during the winter of 1968-69 is estimated at 72,000, compared with 38,000 one year previous.<sup>22</sup>

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<sup>21</sup> Project Planning Associates.

<sup>22</sup> Ibid.

In Ontario the impact of the skidoo on the cottage areas appears to be an inverse function of distance from Toronto, and is directly related to the level of facilities available in the area. Areas more than one hour's drive from Toronto have attracted the skidoo enthusiast to resorts or cottages in communities with first rate accommodation and restaurant facilities.

Cottage owner, it is observed by resort owners, prior to purchase of skidoos and winterizing tend to stay in a motel or a resort and rent a skidoo to visit their cottage during the day. Even where cottages are winterized it is often more desirable to eat in a restaurant than to stock the cottage for a 2-day holiday.

Although the impact of the skidoo is of recent origin and the long term economic effect on the cottage resort areas is not tested, it is nevertheless an important trend activity which could alter the recreational patterns of people in the same manner as the outboard motor, or the ski lift.

In Ontario, it has been found that resorts built or expanded to take advantage of improved operating economics made possible by a second 4-month season in the winter are also developing more recreation facilities, such as golf courses, indoor swimming pools, health clubs, etc., to attract guests during "between seasons" periods as well as the winter and summer. To help finance capital investments, many resort complexes are marketing serviced lots, condominium row houses or apartments. In doing so these operators assure themselves a broader market base of cottagers and tourists for facilities and services offered by the resort. In some instances the initial sales transaction included a management agreement permitting the privately owned unit to be contracted to the resort as a

rental unit, when not occupied by the owner, thus financially helping to defray the cost of ownership and usage to both parties.

Consequently with the trend to more winter activities demand, there exists a possibility for development for a cottage-resort complex that would contain sufficient activity resources to attract people of diverse economic, age and educational backgrounds, from within the province and out of the province.

In order to construct such a complex, a competent management structure and sufficient financial leverage are essential. The Province could select a developer that they believe would have sufficient management skill or manage the complex themselves. The sale or rent of developed lots would provide some financial leverage.

## D. PHILOSOPHY FOR LOCAL IMPROVEMENT DISTRICTS

The reasons usually given for delegation of tax and expenditure authority to local governments are:

(a) It is considered an important part of a democratic social and institutional setup;

(b) In the case of a great many problems which have to be tackled on a collective basis, there is little need to carry out a standardized solution for the whole province, as needs and wishes may vary from one district to another. It is, of course, possible per se for a central authority to make decisions which do not involve standard norms for the whole province but instead to meet local demands and wishes in various ways. On the other hand the chances for local needs and desires to count are much greater if decisions are made locally.

(c) Finally, the administration of a great many projects can be carried out more cheaply and more effectively if one bases oneself on a decentralized system of authority and a decentralized administration than if complete centralization existed. It is not only possible to cut down on the number of channels through which various matters have to pass, but increased efficiency can also be achieved by utilizing knowledge of local conditions.

Decentralization of decision-making at the operational level may therefore improve efficiency in the distribution of public goods. It may also improve equity in that the heterogeneous circumstances of particular individuals can be considered on their merits rather than as undistinguishable units in a provincial mass. This also makes it possible for the interested citizen to participate in public decision-making in a manner that is open

to only a few at the provincial or national level. This citizen may feel that "bureaucracy" (diseconomies of scale in administration) more than offsets various economies of scale in production and finances and so he might be an economy-in-government supporter. But more likely, this citizen wants very local government for its own sake; he wants to feel important, as when he personally knows his councilman or he wants to play politics for self-expression or just the fun of it, or otherwise personalize his local government. In this impersonal age of automation and the narrowest occupational specialization -- this age of creative frustration for many people -- the need for political participation may not be trivial and the trend may even be strongly upward. However, this same characteristic is responsible also for one of the most acute problems of local government which hardly arises at higher levels of government, namely that the citizen who does not approve of the policies of his local government can move into a more congenial jurisdiction. It also means that an individual living in one jurisdiction may use the services of another without having to join with its residents in paying for them. This complaint is frequently heard from the governments of central cities in metropolitan areas, that rich people use the central city for work, for cultural activities and for shopping, but reside in the suburbs and so escape their share of costs, while the city becomes crowded with poor people whose tax capacity is low.<sup>23</sup> This will occur to a lesser extent in a local improvement district.

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<sup>23</sup> Robinson, A. J. and James Cutt, "Municipal Finance" in Public Finance in Canada: Selected Readings, A. J. Robinson and James Cutt, Eds., Methven, Toronto, 1968.

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