Upon Which Mighty Empires Rest

By M. S. LURIO

In a preceding article, an effort was made to approximate the rental value of land owned by large industrial corporations. No direct figures are generally available. Consolidated balance sheets include an item which covers the cost of land and the improvements thereon, designated by some such term as "real estate, plant and equipment" or "property account."

Let's suppose that a corporation over a period of years has spent a total of one million dollars for real estate and equipment. The land does not wear out as the improvements do. Depreciation is deducted each year on that portion of the total which is calculated to be the value of the improvements. If, to simplify our example, the investment of one million was made ten years ago, and the improvements were considered to be worth $800,000 and the land $200,000 at the time of purchase, each year a deduction is made for depreciation of the improvements. Assuming an average depreciation rate of 5 percent a year, the annual depreciation charge is 5 per cent of $800,000 or $40,000. At the end of ten years, the books would show the item as follows:

Real Estate, Plant and Equipment	$1,000,000
Less depreciation to date	400,000
Net Value, Real Estate, Plant and Equipment	$600,000

Actually, the land may have risen in value to $1,000,000, but it is not the usual practice to reappraise the value of the land and raise it or lower it on the books.

The problem is further complicated by the extremes of speculation and depression. At the very depth of a depression it seems as if all land is practically worthless. But this condition is no more abnormal and artificial than the values during the peak of the speculative boom that preceded it. Those who, in the very trough of a depression, are bound by leases or subject to mortgages created when values were at their previous peak, cannot release themselves except by bankruptcy. The corporation that owns its land outright, however, is certainly in a much better position to withstand the ravages of hard times.

Hence in considering the rental or selling value of land in this connection, we must really think of a figure somewhere between peak and trough values.

In a growing community over a period of years total rental value must increase, despite the fact that individual sites or mines or wells may have fallen considerably in value. Corporations owning properties that have been abandoned because their continued operation is unprofitable, usually write off such values from the property account.

Now for the actual figures of a few large corporations in different fields of industry.

The property account of the Texas Corporation is as follows:

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Land, leases, wells and equipment	$233,752,000.	Deprec.	$44,106,000.
		Depletion	58,758,000.
		Amortiz.	6,108,000.
Oil pipe lines and tank farms	76,854,000.	Deprec.	36,435,000.
Refineries and terminals	161,296,000.	Deprec.	80,607,000.
Ships, marine equip.	51,142,000.	Depletion	205,000.
Service station facilities and equipment	109,835,000.	Deprec.	25,447,000.
		Deprec.	44,198,000.
Miscellaneous property	2,969,000.	Deprec.	909,000.
	635,848,000.		296,774,000

Total property account	$635,848,000.
Depreciation, depletion and amortization	296,774,000.
Net property account	339,074,000.

(Depreciation, depletion and amortization for 1938 is $24,946,000.)

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Acreage of subsidiaries, exclusive of acreage held by companies jointly controlled with Socony Vacuum in South America and companies jointly controlled with Standard Oil of California in the Far East:

	Fee and Mineral Acres	Leased Acres	Total Acres
U. S.	807,635	7,209,150	8,016,785
Foreign	514,906	632,151	1,147,057
	1,322,541	7,841,301	9,163,842

(The Borough of Manhattan comprises about 14,000 acres)

7,380 miles of pipe lines, exclusive of pipe lines of other companies in which the Texas Corporation has an interest.

22 refineries in the U. S. and one in Europe; 258 bulk stations and 48 retail service stations. Others operated 1,234 bulk stations and 6,356 service stations. (This undoubtedly means that the Texas Corporation, in line with recent policy of all the oil companies, has retained title and control, but leased to others, the greater part of its bulk and service stations. One of the very good reasons was to escape the chain store and social security taxes.)

In foreign countries other than Canada, Texas Corporation has 27 deepwater terminals, 67 bulk stations and 325 service stations. It lists 43 subsidiaries and finds it advisable not to disclose the names of 9 in foreign countries. An incomplete list shows in addition 20 affiliated companies.

You will recall that we used a figure of 25 per cent of the net property account as an approximation of the land value. It is more than likely that an appraisal of the land value involved, even today, would show a figure nearer 100 per cent of the net property account figure.

The Texas Corporation in 1938 earned about 29 million dollars before Federal taxes. This includes about 6 million from companies not consolidated, about 6 million miscellaneous operating income (not from sales of merchandise), about 2 million received "as income from sulfur properties operated by others," and over a million dollars in interest, presumably on securities and mortgages. Hence actual operating profit before Federal taxes is nearer 14 million dollars.

If we assume a land value of 25 per cent of $339,074,000, or $85,000,000, we get a figure of 8½ million per annum as rental value thereof (on the basis that rental value is 10 per cent of market value of land). It is more likely that the rental value is very much nearer the operating earnings of the corporation, despite advantages of patents, ownership of pipe line utilities and interests in foreign cartels.

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Let us now briefly summarize the report of the Borden Company. It has 23 subsidiaries and over 100 divisions and associated companies. In 1935 it reduced the par value of its stock from $25 to $15, creating an additional surplus of about $44,000,000 against which was written off "good will $6,999,999 and $23,826,730 of unserviceable properties."

Even after this $24,000,000 reduction in property, the 1938 statement shows the following:

Prop., plant & equip.	$102,767,000
Less depreciation, etc. ..	36,961,000
Net property	65,806,000

Using a ratio of 25 per cent as land value, we get a figure of $16,000,000. Rental value would be $1,600,000 per annum on the assumption that rental value is 10 per cent of selling price. Actual earnings were near $8,000,000.

Here again real land values may be three of four times the figure we have reached on our conservative basis. In addition we have the various milk control boards and health authorities cooperating as fully as they can to stifle competition in the industry. You must draw your own conclusions as to the percentage of income which is really ascribable to rent.

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Armour & Co. (Ill.), maintains meat packing plants "in virtually every important live stock receiving center in the United States and important cities in the world." About 100 subsidiaries are listed and over 200 branch houses. Its property account (October 29, 1938) is as follows:

Land, bldgs. etc.	$187,200,000
Res. deprec.	48,947,000
Net assets	$138,253,000

In this particular instance we find a very heavy funded debt and preferred issue of stock, so that the real owners of the land are the holders of its mortgage bonds and preferred stock. The result is that there were no earnings but a deficit in 1938.

The Company shows a net operating profit of about four million dollars before interest and dividends. After paying over three million in interest on its funded debt and $2,800,000 to its preferred stockholders, there is naturally a loss. Rent in this instance is being collected by the holders of the prior issues.

In all the comments thus far, we have omitted entirely what every business would consider as a fair charge against income—commercial interest on the enormous amounts of cash invested in these corporations. Despite this omission, rent appears to be the major portion of the net income—of these companies at least. It explains their ability to withstand adverse conditions by applying their rent to the payment of labor and the replacement of capital, whereas the small company, which rents its property or has it heavily mortgaged, must fail when it cannot cover its rent bill, its labor costs and the cost of replacement of capital, to say nothing of interest.

The futility of anti-trust laws, of the attempts at "pulverising" or regulating big business, is obvious. If the monopoly of land were eliminated, the prop that holds up vast monopolistic industrial empires would be eliminated.

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