

Some War "Profiteers"

Foreseeing continued stimulation of American business as a result of the war abroad, the Real Estate Board of New York, in the monthly market review which features its October bulletin, warns of the violent reaction in security and commodity markets which would follow any sudden cessation of hostilities, and avoids any prediction of immediate gains in real estate activity.

The board points out that "any improvement in realty values and activity" must follow expansion by "stimulated industries" and notes in this connection that there "must be taken into consideration the available supply of rentable and salable area—the amount of vacancy to be absorbed before new demand can have effect upon rents or prices."

They may never have heard of the Law of Rent, but they evidently know how it works.

"There also is the possibility," the bulletin continues, "that a fear of inflation brought about through rising commodity prices may cause investment funds to seek haven in realty ownership."

Because the supply of land, at any given period, is a fixed quantity, and demand is constant or increasing, and because rent bargains are normally made monthly or annually, inflation will not affect its economic value. The value of wages and of interest will be adversely affected for some time by a lowering of the

value of money, for the wage bargain is adjusted slowly on account of unemployment and the interest bargain on account of idle capital. But rent, except when it is fixed by long-term leases, will be increased promptly so that it will represent the same share of production it represented before inflation, plus an additional share it will claim as a safe refuge from fixed investments like bonds. What the board insinuates is that realty investment is the "hedge" against the danger of inflation due to high commodity and security prices.

The report notes that unfortunately there is no statistical information enabling comparisons with the 1914-15 situation, for at that time there were no reports of open market sales, new mortgage loans, foreclosures or occupancy ratios, such as are now compiled by the Real Estate Board of New York. The report states that "the best that can be done is to estimate the probable indirect effect of the war upon urban realty through its likely direct effect upon the key industries which make or mar business."

What this means is that in 1914-15 the technique of land speculation, the statistical information bearing upon the probable need for land by productive enterprise, was not so highly developed as it is now. The inference is that now a speculation movement will be better informed, will be quickly responsive to demand, and may as quickly overrun its course.

In addition to war orders from abroad the board notes our own expenditures for armament, which it says "may furnish the stimulus needed to bring about general business revival." Noting successive mammoth increases in recent Federal appropriations for national defense, the board states:

"The American public appears to be convinced that the only neutrality which can be successfully preserved is an armed neutrality. With public opinion in such a state, Federal expenditures for national defense may be expected to increase."

Asserting that "in such event our armament industries and others contributing to the manufacture of planes, vessels, army and navy ordnance" would be speeded up, the report adds:

"Such stimulation of production in steel and other metal products, electrical machinery, engines and turbines, petroleum and petroleum machinery and equipment would effect the long-looked-for enlivenment of the heavy goods industries."

Therefore, it is reasoned, land values will go up.