

If You Can't Beat the Landlords — Join 'em

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MANY a small to medium business can easily find itself (like some hapless private tenant) out on the street at the termination of what has hitherto been accepted as being a reasonable business expense for the use of commercial premises from which they have conducted their affairs. A lease acquired many years ago has often been like manna from heaven in providing a good living to the entrepreneur, decent wages for employees and a respectable profit from the business turnover. Then comes a renewal of the lease and a rent demand which bites deep into the finances of the business putting pressure on wages and turning profits into losses; the entrepreneur calls it a day; a once viable business is liquidated and a number of former employees are out of work. It is not only the latter who have problems. Customers of our erstwhile undertaking are forced to look elsewhere for their goods or services which were formerly provided by the late XYZ Co. Everyone, it would appear, is unhappy, except the landlord, who sees richer pickings for his land and property now that the lease is once more available for offer in the market place. What I have just described is a daily occurrence which can be easily and readily verified by a regular perusal of the daily and trade press, or by reference to reports on company liquidations.

Not everyone has found it necessary to take such a fatalistic view concerning a state of affairs such as has just been described. According to a report in *The Wall Street Journal* May 1, 1974, some four years ago several New York City printing companies, faced with ever increasing rent demands, decided to form a condominium and buy themselves suitable premises from which to operate their various businesses. In plain English they pooled their resources to acquire a building under a plan of joint ownership. To quote James Carberry of the *Wall Street Journal*:

"As condominium owners, the printers still face rising property taxes and maintenance expenses. But they no longer need worry about costly lease renewals or eviction. The profit they would be paying a landlord they now, in effect, keep for themselves. They can sell their premises if they wish, and possibly earn a gain on the sale."

Setting up a condominium is not without its problems, but in so far as the owners of such an arrangement "own an interest in the underlying land" the economic benefits are not unattractive. However, with high property values and swingeing

interest rates, the prospective buyers may find themselves with considerable prior charges in their businesses for many years ahead, but if these can be afforded by the parties involved, any increase in the rental values generally prevailing will go a long way towards offsetting the mortgage debt. By way of a comparison, owner occupiers who bought their houses ten or more years ago, for what then must have appeared a considerable sum, find the mortgage debt still outstanding more than acceptable when viewed against present day house prices. Events have provided them with a windfall — *pace* inflation — beyond their most optimistic dreams.

All this is very fine and helps solve some people's rental problems, but the likely outcome is that our aforementioned printing companies and any other businesses who have set about solving their particular financial problem, may well find that as time goes by it is more profitable to use their various entrepreneurial skills as real estate owners — and hey presto, today a printer, tomorrow a landlord. Put another way, why try to make a living as a printer, when most of the gravy coming from the business is clearly rent. Your condominium — lovely word — has now turned property tycoon, selling floor space at princely rates.

The other side of the coin is the fact that if any or all of the businesses of the condominium fail to prosper, or at least pay their way, all that will have happened is that the members will have exchanged a landlord for the moneylender. Foreclosures would follow and everyone is back to square one again. A case of the landlords always winning.

However, the commercial condominium is not without its obvious attractions, as already explained. It does nothing to solve the land question or the predatory nature of landlordism. Only the taxation of land values will come anywhere near to performing that particular act of natural justice.

By way of conclusion let James Carberry have the last word but one, where in the final paragraph of his *Wall Street Journal* report he says:

"Mr. Clurman, the New York assistant attorney general, thinks commercial condominiums are especially promising for urban renewal projects. Business space in these projects is usually leased. But business tenants who have taken a risk by moving into the area, and thus perhaps helping it prosper, may be rewarded by sky-high lease renewals or eviction when their leases run out. With condominium ownership, the businessmen needn't fear being priced out of an area whose value they helped to create."

What about the rest of the community? Should they not also have a share in the property values they too "helped to create"?