

HOW A BIG BUILDING WAS FINANCED

Minneapolis Man Tells at Winnipeg Convention—Real Estate Bonds

Some excellent papers were read at the National Real Estate Convention at Winnipeg. Mr. A. S. Taylor, of Cleveland, stated that one of the many criticisms against real estate ownership is that it is not a liquid asset. "I consider," he said, "this an element of stability, an asset rather than a fault. Real estate cannot be considered a quick asset in the sense that it can be sold immediately without sacrifice. It is unlike stocks, bonds or securities, which can be disposed of at market quotations. It is something more staple, and the fact that it is not immediately saleable oftentimes has prevented owners from selling and investing the proceeds in unreliable stock promotions. Many have been obliged to keep real estate when they were prompted to make an investment under conditions where their minds had not been allowed to make a thorough investigation of the investment presented. Had the tremendous sums lost in the present decade, by investors in stocks, been placed in real estate, what a contented and prosperous people we would be, and how large and wonderfully developed would be our cities. I contend that the ownership of real estate gives us a distinct standing amongst our fellowmen, makes us better citizens, and a more valuable asset to the civic life of the community."

Ninety-nine Year Leases.

Discussing the proper basis of valuation for ninety-nine year leases, Mr. Taylor said that between the lessor and lessee the basic value of the property determined must be rather a matter of mind meeting mind, and on the part of the lessee the rent to be paid should be governed largely by his ability to carry out the conditions of the lease and meet the obligation of the agreement.

"The governing factor after determining the value of the land," he continued, "is the interest rate charged as rent. Where land values are enhancing and not drifting, the rent is based on an interest charge varying from 4 to 6 per cent. on a value somewhat higher than its present staple value. In other sections where land values are inactive it is based on a like per cent. of the actual saleable value of the land.

"In the east the investor is usually satisfied with 4 per cent. In the western portions of our country their rates of interest are usually higher on all classes of investments. A higher percentage is applied.

Essentially a Sale of Land.

"A ninety-nine year lease is essentially a sale of the land. The owner permanently parts with possession of his property, also with all opportunity of increasing his income or deriving any profit of consequence from increased land values. It has the same practical effect as though the owner had sold his land at a fixed price and reinvested the proceeds in some security which would yield an income equal to the proposed rental. It is essentially a capitalization of his investment."

Real Estate Bonds.

Mr. S. S. Thorpe, of Minneapolis, read a paper on how to finance real estate deals. He thought that the different States should secure laws that would allow savings banks, trust companies, trust funds and estates to invest in real estate bonds secured on improved properties for a large per cent. of the actual value. "It might be easily argued," said Mr. Thorpe, "that real estate bonds of this kind would be safer and more profitable for small investors than other channels that are open for small means. Another thing, it would be safer in financing large properties to be able to issue bonds extending over a period of from one to twenty years than to be at the mercy of the insurance companies, who do not commonly loan for a period longer than five years, making it necessary to renew at short intervals at some expense. Short-time loans can be called during a tight money market and do harm to a really good property and its owners.

How a Large Building Was Financed.

Mr. Thorpe knew of a very large office building being constructed and financed as follows: A first mortgage of 50 per cent. to an insurance company and of a second mortgage bond issue of 50 per cent. This second mortgage bond issue is guaranteed by a railroad and bank, and matures over a period of twenty years. This building fully expects to pay all of the carrying charges and second mortgage bonds from the earnings of the property, and it no doubt will do so. It is an interesting fact to note that a business property rented for a term of twenty years to pay 6 per cent. on the actual value of the land and 8 per cent. on actual cost of the building, net of all taxes and insurances, will pay itself out, giving the building free and fully paid for, besides paying 5 per cent. annually on its cost; that is, receiving 8 per cent. on the cost of a building and paying 5 per cent. on

its cost allows 3 per cent. per annum for a twenty year lease, or 60 per cent. of its cost, and this 60 per cent. as it is paid in put out at 5 per cent. during the twenty years will give 40 per cent. more, or the full 100 per cent. of the original cost of the building.

"If," concluded Mr. Thorpe, "a real estate agent can show the opportunity and has the ability to manage and direct the policy of a property, securing a tenant or tenants to occupy the property, it should be possible to finance a building on such a showing by an issue of first mortgage bonds and stock or by a mortgage and a preferred and a common stock, with a lease as additional security."

CHICOUTIMI COMPANY MAY ISSUE SECURITIES IN LONDON

The Chicoutimi Pulp Company may make an issue of securities in London shortly. The company which carries on the business of pulp paper manufacturers, has authorized capital stock of \$1,000,000, and funded debt of \$723,500. It owns 338,000 acres of timber rights, townsites, etc., etc., its mills at Chicoutimi, Que., have a capacity of 250 tons of mechanical pulp per day.

PUBLICATIONS RECEIVED

"Canada To-Day, 1913," is an illustrated annual to which Canadians and the thousands of others interested in Canada, look forward with keen anticipation. The latest volume, just to hand, is even better than its predecessors, which is saying a great deal. It is larger than last year's volume, and contains many new features, over 400 photographs, in addition to a specially designed colored map of the Dominion, which in itself contains several useful innovations and a large amount of statistical matter. The index at the end of the volume permits easy access to information on any subject. The publishers fairly claim that this annual has taken its place as the most popular illustrated reference book on Canada at present published in Great Britain.

CANADIAN RAILROADS BUSY ISSUING SHORT-TERM NOTES

Three issues by Canadian railroads of short-term notes aggregating approximately \$18,500,000, have been made in the past few weeks. These are:—

Railroad.	Amount.	Term.
Grand Trunk Railway	£1,500,000	5 years.
Canadian Northern Railway	£1,500,000	5 years.
Canadian Northern Railway	\$3,500,000	1 year.

The first two issues noted were sold in London, and the third in the United States. Many financial authorities think it would have been wiser for these roads to have made a fixed loan at once, even on terms which seem bad at the moment, and have been done with it rather than to have issued short-term securities.

FURNESS WITHY AND THEIR CANADIAN BUSINESS

At the annual meeting of Furness Withy and Company in England, the company which has become interested in Richelieu and Ontario affairs, Sir Stephen W. Furness, Bart., M.P., spoke of the corporation's Canadian business. "We have," he said, "added a new passenger and cargo steamer, the SS. 'Digby,' to our Halifax Line, and it is the intention of the company to build two further and similar vessels for the same service. We have added to our business at Montreal by the establishment of a weekly service of steamers to Hull, which is yielding very satisfactory results, and the opening of our own office in Newfoundland will largely contribute to the efficiency of our general organization. We have, as you know, our own freehold wharf and offices at Halifax, and we have now under contemplation the erection of a wharf at St. John's, Newfoundland, to provide for the larger class of steamers which we now employ in that service. The interest which your company has in the Dutch company—Furness Scheepvaart en Agentuur Maatschappij—has proved very satisfactory. As you will have seen from the report, your company has taken a favorable opportunity to dispose of some of its older vessels. The fleet of steamers controlled by us, including those owned by our subsidiary companies, has been maintained in a high state of efficiency, and, having regard to the additions which we have made to our reserve fund, your board has decided to take a large measure of its own insurance."