

Rent Situation

Babson Comments on Guarantee Bonds

Babson Park, Mass., Nov. 10, 1925.—Roger W. Babson today, in his weekly exclusive interview in this paper, discusses the rent situation in which this community, as well as others, is very much interested. Mr. Babson's official statement is as follows:

"Statistics from about 180 localities show that rents have declined during the past twelve months about 4 per cent. While statistics are not available for the entire country it is probably safe to say that rents today average 5 per cent lower than a year ago. On July, 1924, rents were at the highest figures for the past twenty years and averaged 86 per cent above 1914. Since July, 1924, there has been a slow but constant decline.

Where Greatest Increase has Occurred

"When we compare rents today with pre-war rents we find that the greatest increase is naturally in the most rapidly growing cities like Los Angeles and Detroit. This is not a criticism of these cities but is the inevitable result of growth. Rents in Los Angeles are still about 130 per cent over pre-war times although they were 160 per cent above pre-war times a year ago. San Francisco rents, on the other hand, show an advance of only about 50 per cent over the pre-war level. It will be only natural for those cities where rents have increased the most to have the heaviest decline during the next few years. This is in accordance with the law of action and reaction. What goes up highest must come down fastest. When the pendulum swings far to the right it likewise must swing far to the left. A leveling process is going on throughout the country all the time in stock prices, commodities and rents. When security prices are abnormally high in any one group investors turn to another group. When wheat is out of line with corn people try to use more corn; while abnormally high rents in any one city tend to increase the building in that city which ultimately results in a surplus of houses and apartments and hence brings about lower rents than the average. Water always seeks its level in every phase of life.

Where Rents Are Lowest

"Statistics indicate, that from the tenant's viewpoint, the cheapest cities in which to live are Bay City, Michigan; Billings and Butte, Montana, and Sedalia, Missouri. It is even said that a six-room house to live in can be hired for less today than ten years ago. Comparatively low rents are also the rule in Bridgeport, Connecticut; Springfield, Ohio; Augusta and Savannah, Georgia; Charleston and Columbia, South Carolina; Davenport, Iowa; El Paso and Fort Worth, Texas; Mobile, Alabama; Flint, Michigan; Omaha, Nebraska; Portsmouth and Roanoke, Virginia; Superior, Wisconsin; Tacoma, Washington, and Wichita, Kansas. Rents in these cities on July of this year, were not more than 80 per cent higher than before the war.

"In contrast to these cities the National Association of Real Estate Boards reports that certain small cities have shown greater increases of rents than Los Angeles, Detroit and New York. For instance, Johnstown, Pennsylvania, rents are near 200 per cent higher than 1914 levels, while rents in Kenosha, Wisconsin, are 160 per cent higher, and Louisville, Kentucky, rents are 150 per cent above pre-war figures. Of the 225 cities reported 72 per cent at present indicate stationary conditions, although, with the exception of Bay City, Billings, Butte and

Sedalia, all show an increase over pre-war figures. Of these 225 cities 20 per cent now show declining rents and only 8 per cent report rising rents.

No More Building Shortage

"The building shortage which developed during the war is fast being overcome, and many authorities believe it has been fully compensated for. Only a few cities now report a shortage of dwellings, while many cities report over-building of some form. In most cases this over-building is for business purposes, hotels, or expensive apartment houses. Where any shortage exists today it is in the six-room house and the small apartment. This over-building seems to be most pronounced in the Eastern section of the country where there is a tendency for lowering rents, especially for business offices and apartments.

"The past few months the only section of the country which has shown a distinct tendency toward higher rents is Florida. Moreover, in two or three sections of that state rents are truly out of reason, and no one realizes this more than the Florida authorities who are trying to keep excessive rents down and stabilize the situation.

"Rents per room in the large cities of the country are about double the same kind of property in the small cities. Rents vary from \$7.50 per room per month in cities of 25,000 population to \$10 per room per month in cities of over 500,000 while in the very large cities this runs up to \$15 per room per month. When it comes to apartments we find they run from \$10 per room per month in the small cities to \$35 per room per month in the largest cities.

Rents in Canada

"The best living conditions on the American Continent today are probably found in Canada. The Canadians have been noted for building substantial buildings with good sized rooms and plenty of light and air. Of course rents in Canada are greater than before the war but they show no such increase as do rents in the United States. At the present time no Canadian cities report increasing rents in any type of building. Moreover, a downward tendency is evident in single family dwellings in many Dominion cities.

"These statements should be carefully read and understood by people who are thinking of leaving Canada and coming to the States. When one considers the rents and cost of living here I wonder if the people of the States have any more money left at the end of a month than if they worked and lived in Canada. Moreover, there is something in life more than the laying up of money. There is a health, vigor, and freedom in connection with living in Canada which is probably unequalled in any other part of the world.

Real Estate Mortgage Bonds

"It is not my province to refer in detail to real estate mortgage bonds in this talk. Every issue is distinct by itself and it is dangerous to talk in anything but generalities. A bond issue on a certain apartment house in a certain city may be a secure investment, while a bond issue on an-

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other apartment house a few blocks away may be very questionable. Not only is the amount of the mortgage very important but the location of the property and the purpose for which it is to be used should be considered. It is, however, common sense that it is much safer to purchase real estate bonds when building costs are low and rents are low than when building costs are as high as at present. Probably it is in view of this situation that real estate companies are now getting surety companies to guarantee these issues. For instance, a well known surety company obligates itself to pay the face of the mortgage note without recourse to the collateral deed of trust or the primary obligor, which means that in the remote contingency of any default, the holder of the mortgage (or participation certificate) is not obliged to concern himself with the foreclosure or sale of the property, but need look only to this surety company. The only reservation is that the surety company may, if it elects, take a period of grace of twelve months for the payment of the guaranteed principal, but in the event that it chooses to take all or any part of this grace period, it is obligated to pay full interest at the rate of 6 per cent per annum during the interim.

"I have the highest respect for these surety companies and believe they are doing a good thing for the holders of real estate mortgages. It, however, is a general principle of finance that an investor should look to the signer of the mortgage rather than to the endorser. The old investor who remembers what happened to the great mass of railroad bonds which were sold forty years ago on their guarantees will be very shy in now buying bonds on guarantees which he does not know are intrinsically good. However, this is not meant to be a criticism of any special securities but a general principle of finance which all business men should keep in mind in connection with their transactions. A chain is no stronger than its weakest link. In this connection let me add that the weakest link today in the financial situation of the country as a whole is the stock market. It is in a position which may do considerable harm to business unless people quit gambling. In the meantime, with the Babson chart at 12 per cent above normal investors will do well to take profits in the New York stock market and invest the same in conservative local mortgages."

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