

**THE ROTARY CLUB
OF SHANGHAI**



BULLETIN No. 1

**LAND VALUES AND LAND PRICES
SHANGHAI 1927-8**



AN ADDRESS DELIVERED AT THE CLUB'S
WEEKLY TIFFIN ON JANUARY 26, 1928
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**DELIVERED AT THE ROTARY CLUB
OF SHANGHAI**

ON JANUARY 26, 1928,
By Rotarian Hugo Sandor

Chairman Lu and Fellow-Rotarians:

THE subject on which I wish to make a short dissertation is: Values in Real Estate with particular reference to conditions as regards Shanghai.

The time afforded by the Chinese New Year holidays enabled me to write down my thoughts, hence with your permission I shall read what I have to say. At the same time I wish to disclaim originality on my part as regards many of the remarks to be read, for I found them in books and magazines on Real Estate and they live in my mind, though in many instances I would be unable to point out the exact source, but I will impart them to you as I have them.

Land Values and Valuation

Values and Valuation in general make up a subject that is incomplete, both in theory and in practice. This is particularly true of land values, and more so of land valuation. Hence my remarks will appear as only touching the surface of the subject; but such must be the result unless one would attempt to exhaust the theoretical significance in its full scope as regards its economical, social and political aspects. That is beyond my power and its accomplishment would require years of research work and analytical deductions based on the close observations and recording of all factors that have a bearing on the subject of land value.

Values in real estate are commonly based on the assumption of some good that may be derived from the possession and use of same; the question is then what is the nature of the evidence which is commonly accepted as an indication of such values and what does the term "value" mean?

Theoretical economics distinguish between "use value" and "exchange value." Use value refers to the utility or usefulness or the power of any good to satisfy a human need or desire. Hence even air and sunshine have value for they satisfy a human need. But they have no exchange value or *economic value*, which may be defined as the power of one good to obtain control over another good. In order to have exchange value, anything must have use value; it must have utility or usefulness, for nobody would exchange one good for another unless that would gratify a desire, directly or indirectly. This is also true of necessities, conveniences, luxuries, objects of art, etc.

But in order to have exchange value a good must also be limited in quantity. For if one good is in such abundance that anybody can have as much of it as he desires, nobody will give anything for it. It is a free good.

Exchange Value

Land must have been once a free good; and not so very long ago it was a free good in America, Canada and Siberia. But with the increase of settlers and building of cities it attained economic importance and obtained exchange value. And since all lands did not possess the same degree of fertility, the same amount of natural resources, and the same favorable location, the better grades of land were more desirable and attained a relatively greater exchange value. This difference in the productivity or income yielding capacity of various grades of land in different localities is reflected in the difference in their exchange values. One would give more in exchange for a certain piece of land than for another because it is better located for community uses, because it is more fertile, or because

it is richer in natural resources. In the case of city land it is always the relative importance of specific locations to an individual which is reflected in the price—the practical expression of exchange value in terms of money.

The Importance of City Land

Since all of us are city dwellers city land has necessarily a higher importance to us, and therefore I shall concentrate on city land.

The exchange value of city land is due to the patronage of or use by the community of such land for various purposes. The value of land is a social product, arising from the presence of people, and the exchange value, or its practical expression—price, represents what people are willing to pay for the possession of land at a given location. How is it then possible to ascertain the prices of various pieces of land, based upon their relative importance, their comparative usefulness and their different locations?

Expressing Price of Land

Supposing a list of different articles was drawn up and every member of the community was asked for his individual opinion as to the different values of the articles. There is no doubt that the result would be unsatisfactory as a basis of judging values in general, since some of the articles might represent high values to some which by others would be regarded as worthless, thus the aggregate of prices would indicate an individual rather than a common standard of judgment. And yet this process of averaging individual opinion is commonly used to express prices of real estate, as well as the assessment of land by municipalities for taxation purposes. This also explains at a glance why the local assessments do not reflect prices and why it is impossible to purchase land at assessment rates. This situation will of course prevail until some standard method is found and generally accepted for the purpose of determining values and then translate such values and express them in terms of money. To

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take the actual prices at which land actually changes hands would also not be fully satisfactory, for only a very small percentage of a city's land is sold year by year and probably the very largest part is never sold for generations.

The often heard expressions of true value, market value, fair value, normal value, competitive value are used to express the best opinion of the community as to the relative importance of specific locations for the purpose to which they are best suited. But of course they are not synonymous with actual selling price and at best they only express the "sales price." This latter expression means the opinion at which a certain piece of land ought to be sold in the competitive market. But I would say that selling and sales prices do not always meet.

Appraising Land

Sales price individually is determined by the appraiser who gives his opinion based upon accurate observation and analysis of factors. His greatest difficulty is the lack of a standard by which to judge and comparing his facilities with those which for instance an engineer has to measure and value an engine, his opinion might be regarded by many as a mere guess and if another appraiser should give a valuation on the same piece of land then only a coincidence would produce the same valuation. Such inaccuracy is often brought about by the fact that a valuation is made for some specific purpose, in the interest of some institution or individual. And often it is a matter of financial or other business interest of the appraiser to favor with his opinion, based on so-called expert knowledge, the party which employs him. Thus it is easy to imagine that two valuation experts using their individual standards and representing specific interests would differ 100% in their respective estimates. If science and method can be brought to aid the individuals to minimize the possibility of human error, much could be accomplished towards the elimination of the danger of erroneous expressions of opinions.

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This then shows how difficult it is even to come close to what would be correct estimating and I have to repeat that unless opinions regarding city land can be based on common standards and computed uniformly on the basis of such judgment, the system of land valuation will be far from accurate.

Value and Price

I have said before that value has been defined as the power which one good possesses to obtain control over another good and that this value is commonly expressed in price. This fact has then led to the wrong concept that value and price are synonymous. This is not so, for a change in the general level of prices does not necessarily indicate the change in value. For instance, 7 or 8 years ago, my tailor charged me \$35 for a suit of clothes. For that very same suit he charges now \$55. Did the value of that suit rise? No, for I derive no more benefit from its possession now than 7 years ago. Only the price has changed, like the prices of almost all commodities; or the value of money has fallen, for the value of money over a period of time is not constant. For this reason money is an unstable measure of value. But should it happen that over a period of time the price of a single commodity rises more rapidly than the prices of all other commodities, then it is evident that not only its price, but its value, too, has risen. This fact has a particular significance with regard to land values. If it is discovered that the price of one commodity has risen more rapidly than the prices of other commodities, increased supply and competition will soon tend to level out the price somewhere near to the production cost. Not so with the price of land.

Supposing the price of land should rise more rapidly than the price of other commodities, thus its value rise, increased production could not step in, nor competitive forces, except within extremely narrow limits. The extent of the Earth's surface is definitely limited by Nature—and so are desirable city lots. It might not quite be so regarding the Earth's solid surface through conic ages and our

friend "G. G." would tell you that 4000 years ago the present site of Shanghai was the bottom of the sea and that land at the confluence of the Yangtze and Whangpoo continues to reach out into the sea at the rate of 1 mile per 60 years, as revealed by Chinese Temple records. But for our human purposes the information is satisfactory that land is limited by Nature. Improved transportation facilities might of course increase the supply of city locations, but even this possibility is limited. Thus if the prices of land in Shanghai should rise more rapidly than the prices of other commodities it would be obvious that values have risen, too, for productive agencies could not operate to increase the supply.

Take the case in Shanghai. When two years ago the Shanghai Municipal Council was constructing new roads beyond the Western District, we in the business, were wondering what will be the effect on land prices in the residential sections of the Western and French Districts and soon came to the conclusion that it is simply a case of increasing the supply of land by increased facilities of transportation, hence prices would temporarily fall. The phenomenon, however, did not occur on account of the political agitation of certain Chinese agencies, obstructing construction of those roads and not heeding the immense economic harm they have done to the people in and around Shanghai.

Location the Determining Factor

It is generally accepted that with increasing population and increased production land values in general will continue to raise. What is the cause of it? Concerning city land, it is the importance attached to the possession of a specific location because of its income yielding capacity. This capacity is determined by community patronage of the location or by its accessibility to the life and business of the community. Therefore a city lot is valuable because it is the location for the performance of a flow of services—in final analysis because it yields an income. Its present price is sometimes enhanced

on account of the anticipated future greater income because of the expansion of the community.

Land Values Must Tend to Increase

I trust that I have made clear that there is a basic difference between the price and value of land; the price may change without corresponding change in value or vice versa, as I shall point to that later. But regardless of change in price, land values must tend to increase, because unlike reproducible goods the supply of land in general and specific city sites in particular, cannot be materially increased and because land will always have a capacity to yield an income.

Buyers and Sellers

The point next to come under examination is: how does this difference between value and price work out in practice? There are in the market sellers and there are buyers. The profession of real estate and legal practice have set up an idealistic theory of the so-called willing-buyer and willing-seller. Under this theory the valuation of land is based on what a willing buyer who is not obliged to buy will pay for a piece of land to a willing seller who is not obliged to sell.

This assumption attempts to presuppose a complete agreement on the part of both willing buyers and willing sellers. As a matter of experience, however, the willing buyer and willing seller seldom meet. The process of buying and selling city land is one of give and take, each party exercising his ingenuity, influence, bargaining ability and observing the other party's reactions in order to buy at a low price or to sell at a high price and quite often the willingness is vastly superseded by either squeeze or necessity. Should there an agreement exist as to the price of a piece of land passing from seller to buyer, that agreement will most likely be based on different circumstances from that of the willingness of buyer and seller, which in reality has little relation to the actual selling price and it is my

experience that the actual selling price does not always represent the fair exchange value of land, that is to say, in most cases the price paid is either higher or lower than the exchange value, depending on the circumstances attendant upon that particular land transaction.

Classification of Transactions

If we were to classify the land transactions that are consummated, the transactions could be included under two general classes as far as the reasons or causes of the transactions are concerned, namely, purchase of particular pieces of land for specific purposes, and purchase for either investment or speculation.

Specific Purpose

A seller of land for a specific purpose is usually in a position to dictate the price at which the property shall be purchased and he can almost compel the purchaser to overbid considerably any other prospect buyer for the property because there exist definite reasons why this purchaser requires this particular property for a specific purpose. Thus the price paid will be higher than what one would consider a fair exchange value.

Investment

In the case of purchases for investment or speculation, the seller is not and cannot be aware of any specific purpose, because no such exists, or is not aware of the fair exchange value or is compelled for some reason or other to sell. The buyer, on the other hand, believes in a fair exchange value of the property at the time, or the potentiality of future development in the district, but since he ties down his capital he expects a little consideration for that and will press the price down until the price paid may be a little under the fair exchange value.

Thus it appears that the prices paid in many land transactions represent the necessities rather than the willingness of the buyers or of the sellers.

Land Surrender for Public Benefit

Now a few more words regarding fair exchange values of land required for public uses. We generally refer to it as land surrender and it represents a condition when the owner of the property may or may not desire to sell, but he is forced to sell on the supposition that the surrender of his property will benefit the public and because the public is supposed to have rights which supersede the rights of the individual. In the case of the International Settlement and the French Concession land for public uses is surrendered on the basis of the assessed rates to which 10% is added for compulsory surrender and then a more or less equitable proportion is deducted for betterment if such be the case. If the owner is dissatisfied with the compensation, he may take recourse to the Land Commission. This procedure is followed, I believe, because of some sort of statutory rights of the two Councils. But when the Shanghai Municipal Council proceeded to acquire land for roads situated outside the Settlement boundaries, the Council in unison with the native land officials of the different districts tried to arrive at a fair exchange value as compensation to the many owners for their surrendered properties. The majority of the owners agreed to the compensations and only a few dissenters were trying to exact as much as the traffic could stand. Some succeeded of course and one of them, by the name of Lee Sing Lien, still obstructs the construction of Great Western Road, demanding a fabulous sum for his strip of land. The Council is powerless and is entirely unassisted by the Chinese authorities in the realization of this important public thoroughfare.

Railway companies acquire right of way with the aid of the authorities and usually succeed in buying the land at prices closely approximating fair competitive prices, before their intention becomes generally known. But as soon as the owners of the land located along the line of the proposed improvements learn of the plans, they will naturally hold out for higher prices.

The Value to Owner Important

In connection with what should be paid to owners in the way of compensation for their land surrendered for public uses, I read in an English law book that the fundamental principle in assessing compensation is to discover what the person will lose by having his land or his interest in it taken from him (*Re interest vide Shepherd's vs. S.M.C. in Szechuen Road widening*). It is the value of the land to the owner that is the subject of the compensation and not merely the market price, nor its value to the public or the promoters of a public utility or railway company taking it, but solely the value to the owner. This interest may be subject to some kind of restrictions which lessen that value or may have certain rights which are beneficial and enhance that value. But it is always the value of land with all its potentialities and with all the actual use of it by the owner that is to be considered in assessing the compensation.

Shanghai Land Values

And now let us turn our attention to local conditions. The question that arises immediately is: How about Shanghai values versus prices and vice versa? Since both values and prices are relative conceptions only accurate comparisons with conditions in other large cities can serve as a guide for judgment.

In a booklet, entitled "Shanghai Realty" written by Mr. J. S. Potter and published under the auspices of the Asia Realty Company, we read the following:

"Among the 'ghosts' of Shanghai's early days we find some interesting and actually amusing records of real estate transactions. Back in 1860 a strip of 34.5 mow, bordering on Nanking, Thibet and Chekiang Road was sold at \$2245.75 total. In 1863 a piece of swampy land on which the Race Course now stands, in the heart of the city, was

bought at Tls. 30 per mow. In 1866, farther out Bubbling Well Road, 23 mow were purchased at approximately Tls. 02 per mow. In 1882, just 44 years ago, the site of the present Town Hall on Nanking Road was acquired at approximately Tls. 3750 per mow; it is now worth Tls. 200,000. As we move on, prices advance, and in 1895 a lot on Boone and Chapoo Roads was worth Tls. 3000 per mow; today its value would be many times that. By 1911 the land on which the present Municipal Building is located could be had at Tls. 70,000 per mow only. Going farther out, we find that as late as 1918, good Yuyuen Road frontage, just outside the Settlement boundary, could be had at Tls. 1500 per mow, and land along Route Ghisi brought about the same figure.

But even so, taking the assessed valuations of Bund frontage land in 1864 at Tls. 6000 per mow and compounding interest at even 7%, we find a present-day cost of Tls. 200,000 per mow, while 8% would make it Tls. 280,000—these figures being approximately the market values of today. Rents collected on the land over these sixty years represent profit, as the increase in value has paid the interest on the investment.

But it must not be thought that Shanghai land is advancing aimlessly, for no reason at all, and towards no particular objective. There is a very definite point towards which prices are naturally bound, and that is towards a comparative equality with land prices in other parts of the world.* But, we hear it said, Shanghai land prices are already too high; land prices are higher in Shanghai than in London and New York!

We have often heard these remarks, and we set ourselves to find out. Before examining the figures, let us understand that Shanghai today

*It is obviously meant that "values" rise in Shanghai because the population, business and productive capacity of the city is increasing. With rising values normally prices rise too.

stands close to the top of the list of the world's seaports; it is a city of two million people, and will probably have two million five hundred thousand, or more, by 1950; it is the metropolis of Asia, and the gateway to the East.

And yet in land prices we find that it ranks with such cities as Honolulu and Rio de Janeiro, hardly up to Capetown, on a par with Manila and Hongkong, 25% under Hamburg, 20% under Singapore, and comes to only 40% of even such a city as Sydney.

Let us take it that the best business sites in Shanghai along the Bund and Nanking Road run from Tls. 275,000 to Tls. 350,000 per mow—the few very best sites. Now against this modest figure, we find that in Liverpool the best office sites just fall short of the Tls. 1,000,000 per mow mark; London itself, the heart of the city, registers Tls. 1,200,000 or more, reduced to the mow basis. Crossing to America where high prices really obtain, we find that San Francisco runs to at least Tls. 1,600,000, while her sister city, Los Angeles, as a result of its real estate activities, runs up to Tls. 2,000,000, on a par with the prize locations in Detroit, the motor car city. The city of New York struggles along with Tls. 2,500,000 per mow for its best locations. But the medal for real estate values must be handed to the City of Chicago, in which there is a small lot measuring less than a quarter of a mow, in the heart of the Loop district, which could not be bought, but which was rented out for a long term of years at a figure which capitalized at 6% shows a value of Tls. 6,000,000 per mow! . . .”

Shanghai's Importance Not Fully Realized

Why is it then that Shanghai prices are comparatively so low with other large cities, many of which are unquestionably of lesser importance as regards volume of trade, volume of shipping, capital invested, number of population, national and international importance, extent and resources of hinter-

land, etc.? The question is difficult to answer. But the reason must lie in the fact that the public has not arrived yet to the full realization of Shanghai's importance as a city with its manifold activities, interests and potentialities; on the other hand, it is unfortunate that Shanghai's rapid material growth happened to be contemporaneous with the political upheavals of China and possibly the public were inclined to discount land values in Shanghai on that score and on the assumption that any form of capital is in danger amidst political troubles.

A third reason might possibly be the fact that the government of Shanghai does not appear to be that autonomous body which could be regarded as the Lord of the Soil, giving unassailable title and tenure of land, but that title is derived in conjunction with the representative of that Chinese Government which happens to control this district and the representative of one of the powers in possession of extraterritorial rights. I am speaking of title deeds, of course, and not of the obsolete method of land registration by means of fantans which may be cut into pieces and each piece would represent a parcel of the original lot.

The Lesson of the Year 1927

The year 1927, however, holds out a great lesson as far as Shanghai's real estate is concerned. There was no trading and but very few properties changed hands. Towards the end of the year there came life into the business and numerous transactions were recorded. The prices at which the transactions were consummated were quite satisfactory from the owners' point of interest, for they showed no drop compared to prices obtaining at the close of 1926; on the contrary, there was a slight advance, comparing favorably with interest rates of money. How did this happen in the face of the most threatening political revolution, amidst or-

ganized labor troubles, economic disruptions, and increase of crime within the city?

This has happened: That the leading powers and peoples of the world have realized the importance of Shanghai. Not just the interest of so many British, American, Japanese, French, and so on, but the interests of the city of Shanghai of two million souls, all that life and potentialities that are inherent to such a gathering of human beings, all its meaning to the world in general and to China in particular; and the impulse born from this clear realization of fact has despatched armies and navies for the purpose of protecting this city against cataclysm.

Those Chinese agencies, influenced by outside and selfish interests, which were at work for sweeping and unconsidered changes, haven shaken off the dark ally and obviously changed tactics for China's and the World's ultimate benefit, and the absence of drastic measures directed against Shanghai, indicate that even they must have realized in their subconscious mind the importance of Shanghai and that it should not be converted into the theatre of revolutionary dramas.

The result was the peace and safety of the city, and incidentally it became the haven of refugees from the disturbed parts of China. Not only foreigners, but Chinese in thousands flocked into Shanghai and continue to do so. Once here, they naturally look to employ their time, energies and capital in some professions or business, thus greatly contributing to the *growth* and *productivity* of the city, which are, as I have shown before, the fundamental elements towards rising values in a city's real estate.

Values Higher Than Prices

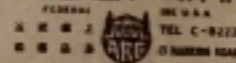
Thus it appears that with the world-wide and national realization of Shanghai's importance, with

the actual safeguarding of Shanghai as a business city against a conversion into a revolutionary playground and *the added impetus towards growing population and increased productivity, values of Shanghai's real estate must have risen considerably*, although unnoticed by the untrained eye. But that sensitive instrument, "The Market," will soon find it out and the inevitable result will be the adjustment of corresponding price for value, since the system of modern business does not usually permit the sale of a pound of gold for a pound of silver.



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