

ALFRED DE BATHE BRANDON examined. (No. 17.)

1. *To the Chairman.*] I was at one time the owner of one of the original Corporation leases. In 1879 my father and I acquired a Corporation lease. We paid a premium for it, and put up a building on it. The lease had then about thirty-eight years to run, it being a twenty-one-years lease, renewable for a further twenty-one years with a 50-per-cent. increased rental, but absolutely to end at the end of forty-two years without any rights on the part of the lessee. Some fifteen years ago there were proposals made to the lessees to exchange these leases for renewable leases such as are being issued now. Agreeing to an acceptance of the new lease involved an increase in rent to the tenant for the residue of the term, and at the end of the term he would be entitled to a new lease on a valuation to be determined; and, I think, on an undertaking on the part of the tenant to erect new buildings, then there would be in the new lease periodic valuations. I went into the matter as carefully as I could, using tables of values, and so on. I had a capital expenditure on the lease which would absolutely cease at the end, which would have to be written off at the end of forty-two years. So I made the calculations as to the rental I was then paying, and considered the advantages, if any, that I would get at the end of the time. I concluded that there was nothing in it for the tenant, and I did not take up the new lease. At present I am a yearly tenant of the Corporation for the old buildings. I wrote a letter over the initials "B.B.," giving my ideas on the principles of valuation, which letter I respectfully submit to the Commission. [Letter handed in.] A further conclusion that I came to was that between the lessor and the lessee there should be an unchanging contract—that is, when the contract is entered into the rights of the lessee should be absolutely determined, and he should know to what extent his liabilities under the contract run. If the lessee has anything in the nature of an advantage in the lease, such as a covenant for renewal or a covenant for payment of improvements, that is or should be to a certain extent capable of valuation by the tenant; but if the advantage that he is to get is to be determined in an artificial manner, such as arbitration or auction, he cannot say whether or not he will get the benefit of those advantages. If at the auction a competitor bids a higher rent than the lessee thinks himself competent to give, then he loses the benefit he had in the right of auction, and the lessor gets the benefit of it in taking the whole of the increased rent. That is to say, a tradesman establishes a goodwill for a particular class of business on a particular site; the lease is put up to auction in the terms of the covenant in the lease; a competitor in trade who is content to make 5 per cent. instead of $7\frac{1}{2}$ per cent. profit bids a higher rent than the original tenant feels he is justified in giving: the new man gets the lease, and the lessor derives the whole of the benefit from the goodwill created by the tenant. Those were the principles which led me to refuse to take the lease with the renewable clauses. My own opinion is that any lease should be of a sufficiently long term to enable the expenditure by the tenant in the beginning to disappear during that term, without any variations, which after all depend upon the state of things just for the time being.

2. *Mr. Thomas.*] And at a fixed rental right through?—Yes, at a fixed rental right through. If there is periodical revaluation of the renewal it may be either at a time of depression or of inflation: if it is made during a period of depression the lessor suffers, but if it is made during a period of inflation then the tenant suffers.

3. *Mr. Milne.*] You believe that the principle of inserting increments of rent during the currency of the lease to be unsound?—Yes.

4. And that people who are lending money on these leases would regard these increments as a blot on the lease?—Yes.

5. Do you not think that some arrangement could be made whereby if the tenant had made a bad bargain the results of his operations during the twenty-one-years period should be factors in order to regulate the rentals for the succeeding twenty-one years?—I am inclined to think that it is a matter of contract from the beginning: you make your contract and have to stand to it.

6. You consider that the reason for the trouble existing in Wellington is that the tenants have been suffering great hardships in connection with these leases?—The tenants have been suffering hardships in this way: they do not know how much to charge their business during the year in order to meet the real position, and if they want to raise money on the security of their leases, the term of the lease being so short, there is no security for a mortgage. The ordinary conditions are that money is lent for a given term, as it goes on so the security becomes more and more wasted, and if within ten years of the end of the term he has to sell the mortgagee will not be able to find a purchaser, because the purchaser who could afford to give the value of the buildings would require them for a continuous business.

7. You have told us that you had one of these leases, and you have divested yourself of it?—Yes.

8. You regard it as of no value?—My contract came to an end, and I did not seek any other contract than a yearly tenancy. My building, as I have often said, is a standing monument of the disadvantages of the leasehold tenure.

9. You consider that a prudent business man would have done exactly what you have done?—Prudence is a matter of degree.

10. *Mr. O'Shea.*] If the term were extended to a straight-out term of fifty or seventy-five years—a renewable period of twenty-five years—would that be a suitable lease to lend money on?—With periodical revaluations?

11. Twenty-five, or fifty, or seventy-five years straight out?—They would be good securities at the beginning of the twenty-five years, but as the term approached for a readjustment of the rent the security would become less and less valuable.

12. Supposing, in the event of the tenant refusing to take up the lease on renewal, he was entitled to 60 per cent. for his improvements?—That would be fair, provided that the principles on which the building is to be built are stated in the contract. Speaking generally, the more certain the contract the more valuable it is as a security.