Home to Harlem Goes the Haven

The common knowledge that much money is lost in land speculation makes the argument that this speculation has anti-social effects sometimes incomprehensible. If land speculation absorbs so much of the wealth produced by labor and capital, how is it that so many land ventures prove unprofitable? This reaction is common because everybody knows somebody whose experience in land speculation has been disastrous.

The answer is, of course, that the loser in land speculation loses to some other speculator. Land purchases are not made on the basis of present economic rent, but on the promise of increment. For example, the land agent may tell his prospect that the land will be worth more later because of expected social improvements in the adjacent community. He does not say, however, that he has anticipated this expected increase in his present price.

If this increment does not materialize, or not as quickly as promised or expected, the new purchaser must lose. The speculative rent is far in excess of the economic rent, and unless the two meet the buyer is "holding the bag." He finds it impossible to pay taxes or mortgage interest based on the speculative price until the day when social improvements make the land really worth what he paid for it. He loses title. To whom? To the bank or the individual from whom he bought it.

Although the buyer loses on this speculation, it is a previous speculator who profits by the loss. Society gains nothing. On the other hand, if the speculation should be successful —society loses. But that is another point.

The point in question is illustrated by the recent foreclosure sale of the Paul Laurence Dunbar cooperative apartment house in New York's Harlem by John D. Rockefeller, Jr. This model housing development was constructed by Mr. Rockefeller in 1929 to furnish adequate accommodation for Negroes; it contained 534 separate apartments. The original plan provided for the purchase of his apartment by each subscriber-tenant. It was intended to be a utopian island in a sea of slum tenements.

The plan worked well until the advance of the depression brought defaults. Payments on the mortgages based on the inflated land prices, (which, undoubtedly, Mr. Rockefeller had to pay to previous owners) could not be met by the workers whose income had ceased or had been reduced. Finally Mr. Rockefeller foreclosed on his $2,000,000 mortgage. He bought it in at an auction sale for $1,857,000. And last month he sold the property for a reported consideration of $1,000,000. The estimated original cost of the land and building was $3,300,000. Therefore, the transaction showed a total loss of $2,300,000. The story is that no purchaser of an apartment in the development lost on his investment, as Mr. Rockefeller voluntarily refunded about a half million dollars which had been paid in by subscribers.

The present owners have acquired a property which originally cost $3,300,000 for one million dollars. The winners in this transaction were the people who originally sold the land to Mr. Rockefeller. There has been, of course, a shrinkage in the value of the building, since it is now nearly ten years old. But the huge loss was hardly due to this shrinkage; it was due mainly to the shrinkage of inflated land values.

The present owners have acquired the land at its economic value. They will gain as the need for space in this congested area increases. Thus, it will be seen, land speculators at both ends of the transaction will thrive, while the charitable builder in between has lost. It might be mentioned, in passing, that the losses sustained by Mr. Rockefeller in this humanitarian effort did not force him into bankruptcy; that such huge sums of money can be acquired only by those who own natural resources. In this case rent paid the loss—which is quite unusual.

—F. C.

See: "Teachers Manual (P. & P.)," Introduction to Lesson VI.