

**HONG KONG.**

**REPORT**

OF THE

COMMISSION APPOINTED BY

HIS EXCELLENCY THE GOVERNOR OF HONG KONG

A. to inquire into and report upon

(1) the prevalent charges for rent in the towns of Victoria and Kowloon, having regard to their rise and fall during the last ten years,

and

(2) the extent to which and the manners in which tenants and landlords have been and are affected by the sudden growth of the population of Hong Kong since the beginning of Sino-Japanese hostilities last year :

B. to receive oral and written evidence upon the foregoing issues :

C. to make such relevant recommendations as may commend themselves to members.

HONG KONG, 2nd April, 1938.

SIR,

On the 9th March, 1938, we were appointed by Your Excellency under the Public Seal of the Colony—

“ A. to inquire into and report upon

(1) the prevalent charges for rent in the towns of Victoria and Kowloon, having regard to their rise and fall during the last ten years, and

(2) the extent to which and the manners in which tenants and landlords have been and are being affected by the sudden growth of the population of Hong Kong since the beginning of Sino-Japanese hostilities last year :

B. to receive oral and written evidence upon the foregoing issues :

C. to make such relevant recommendations as may commend themselves to members.”

We have the honour to submit herewith our Report.

We have the honour to be,

Sir,

Your Excellency's most obedient servants,

W. SCHOFIELD (*Chairman*),

W. J. LOCKHART-SMITH,

R. J. MINNITT.

His Excellency,

Sir GEOFFRY ALEXANDER STAFFORD NORTHCOTE, K.C.M.G.,

*Governor,*

HONG KONG.

PART I.

Preliminary.

1. The first meeting of the Commission was held on 9th March, 1938. It was then decided that a notice should be inserted in the columns of the local press, both English and Chinese, inviting landlords and tenants to submit in writing any facts relative to our terms of reference which they might wish to bring to our notice, and intimating that we would request the writers of such statements as might appear helpful or relevant, to appear before us at the Urban Council Chamber and give oral testimony at such time and on such date as might be notified. A similar notice was posted at all Police Stations in Victoria and Kowloon.

2. It was apparent that a considerable portion of our investigations would cover matters of a confidential nature, and we thought it right that our meetings should not be open to the public. We inserted in the press notice referred to in the preceding paragraph, a statement that all communications would be treated as confidential, if desired.

3. We decided to commence sitting to examine statements and receive evidence on the 14th March, 1938, at the Urban Council Chamber, and thereafter to sit daily to hear evidence from 9.30 a.m. to 1 p.m., Saturdays and Sundays excepted. The Urban Council Chamber was not always available in the afternoon, and it was considered necessary to devote afternoons and the whole of each Saturday to the task, which in the event proved a large one, of translating, considering and classifying documents and typing the notes of evidence taken. It proved essential, however, to hold additional hearings on the afternoons of the 15th and 23rd March, 1938, and on the morning and afternoon of Saturday, the 26th March, 1938.

4. A certain number of letters addressed to His Excellency the Governor and the Honourable Colonial Secretary were forwarded to us by the latter and considered at our first meeting. Over forty letters addressed to the Hon. Mr. R. H. Kotewall, C.M.G., LL.D., as a result of a notice inserted by him in the Chinese press, were also received and considered at the same time.

5. In addition to the letters mentioned in the foregoing paragraph, 216 communications in both English and Chinese were received between the 14th and 24th March, 1938. Of these communications 30 were from landlords and 186 from tenants. A number of the latter were from groups of tenants. Many complaints related to shops and business premises, but we ignored such complaints unless the proprietor was actually resident in the premises. The great majority of complaints alleged merely an increase of rent. Between 40 and 50 concerned bare notices to quit.

6. We were no less impressed by the gravity and difficulty of the task assigned to us than were the Housing Commission appointed in the year 1923 (Sessional Paper No. 10 of 1923, Paragraph 3), and we could have wished to follow that Commission in taking "ample time to prosecute our investigations" (*ibid.*), but in view of the alleged urgency of the position, and of our Chairman's pending departure from the Colony, we deemed it right to aim at completing this Report before the end of the month in which we were appointed. Nevertheless, we wish to lay stress on the necessarily hasty nature of our inquiry, and to point out that a complete review of the situation supported by full statistics would take many weeks to prepare.

7. We concluded that the best method to obtain a rapid and yet substantially accurate picture of the situation was, after considering as carefully as time permitted the whole of the documents collected, to take selected cases of apparent genuine hardship from various types of house property in different districts of the areas to which our terms of reference were confined, and accordingly we heard oral evidence in 54 cases. It appeared that there was a considerable misapprehension of the

scope of our functions in certain quarters. We were frequently asked to prohibit landlords from raising rent or giving notice to quit, or to arbitrate between landlord and tenant. In one case a tenant who had been evicted on a magistrate's warrant desired us to intervene, and in another a tenant who had been an unsuccessful defendant in an action for recovery of possession in the Supreme Court.

8. We also received evidence from the Government Assessor of Rates, the Executive Engineer in charge of the Buildings Ordinance Office, and various unofficial witnesses. We considered in addition written cases submitted by tenants, and written arguments, tables of figures and extracts from account books submitted to us by a number of prominent house property owners.

9. By the evening of the 21st March, 1938, we felt we had progressed sufficiently to justify us in notifying in the columns of the press, and at all Police Stations in Victoria and Kowloon, that we would not receive further complaints after the 23rd March, 1938, and such notification was given accordingly on the 22nd March, 1938.

10. We had hoped on and after the 24th March, 1938, to devote our time to analysing the evidence and information we had obtained, and to drafting this Report, but a delay was caused by circumstances which we desire to explain. We requested the Secretary of the Kowloon Residents Association, which had before our appointment inserted in the newspapers an advertisement incorporating a questionnaire whereby tenants were invited to ventilate their grievances, to appear before us. The Secretary to the Association duly appeared before us on the morning of the 14th March, 1938, when he informed us that the Association had up to that date received about 130 replies to its questionnaire. We requested him to ask his Committee to consider the correspondence, and to select for us those cases in which investigation seemed most necessary. The Association held a general meeting on the 22nd March, and on the afternoon of the 23rd March we received a deputation representative of its members who informed us that on account of the fact that their advertisement had contained the words "All replies will be treated confidentially" they did not feel at liberty to disclose particulars of any complaints they had received. The Association had not investigated any of the complaints. They stated that the number of complaints received up to and including the 19th March, 1938, was 321 and that they did not propose to entertain any further complaints. They requested us to extend our enquiry, so far as the complaints that they had received were concerned, until the 26th March, 1938, in order that they might find time to inform their complainants by means of press advertisements that those who desired their cases to be investigated by the Commission, should communicate directly with us. In view of the large number of complaints received by the Association, and the startling increases of rent alleged to have been imposed in a summary presented to us by the deputation, which in six cases were said to exceed 150%, we felt that we had no option but to agree to the request.

11. We sat on the morning and afternoon of Saturday the 26th March, 1938, to deal exclusively with the Kowloon Residents Association's cases. Owing to an unfortunate error in a comment in a Chinese newspaper on the Association's advertisement, for which the Association was in no way to blame, the Chinese public were led to believe that we were prepared to hear all cases, and considerable confusion resulted. We endeavoured to ascertain which of the many applicants had in fact applied to the Association before the 19th March, 1938. Some had not complained to the Association at all; others had not complained before the 19th March, 1938; others were not resident in Kowloon and others were tenants whom we had already seen or whose written complaints we had already considered. All these we declined to hear. Those tenants who had actually written to the Association, as distinct from merely filling in its questionnaire, had been notified by its Secretary that they should report to us, and we interviewed all those in possession of his letter. In addition, we heard what appeared to be the more outstanding cases. In no case did we discover any such huge increase as was alleged in the summary

given us by the Committee's deputation, but we must admit the possibility that some cases may have been overlooked in the prevailing confusion.

12. In spite of our endeavours to make our inquiry as widely known as possible, in which we received some assistance from the staff of the Secretariat for Chinese Affairs, many tenants who were in a position to complain forthwith delayed writing to us until after we had ceased to entertain fresh cases. The principle underlying the maxim "*vigilantibus non dormientibus æquitas subvenit*" may justly be regarded as applicable to such cases.

13. We have decided not to publish the evidence which we received, some of which was confidential, in the shape of appendices to this Report, and the only appendices annexed hereto are Appendix I, Appendix II and Appendix III, representing respectively a table showing the decrease in vacant accommodation, a graph illustrating the same decrease, and figures relating to the house construction now in progress. The points from the evidence, both oral and written, upon which our findings are based will be found incorporated in the body of the Report, and the notes of oral evidence, the written evidence, the original memoranda and correspondence and a file of press cuttings have been communicated to Government.

14. Our Report is divided under the following headings :

1. Preliminary.
2. The Reasons for, and the Extent of, the Rise in Rents.
3. Landlords' Return on Capital.
4. Evictions and Alternative Accommodation.
5. Possible Solutions.
6. Miscellaneous and Conclusion.

and a separate part of this Report is devoted to each heading.

15. Finally, we desire to place on record our appreciation of the courtesy of the Honourable Secretary for Chinese Affairs in allowing us to make use of the services of Mr. Lai Chi-cheung as interpreter and Mr. Chung King-pui as translator. Our thanks are also due to the Chairman of the Urban Council for permitting us to make use of the Urban Council Chamber, and to the Honourable Director of Public Works for subsequently permitting us to complete this Report in his departmental board room. We wish to express our thanks to the Honourable Mr. R. H. Kotewall, C.M.G., LL.D., for collecting and forwarding information to us; to the Land Officer for certain data as to mortgages; to the Government Assessor of Rates for providing us with figures and assisting us in referring to his records; to the Executive Engineer in charge of the Buildings Ordinance Office for compiling certain statistics and assisting us with an appendix; to the Deputy Registrar of the Supreme Court for particulars relating to distraints and to Miss R. Bercovitch, Mrs. A. Osmund, Mr. Lai Chi-cheung and Mr. Chung King-pui. To Miss Bercovitch and Mrs. Osmund for sterling work as typists and stenographers, and to Mr. Lai and Mr. Chung for equally good work as interpreter and translator respectively.

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## PART II.

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### The Reasons for, and the Extent of, the Rise in Rents.

1. Under our terms of reference we were to have regard to the rise and fall of rents during the last ten years, but only very few tenants were able to give us a continuous history for so long a period. This fact is of great significance, and goes to the root of the present situation of tenants in the Colony.

2. A wealth of evidence was furnished to prove that owners of house property were the victims of a disastrous slump during the years 1933 to 1937. No doubt there were during the last ten years cases of speculative building in which men of

straw who hoped to make a quick boom profit were deservedly punished, and it is a fact that in the years 1933 to 1937 there was in the Colony what has been described to us as "an overbuilt position", but the majority of property owners must be regarded as legitimate investors, and had it not been for the overbuilt position, the present acute shortage of accommodation would have been much accentuated.

3. During the years of severe depression, property owners were left with great numbers of vacant tenements on their hands, and were glad to find tenants at rentals which did not yield an economic return on capital outlay. Many tenants availed themselves of this position to move into a class of premises considerably superior to that which they would normally occupy, and when, with the increased demand for accommodation due mainly, but probably not entirely, to the outbreak of the present Sino-Japanese hostilities, rents began to show an upward tendency, these tenants found themselves faced with demands for rentals which they could not afford to meet but which were not in the great majority of cases at all exorbitant having regard to the class of property in respect of which they were charged. The Government Assessor of Rates gave us an example in his evidence of flats let in Wongneichong for \$145 per month four or five years ago, fetching after the slump and until the commencement of the upward tendency only \$70 per month, and later made the general statement that in some cases where he had found what appeared to be a very heavy increase in rent, investigation had shown that during the depression rents were excessively low for the class of property concerned. If a more normal level of rental were taken as a standard, there was in fact no excessive increase.

4. Many other tenants did not move from their residences, but reaped the benefit of the slump by threatening to quit unless their landlords reduced the existing rents. The landlords were forced to agree to reduction in order to avoid being left with empty and wholly unremunerative premises on their hands. The Government Assessor of Rates summed up this aspect of the situation in his evidence in the words "tenants have for the past few years been holding a pistol to the landlords' heads".

5. Our attention was thus directed to the question whether the rentals which we had been informed had been increased or were about to be increased had on the average reached or were about to reach a rate of rental higher than that prevailing for the same premises before the depression set in.

6. A prominent member of the Chinese community, whom we invited to give evidence, stated that up to November, 1937, beyond which date he had not pursued enquiries, statistics showed that rentals had not gone back to pre-depression figures.

7. We next investigated the records at the office of the Government Assessor of Rates from 1928 or, in the case of new buildings, from the first assessment, until the present time, paying particular attention to the premises referred to by landlords and tenants in their written or oral statements.

8. Of some 269 addresses, some of which probably included several floors, only 213 provided sufficient data upon which to base any conclusions whatever. In only 45 of these 213 cases did the Government Assessor's records of assessment show definite figures for 1933 and 1937, the figure for 1937 being confirmed by the tenant, who also provided a figure for 1938. Of the 45 cases, 8 showed an increase of rent above the 1933-1934 level; 11 showed a return to that level; 17, while increased beyond the 1937 level, had not reached the 1933-1934 level and in 5 cases we were already aware that a bare notice to quit had been given. Of the 8 cases showing an increase over the 1933-1934 level, one related to a factory, one to a school and one, we learned from the landlord, was really a notice to quit. Of the 5 remaining cases, the increases over the 1933-1934 level were either small or, in relation to the class of premises concerned, not excessive.

9. As regards the 168 cases remaining after deducting the 45 cases of which there were exact assessment figures for the years 1933 and 1937, we were in some difficulty, for assessments had often been made on whole houses and we had therefore in such cases to make an estimate of floor rents by having regard to the rent of the whole house and inquiring what rents were the basis of assessment for comparative floors in the neighbourhood. In order to avoid any possibility of bias, we made this estimate without having the figures given by landlords and tenants before us, and with some doubt we consider that in 29 cases the rent has been raised above the 1933-1934 level; in 22 cases has been restored to that level; in 52 cases has been raised above the 1937 level, but has not yet reached the 1933-1934 level and in 27 cases has been raised above the 1937 level with no figures of pre-depression rentals available. In 36 cases we were already aware that bare notice to quit had been given. The remaining 2 cases are probably increases to a high rent with a view to getting rid of the tenant.

10. Although we have done our best to arrive at a correct conclusion, these figures are at best guesswork, and may be either too high or too low. Even the figures relating to the 45 cases mentioned above are only approximate. We prefer to place greater reliance on the facts and figures set forth in the succeeding paragraphs of this Report.

*Illustrations from Written and Oral Evidence.*

11. A tenant of a floor in Glenealy wrote to us, and his own words are illuminating:—"I have been living in the above address . . . since 1935 June paying a monthly rent of \$60 and in December 1935 I asked for a reduction of \$10 and my landlord . . . only comply with it when I sent in the month's notice to leave . . . \$60 rent I could not pay, but as the locality is good I meant to stay for 6 months only unless finding me a good and regular tenant the landlord will reduce the rent to \$50". It will be observed that the tenancy commenced during the depression, and that the tenant obtained accommodation of a type for which he could not afford to pay even during that period in the hope of obtaining a reduction. The landlord now proposes to raise the rent to \$65 per month.

12. A tenant in Kennedy Road writes:—"For over two years I have been paying a rental of \$90. When I moved in, this place was not at all considered a bargain (witness the fact that it had been vacant for some time before I took it over) . . . ." Again the rent of \$90 commenced during the depression and it is obvious that the landlord would accept a rental at that figure rather than leave the premises vacant.

13. A letter in the issue of the South China Morning Post of the 17th March, 1938, alleged an increase in rental as follows:—

"Another house in Kowloon:—

Old Rent \$60. New Rent \$100, an increase of  $66\frac{2}{3}$  per cent.;  
subject to a lease for 2 years being signed within 15 days of  
notice, the new rent is to be reduced to \$90".

The letter went on to allege extortion on the part of "one of the biggest . . . property owners in the Colony". The writer of this letter did not appear before us, but his landlords did, and from unimpeachable evidence we are satisfied that the true facts are as follows:—

In September, 1930, the flat (not house) in question was let for \$107 per month "including taxes and water". In December, 1930, the rent was adjusted to \$95 per month "exclusive of taxes". (This really means 'rates'). This adjustment amounted to a monthly liability on the part of the tenant to pay \$110.80. In September, 1933, by which time the depression was beginning to make itself felt, the tenant asked for a reduction of his rent to \$90, adding that he would be compelled to give notice if his request was not acceded to. The landlords did not agree to the reduction, the tenant left, and the flat stood vacant for over two months.

In January, 1934, the flat was let to another tenant at \$80 per month. This tenant left in October, 1934, and in November, 1934, the flat was let to the tenant concerning whom the letter above referred to was written at a rent of \$70 per month. In July, 1935, this tenant asked for a reduction in rent which was refused. In December, 1935, he gave a month's notice to the landlords. In February, 1936, he was still in occupation and again gave notice. As from April, 1936, the landlords agreed to a rent of \$60 per month, and although the terms of tenancy made the tenant liable for excess water charges, the landlords did not in fact claim such charges from him. In October, 1936, the tenant was three months in arrears with his reduced rent. In December, 1936, he was again two months in arrears. In February of this year the landlords notified him that his rent would be increased to \$100 per month, subject to a reduction if a lease for one year were signed.

**14.** A European limited company submitted to us a comparative statement compiled from the company's records, which we were invited to inspect, relating to three types of Chinese tenement property owned by the company. The period covered is 1934-1937. In every case, without taking into account losses sustained by excess consumption of water, vacancies and defaults in payment of rent, which are subjects dealt with later in this Report, the statement shows throughout a decline in rent since the commencement of 1934, and in no single instance had the rent at the end of 1937 regained the level obtaining four years previously. We were assured that there was no immediate increase of rent under contemplation.

**15.** A Chinese limited company submitted to us figures in relation to property owned or managed by the company, which were vouched for by a leading European bank, as follows:—

- (a) 328 flats, Chinese, without flush system in two streets in the Eastern district. Inclusive figures were given for the years 1929-1937. In the first street the gross annual rental fell from a maximum of \$51,709.49 in 1930 to \$18,633.60 in 1935, and in the second from a maximum of \$51,601.90 in 1929 to \$18,660.70 in 1936. In both streets average rentals of \$40 per flat in 1929 had been reduced to an average of \$24 by 1938, representing a reduction of 40%. It is not intended to increase rents at present.
- (b) 224 Chinese flats without flush system in the Eastern district. In 1930 the gross rental received amounted to \$63,681.00. In 1934 it had dropped to \$21,938.00. In 1937 it recovered to \$38,981.50. The average reduction in rent per flat was 45%. It is not intended to increase rents at present.
- (c) 84 Chinese flats of concrete with flush system. In 1932, when the flats were not fully occupied, the gross rental received amounted to \$31,730.25. In 1935 it had dropped to \$19,214.00. In 1937 it recovered to \$24,454.40. In 1930 the average rent per flat was \$40. At present the average is \$26-\$30 per month. It is not intended to increase rents at present.
- (d) 32 European flats. In 1934, when the flats were not fully occupied, the gross rental received was \$20,550.00. In 1936 it had dropped to \$14,838.00. In 1937 it had recovered to \$18,098.13. In 1934 the average rent per flat per month was \$70. At present the average is \$58 per month. It is not intended to increase rents at present.

**16.** A large European limited company sent us figures showing that the rents of the majority of their European flats and houses were to be increased as from 1st April, 1938, but the increase in net rental returns varying from 1.61% to 4.58%, will only in one instance exceed the net returns obtained in 1933, and that by a trivial amount. The figures for the company's Chinese flats show an increase in rentals as from the 1st May, 1938, varying from 10.59% to 15.54%, but the company acquired the property as mortgagee and entered into possession during the depression. The pre-depression rentals are not available. The net return with the proposed increases will not cover the interest charges on the amounts advanced on mortgage.



17. A Chinese landlord, who wrote to us through a firm of solicitors, is the owner of eight and agent for three houses in Po Tuck Street, comprising 33 Chinese flats. He intends to raise the rents of these premises, but in no case does the proposed increase restore the flat rentals to the level obtaining at the beginning of 1933. In the first quarter of 1933 the total monthly rental was \$742.35. Inclusive of the proposed increases it will amount to \$638. At present it stands at \$470.

18. A property owner, interested either as owner or agent, or as an officer of limited companies in over 200 widely distributed houses, gave evidence as to the severe losses sustained over all the premises during the depression. One of many examples supplied by him may be found in the case of 14 houses in Lockhart Road comprising 56 flats. In the case of each flat an increase in rent is imposed as from the 1st April, 1938, but in the case of only six flats does the proposed increase bring the monthly rental to a figure exceeding that obtaining at the commencement of 1933. Of these six cases, the increase over 1933 is \$1 per month in four cases, \$2 per month in one case and \$7 per month in the remaining case. No complaint was received by us in respect of any of these six flats. As regards all the fifty-six flats, a sharp average reduction in rent was made between January, 1933, and March, 1938, and the average proposed increase does not restore the 1933 average rental. For the first quarter of 1933 the total gross receipt of rents for the 14 houses was \$1,779 per month. Including the proposed increases, the gross receipt of rents will amount to \$1,588 per month. We received complaints from two tenants of floors in this group of property. The first moved in in 1936 at a rent of \$26 per month. It is proposed to increase his rent to \$33 per month, but in 1933 the flat was let for \$35 per month. The second has resided in his flat for 5 years. In 1933 he himself paid \$29 per month. In March, 1938, his rent had fallen as low as \$18 per month. It is now proposed to increase his rent to \$23 per month.

19. A Chinese partnership submitted detailed figures relating to premises both in Hong Kong and Kowloon. A typical example from each of the three main blocks of property affected is worthy of note.

(a) A ground floor flat in Catchick Street was let in 1930 for \$45 per month. In 1937 it was let for \$19 per month.

(b) A first floor flat in North Street was let in 1928 for \$28 per month. In 1937 it was let for \$18 per month.

(c) A second floor flat in Chatham Road was let in 1928 for \$10.50 per month. In 1937 it was let for \$7 per month.

The partnership have not notified an increase of rent, but should they do so it is obvious that on a percentage basis there may be a very considerable increase without exceeding the rents charged before the depression.

20. The same comment applies with equal force to 133 houses in Hong Kong and 33 houses in Kowloon, comprising respectively 488 and 102 floors separately let, in respect of which figures were submitted to us by Chinese landlords. In a few cases pre-depression figures are not available, the premises having either been first let, or entered into by mortgagees, during the depression, but the periods of vacancy in this case show that the landlords were bound to accept, in order to obtain tenants at all, rents at a very low level. Figures in Chinese were also submitted to us by landlords, but in the time and with the staff at our disposal it was not possible to examine them as fully, for we considered that of the many Chinese documents received, the first to be examined should be the complaints of tenants. We were able sufficiently to investigate these figures, however, to leave no doubt in our minds that these landlords, and especially a hospital, had suffered disastrous losses.

21. Hence a mere percentage of increase in rent affords no true test of undue profiteering on the part of landlords. A large property owner wrote to us on this point (in relation to an actual case) as follows:—" \$40 rental reduced to \$20 represents a reduction of 50% BUT \$20 rental put back to its original \$40 represents an increase of 100% ". In deciding whether an increase is unduly large,

it is vital to ascertain the rental as it stood at a date when a reasonable return on capital outlay was being earned.

22. We are satisfied by the figures submitted to us, by the admissions of tenants, and from our own enquiries in the cases where both landlord and tenant appeared before us, that there is no evidence that landlords as a whole are at present raising or notifying an intention to raise rents beyond, or even so high as, the level ruling before the depression. A prominent member of the community, not himself a landlord of house property, considered that even if 1,000 complaints of increases of rent and evictions were received, which would only affect about 1% of tenement flats in the Colony, it would not be in the highest interests of the Colony for Government to take action. In fact no such number of complaints was received, and of those received many were not substantiated. Two disinterested witnesses of importance thought there were a few hard cases, but that hard cases made bad law.

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### PART III.

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#### Landlords' Return on Capital.

1. At the outset of this part of our Report, we desire to quote the following extract from the Report of the Economic Commission published as Sessional Paper No. 3 of 1935:—

“2. . . . In 1934 the rateable value (*i.e.*, of the Colony) stood at \$38,641.856. This figure capitalized on the basis of 7% per annum represents an investment in rateable property of no less than \$550,000,000. This huge sum, large as it is, does not include very considerable property owned by the local Government, the Navy or the War Department, or all similar property which is not included for Assessment.

3. As it is not generally appreciated how large a portion of the wealth of the Colony is invested in property, a comparison of this foregoing figure with some of the other large categories of investment may be of value.

4. For example, the total market value of the shares of local companies (other than financial institutions) listed by the Stock Exchange amounts to approximately \$150,000,000, although an appreciable portion of the assets of such companies is represented by property. Similarly, the estimated total value of money invested in Chinese factories or in Chinese industry in the Colony amounts to about \$50,000,000 which is only a comparatively small sum. Here again a substantial portion of such money is undoubtedly represented by the property or buildings of such factories.

5. The total note issue, which is backed by silver and by sterling securities, amounts to about \$160,000,000, but even this sum, large as it may appear, is for the most part held outside the Colony and only a small portion (authoritatively estimated at 25%) is owned within the Colony.

6. These comparative figures serve to make it abundantly clear that a very large portion, if not the bulk, of the wealth of the Colony, is represented by property.

7. That this must be so is hardly surprising in a territory where there is little agriculture, almost a complete absence of any trace of mineral wealth, and where industry is still only in its infancy.” (Chapter VIII, paras. 2 to 7).

The figures quoted above may require some modification at the present time, but it is abundantly clear that any measure which would have the effect of depriving those persons whose capital is locked up in land of a fair return on their money, must necessarily be detrimental to the general well being of the Colony.

2. We ascertained from official records covering the years 1920-1926, during which time the principle of rent restriction was fully debated, and restrictive legislation was enacted and permitted to expire, that it was then conceded that a net return of 8% on capital outlay was a fair return. The Government Assessor of Rates stated in evidence that "in 1923 and onwards for some years, it was customary for valuers in Hong Kong to work on the assumption of 8% clear profit for Chinese tenements and property generally". In answer to our question whether that might at present be regarded as a fair figure, he expressed the opinion that 7% clear profit would be a more reasonable average to work on. A Chinese witness, the whole of whose evidence greatly impressed us, agreed that an average return of 7% was the normal return for investments in house property, and added that any less return would not attract private enterprise. The witness pointed out that at the present time 6% or 6½% could be obtained on shares without difficulty.

3. Without unduly delaying this Report it is impossible fully to analyse the mass of figures we received, but we have no doubt whatever that in the great majority of cases property owners have not been receiving a reasonable income from their property investments, and have not for several years earned a figure approaching 7% on capital outlay. It should be remembered that in many cases the possession of one or two houses is the sole means of livelihood of the owners. In some instances property owners may have been somewhat over-generous in their estimates of capital outlay, but the contentions of the larger property owners were exceedingly well documented, and we do not feel that there has been any substantial attempt to mislead us on this head.

4. A good example may be found in the case of a European company which until recently mainly confined its activities in the Colony to advancing money on building mortgages at 8%. The advance was in each case limited to two-thirds of the amount certified on valuation. We are asked not to disclose actual figures, but it was established that owing to defaults by mortgagors the company had to take over forty properties in respect of which a vast total amount had been advanced, and that during the year 1937 the net revenue derived by the company from rents exceeded 4% on the amount advanced in only four cases, was in most cases under 3%, and in a number of cases less than 2%. This revenue was on a sum which before the depression had been certified as only two-thirds of the value of the properties, and must be compared with the 8% which would have been earned if the mortgagors had been able to carry out their side of the bargain. It should be added that borrowing money for building is a universal practice, without which development would come to a standstill, and that 8% at the time of the loans was a common rate of interest for building mortgages in this Colony. The company now for the first time since taking over the properties is able to obtain tenants for all its premises, and proposes an all-round increase in rentals calculated to yield, provided that there are no defaults and vacancies, between 5% and 6% per annum on capital outlay. Many complaints have been made against this company, at least one of which appears to have been deliberately untruthful, but most of which can be explained by the movement of tenants referred to in paragraph 3 of Part II of this Report. We are satisfied that the company has been a good landlord.

5. Another example is furnished by the case of a European company which gave a general notice to tenants of a block of flats let at an average rental of \$120 per month, of an increase as from the 1st March, 1938, to \$170 per month, or \$150 in the case of tenants who signed a lease for at least one year. The increase appears large, but we were given figures to prove that the landlords had had to borrow at 6% and then at 5% to carry on their business, and had not been earning more than 4%, and at one time less, from their property. The landlords satisfied us that in spite of their notice of general increase, concessions had been made in particular cases, and that the net revenue estimated to be produced after the increases became effective, amounted, given full occupation, to approximately 6% on capital outlay.

6. Evidence which really puts the matter beyond doubt and disposes of the necessity for a long inquiry into particular cases, was given by a representative of a European bank. He told us that his experience during the last six years had convinced him that the position of house owners had been growing worse all the time—"their revenue has gone". The bank had advanced money to many such owners. Valuations of property were arrived at by ascertaining the revenue derived from rents and calculating the capital sum on which such revenue would represent a return of 8%. This standard of calculation was not rigidly adhered to, but represents the broad basis of valuation. The usual advance was limited to 60% of the valuation, and interest was charged at 5%. The witness told us that in a great many cases during the depressed years landlords had not been able to obtain sufficient to pay the 5% interest on 60% of the valuation. At the end of 1937 he had reviewed several hundred mortgages. The values of the properties, based on the rent returns at that time, barely covered the advance, whereas a few years previously the advance had only represented 60% of what the witness regarded as the real value of the properties.

7. The evidence referred to in the three preceding paragraphs is authoritative, but in all cases landlords have stated, and we believe them, that they have sustained a drop in income, in most cases very severe, while in many cases they have not been able to pay the interest on loans which they have been compelled to obtain from the banks in order to carry on at all.

8. It has been suggested that in assessing a fair return on capital outlay, regard should be had to the conditions obtaining at the time when the expenditure was incurred. That is to say that if property is acquired at the peak of a boom period when property values are unusually high, it would be unreasonable in a landlord to expect a steady return of 7% on his abnormal expenditure. But the problem is essentially one of supply and demand, and the investor in house property who comes in on the crest of a wave, will inevitably suffer when the wave recedes. It seems a strong thing to say that when demand revives, the investor shall be debarred from endeavouring to reimburse himself merely because his original investment was unduly optimistic. Be that as it may, we are satisfied that the majority of landlords are at present persons who built or acquired property as a permanent investment. The speculative builder who hoped to reap a quick profit on a rising market has either defaulted altogether, or been replaced by concerns which advanced him money limited to a percentage of valuations made in the ordinary course of business and which have thus become, to adopt an apt phrase used before us, "unwilling landlords". The property market in this Colony, for many years at least, has always displayed short spells of activity followed by long intervals of slackness. It is not to be expected that investors will build only in the slack periods at a low cost, when returns must be small, on the chance of an early revival. It is only on the signs of revival that persons will begin to purchase and build house property and in the process the standard of necessary expenditure inevitably rises, but if investors did not incur this higher expenditure, it is obvious that periods of activity would disappear and development be permanently arrested. It should be added that there is at present little or no evidence of an increased market for Crown Land or private house property. There is only a general upward tendency in rents.

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#### PART IV.

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##### Evictions and Alternative Accommodation.

1. The Government Assessor of Rates provided us with a table compiled from his records showing the number of tenements vacant monthly in the Colony from January, 1935, up to the end of February, 1938. A copy of this table is annexed to this Report as Appendix I. In July, 1936, the number of houses and floors standing

vacant was 3,505. At the end of February, 1938, the figure had fallen to 522. The Government Assessor's figures do not, for reasons which he gave us, include every vacant tenement, but they sufficiently indicate the downward trend which, he informed us, still continues. We also annex as Appendix II a graph illustrating the decline in vacant accommodation, during the same period, originally supplied to us by the Government Assessor and reproduced on a smaller scale by the Executive Engineer in charge of the Buildings Ordinance Office. It will be seen from these appendices that a tenant who is given notice to quit is faced with a serious difficulty. The Government Assessor told us that of the vacancies on his list at present not one was suitable for the Portuguese clerical class or European subordinates.

②. In some cases an apparent notice of increase of rent probably amounts, as between Chinese landlords and tenants, to a notice to quit. The landlord in these cases has usually a shrewd idea of the amount the tenant is able to pay. As the landlord is now in a position to obtain an economic rental and to insist on good tenancy, we think it likely that in some cases his way of getting rid of a tenant has been to ask for a rent which he knows the tenant cannot possibly pay. In one case a tenant who had moved into the ground floor of a Chinese tenement house two years ago during the depression at a rent of \$21 per month was notified by Chinese letter in the first moon of the present Chinese year that he would in future be charged a rent of \$60 per month, and this was followed by a letter from a firm of solicitors giving a bare notice to quit. The tenant himself admitted that when he first moved in "nearly all the floors in the street were vacant", and that he had himself partitioned the floor into cubicles for the purpose of sub-letting. We are of the opinion that the landlord really wants the premises back to let as a shop, and that the tenant only acquired the premises at a rent of \$21 because no other tenant could be obtained.

③. In other cases the landlord states that he desires to obtain recovery of his property "for his own use". This may mean for the use of himself and his own family, for near relatives, for more or less distant relatives or clansmen, or for letting out as shops, factories or other business premises. Tenants frequently alleged that the object of the landlord was in reality to obtain well to do refugee tenants at an abnormally high rent, but this was never established. On the other hand in cases where the landlord appeared and claimed that he genuinely wanted the premises for his own use, we were only once in doubt as to whether he was speaking the truth. In one case, the landlord wanted a European flat back for the use of his own son on his pending marriage. "I do not see anything unreasonable", said the landlord's son, "in our getting back our own house for our own use". It is hard to disagree. In another case an owner possessing one house in the Colony and himself in employment in Canton wanted to recover the house for the use of twelve of his immediate dependents, as he did not desire his family to remain in Canton during the present unsettled conditions. We may here comment on the provision in the expired Hong Kong Rent Restriction Ordinances whereby a landlord was prohibited from giving his tenant notice to quit unless he provided him with alternative accommodation of a similar nature at a similar rent. At present it is in most cases impossible for the landlord to provide alternative accommodation. The provision in question was based on a comparative provision in England, introduced as a temporary wartime measure, and limited to houses of a certain value, at a time when the great majority of the landlords affected were resident in England with their families. To-day a number of refugees from China desire to occupy their own houses in the Colony, built perhaps with a view to trouble in the interior.

4. In other cases where the landlord has given notice to quit, he may be suffering from resentment at the treatment he has received at the hands of his tenant during the depression. For example, two flats in Babington Path were let over twelve years ago at \$150 per month. In 1925 the landlords asked for \$180 per month, and after negotiation, a rent of \$160 per month was agreed to. In 1935 this rent was reduced to \$140 per month, and then to \$110 per month for the two flats. Some time in 1934 the remaining members of the tenant's family gave up

one of the flats, and retained the other at a rent of \$55 per month. In 1936 the tenants gave notice of removal. The landlords "asked us to stay on at any rent". \$45 per month was offered and accepted. This year notice to quit was given by the landlords and an increase of rent offered by the tenants was refused. The tenants have now obtained accommodation in a hostel. The facts are taken from the tenants' own evidence. Here is the "pistol to the head" referred to by the Government Assessor of Rates. (See paragraph 4 of Part II of this Report.)

5. Landlords have perforce accepted unsatisfactory tenants during recent years. Tenants have been in arrears with their rent for months. Houses and flats have been constantly vacant, sometimes for years. Landlords have been called upon to pay enormous charges for excess water. Tenants by threatening to quit, have forced down rents to excessively low levels. Almost any page extracted from a landlord's accounts will justify the foregoing statements as regards the cheaper class of premises, and tenants in their evidence frequently admitted as much. A European banker referred to "cases where landlords have cancelled several months' back rent so long as the tenant promised to stay on and pay his rent in future". We think that notices to quit have been given in many cases because the landlord is at last in a position to get rid of a bad tenant.

6. Unsatisfactory tenants may be dismissed without further notice, but the problem presented by the tenant who (a) is living in a class of premises which normally commands a rent he cannot afford to pay, or (b) is given notice to remove because the landlord requires the premises for his own use, is one of real difficulty.

7. As regards class (a), the answer would simply be, if there were no shortage of accommodation, that now the landlord is in a position to demand and obtain an economic rent, the tenant must revert to the type of premises from which he came, but unhappily at the present time that type of premises has itself been taken up, and though the general restoration of pre-depression rents may gradually force successive classes of tenants one rung down the social ladder, yet the humblest class will be forced off the ladder altogether, and must either leave the Colony or sleep in the streets. The problem resolves itself into a balance of hardships. Is the landlord, who has suffered great losses, to forego his opportunity to recoup himself because his tenant is unable to pay an economic rent and cannot find alternative accommodation; or is the tenant, who has not unnaturally seized the opportunity to move into pleasanter surroundings, and who in most cases has now made strenuous but unsuccessful endeavours to secure cheaper premises, to be forced either to meet charges which in his circumstances are ruinous, or to be rendered homeless? The question can only be answered by having regard to the effect of any legislative intervention on the general prosperity of the whole community.

8. In the first place it should be remembered that it is only human to protest against increased charges, and we are not satisfied that in all cases tenants could not, perhaps by effecting other savings, afford with more or less difficulty to pay economic rents to their landlords. In one case a Chinese clerk with a wife and two children earning \$75 per month employed two servants at wages of \$7 and \$5 per month respectively. His rent is to be increased by \$6 per month. By dispensing with a servant he could in the one case more than, or in the other almost, meet the increased rent. The same tenant had not looked for other accommodation because he "relied on the Rents Commission", and this attitude was not uncommon. Another had failed to inquire for other premises because her notice had not yet expired and there was, therefore, "no need to worry". A European tenant of a flat sent us a written complaint. In May, 1935, during the depression, he obtained the flat at a rent of \$120 per month including refrigeration. On his providing his own refrigerator, the rent was reduced to \$112.50 per month. In January, 1938, the landlords (a limited company) informed all the tenants of this block of flats who had not entered into leases, that as from 1st March, 1938, the rent would be \$170 per month, or to those who signed a lease for at least one year, \$150 per month. The tenant wrote to the landlords stating that he would probably be relieved at the end of April, and it was

verbally arranged that he should stay on in the flat at the rent of \$150 for the months of March and April. The landlords completed a tenancy agreement from the 1st May, 1938, with a new tenant. Subsequently, the tenant learned that his relief had been postponed and desired to remain in the flat until the end of May, 1938. The landlords informed him that they could not agree, as the flat was already re-let. The terms of the correspondence are not free from doubt, but it seems to us that it is capable of the construction that the tenant led the landlords to believe that he would vacate the flat at the end of April, 1938, and we are satisfied that the landlords acted upon that construction in good faith. The landlords' representative told us that he had another flat of a similar size which he was prepared to allow the tenant to occupy until his departure at the same rent of \$150, but that the tenant had written to us without applying to the landlords for alternative accommodation. The tenant in this case was an Admiralty Civil Servant, and we refer to this class of tenant later in our Report. We are inclined to believe that fear of "loss of face" has deterred some tenants from moving into cheaper premises. In one case the landlord had offered a family a cheaper flat in an adjacent street, but they refused to accept the offer. One witness had still 20 old Chinese tenement flats vacant which he was prepared to let at about \$20 per month.

9. In the second place, it should be observed that it is not only landlords who have been through bad times in recent years. There has been a general depression. In trade and commerce there has now been a considerable general improvement. We think that this improvement is not solely accounted for by the present hostilities and the influx of refugees into the Colony. A prominent Chinese member of the community told us that in his view the Colony had shown signs of recovery, after a long depression, quite apart from the Sino-Japanese hostilities. Whatever its cause, the improvement is undoubted. The annual reports of limited companies in general show increased profits, and we believe, although we have no actual figures, that many concerns, and notably the dock companies, are employing considerably more labour. The Inspector of Factories reports that between May, 1937, and February, 1938, 155 new factories were opened as against 46 (mostly small) closed, and that after allowing for closures, approximately 2,200 males and 2,300 females were taken on in factories. The Inspector further reports that there have been considerable extensions to existing factories, with a corresponding increase in employment, but accurate figures of this increase are not available. We were also informed by other witnesses that there had been a considerable increase in wages in certain trades. In the clerical grade of employment, however, there is as yet little or no improvement. Trading concerns have to recover from a severe set back and in view of the prevailing uncertainty a cautious attitude is only to be expected. A witness to whose views we attach particular weight, did not think there had been a long enough spell of good trade to justify increased wages for the latter class of society. Nevertheless it is possible that in the near future an upward tendency will commence, which should in some measure help to solve the problem of higher rents. There is no doubt that at the same time there is a rise in the general cost of living, a condition which always attends economic recovery, but which at present is largely due to the Sino-Japanese hostilities.

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## PART V.

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### Possible Solutions.

1. The considerations set out in the last two paragraphs of the foregoing part of this Report may to some extent reduce the problem, but they have not disposed of it. What then are the possible solutions? They seem to us to be two in number—(a) the statutory restriction of rents, and (b) the inception of rapid house construction work. The second solution, whether achieved by governmental action or by private enterprise, has the obvious disadvantage that some time must inevitably elapse before it becomes effective.



*(a) Statutory Restriction of Rents.*

2. As disinterested witnesses of importance have unanimously testified, the great difficulty inherent in a statutory restriction of rents is to devise an equitable basis upon which a standard rent may be assessed. If the level obtaining immediately before the present rise in rents commenced be taken, then as we have shown the effect will be artificially to continue the depression as regards house property owners and to deprive them of a living income. The evidence of a European banker on this point is worth considering in some detail. "If you are going to restrict rents, what guarantee in return are you going to give the landlord? Are you going to guarantee payment of his rent in bad times?.....If a man has property and you restrict his resources so that he cannot pay his bank interest, there will be a crisis.....if you start banks calling in mortgages, then you will have a serious crisis." On the same point a prominent Chinese stated: "Inability to pay interest induced by any legislative action may result in foreclosure (which word we think he used to describe all mortgagees' remedies) which would mean depression of market values to the great detriment of the Colony's prosperity." Bearing in mind the quotation we have already made from the Economic Commission's Report, these are words of grave significance. Legislation which will further undermine the already depreciated value of investments constituting "a very large portion, if not the bulk, of the wealth of the Colony" can only work against the best interests of the community as a whole. The ruin of private enterprise with holdings on so vast a scale must lead to repercussions the extent of which it is difficult to exaggerate. It is especially worthy of note that we have evidence that large corporations controlled by both Europeans and Chinese, including Chinese banks, have been forced to borrow from European banks in connection with their dealings in house property.

3. If the level of rents obtaining before the depression be taken as the standard, then in our view no benefit will be derived by the tenants, for we consider that the increases now proposed seldom restore the present rents to the level then obtaining. If rents be limited to a certain reasonable net percentage return on capital outlay, again the tenants will not benefit as against the majority of landlords, for we are satisfied that landlords as a class will not derive an undue revenue from their investments even when the proposed increases are taken into account, and such a measure would invite fraudulent valuations of property. No one with any experience of conveyancing in this Colony will question the possibility of such fraudulent valuations. It may be objected that rent restriction is still in force in England, and was at one time in force in this Colony, to which we reply that the circumstances in which such restrictions were imposed bear no comparison with those which we are now considering. In this Colony rent restriction was imposed in 1921, which was a period of great prosperity, and there was no hardship in limiting the landlords' rents to the level obtaining in 1920. The time at our disposal does not allow us to consider the details of earlier legislation. We must content ourselves by observing that the distinction between the state of the property market then and now is vital and sufficient, and that official records show that it was considered both at the time when the earlier legislation was permitted to lapse and when suggestions of its reintroduction were made, that it had largely failed in its object. We can only reach the conclusion that the statutory restriction of rents is an impracticable measure in present conditions.

4. Legislation prohibiting evictions alone without at the same time restricting increases of rent would prove useless. It might, for example, be evaded by the device already referred to of raising the rent beyond the tenant's means, but in our view the time is not ripe for intervention until the rent actually charged exceeds a figure which is fair in relation to the class of property in question.

*(b) Inception of Rapid House Construction Work.*

5. The solution of rapid building, apart from its necessarily slow consummation, is attended by many difficulties. It is necessary to restore confidence in the property market before much development can be expected at the hands of private enterprise. "Who to-day", asked a witness, "will develop property in Hong Kong"? We



endeavoured to answer this question, and were shown graphs by the Executive Engineer in charge of the Buildings Ordinance Office, of which copies are not available, showing a continuous decline in construction since the year 1931. In 1932, 1,472 houses were actually completed. In 1937 only 168 houses were completed. Tables showing the actual building of houses now in progress are given in Appendix III to this Report. It is obvious that the present rate of building is wholly inadequate.

6. Several witnesses told us that there is plenty of money lying idle in the Colony, but that investors have no confidence in land. They have before them the losses incurred by landlords during recent years, and they require to be assured that there will be a continued demand for accommodation before they will supply it. For this reason, although there is a general rise in rents, and a sharp decline in vacant accommodation, the market for the sale of land and house property remains depressed. Investors are not convinced that this demand for premises is more than temporary, and they fear that if they put their money into house property they will, on the cessation of the present hostilities, be faced with the same question of vacancies.

7. Another factor which is undoubtedly depressing the market is the excess water problem, and we invite reference to Chapter X of the Economic Commission's Report. (Sessional Paper No. 3 of 1935). The question of Government policy does not concern us, but we have found as a fact throughout our inquiry that charges for the consumption of excess water have imposed a heavy burden on landlords, especially as regards Chinese tenement houses, and one of the reasons for increased rents, now that there is a demand for accommodation, is to lighten this burden. In the case of some property in Kowloon acquired as an investment, the gross rental was approximately \$24,000 per annum, and in one year the charges for excess water were about \$4,000. "The question of water", said a witness, ".....is a genuine hardship on the landlord, and it is putting the price of property down. Until something is done about it, we shall never get a good land market in Hong Kong for Chinese tenement house property". Investors also fear that should the present increase in population prove only temporary, the constant defaults in payment of rents will again recur. References to extracts from landlords' books show that rents in a huge number of cases were constantly in arrear, and that in many cases tenants slipped away owing several months' rent. Rather than earn no income at all, landlords permitted such tenants to stay on in the hope that they would ultimately pay something.

8. It was pointed out to us by a prominent landlord, that the remedy of distress, a powerful weapon available to a landlord in England, is in this Colony, at least as far as the majority of Chinese tenants are concerned, almost completely useless. We asked the Deputy Registrar of the Supreme Court to supply us with figures, and we found that sales under distraints since September, 1937, until the present time amounted to a farce. The claims for arrears of rent were in many cases substantial, claims in excess of \$100 being common, and in excess of \$200 not infrequent. The returns in these cases were often nil returns, or returns showing recovery of a few cents. In the very great majority of cases the landlord did not recover even the costs of the distraint. There is no doubt that there is often collusion between principal tenants and sub-tenants as regards the ownership of goods in premises which are the subject of distress. The Deputy Registrar supplied us with further figures showing that landlords are resorting to distress in a greater number of cases in recent months, but we think that warrants are issued more with a view to getting rid of undesirable tenants than with any hope of recovering arrears of rents. It is possible that in some cases landlords have abused the remedy of distress, for example by refusing rent when tendered and then alleging that rent is in arrear, but we received no evidence of this. The only complaint we received was from a tenant who claimed that distress had been issued for an amount in excess of the amount actually due. This witness was invited by a member of the Commission to attend with him at the Registry of the Supreme Court in order that the complaint might be investigated, but the witness did not appear at the Registry, and on hearing the landlord we were satisfied that the amount claimed was in fact owing. Again, we are not concerned with policy, but we find as a fact that the remedy of distress is singularly ineffective in this Colony.

9. One witness dealt with the question of Crown Leases for a term of 75 years without the option of renewal. He had no doubt that whatever the legal position might be, the question was affecting sales. He thought that when properties were leased for 75 years, the Crown tenants, particularly Chinese, thought that the leases would be renewed at an increased rental and did not realise that they would, in effect, have to "buy the property again". We think it possible that former Government practice may have contributed to this belief. We have not had time to ascertain how many of these leases are now current, but we agree with the witness that purchasers for the properties affected will not readily be found until renewal is assured and the approximate cost of renewal indicated. A point to be remembered is that a prospective Crown lessee must accept the term of years offered by the Crown or nothing. He cannot in this Colony acquire the freehold or bargain for a longer term.

10. The rising cost of building at the present time must hamper development. The Executive Engineer in charge of the Buildings Ordinance Office, referred us to his Annual Report for 1937 (not yet published) in which he says: "The large increase in the cost of building materials which occurred during the middle of the year was reflected in a marked falling off in the number of plans deposited during the last quarter". A witness of experience gave us figures showing large increases in the cost of cement, steel bars for reinforced concrete houses, and hardwood.

11. We think that everything possible should be done to remove the landlords' difficulties indicated in the foregoing paragraphs and to restore confidence in house property, but we doubt whether any immediate private development can be hoped for. We understand that the question of the building of various types of houses by Government is now being considered by the Housing Commission, and we do not feel that any useful purpose can be served by our attempting, in a rapid survey, to cover ground which is being explored by experts. We merely desire to observe that if the provision of additional accommodation is accepted as the correct solution to the present difficulty, and if private enterprise will not supply that accommodation, the only alternative is for Government to undertake the necessary construction, but we would add that any action calculated to discourage private enterprise should be avoided in the interests of the Colony as a whole. It should also be remembered that there is an enormous untapped reservoir of potential refugees across the border, and that any cheap houses erected may prove to be merely the receptacle for its overflow. "Anything that we build", said the Government Assessor of Rates, "is certain to be filled up while the present conditions last, but when the property market (*i.e.*, the letting market) is normal again, there may be a lot of empty houses". If Government sees fit to erect houses, they might be reserved for the present for permanent residents of the Colony who cannot find alternative accommodation.

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## PART VI.

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### Miscellaneous and Conclusion.

1. We learned that in two cases notice to quit had been given to a number of tenants with the object of converting premises into factories, and we believe that other instances of this nature are to be found. The establishment of factories is to be encouraged, but they should if possible be prevented from occupying residential buildings. We understand that this question is also being considered by the Housing Commission, and we leave it to that Commission to make recommendations.

2. We received a communication from a group of Admiralty Civil Servants. It seems to us that the Navy, Army, Air Force and Civil Service Authorities might consider whether they could provide further accommodation for their respective services, meanwhile granting such allowances in lieu of quarters as may be adequate

in the circumstances prevailing from time to time. It is earnestly to be hoped that concerns employing large clerical staffs will recognize that many of their employees are now compelled to pay increased rents in the absence of cheaper premises, and will adjust salaries or grant allowances to meet present conditions.

3. A scheme devised by a European company, which has had infinite trouble with its tenants as regards arrears of rent, defaults and excess consumption of water seems to us worthy of notice. A lease of a whole house has been granted to the occupant of one floor, who has deposited a lump sum by way of security with the company, which pays a small rate of interest on the deposit. The lessee is responsible for the payment of the rent of the whole house, and has collected contributions towards the deposit from the occupants of other floors. He is to collect proportionate shares of the total rent from the other occupants of floors, and is restricted by the terms of his agreement from profiteering. The other occupants signed an application to participate in the scheme before the lease was granted. It is a term in the lease that the lessee shall be responsible for rates and excess water charges. The company is willing to extend this scheme, and in return for its increased security will be satisfied with a lower rental than it would feel compelled to charge if a house were let on a monthly basis by floors. How far the scheme is enforceable in the absence of good faith on the part of the lessee is not free from doubt, but in so far as it proves workable it appears to us to deserve serious consideration by other landlords as a method of ending many of the difficulties of the present situation in tenement property.

4. Lastly, while we consider that landlords as a class have incurred much undeserved odium, we are well aware that there may be unscrupulous landlords who may take advantage of this Report to indulge in profiteering. Landlords should remember that in 1921 Government was forced most unwillingly to impose rent restriction, and that they or their predecessors found it a great burden. We recommend a public statement that Government sees no reason at present to impose restriction, but is carefully watching the situation, and will not hesitate, should future circumstances justify such a measure, to pass legislation restricting increases in rent which unduly benefit landlords.

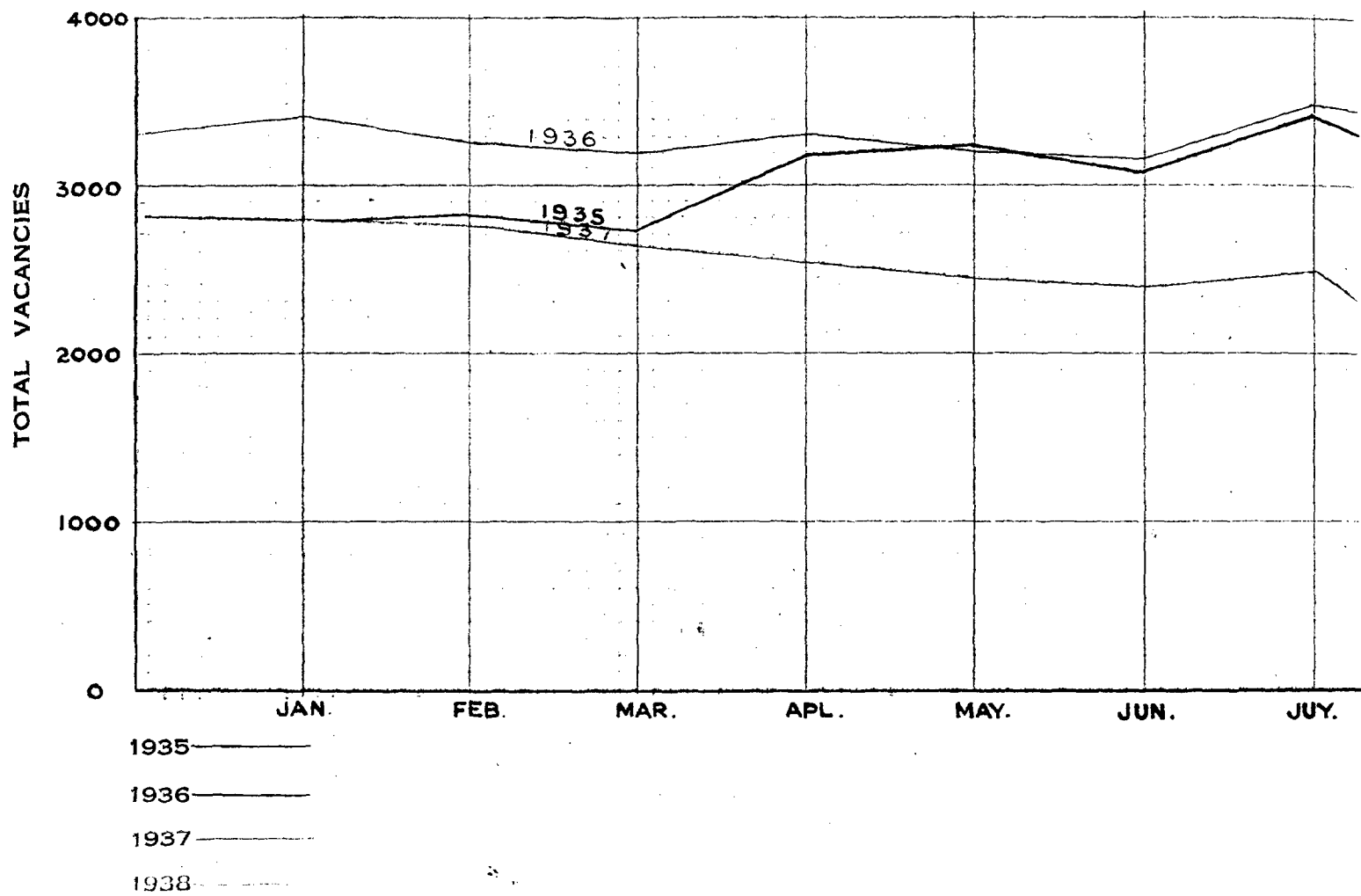
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# APPENDIX I.

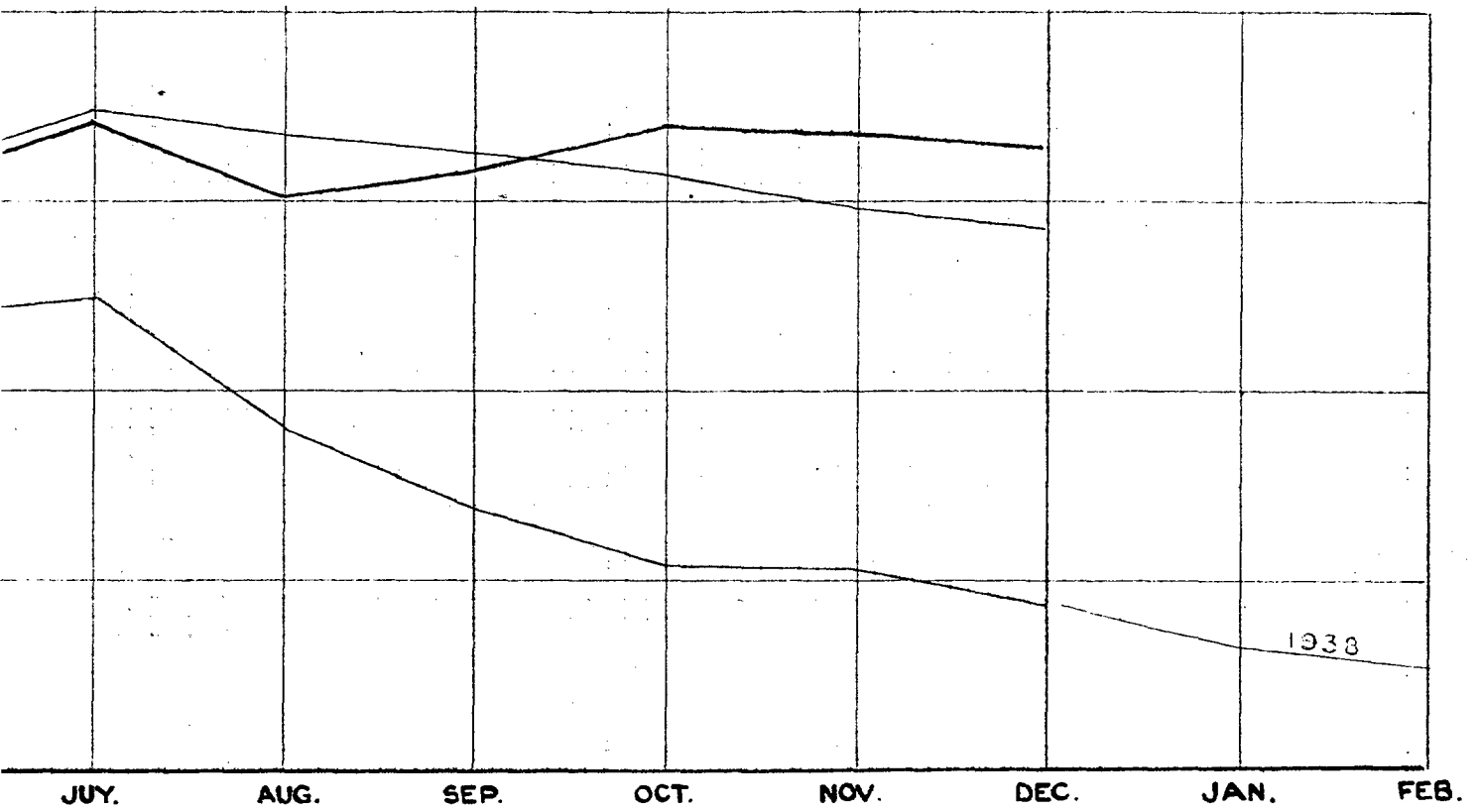
## VACANT TENEMENTS.

	Hong Kong			Kowloon & N.K.			HK., K. & NK.
	Whole T.	Floors	Total	Whole T.	Floors	Total	Total
1935							
Jan.	690	1,154	1,844	434	539	973	2,817
Feb.	672	1,197	1,869	412	581	993	2,862
Mar.	622	1,162	1,784	373	582	955	2,739
April	679	1,432	2,111	407	695	1,102	3,213
May	634	1,400	2,034	417	801	1,218	3,252
June	615	1,339	1,954	449	697	1,146	3,100
July	781	1,503	2,284	480	696	1,176	3,460
Aug.	632	1,275	1,907	469	667	1,136	3,043
Sept.	613	1,416	2,029	459	711	1,170	3,199
Oct.	687	1,482	2,169	516	739	1,255	3,424
Nov.	656	1,508	2,164	514	727	1,241	3,405
Dec.	643	1,459	2,102	504	723	1,227	3,329
1936							
Jan.	652	1,556	2,208	538	734	1,272	3,480
Feb.	638	1,491	2,129	477	703	1,180	3,309
Mar.	633	1,385	2,018	479	726	1,205	3,223
April	671	1,443	2,114	501	737	1,238	3,352
May	621	1,393	2,014	484	734	1,218	3,232
June	624	1,366	1,990	450	728	1,178	3,168
July	648	1,584	2,232	457	816	1,273	3,505
Aug.	579	1,568	2,147	408	801	1,209	3,356
Sept.	613	1,443	2,056	396	803	1,199	3,255
Oct.	563	1,404	1,967	408	758	1,166	3,133
Nov.	548	1,294	1,842	371	736	1,107	2,949
Dec.	512	1,265	1,777	346	706	1,052	2,829
1937							
Jan.	491	1,253	1,744	341	723	1,064	2,808
Feb.	483	1,205	1,688	326	721	1,047	2,735
Mar.	462	1,132	1,594	309	688	997	2,591
April	468	1,072	1,540	324	650	974	2,514
May	449	1,025	1,474	312	615	927	2,401
June	445	1,009	1,454	313	581	894	2,348
July	538	1,052	1,590	328	528	856	2,446
Aug.	412	720	1,132	155	463	618	1,750
Sept.	315	585	900	58	365	423	1,323
Oct.	254	478	732	54	271	325	1,057
Nov.	277	485	762	42	244	286	1,048
Dec.	218	414	632	40	198	238	870
1938							
Jan.	181	300	481	45	106	151	632
Feb.	170	235	405	39	78	117	522

VACANT TENEMENTS



EMENTS



ASSESSOR'S OFFICE,  
FEB. 1938.

### APPENDIX III.

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#### HOUSES IN COURSE OF ERECTION IN HONG KONG.

- 11 European type houses for one occupation.
  - 4 European type houses forming 15 tenements.
  - 2 Chinese type houses for one occupation.
  - 27 Chinese type houses forming 107 tenements.
- 

#### HOUSES IN COURSE OF ERECTION, KOWLOON.

- 7 European type houses for one occupation.
  - 6 European type houses forming 32 Tenements.
  - No Chinese type house for one occupation.
  - 25 Chinese type houses forming 94 Tenements.
- 

#### HOUSES APPROVED (NOT STARTED), KOWLOON.

- 3 European type houses for one occupation.
  - 7 European type houses forming 33 Tenements.
  - 1 Chinese type house for one occupation.
  - 9 Chinese type houses forming 35 Tenements.
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