Rent Control in the Commercial Sector – A Case Study of Suva CBD

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Abstract:
Rent Control in the Central Business District (CBD) of major cites in developed countries is probably unheard of. This is because in most of these cities if not all there is no form of rent control being practiced. Competition is encouraged in all sectors and as result properties are considered a good investment medium enjoying both rental growth and capital appreciation. Most rent control regimes apply only to the housing sector. The commercial sector is allowed to operate under some perfect market conditions where price mechanism interacts with demand and supply. However, in Fiji under the Counter Inflation Act (1973) any rent increases in the CBD are subject to the approval of the Prices Incomes Board (PIB).

In 1989 the Government removed rent control on commercial rent from the PIB. At that time, the Government expected the lifting of the control would stimulate investment and boost the building industry. Subsequent competition in the market was to have acted as the most effective control on rental. However, this has not materialized for one reason or another because, as shown by rental increases, owners of property were charging exorbitant increases to their tenants. Since the uplifting of the control in 1989, the tenants have made several representations to Governments that landlords are increasing the rental unreasonably. The P.I.B. had carried out a survey that indicated an unrealistic hiking of rental particularly in the main centers where there have been drastic increases in rental without leasing agreements.

This control is only applicable to increases in rent and does not include new letting. Hence in 1996 Government put back rent control. The problem lies in the increase in rent by landlords, which is viewed by both the tenants and Government as unjustified hence the need to put in place control measures. This move is perceived as benefiting the tenants who obviously are a very strong lobby group. The implications of rent control are that it ensures that space in the CBD is not expensive. The landlord's reaction is to withhold potential developments and refurbishment. Overall the supply of space has not kept pace with demand.

The paper will discuss the impacts of rent control on property markets especially the commercial sector. In particular it will look at three different time period when rent control was and was not imposed:

1973-1989	when Government decided that rent control was appropriate
1989-1996	when Government decided that there was no need for rent control
1996-uptodate	when Government decided to bring back rent control

Government decisions whether to impose or not to impose rent control is seen as somewhat arbitrary.
This time period will be used as a basis to investigate the impact of rent control on developments and supply of spaces in Suva CBD.

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1.0 Introduction

Rent control as a public policy has attracted a lot of attention, not only from the two important stakeholders i.e. the landlords and tenants, but also from governments, academics and others. The debate has a long history dating back to after the second world war. At that time, it was confined to the housing sector. However, the debate has expanded to include other sectors namely the commercial sector. This inclusion has made the debate more complicated because the tenants group includes traders, merchants, restaurant owners, duty free dealers etc who are much more mobilised than their counterparts in the housing sector. As Dreir identified, these groups are able to shape the outcome of public policy contests because they are better organised. They mobilise their resources in order to address social injustice and this can lead to public policy changes. They can lobby for legislation's by attending and testifying at public hearings. They can write articles and letters to newspapers, they can appear on TV and radio shows trying to generate publicity and pressure for their cause as well as influencing the media in setting their agenda on public debate.[1]

Also important is the legal setting of markets in which commercial properties operate which includes the lease features, involvement of third parties and rent review process.

This paper introduces the concept of rent control in the Republic of Fiji, which has periodically had a regulated market. It will try to draw some conclusions on the impact of rent control on commercial sector although it is recognised that there are limitations to the data collected. The Suva City CBD has been chosen as a case study site.

2.0 Literature Review

The concern for rising land rent was identified by both Henry George and Karl Marx [2]. Marx argued that landed property causes rent and that rent raises the price of the produce. How could this be avoided? Marx advocated expropriating land because rising land rent would then be shared by the people through the state. On the other hand Henry George argued that as long as property remains in private ownership and the ownership is in the nature of monopoly, the labour would become enslaved by the landowners, interest and wages would remain low whilst rent would rise to absorb all surplus. George however rejected the idea of expropriating private property as being the answer, but instead advanced the idea to expropriating rent by means of a tax upon that rent.

[1] Peter Dreir, (1997)
[2] Henry George (1929); Karl Marx (1948)

This, in essence, is also what Adam Smith stated when he described the rent paid for the price of land as a monopoly price.

"The rent for land, it may be thought, is frequently no more than a reasonable profit or interest for the stock of laid out by the landlord upon its improvements. This, no doubt, may be partly the case upon some occasions; for it can scarce ever be more than partly the case. The landlord demands a rent even for unimproved land, and the supposed interest or profit upon the expense of improvement is generally an addition to his original rent. Those improvements, besides, are not always made by the stock of the landlord, but sometimes by the tenant. When the lease comes to be renewed, however, the landlord commonly demands the same augmentation of rent, as it they been all made by his own…

The rent of land, therefore, considered as the price paid for the use of land, is naturally a monopoly price".[3]

In our society today the same concern has been voiced again. In some countries this resulted in the adoption of public policy, and legislation has been enacted to enforce rent control. In France, under a decree of 30th September 1953, any rent increase in the commercial sector may not exceed the percentage increase in the official index of construction costs. Any exception to this general rule requires third party approval. Specifically, the landlord must be able to prove to a Court any claim that open market value of the premises has increased by more than 10% since the last revision, due to market forces in the area where the specific property is located.

In England there is lack of debate on the issue. The reasons for this lack of public debate can be summarised as follows:

1) Severe recession, which affected all sectors of the economy;
2) Overriding greed of government policy to bring down the general rate of inflation;
3) Widespread ignorance of the legal and institutional factors that are causing markets defying behaviour of shop rents in the UK;
4) There is a presumption in government circles that when the recession is over, things will return to normal in the retail sector and elsewhere.[4]

This lack of debate, according to Peter Dreir (1997), could be attributed to lack of mobilisation of resources by the group concerned. *"Success will depend not only on mobilising their base support but also building coalition with allies and converting others into their group".* Another reason could be that *"the battle unfortunately is not fought on a level playing field"*.

Surprisingly the concern on rising rent even reached the Notice of a Motion stage at the House of Commons. Fortunately or unfortunately, this is as far as it went.

[3] Adam Smith; *The Wealth of Nations* Book 1 Chapter X1, Part 1
[4] Burton John; *Retail Rents: Fair Tree Market* (1992)

Arguments advanced on the need for rent control include the legal and institutional context. John Burton argues *"that the English commercial property market is one suffused by idiosyncrasies. This includes the influence by institutions on standard lease structures, the ratchet effect on upward only rule, the absence of necessary third party approval for rent increases, and the closed, not to say secretive, nature of determination of Rent Review"*.[5]

Over recent decades there has been increasing attention by economists to the legal setting of markets.[6] One reason for this development follows from the simple but profound insight of Professors Armen Alchain and W R Allen that the market process involves not an exchange of goods *per se*, but rather the exchange of property rights over goods.[7] These rights condition the value and returns inherent in the exchange.

This matter is of particular importance in examining the workings of the rental market in commercial property, since the rights (and obligations) defined by law on leasing and renting commercial property differ markedly across Western countries.

Under English law, regarding the leasing of commercial properties the general idea, then, has been to provide a legal framework so that the leasing market in commercial properties work both efficiently (in an economic sense) and fairly (in the sense of justice being afforded to both parties).

2.1 Features of Lease

It is recognised that in the following two sections i.e. 2.1 and 2.2 there have been some changes to the situation in the UK. The author will endeavor to update this portion as part of further work in the future.

The essential features of leasing commercial properties in the UK as detailed by Barton (1992) include:

a) a long term (typically 25 years) during which tenant normally binds himself, to fully repair, maintain and insure the premises (FRI);
b) no third party approval is required for rent increases;
c) the requirement of original tenant liability - meaning that the original tenant remains liable under the lease for the rent for the whole term of the lease, even if the latter has been assigned to someone else; and
d) the inclusion of a rent review clause, typically prescribed to occur every five years, not geared to an index and stipulating that the movement of rental payments after review, is upwards only.

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[5] Burton John; *Retail Rents Fair and Free Market* 1992 p.42
[6] For a general overview of the economic analysis of law and legal institutions, see C Veljanovski, *The Economic Analysis of Law: An Introduction Text,* London Institute of Economic Affairs, Hobart Paper 114, 1990.
[7] A Alchian and W R Allen, *Exchange and Production Theory in Use,* Belmont, California: Wadsworth, 1964, pp157-161.

These features have unintended effects on the incentives of landlords and tenants as regards to property improvements. The gross rental system of other countries encourages landlords to improve, or upgrade, their property periodically in order to increase real rental value and reduce unnecessary costs. The US system, by comparison, does not provide the same incentives for either the landlord or the tenant to invest in such improvements. Tenants, under the UK system, for example, are required by the FRI clause(s) to repair, maintain and insure the property and no more.

In the US most commercial leases are on a term of five years. In France most are on term of nine years and in Germany such leases run variously for five, ten or twenty years. In Portugal commercial lease are for one-year period, automatically renewed unless terminated by the tenant or the landlord. In Holland short term leases do exist but there is a "retail lease" for shops and hotel i.e. business that are open to public are generally for a term of five years.

2.2 Third party approval

Under English law, third party approval is not an essential ingredient of an upward adjustment of a business rent, as it is in some other Western countries. If, however, a rent review is disputed, and cannot be settled by negotiation, then in England a third party usually does become involved - either an 'arbitrator' or 'expert'.

This situation contrasts, for example, with that in Germany where certain automatic rent adjustment clauses can, in fact, only be made operational after positive approval has been sought and gained from the chief administration department of the state central bank branch in that locality or state. (The initial rent payment is, however, usually negotiated freely in the open market).

The constraint of third party approval is even more binding in France. There, a landlord is entitled by statute law (not by contractual agreement, as in the UK) to have rent reviewed every three years. Under a decree of 30th September 1953, however, the resultant rent increase may not exceed the percentage increase in the official index of construction costs. Any exception to this general rule requires third party approval. Specifically, the landlord must be able to prove to a court any claim that the open market value of the premises has increased by more than 10% since the last rent revision, due to market forces in the area where the specific property is located.

The involvement of the courts in the assessment of rent increases is also a central feature of the situation in Holland. The rental conditions attaching to the so-called retail lease are initially freely negotiated on the open market, and it is specified that subsequent reviews of rent are related to the movement of an official index of prices. Dutch real estate law, however, also permits either the landlord or the tenant to apply to the court system for a rent revaluation once in every five-year period, if it is maintained that the rent is inconsistent with the free market level. In assessing the request, the court must follow criteria set out by law.

2.3 Rent Review

The standard requirements in English leases are that:

a) they require a rent review to be undertaken every five years;
b) they are typically not geared to an index (as in some other European countries) and specify that the rent may be reviewed upwards only (never down, whatever the condition of the rental market at the time of review or subsequently); and
c) The new rent payable after the review is stipulated as that which the landlord might reasonably expect to obtain on the open market if he were to re-let the premises on the rent review date.

It is the 'upwards only' provision of most rent review clauses which, however, constitutes the most severe deficiency from the market perspective. This offers protection from inflation, but by definition makes no allowance for downward revision of rents in cases of severe market depression in the leasing market.

Fiji's situation
Features of Leases in Fiji

The features are peculiar to the rental market of Suva CBD.

1) Leasing structure are usually short term in nature of 3 + 3 years leases are common. Several properties have 15 + years lease with 5-year review to market. However there are tenants who have long term lease from 1-25 years lease.[8]

2) Third party approval is required for rent increases from 73 to 89. From 89 to 96 no third party approval was required as rent control was removed from Counter Inflation Act. However this was brought back in 1996 till today.

3) Inclusion of rent review clause during the period when rent control was removed whilst other uses are not. This is a reflection of demand.

Third Party Approval
PIB plays a significant role in the rental market of the CBD in Suva City. They will only allow for increases in rent if the landlord has made investment on his property. Normally 12% of the amount of investment is allowed until 1996 when this was reduced to 10%. The effect of this will be to encourage landlords to refurbish their buildings which may be at the cost of maintenance. On the other hand transparency in the process is ensured when a third party player is in place.

Rent Review
This is not a significant as in markets where there is no third party control because no matter what the landlord and tenants agree the requirements of PIB will take precedence over the agreement.

[8] Spike Boydell; *Suva CBD Office Market Survey*; USP Institute of Valuers Seminar 2000.

2.4 Rent Control

Rent control measures can be classified into *"Restrictive Rent Control, Moderate Rent* Control and *Strong Rent Control"*. Restrictive Rent Control consists of legal caps or rents without consideration for a landlord's rate of return. Restrictive rent control in the US was most common prior to the early 1970's. Implemented during World War II, most cities (except New York) repealed rent control after the war. [9]

"Moderate Rent Control" in contrast, typically:

1. allows increases in rent to cover landlords operating expenses;
2. exempts new construction;
3. requires *"sufficient maintenance as a condition"* for rent increases; and
4. allows major capital expenses to be *"passed through"* on ammortised schedules.

"The intent is to allow rent increases to "represent what would naturally occur in a competitive rental housing market"[10].

Countries with moderate rent control typically regulates rent increases annually based on the consumer price index (CPI). A Board created under a specific legislation usually administers moderate rent control.

"Strong rent control", allows rent increases considerably lower than CPI and rent control members are made up of elected members.

Some of the arguments against rent control include:

i) The existence of a land market, which in itself is a fair, and equitable resource allocator is enough to administer rent control. Classical economists argued that a market is the best allocator of resources and in this instance there is no need to intervene in the market allocative process. The market itself will address the issue that rent control legislation wants to address.

ii) Landowners, financiers and land developers are discouraged from building new buildings. Not only are quantity but also quality, reduced and there is also a general decrease in the supply. Because landlords are not getting a fair return under the rent control regimes, the landlords are forced to become owner/occupier of their own building.

iii) Rent control greatly distorts market prices. Moreover, it is getting difficult to administer because the method used to base rent on is not fair and equitable. Most important of all, rent control is proving difficult to undo once it is enacted and it has outlived its temporary status.

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[9] Gilderbloom I J; *Rent Control Reconsidered: The Impact of Moderate Rent Control on 60 New Jersey Cities over a 20 Year Period*: Web
[10] ibid.

3.0 History of Rent Control in Fiji

Rent Control in Fiji began when the Counter Inflation Act 1973 was enacted. Amongst other items rent control was brought under the jurisdiction of this Act. Up till 11 August 1989, the Prices and Incomes Board, through powers vested in it under the Counter-Inflation Act, controlled rents on commercial (and industrial) land and premises. This statutory control was lifted by the then Minister Finance on 11 August 1989 as part of the Governments' deregulation policy. The government's aim in removing all control on commercial and industrial rents was to allow the market forces to determine the level of commercial and industrial rents and also to stimulate the construction industry, which had become stagnant since the military coup of 1987.

However as shown in Table 1, since 1989 it was apparent that there had been massive rent hikes in the main commercial centres around Fiji. In Suva's CBD rents have jumped up by as much as 200 - 300% for some properties. But overall for the premises surveyed in the Suva area, the average increase over the last 5 years (1996-2000) has been approximately 8.5%.

Table 1
Average Rent Per Month for Space in the CBD

1989	1996	% Increase
$670	$1800	169%
$693	$2034	194%
$650	$2905	34.7%
$450	$1550	244%
$1070	$3280	207%
$300	$873	191%
$480	$1200	150%
$984	$2244	128%
$729	$1795	146%
$610	$2475	305%
$700	$3510	401%

Source: Prices and Incomes Board

The tenant population of Suva's CBD petitioned Prices & Incomes Board, and the Minister concerned to curb rent increases by re-instating the control on rental increases (see Appendix I).

Following numerous complaints received from tenants of commercial premises about exorbitant increases of rentals since the lifting of rent control in 1989, the Prices and Incomes Board carried out a comprehensive survey of commercial rents in the main urban centers. In this instance the tenants mobilised their resources in order to address the social injustice in the form of huge increases of rents by the landlords. They did this by meeting with officials, writing letters and article in the newspaper, appeared on TV and radio shows to generate publicity and pressure so that the government could remove rent control. They were successful because they also influenced the media to put their concern on the public agenda and made allies with others to support them. In the end the Government heard the tenants group and decided to bring back rent control in 1996.

3.1 Role of Prices & Incomes Board (PIB)

It is important to note that the PIB only will consider rent review applications. In contrast, new lettings are not considered by PIB. Therefore any landlord who negotiates directly with his tenants will not be affected by PIB. It is considered that a lot of rental negotiations are agreed in this manner, thus leaving PIB out. Only those seeking PIB approval will be considered under their criteria. . Those who do not seek PIB approval for their rent increase face the prospect of being prosecuted under the Counter Inflation Act, 1973. The role played by PIB is similar to the third party approval expounded by Barton (1992). Similar situations exists in France, Germany and Holland. The general assumption is that with the presence of a third party, the landlord cannot increase the rent at whim. The increase is fair to the tenant as well as to the landlord. However, on the other hand, the landlord thinks that any increase under this sort of control regime is not a true reflection of the market rent. This where the difference lies in this rent debate. What really is the market rent? Who should receive it? Adam Smith argues that part of this market rent is due to the tenant. Henry George refers to this as the "unearned increment."

Table 2
Application for Commercial Rent Increase Approved by PIB for Fiji and Suva City

	Fiji			Suva City		
Year	**Number**	**Approved**	**Refused**	**Number**	**Approved**	**Refused**
1974	---	---	---	15	15	---
1975	---	---	---	30	29	1
1976	372	274	33	99	77	2
1977	383	257	64	25	25	---
1978	330	98	108	23	23	---
1979	527	320	61	141	128	13
1980	622	435	36	141	133	8
1981	630	456	68	101	92	9
1982	649	535	13	251	227	24
1983	852	631	49	227	229	8
1984	720	570	55	157	144	13
1985	440	392	39	1	1	---
1986	109	91	3	74	73	1
1987	512	304	24	11	11	---
1988	---	---	---	68	66	2
1989	---	---	---	40	10	30
1996	80	59	2	22	22	---
1997	252	14	38	45	26	19
1998	---	---	---	49	49	---
1999	---	---	---	78	72	6
2000	---	---	---	61	55	6

Source: Prices and Income Board Annual Reports from 1976 to 1997 & Register 2000

As identified in Table 2, a greater proportion of the number of applications fall within the City of Suva. More applications applying for rental increase were granted the increase. As indicated earlier, the condition under which PIB grants increases is based on the owners investment, occasionally in order for owners of property to realise increase in market rentals they have to carry out substantial refurbishment. This could be at the cost of maintenance. The role PIB is playing in this process of rent control could be described as practicing " Moderate Rent Control " measures because they:

1. Increases in rent to cover landlord-operating expenses, which includes ground rent, rates and insurance;
2. exempt new construction; and
3. Allow major capital expenses as a basis for rental increases.

The process of seeking rental increase includes:

An application by the landlord to PIB seeking an increase.

After receiving the application with the forms appropriately filled in, PIB will enter this into the register. Then it will make its own investigation and consultation. One of the important parties in this consultation process is the Valuation Section of the Ministry of Lands whose main function in the process is to advise PIB on the appropriate market rental. It is important to note that in the application form the name of the landlord, tenants, location, present rent, required rent, letting agreement, legal description of property, details of cost of maintenance and repairs carried out during the past three years, insurance paid, land rent paid are required information to be furnished by the applicants.

After its investigation and consultation then PIB will take a decision.

The main method used by PIB on whether or not to grant an increase is to determine the amount of investment the owner undertakes on his building. If the landlord has not put any investment then it is unlikely that the landlord be granted an increase. On the other hand if he/she has done some investment then they will get an increase. The amount of increase is usually 12% the amount of investment, plus city rate, plus ground rent, plus insurance. This was later reduced to 10% from 1997 onwards.

As noted, the method does not recognise any rental increase due to location, demand etc. It purely depends on the owner's investment. Ricardo, Henry George and Von Thünen recognise that rent arises due to location, demand, accessibility etc. This is totally disregarded in the method used by PIB. On further analysis, the method used by PIB tends to be tenant orientated. It encourages landlord to do capital works like refurbishment at the cost of regular maintenance. This put the landlord in a disadvantageous position as far as his investment is concerned.

4.0 Methodology

The investigation examines the effects of rent control in the commercial sector.

It looks at three different periods i.e.

Period 1 1973 to 1988 when rent control was enforced under Counter Inflation Act
Period 2 1989 to 1996 when rent control was uplifted
Period 3 1996 up to date when rent control was brought back.

The main method used in investigating this issue was to survey the Central Business District of Suva City. A form was devised so that the two research assistants engaged in the project could identify new, extension, refurbishment, maintenance, rentals, floor areas and their values for each parcel of land in the study area. The development applications register from the Director of Town and Country Planning as well from Suva City Council was investigated. Both the proposal as well as completed developments were taken into consideration. Each individual land parcel was taken into account in each development phase. Where possible both floor areas and value were also noted. Also from the Lands Department transactions, unimproved capital values and rent increase applications was noted for each land parcel. In addition records with the Prices and Incomes Board were also checked against each individual land parcel. All applications for rent increase were also noted. It should be noted that the collection of this information is an ongoing exercise and is yet finalised. However what has been collected so far constitutes the bulk of the data. On the data itself, the number of development applications indicate the intentions of owners of parcel of land to carry out new developments, extensions, refurbishments and maintenance work. Ideally the total floor area and value of these works should have been noted. Because of the weaknesses in the manner of checking applications, non completion of application forms and manual recording of all applications give rise to mistakes. This has resulted in a partial recording at this stage of this important evidence. This is also true of evidence on transactions, rent and unimproved value obtained from the Chief Valuers Office. While records on unimproved capital are updated regularly, fully computerised records on transactions are not systematically kept. The PIB fully assisted in giving access to their records; at the same time they were adamant that they would not divulge their formula on rent increases. This has to be obtained from a third party. To conclude there is still work to be done in the survey stage as well as verification of data. However the data presented in this paper should form the basis of a conclusive statement.

5.0 Analysis of Data - Case Study of Suva CBD

As indicated on Table 3 below there are a total of 379 properties in the study area. Of these 109 fall in commercial A and 270 in commercial B. One major difference in these two zonings is the plot ratio. In commercial A zone the plot ratio is 5:1 and in commercial B zone it is 3.5:1. The impact of this plot ratio on rent is that an owner of property in a commercial A zone can supply greater space onto the market by 1.5 times an owner in a commercial B zone. By implication his building can also realise a lot more rent if the site is fully developed. All of these properties are located in the defined area of the Central Business District. The supply of commercial zoned properties as indicated in Table 3 shows a very stagnant pace.

This brings me to my next question? Why is this situation allowed to go on? What are the implications? If there is no further supply of commercial land between the period of 1984 to 1999 then it therefore follows that there will be a lot of demand on the existing space and this tends to push up rents. This also raises the question on the role of Suva City Council as a planning authority. Is this a true reflection of the market or are they just slow in responding to demand? The increase in UCV over the years is a reflection of demand. This demand unfortunately is not matched by the supply in the number of properties on the market during all these years. This situation encourages greater increase in rents. In economic terms the solution to this is to encourage further supply of land and buildings. It is the collective responsibility of landlords, government and planning authorities to ensure that supply kept pace with demand.

Table 3
Suva City Revaluation 1984, 1993 & 1999

Year	Zoning	No of Properties	UCV	% Increase
1999	A	109	69078	29.78
	B	270	72295	35.69
1993	A	109	53229	17.09
	B	270	55490	25.64
1984	A	109	44131	34.85
	B	270	41264	28.85

Source: Valuation Department

Table 4 shows that out of the total development applications the majority in terms of value was received during the no rent control period. This does not mean that rent control discourages development however what it means that it is only one of the reasons and it is possible that Government Policy of encouraging development could also have a contributing factor. Refurbishments constitute the second largest amount in terms of dollar value. This confirms that landlords, because of price control policy, will carry out refurbishments to capture part of market rental increase. There are other landlords who on mutual agreement with tenant agree on rental increase without seeking the consent of PIB. Maintenance constitutes the smallest amount in dollar value of money spent in all these activities. A possible explanation to this trend is that landlords are not interested in maintenance works and so PIB do not recognise it for the purpose of rental increase.

Table 4

	Development Applications Considered				Total
	New	**Extension**	**Refurbishment**	**Maintenance**	
Period 1 1973-1989	14,234,500	468,724	1,961,300	70,000	16,664,504
Period 2 1989-1996	30,878,396	7,350,879	11,234,775	---	49,454,030
Period 3 1996-2000	16,666,465	4,761,380	8,434,296	87,500	29,942,141

Source: Director of Town &Country Planning Records 2000
Suva City Council Records 2000

Table 5 below indicates the number of building permits issued and their value in the City of Suva as well as Fiji. The table indicates that during the 3 years a sizeable proportion of building permits was issued in the City of Suva. This is about 28% of the total permits issued in Fiji. However all this was happening in a rent control period. Unfortunately, because of the unavailability of data, the figure cannot be compared to a no rent control period. In terms of value, the Suva City Council figure is approximately 24% of the total value for Fiji. This is an indication of the level of demand, which results in these building activities. It has implication on the values as well as rents on properties in the CBD.

Table 5
Building Permits Issued

Year	Suva City		Fiji	
	Number	Value ($'000)	Number	Value ($'000)
1997	15	15,022	193	41,159
1998	23	9,516	160	107,789
1999	31	20,324	154	56,573

Source: Bureau of Statistics

Where Table 5 is an indication of intention only, Table 6 indicates the completion of building works. As can be seen from the table the number of building works completed in Suva City constitutes about 14% of the total. In value terms is about 42% of the total and this shows that there was significant building activity as a result of demand. This has an implication on rents generated as a result of this demand.

Table 6
Completion Certificates Issued

Year	Suva City		Fiji	
	Number	Value ($'000)	Number	Value ($'000)
1997	15	19,065	85	34,137
1998	9	12,774	68	23,482
1999	7	6,724	65	32,929

Source: Bureau of Statistics

Features of Leases in Fiji
The features are peculiar to the rental market of Suva CBD.

4) Leasing structure are usually short term in nature of 3 + 3 years leases are common. Several properties have 15 + years lease with 5-year review to market. However there are tenants who have long term lease from 1-25 years lease.[11]

5) Third party approval is required for rent increases from 73 to 88. From 88 to 96 no third party approval was required as rent control was removed from Counter Inflation Act. However this was brought back in 1996 till today.

6) Inclusion of rent review clause during the period when rent control was removed whilst other uses are not. This is a reflection of demand.

Rent Control
See Appendix II which shows the average rate per square meter of rent for various uses such as office, bank, retail and others. The two main uses which shows a high

[11] Spike Boydell; *Suva CBD Office Market Survey*; USP Institute of Valuers Seminar 2000.

growth rate of rent per square meter are the retail followed by bank. The two uses fetches a high rental value which reflects demand in the two uses. Office use shows a steady growth over the years. The highest growth rate was recorded in 1999 with the rent of $164.85 per square meter. Overall the CBD shows increase over the years of rate of rents per square meter. This is a reflection of demand.

Uses such as office spaces and banks are located on centrally located sites at the heart of the city. Retail spaces tend to be spread out within the CBD. Office uses sites are developed to their full plot ratio, which shows the high demand prevailing in this sector. The high rental figure realised in this sector also confirms this.

Third Party Approval

All rental increases are required to be approved by PIB. However there possibility that some rental agreements are made without approval of PIB.

6.0 Conclusion

Since the inclusion of the commercial sector in the rent debate, a new dimension has been brought in and debated intensively. This has touched on some of the old areas in the practice. Areas such as the basis of rent review clause and the term of a lease and other associated conditions. Also questions have been raised on issue of the need for third party approval to ensure transparency in the process.

The organisations of landlords and tenants are also an important aspect in the debate. Whoever is better organised will influence the way rent control, as a public policy will go.

From the survey data there is some general indication that there is need in transperecy in the system by way of third party approval. There is a stagnant supply of land in the market. This could have serious implications on rents and rent levels. Despite Rent Control, Suva City Council still accounts for substantial building activity in both building permits issued and completion certificates issued. PIB is method of rental increase could be classified as moderate rent control. It seems that landlords are only interested to refurbish so that they can capture increase in market rents.

Whilst further research is needed to provide a constructive result, this paper represents the first formal investigation of the topic in Fiji.

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APPENDIX I

APPENDIX II

Rental for various uses in the CBD

Year	Use	Average Rate/m^2	% Change
1973	Office	$45.21	
	Bank	$48.00	
	Retail	$31.00\	
	Others	$37.00	
1974	Office	$28.52	58%
	Bank		
	Retail		
	Others	$23.41	58%
1975	Office	$36.60	22.08%
	Bank	$161.46	70%
	Retail	$107.64	71.2%
	Others	$21.53	
1977	Office	$53.82	32%
	Bank		
	Retail	$139.93	
	Others		23.08%
1978	Office		
	Bank		
	Retail	$123.46	13.23%
	Others		
1979	Office		
	Bank		
	Retail	$170.34	27.52%
	Others		
1980	Office	$129.17	
	Bank		
	Retail		
	Others		
1983	Office		
	Bank		
	Retail	$123.36	
	Others		
1986	Office		
	Bank		
	Retail	$139.93	11.84%
	Others	$50.00	
1987	Office		
	Bank		
	Retail	$139.93	
	Others		
1988	Office		
	Bank		
	Retail	$182.99	23.53%
	Others		
1996	Office	$136.06	
	Bank		
	Retail		
	Others		
1997	Office	$139.93	2.77%
	Bank		
	Retail		
	Others		
1998	Office	$118.40	18.18%
	Bank		
	Retail		
	Others		
1999	Office	$164.81	28.16%
	Bank	$269.00	
	Retail	$312.00	
	Others		