



The Biggest Global Real Estate Boom of All Time.Thanks AI!

by Joe Average.
www.lifetoday.com.au

June 2005.

Even to this average Joe, it is obvious a massive real estate bubble (arguably the greatest ever) has spread relentlessly around the globe.

This global property bubble comes courtesy of “**easy money AI**” Greenspan, his sidekick “**printing press Ben**” Bernanke, and their mentor “**helicopter drop money**” Milton Friedman.

Despite warning of “**irrational exuberance**” as the DJIA hit 6,500 in December 1996, “Easy AI” allowed the equity bubble to grow and push the Dow to 11,723 on January 14th 2000 where upon the **stock market collapsed**. Between March 2000 and October 2002 the NASDAQ crashed 78%, the S&P lost 50%, and the DJIA lost 38%. The Fed, determined to avoid a looming recession, reacted by **slashing interest rates 12 times** from 6.5% to a fifty-year low of 1.25%. Fearing the spectre of deflation, AI and Ben then cranked up the printing presses, and flung open the money supply spigots to a flood of easy credit. Low (negative real) interest rates in the U.S. soon sent tidal waves of money sloshing around the world in search of higher returns.

Average Joes in the U.K., Australia, Ireland, Holland and Spain were amongst the first to suddenly find themselves the target of mortgage brokers and banks offering seemingly endless easy credit at historically low interest rates. Prior financial deregulation meant age-old rules of conservative lending were swept aside as the public turned away from out-of-favour stocks and rushed head long into property. Media saturation saw the average Joe bombarded by reports of rapidly escalating real estate prices in one region after another. Interest turned to excitement, excitement turned to urgency, urgency turned to frenzy. **The next boom had begun!**

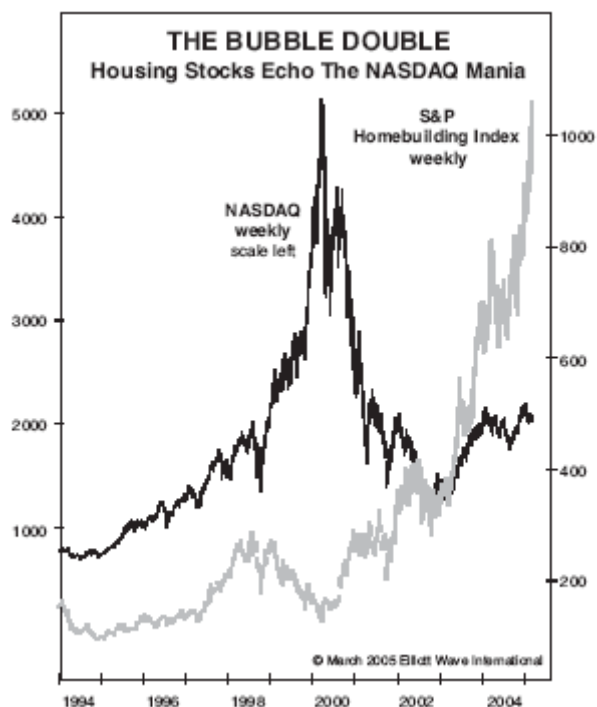
Houses were snapped up immediately a “For Sale” sign went up. Buyers frantically outbid each other at auctions, often pushing prices well over the expected price. Reality T.V. spawned a proliferation of shows like “Hot Property”, “Renovation Rescue”, “Location Location Location”. Developments sold out “off the plan” on minimal money down. Bookstores found extra space on shelves for titles like “How To Buy 130 Houses In 3 Years”. Realty “gurus” criss-crossed the country holding seminars and preaching the new gospel of “Real Estate Rules” to rapturous crowds. Property values soared up to 35% per annum and more, often doubling or trebling over several years. A few analysts were now warning that this real estate boom looked set to rival the tech boom of the late 1990’s. **Hello new bubble.**

Thanks to globalisation economies around the world were now synchronised as never before. New technologies like the Internet also allowed rapid transmission of news and information between nations, be it share market moves or escalating property prices.

The real estate mania soon spread to all points of the globe.... from China to Croatia.... from Russia to New Zealand. A recent **Wall Street Journal** reported how house prices jumped 48% in BULGARIA the past year alone, while property prices have risen dramatically the past three years in South Africa (95%), Shanghai (68%), and Spain (63%). **The United States property market soon ignited with some regions turning white-hot!**

The chickens had come home to roost!

The following graph shows how the magnitude of the current property boom compares with the NASDAQ bubble that burst five years ago. This time, however, analysts at the International Monetary Fund estimate a similar bust in real estate would be more than **twice as damaging** to the economy.



Graph courtesy of Robert Prechter's Elliot Wave International
www.elliottwave.com

The U.K. and Australia were among the first to experience hyperinflation of property values, and now look set to lead the way down.

Jeremy Grantham, chairman of investment firm Grantham Mayo van Otterloo is intently watching the Australian residential real estate market, which he believes could be "**the canary in the coalmine**" and be the harbinger of an eventual world wide downturn. Grantham's analysts have looked back into the past and studied previous financial bubbles (they've identified some 27) and have concluded that **all previous bubbles have burst and reverted back to mean...with no exceptions**. In some cases the correction has overshot and dipped well below the mean before ultimately recovering.

Grantham believes that the U.K. real estate market is presently some 60% above mean, and the Australian market around 40% above trend. Some analysts in Australia argue that residential property prices peaked around late 2003 to early 2004 and have plateaued or eased back since.

Meanwhile, United States real estate has taken off with a vengeance. In Time magazine (June 13 2005) James Poniewozik describes how soaring home prices are "fuelling a national obsession with real estate". He notes that prices have risen some 135% in Los Angeles, 128% in Miami, 117% in Las Vegas, and 108% in Washington.

Young **first homebuyers** around the world have seen their dream of owning a home turn into a **nightmare**. Poniewozik empathizes for "the average American renter, paging longingly through listings of ever more unaffordable real estate, praying for a housing-market bust to wipe the smug smile off the face of his brother-in-law, whose house has doubled in value".

Great work AI!

After failing to pre-empt the mother of all stock market booms, and seeing a severe recession looming, “easy money Al” Greenspan took the gamble of his life and the lives of millions of people around the globe. A gamble that will ultimately decide his place in the history books. Will this soon-to-retire Chairman of the Fed go down in history as a brilliant tactician who managed to tame the tempestuous business cycles that seem part of “laissez faire” economics, or as **a misguided economist whose grand experiment failed?**

Many analysts, like Eric Belsky (Joint Center for Housing Studies at Harvard University), believe that the “wealth effect” produced by the real estate boom is largely responsible for keeping the U.S. (and the rest of the world) out of recession these past two years thanks to consumer spending. Thanking Heaven, the average Joe now tracks his property’s value almost daily, and then taps into this newfound wealth through refinancing and home equity loans, treating his home like an ATM machine. Heaven forbid the consumer stop rushing to buy bigger plasma screens, SUV’s, luxury items, McMansions and more properties to “flip” over.

Uncle Sam Needs You!

*P.S. Find following some articles tracking the recent Australian property boom. They may be of interest.
U.S. property investors might want to keep an eye on Grantham’s canary.

Cheers, Joe Average.

The Australian, August 6 2003.

RENTERS WIN AS GLUT HURTS INVESTORS.

RENTS are falling, creating a potential double-whammy for property investors already uneasy about the home price bubble.

Maurice Dunlevy.

Gold Coast Bulletin, August 16 2003.

OUR BEST BOOM SINCE 1960.

You are 25% richer. Going through the roof.

Mayor Gary Baidon said he had never seen such a boom in property prices. “It’s unprecedented, I’ve never seen it this lively...and I’ve been here since 1960”.

Peter Gleeson.

The Sunday Mail, August 31 2003.

THROUGH THE ROOF!

Queensland’s property boom has generated record price rises of up to 66% in the past year....The surge in house values, described as the most spectacular in the state’s history, is being felt in most areas.

Brian Thomas.

The Australian Financial Review, 13 May 2004.

GOING, GOING, GONE: SLUMP’S HUMAN TOLL.

But with sales volumes down 36 per cent in the March quarter in Sydney and the figure mirrored in some other states, real-estate agents are feeling nervous, but they hate to admit it.... “We could easily see a decline in the number of real-estate agents by between 10 and 12 per cent over the next 12 months...”

Fiona Tyndall.

BRW (BUSINESS REVIEW WEEKLY), May 13-19 2004.

Going, going... The property downturn starts to turn ugly.

CRASH CITY. Property prices are dropping, auctions are failing and buyers are suing to get out of contracts. The property party is over.

The property bubble has burst. House and unit prices in particular are dropping in several capital cities...Prices have fallen more than 10% in Sydney and almost 15% in Melbourne so far this year, according to the Reserve Bank of Australia.

John Stensholt.

The Australian Financial Review, 25 May 2004.

HOUSE OF CARDS IN DANGER OF TOPPLING.

Australia's house price bubble finally looks to be deflating...the median price of houses sold fell 10.5 per cent in Sydney in the March quarter.

David Bassanese.

The Australian Financial Review, 17 February 2005.

Agents batten down as hard times hit.

"Last year was a pretty tough year,"...in some cases turnover for (real estate) agents was down by 40 to 50 per cent.

Fiona Tyndall.

The Australian Financial Review, 3 March 2005.

Gearing pushes housing speculators close to brink.

Anna and Dariuz Gaszewski have been trying to sell their house...in Sydney for a year. They've spent more than \$40,000 on marketing, but that's the least of their problems.

The Gaszewskis owe about \$9.5 million in mortgages and face more than \$480,000 a year in repayments....four years ago they became caught up in the property frenzy after attending courses run by property spruiker. Hoping to secure their retirement they kept adding to their portfolio until they had 13 investment houses.

...(due to) the rise in interest rates... "We will be forced to stop paying...I'm not sure what sort of trouble we will be in....we have no money at all."

Tina Perinotto.

The Australian Financial review, 22 -25 April 2005.

Crisis of confidence hits luxury market.

Rising interest rates are capping prices, but \$1 million may soon buy what it used to... writes Fiona Tyndall.

...residential valuer Andrew Tunbridge called the trend alarming...he had expected declines of between 10 to 20 per cent, particularly for generic apartments or less attractive locations.

"But for a high-quality apartment to show a 33 per cent fall compared to what was paid in 2003...I would not have anticipated it. It is probably the biggest crack in the market I have seen."

...(One real estate agent said) "We are trying desperately to keep the prices up but they have definitely dropped"



***Joe says: Imagine that... "\$1 million may soon buy what it used to"!
That just might unsettle some members of the "Point Club"... those hyped-up real estate types who glibly talk about house prices in numbers like...one point five, two point six, five point nine... (you get the drift).***

I don't know about you, but I find "mills" (millions) hard to come by! Especially if you have to work for it rather than just go out and borrow it.

The Sun-Herald, March 27 2005.

Bargains galore as house prices plunge.

Sydney house hunters looking for quality properties have never been so spoilt for choice. A report by Home Price Guide exclusively for The Sun-Herald reveals the price of hundreds of properties across Sydney on sale since before September have dropped by as much as 40 per cent.

A list of more than 400 of Sydney's bargain homes (best buys) is available in the print edition.

Hannah Edwards.

The Financial Review, 9 June 2005.

Dirt cheap: developers hit after land rush.

When ...Lensworth Group auctioned off 54 new home lots on Queensland's Sunshine Coast two years ago, 500 registered buyers turned up for the ballot.

It was the height of the south-east Queensland housing boom and projects were overrun with would be buyers.

Frenzied prospective purchasers captured by so-called "subdivision rage" even resorted to sleepovers in carparks before major land releases, and developers complained of security headaches when the aggrieved losing bidders had to return home with money burning holes in their pocket.

Today, it's a very different type of pain that is worrying developers.

Land sales have plummeted by 50 per cent since the 2003 peak in south-east Queensland, and land owners have resorted to discounting.

It is a pattern being replicated across the country as developers desperately try to generate sales at subdivisions, which the property downturn has temporarily transformed into ghost towns.

Fiona Tyndall and Kathy Mac Dermott.



Photo courtesy of www.atourhands.com

Disclaimer: This newsletter is written for educational purposes only. It should not be construed as advice to buy, hold or sell any financial instrument whatsoever. The author is merely expressing his own personal opinion and will not assume any responsibility whatsoever for the actions of the reader. Always consult a licensed investment professional before making any investment decision.

Comments? → www.lifetoday.com.au