

Sydney talk Nov 12 2006

slide: plan for today

slide: Draw attention to series of dates, understand this series of numbers and you will see how the world works:

2001/2 1991 1982 1974

1961 (1955) 1949 1937 1932

1921 (1913) 1907 1897 1893

1884 1873 1866 1857

1847 1836/7 1825 1819

roughly one per decade,
those in red about 20 years apart
those underlined, (group to do) say 50 to 60 years apart

Real estate

slide: Real estate, the US movement inwards

Just a reminder, as the Americans went further and further inland, they discovered the land got better and better

Now to cut a long history short, eventually more and more of the US was settled, the twelve or so eastern seaboard states got together after Independence and elected a federal government, with the states ceding their control of land to that federal body, which began a process of selling title to the land to all who would come and live there. That was the practice that interested me, because after 1800 this process became measurable, as I am about to show you

slide: land sales to 1819,

explain how the land was sold off by the government, \$1.25 per acre regardless of situation or quality, on extended credit terms,
stake out the land, seek title at the nearest title office, take in your freshly printed bank notes for the deposit, and start farming

The federal government facilitated large-scale speculation in public lands by opening up for sale large tracts in the Southwest and Northwest, and granting liberal credit terms to purchases. Public land sales, which had averaged \$2 million to \$4 million per annum in 1815 and 1816, rose to a peak of \$13.6 million in 1818. Speculation in urban and rural lands and real estate, using bank credit, was a common phenomenon which sharply raised property values...

slide: land sales to 1837

At the heart of national prosperity was a land boom developing in the West, financed by the banks. The farmer, the manufacturer, and the merchant, instead of paying their debts, bought land and speculated in land. The conservative eastern capitalist, the reckless easy-going southern planter, and the wary, doubtful western farmer joined hands in their efforts to purchase land. Villages and cities sprang up overnight in every direction, sites increased at the rate of 200 to 300 per cent per year, fortunes were made and lost in a few moments. All who had money or credit plunged headlong into the stream. Companies were formed, and through the generosity of the banks the mad rush to destruction was facilitated. Many of the states had slapdash banking laws, and many of these new banks were badly - if not fraudulently - managed, under capitalized, under-regulated and overly bullish about the future.

The land auctions were attended by veritable mobs. They were scenes of great excitement. Premiums were paid for choice locations near the auctioneers, and bribery and corruption in the process of receiving and registering bids were common.

From a Wisconsin newspaper came the estimate that in the newer sections of the country, real estate investment for the ten years between 1825 and 1835, paid a 20 to 30 per cent return per annum... Men left their warehouses, counting-rooms and stores and rushed off to buy townships, village lots or raw land. In Milwaukee, it was being reported that land buyers went to bed at night hugging themselves with delight over the prospect that the succeeding morning would double their wealth.

slide: land sales to 1857

sales peaked in 1854,

note the rapid rise in speculation with very low interest rates

Quote of historians writing of 1857: "Nearly the whole West swarms with speculators... who neither intend to cultivate the soil nor settle there, but who expect to realize fortunes without labour. Land speculation, observed many a newspaper editor, had become a mania. 'Merchants have shut up their shops, lawyers have left the bar, farmers have laid down the shovel and the hoe, manufacturers have abandoned their business to turn land agents and real estate dealers.'

How much has changed ? 1857

Read the summary from Kindleberger:

Gold discoveries in California 1849 and in Australia 1851 vastly increase the credit / money base of the US and some parts of Europe, especially Britain, feeding the existing rail road and banking booms, the banks in particular lending vast sums to further finance trade and industry. Speculation runs rampant; The collapse was made worse following the ending of the Crimean war and subsequent collapse of wheat prices. War financing had fed the huge expansion of credit in the first place. At the peak, UK banks had lifted interest rates to 12-15%.

Try this for 2010:

The huge growth in new lenders and mortgage originators vastly increased the credit/money base of the country, the banks in particular lending vast sums to further finance industry takeovers, trading in commodities and the buying of two, three or four houses. Speculation increases. The collapse was made worse following the reduction of hostilities in the middle east and Iraq and subsequent collapse of copper, gold and commodity prices in general. War financing had fed the huge expansion of credit in the first place. At the peak, US banks had lifted interest rates to 7 - 8%.

1873

slide: real estate speculation in the 1873 peak

Land sales peaked in 1869.

rail index versus interest rates

Railroad stocks peaked, the month *before* interest rates bottomed in New York, at 4.85%, which was in June 1871. (The stock market correctly discounting lower earnings in future years, pricing in the information before hand.)

as interest rates went up, land speculation went down, so too stock prices.

1893

slide real estate spec into 1893 downturn

Land sales peaked in 1888, well before the months of panic as usual, with sales falling markedly after 1890.

slide: 1893 continued

Interest rates on New York commercial paper peaked in July and August of 1893, in line with the final crisis of that state at the end of the panic.

Slide: sooners

Slide: real estate into 1932

again, a real estate speculation peak just over 18 years after the last one.

Florida:

Developer Dave Davis dredged two mud islands in Tampa bay and built Davis islands, complete with yacht clubs, hotels, tennis courts and more. Barron Collier, who had made a fortune from streetcar advertising, put together 1.3 million acres of the state after visiting Florida in 1911, then in the early 1920's proceeded to build the cities of Naples and Marco Island into winter resorts that became wildly popular.

A chap named Carl Fisher built Miami Beach, putting his substantial fortune from the manufacture of automobile headlamps into the development. Locals literally gasped as Fisher proceeded to fill hundreds of acres of swamp with sand dredged from the bay, top it with thousands of tons of Everglade topsoil and then build hotels, golf courses, yacht clubs and polo grounds.

Fisher started his working life at age 12 selling newspapers on the railway. Sales soared after he started flashing a photo of a naked woman from underneath his jumper. This time, to draw attention to his 1920's Miami Beach development, Fisher brought in a circus elephant, imported a polo team from England, dressed young women in risqué bathing suits, and started taking pictures. Said Fisher: " We'll get the prettiest girls and put them in the goddamndest tightest and shortest bathing suits, and no stockings or swim shoes either. We'll have their pictures taken and send them all over the goddamn country!" Soon, every paper in the country was carrying pictures of suitably clad (or rather un-clad) women on the beach in Florida. All of a sudden, Florida was the place to be.

Fisher's promotions sparked a national hysteria for Florida real estate. Six million people poured

into Florida in three years. When they arrived they found a real estate gold rush in progress. Overflow crowds slept in parks, and pored over Sunday papers with 500 pages of real estate ads. Caravans of buses from the upper mid-west brought thousands of prospects on tours of new developments. Seven thousand five hundred real estate licenses were issued in Miami in 1925. Subdivisions sold out the day they went on the market. One office sold thirty-four million dollars worth of property in a single morning. Prices soared, and speculators rushed in. For \$100 dollars down, anyone could get in on the action, buying and selling land without ever setting foot on it. Southern Florida became the American Riviera: "a place to vacation, a place to be seen, a place to make money."

So many citizens were now pushing Florida real estate that the municipal authorities were having trouble finding staff to carry on essential services; most of the policeman, firemen and other employees had quit to do the same thing, buy and sell land. The Miami authorities resorted to grabbing the sharecroppers from the hills of Georgia and putting them in uniform, despite the fact many, if not all, had never before worn shoes let alone some sort of authoritarian outfit. Law and order was not improved. Towns north of Florida reported a severe slump in the movie business because so many theatre-goers were leaving town to travel South. Warehouse managers even as far away as New York were reporting no space left because of all the furniture they were having to store on account of those who had sold up and travelled south to trade real estate. Said the *Indianapolis Times*: "Literally thousands of people are leaving our state in search of something for nothing in the land of oranges and speculators." (Thomas, page 198.) The Massachusetts Savings Bank Association complained that more than one hundred thousand depositors had taken their money out of the state's banks and headed to Florida to buy land.

Slide: 18 years has a good history, chicago land value

Slide: 18 years has a good history, US building construction

the heavy black line is the Warren and Pearson 120-City-Index of building activity
the dotted line is the value of construction contracts awarded in 37 states, F.W. Dodge Corporation, 1925-45.

A stylized 18 years cycle is added in the background.

Slide: 18 years has a good history, US real estate activity

black line is measuring US real estate activity (indicator died with the death of its inventor, Roy Wenzlick.

A stylized 18 years cycle is added in the background to show what would happen if the cycle as seen then continued...

In years past, the memorable downturns had occurred in an economy without electric light, without telephones or fax machines (or any other fast means of communication for that matter) and in conditions that would seem less than civilized to on-lookers from today's era. What's more, despite the US economy operating either with a central bank, or without one, at a time of inflation or at a time of deflation, under conditions of a government budget surplus or deficit, severe downturns (depressions in fact) had been occurring roughly every eighteen to twenty years.

Current: highlight 2005 Fortune magazine

It is a reasonable proposition to expect history to repeat. This is because the underlying driver of the cycle, bank created credit used to fund the purchase of land price, has not changed.

Canberra history explain above statement.

We can expect the US real estate market to peak shortly, if it has not done so already. After that, 4 years of declining land prices can be expected, into a low around 2010.

The US, as a non-producer of basic commodities, especially oil, can expect substantial economic difficulties into 2010.

Commodities:

slide: long term commodity waves, prices

K wave explanation

emph K wave lows, swing to religion, conservatism at lows, on upswing, ideologies square off

quote re, re-instated

Slide: Gann timing- explain

slide: Gann's 1929 forecast (take book) explain

quote march page 31

page 36 september

october page 37