

BOB HOYE
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Real Estate: The Post-Bubble Bear Market Could Run For Years

A great mania in real estate erupted with the financial bubble and will likely be followed by a lengthy decline. Previous post-bubble contractions have prevailed for some twenty years, with the usual 3 to 4-year business cycle coming and going.

The following chart shows the outstanding rally in the S&P Real Estate Sector peaked in late 2021. The decline has been impressive:



Bear Market for Residential and Agricultural Real Estate

There is a saying “Safe as houses”, which like property itself has been around for a long time. Even the ongoing rise in prices has been on for a few generations. More recently, with the great financial bubble the price advance became both rewarding and reassuring. But the most reckless financial mania in history climaxed early in 2022 and the consequence has been significant declines in stocks, bonds and more recently commodities. Also, there has been a drop in house prices in countries from China to Canada. Since the first bubble in 1720, history shows that residential real estate prices

soar with a financial mania and then decline with the post-bubble contraction, which takes down most asset prices. Including agricultural land.

Indeed, with the South Sea Bubble that completed in 1720, there are legends about a footman making so much money that he bought a coach, team of horses and hired footmen to display his wealth. With the crash, these were quickly disposed and piece of doggerel from the time tells the story.

*"My shares which on Monday I bought
Were worth millions on Tuesday, I thought
So on Wednesday I chose my abode;
In my carriage on Thursday I rode;
To the ball-room on Friday I went;
To the workhouse next day I was sent."*

Vancouver property prices have soared and as any in the city know, Asian buying has been huge and seemingly always there. That's since Hong Kong's lease was surrendered to Beijing in 1997. With the wonderful retreat of Communism, Southern China became prosperous with many wealthy people buying homes in Vancouver to have as a haven in case politics returned to ugly. Many bought as investors and doubtless too many as speculators. The action in Toronto became outstanding.

Vancouver's average price rose to \$1,360,500 on the March report. This was up 3.6% from one month to the next and 21%, year over year. Within this rents for average apartments have soared to costing 50 percent of the average wage. For ages housing costs either owning or renting worked out to around 30 percent of salaries. Clearly uneconomically unsustainable.

A study published in October by the Swiss bank UBS was titled: "Global Real Estate Bubble Index". Out of 25 cities, Toronto is ranked number one at 2.24, with Frankfurt (2.21) and Zurich (1.81) second and third, with Hong Kong (1.71) fifth and Vancouver (1.70) sixth.

Agricultural real estate has also been strong with the US Average Farm Real Estate Value rising from a decline to \$2090 per acre in 2009 to \$3800 on the August posting. On the longer term, this had been up to \$800 with high inflation in 1980 and declined to \$600 in 1987. The gain from \$600 to \$3800 has been outstanding and over the past few years (since 2017 when the value was at \$3030) Bill Gates has been reported as aggressively buying. He is the largest single holder with 242,000 acres worth some \$700 million.

Farmland prices in Ontario have been remarkable. From the high of \$63/acre in 1927 it plunged to \$37 in 1941, then climbed to \$1695 in 1981. The low was \$1288 in 1987, from where it has soared to 13,813 – in dollars per acre.

There are two kinds of inflation out there. The most widely understood is the rise in real things from commodities to property to wages. The other is inflation in financial assets. Yes, soaring prices for stock and bonds is a form of inflation and on all five previous bubbles the climax was followed by serious deflation in most asset prices. Including real estate.

Most forms of property have gone up but this review will stay with houses and farms.

In 1980, and in Toronto's upscale neighborhood, a stock promoter had bought a house, taking on a huge mortgage. His deal failed and he was jailed for fraud and his house seized by a trust company. It took many years before the property could be sold and the Financial Post had articles every once in a while. It was sold at one-third of the 1980 high.

Next story is the Shangri-La Hotel in Vancouver. Upscale and the tallest building in Vancouver it was completed in 2007. Of interest is that the land, that while prime downtown, was purchased at one-third below its peak in 1980.

That number also shows up in the action in house prices in Vancouver's "British Properties". Upscale, and situated on the rising slopes of the North Shore mountains, the area has wonderful views. And the decline was to one-third of the high.

In Vancouver's nicely comfortable Kerrisdale, home prices fell in half.

Either number was fast and painful with some people thinking that the rise would continue had bought a more preferred residence before selling the first. That was one form of bankruptcy, the other was contractors going broke with unsold houses. A recent headline recorded that large homebuilders in the US were trying to offload blocks of new houses.

And China's property market has become paralytic with empty cities with empty apartment towers. This is important to high house prices in Canada.

The US housing boom became highly speculative into 2007 and this writer published an article in August 2006: [*The Consequences of Real Estate Bubbles*](#). The high for the median price was \$257,400 and the low at \$208,400 for a decline of 19 percent. This was part of the worst stock bear market and recession since the 1930s.

On that recession, Vancouver prices declined by 12 percent. Toronto just kept going up with the average price at \$376,200 in 2007. The price, with no checkback, increased to \$395,200 in 2009, which was impressive.

The "Asian Bid" has been and could continue to be important. Especially as it is being overwhelmed by the disaster in China.

In the post-1980 slam to prices there was no Asian Bid to curb the decline. But it became evident in supporting Toronto prices in the 2008 recession.

The point being that with China's horrendous defaults, the Bid in Asia is collapsing which will be profoundly negative for highly speculative residential real estate anywhere in the world.

Recently, the rise in US Farmland Values has become speculative, and within which Bill Gates has been a late buyer.

An index for per-acre prices in Iowa rose to \$130 in 1920, then plunged to \$50 in 1933. The high in 1980 was \$225, with the subsequent crash down to \$75 in 1987. On this chart the high and last post was \$375 in 2019. The continuing surge is covered in a different index above.

The earliest chart on farmland values covered England's during the Great Depression that started with the collapse of the 1873 Bubble. That officially lasted until 1895. The title is "Farm Sale Prices 1859 – 1914" and the numbers tell the story.

From 37 in 1865, the index rallied with the 1873 Bubble to 54 in 1875. It then fell to 20 in 1895 and 1896, and with only one uptick in 1887, recorded a significant bear market for farms.

Of interest is the eventual rebound to 25 in 1914 with the next long expansion, but before the severe inflation that climaxed in 1920.

Our belated bubble recorded the key features seen with the five previous examples. Beyond soaring stock prices, these include copper's real price going up as gold's real price went down. Real long interest rates declined. With the failure, these reverse with copper going down (✓), but gold has yet to turn up. And real rates have been soaring. Another post-bubble feature is the senior currency going up.

These changes are methodically recording the transition from boom to bust, marking the start to what could be another bear market for real estate that could last for a decade or more.