The man who predicted the property crash

Economist Fred Harrison proved to be the canary in the housing mine, reveals ROSS CLARK *– but few were listening*

The 50 pence racks in the nation's bookshops brim with books promising an Armageddon which somehow failed to arrive – other than for the author. One thinks, naturally, of *The Great Reckoning: Protect Yourself in the Coming Depression* by James Dale Davidson and William Rees-Mogg, published in April 1993, on the cusp of what turned out to be one of the world's great stock market and property booms. But don't think that being proved right gives your doom-mongering tome a longer life on the bookshelves. Stuck down at around 22,000 on the Amazon sales chart last week (which roughly translates as: one person has bought it in the past week) is a fascinating work called *Boom Bust: House Prices, Banking and the Depression of 2010*, by Fred Harrison.

The book was not widely reviewed when published in 2005. Harrison was not the only economist who had warned of an impending house price crash, and did not come across as the most qualified. A former journalist who had set up his own think tank, the Land Research Trust, there was little reason to assume that he had any more idea of what was going on than had Andrew Oswald, Professor of Economics at Warwick University, who predicted in 2003 that house prices would plummet by 30 per cent over two years; nor Steven Bell of Deutsche Bank who had made a similar prediction in 2002; nor Roger Bootle of Capital Economics who foresaw prices slumping 20 per cent in 2004; nor any of the other rent-a-quotes on the housing market whose failed prophecies, by 2005, were beginning to tire readers.

Not only that, the book rambled a bit, with long diversions on such subjects as the Roman Road system in Shropshire. Worse, Harrison's thesis – that the property market is governed by an 18-year cycle in land prices – seemed to have been borrowed from a Chicago academic-turned-property speculator, Home Hoyt, who had derived it from a study of property booms in 19th-century Chicago, but who himself believed the cycle no longer to be applicable. I confess that I never quite finished my copy of *Boom Bust*.

Nevertheless, there was something that made me keep ringing up Harrison to hear his latest thoughts on the housing market. And I have to say that he never even wavered from his prediction that the housing boom would end in a spell of mania in 2007, followed by bust in 2008. In fact, Fred had been made this prediction much earlier than 2005: he later sent me a yellowed pamphlet entitled *The Coming Housing Crash* which he had published in 1997 containing the prophetic words: 'By 2007, Britain and most of the other industrially advanced economies will be in the throes of frenzied activity in the land market to equal what happened in 1988/89. Land prices will be near their 18-year peak, driven by an exponential growth rate, on the verge of the collapse that will presage the global depression of 2010.'

We haven't yet reached 2010 and global depression, but otherwise the prediction is chilling: Nostradamus, even in one of those translations helpfully provided after the event, could scarcely have been more accurate. Part of me thinks that it ought not to be possible to predict economic events 11 years in advance. So was Harrison just lucky or is there really something in the 18-year property market cycle theory?

The bottoms of the last two housing crashes, in 1974 and 1992, do conform to the pattern – although the 1974 crash was only a crash in real terms, static house prices being overtaken by soaring inflation. Little official data exists on the housing market before the Seventies, though I will take Harrison's word for it that the other data he quotes, such as that derived from the numbers of bricks manufactured in each year of the 18th century, makes a case for an 18-year cycle in property booms going back 200 years or more.

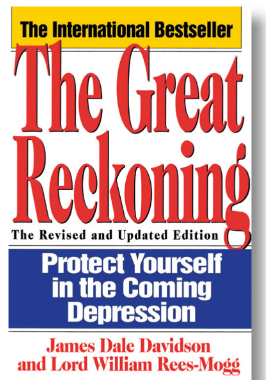
The causes of modern property booms find a strong echo in the booms and busts of two centuries ago: prices would rise, inviting speculation. Always the boom would reach the point at which speculators could not earn enough in rent to pay the interest on their loans. Still, they would go on buying for a while, until the market ran out of buyers and the speculators went bust. But why always on an 18-year cycle? This, claims Harrison, was the average duration of the working life of Britons in the 18th century. Maybe it was, but that still doesn't quite explain why the property market worked on an 18-year cycle then and still less so why it still does now, when the average working life is 40 years or more.

What is for sure is that the property boom which ended in 2007 went on for far longer than virtually anyone other than Harrison imagined that it would last, and that it made fools of a great number of people: the economists who called time too early, the estate agents who were still insisting as late as this spring that all was well in the housing market, and not least Gordon Brown and his famous pledge to put an end to boom and bust.

Just over a year ago, I wondered whether something else had begun to work on an 18-year cycle: politics. The Tories lasted 18 years from 1979; with Gordon Brown seemingly assured of one election victory it seemed that Labour, too, might last 18 years, until 2015. With the next election pencilled in for 2010, which looks likely at this stage to fulfil Harrison's prediction of the bottom of the housing market, that now feels highly unlikely – even though John Major somehow won an election at the nadir of the last slump in 1992.

Is it worth following Harrison's advice and buying a property portfolio in two years' time, and pencilling in your diary – assuming you can find one that goes that far ahead – to sell the lot around the year 2025? I wouldn't necessarily mortgage my future on the next property boom ending then – but then again I certainly won't be betting against it. ●

Boom Bust: House Prices, Banking and The great Depression 2010 by Fred Harrison is published by Shepheard Walwyn



A QUESTION OF TIMING: *Rees Mogg was wrong with his prediction of recession, Harrison was right*

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