How to Understand the Bottom of a Real Estate Cycle

(and forecast, precisely, the next one)

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PHILLIP J. ANDERSON

"*The further backward you look,
the further forward you see.*"

WINSTON CHURCHILL

Every 18 years …

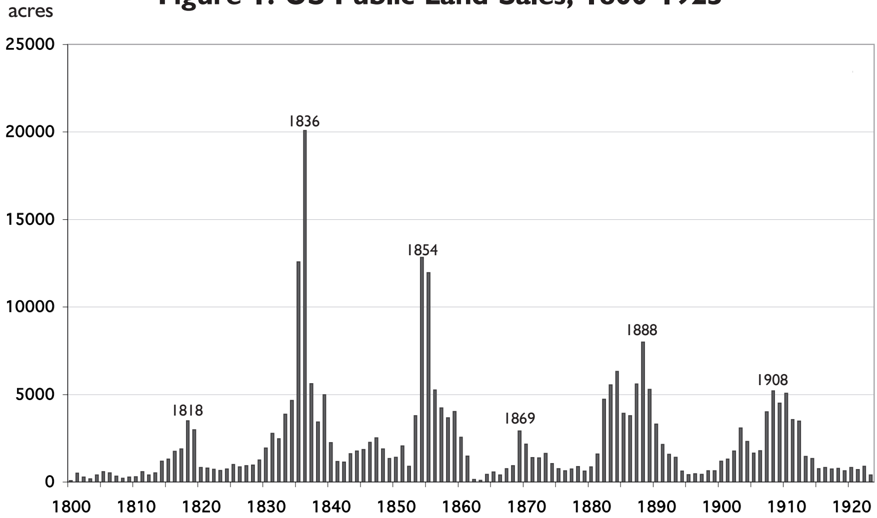
A STUDY of US history reveals a very clear (average) 18-year cycle in US real estate prices, measured from trough to trough or peak to peak. The actual cycle has never been shorter than 17 years, never longer than 21.

As it happened, the US federal government began selling off its real estate, officially, under a set legal structure, on May 10th, 1800. After that, here is what took place.

In 1818, there was a peak in land sales, followed by a downturn; in 1836, land sales peaked again, ending in a depression; the next peak, in 1854, was followed by a depression; the 1869 peak was also followed by depression; likewise in 1888. The downturn following the 1908 peak was cut short by the build-up to the First World War, and real estate peaked again in 1926, followed five years later by what is today judged the world's worst ever depression. A construction-led boom (mainly government financed) peaked in 1944; the ensuing downturn was cut short by rebuilding after the destruction of the Second World War.

In other words, for the first 144 years of real estate enclosure in the US, land sales and/or real estate construction peaked, almost consistently, every 18 years. Figure 1 shows the land sales peaks from 1800 to 1924.

Figure 1: US Public Land Sales, 1800-1923



Since the Second World War, and once the US economy finally shrugged off the distorting affects of all the dislocation wrought by the war, the rough 18-year cycle reasserted itself with some vigor. The final years of this first decade of the 21st century will mark the passage of another cycle, 18 years from the trough of the previous one in 1992. History repeating itself would see the next real estate low point in 2010.

Since 1955...

NOT ONLY has the real estate cycle been historically consistent at about 18 years in duration, but each cycle has unfolded in a highly regular and consistent manner. EIS designed a clock, in 2005, to describe and illustrate the clockwork behavior of this process.

The current banking problems, at the end of yet another 18-year real estate cycle, are certainly nothing new. It was amazing to witness how quickly investors had forgotten the previous banking panics, as land prices began to deflate. In October 1973, the collapse of the US National Bank of San Diego was the biggest in 40 years. The bank collapsed because of the activities of its major shareholder, C. Arnholt-Smith, chief fundraiser for Richard Nixon and a major real estate speculator in southern California. Arnholt-Smith, basically, loaned the bank into property speculation oblivion.

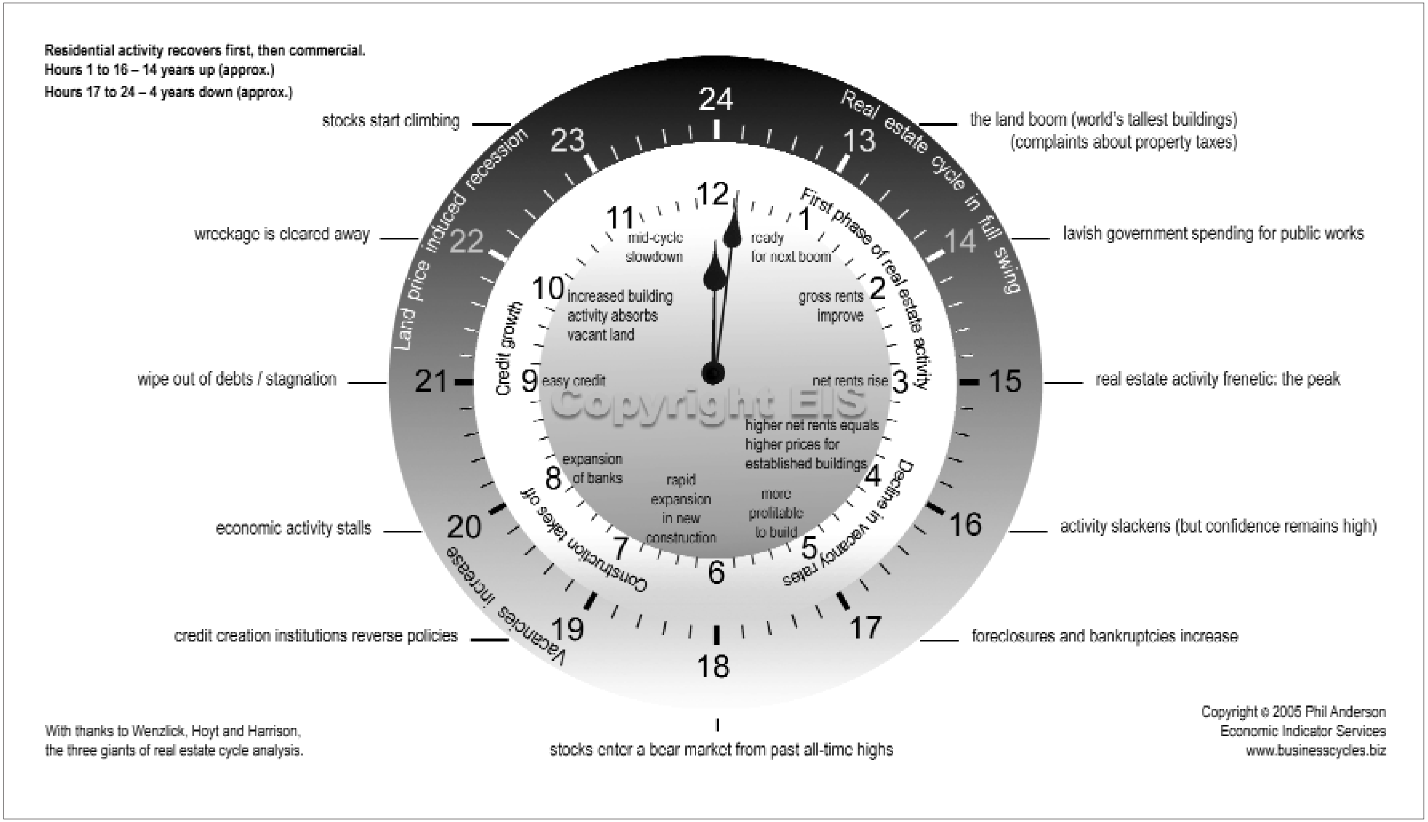
An even bigger bank failure, that of the Franklin National Bank of New York, followed twelve months later, in October 1974, and was also property related. The then Fed Chairman Arthur Burns, when asked by a Newsday reporter what stopped the world financial system from imploding after the massive failure of the Franklin bank, replied: "Luck, more than anything. We were sitting on a volcano. People were concerned in this country, but they were really scared abroad. We can't let it happen again, because we might not be so lucky the next time."

The 'next time' arrived right on time, one cycle later, with the implosion of the US banking system in 1990, led by the Savings and Loans institutions. Said one staff member of the Senate Banking Committee enquiry (set up to make sure a banking crisis would never happen again) at the time: "This [banking] industry is very close to the heart of the American economy. We teetered on the edge of a major, major problem here … we teetered on the edge of a major collapse … You know, all these [financial] industries could bring down the whole economy!"

In the US especially, it is quite easy to accurately date the turning of the 18-year real estate clock from the 1955 land price low.[1]

1 For more information on this phenomenon, and why we know to start at 1955, see *The Secret Life of Real Estate and Banking*, page 341 and page 255.

Figure 2: The EIS 18-Year Real Estate Clock



Let us place 1955 at the 24 o'clock mark, on the outer side of the circle. Moving around the clock, then, from 1955 to the inner part of the circle, through 1 o'clock, 2 o'clock etc, our mid-cycle slowdown could be said to have seen maximum emotion with the stock market slide in May and June of 1962. Stocks underwent a fast and substantial correction, reflecting fears that the Democratic Party administration elected in 1960 might after all be anti-business. They called it the 'Kennedy slide'. Stocks fell on very heavy volume, May 21st and 22nd, tanked again on the 28th, recovered slightly, and then made final lows on June 25th and 27th.

Figure 3: Real Estate Stock Price Index, 1965-1976
1965 = 10

Year	High	Low
1965	11.22	9.05
1966	12.35	9.00
1967	23.62	10.67
1968	45.23	20.85
1969	**52.12**	37.09
1970	43.81	24.14
1971	43.29	32.98
1972	47.48	31.96
1973	36.69	13.20
1974	16.41	**6.01**
1975	14.86	8.27
1976	16.15	11.33

From there, 1962 and 11 o'clock, we move onwards to 12 o'clock and back to the outer circle through 13 o'clock, 14 o'clock etc, where real estate activity is frenetic at the peak – being 1969/1970 – from which real estate prices suffered a substantial fall in a land-price-led recession that bottomed in 1974. The year 1974 we can place again at 24 o'clock, and the cycle started all over again: there was a recovery out of the 1974 lows, but a mid-cycle slowdown in 1982; real estate activity was frenetic by 1987/88, and the land-price-led real estate recessionary low came in 1992.[2]

And the US finds itself yet again in this position, with a land-price-led real estate recessionary low in 2010.

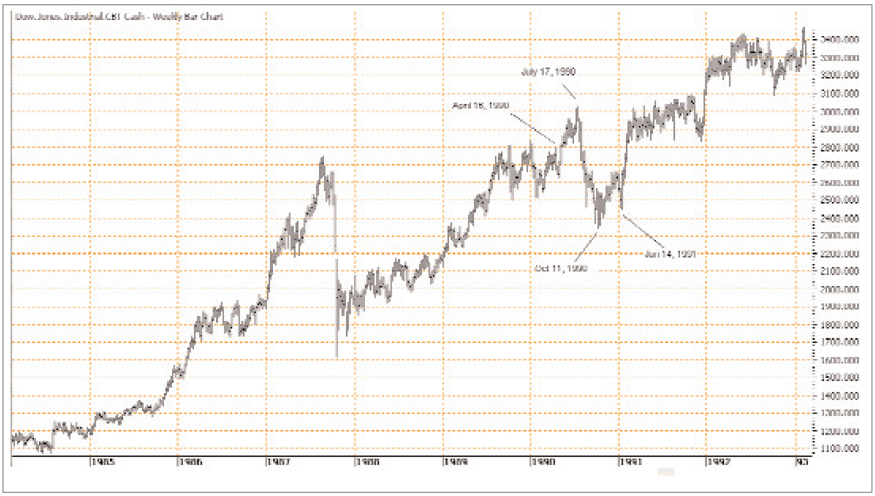
This leads us to the all-important question: how can we know when this current real estate cycle will have passed?

2 An in-depth history of these real estate cycles since 1955 – in fact from 1800 – can be found in *Secret Life*, Chapters 1 through 14.

How to judge the passing of a real estate cycle low

THE ANSWER to this question can be found in the stock market. To understand this, we must first, again, study a little stock market history related to the 18-year real estate cycle. We can judge the real estate market, the 24 o'clock lows, by what is happening in the stock market: at 23 o'clock 'stocks start climbing'. We can start with a look at the cycle low of 1991, Figure 4.

Figure 4: Dow, 1990-91 lows



We can see that the US markets, as measured by the Dow, made a low in 1990, October 11th, as the state of the deteriorating real estate market became obvious to all. Significantly though, this low ended up higher than the 1987 crash low, which was not the case in some other nations. More significantly, as the real estate market grew worse in the later stages of 1990 and 1991, US stock markets actually began making *higher* lows, beginning in January of 1991.

Here, then, is the clue to understanding where the real estate market is, at lows. By early 1992, US stock markets had even begun moving into all-time new highs, *despite the fact that its real estate markets still had much unsold inventory* slowly being offloaded by the banks, which were left holding the assets of former high-flying entrepreneurs, now broke or out of business.

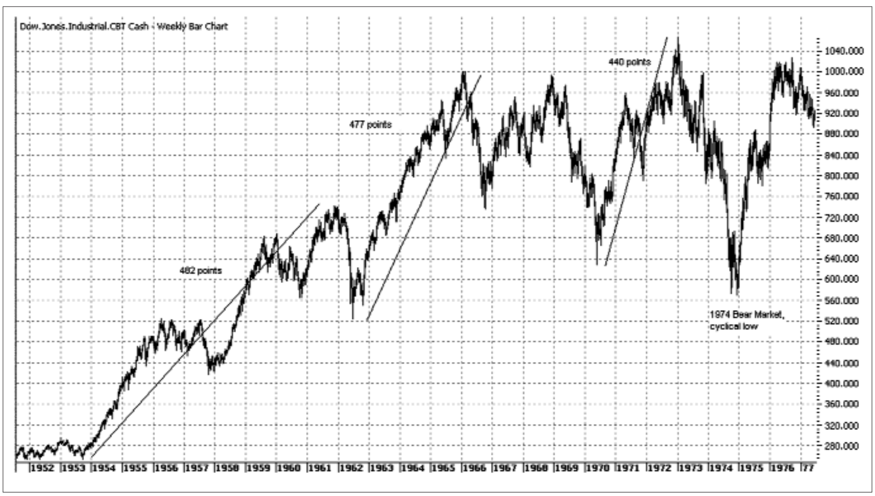
This is why EIS encourages real estate operators to understand the stock market (and vice versa: stock market traders to understand the property cycle). At real estate recessionary lows, it is the stock market that will bottom first, before the real estate market. Most professional stock market traders realize that stock markets lead the economy by around 6 to 9 months. At least.

EIS tries to demonstrate to its subscribers another important point about markets as well: ultimately, it is the economic rent that takes the gain that society produces. This gain will show up as higher land price if the annualized economic rent is permitted to capitalize into a tradable property right. *But the gains have to manifest first*, before they can be taken. This is why property is last on the usual economic clock that most investors are familiar with.

By 1992, the stock market was signalling to investors that another real estate cycle had begun, by pricing in the recovery quickly, as it began. The real estate market and associated businesses, however, always take that bit longer to recover and get back underway.

The same process was at work after the 1974 real estate recessionary lows. See Figure 5.

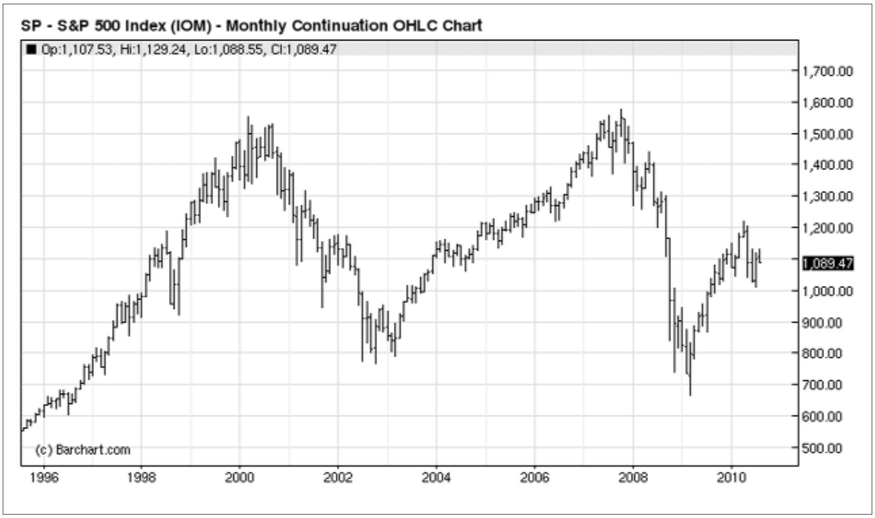
Figure 5: Dow, 1952-75



After 1974, we can again see higher lows in 1975, and again through and into 1977. Another real estate cycle had well and truly begun by this stage. Although the stock market does not say this directly, higher stock prices are an accounting process for improving earnings by listed companies in general. Higher earnings will eventually feed through to increased profits and better stock prices, and then, eventually, an economic expansion will once again be underway.

This is the process we must now watch for in current markets, 2010 and going forward.

Figure 6: S&P, to July 2010



We know that all US markets made a significant low in March of 2009 (NASDAQ was slightly earlier) and then, defying all the pundits, recovered strongly (just as they did in 1975 and 1992) into April of 2010. Which is where we are now, in Figure 6. (There are of course those who suggest this recovery is not sustainable.) At the date of writing, August 2010, it is now simply a matter of waiting to see what stock markets will do next. The US stock market will tell us when this current real estate cycle is over and the next one has started.

As a further guide for 2010 and 2011, and using some W.D. Gann stock market knowledge (Gann will be explained in more detail shortly) as a reference, we need simply to watch for the following indicators:

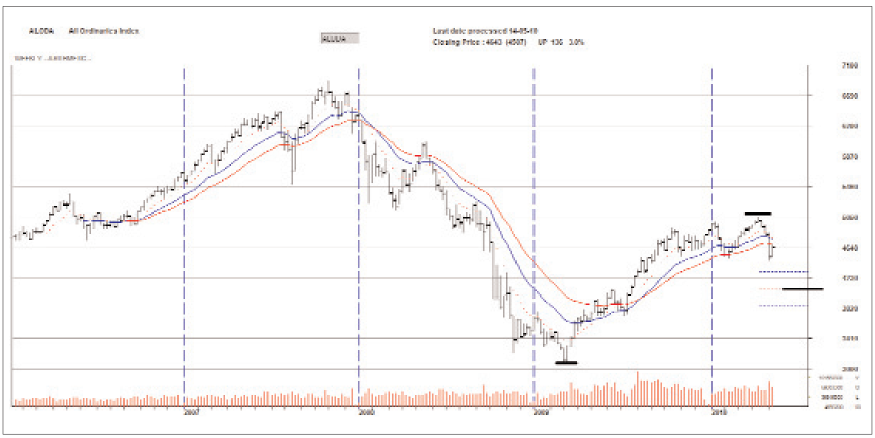
Stock markets have now retraced back by half, their GFC fall – see Figure 7 on the next page. This is normal. US markets actually retraced by more than half, which is an indication of strength rather than weakness. The normal thing to happen next would be for markets to retrace back down to the midpoint of the midpoint, illustrated in Figure 8.

This image, Figure 8, is for the Australian market (as is Figure 7), at around 4,000 or so. For the S&P, the midpoint of the midpoint is approximately 942. This is a very important level …

- If the US market does not fall to this level (942), but goes on to stay above it or make a new high again in 2010, it will be exceedingly bullish. If this happens you can be certain the GFC is over.

Figure 7: Australian Index, April midpoint

Figure 8: Australian Index, next mid-point due



- If the market cannot hold this midpoint of midpoints coming up, then it signifies more work will be needed for the US to extricate itself from its recent downturn. (Each market in the world will work to its own numbers.)

- If markets cannot hold their *2009* lows, then this is exceedingly bearish and a US, or indeed perhaps a world depression, would be possible. The stock markets will tell us first.

Generally, though, it is exceedingly common that, after such emotion as in a year like 2009, markets will react by winding themselves up (like a coil) into a balance point, the midpoint of midpoints. It would be unusual for this now NOT to occur. So watch that 942 mark on the S&P index (and similar points on other markets).

In *The Secret Life of Real Estate and Banking*, I go through what happened each time in the US after a real estate downturn. This was examined first for the 1792 downturn, and then for each real-estate-led recessionary low after that (1819, 1837, 1857, 1873, 1893, 1914, 1932, 1955, 1974, 1992, and now, 2010). I did this to become a better investor myself, less reliant on all the emotional stuff that comes out at real estate lows. In the book, usually at the beginning and the end of each chapter, I describe how the economic news turns from greed to fear, then back again, and where possible put in US stock market charts to help readers *relate the economic and financial news to those charts*. (Stock market charts right back to 1835 were researched and included.)

This is exactly what is happening now.

With all the conflicting news coming out, it is really hard to work out what is going on at present, is it not? This is what happened to me in 1993 and 1994: there was so much bad news emerging, and yet each time the markets around the world made HIGHER lows on such bad news, especially in the US. At the time I was not experienced enough to see that, and fear held me back on decisions I should have been making. Note, though, that this is not a process that happens over days: it takes months for these lows to progressively form. I am looking at the bigger picture here.

Also, I did that research because this precise time in the real estate cycle, at the lows, when the banks are de-leveraging, is without doubt the hardest part of the cycle to forecast. At past real estate cycle lows, 1991 and 1974, something was always happening to make it confusing – like the China situation at present.

It is also important to understand that the next low will happen on really bad and bearish news. You will notice, once again, that as we go lower all the bears come out, forecasting the end of the earth. Here, then, is the secret I try to illustrate: amidst all this next really bad news, if stock markets are making *higher lows* (relative to 2009) on all the bad news, this tells you the GFC is over, despite all the pessimistic opinions expressed about it. And despite, *most of all*, your own opinion about it. It is critical for investors to be able to interpret this. Few ever get to see it correctly. So this is what we watch for in 2010.

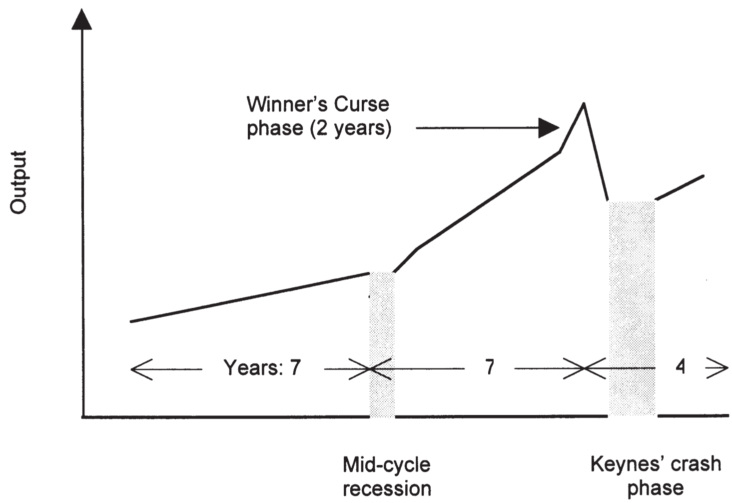
Summarizing:

We do now have to wait upon the verdict of the world's stock markets, to see where this retracement goes. This will have become obvious by about mid 2011.

Further timing help

WE CAN GIVE ourselves a little further help in recognizing when this current real estate recession comes to an end, and a new cycle starts, by examining the works of two other authors, Fred Harrison and W.D. Gann. Analyzing some Harrison material first, he noted, amongst many other things, that each 18-year cycle could be broken down into three distinct phases, which he illustrated diagrammatically in his book *Boom Bust* as Figure 5:1, reproduced here (with permission) as Figure 9.

Figure 9: Profile of the 18-year Business Cycle



Note particularly the 'winner's curse' phase of the cycle. In *Secret Life of Real Estate and Banking* (page 341) I noted: "It is usual for a majority of the *mortgaged* real estate buyers in this phase of the cycle, the 'winner's curse' phase, to end up with negative equity in their house once the cycle finally turns down. The US will again see this phenomenon as the cycle progresses further into 2008 and beyond." Which is, of course, exactly what happened.

Since the land price low in the US in 1955, this profile of the cycle by Harrison has proved remarkably resilient, something we related to the EIS 18-year real estate clock earlier in this document (page 5). Economists the world over have substantial trouble when I mention this fact, so it is something you are most unlikely to learn at a university, but the economy *does* actually have a scientific foundation. It is based on the 'economic rent'.

The scientific foundation of the economy: the economic rent

THE FINANCIAL CRISIS that broke in 2009 was different to other crises – say, the recession of 2001, or, going much further back, the Dutch tulip mania of 1636, or the South Sea bubble of the 1720s. The 2007 crisis was predetermined by the structure of the economy. It actually *had* to happen. The most recent financial crash was *not* a market failure: it is actually proof that the (monopoly) capitalist system is working, and working well. The instability of the capitalist system is built into the DNA of the economy. This DNA is the economic rent, or, more particularly, the enclosure of the economic rent, a concept first formalized by English economist David Ricardo in 1810. The economic rent is, to economics, what gravity is to science. Very few economists understand this, and it is a concept you will not find being taught at universities today. An investor's effort to understand the concept will be well rewarded. You will know you have come to understand Ricardo's Law of Economic Rent when you realize why it isn't being taught.

Ricardo's Law of Rent states, simply, that the economic rent is not a cost of production. A house costs pretty much the same to build, wherever you build it – wages are the same, and materials costs are the same. But the selling price will depend on the location. So builders, for example, will bid more for the best locations. That money doesn't go to the workers building the house, nor is it spent on improving the materials used. It purely benefits the owner of the land. This bid is what Ricardo was first to identify as a 'surplus': the economic rent. Property investors know it today as 'locational value'.

Wherever a price is put on this locational value of land, a property cycle will – must – develop, as speculators and companies chase land prices higher and higher, reducing the proportion of wealth being invested in either creating jobs or productive businesses. This cycle is beyond the control of central banks and beyond the control of government. The enormous credit created by banks based upon this value gives us the violence of the property boom, then bust. The real estate cycle is the most important market cycle. Since 1800, the real estate cycle has unfolded pretty much exactly as the clock describes, something that was noted by both Homer Hoyt and economist Roy Wenzlick way back in the 1930s.

In 2011 and beyond, simply watch for a recovery in gross rents (2 o'clock on the 18-year real estate clock). A recovery in gross rents will eventually see net rents rise, which equates to higher prices for established buildings, making it more profitable for developers to build, leading to an expansion in new construction, which by then will have seen the present real-estate-led recession become history. Hoyt noted this exact process in 1933, in his university thesis and subsequent book, *100 Years of Land Values in Chicago*, although the best description is given by Wenzlick in his 1936 publication, *The Coming Boom in Real Estate*. If gross rents do not recover, the cycle cannot restart. Everything done so far in the US, however, suggests that gross rents will eventually rise. The contraction of credit, and subsequent unwillingness of banks to lend, making it harder to get loans (even harder to buy a house) guarantees more persons will have to rent in coming years – so there already is one source of the rise.

The second author that can give us some additional cyclical timing help is the legendary Wall Street trader, W.D. Gann. William Delbert Gann was born in Texas in 1878. After working for some years in a broker's office in Texarkana, Gann moved to Wall Street, reputedly making a substantial sum predicting the panic of 1907 and fall in commodity prices. It is reported that Gann went on to make more than $50 million in the markets, though nobody really knows for sure. What is not in doubt, however, is his extraordinary forecasting ability, including his war forecast for 1914 and panic in stocks, his 1927 forecast for the US to enter a terrible depression by the early 1930s, and his continual yearly commodities updates. For our purposes it is his financial timetable that is of most interest.

Gann first published this financial timetable in 1909, suggesting it was his 'most important ever discovery', though, as many of his readers of today will know, he went on to say that about several other things as well. Nevertheless, the discovery involved 'time'. It was the first occasion Gann mentioned the fact of time, and since cycles are time-based it is worth a look. Study in particular the years marked with a 'K'. It was my study of US real estate collapses that first drew me to this Gann table many years ago – 1914, 1933, 1952 and 1970, all were major stock market lows, pretty much as forecast. That's incredible, isn't it?

I have included a stock market chart for the Dow, from 1914 to 1935, Figure 10.

You may like to compare Gann's financial timetable (remember, he published it in 1909) to what subsequently took place in these years.

The timetable as originally published by Gann is a fraction out now (for reasons I will not go into here), but if you replace 1989 with 1991 and count forward, this will give you something VERY interesting to observe over coming years.

This leaves us with just two further things to cover: one, another (brief) insight into why the real estate cycle eventuates as it does, and, two, some reasons why I happen to think the next cycle, 2010 to about 2028, will see yet another huge cycle of boom, then bust…

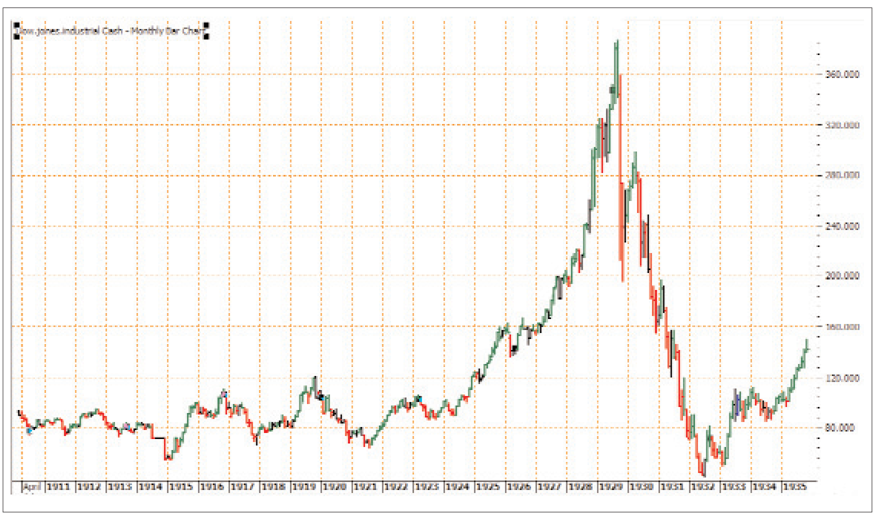
Table 1: W.D. Gann's 1909 Financial Timetable

1784	1803	1821	1840	1858	1877	1895	1914	1932	1951	1969	1988
1785 A	1804 A	1822 A	1841 A	1859 A	1878 A	1896 A	1915 A	1933 A	1952 A	1970 A	1989 A
1786	1805	1823	1842	1860	1879	1897	1916	1934	1953	1971	1990
1787	1806	1824	1843	1861	1880	1898	1917	1935	1954	1972	1991
1788	1807	1825	1844	1862	1881	1899	1918	1936	1955	1973	1992
1789 B	1808 B	1826 B	1845 B	1863 B	1882 B	1900 B	1919 B	1937 B	1956 B	1974 B	1993 B
1790	1809	1827	1846	1864	1883	1901	1920	1938	1957	1975	1994
1791 C	1810 C	1828 C	1847 C	1865 C	1884 C	1902 C	1921 C	1939 C	1958 C	1976 C	1995 C
1792 D	1811 D	1829 D	1848 D	1866 D	1885 D	1903 D	1922 D	1940 D	1959 D	1977 D	1996 D
1793	1812	1830	1849	1867	1886	1904	1923	1941	1960	1978	1997
1794	1813 E	1831	1850 E	1868	1887 E	1905	1924 E	1942	1961 E	1979	1998 E
1795 E	1814 F	1832 E	1851 F	1869 E	1888 F	1906 E	1925 F	1943 E	1962 F	1980 E	1999 F
1796 F	1815	1833 F	1852	1870 F	1889	1907 F	1926	1944 F	1963	1981 F	2000
1797 G	1816 G	1834 G	1853 G	1871 G	1890 G	1908 G	1927 G	1945 G	1964 G	1982 G	2001 G
1798	1817 H	1835	1854 H	1872	1891 H	1909	1928 H	1946	1965 H	1983	2002 H
1799 H	1818	1836 H	1855	1873 H	1892	1910 H	1929	1947 H	1966	1984 H	2003
1800 J	1819 J	1837 J	1856 J	1874 J	1893 J	1911 J	1930 J	1948 J	1967 J	1985 J	2004 J
1801	1820	1838	1857	1875	1894	1912	1931	1949	1968	1986	2005
1802	1821	1839	1858	1876	1895	1913	1932	1950	1969	1987	2006
1803	1822K	1840	1859 K	1877	1896 K	1914	1933 K	1951	1970 K	1988	2007 K
1804 K	1823	1841 K	1860	1878 K	1897	1915 K	1934	1952 K	1971	1989 K	2008
		1842									

LEGEND (compiled by W.D. Gann, 1909)

A Extreme low stock prices, strikes, repression, despair and beginning of new business generation for 18-3/5 years. 4 years of rising stock prices and improving business, markets bare of goods, young men becoming prominent.
B High stock prices.
C Panic.
D Low stock prices.
E High stock prices.
F Panic.
G Low stock prices.
H Very high stock prices, most prosperous year, waste over extravagance, most money in circulation, much speculation.
J Major panic, CRASH. 4 years of falling prices, business stagnated, breadlines, soup kitchens, despair, unemployment.
K Same as A, plus strikes, unemployment, many prominent deaths.

Figure 10: Dow, 1914-1935



Why the real estate cycle eventuates as it does…

THE REAL ESTATE CYCLE is all about the rent, the economic rent – the one big-ticket item the political world refuses to acknowledge, and few investors make any attempt to understand.

Australia's early politicians knew all about this phenomenon. In the late 1800s Australia was looking for a capital city for its newly developing union of states. Neither Sydney nor Melbourne would consent to the other becoming the capital. For a while after 1901 the two cities agreed to rotate the responsibilities and take turns seating the elected parliamentarians to govern the country until a new capital could be built somewhere in between. The elected leaders were well aware of what effect an announcement (or fore-knowledge of such an announcement) would have on land values in the chosen region, as land speculators piled in for a quick profit from the rapidly appreciating locational value, or economic rent. To defeat them, Australia's first Prime Minister, Edmund Barton, declared that:

> So far as the law of the land allows, land within the federal area will not be sold. Its ownership will be retained in the Commonwealth. The land will be let for considerable terms but with periodical re-appraisement so that the revenues thus obtained will assist the cost of creating the Commonwealth Capital. More than that, we shall take care to put no fancy prices on land. We shall not play into the hands of the speculators …
>
> *Sydney Morning Herald*, January 18th, 1901

Accordingly, an annual rent of not less than 5 per cent of the unimproved value of the land, as assessed by an appropriate authority, was eventually prescribed for all persons who wanted to live and work in the new capital (of which there were plenty), payable quarterly in advance. The unimproved value of the land was to be reappraised at the expiration of twenty years, and thereafter at ten-year intervals. With such a simple and elegant idea, Australia went on to build the city of Canberra, truly one of the world's most spacious and amenable of capital cities.

So, if you decided to move to Canberra and the site you intended to own was appraised as worth $1,000, you paid rent to the Commonwealth of $50 per year. The site was yours, to do with as you wanted: you owned it with clear title, subject to the lease; you just had to pay the economic rent for the privilege. The politicians knew what they were doing. Collecting the worth of the site yearly in advance meant that the rent of the site could not capitalize into a tradable commodity. There would be no price in which to speculate.

The price of the site, therefore, is zero.

If you are new to this thought, it will take some getting used to. Although the price is zero, this does not destroy the site's use value, or worth. This has some astounding ramifications, just one being that Canberra sites could never be hoarded or kept out of use in expectation of future gains: the holding cost of doing so (because you owed the land rent to the Commonwealth) was too high. More importantly, credit could not be created upon the capitalized land rent. There wasn't any.

No capitalized rent, no real estate cycle.

But Canberra is an exception, and this is why there will be yet another real estate cycle, a boom, then a bust, at some point in the future. It is certain. Recent US Government (Obama administration) action guarantees it. Absolutely everything, all the actions undertaken by all governments everywhere in the world after the 2009 crash, actively sought to preserve the current system, the annual economic rent capitalizing into a tradable privilege, upon which the banking system can continue to create its vast quantities of credit. For the rent collectors, this is a profitable system, not open to question. (As Australia's deposed Prime Minister Kevin Rudd found to his cost, upon the attempted introduction of a mining resources rent tax.) Now, in 2010, as China, India, Russia and Brazil, amongst other nations, industrialize and open up their economies more and more to the cabal of Western banking empires and the private collection of their nations' economic rent, this system of boom/bust can only become global, bigger and even more violent.

Some further reasons for the next boom to be even bigger…

THE MAJOR REASON is to do with commodity prices and, in turn, their regular rhythm. It's been called the Kondratieff Wave. Yet again we are out on a bit of a limb here. This cycle is not considered mainstream economics and generates heated debate whenever it crops up amongst economists.

Nikolai Kondratieff was a Russian economist of the 1920s who, as chief economist of the Soviet Agricultural Bureau in Moscow, was asked by Comrade Stalin to determine when the Western economies might again collapse (it was accepted by all economists back then as self-evident that such economies were cyclical), allowing the Russian communist system to take its rightful place as leader. Kondratieff made quite an in-depth study of world commodity prices, including pig iron, wheat and other essentials of the time, and discovered what he believed to be a regular 54- to 60-year wave of extreme high-to-low prices and back again – a cycle that today bears his name.

Kondratieff noted that the extreme low in prices for all commodities, occurring in the 1790s, 1840s and 1890s, coincided with worldwide depressions, and went on to successfully forecast the next one for the 1930s. The years in between, which saw the highs in prices – the 1810s, 1860s and, when he was living, the 1920s – could clearly be seen as better, more economically prosperous years. Sadly, Kondratieff was later sentenced to the gulags of Siberia for his impertinence in suggesting that Western economies would recover from their self-induced depressionary pains and go on to bigger and better things.

Aleksandr Solzhenitsyn, in his book *The Gulag Archipelago*, reported that Nikolai Kondratieff died in solitary confinement in a Russian gulag, sometime around 1938. Funny thing is, Western economies went on to do exactly what Kondratieff thought they would, recovering after a great war to see extreme highs in commodity prices in the 1970s, then extreme lows in the late 1990s. A future repeat of this phenomenon, the Fifth Wave, would see extreme highs in commodity prices in or around the late 2020s… Just in time for another real estate cycle boom time.

Extreme highs in commodity prices will once again bring great wealth to many parts of the world, and a fight, again, between the world's superpowers for access to, and control of, the rent of these natural resources (as in 1818, with Napoleon; the US Civil War in 1861; the First World War and its aftermath in the 1920s; and Vietnam in the 1970s). This time it may include access to and control over water rights.

Today, Russia, China, Brazil and India are furiously selling off more and more of their real estate (privatizing the land rent) and building huge, in fact truly stupendous, infrastructure projects, a process that will triple, if not quadruple, the land values of each of those nations over the next two decades. It is decidedly possible that the next real estate cycle will be truly global and astonishing to behold – and worth knowing about in advance. If the major banks get back to creating all that credit, as they have done in every past cycle – every single one – we are in for some real fireworks at the end of the next cycle.

However, we need to see the bottom of the current one first, so we should not get ahead of ourselves. The timing for the low of the 1992 to 2010 average 18-year real estate cycle looks good for around this time, September to December of 2010, as is presently being suggested by (Western) world stock markets.

All we need now is to see a solid (higher than 2009) low to confirm it.

Follow-up References

General:

EIS website: http://www.businesscycles.biz

See especially:
- Our past speeches can be viewed at this link: http://www.businesscycles.biz/speeches.htm
- *MoneyWeek* (UK's largest circulation financial magazine) cover story, October 2008: http://www.businesscycles.biz/mweekphiloct08.pdf

Follow us on our blog: http://businesscycles.wordpress.com/

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