

For real estate veterans, it's deja vu again

Robert Harley rharley@afrc.com.au

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First comes the real estate boom, then the financial bust. It is a pattern that is true of the collapse of Lehman Brothers. And it is a cycle that repeats with uncanny regularity. "The housing bubble was a major cause, if not the cause, of the subprime crisis," writes Robert Shiller in *The Subprime Solution*. "The perception that real estate prices could only go up, year after year, established an atmosphere that invited lenders and financial institutions to loosen their standards and risk default. Now the defaults are happening, massively and contagiously," he writes. Shiller, a long time follower of real estate markets and the man behind the key US house price indices, sees many parallels with the property boom, and bust, that preceded the Depression. Australians don't have to go back that far. At the Property Industry Foundation Ball in Sydney earlier this month, two speakers reminded the 500 guests of the significance of July 26, 1989. Back then the chairman of the foundation, the former managing director of the Australand Property Group, Brendan Crotty, was the head of the Hooker residential operation and the major sponsor of the evening, the chairman of St Hilliers, Tim Casey, was a Hooker construction executive working on a site in Lidcombe. Neither forgets the day Hooker collapsed, or the shake-out that followed. First through the property industry and then into a financial bust that claimed the State Bank of South Australia and almost destroyed Westpac Banking Corp. (Crotty shepherded Hooker's residential business to become Australand and Casey created his own business. Some of those who spin out of the current debacle will no doubt do the same.) Another 15 years earlier, on August 15, 1974, the Australia and New Zealand Banking Group appointed a receiver to leading builder Mainline and within six

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that topped 20 per cent.) Phillip Anderson, the managing director of forecaster Economic Indicator Services has written a book, *The Secret Life of Real Estate*, about the 18-year cycles of land price boom and bust in the US. "It is the same every cycle: the higher the land price goes the more debt is created," he writes. He notes the blame game for the latest crisis and the collapse of Lehman Brothers. Some blame the cost of the Iraq War, others the bonuses paid to bankers, still others the lack of government regulation. "Blame anything except the government-granted licence that is land value, permitted to capitalise into price and then be used as collateral in the credit creation process. That is the real cause," he writes. The graphic above shows Anderson's land price cycle, with what he calls the "most reliable indicator of the approaching peak" - the announcement, or the start of construction, on a new world's tallest tower. We should have known when The Burj Dubai was announced. I wonder if anyone will remember in another 18 years' time.