

Phil Anderson's Archive page

## Evidence From Elsewhere - US Authors

### Roy Wenzlick

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“His study, *The coming boom in real estate*, published in 1936 and reprinted in the *Reader's Digest*, was such an accurate forecast that it was reprinted 25 years later without changing a single word.” *Greater Portland Commerce*, January 1970, page 19.

History repeated. Wenzlick knew it would, despite all the emotion of a real estate low, the 1930's, and the bottom of a severe land price induced depression that might have caused his own emotions, had he allowed them to tell him otherwise. He knew because he had studied history: in particular the history of each real estate cycle; he'd seen the similarities that the chasing of the capitalised rent brings.

Roy Wenzlick ran an appraisal business, employed to value real estate for banks, insurance companies and other interested parties. But from a review of his files, now a part of the *Western Historical Manuscript Collection* at the University of St Louis, Missouri, it is clear that Wenzlick's great passion was economic forecasting, going on to produce his *Real Estate Analyst* publication from the early 1930's right up until his retirement in 1974. (The only national statistical forecast service on real estate when it started.)

One of Wenzlick's outstanding indicators was his measure of voluntary real estate transfers: the relationship of the number of voluntary transfers in the principal metropolitan areas of the United States to the number of families in these areas. This should not be confused with the selling price. Even a cursory glance at his 1936 chart shows the booms in real estate activity, 1872, 1890, 1906, and the 1920's, and the lows, 1878, 1900, 1918, and 1933.

Based, in part, on this information – there was a lot more to his research than just the transfer figures – Wenzlick wrote his book in 1936, forecasting boom times once again for real estate with a peak in activity between the years 1943 to 1946. History shows he was exactly right. This was a big call at the time. (The book also pointed out the reasons why a cyclical recovery in rents, real estate values and building construction would develop, when it would do so and through what stages it would pass.)

After the Second World War, Wenzlick's services were in great demand. He continued to attract a good deal of attention by forecasting in 1948 that real estate activity would return to normal levels by 1950 and hit a low point in 1955. As we know now, the low in land price arrived in 1955, exactly, however real estate activity continued to climb. Unbeknownst to Wenzlick, though he had worked it out by the late 1950's, his real estate transfers index did not stand the test of time after the War. As he himself later noted: “the general explanation for the downward drift in the transfer figures on practically all cities is that most of these cities are now building more apartments and larger commercial and industrial buildings, and as a result the transfers are generally far larger in dollars, but

fewer in number.” Another important factor, also noted by Wenzlick, was the change in the structure of the house mortgage, after the War, to one of a level monthly payment, amortizing over the life of the loan, which was decreasing the number of distress sales that might otherwise have been expected in an economic downturn.

Perhaps he should have gone on to measure just land price, although to be fair, this is not an easy statistic to measure in the US. The best Wenzlick could say on the issue was that: “the real estate cycle was so firmly and definitely established in our earlier history and in the history of many foreign countries that it may be that this cycle is still continuing on a basis similar to the cycle of the past, but that the means of measuring it have changed so that it is practically impossible to determine whether the cycle has completely disappeared or is merely hidden by the change in the type of figures.”

Wenzlick clearly had his suspicions of this earlier than he actually said so. (Wenzlick was also well aware of what the increasing availability of credit was doing to real estate activity too in this developing era of easy finance.) At a 1953 speech, published in the May 1954 issue of *Skyscraper Management*, Wenzlick was quoted: “I am afraid that in the United States we are going to go back to an inflationary policy. I do not believe there is any chance of a collapse, similar to the (19)30’s...Regardless of what the administration might want, I believe that Congress is going to insist on every possible aid to business... I believe the next big real estate boom in the United States is going to peak sometime in the middle or late 60’s. I believe the selling price of real estate at that time will be considerably higher than the selling price at the present time.”

Exactly right of course. Wenzlick knew his history here as well. In 1954 the US had well and truly abandoned the gold standard and was now able to print its dollar bills without restriction, which the Fed has increasingly gone on to do. (Worse now, in 2006, than ever before.) For following administrations to pay off its debts - incurred more often than not to pay for war – in an inflated currency, makes Wenzlick’s inflation forecast an easy one. For those who have studied history of course.

- [Roy Wenzlick, The Coming Boom in Real Estate, 1936](#)
- [Roy Wenzlick, Real Estate Buy/Sell Indicator, 1936](#)
- [Roy Wenzlick, Real Estate Activity, 1795-1890](#)
- [Roy Wenzlick, Real Estate Activity, 1890-1973 \(note forecast to 1991\)](#)
- [Roy Wenzlick, list of top ten selling books, 1936 Chicago Tribune](#)
- [Notes found by EIS in the authors file, University of St Louis, Missouri](#)

## Homer Hoyt

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Hoyt is often described as the father of the 18-year real estate cycle, having allegedly been the first author to document and describe it, via his early 1930's doctoral thesis on Chicago land values. There is a possibility however that Wenzlick may have been first. Certainly Wenzlick went on to make far better forecasts using his own data out of St Louis. Hoyt himself went on to suggest that the cycle he claimed to have so well documented was probably by then redundant, believing that such a cycle belonged to cities newly developing and would not be something likely to occur further on a national scale. This, despite all the evidence to the contrary that he had accumulated. ("Real estate cycles may be a passing phase", page 423.) This was the opposite of what Wenzlick went on to say.

No matter, the lack of a 1955 recession fooled just about everybody. No one, of course, delved further in an attempt to explain what might actually be the cause of the property cycle, despite the fact that several authors and economists, Ricardo and George amongst them, had in fact already put forward a sound thesis. My studies of the Wenzlick material, now archived at the University of Missouri, Historical Manuscripts Division, suggest Wenzlick was aware of the cause, but did not actively pursue further this line of reasoning within his Real estate Analyst publications.

Hoyt's work is documented extensively on this site in the relevant US historical chapters. Some of his further charts can be viewed here:

- [Hoyt fig 98](#)
- [Hoyt fig 99](#)

Hoyt's fig. 99 in particular, does tend to add weight to the EIS thesis that towards the end of the real estate cycle, land values peak first, followed then by construction activity. By the time the general economy is about to tip into recession, land values are already well down from their previous peak levels.

In summarizing the sequence of events for the Chicago real estate cycle, Hoyt pointed out the following, from the trough:

1. Gross rents begin to rise,
2. Net rents rise even faster,
3. As a result of the rise in rents, selling prices of existing buildings advance,
4. It pays to erect new buildings,
5. The volume of new construction rises,
6. The volume of building is stimulated by easy credit,
7. "Shoestring" finance swells the number of new structures,
8. The new buildings absorb vacant land: the land boom,
9. Optimistic population forecasts during the boom,
10. Visions of 'new cities in the cornfields',
11. Lavish government expenditure on public works,
12. All the real estate factors at full tide: the peak,

13. The reverse movement begins: the lull
14. Foreclosures increase,
15. The stock market debacle and the onset of depression in general,
16. The process of attrition
17. The banks reverse their boom policy on real estate,
18. The period of stagnation and foreclosures,
19. The wreckage is cleared away,
20. Ready for another boom...

An original review of the book, from 1934, can be read [here](#).

## Fred Foldvary

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Fred Foldvary lays out the case for a geo-Austrian explanation of the business / real estate cycles, essential reading, which can be downloaded here:

- [Fred Foldvary - The Business Cycle: A Geo-Austrian synthesis.](#)
- [Fred Foldvary - Real Estate and Business Cycles](#)

## Mason Gaffney

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1. Prof. Mason Gaffney, historical real estate research, August 2008:  
[THE GREAT CRASH OF 2008 - Mason Gaffney, August 17, 2008](#)
2. Gaffney study of Michigan, USA, December 2008, posted March '09. An illustration of why the cycle can be forecast:  
[What's the Matter with Michigan? The Rise and Collapse of an Economic Wonder - Mason Gaffney, November 2008](#)
3. Mason Gaffney, Professor of Economics, Department of Economics University of California, Riverside. Research into US property development:  
[New Life in Old Cities - Mason Gaffney](#)

## Martin Armstrong

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The curious case of forecaster Martin Armstrong, hedge fund manager and the man who picked the top of the Nikkei in 1989—down to the day—using his Economic Confidence Model.

A good read from The New Yorker, October 12, 2009, click [here](#) to read more.

## Dr. Michael Hudson

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A great primer on the debt, and THE best, most prescient article written prior to the GFC, was this one, authored by Dr. Michael Hudson: May 2006 Harper's cover story: The new road to serfdom - An illustrated guide to the coming real estate collapse, By Michael Hudson. Click [here](#) to read more.

An absolute must-read. Anything written by Hudson is well worth following. You can find more of his work and writings at the link below:

- [Learn more about him here](#)

For more information about Michael Hudson and his work, please visit his official website:

- <http://michael-hudson.com/>

## Other US Authors

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From Cycles, Edward R Dewey, 1947, page 118. Here, the Warren and Pearson 120-City-Index of building activity, discontinued after 1936. (Heavy black line) A stylized 18-and-one-third-year real estate cycle line has been added by the Cycles author. From the mid 1920's, the dark broken line is the value of construction contracts awarded in 37 states, calculated by the F.W. Dodge Corporation, 1925-45.

- [Cycles 1](#)
- [Cycles 2](#)

Clarence D. Long - Without reinventing the wheel, a short but effective summary of Long's work is found in Rabinowitz, The Real Estate Gamble, (1980) page 242:

“Overall, Long found little evidence to suggest that building construction was a ‘leading indicator,’ rising in advance of a general economic recovery and declining in advance of a general downturn. If anything, the decline in building seemed to precede a depression, but the renewal of construction seemed to lag behind a general recovery. He observed four long cycles between the end of the Civil War and the late 1930s: a trough after the panic of 1873; peaks in the 1880's and early 1890's; a panic in 1893-1894 leading to depressed conditions through 1902; recovery through the recession of 1904 to a high plateau from 1905 to 1916; a trough in 1918; and a boom-briefly checked by the recession of 1920- rising through the mid-1920s and ending in the trough of 1933-1934.

His work reflected the idea that long cycles averaged about 18 years, but he wrote at length on the difficulty of explaining why such cycles existed. Population changes did not seem to have an influence, although he felt that wars might. He was forced to cast out the impact of physical deterioration, since the product lasted so much longer than the cycle, leading him to suggest that there was a psychological life to buildings. In any case, the ‘economic life’ of a building was an intangible, possibly related to the exhaustion of book depreciation and to the consequent release of income in business firms, but although

much of the stock was not formally depreciated, the non-residential sector seemed to have a shorter cycle than the residential sector. The role of the investment community was obscure in the real estate processes he described, but he was convinced that long cycles had a more profound impact on investment in construction than did short cycles.”

Jack M. Guttentag - Guttenburg’s work is also summarized by Rabinowitz, *The Real Estate Gamble*, (1980) page 243:

“The leading post-war article on short cycles in construction was written in 1961 by Jack M. Guttentag, who was then on the staff of the Federal Reserve Bank of New York. Guttentag’s greatest contribution to the theory of short cycles in residential construction was to identify the supply of mortgage credit as the major influence, rather than the long-run demand for housing which seemed to be critical in explaining long cycles in residential construction. Although Guttentag lacked direct data by which to measure the supply of credit in relation to the business cycle, he developed a set of inferences about it, finding residential construction to be slightly countercyclical in its impact over the 1946-1959 period that he analysed. His work was also notable for its handling of the relatively new influence of government interventions in the mortgage field, represented by both the FHA- VA programs (which affected the operations and judgements of the lending institutions) and the Treasury-Federal Reserve accord (which kept interest rates low prior to 1951 and whose termination reactivated a series of conflicting objectives among federal agencies thereafter).

Since Guttentag’s article appeared, the residential home building sector has been through three or four more short-term cycles, making a total of about seven such cycles recognized by the National Bureau of Economic Research and incorporated into the work of the Federal Reserve and other agencies. In general, Guttentag’s observations have been confirmed: housing is mildly countercyclical, demographic and personal income variables are not influential in determining rates, and the flow of mortgage credit is of exceptional importance. For all intents and purposes, the study of short-term cycles concerning residential construction has become the search for methods of stabilizing and enlarging the flow of credit.”

So noted Alan Rabinowitz in 1980. His comments as regards the flow of credit can be seen today as quite prescient given the huge growth in land value all around the world since 1996, financed almost exclusively on the back of bank created credit.

Friedenberg, Daniel M.

EIS finds it useful to view history in 18-year segments. We described the US that way, especially after the land rent was enclosed from 1800, on the US real estate pages of the site. Only towards the end of each 18-year period - tracked since 1600 in the UK - does one need to become alarmist and exceedingly careful about future property investments.

- [Harpers magazine, June 1961, The Coming Bust in the Real Estate Boom.](#)

June ‘61, as it turned out, was just the beginning. Interesting reading nevertheless.