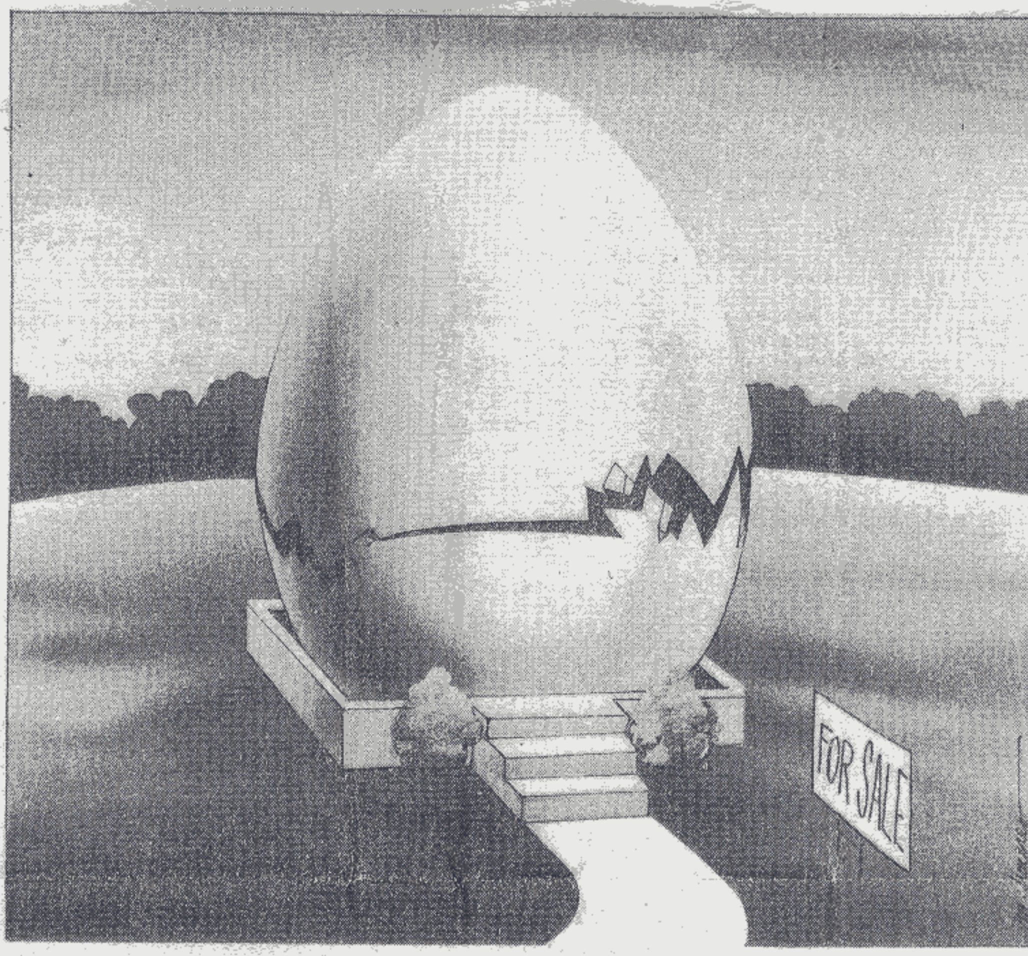
state Bubble About To Burst?

Is The Real Estate Bubble About

By Patricia Rice
Of the Post-Dispatch Staff



A "For Sale" sign is planted on John Wesley English's front lawn.

But this may be no ordinary sign. This sign just could be the voice of the a prophet crying in the wilderness of the money-mad house market. Putting up is the sign is part a plan by English, a former real estate investment adviser, to get a bundle out of the real estate boom and run before what he calls "the coming real-estate crash."

Here's his basic theory. Real estate climbs steadily in cyles that last nearly 30 years. Then, when its fine performance makes its seem invulerable to loss, it takes on a magic quality. Amateur buyers, running fast on gut reaction, speculate. They buy almost anything at any price like true believers at a Stones concert. Prices go wild. They cannot rationally be maintained. The bubble bursts and prices crash.

That neat theory is why English is taking his profits. And in the next three to five years, English will stash that cash in a variety of investments (none in real estate). Then he will buy a much finer house — maybe with pool and tennis courts — for less than the $130,000 he is asking for his three-bedroom, two-bath, basement-less house. Meanwhile, he will pay $500 a month rent — the going California rate — for a more luxurious $180,000 house.

Of course, all this is possible only if his prediction is right. Only if house and condominium real estate quakes.

The St. Louis-born lawyer, University of Illinois and Merrill Lynch alumnus is now a financial adviser at the Walnut Creek office (suburban San Francisco) of the 122-year-old New York firm of Shearson, Hayden, Stone.

"All over the country every one is talking about real estate," he said. "No one seems to think prices could even off, and they never seem to think houses and condominiums might go doowwwn in value. They are not so unrealistic about other investments," he said. The only possible recent phenomenon in his lifetime with which he can compare this attitude is the gut-investing in the '60s in glamour stocks. But even that was nothing like this, English said..

"It has all the signs of a boom before a crash," he said. "History really does repeat itself. The events may be a little different but the effect is always the same. It's people who cause booms and crashes. Human nature does not change. Afraid that is a old psychology major talking."

Amateur investors are running up mortgages on "gut feelings," total faith that the market will climb, and that scares him and other financial advisers, he said. So many investors are financial neophytes who give more attention to which brand of vacuum cleaner they buy than the way they buy real estate, he said. Banks are eager to lend. English knows one man who got his $5,000 house

(Reat Estate Investment Trusts) apartment busts of the early '70s. "That mess didn't receive that much publicity, even by real-estate people, because the people who lost money could afford to write it off. And they invested in modern apartments; it was not the average man losing value on his high-priced house."

This boom involves a checkout clerk at his supermarket, a woman of modest means who now has mortgages on seven houses. Banks required only one down payment, the one on her first house, she says. For additional houses, she has refinanced the previous house to build her personal Marvin Gardens or Boardwalk. English is concerned about what a crash could do to this clerk and millions like her.

If his grocery clerk reminds you of a character out of a movie about the 1929 stock market crash, you are not alone. Her story flashed back the same images for him.

But he does not stop there. She is just like the earnest investors who went bankrupt after the 1926 Florida real estate panic that affected speculation

books they found, not one developed negative theories about real estate, English said. Most how-to-buy books stressed that real estate always goes up and even outpaces inflation.

But their research points to a history of 30-year real-estate growth cycles producing such positive faith that the man on the street blindly jumps in, creating a boom.

Most last about three years, English said research shows. The belief in instant gold lures persons on tight budgets to mortgage all to make money fast. Then come the wild price hikes, and record-setting buying hovers and crashes. Afterward, according to their research, the market groans and aches for years. Cynics refuse to think of housing as more than a consumer item.

"When my father bought his farm in Bloomington (after World War II) the price was still low because of the '20s Florida crash," English said. He generally discounted the effects that the Depression and the farmhand shortage of World War II might have had on property value.

ing with savings accounts for emergencies, life insurance or saving for their children's college education. Everything goes into the house or into more than one house. The golden house will pay all.

Unlike the Chicago boom limited to the Midwest, extending only as far west at St. Louis, or the Florida boom limited to that state, this boom is national. Although prices may be more unrealistic in Hollywood, Washington and New York, the inflated values exist in every major metropolitan area, English believes. Only small towns where the boom has not hit are safe from a crash, he said. Much investment is out-of-town money. For example, some of his former clients who decided the price of residential real estate was too expensive for them in California took their money (down payment money only, of course) to Dallas, he said.

English and his fellow researcher, an engineering graduate of the University of Wisconsin, tried to explain their theory to clients whom they believe are getting too deep into the real-estate market.

were saying. Real
is a difficult ide
amazing how cer
mind that they w
with lot more for t
was no risk. It ta
it," English said. S
began to write one.

They have been
over a year. "The
Crash" will be pu
by the Dollar Grov
ton House Publish
$10. Sections are
what California's
to real estate and
als might do elsew

English thinks
have been misled
ing to be much la
Statewide, the pr
an average 57 per
house he is selling
$2,400 to 1 per cen
for the house in "
crease in federal t
some of that up. R
particularly those
housing units —
more nervous by
Proposition 13,
tax-cut advocate
calling for owners
ings to renters.
might be step one t

"Nobody wants
ty in a rent-control

Even now the b
housing rental unit
price that rents w
least double" to
come property, En
investors seem to
ing rental income
said. These buyer
with pulling in a 2
profit in a couple
the property, Engli

Eager salesm
price rises by re
buyers that the r
their house — the c
house in an inflatio
— can only go up.
author say this is to

"As prices go
that there will be
costs, but this is n
he said. The newly
the final product,
on a long list of con
concrete, plaster a
labor cost. English
of all the compone
ply and demand, li
a free market. He
ents check the co
see how any hous
lumber, fluctuates
he believes that
changing "very
where within the ne

He said it is mu
of a day when labo
But in a slow mar
unions will be grat