

For real estate veterans, it's deja vu again

Property observed

Robert Harley

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 sub-prime 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.

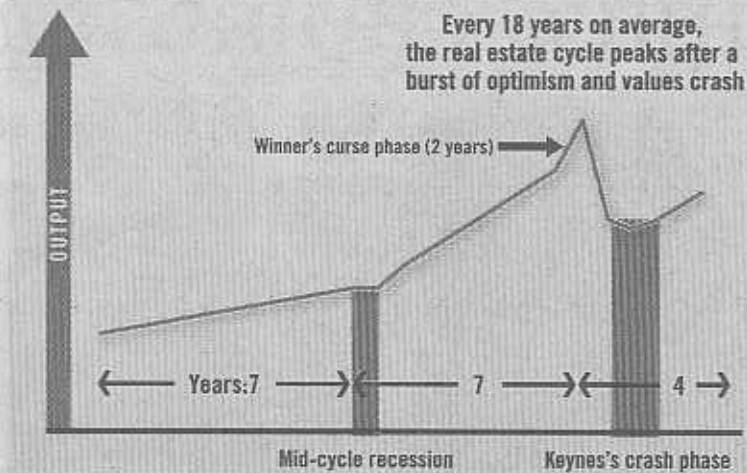
Australians don't have to go back that far.

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

Over the top

Profile of the 18-year real estate cycle



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 weeks the seemingly all powerful financier Cambridge Credit had collapsed and the Bank of Adelaide eventually went as well.

(Westfield chairman Frank Lowy says the recent global financial crisis is the worst he has faced but other veterans disagree. The collapse of the 1970s was "horrendous" said one, recalling a federal government in disarray, a rampant union movement and overnight interest rates that topped 20 per cent.)

Skyscrapers that marked real estate cycle peaks

Year	Building
1930	Chrysler Building, New York
1931	Empire State Building, New York
1974	Sears Tower, Chicago
1989	John Minuzzo's 107-storey tower, Brisbane (never built, developer went bust)
1989	Zarro's Arrow 445m tower, Gold Coast (never built, developer went bust)
Due 2010	The Burj, Dubai



SOURCE: THE SECRET LIFE OF REAL ESTATE

Phillip Anderson, the managing director of forecaster Economic Indicator Services has a 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.

rharley@afr.com.au