Real Estate

The Event Horizon

What Does the Future Hold with Recession & World War III

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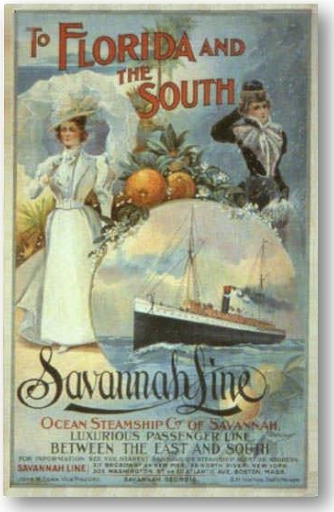
Real Estates & the Future

There is probably no greater question than what will happen to real estate if we head into inflation, war, possible depression, and sovereign defaults. There has been much myth about real estate and how the typical pundits forecast real estate entirely based upon interest rates. However, much of what we know today as Fannie Mae etc., comes from the Roosevelt era. These things did not predate the bottom of the Great Depression in 1932. To further complicate matters, there were no 30–year mortgages before Roosevelt.

The insurance industry was deeply involved in the Great Depression. When the stock market crashed, the formerly abstract risks endemic to the 1920s mortgage market surfaced as borrowers could no longer afford even moderate monthly payments. It was insurance companies that had lent into the mortgage market extensively more so than banks. It was primarily insurance companies who were foreclosing on liens they held on properties. Between 1928 and 1933, home prices declined by nearly 30% following the break of the Florida Land Bubble in 1927. During 1932, property values collapsed on average nearly 11% that year alone.



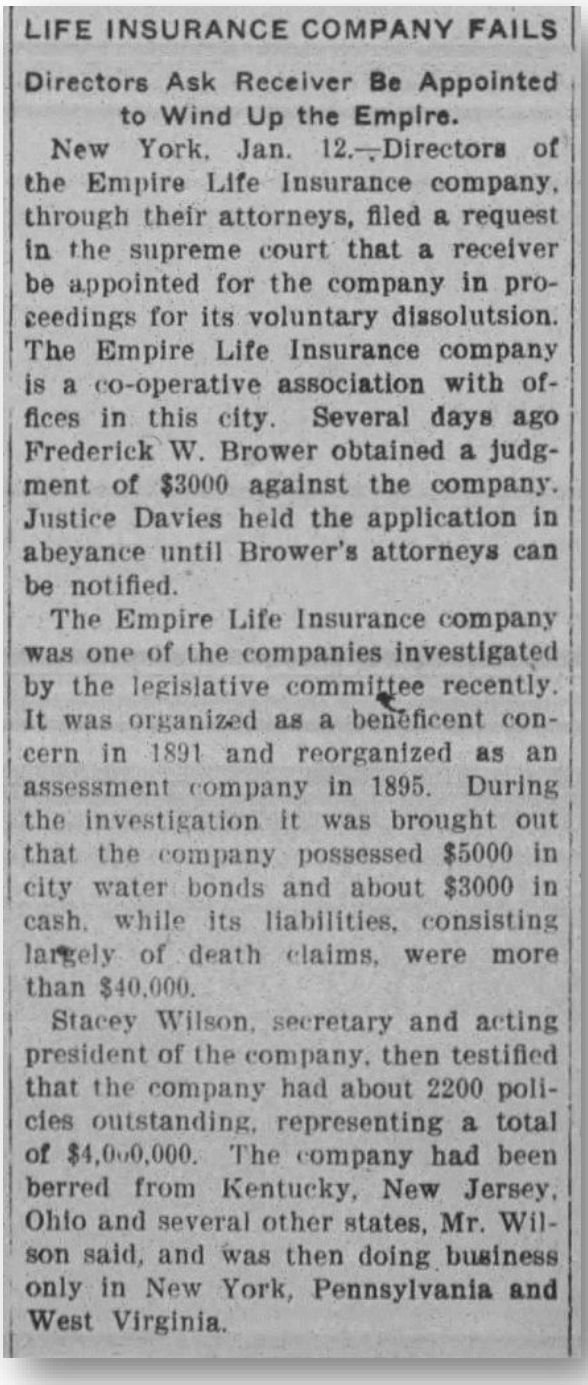
Consequently, while 9,000 banks failed, there was also a massive default of intermediaries such as S&Ls (Savings & Loans). The popular products they were selling were both the **balloon** and **amortizing mortgages**. The **amortizing mortgages** involved a share accumulation loan plan whereby borrowers were required to buy shares in the S&L each period until their holdings were at par with the amortizing loan principal at which point the debt was canceled.

Therefore, as the property values declined, the value of their forced share purchases had also collapsed. Defaults were thereby increasing the net loan balances for remaining borrowers by reducing the value of what was actually a sinking fund. This only led many others to default for their debt increased as the market declined. Many S&Ls were forced to liquidate their holdings completely resulting in over 5,000 collapsing during the 1930s. The more properties that went into default, the greater the market for property declined as more and more supply was up for sale.

Main Street, Maple Shade, N. J.

A friend of my father, Mr. Santor, owned most of main street in the town that I grew up in – Maple Shade, New Jersey. I remember asking him how he came to own most of Main Street. He said he had cash during the Great Depression and when prices collapsed, there were no mortgages people could turn to. He had cash, and bought it everything dirt cheap.

Life insurance had its beginning in the USA around the middle of the 19th century and experienced steady growth after 1880. They realized it was ok to sell fire insurance, but people would not buy death insurance. They switch the label to life insurance and then the boom unfolded. It was an early lesson in marketing.



LIFE INSURANCE COMPANY FAILS

Directors Ask Receiver Be Appointed to Wind Up the Empire.

New York, Jan. 12.—Directors of the Empire Life Insurance company, through their attorneys, filed a request in the supreme court that a receiver be appointed for the company in proceedings for its voluntary dissolutsion. The Empire Life Insurance company is a co-operative association with offices in this city. Several days ago Frederick W. Brower obtained a judgment of $3000 against the company. Justice Davies held the application in abeyance until Brower's attorneys can be notified.

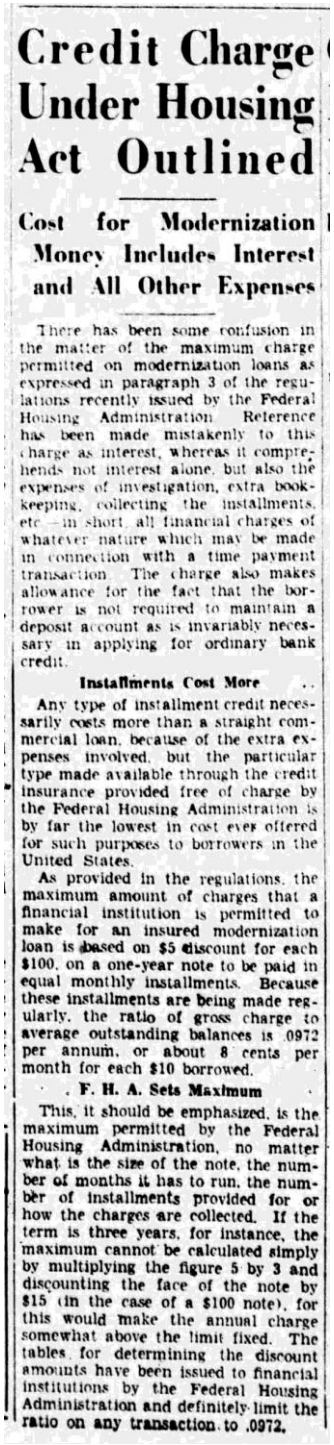
The Empire Life Insurance company was one of the companies investigated by the legislative committee recently. It was organized as a beneficent concern in 1891 and reorganized as an assessment company in 1895. During the investigation it was brought out that the company possessed $5000 in city water bonds and about $3000 in cash, while its liabilities, consisting largely of death claims, were more than $40,000.

Stacey Wilson, secretary and acting president of the company, then testified that the company had about 2200 policies outstanding, representing a total of $4,000,000. The company had been berred from Kentucky, New Jersey, Ohio and several other states, Mr. Wilson said, and was then doing business only in New York, Pennsylvania and West Virginia.

By the end of 1918, the total policies outstanding reached nearly $30 billion, which was huge back then. The life insurance business then entered a Phase Transition during the Roaring '20s, for in 1919 alone they wrote $8 billion in new policies. By 1929, the annual market was expanding by almost $20 billion. This large flow of new business created a Ponzi Scheme that far more than offset cancellations of old policies by deaths, maturities, or surrenders so that the total of insurance in force increased each year by $4 billion all the way to $8 billion.

While it took 79 years to achieve, in 1922 the first $50 billion of life insurance was accumulated whereby the second $50 billion was attained in less than 7 years. The total amount outstanding in life insurance exceeded $100 billion by August 1929. This actually exceeded the entire market cap of the stock market at the peak of 1929, which stood at $87 billion. The annual total of new business declined moderately at first during 1930, falling to $17.2 billion in 1931, and fell further in 1932 to an estimated $14.7 billion. To put this in perspective, you can just change billion to trillion and you will be at approximately 90% of today's market value.

With 121,759,000 policies outstanding at the end of 1931, the Association of Life Insurance Presidents estimated that 68 million persons, or over 55% of the population, were insured. It was estimated that this declined slightly to 65 million or 53% by 1932 at the bottom.



Credit Charge Under Housing Act Outlined

Cost for Modernization Money Includes Interest and All Other Expenses

There has been some confusion in the matter of the maximum charge permitted on modernization loans as expressed in paragraph 3 of the regulations recently issued by the Federal Housing Administration. Reference has been made mistakenly to this charge as interest, whereas it comprehends not interest alone, but also the expenses of investigation, extra bookkeeping, collecting the installments, etc.—in short, all financial charges of whatever nature which may be made in connection with a time payment transaction. The charge also makes allowance for the fact that the borrower is not required to maintain a deposit account as is invariably necessary in applying for ordinary bank credit.

Installments Cost More

Any type of installment credit necessarily costs more than a straight commercial loan, because of the extra expenses involved, but the particular type made available through the credit insurance provided free of charge by the Federal Housing Administration is by far the lowest in cost ever offered for such purposes to borrowers in the United States.

As provided in the regulations, the maximum amount of charges that a financial institution is permitted to make for an insured modernization loan is based on $5 discount for each $100, on a one-year note to be paid in equal monthly installments. Because these installments are being made regularly, the ratio of gross charge to average outstanding balances is .0972 per annum, or about 8 cents per month for each $10 borrowed.

F. H. A. Sets Maximum

This, it should be emphasized, is the maximum permitted by the Federal Housing Administration, no matter what is the size of the note, the number of months it has to run, the number of installments provided for or how the charges are collected. If the term is three years, for instance, the maximum cannot be calculated simply by multiplying the figure 5 by 3 and discounting the face of the note by $15 (in the case of a $100 note), for this would make the annual charge somewhat above the limit fixed. The tables for determining the discount amounts have been issued to financial institutions by the Federal Housing Administration and definitely limit the ratio on any transaction to .0972.

Mortgage Guarantee Company
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SECURITY

DIRECT PARTICIPATION IN FIRST MORTGAGE

Each of these Guaranteed First Mortgage Participation Certificates vests in the holder an actual part of a specific first mortgage on designated fee simple property.

Prior to the Great Depression, most mortgages were 5 to 7 years with the outside being 10 years. There were companies that would put together first mortgage portfolios and sell them to investors. The average default rate on property among first–time buyers during the 1930s was nearly 40% once the Great Depression began to unfold. This is why real estate prices collapsed following the 1931 Sovereign Debt Defaults of Europe, Asia, and South America. Even municipal governments in the USA defaulted, or should I say suspended debt servicing. The city of Detroit suspended all debt servicing in 1937 and did not resume until 1963.

The life insurance companies who were deep into mortgages certainly failed as it was often just really a Ponzi Scheme dependent upon new buyers to pay off the old claims. The Great Depression unleashed a massive liquidity crisis as banks failed on a wholesale basis.

Surprisingly, home ownership actually increased during the Great Depression as well by 3.7% to 4%. Mind you, cultural dynamics were different back then. Women could not even open their own bank accounts. Living at home was common until marriage for both men and women, multi–family homes were more common, and people simply lived with less. The playing field is completely different today.

In 1934, with Roosevelt's New Deal, the problem with real estate was a major issue. Life Insurance companies and banks as well as Mortgage Funds were all in crisis. There was a liquidity crisis and real estate prices collapsed for the ONLY buyer was someone with cash.

Roosevelt's New Deal was attacking everything including real estate. Congress passed the National Housing Act of 1934 on June 27th, 1934, which created two new agencies:

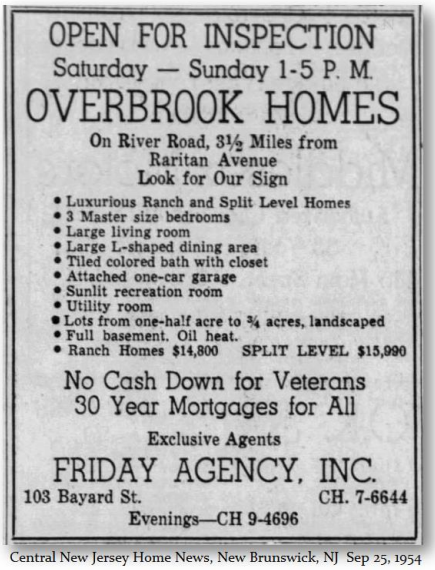
(1) the Federal Housing Administration (FHA), which insured mortgages met specific criteria, and
(2) the Federal Savings and Loan Insurance Corporation (FSLIC), which insured deposits at S&Ls.

Both of these steps were intended on shoring up the housing market by making credit available. The FHA moved to impose restrictions on the terms and interest rates of qualifying mortgages. They typically required fully amortizing mortgages to carry terms to maturity in excess of 15 years, with interest rates exceeding 5% annually in only isolated cases. The structure of these new mortgages mitigates much of the risk inherent to pre–crash instruments.

Not until the Great Depression and the formation of the FHA, mortgages were beginning to stretch out and depart from their previous model of 5–7 years. Suddenly, 15–year mortgages that were designed to fully amortize (in other words, if all

scheduled payments are made on time the loan is paid off, resulting in full homeownership) were being issued, shortly to be followed by longer loan terms.

With new extended payment schedules and improved liquidity in the marketplace that then followed the 1938 creation of the Federal National Mortgage Association (Fannie Mae), lenders were willing to entertain longer loan terms. This is what actually opened the door to increased homeownership with the 30–year mortgage.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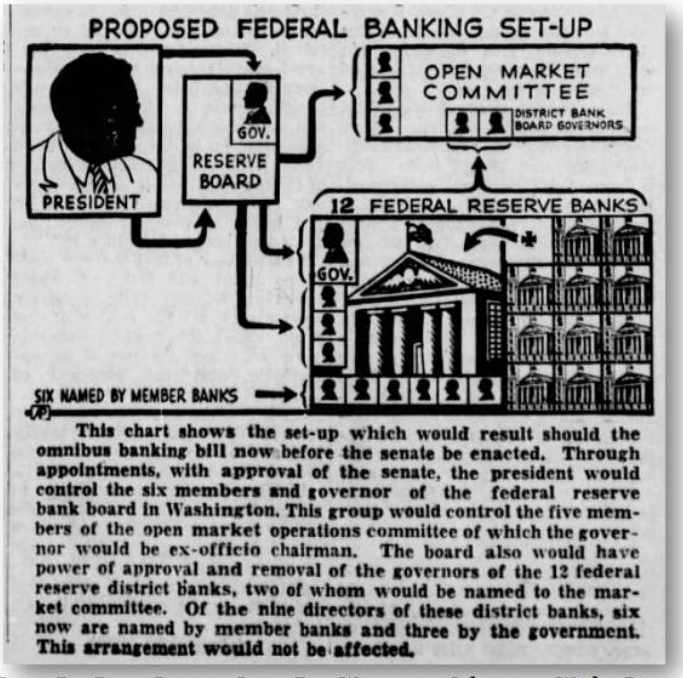
Central New Jersey Home News, New Brunswick, NJ Sep 25, 1954

At first, it wasn't at all clear the 30–year mortgage would dominate the marketplace. While the FHA cleared the way for its eventual arrival, 15– and 20–year mortgages were the dominant term. Indeed, the 30–year mortgage wasn't even officially authorized by Congress until 1948 postwar, but it was at first restricted only to new construction. Finally, in 1954, Congress extended the 30–year mortgage for existing homes.

Congress was also authorizing veterans to buy homes with no down payment. Given these facts, it's not surprising that for much of the 1930s–1950s, the 15–year mortgage was the primary mortgage for most homebuyers. It was only when the Fed began raising interest rates in the mid '50s that it became abundantly clear to the FHA that a longer loan term could help offset these spikes in interest rates. Homebuyers also appreciated the lower monthly payments that the 30–year model provided. Lenders however, took some persuading.

Also, as part of the New Deal, Roosevelt also attacked the Federal Reserve and its independence. Prior to the Great Depression, each branch of the Federal Reserve operated independently to balance out the internal capital



This chart shows the set-up which would result should the omnibus banking bill now before the senate be enacted. Through appointments, with approval of the senate, the president would control the six members and governor of the federal reserve bank board in Washington. This group would control the five members of the open market operations committee of which the governor would be ex-officio chairman. The board also would have power of approval and removal of the governors of the 12 federal reserve district banks, two of whom would be named to the market committee. Of the nine directors of these district banks, six now are named by member banks and three by the government. This arrangement would not be affected.

Green Bay Press-Gazette, Green Bay, Wisconsin - July 3, 1935, Wed • Page 5

Federal Reserve August 1927
Discount Rate

Atlanta	4.0%
Boston	4.0%
Chicago	4.0%
Cleveland	4.0%
Dallas	4.0%
Kansas City	3.5%
Minneapolis	4.0%
New York	4.0%
Philadelphia	4.0%
Richmond	4.0%
St. Louis	4.0%
San Francisco	4.0%

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flows. Roosevelt usurped the Fed and made Washington the head office and each branch was then to follow the central policy. Thus, this is when the Open Market Committee was established and national monetary and credit policies were determined in Washington which would gradually become the new political economy and *Laissez–faire* was now officially dead.

As World War II approached, politics took control of the Federal Reserve. Once again, the Fed was ordered to support US government bonds at par – the first Quantitative Easing. Federal Reserve rebelled when the US was moving into the Korean War. President Truman announced that the Fed would comply with his decree, and they outright denied any such agreement. The Fed rejected the idea of continuing to support the government debt market in the face of the Korean War and asserted its independence in 1951. Therefore, this rate hike impacted the mortgage market.

Politicians began to spend whatever they wanted to win the election and criticized the Fed if inflation appeared when the Fed had no control over the fiscal spending of Congress.

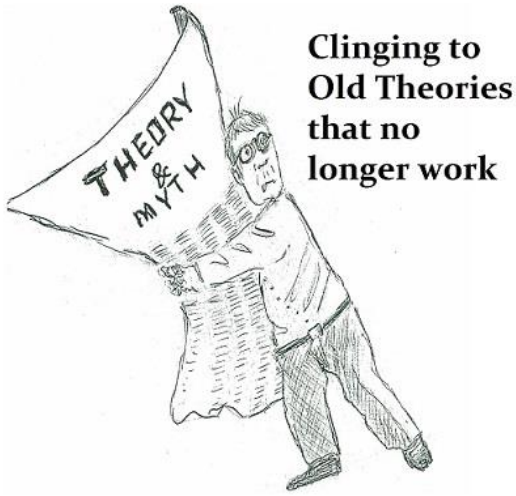
That's why Fannie Mae (and later Freddie Mac) were so important to the success of the 30–year mortgage: Through buying and guaranteeing conventional mortgages, they all eliminated lender risk, providing incentives to keep loans flowing out to homebuyers. Suddenly, 30–year mortgages were everywhere. And first–time homebuyers were the grateful recipients and banks had their "guaranteed trade" for 30 years.

The great American dream of owning a home with a white picket fence sharply rose during World War II thanks to suburbs expanding and the GI bill that assisted service members in purchasing real estate. Homeownership during this time jumped to 65% from the Great Depression period.

The bankers blew–up the entire Mortgage Market creating worthless portfolios and having credit agencies rate them AAA on the bogus assumption that 100% would not default. The bankers created this scheme to make money and NEVER considered what the social implications would be. Fannie Mae and Freddie Mac were undermined by the bankers.

These two companies are in the longest conservatorship perhaps on record. Because the law governing these agencies is separate from banking conservatorship law, judges have largely done nothing about Fannie and Freddie shareholder complaints to date. The government's 2012 net worth took all of the money that they said was worthless back in 2008–2011 that was on the balance sheets. Keep in mind that FHFA was acting as conservator when this was all agreed.

Fannie Mae and Freddie Mac were supposed to be allowed to retain capital, but long–term, the government–run conservatorships are not sustainable for Fannie Mae or Freddie Mac. Each company has a tiny capital reserve and is operating on a financial commitment from taxpayers. They cannot rebuild capital under the terms of support from Treasury. It is unlikely that Congress will any time soon address the future of Fannie Mae and Freddie Mac and the housing finance market. FHFA will continue to carry out its responsibilities as Conservator. The bankers totally blew–up this Roosevelt program and in the end, this introduced a time bomb under the mortgage market.



Moreover, our model has been warning that the interest rate was going to enter a major divergence. The Federal Reserve is trapped by Keynesian Economics. It must raise interest rates because that is the only tool it has to fight inflation. Central banks, according to our model projections, would be forced into a corner.

As the Federal Reserve raised rates, this would put emerging markets into a debt spiral and eventually default. Europe is a basket case to say the least.

Expect divergences as we move forward into the next cycle. Because of war in Ukraine, we are most likely going to witness further capital inflows to the USA. This could impact the yield curve and while the Fed raises rates, it has power only over the short–term. That is why it engaged in Quantitative Easing buying in long–term debt under the assumption that that would lower long–term rates. What this looks like is that short–term rates will rise in the fight against inflation, but the capital inflows will also focus at first on the 10–year bonds. Thus, this makes it possible to see the yield curve move to retest the downside.

The Decline in 2023

There are a lot of people putting out nonsense claiming that the Roaring '20s was a period of low inflation but they are just putting out propaganda. Inflation may not have been present in raw commodities following World War I, but insofar as real estate there was a boom into 1927 which reached a peak. The Producer Price Index declined sharply following the Panic of 1919.

Inflation was rampant as evidenced by the Florida land boom and the bull market itself. People were not standing in line, hoarding toilet paper or sugar as they were in the 1970s. We saw a flood of capital that moved to the USA because of World War I and that led to capital concentration but they were bidding up the price of housing, stocks, bonds, diamonds, furs, and automobiles. This was a period of inflation in tangible forms of wealth, which in reality caused a great expansion in this tangible money supply that was just as good as gold and could be placed as collateral at a bank for borrowing purposes.

HARDING AGAINST FOREIGN BONDS IN SOLDIER BONUS

President To Insist That Legislation Provide Definite and Certain Revenue To Pay Service Men.

Washington, Feb. 7.—Word went out today that President Harding was opposed strongly to the writing into the soldier bonus bill of a provision for the use of the refunded foreign bonds in helping to finance the adjusted compensation program. Confidence was expressed that no such provision would be included in the measure.

The president was represented as taking the view that since the refunding negotiations would be incomplete when the bonus bill was passed it would be unwise to depend upon the foreign bonds as a source of revenue to meet the compensation payments. In his talks with comgressional leaders on this subject he is understood to have insisted that the bonus legislation provide definite and certain revenue sources.

The problem of financing the bonus is giving congressional leaders no small amount of concern. With the house ways and means committee hearings brought to a close today, majority members of that committee and the senate finance committee plan to attack that problem within a few days.

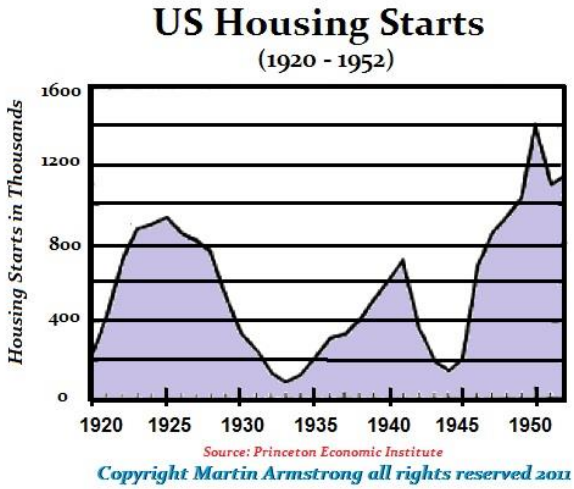
One difficulty in connection with drafting of the bill, it is explained, is the lack of definite information as to be cost of carrying out the "five way" plan. This will depend upon the number of former service men who choose the various plans. If all take cash the cost would be approximately $1,500,000,000 within two and one half years. The basis upon which the committeemen will work in solving the financing problem probably will be that fifty per cent of the men will take cash.

Since the cash payments would be distributed over more than two years, with each quarterly payment during that period equalling one tenth of the total to be paid to each applicant, many members of congress believe that a large majority of the men will elect one of the other four plans, insurance, vocational training, land settlement and home aid. Officials of the American Legion who have appeared before the house committee also share this view.

Fiscal officers of the army, navy and marine corps have submitted estimates to the committee that the total cost of the bonus would be approximately $2,500,000,000. This is on the basis that fifty per cent of the men who served with the army and seventy-five per cent of those serving with the navy and marine corps will take cash. Navy and marine corps officers told the committee today that the seventy-five per cent figure was arrived at on the theory that men who served at sea were less tied to the land than those who served in the army.

February 8, 1922

The stock market was moving higher from its 1921 low, once again, following the opposite trend of the dollar. The economy was boomed in many sectors, yet, by and large, the press remained negative. The housing construction figures are reflective of how the consumer was apparently doing better than the professional stock traders.



There was nearly a 5% increase in the construction industry between 1921 and 1922. This was the sharpest rise for the entire period known as the Roaring 20s. The peak was reached in 1925 in housing starts, and even 1939 levels would be 20% below that which was recorded during 1925.

One issue that also helped the U.S. markets at that time was the severity of the foreign loan situation. In February 1922, President Harding called a conference at the White House. In attendance were Secretaries Hoover, Hughes, and Mellon, along with representatives from the banking industry and the bond issuing houses.

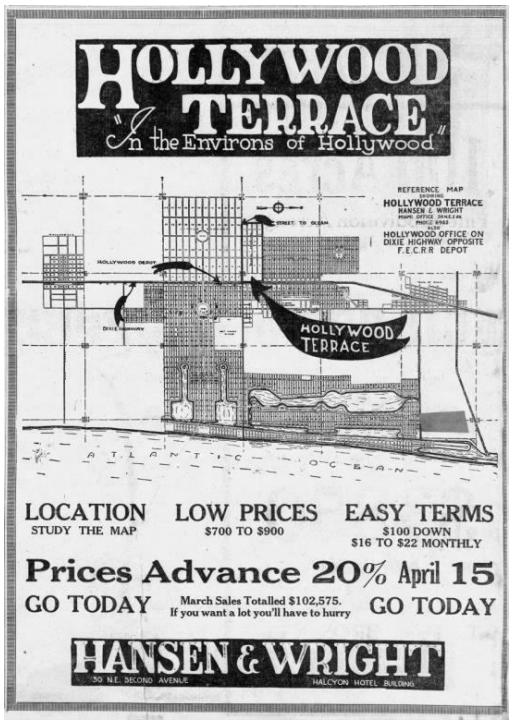
President Harding (born 1865, President 1921–1923) was alarmed at the number of foreign bond issues that floated into the States. Individuals from overseas, as well as representatives of foreign governments, were coming to the U.S. financial markets to raise capital. They offered rates between 5% and 8% to attract badly needed capital

to Europe. As the money flowed to the U.S. from overseas investors, Europe's cash flow was in jeopardy. Many became concerned over the security of many of the bonds issued. In addition to troubled security, the outflow of capital had driven the dollar down on foreign exchange markets.

The White House conference concluded in early 1922 that any foreign bond issue needed to be submitted to the State Department for its opinion. The State Department, in turn, referred the submission to the departments of Commerce and the Treasury. The Commerce Department ventured the opinion as to the security and repayment ability of the intended borrower, whereas the Treasury ruled on governmental issues as to their political desirability.

The big New York banks complained about the restrictions, in fact, the Governor of the New York Federal Reserve, Benjamin Strong (1872–1928), filed a protest with the State Department in April 1922. It is arguable that Benjamin Strong would eventually almost single–handedly create much of the damage that caused the panic of 1929.

By the 1920s, economic prosperity had set the conditions for a real estate bubble in Florida. Miami had an image as a tropical paradise and outside investors across the United States began taking an interest in Miami real estate. Due in part to the publicity talents of audacious developers, such as Carl G. Fisher of Miami Beach who was famous for purchasing a huge lighted billboard in New York's Times Square proclaiming "It's June in Miami."



Property prices rose rapidly in Florida on speculation as in this advertisement from 1925. There was both a land and development boom capturing the imagination of everyone. Brokers and dealers speculated wildly in all classes of commodities and ordered supplies vastly in excess of what was actually needed. They even sent shipments to only a general destination, with the end result being that railroad freight cars became stranded in the state and choked the movement of rail traffic.

The Florida land boom of the 1920s was Florida's first real estate bubble. By January 1925, investors were beginning to read negative press about Florida investments and stories of people being

duped into buying swampland. Forbes Magazine warned that Florida land prices were based solely upon the expectation of finding a customer, not upon any reality of land value. New York bankers began lending on real estate and the IRS began to scrutinize the Florida real estate boom, closely questioning if it was a fraud operation. Speculators intent on flipping properties at huge profits could no longer find a buyer.

By June 1925, the real estate market in Florida was in a serious liquidity crisis. The market turned down and the building boom collapsed; by October 1925, the "Big Three" railroad companies operating in Florida—the Seaboard Air Line Railway, the Florida East Coast

Railway, and the Atlantic Coast Line Railroad—all imposed an embargo due to the rail traffic gridlock and fearing payment. They would only deliver foodstuffs, fuel, perishables, and essential commodities to Florida.

The June 9, 1939, edition of the Brooklyn Eagle, quoted Whistling Willie, an investor who had done well in the Florida land boom. Whistling Willie, who became a famous Negro land speculator, said he would not connect his bathtub to the house knowing that he would lose it when it foreclosed. Willie said:

> *"I started with a dollar and a half, and ten years later I had a dollar and a quarter."*

Yet, the Florida land boom left behind entire new cities and the remains of failed development projects such as Aladdin City in south Miami–Dade County and Isola di Lolando in north Biscayne Bay. This land boom shaped Florida's future for decades by carving out entire new cities from the Everglades.

Once a real estate market starts to boom, it typically moves into a contagion and spreads to other regions. There was considerable expansion in this sector due to the expanding economy and high employment, not to forget the positive capital inflows. The housing shortage was also an impact that drove prices up in general, even in New York City. However, the housing shortages were officially over by June 1925 and real estate began to decline in value virtually everywhere as the stock market raged onward for four more years.

United States Real Estate

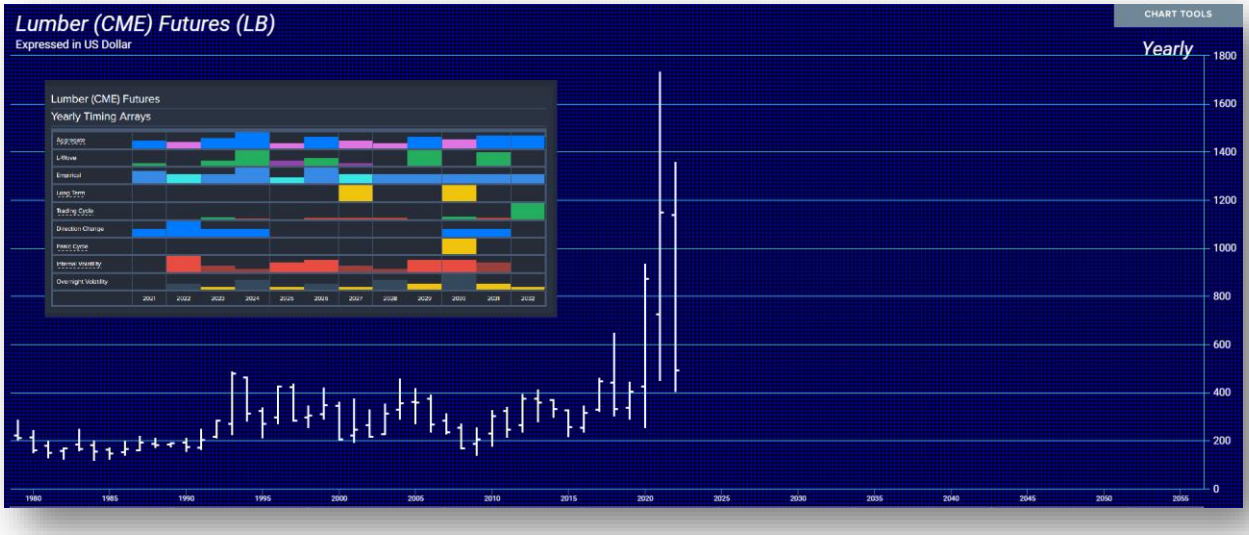
In 2021, the real estate industry accounted for 17% of GDP in the United States. Investors, landlords, and house flippers did well during this housing boom. Our model had projected a high for 2021 with a Directional Change and an ideal decline for 2 years into 2023. So far, that appears to be on target. According to Zillow, the total value of US residential real estate hit $43.4 trillion and according to the Federal Reserve, the equity in residential property is about $27 trillion.

Keep in mind that this is the "average" whereas there is also the flight from the cities and states with the highest taxation. So, some areas will not rise sharply, but they will also not decline significantly either. Cities and states like California will decline the most. According to our survey of realtors, the high–end houses $1.5+ appear to be selling for cash deals. This is why we see a high equity level of about 62%. It appears that we have people parking money in high–end real estate, fearful of banks and the push toward digital currency.

The average American suffered as rental prices rose in line with monthly mortgage payments. Still, obtaining a house remained difficult for the middle class after the bankers blew up the real estate market. Those with fixed low rates are not likely to sell so this has curtailed supply to a large extent.

Housing has composed the majority of our household expenses, and countless people who did purchase feel asset rich, but cash poor thanks to rising taxation at every

level. Then add the shortages from COVID pushing prices of everything higher, and we find the prospects for recession well entrenched going into 2023. The Fed's policy has been focusing on the demand side raising rates because it has no ability to control the supply side of the market.



While the overall market is soft going into 2023, we also have a strange level of underlying support. Of course, the market is not leverage as was the case in the 2007–2009 crash instigated by the bankers. This time we are facing rising prices also on a shortage of housing. Hence, the pure analysis that only looks at interest rates misses the entire picture.

Moreover, the prices of lumber shot up because of COVID in 2020 and reached a crazy high in 2021. Nonetheless, as 2022 was a Double Directional Change with high volatility, the existence of addition Directional Changes in 2023 and 2024 with the main target for a turning point being 2024, warns that is the 2022 low holds, we can see a rebound for two years into 2024 sparked by a continued capital flight from Europe and Asia thanks to war.

British Real Estate

Property prices for the UK market during June 2022 managed to reach their sixth consecutive record of £369,968, up 0.4% in the month (+£1,354). This has been in the face of a declining British pound. In real terms, British property has not actually made gains in terms of international value.

Price and sales reports have been spotty at best. The COVID pandemic shutdowns in Britain were insane. Consequently, 2022 has been a slight bounce following the most draconian lockdowns of many countries. The UK property forecast into 2023 does not appear to be promising in real terms. Actual property demand has been down.

The Royal Institution of Chartered Surveyors (RICS) stated that 27% of professionals that were surveyed, saw reduced interest from potential house buyers at the end of May 2022. That was down almost 10% on a year to year basis. Nonetheless, the available supply for sale also declined by nearly 40% too from the previous year.

Here also we see the flight from the cities to the suburbs. The lack of supply in the suburbs has actually been driving further price growth in those areas against weakness in the city markets. It has been this same trend of fleeing from the cities that has created a demand that strangely continues to exceed historically normal levels by about 25% above 2019 levels. Still, this demand has declined here in 2022 by about 7%

When we look at the performance, British Residential property peaked in 2006. The immediate crash low was 2009. The market rebound lasted until the peak in our Economic Confidence Model at 2015.75 marking what we warned would be the peak in the confidence of government. That led to Trump's election and his main cry was to drain the swamp. Of course, the swamp fought back and had him removed in 2020. All of that was the start of the decline in confidence of government and ever since 2020, the government has adopted an authoritarian approach.

We can see that there are three Directional Changes between 2021 into 2023 with rising volatility in 2022 into 2023. However, the main turning point near–term will be 2023. Ideally, that should produce an initial low.

Granted, property prices combined with rising interest rates, means first–time buyer's monthly mortgage payments for a two–year fixed rate loan is now 20%, or about £175, higher than 2021. The average mortgage payment is now about £975 per month. While inflation in the UK has risen to almost 12% over 2021, rent growth has actually failed to keep pace coming in at just under 2.5% declining already from 2021 levels which were just under 4%.

The prospect for UK property on an international basis looks rather bleak until 2028. That appears to be the potential for the final low. However, it is also the possible final low for the British pound against the US dollar making it a 164–year decline.

European Real Estate

Europe's real estate market faces an uncertain outlook between the prospects of Ukraine unleashing World War III or at least another European War in addition to rising borrowing costs and economic uncertainties where governments appear to have simply lost their minds along with all fiscal responsibility.

Made for minds.

NEWS

German Greens lay out nuclear power position amid federal government infighting

After bitter debate, the Green Party agreed to support ongoing operation of nuclear power plants in Germany but rejected procurement of new fuel rods. Germany's government is currently having the same argument.

Fiery speech: Economy Minister Robert Habeck at the Green Party congress in Bonn

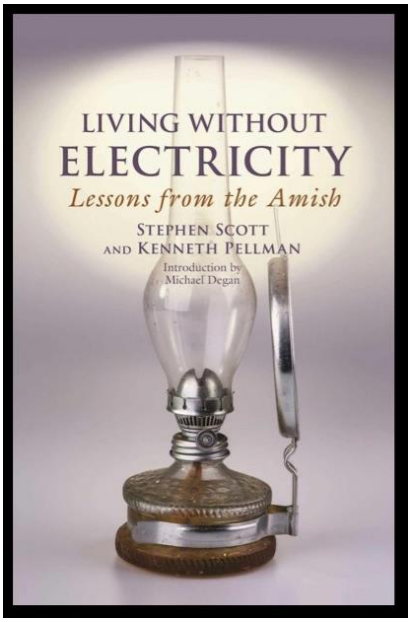
The Green Party, one of three coalition parties governing at federal level, supported German Economy Minister Robert Habeck in his plans to keep two nuclear power plants on standby, in case of an energy crunch over winter, up until April 2023.

Europe's commercial real estate market has been facing an extremely difficult period with the decline in confidence in government, rising inflation, fuel shortages, and rising interest rates. The Greens in Germany cheer not just eliminating all fossil fuels, but nuclear power as well. This has unleashed tremendous uncertainty with respect to the future economic conditions of Germany, the economic core of Europe.

Germany's Green party has backed Economy Minister Robert Habeck's plan to extend the life of two nuclear power plants only until April 2023. How business will even survive in Germany is truly a serious question. There is no way Germany will be in a position to simply switch over to alternative energy with windmills. The extremists in this climate change are clearly undermining Germany and the entire European economy.

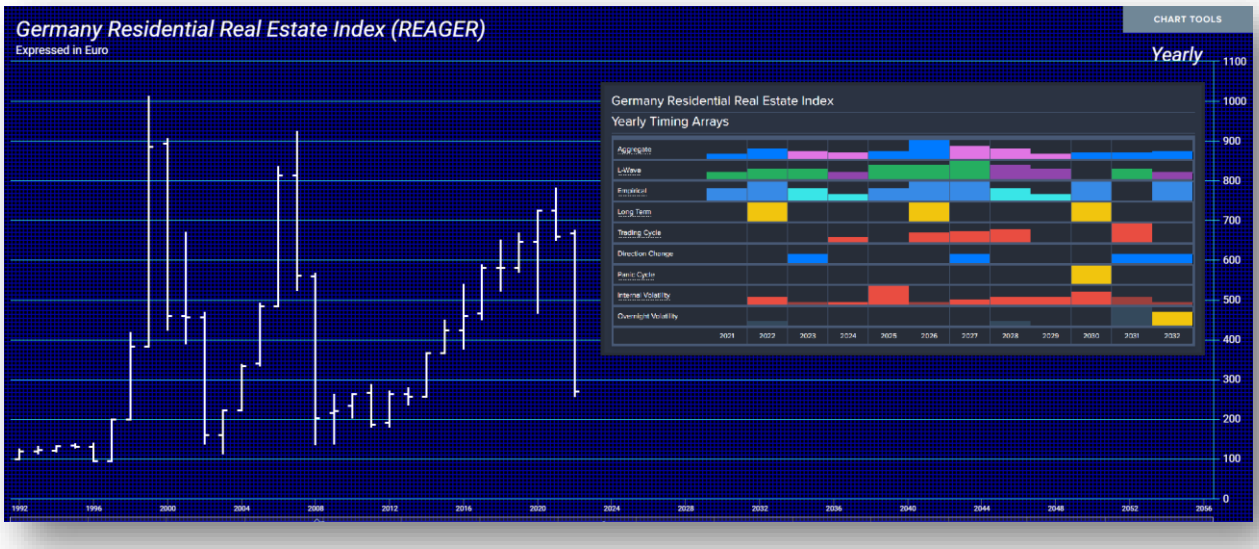
The Greens in Germany have a long–standing opposition to nuclear power, despite the fact that it is the only real alternative to fossil fuels. The Green party co–leader Ricarda Lang made it very clear that any permanent return to nuclear "will not happen with us." She further made it clear that "nuclear power is not the future."

The cookbook with the 50 recipes from the winners of the "Cooking without electricity" competition will be published on September 27 and is now also available in bookstores. The 50 best recipes now selected offer breakfast ideas, soups and salads, main courses, snacks and desserts.



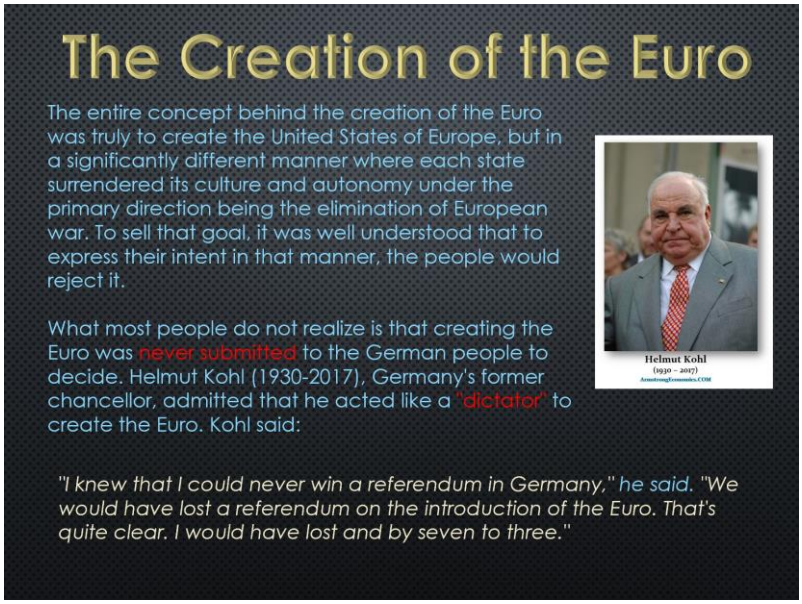
The irrational demand of the Germany's Greens in shutting down its last three remaining reactors in the midst of Europe's worst energy crisis since World War II, has undermined the economy moving forward. Even the climate activist Greta Thunberg questioned the logic of closing down nuclear power only to replace it with greenhouse–gas–producing coal. We have reached the point of total insanity. Germany now has a book out on how to cook without electricity.

Of course, we can live without electricity. No more internet and certainly no more digital currency. The Romans burned oil for light. The Amish do not use electricity, and they still use horses. The Greens seem to want a return to the pre–Industrial Revolution yet somehow think wind will allow the digital world to survive. That will change everything right down to employment. Should we return to burning wood and hunting whales for their oil?

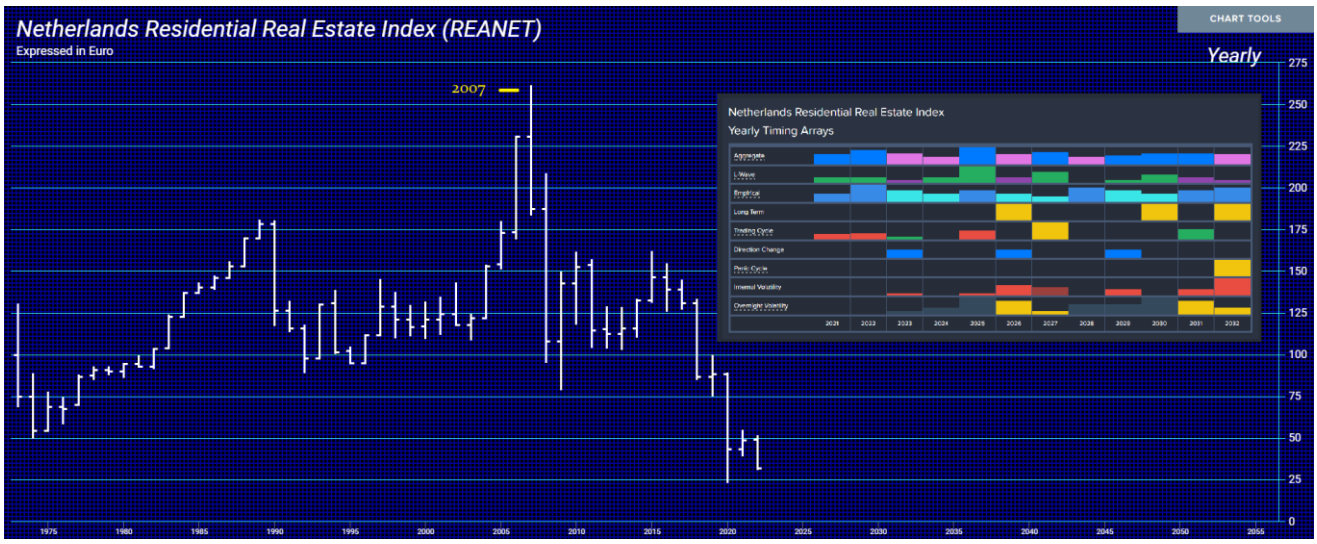


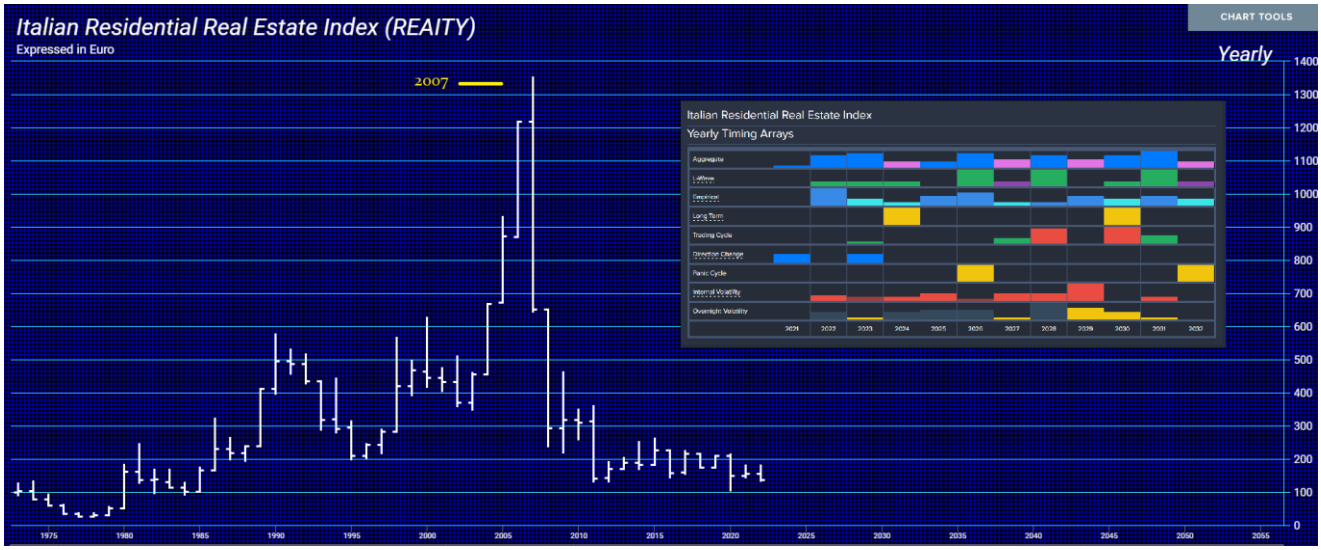
The German Residential Real Estate peaked in 1999 with the introduction of the euro. Chancellor Kohl admitted that he pushed Germany into the euro as a dictator and never allowed the people to vote on the question. Kohl outright told everyone the same pitch – this would create European peace.

"I am convinced that the success story of the D-Mark in our country continues with a track record of the euro. The benefits that we have worked with the D-Mark and the Deutschmark – and rightly so – guess not lost. They are incorporated into a larger whole to Germany's advantage and to the benefit of Europe. The euro will strengthen the European Union as a guarantor of peace and freedom."



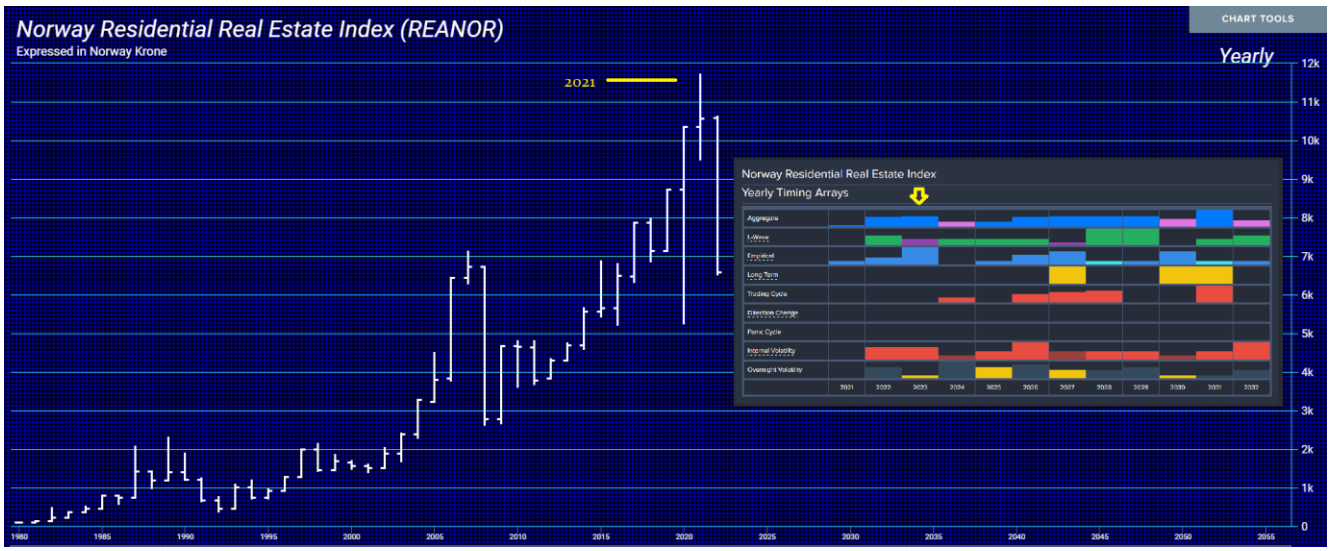
We can see that Germany has not responded well to the introduction of the euro and housing never entered a bull market into 2007 as most of the rest of the world.



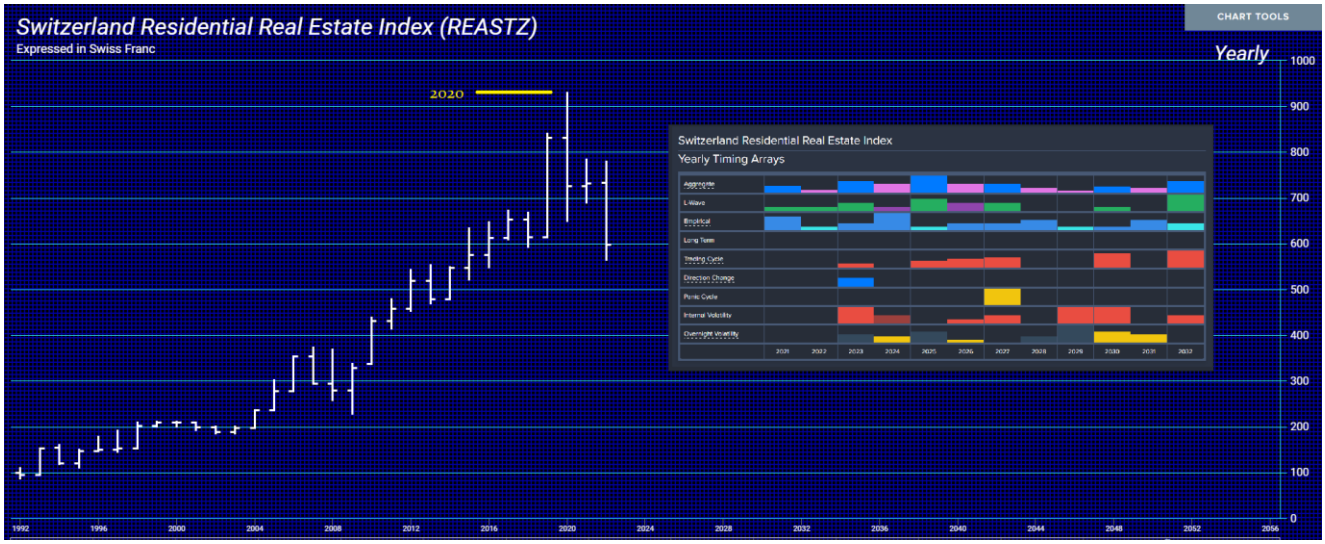


When we look around at Europe, we can see that most real estate markets peaked in 2007 with the major Real Estate & Mortgage–Backed collapse thanks to the bankers. Most indices suggest pressure on the downside into 2023. We see Panic Cycles overall during the 2026 to 2028 period in the real estate markets overall throughout Europe. This certainly warns of European war ahead.

Most likely, we will continue to see that the dollar becomes the reservoir for capital globally, but not necessarily government instruments. This most likely accounts for the divergence between the United States and that of Europe. Consequently, there is nothing on the horizon that implies new highs in Europe in the real estate market in the months and years ahead prior to 2032.



When we look at Norway, outside of the euro, its energy production saw its real estate market boom into 2021. While here we see a two-year correction into 2023, it is still unlikely that we will see new record highs at least before 2025.



Turning to Switzerland, also outside the eurozone, the high was in 2020 with the turning point on the Economic Confidence Model. We have a Directional Change in 2023 and there could be a moderate bounce into 2024. Here too we have a Panic Cycle in 2027. This reaffirms that the long-term prospect for Europe as a whole does not look very promising.

Property Investment has declined 9% year-on-year into 2022. While most claim the slowdown was due primarily to increased borrowing costs, in truth, the economic uncertainties are significant between war and green insanity.

European Real Estate

European property shares fell 29% in Q2 2022, nearly doubling the losses of European equities. The confidence concerning European listed real estate funds has indeed significantly deteriorated as we head into 2022 more so than equites in general. Of special concern has been those areas where low funding costs over the past decade have reduced the yield on property in absolute terms thanks also to the negative interest rates imposed back in 2014. The yields have declined in some cases even below the marginal costs of funding.

Inflation has triggered rising interest rates across central banks in Europe, which has impacted both valuations as well as future expectations. European investors were buying multi–family property investment that has risen significantly compared to single–home residential.

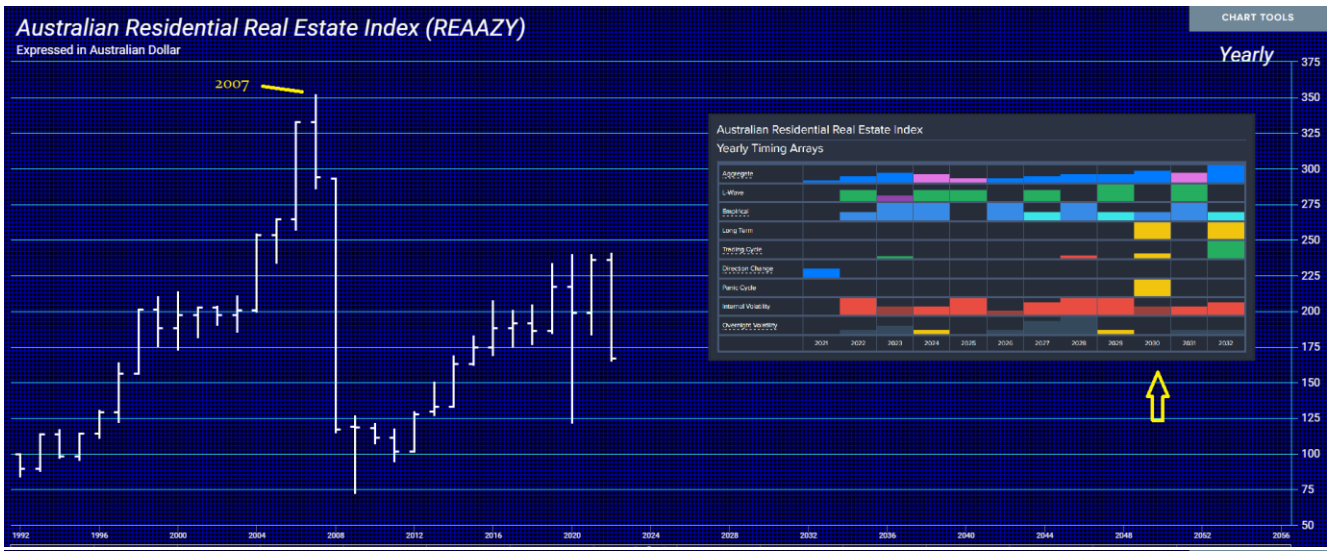
The outlook for European real estate has turned rather negative into 2023, especially with property in Germany doing the worst.

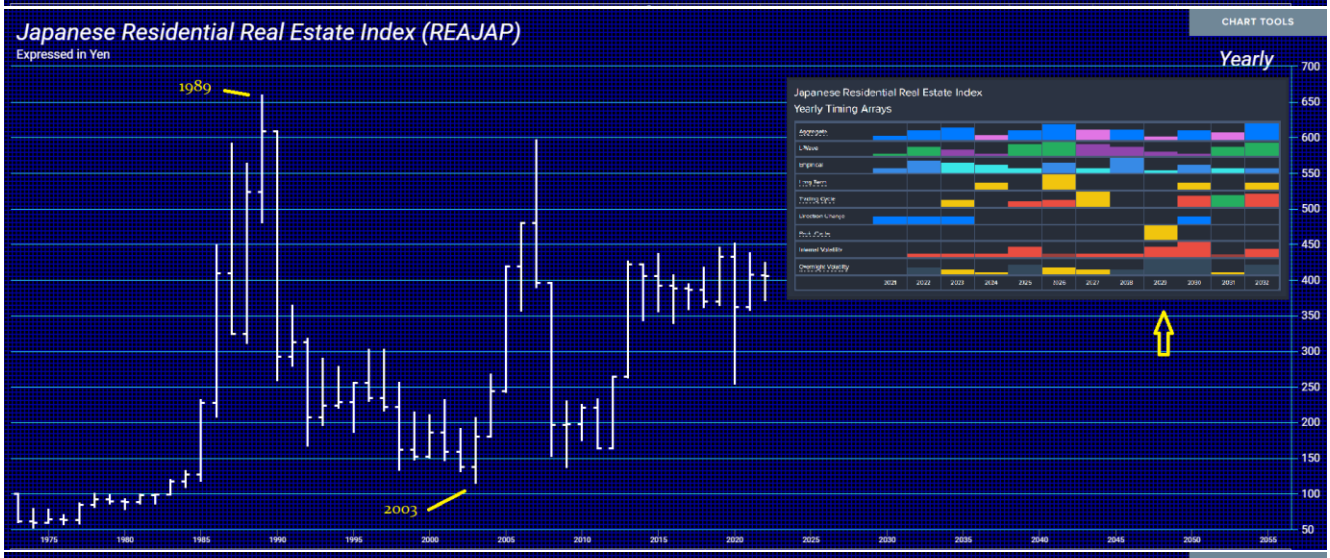
Austral-Asian Real Estate

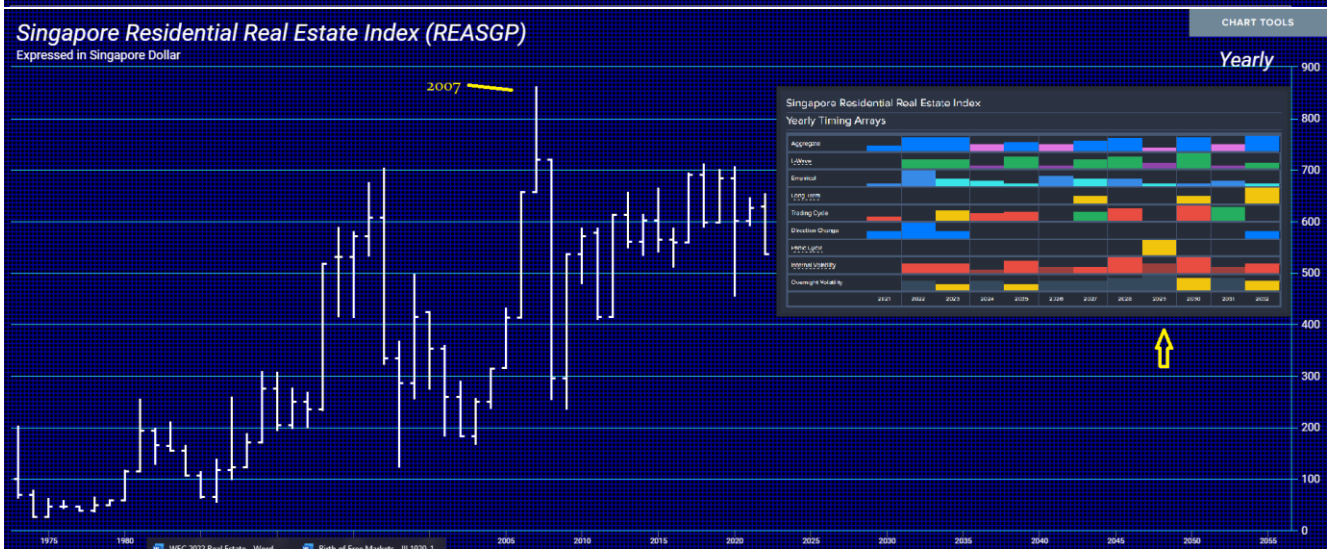
When we look at the prospect for real estate in the East, we can see that our forecast back in 1989 that the peak in our Japanese real estate in yen terms would last for our lifetime, has been correct. The mismanagement of the Japanese government ensured the demise of Japanese real estate and it has been unable to score any new time record highs.

Nevertheless, while other markets peaked in 2007, the striking similarity is that we see a Panic Cycle forming generally in 2029 throughout most Austral–Asian real estate markets. The total value of Australia's residential property market is now worth $9.7 trillion after growing at the fastest annual pace on record in 2021. However, the A$ peaked at US$1.10 in 2011 and fell to 55 cents in 2020. Therefore, the gains in real estate are purely reflected in the decline in the currency rather than in terms of true international value.

In the case of Japan, in 1989, the Japanese yen stood at about 123:1 against the US dollar. By the low in the Japanese real estate index in 2003, the yen rose in value to 106:1 against the dollar. The bounce into 2007 only saw the yen at 105:1. Our index in 1989 reached 660 so that in dollar terms would be 5.36 where as in 2007 the index was 597 would have made the dollar value at 5.68 which was a new high internationally.


Australian Residential Real Estate Index (REAAZY)
Expressed in Australian Dollar
CHART TOOLS
Yearly
2007
Australian Residential Real Estate Index
Yearly Timing Arrays


Japanese Residential Real Estate Index (REAJAP)
Expressed in Yen
CHART TOOLS
Yearly
1989
2003
Japanese Residential Real Estate Index
Yearly Timing Arrays


Singapore Residential Real Estate Index (REASGP)
Expressed in Singapore Dollar
CHART TOOLS
Yearly
2007
Singapore Residential Real Estate Index
Yearly Timing Arrays

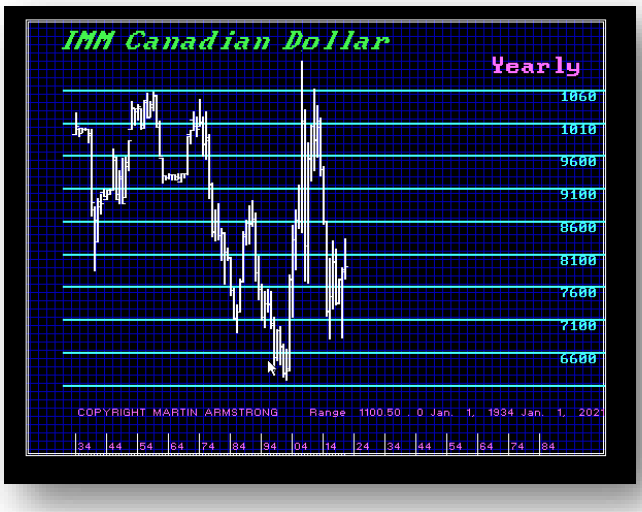
As the A$ has bounced back from the 55–cent level in 2020, the residential property prices indeed rose 23.7% through 2021. This implied an increase in the paper wealth of property owners by $2 trillion. The cheap A$ prompted a rush to investment. Interestingly, the total of all the loans outstanding against all the residential real estate in Australia is $2.1 trillion. This suggests that Australian real estate has been used to park cash, bringing the Loan to Value ratio down to only about 23%.

Canadian Real Estate

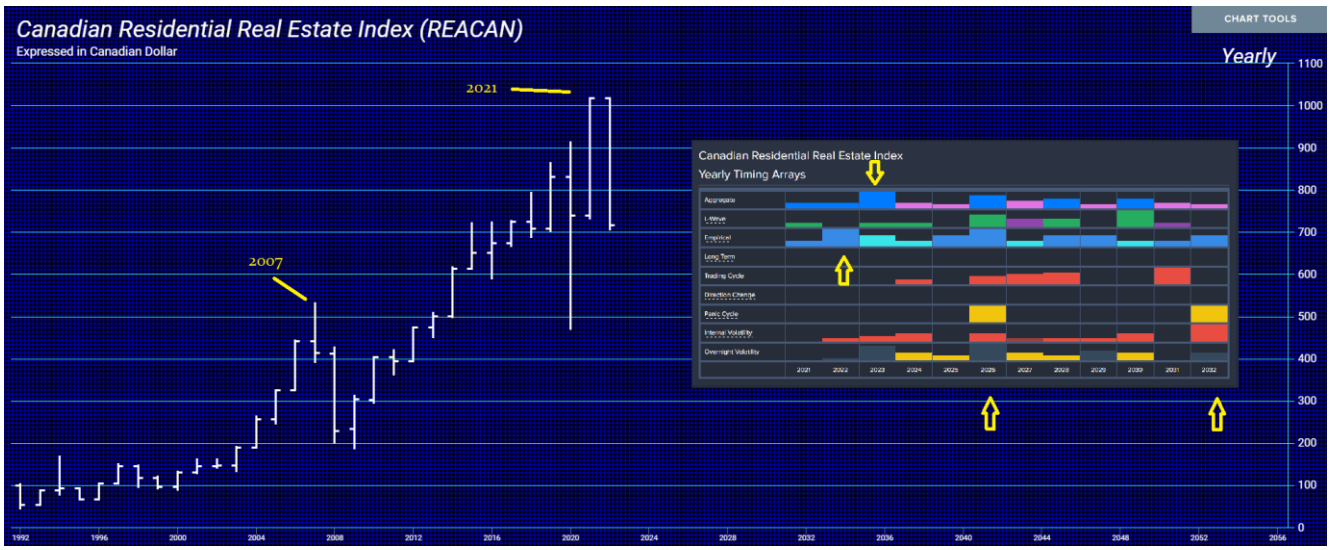
The outlook for real estate is always tied to interest rates to the exclusion of everything else. TB Bank put out its outlook stating:

> *"As we've raised our forecast for the Bank of Canada policy rate, we've also downgraded our projections for Canadian home sales and average prices compared to June."*

Most are expecting prices to decline into 2023 rather steeply by as much as 25%. Some even call this welcome to bring sanity back to the market. However, such forecasts are entirely based on domestic interest rates and never take into account the currency or international capital flows.



In 2007, the C$ to the $US reached $1.10 when our index reached 534. In 2021, our index reached 1018. That was a gain of 190.6%.



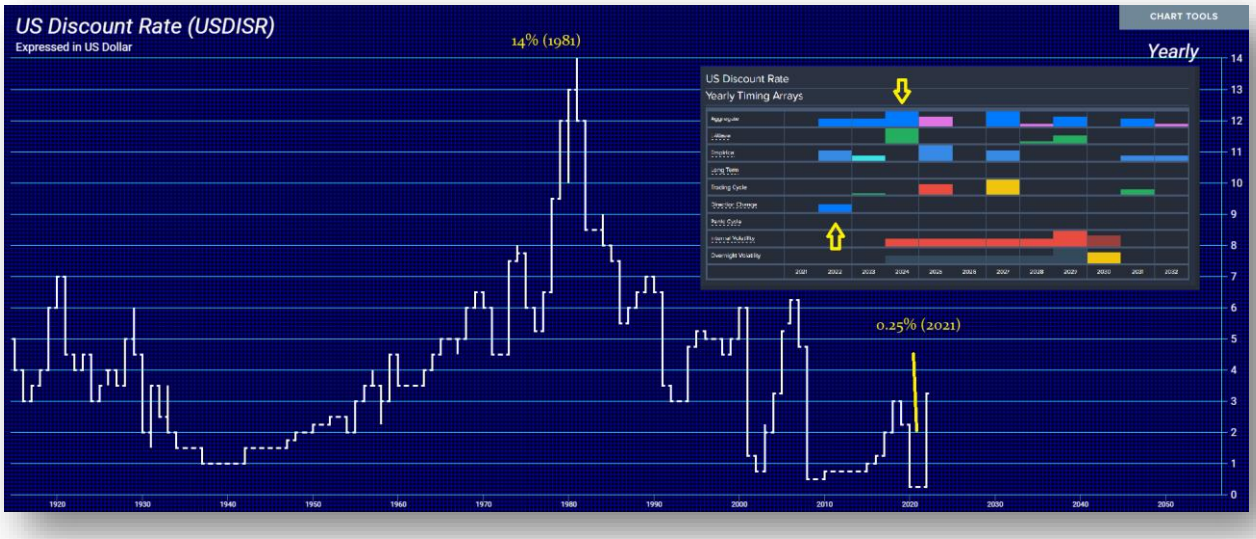
This strong rally from the 2009 low in terms of local currency positioning the 2021 high above that of 2007 by 190.6% in C$, but expressing this in US$, the index rose from a 2007 high of 587 to only 692 when we look at the $C falling to a low of 60 cents to the greenback. In this respect of international value, the gain was only 17%. We MUST look at gains and losses in terms of international value. What good is it that a stock market doubles in value but the currency falls to 10% of its former self.

In the case of Canada, the currency fell nearly 40%. That means in real terms, your property must rise 40% to break–even, but then the government calls that taxable income and wants its slice of the action meaning you really lost money.

Therefore, a bounce in the currency would reduce the nominal price advance in real terms. We are probably looking at a lowest annual closing in 2022 with an intraday low in 2023.With a Panic Cycle in 2025, we must also respect that in addition to the insanity of Trudeau baking on his leash from Schwab, the risk of Europe melting down through a combination of climate change insanity and war, will only send capital fleeing to North America. Canada may get all the Greens.

The Bank of Canada has been forced to follow the Fed in raising interest rates to fight inflation that cannot possibly work. Additional rate hikes are anticipated to take place accounting for the pessimism into 2023. The general expectation has been that home prices in Canada would still be higher than they were before the pandemic at the end of 2023. The provinces of New Brunswick, Nova Scotia, and Prince Edward Island, all of which saw significant price increases during the pandemic, are the most likely to have the highest price adjustments to the downside. Home sales have declined in 2022 by at least 5% with the price decline coming in between 20% and 25%.

CONCLUSION



With everyone basing their forecast exclusively on interest rates and others talking about what they call the Great Recession (2007–2009), what may emerge here is an opportunity in primarily the United States property market as people fail to understand the international capital flows in the face of rising tensions and war.

The Federal Reserve raised rates precisely on time in 1922 and the trend appears to be pressing higher into 2023, perhaps targeting the Third Quarter. There appears to be a change in trend beginning in 2024 as volatility rises. The shortages will continue into 2024 and the likelihood of a major war post–2024 rises sharply. This can accelerate any movement of cash into the United States. Hence, we do not appear to be headed into a collapse of real estate as was the case during 2007–2009. Many will forecast that since they tend to always relive the last event. That may present a buying opportunity for foreign investors but keep in mind that the dollar's rise against Britain and the Euro will have an impact upon the perception of US assets making them look even more bullish than in nominal terms.