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Global Housing Market: Price Crash Led by Major Cities And Rapid Exit Of Investors

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Mondialisation.ca, 26 janvier 2016
True Publica 26 janvier 2016

Thème: Global Economy, Poverty & Social Inequality

The global house price crash is being led the most important cities in the world and where they are not falling yet, they soon will be.

The fault lies directly in the lap of central banks as quantitative easing caused an enormous injection of cash into economies, forcing interest rates to fall the their lowest levels in history. This knee-jerk over-reaction effectively halted price corrections that should have fully unfolded but didn't and put rocket boosters under house price inflation the world over.

With banks and their financial services operations now seen by the public as nothing more than criminal gangs operating with impunity, both legally saved money and laundered cash needed a safe haven. Normal people know nothing about derivatives, day-trading and the like. Property is something most people know something about. Criminals just want to harbour ill gotten gains.

With institutional investors, individuals looking to boost pension incomes, criminals with global reach and an aspirational general public all combined, mountains of cash found their way into property. The international property bubble inflated as the market uncoupled from both the economy and reality.

In Britain, a blinkered Chancellor, unable to see the obvious, supported naive first time buyers in various ways all at the expense of the taxpayer in the hope of winning votes in his 2020 bid. By then the housing market in Britain will have crashed and all his first time buyer voters will be in negative equity for another decade.

It now takes an average skilled worker 14 years to buy a 600q ft one bed apartment in London, the equivalent of renting it for 30 years. What could go wrong?

Sales in London have now dropped by a quarter, prices are already deflating with some commentators blaming new stamp duty/taxation rules imposed for April this year. This is just another reason for the impending decline soon to engulf London and then ripple out to the rest of the country. The average price of a property in Britain is 300 per cent higher today than 20 years ago and that includes the biggest financial crash since the Great Depression.

Hong Kong is experiencing property price falls with most commentators expecting declines of 20 per cent, some at 30 per cent and a few at 40 per cent. The government backed builders to construct rented property to ease the ridiculous prices required to buy an apartment. It took ten years and now rental prices have fallen back just as property investment has taken a nosedive.

In Sydney there's been a total collapse of business investment and corresponding increase in property investment as Australians got on the 'get-rich-quick' bandwagon. Prices are now falling at around 1.5 per cent a month. Not much you might think but by mid 2016, prices could easily be off 12 per cent with no indication of the bottom.

So over-stretched are they in Vancouver it is estimated that a normal price correction of 20 per cent would completely wipe out ten per cent of homeowners. Not surprising as house prices there are by some estimates now 30 per cent overvalued.

America's most important housing market, San Fransico is about the feel the big house price chill after its epic over-heating. It managed an eye-watering 103 per cent increase in some plush areas in just four years. Affordability has tanked and only the top 10 per cent of earners in the city can now afford to own a home there. If prices fall back to 2008 levels, the 60 to 70 per cent average increase in prices since then could dive with catastrophic consequences.

In The Netherlands just 7 per cent of properties sell for more than the asking price – about the norm for the country. In Amsterdam that figure is about 60 per cent. Housing stock has vaporised and prices today have shot past the 2008 peak. These are the ominous signs of a price correction. Amsterdam may continue to rise for a short while but soon the party will be over.

In Geneva, Switzerland 90 per cent of all household debt is mortgaged. Since 2008, property prices have increased what some might say is a modest 24.3 per cent. Price falls are expected for several reasons; the imposition of a countercyclical capital buffer (CCB) to prevent the real estate market from further overheating, other stricter (mortgage) lending controls and a squeeze on immigration which was causing house price inflation. Switzerland's mortgage market is 140 per cent of GDP. Expectations are that prices will deflate more slowly, but deflate they will.

The French property market had the dubious distinction of being the most overvalued in Europe in 2011. Even the OECD gave a stern warning that Paris was about to implode – it probably knew best as that is where it's office are located. Property prices in Paris rose 278 per cent in eleven years to 2011 with two well known French economists predicting steady house price falls for the next ten years totalling 35 per cent to 2025 and a best case scenario of falls until 2020.

What all this says now is obvious. The financial crash in 2008 was caused by reckless banks deliberately overextending mortgage lending that led to the public speculating in the property market. Central banks then pumped trillions of dollars, euros and pounds into the market in order to save the banks. It saved them in part by deliberately inflating property prices.

Investors are now getting out of the game. They know the QE scam is over. As ZeroHedge reports "*How Billionaires Are Investing In 2016: "The Only Winning Move Is Not To Play The Game*". Here they report that the rich and powerful have ended their investment strategies; the only way now is to hold cash, duck and see what happens as the global markets in all asset classes unravel. It confirms what is being said here; that all this 'funny money' has created growing distortions in nearly all asset prices—from stocks to bonds to real estate.

The UBS global real estate bubble index for 2016 makes for sobering reading, predicting falls in 10 major cities this year. Fortune reports that the "*world is headed for disaster, and will take the prices of equities down with it. How much? Edwards predicts the U.S. stock market could plunge as much as 75%. That would be worse than during the financial crisis, in which stocks from their peak to trough dropped a brutal 62%.*"

Even the Oracle of Omaha, Warren Buffett has got this all wrong as his stock is heading south and about to enter 'bear' territory.

Bloomberg agrees: "*Fed Up Investors Yank Cash From Almost Everything Just Like 2008*".

And what they mean by everything is not just stocks and bonds. The FT "*Global property bubble fears mount as prices and yields spike*". Here the FT reports that returns for rental income (globally) has collapsed when a crash in massively overleveraged property triggered the 2008 international banking crash. Time to get out.

Everyone got into property because prices were expected to beat bond prices, and they did.

When the worlds biggest, wealthiest and most powerful start losing their shirts they rapidly divest to save the proverbial bacon. Result? Asset prices fall and house prices with it. The global house price crash is on and coming to a town near you.

La source originale de cet article est True Publica

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