REAL ESTATE DOOMSDAY

HOW TO PROTECT AND GROW YOUR WEALTH DURING THE GREATEST REAL ESTATE CRASH IN HISTORY

BY HARRY DENT, DENT RESEARCH

(With Dave Okenquist, Research Analyst)

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Part I:

The True Nature of Real Estate

Congratulations to the Federal Reserve for a job well done.

Your policies helped fuel the insane real estate bubble of the 2000s.

When that went bust, the crash erased $7.5 trillion in home equity. Poof… gone... just like that!

But you quickly stepped up in the aftermath and pumped trillions of dollars in the form of quantitative easing into the economy.

You slashed interest rates and bought mortgage-backed junk – listed on the books as securities – in a desperate attempt to revive the U.S. economy.

And it worked!

Far better than many experts, including us at Dent Research, thought it could.

In fact, you've done such a fantastic job bringing the housing market back that you created *another* massive real estate bubble!

Thank. You. For. NOTHING!

Many homeowners had hoped that the last real estate meltdown and the global financial crisis was a once-in-a-generation, if not a once-in-a-lifetime, event. Unfortunately, thanks to Fed efforts, it wasn't. Now we're right back where we were just a decade ago, staring down into the abyss of another housing crash.

That's because we never faced the full reckoning of the last crisis.

Stimulus is denial. It's like taking more of a drug to keep from coming down from the high.

By not going through a full detox, we've set ourselves up for another disaster.

In the last property crash, U.S. residential real estate tumbled by 34%. Make no mistake about it: The fragile U.S. real estate market is now setting itself up for an even **bigger** fall.

Economic bubbles are mass delusion, where investors wrongly assume that prices move in one direction only – up.

Nowhere is this delusion clearer than real estate.

In this sector, there's a lot at stake. For most Americans, their wealth is in their homes. So, they welcome their values reflating to their pre-crash levels more than the stock market rebound, but it doesn't make the market any less delusional.

Those home values weren't sustainable last time and they aren't sustainable now.

The thing is, when this real estate bubble bursts, the United States won't be the only country to feel its impact. Its devastation will be global – in Beijing, Shanghai, Sydney, Vancouver, London to name just a few places.

LIVING IN A POPCORN POPPER

This real estate bubble phenomenon is like a popcorn popper. Property prices have exploded in some places while in other places they have remained more moderate.

When the bubble bursts, it'll also be in this uneven way.

All it takes to start is a few bubble bursts, like in China, before the popping spreads further afield. During the last real estate meltdown, it started in the U.S. and spread to Ireland, Spain, and elsewhere, until it crescendoed with stock bubbles bursting everywhere. This pattern will repeat this time around, and I'll explain why shortly.

I wrote to my readers nearly three years ago that I saw this massive real estate bubble forming and recommended that they

assess their risk exposure. Back then, mass hysteria was in full swing and so prices surged on.

I'm writing to you now to say the end is nigh.

NO REAL ESTATE IS CRASH PROOF

The meteoric rise in global real estate from the second half of the 20th century to now is unprecedented. That's why so many people have the illusion that in certain places, prices just can't go down.

"There's only so much land to build on in Florida. It'll never be a bad investment."

"This is L.A. Prices can only go up."

"Sydney, man!"

People look at cities like New York, San Francisco, London, and Vancouver and believe that, because they're so attractive, the ultra-rich will always buy there and will keep the market buoyant.

But neither history nor common-sense economics supports that idea.

Neither does the most basic law of physics, which says that every action has an equal and opposite reaction.

Consider what occurred in Manhattan during the Roaring '20s…

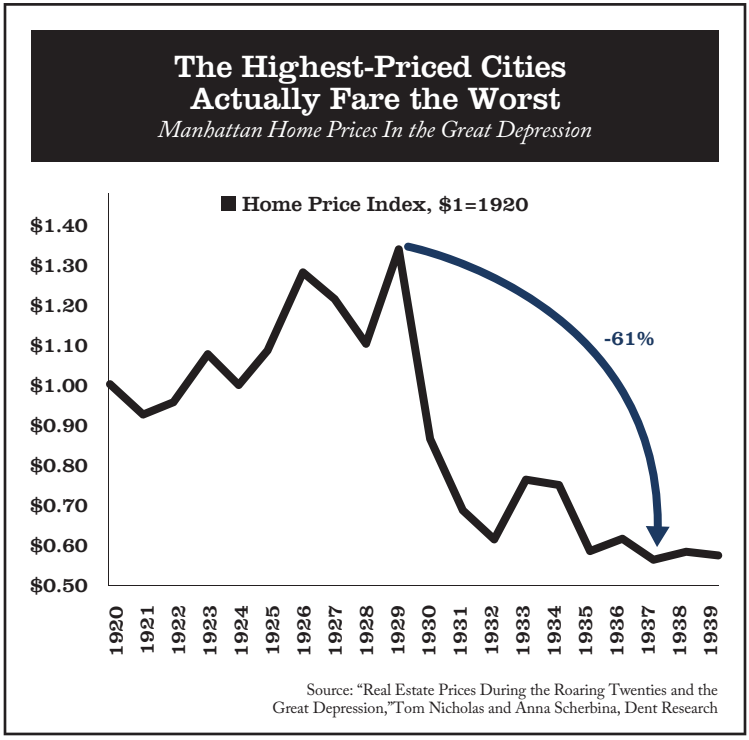
Real estate prices in the 1920's boom went up higher and for four years *longer* than property prices in the rest of the U.S.

Then, in the wake of the 1929 stock market crash, it collapsed by 61%. The rest of the continent only lost an average of 26%!

AND, Manhattan real estate prices stayed near their lows for a long time. The overall U.S. real estate market was back at its 1925 highs by 1940! Manhattan prices were still bouncing along the bottom. It took 25 years for Manhattan prices to get back to their highs.

Manhattan is an example of exactly what happens to so-called real estate super cities when bubbles burst.

History has proved time and again that no market can rise exponentially in the short term without killing its own demand.



The drivers of bubbles – surges in demand, limited supply, government incentives to buy, or waves of foreign buyers and domestic speculators – are all fickle, fleeting, and fallible. The richest people lose the most in financial crashes and then cut back their real estate buying the most!

All bubbles burst, as sure as night follows day.

They are *always* self-defeating!

Yet, in general, the great majority of the population is blind to real estate bubbles… they're blind to all bubbles for that matter (I explained why in my book *The Sale of a Lifetime*).

This is largely because real estate prices have risen throughout their entire lifetimes. In fact, the property market has been rising since 1933! Its ascension accelerated in the wake of World War II, and then again in the early 2000s.

Since World War II, we've experienced two unique trends

that will NOT repeat themselves again… at least not in our lifetime…

First, the soldiers came home from the war armed with government aid – the GI Bill. They were the first middle class generation with broad house buying and borrowing capacity. They spurred the greatest real estate buying surge in history.

Second, the massive and unprecedented Baby Boom that followed World War II put enormous demand pressures on real estate markets, especially those in coastal areas.

So, until 2006, people had little, if any, experience with rapidly declining property prices.

With two generations knowing the true nature of the real estate market, you'd think people wouldn't be so quick to fall back under the spell of that nefarious myth of perpetually rising housing prices.

Yet, here we are.

Back where we were in late 2005/early 2006.

As blind to the bubble as ever.

Already, showing shades of the pre-Great Depression crash of 1929, Manhattan's real estate has bubbled up again.

In 2012, the most expensive property on the market on New York's South-Central Park, sold to former Citibank Chief, Sandy Weill, for $13,049 per square foot.

The first condo to break the $100 million mark was at One57 in 2014 in so-called "billionaire's row." It cost $9,136 per square foot.

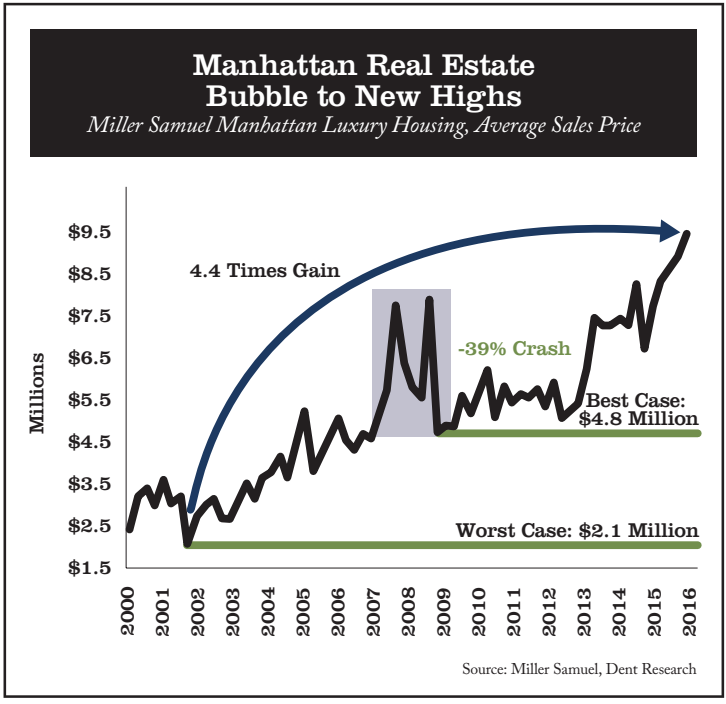
In 2016, the leading-edge penthouse at 220 Central Park listed for $250 million! It has four floors, with 16 bedrooms. It has 23,000 square feet in the hottest part of Manhattan.

The market whipped by the $200 million mark without batting an eye.

Even the rich – perhaps *especially* the rich – get caught up in the mass hysteria of bubbles.

They think they will always find another super-rich buyer to step in and pay the asking price. What they fail to realize (until it's too late) is that they're the ones that lose the most wealth when a bubble finally bursts, especially in the higher-end markets.

Look at the latest Manhattan bubble as an example...



THE EPITOME OF BUBBLE MANIA

The luxury market in Manhattan has seen average sales approaching $10 million!

Since late 2001, luxury prices in this New York borough have advanced 4.4 times over 16 years.

Manhattan's luxury market bubbled up with the rest of the United States in the early 2000s, advancing sharply into late 2008. It seems that when the stock market started to crash heavily in 2008, investors switched over to real estate in

Manhattan. But they didn't stay there for long.

The market crashed in 2009.

The correction was brief.

Since then, the market has shot up 107%, with most of those gains coming after 2012.

Average prices are now over an astronomical $9.3 million as billionaires fight over $100 million-plus condos.

Prices simply can't continue along this trajectory, and when real estate is once again razed to the ground – which will happen for many reasons, including China's bubble bursting and rising taxes on such foreign buyers… more on all of this in Part II – these luxury homes will suffer.

Remember, bubbles always burst, and when they do, prices drop to the point where the last big move started.

If you're lucky.

Worst-case scenario and more typical is that prices return to their bubble origin!

That means, the best-case scenario for luxury real estate in Manhattan is that prices fall back to their 2009 low. That's a loss of 48%.

The worst-case scenario is that they fall back to the bubble origin in late 2001, crashing nearly 77%. (My money is on the latter unfolding!)

The highest end Manhattan condos in billionaire's row have never seen a foreclosure… until 2017. **Now it's seen more than one!**

The first was a condo bought for $21.4 million in the summer of 2015.

Foreclosed (in 2017)!

And that first condo to top $100 million. Well, that one's gone bust too, making it the largest foreclosure in the New York City history.

The bottom is starting to fall out.

You see, the boom and bust cycle is a fundamental part of who

we are. The boom is how we expand and grow. It's human nature to follow others and chase something that's working. However, no matter how much we fight it, nothing lasts forever and the bust is a natural check on our risky behavior.

Bubbles always burst.

AS VOLATILE AS THE STOCK MARKET... YET DIFFERENT

History teaches us that real estate can be highly volatile, nearly as much so as stocks.

It's also more leveraged because buyers can borrow against it with mortgages. That's what makes it deadlier to the economy and banking system.

And then there's the fact that markets vary from place to place, with some areas being far more prone to bubbles than others.

Those who doubt the volatility of the global real estate market should simply ask the good people in Tokyo about it. Many of them are ***still*** paying down underwater mortgages nearly three decades *after* that market's peak.

Back in the heady, pre-deflation days of the late 1980s, Tokyo was a global super city of gleaming towers and untold economic promise…

And then its real estate bubble burst.

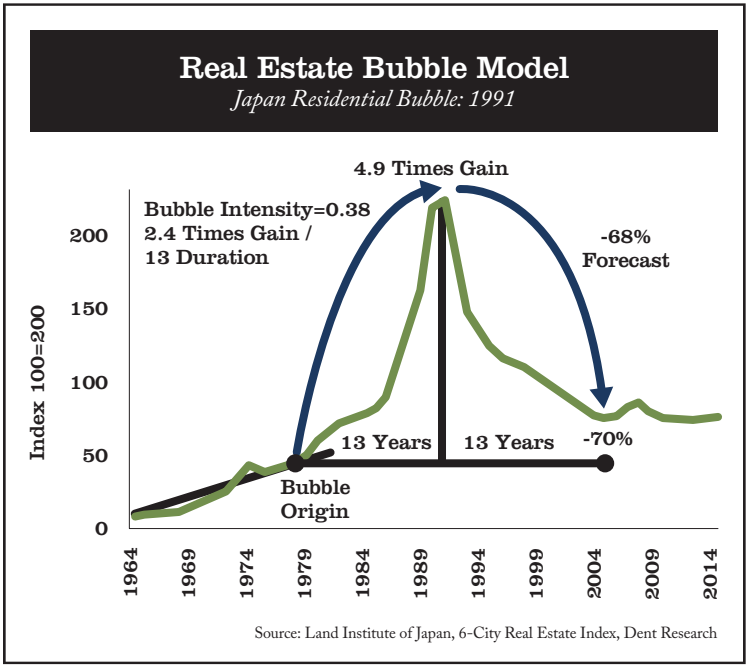
Japan is now a textbook example for real estate bubbles.

I used its experience to fine tune my Bubble Model, which I first unveiled in my book, *The Sale of a Lifetime*. The model allows me not only to identify bubbles, but to also predict approximately *when* they'll burst and how far prices will fall when they do and when they are most likely to bottom.

Here's the Japanese real estate bubble and burst with my bubble model analysis overlaid.

Through my research I discovered that not all bubbles are equal.

Stock bubbles and real estate bubbles behave a bit differently.



The former tends to burst in half the time it took them to build exponentially. The latter, on the other hand, often take equally as long to deflate as they take to inflate. That's because property becomes illiquid incredibly quickly. It gets harder and harder to unload.

Besides, real estate is often a primary residence or an office, so people have some emotional attachment to it. This makes them reluctant to dump it immediately.

Stock bubbles also tend to crash back to where they started; what I call their point of origin. Real estate holds up a little better, typically only retracing 85% of the bubble.

The Japanese bubble is a perfect example:

- It ran 13 years on the way up and took 13 years to crash (using annual data).
- The model expected a 68% crash, but in real life, it went a bit lower, to 70%.

Those who doubt the volatility of the global real estate market should simply ask the good people in Tokyo about it. I can apply this method to any real estate bubble to measure its downside risk. This gives you a critical tool to assess **your** risk.

JAPAN WAS FIRST; WE'RE ALL NEXT

Japan's housing market fell for the same reasons back then that the rest of the world faces today.

Prices went crazy.

Just like today, few could afford to buy a home.

More importantly, Tokyo's bubble burst first because Japan went off its demographic cliff more than a decade ahead of the U.S. and other developed nations.

A study of recent prices reveals that Japanese real estate remains near its lows and still shows no sign of a significant rebound, despite its wild bouts of money-printing and the lowest short- and long-term interest rates in the world.

But Japan is hardly alone.

Many countries in Europe and other nations in Asia are close to tumbling over their own demographic cliffs over the next few years. And that fact means one simple but devastating reality for real estate markets, the U.S. included: There are more dyers than buyers.

This fact that will weigh on both commercial and residential real estate prices for decades to come.

DYERS VERSUS BUYERS: WHY THE MARKET HAS CHANGED FOREVER

An in-depth study of the Japanese real estate market over the past few decades reveals something quite surprising: it didn't bounce when the next generation came along to buy from 1999 forward.

This confused many economists and market observers alike.

But after reading an article about how adult diapers had begun to outsell baby diapers in Japan, it all became clear.

Japan had come up against its demographic cliff!

In other words, more people were dying than buying.

Real estate lasts for generations. When people die, they become sellers, which offsets the real estate demand of the next generation.

Japan was the first developed nation to come up against this demographic cliff. It's not the last.

Dozens of nations in the wealthy, developed world are on the same path and, for the first time in the history of these rich countries, the emerging generation will be *smaller* than the preceding generation (except for a select few countries).

The Baby Boom generation was exceptionally large and extraordinarily wealthy. The Gen X-ers and the Millennials aren't nearly as concentrated or rich.

The rise of a smaller or less concentrated generation has greater implications for real estate than any other sector of our economy.

When we forecast inflation or the price of commercial real estate, both of which follow workforce growth, we add the new entrants, at an average age of 20, and subtract retirees who leave the workforce at the average age of 63.

The same applies to residential real estate. Instead of just forecasting the rise and fall of peak buyers at age 41, we must subtract the number of dyers at an average age of 79 from the peak buyers at age 41 in the U.S. (this is as much as age 84 minus 42 in Japan and age 81 minus 42 in Europe and Australia).

As I've already noted, these dyers are sellers and they decrease the net demand for housing.

When we made this calculation for Japan, we discovered a correlation with home prices. It explained why the increasing number of buyers from the younger generation didn't cause home prices to rebound significantly. Simply, the number of people who were dying (selling) was greater than the number of younger people buying.

Net demand for homes turned negative in Japan in 1999 for the first time in its history. It continues this downward spiral into 2033, despite a brief bounce in 2015. Hence in terms of price collapse, the worst has yet to come.

Japanese home prices are poised to fall even more than 70% from their peak.

The U.S. real estate market faces a similar crisis.

But just look at the trend in the chart below, which projects net demand in the U.S. residential real estate market until 2040.

Once again, we subtracted the number of Americans dying at the average age of 79 from the number of those at their buying peak, at age 41, to reveal a very different picture from the one most people would expect.

As the chart clearly shows, U.S. home prices, adjusted for inflation, peaked in early 2006 before the precipitous decline. And the expected rebound after 2012 has exceeded its natural

limit, thanks to unprecedented stimulus and low interest rates.

Net demand began falling after 2015, and will continue to fall into 2021. Then, after a brief bounce, it could plunge even lower into around 2039.

Net demand for homes will actually turn negative in 2029 after growing slower and slower.

In an echo of the Japanese residential real estate crisis, the massive U.S. Baby Boom generation will die faster than the smaller Millennial generation can buy into around 2039. And that, simply put, is why real estate will never be the same money train it was between the 1950s and 2005!

Adding insult to injury, the younger Millennial generation is already more reluctant than the Baby Boomers to buy homes because they saw the first major real estate price collapse of our lifetimes. They don't assume, as Baby Boomers did, that real estate only goes up.

Meanwhile, banks are still stringent on mortgages – after one of the most liberal periods in banking history – at the same time as higher young-adult unemployment and unprecedented student loans weigh on the Millennial generation as well.

Not only do we have unsustainable debt loads around the world and increasingly worsening demographic trends that tell us that this Economic Winter Season is far from over, but huge chunks of the developed world still must pay a heavy price for unprecedented monetary stimulus programs when the bubbles they created finally burst.

Still, even without the weight of these added pressures, real estate prices will decline in most developed countries just from natural demographic trends alone.

These net demand declines will hit at various times in different countries and regions.

We've already seen Japan's decline and lack of a rebound.

The U.S. will be next, as it suffers through a second, larger round of crashes, followed by Canada and most of Europe.

Next to suffer these real-estate-demand declines will be the East Asian countries, like Taiwan and South Korea.

Australia will be one of the last to cave and most likely suffer a smaller collapse.

Consider the following sample projections:

- **Japan:** Net demand points down through 2033.
- **The U.S.:** Net demand is in its steepest fall into 2021 before falling lower into around 2039.
- **Canada:** Net demand points down until at least 2036.
- **Europe:** Net demand across the Atlantic is even worse than in the U.S. in most countries, especially Germany, Italy, Greece, Portugal, Austria, and Spain.
- **Australia:** Net demand points down modestly into 2020 before pointing down more dramatically between 2025 and 2036.

With all of that said, the **greatest single real estate bust in modern history** will occur in China!

China already has a 27% vacancy rate in its major cities at the top of the greatest boom and subsequent overbuilding in world history. It's not hard to imagine the rate at which this vacancy will increase in a global bust.

On top of that, China's been dealing with slowing workforce and demographic trends that will only worsen over time.

Expect the Chinese real estate market to crash up to 85% when the bubble bursts. That is worse than the great Japan real estate bubble burst.

As workforce growth declines in most countries around the world – or stays flat, as it will in countries like the U.S., Canada, France, U.K., and Denmark – residential real estate prices will fall over these impending demographic cliffs.

Part II:

The 4 Triggers That Could Topple Real Estate

Our research is based on the predictable spending patterns of people as they move through different ages and stages of life. We see this in housing, as I showed above with peak buyers and peak dyers.

Young people tend to buy their first home in their late 20s/early 30s – at 31 or 32 on average.

We get their peak spending on their trade-up home in their early 40s.

After the kids move out and older couples are ready for retirement, they'll typically downsize into a cheaper, smaller home.

However, over the last few years, empty-nesters have hung onto their homes. That has left both first-time buyers and trade-up buyers with limited supply, pushing prices higher and higher.

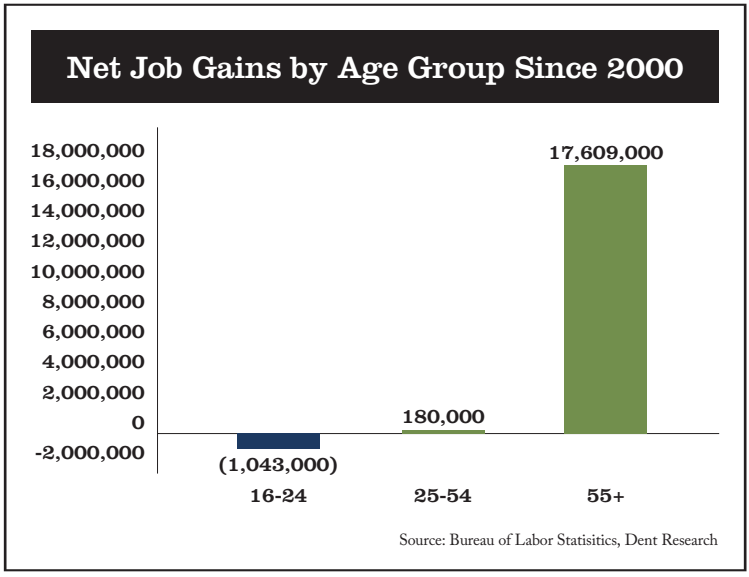
There are several reasons why these Boomers are hanging on to their houses...

First, many of them were in their 40s and 50s when the last crisis hit. They may have been underwater for years and are still waiting for their values to come all the way back. They're sticking it out for a few more years. But with prices rising, the time to sell is nearing.

Another reason why they may not want to sell is that they're simply not ready to retire and move elsewhere. For evidence of this,

look at one of the most shocking (and depressing) charts we have.

Here are the net job gains by age group since 2000:



Almost **ALL** the job gains since the year 2000 have gone to the over-55 crowd!

This group is still saving for retirement.

To stay working, they'd need to sell their current home and find a suitable and desirable retirement home, often in the same area. That's not likely. So, they'll work until they feel like they've saved enough and *then* sell their current home.

Of course, Boomers can't hang on to these homes forever. Eventually, they need to cash out to fund their retirement. They'll need places with little-to-no maintenance. And they'll need to be near medical facilities.

Basically, they'll need a retirement community.

In fact, retirement communities and nursing homes are the few real estate sectors we're *bullish* about.

Once they sell, that will bring new inventory to the market and bring prices down with them. That will allow members of the

Millennial generation, many of whom have been priced out of the market, to begin buying homes en masse. Until then, we have a generational war going on between unwilling sellers (Boomers) and would-be buyers (Millennials).

WHERE THE WAR MIGHT END SOONER

We looked around the country to see where a Boomer selloff might be the most pronounced. We sifted through the data of homeownership by age, specifically where Boomers have the largest, and smallest, share of the market.

The Sarasota-Bradenton, FL area leads the nation, where Boomers own an eye-popping 71% of homes.

City or Metro Area	Boomer Share of Homeownership
Sarasota-Bradenton, FL	71%
Cape Coral-Ft. Myers, FL	69%
Deltona-Daytona, FL	64%
West Palm Beach, FL	63%
Honolulu, HI	57%
Tampa-St. Petersburg, FL	57%
Tucson, AZ	56%
Dayton, OH	53%
Cleveland, OH	52%
Knoxville, TN	52%
Pittsburgh, PA	52%
Buffalo, NY	52%

However, this list is a great example of numbers not telling the whole story...

Sure, the Sarasota area will feel some pain as the market shakes out. But at the end of the day, it's still Sarasota. With year-round

sunshine, white sand beaches, warm, clear Gulf waters, and newer infrastructure, it will still be desirable. That stands for much of Florida, at least in terms of a Boomer selloff. And Tucson will continue to field fleeing Californian retirees.

The bottom five cities on this list, though, are concerning.

Four of them lie in the Rust Belt. They're struggling to remake their economies in the wake of deindustrialization. Knoxville depended on a shrinking coal mining industry.

These aren't attractive retirement areas. When the Boomers sell here, they're leaving. They might head for the cities at the top of this list.

And it's unlikely that there are enough young buyers coming up behind the older generation to buy these homes. That means oversupply, which spells a painful price drop.

On the other side of the spectrum, here are the five cities with the lowest share of Boomers:

- Raleigh, NC – 39%
- Austin, TX – 40%
- Dallas, TX – 40%
- Salt Lake City, UT – 41%
- Houston, TX – 41%

These are, in effect, the youngest cities in America. They have buyers at the ready. Real estate declines in these areas won't be from Boomer selloffs.

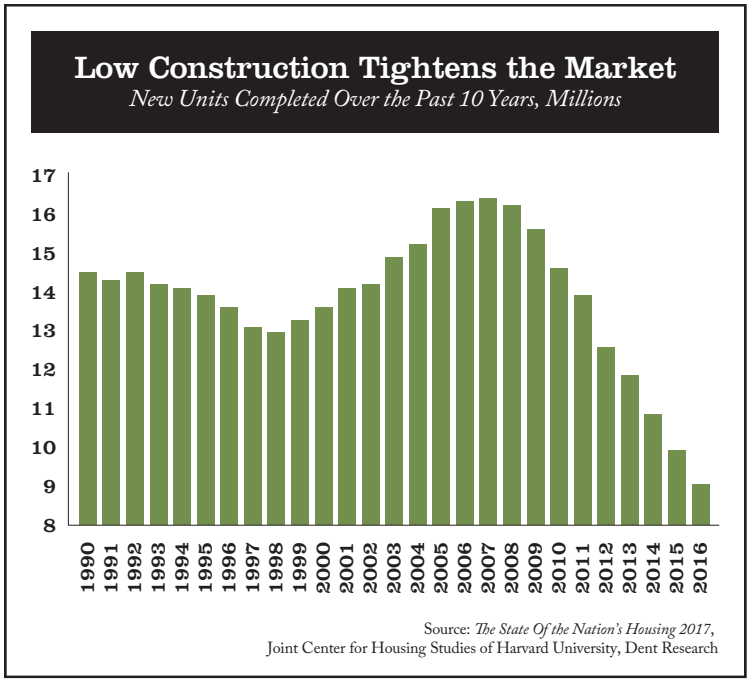
PRICING FAMILIES OUT OF THE MARKET

Boomers hanging onto their homes isn't the only reason for tight supply and rising prices.

The dive in new home construction has choked inventory.

It's rare for industries to learn their lesson after a bubble burst. They'll typically crowd right back in on the next bubble. But homebuilders have wisely stayed cautious this time around.

You can see the 10-year build rate below. It cratered after 2007.



Unless you live in very specific markets, you're unlikely to see the massive building that we saw in the early 2000s.

Builders have been careful to put up what they know they will sell.

And with lending standards tight-ish, they have less goodies to wave at potential buyers.

This cautiousness, along with Baby Boomer's not putting their houses onto the market has kept inventory low and prices high.

Price levels in themselves don't *always* spell trouble.

But when incomes can't keep up, it's a warning that prices have reached unsustainable levels.

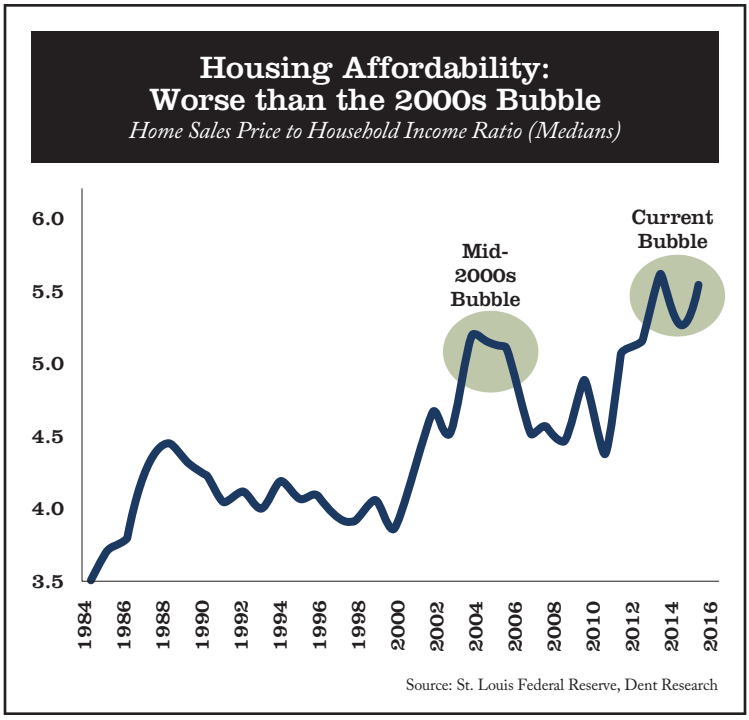
Rising interest rates and tight lending standards, paired with sluggish incomes, weigh on housing affordability.

With fewer buyers, prices must adjust.

We can measure affordability by using what economists call

the median multiple. In other words, how expensive homes are in relation to incomes, at the median. We express this as a ratio. This is incredibly useful because you can measure affordability for any city, state, or country we have data for.

I mentioned earlier that housing in the U.S. is less affordable now than it was a decade ago. Here's the proof… the median multiple for the U.S.:

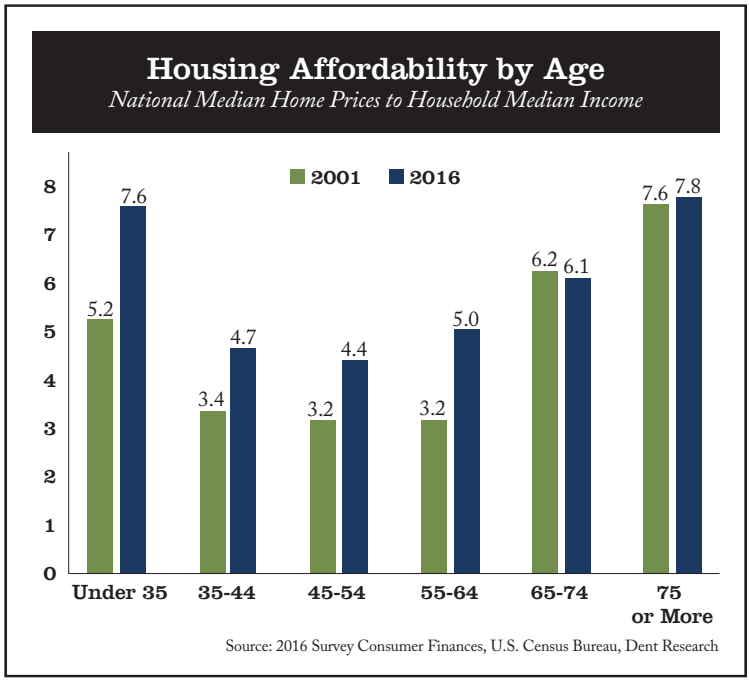


In 1984, a typical family could buy a typical home for about 3.5 times their income. That's a fair rule of thumb for affordability, but it hasn't been in reach for the median household in over 30 years.

Housing became more affordable in the late-1980s through the 1990s, but the 2000s housing bubble took care of that.

Unaffordability has ratcheted higher after the crash, with home prices at around 5.5 times income.

If we break housing affordability down by age, we can see how hard it is for the younger set to afford a home. Here we compare the median sales price to the median income by age.



Since 2001, housing has become less affordable for all groups, save the 65 to 74 set, but the under 35 crowd has suffered the worst, rising from an already pricey median multiple of 5.2 to 7.8, a 50% jump.

This lack of affordability has stalled ownership rates.

A recent survey from the National Association of Realtors found that only a fifth of Millennials own a home. Of those that don't own a home, 83% cited student loan burdens as the reason for not buying a home.

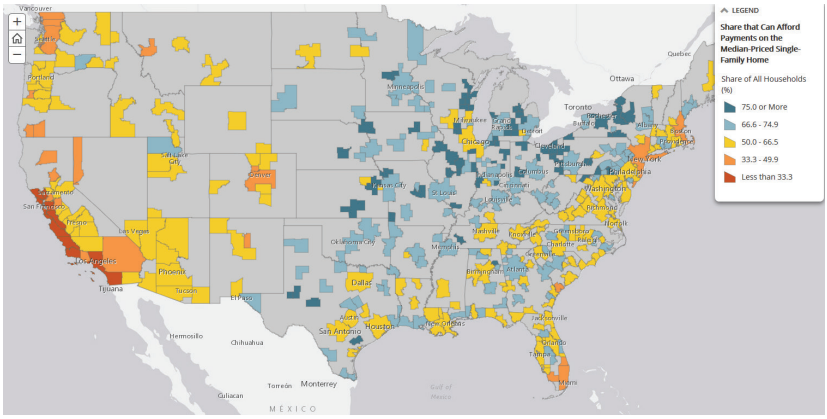
So, their incomes aren't growing fast enough to keep up with the price bubble and their indebtedness puts an added burden on their ability to buy a home. All of that adds up to a seven-year delay in homebuying.

The homebuilders and Boomers can stifle supply for only so long before prices naturally dip.

WHERE HOUSING IS THE LEAST AFFORDABLE

Looking at the country as a whole, we can see which areas have become the least affordable.

This map below breaks it out by major metro area:



Source: *The State Of the Nation's Housing 2017*, Joint Center for Housing Studies of Harvard University, Dent Research

For coastal and Southern California, all I can say is… whoa!

Less than a third of residents (shown in the dark orange) can afford the mortgage payment for a median-priced home. These areas, from the Santa Rosa metro area, south, through the San Diego metro is in for a world of hurt with this bubble bursts.

The Oxnard-Thousand Oaks-Ventura metro area is the only exception in that long string of absurdly unaffordable areas, but still, only a third to half of all residents can handle the monthly mortgage payments.

Take a look at p. 27 for a more detailed list of metro areas.

Metro Area	Percent of Residents Can Afford Monthly Payments
Santa Cruz-Watsonville, CA	17%
Kahului-Wailuku-Lahaina, HI	19%
San Francisco-Oakland-Hayward	22%
Los Angeles-Long Beach-Anaheim, CA	25%
San Luis Obispo-Paso Robles-Arroyo Grande, CA	25%
Santa Rosa, CA	26%
Santa Maria-Santa Barbara, CA	27%
Napa, CA	27%
Salinas, CA	27%
Oxnard-Thousand Oaks-Ventura, CA	32%
Naples-Immokalee-Marco Island, FL	32%
Grants Pass, OR	33%
Corvallis, OR	36%
Chico, CA	37%
Boulder, CO	39%
Missoula, MT	40%
Redding, CA	40%
Bellingham, WA	41%
Miami-Fort Lauderdale-West Palm Beach, FL	43%
New York-Newark-Jersey City, NY-NJ-PA	44%
Stockton-Lodi, CA	44%
Ocean City, NJ	45%
Medford, OR	45%
Vallejo-Fairfeild, CA	46%
Santa Fe, NM	47%
Riverside-San Bernardio-Ontario, CA	47%
Denver-Aurora-Lakewood, CO	48%
Boston-Cambridge-Newton, MA-NH	48%
Settale-Tacoma-Bellevue	49%
Mount Vernon-Anacortes, WA	49%
Reno, NV	49%
Hilton Head Island-Buffton-Beaufort, SC	49%

Note: our calculation method here is a bit different than strict price analysis, which we'll detail in just a bit.

Here we're looking prices in relation to income… not how far prices could fall in each place. But all these places fall are danger areas. If you have property here, you're especially at risk.

Now, if less than half of people can afford a typical home, that's a problem. And it's going to correct itself.

If you own property in the extreme areas that we see in California, prepare yourself.

These metro areas are super high-risk.

In the San Jose metro, the median multiple is 9.3 times!

L.A. is 9.2 times income.

San Francisco is 8.8 times.

In San Diego, the median home price is 8.0 times more expensive than median household income.

Good luck sustaining that!

The only way these areas can prevent a property price reduction would be to see a huge income increase. Given the tepid income growth of the last few decades, I'm betting on a real estate price drop, and so should you.

Affordability isn't just an American problem.

I've always made the case that the high-end markets tend to bubble the most and then drop the most and I used Manhattan in the 1930s as an example.

Back then, real estate dropped in the big city 56%, 2.2 times what the average home in America lost (26%). Then it took until 1954 to return to the bubble highs while middle-class homes returned to their highs by 1940 – 14 years faster.

Demographia.com has some of the broadest global housing data and uses the median multiple measure we detailed above.

On this basis, let's look at the countries with the greatest bubbles…

Part III:

The 22-Plus Places Facing the Greatest Risk

Using the median multiple measure, these nine countries have the greatest real estate bubbles…

- China
- New Zealand
- Australia
- The U.S.
- Singapore
- Canada
- Ireland
- Malaysia, and
- The U.K.

They're all English-speaking countries, except China and Malaysia.

Notice that Japan is not on this list. That's because it's already seen a significant bubble burst. It's residential real estate is *still* down 60% to 67% (depending on which measure you use), with its commercial property still down about 80%! Despite this, it's still overvalued compared to more traditional norms, where people pay a maximum of three-times their income for their real estate. But

its price action is nothing approaching a bubble.

The situation in China is completely out of control as you can see below:

Note that these median, or every day, valuation measures are much lower than the average, which rises to much higher levels in high-end markets.

On an average basis, Hong Kong's average property price-to-income is a mind boggling 36-times income. On a median basis, it's still a whopping 18-times income.

How many everyday people can afford that?

None.

It's only the wealthier foreigners or speculators who can carry that burden.

And it's these types of super-cities, the ones that attract the

affluent and foreign buyers (who are often laundering money out of their countries), that have average valuations much higher than the median ones.

On the China mainland, the situation is a little better, with valuations coming in around 12.8-times income. That means someone earning just $10,000 a year is paying $128,000 for a condo!

The U.S. equivalent would be someone earning $60,000 a year having to fork over $768,000 for a house. Talk about house poor…

That's not sustainable by any stretch of the imagination.

The next bubbly country is New Zealand. New Zealand's valuations come in at around 10-times income.

Australia comes in at 7-times income, but is the most expensive at the extreme end of the real estate spectrum in places like Sydney and Melbourne.

Following the Land Down Under are the U.S., Singapore, Canada, and Ireland… each with valuations around 5-times income.

Ireland took a hit in the 2008 crisis, but Singapore and Canada didn't. Singapore has suffered since 2016, thanks to the huge surcharge it placed on foreign buyers (16% of the purchase price), especially those that flip within one (another 12%) or two years (another 16%).

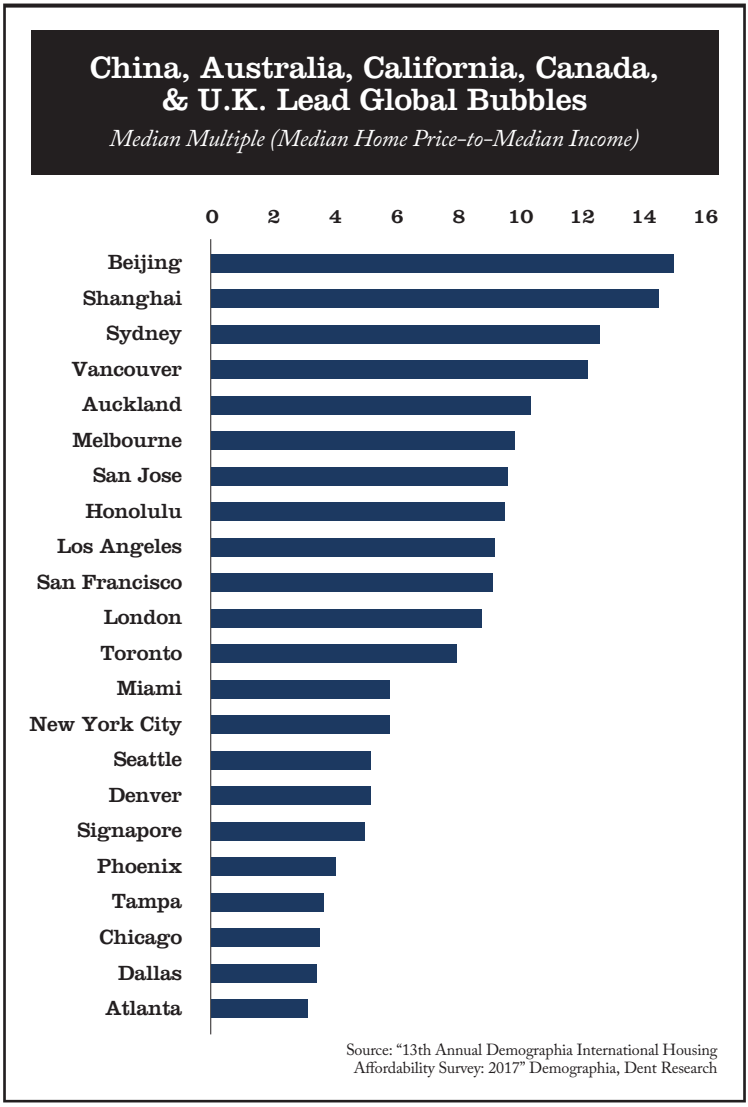
Property valuations in Malaysia and the U.K. come in around 4.5 times income, but of course that doesn't include London. The home of Big Ben is similar to Japan in this regard… so imagine how overvalued Japan was at the top of its bubble in 1991, given that prices have fallen more than 60% since and remain near their bottom.

Looking at cities globally, Beijing real estate tops the charts in this category, with valuations at 14.3 times income. But, it's average is 33.8-times income thanks to the high-end market!

Shanghai property is close behind, at 14 times income. The average real-estate valuations for the city are 32.6-times income!

Like Hong Kong and London, the average is much higher than

the everyday valuations because of foreign and the super-affluent buyers speculating. In China's case, it's more the latter.



Sydney real estate comes in next, as I would expect, at 12.2-times income, while Vancouver property valuations are close behind, at 11.8-times income.

So, the cities with the most overvalued median price-to-income property are:

- Hong Kong
- Shenzhen
- Beijing
- Shanghai
- Sydney
- Vancouver

Auckland real estate comes in at 10 times income, which is the same as for the whole country of New Zealand. Auckland makes up 32% of its population.

Melbourne property follows close behind, at 9.5.

Then comes homes in San Jose at 9.3, Honolulu, at 9.2, Los Angeles at 8.9, and San Francisco at 8.8.

San Francisco is another city that attracts superrich and foreign buyers, with an average valuation at 12.1 times income, like Sydney.

London has the highest average price-to-income at 8.5 times. That's because it attracts all the big foreign buyers from Russia, the Middle East, and China.

Toronto and Miami property round out the other expensive cities at 7.7 and 5.7 times income, respectively.

New York real estate's median valuation is a more reasonable 5.6 times income, while its average is 13 – higher than San Francisco or Sydney, but much lower than London.

Singapore is another city that has a low median of 4.8 times income, but a sky-high average of 21.6. That's why Singapore had to slap such an aggressive tax onto foreign buyers in 2015.

So, if I had to say where the **greatest bubble burst could come in major foreign cities**, considering both median and average valuation levels, in major English-speaking cities, I'd say:

- Hong Kong
- London
- Singapore
- Manhattan (as opposed to broader New York)
- San Jose/San Francisco
- Sydney

On the bright side, the most affordable large cities in the U.S. are Atlanta, where median valuations are 3.0 times income, Phoenix at 3.9, Tampa at 3.5, Chicago at 3.4, and Dallas at 3.3.

Everyday people can still barely afford middle-class houses in those areas. I don't see those cities suffering from backbreaking declines. They're just above the more normal high-end of 3-times income for valuations.

By now, there should be no doubt that we're in a global real estate bubble that's ready to burst. The demographics are screaming for a crash and houses have become increasingly unaffordable.

Prices have nowhere to go but down.

THE FALL OF THE SUPER CITIES

One thing that has kept real estate afloat in developed nations has been the massive inflows of foreign buyers.

The super-wealthy from emerging nations, particularly China, have invested in the world's most attractive large cities, especially places where foreigners can get their kids a good English-speaking education. These cities include:

- London
- New York
- Toronto
- Miami
- Los Angeles
- San Diego
- San Francisco
- Vancouver
- Seattle
- Singapore
- Sydney
- Melbourne
- Brisbane
- Auckland
- Dubai

These cities have bubbled the most.

Unfortunately, most people think that the super-rich will always buy in these desirable areas, but history proves otherwise.

Because these cities are prone to the biggest bubbles, they also have the greatest downside.

The ultra-rich have always represented the smart money. When the bubble starts to burst, a chunk of this group will be the first to get out – but for many, it will be too late.

This is exactly why we forecast that these super cities around the world will crash the hardest.

And many of the ultra-affluent, who have been driving these real estate bubbles, will see their wealth evaporate – just as the Japanese did when their bubble peaked in 1991. Wealthy Japanese used their instant riches from the country's real estate bubble to buy overseas. But when Japan's bubble burst 70%, their wealth evaporated and they became sellers overseas AND at home.

This is how bubbles work.

The same speculators and trends that inflate bubbles, end up collapsing them.

WHERE THE RISKS ARE GREATEST

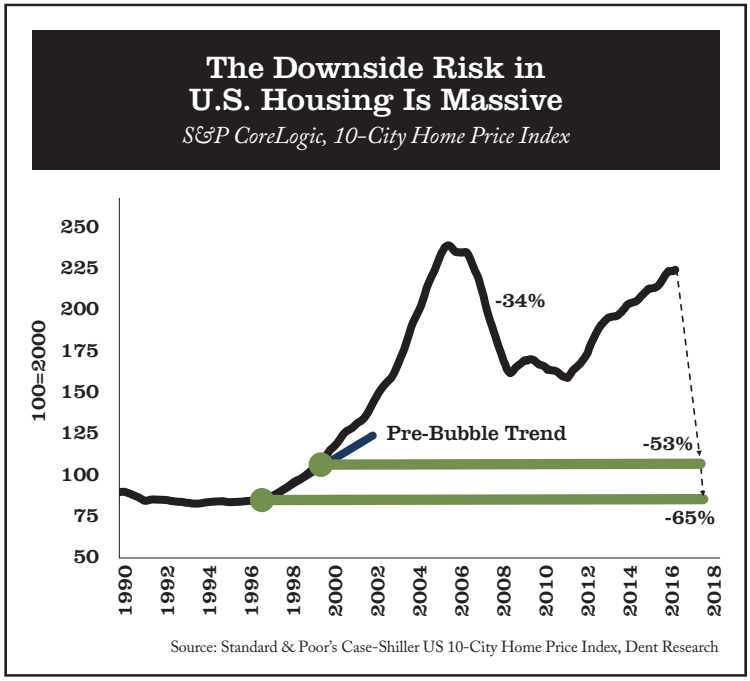
The real estate bubble in the U.S. between 2000 and 2006 was not as extreme as Japan's 1986 to 1991 bubble. During those six years, Japan's housing prices increased a whopping 160%, compared with 127% in the U.S., as the chart on page 36 shows.

If the U.S. retracement echoes the Japanese experience, that would suggest a 53% fall from current price levels.

You can see how prices begin to diverge upward increasingly from the natural trend line in early 2000. This is where the bubble began. The first decline in major cities was 34% – greater than the 26% decline during the ravages of the Great Depression, because home prices did not bubble up across the U.S. during the Roaring '20s.

There has been a strong, stimulus-fueled rebound since 2012, but incomes have been stagnant for years, making homes just as unaffordable as they were over a decade ago. And with net housing demand pointing down sharply into 2021, another deep collapse is all but inevitable.

The chart shows the path for U.S. real estate prices nationally.



But the U.S. is a massive country with many different markets. Given that real estate prices vary on a regional basis, I always tell people to gauge their downside risk by looking up the value of their property in January 2000. When the bubble bursts, *this* is the point to which your property is likely to fall – maybe even 10% to 20% lower.

You can see in the chart that the key support levels for the residential real estate market took hold in January 2000, when the bubble really took off, thanks to the transfer of speculation into real estate after the collapse of the tech bubble.

As a rule, bubbles always retreat from their peaks to where they began, or even a bit lower.

To just erase the bubble that started in January 2000, home prices would have to fall 56% from their top in early 2006.

That's 53% from the recent highs.

If home prices fall back to their earlier lows of 1996, that would mean a devastating 67% decline from the top and 65% drop from recent highs.

All of this means that you must prepare yourself for what's coming.

Your real estate, along with your investment portfolio, is destined for deeper declines than we saw during the great recession and its aftermath.

And not only will the next downturn be much deeper, it will stretch further around the globe. I expect all major real estate markets around the world to crash as the popcorn popper accelerates.

THE CARNAGE TO EXPECT STATE SIDE

In the U.S., the greatest bubbles occurred primarily on the coasts. Between the Rockies and the Appalachian Mountains, the real estate bubbles were less extreme and, in some cases, minimal.

Cities like Dallas, Houston, St. Louis, and Kansas City bubbled mildly into 2006. Smaller central cities, like Omaha, Nebraska, bubbled less.

The exceptions are now North Dakota, Dallas and Houston, thanks to the U.S. fracking industry, and Austin, the new hipster city in Texas.

Look at the map on page 38. It shows where house prices, adjusted for inflation, have increased the most since 2012.

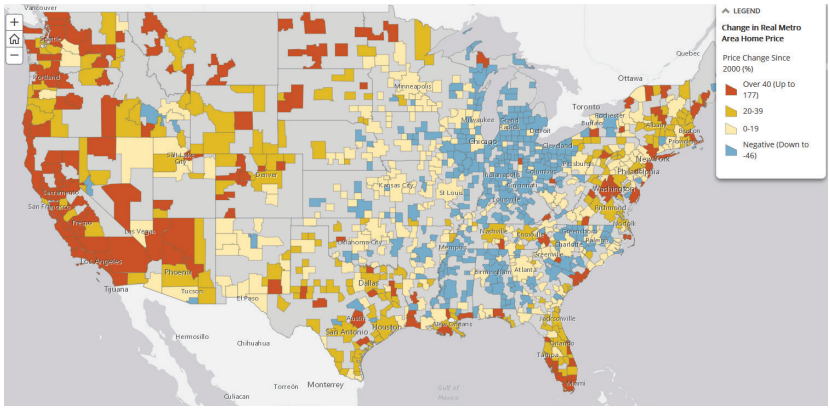
As you look this over, keep in mind that over the same period, inflation-adjusted household income in the U.S. grew by less than 1%.

The dark orange ranges from 40% to 177% gains.

That's unreal!

The mustard color represents gains between 20 and 39%.

Both areas fall right around where you'd expect. They're the desirable metro areas on the coasts. They have high immigration



Source: *The State Of the Nation's Housing 2017*, Joint Center for Housing Studies of Harvard University, Dent Research

levels and high internal migration levels (people moving within the U.S.), which keeps demand up.

In other spots, you can see the effect of the fracking boom in the Dakotas, pushing prices higher than they otherwise would have gone.

And the housing market in the Washington, D.C. area owes a thank you to the U.S. taxpayer.

We also see bubble areas where there's a lot of foreign home buying. That's all of the West Coast, South Florida, and New York.

In fact, a recent survey of Chinese millionaires showed that Los Angeles was their most desirable destination. Seattle, San Francisco, New York City, and Vancouver rounded out the top five. Other notables on the list were Melbourne, Toronto, New Zealand, and London.

Chinese money has fueled real estate bubbles around the world.

But that's all about to dry up after the coming China crash, which we've detailed elsewhere.

It's clear, though, that the impacts of this second housing bubble have been uneven.

The paler shade of yellow shows areas with modest housing gains,

under 20%. Over a 17-year period, that's just not a lot.

But look at the large swaths of blue in the Midwest. These areas saw prices fall since 2000, dipping as far as 46% in some places.

When you read about "Two Americas," it's certainly the case in real estate.

These areas include the Rust Belt, which have been dealing with deindustrialization for decades, where whole industries that used to power these communities vanished… taking real estate values with them. On top of that, many of these areas are aging. We know that as people get older they buy smaller and smaller homes until they pass on and become net sellers. Expect many of these areas to continue to have a lack of demand.

The table on page 40 shows the downside risk in the broad bubble from January 2000 to the peak in each major metro area.

To derive this table, we apply the same price and chart analysis to the components cities of the S&P/CoreLogic Case-Shiller Home Price Index as we did in the national home price index chart a couple of pages back.

With this, you can gauge your downside risk of a price tumble to the levels of early 2000 and to mid-1996 valuations to ensure the bubble has largely been erased.

Only at that point can you be sure about investing in real estate again – but don't expect a robust rebound.

I would advise that you own for utility or renting for the sake of cash flow in the future, rather than for appreciation.

Between early 2000 and the peak in 2006, prices in Miami surged 180% and prices in L.A. were close to that. The first crash into 2011/2012 was as high as 62% in Las Vegas and 58% in Miami, but as low as 9% in Dallas and 12% in Charlotte. That is how much real estate varies within just one country.

When looking at this table, be sure to note that Miami could still fall 56% after its stronger rebound, and prices in San Francisco stand to tumble 58% if they fall to the point where the bubble began in January 2000.

How Bad Can This Get?		
City	**Downside Risk to 2000 Levels**	**Downside Risk to 1996 Levels**
Los Angeles	-62%	-72%
San Diego	-59%	-70%
San Francisco	-58%	-72%
Seattle	-56%	-68%
Miami	-56%	-61%
Washington, D.C.	-55%	-60%
Portland	-54%	-62%
Boston	-50%	-65%
Denver	-50%	-64%
Tampa	-49%	-55%
New York City	-47%	-58%
Dallas	-43%	-58%
Phoenix	-41%	-53%
Las Vegas	-38%	-45%
Minneapolis	-38%	-52%
Charlotte	-33%	-43%
Chicago	-27%	-39%
Atlanta	-27%	-41%
Detroit	-13%	-36%
Cleveland	-13%	-26%

Atlanta, Boston, Charlotte, Dallas, Denver, Portland, San Francisco, and Seattle have gone on to make new highs. The last bubble crash didn't hit cities like Dallas, Denver, and Houston (not shown) as hard, but they could see bigger declines ahead. Without the recent memory of a housing bust, these areas are even more delusional. But cities sitting at historic highs are particularly at risk.

Each of these estimates are guideline, of course.

Not every city will crash to these levels.

The foreign-buyer cities – Los Angeles, Seattle, San Francisco, New York City, Miami, San Diego – all face a serious risk of hitting those levels when the China bubble bursts and all that money dries up.

THE 3 CATEGORIES OF DOWNSIDE RISK

We break these top 20 cities into three distinct categories of downside risk:

Greater Bubble Cities:
- Miami
- L.A.
- Washington D.C.
- San Diego
- Tampa
- Las Vegas
- Phoenix
- San Francisco
- New York

Medium Sized Bubble Cities:
- Seattle
- Portland
- Boston
- Minneapolis
- Chicago
- Houston
- Dallas

Lesser Bubble Cities:
- Cleveland
- Detroit
- Charlotte
- Atlanta
- Denver

There are enough differences to warrant looking at individual cities separately to target where the bubble began and where the last correction occurred. You can duplicate the approach we used by looking at longer-term prices in any city in which you live or do business.

And we've highlighted the risks in five major American cities. In this analysis, we applied the bubble model to calculate the risks. We measured their bubbles individually, instead of applying a national period of origin (2000 and 1996, as we did previously).

I'll start with Miami, because it experienced the biggest bubble since 2000…

- **Miami:** This beautiful South Florida multicultural metropolis had the steepest rise of 146%, with its bubble beginning around mid-2000. I witnessed this myself

between 2002 and 2005, and I sold there near the top of the market.

To correct the bubble, Miami home prices would have to fall 50% from late 2017 prices.

Since my model forecasts an 85% retracement (85% of a 50% decline), I expect a 42% crash.

Prices in Miami's two hottest areas, South Beach and Downtown, have surged higher than their 2006 peak.

Those two super-bubble areas could see devastating price declines, because the rises have been driven largely by those ultra-rich foreign buyers and they're the one who disappear fastest!

- **New York City:** The bubble in the U.S.'s largest city appears to have begun around early 1999 and rose 141% into its peak.

  My model expects prices to fall 45%. A 53% dive would erase the bubble.

  Real estate prices in parts of Manhattan run as high as Miami, ranging from $5,000-plus per square foot for prime condos to as high as $13,000 per square foot for the poshest penthouses, making South Beach look like a bargain.

  The average condo jumped from $1.5 million in 2013 to $2.2 million in 2016 – up 47%. The greatest gains came in the $10 million-plus segment. These high-end places could decline by 80% or more.

This is why the richest people in the world will suffer the most when the bricks start crumbling.

- **Los Angeles:** The bubble in the City of Angels began later than most, around early 2002.

  To clear its bubble, L.A. would have to fall 51% (43% on the model estimate).

  The major Californian cities, just like Boston and New York, have always been expensive. They've became even more expensive.

  And after the bubble bursts, despite the inevitable price decline, they will still be more expensive than Miami or Phoenix – as will New York.

  Nearby San Diego had a more typical bubble of 102% and has downside risk of 48% (41% model estimate).

  Moving up the state, San Francisco has had a bubble rise of 127% and is staring at a catastrophic fall of 60% (51% model estimate).

  Chicago: Chicago had a bubble that was slightly smaller than the average. It's an example of a major city where the downside risk is not extreme, especially in the outer suburbs and exurbs.

  The bubble started around mid-1998 and saw an 89% rise to the top. Chicago would have to fall a mere 34% to reach bottom (and the model calls for a loss of just 29%).

- **Atlanta:** Like most of the southeast U.S., Atlanta has benefited from migration trends for decades. Its bubble began in early 1997.

  While its rise was 63%, that's 40% lower than the average 20-city gain. So, its downside risks are lower.

  The Atlanta real estate market would have to fall 39% to return to pre-bubble levels (33% by the model).

  The city's last fall was steeper than would have been suggested by the size of its bubble – but this was the result of stronger overbuilding.

  As we saw earlier, Atlanta is still somewhat affordable.

RISKS VARY FROM CITY TO CITY

The two cities that don't fit the normal bubble patterns are Dallas, Houston (not listed in the Case-Shiller top 20 city index), and Denver.

Dallas and Denver experienced minimal bubbles and consequently minimal declines after the first bubble burst.

But unlike most major cities, these areas have continued to have high migration and strong job growth with 67% of the increase. At the same time, Denver has become the pot capital of America.

Because of these trends, Dallas and Denver have bubbled in the rebound and have hit substantial new highs. Therefore, the risks are now much greater than they were when the last real estate bubble peaked in early 2006.

Dallas would have to fall 60% (51% bubble model estimate) to erase the bubble.

Meanwhile, Denver would have to fall 59% (50% by the model).

In another group of cities, which includes Cleveland, Charlotte,

Real Estate Bubble Model Crash Estimates		
City	**Downside Risk to Bubble Origin**	**Bubble Model Estimate of 85% Retracement**
Dallas	-60%	-51%
San Francisco	-60%	-51%
Denver	-59%	-50%
Boston	-58%	-50%
Minneapolis	-55%	-46%
New York City	-53%	-45%
Los Angeles	-51%	-43%
Seattle	-50%	-42%
Miami	-50%	-42%
Portland	-49%	-42%
San Diego	-48%	-41%
Washington, D.C.	-47%	-40%
Charlotte	-41%	-35%
Atlanta	-39%	-33%
Tampa	-39%	-33%
Detroit	-34%	-29%
Chicago	-34%	-29%
Phoenix	-33%	-28%
Las Vegas	-28%	-24%
Cleveland	-21%	-17%

L.A., New York City, and Washington D.C, I expect prices to fully hit their 85% bubble retracement.

Meanwhile, there's a second group, in which these declines would take them all the way to the worst-case scenario, past the 85% retracement, and down to their bubble origins. That group includes:

- Atlanta
- Chicago
- Miami
- Portland
- San Francisco
- San Diego
- Seattle

Boston is an anomaly.

The city held up well in the last crash, despite being one of the most expensive in the country, as well as having a bigger-than-average bubble. Boston will come down to earth only if it erases the bubble price rise and takes a 58% fall (50% according to the model's estimates).

Finally, four cities erased (or more than erased) their bubbles in the last crash – Phoenix, Las Vegas, Detroit, and Atlanta.

Detroit is a special case, because it remains a victim of the shrinkage of the U.S. auto industry and the transfer of jobs to Asia and the southeast U.S.

Meanwhile, Phoenix and Las Vegas were two of the most speculative cities in America, whose steep and late-stage bubbles burst dramatically.

At the same time, Atlanta experienced some of the greatest overbuilding in the country.

These four cities are more likely than others to see the worst-case scenarios play out.

However, they also have much less downside risk than the bubbliest of U.S. cities, like Miami, L.A., San Francisco, and New York.

APPLYING THE BUBBLE MODEL TO 3 KEY CITIES

My real estate bubble model is incredibly predictive.

It says that the crash will take as long as the bubble's rise.

And rather than erasing the entire bubble, the crash will typically retrace about 85%.

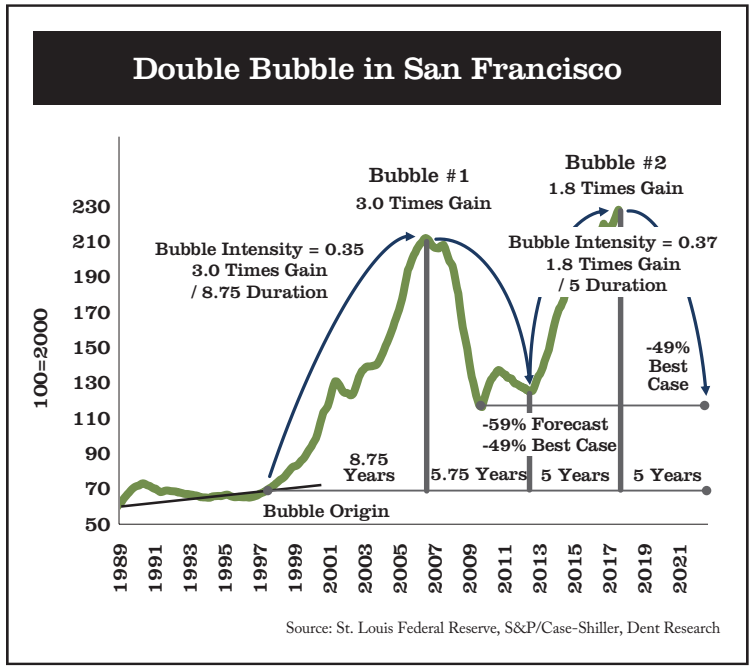
So, I'm going to conclude this book by sharing with you an analysis of three major bubble cities.

I'll start with San Francisco, which is one of the bubbliest cities in the U.S. It's also an example of a double bubble, where current real estate prices are now significantly higher than during the first

bubble, which makes it more overvalued than ever.

At this point, it's unclear whether it will correct towards its bubble origin or back towards the lows of the last bubble burst. Either way, the forecasts are dire.

When charting out a bubble, I always start by calculating the bubble origin point. That's where prices started to accelerate beyond the natural trends.



For San Francisco, this point is mid-1997, earlier than most of the U.S., which started more around January 2000.

The first bubble accelerated into a peak in early 2006. It was longer than most others in the U.S., lasting 8.75 years. To get the bubble intensity, we divide the times gain, in this case 3.0 times, by the duration of 8.75 years. That gives us a medium bubble intensity of 0.35.

The bubble model forecast a decline of 59%.

The market shed 45% in just three years, into early 2009.

It was a buoyant area, with strong job growth and foreign buying so it didn't deflate as much as I expected.

Then a second bubble began in early 2012.

It has lasted five years thus far, and looks close to peaking.

Double bubbles aren't as common, and that makes them less predictable.

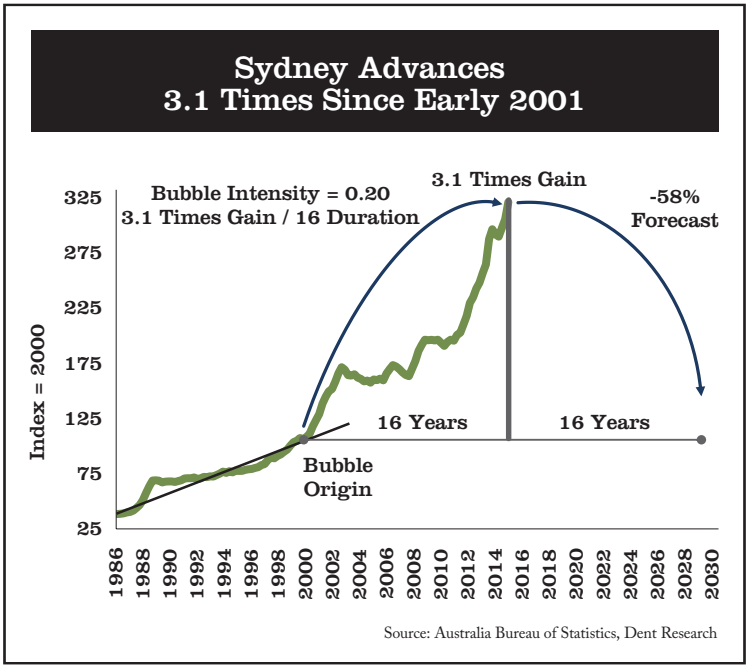
My best-case scenario is that San Francisco real estate crashes back down to that early 2009 low, which means a loss of 49% from here.

The worst-case scenario would be that prices drop 68% to return to the point of origin in 1997.

Next, let's look at the most prominent bubble in Australia.

Sydney has a classic 5th-wave advance that looks close to peaking.

Every time I've spoken there, I've gotten severe blow-back from economists and journalists on my warning that their real estate



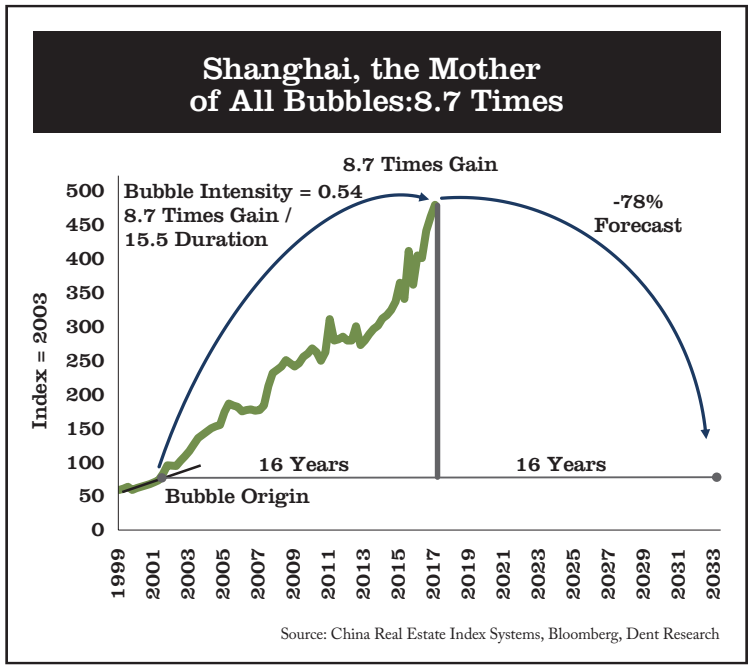
would burst. That changed on my May 2017 visit.

More experts admit that the Australian – and specifically Sydney and Melbourne – property markets are in a bubble.

Yes, and Brisbane too.

The question now on everyone's mind is: How much will we lose when it bursts?

Sydney's property bubble started back in 2001.



It has taken 16 years to advance 3.1 times. So, that's not as high an intensity as San Francisco and other bubble cities like London.

But Sydney, like San Francisco, was already expensive to begin with and this bubble has built over a longer period.

My model suggests the city's real-estate values could endure a long slide into 2032-33 – that's 16 years if it peaks in 2018. That may be a bit bearish because the demographics in Australia are the most favorable in the developed world.

But, when I apply my buyers-versus-dyers model to Australia,

it peaks around now and falls into 2022, then rises back near these levels into 2026 before declining longer-term again into around 2043.

So, we'll see Sydney crash about 53% (back to early 2006 lows) or 58% if we allow for the typical 85% bubble retracement.

Australia, and Sydney in particular, has another unique attribute: The high concentration of Chinese buying.

When the Chinese bubble bursts, it'll likely be the worst collapse the world has ever seen, and it will affect Australia's export economy and property market directly.

So that brings us to the mother of all bubbles… Shanghai.

This bubble origin is the same as Sydney's, in mid-2001.

The 8.7-times gain gives this a very high bubble intensity of 0.54 for real estate.

This is a case where I expect it to take closer to 16 years to hit bottom and advance again because China has overbuilt its infrastructures and real estate 10 to 15 years ahead.

As I said earlier, a long and deep decline in China could weigh heavily on Australia's real estate markets.

My model suggests that China's property market will suffer a 78% decline.

The best-case scenario is that prices there will decline back to the late 2012 low, losing 47%.

I don't think this is likely.

Seventy-eight percent (78%) is the most likely scenario, higher than Japan's dramatic real estate bubble of the 1990s forward of 67% to 70%.

In any of these scenarios, there will be a vast black hole of real estate wealth that evaporates as the Chinese have 75% of their wealth in property, more than the Japanese in the bubble or the U.S. at 27% today…

This will be a tsunami in the English-speaking countries where the Chinese are laundering their money out of their bubble economy.

All three of these major cities, along with the bubble cities around the world, are getting closer and closer to their peaks.

When things get as crazy as China, the bubble peak is getting close.

When even Australian economists start to admit they have a bubble, that peak is closer still.

Are you ready for this collapse?

FINAL WORD

In the last housing bust, Americans lost $7.5 trillion in equity.

Rather than let the market reset itself naturally, the Fed stepped in with trillions in quantitative easing (QE). In doing so, it created another massive real estate bubble.

Since the first one never fully reset, we, in a sense, have a bubble on top of a bubble.

This latest bubble rise has been so rapid that equity levels have reflated over 100% nationally.

It's completely artificial.

And it can't last.

Don't think we can avoid the crash.

The evidence keeps piling up.

Boomers have been hanging onto their houses.

Builders have held back homebuilding projects. Both have choked supply. This contributes to the affordability problem.

People keep getting priced out the market.

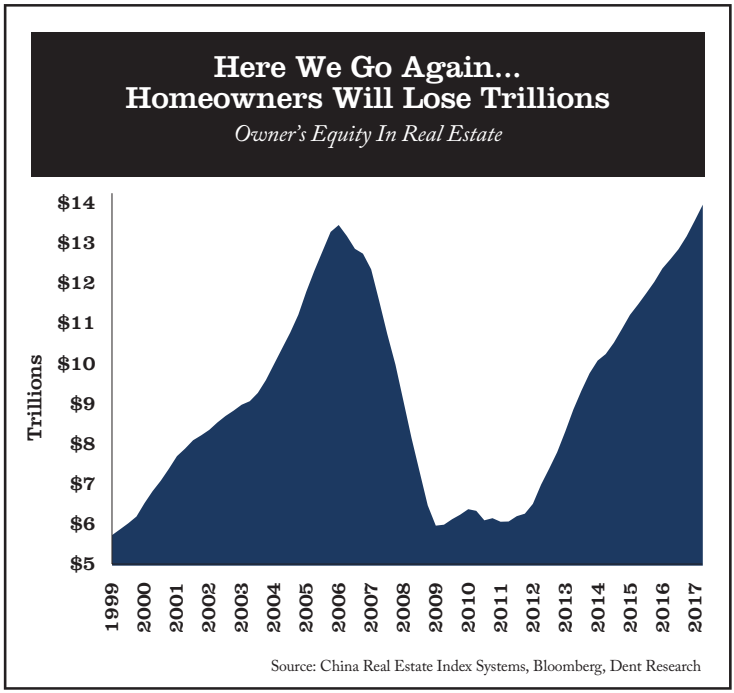
The upcoming generation still can't afford to move out of mom and dad's basement.

It simply can't last.

Prices have spiked worldwide, making this a truly global bubble.

This time it will be $8 trillion-plus that disappears!

Foreign buying, particularly from China, helped push up prices along the U.S. West Coast in places like Vancouver and Sydney. But that's all about to dry up when the Great China Bubble burst.



There's no soft landing when they go bust.

Earlier, I likened real estate to a popcorn popper. Once the heat reaches the critical level, they all go pop. Just not all at the same time.

This massive bubble's about to burst and it's going to be painful.

You don't want to be anywhere near this thing.

Our advice:

Sell all non-strategic real estate for your business and personal use now.

For your business, it's better to lease than own for the next several years.

Keep your primary home, but only if you plan to stay in it long term. If you plan to downsize or move in the next few years, sell now! Certainly, sell vacation homes that are not dear to your heart.

Most importantly, look at the risks from city to city, metro area to metro area. Every place has its own story.

You now have the tools to measure your risk exposure.

Get out and be safe.

Questions from Our Readers

Question:

"I live in a retirement community. What should I do?"

Answer:

Did you realize that more retirees are renting instead of owning?

Look at what your home was worth in January 2000. That is the best estimate of its downside. If you can live with that, then OK. If not, why not consider renting instead of owning, especially of you can negotiate a longer-term lease, like five years or more.

Question:

"I have rental properties as part of my portfolio. What is the best course of action?"

Answer:

Rental properties are likely to hold up the best, but values will still decline and rents could as well.

I would suggest that you rather consider selling such properties and consider buying back later, depending on how rents and values do in the next few years.

Question

"I have a vacation home. Should I sell it?"

Answer:

These are the first property to consider selling, especially if it's something you only use several weeks a year or less. What's wrong with a great hotel with a spa and room service?

Question:

"I have a home I CAN'T sell (small market with low demand). Now what?"

Answer:

If your home is hard to sell now, it will be much harder to sell in the greatest downturn of your lifetime. If you can't sell it, can you rent it out?

Question:

"I can't move because of the school district my kids are in. Any advice?"

Answer:

Rent in your school district instead of owning. Try to negotiate a longer-term lease so you won't be forced to move.

Question:

"I currently rent. Why is this relevant to me?"

Answer:

It's relevant because it gives you a reason to continue renting until the market prices fall down to where you might be able to afford and can then buy. Also, it gives you an idea where the greatest falls will be and you can look to buy in those areas. That's where you'll find the great bargains.

Question:

"I JUST bought a house. I'm not going to turn around and sell it."

Answer:

If you can live with a fall to January 2000 prices, fine. Stay. But, it's still better to sell than watch it drop 30% to 50%.

Question:

"For some of us, selling our house and moving to Puerto Rico, like Harry did, just isn't an option. What can we do?"

Answer:

Maybe you should re-consider. Housing is much more affordable in Puerto Rico and taxes are lower as well. If this is completely out of the question, consider moving to a retirement area where housing prices have not bubbled up as much, like the coastal areas of North and South Carolina.

Question:

"I want to sell, but I can't convince my spouse. Any suggestions?"

Answer:

The way I convinced my spouse in late 2005 was to show her what the house was worth in January 2000. That was a more than 50% drop – and that's what happened. The thought of losing that much was enough to get her onboard.

Question:

"We live in a market where selling our home and getting a rental isn't the best option for us because we have special needs. What should we do?"

Answer:

You should be able to find rental solutions in retirement-oriented communities. You may have to look to relocating to places like Florida, Arizona, and Nevada.

Question:

"How can I hedge and protect my downside?"

Answer:

You actually can hedge your house indirectly by having a short position on the stock market. If housing goes down, stocks will typically go down more and faster.

Charles Street Research
819 North Charles St
Baltimore, MD 21201 USA
USA Toll Free Tel.: (888) 211-2215
Contact: https://www.dentresearch.com/contact-us/
Website: https://www.dentresearch.com/