

## **What Could Trigger a Regional Property Price Collapse?**

by John V. Kamin

Many folks are afraid that the property boom, when the cycle turns, could result in large price declines. One of the things owners fear is a recession or depression, similar to 1929-1937. Another thing they fear is that the Federal Reserve will push interest rates so high, people will stop buying real estate. I doubt the validity of that particular fear, because the FRB and FOMC with which Dr. Bernanke heads could adjust interest rates relatively quickly. During 1933, interest rates on T-bills fell to a quarter percent, even as banks were collapsing.

Some folks fear that higher inflation could kill the housing boom. As a Contrarian, I see it another way. The "working man's" main inflation hedge for decades has been his home, from the \$7,500 prices in the 1950s, to the \$15,000 tract homes in the 1960s, to the \$25,000 in the 1970s, to the \$100,000 prices in the 1980s, right up to this year's median price in Los Angeles County near \$500,000 for a single family home. Homeowners who have owned their houses for more than five years continually tell me at seminars and in private that their home was/is the "best investment" they ever made. And they did it with borrowed, low-cost money and small down payments! Good for them!

One of the hidden fears that troubles me is the possible elimination of the property tax limits. California politicians hated Prop 13, originated by Howard Jarvis, for decades. They still do. Prop 13 is attacked every year in the Sacramento legislature.

### **Divine and Conquer Strategy**

Latest proposal? To "separate out" limited commercial buildings (for higher taxes) then tax that building category at much higher tax rates.

Lawmakers wouldn't be able to tax property homeowners at much higher rates right away because too many homeowners vote aggressively (to limit higher taxes). So, lawmakers' strategy is to "divide and conquer". Government and legislators always need more money. No matter how much they get, they manage to spend more. So, if they can tax commercial property higher, years following would likely see concentrated attacks on property tax limits for homeowners, too, under the "divine and conquer" strategy.

Repeal of Prop 13 in California, repeal of Property Tax Limits Laws in other states, could sabotage real estate values in those states. Every strategist watches the leader, California, to see if Prop 13 can be weakened, sabotaged or later repealed so that other states (whose voters limited constantly rising property tax re-assessments) could plan to raise property taxes in their own states. Would this happen? I hope not.

Prediction: Taxpayer associations and voter associations would rise up in arms against Prop 13 Property Tax repeals, just as Howard Jarvis did in 1979.

### **Clash of Interests?**

But renter associations, who want more government freebies paid for by property owners might support Prop 13 repeals. Many renters don't realize that if property taxes go up, the rents on their rental units would soar immediately, as landlords pass through tax increases to renters. Owners have to pass through those tax increases, or they might lose their properties.

### **Epidemic Property Bust Unleashed?**

If property taxes were raised sharply in popular states such as California, Washington or others and real estate transactions were sabotaged and devalued, with many more sellers than buyers the tax-and-spend epidemic could spread to other states, a genuine real estate bust.

So far, so good. Voters have repulsed attacks on Prop 13. Will homeowners, apartment owners and commercial building owners be forever successful in fighting off attacks on Prop 13? I cannot say.

Many subscribers live in states that try to boost and re-assess property taxes every year or two or three: Illinois, Pennsylvania, New Jersey, Massachusetts, Wisconsin, Minnesota and many others. Even though their property taxes are rising every year or three by re-assessments to ever-

higher levels, out-of-state owners might be tainted by any busted real estate market, too, if prices dropped nationwide because of increasing property tax troubles.

Does this seem like worrying about something that hasn't (yet) happened? Maybe so. But property owners, homeowners and landlords, would be well advised to resist any attempts to boost property taxed sharply and unite in their efforts. Otherwise, it could be a long-term real estate disaster.

E.G. Other assets aren't necessarily taxed the way property is. If you buy a few rare coins or gold coins or an old collector car, or a resalable painting, you're not taxed year after year on its rising value, are you? But property owners, with their assets fixed in place, acting singly, are more or less "open-season prey" to the constant need-more-money state and local governments who want constant tax increases.

Forecast: If you see Prop 13 attacked and successfully weakened or repealed in California, I would expect more businesses to move to lower-tax jurisdictions such as Nevada, Oregon, Delaware and a few others.

Prediction: I would also expect a shift in asset mix: less privately-owned real estate, to more types of other assets whether in Wall Street, gold and silver, rare coins, antiques and collectibles or second homes in Mexico and Canada. Careful. The world keeps changing.

#### Economy's Green Gas Gauge. Paper Money and Credit

Currency in Circulation (CIC = greenbacks printed) is an unusual indicator that Forecaster has been researching since the 1960s. CIC is currently \$793.9 billion, up \$39.7 billion over a year ago, up \$1.94 billion in the previous week. One analyst interviewed on MSNBC recently put it, "The world is awash in liquidity". Reasons? Easy credit, often for consumers and countries that never had consumer credit available before (China, rural Mexico, many Asian countries, former Soviet satellites, etc.) plus fiat money being printed at rapid rates worldwide: China, Russia, Latin America, Africa. OPEC oil producers are themselves awash in currency profits.

Back in the good old USA, CIC can influence inflation ahead, as too many greenbacks seek a new home.

Other gauges. Consumer Price Index (CPI = retail prices) is up 0.6% (annualized rate 7.2%) and the Producer Price Index (PPI) - wholesale prices is up 0.9%, annualized momentum rate 10.8% using latest month). One time-tested definition of inflation is: "too much money chasing too few goods". But with Asian imports and car imports flooding the USA, there's hardly any shortage of consumer goods. Let's use a different definition of inflation: "falling purchasing power of the currency unit - the dollar". This definition of inflation seems to fit the 21<sup>st</sup> Century better.

#### Dollar Attack. Plastic Money Doubled

Clearly, the USA dollar is dropping in purchasing power, even occasionally under attack. Clearly, more dollars are going abroad to China, Mideast oil producers and African oil producers such as Nigeria; even USA-haters such as Venezuela's Chavez and his friends heading Bolivia, Cuba. Meantime, the USA consumer has about doubled the number of credit cards he carries in the last 15 years...and uses them to carry about \$9,000 of debt (on average) that he never pays off but makes only minimal payments upon. Home Equity Loans and other "easy money loans" have him spending at a rapid rate, even when he isn't buying new cars with 0% interest for five years, free financing! Overspending!

#### Prices of Supplies Soar!

Meantime, with the dollar dropping internationally, measured against other major world currencies, prices of raw materials besides oil are going up rapidly: copper, lumber, steel, cement, plastics, chemicals, mining trucks and tires. Even certain foodstuffs are now going to be diverted to replacing costlier imported oil (corn, sugar cane). Gold and silver are rising, as are non-precious metals such as zinc and nickel.

Some Wall Street analysts have been waiting five years for the real estate market to bust. They predicted a downturn in property markets since 2001, every year, without fail. I hope they weren't holding their breath the last six years, because the housing market's still climbing.

As a Contrarian, though, I'll be concerned when Wall Street analysts change their tune to think the bust will never come. Since they've been wrong six years in a row (about real estate prices, gold prices, silver prices) that might be just when the breakdowns occur!

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