



Harry's Take

June 25, 2024

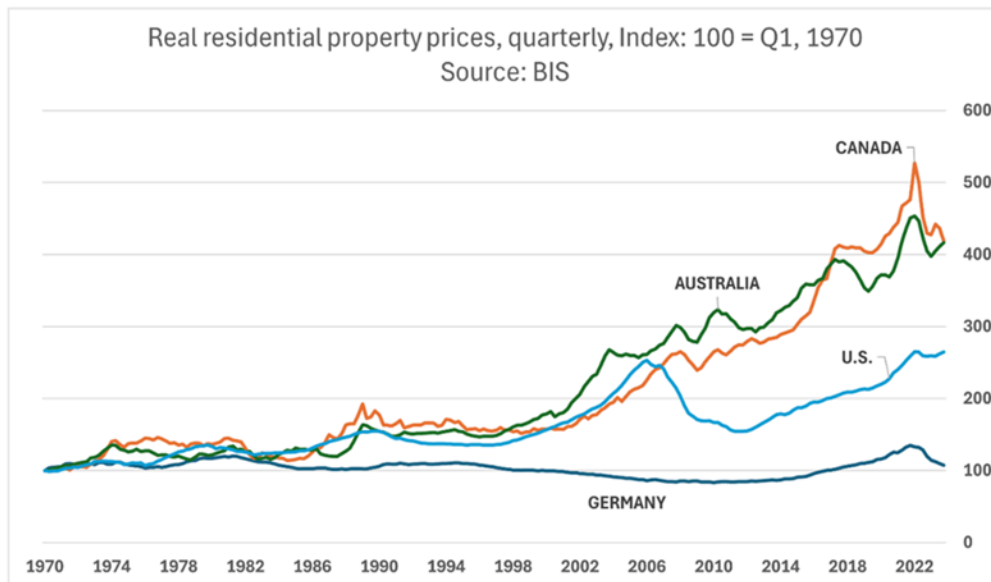
Our Real Estate Bubble Looks Mild Compared to Those of Canada and Australia

I'm getting ready to go on *60 Minutes* in Australia this week. I have to fly from Puerto Rico to Miami just to do the interview. Hence, I had to update my stats on the major real estate bubbles around the world.

China is still the most extreme for valuations vs. income, but China is in another world, as an emerging country instead of a developed one. It's hard to get a major bubble going in most emerging countries, given the lower incomes, which make it hard for people to afford a basic house, much less an upscale one.

But China is different. Officials in its top-down, nonelected government just told developers to build and banks to lend, and the government would have their backs. Hence, many moderate-income households in China own real estate they really can't afford... and China has the greatest bubble in the world on valuations like price to income. I'm expecting a 70%+ burst there.

Real Estate Bubbles Worse in Canada and Australia, but Not in Germany



Source: MacBeth MacLeod Partners, BIS

Source: <https://www.howestreet.com/2024/06/the-canadian-housing-bubble-needs-to-burst/>

www.hsdent.com

But Canada and Australia have the greatest bubbles in the developed world. Look at how much bigger their bubbles are than the U.S. bubble. This chart shows real, or inflation-adjusted, real estate prices all the way back to 1970. I was surprised to see that Canada's bubble has topped Australia's since 2017. That is saying something. In contrast, the U.S. bubble is only modestly higher, adjusted for inflation. And are the Germans wearing "bubble condoms"? I've always known Germany was rare in not having a bubble, but they truly are going to look like the superior race after this global crash.

In Australia, the median home price is now \$650K in Australian dollars vs. what the median household can afford at best, \$420K. Sydney is the worst, with a \$1.1M median price; that's 9.4 times income, and 58% of that income is needed to cover a new median mortgage that now exceeds equivalents rents by 70%. What?

Does it get more ridiculous or insane than this? That's why bubbles always and must burst.

The funny thing is that of the audiences I speak to globally, the Australians are the least concerned about a real estate bubble and burst.

Harry

Got a question or comment? You can contact us at info@hsdent.com.