

Econ 323

Economic History of the U.S.

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Spring 2016

Today's Topics

- Finish stock market
- U.S. Land Booms
- Florida Land Boom of 1920s
- U.S. since 1975
- Housing Fundamentals and Price-to-rent ratio

U.S. Housing Booms

- Panic of 1819
 - The first major peacetime financial crisis in the United States
 - US farmer sold more in Europe, leading to rising farm prices and lending in the Midwestern states.
 - Second Bank of US presented Midwestern banks with their bank notes for collection, which reduced bank lending
 - Competition from Foreign farms eventually reduced crop prices
 - Farm land prices plummeted

U.S. Housing Booms

- Chicago 1835
 - “I never saw a busier place than Chicago at the time of our arrival [1835]. The streets were crowded with land speculators, hurrying from one sale to another. As the gentlemen of our party walked the streets, storekeepers hailed them from their doors, with offers of farms, and all matters of land lots, advising them to speculate before the price of land rose higher...Wild land on the bank of a canal, not yet even marked out, was selling at Chicago for more than rich land, well improved, in the finest part of the valley of the Mohawk, on the basis of a canal which is already the medium of an almost inestimable amount of traffic.” -- Harriet Martineau, *Society in America* (1837) Vol. I pp 349-353

U.S. Housing Booms

- California Real Estate 1880s
 - Southern California, Peaked in 1887
 - Transcontinental railroads reduced travel costs to California
 - California marketed as the “Land of Plenty”
 - Some land prices increased 500% in one year
 - Los Angeles population increased from 10,000 to 70,000 from 1881-1887
- 1970s Farm Land
- 1980s U.S.
- 2000s U.S.

1920s Florida Land Boom



1920s Florida Land Boom

- Large migration to Florida:
 - Population grew from 968,470 in 1920 to 1,263,540 by 1925
 - Increased use of automobiles and railroad
 - Booming economy
 - No state income or inheritance taxes

1920s Florida Land Boom

- Land Mania
 - Lots of sales to people outside of Florida
 - Developer put billboard in NY Times Square during winter “It’s June in Miami”
 - William Jennings Bryant was paid \$100,000 (half in land) to promote real estate
 - Miami passed law forbidding gathering in the street to sell property or show a map (lots of congestion)
 - In Miami, lots that sold for \$7,500 in June, 1925 sold for \$35,000 forty-two days later.
 - “Nine buyers out of ten bought their lots with only one idea, to resell, and hoped to pass along their binders to other people at a neat profit before even the first payment fell due at the end of thirty days. There was an immense traffic in binders—immense and profitable.” Allen.

1920s Florida Land Boom

- “The genesis of most of the tricks seen in 1924-25 in Florida can be traced here: paper from sites sold from maps, dishonest auctions, excursions and barbecues, persons standing in line all night and paying \$ 50 or even \$ 100 for places in line in the morning, “purchases” by business men of established wealth and position, new varieties of fools arriving on every train, crowded streets, and “millionaires” rushing around in new buggies in Los Angeles...In two respects—the use of free motor transportation back and forth over the state and the extravagant use of advertising—the Florida boom eclipsed its predecessors. Florida was a publicity man’s Paradise: newspaper advertising, magazine advertising, billboard advertising in Florida and outside, even as far as Boston and Chicago, carried the inspired messages of sunshine, prosperity, profits, and constitutional exemptions from income and inheritance taxes.” (from Homer B. Vanderblue, 1927, pp 284-286)



BUCHANAN & BURTON
REAL ESTATE

Everjune Gardens

The Florida You Came To See

50^{ft} FRONT LOTS \$169⁰⁰

WANTED

HAVE BUYER FOR
4 OR 5 Building Lots
FROM 54th STREET
to 80th STREET

AND NW 2nd AVE
to 22nd AVE

3533

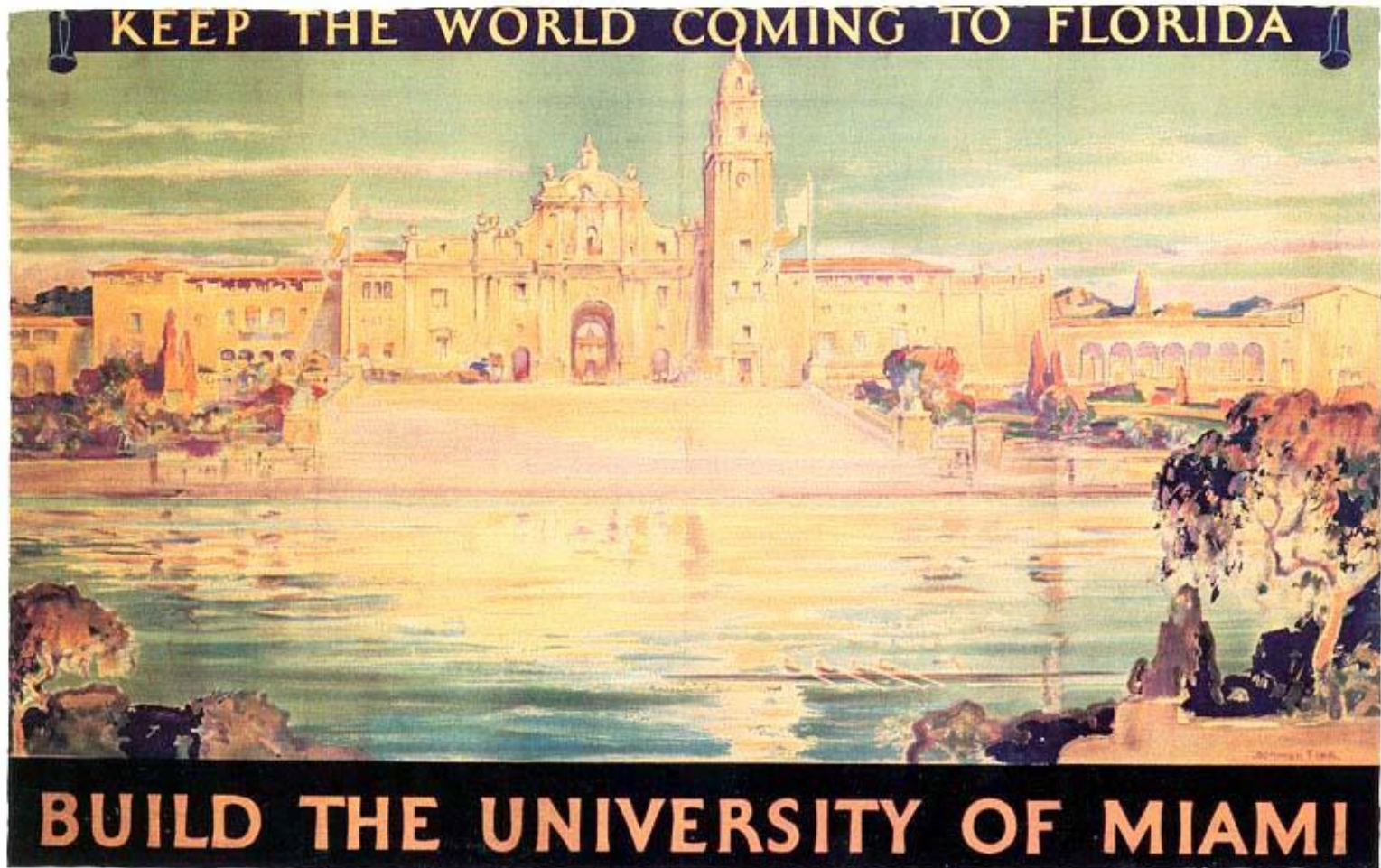


1920s Florida Land Boom

- Land Mania
 - Speculator paid a 10% down payment to purchase land, and received a receipt in the form of a “binder.” Balance due in 30 days. Known as “Binder Boys”

1920s Florida Land Boom

- Land Mania
 - "An enterprising Bostonian, Mr. Charles Ponzi, developed a subdivision "near Jacksonville." It was approximately 65 MILES west of the city. (In other respects, Ponzi believed in good, compact neighborhoods; he sold 23 lots to the acre.) In instances where the subdivision was close to town, as in the case of Manhattan Estates, which were "not more than three fourths of a mile from the prosperous and fast-growing city of Nettie," the city, as was so of Nettie, did not exist." -John Kenneth Galbraith (Ponzi was out on bail from his *first* scheme)



Promotional Poster by Denman Fink

During the height of the 1920s land boom, thousands of copies of this poster envisioning the future University of Miami campus were sent around the country to attract new residents to the new Miami sub-division of Coral Gables.

1920s Florida Land Boom

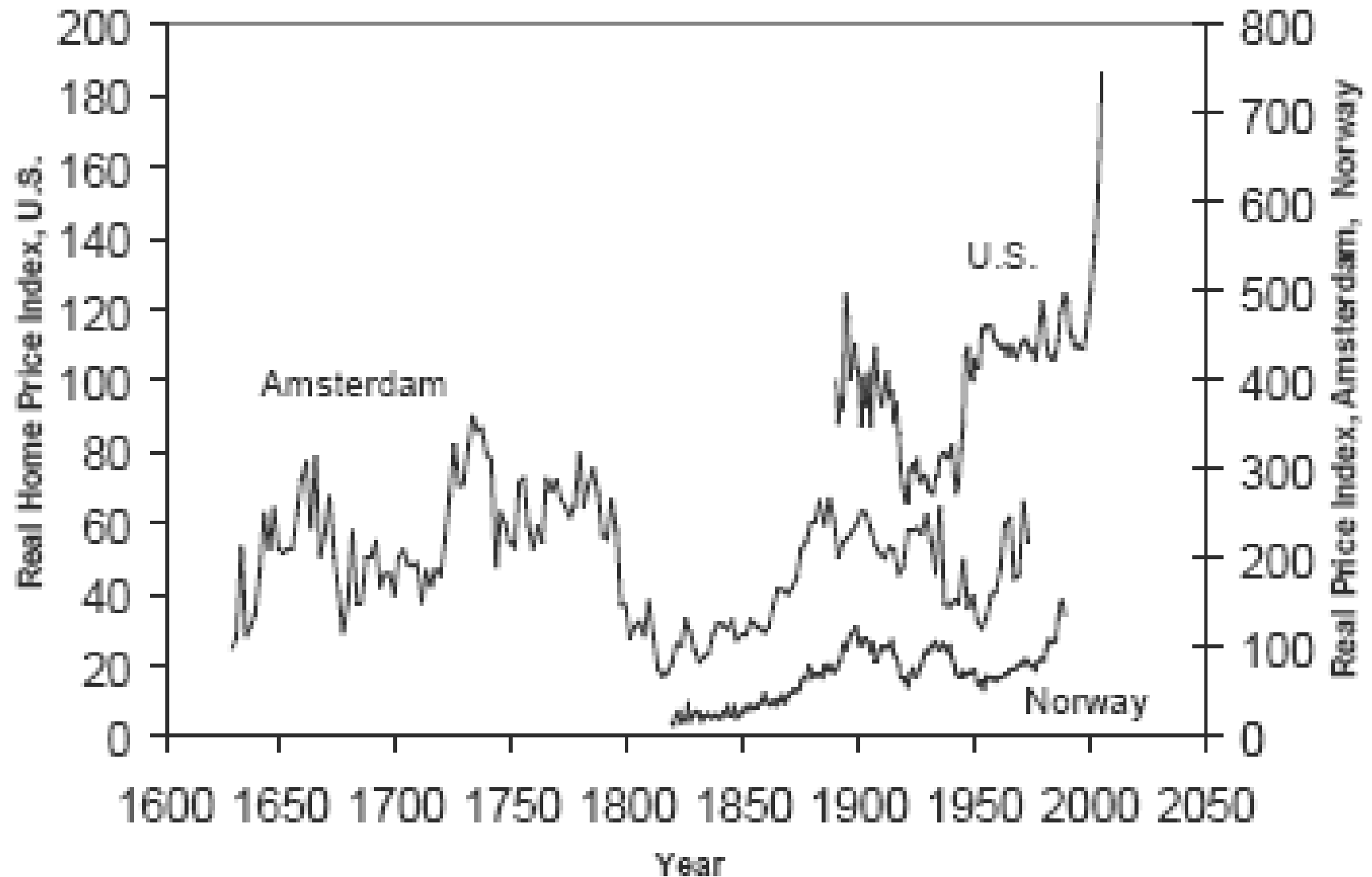
- Ended in 1926
 - Capsized ship blocked sea port in Miami. Railroad overwhelmed and raised prices and stopped shipping all but food in Oct '25
 - Cold winter in 1925-26; fewer visitors
 - Hot summer of 1926 and Hurricane in Sept.
 - 400 people died in Miami
 - The “Depression” came to Florida early, while the other areas of the country were booming

1920s Florida Land Boom

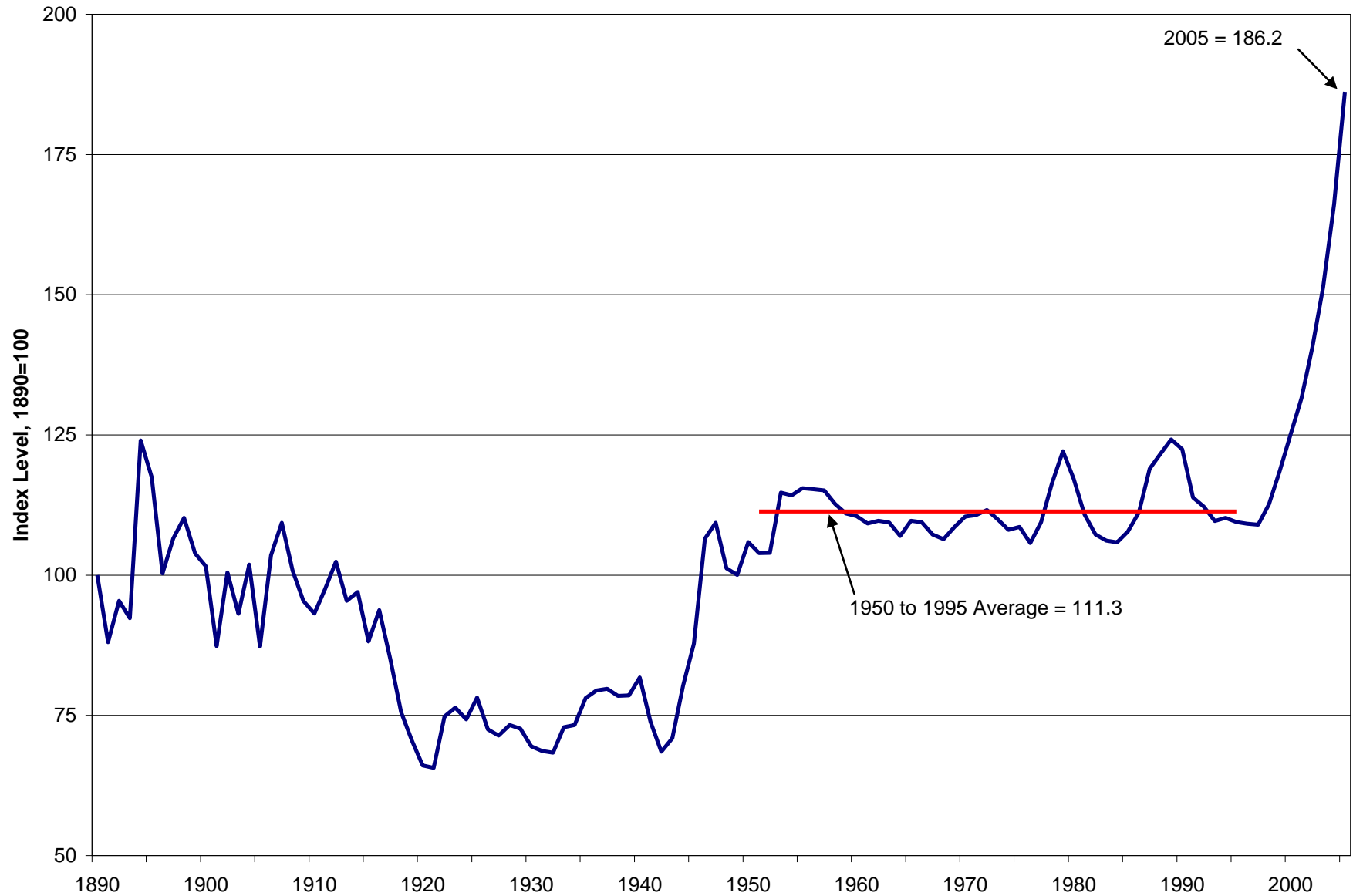
- References:
- http://fcit.usf.edu/florida/lessons/ld_boom/ld_boom1.htm
- <http://xroads.virginia.edu/~HYPER/ALLEN/ch11.html>
- A Brief Florida Real Estate History, J. Bruce Cumming Jr., Appraisal Institute

Historical U.S. Prices

Shiller: Long-Term Perspectives on the Current Boom in Home Prices



Real U.S. Housing Prices, Bordo 2005



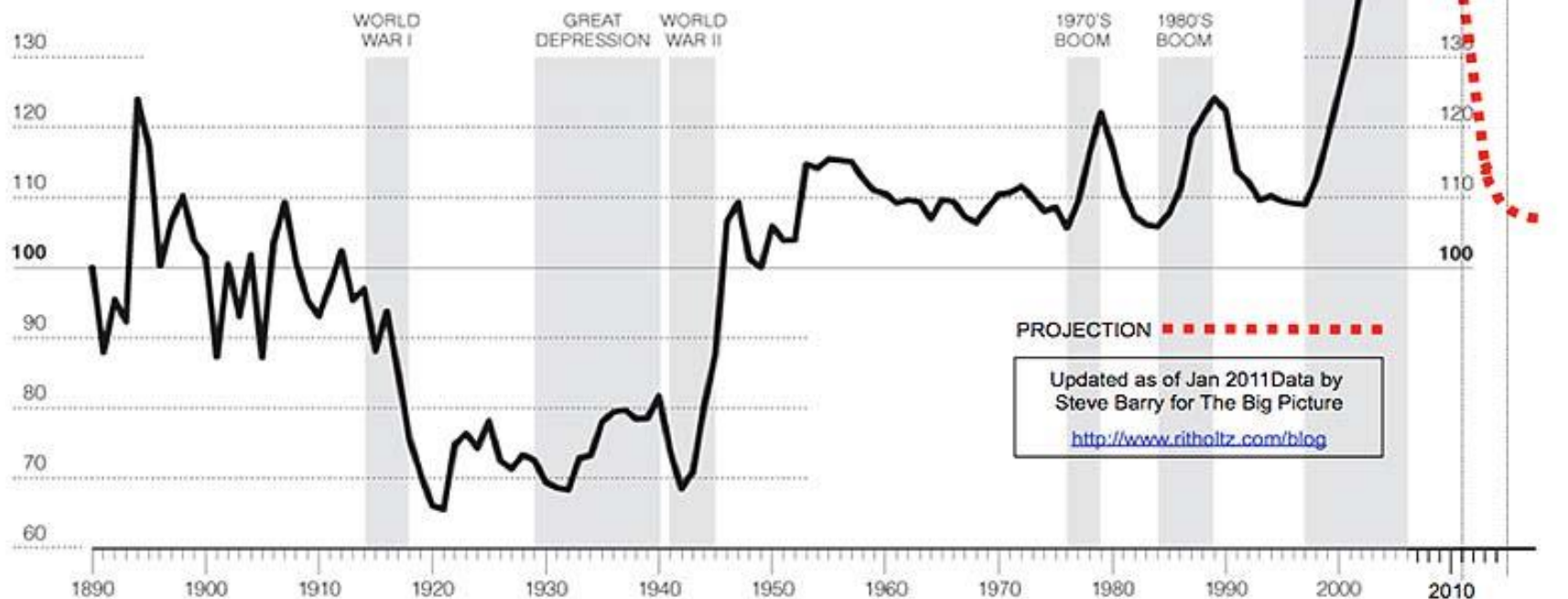
A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).

DECLINE AND RUN-UP Prices dropped as mass production techniques appeared early in the 20th century. Prices spiked with post-war housing demand.

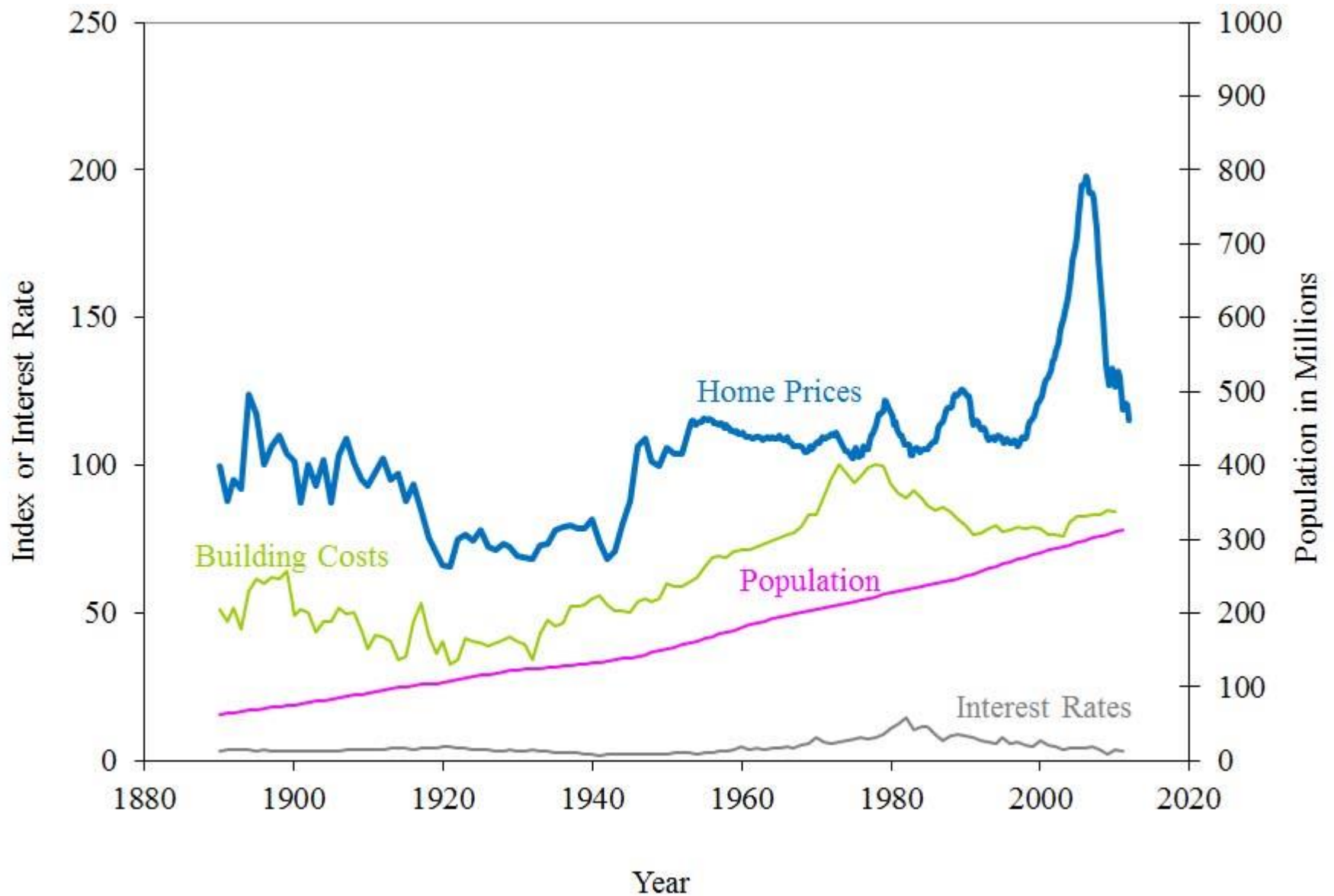
BOOM TIMES Two gains in recent decades were followed by returns to levels consistent since the late 1950's. Since 1997, the index has risen about 83 percent.

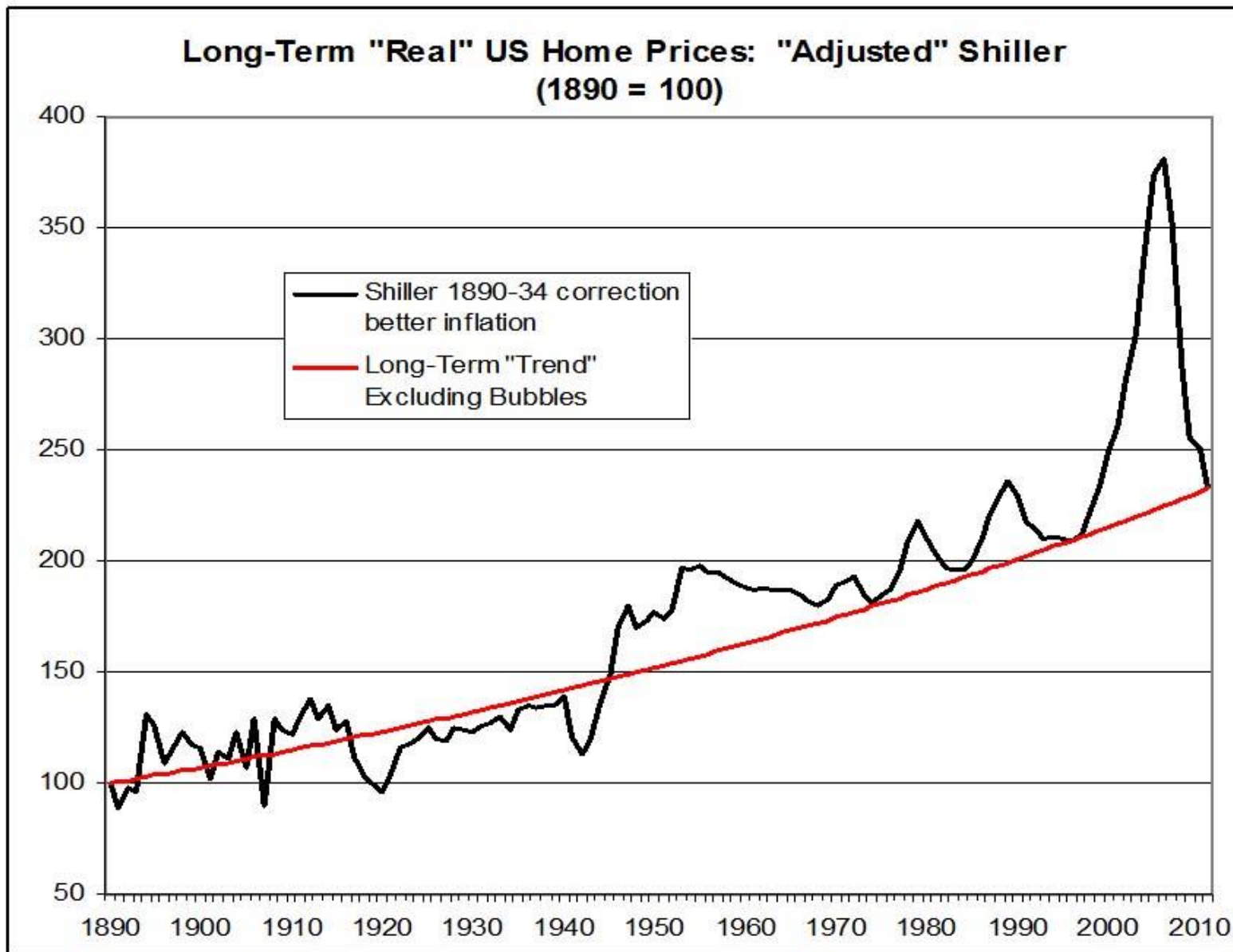


PROJECTION

Updated as of Jan 2011 Data by
Steve Barry for The Big Picture

<http://www.ritholtz.com/blog>





If you refine the data, you may find that housing prices have an upward trend.

<http://www.calculatedriskblog.com/2012/12/lawler-on-upward-trend-in-real-house.html>

“Fundamental” price of Housing

- What is the most you are willing to pay to buy a house?
- The alternative is *renting*
- So what would it cost to rent instead?

“Fundamental” price of Housing

Total present value of renting is:

$$\frac{rent_{2017}}{(1+i)} + \frac{rent_{2018}}{(1+i)^2} + \frac{rent_{2019}}{(1+i)^3} + \dots$$

So the most you would pay is:

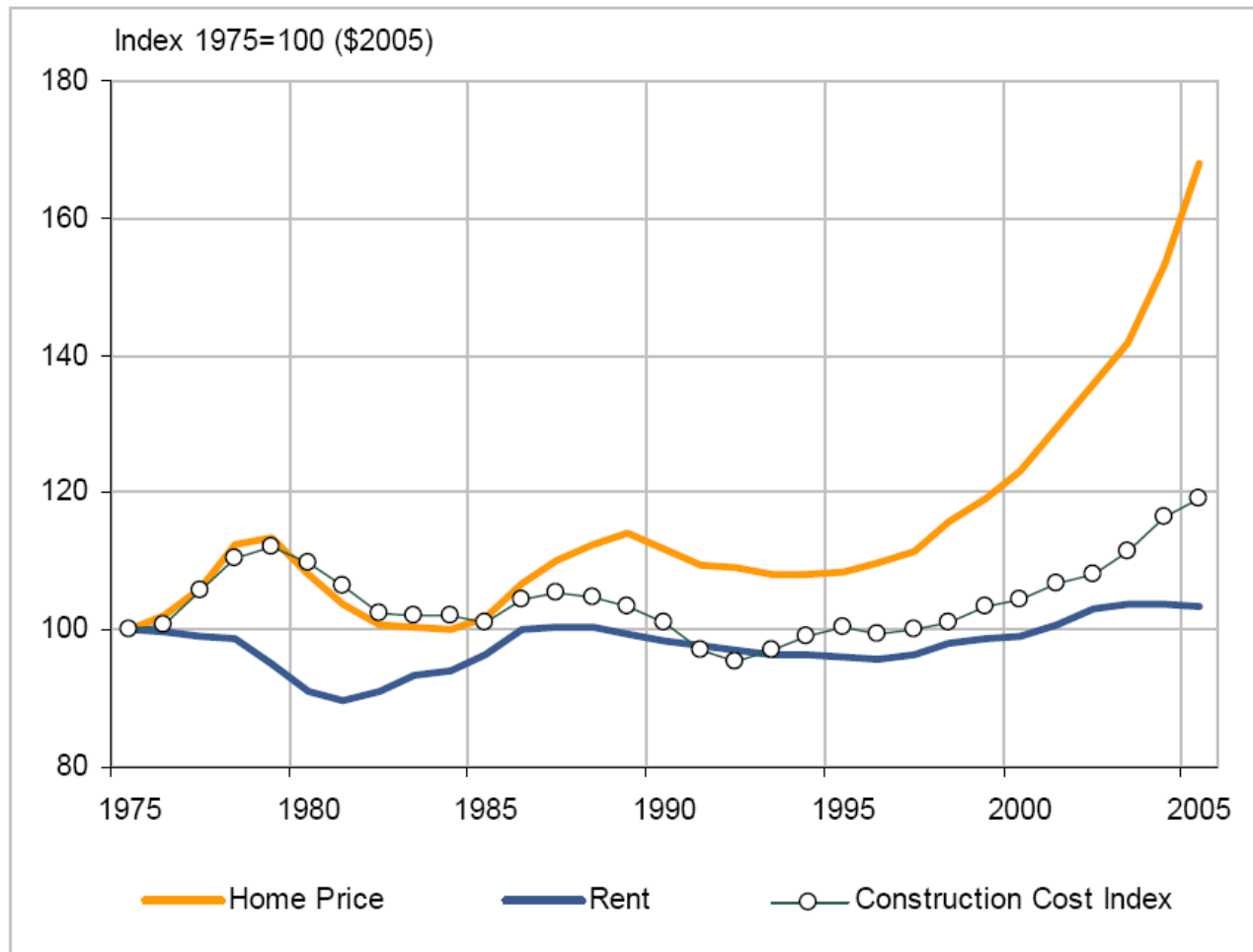
$$\text{Price} = \frac{rent_{2017}}{(1+i)} + \frac{rent_{2018}}{(1+i)^2} + \frac{rent_{2019}}{(1+i)^3} + \dots$$

“Fundamental” price of Housing

- So the price of a house depends on ***expected*** future rent (and interest rates)
- Rent depends largely on ***income***

Note: These charts end about the beginning 2005, one year before the peak

Figure 3: Median Prices/Rents



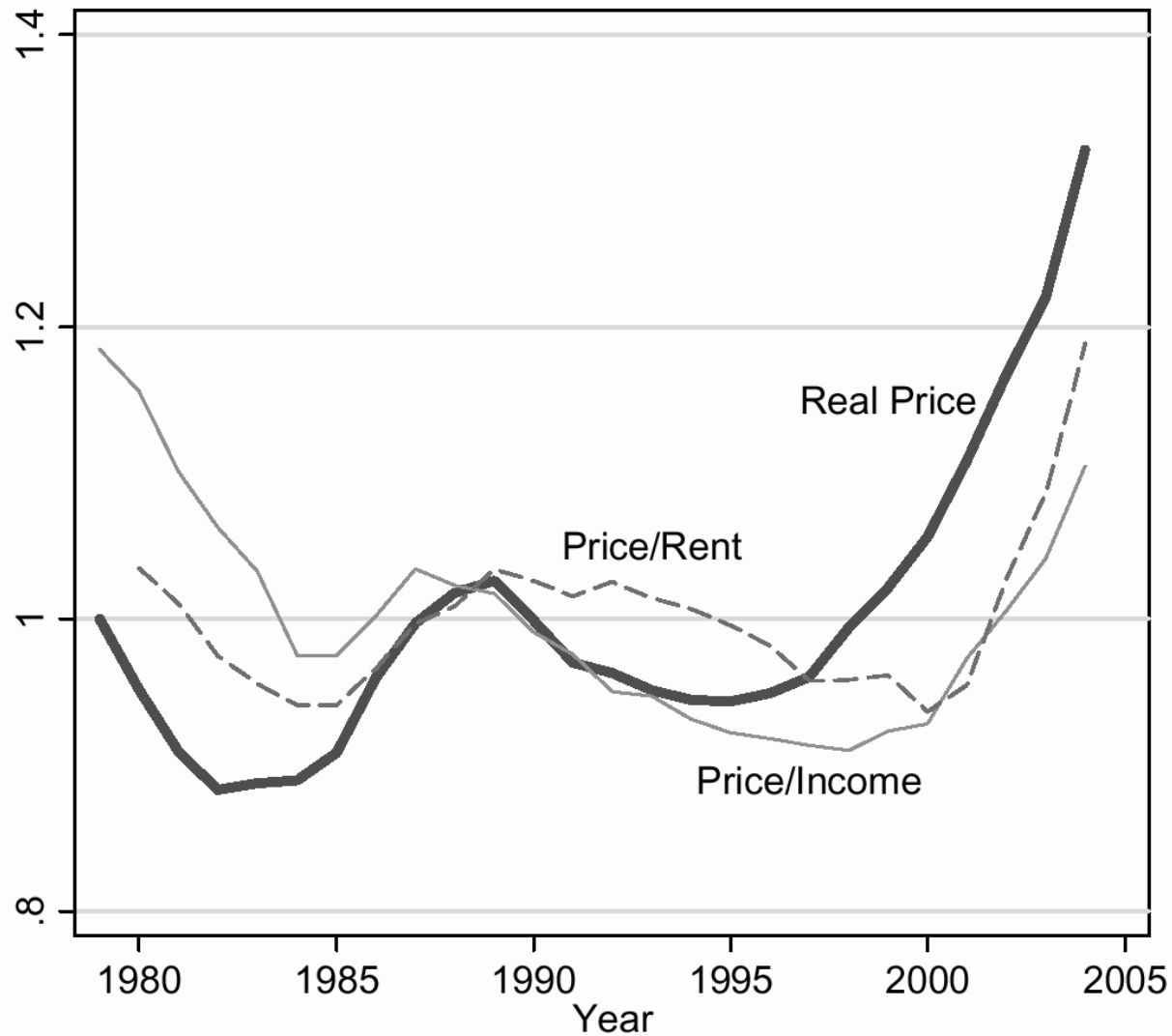
From Weaton 2006

Figure 1: Prices, Income, Payments

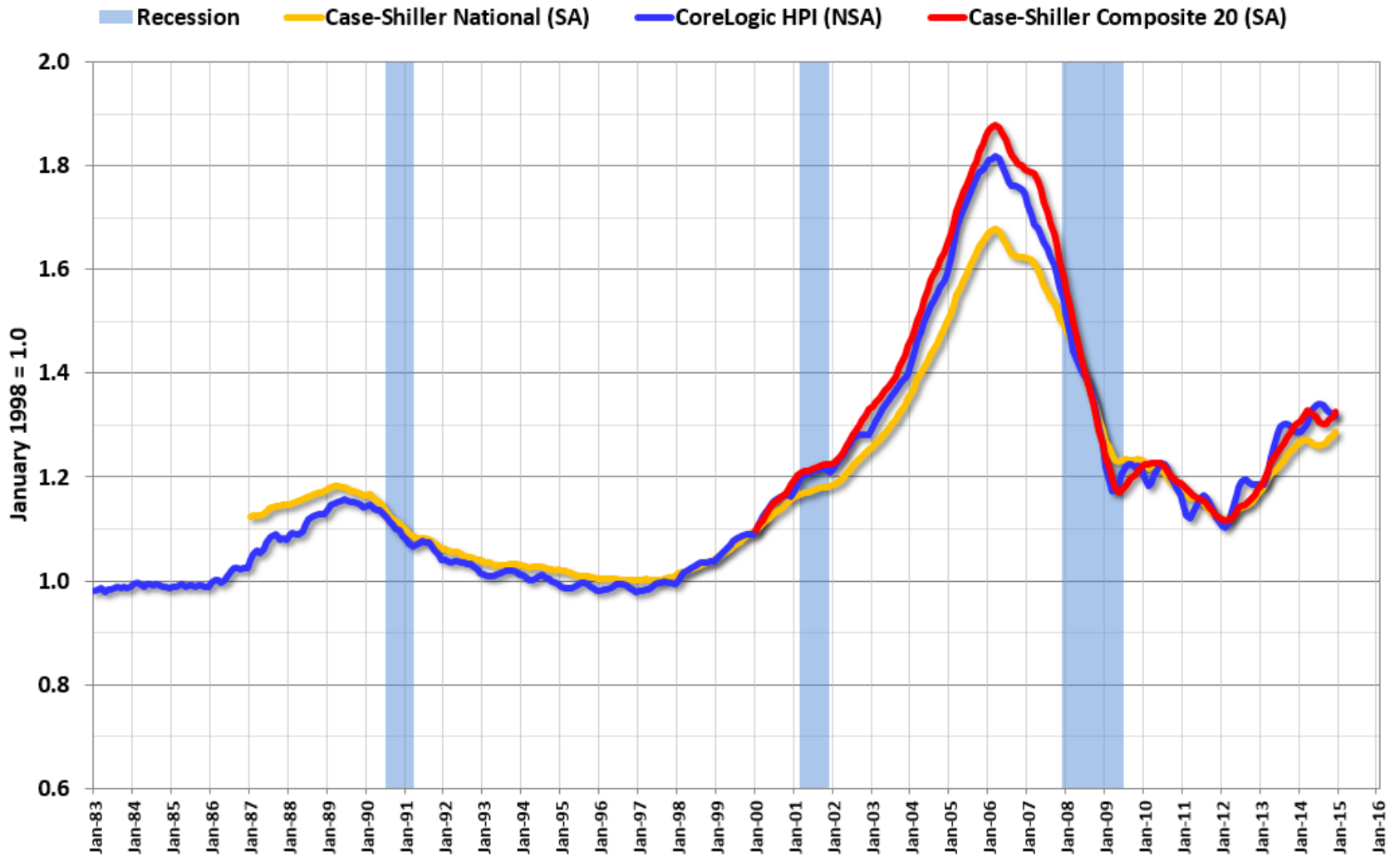


From Bordo 2005

Real US House Price Index,
Price-to-Rent & Price-to-Income Ratios
(Ratios normalized to 24-yr average)

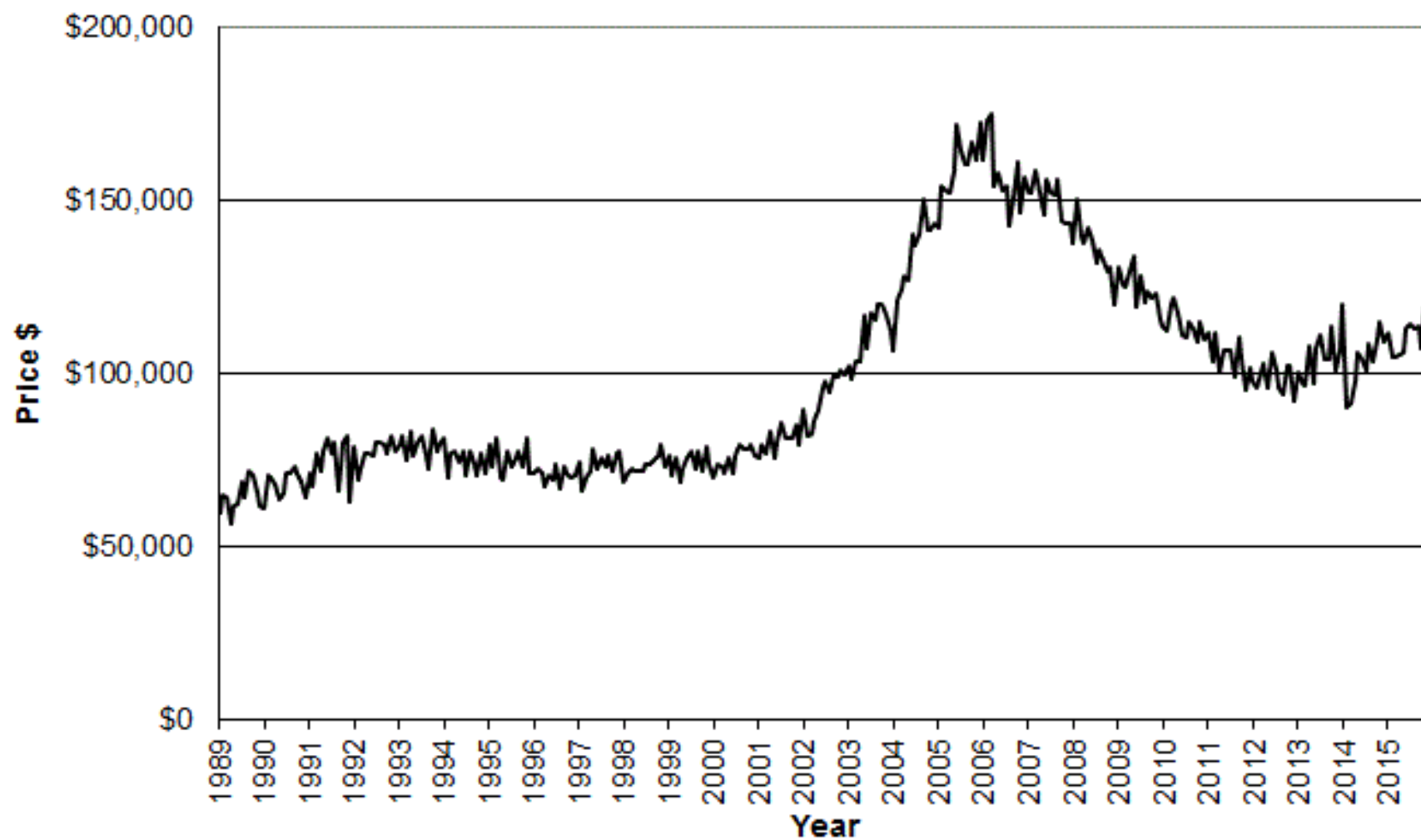


Price-to-Rent: Case-Shiller and CoreLogic House Prices



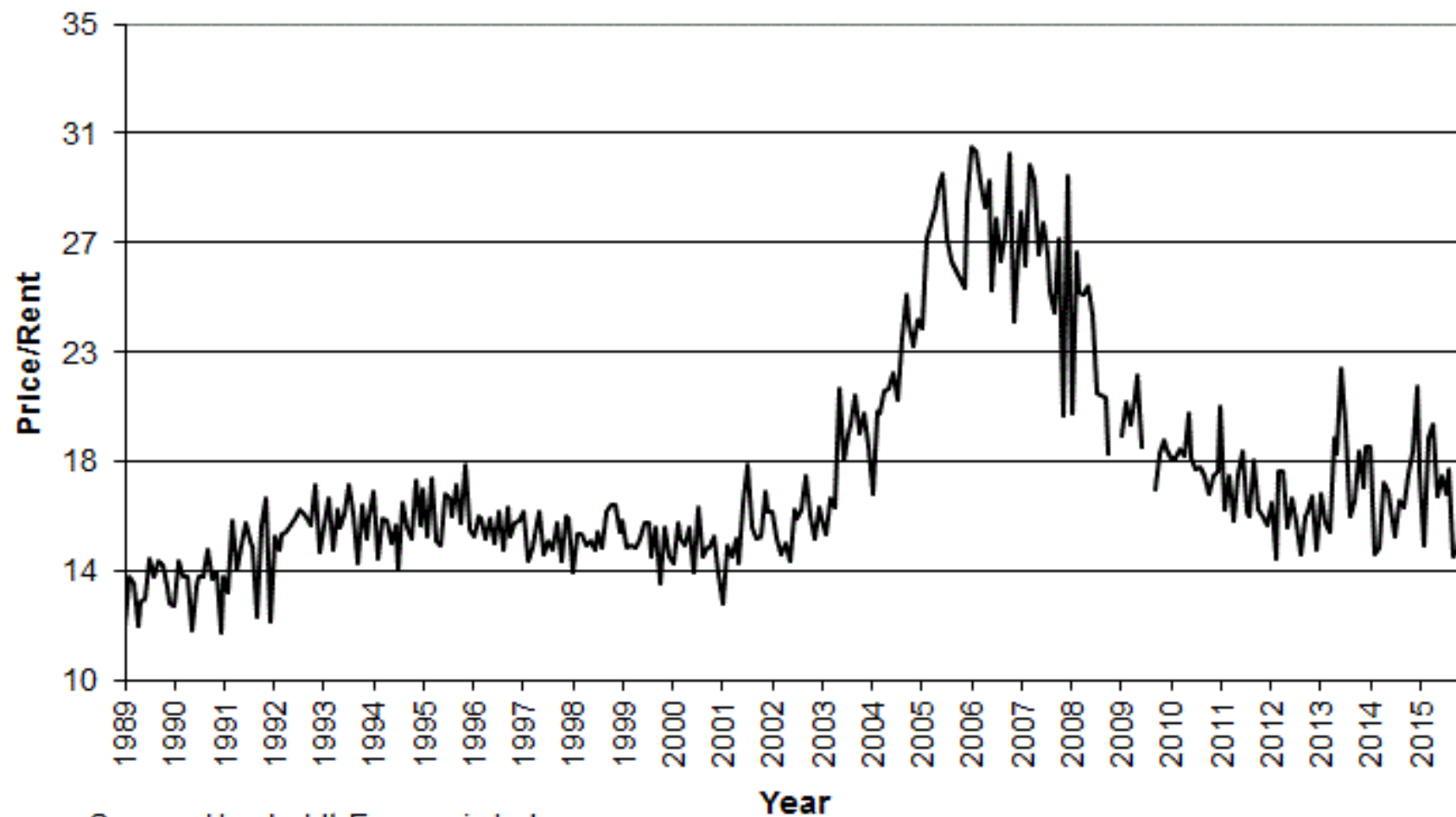
<http://www.calculatedriskblog.com/>

Inflation-Adjusted Median Price of Houses Sold, Humboldt County



Source: Humboldt Economic Index. Amounts in 1982-84 dollars.

Humboldt County Housing Price to Rent Ratio, 1989-2015
(medium home price/mean rent, adjusted for expenses)



Source: Humboldt Economic Index