

International Monetary Fund ~ Worldwide Housing Bubble



By Brian Madigan LL.B.

The International Monetary Fund dealt with the issue of the worldwide housing bubble in its report published earlier this year.

It is clear that the house price bubble is in fact a worldwide phenomenon. Prices are high everywhere. Recent events seem to suggest that the current global financial crisis emanates from the United States. While it is true, that there is a housing bubble that burst in the US, worldwide there are many countries which substantially overbuilt, only to find a decline in prices.

Spain built four million new homes in the past decade. That is more than Britain, France and Germany combined.

According to the IMF the average "up cycle" lasted 6½ years; and that the average price increase was 39.2 per cent in this time. The average "down cycle" took four years, and the average price decrease was 20.2 per cent.

The International Monetary Fund put together a price gap that measures the extent of the bubble in various countries. So, here is the list:

Ireland.....	30
Netherlands.....	25
Britain.....	25
Australia.....	22
France.....	20
Norway.....	20
Denmark.....	18
Sweden.....	18
Belgium.....	18
Spain.....	18
Italy.....	12
Japan.....	12
United States...	10
Germany.....	5
Finland.....	2

Canadaminus 2
Austriaminus 6

This house price gap shows the percentage difference between a country's average house price and its fundamental worth.

So, the housing bubble in the United States would be rated at 10%, while the housing bubble in Ireland would be 30%. You will see that most of Europe is far higher than the United States. Also, by comparison, Canada ranks very well. The prices here were measured to be 2% lower than their corresponding fundamental value.

This is good news for Canada's housing market.

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