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Global Housing Boom Builds Up Momentum, As Do Fears of a Bust --- World-Wide Factors Play Bigger Role; Economists Debate Impact of Decline --- Sky Villas Rise in Bangkok

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It was a familiar story from Golden Land Property Development PLC. With its 35-story Sky Villas condominiums nearly sold out, it unveiled plans for an even more lavish project. The Infinity features a replica of Rome's Spanish Steps, a spa in a restored historic mansion and faux-Venetian canals. Some 90% of the units in the new development sold out in less than three months, even though some units were priced at more than $1 million, or over 831,000 euros.

The project isn't in a steaming-hot U.S. real-estate market like Las Vegas or Miami. It is in Bangkok, where home prices are soaring, bank mortgage lending is climbing and developers are adding thousands of glitzy units.

It is a remarkable turnaround for a city whose property market went belly up in 1997, and it points to an important facet of this housing boom: It is global and, in some places, more dramatic than in even the most frenzied U.S. markets.

Over the past three years, measures of housing values are up 48% in France, 33% in Brazil and they have nearly doubled in South Africa, according to data gathered from these markets from sources like the Bank for International Settlements, Economy.com and The Wall Street Journal. In just the past year, prices have risen 19% in Hong Kong and 48% in Bulgaria. In China, Australia, the U.K. and Spain, they have also boomed, though they are now showing signs of slowing in some places.

Americans are searching out castles in Umbria. Londoners are gobbling up beachfront property on the shores of Bulgaria. Europeans are finding dream homes on the Indian Ocean near Durban. And in Bangkok, eight years after the city's property market collapsed, Golden Land is seeking buyers from abroad with a sales pitch that promises "an environment so opulent, only in your dreams could it be imagined."

"There is a tremendous amount of money floating around looking to invest," says Liakat S. Dhanji, the Nairobi-born chief executive of Golden Land.

Low interest rates are the obvious engine of this global boom. But there are many other factors at play, including the intensifying flow of capital around the world, aggressive lending by banks here and abroad and a frantic search by investors, large and small, for returns that beat stocks and bonds. The question being asked by economists now is whether the links in the international financial system that helped create a housing boom from Bangkok to Boston could also create a global bust.

If home prices were to fall broadly, it would test the financial system, since banks and investors around the globe have been gobbling up mortgages and real estate at increasing rates. It could also undermine the ability of individuals to spend, since so much wealth is now tied up in homes.

Economists often say real estate, which can't easily be traded like a stock or oil, is driven by local factors -- like the availability of land in an area or regional employment trends.

"The housing market in the United States is quite heterogeneous, and it does not have the capacity to move excesses easily from one area to another," Fed Chairman Alan Greenspan told Congress last week. "Instead, we have a collection of only loosely connected local markets."

But a growing body of economic research challenges that theory. While local factors do play a critical role in shaping real-estate values -- prices have risen more in Miami than Memphis, Tennessee, and they have fallen in Germany and Japan -- economists are beginning to concede that global factors can play just as important a role. Researchers first recognized the global pattern in commercial real-estate markets after the office booms and busts that marked the 1970s and 1980s. Now they are seeing it in residential housing, too.

In a study written last year, **Marco Terrones**, an International Monetary Fund economist, found 40% of house-price movements around the world were driven by factors that translate across borders, like interest rates and economic growth. "Just as the upswing in house prices has been mostly a global phenomenon," Mr. Terrones argued, "it is likely that any downturn would also be highly synchronized, with corresponding implications for global economic activity."

Prices are showing signs of slowing or even falling in some places. In Australia, for instance, home prices rose about 60% during 2002 and 2003. But they have edged lower since. In the U.K., the Netherlands and South Korea, they also have lost some momentum. In many other parts of the world, regulators are working hard to cool housing fever. Real-estate brokers in China, for instance, have seen signs of a sales slowdown since Chinese authorities imposed a 5.5% tax on properties that are flipped within two years of purchase.

Most economists still believe a housing slowdown, if it actually comes, would be absorbed by the global economy without much disruption to overall growth rates. Indeed, it is possible the globalization of this boom helps to spread out the risk associated with it. But some economists aren't so sure.

"I'm worried about a world recession when this thing finally unravels," says Robert Shiller, a Yale University professor and author of the book "Irrational Exuberance."

Mr. Shiller's own university is an example of how globalization touches a uniquely local asset like real estate. Managers of Yale's $13 billion endowment are increasingly looking outside the U.S. and outside of traditional stock and bond investments to diversify the school's portfolio.

In November, Dean Takahashi, senior director in Yale's investment office, rang the opening bell on the stock exchange in Bucharest. Then he told local reporters the university would be increasing its $20 million of investments in Romania, including some real-estate projects. "We see enormous potential" for foreign investment in residential real-estate projects, says Siminel Andrei, head of NCH Advisors Inc., the administrator of the Romanian unit of New Century Holdings, which manages some investments for Yale outside the U.S.

It isn't just the free flow of capital that has globalized the boom. It is also the free flow of people. Doug Platt, a 41-year-old New York executive, counts on outsiders to flock to Italy. He and a group of friends and business associates are negotiating for the purchase of a 12th-century castle in Umbria for just over $5 million. Mr. Platt and his partners plan to carve the castle into 20 units and sell them to Londoners looking to hop over to Italy on discount airlines. He says he will keep one of the units for himself, because he and his Italian wife travel to the region frequently.

"If you are investing in Italy right now, one thing you will hear a lot is that the Italian economy stinks," he says. "But it doesn't really matter to us what is happening in the Italian economy. It's much more important to us what is happening 1,000 miles away in Britain."

The rise of an affluent, mobile class around the world should reassure him. Last year, there were 8.3 million people world-wide with $1 million or more in financial assets at the end of 2004, up from seven million in 2000, according to research by Merrill Lynch and Capgemini.

While individuals and institutional investors spread bets on real estate, banks are directing more credit to home buyers. In the 12 nations that use the euro, mortgage lending has increased at an 8% annual rate since the end of 2000, according to Bank for International Settlements data. That is faster than the 5% rate of increase for corporate loans. Mortgage lending has grown at an 11% rate in the U.S. and a 6% rate in Japan, while business lending has contracted in both countries. In the U.K., mortgage lending was up at a 20% rate while business lending was up at an 8% rate.

Some reports suggest banks also have become willing to take more chances lending. An April survey of loan officers by the European Central Bank, for instance, found European banks eased lending standards for housing

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loans during the past four quarters. Citing increased competition from other banks, they reduced margins on mortgages and slightly eased "loan to value" ratio requirements. Surveys of loan officers in places like Poland and Hungary turn up similar results.

"Lenders and investors have to be careful that they exercise proper risk management. If they don't, they're going to get burned," says William Rhodes, senior vice chairman of Citigroup. Mr. Rhodes says banks are better managed and better capitalized today than they were in the 1980s and 1990s, when he was helping to navigate debt crises in development countries. But he is still becoming concerned about a housing bubble.

The disparity between mortgage lending and business lending points to an undercurrent beneath the housing boom. Roughly five years after the 1990s tech bubble burst, business investment is still relatively modest around the world. In the U.S., for instance, business investment in plant and equipment was 10.4% of gross domestic product in 2004, below its average of 11.5% of the 1980s and 1990s. In Germany, it was a little more than 11% of GDP, down sharply from 15% in the 1990s. GDP is a nation's total output of goods and services.

"Even in fast-growing Asia, most countries have not yet returned to the investment rates of the late '80s and early '90s, much less the frothy levels of the mid-'90s," says Kenneth Rogoff, a Harvard University economist and former chief economist at the International Monetary Fund.

The slow recovery of business investment, after the boom of the late 1990s, contributes to what Ben Bernanke, a Fed governor who has been nominated to serve as chairman of President George W. Bush's Council of Economic Advisers, calls a "global savings glut," a flood of financial assets looking elsewhere for a home. That is helping to hold down interest rates and push up housing values.

Other factors contribute to the global savings glut. The boom in oil prices has resulted in huge trade surpluses among oil-producing nations, many of which are recycling their newfound wealth back into the world economy by purchasing bonds and sometimes real estate. Moreover central banks have maintained relatively loose monetary policies in the wake of the 2001 recession and the uncertain recoveries that followed, adding liquidity to the financial system.

As a result, bond yields aren't just low in the U.S.; they are below 5% in Germany, France, Japan, the U.K. and Canada. That makes homes more affordable for individuals by reducing monthly mortgage payments. It also drives investors into real estate because the returns they can earn on bonds are so minuscule.

Equities have been a hair-raising alternative. The Dow Jones world stock index is down 1% so far this year, up 11% in the past 12 months and down 12% over the past five years.

"I see it on the face of people. They don't know what to do with the money," says Gary Garrabrant, who manages Equity International Properties Ltd., the international portfolio of Sam Zell, the real-estate investor who made his fortune scooping up distressed properties in the U.S. Mr. Garrabrant has been investing in homebuilders in Mexico and Brazil.

In Thailand, Bangkok Bank, Thailand's largest bank, is offering mortgages fixed for the first three years at a 5.25% rate, not much more than the rate on a five-year adjustable-rate mortgage in the U.S. The result: Mortgage lending in Thailand is up more than 20% annually, after contracting sharply in the late 1990s.

A property boom in Thailand would have seemed unthinkable a few years ago. Thai banks were reluctant to lend and the number of developers dropped to fewer than 100 from as many as 4,000 during the 1990s boom. Between 1997 and late 2002, there were no major condominium projects launched in Thailand and government officials had to press the country's state-owned banks to extend more credit.

Now, there are some 14,000 condominiums in development in a city whose stock of existing units is less than 100,000. The number of single-family homes under construction shot up by nearly 80% over the past two years. Some analysts have started to worry that units in the city's most popular districts are being sold to speculators, who intend to resell them quickly for a profit. Average condo prices in Bangkok's high-end Sukhumvit expatriate district rose 34% in 2003, followed by an 18% gain in 2004.

Fearful of a 1990s repeat, Thailand's central bank has introduced rules that require banks to cap loans for large houses at 70% of the property's value and forced lenders to register major projects with the central bank. Regulators also began speaking publicly of a possible housing bubble. As a result, many analysts predict the country will avert another wrenching bust.

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Golden Land Property nearly went belly up during the latest downturn. It was rescued by Mr. Dhanji, a Canadian citizen who worked as a real-estate consultant in Hong Kong. Tapping into foreign investors like Morgan Stanley and financier George Soros, he says he raised $100 million and recapitalized the company.

Today, Golden Land has about 2,500 homes in the works or recently completed in Bangkok suburbs and 600 residential units planned or recently completed in the central business district. Its crown jewel is the downtown Infinity project. Condominiums will include Jacuzzi tubs with 270-degree views of the city. The company says it has raised prices 12 times since launching the project in mid-March due to high demand. Some 30% of the units are going to foreigners, many of whom see Thailand's luxury developments as a better value than pricey units in places like Shanghai, London or New York.

"There may be a [housing] bubble in the U.S. or Britain," says Gilbert N. Wong, an American executive whose company manufactures household appliances in Asia, but "there's no bubble here." He believes Bangkok is inexpensive relative to Tokyo or Hong Kong and he thinks incomes are rising, so sooner or later these will be in demand. Mr. Wong is shelling out more than $2 million for two Golden Land units; one is for himself and the other he might use for his children.

Rising rates or a change in sentiment by global real-estate buyers are two main threats to the housing boom. In Bangkok, there aren't many signs of it happening yet. "I think the U.S. is at the top of the cycle," says Mr. Dhanji. But Asian real estate, which only began recovering in the past few years, he says "is just beginning."

Cristi Cretzan in Bucharest contributed to this article.

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