The Florida Land Boom of the 1920s

Manias, Bubbles, and Panics in U.S. History

THE GRAND DADDY OF REAL ESTATE BUBBLES

In 1920, Florida had a population of 968,470 people. Just five years later, the population had grown to 1,263,540. However, most people who bought and sold land in Florida had never even set foot in the state. The opportunity drew fortune hunters seeking beaches of gold dust.

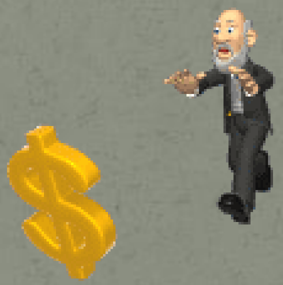
FLORIDA!! HERE WE COME!!

The draining of swamp lands, continued penetration of rail lines, and expansion of highways all paved the way for the Great Florida Land Boom of the mid-1920s. Henry Flagler's FEC Railway and Carl Fisher's Dixie Highway.

BUBBLE QUOTES

"There is nothing as disturbing to one's well-being and judgment as to see a friend get rich."

Charles P. Kindleberger



"The four most expensive words in the English language are, *this time it's different*."

Attributed to Sir John Templeton

ECONOMIC ANALYSIS ASSUMES PEOPLE ARE RATIONAL AND RESPOND TO INCENTIVES LOGICALLY

- RAILWAY MANIA
- MISSISSIPPI BUBBLE
- FLORIDA LAND BOOM
- POSEIDON BUBBLE
- DOT-COM BUBBLE
- URANIUM BUBBLE
- JAPANESE ASSET BUBBLE
- ROARING TWENTIES
- GLOBAL HOUSING BUBBLE

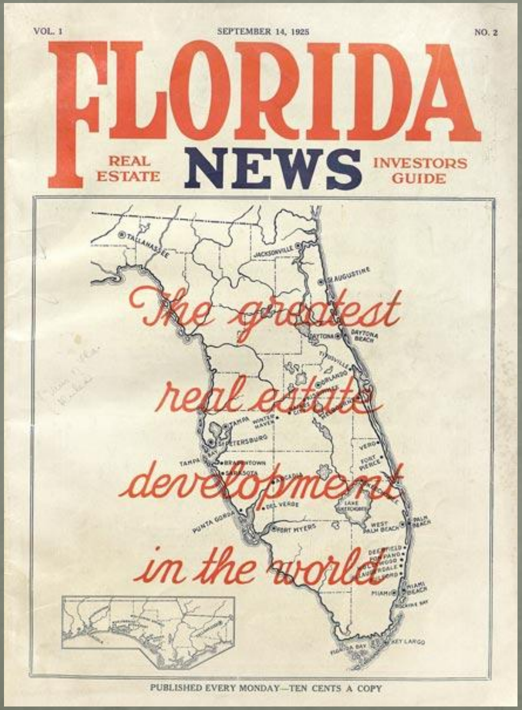
A BUBBLE IS A PERIOD OF SPECULATIVE MANIA SURROUNDING A PHYSICAL OR FINANCIAL ASSET

THE WORK OF HYMAN MINSKY

A TYPICAL BUBBLE EVENT ARRIVES IN THESE PHASES

1. DISPLACEMENT
2. BOOM
3. EUPHORIA
4. PROFIT-TAKING
5. PANIC
6. BAILOUT

PARADISE FOR SALE



These images show the promotion of Florida as both a paradise for residents and a cash engine for potential investors.

DISPLACEMENT

AN OUTSIDE SHOCK TO THE ECONOMY:

1. WAR
2. NEW INVENTION
3. POLITICAL EVENT
4. FINANCIAL SUCCESS
5. CHANGE IN POLICY
6. ANYTHING THAT ALTERS THE ECONOMIC OUTLOOK

FLORIDA'S DISPLACEMENT

Following World War I, large numbers of Americans finally had the time and money to travel to Florida and to invest in real estate. Educated and skilled workers were receiving paid vacations, pensions, and fringe benefits, which made it easier for them to travel and to purchase real estate.

FLORIDA'S DISPLACEMENT

In order to get people to come to Florida and invest in real estate, the Florida Legislature passed laws that prohibited state income and inheritance taxes. During this time, horse and dog racing also grew in Florida as a way to attract rich gamblers.

1920s Miami gangsters

BOOM

THE OPTIMISM FROM THE CHANGE LEADS TO A RAPID RISE IN PRICES OF A PHYSICAL OR FINANCIAL ASSET AS INVESTORS AND SPECULATORS ATTEMPT TO EARN PROFITS

FLORIDA'S BOOM

The 1920s was a time of excessive speculation in stocks and real estate and many Americans were borrowing money to buy more stocks and real estate.

Economic prosperity in the early 1920s had set the conditions for a real estate bubble in Florida.

FLORIDA'S BOOM

Miami had an image as a tropical paradise and outside investors across the United States began taking an interest in Miami real estate. Among the high profile investors were composer Irving Berlin, actress Marie Dressler, and millionaires W.K. Vanderbilt II and T. Coleman DuPont.

President-elect Warren G. Harding in Miami

FLORIDA’S BOOM

Rosie helped Carl Fisher by working at construction sites as well as greeting people on the beach.

Due in part to the publicity talents of audacious developers like Carl G. Fisher of Miami Beach, famous for purchasing a huge lighted billboard in New York’s Times Square proclaiming “It’s June In Miami”, property prices rose rapidly on speculation and a land and development boom ensued.

FLORIDA'S BOOM

Dave Davis, the son of a steamboat captain, built Davis Island in the Tampa Bay area. Barron Collier started Naples and Marco Island as winter resorts.

Collier poured $17 million of his own money in the 1920s into developing what he saw as Florida's last frontier.

EUPHORIA

- LENDERS OFFER MORE CREDIT AT LOWER RATES
- PEOPLE TAKE INVESTMENT RISKS
- DEMAND INCREASES, DRIVING UP PRICES AND PROFITS WHICH DRIVES UP DEMAND-PRICES-PROFITS
- NEW FINANCIAL INSTRUMENTS ARE CREATED
- PEOPLE SEE OTHERS MAKING MONEY AND ARE DRAWN IN
- THE BUBBLE IS INFLATED

FLORIDA'S EUPHORIA

During this boom, most speculators hired young, ambitious men and women to show the land to prospective buyers and accept a "binder" on the sale. A binder was a non-refundable down payment that required the rest of the money to be paid in 30 days.

Tampa Bay Hotel grounds in January 1922 - Tampa, Florida

FLORIDA'S EUPHORIA

Salesmen sat on benches waiting for suckers — 'Have I got a deal for you!'

Real estate deals were struck on St. Petersburg's ubiquitous green benches by agents wearing knickerbockers in the 1920s boom days. Purchases often involved undeveloped land.

FLORIDA'S EUPHORIA

Lots in a subdivision just north of Tampa that were allegedly sold 6-8 times without investors actually seeing them.

Sometimes land buyers didn't even have enough money to pay for the land; instead they had just enough money for the binder. They were depending on the prices to continually rise.

PROFIT TAKING

- A FEW INSIDERS BEGIN TO TAKE THEIR PROFITS AND PRICES BEGIN TO LEVEL OFF
- LARGE INVESTORS BEGIN TO REALIZE THEY MAY BE OVER-EXTENDED AND ARE TAKING UNDUE RISK

PROFIT TAKING IN FLORIDA

By 1925, Carl Fisher submits an editorial to the *Miami Daily News*:

"Some of the property being sold in Florida will not bring as much money in 30 years as it is selling for now."

Savvier investors began to pull back from their interests in Florida.

PANIC

- A LARGE INSTITUTION FAILS, A SWINDLE IS DISCOVERED OR AN INCREASE IN SUPPLY RETURNS PEOPLE TO THEIR SENSES
- PEOPLE START SELLING IN AN ORDERLY FASHION BUT SOON CHAOS REIGNS
- PEOPLE SCRAMBLE TO SELL AND PRICES FALL RAPIDLY

FLORIDA'S PANIC

Three banks in West Palm Beach fail

The larger cities of Florida felt the impact first. They had borrowed heavily to finance new road and public service construction.

St. Petersburg was the most indebted per citizen town in the United States. Key West ranked second.

PRINZ VALDEMAR SINKS

The ship sank in the Miami harbor on January 10, 1926. Railroads had already begun raising shipping rates in response to the strain created by the population boom, and when the sea route to Miami was blocked the construction came to an abrupt halt.

THE HURRICANE OF 1926 SEALS THE DEAL

FLORIDA’S PANIC

On September 18th 1926 a hurricane hit South Florida with winds in excess of 125 miles per hour ripping through the hotels, piers, marinas and mansions that had been put up in the preceding years. 115 people died in Miami.

300 PEOPLE DIE IN WESTERN PALM BEACH COUNTY

The migrant workers and small farmers of Lake Okeechobee were asleep. As the winds of the hurricane moved counterclockwise across the lake, the south end of the lake was dried up. When the storm passed by, however, a huge tidal wave crashed down on the people of Belle Glade and Moore Haven.

Hotel Matecumbe, the only structure remaining on the lake.

CALAMITOUS BURSTING OF CONFIDENCE

Records show that bank deposits in the region fell by 75% between 1925 and 1929, bankruptcies jumped by 600% and the value of building permits slumped from $101m to less than $13m.

BAILOUT

- A CENTRAL BANK MAY BEGIN TO EXPAND THE MONEY SUPPLY TO SAVE THE FINANCIAL SYSTEM
- THE ENTIRE ECONOMY PAYS FOR THOSE DIRECTLY INVOLVED IN THE BUBBLE CYCLE
- THE ANTICIPATION OF A BAILOUT MAY LEAD TO PEOPLE TAKING BIGGER RISKS
- THIS DISREGARD FOR CONSEQUENCES IS KNOWN AS A <u>MORAL HAZARD</u>

ANY HOPE OF RECOVERY SNUFFED BY THE GREAT DEPRESSION

It would take years to rebuild the confidence and spirit of the Florida Land Boom. When the Great Depression hit Florida, it had a limited impact since so many Floridians were already in weak financial state. Certainly, many Floridians wondered if Florida would ever see again such wonderful and confident times as the Florida Land Boom.

JOHN KENNETH GALBRAITH SAID:

"Investors have a short financial memory (or ignorance of history) that makes them oblivious to previous financial disasters."

" Investors have a tendency to attribute greater intelligence to individuals, the more income or assets they control."