

Loudoun County Real Estate Bubble Implodes on Residents, Local Government

by L. Wolfe and John Hoefle

In Loudoun County, Va., the high-priced bedroom suburb of Washington, D.C. that Lyndon LaRouche has dubbed “Ground Zero” of the collapse of the real estate bubble, the earth has opened wide beneath residents and local government officials alike, as the county faces coming budget shortfalls, and waves of personal bankruptcies and foreclosures.

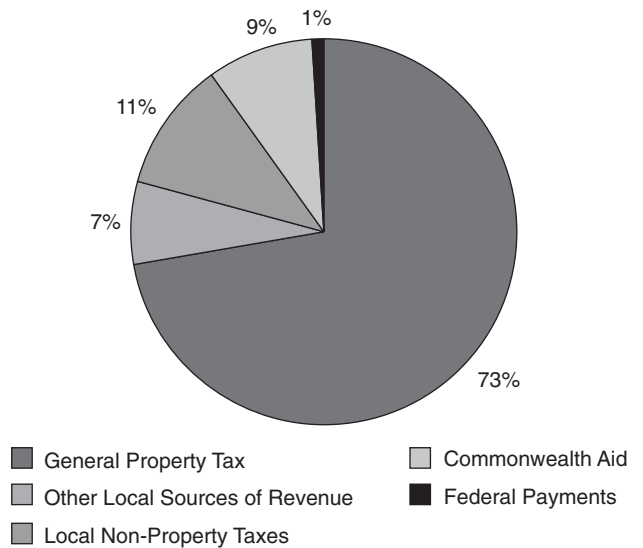
Over the last 20 years, real-estate-driven speculation has turned what was once a viable agricultural and light industry-based economy to one totally dependent on real estate. As houses sprouted on former farmland, local government grew increasingly dependent on taxes on those homes. In the last five years, that dependency has increased, such that nearly 75% of all tax revenue comes from that source (**Figure 1**), while another 5-10% is derived from fees related to real estate development, or from taxes on retail trade from the shopping centers and shopping malls spawned by the county’s real-estate-driven residential growth, which, at the height of the bubble two years ago, saw residential properties appreciating at the astounding rate of more than 25-30% a year (**Figure 2**), with population growth exceeding 10% per year.

County officials, developers, and most local residents seemed to believe, and even plan, that such “growth” would go on forever. Local government officials allowed for this runaway development to far outstrip the provision of necessary infrastructure, foolishly gambling that the county could catch up to a huge deficit in public infrastructure, with future tax revenues and borrowing against the appreciating real estate inventory.

Now, this real estate inventory is not only no longer appreciating, but collapsing in value, as the local market is crushed under the weight of an unsold inventory of homes. As **Figure 3** shows, Loudoun added to its inventory at increasing rates over the current decade. During the height of the bubble in 2005, much of the new-home inventory was sold. Now, most of it just sits, with little or no prospect for sale.

According to figures compiled by Northern Virginia realtors, Loudoun, with a population of approximately 270,000, had an unsold inventory of *listed* homes of more than 3,700. But that figure does not include homes that are being held off the market by builders and developers. Nor does it include

FIGURE 1
Loudoun County General Fund Revenue



Source: Loudoun County.

homes that are being sold by owners themselves to avoid paying realtor commissions. And, it does not include homes that have been on the market—i.e., the owner desires a sale—but were withdrawn because of a lack of buyers. When these are considered, it is real estate sources’ estimate that the real unsold inventory is between 10,000 and 20,000—or 10-20% of all homes in the county.

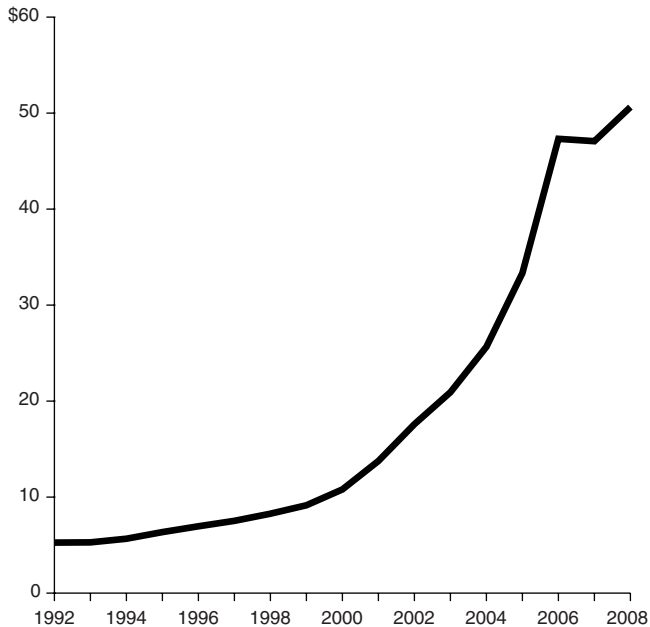
Meanwhile, home sales for October 2007 will be the lowest for any month in five years, and are projected to drop even lower before year’s end.

Local realtors report that panic is beginning to set in among homeowners who see the purported equity in their homes evaporating before their eyes. These homeowners are dumping their homes into an already “way down” market, only to find that they can’t sell them at anything but firesale prices. This glut of existing homes being dumped on the market is colliding with the inventory of unsold homes, threatening to trigger further steep and rapid price

FIGURE 2

Loudoun County Real Estate, Assessed Value

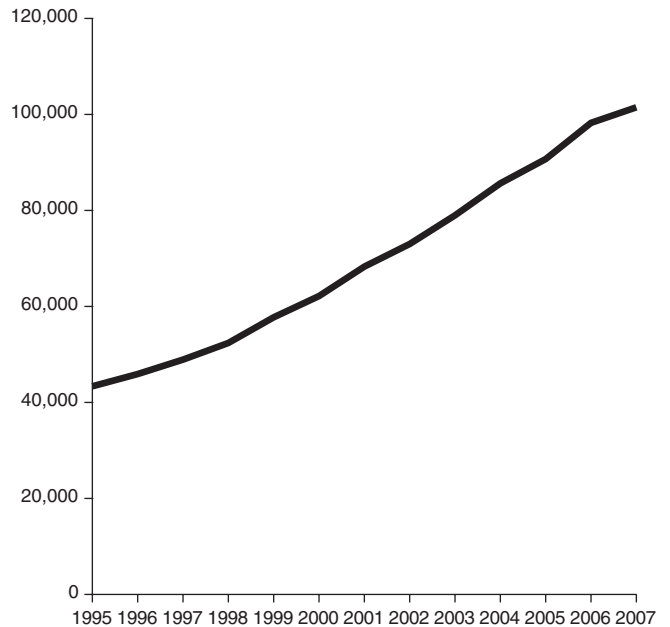
(\$ Billions)



Source: Loudoun County

FIGURE 3

Loudoun County: Number of Houses



Sources: Loudoun County; Northern Virginia Association of Realtors.

declines in the weeks and months ahead.

While political pressure from county officials still trying to suck out tax revenues from this disaster, has kept official property assessments artificially higher than the real market, sources in the local banking sector estimate that there has already been a decline of 20-30% in real market values from the peak in 2005.

If this collapse in real estate values were to be accurately reflected in county budget projections (which call for \$967 million in expenditures for fiscal 2008), it would create a budget shortfall in the coming year of historic proportions. Even a smaller decline in values, as will reportedly be contemplated by the county tax assessor, will produce a huge budget shortfall, forcing drastic cuts in county services and other spending, or a large tax increase, or both (**Figure 4**).

The sharp fall-off in sales of all kinds of residential property—both new and existing homes—should have put a brake on future new home construction. But developers in the last five years had sought and obtained approval for the construction of nearly 40,000 additional single-family and other kinds of homes on thousands of acres throughout the county. In order to keep these properties on their books as assets at near current valuations, and to prevent their sharp markdown, these developers have gone ahead with new construction, despite the fact that such construction further depresses prices and offers little prospect of near or intermediate term sales (**Figure 5**).

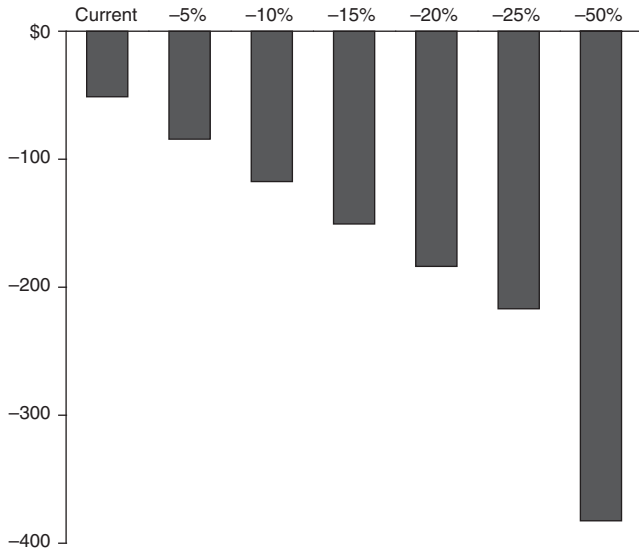
The implosion of the real estate bubble in Loudoun now threatens the majority of its more than 100,000 homeowners with financial ruin. In saner times, before the present bubble really took off in 2002-03, most Loudoun mortgages were conventional, 30-year mortgages with fixed rates, and had equity positions of more than 30%. As the bubble mentality gripped the county, many homeowners started using their homes as ATM machines, cashing out on their equity in refinancings. Local real estate sources estimate that 10-15% of all mortgages are now in some form of “exotic” mortgage—either an adjustable rate or interest only—which have been resetting at much higher payment rates. In addition, these same sources point to a secular decline in the percentage of equity in mortgages, to point that this equity will soon be wiped out by declines in real property values—if it hasn’t been already.

While realtors and others try to loudly proclaim that county foreclosure rates remain relatively low, such statistics are grossly misleading. More important are the figures that show a spectacular growth in the *rate* of increase of the numbers of foreclosures, with county officials reporting a growth from a few hundred last year, to more than 1,400 foreclosure notice filings this year. Even more important is a spectacular increase in the number of mortgages that are delinquent, and in those that have become “upside down”—with mortgages remaining to be paid that are greater than the potential sale price.

At this point, the greatest number of the foreclosures that have taken place over the last 12 months have occurred at the

FIGURE 4

Loudoun County Revenue Shortfall Projections With Real Estate Value Declines
(\$ Millions)



Source: Loudoun County.

lowest end of the market, in eastern Loudoun where new homebuyers were victimized by lending predators and by declining property values, along with a lack of potential buyers.

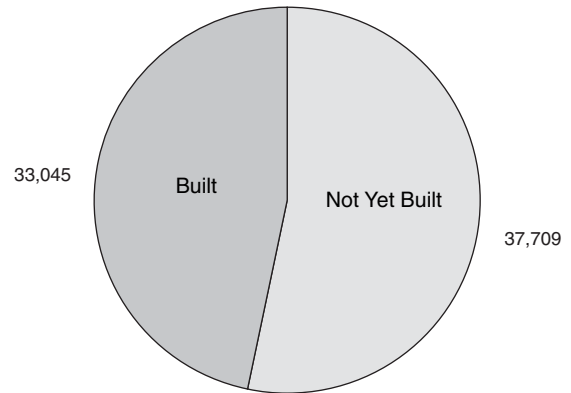
But more well-to-do homeowners are now being threatened with similar financial ruin and potential loss of their homes. As explained to *EIR* by a local realtor, many such people insisted on buying into an “up market,” whose values were soaring daily to new heights. In order to purchase higher priced homes and “McMansions” which the developers and builders were pushing, the buyer had to come up with cash to meet equity requirements for “jumbo” loans (above the current Federal Housing Administration’s \$417,000 limit for mortgage insurance); the builders and lenders provided them with financial consultants who advised the prospective buyers to liquidate such assets as pensions and 401(K) pension plans, stock and bond holdings, and to place this cash in their high-priced new home, where it would “grow” faster than anywhere else.

Now, with the real estate market tanking (Figure 6), especially on the high end, many of these homeowners have seen their equity and the financial future vaporize in a matter of months. Any additional declines, and they become potential foreclosure victims, as well.

Absent an immediate reversal of the trend toward sharp property value declines, there is no way to ultimately prevent a wave of foreclosures and real estate fire sales from sweeping over the county in the period ahead, the which will produce further declines and even more foreclosures. The only way to

FIGURE 5

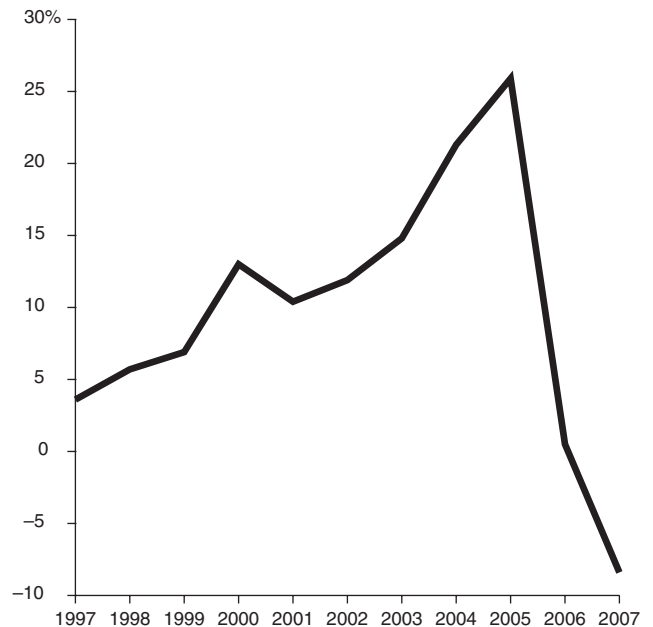
Loudoun County: Approved Houses, Built and In the Pipeline



Source: Loudoun County.

FIGURE 6

Annual Change in Average Home Sales Price
(Percent)



Sources: Loudoun County; Northern Virginia Association of Realtors.

prevent the county from plunging into chaos, is for its citizens and their elected officials to rally support behind LaRouche’s Homeowner and Bank Protection Act of 2007. The passage of that Act by Congress offers the only hope of preventing the combined effects of waves of foreclosures and devaluations forced by dumping properties on the market, enabling the tax-revenue base of the county to be stabilized.