There is nothing as urgent today, as getting across that point which I have just made. Our nation, and the world besides, has a very, very narrow band of options open to us to escaping the onrushing threat of a global new dark age of all humanity. The needed options exist, but those options will not save us, unless those options are both recognzed, and then, rather promptly, adopted.

Growing 'Bubble Within' The Housing Bubble

by Richard Freeman

In the preceding report, Lyndon LaRouche focuses on the "soaring mortgage bubble within the mortgage bubble." The growth of this process is an incontestable marker that the U.S. mortgage bubble has reached a desperate stage of instability; the continued enlargement of the "bubble within the bubble" would of necessity rupture itself and the larger $17 trillion Greenspan mortgage bubble within which it is intimately situated. That would bring down the U.S. financial system.

The "bubble within the bubble" refers, in particular, to those homeowners who, after first listing their homes for sale in 2006, *yanked their homes back off the market* when they saw that prices were falling. In the interim, they are losing $5-15,000 a month from the selling price of their homes as they keep them off the market. The more the market price of homes falls, the more they silently lose.

But the situation gets worse. Many homeowners in this situation had taken out a non-traditional, or "exotic" mortgage loans. The loans were at adjustable interest rates (ARM), and allowed borrowers to pay no principal, and in some cases, to pay only part of the interest. The amount of interest that they didn't pay was recapitalized into the loans, i.e., it made the outstanding amount owed even larger.

As the market price of homes fell, the mortgage-holders found that *they had negative equity, that is, they owed more on the mortgage loans than the market value of their houses.* These are called "upside-down" loans. The homeowners can't refinance the mortgages, because no bank will refinance a loan that has fallen into the "upside-down" condition. The homeowners can't sell their houses, because the market is plummeting. The individuals are caught. There are millions of people in, or soon to enter this situation. A portion of those who are "upside-down" are within the "bubble within the bubble." Another slice of the homeowners' lives is taken away each month that home prices fall, because they move even further away from being able to pay off the mortgage loans.

The "bubble within the bubble" is the dynamic that has governed the geometry of the U.S. real estate market during the past five months. U.S. government statistical reports overlook this phenomenon. But millions of people throughout the United States know the "bubble within the bubble" and its destructive potential personally. We examine this phenomenon, using the case study of Loudoun County, Va., which is

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Loudoun County, Virginia, which has the highest median household income in the country, is also "ground zero" for the explosion of the housing bubble. That process is now well under way. The photos show an unfinished, abandoned "McMansion" and desperate homeowners reducing the sale price of their property.

ground zero for the housing bubble's rupture, to show how it developed. Loudoun County indicates what will happen to a significant portion of the rest of the country.

The dynamic of the "bubble within the bubble" is rife with the potential for further damage, causing foreclosures. On Dec. 12, *RealtyTrac* reported that the number of American households whose homes entered some stage of foreclosure, climbed to 1.2 million for the first 11 months of 2006, a leap of 43% over the comparable period of 2005. That is one in every 100 households. The popping of the "bubble within the bubble" will turn that into a flood.

Loudoun County's Hidden Bubble

Consider that from 2000-04 in Loudoun County, there were on average 1,500 "active listings" (homes listed for sale) a month. During the hot housing market of 2005, the number of active listings jumped to, on average, 2,500 a month. During 2006, there was a phase-shift in the Greenspan housing bubble. In the first phase of this process, as the number of days that homes were unsold on the market jumped nearly five-fold, there was an acknowledgment that the bubble was about to burst. In this atmosphere, a herd mentality took over, as people moved to put their homes on the market lest they be left out of the last phase of the bubble, and not get the top price. This is shown in **Table 1.** Listings increased by 80% in only five months.

There was mass hysteria. In some areas, there were five or six homes for sale, on each street. But, already home prices began to break; "For Sale" signs stayed on the front lawns of homes month after month. It dawned on the homeowners that the more homes they put on the market, the faster and further home prices would fall. So, ruled by the same herd mentality, they began taking the homes off the market. This began the second phase.

From June's level, listings plunged by 31%. From June through November, 1,521 homes were taken off the market. These 1,521 unsold and "unsellable" homes constitute the "bubble within the bubble." They have *not* been sold (home sales are still falling), nor are they any longer listed for sale. Where are they? Look for the person with the twisted smile, as he watches his home price plunge.

TABLE 1

Loudoun County, Va., Home Active Listings, 2006

Month	Active Listings
Phase #1	
January	2,745
February	2,982
March	3,734
April	4,313
May	4,718
June	4,907
Phase #2	
July	4,747
August	4,437
September	4,173
October	3,806
November	3,386

Sources: Dulles Area Realtors Association; U.S. Department of Commerce.

TABLE 2

Loudoun County: Newly Produced Homes and Housing Units Listed, as Multiple of Homes Sold

2000	2.81
2001	3.36
2002	3.36
2003	2.88
2004	2.18
2005	3.39
2006*	9.82

*First 11 months through November

Sources: Dulles Area Realtors Association; U.S. Department of Commerce; Loudoun County Government.

Loudoun and the National Picture

To situate the deeper dynamic, on Dec. 17, Lyndon LaRouche said, "And this is really fantastic. Because if you take the total number of [new] units produced, against total number sold, and add the total number which had been put on the market but have not been sold, then you get a more accurate picture of the explosive potential and the way it is building up, with the secondary factor of the held-back part."

This method is fruitful. In what follows, we take the combined total of a) the number of housing units newly produced, and b) the number of existing housing units put/listed on the market. This total is roughly what housing is being supplied to the market. We compare that to the number of housing units sold.

What this multiple-ratio shows is that in Loudoun County, during the period 2000-05, there was a normal band of between 2.18 and 3.39 homes offered for sale, for every home that actually sold (see **Table 2**). But during 2006, this process went into another domain: an explosive build-up of 8.9 housing units for sale, for every unit that was sold.

This touched off a corollary dynamic. From June-July 2006 onward, each month, more homeowners removed their homes from listings for sale, increasing the ranks of those in the "bubble within the bubble" (as shown in Table 1). However, the number of homes that sold also continued to decline.

TABLE 3

U.S.A. Inventory of Unsold Homes That Are Listed on the Market, 2006

Month	Inventory
January	2,883,000
November	3,820,000

Source: National Association of Realtors.

TABLE 4

Loudoun County Assessed Residential Property Values

($ Billions)

Year	Assessed Value
2000	$10.8
2001	13.8
2002	17.6
2003	20.9
2004	25.7
2005	33.3
2006	47.3

Source: Loudoun County Government.

Thus, even if the number of homes offered for sale, and the number of homes that actually were sold, were both shrinking, the multiple-ratio of homes offered for sale to homes sold, stayed high—in the range of 9. Nothing significantly improved the situation.

Panic took over. Those who *keep* their homes listed on the market for sale, are cutting their home prices a second, third, or fourth time, without an appreciable increase in sales. Within a housing downturn, there is a nasty cycle: The number of those who take their homes off the market increases, but home sales do not increase, and prices fall. The grouping who are trapped in the "bubble within the bubble" grows larger monthly. They would lose $5-$15,000 a month, which comes out to from $60,000 to nearly $200,000 a year.

Can one determine a national bubble within the bubble? To approximate this, keep in mind, that Loudoun County is an extreme, but what is happening there, foreshadows what will happen in numerous pockets throughout the country, by six to nine months.

Nationally, starting January, people scrambled to put their homes on the market lest they be left out of the last phase of the housing bubble, and not get the top price. **Table 3** demonstrates that between January and October, the inventory/active listings of homes placed on the market grew by 937,000, or 33%. Were the United States as a whole to follow the trajectory already traced by Loudoun County, by May 2007 almost 700,000 homeowners will have plunged into the "bubble within the bubble." And because national averages distort what is really happening, it is likely that in pockets of the country where the real estate bubble had once been hottest, but now is shattered, that there are 100-200,000 households already in that trap.

'Let Them Eat Shingles'

The case study of Loudoun County was selected because it exemplifies what would happen if a county were *planned for the purpose of a real estate bubble,* with little other consideration. As its real estate bubble breaks, the strange concoction known as Loudoun County will melt away. Loudoun is a mythical construct, in which people live fantasy lives. The value of residential real estate constitutes 77% of the county's total assessed values, which total is comprised of residential, industry, commercial, agricultural, and public utilities. There may be no other county among America's 3,077, where residential real estate is such a high percentage of all assessed valuations.

Loudoun is one of the ten fastest-growing counties in America, and in 2005, had the highest median household income, at $98,483. It was once agriculturally based, but that is today a vestige.

In the 1980s, Lyndon LaRouche proposed a county plan for real high-technology-vectored development, but the oligarchy, featuring Mellons and other families of celebrated wealth and power, rejected it. Instead, it followed a plan that is the wet dream of post-industrial Baby Boomers. Consider:

- Manufacturing employment as a percent of total employment in Loudoun County is a nearly invisible 3.7%
- In some areas, there is no central sewage system; several individual "septic tank-mounds" are so poorly developed that effluvium bubbles up through manicured lawns.
- Morning commutes from Leesburg, the county seat, to Washington, D.C.—only 39 miles—can take two hours.

Aside from a few companies such as AOL, what is the principal reason people move into Loudoun County? To buy a home. What is the principal "industry" of Loudoun? Building homes, to build a housing bubble.

The assessed value of Loudoun County dwellings—overwhelmingly homes—leapt 4.5-fold in only six years. (See **Table 4.**) Whereas in 1993, residential assessed valuation represented 55% of the county's total assessed valuations of all kinds of properties, in 2005, it represented 77%. The tax base is totally dependent on the housing bubble. On Dec. 14, LaRouche noted that as county home prices fall, officials will have to increase the rate on real estate property taxes to maintain the tax revenues to pay for vital social services.

Loudoun exists as a case *in extremis;* but a similar housing bubble functions in thousands of counties across the country. Loudoun County, with its enlarged "bubble within the bubble" which is on the verge of rupturing, represents in microcosm what will happen throughout the nation.