View From 'Ground Zero'

Loudoun County Waits For Next Shoe To Drop

by L. Wolfe

Some foolish people in Loudoun County, Virginia, the Washington suburb that became the "poster child" of the Alan Greenspan housing bubble that is now going bust, read a recent uptick in home sales to proclaim that the area had weathered the crisis. However, more sober fellows understand that, as bad as things have been in Loudoun, where assessments of superinflated home values have fallen more than 10% in the last year, much worse is yet to come.

Sources in the local real estate industry dismiss the cheery words about a small increase in home sales in January and February, and point instead to the huge and growing inventory of unsold homes, now in the several scores of thousands. Even as the numbers of new housing permits have fallen off (**Figure 1**), homes in developers' pipelines keep pouring into this pool of unsold inventory. They are colliding with increasing numbers of older homes placed on the market by homeowners and speculators who fear that they bought their houses at too high a price, borrowed too much money, and might not get out "whole" if they wait to sell.

This deadly combination of inventory buildup continues to lead to a seemingly unstoppable rise in another telling statistic—the number of days a home stays on the market (**Figure 2**). That number is now climbing above 120 days, to almost 140 days. At the height of the white-hot "bubble market," homes were selling almost the moment they hit the market, with often several buyers bidding up the price above what was originally listed. That was a mere two years ago, but it seems like ancient times, now.

Foreclosures on the Rise

Also rising, along with the numbers of "For Sale" signs, are the number of foreclosures, mostly in the upper end of the market, among the so-called McMansions, million-dollar-plus homes on relatively small plots of land, which were once the most desired of purchases. The numbers of such foreclosures are still only a tiny segment of the market, kept down by factors that have given the rest of the market as well a ghostly afterlife.

Loudoun is the wealthiest county in the nation. As such, the majority of its homebuyers and homeowners had, and have, access to credit. As one realtor explained, that is the only reason that the market has not yet blown out. There are few subprime mortgages here, he said, although there were some "very creative" loans written up at the height of the bubble. Homes go into foreclosure because people have their credit cut off. That hasn't happened to a large extent here—*yet,* he continued. As long as most people are "right side up" on their mortgages (i.e., their property value exceeds their loans), they can continue to get credit and this takes pressure off possible bankruptcies and foreclosures, while keeping additional volumes of homes off the market, at least for the time being.

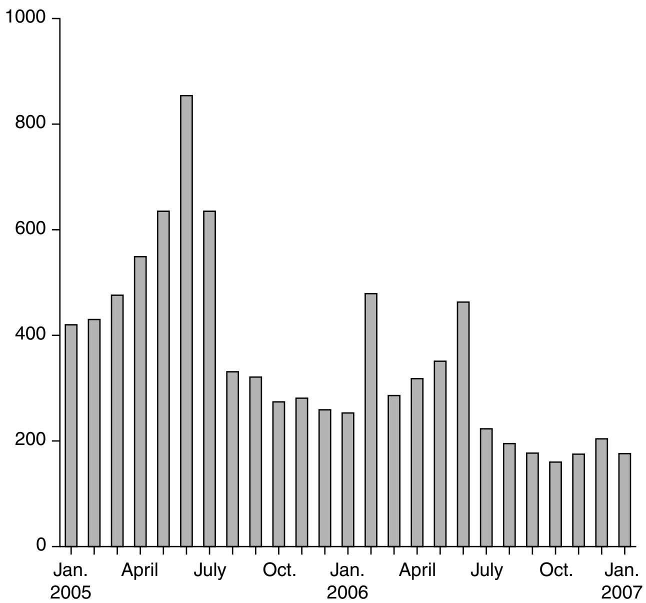
The Developers Could Blow Up

The Loudoun market, however, remains poised to blow

EIRNS/Stuart Lewis

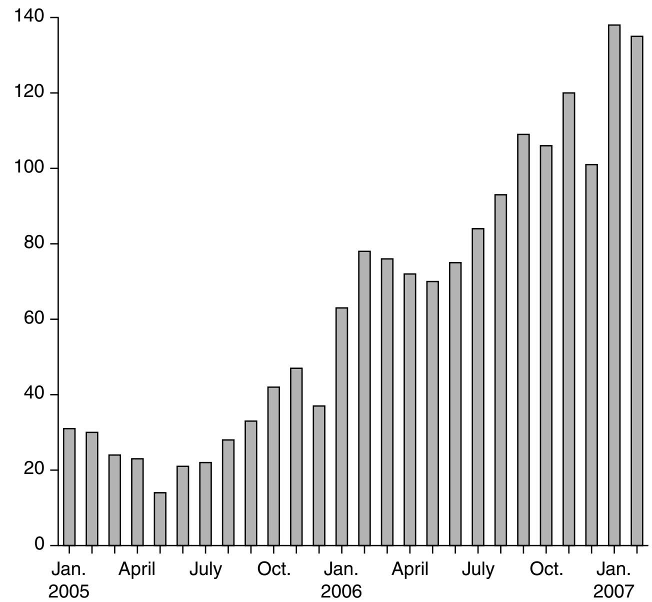
A typical scene in the wealthiest county in the country.

FIGURE 1
Residential Building Permits Issued Monthly, Loudoun County, Virginia



Source: Loudoun County Dept. of Economic Development.

FIGURE 2
Homes for Sale: Days on the Market, Loudoun County, Virginia



Source: Dulles Area Association of Realtors.

from another of its sectors: the developers of large residential and commercial tracts. These developers bought property at high market values, expecting huge returns in the near term, as they churned out homes, condos, and townhomes. With the market choking on inventory, these developers, such as Toll Brothers, NV Home, and Ryland are themselves choking on the debt that they must service. Loudoun was thought to be their gold-plated money-maker, which could support hard times in other locations; now, it can't even support itself.

Sooner or later, such developers will be forced either into bankruptcy or liquidation of inventory below their profit margins to make their debt payments. They have already seen their credit ratings downgraded, and in some cases, they are facing credit shutoffs.

"A homeowner might be able to wait it out for a year," said the realtor. "These developers can't wait. For the homeowner it is one property. For these guys, you're talking about hundreds or even thousands of homes. You do the math."

LaRouche Was Right on the Mark

Such a sell-off, in which properties will be bought up by wealthy people's monies being pulled out of hedge funds, will cause prices to plunge for everyone. In that way, the crisis in one portion of the local market rapidly becomes systemic throughout the entire market, with dire consequences for the national market.

Lyndon LaRouche has labelled Loudoun "Ground Zero" of the entire U.S. real estate bubble. For example, in a June 16, 2005 webcast, LaRouche warned:

"You have real estate bubbles, where you have shacks in the Washington, D.C. area, around it, where people have moved in from all over the world, to live in the D.C. area. . . .

"And this thing is about to come down. . . .

"Well, it's obvious to me, it's going to happen. I can see it in Northern Virginia. It's clear. We have Loudoun County, which is going to be a center of this catastrophe, because, it's been one of the areas that has been the most heavily built, with the least infrastructure. . . .

"This catastrophe *is going to happen.* It's not, 'if' it's going to happen; it's just a question of 'when'—and, 'when' is soon."

People familiar with the way Loudoun's once "gold-plated" loans have been bundled with subprime and other toilet-paper mortgages, realize how right LaRouche is. It is impossible to estimate how many mortgage bundles or how much value they represent, but the number is likely in the billions of dollars. Those mortgage bundles are held by many financial institutions; a collapse of value in Loudoun County could pull them all down.