

## The Housing Bubble was a Massive Real Estate Ponzi Scheme

People have not fully grasped the changes that will result from the deflation of The Great Housing Bubble. There are many historic parallels with the closest being The Great Depression. When the stock market bubble of the 1920s began to deflate in late 1929, few thought the boom times of the decade were over, and even fewer saw the disaster coming of The Great Depression. The 2008/2009 recession will not likely reach the severity of The Great Depression, but it will signal the end to the lifestyle to which so many have become accustomed.

This recession is caused by the collapse of the housing bubble and the disappearance of the mortgage equity withdrawal stimulus and the fearful contraction of lending generally. The general economy will recover, but home prices will not because house prices are not supported by incomes. Even when incomes begin to rise, house prices will still fall until they are in fundamental alignment with income again. This will take time. It will happen more quickly in the new home market because prices are not downwardly sticky when it comes to new homes. Builders lower prices until they find a market and generate sales volume. With sales volumes at historic lows and inventories dropping, new home sales volumes should bottom out over the next several months; however, volume will not recover quickly with all the competition from foreclosures and prices may decline further.

There is still a great deal of denial in the general population. The conventional wisdom appears to be that prices will begin to recover once this recession is behind us. In a normal real estate market experiencing a recession due to a problem in another part of the economy, this thinking might be true. House prices often stagnate when a certain industry is in contraction and resume appreciation when the industry recovers. This works in a healthy real estate market because prices are correlated with incomes. When incomes drop or stagnate, so do house prices, and when income growth picks up again, house prices go along for the ride. However, this recession and the response to it are different.

The major area of denial surrounding real estate is the loss of the associated lifestyle. People seem to believe that prices will recover, and lenders will go back to supporting their lifestyles by providing home equity lines of credit for every dollar of appreciation, and the party will go on much like before. This is not going to happen. Lenders are not that stupid. They are not going to lose a trillion dollars then go right back to the behaviors that cost them all that money.

Without significant structural changes to our lending system, the practices of the bubble might return some day, but not for 10-20 years or longer. It certainly is not going back to the way it was in the next 6 months or 6 years for that matter. The party really is over, and people have not accepted that fact, nor have they adjusted to it. There are still difficulties ahead.

### About the Author

[Lawrence Roberts](#) is the author of *The Great Housing Bubble: Why Did House Prices Fall?* Learn more and get FREE eBooks at: <http://www.thegreathousingbubble.com/> Read the author's daily dispatches at The Irvine Housing Blog: <http://www.irvinehousingblog.com/> Visit [The Housing Bubble was a Massive Real Estate Ponzi Scheme](#).

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