Pity those who must vacate their home because it’s no longer affordable and/or they need to relocate for employment, health, or any other non-dreamy reason. Foreclosure, or massive loss upon final sale, now awaits many. Welcome to the circus that has become U.S. housing.

When unforeseen disaster strikes the circus, the clowns are sent in under the Big Top to distract the audience from the problem. Unfortunately, the U.S. real estate market is starting to look a lot like a circus, and now many mortgage lenders have decided to “send in the clowns.”

Since the Great Depression, the U.S. housing market has been meretriciously cheered by the real estate promotional complex—to reach for the stars by loans and tax subsidies from the federal government, developers, and home builders pitching “swoon” and “sagger” so better in an increasingly “throw-away” consumerist culture. Last but not least, there have been the licensed experts—real estate agents and brokers, who with the help of sale-friendly appraisers and loan officers push, pull, and prod lowly renters to buy into the “American Dream” with debt up to their eyeballs if necessary. The costs of housing the American family have dug even deeper into our psyche—and our pocketbooks—to the organ grinder’s tune of the miracle of homeownership. Meanwhile, our debt burdens to foreign bond investors have collateralized. Through overleveraged loans, we have likely sold not only the roof over our heads, but probably the bed we sleep on, through the magical piggy bank of home equity withdrawal. Does even our soul remain our own?

Not-so Pretty Picture

Wall Street’s woes and a nasty credit crunch have prompted cries for a “but-we’re-too-big-to-fail!” bailout—by whatever means necessary, including another “Greenspan put” by our illustrious Federal Reserve. Meanwhile, there exists a growing listing of vacant properties and on the now-lonely Main Street—the American housing consumer. Having leveraged current and future earnings on the American Dream promise, house sellers and buyers are starting to awaken to a downright ugly day in suburbia. As the bliss of dreams recedes, questions emerge: “What in the world is a home actually worth? And whom, or even how, could one possibly find out?” Behind the walls of MLS secrecy, the supposed guardians of all that is real
estate—traditional agents and brokers and those that employ and support them—turn askew when asked for help that is meaningful and measurable as if to say, “Who, me?”

» What are the real average days on market? “Sorry, we only report for the last or current listing period—it sounds better, and besides, it’s none of your business.”

» What homes are actually for sale versus just listed speculatively? “Sorry, but as the ‘fiduciary’ for setting fair and balanced asking prices, I can assure you that I know market value, and again, all the rest is none of your business.”

» What is my home worth in today’s dollars? “Well, give me exclusive rights to sell it and then we’ll find out … eventually … or at least maybe. And for sure it will be on your dime.”

For many years, corporate and even governmental institutions have known that the real, bottom-line costs to get vacant real estate sold this way are from 30 percent (Federal Reserve) to 50 percent (HUD) of the final sales prices. Pity those who must vacate their home because it’s no longer affordable and/or they need to relocate for employment, health, or any other non-dreamy reason. Foreclosure, or massive loss upon final sale, now awaits many. Welcome to the circus that has become U.S. housing.

Now that less-than-schooled foreign investors in mortgages and related investments have been de-pocketed in this Ponzi scheme as well, the twin hens of fundamental market discipline and measurable risk for reward are coming home to roost. Record-setting numbers of vacant homes are starting to blight neighborhoods across America—so much for “They’re not building any more of it” and other simplistic slogans casually relied upon by the “experts” to sell their bill of goods. The judicious and sometimes harsh classroom of free market education is back in session.

**Continuing to Clown Around**

So what are mortgage investors (and the servicers they employ to manage the mess of mass property ownership due to foreclosures) to do? “Send in the clowns” seems to be the current answer. After years of forestalling real price discovery through open and competitive bidding—the required medicine that most markets take daily to ensure adequate risk management, efficiency, and transparency—servicers are increasingly turning to pump-and-dump strategies. In the spirit of gimmick lenders who shouted “We lose, you win!” come foreclosure hucksters employing shrill TV ads and tuxedoed barkers to lure the greedy, unsophisticated late night TV viewers to step into markets where others now fear to tread. “Nothing but flippers and speculators?! Who cares—we lose, you win!” now becomes the mantra of the supposed stalwarts of the housing dream.

Alone in one big ballroom box after another, hidden far from the real properties and the communities they are a part of, the American Dream now becomes the new underbelly of a “not in my backyard” culture, throwing all heretofore sanctimony about the precious nature of a home buyer, not to mention a piece of terra firma itself, into the cauldron of nothing matters. Lenders want out of owning vacant homes and don’t know any better, servicers feel overworked and would just as soon flush “inventory,” and as long as another sucker is born, we can all move along.

**Championing Change**

A few economists and business leaders are starting to agitate for fundamental changes fostering competition, stewardship, and more modern, transparent solutions to real estate price discovery and transactions. After correctly predicting the tech bubble in his groundbreaking book *Irrational Exuberance*, renowned economist Dr. Robert Shiller has focused his energies on the insane illiquidity of high-risk real estate markets and how they might be hedged via a housing futures market. Open and operating on the Chicago Mercantile Exchange, these indices and trading options would offer increasing opportunities for institutional investors to hedge real estate price risks. As Shiller points out, it soon may be possible for real estate price and/or equity insurance products to be offered to the individual owner.

To the chagrin of traditional middlemen, professional and efficient on-location and online real estate auction trading companies are arriving on the scene. They deliver local results to local buyers, almost in real time, yet with a dignity and transparency that finally empowers the actual real estate consumer versus just the traditional system’s “insider” or late-night flipper. Combine these with online bidding and the worldwide marketplace finally gets to see, in the full light of day, what any home or other real property is worth in the eyes of the market. What is a home or other property really worth? The real answer may likely be anything … and everything.

These efforts to transform the U.S. real estate market into something that truly is economically sound—something to steward, and yes, even something worth owning as part of an American Dream—are reassuring. They offer hope that the return of the clowns is not yet the curtain call for U.S. housing.