The REAL Reason Housing Prices Have Skyrocketed. How Another Housing Bubble Was Blown … And Why

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Preface: In Part 1, Housing Prices: Up Or Down? Recovery … Or Artificial Housing Bubble Which Is About to Pop?

we showed that mortgage applications are down, and it is really institutional investors driving the housing boom. Part 2 explains ***why****.*

Housing prices have boomed because:

> (1) Lenders are artificially keeping vacant houses off of the market
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> and
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> (2) The Obama administration has thrown all sorts of artificial incentives at institutional investors to pump up prices

Artificially Suppressed Housing Inventory

Naked Capitalism reported last August:

> Two trends are apparent. One is that b**anks are delaying foreclosures, or not foreclosing at all despite long-term delinquencies**. The other is that private equity firms – flush with cash thanks to Tim Geithner's religious devotion to trickle-down economics and the resulting cascade of corporate welfare – have been bidding up and holding foreclosed houses off the market. These two factors have artificially limited supply and, combined with cheap mortgages rates, driven up prices. While we can debate whether these strategies represent the best public policy, these policies are obviously not long-term sustainable.
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> Lenders argue the drop in foreclosures is caused by delays in the court system. However, Judge Jennifer D. Bailey, lead foreclosure judge in Miami-Dade County – epicenter of the foreclosure crisis – solidly rebuts that argument. "Here in Miami-Dade County's Eleventh Circuit, there has been no delay in foreclosure case hearings for nearly two years," Judge Bailey said in an Aug. 19, 2012 interview with the Miami Herald. "If you want to see a judge to hear your trial or summary judgment, you get a prompt court date." This coincides with my own observations in foreclosure court, where judges rail at bank lawyers for repeatedly delaying their cases, **even when borrowers are in no way contesting their foreclosures**.

> Holding back inventory means that the houses that are put on offer sell faster and at higher prices. That creates an incentive to delay foreclosures or not foreclose at all even when a home is delinquent.

Indeed – in the real world – 12.6 million houses are vacant … 1.5 million *more* home than are underwater. In other words, without artificial scarcity created by banks, there would be more available houses than there are underwater homeowners having problems paying their mortgage. There would – in a word – be a glut.

Government Is Secretly Helping Financial Companies to Snap Up Housing

There are realistic ways to help the economy. For example:

- Force the big banks to write down bad debt
- Crack down on fraud
- Break up the giant banks
- Force Wall Street to reduce leverage
- Stop encouraging business to send jobs and dollars abroad

But instead, the government's entire strategy is to try to paper over all of the real problems with the economy by artificially propping up asset prices in an attempt to hide the fact (which has been obvious for years) that the big banks are insolvent.

Stocks, for example, are largely being driven by insiders and government policy.

Indeed, we've pointed out for years that all of the Obama administration's "homeowner relief" programs are really just *back-door bailouts* to the big financial companies … and are not even *intended* to help homeowners.

Mike Whitney explained last September:

> Private Equity firms are piling in to the housing market to take advantage of bargain basement prices on distressed inventory. **The Obama administration is stealthily selling homes to big investors who are required to sign non-disclosure agreements to ensure that the public remains in the dark as to the magnitude of the giveaway. Aside from the steep discounts on the homes themselves, the government is also providing "synthetic financing to reduce the up-front capital required if they agree to form a joint venture with Fannie Mae and share proceeds from the rental or sale of properties."** (Businessweek)
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> In other words, **US-taxpayers are providing extravagant financing for deep-pocket speculators who want to reduce their risk while maximizing their profits via additional leverage.** The plan resembles Treasury Secretary Timothy Geithner's Public-Private Partnership Investment Program …. **Speculators are getting lavish incentives (gov financing, low rates, and severe discounts) in secret deals to buy distressed inventory which should be available to the public at market prices.** If that's not a ripoff, then what is?

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> Obama's preferred customers are getting discounts of up-to 60 percent of the home's peak value and generous gov-backed financing to boot!
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> As the article above indicates, there's no shortage of delinquent homes that will eventually be foreclosed. That means the process is being dragged out so the banks don't have to fess-up to the losses on their fetid pile of nonperforming loans Here's a little more background from an article in Businessweek:
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>> "About 6 million U.S. borrowers will lose their homes in the next five years because of inability to pay their mortgages, creating demand for as many as 4 million new rental households, according to Scott Simon, head of mortgage bonds at Pacific Investment Management Co. in Newport Beach, California….
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>> Single-family rentals are priced to deliver unlevered total returns in the range of 7.5 percent to 8 percent, or about 0.5 percentage point to 1 percentage point higher than institutional-quality apartments, according to a June 8 report by Ray Huang, senior associate at Green Street Advisors in Newport Beach, California. ("Colony Said to Win Foreclosed Homes Sold by Fannie Mae", Businessweek)[Link.]
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> If "6 million homeowners" will lose their homes in the next five years, then why are clownshoes media dupes touting a "bottom" in prices and a "market rebound"?
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> It's all hype. And look at how calculatingly fiendish Obama's foreclosure-to-rental program really is. The big boys have figured out the nearest penny how much they can make by throwing people out of their homes. (7.5 percent to 8 percent) Talk about heartless. And, of course, this whole process is being orchestrated by President Fairydust and his Wall Street Pranksters to keep prices artificially high and preserve the illusion that the banks are solvent.
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> It's infuriating!

And if that isn't hard-hitting enough for you, Jim Quinn writes:

> The contrived elevation of home sales and home prices has been engineered by the very same culprits who crashed our financial system in the first place. This has been planned, coordinated and implemented by a conspiracy of the ruling oligarchy – the Federal Reserve, Wall Street, U.S. Treasury, NAR, and the corporate media conglomerates. Ben's job was to screw senior citizens and drive interest rates low enough that everyone in the country could refinance, attract investors & flippers into the market, and propel home prices higher. Wall Street has been the linchpin to the whole sordid plan.
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> They were tasked with drastically limiting the foreclosure pipeline, therefore creating a fake shortage of inventory. Next, JP Morgan, Blackrock, Citi, Bank of America, and dozens of other private equity firms have partnered with Fannie Mae and Freddie Mac, using free money provided by Ben Bernanke, to create investment funds to buy up millions of distressed properties and convert them into rental properties, further reducing the inventory of homes for sale and

> driving prices higher. Only the connected crony capitalists on Wall Street are getting a piece of this action. The Wall Street big hanging d[!@#*] have screwed the American middle class coming and going. The NAR and media are tasked with what they do best – spew propaganda, misinform, lie, cheerlead and attempt to create a buying frenzy among the willfully ignorant masses.
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> The chart below reveals the truth about the strong sustainable housing recovery. It doesn't exist. Mortgage applications by real people who want to live in a home are no higher than they were in 2010 when home sales were 33% lower than today. Mortgage applications are lower than they were in 1997 when 4 million existing homes were sold versus the 5 million pace today. The housing recovery is just another Wall Street scam designed to bilk the American middle class of what remains of their net worth.

Of course, economist Michael Hudson would put it a little differently: banks are trying to roll back all modern laws and make us all into *serfs*.

In other words, the giant financial service companies are attempting to privatize public resources, socialize losses, scam people out of their homes and other private property … and then rent back to us what we used to own for a hefty price.

Do you understand the game now?

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