The Housing Boom And Bust

Scary headlines and scarier statistics tell the story of a financial crisis on a scale not seen in decades—certainly not within the lifetime of most Americans. Moreover, this is a worldwide financial crisis. Financial institutions on both sides of the Atlantic have either collapsed or have been saved from collapse by government bailouts, as a result of buying securities based on American housing values that eroded or evaporated. Now completely revised in paperback, The Housing Boom and Bust is designed to unravel the tangled threads of that story. It also attempts to determine whether what is being done to deal with the problem is more likely to make things better or worse.

Outlining how the current crisis in housing markets has arisen, this sharp analysis considers the considers the causes of house price bubbles and the reason for the collapse in markets worldwide. It explains the ways in which future booms and busts can be mitigated and how the lessons of this latest housing bubble will be – finally - learnt.

Many communities around the country had already been dealing with the problems of increasing and concentrated foreclosures for several years. Thus, the evidence of the social costs of foreclosures will guide policy makers in deciding what policies should be put in many communities that foreclosures have plagued. The objective of this research is to quantify the price-depressing foreclosure effects on existing home sale prices as one of the major social costs for communities.

The first methodological goal is to simultaneously quantify the magnitude of the direct and the spillover effects of foreclosures on existing home prices. The second methodological goal is to provide usefulness concerning spatial econometric models in measuring the impact of foreclosures on housing prices. This study was estimated with traditional hedonic and spatial hedonic models specified during two different housing cycles in Phoenix, Arizona, during a strong housing market when prices were up (2005) and a down housing market with falling prices (2008). It has been shown that foreclosures have negative effects on existing home prices in the neighborhood, depending on housing types and cycles. However, the OLS models do not correct for spatial autocorrelation problems and endogeneity that exist in a cross section of house prices and would overestimate absolute values of the coefficients. As alternatives, the maximum likelihood spatial lag or error model controls for spatial autocorrelation but still causes computation obstacles for large data sets and problems of heteroskedasticity in error terms. Thus, the preferred specification is a generalized method of moments (GMM) approach which requires weaker assumptions than the maximum likelihood application and has flexible form to large datasets. As a joint analysis, the most appropriate specification is the general spatial two-stage least-squares (GMM-2SLS) method with HAC (the spatial heteroskedasticity and autocorrelation consistent) variance estimator. These findings provide further evidence that OLS estimates of a coefficient on a foreclosure indicator tend to overstate the direct or indirect foreclosure discount, ignoring spatial effects such as spatial dependence and endogeneity. With regard to the spillover effect of nearby foreclosures on home prices, both foreclosures of single family homes and condos are statistically significant and negatively impact each type of home sale prices. However, the cumulative effects of neighborhood foreclosures are much greater with nonlinear effects in a housing bust year than a housing boom year. Therefore, this study on price-depressing effects of foreclosures emphasizes the importance of the pre-foreclosure step as the beginning of following foreclosure processes, depending on housing types and housing market cycles.

Remember when mania led to a massive housing bubble? When Americans found themselves saddled with too many houses and were hit with the reality that our economy had been built on unsustainable borrowing? Everyone knows about that, right? What if that was wrong? What if, when we get down to brass tacks, Americans have been struggling to build enough new housing—especially in places where housing is in high demand—and this was true, even in 2005? Viewing the economic calamities of the twenty-first century with this central insight turns the conventional wisdom about our economic challenges upside down. The need for more homes has been the core cause of American economic instability and stagnation. Building from the Ground Up will guide you to a sweeping new perspective about the Great Recession and the financial crisis, which points to a brighter path for America's economic potential.

DIVThe United States is coming off a period of growth and prosperity unlike anything the world has ever seen before./div

We build a model of the U.S. economy with multiple aggregate shocks (income, housing finance conditions, and beliefs about future housing demand) that generate fluctuations in equilibrium house prices. Through a series of counterfactual experiments, we study the housing boom and bust around the Great Recession and obtain three main results. First, we find that the main driver of movements in house prices and rents was a shift in beliefs. Shifts in credit conditions do not move house prices but are important for the dynamics of home ownership, leverage, and foreclosures. The role of housing rental markets and long-term mortgages in alleviating credit constraints is central to these findings. Second, our model suggests that the boom-bust in house prices explains half of the corresponding swings in non-durable expenditures and that the transmission mechanism is a wealth effect through household balance sheets. Third, we find that a large-scale debt forgiveness program would have done little to temper the collapse of house prices and expenditures, but would have dramatically reduced foreclosures and induced a small, but persistent, increase in consumption during the recovery.

This paper describes six stylized patterns among housing markets in the United States that potential explanations of the housing boom and bust should seek to explain. First, individual housing markets in the U.S. experienced considerable heterogeneity in the amplitudes of their cycles. Second, the areas with the biggest boom-bust cycles in the 2000s also had the largest boom-busts in the 1980s and 1990s, with a few telling exceptions. Third, the timing of the cycles differed across housing markets. Fourth, the largest booms and busts, and their timing, seem to be clustered geographically. Fifth, the cross sectional variance of annual house price changes rises in booms and declines in busts. Finally, these stylized facts are robust to controlling for housing demand fundamentals - namely, rents, incomes, or employment - although changes in fundamentals are correlated with changes in prices.

This dissertation explores the relationship between finance and welfare, focusing on how the expansion of credit supply in the beginning of the 2000s, leading to the 2007 financial crisis, affected U.S. households. This dissertation helps advance the study of how financial policies affect households' well- being. In the first chapter, I study the effect of access to credit on family structure. There is a large debate over the welfare effects of the early 2000s housing boom and bust. One potentially important welfare effect is the impact of mortgage credit expansion on family structure. Exploiting pre-housing boom variation on the distribution of old homeowners who live alone and are older than 65, I conduct within-county analysis with zip code level data to causally identify the effect of access to credit on fertility outcomes through a channel associated with a more efficient reallocation of the existing housing stock among households. I examine two other housing channels, house wealth gains and new construction, and show that the most relevant channel is the reallocation, which allows young households to access space by either moving to larger homes or achieving homeownership earlier in their life-cycle. A one standard deviation increase in reallocation leads to a 6.4% increase in fertility from 2000 to 2006. The same increase in house prices leads to only a 2.7% increase, and in new construction leads to a 1.5% decline in fertility from 2000 to 2006. I estimate that approximately 500,000 babies were born between 2000 and 2006 because of the reallocation channel. In the second chapter, I study the effect of housing demand on house prices through an interest rate channel. In the last housing boom, strong house price growth only lasted until 2005. Why did house price growth slowed down in 2006? This chapter studies the effect of interest rate changes on housing demand at the end of a housing boom and the subsequent effect on house prices. I use three different proxies for housing demand, based on Google search data on search terms likely to be used during the process of purchasing a home, such as "remax", "construction", or "real estate". A one- standard deviation increase in the change in interest in purchasing a home from 2005 to 2006, measured by the Google search volume, leads to a 0.4 standard deviation increase in contemporaneous house price growth. To identify the interest rate channel, I first compute a household income threshold for each county, defined as the necessary income to afford an interest-rate-only mortgage on a county's average loan in 2005. I then exploit the slope of the county's income distribution around this affordability threshold to estimate the fraction of households that, after an increase in mortgage interest rates from 2005 to 2006, could no longer afford to pay an interest-rate-only mort- gage. I use this fraction as an instrumental variable for housing demand. The IV beta is remarkably close to the OLS beta, and confirms the large effect of housing demand on house prices in 2006 through an interest rate channel. This chapter sheds light on the transition process between the housing boom in the 2000s and the subsequent financial crisis, and contributes to a better understanding of the impact of monetary policy on housing demand and house prices at the end of a housing boom.

We are experiencing a historic wealth-building opportunity, says David Lereah, chief economist for the National Association of Realtors. As Lereah has predicted, the doubledigit appreciation boom–far from a real estate “bubble”–is winding down to a healthy real estate expansion that will keep the long-term fundamentals for housing strong into the foreseeable future. To ensure that you don’t miss out, Lereah provides the tools, information, and analysis you need to become a savvy real estate investor.

Between 1996 and 2006 the U.S. has experienced an unprecedented boom in house prices. As it has proven to be difficult to explain the large price increase by observable fundamentals, many observers have emphasized the role of speculation, i.e. expectations about future price developments. The argument is, however, often indirect: speculation is treated as a deviation from a benchmark. The present paper aims to identify house price expectation shocks directly. To that purpose, we estimate a VAR model for the U.S. and use sign restrictions to identify house price expectation, housing supply, housing demand, and mortgage rate shocks. House price expectation shocks are the most important driver of the boom and account for about 30 percent of the real house price increase. We also construct a model-based measure of exogenous changes in price expectations and show that this measure leads a survey-based measure of changes in house price expectations. Our main identification scheme leaves open whether expectation shifts are realistic or unrealistic. In extensions, we provide evidence that price expectation shifts during the boom were primarily unrealistic and were only marginally affected by realistic expectations about future fundamentals.

Presents predictions about the nation's real estate market and useful advice on how to protect one's investment and even profit from the coming crash.

Measure and financial margin ratio- the measures of credit affordability- the evidence has shown that credit affordability was the main single factor explaining the evolution of housing boom. Thus, the decline in interest burdens of owner-occupiers was pointed out to be the main driving power in housing purchase decisions. However, taking risk factors into account, such as increased exposure to interest rate risk, increased housing volatility and increased indebtedness, Danish owner-occupiers' vulnerabilities also increased. Therefore, I stressed that housing affordability has to be superior to credit affordability. I recommended that lending that is based on the housing affordability approach, will prevent irrational behavior, over-indebtedness and promote stability on the housing market.

This Selected Issues paper examines macro-financial risks associated with housing boom in Namibia. Namibia has enjoyed stable and steady progress in financial sector developments, but vulnerabilities might have built up. The recent evolution of Namibia’s housing prices raises a question as to whether the prices reflect economic fundamentals. Overall, estimates based on cross-country evidence of countries that experienced a boom-bust episode in the housing sector suggest that Namibia’s real economic growth could be 3 to 27 percentage points lower than under the baseline scenario over a three-year period. Under the most adverse scenario, in particular, GDP is expected to contract 9.9 percent in real terms over the three-year

projection period.
The must-read summary of Thomas Sowell's book: “The Housing Boom and Bust”. This complete summary of "The Housing Boom and Bust" by Thomas Sowell, a prominent American economist and social theorist, presents his assessment of the economic and political reasons behind the rise and decline of the housing market during the last decade. He argues that government interventions are not effective, and that political parties created financial dangers that led to the sub-prime mortgage crisis and subsequent economic collapse. Added-value of this summary: • Save time • Understand how creative marketing for mortgages led to financial collapse • Expand your knowledge of economics and American politics To learn more, read "The Housing Boom and Bust" and discover the economic and political reasons behind the rise and decline of the housing market in the last decade.
Conventional wisdom held that housing prices couldn’t fall. But the spectacular boom and bust of the housing market during the first decade of the twenty-first century and millions of foreclosed homeowners have made it clear that housing is no different from any other asset in its ability to climb and crash. Housing and the Financial Crisis looks at what happened to prices and construction both during and after the housing boom in different parts of the American housing market, accounting for why

certain areas experienced less volatility than others. It then examines the causes of the boom and bust, including the availability of credit, the perceived risk reduction due to the securitization of mortgages, and the increase in lending from foreign sources. Finally, it examines a range of policies that might address some of the sources of recent instability.

This paper presents a new version of MAPMOD (Mark II) to study the effectiveness of macroprudential regulations. We extend the original model by explicitly modeling the housing market. We show how household demand for housing, house prices, and bank mortgages are intertwined in what we call a deadly embrace. Without macroprudential policies, this deadly embrace naturally leads to housing boom and bust cycles, which can be very costly for the economy, as shown by the Global Financial Crisis of 2008-09.

The housing boom that preceded the Great Recession was due to an increase in credit supply driven by looser lending constraints in the mortgage market. This view on the fundamental drivers of the boom is consistent with four empirical observations: the unprecedented rise in home prices and household debt, the stability of debt relative to house values, and the fall in mortgage rates. These facts are difficult to reconcile with the popular view that attributes the housing boom to looser borrowing constraints associated with lower collateral requirements. In fact, a slackening of collateral constraints at the peak of the lending cycle triggers a fall in home prices in our framework, providing a novel perspective on the possible origins of the bust. Scary headlines and scarier statistics tell the story of a financial crisis on a scale not seen in decades - certainly not within the lifetime of most Americans. Moreover, this is a worldwide financial crisis. Financial institutions on both sides of the Atlantic have either collapsed or have been saved from collapse by government bailouts, as a result of buying securities based on American housing values that eroded or evaporated.Now completely revised in paperback, The Housing Boom and Bust is designed to unravel the tangled threads of that story. It also attempts to determine whether what is being done to deal with the problem is more likely to make things better or worse.

Housing bubbles burst, creating economic misery for millions. Over the past thirty years, the culture of property ownership has become so ingrained that policy makers, bankers and households have taken for granted that housing is a good investment and forgotten about the bust. Explaining how the current crisis in housing markets has arisen, this topical and sharp analysis considers the causes of house price bubbles and the reason for the collapse in markets worldwide. Written for students, it explains the economic cycle of housing, ways in which future booms and busts can be mitigated and how the lessons of this latest housing bubble can finally be learned.

In The Financial Crisis Reconsidered, Aronoff challenges the conventional view that reckless credit produced the US housing boom and the financial crisis, explaining how the large current account deficit, and its mercantilist origin, was a more fundamental cause. He also demonstrates that the decision to provide relief for bank creditors rather than underwater homeowners was responsible for the prolonged recession that followed the crisis. Aronoff proposes a novel theory to account for the ultimate origins of secular stagnation and economic volatility. He shows how accumulation, which occurs when a person or country earns more than it ever plans to spend, generates both an excess of saving and a deficiency in demand. While savings provide the funds to promote booms, under-consumption ensures that these booms will turn bust and that the economy will fall short of its potential growth rate. Aronoff argues that mercantilists and top income earners engage in accumulation, and that the influence of both types has grown in recent decades. Combining economic theory and historical narrative, this book offers a new perspective of the housing boom and the financial crisis, concluding with innovative policy proposals to reduce accumulation without compromising the benefits of a market

economy.
The crisis enveloping global financial markets since August 2007 was triggered by actual and prospective credit losses on US mortgages. Was the United States just unlucky to have been the first to experience a housing crisis? Or was it inherently more susceptible to one? I examine the limited international evidence available, to ask how the boom-bust cycle in the US housing market differed from elsewhere and what the underlying institutional drivers of these differences were. Compared with other countries, the United States seems to have: built up a larger overhang of excess housing supply; experienced a greater easing in mortgage lending standards; and ended up with a household sector more vulnerable to falling housing prices. Some of these outcomes seem to have been driven by tax, legal and regulatory systems that encouraged households to increase their leverage and permitted lenders to enable that development. Given the institutional background, it may have been that the US housing boom was always more likely to end badly than the booms elsewhere.
The Housing Boom and BustReadHowYouWant.com
What is the role of heterogenous house-price expectations for boom-bust cycles in the housing market? We exploit a unique Dutch panel data set on households' house price expectations and their consumption, savings and housing choices for the

period 2003-2016. This period was characterized by a pronounced boom-bust cycle in the housing market. Conditioning the sample on household heads who report non-zero house price expectations, we find that expectations closely track realized house prices. We next develop a structural life-cycle model of the Dutch housing market where we distinguish household types according to their house price expectations. We employ a calibrated model variant to test if observed variations in expectations can account for the housing boom-bust cycle. First results show that our model closely matches the observed fluctuations of the rent-to-price ratio in the data but overshoots the size of the housing boom.

This paper examines mortgage outcomes for a large, representative sample of individual home purchases and refinances linked to credit scores in seven major US markets in the recent housing boom and bust. Among those with similar credit scores, black and Hispanic homeowners had much higher rates of delinquency and default in the downturn. These differences are not readily explained by the likelihood of receiving a subprime loan or by differential exposure to local shocks in the housing and labor market and are especially pronounced for loans originated near the peak of the boom. Our findings suggest that those black and Hispanic homeowners drawn into the market near the peak were especially vulnerable to adverse economic shocks and raise serious concerns about homeownership as a mechanism for reducing racial disparities in wealth.

Why do stock and housing markets sometimes experience amazing booms followed by massive busts and why is this happening more and more frequently? Boom and Bust reveals why bubbles happen, and why some bubbles have catastrophic economic, social and political consequences, whilst others have actually benefited society.