

What will become of all the unsold new houses? In Texas in the early 1990s, the government bulldozed thousands of newly built homes to eliminate the overhang of unsold properties.

This shock and awe strategy helped to resolve the greatest property and banking crisis since the Great Depression of the 1930s. With the overhang gone, confidence gradually returned to the market, transactions picked up and real estate prices began to recover.

The 1980s property boom in Texas was largely financed by so-called savings and loans (S&Ls) associations—financial institutions similar to building societies here.

A combination of weak banking regulation, gross mismanagement and fraud allowed for reckless lending and overbuilding. Most S&Ls were wiped out when the property market soured in the late 1980s.

The government took over the assets of insolvent S&Ls, ordered in the bulldozers and dumped the land on which the demolished homes had stood at fire-sale prices.

Some of the wealthiest people in Texas are those who hid in the long grass and made their fortunes not from oil, but by purchasing distressed real estate and later selling at enormous profit when the market recovered.

Are there lessons for us? The 2006 Census and other data suggest that investors and developers here own as many as a quarter of a million vacant houses (excluding holiday homes).

These properties could flood onto the market if interest rates rise. In that case, houses in cities would find buyers at some (deeply discounted) price. But there are many houses lying empty in, let's be frank, the middle of nowhere. Some of these might not sell at any price and could loom over the market for years.

Anybody got a bulldozer?