

Price Bubbles in Housing Markets: Concept, theory and indicators



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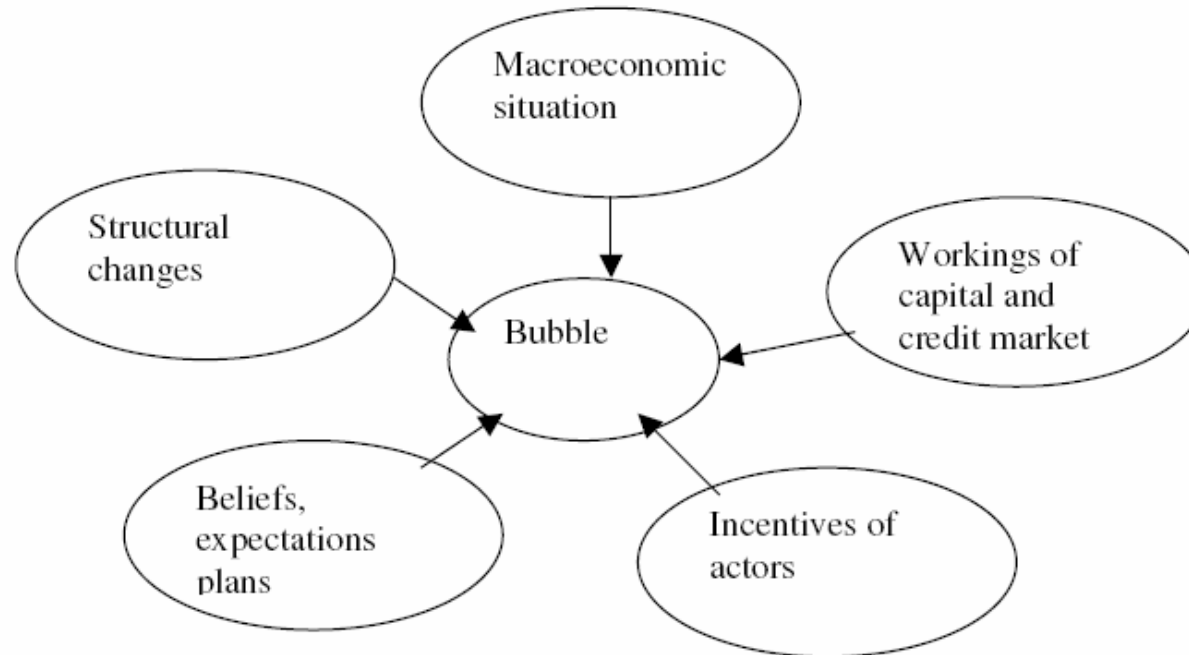
What is a bubble?

- Traditional definition in terms of “*price increase not based on fundamentals...*” is problematic.
- Instead define in terms of “*dramatic price increase directly followed by a dramatic fall*”
- Question 1: Do they exist?
- Question 2: Why do they occur?
- Question 3: Are there any indicators that can be used to predict whether it is a bubble when prices have increased much?



A theory of bubbles

- Interaction between a set of factors



Bubble indicators when price high:

- If interest payments in relation to income is high (given long run interest rates....)
- If flexibility of supply high
- If buyers optimistic about future price increases
- If buyers take higher risk (more impatient)
- If loan to value increases even though prices go up
- If evaluation of credit worthiness is more liberal
- If increase in speculation (buy in order to sell soon)

