

Abstract

How can we detect real estate bubbles? In this paper, we propose making use of information on the cross-sectional dispersion of real estate prices. During bubble periods, prices tend to go up considerably for some properties, but less so for others, so that price inequality across properties increases. In other words, a key characteristic of real estate bubbles is not the rapid price hike itself, but rather a rise in price dispersion. Given this, the purpose of this paper is to examine whether developments in the dispersion in real estate prices can be used to detect bubbles in property markets as they arise, using data from Japan and the U.S. First, we show that the land price distribution in Tokyo had a power-law tail during the bubble period in the late 1980s, while it was very close to a lognormal before and after the bubble period. Second, in the U.S. data we find that the tail of the house price distribution tends to be heavier in those states that experienced a housing bubble. We also provide evidence suggesting that the power-law tail observed during bubble periods arises due to the lack of price arbitrage across regions.