

Inflation and Bubbles in the Japanese Condominium Market*

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Abstract

In this paper, we investigate the dynamics of condominium prices by using recent national and regional data for Japan. First, using left- and right-tailed integration methods to circumvent deficiencies in existing approaches, we propose two definitions of bubbles and show that the condominium market has experienced neither mild nor explosive bubbles since 2008. The perception of bubbles can be influenced by the variables chosen to represent economic fundamentals; however, the standard model specification suggests no bubbles during that period. Second, consistent with this finding, we point to several economic fundamentals including Chinese money that can explain the long-term trend in condominium prices. Third, we find that, among the explanatory variables considered, transaction volume, particularly the volume of purchases by companies, is relevant in explaining condominium price inflation.

Keywords: Real estate market, condominium prices, market bubble, unit root, cointegration, Japan

JEL classification: R1, R3, C5

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