

Testing for Bubbles in Housing Markets: New Results Using a New Method

Working Paper No. 753 Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR José Eduardo Gómez, Jair Ojeda, Catalina Rey, Natalia Sicard AUTHORS AND/OR EDITORS Catalina Rey Natalia Sicard

In the context of financial crises influenced by the development and burst of housing price bubbles, the detection of exuberant behaviors in the financial market and the implementation of early warning diagnosis tests are of vital importance. This paper applies the new method developed by Phillips et al (2012) for detecting bubbles in the Colombian residential property market. The empirical results suggest that currently the country could be experiencing a price bubble, when the CPI and the housing rent index are used as deflators. We do not check the robustness of these results to alternative deflators, such as a household income index and a land price index, due to the lack of monthly data on these indicators.

The findings, recommendations, interpretations and conclusions expressed in this paper are those of the authors and do not necessarily reflect the view of the Banco de la República or its Board of Directors. All remaining errors are our own.