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

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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.

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