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## Are Home Prices the Next Bubble?

17 Pages

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### Abstract

The strong rise in home prices since the mid-1990s has raised concerns over a possible bubble in the housing market and the effect of a sharp price decline on the U.S. economy. This article assesses two measures frequently cited to support a bubble - the rising price-to-income ratio and the declining rent-to-price ratio - and finds the measures to be flawed and the conclusions drawn from them unpersuasive. In particular, the measures do not fully account for the effects of declining nominal mortgage interest rates and fail to use appropriate home price indexes. The authors also estimate a structural model of the housing market and find that aggregate prices are not inconsistent with long-run demand fundamentals. Accordingly, they conclude that market fundamentals are strong enough to explain the recent path of home prices and that no bubble exists. Nevertheless, weakening fundamentals could have an impact on home values on the east and west coasts, where the new housing supply appears to be relatively inelastic. However, prices in these regions have typically been volatile, and previous declines have not had a sizable negative effect on the overall economy.

**Keywords:** home price bubble, home price indexes, housing market**JEL Classification:** R21, R31, E32[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN\\_ID634265\\_code387943.pdf?abstractid=634265&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID634265_code387943.pdf?abstractid=634265&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID634265\\_code387943.pdf?abstractid=634265&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID634265_code387943.pdf?abstractid=634265&mirid=1&type=2)

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