

Inflation and Bubbles in the Japanese Condominium Market

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We investigate the dynamics of condominium prices by using a new data set containing national and regional data on prices and transaction volumes for Japan. First, using left- and right-tailed integration methods to circumvent deficiencies in existing approaches for economic analyses, 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; notably, the increase of Chinese residents in Japan is one reason for the long-term trend in condominium prices. Third, we find that, among the explanatory variables considered, transaction volume, particularly the volume of purchases of companies from individuals, is relevant in explaining condominium price inflation. This suggests that there is asymmetric information between trader types.

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

JEL classification: R1, C5