

# **REAL ESTATE BUBBLES IN USA AN INDICATOR MODEL**

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## **ABSTRACT**

Recent real estate bubbles in USA have caused widespread havoc in the global financial sector. This paper uses US data from 1982 to 2007, to study the housing market and develop a bubble indicator model which predicts the probability of the occurrence of a bubble. Using ten year overlapping semi-annual time series data window, stationarity tests are conducted on house prices and fundamental factors such as rent and interest rates. Results show that the bubble indicator is high in the late 90's and is almost close to one during the period 2004-06 providing evidence of the models' robustness. It can be used to detect bubbles early and restore prices to fundamental levels.

Keywords: Real estate bubbles, fundamentals, stationarity tests.