Housing Boom and Bust Cycles:

Speed Does Matter For Sustainability

Ünay Tamgaç [a*] , Mustafa Eray Yücel [b]

April 2016

[a]*TOBB University of Economics and Technology, Ankara, Turkey*
[b]*Kadir Has University, Istanbul, Turkey*

Abstract

Our paper intends to investigate the "sustainability" of different phases of housing cycles. One of the main questions in the hearth of the literature is the determination of the factors that lead to the formation (boom) or dissolution (bust) of a housing price bubbles. We investigate this question by sub-dividing the boom episodes with respect to pace of price increases as "rapid" and "slow". Specifically we analyze the factors that affect the occurrence of rapid and slow house price boom and bust cycles. Second we extend the literature by determining how the time spent since the start of a phase affects the continuation probability of that phase by employing "duration analysis", a method specifically designed for the analysis of sustainability and duration dependence.

Focusing on the housing price cycles for 27 European countries and the US from 1995 to 2013 we query the importance of internal and external fundamentals and the duration of the phase for the continuation of the housing price cycles. An understanding of the foreseen pattern of duration dependence for different phases of house price movements will guide policy making and investment decisions and aid the development of early warning systems against the occurrence of housing boom-bust phases.

We show that rapid and slow price expansions exhibit different duration dependence; and that the speed of the price increase plays an important role for the continuation or ending of that phase. While the survival probability decreases with duration for rapid expansions, it increases for slow expansions. We find no time dependence for the dissolution phase.

Keywords: Duration analysis; House prices; Boom-bust cycles.

JEL Classification: F32; C41; G01, R31

[*] Corresponding author. Tel.: +90-532-2826752; fax: +90-312-292-4104.
E-mail address: utamgac@etu.edu.tr , unaytamgac@gmail.com