

Real Estate Bubbles Across the Decades

Stockholm (HedgeNordic) – The term “housing bubble” had not been used in the popular press prior to early 2000s, not even in the late 1980s, a time considered to have witnessed a number of severe housing bubbles. Today, however, this combination of words is used liberally to describe the behavior of housing prices. Everyone can recognize economic bubbles after they burst, and so can we. The main aim of this article is to discuss the root causes of some of the most economically-harmful housing bubbles that occurred in recent decades. Although only a handful are able to accurately identify soon-to-burst housing bubbles ahead of time, the article also makes an attempt to find an answer as to whether the Nordic countries are currently experiencing housing bubbles looming to burst.

Many thousands of articles and research papers have been written purporting to explain housing bubbles and their root causes. While researchers and economists provide various definitions of the term “bubble,” the basic institution behind this word is straightforward. As written by American economist Joseph E. Stiglitz in the early 1990s, “If the reason that the price is high today is only because investors believe that the selling price will be high tomorrow – when “fundamental” factors do not seem to justify such a price – then a bubble exists.”

One can attempt to determine whether a bubble exists by comparing actual house prices with theoretical house prices calculated based on a model of fundamentals.

Bubbles occur when public expectations of future price increases become exaggerated, thus, pushing up prices to unsustainable levels. When looking at the United States housing bubble leading up to the financial crisis of 2008-2009 and other episodes of housing bubbles, the question arises as to what causes these bubbles? As existing research has not yet reached consensus on what causes housing bubbles, a suitable approach to find an answer to the above mentioned question would be to study several real estate boom-and-bust cycles.

This article is part of our latest special report on Real Estate and Infrastructure. Read the rest of this article and more about the industry [here](#).