

“Bubble, Bubble, Where’s the Housing Bubble?”

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Discussions of whether a housing bubble exists generally rely on indirect barometers such as rapidly increasing prices, unrealistic expectations of future price increases, and rising ratios of housing price indexes to indexes of household income. Such measures cannot, however, answer the key question of whether housing prices are justified by the value of the services that a home provides. We show how to estimate the fundamental value of a home from rent data. We then apply this procedure in ten metropolitan areas, using a unique set of rent and sale price data for matched single-family homes. We do not find evidence of a bubble in most of these cities: under a variety of plausible assumptions, buying a home in these cities today still appears to be an attractive long-term investment.

JEL classification codes: G12, E39, R21