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Does Bubble Still Exist after COVID-19? Evidence from Hong Kong Housing Market

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Abstract

Purpose: COVID-19 pandemic has caused significant disruptions in the housing market. It created economic uncertainty and job losses, which substantially change decisions among investors and practitioners. Therefore, the work attempts to revisit the current housing bubble in Hong Kong and check whether the pandemic is a shock that leads to the end of the bubble. Our findings will be very useful in the formulation of housing policies.

Design / methodology / approach: In this paper, it adopts four different kinds of right tailed ADF test to check the existence of the housing bubble. It also allows us to figure out the starting and ending date of each housing bubble.

Findings: The findings of our paper show that the emergence of COVID-19 brought a huge negative shock to the housing market. Through the bubble testing technique, it is found that the recent bubble burst during COVID-19 pandemic. Also, under heavy reliance of highly leveraged mortgage loans, a surge of negative equity cases is reported after the burst of the bubble.

Originality / value: Compared to the prior studies, our paper makes use of real housing price, which is adjusted for the inflation, for detecting the housing bubble. It also discusses the selling strategies of developers during housing downturn.

Practical implications: This paper discusses the risk considerations associated with the housing bubble burst and provides useful policy recommendations on stabilizing housing market. As more negative equity cases are found, financial institutions need to manage the credit risk of mortgage loan portfolios.

Keywords: Housing bubble, right-tailed ADF test, COVID-19 pandemic, developers

JEL Classifications: R21, R31

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