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A Note on Testing for the Periodically Collapsing Bubbles in Japanese REIT Markets

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A B S T R A C T

This simple note tests for the presence of Evans' (1991) periodically collapsing bubbles of three real estate investment trust (REIT) classifications in Japan by employing the momentum threshold autoregressive (MTAR) model and the MTAR model with smooth transition in trend (i.e., the LNV-MTAR model). The results of the conventional linear unit root test show evidence of rational bubbles in Japanese REIT markets. However, the results of the MTAR and LNV-MTAR test show that periodically collapsing bubbles do not hold in Japan REIT markets. An important implication of this study is that if we neglect the nonlinear properties inherent in the data, then we are inclined to wrongly agree with the existence of speculative bubble based only on the conventional linear approaches.

Keywords: Present value model, Periodically collapsing bubble, Unit root, MTAR

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