

Firm-level analysis of bubble formation in Chinese real estate equities

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Abstract-

This study investigates evidence of bubble preponderance in China's real estate sector and seeks to identify the main determinants of exuberance in the equity prices of listed developers, relative to their dividend-based fundamentals. In contrast to the focus on property prices and rents that characterizes prior research, we emphasize real estate equity prices and firm-specific metrics. This shift in perspective, and the corresponding use of a dividend-based proxy, separates speculative-driven bubbles from those linked to fundamentals and thus enables us to better interpret the nature of exuberance as well as assess the alignment—or misalignment—between prices and fundamentals. Our empirical examination, based on the equity prices of 25 publicly listed developers included in the BICHODVP Chinese benchmark real estate index, detects bubbles in developer equity prices as well as the presence of common bubble dynamics among BICHODVP index components. Additionally, by incorporating firm-specific characteristics and macroeconomic variables, we provide a more granular understanding of how company characteristics—especially corporate valuation multiples and leverage—interact with broader market and policy conditions to generate equity price bubbles in the real estate sector.

Index Terms- Chinese real estate; Bubble determinants; Monetary policy; Equity price volatility; Leverage

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Citation:

Figuerola-Ferretti Garrigues, I.; Cueto, J.M.; Márquez, J.; Bermejo, R. "Firm-level analysis of bubble formation in Chinese real estate equities", Economic Modelling, vol.151, pp.107226-1-107226-25, October, 2025.