

# **Determinants of Housing Prices in Central and Eastern Europe**

## **Abstract**

House price developments have a large impact on the macroeconomic stability, an example of which is the recent global crisis, partially triggered by a house price boom and bust. This work attempts to explain the behavior of house prices in ten Central- and Eastern-European countries over the last decade using three main methods: graphical comparison of the characteristics of the housing markets, panel data analysis, and time series analysis. First, a cross-country comparison shows that owner occupation rate or migration indeed play a role while other factors apparently do not. Second, the results of using the Pooled Mean Group estimator on a panel of all countries confirm that real income and unemployment are in general significant determinants of house prices. In the third part of the empirical analysis, VAR or VEC models are used on several individual countries to evaluate the role of national capitals as price leaders for the rest of the country. These models are finally employed again to test for significance of other fundamentals in several countries. The diversity of results leads to the conclusion that house price determinants differ widely across the analyzed countries, although this may be partially attributable to the unavoidable issues of variable house price data quality and availability, which limit comparability of the results.

**JEL Classification:** C32, C33, C52, G21, P22, R21, R31

**Keywords:** Central and Eastern Europe, house prices, housing markets, time series analysis, price leader effect