

Global house prices since 1950*

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Abstract

What drives house prices? Applying a parsimonious structural model to house prices in 12 advanced economies since 1950, we show that expectations about future fundamentals were the key driver behind some major house price movements. In the model, the price of housing services is determined by the housing stock, population, income per capita, and housing consumption heterogeneity across age groups. These fundamentals contain persistent predictable components, inferred from data, affecting expectations. The estimated model accounts for the spectacular boom and bust in Japan, the boom starting in many countries in the early 1990s, and the recurrent cycles in house prices in Switzerland. A decomposition into the contributing factors is carried out.