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MODELLING HOUSING MARKET AND HOUSING PRICE DYNAMICS IN CROATIA

Abstract:

Since the beginning of this century, the Croatian housing market has passed through various stages of development. Roughly, trends in this housing market could be observed through three different phases. The first period encompasses the first eight years of this century and is characterized by stable and positive movements of supply and demand indicators. The year 2008 represents the turning point towards negative trends on the Croatian housing market. This was the beginning of a crisis which lasted seven years. During this period, the demand for housing units has fallen dramatically and supply of new housing units has grown at low rates. As a result of such market developments, housing prices have decreased. Negative trends persist until 2015, when stable increase of supply indicators is perceived. Thereafter, demand side of the market starts to recover, along with housing prices which begin to rise.

This research represents an attempt to identify the factors that have influenced the mentioned developments on the Croatian housing market. The significance of factors which are included in analysis is tested within the multiple regression framework. Special emphasis is placed on modelling housing prices dynamics. The results indicate that there are certain specificities of the Croatian housing market. For example, demand cannot be explained well by standard housing demand determinants. The low significance of the standard factors is even more pronounced in modelling supply side of the market. When observing the significance of housing prices in the supply and demand equations, the results show that lagged prices in both equations are statistically significant. Therefore, it can be concluded that expectations on housing market in Croatia are adaptive. Finally, supply and demand elasticities are observed as their comparison can potentially help in explaining cyclic movements in the housing market.

Keywords:

Housing Supply, Housing Demand, Housing Prices, Multiple Regression Analysis, Adaptive Expectations

JEL Classification: R31, R21, R30