Abstract

This paper attempts to explain the determinants of intertemporal variations in housing prices in Cyprus over the last nine years. The analysis focuses on explaining quarterly percentage changes in the House Price Index published by the Central Bank of Cyprus. After estimating several alternative specifications we were able to explain about 70% of the quarterly percentage changes in Cyprus house prices. Our findings indicate that nominal GDP per capita, and, alternatively, nominal GDP, have the largest impact on prices followed by construction costs and the number of households. Interest rates were found to have the smallest effect. The results provide also indications of an asymmetric effect of GDP on house prices before and after the Lehman Brothers collapse. We believe that the considerably stronger effect of GDP on house prices during the pre-crisis period was due to the abundance of both equity and debt capital for house purchases.

Keywords: Cyprus housing market, House prices, Macroeconomic determinants, Housing market, Real estate market, House price determinants.