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Panel analysis of home prices in the primary and secondary market in 17 regional cities in Poland

We analyse the local determinants of house prices in the primary and secondary market of 17 regional cities in Poland during the period 2002-2013. We find that prices are driven by fundamentals, such as income growth or rise in employment, as well as by the increase in loan availability, that was mostly driven by low interest rates resulting from FX denominated housing loans that were granted since 2006. Moreover, we confirm empirically that the house appreciation in the past period has a strong effect on the current price, which confirms herding behaviour in the housing market. Another finding is that the primary market has a stronger effect on the secondary market than the other way around. Finally, we find that price increases in Warsaw spill over to primary markets of 16 regional cities, but we do not observe this for the secondary market. This finding is consistent with the contagion theory in the real estate market, according to which price increases in the centre lead to price increases in the periphery.