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DRIVERS OF PROPERTY PRICES IN EUROPE

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1. Executive Summary

The European property market is influenced by a complex interplay of demographic, macroeconomic and policy forces which collectively determine real property prices across its diverse regional fragments. This report examines the key determinants of real property prices across Europe. Furthermore, it will contextualise the region's real estate market within its broad economic, policy and social context. Key insights demonstrate how macroeconomic conditions, such as interest rates, inflation, GDP growth, and credit conditions, exerted the strongest demand side influence on property prices, closely followed by demographic factors including urbanisation, migration and population ageing. Inelastic supply of property is also proven to be an intensifier of price shocks from demand factors. Policy and regulatory intervention also play a critical role in shaping property market dynamics across Europe.

2. Introduction

This report investigates the key drivers of property prices in Europe. Understanding the relationship between key drivers of property prices and the overall real estate market, including demographics, interest rates, the economic cycle and government policies, is crucial for investors and stakeholders to assess market trends, identify opportunities and manage potential risks. Moreover, these drivers directly influence making informed and strategic property investment decisions (Nguyen, 2025).

For the purpose of this report, Europe refers to the European union consisting of 27 countries (Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden) and references to broader regions including the UK and Turkey.

To discuss the influence of these key drivers, this report will utilise demand-supply models, interest rate theory, and urban growth models. According to a study conducted by Vansteenkiste (2011), changes in housing prices have been found to have a real, if limited, potential to cross borders and affect neighbouring regions' housing markets largely due to economic fundamentals, including interest rates and income changes. For the European area, the housing markets are interconnected, where interest rates and financial conditions, including economic wealth and proximity, have been found to drive housing market prices, especially since the euro was introduced.

Belke (2018) emphasises that the broader framework of financial integration and monetary unification must be taken into consideration when analysing the factors influencing real estate prices in Europe. Common interest-rate policy, cross-border loan flows, and institutional convergence under the European Central Bank (ECB) have all had a greater impact on national housing markets since the creation of the European Monetary Union (EMU). The main macroeconomic factors influencing real estate prices in Europe's interconnected financial and monetary system are examined in this paper. Investors, policymakers, and analysts who want to understand market dynamics and manage risks to the system must comprehend how such factors interact with conventional variables like interest rates, income, credit availability, and fiscal policy.

According to Belke (2018), a shared monetary policy implemented by the European Central Bank since the establishment of the European Monetary Union (EMU) has brought financial circumstances across member states together, but it has also resulted in unequal housing outcomes. Particularly in more robust economies like Ireland and Spain, credit-driven increases in real estate prices have been fuelled by low

interest rates and plentiful liquidity. Cross-border capital flows from surplus to deficit nations have also accelerated housing cycles, demonstrating how financial interdependence and monetary integration have taken centre stage as the primary forces influencing real estate values throughout Europe.

This report provides a comprehensive analysis of the key determinants of real property prices across Europe. First, it will introduce the analysis by contextualising European property markets and the motivation for the research. An overview of the European market outlines historical trends, regional variability, the post-COVID market and different investment vehicles, which is followed by macroeconomic drivers, including GDP growth, inflation, interest rates, credit conditions and foreign investment. Demographic and social trends such as population growth, migration and consumer preferences are analysed. Subsequently, policy, regulatory, and institutional influences, including EU and national housing policy, monetary policy, taxation and green building standards, are considered. The report further explores market and investment drivers, focusing on supply elasticity and investor behaviour. Thereafter, applied case studies will be utilised to illustrate key drivers in specific European contexts. Finally, the report concludes by synthesising insights and highlighting potential implications for investors, policymakers and other stakeholders. All of which is supported by a comprehensive set of references.

3. Overview of the European Property Market

3.1. Cities in Europe: Historical Trends (Asal, 2018)

Asal (2018) offers an empirical examination of real estate market patterns in key European cities, emphasising the stark differences in housing costs between nations and urban areas during the early 2000s. According to the report, both nominal and real property prices are generally on the rise across Europe, with Sweden, Norway, the United Kingdom, and portions of Central and Eastern Europe seeing the biggest and longest-lasting increases.

Real house prices in Sweden, the subject of Asal's research, increased steadily between 1986 and 2016, with the exception of a brief lull during the global financial crisis. Income growth, population growth, low mortgage rates, and quick credit expansion were the main drivers of this long-term appreciation, which was consistent with a larger European trend in which financial liberalisation and monetary easing have increased demand for housing. The study also points out that the highest price increases were seen in urban areas like Stockholm, London, and Amsterdam, which were supported by high employment, a shortage of available land, and robust investor demand.

Price-to-income and price-to-rent ratios in numerous European capitals hit historically high levels in the 2010s, according to comparative data. As an illustration of possible speculative pressures, Asal (2018) shows that Swedish housing was overpriced by roughly 150–170% in comparison to long-term income and rent standards. These overvaluation patterns are prevalent in a number of European cities, demonstrating the unequal regional expansion and urban concentration of capital in integrated housing markets.

Overall, Asal's research suggests that property markets are becoming increasingly spatially divided, with secondary and rural locations showing more steady or moderate growth and large urban areas seeing persistent appreciation and affordability issues. Within the larger framework of European financial integration, these disparities highlight the significance of local economic factors, such as job density, migration trends, and infrastructure investment.

3.2. Overview of History and Regional Variability (Barksenius & Rundell, 2012)

With a focus on the Swedish real estate market, Barksenius and Rundell (2012) offer a historical perspective on regional housing-market diversity throughout Northern and Western Europe. They examine the evolution of Swedish real estate prices in connection with macroeconomic conditions and larger European economic cycles using quarterly data from 1987 to 2011.

After credit deregulation and an overheated real estate boom, Sweden and other Nordic nations had a severe housing correction in the late 1980s and early 1990s. The 2000s saw a protracted recovery that was aided by low interest rates, growing household earnings, and growing financial wealth.

The analysis by Barksenius and Rundell emphasises how Northern and Southern Europe differ from one another: While economies in Southern Europe, like Spain and Portugal, saw more noticeable recessions and booms linked to external loan inflows, Northern and Western European nations showed more steady long-term growth backed by better institutions and lower volatility. The variety of European property markets, where varying national fundamentals and financial institutions interact with common monetary conditions, is demonstrated by this regional comparison.

In summary, Asal (2018) and Barksenius & Rundell (2012) jointly demonstrate how Europe's real estate markets have grown increasingly institutionally and spatially divided. While peripheral areas continue to be more reliant on regional economic cycles, urban centres in Northern and Western Europe have spearheaded persistent price increases propelled by income growth, credit expansion, and investment inflows.

Regional differences nevertheless exist despite shared exposure to European monetary policy; these differences are a result of structural differences in taxes, supply elasticity, and population demand. The combined data demonstrate that post-EMU housing markets are no longer homogeneous but rather exhibit city-specific dynamics within an integrated financial system, where local real estate outcomes are influenced by both regional and global influences at the same time.

3.3. Europe's Post-COVID Market

The European property market has demonstrated significant volatility in recent years, largely stemming from the economic effects of the COVID-19 pandemic. The 2019-2022 period was characterised by a unique combination of demand-side pressures and supply-side constraints. Factors including housing shortages, a heightened demand for space, expansive government subsidies, and an environment of ultra-low interest rates collectively fuelled rapid price appreciation.

In Lithuania, for instance, these conditions contributed to a nominal housing price increase of approximately 50 percent (Cevik & Naik, 2023). This boom was further supported by broad-based income growth, which bolstered household purchasing power. Cevik and Naik (2023) described this period as containing "long and multiple periods of explosive behaviour," which are characteristic of market bubbles.

However, this trajectory has been sharply curbed post-2022. The implementation of contractionary monetary policy to combat inflation, primarily through rapid interest rate hikes, has cooled demand. This pattern of monetary tightening is not isolated to one region; it has been observed across Europe in countries such as Spain, France, Portugal, and the UK (PropertyInvestorToday, 2025). Consequently, many markets have experienced nominal property price decreases of between 5 and 10 percent.

Despite these price drops, overall affordability has not improved. The benefit of lower nominal prices has been largely offset by the escalating cost of borrowing, with the total expense of purchasing property reportedly remaining around 40% higher than in the 2019-2022 market.

This reduction in purchasing affordability has triggered a significant shift in demand from homeownership towards the rental sector. Markets in Germany and the Netherlands, for example, are experiencing a notable increase in demand for rental properties (PropertyInvestorToday, 2025). This, in turn, is exerting upward pressure on rental prices, placing younger generations in a difficult position, caught between increasingly unaffordable mortgages and soaring rents.

3.4. Market Access and Investment Vehicles

Several investment vehicles are available to access the European real estate market, and each one reacts differently to the market segmentation patterns noted by Barksenius & Rundell (2012) and Asal (2018):

Direct Property Investment: In major cities like Stockholm, London, and Paris, where high-net-worth individuals and institutional investors buy office skyscrapers, apartment complexes, or mixed-use developments, direct ownership continues to be the most common manner of property investment. According to Asal (2018), these metropolitan markets have seen large inflows of foreign capital, which has increased prices and made affordability issues worse. Although direct ownership is capital-intensive and illiquid, it provides control and stability and reflects the "sticky" pricing dynamics and ongoing appreciation present in large European cities.

Unlisted Property Funds: After the post-EMU liquidity expansion and the integration of European financial markets, unlisted property funds emerged as a key means of combining institutional investment into dependable industries such as multifamily housing, retail parks, and logistics. The core and core-plus investing methods commonly employed by these funds are consistent with the stable returns seen in the office and residential markets of Northern Europe (Barksenius & Rundell, 2012).

Listed Property Investments (REITs and REOCs): Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs) offer liquid exposure to property performance in highly financialised economies like the UK, France, and the Netherlands. The financial liberalisation of Europe helps these vehicles by enabling investors to profit indirectly from housing market gains through equity markets.

4. Macroeconomic Drivers.

4.1. Overview

This report section examines the macroeconomic drivers of the property market, including the impact of GDP growth, income levels, interest rates, and inflation, as well as employment, productivity levels and cross-border capital exchanges, particularly influential across European property markets. Analyses of available empirical evidence suggest that housing markets across this specific region respond to both real economic factors, including income and employment levels, as well as financial drivers such as credit conditions and interest rates, aiding in the understanding of implications both affordability and financial stability pose for housing prices (Belke, 2018; Vansteenkiste & Hiebert, 2011).

4.2. Macroeconomic Context: Economic Growth, Income, and Credit

There is evidence to suggest a positive relationship between income and GDP levels, with housing demand and prices. Broadly, the property market is a key contributor to an economy but also a source of financial crises and exposes the vulnerability of the banking sector (Vogiazas and Alexiou, 2017).

Due to this influence, property price fluctuations and detections of housing price bubbles are a key concern of contemporary macroeconomic research, and the importance of including housing prices in business cycle analysis cannot be understated (Vogiazas and Alexiou, 2017; Hlavacek and Komarek, 2012). Understanding these macroeconomic dynamics provides insight into how economic expansion, credit availability, and income growth collectively influence property prices and financial stability across Europe.

Understanding the dynamics of housing prices and the detection of deviations from fundamental thresholds indicates the interrelationship between housing prices, credit access and creation, and long-term bond yields as well as real effective exchange rates (Koetter and Poghosyan, 2009). Housing bubble detection techniques can provide significant warning of overvaluations for regulators, as housing bubbles are largely synchronised with excessive credit creation, coinciding with the business cycle (Vogiazas and Alexiou, 2017). However, there is regional variation evident in these empirical studies, highlighting the importance of studying country-specific demand and supply factors of housing cycles. Therefore, macroprudential tools used by central banks should be calibrated with the pace of economic growth and credit creation, with consideration of real effective exchange rates.

Koetter and Poghosyan (2009) analyse two competing views underpinning the relationship between real estate markets and bank distress in the context of Germany. These views include the *collateral value* hypothesis, which suggests a negative relationship exists between rising nominal housing prices and the probability of bank distress, as increased collateral values strengthen borrowers' financial positions. The *deviation hypothesis* suggests that housing prices deviating from fundamental thresholds jeopardise bank stability due to excessive risky lending practices. While this study pertains to a brief period in Germany that might not constitute a significant overheating or housing bubble, it sheds light on how macroeconomic variables influence real estate price deviations from fundamental values rather than price levels alone. Although Germany's real estate market is characterised by moderate price developments, there is still evidence of deviations from fundamental values across regions, indicating that even relatively stable markets are not immune to cyclical imbalances.

Comparatively, Hlavacek and Komarek (2012) examine property price determinants evident in the Czech Regions, shedding light on demographic and macroeconomic factors directly influencing property prices. However, the results of cost factors were seemingly mixed, with land prices shown to be significant across a time series but less so in panel regression. In contrast, unemployment rates and wage growth were found to be more influential demand-side factors. Importantly, this study identified overvalued property price periods in 2002–2003 and 2007–2008, largely explained by macroeconomic fundamentals such as income growth, credit expansion, and the effects of the global financial crisis. Across individual regions, overvaluation tended to coincide with higher price levels, though some exceptions existed, such as Prague, which appeared undervalued due to methodological estimation.

The findings of Hlavacek and Komarek (2012) also pertain to methodological insight considered by Sayin and Duran (2022), who argue that traditional cross-sectional studies and time series analysis fail to capture macro-dynamics and spatial dimensions of property markets. By adopting a balanced panel data framework to capture a wide array of variables, including both structural and demographic as well as macroeconomic variables, together drive price formation. Through examination of dynamics of Izmir's housing prices using balanced panel data, their results support the theory that property markets are largely shaped by an integrated system of economic, spatial, and financial factors, which reinforces the multi-dimensional nature of macroeconomic drivers in the housing market (Sayin and Duran, 2022).

Additionally, according to Koetter and Poghosyan (2009), adjustment speeds for property prices are low, which aligns with US-based findings. This suggests that the relationship between macroeconomic conditions and real estate price levels interacts over extended periods of time rather than adjusting immediately. Lags in deviations from fundamentals contribute significantly to both universal and specialised banks' probability of distress, as real estate imbalances affect bank stability through cost efficiency, credit shares, and liquidity exposure. These findings underpin the importance of close monitoring of macroeconomic performance, property market cycles, and financial sector resilience.

4.3. GDP and the Dynamics of the Housing Market

According to Belke (2018), one of the main real-sector factors affecting housing demand throughout the euro area is GDP growth. Growing GDP is a sign of increasing income, employment, and consumer confidence, all of which boost real estate and residential investment. According to the study, trade and financial ties cause GDP variations in member states to become more synchronised within the framework of European monetary integration. Because of this synchronisation, favourable output shocks in core economies like France or Germany can have a knock-on effect on property markets in periphery nations by increasing demand for investments and capital inflows.

However, Belke (2018) cautions that the ECB's one-size-fits-all policy rate exacerbates cyclical inequalities. During periods of strong aggregate GDP growth, low interest rates meant to support weaker economies may overstimulate real estate markets in rapidly expanding regions, leading to an increase in asset-price inflation. On the other hand, the lack of country-specific monetary adjustment can make housing contractions worse during recessions. Therefore, GDP growth under a shared monetary system indirectly affects home prices through channels of aggregate demand and policy asymmetry.

4.4. Real Asset Valuation and Inflation

In Belke's (2018) approach, inflation serves as a determinant of real estate valuation as well as a policy target. Long-term interest rates and expectations throughout the eurozone are anchored by the ECB's goal of keeping inflation "below but close to 2%." Real borrowing costs are decreased and demand for housing assets is raised when stable inflation supports predictable financing conditions and reduced nominal mortgage rates.

Belke further notes that as a hedge against possible monetary depreciation, households and investors shifted their portfolios toward real assets like real estate due to persistently low inflation or deflationary pressure, particularly during the post-2008 crisis and quantitative-easing period. As a result, asset-price inflation without commensurate wage or output growth was produced by muted inflation and excess liquidity. Several member nations became concerned about housing bubbles as a result of this disparity.

Furthermore, because nominal policy rates were uniform, actual interest-rate circumstances were impacted by inflation differences among euro area nations. Real borrowing rates continued to decline in high-inflation economies, which heightened demand for housing in comparison to members with lower inflation.

4.5. Macroeconomic Context: Employment and Productivity

Positive job creation and access to employment are argued to be the primary drivers of the bid-rent gradient and a key determinant of land values and housing prices. (Agnew & Lyons, 2018). Moreover, this is due to more job opportunities in a region, leading to higher demand for housing and commercial

space. In addition, people and businesses are willing to pay more to live closer to employment hubs. However, Agnew & Lyons (2018) note that due to the problem of identification, less is known about the ‘causal effect’ of employment on housing prices.

4.6. Macroeconomic Context: Foreign Investment

Institutional investors are seen to create a demand shock in the aggregate euro area, which results in persistent and positive mortgage lending volumes and housing price growth (Bandoni et al., 2024)

In *Duca et al.* (2021), global liquidity shocks and international capital inflows during the early to mid-2000s are seen to be major external drivers of property prices in Europe. Furthermore, the supply of plentiful cheap credit through cross-border funding magnified the housing boom, and when capital flows reversed in the 2008 financial crisis, causing deep property price declines or busts. Moreover, it could be argued that over-reliance on international capital is inherently fragile, and macroprudential oversight should be utilised to prevent external foreign-fuelled bubbles.

5. Demographic and Social Drivers

Urban housing markets are driven not only by macroeconomic and financial factors but also largely driven by demographic and social forces, which influence household decision-making. Urbanisation trends, population dynamics, household formation, and cultural preferences contribute to long-term patterns in housing demand and affordability. While these factors interact with macroeconomic drivers and financial sectors to produce spatial disparities in property values across European regions, the housing markets are as much of a social study as they are financial and less monomaniacal methods are needed to capture decision-making behaviour.

5.1. Urban Expansion and Migration Trends in Europe

The rise of urban centres across Europe significantly shapes property values, as people flock to cities like Vilnius from rural Lithuania, straining the housing market due to lingering effects of its past planned economy that limited housing supply (Cohen and Karpaviciute, 2016). Similarly, Istanbul’s unique layout across the Bosphorus sees business activity cluster on the European side while the Asian side attracts more residents, driving price differences based on location and cultural draw (Ebru and Eban, 2011). This urban growth often outpaces infrastructure, pushing costs higher in sought-after areas. On the migration front, Lithuania faces outward movement due to economic woes, which doesn’t directly alter prices, more tied to GDP and jobs, but may ease urban demand over time (Cohen and Karpaviciute, 2016). Meanwhile, Istanbul draws internal and foreign movers to desirable neighbourhoods, where cultural appeal and location boost prices despite some local drawbacks (Ebru and Eban, 2011). These shifts highlight how both urban expansion and population flows create uneven property price landscapes across Europe, especially in cities with rich historical roots.

5.2. Theoretical foundations and social dimensions

Richardson, Vipond and Furbey (1974) aim to assess factors which explain differences in urban housing prices to test which residential location theories, such as distance, accessibility, environment, or housing characteristics, might best describe price variations across a city. The study identifies housing characteristics, spatial factors, accessibility, and environmental quality as key determinants of urban house prices. However, findings suggest that no single residential location theory can fully explain price variation, as the trade-off between price and quality reflects a complex set of interacting factors (Richardson et al., 1974). The study’s indirect connection to household decision-making highlights the need for behaviourist approaches and microeconomic data, such as income and expenditure patterns, to

more accurately capture housing choice and location behaviour. Data on income, expenditure, and lifestyle preferences may bridge spatial economics frameworks and social behaviour to indicate that property prices are embedded with patterns of urban development and movement (Richardson et al., 1974).

5.3. Population and Migration Effects on Property Prices

For the European housing market, beyond the fluctuations caused by economic conditions, demographic and social trends drive the fundamental changes in housing demand. The size, location and type of housing needed put a huge amount of pressure on the supply of available homes, and population growth is essentially the number one reason why.

According to the Swiss housing economy study by Borowiecki (2009), population is one of the two factors that most affect the growth of real house prices and the construction of new buildings. As research has shown, the jolt to the housing market has been caused by a change in the number of individuals in a region, which has a much more significant and lasting impact than changes in the overall economy. This underscores that the simple increase in the number of people requiring housing is a primary engine of price appreciation (Borowiecki, 2009).

However, national-level population figures mask the crucial local-level dynamics of migration and urbanisation. A Polish market analysis by Cellmer and Belej (2020) brought this to light, demonstrating that social factors like migration balances and population density can affect the price of homes in various ways depending on the area. This is due to individuals moving to larger cities, creating hotspots of high demand and causing prices in cities to diverge sharply from the national average.

This trend is not limited to residential property. The finding that employment is a key determinant of commercial property values (Dobson and Goddard, 1992) is intrinsically linked to migration. People move to specific locations for work, simultaneously fuelling demand for both residential and commercial real estate in those economic hubs.

Together, these drivers show that while a growing population increases the overall need for housing, it is the pattern of this growth, driven by migration toward urban employment centres, that shapes the modern European property landscape and explains the stark price divergence between expanding cities and other regions.

5.4. Cultural and social preferences

The European housing markets are broadly shaped by shifting cultural norms surrounding homeownership and renting, as residential choice can primarily be viewed through a lens of economic and spatial trade-offs, as more contemporary evidence highlights the growing importance of lifestyle preferences, mobility, and generational views (Richardson et al., 1974). For instance, in cities with high housing costs and limited supply, such as Berlin or Paris, renting is socially and economically viable in comparison to ownership, indicating evolving household priorities and the influence of rental markets driving property prices. These demographic and social drivers indicate that property prices exist in the context of market forces largely influenced by shifting social realities where income, demographics, urbanisation, and cultural preferences shape Europe's housing market (Richardson et al., 1974).

5.5. Econometric application

Drawing from the above study, we can piece together a multiple regression model to see how demographic and social factors shape property prices (Y_p), written as $Y = \beta_0 + \beta_1(\text{Population Growth})$

+ β_2 (Urbanisation Rate) + β_3 (Emigration) + β_4 (Working-Class Population) + β_5 (Location Side as Urban Proxy) + ε , where each β shows the unique effect of a factor when others stay the same.

In Switzerland (Borowiecki, 2009), a 1% population growth (focusing on the 20-64 age group) increases real house prices by about 2% (coefficient 2.055, $p < 0.05$, solid evidence), reflecting tight supply pushing demand. In Poland (Cellmer & Belej, 2020), urbanization (tracked via population density) doesn't show a clear national effect on prices (coefficient 0.058, $p = 0.413$, not significant), but locally it can jump to 1.857 in busy urban spots (significant where $|t| > 1.96$), while it strongly lifts transaction numbers by 2.823 per 1000 apartments ($p < 0.001$, very significant) with a 1-unit density increase. Emigration in Lithuania (Cohen & Karpaviciute, 2016) doesn't seem to move the needle on prices (Granger $F = 3.439$, $p = 0.0695 > 0.05$, not significant), and the working-age share in Poland (a social proxy) can drag prices down by -149.301 in some regions (significant where $|t| > 1.96$) due to labour shifts, with a weaker -0.299 effect on activity (mostly not significant). In Istanbul (Ebru & Eban, 2011), the location side (a stand-in for urban/migration patterns) lowers prices on the Asian side (significant across quantiles, per abstract), favouring the European side's urban pull. Overall, population growth and urbanisation tend to drive prices up where they matter, though the uneven significance shows it's all about the local context.

6. Policy, Regulation, and Institutional Drivers

6.1. Policy Landscape of European Housing Markets

At the neighbourhood scale, Sayin et al. (2022) highlight the spatial heterogeneity of housing markets and the policy relevance of neighbourhood-level data for urban planning. Their research demonstrates that both housing structure and neighbourhood characteristics are deeply interlinked with planning and development outcomes. Integrating spatial modelling results in higher-level planning decisions and could therefore promote more balanced urban growth, while applying similar insights to local construction and land-use regulations could refine micro-level housing policy design. Given the strong interdependence among neighbourhoods, housing and planning policies should be coordinated across districts rather than implemented in isolation.

Accessibility factors, such as proximity to education, healthcare, and central business districts, were found to correlate with lower affordability in highly accessible areas, reinforcing the need for targeted affordability support in high-demand zones. To address spatial inequality, municipalities could adopt metropolitan-scale strategies for land use, transport, and infrastructure investment to reduce concentrated price inflation. Moreover, as higher-income and well-educated districts disproportionately benefit from urban services and value appreciation, Sayin et al. (2022) propose housing subsidies and inclusionary zoning as effective policy tools to counteract spatial disparities predicted by bid-rent theory.

Zoning restrictions, often referred to as land-use restrictions, are identified as significant regulatory drivers affecting property supply and prices. In addition to considerations like population size and infrastructure quality, Bischoff (2012) finds that land-use limitations limit the supply of building land, which raises equilibrium costs in high-demand locations and explains regional price discrepancies in Germany. In a similar vein, Cunha and Lobao (2021) reference research (e.g., Case and Shiller, 1990; Potepan, 1996) that highlights land-use restrictions as a factor that influences property values at the urban level, causing inefficiencies and momentum in European markets.

For policymakers, these findings underscore the need for data-informed coordination between monetary, fiscal, and spatial planning policies. Aligning interest rate, credit, and inflation measures can mitigate speculative cycles, as both rising mortgage rates and inflationary pressures directly affect the sensitive balance between macroeconomic stability and housing demand. Furthermore, the demonstrated significance of spatial spillovers supports the adoption of geospatial data and modelling tools in local housing policy to detect emerging hotspots and guide targeted public investment. Risk sources related to policy uncertainty or strict regulation of land-use limitations contribute to regulatory and political risk.

6.2. Monetary policy and financial stability

The COVID-19 pandemic provided a unique setting to examine how housing prices rose despite economic contraction, rising unemployment, and widespread uncertainty. Yiu (2021) tests the real interest rate hypothesis, finding that declines in real (inflation-adjusted) interest rates drive higher property prices through cheaper credit and elevated asset valuations. Using quarterly panel data across five advanced economies, including the European Union, Yiu (2021) controls for GDP, unemployment, and country-specific effects to isolate the influence of real interest rate fluctuations before and during the pandemic.

Key findings of the study indicate that a decrease in real interest rates is closely associated with an increase in housing prices (Yiu, 2021). The results confirm that a 1% decline in real interest rates corresponds with an approximate 1.5% rise in housing prices, with consistent effects across all countries studied. However, during the pandemic, the effects of economic output and unemployment rates were muted due to limited explanatory power as macroeconomic fundamentals were overshadowed by monetary and credit conditions. These findings confirm that expansionary monetary policy creates synchronised global housing cycles, magnifying both booms and busts. The property cycle poses significant policy implications if bubbles are created due to lower interest rates and credit expansion going largely unchecked or unregulated. Central banks should also utilise macroprudential tools such as stricter lending criteria or capital buffers to prevent market overheating (Vogiazas and Alexiou, 2017).

From a policy perspective, this relationship reveals critical trade-offs. Persistently low real interest rates, while intended to stimulate economic recovery, have exacerbated housing affordability crises, as property values outpaced income growth (Yiu, 2021). Policymakers therefore face the trade-off of supporting recovery without inflating asset values. Central banks and regulators should employ macroprudential tools, such as lower loan-to-value (LTV) limits and tighter debt-to-income (DTI) ratios, to restrain speculative borrowing and maintain financial stability. Coordinated fiscal measures, including targeted housing subsidies or progressive tax reforms, could also address the distributional effects of accommodative monetary policy and reduce widening wealth inequalities (Sayin et al., 2022; Yiu, 2021).

Finally, Yiu (2021) stresses the importance of policy transparency and forward guidance, recommending that central banks communicate clearly regarding policy duration and exit strategies. Enhanced communication can temper speculative behaviour, stabilise expectations, and strengthen confidence in housing markets. Ultimately, monetary policy cannot operate in isolation without complementary macroprudential and fiscal measures, efforts to stabilise growth risk deepening affordability challenges and heightening systemic financial vulnerability.

As evidenced by research connecting interest rates to macroeconomic channels like credit growth, Cunha and Lobao (2021) concludes that interest rates have a major impact on real estate prices at the EU, national (like Portugal), and metropolitan levels. Lower rates increase demand and contribute to price momentum. With differences brought on by MID interactions, Damen et al. (2016) incorporates declining interest rates into affordability to pay (ATP) models and demonstrates how they improve borrowing capacity and property prices in OECD nations. Interest rates are included in equilibrium models for German areas by Bischoff (2012), who also highlights how they affect the production and consumption of housing; and makes an indirect reference to public investment through the quality of infrastructure, which reduces regional pricing inequalities by enhancing productivity and amenity.

6.3. Taxation Incentives

Through mortgage interest deduction (MID) policies, tax incentives have a significant role in influencing property prices. Damen et al. (2016) demonstrate that MID improves household affordability by lowering the effective cost of borrowing, which increases property values as borrowers take advantage of the financial advantages to take out larger loans and buy more higher-priced properties. According to the study, variations in the tax rate at which mortgage interest is deductible, which differ among nations such as the United States, the United Kingdom, Belgium, the Netherlands, Sweden, Norway, Finland, and Denmark, cause regime shifts that accelerate price growth. As a result of borrowing restrictions and impatience, full capitalisation frequently surpasses the net present value of tax benefits.

REITs in Europe enjoy substantial tax breaks intended to promote property investment while abiding by stringent regulations. The majority of European nations, including the UK, France, and the Netherlands, grant REITs exemption from corporate income tax at the company level as long as they distribute at least 90% (in the UK, Netherlands, and France) or 85% (in France) of their taxable income as dividends to shareholders. National regulators monitor compliance, guaranteeing transparency and conformity to EU fiscal policy, but because national frameworks vary, cross-border tax treatment is nevertheless complex.

6.4. Green Building Regulations and the Green Premium

The European Union has ambitious climate and energy goals, and alongside this, many Energy Performance of Buildings Directive (EPBD) mandates have come into place to increase green building practices. Furthermore, it is argued that superior asset performance, long-term resilience and operational efficiency result in green buildings having a 10-20% sales price premium, when compared to their non-green counterparts, in a competitive urban environment (SIERA, n.d.).

7. Market and Investment Drivers

7.1. Market dynamics

As indicated, European property markets are not only shaped by macroeconomic fundamentals but also by investor behaviour, the structure of the financial sector, and shifts in capital flows. Investor sentiment, construction and supply dynamics, technological innovation and cross-border capital flow collectively influence property price fluctuations. These forces interact with monetary and fiscal policy, regulation, and macroeconomic conditions to produce cyclical fluctuations, directly influencing not only the behaviour and stability of the market but also investment attraction. Financial institutions and investor sentiment, along with capital markets, shape the property market across Europe.

7.2. Investor and risk perception

The health of financial systems, including investor sentiment, remains an essential driver of European property cycles. Koetter and Poghosyan (2010) emphasise the feedback loop between bank credit expansion and market expectations, as higher property values enhance collateral, enabling further borrowing and fuelling speculative investment. Similarly, Vogiazas and Alexiou (2017) demonstrate that the resilience and credit availability of the banking sector are key determinants of investor confidence, as liquidity conditions directly influence risk perception and investment appetite. These findings underpin the notion that, beyond macroeconomic conditions, financial and institutional confidence interact with psychological factors in shaping real estate market outcomes.

Koetter and Poghosyan (2010) further examine how housing price changes and deviations from fundamental values influence bank stability. They distinguish between two conceptual frameworks: the collateral value hypothesis and the deviation hypothesis. Under the collateral value hypothesis, rising housing prices increase borrowers' collateral value, leading to fewer loan defaults and greater bank stability. In contrast, the deviation hypothesis posits that when housing prices rise faster than income, diverging from their real economic value, this signals a speculative bubble. In such periods, banks tend to over-lend to risky borrowers, heightening the probability of instability when prices fall following the bubble's collapse. While nominal house prices alone may not predict financial distress, deviations from fundamental values significantly elevate systemic risk. Other determinants of bank stability identified by Koetter and Poghosyan (2010) include capital flow, profitability, cost efficiency, liquidity management, and regional economic differences. Notably, their findings indicate no significant distinction in risk exposure between universal and specialised banks.

Complementing these insights, Vogiazas and Alexiou (2017) examine housing price determinants across advanced European economies to detect speculative bubbles and cyclical vulnerabilities. Their results reveal that property prices fluctuate with both macroeconomic fundamentals, such as GDP growth and interest rates, and financial variables, including bank credit. Seeking to identify which factors most strongly influence property prices and how the market interacts with business cycles, the study highlights a robust positive relationship between credit expansion and housing price growth. As banks extend more loans, borrowing becomes easier, stimulating housing demand and driving prices upward. Conversely, higher long-term bond yields tend to lower housing prices, whereas lower interest rates encourage borrowing and fuel demand.

Moreover, perceptions of demographic hazards, such as population aging, which is frequently disregarded and may slow the growth of property prices in areas with high old-age dependency ratios, can have a significant impact on investor mood in urban housing markets. In order to minimize any decreases in property values and preserve financial stability, investors may reevaluate prospects and choose regions with younger populations as a result of this risk perception (Hiller and Lerbs, 2016).

Together, these findings demonstrate that European property market dynamics are deeply entwined with investor sentiment, credit conditions, demographic risks and institutional stability. Banking sector health not only shapes the flow of capital into real estate but also amplifies or constrains housing market cycles through its interaction with investor sentiment and macroeconomic performance.

7.3. Supply Constraints

Duca et al. (2021) defines supply elasticity as how responsive new housing construction or stock is to changes in real housing prices. Moreover, they note the role of housing supply elasticity as a determination factor of property prices. Furthermore, below Figures 1 and 2 both demonstrate how structural supply rigidity, seen especially for the UK, Spain and Ireland, intensifies the price impact of

demand shocks. In contrast, countries like Germany and Finland, where demand is more elastic, are better able to absorb demand and reduce large price swings. Hence, supply variability amongst regions stands as a key explanation for differing amplitudes of European housing cycles.

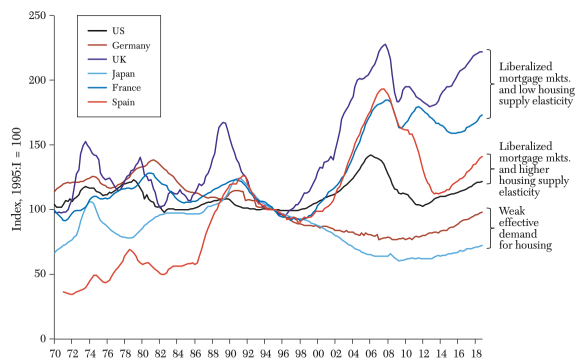


Figure 2. House Price-to-Rent Ratios in Major Advanced Economies Reflect Differences in Supply Elasticities and Longer-Term Demand

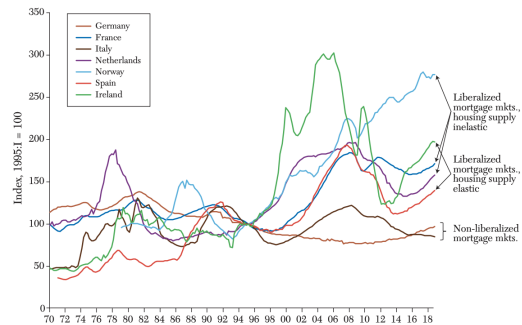


Figure 3. European House Price-to-Rent Ratios Also Reflect Differences in Supply Elasticities as Well as Changing Mortgage Lending Standards and Economic Conditions

Figures 1 and 2. (Duca et al., 2021)

In closing, it is argued that the elasticity of supply is a strong determinant of how prices adjust to shifts in demand fundamentals. Therefore, it is noted that supply elasticity is a multiplier of other drivers, as opposed to an independent variable. Consequently, when testing drivers of European housing prices, supply constraints should be used as a control variable or interaction term (Duca et al., 2021).

Securitisation, such as listed property vehicles, which improve accessibility but have disadvantages such as increased volatility, helps to reduce problems with direct investing, such as illiquidity and huge lot sizes (Cevik and Naik, 2023). Fundamental ideas underlie investor behavior: allocating assets between listed and direct European real estate to mitigate demographic risks such as aging (Hiller and Lerbs, 2016); choosing securities that prioritize home quality improvements for favourable price effects (Borowiecki, 2009); and deciding between active and passive strategies, where active management may entail timing markets during supply shortages while passive approaches follow indices despite correlations with equities. In bubble-prone metropolitan environments, listed property performance such as that of European REITs frequently deviates from direct property due to increased volatility and stock market linkages, making it an incomplete representation of the asset class (Cevik and Naik, 2023; Koetter and Poghosyan, 2010).

8. Case Study Examples

8.1. Urban Growth and Foreign Investment

Barksenius and Rundell (2012) demonstrate how massive urbanization and increasing global financial integration coincided with the post-1990s restructuring of the Swedish housing market.

Figure 1. Dependent variable 1987q1-2011q4 (in logs)

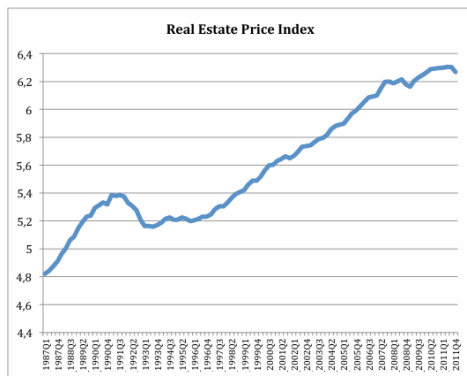


Figure of Swedish Real Estate Price index.

In Sweden and the larger Nordic region, the combination of these two factors: domestic urban expansion and foreign capital inflows has become a major structural driver of property-price appreciation.

8.2. Rapid Internal Migration and Urbanisation

Sweden went through a period of rapid urbanisation, especially in Stockholm, Gothenburg, and Malmö, after financial liberalisation and economic recovery in the late 1990s.

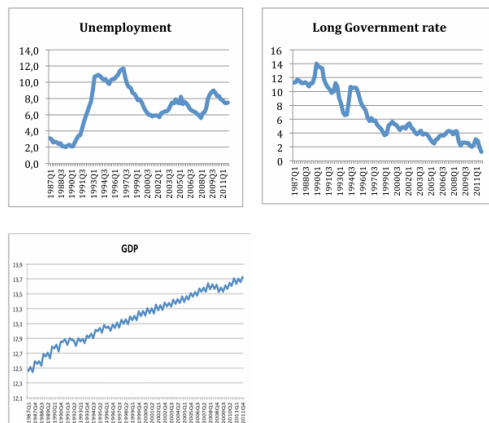


Figure illustrating the Swedish Housing Market's Principal Macroeconomic Drivers, 1987–2011

The authors point out that because of ongoing in-migration, job growth, and limited land supply, housing demand in certain urban areas exceeded supply. Workers from smaller towns and rural areas were drawn to high-density employment hubs and knowledge-based businesses, which represented the trend toward urban expansion.

A housing boom that was concentrated regionally was the outcome. According to Barksenius and Rundell (2012), the difference between metropolitan and regional markets widened as urban home prices increased disproportionately, despite a steady growth in national property prices. Growing incomes, population clustering, and restricted housing elasticity inside city cores are demand-side economic realities that have led to growing property values and are compatible with this urban concentration.

Similar trends were seen in Oslo, Copenhagen, and Helsinki, as well as in the larger Nordic region, where economic agglomeration heightened demand for real estate and resulted in ongoing pressures on

urban affordability. Rapid population influx exacerbated housing cycles in each instance and strengthened the link between metropolitan performance and national real estate markets.

8.3. Financial Liberalisation and Foreign Investment

Additionally, Barksenius and Rundell (2012) highlight the increasing significance of credit expansion and financial wealth, both of which were strongly correlated with foreign capital inflows when Sweden liberalised its capital markets in the early 1990s. According to the analysis, there was a significant positive long-term elasticity (≈ 0.79) between financial wealth and house prices, suggesting that both domestic and foreign liquidity directly aided real estate investment.

Sweden and its Nordic neighbours gained appeal as international investors looked for reliable assets in developed European markets because of their robust fiscal frameworks, minimal sovereign risk, and macroeconomic stability. As a result, portfolio inflows and foreign direct investment (FDI) directed towards urban real estate increased. The low-interest rate environment and Sweden's robust post-crisis recovery further supported these inflows by making local real estate markets a secure and lucrative place to invest.

There were two main impacts of the foreign capital inflow:

1. It decreased the cost of borrowing for local households by increasing the supply of credit through foreign-funded banks and mortgage organisations; and
2. In large cities, it stimulated investment and speculation demand as domestic people and institutional and foreign buyers fought for a small supply of available properties.

A feedback loop was produced by these factors: growing prices drew in more capital, which raised valuations even further, especially in Stockholm and Gothenburg.

8.4. Urbanisation and Foreign Investment Interaction

Sweden's housing market became more segmented as a result of the combination of fast urbanisation and foreign capital inflows. While external finance intensified price cycles by speeding up liquidity and investment turnover, urban growth raised structural demand. According to Barksenius and Rundell's (2012) model, short-term shocks from capital inflows and liquidity surges frequently resulted in temporary overvaluation in urban areas, despite the Swedish market generally being near long-run equilibrium.

This dual mechanism of urban concentration of demand and internationalisation of financing mirrors broader Nordic trends. For instance, Copenhagen and Oslo also experienced sharp price rises driven by cross-border investment and limited central-city supply. Across the region, foreign capital has increasingly targeted high-end, centrally located developments, contributing to spatial inequality and the displacement of lower-income residents from urban cores.

9. Conclusion.

Macroeconomic conditions, such as interest rates, inflation, GDP growth, and credit conditions, demonstrated the strongest demand side influence on property prices across Europe, with demographic factors following close behind as trends including urbanisation, migration and population ageing shift market dynamics. Finally, supply constraints were seen to have a multiplier effect on price movements from demand shocks. In comparison with global trends, Europe's property price drivers mirror those of other advanced economies such as North America, where monetary policy, macroeconomic drivers,

demographic shifts, sustainability imperatives and supply side inelasticity exert similar pressures. However, Europe's institutional frameworks, regional disparities and environmental policies make its property markets more regulated and resilient to volatility, especially in the post-GFC era. Moving forward, emerging forces such as technological innovation, the growing emphasis on green building standards, and sustainable migration into major urban areas are expected to shape future property prices. Whilst traditional economic and demographic variables will remain the primary and central determinants, technological and sustainability-oriented dynamics will increasingly influence the property price landscape in Europe over the coming decade.

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