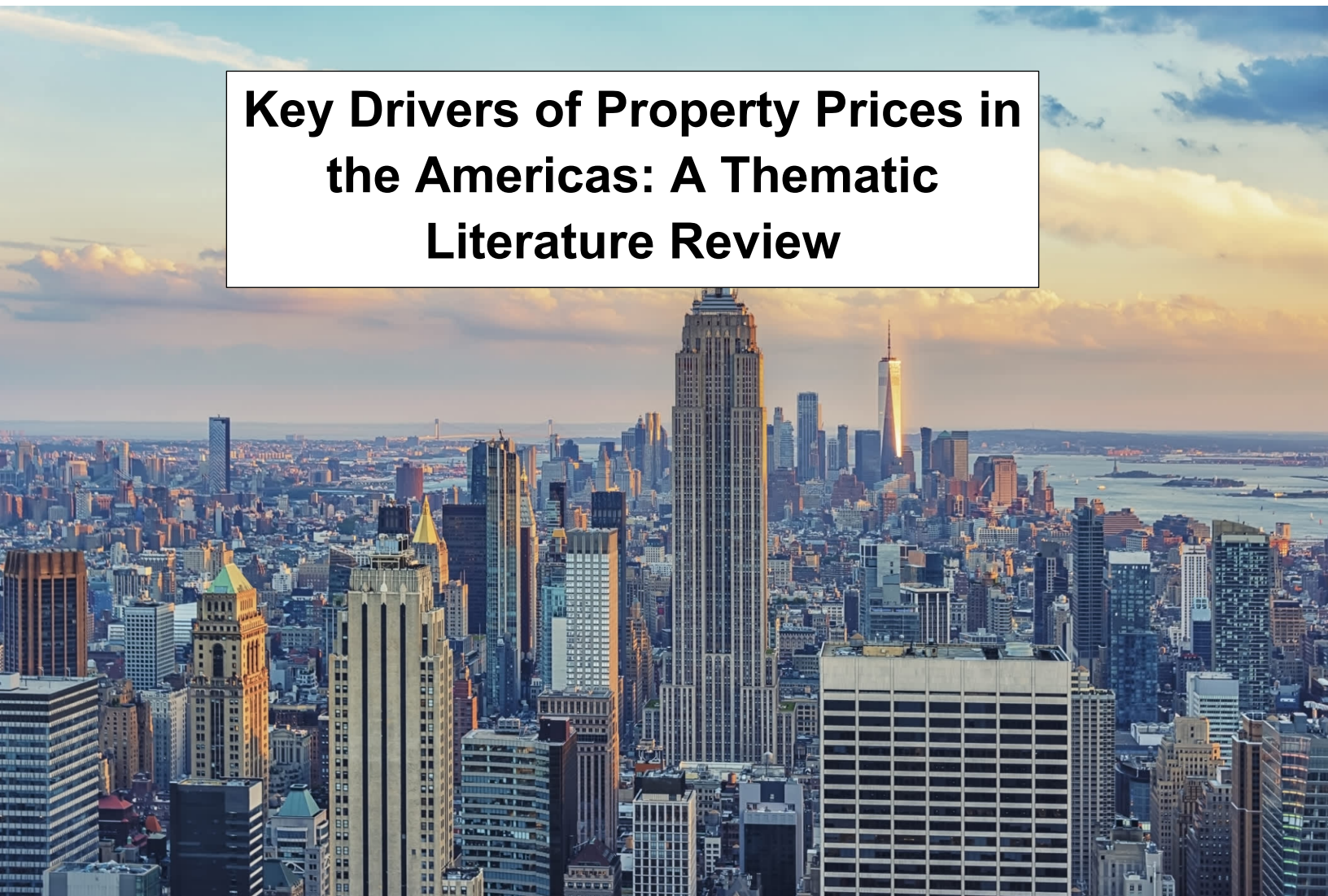


University of Cape Town

Department of Construction Economics & Management



Key Drivers of Property Prices in the Americas: A Thematic Literature Review



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October 26, 2025

Introduction

Understanding the key drivers of property prices in the Americas is critical for macroeconomic stability and effective policymaking (Duca et al., 2018), especially given the established link between house price declines and increased credit risk in the banking sector (Tajik et al., 2015). Identifying these drivers is critical for addressing ongoing affordability challenges and their societal implications. Furthermore, Vogiazas & Alexiou highlight that economic performance can often be indicated through activity in the residential property market.

This literature review synthesises existing academic and empirical research to identify and critically examine the key economic, demographic, policy, and spatial factors influencing property prices in the Americas, with a focus on the United States due to its dominant economic influence and the depth of available scholarly work. This paper employs a narrative synthesis approach, with the review structured thematically to construct a comprehensive narrative of the existing evidence, rather than conducting a formal assessment of evidence quality, as would be characteristic of a systematic review.

The review is structured to first establish a conceptual and theoretical framework before presenting a thematic analysis. The analysis is split into four key areas: the economic and financial drivers that form the market's bedrock; the policy levers that shape its operating environment; the spatial and geographic dynamics that explain regional variations; and the demographic and societal trends that underpin long-term demand. By integrating these interconnected themes, this review provides a holistic framework for understanding the complex forces that determine property values, offering key insights.

Conceptual & Theoretical Frameworks

For the purpose of this literature review, a *property driver* is herein defined as any attribute, condition, or factor that has a systematic and measurable influence on market value and property prices.

This concept is rooted in the Hedonic Pricing model, which provides a foundational theoretical lens for understanding property value determination. Its practical utility is evidenced by its adoption by municipal authorities for property assessment, as demonstrated in the applied work of Shah and Weselowski (1993). In simple terms, the hedonic pricing valuation determines the price of a property based on a vector of characteristics which describe the property, both external and internal characteristics (Shah & Waselowski, 1993). This model can be useful in quantifying how physical and geographical features drive property prices, and offers a data-driven way to quantify and compare key value drivers across the Americas. While this is useful for overall market trends, Zietz et al (2008) build on the hedonic price model by rejecting homogenous market assumptions by including market segmentation into their analyses. They posit that the real estate market is not a single, uniform entity, but a collection of distinct sub-markets where different types of buyers prioritise and pay for features differently (Zietz et al, 2008). This gives rise to the ‘Ripple Effect’ or spatial diffusion, where price shocks in one region propagate to neighbouring regions through mechanisms like information spillovers, commuting patterns, and investor behaviour.

The presence of spatial heterogeneity and different spillover effects raises the question of long-run market integration. Convergence Club Theory (Phillips & Sul, 2007) gives a framework for this, suggesting that subgroups of states or metros with similar characteristics will form distinct *clubs* which move together in the long run while diverging from other clubs, as opposed to the idea of all regions converging to a single national price level.

Complementing the hedonic and spatial frameworks is the classic Bid Rent Theory (Alonso, 1963), which gives a fundamental economic explanation as to how land values and uses differ with distance from a city’s centre. Different uses (residential, commercial, industrial, agricultural) compete for land based on accessibility to the Central Business District, forming a rent gradient where land prices are highest near the core and decrease outward. This competition drives high-value uses to central areas and lower-value uses to the periphery. Thus, this theory provides the theoretical underpinning for the ongoing price disparities and differing market fundamentals between urban cores and rural areas as discussed in this review.

Beyond static fundamentals, the Financial Accelerator Mechanism (Bernanke et al., 1996) gives a dynamic theoretical framework for understanding housing cycles. This theory explains how rising house prices strengthen borrowers’ balance sheets by boosting collateral value, allowing

them to borrow more. This extra borrowing increases demand and drives prices even higher. However, during a downturn, the same process reverses and price declines worsen.

Thematic Analysis of The Drivers of Property Prices

Economic and Financial Drivers

Economic and financial factors are some of the most important influences on property prices in the Americas. These include things like income, interest rates, inflation, and credit availability, as well as how housing markets are connected to banks, stock markets, and financial cycles. In both the United States and Canada, these forces work together in complex ways, often causing prices to rise during economic growth and fall during downturns. This section reviews key literature on how these drivers affect housing prices and what patterns researchers have found across different economic cycles.

Macroeconomic Fundamentals: Income, Interest Rates, and Growth

Income levels and GDP growth are major determinants of housing demand. When people earn more and the economy is expanding, households are more confident and willing to enter the property market. (*Oikarinen et al., 2023*) show that long-run income growth is strongly associated with real house price increases in U.S. metropolitan areas. Similarly, *Vogiazas and Alexiou (2017)* identify GDP growth as a statistically significant driver of house prices across advanced economies, including Canada and the U.S.

Interest rates also play a key role. When rates are low, mortgage repayments become cheaper, making housing more affordable and increasing demand. (*Yiu, 2021*) finds that during the COVID-19 period, a 1% fall in real interest rates led to an average 1.5% increase in house prices across several developed countries, including the U.S. and Canada. This helps explain why housing markets continued to grow after 2020, even when unemployment and GDP were still recovering.

Inflation also affects housing markets, mainly through its interaction with borrowing costs. *Damen et al. (2016)* note that when inflation rises, it can lead to higher interest rates and reduce affordability. At the same time, expectations of future inflation can increase housing demand, as buyers try to hedge against rising prices. In this way, inflation has a mixed but important influence on the direction of house prices.

Credit Markets and Financial Linkages

Credit availability is one of the most powerful financial drivers of house prices. When banks loosen lending standards or reduce interest rates, more people qualify for mortgages, which increases housing demand. This was a major factor during the early 2000s U.S. housing boom, where subprime lending and financial deregulation made mortgages more accessible. (*Tajik et al., 2015*) show that when house prices are rising, banks experience fewer non-performing loans (NPLs), which encourages even more lending. But when prices fall, defaults rise, and banks tighten credit, creating a cycle of decline.

Duca et al. (2021) describe this cycle as a “financial accelerator,” where rising property values increase borrowing capacity, which fuels more demand and pushes prices even higher. However, this cycle can reverse quickly if credit dries up or confidence falls. (*Bahmani-Oskooee and Ghodsi, 2018*) add that falling house prices can also negatively impact financial markets by reducing household wealth and dampening investor sentiment.

The Canadian housing market offers an interesting contrast. While Canada has also experienced strong price growth, *Nistor and Reianu (2018)* argue that immigration, low interest rates, and credit expansion were key contributors, similar to the U.S. However, Canada’s stricter lending regulations and conservative banking system helped it avoid a major crash in 2008. This suggests that financial policy can play a protective role even when macroeconomic conditions are similar.

Housing Cycles and Speculative Behaviour

Although economic and financial fundamentals explain a lot of housing market movements, they don’t always account for price surges that go beyond what income and interest rates can justify. These episodes often involve speculative behaviour and are linked to housing bubbles.

(*Clark and Coggin, 2011*) examine U.S. housing markets in the lead-up to 2008 and find that prices in many regions were no longer aligned with economic fundamentals like rents or incomes. This was especially the case in states such as California and Florida, where investor activity and easy credit contributed to significant overvaluation. (*Vogiazas and Alexiou, 2017*) confirm similar patterns in Canada and other advanced economies, identifying periods of “explosive” house price growth inconsistent with long-run fundamentals using bubble-detection models.

In addition to bubbles, regional contagion effects also matter. (*DeFusco et al., 2018*) show that when one city experiences a boom, neighbouring areas are more likely to experience a similar rise, even if their fundamentals haven’t changed. This suggests that market expectations and investor behaviour can spread geographically, pushing prices higher through social or economic spillovers.

Finally, *Duca et al. (2021)* argue that housing cycles are increasingly globalised. Since the early 2000s, many advanced economies have experienced synchronised property booms and downturns, often triggered by shared monetary policies or global financial conditions. This has made it harder for individual governments to control local markets, since external factors, like U.S. interest rate changes or global capital flows, can now influence housing prices across borders.

Spatial/Geographical Drivers

While economic fundamentals provide a foundational understanding of price movements, they often fail to explain regional price variations and why markets in varying locations behave in drastically different ways. Aquaro et al (2020) highlight that standard hedonic price models are flawed because they assume parameter homogeneity. Spatial heterogeneity refers to the concept that the same driver has a different impact in different places. Aquaro et al (2020) focus on parameter heterogeneity to demonstrate that a driver such as income may have different effects depending on location, such as California vs Ohio (Aquaro et al, 2020). Therefore, at the most fundamental level, spatial analysis challenges the idea of a single, national housing market. The analysis of spatial drivers is crucial for understanding the international housing boom and bust cycles that have critical macroeconomic consequences, as documented by Duca et al. (2021).

Brady (2014), defines spatial diffusion as the process by which housing price shocks propagate spatially over time through spatial interconnectedness between regional markets, measured by the permanency and size of spatial correlation in prices (Brady, 2014). Brady (2014) studies spatial diffusion across 48 US states from 1975 to 2011, demonstrating that spatial diffusion of housing prices is not only real, but measurable and persistent. Using a dynamic panel spatial autoregressive model, the study found that housing price shocks in one US state significantly affect neighbouring states for up to 4 years, demonstrating that housing markets are strongly linked spatially, even after controlling for local conditions such as income (Brady, 2014). The study also found that spatial diffusion became increasingly stronger from 1988 to 2006, indicating the increased interconnectedness of housing markets over time. This view is supported by Payne and Sun, which highlights that price diffusions associated with regional housing markets have accelerated, particularly after the 2008 financial crisis and the subsequent impact on the housing market. Importantly, Brady (2014) shows that spatial diffusion happens not only locally but also across regional and national housing markets. This implies that monetary policy and housing shocks can spread between states, forming wider economic patterns and contributing to phenomena like the 2000s housing bubble.

The notion of spatial diffusion is supported by thorough econometric evidence showing that geographic proximity is a key link for price transmissions (Holley et al., 2010)

Furthermore, Defusco et al. (2018) explore whether spatial spillovers are spatially related through estimating the probability that housing booms in certain markets are related to the timing of recent

booms in neighbouring markets (Defusco et al, 2018). The study determined a statistically significant effect of spillovers, possibly driven by the influence of housing booms in neighbouring markets on the average income of potential buyers in the subject market, the lending practices across both markets, migration flows between markets, and speculative behaviour within the subject market (Defusco et al, 2018). These interconnections between markets highlight the spatial diffusion effect, where price movements and market dynamics spread geographically, further highlighting that property markets are spatially linked rather than independent.

While spatial diffusions show short to medium term interconnectedness, a key question is whether these dynamics lead to long run equilibrium or ongoing disparity. Research on long-run regional dynamics reveals a complex picture of convergence and divergence. Holmes et al. (2011) explore this question by testing for price convergence across U.S. states and find that the process is not uniform across the USA. Their work, which emphasises how distance influences price adjustments, suggests that markets do not move in a uniform pattern towards a single national price level. Instead, the literature points to the formation of distinct convergence *groups* (groups of states/regions whose house prices move together in the long run, often determined by shared factors/characteristics like housing supply regulation or economic structure). This shows that while spatial links may transmit price shocks, they do not necessarily erase fundamental, long-run regional differences.

The spatial drivers of property prices become apparent most visibly in the clear contrast between urban and rural property markets. The urban-rural divide illustrates a fundamental form of spatial heterogeneity where the very drivers of prices differ in nature and intensity. Urban areas are faced with affordability issues driven by high demand pressures, agglomeration economies, and supply constraints, ultimately leading to rapid price increases, as Brooks (2022) records. On the other hand, many rural markets are faced with price stagnation or decline driven by economic disinvestment, outmigration, and a deteriorating housing stock. This divide highlights that spatial drivers are not only about the transmission of prices, but about deep-rooted differences in market fundamentals and societal challenges stemming from geography.

Finally, recent research confirms that the strength of these spatial connections is not stagnant but very dynamic. Payne and Sun (2023) provide key modern evidence that the connectedness between metropolitan housing markets varies with time, increasing during times of economic expansion and financial integration. This key finding, that spatial diffusion can accelerate, provides a crucial modern viewpoint through which to view Brady's (2014) finding on increasing interconnectedness up to 2006. It suggests that the spatial network of the U.S. housing markets is a dynamic system, whose links are continually reshaped by the wider economic and financial landscape, making an understanding of spatial drivers essential for navigating both regional booms and busts.

Policy Drivers

Property markets and prices are significantly sculpted by their policy environment. Policies have a major influence on housing affordability, investor decisions and confidence, and alter market expectations across the Northern and Southern Americas. In this section, the key policy drivers that affect American property markets shall be examined. The varying effects on different regions shall also be examined.

Monetary Policies

Monetary policy remains a primary driver of property prices. Inclusive of interest rates and credit availability. Lower interest rates directly correlate to stimulated housing demand through lower costs of mortgage finance. Yiu (2021) showcased this by examining the recession during Covid-19. They found that a 1% decrease in real interest rate led to a 1,5% increase in house prices in Northern America. This proves how volatile the market is to interest rate changes.

Broad money supply is defined by Tripathi (2019) as the money supply of an economy consisting of money in any form. This is a key positive macroeconomic determinant for housing prices.

Another factor playing a key role in housing prices is bank lending and credit supply. It is referred to as a “financial accelerator (Bernanke et al., 1996). Rising house prices increase real estate collateral, boosting borrowers’ net worths, therefore increasing their borrowing capacity. A two-way relationship is evident between bank lending and house prices. The banks’ lending behaviour affects property prices and, in turn, the housing price shifts greatly affect lending policies. Tajik et. Al (2015) demonstrates how the U.S. bank lending behaviour magnifies the impact that housing price fluctuations have on non-performing loans. When housing prices rise, lenders are more confident and grant additional loans, which increases market confidence, further raising prices. When housing prices fall, and real estate collateral loses value, it affects consumers’ abilities to repay loans, which results in increasing occurrences of non-performing loans, and housing prices fall further.

Fiscal Policy

Fiscal policy, including taxation and subsidies, is a key driver of American property prices. Nistor and Reianu (2018) found that in Canada, fiscal measures, including tax incentives and housing subsidies stimulated the demand for housing, raising property values. Duca et al (2021) expand on this finding by noting that governments that acted quickly once the pandemic hit, by implementing “unprecedented levels” of fiscal, monetary and regulatory support to households, prevented a grave financial crisis. Unlike the Global Financial Crisis of 2007, the measures actually created a surge in house prices.

Land-Use Regulations & Housing Policies

Local government regulations and spatial planning policies have a direct effect on housing supply, thus affecting property prices. Caldera Sánchez and Johansson (2013) found that their estimated supply elasticities are negatively correlated with land-use restrictions. Cavalleri, Cournède, and Özsögüt (2019) found that less severe land-use restrictions boosted the price elasticity of housing supply.

Duca, Muellbauer and Murphy (2021) note that land-use zoning and house planning policies have differing influences on different property markets, including residential, office, retail and industrial property. Rezoning potential creates substitution possibilities, which in turn create local demand shocks that spread between the markets.

Institutional & Regulatory Governance

Duca, Muellbauer and Murphy (2021) detailed how institutional quality and governance can shape the success of property markets. Evidence from housing busts in the United States shows that institutional quality and regulatory governance influence the macroeconomic climate of the property market. Countries, including the United States, that engage in regulatory arbitrage, demonstrate weak regulatory enforcement, and utilise weak mortgage credit standards, have been more prone to financial instability. While countries that exhibited better-regulated mortgage underwriting and limited the amount of mortgage equity withdrawals were significantly less affected by the housing busts.

Policy Uncertainty

Bahmani-Oskooee and Ghodsi (2017) provided a detailed analysis of how policy uncertainty negatively impacts U.S. housing prices. Policy uncertainty is a topic that has been largely overlooked, as researchers tend to focus on income and interest rates. In their findings, they discovered that policy uncertainty had significant short-run effects in 24 states, with only 17 of these states exhibiting long-run effects. Some states, such as Wisconsin, are not too volatile, no matter the circumstances, while states such as California are relatively more volatile. It has been further established that cointegration exists in 35 states, which means that in 70% of states, house prices closely follow the underlying economic conditions, including household income, interest rates, and newly accounted for policy uncertainty. It is evident that while income is still the main driver for housing prices, policy uncertainty does have a notable contribution.

Demographic and Societal Drivers

Understanding what drives house prices in the United States (U.S.) is important for policymakers, investors, and households, especially given how housing markets influence the broader economic conditions. While there have been studies that have focused on financial or policy factors, demographic and societal elements also play a key role. These include how population changes,

income growth, migration, ageing, and social behaviours affect the housing demand and affordability.

Findings across different studies is that income growth and population growth are strong drivers of housing prices. Holly, Pesaran and Yamagata (2010) have shown that house prices are linked to real disposable income at the state level, with evidence that also shows that population growth pushes prices upwards. Their results suggest that the states that have faster income and population growth experience higher house price appreciation over time.

Duca, Muellbauer and Murphy (2011) add that the price cycles have been shaped by these fundamentals working together with credit and expectations. When mortgage rates fall and incomes rise, people can afford to buy more homes that are expensive homes, which leads to a higher demand and higher prices. However, this depends on how flexible the local housing supply is.

Brooks (2022) examines the affordability patterns and also shows that demographic differences matter across different areas. In rural countries, population growth can be seen to drive up prices, leading to reduced affordability. While in countries with large cities, the higher population density can improve affordability because income growth offsets higher costs. Brooks (2022) also finds that ageing populations tend to improve affordability in metro areas, though the effects vary between owners and renters.

DeFusco, Ding, Ferreira and Gyourko (2018) find that housing booms tend to spread to nearby cities. When one region's prices start to rise, then the neighbouring markets are likely to begin to boom soon after. This shows that spatial spillovers, through things like migration, and investors both play a role in transmitting housing demand.

Holy et al. (2010) have also seen spatial development at the state level, so that even after they have accounted for income and population, the nearby states' housing markets will influence each other. This relation reflects how people and information move across regional boundaries, which makes housing markets partly a social phenomenon as well as an economic one.

One key aspect is market sentiment and expectations. Duca, Muellbauer and Murphy (2021) have argued that people who expect house prices to keep rising become more willing to pay higher prices and take on larger mortgages. This leads to a loop where optimism drives demand, which will in turn push prices up even more. This has been described as part of the financial accelerator, where increases in the price of houses expand homeowners' borrowing capacity by boosting the value of their collateral. As households borrow more, the overall spending and demand for housing rise. Which reinforces that cycle. This leads to a broader societal pattern, that the belief that owning property is a wealth pathway.

It has also been seen that speculative behaviour and herd dynamics have formed a part of the societal side of house price movements. Clark and Coggin (2011) find that U.S. house prices during the early 2000s boom diverged from the economic fundamentals, which have indicated a bubble-like behaviour. This helps to support the idea that the buyers sometimes follow social trends rather than rational assessments of value. Also, things like peer influence have been seen to reinforce these collective expectations, which makes housing markets more volatile.

Some societal drivers also include migration and lifestyle preferences that shape where people choose to live. Defusco et al. (2018) have shown that when house prices start rising in one area, the neighbouring regions often follow, which is partly because people relocate or have an interest due to the perception of opportunity. These spillovers have shown how the social networks, job markets, and shared perceptions spread housing demand.

Another societal element is inequality and access. Duca et al (2021) have noted that when credit expansion disproportionately benefits households that are wealthier, housing markets can reinforce social divides. It is harder for lower-income groups to enter the market when there are rising prices, which in turn increases wealth inequality. This can then create a long-term social implication, as homeownership will likely remain one of the main ways that American families build and transfer wealth.

The societal perspective overall highlights that housing markets are not purely financial, but they are also societal, which have been shaped by collective beliefs, norms and behaviours. People's expectations about potential future prices, cultural attitudes towards homeownership, and access to credit all influence how people participate in the market.

Looking at it all together, these studies have shown that the demographic and societal factors are linked. Income growth and population dynamics set the basic level of housing demand, but the social and behavioural dynamics, like the migration patterns, and shared optimism often amplify the effects.

Brooks (2022) has emphasised that these pressures all play out differently across rural and urban America. In rural areas, it tends to experience affordability challenges from population growth, while the city regions face volatility from the social and market dynamics. Also, Duca et al. (2021) and Tajik et al. (2015) have reminded us that these price changes have a broader economic consequence.

These studies make it clear that the housing markets are shaped by both demographic and societal forces. The demographic trends, such as income growth, population growth, and ageing, all create this foundation for long-run housing demand. Yet on the societal side, it influences the expectations, credit conditions, migration flows, and cultural views about property.

SUMMARY

This literature review has examined the key drivers of property prices in the Americas through a thematic synthesis of economic, policy, spatial, and demographic perspectives. The findings demonstrate that housing markets across the region, particularly in the United States and Canada, are shaped by a dynamic interplay of macroeconomic conditions, institutional factors, and regional specificities.

Economic and financial factors remain the most influential long-run determinants of housing prices. Income growth, real GDP expansion, and low interest rates significantly increase housing demand, while inflation and monetary tightening exert downward pressure. Mortgage credit availability and banking system behaviour further amplify these cycles. The literature highlights the role of the financial accelerator, wherein rising property values enhance borrowing capacity and drive further price growth. Conversely, falling prices increase credit risk and tighten lending, as seen in the U.S. housing downturn. These mechanisms reveal the deep interconnection between housing markets, financial stability, and broader macroeconomic conditions.

Policy drivers, both fiscal and regulatory, exert substantial influence across the region. Fiscal tools such as tax incentives and housing subsidies have been shown to stimulate demand, while land-use regulations and zoning policies directly shape supply responsiveness. The literature also underscores the importance of institutional quality: countries with stronger regulatory frameworks and prudent lending practices experienced less volatility during housing shocks. Notably, Canada's more conservative mortgage system buffered it from the worst effects of the 2008 crisis. In contrast, the U.S. housing bubble was exacerbated by weak underwriting standards and limited regulatory oversight.

Spatial drivers account for significant regional variation in price behaviour. Empirical studies demonstrate the existence of spatial spillovers and diffusion effects, whereby housing booms or busts in one area influence neighbouring markets. These effects are magnified in highly interconnected urban areas and often persist beyond the short term. The literature also challenges the notion of a unified national housing market, revealing distinct "convergence clubs" and regional dynamics. Urban–rural differences further illustrate spatial heterogeneity, with metropolitan markets facing affordability constraints and rural areas experiencing stagnation or depopulation.

Demographic and societal factors complement the economic and spatial narrative. Population growth, migration patterns, and ageing all shape housing demand at the regional level. Moreover, behavioural elements such as market sentiment, speculative expectations, and cultural attitudes toward homeownership contribute to cycles of overvaluation. These social dynamics, especially when combined with easy credit and positive income shocks, can create self-reinforcing feedback loops that elevate housing prices beyond fundamental values.

Taken together, these findings confirm that housing markets in the Americas are multi-causal systems shaped by the interaction of structural, financial, policy, and social factors. Understanding

these interdependencies is crucial for designing informed housing policies, mitigating affordability pressures, and managing macroeconomic risks.

LIMITATIONS

Even though there has been substantial progress, the current evidence based on these drivers of property prices in America presents several limitations that affect how confident we are with these findings.

Most of the research has a focus on the United States, with a smaller focus on Canada, which can be seen to create a strong North America bias. This in turn, limits the relevance of the findings for Latin American markets, smaller cities, and rural areas, where their economic and industrial conditions differ.

These studies rely on data which can be seen to restrict the causal interpretation and also make it difficult to follow long-run effects. There have been measures of key variables such as affordability, credit conditions, and policy uncertainty that are also inconsistent across studies, which in turn reduces comparability.

Even though the models, such as the hedonic pricing and financial accelerator frameworks, are widely used, they can often be seen to assume homogeneity across the markets and also overlook the social and behavioural systems, such as migration, sentiment, and inequality.

Overall, it can be seen that these limitations highlight the need for more geographically diverse and socially grounded research to help fully understand how demographic and societal factors drive the property prices across America.

CONCLUSION

This review has highlighted the complex and multifaceted drivers of property prices in the Americas, with a focus on the United States and Canada. The evidence consistently shows that no single factor operates in isolation. Instead, housing prices emerge from the interaction between macroeconomic fundamentals, financial system dynamics, regulatory frameworks, spatial interlinkages, and demographic pressures. While income growth, interest rates, and credit access drive core demand, their effects are conditioned by institutional quality, land-use regulation, and evolving societal behaviours.

Importantly, the research underscores that housing markets are both economically sensitive and socially embedded. They reflect broader patterns of inequality, migration, and investor sentiment, making them a crucial indicator of national well-being and financial stability. The growing spatial and temporal interconnectedness of property markets also suggests that local shocks can have far-reaching effects, both across regions and through time. As such, policymakers must adopt an integrated approach that balances affordability, macroprudential stability, and regional equity when addressing housing challenges across the Americas.

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