

Housing in Central and Eastern Europe

Petr Zemčík (<http://home.cerge-ei.cz/petrz/>)

Course Description

Bursting property bubbles around the world are often cited as the initial trigger of the on-going global recession. This raises the question of whether current real estate prices correspond to economic fundamentals and if not, how much (more) they are likely to fall. This question is highly relevant not only for the housing markets in the United States but for real estate markets in Central and Eastern Europe (CEE) and elsewhere. Property prices more than doubled between 2003 and 2008 in majority of countries in CEE. This course discusses these issues by looking at the determinants of real estate prices. The focus is on the comparison of the US real estate markets with markets in CEE. The objective is to learn standard tools used in real estate economics and to apply them in this region. The real estate market will be viewed both from macroeconomic and microeconomic perspectives. The macroeconomic perspective consists of the market analysis of supply and demand for housing. The latter perspective concentrates on the cash-flows related to a real estate purchase (i.e. a rent) and their impact on price according to a present value model. This also leads to the view of a consumer (as opposed to an investor) who needs to decide between renting and owning an apartment or a house. Tax considerations related to property purchase will be discussed as well. The economics presented in class will have a strong sociological flavor, with a thorough discussion of topics such as the impact of various public housing policies and affordability of housing.

Text

Martin Lux (editor, 2003). *Housing Policy: An End or a New Beginning?* Open Society Institute, Budapest, Hungary (<http://lgi.osi.hu>). (L)

James D. Shilling (2002). *Real Estate*. 13th edition, South-Western. (S)

Yukio Noguchi and James M. Poterba (editors, 1994). *Housing Markets in the United States and Japan*. The University of Chicago Press. (NP)

The most relevant text is by L, which provides a detailed description of the housing markets in several countries in CEE. NP discusses the US real estate market and S provides basic tools of the real estate investment analysis. This text will be supplemented by various articles.

Grading

Midterm and (non-cumulative) final exams are worth 40% of the grade each. Instead of taking the final exam, students will have a choice of writing a paper with an analysis of any aspect of real estate markets (or a market) in CEE. The paper should have up to 1500 words. Attendance and class participation are worth 20%.

Prerequisites

Having taken a basic course in (micro) economics is useful but it is not a requirement.

Outline

INTRODUCTION

- Real Estate and the Economy, S Ch.1
- Apartment prices in CEE
- The Economist. SURVEY: Property – House of cards. May 29th 2003
- Public Housing Policies: Economic and Social Perspectives, L. Ch. 1.
- Policy Framework for Sustainable Real Estate Markets: Principles and Guidance for the Development of a Country's Real Estate Sector. United Nations, Economic Commission for Europe, Working Party on Land Administration, Real Estate Market Advisory Group. Geneva, 2010.

PRESENT VALUE MODEL ANALYSIS

- Basic Valuation Concepts, S. Ch.3

SUPPLY AND DEMAND ON THE HOUSING MARKET

- Investment Environment, S Ch.2
- More About Urban Area Structure and Real Estate Markets, S. Ch. 19
- Balazs Egert and Dubravko Mihaljek (2007). Determinants of House Prices in Central and Eastern Europe. Bank of International Settlements Working Paper 236.
- Petr Zemčík (2008). Residential Real Estate Market in the Czech Republic: Still Going Strong. In Czech Republic 2008: Strong Currency, No Rush Toward the Euro, available at http://www.cerge-ei.cz/publications/books/#CR_2008
- Jonathan Skinner. Housing and Saving in the United States. NP, Ch. 8
- Housing and Saving in Central and Eastern Europe.
- Lux M., P. Sunega, T. Kostelecký, D. Čermák 2003. Housing Standards 2002/03 Financial Affordability and Attitudes to Housing. Prague: Institute of Sociology, Academy of Sciences of the Czech Republic.
http://seb.soc.cas.cz/publikace_download/standardy2003_downen.htm

REAL ESTATE FINANCE

- Mechanics of Fixed-Rate Mortgage Financing, S. Ch. 6
- Patric H. Hendershott. Housing Finance in the United States. NP, Ch. 4
- Housing Finance in Central and Eastern Europe.

RENTING VS OWNING

- Financing Home Ownership, S Ch. 23
- Czech Republic & Prague – prices and rents
- Rent deregulation
- Martin Lux and Petr Sunega (2007). Housing affordability of Rental and Owner-Occupied Housing over the Course of the Economic Transformation in the Czech Republic. International Conference on Sustainable Urban Areas. Available at http://seb.soc.cas.cz/publikace_download/publikace/enhr2007_lux.pdf
- Country profiles, L. Part II.
 - Rental Model – Czech Republic, Poland
 - Homeownership Model – Estonia, Romania, Slovakia
 - Bulgaria

HOUSING AND GOVERNMENT

- James M. Poterba. Public Policy and Housing in the United States. NP, Ch. 10
- State and Local Government, L. Part III.
- Martin Lux (2002). Local Government and Housing. Paper for a conference on Housing Cultures - Convergence and Diversity in Vienna. Available at: http://seb.soc.cas.cz/publikace_download/enhr2002.htm