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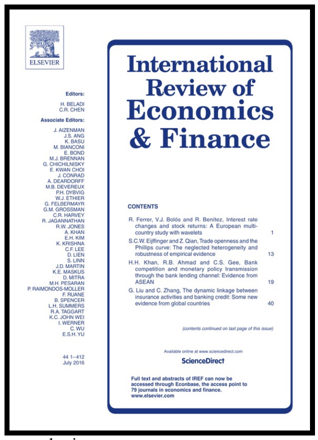

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Foreign buyers and housing price dynamics

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ABSTRACT

This paper analyzes the short- and long-run effects of foreign buyers on housing prices in an open economy with the flexible exchange-rate system. In the long run, the changes in housing prices depend on the price elasticity of foreign buyers' housing demand, while the adjustments in the exchange rate depend on the degree of international capital mobility. Nonetheless, in the short run, the changes in housing prices and exchange rates can be over- or under-shot or mis-adjusted, dependent partly on the length of time between the policy announcement and its implementation. The housing prices could fall in the short run if foreign housing demand is price-elastic, while the exchange rates could be over-shot if capital is less mobile.

JEL classifications: E10, F31

Key words: Housing prices; foreign demand.

1. Introduction

"Land or housing is a wealth," according to a famous Chinese proverb. Since March 2009, rapid surges of housing prices in many emerging and developed economies have attracted great attention in academics and media. As shown in Fig. 1, from 2009 to 2014, housing prices had been doubled in Hong Kong, and more than 50% higher in China, Singapore and Australia, respectively, while the top 10 cities of housing prices growth in Q4 2015 are listed in Table 1. Housing prices, similar to other commodity prices, are mainly determined by housing demand and supply. In the literature, Herring and Wachter (1999), IMF (2000), and Girouard and Blöndal (2001) examined the demand-supply factors that cause fluctuations of housing prices, while Ullah and Zhou (2003) and Grandner and Gstach (2004) analyzed the links between real estate and stock markets. A survey article on related issues can be found in Cho (1996).