

What Drives Canadian Housing Price in the Long Run?

Wenhao Lu

ABSTRACT

This article provides a detailed empirical analysis of Canadian city housing prices. It examines the long-run relationship between city house prices in Canada from 1985 to 2012 as well as idiosyncratic relations between city prices and city-specific variables. First of all, the result shows that city house prices are weakly related in the long run. This indicates that the aggregate housing price may not be suitable for analysis on the Canadian house market. Secondly, OLS estimation test indicates that there is a disconnect between housing prices and national factors in the long run, such as national GDP per capita and 5 year mortgage rate. On the contrary, City-specific variables such as union wage rate and number of labor force tend to be positively related to city house prices, while unemployment rates have a negative influence on city house prices. Finally, my empirical analysis, based on panel data, shows that there is only a small positive effect on the housing prices from immigration.