

Abstract

In Kenya housing prices are considered high and have still continued to rise. This has made housing affordability and access a preserve of the top income earners. Consequently, large population live in houses with reduced access to clean water, sanitation, unreliable and unhealthy energy sources, increased exposure to diseases and low levels of financial security. Arable land is also being converted to residential centers which is constraining on public goods provision and agricultural output. Housing prices behavior have been known to influence business cycle dynamics by affecting aggregate expenditure and also the performance of the financial system through their effect on the profitability and stability. This study examined the dynamic relationship between housing prices and selected macroeconomic variables in Kenya. In doing this, the study used time series data for the period 1960 to 2015 and VAR models. The VAR models were selected where Toda and Yamamoto (1995) methodology was used. This is a modified version of granger causality test based on augmented VAR modeling. The study findings indicate that the housing prices dynamically relate with the selected macroeconomic variables. The study therefore concludes that housing prices have a positive contemporaneous impact on the selected macroeconomic variables indicating the existence of mutually reinforcing cycles between the housing prices and the selected macroeconomic variables. Therefore, there is need to observe the housing prices movements to avoid the cost that could result in case of instability in the housing market.