

Macroeconomic Determinants of Economic Integration in the European Union - case of FDI in Real Estate

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Abstract

This paper investigates determinants of foreign direct investment (FDI) in the real estate sector across 26 European Union member states. Using two-way fixed effects panel regression models, we test whether: (H1) rising construction producer prices negatively affect real estate FDI, with a weaker effect in eurozone countries; and (H2) higher property tax burdens negatively affect real estate FDI, with a weaker effect in post-transition member states. Both hypotheses are confirmed at conventional significance levels. Construction price inflation deters foreign real estate investment, but the eurozone's macroeconomic stability, shared currency, and harmonized business rules substantially attenuate this deterrent. Property taxes also reduce FDI inflows, though this effect is largely neutralized in post-transition economies, where lower baseline asset prices, stronger capital appreciation expectations, and targeted tax incentive policies compensate for the tax burden. These findings have direct implications for investment climate policy in both eurozone and post-transition EU economies.

Index Terms

Real Estate FDI, Construction Producer Prices, Property Taxes, Eurozone, Post-Transition Economies, Panel Data, European Union