

Publication

Informed by wet feet: How do floods affect property prices?

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We investigate the effect of multiple flood events on property prices in Zurich canton of Switzerland. By merging property transaction data with records from universal and mandatory building insurance, we are able to identify the effect of the informational content of floods separately from the damage caused. Our rich data allows us to control for a wide range of housing characteristics, thus reducing the bias from unobserved heterogeneity that routinely plagues hedonic regressions. We find that houses located in flood hazard zones sell at a discount relative to houses located outside, despite the presence of mandatory insurance that covers most (but not all) costs. Providing flood hazard information increases the value of houses that are assigned a low risk. Last, we look at the effect of floods on property prices and find that in the aftermath of flood events, properties that narrowly escaped damage were sold at a significant discount relative to houses located out of harm's way. This pure information effect decays shortly.

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