Does climate change affect real estate prices? Only if you believe in it
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Cities from New York to Miami and from New Orleans to Los Angeles are feeling the impact of climate change—and in some areas, rising water levels, heat waves, droughts and fire risk are putting a serious dent in real estate values.

But what happens in locales where a significant proportion of people don't believe in climate change?

According to a new study from the UBC Sauder School of Business, buyers could end up paying significantly more for a home.

Nearly 65 percent of people in the U.S. own homes, and on average, those homes represent 40 percent of their assets—as well as a major source of household debt.

At the same time, climate experts predict that approximately two percent of U.S. homes—worth $882 billion—are at risk of being underwater by 2100; in low-lying coastal regions such as Florida and Hawaii, between 10 and 12 percent of homes could be inundated.

For the large-scale study, researchers combined sea level data from the National Oceanic and Atmospheric Administration (NOAA), geographic data about climate change attitudes from the Yale Program on Climate Change, and proprietary data on millions of repeat real estate transactions from Zillow to examine patterns in high-risk areas.

They found that, even after taking myriad variables into account, homes projected to be under water located in climate change “denier” neighbourhoods sell for roughly 7 percent more than homes in “believer” neighbourhoods.

"If everyone were to say, 'I'm not buying beachfront property here because it's going to get flooded,' then prices would collapse. But if you don't believe in climate change, you might say, 'You guys are crazy. Climate change isn't a real thing, so I see a buying opportunity,'" explains UBC Sauder School of Business assistant professor and study co-author Markus Baldauf.

Because so many people live close to coastlines, adds Baldauf, the effects are amplified. "If you wanted to create a society that's really susceptible to climate change," he says, "you would arrange it like they have in the U.S., because the population centres are really close to the water."

The study did not examine the effect in other countries, but Baldauf expects it wouldn't exist in Canada or Europe because belief in climate change is much more ubiquitous in those areas. Within the United States, however, the differences are significant; for example, in California, the effect is much less, likely because there is more agreement on climate change, whereas in Florida the gap is substantial, even though climate change risks in the waterfront-heavy state are especially high.

The researchers also examined political party affiliations, and while right-leaning communities
were heavier on climate deniers, the effect still occurred even when accounting for political differences.

Of course, calculating risk has always played a part in real estate, but historically, banks, realtors, investors and homeowners typically looked at past occurrences of things like fires and floods to price in future pitfalls. But because of the growing effects of climate change, past events no longer provide an accurate sense of what is likely to happen in the future, and predictions rely more heavily on future-focused climate science.

Baldauf emphasizes that when it comes to climate change and real estate pricing, the thing that nobody can accurately predict is who is right.

"Which price is the appropriate one? We don't know. Based on the data, all we can say is there's disagreement, but it could be that the deniers are right, or it could be that the believers are right. Or it could be that they're both wrong," says Baldauf. "All our study says is that they can't all be right."


Provided by University of British Columbia

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