

SWEDISH HOUSE
OF FINANCE



AFFECT 
Academic Female Finance Committee
of the American Finance Association

Women in Finance Conference 2018

“We’ll Always Have Paris”

2:15 pm -3:00 pm

Presenter: Dragana Cvijanovic, Assistant Professor of Finance, Kenan-Flagler Business School University of North Carolina.

Discussant: Charlotte Ostergaard, Professor of Finance, BI Norwegian Business School

Discussion of
**“We’ll Always Have Paris:”
Out-of-Country Buyers in the
Housing Market**
by Dragana Cvijanovic

Charlotte Ostergaard

BI Norwegian Business School

Women in Finance 2018

What the paper does

Studies foreigners' purchases of Parisian real estate

- Transaction information on indiv properties
 - ▶ 97,492 obs, hereof 56% involving a foreigner
 - ▶ The 44% representative of French-French transactions
 - ▶ 1992–2016
- Properties located throughout Paris
 - ▶ Know district and neighborhood
 - ▶ Match w census information
- Foreigners from range of countries
 - ▶ Match w home country-information
- Distinguish btwn non-resident (NRFs) and resident foreigners

Paper has two parts

1st part is exploratory

- NRFs buy in more expensive n'hoods and tend to pay higher price/m² *within* n'hood
 - ▶ Interpreted as smaller and higher quality
- NRFs buy in most attractive n'hood
 - ▶ Proxied by education, avg m²-price, ratio of secondary homes
- Home-bias at district-level
 - ▶ 100 more compatriots → NRF-purchases increase by 2 over full period
- NRFs pay 2-3% more when buy and realized 11% lower capital gain when resell
 - ▶ Interpreted as asym information/high search costs
- NRF purchases covary positively w their GDP growth
- NRF purchase price covaries positively w their GDP growth

2nd part asks if NRFs drive neighborhood prices up

- OLS: small but significant effects
 - ▶ N'hoods w more NRF net purchases realize higher cap gains (district FX)
 - ▶ If NRFs buy 10% of flats, cap gains increase by 1%
- IVE: positive effect in less attractive n'hoods
 - ▶ Effect concentrated in n'hoods where foreigners are rare
 - ▶ (low education, low property value)

Comments

1. What do you consider the main message?

- “housing in prime locations attracts individual investors seeking portfolio diversifier, (..) a trophy asset (..) or just personal pleasure”
 - ▶ Portfolio view
- “inflow of foreign investment in residential real estate (...) worries about effect on housing affordability”
 - ▶ Aggregate urbanisation trend w/ social welfare implications

2. Assuming portfolio view

- Elaborate on what we learn from Paris market relative to other markets
 - ▶ Results suggestive of search cost and luxury good
- Stress uniqueness of data
- Emphasize what juxtaposition of NRFs and RFs buys you
 - ▶ Discussion of differences in investment motives
 - ▶ Link better to regression specification

3. Assuming affordability

- Collect “exploration” results in fewer tables
 - ▶ Drop some specifications (w/o FX effects)
- Are you looking at a market of first-order importance (size)?
 - ▶ Effects on prices economically very small

Panel C: Comparison of buyer groups

	%	Mean price (€)	Mean age	% high soc. -profess.
Non-resident foreigners	2.8	357,785	49.9	50.8
Resident foreigners	4.6	249,933	42.7	36.3
French	92.6	269,833	43.0	45.1

Panel D: Comparison of seller groups

	%	Mean hold. period	Mean log cap. gain (%)	% second. resid.	Mean age	% high soc. -profess.
Non-resident foreigners	2.1	10.4	57.9	54.3	59.2	37.6
Resident foreigners	2.5	10.4	75.4	9.6	53.8	29.5
French	95.4	10.7	67.6	17.6	55.3	32.7

Main channel for foreign investment?

- Do investment funds buy up rental properties?
 - ▶ Cf. Blackstone in Copenhagen

Rental vs. owner markets (many rent in Paris)

- Comparing to French that own, but they are “special” bc chose not to rent
- Do NRFs affect choice btwn renting/buying?
 - ▶ Conversions from rental to owner-occupation?

Hypotheses

- (1) If housing supply fixed, NRFs drive prices up
- (2) Alternatively, if NRFs anticipated or locals move out, no price change
- Need to do more to really understand price dynamics...
 - ▶ Why not look whether locals move out directly?
 - ▶ Capitalization assumes French are not credit constrained
 - ▶ Social housing, rent regulation (controls)?

Smaller comments

- Emphasize when/why property/n'hood/district level
- Table 3: French transactions are not representative of pop?
- Table 2: Since $\beta \downarrow$, quality accounts for only part
- Table 2: Sign change in (5) makes it hard to interpret
- Make it easy to see whether FX effects are included
- Is it unusual to have repeat sales? What does it buy you?
- Table 9: Why capital gain and not price as dep var?
- Home bias effect small but used for instrumentation

Conclusion

- Really interesting topic and great data
- Trying to cover a lot of ground (too much?)
- Clarify where your main contribution lies
 - ▶ Elaborate discussion of that part
 - ▶ Tone down the other part
- BEST OF LUCK!