

We'll Always Have Paris  
Out-of-Country Buyers in the Housing Markets  
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Discussed by Felipe Severino - Dartmouth College

**Main Result: Paris housing market over the period 1992-2016**

## **1. Out-of-Country buyers investment decision [descriptive]**

- Purchase small but high quality in desirable neighborhood and areas with more compatriots
- Pay higher prices, realized lower capital gains and hold for longer period
- Affected by home-country economics conditions

**Main Result: Paris housing market over the period 1992-2016**

## **2. Price Impact [casual]**

- No evidence of price effect on average from out-of-country demand
- Heterogenous effect of out-of-country demand, prices up in ex-ante less valuable properties

# Main Comments

1. Narrative of the result and contribution [descriptive]
2. Interpretation of the magnitudes
3. Investment vs consumption dimension
4. Price Impact empirical strategy and interpretation

## Comment 1: Narrative of the descriptive results

### 1. Out-of-Country buyers investment decision

- Purchase small but high quality in desirable neighborhood [**New**] and areas with more compatriots [Badarinza and Ramadorai 2018]
- Pay higher prices, realized lower capital gains and hold for longer period [Chinco and Mayer 2016 , “out of town”]
- Affected by home-country economics conditions [Badarinza and Ramadorai 2018]

## Suggestion 1: Narrative of the descriptive results

What are the key factor affecting housing buying decision?

- Sorting on location:
- Search cost and asymmetric information:
- Economic conditions:
- Investment vs consumptions:

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## Suggestion 1: Narrative of the descriptive results

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- Sorting on location: Purchase small but high quality in desirable neighborhood and areas with more compatriots
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- Economic conditions: Affected by home-country economics conditions
- Investment vs consumptions: **Luxury vs Safe Haven?**



## Comment 2: Interpretation of the magnitudes

The results highlight the existence of the factors affecting house buying decisions

<i>Dependent variable:</i>	(1) Price	(2) Price	F
Buyer: non-resident foreigner	0.195 *** (0.007)	-0.007 (0.007)	C
Buyer: resident foreigner	-0.157 *** (0.006)	-0.112 *** (0.005)	-(
Year fixed effects	Yes	Yes	
Prev. year fixed effects	No	No	
Neighborhood fixed effects	No	Yes	
<i>N</i>	97,098	96,863	
<i>R</i> <sup>2</sup>	0.317	0.487	

But it is hard to understand the magnitudes, without a benchmark

## Suggestion 2: Interpretation of the magnitudes

Use differences between **out-of-town** and **out-of-country** to compare magnitude and differential behavior

- 1/3 of french buyers are not living in Paris (out-of-town)

Panel B: Specifications with more detailed seller and buyer groups

	(1)	(2)	(3)
Seller: non-resident foreigner	-0.147 *** (0.006)	-0.141 *** (0.006)	-0.135 *** (0.011)
Seller: foreigner + rest of France	-0.061 *** (0.016)	-0.062 *** (0.016)	-0.060 ** (0.028)
Seller: foreigner + Parisian region	0.050 *** (0.012)	0.036 *** (0.012)	0.028 (0.019)
Seller: foreigner + Paris	0.029 *** (0.005)	0.022 *** (0.005)	0.018 *** (0.006)
Seller: French + abroad	-0.090 *** (0.011)	-0.088 *** (0.011)	-0.079 *** (0.020)
Seller: French + rest of France	-0.064 *** (0.005)	-0.060 *** (0.005)	-0.067 *** (0.009)
Seller: French + Parisian region	-0.027 *** (0.005)	-0.024 *** (0.005)	-0.022 ** (0.010)
Seller: French + Paris	[left out]	[left out]	[left out]

Seller non-resident foreign is -0.141(0.006) vs french-rest of french -0.060 (0.005)

- Consistent with lack of centralize MLS in Paris

## Suggestion 2: Out-of-country and Out-of-town

### Differential Capital Gain Tax(CGT) is important

Since 2012, the seller has to pay 15.5% of capital gains in social charges, even though French social entitlements do not extend to non-residents.

**Until January 1, 2015**, the rate of CGT 19% for EU residents and 33.33% for residents of other countries.

Total tax bill for American sellers:  $33.3\% + 15.5\% = 48.8\%$

**As of January 1, 2015**, one single rate of 19% applies to all taxpayers regardless of their country of residence.

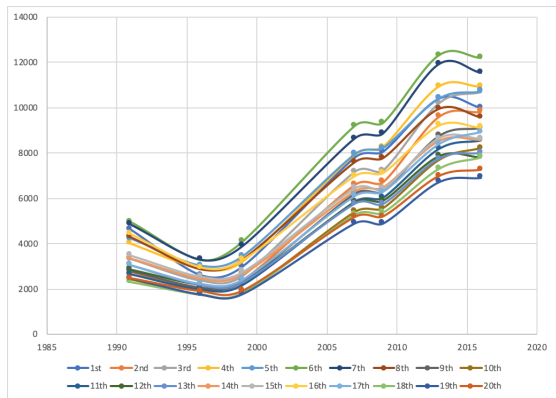
Total tax bill for American sellers:  $19\% + 15.5\% = 34.5\%$

**Social charges makes the results on capital gains even more surprising**

## Comment 3: Investment vs Consumption

A important dimension of out-of-country buyer is the idea of safe haven.

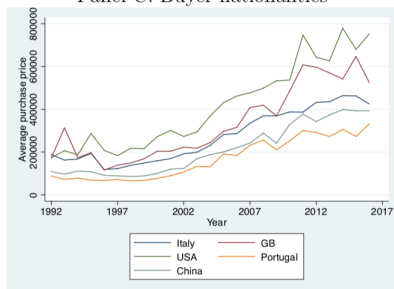
Definition: A safe haven is an investment that is expected to retain or increase in value during times of market turbulence.



## Suggestion 3: Ex-ante measures of need of safe haven

Ex-ante measure based on: Political Risk, Financial Stability, etc.

Panel C: Buyer nationalities



US citizen less need of safe haven than Tunisia or Portugal

-Table 8, high price premia associate to wealthy countries (Luxury) vs low premia for Tunisia, Portugal (Safe Haven)

-Demographics heterogenous effect important to explore.

## Comment 4: Price Impact of Out-of-Country Investment

Relationship between house prices and out-of-country buyers could be biased

### **What is the expected bias?**

Unobservables that correlated with property price increase and attractiveness of the location (e.g. improved amenities)

Suggest upward bias on the coefficient

Instrument the “net inflow of out-country buyers” in a district based on 1982 share of out-of-country buyers by nationality

## Suggestion 4: Price Impact of Out-of-Country Investment

Coefficient between OLS and 2SLS are statistically the same

<i>Sample:</i>	(1)	(2)	(3)	(4)	(3)
	All trans.	All trans.	Transactions between French	Transactions between French	Stage 2 $\alpha$ .
Inflow non-resident foreigners	0.002 *** (0.000)	0.001 ** (0.000)	0.003 *** (0.001)	0.001 * (0.001)	0.003 (0.003)
Inflow resident foreigners	-0.001 ** (0.000)	0.000 (0.000)	0.000 (0.001)	0.000 (0.001)	0.033 (0.023)
Buyer and seller group fixed effects	Yes	Yes	-	-	
Holding period $\times$ education interact.	Yes	Yes	Yes	Yes	Yes
District fixed effects	No	Yes	No	Yes	Yes
Year-1990 ratio of secondary resid.	No	Yes	No	Yes	Yes
<i>N</i>	37,925	37,920	15,305	15,303	
<i>R</i> <sup>2</sup>	0.551	0.555	0.558	0.562	15,303

I will caveat the conclusion, or try to understand what is driving this

Are OLS for sample splits are more consistent with ex-ante biases solve by the instrument?

How are standard errors calculated?

## Extra: Who are the foreign residents?

They seems to do better that “Frenchs”, they pay less for their houses even after conditioning on location. Table 2

<i>Dependent variable:</i>	(1) Price	(2) Price	(3) Price/m <sup>2</sup>	(4) Prev. price	(5) Prev. price	(6) Prev. price/m <sup>2</sup>
Buyer: non-resident foreigner	0.195 *** (0.007)	-0.007 (0.007)	0.052 *** (0.003)	0.143 *** (0.010)	-0.043 *** (0.009)	0.019 *** (0.006)
Buyer: resident foreigner	-0.157 *** (0.006)	-0.112 *** (0.005)	-0.054 *** (0.002)	-0.121 *** (0.008)	-0.090 *** (0.007)	-0.036 *** (0.005)
Year fixed effects	Yes	Yes	Yes	No	No	No
Prev. year fixed effects	No	No	No	Yes	Yes	Yes
Neighborhood fixed effects	No	Yes	Yes	No	Yes	Yes
<i>N</i>	97,098	96,863	79,144	59,485	59,339	50,564
<i>R</i> <sup>2</sup>	0.317	0.487	0.831	0.491	0.604	0.772

They have positive capital gains also. Table 5B

Suggestion [out of curiosity] Describe demographic of different groups of buyers and sellers



# Conclusion

Very interesting paper that documents a series of interesting empirical finding with respect to:

- investment decision of out-of-country buyers
- price impact of those decision

Change on the narrative structure to highlight the key contributions

Thank you!