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Rising Sea Levels and Sinking Property Values: Hurricane Sandy and New York's Housing Market *

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Abstract

This paper analyzes the effects of hurricane Sandy on the New York City housing market using a large parcel-level dataset that contains all housing sales for 2003-2017. The dataset also contains geo-coded FEMA data on which building structures were damaged by the hurricane and to what degree. Our estimates provide robust evidence of a persistent negative impact on flood zone housing values. We show the gradual emergence of a price penalty among flood zone properties that were not damaged by Sandy, reaching 8% in year 2017 and showing no signs of recovery. In contrast, damaged properties suffered a large immediate drop in value following the storm (17-22%), followed by a partial recovery and convergence toward a similar penalty as non-damaged properties. The partial recovery in the prices of damaged properties likely reflects their gradual restoration. However, the persistent price reduction affecting all flood-zone properties is more consistent with a learning mechanism. Hurricane Sandy may have increased the perceived risk of large-scale flooding episodes in that area.

JEL Classifications: JEL codes H56, K42, R33

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