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Citation: Skouralis, A., Lux, N. & Andrew, M. (2024). Does flood risk affect property prices? Evidence from a property-level flood score. Journal of Housing Economics, 66, 102027. doi: 10.1016/j.jhe.2024.102027

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Link to published version: https://doi.org/10.1016/j.jhe.2024.102027

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Does flood risk affect property prices? Evidence from a property-level flood score

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PII: S1051-1377(24)00046-9
DOI: https://doi.org/10.1016/j.jhe.2024.102027
Reference: YJHEC 102027

To appear in: *Journal of Housing Economics*

Received date: 10 October 2023
Revised date: 2 October 2024
Accepted date: 3 October 2024

Please cite this article as: Alexandros Skouralis , Nicole Lux , Mark Andrew , Does flood risk affect property prices? Evidence from a property-level flood score, *Journal of Housing Economics* (2024), doi: https://doi.org/10.1016/j.jhe.2024.102027

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Highlights

- One in six properties in England is exposed to flood risk.
- We employ a unique property price and flood risk dataset by Rightmove and Twinn.
- Properties at risk are sold at 8.14% discount compared to non-exposed properties.
- The unconditional average discount can reach 32.2% for very high risk properties.
- A 1% increase in flood risk is linked to a property price decline of 0.07%-0.11%.

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Does flood risk affect property prices? Evidence from a property-level flood score

October 2, 2024

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Abstract

One in six properties in England is exposed to flood risk and around half of those affected properties can be characterised as high risk. In this paper we examine whether the probability of flooding is capitalised in England's property market prices. We use unique property-level data from Rightmove, UK's no.1 property website and the property-level $FloodScore^{TM}$ by Twinn, Royal HaskoningDHV. The latter is a metric of objective flood risk based on the likelihood of an individual property being flooded due to rainfall, overflowing rivers and tidal surges and is commonly used by UK lenders. By comparing the unconditional averages of our data, we find that properties at risk are sold at an 8.14% discount compared to non-exposed properties, and the price discount increases to 32.2% for properties with very high flood risk. By 2080 the flood events are expected to become more frequent and the average flood risk is projected to increase by 8%. Our empirical model suggests that one percentage point increase in properties' flood risk is associated with a decline of 0.07% to 0.11% in both sold and

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asking property prices. The impact is higher for properties of which flood risk is expected to increase or for regions that have recently experienced a flood event.

Keywords: *Climate change ; Flood Risk ; House Prices ; Flood Risk Discount; Flood Events*

JEL classification: *R3 ; O13 ; O18 ; Q54 ; Q56*

1. Introduction

In 2015, the Paris Agreement coordinated a global response in the face of the imminent climate change threat. According to the most recent 2023 instalment of the Intergovernmental Panel on Climate Change's (IPCC) Sixth Assessment Report (AR6) human-induced global warming of 1.1 degrees Celsius has led to dramatic changes to the climate, unprecedented in recent human history. Changing course to limit global warming to 1.5 degrees Celsius can be achieved by considerable greenhouse gas emissions reductions in the near-term. In the UK, according to Met Office data, since 1884 the annual mean air temperature increased by 13.4%[2] and in the coming century it is expected that the number of very hot days and the intensity and frequency of extreme precipitation events are very likely to rise further, resulting in more numerous natural disasters such as floods (Van Aalst 2006). Over the last 10 years in the UK, there were at least three severe flooding events; the 2013/14 South England winter flooding, the 2015/16 Northern Britain winter flooding and the 2019/2020 floods in Northern England, the Midlands and on both sides of the English/Welsh border. Global flood losses were estimated at $6 billion per year back in 2005 and they are projected to increase above $60 billion by 2050 in an optimistic scenario in which adaptation investments maintain sea-level rise and the probability of flooding (Hallegatte et al. 2013).

This paper investigates and quantifies the impact of flood risk on house prices. For our analysis, we use a large set of property-level data that includes more than 4.8 million observations for the period 2006-2022 which has been provided by Rightmove, the largest property website in the UK. For each property, we have data on its asking and sold price, qualitative characteristics available at the Rightmove website and a flood score provided by Twinn, Royal HaskoningDHV. Importantly, the dataset is unique

[2] The temperature is measured in degrees Celsius (°C).

and has never been used before in the literature. The property-level flood score, expressed a percentage, is estimated using advanced flood modelling techniques and data from the Centre of Ecology & Hydrology and the Environment Agency. The metric is commonly used by large UK lenders[3] and provides a sophisticated and precise quantification of the likelihood of an individual property being flooded, due to rainfall, overflowing rivers and tidal surges, compared to more simple methods used in the literature, such as location within a floodplain or distance from a water body. In addition, it allows us to provide a country- level analysis, and not to focus on a specific extreme weather event.

Economic theory and the majority of the empirical literature suggest that flood risk has a negative effect on property values. Flood events affect house prices via various channels such as the destruction of capital and increases in insurance costs (Carney 2015), but also indirectly due to changes in consumption patterns (Giglio et al. 2021) and reduced economic activity (Indaco et al. 2021). In addition, extreme weather events result in unstable financial markets (IMF 2020) and consequently investments are significantly reduced since lenders become more cautious during a crisis (Hoffmann et al. 2013). Finally, such an event changes market dynamics and informed buyers could negotiate a lower price since they have an advantage when the market is under distress after an extreme weather event (Piazzesi & Schneider 2009).

However some empirical studies on flood risk and property prices have found mixed and conflicting results (Beltrán et al. 2018). Morgan (2007) finds that properties in coastal areas are sold at a premium as a result of the subsidized insurance premiums and the benefits of living close to the water (ocean view, water-based recreation opportunities) which outweigh the risks from a future flood event.[4] When Hurricane Ivan hit the Florida-Alabama coastline in 2004, it resulted in a significant market correction with property prices dropping by 15%. Pryce et al. (2011) provide a potential explanation. They argue that there is no adequate awareness of flood risk. Market participants are characterised by "*amnesia*" and "*myopia*" regarding the probability of a future flood event. Therefore, price discounts can be a result of a flood event, but not necessarily of flood risk (Lamond et al. 2010).

Our paper provides further empirical evidence to this debate. Firstly, our data's unconditional average values suggest that there is a 8.14% flood risk discount on exposed properties compared to non-exposed properties. Secondly, all properties, even the ones with a low (but not zero) probability of experiencing a flood in the future are sold at a discount. By comparing the average sold property price for different levels of flood risk, we find that low-risk properties are sold with a discount of 1.3%, which

[3] Notably, Lloyds Banking Group, a major player in the UK mortgage market, incorporates the Twinn index into their last 2 Sustainability reports for 2022 and 2023, highlighting its relevance. Twinn was named Ambiental up until 2023.

[4] Similarly, Rajapaksa et al. (2017) and Beltrán et al. (2018) find that the relationship between environmental factors and property prices is not linear. Houses in close distance to a river have an additional amenity value that outweighs flood risks.

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can reach 32.2% for properties with a flood score equal to 100%.[5] Our empirical analysis shows that a one percentage point increase in property's flood risk is associated with price discounts between 0.07% and 0.11%. Our empirical findings are economically significant, especially considering that there is a reinsurance scheme (Flood Re) in place that secures the availability of flood insurance for all properties. The impact is significantly higher for properties whose flood score is projected to increase between 2050 and 2080. Thirdly, our paper is one of very few studies that explore whether flood risk is capitalised in asking property prices. Our empirical analysis suggests that flood risk affects both the sellers' asking and buyers' offer prices, which could be attributed to expert services, such as Twinn or the Governmental Environmental Agency, reducing information asymmetries between sellers and buyers by quantifying a dwelling's exposure to the risk of flooding.

In addition, we explore the asymmetries between flood risk and property prices. Firstly, we find that the effect is not homogeneous across time. More specifically, in periods after an extreme weather event occurs, all properties located in the affected area are sold at a discount as buyers are more aware of flood risk and therefore its impact on property prices is stronger. Secondly, property characteristics are not priced the same across the property price distribution.

Our data suggests that flood risk affects individuals across the income distribution[6], however higher-priced homes value certain characteristics, such as the number of bathrooms and property size, differently from buyers of lower-priced homes (Zietz et al. 2008). For that purpose, we employ a quantile regression approach that allows us to quantify the impact of flood risk across the distribution of property prices. Quantile regressions complement our benchmark model specification by identifying how differently property prices respond to flood risk at different quantiles (Mak et al. 2010). Our empirical findings show that the discount due to flood risk is larger for properties located in the left quantiles of the conditional distribution, which indicates that lower-priced home buyers place a higher value on the risk of flooding.

The rest of the paper is structured as follows. Section 2 reviews the literature. In Section 3 we describe the dataset and report summary statistics. Section 4 discusses the empirical methodology and results. In Section 5 we present the robustness tests results. Section 6 examines the asymmetries in the relationship between flood risk and property prices. Finally, Section 7 concludes.

[5] The discounts are estimated using the unconditional average nominal property prices over the period 2006–2022. The average price for properties with zero flood risk is £280,970, while for properties with a 100% flood risk, the average price is just below £190,500. The sample includes all properties, even those with no data on other property characteristics.

[6] Based on our sample, the real average household income is around £32,000. For households below this average, the average flood risk is 9.9% (with a standard deviation of 26.15%), whereas it is 6.2% (with a standard deviation of 19%) for higher earners. Thus, there appears to be no statistically significant difference between the two income groups in terms of flood risk. Moreover, concerning property exposure, 18% of properties in the below-average income bracket face exposure, as opposed to 15% of those in wealthier households.

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2 Review of recent studies

Batten (2018) provides an empirical review of modelling techniques related to climate risk. She distinguishes between transition risk that is related to the transition to a low-carbon economy (Batten et al. 2016) and physical climate risk. The latter is defined as the risks arising from climate-related hazards (e.g. sea level rise, flooding, temperature changes, tornado activity) with the vulnerability of exposure of human and natural systems. For instance, very high temperatures drive down economic activity via reduced investments, lower productivity and declines in industrial and agricultural production (Colacito et al. 2019, Acevedo et al. 2020). The literature finds a strong negative impact from climate change on real estate markets. The studies tend to focus on extreme weather events such as hurricanes (Hallstrom & Smith, 2005) and tornadoes (Donadelli et al. 2020). They all find a significant adverse effect on the exposed properties.

This paper contributes to the literature of flood risk and house prices. We present a country-level analysis for a very large number of properties over a prolonged time period, whereas most of the literature focuses on specific weather events in certain locations. For instance, Ortega & Taspinar (2018) investigate the effect of hurricane Sandy on the New York City housing market and found that prices of damaged properties fell by around 10% more than non-affected properties. Similarly, the effect of Hurricane Flan and Hurricane Floyd in North Carolina resulted in a decline of 5.7% and 8.8% in house prices (Bin & Landry 2013) and the tropical storm Alberto in 1994 was followed by a temporary decline in property prices in Alabama, Georgia, and Florida. The impact varied between 28% to 47%, but the effect was found to be temporary (Atreya et al. 2013). More recently, Zhang (2016) and Zhang & Leonard (2019) study the effect of flood risk in the Fargo in North Dakota and Moorhead in Minnesota. Their empirical findings indicate that following a flood event house prices are discounted by 13% and that this discount exceeded 20% for properties within 1000 feet from the floodplain. All the aforementioned studies use a quasi-experimental design with a difference-in-differences approach. The main drawbacks of this approach is that all properties in the affected areas are treated as equally exposed and the analysis does not disentangle the effect of the occurrence of a flood and the actual damage caused from flooding in the treated group of properties (Atreya & Ferreira, 2015 ; Beltrán et al., 2019).

The distinguishing feature of our paper is the use of the unique Rightmove & Twinn dataset that allows us to quantify the objective level of flood risk that is specific to a particular house controlling for its characteristics. To incorporate flood risk into our analysis, we employ a hedonic price framework, which is a common method to examine the impact of a natural disaster on property prices. Previous examples such as Bin & Polasky (2004) and Morgan (2007) use a similar hedonic property price function, but they do not attempt to explicitly quantify flood risk as it is only incorporated in the model as a dummy variable, depending on whether the property is inside or outside the floodplain. Our property-level flood risk also allows us to run a series of robustness tests excluding high risk properties,

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which are more likely to have been affected by flooding recently.[7] As suggested by Hallstrom & Smith (2005) the exclusion of the affected properties would account for the main drawback of the DiD approach.[8]

Of particular interest to this paper, Belanger & Bourdeau-Brien (2018) study the effect of flood risk on a smaller sample of around 600,000 English residential properties. Following the literature, they use dummy variables for properties that are built in a floodplain or near water to capture flood risk.[9] Their findings suggest that there is a significant flood risk discount in waterfront properties but that the impact is considerable also for dwellings further away from the water body. However, the floodplain dummy variable, similarly to the DiD approach, treats all properties the same (as high or zero risk) and ignores the fact that properties within a floodplain are not equally exposed.[10] Property's location within the floodplain is not necessarily the best indicator of flood risk since it does not take into consideration other important factors. McKenzie & Levendis (2010) study Hurricane Katrina, which was a standing-water flood and therefore property elevation was of primary importance. They argue that the likelihood of flood risks and the associated discounts are inversely related to the elevation of the property within the floodplain. In other words, the location within a floodplain captures the risk of flooding, but not necessarily the extent of flooding since properties are at different elevation levels, implying that the flood effect will not be homogeneous. Our technically advanced and more accurate flood risk metric differentiates this paper to the rest of the literature, since it provides a property-specific objective flood risk assessment across properties within and outside the floodplain.

Finally, this paper contributes to the literature examining how different quantiles of property prices in a distribution respond differently to flood risk. We employ a quantile regression model that allows us to explore the differential effect of flood risk on lower and higher-priced houses. This methodological approach is commonly used to explore changes in the entire distribution of house prices (Zietz et al. 2008, Mak et al. 2010, McMillen 2008, 2015). McMillen (2008) applies a quantile hedonic house price function to examine the change in the distribution of house prices in Chicago between 1995 and 2005. His findings suggest that the house price distribution shifted farther to the right than the lower end or in other words, higher-priced homes became even more highly priced than before. Location and housing attributes, such as property types, cannot fully explain changes in the house price distributions.[11] A

[7] We do not have data on which individual property has been damaged. Therefore, we cannot rule out the probability a lower risk property to have experienced flooding. However we can assume with very high probability that those properties with flood risk equal to 1 have been damaged in the near past and that could be the reason why they are sold at a discount.

[8] Beltrán et al. (2019) use a repeat-sales approach to overcome this issue, but this not possible in our dataset because the data includes a unique ID for each listing and not for each property.

[9] Rambaldi et al. (2013) examine the 2011 Brisbane flood in Australia. They measure flood risk as the vertical distances of house relative to a flood level that occurs on average once every 100 years and they find that properties are sold at a 5.5% discount for each metre below the defined flood level.

[10] Belanger & Bourdeau-Brien (2018) is one of the few studies that also include property elevation controls.

[11] Deng et al. (2012) present similar findings for the property market in Singapore during the two boom periods of 1996 and 2005–2007.

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similar quantile approach has been adopted by Zhang & Yi (2017, 2018) in their study of the Beijing property market and how housing characteristics are valued differently across the property price distribution. We follow Zhang & Yi (2017) and we use the terms higher and lower-priced properties to denote the ones located in the lower and upper quantiles of the property price conditional distribution. Therefore a higher-priced property is more expensive compared to others with similar characteristics.

Our paper is one of the first that examines the heterogeneous effect of flood risk on the conditional distribution of house prices in England. One of the few studies in the literature, Zhang (2016), follows a similar approach for the Fargo-Moorhead Metropolitan Statistical Area between 2000 and 2013 but they measure flood risk based on the distance from a 100-year floodplain. Our data allow us to explore more deeply the asymmetric relationship between flood risk and property prices. More specifically, we examine the average discount from a one percentage point increase in flood risk across different percentiles of the property price distribution. The results indicate that the impact of flood risk is asymmetric across the conditional distribution of property prices and the effect is more significant for conditional lower-priced rather than higher-priced houses.

3 Data

3.1 Rightmove property prices data

We obtain data for 4.8 million listings in England from Rightmove. Our data includes the asking and sold price and date, number of bedrooms and the year the property was built. Our sample only includes single-family houses for the period 2006 up until August 2022.[12]

[Insert Table 1]

[Insert Table 2]

Tables 1 and 2 display the property prices summary statistics per group and per year respectively. In total we have data for 4,882,880 individual listings at the Rightmove website of the average asking property price is £309,518. Of those listings two out of three[13] led to a sale. The average sold price is £277,264, which is as expected lower (-10.42%) than the asking price. Data is then divided into five main categories depending on their property type. One out of three properties are classified as detached, which is the most expensive category with an average sold price of £377,932. Semi-detached and terraced properties are priced at around £216,398 and £201,941 respectively. Bungalows are sold at £248,867 and finally 6-7% of our sample is unclassified. Our sample includes data from 9 English regions. The area around London (South East and Outer London) is the most expensive with an average sold price of just above £350,000. East Anglia and South West are also priced higher than the rest of

[12] Due to budgetary limitations, we exclude properties in Inner London which are mainly apartments, Wales and Scotland. In addition, we do not have data on other property characteristics, since they are not available in the Rightmove website.

[13] The percentage refers to the entire sampling period 2006-2022.

England at £286,011 and £279,533 respectively. The most affordable houses are in the Yorkshire and East Midlands regions with an average price of around £200,000.[14] Table 2 displays the average asking and sold property price in each year. Our sample is balanced across all years. Since 2012, (nominal) property prices increased steadily by an average rate of 4%. Prices in 2019 were stagnant but the market bounced back, and prices increased by more than 7%.

3.2 Measuring flood risk

During the conveyancing process, house buyers in England receive a flood risk report informing them whether the dwelling is at risk of flooding in the future. They either continue with the transaction, withdraw from it or re-negotiate the price. In our study, we use Twinn $FloodScore^{TM}$ to quantify flood risk similarly to many UK mortgage providers. The flood risk metric is assigned to every addressable property in Great Britain and Northern Ireland and considers risk from fluvial, pluvial and tidal sources. In particular, Twinn's property-level flood score provides a thorough evaluation of the likelihood and potential severity of flood risks affecting individual properties. This specialized scoring system employs a sophisticated analysis of various layers within the UK Flood Map, utilizing a weighted algorithm that considers both the expected severity and frequency of flooding from multiple sources, fluvial, pluvial, tidal and ground water. The company's Flood Map is constructed using advanced hydrological modelling techniques and integrates multiple datasets from prominent UK agencies and organisations[15]. Notably, the incorporation of detailed terrain data, facilitated by LiDAR technology at a resolution of 5 meters, enhances the precision of flood simulations[16]. We employ this flood risk metric with the aim of achieving the highest possible accuracy, particularly since other flood risk variables commonly used in literature (such as distance from water or area flood zones) may lack accuracy due to property and location-specific characteristics, such as elevation and infrastructure.

First, each property undergoes mapping within the Flood Map. Site locations of property-level flood scores are determined using local point geo-coded address datasets that include a grid reference (latitude-longitude) for accurate mapping. Second, each property is allocated a buffer zone, typically 15 meters for residential properties. This buffer zone aims to prevent the underestimation of risk by accounting for scenarios where flooding may occur upon a property's surroundings without directly affecting its centroid. Subsequently, the maximum flood depth is extracted to each buffered point, for primary flood source (fluvial, pluvial, tidal, groundwater) and for each return period (1 in 30 years to 1 in 1,000 years). The likelihood of flooding is quantified in terms of return periods, representing the

[14] All the aforementioned prices are the average across the sampling period 2006-2022.
[15] Within the United Kingdom, the Centre for Ecology and Hydrology (CEH) Flood Estimation Handbook (FEH) was the primary source of methodological approach used (https://fehweb.ceh.ac.uk/).
[16] The Environment Agency (UK) is the publisher of LiDAR data in the UK, which covers the majority of the UK's residential and commercial properties. This ensures that the high value asset areas are modelled on the most precise digital elevation data. The benefit of LiDAR data is also that is provides a highly precise flood modelling surface, which allows the best representation of ground surface features, including manmade structures.

average recurrence interval of specific flood events. Following this, an estimated loss in monetary terms (£) for each flood source is computed based on industry standard depth-damage curves. These curves typically set a threshold level of 25 centimetres, beyond which damages are presumed to occur. For instance, pluvial flooding of 15 centimetres is assumed to incur zero loss as the floodwater level remains below the ground floor elevation. Moreover, the dataset has also been adjusted for flood defences based on the standard of protection which is assumed to be provided and data from the UK Environmental Agency.

Figure 1 is provided by Twinn and illustrates how properties near a water body can have low exposure to flooding. The figure shows that properties near the shore are not at risk of flooding, whereas properties located further away are considered to be more exposed. The main advantage of our metric is that it is a household-level flood risk measure as it estimates the likelihood of an individual property being flooded due to rainfall, overflowing rivers or tidal surges, and differentiates between the damage caused to different house types. We have four alternative indicators of flood risk based on different emissions scenarios (low/moderate and high level of emissions) and two epochs (2050 and 2080).

[Insert Figure 1]

In the final stage, the losses attributed to each flood source are annualized to calculate an average annual loss for each source of flooding, which are then aggregated to generate a combined loss value. The algorithm is designed to prevent duplication of risks, which is a common occurrence especially in cases of both fluvial and pluvial flooding. When evaluating different flood mechanisms, the algorithm accounts for the highest risk score observed. Subsequently, the total loss value is transformed into a flood risk rating ranging from 0 to 100 by dividing the loss value by 6 and capping the maximum value at 100. For instance, a Risk Rating of 28 corresponds to an average annual loss of £170, while an average annual loss of £600 or more results in a Risk Rating of 100. The flood score is designed to be linear, which means that a risk of 50% represents twice the risk of 25%. Properties are categorized into five risk levels based on their flood scores: Very low (1-20%), low (21-40%), moderate (41-60%), high (61%-80%), and very high (81-100%). A score of 100% signifies that the property falls within the highest bracket of estimated average annual loss, indicating a high likelihood of flooding occurring frequently and with severe consequences. Twinn, the data provider, employs a general "rule of thumb" to interpret flood scores, as outlined in Table 3. Shallow flooding poses a significant risk to nearly all exposed properties, whereas only those classified as moderate or high/very high risk are vulnerable to deep flooding.

[Insert Table 3]

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Based on our sample, 16% of properties are exposed to flooding and the remaining 84% is characterised as zero risk. Figure 2 shows the number of (exposed) properties[17] in our sample that belong to each group. One out of three properties are at very low risk and almost one out of two is at the very low/low category. Importantly, 43% of the exposed properties, which is the equivalent of 7-8% of all properties in our sample are in the high/very high risk group.

[Insert Figure 2]

[Insert Figure 3]

Figure 3A depicts the average house prices across various levels of flood risk. We observe that prices do not vary considerably for low/medium levels of flood risk. More specifically, houses with a flood risk score below 60% are sold at a discount ranging between 2.6% and 4%.[18] However, this discount is significantly larger for houses in the high flood risk score ranges, 81%-90% and 91%-100%, at 15.5% and 30% respectively. Flooding affects house prices, but the impact is driven by properties heavily exposed to this (extreme) risk.[19]

Figure 3B displays the house price distribution for zero or very high flood risk properties in a five-year period (2017-2021).[20] The difference between the two distributions is clear with riskier properties more skewed to the left. As illustrated in both Figures, the average sold price of very risky properties is below £190,000, whereas the average value for zero flood risk houses is £270,000. In addition, only 2.12% of zero risk properties are priced below £100,000 compared to 7.18% for properties with a flood score above 80%. On the other hand, the house price distribution of non-exposed houses has a fatter right tail since 13.5% have a value above £500,000. The percentage for expensive risky properties is just below 5.5%.

We divide our sample into three categories: zero risk, medium risk (including very low to moderate), and high risk (high to very high), and proceeded to analyse the property price statistics for each group. Specifically, Table 4A presents the average prices of sold properties across various levels of flood risk and different emission scenarios. As expected, non-exposed properties are priced higher than those of medium or high risk and their pricing is consistent across the four greenhouse gas emission scenarios. For our benchmark model specification, we use the more optimistic 2050 low/moderate emissions scenario. Based on this scenario, 16.45% of all properties (803,057) in our sample are exposed to

[17] We cannot definitively determine if a property was sold multiple times during our sample period due to the absence of a unique property ID. As a result, each transaction is observed independently, and this might potentially result in a property appear more than once in Figure 1.

[18] For properties with a flood score between 60% and 70%, the average sold price is even above the zero risk properties. However this can be attributed to the regional decomposition of the sample. In this group more expensive regions (East Anglia and South East) are over-represented, whereas more affordable regions (Midlands) are under-represented.

[19] Interestingly, most of the properties with a very high flood risk are located in South West (22%) and East Anglia (37%) where the average house price is above our sample's average. See Table 1.

[20] We calculate the distribution for the 5 years to exclude the 2008 global financial crisis. However the inclusion of all years will not significantly change the distributions' shape.

medium or high flood risk.[21] When we extend the horizon to 2080, the percentage of high risk properties increases by 3.03%. In addition, if we adopt a more pessimistic high emissions scenario, 8.19% more properties are classified as high risk over the next thirty years (epoch 2050). The percentage of non-exposed properties is constant across different scenarios at 80%-85%.

[Insert Table 4]

The effect of flooding has a very localised impact and the average flood risk varies across regions. As displayed in Table 4C, the highest values are observed in East Anglia, Yorkshire and North West at 12.49%, 10.79% and 10.25% respectively. In those three regions 13%-18% of the properties (in our sample) are at risk. Houses in the West and East Midlands have lower than average flood risk scores, varying between 3.77% and 4.73%. Less 12% of the houses are at risk in these regions. Regarding property types, semi-detached and terraced houses are more are at risk of flooding since any temporary protection measures, such as blocking doors, windows, vents and pipes, will not be effective unless their neighbours also take similar steps.

4 Empirical Analysis

4.1 Methodology

In this section we empirically examine the relationship between flood risk and property prices. We follow the literature and employ a logarithmic hedonic property price modelling technique that is based on the assumption that a good's pricing, in our case of a property, is driven by its characteristics.

The repeated cross-sectional regression model has the following specification:

$$logPrice_i = \alpha + \beta_1 Flood_i + \beta_2 X_i + year_i + month_i + postcode_i + prop.type_i + \varepsilon_i \quad (1)$$

where $logPrice_i$ is the logarithm of the (sold) price of property i and Flood is based on Twinn's Flood Score and is expressed as a percentage. It stands for the probability that the specific property will be affected by a flood event. As mentioned before the risk metric is based on a scenario with low/moderate emissions and a 2050 horizon. We expect a negative relationship between property prices and flood risk that would mean that the probability of flooding will be capitalised and these at-risk properties will be sold at a discount compared to non-exposed houses. X_i is the matrix of property characteristics that includes the number of bedrooms in the house and the year built.[22] The two variables are available for the majority of listings in our sample and they allow us to control for size and quality

[21] If we only use sold property price the percentage is 16.52% or 528,033 properties.
[22] The age of the property enters the model as a categorical variable based on the decade built.

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of the property. We expect that modern larger properties (built more recently and with more bedrooms) will be priced higher than average.

Moreover, we have to take into consideration that property prices exhibit significant seasonality. Our data suggests that the average sold price is 3.55% higher in the beginning of the school year (September) than the sample average. The period between July-September is the quarter with the most sales (27.2% of the annual sales). On the other hand, only 6.6% of all transactions are completed in January and overall the first half of the year the market is not as busy as in the second half. For that purpose, we include year and month controls to account for changes in the economic environment and seasonality.

In addition, house prices vary a lot across the country, as displayed in Table 1. Properties in Outer London and South East regions are sold 70%-75% higher than those located in Yorkshire and East Midlands.[23] Therefore, we include area postcode controls to account for regional differences and amenities related to the location of each property. Similarly given that detached properties are, on average, 87% more expensive that terraced houses, we include four dummy variables to control for property type. Finally, we remove outliers from our sample. We do not include in the regression analysis properties below with prices £10,000 and above £10,000,000. In addition, we remove properties with no beds and those with more than 10 beds.

4.2 Results

The regression results are presented in Table 5. Across all model specifications, flood risk has a strong negative relationship with property prices. That indicates that property market participants take into consideration the probability of a flood event in their pricing. For each one percentage point increase in the probability of flooding, properties are sold at a discount between 0.07 to 0.11.[24] In other words, there is a discount between 5.6% to 8.8% between two exposed properties, of which one is characterised as very low versus very high flood risk. The results are consistent when we introduce a series of control variables. All the models are estimated with postcode-clustered standard errors and year and month control variables. All other variables have the expected signs. Additional rooms increase prices by 27% to 36%, whereas the more recently a house was built the higher is its property price.[25] In

[23] The property price refers to the average sold price for all properties in those regions for the period 2006-2022. The spread would be even greater if we take into consideration London city centre properties.

[24] The Net Present Value (NPV) of £6 increase in Annual Losses (1pp in Flood score) is estimated at approximately £46.3 over a 10-year period and at around £114 for a 60-year period. For the calculation we use a 5% discount rate per annum. Our estimated impact, which ranges between £194 and £305 (0.07% to 0.11% of the average property price of £277,264), exceeds the present value of potential future £6 annual losses over the property's lifetime. We believe that this is due to additional concerns about damages to personal difficult to replace items, stress and anxiety, future possible expenditure on flood mitigation and adaptation measures, possible increase in insurance premiums and wanting to avoid stress and anxiety in dealing with a flood event.

[25] Our sample includes properties built between 1970 and 2010 and therefore we do not include old historic houses that could be sold at a premium.

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Models (2) and (3) we present the empirical findings for the empirical model specification with all the property characteristics controls, the addition of which does not affect our results.

[Insert Table 5]

Based on the data from Twinn, flood risk is projected to increase for 380,098 properties in our sample by 2080. In other words, 11.9% of all sold properties or 73.4% of all exposed properties. The average projected increase in flood risk of exposed properties is estimated at 8.5%. In a more pessimistic scenario of high emissions, the average increase can be up to 20.5% or in other words, the average probability that a dwelling will flood is 9.65%. This data are publicly available for both lenders and buyers who are presented with different emission scenarios and time horizons. In Table 5, Model (4) includes a flood risk projection dummy variable that takes the value equal to one if the property flood risk is projected to increase between 2050 and 2080. The variable enters the model as a dummy variable and as an interactive term to capture if it changes the impact of flood risk on property prices. The estimated coefficient of the interaction term has a negative sign and therefore strengthens the impact of flood risk on property prices. Based on our empirical results, a one percentage point increase in flood risk is associated with a 0.06% price discount, however if the flood risk of the examined property increases in the future, the discount is almost twice as large.

4.3 Asking property price data

As mentioned before, not all listings resulted in a sale. Furthermore, the transacted price reflects the agreed outcome between the buyer and seller. We next examine whether sellers take into consideration flood risk in asking prices. The average flood risk of sold properties is estimated at 8.01%, whereas unsold properties' flood risk is 8.63%. In addition, based on data for the entire sample period, zero exposure to flooding increases the probability of a property being sold from 63.3%[26] to 65.6%. However, flood risk is not the main driver of the relatively low percentages of sales completion. The average asking price of unsold properties is around £350,000, which is 22.6% greater than the asking price of properties that were sold. In total 74.61% of all completed sales were sold at a discount and in only 11.48% was the sold price above the asking price. For the remaining 13.91% the buyer and seller's prices matched. Overall, the average discount from the initial asking price in a transaction was 3.6%.

Table 6 presents the results for asking property prices. The inclusion of all asking property prices provides a good robustness test since they indicate whether sellers incorporate their flood risk in pricing their properties. The empirical results show that property owners recognize that the probability of a flood event affects their house value and are willing to list their properties at a discount if they are at-risk. The flood risk discount is estimated between 0.07-0.11% per one percentage point increase in flood risk. The controls for year built and number of bedrooms are positively correlated with the property's

[26] The percentage refers to the number of sold properties to total properties with very high flood risk.

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asking price. In addition, the impact of flood risk is stronger for properties whose projected flooding exposure will increase in the future.

As we mentioned above, three out of four sales were completed at a discount from the asking price. Interestingly, the average flood risk of these properties was at 8.11%, higher than the average and above those properties sold at a premium. On the latter group, the average flood risk is estimated at 7.42%.

[Insert Table 6]

In Models (8) and (9), we estimate the benchmark model, but we use the spread between sold and asking price as the dependent variable.[27] Our results show that there is a negative association between flood risk and the price discount. This empirical finding suggests that between two identical properties (same number of bedrooms, year built, region and type) sold at the same time period, the one with higher flood risk will be sold at a greater discount from the initial asking price. Taken together, this result and our findings for asking prices reveal that both buyers and sellers attach a lower value to a house which is more heavily exposed to flood risk.

5 Robustness analysis

5.1 Flood Zones

In this section we present a series of robustness checks. Firstly, we use data from the Environment Agency on flood zones. Each property is matched to a flood zone level based on its postcode. Postcodes are treated as a single point in space, allowing for the postcode to be looked up and the flood risk determined for that point. The values are obtained by Open Flood Risk that combines the (UK) Environment Agency's Risk of Flooding from Rivers and Sea with English postcodes from Open Postcode Geo. The Flood Zones utilized represent the sole publicly accessible flood risk information provided by the (UK) Environmental Agency. This data is fully available to all parties involved in the property market, allowing for a comprehensive examination of the impact of flood risk on property prices. These zones are meticulously categorized to distinguish between varying levels of flood risk. It's important to note that this flood risk metric serves as the primary source of information for potential buyers during the early stages of property transactions. By incorporating these Flood Zones into our analysis, we aim to capture their influence on the relationship between flood risk and property prices, thereby providing valuable insights for decision-making. Based on the probability of flooding, there are four flood zones; In Zones 1 and 2 are included properties with a chance of flooding less than 1%, in Zone 3 are properties with a flooding probability between 1% and 3.3% and finally in Zone 4 are the high risk properties with a chance of flooding of greater than 1 in 30. The vast majority of properties in

[27] The spread is based on CPI-deflated prices and is expressed in thousands of £GBP.

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our sample (93.15%) belong in Zone 2, followed by Zones 1 and 3 with (6.35%) and only 0.51% is at the high risk zone.[28] In Model (10) of Table 7, we run the benchmark regression model with property type and flood zone controls. The inclusion of the Flood Zone does not affect our findings which are quantitatively similar to in Model (3) and fully support our expectations and earlier findings.

[Insert Table 7]

5.2 Alternative samples and the COVID-19 period

In models (11) and (12), we test whether the COVID-19 period affected the dynamics between flood risk and property prices. As we observe in Table 2, the first year of the COVID-19 period (2020) there were around 305,000 listings, but only 61% resulted in an actual transaction, which indicates that the pandemic put the market on hold for a few months. 15.9% of properties were sold in the COVID-19 period between 2020-2022H1. To control whether the pandemic affects our benchmark findings, we run the model excluding the last three years. The findings are displayed in Model (11). They indicate the same relationship between flood risk and property prices in the period before and after the pandemic. In Model (12) we include a COVID-19 dummy variable as an interaction term. The estimate of the coefficient is statistically insignificant indicating that the pandemic did not affect the relationship between flood risk and property prices.

5.3 Middle Layer Super Output Areas (MSOAs) controls

In addition, we employ group of explanatory variables contains statistics available at the MSOA level. Across the country, there are significant differences in the standards of living and opportunities for work between regions. For robustness purposes we estimate the benchmark model with MSOA controls instead of postcode controls[29]. We include data on the 2018 net annual household income before housing costs, the 2020 population estimates for each area and the average life expectancy for males and females. All data are provided by the Office for National Statistics (ONS). The results are displayed in Models (14) and (13) with and without property characteristics controls, respectively. In both cases the relationship between flood risk and property prices is negative and statistically significant in line with our previous findings. With regards to the MSOA variables, the annual income and life expectancy is positively associated with property prices, whereas the relationship between property prices and population is negative. All flood risk estimated coefficients are negative and statistically significant.

5.4 Low vs. High flood risk properties

[28] Our sample is relatively small for properties located in North West England, a region with many properties that belong in the high risk zone.

[29] Belanger and Bourdeau-Brien (2018) use MSOA and LSOA controls instead of postcode controls in their empirical analysis.

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As previously discussed, there exists a notably higher discount in property prices for those categorized as high risk. To empirically validate this assertion, Model (15) is employed to discern the impact across various flood risk categories: very low, moderate, and very high. Following Twinn's classifications, we designate properties with a flood risk exceeding 80% as very high risk, while those with a score above 0% but below 20% are considered low risk. Our empirical analysis reveals that a one percentage point increase in flood risk for high risk properties correlates with a price decrease exceeding 0.11%. In contrast, the effect on low and moderate risk properties is weaker and not statistically significant.[30] Interestingly, properties falling within the 20%-80% flood risk range exhibit a lesser impact compared to low risk properties, aligning with the observations depicted in Figure 3.A. This trend suggests a potential augmentation in property value attributable to amenities associated with proximity to water bodies such as rivers or the sea.

6 Asymmetric dynamics between flood risk and property prices

In this section we examine whether the relationship between flood risk and property price is homogeneous across time and the price distribution. More specifically, we aim to answer the following two questions: (i) Do weather events alter market participants' understanding and behaviour towards flood risk? and (ii) are low and high-priced properties equally affected by the probability of a flood event?

6.1 Extreme Weather Events: Testing for myopia in the housing market

Our empirical findings suggest that market participants take into consideration flood risk in their decisions. However, the effect could be mitigated by buyers' irrational behaviour or incomplete information. Pryce et al. (2011) suggest that market participants exhibit "*myopia*" and "*amnesia*", implying that perceived risk could diverge considerably from actual risk. In this section, we test whether buyers alter their behaviour and value houses with a lower flood risk more after an extreme weather event. We focus on the recent six major hydrological events as defined by the National River Flow Archive and the UK Centre of Ecology & Hydrology:

• **The 2019-2020 flooding:** After a prolonged dry period (2016-2019), the UK experienced several severe flood events between June 2019 and February 2020. The most affected areas were North Wales, North England and the Midlands. The property damage was severe for areas such as Derbyshire and Lincolnshire with the estimated insurance pay-outs to be estimated at £110 million (Sefton et al. 2021).

• **The 2015-2016 flooding:** A series of heavy rainfalls resulted in flooding in the period between December 2015 and February 2016 in North West England. For the UK, December 2015 was the wettest month and it was the second wettest winter since 1910 (Barker et al. 2016).

[30] The estimated coefficients are statistically significant when we use robust standard errors or when we do not include the control variables.

• **The 2013-2014 flooding:** From December 2013 to February a succession of persistent rainfall and strong winds affected the UK. According to the Environmental Agency the damage was estimated at around £1.3 billion for England and Wales. The property damage alone was at £320 million since more than 10,000 houses were affected by a combination of coastal, pluvial, fluvial and groundwater flooding (Muchan et al. 2015). The effect was spread across the country and mostly South England.

• **The 2012 flooding:** Following a dry period between 2010 and early 2012, in spring of 2012 and on through the winter of 2013, there was extensive flooding across much of England. This was an extreme expression of the variability of UK climate. Flood alerts were widespread from South West England to Scotland.

• **The 2009 flooding:** The 2009 floods were primarily caused by heavy and persistent rainfall over an extended period of time, leading to rivers overflowing their banks and widespread waterlogging. One of the hardest-hit areas was North West, and most specifically, the Lake District in Cumbria. The floods caused extensive damage to infrastructure, disruption to the transportation network and a substantial economic impact, with businesses suffering due to property damage and closures.

• **The 2007 flooding:** During the summer of 2007, the UK suffered from a series of floods that affected various parts of the country. One of the worst-hit areas was the Yorkshire and Humberside region in northern England, but the floods caused damage to homes and businesses in other parts of the country such as the Herefordshire and Worcestershire in the Midlands and Gloucestershire and Oxfordshire in the South.

[Insert Figure 4]

[Insert Table 8]

Figure 4 displays the annual maximum observed flow (AMAX) measures in cubic meters per second as provided by the National River Flow Archive (NRFA). The original illustration is provided by Sefton et al. (2021) and allow us to depict the magnitude and spatial heterogeneity of flood events during our sample period. To incorporate this into our model, we construct an Extreme Weather Event (EWE) dummy variable that takes the value equal to one during periods a specific region experienced a flooding event, and zero otherwise. During our sample period, more than 6% of all transactions were completed during and soon after an extreme weather event.[31] These properties were sold at a 6.7% discount compared to those non-exposed, in real terms.

In Models (16)-(17) we add the EWE dummy variable as an interactive term that affects the impact of flood risk on property prices. To assess robustness, Models (18)-(23) assume that the impact of a weather event carries over the following quarter, six months and a full year after the EWE occurred. Across all models we control for the number of bedrooms, year built, property type, postcode, year and

[31] This does not necessary mean 6% of all properties, since a property may be sold more than once.

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month the property was sold. Table 8 presents our empirical findings. The estimate of the coefficient for the EWE control variable is negative and statistically significant, which indicates that properties in the affected regions are sold in a discount compared to the rest of the country. The EWE variable captures the short-term concern of buyers following an extreme weather event. The effect is stronger during and soon after the EWEs and dissipates over time. This is in line with the aforementioned literature that suggests that market participants are myopic and the effect of weather events is only short-term. Notably, the estimated coefficient of the interactive term is negative and statistically significant, at 10% confidence level, which indicates that the occurrence of such event alters, market participants' flood risk perception.

6.2 Who values flood risk more?

Standard linear regression models exhibit considerable limitations on studying distributional effects. In this section we examine the asymmetric effect of flood risk on different parts of house price-distribution. More specifically, we employ a quantile regression model to our hedonic price models. The model was introduced by Koenker & Bassett (1978) and captures the relationship between the property characteristics and different points in the conditional distribution of prices. The model explores the implicit pricing of housing characteristics for different percentiles across the distribution of property prices. The mathematical representation of the model is the following:

$$Y_i = X_i\beta_q + \varepsilon_{q,i} \quad (2)$$

Quantile regressions differ from the standard OLS approach since to obtain the estimate for beta, we minimize the sum of absolute not squared errors and it imposes different weights on the error term depending on the examined quartile. The quantile regression estimator (β) for quantile q minimizes the following objective function:

$$Q(\beta_q) = \sum_{i:y_i>z_i'\beta}^{N} q|y_i - x'_i\beta_q| + \sum_{i:y_i<z_i'\beta}^{N} (1-q)|y_i - x'_i\beta_q| \quad (3)$$

We estimate the model for more than one quantile simultaneously to allow for differences between quantile regression coefficients to be tested. The variance-covariance matrix is estimated by bootstrapping and 100 replications. The estimated coefficient described in the Equation (3) captures the marginal effect on the dependent variable conditional on the parameters of the explanatory variables estimated at the q-th percentile. The dependant variable is the logarithm of the (sold) property price and the matrix of explanatory variables includes flood risk, dwelling characteristics (the number of bedrooms and the year the property built) and monthly time controls as in the benchmark model.

[Insert Table 9]

[Insert Figure 5]

Table 9 presents the quantile regression results for properties sold in 2021. Our findings suggest that the effect of flood risk is asymmetric and buyers of properties in lower quantiles of the conditional distribution value more flood risk compared to buyers of properties in the upper quantiles. In other words, buyers and sellers of lower-priced properties value more the costly implications of flooding. Contrarily, the impact of flood risk on house prices at the upper tails of the conditional property price distribution are quite similar. Based on our empirical results, the quantile regression coefficient varies from -0.13 for conditionally lower-priced properties, to -0.1 for middle priced properties and to -0.07 for those in the upper quartile of the conditional distribution. Figure 5 displays the quantile regression coefficients of flood risk estimated for each year separately between 2017 and 2021 to assess robustness. Within each decile, the results appear to be robust across time and they confirm our previous empirical findings.

The results are in line with our expectations. In a relevant study, Zhang (2016) who finds that among properties located within a 100-year floodplain, low-priced properties have a larger flood risk penalty than higher-priced properties. Low-income households are often more concerned about flood risk compared to wealthier ones due to a combination of factors. Financial vulnerability plays a significant role, as low-income families typically lack the resources to cope with the financial repercussions following an extreme weather event, including insurance coverage and savings for repairs. Additionally, they may reside in areas with inadequate infrastructure and low housing quality that heightens their susceptibility to flood damage. In addition, economic constraints can limit their mobility, trapping them in flood-prone neighbourhoods despite awareness of the risks.

7 Policy implications

The UK serves as an intriguing case study when examining the interplay between flood risk and property prices. As outlined in Section 6, flooding is a recurrent, with numerous properties situated in flood-prone areas. However, all properties in our sample are covered by Flood Re, a reinsurance scheme established to enhance the availability and affordability of flood insurance for properties at risk of flooding. It was introduced in response to concerns about the availability of affordable flood insurance for homeowners. Despite the presence of the reinsurance scheme, the results of our study suggest that flood risk is associated with lower property prices. These empirical findings hold significant implications, particularly in light of the anticipated discontinuation of Flood Re by 2039. Consequently, we anticipate that the relationship between flood risk and property prices will intensify with each passing year, underscoring the enduring importance of comprehensively addressing flood risk within property valuation frameworks.

Therefore, our findings highlight the need and benefits of flood mitigation and adaptation programmes to ensure the resilience of affected communities. Firstly, while Flood Re plays a crucial

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role in mitigating the financial burden associated with flood insurance for properties at risk, its presence does not fully eliminate market distortions or address underlying issues related to flood risk management. Therefore, policymakers must complement and extend the existing reinsurance schemes with proactive measures aimed at enhancing risk awareness, strengthening risk management strategies, and promoting climate change adaptation. This includes investing in flood defences and infrastructure upgrades, integrating climate resilience considerations into urban planning processes, and fostering community-based initiatives for flood risk management. By adopting a comprehensive approach that addresses both the financial and structural aspects of flood risk, policymakers can enhance the resilience of affected communities and minimize the long-term socioeconomic impacts of flooding events.

Our findings suggest that flood risk has a heterogeneous effect across the distribution of property prices with a stronger effect on lower-priced properties. The asymmetric impact of floods exacerbates existing social and economic inequalities, further deepening their vulnerabilities. Policymakers may consider implementing targeted support measures, such as financial assistance for flood-resistant building retrofits, community outreach programs, and enhanced insurance affordability schemes tailored to the needs of underserved communities. By prioritizing the needs of vulnerable populations and fostering a more inclusive approach to flood risk management, policymakers can enhance the effectiveness of Flood Re and promote social cohesion and resilience in the face of future flood events.

8 Conclusions

This work fills a gap in the literature by examining how flood risk can directly affect the English residential real estate market and builds the foundations for a better understanding and quantification of climate-related risk in the property market. Our findings provide evidence of a flood risk price discount for houses exposed to flooding. The discount affects both sold and asking property prices and their spread. It is analogous to properties' level of exposure. In addition, our empirical model suggests that a one percentage point increase in a property's flood risk score is associated with a decline of 0.07% to 0.11% in both the sold and asking price. The impact is significantly greater when the property's probability of flooding is projected to increase in the future. Moreover, we find evidence that market participants value flood risk more in periods soon after an extreme weather event. We then shed light on another aspect of the relationship between house prices and flood risk. We employ, as an alternative to the standard OLS regression model, a quantile regression model to quantify the implicit pricing of property characteristics across different quantiles of the conditional property price distribution. Our findings suggest that flood risk has a stronger effect on lower-priced than higher-priced properties. Both buyers and sellers of low-priced properties attach a higher value to having a low flood risk house compared to properties at the upper tail of the conditional price distribution.

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Tables & Figures

Table 1: Summary statistics per property group

A. Property Type						
	Obs.	%	Asking Price	Obs.	%	Sold price
Detached	1,737,622	35.59%	£425,502	1,080,218	35.59%	£377,932
Semi-Detached	988,012	20.23%	£230,670	667,080	20.23%	£216,398
Terraced	1,117,052	22.88%	£755,107	755,107	22.88%	£201,941
Bungalow	713,836	14.62%	£489,167	489,167	14.62%	£248,867
Unclassified	326,358	6.68%	£203.911	203,911	6.68%	£290.149
Total	4,882,880	100%	£309,518	3,195,483	100%	£277,264
B. England Regions						
	Obs.	%	Asking Price	Obs.	%	Sold price
South West	833,492	17.07%	£315,362	546,282	17.10%	£279,533
South East	1,266,904	25.95%	£407,969	835,196	26.14%	£358,726
East Anglia	983,559	20.14%	£315,115	642,177	20.10%	£286,011
East Midlands	681,178	13.95%	£225,068	451,518	14.13%	£205,600
West Midlands	454,333	9.30%	£247,868	297,993	9.32%	£224,291
Yorkshire	595,675	12.20%	£218,988	379,419	11.87%	£200,404
North West	3,109	0.06%	£281,598	1,708	0.05%	£243,251
North East	15,619	0.32%	£280,542	9.581	0.30%	£247,340
Outer London	49,011	1.00%	£409,472	31,649	0.99%	£364,307
Total	4,882,880	100%	£309,518	3,195,483	100%	£277,264

Note: The table reports property price summary statistics for alternative property types and regions. Table A presents the number of observations and the average asking and sold price of all properties in our sample grouped by type of property. Similarly, Table B presents the same statistics for properties located in different regions. The data is provided by Rightmove and refers to the period 2006-2022. This data is being used for across all empirical models in this paper and we only include properties that flood risk scores are available.

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Table 2: Summary statistics per annum

	Obs.	%	Asking Price	Obs.	%	Sold price
2006	377,111	7.72%	£243,510	159,324	4.99%	£212,616
2007	387,624	7.94%	£256,011	256,643	8.03%	£236,928
2008	296,250	6.07%	£262,581	142,714	4.47%	£263,135
2009	234,099	4.79%	£258,362	151,166	4.73%	£222,980
2010	281,282	5.76%	£266,406	156,191	4.89%	£243,513
2011	268,087	5.49%	£266,152	162,556	5.09%	£233,310
2012	239,487	4.90%	£276,444	155,481	4.87%	£235,594
2013	272,008	5.57%	£278,939	186,481	5.83%	£241,981
2014	283,144	5.80%	£293,359	218,096	6.83%	£255,437
2015	275,239	5.64%	£312,051	212,451	8.65%	£271,947
2016	301,994	6.18%	£334,691	223,024	6.98%	£289,814
2017	301,422	6.17%	£345,688	233,717	7.31%	£308,859
2018	299,267	6.13%	£349,613	225,414	7.05%	£314,746
2019	269,951	5.53%	£348,900	204,719	6.41%	£314,738
2020	304,656	6.24%	£369,892	186,081	5.82%	£337,104
2021	277,483	5.69%	£396,731	282,225	8.83%	£362,929
2022	213,416	4.37%	£441,353	39,470	1.24%	£378,442
Total	4,882,880	100%	£309,518	3,195,483	100%	£277,264

Note: The table reports the property type summary statistics per annum. On average takes more than six months for a transaction to be completed and for the period 2006-2019 only two out of three resulted in a sale. As a result, the asking price dataset is larger than the sold price dataset.

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Table 3: Simplified overview of Average Annual Loss (AAL)-based risk rating

Flood Score range	Probability of Shallow Flooding	Probability of Moderate Flooding	Probability of Deep Flooding
0	Low	Low	Low
1-20	Moderate	Low	Low
21-40	Moderate	Moderate	Low
41-60	High	Moderate	Moderate
61-80	High	High	Moderate
81-100	High	High	High

Source: Twinn UK FloodScore™ Technical Overview Database.

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Table 4: Flood Score summary statistics

A. Flood Risk Groups				
Horizon:	2050		2080	
Emissions Scenarios:	Low/Moderate	High	Low/Moderate	High
Zero Risk	£280,970	£280,970	£280,976	£281,002
Medium Risk	£271,858	£271,971	£270,318	£268,294
High Risk	£241,612	£242,386	£245,606	£249,728
B. Property Type				
Horizon:	2050		2080	
Emissions Scenarios:	Low/Moderate	High	Low/Moderate	High
Detached	6.99%	7.20%	7.61%	8.50%
Semi-Detached	7.60%	7.87%	8.26%	9.21%
Terraced	9.00%	9.27%	9.85%	11.03%
Bungalow	9.35%	9.61%	9.89%	10.69%
Unclassified	7.87%	8.11%	8.60%	9.60%
C. England Regions				
Horizon:	2050		2080	
Emissions Scenarios:	Low/Moderate	High	Low/Moderate	High
South West	8.54%	8.73%	9.10%	9.53%
South East	6.76%	6.98%	7.62%	8.75%
East Anglia	11.88%	12.17%	12.67%	13.72%
West Midlands	3.79%	3.89%	4.26%	4.93%
East Midlands	4.74%	4.86%	5.25%	6.01%
Yorkshire	10.72%	11.00%	11.31%	12.40%
North West	10.50%	10.64%	11.04%	11.96%
North East	5.57%	5.70%	6.16%	7.08%
Outer London	8.13%	8.61%	8.92%	10.07%

Note: The table reports the Flood Score summary statistics. Twinn data provide four alternative scores for each property based on the horizon (2050 and 2080) and emissions level; optimistic (low/moderate emissions) and pessimistic (high emissions). Table A reports the average sold price for properties with zero, medium or high flood risk. Tables B and C present the average probability of a flood event for different property types and across different regions. The data refers to the period 2006-2022.

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Table 5: Regression results

	Model (1)	Model (2)	Model (3)	Model (4)
Dependent Variable		Log Sold Property Price		
Flood Risk	**-0.114*** **	**-0.070*** **	**-0.072*** **	**-0.062*** **
	(0.023)	(0.019)	(0.022)	(0.022)
FFR * Flood Risk				**-0.065*** **
				(0.020)
FFR				0.027***
				(0.007)
Number of Bedrooms		0.309***	0.241***	0.241***
		(0.004)	(0.003)	(0.000)
Constant	7.807***	6.825***	7.040***	7.040***
	(0.002)	(0.012)	(0.009)	(0.001)
Year Built	NO	YES	YES	NO
Property type FE	NO	NO	YES	YES
Area Postcode FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Month FE	YES	YES	YES	YES
R^2	0.274	0.657	0.727	0.727
Observations	1,912,696	1,912,696	1,912,696	1,912,696

Note: The table reports the results of the regression model. The dependent variable is the logarithm of the sold property price. The property prices are inflation-adjusted based on CPI (2015=100) provided by OECD. Flood risk is based on Twinn's Flood Score and is expressed as a percentage. Postcode-clustered standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

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Table 6: Regression results | Asking Property Prices

	Model (5)	Model (6)	Model (7)	Model (8)	Model (9)
	Log Asking Price			**Spread (Sold-Asking Price)**	
Flood Risk	**-0.115*** **	**-0.074*** **	**-0.063*** **	**-11.506*** **	**-5.832***
	(0.023)	(0.022)	(0.022)	(3.840)	(3.329)
FFR*Flood Risk			**-0.065** **		
			(0.019)		
FFR			0.027***		
			(0.007)		
Number of Bedrooms		0.237***	0.237***		34.778***
		(0.003)	(0.003)		(0.678)
Constant	7.776***	7.021***	7.022***	83.676***	-26.930***
	(0.002)	(0.009)	(0.009)	(0.313)	(1.929)
Year Built	NO	YES	YES	NO	YES
Property type FE	NO	YES	YES	NO	YES
Area Postcode FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Month FE	YES	YES	YES	YES	YES
R^2	0.285	0.726	0.726	0.008	0.015
Observations	1,912,696	1,912,696	1,912,696	1,912,696	1,912,696

Note: The table reports the results of the regression model. In Models (6) – (9), the dependent variable is the logarithm of the real asking property price. The property prices are inflation-adjusted based on CPI (2015=100) provided by OECD. In Models (12)-(13) the dependent variable is the difference between sold and asking price. Flood risk is based on Twinn's Flood Score and is expressed as a percentage. Postcode-clustered standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

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Table 7: Regression results | Robustness

	Model (10)	Model (11)	Model (12)	Model (13)	Model (14)	Model (15)
Description:	Flood Zone controls	Exclude COVID-19 period	COVID-19 dummy variable	MSOA controls		Low vs. High risk
Flood Risk	**-0.072*** **	**-0.072*** **	**-0.072*** **	**-0.049** **	**-0.031*** **	
	(0.022)	(0.022)	(0.022)	(0.024)	(0.013)	
Very High Flood Risk (FR>80%)						**-0.118*** **
						(0.021)
Moderate Flood Risk (20%<FR<80%)						**-0.010**
						(0.013)
Low Flood Risk (FR<20%)						**-0.036**
						(0.044)
COVID-19*Flood Risk			0.00002			
			(0.008)			
MSOA Annual Income				0.030***	0.021***	
				(0.003)	(0.002)	
MSOA Population				-0.001	-0.003***	
				(0.002)	(0.001)	
MSOA Life Expectancy				0.019***	0.009***	
				(0.003)	(0.002)	
Constant	7.040***	7.023***	7.040***	5.212***	5.615***	7.040***
	(0.009)	(0.009)	(0.009)	(0.211)	(0.136)	(0.009)
Flood Zone FE	YES	NO	NO	NO	NO	NO
Property Characteristics	YES	YES	YES	NO	YES	YES
Property type FE	YES	YES	YES	NO	YES	YES
Area Postcode FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Month FE	YES	YES	YES	YES	YES	YES
R^2	0.727	0.723	0.727	0.359	0.763	0.728
Observations	1,912,696	1,691,939	1,912,696	1,912,696	1,912,696	1,912,696

Note: The table reports the results of the regression model. The dependent variable is the sold property price. The property prices are inflation-adjusted based on CPI (2015=100) provided by OECD. Flood risk is based on Twinn's Flood Score and is expressed as a percentage. Postcode-clustered standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively. The MSOA series are provided by the Office for National Statistics (ONS). The annual income is expressed in thousands of £, the population in thousands of people and the average life expectancy of men and women.

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Table 8: Regression results | Extreme Weather Events

	Model (16)	Model (17)	Model (18)	Model (19)	Model (20)	Model (21)	Model (22)	Model (23)
Dependent Variable	Log Sold Property Price							
Horizon:	t	t	t+3	t+3	t+6	t+6	t+12	t+12
Flood Risk	-0.072***	-0.071***	-0.072***	-0.071***	-0.072***	-0.071***	-0.072***	-0.072***
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Extreme Weather Event	-0.008***		-0.004***		-0.007***		0.006***	
	(0.014)		(0.001)		(0.012)		(0.001)	
Extreme Weather Event *Flood Risk	**-0.007***	**-0.015*****	**-0.007***	**-0.012*****	**-0.002**	**-0.008***	**-0.004**	**0.001**
	(0.004)	(0.005)	(0.004)	(0.004)	(0.004)	(0.004)	(0.005)	(0.005)
Constant	7.040***	7.040***	7.040***	7.040***	7.041***	7.040***	7.039***	7.040***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Property characteristics	YES	YES	YES	YES	YES	YES	YES	YES
Property type FE	YES	YES	YES	YES	YES	YES	YES	YES
Area Postcode FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Month FE	YES	YES	YES	YES	YES	YES	YES	YES
R^2	0.727	0.727	0.727	0.727	0.727	0.727	0.727	0.727
Observations	1,912,696	1,912,696	1,912,696	1,912,696	1,912,696	1,912,696	1,912,696	1,912,696

Note: The table reports the results of the regression model. The dependent variable is the sold property price. The property prices are inflation-adjusted based on CPI (2015=100) provided by OECD. Flood risk is based on Twinn's Flood Score and is expressed as a percentage. Postcode-clustered standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

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Table 9: Quantile regression results

Dependent Variable:	Log Sold Property Price				
Quantiles:	0.10	0.25	0.50	0.75	0.90
Flood Risk	**-0.130*** **	**-0.124*** **	**-0.100*** **	**-0.080*** **	**-0.070*** **
	(0.001)	(0.008)	(0.006)	(0.010)	(0.013)
Constant	6.715***	6.921***	7.157***	7.375***	7.534***
	(0.026)	(0.014)	(0.013)	(0.010)	(0.014)
Property Characteristics	YES	YES	YES	YES	YES
Month controls	YES	YES	YES	YES	YES
R^2	0.23	0.23	0.24	0.26	0.28
Observations	87,767	87,767	87,767	87,767	87,767

Note: The table reports the results of the quantile regression model. The dependent variable is the logarithm of the real sold property price. The sample period extends to properties sold between January 2021 and December 2021. The property prices are inflation-adjusted based on CPI (2015=100) provided by OECD. Flood risk is based on Twinn's Flood Score and is expressed as a percentage. Property characteristics include number of bedrooms, year built and the type of the property. Standard errors produced by bootstrapping with 100 replications and they are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

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Figure 1: Visualisation of Flood Risk estimation

Note: The Figure illustrates how the Flood Score works for different properties. The visualisation shows that the distance from a water body is not the only criterion that affects the probability of a property being affected by a flood event. Source: Twinn.

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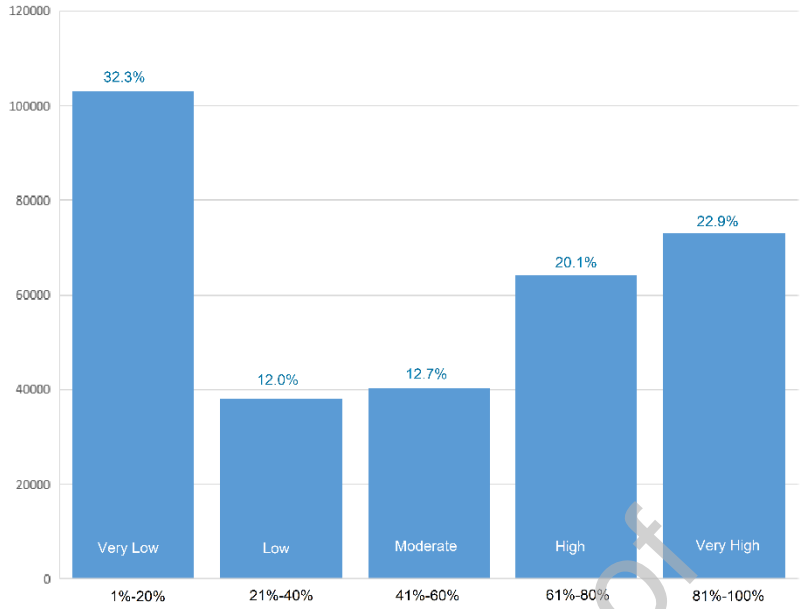
Figure 2: Flood Score categories



Note: The Figures displays the number of sold completed property sales per each flood risk group specification. Flood risk is based on Twinn's Flood Score and is expressed as a percentage. The Figure refers only to properties with non-zero flood risk, which consist approximately 16% of our entire sample.

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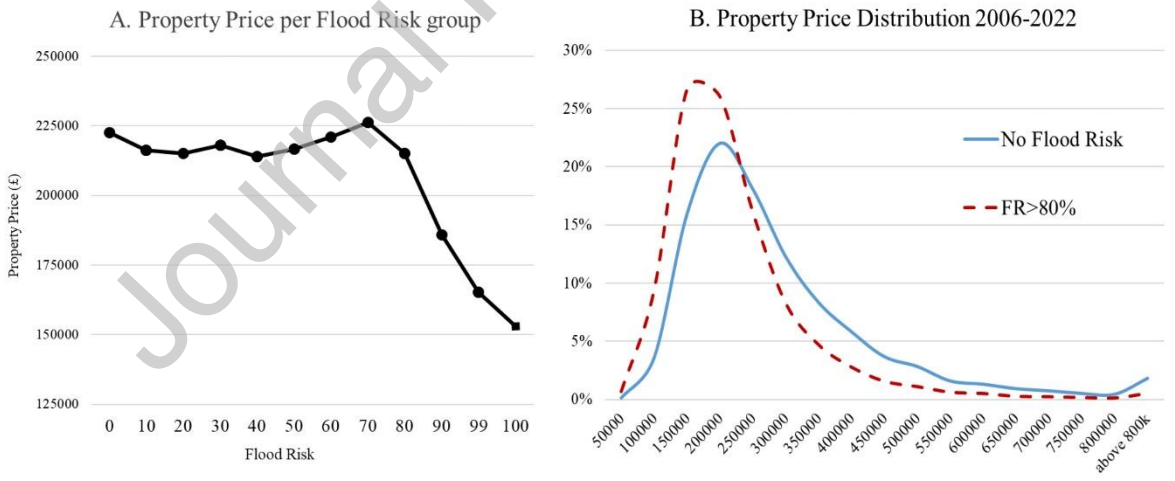
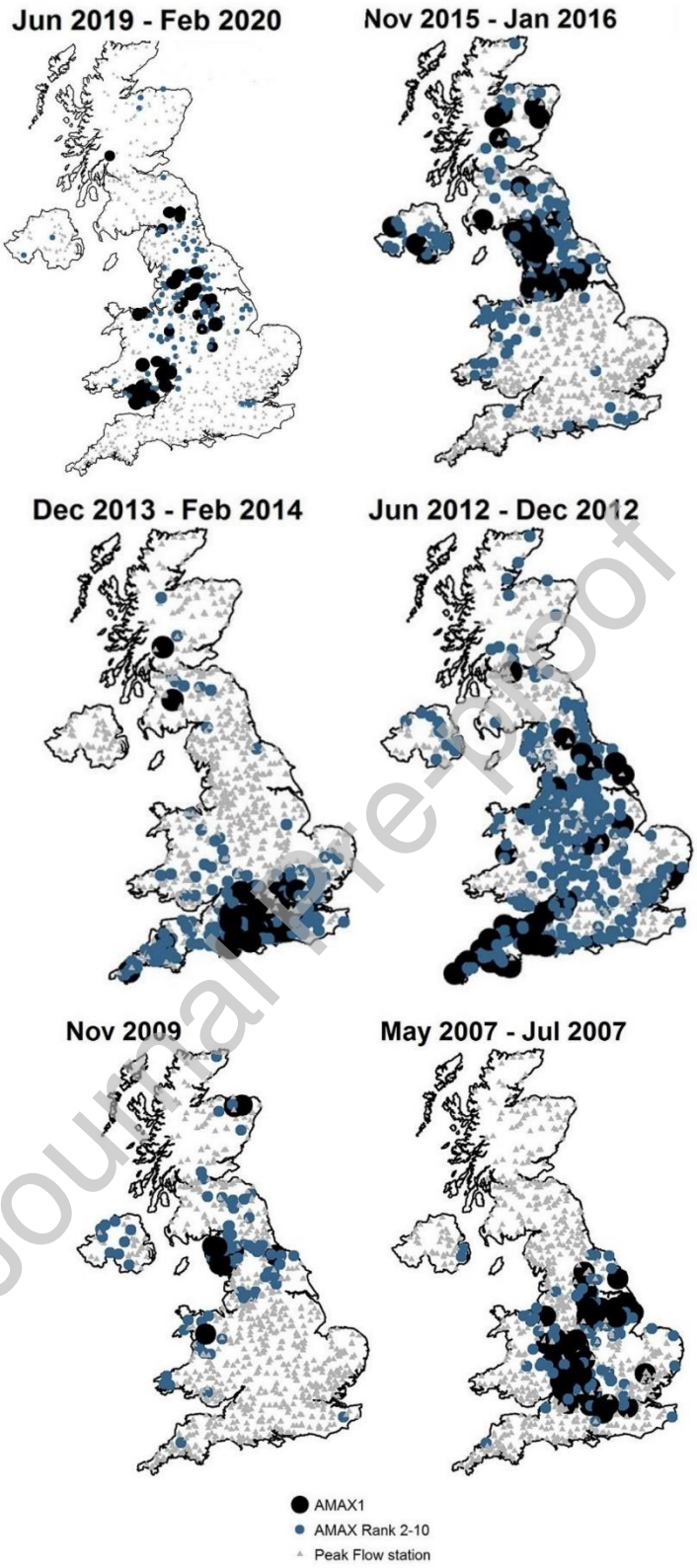
Figure 3: Property prices and flood risk



Note: Figure A displays the average (sold) property price for different levels of flood risk. Flood risk is based on Twinn's Flood Score and is expressed as a percentage. To measure flood risk we use the more optimistic 2050 moderate emissions scenario as provided by Twinn. The data covers the period 2006-2021. Figure B plots the distribution of (sold) property prices for properties with zero (solid line) and very high (>80%, dotted line). The distribution is based on the entire sample period.

Figure 4: Extreme Weather Events: Magnitude and Spatial Footprint



Note: The Figure shows the magnitude and spatial footprint of the six examined severe flood events occurred in the period 2006-2021. The small blue dots depict the largest observed flow (Annual Maximum or AMAX series) in each water year. The black dots stand for the AMAX1, the highest largest maximum observed flow in the AMAX series.
Source: Sefton et al. (2021) and the UK Centre for Ecology & Hydrology.

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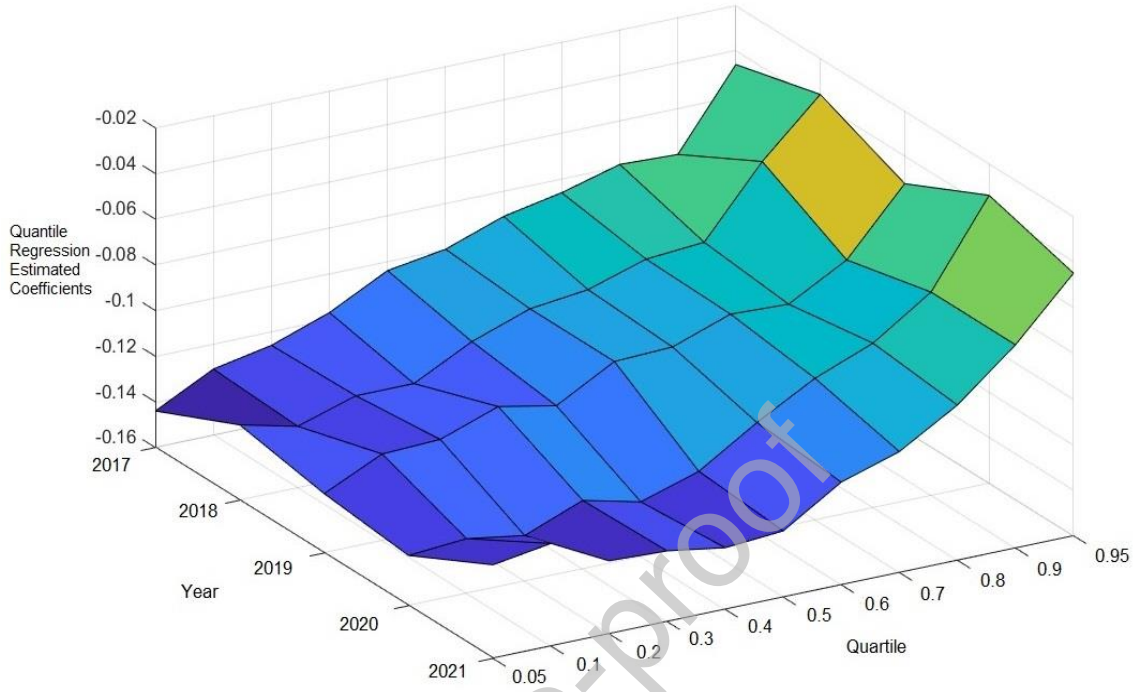
Figure 5: Quantile Regression Coefficients



Note: The Figure displays the estimated quantile regression coefficient of flood risk on property prices. The explanatory variables also include number of bedrooms and the year the property was built. The estimation was for each year separately between 2017 and 2021 and for quantiles between 5% and 95%. The estimation of the variance-covariance matrix is based on bootstrapping and 100 replications.

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Author Statements

Alexandros Skouralis: Conceptualization, Data curation, Formal Analysis, Funding acquisition, Methodology, Investigation, Visualisation, Writing – original draft, Writing – review & editing

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Declaration of interest: The authors have no conflict of interest to declare. This study was supported by the Bayes Research Pump-Priming Scheme and the Bayes Business School Knowledge Exchange & Impact Fund.

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