



WP/20/43

# IMF Working Paper

---

## Foreign Demand and Local House Prices: Evidence from the US

by Anil Ari, Damien Puy, Yu Shi

***IMF Working Papers* describe research in progress by the author(s) and are published to elicit comments and to encourage debate.** The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

I N T E R N A T I O N A L M O N E T A R Y F U N D

**IMF Working Paper**

Research Department

**Foreign Demand and Local House Prices: Evidence from the US**

**Prepared by Anil Ari, Damien Puy, Yu Shi<sup>1</sup>**

Authorized for distribution by Maria Soledad Martinez-Peria

**February 2020**

***IMF Working Papers* describe research in progress by the author(s) and are published to elicit comments and to encourage debate.** The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

**Abstract**

We test whether foreign demand matters for local house prices in the US using an identification strategy based on the existence of “home bias abroad” in international real estate markets. Following an extreme political crisis event abroad, a proxy for a strong and exogenous shift in foreign demand, we show that house prices rise disproportionately more in neighbourhoods with a high concentration of population originating from the crisis country. This effect is strong, persistent, and robust to the exclusion of major cities. We also show that areas that were already expensive in the late 1990s have experienced the strongest foreign demand shocks and the biggest drop in affordability between 2000 and 2017. Our findings suggest a non-trivial causal effect of foreign demand shocks on local house prices over the last 20 years, especially in neighbourhoods that were already rather unaffordable for the median household.

Author’s E-Mail Address: [Aari@imf.org](mailto:Aari@imf.org), [Dpuy@imf.org](mailto:Dpuy@imf.org), [Yshi2@imf.org](mailto:Yshi2@imf.org)

JEL classification: F20, G15, R31

Keywords: House Prices, Housing Affordability, Political Risk, Capital Flows.

---

<sup>1</sup>We thank Emil Verner for a helpful discussion and Maria Soledad Martinez Peria, Deniz Igan and seminar participants at the IMF RES Macro-Financial seminar and the 2nd Annual IMF Macro-Financial Research conference for useful comments. We are also grateful to Huy Quoc Nguyen and Antoine Malfroy-Camine for superb research assistance. The views expressed in this paper are those of the authors and do not represent the views of the IMF, its Executive Board, or IMF management. Author’s E-Mail Address: [Aari@imf.org](mailto:Aari@imf.org), [Dpuy@imf.org](mailto:Dpuy@imf.org), [Yshi2@imf.org](mailto:Yshi2@imf.org).