The Pricing of Liquefaction Risk: Empirical Evidence from Housing Market in Taiwan

Tzu-Chang Forrest Cheng* Tai-Chi Wang† Jian-Da Zhu‡

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Abstract

In this paper, we investigate how disclosure of liquefaction risks affects prices in the housing market in Taiwan. We apply difference-in-differences method for the sample along the borders crossing different levels of liquefaction risk to identify its effect on housing prices. Our results suggest that, in Kaohsiung City and New Taipei City, there is no significant change among housing prices in any of liquefaction risk areas after the disclosure of liquefaction risk map. However, using the sample in no-risk regions in Taipei City as the benchmark, we find that prices increase by around 3.58% for those moderate-risk real property along the high-risk border after the dissemination of information. In addition, starting from the border, housing prices are 1.91% lower per 100 meters closer to the center of high-risk regions only after the disclosure. Finally, this observed effect is mainly driven by real property such as apartments with elevators or recently built ones, specifically after 2011.

*Department of Economics, National Central University
†National Center for High-performance Computing
‡Department of Economics, National Taiwan University. Email: jdzhu@ntu.edu.tw