New research from Oxford quantifies the impacts of ‘safe haven’ investing on London house prices

London’s property prices directly affected by economic and political factors overseas

Oxford, Oxfordshire (PRWEB UK) 13 January 2014 -- There is a direct correlation between house price changes in particular areas of London and economic and political risks in different parts of the world, according to a new methodology developed by academics Professor Tarun Ramadorai and Dr Cristian Badarizna from the Saïd Business School, University of Oxford. This goes a long way towards explaining why London house prices have continued to rise at a disproportionate rate compared with those in the rest of the country, and can also shed light on the well-known fact that capital flows appear to flow ‘uphill’ from relatively poor to relatively rich countries.

Ramadorai and Badarizna developed the methodology to investigate effects of ‘safe haven’ demand on the prices of a number of assets, which they test using data on London house prices. The methodology could also be applied to a range of other assets such as gold, real estate in other major cities of the world, or international equities.

“The seeming invulnerability of London’s property market has long been assumed to be a result of its status as a ‘safe haven’ – an investment location in which assets will retain or even increase their value in the face of turbulence in other parts of the world. However, this perception has not been backed up with rigorous, empirical research on the issue,” said Ramadorai. “The granular level at which we have analysed the data allows us to confirm that safe haven demand effects from Southern Europe, China, the Middle East, Russia, and South Asia are indeed important factors in explaining the dynamics of London house prices.”

The research takes the simple approach of sub-dividing London into smaller geographic areas (electoral wards). The researchers linked each London area with specific foreign countries by the share of London residents in the area that hail from those countries. The research finds that increases in political and economic uncertainty in specific foreign countries strongly predict price rises in their linked London areas.

The research employs millions of house price transactions to identify this effect over the past decade and a half, using information from the Land Registry, the Office of National Statistics, and the Nationwide Building Society, as well as data on international economic and political uncertainty from a number of sources.

Specific findings include:

• On average, in London areas with a one standard deviation higher share of residents originating from a particular country, house prices were nearly half a percent higher in months following a one standard deviation increase in that country’s annually-measured political uncertainty.

• This effect exists over and above a wide range of standard house and location characteristics generally associated with higher house prices.

• A distinct but related effect is seen in London areas with high average income levels. The researchers find that such areas experienced unusual price appreciation following increases in political uncertainty in China, the Middle East, East Asia, and Russia. London areas with relatively lower average income levels
experienced price appreciation following turbulence in Southern Europe and South Asia.

• Price responses to uncertainty in different world regions are not uniform. The researchers argue that is likely to be a reflection of the fact that some types of property purchases are driven purely by the desire to move capital to a safe haven, without any associated physical movement of purchasers. Other purchases may be primarily driven by purchasers with plans to live in London at some future date.

• The research findings shed light on the longstanding “Lucas puzzle” in economics of the ‘uphill’ flow of capital from poor to rich countries. The researchers indicate that part of this puzzle may be explained by the desire of wealthy residents of poor countries to insure against domestic economic and political uncertainty.

“Our methodology has allowed us to provide a rigorous analysis of the recent rise in London house prices, a phenomenon that has been widely commented upon in the press,” said Ramadorai. “The potential to identify future unusual price rises using our method, and the implications for global capital flows suggests that our research could make a useful contribution to policy discussions.”

For more information or to speak with Tarun Ramadorai or Cristian Badarinza please contact the press office:

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Notes to editors

About the paper
“Home Away from Home? Safe Haven Effects and London House Prices”

About Tarun Ramadorai
http://www.sbs.ox.ac.uk/community/people/tarun-ramadorai

About Cristian Badarinza
http://www.sbs.ox.ac.uk/community/people/cristian-badarinza

About Saïd Business School
Saïd Business School at the University of Oxford blends the best of new and old. We are a vibrant and innovative business school, but yet deeply embedded in an 800 year old world-class university. We create programmes and ideas that have global impact. We educate people for successful business careers, and as a community seek to tackle world-scale problems. We deliver cutting-edge programmes and ground-breaking research that transform individuals, organisations, business practice, and society. We seek to be a world-class business school community, embedded in a world-class University, tackling world-scale problems.

In the Financial Times European Business School ranking (Dec 2013) Saïd is ranked 12th. It is ranked 13th
worldwide in the FT’s combined ranking of Executive Education programmes (May 2013) and 24th in the world in the FT ranking of MBA programmes (Jan 2013). The MBA is ranked 5th in Businessweek’s full time MBA ranking outside the USA (Nov 2012) and is ranked 5th among the top non-US Business Schools by Forbes magazine (Sep 2013). The Executive MBA is ranked 23rd worldwide in the FT’s ranking of EMBAs (Oct 2013). The Oxford MSc in Financial Economics is ranked 6th in the world in the FT ranking of Masters in Finance programmes (Jun 2013). In the UK university league tables it is ranked first of all UK universities for undergraduate business and management in The Guardian (Jun 2013) and has ranked first in nine of the last ten years in The Times (Sept 2013). For more information, see http://www.sbs.ox.ac.uk/
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