

**Geography and Realty Prices:
Evidence from International Transaction-Level Data***

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Abstract

In this paper, we examine the role of international flow of capital on real estate prices by quantifying the relationship between investors' geographical locations and the prices they pay for their realty investments. Using a dataset that contains more than 30,000 realty investment transactions in eight countries (i.e., Australia, Canada, France, Hong Kong, Japan, Netherlands, UK, and US) and controlling for a comprehensive list of property characteristics, and transaction characteristics including geographical locations of buyers and sellers, we find the following. First, foreign investors pay significantly higher prices than do domestic investors even after taking a wide variety of controls into account. Second, such an overpricing becomes smaller as buyers' exposure of realty investments to host countries, where the properties in their portfolio locate, becomes higher. Third, consistent with these results, investment return of foreign investors is systematically lower than that of domestic investors, while such a negative excess return becomes smaller as buyers' exposure to the host countries becomes higher. These results imply that the overpricing of foreign investors is observed when investors are less informed of local property markets and resolved as the accumulation of investment experience.

Keywords: Realty Price; Transaction Data; Geographical Location; Fixed Effects

JEL classification: D83, F21, G12, R30

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