Assessing the Price Effects of Flood Hazard Disclosure Under the California Natural Hazard Disclosure Law (AB 1195)

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By: Austin Troy and Jeff Romm

This study uses hedonic analysis to estimate the effects of flood hazard disclosure under the 1998 California Natural Hazard Disclosure Law (AB 1195) on property values throughout California. It finds that the average floodplain home sold for 4.3% less than a comparable non-floodplain home following AB 1195 while before that law there was no significant price differential. The introduction of interaction terms indicates that the magnitude of the price reduction due to AB 1195 varies positively with Hispanic population share. An average floodplain home in a half-Hispanic neighborhood saw an $11,305 negative capitalization due to AB 1195, while that amount was only $2,210 for a neighborhood with 10% Hispanic residents. Results suggest that, in particular, homebuyers in Hispanic communities are better disclosed to under AB 1195 than they were under the National Flood Insurance Program (NFIP), which was the primary policy regulating flood disclosure in California prior to passage of AB 1195.

1 Assistant Professor, University of Vermont, School of Natural Resources, Aiken Center, 81 Carrigan Drive Burlington, VT 05405. Corresponding author.
2 Professor, University of California, Berkeley, Department of Environmental Science, Policy and Management, Society and Environment Division, 135 Giannini Hall, #3312 Berkeley, CA 94720-3312.