

The Winner's Curse in Housing Markets*

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Abstract

This paper tests for a winner's curse in housing markets by examining the subsequent performance of bidding war transactions relative to non-bidding war transactions. We develop a model in which homeowners who purchase their house in a bidding war transaction experience lower annualized returns and a higher likelihood of mortgage default. Consistent with the model predictions, we find homebuyers who purchase their house in a bidding war experience 8.8pp lower total unlevered return compared to those not engaged in a bidding war and are 2.1pp more likely to default. These winner's curse effects are more pronounced among socioeconomically vulnerable homebuyers.

Keywords: Winner's Curse, Bidding War, Housing Returns, Default

JEL Codes: C70, D44, O18, R21, R31

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