Bidder Beware: Intergenerational Wealth Transfers in the Residential Housing Market

Jaap Bos
(Maastricht University)

Nils Kok
(Maastricht University)

Jonas Wogh
(Maastricht University)

AREAUEA-ASSA Conference — January 4, 2025

Overbidding is Ubiquitous...

... Meanwhile, Parental Wealth Becomes Increasingly Important

- **34% of young homebuyers** in the US **received a parental transfer in 2024**, up from 18% in 2019 (Redfin, 2024)
- Parental **transfers account for 29% of the homeownership rate** among young households (Brandsaas, 2024)
- Overbidding and parental transfers seem to arise in *tight* markets

---

Do parental transfers promote overbidding?

Does overbidding create spillover effects?

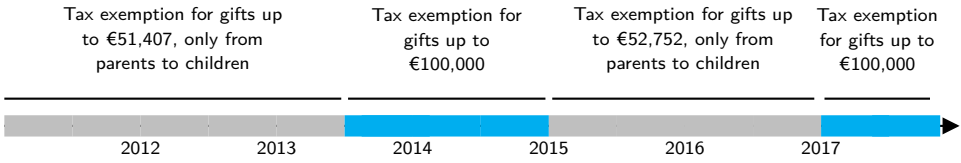
Related Literature

Parental Wealth in Housing Markets: Engelhardt and Mayer (1998); Charles and Hurst (2003); Blickle and Brown (2019); Brandsaas (2021); Benetton et al. (2024)

Overbidding in House Transactions: Han and Strange (2014); Cvijanović and Spaenjers (2021); Gargano and Giacoletti (2021); Leib et al. (2021); Aiello et al. (2024)

Spillovers in Housing Markets: Burnside et al. (2016); Bailey et al. (2018); Gupta (2019); Bayer et al. (2021); McCartney and Shah (2022)

Institutional Setting



The *Jubelton* policy for tax exempt wealth transfers:

- Tax exemption for housing-related transfers up to €100,000
- Surprisingly introduced in October 2013 to bolster demand and increase home equity
- Increased exemption limit and erased requirements on donor-recipient relationship
- Very high take-up rate and public awareness

Data

NVM Transaction Data

Information on $\sim$ 70% of all **residential transactions** in the Netherlands:

- Sale price & list price
- Listing and de-listing date
- Property type
- Location & structural characteristics

CBS Admin Data

Individual-level information on a range of **buyer characteristics**:

- Homeownership
- Household wealth & income
- Family network links
- Financial transfers

Empirical Design

$$Y_i = \beta \cdot Transfer_i + \phi \cdot X_i + \lambda_j + \epsilon_i \quad (1)$$

Identification Strategy:

- Model (1) estimates the effect of transfer receipt on list price and price spread for transaction i
- **Selection issue:** transfer recipients are not drawn at random from the homebuyer population
  - → **Matching** on buyer age, net wealth, total assets, income and prior homeownership (λ_j)
  - → **Instrumenting** transfer receipt based on share of parental wealth in liquid assets

First Stage

Individual-level Results

	OLS	PSM	CEM	IV
Panel A: Housing Consumption	*Dep. Variable: log(List Price)*			
Transfer	0.200***	0.205***	0.163***	0.300***
	(0.007)	(0.010)	(0.006)	(0.032)
Buyer Controls	Yes	No	No	No
Parents Controls	No	No	No	Yes
Mean Outcome Control	12.26	12.25	12.28	12.28
Observations	104,209	10,052	63,777	63,777
Adjusted R^2	0.152	0.041	0.278	0.282

- Transfer recipients select significantly more valuable homes

  $\Longrightarrow$ €40,000 – €75,000, depending on specification (relative to €100,000 median transfer)

Individual-level Results

	OLS	PSM	CEM	IV
Panel B: Bidding Outcomes	*Dep. Variable: log(Spread)*			
Transfer	0.005***	0.006***	0.005***	0.020***
	(0.001)	(0.001)	(0.001)	(0.004)
Buyer Controls	Yes	No	No	No
Parents Controls	No	No	No	Yes
Mean Outcome Control	−0.053	−0.055	−0.054	−0.054
Observations	104,209	10,052	63,777	63,777
Adjusted R^2	0.027	0.025	0.035	0.030

- Transfer recipients pay premium over the list price, relative to other buyers (0.5% − 2%)
- In a buyer's market, where underbidding was the norm

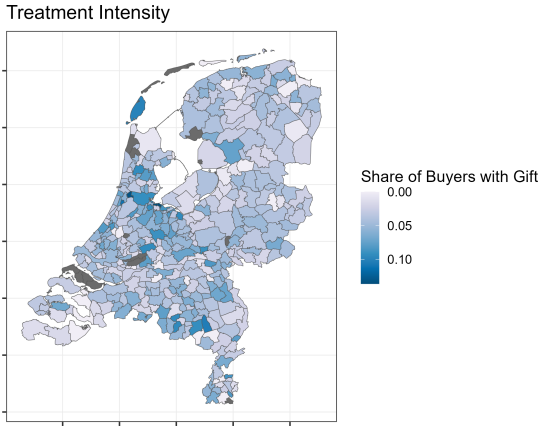
Underlying Mechanism

	Buyer		Building		Market	
	OLS	CEM	OLS	CEM	OLS	CEM
	Dep. Variable: log(Spread)					
Transfer	0.004***	0.004***	0.003***	0.003***	0.000	0.002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
× Interaction	0.002	0.001	−0.004*	−0.005*	0.007***	0.004***
	(0.002)	(0.002)	(0.003)	(0.003)	(0.002)	(0.002)
Interaction	Liquidity Constrained Buyer		Detached Home		Tight Market	
Matching Cell FE	No	Yes	No	Yes	No	Yes
Postcode FE	No	No	Yes	Yes	No	No
Observations	104,209	63,777	104,209	63,777	103,969	63,618
Adjusted R^2	0.028	0.035	0.131	0.145	0.040	0.048

- Transfer recipients overpay most in tight markets
- In contrast, overbidding is not driven by property type or buyer liquidity

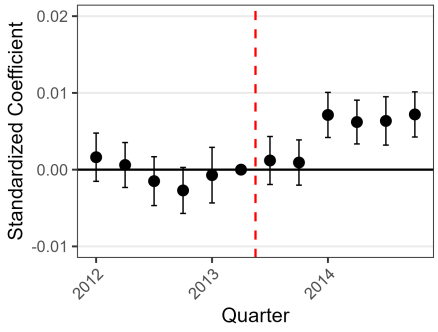
Regional-level Analysis

To study **spillovers to other buyers**, we exploit regional variation in exposure to the policy



Regional-level Results

$$Y_{ipt} = \sum_k \beta_k \cdot \mathbb{1}(t = k) \cdot Exposure_p + \mu_p + \delta_t + \varepsilon_{ipt} \quad (2)$$



Robustness

Summary

1

Transfer recipients select more expensive homes and **make higher bids**, relative to other buyers

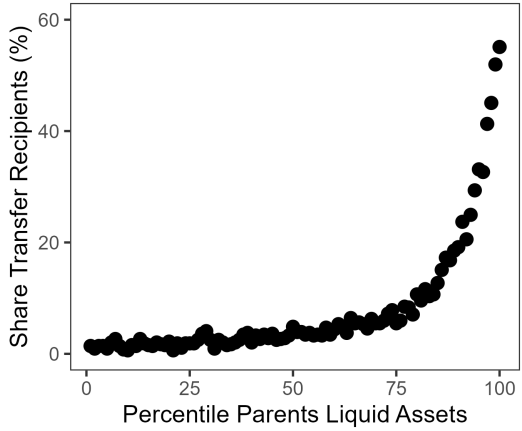
2

Overpayment is **driven by the market environment**, rather than buyer or house characteristics

3

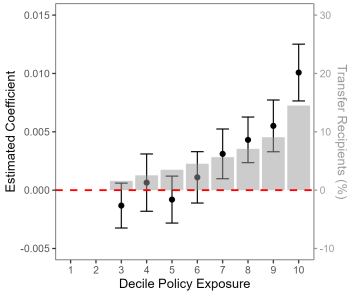
As transfer recipients move into an area, **other buyers raise their bids as well**, driving up average price spreads

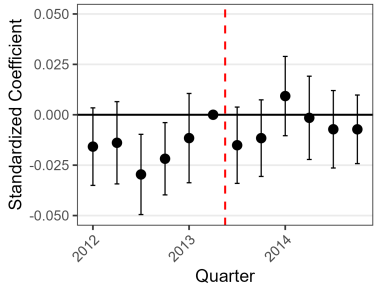
First Stage: Parental Liquid Wealth and Financial Transfers



Empirical Design

Regional Level Robustness Tests





- Price spreads increase monotonically with postcode exposure
- No relationship between exposure and tax assessed values

Regional Analysis