

# How do intergenerational transfers affect housing and wealth?

**INCREASED HOUSING PRICES IN AUSTRALIA HAVE FOCUSED ATTENTION ON THE ROLE OF INTERGENERATIONAL TRANSFERS IN ENABLING HOME OWNERSHIP. THESE TRANSFERS ACCELERATE ACCESS TO HOME OWNERSHIP FOR RECIPIENTS, BUT MAKE THE DISTRIBUTION OF WEALTH MORE UNEQUAL.**

## KEY POINTS

- Intergenerational transfers may take the form of bequests or *inter-vivos* (parental gift/transfer). Around 1.5 per cent of Australians report receiving a bequest in any given year, and around 5.5 per cent report receiving an *inter-vivos*, but the amount transferred is typically much larger for bequests than *inter-vivos*.
- Bequests are estimated to lift home ownership rates by 4 to 8 percentage points, depending on where recipients are in their housing career.
- While the receipt of an *inter-vivos* from parents is also associated with a higher likelihood that individuals attain home ownership, the relationship between housing outcomes and *inter-vivos* is less clear cut, reflecting the timing and size of such gifts.
- Intergenerational transfers are associated with a more rapid transition into first-time home ownership, effectively doubling the chances of recipients transitioning into home ownership.
- There is evidence that intergenerational transfers have other impacts, with house prices paid by first time buyers who receive a bequest or *inter-vivos* significantly higher than those paid by buyers who do not receive a transfer.
- Modelling showed that requests and transfers from parents over the period 2001 to 2010 increased the level of wealth inequality, widening the gulf between owners and renters in access to wealth.

*This bulletin is based on research conducted by **Professor Garry Barrett** and **Associate Professor Stephen Whelan** at the AHURI Research Centre—University of Sydney, and **Professor Gavin Wood** and **Dr Melek Cigdem** at the AHURI Research Centre—RMIT University. The research explored the implications of income-based intergenerational transfers for housing outcomes and the distribution of wealth in Australia.*

## CONTEXT

In an environment of rapidly rising house prices, increasing concern has been expressed about the ability of younger Australians to enter into home ownership. Existing evidence indicates that home ownership rates among younger Australians aged 25–34 years has fallen by as much as one-fifth over the past three decades (Burke et al. 2014).

One way that home ownership may occur is through income-based intergenerational transfers. This research examines how bequests and *inter-vivos* (transfer or gift made during one's lifetime) are related to tenure outcomes, and whether they affect the distribution of wealth.

## RESEARCH METHOD

This research uses the Household Income and Labour Dynamics in Australia (HILDA) dataset, 2001–13. The analysis exploits the longitudinal nature of the survey and the rich information on households and individuals available in the data. In particular, respondents in the survey are asked if they have received payments in the previous year including 'bequests' and 'income transfers from parents'. This information provides a means by which to consider the effect of intergenerational transfers on housing outcomes.

A propensity score matching (PSM) approach is used to estimate the impact of transfers on tenure outcomes by identifying a 2010 sample of HILDA respondents that did not receive transfers but who share similar personal characteristics (e.g. age and income) as beneficiaries of transfers. The methodology in effect generates a pseudo-control group whose behaviour can be compared to that of transfer recipients.

The study also examines the question of access to ownership by analysing transition into first home ownership using duration models which consider the conditional probability of transitioning into ownership.

A decomposition approach that compares the actual distribution of wealth across households to that which would have occurred in the absence of bequests and parental *inter-vivos* gifts is used to assess the impact of transfers on the distribution of wealth.

## KEY FINDINGS

### ***Volume and quantity of transfers that occur***

In any given year, fewer individuals report receiving a bequest (1.5% of all Australians) compared to the number receiving a transfer from their parents (5.5%). In addition to the number, the magnitude and timing of these transfers are substantially different. Bequests tend to be received by older individuals compared to *inter-vivos* recipients, with an average age of 48 years and 37 years respectively. Moreover, the size of the transfers is very different, with average bequests in the order of \$85 000 compared to a parental transfer of \$13 500. These differences may have important implications for how such transfers affect subsequent housing outcomes.

### ***How do bequests affect housing tenure outcomes at a point in time?***

A bequest is found to be associated with a home ownership rate that is 4 percentage points higher (among recipients) than had no transfer been received. Bequests have a larger impact, in the order of 7 percentage points, on the home ownership rates of younger individuals (aged 25–45 years). This most likely reflects its significance at a critical point in their housing careers.

Bequests also appear to play an important role in helping a home buyer attain *outright* home ownership. Among those aged 25–65 years of age, outright home ownership rates are 10 percentage points higher among those who receive a bequest compared to non-recipients. By contrast, among those aged 25–45 years, the receipt of a bequest is associated with a smaller increase in the likelihood that outright home ownership is observed, in the order of 6 percentage points.

### ***How do inter-vivos affect housing tenure outcomes at a point in time?***

*Inter-vivos* of \$5000 or more lift the home ownership rates of 25–65 years of age beneficiaries by 14 percentage points as compared to the rate that would be achieved with

no transfer. The results from the analysis of *inter-vivos* more generally are less clear cut, possibly reflecting the smaller magnitude of most parental gifts and the strategic nature of their timing—for example, there is a smaller positive impact of *inter-vivos* on outright home ownership (only 4.5%).

Notably, there is evidence that those who do receive *inter-vivos* are less inclined or able to enter into home ownership compared to the population in general. In light of this, parental gifts may be interpreted as being more likely to reach those on the margins of home ownership.

### ***Transition into first-time home ownership and intergenerational transfers***

There is evidence that the receipt of bequests is associated with higher rates of transition into first-time home ownership. These results are similar across both single and couple households. The timing and size of such transfers also affect first transitions into home ownership. Not surprisingly, the likelihood of entering home ownership increases with the size of the bequest. Timing is also important; for couple households the receipt of a bequest has a larger impact on transitions into home ownership in the period following the receipt of the bequest.

Receiving transfers from parents has more modest impacts on home ownership, partly because the relatively large number of transfers that occur each year are small in quantum. When attention is confined to the receipt of large parental transfers (greater than \$5000), the modelling indicates a higher likelihood of transitioning into first-time home ownership for both couple and single households. Once again, the impact on housing transitions is most pronounced in the period after receiving the transfer (but for single person households only).

### ***Impact of transfers on house price and home loan value of first-time home ownership***

Receipt of a bequest or *inter-vivos* might also be expected to affect other behaviours and outcomes associated with home purchase such as the prices paid by first time buyers and the value of

home loans taken out. For example, transfers may lead to a greater value of housing services being purchased (a higher price being paid). Alternatively, the recipient might substitute the transfer for their own savings so that if the value of the house purchased remains the same, the loan taken out may be smaller.

The evidence from the statistical analysis suggests that the house price paid by first-time home buyers who receive a bequest or parental transfer is significantly greater than the price paid by those who do not receive this transfer. Therefore, transfers help the household consume more housing than they might have done. There appears to be no impact from bequests or *inter-vivos* on the value of the loan borrowed by first time buyers, suggesting that it does not lead to greater savings or leveraging.

### ***Transfers and the distribution of wealth***

Over the period 2002 to 2010, total wealth has increased accompanied by an increased dispersion of wealth, with particular growth among outright home owners (reflecting in part, substantial growth in capital gains for housing over the period). Meanwhile, the distribution of wealth for renters remained stable over the period with a concentration at low levels of wealth. In net terms, there has been a widening gulf between owners and renters in access to wealth.

What role do transfers (whether *inter-vivos* or bequests) have in affecting the distribution of wealth, and in particular through housing? If beneficiaries are poorer this might reduce inequity, but if already wealthy, we might expect transfers only to concentrate wealth more narrowly. The data indicates that renters are less likely to receive a bequest and, conditional on receipt, the amount received is lower for renters compared to home owners. Renters are *more* likely than home owners to receive a parental transfer, but the amount is again substantially less than for home owners. These patterns reflect life-cycle considerations with *inter-vivos* generally occurring earlier and bequests later in housing careers.

The study found evidence that the net result of this is that bequests and transfers appear to *increase* wealth inequality. A hypothetical 2002 distribution of wealth among home owners was modelled, assuming bequests and parental transfers had not occurred. This resulted in a *reduction* in wealth inequality among home owners—that is, the transfers actually served to concentrate wealth more unequally. Since renters had low wealth levels and had virtually no impact on wealth distributions through transfers, this finding was relevant across all tenure status groups and the same pattern was observed in the data up to 2010.

## POLICY IMPLICATIONS

The evidence from this study shows that transfers have a positive impact on raising access to home ownership, including first-time home owners. Successive governments have encouraged home ownership through a range of mechanisms including first home owner grants and stamp duty concessions, but such policies overlook the role of private transfers which could complement or replace these public transfers. If the policy goal is to increase home ownership, these programs could be more targeted to those who are unlikely to benefit from private transfers.

Many of the beneficiaries of intergenerational housing transfers are existing owners—allowing many to pay off mortgages and gain outright ownership, and others to trade up. Although intergenerational transfers of wealth do offset intergenerational wealth inequality, because many of those benefiting from transfers are already well-off, they apparently come at the expense of greater vertical wealth inequality.

While intergenerational transfers have the ability to exacerbate existing wealth inequality, tax and transfer policies would ideally reflect the redistributive impact of such transfers. Wealth transfer taxes (e.g. taxes on bequests) may encourage *inter-vivos*, thereby accelerating home ownership earlier for younger households. This might also address wealth inequality by redistributing some of the proceeds of bequests to those who otherwise would miss out.

## FURTHER INFORMATION

This bulletin is based on AHURI project 73034, *The relationship between intergenerational transfers, housing and economic outcomes*.

Reports from this project can be found on the AHURI website: [www.ahuri.edu.au](http://www.ahuri.edu.au) or by contacting AHURI Limited on +61 3 9660 2300.

## REFERENCE

Burke, T., Stone, W. & Ralston, L. (2014) *Generational change in home purchase opportunity*, AHURI Final Report no.232, Australian Housing and Urban Research Institute, Melbourne.

[www.ahuri.edu.au](http://www.ahuri.edu.au)



---

ADDRESS Level 1, 114 Flinders Street Melbourne Victoria 3000 Australia  
TELEPHONE +61 3 9660 2300 EMAIL [information@ahuri.edu.au](mailto:information@ahuri.edu.au) WEB [www.ahuri.edu.au](http://www.ahuri.edu.au)

**ACKNOWLEDGMENTS** This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited acknowledges the financial and other support it has received from the Australian, state and territory governments, without which this work would not have been possible.

**DISCLAIMER** The opinions in this publication reflect the results of a research study and do not necessarily reflect the views of AHURI Limited, its Board or its funding organisations. No responsibility is accepted by AHURI Limited, its Board or its funders for the accuracy or omission of any statement, opinion, advice or information in this publication.