

# How Inheritance Affects the Real Estate Market in an Aging Economy: Evidence from Transaction and Registry Data <sup>\*</sup>

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September 30, 2016

## Abstract

The impact of population aging on real estate prices has been closely scrutinized by Mankiw and Weil (1989) and others. This paper sheds new light on the literature on asset meltdown by examining the mechanism how the death of property owners and subsequent inheritances affect the realty market. By combining the unpredictable nature of death and inheritance and the unique characteristics of the Japanese tax system, which provides an incentive to heirs to sell inherited properties shortly after inheriting them, we use the incidence of inheritance to instrument for the supply of real estate and examine the causal relationship between supply and realty prices to find the following. First, a higher incidence of inheritance results in a larger number of properties for sale. Second, a larger number of properties for sale as a result of inheritances decreases transaction prices in the real estate market. And third, there exists a substantial difference in the demand elasticity of real estate property depending on whether land use regulations were relaxed or tightened.

Keywords: Real estate market; Realty prices; Inheritance tax; Instruments

JEL classification codes: R31; R38; H24

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<sup>\*</sup> This study is one of the outcomes of the Hitotsubashi Project on Real Estate, Financial Crisis, and Economic Dynamics (HIT-REFINED) and was financially supported by JSPS KAKEN(S) #25220502. The authors are grateful to JON and Recruit Co. Ltd for providing the data used in the analysis. We would also like to thank Yutaka Arimoto, Hikaru Fukanuma, Masazumi Hattori, Kaoru Hosono, Naomi Kodama, Chiaki Moriguchi, Arito Ono, Takashi Oshio, Ralph Paprzycki, Daisuke Tsuruta, Hirofumi Uchida, Peng Xu, and participants of the RIETI Study Group on Corporate Finance and Firm Dynamics and a seminar at Hitotsubashi University for valuable comments.

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