



The Market for Second Homes: Globalization, growing resentment against investors, policy responses and economic consequences

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Keynote Lecture



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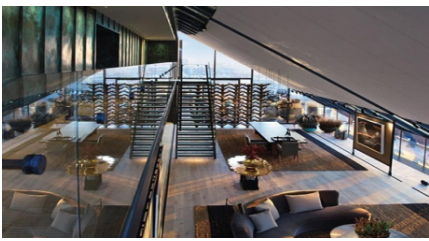
In a nutshell: A talk about
unintended consequences of
popular policies such as the
Swiss Second Home Initiative...



Stylized fact #1



- Increasingly globalized world + wealth concentration
⇒ Massive investment boom in 2nd homes (i.e., property that is not used as primary residence; house bought for leisure or investment purposes or mix)
 - ▶ **US/Canada:** 2nd homes b/w 1995-2005: +20%/+22%
 - ▶ **UK:** B/w 1995-2013: > +100%
 - ▶ **China:** 2002: 6.6% of urban HHs possess 2nd home; in 2007: 15% (+127% in 5 yrs. = ann. growth rate of 18%!)
 - ▶ **France (2014):** 9.3% of total stock are 2nd homes
 - ▶ **Switzerland (2015):** 600k units (~1 for every 5 HHs)



Stylized fact #2



- Surge of investment in 2nd homes triggered **political backlash** in numerous countries
- Reasons
 - ▶ Widely held believe foreign **investors drive up prices** reinforcing housing affordability problem
 - ▶ **Rising inequality generates resentment** against wealthy – especially if foreigners & luxury homes stay empty!
 - ▶ In tourist areas: fear that sprawl of investment homes **destroys landscape and character of towns & creates ‘ghost towns’**
 - ▶ Realization that 2nd homes generate **little/no tax revenue**

Resentment against foreign buyers: Example London

London Scandal: £350m Worth of Mansions Lie Empty in 'Billionaires' Row'



By Mark Piggott

February 1, 2014 13:06 GMT



Billionaire's Row: The Bishop's Avenue, London (Wikipedia)

'It's like a ghost town': lights go out as foreign owners desert London homes

Absentee owners and the 'buy to leave' market are hurting businesses as housing rises up the political agenda in the capital



The London skyscraper that is a stark symbol of the housing crisis

Exclusive: Tower underoccupied, astonishingly expensive, mostly foreign owned, and with dozens of apartments held through secretive offshore firms



Russian billionaire, Nigerian former bank chairman and Kyrgyz vodka tycoon among owners at St George Wharf tower Composite: BBA Travel / Alamy Stock Photo/Alamy

...but not just London...

Resentment against foreign buyers: Example Lake District

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How Lake District holiday homeowners are pushing out local residents

Close to 70% of homes in one village, according to head teacher, are not regularly occupied



Second homes 'leaving Lake District villages childless'

27 April 2013 Last updated at 16:35 BST

Some Lake District communities are facing the prospect of becoming villages without children because of the high numbers of holiday homes, campaigners claim.



A recently sold house in the village of Elterwater. Photograph: Mark Pinder

Resentment against foreign buyers: Examples US shores & Vancouver

REAL ESTATE

There's an Alarming Housing Shortage on Cape Cod

And it's only going to get worse.

by **MADELINE BILIS** • 10/16/2017, 3:55 p.m.



Wealthy vacationers are sucking the life out of Cape Cod, and it looks like they won't be stopping anytime soon.

Banker & Tradesman reports more and more seasonal visitors are buying second homes on the Cape, which does not bode well for the region's year-round residents. A swell in the demand for vacation homes is pushing out the regular folks—like restaurant workers and shop owners—who keep the Cape's tourism industry churning.

The Jersey Shore is losing year-round residents by the thousands

Updated Jun 19, 2016; Posted Jun 19, 2016

John Ducey, the mayor of Brick, also noted a drop in school population. He attributed the change to vacation homeowners pushing out full-time residents.

Asian community blamed for Vancouver's housing affordability crisis – but is this a political beat-up?

With the opening of a multimillion-dollar entertainment district in the downtown core, the city has made it clear whom it is catering to

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COMMENTS:

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Stylized Fact #3: Global political backlash resulted in policy interventions

- **US:** NYC abolished 20% tax abatement for 2nd homes
- **Canada:** Vancouver introduced transaction tax of 15% on purchases made by non-permanent residents in 2016 + similar policy in Ontario
- **UK:** 3% stamp duty increase on 2nd homes + new levy for foreign buyers & **St Ives** + other tourist places in Cornwall approved ban on new 2nd homes (...now spreads across country)
- **China:** Various measures to curb 2nd home investment incl. drastic minimum requirements on down-payments; in Beijing: single person HHs banned from buying more than 1 unit + 20% capital gains tax
- **France:** New law allows municipalities to introduce property tax surcharge of up to 20% on second homes
- **Switzerland:** **Second Home Initiative (SHI)** effectively banned construction of any new second home in municipalities with over 20% second homes

Similarities between bans in Switzerland and St. Ives?

- **Policies** are similar
 - ▶ A ban on construction of new second homes
 - ▶ 1st homes can still be converted into 2nd homes – but new builds cannot
- **Similar motivations**
 - ▶ Especially in Switzerland: Preservation of landscape and character of towns
 - ▶ Especially in UK: Improve housing affordability for locals
 - ▶ In both cases: Prevent ghost towns

But one important difference...

- In Switzerland primary and second homes are often quite different



⇒ Homes are largely traded in different markets...

Conversely in Cornwall (St. Ives)....

- Existing primary and second homes tend to be similar...



- ⇒ Tend to be **traded in same market**
- ⇒ Primary homes possess valuable **conversion option**
(in contrast to new builds)

**What are the economic
consequences
of the respective bans?**

... look at the two cases
in turn...

The Swiss

Second Home Initiative

(Builds on Hilber & Schöni 2019)

The main policy concern in Switzerland: Sprawl + destruction of landscape



The reality



The reality



The Swiss 'Second Home Initiative' (SHI)



Wollen Sie all das?

NEIN

zur Initiative über den Zweitwohnungsbau

NEIN → Bei Annahme der Weber-Initiative können beispielsweise die Einwohner von Zürich, Basel, Lausanne und Genf **ihren Traum** vom Kauf eines Ferienhäuschens oder einer Ferienwohnung in den Alpen **vergessen**.

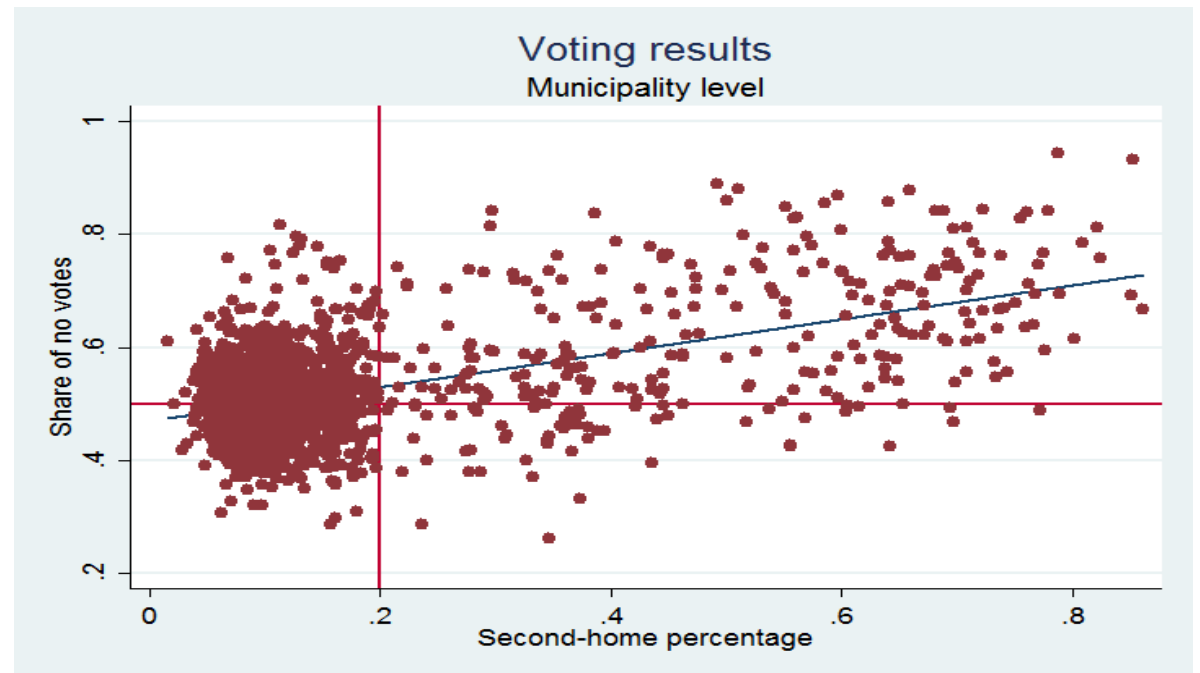
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Second home initiative – specifics

- In March 2012, Swiss voters surprisingly approved SHI with narrowest of margins: majority of voters (50.6%) and cantons (13.5/26!)

- Tourist areas were strongly against!

(Main support from lower-income voters, renter-occupiers, voters in large cities far away from ski-resorts)



- Effective January 1st 2013, ordinance came into force that **forbids construction of any new 2nd homes in municipalities with share $\geq 20\%$**

Economic effects

(based on our Difference-in-Difference-style analysis)

1. Second home ban **reduced price of primary homes** in affected areas (relative to control group) ⇨ Negative wealth effect for *local* owners of primary homes
2. Policy **increased local unemployment** ⇨ Younger local renters arguably not better off...lower rents but also fewer & less lucrative jobs!
3. **No evidence of significant positive amenity** (landscape) **effect**
4. Policy **increased price of second homes** ⇨ Existing second home investors are better off
5. **No evidence of conversion** of 1st into 2nd homes in short-run (two years after implementation)

Tentative Conclusions

- **Ban did not appear to help locals:** the local economy suffered!
(...that's probably why locals were strongly against in first place...!)
- Constraining 2nd home investments **may have reinforced** rather than reduced **wealth inequality**
 - ▶ Main beneficiaries: Existing owners of 2nd homes
 - ▶ Main losers: Local homeowners & young looking for local employment


The ban in St. Ives (and in other towns of Cornwall)



Ban in St. Ives

- In May 2016, **residents of St. Ives overwhelmingly approved ban** on construction of new 2nd homes in local referendum (83% yes; turnout of 43%)
- ⇒ Interesting puzzle: Why were locals in Swiss tourist places against, but locals in St. Ives strongly supported ban...?

Answer: Different institutional setting ...

- UK has incredibly **inflexible planning system** catering to NIMBYs + **lacks tax incentives** for local authorities to permit residential development
 - ▶ Very little construction (about 1/3 of Switzerland!)
 - ▶ Lack of affordable housing major issue, especially for young & lower incomes
- But: **Majority of people** (still) **owns**, especially elderly & well-off (majority of voters in St. Ives)
- And recall: **Primary and second homes** in St. Ives tend to be **similar** (in contrast to )

Economic effects in St. Ives (based on anecdotic evidence)

1. Demand and construction of **new build houses** collapsed
 - ▶ Why? No more demand from second home investors
2. Price of **existing homes** increased further
 - ▶ Demand of 2nd home investors likely shifted from new built to existing homes (↔ to Switzerland)
3. Housing seems to have become **even less affordable** for younger would-be-buyers
4. **Ghost town problem** tends to **get worse** (because 2nd home investors 'buy out' locals)
5. **Main beneficiaries** (again) **the wealthy**: existing owners of property (2nd home investors + better-off local homeowners)

Conclusions

- 2nd home investors – especially foreign ones – are increasingly popular **scapegoat** for housing affordability problem (& other wrongs)
 - ▶ But: They are merely a **symptom, not the cause**
 - ▶ *Example England:* Housing affordability crisis mainly driven by dysfunctional planning & tax systems—not investors!
- **Bans are largely counterproductive**
 - ▶ Hurt local economies via increasing unemployment
 - ▶ Do little to help young local population or ease ghost town problem
 - ▶ And they further accentuate wealth inequality!

A better policy?

- **Any policy** that keeps investors away **will have adverse effects on local economy**
 - ▶ Be careful what you wish for...
- But IF a policy, then **annual local tax on value of 2nd homes or underlying land** would be preferable...
 - ▶ Generates local tax revenue (helps locals)
 - ▶ Reduces sprawl, empty homes & ghost towns
 - ▶ And: It may actually reduce wealth inequality!

Q & A

Thank you!

Latest draft of Hilber & Schöni (2019) & presentation available:

Email: c.hilber@lse.ac.uk

An earlier version of the paper is available as a
CEP Discussion Paper:

<http://cep.lse.ac.uk/pubs/download/dp1556.pdf>

See also my recent blog here:

<http://spatial-economics.blogspot.com/2019/08/why-banning-construction-of-second.html>