

The Possible Impacts of Second and Holiday Homes in North Norfolk

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1. Summary

1.1 As at 1st April 2022 North Norfolk district (the district) had 7,169 second and holiday homes. The 4,508 second homes represent 8.0% of council tax homes and the 2,661 holiday homes 4.5% of all homes (council tax homes plus holiday homes liable for business rates). North Norfolk has the second highest proportion of second homes in England (after the City of London) and one of the highest in terms of total numbers. Comprehensive national statistics are not available to make comparisons with holiday home numbers.

1.2 The changing demographics of the district is the main driver of the housing market. People aged 65+ made up 32% of the population in 2018 compared with 17.8% for England. The Office for National Statistics projects that this proportion will rise to 36.4% by 2028 and continue to rise thereafter. In the period between 2018 and 2028 deaths (15,264) are projected to exceed births (7,285) by more than two to one. Nonetheless, the population will grow from an estimated 104,000 in 2018 to around 110,087 by 2028. This projected growth is due to net inward migration, mainly from other parts of England. Property prices in North Norfolk remain lower than many other areas in the East of England so that many moving to the area may have sufficient income/savings to buy in a location of their choice.

1.3 From the available evidence it is difficult to conclude that the high numbers of second and holiday homes is affecting house prices and affordability¹ across the district as a whole. However, there may be some local effects. The three wards in the district with the highest numbers of second and holiday homes also have the highest house prices. This could be partly as a result of high numbers of holiday and second homes in those areas or because high value areas are attractive locations for home purchasers, or a combination of both factors.

1.4 At the time of the 2011 census 16.6% of housing in the district was in the private rented sector. We await the release of up to date information from the 2021 census. Recent national research indicates that the sector is in decline with landlords leaving the market, mainly by selling rental homes but with a small number (1%) converting to short-term 'holiday' lets. Our 'snapshot' surveys of properties to let in the district show reduced numbers to let and rising rent levels. We do not know if this is due to a decline in the private rent sector and, if so, if this is because landlords are using properties for short-term 'holiday' lets.

1.5 As at 1st April 2021, there were 6,366 affordable homes in the district. All the towns and parishes in the district have affordable homes and, whilst the proportions vary, there is no correlation with the number of second and holiday homes.

1.6 Currently the Council charges 100% of Council Tax on the majority of second homes. The Council has chosen to use its discretionary powers to not reduce the Council Tax on second homes. As second home owners are liable for the same Council Tax charge as other properties, second homes have a neutral impact on revenue income for the Council. The Council retains 8p for every £1 of Council tax collected. The situation is different for holiday homes. Holiday homes are liable to pay non-domestic (business) rates. The Council retains 40p for every £1 of non-domestic (business) rates, even where the owner receives Business rates relief.

1.7 In 2019, tourism contributed £529 million to the North Norfolk district economy and provided employment for an estimated 11,898 people. This represents about 20% of the jobs in the district.

¹ In this report we use the ratio of median house prices to median income as a measure of affordability. See section 3 for further information.

In 2020 the sector declined sharply due to Covid 19. Figures for 2021 are not yet available but are expected to show some recovery.

1.8 Staying visitors (as opposed to day visitors) account for 5,009, or a little under half, of the 11,898 tourism related jobs. Of the £519 million tourism generated income 10% or £53 million is for accommodation.

1.9 Staying visitors have a range of options for overnight accommodation. Traditionally this included guesthouses, bed and breakfast and private hotels. Increasingly staying visitors are choosing self-contained accommodation, which could be a holiday let or their own second home. In terms of second and holiday homes, there are two conclusions we can draw:

- i. Second and holiday homes play a significant part in generating local income and employment.
- ii. The trend toward self-contained holiday accommodation, rather than bed and breakfast or hotel accommodation may be contributing to the increased numbers of second and holiday homes.

1.10 The Council's housing policies focus on the delivery of new housing and in particular affordable housing across the district. The policies include enabling work and grant funding to help affordable housing scheme viability. Two areas of activity tend to focus on parts of the district with high numbers of holiday and second homes:

- i. Support to community-led housing groups.
- ii. Delivery of rural exceptions housing sites.

1.11 Most of the district's community-led housing groups are in parts of the district with high numbers of holiday and second homes. Similarly many, though not all, of the recent and planned exceptions housing sites are also in areas with high numbers of holiday and second homes.

1.12 There are two changes planned by government that will give the Council additional powers affecting second and holiday homes.

- i. Changes to non-domestic (business) rates. – Business Rates are typically lower than Council Tax and small businesses can benefit from exemptions. Currently to qualify for non-domestic (business) rates an owner of a holiday home needs to make the home *available* for let for at least 140 days a year. From 1st April 2023 the owner must also actually *let* the property for at least 70 days in the previous year. If the owner is unable to confirm the property is let for 70 days they would instead be liable to pay Council Tax and lose any Non-Domestic (Business) Rate relief.
- ii. Increases on Council Tax for second homes. - The Levelling Up and Regeneration Bill proposes to give local councils the power to charge up to 100% extra Council Tax on second homes.

1.14 The government has also launched a call for evidence into the benefits and challenges presented by the rise in short-term holiday lets. The evidence gathered should help inform the development of policy options, which the government intends to consult on later in 2022. This may include a registration scheme for holiday lets, similar to schemes that already run in Scotland and Northern Ireland which aim to ensure standards are met in holiday lets.

1.15 The Council's planning policies support the delivery of affordable housing. Planning policy requires that new housing development of more than 10 homes provide 45% affordable homes. In addition, the Council's policy on affordable housing in the countryside allows for the development of affordable housing on rural exceptions housing sites.

1.16 The Council has previously considered, and rejected, the option of imposing occupancy conditions on new-build market housing. An occupancy condition would require the owner to use the home as their principal home and prevent its use as a second or holiday home. The Council rejected this policy on a number of grounds but principally because:

- i. It could only apply to new-build homes and prospective second/holiday home owners could choose to buy existing properties without an occupancy restriction thereby deflecting demand into the existing housing stock.
- ii. There are doubts about the effectiveness and impacts of such policies.
- iii. It could be difficult and costly to police such restrictions.

1.17 There is draft provision in the Levelling Up and Regeneration Bill that would require second home owners to obtain planning permission if they do not let their property for holiday purposes for at least 90 days. This would give the Council the option to consider planning policy to manage the numbers and distribution of some types of second homes use in specific locations. We assume the Bill will not apply retrospectively to existing second homes.

2. Definitions and Numbers of Second and Holiday Homes

2.1 In this section of the report we look at information held on the numbers of Second and Holiday homes in the district. In particular:

- i. Definitions of Second and Holiday Homes
- ii. The profile of Second and Holiday Homes in the district and national comparisons.

Definitions: Second & Holiday Homes

2.2 In planning legislation, the use of a home as a second home is not separately classified. Both a main, or principle residence, and those used as a second home fall within the same use class (Use Class c3) which defines a dwelling as:

2.3 Use as a dwelling house (whether or not as a sole or main residence) by a single person or by people living together as a family, or by not more than 6 residents living together as a single household (including a household where care is provided for residents).

2.4 Planning legislation does not require the submission of a planning application to change the use of a property from one type of C3 use to another type of C3 use. As a result, most existing dwellings can be used as second homes without the need for planning permission and fall entirely outside of the scope of planning control. The only exceptions are those properties which are already subject to some form of occupancy condition, for example, all affordable homes and those subject to agricultural or key worker restrictions.

2.5 Similarly, the use of dwellings, or parts of dwellings for holiday letting purposes is not in a separate use class for planning purposes and most authorities take the view that the use of parts of dwellings for bed and breakfast, air B&B, or short-term holiday letting will not require planning permission. Only in those circumstances where the holiday use is materially different to the use of a property as a dwelling would planning permission be required, for example, the conversion of a single house to multiple units of holiday accommodation would need planning permission. As it stands, there is currently no system for statutory registration or licensing of guest accommodation in England. Only London has powers to restrict short-term and holiday letting activity, under the Greater London Council (General Powers) Act 1973 (as amended by Section 44 of the Deregulation Act 2015). This stipulates that use of any residential premises in Greater London as temporary sleeping accommodation is considered a 'material change of use' for the purposes of planning permission if used in this way for more than 90 nights per calendar year. This only applies to premises where the person providing the accommodation is liable to pay council tax.

2.6 Examples:

- i. The use of a dwelling as a second home where the second home owner uses it themselves and occasionally for holiday use by family would not normally require planning permission.
- ii. The use of some of a dwelling for bed and breakfast/Air B&B accommodation for parts of the year is not likely to be a change of use and therefore would not need planning permission.
- iii. The use of an entire property for multiple units of holiday accommodation would be a change of use and planning permission would be required.

2.7 For the purposes of determining tax liability (Council Tax or Business Rates) the following classifications are used:

- **Second homes** – These are homes which are liable to pay Council Tax. They are not a sole or main residence and are classed as unoccupied, but are NOT substantially unfurnished (i.e. they are furnished). This is the key difference between Second and empty homes – see below. Data on the number of Second Homes is gathered from Council Tax returns annually. Second homes do not receive a discount on Council Tax, but pay 100%.

2.8 There are two further classes of ‘second homes’ which have not usually been included in our analysis of Second Homes as they cannot serve as a main residence due to their restrictions. The majority of these seasonally restricted Second homes are chalets in places such as Mundesley, Bacton, Stalham and Cromer:

- **Seasonal** - Properties that are not a sole or main residence, are furnished and which have seasonal planning prohibition preventing occupation for a continuous period of at least 28 days. These homes are subject to a 10% Council Tax discount, and
- **Pre-1948** - Properties built before 1948 that are defined as being not capable of occupation all year round. These homes are subject to a 35% Council Tax discount.

2.9 The above discounts are local discretions decided annually by NNDC members otherwise the standard discount of 50% would apply which is legislated in the Local Government Finance Act 1992.

- **Holiday homes** – These are properties which are declared to be let commercially and which are liable to pay Non-Domestic (Business) Rates (or may receive rate relief e.g. Small Business Rates Relief, which is the case for $\frac{3}{4}$ of Holiday Homes). Currently properties are classed as Non-Domestic (Business) Rates if they are available to let for 140 days or more. Proof of actual holiday letting is not required.

2.10 From 1 April 2023 owners of these properties in England must have had their property available to let for 140 days or more in the previous year and must have in fact let in that way for at least 70 days during that year. Otherwise these will not be valued by the Valuation Office Agency to be liable for business rates and would instead be liable to pay Council Tax.

2.11 Holiday Homes are identified from the business description. Camping sites, caravan sites and chalet parks are excluded from the figures but “Self Catering holiday units” have been included to give the most accurate figures reasonably possible of holiday homes.

- **Empty homes** – these are unoccupied properties which are substantially unfurnished. Empty homes are charged 100% Council Tax for two years. A levy is charged for homes empty more than two years raising the total Council Tax to be paid to 200%. Homes empty for more than five years are charged 300% and those empty over 10 years are charged 400%.

The profile of Second & Holiday Homes in the District

Number of second homes

2.12 As at 1/4/22 there were 4,508 properties recorded as Second Homes in North Norfolk. This is an increase of 59 from the 2021 figure of 4,449. The percentage of Second Homes (as a proportion of all Council Tax homes) remains at 8%. Second homes as a proportion of all homes (including Council Tax and those homes paying Business Rates as Holiday homes) has risen to 7.7% (previously 7.6%).

2.13 There are a further 851 properties that fall into the two categories identified above - 617 with the seasonal planning prohibition preventing continuous occupation, and 234 properties built before 1948 that are defined as being not capable of occupation all year round. If these categories are included the total as at 1/4/22 is 5,359 (9.6% of all Council Tax homes). This is the basis for calculating Second Homes in national returns and comparisons with other parts of the country.

Number of holiday homes

2.14 As at 1/4/22 there were 2,661 properties recorded as Holiday Homes. This figure has increased more significantly than Second Homes (up by 246, a 10.2% increase from the 2021 figure of 2,415). BBC research (with results from 152 councils) has shown a 40% increase in Holiday Homes paying business rates over the 3-years 2018-2021. The equivalent increase in North Norfolk for that period was 23% (from 1,959 Holiday Homes in 2018 to 2,415 in 2021).

2.15 The total number of Second and Holiday homes has increased to 7,169 (up 305, a 4.4% increase from the 2021 total of 6,864)

2.16 Over the past 4 years the figures/proportion of Second & Holiday homes has continued to grow, although the largest growth has been in Holiday Homes rather than Second Homes.

Table 1 : Numbers and Proportions of Second and Holiday Homes 2019-2022

As at 1 st April	2019	2020	2021	2022
No. Second Homes	4458	4476	4449	4508
%*	8.1%	8.1%	8.0%	8.0%
No Holiday Homes	1999	2221	2415	2661
%**	3.5%	3.9%	4.1%	4.5%

* % of Second Homes as proportion of Council Tax homes

**% of Holiday Homes as proportion of all homes – Council Tax plus Holiday

Source - NNDC Council Tax and NNDR April 22

Please note the increase in Non-Domestic (Business) Rates properties over the past few years has been linked to revenue services growth work and businesses needing to be rated to obtain some of the business rated Covid grants.

Distribution of Second & Holiday Homes

2.17 As at 1/4/22 there were 67 parishes with levels of Second and Holiday homes at 10% or more. There is only one remaining parish with zero Second and Holiday homes – Brumstead. The parishes with the highest percentage of Second and Holiday homes remain broadly the same, with two parishes now at, or above, 50% - Morston – 52.2% and Salhouse at 50% (those above 40% are, Blakeney – 44.2% and Cley – 44%)

Details of 2022 Second & Holiday Homes can be found in Appendix A, together with a heat map showing the concentration of homes in Appendices B1 and B2

Comparative levels of Second Homes

2.18 As Second Homes are a defined class of Council Tax property we are able to compare rates across councils. However, we are not able to do the same with Holiday Homes as there is no standard definition. National Council Tax figures are taken at the first Monday of October each year so will not be the same as those shown above, and these figures also include Second Homes with planning restrictions meaning they cannot be occupied all year round (seasonal and pre-1948).

2.19 As at 4/10/21 (the latest data available) there were 253,400 Second Homes in England, 1.01% of all Council Tax homes. The comparative figure for North Norfolk as at 4/10/21 was 5,397 Second Homes, 9.7% of all Council Tax homes. By number, Cornwall Unitary Authority has the highest number of Second Homes at 13,260 (4.78%), North Norfolk is 7th. However, by proportion of Second Homes the City of London has the highest proportion (22.43% homes but from only 7,636 Council Tax homes). North Norfolk is second highest in England in terms of proportion of Second Homes (followed by Kensington & Chelsea at 8.97% and the Isles of Scilly at 8.10%).

National Council Tax Second homes data is set out in Appendix C

3. The Housing Market: How Second and Holiday Homes May affect the Housing Market

3.1 In this section of the report we look at the housing market in the district and consider how the high numbers of holiday and second homes may affect the housing market. In particular:

- Demographics and how these may affect the housing market
- House prices in the district.
- The supply of privately rented housing.
- The supply of affordable housing.

3.2 First we look at the changing demographics of North Norfolk. This is the main driver of changing housing demand in the district.

North Norfolk District –Demographic Information

Summary of Demographic Information

3.3 North Norfolk has a very high proportion of people aged 65+. The proportion is projected to rise to nearly 40% by 2036. With high proportions of older people it is not surprising that the projected number of births in the district (10 years to 2028) is less than half the projected number of deaths. In spite of this, the population is projected to grow and this is due to inward migration mainly from other parts of England.

3.4 Inward migrants will be young and old, rich and poor. However there will be more that are older and these are also likely to have income and/or savings to afford to buy a North Norfolk home, possibly using the proceeds of a sale from a more expensive location.

3.5 A large part of the demand for housing, particularly housing for sale, is from in-migrants. It seems likely that given a choice these in migrants will choose to buy in areas also popular for holiday and second homes. So it is possible that it is in-migrants, rather than holiday and second homes that push up house prices in parts of the district.

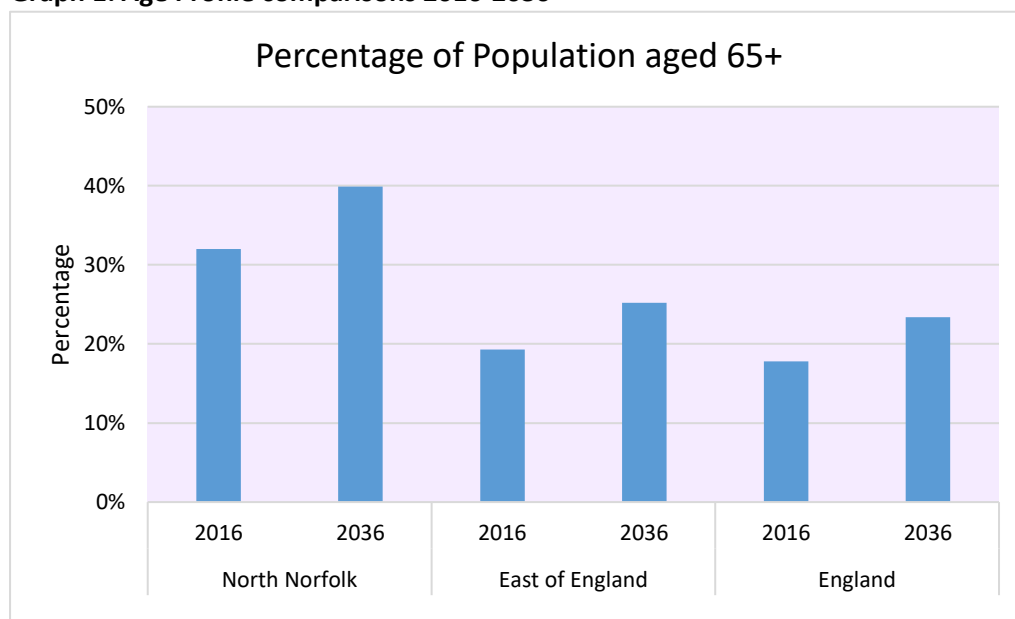
Table 2 : Age Profile comparisons 2016-2036

Age Group	North Norfolk		East of England		England	
	2016 (1000s)	2036 (1000s)	2016 (1000s)	2036 (1000s)	2016 (1000s)	2036 (1000s)
65-69	9.7	10.2	360.0	428.1	3,032.1	3,612.8
70-74	8.1	10.3	285.0	408.4	2,381.3	3,416.3
75-79	5.9	8.6	211.7	329.3	1,796.0	2,741.9
80-84	4.7	6.7	163.4	251.0	1,345.4	2,049.5
85-89	3.1	5.5	104.1	199.7	840.2	1,570.8
90+	1.7	3.4	60.5	123.8	487.8	946.2
All 65+	33.2	44.7	1,184.7	1,740.3	9,882.8	14,337.5
All ages	103.6	112.1	6,129.0	6,915.6	55,268.1	60,905.5
% 65+	32.0%	39.9%	19.3%	25.2%	17.8%	23.4%

Source Table 2 Sub National Population Projections 2016, Population Projections for Local Authorities – ONS

<https://www.ons.gov.uk/releases/subnationalpopulationprojectionsforengland2016basedprojections>

Graph 1: Age Profile comparisons 2016-2036



3.6 North Norfolk District has more older people (age 65+) than the rest of the East of England and England. The proportion of older people is projected to increase for all parts of England with North Norfolk continuing to have an older than average population.

Population Projections 2018 to 2028

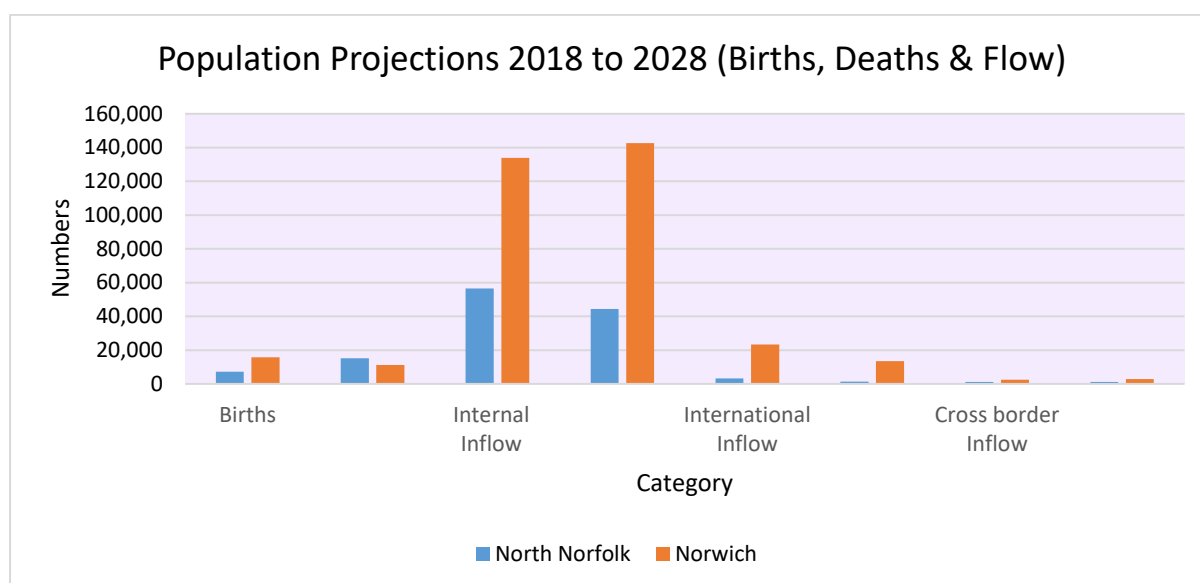
3.7 For North Norfolk District the projected population growth between 2018 and 2028 is driven by inward migration. In fact the population would decline if it were not for inward migration as deaths will exceed births. By contrast Norwich – a district with a much younger population – births exceed deaths.

Table 3: Population Projections North Norfolk/Norwich

	North Norfolk	Norwich
Population 2018	104000	142000
Changes 2018 to 2028		
- Births	7285	15755
- Deaths	15264	11173
- Internal inflow	56501	133860
- Internal outflow	44349	142630
- International inflow	3324	23292
- International outflow	1424	13443
- Cross border inflow	1156	2568
- Cross border outflow	1142	2951
Net Change	6087	5278

Projected Population 2028		110087		147278	
%age change		5.85%		3.72%	
%age Aged 65+					
- 2018		32.80%		14.80%	
- 2028		36.40%		16.20%	
Source: Office for National Statistics (March 2020) - Subnational population projections for England: 2018-based					

Graph 2: Population Projections North Norfolk/Norwich



3.8 This gives us some insight into what drives demand for housing. For North Norfolk District a significant part of the demand for housing is from people moving into the district from other parts of the country.

3.9 We can make some assumptions about the people moving in. Unfortunately the available statistics do not provide the detail to confirm these assumptions:

1. They are mostly older people – likely because if there were large numbers of young people the age profile of the district would include more younger people.
2. They are mostly single people or couples – likely because the people moving in are older i.e. have no children or children who are no longer dependent.
3. Most have money to buy a home in the district – likely because the alternatives of private or affordable rent are difficult to access.
4. Some will have previously owned a second/holiday home in the district – likely to be true to some extent. However, there is no data on the number of second/holiday home owners who move to the district permanently.

House Prices in the District

Summary of House Price Information

3.10 Median house prices in North Norfolk at £295,000 (September 2021) and are slightly above the median for England of £285,000 but less than the median for the East of England of £325,000.

3.11 However, because incomes in North Norfolk are relatively low North Norfolk performs less well in terms of median affordability. Median affordability² is the ratio of median house prices to median income. The higher the ratio the less affordable the market sale homes. For North Norfolk median affordability is 10.54. This is worse than England at 9.05 and worse than the East of England at 10.08.

3.12 Can we attribute this lack of affordability to the high numbers of holiday and second homes? When we compare North Norfolk with other English districts the evidence is inconclusive.

1. Of the 10 districts outside of London with the highest proportion of second homes five have low levels of affordability compared to England and four have high levels of affordability. The 10th, King's Lynn and West Norfolk is on a par with England.
2. Of the 10 least affordable districts in England (lowest median affordability) none are in the top 10 for the proportion of second homes and only three are above the national average.

3.13 However, when we look at parts of the district (district wards) there appears to be a pattern. The three wards with the highest house prices also have the highest proportion of holiday and second homes. We need to be careful, correlation does not imply cause.

3.14 In conclusion, there is no clear evidence that high numbers of holiday and second homes effects house prices and affordability for the district as a whole. There is possible evidence that there are some local effects on house prices and affordability in parts of the district. This may warrant further local research to see if high numbers of holiday and second homes in these locations causes high house prices or if there is some other factor at work (e.g. the general 'attractiveness' of an area leading to high demand for homes) .

Median House Prices and Median Affordability – Year to September 2021

3.15 Compared to house prices in the East and South East the median house price in North Norfolk at £295,000 is not high. However, the median price is higher than Breckland and Norwich. When we take into account incomes and look at the measure of median affordability, house prices in North Norfolk compared with median incomes (10.54) are higher than the East (10.08) but still lower than the South East (10.74) and Cambridge (12.19).

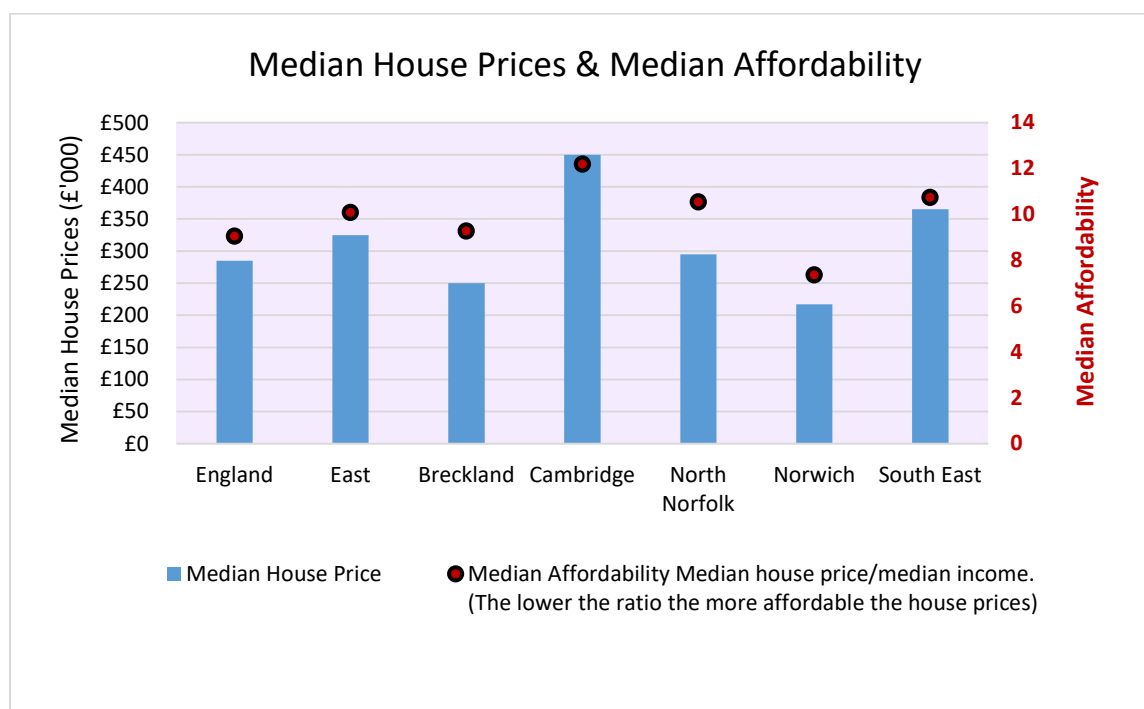
² House price to earnings ratio: Dividing the house price for a given area by its earnings, we produce a ratio which serves as an indicator of relative affordability. A higher ratio indicates that on average, it is less affordable for a resident to purchase a house in their local authority district. Conversely, a lower ratio indicates higher affordability in a local authority.

Table 4 : House Price Comparisons

Location	Median House Price	Median Affordability (Median house price/median income – the lower the ratio the more affordable the house prices)
England	£285,000	9.05
East	£325,000	10.08
1. Breckland	£250,000	9.27
2. Cambridge	£450,000	12.19
3. North Norfolk	£295,000	10.54
4. Norwich	£217,000	7.36
South East	£365,000	10.74

Source: Office for National Statistics - House price to residence-based earnings ratio.

Graph 3: House Price Comparisons



3.16 Does this provide evidence that holiday and second homes are the cause of the relatively high house prices by comparison with incomes. The evidence is far from conclusive. Compared with Norwich house prices are relatively expensive and Norwich doesn't have large numbers of holiday and second homes. But nor do most of the districts in the South-East but here house prices compared to incomes are more expensive.

National Comparisons – Second Homes and House Prices

3.17 The table below shows the top ten local authorities (outside London) in terms of percentage of second homes and compares this to median house price and median affordability (derived from median house price/median income).

3.18 The table shows very limited correlation between local authorities with high levels of second homes and housing affordability - many of the top ten are below the median affordability ratio in England i.e. house prices compared to incomes are relatively low.

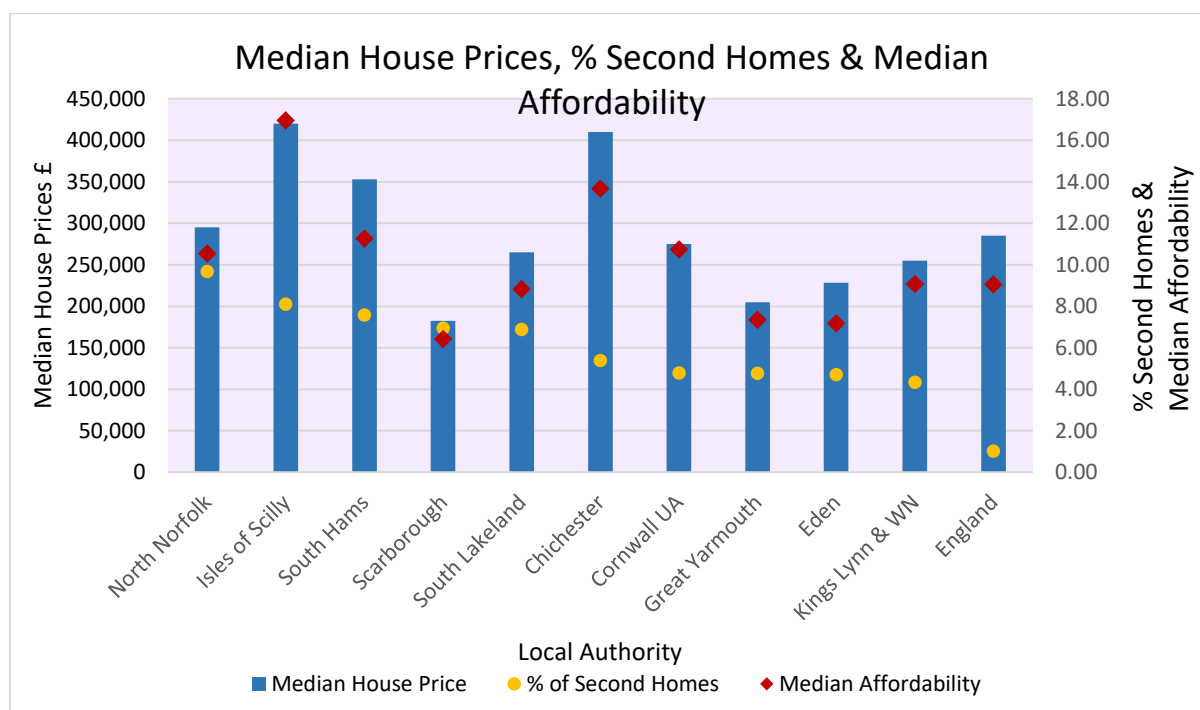
Table 5: Local Authorities (Outside London) with the Highest Proportion of Second Homes

Local Authority	% of Second Homes	Median House Price	Median Affordability
North Norfolk	9.68%	£295,250	10.54
Isles of Scilly	8.10%	£420,000	16.96*
South Hams	7.58%	£352,998	11.26
Scarborough	6.94%	£182,500	6.42
South Lakeland	6.88%	£265,000	8.83
Chichester	5.39%	£410,000	13.67
Cornwall UA	4.78%	£275,000	10.74
Great Yarmouth	4.77%	£205,000	7.35
Eden	4.70%	£228,250	7.18
Kings Lynn & WN	4.33%	£255,000	9.07
England	1.01%	£285,000	9.05

Source: Council Tax data October 2021 / ONS House Price data September 2021

* The data for Isles of Scilly is from 2019, sample sizes are too low for more recent data

Graph 4: Local Authorities (Outside London) with the Highest Proportion of Second Homes



3.19 The table below shows the top ten local authorities (outside London) in terms of median affordability (derived from median house price/median income) and compares this to median house price and percentage of Second Homes.

Table 6: Local Authorities (Outside London) which are Least Affordable

Local Authority	% of Second Homes	Median House Price	Median Affordability
Hertsmere	0.60%	£525,000	14.88
Epsom and Ewell	0.11%	£523,000	14.82
Elmbridge	0.48%	£620,000	14.78
Mole Valley	0.55%	£570,000	14.69
Three Rivers	0.08%	£500,000	14.25
Brentwood	0.38%	£490,000	14.12
Chichester	5.39%	£410,000	13.67
Epping Forest	0.71%	£497,250	13.55
Welwyn Hatfield	1.07%	£420,000	13.28
Cotswold	3.72%	£408,000	13.11
England	1.01%	£285,000	9.05

Source: Council Tax data October 2021 / ONS House Price data September 2021

3.20 Again the table shows very limited correlation between local authorities with the highest ratio of house price to income (i.e. the least affordable) and those with high levels of second homes. Only three of the least affordable areas (Chichester, Welwyn and Cotswolds) are above the national average level of second homes.

3.21 In terms of affordability ratio, North Norfolk at 10.54 is ranked 97th in the country (including London authorities).

Median House Prices Compared with Percentage of Holiday and Second Homes

3.22 House prices are not uniform across the district. The following table compares median house prices with the average percentage of holiday and second homes for the wards in North Norfolk District.

3.23 There is a possible correlation between house prices and the percentage of holiday and second homes. The three wards with the highest house prices; Priory, Coastal and Wells with Holkham are the three wards with the highest Percentage of holiday and second homes. After this the pattern is less clear. The next four wards in terms of house prices; Holt, Gresham, Erpingham and Stibbard have relatively low percentages of holiday and second homes. Whilst Bacton and Mundesley with relatively low house prices have high levels of holiday and second homes.

3.24 But even if a correlation exists it does not imply cause. There are two alternative interpretations and without further evidence we cannot conclude which if either is correct.

Interpretation 1 – Some parts of the district are popular – both to live and to holiday. This results in high house prices in these popular parts of the district. High percentages of holiday and second homes do not cause higher house prices.

Interpretation 2 – With a fixed supply of housing (little new development) extra demand from holiday and second home owners pushes up prices. High percentages of holiday and second homes do cause higher house prices.

3.25 But even if second and holiday homes contribute to higher house prices it seems very likely, albeit very difficult to evidence, that house prices would still be high, to the extent that those on median incomes would still be unable to purchase, even if there were no second and holiday homes.

Table 7 : House Price compared to Second/holiday home proportions

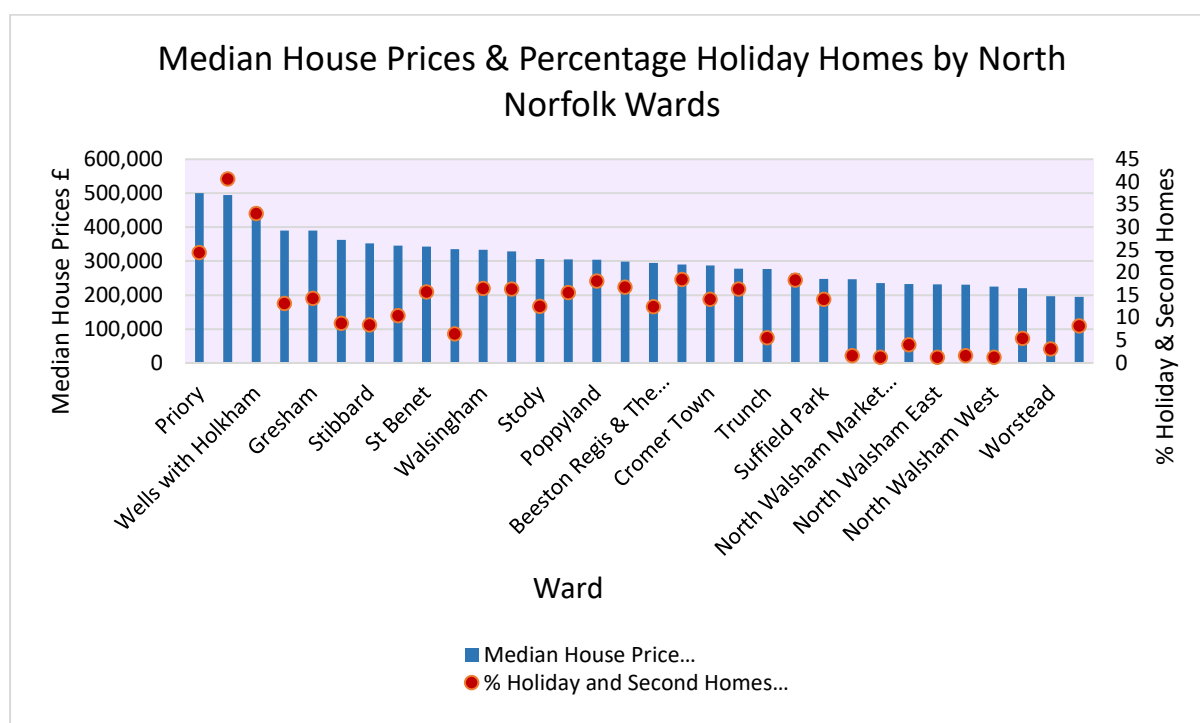
Ward	Median House Price September 2021	%age Holiday and Second Homes – April 22
Priory	500,000	24.34%
Coastal	495,000	40.63%
Wells with Holkham	460,000	33.02%
Holt	390,000	13.13%
Gresham	390,000	14.29%
Erpingham	362,500	8.76%
Stibbard	352,500	8.37%
Roughton	345,500	10.47%
St Benet	343,000	15.65%
Hoveton & Tunstead	335,000	6.42%
Walsingham	333,000	16.48%
Sheringham South	328,500	16.32%*
Stody	306,000	12.52%
Happisburgh	305,000	15.54%
Poppyland	304,000	18.10%
Hickling	298,750	16.74%
Beeston Regis & The Runtons	295,000	12.39%
Mundesley	290,000	18.45%
Cromer Town	287,500	14.07%*
Sheringham North	277,500	16.32%*
Trunch	276,750	5.59%
Bacton	265,000	18.28%
Suffield Park	248,000	14.07%*
Lancaster South	247,000	1.60%*
North Walsham Market Cross	235,000	1.24%*
Stalham	232,500	4.00%
North Walsham East	232,000	1.24%*
Lancaster North	231,000	1.60%*
North Walsham West	225,000	1.24%*
Briston	220,000	5.42%
Worstead	197,000	3.11%
The Raynham	195,000	8.2%

Source: Median House Prices – Office for National Statistics House Price Statistics for Small Areas (HPSSAs)

%age Holiday and Second Homes from NNDC Council Tax and NNDR April 22 (Ward figures are calculated by combining parishes in the ward).

*For Cromer, Fakenham, North Walsham and Sheringham we assume that the holiday and second homes are spread uniformly across the towns i.e. the wards that make up the Towns have similar proportions of holiday and second homes.

Graph 5: House Price compared to Second/holiday home proportions



The Private Rented Sector

Summary of Private Rented Sector Information

3.26 At the time of the 2011 Census 18.1% of English households rented privately. This increased to 20% in 2016/17 but reduced to 19% in 2019/20. Recent national research shows that the supply of privately rented housing is in decline. Most landlords who decide to leave the market are selling (91%) but a small proportion (1%) are moving into short-term lets. With declining numbers of properties to let rents are rising across the country.

3.27 At the time of the 2011 census 16.6% of North Norfolk households rented privately. We have no information on changes in the number of privately rented homes since 2011. We do have ‘snapshot’ information on the number of privately rented homes available to let. These show declining numbers and rising rent levels. We do not know if the decline in numbers is because there are fewer privately rented homes or because tenants are choosing not to move. It is possible that landlords are choosing to move to short-term holiday lets but we have no evidence to support this.

The Private Rented Sector Nationally

3.28 Good information on the private rented sector is limited, especially at a local level. Much of the information available comes from snapshots/ sample surveys or is anecdotal. The last ‘full’ information available on the private rented sector comes from the 2011 Census. Information on tenure at a local authority level from the 2021 Census is not expected until 2023

3.29 Just over 4.4 million households live in the private rented sector in England, 19% of all households. By comparison, 17% (4.0 million) live in the social rented sector and 65% (15.4 million)

are owner occupiers. The number and proportion of private rented households has declined from 20% and 4.7 million households in 2016-17. (Source: English Housing Survey Private rented sector, 2019-20).

3.30 National average asking rents outside of London hit a new record of £1,088 per calendar month (pcm), rising from £982 pcm last year. This 10.8% rise in asking rents is the first time annual growth has exceeded 10%. Average rents are now 15% higher than the same period two years ago, just as the pandemic started. Tenants are faced with the most competitive rental market ever recorded by Rightmove, with more than triple the number of prospective tenants as there are rental properties available. Total tenant demand is up 6% and available properties are down by 50% compared to last year. In the East of England average rents are £1,331 pcm a year-on-year rise of 10.3%. (Source: Rightmove Rental Price tracker Q1 2022)

3.31 Propertymark member agents were surveyed between 30 March and 29 April 2022. Respondents reported working for businesses that had a combined total of over 4,000 branches across the UK. The number of properties available to rent has been diminishing with a large portion of landlords choosing to sell their properties. A lack of property is the root cause of rent increases and rising figures on social housing lists. Our qualitative research shows that the most common reasons for landlords to choose to sell their properties and no longer provide homes are risk, finances, and viability. The vast majority of respondents (91%) told us that the primary reason landlords leave PRS management by a letting agent is to sell their property. Only four per cent said it was to move to self-management, while one per cent said the primary reason was to move to short-term lets (other reasons: four per cent). The data shows the number of properties available to rent through letting agents in the month of March halved between 2019 and March 2022. During this period 84 per cent of landlords who removed their property from the rental market did it to sell. Over half of the rental properties sold in March 2022 alone did not return to the PRS. The UK average number of properties available to rent per branch decreased by 49% from 30.4 to just 15.6 between March 2019 and March 2022, clearly revealing the loss of available places for renters to live. (Source: A shrinking private renter sector – propertymark report June 2022)

The Private Rented Sector in North Norfolk

3.32 At the time of the 2011 census 7,650 (16.6%) of North Norfolk Households rented privately. This was a little below the 18.1% recorded for England.

3.33 Information from the Office for National Statistics (ONS) shows rising rents but no clear pattern in terms of number of lets in North Norfolk.

Table 8: Rent Levels / affordability

		Count of rents	Mean £s	Lower quartile £s	Median £s	Upper quartile £s
Oct 20 - Sep 21	ENGLAND	480,750	898	585	755	1,050
	North Norfolk	1,470	678	550	650	750
	Norwich	2,340	842	650	750	900
Oct 19 - Sep 20	ENGLAND	436,810	845	550	725	960
	North Norfolk	1,060	669	550	650	730

	Norwich	2,240	796	625	700	850
Oct 18 - Sep 19	ENGLAND	513,900	852	550	700	950
	North Norfolk	1,140	663	548	625	725
	Norwich	2,360	805	595	695	850

Source: ONS Private rental market summary statistics in England: October 2020 to September 2021

3.34 Whilst preparing the current Housing Strategy we took ‘snapshots’ of the lettings market in August 2019 and again in June 2020. We have taken a third snapshot in June 2022 for this report.

3.35 There are two obvious conclusions:

1. The number of properties available to let is in sharp decline; 97 in August 19, 82 in June 20 and only 30 in June 22.
2. Average rents are rising and with no increase in LHA since 2020 there is only one property in June 22 within LHA.

3.36 Nationally only 1% of landlords leaving the market choose to move to short-term rental (e.g. holiday lets). The proportions for North Norfolk might be higher but we have no evidence to support this.

Table 9 - Properties Available to Rent – June 2022

Properties Available to Rent – June 2022				
Bedroom Size	1-bed	2-bed	3-bed	4-bed
Average Rent £ pcm	£713.00	£774.44	£1034.50	£975.00
Number available to rent	10	9	10	1
LHA (Central Norfolk and Norwich)	£495.00	£600.00	£710.00	£950.00
LHA (Kings Lynn)	£450.00	£575.00	£675.00	£850.00
Number within LHA	1	0	0	0

Table 10 - Properties Available to Rent – June 2020

Properties Available to Rent – June 2020				
Bedroom Size	1-bed	2-bed	3-bed	4-bed
Average Rent £ pcm	£558.42	£646.79	£848.24	£1,370.71
Number available to rent	19	39	17	7
LHA (Central Norfolk and Norwich)	£495.00	£600.00	£710.00	£950.00
LHA (Kings Lynn)	£450.00	£575.00	£675.00	£850.00
Number within LHA	3	12	0	0

Table 11 Properties Available to Rent – August 2019

Properties Available to Rent – August 2019				
Bedroom Size	1-bed	2-bed	3-bed	4-bed
Average Rent £ pcm	£525.36	£650.81	£781.92	£1,358.33
Number available to rent	28	37	26	6
LHA (Central Norfolk and Norwich)	£415.00	£520.09	£604.15	£797.81
LHA (Kings Lynn)	£392.77	£500.85	£577.85	£728.22
Number within LHA	4	1	0	0

Source: Rightmove – properties advertised to let within 3 miles of the districts towns (Cromer, Fakenham, Holt, Hoveton, North Walsham, Sheringham, Stalham and Wells).

Affordable housing

Summary of Affordable Housing Information

3.37 The number of affordable homes in the district was 6,366 (as at 1/4/21); fewer than the total of Second and Holiday homes which was 7,169 (as at 1/4/22). There appears to be no clear link between the number of affordable homes and the number of Second/Holiday homes in parishes across the district. 1,002 new affordable homes have been delivered over the past 11 years in the district, again there is no clear correlation between where new affordable homes have been built and areas with high levels of Second/Holiday homes. However, areas with higher house prices will support delivery of more affordable homes (as this is more viable where sales values are higher) and, anecdotally, support for new affordable homes is often higher in communities with high levels of Second/Holiday homes.

Affordable homes in the District

3.38 As at 1/4/2021 there were 6,366 affordable homes owned by registered providers (housing associations) in North Norfolk. Of these 6,092 are rented homes and 274 shared ownership/equity homes. These figures do not include affordable homes held by other organisations such as charities (e.g. Blakeney Neighbourhood Housing Society) or alms-houses, so the real total is likely to be closer to 7,000. The affordable homes held by registered providers account for 11% of all Council Tax homes in the district, nationally 18% of homes are affordable rented or shared ownership (Source: 2011 Census). This compares to 7,169 Second & Holiday Homes (4,508 Second and 2,661 Holiday) as at 1/4/22, which represents 12.2% of all homes (Council Tax and business rate Holiday Homes).

3.39 Appendix D provides details of the number of affordable homes in each parish (and the level of Second/Holiday Homes). The table below shows the ten parishes with the highest levels of affordable housing.

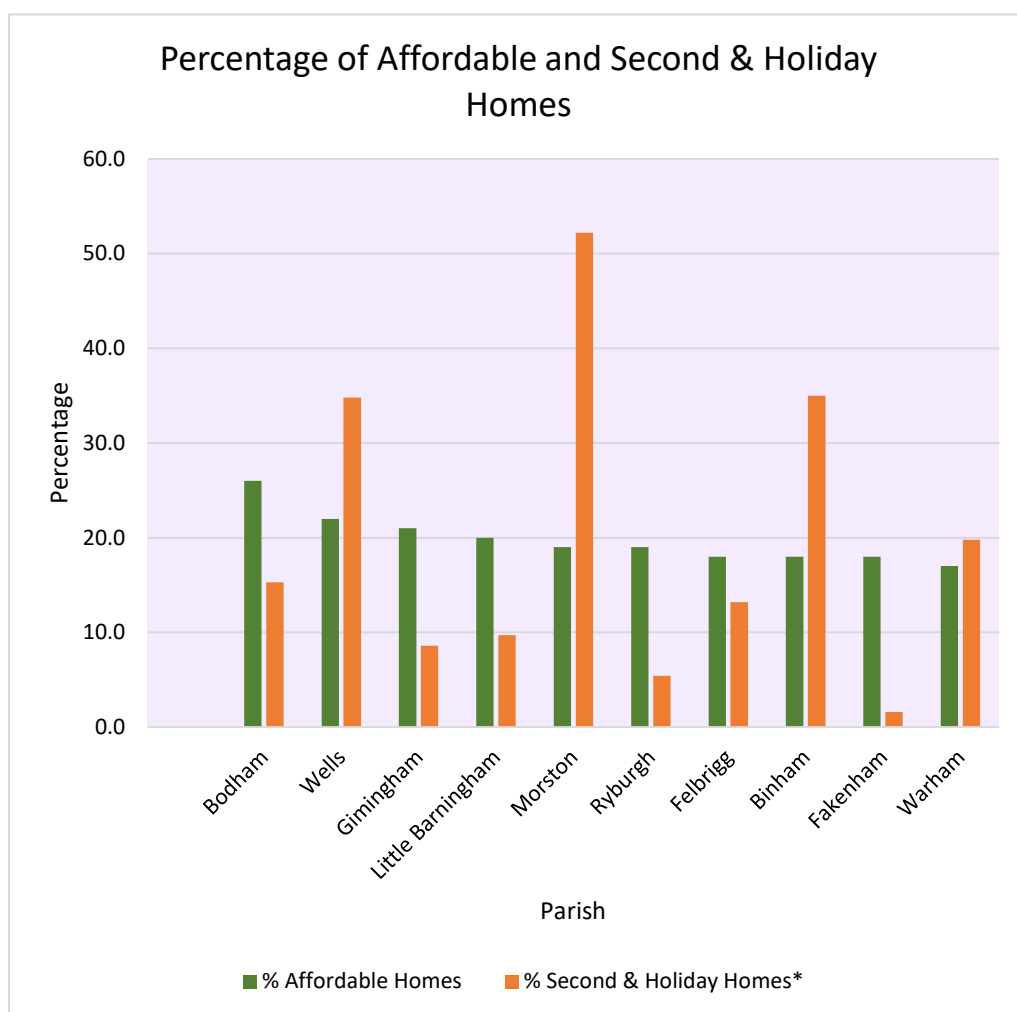
Table 12 : Distribution of Existing Affordable Homes & Second/Holiday Homes

Parish	Affordable homes	All Council Tax homes	% Affordable Homes	% Second & Holiday Homes*
Bodham	62	242	26%	15.3%
Wells	336	1560	22%	34.8%
Gimingham	46	214	21%	8.6%
Little Barningham	12	61	20%	9.7%
Morston	11	58	19%	52.2%
Ryburgh	62	329	19%	5.4%
Felbrigg	18	99	18%	13.2%
Binham	43	238	18%	35.0%
Fakenham	726	4117	18%	1.6%
Warham	18	104	17%	19.8%
District Total	6366	56136	11%	12.20%

Source: stock data from RPs as at 1/4/21, Second & Holiday homes data from Council Tax and NDR data 1/4/22.

* The % of Second and Holiday homes is of all homes - i.e. all council tax homes and self-catering holiday homes

Graph 6: Distribution of Existing Affordable Homes & Second/Holiday Homes



3.40 The vast majority of the affordable housing stock was built in the 20th Century, much between the wars/post WW2 and the distribution of these homes is largely due to availability/ownership of land at the time. Whilst there appears to be little correlation between the levels of affordable homes and Second/Holiday homes in parishes, many of the parishes with the highest levels of affordable homes also have higher levels of Second/Holiday homes, in particular Wells and Binham have high levels of both.

New Affordable Homes

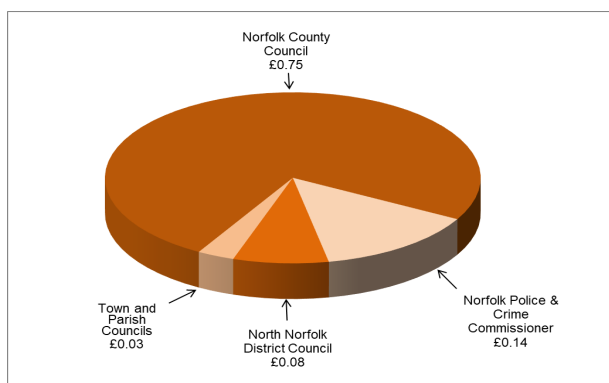
3.41 Over the past 11 years (2011/12 – 2021/22) a total of 1,002 new affordable homes have been delivered in the District (727 rented and 275 shared ownership/equity homes). These homes are delivered through two main routes: on market-led development where a proportion of affordable homes are secured through section 106 agreements; and development of predominantly affordable homes, often on rural exception sites, by registered providers. This means that the section 106 homes will be built in towns/larger villages where planning policy allows development. Exception sites will be more widely spread across the district. The table in appendix E shows the detail of where new affordable homes have been delivered and compares this to the level of Second/Holiday Homes in those parishes. New affordable homes have been delivered in 38 of the 121 parishes across the district. The highest number of new affordable homes have been built in the towns (Fakenham 197, North Walsham 139, Holt 132, Wells 72, Hoveton 63, Stalham 54 and Cromer 37), the only town with relatively low numbers of new affordable homes is Sheringham with 14.

3.50 There appears to be no clear correlation between the number of new affordable homes delivered and the levels of Second/Holiday homes in parishes. However, high levels of Second/Holiday homes is not a barrier to delivery of new affordable homes - many of the parishes with the highest levels of Holiday/Second homes have also seen relatively high numbers of new homes built over the past few years (e.g. Wells 72, Bacton 24, Binham 14, Blakeney 13). Areas with higher sales prices for new homes will be able to deliver more affordable homes viably – for example new development in Wells delivered 45% affordable homes, whereas in lower value area lower levels, or even no, affordable homes have been delivered on market developments. Anecdotal evidence also suggests that communities which have higher levels of Second/Holiday homes may be more aware of the need for affordable homes and more supportive of new affordable homes being built. Some of these communities have also established local solutions to help deliver affordable homes – for example Homes for Wells or Blakeney & Neighbourhood Housing.

4. Revenues: How Second and Holiday Homes may affect the Council's revenues

Revenues – Council Tax

4.1 NNDC is responsible for the collection of council tax but only a small portion of this goes to the authority. Each £1 of council tax that we collect is split as follows:



- 75p - Norfolk County Council
- 14p - Norfolk Policy Authority
- 8p - North Norfolk District Council
- 3p - Town and Parish Councils

4.2 There used to be a local Norfolk agreement historically where NNDC received extra monies back for second homes but not any longer, councils now just receive their own share. So in terms of revenue income to NNDC currently Second homes have a neutral impact, i.e. we receive the same income from these homes as principle homes.

Revenues – Non-Domestic (Business) Rates

4.3 The business rate retention system was introduced in April 2013. Councils retain up to half of the rates revenue raised from businesses in their local area, with the remainder retained centrally by the government and used to provide grant funding for local authorities.

4.4 The local retention is split 40% to NNDC and 10% to Norfolk County Council, with remaining 50% to central government.

4.5 Central government does also award NNDC with increased funding up to 100% in cases where NDR relief schemes are introduced nationally and these reduce our NDR income. This is often paid via a Section 31 Grant. Therefore, regardless of whether a Holiday home receives business rate relief, NNDC will still receive the same income. i.e. 40% of the Business Rates

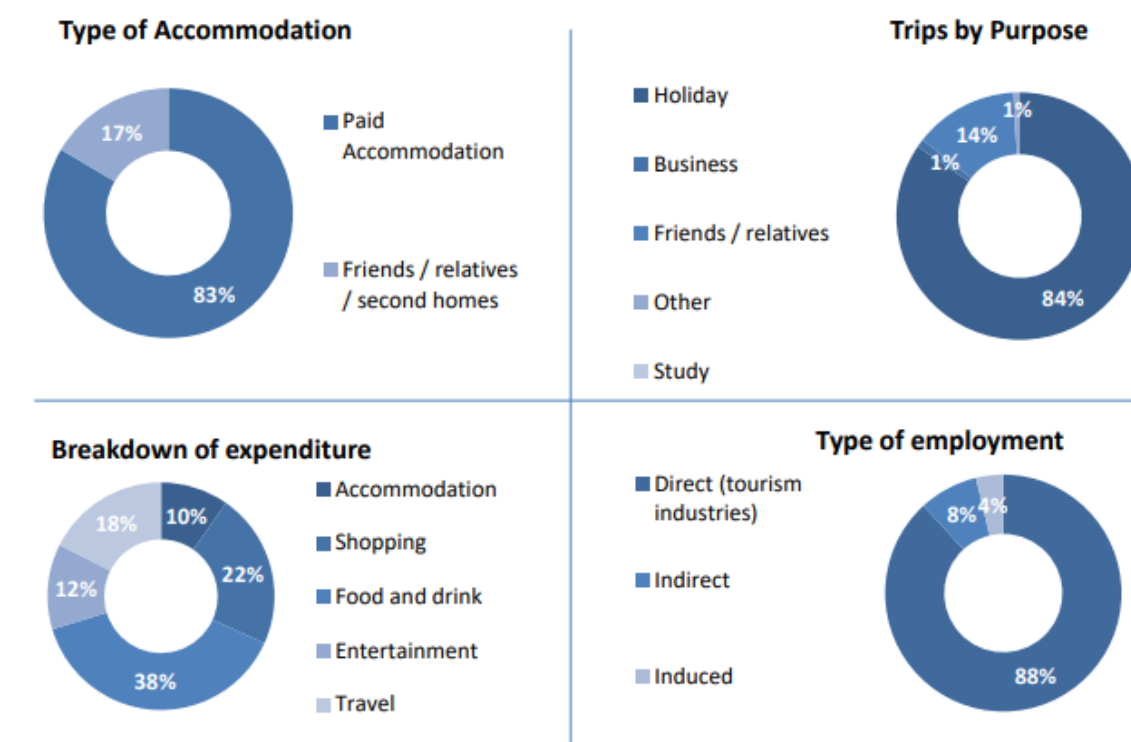
4.6 Growth in NDR is growth to NNDC by 40% as per the retention rules subject to the Norfolk County Business Rates pooling arrangements.

5. Economy: How Second and Holiday Homes may affect the District's Economy

5.1 North Norfolk is a highly popular tourist destination with much to attract visitors including 45 miles of stunning coastline, attractive market towns and villages, places of cultural and historical interest and a proportion of the Broads National Park.

5.2 Prior to Covid19 it was estimated that tourism contributed over half a billion pounds to the local economy (£528,931,378 in 2019). In 2019 there was an estimated 9,317,000 day trips, with an estimated value of £292,356,000. In the same year there was an estimated 602,200 overnight trips for a total of 2,474,000 nights, with an estimated value of £142,955,000.

5.3 In 2020, the volume of trips and the value of contribution to the local economy decreased by more than half (estimated at £237,339,241 in 2020). Day trips fell to 4,115,000 (-56%) and overnight trips decreased to 285,600 (-53%). A report for 2021 is presently not available, although it is anticipated that this will indicate a partial recovery given that North Norfolk appeared to benefit from the 'staycation phenomena', perhaps in part due to the districts comparatively low Covid-19 figures.



Snapshot of north Norfolk Visitor Economy

5.4 As the above Snapshot illustrates, most visits are for paid accommodation, for the purposes of holidays and, whilst here, people spend their money across a number of uses. In 2019 it was estimated that the visitor economy supported 11,898 jobs with the equivalent of 5009 attributed to supporting overnight visitors (see Figure Y). In total, it is estimated that tourism jobs account for 20% of total employment in North Norfolk.

Estimated actual jobs							
		Staying Visitor		Day Visitor		Total	
Direct		2,569	83%	4,505	91%	7,075	88%
Indirect		290	9%	359	7%	649	8%
Induced		235	8%	64	1%	299	4%
Total Actual	2020	3,094		4,929		8,022	
Comparison	2019	5,009		6,888		11,898	
Difference		-38%		-28%		-33%	

Visitor Economy jobs supported.

5.5 However, tourism related jobs are generally lower paid than many other sectors and a proportion of these are seasonal. This is likely a contributing factor to North Norfolk's comparatively low median wage (see table below). It is therefore possible that North Norfolk's high dependency on a lower wage visitor economy is a significant contributing factor to the housing affordability ratio for local residents.

5.6 Although it is widely believed that rural depopulation is a consequence of local residents' inability to compete with incomers in rural housing markets there is a counter argument, albeit not evidenced, that outward migration is possibly more closely aligned to a lack of employment, education, and leisure opportunities rather than to a lack of housing. Indeed North Norfolk presently has no local training providers/institutions and those wishing to pursue higher education, who do not wish to go to Norwich, will need to relocate, possibly not returning due to a lack of higher paying local employment. This is commonly referred to as 'brain drain'.

	North Norfolk	Norfolk	England
Median Annual Pay – Full Time Workers	£28,019	£29,006	£31,490
Median Annual Pay – All Workers	£22,907	£24,318	£26,192

Median salaries in North Norfolk

5.7 Traditionally Bed and Breakfast providers, Guest Houses and independent hotels dominated the local make up of holiday accommodation in North Norfolk. However, over the last two decades the visitor accommodation market has substantially changed, with visitors expecting more choice and a wider range of quality offerings. Moreover, the 'Airbnb phenomena' and the ease with which holidaymakers can make better-informed choices and book directly with enterprising alternative accommodation providers, has further threatened the traditional accommodation model. As such, North Norfolk has seen a number of hotels exit the market in recent years, typically because the costs of maintaining the accommodation, particularly larger properties, is such that the business is no longer viable and competition from holiday lets and alternatives has impacted on bookings.

5.8 Holiday lets are therefore an integral part of the make-up of holiday accommodation within the District. The common debate is whether there is a net gain from this i.e. would a house occupied by a family for 365 days a year make a higher contribution to the local economy than if was let out as holiday or occupied as a second home for potentially less than half the year and being left empty for lengthy periods? Unfortunately, this is very difficult to calculate given that there is little primary evidence and that there are a multitude of factors to consider. In 2019 Airbnb estimate that their accommodation yields £5bn for the UK Economy and argue that, given most hosts pay a 3% fee, this

means that the majority of what they charge stays with the host – although of course the host may not be local and therefore may not remain within the local economy. Nevertheless, we do know that overnight stays do contribute significantly to the local economy through direct, indirect and induced spend. Had a family occupied the same house then they will likely contribute significantly to the local economy. However, unlike holiday lets and second homes, they place greater demand on local resources (schools, doctors, dentists, etc.).

6. Communities: Impact of Second & Holiday Homes

6.1 Much of the debate around the impact of second and holiday homes on communities is perceived to be negative, on the basis of a loss of community, a cause of social change, and subsequent tension (Gallent, Mace, and Tewdwr-Jones, 2005). This has fuelled much of the political debate that now surrounds the issue, giving rise to investigations such as this that are appearing at various popular tourism locations all over the Country and beyond. This effect, when combined with other potential issues such as rising house prices and limited availability of affordable homes or social housing for local residents, has led many areas and in some cases Countries, to seek to limit the prevalence of second homes and holiday lets, with St. Ives, Wales (BBC, 2022) and Switzerland (C. Hilber, O. Schöni, 2020), all being notable examples. Data gathered by various scholars appears to show however, that the impact on communities is mixed, and that there are both discernible positive and negative impacts on communities that are in many ways founded on the subjective beliefs, perceptions or feelings of the residents that live and work within these communities, who are most affected by change.

6.2 It has been argued by scholars such as Gallen, N. 2013, that second homes in rural areas could be linked to a phenomenon of community development, by which communities are increasingly connected to new skills and knowledge, subsequently raising a communities social capital. In most cases this would be seen or referred to as a form of gentrification, by which new residents seek to use their connectivity and existing social capital to broaden the offering and further domesticate the areas in which they inhabit. As Gallen argues, whether this is seen positively or negatively in communities will depend on the alignment between existing and introduced tastes, behaviours and thoughts. It could be argued that this effect has already been seen in areas with a high prevalence of second and holiday homes across the District, with the arrival of more gastro pubs and coffee shops appearing in towns and villages. It should be noted however, that this impact is separate from maintaining important local services such as post offices, local shops, bank branches, schools and doctors surgeries. The loss or decline of these services cannot and should not be solely attributed to the prevalence of second and holiday homes, as they form part of a much wider trend across the country, with varying reasons available to explain such trends. A further aspect worthy of consideration highlighted elsewhere in the report notes that North Norfolk is subject to net inward migration of people retiring to the area, which has likely contributed to societal and community level change, with the latest consensus data suggesting that the District has one of the oldest populations in the Country. This will also bring with it various impacts on the housing market that have been explored in the relevant section of the report.

6.3 On balance, data appears to suggest that the impacts of second homes and holiday lets on communities can be argued both positively and negatively, and it therefore remains difficult to definitively conclude whether they provide a net-gain or loss to communities. It does however remain important for Members and Local Authorities to listen to and acknowledge the thoughts, feelings and concerns of local communities and residents that are affected. Councils should therefore seek to carefully consider and act appropriately where possible, when relevant legislation is proposed that could be used to mitigate negative impacts. Concurrently, Councils could also seek to support communities further by taking advantage of the opportunities presented by the desirability of second home and holiday let ownership, and if Members are supportive of emerging legislation that could increase Council Tax charges on second homes, this could be used to the benefit of communities, in a similar vein to S106 funding. It must also be acknowledged, as outlined in the economic impact assessment, that with a local economy so dependent on tourism, many communities in North Norfolk could suffer substantial economic harm if too stringent action was

taken, which could then cause detriment to the local economy as has been shown to be the case on a much larger scale in Switzerland (C. Hilber, O. Schöni, 2020). Overall then, the impact on communities remains an important aspect of the debate that should be given careful consideration when considering what actions local authorities should take going forward.

7. Housing – Existing Policies/ Available Policies and Further Options

Affordable Housing Delivery

7.1 In the last 11 years (2011 to 2022) housing associations delivered significant 1,002 new affordable homes in the district. In the last four years housing associations have delivered 454 new homes, including 82 on rural exception housing schemes (EHS), often in areas with high levels of 2nd/holiday homes e.g. Binham and Bodham.

7.2 The development pipeline of new affordable housing includes EHS (at different stages) many in areas of high 2nd/holiday homes including: Salthouse, Blakeney, Wiveton, Bacton, Hindringham, Warham, Walcott, Happisburgh.

7.3 On rural exception housing schemes the Council's allocation policy gives priority to applicants with strongest local connections to the host parish and the parishes adjoining the host parish.

Action taken by the Council to Support New Affordable Housing

7.4 The Council's is able to support affordable housing delivery through enabling, financial support and Planning Policies.

7.5 Enabling, mainly work carried out by the Community Housing Enabler, includes; using need information to inform the location of new housing, site finding, consultation and community engagements work, liaison with Planning/free pre-application service and support to housing associations.

7.6 The Council has two pots of money available to support delivery of affordable housing.

1. In 2016 the Council received from government £2.4m of Community Housing Fund. Government allocated the money to districts in proportion to the number of second and holiday homes and North Norfolk's allocation was one of the highest reflecting the high numbers of holiday and second homes in the district. The Council has used the money to support existing and newly forming community-led housing groups to deliver new affordable housing (in Wells, Holt and Sheringham) and establish a new community-led housing group in Swanton Novers. In the first 2-3 years we targeted activity at parishes with levels of 2nd/holiday homes above 10%.
2. The Council holds £2.5m of s106 commuted sums. This is money paid by developers in lieu of on-site affordable housing. The Council has set an annual budget from this fund which is available to provide 'top-up' funding for affordable housing across the district. The aim of the 'top-up' funding is to cover shortfalls in affordable housing development budgets and so help deliver schemes with marginal viability.

7.7 The Council's planning policies support the delivery of affordable housing. In particular, policies requiring affordable housing on allocated sites and policy allowing Exception Housing Schemes on sites in villages and outside of the development boundaries of the districts towns and service villages.

7.8 NNDC also uses Section 157 restrictions to ensure that ex-council homes, bought under the Right to Buy in Designated Rural Areas can only be sold on to those who have lived/worked in Norfolk for 3 years. These homes must be used as a principal home, i.e. cannot be used as a second or holiday home.

8. Revenues – Existing Policies/ Available Policies and Further Options

Revenues – Council Tax

8.1 Currently NNDC members are allowed, and have determined, to use the council tax discretionary powers to reduce the council tax discount to 0%, i.e. to charge 100% Council Tax on the majority of Second Homes (except those with seasonal use restrictions which still receive some discount).

Policy Changes – Council Tax Second Homes

8.2 The 2022 Queen's Speech contained plans to allow councils in England to increase council tax from 1 April 2024 on Second homes. The Levelling Up & Regeneration Bill, which includes proposed changes to the Local Government Finance Act 1992, has now started its journey through the Houses of Parliament.

The Bill includes draft provisions which state:

- there is no resident of the dwelling, and
- the dwelling is substantially furnished and
- A billing authority's first determination under this section must be made at least one year before the beginning of the financial year to which it relates.
- A billing authority may make a determination varying or revoking a determination under this section for a financial year, but only before the beginning of the year.
- Where a billing authority makes a determination under this section it must publish a notice of the determination in at least one newspaper circulating in the area.
- The notice must be published before the end of the period of 21 days beginning with the date of the determination

8.3 If this became law and Members used this discretion the determination would not just allow the council tax discount to be reduced by up to 100% (current powers) but would also allow an increase to the council tax charge on these properties by no more than 100% (i.e. a doubling of the existing charge).

Revenues – Non-Domestic (Business) Rates - Holiday lets

8.4 Any property that is used for commercial purposes may need to be rated for business rates purposes, depending on the exact nature of its usage.

8.5 Self-catering and holiday let accommodation – Currently, if a property is in England and available to let for short periods that total 140 days or more per year, it will be rated as a self-catering property and valued for business rates.

Policy Changes – NDR Holiday Lets

8.6 The Non-Domestic Rating (Definition of Domestic Property) (England) Order 2022. This Order amends, with effect from 1st April 2023, section 66 of the Local Government Finance Act 1988 which defines domestic property for the purposes of non-domestic rating and provides that a property is not domestic property if the owner intends to let it commercially as self-catering accommodation for short periods totalling 140 days or more. There are also two additional conditions.

- 1- that the property must have been available to let in the same way for 140 days or more in the previous year, and
- 2- it must have been in fact let in that way for at least 70 days during that year.

8.7 The above new legislation is largely based on the current legislation for holiday lets in Wales and Scotland. Currently if the property was in **Wales** it will be rated as a self-catering property and valued for business rates if it's both:

- available to let for short periods that total 140 days or more per year
- actually let for 70 days

8.8 The Valuation Office will work out the rateable value of your property based on its type, size, location, quality and how much income the business is likely to make from letting it. If the property and its rateable value is less than £15,000 Rateable Value then it may be eligible for Small Business Rate Relief.

8.9 If the self-catering premises is in **Scotland** and available to let for 140 days or more a year then from 1 April 2022, it will also need to be actually let for 70 days in a financial year.

8.10 Future changes in Wales - Under the plans from 1 April 2023 Wales will raise the threshold, so properties will need to be made available for at least 252 days, and actually let for 182 otherwise they will be valued as council tax properties.

Potential registration Scheme for holiday lets

8.11 The government has recently put out a call for evidence to help understand the impact of the increase in short-term holiday lets in England following the rise in use of rental booking websites and apps. This will inform a review looking at the holiday lets market and the opportunities and challenges presented for both consumers and tourism communities affected. This review comes after Airbnb listing data showed a 33% increase in UK listings between 2017 and 2018.

8.12 The call for evidence links to the government's "Tourism Recovery Plan" published last year which set out plans for recovery and help to the tourism industry following the pandemic. It recognises the significant growth in the range and volume of guest accommodation, particularly short-term and holiday lets. The Plan recognises that alongside benefits (to consumer choice and access to new income streams for homeowners) there are also concerns about compliance of some accommodation with existing regulations and the impact of high numbers of holiday lettings on local communities.

8.13 The Tourism Recovery Plan included consideration of a Tourist Accommodation Registration Scheme in England. The call for evidence should gather insight and information in the following areas:

- changes and growth in the short-term letting market
- benefits of short term lets
- challenges, including compliance with the existing regulatory framework and housing and community impacts
- the impact of potential policy responses

8.14 Registration or licensing schemes for holiday lets already exist in some countries and cities — including Scotland and Northern Ireland and a similar approach in London. Registration might include physical checks of premises to ensure regulations in areas including health and safety, noise and anti-social behaviour are obeyed. Further measures the Government is considering include a registration 'kitemark' scheme with spot checks for compliance with rules on issues such as gas safety, a self-certification scheme for hosts to register with before they can operate, and better information or a single source of guidance setting out the legal requirements for providers.

8.15 The call for evidence is open for 12 weeks up to 21/9/22. The government intends to publish a summary of responses later in 2022. Officers will use the information gathered for this report and the views of Overview & Scrutiny to help inform our response to this consultation

9. Planning – Existing Policies/ Available Policies and Further Options

Existing Policy

9.1 Existing planning policies focus on the direct delivery of affordable housing (via both the affordable homes rural exceptions programme and policies which require house builders to deliver affordable housing within their proposals). Current Policies require 45% of dwellings on larger sites of more than 10 units to be provided as affordable dwellings. The new Local Plan is likely to require 30%-35% in the higher value parts of the District and 15% in the lower value areas. The new Local Plan will include a lower site size threshold of 6 dwellings or more requiring affordable delivery.

Available Policies

9.2 As outlined in the definitions section most types of second homes and holiday home use are for planning purposes treated the same as a principal dwelling. This means that it is not necessary to secure planning permission if you wish to use an existing dwelling for second home or holiday home use.

9.3 The position on new build proposals is different. Where new homes are being built it is possible to impose occupancy restrictions designed to ensure that the property is only used as a principal residence and not for second homes purposes. This is the approach taken in St Ives, and elsewhere, where new dwellings provided via the preparation of Neighbourhood Plans are subject to such occupancy restrictions. The intention of such policies is to increase the supply of homes available to live in by ensuring they can't be used for second home/holiday home purposes.

9.4 North Norfolk does not operate such restrictions and to date has taken the view that the imposition of occupancy controls of this type on new housing stock are unlikely to be effective. This is because:

- i. The amount of new housing stock proposed to be built in those parishes with the highest proportion of second homes is very small. With the exception of Wells-next-the-Sea, all are small village communities located within the coastal Area of Outstanding Natural Beauty where planning policies limit new house building. Imposing controls on new homes in these locations would only limit the occupancy of a very small part of the homes available for second home use. Furthermore, under adopted planning policies any larger schemes (above 10 units in the current Local Plan and above 5 units in the new Plan) must include affordable homes. The occupancy of such homes is already limited to ensure they are not used as second homes.
- ii. Any controls imposed on new build homes seems likely to result in the deflection of the demand for second homes into the existing housing stock, where no *current* planning controls exist. As a result, the overall proportion of second and holiday homes in any given community is unlikely to reduce as a consequence of such restrictions.
- iii. The impacts of imposing such restrictions on house prices is unclear but it seems likely that any reductions in sales values which might result from such restrictions would be relatively marginal and would not render the majority of properties genuinely affordable. Second homes restrictions do not in of themselves deliver affordable homes for local people and therefore this would be of little assistance to those in housing need. On the contrary, it is possible that such restrictions may have some adverse impacts on the delivery of affordable homes in the host community. This is because reduced finished development values are

often cited as grounds for reducing the quantity of affordable homes provided – any restriction on occupancy may have an impact on sales values and limit the ability of the scheme to subsidise the delivery of affordable homes.

- iv. There are concerns about how compliance with such conditions would be monitored and the resource implications of such monitoring and any resulting enforcement action.

9.5 Analysis of the impacts of such restrictions elsewhere (Appendix F1 - 3) would appear to suggest that the policy has not delivered any measurable benefits and may have had a range of adverse impacts including:

- Increased house values for second home owners and no appreciable house price reductions in the wider market.
- A switch to converting exist properties and away from new build with a consequential reduction in affordable housing delivery.
- An adverse impact on the construction and tourist economy.

Possible new planning controls

9.6 There are draft proposals in the Levelling Up and Regeneration Bill to introduce some planning controls over the use of the existing housing stock for second home purposes. The Bill includes provisions which would require second home owners to seek planning permission in those circumstances where they do not let their properties for holiday purposes for at least 90 days in each year. This provision appears to be targeted at those second home-owners who only use their homes infrequently for their own or family use.

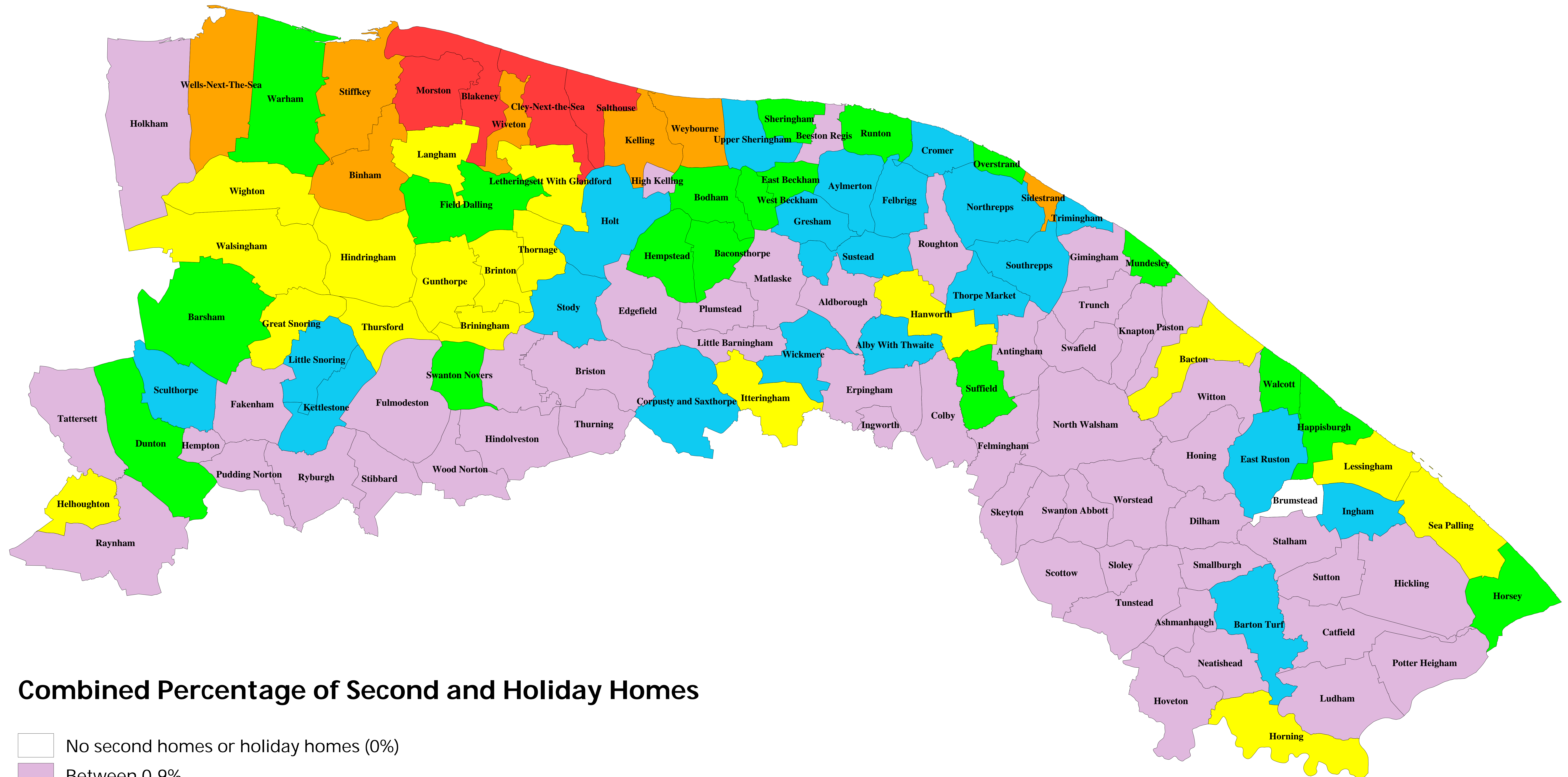
9.7 There is no detail in the Bill in relation to how such an approach would be implemented in practice and no clear timetable for its introduction. Such a measure if it were to be introduced seems unlikely to apply retrospectively to those properties already in second homes use.

9.8 If introduced such a measure might allow for LPAs to develop new policy approaches to the proportions of second homes in communities as it offers the potential to address (in part) the 'deflection' issue identified above. It would nevertheless be important to consider the pros and cons of such approaches.

Second & Holiday Home Analysis 2022 (based on Council Tax and NNDR information as at 1/4/21 & 1/4/2022)

Parish Code	Parish	All Co Tax homes			All homes (Co Tax & NNDR)			Co Tax Second Homes			% Second Homes (as % of all homes)		NNDR Holiday homes			% Holiday Homes (as % of all homes)		Total Second & Holiday Homes			% Second & Holiday Homes (as % of all homes)	
		2021	2022	Change	2021	2022	Change	2021	2022	Change	2021	2022	2021	2022	Change	2021	2022	2021	2022	Change	2021	2022
		1158	Morston	58	58	0	65	67	2	24	26	2	36.9%	38.8%	7	9	2	10.8%	13.4%	31	35	4
1010	Salthouse	127	127	0	157	158	1	49	48	-1	31.2%	30.4%	30	31	1	19.1%	19.6%	79	79	0	50.3%	50.0%
1049	Blakeney	568	561	-7	706	706	0	168	167	-1	23.8%	23.7%	138	145	7	19.5%	20.5%	306	312	6	43.3%	44.2%
1059	Cley	330	330	0	375	377	2	116	119	3	30.9%	31.6%	45	47	2	12.0%	12.5%	161	166	5	42.9%	44.0%
1029	Stiffkey	153	151	-2	176	176	0	42	39	-3	23.9%	22.2%	23	25	2	13.1%	14.2%	65	64	-1	36.9%	36.4%
1163	Wiveton	82	82	0	103	103	0	16	16	0	15.5%	15.5%	21	21	0	20.4%	20.4%	37	37	0	35.9%	35.9%
1048	Binham	237	238	1	260	260	0	68	69	1	26.2%	26.5%	23	22	-1	8.8%	8.5%	91	91	0	35.0%	35.0%
1146	Wells-Next-The-Sea	1557	1560	3	1799	1804	5	373	383	10	20.7%	21.2%	242	244	2	13.5%	13.5%	615	627	12	34.2%	34.8%
1124	Kelling	114	111	-3	127	129	2	27	26	-1	21.3%	20.2%	13	18	5	10.2%	14.0%	40	44	4	31.5%	34.1%
1154	Weybourne	433	432	-1	490	489	-1	101	102	1	20.6%	20.9%	57	57	0	11.6%	11.7%	158	159	1	32.2%	32.5%
1019	Sidestrand	57	57	0	63	66	3	10	11	1	15.9%	16.7%	6	9	3	9.5%	13.6%	16	20	4	25.4%	30.3%
1123	Thornage	109	110	1	118	118	0	22	25	3	18.6%	21.2%	9	8	-1	7.6%	6.8%	31	33	2	26.3%	28.0%
1015	Sea Palling	302	303	1	339	342	3	51	53	2	15.0%	15.5%	37	39	2	10.9%	11.4%	88	92	4	26.0%	26.9%
1131	Thursford	116	115	-1	130	132	2	19	18	-1	14.6%	13.6%	14	17	3	10.8%	12.9%	33	35	2	25.4%	26.5%
1132	Langham	240	235	-5	261	259	-2	46	41	-5	17.6%	15.8%	21	24	3	8.0%	9.3%	67	65	-2	25.7%	25.1%
1136	Letheringsett With Glandford	135	135	0	147	147	0	23	23	0	15.6%	15.6%	12	12	0	8.2%	8.2%	35	35	0	23.8%	23.8%
1113	Horning	661	661	0	743	743	0	87	90	3	11.7%	12.1%	82	82	0	11.0%	11.0%	169	172	3	22.7%	23.1%
1051	Briningham	72	73	1	76	78	2	15	13	-2	19.7%	16.7%	4	5	1	5.3%	6.4%	19	18	-1	25.0%	23.1%
1159	Wighton	138	135	-3	149	149	0	24	20	-4	16.1%	13.4%	11	14	3	7.4%	9.4%	35	34	-1	23.5%	22.8%
1092	Great Snoring	106	106	0	115	114	-1	18	18	0	15.7%	15.8%	9	8	-1	7.8%	7.0%	27	26	-1	23.5%	22.8%
1134	Lessingham	385	380	-5	406	406	0	59	66	7	14.5%	16.3%	21	26	5	5.2%	6.4%	80	92	12	19.7%	22.7%
1100	Helhoughton	240	117	-123	247	124	-123	22	21	-1	8.9%	16.9%	7	7	0	2.8%	5.6%	29	28	-1	11.7%	22.6%
1083	Bacton	796	786	-10	890	890	0	98	95	-3	11.0%	10.7%	94	104	10	10.6%	11.7%	192	199	7	21.6%	22.4%
1096	Gunthorpe	149	150	1	157	156	-1	29	28	-1	18.5%	17.9%	8	6	-2	5.1%	3.8%	37	34	-3	23.6%	21.8%
1147	Walsingham	498	499	1	536	540	4	72	75	3	13.4%	13.9%	38	41	3	7.1%	7.6%	110	116	6	20.5%	21.5%
1097	Hanworth	107	107	0	108	108	0	23	22	-1	21.3%	20.4%	1	1	0	0.9%	0.9%	24	23	-1	22.2%	21.3%
1107	Hindringham	256	261	5	274	278	4	41	41	0	15.0%	14.7%	18	17	-1	6.6%	6.1%	59	58	-1	21.5%	20.9%
1122	Itteringham	74	73	-1	82	82	0	10	8	-2	12.2%	9.8%	8	9	1	9.8%	11.0%	18	17	-1	22.0%	20.7%
1053	Brinton	116	113	-3	126	124	-2	17	14	-3	13.5%	11.3%	10	11	1	7.9%	8.9%	27	25	-2	21.4%	20.2%
1143	Warham	105	104	-1	109	111	2	14	15	1	12.8%	13.5%	4	7	3	3.7%	6.3%	18	22	4	16.5%	19.8%
1085	Barsham	128	127	-1	138	138	0	16	16	0	11.6%	11.6%	10	11	1	7.2%	8.0%	26	27	1	18.8%	19.6%
1169	Overstrand	599	595	-4	638	638	0	78	79	1	12.2%	12.4%	39	43	4	6.1%	6.7%	117	122	5	18.3%	19.1%
1114	Horsely	42	42	0	48	48	0	4	3	-1	8.3%	6.3%	6	6	0	12.5%	12.5%	10	9	-1	20.8%	18.8%
1160	Mundesley	1752	1742	-10	1924	1930	6	173	168	-5	9.0%	8.7%	172	188	16	8.9%	9.7%	345	356	11	17.9%	18.4%
1119	Swanton Novers	104	105	1	106	107	1	17	17	0	16.0%	15.9%	2	2	0	1.9%	1.9%	19	19	0	17.9%	17.8%
1067	Dunton	54	54	0	63	63	0	2	2	0	3.2%	3.2%	9	9	0	14.3%	14.3%	11	11	0	17.5%	17.5%
1084	Field Dalling	152	155	3	165	167	2	19	17	-2	11.5%	10.2%	13	12	-1	7.9%	7.2%	32	29	-3	19.4%	17.4%
1148	Beckham East/West	134	135	1	146	146	0	14	14	0	9.6%	9.6%	12	11	-1	8.2%	7.5%	26	25	-1	17.8%	17.1%
1168	Walcott	412	404	-8	441	438	-3	41	41	0	9.3%	9.4%	29	34	5	6.6%	7.8%	70	75	5	15.9%	17.1%
1099	Happisburgh	435	436	1	463	466	3	44	49	5	9.5%	10.5%	28	30	2	6.0%	6.4%	72	79	7	15.6%	17.0%
1102	Hempstead	89	91	2	94	95	1	12	12	0	12.8%	12.6%	5	4	-1	5.3%	4.2%	17	16	-1	18.1%	16.8%
1018	Sheringham	4123	4145	22	4322	4366	44	487	501	14	11.3%	11.5%	199	221	22	4.6%	5.1%	686	722	36	15.9%	16.5%
1081	Baconsthorpe	113	113	0	117	118	1	14	14	0	12.0%	11.9%	4	5	1	3.4%	4.2%	18	19	1	15.4%	16.1%
1007	Runton (East & West)	909	903	-6	952	950	-2	110	104	-6	11.6%	10.9%	43	47	4	4.5%	4.9%	153	151	-2	16.1%	15.9%
1033	Suffield	70	69	-1	71	71	0	9	9	0	12.7%	12.7%	1	2	1	1.4%	2.8%	10	11	1	14.1%	15.5%
1050	Bodham	245	242	-3	262	262	0	22	20	-2	8.4%	7.6%	17	20	3	6.5%	7.6%	39	40	1	14.9%	15.3%
1155	Wickmere	65	65	0	74	74	0	1	2	1	1.4%	2.7%	9	9	0	12.2%	12.2%	10	11	1	13.5%	14.9%
1095	Gresham	211	211	0	223	223	0	20	21	1	9.0%	9.4%	12	12	0	5.4%	5.4%	32	33	1	14.3%	14.8%
1079	Aylmerton	242	242	0	250	251	1	26	27	1	10.4%	10.8%	8	9	1	3.2%	3.6%	34	36	2	13.6%	14.3%
1064	Cromer	4787	4807	20	4961	5017	56	483	493	10	9.7%	9.8%	174	210	36	3.5%	4.2%	657	703	46	13.2%	14.0%
1080	Felbrigg	97	99	2	104	106	2	8	7	-1	7.7%	6.6%	7	7	0	6.7%	6.6%	15	14	-1	14.4%	13.2%
1111	Holt	2350	2426	76	2440	2540	100	205	219	14	8.4%	8.6%	90	114	24	3.7%	4.5%	295	333	38	12.1%	13.1%
1025	Southrepps	436	445	9	457	465	8	36	39	3	7.9%	8.4%	21	20	-1	4.6%	4.3%	57	59	2	12.5%	12.7%
1031	Stody	101	100	-1	106	105	-1	5	8	3	4.7%	7.6%	5	5	0	4.7%	4.8%	10	13	3	9.4%	12.4%
1118	Ingham	189	184	-5	196	193	-3	17	14	-3	8.7%	7.3%	7	9	2	3.6%	4.7%	24	23	-1	12.2%	11.9%
1133	Trimingham	192	189	-3	198	195	-3	18	17	-1	9.1%	8.7%	6	6	0	3.0%	3.1%	24	23	-1	12.1%	11.8%
1034	Sustead	108	109	1	111	112	1	10	10	0	9.0%	8.9%	3	3	0	2.7%	2.7%	13	13	0	11.7%	11.6%
1070	East Ruston	242	245	3	265	268	3	6	8	2	2.3%	3.0%	23	23	0	8.7%	8.6%	29	31	2	10.9%	11.6%
1145	Little Snoring	309	311	2	313	318	5	27	29	2	8.6%	9.1%	4	7	3							

North Norfolk – Level of Holiday Homes and Second Homes Ownership 2022



Combined Percentage of Second and Holiday Homes

- No second homes or holiday homes (0%)
- Between 0-9%
- Between 10-14%
- Between 15-19%
- Between 20-29%
- Between 30-39%
- Over 40%

Source: NNDC Council Tax, Business Rates and Small Business Rates Relief records - Second homes are those not let commercially and pay full Council Tax. Holiday Homes are those which are let commercially and pay Business Rates, or receive Small Business Rates Relief.

Source:- CTB (2021)

Region		Total number of dwellings on the Valuation List	Number of dwellings classed as second homes on 4 October 2021	%
L	City of London	7,636	1,713	22.43%
E	North Norfolk	55,754	5,397	9.68%
L	Kensington and Chelsea	89,542	8,035	8.97%
SW	Isles of Scilly	1,148	93	8.10%
SW	South Hams	45,606	3,455	7.58%
YH	Scarborough	58,008	4,028	6.94%
NW	South Lakeland	53,808	3,703	6.88%
L	Camden	111,968	7,648	6.83%
SE	Chichester	59,111	3,187	5.39%
SW	Cornwall UA	277,512	13,260	4.78%
E	Great Yarmouth	48,760	2,325	4.77%
NW	Eden	27,368	1,285	4.70%
L	Tower Hamlets	142,728	6,530	4.58%
E	King's Lynn and West Norfolk	74,550	3,228	4.33%
SE	Isle of Wight UA	71,825	2,946	4.10%
YH	Richmondshire	23,668	930	3.93%
SW	North Devon	47,678	1,784	3.74%
SW	Cotswold	44,925	1,670	3.72%
E	East Suffolk	119,727	4,113	3.44%
E	Cambridge	58,993	2,001	3.39%
SW	East Devon	72,115	2,348	3.26%
SW	Dorset UA	181,702	5,726	3.15%
EM	Derbyshire Dales	34,837	1,051	3.02%
SW	Torridge	33,079	980	2.96%
YH	Craven	28,006	804	2.87%
YH	Ryedale	26,694	755	2.83%
SW	Bournemouth, Christchurch and Poole UA	187,858	5,147	2.74%
NW	Allerdale	47,739	1,296	2.71%
SE	Reading UA	74,523	2,023	2.71%
EM	Lincoln	46,592	1,264	2.71%
NW	Copeland	33,821	874	2.58%
SE	Thanet	68,028	1,733	2.55%
NW	Manchester	241,190	5,894	2.44%
SE	Rother	45,857	1,092	2.38%
SW	Torbay UA	67,903	1,574	2.32%
L	Westminster	129,380	2,971	2.30%
L	Hammersmith and Fulham	92,148	2,112	2.29%
SE	Dover	54,068	1,235	2.28%
NE	Northumberland UA	157,461	3,538	2.25%

SE	Swale	64,941	1,444	2.22%
L	Southwark	144,584	3,168	2.19%
E	Folkestone and Hythe	52,233	1,130	2.16%
SE	Arun	76,651	1,606	2.10%
SW	West Devon	26,297	538	2.05%
E	Tendring	72,668	1,482	2.04%
SE	New Forest	82,733	1,654	2.00%
SW	Teignbridge	63,758	1,272	2.00%
SE	Canterbury	69,376	1,377	1.98%
NE	Newcastle upon Tyne	136,635	2,650	1.94%
SE	West Oxfordshire	51,294	986	1.92%
EM	East Lindsey	70,518	1,347	1.91%
WM	Coventry	148,218	2,670	1.80%
SE	Eastbourne	49,365	889	1.80%
L	Barnet	155,910	2,775	1.78%
SE	Hastings	43,842	763	1.74%
SW	Somerset West and Taunton	74,093	1,272	1.72%
SE	Portsmouth UA	93,673	1,587	1.69%
L	Merton	86,133	1,415	1.64%
SE	Oxford	62,490	1,000	1.60%
NW	Salford	125,204	1,938	1.55%
SE	Brighton and Hove	131,581	2,034	1.55%
SW	Cheltenham	56,958	876	1.54%
L	Kingston upon Thames	68,668	1,022	1.49%
EM	Leicester UA	142,003	2,064	1.45%
NW	Fylde	40,277	550	1.37%
SW	Bristol	206,073	2,627	1.27%
YH	Hambleton	43,497	545	1.25%
L	Enfield	126,301	1,582	1.25%
NW	Lancaster	65,922	807	1.22%
SE	Windsor and Maidenhead UA	65,715	802	1.22%
E	Babergh	42,060	506	1.20%
E	Norwich	68,141	813	1.19%
WM	Malvern Hills	37,158	441	1.19%
WM	Stratford-on-Avon	62,919	737	1.17%
SW	Sedgemoor	56,693	659	1.16%
YH	East Riding of Yorkshire UA	159,817	1,846	1.16%
YH	Bradford	220,088	2,530	1.15%
E	Welwyn Hatfield	49,639	530	1.07%
WM	Shropshire UA	147,414	1,573	1.07%
YH	Harrogate	74,973	793	1.06%
WM	Warwick	66,968	698	1.04%
L	Hillingdon	115,660	1,202	1.04%
NW	Barrow-in-Furness	33,977	349	1.03%
NW	Carlisle	53,842	543	1.01%
EM	Rutland UA	17,762	177	1.00%
E	South Norfolk	64,214	633	0.99%
SE	Wealden	71,924	707	0.98%
SW	South Somerset	79,422	776	0.98%
E	Mid Suffolk	46,469	454	0.98%

SW	Bath and North East Somerset	85,179	829	0.97%
SE	Ashford	56,793	552	0.97%
NW	Preston	65,482	610	0.93%
SW	Stroud	54,998	500	0.91%
NW	Blackpool UA	72,019	648	0.90%
SE	Worthing	51,229	455	0.89%
SW	Exeter	59,329	514	0.87%
L	Redbridge	106,880	925	0.87%
E	Maldon	29,230	244	0.83%
SE	Slough UA	55,665	464	0.83%
SE	Southampton UA	109,902	897	0.82%
E	Ipswich	61,726	503	0.81%
WM	Wychavon	60,016	486	0.81%
WM	Wyre Forest	47,700	384	0.81%
NW	Cheshire East UA	183,054	1,460	0.80%
SE	Winchester	55,201	429	0.78%
E	Colchester	84,266	641	0.76%
NW	Trafford	101,752	763	0.75%
SW	Plymouth UA	122,256	915	0.75%
EM	High Peak	42,811	316	0.74%
SE	Sevenoaks	51,763	379	0.73%
SE	Milton Keynes UA (Revised)	117,687	858	0.73%
NW	Ribble Valley	28,241	205	0.73%
SW	Forest of Dean	39,308	285	0.73%
E	Epping Forest	57,369	408	0.71%
SE	Cherwell	68,970	490	0.71%
E	Breckland	62,934	441	0.70%
E	Southend-on-Sea UA	82,474	555	0.67%
L	Hackney	118,597	786	0.66%
SE	Guildford	59,895	395	0.66%
NE	Sunderland	131,644	864	0.66%
SE	East Hampshire	55,047	361	0.66%
YH	Kirklees	190,275	1,234	0.65%
NW	Cheshire West and Chester UA	162,099	1,047	0.65%
SW	Wiltshire UA	226,408	1,461	0.65%
SE	Waverley	55,194	356	0.64%
SE	Crawley	46,609	300	0.64%
SE	Lewes	45,939	289	0.63%
E	Broadland	59,784	376	0.63%
WM	Worcester	46,975	295	0.63%
SE	Fareham	50,371	316	0.63%
NW	St Helens	85,063	533	0.63%
NE	Durham UA	250,232	1,562	0.62%
SW	Mendip	53,208	332	0.62%
SE	Gosport	37,638	232	0.62%
SE	Tandridge	37,402	226	0.60%
E	Hertsmere	45,377	274	0.60%
SW	West Suffolk	81,565	489	0.60%
SE	Adur	28,639	171	0.60%
YH	Leeds	364,076	2,164	0.59%

WM	Stoke-on-Trent UA	118,376	695	0.59%
SW	Mid Devon	37,291	213	0.57%
WM	Stafford	62,302	353	0.57%
EM	Charnwood	77,264	434	0.56%
L	Harrow	94,765	532	0.56%
E	East Cambridgeshire	38,962	217	0.56%
NW	Pendle	40,950	226	0.55%
SE	Mole Valley	39,008	215	0.55%
EM	South Kesteven	65,625	348	0.53%
WM	Herefordshire UA	87,462	460	0.53%
WM	Staffordshire Moorlands	44,410	233	0.52%
YH	Wakefield	161,194	836	0.52%
SE	Woking	43,265	224	0.52%
SW	Tewkesbury	43,045	221	0.51%
SE	Reigate and Banstead	62,745	321	0.51%
NW	Warrington UA	94,246	478	0.51%
SE	Wokingham UA	72,206	366	0.51%
SE	Rushmoor	41,327	208	0.50%
SE	Tunbridge Wells	50,839	251	0.49%
SE	Surrey Heath	37,707	183	0.49%
E	South Cambridgeshire	69,862	338	0.48%
SE	Havant	55,994	270	0.48%
L	Waltham Forest	107,954	520	0.48%
WM	East Staffordshire	53,576	257	0.48%
SE	Elmbridge	58,803	282	0.48%
NE	Darlington UA	52,348	251	0.48%
EM	Broxtowe	50,970	244	0.48%
E	Dacorum	65,937	311	0.47%
YH	York UA	92,114	429	0.47%
EM	South Holland	42,425	197	0.46%
EM	Harborough	42,015	195	0.46%
E	Uttlesford	38,839	179	0.46%
EM	West Lindsey	44,660	202	0.45%
EM	Amber Valley	58,980	264	0.45%
SE	Horsham	64,889	290	0.45%
E	North Hertfordshire	58,740	258	0.44%
YH	North East Lincolnshire UA	74,221	325	0.44%
EM	Rushcliffe	51,941	222	0.43%
E	Chelmsford	78,560	335	0.43%
E	Huntingdonshire	80,025	339	0.42%
L	Wandsworth	149,706	634	0.42%
SW	North Somerset UA	98,808	417	0.42%
YH	North Lincolnshire UA	76,545	320	0.42%
NE	Gateshead	94,489	394	0.42%
NW	Bolton	126,218	525	0.42%
EM	South Derbyshire	47,637	198	0.42%
NE	Redcar and Cleveland UA	65,450	272	0.42%
L	Croydon	162,703	673	0.41%
L	Richmond upon Thames	85,235	349	0.41%
EM	North Kesteven	52,919	214	0.40%

NW	Wirral	150,229	605	0.40%
SE	South Oxfordshire	63,940	257	0.40%
SE	Dartford	48,134	193	0.40%
YH	Doncaster	140,340	556	0.40%
YH	Calderdale	96,091	377	0.39%
E	Fenland	46,457	182	0.39%
EM	North East Derbyshire	47,091	184	0.39%
NW	Blackburn with Darwen UA	62,309	243	0.39%
L	Bromley	142,089	549	0.39%
EM	Ashfield	56,681	219	0.39%
NE	South Tyneside	72,495	280	0.39%
SW	Gloucester	58,539	224	0.38%
E	Brentwood	34,263	131	0.38%
YH	Rotherham	119,292	448	0.38%
SE	Mid Sussex	66,392	248	0.37%
NW	Rossendale	32,292	120	0.37%
SE	Buckinghamshire UA	230,694	857	0.37%
EM	Bassetlaw	54,403	202	0.37%
YH	Sheffield	255,248	946	0.37%
E	Thurrock UA	69,394	257	0.37%
L	Lewisham	130,609	480	0.37%
NW	Burnley	42,192	153	0.36%
SE	Tonbridge and Malling	55,677	199	0.36%
SE	West Berkshire UA	69,951	247	0.35%
WM	South Staffordshire	47,949	167	0.35%
YH	Selby	41,170	142	0.34%
L	Greenwich	121,760	419	0.34%
NW	Stockport	131,737	452	0.34%
L	Hounslow	106,834	366	0.34%
EM	Newark and Sherwood	56,426	193	0.34%
WM	Telford and Wrekin UA	79,801	271	0.34%
NE	Hartlepool UA	44,462	146	0.33%
WM	Wolverhampton	112,139	367	0.33%
WM	Birmingham	453,348	1,479	0.33%
E	Castle Point	39,119	126	0.32%
NW	Sefton	129,226	414	0.32%
E	St Albans	62,215	195	0.31%
SE	Eastleigh	59,087	185	0.31%
NW	Wigan	149,212	467	0.31%
SE	Vale of White Horse	60,475	189	0.31%
WM	Rugby	49,136	151	0.31%
NE	North Tyneside	100,245	304	0.30%
SE	Runnymede	37,603	114	0.30%
E	Braintree	67,246	198	0.29%
EM	West Northamptonshire	178,670	514	0.29%
NE	Stockton-on-Tees UA	88,957	252	0.28%
EM	North West Leicestershire	46,640	132	0.28%
NW	Bury	84,391	238	0.28%
SE	Basingstoke and Deane	78,954	222	0.28%
EM	Chesterfield	50,139	139	0.28%

EM	North Northamptonshire	154,719	427	0.28%
WM	Cannock Chase	44,979	124	0.28%
E	Bedford UA	78,107	213	0.27%
NW	West Lancashire	50,912	137	0.27%
EM	Blaby	43,800	116	0.26%
L	Lambeth	146,694	388	0.26%
EM	Gedling	53,440	140	0.26%
NW	Chorley	52,269	135	0.26%
NW	Oldham	97,595	249	0.26%
NW	Wyre	53,807	137	0.25%
E	Harlow	39,213	98	0.25%
SE	Test Valley	57,132	139	0.24%
L	Islington	110,995	268	0.24%
EM	Erewash	52,607	127	0.24%
E	Rochford	36,925	89	0.24%
EM	Nottingham UA	142,675	337	0.24%
SE	Maidstone	75,034	175	0.23%
EM	Boston	30,933	72	0.23%
WM	Dudley	140,292	321	0.23%
WM	Redditch	37,549	85	0.23%
EM	Bolsover	37,270	84	0.23%
SE	Medway UA	117,941	263	0.22%
E	Central Bedfordshire UA	126,632	278	0.22%
E	Peterborough UA	88,226	190	0.22%
WM	Lichfield	46,982	101	0.21%
EM	Oadby and Wigston	23,705	50	0.21%
NW	Halton UA	58,467	123	0.21%
WM	Nuneaton and Bedworth	58,636	123	0.21%
SE	Hart	41,371	84	0.20%
YH	Kingston upon Hull UA	123,367	250	0.20%
SE	Spelthorne	43,826	88	0.20%
SW	Swindon UA	99,220	196	0.20%
E	Basildon	79,359	154	0.19%
WM	Bromsgrove	42,510	82	0.19%
L	Barking and Dagenham	77,168	148	0.19%
E	Broxbourne	41,248	77	0.19%
E	East Hertfordshire	64,740	118	0.18%
EM	Melton	23,619	42	0.18%
L	Brent	127,482	226	0.18%
NW	Hyndburn	37,312	66	0.18%
EM	Hinckley and Bosworth	50,937	90	0.18%
WM	Walsall	117,137	205	0.18%
L	Newham	124,284	216	0.17%
NW	South Ribble	50,651	78	0.15%
L	Havering	106,595	159	0.15%
L	Ealing	142,740	210	0.15%
EM	Mansfield	50,505	71	0.14%
E	Stevenage	37,813	52	0.14%
L	Sutton	85,109	106	0.12%
NW	Tameside	103,908	121	0.12%

EM	Derby UA	112,061	130	0.12%
E	Luton UA	82,936	96	0.12%
WM	Solihull	94,078	102	0.11%
SE	Epsom and Ewell	32,666	35	0.11%
E	Three Rivers	38,466	32	0.08%
E	Watford	40,744	33	0.08%
NW	Knowsley	69,911	54	0.08%
NW	Liverpool	234,529	177	0.08%
SW	South Gloucestershire UA	123,178	92	0.07%
SE	Gravesham	43,836	30	0.07%
WM	Newcastle-under-Lyme	57,012	36	0.06%
WM	Tamworth	33,940	20	0.06%
YH	Barnsley	113,594	57	0.05%
NE	Middlesbrough UA	64,833	27	0.04%
NW	Rochdale	95,959	39	0.04%
L	Bexley	99,918	37	0.04%
WM	Sandwell	134,801	9	0.01%
SE	Bracknell Forest UA	52,665	0	0.00%
L	Haringey	111,276	0	0.00%
WM	North Warwickshire	28,995	0	0.00%
	England	24,987,468	253,357	1.01%

Distribution of Existing Affordable Homes & Second/Holiday Homes

Parish	Affordable homes	All Council Tax homes	% Affordable Homes	% Second & Holiday Homes*
BODHAM	62	242	26%	15.3%
WELLS-NEXT-THE-SEA	336	1560	22%	34.8%
GIMINGHAM	46	214	21%	8.6%
LITTLE BARNINGHAM	12	61	20%	9.7%
MORSTON	11	58	19%	52.2%
RYBURGH	62	329	19%	5.4%
FELBRIGG	18	99	18%	13.2%
BINHAM	43	238	18%	35.0%
FAKENHAM	726	4117	18%	1.6%
WARHAM	18	104	17%	19.8%
KNAPTON	34	200	17%	5.8%
HOVETON	188	1111	17%	6.6%
BACONSTHORPE	19	113	17%	16.1%
PUDDING NORTON	22	131	17%	0.8%
NORTH WALSHAM	1059	6361	17%	1.2%
CATFIELD	74	461	16%	2.8%
TUNSTEAD	54	340	16%	4.9%
HOLT	384	2426	16%	13.1%
ALDBOROUGH	47	299	16%	7.2%
FULMODESTON	36	232	16%	9.8%
LITTLE SNORING	48	311	15%	11.3%
SALTHOUSE	19	127	15%	50.0%
WIGHTON	20	135	15%	22.8%
BRISTON	182	1250	15%	5.4%
TRUNCH	70	489	14%	5.8%
STALHAM	270	1966	14%	4.5%
ROUGHTON	60	452	13%	7.5%
HORNING	87	661	13%	23.1%
WALSINGHAM	65	499	13%	21.5%
LUDHAM	87	682	13%	7.7%
SKEYTON	13	102	13%	2.9%
HINDRINGHAM	33	261	13%	20.9%
HIGH KELLING	40	317	13%	8.4%
WICKMERE	8	65	12%	14.9%
EDGEFIELD	30	244	12%	9.7%
BLAKENEY	67	561	12%	44.2%
WORSTEAD	50	419	12%	5.4%
FIELD DALLING	18	155	12%	17.4%
LANGHAM	27	235	11%	25.1%
HINDOLVESTON	29	255	11%	9.4%
ANTINGHAM	17	151	11%	1.3%
STIFFKEY	16	151	11%	36.4%
SWANTON ABBOTT	20	190	11%	3.6%
PLUMSTEAD	6	59	10%	6.6%
CROMER	485	4807	10%	14.0%
SCULTHORPE	36	362	10%	10.6%
MUNDESLEY	172	1742	10%	18.4%
HICKLING	47	482	10%	9.6%
BEESTON REGIS	49	516	9%	6.1%
HEMPTON	26	281	9%	7.0%

NORTHREPPS	49	533	9%	11.1%
FELMINGHAM	23	251	9%	4.7%
CLEY-NEXT-THE-SEA	30	330	9%	44.0%
SOUTHREPPS	40	445	9%	12.7%
PASTON	10	113	9%	7.7%
CORPUSTY	32	366	9%	10.7%
BARSHAM	11	127	9%	19.6%
EAST RUSTON	21	245	9%	11.6%
BECKHAM (E&W)	11	135	8%	17.1%
BACTON	63	786	8%	22.4%
SWANTON NOVERS	8	105	8%	17.8%
POTTER HEIGHAM	42	554	8%	8.6%
GREAT SNORING	8	106	8%	22.8%
GUNTHORPE	11	150	7%	21.8%
SUFFIELD	5	69	7%	15.5%
ERPINGHAM	21	305	7%	3.2%
HAPPISBURGH	29	436	7%	21.3%
GRESHAM	14	211	7%	14.8%
STIBBARD	11	166	7%	5.4%
HEMPSTEAD	6	91	7%	16.8%
SHERINGHAM	270	4145	7%	16.5%
SMALLBURGH	16	246	7%	4.0%
HONING	9	149	6%	7.1%
WEYBOURNE	26	432	6%	32.5%
SEA PALLING	18	303	6%	26.9%
ASHMANHAUGH	5	85	6%	3.5%
INGWORTH	3	51	6%	3.9%
UPPER SHERINGHAM	8	140	6%	10.1%
SLOLEY	7	127	6%	5.4%
SUTTON	27	537	5%	3.1%
NEATISHEAD	13	265	5%	5.9%
RUNTON (E&W)	44	903	5%	15.9%
THURSFORD	5	115	4%	26.5%
ITTERINGHAM	3	73	4%	20.7%
OVERSTRAND	23	595	4%	19.1%
SUSTEAD	4	109	4%	11.6%
DILHAM	6	167	4%	8.7%
HELHOUGHTON	4	117	3%	22.6%
SCOTTOW	14	454	3%	0.7%
LEATHERINGSETT	4	135	3%	23.8%
COLBY	6	213	3%	5.0%
RAYNHAM	9	328	3%	9.9%
THORNAGE	3	110	3%	28.0%
ALBY	3	112	3%	10.2%
AYLMERTON	6	242	2%	14.3%
WIVETON	2	82	2%	35.9%
HORSEY	1	42	2%	18.8%
SWAFIELD	3	132	2%	5.9%
INGHAM	4	184	2%	11.9%
TRIMINGHAM	4	189	2%	11.8%
KETTLESTONE	2	105	2%	10.1%
SIDESTRAND	1	57	2%	30.3%
BRININGHAM	1	73	1%	23.1%
THORPE MARKET	2	147	1%	10.9%
MELTON CONSTABLE	4	322	1%	5.8%
WALCOTT	5	404	1%	17.1%

WITTON	2	167	1%	7.5%
BARTON TURF	2	223	1%	11.0%
LESSINGHAM	2	380	1%	22.7%
TATTERSETT	2	448	0%	4.6%
BRINTON	0	113	0%	20.2%
BRUMSTEAD	0	30	0%	0.0%
DUNTON	0	54	0%	17.5%
HANWORTH	0	107	0%	17.0%
HOLKHAM	0	112	0%	6.0%
KELLING	0	111	0%	34.1%
MATLASKE	0	74	0%	7.8%
STODY	0	100	0%	12.4%
THURNING	0	34	0%	8.8%
WESTWICK	0	39	0%	5.0%
WOOD NORTON	0	107	0%	5.5%
Total	6366	56136	11%	12.20%

England comparison	4077310	22063368	18%	1.1%**
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Source: stock data from RPs as at 1/4/21, Second & Holiday homes data from Council Tax and NDR data 1/4/22

* The % of Second and Holiday homes is of all homes - i.e. all council tax homes and self catering holiday homes

** The England figure only includes Second homes, not Holiday homes

New Affordable Homes and Second/Holiday Homes

Ordered by delivery of new affordable homes

Parish	New Affordable Homes*	% Second/Holiday Homes
Fakenham	197	1.6%
North Walsham	139	1.2%
Holt	132	13.1%
Wells	72	34.8%
Hoveton	63	6.6%
Stalham	54	4.5%
Cromer	37	14.0%
Briston	28	5.4%
Bacton	24	22.4%
Roughton	21	7.5%
Trunch	18	5.8%
Ludham	16	7.7%
Northrepps	16	11.1%
Binham	14	35.0%
Erpingham	14	3.2%
Knapton	14	5.8%
Sheringham	14	16.5%
Blakeney	13	44.2%
Edgefield	12	9.7%
Bodham	10	15.3%
Barney/Fulmodeston	8	9.8%
Felmingham	8	4.7%
Field Dalling	8	17.4%
Hindringham	8	20.9%
Little Barningham	8	9.7%
Mundesley	8	18.4%
Overstrand	8	19.1%
Upper Sheringham	8	10.1%
Hempton	7	7.0%
East Ruston	6	11.6%
(Great) Ryburgh	5	5.4%
Horning	4	23.1%
Potter Heigham	2	8.6%
Pudding Norton	2	0.8%
Badersfield/Scottow	1	0.7%
Honing	1	7.1%
Little Snoring	1	11.3%
Stiffkey	1	36.4%
TOTAL	1002	12.2%

* Affordable housing completions 2011/12 - 2021/22

Source NNDC monitoring and Council Tax/NNDR data 1/4/22

Ordered by % of Second/Holiday homes

Parish	New Affordable Homes*	% Second/Holiday Homes
Blakeney	13	44.2%
Stiffkey	1	36.4%
Binham	14	35.0%
Wells	72	34.8%
Horning	4	23.1%
Bacton	24	22.4%
Hindringham	8	20.9%
Overstrand	8	19.1%
Mundesley	8	18.4%
Field Dalling	8	17.4%
Sheringham	14	16.5%
Bodham	10	15.3%
Cromer	37	14.0%
Holt	132	13.1%
East Ruston	6	11.6%
Little Snoring	1	11.3%
Northrepps	16	11.1%
Upper Sheringham	8	10.1%
Barney/Fulmodeston	8	9.8%
Edgefield	12	9.7%
Little Barningham	8	9.7%
Potter Heigham	2	8.6%
Ludham	16	7.7%
Roughton	21	7.5%
Honing	1	7.1%
Hempton	7	7.0%
Hoveton	63	6.6%
Trunch	18	5.8%
Knapton	14	5.8%
Briston	28	5.4%
(Great) Ryburgh	5	5.4%
Felmingham	8	4.7%
Stalham	54	4.5%
Erpingham	14	3.2%
Fakenham	197	1.6%
North Walsham	139	1.2%
Pudding Norton	2	0.8%
Badersfield/Scottow	1	0.7%
TOTAL	1002	12.2%

* Affordable housing completions 2011/12 - 2021/22

Source NNDC monitoring and Council Tax/NNDR data 1/4/22



On the economic impacts of constraining second home investments[☆]

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ABSTRACT

We investigate how political backlash against wealthy second home investors in high natural amenity places affects local residents. We exploit a quasi-natural experiment: the 'Swiss Second Home Initiative', which banned the construction of new second homes in desirable seasonal tourist locations. Consistent with our model, we find that the ban substantially lowered (increased) the price growth of primary (second) homes and increased the unemployment growth rate in the affected areas. Our findings suggest that the negative effect on local economies dominated the positive amenity-preservation effect. We conclude that constraining second home construction in seasonal tourist locations where primary and second homes are not close substitutes may reinforce wealth inequality.

1. Introduction

Over the last two decades, fueled by a staggering amount of wealth accumulation among a growing cohort of high earners, coun-

tries all over the world have seen a dramatic increase in wealthy individuals investing in 'second homes' – properties that are not used as primary residence – with a particular concentration in seasonal tourist locations and desirable (superstar) cities. This surge in second

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home investments has triggered a serious political backlash in many countries.¹

In this paper, we explore the local housing and labor market impacts of one form of such political backlash: *constraints or outright bans on the construction of new second homes in seasonal tourist locations*. While in most countries far fewer people live and work in seasonal tourist locations than in superstar cities, when it comes to analyzing the market for second homes, the former locations are arguably economically at least as important as the latter.

Seasonal tourist locations rich in natural amenities differ from high-productivity superstar cities in two important respects that are relevant for both, our theoretical and empirical analysis. First, unlike in superstar cities, in seasonal tourist locations, the tourist sector is typically the dominant industry. Second, while in superstar cities primary and second homes tend to be close substitutes, in seasonal tourist locations this is usually not the case. For example, holiday homes at the beach often do not possess heating required for the winter season and wooden chalets in the mountains are in specific micro-locations, typically near ski lifts, and are of a style that is not suitable for year-round living.

To shed light on the mechanisms through which a constraint on second homes in seasonal tourist locations may affect local housing and labor markets, we develop a simple dynamic general equilibrium framework, where bans on second home investments have two opposing effects. They adversely affect local labor markets (negative ‘local economy effect’) but positively influence the primary residents’ valuation of local amenities (positive ‘local amenity effect’).

We consider two alternative theoretical settings. The first assumes that primary and second homes are poor substitutes and therefore trade in separate markets. The model with this setting yields three empirically testable predictions. Constraining second home construction (i) negatively impacts the price of primary homes, (ii) adversely affects local labor markets, and (iii) increases the price growth of second homes in the constrained areas.

In contrast, the second setting assumes that the two types of homes are perfect substitutes. In this case, the price of existing primary and second homes must move in the same direction. Whether the direction is positive or negative is theoretically ambiguous.

To empirically identify the local housing and labor market impacts of constraining the construction of new second homes, we exploit a unique quasi-natural experiment in Switzerland – the ‘Second Home Initiative’ (SHI). Voters narrowly approved this popular initiative in March 2012 and effectively banned the construction of new second homes in municipalities with a share of such homes of 20% or more.

Our empirical analysis builds on a standard difference-in-differences (DD) setting and addresses concerns of omitted variable bias and out-of-treatment selection by first-differencing the DD-equation and instrumenting the observed treatment assignment. Our preferred estimates suggest that the SHI-ban lowered price growth of primary homes in affected areas by 15%, increased the growth in local unemployment rates by 12%, and increased price growth of second homes by 26%. Our empirical findings for Switzerland are thus consistent with a theoretical setting where primary and second homes are poor substitutes.

Overall, our empirical findings imply that the adverse local labor market effects dominated any anticipated positive landscape preservation effects. In fact, we do not observe any significant positive sorting response from residents to the alleged benefits of the ban. Our results suggest that in seasonal tourist locations, like in Switzerland, where

primary and second homes are not close substitutes, bans on the construction of second homes may reinforce rather than reduce wealth inequality.

Our paper relates to a relatively small but growing recent literature that focuses on the role played by residential real estate investors in housing markets. [Haughwout et al. \(2011\)](#) investigate the role of investors during the Great Financial Crisis in the United States, documenting that investors were heavily overrepresented in states that experienced the largest housing booms and busts. In a related study, [Chinco and Mayer \(2016\)](#) compare local second homebuyers to out-of-town investors. They find that out-of-town buyers – unlike local second homebuyers – behave as misinformed speculators, increasing future house prices and the implied-to-actual rent ratio. Finally, [Bayer et al. \(2020\)](#) classify investors into two categories according to their observed investment strategies: middlemen and speculators. The former group aims to make profit by buying from motivated sellers at prices below the market value and re-selling quickly, whereas the latter group times their investments to markets displaying strong price increases. By excluding the possibility that speculators possess superior information on housing price dynamics, they indirectly establish a causal link between speculative behavior and housing price bubbles.

A number of recent papers focus on international second home investments in superstar cities. [Cvijanovic and Spaenjers \(2020\)](#) explore the effect of international demand for luxury secondary residences in Paris. They point out how investors concentrate in specific areas, thereby increasing local housing prices. In line with [Chinco and Mayer \(2016\)](#), they find that foreign investors realize lower capital gains compared to local ones. [Badarinza and Ramadorai \(2018\)](#) focus on London and document how foreign real estate investors possess a “home bias abroad”. They invest in areas displaying high shares of residents of the same country thus affecting housing prices and transaction volumes. In a similar vein, [Sá \(2016\)](#) finds that the volume-share of residential real estate investments in England and Wales performed by overseas companies increases house prices and decreases homeownership rates. [Suher \(2016\)](#) explores the response of non-resident owners of second homes in New York City to targeted annual property taxes. Using the city’s 2013 change in the property tax treatment of condominiums, he documents that non-resident buyers have a significant impact on house prices within a subset of highly desirable neighborhoods, but no impact outside of these areas. Finally, [Favilukis and Van Nieuwerburgh \(2017\)](#) develop and calibrate a spatial equilibrium model for the New York and Vancouver metro areas to investigate the welfare effects of out-of-town homebuyers. Their findings suggest that higher levels of out-of-town buyers are associated with higher house prices and lower welfare. However, taxing purchases made by foreign investors may lead to welfare gains to the extent fiscal revenues are used to finance local public goods.

Studies on the economic impacts of restrictions on non-resident buyers are still rare and have so far focused on China. [Somerville et al. \(2020\)](#) document that purchase restrictions in China significantly reduced the housing transaction volume in restricted areas in the short run but that these effects diminished over time. Interestingly, they do not find any differential price effects between restricted and unrestricted areas. The underlying mechanisms that drive these results are quite different, however, from those proposed in this paper. This is because the institutional settings differ starkly. In China, unlike in Switzerland or other Western countries, land supply is determined by government-controlled land auctions.

Overall, the literature appears to support the widespread concern that non-resident investors into residential real estate increase local house prices and fuel market instability. This gives potential legitimacy to policies that aim to constrain non-resident real estate investments, either by imposing higher local taxes on non-primary owners or by constraining the quantity of such investments. To date, however, we know little about the economic effects of such investment constraints on local housing and labor market outcomes, and on the location decisions of

¹ Countries that have implemented stringent policies to curb second home construction and/or investments include Australia, Canada, China, Denmark, France, Germany, Israel, New Zealand, Singapore, Switzerland, the United Kingdom, and the United States. We provide newspaper references documenting some second home policies implemented across the globe in Web-Appendix Table W-A1. We also note that resentment can turn into support in places that are confronted with severe house price busts. A case in point is Spain’s Golden Visa program, introduced in 2013, after the collapse of its real estate market. The intention of the program has been to stimulate the housing market by attracting property investment into Spain through facilitating a path towards residency.

primary residents, especially in Western advanced economies. This paper aims to fill this gap. In particular, our analysis considers mid- and long-term investors and does not exclusively focus on short-term speculators. The latter do not fully capture the significance of the global second home investment phenomenon.

The remainder of this article is structured as follows. Section 2 discusses the institutional setting and the specifics of the SHI. In Section 3 we present the model and derive predictions for the empirical analysis. Section 4 discusses the data and provides descriptive statistics. We outline our empirical setup in Section 5 and present the main results and robustness checks in Section 6. The final section concludes.

2. Institutional background and the Second Home Initiative (SHI)

Popular initiatives like the SHI are an instrument of direct democracy that allows Swiss citizens to modify the country's constitution. Supporters of an initiative are required to collect 100'000 valid signatures in favor of the initiative within 18 months. In order to avoid undue influence of populous regions (in Switzerland called 'cantons' and 'half-cantons'), the initiative must be approved by the majority of voters *and* cantons. Popular initiatives have a low approval rate: up to April 2015 only 22 out of 198 initiatives obtained dual majority. This is for two reasons. First, popular initiatives are often considered extreme and meant to send a signal to policy makers rather than being intended to actually modify the constitution. Second, authorities are allowed to formulate a more moderate counterproposal, often leading proponents to withdraw the initiative.

Supporters of the SHI, who argued a ban on the construction of new second homes is necessary to protect the natural landscape in tourist areas and prevent ghost towns, collected enough validated signatures by January 2008. The Federal Council, the Parliament, most of the political parties and economic organizations recommended voting against the initiative, mainly for economic reasons. Thus it came as a surprise when in March 2012 Swiss voters approved the SHI with the narrowest of margins; 50.6% of the votes and 13.5 (12 cantons and 3 half-cantons) of the 26 cantons (23 cantons and 6 half-cantons). Although voting polls suggested that a tight majority in favor of the initiative is feasible, its approval by the majority of cantons was a complete bolt from the blue.

On January 1, 2013, the SHI ordinance came into force, banning construction of new second homes in municipalities where such homes represented 20% or more of the total housing stock. The SHI stipulated that in the treated municipalities investors are not allowed to plan and build any new second homes going forward, though primary residences built prior to 2013 can still be converted into second homes. Fiscal authorities in Switzerland legally categorize all housing units as either 'primary' or 'second' homes depending on whether or not a household uses a housing unit as primary residence.² There is certainty about whether a unit is a primary residence because households only pay local income taxes in their primary place of residence (i.e., in the place where they live more than half of the year).³

Two elements of the ordinance are particularly relevant for our analysis. First, second homes that had obtained a construction permit prior to the vote were still allowed to be built after the ordinance came into force. This prevented the number of newly built second homes above the threshold to fall to zero in the years just after the approval of the initiative. Second, primary homes built – or possessing a construction

permit issued – before the ordinance came into force (i.e., before 2013) may still be converted into second homes, but those planned and built after the ordinance was enacted lost their conversion option.⁴

Both elements of the ordinance were defined after the approval of the initiative, thus they were unknown to the voters prior to August 2012. Although the wording of the initiative had to be introduced into the Swiss constitution, implementation-specifics (and conformity with existing laws) were open to debate. In fact, the final text of a popular initiative is usually an arm-wrestled compromise between politicians supporting the initiative and those representing lobbies' interests. Therefore, the uncertainty concerning the specific implementation of the SHI made anticipation strategies extremely unlikely even after the voting results were known.

Treated areas in our setting – mountainous and other areas near lakes with shares of second homes above 20% – typically possess local economies that are reliant on tourism. A majority of voters in these areas, on balance, benefit substantially from the second home industry, directly or indirectly. It is therefore no surprise that the majority of local residents – especially in municipalities with very high shares of second homes and high homeownership rates – were strongly opposed to the SHI. The strong positive correlation between the SHI-share of no votes and the share of second homes in a municipality is illustrated in Fig. 1.

In Appendix Table A1 we go one step further and present the results of a simple voting analysis, controlling for confounding factors, and reporting separate findings for the full sample of municipalities, the control and the treatment group. Focusing on treated tourist areas first, we find that – consistent with our main results – permanent local residents in the affected areas weighed the adverse economic effects of the SHI much more strongly than the anticipated positive effects highlighted forcefully by the supporters of the initiative. Permanent residents in treated areas were more strongly opposed to the SHI, the higher the share of second homes, the higher the homeownership rate, the closer a municipality to a major ski resort, and the higher the voter turnout.

Despite their strong opposition and turnout, however, voters in the treated areas did not succeed in preventing the approval of the SHI. This is because voters in populous and non-tourist control areas also had a say. A simple analysis of the voting behavior in these non-treated areas indicates that the overall support may have been mainly driven by envy motives of voters with little wealth: the higher the share of renters and the lower the income in a non-treated municipality, the stronger was the support in favor of the SHI. Moreover, perhaps driven by an 'existence value' associated with the preserved landscape, the further away voters lived from high amenity places, and therefore the higher the travel costs associated with a second home, the greater is the likelihood that they supported the SHI.

3. The model

In this section, we present a simple dynamic general equilibrium model in the spirit of Rosen (1979) and Roback (1982). We build on recent work by Glaeser and Gottlieb (2009) who provide a general spatial equilibrium setting for the structural analysis of housing prices, wages, and population growth in the presence of agglomeration economies.⁵

⁴ Initially authorities confined the 'conversion option' to sales that did not trigger the construction of a new primary home in the treated or another nearby municipality. This measure intended to avoid speculative behavior of primary homeowners, thus limiting arbitrage strategies over the period of our analysis. However, the restriction was not included in the final law – implemented in January 2016 – because policy makers deemed it ineffective. This is allegedly for two reasons. First, mobile skilled individuals are likely to move over longer distances, so the restriction would not prevent them from moving away and pocketing the proceeds from the conversion option. Second, implementation (coordination across local jurisdictions) would have been very difficult and costly to monitor.

⁵ Our theoretical framework also relates to recent work by Desmet and Rossi-Hansberg (2013), Gaubert (2018), and Hsieh and Moretti (2019).

² The second home status does not depend on the tenure (owner-occupied vs. renter-occupied) of the unit. Developers can still build rental properties – sometimes labelled 'investment properties' – post 2012 but, crucially, renter-occupiers must live in these new units permanently, not just during the tourist season.

³ Cantonal inspectors can monitor an occupier's presence in a second home. They can also conduct surprise visits for control purposes if they suspect misconduct. In a similar vein, in Israel authorities check the water usage of properties to determine whether an occupier may falsely claim to use a property as second home.

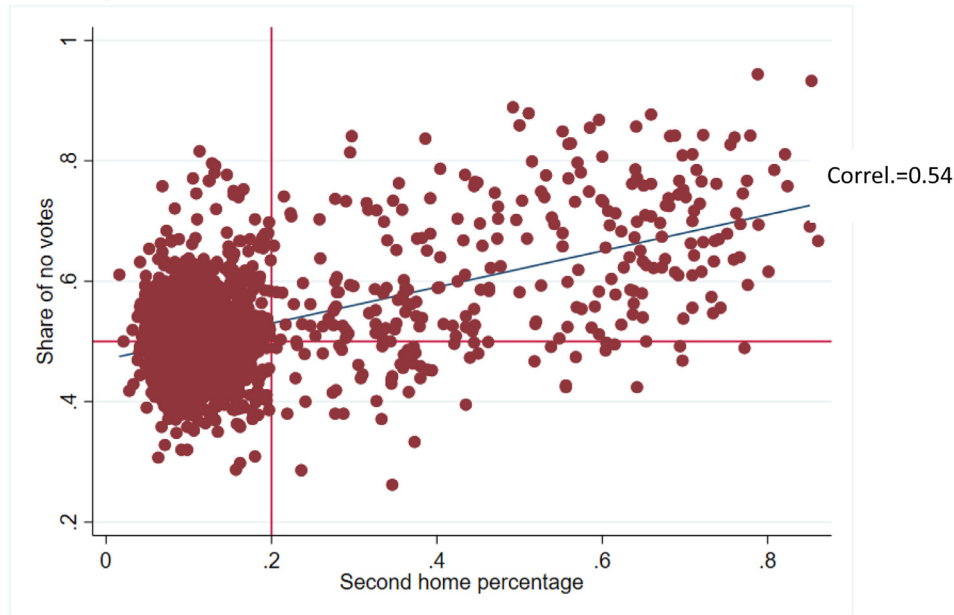


Fig. 1. SHI-voting results at municipality level with respect to second home percentage.

We consider a system of local jurisdictions that differ in the quality of major natural amenities, such as mountains or lakes.⁶ High quality amenities attract second home investors and increase the production efficiency of firms that exploit these amenities, leading local economies to exclusively specialize in the tourism sector.⁷ Mobile workers choose their primary residence by sorting across local jurisdictions according to wages, housing prices, natural amenities, and the negative externalities caused by second home investors. Investors generate such externalities via adversely affecting the landscape and creating ghost towns.

One key assumption in our model is that primary and second homes trade in two distinct markets within each local jurisdiction, that is, the two markets have separate demand and supply functions. This implies that primary and second homes are *poor substitutes*. In Section 3.6 we discuss the contrasting case of *perfect substitutability* along with predictions.

The assumption of poor substitutability is not far-fetched. It arises when second home investors and primary residents differ in their preferences for the micro-location within municipalities, the layout of a property, or the quality of construction. For example, second home investors tend to have strong preferences for nice views onto mountaintops, lakes or cityscapes or for quick access to ski lifts. These micro-locations are typically scarce. Vice versa, primary residents tend to strongly value good access to employment opportunities, local schools or supermarkets. Moreover, the layout of permanent homes often differs starkly from that of second homes. Differences in preferences for micro-locations and layouts, within municipality heterogeneity in locational access to amenities and services, and differences in the layouts of properties may thus effectively create separate markets. Strong wealth differentials between well-off second home investors and less well-off primary residents may further reinforce this market separation.

⁶ We briefly discuss the generalization of our framework to superstar cities in Section 6.5.

⁷ In the interest of parsimony, we assume that the local economies of tourist locations solely consist of the tourism industry. A similar interpretation of the model would hold if construction were the sole industry. We refrain from interpreting the main local industry as being construction for two reasons. First, the construction industry is arguably not fully localized in tourist places. Second, the negative wage effect in the construction industry is likely of second order importance relative to the one in the tourism industry.

3.1. Tourism industry

The local tourism industry produces non-tradable goods and services such as local ski lifts or food services that are sold to second home investors. We assume that residents in the municipality supply one unit of labor inelastically and we ignore cross-commuting, such that the number of local residents corresponds to local employment. Following Glaeser and Gottlieb (2009) and Hsieh and Moretti (2019), the output of firms is characterized by a Cobb-Douglas production function that displays decreasing returns to scale at the aggregate level:

$$Y_{it} = A_{it} N_{it}^{\beta} K_{it}^{\gamma} \bar{Z}_i^{1-\beta-\gamma}, \quad 0 < \beta, \gamma < 1, \quad \beta + \gamma < 1 \quad (1)$$

where Y_{it} , A_{it} , N_{it} , and K_{it} represent output, total factor productivity, employment, and traded capital in municipality i at time t , respectively; \bar{Z}_i represents the municipality fixed stock of non-traded capital (e.g. land) that makes returns to scale decreasing at the municipality level but constant for individual firms. The industry is assumed to be perfectly competitive and firms choose the level of the factors of production to maximize their profits. Traded capital is supplied with infinite elasticity at an exogenous price set equal to 1. Labor and capital first order conditions lead to the labor demand equation:

$$N_{it} \propto A_{it}^{\frac{1}{1-\beta-\gamma}} p_{it}^{\frac{1}{1-\beta-\gamma}} W_{it}^{\frac{\gamma-1}{1-\beta-\gamma}}. \quad (2)$$

where p_{it} and W_{it} denote, respectively, the price of tourism services and the wages paid by the local tourism industry.

3.2. Local residents

Local residents are perfectly mobile and equalize their indirect Cobb-Douglas utility function

$$V_i = \theta_i N_{it}^{S\eta} \frac{W_{it}}{r_{it}^a}, \quad 0 < a < 1, \quad \theta_i > 0, \quad \eta < 0 \quad (3)$$

across municipalities, where the term $\theta_i N_{it}^{S\eta}$ denotes an endogenous amenity index that decreases as the number of second home investors N_{it}^S in the municipality increases. In our context, the factor θ_i reflects either the exogenously given value of natural amenities or the quality of the social life in the municipality. The value primary residents attach

to this index evolves dynamically according to the negative externalities imposed by second home investors. The factor η captures the extent to which local residents care about the disamenity caused by the presence of investors. The term r_{it} represents the cost of local housing in the considered time period – i.e. the rental cost or the periodical cost of homeownership. The parameter a is the constant expenditure share on housing.

3.3. Second home investors

Second home investors sort across municipalities to maximize their indirect Cobb-Douglas utility, which we assume depends on the optimal consumption of natural amenities, tourism services, and housing:

$$V_t^S = \theta_i^S N_{it}^{S^e} \frac{W_t^S}{p_{it}^{1-b} r^S b}, \quad 0 < b < 1, \quad \theta_i^S > 0, \quad \varepsilon \leq 0, \quad (4)$$

where, similar to the case of primary residents, the amenity index $\theta_i^S N_{it}^{S^e}$ reflects the potential dislike of an investor for the presence of other investors. (When ε is strictly negative, the endogenous amenity index could also be interpreted as congestion costs associated with the consumption of tourism services such as the use of ski lifts.) The terms W_t^S and r_{it}^S represent, respectively, the local second home market housing costs and the exogenous wages of second home investors that are determined outside our system of municipalities.⁸ The parameter b is the constant expenditure share on housing of second home investors.

3.4. Housing developers

We describe the problem of developers of primary residences following Glaeser (2008).⁹ Let us assume that in every municipality at an arbitrary point in time $t_0 < t$ there is a fixed supply of housing units $H_t C_{it_0}^{\rho_i}$ – where $H_t, \rho_i > 0$ are parameters affecting the supply elasticity – that can be built at a unitary cost of C_{it_0} or less and sold at the market price P_{it_0} . Prices and heterogeneous construction costs are assumed to grow or shrink at steady-state rates g_i and g_i^c , respectively, prior to the ban. Both rates are lower than the interest rate r . Profit maximizing developers choose the optimal period t in which to develop and sell a property. The profit at t_0 of developing a plot of land is given by the discounted value of the future property price $P_{it} = (1 + g)^{t-t_0} P_{it_0}$ less the discounted value of its future unit cost $C_{it} = (1 + g^c)^{t-t_0} C_{it_0}$:

$$\max_t \left((1 + r)^{-(t-t_0)} \left((1 + g_i)^{t-t_0} P_{it_0} - (1 + g_i^c)^{t-t_0} C_{it_0} \right) \right), \quad t \geq t_0. \quad (5)$$

Marginal development in period t occurs when the optimal stopping rule – obtained by setting the derivative of the continuous version of (5) equal to zero – is satisfied. Waiting to develop after the period implied by the stopping rule, decreases the profit function of developers, thus harming them.

As we assume that primary (\mathcal{P}) and secondary (\mathcal{S}) residences are produced by two distinct supply functions, the housing supply of each type of residence is then given by

$$H_i^j \left(\frac{r - g_i^j}{(1 + g_i^{j,c})^{t-t_0} (r - g_i^{j,c})} P_{it}^j \right)^{\rho_i}, \quad j \in \{\mathcal{P}, \mathcal{S}\}. \quad (6)$$

For ease of exposition, in what follows we only report the \mathcal{S} superscript to distinguish second homes from primary ones.

⁸ The wage W_t^S can be thought of as the share of wage that investors spend in the place where their second home is located. The wage W_t^S can easily be modified to incorporate ad hoc taxes targeting second home investors, which would shift their demand downwards. Adding such taxes, however, would require modelling the public good provision of local governments and/or the tax revenue redistribution from higher-tier political units, a task beyond the aim of the present framework.

⁹ Developers of second homes solve a similar optimization problem. See the right-hand side of the market-clearing condition C5 in Web-Appendix C.1.

We model a ban on second homes as the limiting case of an increase in the cost of producing such houses. By exogenously increasing $g_i^{S,c}$, the second home supply becomes more inelastic. If the increase in costs is large enough, the supply will become perfectly inelastic, which corresponds to a ban on second homes. Comparative static results based on the growth of construction costs of second homes thus correspond to those of a ban of such homes.

3.5. Equilibrium outcomes (when primary and second homes are traded in separate markets)

Having stated the problem of firms in the tourism sector, primary residents, second home investors, and housing developers, we can solve for the equilibrium solution of the system. To link the endogenous stock price of primary and secondary residences to the value of their housing flows, we use the standard dynamic price equation:

$$P_{it}^j = \sum_{l=0}^{+\infty} \frac{r_{it+l}^j}{(1+r)^l} = \frac{1+r}{r-g_i^j} r_{it}^j, \quad j \in \{\mathcal{P}, \mathcal{S}\}, \quad (7)$$

where we assume that rents grow at a steady state rate g_i^j . We can now define the concept of dynamic equilibrium:

Definition 1. A dynamic equilibrium is a vector $(\frac{W_{it+1}}{W_{it}}, \frac{P_{it+1}}{P_{it}}, \frac{N_{it+1}}{N_{it}}, \frac{P_{it+1}^S}{P_{it}^S}, \frac{N_{it+1}^S}{N_{it}^S}, \frac{P_{it+1}}{P_{it}})$ such that for every municipality i and every time period t :

- i) Local labor markets clear according to Eq. (2).
- ii) Primary residents and second home investors equalize their indirect utilities across municipalities according to Eqs. (3) and (4), respectively.
- iii) Housing markets of primary and secondary residences clear.
- iv) The market of tourism services clears.

As the dynamic system of equations characterizing local economies can be linearized, we have

Corollary 1. There exists a unique dynamic equilibrium.

Proof. See Web-Appendix C.1.

We can use the dynamic equilibrium to make comparative static predictions about the impact of constraining the construction of new second homes (i.e. increase their construction costs) on the outcome variables of our model. Let $y_{it+1}^{0,j}$ and $y_{it+1}^{1,j}$ denote a given post-ban outcome variable if the ban would not have been/is enacted, respectively. We can express the average treatment effect on the treated as

$$E \left(\ln \left(y_{it+1}^{1,j} \right) - \ln \left(y_{it+1}^{0,j} \right) \mid D = 1 \right) = E \left(\ln \left(\frac{y_{it+1}^{1,j}}{y_{it}^j} \right) - \ln \left(\frac{y_{it+1}^{0,j}}{y_{it}^j} \right) \mid D = 1 \right), \quad j \in \{\mathcal{P}, \mathcal{S}\} \quad (8)$$

where y_{it}^j denotes pre-ban outcomes and D an observed treatment dummy variable equal to 1 if the municipality is subject to the ban and 0 otherwise. We obtain the following propositions for primary residents and second home investors, which we test in the empirical analysis below:

Proposition 1. If primary and second homes are not substitutable, then constraining the construction of new second homes

- i) reduces the price growth of primary homes,
- ii) reduces wage growth, and
- iii) has an ambiguous effect on the growth of the local population. The sign depends on the extent to which local residents dislike second home investors.

Proof. See Web-Appendix C.1 and Web-Appendix Table C1.

To understand the intuition behind [Proposition 1](#), consider the effects of a constraint (or outright ban) on new second homes on the local landscape and the local economy. If local residents don't care much about the disamenity caused by the presence of investors ($\eta \approx 0$), the constraint hurts the local tourism industry without providing any benefit to primary residents, causing the growth in wages and the number of residents to be lower in the new equilibrium. This negatively impacts the aggregate housing demand for primary homes, leading to a negative equilibrium price effect.

Now consider the other extreme where local residents care a lot about the negative externality imposed by investors ($\eta \ll 0$). In this case, the predictions of [Proposition 1](#) hinge on the decreasing returns to scale assumption, which would seem plausible for the local tourism industry. That is, the constraint can be expected to attract local residents into treated municipalities relative to the counterfactual (positive amenity effect). However, in a setting with decreasing returns to scale in the tourism industry, the constraint also reinforces the negative effect on local wage growth (detering primary residents). In equilibrium, in our setting with decreasing returns to scale, the effect on local demand for primary homes and primary house prices is unambiguously negative, whereas the effect on the total number of primary residents is theoretically ambiguous.¹⁰

Proposition 2. *If primary and second homes are not substitutable, the average price growth effect on second homes of constraining their construction is positive.*

Proof. See Web-Appendix C.1 and Appendix Table C1.

The intuition behind [Proposition 2](#) is straightforward: A constraint (or outright ban) on new second homes makes supply more price inelastic, thus capitalizing future demand growth for second homes into comparatively higher equilibrium prices (and price growth). More inelastic supply also implies fewer second home investors and this in turn reduces demand for tourism services, lowering prices for such services.

[Propositions 1](#) and [2](#) also have distributional implications, allowing us to speculate about the impact of constraining the construction of new second homes on local residents and, more generally, wealth inequality. [Proposition 1](#) implies that constraining the construction of new second homes imposes a significant economic cost on local homeowners in the form of both, lower primary house price and wage growth, making local homeowners unambiguously worse off. Since prices are measured as the present value of imputed rents, constraining the construction of new second homes is also expected to lower future rent levels. But this does not mean that renters are better-off. This is because the fall in rents is commensurate to lower local wages. In a spatial equilibrium setting without relocation costs, renters should be neither better nor worse off. [Proposition 2](#) implies that (typically wealthy) *existing* second home investors in treated locations should be better off as their investments become more valuable. Overall, these predicted distributional effects imply an increase in wealth inequality as a consequence of constraining the construction of new second homes, hurting local homeowners and favoring absentee second home investors.

3.6. Equilibrium outcomes when primary and second homes are perfect substitutes

In a setting where existing primary and second homes are *perfect substitutes* (both have a conversion option in both directions), the price of the two types must be the same and, by implication, the impact of the ban on the price must go in the same direction and must be of the same

¹⁰ In Web-Appendix C.1, we explore whether [Proposition 1](#) still holds when we instead assume agglomeration economies (increasing returns to scale) in the local tourism industry. We demonstrate that if agglomeration forces become very strong and exceed a certain threshold, a constraint on new second homes may increase the price growth of primary homes and wages. However, simulations – documented in Web-Appendix C.2 – suggest that such a threshold may be unrealistically high.

magnitude as well. Although the ban prevents the construction of new second homes, it does not prevent second home investors from entering the location. This is because existing primary residents have the valuable option to sell their property to second home investors and either move away or build a new – cheaper – primary home *without conversion option* at the outskirts of the location. Nevertheless, the expected growth rate of the number of second home investors should decrease post-ban. This is because eventually the municipality will run out of existing primary homes with a conversion option, at which point the ban puts an absolute upper limit on the number of second homes.

In our setting, if the expected growth rate of the number of new second home investors decreases, this has a negative feedback effect on local residents via the local labor market. Aggregate demand for housing in the local jurisdiction decreases, yet, at the same time, supply of second homes (or primary homes with a conversion option respectively) becomes more inelastic at the point in time of the ban. The net impact of these two opposing effects on the equilibrium price growth of houses with a conversion option is theoretically ambiguous.

In contrast to the separate market case, here primary homeowners retain a 'conversion option' to sell their property to second home investors post-ban. How valuable this option for existing owners is, depends on their moving costs. In the extreme of 'excessively high moving costs' the option to convert is worthless. However, in reality the option may at least partially hedge primary homeowners against the adverse effects on the local economy. Put differently, ignoring moving costs, primary homeowners may not be worse off compared to existing second home investors.

Interestingly, from a policy point of view, in a setting with perfect substitutability, banning second homes is likely to reinforce some of the key concerns of the policy it is supposed to tackle: The ban reduces the willingness-to-pay for housing of local residents due to the adverse effect on local wages. The ban thus creates incentives for primary homeowners to sell their properties to second home investors, whose willingness-to-pay has not changed post-ban. Some primary residents may sell and move away, which would mean that the share of second home investors relative to the total local population rises and the 'ghost town' problem worsens. Some primary residents may sell their homes in the most desirable micro-locations and purchase newly constructed primary dwellings that do not have a conversion option at the outskirts of the location, in effect creating a new separate market of 'properties without a conversion option' for primary residents. To the extent that existing primary homes are clustered mainly in the center of municipalities and new primary homes have to be built at the outskirts, this could reduce social cohesion and may even increase sprawl – because a ban on second homes does not prevent construction of primary homes at the outskirts.

4. Data and descriptive statistics

We combine housing data provided by the Swiss Real Estate Datapool Association (SRED) with municipality-level data from various sources discussed below.¹¹

4.1. Data sources and variables

4.1.1. Housing transaction data

The SRED collects and pools transaction data from various mortgage lenders – both private and cantonal banks. The SRED provided us data on individual transaction prices and corresponding housing characteristics for all of Switzerland and from 2000q1 to 2015q1. For each housing unit, in addition to the transaction price, we know whether the buyer intends to use the unit as primary or secondary residence, the physical characteristics of the unit (number of rooms, number of bathrooms, number of parking places, micro-location quality, housing unit quality,

¹¹ We provide more detail on the sources and data in Web-Appendix D.

Table 1A
Summary statistics – municipalities with share of second homes at or above 20%-threshold (treatment group).

Variables (municipality level averages)	2010–2011				2013–2014			
	Min	Max	Mean	Sd	Min	Max	Mean	Sd
Price of primary homes (1000 CHF)	100	3366.67	608.77	366.37	100	2396.67	592.07	312.74
Unemployment rate (%) [†]	0.21	4.13	1.27	0.66	0.14	4.44	1.35	0.65
Number of new residential units (1000)	0	0.15	0.01	0.02	0	0.20	0.02	0.03
Nb. of elderly (1000)	0.01	4.60	0.36	0.48	0.01	4.88	0.42	0.53
Resident population (1000)	0.03	24.89	1.87	2.58	0.07	26.09	2.03	2.73
Wages (1000 CHF)	35.05	99.79	55.66	9.00	32.85	325.21	58.30	19.37
<i>Housing characteristics (primary homes)</i>								
Number of rooms	2	10	4.25	1.19	1	9	4.09	1.18
Number of bathrooms	1	4	1.85	0.47	1	4	1.79	0.52
Number of parking places	0	2	0.61	0.50	0	2	0.58	0.50
Micro-location (1 to 4, bad to excellent)	1	4	3.09	0.48	1	4	2.89	0.52
Quality (standard of finishing) (1 to 4, bad to excellent)	1	4	2.73	0.67	1	4	2.52	0.64
Condition (1 to 4, bad to excellent)	1	4	2.68	0.71	1	4	2.50	0.75
Age of housing unit at time of transaction ^{††}	-0.83	161	32.57	28.64	0	164	36.91	29.65
Single-family house (yes/no)	0	1	0.49	0.40	0	1	0.50	0.41
Number of transactions	1	121	7.12	12.85	1	148	6.25	12.46
<i>Fiscal variables</i>								
Foreign residents (%)	0.00	61.18	15.90	10.26	1.79	60.75	17.14	10.25
Mean net income (1000 CHF)	26.05	96.82	50.80	11.29				
Net income Gini index	0.38	0.71	0.49	0.07				
<i>Other municipality characteristics (time-invariant or predetermined)</i>								
Second home rate (%)	20.30	86.10	47.88	17.21				
Voting No (%)	26.20	88.90	60.99	12.47				
Unproductive surface (%)	0.00	95.00	22.73	22.27				
Distance to major city (km)	0	102.52	36.82	24.78				
Distance to major ski resort (km)	0	81.03	15.33	22.10				
Pct. of workers in the 3rd sector (%)	0.00	95.00	61.63	18.41				
Pct. of firms in the 3rd sector (%)	0.00	94.00	62.93	15.07				
Number of municipalities	276				255			

Note [†] Unemployment rates are expressed relative to *total* population. ^{††} The age of the housing unit at time of transaction is defined as the year in which the transaction takes place minus the construction year. Since some dwellings are sold before being constructed, the variable can take negative values. Summary statistics for the price of 2nd homes are reported in the note of [Table 3](#).

housing condition, construction year, and an indicator of whether the unit is a single-family house or an apartment) and the unit's location (municipal and cantonal identification codes).

4.1.2. Unemployment and wage data

We use yearly data on unemployment at municipality level pre and post approval of the SHI provided by the State Secretariat for Economic Affairs (SECO).¹² Our measure of local unemployment is the number of unemployed individuals in a municipality divided by its total population. We use total population as denominator rather than total employment, as the latter is not available at municipality level. As a consequence, our 'unemployment rate' measure is lower than that published by official sources for more aggregate geographical levels. Average yearly wages of employees at the municipality level have been computed by merging the Population and Household Statistics of the Swiss Federal Statistical Office (FSO) with social-security data provided by the Central Compensation Office (CCO).

4.1.3. Second home rates

We obtained the municipality-level second home rate from the Swiss Federal Office for Spatial Development (ARE). Using data from the Federal Register of Buildings and Dwellings of 2012, ARE computes the number of second homes per municipality as the total housing stock less the number of primary homes. Second home rates are thus fixed over the period of our analysis, although some municipalities – upon request – were allowed to revise their rates downwards. We use the second home rates after revisions were taken into account to compute the observed treatment dummy, which equals one if a municipality's second home rate is greater or equal than 20%, and takes value zero if the municipality is below the 20% threshold or asked for a revision. Additionally, we use ('historic') second home rates provided by the 2000

Federal Population Census as an instrument for second home rates in 2012.

4.1.4. Fiscal data

Fiscal data at municipality level comes from the Swiss Federal Tax Administration (FTA). In our analysis, we use the pre-policy municipality average net income after taxes, the municipality's Gini index based on the same underlying income measure, and the predetermined share of foreign residents in the municipality represented by foreign individuals paying local taxes. We note that predetermined values of these variables reflect not only the fiscal status of the municipality, but may also capture a social amenity value: households may prefer to live in a municipality whose residents share a similar socio-economic background as their own.

4.1.5. Other municipality characteristics

The Federal Population Census provided by the FSO offers data on the number of residents and its age structure at the municipality level from 2010. We use the number of local residents over 65 years – thus not working anymore according to the Swiss mandatory retirement age – as an additional outcome variable to measure the amenity effect (we provide a rationale for this in [Section 6.4](#)). To proxy for time-invariant local natural amenities, we use the time-invariant share of undevelopable land – including lakes, glaciers, and bedrock – provided by land use data sourced from the FSO. Geographical Information System (GIS) data on the boundaries of administrative units at national, cantonal, and municipal level comes from the Federal Office of Topography (Swisstopo). GIS data allows us to compute the distance of each municipality from 15 major Swiss urban centers and 53 major ski resorts. These two measures capture how households value the proximity to major labor markets and labor markets linked to the

¹² Unemployment data by industry is not available at the municipality level.

Table 1B
Summary statistics – municipalities with share of second homes below 20%-threshold (control group).

VARIABLES (municipality level averages)	2010–2011				2013–2014			
	Min	Max	Mean	Sd	Min	Max	Mean	Sd
Price of primary homes (1000 CHF)	120	3040	745.46	333.35	120	2880	805.33	332.31
Unemployment rate (%) [†]	0.00	4.14	1.32	0.61	0.16	3.99	1.31	0.58
Number of new residential units (1000)	0	1.75	0.03	0.07	0	0.66	0.03	0.05
Nb. of elderly (1000)	0.01	62.45	0.77	2.37	0.01	62.23	0.84	2.42
Resident population (1000)	0.13	374.92	4.54	13.69	0.11	388.07	4.80	14.24
Wages (1000 CHF)	38.21	195.48	67.95	16.00	40.75	203.23	69.01	15.97
<i>Housing characteristics (primary homes)</i>								
Number of rooms	2	12	4.85	0.84	2	11	4.74	0.88
Number of bathrooms	1	4	2.05	0.43	1	4	2.03	0.44
Number of parking places	0	3	0.87	0.52	0	3	0.82	0.52
Micro-location (1 to 4, bad to excellent)	1	4	2.92	0.40	1	4	2.76	0.40
Quality (standard of finishing) (1 to 4, bad to excellent)	1	4	2.96	0.54	1	4	2.85	0.55
Condition (1 to 4, bad to excellent)	1	4	2.91	0.58	1	4	2.82	0.62
Age of housing unit at time of transaction ^{††}	-1	161	28.39	25.44	-1	164	29.62	26.26
Single-family house (yes/no)	0	1	0.61	0.32	0	1	0.59	0.34
Number of transactions	1	798	14.94	33.85	1	855	13.23	32.17
<i>Fiscal variables</i>								
Foreign residents (%)	0.62	51.67	16.09	9.40	0.24	55.09	17.48	9.62
Mean net income (1000 CHF)	40.16	341.34	68.54	23.33				
Net income Gini index	0.31	0.81	0.44	0.06				
<i>Other municipality characteristics (time-invariant or predetermined)</i>								
Second home rate (%)	1.60	34.30	11.32	4.70				
Voting No (%)	28.70	84.20	50.38	7.12				
Unproductive surface (%)	0.00	86.70	2.90	6.36				
Distance to major city (km)	0	75.79	10.88	11.09				
Distance to major ski resort (km)	0	78.91	34.44	19.80				
Pct. of workers in the 3rd sector (%)	5.00	99.00	57.77	17.73				
Pct. of firms in the 3rd sector (%)	15.00	94.00	64.65	14.45				
Number of municipalities	1556				1524			

Note [†] Unemployment rates are expressed relative to *total* population. ^{††} The age of the housing unit at time of transaction is defined as the year in which the transaction takes place minus the construction year. Since some dwellings are sold before being constructed, the variable can take negative values. Summary statistics for the price of 2nd homes are reported in the note of Table 3.

tourist industry in high natural amenity places, respectively. We collected data from the FSO on the number of workers and firms active in the service sector as measured in 2011. From the Housing Construction Statistic published by the FSO we collected the number of newly constructed residences from 2008 to 2014. This latter variable allows us to investigate the impact of the SHI on the local residential real estate sector.

4.2. Descriptive statistics of control and treated municipalities

For the purpose of our regression analysis, we aggregate the data at the municipality level and compute two-year averages for the pre-ban (2010–2011) and the post-ban (2013–2014) period. We consider an additional pre-period (2008–2009) to include lagged controls. Computing two-year averages allows us to increase the number of transactions observed in a given municipality and to include a greater number of municipalities in our sample. In our less restrictive specifications we retain approximately 60% of all Swiss municipalities.¹³ We provide summary statistics in Tables 1A (treatment group) and 1B (control group) for the pre (2010–2011) and post (2013–2014) SHI-approval periods.

Because there was great uncertainty concerning the practical application of the initiative until August 2012, individuals may or may not have anticipated its effects during this year despite the ordinance not being in force, making its evaluation difficult. In our empirical analysis, we thus drop 2012 observations from our sample. Finally, in order to compare only primary homes that possess a conversion option before and after the SHI-approval (i.e., to compare ‘like with like’), we drop primary residences *built after 2012* from our sample when investigating primary house price dynamics.

A comparison of Tables 1A and 1B reveals that the threshold imposed by the initiative broadly divides mountainous locations (treatment) from

areas with major urban centers (control). Below the threshold, municipalities are nearer to major urban centers and more distant to major ski resorts. Control municipalities thus have – on average – a larger population, more newly constructed housing units, and higher wages. Elderly people are more prone to live in municipalities belonging to the control group, likely due to better access to healthcare services. The percentage of individuals and firms active in the service sector is similar for the two groups, suggesting that local economies in treated places mostly rely on tourism and that agriculture may only play a marginal role. Interestingly, we do not observe any marked difference in unemployment rates between treatment and control municipalities.

Fig. 2 illustrates the geographic distribution of treated municipalities: most of them are situated in or near the Alps, further supporting our claim that for these municipalities the tourist industry is the main pillar of their local economies, consistent with our model. Given this proximity to the Alps, treated municipalities have more natural amenities, as measured by the share of unproductive surface, compared to the control group.

Focusing next on the housing stock and house prices, Tables 1A and 1B reveal that treated municipalities have lower average house prices, both before and after the approval of the initiative. House prices are lower in treated municipalities in part because they are further from major urban areas, but in part also because of lower housing quality.

Fig. 3 depicts pre-trends of our three main outcome variables – the log price of primary and second homes and local unemployment rates – providing visual support for the common trend hypothesis. We compute bi-annual averages of the three measures pre and post approval of the SHI, consistent with the bi-annual averages we use in our empirical analysis (outlined below). While all three outcome variables display similar pre-trends, consistent with our theoretical priors, post acceptance

¹³ We excluded new municipalities that were created from mergers of existing municipalities during the post-ban period from our analysis.

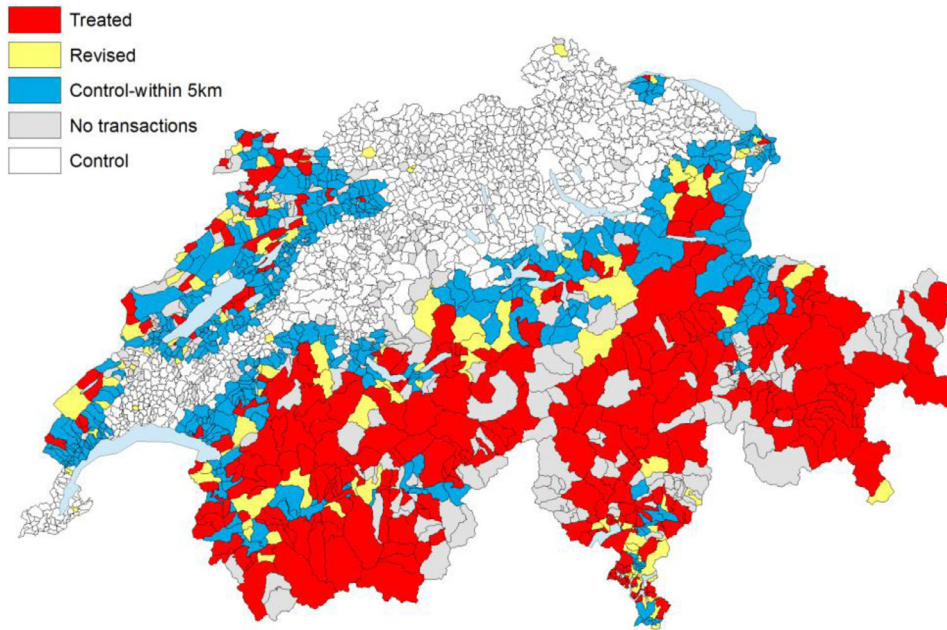


Fig. 2. Treatment and control group.

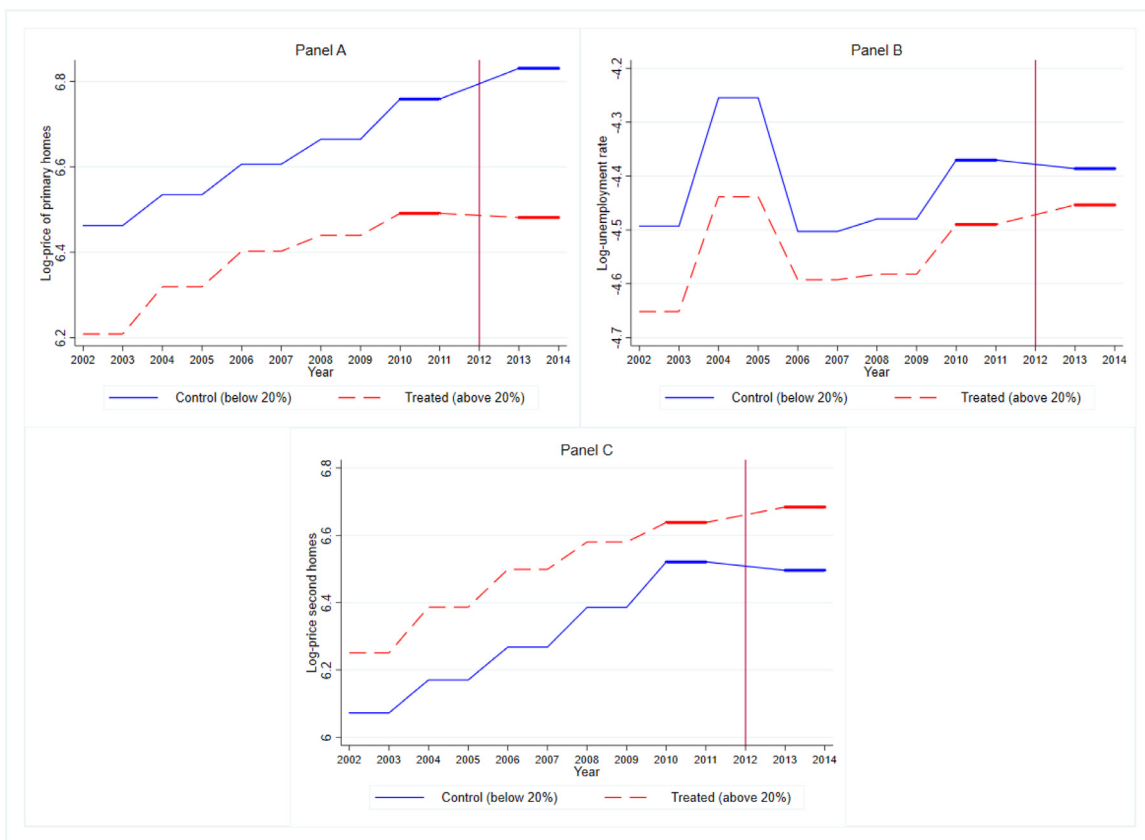


Fig. 3. Parallel trend graphs for main outcome measures.

of the SHI the trends of the treatment and control group go in opposite directions. In Section 6, we test more formally for differences in the pre-trends of the main outcome variables.

Two remaining points are worth noting. First, as illustrated in Fig. 4, the SHI did not noticeably affect the pattern of primary housing transactions with respect to second home rates: primary homes are mainly

transacted in and nearby major urban centers, which typically possess second home rates between 10% and 15%. Similarly, very little of the second home demand from the above-20%-municipalities appears to have shifted to control municipalities just below the 20% threshold. Consistent with this, Tables 1A and 1B show that the average number of transacted primary homes has not been significantly affected by the

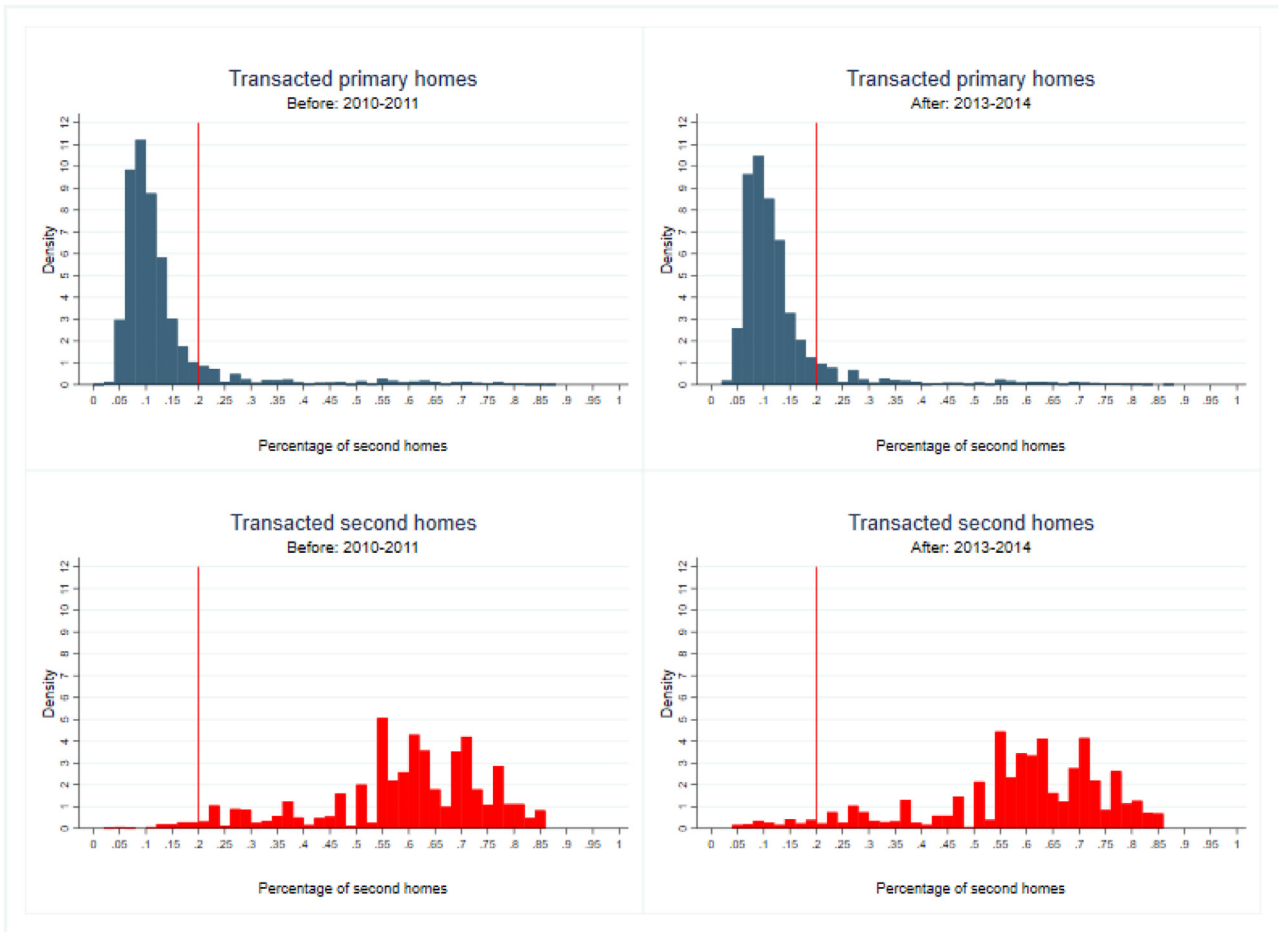


Fig. 4. Histogram of transacted primary and second homes according to second home percentage.

policy in treated municipalities. Second, the threshold imposed by the SHI is situated at the tail of the second home rate distribution, making sample restrictions around the threshold extremely challenging.¹⁴

5. Empirical research design

Let y_{i10-11} and y_{i13-14} denote the outcome variable in municipality i in 2010–2011 (pre-period) and 2013–2014 (post-period), respectively. Focusing on the two years directly following the approval of the SHI allows us to empirically identify theoretical mechanisms of the ban that might disappear in the longer run.¹⁵

To empirically test our model predictions, we consider three main outcome variables: the local price of primary and second homes as well as the local unemployment rate (in Section 6.4 we investigate additional outcome measures). We start by estimating the following two-period difference-in-differences (DD) model:

$$\ln(y_{it}) = \alpha + \gamma D_i + \tau d_t + \delta d_t \times D_i + \beta_1 x_{it-1} + \beta_2 c_i + u_{it}, \quad (9)$$

where D_i represents the observed treatment assignment defined according to the second home rate sr_i (after revisions were taken into account), d_t is a time dummy equal to 1 for post-initiative observations and zero otherwise, x_{it-1} is a vector of pre-determined covariates including information on local housing markets and fiscal variables, and c_i is a vector

of time-invariant variables that captures locational and geographic features of the municipality, including canton fixed effects. The variable u_{it} is a stochastic error term.

Unbiased estimation of the coefficient of interest δ is obtained if $E(u_{it}|sr_i) = 0$. Two main sources of endogeneity may invalidate this assumption in our setting, namely omitted variable bias and out-of-treatment selection. To partially address the former, in a first step we partial out unobserved municipality heterogeneity by estimating the following first-difference (FD) model:

$$\Delta \ln(y_{i13-14}) = \tau + \delta D_i + \beta_1 \Delta x_{i10-11} + \Delta u_{i13-14}, \quad (10)$$

where the outcome variable is given by $\Delta \ln(y_{i13-14}) = \ln(y_{i13-14}) - \ln(y_{i10-11})$, the term $\Delta x_{i10-11} = x_{i10-11} - x_{i08-09}$ captures pre-determined dynamics, and $\Delta u_{i13-14} = u_{i13-14} - u_{i10-11}$ denotes contemporaneous unobserved dynamics.

To address the latter, in a second step we rely on an instrumental variable (IV) approach and estimate model (10) by 2SLS (FD-IV). More precisely, we instrument the observed treatment assignment as

$$D_i = \gamma_0 + \pi z_{i00} + \gamma_1 \Delta x_{i10-11} + v_i, \quad (11)$$

where the instrument z_{i00} is given by the second home rate as measured in the 2000 Federal Population Census. This ‘historic’ measure of second home rates is strongly correlated with the observed treatment dummy – making it a relevant instrument – and could not have been manipulated by municipalities according to the treatment assignment, thus removing endogeneity issues linked to out-of-treatment selection.

The 2SLS estimate of the treatment effect is thus consistent if $E(\Delta u_{i13-14}|z_{i00}) = 0$ and if the instrument affects outcome variables only

¹⁴ See Web-Appendix Figure W-B1 for an illustration of this point.

¹⁵ For example, one might expect the positive impact of the SHI on unemployment rates in treated areas to decrease over time, as local residents may move to non-treated regions to access better employment opportunities.

Table 2
Impact of SHI on price growth of primary homes and unemployment rates: FD-IV estimates.

Panel A: Pre and post - Second stage						
Dependent variable	Δ Log price of primary homes			Δ Log unemployment rate		
	(1)	(2)	(3)	(4)	(5)	(6)
Observed treatment	-0.152*** (0.0461)	-0.147*** (0.0448)	-0.190*** (0.0443)	0.121*** (0.0252)	0.118*** (0.0257)	0.111*** (0.0254)
Lagged difference of controls	No	Yes	Yes	No	Yes	Yes
Predetermined outcome level	No	No	Yes	No	No	Yes
Observations	1406	1406	1406	1406	1406	1406
Kleibergen-Paap F	1623	1619	1632	1623	1619	1620
First stage						
Dependent variable	Observed treatment					
	2.066*** (0.0513)	2.068*** (0.0514)	2.043*** (0.0506)	2.066*** (0.0513)	2.068*** (0.0514)	2.067*** (0.0513)
Panel B: Parallel pre-trend (placebo test) - Second stage						
Dependent variable	Δ Log price of primary homes			Δ Log unemployment rate		
Observed treatment	0.0272 (0.0346)	0.0118 (0.0319)	-0.0288 (0.0313)	-0.0189 (0.0213)	-0.0249 (0.0219)	-0.0253 (0.0219)
Parallel pre-trend (placebo test) - second stage						
Dependent variable	Observed treatment					
	2.048*** (0.0478)	2.061*** (0.0477)	2.039*** (0.0478)	2.048*** (0.0478)	2.061*** (0.0477)	2.061*** (0.0477)
Lagged difference of controls	No	Yes	Yes	No	Yes	Yes
Predetermined outcome level	No	No	Yes	No	No	Yes
Observations	1462	1462	1462	1462	1462	1462
Kleibergen-Paap F	1840	1869	1818	1840	1869	1867

Notes: Heteroscedastic-robust standard errors are reported in parentheses (** $p < 0.01$, * $p < 0.05$, $p < 0.1$). Each numbered column describes the impact of the SHI on a given outcome variable for a given set of controls. Municipalities that have missing values for a given set of controls are excluded from all specifications. In Panel A, the two-period analysis is carried out by dividing the data into pre (2010–2011) and post (2013–2014) approval of the SHI. We consider an additional pre period (2008–2009) to include the lagged difference of controls. In Panel B, the two-period analysis is carried out by dividing the data into pre (2008–2009) and post (2010–2011) periods. We consider an additional pre period (2006–2007) to include the lagged difference of controls. Data is aggregated at the municipality level by computing two-year averages for these periods. The sample includes municipalities for which housing transactions were available pre and post implementation of the SHI. Houses built after 2012 are excluded. The observed treatment dummy is instrumented using second home rates as measured by the Federal Population Census in 2000. In Panel B, we do not control for lagged changes in foreign residents and new construction in columns 2–3 and 5–6 due to lack of available data.

through the first-stage Eq. (11). These two conditions may not be satisfied if the instrument captures permanent differences in the unobserved outcome dynamics between the control and treatment group after the effect of other control variables has been partialled out. In fact, we might worry that short-term outcome dynamics of major CBDs and suburban areas (which usually have low historical second home rates) differ from those of tourist areas (which have high historic second home rates).

To partially solve this problem, we examine the robustness of our treatment estimates when we include the natural log of the predetermined outcome variable y_{i10-11} among our controls in the FD and FD-IV models ($d_t \cdot \ln(y_{i10-11})$ in the case of the DD model). This variable allows us to control for pre-policy differences in outcome levels, likely making the direct effect of ‘historic’ second home rates on short-term outcome dynamics irrelevant. For example, municipalities with high initial levels of house prices or unemployment rates – such as CBDs – might have outcome dynamics that differ from those with low initial levels. This approach also allows us to control for mean reversion in the outcome variables.

We further investigate the robustness of our FD-IV estimates by balancing treatment and control group. Specifically, we drop municipalities near major CBDs and highly touristic places from our sample. We employ two strategies. The first relies on directly excluding those municipalities situated within a 10 km radius from major CBDs and those adjacent to a major ski resort. The second follows Greenstone and Gallagher (2008) and is akin to a fuzzy regression discontinuity design: We drop municipalities within a 10 km radius from major CBDs while

restricting the sample to municipalities that have a second home rate between 15 and 30%.¹⁶ To the extent that dynamic unobservables are balanced in our restricted samples – Altonji et al. (2005) suggest that balancing according to observed covariates may indeed reduce omitted variable bias – the two approaches provide consistent estimates of the treatment effect, even when the instrument is not exogenous for the whole sample, i.e. even when $E(\Delta u_{i13-14} | z_{i00}) \neq 0$. Additionally, the exclusion restriction is likely satisfied for the restricted samples, as permanent differences between control and treatment group have been removed. The two approaches are data demanding – the sample size is considerably reduced – which translates into a higher variance of the estimated treatment effect.

6. Results

6.1. Main results: impact of ban on price of primary homes and local unemployment

In Panel A of Table 2 we report treatment effects estimates of Eq. (10) using the FD-IV approach outlined in the previous section.¹⁷

¹⁶ We combine a sample restriction based on second home rates with CBD exclusion because some major urban areas in the control group – such as Geneva and Bern – have second home rates in the narrow band of 15%–20% below the threshold set by the SHI.

¹⁷ We report heteroscedasticity-robust standard errors. Clustering standard errors by cantons – which are the “most aggregate” institutional entities in Switzerland – does not alter the statistical significance of our main results. See Web-Appendix Table W-E1. However, standard errors may not be reliable due to the small number of clusters.

To test the predictions of our theoretical model, we consider the price of primary homes (columns 1–3) and unemployment rates¹⁸ (columns 4–6). For each of these two outcome variables, we progressively increase the set of controls. The FD-IV approach allows us to partially address endogeneity concerns related to potential omitted variable bias and out-of-treatment selection. This is our preferred approach to evaluate the impact of the SHI on local residents and its estimates are used as benchmark in subsequent robustness checks.

The FD-IV estimates suggest, consistent with Proposition 1, a strong negative impact of the second home ban on the price growth of primary homes: on average, the SHI lowered the price growth of primary homes by about 15% (preferred estimate reported in column (2)). To give an idea of the magnitude of this effect in levels, this equates to about 12% lower house prices over a 20 year horizon.¹⁹ The estimated average treatment effect is highly significant, independent of the set of included controls. The stability of the treatment estimates to the inclusion of the pre-determined outcome level suggests that pre-policy differences in the price of primary homes do not strongly affect post-policy price dynamics.

Table 2 (columns 4–6) further reveals that the SHI increased the unemployment growth rate by about 12% in the treated compared to the control areas (preferred specification reported in column (5)). The results are strongly statistically significant and remain extremely stable to the inclusion of additional controls, as in the case of the price of primary homes. Remarkably, pre-existing patterns of the outcome variable hardly affect the magnitude of the treatment estimates.

First stage coefficients of our instrument have the expected sign, denoting a strong and highly significant relationship between ‘historic’ second home rates and those measured more than a decade later. The Kleibergen–Paap F statistics are extremely high for all specifications, suggesting that weak identification is not a problem in any of the estimated specifications.

To verify that no treatment effect was present before the policy implementation, we conduct a (placebo-)pre-trend analysis for the periods immediately pre-dating the SHI approval. Specifically, we use the years 2006–2007 and 2008–2009 as pre-policy periods, and 2010–2011 as post-policy period. We report the corresponding estimation results in Panel B of Table 2. The (placebo-)treatment effect is statistically insignificant and close to zero for both primary home prices and unemployment rates. First-stage results are unchanged.

The fact that pre-ban outcome dynamics are not different, adds further credibility to our main FD-IV estimates, as ‘historic’ second home rates do not appear to capture permanent differences between treatment and control group through the first-stage equation. Put differently, if ‘historic’ second home rates were simply dividing major CBDs from highly touristic places through the treatment assignment, and these areas have permanently different outcome dynamics, then the pre-ban treatment effect should be significant. This, however, is not the case.

6.2. Main results: impact of ban on price of second homes

Another pertinent question is whether the SHI positively affected the price growth of second homes (Proposition 2). Only a small percentage of second homes are traded below the threshold set by the SHI and these are traded only in a small number of control municipalities. This lack of data makes estimating the treatment effect on second homes extremely challenging. In particular, we cannot reliably estimate FD and

¹⁸ We report wage results, as well as results for other outcome variables, separately in Section 6.4. We motivate our focus on unemployment rates to capture the negative local economy effect with the fact that in Switzerland wages are extremely sticky downwards.

¹⁹ House prices grew roughly 4% annually during the 10 years preceding the SHI. Using this number as a benchmark, our preferred estimate implies that post SHI-approval and as a direct consequence of the ban, going forward primary house prices grew 0.6% percentage points less annually. This equates to around 12% lower primary house prices in 20 years from the approval, compared to the counterfactual scenario without a ban.

Table 3
Impact of SHI on price growth of second homes: DD estimates.

Panel A: Pre and post			
Dependent variable	Log price of second homes		
	(1)	(2)	(3)
Observed treatment × Post	0.259 (0.184)	0.256* (0.146)	0.252* (0.146)
Observed treatment	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes
Lagged and time-invariant controls	No	Yes	Yes
Predetermined outcome level × Post	No	No	Yes
Observations	323	323	323
R-squared	0.015	0.562	0.562
Panel B: Parallel pre-trend (placebo test)			
Observed treatment × Post	-0.0498 (0.200)	-0.121 (0.160)	-0.157 (0.159)
Observed treatment	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes
Lagged and time invariant controls	No	Yes	Yes
Predetermined outcome level × Post	No	No	Yes
Observations	324	324	324
R-squared	0.004	0.557	0.570

Notes: Heteroscedastic-robust standard errors are reported in parentheses (** $p < 0.01$, * $p < 0.05$, $p < 0.1$). The two-period analysis is structured similarly to the one of Table 2. In Panel A, data available for all municipalities has been pooled for the pre (2010–2011) and post (2013–2014) periods. We consider an additional pre period (2008–2009) to include lagged controls. In Panel B, the two-period analysis is carried out by dividing the data into pre (2008–2009) and post (2010–2011) periods. We consider an additional pre period (2006–2007) to include the lagged difference of controls. The average price of second homes in the full sample was about 597'000 CHF in 2010–2011 and 638'000 CHF in 2013–2014 in not treated municipalities. In these municipalities, the average number of transactions was 2.26 (2010–2011) and 1.54 (2013–2014), respectively. In treated municipalities, the average price was about 630'000 (2010–2011) and 647'000 (2013–2014), with an average number of transactions equal to 7.5 (2010–2011) and 7.38 (2013–2014), respectively. Full summary statistics for all variables (including controls) are available from the authors upon request.

FD-IV models because very few municipalities are present in the control group in these samples.²⁰ These caveats aside, in an attempt to nevertheless shed some light on the impact of the SHI on the price growth of second homes, we estimate a DD model as in Eq. (9), but to increase sample size, we do not restrict the sample to municipalities for which housing transactions were observed both before and after the SHI ordinance came into force. We report results in Table 3 (Panel A). The sign of the treatment effect is positive and fairly stable across specifications. Once controls are included in the model, the effect becomes statistically significant, although only weakly so.

This finding is consistent with our theoretical model that assumes poor substitutability between primary and second homes. This should not be too surprising in the case of Switzerland’s tourist areas. Second homes are usually located where access to ski resorts is easiest, are built using specific materials – wood-built chalets – and usually lack some of the comforts of primary residences, such as access to broadband connection and covered parking garages. Additionally, it may be that primary homes that were good substitutes for second homes were already converted into second homes in the past, leaving only properties without conversion potential in the stock of primary residences.

Another possible explanation is that post SHI-implementation, primary residences that retained a conversion option systematically dropped out from our sample – as they were sold as second homes – thus causing a selection bias. This seems unlikely for two reasons. First, primary homes built before 2012 do retain a conversion option. If they are systematically sold as second homes, it means that potential primary

Table 4
Summary of alternative identification strategies and robustness checks.

Dependent variable	Δ Log price of primary homes			Δ Log unemployment rate		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Standard strategies (non-IV)						
DD estimates	-0.142** (0.0571)	-0.152*** (0.0450)	-0.119*** (0.0456)	0.0787 (0.0602)	0.0823* (0.0428)	0.0969** (0.0396)
FD estimates	-0.142*** (0.0386)	-0.140*** (0.0376)	-0.191*** (0.0365)	0.0787*** (0.0231)	0.0757*** (0.0236)	0.0651*** (0.0230)
Panel B: Alternative FD-IV estimates, 2nd stage only						
Restricted Sample 1 ^{a)}	-0.172** (0.0734)	-0.195*** (0.0703)	-0.237*** (0.0661)	0.0962* (0.0568)	0.0931* (0.0546)	0.105* (0.0563)
Restricted Sample 2 ^{b)}	-0.561*** (0.169)	-0.370** (0.149)	-0.353** (0.149)	0.243* (0.125)	0.292** (0.116)	0.252** (0.105)
Excluding close to treated (within 5 km)	-0.148*** (0.0459)	-0.142*** (0.0441)	-0.191*** (0.0441)	0.113*** (0.0250)	0.112*** (0.0251)	0.105*** (0.0248)
Including primary homes built after 2012	-0.135*** (0.0441)	-0.130*** (0.0430)	-0.180*** (0.0426)			
Lagged diff. of controls ^{c)}	No	Yes	Yes	No	Yes	Yes
Predeterm. outcome level ^{c)}	No	No	Yes	No	Yes	Yes

Notes: Heteroscedastic-robust standard errors are reported in parentheses (** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$). Web-Appendix Tables W-E2, W-E3 and W-E5 to W-E8 provide detailed estimation results. Web-Appendix Table W-E4 reports balancing tests for the two restricted samples (Tables W-E5 and W-E6). The two-period analysis is carried out by dividing the data into pre (2010–2011) and post (2013–2014) approval of the SHI. We consider an additional pre period (2008–2009) to include the lagged difference of controls. Data is aggregated at the municipality level by computing two-year averages for these periods. The observed treatment dummy is instrumented using second home rates as measured by the Federal Population Census in 2000. ^{a)} We exclude municipalities situated within a 10 km radius from major CBDs and/or are adjacent to a major ski resort. ^{b)} We exclude municipalities within a 10 km radius from major CBDs and/or having a second home rate below 15% or above 30%. ^{c)} For DD estimates the corresponding set of controls are FEs and lagged controls.

residents prefer to buy properties that do not have a conversion option, an unlikely case. Second, if primary residences that have a conversion option are systematically converted post policy, we should observe a significant drop in the number of transacted primary residences in treated municipalities, and this did not happen (see Fig. 4).²¹

As in the case of the price of primary homes and unemployment rates, we also conduct a (placebo-)pre-trend analysis for the periods immediately pre-dating the SHI approval. Panel B of Table 3 shows that the estimated (placebo-)treatment effect is statistically insignificant across all specifications.

6.3. Results for alternative identification strategies and robustness checks

Table 4 summarizes the results for alternative strategies of identifying the impact of the SHI on the price of primary homes and local unemployment as well as some additional robustness checks.²² In Panel A of Table 4 we replicate our main specifications from Table 2, but employ a standard DD and FD estimator, respectively, instead of our FD-IV approach. The estimated effects for the price of primary homes are virtually identical to our main specifications. The estimates for local unemployment rates are qualitatively similar, but somewhat smaller in magnitude and statistically less significant. The fact that the FD results for the price of primary homes are quite similar to our main results, reported in Table 2, implies that municipalities may not have made use of the option to revise their second home rate endogenously according to local housing market conditions.

²⁰ Even in the less restrictive FD specification, estimates become erratic when including predetermined controls.

²¹ Municipalities had to ascertain that the conversion of primary residences into secondary ones was not driven purely by speculative motives. For example, primary homeowners were not allowed to convert their residence and directly build/buy a new one in the same (or nearby) municipality.

²² The Web-Appendix Tables W-E2, W-E3 and W-E5 to W-E8 provide detailed estimation results. Additionally, in Web-Appendix F we report further robustness checks and results, which include investigating the parallel trend assumption over older time-periods (Tables W-F1 to W-F3), controlling for second home rate polynomials (Tables W-F4 and W-F5), and the estimation of heterogeneous treatment effects (Table W-F6).

Panel B of Table 4 reports results for a number of additional checks. To begin with, one concern with our FD-IV estimates is that they might be affected by intrinsic differences between treatment and control group. To the extent that our “historic” instrument captures persistent differences between the two groups – which in turn correlate with short-term dynamics – treatment effect estimates may not be consistent. To mitigate this concern, we balance observed covariates in the treatment and control group. We use two alternative sample restrictions. The first drops municipalities situated within a 10 km radius from major CBDs and/or adjacent to a major ski resort (Restricted Sample 1). The second excludes municipalities within a 10 km radius from major CBDs and/or having a second home rate below 15 or above 30% (Restricted Sample 2).²³

Dropping major CBDs and highly touristic places makes the negative impact of the initiative on the price growth of primary homes somewhat stronger, with estimates ranging from 17 to 24%. The impact on unemployment growth becomes slightly less pronounced (between 9 and 10% increase compared to around 12% in our preferred specification reported in column (5) of Table 2). The even stricter sample restriction further amplifies the negative effect of the ban on the price growth of primary homes and the positive effect on the unemployment growth rate. Both effects are highly statistically significant. We interpret the magnitude of the estimated effects in the most stringent sample restriction with due caution, however, as the sample size – and in particular the number of municipalities belonging to the treatment group – becomes very low, thus considerably increasing the variance of our estimates.

To further verify the robustness of our estimates to potential sorting effects, we estimate the FD-IV model for the price of primary homes and the local unemployment rate when we use as control group mu-

²³ Web-Appendix Table W-E4 shows that these two sample restrictions balance treatment and control group. Of course, balancing observable covariates does not ensure that unobservable ones are balanced, however, it likely reduces considerably the bias coming from omitted variables (Altonji et al. 2005). Additionally, as pointed out by Greenstone and Gallagher (2008), balancing covariates renders the (linear) functional-form assumption between an outcome variable and the covariates irrelevant.

municipalities situated more than 5 km away from the nearest treated ones (see Fig. 2 for a visual representation of dropped municipalities). Excluding municipalities near treated ones allows us to exclude those places where households and investors are most likely to sort into, according to the incentives created by the initiative. For example, households may move to the nearest municipality not affected by the ban to find a job. Similarly, second home investors may shift their housing demand to those non-restricted municipalities in closest proximity to major natural amenities. Reassuringly, the estimated impacts are virtually identical to our baseline estimates reported in Table 2.²⁴

We explain the absence of sorting of households across municipalities as follows. First, as argued by Glaeser and Gottlieb (2009), sorting of individuals in response to economic incentives is likely to occur in the long-run. As our analysis takes place right after the implementation of the SHI ordinance, sorting mechanisms may simply not have had enough time yet to materialize. Second, local residents may not consider second home investors a disamenity, which would eliminate any localized positive effect of the ban. The voting results in Appendix Table A1 support this view.²⁵

Third, the SHI reinforced the price differential of primary residences located in control and treated municipalities. This implies lower asset values for primary homeowners in treated locations post-ban and suggests that they may no longer have had sufficient wealth to buy a similar property in a control-location.²⁶ Fourth, the entire second home demand in municipalities that did not exceed the threshold is very small (less than 0.5% of the total transactions of primary residences), thus hardly affecting local price growth of primary homes in non-treated areas. Fifth, investors may value the close proximity to amenities – such as ski resorts – and would rather invest in a neighboring country (e.g. Austria or France) than losing the benefit of this proximity (i.e., even nearby municipalities may not be sufficiently close substitutes).

The final row in Panel B of Table 4 reports results for the effect of the ban on the price growth of primary homes using a sample that includes primary homes built after 2012. In our main specifications, reported in Table 2, we dropped these observations because our aim is to compare ‘like with like’ housing units pre and post ban (and primary homes built after 2012, in contrast to those built earlier, no longer possess a conversion option). Including primary homes built after the ban, allows us to estimate the ‘total’ effect of the ban – the sum of a compositional effect (properties without a conversion option may be traded post ban) and a direct effect (i.e., the effect we are primarily interested in). The results reveal that the ‘total’ effect is similar to our main results reported in Table 2, suggesting that the compositional effect may not be important quantitatively.

6.4. Impact of ban on other outcomes

In Table 5 we report the FD-IV estimates of the impact of the SHI on several additional outcome variables: new residential construction,

²⁴ The choice of a 5 km distance band is arbitrary. In a further robustness check, we thus vary the distance band continuously to document that the estimated effects of our FD-IV specifications are robust to the choice of the distance. The results are illustrated in Web-Appendix Figure W-B2. The estimates are extremely stable over a wide range of distance bands used to exclude the nearest-to-treated control municipalities, providing further evidence that the potential spatial sorting of individuals across municipalities is not relevant in our setup. These results suggest that the demand of second home investors may not have shifted from treated- to control-municipalities post-SHI but, instead, the fixed shares of income that ‘marginal’ investors spent for second homes and tourism services pre-SHI may have shifted to a reservation locale outside Switzerland post-SHI, consistent with our theoretical framework.

²⁵ The voting results are indicative that the SHI was approved at least in part for social envy reasons of primary residents in non-affected (largely urban) areas, although landscape preservation-considerations might also have played a role to swing the decision of voters in these areas.

²⁶ The scenario in which homeowners sell their properties to become renters in non-restricted municipalities seems highly unlikely.

Table 5

Impact of SHI on other outcome measures (FD-IV estimates, 2nd stage only).

Dependent variable	(1)	(2)	(3)
Δ Log newly built residential units	−0.187* (0.107)	−0.197* (0.107)	−0.231** (0.101)
Δ Log of number of elderly	0.00246 (0.00839)	0.00322 (0.00840)	−0.00205 (0.00849)
Δ Log of population	−0.00911 (0.00654)	−0.00797 (0.00650)	−0.00932 (0.00669)
Δ Log of wages	0.0124*** (0.00380)	0.0137*** (0.00380)	0.00612 (0.00419)
Lagged difference of controls	No	Yes	Yes
Predetermined outcome level	No	No	Yes

Notes: Heteroscedastic-robust standard errors are reported in parentheses (*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$). Web-Appendix Tables W-E9 to W-E12 provide detailed estimation results. The two-period analysis is carried out by dividing the data into pre (2010–2011) and post (2013–2014) approval of the SHI. We consider an additional pre period (2008–2009) to include the lagged difference of controls. Data is aggregated at the municipality level by computing two-year averages for these periods. The observed treatment dummy is instrumented using second home rates as measured by the Federal Population Census in 2000.

number of elderly, population size and wages (all measures are in logs and first differenced).²⁷

First, we explore the impact of the ban on residential construction in the treated municipalities. As expected, the impact on new construction is negative and statistically significant. The effect is also economically meaningful, with the ban reducing residential construction growth by between 19 and 23 percent, depending on the specification. This is despite the fact that several residential projects were approved prior to the SHI and therefore had permission to go ahead during the post-period (2013–2014). To the extent that the local construction industry employs local residents and is more strongly adversely affected in the longer run, our unemployment results thus provide a conservative estimate of the negative impact of the ban on local economies.²⁸

Our second outcome measure is the number of elderly. We focus on the elderly, as their mobility decisions can be expected to be affected by local amenities in the treated areas rather than by the local labor market conditions. If the SHI had a positive amenity effect, we would expect more elderly to move to the treated locations, all else equal. Table 5 reveals however that the impact of the SHI on the sorting behavior of elderly remains insignificant and close to zero. This may be for two reasons. First, sorting of the elderly likely depends on factors not measured by our controls, such as family ties (making relocation particularly costly) and access to healthcare services. Second, a positive amenity effect may not materialize for a few years to come. This is because the ban did not apply to already approved second home projects and construction of these projects takes time. However, if the ban on second homes was indeed perceived to positively affect the landscape in the medium and longer run, one would expect that the elderly move to the treated areas in anticipation of this effect and that this should be reflected in higher house prices, all else equal, at least partially offsetting the negative economy effect. Given that our overall effect of the SHI on the price of primary homes is negative is thus indicative that, locally, the negative economy effect outweighs any potential positive amenity effects.

Our findings so far are indicative that sorting may not be of primary importance in our empirical setting. In a next step, we test more formally whether sorting of households occurred, by estimating the effect of the SHI on the growth of the resident population. The coefficient of the treatment dummy is statistically insignificant and close to zero in magnitude in all specifications, providing further support for the view that there was no noticeable sorting in response to the SHI.

Our last alternative outcome measure is local wages. The results reported in Table 2 strongly suggest that the SHI negatively affects local economies of treated municipalities by increasing the local unemployment growth rate. This finding is consistent with a setting where wages are sticky downwards. In our theoretical framework, however, we assume that wages are flexible, thus predicting a negative impact of the ban on local wage growth. As we document in Table 5, however, the ban does not significantly affect wage growth once pre-trends in wages are accounted for.²⁹ Our wage results seem sensible in the context of the Swiss institutional setting. This is for two reasons. First, it is extremely uncommon for employers, due to de facto ‘upward-only’ wage adjustments at industry level, to be able to renegotiate wages for existing workers downwards. Second, by international standards Switzerland has one of the most liberal labor laws. For example, employers can terminate an employment relationship lasting ten years (or more) by giving a three months’ notice and without providing any justification for it. Thus, to counter an unexpected negative shock to the local economy, it would appear to be much easier for firms to fire workers or not rehire certain seasonal workers rather than to lower wages.

6.5. Contextualization of results

The upside of our empirical analysis is a clean quasi-natural setting that allows us to rigorously study the impact of a ban on the construction of new second homes. Our findings are, however, to some extent context-specific.

While in seasonal tourist locations like ski or beach resorts, primary and second homes are often poor substitutes as in the Swiss setting, there are many tourist places where the two types of properties are close substitutes. In these latter locations, we would expect the price of primary and second homes to move in the same direction and the option to convert an existing primary into a second home to be valuable.

Anecdotal evidence supporting this assertion stems from a ban on the construction of second homes that was introduced in St. Ives and a few other smaller British seaside towns in 2016. Interestingly, this ban was approved by local voters. Data on transaction prices suggests that the ban in St. Ives caused the demand of second home investors to shift from newly built to existing homes, thereby intensifying the seasonal ghost town character. This shift drove up the price of existing homes, slashing construction levels and the price of newly built homes, adversely affecting local tourism and construction businesses (Economist 2019). The only potential beneficiaries of the ban have been already existing owners of housing in St. Ives, including many retirees who welcome landscape preservation effects but may care little about the local labor market. Young would-be buyers, lower income renters and the local workforce in the tourism and construction sectors are the ones who lose out.

We would also expect the effects of a ban to be different in *superstar cities* such as London or New York, where labor markets are much more diversified and less dependent on buyers of second homes. The negative effects of a ban on the local economy may therefore be more muted. The price effects would again depend on the degree of substitutability of primary and second homes. If the two types of housing are close substitutes, then demand of investors should shift from newly

²⁷ We provide detailed estimation results, including first stage results and results for the Restricted Samples 1 and 2 (discussed in Section 6.3), in Web-Appendix Tables W-E9 to W-E12.

²⁸ We note however, that the estimated effect on new construction becomes statistically insignificant when we progressively balance the sample. See Web-Appendix Table W-E9. The finding of an adverse short-term effect on construction should therefore be interpreted with some caution.

²⁹ Somewhat surprisingly the coefficient of the treatment dummy is positive, albeit statistically insignificant in the most rigorous specification reported in column (3). Reassuringly, the statistical significance further deteriorates as we balance the treatment and control group. In fact, the impact of the ban becomes negative for the specification with the strictest sample restriction. See Web-Appendix Table W-E12 for details.

built to existing homes, further accentuating the housing affordability crises in superstar cities (although this effect may not be very important quantitatively). In contrast, in the case of poor substitutability, a ban may somewhat dampen the upward pressure on housing rents and primary house prices. Lower housing costs compared to the counterfactual in turn may attract more labor to superstar cities. In the presence of agglomeration externalities, this may raise local wages in non-tourism industries and may lead to an increase in the aggregate productivity, as in Hsieh and Moretti (2019).

Finally, the overall distributional impact of a ban depends crucially on who owns real estate assets in the affected areas. Second home owners may be foreign investors, domestic ‘out-of-town’ buyers, or, in fact, local residents who possess a second home in their own municipality that they rent out during holiday seasons only (if a property is rented out on a permanent basis, it is not classified as a ‘second home’). In the case of Switzerland, it is quite rare that local residents possess vacation homes locally. Rather, wealthy local residents tend to own undeveloped land locally or they rent out on a permanent basis. In both cases, they will be negatively affected by the ban due to the adverse effect of the ban on the market for primary homes and, by implication, the market for undeveloped land (as the ban removes the option to build second homes). Thus, in Switzerland, most local homeowners in treated areas are likely worse off. However, this does not necessarily apply to other countries and settings.

7. Conclusion

Rising inequality has led to a political backlash against wealthy elites in many countries. One increasingly popular policy is to constrain or impose an outright ban on the construction of new second homes in seasonal tourist places. The Swiss Alps may be the most prominent example, but it is by no means the only one.

In this paper, we explore the economic impacts of an outright ban on the construction of new second homes. We do so by exploiting the unique empirical setting provided by the unexpected approval of the Swiss SHI in March 2012. We find that the SHI-induced ban substantially reduced the price growth of primary homes, increased local unemployment, and increased the price growth of already existing second homes.

Our findings are consistent with the predictions derived from a general equilibrium model that treats primary and second homes as poor substitutes that are traded in separate markets. In such a setting, the option to convert a primary residence into a second home is worthless and thus does not provide a hedge against the negative impact of banning new second homes.

Constraining the construction of new second homes hurts local (typically immobile) homeowners via lower primary house prices and adverse effects on the local labor market. Renters benefit from lower rents but, overall, they are likely not better off because the fall in rents is commensurate to the negative effects on the local economy. In a spatial equilibrium setting without relocation costs, renters should be neither better nor worse off. Our empirical findings indicate that *existing* second home investors were the real beneficiaries in the treated areas: The estimated effect of the ban on the price growth of second homes is consistently positive, representing a positive wealth effect for existing owners of such homes.

Whether the landscape preservation effect of the ban for residents living in unaffected (urban) areas compensates the documented negative effects for local residents in treated areas, is an open question. The aggregate welfare effect of banning second home investors thus remains uncertain. We leave the further theoretical and empirical analysis of this question for future research.

Our findings hold important lessons for other countries with highly touristic areas, in which inequality has led to a political backlash against the wealthy and, in particular, against (foreign) second home investors.

Overall, our findings are indicative that constraining the construction of new second homes may reinforce rather than reduce wealth inequality in highly touristic areas. While bans do nothing to improve local economies, local annual taxes on the value of land or second homes could potentially help local economies (via increasing local tax revenue and reducing the ghost town character), whilst at the same time preserving the landscape.

Appendix

Table A1
SHI-voting results.

Dependent variable	Share of no votes		
	(1) All	(2) Only control	(3) Only treated
Second home rate	0.1225*** (0.0270)	-0.0246 (0.0454)	0.1961*** (0.0596)
Voting turnout	0.0837** (0.0327)	0.0241 (0.0296)	0.2347*** (0.0592)
Average net income	0.0009*** (0.0002)	0.0006*** (0.0002)	0.0012 (0.0007)
Gini coefficient for net income	-0.0607 (0.0644)	0.1145* (0.0592)	-0.1893 (0.1289)
Number of primary residents	-0.0003*** (0.0001)	-0.0004*** (0.0001)	0.0056** (0.0026)
Share of foreign residents	0.0206 (0.0291)	0.0305 (0.0250)	-0.0670 (0.0715)
Unproductive surface	0.0335 (0.0266)	0.0476* (0.0281)	-0.0020 (0.0311)
Share of residents in the service sector	-0.0070 (0.0118)	-0.0010 (0.0113)	-0.0061 (0.0452)
Share of firms in the service sector	-0.0692*** (0.0207)	-0.0754*** (0.0193)	-0.0985 (0.0825)
Homeownership rate	0.0841*** (0.0173)	0.0610*** (0.0154)	0.3199*** (0.0687)
Distance from major CBD	-0.0002 (0.0002)	0.0000 (0.0002)	-0.0012*** (0.0004)
Distance from major ski resort	-0.0010*** (0.0002)	-0.0004*** (0.0001)	-0.0032*** (0.0005)
Cantonal FEs	Yes	Yes	Yes
Observations	1688	1422	266
R-squared	0.6297	0.5858	0.6441

Notes: Robust standard errors are reported in parentheses (** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$). All municipalities for which second home rates, voting results, and included controls were available in 2010–2011 are included in the sample. Municipalities that have revised their second home rate are not included.

Supplementary materials

Supplementary material associated with this article can be found, in the online version, at [doi:10.1016/j.jue.2020.103266](https://doi.org/10.1016/j.jue.2020.103266).

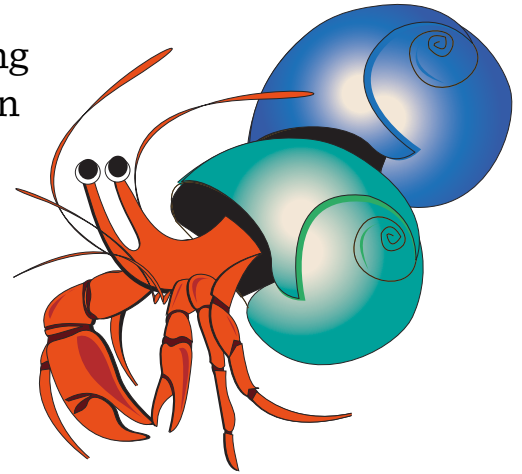
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Christian A.L. Hilber: Conceptualization, Formal analysis, Investigation, Methodology, Project administration, Resources, Software, Supervision, Validation, Visualization, Writing - original draft, Writing - review & editing. **Olivier Schöni:** Conceptualization, Data curation, Formal analysis, Investigation, Methodology, Project administration, Resources, Software, Validation, Visualization, Writing - original draft, Writing - review & editing.

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Investment in second homes has been surging around the world. **Christian Hilber** explores the underlying causes of this boom and the political backlash against wealthy investors. His analysis explains how one increasingly popular policy – banning new second home investments in desirable tourist locations – may end up hurting rather than helping local residents. It may even lead to a further rise in wealth inequality.



Second home investments

Second homes – properties that are not used as a primary residence, bought for leisure or investment purposes or a mix of the two – are in strong demand among investors, especially in superstar cities and places rich in natural amenities. Such investments are growing globally.

The data are patchy but the surge seems to have emerged during the mid-1990s. It has been dramatic in some countries, more moderate in others. The UK and China belong in the former category. The number of second homes in the UK more than doubled between 1995 and 2013 alone (English Housing Survey). In China, the number of investors surged from 6.6% of urban households in 2002 to 15% in 2007 (Huang and Yi, 2011).

The United States and Canada have seen more moderate expansion: between 1995 and 2005, the number of second homes in these countries increased by 20% and 22%, respectively (Belsky et al, 2007; Canadian Survey of Financial Security).

What explains this marked increase in second home investments? Growing income and wealth inequality with a staggering amount of wealth accumulation among a growing cohort of ‘top earners’

have certainly contributed.

As housing is a ‘normal good’, a rise in income and wealth implies greater housing consumption. And one way that this manifests itself at the top end of the income and wealth distribution is in growing consumption of second homes.

But housing is also an ‘investment good’: a strongly growing cohort of wealthy individuals implies disproportionately more investment in second homes. A lack of attractive

alternative investment opportunities further reinforces the boom.

The surge in second home investments has not gone unnoticed. In fact, it has ultimately triggered a serious political backlash in many countries, especially in tourist areas and superstar cities. The backlash has at least in part been driven by legitimate concerns, such as ever more unaffordable housing, destruction of areas of natural beauty or creation of ghost towns during large parts of the year.

Figure 1:
Newspaper coverage of sentiments against second home investors



Sources: BBC News; Guardian; Evening Standard

The crucial question is how politically to address these legitimate concerns. Some countries, such as the UK, and cities, such as Vancouver, have introduced substantive transaction taxes on the purchase of second homes.

Another policy that has become increasingly popular, also in the UK, are constraints or outright bans on the construction of new second homes. The latest example is the Cornish seaside town of St. Ives. Other local communities in Cornwall and across the rest of the country have signalled interest in including similar policies in their own Neighbourhood Plans.

What are the economic impacts of such bans on local housing and labour markets? This is the question that my co-author, Olivier Schöni, and I explore in a recent CEP study that features both theoretical and empirical analysis (Hilber and Schöni, 2018).

In our theoretical analysis, we illustrate the underlying mechanisms and reveal under what conditions we should expect constraints on second home investments to have positive or negative effects on local housing and labour markets.

One key insight of our analysis is that competing effects are at play. First, a ban on the construction of new second homes may help to preserve the local character and beauty of the area and ease congested roads and overcrowding of other local infrastructure during the tourist season. This ‘amenity effect’ – and its anticipation – should be positively capitalised into the

value of both primary and second homes.

Second, a ban on the construction of new second homes renders the supply of new second homes perfectly unresponsive to price increases. In a dynamic setting, this ‘supply effect’ should raise the price of second homes, all else equal.

Third, a ban on the construction of new second homes adversely affects local construction and other local economic activity – importantly tourism. This ‘local economy effect’ lowers prospective earnings or, to the extent that local wages are sticky downwards, increases unemployment. In turn, it adversely affects local demand for primary homes and, all else equal, ultimately is negatively capitalised into the price of primary homes.

In a setting where primary and second homes are perfect substitutes (that is, the two types of properties are very similar in style, quality and location, and thus equally suitable for primary residents and second home investors), the price of primary and second homes must move in the same direction, but it is theoretically ambiguous whether the positive or the negative effects on the price dominate. It depends on their relative importance.

If primary and second homes are poor substitutes (think of two types of buildings traded in the same town but in separate sub-markets: wooden chalets near ski lifts suitable for second home investors and concrete buildings close to the local school and the supermarket suitable for primary residents), then we demonstrate that under realistic conditions, the price effects can

The negative effect on local economies of banning second home construction outweighs the positive effect of preserving local amenities

be expected to go in opposite directions: positive for second homes and negative for primary homes. Labour market effects are unambiguously negative, either in the form of lower wages, higher unemployment or a mix of the two.

In our empirical analysis, we exploit a unique quasi-natural experiment, the Swiss Second Home Initiative (SHI), to test these theoretical predictions and identify causal effects of a ban on the construction of new second homes.

Popular initiatives – such as the SHI – are common in Switzerland as instruments of direct democracy that allow citizens to modify the country’s constitution. Initiatives must be approved by both the majority of voters and the majority of regional jurisdictions, known as cantons.

The SHI requested that construction of new second homes be banned in

Switzerland’s ban on the construction of new second homes lowered the price of primary homes but raised the price of second homes

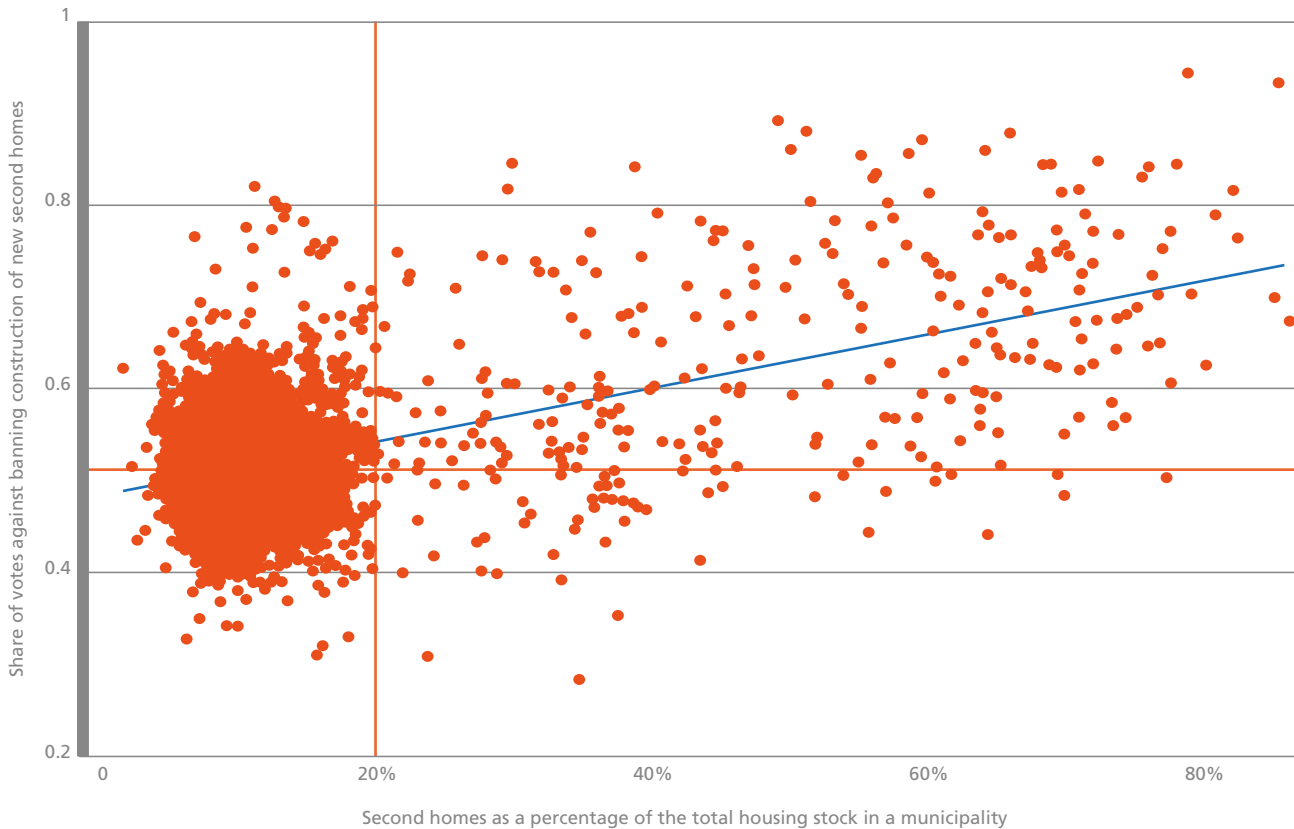
Figure 2:

Yes and No campaigns in the Swiss Second Home Initiative:



Sources: www.zweitwohnungsinitiative.ch and INFOsperber. Yes campaign: We must stop setting our landscape in concrete; versus No campaign: Approving initiative would destroy your dream of a second home.

Figure 3:
Second home share and opposition to the Swiss Second Home Initiative



Sources: Hilber and Schöni (2018).

municipalities where such homes represent more than 20% of the total housing stock. The SHI was approved by the narrowest of margins – 50.6% of votes and 13.5 of 26 cantons – in March 2012. It came into force in January 2013.

Voters in tourist municipalities with very high shares of second homes were heavily opposed (see Figure 3), presumably due to fears about adverse effects on the local economy. This contrasts with voters in the larger Swiss cities who favoured the initiative.

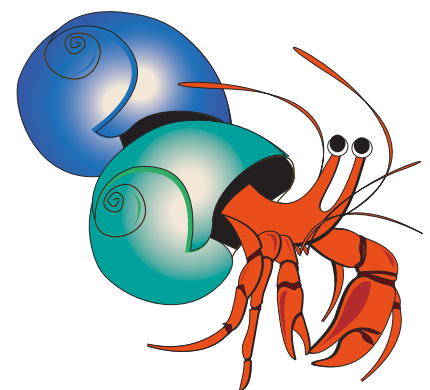
So what were the effects of banning the construction of new second homes in desirable Swiss tourist locations? Consistent with our theoretical framework and a setting where primary and second homes are rather poor substitutes (so are traded in different sub-markets), we find that the effects on the prices of primary and second homes go in opposite directions.

The ban on the construction of new second homes lowered the price of primary homes, adversely affecting local homeowners, but increased the price of

second homes, further raising the wealth of existing – typically already wealthy – second homeowners. We also find that the policy increased unemployment rates, thus harming the local labour force.

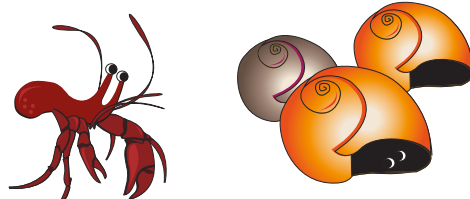
All in all, our findings suggest that the local economy effect (affecting primary house prices negatively) outweighed the amenity-preservation effect (affecting primary house prices positively), resulting in an overall fall in the price of primary homes. They also suggest that constraining the construction of new second homes reinforces rather than reduces wealth inequality, at least in a setting like the Swiss one (and many other tourist places rich in natural amenities) where primary and second homes are quite imperfect substitutes.

One fascinating puzzle is the following: whereas in Switzerland, local voters in affected tourist areas voted heavily against a ban on the construction of new second homes, in St. Ives in Cornwall, local residents overwhelmingly supported the policy. How can we make sense of this?



Constraining
the construction
of new second
homes reinforces
rather than
reduces wealth
inequality

An annual local tax on the value of second homes would be a much superior policy response to an outright ban



One plausible explanation is that in the particular case of St. Ives, the pivotal local voter may actually have benefited from the ban. This could be because St. Ives consists of a high share of wealthy retirees who own their homes and may care little about the local construction industry or tourism sector but far more about preserving the landscape and character of the seaside town.

In other words, local workers who depend on the tourism and construction industries may be in a political minority. Then, to the extent that primary and second homes are reasonably close substitutes and the amenity effect outweighs the local economy effect, the ban on new-build second homes may actually cause the price of both primary and second homes to increase.

So there may be an important difference here with the Swiss case: the pivotal local voter may be made better off by the ban, at least in the short run. Importantly though, this will come at the cost of younger renters – would-be buyers who are priced out of stepping onto the owner-occupied housing ladder – who work locally, typically in the adversely affected industries.

It is this group that is arguably critical for the livelihood of the seaside town in the longer run. Or put differently, the main effect of the ban on new-build second homes in St. Ives may have been to limit overall housing supply even more tightly, helping existing local homeowners to protect their accumulated capital gains (which arose from tight planning regulations in the first place), at the cost of the younger generation of local people.

Ultimately, the crucial question is whether there are better policy options for places rich in natural amenities and heavily

dependent on tourism, such as the Swiss Alps or UK seaside towns or superstar cities, such as London or Vancouver. The answer is an unequivocal yes.

If the primary goals are to make housing more affordable, prevent vacant homes and ghost towns, generate more local tax revenue and reduce local wealth inequality, then an annual local tax on the value of second homes (or better even: the value of their land) would be a much superior policy response to an outright ban.

An annual local tax would also be superior to a one-time transaction tax (stamp duty) as the latter generates a mismatch in the housing market (Hilber and Lyytikäinen, 2017) and does not provide any incentives to keep houses occupied.

An annual tax wouldn't be an entirely 'free lunch' of course. This is because the local tourism and construction sectors and their workers are still bound to be hit by the comparable lack of investment as a consequence of tax-induced disincentives to build new second homes.

More generally, second home investors – especially foreign ones – are often really just a popular scapegoat. In England, for example, the housing affordability crisis is predominantly driven by an extremely inflexible and dysfunctional land use planning system and a tax system that provides virtually no incentives to local authorities to permit residential development (Cheshire, 2014; Hilber, 2015; or Hilber and Vermeulen, 2016).

Banning the construction of new second homes or imposing transaction taxes on second home purchases may be politically popular policies in the short run. But they won't do anything to cure the underlying causes of the problems.

This article builds in parts on a published interview given to Hites Amir from the International Monetary Fund: The Unassuming Economist, *Global Housing Watch Newsletter*, July 2018 (<http://unassumingeconomist.com/2018/07/the-surge-in-second-home-investments-causes-consequences-and-cures/>).

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CEP Urban Programme Blog ('SERC blog')

Christian Hilber, 19 May 2019

Why banning the construction of second homes in St. Ives and elsewhere has been a bad idea and what to do instead

In May 2016 the local residents of St. Ives approved a referendum that stops newly built houses in town from being used as a second home. A few other Cornish towns have followed suit. And tourist destinations in other parts of the country are contemplating similar policies. The [Economist](#), the [Times](#) and the [BBC](#) recently pointed to unintended consequences of these policies: higher prices for existing homes, less construction of newly built homes and an adverse effect on the local economy—mainly tourist and construction businesses.

In recent research ([here](#) and [here](#) for the academic piece) we explored the economic impacts of banning the construction of new second homes in the touristy parts of Switzerland. The Swiss Second Home Initiative was approved in March 2012 and banned the construction of new second homes in municipalities with more than 20% of such homes.

There is one crucial difference between the Swiss Alps and St. Ives. In the Swiss Alps, primary and second homes are very different; think of wooden chalets near ski lifts as second homes and stone or brick buildings near schools and stores as primary homes. In St. Ives and other towns in Cornwall, primary and second homes tend to be rather similar—they are close 'substitutes'. This has important implications.

When the ban was introduced in Switzerland, demand of second home investors shifted elsewhere, perhaps to the French or Austrian Alps. Unemployment rates started rising and the price of primary homes started falling relative to the unaffected areas. And because already built second homes became dearer (no new construction allowed!), the price of these rose with the unintended consequence of financially benefiting the owners.

In St. Ives, where the typical primary and second home tend to be rather similar, demand of investors shifted from newly built to existing homes, increasing the price of existing homes and reducing the price of newly built ones. The emerging gap between the two prices is the so called 'conversion option' of existing homes—the monetary value of the option to convert a primary into a second home. Newly built homes no longer possess such an option.

So it seems the bans in Switzerland and Cornwall backfired. In the case of St. Ives, existing housing has become even less affordable for young would-be buyers who want to get their feet on the owner-occupied housing ladder, and, there is less new construction of affordable housing. But also local firms, particularly construction and tourism businesses and, importantly, their workforce, lose out. If the ban intended to help young local residents who struggle to find decent jobs and affordable homes, then it backfired spectacularly.

The ban in St. Ives will likely not even succeed in improving the local community ‘character’. One particular concern in tourist destinations like St. Ives is that they are seasonal and thus, for much of the year, resemble ghost towns. The trouble with the ban is that it does encourage second home investors to buy up existing homes from local residents. Over time, St. Ives is thus set to become more—not less—like a ghost town. Exactly what the ban intended to avoid.

The only potential beneficiaries of the ban are already existing owners of housing in St. Ives—owners of existing primary and second homes. They financially benefit because their assets are higher in demand and thus become more valuable.

So what can and should be done to address the legitimate concerns of local residents in touristy places?

First and foremost, local policy makers and local residents have to ask themselves whether they are really willing to accept and bear the long-run adverse consequences associated with keeping second home investors out, namely, an adverse effect on the local construction and tourism businesses. If (big if) the answer is ‘yes’, then local authorities should consider alternative policies to a ban.

A much better policy would be a sizeable *annual local* tax on the current value of second homes. Compared to a ban on the construction of second homes, such a tax has important advantages. First, it generates revenue for the local authority and this may be used to provide or improve local public services for permanent residents—think of local schools, libraries or social services. A ban, in contrast, generates zero revenue and moreover limits the potential of local authorities to benefit from Section 106 agreements—private agreements between local authorities and developers attached to a planning permission to make development, that would otherwise be unacceptable, palatable to local authorities. Second, since the proposed tax has to be paid every year, it discourages buying property for investment purposes. It makes the investment less attractive financially. This will help with the affordability of existing homes. A sizeable local annual tax will most effectively repel those investors who consider second homes as pure investment and not as consumption. The second home investors who still buy, mainly for consumption motives, can be expected to be around more often. Seasonal tourist locations will look and feel less like ‘ghost towns’.

But why not just a tax on the transfer of properties? The trouble is that the Stamp Duty does not encourage second home investors to use the property more intensively. In fact, the longer the investor holds the property, the less important, is the Stamp Duty relative to the capital gain at point of sale. The same argument applies to potential new second home investors. A rise in Stamp Duty will lead to a small one-time downward adjustment in the price (reflecting the increased anticipated tax burden). Once prices adjust, new second home investors may still mainly consider expected capital gains and not the presumed consumption value of the property. And it is important that the tax is *local* because otherwise it does not generate local tax revenue, benefiting local residents.

Allowing local authorities to charge a multiple of the Council Tax to second home investors may be a sensible ‘second best policy’ that is clearly preferable to a ban. The trouble is, that the Council Tax is highly regressive. It thus won’t much discourage wealthy investors from buying large underutilised properties.

How could the proposed policy work in practice? One could just take the last sale price of a house (from the Land Registry) and the corresponding local house price index to

adjust the price to the current market price. The local authority could set a tax rate on the so assessed current price. A high (low) tax would reduce house prices significantly (moderately) but also strongly (only weakly) adversely affect the local economy.

The political backlash against second home investors is not confined to Cornwall or Switzerland. It is a worldwide phenomenon. There has been a staggering amount of wealth accumulation among a growing cohort of high earners that has led to a dramatic increase in second home investments in the more desirable seasonal tourist areas worldwide (and in ‘superstar cities’ such as London). The ensuing political backlash has been spreading quickly around the world.

Second home investors are a popular scapegoat—In Britain mainly for the ongoing housing affordability crisis. However, the nation-wide crisis has little to do with second home investors. The underlying causes are mainly a dysfunctional planning system and a lack of fiscal incentives for local authorities to permit residential development (see [here](#) or [here](#)). If national policy makers are serious about addressing the national housing crisis, they should focus on the underlying causes, otherwise, like the ban in St. Ives, their policies are likely to backfire as well.