Envisioning a Tax on Second Homes as an Instrument to Promote Affordable Housing

Nick Gomer

**Introduction:** The United States is in the midst of an ongoing and severe shortage of affordable housing. Affordable housing is defined as housing which costs households no more than 30% of their annual income. This type of housing is scarce in the U.S. In 2019, nearly 38 million households were burdened by housing costs, meaning they had to pay over 30% of their annual income on housing, and nearly half of those 38 million households were “severely burdened by housing prices,” meaning over 50% of their annual incomes went towards paying housing costs.

This crisis in affordable housing is not uniform across the country however. The percentages of recently sold homes that were deemed to be affordable were much higher in the Southeast and the Rust Belt than in Southern California for example. Similarly, declines in the amount of rental stock that is considered affordable were far more severe on the Northeast coast and pockets of the West, such as Seattle and Portland, than the Midwest and inland Southeast. Regional disparities are also evidenced by homeless rates which despite being in moderate decline nationally since 2007, have seen drastic increases in expensive western states such as California and Colorado in recent years.

Comparable to the geographic diversity of unaffordable housing is a diversity of active and proposed reforms to ameliorate the problem. Popular ideas include increased funding and construction of public housing, changing zoning laws to allow for denser development of communities, requiring all newly-constructed multi-dwelling developments to include a certain number of “affordable,” units, and increasing renter protection laws such as limiting landlords’ ability to sharply increase rent or evict without just cause[[1]](#footnote-1). And, increasingly, economists are emphasizing reforms on the demand-side of the housing market such as raising minimum wages[[2]](#footnote-2). It is ultimately likely that to thoroughly resolve issues of affordability a number of reforms such as these must be enacted. And, adequate responses to unaffordability will look different in different geographies and communities. For example, Minneapolis’s recent zoning reforms which allows duplexes and triplexes in traditionally single family home neighborhoods may not be as effective in a locality such as New York City which already has a dense housing stock.

One difficulty in addressing affordable housing is that housing is inelastically supplied. So, if the demand increases for housing it can take many years for the supply to adequately respond and space is needed in which to build this new housing stock[[3]](#footnote-3). This limits the immediate effectiveness of public policies that seek to increase the supply of housing stock through new construction. Similarly, some cities such as New York City are already dense and fairly built out which could limit the effectiveness of such public policy reforms. Likewise, towns like Charleston, South Carolina have a certain character and aesthetic they wish to maintain which could also hinder their desire to adopt policies such as denser zoning codes.

One solution to the affordable housing crisis which is rarely discussed yet has distinct potential as a demand-side intervention to help alleviate unaffordable housing in certain localities is a tax on second homes. Throughout the U.S. and the world affluent citizens can and do buy properties secondary to their primary residences as places of vacation and leisure. It is estimated in 2016 there were 7.4 million second homes in the U.S. which accounted for about 5.6% of the total housing stock[[4]](#footnote-4). However, this figure fluctuates dramatically depending on the specific region or county. For example, Florida has about 1.1 million second homes which according to census data is over 10% of the total housing stock in Florida. Meanwhile, in some rural counties such as Hamilton County, New York or Alpine County, California well over 70% of the total housing stock is second homes[[5]](#footnote-5). Data on both the number of second homes in specific localities and data on the rate of growth of second homes locally and nationally is difficult to come by. It is published though, that the 2000’s saw record high demand of second homes with the number of second homes sales in 2003 nearly double the total sales in 1991[[6]](#footnote-6). In my research I was unable to find current data on second home growth rates. But, I was also unable to find any industry publications decrying a lack of second home demand which could suggest a steady growth rate of this significant market.

Second homes can have substantial, and sometimes negative, effects on communities. Proponents of second homes will rightly note that second homes provide essential property taxes which often go to funding local public schools. A strong second home market also brings tourism dollars and, thus, employment opportunities to communities big and small. But, they can also have negative economic effects on a community.

 From a very intuitive perspective, dwellings which are owned and occupied only seasonally, perhaps for a few weekends a year, take dwellings out of the total housing stock that could otherwise be owned or rented out by full time residents. A booming second home market also raises the prices of all properties in a real estate market. One study, sponsored by the Federal Reserve, linked the sale of second homes in strong second home markets in the 2000’s real estate boom to a 15% increase in average real estate prices[[7]](#footnote-7). This makes housing more expensive for prospective full time occupants, and also makes housing more expensive for folks who already are living in that locality because their properties will be appraised with higher values and consequently they will owe more in property taxes. That same study of second homes found that during the late 2000’s housing crash second homes had a higher rate of mortgage default than primary dwellings. Communities with higher rates of second homes were also found to be less economically resilient and slower to rebound economically than communities without high rates of second home ownership[[8]](#footnote-8).

Currently, there is no legislation or regulation regarding second homes. Second homes’ negative impacts on the economics of a locality are not as often highlighted as their positive aspects. But, the negative impacts of second homes that have been quantified such as more volatile local economies and their ability to inflate housing prices[[9]](#footnote-9) amidst an affordable housing crisis suggest the need for further discussion of second homes’ role in U.S. communities. Ultimately, legislators should seek an optimal share of second homes that maximizes their economic contributions to a locality while minimizing their negative economic impacts on a community and its citizens who already live there. One potential way to moderate second homes is through a vacancy tax on second homes. I believe that a tax such as this is a good way to “put a price,” on second home ownership and dissuade vacancy of perfectly good housing stock which could, under specific conditions, increase access to affordable housing. I will first analyze two second home taxes currently in place internationally to help illustrate what a second home tax is and how it works. I will then assess conditions in which a property tax could work in U.S. localities. I will then profile the housing market of Miami, Florida and use that city as an example of how and why a property tax could work.

**Evidence from British Columbia:** In Vancouver, Canada, problems of affordable housing are severe. In 2016, housing was unaffordable for 30% of residents[[10]](#footnote-10). And despite historic rates of new construction, unaffordability continued to rise[[11]](#footnote-11). This lead policymakers to consider not only the supply side of the issue but also the demand side. In 2018 the legislature of the province of British Colombia within which lies Vancouver, passed a Speculation and Vacancy Tax. In addition to the vacancy aspect of this tax is a foreign speculation aspect of which I must make mention. The foreign speculation tax puts a 2% surtax on dwellings owned by non-Canadians if they do not pay income taxes in Canada or if they do not rent out their properties to non-relative tenants[[12]](#footnote-12). Meanwhile, the vacancy tax applies to properties which are vacant more than six months of the year, and have an assessed worth of more than $400,000. The annual surtax rate occurs on a sliding scale of .5% for owners who live within British Columbia, 1% for all other Canadian owners, and 2% for non-Canadian owners[[13]](#footnote-13). The logic behind this variable rate, and important part of the logic behind the vacancy tax as a whole, is that non-local participation in a local real estate market and the subsequent inflation of the housing market “decouples,” the market from local income levels. This means that those earning local median incomes may be priced out of a neighborhood if they are having to compete for housing with buyers from a different economic market whose median wage could be substantially higher[[14]](#footnote-14). Legislators in British Columbia believed that localizing the vacancy tax rate could help to recouple the housing market and labor market.

Having laid out the rationale of the tax, I will now describe a number of important details pertaining to how the tax is implemented and how it has been received. First, the government establishes who to tax by mailing out a declaration form to all citizens asking them to fill out criteria such as whether this is ones’ primary residence and how much time this residence is left vacant. Dishonesty is discouraged through an audit system and a doubling of the tax rate for any violators. The law also includes a number of exemptions, such as only taxing dwellings with a value above $400,000 and not taxing dwellings which are vacant for reasons such as a recent divorce or seeking medical treatment elsewhere[[15]](#footnote-15). These exemptions were characterized as “common sense,” exemptions because the goal of the tax is not to add expense to owners of humble properties which likely are not the main drivers of increased housing prices, nor is the goal of the tax to burden owners whose properties are vacant due to significant personal turmoil. The goal of the tax is to put an additional price on second homeowners who have the luxury to own a largely vacant vacation home while their neighbors struggle to make rent.

Other exemptions were granted to resort localities within British Columbia such as Whistler, Canada. This is an acknowledgement that some municipalities’ economies rely almost exclusively on tourist money such that dissuading potential buyers could jeopardize the basis of the local economy. This is in contrast to a province such as British Columbia that has a diverse economy which does not exclusively rely on tourist dollars[[16]](#footnote-16). This distinction between a small, tourism-based economy versus a large, diversified economy is important in determining what type of localities would benefit from a vacancy tax.

 The British Columbia tax is also noteworthy because initially, prior to misinformation campaigns, it received broad political support[[17]](#footnote-17). This is most likely because a tax such as this places the burden not on locals but on outsiders. So, locals do not have to pay the tax yet can reap the potential benefits of the tax being in place.

Lastly, the law states that while these surtaxes can be avoided by renting vacant or foreign-owned properties to tenants those tenants must be long-term. They cannot be part of the short term rental, or “STR,” economy which has been institutionalized through companies such as Airbnb. The speculation and vacancy tax law hinges on this clause. Though the STR economy is a relatively new phenomenon and related research is ongoing, preliminary studies have shown both that STRs reduce the total stock of long term rentals as landlords transition properties to short term[[18]](#footnote-18) and that strong concentrations of STRs are associated with increases in long-term rent prices[[19]](#footnote-19). In other words STRs have so far been shown to do the opposite of the goal of the vacancy and speculation tax.

British Columbia’s tax became law in 2018. Results so far have been promising but preliminary. Canadian news outlet *The Globe and Mail* most recently reported that in 2019 2,000 pre-existing units added to the Vancouver rental stock in contrast to 2018’s loss of 1,000 units from the long-term rental stock. Meanwhile, the British Colombia government has collected millions of dollars they can use for the construction of affordable housing[[20]](#footnote-20). Still, the tax is relatively new so its effects have not yet been adequately researched and its long term effects have yet to fully reveal themselves. Though the tax is lacking in data on its ability to cool the housing market and increase affordability, it provides a helpful framework for what a tax might look like and precisely how it would be implemented.

**Evidence from France:** Like the U.S., France has an affordable housing problem. One tool to help alleviate this problem has been a tax on vacant dwellings. France’s vacancy tax, known as *TLV* in France, was passed in 1999 by the French parliament. The law puts a tax on vacant units in France in municipalities with more than 200,000 inhabitants[[21]](#footnote-21). In the context of the law, vacancy is defined as a dwelling that has been unfurnished and occupied for less than 30 consecutive days in the past two years. The tax occurs on a sliding scale in which properties just entering their first year of taxable vacancy, meaning they have been deemed vacant for two years previous, pay a baseline surtax of 12.5% of the annual assessed rental value of the property. As a property’s vacancy status legnthens the tax rate rises too. Properties in their second year of taxable vacancy pay 25%, and longer term vacant properties pay an even higher tax rate[[22]](#footnote-22). But, the law does exempt “open,” vacancies which are those properties that are actively and reasonably listed on the real estate market for sale or rent.

Vacant units are not inherently harmful in a housing market. Though economists disagree on optimal vacancy rates, one indicator of a healthy housing market is a vacancy rate above 5% but below 10%. This is because housing is a commodity that experiences “market frictions,” meaning that due to factors such as negotiable prices, a costly search process, and a buyer’s preference for details such as location or feng shui it can take a long time for interested buyers to be matched with interested sellers. But higher vacancy rates can indicate problems with a housing market. Vacancy rates which are too high can indicate a flagging economy while vacancy rates which are too low can indicate a hyper-competitive and unaffordable housing market. Through France’s vacancy tax and their exemption of “open vacancies,” French legislators signal a belief that vacancies not actively available on the real estate market are detrimental to the housing market and society.

It is also important to note that France’s definition of vacancy, a dwelling neither inhabited for 30 consecutive days nor furnished for the past two years does not describe vacation homes, many of which would be furnished. This is because France’s property tax system had put a price on second home ownership long before the passage of this 1999 vacancy tax. So this example, unlike the example of British Columbia, does not provide a clear demonstration of an intervention upon second homes specifically. That said, France shows an attempt to address the issue of vacancy writ-large. And it has been a successful attempt. Mariona Segu writes what she believes is the only economic analysis of France’s vacancy tax to be written. But, in that analysis, using a difference-in-difference model that compared vacancy rates of taxed and untaxed municipalities for four years prior to the tax and five years after the implementation of the tax, she found that the vacancy rate in the four years after the enacting of the tax fell by an average of 13% in municipalities where the tax was applicable. Additionally, Segu found that those vacant units which did transition after the tax transitioned to being “primary residences,” meaning they became occupied by long term tenants or owners. Finally, since 1999 this tax has been updated twice, in 2006 and in 2013. These updates to the tax raised the surtax rate significantly and expand the vacancy tax from municipalities with more than 200,000 inhabitants to all municipalities with more than 50,000 inhabitants. The continued strengthening of this tax program is indicative of French legislative support of a tax that appears to be reducing vacancy and assisting long term tenants and owners.

**Vacancy Tax Applicability in the U.S.:** Though examples of vacancy taxes are rare and studies of them are even rarer the cases which we can find are illustrative. Long term data from France shows that a tax on vacancy can indeed be effective in turning vacant properties into inhabited properties. Meanwhile, British Columbia provided a demonstration of how a vacancy tax can be enacted and some of the finer details like what exemptions should be granted that must be considered when drafting a tax like. Though research on vacation home and vacancy taxes are sparse, almost disconcertingly so, useful pieces of information can still be found. Economist Roger Smith writes in 1978 about the ability of vacant land taxes to cool real estate speculation, which is known to raise real estate prices and stifle development of vacant land[[23]](#footnote-23). Additionally, researchers were in Michigan in 1994 as it reformed its public school funding away from property taxes, its previous source of funding. Researchers Johnson and Walsh observed a significant increase of one vacation home per square kilometer in jurisdictions which subsequently reduced their property taxes by 3 to 4 mills (a mill is a unit of property tax that each mill corresponds to $1 owed per $1000 of land valuation). Similarly, they estimated an 8% decrease in the density of vacation homes in response to a $100 rise in annual property taxes[[24]](#footnote-24). Though these findings are localized to Michigan they demonstrate a link between rates of second home ownership and property taxes in an American context.

**Envisioning a Vacancy Tax:** So, having reviewed the two most prominent vacancy taxes we can begin to imagine what a generic vacancy tax, applicable within the United States may look like. An early and crucial decision to be made is the scale upon which the tax would be implemented. In other words, would it be a national, state, or municipal tax. In the United States, a vacancy tax would not be likely to work on a national level. The country is too geographically and economically diverse for a uniform tax such as was implemented across the country of France. In the U.S., Rust Belt cities such as Detroit or Cleveland are dealing with hyper-vacancy so severe that vacant dwellings at times outnumber occupied ones. Furthermore, these vacancies are not well-maintained seasonal houses, but rather neglected and derelict properties which are representative of the greater economic blight of these industrial landscapes[[25]](#footnote-25). The guiding idea of a vacancy tax, especially one focused on second homes, is to put an artificial price owning seasonally vacant dwellings such that owners are incentivized to sell or rent their properties to full time residents. To put additional taxes on already economically-stressed areas with high vacancy rates would be unnecessarily burdensome and likely unproductive. Even a state may be too economically varied for a statewide vacancy tax; British Columbia for instance designated only certain locations within the province where the vacancy tax would occur. So, if a vacancy tax were limited, at least at the start, to municipalities, the question then becomes in which municipalities would a vacancy tax be effective. Foremost, the municipality to be taxed must have issues of affordable housing, otherwise there is no problem to be solved. The housing stock must also have a relatively large proportion of vacation homes and vacant properties as part of its housing stock. Otherwise there would not be a significant number of dwellings which could be transitioned to full time occupancies. Finally, a locality must assess its size and its economy when considering a vacancy tax. Instituting a vacancy tax in Vancouver was economically and politically feasible because it is a large city with a diverse economy not solely reliant upon tourist dollars. This means that the city can prioritize affordable housing for its own citizens without fear of losing a significant portion of revenue which is made through second home ownership and visitation. It is for this reason that British Columbia instituted the tax in Vancouver but exempted smaller “resort,” economies in British Columbia such as Whistler[[26]](#footnote-26). However, I will later address the potential of second home taxes within these resort economies.

In instituting a vacancy tax, one must also decide how to define and prove vacancy. France sets an example by distinguishing between “open,” vacancies on the market and dormant vacancies and by granting an exemption to “open,” vacancies as active real estate listings of vacant properties should be encouraged not punished. British Columbia, similarly grants exemptions to properties that are transitioned from vacant or seasonal to being leased. An integral caveat to this exemption is that the lease must be long term. STRs compose a new economy which is understudied and has complex implications. While short term rentals have enormous potential to economically empower hosts and guests alike they also have potential to exacerbate preexisting issues of high housing costs and long-term rental availability. Researchers Horn and Merante found by analyzing Airbnb listing data in the city of Boston from 2014 to 2016 compared to long-term rent listings in the city over the same period that incremental increases in Airbnb density result in rent increases anywhere from .4% to 3.1% in specific the census tracts of Boston that were studied. Those same incremental increases in Airbnb density resulted in an average of 5.9% decrease in long-term rental listings per census tract that was studied. And this is all occurring in a city which struggles with issues of affordability[[27]](#footnote-27). Another issue of STRs is that many listings are in traditionally residential areas which do not have commercial zoning. This has the potential to alter the character of a neighborhood and put a significant strain on public goods such as roadways or waste disposal[[28]](#footnote-28). Lastly, a quick scan of financial advice publications will highlight how common it must be for second home owners to transition to the STR economy as a way of supplementing the costs of a second home. The intersection of second homes’ participation in the STR economy and the associated problems with that economy underscore the importance of granting vacancy exemptions only to units that have transitioned to long term rentals.

Policymakers also must be discerning about what kind of dormant vacancies they tax. In unaffordable areas it would make sense to tax derelict and vacant buildings because the housing market dictates that those buildings, or at least the space they occupy, have significant worth. However, to tax properties which are vacant because of personal problems such as illness or because the properties are under renovation would be unnecessary and likely unproductive in motivating a dwelling to shift from vacant to occupied. Part of the reason for my focus on vacation homes is that they often compose a substantial portion of the stock of vacant housing. For example, in New York City in 2017 there were 75,000 seasonal homes which accounted for the biggest share of off-market vacancies at 30%, and if vacancies which are undergoing or awaiting renovations are removed from the data then seasonal vacancies make up nearly half of the dormant vacancies in New York City. Additionally, in the three years leading up to 2017 the number of seasonal homes grew by 20,000 such that in 2017 the 75,000 seasonal homes represented 2% of the city’s total housing stock[[29]](#footnote-29). U.S. Census data does not differentiate the reason for why properties are vacant and has yet to create a way of classifying dwellings which are occupied as short term rentals. This underscores the importance of being explicit in how vacancy is defined and classified in order to provide legislators and researchers a more accurate understanding of a localities’ housing market. British Columbia’s plan to send vacancy declaration forms to residencies and audit those responses provides one feasible model for establishing the number of and reason for vacancies in a locality.

The last integral step in designing a property tax after establishing where a tax will work, how vacant property owners can be exempted from the tax, and what kind of dwellings it will affect is to determine the pricing of the tax. Evidence from British Columbia suggests that it is wise to exempt properties which are worth less than a certain value. This is because humble lakeside cabins, at least in the belief of British Columbia’s legislators, are not the properties driving up prices and defaulting on mortgages[[30]](#footnote-30). Additionally, even when B.C. did create the exemption detractors still falsely slandered the tax as a “cabin tax,” meant to punish the owners of mountainside shanties. This is a piece of political ammo best to be avoided, and besides, the amount of trade publications like *Luxury Portfolio International* putting out reports such as “The Allure of the Second Home,” suggest that humble mountainside shanties are likely matched if not outnumbered by mountain top chateaus. Both France and B.C. levy their surtaxes on a rate based upon the property value of a certain property. This seems more equitable than a flat rate tax charged equally to owners of properties of all values. There is no agreed upon tax rate that exists though. The 1994 study of second homes in Michigan found that each $100 additional annual tax resulted in an 8% average decrease of vacation home density. This is of course a flat rate not a variable rate, not adjusted for today’s inflation, and a localized example, but it does provide some baseline for how much a tax might need to be to be effective. Finding the right tax rate which encourages vacant property owners to rent out their properties or not buy in the first place while not inhibiting the construction or sale of all second homes is an experiment which has yet to take place, and a number which will likely be different in different localities.

**Miami:** Miami, Florida is just one U.S. city in which a second home tax could be feasible and effective. Miami is the seventh least affordable city in the world with Los Angeles being the only U.S. city more unaffordable than it. The city is so unaffordable that 6 in 10 of its employed residents are cost-burdened, paying more than 30% of their income on housing. The lack of affordable housing is exacerbated by the low wages earned by workers throughout the city. It is because of the extra stress of these low wages that despite Miami having the 8th highest average metropolitan rent prices in the U.S., the city has the highest share of cost-burdened renters in the U.S. The lack of affordable housing is in part due to developers’ focus instead on the construction of a surplus of luxury condo housing[[31]](#footnote-31). And much of this luxury housing is and has been built on beachfront property, a short sighted move that will likely experience economic and existential fall out given that Miami is one of the most vulnerable U.S. cities to climate change.

Greater Miami is composed of three counties, Miami-Dade, Broward, and Palm Beach all of which are included on the National Association of Home Builders list of the ten U.S. counties’ with the highest number of second homes. It is estimated that these three counties total nearly 300,000 vacation homes total[[32]](#footnote-32) which would amount to a substantial 12% of Miami’s 2.5 million total housing stock[[33]](#footnote-33). These significant numbers in one of the most severely unaffordable cities in the world show a correlation between second homes and highly inflated property value. But, these numbers also demonstrate the potential of a second home vacancy tax to at least raise substantial revenue for affordable housing initiatives and at best to incentivize the transition from largely vacant properties to long term rental units. A lack of robust specific data handicaps my ability for much further analysis. However, a review of Miami’s housing market in 2016 credited foreign buyers of second homes with much of the housing shift to expensive condos (Bowen 8). And instances such as Miami Beach’s inclusion on USA Today’s list of best destinations to buy a beach house, and their specific mention of the extremely climate vulnerable district of South Beach, suggest at least a tenuous link between the second home industry’s fueling of the climate vulnerable beachfront development occurring in Miami. This development is undesirable because it is a highly public and delegitimizing dismissal of the threat of climate change and will likely become the burden of the taxpayer when these developments need to be reinforced or more likely removed.

It is important to note that Miami’s economy is in part based in tourism; “Leisure and Hospitality,” is the 4th largest sector of the Miami economy (Miller 4). In other words, Miami does benefit in part from second home ownership and an STR economy. However, the fact that this sector only composes 12% of the entire economic share signals the fact that Miami is a diverse economy unreliant on any one industry. Additionally, in the past two years the leisure and hospitality proportion of the economy has grown by 1.6% nearly all of which growth economists have linked to the expansion of the cruise industry in Miami[[34]](#footnote-34). This demonstrates that even within Miami’s tourism industry there is no reliance on any one source of income such as second homes. All of this is to say that reactionaries’ likely fears that an attempt to moderate second homes and housing inequality would ultimately ruin Miami’s tourism economy and overall economy would be sharply unfounded.

Miami provides a useful example to explain the potential of a vacancy tax in a U.S. context. It is also provides specifics on why affordable housing measures writ-large are justified. The first reason to make affordable housing a priority is the heavy racial disparities seen in Miami’s housing crisis. Renters are far more vulnerable to an inflated housing market than homeowners. This is because renters have a far more tenuous claim to the dwellings they occupy, and rent cost is more likely to increase sharply and quickly than costs associated with homeownership. In Miami, around half of all Hispanic and African-American residents are renters. This is in sharp contrast to the quarter of white residents who are renters. Another metric of inequality is cost burden, or how much of one’s annual income is left over after paying for housing. African-Americans and Hispanics in Miami will have on average around $4000-5000 left over after paying for housing. Whites, on average, will have $20,000 left over. This disparity is all despite these marginalized groups generally living in the least expensive districts in Miami[[35]](#footnote-35). Though this is mostly a result of proportionally low wages earned by African-Americans and Hispanics, they are in turn vulnerable to rising housing prices throughout Miami. As middle class neighborhoods become more expensive, those with more economic power will move into cheaper neighborhoods which without affordable housing protections will displace marginalized groups. This gentrification is already occurring in some of Miami’s low-income neighborhoods such as Wynwood and Little Havanna and if not dealt with will result in a continuation of a long history of racially unjust housing policy.

 Mass economic displacement is unjust and inefficient for a number of other reasons too. Like any municipality, Miami has residents whose families have called the city home for years. Cubans, for example began migrating to the city in the thousands in response to Fidel Castro assuming control of Cuba in 1959. Historians credit these Cubans for contributing significantly to making Miami the cultural and global economic hub that it is today[[36]](#footnote-36). But, the precarious economic and housing situation of Hispanics in the city suggest that some of these influential multi-generational Cuban families are among the most vulnerable citizens. The complicated but important presence of locals is seen in the Miami neighborhood of Wynwood. The district was once a low-income and graffitied area. Intense gentrification has now made the area one of the costliest and most desirable neighborhoods in Miami[[37]](#footnote-37), and at the heart of the neighborhood’s appeal are the now-celebrated wallscapes of graffiti throughout the neighborhood. It is worth noting that Wynwood was not previously a desirable area, and that the economic revitalization has brought, in addition to unaffordable housing, a safer neighborhood with increased economic opportunity. Gentrification is a mixed-bag rather than being altogether good or bad. But if the locals and full-time residents, some of who created the original graffiti, are not given measures of affordable housing protection they will disappear and leave behind only their graffiti, like some modern voiceless pictograph.

Lastly, displacement as an affordable housing policy does not make complete economic sense. Greater Miami is a giant city encompassing millions of inhabitants and three counties. A suggestion that citizens move to the outskirts of the city where there is cheaper housing may not be feasible for many whose commute times could increase unbearably for a city so large. A flight to the outskirts of the city too would only increase demand on those cheaper housing markets raising prices and making moving which is already an extremely costly and time-consumptive process not worth the now-inflated rents. While Miami’s economy does benefit from its tourism sector, that sector is also dependent on the enormous number of employees who operate it. It is this service class who is the most cost-burdened of all workers in Miami[[38]](#footnote-38), and if a significant number of them were forced out of the city for cheaper rents the tourism sector could suffer a serious shock. Ultimately, cities are so large as to serve a large and diverse number of people, needs, and lifestyles. The goal of a vacancy tax as an affordable housing intervention is not to outlaw second homes and STRs and cripple a tourism industry. Rather, a vacancy tax is meant to moderate between the many diverse needs of a city such as Miami and to ensure that the needs of full time residents and locals are acknowledged and protected.

**Conclusion:** If and when vacancy taxes are further legitimized by research and implementation in major metropolitan areas, I believe it is worth considering their potential in smaller municipalities. Many small towns who are greatly impacted by the presence of second homes also have economies which are likely to be less diversified and more reliant on a tourism economy. So, while the consequence of a vacancy tax hampering the economy could be greater, so too would the potential benefits. In smaller towns, the presence of second homes is a far more salient phenomenon. The ten U.S. counties with the highest percentage of second homes are all smaller rural counties, and in these counties the percent of the housing stock composed of second homes is well over sixty percent[[39]](#footnote-39). These higher percentages means that not only do second homes dominate the built landscape, they often can dominate the cultural landscape. As has happened in Miami, the inflation of property values can drive residents away from communities which their families may have long inhabited. This, alongside the seasonal influxes of unknown and temporary second home residents who come from different cultural backgrounds, lead affluent lifestyles, and tend to socialize little with the community at large can contribute to the deterioration of longstanding tradition and cultural shifts in the community as a whole, often cultural shifts away from the “authentic,” culture which drew tourists in in the first place[[40]](#footnote-40). Journalist Tom Vanderbilt asks the question in his profile of Crested Butte, Colorado, a destination that is, in part, desirable for its mountain town ski bum atmosphere, “What happens when locals can’t afford to live like locals?”[[41]](#footnote-41). My hometown is Cape Charles, Virginia which has undergone a rapid rise as a tourist destination and is now composed of about 40% second homes[[42]](#footnote-42). The bars and restaurants which served as spaces for community socialization have become inundated with travelers who endure unheard of waiting times upwards of an hour to get a table in one of these establishments that now often close their doors for the offseason. Meanwhile, full time residents who work as teachers and scientists have had to move out of town as property values rose to unaffordable levels. These effects are understudied and by no means uniform, but they are relevant nonetheless. While no one has the intention of eroding a unique culture nor is any one second home buyer responsible for such effects, academics believe that these effects can be mitigated or outright avoided if the second home market is managed from becoming oversaturated. In situations such as these a vacancy tax not only inhibits inflation of local property values, but can safeguard a community and culture from being irreversibly changed.

The U.S. is in the midst of an ongoing lack of affordable housing which has reached crisis levels and has drawn the attention of politicians across the political spectrum. Many economists have supported demand-side interventions to efficiently create more affordable housing markets. However, one demand-side action which has not received nearly any attention is instituting a vacancy tax aimed primarily at seasonally vacant second homes. Problems of affordable housing vary greatly by geography and municipality and thus require different responses to address these problems. I have argued that in some localities placing a tax on second homes will increase access to affordable housing. This is because a thriving second home market raises property values and taxes within a community and because second homes which are occupied infrequently take up existing housing stock that could be occupied year-round. Vacancy taxes would achieve their goals by putting an additional price on owning a vacation home which would deter some potential second home buyers while encouraging owners to sell or lease their properties to full time occupants. The goal of such a tax is not to abolish second homes but to recognize that second homes can place a burden on communities and to promote a more equitable housing landscape.

This project has been hampered by a resounding lack of data on second homes and research into vacancy tax. This lack of data was nearly enough to be disconcerting. However, the information does exist, whether it was France’s 13% decline in vacancy shortly after their implementation of a vacancy tax or the proportionally huge share of vacant second homes in Miami’s housing stock the facts that do exist communicate the potential of such a tax. Better data on second homes could bolster the argument for a vacancy tax. Primarily, this would come in the form of the Census Bureau creating better data on a locality’s total housing stock and the amount of second homes within that locality. Other pertinent questions would be how long is the average second home occupied, is it rented or listed as an STR when the owners are not there, and what are the cultural ramifications of vast second homeownership in smaller localities?

Additional helpful research would be to determine the average income of a second homeowner and the average cost of a second home. Data such as this could provide a good index of income and wealth inequality in the U.S. For example, the unaffordability of Miami for 60% of its residents is made even starker when contrasted with the glitzy high rises and enormous vacation home stock in the city. Instances such as these where second home owners buy luxury beachfront properties amidst nationwide crises of unaffordable housing provide yet another poignant example of financial disparities within the U.S.

Proponents of second home taxes such as myself make no claims of such a tax being a cure-all tonic. The housing market does not occur in a vacuum and is subject to manipulation by a host of variables. Therefore, markets must be remediated in a host of different ways. And, vacancy taxes are just one solution to a problem that requires many solutions. Furthermore, vacancy taxes cannot effectively be enacted without simultaneous action on the STR economy which despite also being under-researched foments some of the same issues as vacation homes. None of these reforms are intended to be bans of second homes or STRs either. They are instead meant to moderate these economies and resolve issues created by their oversaturation of markets. Even industry leaders in the STR market have lobbied for regulation and welcomed conversation to implement policies on moderating this economy[[43]](#footnote-43).

Another aspect of the vacancy tax which is appealing is its political feasibility. Prior to campaigns of disinformation, British Columbia’s speculation and vacancy tax enjoyed support from across the political spectrum[[44]](#footnote-44). This is in part because the tax puts no burden on full-time voting residents. In fact many of these residents are in fact already paying the cost of over-saturated vacation home markets, and are likely happy to pass that cost on to the owners of these properties. And detractors who say a tax will significantly hamper a locality’s tourism industry can be repudiated, at least in part. The tourism industry is a multi-faceted economy, and though there are no breakdowns of how much second homeowners spend in a locality their spending is at least matched by guests of hotels and bed and breakfasts as well as day trippers. Lastly, any suggestion that a tourism tax such as this will be perceived as hostile and cripple the tourism industry is likely untrue. This is because tourist destinations are not easily substitutable. People buy second homes in Miami not because of their cheapness but because of the balmy weather, happening nightlife, and the rich and established Latino subcultures. This unique physical and cultural landscape makes hollow the threat of a mass tourist migration to, say, Jacksonville, Florida hundreds of miles up the coast.

In this project I have laid described the affordable housing crisis in the U.S., and the need for innovative solutions such as a vacancy tax directed at second home ownership. I have given a brief overview of the economic and cultural effects which occur in response to high levels of second home ownership. I have then described the two most prominent examples of vacancy taxes which exist in the world today. From these examples and other useful bits of information I have attempted to sketch a template for what a vacancy tax would look like and under what municipal conditions it would be an effective tool, insisting that following successful implementation in larger cities, these taxes show great promise in smaller communities in which the presence of vacant second homes is most salient. I then constructed a profile of Miami’s severely unaffordable housing market in an attempt to show the potential for a second home tax in the U.S. Throughout this project I have worked with the growing conviction that a vacancy tax would not merely accrue revenue for a local government but equitably reorganize the housing market to promote greater access to affordable housing without needing to construct a single new unit.

Bibliography

Barron, Kyle, and Kung, Edward, and Proserpio, Davide. “When Airbnb Listings in a City Increase, So Do Rents.” Harvard Business Review, 2019. https://hbr.org/2019/04/research-when-airbnb-listings-in-a-city-increase-so-do-rent-prices.

Bowen, Robyn E. “Comprehensive Housing Market Analysis: Miami-Miami Beach-Kendall, Florida.” Department of Housing and Urban Development, 2016. https://www.huduser.gov/portal/publications/pdf/MiamiFL-CHMA-19.pdf.

Brida, Juan Gabriel and Osti, Linda and Santifaller, Esther. “Second Homes and the Need for Policy Planning,”. *Tourismos: An International Multidisciplinary Journal of Tourism* 6 (2011) 141-163. https://www.researchgate.net/publication/50857254\_Second\_Homes\_and\_the\_Need\_for\_Policy\_Planning.

Dietz, Robert. “Top Posts of 2016: Where Are the Nation's Second Homes?” *Eye On Housing*, National Association of Home Builders. 7 Dec. 2016. eyeonhousing.org/2016/12/top-posts-of-2016-where-are-the-nations-second-homes/.

Fernald, Marcia, et al. “State of the Nation’s Housing 2019.” Harvard University, 2019. https://www.jchs.harvard.edu/sites/default/files/Harvard\_JCHS\_State\_of\_the\_Nations\_Housing\_2019.pdf.

Florida, Richard, and Steven Pedigo. “Miami’s Housing Affordability Crisis.” Florida International University, 2019. carta.fiu.edu/mufi/wp-content/uploads/sites/32/2019/03/Miamis\_Housing\_Affordability\_Crisis\_FNL.pdf.

Garcia, Daniel. “Second Home Buyers and the Housing Boom and Bust.” Washington: Board of Governors of the Federal Reserve System, 2019.

Gaumer, E. “Selected Initial Findings of the 2017 New York City Housing and Vacancy Survey.” New York City Department of Housing Preservation and Development, 2018. https://www1.nyc.gov/assets/hpd/downloads/pdfs/about/2017-hvs-initial-findings.pdf.

Gordon, Joshua. “Housing Affordability and Demand-Side Measures: Foreign Buyer Taxes and Vacancy Taxes.” In *Funding the Canadian City,* 155-179. 2019.

Gordon, Joshua. “The Speculation and Vacancy Tax, An Explainer.” Simon Fraser University, 2019.

Grossman, Paul. Email to Author. March 2020.

Horn, Keren and Mark Merante. “Is Home Sharing Driving Up Rents? Evidence from Airbnb in Boston.” *Journal of Housing Economics*, 38 (December 2017): 14-24. https://doi.org/10.1016/j.jhe.2017.08.002.

Johnson, Erik, and Randall Walsh. “The Effect of Property Taxes on Vacation Home Growth Rates: Evidence from Michigan.” *Regional Science and Urban Economics*, 43 (2013): 740–750. doi:10.1016/j.regsciurbeco.2013.06.001.

Lee, Dayne. “How Airbnb Short-Term Rentals Exacerbate Los Angeles’s Affordable Housing Crisis: Analysis and Policy Recommendations.” *Harvard Law and Policy Review* 10(2016): 229-252.

Mallach, Alan. “The Empty House Next Door.” Lincoln Institute of Land Policy, 2018. https://www.lincolninst.edu/sites/default/files/pubfiles/empty-house-next-door-full.pdf.

McHugh, Kevin E, et al. “The Magnetism of Miami: Segmented Paths in Cuban Migration.” *Geographical Review* 87 (1997): 504-519. https://www.jstor.org/stable/215228.

Miller, T M. “Comprehensive Housing Market Analysis: Miami-Miami Beach-Kendall, Florida.” Department of Housing and Urban Development, 2019.

Rice, Jeanette I. “Second Home Market.” SEC Archives, 2004. https://www.sec.gov/Archives/edgar/data/918958/000095013405008997/d24932exv99w4.htm.

Segu, Mariona. “The Impact of Taxing Vacancy on Housing Markets: Evidence from France.” *Journal of Public Economics* 185, (2020): https://doi.org/10.1016/j.jpubeco.2019.104079.

Smith, Roger S. “Land Prices and Tax Policy: A Study of Fiscal Impacts.” *The American Journal of Economics and Sociology* 37, (January 1978): 51-69.

Vanderbilt, Tom. “Did Airbnb Kill the Mountain Town?” *Outside Magazine,* July 2017. www.outsideonline.com/2198726/did-airbnb-kill-mountain-town.

Viglucci, Andres. “Priced out of Paradise: Why Locals Can No Longer Afford to Live in Miami.” *Miami Herald*, 5 June 2019, [www.miamiherald.com/news/business/real-estate-news/article229029784.html](http://www.miamiherald.com/news/business/real-estate-news/article229029784.html).

Yang, Qihang and Yu'e Yang. “The Impact of Speculation and Vacancy Tax on the Housing Prices in Vancouver.” Segal Graduate School of Business, 2019. https://summit.sfu.ca/item/19590.

Zhao, Na. “Nation's Stock of Second Homes.” *Eye On Housing*, 19 Nov. 2018, eyeonhousing.org/2018/12/nations-stock-of-second-homes/.

1. Marcia Fernald, et al, “State of the Nation’s Housing,” Harvard University (2019): 5-35. [↑](#footnote-ref-1)
2. Richard Florida and Steven Pedigo, “Miami’s Housing Affordability Crisis,” Florida International University (2019): 16, carta.fiu.edu/mufi/wp-content/uploads/sites/32/2019/03/Miamis\_Housing\_Affordability\_Crisis\_FNL.pdf. [↑](#footnote-ref-2)
3. Joshua Gordon, “The Speculation and Vacancy Tax: An Explainer,” Simon Fraser University (2019): 6. [↑](#footnote-ref-3)
4. Na Zhao, “Nation's Stock of Second Homes.” National Association of Home Builders, 19 Nov. 2018, eyeonhousing.org/2018/12/nations-stock-of-second-homes/. [↑](#footnote-ref-4)
5. Robert Dietz, “Top Posts of 2016: Where Are the Nation's Second Homes?” National Association of Home Builders, 7 Dec. 2016, eyeonhousing.org/2016/12/top-posts-of-2016-where-are-the-nations-second-homes/. [↑](#footnote-ref-5)
6. Jeanette Rice, “Second Home Market.” SEC Archives, 2004, https://www.sec.gov/Archives/edgar/data/918958/000095013405008997/d24932exv99w4.htm. [↑](#footnote-ref-6)
7. Daniel Garcia, “Second Home Buyers and the Housing Boom and Bust.” Washington: Board of Governors of the Federal Reserve System (2019): 32, https://www.federalreserve.gov/econres/feds/files/2019029pap.pdf. [↑](#footnote-ref-7)
8. Garcia, “Second Home,” 2. [↑](#footnote-ref-8)
9. Garcia, “Second Home,” 32. [↑](#footnote-ref-9)
10. Qihang, Yang and Yu'e Yang, “The Impact of Speculation and Vacancy Tax on the Housing Prices in Vancouver.” Segal Graduate School of Business 2019, 6, <https://summit.sfu.ca/item/19590>. [↑](#footnote-ref-10)
11. Joshua Gordon, “Housing Affordability and Demand-Side Measures: Foreign Buyer Taxes and Vacancy Taxes.” *Funding the Canadian City* (2019), 158. [↑](#footnote-ref-11)
12. Gordon, “The Speculation and Vacancy Tax,” 5. [↑](#footnote-ref-12)
13. Gordon, “The Speculation and Vacancy Tax,” 8. [↑](#footnote-ref-13)
14. Gordon, “Housing Affordability,” 157. [↑](#footnote-ref-14)
15. Gordon, “The Speculation and Vacancy Tax,” 8. [↑](#footnote-ref-15)
16. Gordon, “The Speculation and Vacancy Tax,” 2. [↑](#footnote-ref-16)
17. Gordon, “The Speculation and Vacancy Tax,” 9. [↑](#footnote-ref-17)
18. Keren Horn and Mark Merante, “Is Home Sharing Driving Up the Rents? Evidence from Airbnb in Boston,” *Journal of Housing Economics*, 38 (December 2017): 14-24, https://doi.org/10.1016/j.jhe.2017.08.002. [↑](#footnote-ref-18)
19. Kyle Barron, et al., “When Airbnb Listings in a City Increase, So Do Rents,” Harvard Business Review, (2019): https://hbr.org/2019/04/research-when-airbnb-listings-in-a-city-increase-so-do-rent-prices. [↑](#footnote-ref-19)
20. Gordon, “Housing Affordability,” 176. [↑](#footnote-ref-20)
21. Mariona Segu, “The Impact of Taxing Vacancy on Housing Markets: Evidence from France,” *Journal of Public Economics*, 185 (2020). https://doi.org/10.1016/j.jpubeco.2019.104079. [↑](#footnote-ref-21)
22. Segu, “The Impact,” 2020. [↑](#footnote-ref-22)
23. Roger S. Smith, “Land Prices and Tax Policy: A Study of Fiscal Impacts,” *The American Journal of Economics and Sociology*, 37 (January 1978): 66. [↑](#footnote-ref-23)
24. Erik Johnson and Randall Walsh, “The Effect of Property Taxes on Vacation Home Growth Rates: Evidence from Michigan,” *Regional Science and Urban Economics*, 43 (2013): 740–750. doi:10.1016/j.regsciurbeco.2013.06.001. [↑](#footnote-ref-24)
25. Mallach, Alan. “The Empty House Next Door.” Lincoln Institute of Land Policy (2018): 3-7. https://www.lincolninst.edu/sites/default/files/pubfiles/empty-house-next-door-full.pdf. [↑](#footnote-ref-25)
26. Gordon, “The Speculation and Vacancy Tax,” 2. [↑](#footnote-ref-26)
27. Horn, “Is Home Sharing.” [↑](#footnote-ref-27)
28. Dayne Lee, “How Airbnb Short-Term Rentals Exacerbate Los Angeles’s Affordable Housing Crisis: Analysis and Policy Recommendations.” *Harvard Law and Policy Review*, 10(Winter 2016): 230-231. [↑](#footnote-ref-28)
29. E Gaumer, “Selected Initial Findings of the 2017 New York City Housing and Vacancy Survey,” New York City Department of Housing Preservation and Development (2018): 1-17. https://www1.nyc.gov/assets/hpd/downloads/pdfs/about/2017-hvs-initial-findings.pdf. [↑](#footnote-ref-29)
30. Gordon, The Speculation and Vacancy Tax, 4. [↑](#footnote-ref-30)
31. Florida, “Miami’s Housing,” 3-9. [↑](#footnote-ref-31)
32. Zhao, “Nation’s Stock.” [↑](#footnote-ref-32)
33. Florida, “Miami’s Housing,” 5. [↑](#footnote-ref-33)
34. T M Miller, “Comprehensive Housing Market Analysis: Miami-Miami Beach-Kendall, Florida,” Department of Housing and Urban Development (2019): 4, https://www.huduser.gov/portal/publications/pdf/MiamiFL-CHMA-19.pdf. [↑](#footnote-ref-34)
35. Florida, “Miami’s Housing,” 7-12. [↑](#footnote-ref-35)
36. Kevin E. McHugh, et al., “The Magnetism of Miami: Segmented Paths in Cuban Migration,” *Geographical Review* 87 (1997): 504-519. https://www.jstor.org/stable/215228. [↑](#footnote-ref-36)
37. Florida, “Miami’s Housing,” 10. [↑](#footnote-ref-37)
38. Florida, “Miami’s Housing,” 14. [↑](#footnote-ref-38)
39. Dietz, “Top Posts.” [↑](#footnote-ref-39)
40. Juan Gabriel Brida et al., “Second Homes and the Need for Policy Planning,” *Tourismos* 6 (2011): 141-163, https://www.researchgate.net/publication/50857254\_Second\_Homes\_and\_the\_Need\_for\_Policy\_Planning. [↑](#footnote-ref-40)
41. Tom Vanderbilt, “Did Airbnb Kill the Mountain Town?” *Outside Magazine*, July 2017, www.outsideonline.com/2198726/did-airbnb-kill-mountain-town. [↑](#footnote-ref-41)
42. Paul Grossman, Email to Author, March 2020. [↑](#footnote-ref-42)
43. Vanderbilt, “Did Airbnb.” [↑](#footnote-ref-43)
44. Gordon, “The Speculation and Vacancy Tax,” 9. [↑](#footnote-ref-44)