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# Vacation homes and regional economic development

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## ABSTRACT

This paper studies the relationship between vacation homes and regional development. Vacation homes are often in peripheral regions with relatively low standards of living. Seasonal residents contribute income to these areas but make local housing costlier and may have negative effects on local housing, labour, and product markets. The paper introduces a model that demonstrates how demand for housing from seasonal residents affects the welfare of local residents. It then studies the effects of a Norwegian policy that obliges homeowners in certain municipalities to reside on their properties. The policy is shown to increase local population, employment, wages and house prices.

KEYWORDS:

regional growth

regional policy

residency requirement

seasonal housing

vacation homes

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## DISCLOSURE STATEMENT

No potential conflict of interest was reported by the author.

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## Notes

1. The policy is described (in Danish) on the website of the Ministry of Environment and Food of Denmark (see <http://naturerhverv.dk/landbrug/arealer-og-ejendomme/landbrugsloven/bopaelspligt/>).
2. Guernsey classifies housing into local market housing, which is restricted to people who have resided in Guernsey for at least 10 years, and open market housing, which anybody may purchase (as described on the website of the States of Guernsey; see <https://www.gov.gg/populationmanagement>). In Jersey, a resident of at least 10 years can purchase any property, though a limited set of properties may be purchased by an 'essential employee' (as described on the website of the States of Jersey; see

x).

3. See, for example, the NRK report 'Boplikten kan bli begrenset' ('Residency Requirement may be Scaled Back') from 4 June 2007; and the Nationen article 'UmB-professor går hardt ut mot boplikten' ('UmB professor strongly opposes the residency requirement') from 31 July 2012.
4. The total budget for the Structural and Cohesion Funds for the period 2014–20 is €371 billion, with the annual amount varying between €36 billion and €60 billion (European Commission, [2017](#)).
5. Owing to mergers and other changes, the set of municipalities in Norway changes over time. The analysis uses the municipalities that existed in 2016 and maps the data from earlier periods onto these.
6. The original 1974 law specified that the residency requirement would apply to all vacation properties of at least 0.2 hectares and all other properties of at least 2 hectares (Government of the Kingdom of Norway, [1974](#)). In 2003, the minimum size of non-vacation properties was raised to 10 hectares with no more than 2.5 hectares of cultivated land (Government of the Kingdom of Norway, [2003](#)).
7. The assumption of an arbitrarily-defined 'centre' where local employment and shopping occurs is made for simplicity. The theoretical results would apply if local employment and shopping occurred in a broad area such as a main street or in several separate locations. All that is required is that local residents value the same locations as seasonal residents.
8.  $\psi$  is assumed to be constant across space to keep the model simple. In reality, seasonal residents may prefer to be near the centre of the region or some natural amenity elsewhere, in which case  $\psi$  should vary by location. However, the interpretations would largely be obvious, as seasonal residents would tend to outbid local residents in the locations they value more.
9. Total spending by Norwegian households on vacation-home trips in 2002 was 15 billion NOK (Hille, Aall, & Klepp, [2007](#)), roughly 2% of total consumption spending. While this spending would be concentrated in certain regions and does not include capital spending (though it does include spending on items visitors bring with them),

local spending by vacation-home owners is generally a small proportion of the spending by local residents.

10. If  $f=0$ , then the firm operates with constant returns to scale and there is no precipitous drop in the local population at  $p_s^*$ .

11. A trivial exception to Proposition 1 would be if the local population would be zero even in the absence of demand from seasonal residents.

12. To identify the effects of the residency requirement, it would be ideal to have some quasi-experimental source of variation in which municipalities have the residency requirement. However, there are no obvious factors that determine the timing of the residency requirement but are not otherwise correlated with the outcome variables.

13. As of January 2017, no municipality had introduced the policy, removed it, then introduced it a second time.

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Source: National Tax Journal

##### [ECONOMIC DEVELOPMENT THROUGH SECOND HOME DEVELOPMENT: EVIDENCE FROM SOUTH AFRICA](#)

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