

# Intelligence MEMOS



From: Paul Cheshire, Christian Hilber and Hans Koster  
To: Municipal Councils and Provincial Housing Ministries in Major Cities  
Date: July 26, 2016  
Re: YOU CANNOT REGULATE EMPTY HOUSES AWAY

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House prices in Vancouver and other large cities in Canada have been soaring. Despite this, many houses [appear to be](#) vacant. Many observers blame foreign buyers who are supposed to accumulate properties for investment purposes and then leave them vacant.

One popular [proposition](#) to solve the ‘vacancy problem’ – at least in the UK – is to try to regulate housing vacancies away. Islington, one of London’s local councils has already implemented the policy by introducing planning restrictions aimed at prohibiting “the deliberate practice of letting properties lie empty”.

Is this really the solution? Are vacancies even a problem? Any housing market can only operate if there are vacancies: people move; people die.

The trouble with interventions in the housing market is that however well-intentioned, they generate all sorts of unintended consequences. In fact, one of our most recent [research findings](#) is that more restrictive local planning actually has the net effect of increasing the proportion of vacant homes.

By making housing even scarcer (which more restrictive planning achieves) it [makes it more expensive](#). On the one hand, making housing scarcer through zoning restrictions generates an incentive to occupy it, thus reducing vacancies. Unfortunately, on the other hand, more restrictive planning also makes it harder to adapt homes to the constantly changing patterns of demand. Jobs grow in a locality, so demand for houses there increases; the local school gets better so the demand for family-sized homes increases; people buy a car so want parking; they have fewer children or separate, so they want smaller homes. The result of this is that in more restrictive locations, people wanting a home find it more difficult to match their preferences to what is available. So they have to search longer or further afield. The result of that is there are more empty houses.

Our results for England show that the net effect of more local restrictiveness is not just to increase the proportion of empty homes but to increase it substantially. A one standard deviation increase in local restrictiveness causes the local vacancy rate to increase by nearly a quarter. Furthermore, because it makes finding a suitable house locally more difficult, it also increases the average distance people have to travel to work. The same increase in local restrictiveness causes an 8.5 percent rise in commuting distances.

So attempting to regulate housing vacancies away likely increases the proportion of empty homes locally and makes people commute further, the absolute opposite of what the advocates of the policy want to achieve. The policy proposal debated in Vancouver – [a tax on vacant homes](#) – is clearly a superior solution because it will reduce (rather than increase) vacancy rates. However, it won’t solve Vancouver’s housing affordability crisis. This is because house prices in [London](#), a city that seems to be dealing with similar issues as Vancouver, are mainly driven [by rising real incomes and tight regulatory constraints](#). A tax on vacant homes is a “second best”. Relaxing excessive land use restrictions would be the “first best”.

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