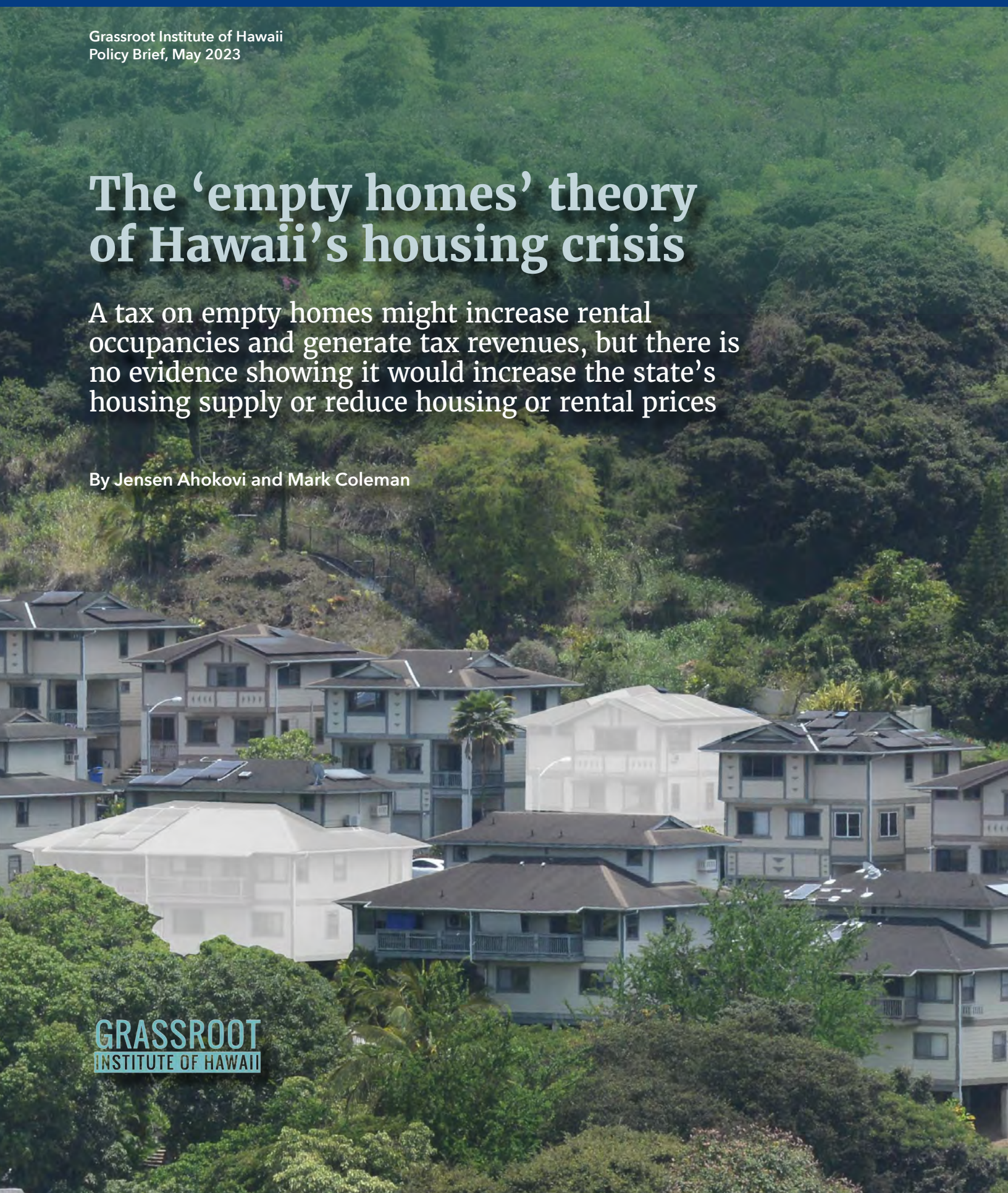
Grassroot Institute of Hawaii
Policy Brief, May 2023

The ‘empty homes’ theory of Hawaii’s housing crisis

A tax on empty homes might increase rental occupancies and generate tax revenues, but there is no evidence showing it would increase the state’s housing supply or reduce housing or rental prices

By Jensen Ahokovi and Mark Coleman



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Letter from the President

Keli'i Akina, Ph.D.
President and CEO
Grassroot Institute of Hawaii

Dear Reader,

It has become common practice in Hawaii to blame scapegoats such as foreign or mainland buyers and vacant homes for the state's disastrous housing crisis.

Many residents still believe outside buyers are responsible for the state's high housing prices, even though the Grassroot Institute of Hawaii debunked this theory last year in a policy brief titled "The 'outsider' theory of Hawaii's housing crisis."

In this report, we look at the issue of vacant homes.

Advocates of the "empty homes" theory of Hawaii's housing crisis say a tax on vacant homes would motivate owners to sell or rent them out. This, in turn, would increase the number of owner-occupied homes or make more homes available for rent, as well as add to the overall supply of houses in Hawaii, ease housing prices and bring in more taxes.

Yes, they claim all these goals can be achieved by an empty homes tax. The data, however, indicates otherwise.

Based on a comprehensive review of the best data available nationwide, this report finds that an empty homes tax definitely would generate tax revenues — though by how much and at what cost to other sectors of the economy we don't know.

It also might increase rental occupancies or the number of owner-occupied homes.

But it would likely do little or nothing to add to Hawaii's housing stock, the lack of which is why we have a housing crisis in the first place.

In other words, like punitive legislation aimed at "outsiders," a vacant homes tax would be just tinkering at the margins, unlikely to be the silver-bullet fix for Hawaii's housing crisis that people are hoping for.

As the scholarly research almost unanimously shows, the key to increasing housing stock and affordability in Hawaii is to reduce the state's many regulatory barriers to homebuilding. It is common sense that the key to solving our housing crisis is to build more homes.

The longer we focus on scapegoats, the longer it will take to address the real causes of our housing crisis and do something constructive about it.

Let's start working together to make housing in Hawaii more plentiful and affordable.

Keli'i Akina, Ph.D.

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The ‘empty homes’ theory ...

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Executive summary

Empty or vacant homes are popularly believed to be a cause of Hawaii's lack of affordable housing. However, this theory has never been empirically tested for Hawaii – until now.

Relying on a comprehensive neighborhood-level data set from the U.S. Census Bureau's American Community Survey, this policy brief employed a fixed-effects regression strategy to determine that vacant homes did not significantly contribute to Hawaii's increase in home prices or rental costs during the previous decade.

As a result, this report concludes that policies intended to reduce the number of empty homes in Hawaii will likely fail to alleviate the state's affordable housing shortage or bring down its home or rental prices.

On the other hand, if the goal of an empty homes tax is only to reduce vacancies or generate tax revenues, the little research that exists suggests there might be room to say such a tax could be successful, though subject to potential negative unforseen and unintended consequences.

Introduction

Many people in Hawaii believe that empty or vacant homes reduce the supply of available housing and increase home prices and rents. Their response has been to advocate a tax on empty homes to encourage their owners to either make them available to renters or sell them to new owners who would occupy them on a full-time basis.

Other stated goals of an empty homes tax include increasing Hawaii's housing stock, lowering Hawaii's home prices or even generating more tax revenues for the state and counties.

In the 2023 state legislative session, two bills, HB148 and SB1606, were premised on the notion that taxing empty homes could discourage speculative investment and boost local rental occupancy rates.[1]

Those companion bills aimed to levy a 3% surcharge on the conveyance of any "prolonged vacant property" – defined as a property that has been vacant for more than 180 days in a calendar year. The House bill was deferred by the House Committee on Housing, while the Senate bill never even got a hearing.

During the 2022 legislative session, the Hawaii House of Representatives approved a resolution urging the state's four counties to "utilize an empty homes tax as a means of addressing affordable housing."[2]

That measure died in the Senate, but it showed how seriously the "empty homes" idea was being taken by some state lawmakers as a means to address Hawaii's shortage of housing.

In August 2022, housing activist Ellen Godbey Carson wrote a column for the state's largest daily newspaper, the Honolulu Star-Advertiser, listing "six ideas that can resolve Hawaii's affordable housing crisis."[3]

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Her first suggestion was: "Impose a new empty homes tax (such as Honolulu's Bill 9) on residential properties not used as a home for a Hawaii resident, so as to encourage use of housing for local residents, discourage speculative offshore investment, and create a substantial continuing income stream to support affordable housing projects."

Bill 9, introduced in February 2022, sought to levy a 3% tax on the tax-assessed value of empty homes.[4] The proposal failed to make it into law – as did a Council bill introduced in 2020, Bill 76, which would have created a new "Vacant Residential" property tax classification.[5]

Bill 76 never mentioned a specific tax rate for such properties, but there was a talk about how it would enable the city to impose a 1% tax on vacant homes.[6] Its purpose, according to a KHON2 news report, was to "help increase [housing] stock that is being lost."

Interviewed by KHON2 in early November 2021, Philip Garboden, a University of Hawaii professor in affordable housing economics, policy and planning, said "it's hard to see what [a truly vacant property is] doing other than exacerbating our land shortage, exacerbating our housing shortage and making someone wealthier."[7]

According to KHON2, the professor blamed mostly out-of-state investors for the state's estimated 5.3% rental vacancy rate and claimed that Bill 76 would be a success if it resulted in hundreds or thousands of properties being put into rental or homeownership stock.[8]

Later in November 2021, the Oahu Real Property Tax Advisory Commission's Subcommittee on Rates and Classifications produced a report recommending that the Honolulu City Council "forego further consideration of Bill 76 (2020) in favor of introduction and consideration of a bill similar to the Empty Homes Proposal attached to this Report, as Appendix A."[9] That proposal became the basis for Bill 9 in 2022.

The main difference between the two bills was that Bill 76 would have created a new Vacant Residential property tax classification in addition to Residential or Residential A, whereas Bill 9 sought to create a "supplemental" tax classification so that properties could be classified as Residential or Residential A and Vacant Residential.[10]

As the subcommittee explained: "The Empty Homes Proposal does not interfere with the City's existing classification system Oahu homeowners are familiar with, such that properties maintain their existing classification as Residential or Residential A for the proximate fiscal year, but are also subject to a supplemental classification determined by the status of their property's use during the prior fiscal year."[11]

The subcommittee's report noted that "the concept of a 'vacant home' or 'empty home' tax has been an ongoing point of discussion within the City and County of Honolulu for multiple years, as reflected in documents supporting and adopting the implementation and justification for an empty homes tax."

One such document, it said, was the "O'ahu Resilience Strategy,"[12] produced in 2019 by the Honolulu Office of Climate Change, Sustainability and Resiliency and adopted as guiding policy by the Council stated through Resolution 19-233.[13]

In that document's section on "Supporting Affordable Housing Development," the first action item listed is "Reduce Empty Homes and Increase Affordable Housing Funding."[14]

The report said the primary objectives of a "vacancy fee" were to "encourage the return of empty or underused properties to active use as long-term rental stock for residents of O'ahu" and "provide a source of dedicated funds to directly support the development of affordable housing units throughout O'ahu."[15]

Successful implementation of the vacancy fee at a simple 1% figure, it continued, "could encourage the provision of approximately 10,000 new rental units on island or provide approximately $60 million per year for affordable housing."

In December 2020, community activists Evelyn Aczon Hao, Calvin Pham and John Kawamoto wrote in the Honolulu Star-Advertiser that an "empty homes fee" would "discourage nonresidents from owning housing in Hawaii" and "free up housing for residents, while shifting Hawaii's housing market towards producing housing for residents."[16]

This report contends that the empty homes theory is as dubious as the outsider theory as an explanation for Hawaii's affordable housing crisis.

In August 2022, the Grassroot Institute of Hawaii published research showing that out-of-state buyers have had no meaningful effect on housing prices in Hawaii.[17]

Unfortunately, many politicians and community activists continue to promote that theory, sincerely believing that blocking outsiders from participating in Hawaii's real estate market will somehow bring down home prices and increase housing supply for everyone else.

This report contends that the empty homes theory is as dubious as the outsider theory as an explanation for Hawaii's affordable housing crisis. Proponents of the empty homes theory seem equally sincere in believing that a tax on empty homes could serve any number of laudable goals, but just as with the outsider theory, the evidence supporting such belief is scant to nonexistent.

What is an empty home?

In general, the definition of an "empty" or "vacant" home is arbitrary.

The U.S. Census Bureau says a home is vacant "if no one is living in it at the time of the [census] interview, unless its occupants are only temporarily absent."[18]

The bureau's year-round vacancy estimates also account for "seasonal" and "occasionally occupied" housing units.

Occasionally occupied units are defined as those "held for weekends or occasional use throughout the year" and include timeshares.

Seasonal vacancies are "intended for occupancy only during certain seasons of the year and are found primarily in resort areas." Seasonal vacancies also account for homes that are set aside for migratory labor in the agricultural industry.

Using the definition that has gained the most traction in recent years, the Honolulu County Council's Bill 9 from 2022 defined empty homes as "any dwelling unit on a residential property that has been unoccupied for more than six months during the previous tax year."

Bill 76, considered by the Honolulu County Council in 2020, used virtually an identical definition – a unit that has "been unoccupied for more than 180 consecutive days during the previous tax year" – though it had fewer definitional exemptions.[19]

In Vancouver, Canada, which implemented an empty homes tax in 2017, a home is defined as vacant if it "has been unoccupied for more than six months" during the calendar year.[20]

San Francisco and Berkeley in California both recently adopted vacancy taxes that will go into effect at the start of 2024.[21] Both will consider a housing unit to be vacant if it is "unoccupied, uninhabited, or unused" for at least six months in the year.[22]

Both cities also plan to tax vacant properties at a minimum of $3,000 and a maximum of $6,000 a year.[23]

In 2018, Oakland, California, adopted a vacancy tax that considers a property vacant if it has been "in use less than fifty [50] days in a calendar year."[24]

Washington, D.C., adopted a residential and commercial vacancy tax in 2010 that says a property is vacant if it is registered as such by the property owner or following an inspection of the property by the D.C. Department of Consumer and Regulatory Affairs.[25]

In France, where many cities have been taxing "empty homes" since 1998, a residential property is deemed vacant if it has been unoccupied and off the sales market for at least one year.[26]

Vacancy tax exemptions

So the definition of an "empty" or a "vacant" home is basically arbitrary, as are the many exemptions from the empty home taxes that jurisdictions seek to apply.

Honolulu's Bill 9 proposed 10 exemptions, including if the property is the principal residence of the registered owner, renter or permitted occupant for at least six months in the tax year; the owner of residential property died during the tax year; the owner or tenant is undergoing medical care; or the property has an open building permit for major construction, repair or renovation.[27]

Oakland's vacancy tax also has 10 exemptions, including for very low income, financial hardship, active construction, building permit application, disabled owner and nonprofit organization.[28]

Vancouver's nine exemptions include if the property is undergoing major renovations, the owner is under medical care and if the registered owner of the vacant property died during the tax year.[29]

In San Francisco and Berkeley – once their vacancy tax laws go into effect in 2024 – exempted properties will include nursing homes, residential care facilities, homes owned by recently deceased owners, homes leased for occupancy and properties owned by nonprofits or government agencies.[30] [31]

In San Francisco, there will also be a one-year exemption for newly constructed properties and a two-year exemption for properties deemed uninhabitable after a disaster.[32]

Administering the tax and ferreting out violators requires more government employees, more government paperwork, more government spending and possible constitutional violations of property rights and privacy.

Vacancy tax enforcement

So, how do all these cities enforce their "empty homes" taxes?

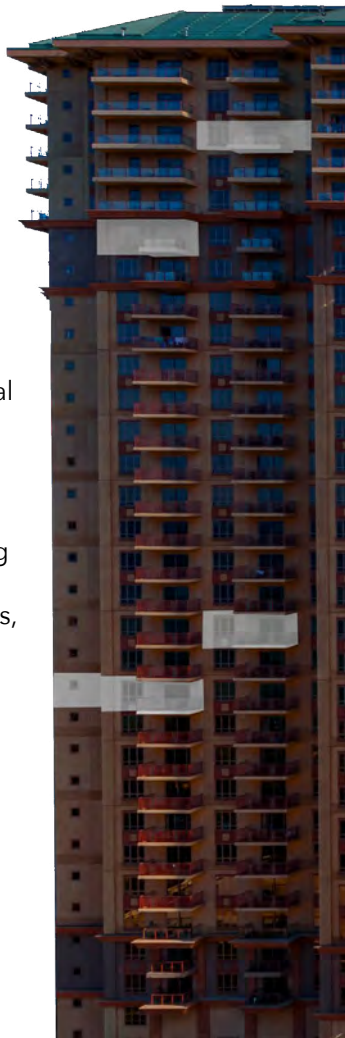
Honolulu's Bill 9, which emulated the language of cities that do have empty homes taxes, would have required property owners to submit annual "property status" declarations. Homeowners would also have been subjected to audits and investigations and required to submit "documentation and sworn declarations relevant to any claim of exemption made by the owner regarding the tax." [33]

Any homeowners who failed to submit their required annual declarations would have their properties be considered empty for tax purposes, "notwithstanding any provision to the contrary."[34]

Violators of the tax law also would have been fined $25,000 a day for each offense, which could have led to the city foreclosing on their properties.[35]

Again, Honolulu's Bill 9 was not enacted, but enforcement mechanisms such as it proposed are essential to the administration of vacancy taxes in the cities that have them.

And enforcement mechanisms do not come without costs. Administering the tax and ferreting out violators requires more government employees, more government paperwork, more government spending and possible constitutional violations of property rights and privacy.



Policy success depends on the metrics

Constitutional and other issues aside, the question this brief seeks to answer is whether so-called empty home or vacancy taxes actually achieve their goals.

The answer depends on what its proponents are trying to achieve. Is it to increase the supply of housing or housing affordability? Reduce rental or owner-occupied vacancy rates? Generate tax revenues? Or something else?

For Oakland, the purpose of its vacancy tax was to "support a variety of identified services and programs for homeless people; preserve existing affordable housing and produce new affordable housing; provide code enforcement and cleanup of blighted properties and remedy illegal dumping; and pay the City's costs of administering the tax."[36]

Did Oakland succeed in reducing homelessness, illegal dumping or producing new affordable housing? The law is relatively new, so in all fairness, the best we can say is it's too early to tell.

The city has, however, collected some money from the tax . In fiscal years 2019 through 2021, the vacancy tax generated about $4.7 million.[37] For the current fiscal year, the city was expecting roughly roughly $5.6 million.[38]

In Vancouver, the city imposed an empty homes tax hoping to discourage outside investors and increase local rental occupancy rates. A 2022 city report claimed "strong evidence" that the tax had reduced the number of vacant residential properties between 2017 and 2021. But perhaps more interesting to lawmakers in Vancouver and elsewhere is that the tax generated $115.3 million during that same period.[39]

Drafters of HB148 in Hawaii certainly took note. The bill states that Vancouver's tax raised "nearly $30,000,000 in revenue" – though it didn't include over what period – and added: "The Legislature … finds that implementing a surcharge on the conveyance tax for prolonged vacant properties can … generate revenue for the state."

Tonga Hopoi, director of policy and communications for Honolulu City Council's research arm – Council Support Services – echoed that belief.

In a February 2023 email to the Grassroot Institute of Hawaii, Hopoi said that in 2020, "Vancouver procured a little over $100 million for affordable housing initiatives," and "though this bill [Honolulu's Bill 9] may not drastically increase [housing] supply, it will still be beneficial in generating potential funding for affordable housing projects."

Beyond raising revenues, the goals set forth in Honolulu's Bill 9 covered the gamut. Noting that Honolulu had one of the highest median home prices in the nation – "exceeding $1 million as of August 2021" – and a housing vacancy rate of 9.2%, or 34,253 units, the bill said an empty homes tax would ease these problems by:

- "Encouraging existing owners to rent or sell vacant housing stock for use as homes for local residents."
- "Increasing the city's supply of homes to better

meet demand and reduce market pressures that cause high and unaffordable prices."

- "Raising funds for affordable housing and homelessness solutions."[40]

In other words, increase the occupancy rate of existing homes, increase Honolulu's housing supply overall and generate tax revenue.

The bill explained its reasoning: "The empty homes tax can help control and potentially lower the City's rapidly increasing housing prices, as it would encourage productive investments and utilization of the City's housing supply.

"An empty homes tax should help renters; as housing supply increases, landlords will need to offer reasonable rent prices to secure renters to avoid the tax. An empty homes tax can create a dedicated source of revenue for addressing affordable housing and homeless needs."

These are tall claims. But where is the proof? Has anyone examined the U.S. Census Bureau's data to see whether there is any relationship between vacancies and housing affordability? For Hawaii, the answer is: Not really.

That helps explain why Andrew Kawano, director of the Honolulu Department of Budget and Fiscal Services, informed the County Council on March 6, 2023, that he had asked for funding to study a "vacancy tax program."[41]

"We want to make sure we set it up right, and we avoid some of the pitfalls that some of the other states have experienced," he said at the Honolulu City Council budget briefing.

Based on the research contained in this report, if Kawano is able to follow through with his proposed study, he likely will find little evidence to support an empty homes tax – depending on the metric of success, of course.

Among studies he might come across is a 2022 report from the San Francisco Office of the Controller and Office of Economic Analysis on the economic impact of San Francisco's recently enacted vacancy tax that is set to be implemented in 2024.

The report estimated that only about 4,000 of the 7,000 long-term vacant units in San Francisco between the years of 2010 to 2020 would qualify for the tax, with the remaining 3,000 qualifying for one or more exemptions outlined by the ordinance.[42]

The report also forecast that the overall economic impact of San Francisco's vacancy tax on gross domestic product and employment would be "positive but very small."[43]

In May 2020, French economist Mariona Segu analyzed the effect of a vacancy tax that was imposed in some French municipalities and found that the tax reduced vacancies in France by a statistically significant magnitude of 13%.[44]

Segu's research overturned the findings of a 2012 study done by economist Felix Blossier, whose research found that France's vacancy tax was ineffective at reducing vacancies.[45]

This might be good evidence to say that France's vacancy tax worked for France, but there is hardly any reason to suggest that vacancy taxes work elsewhere based on this one study.

To date, Segu's and Blossier's studies are the only robust econometric analyses that have been done to determine the effect of vacancy taxes. Segu even notes in her study that, "to [her] knowledge, the only [previous] attempt to assess the impact of a tax on vacant housing is the one conducted by Blossier."[46]

But what about the other metrics?

Oakland's empty homes tax has succeeded in raising revenues, but the verdict is still out on whether it has reduced rental vacancies — and the same is true for Vancouver.

In Vancouver's "Empty Homes Tax Annual Report" for the year 2021, the city cited a 36% decrease in vacancies between 2017 and 2021 as evidence that its vacancy tax was working.

However, the city's annual report only highlighted trends in the housing market since the imposition of its vacancy tax in 2017 and does not employ any econometric methods to isolate the effects of the tax.[47]

Furthermore, no jurisdiction has produced any evidence that vacancy taxes have helped to increase housing supply.

Has anyone examined the U.S. Census Bureau's data to see whether there is any relationship between vacancies and housing affordability? For Hawaii, the answer is: Not really.

Vacancies and home prices across the U.S.

What, if anything, can we say about a relationship between empty homes and housing prices – not only in Hawaii but throughout the nation?

Is there any reason to believe that implementing an empty homes tax in Hawaii would – as Honolulu's Bill 9 asserted – "help control and potentially lower the City's rapidly increasing housing prices"?

And what about lowering rental prices? Will landlords – as Bill 9 claimed – really "need to offer reasonable rent prices [i.e., lower their rents] to secure renters to avoid the tax"?

For comparative research purposes, let us accept the U.S. Census Bureau definition that an empty home is considered vacant "if no one is living in it at the time of the [census] interview, unless its occupants are only temporarily absent."[48]

According to the U.S. Census Bureau's five-year estimates for 2020, the five states with the highest vacancy percentages in 2020 were Maine, 23.7%; Vermont, 22.1%; Alaska, 19.9%; West Virginia, 17.8%; and Florida, 17.1%.[49]

The states with the smallest percentage of vacancies in 2020 were Illinois, 9.1%; Connecticut, 8.9%; Oregon, 8.2%; and Washington and California, both 7.8%.[50]

If vacancies are a meaningful driver of home prices, there should be a positive correlation between home prices and vacancies across the states. In other words, states with higher vacancy rates should also have higher median home prices.

But that is not the case. If anything, it's the other way around.

As shown in Table 1, above right, four of the five states with the highest percentage of vacancies in 2020 had median home prices below the national average of $244,604.[51]

Table 1: Top 5 states: Empty home percentages vs. median home price, 2020[52]

Sector	State	Empty home percentage	Median home price
1	Maine	23.7%	$198,000
2	Vermont	22.1%	$230,900
3	Alaska	19.9%	$275,600
4	West Virginia	17.8%	$123,200
5	Florida	17.1%	$232,000
Average	**All states plus D.C.**	**12.8%**	**$244,604**

Table 2: Bottom 5 states: Empty home percentages vs. median home prices, 2020[54]

Sector	State	Empty home percentage	Median home price
47	Illinois	9.1%	$202,100
48	Connecticut	8.9%	$279,700
49	Oregon	8.2%	$336,700
50	California	7.8%	$538,500
51	Washington	7.8%	$366,800
Average	**All states plus D.C.**	**12.8%**	**$244,604**

In contrast, as shown in Table 2 above, four of the five states with the lowest percentage of vacant units in 2020 had median home prices above the national average.[53]

Similarly, as shown in Table 3, next page, top left, four of the five states with the highest median home prices in 2020 had vacancy percentages below the national average of 12.8%.[55]

Hawaii was the exception – its median home price of $636,400 was the nation's highest, even though its "empty homes" rate was only slightly above the national average, clocking in at 14.4%.[56]

Table 3: Top 5 states:
Median home prices vs. empty home percentages, 2020 [57]

Sector	State	Median home price	Empty home percentage
1	Hawaii	$636,400	14.4%
2	District of Columbia	$618,100	9.7%
3	California	$538,500	7.8%
4	Massachusetts	$398,800	9.1%
5	Colorado	$369,900	9.5%
Average	**All states plus D.C.**	**$244,604**	**12.8%**

Table 4: Bottom 5 states:
Median home prices vs. empty home percentages, 2020[60]

Sector	State	Median home price	Empty home percentage
47	Kentucky	$147,100	12.4%
48	Oklahoma	$142,400	14.2%
49	Arkansas	$133,600	15.2%
50	Mississippi	$125,500	16.1%
51	West Virginia	$123,200	17.8%
Average	**All states plus D.C.**	**$244,604**	**12.8%**

The four other jurisdictions with the highest median home prices were the District of Columbia, $618,100; California, $538,500; Massachusetts, $398,800; and Colorado, $369,900.[58] Their home vacancy rates were all below the national average at 9.7%, 7.8%, 9.1% and 9.5%, respectively.

At the same time, as shown in Table 4 above, four of the five states with lowest median home prices in 2020 had vacancy percentages above the national average: Oklahoma, 14.2%; Arkansas, 15.2%; Mississippi, 16.1%; and West Virginia, 17.8%. Kentucky was ranked 47th lowest with a rate of 12.4%, which was just below the national average.[59]

In sum, as shown in Figure 1 below, there is a clear negative correlation between median home prices and vacancy percentages, suggesting that vacancies are more prevalent in states with lower home prices.

Looking specifically at seasonal and occasionally occupied vacancies, which include timeshare homes, Figure 2 below illustrates that there is a positive – but very weak – correlation among all 50 states and the District of Columbia between median home prices and states' respective shares of seasonal vacancies.

In other words, states with higher shares of seasonal vacancies have higher median home prices, but the correlation is weak.

Figure 1: State median home prices vs. empty home percentages, 2020[61]

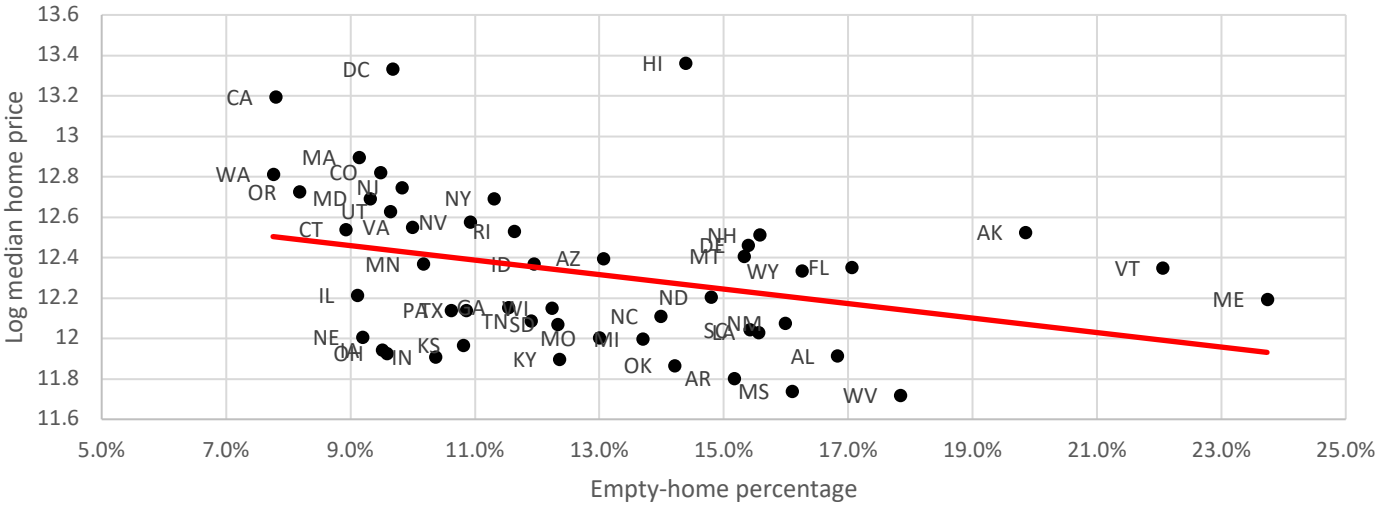
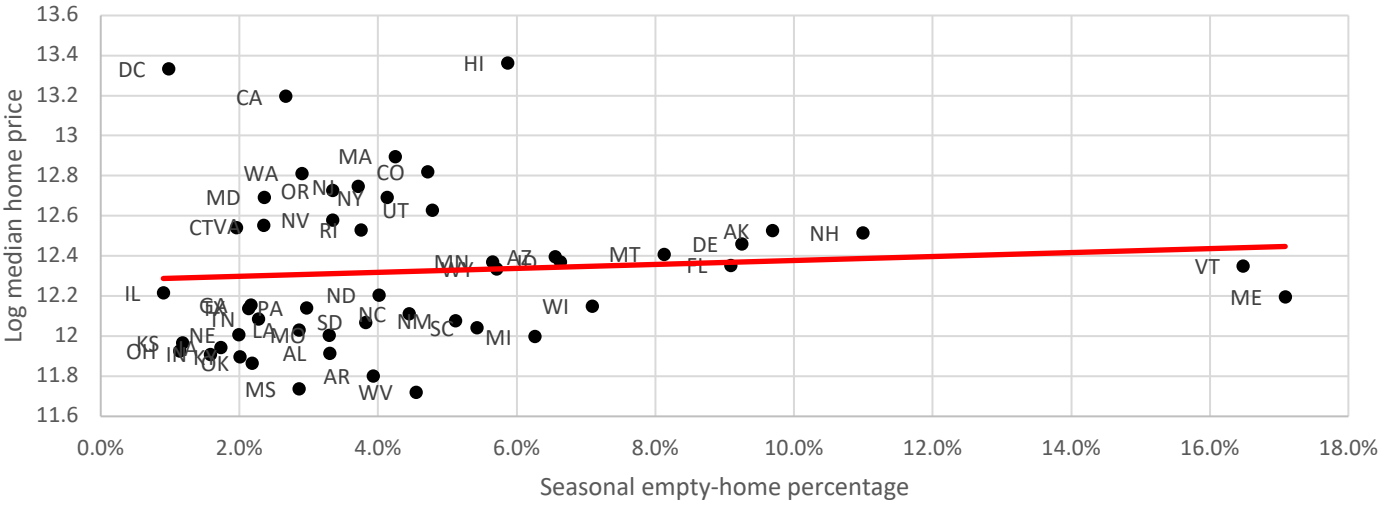


Figure 2: State median home prices vs. seasonal empty home percentages, 2020[62]



Vacancies and rent prices across the U.S.

While there does not appear to be a meaningful positive correlation between neither median home prices and vacancies nor median home prices and seasonal vacancies, could there be a positive correlation between vacancies and rent prices?

Three of the five states with the highest percentage of vacancies had median gross rents below the national average of $1,036, as shown in Table 5 at right.[63] [64]

Those three states were top-ranked Maine, $873; second-ranked Vermont, $999; and fourth-ranked West Virginia, $732. Alaska and Florida had roughly similar median gross rents of $1,240 and $1,218, respectively.[65]

On the other hand, as shown in Table 6 at right, the five states with the lowest percentages of vacancies all had median gross rents above the national average of $1,036.[66] Those states were Illinois, $1,038; Connecticut, $1,201; Oregon, $1,173; California, $1,586; and Washington, $1,337.[67]

In terms of the nation's highest median gross rents versus vacancies, as shown below in Table 7 at right, Hawaii led the nation with a median gross rent of $1,651, but its vacancy rate was only slightly above the 12.8% national average at 14.4%.[70]

Hawaii was followed by the District of Columbia, $1,607 and 9.7%; California, $1,586 and 7.8%; Maryland, $1,415 and 9.3%; and New Jersey, $1,368 and 9.8%.[71]

Table 5: Top 5 states:
Empty home percentages vs. median gross rents, 2020[68]

Sector	State	Empty home percentage	Median gross rent
1	Maine	23.7%	$873
2	Vermont	22.1%	$999
3	Alaska	19.9%	$1,240
4	West Virginia	17.8%	$732
5	Florida	17.1%	$1,218
Average	**All states plus D.C.**	**12.8%**	**$1,036**

Table 6: Bottom 5 states:
Empty home percentages vs. median gross rents. 2020[69]

Sector	State	Empty home percentage	Median home price
47	Illinois	9.1%	$1,038
48	Connecticut	8.9%	$1,201
49	Oregon	8.2%	$1,173
50	California	7.8%	$1,586
51	Washington	7.8%	$1,337
Average	**All states plus D.C.**	**12.8%**	**$1,036**

Table 7: Top 5 states:
Median gross rents vs. empty home percentages, 20

Sector	State	Median home price	Empty home percentage
1	Hawaii	$1,651	14.4%
2	District of Columbia	$1,607	9.7%
3	California	$1,586	7.8%
4	Maryland	$1,415	9.3%
5	New Jersey	$1,368	9.8%
Average	**All states plus D.C.**	**12.8%**	**$1,036**

Looking at the five states with lowest median gross rents, as shown in Table 8 at right, three of the five had vacancy percentages above the national average of 12.8%: Mississippi, 16.1%; Arkansas, 15.2%; and West Virginia, 17.8%.[72]

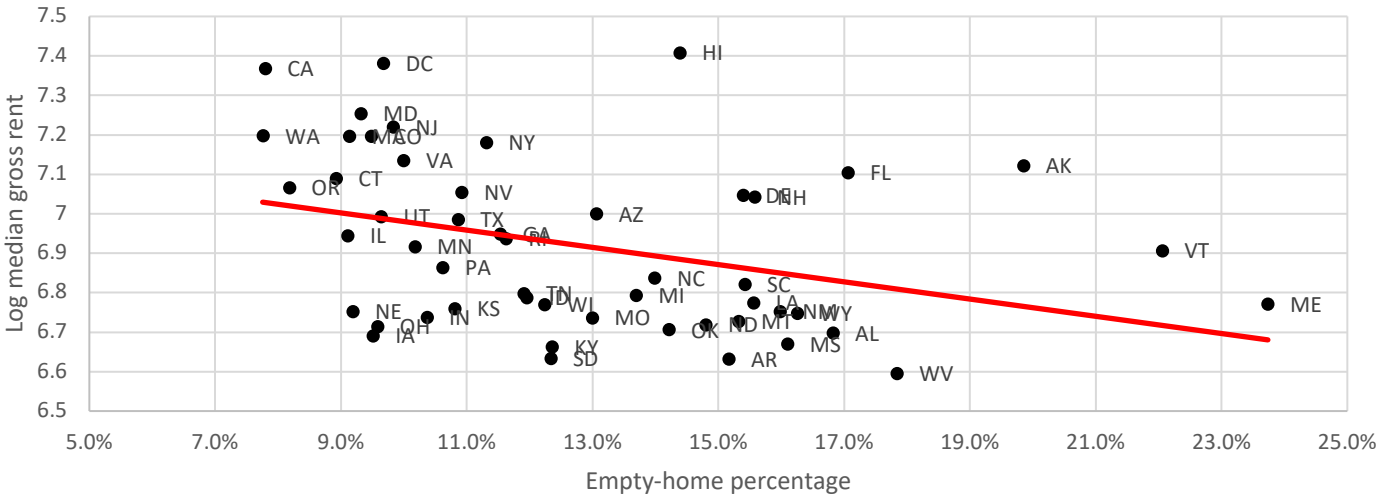
Kentucky and South Dakota had vacancy percentages that were slightly below the national average of 12.4% and 12.3%, respectively.

Similar to Figure 1 about median home prices and vacancy percentages, Figure 3 below shows there is a strong negative correlation between median gross rents and vacancy percentages across all states and the District of Columbia.

Table 8: Bottom 5 states: Median gross rents vs. empty home percentages, 2020[73]

Sector	State	Median gross rent	Empty home percentage
47	Mississippi	$789	16.1%
48	Kentucky	$783	12.4%
49	South Dakota	$761	12.3%
50	Arkansas	$760	15.2%
51	West Virginia	$732	17.8%
Average	**All states plus D.C.**	**$1,036**	**12.8%**

Figure 3: Correlation of states' empty home percentages and median gross rents, 2020[74]



Figures 1 and 3 both show a distinct negative correlation between vacancy rates and median home prices and rents across the United States. In other words, the figures indicate that states with low home prices have large numbers of vacancies.

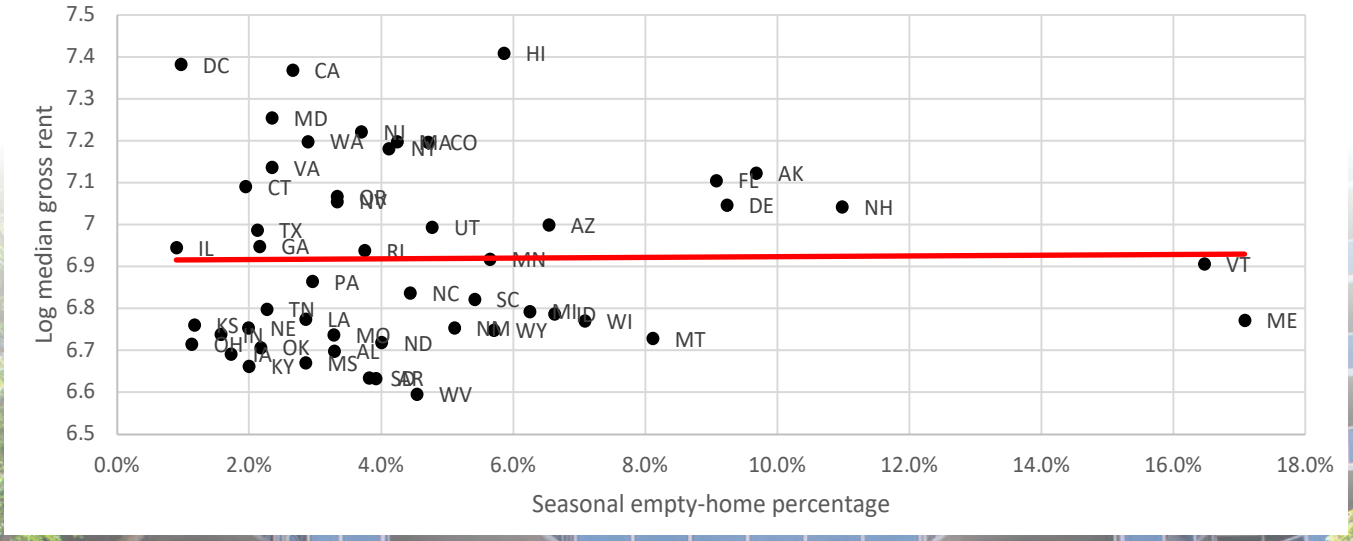
This could be explained by other types of vacancies identified by the U.S. Census Bureau that are more prevalent on the continental U.S., such as abandoned and blighted properties or foreclosures.

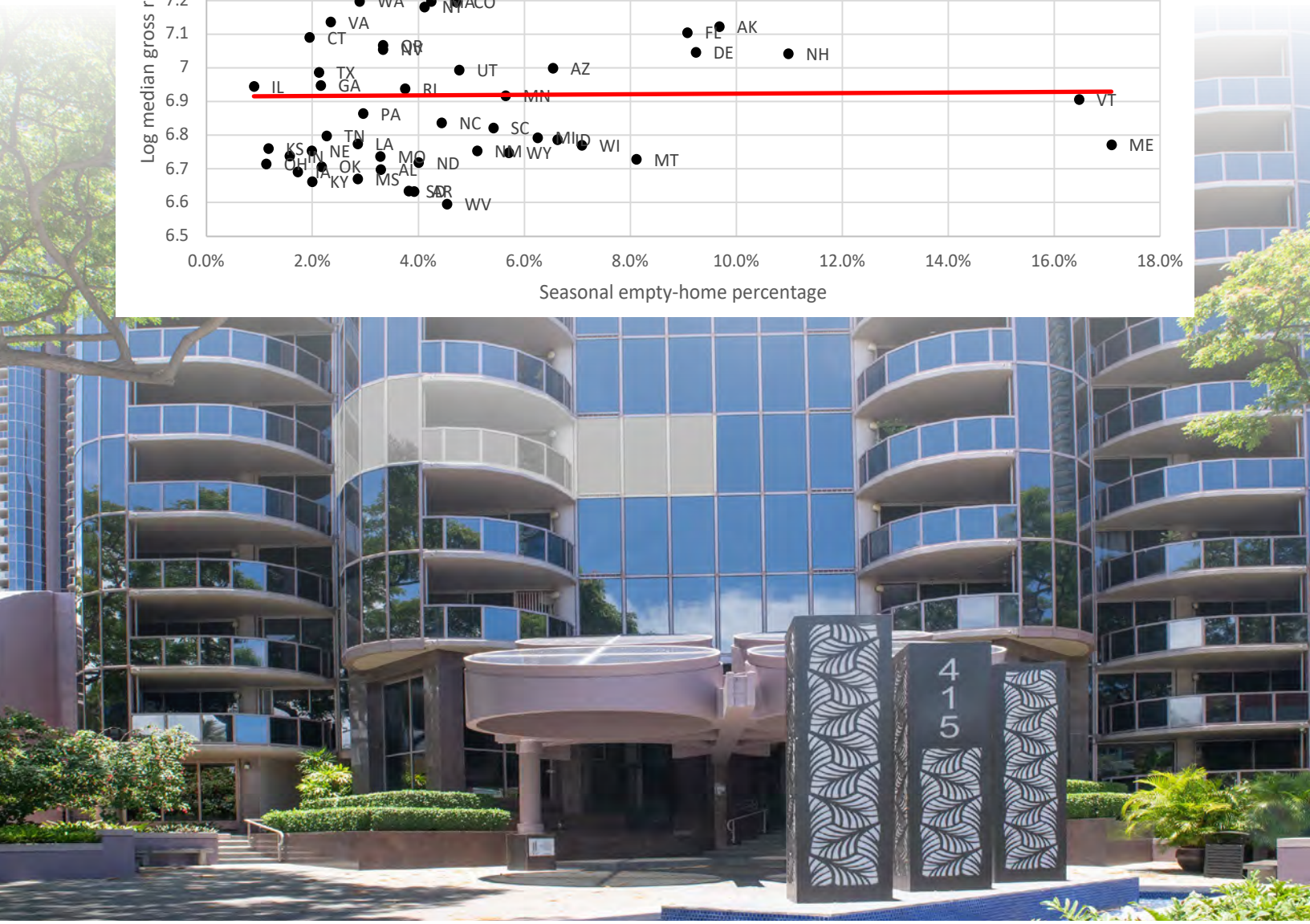
For example, in 2013, Hye-Sung Han, an assistant professor at the University of Kansas, looked at property data in Baltimore, Maryland, from 1991 to 2010 and found that abandoned properties reduced the prices of nearby properties.[75]

In addition, Han found that the negative effect of abandoned properties on neighboring property prices becomes more severe the longer a property remains abandoned.

Regarding seasonal vacancies, Figure 4 below shows little to no correlation between seasonal vacancy percentages and median gross rents nationwide.

Figure 4: Correlation of states' seasonal empty home percentages and median gross rents, 2020[76]





Vacancies and home prices in Hawaii

As a disclaimer, trends should not be interpreted as definitive evidence that vacancies cause increases or decreases in local home prices and rents because they do not account for external factors such as interest rates, migration or general changes in the economy.

From 2010 to 2019, vacancies across Hawaii increased 19.1%, from 69,890 to 83,250. From 2019 to 2020, vacancies declined by 5.5% from 83,250 to 78,639, leaving the total increase for the 2010-2020 period at 12.5%.[77]

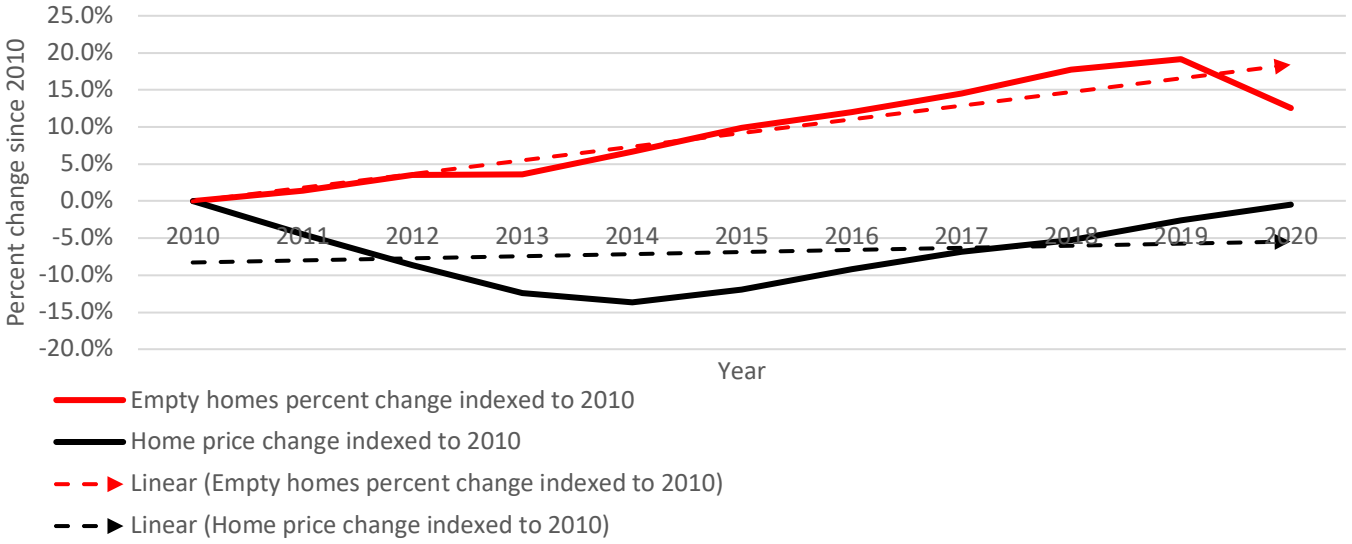
The decline in vacancies from 2019 to 2020 could perhaps be explained partly by the state's shelter-in-place policies during the early phase of the COVID-19 crisis, which required most people in Hawaii to stay indoors at their homes and thus be available to answer the phone if called by the U.S. Census Bureau instead of counted as a vacancy.

Compared to median home prices, the rate of growth for vacancies increased while median home prices briefly declined until their growth rate rebounded in 2014 and continued to increase leading into 2020.[78]

Seasonal vacancies were the largest type of vacancy for the state between 2010 and 2020. On average, about 43% of vacant units in the state during that period were seasonal vacancies.[79]

As shown below in Figure 5, there seemed to have been a positive relationship between median home prices and vacant homes between 2014 and 2019, suggesting that vacancies might have increased home prices. However, this trend alone should not be interpreted as definitive evidence. As stated previously, trends in home prices are affected by a wide array of factors such as interest rates, migration, a heavily restricted housing supply or general economic conditions.

Figure 5: Trend of empty homes and median home prices in Hawaii, 2010-2020[80]



Data from Hawaii's counties

Looking at Hawaii's four counties, each had different trends between their median home prices and vacancy rates.

Hawaii County

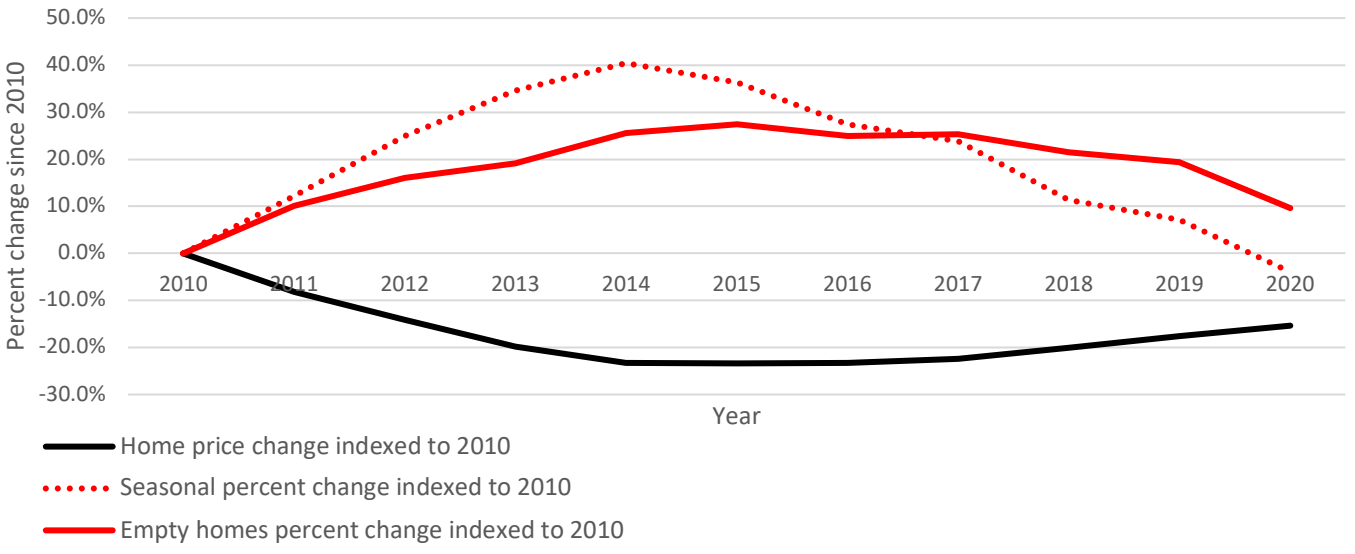
In Hawaii County, there seems to have been an inverse relationship between the growth in vacancies and seasonal vacancies with median home prices between 2010 and 2020, as shown in Figure 6 below. In other words, vacancies increased while home prices decreased.

Between 2010 and 2015, Hawaii County's vacancy growth rate increased by 27.4 percentage points. This was an absolute increase of 4,219 vacancies from 15,389 to 19,608.[81] During the same period, median home prices declined from $429,980 to $329,630.

Between 2015 to 2020, median home prices in the county rebounded slightly from $329,630 to $364,100 while vacancies declined.[82]

Seasonal vacancies were the largest type of vacancy for the state between 2010 and 2020. On average, about 43% of vacant units in the state during that period were seasonal vacancies.

Figure 6: Hawaii County trend of empty homes, seasonal empty homes and median home prices, 2010-2020[83]



Maui County

In Maui County – which includes the islands of Maui, Molokai and Lanai – there does not appear to have been any relationship between median home prices and vacancies between 2010 and 2020, as shown below in Figure 7.

During that decade, vacancies increased by an average of about 4% each year. In absolute terms, they increased from 17,136 to 17,915.

At the same time, the median home price declined from $731,228 in 2010 to $556,886 in 2015 and then increased to $657,400 in 2020.[84]

Seasonal vacancies in Maui County during the period followed a roughly similar trend in relation to overall vacancies.[85]

Kauai County

In Kauai County during the 2010-2020 period, the vacancy growth rate peaked at 14% in 2019 and declined in 2020 to 8.2% as shown in Figure 8 on the following page. This was an absolute increase from 17,136 vacancies in 2010 to 18,690 in 2019, then a decline in 2020 to 17,915.[87]

During that same decade, Kauai's median home price dropped steadily from $693,870 in 2010 to a low of $525,092 in 2015, then increased in a similar fashion to what happened in Hawaii and Maui counties.[88] Overall, vacancies and home prices in the county appear to be weakly correlated.

Kauai was the only county where seasonal vacancy growth did not match overall vacancy growth. From 2010 to 2020, seasonal vacancies declined by an average of 6% each year, while the average annual growth rate for total vacancies was 7%.

Figure 7: Maui County trend of empty homes, seasonal empty homes and median home prices, 2010-2020[86]

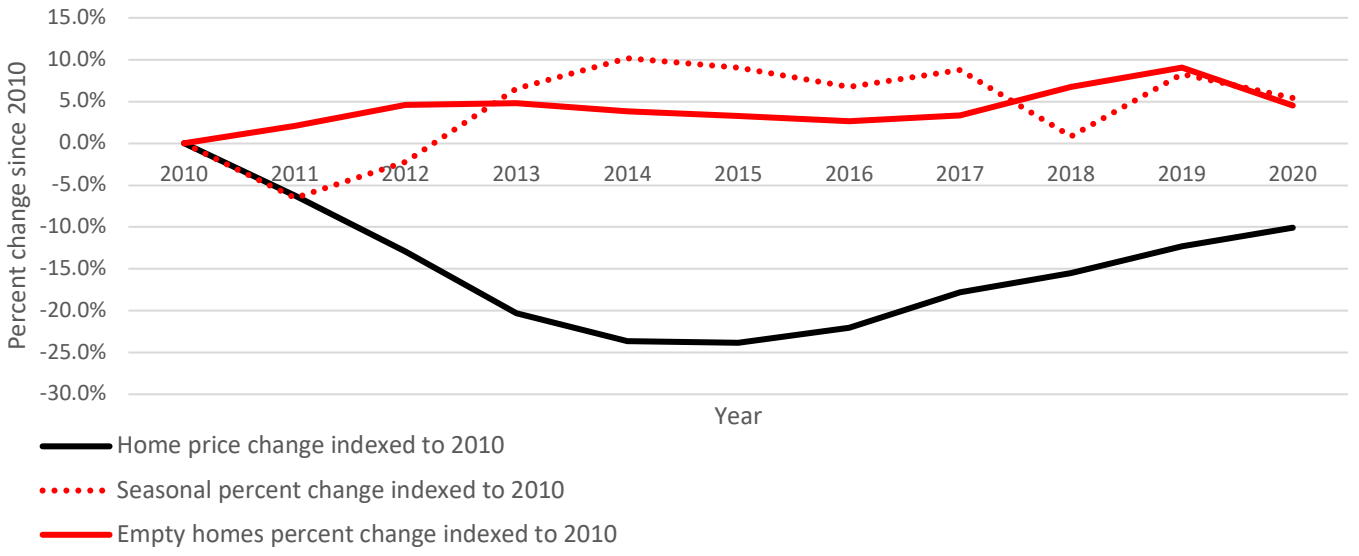
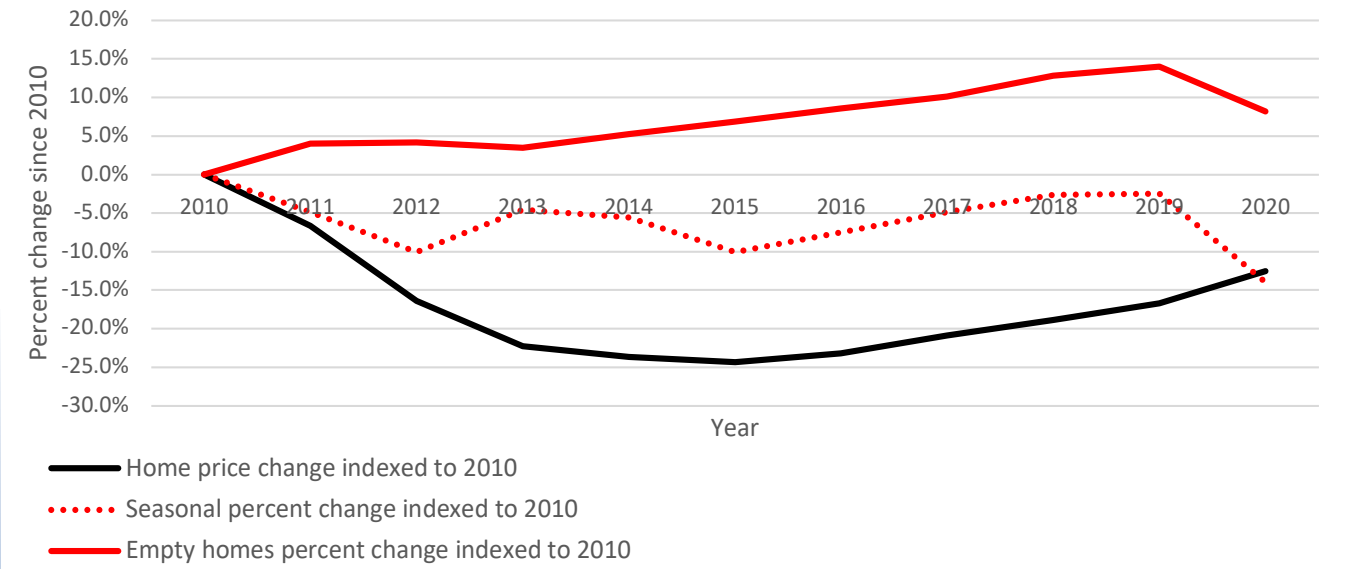
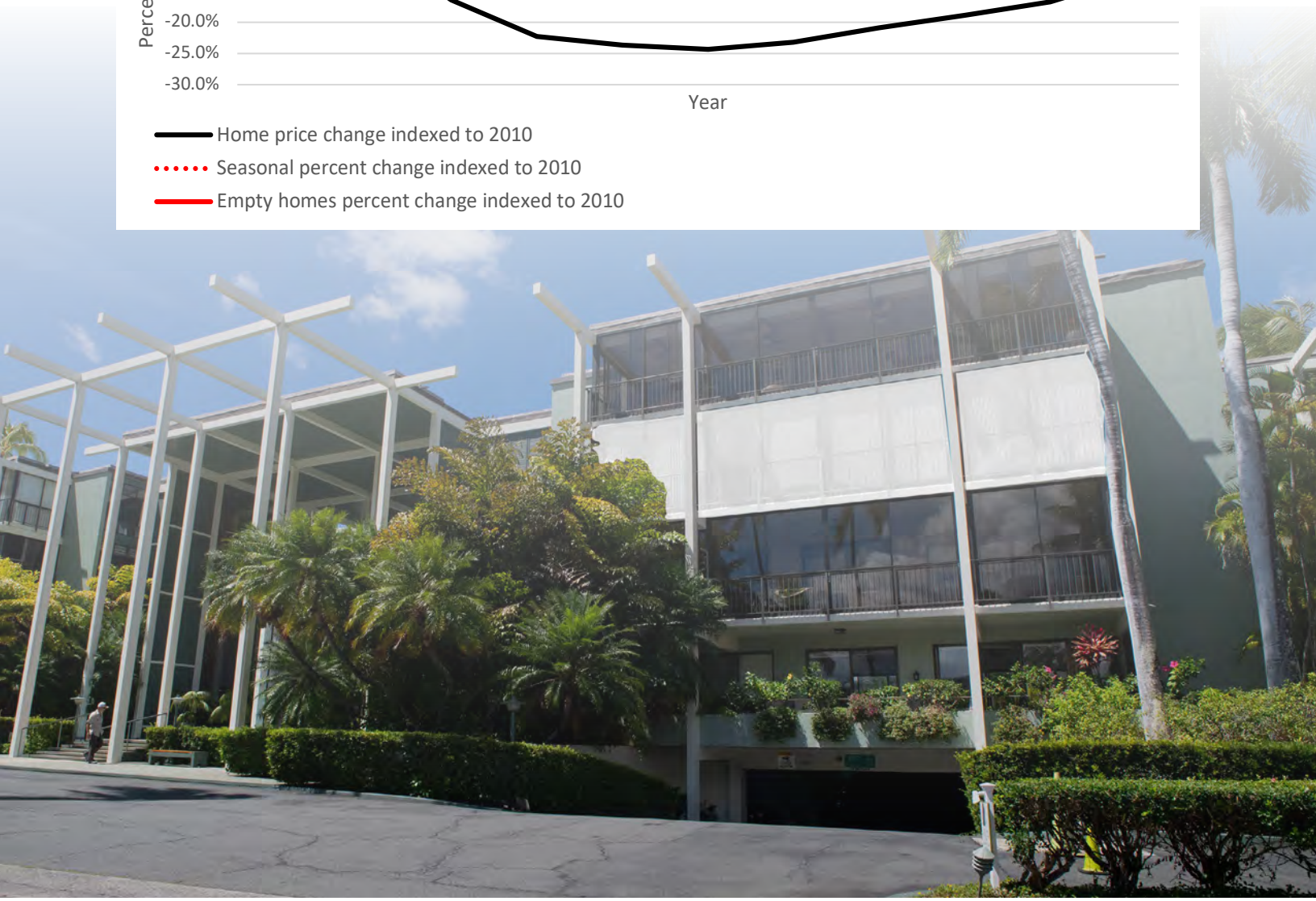


Figure 8: Kauai County trend of empty homes, seasonal empty homes and median home prices, 2010-2020[89]





Honolulu County

Honolulu County is the only county where there was a moderate positive relationship between vacancies and home prices between 2010 and 2020. As shown below in Figure 9, both declined through 2013.

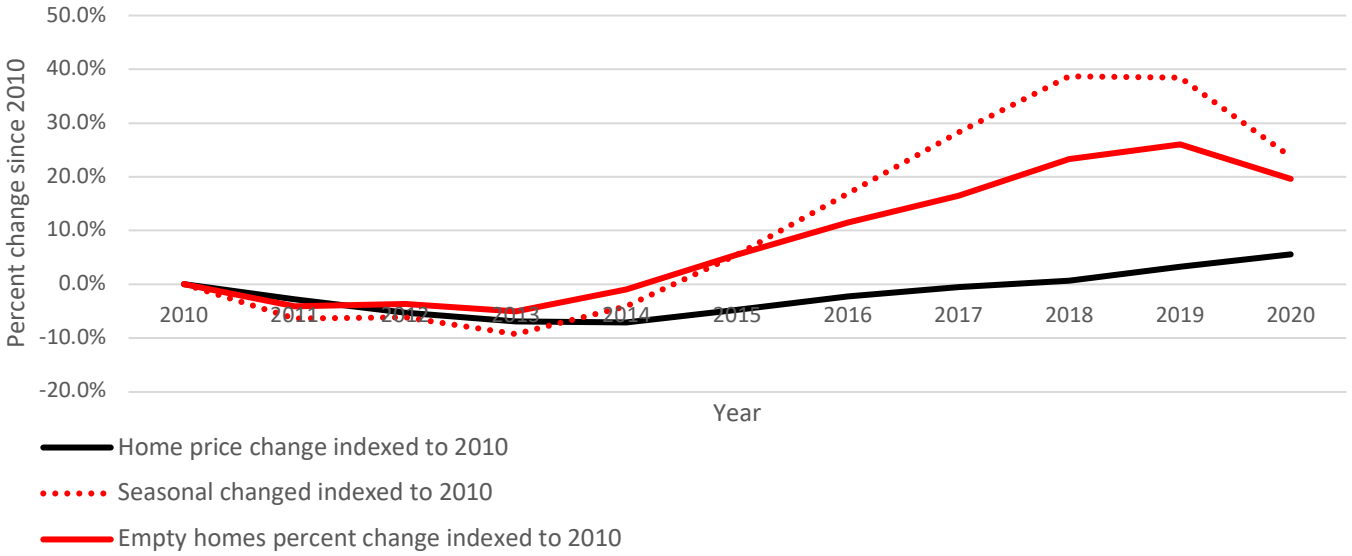
In 2010, vacancies started heading upward, even as home prices slightly declined. By 2014, both were increasing simultaneously. In 2019, vacancies dropped off while housing prices continued increasing.

For the decade as a whole, vacancy growth increased by 26% through 2019, from 29,985 to 37,776, then declined slightly in 2020 by 5.4 percentage points to 35,860. Seasonal vacancies followed a similar trend.

Honolulu's growth in median home prices continued on an upward trend after 2014 through 2020, increasing during that period by 12.7 percentage points, from $617,713 in 2014 to $702,300 in 2020.[90]

The positive correlation between vacancies and home prices might suggest that vacancies have driven up Honolulu's home prices. However, these trends do not account for other factors that influence both home prices and vacancies, such as interest rates or overall economic conditions.

Figure 9: Honolulu County trend of empty homes, seasonal empty homes and median home prices, 2010-2020[91]



Vacancies and gross rents in Hawaii

Figures 10 and 11 below and 12 on the following page show the trends for vacancies, seasonal vacancies and median gross rents between 2010 and 2020 for the counties of Hawaii, Maui and Kauai. As defined by the U.S. Census Bureau, median gross rents are the sum of the contract rent and the cost of utilities.

Each of the figures show little to no positive relationship between vacancies, seasonal vacancies and median gross rents for at least the past decade.

Figure 10: Hawaii County trend of empty homes, seasonal empty homes and median gross rents, 2010-2020[92]

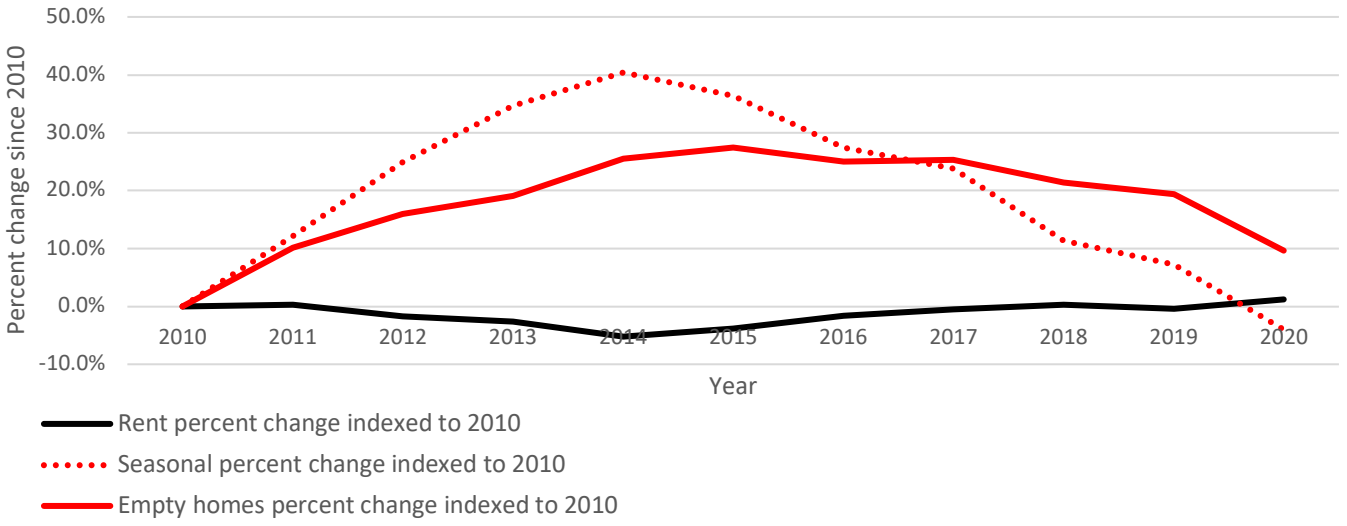


Figure 11: Maui County trend of empty homes, seasonal empty homes and median gross rents, 2010-2020[93]

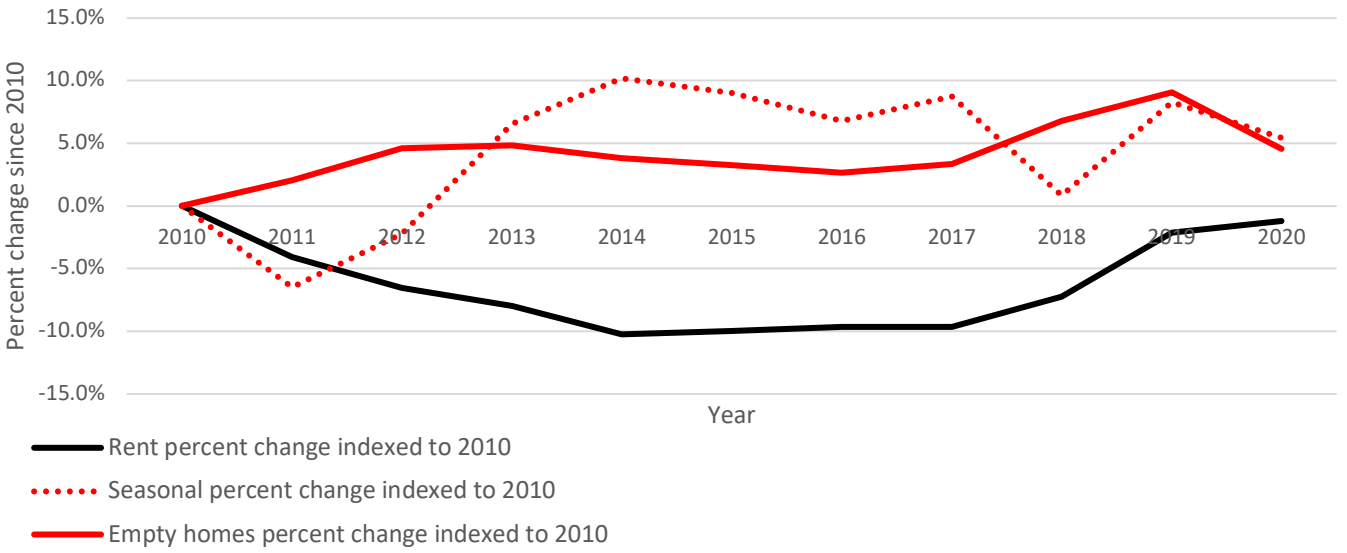


Figure 12: Kauai County trend of empty homes, seasonal empty homes and median gross rents, 2010-2020[94]

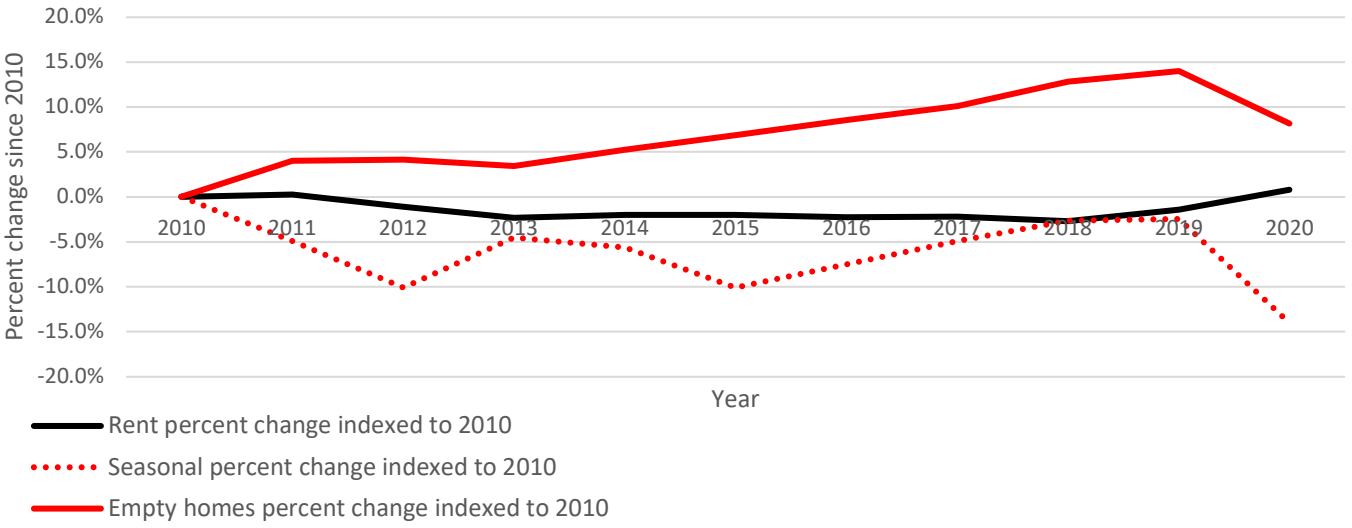
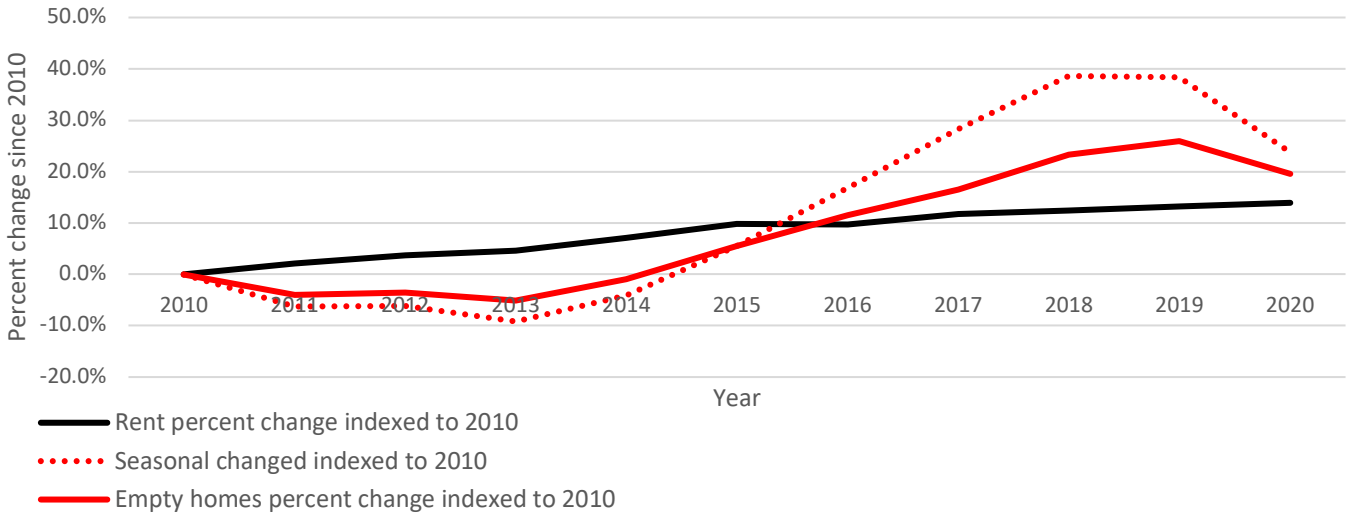


Figure 13 below illustrates the trends for vacancies and median gross rents for Honolulu County since 2010, and there is a noticeable positive relationship between vacancies, seasonal vacancies and median gross rents.

However, this positive relationship is only correlational and cannot be mistaken to mean that more vacancies cause higher rents. This is because the trends in the figure below do not account for the effects of interest rates, migration, heavily regulated housing supply or other factors that could influence the results.

Figure 13: Honolulu County trend of empty homes, seasonal empty homes and median gross rents, 2010-2020[95]



Conclusion

If vacancies are as significant a driver of home prices as proponents of an empty homes tax claim they are, our research should have revealed a positive correlation between home prices and vacancies across the states. It did not.

Instead, an examination of comprehensive data on housing vacancies and home prices and rents in Hawaii and nationwide failed to find any quantitative or qualitative evidence that empty or vacant homes are a primary driver of home prices and rents.

This isn't to say that vacancies have no effect on home prices and rents. But substantial existing data shows that any underlying relationship between vacancies and home prices and rents is miniscule relative to other factors – including land-use, zoning and other housing-related regulations.[96]

That said, this finding might not dissuade Hawaii lawmakers from imposing an empty homes or vacancy tax, partly because the value of such a tax depends on whatever goals they set out to achieve.

As stated previously, imposing an empty homes vacancy tax might increase rental occupancy rates, but it might not. In any case, forcing existing properties into the rental market through an empty homes tax would not increase the total number of homes in Hawaii.

On the other hand, a vacancy tax would surely generate tax revenues. However, if that really is the primary goal, it would be nice if lawmakers were transparent about their motivation rather than cloaking the tax proposal in promises to increase rental occupancy rates, increase housing supply or achieve other goals that could likely go unmet.

Lawmakers should also remember that tax increases come with unintended, often negative, economic consequences. For example, lawmakers should consider the possibility that a vacancy tax could encourage landlords who own a mix of vacant and occupied units to raise the rents on their existing tenants to absorb the cost of the vacancy tax. Or they might sell their empty homes, which would take them off the rental market completely.

In general, Hawaii policymakers should be cautious about blaming so-called empty homes for the state's lack of affordable housing and high home prices and rents, especially since the research contained in this report shows no meaningful correlation between the two in Hawaii or throughout the nation.

Rather than focus on empty homes, which applies to only existing housing stock, Hawaii lawmakers should be working to remove the state's regulatory barriers to homebuilding – which ultimately is the only way to meaningfully increase the supply of homes, ease the pressure on home prices and help resolve Hawaii's housing crisis.

Appendix

I – Methodology

This report regarding the relationship between vacancies and local home prices and rental costs is based on an analysis of all census tracts in the state of Hawaii for which relevant data was available, resulting in a sample of 371 census tracts.[97]

Census tracts are the U.S. Census Bureau's third-smallest unit of measurement for population data and are roughly similar in size to neighborhoods, with populations ranging from 2,500 to 8,000 people.[98] An advantage to using census tract data is that it provides a more detailed analysis of the effects of vacancies opposed to estimates from statewide or citywide data.

The statistical analysis portion of this policy brief employed three econometric techniques: simple linear, multiple and fixed-effects regression models.

>> **A simple linear regression model** has only one independent variable and one dependent variable. In this policy brief, vacancies are the independent variable, while home prices or rents – each was analyzed separately – are the dependent variable.

The advantage of using simple regression models is that they are not complex and are fairly easy to interpret from their mathematical notations.

The biggest disadvantage is that they do not account for other factors that might be influencing the model's results. For example, the simple regression model for vacancies does not account for factors that can affect home prices or rents, such as income, education or the amount of land in a census tract measured by square mileage.

In this study, the results of the simple linear regression model showed no statistically significant association between vacancies and home prices, but there was a negative and statistically significant correlation between vacancies and median gross rents. This suggests that reducing vacancies could lower rents, but the results of the multiple and fixed-effects regression models are more likely to be accurate. This is because the multiple and fixed-effects models can account for factors besides vacancies that might influence home prices and rents, such as population growth, poverty or unemployment.

Seasonal vacancies also exhibited no statistically significant relationship with either median home prices or gross rents.

>> **A multiple regression model** is an expanded version of the simple linear regression model because it consists of multiple independent variables but still has one dependent variable, like the simple regression model.

The multiple regression model in this analysis had the same dependent variable as the simple regression model – home price or rent – but had more than one independent variable in addition to vacancies, such as income, land area or education. This gave it an advantage over a simple linear regression model because it can account for other factors that might influence its estimates.

Both the simple linear and multiple regression models in this policy brief analyzed cross-sectional data from the U.S. Census Bureau's American Community Survey for 2020.[99] So, despite the multiple regression model's advantage over the simple linear regression model, both might not yield the true effect of vacancies on home prices or rents because they are analyzing data at a single point in time: the year 2020.

In addition, the multiple regression model cannot account for all relevant factors, known as omitted variable bias.

In this study, the multiple regression model accounted for factors such as population, education, income and commute time, but the results still showed no statistically significant relationship between Hawaii home vacancies and home prices or rents.

Similarly, there was no significant relationship

between seasonal vacancies and home prices or rents.

>> **A fixed-effects regression model** alleviates a substantial degree of worry concerning omitted variable bias by accounting for unobserved factors that do not vary much over time, such as the natural geography of a neighborhood.

This analysis used a fixed-effects strategy for the years of 2010 to 2019 with the same census tract data as used by the simple linear and multiple regression models.

In the fixed-effects regression model using data for 2010 to 2019, no significant relationship between vacancies and home prices was found. However, after accounting for changes in population, unemployment and income levels, there was found to be a significant negative relationship between empty homes and home prices. This suggests that more vacancies might lower home prices, but it also suggests that higher home prices might reduce vacancies.

For rents, no significant relationship with vacancies was found. Similarly, for seasonal vacancies, there was no significant relationship with either home prices or rents.

In summary, statistical analysis does not provide any evidence that empty homes drive home prices or rents.

II – The empty homes slippery slope

The idea of a vacancy tax has implications that go beyond any statistical considerations.

For example, if public policy can impose a tax on individuals who leave their homes vacant for whatever reason or period or time, what about elderly couples whose children have all moved away from the family homestead and now have extra or "vacant" rooms?

There are many other people who need a place to live, right? What about grandma's extra bedrooms? Should individuals with "vacant" rooms be taxed in the name of lowering rental vacancy rates?

Would everyone with empty rooms have to submit annual statements to the state or counties to prove they have a legitimate reason for leaving their extra rooms vacant?

What kinds of exemptions might apply to them? Would it be permissible for them to use those rooms for personal storage? For recreation? As a guest room? Or even leave them as they were when their children lived there for when their children come home to visit?

Will they have to make their homes available for government inspection? What if they can't afford the tax? Could they lose their homes – and thus, ironically, be out of a place to live?

These might seem like extreme scenarios, and they are. But that is the slippery slope of policy ideas such as the empty homes or vacancy tax. Your empty home today; tomorrow your empty room.

III – Empty home tax skeptics

The belief that an empty home tax will substantially ease the housing crisis in Hawaii or anywhere else is not shared by everyone.

Betty Wang, an assistant professor of economics at the University of Hong Kong and a research affiliate of the Furman Center for Real Estate and Urban Policy at New York University, said recently via email: "I don't think there is much [an empty homes tax] could do to increase the supply of affordable housing. Yes we could tax these homebuyers for non primary residences, and we could dedicate the tax revenue from these homes as housing affordability funds. But I doubt the effect will be [more than] a drop in the bucket."[100]

Paul Brewbaker, former chief economist for Bank of Hawaii and principal of consulting firm TZ Economics in Honolulu, commented: "I don't understand the hypothesis that says empty homes increase prices. I lived in the Rust Belt in the 1970s and 1980s and, trust me, empty homes were associated with decreased prices in the Upper Midwest and North Central U.S. during the eight years I lived there."[101]

Christine Camp, president and CEO of the Honolulu-based real estate firm Avalon Group, stated: "Frankly, there are just a few areas [in Hawaii] with empty homes. Most homes that are purchased by investors are being rented to local tenants. Without investors, we would not have rental options for our residents who can't afford to buy homes."[102]

Camp also said that, "For those few 'vacant' homes, these are in locations where the high land costs result in multimillion-dollar units that would not be affordable to our residents. These 'vacant' units pay taxes but do not use the services that we need, so these owners subsidize our civil services."

In addition, Camp said the real cause of Hawaii's lack of affordable housing "is related to the risk profile of development in Hawaii."[103]

For example, she said, "the duration of seeking permits is so unpredictable and so elongated, that there is no such thing as by-right permitting in Hawaii. Any development, no matter how non-controversial, takes an average of five to seven years to pay off the investment. For some green-field developments, the required rezoning could take as much as 20 years. These durations and unpredictability of permitting requirements add to the carrying cost of land and add to the risk profile of developing homes."[104]

Tom Yamachika, a local tax attorney and president of the Tax Foundation of Hawaii, said Hawaii's vacant homes "are a symptom of much larger economic forces. People build and market these so-called empty homes because they think people are going to buy them, and people, in fact, do."[105]

He also pointed to "economic forces over which we have little control, such as being on an island in the middle of the ocean to which basic goods need to be shipped, at a cost. People like to visit, and we have a tourism driven-economy as a result. We market ourselves as a destination to sojourn, so it's no surprise that some of these tourists want a place to land if they are thinking of coming back often."[106]

Economist Bryan Caplan, professor of economics at George Mason University and author of the forthcoming book "Build, Baby, Build: The Science and Ethics of Housing Regulation," wrote via email that blaming empty homes for Hawaii's housing woes is "almost all political theater."[107]

Caplan said "people own empty houses all over the country. [But] in places with light regulation, prices stay low."

Tobias Peter, a research fellow and assistant director of the American Enterprise Institute's Housing Center, said: "You can argue about an empty home tax, but ultimately it will be a distraction. It won't solve the affordability crisis and you're wasting precious time to deregulate land use, which is the root cause of the problem."[108]

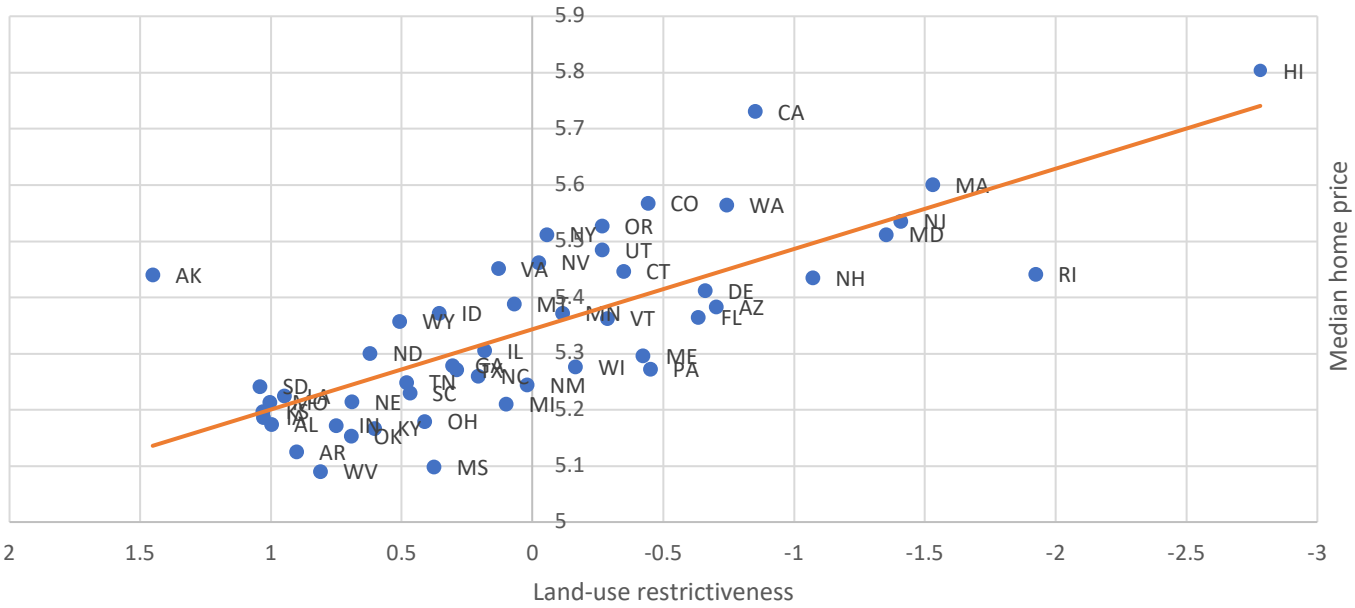
IV – The evidence against housing red tape

The following was originally published in the August 2022 Grassroot Institute of Hawaii policy brief "The 'outsider' theory of Hawaii's housing crisis: A comparative analysis of how the Aloha State's home prices are affected by out-of-state buyers."

————————

Figure 14 is a scatter plot of all 50 states correlated with their average level of land-use restrictiveness as measured by the Cato Institute's land-use freedom index, which is an extension of the Wharton Index.

Figure 14: Plot of land-use restrictiveness and 2020 mean home prices, by state



While Figure 6 [as featured on page 11 of the "outsider" report] shows no meaningful relationship between nationwide median home prices and out-of-state buyers, Figure 14 above shows a statistically significant linear and positive correlation between nationwide median home prices and land-use restrictiveness.[109]

Land-use regulations are not the only driver of home prices across the country, but the data suggests that they are, at least, a substantially better predictor of home prices.

The following national studies come to similar conclusions:

- In 2021, economist Jaehee Song of Yale University studied the effects of minimum-lot restrictions — a type of housing regulation that determines the minimum lot size allowed for construction — and found that "minimum lot area restrictions play significant roles in increasing housing prices and limiting housing supply."[110]

- In 2019, land-use policy expert Randal O'Toole found "a strong negative correlation between growth-management planning and housing affordability." He noted that in 2018, "18 of the 20 least-affordable urbanized areas out of 437 nationwide, with value-to-income ratios above 5.8, were in California, Hawaii and Oregon. The other two were Boulder, Colorado, and Flagstaff, Arizona. It's fair to say that virtually all of the 45 urban areas with value-to-income ratios above 5.0 practice some form of growth management."[111]

- In 2017, Cato Institute policy analyst Vanessa Brown Calder examined the link between housing regulation and states' home prices and found that "in general, the states that have increased the amount of rules and restrictions on land-use the most have higher housing prices."[112]

- In 2014, Joseph Gyourko and Federal Reserve economist Raven Molloy documented that "the vast majority of studies have found that locations with more regulation have higher house prices and less construction."[113]

- In 2009, four economists writing in Cityscape, an academic journal of the U.S. Department of Housing and Urban Development, analyzed the effects of inclusionary zoning policies in California from 1988 to 2005 and found "inclusionary zoning policies had measurable effects on housing markets in jurisdictions that adopt them; specifically, the price of single-family houses increases and the size of single-family houses decreases."[114]

- Also in 2009, four researchers analyzed high-density zoning in six U.S. metropolitan areas and found that "[high-density zoning] as practiced by suburban governments in the six metropolitan areas limits the construction of multifamily housing below market determined levels."[115]

- In 2003, Gyourko, Molloy and Harvard University economist Edward L. Glaeser looked at home prices in Manhattan and determined that "in expensive coastal areas especially, there often is a substantial gap between the price of housing and construction costs. This gap suggests the power of land-use controls in limiting new construction."[116]

- In 2002, Gyourko and Glaeser considered the impact of zoning on housing affordability and concluded: "The bulk of the evidence marshaled in this paper suggests that zoning, and other land-use controls, are more responsible for high prices where we see them. ... Measures of zoning strictness are highly correlated with high prices."[117]

- In 1996, economist Stephen Malpezzi of the University of Wisconsin-Madison analyzed 56 metropolitan areas and found that regulation increases both housing rents and values while lowering homeownership.[118]

- In 1987, economists Lawrence Katz of Harvard University and Kenneth Rosen of the University of California at Berkeley analyzed housing data from the San Francisco Bay Area and found that "house prices are between 17% and 38% higher in those communities in which growth moratoria and/or growth control plans are present."[119]

Economists in Hawaii agree that housing supply is the critical factor. Said [Paul] Brewbaker of TZ Economics: "It doesn't matter whether locals or aliens from the Delta Quadrant of the galaxy buy houses. The price of a house is the price of a house. Build more of them, relative to demand, and they won't be as much more expensive as if you didn't."[120]

Noting that "the share of house purchases comprising offshore investors has been decreasing for the last 10-15 years," Brewbaker dismissed the idea that out-of- state buyers could be the cause of increased home prices in Hawaii.

"The ratio of non-local to local buyers of houses is unrelated to the average prices the two groups pay for houses, on average," he said. "All houses tend to appreciate at the same rates over time, regardless of who buys them. Building more [houses] could attenuate, somewhat, their rate of price increase in the short run."

Economist Gerard Dericks, director of Hawaii Pacific University's Center for Entrepreneurship and Economic Education, observed:

> "'Foreigners' and 'the other' have always been a convenient scapegoat to divert unwanted political attention. To perseverate on demand ('outside' or otherwise) as the cause of high home prices reflects a superficial understanding of economics. If politicians allowed the supply of homes to adjust naturally, increases in demand (outside or otherwise) would have only a trivial effect on prices."[121]

As previously mentioned, researchers from the University of Hawaii Economic Research Organization surveyed Hawaii's regulatory agencies using questions from the Wharton Residential Land Use Regulation Index to gain an understanding of how significant Hawaii's regulatory barriers to housing might be.

UHERO economists Carl Bonham and Justin Tyndall and graduate research assistant Rachel Inafuku concluded, "Every 1 point increase in the Wharton Index correlates with an 8% increase in home prices."

They tiptoed around affirming any causal connection between the regulatory index and local prices, but said "evidence from a number of studies using national data suggests that regulation does cause higher prices."[122]

In 2013, Bonham wrote with more certainty:

> "Reducing or eliminating overly burdensome regulation on development, including inclusionary zoning, will increase affordability of housing for two reasons. First, it will encourage building, increasing the overall stock of housing, which will help hold down the market price of housing. Second, removing IZ [inclusionary zoning] will facilitate the natural 'filtering' process, with newer units going to higher income households and older depreciating units being increasingly occupied by lower income households."[123]

In 2016, University of Hawaii economist Sumner La Croix wrote that a major reason for Honolulu's housing shortage is that "the process of competition in Honolulu land and housing markets takes place under the watchful eyes of state and county governments that together impose the most severe regulation on land development to be found in any large U.S. metropolitan area."[124]

In 2017, UH economist James Mak testified before a panel of the state House Committee on Economic Development and Business that "[looking for solutions on] the demand side is probably not going to have the effect you desire. ... The supply side of the solution is the more practical solution."[125]

In "Build up or build out? How to make housing more affordable," a report published by the Grassroot Institute of Hawaii, economist Randal O'Toole concluded: "Eliminating restrictions on development of undeveloped lands on the urban fringe is both necessary and sufficient to make housing more affordable. Even in high-cost regions such as the San Francisco Bay Area, Los Angeles, Seattle and Portland, new housing in such areas should cost about the same as new housing in Houston or Oklahoma City. This would bring down the cost of housing in the cities as well."[126]

Endnotes

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