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DOI

[10.1080/02673037.2018.1447093](https://doi.org/10.1080/02673037.2018.1447093)

Publication date

2018

Document Version

Final published version

Published in

Housing Studies

Citation (APA)

Gentili, M., & Hoekstra, J. (2018). Houses without people and people without houses: a cultural and institutional exploration of an Italian paradox. *Housing Studies*.
<https://doi.org/10.1080/02673037.2018.1447093>

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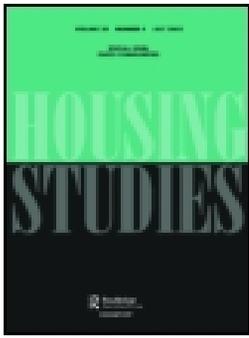
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To cite this article: Martina Gentili & Joris Hoekstra (2018): Houses without people and people without houses: a cultural and institutional exploration of an Italian paradox, *Housing Studies*, DOI: [10.1080/02673037.2018.1447093](https://doi.org/10.1080/02673037.2018.1447093)

To link to this article: <https://doi.org/10.1080/02673037.2018.1447093>



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Published online: 26 Mar 2018.



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Houses without people and people without houses: a cultural and institutional exploration of an Italian paradox

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ABSTRACT

According to basic economics, when vacancy rates rise, house prices should decrease and vice versa, responding to supply and demand mechanisms. However, previous studies have observed that, before the economic crisis, this was not the case in Spain and Malta. It has been questioned whether this paradox is a Mediterranean phenomenon or simply the result of isolated cases of malfunctioning housing market. This paper contributes to this discussion by reviewing the pre-crisis housing market of a third case study: Italy. A Mediterranean housing system perspective is used to analyse the paradox, and methodological issues regarding the definition and measurement of vacancy are addressed. Moreover, the paper explores the consequences of the high Italian vacancy rate within a context of housing shortages and affordability problems. We argue that a better understanding of the characteristics and implications of vacancy is necessary in order to be able to implement sustainable housing and planning policies.

ARTICLE HISTORY

Received 11 August 2016
Accepted 19 February 2018

KEYWORDS

Vacant dwellings; mediterranean housing systems; Italy; house prices; housing shortage

Introduction

At the beginning of the 2000s, the total housing stock in the European Union amounted to roughly 206.7 million dwellings (Ministry of Infrastructure of the Italian Republic/FederCasa Italian Housing Federation, 2006). A rather high share of those dwellings was, for a number of reasons, empty. The highest vacancy rates – consistently above 20% – were found in Mediterranean countries. This is partly due to second or holiday homes, which are often calculated in the vacant stock. However, it has been observed that in some Mediterranean countries, high vacancy rates have gone hand in hand with growing house prices in the decade before the Global Economic Crisis (Hoekstra & Vakili-Zad, 2011; Vakili-Zad & Hoekstra, 2011). Such circumstances require further investigation, in order to understand whether they are the result of isolated cases of malfunctioning housing markets or they represent a more widespread phenomenon across Southern Europe.

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In order for the housing market to operate efficiently and to allow residential mobility, a certain percentage of vacancy is necessary. This vacancy is commonly referred to in the literature as transactional, transitional, frictional or natural vacancy (Couch & Cocks, 2013; Hagen & Hansen, 2010; Zabel, 2014). All these different terms indicate the empty dwellings that result from the normal functioning of housing markets, where the residential search process implies that properties can shortly be vacant between occupants (Rosen & Smith, 1983; Smith & Merrett, 1988; Wheaton, 1990). The natural vacancy rate varies in time, across housing markets and across tenures (Couch & Cocks, 2013; Hagen & Hansen, 2010). Nevertheless, reasonable assumptions can be made as to what level of vacancy is 'healthy' for a housing market: both in the US and in Europe, the rule of thumb usually considers a rate of 5% as the upper limit for the natural vacancy (Glock & Haussermann, 2004) and a vacancy rate above 8–10% as critical (Huukka, 2015).

According to basic economics, when vacancy rates rise, house prices should decrease and vice versa, responding to supply and demand mechanisms (Glaeser & Gyourko, 2005). Therefore, residential vacancy is usually understood as an indicator of how efficiently the housing market is able to respond to changes in demand and supply (Wyatt, 2008). However, from the early 1990s until at least 2007, a number of Southern European countries seemed to defy this basic theoretical explanation. Indeed, an apparently unlikely combination of high vacancy and high house prices seems to be a characteristic of the Mediterranean countries. According to Hoekstra & Vakili-Zad, who analysed the Spanish and Maltese cases (Hoekstra & Vakili-Zad, 2011; Vakili-Zad & Hoekstra, 2011), this phenomenon is related to the specific features of the Mediterranean welfare and housing systems. This paper sets out to contribute to this discussion and explore the 'Italian paradox' by presenting data on the Italian pre-crisis housing market, which further support this hypothesis. In doing so, we follow the exploratory and cultural/institutional approach that was also used by Hoekstra & Vakili-Zad (2011).

In the next section, a review of the relevant literature will provide an insight in the characteristics and implications of vacancy, touching upon the methodological issues related to its definition and measurement. In the third section, the Italian and Mediterranean paradox will be framed within the European context, by comparing Italian data to those of other European countries. Subsequently, in Section 'The existence of an Italian paradox', Italian vacancy rates and house price dynamics in the decade before the economic crisis will be examined at both the national and the regional level. These dynamics challenge the normal functioning of the housing market and support the case for an Italian paradox. In Section 'Explanation from a mediterranean housing system perspective', we will elaborate a tentative theoretical explanation for this paradox from a Mediterranean housing system perspective. After that, we will attempt to explore the consequences of the high vacancy rate within a context of severe housing shortages and affordability problems. The final section provides some conclusions for this exploratory analysis and suggests steps for further research.

Literature review

To investigate the role of vacant dwellings in the Mediterranean context, it is necessary to illustrate the different ways in which literature conceptualizes vacancy. A vacant dwelling can be very generally defined as a residential unit that is empty at a particular point in time (Hoekstra & Vakili-Zad, 2011). This definition may thus comprise a number of very different cases: dwellings that are temporarily empty between change of occupants or while

undergoing refurbishment; dwellings that are unfit for habitation; dwellings that have been completed but are not yet occupied; dwellings for holiday use, either by the owner or on a rental basis (for example, AirBnb); dwellings that are on offer on the housing market and dwellings that are voluntarily kept away from it, potentially for investment purposes. In the Italian case, dwellings that are permanently let on the black market without registration of the rental contract are also considered as vacant in the statistics. Thus, the supply of vacant dwellings is heterogeneous and segmented, with some dwellings serving as the primary residence for a household (although not on the home ownership market but on the black rental housing market), others being on the home ownership market as a secondary or primary residence and still others being kept away from this market, for example, for familial or speculative reasons. It is important to take this heterogeneity and segmentation into account when relating vacancy rates to housing market developments such as house prices. Unfortunately, lack of suitable data often hampers the possibilities for doing so, as this paper will show.

A large amount of the existing theory addresses the issue of empty dwellings from a real estate economics perspective, concentrating on the role of the natural vacancy rate in the functioning of the housing market (Hagen & Hansen, 2010; Rosen & Smith, 1983; Smith & Merrett, 1988; Wheaton, 1990). Much interest goes into the theoretical and operational difference between ‘natural’ and ‘problematic’ vacancies, for this distinction would allow to better assess the impact of structurally empty homes on the housing market and to design better policies. Fielder & Smith (1996) define as ‘problematic’ those empty dwellings that, due to being in poor conditions, are likely to remain vacant for longer periods of time. More generally, literature tends to consider long-term vacancies (dwellings empty for over six months) as problematic (Couch & Cocks, 2013; Wyatt, 2008) and often links them to overoptimistic pricing or reluctance to invest in refurbishment (Glock & Haussermann, 2004). Henderson (2015) suggests that this market-based temporal logic is somehow too narrow because it fails to acknowledge that dwellings might be kept empty and away from the market by their owners for a number of legitimate reasons, including inheritance, refurbishment or using it as a holiday home. Thus, they can be empty for a long time and still not be problematic from a housing market or socio-environmental point of view. Wyatt (2008) argues that, in order for the temporal logic to be useful in identifying problematic vacancies, it needs to be coupled with detailed knowledge of the reasons why the dwelling is empty. He therefore develops a method to achieve a more sophisticated measure of the duration of vacancy based on information derived from council tax records. In addition to the duration of vacancy, Couch & Cocks (2013) suggest that the level of residential vacancy recorded in the best performing housing market in a country could be reasonably assumed as an approximate indicator of the natural vacancy rate for that country. Therefore, any vacancy rate significantly above that threshold would indicate less efficient market conditions, thus a somehow problematic situation worth of more attention.

Shrinking metropolitan areas are among the most studied when it comes to vacancy, since population loss usually results in decreasing housing demand, leading to vacant homes, and it is therefore often considered a proximate driver of residential vacancy (Glock & Haussermann, 2004; Glaeser & Gyourko, 2005). Interestingly, residential vacancy can be an issue also in areas associated with growth. As Molloy (2016) suggests, the high level of construction can contribute to long-term vacancy in neighbourhoods that experienced a housing boom. Large cities with a booming housing market may also have a fair share of

vacant housing; these are homes that are kept empty for speculative reasons and/or that are used as a second residence (Bar-Sinai, 2009).

Several studies (Cohen, 2001; Power & Mumford, 1999) recognize vacant and abandoned dwellings as generating high social costs and negative environmental impacts in city neighbourhoods. Depending on the reasons for the vacancy, a large number of empty dwellings may be associated with falling property values, social problems, crime and neighbourhood abandonment (Cui & Walsh, 2015; Fuentes & Hernandez, 2014; Griswold & Norris, 2007; Han, 2014). In this sense, the number of vacant dwellings may be regarded as an indicator of the socio-economic well-being of a neighbourhood (Wyatt, 2008).

Recently, the excessive amount of vacant dwellings has been addressed as an issue of social justice in the context of European housing shortage. Great public attention from this point of view has been raised by the Guardian newspaper in a number of articles linking the number of vacant homes to that of the homeless in both the United Kingdom and in overall Europe (Griffiths, 2010; Neate, 2014). There is a tendency to think of vacant dwellings as potential rental supply, especially in the UK (Griffiths, 2010; Henderson, 2015), though studies suggest that this is complicated due to the geographical and typological mismatch that often exists between supply and demand (Nordvik & Gulbrandsen, 2009; Wyatt, 2008; Zabel, 2014). With regard to this aspect, the work of Henderson (2015) on the evaluation of Empty Dwelling Management Orders in the UK is of particular value. Following a substantial housing shortage and the consequent political pressure from activists associating vacant homes with wasted resources, the government approved a policy to enable local authorities to force empty dwellings back into use. However, as Henderson's research points out, the implementation of such policy proved rather difficult due to the wide range of owners' personal situations behind empty dwellings.

Generally, research on vacancy assumes economic equilibrium theory as a basis. In a frictionless market, a decrease in housing demand would result in a drop in house prices, with no change in the number of occupied dwellings. However, in the real world, a number of housing market frictions – like the overestimation of property values, or the time-lag between changes in market conditions and the adjustment of transaction prices – prevent this from happening, with the result that vacancy increases when demand falls. Thus, vacancy is the result of declines in housing demand coupled with frictions in the process of house price adjustment. However, while it is clear that high vacancy rates affect property values and levels of construction (see Molloy, 2016), it does not always do so according to the rules of supply and demand. Indeed, a number of recent studies suggest that the market equilibrium theory might be contradicted by the empirical functioning of the housing market in some specific contexts and segments of the housing market. Zabel (2014) develops a dynamic model of the housing market where vacancies act as a market correction mechanism. He argues that in case of excess demand, house prices rise when vacancies fall, but in case of excess supply, prices do not fall when vacancies grow. Rather, when there is oversupply the equilibrating mechanism is not a decline in prices but a decline in new housing supply in response to an increase in vacancies. Moreover, shortage and oversupply can occur simultaneously because of a mismatch between housing-demand patterns and geographical, typological or tenure characteristics of the housing supply (Couch & Cocks, 2013; Lauf *et al.*, 2012; Nordvik & Gulbrandsen, 2009). A second extremely significant study that interrogates the market equilibrium theory is that on Spain and Malta, illustrated in two different papers by Hoekstra & Vakili-Zad (2011). In both cases, house prices have

increased for decades despite disproportionately high vacancy rates, and the authors found a good explanation for this in the characteristics of the Mediterranean housing system.

In addition to these works on Spain and Malta, there are other country-specific studies that seek to explain problematic vacancies on the basis of nationwide cultural and demographic phenomena. Huukka (2015) finds that vacancy is more severe in rural rather than urban areas of Finland, depending on the population decline associated with the shrinkage of peripheral settlements. In Norway, Nordvik & Gulbrandsen (2009) explain recent high vacancy rates with a particular form of internal migration occurred in the past 50 years. When moving away from their parental home, young Norwegians migrated from the peripheral regions to the more urbanized areas of the country. While they did not immediately leave behind an empty dwelling, their childhood homes are becoming vacant now, with a 30–50 years' time lag, because their parents are passing away. FitzGerald (2005) highlights how a large part of the construction boom in Ireland between 1995 and 2005 depends on dwellings bought for leisure or speculation purposes, which are thus kept vacant.

We position ourselves along this same line of institutional and cultural interpretations, and in accord with Hoekstra and Vakili-Zad. Since the coexistence of high vacancy rates and increasing house prices is not fully explained by basic housing market dynamics, we believe it is necessary to use a different analytical framework that allows for a broader interpretation. Our intention is to get a sharper insight into the relationship between vacancy rates and house prices in Italy, taking into account the specific characteristics of the Mediterranean housing systems and the heterogeneity and segmentation of the vacant housing stock in which these features result. Our paper is clearly of an exploratory nature. Yet, we hope that its results may provide a good starting point for a more formal quantitative (econometric) analysis of the Southern European housing markets. Such an analysis should go beyond basic housing market dynamics. It should acknowledge the peculiar features of the Southern European housing markets and it should be based on more solid data than is currently available.

A Mediterranean housing system approach is able to link the functioning of the housing system to cultural and institutional factors of the Southern European model of welfare provision. There are two separate but overlapping debates on the general features of Southern European welfare systems and on what the role is that housing plays within them. On one hand, a number of studies have examined the existence of a separate Southern European welfare regime, extending Esping-Andersen's theory (1990) to develop a Southern European model (Barlow & Duncan, 1994; Ferrera, 1996). On the other hand, the role that housing plays within the welfare system has been further explored, often also in relation to the Mediterranean model (Allen, 2006; Allen *et al.*, 2004; Arbaci, 2007; Hoekstra, 2013).

Generally, the Mediterranean (or Southern European) welfare state regime (traditionally comprising Spain, Italy, Portugal and Greece) can be said to have three main characteristics. First, the welfare state is not particularly large, which can be considered both a cause and a consequence of the second feature, namely the strong role of the (enlarged) family in providing welfare. The third characteristic is a highly segmented labour market with a relatively large informal sector.

The debate on whether or not housing should be included as a part of the welfare system mostly considers housing as 'partly in and partly out'. According to Kolberg & Uusitalo (1992), housing is suspended between state, market and family, and highly affected by all three. In the Mediterranean welfare state, the linkage between the two

debates is provided by the role of the family. In a context where the welfare state is rather weak and highly clientelistic, the (extended) family is the most significant institution providing access to housing (Allen, 2006). Most authors agree that in Southern Europe, the characteristics of the welfare system and those of the housing system are closely related (Allen *et al.*, 2004; Arbaci, 2007; Hoekstra, 2005). In Section 'Explanation from a Mediterranean housing system perspective', the specific characteristics of the Mediterranean welfare and housing systems are explored in more detail and related to the phenomenon of vacant dwellings.

Measurement and definition aspects

Specific attention needs to be given to the methodological aspects of any research on vacancy. All the mentioned literature contains some degree of reflection on how vacancy is defined and measured, debating whether censuses and survey-taking methods are appropriate and yield reliable results. Such issues are a consequence of the fact that defining a vacant dwelling as a residential unit empty at a specific point in time is too generic and does not allow for a clear-cut distinction between vacation homes, dwellings on sale awaiting for occupancy, or units held vacant for some future purpose.

The most relevant issues in this respect are related to how to discriminate between natural and problematic vacancies. In addition to the more traditional temporal logic, it would be extremely useful to know the motives behind vacant dwellings, though it remains unclear how this kind of information might be collected. Moreover, some countries lack registry data on vacancy beyond the national and sometimes the regional or provincial level. Information on the type of geographical location of empty dwellings (rural, urban, coastal, etc.) is relevant in determining the possible reasons of vacancy. In this respect, Couch & Cocks (2013) acknowledge that regional location greatly influences housing vacancy in England; while Wyatt (2008) laments a lack of data on the location and characteristics of empty dwellings at a municipal scale.

In general, it is very difficult to obtain reliable information on vacant dwellings with the current survey taking methods. According to FitzGerald (2005) it is close to impossible to distinguish second homes from vacant dwellings, because in both cases there is no one there to answer questions from those conducting surveys. The same argument is used by Leal (2004) when he affirms that standard methods can result in a grossly over-estimated number of vacant dwellings. With these premises, it is extremely difficult to determine if a dwelling is temporarily or permanently vacant, thus statistics on vacancy should be interpreted with caution. The Italian case is not different although the Survey of Households Income and Wealth by the Bank of Italy (SHIW), which will be discussed in the following paragraph, does provide some relevant insights (see also Brunetti & Torricelli, 2017).

The role of second homes

There are a variety of reasons for a household to own a second property. It can be an inherited childhood home, often in a more peripheral area of the country following patterns of internal migration across generations (Nordvik & Gulbrandsen, 2009). Or

it can be a property bought in a rural or coastal area for leisure purposes, as a holiday home for the family or to be let on a seasonal basis. Or, again, it can be a residential property bought for investment reasons, often in an urban area (Bar-Sinai, 2009; FitzGerald, 2005). Of course, these reasons might overlap and it is virtually impossible to know the motives behind a second home. For Italy, the SHIW provides some basic insights. The SHIW is a biannual rotating-panel survey which provides data for around 8000 Italian households and spans the 10-year period between 2002 and 2012. This survey asks households to classify their additional property (not being their primary residence) by different uses, namely: personal use – holiday, personal use – work, personal use – other, rented out to another person or firm (long or short term), unrented, usufruct, occupied rent-free.

Brunetti & Torricelli (2017), based on the SHIW, consider unprofitable only those second properties which are not rented, thus attributing a value not only to rented property, but also to second homes used for holiday, work or occupied rent-free under various arrangements. Among other things, they conclude that unrented second homes, which constitute 15–20% of all second homes, tend to have a relatively low value, are often located in the same region where the owner lives and are relatively often inherited (Brunetti & Torricelli, 2017).

Nordvik & Gulbrandsen (2009) maintain that incidentally using a second home for family holiday reasons is a legitimate form of usage of a property. It would therefore be conceptually wrong to consider second homes as unused or vacant. However, they also discuss opportunity costs, suggesting that the moment it becomes more convenient to sell or let the house rather than to keep it, these dwellings will return to the market. According to FitzGerald (2005), a high demand of dwellings for leisure or pure investment purposes, that are subsequently held vacant, is an important factor in adding to the rate of inflation in house prices. Since these dwellings are not available as primary residence for independent households, they increase the housing shortage. Hoekstra & Vakili-Zad (2011) suggest that, though part of the vacant stock is kept away from the market, as long as house prices are rising the (virtual) return of a second property is attractive. This encourages more households to invest in real estate and subsequently keep the property vacant or use it as a second home. In this way, it is inevitable that rising prices would go hand in hand with high vacancy rates, providing a key explanation for the Spanish paradox. It goes without saying that such processes lead to a speculative bubble on the housing market and only go on until this bubble bursts.

Running throughout these interpretations is the idea that the multiple and overlapping motives for acquiring and keeping a second real estate property do not allow an unambiguous distinction between second homes incidentally used for holiday purpose and second homes sitting empty for family or investment reasons. The one characteristic that all these properties have in common is that they are empty most of the time and that they are not available for independent households to use as their primary residence. As a result, they are a crucial component of vacancy rates. Of course, not all vacant dwellings are second homes (for example, unsold dwellings from developers or vacant property from institutions), and not all vacant dwellings are problematic. Based on the literature review we developed a framework to define the different components of vacancy. Table 1 offers an overview of such components and their characteristics.

Table 1. Vacancy rate components.

Vacancy components	Presence on the housing market
A – Naturally vacant	Yes
Due to housing market friction, including dwellings from developers	
B – Problematic vacant	Yes
Due to overpricing, supply-demand mismatch for bad location or typology, including dwellings from developers unsold due to overproduction	
C – Unfit for habitation	No
Dwellings that are abandoned, unfinished or undergoing refurbishment	
D – Second homes	No
Maybe inherited. Generally used as family holiday homes, for seasonal rent and/or for investment purposes	

Source: Authors' elaboration.

Vacancy rates and house price developments in Europe and Italy

Definitions of vacant dwelling vary among European countries and these discrepancies contribute to a difficulty in comparison. This paper uses pre-crisis data from 13 selected countries to explore the phenomenon of vacancy in the EU. This data comes from the publication 'Housing Statistics in the European Union 2005/2006' (Ministry of Infrastructure of the Italian Republic/Federcasa Italian Housing Federation, 2006) and from the National Institutes of Statistics of the selected countries. After analysing the definition of vacancy used in official statistics in each of these countries, it became evident that the main factor contributing to this methodological impasse is the phenomenon of second homes. These are often calculated as part of the vacant housing stock, and are quantitatively very relevant, in the Southern European countries (Allen, 2006). Indeed, Greece, Italy, Spain, Ireland and Malta include temporarily occupied dwellings, such as holiday homes, in the number of vacant dwellings. However, France, Germany, Sweden, Finland, Denmark, the Netherlands, the United Kingdom and Portugal do not include second or holiday homes in their official definitions. In order to provide a more balanced comparison of European countries, we have filtered out second and holiday homes from the vacancy rate of those countries that include them in their official definition of a vacant dwelling. For Ireland, Spain, Greece and Malta, the filtered vacancy rate is obtained using overlapping additional data on second homes provided by their National Institutes of Statistics. For Italy this was not possible, and the methodology used to estimate the filtered vacancy rate will be explained below. According to this data, Figure 1 shows the vacancy rates for 13 selected European countries.

The graph shows in light grey the vacancy rates as per official definition. For those countries where second and holiday homes are included in the definition, the graph shows in black an estimated vacancy rate in which these vacation dwellings are filtered out. The countries with the highest percentages of vacant dwellings are Greece (33.2%), Malta (27.6%), Spain (21.9%) and Italy (20.7%). When second and holiday homes are filtered out, the percentages for these countries go down to 11, 22, 15 and 8.3%, respectively. Nevertheless, even in this case, it is evident that the Mediterranean countries have a vacancy rate that is sensibly higher than in the rest of Europe.

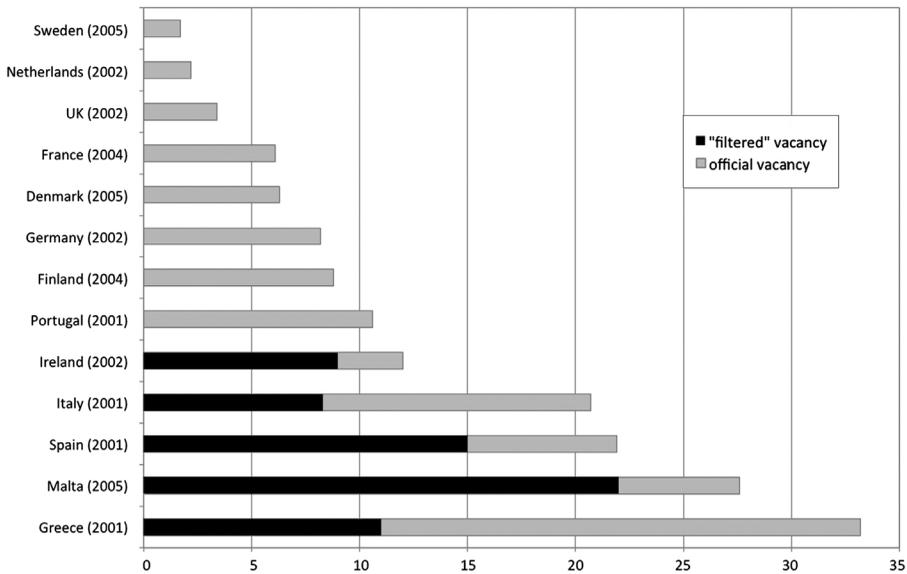


Figure 1. Share of vacant dwellings in 13 selected EU countries. Source: Housing Statistics in the European Union 2005 – Ministry of Infrastructure of the Italian Republic/Federcasa Italian Housing Federation (2006); National Institutes of Statistics.

Understanding the Italian vacancy rate

According to the Italian National Institute for Statistics (ISTAT), in 2001, the Italian housing stock amounted to 27.291.993 conventional dwellings. Of those, 79.34% was occupied and 20.66% was not. Historical data show very high residential vacancy rates over the past 60 years. Percentages are consistently above 20% since the 1980s, suggesting that high vacancy is a structural characteristic of the Italian housing market (Figure 2).

However, it has to be noted that the official census definition for a vacant dwelling is ‘a dwelling that has no permanent occupant’. This means that vacancy rates include unoccupied dwellings, second and holiday homes, as well as dwellings occupied by non-residents (those that are not registered as residents in the same municipality as the dwelling, like for example, people that moved for work or study related reasons) and dwellings illegally rented

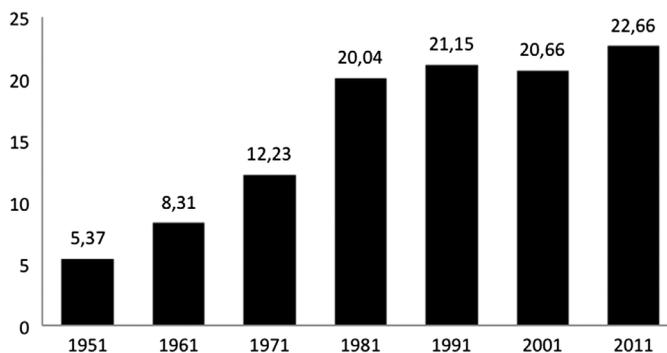


Figure 2. Share of vacant dwellings in Italy 1951–2011. Source: Istat.

on the black market. It is therefore rather difficult – but necessary if policy implications are to be outlined – to quantify the number of truly vacant dwellings in Italy.

In our attempt to explore the extent and characteristics of vacancy in Italy, we use a number of different sources of information to estimate the three main components of the Italian vacancy rate. These components are the share of second and holiday homes, the share of dwellings rented out on the black market, and the share of truly vacant dwellings. With the currently available data, it is unfortunately not possible to quantify short and long-term vacancy or to identify the owners' motives for vacancy, therefore it is not possible to distinguish between natural and problematic vacancy.

An official survey of second homes has never been attempted in Italy. Most of the research focuses on the impact of holiday homes on land consumption and on the economy of touristic communities (for additional information, see Battino, 2014; Ferrero, 1998). However, information on the amount of second homes can be found from a number of different sources. The national 1991 census reports that 51.2% of the vacant dwellings in Italy is second homes; while in 2011, second homes are estimated to make up 11.5% of the total dwelling stock (Il Sole 24ORE, 2011). Moreover, Eurostat data from the 1990s suggests that about 40% of the non-primary stock in Italy is vacant (Allen, 2006). With regard to 2011 census data, ISTAT unofficially estimated that the number of truly vacant dwellings accounts for approximately 40% of the non-occupied dwellings.¹

Another issue to be considered when unpacking the official vacancy rate into separate components is that of the black rental market. About 1.5 million rental contracts in Italy are illegal, either because they are not registered or because they are registered for an amount lower than that actually paid (Eletto, 2012). The dwellings without a registered contract are thought to be 950.000 (Bianchi, 2014) and they are recorded as vacant property while they are rented out illegally instead.

Most of the aforementioned sources refer to post-crisis data (mainly from 2011, the year of the last national census). However, they represent a solid starting point to propose an estimate of truly vacant dwellings for 2001. Given that second homes accounted for about half of the vacancy rate both in 1991 and in 2011, it seems reasonable to assume that such percentage would stay consistent in 2001 as well. If we remain consistent to the collected figures, the 2001 vacancy rate of 20.66% could be split in three components as follows: 50% is second homes, 10% is a combination of dwellings rented on the black market and of dwellings occupied by non-residents, and 40% is truly vacant dwellings, accounting for 8.27% of the total dwellings. However, this rough estimate is merely useful as a 'filtered' vacancy rate for comparison with other European countries (Figure 1), while for the purpose of exploring the relationship of vacancy and house prices, the official figure will be used, given the relevance that second homes have with regard to price developments.

Relationship with house prices

Information on vacancy acquires an interesting meaning when put in relation with the development of real house prices (Figure 3). Generally speaking, high prices are the symptom of a shortage in housing supply and they are normally associated with low vacancy rates. Therefore, one would expect that those countries with high vacancy rates – like Spain,

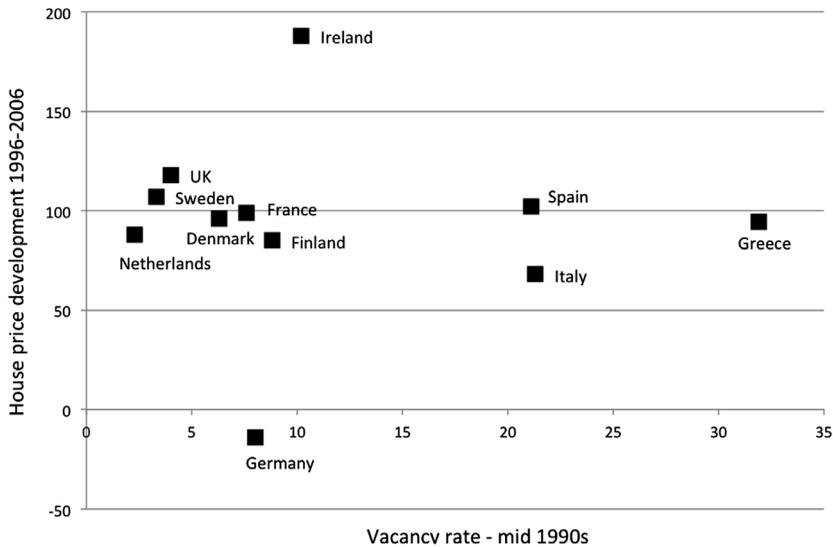


Figure 3. Relationship between vacancy rate and development of real house prices. Source: Ball, 2008 (house prices), The Economist (house prices Greece), Muzzicato *et al.*, 2008 (house prices Italy); Housing Statistics in the EU 2005 (vacancy rates). Vacancy rate from 1990 for the Netherlands, 1991 for Ireland, Spain, Greece and Italy, 1996 for France, 1998 for Germany and 1995 for the other countries. Unfortunately, comparable data was not available for Portugal and Malta. Price development for Greece refers to 1997–2006.

Italy, Greece and Portugal – would see a decrease in house prices over the years. Figure 3 considers the period 1996–2006 for the house price development and numbers from the 1990s for the vacancy rates, in order for vacancy rates to act as predictors for future house price developments (the same methodology used in Hoekstra & Vakili-Zad, 2011). In case of low vacancy rates in the 1990s, house prices can be expected to grow considerably in the following decade. On the contrary, in case of high vacancy rates, a low growth or even a negative development can be anticipated. However, it is interesting to note that this is not quite the case for at least a few of the selected countries.

Sweden, the Netherlands and the United Kingdom show low vacancy rates, accompanied by a substantial growth in real house prices. For these countries and for Germany, the basic theoretical explanation seems to hold. Indeed, Germany is the only country with relatively high vacancy to show decreasing real house prices. France, Denmark and Finland are in an intermediate position, where vacancy rates are moderately high if compared to the growth in prices. The price increase in Ireland is spectacular and the vacancy rate, though not so high, grew rapidly between 1996 and 2002 (+5.3%), showing a rather odd situation that resembles that of Southern Europe (FitzGerald, 2005). However, it is the Mediterranean countries that clearly contradict the theoretical logic. Greece stands out particularly with a 31.9% vacancy rate; closely followed by Spain with 21.1% and both with a very large increase in house prices. However, even with a less marked rise in real house prices, Italy is in a similar situation, with a vacancy rate of 21.3%. The following sections explore the Italian situation in the decade before the crisis through a welfare regime lens.

The existence of an Italian paradox

As the European comparison clearly showed, in Italy prices have not skyrocketed as they did elsewhere, therefore the situation seems to be more balanced than in Spain or in Greece.² However, while the increase was not as large, between 1998 and 2007 actual prices reached unprecedented levels for the national average, up to over 2.500 €/m² (Muzzicato *et al.*, 2008),³ with even much higher prices in big cities such as Rome and Milan. It needs to be noted that in that period Italy did not experience any economic growth (Baldini & Poggio, 2014; Toniolo, 2013), making the gap between prices and incomes a very large one, as will be discussed further on in this paper. Since there was no economic growth, other structural factors contributed to uphold these price dynamics (Baldini & Poggio, 2014). From a demographic point of view, migration stepped up the demand for housing: rural to urban migration, internal migration from the Southern to the Northern regions, but also migration from poorer areas of the world are an ongoing phenomenon. Policy wise, the liberalization of the rental market in 1998 affected the relationship between rent and ownership by increasing the costs of renting, thus making ownership more appealing as a long-term investment. Moreover, changes in the credit market allowed more and more families to access a mortgage, thus driving prices up (Baldini & Poggio, 2014).

Figure 4 gives an overview of the Italian housing market in the decade before the economic crisis (1996–2006). It is interesting to note that, while the number of new dwellings being built increased (+58%), together with prices (+68%) and number of transactions (+75%), the vacancy rate remained relatively stable (+13% between 1981 and 2011), seemingly unaffected by the housing boom. This trend goes against the market equilibrium logic (which would predict a decrease in vacancy rates) and underpins the hypothesis of Hoekstra & Vakili-Zad (2011). Hoekstra & Vakili-Zad state that, before the Global Financial Crisis kicked in, Mediterranean countries had the tendency to be characterized by both rising

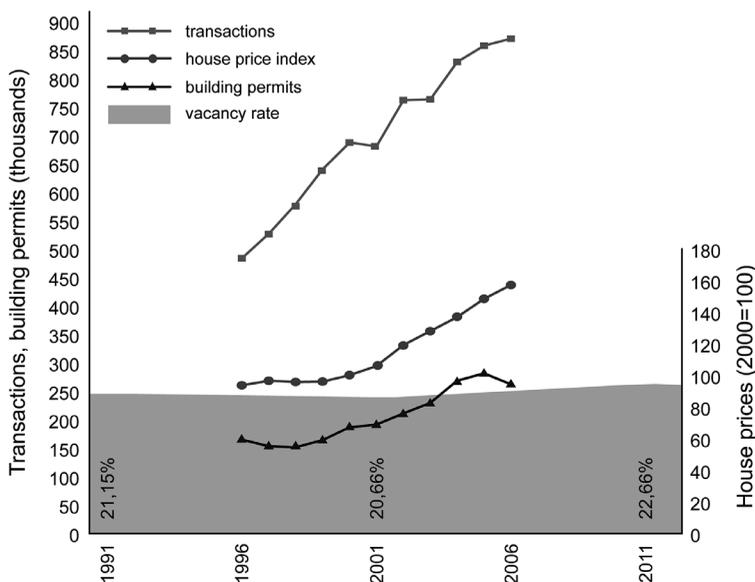


Figure 4. Housing market in Italy: transactions, building permits, vacancy rates and prices 1996–2006. Source: Authors' elaboration on data from Istat, Bank of Italy and Muzzicato *et al.*, 2008.

house prices and rising vacancy rates, thus contradicting basic economic theory. They have illustrated this paradox with case studies on Spain and Malta. Based on the Figures 3 and 4, we can reasonably conclude that, although in a less spectacular way than Spain and Malta, Italy has faced a similar paradox. In the rest of this paper, we refer to this as the Italian paradox.

The Italian paradox at the regional level

The paradox that exists at the national level is not necessarily replicated at the regional level. It might be the case that it is, with regions with the highest increases in prices also facing high levels of vacancy. But it might also be that regional housing markets function according to the basic housing market equilibrium logic. In that case, regions with rising prices would show relatively low vacancy rates and vice versa. A third option might be that the vacancy rates and house price dynamics are actually showing little correlation at the regional level.

In order to explore the different possibilities, we have examined the relationship between vacancy rate and house price development at the level of the 20 Italian regions. Unfortunately, suitable data for municipalities was not available. The methodology is the same as used in the European comparison, with the vacancy rate⁴ acting as a predictor for future house prices. Data on vacancy refer to 2001 and data on house price development refer to the 2002–2005 period.

Figure 5 shows that there does not seem to be any clear relationship, although some regions stand out. Valle d'Aosta's dramatic level of vacancy can be partially explained by the phenomenon of dwellings left behind due to migration from alpine communities to more urban areas. At the same time, the economy of Valle d'Aosta is based on tourism, both in winter and in summer. This is reflected in a great number of holiday homes, which represent the most important contribution to such a high vacancy rate (Ferrero, 1998). The

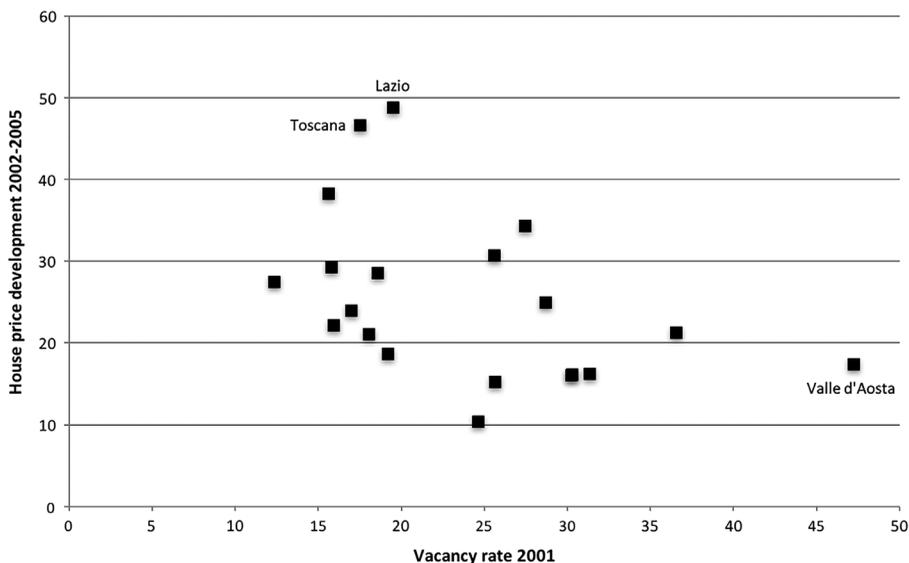


Figure 5. Relationship between vacancy rate and development of real house prices. Source: Istat 1991 National Census (vacancy rates), Muzzicato *et al.*, 2008 (house prices).

growth in house prices for the Lazio region can be partially attributed to the rise in prices in the city of Rome, which is among the highest of the whole peninsula, and the same can be said of Tuscany with Florence.

It can be concluded that in Italy rising house prices and high vacancy rates go hand in hand at the national level (contrary to basic economic theory), but that there is no clear relationship between the two factors at the regional scale (still contrary to basic economic theory although perhaps to a lesser extent). This observation calls for an explanation that is not strictly dependent on basic housing market dynamics. In our opinion, a broader more institutional and cultural interpretation is necessary. This explanation takes into account some of the specific features of the Mediterranean welfare and housing system of Italy.

Explanation from a Mediterranean housing system perspective

The hypothesis put forward by Hoekstra & Vakili-Zad (2011) is that there is a link between the characteristics of the Mediterranean welfare and housing systems, and the high vacancy rates of Southern European countries. They elaborate a framework that identifies cultural and socio-political factors that might help to interpret and explain the paradox. These factors are a home owning culture, an important role for the family in providing access to housing, a strong rural to urban migration and a history of strict rent regulation and tenant protection. This section will explore how each of these factors can contribute to explain the high vacancy rate in Italy and its apparently contradictory relationship with house price development.

Investment in property in a home owning culture

Homeownership is the main tenure form in Italy. According to census data, the percentage of owner occupied dwellings grew from 40% in 1951 to 71% in 2001. Additionally, 9% of all dwellings are used free of charge, mostly within family networks. In the Italian context, where state welfare provision is relatively limited, homeownership is not simply a means to satisfy housing needs, but it also represents a form of social security (Poggio, 2012). Political choices since the post-war period have encouraged homeownership above every other form of tenure, through specific programmes and fiscal measures. For example, a right to buy has always been embedded in the social housing sector, allowing even the poorer households to become homeowners (Poggio, 2012; Bianchi, 2014). Moreover, since the mid-1990s access to credit has improved, enabling more households to buy a dwelling.

In Italy, the property sector has traditionally been the most widespread form of investment, especially due to an underdeveloped financial market that offered limited alternatives. Bricks and mortar has always been perceived as a safe and profitable way to invest households' savings (Poggio, 2012). Obviously, this profitability is closely linked to the development of house prices. It only remains attractive to invest in property if the virtual yield is high and keeps growing overtime.

The expansionary phase of the Italian housing market has been extremely profitable for real estate developers. Though not in the massive proportion as Spain, Italy has also experienced the construction of a considerable amount of dwellings. There are strong indications that a part of the new housing stock was constructed to meet speculative demand (buying housing for investment reasons) instead of regular housing demand (buying housing to

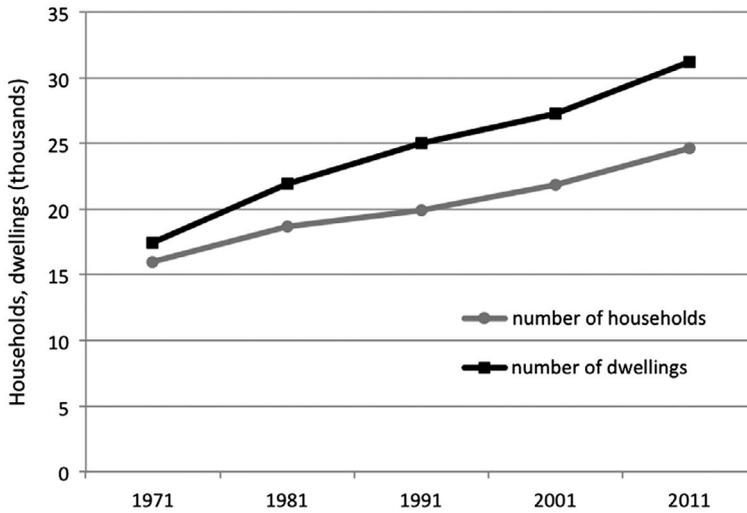


Figure 6. Number of households and number of dwellings. Source: Istat.

use it as a primary residence). As far as is this concerned, Figure 6 shows the growth of the number of households compared to the growth of the number of dwellings. The growing discrepancy between these two factors can be explained by the addition of second homes but also by the construction of dwellings that are constructed to meet (speculative) housing demand for investment purposes. The latter category consists of dwellings that are rented out (sometimes on the black market so that they count as vacant) or intentionally kept empty after they are bought so that the owners can take profit of price increases. In addition to this, there are also dwellings that remain empty because the developer is unable to sell them. In relation to this, it is remarkable that for the dwellings built after 1991 the vacancy rate is 19%, closely followed – at 18.5% – by the vacancy rate for the dwellings built after 2001 (Table 2). For dwellings built after 2006 the vacancy rate increases to 23.5%, possibly showing how the economic crisis has exposed the real estate speculation of the previous decade.

Important role for the family in supporting access to housing

In Italy, family plays a large role in facilitating access to housing for new households. Intergenerational transfers supporting access to homeownership, in the form of a financial contribution or inherited property, are the most common form of help that first-time homebuyers receive from their parents (Allen, 2006; Poggio, 2012). In 2005, the percentage of Italian homeowners who had received some form of intergenerational help (bequests, gifts,

Table 2. Vacancy by year of construction.

Year of construction	Vacancy rate (%)	Year of construction	Vacancy rate (%)
Before 1919	32.91	1981–1990	21.42
1919–1945	27.36	1991–2000	19.07
1946–1960	20.77	2001–2005	18.47
1961–1970	19.31	After 2006	23.53
1971–1980	22.12	Total	22.66

Source: Istat.

financial aid) was as large as 34.6%, the highest in the whole European Union (EU15 average 18.47%) (Poggio, 2012). Parental help for home ownership is embedded in a family-based welfare system such as the Italian one, where intergenerational mutual support is key for the provision of many welfare services: health and elderly care, child care but also housing.

This high degree of familialism may contribute to the high vacancy rate, since dwellings that are in the possession of a family are very often kept vacant, thus available for future needs of children, grandchildren or even more distant relatives. Moreover, it often happens that households buy a house for their kids well in advance and consequently keep it vacant until their children are ready to occupy it.

History of strict rent regulation and tenant protection

A strict rent regulation has certainly contributed to the gradual decrease of private rental as a tenure form in Italy. In 1978, the Fair Rent Act established very strict limits with regard to the maximum amount of rents, the minimum duration of the contracts and the possibility of evicting tenants, thus actively discouraging private landlords from renting out their dwellings. Rents started increasing considerably after the liberalization of the rental market in 1998, making rental more attractive for landlords but less so for tenants. However, even after 1998, it remains particularly difficult and costly for landlords to get their property back in case of rent arrears. It can be concluded that in Italy regulation of the private rental market has failed to provide a good balance between affordability and social protection for tenants, and reasonable returns for landlords (Poggio, 2012).

These difficulties are among the factors that hold home owners back from letting their property. They often prefer to keep the dwelling empty (for future family needs or investment purpose) rather than engaging with the risky business of renting it. It has to be noted that until very recently taxation on vacant dwellings was rather favourable (Longobardi, 2015) and in any case not so different from taxation on rented dwellings. This contributed to the trend of keeping dwellings vacant rather than letting them, but also to the black rental market. Renting a property illegally yields a substantial tax-free income while at the same time allowing avoiding the burdens and disadvantages of rental contracts (Bianchi, 2014). Moreover, the issue of touristic rental – especially Airbnb – is gaining prominence. Although it goes beyond the scope of this paper, it is important to note that property listed on Airbnb might or might not be included as vacant in the registry (according to the accuracy of the information provided), but it surely has a large impact on the housing market of big cities and touristic destinations in terms of availability of dwellings to households for long-term rent or purchase.

Strong rural to urban migration

Italy has seen a very strong rural to urban migration, coupled with a massive South to North flow of population, between the 1950s and the 1970s. In the subsequent two decades these flows decreased, but never stopped. Since the 1990s internal migration, mostly from the Southern regions towards the Northern ones, stepped up again and is ongoing (Etzo, 2011). This phenomenon is mainly due to territorial imbalances, particularly sharp in the employment and GDP per capita categories, and to economic processes (shift from an agriculture based economy to a service based economy). As a result, many people have

left rural and peripheral areas of the country in search for work in the main cities (Rome, Milan, Turin and Naples) and in the productive areas in the north-east, thus leaving their village dwelling behind. These migration trends are quite clearly reflected in the very high vacancy rates in Southern Italy (24.65%) and in the Islands (29.56%).⁵

Many of the dwellings vacated during the first big wave of migration are now used by their original owners or their descendants as second homes, partially because of the sentimental value attached to them. Some of these dwellings might even be on the market, but due to their rather remote or inaccessible location (small villages in the mountains or declined rural communities) they are not easily marketable. The more recent South to North migration flows are driven by the (highly educated) youths from the Southern regions (Piras & Melis, 2007). It is not unlikely that this trend might in the future lead to a process of ‘delayed shrinkage’ of the Southern regions similar to that of Norway (Nordvik & Gulbrandsen, 2009). The outmigration of the younger generations does not immediately result in vacant dwellings, but it might do so in 20 or 30 years from now when the parents of the migrants pass away. The geographical dimension of vacancy is evident. Although a large number of vacant dwellings might seem to represent a potential housing supply, many of these dwellings are located in places with low demand for housing.

Housing shortage and affordability issues: adding to the paradox

Looking at housing problems adds an extra dimension to the Italian paradox of the pre-crisis years. The substantial increase in house prices between the mid-1990s and 2007, especially in the larger metropolitan areas, raised concerns about housing affordability. Such issues are particularly relevant for households on rent, since the increase in rents tends to substantially impact their spending abilities, thus their living conditions. However, homeowners with a mortgage can also have affordability problems. Furthermore, high house prices limit the accessibility of the home ownership market.

Over the years, while rental costs have increased, the capacity of medium and low-income households to afford suitable dwellings on the market has diminished dramatically. Between 1991 and 2007, rents grew by 110%, while incomes only increased by 20% (Figure 7). Moreover, in most cases, rental households belong to the poorest segment of the population

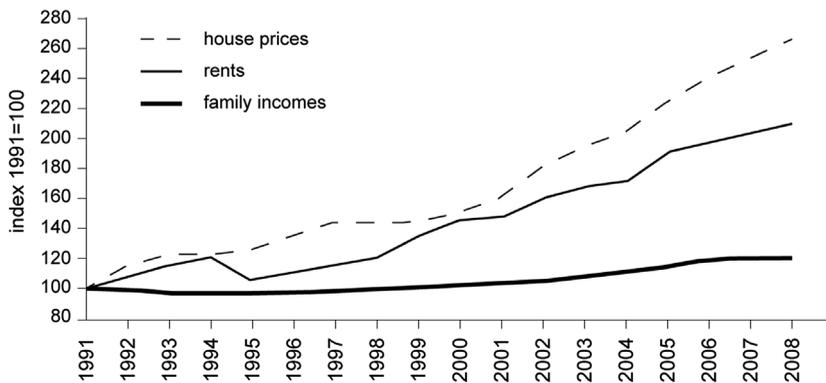


Figure 7. House prices, rents and incomes in Italy between 1991 and 2007. Source: Cittalia (2010) and Nomisma (2010).

where income growth has generally been non-existent. It is therefore not surprising that the percentage of rental households overburdened by housing costs in 2004 is 26.4%. Although these figures outline a widespread situation of housing difficulties, the public response is frankly unsatisfactory. According to Eurostat, in 2004, public expenditure on housing was only 0.03% of the total social expenditure (2.39€ per person) against a EU average of 2% (144.3€ per person). Moreover, only 5% of the Italian housing stock is social housing (D'Alessio & Gambacorta, 2007).

If we compare figures on affordability issues with figures on new constructions and housing production for 1996–2007 (see Figure 4), we can argue that there has been a failure in regulating market dynamics, which resulted in a great mismatch between demand and supply. Real estate developers are building for a non-existing demand, because many households are not able to access the rental market, let alone homeownership. As a consequence, there is a shortage of housing for the middle- and low-income segments of the population. This adds a new layer to the paradox: to the combination of rising prices and high vacancy rates we should now add a great number of people struggling to access housing.

The impact of this new layer is even more evident at a local level. For instance, it is relevant to mention that in Rome, where housing problems are some of the worse in the whole country, vacancy rates have remained consistently high overtime. Notwithstanding the dramatic increase in housing production, the city still has to face a massive housing shortage. The Roman housing market (and production) is rigidly oriented towards homeownership, while the housing demand is steadily moving towards rental. This new demand has a specific social dimension, since it mainly comprises households with low and unstable income and precarious working conditions, making the mismatch between supply and demand ever more apparent. Moreover, even the rental segment of the Roman market is overpriced for the weaker households. According to estimates by Nomisma (2005), the average price to income ratio for rental households in 2004 was 44.4%, largely above any affordability threshold. Not surprisingly, the Municipality of Rome estimates that in 2005, there were around 31.000 households experiencing housing difficulties, 6.000 of which were in severe emergency conditions. In view of these figures, it is striking to see that the whole municipality had 135.741 vacant dwellings in 2001 and that the vacancy rate has remained quite stable for the past three decades.

Bearing in mind that vacant dwellings are generally not to be considered a potential rental supply, we still cannot refrain from asking how the three factors of rising house prices, high vacancy rates and housing shortage could coexist in the years leading up to the crisis. Remarkably, the situation has not substantially changed after the global financial crisis

Table 3. Paradox indicators 2004–2014.

	2004	2014
Overburdened households Eurostat	26.4%	32.4%
Public expenditure on housing Eurostat	0.03%	0.1%
Share of social housing Housing Europe, 2015	5%	5%
Vacancy rate Istat	21.15% (2001)	22.66% (2011)
Average house price Scenari Immobiliari	3260 €/m ²	3450 €/m ²

Source: in the table.

(Table 3). Though house prices have decreased, they did not collapse and have remained much too high for thousands of households (Baldini & Poggio, 2014; Taltavull & Gabrielli, 2015). The percentage of households overburdened by housing costs has increased, together with the vacancy rate. This is further confirmed by the fact that, according to Brunetti and Torricelli (2017) analysis of SHIW data, the share of unprofitably used second homes (second homes that are not rented out) increased tremendously after 2008. It is important to note that some housing policy measures have been taken after 2008. Two National Housing Plans (in 2008/9 and in 2014), together with property taxation measures, have been introduced in order to tackle the widespread housing problems by means of increasing social housing and support to tenants and mortgage holders. Taxation on vacant dwellings has been raised, though only as a consequence of a heavier fiscal pressure on property and not as a result of specific vacancy-oriented policies. However, public expenditure on housing is still only 0.1% of the total social expenditure (7.32€ per person) and despite new policy ambitions the share of social housing has not increased. Figures suggest that the implementation of new policies might not have been particularly effective on issues of housing affordability and shortage, although it is still quite early for an evaluation. In the light of this information, it can be reasonably concluded that the paradox might have survived the economic crisis unscathed.

Conclusions and recommendations for further research

The exploratory institutional and cultural analysis carried out in this paper shows that Italy faced a paradox similar to that of Spain and Malta. This supports the hypothesis that the paradox is a Mediterranean phenomenon, which defies the general housing market equilibrium theory. Nevertheless, this paradox of concurrent rising prices and high vacancy rates needs to be further explored by analysing more Southern European countries, but also other cases in which there is preference for ownership, like Ireland and the UK.

The methodological aspects of vacancy also deserve further attention. It is particularly necessary to research definition and measurement issues, in order to provide consistent data across countries and scales. Insight into the phenomenon could be gained by addressing the lack of geographically based data (by type of region – rural or urban – and by type of location within provinces and municipalities). Additionally, more precise survey-taking methods are needed, especially when researching the amount of second homes and the extent to which they overlap with vacant dwellings. Also, a better insight is needed into the motives of home owners for keeping their dwellings vacant. The availability of better data on vacant dwellings would allow for a more formal quantitative (econometric) testing of our Mediterranean paradox hypothesis.⁶

In Italy, the very characteristics that contribute to the high vacancy rate are also preventing vacant dwellings from being on the market, partially explaining the contradictory relationship with house prices. Second homes that result from rural to urban migration are often kept vacant due to sentimental reasons, or are unsuitable for the market. The high value placed on home ownership and the tendency to help younger generations to access housing often lead households to buy a second dwelling and keeping it vacant for future use by their children. Of course, it would seem reasonable and more profitable to rent such a dwelling in the meantime. However, a very strict and tenant-protective rent regulation often holds owners back from letting their property. This increases vacancy rates in two

ways: directly, because households prefer to keep their dwelling empty rather than renting it; and indirectly, because landlords let their dwelling on the black market and such dwellings are counted as vacant in official statistics. Moreover, in many areas of the country, touristic rental also contributes to keeping dwellings off the regular rental market. Finally, there is a traditional propensity of Italian households to invest in bricks and mortar. As long as house prices are increasing, the (virtual) return of a second property is attractive, leading more households to invest in real estate. In this way, rising house prices contribute to the increase in second dwellings, which are subsequently kept vacant for the aforementioned reasons, thus providing the key to the Italian paradox.

Additionally, housing shortages and affordability issues are widespread in the country and add a substantial layer to the paradox. We found out that high vacancy does not necessarily mean high supply, which contributes to the housing shortage. Although vacant dwellings should generally not be considered as potential rental supply due to geographical or typological mismatches, it seems that in the Italian case, at least part of the vacant dwellings would be suitable for the rental market. By knowing motives behind empty homes, it could be possible to tackle different types of vacancy with specific policies. For instance, it can be argued that in Italy a poorly regulated rental sector contributes to uphold high vacancy rates. When knowing the motive behind this type of vacancy, improved rent regulation and legality controls could help bring a substantial amount of those dwellings back into use, possibly tackling the housing shortage.

Finally, it is of utmost importance to understand what happened to these paradoxical dynamics after 2008. Although further research into the post-crisis developments of vacancy rates and house prices is necessary, at a quick glance, it appears that the economic crisis did not change the situation substantially; as vacancy rates in Italy are still growing and prices decreased but did not collapse. This evidence seems to uphold the hypothesis that the paradox is dependent on structural factors embedded in the Mediterranean welfare and housing system rather than on isolated cases of malfunctioning housing markets.

Notes

1. This information is reported by articles in various newspapers (Neate, 2014; Saporetti, 2014), but we have not been able to find any official Istat documents that report this figure.
2. This is also due to the fact that the Spanish situation was partially driven by disproportionate expectations of profitability of new residential construction that should have been detected before the crisis.
3. Italy does not have an official national house price index; therefore, data on housing dynamics might slightly differ according to the source. This paper will rely on the data elaborated by Muzzicato *et al.* (2008) in their work for the Bank of Italy on building a possible national house price index.
4. Since we are not able to adequately separate the second homes from the vacant dwellings at the level of the regions, we have used data on the total vacancy rate, thus including the second homes.
5. It has to be noted that the high rates in these areas are also dependent on second homes purposefully built as vacation homes.
6. The SIHW database, that was discussed in this paper, clearly is a step in the right direction. However, this database also has several limitations. It shows how second homes are used but not why they are used in that way. For example, homes may be unrented because they are unfit for habitation but also for speculative reasons. Moreover, the SIHW database does not contain information on empty dwellings that are owned by institutions (banks, developers) and has a limited level of geographical detail.

Disclosure statement

No potential conflict of interest was reported by the authors.

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