

The Second Home Phenomenon in Haikou, China

by

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Abstract

Second home ownership is a new and booming phenomenon in China. Although it has been widely discussed in newspaper, radio and other mass media, it has not raised much academic concern. This study is a preliminary research in this field.

In western counties, second home growth has caused a series of socio-economic impacts to the host community, including housing price inflation, displacement of local people, disruption of local service, etc. These effects identified by western literatures are examined in the context of Haikou, China.

Through applications of interview, on-site observation and secondary research, this study generally confirms the impacts addressed by other second home research. Similar to the western experience, the growth of second homes in Haikou has both positive and negative impacts. On the positive side, the increase of second home purchase contributes to the boom of property-related industry. On the negative side, it causes inflation pressure on housing price and affects the affordability of the housing for local people. The seasonality of second home occupation also leads to a “ghost community” problem. However, as the development of second homes in Haikou is at an early stage, both their positive and negative impacts are not significant. Some effects such as the displacement of locals, the effects on local retail outlets and services are not detectable. Remarkably, this study addresses two problems that can only be found in China: “college entrance exam immigration” and “illegal sale of *hukou*”.

Based on the major findings, policy recommendations for local government are provided. Implications for conducting research in China, and for future research opportunities are also suggested.

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Chapter 1 Introduction

This chapter provides the basic background this thesis. It begins with a brief introduction of the second home phenomenon in China. Then, the research objectives and general research questions will be addressed. At the end of this thesis, the thesis framework will be stated.

1.1 Background

A second home is a recent concept in China. A decade ago, very few people in China would have recognized the term *second home*. The emergence and boom of second homes in China have a profound relationship with the political, social and macro economy of the country. At the beginning of this thesis, it is very important to have an overview on the background of second homes related issues.

1 Second homes in ancient China

In ancient China, the royal family was the biggest second home owner. In feudal society, the emperor owned all the land of the whole country. Besides the emperor's palace, which was the official residence, the royal family owned many unofficial residences¹ across the country. The earliest "second home" of a Chinese royal family can be dated back to BC1600, when the emperor of the Xia Dynasty² built an unofficial palace in Luoyang, Henan Province. In the following thousands of years, the Chinese emperors never stopped building their "second homes". The royal family used them as recreational accommodation and summer houses, or some time as office space. The most famous two

¹ The unofficial residence of royal family is called "xing gong" in Chinese.

² Xia Dynasty is from BC2070 to BC1600.

unofficial residences of the royal family are the Beijing Summer Palace and Chengde Summer Resort³.

It was also common that nobles and rich people owned more than one home (Yang, 2001). They usually had their primary home in cities and second homes in peripheral areas of the cities, or at other scenery areas. For example, in the Ming and Qing Dynasty, the northwestern suburb area of old Beijing City (which is Haidian District now) had a cluster of private gardens. These gardens belonged to the nobles and riches lived in Beijing city and could be considered as their second homes. This type of second home was called villa, “other garden” or “other home”⁴. Some nobles, who owned feudal land and usually lived in their own land, always had second homes in the capital city. They used them as accommodation when they went to the capital to call on the emperor. This type of second home was named “other mansion”⁵ (Yang, 2001).

Before China’s liberation in 1949, wealth was polarized. A few merchants and nobles controlled the finance and real estate industry of the country and owned the majority of properties. Second homes were well developed at that time (Feng and Liu, 2000).

1.2 Housing reform and second homes

After China became a socialistic country in 1949, second homes were almost demolished as a result of socialistic transformation (Yang, 2001). For decades, China adopted a planned economy, and the housing in cities was mainly provided within a socialist system (Wang, 1995). Majority of the city people lived in welfare housing that owned by their enterprises and institutions and they paid rent for their living. Generally, one household is

³ Summer Palace is in Beijing and Chengde Summer Resort is in Hebei Province. Both of the two sites are listed as World Heritage by United Nations Educational, Scientific and Cultural Organization.

⁴ Villa is called “shu” in Chinese. Other garden or other home are called “bie she” or “bie yuan” in Chinese.

⁵ Other mansion is called “wai di” in Chinese.

only provided with one housing unit. The development of second homes was stagnant.

This situation shifted after 1979 when the country began its “opening up policy and economic reform” that included the changes in the provision of housing (Wang, 2000). Since then, various central legislation and local regulations concerning the privatization of urban housing have been issued in the hope of facilitating the development of an urban housing market. Different housing reform experiments were carried out during the early 1980s that led to the introduction of a comprehensive housing reform program by the national government in 1988 (Wang, 2000). Housing reform stopped the welfare housing policy. In the early 1990s, most of the welfare housings owned by enterprises and institutions were sold to their tenants. Commercially-built property emerged and the housing industry in China developed further. Since then, the second home market was reactivated.

As China developed rapidly after implementing its reform and opening up policy, the people’s quality of life improved significantly. Under this circumstance, second homes grew rapidly in the 1990s. According to Yang (2001), most of the high-income families, whose annual income is above RMB 100,000, now own a second home (Yang, 2001).

3. Status and research need

In recent years, second home consumption has become a hot spot in the property market in China. More and more urban people have purchased a second home in the suburbs, or even in other provinces, for recreational or investment purposes. Therefore, the peripheral areas of big cities and resort places are where second home development usually occurs.

Generally speaking, the second homes in the peripheral areas of big cities are used as weekend homes. The city people live and work in the city during weekdays, and spend

the week in their second homes in the suburbs. This so called “5+2 *life mode*”⁶ has become a fashion among middle-class people in big cities. Almost every big city in China has second homes in its peripheral area. For example, Miyun County, a county in the suburb of Beijing City is a place where second homes are clustered. The second homes in resort places are mainly used as holiday or vacation home. For example, the traditional beach resorts, such as Qingdao and Yantai in Shandong, as well as Haikou and Sanya in Hainan, attract second home buyers from all over China (Gu, 2002). Also, some country people buy a second home in a big city, for they are seeking better education and job opportunities (Feng, 2002).

There is growing concern about second home development in China and discussions have occurred in newspapers and other media in recent years. However, second home development has not raised much academic interest. There is almost no systematic analysis of this fast-growing phenomenon. Details about Chinese literature on the topic of second home will be discussed in the next chapter.

Yet, the study of second homes in China is of great academic and practical significance. For one thing, the boom of second homes will accelerate the development of real estate, tourism and other related sectors in tertiary industry, which will contribute to the local economy. For another thing, second home growth may cause a series of socio-economic impacts, such as the inflation of housing prices and the displacement of local people. The study of both the positive and negative socio-economic impacts of second home development will fill in the research gap; and more important, guide regional planning and policy making.

⁶ “5+2 life mode” means the second home users spend 5 work days in the city and 2 weekend days in their second homes in suburbs.

The research takes Haikou City as case study site. Detailed information about the study area will be provided in Chapter 4.

1.2 Statement of research questions

As mentioned above, it is recognized that the growth in the number of second homes is not an isolated phenomenon but connects to various other elements of social change and to the macro economy (Gallent, *et al.* 2005). This research intends to do some exploratory work about second homes in China, especially on their socio-economic impacts on host community. On top of that, the overall research objectives of this thesis are as follows:

- To profile the second home phenomenon in Haikou, China;
- To assess socio-economic impacts of second homes on the local community; and,
- To provide suggestions on policies and studies.

In order to accomplish these research objectives, the following questions are examined in detail:

- What is the historical context of second home growth in Haikou?
- What is the status of second homes in Haikou and what are their roles in local housing market?
- What are the characteristics of the second home phenomenon in Haikou?
- What are the socio-economic impacts that second home growth bring to local community?
- How do the members of local community think of the second home growth?

1.3 Thesis framework

This thesis has 6 chapters in total. Chapter 1 introduces the research background and research questions. Chapter 2 reviews the related literatures and provide with the theoretical context of this thesis. In Chapter 3, the design and analytical framework of this study is stated. The methodology adopted and data source are also included in Chapter 3. After setting up a solid theoretical foundation, Chapter 4 profiles the case of Haikou in detail. It describes the historical context and current status of the second home phenomenon in Haikou City. Then, the economic and social impacts are analyzed in Chapter 5. Finally, the conclusions and recommendations are presented in Chapter 6.

Chapter 2 Literature Review

This chapter provides a theoretical context for the research. It will start with a broad overview of previous studies on the topic of second homes and then discuss the key issues that relate to the research. Definition, the historical context of the second home phenomenon and socio-economic impacts will be covered. The relevant Chinese research is also reviewed in this chapter.

2.1 Research foci of previous studies

Before undertaking a more detailed examination of the literature, it is worth presenting a brief overview of the main foci of work on the subject of second homes. According to Gallent and Tewdwr-Jones (2000), “the English-language literature on second homes flourished during the 1970s. Then, there is a down-turn in academic output devoted to this issue during the early to mid 1980s, but then a resurgence of interest in the 1990s” (Gallent and Tewdwr-Jones, 2000, p5). Most of the issues that are raised in past studies are still worth considering today. In terms of research emphases, the previous studies covered a broad range of topics. They discussed issues about second homes from different perspectives including: planning aspects, tourism aspects, geographic aspects, etc.

Some researchers emphasized the geographic features of second homes. They concentrated upon mapping the distribution of the growth of second homes and studied the second home phenomenon by explaining and modeling their spatial distribution (e.g. Clout 1969). Crouchley (1976) identified seventeen variables that potentially affect the distribution of second homes, including agricultural intensity, the provision of public

services, recreation facilities, the motivations of second homes seekers, existing patterns of second home ownership, etc. (Crouchley 1976, quoted from Gallent and Tewdwr-Jones, 2000). Davies and O'Farrell (1981) used regression analysis to conclude that the growth pattern of second homes in their research area (i.e. around Cemaes in West Wales) had been determined by proximity to the beach and also that the second homes tended to be located in small villages (Davies and O'Farrell, 1981, quoted from Gallent and Tewdwr-Jones, 2000). Their data were derived from government surveys or local studies and their analyses of distributions required a high level of data aggregation.

As the motives for owning a second home are mostly associated with leisure activities, second homes are usually considered as a part of the leisure industry (RICS, 2005). Tourism researchers have paid particular attention to the tourism-oriented issues, such as the relationship between tourism activities and second home purchase, the second home's function as tourist accommodation, and the second homes' role in the tourism industry. Tress (2002) reviewed the history of second home tourism in Denmark and pointed out that second home tourism is the dominant form of tourism in the Danish tourism industry.

Planning literature on second homes mainly focuses on housing strategies, planning controls and regional development. Hettinger (2003) studied the impacts of second homes in a local housing market from an economic perspective. He argued that second home demand is one of the externalities that cause supply and demand imbalances in the housing market of tourism communities (Hettinger, 2003).

These categories of research have a distinctive emphasis, but they are still linked, for some common general issues are raised in these studies. Definitions and data collection are prerequisites for all research and, therefore, are considered in most of the studies. Because of the complexity of the second home-phenomenon, there is always a problem of

defining a “second home”, either for statutory planning purposes or for accurate assessment of their total number (Gallent, *et al.*, 2005). For the same reason, researchers are always faced with difficulties in collecting accurate information, including the types of data sources that might be used (National Population Census, local planning studies, etc.) (Gallent, *et al.*, 2005). Details about these two issues will be discussed in the following section.

Another two issues, which are constantly being investigated, are the characteristics of second home ownership and the impacts of second homes on local community. By examine these two issues, researchers can get detailed information, and have a better understanding of their status. They are relevant to many kinds of academic research and decision-making processes. For instance, the characteristics of ownership, such as how the users actually use their second residences, help to explain the distribution of second homes. The characteristics of owners or users are essential information for planning and policy making.

According to Gallent *et al.* (2005), “many of the more general studies end by examining the need for a policy response (either at the local or national level) towards the expansion of second home ownership; these responses often involve the encouragement of growth (to maximize possible benefits), the curbing of growth (to minimize associated costs) or a compromise solution which involves the regulation of supply and demand and the channeling of development.” (Gallent *et al.*, 2005).

The following table shows the research foci of previous research, their typical research questions and related research methods.

Research Object	Typical Research Question
Geographic concerns	<p>What are the geographic distributional features of second homes in a certain area? (e.g. Davies and O'Farrell, 1981; Rogers, 1977; Clout 1969)</p> <p>Why does the spatial distribution of second home growth have certain features? (e.g. Barke and France, 1988; Crouchley,1976)</p> <p>How to model future growth of second homes?</p>
Tourism concerns	<p>What is the motivation for owning a second home?</p> <p>What kind of activities do people do, or what services do they use when they live in their second home? (e.g. Bielckus, <i>et al.</i>,1972; Girard and Gartner, 1993)</p> <p>What the second homes means to second home tourists? (e.g. Jaakson, R. 1986)</p>
Environmental concerns	<p>How do the second homes impact the natural environment? (e.g. Gallent, <i>et al.</i>, 2005)</p>
Impacts to host community	<p>What impacts do the second homes have and what do they mean to host communities? (e.g. Bielckus, <i>et al.</i>,1972; De Vane, 1975, Hettinger, 2003; Coppock, 1977; Gallent, <i>et al.</i>, 2005)</p> <p>What are the attitudes of local people towards the second home phenomenon? (e.g. Thompson, 1977; Bollom, 1978)</p>
Second home Ownership	<p>What are the characteristics of second homes and second home owners? (e.g. De Vane, 1975)</p> <p>How do the owners/users use their second homes? (e.g. Bielckus, <i>et al.</i>,1972)</p> <p>What factors affect their decisions to buy or rent a second home?</p>

Table 2-1 Typical research questions and related methods (Source: by the author)

2.2 Definition and measurement

2.2.1 Understanding second homes

Understanding the concept of a second home is an important starting point for research. It is one of the key issues that had been discussed in almost every previous work. The definition adopted will undoubtedly affect the number of second homes identified. Moreover, by the inclusion or exclusion of particular classes of accommodation with distinctive spatial distributions, it will also affect the geography of second homes (Coppock, 1977). However, identification and measurement of second homes are very difficult. Coppock (1977) argued that the problem of definition arises from the fact that second homes do not constitute a discrete type, sharply distinguished from first homes. The changing relationship between first home and second homes also add to the difficulty of definition (Coppock, 1977).

The terms used to describe second homes vary greatly and, to some extent, reveal their varied purposes: cottage, holiday home, vacation house, summer house, weekend house, cabin, country house, beach house and ski chalet. The term cottage is universal in Canada (Jaakson, 1986). But in China, the term “second home” is mostly used. As this thesis will mainly discuss the second home issues in China, the term “second home” is used here.

The debate about the definition of second homes was at its most intense during the 1970s (Gallent and Tewdwr-Jones, 2000). Downing and Dower (1973) defined a second home as “a property owned and rented on a long lease as the occasional residence of a household that usually lives elsewhere”. As with most definitions, it takes the frequency of use (occasional residence) and as the principal criterion. It also emphasizes that the user should be “a household”, and the ownership could be “owned or rented on a long

lease”. Some other definitions take “tourism and recreational purpose” as an important criteria for defining a second home. A Wye College report (1972) adopted a definition of “a property which is the occasional residence of a household that usually lives elsewhere and which is primarily used for recreational purpose” (Bielckus *et al.*, 1972). Similarly, Clout (1969) used the 1962 French Census definition in his work: “homes which owners occupy for only a short period of the year, including holiday homes and furnished flats used for tourist purposes, but excluding hotels.” It emphasized that hotels should not be included in the second home concept.

As second homes have grown in number, they have taken many different forms and this has complicated the difficulties of defining them. A debatable category of second homes is mobile accommodation, for example, tents, boats and caravans. Coppock (1977) argued that the tent and touring caravan are generally not regarded as second homes, although they fulfill many of the same functions. But some authorities consider static caravans as second homes while others do not (Coppock, 1977). De Vane (1975) stated that a second home could be “any static accommodation”, including private house, flats, chalets, static caravans and houseboats. However, Bielckus and his co-workers (1972) insisted that neither mobile caravans nor stationary caravans should be included in the second home concept. They agreed that “caravans are a subject worthy of separate study” (Wilson, 1959). However, caravans, or trailers as they are called in North America, are extremely uncommon in China and it is, therefore, at present, unnecessary to include them in the definition for work in Haikou.

Another category that should not be ignored is investment property. As a second home can be rented or leased, it may be used by more than one family (Gallent and Tewdwr-Jones, 2000). So what if the house owner rents the house out when they are not using it? What if the house is simply an investment property? Pyne (1973) was concerned

about this situation in his three-tier definition for vacation accommodation which might or might not be a second home:

1. Second home: a dwelling used by its owner and possibly other visitors for leisure or holiday purposes and which is not the usual or permanent place of residence for the owner;
2. Holiday investment property: a dwelling owned either locally or outside the county and not permanently occupied but let to holiday makers solely on a commercial basis;
3. Club/institute/company holiday property; similar to the above but used only by club members or company employees and clients (Pyne, 1973. Quoted from: Gallent and Tewdwr-Jones, 2000, p7)

According to Gallent and Tewdwr-Jones (2000), the difficulties experienced in the 1970s are far from being solved today, and the discussions on the second home concept are often grounded in local experience and circumstances. As this study is an exploratory research of the second home phenomenon in China, a broad definition is adopted. The term *second home* in this research include any form of homes other than a permanent residence, no matter if it is for family self-use, for rent or for any other investment purpose. However, mobile accommodations, such as caravans, are not currently common in China and they will not be discussed in this thesis.

2.2.2 Second home owners and second home users

The above definition does not specify actual ownership (Bielckus *et al.*, 1972). In fact, there are often differences between ownership and use of second homes. On the one hand, a second home user is not necessarily a second home owner. On the other hand, a second home owner is not necessarily a second home user, especially not necessarily the only

user. For instance, a second home owner can share the dwelling with their relatives or friends. They can lend or rent their properties to relatives, friends and others for short periods when their own families are not using them. They can even own the property just for rent. On top of this, far more people use second homes than actually own them (Bielckus *et al.*, 1972).

2.2.3 The relationship between primary and second home

The relationship between primary and second home is very complicated. There is a wide range of possible situations. In some cases, it is hard to tell which home is the primary home and which is the second home. Sometimes, the primary and second homes vary with time.

When a second home is used frequently on a regular basis, it is difficult to decide which is the primary and which is the second home. A case in point is weekend property, perhaps being used by a businessman who stays in a town or city during the working week (Bielckus *et al.*, 1972). It also could happen that a businessman has business in two cities, and he spends his time almost equally in each city.

Under certain situations, a second home may return to primary home use. It is recorded that, after World War II, France experienced a period when some vacation residences in Brittany and Normandy were returned to first home use in order to overcome a shortage of housing (Palatin, 1969. Quoted from: Gallent and Tewdwr-Jones, 2000). In more common cases, second homes may be bought with a view to becoming first homes on retirement. It perhaps would pass through a phase in which the owner is in semi-retirement and the length and frequency of visits gradually increase until the second home becomes unambiguously the primary home (Coppock, 1977). In Canada, the

conversion of seasonal residence into permanent homes became an increasing trend in the 1990s (Rosenberg and Halseth, 1993). Rosenberg and Halseth (1993) conducted case studies in Ontario, British Columbia and New Brunswick. They concluded that retirement played an impetus for the conversion of second homes into permanent homes, and that the conversions were likely to increase in the coming decades (Rosenberg and Halseth, 1993).

2.3 The origins, spread and status of second homes

2.3.1 Origin of second homes

Second homes for the rich have a long history, which can be traced back to classical Rome and ancient Egypt. The wealthy Romans might have had as many as fifteen second homes or villas. They chose a most pleasant one to live in at a given period of the year (Coppock, 1977). In ancient China, some nobles and rich people also owned more than one home. It could be recreational housing located in scenic area, or simply another property in addition to the primary home (Yang, 2001). For instance, the Summer Palace in Beijing and the palace in Chengde Summer Resort, Hebei Province, could be considered as the second homes of the Chinese royal family.

The origin of “modern” second homes is a twentieth century phenomenon (Gallent, *et al.*, 2005). The two major areas of second home developments are Europe and North America, where the great majority of the second homes in the world are found. According to Gallent (2005) and his associates, it is remarkable that the origins of second homes in Europe and in North America are quite different. In the North American context, the second home market was commercially-oriented from the outset (Gallent, *et al.* 2005). In rural America, woodlands, lakeshores and coastlines are subdivided into recreational lots

and second homes are constructed (ASPO, 1973). In contrast, in the Europe context, early second homes were mostly former rural properties that were left vacant by migrants from agricultural areas and then taken over as second homes (Bielckus, 1977; Gallent, *et al.* 2005).

However, the situation has changed as the number of second homes has grown. In Europe, when the stocks of former agriculture housing and surplus housing were exhausted, second home seekers turned their attention to new purpose-built developments. Holiday villages were developed to cater to that demand (Bielckus, 1977; Gallent, *et al.* 2005). In Ontario, North America, the number of non-purpose-built second homes increased, for many working farms have been abandoned and turned into second homes (Wolfe, 1977).

In the European studies of second homes, the point at which the “surplus housing” (that is vacant or dilapidated) can not fulfill the demand and purpose-built second homes appear, is viewed as representing the maturity of the second home phenomenon. It is at this point that new demands may cause environmental and socio-economic concerns as they affect the mainstream housing market (Gallent, *et al.* 2005). In most of the European countries, the maturity point happened between the mid 1960s and early 1970s (Gallent, *et al.* 2005).

2.3.2 Spread of second homes

The widespread development of second homes began after World War II (Gardavsky, 1977; Clout, 1969). Until the 1970s, the second home was considered as a mature social phenomenon around the world. Coppock (1977) reviewed several works that had been done around 1970, and estimated the number of second homes existing across the world. In 1970, there were about 3.5 million second homes in North America, three million

second homes in western Europe, one million in eastern Europe, and a quarter of a million in Austria. Although there were second homes in South Africa, New Zealand , Latin America and Japan in Asia, the number was very small at that time. In all, a reasonable estimate of the world’s total second home number was ten million (Coppock, 1977). Coppock (1977) also pointed out that in China, except for official use, second homes likely had no importance in the 1970s. The following table indicates the number of second homes in some major countries.

Area	Main Countries	Estimated Number of Second homes	Year of Statistics
North America		3,500,000	
	United States	3,000,000	1970
	Canada	500,000	1973
Western Europe		3,000,000	
	Denmark	140,000	1966
	Norway	170,000	1969
	Sweden	490,000	1971
	France	1,500,000	1970
	Great Britain	200,000	1969
Eastern Europe		1,000,000	
	Czechoslovakia	166,000	1967
	Slovenia	3,000	1967
Australia		250,000	
	Australia	200,000	1971
Total number of second homes all over world: 10,000,000			

Table 2-2 Number of second homes in some main countries around 1970

(Source: Coppock 1977, edit by the author)

In terms of geographic features, second homes were mostly in scenic areas, tourism or recreational resorts, and the fringe of big cities. World-wide, second homes tended to concentrate around lake sides, river sides, in coastal areas, and in other areas with natural advantages. Ragatz (1974) found rings of vacation homes around all major cities in the northeastern United States. The majority of second homes were concentrated in an area between 100 and 150 miles of the urban centre (Ragatz, 1974. Quoted from: Wall, 1979). Greer and Wall (1979) found a similar distribution in Canada: the cottages around Toronto are mostly about 100 miles away from the city (Greer and Wall, 1979).

2.3.3 Status of second homes

The status of second homes varies between areas. In general, most of the past studies concerned with second homes agreed that the growth in ownership experienced following World War II was likely to continue (Gallent, 2005, p31). In the United States, for example, a study shows that sales of second homes, which include both vacation homes and investment properties surged recently (NAR, 2005). An examination of 2003 data from the Census Bureau shows that there are 43.8 million second homes across the United States, a significant increase since the 1970s. The number includes 6.6 million vacation homes and 37.2 million investment units (NAR, 2005). The two types of second homes make up a significant portion of the overall housing market (NAR, 2005). The survey also indicates that a notable trend is that a growing number of second home buyers are purchasing primarily for investment. Also, purchasing property as potential retirement housing is also a growing trend. Among all the second homes, about one fifth will become a primary residence after retirement (NAR, 2005).

In England, recent studies suggest that the number of second homes has been stable during the period of 1994-1999. Despite yearly fluctuations, there was roughly the same number of second homes at the end of the period as at the beginning (Gallent, *et al.*, 2005, p29). The same study shows the average number of second homes in England during 1997 to 2000 was 234,000⁷. A large proportion of second homes, approximately 64% of the total number, is held for other than leisure purpose, for example, such as working away from home and intending to sell (Gallent, *et al.* 2005). Similar to their status in the US, Gallent *et al.* (2005) found that in England second homes also exhibit a trend towards retirement purchases and a decline of traditional “recreational use” (Gallent *et al.*, 2005).

2.4 Socio-economic impacts of second homes

2.4.1 Understanding socio-economic impact analysis

1. What is socio-economic analysis and why is it needed?

Nowadays, the sustainability of any activity is judged in terms of its social, economic and environmental consequences: second home purchase and subsequent use is no exception (Gallent, *et al.* 2005). The three components of impacts interact, especially the social and economic impacts.

In some studies, social impacts and economic impacts of second homes are assessed separately and specific methods are employed to assess each. In fact, social and economic impacts are closely related to each other and the analyses of them are complementary and sometimes overlap (DEH, 2005). For one thing, the social impacts of second homes are often associated with negative economic effects that second homes may bring in some

⁷ This estimated number of second homes in England only includes the households that have their first home in England and a second home also in England (Gallent, *et. al.* 2005, p29)

circumstances (Hettinger, 2003). In other words, social effects are often the symptom of an economic consequence (Gallent, *et al.* 2005). Notably, the inflationary pressure on house prices will likely cause the displacement of permanent residents. Also, social and economic impact analyses may employ some common indicators. For example, both of them may examine demographic change; however an economic assessment may place emphasis on workforce information while a social assessment may also be interested in population change or youth migration (DEH, 2005). For this reason, the term “socio-economic impact analysis” is introduced to generalize the two aspects of impacts and integrate them as a whole.

The importance of socio-economic impact analysis has drawn much attention in prior second home studies. In general, socio-economic analysis of the second homes phenomenon has two functions. First, it provides people with a comprehensive view of a certain phenomenon, including its status, trends and potential consequences. Second, an in-depth analysis serves as a platform for planning and decision making. As mentioned by Gallent and Tewdwr-Jones (2000), planning has two main objectives: to minimize the potentially negative impacts and to optimize possible benefits. In order to achieve these objectives, the potential costs and benefits of the development need to be considered before policy responses are formulated (Gallent and Tewdwr-Jones, 2000).

2. Method of socio-economic impact analysis of second home growth

Although many prior studies addressed the socio-economic impacts of the second home phenomenon, there is not a fixed framework to examine this issue. According to Pyne (1973), previous researchers “have tended to recognize that comprehensive and quantitative cost-benefit analyses of the second home phenomenon are rendered meaningless by the great number of necessary arbitrary assumptions relating to patterns of local expenditure or the impact on community life” (Pyne, 1973. Quoted from Gallent

and Tewdwr-Jones, 2000, p35). Gallent (2000) and his associates suggested that “the normal way in which to consider the impacts of second homes is to list the various factors, examining the relative importance of each in turn” (Gallent and Tewdwr-Jones, 2000, p.35). Indeed, this method is adopted by the majority of the researchers. ASPF (1976) examined two fundamental economic effects of second home development: its fiscal effects on local government (taxes generated by the development and the cost of providing public services) and its effects on the local economy (employment, retail trade, property values and housing cost). Gallent and Tewdwr-Jones (2000) discussed, in detail, the five factors that affect the local economy: house price inflation, initial acquisition (that is the initial expenditure on second homes, e.g. estate agent, surveyors), property speculation, general housing stock improvements, and general expenditure by second home users (on local goods and services). WYE research analyzed the impact of second homes on the local economy by checking their effects upon local trade and local employment (Bielckus *et al.*, 1972).

Thompson (1977) and Bollom (1978) considered attitudinal research as an effective approach to analyzing the costs and benefits for receiving regions, which included negative and positive economic impacts, the environmental losses and gains, and the socio-economic repercussions (Thompson, 1977; Bollom, 1978. Quoted from: Gallent, *et al.*, 2005). The socio-economic consequences of second home development are often followed by emotional reactions of local people, which are difficult to gauge. But they are usually expressed in terms of “attitudes” towards second homes and their owners (Gallent and Tewdwr-Jones, 2000). So, according to Thompson (1977) and Bollom (1978), the impacts can be judged directly through changing local attitudes (Thompson, 1977; Bollom, 1978. Quoted from: Gallent and Tewdwr-Jones, 2000).

It is suggested that the simplest approach to measuring attitudes is to derive linear scales

relating to attitude statements. A sample question would be: “Do you think second homes are: good, acceptable, not acceptable or bad (Gallent and Tewdwr-Jones, 2000)?”

2.4.2 Economic Impacts of second homes

1. Housing price inflation

The growth in second home ownership is supposed to exert inflationary pressure on local housing prices (Pyne, 1973; ASPO, 1976). Many researchers suggest that when middle-class newcomers purchase second homes in a host community, they compete with the working-class locals for the housing stock. Under free market conditions, the extra demand may lead to pressure on housing supply and hence to inflation in housing prices (Gallent and Tewdwr-Jones, 2000; Hettinger, 2003). Hettinger pointed out that second home demand is a key factor driving housing prices in tourism communities (Hettinger, 2003).

Some in-depth analyses suggested that more detailed information should be introduced when examining housing competition. For one thing, it is wrong to assume that all “locals” survive on low incomes. Shucksmith (1990) noted that “competition for housing occurs between a range of income and social groups, and that a crude local-newcomer dichotomy should perhaps give way to more nuanced typologies (Shucksmith, 1990. Quoted from: Gallent and Tewdwr-Jones, 2000, p37). Also, different groups compete for different housing. Second home owners, for instance, are generally competing against first-time buyers for smaller properties (Jacob, 1972. Quoted from: Gallent and Tewdwr-Jones, 2000, p37).

2. Property related industry

Some of previous studies that have considered the growth of second home ownership and have suggested an additional impact on property related industries. This impact includes

both effects on the initial acquisition of properties and the subsequent property improvement. Regarding property acquisition, for example, the acquisition of properties by outsiders may generate income in the local economy, with work for solicitors, estate agents and surveyors along with potential profit for the vendor (Pyne, 1973). Pyne (1973) added that in some areas, initial acquisition of property may benefit the local economy, especially if second home purchasers generate fresh demands in parts of the property market and stimulate new construction (Pyne, 1973). However, some researchers have argued that expenditures on the purchase of second homes will usually be insignificant, because the money accrued is not necessarily reinvested locally (SWEPC, 1975. Quoted from: Gallent and Tewdwr-Jones, 2000).

In terms of property improvement, some researches have claimed that the general improvement of properties purchased as second homes supposedly leads to the improvement of the overall quality of the rural housing stock (Hoggart and Buller, 1994. Quoted from Gallent 2005). In some areas, “buyers of second homes have tended to be far less concerned with the condition of properties than those looking for main residences. This has made the issue of improvement particularly important. Obviously this has much to do with the initial purchase price and the availability of surplus properties” (Gallent, 2005, p53). Some researchers have found evidence in case studies proving that home improvements create employment in the construction industry and result in greater ratable values and, therefore, extra revenues for local authorities (Pyne, 1973; Shuncksmith, 1983. Quoted from Gallent, *et al*, 2005). However, Gallent (2005) and his associates pointed out that the prior studies mostly referred to a phase in second home growth, when the supply of surplus dwellings was able to accommodate second home demand. This situation has changed now. The dwellings used as second homes are now unlikely to require substantial improvement work (Gallent, *et al*. 2005).

3. Contribution to local retail and services

The general expenditures of second home users on local goods and services are a positive economic contribution to the importing region. According to Dower (1977), the second home users regularly bring additional revenue into the local economy. Because once a family has purchased a second home, the family members (or relatives or friends) will visit the same area almost every tourist season year after year (Dower, 1977). From prior studies, it has been revealed that second homers' contributions to local retail and service outlets depend to a considerable extent on the time they spend in their second homes (Gallent, *et al.* 2005). During short visits, for example a weekend, consumables (e.g., milk, bread, groceries, meat and vegetables) might be purchased in the exporting region and expenditures in the vicinity of the second home may be small. However, with longer stays, which could be a couple of weeks, the consumables are more likely to be purchased locally (Gallent, *et al.*, 2005).

4. Generation of taxes

In most prior studies, the tax contribution from second home ownership and associated activities is often studied as a separate economic component (Gallent and Tewdwr-Jones, 2000, p46). As mentioned above, second home purchase and use may generate tax revenue through the improvement of a poor-quality dwelling. But it often is debatable whether the increased taxes can outweigh the costs of providing public services. In the past, there have generally been two different views on the overall tax contribution of second homes. Some have believed that "the ratable income for the local authority helps sustain local services particularly as absent rate payers place little strain on these services for much of the year" (Gallent, *et al.* 2005). They believed second home owners subsidize full-time locals, for they make little use of services (Shucksmith, 1983; Bollom, 1978). On the contrary, others have argued that "although these ratepayers contribute to the running cost of certain services (especially education), their displacement of permanent

population results in less service demand for much of the year and a subsequent decrease in supply” (Gallent, *et al.* 2005, p58). Besides, they noted that these taxes must be used to cover the cost of providing new infrastructure. Especially, in some second home communities, the social services are over-used by retirement migrants (Gallent and Tewdwr-Jones, 2000).

2.4.3 Social impacts of second homes

As mentioned above, the social effects of second homes tend to have an economic cause. Any harmful social impacts are closely allied to the negative economic effects that second homes may produce in some circumstances (Gallent, *et al.*, 2005). But, the social effects are often much more subtle and are extremely difficult to quantify. Besides, whether the impacts are positive or negative varies from area to area. According to Gallent *et al.* (2005), the “second home will not have a ‘standard’ or quantifiable social impact in any given area” (Gallent, *et al.*, 2005, p37), as the local circumstances are diverse. The following discussion details the major concerns related to social impacts that have raised academic interests in the past: the displacement of local people, disruption of local services and the erosion of social norms.

1. Displacement of local people

The issue of displacement of local permanent residents has been touched on above in the section on housing price inflation. When housing prices escalate, some of the less wealthy locals might be driven out of the housing market and forced to move out of the region. Notably, young people and first-time buyers are groups that are often affected in this way by second home growth. For this reason, such local residents often oppose second home developments in their communities. However, some people, as home owners, do not have this displacement pressure. They might tend to welcome the

investment that second home buyers inject into this market because it will increase the potential value of their own properties (Gallent, *et al.*, 2005).

2. Disruption of local services

The disruption of local services is caused partly by the out-migration of locals. This issue is usually considered in terms of decline of regular demand for local services as more permanent residents move out of the community. According to Gallent *et al.* (2005), if services are not used, then the local authority will not provide them because regular use rather than taxes provides the greater part of service support income (Gallent, *et al.* 2005, p58). Second home owners often only stay in their second homes for a short period of the year, so local services might decline for this reason.

In addition, the seasonality of occupation of second homes adds to the disruption of local services. Areas in which second homes are concentrated become “ghost” communities in non-tourist season (Gallent and Tewdwr-Jones, 2000, p58). Social service may appear to be over-supplied in the non-tourist season and insufficient during the rest of the year.

3. Erosion of social norms

In some studies, the second home phenomenon is considered to be a potential threat to community authenticity. This threat causes a loss of the sense of community in terms of language, life style and social networks (Shucksmith, 1983; Downing and Dower, 1973). Gallent and Tewdwr-Jones (2000) noted that in some areas in Wales, second homes have come to symbolize a threat to Wales’ distinctive culture and language. According to Downing and Dower (1973), an influx of “wealthy town-dwellers with cultivated accents and liberal or agnostic views” often brings “culture shock” to the second home communities in rural areas (Downing and Dower, 1973).

2.4.4 Density and types of second homes and associated impacts

The above sections have described the impacts that have been detected in past studies. Admittedly, the second homes in different communities generate some common effects, such as stimulation of the local economy, increasing housing prices, etc. However, the level of the impacts or, in other words, the net outcome, varies from case to case (ASPO, 1976). As emphasized by Hoggart (1995), “whether or not the outcome of second home growth is regarded as positive or negative, the impact for communities can depend heavily upon local circumstance” (Hoggart, *et al.* 1995. Quoted from: Gallent and Tewdwr-Jones, 2000, p35). The density and type of second homes are regarded as two major factors.

It is easy to understand that a higher density of second home developments brings greater impacts. Therefore, in such communities where second homes are causing serious negative impacts or social disruption, there is always a stronger oppositional attitude. However, Bollom’s study (1978) described and explained a different circumstance. Bollom (1978) pointed out that in the areas that are little affected by second homes, “people more readily identify with traditional life-styles and react against what they see as the potential threat posed by second home growth” (Bollom, 1978. Quoted from: Gallent and Tewdwr-Jones, 2000, p56).

The type of second homes plays an even more important role in the impact analyses. Three types of housing are used as second homes: surplus housing, mainstream housing and purpose-built housing. The impacts they have are quite different. The conversion of surplus housing, for example, may offer positive environmental benefits as restoration and change of use can help to preserve derelict properties from being demolished (Dower, 1977). Pyne (1973) pointed out that renovations contribute positively to the landscape of

the surrounding neighborhood (Pyne, 1973. Quoted from: Gallent and Tewdwr-Jones, 2000). Besides, according to Pyne (1973), second home owners are often willing to accept advice on housing renovation and decoration, which will stimulate the relevant industry in the host community (Pyne, 1973. Quoted from: Gallent and Tewdwr-Jones, 2000). The negative impacts associated with this situation are very few.

If a second home is taken from the mainstream housing stock, it will be more likely than the other two types to cause the displacement of local residents. Bollom (1978) noted that in North Wales, the attempt of younger people to purchase properties might be affected by potential second homers, for their purchasing capacity is much greater (Bollom, 1978. Quoted from Gallent and Tewdwr-Jones, 2000). In this case, proper planning, policy and housing strategy are required to keep the local housing market in order.

Propose-built second homes always raise environmental concerns but it is believed that their environmental impacts could be neutral if the newly-built second homes are well planned (Gallent and Tewdwr-Jones, 2000). Besides, recreational land development may become a part of the local economic development strategy, attracting capital from outside and generating income and employment (Venturoni, *et al.*, 2005; Gallent and Tewdwr-Jones, 2000). The following table demonstrates the relationships between second home types and supposed impacts.

	Benefits	Costs	Policy Responses
Surplus Dwellings	May enhance the quality of the landscape and bring improvements to the rural housing stock. There will also be work for local contractors, and economic input (through new tax revenue, local expenditure) and few associated social problems.	There will be few associated costs provided these dwellings are surplus to local needs	Encourage by proactively seeking buyers or reinstating grant rights
Mainstream Stock	Displacement of local economic input is likely to outweigh the new input from second home owners.	New competitors in the housing market mean rising house prices, the possible exclusion of local buyers, a reduction in rented accommodation, a cessation of local services, and social tension	Change of use planning controls or property market licensing
Purpose Built	Purpose built second homes are subject to normal planning controls and when grouped together and properly sited, may form part of a wider economic strategy, generating new income and employment.	May Bring environmental costs if poorly-planned (particularly if developments are too large) and may conflict with other recreation needs	Encourage but regulate through normal planning procedures

Table 2-3 Comparison of second home types and associated costs and benefits

(Source: Gallent and Tewdwr-Jones, 2000, p61)

2.5 Research in China

Although there has been growing recent interest in the second home phenomenon, academic research on this topic is very scanty in China. Most of the available materials are from newspapers and real estate magazines. Only a few authors have contributed to this field.

Feng and Liu (2000) made some general observations about second home developments in China in their work “*On the development of second homes*”, which is one of the earliest Chinese documents on second homes. They discussed a number of the main factors that have caused and accelerated the growth of second homes in China, including improvements in the quality of life, increase of leisure time, the implementation of housing reform policy, changes in life styles and ideas, etc. Tian and Zhang (2003) added that the increased mobility of people (that is, the prevalence of private cars and improved transportation conditions), the development of small towns and suburbs, and the decrease of interest rates have also helped to accelerate the growth in second homes.

Feng (2003) focused on the purchase and use of second homes in suburban Beijing. According to Feng (2003), the suburbanization of Beijing is caused by second home development to some extent (Feng, *et al.*, 2003). In 2003 and 2004, Feng and his colleagues did a series of investigations in the peripheral areas of Beijing, China. A survey about second home ownership, usage and the intention to purchase second homes was conducted with a sample of 10,000 Beijing residents. From the investigation, Feng *et al.* (2004) estimated that there were 900,000 second homes in Beijing in 2004. The use of second homes was mainly for investment purposes or as temporary housing for visitors. The survey also indicated a high proportion of survey respondents owned (23.7%) or intended to own (about 50%) a second home (Feng and Zhou, 2004).

In terms of impacts analysis, most of the studies are very general and mostly occur at the national level. Feng and Liu (2000) pointed out that the second home development in China is still in an early stage. As in all developments, there are both positive and negative effects. But the serious social problems that western countries have experienced (e.g. seasonal visitors bringing pressure on the public services of the host community) have yet to be perceived. There is no previous study that indicates that the second home growth is causing displacement of local people. Tian and Zhang (2003) worried that the prosperity of second home development may affect the equity of social wealth and resource use. Besides, it may cause a price bubble in the housing market which will mislead investment and construction (Tian and Zhang, 2003).

2.6 Summary

The definition of a second home has been debated for years because of the complex nature of this phenomenon. A second home should have the following characteristic: it should be occasionally occupied as supplemental housing. The definition adopted for this research includes any form of private dwelling other than a permanent residence, regardless whether they have been acquired for tourism, investment or retirement purposes. In terms of the world-wide context of second home phenomenon, second homes in Europe and North America have distinctive origins: Early European second homes were mostly derived from surplus housing, while in North America, the second home market was commercially oriented from the beginning.

The social and economic impacts of second homes are closely related to each other and, therefore, are usually discussed together in a socio-economic context. The general concerns raised by previous researches include housing pressure on the host community,

effects on relevant industries, disruption of local services, etc. Notably, “it is extremely difficult to make general statements about the effect of second homes, from either a purely economic or a socio-economic perspective, without reference to local economic and market conditions” (Gallent, *et al.*, 2005, p50).

Chapter 3 Analytical Framework and Methodology

This chapter introduces the research design, analytical framework and methods adopted. In the first section, the selection of the study area and the four-phased research process will be reviewed. The objective and outcome of each phase will be stated. The research framework and methodology will be presented in detail. The main data source of this research will be listed. And, the limitations and challenges of this research will also be identified.

3.1 Research Design

3.1.1 Selection of study area

The field study of this research was carried out in Haikou City, Hainan Province, China⁸. The selection of the study area is based on the following concerns.

Firstly, Hainan is one of the most popular second home destinations in China. This situation is determined, to a large extent, by the unique natural condition of Hainan Island. It is the only tropical province in China which is well known as a traditional beach resort. In recent years, the beautiful tropical scenery, the unique environmental conditions and reasonable housing prices have attracted more and more people to purchase a second home in Hainan. By far, the second home market in Hainan is the most developed one in China. It is also believed that second homes still have great development potential in Hainan Island.

⁸ Hainan Province includes Hainan Island and its surrounding small islands and sea. Hainan Island consists 99% of the land area of Hainan Province. In this research, *Hainan Province* generally means *Hainan Island*, and is sometimes called *Hainan* for short.

Secondly, the growth of second homes in Hainan is creating some problems that have been also detected in other areas of second home concentration. For example, the high vacancy rate during the non-tourist season, which is a big problem for Hainan, is also bothering the second home community elsewhere. A Chinese second home researcher thinks that *Hainan is experiencing all the features and problems of Chinese second home development, especially of second homes in coastal areas. (Respondent Q, a Chinese second home researcher, 10/11/2005)*

Thirdly, Haikou was selected as a place to carry out field research because it can well represent the second home phenomenon in Hainan Province. In Hainan, housing developments and second homes are mostly in two cities, Haikou City and Sanya City. Quantitatively, Haikou City has the biggest housing market in Hainan. In 2003, 77.7% of real estate developments in Hainan took place in Haikou City, and 16.2% were in Sanya City⁹ (SBHP, 2004). Also, a recent survey¹⁰ indicates that more than 90% of potential buyers who are considering purchasing a second home in Hainan, would like to choose Haikou as a destination (REAH, 2005). It shows the important role of Haikou in the second home market of Hainan.

Fourthly, the local government of Haikou City has paid special attention to the second home phenomenon. In the new Master Plan, they set “building the second human habitat” as one of their regional development strategies (CH, 2005a, p25). My research will have practical significance to Haikou City so it was felt that the municipal government would

⁹ In 2003, the total floor area of real estate developments completed in Hainan Province was 1,150,000 sq. meters, with 894,000 sq. meters in Haikou City and 186,000 in Sanya City (SBHP, 2004, p141). About 89.3% of them are residential housing (SBHP, 2004, p141). The proportion is calculated by the author, based on these data.

¹⁰ The survey was conducted by the Real Estate Association of Hainan. For detailed information please refer to Appendix 2.

be interested in and more likely to assist in the research. Besides, as the capital city of Hainan Province, access could be gained to more government officials and institutions at both municipal and provincial levels. Collecting data might therefore be easier in Haikou.

Last but not least, the Ecoplan China project focuses on the coastal area of China, especially Dalian City, Nanjing City and Hainan. This research fits well with the interests of the Ecoplan China project and is intended to contribute to the project.

3.1.2 Research Process

The research process lasted for about 16 month, including a three-month field investigation in Haikou City, China. It includes four phases, with different research objects and proposed outcomes. See Table 3-1 for details.

Phase One: Literature Review (01/2005~04-2005)

Part of the literature review work was done at the University of Waterloo before undertaking the field trip. In this stage, emphasis was placed on developing the research topic and searching for a better understanding of the topic through examination of previous research. The research objective and question were identified, and a corresponding research method was chosen. In February 2005, a research proposal was completed and this was later approved by the Ecoplan China Project.

Phase Two: Research Design and Ethics Clearance (05/2005-06/2005)

The second phase of the research was undertaken in Haikou, China, from mid May to early June. The major objectives were to acquire a background understanding of the research area, to design interview questions, and to apply for ethics approval from the University of Waterloo. Sample questions for interviews were prepared by the end of May.

The ethics review application was then submitted and was later approved by the Office of Research Ethics of the University of Waterloo in early June. Network connections was established in the local community, which was essential to facilitate further research.

Phase Three: Data Collection (06/2005-08/2005)

Most of the primary and secondary data were collected from June to August, 2005. In this stage, semi-structured interviews and casual interviews with local government officials, housing developers and local residents were conducted. In total, 93 interviews were conducted, including 74 interviews with local residents, 7 with provincial and municipal governors, 5 with housing developers, and 8 with various other people. Second hand data were collected during my visit to government institutions, housing projects, etc. Photos were taken during on-site observation.

Phase Four: Data analysis (09/2005-04/2006)

Data analysis phase began once the field research had been completed. In this phase, western and Chinese literatures on second homes were reviewed. The data collected from the field research was organized and analyzed. A field trip report was submitted to the Ecoplan China project in September, 2005.

Phase	Objectives	Outcome
Literature Review and funding application (01/2005~04-2005, Waterloo, Canada)	<ul style="list-style-type: none"> · Understand research topic · Identify research object and questions · Choose research method and area · Make general research plan 	<ul style="list-style-type: none"> · Research proposal and defense · Ecoplan China Project application
Detailed research design and ethics clearance (05/2005~06/2005, Haikou, China)	<ul style="list-style-type: none"> · Get preparatory understanding of research area · Design interview questions and choose interviewees · Make ethics clearance · Make network for further research activities 	<ul style="list-style-type: none"> · Sample questions for interview · Ethics clearance application
Data Collection (06/2005~08/2005, Haikou, China)	<ul style="list-style-type: none"> · Get primary data by on-site observation · Get first-hand information by conducting interviews with three groups of people · Get secondary data from various of sources 	<ul style="list-style-type: none"> · Interview lot · Photos · Local studies and other secondary data
Data analysis and writing thesis (09/2005~04/2006, Waterloo, Canada)	<ul style="list-style-type: none"> · Organize and analysis data · Write thesis in fulfillment of the degree of Master in Planning 	<ul style="list-style-type: none"> · Field trip report to Ecoplan China Project · Master's thesis · Thesis defense

Table 3-1 Research objectives and outcomes of each phase

(Source: By the author)

3.2 Research Framework

A wide range of research frameworks are used in socio-economic impact analysis. Taylor *et al.* (1995) summarized the general steps of a socio-economic impact analysis. Although in specific cases, the framework is tailored to meet particular requirements, they generally involve some or all of the following steps (Taylor, *et. al*, 1995):

- Scoping the nature and boundaries of the impact assessment
- Profiling current impacts of the activity being examined, including the historical context or current status to establish a baseline level and rate of change for relevant variables related to the activity of interest
- Formulating alternatives, in which alternative 'impact' scenarios are developed
- Projecting and estimating effects of different impact scenarios
- Monitoring actual impacts
- Mitigation and management of impacts
- Evaluation of the impact assessment process

Table 3-2 General steps of socio-economic analysis
(Source: Taylor, *et. al*, 1995)

The research framework adopted by this study involves part of the above steps, including research scoping, baseline profiling and impacts analysis. The research scoping phase is by and large the detailed research design process. In this step, the research objective and questions are set. The research area is selected and a proposal for a further research plan is prepared.

In the baseline profiling step, the historical context and current status of second home ownership is observed. Four groups of people are considered to be relevant to this study.

They are government officials, housing developers and local residents. Government officials and housing developers represent the public and private sectors that are involved in second home development. Local residents and second home owners are supposed to be directly impacted by the developments. However, the researcher did not interview many second home owners because it was the off season when the field work was conducted and there were almost no second home owners in Haikou during that time. Based on the available knowledge, a number of potential issues and problems can be identified.

The impact analysis step includes data collection and data analysis. The potential issues and problems identified in the preceding step will be tested by interviewing the key groups. Details about interview methods will be discussed in the following section. As new ideas and concerns might emerge during the interview process, a continual revision of the interview questions might be required. After adequate data have been collected, analysis will be conducted. This study adopts Gallent and Tewdrw-Jones's (2000) suggestion (also mentioned in Chapter2), "to list the various factors, examining the relative importance of each in turn" (Gallent and Tewdrw-Jones, 2000, p35).

Figure 3-1 demonstrates the conceptual framework of this study.

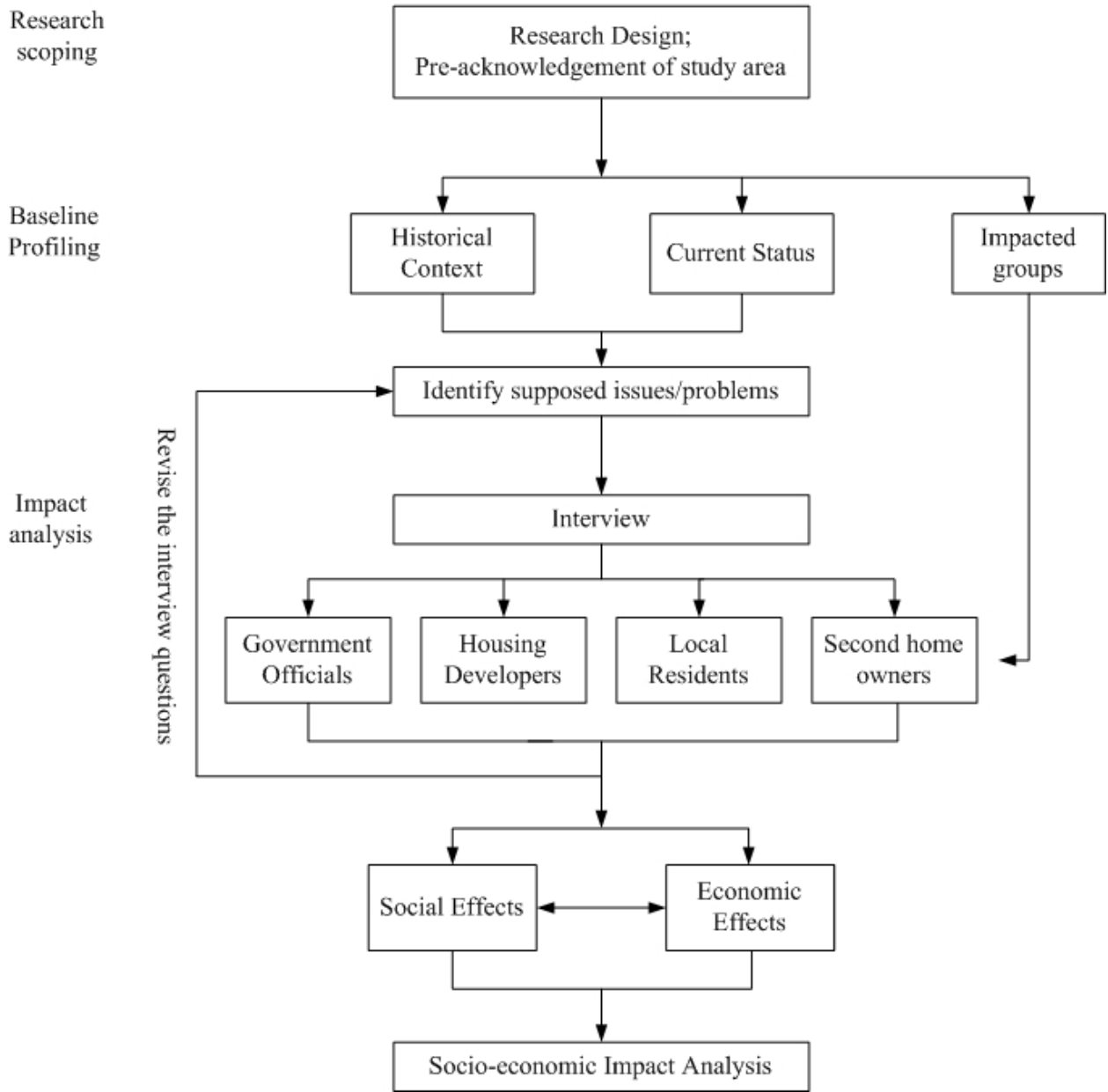


Figure 3-1 Research framework for exploring socio-economic impacts of second homes in Haikou City (Source: by the author)

3.3 Methodology

3.3.1 Case Study Approach

A case study approach is widely adopted in social science research. Especially, it is the best approach for exploratory research, when the phenomenon is new and little is known to the researchers (Yin, 1994). The examination of second homes is a brand new topic in China with very few previous studies. This research will examine the second home phenomenon in China through investigation of the case of Haikou city.

Multiple research methods and sources of evidence are used in the case study. According to Yin (1994), a “case study is not limited to either qualitative or quantitative data, and it can incorporate both varieties of evidence (Yin, 1994, p124).” This study is generally qualitative. Details about research methods will be elaborated in the following section.

3.3.2 Qualitative Research

By and large, this research adopted qualitative methods. There are two reasons why qualitative methods are chosen. Firstly, qualitative research is exploratory, and therefore is useful when the researcher does not know what variables to examine (Creswell, 2002). According to Creswell (2002), if a concept or phenomenon needs to be understood because little research has been done on it, then it merits a qualitative approach. As mentioned in previous chapters, the second home has already been a well-developed research subject in western countries. However, in China, it is still a new phenomenon, which has so far attracted very little research attention. This study is intended to provide a foundation for research about second homes in China, especially in Haikou City. In this case, a qualitative approach has more advantages than a quantitative approach, particularly

as numerical information on the topic is particularly difficult to secure.

Secondly, qualitative research is emergent rather than tightly prefigured (Creswell, 2002). In this research process, quantitative studies were first considered. A questionnaire about local people's attitudes towards the second home phenomenon was designed. However, in pre-testing the questionnaire, it was found impossible to prefigure all the aspects of the topic. So, the questionnaire was changed to more open-ended interviews. When new aspects emerged during the interviews, questions could be refined, or follow up questions identified.. The methods used in this research are introduced in the following sections.

3.3.3 Research Methods

1. Interview

Interviews are commonly used in qualitative research. Creswell (2003) argued that, in qualitative research, random sampling or a large number of participants are not necessarily required. It is essential to “select participants that can best help the researcher to understand the problem and research question” (Creswell, 2003, p185). Semi-structured interviews are adopted in this research. This interview approach involves the preparation of questions or issues that are to be explored during an interview. The advantage of the semi-structured interview is that it could ensure that basically the same information is obtained from a number of people. Gaps in data collection can be anticipated and avoided, which make the interview, more systematic and comprehensive. On the other hand, the weakness of this approach is that it is less flexible for the interviewer to pursue topics or issues of interest that were not anticipated. Also, interviewer flexibility in wording and sequencing questions may result in bias in different responses (Patton, 1990; Creswell, 2003).

In this research, three main groups of people were selected to participate in semi-structured key information interviews. They are government officials, housing developers and local residents. Besides, some casual interviews were conducted with second home owners, researchers, housing superintendents, taxi driver and a retail dealer¹¹.

1.1 Interviews with government officials and housing developers

The objectives of interviewing government officials and housing developers were: (1) to better understand the historical context of second homes in Haikou; (2) to get first hand information about the status of second homes in Haikou, to supplement available secondary materials; (3) to observe their perspectives and concerns on the second home phenomenon in Haikou; and (4) to get access to insider documents and local studies, and to establish a network for further study.

Government officials at both provincial and municipal levels participated in the interviews. They were specialists in planning, tourism, real estate and housing, and regional development. Their opinions well represented the attitudes and views of the community leaders of Haikou. The interviews were conducted either individually or in a group on a face-to-face basis. The research questions were semi-structured and were provided to the interviewee by telephone in advance. The questions were open-ended. When the interviewee raised new concerns or issues that were worth discussion, follow-up questions were asked. Each interview took 40 to 60 minutes and was recorded in writing by the researcher.

The housing developers that were interviewed included the managers of real estate companies and the directors of their sales departments. Generally, the real estate company

¹¹ For detailed information about the interviewees, please refer to Appendix 1.

manager would provide a general overview about the local housing market and his own company, while the sales directors knew the status of the housing market in detail. The process employed was similar to that used for the interviews with government officials.

1.2 Interviews with local residents

The general objectives for interviewing local residents were: (1) to acquire their attitudes towards the second home phenomenon; (2) to get information about the changes that the growth of second homes brings to their life; (3) to know their concerns and the issues that they face as a result of second home development.

As mentioned in Chapter 2, the impacts of second homes may affect various groups of people differently. Shuncksmith (1990) contended that the “low income and low wealth” locals and “more prosperous” locals are in distinctive positions in the competition with newcomers for housing (Shuncksmith, 1990. Quoted from: Gallent and Tewdwr-Jones, 2000, p53). Some researchers therefore developed a classification and discussed the second homes’ impacts on different housing class (Gallent and Tewdwr-Jones, 2000). Similarly, in this study, three groups of local residents¹² in different housing conditions were chosen to be my interviewees. They were locals living in newly developed commercial housing (new housing group), locals living in welfare housing¹³ (welfare housing group) and locals living in very poor conditions (poor housing group). Their opinions can well represent the views of local residents. The interviews with the new housing group took place in two newly developed housing communities, one in Siji

¹² I defined “local residents” by judging whether he or she generally lived and worked in Haikou City. In other words, a local resident is a person whose centre of life is in Haikou and his/her home in Haikou is his/her primary home. Local residents include native Haikou people, and immigrants from other places who have settled down in Haikou.

¹³ Welfare housing is the public-owned properties which are assigned to individuals by their employers. People living in welfare housing only have the occupation right and use right of the property, but do not own it. They pay rent for the property. Welfare housing was the dominant housing type before Housing Reform.

Huating Estate and the other in Zijing Garden. The interviews with the welfare housing group were carried out in the welfare housing community near Haifu Street. The poor housing group was recruited in a community called “in-city village”. The locations of these places are shown in Figure 3-2.



Figure 3-2 Location of the interviews took place (scale unavailable)

(Source: Map of downtown Haikou, edited by the author)

The interviewees were recruited randomly in these locations. They were asked mainly open-ended questions regarding their concerns about the second home phenomenon. Besides, several closed questions were also introduced to local residents. All the local resident interviewees wished to remain anonymous. Each interview took about 40 minutes and was recorded in writing by the author. Table 3-3 provides a brief description of the interviews conducted with four groups of people.

Groups	Interview Description	Interviewee Profiles	Sample questions
Government officials (7 interviews conducted)	<ul style="list-style-type: none"> · Face-to-face interview, individually or in a group · Semi-structured interview with open ended questions · Recorded in text by the author · Took 40-60 minutes per interview 	Provincial and municipal government officials in Housing, Planning, Tourism, Construction Bureau, etc.	<ul style="list-style-type: none"> · What do you think of second home phenomenon in Haikou? · What is the historical context of second home growth? · What changes do the second home growth bring? · What's the relevant policy that concerns second home development?
Housing Developers (5 interviews conducted)	<ul style="list-style-type: none"> · Face-to-face interview · Semi-structured interview with open ended questions · Recorded in text by the author · Took about 40 minutes per interview 	Managers of housing development company, director of sales department of estate	<ul style="list-style-type: none"> · What do you think of the second home phenomenon in Haikou? · What's second homes' role in housing market? · How do second homes impact on local housing industry?
Local Residents (74 interviews conducted)	<ul style="list-style-type: none"> · Face-to-face interview · Semi-structured interview · Recorded in text by the author · Took about 40 minutes per interview 	Local residents in different housing condition	<ul style="list-style-type: none"> · What's your attitude towards the second home growth in Haikou? Why? · How second home growth impact on your daily life? · What do you think of current housing price and strategy?
Others (8 interviews conducted)	<ul style="list-style-type: none"> · Face-to-face interview · Casual interview · Recorded in text by the author · Duration of interview varies 	Second home owners, researchers, housing superintendent, taxi driver, retail dealer, etc.	<ul style="list-style-type: none"> · What do you think of the second home phenomenon in Haikou? · What is your concern about the second home phenomenon?

Table 3-3 Description of interviews conducted to four groups of people (Source: by the author)

1.3 Interviews with other people

Some casual interview were undertaken with various people during the fieldwork, including second home owners¹⁴, potential second home buyers, superintendent of a housing community, taxi driver, retail dealer, etc. These interviews were conducted casually in housing communities, local stores, restaurants, taxis, etc. The recruitment of interviewees and the questions were not pre-designed. The content and duration of interviews varied, depending on the interviewees' wishes. Also, an email interview was conducted to a Chinese second home researcher in who is also studying the second homes in Hainan. The interviewee was introduced by a friend.

2. On-site Observation

According to Creswell (2003), on-site observation has the advantage that the researcher can have a first-hand experience, and can record information as it is revealed (Creswell, 2003, p187). In this research, the objectives of observation were to examine the current status of second home developments in Haikou, including housing type, distribution, occupancy status and so forth. The status and problems of the local housing industry were also observed, for example, the abandoned unfinished building¹⁵ problem. Records were taken by photography.

3. Other methods

Secondary research is also an essential part in this study. Secondary research allows the researcher to incorporate data that can not be collected by an individual researcher, for instance, the macro-economic data, and statistical data. In addition to the above methods, the researcher attended a conference on the real estate industry in Haikou, which partly

¹⁴ The time when the field trip is conducted, which was May to August, 2005, is not the best season to access to second home owners in Haikou. The second home owners do not usually spend their summers in Haikou. Normally, the busy season of second home usage in Haikou starts in October and lasts until April of the next year.

¹⁵ An abandoned unfinished building is called a "rotten-tail building" in China.

concerned second home developments issues. Notes were taken as a record of the conference and a network was established for interviews.

Table 3-4 demonstrates the links between my research questions and the methods adopted.

Research Questions	Interview					On-site observation	Secondary Research
	Government Officials	Housing Developers	Local Residents	Others			
What is the historical context of second home growth in Haikou?							
What is the status of second homes and what are their roles in local housing market?							
What are the characteristics of the second home phenomenon in Haikou?							
What socio-economic impacts second home growth brings to local community?							
How do the members of local community think of the second home growth?							

Table 3-4 Links between research questions and methods (Source: by the author)

3.4 Data Source

The primary sources of data include interview lots, photographs taken by author, and

meeting notes recorded by the author. Besides primary data, secondary data enabled the researcher a better understanding of the research area and related issues. Secondary data comprise an important part of this study. The sources of secondary data are as follows:

- Yearbooks, including Yearbook of Haikou and Statistical Yearbook of Haikou
- Government documents, local studies and policy files
- Plans, including master plan, strategic plan, land use plan, etc.
- Government websites
- Brochures, advertisement, maps and other materials

3.5 Limitation and Challenges

The biggest challenge in undertaking this research was the lack of accurate statistical data, which is always a problem in second home research. The absence of any figures recording the number of second homes, though it provided the impetus for a second home study, also made it difficult to gain an accurate picture about this phenomenon (Bielckus, *et al.*, 1972). In China, the national government has never made any investigation or survey about second homes. Therefore, no nation-wide data about second homes is currently available.

In Haikou City, there are also no direct data on this phenomenon. However, the Municipal Housing Bureau started some related work in November 2004. They identified three groups of housing buyers, local buyers, non-local Hainan buyers, and out-of-province buyers. The numbers of housing units sold to these three groups are calculated separately based on the Property Right Contract¹⁶ record in the local Housing Bureau. Therefore, it

¹⁶ In China, once you purchase a property, you should register it at the local housing bureau to get your Property Right Contract, which represents your ownership of the property.

can be determined how much commercial housing is sold to non-local people and estimates of the number of second homes can be established. However, there are several gaps in this calculation. First, the record in the local Housing Bureau is not up-to-date. Sometimes, the buyers do not register and get the Property Right Contract immediately after the purchase. In some cases, it even takes years. The record in local Housing Bureau is, therefore, dated and does not accurately reflect the current status. Second, whether the buyer is local or not is judged by his/her address registered in the Housing Bureau, which is often the address on their ID card. In China, when people move and change address, they do not necessarily update the address on the ID card¹⁷. It could happen that a person immigrated to Haikou but kept the old address on their ID card. In this case, the people with the non-local address may have already immigrated to Haikou and became locals. So it is misleading to count the property that they bought as second homes.

There is also great challenge in acquiring data. In China, some statistical data are not open to the public. Many difficulties were confronted in accessing government documents, local studies and statistical materials during the fieldwork. Sometimes, the government officials were not inclined to provide data or to be interviewed, unless they knew the researcher or the researcher was referred to them by someone that they knew. As a result, it is essential to build a local network of informants when conducting research in China.

3.6 Summary

Based on the framework of socio-economic analysis and the nature of second home research, a framework was developed to guide this study. Haikou City, China, was chosen

¹⁷ The valid time for an ID card in China is 10 or 20 years.

as the research area, for it is a typical place to study coastal second homes in China. The study process consisted of four phases, including a three-month period of field research in Haikou. This research mainly adopted a qualitative approach, with interviews, on-site observation and secondary research as major methods. Government officials, land developers and local residents in different housing conditions were three major groups that participated in interviews. Their attitudes and concerns towards the second home phenomenon were examined in the interviews. Besides the first-hand data that were collected by interview and observation, various second-hand data also contributed to this research.

Chapter 4 The case of second homes in Haikou, China

This chapter presents the baseline profiling step of this research. First, it will provide a brief introduction to the study area, including location, climate, macro-economic and demographic features. Then, historical context of the second home phenomenon in Haikou will be introduced, emphasizing the status of the housing market and relevant policies. After that, the emergence and current status of second homes will be presented. The estimated number, distribution, housing types and use of the second homes will be covered.

4.1 Introduction to the study area



Figure 4-1 Location of Haikou in China (scale: 1/50,000,000)

(Source: www.mybeijingchina.com/map/map_china.htm, edited by the author)

Haikou is located in the northern part of Hainan Province, the southernmost province in China. At the narrowest part of the Qiongzhou Channel, Haikou is only 18 sea miles from mainland China. In terms of the distance between Haikou and other major cities in China, Haikou is 2310 km from Beijing, 1762 km from Shanghai, and about 550 km from Guangzhou, Hongkong and Macau¹⁸. Figure 4-1 demonstrates the location of Haikou in China and its location relevant to other cities.

Haikou is the capital city of Hainan Province and also the biggest city in area and in population. It has an area of 2304.8 sq. km. The population of Haikou is about 1.43 million¹⁹ (2004), which is one fifth of the total population of the province. The second biggest city is Sanya, located in the south of the island. The distance between the two cities is 248km²⁰, about 3 hours' drive. The research mainly took place in the city area of Haikou (location shown as triangle in Figure 4-2).



Figure 4-2 Location of Haikou in Hainan Province (scale unavailable)

(Source: <http://www.blogtt.com/images/map/Hainan.jpg>, edited by the author)

¹⁸ The distance is the direct flight distance between the two cities. It is calculated from the Meilan International Airport of Haikou to the airport of the other cities. Quoted from: <http://www.chinasbz.com/tool/traffic/20060204/15981.html>

¹⁹ This is the total number of registered permanent residents in Haikou by the end of 2004 (that is people with “hukou” in China), quoted from the statistics of Registered Permanent Residents Office (RPRO, 2005).

²⁰ The distance is calculated based on the length of highway (east side) between Haikou and Sanya.

Haikou is a city of immigrants. In 1988, when Hainan when became a province and was designated as a special economic zone, there was an influx of people from mainland China, seeking better opportunities in Hainan. The current permanent residents of Haikou include native Haikou people and immigrants, and the latter are a large proportion of the total population. In this study, both native Haikou people and immigrants are defined as locals, as long as they mainly live and work in Haikou.

Haikou has a very pleasant semi-tropical climate that offers warm sunshine, mild winters and year-round congenial temperatures. The average temperature is about 17.1 degrees centigrade in winter (January), and 28.4 degrees centigrade in summer (July). As a coastal city, it has a shoreline of 110km. The ecological environment in Haikou is very good. The air pollution index of Haikou is 28, which is superior to the first grade of the national standard. Haikou has much better air quality than other big and medium-sized cities in China. Sea, sunshine, sand and the tropical climate provide Haikou with attractive tourism resources, and have made it an important beach resort in China.

Ever since China carried out its reform and “open-door” policy in 1978, Haikou has taken advantage of preferential policies of as a special economic zone, and the local economy has made dramatic progress during the past decade. The quality of life in Haikou has improved. The average annual disposable income of a Haikou citizens²¹ is RMB 8004 (CDN \$1143.43) (CH, 2005a, p5). A large proportion of income is spent on food and other necessities. In the year 2002, for example, the average annual expenditure of Haikou citizen was RMB 6497 (CDN \$928.14), with 44.2% spent on food. The Engel

²¹ In China, the urban people and country people are registered in different categories in *hukou* (permanent resident registration), country hukou and city hukou. In this study, the term Haikou citizens means people with city hukou.

Index²² is 44.2% (CH, 2005a, p5). The economic development and quality of life as suggested by such measures are a bit below average compared to other equivalent Chinese cities. Nevertheless, the attractive environment may be a major reason for people to move to the city.

4.2 Historical context : Housing market and policies

4.2.1 Early stage of the housing market: before 1988

In ancient China, Haikou became an important harbour of Hainan Island during the Song Dynasty²³ (CH, 2005a). In the Ming Dynasty²⁴, Haikou was considered to be a fortress place with military importance and was hence developed by the emperor. However, for hundreds of years, Haikou grew and developed slowly. Until 1949, the city area of Haikou was only 1.5 sq. km, with a population of 133,925. The total floor area of housing was 531, 310 sq. meters, which was 3.9 sq. meter per person (HBH, 2005b). At that time, the majority of Haikou people lived in self-built housing and the construction, repair and management of housing were all done by the residents themselves (HBH, 2005b). People could sell and rent out their properties in the housing market and could also pawn them for money. The development of the housing market was at its earliest stage.

In modern China²⁵, Haikou developed further but progress remained slow (CH, 2005a). From 1950 to 1987, the population of Haikou increased slowly. By 1988, the number of Haikou citizens had increased to 334,154 (SBHC, 1994, p46). The city area of Haikou

²² Engel Index is an important indicator in evaluating the quality of life. It is the percentage of income spent on food that purchased from sources outside home. A lower Engel Index implies a higher quality of life.

²³ In about 1165-1173AC, Qiongzhou Harbor Department was founded (CH, 2005a).

²⁴ Ming Dynasty is from 1368AC to 1644AC.

²⁵ Modern China (or New China) started from October 1st, 1949, when People's Republic of China was founded.

was 18 sq. km and the area of newly-built housing was several times the number in 1949. The average housing area went up to 5.7 sq. meters per person (HBH, 2005b). At that time, most of the people in Haikou city lived in welfare housing, while in the suburb area and part of the city itself, self-built housing still existed.

4.2.2 Expansion period and housing bubble: 1988-April 1993

In 1988, when Hainan was designated a province and a special economic zone by the national government, Haikou became the capital city of the province. Haikou then started its rapid growth period. In the past decade, the housing market in Haikou has experienced great changes. If the investment in real estate is used as an indicator²⁶, the changes in the housing market can be seen. Figure 4-3 shows the total amount of real estate investment in Haikou City, from 1989 to 2003.

²⁶ In the western world, the vacancy rate is considered to be the best indicator to examine the life cycle of the housing industry. In China, the statistical data, especially long-term data, on the housing industry are scanty. Long-term vacancy rate data are not available. Therefore, in China, the following indicators are usually adopted to demonstrate the status of housing industry: (1) total area of commercial housing sold; (2) total area of housing completed; (3) total area under construction; (4) price of commercial housing; (5) total investment in housing; (6) total area of housing exchange; (7) number of employers in the housing industry; (8) increased rate of housing investment (Zhang, 2004, p380).

(million yuan)

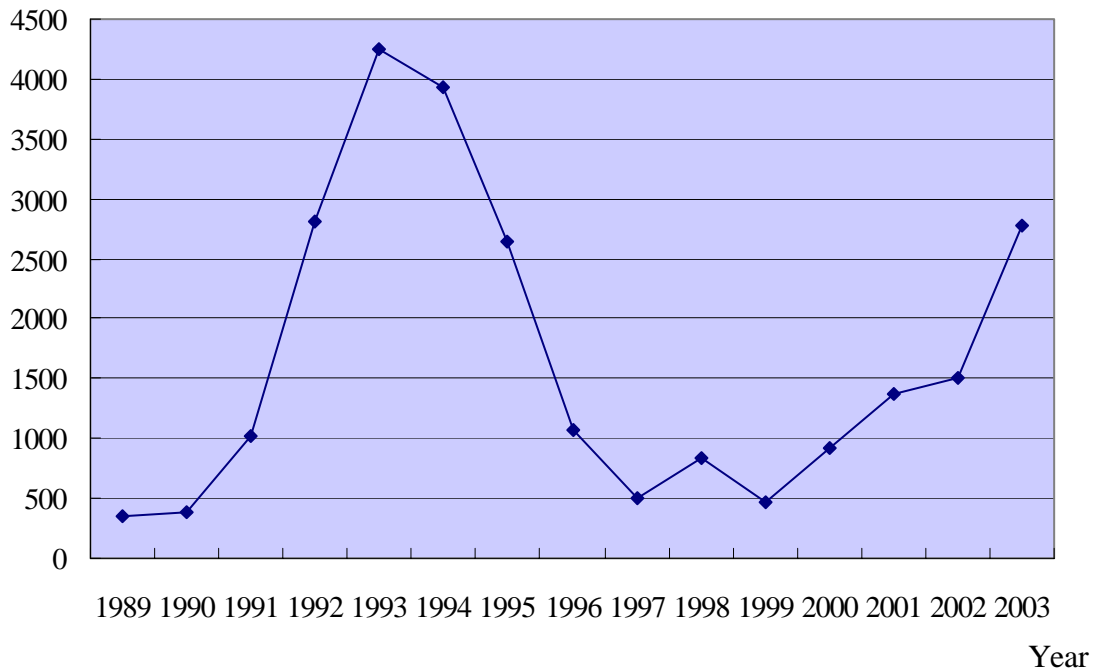


Figure 4-3 Total investment in real estate (1989-2003)

(Source: Statistical year book of Haikou, 1990-2004, edited by the author)

As demonstrated in the figure, the housing market in Haikou experienced an expansion period from 1988 to 1993. After 1988, attracted by the preferential policy of Hainan as a special economic zone, tens of thousands of people migrated to Hainan Province to seek better opportunities. A large proportion of them stayed in Haikou. The population of Haikou increased to 410,100 in 1990 (SBH, 1991). As the existing housing could not accommodate the immigration influx, the local government encouraged residential development. The municipal government constituted a corporation for commercial housing development, which helped the housing industry to grow. In April 1992, Chairman Deng Xiaoping visited Hainan, expressed his determination to adopt market economy mechanisms and his supportive attitudes towards the Hainan special economic zone. Encouraged by Deng's words, even more projects were initiated in Haikou and the

housing market became more prosperous.

A few problems occurred as the housing market heated up. First, driven by the desire for accelerated development, both the public and private sectors focused on housing production only, with little concern or attention being given to the demand. In 1993, the total floor space under construction²⁷ in Haikou was 8,014,373 sq. meters (SBHC, 1994), which is very large for a medium-sized city like Haikou. Secondly, the housing market of Haikou was immature at that time. Due to the lack of rules and regulations, many projects were approved by the government without serious examination. Besides, the process of loan application was also simple. As the housing price and land price increased rapidly, both developers and buyers wanted to make money from real estate speculation. These factors led to the existence of many bad accounts in financial institutions and chaos in the market. Thirdly, the government did not have an effective land use plan. There were almost no zoning laws in the city. The government just simply issued the land use right to the developers (Zeng, 2005). Interviewees described the situation in the early 1990s as follows:

“It was a crazy time. Land development seemed to be a gold-digging industry. The housing price rose tremendously fast, especially after Chairman Deng’s visit. There was one project, whose price increased from RMB 3,000 per sq. meters to 16,000 per sq. meters. Some developers became millionaires or even billionaires in just one night. But the housing market was in a mess. Developers could get the loan and land only by submitting a blueprint of the proposed project. Some of the developers sold out the permits to others, as they did not actually have the ability to conduct the project. There

²⁷ Floor space under construction refers to total floor space of all buildings under construction during the reference period, including floor space of newly started buildings during the reference period, floor space of construction extended from the previous period to the current period, floor space of construction completed in the current period and the floor space of construction started and then suspended in the current period (SBHP, 2004, p159).

was one project that has changed hands for 36 times.” (Respondent J, chief manager of a housing development company, 06/11/2005)

“Haikou city was poorly planned at that time and the housing market was poorly regulated. As Haikou used to be a small city, we did not have enough infrastructures to support the development. Government wanted to ‘sell’ land to generate revenue for infrastructure construction. As we did not have effective zoning regulations at that time, new projects started everywhere in the city. Residential housing might be right beside a factory. Some developments were of relatively small scale.” (Respondent B, government official of the Planning Bureau of Haikou, 06/23/2005)

4.2.3 Bubble burst and decline period: April 1993-1995

The housing price in Hainan reached a peak in 1993. The average price for commercial housing was RMB2924 (CDN \$417.71) per sq. meter, which was more than twice the average number of the country (Lin, 2004). The national government realized that the economy had been too “hot” and many problems had resulted, especially the housing bubble in Hainan Province. A series of new policies was established to control the economy. In June 1993, the national government enacted 16 regulations to strengthen macro-control, which had a great impact on the housing market of Haikou.

The regulation required banking institutions to control loans, especially capital in the housing market. Also, it required local governments to regulate and manage the housing market. In detail, local governments were required to examine and monitor the projects under construction, and limit the number of newly-started projects (NGC, 1993). According to interviewee J, *“The national government stopped the investment in the Hainan housing market. Some of the developers were asked to return their loan to*

banking institutions in three days. Many land development companies got bankrupt at that time” (Respondent J, chief manager of a housing development company, 06/11/2005).

Thus, the housing bubble was pricked by the government and burst suddenly. From 1993 to 1995, investment in real estate decreased by 75% (see Figure 4-3 for details). In the boom time, there were over 4600 housing development enterprises registered in Haikou. However, about half of them shut down in 1993 and 1994 (Xia, 2005). As there were a lot of bad accounts left by the developers, some financial institutions, such as Hainan Development Bank, also announced bankruptcy.

The bursting of the housing bubble resulted in serious problems for Haikou city, such as overstocked housing, and unfinished and abandoned housing. As mentioned above, in the expansion period, the housing was developed regardless the actual demand. Especially after the housing bubble burst, housing speculators stopped investing in the housing market of Haikou. A large amount of housing could not be sold and became overstocked housing. Another problem was the unfinished and abandoned housing developments. As the housing market declined and developers went bankrupt, many projects paused in their construction due to the lack of money. Most of these were eventually left unfinished and abandoned by the developers. The unfinished and abandoned housing projects, known as “rotten-tail buildings” in China, could be found everywhere in Haikou after 1993. A few of them could still be found when the fieldwork for this study was carried out in summer 2005. Figure 4-4 consists of pictures of currently existing “rotten-tail buildings”.



Figure 4-4 Unfinished and abandoned housing in Haikou
 (Photographs taken by the author, left: 07/02/2005, right: 07/16/2005)

4.2.4 Stagnancy period: 1996-June 1999

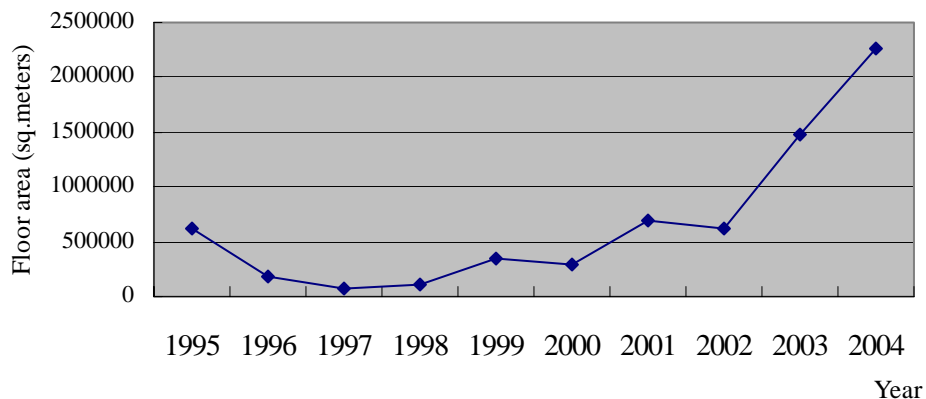


Figure 4-5 Floor area of newly-started residential housing (1995-2003)
 (Source: Statistical year book of Haikou²⁸, 1996-2004, edited by the author)

After a fast period of decline, the housing market in Haikou entered a stagnant phase

²⁸ Data on the floor area of newly-started housing before 1995 are not available.

from 1996 to 1999. Affected by the macro-control and housing bubble issue, the investment in and construction of housing developments were at a low level. During those four years, the total amount of capita invested in housing was RMB 2896.98 million (CDN \$413.85 million), which is only about two thirds of the 1993 peak year. In comparison to the early 1990s, newly-started residential projects decreased greatly. Statistics indicate that from 1996 to 1999, newly-stated housing projects had a floor area of 711,254 sq. meters, which was equivalent to the 1995 peak year (earlier data are not available) (Figure 4-5).

During this period, the local government enacted a number of codes and regulations in order to regulate the housing market of Haikou. On the one hand, the government strengthened the management of the housing market. It carried out the “Haikou commercial housing management code” and “Property right registration code”, so that the government could better monitor housing activities. On the other hand, Haikou City started to develop affordable housing in 1995, in order to improve the housing condition of the less wealthy people (HYC, 1996).

However, the problems of overstocked housing and unfinished and abandoned housing were far from being solved. In 1998, the Construction Bureau of Hainan Province conducted a thorough investigation on the status of overstocked housing and unfinished and abandoned projects. The investigation concerned the owners, area, and status of construction, sales status and other information about the problematic projects (CBHP, 1998). A report was submitted to the national government. According to the investigation, the total floor area of vacant housing²⁹ was 3.7 million sq. meters, which was 1.5 times the total floor area that was completed in the prior three years (DRCH, 1999). Besides, there were 419 housing projects that remained unfinished and were abandoned in Haikou

²⁹ Vacant housing means housing that has not be sold or rented three years after construction was completed.

City. In total, these 419 projects consisted of 14.38 million sq. meters' of unfinished and abandoned housing (DRCH, 1999). The government had been trying to find a resolution to the problem for years but before June 1999, no effective actions or laws concerning these problems had been formulated.

4.2.5 Recovery period and the emergence of second homes: July 1999-present

1. The recovery of the housing market

In June 1999, the national government created a series of policies to deal with the problems in the housing market of Hainan Province. Detailed directions were put forward. According to the directions, part of the overstocked housing should be turned into affordable housing and sold to medium- or low-income people. For the rest of the overstocked housings, the municipal government should find a way to facilitate their disposition. In terms of unfinished and abandoned developments, the government should negotiate with the owners of the land use right. The land use right owner could either return the land use right to the government or continue the housing construction under the supervision of the current land use plan and regulations (CBHP, 2003, p7). Besides, the national government provided preferential policies, such as tax exemption (CBHP, 2003, p25), to expedite the disposal of overstocked housing and unfinished and abandoned housing. Also, the national government appropriated RMB400 million (CDN \$57.14 million) to Hainan Province as a financial subsidy (CBHP, 2003, p25).

The City of Haikou put the directions into practice immediately. A series of more detailed rules and instructions were announced to the public. To facilitate the consumption of overstocked housing, the municipal government encouraged institutions and enterprises

to buy the overstocked housing to improve the housing conditions of their employees. They also encouraged college and research institutions to purchase some of the unfinished and abandoned projects, and to finish them as education, research and training centres (CBHP, 2003, p25). In addition, the government provided a preferential offer to individual buyers, which was very attractive to some buyers. “The family that buys more than 25 sq. meters of overstocked housing can have one person registered as the permanent resident of Haikou City” (CBHP, 2003, 287). That meant the people registered as country residents could change their status into city residents and became citizens of Haikou. The regulation also emphasized that for students, once they became Haikou citizens, they would have the same educational welfare and opportunities as local citizens (CBHP, 2003, p287).

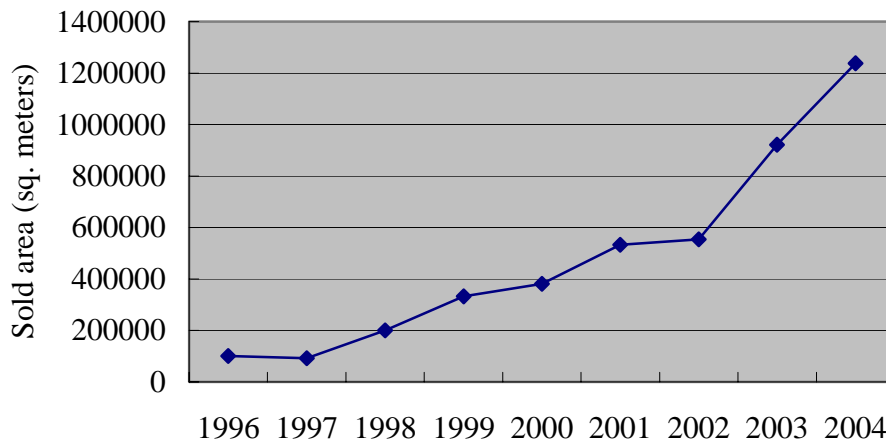


Figure 4-6 The sold area of residential housing in Haikou (1996-2004)

(Source: Statistical year book of Haikou³⁰, 1997-2003, edited by the author)

The housing market of Haikou recovered gradually as these policies were being implemented. By June 2005, when the field work was conducted, about 70% of the

³⁰ Data are not available on the sold area of residential housing before 1996. The data for 2004 is quoted from a government report.

overstocked housing had been properly disposed (CH, 2005b, p4). About 78% of the unfinished and abandoned projects had come back into construction (DURP, 2005, p24). As demonstrated in Figures 4-3, 4-5 and 4-7, the investment in housing developments, the annual newly-started housing area, the annual under construction and completed area has increased year by year since 1999. The sales of the residential housings have increased continuously (Figure 4-6).

Second homes emerged in this period. During my interviews, almost all the government officials and land developers agreed that second homes helped in the recovery of the housing market. The purchase of second homes contributed greatly to the increase in housing consumption. The provincial and municipal government considered it as a good way to facilitate the selling of overstocked housing and hoped that it would activate the whole market. They therefore brought out a “second habitat” concept and held a series of activities to promote the real estate to mainland China. A detailed discussion of the emergence and growth in the number of second homes in Haikou will be provided in the next section.

The attributes of the housing market and government policies and activities are presented in Table 4-1.

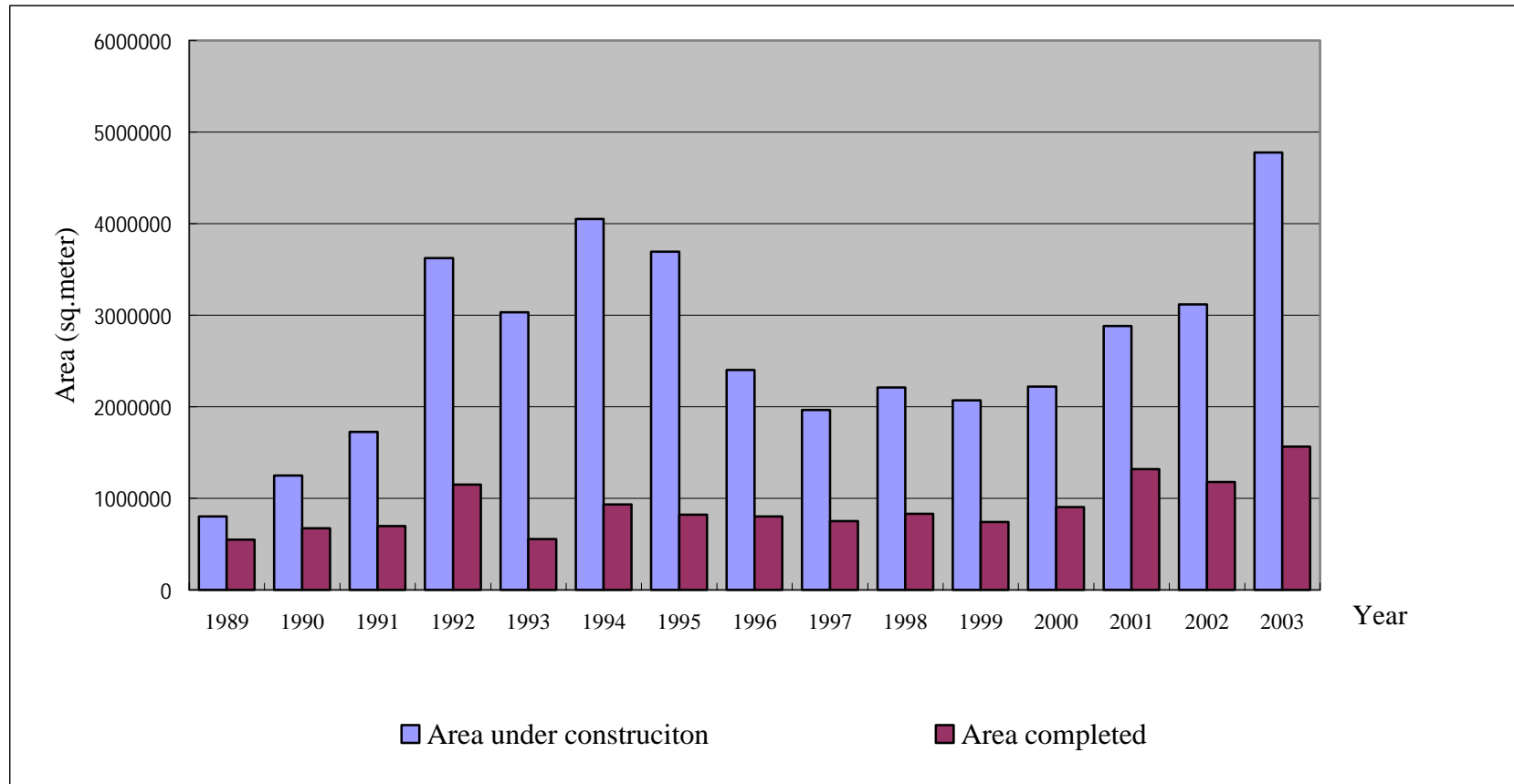


Figure 4-7 Total area under construction and area completed (1989-2003)

(Source: Statistical year book of Haikou, 1990-2004, edited by the author)

	Housing market profiles	Government actions and policies
Expansion Period (1988-1993)	<ul style="list-style-type: none"> · The investment and construction increased rapidly · Land and housing price skyrocketed · Speculation activities and immature loan and land use right approvals lead to disorder 	<ul style="list-style-type: none"> · Encourage development · Sell out land use right to generate revenue · Approve proposed projects without serious examination · Lack of regulations, rules and zonings
Decline Period (1993-1995)	<ul style="list-style-type: none"> · The investment and construction declined tremendously · Many land development enterprises and financial institutions bankrupted · Many properties have poor selling and got overstocked · A huge number of projects remained unfinished and got abandoned 	<ul style="list-style-type: none"> · Restrain development · Adapted macro-control policies to slow down the overheated economy · Took back the loans and cut off the capital source of housing market.
Stagnancy Period (1996-1999)	<ul style="list-style-type: none"> · The investment and construction stayed in low level · The problem of overstocked housing and unfinished and abandoned housing are pending to be solved. 	<ul style="list-style-type: none"> · Enacted laws to regulate housing market · Provincial government made thorough investigation on the status of overstocked and unfinished and abandoned housing in Hainan · No specific policy response on the above-mentioned problems
Recovery Period (2000-present)	<ul style="list-style-type: none"> · The investment and construction recovered gradually. · The consumption increased continuously. · The overstocked housing and unfinished and abandoned housing are being disposed under the government's supervision. · Second homes became hot spot in housing market. 	<ul style="list-style-type: none"> · Provide preferential policy for the redevelopment of unfinished and abandoned housing · Provide preferential policy for turning over-stocked commercial housing into affordable housing · Bring forward second habitat concept, use second home consumption to activate local housing market

Table 4-1 Four periods of Haikou housing market after 1988 (Source: by the author)

4.3 The emergence of second homes

The second home phenomenon emerged in Hainan in 1999 and was associated with the boom in tourism activities. More tourists came to Hainan and some of them became the first second home owners in Haikou.

“In about 1999 and 2000, home buyers from mainland China appeared in the housing market of Haikou. They came to Hainan Island as tourists and found that the housing price here was very reasonable. The tourists were attracted by the good environment, attractive semi-tropical scene, plus the reasonable housing price. Some of them then considered to purchase a home in Haikou and Sanya.” (Respondent J, chief manager of a housing development company, 06/11/2005)

“Although we experienced a bad time after the housing bubble burst, our city had kept developing. As the tourism industry boomed in recent years, more people got to know our city and saw the beautiful houses in Haikou. The rich people then bought their second homes here.” (Respondent K, manager of sales department in a housing development company, 07/09/2005)

Selling housing to non-local buyers as second homes soon became a new trend in the housing market. The housing developers and local government realized the big demand in mainland China. They hoped to facilitate the selling of overstocked housing by promoting them to non-local buyers. A concept of “second habitat” was brought out by the housing department of the provincial government. More Chinese people got to know about second homes via public media, internet and other activities.

“Our department initiated the concept of ‘second habitat’ in 2001. As everyone

knows, we have a large number of overstocked housing in Haikou, which was far beyond the demand from local people. Haikou has been dealing with the problem of overstocked housing. The only solution was to promote them to non-local people. So we presented the 'second habitat' concept at a meeting, intending to make Hainan the second residence place of the whole of China. ”

“The government conducted a series of activities to assist the promotion of housing. In 2001 and 2003, the provincial government held a ‘tourism and estate exposition’ in Haikou and popularized the concept of holiday homes. Besides, the provincial government and housing developers made housing shows in Beijing, Shanghai, Changchun, Wenzhou, Yiwu and a few other cities in mainland China. Especially, we set up a permanent office in Beijing and Shanghai. We wanted to introduce Hainan and our housing developments to the public and attract them to buy second homes here.”
(Respondent G, government official of Housing Department, Bureau of Hainan Province. 07/05/2005)

“Second home is the new trend in the housing market. In order to attract outside buyers, we should firstly make our city a livable one, an enjoyable one. The municipal government of Haikou did very good work improving the environment and landscape of the city. We won the ‘Livable human habitat Award’ in 2004, which will for sure be an asset when we promoting our housing.” *(Respondent B, government official of Planning Bureau of Haikou, 06/23/2005)*

Besides attending the activities that were held by the government, housing developers and realtors also used other methods to advertise their estates to non-locals. The marketing directors in housing development introduced their methods as follows:

“We cooperate with travel agencies. They provide travel services to the potential

buyers and will bring them to visit our housing developments. Some of the visitors may get interested and buy the house directly. The non-local buyers will get a refund of their travel expenses. We also cooperate with the local realtors in our target market. For example, 60% of our customers are from Zhejiang Province and Shanghai. So we worked together with the realtors there.” (Respondent M, staff of a housing development company, 07/26/2005)

“I identified our target market as upper-class and retiring people. So we made advertisement in colleges and universities, in order to attract retiring professors. We also relied heavily on on-line advertisements.” (Respondent K, manager of sales department in a housing development company, 07/09/2005)

All these efforts regained people’s confidence about the housing market and second home purchases boomed in Haikou, especially in the most recent two or three years. According to interviewees, two new trends have happened recently. One is the increase of buying a property as an investment. According to Mr. Zhao, *“After 2002, we sometimes have had a big customer from Zhejiang, who buys 5 or more units at one time. This hadn’t happened much before.” (Respondent M, staff of a housing development company, 07/26/2005)* Another is that middle class people entered the second home market. *“At the very beginning of the second home boom, very wealthy people bought second homes in Hainan. But recently, more middle class or working class people became my customer.” (Respondent M, staff of a housing development company, 07/26/2005)* Detailed information on the current status of second home development will be provided in the next section.

4.4 Current Status of second home development in Haikou

4.4.1 Estimated number

Identifying the number of second homes has always been a big difficulty for second home researchers. It reflects the nature of second homes. As Coppock (1977) stated, second homes do not constitute a discrete type, sharply distinguished from first homes. The usual method is to conduct surveys of home owners and then to calculate the number from the responses. However, due to the time and budget limit, as well as immense logistical difficulties, it was not possible to do this in this research.

Although no direct statistics are available on the number of second homes in Haikou, this can be estimated based from the number of commercial housing units that are sold to non-local buyers. From observations, almost all the second home owners bought new commercial housing, not second-hand housing. This was confirmed by an official in the Housing Bureau of Haikou:

“The majority of the second homes are above grade or medium grade commercial housing. Very few second home buyers buy second-hand housing or rent housing.”
(Respondent A, government official in Housing Bureau of Haikou, 07/04/2005)

The Housing Bureau of Haikou has made a monthly report on the status of sales in the housing market since November 2004 (Table 4-2). The statistical data suggest that from November 2004 to April 2005, about 55% of the commercial housing sales went to out-of-province buyers, 38% to locals and 7% to buyers from other places in Hainan Province. This suggests that over 60% of the commercial housing was bought as second homes during this period.

Time	Total Unit sold	Sold to Local Buyers		Sold to non-local buyers			
				Sold to Hainan Buyers		Sold to out-of-Province Buyers	
		Units	(%)	Units	(%)	Units	(%)
11/2004	329	116	35.26%	22	6.69%	191	58.05%
12/2004	877	407	46.41%	49	5.59%	421	48.00%
01/2005	977	293	29.99%	70	7.16%	614	62.85%
02/2005	446	205	45.96%	26	5.83%	215	48.21%
03/2005	1037	425	40.98%	97	9.35%	515	49.66%
04/2005	1636	562	34.35%	116	7.09%	958	58.56%
05/2005	894	307	34.34%	86	9.62%	501	56.04%

Table 4-2 Commercial housing sold to different buyers (1)

(Source: Housing Transaction Report of Haikou)

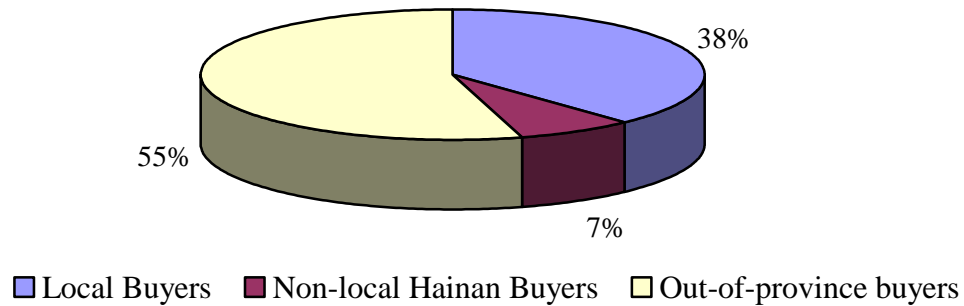


Figure 4-8 Commercial housing sold to different buyers (2)

(Source: Housing Transaction Report of Haikou, edited by the author)

Table 4-2 and Figure 4-8 provide the latest data that show the proportion of commercial

housing that sold as second homes. No similar statistical data are available prior to November 2004. However, it is certain that earlier proportions were less than 60%. A government official in Housing Bureau of Haikou suggested that: *“In general, about 35% of the commercial housing was sold as second homes from 2000-2004”* (Respondent A, government official in Housing Bureau of Haikou, 07/04/2005). Based on available data³¹, it can be estimated that Haikou currently has about 25,000 second homes.

4.4.2 Distribution

There is currently no purpose-built second home community in Haikou. Most of the second homes are dispersed in new commercial housing developments, where local people and second home owners share the community together. Figure 4-9 shows the distribution of new commercial housing developments. It can also be seen as being the distribution of second homes, as almost every new residential community has second homes in it. According to the map, second homes are widely spread across the city, especially in Haidian Island, the west coast area, Guomao area and the inner-city area.

³¹ According to the statistical yearbooks, the total floor area sold from 2000 to 2004 was about 6 million or about 65000 housing units.



Figure 4-9 Map of new housing communities (estimated scale: 1/100,000)

(Source: Local housing newspaper, scanned and edited by the author)

Generally, the communities near the coastline have more second homes and many second homes are located at the West coast area, the Guomao area and Haidian Island. There are also a few second homes in the inner-city area, and the number of inner-city second homes is increasing. Interviewees explained the distribution of second homes as follows:

“At the beginning, the majority of the second home seekers preferred coastal housing so that they can better access the seaside, or even enjoy the sea scene at home. Especially, the coastal housings are attractive to the second home buyers who come from the inner land of China and Northeast China. The housings along Binhai Road and in Haidian Island are their first choice. In the last two years, as the price of coastal housing has risen, more second homes emerged in the inner city area.” (Respondent K, manager

of sales department in a housing development company, 07/09/2005)

“We didn’t buy our second home in the coastal area. It is because the house will be damp there, which is not good for our aged people. Besides, the furniture and electronics might get ruined in humid air.” (Respondent T, a senior second home owner, 06/29/2005)

“Second homes are everywhere. Haikou is a relatively small city, especially to those second home buyers from big cities such as Beijing and Shanghai. So they don’t mind travel across the city to the sea. Rather than location, the second home seekers consider more about the quality of the management, public services, the environment of the neighborhood, etc. There are more second homes in new built, above grade residential communities.” (Respondent H, manager of sales department in a housing development company, 07/13/2005)

The municipal government of Haikou established special considerations about the future of second home development. In the Master Plan of Haikou (2005-2020), 18 residential zones are identified. Most of the residential zones are designed to be mixed areas of second homes and local residences. Some of these zones (Zones 2, 6, 7, 9, 10, 18) will give priority to second homes and take local residential development as a supplement. In contrast, some other zones (Zones 1, 4, 5, 8, 13, 14, 17) will mainly accommodate local residents and fewer second homes will occur. Zone12 is proposed to be a new second home community. Figure 4-10 is taken from the Master Plan of Haikou (2005-2020) and four different types of residential zones are highlighted in different colours.

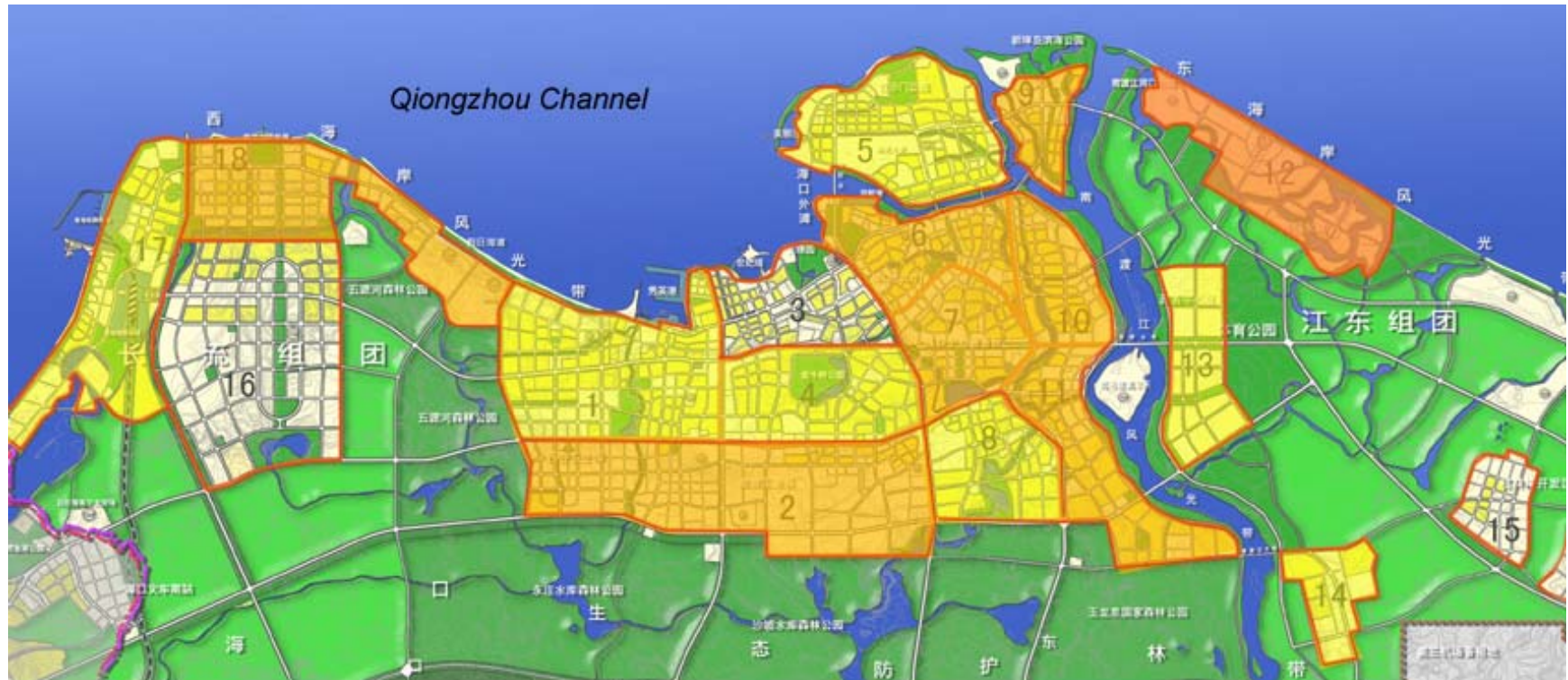


Figure 4-10 The residential land use plan of Haikou, 2005-2020 (Estimated scale: 1/100,000)

(Source: Master Plan of Haikou, 2005-2020, edited by the author)

4.4.3 Types of second homes

In the literature review section, three types of second homes were mentioned, purpose-built second homes, mainstream housing stock and surplus housing (that is vacant or dilapidated) as second homes. These three types of second homes should be considered differently when studying their implications for host communities (Gallent, *et. al.* 2005). A similar situation was found in Haikou but with slight differences. In Haikou, no residential development has been built purposely to be second homes. Most of the housing developments are sold to both locals and non-local people. Three types of housing are identified as the main housing source for second home seekers: newly developed housing, vacant housing and converted housing.

1. Newly developed housing

Newly developed housing is the housing that was started and completed in recent years. Compared with the other two types, the newly developed housing is better designed. They always have a beautiful appearance, are surrounded by an attractive neighborhood and are well equipped with infrastructure. The price of newly developed housing is higher than for the other two types.

2. Converted housing

Converted housing is housing that was previously unfinished and abandoned. As stated above, since 1999, the municipal government of Haikou started to deal with the unfinished and abandoned projects left when the housing bubble burst. Some of the projects moved back into the construction phase. Some partly-finished commercial buildings were turned into residential buildings. In general, the design, neighborhood environment and infrastructure condition of converted housing are not as good as for the newly-developed housing. However, there are a few high-quality converted housing

communities that can compare in quality with the newly-built housing; for example, Zhidi Garden in Guomao area. The price of converted housing is generally lower than that of newly-built housing.

3. Vacant housing

Vacant housing is housing that remained unsold and unoccupied for several years after construction was completed. Most of the vacant housing was built in the 1990s. The situation of vacant housing is similar to converted housing. Some are of good quality, while others are not. The price of vacant housing varies but is no higher than the newly-built housing of the same type.

4.4.4 Physical Structure

The housing pattern of second homes varies. From the perspective of housing density, the patterns can be classified into three categories: high density apartments, medium density apartments, and low density housing and townhouses.

1. High-density apartments

High density apartments are apartment buildings that have more than 10 stories. In the coastal area, this type of building has the advantage of allowing many home users to enjoy the sea scene. In Haikou, a large number of residential developments are high density. Many of them are converted housing, which were initially designed as business buildings or as residential apartments. High-density apartments are clustered in Haidian Island and the Guomao area. Figure 4-11 shows high-density apartments, many of which are used as second homes.



Figure 4-11 High density apartment buildings used as second homes
(Photographs taken by the author, left: 07/16/2005, right: 05/19/2005)

2. Medium-density apartments

Medium-density apartments usually have 3-9 stories. This type of housing attracts second home seekers by its medium density and moderate price. To some second home users, medium-density apartments provide a higher quality living experience than high-density residences. Their prices are much more affordable than low density residences. In Haikou, medium-density apartments are mainly in the inner-city area. There are also a few medium density housing developments in the West coast area. Figure 4-12 illustrates some medium-density apartments in Haikou.



Figure 4-12 Medium-density apartment buildings as second homes
(Photographs taken by the author, left: 07/08/2005, right: 07/11/2005)

3. Low-density house and townhouses

Low-density residences include houses and townhouses. In China, houses and townhouses are considered to be the top grade of residences for most people live in apartments. In Haikou, low-density houses and townhouses are mainly found in the West coast area. Figure 4-13 shows low-density developments that are used as second homes.



Figure 4-13 Low-density houses or townhouses used as second homes

(Photographs taken by the author, 07/11/2005)

4.4.5 Usage

Every owner has their own motivation to buy a second home. They therefore use them in different ways. Similar to the situation elsewhere, the second homes in Haikou are mainly used as holiday homes, retirement homes and investments. Besides these three main purposes of buying a second home, some other uses are found in Haikou which may be distinctive to China.

It is notable that the majority of the second homes in Haikou are actually of mixed uses. This means that their uses might consist of a combination of the following situations. For instance, a second home owner might buy a housing unit as an investment and then put

the housing unit up for rent. They might plan to move to the second home following retirement. Or if the housing price goes really high, they might sell to make profit.

1. Holiday home

As the names imply, holiday homes or vacation homes reflect the traditional use of second homes. Hainan is in many ways a traditional semi-tropical beach resort in China. To some second home buyers, the weather and sea scene are important attractions. This type of usage has seasonal features. This type of second home users is termed “migratory bird” in China.

“Most of the second home owners come to Hainan some time between October and April. The duration of their stay varies. Some just stay a few days, while others might stay for a couple of weeks or even a few months. The long holidays³² are also the busy time. In our community, there are 3-5 households who come and live in their second homes regularly every Lunar New Year, May Day holiday and National Day holiday.”
(Respondent N, superintendent of a residential community, 07/15/2005)

“I bought sea-view housing two years ago and I come here with my family every winter. When I am not using the house, I lock the door and keep it there. If my friends or relatives travel to Hainan, I would offer it to them for free. I didn’t plan to make money from it.” *(Respondent W, a second home owner, 07/27/2005)*

“I bought a housing unit in Haikou because I like the environment and tropical view. I would like to spend more time here, but I think I can only make it on May Day or

³² In China, people have 3 days’ legal holiday when celebrating Lunar New Year, International Workers’ Day and National Day. As it often combined with weekends, people can actually take a week off. The three holidays are called long holidays.

National Day. I might let my parents spend the winter here.” (Respondent X, a new second home owner, 07/04/2005)

“A neighbour of mine is from Beijing. He drives here when he is on holiday. It took him four days on the road. He then spends a couple of days and drives back to Hangzhou.” (A local resident, 13/07/2005)

Winter and national holidays are the peak times when second homes are occupied in Haikou. In Haikou, the main tourism season is from October to April of the next year, as the weather in winter is good in Hainan. Long national holidays allow people to spend a longer period of time in their second homes.

2. Investment

Some people purchase second homes as an investment. They either rent the housing out or re-sell it. Either way, this is considered as investment behaviour. The increase of investment use is a new trend in the second home phenomenon in China.

“I have an interesting finding. Most of the second home buyers from northern China buy the housing for self-use, while most of the buyers from southern China buy the housing for investment. I think it’s because the southern China people are born as businessman.” (Respondent J, chief Manager of a housing development company, 06/11/2005)

“There is a customer from Wenzhou, Zhejiang Province. He bought 20 apartment units at once. This is definitely for investment.” (Respondent H, manager of sales department in a housing development company, 07/13/2005)

“Small-sized housing units are preferred by the investors because it costs less money and it is easy to be rent out.” (Respondent M, staff of a housing development company, 07/26/2005)

It is worth mentioning that the new concept of “hotel apartment” has emerged as more people try to make money from second homes. One interviewee explained the concept as: *“turning your apartment into a hotel room when you are not using it (Respondent J, chief manager of a housing development company, 06/11/2005).”* It means the housing companies provide lease services to their customers. In detail, the second home owners sign a contract with the housing company which authorizes the company to put their housing unit out for lease while they are not using it. Both the company and second home owner benefit from the rent.

3. Retirement home

Use as a retirement home or senior home is another possibility. Hainan Island is known as “long life island” in China, for the average life span in Hainan is the longest in China. It is believed that the environment in Hainan is good for people’s health, especially for aged people. Some people therefore have purchased second homes as retirement homes in Haikou. As the retired people often have more spare time, they spend a longer time in their second homes.

“In the SARS disaster of 2003, Hainan Province had no-one catch the SARS virus. It was considered to be a healthy place to live. Some buyers plan to retire in Hainan. Some young people purchased the housing for their parents.” (Respondent K, manager of sales department in a housing development company, 07/09/2005)

“There is a senior second home owner in our community. He comes every October

and leaves every May. He spends half a year in his second home.” (Respondent N, superintendent of a residential community, 07/15/2005)

My wife and I are both retired. Last year, when we came to visit a friend in Haikou, we decided to buy a second home here. We plan to come here 2 or 3 times every year, staying 2-3 months in total.” (Respondent T, a senior second home owner, 06/29/2005)

4. Others

Some people have purchased second homes for other purposes. As stated above, there is a policy in Haikou that allows a family that buys more than 25 sq. meters of overstocked housing to have one person registered as a permanent resident of Haikou City. It is called the “buying home, getting *hukou*” policy in Haikou. This policy attracts two groups of people, the country *hukou*³³ people who want to change their residential status to city *hukou* and the so-called “college entrance exam immigrants”.

In China, people with city *hukou* have more access to welfare, and more education and employment opportunities. However, it is very hard for country *hukou* people to change their residential status. Therefore, some country *hukou* people buy a second residence in Haikou in order to get the city *hukou*.

The “college entrance exam immigrants” are a distinctive group of second home users. In China, the college entrance exam is a nation-wide examination. All the high school students in the country write it to get admission to university and college. But the education development level varies between provinces. Generally, the students in mainland China perform better than the students in Hainan in the college entrance exams.

³³ In China, the urban people and country people are registered in different categories in *hukou* (permanent resident registration): country *hukou* and city *hukou*. In this study, the term Haikou citizens means people with city *hukou*.

So, some of the high school students migrate to Hainan to take the exam because competition is less intense. *“They come to Haikou after Lunar New Year and stay until the exam ends in June.” (Respondent M, staff of a housing development company, 07/26/2005)*

Besides all these usages, some second homes have never been used: they have remained empty ever since they were sold.

“There are at least 20 housing units that have remained vacant after they were sold four or five years ago. The owners of them neither do the interior decoration nor come to visit the house. I think they must be very rich people and they don’t even care about these properties.” (Respondent L, executive manager of a housing development company, 06/29/2005)

4.5 Summary

The research area, Haikou City, is a semi-tropical coastal city in south China and the capital city of Hainan Province. The city has good environmental conditions and a hospitable climate which made it a traditional beach resort in China. In terms of economic development, Haikou has lagging behind equivalent cities in mainland China.

The housing market of Haikou experienced great changes during the past decade. In the late 1980s and early 1990s, the housing market was in an expansion period. But a lack of laws and regulations led to great disorder, and residential housing was poorly planned and over-developed. Land prices and housing prices skyrocketed as speculation in housing was rampant. In 1993, the housing bubble was burst by the macro-control policy that was carried out by the national government. The housing market of Haikou declined rapidly

after that and went into a stagnant period from 1996 to 1999. The greatest problem left by the bursting of the housing bubble was overstocked housing, and unfinished and abandoned housing. Since 1999, the government has enacted a series of policies to deal with these problems and the housing market has started to recover since then.

Second homes emerged as the housing market recovered and contributed to the recovery. Initially, some tourists bought second homes when they visited Haikou. The local government considered it to be a good way to dispose of the overstocked housings and hope that second home purchases would activate the housing market. They conducted a series of activities to promote the sale of housing to non-local people. Currently in Haikou there are about 25,000 second homes. They are dispersed throughout the new residential communities in the city area of Haikou. Generally, the coastal areas, such as Guomao area, the West coast and Haidian Island have more second homes than the inner-city area. The physical structures of second homes are diverse and the uses and usage of second homes vary substantially.

Profiling the second home phenomenon in Haikou is one of the research objectives. Besides, profiling the research area, especially the historical context and current status of second homes' emergence and growth, provides a base on which an in-depth understanding on the changes that second home growth brings can be built. This chapter thus serves as a baseline for the impact assessment in the following chapters.

Chapter 5 Analysis and Findings

This chapter provides a detailed analysis of the economic and social impacts of the second home phenomenon in Haikou. It will start with a profiling of impacted local residents who are categorized into three groups by their current housing condition. Based on the historical and current status of second homes in Haikou, the economic and social impacts will be discussed in the context of previous studies. The overall attitudes of the local community will be summarized at the end.

5.1 Key Groups of local residents

Local residents are the immediately impacted groups of second home purchases and use. As stated in Chapter 2, “the competition for housing occurs between a range of income and social groups” (Shucksmith, 1990). Local residents with different housing conditions may react differently towards the second home phenomenon. In this study, the attitudes of three groups of local residents are examined. They are locals who live in a new housing community (new housing group), locals who live in welfare housing³⁴ (welfare housing group) and locals who live in very poor conditions (poor housing group). It is useful to provide an assessment of their positions as an important starting point for further studies.

1. New housing group

The locals who live in new housing communities are the ones who have recently bought or updated their residences. They live in good housing conditions and generally have no need to purchase new housing in the near future. Besides, this group of local people

³⁴ Welfare housing is the public-owned properties which are assigned to individuals by their employers. People who live in welfare housing only have the occupation right and use rights of the property, but they do not own it. They pay rent for the property. Welfare housing was the dominant housing type before Housing Reform.

shares the residential communities with second home owners. They have more exposure to the second home owners and are more familiar with this phenomenon than locals in the other two housing groups. In this study, people of this group were interviewed in Zijing Garden and Siji Huating Estate. Figure 5-1 shows the pictures of these two communities.



Figure 5-1 Housing conditions of the new housing group

(Photographs taken by the author; Left: Siji Huating Estate, 07/16/2005; Right: Zijing Garden, 17/05/2005)

Generally, the people who live in new housing communities are well educated and have a high income. Twenty-seven local residents were interviewed in Zijing Garden and Siji Huating Estate. The majority of them were professionals who held a university degree or, at least, a post-secondary qualification. The monthly income of this group averaged between RMB2500-4500 (CDN \$357.14-642.85) which is much higher than the city's average income level³⁵.

2. Welfare housing group

³⁵ The average annual income of Haikou citizens is RMB8341.71 (2003). That is about RMB700 per month (DRCH, 2004, p210).

Welfare housing represents the living conditions of the majority of Haikou people. Most of them have lived in welfare housing for more than 20 years. Some of them may wish to gain better housing conditions by purchasing a new home. There are usually no second homes in their neighborhood. In this study, people of this group were interviewed in a welfare housing community near Haifu Street. Figure 5-2 shows the housing condition of welfare housing group.



Figure 5-2 Housing condition of welfare housing group
(Photographs taken by the author, 07/26/2005)

Diverse people live in the welfare housing community. Their educational and income levels varied but were generally lower than for the new housing group. Twenty-two local residents of this group were interviewed. Most of them were working-class people with a monthly income of RMB800-2500 (CDN \$114.29-357.14).

3. Poor housing group

The poor housing group represents households whose housing conditions were below average. People living in the inner-city village are typical examples. The inner-city village is a village-styled community in the middle of the city area of Haikou. The community is poorly planned and full of low quality housing developments. Some of the houses in the inner-city village have been categorized as “unsafe housing” by the

government. The neighborhood is dirty, smelly and noisy. In Haikou, there are 12 inner-city villages. Interviews of this group of people were conducted in the largest inner-city village, Yusha village in Guomao area. Figure 5-3 shows an overview and streetscape of Yusha inner-city village.



Figure 5-3 Housing conditions of the poor housing group (picture of Yusha inner-city village) (The left photograph was taken by the author, 07/26/2005. The right picture is available at: http://220.174.221.7/IMG_4556.JPG)

Low-class people live in the inner-city village. Almost half of them are native Haikou people and others are people from elsewhere who currently work in the city and rent a home in Yusha village. Twenty-five Yusha villagers were interviewed, including both native people and those from elsewhere. None of them had a university degree. Generally, their income level was RMB800-1500 (CDN \$114.29-214.29) per month. Some of them had a monthly income below RMB800 (CDN \$114.29).

5.2 Economic impact analysis

As mentioned in Chapter 2, second homes generally have several types of economic impact: the impact on housing price, the impact on the real estate industry, and the impact to local retailers and service providers. This section will discuss these three aspects of

impact in the context of Haikou City.

5.2.1 Effect on housing price

Statistics indicate that from 1999 to 2003, the average housing price increased by 50%, from RMB1,525 (CDN \$217.86) to RMB2,330 (CDN \$332.86). The annual increase was about 8%. Figure 5-4 shows the increase in housing prices.

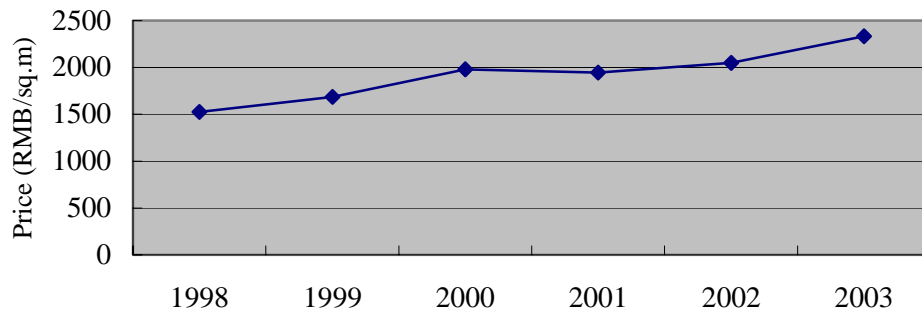


Figure 5-4 Housing price increases from 1998 to 2003

(Source: Haikou statistical Yearbook, 1999-2004, edited by the author)

The boom of second homes has affected the housing price of Haikou. Both local government officials and housing developers agree that the increase of second home demand has caused inflation of housing prices to some extent. This effect is especially noticeable in housing with sea views and in other above-grade residential developments.

“The price of housing with a sea view increased a lot since the second homes boom. The sea-view housing is often the first choice for second home seekers. Four or five years ago, the price of the sea-view apartment in Guomao area was is about RMB1500-1700 per sq. metes. Now it is about RMB3000-5000 per sq. meter.” (Respondent H, manager of sales department in a housing development company, 07/13/2005)

“I had a sea-view apartment. It was RMB 2800 per sq. meter when I bought it two years ago. Earlier this month, a second home seeker from Shenzhen was willing to pay RMB 5500 per sq. meters to buy my place.” (A local resident in Zijing Garden, 07/24/2005)

“It could be foreseen that the price of sea-view housing will continue to go up. As more waterfront housing is occupied, the competition for sea-view housing will be more intense. In Sanya, the average price of a sea-view apartment has already exceeded RMB6000 per sq. meters.” (Respondent J, chief manager of a housing development company, 06/11/2005)

“The housing price inflation mainly happened in above-grade new housing developments. Influenced by that, the price of overstocked housing and converted housing rose slightly. Generally, the housing price in Haikou is still at a low level; it will get higher in the near future.” (Respondent A, government official in Housing Bureau of Haikou, 07/04/2005)

5.2.2 Effect on real estate industry

As stated in Chapter 2, second home growth might have an additional effect on property-related industries, including property acquisition and property improvement. In the case of Haikou, estate agents and interior decorators benefited from the boom in second home purchases. In Haikou, the local people do not usually consult an estate agent when they are buying homes. The estate agent emerged recently. They mainly help non-local buyers to become familiar with housing developments and the status of the local housing market. They are called “housing guides” in Haikou.

“My job is like a tourist guide. We provide a bus to show the second home seekers around, and guide them to visit the residential developments. We recommend housing developments to them according to their requirements. Sometimes, we work together with a tourist agency and housing developers. Long holidays³⁶ are our busy time.” (Respondent P, local housing guide, 07/13/2005)

As most of the second homes are newly-built housing, there is little need for housing renovation. But most of the houses are unfurnished and undecorated when they are first sold. The owners who plan to use the housing, either as a holiday home or retirement home, always do the interior decoration before they move in. In summer, when the field work was undertaken, many newly-bought second homes were being decorated.

“The interior decoration industry benefits from the second home boom. Most of the incomers are rich people. They don’t care about money and spend a lot on decorating their new homes. But some senior people are less wealthy. They just require a simple decoration.” (Respondent R, an interior decoration worker, 06/29/2005)

5.2.3 Effect on local retailers and service providers

There is no direct evidence indicating the effect of the second home boom on local retailers and service providers. In fact, as the second home is really a new phenomenon in Haikou, its effects on these two groups are not yet very significant. During field work, the researcher casually interviewed people working in a hair salon and a convenience store near a new housing community. Both of them knew that there were many second homes

³⁶ In China, people have 3 days’ legal holiday when celebrating Lunar New Year, International Workers’ Day and National Day. As it often combined with weekends, people can actually take a week off. The three holidays are call long holidays.

in the community. However, so far, they had seen little benefit to their businesses.

Some government officials believe that second home use will definitely generate new revenue in local retail and service outlets in the future. Similarly, some local residents expect second home use to produce new employment and stimulate the local economy.

“I think second home use will become an impetus to the local economy. More people living in Haikou mean more consumption of local retail and services. As more people come to Haikou and live in Haikou, Haikou will become well known and may attract more investment.” (Respondent G, government official in Housing Department, Bureau of Hainan Province, 06/17/2005)

However, some others doubt the veracity of this perspective. Mr. Li from the Development and Reform Bureau of Haikou argued that: *“the second home users are not always strong consumers. Firstly, they do not necessarily buy stuff in Haikou. They may bring goods and necessities from their home town. Secondly, the Chinese senior people, who are a large proportion of second home users, do not have strong purchasing power. The Chinese senior people always live an abstemious life.” (Respondent D, government official in Development and Reform Bureau of Haikou, 07/04/2005)*

5.3 Social impact analysis

In previous studies, second homes have been documented as causing problems like displacement of local people, disruption of local services and erosion of social norms (Shucksmith, 1983; Downing and Dower, 1973; Gallent *et al.* 2005; Bollom, 1978; Pyne, 1973, etc.). Similar effects are found in Haikou. But as the development of second homes is still in an early stage so the consequences are not yet serious. Also, some additional

social impacts have been identified in Haikou.

5.3.1 Effect on local people's housing affordability

As stated above, the local housing price, especially the price of newly developed housing, has been inflated since the demand for second homes increased. Although it has not caused the displacement of local people, it has affected the affordability of housing. Some of the local people see the current housing price as beyond their affordability.

During the interviews, all of the 74 local resident interviewees were asked about their opinion towards the current housing price. The question was: "Do you think the current housing price in Haikou is: very high, high, moderate, low or very low?" In total, 27 locals thought that the current housing price was high (8 in the new housing group, 15 in the welfare housing group and 4 in the poor housing group) and 23 of them (5 in the welfare housing group and 18 in poor housing group) thought it very high. 20 locals considered it to be at a moderate level (18 in new housing group and 2 in welfare housing group). Only one respondent from the new housing group said that the current housing price was low. In other words, most of the people in the new housing group saw the housing price as moderate, while the other two groups of people felt that it was high or very high. Details are shown in Figure 5-5.

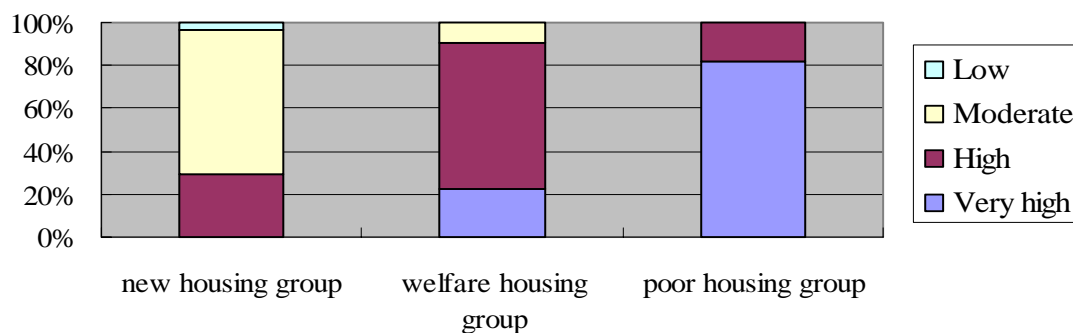


Figure 5-5 Local residents' opinion towards current housing price (Source: by the author)

1. Responses of the new housing group

From the interviews, the different attitudes of the three groups of residents can be identified. In general, the people in the new housing group were satisfied with the housing prices. They thought that the housing price was moderate and affordable. Nineteen out of 27 respondents indicated that they did not worry that the housing price will likely be driven up, for they do not plan to buy a new house in the near future. Five of them would be glad to see the housing price go up because then their properties would grow in value. Two interviewees said that they might buy another property for investment purposes. Typical responses were as follows:

“I bought the housing to live in, not for investment. I don’t care about the changes in housing price.” (A local resident in Siji Huating Garden, 07/20/2005)

“I live in a sea-view apartment. If the second home seeker offers a really high price, I would like to sell it to make money from it. I don’t mind moving to an inner-city area where the housing is much cheaper.” (A local resident in Zijing Garden, 07/24/2005)

2. Responses of the welfare housing group

Most of the residents living in welfare housing thought that the housing price is not affordable to them. But 17 out of 22 of the respondents indicated that they also are not afraid of housing price inflation because they already have a place to live and they do not need to purchase a new home. Some believe that the overall housing price will not increase dramatically and that they will find housing that is suited to their income level anyway. Typical responses were as follows:

“The new built commercial housing is not for people like us. It’s for rich people. The

government wanted to sell them to incomers. I don't care if the housing price goes up or not. It's none of my business." (A local resident in welfare housing, 07/21/2005)

"The sea-view housing is expensive, because the buyers from mainland China wanted to be close to the sea or even see the sea from their window. We local people see the sea everyday. We will choose inland housing which I believe will not get very expensive." (A local resident in welfare housing, 07/21/2005)

Only a few people in this group expressed anxiety about a potential crises in housing affordability. They were the ones who were not satisfied with current housing conditions, especially young people who intended to buy their first home and their parents who were worried for them. Typical responses were as follows:

"I live with my son's family. Me, my husband, my son, my daughter-in-law and my grandson, five people in a two-bedroom apartment. My home is very crowded. But we don't have the money to purchase a new home. The new housing developments are sold to incomers." (A local resident in welfare housing, 07/22/2005)

"I live with my parents. I am getting married this year and considered buying a small suite. But a good-quality small suite is getting expensive as the non-local people buy them for investment." (A local resident in welfare housing, 07/21/2005)

3. Responses of the poor housing group

To most of the people in the poor housing group, current housing prices are far beyond their affordability. Perhaps surprisingly, they did not see the second home boom as affecting their housing affordability, as they did not even think of buying a property. Twenty-three out of 25 respondents indicated that they are not concerned about this issue.

In general, most native Haikou people living in the inner-city village did not plan to improve their housing condition. Typical responses from native inner-city villagers were as follows:

“I am aware of the second home boom. I don’t care if it will drive up the housing price. I can’t afford to buy a new home anyway.” (A native Haikou person living in inner-city village, 07/18/2005)

“I am not interested in housing market information. The rich people buy the houses. I am not concerned about that.” (A native Haikou person living in inner-city village, 07/18/2005)

“I don’t have the money to buy a new home. Rich people may have two or three homes. Once you have money, you have everything.” (A native Haikou person living in inner-city village, 07/20/2005)

“It doesn’t matter where you live. If I had money, I would re-decorate my room, instead of buying a new home.” (A native Haikou people live in inner-city village, 07/20/2005)

Tenants who immigrated from other provinces and work in Haikou were also satisfied with the current situation. Some of them do not plan to settle down in Haikou.

“Renting a home is not that expensive here. My rent is RMB200 (CND \$28.57) per month. I work here and save money, so that I can build a house back in my home town.” (An incomer who works in Haikou and lives in inner-city village, 07/19/2005)

“If the housing price goes up in Haikou, I will buy a home in another city then.” (An incomer who works in Haikou and lives in inner-city village, 07/19/2005)

5.3.2 Disruption of local services

Previous studies pointed out that the seasonality of occupation of second homes will disrupt local services. Some areas in which second homes have clustered have become “ghost” communities in the off season (Gallent and Tewdwr-Jones, 2000, p58). In Haikou, the problem of “ghost communities” is quite noticeable.

Field work was conducted in the summer which is not the main tourist season in Haikou. According to observations by the researcher, many coastal residential communities have the “ghost community” problem. A local investigation indicates that in the summer, in Guomao and Haidian areas, only about 10% of the homes have their lights on (notes recorded by the author, 06/29/2005). In fact, most of this unoccupied housing has been sold as second homes. As they are not used during the off-season, these residential communities appeared to be dark and empty. Some local residents expressed concern about this issue in the interviews.

“My community is much livelier in winter than in summer. When the second homes are not occupied, the community became empty, dull or sometimes even scary.” (A local resident, 07/13/2005)

“If I can choose, I don’t want to live in a residential community that has many second homes.” (A local resident, 06/30/2005)

The seasonal occupation of second homes also brings problems to housing management:

“The second homes remain unoccupied most of the year. It adds to the difficulties for housing management. Especially, it is very hard for us to collect management fees from the owners. As far as I know, some housing management companies are suffering a deficit for this reason.” (Respondent N, superintendent of a residential community, 07/15/2005)

5.3.3 Effect on social norms

In some prior studies, the second home phenomenon is reported as causing an erosion of social norms (Shucksmith, 1983; Downing and Dower, 1973). Some locals see it as a potential threat to community integrity. This has not happened in Haikou. Haikou is a city of immigrants. A large number of “local” people are originally from other places. So Haikou City is a multi-cultural community and the citizens are always friendly to visitors. According to the interview respondents, no-one worried that the second home users would affect the integrity of Haikou. To the contrary, some expect that the second home owners have positive effects on social norms.

“The second homes are used by middle-class or top-class people. Second home users are a well-educated, high-quality group. I think they can help to improve the population quality of Haikou.” (Respondent F, government official in Tourism Bureau of Haikou, 07/05/2005)

“The native Haikou people have some very bad habits. For example, they spit in public places. They wish to earn money from gambling instead of getting a serious job. Men don’t respect women, and husbands are violent to their wives. I hope the second home users can influence the native Hainan people in their way of life.” (A local resident who immigrated to Haikou in the early 1990s, 07/21/2005)

In addition, some people are willing to live in a multi-cultural neighborhood so that they can communicate with people from different places. They believe that it is a good opportunity for them to widen their horizons.

5.3.4 Other social impacts

In spite of the effects discussed above, there are two other issues worth mentioning. Both of the issues are associated with the “buying home, getting hukou” policy³⁷. One is the problems caused by college entrance examination immigration. Another is the illegal sale of *hukou*. These two social problems are inter-linked to some extent.

1. Immigrants affect the educational opportunities of local people

As stated in Chapter 4, some non-local people bought homes in Haikou in order to get the *hukou* of Haikou. A distinctive group is the “college entrance examination immigrants”. They are high school students who want to register for college entrance examinations in Haikou. Because the admission requirement for Hainan people is much lower than in mainland China, taking the exam in Haikou will add to their chance to get into college. For example, student Chen was a college entrance exam immigrant from Jiangxi Province, China. He scored less than 400 out of 750 in the college entrance exam. If had taken the exam in his home town, this record would only enable him to gain admission to a non-degree program from a junior college. However, as he registered for the exam as a Haikou citizen, he managed to enter Fudan University, Shanghai, which is one of the top universities in China (Wu and Liu, 2005).

The college entrance examination immigrants are competing with local students for

³⁷ The “Buying home, getting hukou” policy allows the family that buys more than 25 sq. meters of overstocked housing to have one people registered as the permanent resident of Haikou City.

further education opportunities. Statistics indicates that the number of this group is increasing year by year. In 2005, one fourth of the students who registered for college entrance exams were immigrants from other provinces (Luo, 2005). As most of the students from mainland China are more competitive than locals, some local students lose their chances to go to their preferred universities. Some local people are very upset about this situation. Local people have gathered many times in front of the government office to protest against the college entrance exam immigration. Some interview respondents saw it as a negative impact of second home purchases.

“The government wanted to sell the housings to people from mainland China. I can’t see anything wrong, except it brings college entrance exam immigrants to Haikou.”(A local resident, 06/09/2005)

“This is like robbery. I don’t care if they are rich and they are able to buy more than one home. But they shouldn’t steal the education opportunities from our students.” (A local resident, 07/07/2005)

2. Illegal sale of *hukou* disrupts the social order

Another social problem that is associated with second home purchase is the illegal sale of *hukou*. On the one hand, as mentioned in Chapter 4, some people wanted to get the *hukou* of Haikou city. Especially, they were the ones who wanted to change their country *hukou* into city *hukou*, and the ones who wanted to write the college entrance exam in Hainan. On the other hand, some second home owners got the rights to get the city *hukou* of Haikou according to the “buying home, getting hukou” policy. But, in some cases, they did not plan to change their *hukou* status and they did not need the rights. Therefore, some of the second home owners illegally sold the *hukou* to others. The price of *hukou* was RMB10,000-15,000 (CDN \$1428.57-2142.86) each.

The sale of *hukou* is against the law. Not only does it disrupt the social order and add to the difficulty of public management, it also facilitates the college entrance examination immigration. For those students who want to take the exam in Hainan, they do not necessarily need to buy a home. They can just buy a *hukou* from a second home owner, which is much cheaper than buying a property.

5.4 General local attitudes

1. Housing developers' attitudes

All of the housing developers were glad to see the second home boom. They are profit-oriented. The increasing second home demands made the housing market prosperous, and housing developers are the direct beneficiaries. In general, most of the housing developers believed that the biggest market for Haikou's estates is in mainland China. Their typical opinions were as follows: "*Haikou has huge housing stock that was left by the housing bubble. Local buyers do not have the capacity to consume them all. It is a need to develop a non-local market.*" (Respondent J, chief manager of a housing development company, 06/11/2005)

Some developers admitted that second homes will bring some problems, for instance, the difficulty in housing management. But they believed that the benefits are far beyond the costs. The housing developers hoped that the government could be more supportive in promoting the sale of housing to non-local buyers: "*The government should make known the advantages of buying a second home in Haikou to more people. The government should organize more activities in mainland China to promote the housing.*" (Notes recorded by the author, 06/29/2005)

2. Community leaders' attitudes

Generally speaking, most of the local government officials shared the same opinion with the developers. They encouraged the building of more second homes in Haikou. According to Mayor Chen, the Mayor of Haikou City, *“Haikou will become the “backyard” of mainland China, the “second habitat” of Chinese people. The municipal government should improve the city to attract non-local buyers.”* (Notes recorded by the author, 06/29/2005)

Mr. Xu, the Minister of the Planning Bureau of Haikou, thought that most of the local people had been accommodated and that second homes should play a more important part in the local housing market in the future. He claimed that encouraging second home purchases would make good use of the local resources: *“Good environmental conditions, beautiful semi-tropical views and plenty of housing supply are the resource advantages of Haikou. The development of second homes is a good way to utilize the resources.”* He believed that: *“Second home development will contribute to local economy in several ways. Besides, it will enhance the popularity of the city and hopefully attract more investments and more high-quality people to work in Haikou.”* (Respondent B, government official in Planning Bureau of Haikou, 06/23/2005)

However, some government officials are less passionate about taking on second homes as a local development strategy. Mr. Wu, the Vice-minister of the Reform and Development Bureau, doubted if second homes can bring those positive effects that some expect: *“Most of the second home owners may only spend a short period of time in Haikou. Some even leave the home empty as they just buy them for investment. It will not have a great effect on the local economy. If Haikou becomes a retirement community, it will have more social problems.”* (Respondent E, government official in Reform and Development Bureau of Haikou, 07/04/2005)

3. Local residents' attitudes

In general, the local residents appear to be supportive of the second home development. According to the responses in the interviews, almost all the local residents are aware of the booming second home phenomenon. In the interviews, all 74 interviewees were asked about their attitudes towards second homes. Half of the respondents considered them to be a good thing and supported second home development. Thirty out of 74 respondents replied with “I don’t care”. Only 7 out of 74 respondents were opposed to second home growth. Figure 5-6 displays the attitudes of local residents.

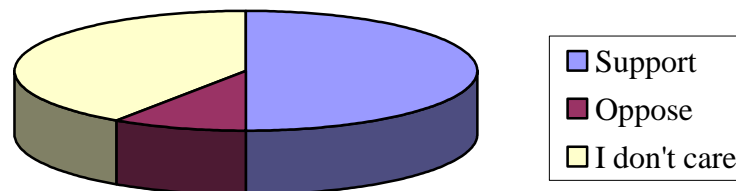


Figure 5-6 The attitudes of local residents towards the second home phenomenon

(Source: by the author)

In more detail, most of the respondents in the new housing group supported second home growth. Most people in welfare housing and poor housing group thought that it was not their business and they did not care about it. The opinions of the supporters are similar to the government. For example: *“Haikou is a beautiful city. The decent climate is especially good for senior people. It’s suitable to develop second homes in Haikou.”* *“Second home growth can be an impetus to the local economy.”* *“I hope the incomers can help to improve the overall quality of Haikou people.”* (Local residents, 06/2005) It is noticeable that some inner-city villagers also supported second home development. Their reasons were: *“Second homes are always luxurious, beautiful residential developments.*

Although I can't afford them, I will be happy to see them in my city.” (Local residents, 07/19/2005)

Some people do not care whether or not the housing is sold as second homes. They do not see second home growth impacting their lives. A typical response is: *“I am not concerned with this issue. It's not about my life.” (Local residents, 06/2005)* One respondent raised a good point. *“I am not concerned if the government wants to sell second homes to non-local people. But in order to attract non-local buyers, the government may invest money to improve the landscape and infrastructure. I will be very happy to see that happen.” (A local resident, 07/21/2005)*

Only few people were against second home growth. They thought: *“It is unfair that the rich people have more than one home.” (A local resident, 07/23/2005)* Or they worried that the housing price will be driven up when they buy a new home.

5.5 Summary

The second home phenomenon may have different impacts on people living in different housing conditions. In advance of doing impact analysis, three groups of local residents were identified as key groups. They were residents live in new housing developments, residents live in welfare housing and residents in inner-city village.

In terms of economic impacts, the increasing demand for second homes put an inflationary pressure on local housing prices. Since 1999, the average housing price in Haikou has kept rising at an annual rate of about 10%. The boom in second homes contributed to the recovery of the housing market and has some positive effects on property-related industries. However, there is, as yet, no apparent effect on local retail

and service outlets.

In terms of social impacts, the typical effects that have been addressed in previous literature also can be found in Haikou. However, most of them are not very apparent so far. Second home growth has affected local people's housing affordability, especially the sea-view housing in coastal areas. But it has not displaced local residents. The seasonal use of second homes causes a "ghost community" problem and adds to the difficulty of housing management. The influx of second home owners also has a potential effect on social norms. Moreover, there are two problems associated with second home purchase in Haikou, the college entrance exam immigration problem and the illegal sale of *hukou*.

Most of the community leaders of Haikou and the housing developers are supportive of second home development. Some of the local residents are also supportive and some of them appear to be unconcerned with this issue. Only a few locals expressed opposition.

Chapter 6 Conclusions and recommendations

This chapter summarizes the major findings and conclusions with respect to the research objectives. The three main objectives of this research were: (1) To profile the second home phenomenon in Haikou, China; (2) To assess the socio-economic impacts of second home growth on the local community; and (3) To provide suggestions on policies and future studies. The findings and conclusions regarding to each objective are discussed in sequence.

6.1 Major findings and conclusions

6.1.1 Profiling the second home phenomenon in Haikou, China

1. The origin and spread of second homes in China

According to western literature, the origins of second homes are different in North America and Europe. In the North America context, the second home market was commercially oriented from the outset (Gallent, *et al.* 2005). In the European context, early second homes were mostly former rural properties (Bielckus, 1977; Gallent, *et al.* 2005). In terms of the impetus of second home growth, western literature suggest that “increases in personal mobility, more disposable income and reductions in working hours have produce the conditions for increases in second home ownership” (Gallent, *et al.* 2005, p18).

In China, the origin of second homes generally followed the North America experience. Most of the second homes are commercial housing. Similar to the western countries, the

improvement of personal mobility, and the increase of income and leisure time³⁸ facilitated second home use in China. Despite the similarities, one distinctive feature in China is that changes in government policies play a significant role in the origin and growth of second homes. For one thing, housing reform and privatization of urban housing made second home ownership legally possible. Before housing reform, city people lived in welfare housing that was provided within a socialist system. The housing reform policy allowed them to buy properties freely from the housing market. It made purchasing more than one home legally achievable. For another thing, the adoption of the economic reform policy improved people's quality of life and polarized social wealth. It made second home ownership economically possible to some richer people.

In western countries, the second homes were mainly located in the peripheral areas of big cities and resort places, especially in waterside areas (Coppock, 1977; Gallent and Tewdwr-Jones, 2000). The same situation is found in China. The second homes in Haikou are typical examples of resort second homes.

2. The second home phenomenon in Haikou

The historical context of second home growth in Haikou is very complicated. Briefly, the second homes in Haikou emerged after a housing bubble burst when there was an oversupply in the housing market. This special background of second homes' emergence in Haikou has three aspects with implications for this study. First, as a result of the bursting of the housing bubble, local housing prices remained at a low level before the second home boom. On the one hand, the housing price differentials encouraged second home purchase. On the other hand, the housing price inflated from a low starting point.

³⁸ Since May 1st, 1995, China adopted a 5-workday system instead of 6-workday system. In 2000, China enacted regulations for national holiday. The Chinese people then had three long holidays (or so called "golden weeks") in the Chinese New Year (usually in February), International Workers' Day (May 1st) and National Day (October 1st).

Secondly, as there is an oversupply in the local housing market, the increasing second home demand did not put great pressure on housing provision. Thirdly, second home purchases are encouraged by local government because they believe that second home demand can bring the housing market back into balance and, furthermore, will stimulate the local economy.

Since 1999, second homes have grown in number as the local housing market recovered and second home purchases have become a hot item in the local housing market. Based on available data, this study suggests that there are approximately 25,000 second homes in Haikou City. However, it is noticeable that a large number of second homes have just been purchased but the second home owners have not used them so far. The development of second homes in Haikou is still at an early stage. This could explain the reason why property-related industries are benefiting from the second home boom, while local retail and services are not greatly affected. Details will be discussed in the following section.

Currently, second homes in Haikou are diverse. The diversity is in the type of housing, distribution, physical structure and use of second homes. In term of physical structure and distribution, a large number of second homes are apartment units in the urban area of Haikou and they are mixed in with permanent residences in the same building. It is different from the situation in western countries, where second homes are mostly houses or town houses in the suburbs or in rural areas. Coastal areas are where second homes are concentrated. In terms of housing type, second homes are mostly upper-grade, newly-developed housing. Some converted housing and vacant housing are taken as second homes, too. This means that the second home buyers are purchasing homes from the mainstream housing market. Especially, they compete with locals for high quality housing and sea-view apartments.

Generally, the second home owners share the community with local residents. Some of the local residents who live in communities with many second homes are bothered by the “ghost community problem”. In terms of the usage of second homes, besides the traditional uses (such as holiday home, retirement home and investment), some people buy second homes for other purposes, such as getting *hukou* and writing the college entrance exam in Haikou. This leads to social problems in the local community which will be elaborated upon in following section.

6.1.2 Assessing socio-economic impacts and local attitudes

1. Recall of previous studies

Western literature points out that the growth of second homes affects the host community in both positive and negative ways. In a positive way, second home purchases stimulate the development of property-related industries, such as estate agents, solicitors, surveyors and home improvers. (Pyne, 1973; Shuncksmith, 1983; Gallent, *et al.* 2005). And second home usage will generate new revenue in local retail outlets and services (Dower, 1977; Gallent, *et al.* 2005).

In a negative way, second home demand and ownership will lead to pressure on housing supply and hence to inflation in housing prices (Pyne, 1973; ASPO, 1976; Gallent and Tewdwr-Jones, 2000; Hettinger, 2003). When the housing price escalates, some of the less wealthy locals might be driven out of the housing market and forced to move out of the region. Notably, young people and first-time buyers are groups that are often affected in this way by second home growth (Gallent, *et al.*, 2005). Problems such as the disruption of local services and erosion of social norms are also addressed as negative impacts of second home ownership in western literature (Downing and Dower, 1973; Shucksmith, 1983; Gallent and Tewdwr-Jones, 2000; Gallent, *et al.* 2005).

2. Socio-economic impacts and local attitudes to second homes in Haikou

In this study, social and economic impacts that are addressed in the western literature were examined in the context of Haikou City. On the positive side, the boom of second homes has contributed to the recovery of the housing market. Besides the housing development industry, other property-related industries, such as interior decoration and real estate agencies, are benefiting from the increasing second home purchases. However, effects on local retail and service outlets are not detectable yet. Noticeably, some people believe that the influx of second home owners will have positive effects on social norms, as the second home owners are a well-educated, high-income group.

On the negative side, firstly, the growing second home demand has caused an inflationary pressure on housing prices, especially on the price of sea-view housing. It has affected the affordability of housing to local people to some extent. Similar to western experiences, the effect is more significant for low-income groups and young people. However, the local people are far from being displaced. Evidence indicates that most of the local residents in low quality housing conditions see the housing price as unaffordable. But as they are generally satisfied with the current living condition, they do not see themselves being driven out of the community by housing price inflation. Only a few temporary residents, who currently work in Haikou, claim that they may move back to their home town or to another city. This situation should not be considered as displacement, as they did not plan to settle down in Haikou.

Secondly, the seasonality of second home use leads to a “ghost community” problem during the off-season and adds to the difficulty of housing management. In the off-season, the communities where second homes are concentrated (mostly in the coastal areas) appear to be empty and dull, which bothers some of the local residents. In western

counties, second home ownership caused displacement of locals and hence a decline in the regular demand for local services (Gallent, *et al.* 2005). Also, the seasonal usage made local services insufficient in the tourist season and over-supplied in the off-season (Gallent and Tewdwr-Jones, 2000). As the second home usage in Haikou is not yet predominant, these problems are not detectable.

Thirdly, “college entrance exam immigration” and “illegal sale of *hukou*” are two social problems that are associated with second home purchase and which affect the social order. These two problems occur in the Chinese context, with regard to the *hukou* policy in China. No similar experience is found in the western literature.

In terms of local attitudes, housing developers and local government are supporting the development of second homes. They believe that the growth of second homes will bring more positive impacts to the local community. The majority of the local residents appear to be supportive or unconcerned about this phenomenon. This is partly because second home growth and usage have not caused severe negative impacts so far. The local residents do not see their daily life as being strongly affected. Besides, it is partly because of the top-down planning system in China. Common people do not usually participate in the planning process and they therefore are not concerned about this issue.

3. Summary

In summary, this study generally confirmed the impacts addressed by other second home research. The second home growth caused many similar socio-economic changes in Haikou as it has in western countries. These similar effects include the boom of the property-related industry, housing price inflation and its affects on housing affordability, and the “ghost community problem”. However, as the development of second homes in Haikou is at an early stage, both their positive and negative impacts are not yet significant.

Some effects such as the displacement of locals, the effects on local retail outlets and services are not detectable. Remarkably, this study addressed two problems that can only be found in China: “college entrance exam immigration” and “illegal sale of *hukou*”.

Table 6-3 briefly summarizes how the research questions are answered in this study.

Research questions	Recap of corresponding findings
<p>What is the historical context of second home growth in Haikou?</p>	<p>In China, the second home phenomenon emerged after the economic reform and urban housing privatization. The growth of second homes in Haikou started after a serious housing bubble burst, when there was an oversupply in the housing market and the housing price was low.</p>
<p>What is the status of second homes and what are their roles in local housing market?</p>	<p>Most of the second homes in Haikou are in upper-grade, newly-developed residential communities, where second home users share the communities with local people. Coastal areas are where second homes are concentrated. Second home seekers are purchasing homes from mainstream housing market. They use them as holiday homes, retirement homes and investments, or as a way to get <i>hukou</i>. Although second home purchase has played an important part in local housing market, second home usage is not prevalent.</p>
<p>What are the characteristics of the second home phenomenon in Haikou?</p>	<p>There are four major characteristics. First, the second home phenomenon emerged in a special period, after a housing bubble burst. Second, most of the second homes dispersed in the city area of Haikou, instead of suburb area. A large number of them are apartment units. Third, second home purchase is a hot item in housing market, but most of them have not been used yet. Four, buying second home for the purposes of “college entrance immigration” and “illegal sale of <i>hukou</i>” can only be found in Haikou, China.</p>

<p>What socio-economic impacts second home growth brings to local community?</p>	<p>On one hand, the boom of second homes had positive impacts on property related industry, and contributed to the recovery of housing market. On the other hand, it caused some negative impacts, such as housing price inflation, “ghost community” problem, “college entrance immigration” problem and “illegal sale of <i>hukou</i>” problem, etc. However, as the development of second homes is in an early stage, both the positive and negative impacts are not significant by far. Some impacts found western second home communities are not yet detectable in Haikou.</p>
<p>How do the members of local community think of the second home growth?</p>	<p>Local governors, housing developers are supporting the development of second homes. The majority of the local residents appear to be supportive or unconcerned about this phenomenon. Only a few of them are opposed to it.</p>

Table 6-1 Summary of research questions and corresponding findings

(Source: by the author)

6.2 Policy Recommendations

Base on the findings of this research, recommendations to the local community are proposed in the following section. In general, the recommendations are designed to maximize the positive effects of second home growth and to reduce the negative impacts. Suggestions for local planning are also put forward.

Enact detailed fiscal policies to second home owners

In many western countries, such as France, England and Wales, the governments require an extra tax on second homes, for second home usage add to the burden on local services (Gallent, *et al.*, 2005). Extra taxes gained from second home owners can be used as funds

to provide affordable housing. In China, the national government recently enacted two policies to improve social equity and prevent real estate speculation. First, a differential mortgage rate is charged to second home buyers, which is higher than the rate for first homes (Yang, 2005). Second, the home owners who sell a property less than five years after purchasing it will have to pay taxes on the proceeds (McDonald, 2006). However, detailed interpretation of the policies, for example, the definition of a second home, has not yet been formalized. The government should enact further standards and detailed policies to ensure that the fiscal policies can be implemented

Provide a two-tier housing supply

Although displacement of local people has not happened in Haikou, the second home demand has driven up housing prices and affected housing affordability for local residents. The government should offer a two-tier housing supply, i.e. provide second home development for non-locals and affordable ordinary housing for local people. A two-tier housing supply will stop second home seekers from competing with locals in the mainstream market. This would be achieved by identifying a balance point of these two types of housing supply and using planning regulations to control the development (Gallent, *et al.*, 2005). On one hand, local people should be given priority to buy a home at a reasonable price. The housing market should be well managed to ensure that ordinary housing is only offered to local people. On the other hand, the government should identify the areas that suitable for second home development, and using land use regulation for planning control.

Create regulations to stop *hukou* related problems

College entrance exam immigrants seriously affected the education opportunities of local people. Illegal sale of *hukou* affected the social order. Local government should establish regulations to stop these two problems that associates with the *hukou* policy. For example,

“buying home, getting hukou” policy could require that only the owner of the housing can get the hukou, instead of any people. So, the owner can not sell it to someone else. It could also require an age limit in this policy, so that high school student can not immigrate to Haikou just for the exam.

Provide services to promote second home owners’ convenience

The second home users are becoming a new group of residents in the host community. The local government should propose particular policies to promote their convenience for living. For example, second home users might be more inclined to stay in their second homes if their insurance is transferable between their home city and Haikou, or if they can use their cell phone without being charged extra long distance fee.

Improve the living environment

In order to make second home usage an impetus for the local economy, the government should improve the living environment of Haikou and attract the second home users to stay longer. Local residents can also benefit from that. The improvement should concern all aspects that can make Haikou a more attractive city to live in, such as infrastructure construction, community environmental improvement and improvement of public services. Especially, the government needs to provide qualified medical services and more recreational infrastructure in the city.

Enhance statistical reporting and public participation in the planning process

As mentioned before, the statistical data on this topic are very scanty. Enhancing reporting will enable the local government to address housing issues better and enable the government to be proactive in housing market intervention and monitoring (Hettinger, 2003). It will not only help to inform local planning and decision making, but also contribute to further study. Moreover, it was found in the investigation that the local

residents know little about planning-related issues. This is actually a disadvantage of a top-down planning system. The government should allow more public participation in future planning processes.

6.3 Research reflection and implications for future study

6.3.1 Implications for research methods

This research adopted western research tools in a Chinese context. According to the research experience, the western research methods are adaptable in China. However, the researcher should pay attention to the following two considerations, in order to make the process more efficient and productive.

First, a good explanation of related concepts and objectives are essential in interviews and surveys, especially in the interviews and surveys of the common people. As mentioned above, the Chinese government has adopted a top-down planning system and majority of the common people know very little about planning related issues. Sometimes, they may not concern about the research object, or even have no idea what the researcher is talking about. So, explaining the concepts in plain words could help to ensure a quality output.

Second, networking is very important. In China, some secondary data (such as local studies, government documents, statistics, etc.) are not open to public. The government is not willing to provide them to “strangers”, even for research needs. Some of the governors would agree to be interviewed only if the interviewer is referred by someone they know. On top of this, spending some time on networking can enable the researcher a better access to the data.

6.3.2 Recommendations for future research opportunities

This thesis is a preliminary study of the growth of second homes in China, especially in Haikou City, Hainan Province. The increasing concern about the second home phenomenon will undoubtedly lead to more research on this topic. This study has several implications for future research.

Research on city periphery second homes

As mentioned above, resort second homes and city periphery second homes are the two main types of second homes in China. This research focused on the former type. What is the status of the city periphery second homes in China? What kind of socio-economic impacts have they caused so far? What are their similarities and differences with the resort second homes? These are the questions worth exploring and discussing. Comparative research on these two types of second homes will produce a more comprehensive view of the second home phenomenon in China.

Investigation of second home owners

Due to time, resource and logistical limitations, this research did not devote much attention to second home owners. In fact, they are a group that has a direct interest and involvement in this issue. Observing their behavior and activities, and undertaking surveys of their motivations, though difficult, will definitely contribute to the understanding of the second home phenomenon.

Quantitative research on socio-economic impacts

This study mainly adopted a qualitative approach which was the result of its exploratory nature, given the lack of relevant statistical information. In the field of impact assessment, quantitative approaches are widely adopted. Quantitative research has the advantage of

answering such questions as “How much economic benefit do second homes bring to host communities?” Introducing quantitative research to impact assessment will help in the evaluation of costs and benefits. As the phenomenon of second homes in China becomes more mature, more statistical data will be available for quantitative research.

The environmental impact assessment

The environmental impacts of second home growth have not been covered by this thesis. Actually, as second homes are almost always located in environmentally sensitive areas, their environmental impacts have raised great concern in the western literature. In China, little attention has been given to this. Hopefully, future studies can fill this research gap.

Second homes as a part of the wider tourism industry

Second homes can be viewed as a part of the wider tourism industry. Many tourism-related questions are worth discussing. For example, what is the relationship between second home ownership and tourism or recreational activities? How should second home tourism be developed in a community? Much western literature has touched on these topics but no Chinese research has been done in this area. It will be meaningful if future studies could include further comparative work to see if the western experiences are transferable to China.

Appendix 1 List of Key-Information Interviewees

Interviewee	Date of Interview	Position
Government Officials		
1 Respondent A	07/04/2005	Government official in Housing Bureau of Haikou
2 Respondent B	06/23/2005	Government official in Planning Bureau of Haikou
3 Respondent C	06/23/2005	Government official in Construction Bureau of Hainan Province
4 Respondent D	07/04/2005	Government official in Development and Reform Bureau of Haikou
5 Respondent E	07/04/2005	Government official in Development and Reform Bureau of Haikou
6 Respondent F	07/05/2005	Government official in Tourism Bureau of Haikou
7 Respondent G	06/17/2005	Government official in Housing Department, Bureau of Hainan Province
Housing Developers		
8 Respondent H	07/13/2005	Manager of Sales Department in a housing development company
9 Respondent J	06/11/2005	Chief Manager of a housing development company
10 Respondent K	07/09/2005	Manager of sales department in a housing development company

11 Respondent L 06/29/2005 Execute manager of a housing development company

12 Respondent M 07/26/2005 Staff of a housing development company

Others

13 Respondent N 07/15/2005 Superintendent of a residential community

14 Respondent P 07/13/2005 Local housing guide

15 Respondent Q 10/11/2005 Second home researcher

16 Respondent R 06/29/2005 Interior decoration worker

17 Respondent S 07/20/2005 Local hair Stylist

18 Respondent T 06/29/2005 Senior second home owner

19 Respondent W 07/27/2005 Second home owner

20 Respondent X 07/04/2005 New second home owner

Appendix 2 Survey to Potential Buyer

Dear sir or madam,

Thank you for your concern and support to the real estate industry in Hainan. In order to provide you with better services, we intend to know your opinion and demand about purchasing properties in Hainan. Please help us with the following survey. We appreciate your cooperation and a gift will be provided to you.

Real Estate Association of Hainan

Building 24, Suite 304, 59 Haifu Street,

Provincial Government of Hainan

Haikou City, Hainan Province, China, 570204

Tel: (86)0898-65359726 Fax: (86)0898-65348127

Name:

Tel/Fax No:

Address:

1. When do you intend to buy property in Hainan?

- a. very soon. b. in half a year c. in a year
d. not recently e. already bought

2. Where do you want to buy property in Hainan?

- a. Haikou b. Sanya c. Qionghai d. Other places in Hainan

3. How big do you wish your new housing to be ?

- a. under 60 sq. m. b. 60-80 sq. m. c. 80-100 sq. m.
d. 100-120 sq. m. e. 120-150 sq. m. f. above 150 sq. m.

4. How do you intend to use your housing?
- a. as primary home
 - b. for investment purpose
 - c. for business use
 - d. as holiday home
5. How do you want to pay for your house?
- a. one-off payment
 - b. bank mortgage loan
 - c. accumulation fund
 - d. others
6. What is your anticipated total expense?
- a. under RMB100,000
 - b. RMB100,000-200,000
 - c. RMB200,000-300,000
 - d. RMB300,000-500,000
 - e. RMB500,000-800,000
 - f. RMB800,000-1,000,000
 - g. above RMB1,000,000
7. What's your demand about the interior decoration?
- a. no decoration
 - b. simple decoration
 - c. fancy decoration
 - d. fancy decoration with furniture
8. What service do you want Hainan Real Estate Club to provide?
- a. Price discount
 - b. Housing information consultant
 - c. lease or selling agent
 - d. Policy and mortgage information inquiry
 - e. Interior decoration consultant
 - f. others
9. What is your suggestion about the development of housing industry in Hainan?

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