



Promotion or restriction?

Instruments of public authorities to control destination development

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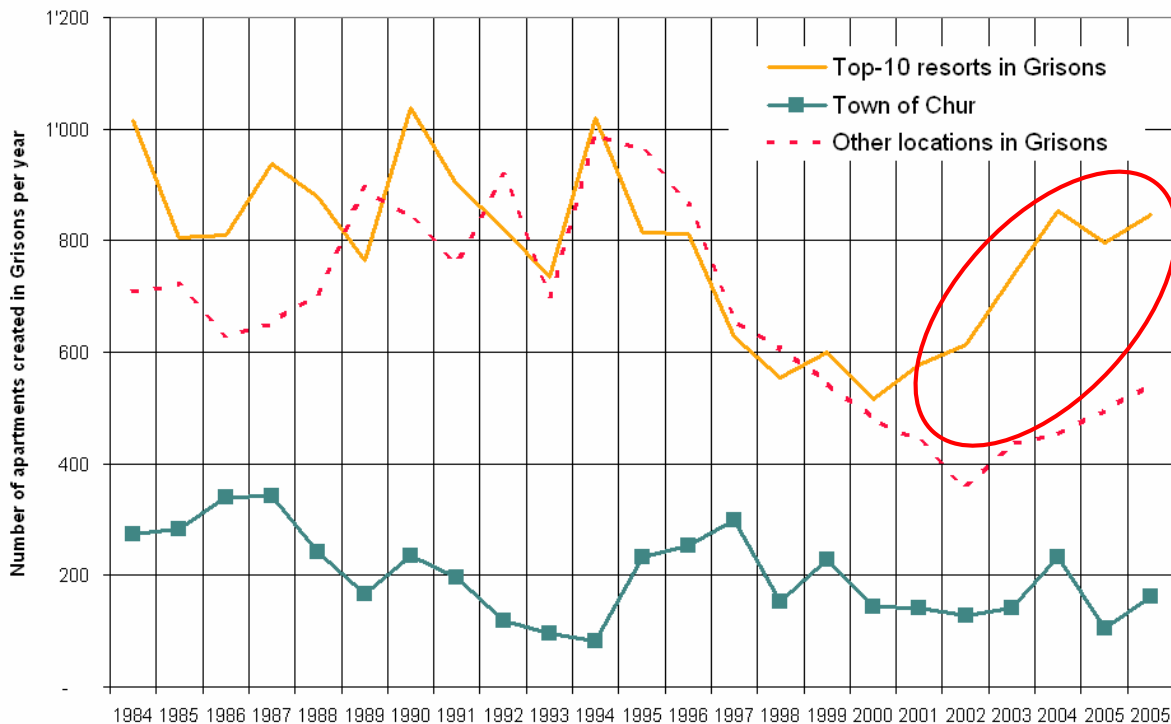
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- 1 Starting position



Awakening of secondary home market



Source: Federal Statistical Office / graphic: Economic Forum Graubünden

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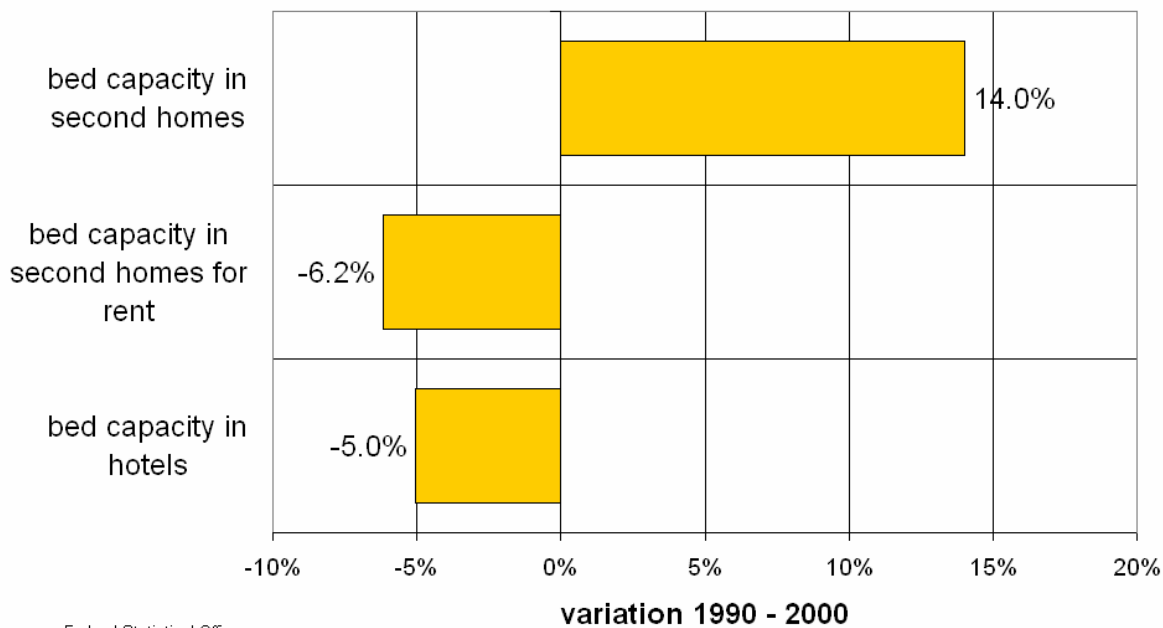
Awakening of secondary home market (findings)

- Most secondary residences in Switzerland were built during the 70ies and 80ies.
- Due to high interest rates in the beginning of the 90ies, the demand for second homes dropped by 50% compared to the previous two decades.
- Because of exceptionally low interest rates since 2001, strong demographic growth of the second home buyers generation (40+), a worldwide economic boom and massive shifts of capital from stock market to real estate (in particular after the crash of 2001), the second home market has been booming for the last 6 years.
- Although the demand in the second home market is likely to slow down within the next few years, middle- and long-term demand will presumably remain strong, in particular because of demographic changes and the continuing worldwide accumulation of wealth.

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Bed capacity in the tourism industry in Grisons



source: Federal Statistical Office

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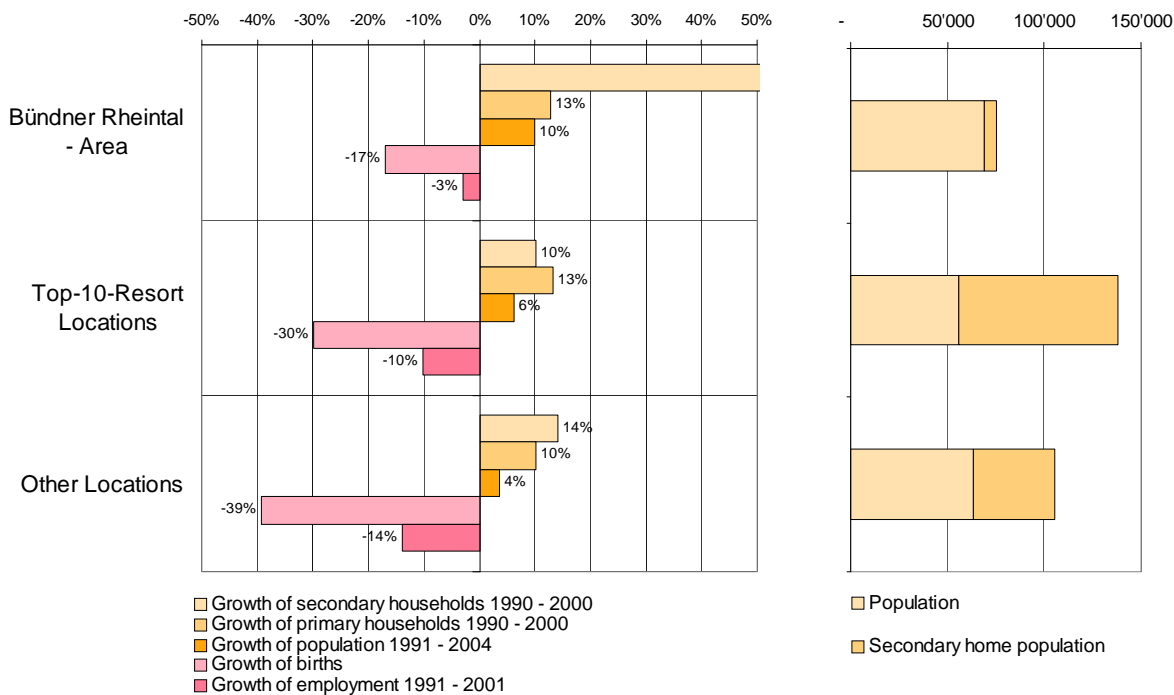
Destinations become colder and colder... (findings)

- Although bed capacities in resorts throughout the Canton of Grisons considerably rose during the last decade, the number of beds available for rent declined during the same period.
- Many resorts faced an astonishing decrease of 20% - 30% of the number of secondary residences available for rent.
- The same trend applies to the number of available beds in classic hotels.
- Result of this development is a much larger real estate inventory and at the same time a much smaller disposable bed base in the (alpine) resorts. As a consequence skier visits are decreasing in most ski areas and the fluctuation margin between the number of visitors during low and peak season is dramatically increasing.

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Secondary resident – community matters

Variation of various key figures in Grisons



source: Federal Statistical Office / graphic: Economic Forum Graubünden

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Secondary resident – community matters (findings)

- Second homes are not a product of the tourism industry only. They also represent a part-time residing 'second homes community'.
- The Canton of Grisons has a population of 190'000 citizens. In addition, it is the part-time domicile of around 140'000 "secondary residents" who spend a great deal of their time in Grisons.
- As the secondary residents population is growing, the primary population is stagnating and the number of jobs available is decreasing, new challenges for the economic development arise. In a society where significant parts of the population work in the cities, live in the suburbs and own a second home in the mountains, but pay the main part of their taxes at their primary domicile, the question of a fair regional taxation of primary and secondary residents becomes more and more important. Especially for tourism areas with a high percentage of secondary residents.

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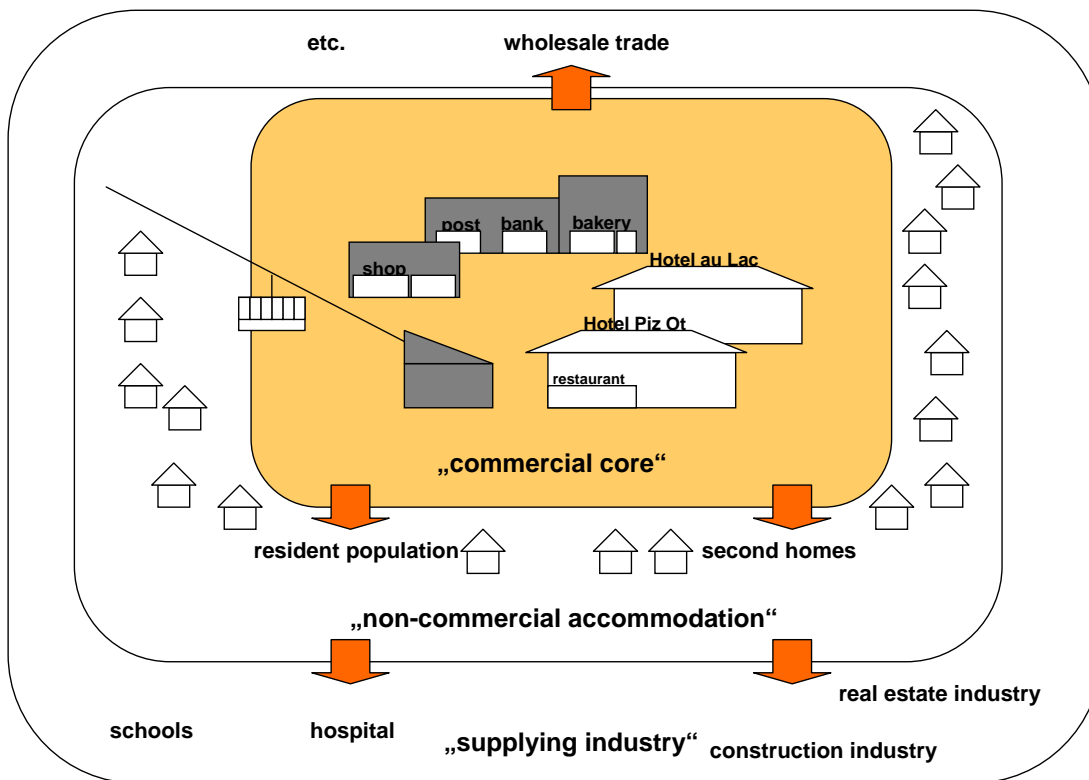
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- 2 Challenges of policy design



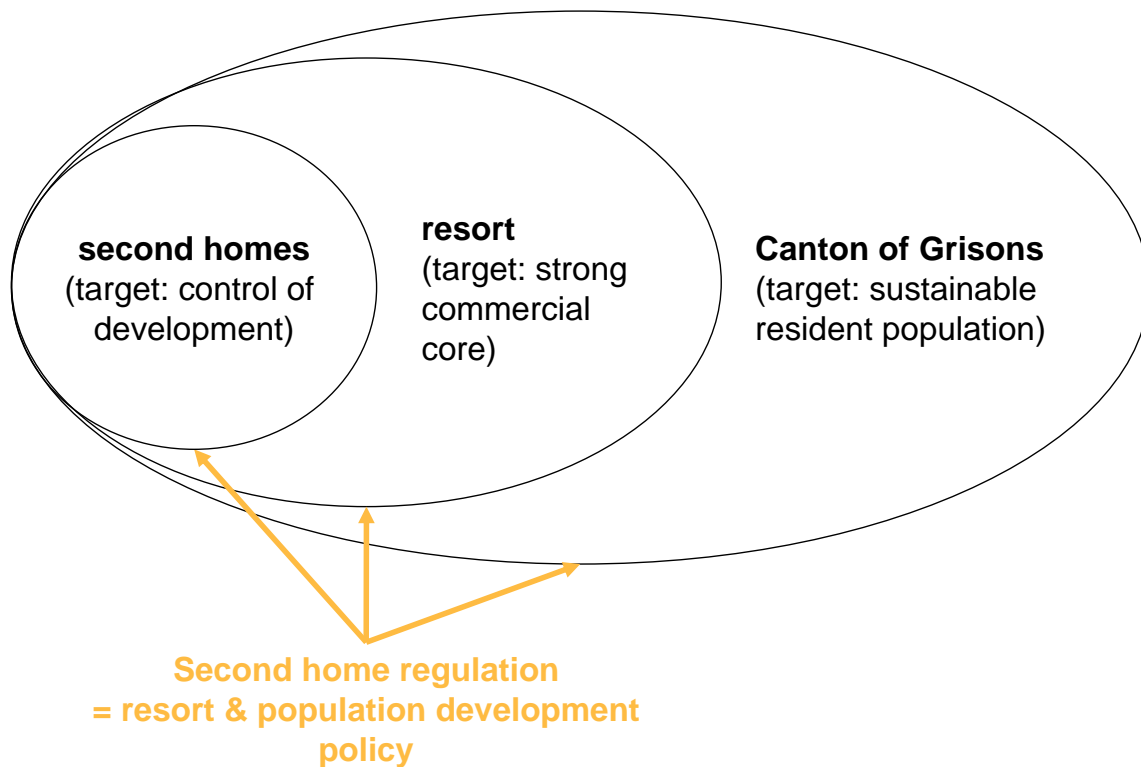
A well-balanced tourism resort as objective



graphic by: Economic Forum Graubünden

A well-balanced tourism resort as objective (findings)

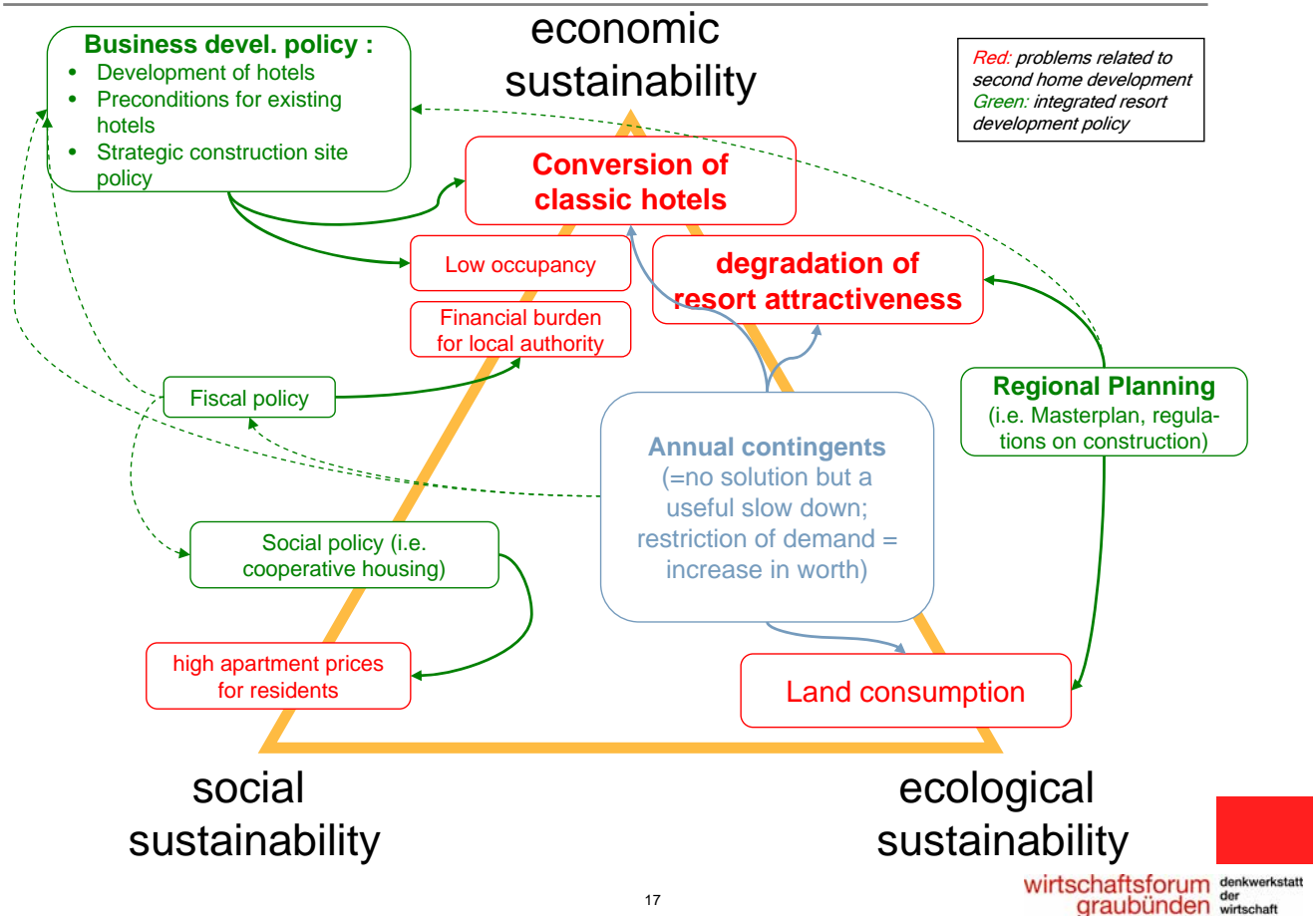
- A resort exists basically of
 - leisure activities (i.e. ski area, golf course, beach)
 - accommodation for rent (i.e. hotels, condominiums, camping)
 - commercial activities (i.e. shops)
 - second homes (not or only partly for rent)
 - homes for residents
- The development of a resort should be designed in a way suitable to ensure that all “resort products” are well balanced in terms of quality and number.
- To achieve such an equilibrium, a responsible long-term development policy is essential.



It's more than just second home policy (findings)

- It is crucial to recognize that any regulation of the second home development is also resort development policy. In addition, second home policy measures strongly influence the development opportunities of the resident community.
- A broad approach to policy design is therefore mandatory.
- Because in Switzerland the competences for regional planning and fiscal measures are split between different authorities (local, cantonal and federal), a second home policy is always a 'joint product' of regulations and policies from each level of the state.
- Therefore the cantons should define (in cooperation with the local communities and the federation) the key points of a second home policy.
- The cantons and the federation are especially responsible for the creation of standardized legal resort-development instruments, which the communities cannot establish by themselves.
- As the situation is largely different from place to place, the communities should be in charge of the design of the specific local instrumental mix and its implementation.

Solution: an integrated approach



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Solution: an integrated approach (findings)

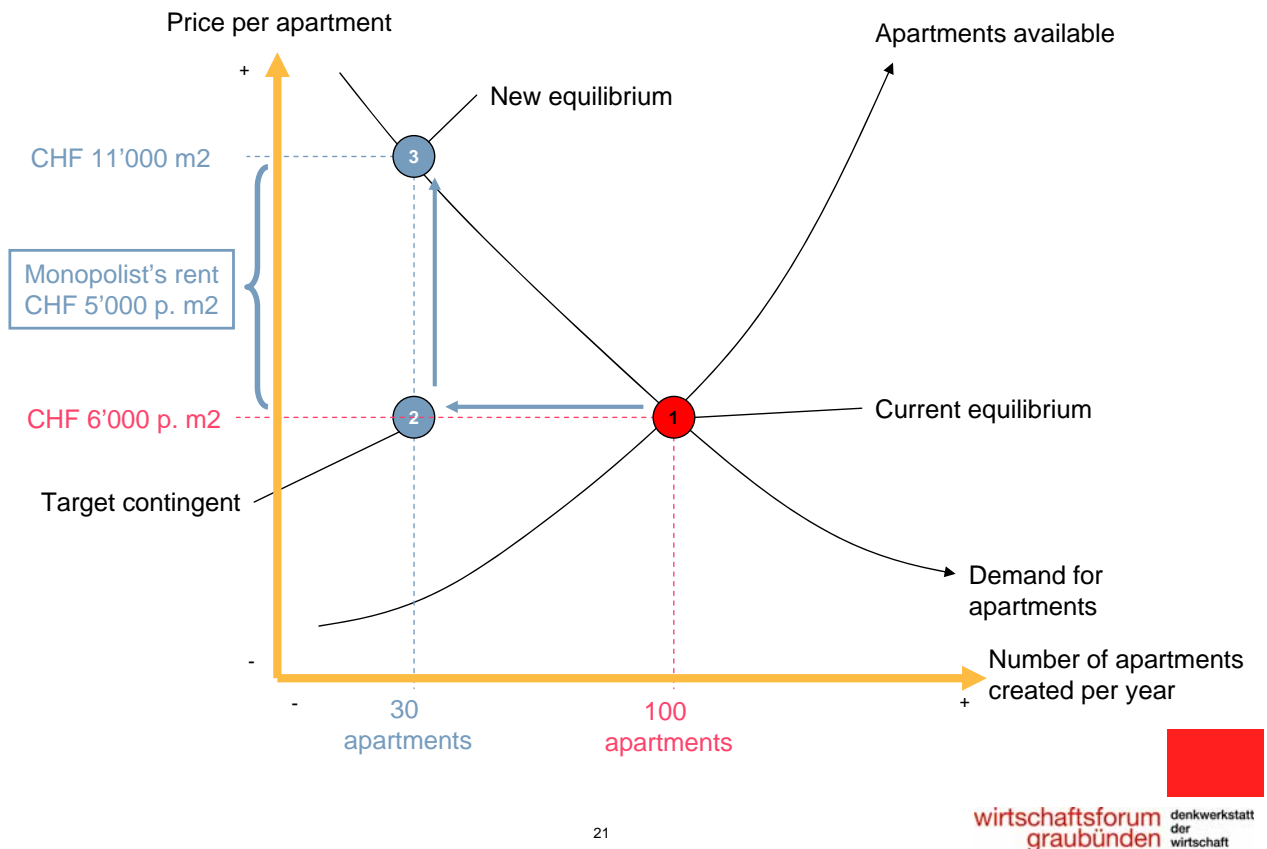
- No single instrument is strong enough to solve all the problems related to second homes development. Therefore an integrated policy approach is needed.
- The diagram shows the main problems/threats related to second home development [red]. The most crucial problems are the ongoing conversion of hotels and the degradation of the attractiveness of the resort, which immediately lead to a weaker economic base and lower competitiveness of the resort.
- To solve the problems and take advantage of the opportunities which arise from a strong second homes demand, different instruments from various fields are to be integrated into a resort development policy [green]. The main measures are
 - MASTER PLANNING to control land (and landscape) consumption and overall attractiveness of the resort.
 - FISCAL MEASURES to create optimal incentives for the actors and relieve the fiscal burden of residents
 - BUSINESS DEVELOPEMENT MEASURES to create preconditions which favor the establishment of warm beds (i.e. classic hotels, condominium resorts for rent)
- ANNUAL CONTINGENTS are very popular nowadays in Grisons. This instrument is not a final solution, but it can help to slow down “misguided” developments. In addition, contingents can form a basis for incentives to encourage innovative hotel development,¹⁸



- 3 Effective measures



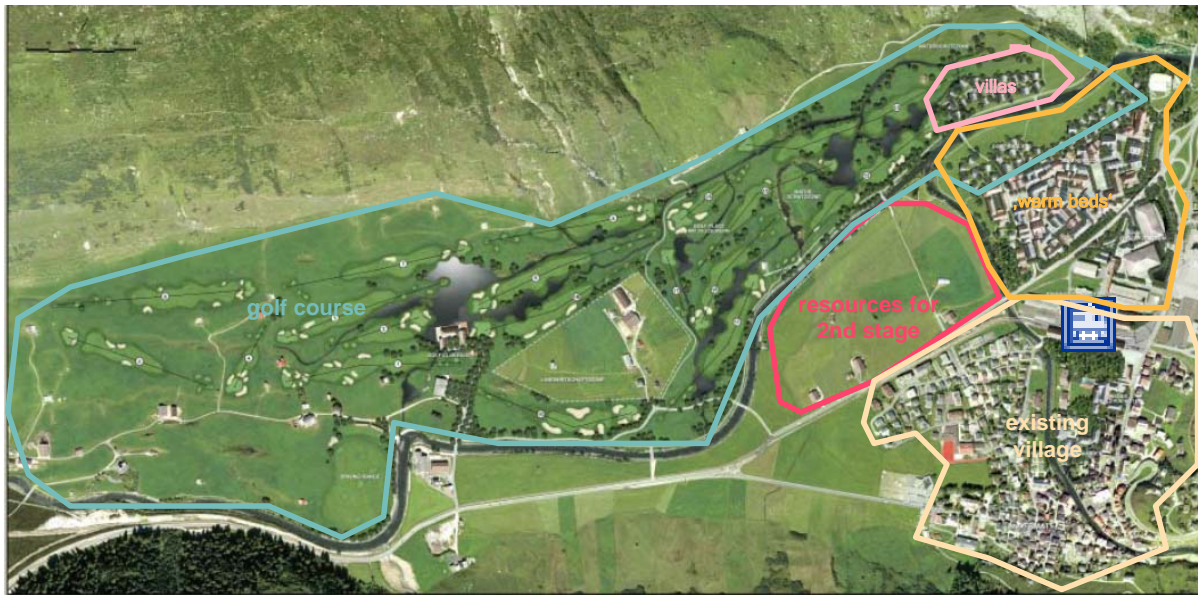
Instrument: Annual contingent



Instrument: Annual contingent (findings)

- The development of second homes is a high profitable business sector in resorts in Grisons and elsewhere. Restrictions to that sector are needed in order to achieve a healthy long-term development and to avoid “ghost town resorts” with no economic future.
- The only effective and economically viable restriction method is the implementation of ANNUAL CONTINGENTS for the creation of second homes through building or converting of primary homes or hotels.
- Restriction leads – as long as the demand remains strong – to a higher average price for second homes: the monopolist’s rent.
- Communities who want to establish contingents should think about auctioning them in order to receive a share of the emerging monopolistic rent.
- Another possibility to take advantage of the instrument: giving the contingents away as an incentive to developers, who in return create a specific number of new warm beds.
- There are many alternatives how to use the annual contingents as incentives for a desired resort development. A thorough analysis of viable rent allocation methods is highly recommendable.

Instrument: Master plan



Source: Orascom

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Instrument: Master plan (findings)

- Every community has a communal construction zone plan. Most of those plans have been developed over the time, in line with the dominating construction trends, but without a specific vision of the resulting place or product.
- Unlike the current regional planning procedures, a master plan defines what the resulting product should look like (i.e. ski resort alpine style) to be also economically viable. The construction laws and zonal plans should be derived from a definite master plan and help to create a place according to the needs of the resort visitors as well as the residents.
- As building structures are given in most resorts, a master plan has to define how to reach a certain vision starting from the existing settlement.
- If the master plan is well designed, the construction of second homes – according to the master plan – should have no negative effects on the resort. Therefore no further restriction of second homes would be necessary.
- A sophisticated example of a master plan procedure in the Swiss alps is Orascom's resort development plan of Andermatt (Canton of Uri – CH).

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Instrument: Hotel development

Condominium hotels



Low cost hotels



International hotel chains



Historic luxury hotels („patron“ hotel)

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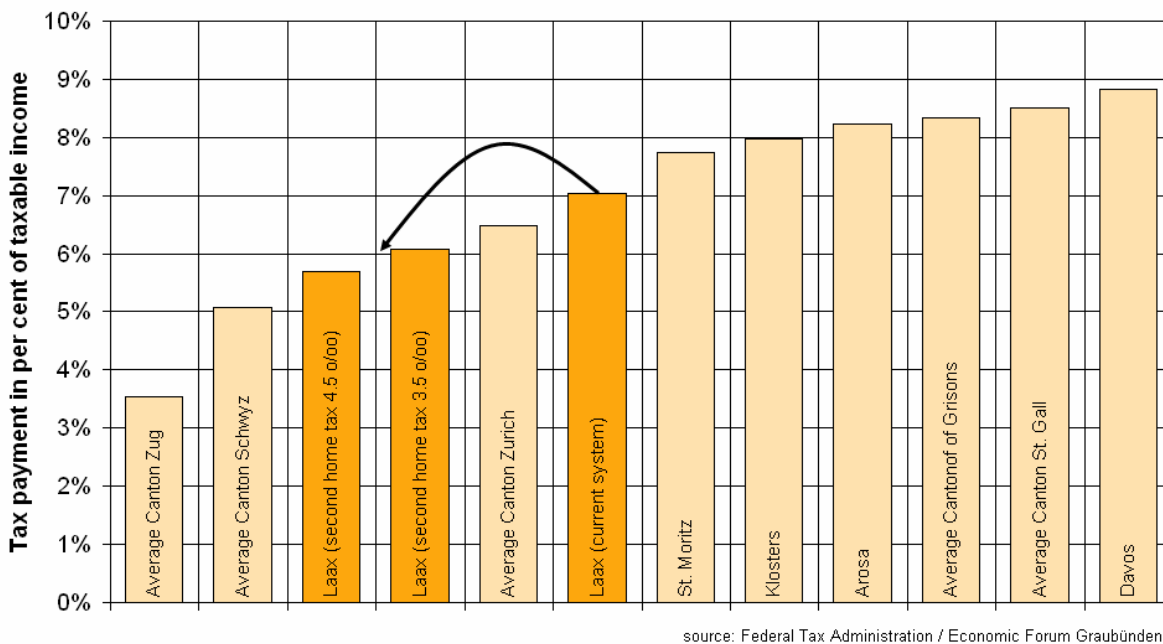
Instrument: Hotel development (findings)

- One of the most important challenges of (alpine) resorts is the development of the “warm bed” base. Due to the seasonality of most resorts, the establishment of new hotels is a difficult undertaking. Currently, the development of the following products can be observed in alpine resorts:
 - Condominium hotels and resorts (large-sized establishments, usually on the basis of second home sales)
 - Low-cost hotels, usually established by lift companies in search of higher skier visits
 - Hotels operated by international hotel chains, usually in combination with the establishment of residences
 - Renovation of historic hotels, usually paid for by wealthy patrons rather in search of excellence in quality than success in business terms
- The community is responsible to design preconditions especially within the field of regional planning, which allow the development of the above mentioned products. This comprises permission to build second homes as part of the development of warm beds (as an incentive).

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Instrument: “steering” tax

Communal, cantonal tax burden in percentag of income (example: married person with 2 children and taxable CHF 100'000 income per year)



source: Federal Tax Administration / Economic Forum Graubünden

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Instrument: “steering” tax (findings)

- Taxation in order to steer the market has to be preferred to legal restrictions of the creation of second homes.
- Taxation is a market proven instrument which is simpler to comprehend for the public than restrictions. In addition, most resorts in Switzerland can benefit enormously of even a modest tax because of the “aggressive” leverage effect due to the high percentage of second homes in relation to the real estate inventory.
- If, for example, the community of Laax (CH) would implement a tax of only 3.5 per mille of the apartment tax value, the income tax for residents could nearly be cut in half. With a resulting tax burden of only 6% on income, Laax would be a more attractive tax domicile than most of the wealthy communes of the metropolitan area of Zurich.
- A low tax burden could open an alternative development path to the classic winter tourism business. Many retired second home owners might transfer their official tax domiciles into their second home resort in order to benefit from lower tax expenses. The resorts could in return profit from a massive increase in tax revenues, which they could either use to further lower the income tax (⇒ Laffer curve) or invest in the optimisation of the leisure infrastructure to increase the competitiveness of the resort.

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- 4 Conclusion

Need for action

- The current development of the resorts in Grisons is misrouted and is threatening the economic sustainability.
- A “turn-around management” is urgent.
- No single instrument is effective enough to solve the problems related to second home development.
- Therefore an integrated resort development policy has to be designed and implemented.
- Key points of such a policy are the following instruments:
 - ANNUAL CONTINGENTS used as incentive for desired developments
 - MASTER PLANNING to control land consumption and settlement attractiveness
 - ACTIVE BUSINESS DEVELOPMENT to increase the “warm bed base”
 - SECOND HOME TAX to open up alternative growth paths in the secondary residents business and to use as an incentive for owners of second homes to rent
- The cantons and the federation are required to establish standardized instruments.
- The communities are required to implement an effective mix of instruments which suits their specific situation and development targets.

Thank you for your attention !

This presentation and more information on economic and political challenges of the Canton of Grisons can be downloaded from:

www.wirtschaftsforum-gr.ch