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Second Homes: What, How Many, Where and Who

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Abstract

This paper addresses several basic questions regarding second homes: what is or should be counted as a second home; how many second homes exist in the United States; where are second homes located; and who owns second homes. This paper provides a point of departure for future discussions as it clarifies the concept of second homes and matches it to various available datasets. It also develops four different perspectives to look at second homes as a special sector of the housing market. The paper suggests that the increase in household wealth and favorable demographics are likely to continue driving the current demand for second homes.

Second Homes: What, How Many, Where and Who

by

Zhu Xiao Di, Nancy McArdle and George S. Masnick

Introduction

Second homes are an important component of the housing stock. Using the broadest definition—homes that are held for seasonal and occasional use or whose usual occupants live elsewhere—second homes currently comprise more than one in 20 housing units in the United States. For more than a decade researchers have tried to document and analyze this specific sector of the housing market, particularly during the past few years, when second homes have attracted more attention.¹ Yet due to differences in data collection and analysis fundamental questions about second homes remain:

- What is or should be counted as a second home?
- How many second homes, according to various definitions, are there in the U.S.?
- Where are second homes located?
- Who owns second homes?

Between 1991 and 1999 the number of second homes, according to the broadest definition, grew two percent faster than the overall housing stock (thirteen versus eleven percent). The expansion of the number of second homes can also be traced through expenditures spent on them. According to the Consumer Expenditure Survey (CES), the amount spent on “owned vacation homes” more than doubled within ten years from \$6.2 billion in 1985 (inflation adjusted) to \$13.1 billion in 1995.

The expansion of second homes has had two driving forces behind it: increased wealth and favorable demographics. Thanks to the stock market boom and renewed house price appreciation, average household net worth has risen dramatically. Between 1995 and 1998 the value of primary residences climbed 20 percent from \$7.8 trillion to \$9.4 trillion. Meanwhile

¹ Michael Carliner published his pioneer article, “Second Home,” in the July 1990 issue of *Housing Economics*. Articles on second homes appeared in *Housing Economics* in each of the past three years: Andrew Kochera, “‘Second’ Homes Owned by Households,” *Housing Economics*, Nov. 1997. Michael Carliner, “Second Home Construction,” *Housing Economics*, July 1998. Rose Gutierrez, “Second Homes: Well Hidden,” *Housing Economics*, Oct. 1999. Second homes were the topic of a recent cover story in *USA Today*, (February 11, 2000).

the value of stocks owned by households nearly doubled from \$3.8 trillion to \$7.4 trillion. Soaring stock prices and home sales, rising incomes, and low interest rates (which encouraged cash-out refinancing and lowered borrowing costs) helped fuel that 13 percent increase in second homes in the 1990s.

Demographic changes also exacerbated second-home demand. Second-home purchases are most commonly made by middle-aged heads of households in their prime earning years. Over the past decade the number of households headed by 45-54 year-olds increased 46 percent (from 14.4 million in 1990 to 20.7 million currently), thus contributing to the rise in the number of second homes.

What?

What is or should be counted as a second home? When we refer to second homes, we generally mean housing units that are not principal or primary residences, and that are occupied by their owners part of the year. These units might be vacant when not occupied by the owners, but also might be rented part of the year. While often thought to be housing used for recreational purposes, second homes also include housing retained to facilitate employment of the owner or members of his family, to allow people to be near (or get away from) relatives or friends part of the year, or to serve other purposes that require the owners to occupy them on a temporary basis. And the term “second” home includes “third”, “fourth” or even higher numbers of homes owned.

Normally, housing units that are: purchased and held for purely investment purposes and are not regularly owner-occupied (including housing owned by businesses, and housing for migratory farm workers); inherited units that are being retained without the intent of occasional new-owner occupancy (although “previous” owner occupancy is common in such cases); otherwise for sale or rent and not intended to be owner occupied, would not be included in the definition of a second home.

Unfortunately, no data collection has identified units that perfectly fit the ideal definition. Michael Carliner (1990) has laid out two alternate definitions that are possible to use with currently collected data. One approach is a stock-based assessment, e.g., the Housing Vacancy Survey (HVS) by the Census Bureau categorizes second homes as seasonally or occasionally used by the owner and occupied units as those in which the occupant has a usual

residence elsewhere. In this approach a generally accepted definition of second homes includes units categorized as “seasonal”, “occasionally used”, or presently accommodating an owner with a “usual residence elsewhere.” One drawback to this set of categories is that housing units held for occupancy by migratory labor employed in farm work during the crop season are included as “seasonal.” About 450,000, or 15 percent of the 3.0 million, “seasonal units” in the 1989 HVS “consist of housing for migratory workers,” according to Carliner.²

The 1990 Census contains a similar set of categories called units for “Seasonal, Recreational, or Occasional Use.” One advantage of this census category is that it excludes units for migrant workers, which amounted to 35,000 in the 1990 Census. Compared to the figure using the HVS data, this is minimal but not surprising because the census is primarily geared to counting people. However, a major drawback of the 1990 Census count of second homes or units for “seasonal, recreational, or occasional use” is that it had a serious undercounting problem, as will be discussed below.

The second approach to counting second homes is to survey the occupants of units. Ideally, the householder interviewed should be asked if any members of the household own another housing unit that they “occupy seasonally or occasionally.” Multiple unit ownership by an individual needs to be considered, as well as multiple ownership of a single unit, including time-shares. However, no survey has actually been conducted in detail to handle this complexity. Instead, information has been collected on all additional housing units that are not primary residences, including units held purely for investment purposes, which makes this approach to counting second homes problematic. Units held purely for investment purposes should not be counted as second homes at all.

For many years the U.S. government has consistently collected data on various aspects of housing. Different datasets allow for one or the other approach to counting second homes, and sometimes both. The Housing Vacancy Survey (HVS) and the 1990 Census allow the stock-based approach, the Survey of Consumer Finance (SCF) allows the household-based approach, and the American Housing Survey (AHS) allows both.

Not surprisingly, the different approaches lead to different estimates of the number of second homes. Despite differences in sampling and survey procedures that affect the actual numbers counted in different surveys, those numbers derived from surveys using the same

² Michael Carliner, “Second Home,” *Housing Economics*, July 1990, pp.8-10.

approach are often reasonably close. For example, using the stock-based approach, the HVS and the AHS have arrived at very similar numbers of second homes ever since the late 1980s when the HVS improved its coverage of mobile homes.

With the household-based approach, it is possible to select only those units held for “recreational use.” This eliminates the problem of inappropriately including units for pure investment purposes, but it creates a new problem: it fails to count units held for employment and other non-investment purposes.

Despite its imperfections, we have used the household-based approach in order to answer some basic questions, for example: who owns a second home? The stock-based approach is not at all helpful to answer this simple question. To be more inclusive, we did our analysis using both the broad and the narrow definitions of second homes based on the household-assessment approach, that is, we looked at ownership of other residential property that is not the primary residence and ownership of recreational second homes.

The existence of multiple datasets enabled us to answer the basic questions we have posed about second homes: what, how many, where, and who. However, as noted, and as we shall continue to point out, we must be clear about what we want to measure, what has been measured, and how we can reconcile the differences.

How Many?

How many second homes are there in the U.S.? Using the definition of second homes as those held for seasonal or occasional use (Occ) or usual residence elsewhere (URE), the number of units added during the 1990s exceeds 700,000, with most of the 13 percent growth occurring since 1995 (Table 1).

Table 1**Number of Second Homes Taking Off Since 1995 (in thousands)**

		1991	1993	1995	1997	1999
HVS	2nd home	5,464	5,522	5,567	6,007	6,180
	Seasonal	2,886	3,104	3,099	3,306	3,268
	Occ+URE	2,578	2,418	2,468	2,701	2,912
AHS	2nd home	5,339	5,594	5,811	5,962	
	Seasonal	2,728	3,088	3,054	3,166	
	Occ+URE	2,611	2,506	2,757	2,796	

Sources: The Housing Vacancy Survey (HVS) and the American Housing Survey (AHS).

The similarity in numbers between these two independently collected datasets is striking, but only holds up at the national level. At a regional level the HVS data sometimes shows higher estimates of second homes and sometimes lower estimates than the AHS data indicate. The same is true in the breakdown by categories of “seasonal units” and “occasional or URE units,” as shown in Table 2. Thus the differences can be explained better by random sampling errors than by consistent categorical differences in the definition. In fact, the two data sources use identical definitions for these categories. Therefore, it would be very difficult to explain why the HVS “always” overestimated “seasonal units” and underestimated “occasional or URE units” in the national level. Regional differences indicate this national pattern is only a coincidence (Table 2).

Table 2**Regional Variations in the HVS and AHS Data**

1997 HVS					
	NE	MW	SOUTH	WEST	U.S.
2nd homes	1,349	1,070	2,364	1,224	6,007
Seasonal	874	698	1,093	641	3,306
Occ./URE	475	372	1,271	583	2,701
1997 AHS					
	NE	MW	SOUTH	WEST	U.S.
2nd homes	1,198	1,180	2,524	1,061	5,963
Seasonal	747	718	1,119	583	3,166
Occ./URE	451	463	1,404	478	2,796

Source: 1997 HVS and 1997 AHS.

As mentioned above, the 1990 Census also counted units for “seasonal, recreational or occasional use,” which should be equivalent to the categories used in the HVS and the AHS data sets. However, the census reported a much smaller number compared with the estimates in the HVS and AHS data. There were only 3.1 million such units in the 1990 Census, whereas the corresponding figure in the 1990 HVS for “seasonal” and “occasional,” excluding “usual residence elsewhere (URE),” was 4.4 million. The staff at the Census Bureau has acknowledged the census undercount,³ and explained that it was due to some owners returning completed census forms received at their seasonal or vacation homes, despite specific instructions on the front cover advising them otherwise. Those units were, therefore, not counted as seasonal or vacation homes but as occupied primary residences.

Despite its undercount, however, the census remains a useful source of data on second homes with some distinct advantages. It provides geographical location that allows linkage to other important information, e.g., construction data. Thus, while the undercount mars the accuracy in answering the question of “how many,” the census is helpful for answering the question of “where,” assuming the undercount occurred in a more or less random manner.

Where

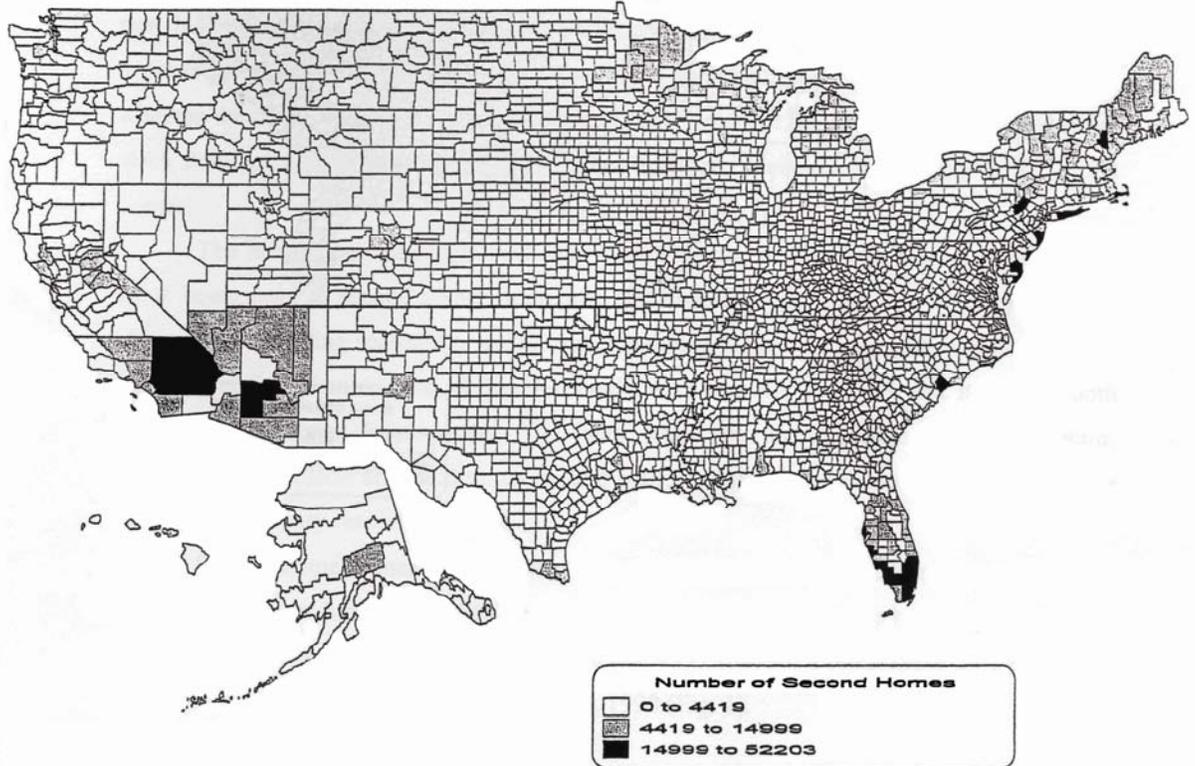
Where are second homes located throughout the country? As of 1990, about one-fifth of second homes were concentrated in only 20 counties, most of which were located in Florida or near the Boston, Los Angeles, New York, Philadelphia, and Phoenix metropolitan areas. Half of the nation’s second homes were found in just 150 of the nation’s more than 3,000 counties (See Map 1).

The uneven geographic distribution of the second-home stock means that this sector has varying impact upon different housing markets. The intensity of that impact in some areas is clarified by looking at the share of the total housing stock that second homes comprise, rather than just the absolute number of second homes located in each county. Of the more than three thousand counties in the country, about 90 had at least one third of their housing units used as second homes. Such high concentration means that second homes impact the

³ Via e-mail correspondences with the Census staff in June 2000.

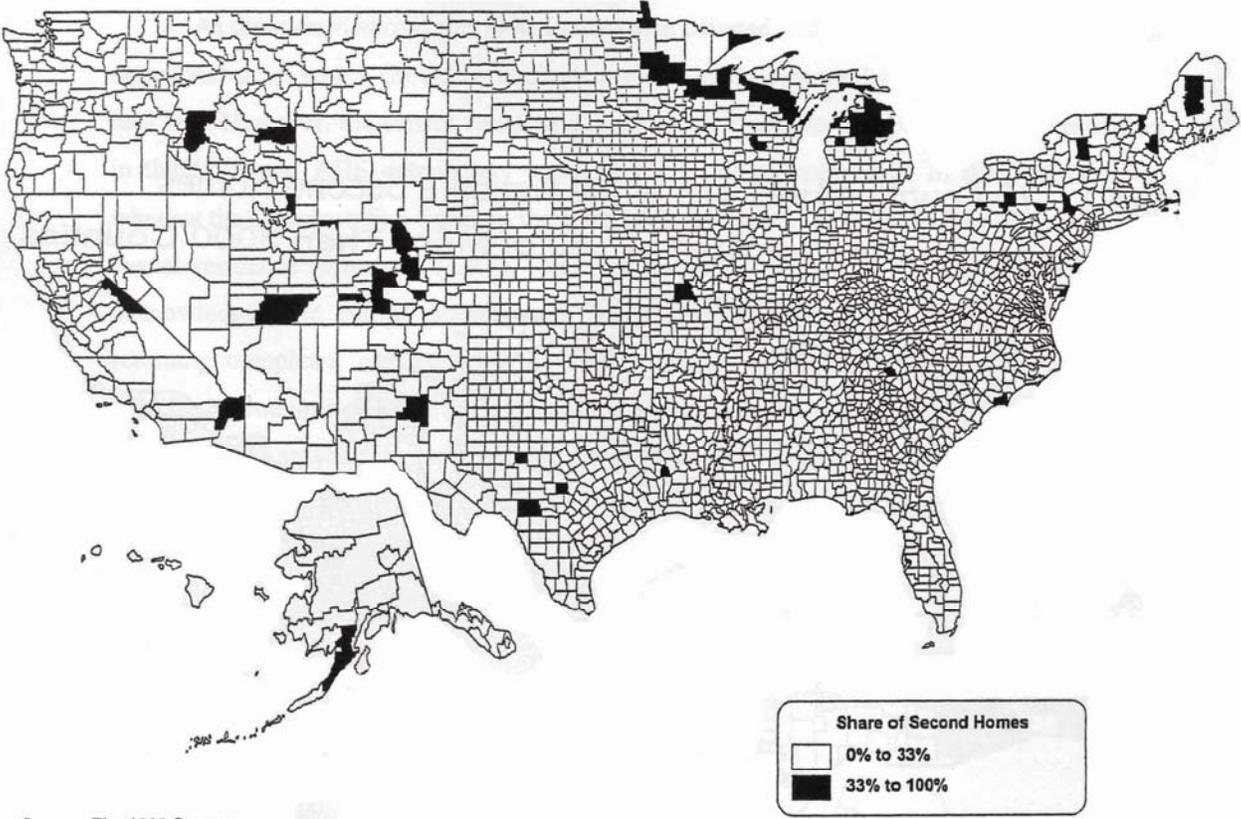
housing market in these counties quite significantly, while having little or no effect on most other counties (Map 2).

Map 1. 20 Counties Held 1/5 of the Nation's Second Homes
Half of the Second Homes Located in 150 of More Than 3000 Counties



Source: The 1990 Census.

Map 2. About 90 Counties Had 1/3 or More of Their Housing Units Used as Second Homes



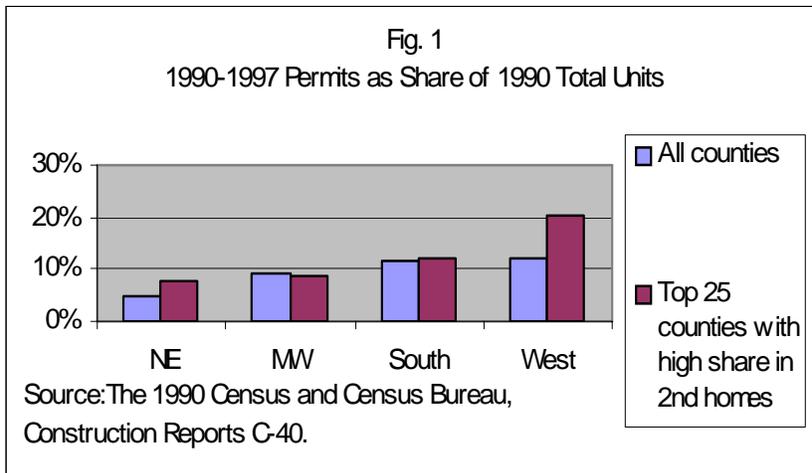
Source: The 1990 Census.

Interestingly, of the top 20 counties in terms of sheer numbers of second homes, only five --Barnstable County, Mass., Cape May County, N.J., Worcester County, Md., Pike County, Penn., Carroll County, N.H.-- had more than one third of their housing stock in second homes. On the other hand most of the other counties with at least one third of second homes were thinly settled and widely dispersed, although Colorado, Michigan, and Wisconsin each had a disproportionately large share of the total.

Additional perspective can be gained by looking at the impact of second homes on new housing construction. It is difficult to measure the impact on local construction levels because when new units are constructed or granted construction permits, no record is kept on whether they will be used as second homes or not. However, in areas where second-home stock dominates local housing, any newly-built units are probably more likely to be second homes.

The linkage between high level of new construction activity and a substantial housing stock being used as second homes in an area may indicate a growing year-round population along with increasing seasonal or occasional population. There are at least two possible ways to interpret this phenomenon. A location could have become so “hot” that it attracts both primary and second homeowners. Or, there could be an economic multiplier factor, particularly in a resort area: additional second homes created more jobs and therefore greater demand for primary residences.

Second-home related new construction demand appears to have been highest in parts of the West region during the 1990s. In the 25 Western counties with the highest proportion of second homes, housing permits between 1990 and 1997 reached a remarkable 20.1 percent of the housing stock existing in those counties in 1990 (Fig. 1).



Total second-home production was undoubtedly even higher because these estimates of new construction permits do not include the many manufactured homes that are purchased for seasonal and occasional use. The above noted linkage between high new construction volume and second-home concentration may thus be even stronger than what is shown here.

A more general and basic perspective is to look at the historical inventory of second homes in the housing stock. Table 3 presents this perspective at the regional and metropolitan levels. The stock-based approach in the AHS shows that the highest growth of second homes between 1989 and 1997 also appeared in the West region. This data from a similar time period seems to confirm the conclusion drawn from the new construction permits data shown in Fig. 1 (Table 3).

Table 3

The West Had the Highest Growth Rate of Second Homes

		Units 1989	Units 1997	Growth 1989-1997
NE	Total	1,259,076	1,197,686	-4.9%
	Cc	167,960	170,919	1.8%
	Sub	442,141	454,691	2.8%
	non-metro	648,975	572,076	-11.8%
MW	Total	1,075,854	1,180,236	9.7%
	Cc	156,629	129,770	-17.1%
	Sub	166,931	160,955	-3.6%
	non-metro	752,294	889,511	18.2%
South	Total	2,319,495	2,523,887	8.8%
	Cc	335,998	449,803	33.9%
	Sub	887,092	1,054,313	18.9%

	non-metro	1,096,405	1,019,771	-7.0%
West	Total	944,649	1,060,856	12.3%
	Cc	164,032	142,751	-13.0%
	Sub	359,656	377,915	5.1%
	non-metro	420,961	540,190	28.3%

Source: AHS

In addition, the historical inventory perspective enables us to see how mobile homes figure as a component of second homes, a phenomenon not reflected in the new construction permits perspective. Overall, nearly 20 percent of second homes were mobile homes in both 1989 and 1997. They varied at regional levels. Over a quarter of second homes in the South were mobile homes compared with only 7 percent in the Northeast. While the general trend is an increase of mobile homes among second homes, this increase primarily occurred in the “occasional or URE units” rather than the “seasonal units,” except in the Midwest region. There just the opposite occurred: a 7.5 percent gain in the share of mobile homes was seen among the “seasonal units” and a 1 percent loss among the “occasional or URE units” (Table 4).

Table 4

Nearly 20 Percent of Second Homes Were Mobile Homes

		Share mobiles		
		1989	1997	Gain/Loss
NE	Second homes	7.1%	6.5%	-0.6%
	Seasonal units	8.7%	7.7%	-1.0%
	Occ/URE units	3.4%	4.4%	1.0%
MW	Second homes	14.9%	19.1%	4.2%
	Seasonal units	18.7%	26.2%	7.5%
	Occ/URE units	9.0%	8.0%	-0.9%
South	Second homes	26.1%	25.5%	-0.6%
	Seasonal units	40.4%	30.6%	-9.7%
	Occ/URE units	16.2%	21.4%	5.2%
West	Second homes	16.5%	19.3%	2.8%
	Seasonal units	24.4%	24.1%	-0.4%
	Occ/URE units	10.7%	13.5%	2.8%
U.S.	Second homes	18.1%	19.3%	1.3%
	Seasonal units	23.6%	23.0%	-0.6%
	Occ/URE units	12.2%	15.1%	2.9%

Sources: 1989 and 1997 AHS

Who

Who owns second homes? To answer this requires using the household-based approach to counting second homes. Both the AHS and the SCF asked questions concerning the owners, but in neither were the questions specific enough to match the common sense or “ideal” definition of a second home that we discussed earlier.

The AHS asked people if they own or co-own other residential properties that are not their primary residences. It recorded up to six such properties and asked for what purpose these properties were held, e.g., for recreational use. The SCF asked people about their real estate holdings other than their primary residences. It listed up to three other real estate assets and, in addition, asked if the household owned any other vacation property. Using the codes for the three listed real estate holdings it is possible to distinguish those properties for residential use from the ones for other or mixed use.

These questions enable us to arrive at two alternative proximate estimates of second homes. The first estimate can be labeled as “other residential property.” Not all of the units in this category are second homes; many of them are owned purely for investment purposes. The second estimate can be labeled as “recreational second homes,” and it measures non-primary residential properties owned for recreational purposes, although not necessarily for that purpose alone. This is not an accurate estimate of second homes either. For example, it excludes units held for job-related reasons that should be counted as second homes.

Table 5 shows homeownership rates of second homes under both these definitions, as well as the homeownership rate of primary residences as reported in the SCF. These numbers clearly portray a consistent trend of the increase in second home ownership in the past decade outstripping the growth of primary homeownership (Table 5).

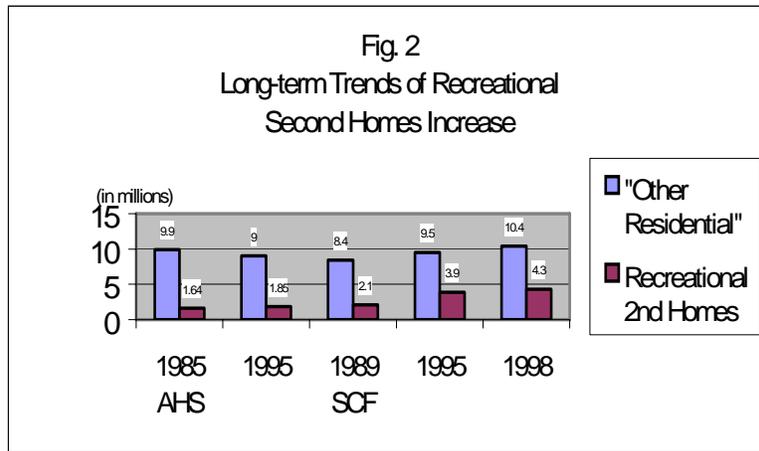
Table 5

Growth of Second Homes Outperforming That of Primary Residences

	1989	1995	1998	1989-98 Growth
Households owning primary residence (in millions)	59.4	64.1	67.9	14.4%
As % of total HH	63.9%	64.7%	66.3%	3.7%
Households owning other residential property (in millions)	8.4	9.5	10.4	23.8%
As % of total HH	9.0%	9.6%	10.1%	12.2%
Households owning recreational 2nd homes (in millions)	2.1	3.9	4.3	108.8%
As % of total HH	2.2%	4.0%	4.2%	90.9%

Source: The SCF.

At first glance the AHS data tell a completely different story of the long-term trends. For example, the 1985 AHS shows nearly one million *more* American households owning “other residential properties” than the 1995 AHS does (9.9 vs. 9 million). However, slightly more households (215,000 more) had recreational second homes during the same period (Fig. 2).



This is consistent with the increasing trend depicted by the SCF, although with a much smaller growth rate and magnitude. Offsetting this increase was a bigger drop in the number of second homes purchased for real estate investment. The number of households owning other residential properties for investment purposes dropped from 4 million in 1985 to 3.4

million in 1995. This still falls short, however, of explaining the decline in households owning “other residential properties,” which fell from 9.9 to 9 million in the AHS data. In addition, the number of households owning recreational second homes in the AHS data look suspiciously low compared to the SCF estimates.

On the other hand, a comparison of the 1995 AHS with the 1995 SCF reveals that the numbers from the two independent data sources show similar compositions of the characteristics of owners of primary residences, “other residential properties,” and recreational second homes (Table 6). The greatest disparity is in the recreational second homes category. The SCF shows a much larger share of higher-income owners. This is perhaps not surprising since the SCF oversamples from this group in an effort to detect wealth at the upper reaches of the distribution. Hence, its reports of a larger number of second homes for recreational purposes reflect its efforts to weigh carefully for wealthy owners. The outreach, however, in the sampling procedure does not help explain the age and racial differences.

Table 6
Who Owns Primary Residence and Who Owns Second Homes

	Primary Residence		Other Residential		Recreational 2nd Home	
	1995 AHS	1995 SCF	1995 AHS	1995 SCF	1995 AHS	1995 SCF
Income (in 1998 \$)						
<\$20000	21.1%	22.9%	13.0%	12.8%	9.2%	5.4%
\$20K-\$49.9K	37.1%	38.9%	32.4%	33.4%	25.8%	22.1%
\$50K+	41.9%	38.2%	54.6%	53.8%	65.0%	72.6%
Age						
<35	15.1%	14.5%	10.1%	10.4%	3.4%	7.5%
35-64	59.3%	59.7%	66.5%	67.2%	70.2%	71.2%
65+	25.7%	25.9%	23.4%	22.4%	26.4%	21.3%
Race						
White	84.4%	84.6%	85.0%	84.9%	95.8%	89.4%
Minority	15.6%	15.4%	15.0%	15.1%	4.2%	10.6%
Ownership rate	65.0%	64.7%	9.3%	9.5%	1.8%	4.0%

Sources: 1995 AHS and SCF

Compared with primary residence ownership, the share of middle-aged second-home owners was seven to eleven percent larger, and the share of younger owners was seven to twelve percent smaller. This dominance of middle-aged homeowners in the ownership of second homes is due to household income growth when the head of the household reaches middle age.

This income-driven behavior manifests itself primarily in the possession of second homes owned for recreational purposes. Second home purchasing, particularly for recreational purposes, is a luxury consumer expenditure, and only relatively affluent households can afford it.

Another indication of second-home owning as a luxury consumer good is the number of owners who own such homes outright. According to the 1998 SCF, while sixty-two percent of primary-home owners still have outstanding mortgages on their primary residences, almost the same percentage of owners of other residential property and eighty-two percent of recreational second-home owners, have already paid off their debts (Table 7). This reinforces the fact that the surge in household wealth has been a driving force for the increase in second homes.

Table 7

Most Second Home Owners Already Paid Off Their Debts

	1989	1995	1998
Having outstanding mortgage on primary house	61.8%	63.3%	61.8%
Having outstanding mortgage on other residential	44.3%	44.7%	37.4%
Having outstanding mortgage on recreational 2nd home	21.1%	24.0%	18.1%

Source: SCF

Finally, it is interesting to note that, although it is a luxury consumer good sensitive to income, the demand for second homes is also closely related to household type or structure. Among higher-income households whose income exceeds \$50,000 a year, white ownership of a primary residence is 13 percent higher than for blacks, and white ownership of a recreational second home is six times higher than that of black ownership, due in part because whites and blacks have very different family types as we will discuss below. Family

formation is essential in the demand for recreational second homes. On the other hand, the speculative nature of real estate investment makes the demand for such properties indifferent to family composition and racial difference. About the same percentage of higher-income whites and blacks bought investment properties (Table 8).

Table 8

White Ownership Rates of Primary Residence and Recreational Second Homes Notably Higher

(Households with Income > \$50,000 in 1998 \$)

Ownership rates	Non-Hispanic	Non-Hispanic	All
	White	Black	Minorities
Primary Residence	86.7%	74.0%	73.6%
Other Residential	16.0%	14.3%	14.5%
Recreational 2nd Home	4.3%	0.7%	1.0%
Investment residential	6.7%	6.3%	6.5%

Source: 1995 AHS

As shown in Table 9, our logistic model predicts that, if blacks and whites of comparable age, income and family type have the same rates of ownership, the gap in ownership will nearly close, thus indicating that differences in age, income and family type between blacks and whites significantly affect the ownership rates (Table 9).

Table 9

Model Predicts Ownership Gap Closing When Assuming Blacks and Whites with Comparable Age, Income and Family Type Have Same Ownership Rates

(Households with Income > \$50,000 in 1998 \$)

Ownership rates	Non-Hispanic	Non-Hispanic
	White	Black
Primary Residence	86.7%	84.2%
Other Residential	16.0%	14.9%
Recreational 2nd Home	4.3%	4.0%
Investment residential	6.7%	6.3%

Source: 1995 AHS

Since we are only looking at households with annual incomes greater than \$50,000, in which the average age of the household head is nearly identical, the difference in ownership

rates is proved to be caused mainly by the difference in family composition, where there are substantially more white married couples without kids (39%) than black (27%).

Conclusion

This paper has explained different datasets and reconciled some apparent differences by clarifying various concepts related to second homes through an in-depth discussion of what and how each dataset has actually measured, as well as what should really be counted as a second home. Doing so has enabled us to answer fundamental questions regarding second homes: what, how many, where, and who.

Due to the dense geographic concentration of second homes in a relatively small number of counties, the importance of second homes to the local housing markets varies from area to area. We have developed at least four different perspectives to look at second homes at regional or metro and county levels. We have shown that, for example, while half of the nation's second homes were located in 150 of more than 3000 counties and one fifth of them were actually in just 20 counties, about 90 counties had at least one third of their housing units used as second homes.

The past decade witnessed a 13 percent increase in the units used as or proximately as second homes. About 6.2 million, or more than one in every twenty housing units in the U.S., are such second homes, defined as homes held for seasonal and occasional use or whose usual occupants live elsewhere. Nearly one fifth of these are mobile homes. During the 1990s the West had a faster growth in both second-home stock and second-home related new construction.

Second-home owners are identified as most likely to be higher-income, middle-aged, white married couples. The expansion of wealth in American households and favorable demographics have driven the increased demand for second homes during the past decade. Unless and until these factors change, the demand for second homes by affluent, middle-class, and middle-aged American households will continue.