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Management**

**FINAL DEGREE PROJECT**

**Assessing the Effects of Tourism on Real  
Estate Dynamics**

**Presented by:**

Maurice Ferrer Poutier

**Supervised by:**

José Tomas Arnau

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## **Abstract**

This study examines the impact of tourism on the real estate sector, specifically focused in the case of Spain due to its popularity as a tourism destination. The paper is structured by firstly defining tourism and real estate to comprehend their relationship, and the main influencing factors of tourism on the real estate industry. Then, to achieve a comprehensive approach about the current situation in Spain, the thesis analyses the growth of the tourism sector and the evolution of the Spanish residential market. As the investigation aims to demonstrate, the factors of: presence of international tourists in Spain (property purchases by foreigners), the impact of tourism growth on real estate indicators, the seasonality of tourism, the influence of tourism in real estate infrastructure development, and tourism effects on housing availability and affordability for local residents are all crucial factors that make up the totality of the great impact of the tourism industry on real estate dynamics. The destinations of Mallorca, and Barcelona are chosen as study cases to express the magnitude that tourism can have in the real estate sector in tourism-dependent areas, both positively and negatively. For this reason, this research proposes strategies to mitigate the potential negative impacts of tourism on real estate affordability and housing availability, as well as long-term plan of actions for countries that heavily depend on tourism as a source of economic growth.

**Keywords:** Tourism, Real Estate, Spain, International Tourism, Tourism-dependent countries

## Resumen

Este estudio examina el impacto del turismo en el sector inmobiliario, centrándose específicamente en el caso de España debido a su popularidad como destino turístico. El trabajo se estructura definiendo en primer lugar el turismo y el sector inmobiliario para comprender su relación, así como los principales factores de influencia del turismo en el sector inmobiliario. A continuación, para lograr un enfoque global sobre la situación actual en España, la tesis analiza el crecimiento del sector turístico y la evolución del mercado residencial español. Como pretende demostrar la investigación, los factores de: presencia de turistas internacionales en España (compra de viviendas por extranjeros), el impacto del crecimiento del turismo en los indicadores inmobiliarios, la estacionalidad del turismo, la influencia del turismo en el desarrollo de infraestructuras inmobiliarias, y los efectos del turismo en la disponibilidad y asequibilidad de la vivienda para los residentes locales, son factores cruciales que conforman la totalidad del gran impacto de la industria turística en la dinámica inmobiliaria. Los destinos de Mallorca, y Barcelona son elegidos como casos de estudio para expresar la magnitud que el turismo puede tener en el sector inmobiliario en zonas dependientes del turismo, tanto positiva como negativamente. Por ello, esta investigación propone estrategias para mitigar los potenciales impactos negativos del turismo sobre la asequibilidad inmobiliaria y la disponibilidad de vivienda, así como un plan de acciones a largo plazo para los países que dependen en gran medida del turismo como fuente de crecimiento económico.

**Palabras clave:** Turismo; Sector inmobiliario; España; Turismo internacional; Países dependientes del turismo.

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**List of abbreviations**

<b>ADR:</b>	Average Daily Rate
<b>GDP:</b>	Gross Domestic Product
<b>IHP:</b>	Human Pressure index
<b>LAU:</b>	Urban Leases Law
<b>LPH:</b>	Horizontal Property Law
<b>HUTs:</b>	Habitatge d'Ús Turístic / Apartments for Tourist Use
<b>PEUT:</b>	Special Tourist Accommodation Plan
<b>UNWTO:</b>	United Nation World Tourism Organization
<b>VUTs:</b>	Viviendas Uso Turístico / Apartments for Tourism Use

## 1. INTRODUCTION

Real estate and tourism are two sectors that are closely associated with each other as tourism strongly relies on real estate infrastructure. The tourism activity can increase housing prices either directly or indirectly. The increase in housing demand by tourists is at the core of this evolution and causes competition between the local inhabitants and the tourists for properties and land. Since tourists are often wealthier than the local population in high-demand tourism destinations like Spain, the locals struggle to compete for properties in bigger cities and often have to relocate to more affordable neighbourhoods or villages. The problem of gentrification is increasing in tourist destinations and is unsustainable in the long-term as social movements by local residents may arise to fight the housing affordability issues they have to face. This investigation focuses on the effects of tourism on real estate dynamics and the problems that arise in tourist destinations like Spain. Strategies to mitigate the negative effects on the local residents are provided at the end.

In order to achieve the objectives of this dissertation, it is necessary to define the term “tourism” and “real estate” and to explain the main elements that characterise these terms to get a better overview of the topic. The relationship between tourism and real estate is very close, which becomes clear when realising that tourism always involves man-made attractions such as buildings, hotels, and infrastructures.

Spain is one of the biggest tourism destination countries in the world as is specifically assessed in this paper. The growth of tourism in Spain from the early 2010s until now has been very strong, reaching top levels of 126.2 million international arrivals in 2019 (Turespaña, 2019). With such a developed tourism industry, Spain serves as a perfect example to assess the impacts tourism has on the country’s housing market. Spain’s real estate market has, in fact, experienced significant price increases that came along with the increase of tourist flows. To understand all the ways in which tourism affects the Spanish housing market, this thesis uses indicators such as property prices, the number of properties purchased by foreigners, rental prices, the number of properties for touristic use and others. The effects of tourism seasonality on housing prices are also analysed by using the case of Mallorca, a Spanish island with strong seasonality. The influence of tourism in real estate infrastructure development is mainly described through the development of new transport and hotel infrastructures. The sharp increase of the number of apartments for touristic use over the years is one of the causes for the hike in housing prices and is explained in this paper. At the end of the paper, mitigation strategies against the negative impacts of tourism on housing affordability and availability for local residents will be proposed in order to make the tourism activity more sustainable for the long-term by avoiding social movements against the activity. All stakeholders should benefit from tourism, especially the local community.



### 1.1. Research Questions

The objective of this article is to provide convincing arguments to answer four main research questions related to the impact of tourism on the Spanish real estate market. The first research question focuses on the main factors affecting the real estate market due to tourism and allows us to better understand the relationship between tourism and the real estate sector. The second research question examines the impact of tourism seasonality on real estate demand in countries that are highly dependent on tourism. This analysis highlights the dynamic nature of the market and how it responds to fluctuations in tourism activity throughout the year. The third research question concerns the significant impact of tourism on housing availability and affordability for local residents living in tourism-dependent destinations. The answers to this question highlights the potential problems and inequalities that locals face as a result of tourism demand and pressure. Finally, this investigation assesses which are the potential strategies that can be implemented to effectively mitigate the negative impacts of tourism on housing affordability and accessibility.

### 1.2. Research Objectives

This final thesis aims to explore the multifaceted impact of tourism on the real estate market in Spain. To achieve this objective this investigation focuses on various factors that connect the two sectors, and assesses the multiple impacts that large flows of tourists have on the real estate market of the destination. By examining factors such as housing prices, property purchases by foreigners and how the proliferation of properties for touristic use has distorted the Spanish residential market, it is possible to understand the magnitude of the impacts of tourism on real estate. Additionally, the impact of tourism growth on real estate indicators is assessed by analysing factors such as external demand for housing and land, structure of tourism accommodation, and tourism amenities. In order to achieve the first research objective, the study investigates how the seasonality of tourism affects the demand for real estate in tourist-dependent areas by examining the case of Mallorca through statistics provided by the Institut d'Estadística de les Illes Balears (IBESTAT) and by assessing how the development of real estate infrastructure is influenced by tourism. Furthermore, the thesis focuses on how tourism affects the availability and affordability of housing for local residents in tourist destinations by demonstrating that this is a growing issue in economies that heavily rely on tourism as a source of growth and by highlighting the phenomenon of gentrification. The second objective of this thesis is to provide strategies that can be implemented to mitigate potential negative impacts of tourism on real estate affordability and housing availability.

### 1.3. Methodology

This research paper discusses the impact of tourism on the real estate market, specifically focused in the case of Spain. To establish the structure of the thesis, a mixed methodology has been used, meaning both qualitative and quantitative data. In order to define the term of tourism, qualitative data from the United Nation World Tourism Organization (UNWTO) and from an existing previous research from Kabil M., et al. (2022) which examined the “Evolutionary Relationship between Tourism and Real Estate: Evidence and Research Trends” and has helped achieve a comprehensive approach about what tourism is and what characterises it. With the aid of this research it was possible to identify five main elements of tourism, also known as the “5 A’s of Tourism”: attractions, activities, accessibility, accommodation and amenities. Acknowledging these characteristics was essential to then focus on the impact that the tourism sector has on the real estate industry. Moreover, defining Real Estate, was a more laborious task, due to the lack of a clear definition. However, through secondary source, such as the article by Chen J.(2023), published in Investopedia, and the “Real estate appraisal: a review of valuation methods” by Pagourtzi, E., Assimakopoulos, V., Hatzichristos, T. and French, N. (2003), it was possible to establish a general definition, and the main categories that form part of Real Estate. Similarly, qualitative data was used to lay the foundations of the relationship between the tourism and the real estate sector. The paper of Kabil M., et al, was reused, as well as a chapter of a book titled “Tourism: principles and practice” (Cooper C., et al, 2005).

Furthermore, to achieve the thesis objectives it was fundamental to accumulate quantitative data to reach a result for the multiple research questions established in the thesis. Firstly, to assess the growth of tourism in Spain, data from the Spanish Tourism database (Turespaña) was gathered, such as the number of international visitors entering Spain, what percentage of GDP they account for, and the fluctuations of visitors pre and post-pandemic period. Additionally, to identify the number of visitors flow per autonomous community, it was helpful to use data coming from the Ministerio de Industria, Comercio y Turismo (DATAESTUR, 2023).

In addition, in order to evaluate the evolution of the Spanish residential real estate market, a mixed methodology approach was used by taking information from two studies written by Garriga Judit Montoriol, published through the Caixa Bank Research forum. Quantitative data to assess how the Spanish real estate market has evolved in the past years, a report made by the Bank of Spain was used, whose data was based on Idealista’s reports.

Subsequently, to create the main body of this final thesis mainly quantitative data was accumulated. Using data retrieved from Caixa Bank Research (2022), it was possible to identify the number of property purchases by foreigners in Spain. The

rapid evolution of these property purchases was illustrated in a graph, which demonstrates that the number of purchases decreased from 2006 to 2009 and have been steadily rising until 2018, where it consolidated at around 65.500 purchases until it plummeted sharply due to the health crisis and its restrictions. This was followed by a quick V-shaped recovery and even surpassed the highs of 2018. These numbers are relevant to understand the increasing foreign demand for Spanish housing. It shows that locals have to increasingly compete for housing with these foreigners. To further illustrate this point, a figure of the Spanish journal *El País* was extracted, showcasing the percentages of total home purchases made by foreigners and the Number of HUTs per Autonomous Community of Spain. The most touristic Autonomous communities like the Balearics, Canaries, Valencian Community, Catalonia, Madrid and Andalusia have the largest shares of foreign home purchases. The same Communities have the largest number of HUTs. This data is important to understand that tourism hotspots are the places where most foreign home purchases happen and where most HUTs exist.

Moreover, to properly grasp the impact of tourism growth on real estate indicators, quantitative data from a study made by Susana Cró and Antonio Martins (2023) was used, describing that a 10% increase in international tourism causes a 1.31% increase in house pricing in Spain in the short run. This indicator shows the direct link between a rise in tourism and the increase of property prices and is an important piece of information to later understand the cause of affordability problems for the local population. In an article provided by Sara Dolnicar (2019), she described how the rapid establishment of Airbnb has expanded the influence of short-term rentals as a type of tourism accommodation, which have a significant negative effect on the daily lives of local residents. This information was included to show that short-term rentals are on the rise due to their profitability, reducing the supply of long-term rentals for locals. A study published in the Journal of Urban Economics in 2020 that analysed the city of Barcelona identified that around 2,06% of total housing units are included in the Airbnb platform. However, when considering the number of rented units of other peer-to-peer platforms as well, the percentage amounts to 6.08%. This percentage was implemented to see that a large percentage of total housing units are now being rented through peer-to-peer platforms because they are more lucrative. In order to highlight to which extent short-term Airbnb rentals are more profitable than traditional long-term rentals, M.Garcia López (2020) provided an analysis which displays that in 2015, the average long-term price for rent per night was approximately EUR 11, while the average short-term rental price for Airbnb rentals amounted to EUR 71 per night. This data demonstrates that a whole month worth of long-term rental can be achieved in only a 10 day period with an Airbnb listing. This explains the proliferation of apartments for touristic use. To understand how the available home supply decreases because of tourism, an article published by H.Zhang and Y.Yang (2020) was incorporated that states that higher inbound tourism demand increases demand for accommodation, which raises rental prices. This hike stimulates more real estate purchases by investors that see the

opportunity for higher return on investment, which boosts property prices. This information explains the escalation in price that high-demand tourism destinations experience. Amenities offered to tourists in a destination contribute to the rise of property prices in the area. In order to analyse this process, a study conducted by Andrew Binet, Gabriela Zayas Del Rio, Mariana Arcaya, Gail Rodrigues and Vendette Gavin (2021) was used, which states that elements such as proximity to the city centre or to coastal areas, as well as great landscapes, significantly contribute to the rise of real estate prices. This describes another factor that boosts property prices in tourism destinations.

In addition, the seasonality of tourism and its effects on real estate prices had to be assessed, since this phenomenon is a common occurrence in Spanish tourism. For this purpose, a study made by Richard Butler (2002) was implemented that highlights that seasonality is a widely acknowledged cyclical phenomenon of high and low tourist demand periods. This serves as a definition of seasonality to correctly understand it. In a study conducted by Oscar Maeso Keith (2017), that assesses the economic effects of tourism seasonality, it is described how hotel occupancy rates and the number of hotel openings fall during low-season and skyrocket during high season. Additionally, quantitative data was retrieved from the Institut d'Estadística de les Illes Balears (IBESTAT) to show these variations in occupancy rates and hotel openings. This data demonstrates how seasonality affects the external demand for accommodation between the seasons. A thesis written by Oscar Christian Maseo Keith (2017) was used to display the repercussions seasonality has on apartments destined for touristic use by analysing the case of Mallorca. The thesis showcases the monthly variations of rental prices for tourist apartments, showing significant rises during high season and drops in low season. This explains how the demand for short-term rentals fluctuates according to the tourist inflows of each month. The rent decreases during low-season vary in each destination depending on factors such as the local economy, investors and the presence of long-term residents.

As part of the investigation it was necessary to analyse how tourism influences the development of real estate infrastructures. Mainly qualitative data was used for this section. To do so, the study of Seetanah et al. (2011) was used, which expressed the importance of a country's infrastructure and how it is an essential factor for attracting tourists. Moreover, as part of the tourism essential infrastructure, it was crucial to mention the role of transport and communication, which was examined by Nguyen Quang, who wrote about investment in tourism infrastructure development, and has contributed to the analysis of the role of transport infrastructures in the tourism sector (Nguyen Q., 2021). Additionally, to prove the influence of tourism on real estate infrastructure development, it was added the case of the Valencia Airport development, and how it was a critical transformation to allow for the growth of air traffic. This data was retrieved from the Spanish news media EsDiario, which provided insights about the importance of this development in addition to an interview made to the former manager of the airport (EsDiario, 2022). Consequently,

quantitative data was deployed to analyse the concentration of hotels in Barcelona. The study of Harold Goodwin allowed to find where hotels are mostly concentrated in Barcelona, which through surveyed has resulted in the conclusions that they are mainly in Ciutat Vella, Eixample, and Sant Marti, while pensions and hostels and tourist flats are concentrated in Ciutat Vella, Eixample, and Montjuic. In Ciutat Vella, 54.7% of the people surveyed believed there were too many tourist lodgings in their neighbourhood, whereas 27% in Example, 21.9% in Gracia, and 15.1% in Sant Marti, said there are too many new hotels (Goodwin H., 2019). In addition, it was useful to mention the rapid increase of apartments for tourist use in Spain. By analysing quantitative data from the Municipality of Barcelona of 2021, it was demonstrated that from 2005 to 2021 the number of tourist apartments multiplied by 116 times (Ajuntament Barcelona, 2021).

Furthermore, to achieve the thesis objectives it was crucial to examine the effects of tourism on housing availability and affordability for local residents. The process of investigation for this section shed light on the lack of resources and research made on the topic. Despite the difficulties, qualitative data retrieved by studies made by De Aldecoa Fuster J. (2022), Mikulić J., et al (2021), and by Beldad K. (2022), contributed to the understanding of the effects of tourism on housing affordability and accessibility for local residents. These researches proved that it is necessary to examine factors such as purchasing, repayment, and income of the local residents, to achieve a complete result on how tourism affects local residents of tourism-dependent areas. Additionally, Beldad K. (2022), affirmed that despite the negative effects of the tourism industry, ultimately, people will still need employment and tourism creates lots of job opportunities. Thus, the change in profession for many locals is rather positive than negative overall.

To conclude the thesis investigation, it was critical to include mitigation strategies for the negative impacts that tourism has on housing affordability and accessibility. Since the paper is focused on the case of Spain, it was needed to include already existing and possible new strategies to decrease the potential negative effects of tourism on housing affordability and accessibility for local residents. By using qualitative resources, such as the news article published by Andrea Gómez Bobillo in Business Insider, and data retrieved from EXCELTUR and the Spanish Ministry of Industry, Commerce and Tourism, it was possible to assess some of the main regulations put in place in some of the most famous tourist destination in Spain, such as Barcelona, Madrid, and Valencia. These include, regulations to control the number of apartments destined for tourist use, a Special Plan for Residential Use (PEH) put in place by the Madrid City Council, and Royal Decree-Law on Urgent Measures on Housing and Renting that includes the modification of the Urban Leases Law (LAU) and the Horizontal Property Law (LPH), measures promoted by the Ministry of Industry, Commerce and Tourism. According to these studies there is a growing difficulty in trying to enforce compliance with regional and local regulations that should regulate them in a rigorous and sustainable manner in the

destinations, requiring a framework and complementary regulation in matters exclusive to the State. Additionally, information from World Tourism Organization (UNWTO), to suggest new possible implementations that can help decrease the negative impacts of tourism. These were created by my own elaboration, after having investigated the topic thoroughly. The most significant ones include: short-term regulations, rent control regulations, Initiatives for affordable housing, prioritising housing for inhabitants, and housing cooperatives.

## **2. OVERVIEW OF TOURISM AND REAL ESTATE**

This chapter provides an overview of the relationship between tourism and real estate, focusing on the definition and components of tourism, the definition and categories of real estate, and the relationship between the two sectors. It also explains that tourism refers to the movement of people for personal or business reasons and includes domestic, inbound and outbound tourism. The five main elements of tourism are attractions, activities, accessibility, accommodation and services, known as the "five A's of tourism." These elements are closely linked to real estate as they relate to development, property use and value, transportation infrastructure, and the provision of accommodation and services. This section also analyses the growth of the tourism sector in Spain, highlighting the significant impact of tourism on the Spanish economy and fluctuations in tourist arrivals and spending. Further, the increase in real estate prices in Spain is mentioned, which is influenced by speculation and foreign demand due to tourism.

### **2.1. Definition of Tourism**

According to the United Nation World Tourism Organization (UNWTO), tourism can be defined as a "social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business/professional purposes" (UNWTO, 2023). Individuals engaging in this practice can be referred to as visitors which include tourists or excursionists, residents or non-residents that undertake touristic activities which may or may not involve tourism expenditure (UNWTO, 2023).

When referring to tourism, three different types can be distinguished. The first is domestic tourism which implies visitors travelling within their own country. The second type is inbound tourism, which is described as visitors travelling to a country where they do not reside. The third type is outbound tourism, which entails visits by residents of a country outside of that country. Within these three types of tourism, three other groups of tourism can be derived. Firstly, there is national tourism, which combines domestic and outbound tourism. Secondly, there is internal tourism, which comprises domestic and inbound tourism. Thirdly, there is international tourism, including inbound and outbound tourism (Eurostat, 2014).

Moreover, there are five main elements that characterise tourism, also referred as the “5 A’s of tourism”, respectively: attractions, activities, accessibility, accommodation and amenities. These characteristics are worth including in the definition of tourism to further understand how touristic activities influence the real estate sector, and how these two are interrelated (Kabil et al., 2022).

Firstly, attraction is the most important component of tourism as it is the main thing tourists look for in a destination. It is in fact ranked at the top of the tourism supply chain. Two categories of attractions can be identified, which are: natural (mountains, landscapes, etc.), and man made (theme parks, monuments, museums, etc.). Secondly, there are activities, which is what can create an extraordinary experience for a tourist visiting a place. Activities can be both physical, such as, hiking or snorkelling, and non-physical, such as sunbathing or relaxing at the seaside. Thirdly, accessibility is also an important component, because it includes the various infrastructures and transportation methods that allow tourists to move from one destination to another, or to move within a chosen destination. Fourthly, the characteristic of accommodation is very relevant in the sector of tourism, because it refers to places where tourists will stay for the duration of the trip. Two different types of tourism accommodation can be identified: 1. Serviced accommodations (e.g star-rated hotels, guest houses, and motels); 2. Self-catering accommodation (do not provide services apart from a room, such as youth hostels). Finally, the fifth category, includes the amenities, which refer to the services and facilities that tourists often expect when arriving at a destination. Amenities can include, among many other things, food, multipurpose zones, entertainment, sports facilities, etc... (Kabil M., et al., 2022).

Additionally, after having defined each one of these components, it will be easier to investigate how they can be linked to the real estate sector, and how they can provide an understanding of how the tourism sector is strongly intertwined with the real estate market. This will be further analysed in depth in paragraph 2.3.

## 2.2. Definition of Real Estate

Real Estate, although does not have a clear definition, can be referred to as any land and permanent structures attached to it or built on it, such as homes or improvements made to the land that can be natural or man-made. It is considered a type of real property that distinguishes itself from personal property, which is not permanently fixed to the land. Examples of personal property include vehicles, furniture, jewellery and others (Chen J., 2023). In addition, two dimensions of real estate can be distinguished: 1. Real estate as a physical context (properties, lands etc.), 2. Real estate as a business (selling and purchasing of properties) (Pagourtzi E., et al., 2003).

Moreover, five main categories of real estate can be identified that range from residential, commercial, industrial to raw land and special use real estate. Residential real estate is defined as properties used for residential purposes, such as family-homes, condos, duplexes, and multifamily residences. Commercial real estate includes any property exclusively used for business purposes, such as apartment complexes, gas stations, grocery stores, hotels, and offices. Industrial real estate is properties used for manufacturing, production, distribution, storage, and research and development. Raw land real estate is undeveloped property, vacant land, agricultural lands like farms. Finally, special purpose real estate is considered property used by the public, ranging from cemeteries, government buildings, libraries, parks, and schools (Chen J., 2023).

### 2.3. Relationship between Tourism and Real Estate

The real estate sector together with the tourism sector are the most lucrative areas of the global economy. The real estate market is heavily influenced by tourism flows and by the various components that characterise the tourism sector. As mentioned above, there are five main components of tourism, which are: attraction, activities, accessibility, accommodation, and amenities. By looking at each one of these components, and considering the definitions of real estate, it is possible to identify how tourism is closely related to the real estate market.

First of all, the real estate sector is involved in tourism through man-made attractions, such as constructions of buildings (e.g. hotels), land use, purchase, leasing and selling of infrastructures. Secondly, tourism-related activities are often held in locations that are owned or operated by real estate companies, which logically creates a link between the two. Thirdly, accessibility, which includes three types of properties, namely: surface (e.g. roads), air (e.g. flights), and water transportations (e.g. boats, cruise ships), plays a crucial role in the movement of tourist and hence represents an important factor in determining the market price of the various real estate physical properties. This is due to the fact that real estate prices are influenced by demand, environment, and land usage, hence when holding properties, such as hotels, the prices will change depending on these components among other characteristics. As a result, if a property is used for tourism purposes, it will either gain or lose value depending on the case, and it will also influence the prices of surrounding environments. Also, it can be possible that real estate companies operate transportation networks, such as trains used for tourism attractions, further connecting the two sectors. Moreover, the fourth component of tourism, accommodation, has a clear connection to real estate. As mentioned above, accommodations are a type of physical property built for a specific use that can be sold, purchased or rented, making them a real estate product by definition. Finally, the components of amenities, as explained previously, represent the diversity of services required by travellers at various levels of staying and tourist locations. For



the purpose of giving quality experiences, these amenities are often renovated or changed, which in turn add value to various properties in the tourist area (Kabil M., et al., 2022).

It should be noted that there is a two-way link between the real estate sector and the five elements of the tourism sector. Both directly and indirectly influence each other. For example, if there are many tourist attractions in an area, this directly increases the price of real estate in that area, which may have an impact on the social status of the local population in the future. On the other hand, different types of real estate can also have a strong impact on tourism. These properties can provide accommodation for travellers and support the tourism sector, leading to an increase in tourism in the area (Kabil M., et al., 2022). In addition to the close link between real estate and the five components of the tourism sector, there are also many links between the two, giving rise to the term 'tourism real estate'. The term first appeared in the 1990s and has been studied in several fields (Cooper C., et al, 2005).

#### 2.4. Growth of Tourism Sector in Spain

Spain is one of the most established tourism destinations worldwide and has experienced rapid and steady tourism growth in the past decades. For a more in depth analysis, only the past four years of tourist arrivals in Spain are assessed, by using the official Spanish Tourism database, named Turespaña, which provides yearly reports on tourism related movements.

Throughout most of the 2010s, Spain received more than 100 million international visitors, and since then has steadily increased the number of inbound tourism. According to Turespaña, in 2019, the number of international arrivals peaked at 126.2 million (Turespaña, 2019), which represents more than 2.5 times Spain's total population of 47.6 million (Instituto Nacional de Estadística, 2022). In the same year, tourism expenditures (direct and indirect) accounted for 12,4% of the country's Gross Domestic Product (GDP) with EUR 155 billion (OECD, 2022). This shows the significance of tourism for the Spanish economy.

Moreover, in 2020, with the arrival of the covid-19 pandemic, global as well as Spanish tourism have been undermined and suffered major losses due to the limitations in people's displacement. As a matter of fact, the total number for visitors to Spain dropped to 36.5 million, representing a 72% decrease compared to the previous year (Turespaña, 2020).

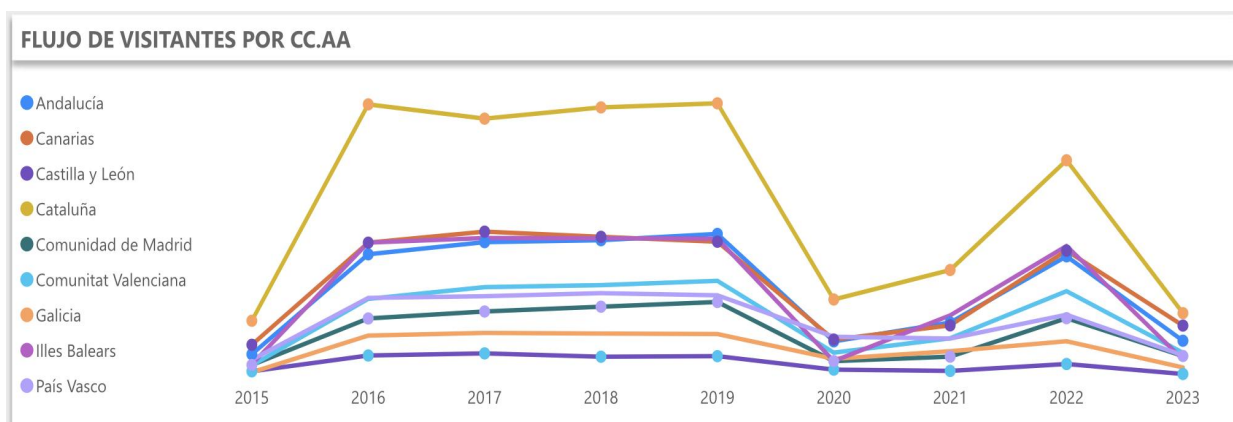
In 2021, Spanish tourism slightly recovered with international arrivals amounting to 51.6 million. The recovery continued across 2022, totaling 106 million visitors, representing a 103% increase since the previous year (Turespaña, 2022).

Additionally, for the year 2023 it is only possible to analyse data until the month of may. The report exhibits that in the past five months Spain has received around 42

million visitors, which signals a strong trend to the upside for this year (Turespaña, 2023).

Furthermore, each of the Spanish Autonomous Communities receives a different amount of visitors each year that are not resident in Spain. As it is shown by studies made by the Ministerio de Industria, Comercio y Turismo, the number of visitors varies depending on the Autonomous Community in question. Below the graph demonstrates the number of differences in arrivals for each Autonomous Community in a nine year time frame, from 2015 to 2023.

**Figure 1: Number of visitors flow per Autonomous Communities**



(DATESTUR, 2023)

The above image demonstrates that Catalonia receives the biggest amount of visitors. The statistics show that the years 2016, 2017, 2018, 2019, and 2022, are the best performing years of Catalonia, with an average of 25 million visitors a year. Moreover, as the graph indicated, Catalonia is followed by Canary Islands, Andalusia, Balearic Islands, Valencian Community, and the Basque Country, which are considered the destinations with the most visitor flows (DATESTUR, 2023).

## 2.5. Evolution of the Spanish Residential Real Estate Market

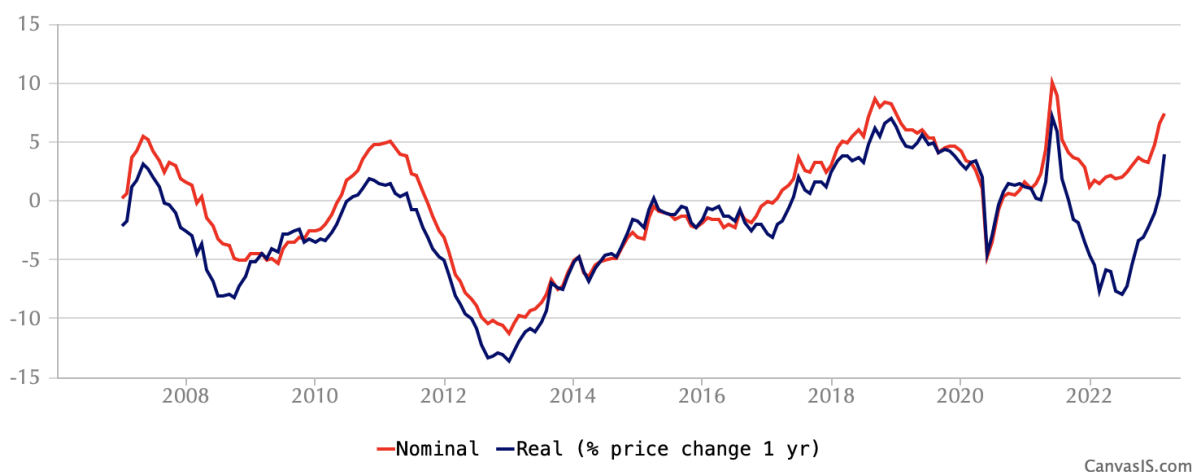
Residential real estate prices have experienced a considerable rise in the past years. Speculation and foreign demand due to tourism have inflated prices to a point where overvaluation is starting to appear in big cities such as Madrid and Barcelona, as well as in other touristic cities like Valencia and others. In spite of this, house prices in less urbanised areas of the country have started recovering much later and slower since the 2008 financial crisis, which has created regional divergences in prices and affordability. The gap between the cheapest and the most expensive cities and provinces is constantly widening. Buying a home in Barcelona or Madrid in 2019 costs more than double the national average price. In 2014, it was 1.6 times as

much, showing that the major tourist destinations are by far experiencing the sharpest price increases.

From 2008 to 2014, real estate prices in Spain have plummeted (37.5% in real terms). This was caused by the 2008 financial crisis. In 2015, a new expansionary cycle began, which was primarily led by the main touristic hubs of the country (Madrid, Barcelona, Malaga, Santa Cruz de Tenerife and Las Palmas), where prices recovered earlier and surged by 27.8% from 2014 to 2019. Overall, Spanish real estate prices grew by 12.3% in the same period. In spite of this evolution, prices still have not reached the pre-2008-crisis all-time-high. Spain's real estate market has still not fully recovered from that crisis (Garriga J., 2020). At the start of the health crisis, prices experienced a quick fall but rapidly increased after that due to the expansionary monetary policies of the European Central Bank, put in place to fight the devastating effects of people's confinement for the economy. Demand surged in all areas of the economy including real estate (Garriga J., 2021). Inflation started picking up after the expansionary fiscal and monetary policies of the European Central Bank, which led to tightening fiscal policies with the rise of interest rates, which led to a decrease in prices (Aspachs O., 2023).

Moreover, as shown in the below graph published by the Bank of Spain in relation to reports made by the online platform Idealista, Spanish home prices climbed by 4.72% to €1,740 per square metre in the year to Q3 2022, following year to year gains of 5.55% in Q2 2022, 6.68% in Q1 2022, 4.43% in Q4 2021, and 2.59% in Q3 2021. However, when adjusted for inflation, house prices fell by 4.85% (Global Property Guide, 2023).

**Figure 2: Fluctuations of Spanish Real Estate prices (%)**



(Banco De España, 2022)<sup>1</sup>

<sup>1</sup> The graph has been retrieved from the article of: Delmendo, L. C. (2023, March 6). Spain Residential Real Estate Market Analysis 2023. Global Property Guide. <https://www.globalpropertyguide.com/Europe/Spain/Price-History>. However the original source is Banco de España.

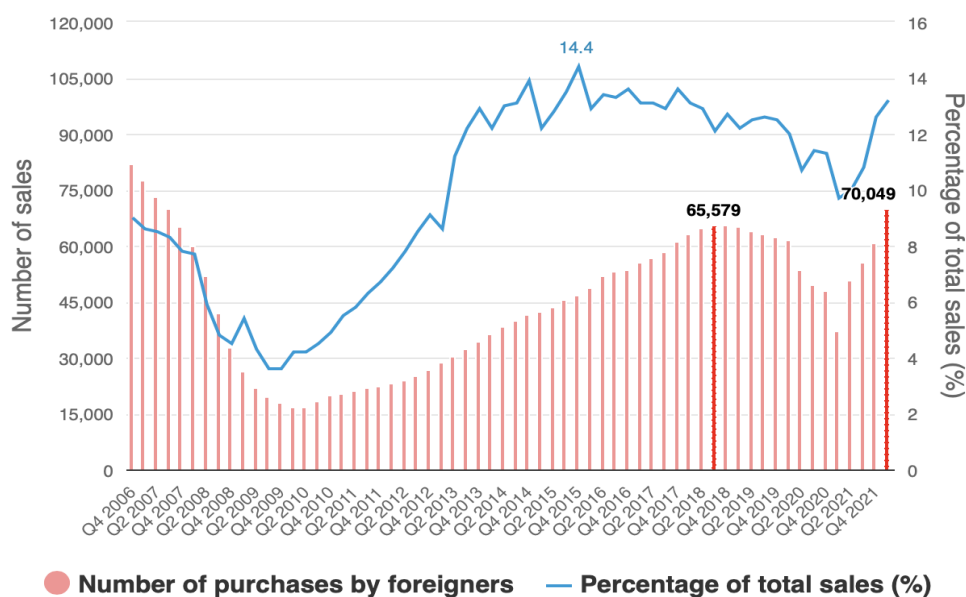
### 3. ASSESSING THE IMPACT OF TOURISM ON THE SPANISH REAL ESTATE MARKET

The presence of international tourists in the Spanish real estate market is a topic of increasing significance and interest. The impact of tourism growth on real estate indicators has become a subject of debate among scholars and experts. Firstly, the influx of tourists affects real estate prices and market trends, leading to fluctuations in property values. Secondly, the seasonality of tourism plays a crucial role in the real estate market, with peak tourist seasons leading to higher demand for rental properties and potential increases in prices. Thirdly, the influence of tourism on real estate infrastructure development is noteworthy, as the need to cater to tourists' needs may drive the construction of new accommodation facilities and amenities. Lastly, the effect of tourism on housing availability and affordability for local residents is a significant concern. The demand for housing from tourists can limit the availability of homes for locals and potentially drive up prices, making it harder for residents to find affordable housing. This chapter explores these interconnected factors and their implications in the Spanish real estate market, aiming to provide a comprehensive understanding of the impact of tourism on the industry.

#### 3.1. Presence of international Tourists in Spanish real estate market

Spain has been a chosen destination by tourists to purchase properties and use them as second homes for the past decades. As a matter of fact, studies made by the CaixaBank Research demonstrate that property purchases by foreigners have grown non-stop since 2009, as it is shown in the graph below.

**Figure 3: Property purchases by foreigners**

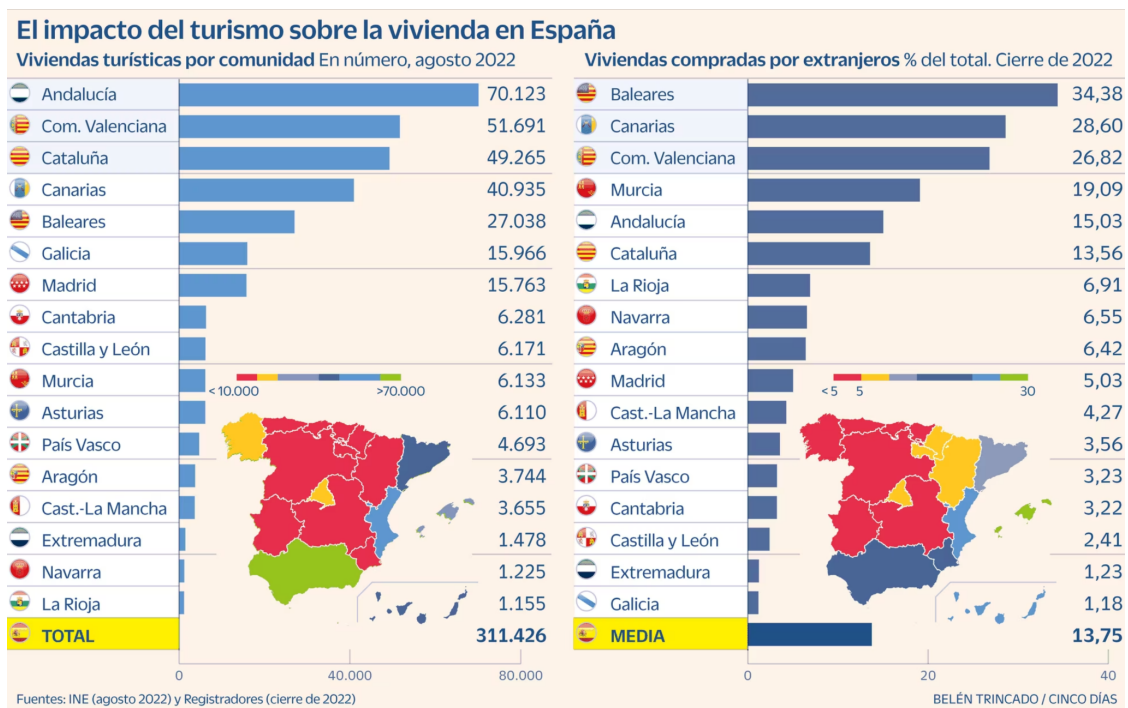


(CaixaBank Research, 2022)

On this graph provided by Caixa Bank, the steep increase of home purchases by foreigners can be observed throughout the 2010s, followed by a sudden drop as the pandemic emerged. The inflection point appeared in the end of 2020 and start of 2021, followed by a significant rise in property purchases by foreigners, even surpassing the top levels of 2018. The graph also demonstrates that the percentage of homes bought by foreigners in relation to the total number of property purchases in the country is significant, achieving top levels of 14.4% in 2015. This percentage has seen a dramatic increase since the 2008 financial crisis and started ranging between 12% and 14% from 2013 to the end of 2019. Considering this data, it is possible to claim that foreign property purchases make up a large part of total home purchases in Spain and that the total number of these purchases continue climbing, even reaching new records compared to the maximum levels of the 2010s (De Aldecoa Fuster, 2022).

In addition, on post-pandemic times, the influence of tourism on Spanish housing kept his strength and tendency, increasing the numbers of tourists housing by Autonomous Community, and raising the percentage of homes purchased by foreigners, as it is demonstrated in the below image published by the known Spanish journal *El País*.

**Figure 4: The impact of tourism on housing in Spain**



(Instituto Nacional de Estadística, 2022, as cited in Aparicio L., 2023)

The percentage of home sales 14% of Spain's residential real estate was sold to foreigners in 2022. In tourism hubs like the Balearic Islands this percentage amounts to 34%, for the Canary Islands it represents 28% and for the Valencian Community it is 27%. The province of Alicante stands out with a total of 41.7% of home sales to foreigners (Aparicio L., 2023).

Figure 4 demonstrates that foreigners mainly buy properties on the Mediterranean coast and on the two archipelagos. The central communities of Spain surrounding Madrid are the least touristy areas of the country and show the least home purchases by foreigners (Aparicio L., 2023).

The proliferation of properties for touristic use in Spain has distorted the Spanish residential market due to the commercialisation of primary residence homes for locals into vacation homes for tourists. As figure 4 shows, 311.426 homes were counted as being such properties in 2022. The leading communities for properties for touristic use are Andalucía (70.213), the Valencian Community (51.691) and Catalonia (49.265). The rise in homes for touristic use has drastically increased since the creation of Airbnb, which is a platform for tourism rentals between individuals (Aparicio L., 2023).

### 3.2. Impact of tourism growth on real estate indicators

Studying the impact of tourism growth on real estate indicators such as rent or property prices has led to the conclusion that there is a general lack of data in the matter. However, based on the existing resources, it is possible to consider the impact of tourism on these indicators through three different lenses: external demand for housing and land, structure of tourism accommodation, and tourism amenities (Čeh Časni A., et al, 2022).

The first correlation can be found in the external demand for housing and land, resulting in competition between the local residents and the tourists, which consequently leads to rising housing prices and rents. For this reason, tourism demand is an important factor to take into consideration when identifying the link between tourism and housing prices. For instance, according to a study made by Susana Cró and Antonio Miguel Martins, a 10% international increase in tourism leads to a 1.31% house pricing increase in Spain in the short run. As well, a rise in external demand influences the amount of foreign investment in the Spanish real estate sector, further increasing housing prices in the country (Cró S., et al, 2023).

The second link can be found in the type of accommodation used by tourists. It is possible to distinguish between hotels, hostels and short-term rentals. The differentiation of types of accommodation is significantly important to analyse, since

the connection between tourism and housing prices depends on the type and dominance of the accommodation structure (Cró S., et al, 2023). The rapid establishment of peer-to-peer platforms, such as Airbnb, has expanded the influence of short-term rentals as a type of tourism accommodation, due to the user-friendly and quick service that the platform provides. However, short term rentals have had a significant negative effect on the daily lives of local residents (Dolnicar S., 2019). As a matter of fact, the housing sector has suffered major changes, due to the fact that property owners are now opting for tourists instead of long-term tenants because it is more lucrative. As a result of the emergence of online platforms, housing affordability issues are on the rise (Cró S., et al, 2023). Furthermore, housing prices can be influenced by short-term rentals, hence by platforms like Airbnb, in two main ways: 1. Quiet neighbourhoods can transform into loud ones, resulting in a reduction of property values. 2. Contrary to the first case, if the transition of a neighbourhood from long-term to short-term rentals is successful, the presence of Airbnb properties could result in an increase of property prices. Studies show that if Airbnb listings double in a tourism region, home prices generally increase from 6% to 11% (Sheppard S., et al, 2016).

As a matter of fact, a study published in the *Journal of Urban Economics* in 2020<sup>2</sup>, analysed the city of Barcelona, due to its popularity as a tourism destination, which is ranked as the 7th most visited destination in Europe, and 17th worldwide, based on overnight stays. The presence of Airbnb in the city is significantly high, resulting in Barcelona being the 6th top destination in the world. The investigation identified that around 2,06% of total housing units are included in the Airbnb platform. However, when considering the number of rented units of other peer-to-peer platforms as well, the percentage amounts to 6.08%, which represents a significantly higher figure than cities, such as Los Angeles, New York, and Paris. The high concentration of Airbnb in Barcelona can be attributed to the big gap between the returns of short-term and long-term rentals. For instance, the increase in rental prices can be seen in an analysis provided by M.Garcia López, which displays that in 2015, the average long-term price for rent per night was approximately EUR 11 (EUR 735 per month). On the other hand, the average short-term rental price for Airbnb rentals amounted to EUR 71 per night (EUR 2,130 per month). This data demonstrates that a whole month worth of long-term rental can be achieved in only a 10 day period with an Airbnb listing (Garcia- López M., et al, 2020).

In addition to the above, it can be stated that higher inbound tourism demand increases demand for accommodation, which raises rental prices. This hike in rental prices stimulates more real estate purchases by investors that see the opportunity for higher return on investment, driving up property prices. As more homes are bought by investors for rental, the supply of homes available for purchase

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<sup>2</sup> See: Garcia López, M.-À., Jofre-Monseny, J., Martínez-Mazza, R., & Segú, M. (2020). Do short-term rental platforms affect housing markets? Evidence from Airbnb and Barcelona. In *ELSEVIER*.

decreases, which pushes property prices even higher. Investors then seek to maintain their return on investment elevated and further increase rental prices. As a result, both property and rental prices spiral up more and more (Zhang H. & Yang Y., 2020).

The third point refers to the amenities offered to tourists when going to a destination. As stated in the report “Tourism housing price nexus”, tourism amenities have a great positive influence on housing prices (Cró S., et al, 2023). Elements such as proximity to the city centre or to coastal areas, as well as great landscapes, significantly contribute to the rise of real estate prices. Similarly, tourism infrastructures that offer amenities such as golf courses, swimming pools, attractions, and comfortable rooms among others, have a favourable impact on the prices in the real estate market. For example, in Spain several cities illustrate how tourism amenities are affecting property prices. Firstly, Barcelona, as one of the most popular tourist destinations, has a high demand for housing and rental properties, especially in neighbourhoods like the Gothic Quarter and Eixample, which are located next to La Sagrada Familia and Park Güell, resulting in significant price appreciation (Binet et al., 2021). The second example includes Mallorca, one of Spain’s Balearic Islands. The island is a very known tourism destination due to its beautiful blue waters and beaches, as well as its vibrant nightlife. The recognition of the island as a tourist destination has led to an increase in demand for vacation homes and second homes. This has led to a significant increase in rental and purchase prices, especially in the popular locations of Palma de Mallorca, Puerto Andratx and Pollença (Delmendo L., 2023).

In connection to these three main factors that result in an overall housing prices increase, affordability and availability of residential properties becomes an increasing concern for both local inhabitants and foreigners. Consequently, there is a growing need for new real estate infrastructure development. As it is explained in the following section, tourism heavily influences the stimulation of infrastructure and amenities development.

### 3.3. Seasonality of tourism and real estate prices

The cyclical nature of tourism and real estate values have repeatedly been linked in studies. The tourism business is heavily dependent on seasonality, which is widely acknowledged as a cyclical phenomenon of high and low tourist demand periods throughout the year (Butler R., 2001). It has an impact on a number of tourism-related industries, including the real estate industry, which meets the lodging and residential demands of travellers.

Based on a study made by the University of the Balearic Islands, titled “Seasonality in Tourism: Economic, Labor and Social Effects” it is possible to highlight the



importance of seasonality of tourism and its economic effects. The study is focused on Mallorca, which, for the purpose of this investigation, serves as an adequate example. The analysis carried out by Oscar Maeso Keith uses the following factors to identify the effects of seasonality on the island. Firstly, he assesses hotel occupancy rates. Secondly, he estimates the number of hotel establishments opening in Mallorca. Thirdly, he identifies the variation of prices of tourist apartments by period and rate. (Maeso Keith O., 2017).

As for the hotel occupancy rate, the study found that in the year of 2016 to 2017 there is a significant difference between low- and high season. For example, the month of January has an average occupancy rate of 38.56%, while August showed an occupancy rate of 92.69%. According to these figures it can be stated that tourism seasonality has a significant influence on the occupancy rate depending on the month of the year (Maeso Keith O., 2017).

Concerning the evolution of hotel establishments opening in Mallorca, statistics provided by the Institut d'Estadística de les Illes Balears (IBESTAT), show that depending on the month of the year there is a major gap in the number of establishments that opened during low- and high season. As it is presented in the below figure, in the low season months, such as January and December, there is an average of 105 hotel establishment openings. On the other hand, in high season months, such as June, July, and August the number of openings are almost ten times higher (IBESTAT, 2017).

**Figure 5: Number of hotel establishments open in Mallorca**

Number of hotel establishments open in Mallorca (estimation)	
2017M01	102
2016M12	109
2016M11	133
2016M10	767
2016M09	911
2016M08	899
2016M07	877
2016M06	891
2016M05	824
2016M04	441
2016M03	262
2016M02	151
2016M01	83

(IBESTAT, 2017)

Hence, the reduction or increase of opening of hotels have impacts on many areas of the economy, affecting especially the number of employment in the Island for tourism purposes, and as well having significant impact in the real estate sector.

Additionally, the consequences of seasonality have a considerable repercussion on the prices of apartments destined for tourism purposes. By keeping as an example Mallorca, and in accordance with data published by the IBESTAT, it is possible to affirm the variation of prices of tourist apartments depending on the season. In the table below a six month time-frame is taken into consideration to express the evolution of prices of tourist apartments (Maeso Keith O., 2017).

**Figure 6: Rates of variation of prices of tourists apartments**

MONTH/YEAR	MONTHLY VARIATION (%)
May 2016	-5,15
June 2016	11,98
July 2016	32,01
August 2016	1,82
September 2016	-25,79
October 2016	-15,87

(Graph made by own elaboration, data retrieved from IBESTAT)

(IBESTAT, 2017)

Based on the data illustrated above, it is possible to observe that the month of June saw a great increase in comparison to the previous month with an increase of 11,98%. The following month, which is considered a peak season month, the increase amounted to 32,01%. The month of August experienced a slight increase of 1,82%. Despite these rapid increases, the month of September marks the beginning of the end of the high season, resulting in a decrease of 25,79%. In October the high season officially ended, causing a decline in prices of tourist apartments by 15,87% since the previous month. As a result of the data displayed, it can be confirmed that prices for tourist apartments experience significant growth throughout the high season and a significant decline during low season (Maeso Keith O., 2017). Despite this section focusing on the case of Mallorca, the same impacts of tourism seasonality on property prices can be identified in other tourism hotspots.

Subsequently, property prices in exclusive tourist destinations, like Mallorca, tend to rise during peak seasons as travellers flock to these locations and demand for short-term rentals increases, leading to higher rents and property values. This trend is typical in areas with seasonal attractions, such as beaches or ski resorts. On the contrary, in the off-season, demand for rentals and purchases drops significantly, causing property prices to fall. However, the extent of this price decline can vary depending on factors such as the local economy, investors and the presence of long-term residents. Surprisingly, the relationship between seasonality and real estate prices can lead to an inverse relationship, where rising property values attract investors seeking capital appreciation, leading to further price increases, especially during peak seasons. This inflationary effect can increase the attractiveness of a destination to tourists, leading to cyclical increases in tourism and real estate prices.

#### 3.4. Influence of tourism in real estate infrastructure development

The rapid increase of tourist flow in tourism dependent areas has increased the need of developing infrastructures and special tourist services to accommodate the demands of visitors and increase the attractiveness of the destination. The study of Seetanah et al. (2011) expresses the importance of a country's infrastructure and how it is an essential factor for attracting tourists. Infrastructures are in fact considered an integral part of the tourism package. For example, having good roads strengthen the way tourists access different areas of a country, as well as having safe and well-made airports, enhances the experience of the tourist, making it more likely for the tourist to consider returning. As well, communication infrastructures play an essential role in the tourism sector, which helps travellers to stay informed about the destinations, and can provide faster and cheaper communication from the origin country to the destination. Similarly, infrastructures such as hotels and restaurants are closely related with the amount of tourists that arrive in a country, the bigger is the percentage of tourist arrivals, the more a country needs to develop proper hotels and restaurants. Moreover, the development of recreation facilities holds a strong importance in the tourism sector, since it provides attractions, and entertainment for visitors (Seetanah et al., 2011).

To have a more in depth understanding, it is necessary to analyse the main tourist destined infrastructures, such as transport and hotels and connect it to the influence of tourism in real estate infrastructure development.

Firstly, tourism inflow heavily impacts the development of transport and communication infrastructure, as they represent one of the most important types of infrastructures for tourists. The availability of adequate transportation has in fact changed some doomed tourist attractions, into interesting and vibrant places to visit, resulting in the attraction of large crowds (Nguyen Q., 2021). Transport infrastructures serve two main function in the tourism sector: firstly, it serves as a

mean of transit<sup>3</sup>, meaning it aids people moving from one place to another; secondly, transport can also be a tourist attraction itself<sup>4</sup>, where it allows displacement and, in turn, is the basis of a tourist experience (Castaño Molina V., et al, 2016). A good example of transport infrastructure development for attracting more tourists can be the expansion of the Valencian airport. Valencia has been challenged to totally rehabilitate and extend its airport due to multiple shortcomings and a passenger volume considerably below what is anticipated of the third largest city in Spain and a European reference in the Mediterranean. The Valencian airport's take-off was critical to the success of events such as the America's Sailing Cup, Formula One, and the Pope's visit. As Iván Tejada, ex-manager of the Valencian Airport said in an interview, "the capacity of an airport is a necessary condition for the growth of air traffic" (EsDiario, 2022). They thought of developing the Valencian airport by attracting new airlines to operate at the airport, including low-cost airlines, thus increasing the number of flights and destinations (EsDiario, 2022). Finally, it can be affirmed that the presence of good transportation infrastructure can be useful for any sector of a country, but especially for tourism dependent destinations.

Moreover, hotel services, as one of the most essential infrastructures in the tourism sector, are greatly being developed in tourism dependent countries, as it has been shown previously in Figure 5. The hotel industry offers short or long-term accommodation and food services to tourists, and it has become the most crucial physical element for visitors, which in some cases resulted in the overdevelopment of tourism accommodations. As expressed by Seetanah et al. (2011) the availability and quality of hotels or tourism accommodation in general, generates more tourist arrivals. As a matter of fact Barcelona being one of the biggest tourism destinations in the world, has experienced significant development in hotels and Airbnbs due to the rapid increase in tourist arrivals, leading to the expansion of the hospitality sector. According to Harold Goodwin (2019), in Barcelona hotels are concentrated in Ciutat Vella, Eixample, and Sant Marti, while pensions and hostels and tourist flats are concentrated in Ciutat Vella, Eixample, and Montjuic. In Ciutat Vella, 54.7% of the people surveyed believed there were too many tourist lodgings in their neighbourhood, whereas 27% in Eixample, 21.9% in Gracia, and 15.1% in Sant Marti, said there are too many new hotels (Goodwin H., 2019). The over tourism in Barcelona has led to over growth of tourism accommodations development, resulting in regulatory and management challenges. Consequently, the municipal government of Barcelona has halted the issuance of new licences for lodging facilities, student residences and hostels in order to assess the overall impact of lodging operations and develop a special municipal plan to manage them. For instance, Ciutat Vella has

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<sup>3</sup> Strictly fulfils the function of connecting the area that generates tourism and the place from which the tourist comes from, meaning that within the trip there is no stop to appreciate sites with cultural or historical value (Castaño Molina V., et al, 2016).

<sup>4</sup> Can be seen as an added tourism experience. A tourist destination, in addition to having an access route, has an alternative route called the leisure route. The leisure route, since it constitutes a different alternative for reaching the destination, has a series of attractions that have added value for the tourist (Castaño Molina V., et al, 2016).

a strategy<sup>5</sup> in place to decrease the number of tourist accommodations, including hotels and Airbnb's. The Tourist Accommodation Working Group supports the municipality's attempts to minimise the number of illegal flats, and a similar organisation is attempting to curb the growth of souvenir stores in Ciutat Vella, Sagrada Família, and Parc Güell (Goodwin H., 2019).

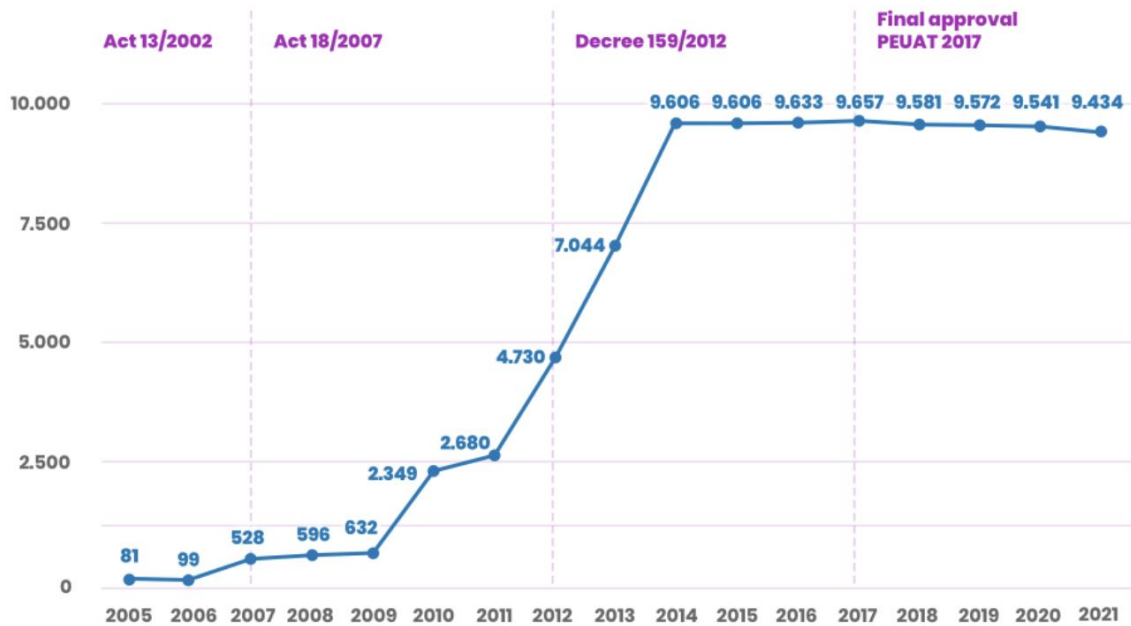
In addition, there are a substantial number of illegal houses in Barcelona, which not only create speculation and the informal economy, but also damage the good coexistence of local communities, modify the use of housing, and displace neighbourhoods, forcing inhabitants to relocate. As a result, in July 2016, a €1 350 000 Emergency Inspection Plan against Illegal Tourist Flats strategy to combat unlawful tourist lodging was started to eliminate illegal accommodation from the city (Goodwin H., 2019).

To examine and slow down the rapid increase of apartments for tourist use/Habitatge d'Ús Turístic (HUTs)<sup>6</sup> The Ayuntamiento of Barcelona has established a Special Tourist Accommodation Plan (PEUT), which regulates the number of tourist accommodation, and assesses the current situation in the city. As shown in the graph below there has been a dramatic increase in tourist accommodations in the past years, which has consequently led to residents' complaints and the recognition of the over-development of tourism infrastructure problem (Ajuntament Barcelona, 2021).

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<sup>5</sup>See: <https://ajuntament.barcelona.cat/turisme/en/documents#normativa>

<sup>6</sup> Flats that the owners frequently rent out for seasonal stays to third parties, either directly or indirectly, in exchange for money compensation (Goodwin H., 2019)

**Figure 7: Evolution of the number of HUTs, 2005-2021**

(Ajuntament Barcelona, 2021)

The above image shows that from 2005 to 2021 the number of HUTs multiplied by 116 times. Demonstrating that tourism inflow can dramatically influence the development of tourism infrastructure, and in this case causing negative consequences for the city of Barcelona.

### 3.5. Tourism effects on housing availability and affordability for local residents

The affordability crisis is amongst the most pressing urban problems in recent years. The tourism activity has strong negative impacts on housing affordability and availability for local residents in prime tourist destinations. Real estate purchases by foreigners have strongly recovered since the health crisis and this trend is expected to continue in the future as the European generation X is starting to retire. This wealthy generation is extremely likely to increase demand in the Spanish real estate market, further inflating prices to the detriment of the local population, who's income cannot keep up with the rapidly surging prices. This evolution has to be monitored closely, whilst also implementing adequate housing policies to mitigate the impact on the local population (De Aldecoa Fuster, 2022).

There is a general lack of studies assessing the impact of the tourism activity on housing affordability and availability in spite of the pressing issue of the housing affordability crisis in many tourism destination countries. The problem of housing

affordability and availability is especially pronounced in economies that heavily rely on tourism as a source of growth, such as Spain. In the study “The effect of tourism activity on housing affordability”, the case of Croatia is assessed. Croatia being a high-demand tourist destination country like Spain, shows many parallels to the case of Spain and serves as a good example for the study of how tourism affects housing affordability and availability for locals (Mikulić et al., 2021).

As it is highlighted in the study, tourism gentrification is a common occurrence in less advanced economies that rely on tourism. These economies struggled to compete in finance of information sectors in the post-industrial society. However, many of these economies have competitive advantages for the attraction of mass consumption and tourism (Mikulić et al., 2021).

Previous studies on the matter have neglected the price increase of residential properties in relation to the local population’s income. The study “The effect of tourism activity on housing affordability” focuses on these factors by analysing the purchasing, repayment and income of the local residents. The purchasing and repayment abilities of the locals are related to their ability to borrow funds from banks and to respect their mortgage repayments, while their income reflects the relationship between property prices and how much they earn (Mikulić et al., 2021).

The study examines the income housing affordability by measuring the ratio of the median property price per square metre to the average net monthly income per capita. This ratio is particularly relevant to evaluate how tourism affects the housing affordability for locals. The analysis of the study, which uses Croatia as an example, covers the period from 2012 to 2018. The study analyses three dimensions, which are tourist accommodation, tourist concentration and seasonality and their influence on housing affordability. The first dimension that is assessed is tourist accommodation, which encompasses rental and vacation housing. As previously mentioned, tourist rentals are more lucrative than traditional long-term rentals, which leads to the conversion of existing properties, reducing the residential home supply, further increasing home prices. As a result, tourist accommodation lowers the housing affordability and availability. The second dimension assessed in the study is tourist concentration, which represents the overnight tourist stays per local resident. This dimension determines the overcrowding effects, which were found to also cause price hikes, reducing housing affordability. The third dimension is seasonality, which represents the variations of the average daily number of overnight tourists per month. Common effects of tourism seasonality include employment fluctuations, revenue instabilities, and overpopulation, which all have been recognized to reduce housing affordability (Mikulić et al., 2021). The results of the study show that all the dimensions analysed have a negative effect on housing affordability and availability for local residents.

One of the main impacts of large tourist flows in a destination for the local inhabitants is the phenomenon of gentrification, whereby poor urban areas transform by

wealthier people moving in, which leads to an increase in prices, forcing many locals to move to less expensive neighbourhoods or villages. As tourists are often wealthier than the local inhabitants in Spain, shops raise prices in addition to real estate price hikes. Locals often cannot cope with the pressure induced by the general price hikes until they have to move to more affordable neighbourhoods. The housing supply decreases as more primary residential homes for locals transform into vacation homes for tourists, pushing the prices up. Inexpensive, traditional, long-term rental properties are turned into more lucrative short-term tourist rentals, which reduces the availability and affordability for the local community. Considering the above, it is possible to state that tourism distorts the residential property market for locals as many cannot afford to live in big cities anymore (Beldad K., 2022).

Despite the negative effects tourism has on affordability, locals can also benefit from the activity through to the creation of employment when new tourism infrastructure and facilities are built. Working for tourism activity providers or even creating such businesses can also financially benefit the locals. The negative effects of the increasing emergence of tourist activity providers in high tourism demand areas is that the employment variety is reduced as the destination increasingly focuses on its tourism for economic growth. As a result, local workers are often forced to change their accustomed way of earning money and work in the recreation sector instead, since there are only few alternatives. However, ultimately, people will still need employment and tourism creates lots of job opportunities. Thus, the change in profession for many locals is rather positive than negative overall (Beldad K., 2022).

#### **4. MITIGATION STRATEGIES FOR NEGATIVE IMPACTS OF TOURISM ON HOUSING AFFORDABILITY AND ACCESSIBILITY**

The concentration of tourism in cities like Barcelona and Mallorca has led to increased housing prices, particularly affecting locals. Short-term rentals, facilitated by platforms like Airbnb, have contributed to the pressure on real estate and reduced housing availability. This phenomenon, known as 'The Airbnb Effect,' has prompted many cities, including Barcelona, Madrid, and Valencia, to implement regulatory measures. These measures include restrictions on short-term rentals, mandatory registration of tourist accommodations, and zoning regulations. However, enforcing compliance with these regulations can be challenging, and there is a need for improved legal frameworks and complementary regulations at the state level. The Spanish government has taken steps to address housing and rental issues through a Royal Decree-Law on Urgent Measures on Housing and Renting, which modifies existing laws and aims to provide legal certainty and regulation for tourist rentals. Additionally, suggestions from the World Tourism Organization include promoting off-peak tourism, diversifying tourist attractions, enhancing regulations, and fostering responsible and sustainable tourism practices.



#### 4.1. Existing strategies for decreasing negative impacts of tourism

As previously explained, the high concentration of tourism in cities like Barcelona and Mallorca, have led to an increase of housing prices, not only for tourists but especially for locals. Since the creation of Airbnb in 2008, short-term rentals have increased at a rapid speed, causing a significant tourist pressure on real estate infrastructures, predominantly in tourism-dependent countries. As a matter of fact, the detraction of housing from the residential market by tourist rentals has reached dysfunctional levels to ensure its habitability by residents in some very specific areas of major Spanish cities. This correlation between the increase in homes that have become (Viviendas para uso turístico/housing for tourist use) VUTs and the increase in rental rates has been dubbed 'The Airbnb Effect' (Bobillo A., 2023).

As a consequence of this effect, many cities have started to take regulatory and economic actions against short-term rental, and platforms such as Airbnbs, to mitigate the effects that they have on locals living in famous tourist destinations. For instance, Airbnb has already taken some actions to limit the booking of short-term rentals in certain cities, to limit the criticism it receives from governments. However, it is the owner who is responsible for complying with the legislation by reviewing the regulations of each autonomous community before publishing his ad, and not the platform, which leads to the emergence of numerous illegal accommodations (Bobillo A., 2023).

Moreover, Barcelona is one of the most active cities in the fight against this issue that deeply affects the residents, it has in fact put in motion various measures to control the VUTs. Its government maintains very strict checks and controls to ensure that tourist accommodation complies with local regulations, including mandatory registration of all accommodation offered as tourist accommodation<sup>7</sup> (Bobillo A., 2023).

Similarly, the Madrid City Council approved the Special Plan for Residential Use (PEH)<sup>8</sup> in 2019 to protect residential use in the city centre and to limit economic activities related to tourist accommodation (Bobillo A., 2023). The PEH includes measures such as the division of Madrid into rings, from closer to the centre, in order to apply restrictions to properties based on their location, and the obligation for all vacation rentals to have an independent access to the building to avoid problems of neighbourhood coexistence (Fernández A., 2023).

Additionally, Valencia, having similar issues of affordability due to over-tourism, has tried to implement regulations to limit VUTs in the historical centre, such as the “Plan

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<sup>7</sup>According to a study by the Vic-Central University of Catalonia, there are 12 Airbnb apartments per 1,000 inhabitants in Barcelona (Bobillo A., 2023).

<sup>8</sup> Portal de transparencia del Ayuntamiento de Madrid. (2019). Plan Especial de regulación del uso de servicios terciarios en la clase de hospedaje - Portal de transparencia del Ayuntamiento de Madrid.

Especial de Protección”, that limits these properties to a maximum of 60 days per year. The plan was partially annulled by the court, which found some of the restrictions to be "excessive" (Bobillo A., 2023).

Moreover, based on a study made by EXCELTUR, there is a growing difficulty in trying to enforce compliance with regional and local regulations that should regulate them in a rigorous and sustainable manner in the destinations, requiring a framework and complementary regulation in matters exclusive to the State. As a result of the study, there are various key legal frameworks that should be improved and implemented to decrease the negative impacts on housing affordability and accessibility for locals. It is essential at the State level, to take legal initiatives in areas of exclusive competence that allow greater control and strict compliance with regional and local regulations. This can be done by firstly, establishing the legal regime of VUTs and the nature of contractual relations, with the rights and obligations of the agents involved. Secondly, regulating the platforms in a less relaxed manner, establishing the minimum obligations for the provision of information that will favour compliance with regional and local regulations. Finally, empower to a greater extent the communities of neighbours, demanding a previous permission from the Board of owners for the performance of tourist accommodation in a residential building (EXCELTUR, 2023).

Furthermore, to further mitigate and decrease the negative impacts of tourism on housing affordability and accessibility for locals, the Government of Spain, has approved a Royal Decree-Law on Urgent Measures on Housing and Renting that includes the modification of the Urban Leases Law (LAU) and the Horizontal Property Law (LPH), measures promoted by the Ministry of Industry, Commerce and Tourism. The Secretary of State for Tourism, Isabel Oliver, has expressed her satisfaction with the inclusion of both amendments in the RD-Law and is confident that on this occasion the Congress will support it because it gives greater legal certainty to the Autonomous Communities and advances solutions for the regulation of tourist rentals (Ministerio de Industria, Comercio y Turismo, 2019).

#### 4.2. Suggestions for new mitigation strategies

In connection to the above measures implemented, there is space for improvement to decrease the influence that over-tourism has on housing affordability and accessibility for local residents. According to the World Tourism Organization (UNWTO), there are various possible suggestions that can help decrease the negative impacts of tourism. One approach is to encourage tourism to come during off-peak seasons, rather than only concentrating in high season months, so that prices can be stable throughout the year. Additionally, the creation of different tourist attractions can help attract visitors not only in urban places, but also around less famous tourist areas. Another important aspect is the evaluation and enhancement of regulations, such as implementing traffic restrictions in overcrowded areas. Efforts

should also be made to attract responsible and sustainable tourism travellers. This can be achieved by ensuring that tourism benefits local communities, for example, by increasing employment opportunities for residents and involving them in the creation of tourism experiences. Also, it is crucial to promote tourism experiences that benefit both tourists and local residents, so that a more harmonious relationship can grow between the two (Duignan M., 2018).

Additionally, although these measures are not specific for Spain, and are solely based on own elaboration after analysing current issues of affordability and accessibility for local residents, they reflect some approaches that could be taken by the Spanish government to decrease the negative effects of tourism, such as:

1. *Short-term regulations*: establishing restrictions to limit the number of days a house can be rented for short-term stays. This can limit the transformation of long-term rental units to short-term ones, therefore protecting local housing supply;
2. *Rent control regulations*: limiting the rate at which landlords can raise their rates. This could decrease the excessive rent rises and ensure that housing remains affordable for local inhabitants;
3. *Initiatives for affordable housing*: The government should establish programs to stimulate the building of affordable housing units;
4. *Prioritising housing for inhabitants*: The government should prioritise housing allocation for local residents. These policies are intended to guarantee that residents have access to housing alternatives regardless of the demands of tourism-related demand.
5. *Housing cooperatives*: Cooperative housing schemes, in which inhabitants collectively own and administer housing units. This can assist to preserve affordability and ensure that residents have access to homes.

Considering implementing those above into national and local legislations could improve the current situation of housing affordability and accessibility for residents of tourism-dependent destinations.

## **5. DISCUSSION**

When considering all, it becomes clear that the increase in housing prices in popular tourism destinations leads to gentrification, which causes significant affordability and availability issues for the local residents. Locals cannot cope with the price hikes because their income does not rise proportionally to the price increases, which ultimately leads to them having to relocate to more affordable neighbourhoods. Every stakeholder should benefit from the tourism activity and negative impacts on the local population should be maximally mitigated to avoid tourism hate and social movements by local residents.

This investigation has led to the analysis of the relationship between the tourism and real estate sector, which shed light on the factors that connect them. The real estate sector is involved in tourism through the construction of tourism infrastructures, the fact that tourism related activities are often held in locations related to real estate, and by the fact that the movements of tourists heavily influence real estate prices by demand, environment, and land usage. Moreover, the component of accommodation in the tourism sector has a clear connection to real estate since they are a type of physical property built for a specific use that can be sold, purchased or rented, making them a real estate product by definition. As a result of this analysis, it was possible to identify that the relationship between the real estate and tourism sector is a two-way link, because they both directly and indirectly influence each other. For instance, if there are many tourist attractions in an area the prices of real estate will directly increase. On the other hand, different types of real estate can also have a strong impact on tourism because they provide accommodation for travellers and support the tourism sector, which in turn increases the tourism inflow in the area. To highlight the importance of the relationship between the two sectors, a new term was born: “tourism real estate”.

To identify the impacts of tourism in the real estate market, the case of Spain was chosen since it is one of the most established tourism destinations worldwide and has experienced rapid and steady tourism growth in the past decades. Despite the COVID-19 pandemic Spain has returned to very strong tourism trends, in fact since the beginning of 2023 it has received around 42 million visitors, which demonstrates the strength of the sector in the country. As shown throughout the investigation, the Spanish real estate market has experienced considerable price increases in the past years. Cities like Madrid and Barcelona have started to be overvalued due to speculation and foreign demand.

Furthermore, the thesis has proved that the proliferation of properties for touristic use in Spain has distorted the Spanish residential market due to the transformation of primary residence homes for locals into vacation homes for tourists. The investigation has led to finding surprisingly high percentages of home sales of the Spanish residential estate sold to foreigners. Around 14% of the total home sales in Spain was destined to foreigners.

The studying of the different factors that impact the real estate market has led to the understanding that there is a general lack of data in the matter of how tourism growth influences real estate indicators such as housing prices, external demand for land, and infrastructure development. Despite the lack of research, various correlations leading to rising housing prices were found. Firstly, it is important to consider that a 10% international increase in tourism leads to a 1.31% price increase of housing in Spain. Secondly, the rapid establishment of peer-to-peer platforms such as Airbnb has boosted short-term rentals, further increasing prices for local residents and changing the dynamics of the residential market. As a matter of fact, property owners are now preferring to lease their properties to tourists instead of choosing long-term

tenants, which is less profitable. As a result of the investigation, a high concentration of Airbnb was determined in the city of Barcelona, representing 6.08% of the total rented units in the city in 2020. Consequently, it can be stated that larger flows of tourists increase demand for accommodation, hence raising rental prices (García-López M., et al, 2020).

Furthermore, the tourism sector is heavily dependent on seasonality, which represents a major issue to target, in order to decrease the negative impacts that tourism has on prices for local residents. The case study of Mallorca used in this research has shown that between low- and high season there is usually a 50% difference of occupancy rates.

Moreover, seasonality deeply influences the development of tourism infrastructures such as the construction of hotels. As it was presented previously in the investigation, in low season months, Mallorca had an average of 105 hotel establishment openings. On the other hand, in high season months the number of openings were almost ten times higher.

To achieve the main objective of this research, it was crucial to examine the rapid increase of apartments for touristic use. By taking as an example the city of Barcelona, it was possible to determine that from 2005 to 2020 the number of HUTs multiplied by 116 times. Demonstrating that the larger the tourist flows a city experiences, the more dramatic the influence on the development of tourism infrastructures, as well as the negative effects for local residents.

As this paper highlights, the affordability crisis is one of the most pressing urban problems in recent years. Housing purchases by foreigners in Spain have skyrocketed after the health crisis, which shows that the trend is set to continue in the future, further aggravating the problem. As well, the wealthy European generation X is starting to retire, which will cause more spikes of home sales to foreigners in Spain in the coming years. This shows that Spain and other European tourism hotspots have to take imminent action to protect their local residents from the effects of gentrification, ensuring housing affordability for the long-term.

Finally, the concentration of tourists in destinations like Barcelona and Mallorca have particularly affected locals and contributed to the pressure on real estate and reduced housing availability. "The Airbnb Effect" has pushed many cities (Barcelona, Madrid, Valencia) to enforce restrictions on short-term rental, mandatory registrations of tourist accommodation, and control of urban areas. The Spanish government has tried to address housing and rental issues through a Royal Decree-Law on Urgent Measures on Housing and Renting, however, enforcing these regulations can be very challenging due to the freedom of each Autonomous Community to decide how to implement these regulations. Despite this being an issue, it is certain that each Autonomous Community experiences different amounts of inbound tourists, meaning

that a more centralised approach should be considered to decrease the influence that tourism has on housing affordability and availability.

Apart from the already existing regulations on the matter, this investigation has led to the elaboration of additional, possible approaches that could be considered by the Spanish government to further decrease the negative effects of tourism. These include: short-term regulations, which could limit the number of days a home can be rented for short term stays and limiting the transformation of long-term rental units to short term ones; rent control regulations, which limit the rate at which property owners can raise their rental prices; initiatives for affordable housing, which should encourage governments to establish programs to stimulate the building of affordable housing units; prioritising housing for local inhabitants, which intend to guarantee that residents have access to housing alternatives regardless of the demands of tourism related demand; housing cooperatives, in which inhabitants collectively owned and operated housing units which could lead to the preservation of affordability and ensure that residents have access to homes.

## **6. CONCLUSION**

To summarise the above, the main factor of tourism influencing the real estate market in Spain is the general rise in demand for housing by tourists entailing hikes both in property values and rents. This is caused by the fact that tourists are generally wealthier than the local residents, by the competition for housing between tourists and locals, and by the proliferation of apartments for touristic use that reduce the housing supply for long-term rentals for locals.

Furthermore, the impact of tourism seasonality on real estate demand in Spain mainly influences the hotel occupancy rates, new hotel openings and the demand for HUTs, which makes them skyrocket during the high season but plummet during low-season, causing strong fluctuations in rents. Locals that seek to move in a new home during the summer are likely to get offered much higher rent prices than those who do so in the winter. As a result, tourism demand and pressure in Spain negatively affect the locals by causing gentrification and forcing them to move out of city centres.

Hence, the impacts of tourism on the real estate market are significant, creating strong housing price increases, which benefit current home owner and investors that experience appreciations in the value of their homes and higher rents, improving their return on investment but come at the expense of local residents that do not own any properties, making it increasingly difficult to find affordable housing because rents and property prices increase at a much faster pace than their income. The young generations especially suffer from this evolution since their income is low and

they do not own any properties. Most of them can only afford renting rooms in shared apartments.

Consequently, it is crucial to protect the younger generations from this evolution by reducing the affordability issues for the primary need of shelter by setting up adequate rules and policies. Although certain rules have already been established, the affordability crisis keeps getting worse and more has to be done to ensure that everybody can afford decent housing without spending an enormous share of their income on it. As the wealthy European generation X is retiring, foreign home purchases are set to continue and increase in Spain. The government has to address this issue urgently by implementing more policies such as short-term regulations, which limits the number of days a house can be rented for short-term stays and the transformation of more homes to short-term tourist rentals. Rent control regulations should be established that limit the rate at which the landlord can raise their rates, which would stop excessive rent rises. Initiatives for affordable housing should be undertaken, by which the government should create programs to stimulate the construction of affordable housing units. Prioritising housing for local inhabitants would guarantee that residents have access to housing alternatives independently of tourism-related demand. Housing cooperatives, where locals collectively own housing units should be promoted, which can assist to preserve and ensure that residents have access to affordable housing. These are just a few of the possible regulations that can protect the local inhabitants of Spain from the aggravating affordability crisis.

In conclusion, the investigation has led to confirming that the tourism sector heavily impacts the real estate industry, especially in tourism-dependent countries. However, housing affordability is a growing concern in these countries, and should lead to growing research about the matter so that governments can take appropriate actions to limit the negative effects of the tourism sector on local residents.

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