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**THE IMPACT OF AIRBNB IN THE URBAN ARENA:  
TOWARDS A TOURISM-LED GENTRIFICATION?  
THE CASE-STUDY OF PALMA OLD QUARTER  
(MALLORCA, SPAIN)**

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## THE IMPACT OF AIRBNB IN THE URBAN ARENA: TOWARDS A TOURISM-LED GENTRIFICATION?

The case-study of Palma Old Quarter (Mallorca, Spain).

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### ABSTRACT

Last five years have witnessed the birth and rapid sprawl of Airbnb, an app that offers short-term rentals across the world. Using as a case study the Historical quarter in Palma (Mallorca), the paper problematizes three of the basic self-created Airbnb assumptions: (i) Airbnb enrich low-income population. (ii) Airbnb invigorates the housing market (iii) Airbnb boost forms of tourism more acceptable by local residents.

This paper argues that the emergence of Airbnb is triggering a wave of tourism led-gentrification which is rooted in a substitution of the residential rental by a tourism rental market. This substitution has amongst other, three main consequences which are analysed in this paper. First, the eruption of tourism-oriented rentals as the main, if not only, form of land rent in this quarter. Second, the consolidation of large landowners and real estate agencies specialized on the Airbnb market. Third, an increase in the social contestation against tourism in Palma Old Quarter.

**KEYWORDS:** Tourism Gentrification, land rent, rental market, rent gap, Airbnb, Palma

### 1. INTRODUCTION

#### Brief introduction to airbnb

Airbnb is an intermediary website that puts in contact individuals renting a room or house with persons seeking a non-hotel accommodation while visiting a city. It was created in 2008, after Airbnb founders Brian Chesky and Joe Gebbia decided to supplement their rent in San Francisco by hosting people on an airbed in their living room (Coldwell, 18/03/2016). These spaces vary widely, ranging from a living room futon to an entire island (Wortham, 25/07/2011) but typically involve a private room or an entire apartment or house (Guttentag, 2015:1193). The host may be living there at the time of the rental, or may be absent, possibly operating the housing unit as a permanent rental (Guttentag, 2015:1193).

With two million listings, 640.000 hosts and a market valuation of \$25 billion in 2016, Airbnb is considered to be one of the most successful examples of the so-called shared economy (Martin, 2016).

Since the book by Rachel Botsman and Roo Rogers “*What’s Mine is Yours – How Collaborative Consumption is Changing the Way we Live*” (2011) became a best seller, the “share economy” has become a buzzword for Internet websites acting as enablers and facilitators of the matchmaking process between demand and supply of tourism accommodations (Stors & Kagermeier, 2015:17). Yet unlike several other peer-to-peer collaborative apps, in Airbnb there is a monetary relation, as the guest pays both to the host and to the company itself.

### **Theoretical frame and paper objectives**

This paper thus argues that Airbnb’s *monetary exchange* dimension has deep impacts both in how land rents are extracted from housing and local inhabitants’ access to housing rentals.

Specifically, this paper aims to critically engage and problematize three of Airbnb’s main self-constructed depictions: (i) Airbnb as a platform supporting both young creatives and individuals on low incomes hoping to make extra money out of spare rooms (Coldwell, 18/03/2016) (ii) Airbnb as way to create a typology of tourism more integrated into local dynamics (iii) Airbnb as a way to invigorate housing markets.

The main hypothesis of this paper is that the eruption of Airbnb has entailed a new wave of what Kevin Fox Gotham defined as ‘tourism gentrification’. According to Gotham (2005: 1100-1101) this concept highlights the role of state policy in encouraging both gentrification and tourism development, arguing that the combination of flows of capital in the real estate market and the shift to tourism is what explains gentrification.

Departing from Gotham’s (2005) conceptualization and in light of Airbnb’s impact on the Old Quarter of Palma, this paper aims to develop the “tourism gentrification” concept into three interrelated directions.

First, it is argued that the contemporary process of Airbnb expansion in Spain is not exclusively the result of the combination of the State action, flow of capitals spatially fixing, and tourism, as the literature suggests, but rather, as a combination of the robustness of tourism and the impact of the crisis on real estate agents.

Second, Airbnb-led tourism gentrification boosts a new type of land-based rent capitalization which is now based in short-term tourist-oriented rentals and not anymore in selling or long-term residential rentals.

Third, the process of Airbnb-led gentrification challenges the production -side narratives of Gentrification. Indeed, it is argued that in this particular case of gentrification there has not been an Airbnb-based broad dynamic of capital investment and spatial fixation, rather Airbnb has been an alternative strategy to address shrinking ground rents through residential rents or selling.

Fourth, it is argued that this ‘tourism gentrification’ process is acting through two interrelated *gaps*. On the one hand, there is a *gap* between the ground rent realization through non-tourist rentals and tourist rentals. This *gap* is thus pushing rental housing from the residential market towards the tourist market. On the other hand, there is a second *gap* between the Airbnb housing available days, and the potential days that a dwelling could be rented. This gap may be pushing landlords to try to prioritize the rent-extraction use of the dwelling instead of its use value.

This paper tries thus to develop these issues drawing its insights from the case study of Palma old-quarter. At a specific level, this papers aims to analyse the impact of the Airbnb

accommodation expansion on the dynamics of gentrification and housing availability in the Old Quarter of the city of Palma, which has become one of the most popular Spanish Airbnb destinations.

### **Data and research methods**

The Airbnb data upon the analysis is built on data available on the website [insideairbnb.com](https://www.airbnb.com). From the data available there, and with GIS software analysis and visualization, we have built several maps showing the patterns of distribution of both Airbnb housing unit's and Airbnb housing prices.

In order to fulfil the aforementioned goals, a data-analysis of the basic figures of Airbnb (housing supply characteristics, typology of hosts) and its geographical distribution in Palma Old Quarter is carried out. Second, a comparative analysis between the geographical patterns of the Airbnb rental prices and the average housing market prices is pursued as a way to validate up to which point we can assure that Airbnb boosts a process of 'tourism gentrification'. Third, and based to secondary data, we aim to explore the impact of Airbnb income on households' economies.

## **2. PALMA OLD QUARTER: BROAD TRENDS OF INCOME, TENANCY AND THE IMPACT OF AIRBNB.**

### **Palma old quarter tenancy and income trends.**

Since the eruption of mass tourism in the sixties in Majorca, Palma has become a tourist attraction complementary to the sea and sun spots across the island. Within the contours of Palma city, most of the tourist attractions such as historical landmarks, retail stores and nightlife are located within Palma Old Quarter. This quarter is the historical part of the city, located geographically in the very center of Palma city (see Figure 1).

Figure 1: Location of Palma Old Quarter within Palma (highlighted area).



In Palma Old Quarter, there are 22.847 inhabitants (INE, 2016), and 1.896 tourist beds in official tourist accommodations (mostly hotels and some legalized tourist apartments). Regarding the population main occupations, up to 39% of population have a full-time job, whereas the rest of the population are retired, unemployed, students or part-time salaried (see figure 2). Within the 39% of inhabitants which have a full time job, most of them have salaries which are below 2000 €/month.

Figure 2: Main Occupations in Palma Old Quarter. Source: INE, 2016.

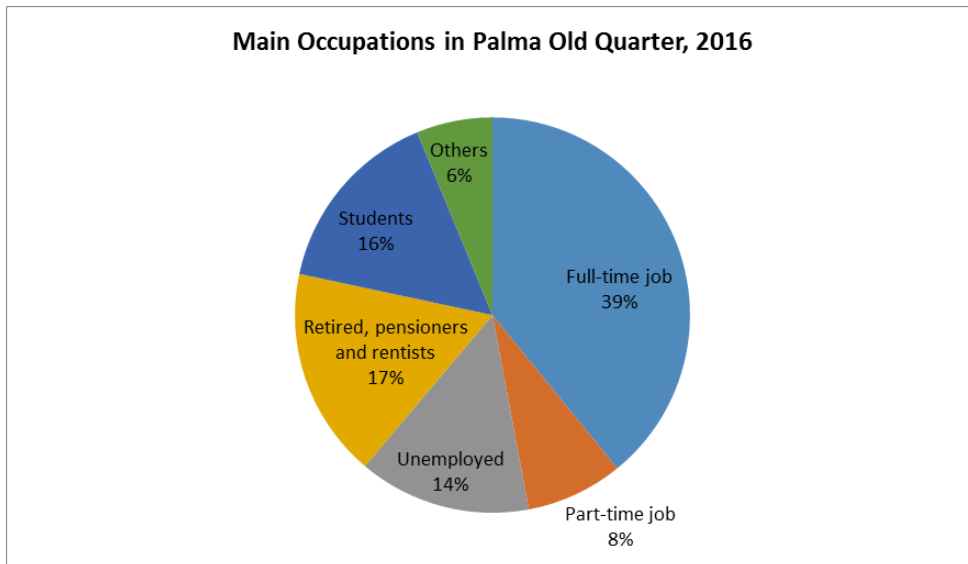
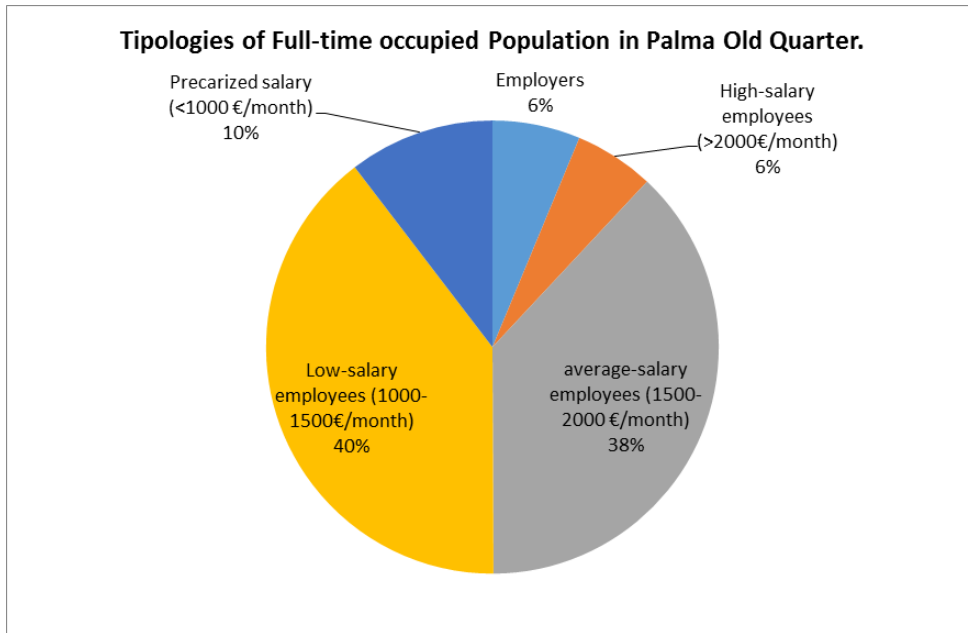


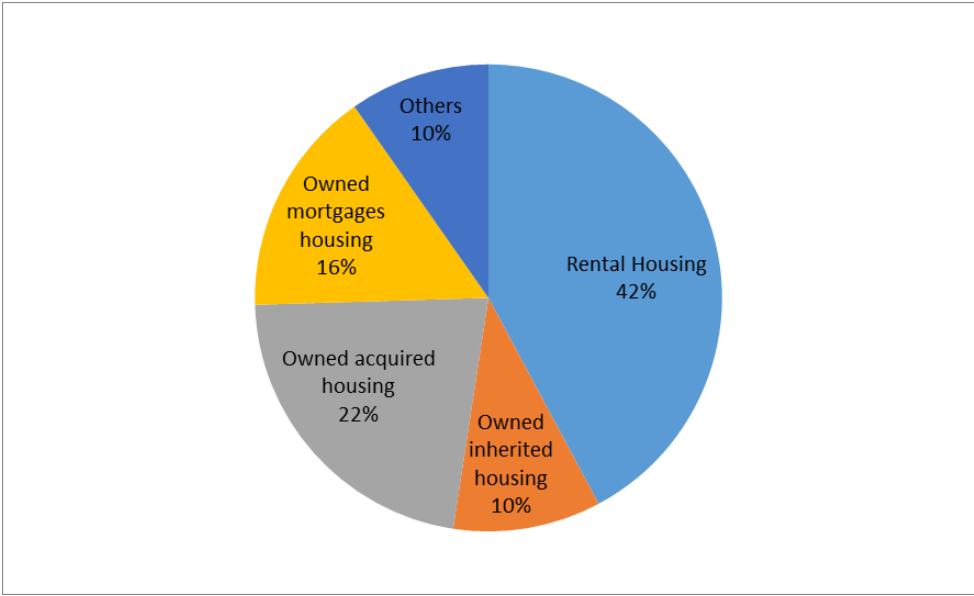
Figure 3: Typologies of Full-time occupied population in Palma Old Quarter. Source: INE, 2016



This means that there is a large amount of population that would have difficulties in accessing to the rental market in the Old Quarter if they needed to do so. On the one hand, large shares of the non-employed (14%), Part-time workers (8%), students (16%) and retired (17%) cohorts –up to 55% of population- would find difficulties in accessing a rental housing market in which the current average price is of 1200 €/month. Moreover, within the full-time job group (39% of total population) eight out of ten inhabitants not have high salaries.

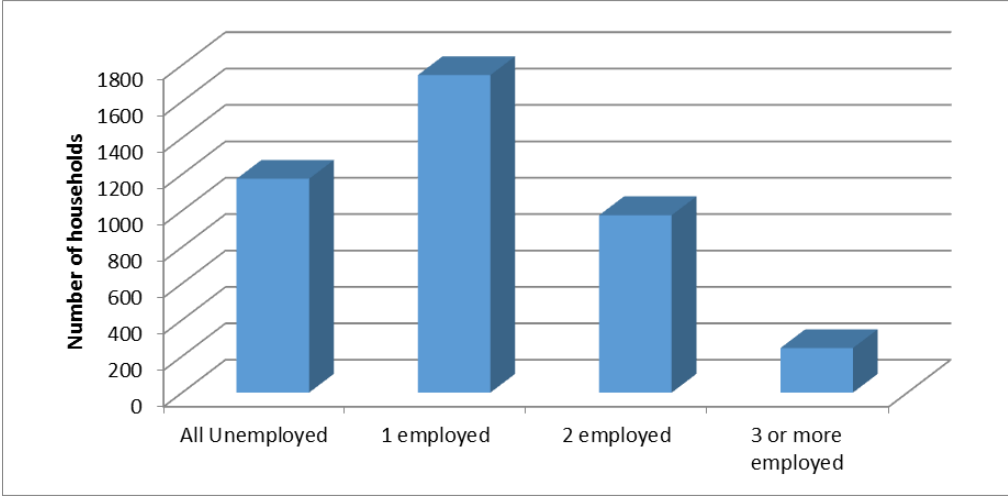
To put it in other words, 90% of population in the Old Quarter could be potentially affected by increases in the rental market. Yet as large parts of the population (up to 48%) in this Quarter are homeowners (see Figure 4), homeowners are not affected by this trend. In this regards, changes in rental prices may affect to the 42% of population living in rental housing.

Figure 4: Typologies of housing tenancy in Palma Old Quarter. Source: INE, 2016



Within the households that are part of the rental housing system, most of them are composed by families with all members unemployed or with 1 or 2 members employed. To put it in other words, rental households' inhabitants could potentially be seriously affected in most cases by an increase in the rental prices.

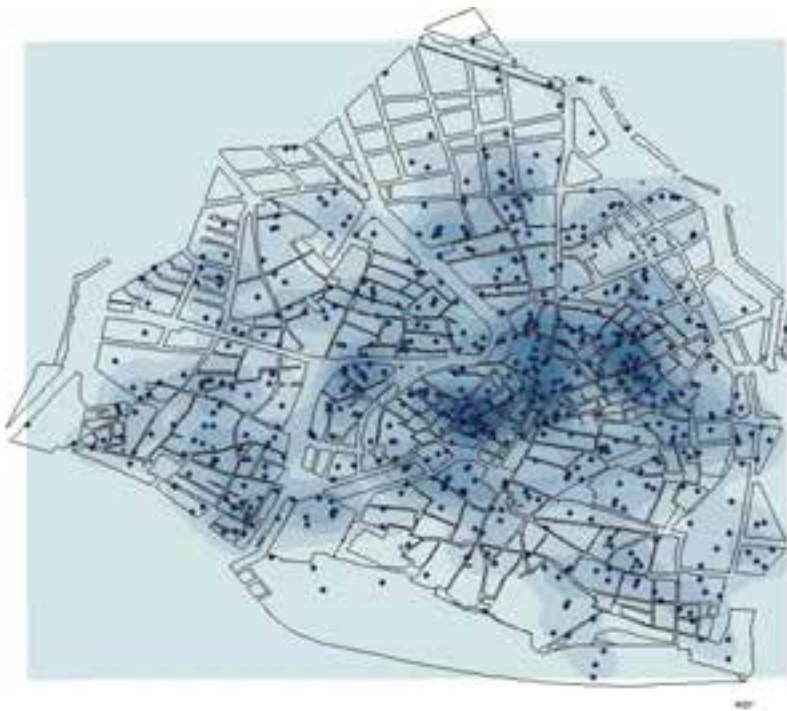
Figure 5: Occupation status in Palma Old Quarter's rental households. Source: INE, 2016.



**Spatial and temporal spread of airbnb .**

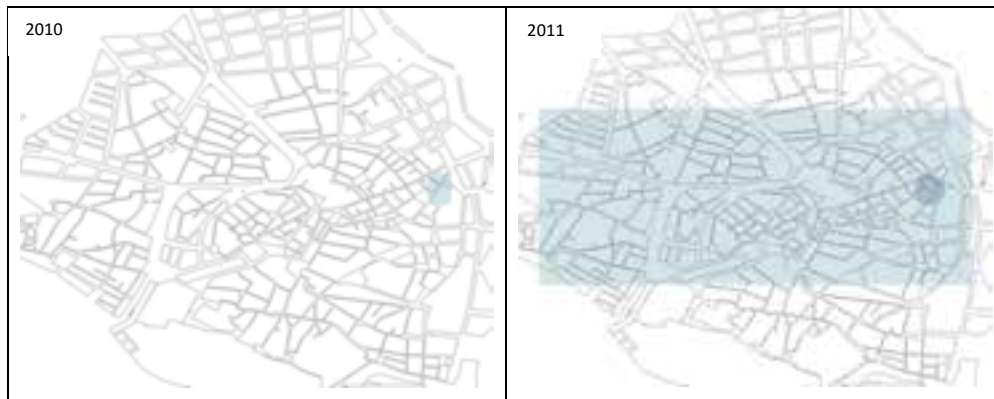
The geographical proliferation of Airbnb is massive: there are Airbnb units spread all across the Old Quarter, but there are some areas which there is a particular proliferation of this type of housing: the areas around the geographical center of Palma Old Quarter and the eastern parts of this quarter (see Figure 6). This area forms part of Sa Gerreria neighborhood, which has had a long history of gentrification processes since the nineties.

Figure 6: Distribution of Airbnb Units in Palma City. Source: own elaboration from Insideairbnb.com



The geographical and temporal spread of Airbnb in Palma Old Quarter has mainly taken place between 2012 and 2015, when most of these advertisements were created (see figures 7 and 8).

Figure 7: Geographical Density of Airbnb units across Palma Old Quarter (2010-2015). Source: own elaboration from Insideairbnb.com





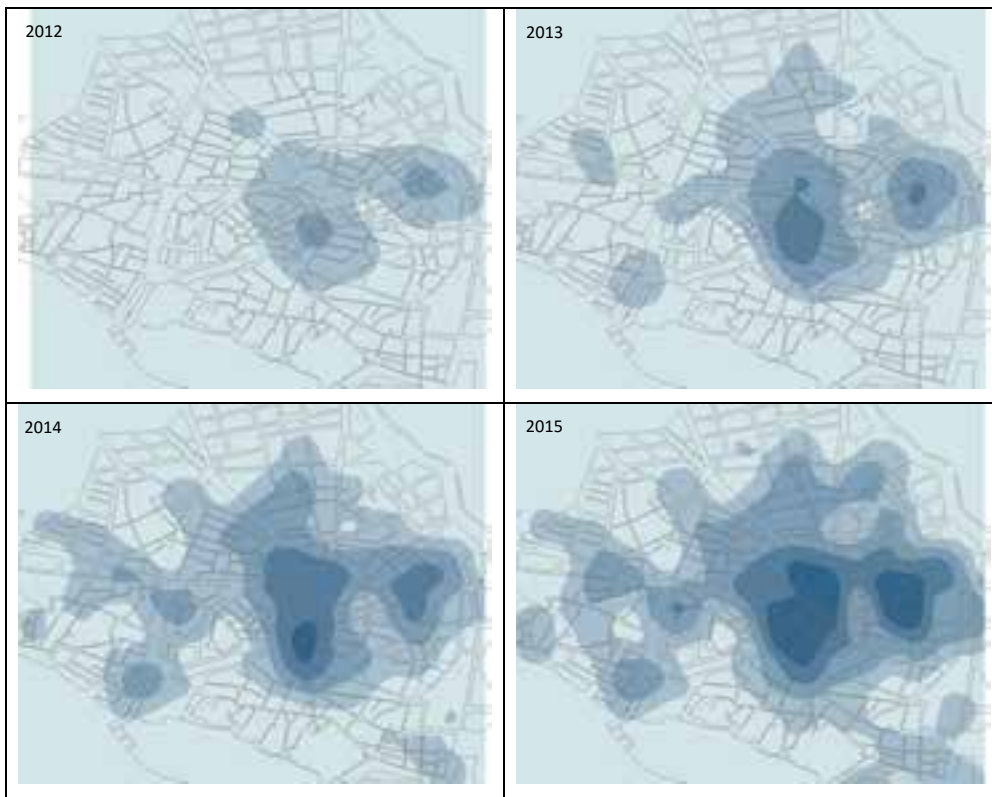
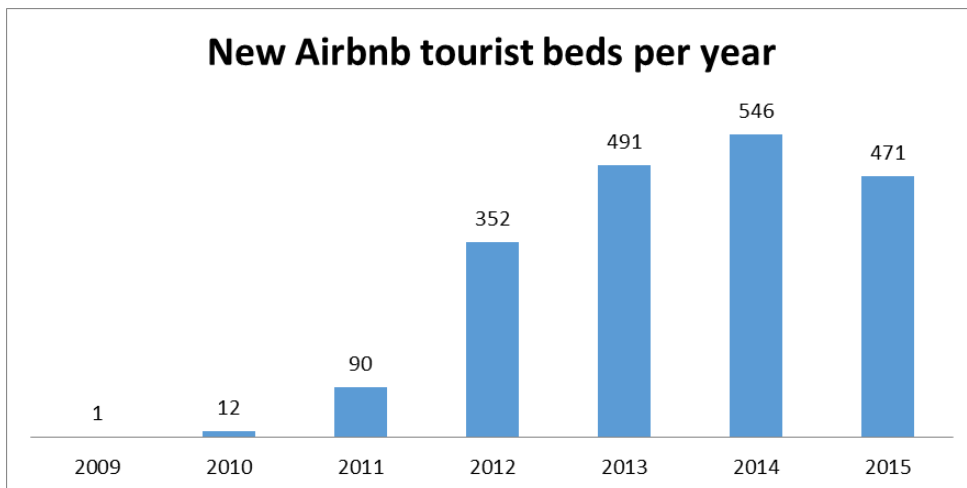


Figure 8: New tourist beds incorporated to Airbnb in Palma Old Quarter (2009-2015). Source: insideairbnb.com



Sa Gerreria neighborhood –the epicenter of Airbnb- was in the seventies and eighties the red-light district of Palma, widely known for being a center for prostitution and drug trade. In 1995, a city-led Special Internal Reform Plan for the neighborhood was approved, which consisted in the development of several urban development projects sponsored by the EU, which led to the renewal and rebuilding of most of the neighborhood. This led to a massive

increase in the selling prices of the refurbished dwellings in the area. According to Vives-Miró (2011) before the approval of the PEPRI, the selling prices in Sa Gerreria were more than four times below the city average, whereas in 2008 Sa Gerreria prices more than doubled Palma's average selling price.

Yet since the eruption of the financial crisis in 2008, as ground rent capitalization through house selling became increasingly difficult due to the decreasing demand, Airbnb has emerged as an alternative land rent extraction strategy.

## 2 ARE AIRBNB ARGUMENTS REAL IN THE CASE OF PALMA OLD QUARTER?

### **Airbnb is helping to boost income of households.**

#### *(i) Which houses are rented for Airbnb?*

The first important aspect to consider is that, according to the 2011 Spanish census, 23.63% of dwellings in the Old Quarter are either 'empty' or 'second residences'. This percentage goes up in Sa Gerreria neighborhood, where the non-primary dwellings are around 1/3 of the total amount of dwellings. In fact, there are 3.035 houses in the Old Quarter that are not classified as main residences, and of those, up to 2.525 houses are located in Sa Gerreria. This means that there is a large part of the housing stock is *a priori* ideal to develop Airbnb activities. In fact, the houses currently being listed in Airbnb are 774, still much less than the 3.000 houses that are not main residences according to the census.

There is no direct evidence that the Airbnb listings are actually of those houses which are officially registered as non-main residences. Nevertheless, there are two indicators (typology and availability of housing units) which indirectly show that the houses listed in Airbnb are not main residences.

Regarding the typology of units rented, 85% of Airbnb beds correspond to houses that are entirely rented and 15% to rooms rented. This means that in the 85% of cases, house owners are not at the house when rented, that is, the main purpose of these houses is not its everyday life use but to create rental profits. In the entire houses rented, the average days available are 309 days/year. In 69% of the entire houses rented, these are rented for at least 300 days/year. This means that in most of the Airbnb market, the only if not only, the use made by its owners is a rent-based one, or in other words, owners seek to realize the *exchange value* of the dwelling. On the other hand, in roughly the 40% of Airbnb units there is some sort of a combination of the use of the house by its owners and the use of the house as a source of rents (either through entire houses rented parts of the year or rooms rented within houses).

But in order to better grasp this, the focus also needs to be on not which use is given to the houses but also who the agents who own and/or advertise the houses.

#### *(ii) Who rents Airbnb houses?*

One key issue is that the hosts who only offer one house are in control of 713 tourist beds, that is, 36.25% of the Airbnb 'share' in Palma Old Quarter. These are the type of hosts that

could match with Airbnb's description of 'low income' hosts. Indeed, there is the possibility that a large amount of these are those who rent a room or houses not all the year. Even in this case, it is improbable that these hosts are all 'low income' (15% of Airbnb market is based on room rental, but hosts listing just one house are 36%). The most likely scenario is that the bulk of this group are middle-class renting second residences and/or low income population renting a room, but it is very unlikely that these are real estate corporations or big landlord rentists .

But almost 2/3 of the Airbnb market in Palma inner city is controlled by a wide array of actors that have two or more listings in the Airbnb webpage. A majority of Airbnb hosts offer between 2 and 10 houses, but some of the Airbnb listings are controlled by owners that have between 10 and 678 houses listed on Airbnb. This show is that there are real estate companies that are increasingly extracting rents through Airbnb instead of residential renting or selling markets.

### **Airbnb helps to boost the housing market.**

(i) The first gap: current availability and potential availability of Airbnb

Regarding the Airbnb rentals price distribution, the more expensive Airbnb rents are located in the areas around scattered areas in the periphery of the city. Most of the rentals in the city have similar prices, ranging between 1000 and 3000 euros per month, with an average rental price of 2200 €/month. At the same time, there is not a strong correlation between the areas where Airbnb rental prices are higher and areas where is a larger concentration of Airbnb housing units (see Figure 9).

| Figure 9: Month rental prices of Airbnb housing units. Source: own elaboration from Insideairbnb.com data.

Con formato: Centrado,  
Interlineado: sencillo



Beyond the geographical distribution of Airbnb prices, there are two rent gaps which can potentially be grasped through Airbnb rentals.

The first gap is determined by the availability of the Airbnb units, as not all of the dwellings put in the market are available all days. In a way, this gap between the available days also shows the gap between those housing units fulfilling land rent capitalization and those housing units which have not fulfilled Airbnb-led land rent capitalization.

This, at the same time, what is showing is the areas which the only use made of Airbnb houses is a lucrative one, and other areas where there is still some sort of combination of a

To put it in other words, It is not the same those dwellers who rent one room or the flat for a few days in the year that those who rent a flat on a 365 days/year basis. Whereas in the first case housing has a role both as use value and exchange value, in the second case the main role of housing is as an exchange value.

Figure 10. Availability of Airbnb housing units (dark color: 365 days/year, lighter colors less availability). Source: insideairbnb.com



In most of the Old Quarter, this gap is nonexistent, as Airbnb houses are offered 365 days/year (figure 10). Interestingly enough, in the neighborhood of Sa Gerreria in the northeast part of the Old Quarter and in Sa Calatrava in the southwest are the areas where this gap is existent (figure 11). These areas, and particularly Sa Gerreria, are zones where there is a big potential in profit-making.

Figure 11. Rent gaps between current and potential Airbnb monthly prices (dark color: large gaps between current and potential gaps: lighter colors: less gaps between current and potential gaps). Source: insideairbnb.com



(ii) Second gap: Airbnb versus rental prices

The second gap is determined by the difference between the prices of rental markets and the prices of Airbnb units. Interestingly enough, the difference between the average Airbnb prices and the rental prices is of roughly 800 €/month. Indeed, the average rental price in Palma's Old quarter is of 1240 €, whereas the average Airbnb rental price is of 2034 €. Broadly speaking, Airbnb rental prices are thus *higher* than in the non-touristic rental market.

Yet at a more specific level, available data shows that the difference between the prices within the Airbnb market is much higher than in the case of the traditional rental market (the standard deviation in the case of Airbnb units is of 1271€, whereas in the case of others rentals 652€). This shows how deep is the spread of Airbnb in the housing market: all type of housing units and thus all housing prices are involved in such a process.

But more than a gentrification via traditional process of rental increase, what is actually taking place is a process by which there is a *substitution* of the market: the overall rental market is now placed on Airbnb, whereas the web platforms which are meant for non-touristic rentals have noticeably much fewer listings than Airbnb. This can be grasped only through a quick overlook to the webpages. In the case of Palma Old quarter, there were around 700 listings in Airbnb whereas in three web pages addressed for the non-rental market, there were just 49 advertisements.

Furthermore, several of the 49 non-Airbnb advertisements were also oriented and/or used with tourism purposes. Yet even within these residential oriented rentals, there are some of these advertisements (15% approximately) whose particular goal is to pursue either short term rentals (with a clearly touristic vocation since the rental period coincides with the touristic season) or rent contracts opened to selling agreements.

In any case, what this is actually showing is a *substitution* of the rental market. There is not anymore rental housing for residents: most of the housing has gone to tourism-oriented rentals.

Second, this vanishing process of the rental market means at the same time an increase in the *potential number of tourists* and the *threat of displacement of rental population* towards other parts of the city and/or the island (which are also facing pressure from Airbnb). Airbnb housing units in 2016 are meant to host up to 2.971 individuals (InsideAirbnb, 2016) in an area where there are 21.760 inhabitants.

To put it shortly, there is indeed a reactivation of the housing market, as Airbnb is indeed boosting the rental market. Yet this rental market is tourist-based, and thus, this new housing rental niche is not meant for local inhabitants, but to attract visitors.

### **Airbnb boost forms of tourism acceptable by local residents.**

Contrary to what Airbnb argues, the increase in tourism is increasing the threat of displacement of local inhabitants. It is worth to remind here that 8805 inhabitants in Palma Old Quarter (40% of inhabitants in the area) live in rental houses. Therefore, these inhabitants are most likely facing two important pressures coming from tourism-led rental specialization. On the one hand, the uncertainty that several of these tenants may not have their contracts renovated as the landlord may decide to rent it through Airbnb or other tourist-oriented platforms. The second important distress factor is that the rentals may increase as there is a rent gap between residential rentals and tourist rentals.

These changes in Palma Old Quarter are framed in the broad shifts in tourism in Mallorca. Last two years have witnessed an increase in tourism arrivals in the island. Indeed, there is a huge increase in the arrivals of tourists in Mallorca in the last five years. From 5.950.560 tourists in 2010 the number of tourists rose up to 9.650.469 tourists in 2014. This is very much related with the sociopolitical turmoil in similar touristic destinations such as Morocco, Tunisia, Egypt, Turkey and others.

Within this context, the eruption of Airbnb has meant that there has been a considerable boosting of the number of tourist accommodations in the island, which in part has been hosted through this Airbnb increase.

Regarding Palma Old Quarter, the official tourist accommodations were of 1.365 tourist beds in 2015, whereas Airbnb units have up to 2.971 tourist beds. This means that Airbnb more than doubles the tourist beds coming from the hotel sector.

As in other parts of the city of Palma and in Mallorca Island this has meant an increase in the daily presence of both tourists and in the contestations against this very process. Regarding the daily presence of tourists, this is very much connected with issues that go beyond the scope of this paper: the de-facto privatization of several parts of the city through the spread of bar terraces or the proliferation of retail stores in key touristic streets in the Old Quarter. In this sense, one could broadly speaking argue that Airbnb is consolidating a model of what has been labelled as a 'city of rents' (Charnock et al, 2014).

In this sense, the main visual manifestation of this contestation has been the spread of graffiti across the Old Quarter with mottos such as "Tourist Go Home. Refugees Welcome", "Tourists you are the terrorists", "Guiris Go Home" or "El Turisme destrueix la Ciutat" (Tourism destroys the city" (See figures below).

Figure 12: Recent graffiti against tourism in Palma Old Quarter (Spring 2016). Sources: Diario de Mallorca and Ultima Hora newspapers.



This also shows changes in the nature of the contestations that are being held against tourism. Mallorca has had a long history of social contestation which has been mainly aimed to stop the sprawl of tourism urbanization across the island countryside. These contestations have been articulated through the environmentalists' movement (such as GOB and other ecologists groups). To put it shortly, the main strategic goal of these movements is to stop the construction of new hotel or housing tourists developments across the islands. In the current context of economic crisis, demonstrations against these types of developments have multiplied as new development project emerged.

Figure 13. Environmentalist contestations. Source: Diario de Mallorca and Ultima hora newspapers.



Yet there has not been such as an articulated response for the tourism. As in other cities in Spain, the PAH movement has been active stop the widespread eviction issue in the city. Yet so far, there has not been such a movement regarding tourism growth. At the same time, several Facebook groups in which there have been created by and for younger people trying to get affordable rents either in Palma City or the Old Quarter of Palma. The most common comments within these groups is the complaint about both the lack of housing for rentals and the high prices of these rentals. Yet surprisingly enough, there is not any complaint regarding the spread shift towards tourism rental that the rental market has suffered. This what actually shows is the lack of visualization and problematization of



Airbnb not only within the politically active social movements but also amongst the public opinion. Nevertheless, there have been very active contestation and/or complaints against the type of tourism that Airbnb actually boosts. Therefore the tourism promoted by Airbnb is not seen as more friendly by residents, as this type of tourism is seen as opposing to the everyday life of locals.

## BRIEF CONCLUSIONS

In relation with the 'tourism gentrification' thesis, a preliminary analysis shows that in the Old Quarter, the emergence of Airbnb has possibly meant an increase in the rental prices, and definitely a decrease in the non-tourism rental market. Thus, a potential displacement threat for residing population is arising from Airbnb.

On the other hand, there are several real estate agencies and local landowners that are using Airbnb as a way to put into the market housing units with low demand. Yet there is still a minority of hosts (average profile of young people with precarious jobs or unemployed) which supply a room and/or their own house as a mean to get an additional source of income. In any case, Airbnb perpetuates and even accentuates class and property tenancy differences.

In this way, it may be the case that because of the impact of the economic crisis on households, tourism, and particularly Airbnb, helps to boost a mobilization of the exchange value of dwellings, which, is mainly helping real estate developers.

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