

# AIRBNB IN MEXICO CITY:

**Closing the Income Gap and Expanding  
the Economic Benefit of Tourism**

Mexico City Case Study

## Executive Summary

Although collaborative consumption existed before in the form of homestays, technology has given it a new dimension. It enables different levels of interaction and connects people in different places.

Airbnb is one of the leading players in the home sharing segment. As with other platforms, it has allowed people to unlock the productive capacity of unused capital. In the past years, this online platform has allowed several cities and towns to accommodate visitors when demand peaks. This has reduced the need to build infrastructure that will not be sustainable after large-scale events such as the Olympic Games, while providing lodging alternatives that did not exist before.

Mexico City has sixteen municipalities or boroughs, but hotels are mostly concentrated in a few of them: Cuauhtémoc, Miguel Hidalgo, and Benito Juárez. These are also the places where most of Airbnb's listings are, except for Coyoacán. While Coyoacán is the 4th borough with the most Airbnb listings, it is 9th place in hotel room availability. Even though Coyoacán is considered a tourist destination, there are not many hotels in the area. Therefore, Airbnb offers an opportunity for visitors and other players in the local economy that otherwise would not exist.

As well as in many other places, it is still a challenge to estimate the social and economic impact that Airbnb and similar platforms have had. Particularly because they still have a small presence relative to a more traditional touristic infrastructure. For example, in Mexico City, in December of 2015, there were 27,000 booked travel nights in Airbnb listings, while in hotels there were 956,868. This is 35 times more nights booked in hotels than in Airbnb listings.

Amidst the complexity, we can estimate the impact on household income for the hosts. Placing assets in platforms such as Airbnb can provide an attractive option for travelers and an important source of income for families. With data from Airbnb and the National Household Income and Expenditure Survey (ENIGH), it was possible to calculate the actual and the potential economic effect for hosts in the four mentioned boroughs.

We found that the income obtained by Airbnb hosts<sup>1</sup> was significant when compared to yearly average household income measured in the National Household Income and Expenditure Survey (ENIGH). Even when the listing was a private or shared room, the income obtained through Airbnb was considerable for those families. For example, in the borough of Cuauhtémoc, where the yearly average household income is the lowest of the four boroughs that were analyzed, but where hotel presence is the highest because of its proximity to touristic activities, Airbnb income accounted for 22% of the average household income when the listing was a private or shared room. When the listing was an entire home or apartment, Airbnb income was 60% of average household income<sup>2</sup> in the borough.

As with every new technological innovation, a public debate has arisen regarding how to regulate new forms of transactions. These discussions have attended concerns related to the effects of short term rentals, or how labor law applies to certain schemes. However, because each city and every industry is different and technology always seems to move faster than legal frameworks, the challenge is for governments to be flexible and adapt to explosive growth of technology and its fast changing markets.

Finally, it should be emphasized that sharing economy platforms can play an important role in sharing information that can contribute to move towards more flexible regulations. Information can help authorities improve the design and delivery of better oriented policies and public services that benefit and protect the long-term interests of all stakeholders.

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<sup>1</sup> Yearly income was estimated using 2016 average price per night and assuming four rented weeks a year.

<sup>2</sup> It is important to consider that income variance among the boroughs (*municipalities*) is a variable that should be considered. This analysis is done with an average.

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### 1. Introduction to the Sharing Economy

The “Sharing Economy” is an all-encompassing term used to describe peer-to-peer transactions where assets or services are accessed or shared between private individuals, either free or for a fee, typically by means of the Internet (Oxford Dictionary, 2017).

Innovation is one of the terms most often associated with the sharing economy, which created a new concept: people as businesses. The largest sectors involved in sharing economy, and the most visible in Mexico, are home-sharing and ride-sharing, led by Airbnb and Uber respectively.

The sharing economy has given rise to “collaborative consumption” by leveraging technology and online communications to share goods and services. Consumers can “obtain” but also “provide”, temporarily or permanently, valuable resources or services through direct interaction with other consumers, or through a mediator or third party involved that facilitates the transaction between the parts, and usually sets the terms for exchange. Although the idea of collaborative consumption is not new, technology has given it a new dimension, allowing different levels of interaction and connecting people that are not in the same place.

Activities resulting from the sharing economy can take many forms such as recirculation of goods, utilization of durable assets, exchange of services, sharing of productive assets. Therefore, it can affect many industries, from people wanting to rent a car (Carrot Mx), share parking spaces (Parkeo), or zero emission courier services (Kangou), to finding your next roommate (Dada Room).

#### 1.1 Benefits of the Sharing Economy

For decades now there has been concern over excess consumption and its effects on the environment. Specialists describe how technological platforms allow for more collaborative consumption, giving more options to consumers who “reject mass production in favor of personalization, artisanal work (rather than factory labor), local economies (over global ones), authenticity (over a culture of plastic), and deeper engagement with the material world (Carfagna et al., 2014).

In other places, the sharing economy can also be seen as a way to compete in areas where monopolies or oligopolies have deterred competition, reducing options for consumers and keeping high prices and/or bad services.

Experts that have analyzed “the new sharing economy” describe it as a “progressive, disruptive force that makes economies more efficient and distributes value to consumers” (Botsman, 2010; Geron, 2013). Other authors have addressed the topic from different perspectives, which include its positive impact in the reduction of ecological footprints, and the creation of economic opportunities, together with decentralized collaboration (Gansky, 2010; Sperling, 2015). Many see peer-to-peer (P2P) consumption as more genuine than the de-personalized culture of the mainstream consumer sector (Cohen, Szejnwald & Brown, 2017).

In this regard, technology has the potential to empower ordinary people, make consumption more efficient and better allocate assets. For example, carpooling has the potential to decrease traffic congestion and therefore carbon dioxide emissions in urban areas. Home sharing reduces the amount of infrastructure needed in events where demand peaks, such as the Olympic Games.

It was possible to find homestay lodging options before the emergence of the peer-to-peer accommodation rentals, which became even more accessible with network platforms (Rakovets, 2016). However, the innovation and introduction of high-tech online tools led to the creation of platforms like Airbnb, opening an option that did not exist before. Owners can now offer an asset that otherwise would be sub-utilized, while travellers can find more choices and information, sometimes in places where it would otherwise be impossible to stay. Home-sharing platforms give use to assets that had no other allocation.

According to the study *Cities, The Sharing Economy and What's Next* (2015), adults in the United States that are familiar with the sharing economy see it as something beneficial. Among the findings, the study revealed that 89% agree it is based on trust between providers and users; 86% agree it makes life more affordable; 83% agree it makes life more convenient and efficient; 78% agree it builds a stronger community; 76% agree it's better for the environment; and 63% agree it is more fun than engaging with traditional companies.

It should also be noted that the sharing economy is more aligned with millennial preferences<sup>3</sup>, where having access to goods and services is more important than owning them.

### **1.2 Sharing Economy and the Term *Gig Economy***

In the sharing economy, businesses are able to unlock value or unused capital that people possess –in the form of goods or services-, and make it available for someone else through community-based online platforms. In parallel to this trend, the term “gig economy” has also emerged.

Although there is not a general agreement on the definition of gig economy, researchers agree that it is a labor market of short term contracts based on temporary jobs, whether professional freelancers or people working small multiple jobs on-demand through online platforms that connect providers and customers (Brinkley, 2016; Kuhn, 2016; Warner, 2015). In the gig economy workers have multiple streams of income instead of the traditional single, full-time job, while controlling the specific work they do and the hours they commit to it.

This trend also responds to businesses reducing staff and to preferences of the Millennial generation in the workforce. This generation is characterized by their ability to change jobs more frequently than previous generations, and by a growing tendency to freelance in order to increase work-life balance (Rouse, 2016).

Some argue that sharing economy platforms have grown the gig economy, affecting workers because the P2P model does not have labor protection, and sometimes wages are lower (Rogers, 2015). This argument is mostly used in countries where labor unions are strong and labor demands high.

Some sharing economy platforms are prone to deal with the dilemmas of the gig economy that arise from workers searching for income by taking small, temporary side jobs. In the case of home sharing, this is not a dilemma because it's about unlocking the productive capacity of unused capital. While short-term rentals represent an additional stream of income for the hosts, this income stems from the untapped potential of the space, and not from the skills the person has.

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<sup>3</sup> Although there is not a precise time frame for this group, also known as the Generation Y, it is usually assumed to include those born between 1982 and 2000. Millennials are digital natives, considered tolerant and diverse, community oriented and with an entrepreneurial mind-set. (National Chamber Foundation, 2012). In April, 2016 Millennials surpassed Baby Boomers as the nation's largest living generation. (Pew Research Center, 2016).

## 2. The Hospitality Service Industry and Airbnb: Perspectives and Impact

With over four million listings around the world (STR, 2017), Airbnb is the biggest sharing economy platform in the hospitality service industry, albeit not the only one in the sector. Other platforms (profit and non-profit) include Homestay, Couchsurfing (which allows people to stay in someone's home for free), Wwoof (aimed at people that want to learn about organic farming), and Culture GoGo (focused on those who want to learn a language).

Airbnb is essentially an online platform through which ordinary people rent out their spaces or properties as accommodation for travelers. These spaces vary widely but typically involve a private room, an entire apartment, or a house. Airbnb's distinct appeal centers on cost-savings, household amenities (full kitchen, washing machine, dryer), and the potential for more authentic local experiences.

As of November 2016, Airbnb reported having over three million listings worldwide. By raw number of listings, this was nearly three times the number of rooms of the newly combined entity of Marriott International and Starwood Hotels & Resorts Worldwide (STR, 2017).

The Airbnb website ([www.airbnb.com](http://www.airbnb.com)) resembles traditional accommodation booking websites, where searches are based on destination, travel dates, and party size. The website yields a list of available spaces that can be refined by attributes such as price, neighborhood, and amenities; individual listings can be selected with even greater detail, which generally consists of a description, photographs, and reviews from previous guests.

To book or rent out a space, a person must have an Airbnb profile. When interested in a property, the traveler will send the host a reservation request or message to learn more about the space and/or ask questions. The host then may respond, ask any questions about the guest, or accept the reservation. It is worth mentioning that one of the key components of the platform is the trust factor between users, where reviews and feedback play a central role. All the bookings and payment transactions are made through the Airbnb platform. Airbnb earns its revenue by charging hosts and guests a minimal fee from every booking made on the platform.

### 2.1 Airbnb Users and the Value of Experience

There is a rising demand from visitors seeking unique, participative and more authentic experiences, distinguishable of massified and standardized products and services. With home-sharing platforms, users are able to book properties or rooms with local hosts, which enables them to experience places directly. The interest in experiences, combined with the declining costs of travel, has been a boon to the tourism industry (Goldman Sachs, 2016).

The contact with local communities is part of a growing trend that has an effect on top travel brands developing services to satisfy the demand of consumers for travel experiences, which includes the rise of curated/upscale homestays where visitors can experience "local living" (The Rise of the Experiential Travel, 2014).

Most Airbnb guests are primarily leisure-oriented, which leaves bookings for business travel to hotels, which have more than 99% of the market (STR, 2017). In terms of travelling costs, John (2013) points out that for people that are more thoughtful about their expenditures, the existence of hospitality exchange platforms allows them to find cheaper lodging alternatives faster. This is more in line with the resource-saving culture.

The report *Investing in the Millennial Effect* (2016) has pointed out that Millennials are the largest demographic wave in history, with consumption preferences that favor e-commerce and sharing-economy tourism (they are the first generation of "digital natives"), as they are more likely to be interested in experiences. Millennials will soon become the main economic engine of wealth creation and consumer spending, representing as much as 75% of the global workforce by 2025.

In the case of Mexico City, Airbnb has a broad distribution of listings around the city. Many are concentrated in the same areas as hotels, but there are also many listings that allow users to experience and explore the city by staying in a place where only residents have access. Such is the case in the borough of Coyoacán, where there are not as many hotels but Airbnb has a considerable number of listings.

## 2.2 Hotel Industry

Regarding the concerns raised on the potential impact of home-sharing platforms on hotel demand, research on the subject has not been conclusive. Evidence suggests that most hotel category performance continues to show strength while following their normal cyclical trajectory. And when demand has slowed in some hotel categories (particular the high end), it is difficult to know what variables caused the fluctuation.

The *Airbnb and Hotel Performance Analysis* by STR (2017) aims to provide the most comprehensive comparison of Airbnb and hotel performance data ever reported. The study analyses 13 global markets (Boston, London, Los Angeles, Mexico City, Miami, New Orleans, Paris, San Francisco, Seattle, Sydney, Tokyo and Washington D.C.), and concludes that while Airbnb's share of total accommodation supply is growing, its share of market demand and revenues is still generally below 4% and 3%. It also reports a hotel average daily rate increase in all cities but Paris, in the year ending July 2016. This is a sign that most destinations have not had a significant negative effect on hotel revenues.

In the study *Who Benefits from the Sharing Economy?* (2016) the authors suggest that Airbnb listings could eventually have negative impacts on local hotel revenue, particularly those at the lower end of the market, hurting established local providers and their employees. Considering that home sharing is another option for travelers it should be seen as another competitor. However competition is also a big opportunity to focus on the core business, particularly when tourism has not stopped growing, therefore it is not necessarily a zero sum game. Recently, big players, such as Hyatt's CEO, have expressed how the entrance of platforms such as Airbnb has lead them to focus and grow on their core business which is providing services to the high-end traveler (CNBC, 2017).

As pointed out in this same study, Airbnb and similar platforms may initially be seen as disruptive, nevertheless, they might end up carving out their own niche while some leading hotels might focus on their core business and/or offer some services that resemble a homestay experience.

## 2.3 An Option when Demand Peaks

Airbnb has allowed many cities to host visitors when demand peaks. This has reduced the need to build infrastructure that will not be sustainable after the event, while providing lodging alternatives that did not exist before.

For example, one of the biggest problems in Rio Olympic Games 2016, was the lack of hotel rooms. When the city won the Olympic bid in 2009, it had half of the 40,000 hotel beds required by Olympic officials. New hotels were built to reach the minimum number of beds. However, even more rooms were needed. Airbnb played an important role in the solution offering 20,000 spaces for Olympic visitors, and the company also signed a deal to become the official "alternative accommodation" sponsor of the 2016 Olympics.

Airbnb had the capacity to provide the solution because of its flexibility: its supply of rooms did not require a millionaire investment development project, nor the approval from city building officials. By the end of the Games, there were no new hotels that could face the problem of underutilization.

The case for Brazil is one of the most studied, however this is true for many other big events and/or holidays. According to the STR analysis (2017) in Mexico's Formula 1 Grand Prix, hotel demand increased by 20% and occupancy rates went

from 19% to 69%. Airbnb demand increased by 167%, equating to an additional 900 units sold. Another similar case was the Boston Marathon of 2016, where the average hotel room was priced at \$237 usd, 5% higher than the prior Boston Marathon. During the event in 2015, there were 76% more Airbnb units available (1,831 in total), and demand increased 63% (or an additional 379 units sold) from the previous year. The increase in supply gave guests more options, likely undermining hosts' ability to drive rates. Finally, in the San Francisco Super Bowl 50 celebrated in February 2016, Airbnb supply increased 105% over the same Sunday in 2015. Demand increased only 76%, therefore it failed to keep pace with supply and led to the curious outcome of negative occupancy growth (-14%).

As can be seen, home-sharing platforms have an enormous impact when demand peaks. Particularly, because it is not efficient to build new hotel infrastructure to accommodate one-time guest, sporadic or once a year events. Home-sharing rentals are not only an attractive alternative to compensate the lack of accommodation in certain moments, but they also open up the possibility of staying longer in a destination.

### **3. Challenges, Main Concerns, and Regulation**

#### **3.1 Many Properties and Few Owners**

In some places, many listings are concentrated in the hands of a few hosts. The challenge is for it to be a peer-to-peer (P2P) platform, but in places where few people own or manage many properties the nature of the exchange is different.

For some people, home-sharing platforms affect rental markets because a number of owners prefer to rent out their properties on sites like Airbnb rather than the traditional real-estate market. Additionally, some cities claim that there is a growing trend for the acquisition of properties in specific neighborhoods, as a way of seeking financial benefits from short-term rentals.

This concern not only exists in the hospitality industry. It has also been the situation in transportation services, where few people own many cars and hire drivers. In such cases, the platforms often need to make adjustments to maintain a P2P approach, which is a key feature for building trust and exchange among users.

#### **3.2 Home Sharing and the Effect of Short-term Rentals**

Different studies point out that it takes years to build what Putnam calls "social capital" among neighbors, and having a critical mass of short-term renters might pose it at risk (Quattrone, Prosepio, et. al., 2016). This, however, is not a new problem, it has also been the case in cities and small towns where people tend to purchase second homes. For some critics, the main concern is the risk of changing the social fabric and the demographic structures of a neighborhood (Lopez-Gay, 2016), and to end up with popular touristic areas that have few or no permanent residents.

People like the home-sharing experience because it allows them to stay in places where they could not stay otherwise, while having an experience that resembles being a local instead of a tourist. However, there is the risk of having an excess of short-term rentals which may cause problems by disrupting neighbors, or even compromise the character and ambiance that make the place attractive in the first place.

In the past couple of years, neighbors from historic districts in Paris, London, Amsterdam, or Barcelona, have protested against the proliferation of rental apartments for tourists as a result of the overcrowding of local spots, excessive noise, and antisocial behaviour, which often leads to tensions between tourist and locals<sup>4</sup>. A study in Amsterdam also reported that

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<sup>4</sup>"Eight Places that Hate Tourists the Most" delivered by The Independent newspaper in 2017, ranks Barcelona in position 6, followed by Amsterdam in 5.

during large events or holidays, residents tend to escape from the city, away from the crowdedness. (Pinkster & Boterman, 2017).<sup>5</sup>

### 3.3 Sharing Economy and Gentrification

Another concern has to do with sharing economy and gentrification. The term gentrification considers several factors that are usually related to displacement and exclusion of communities, the renovation of deteriorated urban areas, more affluent people moving to the neighbourhood, and lower income residents not affording to live there anymore, or even migration of locals provoked by the excessive demand of visitors (Cócola, 2015).

Indeed, there are residential neighborhoods where putting properties into home-sharing platforms has had an effect in raising the rental prices, and not allowing lower and middle class long-established residents to live there anymore. This is due to the increase in rentals and the transformation of flats into vacation apartments. (Cócola, 2015).

But there is a similar complex phenomenon that several authors have been studying in the past years and have called tourist gentrification, which is happening in different cities or neighborhoods around the world, where the tourist attraction and promotion of a place has gradually blurred the boundaries between residential and tourist areas, displacing residents to the point of transforming neighborhoods into touristic destinations. This is a process where hotels also play an important role, and that has existed long before the appearance of home-sharing sites i.e. the case of Venice, Italy or Cartagena de Indias, Colombia.

Regarding the specific case of home-sharing platforms, the 1st Arrondissement in Paris, one of the most prized tourist destinations, seems to illustrate the case very well. Here, home-sharing has been pointed out by some authorities and critics for contributing to the decrease in population, the increase in second homes, and living costs (Bowers, 2017). Also, the Barri Gòtic of Barcelona, located in the heart of the city, is going through a process of touristification, characterized by a very small presence of locals and almost no presence of children (Lopez Gay, 2016). Other places in the south of Europe like Downtown Lisbon, or Lavapiés at Madrid are also being threatened by this phenomenon (Lestegás, 2017).

Finally, there are and will be many variables affecting gentrification, making it difficult to measure the effect of home-sharing or of the increase in tourism due to this phenomenon.

### 3.4 Regulation

Innovation and new technologies are at the core of the sharing economy. As mentioned before, they facilitate transactions, reduce costs and allow an on-demand use of goods and services. Historically, technology tends to move faster than legal frameworks; therefore, the sharing economy challenges traditional models of public regulation. For this reason, governments must be as innovative to adapt to explosive growth of technology and its fast changing markets.

In this context, short term rental operators like Airbnb face many challenges to overcome, particularly in topics related to land use, restricting short-term rentals to specific areas, number of guests that can stay in a property, number of nights allowed per year, responsibilities on hosts on the behaviour of guests, requiring licenses or special short-term rental permit (Gottlieb, 2013).

Governments and cities have chosen to take different approaches to interact with this sharing accommodation platforms depending on their own characteristics: community priorities, neighborhood compositions, available housing stock, tourism demands, existing transportation networks, major events, among others. However, as a consequence of what was mentioned in the last two sections (the effect of short term rentals and of gentrification), tourism trends will face an anti-tourism policy framework in some cities in the world.

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<sup>5</sup> Part of this phenomenon has been recently referred to as “*Turismofobia*” in Spain, where it is becoming more and more usual for locals in Barcelona, Palma or Madrid to do public demonstrations against the irruption of massive tourism in the routinary life of citizens, particularly because it is difficult to move around certain areas. (Blanchar & Pellicer, 2017).



Some of the most common regulations countries have chosen for diverse reasons are:

- **Hotel occupancy or transient tax on short-term rentals**, while certain cities do not levy it, others do, and even a growing number of them require Airbnb to collect the Transient Occupancy Tax of short-term rentals to hosts and guests and remit it to the city (Amsterdam<sup>6</sup>, London, Paris, Berlin, Barcelona, New York, Portland, San Francisco, San Jose, Washington D.C., Chicago). Occupancy tax rates and rules vary by city, county, state, and country.

In June 2017, Mexico City became the first city in Latin America to charge the 3% accommodations tax on each Airbnb reservation, which will be charged through the platform to the guest. Airbnb worked with Mexico City's officials to launch the operating rules and, from this moment on, all foreign intermediaries are now able to subscribe to the operating rules and collect and remit the tax to the government<sup>7</sup>. Later in 2017, a similar agreement was achieved with the state of Quintana Roo, a leader in tourism in Mexico.

- **Permits and business licenses**, which have been used by cities as ways of collecting host information for tax purposes and limit the number of legal short-term rentals available. Amsterdam became the first city to pass a specific "private vacation rental" category, which allows individuals to rent out space in their homes as long as they are registered with authorities as residing at the address, pay tourist taxes, and meet other criteria (Interian, 2016). In 2014, the city of Barcelona imposed the requirement of a short-rental license to each property on the list, but licenses have been suspended since that same year. Therefore, the only legal way to be an Airbnb host it is to buy an existing licensed property. Moratorium on the issuance of new licenses applies to all players in the accommodation space, and has created barriers to entry while limiting competition.
- **Limits for hosts in the number of sharing nights per year** they can rent their properties. From 2015, some cities imposed limits (Amsterdam 60, London 90, or San Francisco 60) setting a precedent for the adoption of similar measures by other authorities in the near future. Additionally, some cities have imposed a maximum of guests per property (Amsterdam 4, Portland 6).
- **Other measures** taken by cities to protect affordable housing and local communities are: **Berlin banned home-sharing hosts from renting entire apartments to tourists without a permit** from the city (the fine for violation goes up to 100,000 euros), and rooms can only be rented as long as the **landlord or tenant uses at least half of the apartment for living** (Interian, 2016). **In Barcelona**, the high concentration of guests in the neighborhood of Ciutat Vella and the concern of local authorities and neighbors have led Airbnb to propose the **plan "One Host, One Home"** (already implemented in San Francisco and New York) **to limit sharing to one entire property** in the area (Barcelona Airbnb Citizen, 2017). **New York banned the advertisement** on home-sharing platforms **or the renting of entire unoccupied apartments for less than 30 days**. The measure, approved in 2016<sup>8</sup>, penalizes hosts that violate the law with a fine up to \$7,500 usd. The aim is to protect affordable housing supply (Kieler, 2016).
- **Attention to complaints from neighbors**, in 2016, Airbnb launched Airbnb Neighbors a new global tool dedicated to hearing complaints and report disturbances caused by guests. Neighbors that suspect the badly behaved tenants near them (which the company claims to be very rare) are actually guests of an Airbnb property

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<sup>6</sup> Amsterdam was the first city where Airbnb began collecting and paying tourist taxes on behalf of hosts.

<sup>7</sup> The collection of this tax is based on Article 162 of the City's Tax Code.

<sup>8</sup> The law was signed on October 21, 2016, and it allows the rent of parts of the living space or single bedrooms for less than 30 days. It is one of the most strict laws against the home-sharing platforms that has been approved in the United States.

can contact the company 24/7. Submissions can be anonymous and issues for complain include common spaces, garbage, personal safety, parking, or noise, among other general concerns.

Clearly, the need to regulate changes through time, because the circumstances change. For instance, scholars from the University of London conducted a socio-economic analysis of Airbnb adoption using the city of London as case study. Some of the results showed that the nature of the platform changed from year to year. One of the findings was that central areas become consistently less predominant year after year (Quattrone, Proserpio, et. al., 2016).

Thus, while in theory governments should regulate the emergence of Airbnb through evidence-based policy making, in practice, the lack of evidence and the pressure from incumbents has driven decision makers to establish regulation that will need to be revisited soon.

#### 4. Trends in Mexico and Latin America

In Latin America concepts like sharing economy and platforms such as Airbnb are known only by a small portion of the population. As the access to the Internet and the use of mobile technologies continues to rapidly increase, the sharing economy platforms will likely become more popular across the region<sup>9</sup>. According to a report of The Economic Commission for Latin America (CEPAL, 2016) 43.4% of the households of Latin America and the Caribbean were connected to the Internet by 2015, and during that same year 54.4% of the population had used the Internet, 20% more than in 2010<sup>10</sup>. The same document points out that access to broadband connections increased strongly in the 2010-2015 period, particularly regarding the use of mobile devices, which went from 7% to 58% of the population.

Speaking of tourism in the region, the report *Sharing Economy in Latin America* (2016), points out that this type of market is mostly represented by big platforms, and that the three most important markets for sharing economy and accommodation industry are Brazil, Mexico, and Argentina, cities where Airbnb focuses all its capabilities to better establish its business.

However, it must be stressed that much of the associated potential in terms of lodging comes from the fact that sharing economy is a big trend and a common expanding practice in developed countries. Certainly, the United States is the best example of this trend, both because the high penetration rate of the Internet, which reaches 88.1% of the population (Internet World Stats, 2017), and because 44% of US consumers are familiar with the sharing economy and 18% of adults say they have participated in it (National League of Cities, 2015). In other words: access to the Internet creates an opportunity by connecting travelers with hosts that offer their spaces worldwide, including developing countries.

In regard to home-sharing activities in the region, it should be noted that some cities have had very successful experiences in the past (arising from the lack of hotel infrastructure), long before the emergence of platforms like Airbnb or Couchsurfing. The best example is Cuba, where, since 1997, the government granted authorization for homestays or renting out rooms to tourists (or what is better known as “Casa Particular”) in order to give hosts an additional income.<sup>11</sup>.

Cuba is also an interesting case today. After the Obama administration introduced new policies toward the normalization of the relationship with Cuba, the growth of Airbnb has been exponential. As tourism to Cuba has increased home-sharing has had the flexibility to accommodate visitors faster than hotel infrastructure. Airbnb had 1,000 listings in Cuba in April of 2015, a year later it had 4,000 listings and today it exceeds 19,000 (Cuba Trade Magazine, 2017). With listings in 40 cities

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<sup>9</sup> The region is characterized by its youth, with more than 140 million adolescents and young people. Between 2006 and 2013, it greatly increased its levels of connectivity, doubling the number of people with Internet access (Buenadicha, Ruiz, 2016).

<sup>10</sup> According to the Internet Usage and World Population Statistics, updated as of March 30, 2017 and published in the site Internet World Stats, the penetration rate for Latin America and Caribbean Region is 59.6%. For more information visit [www.internetworldstats.com](http://www.internetworldstats.com)

<sup>11</sup> For more information visit Casa Particular at [www.casaparticularcuba.org](http://www.casaparticularcuba.org)

and towns, staying with a family remains one of the best (and cheapest) ways to travel and experience Cuba, while getting to know its people, food, and traditions.

#### 4.1 Mexico

In Mexico, the majority of the people are aware of the sharing economy and see it favorably. Here, the market is dominated by companies like Airbnb and Uber, being the latter probably its most visible case, due to the profound discontent among taxi drivers and the debate around the legality of the service and need for regulation.

In the past couple of years, the expansion of Airbnb in Mexico has confirmed the tourist vocation of the country<sup>12</sup>. According to the World Tourism Organization (2016), the country recently became the 9th most visited in the world, generating in 2016, and for first time in two decades, more revenue than oil exports.

When thinking about traveling, only certain segments of the population consider other alternatives to hotels. In many places, Airbnb occupation is done by international tourists. From November 2016 to November 2017, 1.8 million international tourists used the platform compared with only 800,000 national tourists (El Economista, 2017). Statistics from the Ministry of Tourism (SECTUR for its acronym in Spanish) suggest that near 90% of the Total Addressable Market (TAM) in Mexico is domestic tourism, meaning, Mexicans traveling within Mexico (Euromonitor International, 2016). This is why Mexico represents a tremendous opportunity of growth for Airbnb and the reason why they have been expanding their operations in Mexico City and in the rest of the country, throughout 2017.

Mexico is the second largest market for the company after Brazil, and three Mexican cities are in the top 10 destinations of Airbnb in Latin America: Playa del Carmen (4th), Mexico City (6th), and Puerto Vallarta (8th). The company has spread throughout the country with more than 37,000 properties, of which the main tourist destinations are: Playa del Carmen (8,000), Mexico City (6,000), Puerto Vallarta (4,400), Cancún (2,200), and Cabo San Lucas (1,400). According to Jordi Torres, Director of Airbnb for Latin America, between 2014 and 2016, the company grew in guest numbers by 160% and 144% in number of accommodations.

However, none of this would be possible without the internet access that puts together guests and hosts. By the end of 2015, Mexico had reached 65 million users, equivalent to 59.8% of the population, 8% more than the year before, while connection from household represented 87%, mobile 52% and workplaces 38%. The main device for accessing was the Smartphone by 77%, and the primary interest was the use of social networks (Ampici, 2016).

An increase in awareness has the potential to increase growth rates. Also, in Mexico many people still don't use internet-based companies to do economic transactions, either because of the lack of trust or because of the lack of knowledge. As this evolves and becomes a common practice, the use of technological platforms will likely increase.

#### 4.2 Solving Information Dilemmas

In the case of Airbnb, the existence of data for every transaction inside the platform allows the use of technology to have a clear set of preventive measures that secure operations in a safe environment, even in social contexts where generalized perception suggest that could be less favorable for this type of activity.

Tech based safety measures, like risk assessment, are being used by Airbnb to prevent dangerous people from registering in their platform. Each of the Airbnb reservations goes through a risk assessment implemented over a risk detection system that operates in real time, based on machine learning and predictive analysis, to evaluate and stop any suspicious activity.

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<sup>12</sup> Mexico occupies the 9th place in the ranking of most visited countries in the world, after the UK and before Russia. From 2014 to 2015 Mexico received 34.1 million international tourists (UNWTO Tourism Barometer, 2016).

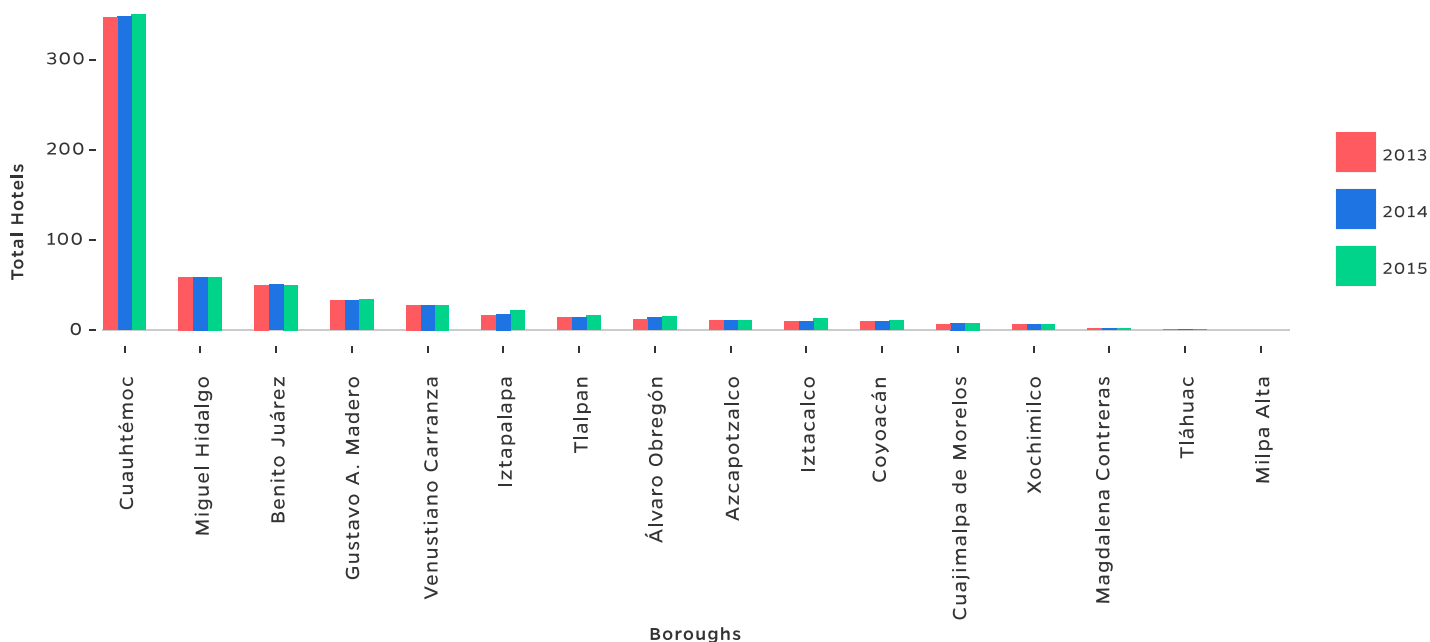
In case of detecting any alert, Airbnb executes a series of actions that go from the request of additional information of the person (official identification or verification of the credit card) to the elimination of the user from the platform<sup>13</sup>.

In 2016, Airbnb registered more than 30 million trips worldwide, only in 0.009% of the stays serious property damage was reported (that is, those that received a minimum of USD \$1,000 in reimbursements from Airbnb's Host Guarantee). This means that a host could accommodate a different guest each day for 27 years without the need to report serious damages<sup>14</sup>.

**4.3 Impact of Airbnb in Mexico City**

Tourism in Mexico has had a positive tendency since 2008. Airbnb just began to have an important presence in 2015. Therefore, it is too soon to know if sharing economy platforms have contributed to boosting tourism or not. It is also too soon to know if it has affected hotel occupation, considering that tendencies in hotel occupancy are affected by economic variables such as economic growth and exchange rates.

In Mexico City hotel presence is mostly concentrated in a few boroughs (*municipalities*), as the next graph shows:



Graph 1. Total Hotels by borough.

This concentration is preserved if we also consider the number of rooms available in each borough.

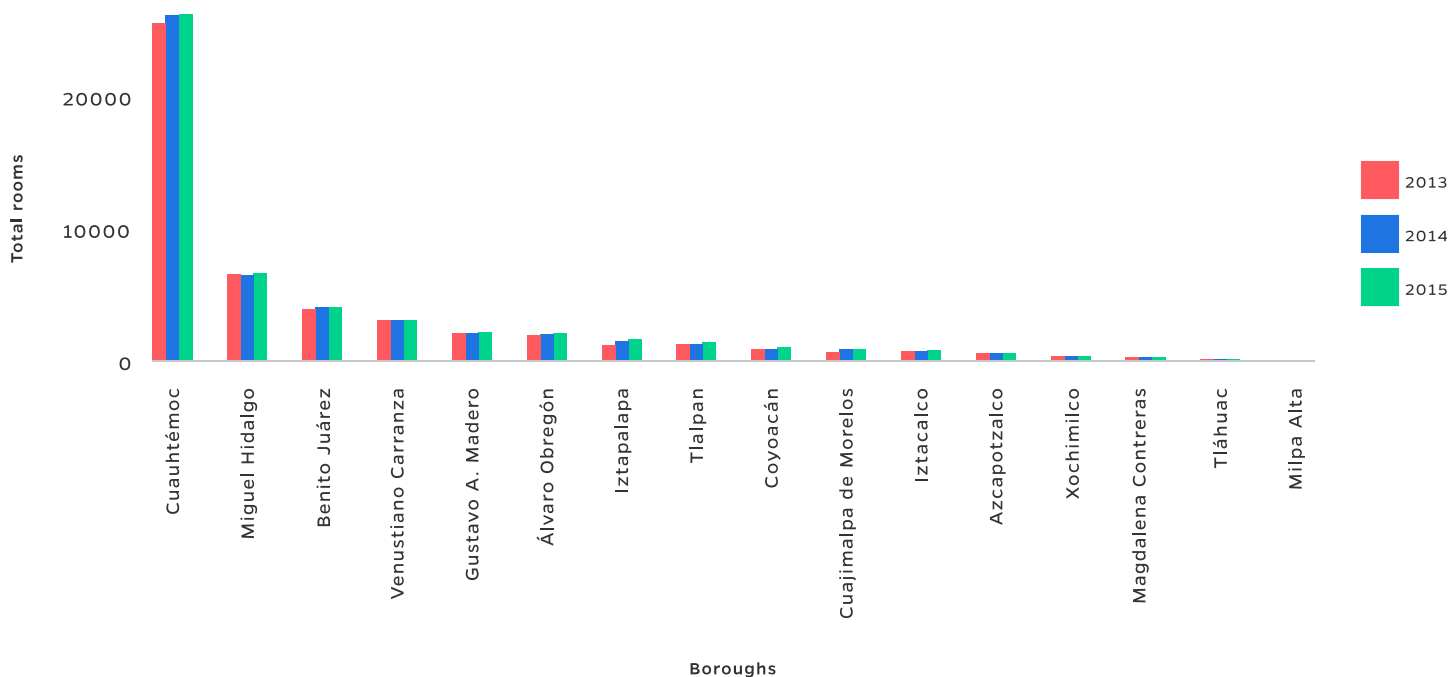
<sup>13</sup> Information provided by Airbnb Mexico team

<sup>14</sup> Information provided by Airbnb Mexico team

# AIRBNB IN MEXICO CITY:

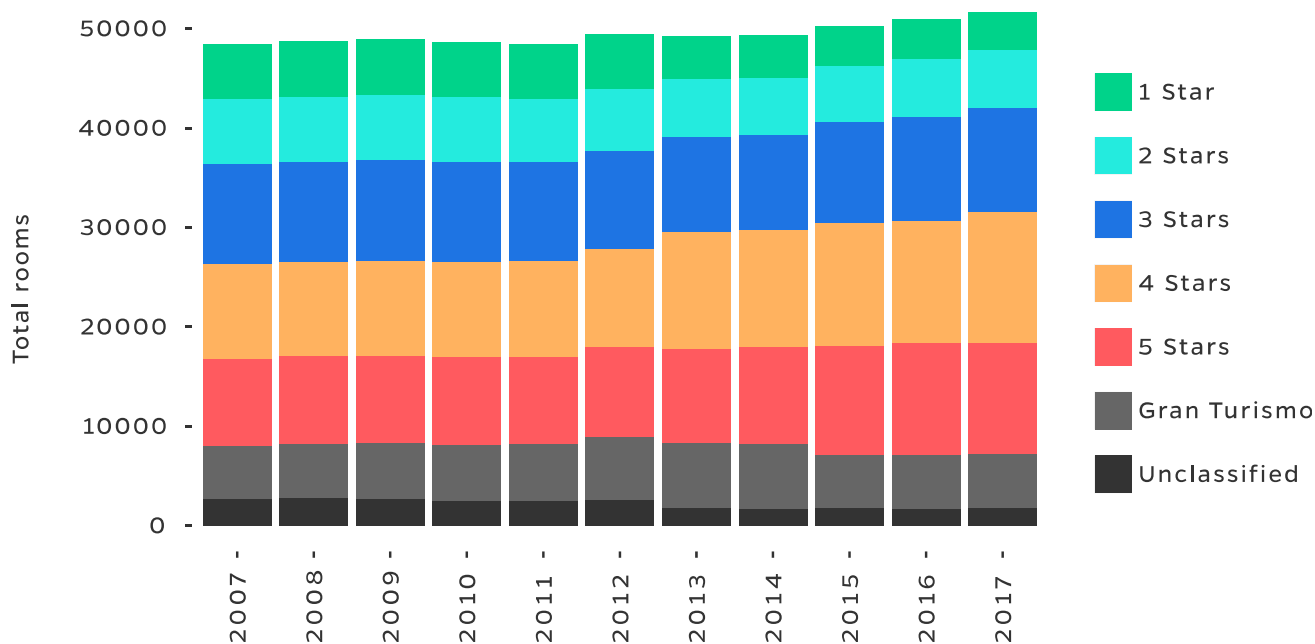
Closing the Income Gap and Expanding the Economic Benefit of Tourism.

Mexico City Case Study



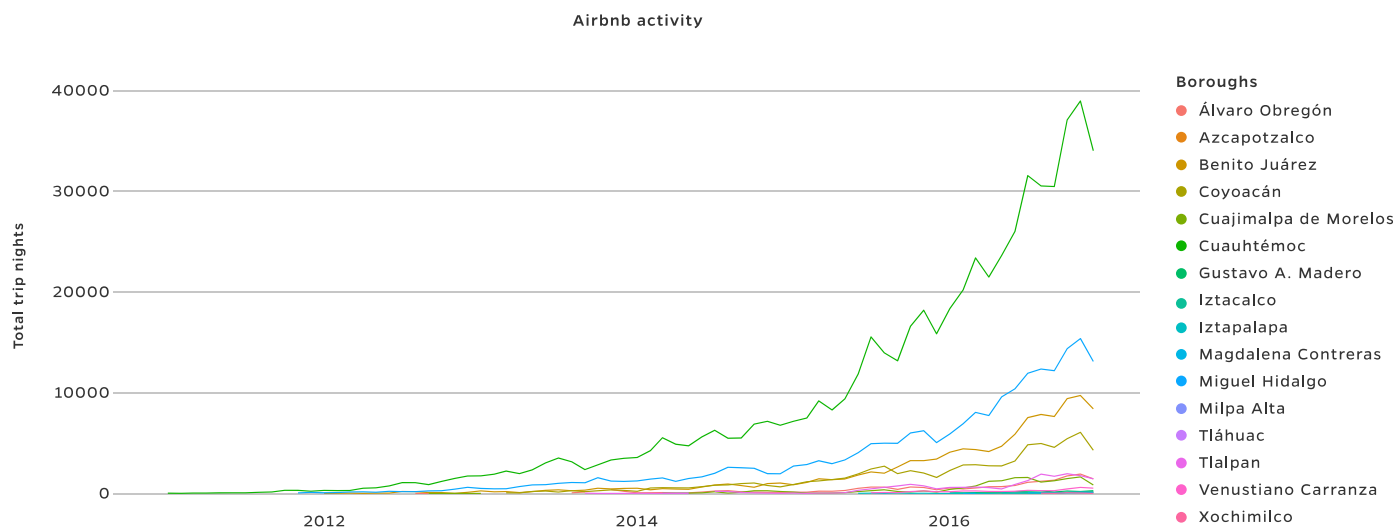
Graph 2. Total Hotel rooms by borough.

As we can see in the next graphic, hotel infrastructure has not changed a lot over time:



Graph 3. Total rooms by category.

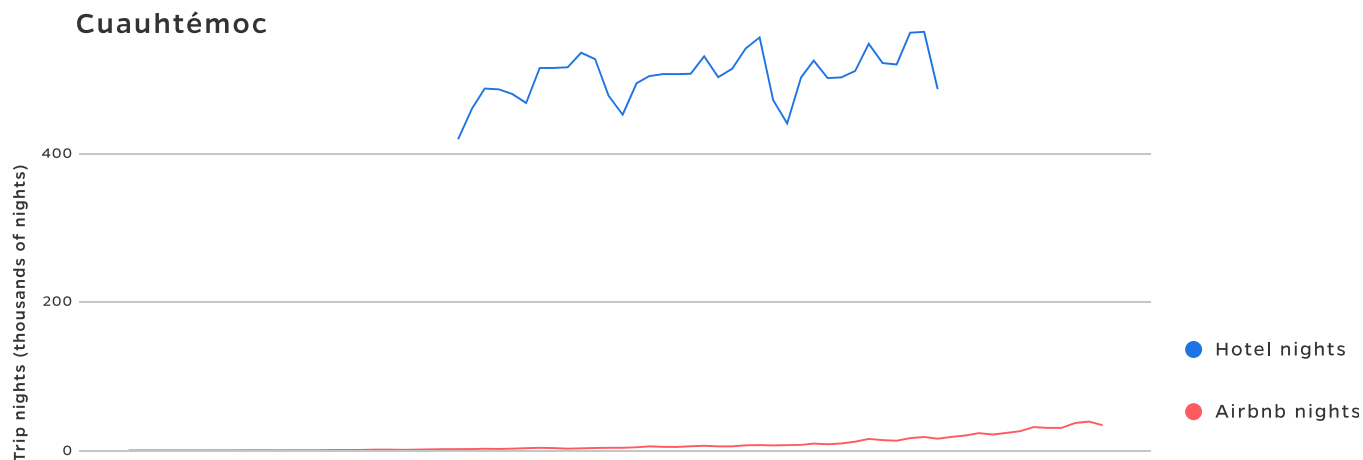
If we look at Airbnb activity by borough from 2011, we observe a growing tendency, but also the same pattern of predominance as in the hotel industry. Airbnb presence is concentrated in four *municipalities* or boroughs: Cuauhtémoc, Miguel Hidalgo, Benito Juárez, and Coyoacán (the first three contain most of the hotels).



Graph 4. Booked trip nights by borough.

Cuauhtémoc, Miguel Hidalgo and Benito Juárez, concentrate most of Airbnb’s offer, as well as most hotel rooms. However, Coyoacán is an exception because, while it is the 4th borough with the most Airbnb listings, it is the 9th borough with hotel room availability. Even though Coyoacán is considered a tourist destination, there are not many hotels in the area.

If we compare demand in the hotel industry with demand on Airbnb, we observe that listings are very small considering the hotel presence, thus it is difficult to measure the impact of this platform in the economy. Graph 5 compares the occupied rooms per month for hotel industry versus nights on Airbnb listings in Cuauhtémoc<sup>15</sup>.

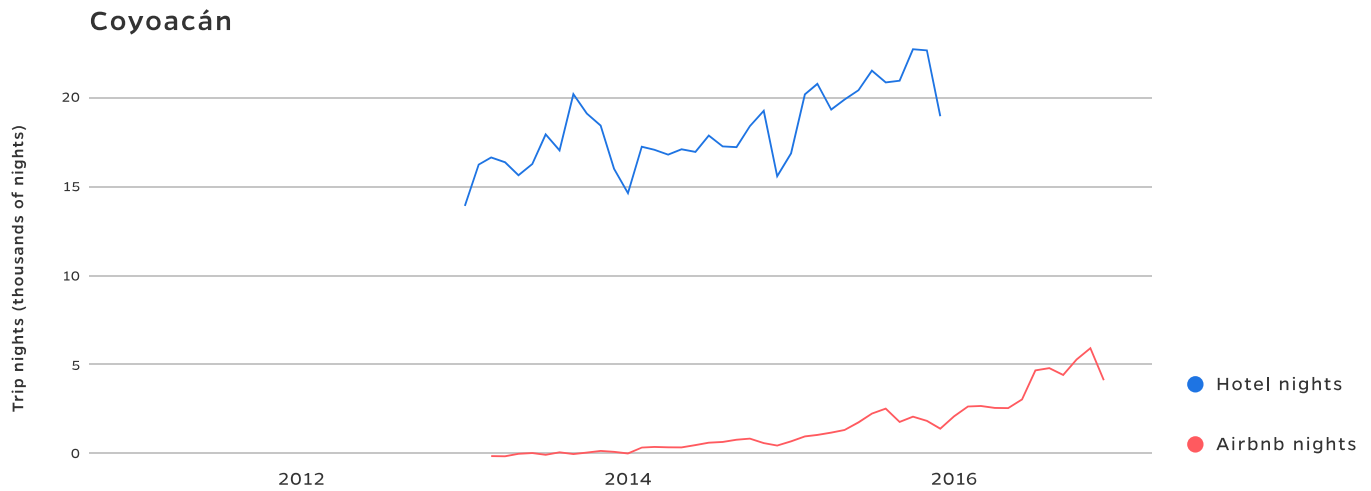


Graph 5. Total booked trip nights in Cuauhtémoc. Hotels vs Airbnb.

The lowest point of occupied rooms per month in Cuauhtémoc is close to 420,488 while the highest point of Airbnb activity (trip nights per month) is 34,029. Therefore, monthly demand for hotels is more than ten times bigger than monthly demand on Airbnb.

<sup>15</sup> \*SECTUR Travel nights demand is calculated multiplying the monthly occupation by the number of rooms available every night of the current month

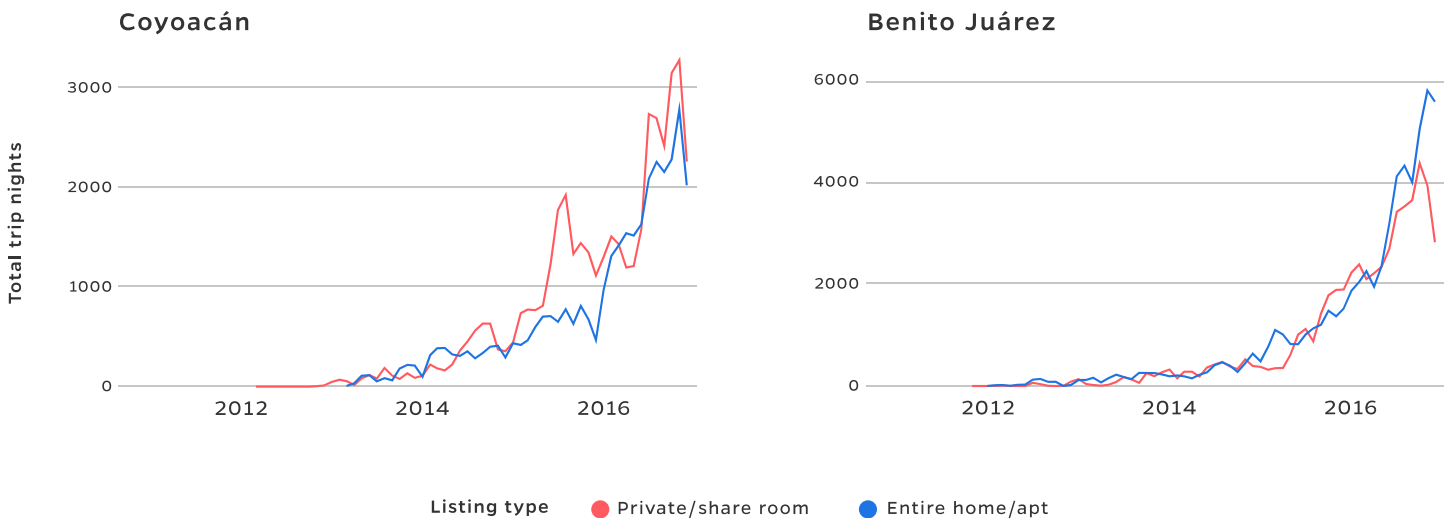
In Benito Juárez and particularly in Coyoacán, hotel infrastructure is much more limited given their residential nature. If we compare it again with Airbnb activity we see that they are much closer.



Graph 6. Total booked trip nights in Coyoacán. Hotels vs Airbnb.

Looking at Coyoacán in graph 6, the difference of the highest point of Airbnb activity and the lowest point of hotel demand is near 10,000 rooms or nights per month.

In both boroughs, we also observe parity in listing types which suggests that Airbnb hosts tend to be people renting a room, rather than their entire houses or apartments, compared with Cuauhtémoc and Miguel Hidalgo.

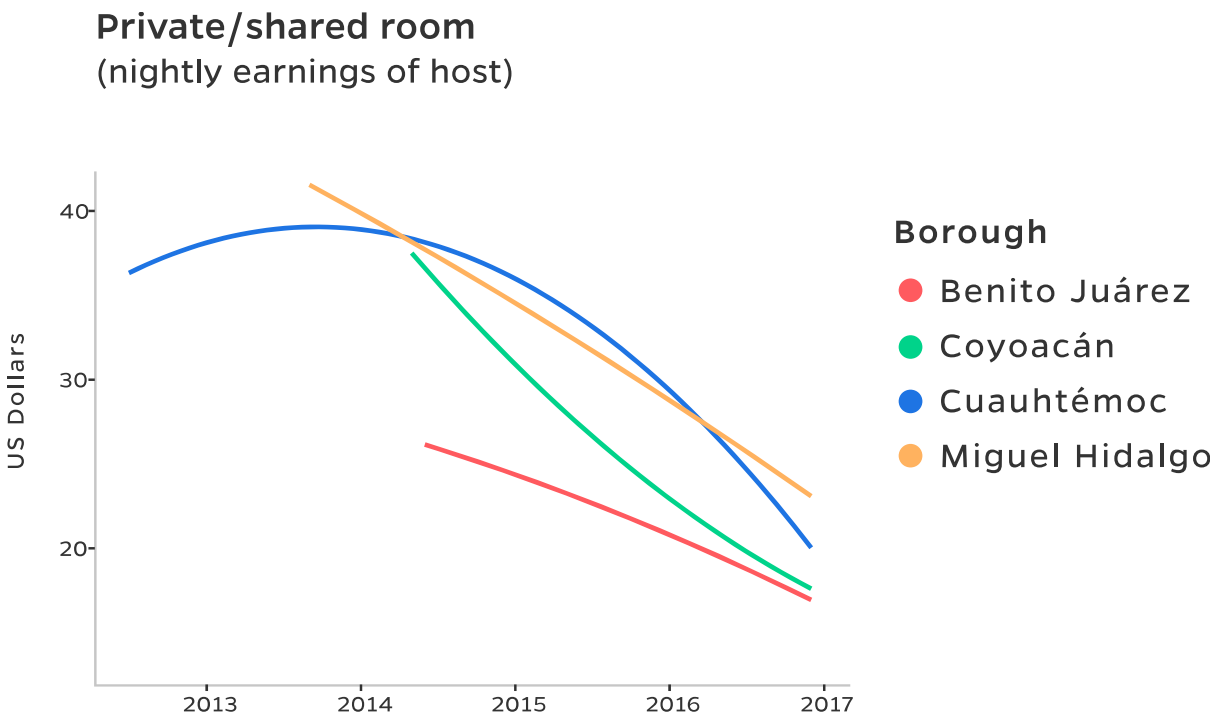


Graph 7. Total booked Airbnb trip nights per listing type.

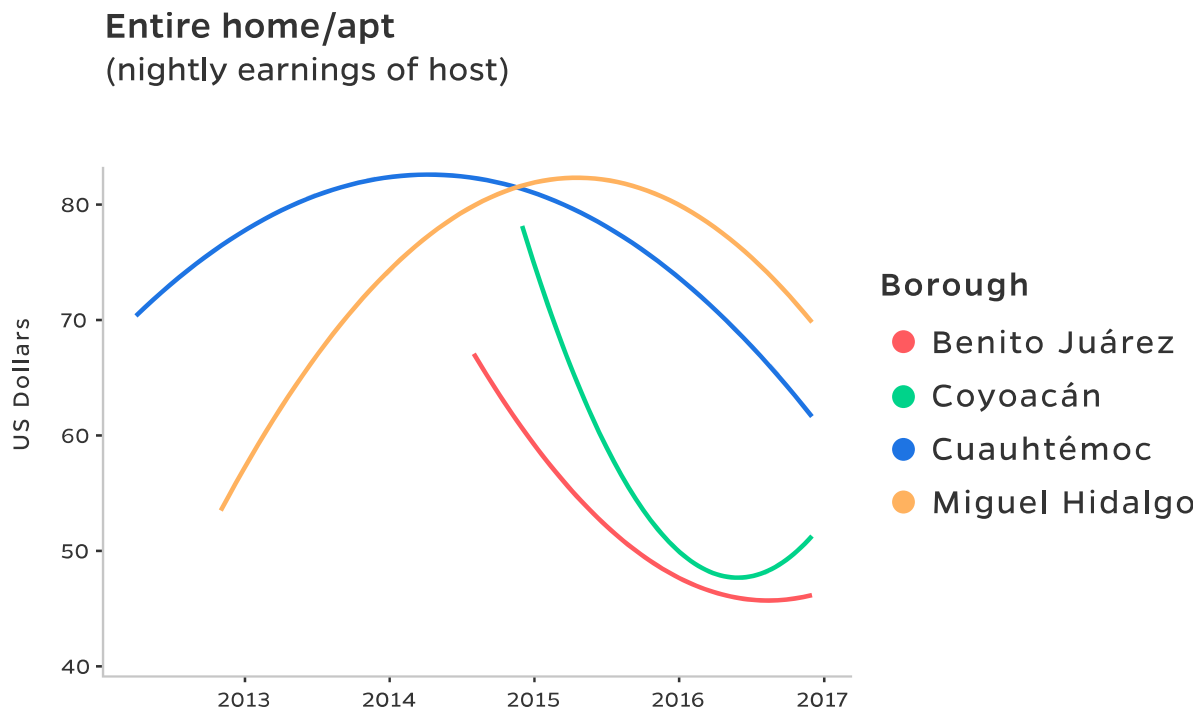
**4.4 Trickle Down Effects.**

Placing assets in platforms such as Airbnb can bring an important source of income. With data from Airbnb and the National Household Income and Expenditure Survey (ENIGH for its acronym in Spanish) it was possible to see the actual and the potential economic effect in the four mentioned boroughs where most of the hotels and Airbnb listings are concentrated.

Graphs 8 and 9 show median earnings per night of Airbnb hosts for each of the four most active boroughs for private or shared rooms, and for an entire place or apartment.



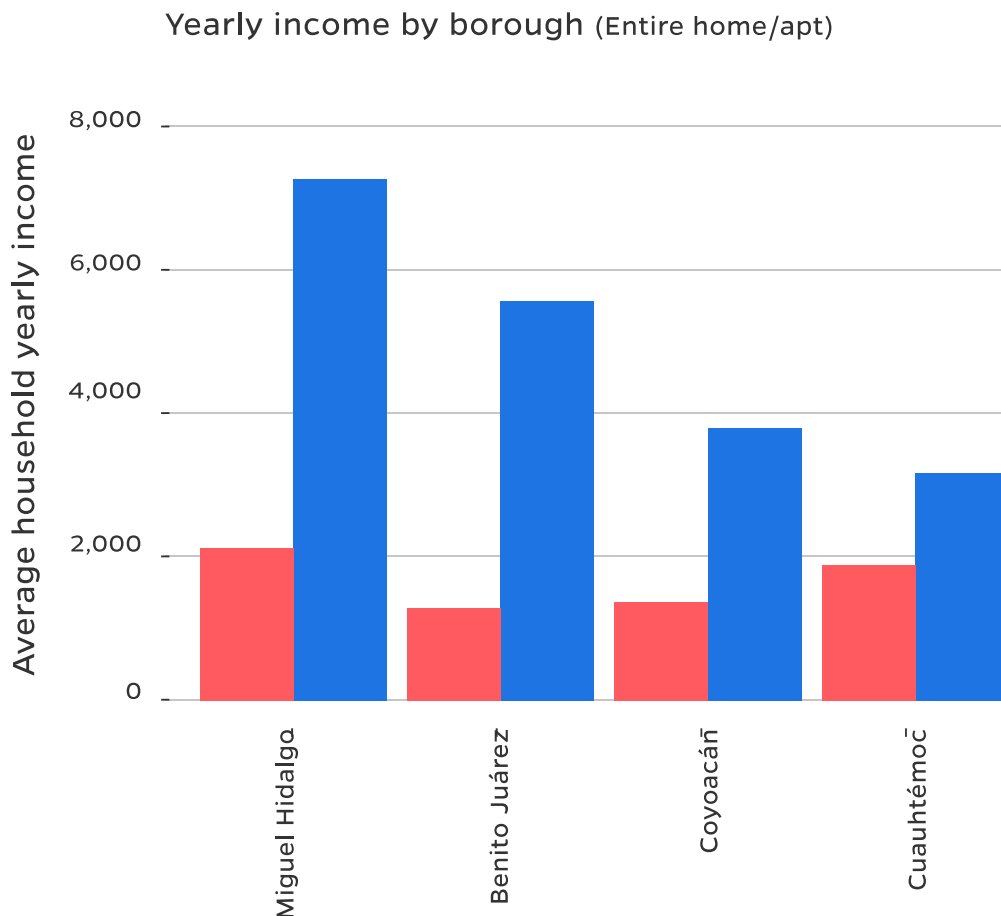
Graph 8. Median earnings per night of Airbnb hosts for private/shared rooms.



Graph 9. Median earnings per night of Airbnb hosts for entire home/apartment.



In all four boroughs, we compared the estimated yearly income obtained by Airbnb hosts with the average income households<sup>16</sup>. When the alternative was to have in Airbnb's platform an entire home or apartment, the income from this source reached near 60% of the average income in Cuauhtémoc.

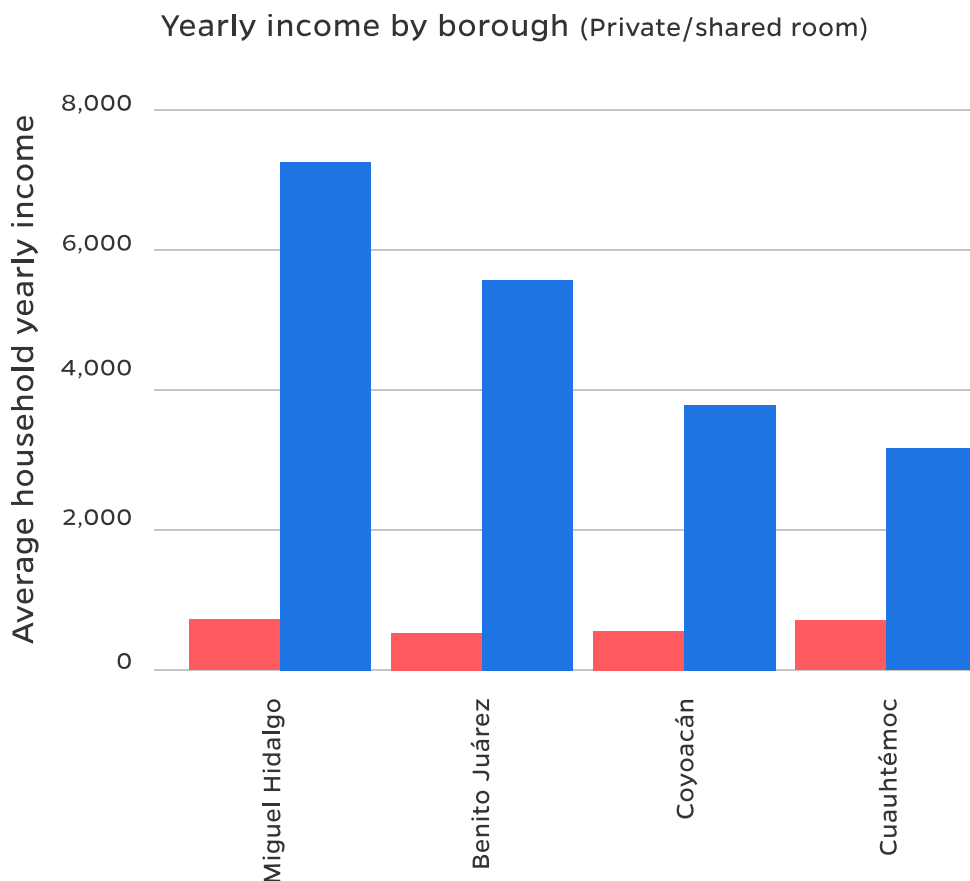


Graph 10. Average income per borough for households compared with Airbnb average income for entire homes/apartments.

However, in all four boroughs, when what was offered in Airbnb was a private or shared room, Airbnb income was less than the yearly income average, but still a considerable percentage. In the borough of Cuauhtémoc Airbnb income for hosts accounted for 22% of the average yearly income<sup>17</sup>, and in Benito Juárez it accounted for 10% of the average income. In its lowest point it still is a considerable income.

<sup>16</sup> Yearly income was estimated using 2016 average price per night and assuming four rented weeks a year.

<sup>17</sup> It is important to consider that income variance among the boroughs is a variable that should be considered. This analysis is done with an average.



Graph 11. Average income per borough for households compared with Airbnb average income for private shared rooms.

In Coyoacán and Benito Juárez there are less entire home or apartments than in Miguel Hidalgo or Cuauhtémoc.

As mentioned before, the impact on the economy has multiple variables to consider. In contrast with hotel occupancy, sharing economy platforms do not generate more jobs but can boost the local economies. There is the hypothesis that sharing economy platforms incentive longer stays and international visitors tend to spend more than national visitors. In Mexico City, daily spending is \$1,623 pesos, and 44% is spent in the neighborhood where guests stay<sup>18</sup>.

In many cases increasing the number of hotels is not an option because of regulatory constraints. Therefore, home-sharing platforms can help increase visitor expenditure in different zones.

Last, regarding the hosts, contrary to what happens in other industries such as the rent of vehicles, there is greater participation of women playing the role of host within the platform. Globally, 55 percent of the hosts are women, and in Mexico they represent 51 percent.

Another interesting finding arises when comparing the age of hosts in each borough. In Table 1 we observe that in all boroughs the median age of hosts is above 30 years. If we focus on the four most active boroughs on Airbnb, the one that has a particular behaviour is Coyoacán, where hosts tend to be almost four years older than the hosts in Cuauhtémoc, Miguel Hidalgo, and Benito Juárez. This is interesting given the fact that it is in Coyoacán where we have a higher proportion of shared rooms.

<sup>18</sup> Data from Airbnb internal survey

Borough	Median age of hosts
Coyoacán	40
Tlalpan	39
Cuajimalpa de Morelos	38
Venustiano Carranza	38
Miguel Hidalgo	36
Benito Juárez	36
Cuauhtémoc	36
Álvaro Obregón	35
Gustavo A. Madero	35
Iztacalco	33

Table 1. Median age of hosts by borough

#### 4.5 Coyoacán

Coyoacán is located south of the city, best known by its cultural richness, heritage, and tradition. Its historic center, or what is also known as the Village of Coyoacán, is filled with plazas, markets, restaurants, cafes (many of them located in colonial buildings), as well as libraries, and many cultural venues including the famous *Museo Frida Kahlo* and the *Museo Nacional de la Acuarela* (National Watercolor Museum). Tourist development in the village has been encouraged for decades by the organization of festivities and the inclusion of initiatives such as the Turibus (the red double-decker buses) or the touristic tramway offering day and night tours in the area.

Despite being a hotspot for local and international visitors, and one of the thirteen tourist areas of Mexico City, Coyoacán has a very limited accommodation supply. Data collected for this study through four popular online booking sites (such as Expedia, Despegar, Hotels, and Booking) showed the lodging options available in Coyoacán Village in a maximum ratio of 1.2 km from the *Museo Frida Kahlo*. The results revealed a total of 19 guest houses, bed & breakfast, apartments<sup>19</sup>, and hostels available in the area, while no entries for hotels came up.<sup>20</sup> When one looks into platforms such as Expedia, Booking, Despegar, and Hotels and searches Coyoacán, the available facilities are not in the tourist area of Coyoacán, but rather in neighborhoods nearby.

<sup>19</sup> It is important to mention that Expedia is offering apartment rentals at different neighborhoods (Condesa, Escandón, Roma, Del Valle and Nápoles) although this is far from being their primary business it suggests an influence of sharing accommodation platforms.

<sup>20</sup> The research in all four platforms searched for Coyoacán as the entry word, which was AutoCompleted in all of them with either Distrito Federal or Mexico City. Additional criteria included the selection of: zone/district, main attraction / distance: *Museo Frida Kahlo*, travel dates (different weekends during the summer and fall of 2017). The number of properties showed in each platform were: Expedia 5, Booking 19, Despegar 7, Hotels 6. Most of these properties were listed in more than one site.



Figure 1. Hotel permits in Coyoacán.

Figure 1 shows (in dark blue) all properties where construction of hotels is permitted in Coyoacán<sup>21</sup>.

This lack of hotel developments in the village<sup>22</sup> is not a surprise. It is a historic district where construction is supervised by National Institute of Anthropology and History (INAH for its acronym in Spanish). Regulation protects the residential use and prohibits a change of function in properties, facade refurbishment, height of new buildings, and number of parking places.

It is also remarkable the number of organized neighborhood groups or associations that play an active role in the neighborhood preservation and improvement initiatives. The main interests emerging from these groups are to improve the urban services and infrastructure, to resist the displacement of the long-term residents as the result of new middle and high income condominiums, and to reduce the conflicts and tensions regarding land use, public spaces, and festivities (Lezama López, 2006).

A similar situation arises in cases of downtown Tlalpan and San Ángel which are also of tourist interest and lack hotel infrastructure, although they are part of another two of the main tourist areas of Mexico City. The case for Coyoacán is a good example of how home-sharing platforms bring an option that would not be possible otherwise, providing a win win situation: tourism increases with this new option, the city will receive more income from taxes, and visitors will spend more on site and locals can have an extra income.

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<sup>21</sup> 2013 Data from the CDMX land registry database.

<sup>22</sup> If the research radius is extended to 1.6 km and up it is possible to find a couple of chain hotels and plenty of cheap hotels and motels over main, heavy traffic avenues (Universidad, Insurgentes, Calzada de Tlalpan).

## 5. Recommendations

Cities are facing a new challenge in terms of regulating P2P technologies, which are creating markets out of goods or services that are not likely to have been monetized. While some just attempt to impose old regulations, others prepare to modify these or, even better, develop new frameworks or ordinances specific for the sharing economy. These frameworks must find the right balance with issues like innovation, economic development, tourism, equity, access, or safety. At the same time, they should be mindful of the processes they put in place to understand these new businesses in all its possible dimensions, without discouraging new models of income that are available through these tools.

Mexico is a very important market for Airbnb facing a constant growth in the number of users, both hosts and guests, a trend which is expected to continue in the coming years. While a first step has already been taken in Mexico City, that will help to collect taxes and to legitimize the platform, there is still a long way ahead in terms of developing the right legal framework.

As mentioned in *Cities, The Sharing Economy and What's Next?* (2015) "There is no 'one-size-fits all' regulatory framework that every locality can or should apply to the influx of new economic activity. One of the truly innovative aspects of cities is their ability to experiment and develop unique, locally-driven solutions to new challenges".

In this context, in order to regulate, local governments should be able to understand the operation of home-sharing platforms, considering the multidimensional facts and the engagement with the right stakeholders, the sustainability, the local character of each place (which makes them special), the potential impact in local economies, the sharing of ideas, the possibility to capture and analyze new data, and the evidence-based policy around the world.

While many jurisdictions are mainly focused on the regulation of short-term rentals based on liability and taxes, it is also very important to consider the protection of local assets, residents and neighborhoods, and take into account measures to ensure the moderation of length and minimization of negative externalities (Interain, 2016). On this regard, it should be important to consider measures that help identify and fine commercial players advertising multiple properties. As seen in other cases, the lack of this perspective and the political short vision can eventually lead to a bigger problem with the rejection of tourism by local residents.

The complex task of regulating should be informed both by the local characteristics of the place and by previous experiences and evidence (to see what has worked and what has not), and translated into simple and easy to introduce measures that, along with implementation strategies, can contribute to ensuring compliance. In other words, it is critical to avoid costly regulations or logistics that could be counterproductive.

Finally, it should be emphasized that sharing economy platforms can play an important role in the sharing of information that can contribute to move towards more flexible regulations. More information can help authorities to improve the design and delivery of better oriented policies and public services that benefit and protects the long-term interests of all stakeholders.

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