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SUMMARY

The current investigation seeks to shed light on the dynamics of the tourist rental industry in the Balearic Islands. For that purpose, we make an economic, social and commercial overview of the theme in order to cover, through our analysis, the most relevant subdivisions concerning seasonal rental in this Spanish territory. At the same time, we study the official government statistics that support our conclusions, deepening into the economic profitability of tourism in the region and into the nature of the lessees and lessors that offer and make use of touristic accommodation services. We analyze the impact of seasonal renting platforms in the tourist rental industry of the Balearic Islands and end up giving a glimpse of the laws and social implications of their exploitation for touristic purposes. Hence, we conclude by considering that the Balearic Islands have all the characteristics to represent a major tourist power in the Mediterranean and, even though they currently experience a massive tourist flow that has been growing throughout the years, the economic success it involves is seasonalized. Therefore, we consider the government of the region has to take actions to reduce seasonality, expand tourist offer during low season and opt for a tourist industry based on quality and not quantity.

Key words: Balearic Islands, Mallorca, Menorca, Ibiza, Formentera, tourist rental, holiday rental, tourism, Balearic hotel industry, investment in the Balearic Islands.

Resumen

La presente investigación busca arrojar luz sobre la dinámica de la industria del alquiler turístico en las Islas Baleares. Para ello, realizamos un estudio económico, social y comercial del tema, para cubrir, a través de nuestro análisis, las subdivisiones más relevantes sobre el alquiler estacional en el territorio. Al mismo tiempo, estudiamos las estadísticas oficiales del gobierno que respaldan nuestras conclusiones, profundizando en la rentabilidad económica del turismo en la región y en la naturaleza de los arrendatarios y arrendadores que ofrecen y hacen uso de los servicios de alojamiento turístico. Además, analizamos el impacto de las plataformas de alquiler de temporada en la industria del alquiler turístico de las Islas Baleares y terminamos dando un vistazo de las leyes y las implicaciones sociales de su explotación para fines turísticos. Por lo tanto, concluimos considerando que las Islas Baleares tienen todas las características para representar una gran potencia turística en el Mediterráneo y, a pesar de que actualmente experimentan un flujo turístico masivo que ha ido creciendo a lo largo de los años, el éxito económico que conlleva es principalmente estacional. Por lo tanto, consideramos que el gobierno de la región debe tomar medidas para reducir la estacionalidad, ampliar la oferta turística durante la temporada baja y optar por una industria turística basada en la calidad y no en la cantidad.

INTRODUCTION

The Balearic Islands is a Spanish autonomous community composed by an archipelago of two groups of islands, between which we can distinguish the group of Mallorca, Menorca and Cabrera from that of Ibiza and Formentera. They were named a Spanish province in 1833, and their capital and current cosmopolitan center is Palma de Mallorca.

Due to their location in the western Mediterranean Sea (only 80 to 300 km away from the Iberian Peninsula) and to their beaches and tropical landscapes, they have won worldwide recognition and are currently some of the most renowned touristic destinations in the Mediterranean.

Nevertheless, an attractive destination cannot become a touristic force without the existence of a strong tourist rental industry that covers the visitor's needs of accommodation.

In this respect, according to the IBESTAT (Institute of Statistics of the Balearic Islands), we can find the presence of the hotel industry, holiday rentals industry and rural tourism industry in the region. The three sectors, along with the ensemble of the services industry, represent the greatest providers of employment in the Balearic Islands (70% in 2001).

In the same line, the excessive touristic development this autonomous community has experienced in the last decades in spite of its reduced territory in comparison to the rest of the Spanish regions, has allowed it to place itself in the 11th place of the Spanish regional economies, with a GDP of €28.461M.

Furthermore, the Balearic Islands have an optimal communicative structure with the rest of the world, counting with a good provision of airports: The Son Bonet and Son San Juan International Airports of Mallorca, the Menorca-Mahon International Airport of Menorca and the Codolar International Airport of Ibiza. Their cheaper prices of operation enable cheaper flights and, therefore, a plus in the appeal of the islands for foreign and local tourists.

According to the Catalanian Newspaper El Periódico (2016), the Son Sant Joan International Airport, main airport of Palma de Mallorca, occupies the third place when it comes to passenger's flow in Spain, only surpassed by the Madrid-Barajas Airport and the El Prat Airport of Barcelona. Indeed, it received 14.560.221 people in the first semester of 2016, a number 11.6% bigger than the one of 2015.

For this reason, it is important to analyze the profitability of tourism and tourist rental in the zone, as much as its historic evolution and the effect of new seasonal renting electronic platforms in the last years. Furthermore, during the research, we will have in mind the social impact of such a considerable economic and commercial success. Indeed, all these factors influence the quality of life of the Balearic Island's population, in addition to its cultural richness.

In addition, we will make use of the official statistics and studies in order to depict the leading seasonal rental enterprises in the archipelago as well as the current tourist flow and its possible behavior in the following years. To sum up, we will take a glance on the strengths, deficiencies, challenges and opportunities of tourism and, most specifically, tourist rental in the Balearic Islands.

OBJECTIVES

General objectives

- Analyze the economic and social profitability of tourist rental in the Balearic Islands.
- Describe the occupancy of the tourist rental offer and demand in the Balearic Islands.
- Describe the possible behavior of tourism in the Balearic Islands based in the historic tendencies.

Specific objectives

- Study the set of official tourism statistics in the Balearic Islands.
- Infer the reasons that motivate the Balearic Island's population to dedicate themselves to the tourist industry.
- Evaluate the tourist flow of the Balearic Islands.
- Analyze the return on investment for enterprises and particulars in the Balearic Islands.
- Compare the different sectors of tourist accommodation in the Balearic Islands.
- Determine the economic and social impact of tourism in the population of the Balearic Islands.

METHODOLOGY

The main methodology we will use to compile the information that will shape this research is documentary. We will judge the assertiveness of the different kind of documentary sources in order to base our research on solid ground, as it is recommended by Scott and Marshall (2015), who assure that the basis of a qualitative research has to be done using documents of evident quality on social meanings and social relations. In this way, it is proposed that documents must be assessed against four criteria: authenticity, representativeness, credibility and meaning. (Oxford Reference, 2018).

Following these guidelines, during this research we will make use of documentary sources published on the internet and a smaller quantity of physical resources, being especially aware of their pertinence. We will select the most adequate and reliable sources to analyze the phenomenon of tourist rental in the Balearic Islands.

In respect of the kind of investigation, this is a descriptive and analytical investigation. In this sense, Ethridge (2004) describes the notion of descriptive and analytical research as:

"A statement of affairs as they are at present with the researcher having no control over variable. Moreover, "descriptive studies may be characterized as simply the attempt to determine, describe or identify what is, while analytical research attempts to establish why it is that way or how it came to be." (p. 24)

Certainly, we will rely on the official statistics and on preexistent bibliography to describe the seasonal rental industry in the Balearic Islands. As a result, we will be able to create our own point of view resulting from a varied range of opinions, to analyze the reasons and consequences (social and economic) of such a relevant tourist flow and, furthermore, of foreign investment over the years.

Additionally, with regard to the design of the investigation, this is a diachronic study, since it approaches the theme from a long time perspective. In this way, we will be able to lay the foundations of what will later become our perception of the current status of tourist rental and investment in the Balearic Islands.

CHAPTER I ECONOMIC OVERVIEW

Just as it is reflected in the Encyclopedia Britannica (1999), agriculture constituted the basis of the Balearic Islands economy before the tourist avalanche of the second half of the XX century, when tourism started to predominate to the extent it does nowadays. The archipelago produces typical Mediterranean varieties of wheat, olives and grapes, as well as peaches, apricots, almonds, tomatoes and carob.

The English occupation (1717-1802) brought the introduction of sheep, cattle and pigs in the territory, fields that still occupy an important place in the islands economy. Nevertheless, these fields stopped being enough to supply the demand of its population, reason why the importation needs constitute an important economic factor.

Equally, small range manufacturing has a place in the economy, with the presence of furniture, shoes and textile manufactures. "Fine lace and embroidery are made for tourists. Tourism, which dominates the economy, offers only seasonal employment, with much of the work force idle during winter." (p. 830)

1.1 Economic profitability of tourism in the Balearic Islands

According to the web of Europa Press (2017) a study made by Christie & CO reflects that the Balearic Islands lead the ranking of tourist profitability in Spain, due to a tourist flow growth of 7,2% in relation to the quantity of tourists in the region in 2016.

Noteworthy is the fact that, even with a number of 58 million tourists making use of hotels in the region during 2017, the hotel demand does not compare to the figures of 2015 and 2016, which showed an excessive tendency to increase.

In this sense, Europa Press summarizes the statements of the Christie & Co senior consultant, Xavier Batlle, who assures that the reason of the shortfall might be the resurgence of other Mediterranean destinations, such as Egypt, Turkey and Tunisia, previously attacked by terrorism.

Nevertheless, we consider that the reduction of hotel users in the Balearic Islands may also be caused by other factors, like the use of alternative accommodation services as holiday rentals and rural tourism. These two services have experienced a new popularity thanks to new seasonal rental platforms like Airbnb and to the more affordable prices and higher privacy they often offer to the tourists.

Still, the Balearic Islands are an attractive area for foreign and local investment, especially in the tourist rental industry. Indeed, tourist rental investment in the region represented a 10% of the total volume of investment in Spain in 2016 (around €200 millions). This fact shows that, even suffering the disadvantage of the tense political atmosphere of Catalonia, as well as the possible competitiveness of other Mediterranean destinations, the Balearic Islands have a remarkable tourist potential.

On the one hand, we can infer that the main reason for tourist rental investment in this autonomous community is, besides its political stability in relation

with other Mediterranean countries, the fact that the hotel industry can allow itself to increase the hotel rates due to the high demand levels. In fact, although in 2017 there was a decrease in the tourist flow in relation to past years, the hotel rates grew in an average of 8% from the rates of 2016, which was a success for tourist industry settled in the archipelago.

On the other hand, Mallorca, Menorca, Ibiza, Formentera, Cabrera offer beautiful landscapes, beaches and weather, along with nocturnal attractions and particular historic features to attract the big mass of tourists that constantly flows through the islands during the whole year.

Indeed, the Balearic Islands are a perfect example of Mediterranean Weather. According to the Encyclopedia Britannica (1999), their average summer temperature is 24°C and temperatures in winter are not considered wintry, since they do not usually surpass the 10°C. Because of this, the Balearic Islands become the closest warm destination for Spanish people during winter, and an attractive holiday option for other European people.

At the same time, their annual precipitation is low, counting with 450 mm as the limit cipher. As the rainy season is mainly during autumn and spring, the leading tourist times of the year (summer and winter) are sunny and warm, necessary conditions for the use of the beaches, which is the principal attraction for tourists.

Moreover, the islands' history, rich in invasions, has widened the autonomous community's cultural variety and their people's acceptance of foreign people and their customs. In fact, they were invaded by the Carthaginians, the Romans, the Vandals, the Byzantines, the Muslims, the British and the Spaniards, to finally become a Spanish province in 1833.

Thus, the Balearic Islands still conserve the charm and simplicity of past ages, counting with numerous windmills constructed by the Muslims, rough stone towers (taules, talaiots and navetes) built by the talayotic civilizations and old buildings like the “castell de Bellver” and “catedral de sa Llotja”. These historic evidences in the islands transmit the charm of a past time to the tourists without losing the comfort and relaxing distractions of the contemporary ages.

1.1.1. Touristic deficiencies of the Balearic Islands

As described by Coll and Seguí (2014), climate is one of the most important factors for tourists when deciding the destination, for this reason, the Balearic Islands are a very accepted destination, thanks to the well-considered climate of the area. In this context, the Balearic Islands are one of the most interesting places around the world for tourists every year. However, the Balearic Islands suffer from major climate changes throughout the year, for this same reason, we can affirm that the structure of tourism industry in the Balearic Islands is “seasonalized”, where there is a big difference in the number of tourists depending on the time of year. Creating a great dependence on Balearic tourism for the climate.

In accordance with the aforementioned and trying to expand the reasons that lead to deficiencies of tourism in the Balearic Islands, Martorell and Mulet (2009) outlined the current problems that the touristic industry of the Balearic Islands has to face:

- **Price of land / construction:** The investment needed for the construction of touristic establishments consists of two distinguishable concepts: the investment on the acquisition of the land and the investment on construction. Regarding the land, the cost per square meter (m²) has experienced a substantial increase during the last years. This is a direct consequence of the strong real estate development that the Balearic Islands have experienced in the last twenty years which has produced, major speculation in the price of land. (Batle and Robledo, 2000. As it is paraphrased in Martorell and Mulet, 2009, p. 84).
- **Seasonality:** It must be noted that more than 80% of the tourists that visit the Balearic Islands do it during the period between May and September. The unequal seasons during one year weaken the productive structure of a tourist industry that, as a consequence, suffers a decline in the profitability of its companies, (...). (Orfila, Crespo and Martinez, 2005. As it is paraphrased in Martorell and Mulet, 2009, p. 84).
- **New destinations:** Nowadays, the traditional sun and beach tourists prefer more remote destinations, reason why the loyalty to the classical sun and beach destinations (as the Balearic Islands) is decreasing. (p. 85).

There is also the phenomenon of the “New tourist” (Aguiló et al, 2005. As it is paraphrased in Martorell and Mulet, 2009, p. 85). This tourist has a preference for short-time stays, which reduces their expenses and, consequently, tourist incomes in the destinations they visit in comparison to past years. (p. 85)

In effect, Christie and Co (2016) affirm “the airlines’ schedules remain closely aligned with the islands’ seasonality. Currently, airlines do not operate off-season regular flights to and from the Balearic Islands.” (p. 4). Such a big problem is a tourist flow constrainer that also limits the mobility of locals and foreigners: due to the scarcity of the offer, ticket prices experience a significant rise which, at the same time, disrupts their affordability.

In this respect, Christie and Co emphasizes the efforts that are being made by the airlines operating in the region (Air Berlin, Air Nostrum, Ryan Air, Easy Jet, Vueling and Thomson) in order to minimize the problem, efforts that promise to be rewarded thanks to the “positive outlook for upcoming years”. The airlines offered in 2015 “almost 100,000 additional seats (+ 18.2%) and 36 new routes in comparison to the 2014 winter season”. (p. 4).

The authors also published a list of the challenges to overcome in the Balearic Islands, which include, apart from the ones named before, the “regulation of existing unregulated tourist accommodation” between which there are the all – inclusive hotels, “detrimental to the new hotel supply”. Similarly, they advise to improve the “overcapacity and consequent deterioration of certain tourist areas”, and finally looking for better qualified staff “to deliver a high quality product and service”. (p. 16).

As a result of the new destinations problem approached by Martorell and Mulet (2009), and departing from the previously mentioned study made by Coll and

Seguí (2014), there is a clear downward trend in the average stay of the tourists from 1989 to 2000. We can infer the “New tourist” prefers to sacrifice the length of their holidays in order to have, if not more money left, more holidays during the year than they did before. This phenomenon can be observed in the table we will show below developed by the “Institut d’estadística de les Illes Balears”.

Table 1. Average days of stay in the Balearic Islands per nationality.

| Year | German | British | Spanish | Others | Total |
|-------------|---------------|----------------|----------------|---------------|--------------|
| 2009 | 9,09 | 9,22 | 8,18 | 9,40 | 9,13 |
| 2010 | 8,47 | 8,28 | 7,76 | 8,71 | 8,53 |
| 2011 | 8,55 | 8,41 | 7,65 | 8,67 | 8,48 |
| 2012 | 9,65 | 8,31 | 7,53 | 8,65 | 8,45 |
| 2013 | 8,49 | 7,96 | 7,69 | 8,39 | 8,29 |
| 2014 | 8,27 | 7,87 | 7,76 | 8,28 | 8,20 |
| 2015 | 8,13 | 7,70 | 7,85 | 8,11 | 8,07 |

Source: IBESTAT, based on the official data of the INE (National Institute of Statistics) of Spain. As quoted by the Balearic Islands’ Tourism Agency. GOIB (Government of the Balearic Islands) 2009 - 2015.

Even though these ciphers reflect a minor income for the tourist industry and, hence, for the seasonal rental industry in the Balearic Islands with respect to 1989, the tourist flow has also increased. For this reason, although the visitors spend less time in some or all of the Balearic Islands, the quantity of tourists has significantly augmented, as it will be shown afterwards.

1.2 Tourism statistics in the Balearic Islands

1.2.1 Main economical macro magnitudes of the tourist industry in the Balearic Islands

We will display the main macroeconomic magnitudes of the tourist industry in the Balearic Islands per year (from 2008 to 2014) in accordance with the data of the IBESTAT (Institute of Statistics of the Balearic Islands). In this we are guided by the most recent published data until February 2018.

As it will be reflected below, in these main macroeconomic magnitudes the institute included their measured values of Gross Value Added (GVA), percentage of Gross Value Added (GVA) on Basic Prices, Number of Enterprises, Number of Establishments, Volume of the Business and Value of the Production on Basic Prices.

Likewise, Table 3 contains the measured values of Compensation of Employees, Intermediate Consumption, Gross Operating Surplus and Working Population until September 30th, date in which the surveys made by the organization take place every year.

Table 2. Main macroeconomic magnitudes of the tourist industry in the Balearic Islands. Total per service field per year.

| Year | GVA on basic prices | % of the GVA on basic prices | Number of enterprises | Number of establishments | Volume of the Business | Value of the production on basic prices |
|-------------|----------------------------|-------------------------------------|------------------------------|---------------------------------|-------------------------------|--|
| 2014 | 8.130.652,1 | 100 % | 48.820 | 54.907 | 25.968.294,4 | 15.807.696,3 |
| 2013 | 7.694.667,6 | 100 % | 49.006 | 55.122 | 25.009.866,9 | 15.254.618,5 |
| 2012 | 7.353.743,0 | 100 % | 49.481 | 56.211 | 24.953.770,8 | 15.062.352,2 |
| 2011 | 7.235.243,7 | 100 % | 49.414 | 55.709 | 24.938.070,6 | 14.811.687,0 |
| 2010 | 7.356.093,5 | 100 % | 51.108 | 58.108 | 24.863.479,8 | 15.222.033,4 |
| 2009 | 7.415.074,4 | 100 % | 52.810 | 58.721 | 24.186.304,8 | 15.240.710,2 |
| 2008 | 8.320.840,7 | 100 % | 53.780 | 61.128 | 26.794.812,2 | 17.030.114,5 |

Source: IBESTAT (Institute of Statistics of the Balearic Islands), based on the official data of the INE (National Institute of Statistics) of Spain. Government of the Balearic Islands. Department of Work, Commerce and Industry. (Retrieved in 2018)

Table 3. Main macroeconomic magnitudes of the tourist industry in the Balearic Islands. Total per service field per year.

| Year | Compensation of employees | Intermediate Consumption | Work Operating Surplus | Working population until September 30th |
|-------------|----------------------------------|---------------------------------|-------------------------------|--|
| 2014 | 4.906.687,1 | 7.677.044,3 | 3.264.089,3 | 260.719,8 |
| 2013 | 4.713.869,2 | 7.559.950,9 | 3.042.778,2 | 253.235,8 |
| 2012 | 4.765.596,5 | 7.708.609,2 | 2.730.894,7 | 257.212,1 |
| 2011 | 4.806.085,9 | 7.576.443,3 | 2.552.634,0 | 244.334,7 |
| 2010 | 4.816.251,8 | 7.865.939,9 | 2.688.497,0 | 250.336,8 |
| 2009 | 4.958.271,8 | 7.825.635,8 | 2.579.142,1 | 258.195,9 |
| 2008 | 5.184.277,9 | 8.709.273,9 | 3.273.594,8 | 569.541,6 |

Source: IBESTAT (Institute of Statistics of the Balearic Islands), based on the official data of the INE (National Institute of Statistics) of Spain. Government of the Balearic Islands. Department of Work, Commerce and Industry. (Retrieved in 2018)

On the tables shown above were considered the industries of catering, transport by land and railroads, maritime transport, air transport, activities related to travel agencies and tour operators, rental of motor vehicles, artistic and spectacle activities, cultural activities, sport activities and other amusement and recreation activities. By means of these statistics, we can verify the presence of a great variety of tourist services, which place tourism, since the 1960s, as the most important industry in the economy of the region.

1.2.2 Tourist flow

We will analyze the official statistics measured by the Government of the Balearic Islands with the objective of making a brief retrospective of the tourist flow in the archipelago. In the first place, we will show the ciphers of tourist arrivals, as well as the countries from which the tourists come from. This is intended to describe the most recent behavior of the tourist flow and what are the target countries that the region attracts.

We have chosen to compare the newest data of the IBESTAT (Institute of Statistics of the Balearic Islands) in order to achieve the aforementioned purpose of the research. Even though our aim is to make a diachronic study, in this particular theme we consider it is more relevant to describe and analyze the phenomenon from a closer point of view.

Nevertheless, we will add a table of the evolution of tourist flow in this autonomous community since the tourist avalanche in the middle of the XX century. In so doing, we can establish a parallelism between the development and growth of the hotel industry during the decades and its impact on tourism.

In Table 4, we took the first six months of the last published years due to the absence of detailed statistics per island in the last semester of 2017. Our aim is to analyze which island is preferred by the tourists in general and according to their nationalities. We will also scrutinize the ciphers in order to determine if the flow of tourists during the first semester of the year is lower than that of the second semester, which contains the leading high tourist season (summer).

Subsequently, for the study of the tourist flow during summer, we will analyze the official statistics of the second semester of less recent years (2015 - 2016). In this way, we will have an idea of the tourist flow variation from one year to the other in the course of the most significant period for tourism in any sun and beach destination, from which the Balearic Islands are a classical example.

Table 4. Tourist arrivals on the Balearic Islands. Period from January to May 2016 and 2017.

| TOURIST ARRIVALS | | | | | | | | |
|-------------------------|-----------------------------|----------------|------------------------------|-------------------------|-----------------------------|----------------|------------------------------|-------------------------|
| | (January – May 2016) | | | | (January – May 2017) | | | |
| | Mallorca | Menorca | Ibiza/ Formentera | Balearic Islands | Mallorca | Menorca | Ibiza/ Formentera | Balearic Islands |
| Germany | 1.190.256 | 16.217 | 78.738 | 1.285.212 | 1.306.029 | 13.641 | 64.936 | 1.384.606 |
| United Kingdom | 538.898 | 81.210 | 135.694 | 755.802 | 570.438 | 96.059 | 152.305 | 818.802 |
| Spain | 427.310 | 90.461 | 183.403 | 701.174 | 468.120 | 108.599 | 191.977 | 768.697 |
| Italy | 27.792 | 4.342 | 66.938 | 99.073 | 31.314 | 6.813 | 58.071 | 96.198 |
| Nordic countries | 151.656 | - | 1.566 | 155.805 | 237.961 | - | - | 241.797 |
| France | 100.892 | 14.864 | 33.666 | 149.422 | 88.380 | 12.805 | 23.251 | 127.435 |
| Switzerland | - | - | - | 105.996 | - | - | - | 137.946 |
| Belgium | - | - | - | 57.429 | - | - | - | 55.987 |
| Netherlands | - | - | - | 168.378 | - | - | - | 157.111 |
| Russia | - | - | - | 8.225 | - | - | - | - |
| Total | 2.931.779 | 225.225 | 601.882 | 3.758.887 | 3.179.430 | 257.746 | 641.679 | 4.078.854 |

Source: IBESTAT, based on the official data of the INE (National Institute of Statistics) of Spain. As quoted by the Balearic Islands' Tourism Agency. GOIB (Government of the Balearic Islands) 2016 - 2017.

As we analyze the most recently published ciphers on tourist arrival in the Balearic Islands, we get to see a considerable increase of tourists in 2017 in comparison to 2016. Indeed, with Germany leading the visitor's nationalities (33.9% of the tourists), there is an augmentation of 8.6% German tourists in the ensemble of islands, with a tendency to visit Mallorca over the rest of islands.

When it comes to the second leading nationality, occupied by the British, there was an increase of 11.2% British tourists visiting the Balearic Islands with reference to 2016. In fact, there was a growth of 21.3% British tourists in Menorca, 5.4% in Mallorca and 17.5% in Ibiza and Formentera. As a result, 20.1% of the overall number of tourists was British. The main reason we infer for this tendency is the fact that the Balearic Islands are the closer sun and beach destination in which the British can enjoy warm holidays.

Furthermore, the third leading country on terms of tourist flow was Spain, with a total of 18.8% more tourists from January to May 2017 than the same period of 2016. In this sense, Spanish visitors augmented a 23.9% in Menorca, a 9.8% in Mallorca and an 8.2% in Ibiza and Formentera.

Even so, there was a drastic reduction of French tourists. From the ciphers of French visitors in the same months of 2016, there were -13% tourists in Mallorca, -17.2% in Menorca and -22% in the Pitiusas by the Greeks: Ibiza and Formentera. All the same, the Balearic Islands received 9.2% more visitors in the first semester of 2017 than in the same period of 2016.

We confirm that Mallorca is the most visited destination while Menorca is the less popular island. As a matter of fact, even though Germany leads the visitor's nationalities, in 2017 there was a reduction of 15.6% tourists in Menorca and 14.6% in Ibiza and Formentera with respect to the first semester of 2016.

By comparison, the following table depicts the most recently published statistics on tourist flow in the period of a year, with the aim of probing into the magnitude of tourist movement in the Balearic Islands in a longer period of time and keeping the parameters of preferred destination between the Balearic territories according to the visitor's nationalities.

Table 5. Tourist arrivals on the Balearic Islands. Period from January to December 2016.

| TOURIST ARRIVALS | | | | |
|----------------------------------|-------------------|------------------|-------------------------------|-------------------------|
| (January – December 2016) | | | | |
| | Mallorca | Menorca | Ibiza / Formentera | Balearic Islands |
| Germany | 4.164.211 | | | 4.584.807 |
| United Kingdom | 2.332.398 | 525.007 | 842.004 | 3.699.409 |
| Spain | 1.209.052 | 524.060 | 650.730 | 2.383.842 |
| Italy | 189.665 | - | 395.886 | 689.450 |
| Nordic countries | 768.290 | - | | 815.602 |
| France | 410.207 | - | 149.281 | 628.010 |
| Switzerland | - | - | - | 485.563 |
| Belgium | - | - | - | 227.565 |
| Netherlands | - | - | - | 630.232 |
| Russia | - | - | - | 75.809 |
| Total | 10.923.841 | 1.445.758 | 3.026.116 | 15.395.718 |

Source: IBESTAT, based on the official data of the INE (National Institute of Statistics) of Spain. As quoted by the Balearic Islands' Tourism Agency. GOIB (Government of the Balearic Islands) 2017.

According to the Tourism Agency of the Balearic Islands (2016) the 15 million tourists who visited the Balearic Islands in 2016:

Imply an increase of 10.8% when compared to the cipher of 2015. In this period, the number of foreign tourists augmented 11.9% whereas the number of national tourists increased 5.1% (...). Regarding the distribution of tourists per islands, Mallorca received a 71%, the Pitiusas a 19.7% and Menorca a 9.4%. According to the INE, the Balearic Islands was the third autonomous community in terms of foreign tourist's arrival in Spain (behind Catalonia and the Canaries). (p. 3)

We can observe that the leading tourist nationalities remained the same during the whole year, which may be caused, as it was mentioned before, by a better, cheaper and more continuous flight offer. However, having such an important place in tourist arrivals, the Balearic Islands received an income of "113.6 million Euros until November 2016, a 15.1% more than the last year (2015)". (p. 4)

Table 6. Total tourist arrivals on the Balearic Islands per nationality in 2017.

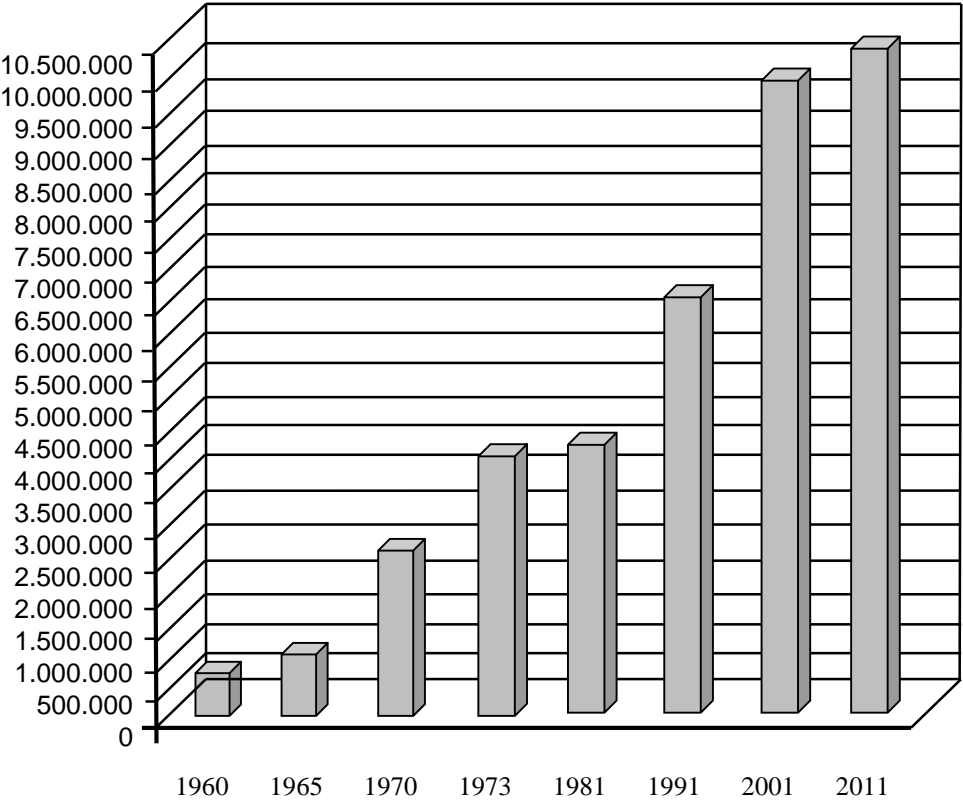
| TOURIST ARRIVALS | |
|----------------------------------|-------------------|
| (January – December 2017) | |
| Germany | 4.844.485 |
| United Kingdom | 3.736.535 |
| Spain | 2.541.814 |
| Italy | 750.313 |
| Nordic countries | 1.004.247 |
| France | 584.651 |
| Switzerland | 533.529 |
| Belgium | 238.822 |
| Netherlands | 595.351 |
| Russia | 46.507 |
| Rest of Europe | 1.082.800 |
| Rest of the World | 373.728 |
| Total | 16.332.782 |

Source: IBESTAT, based on the official data of the INE (National Institute of Statistics) of Spain. (2018)

As we can confirm in the past table, the archipelago increased its tourist flow by a million during 2017, a raise of around 6.08% with respect to 2016 and 21.18% when compared to 2015. Although the increase is not as high as in 2015, this proclivity to ascend seems to be part of a stabilization process, due to the massive growth that has occurred so far.

In the following table, we will take a glance at the historic tourist flow in the Balearic Islands since the tourist avalanche of the second half of the XX century. And we will try to justify the reasons of its increase or decrease as well as its possible behavior in the future relying on old and current articles and studies that will help us to better understand the data provided.

Table 7. Historic tourist flow in the Balearic Islands since the tourist avalanche of 1960.



| | |
|-----------------|------------------|
| 1960: 400.029 | 1981: 3.900.000 |
| 1965: 1.080.826 | 1991: 6.000.000 |
| 1970: 2.272.049 | 2001: 9.700.000 |
| 1973: 3.573.238 | 2011: 10.110.000 |

Source: Compilation prepared by the author, on the basis of the IBESTAT, based on the official data of the INE (National Institute of Statistics) of Spain.

The last table shows the enormous 1960 s growth in the number of tourists arriving to the Balearic Islands. The Chamber of Commerce of the Balearic Islands and the Circle of Economy of Mallorca (2003) assures that the outstanding reason of the touristic boom in the 60s was the emergence of the charter flights industry, which ensured cheap flights due to the cheap cost of planes used in World War II.

This allowed all kind of people to fly for holidays, creating mass tourism and travel operators.

Because of their location close to the greatest European capitals, their high number of an important sun and beach destination since the beginning of charter companies.

As we can notice in Table 7, there was a dramatic augmentation of tourist flow from 1960 to 1973, motivated, in part, by the opening of more airports in the region in 1960, 1963 and 1968. This fact enabled the entrance of bigger planes in the Balearic Islands. During this time, 20000 hotel places were built in the archipelago, whereof derived a complete redirection of the economy towards the tertiary sector.

“The effects of the situations of international economic crisis in the 1970s are the factors that explain the moments of contraction of the touristic activity and Balearic economy. The recessive tendency was corrected and changed during the 1980s”. (Chamber of Commerce of the Balearic Islands and Circle of Economy of Mallorca, 2003. p.12) We can infer this is the reason why the tourist flow growth is not that considerable in 1981. Nevertheless, this decade brought an increase of British tourism in 250%, reason why there is such a gap between the cipher of 1981 and the one of 1991.

At the same time, the gradual amelioration of European economies and the natural and historical attractions located in the Balearic Islands have fed the growth of tourist flow, along with the increase of Spanish visitors. Likewise, construction and tourist services have created new job requirements during these decades, which increased population and immigration in a significant way.

1.2.3 Tourism industry workforce in the Balearic Islands

In the same line, we will make a short historic overview of the tourism industry workforce in the Balearic Islands, composed by locals and, after the 1980s, a significant number of immigrants. According to the Encyclopedia Britannica (1999) who affirmed that the increment in tourism during mid-19th century caused an increase of the population in coastal areas, depopulating the interior areas of the islands. Oppositely, as a consequence of the low birth rate and the emigration, the population grow little between 1900 and 1970.

Following the data of the IBESTAT (Institute of Statistics of the Balearic Islands) in 2016 29% of the population of the Balearic Islands worked for the tourist industry (mostly on summer and winter), which represents about 2, 57 million people working in the field.

In accordance with the web of 20 Minutos (2016), tourism employment in the region occupies the second place in Spain after the Canary Islands (31.9%) and is well above the national average (13.9%), according to the data of the Labor Force Survey diffused by the General Sub-Directorate of Touristic Knowledge and Studies. From this employees, 66% belonged to the food and drink industry.

Nonetheless, as it was aforementioned, tourism does not provide enough work for this mass of people during the rest of the year, reason why they must also dedicate themselves to other industries in order to cover their needs. In this respect, as it was shown before, the Balearic Islands also develop other economy fields, but they have become dependent on tourism. This causes the departure of the

population during low seasons and their entrance to the islands only when they can live on tourism. Yet, the field of tourism services and accommodation can be perfectly exploded in low season, since the lower demand of plane tickets reduces their price and allows, if not a massive tourist flow as in high season, a positive flow of tourists with a lower budget. Indeed, we consider that if the low season offer increases so will the demand and, in such a way, employment rates would be more stable throughout the year.

Regarding the recent ciphers of tourist employment, the web of Economía de Mallorca (2018), based on a study made by the Ranstad enterprise, indicates the Balearic Islands registered historical augmentations of tourist employment in 2017. In fact, they list a 5.8% increase with respect to 2016 and a 37.1% increase from the cipher of 2008. During the last year, 158.877 people worked in the tourist industry of the Balearic Islands, in the fields of accommodation services, food and drink services, passengers transport and other touristic activities such as travel agencies, car rental and cultural and sport activities.

When analyzing the historical series, Ranstad detects that people covered by social security in the tourist field of this autonomous community have increased for eight consecutive years. The lowest cipher of all the historical series regarding people occupied in this sector was registered in 2009, with 109.024 workers. From that financial year, social security affiliates have increased 45.7%.

Lastly, Ranstad defines the most demanded profile of workers for the tourist industry. Waiters, kitchen assistants, room waiters and airport personal are the most required; besides medium management profiles like managers, administrators, hall supervisors and hotel directors.

CHAPTER II COMMERCIAL OVERVIEW

During this chapter, we will make an overview of the commercial repercussion of tourism and, more specifically, tourist rental in the Balearic Islands. Since the past chapter constituted an introduction to the general economic situation, statistics on tourism in the Balearic Islands, as well as a basis on the pros and cons of investing in the autonomous community under consideration, the following will treat the matter in a more precise way, focusing on the primal theme of research.

By describing the occupancy of the tourist rental supply in the Balearic Islands we will present the general aspects and divisions of the accommodation industry in the region, which shall thereupon establish the grounding for a deeper analysis of each industry (hotel industry, holiday rentals industry and rural tourism industry).

Foremost, departing from the past historic review on tourism in the archipelago, which included a gradual growth of the tourist accommodation offer to keep up with the increasing tourist demand, it is necessary to show the ciphers related to the industry throughout the years. In such a way, we will determine its rate of growth and compare the number of formal and non - formal offer.

Afterwards, we will examine local investment in the Balearic Islands and Balearic tourist rental companies, to close the chapter with foreign investment in the autonomous community.

2.1 Occupancy of the tourist rental supply in the Balearic Islands

According to the IBESTAT, the existing accommodation industry in the Balearic Islands is currently composed by three sectors that englobe the offer. These sectors are the classical hotel industry, which represents the biggest quantity of tourist places; holiday rentals, occupying the second place, and rural tourism, which consists in local rooms or houses seasonal renting.

Following the study conducted by Blázquez, Artigues and Yrigoy in his book "Investigaciones Turísticas" (2015), we see that during the years prior to the crisis, in the Balearic Islands there has been a great tendency to invest in housing thanks to the upward trend experienced by the housing market and the ease of obtaining credit from banks, furthermore, this caused that many individuals investors speculated with the prices. But when the crisis began, prices fell and many of the owners decided to rent their homes as a tourist accommodation. This situation led to the fact that a large number of homes not designed to function as tourist accommodation ended up being rented to many tourists.

As a result of this situation, during the last years, the different governments have taken many measures. The last one was, to approve the "reforma de ley de arrendamientos", which, as Serrano explains in his article "The new Tourism Law in the Balearic Islands" (2017), it limits in large part the amount of permits for apartments that can be rented as tourist apartments, also, decreases to 60 days the maximum rental period of a apartments for a year, finally, this new law extends to all types of apartments, not just single-family homes. Apart from these measures, the law also establishes an intervention against non-formal rentals, with fines up to 40,000 euros and up to 400,000 € fine for holiday rental platforms that fail to show the license number.

Continuing with the previous explanation, the following table shows the tendency of the tourist accommodation in recent years, after which the data and the reason for its evolution will be analyzed.

Table 8. Evolution of tourist accommodation in the Balearic Islands from 2011 to 2016.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------|---------|---------|---------|---------|---------|---------|
| TOTAL | | | | | | |
| Number of establishments | 2.599 | 2.591 | 2.609 | 2.642 | 2.666 | 2.700 |
| Places | 421.782 | 421.986 | 423.282 | 423.577 | 424.112 | 429.669 |
| RURAL TOURISM | | | | | | |
| Number of establishments | 205 | 212 | 223 | 248 | 276 | 296 |
| Places | 2.972 | 3.176 | 3.428 | 3.886 | 4.404 | 4.910 |
| HOLIDAY RENTALS | | | | | | |
| Number of establishments | 878 | 863 | 856 | 848 | 839 | 825 |
| Places | 87.118 | 86.495 | 85.701 | 84.196 | 84.574 | 83.218 |
| HOTEL | | | | | | |
| Number of establishments | 713 | 711 | 728 | 736 | 725 | 739 |
| Places | 202.116 | 202.362 | 205.218 | 207.434 | 204.996 | 209.023 |

Source: CAIB (Government of the Balearic Islands), based on the data retrieved by the INE (National Institute of Statistics) in Spain (2016).

As we can see in the previous table, the total supply of establishments has grown slowly but continuously in recent years, but if we focus separately on the three accommodation offer sectors, we can see how rural tourism has almost doubled its offer, oppositely, holiday rentals are slowly reducing their offer, due in part to the measures that governments have taken in recent years. Anyway it must be taken into account that these data are prior to the application of the reform for the lease law of (2017), for this reason, we can expect that the offer of holiday rentals accommodations will decrease even more and will be slowly replaced by rural tourism and hotel tourism.

2.1.1. Hotel Industry

According to Christie and Co (2016), from the demand of 8.8 million visitors in Mallorca in 2015, there was a supply of 893 hotels and an occupancy rate of 87.2%. This represented an income of € 8.1 billion, a 7% more than in 2014. About the Revenue per Affordable Room (Rev PAR), it consisted of an average of € 79.7, 7% more than 2014. Although there was a hotel presence of -0.8%, there were 1.4% more beds available in 2015 in comparison with 2014.

Regarding Ibiza and Formentera, the enterprise compiled the demand of 2.5% million visitors (1.2% more than 2014), supplied by 293 hotels, a number 4%

higher than that of the past year. About the occupancy, it stood at 87.2%, with a Revenue per Affordable Room (Rev PAR) of € 79.7. This represented an income of € 2.3 billion (1.3% bigger than the one of 2014) and an increase in the bed offer of 0.4%.

Concerning Menorca, its demand of the hotel industry was 9% higher than in 2014, counting with 1.1 million visitors staying in 96 hotels. The hotel number increased by 2%, with 25000 more beds in 2015 (5% more). The occupancy stood at an 83% that gained the industry € 986 million. The Revenue per Available Room (Rev PAR) in Menorca was € 91.9, a number considerably higher than in the rest of the islands, even though it decreased by 7% in comparison to 2014.

After having surveyed the Revenue per Available Room in the set of the Balearic Islands, which exhibits a considerable profitability supported by strong rates, the following table summarizes the amount of tourists making use of the hotel industry of the Balearic Islands from 2009 to 2015.

Table 9. Amount of tourists making use of the hotel industry in the Balearic Islands from 2009 to 2015.

| Year | Amount of Tourists making use of the hotel industry |
|------|---|
| 2015 | 8.517.968 |
| 2014 | 13.524.502 |
| 2013 | 13.049.783 |
| 2012 | 12.626.128 |
| 2011 | 12.435.958 |
| 2010 | 11.476.946 |
| 2009 | 11.544.568 |

Source: CAIB (Government of the Balearic Islands), based on the data retrieved by the INE (National Institute of Statistics) in Spain (2016).

As shown in Table 10, the demand of hotel accommodation in the Balearic Islands has been increasing from 2009 until 2014, experiencing a false drastic decrease in 2015, due to the fact that this year's data is in the absence of the last third of the year, with which the value is much lower. No more current data are available, but the trend of recent years leads us to believe that numbers continue growing, remaining the leading industry in tourist accommodation.

Following the context of the hotel industry, and its importance in the tourist accommodation market, it is interesting for the realization of the project to analyze the main hotel companies, in order to know how these companies affect the tourist accommodation market. Balearic hotel chains are have become renamed throughout the world. Due to the seasonality of the hotel industry in the region, which does not allow a stable income for the hotel chains of the Balearic Islands, they have expanded throughout the four continents. Between these hotel chains the most important ones are the Sol Meliá Group, the Barceló Group, the Riu Hotels Group and the Iberostar Group.

According to the Group of Hotel Chains of the Balearic Islands (2018), the hotel chains associated to the group have worked along with the local and national government in order to promote investment, allocate more funds to improve urban areas and beaches, marketing actions, promotion and communication, minimize the fiscal impact to tourist enterprises or the improvement of routes and access to the islands. The current associates of this group are:

Barcelo Hotels & Resorts / Bay Hotels / Blau Hotels & Resorts / BQ Hoteles / Colors Hotels & Resorts / Esperanza Hoteles / Fiesta Hotels & Resorts / Garden Hotels / Grupo Piñero / Grupotel / Hipotels / HM Hoteles / Hoteles Globales / Hoteles Saint Michel / Hotetur Hotels & Resorts / Iberostar Hotels & Resorts / Intertur Hotels / Mac Hotels / Mar Hotels / Marina Hotels / Oasis Hotels / Ola Hotels / Palmira Hotels / Protur Hotels / Riu Hotels & Resorts / Roc Hotels / Sirenis Hotels / Sol Melia / THB Hotels / UR Hotels / Valentin Hotels / Viva Hotels & Resorts.

With respect to the Sol Meliá Group, it is the most expanded Balearic group in the world, with three hundred and seventy establishments in Latin and North America, Europe, Middle East, Asia and the Pacific. In fact, the extent of this hotel chain can be found in forty - one countries around the globe, between which we can find: Argentina, Andorra, Belgium, Brazil, Croatia, Costa Rica, Colombia, Cuba, Dominican Republic, Egypt, Germany, Guatemala, Indonesia, Italy, France, Malta, Malaysia, Morocco, Mexico, Portugal, Spain, Panama, Peru, Thailand, Tunisia, Turkey, the United Kingdom, Uruguay, Vietnam and Venezuela.

According to the web page of the Spanish Newspaper El Confidencial (2017), the international expansion of the Spanish chain and its great business results allowed the company to open fifteen new establishments and start twenty- eight new projects only in 2017. “Meliá has been accumulating between 20 and 30 new signatures a year, which implies that, on average, they have incorporated a project each 2- 3 weeks”. Furthermore, Meliá is the first Spanish chain in the United States, China and the United Arab Emirates, with a profit increasing by 23.3% in 2017 (1.458,2 million euros).

This group possesses twenty-four establishments only in Mallorca, of which three belong to the rentals industry. The latter are considerably cheaper, about half to three quarters of the price of their exclusive hotels. Equally, the group has four hotels in Menorca and three in Ibiza. An interesting feature about this group is that, besides their massive extension, they are into the all – inclusive industry, a good way to compete with the emerging rivals that exploit the benefits of such a cheaper and easier option.

Regarding the Barceló Hotel Group, their 106 four and five stars' hotels have extended to more than twenty countries: Arabic Emirates, Czech Republic, Costa Rica, Cuba, Cabo Verde, Dominican Republic, Ecuador, El Salvador, Honduras, Nicaragua, Malta, Mexico, Morocco, Panama, Spain, Turkey, Tunisia, United States, Uruguay, Philippines, Portugal and others. Considered the third hotel chain in Spain and the 40th on earth, the Barceló Group aims to cover all the aspects of the tourist

industry, counting with a division of travel agencies, an airline and several tour operators.

With around 33,000 rooms across the world, the group opened ten new establishments in 2017 and plans to open more in the Arabic Emirates, Hungary, Morocco, China, Germany and Spain in 2018. According to the web site of Hotel Online (2017) Albert Santin, head of e- distribution of Barceló Hotels & Resorts assured that: “Additionally, as we look to grow our portfolio to 200 hotels in the next five years, having the ability to centralize as many bookings as we can now, means we can have greater control as we scale, be significantly more efficient, and make better decisions that drive revenue.”

Riu Hotels Group’s presence in the world extends to Aruba, Bahamas, Bulgaria, Cabo Verde, Costa Rica, Cuba, Cyprus, Dominican Republic, Germany, Ireland, Jamaica, Mauritius, Mexico, Morocco, Spain, Panama, Portugal, Saint Martin, Sri Lanka, Turkey, Tunisia and the United States. Apart from their hotels, the group extended to airlines (it is the main shareholder of TUI), as well as to the cruise industry.

According to the web site of Canarias 7 (2018), the income of this hotel group stands in 94.4 million euros only in the winter season 2017 – 2018 (98.3% more with respect to the last period), with a Revenue per Available Room of € 64. This represents an increase by 1.3% from the first trimester of the last year. During this time, the average occupation of their hotels stands in 84.7%. Regarding the Cruises division, they obtained an operative result of 37.8 million euros, a number 34.5% higher with regard to the same period of the last fiscal year. Equally, TUI achieved an income of 3.549,4 million euros during the same winter season 2017 – 2018.

To conclude, Iberostar Group’s extension in the world can be found in thirty - five countries around the world, such as Bulgaria, Cuba, Dominican Republic, Greece, Mexico, Spain, Turkey and Tunisia. According to Travel Pulse (2018), “all its hotels hold a 4 and 5-star status, positioning them at the high-end of the hotel industry.” At the same time, they are shareholders of an Argentinian network of brick and mortar travel agencies (Almundo.com) that produced a turnover of 500 million dollars in 2017, as well as they own a tourist service provider (WORLD2MEET) with a profit of 490 million dollars in the same period.

The group has renovated around 70% of its establishments with the aim of having a more technological approach and attract a broader range of visitors. Only in 2017, their portfolio included seven new hotels in Cuba, Lisbon, Spain, the United States, Morocco and Portugal. In 2018, thanks to the success of the group, they are planning to open fifteen new hotels in locations like Montenegro, Spain, Mexico and Cuba.

2.1.2. Holiday rentals industry

The holiday rentals industry represents the second place on the rentals offer during holiday season in the Balearic Islands. They constitute a low- priced and most comfortable option in relation to hotels, since they allow people to save money by cooking for themselves and stay in a more private environment. Equally, they are the best option for big families with noisy children who could result unfitting in an elegant hotel, as well as for those who need several rooms and affordable prices.

As it is highlighted by Tecno Hotel (2018), the demand of tourist apartment rental received 1.5 million travelers during 2017, a number that grew by 8.5% with respect to the last year (2016). Even though there is still a strong presence of apartments that are being rented without formal permission in Mallorca, Menorca and Ibiza, the number of overnight stays increased as well.

On this subject, the Government of the Balearic Islands has recently established a new law to forbid non – formal apartment rental, in order to receive proper taxes from the lessors and to assure the apartment’s good state, which would therefore assure a better and safer experience for the tourist. Those apartments proven to be rented without the permission required by the government after the implementation of the law (from the middle of 2016), would receive a fine. In this sense, even the enterprise Airbnb will receive a € 300.000 fine for having announced non – registered apartments for rental in the Balearic Islands.

The holiday rentals regulation law also seeks to limit the number of apartments or houses to three per lessor. Nevertheless, we will study the published data on formal holiday rentals in the region. The following table depicts the amount of tourists making use of the holiday rentals industry in the Balearic Islands from 2008 to 2015.

Table 10. Amount of tourists making use of the holiday rentals industry from 2009 to 2015.

| Year | Amount of Tourists making use of the holiday rentals industry |
|-------------|--|
| 2015 | 1.703.607 |
| 2014 | 2.010.660 |
| 2013 | 1.652.899 |
| 2012 | 1.559.895 |
| 2011 | 1.071.774 |
| 2010 | 865.337 |
| 2009 | 926.501 |

Source: CAIB (Government of the Balearic Islands), based on the data retrieved by the INE (National Institute of Statistics) in Spain.

From the data shown above, we can note an increasing tendency on the use of holiday rentals. There was a standing number of tourists making use of these in 2014, a particularly good year for tourism in the region, as we had mentioned during the analysis of the hotel industry.

Regarding the rate of occupation of the holiday rentals, it has gone from 52.49% in 2010 to 63% in 2017. As for the ciphers of overnight stays, it has remained relatively stable, from 8.987.331 in 2009 to 10.026.979 in 2013 and 10.125.791 in 2017. To sum up, the occupation of holiday rentals has been growing during the years, which has not displaced considerably the hotel supply. Each time more

visitors make use of holiday rentals in the Balearic Islands because of their comfort, privacy and more affordable price for big groups.

2.1.3 Rural tourism industry

Rural tourism is an alternative to the traditional sun and beach mass tourism. Its establishments in the Balearic Islands are composed by houses or rooms for rental which are located in rural areas and, most commonly, include a big territory with local cattle or agriculture. By lodging in rural tourism establishments, people can have a closer look on the culture of the region beyond what is merchandised for mass consumption.

As it continues to represent a discrete tourist activity in the Balearic Islands, rural tourism is in the last place when it comes to the ciphers of formal tourist accommodation, only followed by holiday camping, which had an average rate of occupancy of only 42.8 tourists per month in 2017 (according to the ciphers published in the IBESTAT).

The following table presents the amount of tourists making use of rural tourism accommodation from 2009 to 2015.

Table 11. Amount of tourists making use of the rural tourism industry from 2009 to 2015.

| Year | Amount of Tourists making use of the rural tourism industry |
|-------------|--|
| 2015 | 198.825 |
| 2014 | 163.073 |
| 2013 | 151.490 |
| 2012 | 146.103 |
| 2011 | 123.692 |
| 2010 | 105.509 |
| 2009 | 91.260 |

Source: CAIB (Government of the Balearic Islands), based on the data retrieved by the INE (National Institute of Statistics) in Spain.

As we could observe in Table 13, the popularity of rural tourism has grown, if not drastically, in a positive way during these seven years. When we consider the nature of this kind of tourism, it is proper to say it does not comply with the normal expectations of holidays in a warm island. Consequently, we cannot expect it to attract big amounts of people when compared to traditional sun and beach tourism.

In part, this is a consequence of the great differences between rural tourism and "sun and beach" tourism, summarizing, we know that sun and beach tourism has a huge number of clients in high season, since they offer affordable prices, which

are adapted to all tourist profiles, thus obtaining large amounts in billing that makes the large hotel infrastructure profitable.

On the other hand, rural tourism has a totally different approach, since in these rural "hotels" a very specific client profile is sought, which makes a higher expenditure during the trip, offering them alternative and exclusive experiences that can only be performed in the environment in which this accommodation is located. As a result of this, we can appreciate that the prices of rural tourism are superior to sun and beach tourism.

To conclude, we can observe that rural tourism complies with a different business model, where distinctive services of high quality and geographic value are offered, therefore, the profile of the client of this business model belongs to a higher status, which makes a high expense, in such a way that these hotels obtain high profit margins. In addition, these exclusive services and high prices, cause this tourism to cover a smaller number of customers, in this way, it is expected that this sector will continue to cover a much smaller client market than the "sun and beach" tourism during the next years.

2.2 Foreign investment in the Balearic Islands

Foreign investment in the Balearic Islands is not as representative as local investment. Even though the ciphers of gross foreign investment in the zone has increased in the archipelago, going from € 74.543 in 1993 to € 564.465,9 in 2016, the numbers did not vary much from 2008 to 2016. In fact, gross foreign investment in 2008 stood in € 545.668,7, which leaves a margin of growth of only € 18,797.2 in eight years.

The leading investing countries are Luxembourg, with an investment of € 174.680,1 in 2017; the United Kingdom, with € 24.641,1; Germany, with € 12.465 and Belgium with 12.014,2. (IBESTAT)

Nevertheless, during our extensive research, *Última Hora* (2017) and many other Spanish newspapers affirm that foreign investment in the region reached a quantity of € 505.387.990 only in the three first trimesters of 2016, number three times higher than the one of the same period of 2015. According to the newspaper, most of the investments come from other European countries with an urge to invest in the hotel industry, the real estate industry and the purchase of local companies, focused on intermediation in movable securities and other financial assets.

Balearic Properties (2016) ensures that British citizens lead foreign investment in the Balearic Islands, with an investment of 21.3% from the total number, more than double than French (8.7% of the sales) and the Swiss.

The growing interest in purchasing properties in the Balearic Islands coincides with the rise of tourist rents and yields data as facilitated by the report of the National Statistics Institute which claims that during the first eight months of the year 9,305 residences have been purchased on the islands, which means a growth rate of 36.1% over the same period last year. The report highlights two phenomena that are currently registered in the Balearic property market. One is the acquisition as investment of a significant number of homes for its subsequent incorporation into the rental market or as a second home. The second, the promotion of new homes is under minimum, which is forcing the islanders and foreign to resort to second-hand

market: of the 9,305 purchased between January and August, 7,238 were used and only 2,067 of new construction.

With regard to the foreign disinvestment in the Balearic Islands, *Última Hora* (2017) alleges it is reducing every year. "The last report published by the Ministry indicates that during the first trimester of 2016 disinvestment was at 8 million euros, against the 12 million of the same period of 2015 and the 41 of the first semester of 2014.". This suggests the Balearic Islands' market is profitable in every aspect for foreign investment.

2.3 Impact of holiday rental platforms in the tourist rental offer of the Balearic Islands

Holiday rental platforms have revolutionized tourism during the last two decades, these platforms work as an intermediary between the suppliers of private accommodation services and the clients. Holiday rental accommodations such as: houses, private apartments and villas; are the main accommodation services offered. By making use of these platforms tourists can see the apartments or houses for rent before their arrival, as well as make sure they will stay and leave their belongings in a reliable environment. In this sense, these new platforms explode the tourist's interest to book comfortable accommodation that is recognized or recommended by other users.

According to the web of the newspaper *La Vanguardia* (2017) Airbnb, Home Away, Niumba and Windu are the most used holiday rental platforms in Spain. The Balearic Islands are not an exception, since holiday rentals has experienced an important increase since the popularization of holiday rental platforms like Airbnb, which has been growing as much as the numbers of successful renting based on these new technologies.

In this respect, we can infer that the sharp increase in the rate of occupancy experienced by the holiday rentals industry from 2011 to 2012 was caused, in part, thanks to the influence of these platforms, most specifically Airbnb, whose popularity grew enormously during this time. In fact, as we have mentioned before, there was a leap of five hundred thousand tourists making use of holiday rentals from 2011 to 2012, and of three hundred thousand from 2013 to 2014.

In accordance with the web page of *Economía de Mallorca* (2016) 25% of the tourists arriving to the Balearic Islands prefers booking their accommodation services via internet. With the extension of internet and mobile apps, this number is expected to increase in a drastic way during the following years, giving opportunities to both the lessees and the lessors to facilitate this cumbersome process while the holiday rental platforms receive an income to keep up their intermediation services.

CHAPTER III SOCIAL OVERVIEW

During this chapter, we will study and analyze the social repercussion of tourism in the Balearic Islands. First, the analysis of tourist demand will give us an approach to the possible cultural influences flowing in Mallorca, Menorca, Ibiza, Formentera and the set of the Balearic Islands during the year. Then, we will analyze the social impact we consider tourism has had on the population of the island, to finish with the seasonal rental laws and social security for the tourist visiting this Spanish region.

3.1. Profile of the tourist in the Balearic Islands

As we have mentioned before, the Balearic Islands have been continually experiencing a rise in the number of tourists since the tourist avalanche of the 1960s. By analyzing the evolution of the hotel supply in the archipelago, we could infer the economic profile of the new tourists has been increasing as well as the presence of three and four star hotels. Nevertheless, if we examine the variation on the average expenditure per tourist, it has not increased at the same time as the hotel quality. As a matter of fact, it has even decreased in cases such as the financial year of 2014. The medium rate of annual growth in terms of expenditure per tourist increased, according to the IBESTAT (Institute of Statistics of the Balearic Islands) only a 1.27% from 2011 to 2016. On the contrary, 2014 brought a fall of 3.97% with respect to 2013.

In accordance with Gaffar and Garcia (2017) benefits in the tourist income of the region come from overcrowding and not from quality. They affirm “a divergence between tourist growth and the expenditure every tourist carries out has been established. The more tourists, the more money. But there is no increase of touristic quality, it is stalled in the medium level of consumption of 2012-2016.”

The following table contains the evolution of the average expenditure per tourist in the Balearic Islands from 2012 until 2016 according to the IBESTAT.

Table 12. Evolution of the average expenditure per tourist from 2012 until 2017.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------|----------|----------|----------|----------|----------|
| € 903.59 | € 920.91 | € 884.32 | € 907.64 | € 946.30 | € 980.64 |

Source: IBESTAT, based on the official data of the INE (National Institute of Statistics) of Spain. (2018)

As we can confirm in the past table, although there is an increase on the average expenditure per tourist, it has not been representative enough during the last six years. A variation that does not surpass 5% from one year to the other is not profitable on a long term basis to establish quality above overcrowding. In case the tourist overcrowding of the region decreases sometime in the future or the space of

the island is full, establishments in the Balearic Islands will not be able to keep up operating and economy will collapse, reason why Gaffar and Garcia (2017) recommend to diminish the dependence on tourism of the archipelago or increase the prices of tourist services, aiming for a better quality of tourism that is not based in such a strong way on overcrowding.

According to the web of Economía de Mallorca (2016), based at the same time in a marketing study made by Inturea.com, almost half of the tourists visiting the Balearic Islands is between 25 and 44 years old, and family holidays are becoming each time more popular. When it comes to the connection with the islands, 51% of them usually prefer low cost airlines and eight from each ten cases rather making use of the hotel industry.

Even though luxury tourism is popular in the Balearic Islands, there seems to be a tendency to offer low cost tourism for young people, which hotel chains are searching to eradicate in order to ameliorate tourist quality and tourist market shares.

3.2 Social impact

In respect to the social impact of tourism, the main benefit is economic. As a matter of fact, tourism is the most relevant factor composing the GDP of the Balearic Islands. There were 260.719,8 people of the region working in the tourist service industry in 2014 (food and drink establishments, hotel establishments, holiday rentals, rural tourism establishments, entertainment, airports, transport, sports or cultural activities). These people depend on tourists making use of the tourist rental industry to maintain themselves and their families and, in case they are immigrants, send economical support to their loves ones in their countries of origin.

In parallel, taxes required by the government for the tourist service industry contribute to the improvement of the general state of Mallorca, Menorca, Ibiza and Formentera (construction and paving of streets and avenues, parks, public cultural buildings and theaters to be used by the entertainment industry and sport courses). These improvements impulse the attractive of the Balearic Islands as well as the investment in this sun and beach destination.

Equally, tourism in the Balearic Islands is a source of indirect / non – formal employment, from those who help people carrying their bags to taxi drivers and those who sell handicraft, fine lace or embroidery for the tourists.

Regarding cultural identity, another impact of tourism in the Balearic Islands is the interest locals might develop for their own culture in order to explode their knowledge for personal purposes such as becoming tourist guides. Nonetheless, the influence of so many cultures since the beginning of civilization in the islands could have also carried a cultural adjustment process which can bring pros and cons: on the one side, locals might be deculturalized or have an indefinite identity. On the other side, their contact with so many different points of view and ways to see the world could have enriched their tolerance and general acceptance to the foreign.

On the environment aspect, the existence of a notable rural tourism industry is a way to make people aware of the importance of ecology and contact with nature. Besides approaching tourists to the genuine side of the culture of the archipelago, it is a tool to plant love for nature in families and, especially, in kids.

Despite all of the positive impact tourism has in the Balearic Islands, it is important to take into account that the overcrowding it involves carries pollution and might cause over population at any time. With the aim of preventing these disadvantages, which are not numerous vis-a-vis the advantages, the government should strengthen cleaning activities in the islands and start campaigns about earth care awareness for tourists and locals.

3.3 Seasonal rental laws and security for the tourist

As we had mentioned before, holiday rental laws in the Balearic Islands aim to regulate the amount of non – formal accommodation supply in the zone. These measures are taken in order to assure the safety of the tourist, the good conditions of the apartments or houses for rental and the maintenance of the city thanks to the proper taxes they charge on lessors. The web site of Prestige Villas (2017) describes the new law for holiday rentals in Mallorca, which would be extended to the rest of the islands:

From the explanation of the new law for holiday rentals in Mallorca elaborated by the web site of Prestige Villas (2017), we can conclude that it has been easy for villas and townhouse to obtain renting licenses, in the opposite way, apartments have not been allowed to obtain the licenses. But some apartment owners, used the “Ley de Arrendamientos Urbanos”, to rent the apartment in vacation season, because this law does not set a minimum length of a let, being completely legal.

But recently, the “Parlamento Balear” has approved a holiday rental legislation that pretends to regulate and limit the number of beds available in the island. Also, a new restriction will limit to three the number of properties that an owner can market and only five years old properties will be able to apply for rental licenses.

Furthermore, there is a clear intention of prosecuting illegal supply by establishing clear processes that tenants must follow to perform a legal process. Any listing avoiding the pertinent license will be considered illegal, and the owners will be liable to hefty fines, from 20,000 to 40,000 euros. Finally, the legislation limits the rent of a “habitual dwelling” to a maximum of 60 days per year.

In the same way, the government of the Balearic Islands established as well the aforementioned “Eco Tax” or “Tourist Tax”, in force since 2016. This 50 cent to € 2 tax per day is charged on people staying in hotels of the Balearic Islands during high season, price that is reduced to its half during low season in order to reduce the strong seasonality of tourism in the region. The funds collected are invested in improved infrastructure and sustainable tourism. (Christie and Co, 2016).

With respect to tourist security, the Government of the Balearic Islands published a guide on safety advices for tourists in 2015. The web site of Última Hora (2015) describes the guide as containing ten sections on the Spanish procedural guarantees, public safety, tourist attention, citizen assistance, and protection of the environment and sea activities. Effectively, these recommendations for a safe environment beyond the protection insured by the local police can be found online and would be distributed at key points of the islands.

CONCLUSIONS

After the development of this research on tourism and, most specifically, holiday rental in the Balearic Islands, we could gain insight on the magnitude of the tourist flow this Spanish autonomous community has attracted ever since the very beginning of the phenomenon of mass tourism. From the 400.029 tourists vacationing in Mallorca, Menorca, Ibiza, Formentera and the set of the Balearic Islands in the 1960s, the accommodation supply and general conditions of the islands have improved in such a way that they attracted 16.332.782 tourists in 2017.

We acquired knowledge on the profitability to invest in the Balearic Islands, due to the excessive tourist service demand they present, which makes them one of the most visited destinations in Spain. Similarly, we studied the existent deficiencies on tourist potential as well as the possible cons of investing in the region, between which the sharp seasonality is the most important.

Correspondingly, we approached to the occupancy of the tourist rental supply, observing the visitors' tendency to prefer hotels above holiday rentals, rural tourism and camping. We conclude that, even though the hotel chains in the Balearic Islands define their objectives towards the satisfaction of their users, it is also important to check other options of accommodation like holiday rentals and rural tourism, which could better fit the tourists' needs of more affordable prices for a bigger quantity of people as well as getting in touch with local culture, agriculture and nature.

In this vein, we believe holiday rental platforms can be of great help, because they recommend the best accommodation options for every case, and work as an intermediate between the lessor and the lessee before the tourist arrival to the archipelago, with facilitates the old accommodation procedures and saves people from traversing the location carrying their bags after long travels, to look for the perfect place to stay.

Regarding tourist investment in the Balearic Islands, we could observe the fields with most profitable conditions are the food and drinks industry, the accommodation and real estate industry, and finally the branch of financial assets. In this respect, the author considers that the Balearic Islands possess all the requirements of a successful tourist destination, since they combine natural beauty and warm weather with history and a broad range of tourist services. This can be proven by means of their massive tourist flow, which creates a high income that would reward any kind of tourist investment.

In the same way, this research generated a social point of view about tourism, tourist investment and tourist rental services in the Balearic Islands. Indeed, we analyzed the advantages and disadvantages for locals of such an accelerate growth of tourist presence in Mallorca, Menorca, Ibiza and Formentera. In our opinion, it is a convenient field to be exploded as long as it does not depend on overcrowding.

Likewise, thanks to the official data of the IBESTAT (Institute of Statistic of the Balearic Islands) we were able to define the profile of the average tourist in order to know what kind of tourism is being registered in the region and propose, according to the preexistent bibliography, possible solutions to the current problems and deficiencies of the field.

To conclude, we consider it is incumbent on the Government of the Balearic Islands to mitigate seasonality by implementing a different kind of tourism based on

quality instead of quantity. Equally, we believe they can work along with the airlines operating in the area in order to increase the ticket offer during low season. This way, they will create a plan with proposals of improvement that will remain stable during the time.

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