Economic Contribution of the Short-Term Rentals (STR) Offer in Mexico

The Competitive Intelligence Unit

* The information and estimates for this analysis were obtained from STR supply and demand surveys conducted by The CIU, data provided by Airbnb, statistics from the portal AirDNA, INEGI, SECTUR-DataTur, Clearpath Strategies, and Ipsos.
EXECUTIVE SUMMARY

Supply and demand of tourist accommodations have evolved. Today, there is a diversity of alternatives available for national and international travelers of different ages and budget availability.

Short-term rentals (STR) have emerged as a new option for the growing preference of travelers for accommodation offers that meet their needs and profiles (product-market fit), that provide security and support while traveling, with the availability of spaces in unique locations, and that allows an immediate integration of service improvements.

This characterization and differentiation are the strength of STR and enables supply competitiveness with respect to existing traditional alternatives.

The technological evolution has allowed available untapped assets to generate rent or income generated from their use. These spaces serve the specific needs of travelers, for example, those who travel in groups or with extended family and seek to share a unique space, as well as those who want to feel at home while being tourists for a night or a weekend.

These types of traveler profiles are now served by digital platforms that enable the provision of STR accommodation.

STR Supply: Availability of Accommodation Units

In Mexico, the availability of traditional hotel accommodations throughout the country reached 836,300 rooms (71.7% of the total accommodation units), a growth of 20.8% compared to 2014, when the registered available capacity was 692,351 rooms.

This shows that the traditional hospitality segment has continued to grow, despite the accelerated growth dynamics in the supply of STR, which recorded an estimated availability of 329,541 units (28.3% of the total)\(^1\) compared to 12,704 STR units in 2014.

\(^1\) This figure considers STR listings, for example, a house may be listed as a complete house and at the same time its individual rooms may be advertised independently, resulting in several STR listings for the same property. In addition to the fact that the same property can be listed on several platforms at the same time. Therefore, the number of STR listings is not representative of the universe of properties that are being offered as STR.
Thanks to this growth in STR offer in Mexico, approximately 160 thousand families have been able to initiate a business and earn an income.

A key difference between the two types of accommodation units, which is worth highlighting, is that while the traditional offer (hotels) is available all year round (365 days), in STR’s case, sometimes they are only active on weekends or dates determined by the hosts.

**Occupation of Accommodation Units**

Considering that, on average, STR units consist of more than one room, the increase in the supply of accommodation spaces in the country is greater and, particularly, more diverse. We estimate that occupancy would increase by 16.8 million nights or 9.8% of the total during 2021, based on the offer of these accommodation alternatives.²

In other words, national occupancy corresponding to STR, measured by occupied room nights, would be an estimate of 9.8% of the total in 2021, considering the available offer in all platforms. This can be interpreted as their effective market share in terms of occupancy of available accommodation space for travelers.

² Using the average number of rooms per STR units, we calculated the equivalence between STR nights and estimated hotel occupancy for 2021.
Another element that illustrates the complementarity of STR is that by adding accommodation units at attractive prices, which enable travel opportunities for Mexicans, the occupancy of the hotel offer has not been impacted downward, even despite increasing its room availability.

Before the COVID-19 pandemic (2020), hotel occupancy registered an upward trajectory, going from a 57.2% in 2014 to 61.5% occupancy rate in 2019, and already envisions a recovery by June 2021 (45.5%).
The affordability, diversification, and wide availability of STR enable an alternative solution for travelers in the Mexican tourism market, serving various demand segments, both domestic and international. Hence, it is complementary with the traditional accommodation offer and, consequently, altogether increases both availability and room occupancy.

**Diversification of Touristic Destinations**

STR offer has significantly contributed to the diversification of tourist alternatives, especially in areas of difficult access, where traditional players have no reach. Likewise, the segment of travelers seeking enriched experiences in unique destinations immersed in nature now enjoys an offer that provides this variety and availability of spaces.

![Figure 4. Availability of Short-Term Rentals by State (2021)](image-url)

Source: Prepared by The Competitive Intelligence Unit based on data of DENUE (INEGI) 2020-2021

This way, STR have become a catalyst for tourism activity in those states with a low flow of tourists. The most outstanding cases are Colima, Morelos, Tabasco and Yucatán. These states are among the top 10 with the lowest tourist arrivals but register a higher proportion of STR among
the total number of tourist accommodation alternatives. This circumstance has boosted the tourism sector and local economies of those entities.

**Affordability and Democratization of Tourism**

A survey conducted by The Competitive Intelligence Unit (The CIU) found that in the last year, the preference for STR increased, as 18.1% chose to stay in apartments, entire homes, or unique stays available through these digital platforms, while before the pandemic this ratio was 14.9%.³

For travelers that opt for a STR, one of the main drivers for their choice of accommodation alternative is the possibility of saving money (54.1%). At the same time, 82.1% of STR guests say that they have saved money by staying there.

We estimate that the average rate per night in a STR room is 40% lower than that of the same space offered by traditional players, at $995 pesos the former versus $1,661 pesos the latter, including taxes, complying both with their fiscal obligations.⁴

In the case of hotel establishments, the higher price derives from the fact that additional services are provided besides accommodation, such as food and beverages prepared in the room, guest reception, restaurant and bar, swimming pool and gym, among others.

This evidence confirms that, on average, travelers can effectively find lower prices in the alternatives offered through digital platforms, opening the possibility for a growing number of persons to travel within the country.

In other words, STR offer democratizes tourism for Mexicans.

**Revenues Generation and Employment Creation**

We estimate that, in 2021, STR offer will generate revenues of $16,691 million pesos, 34.3% more than in 2020. This figure includes not only the commissions that hosts pay to the platforms, but also the revenues that hosts generate for themselves for sharing their spaces, considering the available offer on STR platforms.

³ The CIU (2021). STR Demand Survey.

⁴ This calculation is based on information from the Tourism Satellite Account (Cuenta Satélite de Turismo), surveys carried out by The CIU to STR hosts and travelers, considering an average of hotel and STR rooms rates (including those with more than one room).

⁵ This calculation includes revenue generation for hosts and STR platforms considering a total market of four main competitors (Airbnb, Vrbo (Expedia), Booking, and TripAdvisor) and a diversity of other digital platforms.
The Competitive Intelligence Unit (The CIU), through a STR Host Survey, measured the employment effect of this economic activity, a positive circumstance that generates dynamism for local economies as part of the tourism sector at the national level.\(^6\)

In this regard, we identified that 25.8% of STR employs workers to operate their accommodation, a fact that can be explained by the specialization of this service and the quality required to provide it.

According to estimates based on figures from the 2019 Tourism Satellite Account published by INEGI along with the Ministry of Tourism (Secretaría de Turismo), in Mexico, STR denominated as vacation home-owned accommodations will generate 31,563 paid occupied jobs in 2021, a figure that represents a 15.8% share of total employment dedicated to traveler accommodation services.\(^7\)

However, an extended calculation of individuals earning income and employment from STR offer would result in individual paid opportunities of around 192,000 hosts and employed persons.

Lastly, the survey showed that hosts spend 22.7% of their income on paying these employees. This figure represents an absolute payroll of around $976.5 million pesos.

STR offer has emerged as a relevant local labor demand force in the tourism sector, with the potential to improve workers' conditions by generating greater employment alternatives and thus increasing their bargaining power and consequent wage increases or improvements to their benefits.

**Spillover to Other Productive Sectors and Aggregate Economic Contribution**

One distinctive feature of STR service is that its economic spillover reaches small businesses and sectors of the economy which are not usually benefited by the traditional offer, for example, restaurants, transportation, and entertainment, among others.

The main sector benefiting from the indirect economic spillover generated by STR offer is the food and beverage preparation service (restaurants), with an estimated revenue generation of $35.010 billion pesos or 44.8% of total expenses of guests in 2021. Similarly, the transportation sector shall also be another sector with a significant share in the revenue pie, for which we have a projection of $12.477 billion pesos (16.0% of the total) for the same year.

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\(^6\) The CIU (2021). STR Hosts Survey.

On the other hand, the entertainment sector will increase economic spillover by approximately $10.118 billion pesos (12.9%), derived from local consumption in economic units such as movie theaters, tourist attractions, museums, and theaters, among others.

Finally, shopping and groceries purchases shall indirectly disseminate benefits of an estimate of $15.846 billion pesos (20.3% of the total), with other expenses accounting an approximate of $4.686 billion pesos or 6.0% of the total amount spent by travelers.

The aggregate contributions of STR offer would be an estimated amount of $95,806 million pesos in 2021, which includes the indirect economic spillover ($78,138 million pesos), the payroll from employment generated ($976.5 million pesos), and the direct contribution to national production derived from revenues generation of the STR offer ($16,691 million pesos).

All the previously illustrated concepts account for direct and indirect impacts on the dynamics of the tourism sector, local economies, and the national productive system; as STR generates employment, investment resources, expense on goods and services, tax revenues and, consequently, is a catalyst for Mexico's economic growth and development.
Prospective Growth and Diversification of Accommodation Preferences

The pandemic transformed the daily lives of the world's population, which in turn impacted the habits of travelers and the offer of accommodation within the tourism industry. This was mainly reflected in a reduction in the number of trips made and, consequently, in the occupancy of accommodation units. However, as time goes by and with the gradual recovery from the health crisis, individuals have started to return to their travel and accommodation habits in all their forms.

As a result, we expect an increase in the probability of going on a trip, with 57.9% of travelers planning to travel during 2021. At the same time, their accommodation preferences will diversify in line with the attributes desired by each person.

STR register an increase in their preference in recent years, such that in the last year, 18.1% chose to stay in apartments, entire houses, or unique accommodations available through these digital platforms. Before the pandemic, this ratio was 14.9%. In 2021, the aggregate probability of these three types of accommodation alternatives shall be 25.6%.8

Certainly, STR are and have been a solution to travelers' needs in pandemic times, while at the same time benefiting the reactivation of domestic tourism in small towns and cities, as well as in less crowded and nature destinations.

Their offer is differentiated, allowing travelers to obtain enriched experiences of the tourist destination to which they travel. By expanding the offer and diversifying accommodation alternatives, STR contribute to the four key targets for the tourism sector, namely: "a social and human rights respect approach in the country's tourism activity; promoting the balanced development of Mexico's tourism destinations; strengthening the diversification of tourism markets at domestic and international levels; and fostering sustainable tourism across Mexican territory".9

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8 The CIU (2021), STR Demand Survey.