

Hidalgo, A. (2024). Your room is ready: Tourism and urban revival. *Regional Science and Urban Economics*, 109, 104059.

Abstract:

Tourism is a vital sector of the global economy, contributing significantly to GDP and employment. Despite its growing importance, there is limited empirical evidence on its impact on urban economics. This paper addresses this gap by analyzing the effects of tourism-driven hotel openings on local business dynamics, employment, and the real estate market. Using a unique dataset of hotel openings in Madrid from 2001 to 2010, I show that new hotels generate substantial economic spillovers, increasing both the number of establishments and employment in surrounding areas. To account for the non-random distribution of hotel openings, I employ an instrumental variable strategy using the number of protected buildings, which facilitates hotel conversion due to their attractiveness to tourists and developers. The findings reveal that hotel openings contribute to a structural shift in the local economy, fostering the growth of tourist-oriented businesses such as restaurants, cafes, and souvenir shops while leading to a decline in production-based activities. Additionally, hotel-induced tourism exerts upward pressure on the real estate market, raising rental prices and stimulating residential investment. Interestingly, the increase in housing prices appears to stem more from enhanced urban amenities than from the conversion of residential units into tourist accommodations. Furthermore, the rising cost of commercial spaces favors corporate-owned businesses over individually-owned firms, further reshaping the economic landscape. This study contributes to the literature on urban economics and tourism by providing causal evidence on how hotels shape urban transformation, highlighting the broader economic consequences of tourism beyond direct employment in the hospitality sector.