



Comisión
Nacional de
Productividad

**Disruptive Technologies:
Regulation of Digital Platforms
Accommodation Platforms¹**

¹ The National Productivity Commission highly values the meetings held with Sernatur, Airbnb and Fedetur, as well as meetings with platform hosts in Concepción and Valparaíso. Special appreciation to Airbnb for providing aggregate information on its operation in Chile.

Abstract

This chapter deals with digital accommodation platforms, which allow either tourist accommodation or short-term leasing of rooms or houses. A new category arises due to the latter's characteristics: the civilian tourist accommodation, and it requires specific actions to monitor it. In this chapter, we present the leading digital platforms, their operating models, and some of the effects they have had worldwide.

4.1 Introduction

Over the last decade, the tourist accommodation market and the short-term rental market have been shaken by the massification of digital intermediation platforms, the adoption of technological and financial innovations, and the adaptation of business models to the digital age. Search mechanisms' efficiency -and the ability to customize them per consumer-has improved the experience and increased demand for brokerage services via platforms. At the same time, the ease and security that platforms provide for the total or partial leasing of properties have explosively increased offers, opening up opportunities for new suppliers and diversifying variety and location.

For the provider of the underlying service² (the owner or landlord of the property or a room) the business is simple and straightforward: one (or more) person(s) are accommodated for at least one night. Accommodation can be in a private dwelling (a house or apartment), in a shared location (a bedroom), or even in unusual places (the couch, a boat, or a tent). Those willing to pay for what is offered accepts the owner's terms and conditions and may book and pay the price through the platform. It is a voluntary transaction between informed parties. The platform intermediates this transaction and acts as custodian and (to a certain extent) guarantees the provision of the service. It also takes care of the financial aspects of the transaction.

Prior the emergence of new technologies and their application on platforms, the traditional tourism accommodation market was affected by relevant market failures, especially incomplete and asymmetric information, and risks that were difficult to anticipate and mitigate. The owner had more and better information than a potential client, could demand advance payment, cancel reservations, or reveal private information. Geographical distances or language barriers intensified these drawbacks, which were resolved expensively, for example: via integration into significant hotel lines, service quality levels validated by an authority (i.e., hotel stars, or a private hotel association), global service standardization, intermediation of travel agencies acting as validators, etc. In the absence of an efficient sales channel or an easily accessible global marketplace to offer services, hosts had to incur in relevant advertising costs to attract demand, make use of their prestige, and maintain high amounts of immobile capital in their facilities, which could only be adjusted in the short term via prices.

With high entry, advertising and transaction costs, incentives were placed on tourist accommodation commercial providers. Economies of scale and stranded capital costs led to the creation of large hotel chains, with worldwide standard services; apart-hotels focused on business and family clients; small hotels, with unique characteristics; and

² That are not hotels, hostels, or other traditional providers of accommodation services

hostels. For natural persons to offer individual properties, such as houses, apartments, or rooms was limited to tourist destinations such as resorts and seasonal periods. For the applicant, trust and quality criteria were challenging to certify in individual leases (without the backing of a hotel chain or a certification body) and focused on property brokers, who validated the quality criteria and brokered the transaction, adding costs to it. This system was costly and inefficient.

With the advent of the Internet, new technologies such as websites and online booking systems were incorporated with varying degrees of intensity, some of which were used collectively by hosting associations. The first web pages were promotional hosting information and pictures of the place's characteristics and facilities. Over time, these evolved incorporating booking and payment mechanisms. By the turn of the century, brokerage platforms began to emerge, allowing the connection of non-traditional supply and demand (with reservation and payment services), generating significant scale effects that provided depth and dynamism to the market. Thanks to minimum standards, variable costs, and clear rules for both parties, transaction costs reduced, variety increased, and supply and demand expanded.

The opening of this global-scale brokerage channel and the facilities offered by the platforms encouraged the leasing of entire properties and under-utilized spaces, which had previously constituted a smaller-scale, local market, with high transaction costs. There was an increase in the amount and variety of the accommodation supply. The platforms incorporated assessment tools whereby users evaluate their stay, reducing information asymmetry and uncertainty regarding the service quality. The user rating systems emulated the star rating systems (up to 5), established by the guests based on their direct experience.

Our country is not unfamiliar to the accommodation platforms phenomenon. From traditional seasonal rentals and advertisement pages to the short (and long-term) rental market, accommodation platforms have steadily gained market share between locals and tourists. Moreover, while they have improved the sector's efficiency and market functioning, the platforms have also created new challenges for the regulator. The purpose of this chapter is to analyze these challenges and to consider regulations that can benefit from their advantages and benefits, improve their functioning, and limit potential adverse effects.

4.2 Traditional Accommodation Sector

In Chile, as in the rest of the world, the short-term accommodation market has been composed of the rental of furnished properties (regulated in Chile by the Civil Code) and tourist accommodation (governed in Chile by Law 20.423). Thus, although sectors offer a similar underlying service, different regulatory bodies, with different obligations and sanctions, control them.

4.2.1 Civil Leasing

Furnished property leasing falls within the general lease contract, regulated in Title XXVI (articles 1915 and following) of the Civil Code, whereby two parties mutually agree on a contract. In this contract, the lessor grants the benefit of a property (in this case a building

or part of a building), and the lessee pays a fee for this benefit. This is an independent civil legal action (at a normative level), carried out by a natural or legal person, regulated solely by the Civil Code, and is not included among the "commercial actions" of article 3 of the Commercial Code. Moreover, as ratified by the Office of the Comptroller General of the Republic,³ the receipt of rental income does not imply a commercial activity.

Thus, the consensual civil contract (where the parties' will prevail), obliges the lessor to deliver the property for a period, maintain it according to the purposes for which it has been leased, and to free the lessee from any disturbance regarding the enjoyment of the property. The tenant must use the dwelling following the agreement terms, including the lease duration and price. In case of breach of any of the legal terms agreed upon by the parties, the general civil liability rules apply.

The lease rules are not part of this report's object. However, it is important to note that it is a civil lease, with no other requirements to meet than those either established in the code or agreed upon by both parties.

It is worth mentioning that there is no explicit difference between short- and long-term civil leasing in the legislation and both are subject to the same general regulation. In the case of platforms, where short-term leases are intermediated, the underlying service is the lease of a furnished property.

4.2.2 Commercial Tourist Accommodation

Law 20.423 governs the tourist accommodation service. Its article 2 defines the *"establishments in which the accommodation service is commercially provided, for a period of not less than one overnight stay, which is qualified to receive guests individually or collectively, for rest, recreation, sports, health, studies, business, family, religious or other similar purposes."*

An establishment is therefore considered a tourist accommodation service when it is commercially provided for the purposes set out according to norms. The law enables the issuance of lower-ranking legal rules for determining the different types of services that define the tourist accommodation classifications. Complimentary services include daily house cleaning service, 24-hour reception, luggage storage and breakfast. The provision of complementary services is therefore, a characteristic of commercial tourist accommodation.

It is important to note that neither the accommodation's purpose (rest, recreation, business, etc.) nor the number of lodging days, (as long as it is not less than one night) make the action commercial. In fact, the Civil Code does not require a specific purpose

³ Ruling number 53276, of 12-11-2008, establishes that: *"a patent shall not be charged for the rental of real estate, because it does not constitute the activity carried out, an event taxed in accordance with art. 23 of DL 3063/79. Receipt of rental income from a property may be subject to a municipal patent contribution if it is an activity carried out for this purpose, as is the case of a company whose business is property management, which involves activities and operations aimed at this. It is not possible to deduce a lucrative activity if the receipt of rental income is the natural consequence and emanation of the attributes of its right of ownership, more appropriately that of enjoying the civil fruits that the thing produces, so that there is no activity but a passive receipt of rental income, without it being evident the exercise of continuous acts over time, organized and systematically oriented towards obtaining profit."*

to classify the action as civil, and on the other hand, Law 20.423 does not establish the frequency or the number of maximum lodging days to qualify as a tourist service.

Finding 4.1: It is possible to differentiate between the short-term rental of furnished properties (civil) and the provision of the tourist accommodation service (commercial). The difference between both is that no additional services are provided in addition to accommodation in the civil lease of short-term furnished real estate.

Finding 4.2: By reducing transaction costs and associated risks, digital platforms allow for the massification of short-term civil leases of a furnished real estate, made by natural persons, where complementary services are not provided, for tourism purposes.

4.2.3 Minimum operating requirements

The provision of commercial tourist accommodation service has specific operating conditions, which generally refer to zoning, construction, safety or health aspects, among others. Most of them seek to reduce information asymmetries and measure compliance with standards, to the benefit of consumer protection. In Chile, the supplier must register with the National Registry of Tourist Providers⁴ of the National Tourism Service (SERNATUR) (Article 24, Law 20.423), to operate a tourist accommodation. They are classified into one of the following types: “*Hostels; bed & breakfast; apart-hotels; camping sites or campgrounds; nature tourism centers or lodges; resorts; tourist and/or executive apartments; haciendas or ranches; inns; cabins; hot springs; boutique hotels*”⁵ (INN, 2013a).

The following are required to be registered with SERNATUR. 1) a copy of the provider's tax number (RUT); 2) a copy of the provider's tax return; 3) a copy of the document containing the legal personality's legal representative, in force, and his tax number RUT; and 4) a copy of the commercial patent⁶ or temporary permit in accordance with the provisions of Law No. 20,416. The first three are relatively simple to comply with since they involve submitting own and the IRS's electronically available documentation (in the case of starting a business according to Chilean procedures before the IRS). However, obtaining a commercial patent requires a municipal authorization, building permits and sanitary permits (sanitary resolution or sanitary permit as appropriate), which are troublesome to get, and onerous both in time and costs. In turn, building permits require

⁴ This registration is online, free of charge, and mandatory for tourist accommodations. Registration is relatively quick if all the documentation required by law is available. It operates based on self-registration in terms of classification, with the power to reclassify from SERNATUR in the event of inaccuracies.

⁵ Annexes - Table A.4.1 describe each type of accommodation according to the INN classification (2013a).

⁶ All tourist accommodation services must pay a *Commercial Patent*, which is directly collected by the municipality, and whose values vary according to the municipality. The value is unique and is paid in two periods (semesters) during the year. There is the possibility of paying only half the price if the patent is temporary (for four months). Law 20.423 and its Regulations (Decree 222) require having a patent when registering with SERNATUR.

that the services delivered conform to the City's Planning Schemes and to access, construction and emergencies standards.⁷

Sanitary permits are even more complicated and regulated in detail. The Ministry of Health (MINSAL) regulations on health permits establish that tourist accommodations (whether or not they provide food services) must obtain a health permit from the hospital health head (that has jurisdiction over the area in which it is located).⁸ For this purpose, the following must be submitted: 1) application to the director of the hospital area in which the background information of both the owner (name and legal representative) and the establishment must be presented (location, type, services provided to users, number of rooms, number of bathrooms or toilets and any other relevant information for evaluation); 2) condition of owner or tenant (and contract); 3) location plans; 4) building plans; and 5) drinking water and sewerage plans approved by the National Service of Sanitary Works.

Additionally, the establishment must comply with a long list of requirements⁹ that are extensive, subjective and difficult to control. In public hearings conducted by the CNP (in the cities of Valparaiso and Concepción), attendees noted that these requirements inhibit potential suppliers to register with Sernatur and to comply with all the formalization requirements. In particular, the municipality procedures, especially those related to the Municipal Works Directorate can take up to a year and its presentation before the authority is mandatory for obtaining the patent and registration.

Finding 4.3: The set of requirements for providing tourist accommodation -as defined by Sernatur-submits potential providers to inefficient and time-consuming procedures. The health requirements and those linked to Building Handover are particularly burdensome.

Unlike a commercial tourist accommodation provider, the owner of a property does not need to meet additional operating requirements to enter into a civil lease contract, as long as they do not offer other commercial services. However, this does not imply that the law neglects the tenants, because, in the event of damage, the landlord covers the costs by applying the Consumer Protection Law or the general rules of civil liability.

4.2.4 Taxation

Short- or long-term rental of furnished property is subject to VAT. In the case of a civil lease, the lessor is responsible for declaring and paying the corresponding tax, calculated by deducting 11% of the tax assessment of the property from the monthly rental amount of 1/12.¹⁰ Non-compliance to paying these taxes risks fines, readjustments and interest

⁷ Decree 47 of the Housing Ministry, which contains the General Ordinance on Urban Planning and Construction.

⁸ Health permits are regulated by Decree 194 of the Ministry of Health, which establishes the prohibition of operating without health authorization (art. 2), and that authorization must be requested from the head of the hospital health area (art. 3).

⁹ See Annex A.4.2 for a detailed list of requirements.

¹⁰ In accordance with the first paragraph of article 17 of Legislative Decree No. 825/74. For example, if a property is valued at \$30 million and leases at \$650,000, the VAT calculation basis will be 1/12 of 11% of \$30 million (\$275,000). That is, the calculation base will be: \$650,000-\$275,000=\$375,000. Then, 19% is applied to the calculation base and the amount to be taxed via VAT is obtained: 0.19*\$375,000=\$71,250=VAT. This is equivalent to an effective rate of approximately 11% of the total

(Art. 53 and 97 No. 11 of the Tax Code), and those who do not issue sales slips will be penalized (Art. 97 No. 10 of the Tax Code). Meanwhile, for commercial tourist accommodation, the general rule for commercial acts applies (19% tax on the value of the transaction).

For commercial tourist accommodation, foreign currency income received by companies registered with the IRS for tourist accommodation services provided to foreigners without residence in Chile are exempt from VAT.¹¹

Regarding Income Tax, regarding income received for the provision of commercial tourist accommodation services, as with any company, they are subject to the payment of First Category Tax. On the other hand, individuals who rent a furnished or unfurnished property are subject to the Global Complementary Tax as long as their income exceeds the exempted amount¹² and constitutes income,¹³ and may pay up to 35%.

Both specialists and authorities agree that there is low tax compliance - both in income and in the VAT - especially in housing for tourism purposes, partly due to limited enforcement capacity. This is true in traditional seasonal leases brokered both by realtors and digital platforms.

Unlike many countries and cities, Chile has no "hotel tax" or "lodging tax," which is often levied for the benefit of the municipal authority, and tends to be used to finance improvements to tourism, infrastructure and for the promotion and attraction of events and congresses. Many of the international debates regarding this sector deal with the compliance of this tax obligation, although the VAT and income tax collection are also relevant.

Due to the tax authorities' limited supervisory capacity (especially given the explosive growth of the platforms), and the role of the platforms as intermediaries in transactions, they have been forced worldwide to withhold and deliver taxes such as VAT, hotel tax, or to inform the authority of the property owners' income. In Chile, there are still no

amount for which the home was leased. The tax rate that is ultimately charged depends on the tax assessment and lease ratio. The larger the lease in relation to the appraisal, the more tax is collected.

¹¹ Some 1,500 establishments use this benefit, which was extended in 2014 to non-hotel establishments. This is an exception known as an 'Export Invoice', which targets accommodation under the category 'Hotel' and excludes other types of tourist accommodation. Circular No. 37 of the IRS (2014) broadened the interpretation by establishing that "the Service has endorsed the definition contained in Article 3, letter a), of Decree No. 222 of 2011, which states that the Tourist Accommodation Service is the accommodation service commercially provided in establishments for a period of not less than one overnight stay; that are authorized to receive guests individually or collectively, for purposes of rest, recreation, sports, health, studies, business, family, religious or other similar. Therefore, all those establishments that comply with the requirements set forth in the referred definition and are registered in the Registries that this Service maintains for the purposes of the exemption, may benefit from the exemption contained in Article 12, letter E), No. 17, of Legislative Decree No. 825, for the income in foreign currency they receive from the accommodation services themselves, provided to foreign tourists without domicile or residence in Chile. It should be noted that the services covered by the exemption include all the services normally provided by hotel companies, i.e. food, drinks, laundry, telephone and fax services.

¹² Incomes less than 13.5 UTM monthly are exempt from income tax.

¹³ Non-income revenue is payment from the leasing of DFL-2 homes (housing that does not have a floor area greater than 140 square meters per unit and meet other requirements established by law) with a maximum of two homes per person.

mechanisms in place to provide the tax authority with the capacity to monitor transactions carried out through the platforms.

Finding 4.4: Rental of furnished real estate (either short or long term) is subject to VAT, and the income of its owners is subject to income tax (according to installments, and DFL2 dwellings are exempt). In both taxes, there is evasion due to the limited control capacity.

Finding 4.5: Unlike many countries, Chile has no local hotel, tourism or lodging benefit taxes that allow municipalities to have resources to attract and cope with the tourism flow.

Finding 4.6: Current instruments make it difficult to monitor tax compliance of electronic accommodation platform operations. Inspection's success in this industry will depend on cooperation between platforms and authorities.

4.3 Accommodation Platforms

The emergence of hosting platforms has revolutionized the rental market by making searching, selecting, booking, and paying more efficient. The platforms do not own real estate, they provide owners with an ad space, and support in the transaction, evaluations, and insurance against damages. The transaction's intermediate platform delivers information regarding the property (based on the landlord's data, and direct user feedback) and the guest (based on input from other landlords who have hosted him/her).

Commercial tourist accommodations use the Internet intensively, with electronic reservation systems (proprietary or third-party) that allow an online search, selection, and payment. Those who do not have their software use the service of the new platforms, being subject to their rules, which apply even to prices and tariffs, and impose restrictions (Edelman et al., 2016).

4.3.1 General characteristics

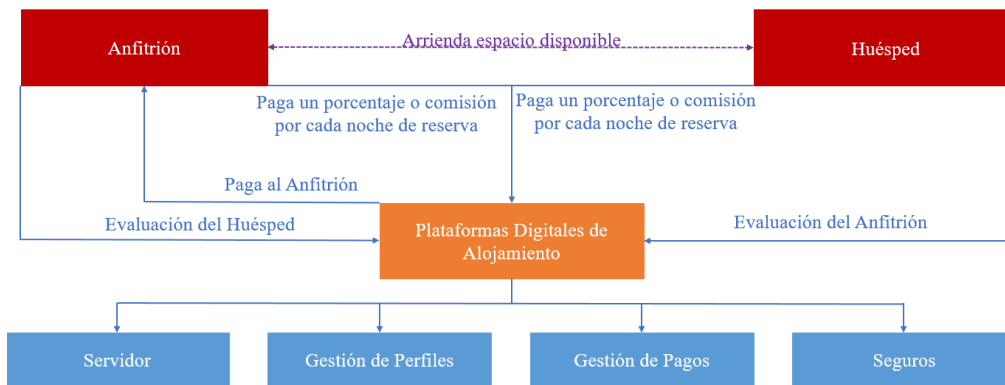
Platforms are classified into two groups. First, those that started offering hotel spaces but expanded their offer to include non-traditional providers as well. These are Tripadvisor, Booking, Trivago, Expedia, and others. Secondly, those that generate a community of users willing to offer their spaces: Airbnb, HomeAway, and others, and who are also starting to expand by providing a sales channel to the traditional sector.

Platforms provide services to both the lessor (provider) of the commercial tourist accommodation service and the lessee (tourist) (see Figure 4.1). They access the platform, register as users and accept the conditions required. Providers advertise their venue, set their terms, submit photographs, show availability, and determine their price. The platform manages the provider's profile, recording evaluations and comments of the users who have contracted the services, and offers insurance against damage while the property is occupied. The applicants search for what suits their needs and income and book a reservation or pay for accommodation. The platform also manages the lessee's profile,

recording also their evaluations and comments of other providers with whom they have interacted. If a transaction is completed, the platform intermediates in the payment and retains the amount for up to 24 hours, as insurance for the guest to ensure that the property meets the requirements as announced. They both pay a commission to the platform.

In case of damage to property, some platforms have damage insurance for the benefit of the owner.

Figure 4.1 Accommodation Platform Functioning



Source: National Productivity Commission. Note: This figure refers to platforms that intermediate payments.

When the period of use and enjoyment of the property is finished, both users evaluate the experience in a notation system with several criteria and may leave a written opinion. In time, it constitutes a logbook with details regarding the property and the owner, and the user's history. In the event of negative evaluations, the platform can intervene and even remove either the property provider or the user. This system of mutual assessment of hosts and guests is seen as the basis for trust in the transactions of some platforms (Finley, 2013; Guttentag, 2013; Lehr, 2015), although it is debated whether the reciprocity of the system undermines its reliability (Slee, 2013; Zervas et al., 2015).

Finding 4.7: Platforms offer providers and applicants different services in the hosting market. In addition to facilitating the transaction, they provide support mechanisms that reduce asymmetries and risks for both parties.

An exciting aspect of digital platforms, which has undoubtedly influenced their success, is that they have identified the information asymmetries and risk of the short-term hosting market, so they take out liability insurance for damages. Besides, the evaluation mechanisms of both parties allow for real-time and permanent monitoring, while the payment intermediation mechanisms and insurance cover other risks. As shown by the significant increase in platform transactions, the support mechanisms they provide reduce asymmetries between the two users of the platform: the owner and the lessee.

Digital hosting platforms must pay taxes in Chile for the transactions they carry out in Chile (First Category Tax, Additional Tax, VAT) as intermediation companies. However,

most of the digital platforms in Chile are international companies that are incorporated abroad and have no permanent establishment in Chile. This structure allows companies incorporated elsewhere that carry out intermediation activities for which they charge a mercantile commission, not to legally pay taxes in Chile. They are exempted from the payment of First Category Tax because they do not have a permanent establishment in Chile, required both in the Income Tax Law and in the agreements to avoid double taxation.¹⁴ They don't pay Additional Tax either because, despite being subject to it, a specific rule establishes an exemption for mercantile commissions of non-resident suppliers. Neither do they pay VAT since, as a rule, the acts subject to the additional tax do not pay VAT.¹⁵ However, the provider of the underlying service (the lessor) in Chile must pay VAT and the corresponding income tax.

Finding 4.8: An accommodation platform established abroad, with no permanent establishment in Chile, and whose business model is based on the provision of a brokerage service for which it legally charges a commercial commission, pays no income tax, additional tax, or value-added tax in Chile.

4.3.2 Main accommodation platforms

The platforms have already achieved a vital market share worldwide, positioning themselves as one of the most critical players in the tourism sector. Companies such as Airbnb or Expedia, for example, already have a valuation of over US\$30 billion and US\$18.9 billion respectively. Marriott, the world's largest hotel company, is valued at \$34.9 billion and Hilton at \$9.23 billion.

Four of the leading hosting platforms and their operating models are detailed below. Airbnb, the platform with the most significant presence in the country and the fastest growing in the world, is studied in more depth.

4.3.2.1 Airbnb

General description

Founded in 2008 and based in San Francisco, California, Airbnb is one of the world's leading accommodation platforms. As of March 2017, its estimated value was US\$31 billion. Airbnb received over 542 thousand tourists in 2017 with an estimated operations volume of at least-US \$ 50 million in Chile.

As an intermediary between its users, both guests, and hosts, Airbnb operates in more than 65,000 cities in 191 countries. Through it, hosts can offer shared or private hosting, and the host defines the price and service conditions¹⁶ (the platform makes price suggestions and has a dynamic pricing service). Guests contact the hosts through the platform and upon acceptance of the terms generate a reservation and payment. The platform charges a commission to both the host and the guest¹⁷ and keeps the host's

¹⁴ Article 58 of the Income Tax Law and article 5 of the OECD model of the Double Taxation Agreements.

¹⁵ Article 59 N°2 of the **LIR**

¹⁶ The platform dynamically suggests prices but does not compel to fix a price nor to advertise a lodging a minimum of days.

¹⁷ Both the host and the guest pay a commission for the platform's service. Hosts are charged between 3% and 5%, according to the cancellation policy chosen. The amount is calculated on the gross subtotal (before

information safe until after payment confirmation. The platform secures collection (via a credit card generally, cash is not accepted¹⁸), and offers a guarantee of up to US\$1 million for property damage.¹⁹

At the end of the trip, Airbnb offers its evaluation system where hosts and guests qualify the experience. Users, therefore, can build a reputation, which in the case of hosts generates greater demand, and allows them to charge higher prices. The visitor must evaluate six aspects of the property: accuracy (between the property's description and reality), communication, cleanliness, location, check-in and value, which gives a final score between 1 and 5. In addition to the score, the guest can freely comment on his experience. The evaluation is published once both actors complete the survey, or 14 days later if only one party evaluates (Coyle et al., 2017).

As intermediary and guarantor, the platform provides for reimbursement or alternative accommodation for guest when i) the host does not grant the guest access to the housing, ii) the accommodation does not correspond to the description of the advertisement (number of rooms, special services offered or the location, among others), iii) the accommodation is not clean, not safe or has pets living in it without the guest having been informed before confirming the booking. On the other hand, the platform ensures collection and offers a guarantee of up to US\$1 million for property damage for the host.

Airbnb in Chile

Airbnb arrived in Chile around 2012 and the accommodations listed on the platform have grown dramatically since then. For example, in Santiago, during 2012 there were approximately 300 accommodations, but by 2017 there were already 11,000. Indeed, according to data reported by the platform, in 2017 around 38,000 spaces were offered throughout Chile, operated by some 27,400 active hosts. In the same year, over 542,000 people were accommodated, an increase of around 77% over the previous year. The magnitude is relevant, as it represents just under 10% of the total number of tourists who visited Chile in 2017.

According to aggregate data provided by the platform²⁰ between May 2016 and May 2017, transactions of around US\$45 million²¹ were made through 17,000 active accommodations.²² Of these accommodations, 71% were entire houses/apartments, 27% private rooms and 2% shared rooms. In the same period, there were 355,000 guests and 583,000 nights booked. The average stay was 4.6 nights - foreigners and locals booked an average of 4.8 and 3.5 nights respectively - and groups averaged 2.7 people per booking.

taxes) of the reservation. When the reservation is confirmed, the guest pays a commission between 5% and 15% of the subtotal, which depends on the amount, the duration of the stay and other accommodation characteristics.

¹⁸In some countries, more means of payment are accepted, such as PayPal.

¹⁹Payments are subject to certain conditions, limits and exclusions. For example, the host guarantee does not cover cash, pets, personal guarantees, common or shared areas.

²⁰ In the context of a cooperation agreement signed between the platform and CNP.

²¹ Assuming an exchange rate of \$ 600.

²² An accommodation that had at least one reservation during the year is considered active.

The average annual income of a host is approximately US\$2,000 (\$1,200,000). The average cost per night of an independent accommodation in its category was US\$77 (\$46,200). The price of full houses/apartments was US\$79 (\$47,400), while the cost of shared and private rooms was US\$32 (\$19,200).

The platform provides general data, therefore, a secondary source of disaggregated information was used. For this section, data of the Airbnb properties listed from October 2016 to September 2017 throughout Chile was gathered.²³ For each property, the available days, the used days and the average price charged were analyzed, and the amount of activity and income earned by the hosts estimated.

In the period under analysis, there were 19,576 active lodgings in Chile (with more than one reservation in the year), including 13,520 houses or entire apartments (69%), 5,657 private rooms (29%), and 399 shared rooms (2%).²⁴ Therefore, most of the accommodations are rental housing and not rooms in the owner's residence. The lodgings listed are mainly concentrated in the Metropolitan region (42%), followed by Valparaíso (25%), Coquimbo (7.4%) and La Araucanía (6%) (See Table 4.1).

Table 4.1 AirBnB Lodging Distribution per Region

Region	Lodging	Participation	Whole house/apt.	Private room	Shared room
XV Arica and Parinacota Region	120	0,6%	51%	48%	2%
I Tarapacá Region	396	2,0%	77%	23%	0%
II Antofagasta Region	486	2,5%	44%	51%	5%
III Atacama Region	83	0,4%	67%	30%	2%
IV Coquimbo Region	1.457	7,4%	86%	13%	0%
V Valparaíso Region	4.829	24,7%	76%	22%	1%
XIII Metropolitan Region	8.205	41,9%	66%	32%	2%
VI Libertador Bernardo O'Higgins Region	500	2,6%	69%	28%	3%
VII Maule Region	144	0,7%	51%	46%	3%
VIII Bío-Bío Region	529	2,7%	66%	32%	2%
XIX La Araucanía Region	1.179	6,0%	73%	23%	4%
XIV Los Ríos Region	361	1,8%	57%	42%	1%
X Los Lagos Region	936	4,8%	62%	35%	4%
XI Aysén Region	85	0,4%	35%	56%	8%
XII Magallanes and Chilean Antarctic Region	266	1,4%	40%	53%	6%
Total	19.576	100%	69%	29%	2%

Source: National Productivity Commission based on data gathered from Airbnb from October 2016 - September 2017.

²³ The information was collected by AIRDNA.

²⁴ These percentages coincide with data indicated by Airbnb to the press (for example, Pulse 2018), where 35% corresponded to private or shared rooms for the year 2017.

Regarding the number of accommodations listed in Airbnb per inhabitant, the most significant amount of offers per inhabitant are listed at summer resorts, followed by the main tourist cities. In fact, summer resorts have allocated a part of their housing offer (frequently, these are second homes) to short-term seasonal rentals. This implies that an important - although impossible to estimate - part of the Airbnb offer corresponds to properties that were already leased by other mechanisms. Table 4.2 shows the number of Airbnb lodgings per 1,000 inhabitants in 10 selected municipalities,²⁵ which is an indirect approximation to the platform's penetration level, where tourist municipalities such as Pucón, Easter Island and Puerto Varas have the highest ratios. Ratios above five are similar to those of the cities with the highest amount of Airbnb in the world (Paris, Amsterdam, among others), suggesting consolidation of the platform's operations in Chile.

Table 4.2 Airbnb lodgings per 1000 inhabitants

Municipality	Airbnb lodgings	Population	Airbnb per 1.000 inhabitants
Pucón	675	28.523	23,7
Isla de Pascua	137	7.750	17,7
Puerto Varas	338	44.578	7,6
Santiago	3.061	404.495	7,6
Viña del Mar	1.725	334.248	5,2
Natales	76	21.477	3,5
La Serena	779	221.054	3,5
Valparaíso	999	296.655	3,4
Iquique	384	191.468	2,0
Antofagasta	187	361.873	0,5

Source: National Productivity Commission based on the 2017 census and information gathered from Airbnb during October 2016 – September 2017.

Judging by the number of accommodations offered in summer resorts and traditional tourist destinations, it is difficult to determine which of these represent new civil leases created by the platform's opportunity or conventional ones that escalate to a new marketing channel. We can assume that the rooms and shared rooms are mostly new rentals since it used to be challenging to offer these services without the platforms.²⁶

Rents

In the period analyzed, transactions amounting to US\$63 million (approximately 41 billion pesos) were carried out on the Chilean properties listed on Airbnb. Hosts can achieve high incomes, although there is a high degree of heterogeneity. The average

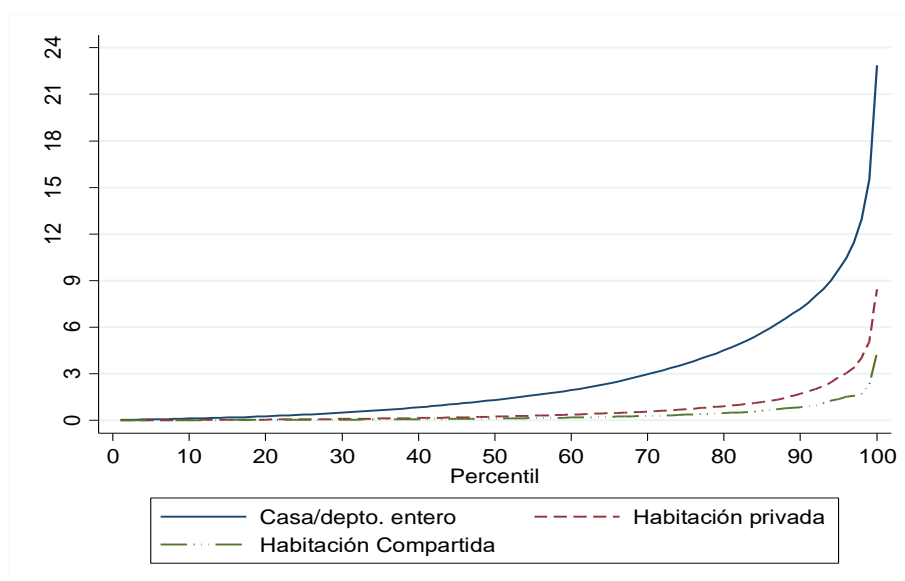
²⁵For other municipalities, see Annex A.4.3.

²⁶ Notwithstanding that some tourist accommodations such as hostels use the platform to offer their rooms.

annual salary is approximately 2.1 million pesos, while the median yearly income is \$780,000 pesos.

Eighty percent of the income generated by the rental of whole houses (house or apartment) are between \$264,000 and \$3,750,000 per year (average of \$2,773,711 - see Figure 4.2). Ten % of the homes that generate the highest rents have an average annual rent of \$7,353,045, or a monthly rent equivalent of \$615,000. Rents from private rooms are between \$73,576 and \$741,677 per year (average 676,756), and those from shared rooms between \$42,044 and \$378,393 per year (average \$327,582). Concerning private rooms, the owner continues to live on the same property, so this income is added to the value of the use of the dwelling, and in the case of shared rooms, since it is shared with other guests, the income could be doubled.

Figure 4.2 Distribution of AirBnB annual income per type of lodging



Source: National Productivity Commission based on data gathered from Airbnb during October 2016 and September 2017. The annual gross income obtained by lodging is presented. For conversion from dollars to pesos, the average exchange rate for the period was used (\$ 656.93 per dollar)

Occupancy rates

The occupancy rate measures the efficiency of the property's use and shows the actual rental days over the total number of days offered. The average occupancy rate of the accommodation listed on the platform is 34.7%, even though it is highly heterogeneous among the different types of lodgings (see Table 4.3). Generally, entire houses and apartments have higher occupancy rates than private rooms, and these have higher occupancy rates than shared rooms. This pattern is also true at the national level, with a few exceptions.²⁷ The Metropolitan Region has the highest average occupancy rate in entire houses and apartments (49%), and high rates in private (35%) and shared rooms

²⁷ The Maule Region is the only exception because shared rooms have a higher occupancy rate than private rooms and entire houses / apartments. In two other regions, Antofagasta and Aysén, private rooms have a higher occupancy rate than whole houses or apartments.

(26%) among regions. According to data from the *Annual Tourist Accommodation Survey*²⁸ (EAT) during 2015, the national occupancy rate of *hotels and other establishments*²⁹ was 51% and 24% respectively.

Table 4.3 Occupancy rate of AirBnB lodging per región and type of lodging

Region	Complete dwelling	Private room	Shared room
XV Arica y Parinacota Region	37% (61)	22% (57)	7% (2)
I Tarapacá Region	35% (304)	26% (91)	15% (1)
II Antofagasta Region	30% (212)	32% (248)	35% (26)
III Atacama Region	34% (56)	25% (25)	21% (2)
IV Coquimbo Region	31% (1.257)	24% (195)	16% (5)
V Valparaíso Region	30% (3.685)	23% (1.077)	19% (67)
XIII Metropolitan Region	49% (5.394)	35% (2.654)	26% (157)
VI Libertador Bernardo O'Higgins Region	21% (347)	15% (139)	11% (14)
VII Maule Region	21% (73)	18% (66)	32% (5)
VIII Bío-Bío Region	27% (350)	21% (170)	13% (9)
XIX La Araucanía Region	30% (862)	22% (268)	21% (49)
XIV Los Ríos Region	31% (205)	27% (151)	15% (5)
X Los Lagos Region	32% (577)	25% (326)	14% (33)
XI Aysén del Gral. Ibáñez del Campo Region	26% (30)	29% (48)	18% (7)
XII Magallanes and Chilean Antarctic Region	37% (107)	30% (142)	23% (17)
Total	37% (13.520)	29% (5.657)	22% (399)

The occupancy rate is the percentage of days with reservation with respect to the total days offered. The number of days with reservation is in parentheses. Source: National Productivity Commission based on data gathered from Airbnb October 2016-September 2017.

²⁸ Annual survey carried out by the National Institute of Statistics (INE).

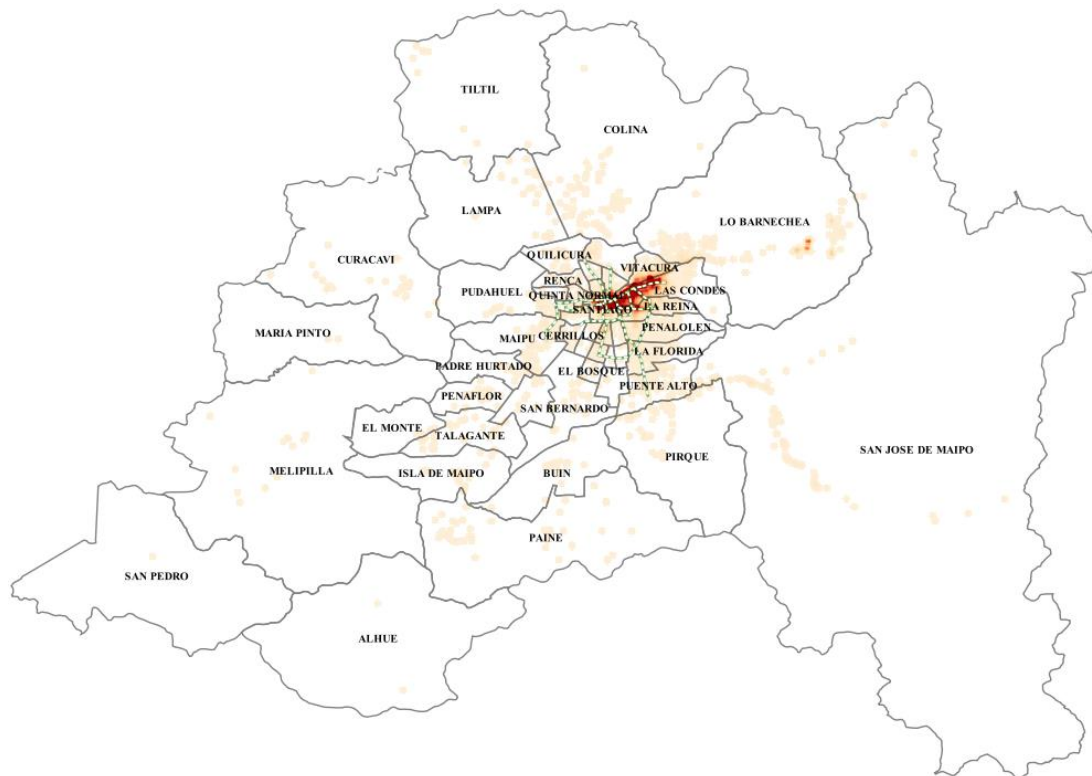
²⁹ In this survey, hotels and apart-hotels are considered "hotels", and hostels, residences, cabins and the like are considered "others".

Regional Analysis

Metropolitan Region

The Metropolitan region concentrates the most substantial number of the platform's active lodgings, where 97% of them are in the Province of Santiago. The area around the metro lines and the eastern sector of the city are the most popular, with three municipalities accounting for 75%: Santiago Centro (3,061, 37%), Providencia (1,739, 21%) and Las Condes (1,426, 17%). The remaining 25% is divided between Ñuñoa, Lo Barnechea, Recoleta, and Vitacura. Also active are the Cajón del Maipo and the Andean foothills of Lo Barnechea (see figure 4.3).

Figure 4.3 Spatial distribution of Airbnb of the Metropolitan Region



Source: National Productivity Commission based on data gathered from Airbnb during October 2016 – September 2017. Each dot represents a listed lodging in Airbnb. Dotted lines represent the city's underground. The red intensity signals a larger concentration of listed lodgings, whilst white represents absence of lodgings listed on the platform.

The occupancy rate depends on price, accommodation services, proximity to the city center and other tourist sites, and the perception of "quality" of both the neighborhood and lodging. Recoleta (49.4%), Santiago (48.7%) and Estación Central (45.8%) are among the municipalities in the Metropolitan Region with the highest occupancy rates - see Table 4.4-. All three of them are notable for their central location and lower prices. The municipalities of Providencia, Vitacura, and Independencia with occupancy rates of over 40% follow, and finally La Reina (26.7%), Macul (26.6%) and San José de Maipo

(24.1%). A municipality like La Reina or Macul offers a worse location than Recoleta, and worse mobility than Providencia or Las Condes. Instead, San José de Maipo is a seasonal destination. Based on the above, we can deduce that guests value proximity to the center, ease of movement, and competitive prices, or the location in specific places.

Table 4.4 Occupancy rate per municipality in the Metropolitan Region

Municipality	Occupancy rate	N° of lodgings
Recoleta	49,4%	248
Santiago	48,7%	3.061
Estación Central	45,8%	82
Providencia	43,7%	1.739
Las Condes	43,3%	1.426
Vitacura	40,7%	228
Independencia	40,6%	36
Lo Barnechea	37%	305
Ñuñoa	35,4%	497
San Miguel	30,3%	51
La Florida	27,6%	44
La Reina	26,7%	74
Macul	26,6%	43
San José de Maipo	24,1%	77

Source: National Productivity Commission based on data gathered from Airbnb during October 2016 – September 2017. List of municipalities with over 30 lodgings listed in Airbnb during the study.

Valparaiso Region

The Valparaíso region is the second region with the highest number of active accommodations, concentrated in the coastal areas and the provinces of Valparaíso³⁰ (74.5%), San Antonio³¹ (12.5%) and Petorca³² (8.4%). Four municipalities that include seaside resorts concentrate 74.4% of the region: Viña del Mar (1,725, 36%), Valparaiso (999, 21%), Concón (483, 10%) and Algarrobo (384, 8%).

The spatial distribution of the lodgings is concentrated mainly on the coastal border, starting from the south in Santo Domingo and up to Papudo in the north, passing through various summer resorts and conurbations of Valparaíso-Viña del Mar, see Figure 4.4.

³⁰ It includes the communes of: Casablanca, Concón, Juan Fernández, Puchuncaví, Quintero, Valparaíso and Viña del Mar.

³¹ It includes the communes of: Algarrobo, Cartagena, El Quisco, El Tabo, San Antonio and Santo Domingo.

³²It includes the communes of: Cabildo, La Ligua, Papudo, Petorca and Zapallar.

Figure 4.4 Airbnb sSpatial distribution in the Valparaíso Region



Source: National Productivity Commission based on data gathered from Airbnb during October 2016 – September 2017. The map shows V Valparaíso Region. Each dot represents a listed Airbnb lodging.

The municipalities with the highest occupancy rates are Easter Island (35%), Viña del Mar (32%) and Concón, Papudo, and Valparaíso (28%) -see Table 4.5-. Note that the occupancy rate is lower than in the Metropolitan region (around 45%), which is due to the seasonality of these destinations, mostly required during summer. Other seasonal municipalities follow Santo Domingo (21%) and Quintero (19%), and the only noncoastal municipality: Olmué (21%) - where the occupation is concentrated during the annual festival period.

Table 4.5 Occupancy rate per municipality in the Valparaíso Region

Municipality	Occupancy rate	N° of Lodgings
Isla de Pascua	35%	137
Viña del Mar	32%	1,725
Concón	28%	483
Papudo	28%	176
Valparaíso	28%	999
Zapallar	27%	201
Algarrobo	26%	384
Puchuncaví	26%	214
El Quisco	24%	74
El Tabo	24%	61
Casablanca	23%	66
Olmué	21%	50
Santo Domingo	21%	55
Quintero	19%	33

Source: National Productivity Commission based on data gathered from Airbnb during October 2016 – September 2017. Municipalities with over 30 Airbnb listed accommodations are shown for the study period

Finding 4.9: The Airbnb platform, the largest in the world, has had explosive growth in Chile, underscoring the following:

- (i) By 2017 there were about 38,000 venues offered nationwide, operated by about 27,400 active hosts according to data reported by the platform. In the same year, over 542,000 guests were accommodated, which represents nearly 10% of the total number of tourists who visited the country.
- (ii) The Metropolitan and Valparaíso regions concentrate most of the offer (66%).
- (iii) About 70% of the accommodations listed are entire houses/departments.
- (iv) Owners can achieve high rents, although there is high heterogeneity. The hosts' median annual income is \$780,000, and the average is \$2.1 million.
- (v) The average occupancy is relatively lower than that of high-end hotels and higher than that of mid-range hotels.
- (vi) While platform-listed lodgings tend to be concentrated in traditionally tourist municipalities and neighborhoods, they are also in areas where tourism did not previously occur.

4.3.2.2. Tripadvisor

Tripadvisor is one of the world's largest travel platforms, specializing in recording travelers' opinions on all types of tourism services, including accommodations, attractions, restaurants, tours, etc. It was founded in 2000, and although initially, it only served to register opinions, today it functions as a virtual travel agent and an intermediary platform similar to AirBnB. The TripAdvisor brand and its sites are the world's largest travel community with a monthly average of 390 million visits. By 2017, its value was of US\$6.2 billion.

Among its different features, the platform allows comparison of prices of over 200 hotel reservation sites and manages accommodations, including hotels and complete or shared apartments.

In Chile, there are 888 lodgings corresponding to hotels, hostels, bed and breakfasts, and inns. There is no available disaggregated information.

4.3.2.3 HomeAway

HomeAway is another important hosting platform in the global marketplace. Founded in 2005 in Austin, Texas, it has been part of Expedia since 2016. According to the platform, it has over 1 million accommodations in 190 countries. By 2017, it was valued at US\$3 billion.

Similar to Airbnb, property owners and real estate agents offer their accommodation sites through the platform, and potential guests browse the available offers. Hosts and owners can choose between two publishing modes, a fixed annual subscription or a commission on the rental price. Users can rate the experience.

All users are protected by a guarantee,³³ including internet fraud, unlawful entry refusal, misrepresentation and unfair loss of deposit, among others. A warranty that offers alternative accommodation or a refund protects guest. Hosts have up to \$1 million in insurance,³⁴ which protects against travelers' claims or lawsuits for injuries at the property and property damage.

In Chile, by 2018, approximately 1,300 lodgings are registered, including apartments, houses, cabins, and studios. There is no available disaggregated information.

4.3.2.4 Couchsurfing

Unlike previous platforms, Couchsurfing is a global community of travelers based on the collaboration among its members. It was founded in 2004 as a non-profit organization, but has become a for-profit company since 2011.³⁵

The platform functions as a social travel network. Each user has a profile from which they can both offer and search for accommodation, as well as participate in events, questions, and recommendations from the different locations where they operate. Its main feature is that it allows finding free accommodation, with an implicit agreement to spend time with the host, learn about the culture and explore the area. Hosts and guests are qualified once they complete the trip, which also allows for more informed decision making by both parties, reducing uncertainty.

Between the years 2006-2011, the website was developed through groups around the world, to maintain and improve it mainly through donations. In 2011, they opened up as a for-profit company and obtained financing through venture capital investors. The terms of use had to be adapted in 2012, generating intense criticism from members because of the obligation to relinquish control over their data, which is considered inadmissible under European data protection law (Roudman, 2013). Couchsurfing is not responsible for interactions between its members, offers no guarantees or insurance. There is no disaggregated information available.

4.3.3 Effects

The platform emergence has generated reactions from governments around the world, especially at the local and municipal levels. The following are some of the direct and indirect effects that result from the platforms' expansion. However, impacts are specific to each country, and especially to each city, as local dynamics can occur in different ways. Therefore, these effects are not immediately applicable to Chile.

Throughout this section, economic impact studies financed by Airbnb will be referred to in some tourist cities.³⁶ However, these may be biased since some of them were

³³ <https://www.homeaway.com/info/about-us/legal/terms-conditions/bookwithconfidence>

³⁴ <https://help.homeaway.com/articles/What-is-the-1M-Liability-Insurance>

³⁵ The idea arose in 1999 when Cassey Fenton, programmer and co-founder of the social network, bought a cheap flight ticket from Boston to Iceland, but had no place to stay and did not want to stay in a hotel (Camillo, 2015). Then, Fenton hacked the University of Iceland's database and randomly sent an email to 1,500 students asking if he could stay with them, receiving between 50 and 100 offers. Upon his return, he founded the website.

³⁶ In summary, Airbnb commissioned a series of impact studies. These contain estimates of economic impact, in relation to economic activity; jobs generated; the monthly income of Airbnb (around US \$ 600, or US \$ 130 per night rented) and the percentage of the hosts that share their main residence (between 80

commissioned by the same company, and have not been corroborated by independent researchers (Oskam & Boswijk, 2016).

4.3.3.1 Competition

Two competition-related effects generated by hosting platforms are discussed. First, whether the tourist accommodation sector is affected by the increased supply; and second, the impact on long-term residential leasing.

Competition with the traditional commercial tourist accommodation sector

The traditional tourist accommodation industry faces greater competition with the proliferation of digital hosting platforms. The main analysis is in relation to fees and the costs that differentiate them. On the one hand, the accommodation of the platforms may be exposed to lower costs for they don't assume the expenses related to regulation such as security, sanitary measures and other tax treatments that traditional tourist accommodation must comply with (Gutiérrez, 2016, Ranchordas, 2015).

For example, some countries have local or hotel taxes. These increase of traditional tourist accommodation rates and would shift users searching for lower cost accommodation towards the platforms. In Chile, this kind of tax does not exist. In fact, in Chile foreign tourists are exempt from VAT while commercial tourist accommodation and the duration of their stay comply with what is indicated by the export invoice. This would imply that the competition (in prices) would be greater for the national tourist than the foreign one (who do not pay the VAT in traditional hotels), having lower costs and better location.

On the other hand, the prices offered by the platforms are lower than those of the traditional sector are, because they also offer fewer (or none) services. For example, they exclude breakfast and lunch, 24-hour reception, room service and other typical hotel amenities. Guest profiles may be different.

A case for argument could be that in fact, competition is not necessarily greater, but both offers are for different guest profiles Airbnb points out that its activity is complementary to tourist accommodation since 70% of its offer is located outside hotel areas (Airbnb, 2013a). However, analysts consider that between 43%-67% of Airbnb's listings directly compete with the hotel's traditional offer because they are not shared spaces (Huston, 2015). On the other hand, Sans et al. (2016) estimate that total house or apartment rentals coincide over 70% with the hotel sector in Barcelona. In Santiago, Airbnb is distributed in traditional hotel areas, but also in different regions. The same is true throughout the country, where properties are offered in non-traditional and even remote areas, granting an additional appeal to travelers and bringing opportunity for hosts.

and 90 percent). Regarding guests, the studies report that a majority aspires to "live like a local" and most of the data seems to be based on guest and guest surveys (Airbnb, 2013f). As for possible biases, on the one hand the accuracy of these answers can be questioned (for example, the amount of income and expenses) while on the other hand some answers seem irrelevant: if 93 percent want to "live like a local" (Airbnb, 2013b), to what extent would the question reflect the client's behavior? (Oskam & Boswijk, 2016). Additionally, concerning the location of the listed accommodations, 96% indicated being off traditional hotel districts (Airbnb, 2014a) but a definition of where these districts are would be essential (Oskam & Boswijk, 2016).

In addition to prices being more convenient and having a greater variety of locations, the platforms allow for better interaction between guests and hosts, especially in shared spaces, promoting intercultural understanding (Guttentag, 2017) and appeal to travelers who would not find this in traditional hotels.³⁷ This is different niche than that for conventional hotels, and therefore could be considered as the platforms' pure market creation.

On the other hand, in its efforts to solve information asymmetries, traditional tourist accommodation has tended to standardization and homogenization, marketing and loyalty expenditure, and security and business reputation regulation (Oskam & Boswijk, 2016). Even though this may be perceived as an asset for the hotel industry (and to the detriment of platform-managed accommodation) it is, in fact, an attraction for a specific group of travelers seeking a less standardized experience, and a "local feel".

Building trust around a brand and standards leads to an award that allows for higher prices and better discrimination by hotels - for example, through customer loyalty programs - (Ikkala and Lampinen, 2014). Also, this sector presents efficiencies in several mechanisms for platform hosting, such as scale, the multitude of services, and the possibility of accommodating large numbers of people (e.g., for a convention), which are impossible on a platform. Cusumano (2015) analyses some of these, including front desk service, storage and insurance of personal effects since the room only contains goods for guest use, food service including room, gyms, conference rooms and a higher overall level of standardization and predictability. According to this, the traditional accommodation sector and the platforms do not compete directly, at least not for all demand groups.

The traditional accommodation sector view platforms as a threat. The industry has mobilized the industry, and they are demanding regulations similar to that of the conventional sector. They expect that the traditional segment requirements should be met by platform accommodation to level the conditions; in other words, platforms should pay taxes and have similar regulatory standards (Carney, 2015; Deese, 2015; Kenney, 2015; Walleter, 2015). For example, in 2011, Airbnb was fined €30,000 for non-compliance with Barcelona's tourism laws. In 2016, a French association of hoteliers (AhTop) representing some 30,000 hotel and trade union companies filed a formal complaint against Airbnb and other online accommodation rental services, arguing that they compete unfairly. Moreover, they asked authorities to examine whether they pay appropriate taxes.³⁸

There seems to be a differentiated demand between traditional and platform accommodations since it seems platforms create part of the market by activating consumers who would not otherwise have traveled or would not have stayed in a

³⁷In the case of leasing of private or shared rooms, rather than in the lease of entire properties. Small or residential hostels can also grant a similar experience when interacting with homeowners.

³⁸ AhTop is pushing for a rule that dictates that accommodations on sites like Airbnb should be the owner's primary residence.

traditional accommodation.³⁹ However, with the available data, it is impossible to compare this hypothesis.

Hotel Demand

Platforms have repeatedly denied that they compete directly with hotels, arguing that they attract different tourists (Conley, 2014; Titcomb; 2014, Trenholm, 2015). Indeed, hotels in the US have recently enjoyed exceptionally high performance despite the emergence of Airbnb (Griswold, 2015b, Solomon, 2014), and some industry analysts argue that Airbnb is too small and distinct from the traditional sector to have a significant impact (Karmin, 2015). Coyle et al. (2017) question the direct substitutability between hotel rooms and platform accommodations. Haywood et al. (2016) also suggest that only a subset (35%) of the platform offer is comparable to hotel parts. For this purpose, it analyses thirteen cities⁴⁰ in the world and data for 30 months and shows that occupancy is higher in markets where hotels have high occupancy, but hotel occupancy is significantly higher than that of Airbnb. They also find that Airbnb guests stay longer than hotel guests do.

Another explanation suggests that accommodation platforms reduce demand for hotels due to lower prices. If this is effective, hotels could charge a higher price to other travelers whose need is less elastic, and thus hotels would have a higher daily rate, but may or may not enjoy higher incomes, depending on the relative exchange rate in price and quantity. Using data from various sources and time series, Coyle et al. (2017) present evidence that an increase in Airbnb's activities is associated with a fall in the hotel occupancy rate, but with an increase in the average daily rate and total hotel revenues. Zervas et al. (2014) studied the effect of Airbnb in Texas and found that low-cost hotels were the most affected (see next section).

In contrast to the idea of complementarity, Oskam et al. (2016) point out that the platforms compete for guests from the traditional sector, as both have a similar profile, therefore, the choice is based primarily on cost, and only marginally on experience. Guttentag (2017) suggests that, although platform users are different from hotel users, many of them may have stayed in existing tourist accommodations.

Hotel Prices and Income

Most evidence shows that the emergence of the platforms has led to lower prices in smaller hotels, due to higher price competition and the power distribution in the market through electronic reservation mechanisms (Consigli et al., 2012). The evidence is inconclusive on large hotels.

³⁹In Chile, traditional housing associations have shown themselves to be competitive but request for regulation. Andrea Wolleter, executive vice president of Fedetur (June 2016) states: "There is a percentage of tourists who say they would not have come if this type of offer did not exist (Airbnb), therefore, it does expand the tourist offer of a city and disperses it to other neighborhoods where it does not exist. That is why we acknowledge its benefits, however formalization and regularization is necessary." In the same sense, the president of Hoteliers of Chile, Colin Turner, says that, if there is a supply of sites on the Internet, it is because there is demand, but also requests that they comply with certain parameters.

⁴⁰ Barcelona, Boston, London, Los Angeles, Mexico City, Miami, New Orleans, Paris, San Francisco, Seattle, Sydney, Tokyo and Washington, D.C.

Zervas et al. (2014) studied the accommodation market in Austin, Texas, in two categories: budget hotels (competing with Airbnb) and high-end hotels for business travelers. The study shows that a 10% increase in Airbnb's offer led to an 8% to 10% reduction in revenue in budget hotels over the last five years, and a 0.37% to 1.5% reduction in revenue per hotel room. The negative impact is most pronounced among low-end hotels (those that lack facilities for conventions and business travelers, for example). Similar studies suggest that a 1% change in the number of Airbnb offers implies a -3.1% change in hotel revenues in the Netherlands (Hooijer, 2016). Neeser (2015) examined three Scandinavian countries and found a small adverse effect in the places where there was more property growth in Airbnb. The analysis in San Francisco (Swig, 2014) and New York (Vivion, 2015) conclude that Airbnb affects prices and occupancy of low-priced hotels.

In Chile, no data are yet available to quantify the effect of Airbnb's entry on hotel prices causally.⁴¹ Having the data to carry out these analyses is a public policy challenge.

Location

According to Airbnb, most of the accommodation offered on its platform is not in hotel zones, although a study (commissioned by the Spanish hotel industry) questions this and estimates that up to 75% of the supply is located at tourist centers (EY España, 2015). Part of this offer corresponds to the usual rental of second homes in summer resorts or holiday areas, so it is impossible to separate this effect from the emergence of new homes thanks to the platforms. Sans et al. (2016) support the hypothesis of a similar location to hotels.⁴²

In Santiago, real estate listed in Airbnb are concentrated in the central districts of the capital, coinciding highly with the traditional hotels. However, a proportion of the platform supply is found in neighborhoods where there has hardly ever been a hotel, a fact even more common outside the Metropolitan Region (see subsection "Airbnb in Chile").

Finding 4.10: The impact of the platforms should be analyzed in the specific context of each country and each city, as the factors influencing the form and intensity of the effects are multiple and complex. The available studies offer inconclusive evidence on the impact, although they suggest that the platforms compete more directly with the lower-priced accommodation sector, rather than with high-end hotels. In Chile, there is a lack of information to determine the effects of the platforms on the tourist accommodation sector.

⁴¹ One way to estimate the effect could be through a time series from at least 2011 with the monthly hotel prices and the respective amount of Airbnb operating in the area, taking care to incorporate the natural growth of tourism in the country.

⁴² Sans et al. (2016) shows the spatial distribution of the Airbnb offer in Barcelona. He finds that most are found where the hotel presence is greater, such as Ciutat Vella and adjacent neighborhoods. Half of the apartments in Barcelona (6,951) are concentrated in five neighborhoods and 96% of the total Airbnb offer is concentrated in half of the neighborhoods. The presence of Airbnb in peripheral areas is minimal and has no relation with variables such as income levels, accessibility or transport connection, except for the centrality and proximity to the main areas of tourist attraction.

Competition with the permanent rental sector

The platforms allow making an alternative use to properties that are under-utilized, for example, holiday or seasonal properties, or of permanent residence in areas within the property that are not usually used. Additionally, provided higher returns are obtained, permanent or long-term leasing can be of short-term. The transfer from stable to short-term rental apartments can affect supply and prices of permanent rentals (Coyle et al., 2017), and generate shifts and disruption effects in specific areas.

Quattrone et al. (2016) report that part of Airbnb offers correspond to high demand sectors such as permanent residence areas. Therefore, there has been a transition from continuous to temporary leases, or that non-owner residents become shared space landlords.⁴³ The effect on prices is undesirable for regular city dwellers because it increases their cost, reduces the offer and may force them to relocate their area of residence.

Additionally, there are limits as to the number of nights a property can be rented.⁴⁴ Horn & Merante (2017) find that an increase of one standard deviation in Airbnb accommodation offers increases rental prices in Boston by 0.4%. Barron et al. (2018) find that a 10% increase in Airbnb's supply in the United States increases rentals by 0.18% and house prices by 0.26%. Sheppard & Uddel (2016) and Eliasson et al. (2018) provide similar evidence regarding house prices for New York and Reykjavik respectively.

In Ciutat Vella, Barcelona, the average sales price rose by 24.5%, and 3.6% of the resident population migrated (EY Spain, 2015); in Berlin, rentals increased by 56% between 2009 and 2014. As a result, policies have arisen that seek to reduce the impact. For example, Berlin has banned unregistered short-term rentals; Brussels requires permission from the neighbors or the municipality; Barcelona requires the host to be in the residence during the rental period.

Rental and home prices depend on many factors and platforms are just one of them. However, the constant increases have led to the implementation of restrictive policies that seek to reduce the impact linked to accommodation platforms. For example, Berlin has banned unregistered short-term rentals; Brussels requires permission from its neighbors or the municipality; Barcelona compels that the host stays in residence during the rental period. The number of nights to be rented annually is also limited.

In Chile, even in busy cities such as Valparaíso, Viña del Mar or Santiago, long-term accommodation are unaffected yet by the platforms.

4.3.3.2 Tax Aspects

Two taxation aspects are discussed in literature. First, the possibility of increasing tax collection by taxing transactions in this sector, both on the platforms and on the lessors. Secondly, since the taxation of individuals for short-term leases is difficult to monitor, platforms could assume a role as retainers.⁴⁵ From a local perspective, taxing can mitigate

⁴³ In London, this means that tenants engaged in these short-term leases almost certainly violated the general "lease contracts" in the sublease (Quattrone, 2016).

⁴⁴ Although a limit to the number of days is relatively difficult to control.

⁴⁵ This emphasizes that the short-term lease for individuals has historically been difficult to control and, therefore, it is not the responsibility of recent platforms to do so. However, with the massiveness of the platforms increases the short-term lease and, therefore, the amount of this kind of evasion.

the externalities that platform tourism generate, and contributes to the costs of promoting and maintaining the city (Guttentag, 2017).

Like any other market, governments are highly interested in enforcing tax legislation, although they face the challenge of regularizing leases and reducing evasion. Several cities have opted to require platform collaboration by withholding the hosts' taxes. Alternatively, they must inform the authorities so that they may estimate the hosts' owed tax

According to the norm, the hotel activity and the effective rents from any real estate title (including the lease of furnished properties) is taxed with first category tax (to the capital income), when the owner is a legal person. On the other hand, if the person who operates the property is a natural person (like most on digital platforms), their income must be added to the global income and tax according to the corresponding range. Exceptions are the special housing regime DFL 2 ("economic housing"), whose income does not constitute revenue.

The hotel activity and the lease, sublease, or any assignment of the use and enjoyment of furnished or immovable property with facilities, will be considered as services subject to VAT. However, income in foreign currency received by hotel companies registered with the IRS will be exempt from this, provided that the service is granted to foreign tourists without domicile or residence in Chile⁴⁶. The short-term lease (less than three months) of a property furnished by a natural person is also subject to VAT. An annual 11% of the property's tax assessment (or the corresponding proportion for leases for periods other than one year) can be deducted from rent.⁴⁷

Airbnb initially resisted accommodation taxes claiming that laws had to be updated for all platforms and that hosts were responsible for their tax obligations (Cote', 2012; Levy & Goldman, 2012). As regulatory pressure increased, especially in New York, Airbnb accepted these obligations and took the role of reporting or withholding accommodation taxes. By the end of 2016, Airbnb had agreed to collect tourist taxes in 200 cities, and it set itself the goal of securing agreements with the authorities of the 700 towns that generate 90% of its income. Under the deals, the company collects the taxes and remits them to the municipal or national governments or reports the revenues to the authority.

In Chile, revenue collection is relevant, given that there are two taxes involved: VAT and income tax, which affect both the provider and the underlying service. The VAT payment for the rental of furnished properties by private individuals has a meager compliance rate and requires much supervision. The most comfortable sector to control is that of tourist accommodation offered through platforms, although sales to foreigners residing outside the country could be exempt from payment.⁴⁸ Currently, VAT collection includes rentals of furnished real estate made by civilians (whether to foreigners or Chileans), and should also consider the brokerage fee for the platforms.

⁴⁶ Article 12, letter E, N°17, of Decree of Law N° 825 of 1976.

⁴⁷ Article 17, of Decree of Law N°825 of 1976.

⁴⁸ If the tourist accommodation is ascribed to the "export invoice".

Income tax is payable by non-exempt hosts⁴⁹ and platforms with tax domicile or Permanent Establishment; the former based on the taxable income from the leases, the latter on the commissions for the intermediation services provided. However, as mentioned before, since Airbnb and other platforms have no permanent establishment in Chile, they do not pay taxes.

A growing trend worldwide is the tax implementation on digital services. Depending on the country, the hosting platforms could pay between 3 and 5%, although in others a fee equivalent to VAT is charged, with respect to its commission as an intermediary (as it is indirect it would apply even if the company is established in a country with which an Agreement to avoid Double Taxation is in force), and inform the authority of the income generated by each property owner.

4.3.3.3 Impact on tourism

Offer associated with lodging platforms-and their global expansion-allows for increased demand and tourist numbers, provide a quick search and booking interface, and can be less expensive. Even though the increase in tourism is multifactorial (e.g., falling transportation costs and increased mobility), the platforms have also contributed to the growth of the market (Fang et al., 2016⁵⁰).

Another remarkable element is an increased tourism distribution. Platforms that allow peer-to-peer service could be strategic in distributing tourism throughout the city and the country. In large cities, tourists tend to congregate in central areas, and residents are often unable to cope with growing demand. Even more relevant is the distribution outside the usual destinations, to new zones where demand is too low to justify a hotel. Quattrone et al. (2016) showed that, unlike hotels, Airbnb's listings have a more extensive geographical coverage and consequently distribute tourist demand over a larger area. Our results show a similar phenomenon in Chile, with some concentration in tourism sectors, but also dispersion throughout the rest of the city.

An exciting aspect of the platforms is the ability to support occasional increases in demand, by using an infrastructure that would otherwise be invisible and unprofitable to build for such events (Capps, 2014). In the absence of such quantity adjustments, the price would reflect changes to an increase in demand. For example, Airbnb sponsored the Olympic Games in Rio de Janeiro (2016), solving a severe accommodation problem. At the national level, a similar example would be New Year's Eve in Valparaíso, where non-traditional suppliers can solve a sudden increase in demand.

⁴⁹ They are exempt if they have earnings under the minimum income or those that derive the income of up to two DFL2 properties.

⁵⁰ By econometric analysis, Fang et al. (2016) find that there is an Airbnb effect in the tourism industry generating new job positions because of increased supply in Idaho, USA. In this work, the marginal effect decreases as the publications of the platforms increase.

4.3.3.4 Residential Buildings

As mentioned, accommodation offered on platforms may be scattered throughout the city, including in residential neighborhoods (Porges, 2013; Smerd, 2014) and buildings whose main function is residential and long-term.

Attractive cities such as Barcelona, Amsterdam or Berlin, receive up to 10 times their permanent population in tourists in a year. The overcrowding of platform properties may affect them negatively. Coyle et al. (2017) suggest that negative externalities such as noise and the presence of anonymous visitors in residential areas transform them into tourist areas and stress the availability of facilities such as parking lots and other common goods. Filippas et al. (2017) point out that these non-internalized costs make the platform accommodations excessive and at lower prices and higher amounts regarding the social optimum, also true regarding externalities within the buildings where the leases are offered.

Airbnb suggests that the negative externality at the neighborhood level may be offset by the economic impact of tourism investment in non-tourist neighborhoods, and increased consumption of entertainment and food services (Airbnb 2012, 2013b, 2013c, 2013d, 2013e, 2014b, 2015). However, a study in Berlin has shown that these effects in non-central neighborhoods are limited, especially for the retail trade (Kalandides et al., 2015). If this is effective, the positive impact is limited to the hosts who see their income increase (Oskam & Boswijk, 2016). It is unclear what benefit may exist for other residents regarding buildings, perhaps a higher asset evaluation in some contexts.

No Chilean city receives such an influx of tourism, so these aspects occur at the local level in neighborhoods or inside buildings. In buildings where most landlords/tenants are long-term, co-ownership regulations can be a self-regulatory mechanism for the externalities generated by short-term leases. Otherwise, municipalities need to develop tools to manage these local externalities, which is higher in districts with the most significant presence of per capita platform accommodation, such as Pucón, Easter Island, Santiago, and Providencia, among others.

In fact, a ruling by the Supreme Court in Chile authorized the residential communities to prohibit, in the co-ownership regulations, short-term furnished property leases. Owners using short-term rental apartment on Airbnb, argued that such a limitation violated their right to exercise an economic activity and their property right. The Supreme Court ruled unanimously that there was no violation of the right to property.

The Court refers to the co-ownership regime, included within the exercise of the right of ownership, combining individual and collective rights. Exclusive ownership over each unit or department, and ownership in common areas, over which Law No. 19,537 (Of the Real Estate Ownership Regime) states there are commoners in common property. This regulation allows the administrative in charge of the common grounds to regulate the management of these assets through regulations. This is reinforced by article 32 of the same law, stating, "*The units will be used in orderly and quietly and cannot be used for other objects than those established in the co-ownership regulations.*" Modifications require an assembly of owners.

The Court typifies Airbnb as a deregulated IT platform "*(...) operates under a system of accommodation reservations, with payment guarantees required and consistent to the total period to be contracted, with respect to which there is no limitation as to the length of the stay, which may be days and hours as contracted by the client.*" Additionally, it qualifies the activity as commercial in nature, consisting of the offer to third parties (travelers) of real estate to provide a hosting service. However, it rejects it is an activity analogous to tourist accommodation through hotels, residences, inns, boarding houses or pensions that are amply regulated as provided for in Article 3 No. 5 of the Commercial Code.

To define an activity as commercial, consistency is crucial. The fourteenth recital states that: "*Thus, the consistency in the commercial activity of hosting services requires regularity in its development with a professional spirit, scheduled in advance and maintained over time, in contrast to the occasional, singular or sporadic activity. As for the consistent relationship, it is unavoidable to consider the period of time for which the property is made available to a third party for its use and enjoyment. Thus, it requires regularity, programming, reiteration and frequency of the aforementioned action, circumstances whose convergence is irrefutable in hourly leases for less than 15 days, which show the absence of will to reside or dwell, for abode is fundamentally ephemeral and, therefore, non-residential.*"

Therefore, since the activity developed by the appellants clashes with the housing destination of the building, which forbade the "Apart Hotel" line (a definition that is closest to the Airbnb activity -leasing services for terms of less than 15 days). : *(...) in principle, the temporary assignment of the right of use of a co-ownership property, free of charge or for payment, is not limited by law, provided that it is given a lawful and housing use, without changing its purpose and excluding, of course, an inherent and necessary purpose to one of a commercial nature.*

Therefore, the Court resolves that there is no violation of the right to property protected by Article 19 No. 24 of the Constitution. It considered the destination established in the regulation (which has legal backing), and that the faculty of use and enjoyment of the owners in their essence had not been limited, but regarding what escapes the housing character of the destination of the goods,.

This implies that in the future the possibility of leasing or not a furnished property within a building, condominium, or other groups with co-ownership regime, will depend on the decision of the owners' assembly and the co-ownership regulation.

4.3.3.5 Safety and Consumer Protection

Hosting platforms ensure safety through identity verification measures and credit card payment methods, as well as a host and guest based review system. The system allows both parties to express each other's opinion, and this information reduces information asymmetries for future guests or hosts, in addition to incentivizing both parties to behave accordingly (Jøsang et al., 2007).

Some authors consider that this system does not protect consumers, specifically concerning peer platforms, for there are no minimum-security requirements. Also, the application of consumer protection legislation to these relationships is debatable.

However, platform guests may leave the rental space on the first day if they do not like it, and pay only one day, but there is no mechanism to repair any additional costs incurred in seeking an alternative location or changing their travel plans.⁵¹

Kohda and Masuda (2013) suggest that the value created by the platforms and the sharing of services rests in the consumers' absorption of risks. In fact, minimum standards of safety, health, fire-fighting measures, among others should be favored. However, most Airbnb's wrongdoings are usually against property and perpetrated by guests (Nerman, 2015; Sernoffsky, 2015), and many Airbnb's accommodations are in buildings that already meet safety standards (Guttentag, 2017). The platforms claim no responsibility because they provide a "brokerage service" and are not the direct service providers. Given the massive number of platform users, it is inevitable that events will occur, which anyhow also happen in hotels (Hussain, 2015; Leland, 2015; MacBride & Flores, 2015).

The use of a furnished property for illicit activities (such as child prostitution linked to tourism) is another aspect linked to security. Traditional establishments such as hotels have protocols and receptionists and concierges are trained to help prevent and report these acts, which enhances the need to count on a register of the properties listed on platforms.

4.4 International Experiences

Hosting platform regulation experiences are summarized in this section. These experiences respond to the tourism market, the housing market, and the specific regulations of each country or city.

4.4.1 United States

Most cities in the United States have accepted Airbnb, subjecting it to regulatory and tax requirements. The company establishes an agreement with each city or state and owners must have a short-term rental license in all towns and their properties must be accordingly zoned. Additionally, Airbnb must clarify the tax cost to users (even for short stays, which are subject to temporary occupancy taxes)..

Obligations vary between States and cities.⁵² For example, in some cases, it is not enough for the owner to have a short-term lease license. Some cities require a business license⁵³ (Atlanta GA,⁵⁴ Colorado Springs CO, New York NY, Boston MA, Portland OR), and others require a vacation rental permit (Palm Springs CA, Chicago IL, Honolulu HI), and others need a housing license (Boston MA, Cambridge MA, Chicago IL, Minneapolis MN).

⁵¹ On the guest side, the platform stipulates reimbursement or alternative accommodation for the following problems: (i) The host does not provide the guest with the means to access the accommodation; (ii) the accommodation does not match the description of the advertisement (number of rooms, special services offered or location, among others); (iii) the accommodation is not clean, is not safe or has pets, without the guest having been informed of it before confirming the reservation.

⁵² <https://www.airbnb.com/help/article/1376/responsible-hosting-in-the-united-states> (n.d.)

⁵³ Similar to Chile, with the beginning of economic activity and payment of the commercial patent as a whole.

⁵⁴ A hotel license is also required in this city.

Some cities have additional requirements apart from the zoning recognition. For example, in Boulder CO, Charlotte NC, San Francisco CA hosts must have a permanent residence certificate and submit housing permits. Tenants in New York City and Santa Monica must be living on the property when they have short-term leases; in Boston MA, Portland OR they must have the approval of a strict housing inspection; or they must comply with health and safety rules (Santa Monica CA). Additionally, some cities have administrative registering requirements to maintain permanent records in the county (Arlington VA, Boston MA), and an obligation to verify whether rent control affects tenancy (Berkeley CA, New York City).

There are also variations concerning user taxes. Although the Airbnb tax corresponds to a percentage of the accommodation price,⁵⁵ applicable when the stay is less than 29 days, states, counties, and cities may tax their users in different ways. Some have even modified their regulations to include the platforms in the tax definitions and provisions, and to authorize them to withhold part of the payments as the owner's taxes and to remit them to the government.

4.4.2 Europe

Airbnb is obligated to collect Vat in all European countries. In addition, several cities where there is substantial upward pressure on property prices and rents have enacted local laws or regulations that restrict short-term leases. Most of these are the continent's major tourist cities, where the influx can exceed the total resident population over ten times.

Some examples are:

- London (England): short-term leasing was legalized in 2015, authorizing rentals for under 90 days per year. The legal penalty for offenders is €20,000, including the elimination from the platform.⁵⁶
- Barcelona (Spain)⁵⁷: The regulatory framework in force since 2002 in Catalonia was updated in 2012 and 2014. It allows tourist housing or short-term rentals of entire properties for less than 30 days in a row during the year (with a license). Tourist accommodation must: 1) operate as a commercial and non-residential property, 2) obtain a permit, and 3) publish the license number when advertising the housing. Failure to comply with this last requirement can result in fines of up to €1,000 for owners and up to €60,000 for platforms.
- Amsterdam (The Netherlands): A permit is required to rent, and the offer is limited to 60 days per year and up to four people per night. A stay of over seven days and less than six months is required. The city strictly monitors, and offenders risk fines of up to €20,500. Airbnb collects the tourism tax (5%) for the benefit of the town.

⁵⁵ According to the evidence, this tax varies between 2% and 12% at the city level (Alabama); 0.9% and 8.5% at the county level (Alabama and Colorado), and between 1.8% and 13% (for the States of Alabama, Nevada, New Mexico, Ohio, Oklahoma, Oregon, Pennsylvania).

⁵⁶ <https://www.gov.uk/government/speeches/short-term-use-of-residential-property-in-london> (09/02/2015).

⁵⁷ Through the Special Urban Plan for the Regulation of housing for tourist use in Barcelona (Ajuntament de Barcelona, 2014c).

- Berlin (Germany): The regulations allowing short-term leasing were reformed in 2016. Short-term leasing was limited to rooms of an inhabited residence, or to obtainment of a permit. 85% of Berlin's inhabitants live on a rental basis, which triggered this limitation for fear of displacement. Failure to comply with these measures risk fines of up to €100,000.
- France: in 2014, the "Loi Alur" was approved, allowing any owner to rent his or her home or certain rooms for a period of four months (without requiring a license), provided it is his or her first home. It also allows renting for short stays in second homes, although cities may impose additional requirements. Under these boundaries, the property is considered an "unclassified tourist property," and exceeding them requires classifying it as commercial and obtaining a license, or risking fines of up to €25,000. Airbnb collects taxes on tourism and the specific local taxes. At the national level, the tourist tax is €0.40 per person per night.

Finding 4.11: The international experience shows different ways of regulating accommodation platforms depending on the characteristics of the local housing market and the number of tourists received. Differentiated treatment between "peers" (simplified regime) and "professionals" (business regime) is standard, depending on the number of nights to be rented. In most countries, Airbnb acts as a local tax collector.

4.5 Recommendations

Although housing platforms have only emerged recently in the country, and are still on their way of consolidation, in the light of international experience and national control mechanisms, we propose a set of recommendations, which seek to take advantage of new technologies, reducing their potential costs to society.

There is a fundamental difference between the rental of a furnished property and the provision of tourist accommodation services. It is related to the provision of complementary services to accommodation. Based on the legal distinction between a civil lease of a furnished real estate and the commercial provision of tourist accommodation services, we propose a new category covering short-term rentals of a furnished real estate (contracts of less than three months), which we will refer to as "Civil Tourist Accommodation."

This new legal category has four characteristics: 1) they are leases made by natural persons; 2) the rent can be for any purpose, including tourism, 2) the lease corresponds to a furnished dwelling, and does not exceed three months, and 4) no additional services are provided to the accommodation. Key handover and housecleaning at the end of the stay should not be considered as additional services since the delivery of the dwelling is part of the transaction, and the subsequent cleaning service benefits the owner and not the tenant.

According to the principle of neutrality and non-discriminatory treatment, regulation of the same service should be equal regardless whether it is on or off platforms. And different treatment should also be given to services that are different. Thus, Law 20.423 and its complementary regulation govern the commercial provision of the tourist accommodation service, while civil law regulates the short-term rental of furnished properties (and any real estate lease). This same distinction should go to the platforms

(for both categories): the already existing commercial tourist accommodation registered with Sernatur and the civil tourist accommodation, which we propose to create. A limit on the rental of furnished properties (entire) per person (example: 2 or 3 properties) may be considered a commercial activity.

The preceding does not imply that those who rent are unprotected before the law, for in the event of damage the owner may cover the costs by applying the Consumer Protection Law or the general rules of civil liability of the Civil Code. Moreover, the current regulations implicitly acknowledge in the furnished properties short-term contracts (less than three months), a particular category, as it affects VAT, and extends the obligations and rights of the Consumer Protection Law. The previous reinforces our proposal to create a new rental class: the "Civil Tourist Accommodation."

Due to the platforms' advantages, there has been a boost in the short-term rental market, which we classify as "Civil Tourist Accommodation." There are almost 30,000 leases currently offered on platforms in Chile (given the growth of the sector we can expect a significant increase in this number) under this category, as well as other short-term leases that are marketed through other sales channels such as indexed pages. The category of "commercial tourist accommodation" refers to traditional providers of tourist accommodation, about 8,000 leases under the SERNATUR register.

Recommendation 4.1: To create the category of "Civil Tourist Accommodation" to identify rentals made by natural persons, where each rental is for less than three months. The objectives include tourism and have no provision of complementary services to accommodation.

Unlike civil tourist accommodation, the commercial accommodation has complementary services such as daily house cleaner service, 24-hour reception, breakfast service, etc., which allow for the massive and simultaneous reception of tourists. This difference should be transparent so that both providers and consumers of the accommodation service are fully aware of the basis of their transactions. The definition of the categories can be established by modifying Decree 222 of the Ministry of Economy, which approves the regulation, for "the application of the Classification, Quality and Safety System of tourist accommodation" or the Technical Regulations containing the classification of tourist accommodation. In any case, it is essential to define this difference with objective and easy-to-understand criteria

Recommendation 4.2: To determine, by objective and verifiable criteria, the complementary services to accommodation that differentiate the provision of commercial tourist accommodation from civil tourist accommodation.

The monitoring of "Civil Tourist Accommodation" is necessary for tax compliance, tourist safety, police control in case of crimes, and statistical purposes, and especially for the measurement of possible adverse effects on long-term leases and their prices. There is currently a mandatory register of tourist accommodation, which covers the commercial category and includes some 8,000 suppliers. For the above reasons, we recommend the establishment of a similar registry for "Civilian Tourist Accommodation".

The register of "Civil Tourist Accommodation" should not have any prerequisites for its operation, as the norm does not require them to be registered off-platform. The

registration must be easy, and online, to take benefit from the advantages of the technology and the platforms. Only the property's and owner's identification card should be required. The register should be unique and national but administered at the municipal level. The registry must assign a number that should be informed in each advertisement that offers, either through a digital platform or in any other means, a Civil Tourist Accommodation. The intermediary shall be responsible for ensuring the validity of the registration number before advertising (on paper or platform) the property. To protect sensitive information and personal data, people can only validate the registration number of the property. All data on the property or its owner should only be visible by the authority.

Although the development of this market has advantages for those who offer accommodation (the most obvious being income), negative externalities have also been documented at the local level. Potential externalities are complaints from neighbors, increased garbage collection, public safety, sanitation, public infrastructure, among others. Internationally, hotel or tourist taxes on lodgings (usually at the municipal level) tackle these issues. In Chile, taxes are mostly collected nationally,⁵⁸ and there are no tourist taxes. For this reason, an annual municipal benefit payment should be created for the registration right, which must be equivalent in cost to a commercial patent, to standardize the tax burden between civil and commercial tourist accommodations. The possibility of the payment being differentiated according to the number of days per year in which the dwelling is rented should be evaluated.

Recommendation 4.3: To create a national registry of civil tourist accommodations, unique and national, like the National Registry of Tourist Service Providers of Sernatur. Providers of civil tourist accommodation should be registered in it, and an annual or proportional fee like that of a commercial patent should be charged. The identification of the property and its owner, and the payment of the registration fee are the only requirements for registration, and no prior operating permit is required. The registration number must be reported in each civil tourist lease offer, and it is the responsibility of the intermediary to request it and validate it.

Chile still does not exhibit a negative impact on long-term leasing (price increase and lower availability) due to platforms, but it intends to monitor these variables keeping in mind that it is a multifactorial phenomenon and hosting platforms are only one of them. This proposed register is a key input.

Recommendation 4.4: Monitor the externalities associated with the platform's operation in the price and availability of long-term leases.

The benefits of the intermediation services provided in the country by the accommodation platforms must be taxed according the legislation. However, currently, the platforms' legal organization allows them to avoid paying taxes (within the legal frame), transferring their profits to countries with little or no taxation. Since they do not have a permanent establishment in the country, they are not compelled to pay taxes on operations carried out on national territory.

⁵⁸ VAT and Income Tax represent about 90% of tax revenues.

Recommendation 4.5: To apply the principle of “profit transfer” which would lead to accommodation platforms in Chile being taxed (First Category and VAT per brokerage) through a Permanent Establishment understood as an economic presence with a digital office.

It is desirable to take advantage of the platforms’ technology to improve the compliance and control of the VAT payment corresponding to the lease of furnished property and the income tax due from the hosts. According to international experience, platforms should withhold payment of VAT and collaborate with the IRS by providing the information to their hosts to facilitate the collection of income tax payments. In the first case, the platform can easily adapt its reimbursement and registration mechanisms to manage the payment and the withholding of the corresponding taxes. In the second case, they may provide information regarding the income generated by the lease. It is both the platform and the individual’s responsibility to ensure the reliability of the data provided.

Recommendation 4.6: In addition to paying first category taxes applicable to the platforms, they should also withhold the VAT and report their hosts' income to the Internal Revenue Service for payment of the corresponding the Global Complementary Tax.

Tourist (commercial) accommodation and related services are beneficiaries of the "export invoice," a mechanism that exempts VAT payment if the consumer is a foreign tourist and paying in foreign currency. This benefit acknowledges lodging and other services as an export, eliminating, therefore, the requirement of VAT payment. The same benefit should be extended to the "Civil Tourist Accommodation," acknowledging that this service, provided to foreign tourists, is analog to other accommodations.

Recommendation 4.7: Extend the benefit of the export invoice to “Civil Tourist Accommodation.”

The Sernatur National Registry of Tourist Service Providers is mandatory for commercial tourist accommodations and provides a series of highly attractive benefits for those who participate in it (for example, access to training and promotion tools). However, their requirements are too costly and constitute barriers to formalization and competition in the sector. We propose reducing the current administrative burdens by diminishing the criteria to those strictly necessary and verifiable. For example, there are certain formalities, such as the final reception of new construction before the Municipal Works Directorate, or health permits before the health authority when there is no food service are excessive, particularly for small providers.

Recommendation 4.8: Review and simplify the processes of the current requirements to become part of the National Registry of Tourist Service Providers. Limit the need for a health permit to establishments offering food services.

In addition to excessive demands, the timeframes for the process are long and cumbersome and discourage participation. Currently, the audit is carried out ex-ante and on-site, although due to its characteristics it could be carried out after the permit has been issued. The municipality should immediately grant a provisional patent, which enables the establishments to operate. During the interim period, the giving of the permanent license will be audited (ex-post).

Recommendation 4.9: Establish that municipalities grant a provisional patent that allows for one year of operation, which will become permanent after subsequent inspection.

4.6 Conclusions

The hosting sector has mutated in recent years due to technological change and the emergence of information technologies. The shift has brought two significant consequences: the innovation and constant updating of traditional providers and, motivated by the facilities of digital platforms, the entry of a new variety and type of hosts.

The strong innovation in the sector has meant a significant gain in efficiency in the processes of searching and booking accommodation, reducing the market failures associated with the incomplete information that previously prevailed. However, it has also generated negative externalities that reduce, in part, efficiency gains. The challenge of public policy is to maximize the positive aspects by minimizing the negative ones.

The development of the rental of real estate by natural persons, where only accommodation services are provided, for various purposes including tourism, and where each rent is for a period of fewer than three months justifies the creation of a new accommodation category, the "Civilian tourist accommodation."

The international experience provides a critical reference frame for how the world has dealt with the emergence of new platforms and the arrival of non-traditional hosts. Good practices and the law pose challenges on dealing with those who carry out similar activities equally, creating the appropriate regulations for compliance with this principle, for the operation does not fit in with the current rules due to different characteristics.

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4.8 Annexes

Table A.4.1 - Classification of tourist accommodation in Chile

Tourist Accommodation	Description
Apartment-hotel	This is an establishment that provides tourist accommodation mainly in apartment type housing units, in either a building or an independent part of it. They also have a 24-hour reception service and breakfast service, whether or not it is included in the price, which must be provided inside the facilities, house-cleaning service, concierge service and luggage custody service, and may provide other complementary services.
Bed & Breakfast; Family Accommodation	This is a type of home-stay establishment, in which its permanent residents provide tourist accommodation and breakfast services included in the rate (as a complementary activity to that normally carried out by the host family group). A member of the family group provides the reception service. Common family areas are shared with guests. This type of establishment can be called rural lodging if it is located in a rural area.
Cabins	It is an establishment in which the tourist accommodation service is provided in cabin-type housing units, with at least one parking per housing unit. They also have reception service for guest registration and general information delivery and may offer other complementary services.
Camping; Campsite	This is an establishment that provides tourist accommodation service in a properly delimited area, located in a natural environment (countryside, mountain, beach or similar), assigning an outdoors spot to each person or group of people for tents, mobile homes or other similar facilities to spend the night. At least a 12-hour reception service and restrooms is required.
Nature tourism centre; Lodge	This is an establishment where the tourist accommodation service is provided in private housing units. The main purpose of the establishment is to serve as an enclave for outdoor activities and/or excursions. They offer a minimum of 12 hours reception service, house cleaning and food service as per guest request, and may offer other complementary services.
Tourist Complex; Resort	An establishment that has one or more types of tourist accommodation, in addition to facilities, equipment and infrastructure for the performance of each of the types of activities offered within the limits of the establishment, whether recreational, sports, rest and relaxation.

Tourist and/or executives departments	This is an establishment that provides tourist accommodation service in furnished apartment type housing units, intended primarily for tourists (recreation, vacation or business), which may be located in the same building or in different buildings, under a centralized administration. Reception services should be available at times previously agreed with the client and have house cleaning services.
Hacienda; Estancias	This establishment provides tourist accommodation in private housing units and maintains (or recreates) a main house with structures, spaces and materials typical of the old traditional houses in the area where it is located. The main purpose of the establishment is to serve as an enclave for outdoor activities and/or productive excursions typical of the venue and the local culture. They also offer a minimum of 12 hours reception service, house cleaning and full boarding, and may offer other complementary services.
Hotel	Establishment that provides tourist accommodation mainly in rooms, either in a building or independent part of it. They also have a 24-hour reception service and breakfast service, whether or not it is included in the rate, house cleaning, concierge service and luggage storage service, and may offer other complementary services. If the establishment has rooms with access from ground level and parking in front of the rooms or within the premises, then it is called a motel.
Boutique Hotel	This establishment offers tourist accommodation service in rooms and under a defined concept, present as interior decorating both in rooms as places of common use and previously informed to the clients. It delivers a personalized attention service. It is located in a building or an independent part of it. They also have at least the reception service in Spanish and a second language, in addition to the breakfast service included in their rate. It has defined and implemented a customer satisfaction measurement system.
Hostel	This is an establishment that provides tourist accommodation service in shared rooms and / or private rooms, as well as its bathrooms, and which also has a common kitchen area for guests to prepare their own food. It must have reception service and house cleaning. In addition, they must have tourist information and publication of recreational activities available among the guests.
Inn	This is an establishment that provides mainly food service in a restaurant and that additionally provides the tourist accommodation service in housing units. It must have parking next to or in front of the main building.

Residential	Tourist accommodation service is provided in private rooms of a dwelling house, which offers food service in the form of half board or full board included in the price.
Thermal spa	This is an establishment whose main purpose is the use of a thermal source for therapeutic and / or recreational purposes, for which, together with the respective thermal facilities, provides tourist accommodation service in rooms, cabins or apartments all the necessary equipment and infrastructure. It may offer other complementary services.

Source: National Productivity Commission based on the document of the National Institute of Normalization (2013a). "Classification, qualification and terminology of tourist establishments", Nch2760: 2013.

A.4.2 Additional Health Requirements

Below is a summary of the Health requirements for tourist establishments and which are defined in more than 20 articles of Decree 194 of the Ministry of Health.

- (i) Be located not less than 500 meters away from sources of pollution (garbage dumps, stables, industries that produce gas or annoying noise, sewage discharges, etc.).
- (ii) Have a seismic and fireproof construction, have escape routes, with wide, fireproof doors and stairways; and be permanently rat-free and insect free.
- (iii) To have natural lighting (windows), in each room of at least one eighth of the floor area, to allow circulation and cleanliness.
- (iv) Ventilated rooms (windows open at least 50% of the surface or use of exhaust fans or mechanical delivery of outside air).
- (v) Have one extinguisher per 100 square meters, with a minimum of two extinguishers per 100 square meters.⁵⁹
- (vi) Have a first aid kit containing at least iodine, hydrophilic cotton, sterile gauze, alcohol, adhesive, sterile syringes, bandages of various sizes.
- (vii) Public assistance services are held accountable in the event of an accident to passengers.
- (viii) Have one full bathroom (W.C., sink, shower or tub) for every 4 bedrooms or for every 8 accommodated people.
- (ix) Have bins with lids and/or plastic bags for easy transport.

⁵⁹ Extinguishers should be located in places of greatest risk and easily accessible, free of any obstruction that may prevent or hinder their use. Personnel should be instructed on how to use extinguishers. All fire extinguishers must be checked at least annually, and those whose load is likely to be altered over time, must be recharged without exception at least once a year.

- (x) Have a special garbage disposal site,⁶⁰ or other system, approved by the National Health Service.
- (xi) Maintain optimal cleaning conditions by cleaning at least once a day.
- (xii) Maintain general presentation and structural condition of the facilities in good condition.
- (xiii) Have potable water and sewage without leaks, and if it has self-supplying water, be approved by the National Health Service.
- (xiv) Maintain sanitary fixtures in perfect state of cleanliness and operation in order to prevent any danger to users' health, as well as to prevent bad odors.
- (xv) Linen should be changed each time a new passenger enters, and at least twice a week when used by a single user.
- (xvi) If rats or other types of sanitary vectors are detected, breeding, attraction or access routes to the establishment must be eliminated, and rat exterminators or insect exterminators as may be used as reinforcements.
- (xvii) Clean laundry shall be arranged in a separate room and shall not come into contact with dirty laundry.

The establishments that have their own laundry services must comply with the sanitary provisions on the subject determined by the National Health Service.

Table A.4.3 Airbnb per every 1.000 inhabitants for the 50 communes with the highest ratio

Commune	Accomodation	Population	Population Ratio
Algarrobo	384	13.817	27,8
Papudo	176	6.356	27,7
Zapallar	201	7.339	27,4
Pucón	675	28.523	23,7
San Pedro de Atacama	252	10.996	22,9
Isla de Pascua	137	7.750	17,7
Pichilemu	259	16.394	15,8
Providencia	1.739	142.079	12,2
Concón	483	42.152	11,5
Puchuncaví	214	18.546	11,5
Navidad	76	6.641	11,4
Pinto	100	10.827	9,2

⁶⁰ This place should have light colored floor and waterproof baseboards, floor drain, water tap, hose for cleaning and adequate lighting. It should also have enough capacity to accumulate the establishment's garbage for at least three days, in suitable deposits. It should be closed and in perfect condition, with proper protection against rodents and insects.

Paiguano	39	4.497	8,7
Puerto Varas	338	44.578	7,6
Santiago	3.061	404.495	7,6
Viña del Mar	1.725	334.248	5,2
Santo Domingo	55	10.900	5,0
Las Condes	1.426	294.838	4,8
El Quisco	74	15.955	4,6
San José de Maipo	77	18.189	4,2
Vichuquén	17	4.322	3,9
Tortel	2	523	3,8
Curacautín	64	17.413	3,7
La Serena	779	221.054	3,5
Natales	76	21.477	3,5
Valparaíso	999	296.655	3,4
Futaleufú	9	2.623	3,4
Cobquecura	17	5.012	3,4
Cochamó	13	4.023	3,2
Villarrica	173	55.478	3,1
Lo Barnechea	305	105.833	2,9
Castro	129	43.807	2,9
Olmué	50	17.516	2,9
Vitacura	228	85.384	2,7
Casablanca	66	26.867	2,5
Panguipulli	87	34.539	2,5
Coquimbo	555	227.730	2,4
Ñuñoa	497	208.237	2,4
Iquique	384	191.468	2,0
Chonchi	29	14.858	2,0
Futroneo	28	14.665	1,9
Frutillar	34	18.428	1,8
Cisnes	12	6.517	1,8
Torres del Paine	2	1.209	1,7
Puerto Octay	15	8.999	1,7
Recoleta	248	157.851	1,6
Chaitén	8	5.071	1,6
Puqueldón	6	3.921	1,5
Punta Arenas	182	131.592	1,4
Valdivia	217	166.080	1,3

Source: Based on data from the 2017 Census and information gathered from Airbnb for the period October 2016 and September 2017.