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The Ultimate Buyer's Guide to Vacation Rental Property: 2020 Edition

By Craig Shawn Williamson

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I'd like to dedicate this book to the talented innovators who contributed: thank you to Tamera Christensen, Janine Hoskins, Steve Gulotta, Kraig Miller, Jason Eisner, Oscar Mendez, Ben Kaley and Nick Falcone for your creativity, mad skills, and commitment; and to my wife Alejandra and daughter Hannah for tolerating my constant blabbing about my work. I am humbled to be surrounded by such amazing individuals.

Preface

When I was working for Four Seasons in Costa Rica on their vacation real estate offerings, I was fortunate enough to spend several years working on the Papagayo Peninsula. During this time, I didn't take many days off, but I didn't need to because *I was living on the beach*. Starting as a shortcut, but ending up as my primary route, I rode a jet ski to work. Most days, I had dolphins on each side of me, swimming along in the morning on my "commute." After crossing the Papagayo bay, I would tie up, swim to shore, then jog along the beach and go to the office.

At night, I would take the jet ski back home as the sun was setting. It's almost impossible to describe how glorious it looked, but the thing is, it became normal. There were times that I would bring my spearfishing equipment with me, stop half way and "pick up" dinner.

During that same time, I had two weeks of vacation scheduled (whether I needed it or not). I remember my staff asking me, "So, where are you going to go for your vacation? What are you going to do for your break?"

I said, "I'm going to do something that a lot of people dream of doing. I'm going to spend two weeks on the beach in Costa Rica." They looked at me funny: "But you *live* on the beach in Costa Rica."

My reply was, "Exactly. Why would I go anywhere? Where would I go that's better than this?" It's all integrated together: laying on the beach, jet skiing, spearfishing my dinner, looking at property, meeting other vacation property owners, jogging, living, and working.

I own vacation rental property in every location that I work. Being in this industry, "working in this industry," life is a vacation. I cannot imagine living any other way, and this book will guide you to do the same.

I want you to be able to say to yourself, "I'm not working so I can *take* a vacation. My work is my vacation. My life is a vacation."

It's possible to—with only two or three vacation rental properties—pay your debt, use them for free, make enough money to cover all of your expenses, and have enough left over that you can look for additional properties. You're living your work when the properties are not rented. You then search for another location you may be interested in, you go to that location and rent a home for one or two weeks, and find out if it's a fit for your portfolio. You will use all of the tools I provide in this book to do so.

Can you see the possibilities?

That's the essence of this business. Yes, there's a big economic side of it and there is a balance you have to strike between pragmatism and pleasure. But I am here to tell you (or remind you) that there are all of these incredible things that can be experienced in this big, beautiful world of ours. And this business is a way to live them. Though this book concentrates on the great USA, this business can be built almost anywhere in the world.

With the opportunity to "work" in the amazing Reunion Resort Community, in the luxury community of Bear's Den, a private Jack Nicklaus branded golf enclave, I experienced more of this incredible "work." What did I do on my day off? I played golf at one of the best courses in the state of Florida. I went to the theme parks and other attractions at will. Did I work on those off days? Yes, I would work in the early mornings, and then say to my daughter, "Let's go see Harry Potter." If you have a vacation home in the Orlando area, and

you are staying in it a month or six weeks out of the year when it is not rented and making you money, you have incredible opportunities for fun.

The bottom line is, you don't have to endure a crappy job if you run your VRP business the right way. You don't have to work a job you hate most of the year to earn the right to live a nice life for two weeks, or four weeks each year. The vacation can *be* your life and your work, for the rest of your life. How does that sound?

What brings this whole idea home to me is talking to talented people working jobs they hate. I have friends doing this, for example, who say, "What you're talking about, we dream about. What you did yesterday, we dream about all winter. In fact, we spend our work days sitting in our office looking at pictures of Florida, dreaming of the beach."

I want to invite everyone dreaming about the beach…to go to the beach. To the golf course. To the ski slopes. To resorts, theme parks, spas, fishing lodges, anywhere there is VRP. Your life could be, and should be, a vacation.

To your "Life, as a Vacation."

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Introduction

What comes to mind when you hear the word *profit*? Some might think of profit as the excess of returns over expenditure in a transaction. In other words, money. There's certainly nothing wrong with that, but another definition of profit is *to be of service or advantage; to derive benefit*.

I prefer this definition. As they say, "Invest in land, because they are not making more of it." To this, I would add, "Invest in time with your loved ones, as they are not making more of it."

There are many investments that can turn a financial profit; there are not many that can provide family memories, adventure, love, and connection. Consider the "profit" of seeing your spouse smile while lying in the sun by the pool, or of your child giggling in delight while taking her first ski lesson. Or how about the feeling you get from the "profit" of regularly having your entire family or group of friends together in your vacation home?

Owning Vacation Rental Property (VRP) makes all this possible and more, including financial gains. BIG financial gains. Having spent two decades in the resort/residential industry, operating within the Hospitality, Development, Finance and Sales and Marketing sectors, I have observed this industry up close, and seen well-intended investors from other asset classes stumble before doing extremely well in VRP. I have also seen the well-intentioned and experienced developers enter this sector and make costly mistakes, sometimes for years, before becoming profitable. I want to help others avoid that initial stumble and assist you, the new VRP business owner, to profitability—in terms of both financial *and* personal enrichment.

In my career, I have known, and know to this day, many private investors who have had their lives changed with this business. Many have quit their jobs, assembled an array of vacation rental homes, and now spend all of their days on vacation. They have transformed their lives into an ongoing adventure in some of the most beautiful, exotic, and interesting places in the world. They get to see their spouses smile and hear their children giggle with delight, all year long.

The traditional paradigm of investing in income-producing real estate was this: the longer the lease, the lower the risk. The short-term vacation rental industry was historically classified as high risk. However, that's changed thanks to a few key factors:

- The exponential growth of this industry
- The addition of technology tools
- Widespread standardization
- The size and attraction power of new short-term rental communities and developers
- The increased sophistication of the vacation rental management industry

The risk of investing in short-term rental properties has been reduced to equal that of long-term leased property. Furthermore, during this maturation of the VRP industry, the income of short-term rental has remained far higher compared to long-term leased property. Residential rental real estate is a solid investment option. VRP is the residential real estate rental business on steroids. With relatively low risks and higher potential profits and returns, the industry has attracted more investors each year.

I have had the unique opportunity to participate in and shape this growing sector. Working for and with organizations like Four Seasons, Hard Rock, Margaritaville Resorts, AECOM, Nicklaus Design, Gensler, Rentyl, World Green Building Council, Encore

Resort, Fairfield Resorts, RCI, and many, many others, I have been doing business daily from the inside of the Vacation Rental Property industry from its days of hotel “rental pools” to its current level of standardization and sophistication.

I have studied most of the tutorials, books, and online content that is currently being offered to the VRP investor. All of these resources are very helpful, and most do touch on the marketing, online booking, and management aspects of your VRP. However, a successful VRP business is more than the marketing and cleaning of a vacation home. There is a massive array of variables in this business. There are many more considerations and many more disciplines you need to master than you may realize if you are to treat VRP as it should be treated—as a business. YOUR business.

The purpose of this book is to act as your startup guide to VRP. Ready to pursue a life of vacations? Let’s get started.

Chapter 1: Defining Vacation Rental Property

Though we will be concentrating on VRP in located in the United States in this book, it can be found everywhere in the world that is attractive to visit. From an exotic place like Costa Rica on the peninsula of Papagayo where you'll find the exquisite Four Seasons Resort, to beautiful Okoboji, Iowa in the American Midwest, you'll meet VRP owners in this book who are changing their lives for the better. You'll learn about investors who pay $1,000 per square foot for stunning homes, but I also want you meet modest investors who started small—sometimes *very* small, as in ice-fishing-shack small—and built from there.

Okoboji is a city in Dickinson County, Iowa, along the eastern shore of West Okoboji Lake in the Iowa Great Lakes region. Only 800 permanent residents call it home year-round. For me, it started as a fun place to go when I was a kid—my parents took me there each summer and rented a cabin right on the lake for a week or two.

What I saw on Okoboji is a great example of an individual with $40,000 or $50,000 or less (or the ability to borrow), who lived right there on the lake, worked in the area, and realized something important: "There's a house for sale next door to me and all these tourists swarm here every summer. Maybe this could be a good investment."

This particularly insightful local, we'll call him Alan, ended up putting $5,000 down and buying the house. He rented it to other Midwesterners for four months out of the year for summer tourism, and then four additional months out of the year for ice fishing and

snowmobiling. (And for two additional months out of the year to watch the leaves change, because why not?)

There's always a time of year for tourism in the Midwest. No matter how crazy the weather is, there's always a reason that some people like visiting a lake. For example, Minnesotans and Wisconsinites *love* ice fishing. At certain points during the season, a lake will fill up with a thousand little ice fishing shacks. Guess what? About half of those are rented by the week—portable VRP! There are people who own and rent out 10 or 20 of them at a time, all winter long.

The opportunities in this business are everywhere.

From One Investment to An Entire Community

Back to our Okoboji friend Alan. He worked at a local factory; his original place on the lake was his family's second home. My family went there one year in the early 1980s, and had such a nice experience we went back to Alan's home every summer. Over the course of many years, we watched Alan buy a second home on the street, a third home on the street, and a fourth home on the street. Eventually he had accumulated 12 homes, all in a nice big cluster.

Alan didn't work at the factory after that. Near his cluster of investment homes, he built a clubhouse with picnic tables outside and a little grocery mart next to it. He also opened a seasonal malt shop for his summer renters. Everybody congregated there.

What did Alan ultimately accomplish, all those years ago? He literally created one of the first VRP communities in the United States. And the remarkable thing is, he did it using a factory worker's income. He lived in the area, saw the opportunity, and bought that first investment property. He marketed his rentals by

sending out mailings and by relying on families who returned year after year. This was before it was possible to market vacation rentals online.

Alan is a good example of a man who had a day job, a working guy who lived near a vacation destination, bought one home, and then started buying more *because it worked*. Where did his ability to buy those additional homes come from? It came from the revenue and the income off of the first home, and then the first and second, and then the third.

He didn't get giant pay raises at any point; he was able to do what he did because of the equity he had in his homes. Alan from Okoboji was able to gain that equity quickly because of the higher revenue off of the rentals thanks to his short-term approach. In other words, he made so much money on that first property in one year that he was able to buy another one the following year instead of waiting five years to purchase an additional investment property.

1.1 What is VRP?

Vacation Rental Property (VRP) is simply the renting out of a furnished house, townhome, or professionally managed resort-condominium to tourists. A VRP is an alternative to a hotel room—a great alternative. Travelers around the world are participating in a massive shift right now, beginning to actively seek out and prefer VRP over hotels thanks to the promise of full kitchens, multiple bedrooms, and great locations in unique properties.

The term *vacation rental* is mainly used here in the United States. In Europe, the term "villa rental" or "villa holiday" is more commonly used for rentals of detached houses in warmer climates. Other terms you might hear (that refer to essentially the same thing

as VRP) include “self-catering rentals,” “holiday homes,” “holiday lets” (this one is unique to the United Kingdom), and “cottage holidays” for rentals in rural locations.

Throughout this book, we will be using the generally accepted term Vacation Rental Property, or VRP.

VRP has long been a popular travel option in Europe (especially in the UK) as well as in Canada. Today, these types of accommodations have become explosively popular across the world. A VRP can range from a small studio apartment in the heart of a city to an amazing luxury private villa in the world’s most beautiful vineyard. Some VRPs charge visitors an ADR (Average Daily Rate) of many thousands per night. These offer all the amenities you would find in any world-class accommodation, meaning they are fully staffed, and offer luxuries such as private beaches, boats, chefs, and even cooking lessons to cater to elite guests.

VRP usually occurs in privately owned vacation properties, so the variety of a visitor’s experience is wide ranging and mostly inconsistent. However, one commonality among every VRP is the property is always fully furnished. The client or traveler arranges to rent the vacation rental property for a booked amount of time, as they would a hotel. Some rent on a nightly basis, although the more prevalent vacation rental industry practice is typically weekly rentals. Farmhouse stays, a unique subset of the VRP concept, can encompass participation on a working farm.

Some vacation rentals, particularly condominiums or apartments, offer many of the same services hotels offer to their guests, e.g., front desk check-in, 24-hour maintenance, in-house housekeeping, and concierge service. Many premier independent resorts that until now have been primarily hotel owned now provide private buyers access to adjacent resort-condominium complexes and entire communities of homes. These communities are now offering daily

vacation rentals through very large Vacation Rental Management companies. Owners of the units within these complexes enjoy a portion of the rental income their property generates. An example of this type of community is the Margaritaville Resort that just opened in Kissimmee, Florida in early 2019.

Traditional hotels generally do not include vacation properties. However, the industry has exploded in the last five years, and as a result, many new resorts are building homes nearby in short-term rental-zoned communities. These resort communities provide booking and services to the homeowners. These homes, villas, and condominiums can be either rented through the hotel/resort or rented out by their owners either directly or through agencies.

VRP v. Timeshare

The VRP market is as large in Europe as it is in the United States, and Florida is a popular destination for VRP stays for Europeans. Consumers unfamiliar with the concept of a VRP may confuse it with the seemingly similar, but distinctly different concept: the timeshare structure.

Timeshare development is running parallel to VRP development, so it is worth mentioning here. The first thing to understand about this model is that it's wildly profitable—*for the developer*. Not for you, the owner.

For those individuals and families who "invest" in a timeshare, they're just buying use time. While some people do have bad experiences with timeshares, the model is actually very popular and growing. Most people who have timeshares are perfectly happy about it. All 14 countries that I have worked in have giant populations of timeshare users. Timeshare development and

investment is not going to slow down. It can be an efficient way to vacation if you use it right, but it's not a hard asset, and it doesn't have the potential of making you wealthy.

What is Your Goal?

With VRP, you get use time of a vacation property free and clear. You're not paying for it at all if you've done it right, because your renters are paying *you*. In addition, that investment is building wealth for your family over time as it is an appreciating hard asset. The goal of any VRP buyer should be to build wealth. Yes, this certainly makes things more complicated. You have to do your due diligence when you invest in a VRP and it's not a hobby, as we will discuss in great detail later on in the book. But it *is* a path to wealth.

If you don't want to even think about building wealth, and if you don't want free vacation time, then yes: go buy a timeshare. You'll pay every year, and your dues will go up over time. Some of these timeshare companies even have a payroll deduction; some of them take money *right out of your bank account*. But a timeshare can make vacation planning a little bit simpler. It's going to save you a little bit every year, meaning your vacations are going to cost a little bit less than they would be if you simply booked a stay somewhere new each time you travel. But you will be limited regarding where you can go and when you can go.

Do you want to pay a little bit more and have no limitations? Do you want to pay nothing and build wealth? Consider the *Rich Dad, Poor Dad* concept put forth by author Robert Kiyosaki: the wealthy buy assets, the poor and middle class buy liabilities. A timeshare is a liability, in the accounting sense of the word. I am not opposed to the timeshare model, but I am not enthusiastic about it, either.

A timeshare can still be made available as a vacation rental should an owner decide to put his or her owned week(s) on a vacation rental program, but the owner of a timeshare week, again, does not own a hard asset.

Vacation Rental Property Statistics

Statistics point to a rapidly growing VRP industry. The global vacation rental market is valued at approximately $169.7 billion in 2019, according to a Research and Markets report. The industry is strongest in Europe and North America, as the awareness of the concept of a vacation rental is widespread in these two markets.[1]

- Technavio's analysts forecast the global vacation rental market to grow at a CAGR of 7.07% during the period 2017-2021.[2]

[1] https://www.smarthosts.org/posts/7BknD8BRg7q9g4L3R/vacation-rental-market-growth-eye-watering-projections Accessed May 15, 2019.
[2] http://www.vrma.org/page/industry-research-data Accessed May 15, 2019.

- Millennials are predicted to spend $1.4 trillion on travel each year by 2020.[3]
- Revenue in the vacation rentals segment amounted to US $106.20 billion in 2017. User penetration was at 6.2% in 2017 and is expected to hit 7.4% in 2021. The average revenue per user (ARPU) currently amounts to US $659.01.[4]
- Most revenue is generated in the United States (US $14,458 million in 2019).[5]

This is just a small sampling of all the available data out there. I'd encourage you to do your own research regarding the growth of VRP in your area. A good place to start is VRMA.org, the industry association for the vacation rental market.

In the Beginning

In the very early years of VRP, cabins on lakes were the standard. This was pre-internet, and you could find these properties in brochures in bait shops. You might also have seen some pioneers of stand-alone rental homes near amusement parks, ski resorts, and certainly on beaches. For the most part, if you had the money to stay in a hotel, you would steer clear of these rentals unless there were no rooms available or no nearby hotel.

In those times, there was no standardization, no online ratings, no way of telling if a particular vacation home was even fit for habitation. Early in the growth of this industry, travelers would avoid these vacation rentals for fear of what industry insiders call SNAD: "Significantly Not As Described." This refers to a property

[3] TurnKey Vacation Rentals Blog (http://blog.turnkeyvr.com via http://www.vrma.org/page/industry-research-data Accessed May 15, 2019.
[4] The Statistics Portal https://www.statista.com via http://www.vrma.org/page/industry-research-data Accessed May 15, 2019.
[5] https://www.statista.com/outlook/268/109/vacation-rentals/united-states Accessed May 15, 2019.

that *looks* like paradise in the photos, only to reveal leaky roofs and blocked views upon the traveler's arrival.

Once the internet was widely in use for booking and accepting payment, another major concern was that people could create false accounts and advertise vacation homes which they did not, in fact, actually own. This led to unsuspecting customers booking and paying for a vacation, only to find on arrival that the rental did not exist. Given that the accommodation was booked and paid for many months in advance, the scammer was able to disappear without a trace, leaving the "customer" out of luck.

A New Paradigm

As the industry grew and online resources became more accountable and sophisticated, the likelihood of this kind of a scam lessened significantly, and business took off. Still, the VRP industry had—and still has—room for improvement. The new online marketing systems can, at times, fall short of total transparency. There still exists the occasional booking based upon beautiful online presentation, only to have vacationers' hopes shatter on arrival as the vacation rental itself falls far short of expectations. Additionally, management of Do-It-Yourself VRP can vary widely in terms of both function and customer service.

Fortunately, with the growth of the VPR-specific resort communities and their powerhouse rental management companies, vacationers now have solid data with which to make their vacation home choices. At the same time, VRP owners can partner with third-party management companies that offer sophisticated screening, booking, and security to protect their vacation home investment.

We will discuss third-party management companies in greater detail later on in this book. I would like to note that whenever I refer to third-party management companies that handle VRP in these pages, I am referring to those that operate using generally accepted best practices, unless otherwise stated. We will explore exactly what these best practices are in Chapter 9.

Regulation and Zoning Issues

In many counties, towns, and cities, local authorities have attempted to regulate or ban vacation rentals after complaints from local residents or competing lodging businesses. In the United States, New York City, Chicago, and other cities have introduced restrictions on short-term rentals, though regulation is not always strictly enforced.

In most American cities and counties, zoning ordinances prohibit any type of lodging business in areas zoned for residential use. In some areas, zoning allows limited lodging use provided they are secondary to the primary residential use of the property. In Los Angeles, for example, the city council passed a law in December of 2018 that restricts hosts to 120 days of short-term rentals. Hosts can also only rent out their primary residence where they spend at least six months a year.[6]

Fortunately, there are now options for VRP owners who don't want to risk running afoul of the law—and want to rent out their properties for more than 120 days per year. With the growth of VRP-specific resort communities, short-term rental zoning is preprogrammed into the area from the start, so homeowners are

[6] https://www.cntraveler.com/galleries/2016-06-22/places-with-strict-airbnb-laws Accessed May 23, 2019.

secure in the knowledge that their investment will always be legal to operate.

1.2 Where is VRP?

Vacation Rental Property can be found wherever people vacation, period. However, some areas will have far more variations and density than others. Chances are good you have some form of vacation destination near your full-time place of residence. It might be a state park, a beautiful lake, or an odd road-side attraction. For first-time investors, my recommendation would be to start there. Remember, a Vacation Rental Property is a short-term rental (four days to two weeks, generally). So, you will need to research the history of the renter demographic in your particular area.

Lakes, rivers, ski areas, beaches, and city attractions that are close to you all are great places for a new VRP investor to get started. These stand-alone locations can be low price, high Average Daily Rate producers. You may even be fortunate enough to be close to a big attraction like a theme park, with a resort and residential community that is zoned for short-term rental nearby. In this case, you will have a stunning array of potential investments from which to choose. These communities will also, as I previously mentioned, have rental management companies that will do the “heavy lifting” part of the management for a contract price and/or percentage of profits, generally 30%.

The growth of this resort-driven VRP business has outpaced all other market segments, and this trend is expected to continue. It makes sense. A community that is designed specifically to accommodate and service short-term vacation renters has many advantages over other locations. Primary is the customer experience. These communities are designed with resort-type

services and amenities built in from the beginning, including a concierge desk, shuttle services to local attractions, room (home) service, and chefs on demand. Inside these resorts are golf courses, tennis courts, water parks, entertainment complexes, and many other attractions. Further, these VRP community resorts are usually located near world class attractions such as theme parks, beaches, ski lodges, etc.

Your VRP business planning should focus first on your customer profile. Wherever you find VRP in which to invest, it should also be a place that attracts the type of renter with whom you are comfortable. Give some thought to the customer profile you would like to serve. Are they families, groups, couples, singles? This will give you an indication of ideal bedroom counts. Is the vacation destination near you a high-end country club, a beach party, or a family location driven by a theme park? This will give you insights into the type of renters you will attract. Is the attraction an internationally recognized brand and is it considered a luxury destination? This will give you an indication of the rental price, and comparable information for forming your purchase strategy.

All of this information (and much more) is necessary to determine your tactical purchasing strategy regarding location. Though customized for the Vacation Rental Property investment type, as in other forms of real estate investment, “location” is still the number one consideration in your investment strategy.

Further on in the book, we will examine the location question more closely. However, I’d like you to remember one very important consideration: you will also be a customer of your VRP. The potential is there to have a financially profitable business *and* a vacation home that will enrich you and your family’s and friends’ lives.

To recap, VRP can be found from beaches to mountains, small towns to big cities, around sports arenas, theme parks, entertainment complexes, national monuments…anywhere that attracts vacationers. But to get the most out of this investment experience, look to the places that you and your family love first. Sift through the financial models, and balance your strategy between financial profit and the "profit" or benefit of time with loved ones.

1.3 Why Invest in VRP?

What other investment can you make where you are able to build wealth, accumulate hard assets, and at the same time utilize those assets for you and your family and friends' enjoyment? Think hard; there are not many. One of the most compelling aspects of VRP investment is personal fulfillment. Whether you are single, married, married with children, young, old, self-employed or a part of the workforce, we all need time off.

Let's take a look at vacations and the impact they have on our lives. The dream, a life of vacations, is in reach. But we should first understand what even a *single vacation* can do for our overall wellbeing and relationships.

Among the many debates swirling around the media each year is whether our nation's leaders should take time off for vacations, and how much time they should take. As it turns out, though it may seem our leaders are being irresponsible when they golf, it is more likely that they are doing the right thing. Everyone needs a vacation.

Not all of us experience stress in the same way, or at the same level in our day-to-day lives. However, we all *do* experience job-related stress. We may face the burden of meeting tight deadlines, making crucial decisions, or managing the complexities of household

demands and parenting responsibilities. Our stress may also include the unease of being underemployed or unemployed.

All adults have lives that are filled with some form of stress, even if we don't fully acknowledge this fact.

Stress can manifest itself in many ways. Chronic stress takes its toll, in part, on our body's ability to resist infection, maintain vital functions, and even avoid injury. When you experience stress or are chronically tired, you are more likely to get sick or remain ill for a longer period of time than you otherwise would. Your cardiovascular health suffers, and you're more likely to make errors in judgment. As a result, you are more at risk for having an accident in your car, at work, or even in your own home.

Your sleep quality will deteriorate and you won't digest your food as well. Even the genetic material in the cells of your body may start to become altered.[7] Stress is a huge factor when it comes to our health and longevity.

When you don't take a break, bad things happen to you, both physically and emotionally. Not only do you become crabbier and more anxious, but your memory gets worse and you make lower-quality decisions. You'll also be less fun to be around. As your friends pull back, you run the risk of becoming lonely and depressed. Stress and overwork create a vicious cycle, one that needs to be regularly broken.

Of course, in the right amount, stress can build strength and discipline. The goal should not be a life completely devoid of all stress. However, continued high levels of stress without a break is not a good thing. Even people who claim to love a busy lifestyle will

[7] https://www.psychologytoday.com/us/blog/fulfillment-any-age/201006/the-importance-vacations-our-physical-and-mental-health?amp Accessed May 15, 2019.

admit there are times when they just want to get away from it all, if only for a short time.

Is this you?

Vacations are the prescription to heal stress-related health issues and to break the stress cycle. We return from a vacation feeling reset and reinvigorated. We gain perspective on our problems, reconnect with our families or with our friends, and get a break from our usual routines. A vacation is a way to wake up and see things in a new way. Canadian researchers Joudrey and Wallace reported that active leisure pursuits (such as golf) and taking vacations helped to buffer or ease the job stress among a sample of almost 900 lawyers.[8]

What other benefits do vacations offer? Plenty:

- Rest and recuperation from work
- New experiences leading to learning and intercultural understanding
- An inner sense of peace or wellbeing
- Personal and social development
- Strengthened relationships with friends and relatives
- Improved physical and mental health
- Increased empathy

Perhaps the most important thing in this list is simply the fact that vacations strengthen our bonds with others. Shared family memories and time spent together—apart from ordinary everyday activities—helps to promote positive ties. Our vacations also help us create a stronger foundation for weathering life's challenges as a team.

[8] https://www.psychologytoday.com/us/blog/fulfillment-any-age/201006/the-importance-vacations-our-physical-and-mental-health?amp Accessed May 15, 2019.

The problem is, however, that vacations can be expensive. For most families, the typical approach is to save for months, or even years, for those one or two magical weeks each year. During this vacation, we are expected to heal from our stress-related conditions and release all the tension we have accumulated through the rest of the year. This rarely works as a total solution. Why? Because in the aftermath of two carefree weeks, we are faced with the reality that we have spent a significant amount of money. Sure, we now have beautiful memories (hopefully), but there is no tangible reward or lasting asset.

Now, consider the VRP method. You purchase a vacation home that earns income, pays off its debt over time, and allows you to utilize it for your vacation. In reality, your vacation accommodations are covered, and the income generated from the vacation rental home builds wealth, pays down the mortgage, and pays for your vacation. And, if you place your vacation home in an exchange program, those free vacations are not limited to just one location. You can vacation in hundreds, or perhaps even thousands, of locations worldwide, all covered by your investment in VRP. This is such a great benefit that it bears repeating: if your VRP is enrolled in a solid exchange program with one of the international exchange companies, your investment allows you to travel the world and stay in other exotic destinations in similar quality homes as your VRP investment.

Generally speaking, the gross income from a vacation rental property will be far higher than a similar property under a traditional long-term rental. Additionally, if it is located in your favorite vacation destination, your investment also allows you free use of your property in a place you want to be, throughout the year.

There are many other reasons for investing in this particular asset, most of which are similar to the benefits derived from a traditional real estate investment. A VRP investment is the purchase of a future income stream from property and can offer several advantages over

other types of investments, including potentially higher returns, stability, inflation hedging, and diversification.

Here are some more key reasons to consider investing in VRP:

According to a recent Curbed piece, in the United States, 42% of vacation homeowners cover all their costs through rental income, 40% have seen increased booking over the last year, and 28% turn a steady profit. According to research from the National Association of Realtors, 19% of home purchases in 2018 were purely investment-based.[9] VRMB.com data show half of the people who have tried vacation rentals now prefer them to hotels. Because only 11% of travelers have tried vacation rentals, there's a lot of growth coming.[10]

Some may argue that the low volatility characteristic of VRP is the result of infrequent real estate sale transactions and property values that are often determined by third-party appraisals, which tend to lag the market. These infrequent transactions and appraisals result in a smoothing of returns. Naysayers will mention that reported property values underestimate market values in an upturn and overestimate market values in a downturn. It is true that the estimates of real estate volatility should probably be adjusted upward—so keep this in mind when you are doing due diligence on a particular property in a particular area.

With that said, however, most investments come with some degree of volatility. Securities markets, as we have seen lately, are certainly vulnerable to sudden, unexpected, and unsettling volatility. One example is the "Flash Crash" of May 2010, when $1 trillion in stock market value was erased in just 15 minutes.

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[9] https://www.curbed.com/2018/10/2/17925738/property-airbnb-vacation-home-short-term-rental Accessed May 15, 2019.
[10] https://www.biggerpockets.com/blog/vacation-rentals-high-profit Accessed May 15, 2019.

In an environment where market volatility is an ongoing issue, the more stable pricing of real estate looks pretty good.

The Value of Real Estate

For a quick primer, let's briefly examine real estate in general against other types of investments. Unlike stocks and bonds, an investment in real estate is backed by "brick and mortar." This reduces the conflict of the fee- or commission-based agent. What I mean by that is when you choose to buy stocks, bonds, or mutual

funds, you're generally at the mercy of the integrity and the competence of advisors and brokers. Even VRP funds, and REITs, which are listed real estate securities, often have regulations that mandate a minimum percentage of profits be paid out as dividends.

A significant feature of real estate investment is the proportion of total return accruing from rental income over the long term. According to Investopedia, over a 30-year period from 1977 to 2007, close to 80% of total U.S. real estate return was derived from income flows.[11] This helps reduce volatility. Why? Because investments that rely more on income return tend to be less up and down than those that rely more on capital value return.

Real estate is also a good option when compared with more traditional sources of income return. The real estate asset class typically trades at a higher return than U.S. Treasuries and looks appealing in an environment where Treasury rates are low.

Another benefit of investing in residential real estate is it helps you diversify. Real estate has a low correlation with other major asset classes. In some cases, the correlation is negative. This means the addition of real estate to a portfolio of diversified assets can lower overall portfolio volatility. In other words, provide a higher return per unit of risk.

I don't want to get too complicated here, but the notion of real estate as a hedge against inflation is worth mentioning. The inflation hedging capability of real estate is based upon the positive relationship between GDP growth and demand for real estate. As economies expand, the demand for housing drives rents higher and this, in turn, translates into higher capital values. Real estate passes

[11] https://www.investopedia.com/articles/mortgages-real-estate/11/key-reasons-invest-real-estate.asp Accessed May 15, 2019.

some of the inflationary pressure on to tenants, thus maintaining the purchasing power of your capital.

However, while real estate has definitely become a popular investment vehicle over the last 50 years, buying and owning brick and mortar can be complicated. Real estate as an investment is, of course, as old as the practice of land ownership itself. A person buys a property and rents it out to a tenant. The owner is responsible for paying the mortgage, taxes, and some utilities. They also cover maintenance of the property.

Ideally, the landlord (you) charges enough rent to cover all of the costs. You may also charge more in order to produce a monthly profit, but the most common strategy is to be patient and only charge enough rent to cover expenses until the mortgage has been paid. At that moment, the bulk of the rent becomes profit for the owner. The property may also have appreciated in value over the course of the mortgage, leaving you with a more and more valuable asset over time. According to the U.S. Census Bureau, real estate in the United States has consistently increased in value from 1940 to 2006. While there was a substantial dip—especially in some locations—during the subprime mortgage meltdown of 2008 to 2010, it has now rebounded and has been increasing again.[12]

If investing in real estate appeals to you, you must first know the market in which you are searching for property or hire an expert to help. When you are seeking an income stream from rental properties, the most important aspects to consider are property location and market rental rates. As for location, most successful VRPs are located in close proximity to major attractions, both manmade and natural. For example, if you buy a property near Walt Disney World, families are likely to want to rent it year after year.

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[12] https://www.costargroup.com/costar-news/details/composite-price-indices-resume-solid-growth-boosted-by-strong-net-absorption Accessed May 15, 2019.

There are many other features of a profitable rental property, and some take time to learn.

There can be, of course, blemishes on the face of what seems like an ideal investment. You can end up with a bad tenant who damages the property or, worse still, no tenant at all. This leaves you with a negative monthly cash flow, meaning that you might have to scramble to cover your mortgage payments. There is also the matter of finding the right property. You will want to pick an area where people will want to rent.

VRP investing is differentiated from general real estate residential investing in that the renter is short term, and pays a much higher ADR (Average Daily Rate). Due to the vacation nature of the rental, the ADR for a residential rental property in the VPR category will be similar, per couple, to the average hotel/resort offerings in the same economic profile, and in the same area. For instance, if you have Marriott property in the same resort as your VRP with an ADR in the $200 rate, and your VRP home has two adult bedrooms (enough adult bedrooms to comfortably welcome two couples) your home will generally rent in the $400 per night range.

Therefore, if your VRP home is averaging 50% occupancy, you will have an average income of $6,000 per month. That is $6,000 per month for a home that would perhaps rent for $2,000 per month if it were leased long term (for one year or more).

That is *triple* the gross income from your investment.

Let's also remember, and I will remind you of this throughout this book, there is another big benefit to VRP: *PERSONAL AND FAMILY USE AND ENRICHMENT*. Say you have a home in a resort located 10 minutes from the gates of Walt Disney World in Orlando, Florida, or close to the Strip in Las Vegas, or on the beach in Costa Rica. If your home is only occupied 50% of the time, earning triple

what it would in a long-term rental, you and your friends and family can use the home the other 50%, free and clear.

What other investment can you make where you are able to build wealth, accumulate hard assets, and utilize those assets for you, your family and your friends' enjoyment? I can't think of a single one.

Imagine the ways you can utilize this home. Instead of staying in a resort or hotel room, your extended family will enjoy the closeness of staying together in a home, cooking and dining together, even leaving the clothes and items needed for your stay in a locked "owner's closet" so you only need to show up and start relaxing.

Higher profits plus personal enjoyment? Now *that* is an investment that truly pays dividends.

Let's go a bit further. Say that after your first VRP investment establishes a good track record, you make a second or a third purchase, or more. As you build your portfolio of VRP, you may find that it becomes your primary source of income. At this point, you are free to spend your time as you wish. This free time allows you to travel, investigate more VRP location opportunities, and grow your business even more.

The possibilities are endless. From beaches to mountains, Vegas to Disney, domestic or international, VRP is the gateway business to a life of wealth building and endless vacationing.

1.4 Who Invests in VRP?

Investing in real estate is a long-term strategy, regardless of whether you're buying a home to live in or a vacation investment

property. Life has changed for vacation property owners because it's easier to turn a profit from vacation rentals than it has ever been before, but it is still a long-term proposition. Ideally, vacation rentals should be bought with disposable income—money you might have spent on hotels can now be invested into a rental property.

A Tale of Two VRP Owners

We can learn a lot from the mistakes—and successes—of VRP owners who have gone before us. I'd like to tell you a story about two gentlemen who happened to buy properties right next door to each other, yet got a vastly different return on their investment. It begins in 2007.

The first VRP owner was the CFO of a Fortune 1,000 company, a well-known retail brand. He visited a property developer's office one day and bought four homes cash, for an average of $2.2 to $2.6 million each. (Please note, this price point isn't standard in the industry; he was shopping at one of the highest-end VRP developments in the country at the time.)

This executive's goal was to use one of the homes and put the other three into a rental pool. Unfortunately, he did no negotiation at the time of purchase—he paid full sticker, as they say. He also looked at nothing in the homes prior to close. He didn't see how they were built. He didn't know about property management, or maintenance, or any of those things, and he didn't take the time to learn. Another problem: this CFO didn't do any of the marketing he needed to do to fill these homes once they became available for short-term rental. Instead, he just left it up to the nearby hotel that was part of the overall development, because the hotel had told him they would keep his properties rented.

This unfortunate VRP investor bought at the top of the market in 2007 when all of the high-end homes on the coasts were going for $990 to $995 per square foot. The homes he had purchased were built for only about $190 per square foot. As a result, they survived about three months of wear and tear. Everything went to pieces. The exterior of the homes didn't hold up because they were located right on the Pacific Ocean and the salt attacked.

Inside, the HVAC had problems. The compressors blew; they were overworking due to high humidity levels. The homes had big sliding doors that opened up the whole wall, and, of course, his renters would leave them open overnight. The interior would go hot, cold, hot, cold. The compressors turned on and off, on and off. They were blowing out like crazy.

He should have had about 12% expenses in his first year of operation. Instead, he had about 78% expenses of his income in that first year. He had to pour money into the houses because you can't rent a home if the HVAC isn't working. You can't rent it if the siding is falling off. You can't rent it if it's got pest-control problems because the whole thing was built out of local wood instead of concrete block or steel.

Compound these issues with the fact that he bought during a period of time when the rents did not continue to increase. What happened in luxury during that crisis period is rents didn't go backward, but they didn't increase every year at three or four percent, either. In the end, the CFO had three properties that were simply not making it—not paying the bills. In the end, he ended up selling the homes for about 60 cents on the dollar.

Now, he was a wealthy individual going into all of this, so he could ultimately absorb it. I'm sure he's still wealthy. But the takeaway here is if this series of events would've happened to anyone else, it would have bankrupted that person.

At the end of the day, our CFO didn't make *one* mistake as a VRP owner. He made a whole series of mistakes because he was used to having other people do things for him. He thought, "I'll just keep throwing money at it." Most VRP owners would not have that option.

A Better Approach

A second guy, a tenured English professor, bought in the same neighborhood around the same time. He negotiated his purchase deal down to about $1.8 million for the same type of home as those in the CFO's collection. He put about 50 percent down on the property, and before he closed on it, he went all over it himself.

As construction progressed, this second investor brought in an engineer. Yes, he spent a little bit of extra money to do so, but it was worth it because the engineer saw to it that all of the design flaws in the home were fixed. This investor had done his homework and knew what he was doing. He knew he wanted block construction on the first floor and steel on the second. He knew what kind of HVAC system would keep up with the climate. These changes did tack on an extra 10% to the purchase price, but again, it was worth it.

The impact of this approach? His operating expenses were around 25% as opposed to 78% his first year.

The second investor ended up buying two additional houses in the development from the CFO. He bought them for 60 cents on the dollar, put in about another $200,000 in them to fix the design flaws, and probably still owns them today.

The second guy didn't have nearly the fire power in terms of money that the CFO had. So, he said to himself, "I'm going to have to use

my brain." He paid close attention to detail and it made all the difference. He said, "I better know what the heck I'm doing here because this could take me down."

A few key takeaways from our tale:

- Spend the money sooner rather than later on your VRP to prevent problems instead of reacting to them.
- Negotiate a better deal when you buy a VRP property.
- Look for construction or design flaws ahead of closing—we'll discuss this in more detail in Chapter 4.
- Consider *where* your property is being built and how the climate will affect wear and tear.
- Think in terms of how renters will treat your property. Those enormous glass doors that open up to the ocean view? You better put alarms on them to bother renters after a minute or two so they have to close them.

In my 15 years in the vacation home industry, I have seen dozens of buyer profiles, from the active startup business people who may lack sophisticated investment experience, to the accredited high-net-worth investor with investments across multiple asset classes, and all the various types of investors in between.

The wonderful thing about VRP is that it is truly an even playing field. With the maturing of this industry comes the wide range of property types, price ranges, locations and amenity mixes. Also, the vacation home booking and management component becomes ever more sophisticated. The reality today is that the services provided to VRP owners from some of the best vacation rental management companies in the world rival the finest hotels when it comes to customer handling, retention, and management of the physical asset.

This is not luck. Growth and sophistication of industry sectors will typically follow the growth of a customer base. VRP usage by vacationers has exploded in the last five years, and this is only the tip of the iceberg.

Following on the heels of the maturing of the VRP management industry comes the developers, with years of research and a product and community that is built specifically for the VRP owner as well as for vacationers. These "ready-made" developments are fertile ground for all types of investors, as the developer builds an array of home sizes and price points to cover the marketplace.

With all of this growth, and the maturing of the industry, the opportunities are endless. Who is entering the VRP business?

- The beginner buyer who is simply looking for a vacation home to utilize with family, and rent out when not in use to "cover costs"
- The investor who is full-time in the business and has the dream of an array of VRP in favorite locations. This owner wants the dream of "Life as a Vacation"
- The high-net-worth sophisticated investor adding another asset class to her investment array
- The corporation looking to purchase a "retreat" property for its own usage, while renting it out when not in use

These are just a few of the investor types embracing this growth industry. If you fit one of these, or fall into multiple categories, or have your own reasons, the door is open. You need only walk through armed with knowledge and a plan.

Chapter 2: The Business of VRP

VRP is a business. Most businesses fail due to lack of preparation, lack of commitment, or both. You need to enter this business not as a casual buyer looking for a little extra money (like the CFO in the previous chapter) or as a passive investor seeking another asset class to explore, but as a business owner ready to do the planning and due diligence that all success requires.

Whether you are a Do-It-Yourself (DIY) VRP owner, or you outsource some or all of your operations, *you must have a formal business plan in place* that includes the launch, management, and expansion of your business. Whether you intend to have only one VRP home to augment your income and provide vacations for your family, or are focused on growing a large array of VRP locations with the ultimate goal of living your life on vacation, the preparation and commitment level is the same.

In this chapter, we will look at the business process and planning that drives all VRP success.

This book is designed to assist you as a guide through most of the considerations that you will need to address with your VRP business. I am pointing out all the ways in which you'll need to do your homework in order to succeed. This book is a good start, but you should drill down deep into what your specific business will need. This means you must take a good look at your financial state, study the various vacations you have taken and wish to take in the future, and be laser-focused on your short-, medium-, and long-term goals.

2.1 VRP is a Business, NOT a Hobby

Investing in vacation rental property isn't a decision made overnight. There are many variables to consider, and many skills to master. Learning more about all of these will help influence your final decision on whether to start a business in this growing industry. I am genuinely enthusiastic about every aspect of owning vacation rental property. I love the fact that investing in VRP offers your family financial returns combined with quality time in beautiful locales around the world. VRP is my business and my passion.

But here is what is it not: my hobby.

You cannot treat a VRP investment like a little side hustle that you're just doing for fun. You also cannot embark on a VRP purchase thinking, "This is a no-brainer!"

To illustrate what I mean, let's take a look at a Canadian VRP investor named Richard. Richard loved to get out on the water, so he and his family spent every year at a fishing lodge in the summer. They rented it, year after year. It was a really nice lodge with about a dozen standalone homes on the property and gorgeous views of a pristine lake.

One year, that fishing lodge converted and merged with a bigger property on the same lake. This new entity had about 50 homes altogether, and they were all put up for sale.

Richard thought, "This is great! We'll do this."

Before he chose to buy this property, the rental operation was completely hands-off. There were no services—you just got a code to a keypad on the door of your little home, and you were on your own. After it was converted, the managers put in a central check-in

location, with someone at a counter. Unfortunately, this was done without a lot of forethought. Basically, someone had tried to create a VRP community but didn't go all the way. They just said, "Eh, *here*. We'll treat all of these little lakes houses like hotel rooms and sell them. It'll be fine."

Richard bought two of the homes. He was able to get residential financing on them, which meant he had about an 85 percent loan-to-value ratio on both of the properties. He bought them at the peak of the market, because to him it was an emotional decision.

Worse yet, the company that took over these properties didn't know how to market itself in the hospitality space. They tried to use a DIY site, and all the owners in the development undercut one another on pricing. So, the amount Richard was renting his lake home for prior to buying is what he *thought* he'd be able to charge others. He did not plan on a bunch of new property owners undercutting one another.

He didn't really look at his two new homes as a business.

The numbers—in terms of what Richard could charge vacationers per week—plummeted to about 40% of what they were when he was renting.

He couldn't pay his debt service and ended up selling both homes at a loss.

By treating this purchase as a hobby, as a "no-brainer," this VRP owner had a bad experience. He didn't do any marketing. He didn't manage the manager of the development; in fact, he didn't *know* anything about the manager at all. He put his two homes on one of the DIY sites like a hobbyist, instead of getting together with the other owners, creating a homeowners' association, and putting strict guidelines in place on how they would price their homes. The

owners in this development also failed to create a reserve for replacement, so there was no fund to pull from when common areas needed maintenance. And they *always* need maintenance.

Yes, this is a cautionary tale. But the interesting thing about Richard is he didn't completely sour on the concept of VRP. When I talked to him and asked, "What did *you* do to ensure this investment would succeed? How could you expect this business to be profitable if you were not managing it?" he actually took a hard look at himself and recognized the mistakes.

A Better Way to Operate

Richard had just left the whole thing alone. He left his VRP to other people who, in the end, were not professional managers. The twist here is it is actually okay to leave your VRP alone if you make good decisions in the beginning. This means doing your due diligence on the management company you choose to work with, for example, and being willing to pay them 30% of your rental income to ensure they take care of business.

I ultimately took Richard over to a paradigm-shifting VRP management company you'll learn more about in Chapter 9, and introduced him to the owner. You could see the light bulbs going off in his mind. He said, "Oh wow. So, there is a lot of work to this." He learned how a professional third-party VRP management company makes your residence yours each and every time you return to it. In other words, when you go to that home, *your* pictures are up. *Your* bed sheets are on. *Your* silverware is there. Everything that makes it personal is put in place before you arrive.

When you leave, all of that personal stuff is collected, put in the owners' closet, and the hospitality items comes out. The bed sheets

with the same thread count in every home in the development or resort. The standard towels, the dishes. A skilled third-party management company transforms from your home into a hotel suite for guests. It provides a high level of service.

Ten years after his failed experiment on that lake in Canada, Richard is going to invest in VRP again. But this time, he'll do it right. He'll manage the manager, and he will learn his business. *Then* he'll go fishing.

2.2 Your VRP Business Plan

One of the most important things you will do before purchasing a VRP is create a strategic vacation rental business and management plan. This should be a disciplined and thoughtful process, and again, it should occur long before you consider making that first purchase offer. Creating a strict business plan will help you examine the risks and set in motion a process before you invest. This will provide an exponential increase in your statistical probability of having success in your VRP business.

Your business plan is your strategic battle plan. It includes a set of rules, goals, procedures, and frameworks that will help you to make decisions for your new business and its future. Not only will the business plan help you define the strategy with which you will run your business, but it will also be a useful tool to refer back to time and time again to make sure you are going in the right direction.

What Should You Prioritize in Your Business Plan?

We know that with so many things to keep in mind, it could be hard to focus on the most important ones. With the VRP industry

growing more and more competitive every day, with more websites opening up and listing your competitors' rentals, you may be looking for that extra edge. Here are some helpful guidelines to follow:

1. Have fun with it. "Do what you love, and you will never work a day in your life," as they say. This is a world of vacationing that you are about to enter. Embrace both sides, the financial profit planning, and the scheduling of the vacations for your family in your vacation home(s). Additionally, you will be speaking with many renters of your home who are looking for that same enrichment that you enjoy in your vacation home. You are, in essence, contributing to maybe the only vacation they get per year. You should feel great about it!

2. You will get out of this experience exactly what you put into it. As in most efforts in our lives, if you make a half-assed attempt, you will get half-assed results. Invest your time in gaining the knowledge, experience and skills that will make *you* grow, as your business grows. If you commit to learning, and invest your money and your time wisely, you will reap the rewards, both financially and personally. You do not need to be better than everyone else, only better than you were yesterday. Make your growth in the business a daily habit. Divide up all the areas of expertise into categories and study something in each one, every day. Like I said, this book is a good primer, but it's only the beginning. If you read only this book and call it good, your experience as a VRP investor will not be as good as it could be.

3. Quality will always outperform quantity. You may get some short-term punch from buying several cheap vacation homes, but in the long run it will cost you dearly. Learn about construction, design, and locations. I have overviews on these subjects in later in this book. Use these primers as a stepping stone to search online to understand the impact of these variables. Purchasing a VRP with

quality construction and design, as well as more durable furnishings may cost a bit more in the beginning, but it is worth it in the long term. This approach will also allow you to save on marketing as renters will return each year to quality, much more than price.

4. Be surgical in your marketing spending, but be aggressive. Again, I have an entire segment of this book dedicated to the marketing of your VRP. Read through it, then get out there and do more research. This area is changing, adapting, growing, and becoming more sophisticated almost every day. If you sit back and continue to go "old school" (depending on last week's tactics in this business), you will be left behind. Remember to pursue the online grassroots of advertising. Your Facebook, LinkedIn, Instagram and all the other social and business media platforms are amazing at branding your business. These will supplement all your paid booking engines and listings. Create the "perfect storm" of presence online and you will have more bookings than availability.

You MUST take the time and put in the effort to write a business plan before you buy that first vacation rental home. This will allow you to truly judge if it is a worthwhile investment and business venture. Additionally, ask the experts: those who already have a proven business record in the vacation rental market in your area. Talk to vacation rental veterans, and experienced vacation rental management companies. The knowledge you will collect from their experience is pure gold.

If you are entering the Vacation Rental Property business for the first time, knowing what to include in your strategic plan can be confusing. I will give you some guidelines to follow, with a list of things you will want to include. I recommend that you follow this template to make it easier for you to understand how to create your own holiday rental management and business plan.

2.3 Executive Summary

Unless you are working within a corporate culture, and/or in the financial sector, you may not be familiar with the purpose and structure of an Executive Summary. Consider it this way: when you go to a bookstore searching for a new novel or a well-known classic, you usually pick up the book and read the blurb at the back to get a short, comprehensive idea of what the story is about. Well, an executive summary is very similar to that blurb. It is just a few short sentences that explain your VRP business, providing the most important information about the business that you want to get across to yourself, your guests, and others. Anyone should be able to read the first page of your plan and have a relatively good idea about what your business entails.

The easiest way to begin an Executive Summary is with the five W's: Who? What? Where? When? Why? This will help you pull together the fundamental information for your business, without panicking that you're missing something.

Ask yourself the following questions:

Who is it for?

- Families?
- Couples?
- Large groups of friends?
- Golfers, skiers, sightseers, other recreation or activity fans?

What is it?

- Is it a condominium, townhome, or attached home?
- Is it a detached single-family home?
- What size is it, and is it low-market, mid-market, or luxury?

Where is my vacation house located?

- The beach, mountains, city, small town, isolated?
- How close is it to tourist attractions?
- Is it near major shopping and event centers?

When is it best to stay at my rental?

- Is it seasonal only?
- Is it suitable all year-round?
- Is it a midweek, weekend, one week, or longer stay?

Why do I have this property?

- Are you buying for all rental or also for your own use?
- Are you buying as a "one off" or are you trying to build a portfolio of VRP?
- Are you buying because it is your family's preferred vacation location, or because it is a good investment, or a balance of the two?

Feel free to add any additional questions that you feel are appropriate for your own business. You do not need to follow this structure exactly, but this exercise will help you outline the information you would need to include in your executive summary. You can then rewrite it to make sure it spells out a short narrative of your executables.

Note: If you are still not sure about the details of your Executive Summary, feel free to do it at the end of your business plan. However, it is a very important part of the plan. Do not skip it or leave it out. You will do yourself a great service to go online and do some searches on everything you read here. Research these areas in more depth. Knowledge is power.

A Sample Executive Summary

Even if you choose to buy a VRP property in a branded community and use a third-party management company, you still need to write your Executive Summary. You should go through the planning process and have a very clear feel for how your property will be used, and by whom. Again, a VRP isn't *just* an investment, and it's not a hobby.

Start by asking, "Who's it for?" It's for your family; it's for you; it's for your future; for all of those things. But there are two sides to this thing. The second part is to consider, "Is this a one off or is this a part of a business I want to grow?" You may not know the answer to this question at the beginning, but it doesn't hurt to ask anyway. Don't go into VRP saying, "I'm just going to do one. We don't need to worry about all these details, or do all that much planning. We'll just make a few extra bucks."

It doesn't work like that. A successful VRP investment requires focus, planning, and attention to detail. Why not force yourself to spend some time and think things through? I encourage you to say, "Hey, this is the first one, and it's going to go so well that I'm going to do 20." Thinking big like this opens your eyes to the mindset you need to have, which is: "Oh, I better give this some thought."

Again, begin with the question, "Who is my customer? Are they me? I love this place because it's close to Disney. I love this place because it's got an incredible, world-class golf course. I love it because it's got a water park. I love all of these things, and my kids will love it, and when they grow up, their kids will love it, too. *You* are your first customer. Invest in the places you love. Is it the Grand Canyon? Is it ski resorts? Is it a tropical island? Great. Begin there.

2.4 Company Analysis

In this section, you will review the characteristics of your new vacation rental business, outlining the unique attributes and offerings it will bring to the existing market. Performing a short analysis of your company and finding your unique selling points is much easier than you think. All it takes is asking yourself a few simple questions to figure out how it is you're different (and better) than other rental properties out there.

Here are a few examples:

Is your VRP better than others because of its location?

- Is it closer to the beach, mountains, or manmade attractions?
- Is it located near vacation amenities, services, retail?
- Is it isolated and serene, right in the hustle/bustle, on a great lot, or offer other desirable location characteristics?

Is the price of your accommodation better?

- Are you the cheapest accommodation around?
- Are you the best value?
- Do you offer discounts at certain times of the year?

Are the interiors of your property different or better than the rest?

- Have you designed and decorated to create guest retention?
- Are there special themed rooms, a pool area, a game room, a hot tub, a spa-like bathroom, etc.?
- Is the design linked to the guest profile in the area, family vacation, groups, golf, skiing, beach fun?

2.5 Industry Analysis

For your VRP to be consistently profitable, you'll need to be strategic and competitive in your company management plan. Again, do your homework! Dig into the most current industry data and trends for your region or area. Know the industry from a macro perspective, then drill down to the micro. Study other similar businesses to yours, look at and evaluate their strategies. You do not always have to reinvent the wheel. Sometimes the model is out there and you only need to follow an experienced VRP investor's example. Of course, you'll want to tweak that example a bit to fit your personal situation.

One of the ways to do this is by carrying out an industry analysis. This is basically looking at other businesses in the industry and evaluating them. Doing so will help you craft your own successful business strategy and make sure you're the owner who comes out on top.

Here are some sample questions that will help get your industry analysis started:

What is the average daily rate (ADR) of VRP similar to mine in the same location?

- Would you class it as affordable or good value?
- Is it low-market, mid-market, or luxury/ultra-luxury?
- Think about the figures you come up with in relative terms, weighing the value of what the business is offering against the price they charge. This will help you start to price competitively.

Who is their target audience and clientele?

- Families?

- Couples looking for a romantic, quiet break?
- Students and school groups who need large but basic accommodations?

Are they luxury units or more basic rentals?

- Are they professionally decorated, upmarket rentals in the most expensive parts of your area?
- Or, are they simple, modest holiday home rentals that even students could afford?
- Do the rentals tend to fall on one end of the price range, leaving a gap in the middle of the market that you could fill?

What websites or agencies do they use for bookings and advertisements?

- Are all of your competitors advertising on Airbnb, TripAdvisor, etc.?
- Do they collaborate with local tourism agencies?
- Are they all missing out on a popular, fast-growing booking website that only you know about?
- Are they DIY managed, or do they utilize a vacation rental management company?

2.6 Customer Analysis

Your revenue is based upon your guests. That's why it is so important to understand these individuals and families, and target them properly. In your plan, be sure to create different personas based on the types of guests you want to attract. This is a profile of your ideal customer, from their age to their income. You should try to make it as detailed as possible because this will help your business grow later on.

These customer personas will be used time and time and again in all aspects of your business to help you achieve more bookings.

People say that the customer is always right, but if you truly get to know your customers and what they want, you can make sure that you and your business are always right, too. A customer analysis is basically just getting to know your customers, what they want and what they need from a rental property and a vacation.

Here are some short, key questions you should be asking yourself about your ideal guest:

What's their name?

- John? Jane?
- It may seem a little silly to give a name to a fictional person, but it will bring your customer analysis to life and really help you properly flesh out the guest persona.

What do they do for a living?

- Is he/she a high-flying banker?
- Is he/she a medical professional?
- Is he/she involved with a local school?

What is their age range?

- 18-25
- 25-40
- 40+

Do they have a family?

- No, they are single
- Yes, only one child
- Yes, several children

Keep going with questions like these until you've built an entire profile of the person, which will then help you understand their personal beliefs, values, and spending habits.

If you fail to prepare, you prepare to fail! By doing this planning, you'll be able to understand things like common complaints you will face, likes and dislikes your future customer will have in a property

rental, and amenities travelers will expect to find within the property.

TIP: a good CRM (customer relationship management system) can do wonders as you gather information and contacts. I recommend Hubspot.com. This powerful tool also has a robust education component that centers on sales and marketing, two things you can never learn too much about.

2.7 Competitive Analysis

While you are focusing on your own VRP, one element of your business plan is carrying out competitor research. Take a look at the market to find your direct competitors and analyze them to see how your business can thrive. Competitive analysis is a similar idea to industry analysis, but this time you're going to really focus on your immediate competitors rather than the industry as a whole.

For example, if your VRP is a beautiful, tranquil cottage on a tourist island, your direct competitors would be other accommodation providers on that island. With a competitive analysis, you want to look at all of the people who may win a booking over you and use what you find to put yourself on top.

How much are my competitors charging per night? If you are at $250 per night, look for similar comparables.

- Competitor 1 – $225
- Competitor 2 – $250
- Competitor 3 – $300
- Using this information, you may decide to drop your prices below $250 to become the cheapest option amongst your competitors and increase your booking rates.

Do they offer airport transfers/pick-up service?

- No
- Yes, but for a very high price
- Yes, and for a reasonable price

Do they offer a wide range of amenities in the house?

- No, most don't even offer Wi-Fi
- Yes, some offer basic things like a washing machine and television
- Yes, all offer basic amenities and some even include luxury amenities (like a swimming pool or gym)

2.8 Operations Plan

The operations plan is a detailed summary of how you are going to run your new business on a day-to-day basis. It will take into consideration things like whether you will be hiring any staff, what standards and policies you will set, how you will keep track of inventory, and other administrative duties. This is going to be one of the most straightforward parts of your business plan, as chances are good you already have most of this planned in your head.

Here are just a few helpful prompts and examples in case you get stuck:

Am I going to hire any staff?

- No, I'm only renting out one room in my home, which I can handle myself.
- Yes, I'm renting out several large apartments and I have a separate, full-time job.

- No, my partner and I will do the work together.

Who is going to clean the rentals between guests?

- A cleaning agency
- Myself
- A neighbor
- A family member

Do I need to hire an accountant to help me handle the finances and taxes associated with my business?

- No, I'm comfortable dealing with all of those things.
- Yes, I don't know the first place to start when dealing with taxes or business records.

Who will deal with bookings and customer complaints?

- Me. With only one home, it will be very manageable.
- I will hire an assistant to help with all of this administration stuff; I won't have time.
- My daughter/son. It will be a good part-time job for them and give them an allowance.
- To keep things simple, I will use software: a vacation rental booking system and channel manager tool like the one at lodgify.com.

2.9 Marketing Plan

Present (to yourself) the vacation rental marketing strategies you will be deploying. Think about both online and offline marketing, as well as any campaigns or promotions you plan to run externally. Your marketing plan should cover how you'll advertise your

business to customers and how you'll generate bookings. This is when your customer persona will really come in handy. If you know the people you're trying to target, you'll know what websites they use and what type of marketing will be suitable for them.

Your marketing strategy can be diverse. For example, you could use several online marketing strategies like Google Ads, listing your property on different rental websites, or creating your own website. You can also use offline strategies like leaving flyers or business cards at local tourist attractions or networking with event planners in your region.

Here are some questions that can help you sketch out your marketing plan:

What methods of online marketing will I use?

- I will just list my bookings on one travel website, because that is enough for me.
- I will have my own, personal vacation rental website. My site, my rules!
- I have several properties to rent, so I will list them on several websites to increase traffic and booking numbers.
- I will pay for Google Ads or Facebook Ads in my local area.

What methods of offline marketing will I use?

- None, online marketing will be enough for me.
- I will print flyers and leave them in local tourist offices.
- I will give each guest business cards and ask them to recommend me to friends and colleagues.

Do I have a website?

- No, I don't want/need to create one.

- No, but I want one! I need to hire someone to create one for me or try a professional website builder.
- Yes, I have one, and I'm going to hire a Search Engine Optimization specialist to help me increase the number of visitors I receive.

Do I need business cards?

- No, I don't need any.
- Yes, I have them but I probably won't use them.
- Yes, I need them and I'm going to use them as part of my marketing strategy.

2.10 Distribution Plan

Websites like Expedia or TripAdvisor are referred to as OTAs (Online Travel Agency), which in the industry is a fancy term for the middleman between you and your guest. For all new hosts, presence on OTAs and listing sites to get bookings is a necessary piece of your operations puzzle.

Your distribution plan should consider which channels you'll be advertising on, how much they'll cost you, and how you'll manage them. A distribution plan will help you understand how you're going to advertise your business to generate bookings, and it will help you identify what websites you want to have a presence on to help your visitors to your area book a stay with you.

Here are some helpful example questions that should get you started writing a distribution plan:

Which OTAs do I want to list my property on?

- Just one?
- Every OTA that is available?

How much will this cost me?

- Is it free?
- Do you have to pay monthly to list on these websites?
- Do they take a commission off bookings you'll receive from that website? What is the rate?

Are there any tools available to help me manage all of this?

- Yes! I plan to use a channel manager.
- A channel manager is basically a tool that you can use to make sure all of your bookings, dates and arrangements remain in one place, so you don't get overwhelmed managing calendars from several different OTAs you're using.

When I do get a booking, how will I receive the payment?

- PayPal
- Bank transfer
- Via the OTA I'm using
- Cash/card payments directly from guests upon arrival

2.11 Revenue Management Plan

In this section, you'll have to include information about the rates you plan to charge for your vacation rental. Additionally, plan to include any details about pricing or yield management tools you will

use. When running a holiday rental business, you need to keep on top of your income, expenditures, and general overall finances.

My recommendation is to purchase and deploy a VRM Software Solution. There are a lot of tools and software out there to help. To start, I have some quick questions to cover the basics of your revenue management plan to make sure your accounts and business stay well in the black:

How much will I charge per night?

- Fixed price: $_____ per night
- I'll use smart pricing, increasing the amount during busy periods.
- I'm still undecided.

What level of taxes will I have to pay to the city, state, and federal government?

- 12%?
- 20%?
- I'm not sure; I need to research this before writing my revenue management plan.

What will my utility bills be?

- Water is $20 a month.
- Trash collection is $30 a month.
- Internet and cable are $100 a month.
- Electricity will vary depending on how many guests I'll have.

What will my staff costs be?

- Nothing, I'm doing all of the work myself.
- Low, we have a family work philosophy.

- High, I'm going to hire a cleaning agency, a marketing specialist, a website developer, etc.

What's my target monthly income?

- Under $10,000?
- Over $10,000 to $20,000?
- Over $20,000?

2.12 Financial Plan

This business takes significant investment. Give some thought to your startup costs and how you will pay for them. We are not talking about the cost of the VRP itself. This plan will focus on the cost of the operations. Of course, you've asked yourself this question many times, "How am I going to afford this rental business?" Will it be self-financed or are you planning on taking out a loan? The answers to these questions form your financial plan. As we all know, money doesn't grow on trees. Write down your estimates of expenditures and projected income for the first five years of operation.

TIP: If you are not adept at spreadsheets, I recommend that you get a course online on Excel Spreadsheets. This will be a powerful tool for you going forward.

As with anything in life, proper budgeting and planning your finances will prevent any stress in the future, and it will mean that your business is ready to thrive.

So, what kind of information makes up a financial plan? Here is a list of questions to start:

Will I need to take out a loan?

- No, I'm just renting out an existing property with everything ready to go.
- Yes, I will need a small loan to renovate this property.
- Yes, I will need a substantial loan to purchase the property/land where I'm going to build my rental.

What will the interest rates be?

- ____%?
- Terms?
- Variable?

Do I have savings I'm ready to invest into this?

- I don't want to put my savings into it.
- Yes, I have a small amount that I'll use for redecoration.
- Yes, I have lots of savings that I've been keeping for a project like this.

What level of monthly loan payments can I manage?

- None, my business has only a small income, so I don't want to take a loan.
- $_____for a small loan?
- $_____+ for substantial mortgage repayments?

2.13 Key Milestones and Business Future

Write down explicitly what your plans and goals are for your business, plus the key milestones that will help you achieve these targets. When you start any project, whether it is going back to

university, losing weight, or starting a business, it is really important to track your project and also to track your progress. This section will be useful to refer back to, to ensure you're on the right track. After all, if you don't set any goals, it might be easy to remain where you are.

For your rental business, here are some good milestones. Determine answers to these questions before you begin:

- How much do I want to make per month?
- How many guests do I want in the first quarter?
- What rate of growth do I want in my bookings year-on-year?
- How many returning clients do I want each year?
- What percentage Retention Rate year-on-year should I achieve?
- How long before I look for my next purchase?
- What annual increase in ADR do I want to achieve?

Chapter 3: Your Business Entity

When you are forming your VRP business, its legal structure is one of the most important practical decisions you will make. Each type of VRP business structure has its own pros and cons, and each of these impacted by your business size, the number of owners and employees you plan to have, and other variables, such as the state you call home.

Each state passes its own business structure formation laws and the requirements for forming a particular type of business vary from state to state. I would encourage you to speak with an attorney who specializes in VRP prior to purchasing your first property.

3.1 Sole Proprietorships

The simplest type of business structure is called a sole proprietorship. Most sole proprietorships are small businesses that have one employee, the owner. Forming a sole proprietorship is usually easy. In fact, in many states it requires no special action at all.

Two major benefits of structuring your business as a sole proprietorship are simplicity of formation and taxes. Since there usually are no formal steps required to form a sole proprietorship, there is no cost involved. Owners of sole proprietorships simply include their business income on their personal income tax returns. Sole proprietorships do not offer any legal protection to their owners. This is a problem if you are the owner of a VRP, as you'll have renters and you will be liable for their safety.

For sole proprietorships and general partnerships, unless a DBA (Doing Business As) form is filed, the business name is the same as the owner's name. To open a business bank account, however, most banks require sole proprietors to have a DBA name. You may also find that potential VRP guests and vendors feel your business is more legitimate with a DBA.

For example, Jerry Schultz runs a landscaping business as a sole proprietorship. To do business as Schultz's Landscaping, he must file a DBA for that name. Otherwise, he must do business as Jerry Schultz. The main purpose of a DBA filing it informs the public as to who really owns the business. The filing generally is made at the county level, but some states require the DBA filing to be done at the state-level, or in addition to filing at the local level. In some states, the filing is effective for a limited number of years and must be renewed. Corporations and LLCs that wish to do business under an assumed name are also required to make a public filing.

Advantages and Limitations

The main advantage of doing business as a sole proprietorship or partnership is that it is less expensive and easier to run than a corporation or LLC. Sole proprietorships do not face the same ongoing formalities (such as forms) and requirements that corporations or LLCs face. There are no annual reports to file. There are no fees to pay to the state, no required annual meetings, etc. However, depending on the type of business, as a sole proprietor, you may still need business licenses and permits. Here is an additional review of the advantages:

- **Ease of creation**
- **No state paperwork**
- **No separate tax filing**

- **Few ongoing formalities**

The main disadvantage is the business owner (or owners) is liable for the business' debts and obligations. This means that you, as a VRP owner, would be vulnerable to having your own personal assets seized should a renter choose to sue you and win in court.

Why Choose a Sole Proprietorship?

Sole proprietorships are usually formed by accidental entrepreneurs and new business owners beginning a business without really intending to start a company.[13] As soon as you have revenue, you have a business. With a sole proprietorship, there is no state filing to begin the business—and there is no separation between the assets of the business and those of the owner. Again, if you are operating as a sole proprietor, your personal assets, including your home, can be used to satisfy business debts and liabilities.

3.2 Partnerships

Let's say two or more people want to start a VRP business together. They can form a partnership. There are several types of partnerships. This includes general partnerships, limited partnerships, and limited liability partnerships. Joint ventures have some aspects of partnerships. Control exerted over the business, the amount of money contributed, and legal liability varies depending on which type of partnership is formed. Most states require partners to register their business with the state to form a partnership.

[13] https://www.bizfilings.com/toolkit/research-topics/launching-your-business/planning/understanding-the-requirements-of-business-ownership Accessed May 16, 2019.

Partners should formalize their relationship in a partnership agreement, which is a contract that addresses the main aspects of the business, such as:

- How it will be run
- How profits are split
- What to do in the case of dissolution

Unless your partnership is formed as an LLC or a corporation, the advantages and disadvantages are similar to those of a sole proprietorship.

3.3 Corporations

There are generally two types of corporations: C corporations and S corporations. Larger businesses with multiple employees are often structured as C corporations; most smaller businesses choose to organize as S corporations. The main difference between the two is how taxes are paid. C corporations are taxed as independent entities, whereas the income of an S corporation "passes through" to the individual tax returns of its owners.

A corporation is a separate legal entity. It is formed under state law. The corporation owns the business and all of its assets and properties. The shareholders own the corporation. The main advantage of incorporating is that shareholders are not liable for the business's debts. Instead, the corporation is liable. This structure might be the right business type for your VRP if you want:

- Venture capital for financing
- Flexible profit-sharing among owners
- Company earnings to stay in your business so it can grow

- Flexibility to spread the VRP rental revenue between the corporation and shareholders for tax-planning purposes
- Flexibility to set salaries for employees/owners to minimize taxes.
- Flexibility to provide (through the corporation) substantial health and medical benefits and other benefits
- To be able to sell your VRP business with ease at some point in the future
- To provide an accountable plan for travel and entertainment of clients
- To be able to offer employees stock options

Tax Differences

Once you've incorporated your business, you have to decide whether it should be taxed for income tax purposes as a C corporation or an S corporation.[14] A C corporation (C corp) gets its name because it is taxed under Subchapter C of the Internal Revenue Code. The corporation is a separate taxpayer, with income and expenses taxed to the corporation. If corporate profits are then distributed to the shareholders as dividends, the shareholders must pay personal income tax on the distribution. This results in double taxation of profits. As a result, many small businesses do not opt for C corporation tax status.

You can decide to have S corporation status instead by filing a form with the IRS (and with your state, if applicable) so profits, losses, and other tax items pass through the corporation to you and any other shareholders and are reported on the shareholders' personal tax returns. The S corporation is taxed under Subchapter S of the Internal Revenue Code. It does not pay tax. Not every corporation

[14] https://www.bizfilings.com/starting-your-business/incorporation-options Accessed May 16, 2019.

qualifies to be an S corporation. There are restrictions imposed by the tax law on the number and type of shareholders for an S corp, for example.

While a C corporation or C corp is the most common corporation type, it isn't always the top choice for small business owners. C corporations provide limited liability protection to owners, called shareholders. This means owners are typically not personally responsible for business debts and liabilities.

C Corp Advantages

C corporations are more flexible than S corporations. For example, there are more options as far as the number of owners (shareholders) they can have and who can be an owner. That is one reason why C corps are often the preferred business type for venture capitalists when they provide funding to a business. Keep in mind, however, that corporations face the most extensive and ongoing formalities of any business type. Corporate formalities are steps and precautions that the business must take to ensure it remains legally distinct from its owners.[15] This means that C corporations must adopt and regularly update bylaws, hold and properly document annual meetings of directors and shareholders, and more.

Starting a C corporation provides the following advantages:

- **Limited liability protection**
- **Unlimited owners**
- **Easy transfer of ownership** through the sale of stock

[15] https://www.legalmatch.com/law-library/article/corporate-formalities-checklist.html Accessed May 16, 2019.

- **Unlimited life:** When a C corporation's owner dies, the corporation does not cease to exist.
- **Salaries** paid to owners of C corporations are deducted from C Corp profits for income tax purposes.
- **Tax advantages:** Unlike pass-through entities like LLCs, earnings of a C corporation are only taxed to owners if distributed as dividends.
- **The ability to raise capital.** Money can be raised by selling shares of stock.
- **Retained earnings inside the business.** A C Corp can retain earnings for reasonable business needs, if it complies with the accumulated earnings tax provisions.
- **Credibility:** C Corps may be perceived as a more professional/legitimate entity than a sole proprietorship or general partnership in the eyes of your VRP guests.
- **Lower audit risk:** C corporations are audited less frequently than other business structures.
- **Tax deductible expenses:** Business expenses may be tax-deductible. This is big for a VRP owner, as running a VRP typically comes with many expenses.
- **Self-employment tax savings:** A C corporation can offer self-employment tax savings.[16]

Articles of Incorporation (sometimes called a Certificate of Incorporation) must be filed with the state and the necessary filing fees paid to register a VRP business as a C corporation.[17] When they are formed, C corporations are required to adopt bylaws, hold an initial meeting of directors and shareholders, and issue shares of stock to owners.

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[16] https://ct.wolterskluwer.com/resource-center/articles/c-corporations-offer-advantages-and-disadvantages Accessed June 27, 2019.
[17] https://www.bizfilings.com/toolkit/research-topics/incorporating-your-business/what-are-articles-of-incorporation Accessed May 16, 2019.

With three steps, starting a C corporation with any online business filing site is easy. I suggest you meet with an experienced attorney and/or accountant to complete this step for your business. And remember, your VRP is a business.

3.4 LLCs

There is another business entity type that is formed under state law and provides personal liability protection: an LLC, which stands for Limited Liability Company. An LLC gives its owners (who are called members) greater flexibility than a corporation in deciding how it will be managed and how financial interests will be split. An LLC is similar to an S corporation in terms of taxes because it is a pass-through entity. The business income and expenses of the LLC are reported on the personal tax return of its member(s).

If you are the only member of an LLC, you will report your LLC's income and expenses on Schedule C of Form 1040. This is the same schedule used by sole proprietors. If there is more than one member, the LLC is taxed like a partnership. An LLC can also choose to be taxed like a C corporation by filing a form with the IRS. If it qualifies, it could also be taxed like an S corporation.

Tax Differences Between an LLC and a Corporation

Although LLCs and S corporations are both considered pass-through entities for federal income tax purposes, they are not taxed identically for all purposes. For example, they are affected differently when it comes to employment taxes. The main thing to note here is tax laws are complex and change frequently. Consulting with a trusted tax advisor will be necessary regardless of which business

structure you choose for your VRP operation. We will return to this topic in Chapter 7.

To form an LLC, Articles of Organization must be filed with the state and the applicable filing fees paid. LLCs must file annual reports and pay applicable annual report fees.

LLC Advantages

An LLC provides limited liability protection to its owners as owners are not personally responsible for business debts and liabilities of the limited liability company. As a result, creditors cannot pursue owners' personal assets to pay business debts. Here are a few more advantages to consider:

- **Pass-through taxation:** Income and losses are reported on the owners' personal tax returns.
- **Flexibility in allocating profits among owners:** LLCs offer owners flexibility in allocating profits and losses among various owners.
- **No ownership restrictions:** LLC ownership is not limited to a certain number of owners the way an S corporation is. LLCs typically have no or very few ownership restrictions imposed.
- **Flexible management:** Limited liability VRP company owners have flexibility in structuring company management.
- **Fewer ongoing formalities:** LLCs have less annual paperwork than C corporations and S corporations. They do not face the meeting requirements of corporations, either.

- **Credibility:** Forming an LLC may help your VRP business be perceived as a more legitimate business than a sole proprietorship or general partnership.[18]

3.5 Business Entity Recommendations

Think about all of the things that you pay for with your home. From debt service to maintenance, to everything you buy to decorate your space to the cleaning supplies, the lawn mower, the gas for the lawn mower. Every single thing you do with that home, every single thing is an expense-able item when it becomes a VRP. *This* is why you create the corporation. Now, you are set up to see great cash flow but operate at a loss because of all that stuff. It is a great tax position to be in.

From a tax perspective, your VRP is a business with a lot of tax-deductible items—a giant array. Now, would you like to manage and keep track of all of those items yourself? That can get pretty complicated. But when you work with a professional third-party management company, you'll have a report handed to you at the end of the year: "Here. You can use this for your taxes."

It is not wise to operate your VRP as a sole proprietorship. I simply added sole proprietorship to this chapter so that maybe people will look at it and go, "Oh my God. I'll never do that." I've lived in 14 countries, and nobody puts anything in their name when they're buying property. It's just common. In Costa Rica, when you transfer a piece of paper, there's no title. None. Instead, you sign over the shares of the corporation that owns that piece of property. It's done

[18] https://www.bizfilings.com/starting-your-business/business-types/limited-liability-company Accessed June 27, 2019.

in five minutes. There's aren't all these closing costs and things like there are in the United States.

If you own something in your own name, you are putting your financial future at risk. Why? Because if somebody trips over something and hurts themselves on your property, they can sue you. It is much better to have it in a corporate name. This gives you another layer of security.

The question of type of corporation is completely determinant on what you're purchasing, and with whom. For example, there are eight golfers who want to buy a home together. They want the greatest golf home you can build. It's three floors high, and it's got a golf simulator in it, and they want to use it for four months out of the year. Then, they will rent it out for the remaining eight months of the year to other groups of golfers. They want to be very specific about who their rental goes to, and they're all prepared for it.

They're going to have a completely different corporation or a partnership—a corporate entity—then a husband and wife would have. A skilled lawyer will help them draw up an agreement that dictates, for example, if the individual eight owners will be able to sell to an outside party. Or if they have to sell to somebody on the inside, or if they'll have to have committee approval for it. There is a pretty wide array of ways of structuring your business entity, from LLCs to corporations to LPs. Talk to an attorney, an individual who will be a key part of your VRP team.

3.6 Group Investment

There's a distinction between a group investment and individual (or family) ownership of VRP, and it's relevant to this chapter of the

book because when you embark upon a group investment, you'll need to be very careful when you set up your business structure.

What happens with group ownership is this: the typical buyer is a family looking to have a vacation home and rent it out when they are not using the property. In some cases, they can't afford the property they want to buy. However, they don't want to back off of the quality, size, or desirable location. Some people want privacy, they want higher quality finishes, they want a more expensive home, and they want a better cap rate.

Also, this particular family may be aware of the fact that in the luxury market, the economics of running a VRP are better. Owners can sustain a lower occupancy level and have a higher average daily rate, which allows you to weather crises and bad seasons. Plus, the economics of renting out a luxury home, which is anything a million dollars and up, simply work better. With that lower occupancy rate comes a lower overall level of wear and tear expense. As a result, the owner or owners have more pure net income. You're not grinding the house away to meet some form of cap rate. Plus, you've got a nice home, in a nicer community, and nicer amenities, and nicer services for your family to use. So, buying a luxury home is often a better call.

Since a single family might not be able to reach that $1 million purchase price number, they call up their aunt, or they call up their brother. Once that happens, you've got the power of two families. It's all a question, after that conversation, of what kind of vehicle the group will use for ownership in terms of business structure.

If you are interested in group ownership, you'll need to plan on having many conversations and meetings with an attorney.

That said, group ownership might be a great option for you. What you all get out of that is your family will use this property two

months out of the year and the other family will also use it two. So, two families will use it three to four months out of the year. You still have over 50 percent of the time to devote to short-term rental occupancy. Bottom line is it allows your families to reach a better quality of product to use, and a better quality of product for resale.

Of course, setting this up correctly and thoughtfully in terms of business structure is the key. It can go wrong for the same reason that any real estate investment can go wrong: death, divorce or disaster. If you have a death in the family and ended up in the wrong corporate setup, you may be facing unanswered questions such as, "Who does that property pass to? Are they as participatory with our family as the original family member was? Are they as collaborative or not?"

Sometimes, people get into a battle. One of them wants to sell it; the other one doesn't, but the particular kind of vehicle they've set it up in doesn't allow it or has a first right of refusal, perhaps, by the other owner to purchase it. Then there could be a battle about price, and value, and it escalates. You get egos involved. Nobody will battle like family members. Conflict can also happen with people who reach out to partners who are not related to them.

I've seen it happen where the legal costs are so high that both parties just liquidate the home at a loss when cool heads would have made things happen flawlessly with such ease.

Any time you get a group of people together—two, three, four, five—problems can happen. So, it's very important on group sales that when you enter into a buying agreement, you enter into it under a corporate vehicle that provides for every contingency:

- Divorce
- Death in the family
- Disaster such as job loss or significant property damage

- Debt

You will need that layer of safety and security for the shareholder (stakeholders) in whatever that corporate vehicle may be. Once you get this step right, you eliminate the potential of something terrible happening. The worst that can happen is you sell your share and you're not making income anymore, and you can't use it anymore.

Don't think of a group investment as a partnership. Think of it as a business entity with stakeholders. Anything can happen.

Group investments can work out beautifully. I recently worked with a group of eight golfers who wanted to purchase a VRP together and have now formed a corporation. It's the right type of corporate vehicle that fits the contingencies that they see happening. They've gone about it like a business investing in a hard asset. They have hired an expert to write a policy of rotational use over an eight-year period. It gives them all equal benefits every eight years; they can deviate from the set schedule by exchanging with each other. They have also worked with the general manager of the hotel associated with their VRP community to tie particular tee times to certain times of the year. The hotel benefits from this level of planning because they get guaranteed revenue ahead of time for their golf courses.

Here's another example: I recently met a group of four families that were here in Central Florida on vacation. They're looking at $300,000 to $400,000 condos. Just for fun one day, they walked through a $1.8 million home with eight bedrooms. They just loved it. The kids were running around, going back in the park. It fit them so perfectly. So, they asked me, "Can we all buy it?" I said, "Yes. Just make sure you get the right kind of legal advice on it."

Those four families together were able to get debt on the property of about 70%. In this particular case, they'll need a down payment of

around $400,000. So, each family has to come up with $100,000 instead of one of them coming up with $400,000 in cash. That's a lot more reachable for people. Also, most people individually wouldn't qualify for a loan of $1.4 million, $1.5 million. Four of them together do qualify.

They're all getting what they want. They're all going to use it a month out of the year, and that leaves 66% of the year that this beautiful home can be rented. They all have now an asset that they can use, and they're using it for free because it pays for itself, and they're all making some income. It's paying down its debt. Who knows? Maybe they will go over to Las Vegas and do this again, or maybe they will find a beach somewhere that they all love. They'll say, "That worked the first time. Let's do this again." This could also form wealth for all of these families. It doesn't have to be done solo.

One person or family could be a member of many different partnerships. You don't have to do it with the same team every time. What you're going to see going forward, I think, are buyers' clubs for VRP.

Chapter 4: Your Product

4.1 Go with What You Know

What are your vacation interests? Are you a beach person or a mountains person? Or both? Do you prefer nature, or the hustle and bustle of a big city? Do you enjoy gambling, golf, or both? At the very beginning of your journey to financial freedom with VRP, you need to take a close look at what you do for fun, and at what kind of vacations you love. This will determine much of your focus for entering into this amazing lifestyle.

Remember, the ultimate goal here is that your vacations *become* your business. Utilizing vacation exchange programs, you will be trading time in your Vacation Rental Property for time in homes available in thousands of locations around the world. These are vacations, yes, but they are also your search process in finding your next VRP purchase. The path you are taking is to build up Vacation Rental Properties in a collection of destinations you love, and to create the wealth that allows you to "live a life of vacations."

What does this mean? Well, if you are currently getting up every day to go to a job that you do not enjoy only to pay for your home, car, and life, are you really living? You hammer away, day after day, saving what's left over of your salary after expenses, so you can take that once or twice a year vacation doing what you really love. In essence, you work 48 weeks at something you do not enjoy, to spend four weeks doing something fun. Why not spend your life doing what you love, in destinations that you relish, 52 weeks per year?

Additionally, are you *really* vacationing right now? A truly inspiring and fulfilling vacation is one where you explore something new, the

sweet surprise of an unexpected experience, a new love. With only four weeks a year and limited money to spend, you often repeat the tried and true vacations. You do not want to take a chance as this is the only time you get in an entire year.

With the VRP lifestyle, you will have the freedom to experiment with new destinations, to try new activities, to take a chance. Not all of these experiences will create a new love, but *what fun to try!* This begs the question, if you truly had unlimited time to take vacations, would your destination and activity choices be different? Of course, they would. In addition to making time for all the things and places you love you would devote additional time to seeking out new experiences in new and more exotic and exciting locations.

Today, it's the lake in your state, your favorite golf resort or beach, or that trip to Vegas for a few days. With VRP, the world is yours. There is a lifetime of locations to try, and a lifetime of vacation homes to buy.

4.2 Existing v. New Construction: An Introduction

Let's talk about buying an existing VRP or having a home built for you. A previously owned home may need fix-ups, paint jobs, and walls moved around to create the types of open spaces that make sense today. Whether you want an existing VRP or a new construction VRP is a baseline question that confronts many VRP business owners early in the process.

Your own answer is likely to depend on your lifestyle preferences, financing needs, and the priorities you put on features like high energy efficiency, functional arrangements of interior living spaces, and your desire, budget, and aptitude when it comes to repairs and capital improvements.

There are a number of reasons you might prefer a resale house, even if it needs work. For instance, you may have your heart set on moving to a specific neighborhood in a city or a close-in suburb, where newly constructed houses are rare or not available unless you buy an existing property, tear it down, and build a new home on that lot. Or, you may be a do-it-yourself aficionado and embrace the opportunity to take an old house and transform it, even if the process takes considerable time and money.

It's understandable that some buyers prefer an existing VRP in an older neighborhood. But I would encourage you to seriously consider the potential advantages of buying new. Here's a quick overview of some of the new construction points to think about:

Energy Consumption/Green Building

If you care about the money you spend on energy bills every month or are concerned about the environment, a newly constructed home is virtually always the better option. Homes built today must meet far tougher national code standards for energy efficiency than those built just a few years back. Most newly built homes come with energy certifications. These may cover walls, roofs, windows, doors, and appliance packages. Virtually no resale homes offer certifications because they were built to much lower standards decades ago.[19]

You can retrofit many elements of an existing house to improve its energy efficiency, but doing so is costly. Even then, because of design shortcomings, you may not be able to achieve the level of efficiency that is now routine with a newly constructed home. In

[19] https://www.proptiger.com/guide/post/heres-why-you-should-pick-a-new-construction-over-resale-property Accessed June 27, 2019.

addition, new homes typically offer better air filtration, which increases indoor air quality, reducing symptoms for those who have asthma or allergies.

Flexibility for Space and Wiring Customization

When you buy a resale house, you get what's already there. That may include room layouts, ceiling heights, and lighting that may have made sense in the 1950s or earlier. You'll often see formal dining rooms, small kitchens, fewer bathrooms, and smaller windows. With a new home, you can often participate in the design of interior spaces with the builder before actual construction even begins.

Plus, many new homes come with the sophisticated wiring that is needed for high-speed electronics and communication equipment, entertainment centers, and automated security systems. With an older home, you may have to spend substantial sums of money to take down walls. In some older homes, removing walls is not possible because some will be load-bearing walls that are not easily moved. If you seek the flowing, more open living space that is preferred today, new construction is a better option.

Replacement Costs

By definition, with a new house everything is new, including costly components such as the furnace, water heater, air conditioning unit, kitchen appliances, roof, doors, windows, plumbing, and more. In a new home, most of these components come with a warranty, sometimes good for up to 10 years. With a resale house, the equipment and structural features you buy have been in use for a

while and may be close to needing replacement. There may or may not be warranties, but if they do exist, they probably have significant limitations.

Consider some of these typical capital improvements. These may be part of the true cost to you during the early years after the purchase of an existing house:

- **Heating and Air Conditioning:** The typical furnace has a 20-year life expectancy; the typical central air system, 15. According to Remodeling Calculator, replacing these two items could cost you $4,100 for an air conditioning unit and $3,675 and up for the furnace, depending on the system you choose.[20]

- **Flooring/Carpeting/Tile/Hardwood floor refinish:** You're almost guaranteed to have to replace some carpeting in a resale home. You may need to upgrade other flooring or finishes as well. Costs can run anywhere from a few thousand dollars to well over $15,000, depending on your choices.

- **Roof:** The average shingled roof lasts about 25 years. Replacement costs can be anywhere from $5,000 to $15,000.

- **Exterior Painting.** You get to select the color when you buy a new home. With an existing house, there's a good possibility you'll need to repaint, particularly in tropical climates where stucco is popular. Typical cost: $5,000 and up.

[20] https://www.remodelingcalculator.org/remodeling-costs/ Accessed May 20, 2019.

- **Interior Painting:** You choose the wall colors of the rooms as part of the package. With an existing house, you're probably going to want to repaint some of the interior so your vacation home looks welcoming and fresh in online photos. It will cost money and time even if you prefer to do it yourself.

- **Kitchen Remodel:** Plan on a total cost of $20,000 to $40,000.

- **Master Bath Remodel:** $15,000 and up.

The bottom line is this: although you and your budgetary resources control what you improve and when, it's highly likely that you're going to spend money on at least several of these capital improvements in the early years following purchase of a resale house. They are the unadvertised costs of not buying new.

Newly built homes also come with modern fire retardants in materials such as carpeting and insulation, unlike most existing houses. Builders hard-wire smoke and carbon monoxide detectors into their homes, making it unnecessary for new owners to install less-dependable battery-powered detectors. Many builders also back up their hard-wired detectors with battery power to handle electrical outages.

Mortgage Financing

VRP builder-developers often have mortgage subsidiaries or affiliates. As a result, they are able to custom-tailor financing to your specific situation. Down payments, "points," other loan fees, and even interest rates can be adjusted to meet your needs.

Many are also willing to work with you to help offset closing costs at settlement by building these costs into your loan. Sellers of resale homes may be willing to offer contributions to settlement charges, but they won't have the leeway to come up with the exact loan you need, like a bank or mortgage broker can do. When you finance a resale purchase, you are on your own. You'll read more about this topic and hear from an expert lender in Chapter 7.

Resale Value

You may plan to enjoy your VRP for many years, but at some point, most people will sell a given property for any number of reasons. You may want to move to a bigger property to accommodate a growing family, move down to a smaller option when children are gone, move to a different location based on your changing interests, etc. While the VRP you sell will (by definition) no longer be new, a five-year-old VRP will often be more desirable given all the features above than a 25-year-old property at resale.

The decision to buy a newly built or used VRP is ultimately best made by each home buyer. Now you know the questions to ask, and the relative costs involved, in order to make the best decision for you.

Some people hate hand-me-downs; others prefer properties with a history. When it comes to housing, new construction has the never-been-touched attraction factor, while existing homes have stories to tell. For every advantage of buying newly built and existing VRP, there's a flip side. For example, newly constructed homes tend to cost more than similar pre-owned homes, sometimes as much as 20 percent more. But they are initially less expensive year-on-year in terms of maintenance and utilities.

As you weigh whether to buy shiny new construction or a charming pre-owned VRP, here are some more factors to consider:

Additional Benefits of New Construction

You'll get the exact floor plan you want. If you choose a custom-built VRP, you'll work with the contractor to create a traditional or modern layout that works for your family and for your future renters. Want a formal dining room for family gatherings? Done. But remember, your personal tastes may lead you to poor marketability as a rental. Always consult the local rental management companies as to what is renting and the latest trends in VRP layouts and design. Builders, especially in planned resort communities, tend to stick with exterior design styles and finishes that appeal to the broadest range of vacation renters. This will be an advantage going forward for your VRP business.

Timing is on your side when you buy new construction. It generally takes five to 12 months to build a single-family detached VRP, and six months to build new condos. This will allow you to feel less rushed than you would competing with bargain shoppers of existing vacation home construction. However, if you're building a custom VRP, it could take several months longer to close than an existing property. This varies by market and builder.

Modern layouts in new construction homes generally feature wide-open floor plans, which has been the norm for nearly 20 years now. Kitchens open into family rooms and dining areas so you can cook, visit with family members, or watch the game at the same time. Bedrooms and bathrooms in new construction homes tend to be larger and brighter. They offer lots of natural light, which is all important for your year-on-year retention. The most luxurious VRP

offerings have an en suite bathroom for each bedroom so no one has to share.

Another benefit of new construction VRP is personalization. You can usually upgrade finishes from builder-grade materials if you work with the builder before construction is completed. When it comes to VRP, adding your own personal touches is probably worth it in the long run, because it's these touches that will make your property feel more welcoming and special to guests. You will also be able to work with the rental management company during this process, if you are utilizing one. Vacation rental management companies will have a very strong data on style and finish for your home, in the community in which you build.

Again, brand new VRPs are more energy efficient and "green" than older properties. New appliances and home systems use less power in a newly built home. In addition, more efficient insulation and windows create homes that are less expensive to heat and cool. The result of all of this is, of course, lower utility bills. "Smart" technology is great for VRP, because it allows you, the owner, to automate internet, cable, speakers, and even an alarm system. New homes often use low- and zero-VOC (volatile organic compound) paints and building materials, improving indoor air quality. Your guests expect a healthy environment that won't exacerbate their allergies, so this is an important consideration.

A newly built VRP requires less maintenance than an older one, as all appliances, the HVAC system, and the roof are brand new. This means you can better predict monthly and yearly operating costs. Warranties from the developer or builder can protect your new VRP for years before you'll have to invest in major repairs.

Buying a new construction VRP often means buying into a resort community with the kinds of amenities guests will expect, like parks, pools, restaurants, and in some cases, even water parks.

However, keep in mind the landscaping may take time to mature in a new development. Existing construction is usually surrounded by mature trees that shade the home in summer, protect against wind and storms, and block out traffic noises. Your guests will experience an existing home with mature landscaping differently than they will experience a new home. Mature trees may be installed at new building sites, but often the landscaping takes time to grow into itself.

4.3 Architecture

Architectural styles of homes run the gamut and often are misnamed in VRP communities. It is not important that you actually become an expert in this topic. However, it *is* important that you understand and can recognize the architectural influences within your community and your VRP specifically. This is your product at its core, and as a business owner, you should understand

it and be able to describe it. This is an interactive process. When reading this section of the book, please Google these basic architectural styles, look at a variety of images, and observe the characteristics within each style.

Here, I will review the basic architectural styles prevalent in North America. Of course, there is overlap in design characteristics from one style to another. Think of this is an interesting and fun learning experience. As you become familiar with these styles, you will no doubt begin seeing them in your day to day movements. It will give you an entirely new perspective on the homes you see each day, even in your own neighborhood.

Pay special attention to the predominant style in the area where you are considering investing in VRP. The style of the home within the styles in the area will impact your business from marketing to retention of renters in subsequent years.

Adobe Revival

Adobe is also known as mud brick, which is a building material made from organic materials like mud and is among the earliest building materials used around the world. Adobe homes and buildings are popular in the Middle East, North and West Africa, West Asia, South and Southwestern America, Spain and Eastern Europe.

Thousands of years ago, adobe had been used by the indigenous tribes of America, specifically in the Southwestern part of what is now the United States, Mesoamerica and South America, especially in the Andean region. Before the introduction by the Spanish of making the bricks, Pueblo people used to build their adobe houses with handfuls of clay. Adobe bricks vary in size from the dimension of an ordinary baked brick today to sizes of one to two yards. The

rooms in these traditional structures measured eight to 10 feet and the structures were terraced and multistory.[21]

Keep in mind that in hot and arid climates, stucco-clad adobe walls tend to be fairly long-lasting. However, when located in colder, wetter climates, adobe bricks can shrink and swell. This can cause the protective stucco to crack or pull away from the interior wall. Plan to do minor patches or a complete resurfacing to prevent serious moisture issues if you purchase this style of VRP. Also, cracked stucco can be a sign of foundation problems.

Beach or Tidewater Houses

Beach, seaside, or tidewater houses are often raised up on stilts and are built specifically for oceanfront or marshy locations that sometimes flood. This style of home is perfect when you are enjoying a vacation and want to have a place near water or even in highland areas. Tidewater houses are found all over American Southeastern coasts and are ideal for hot and wet weather.

The wide porches typical of this style are constructed of wood and are the perfect spot for hanging up a hammock. The main living area is generally raised in one level and features a lot of light and an airy feel. This style also features wide eaves and waterfront space.

Bungalow

Bungalows originated in India. Traditionally, bungalows are long, low buildings with wide verandas and attics. Early on, roofing was made of thatch and was changed into fireproof tile later on. It was secured with an insulating air space to prevent tropical heat.

[21] https://www.homestratosphere.com/home-architecture-styles/ Accessed June 27, 2019.

In the 1870s, builders of English seacoast vacation houses built in this style. 1880 saw the rise of bungalows in America, specifically in New England. Southern California also embraced this popular style, which has some overlap with the Craftsman style.[22] Look for big fireplaces, exposed beams, and built-in furniture.

Cape Cod

The Cape Cod style was created after colonists from England arrived in New England and modified an English House hall and parlor house to withstand often stormy weather. These featured steep roofs and big chimneys. After a few generations, several versions of the Cape Cod style were created. One- and two-story Cape Cod homes were made with wooden clapboards, shutters, or shingle exteriors. Dormer windows and cedar shingles are commonly seen on Cape Cod homes. Moderately priced housing developments built after World War II favored the Cape Cod style.

Colonial

Borrowing from European influences, the Colonial style began in 1600. Several European immigrants brought these influences to America and made the Colonial style distinctive.

Colonial houses were further developed during the Colonial period in U.S. history and were marked by a love of geometry and symmetry. The first design consisted of two-story homes with only one room on each floor. This style later grew into four-over-four two-story homes, meaning there are four rooms on each floor of the

[22] https://www.homestratosphere.com/home-architecture-styles/ Accessed June 27, 2019.

house. This layout characterizes the Colonial style today, with many variations.

Contemporary

Contemporary homes are popular modern-era houses built during the 1960s to 1970s. The hallmark of this style is its large plate glass windows and either metal or concrete building materials. Contemporary homes are generally decorated with the natural look of wood or stones and some geometrical shapes like rounds and rectangles throughout.

Contemporary designs are generally asymmetrical in form. Natural lighting is key and comes in through large windows and sliding doors. This style rejects ornamentation; instead, it features clean and smooth textures and lines, within the home itself and in terms of landscaping and furnishing. Look for large doorways and open plan interiors. You many also notice industrial touches, from steel finishes to creative and streamlined modern furnishings. This style can be very eye-catching in online VRP listings.

Craftsman and Contemporary Craftsman

Many homes built between 1905 and early 1930 were dubbed Craftsman, which is the American version of the Arts and Crafts movement from England, which was a reaction to the alleged soullessness of the Industrial Revolution. This movement place high value on handmade crafts as well as raw and natural materials, offering a contrast to what the Industrial Revolution stood for.

Exposed beams and rafters are present. There is also generally a dynamic connection between the interior and exterior spaces of the

home via porches and terraces. The Craftsman faded in popularity, then made its trendy comeback in mid 1980s.

Today, many homeowners want a mixture of Craftsman style with other styles. This combination is now called "Contemporary Craftsman" and embraces simplicity. Natural materials will always play an important role in this style. Contemporary Craftsman homes generally feature shingled siding, stone details, overhanging beams, cozy living spaces, built-ins, rafters present in open porches with projecting eaves, and a deep gable roof.[23]

English Cottage

This is typically a small old-fashioned house and consisted of a simple space with a ground floor and bedrooms that fit inside a roof space. In today's present era, a cottage refers to a modest and cozy property, typically built in either rural or semi-rural areas, often on a lake. In the United Kingdom, the word *cottage* signifies a traditionally built small dwelling, though it may still be incorporated with modern projects resembling traditional styles, known as mock cottages. In the United States, the term *cottage* is frequently used to refer to a small holiday home.

Farmhouse

A farmhouse is a building or structure which serves as the main residence in agricultural or rural areas. Historically, this type of house was commonly mingled with animal space known as a housebarn. There are farmhouses that are connected with more than one barn to form a courtyard.

[23] https://www.homestratosphere.com/home-architecture-styles/ Accessed June 27, 2019.

Today, farmhouses are enjoying new popularity among vacationers. Style characteristics include horizontal siding, shutter, and a wide porch that stretches along the house's front area and wraps around either side. The roof of the house is typically steeply pitched and runs along the house's length. It is sometimes decorated with gables and dormers.

Federal Colonial

Federal Colonial, also known as Federal or Adam, dominated the American architectural landscape from 1780 to 1840, then evolved into the Georgian style. This style commonly uses plain surfaces with tempered detail such as isolated panels, friezes, and tablets. Also, flatter and smoother facades are common. This style sometimes features pilasters or pillars.[24]

Florida

Florida architecture is a wooden frame style house widely built around 19thcentury in the state of Florida, in the United States. Common characteristics found in a Florida home are metal roofs, large porch areas that wrap around the house, raised floors, and straight or conventional central hallways from the anterior to the rear portion of the house. These hallways are sometimes referred to as shotgun or dog trot hallways.

The Florida style is popular for VRP as northerners flock toward the sun in winter. Some of the popular examples of the Florida house are the Bensen House in Grant, Florida, Plumb House in Clearwater, Florida, and the Winchester Symphony House in Eau Gallie, Florida.

[24] https://www.homestratosphere.com/home-architecture-styles/ Accessed June 27, 2019.

Log

A log house, or log home, is structurally the same as a log cabin made of unmilled logs. The reason why “log cabin” is not typically used as a term by contemporary builders is because it would generally mean a smaller or extra rustic log house, like the summer cottage or the hunting cabin with only one to three rooms. Traditionally, log homes were built with no nails.

In large regions of Finland, Norway, Sweden, the Baltic states, and Russia, the most common building technique is log construction. In these areas, straight and tall coniferous trees like pine and spruce are abundant. This building style is widely used in the Alps, the Balkans, Eastern Central Europe, some parts of North America, and some parts of Asia.

Log homes are most often found in rural or remote settings and climate impacts the kind of wood that can be used to build them. This is a popular VRP style in ski resort areas.

Mediterranean

The Mediterranean style home is influenced by the sunny countries found on the Mediterranean Sea. The major contributors to the Mediterranean style house classic design are the Italian and Greek styles. This style also borrows some concepts from Spain and is sometimes labelled Spanish Modern. The features that define a Mediterranean house include arches, porticos, heavy wooden doors, landscaping and decorations in the interior as well as exterior, and walls that are often constructed with stucco. Sloping red roofs are usually covered with tiles. Walls are white or painted in sunny neutrals such as salmon, peach or yellow.

Modern

Modern architecture arose after World War II and became the dominant architectural style during the postwar period. It has now been popular for many decades. This style developed from the Industrial Revolution and new technologies and materials. Modern architecture can be seen as a reaction to the Victorian era and Art Nouveau's details.

Early Modern architecture examples include Paxton's Crystal Palace in London, which made use of iron, and Frank Lloyd Wright's Unity Temple in Chicago, which made use of concrete. Function is paramount to this style, which is popular in today's VRP.

Mountain

This style features a rugged outer surface such as wood siding, shingles, or even logs. There are also wide levels and outsized windows for nicer views. Inside, open layouts and lofts are common. An example is the Greystone Inn, which has operated since 1985. It was built to look like a Swiss mountain chalet that was completed in 1915. The original structure features a kitchen, free standing library, and pools.

Ranch

Ranch-style homes are referred to as American ranch, California ranch, rancher or rambler. It is a local architectural style that originated in the U.S. and is known for its lengthy, dense ground profile and minimalistic character. A ranch-style home uses few interior or exterior decors. These houses fuse modernist concepts with working ranches to create casual and easy-going living spaces, often with attached garages.

Ranch style was a very famous building style for post-war middle-class families from the 1940s to the 1970s, thought it developed years before, in the 1920s. Its popularity faded in the late 20th century as the neo-eclectic house style became more popular.[25]

Shingle

Many of the homes of this design can be found in popular vacation locations including Martha's Vineyard, East Hampton, Nantucket, Rhode Island, Cannon Beach and parts of New Jersey. There are different types of shakes. In North America, they generally will use California Redwood, Atlantic White Cedar and Western Red Cedar. Shakes are split while other types of shingles are not.

Spanish

Spanish architecture, just like other styles, is not just about the structure itself. This style is also a means of communication and connection with a particular environment or landscape. Community values are mirrored within the Spanish style of architecture, which is common in houses of worship.

Spanish-style homes frequently feature thick stucco walls, red tile roofs, and enclosed courtyards that extend occupants' living space. It's also common to see small, open windows, exposed beams, and tile flooring with this style.

[25] https://www.homestratosphere.com/home-architecture-styles/ Accessed June 27, 2019.

Southern

Southern architecture is best known for its antebellum period, which mean pre-Civil War. This neoclassical architectural style found throughout the Deep South in the Southern United States rose from the birth of the American Revolution and was common until the outbreak of the American Civil War.

Georgian, Greek Revival, and Neo-classical elements such as large pillars and porticos characterized this style in homes and mansions. The people of British descent who resided in the Southern states throughout the colonial period and in U.S. regions after the Louisiana Purchase introduced the features associated with antebellum architecture.

Traditional and Tudor

Both of these styles have the same front gable and large chimney. However, traditional style homes are scaled back, typically featuring a lower roof pitch and less elaborate detailing. It was popular in the 1940s and early 1950s. Common throughout the U.S., traditional homes are combinations of other styles, yet there are basic features traditional styles always have, like a hipped roof and stucco exteriors. Single-level floor plans are common in traditional styles and these usually come with a steeper roof pitch, lofts, covered porches, and open foyers.

The Tudor architectural style was medieval architecture's final development during the period of Tudor reign in 1485 to 1603. What we typically refer to as a Tudor style home is technically Tudor Revival architecture that developed during the 19th century in England. In today's time, Tudor homes are made from brick and/or stucco with ornate half timbers exposed on the house' exterior and interior. The roofs are steeply pitched, which is ideal

for rainy or snowy climates. There is often rubblework masonry and long rows of casement windows.

Tuscan

This is the traditional architecture of Tuscany, which is located in central Italy. Some of the building materials generally used in Tuscan style buildings include stone, wood, wrought iron, and tile. Tuscan architecture is rustic yet stylish and is mainly suitable to its original Mediterranean location. It features simple, clean lines and designs.

Tuscany's traditional building techniques utilize locally available materials like limestone and shale, which are best in forming walls and foundations. Many of its buildings were used for generations, with extensions and additions. In this way, antiquity is visible in this style.

Victorian

Victorian houses were designed and built during the reign of Queen Victoria, from 1837 to 1901. This was during the Industrial Revolution, when several Victorian houses were built and are the current defining feature in most of the towns and cities of Britain. Victorian era homes followed a wide range of architectural styles. Beginning with classicism, Regency architecture, Italianate style, and Gothic Revival Style, Victorian houses were often ornate and made with terraces, brick, and local stone.[26]

[26] https://www.homestratosphere.com/home-architecture-styles/ Accessed June 27, 2019.

4.4 Design

While the design process for your VRP will be very similar to the design and interior work of your primary home, there are a few things you can do on the design side to make your VRP feel more like an amazing vacation.

Vacations are supposed to be an immersive experience. Think about it, you probably had a very different set of expectations for a vacation spent sunbathing on an island than one where you went skiing and spent nights by the fire. The clothes you wear, the food you eat, and what you see in your vacation home surroundings all add together to give you the feeling you're removed from everyday life.

Interior design plays a big part in this feeling. While I am not saying you have to go over the top, your location *should* play a role in your interior design. At the very least, it should be a consideration. You may want to look at other vacation homes in your area for design inspiration. So, if you are living on the beach, you would want coastal decor to fill your vacation home. It's the same thing for your mountain getaway home, or your fine city dwelling. This adds to the overall vacation experience. For example, if you own a cabin in the mountains, a seashell pattern or piece of artwork would detract from the experience. Instead, take advantage of the area's great antique shops and furnish your property with log beds, cozy quilts, and woodsy colors. Make a connection with where you are. Themed bedrooms (princesses, pirates, coral reefs) can be great for guests if your VRP is near a theme park.

While function should always be a consideration when you're putting the rooms in your home together, it's even more important in a vacation home. Keep your future guests in mind when it comes to design. Consider adding more beds than you typically would so you have the ability to host larger parties.

If have a big budget, and your target market for renters is the affluent, go all out. Build each room around materials like real wood, granite and marble, or high-end quartz or granite. Invest in high-quality furniture that will stand the test of time. Then, be sure to finish off the look with wall art and accessories. If you're working with limited funds, you can still make design decisions that will give your home a higher-end feel. There are finishes available that can give spaces a fresh and luxurious look, such as metal hardware upgrades.[27]

Consistency among all rooms is key and is one of the first principles designers learn. Be consistent in your design choices to ensure your VRP feels like a resort to your guests. This is not the time for a different color scheme in each room! Instead, pick a color palette that can be used throughout the entire property. As always, remember the 10-30-60 rule. Here's how it works: 60% is the main color for your room, meaning this color will cover most of your walls, large accent pieces like area rugs, and maybe the couch. This color anchors the space and serves as a backdrop. Next, 30% is the secondary color used for draperies, accent chairs, bed linens, painted furniture, or one accent wall. Finally, the accent color is 10%. This color should appear on throw pillows, decorative accessories, and artwork.[28] Neutral shades and subtle hues are a good choice for a VRP.

Make sure to carry your themes, or threads of these themes, throughout the decorative elements of each room in your VRP. The items don't have to be identical, but they should work well together. Pick one decorative style and stick to it, as this will give you guidelines that you can follow throughout your home.

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[27] https://freshome.com/designing-a-vaction-home Accessed June 27, 2019.
[28] https://www.thespruce.com/timeless-color-rule-797859 Accessed May 20, 2019.

Whenever possible, include a professional designer in your team. Whether you contract them to fully design your VRP, or engage them to consult on a more limited basis, you need expertise in this area. You wouldn't review legal documents without an attorney, so do not make the mistake of blindly doing interiors without an expert. The cost will be lost revenue, higher maintenance and repair costs, and lower retention rates.

That said, I do want to add a caution about paying for the same design you happen to see when you tour the model home in a new VRP community. In this case, the designer doesn't really change anything for the buyer yet still charges $50k. I recently met a VRP buyer who loved a model home and wanted a $240k furniture package that was really only worth half that. Ask questions. Don't just walk in, say "I love it!" and pay for things you don't need.

VRP Furnishings

Buy furniture and items that are easy to clean. Look for a happy medium between furniture that looks good but also holds up to wear and tear, items that are comfortable but not things that you will worry about. A vacation home is there for you (and your guests) to relax in. If you are worried about getting the furniture dirty or having to clean it, then you aren't as relaxed as you want to be.

Buy good quality furniture, but do not buy top of the line items. You are going to have to replace the furnishings in your vacation rental home more often than you would in your primary home. For that reason, it's best to buy the least expensive furnishings you can that still look nice. Buying furniture online is a great way to get nice-looking pieces that are in your price range. This approach gives you many more options then at your local furniture store and offers the

convenience of having your furniture items shipped directly to your house is a great thing too.

Focus on comfort. Your guests go on vacation to relax and feel great. Make sure you have a place for them to read a book or watch TV. Give them a place where they can be very comfortable while listening to music or playing a video game. Futons and wicker furniture may be slightly cheaper than regular couches, but are less comfortable.
Make the master bedroom a place where you and your spouse or partner would love to spend hours of comfortable time in. Buy a king-sized bed, a rug for the floor. Fill the room with great furniture. The other rooms can be more geared to sleeping the maximum number of occupants. Sleep on every bed in your property yourself to ensure it is comfy. Bunk beds give you more sleeping options without taking up more space. You want your vacation and your friends and family's vacation to be remembered for fun and comfort.

Next, keep your furnishings consistent with your rental rates. If you charge rental rates on the higher end of the spectrum for your area, your renters will expect a certain level of luxury in your furnishings, linens, appliances, and entertainment options. However, if you market your property towards families with kids, there’s no need to put high thread-count sheets on the bunk beds.

Make sure your furniture is kid friendly. Have games stacked in the closet, and have furniture that is ideal for card playing. Game rooms are a great idea for a vacation home.

Don’t forget to take new photos and update your listings every time you paint, change furnishings, or make improvements. Vacationers choose to rent VRPs in lieu of hotels because they like to have the

conveniences of home. They expect a second home to be as nice or nicer than their own house.[29]

With new construction, there are typically furniture packages that have been assembled by dealers and designers that fulfill the aesthetic, utility, and durability requirements for VRP.

Lighting

Interior designers are being challenged to create unique and memorable interior spaces for VRP. Lighting plays a fundamental part in this. In the VRP world, lighting designers must blend product style with total suitability for VRP use. They also keep in mind the latest energy saving technology, value engineering to hit a project's budget, and the features which a discerning guest notices, likes, and wants to come back to.

The guest experience should always the focus point at the end of the product design process. VRP designers know guests want lighting which blends ambience with ease of use to suit the increasingly multi-functional nature of VRP.

Just like all the other products which go to make up a successful interior space, lighting products come with their own set of design considerations:

- Where is the lighting going?
- What has it got to do?
- How much (or how little) does it need to say?
- How important is light output?
- How can it be unique and on trend?

[29] https://www.everythingfurniture.com/furnishavacationhome.html Accessed June 12, 2019.

- Can it be built with the quality levels required?
- What is the budget?

It's important to get the blend right between embracing that new technology while ensuring it fits with the overall look and demands of a particular property. For example, LEDs provide efficient lighting solutions. However, designers and VRP owners need to be sure this option gives good light output with the right color temperature.

Sometimes lighting needs to be inconspicuous and barely noticed by a VRP guest. Other times, great lighting products can be the focal point for an entire interior design scheme or exterior pool deck. It is all about the bigger picture to create a space with wow, function, and style that will appeal to your guest for many years to come.[30]

Coastal Design and Maximizing Your Space

By speaking with experts in all facets of this industry, you'll begin your VRP purchase and design journey miles ahead of everyone else and be better able to successfully position your product in a crowded marketplace. I want to make this it easy for you, so I'm including some advice from my friend Tamera Christensen, Design Coordinator at Encore Resort in Reunion, Florida near Walt Disney World.

"When I started in my current role, there were many dark finishes, colors and furnishings in the models," Tamera says. "There was a seriousness to the assortment and I knew I wanted to lighten it up. I wanted the finishes to have a more contemporary look with a

[30] https://www.chelsom.co.uk/news/behind-design-considerations-inspirations-influencing-lighting-product-design/ Accessed June 12, 2019.

coastal design aesthetic that a possible renter in Minneapolis in the dead of winter would long for—a look that reminded them of laying by the pool and enjoying the nearby beaches."

To accomplish this goal, Tamera changed out the entire assortment, and worked with a local furniture provider to develop new furniture packages that would complement the more contemporary materials. Materials transitioned into more white cabinets and lighter tiles in more contemporary sizes. Her team brought in quartz countertops, options for hard flooring surfaces throughout the home, a new exterior color palette, and a much larger pool selection.

Tamera also advises new VRP owners to focus on the fun factor in their homes: game rooms, theaters, and memorable outdoor spaces. Allow space for more pavers by the pool, for example, so people will have a larger area to lay out in the sun.

"These are little things," Tamera says, "but they all added up to a big thing."

Remember, your guests want to come to your property on vacation and play games. The kids want to play games, and the adults want to sit down and have conversations. They want to stay in a home where they can watch a movie as a family and not have to go out: "I had one owner share with me that his family came to stay here at Encore, and even though they had tickets to all the theme parks, they never left their home for the entire weekend," Tamera says. "It had games, a theater, a great big pool. It was a really nice example of what it means to create a welcoming, fun space for a renter."

In terms of design choices that are most popular in VRP right now, Tamera points to quartz countertops, which are synthetic and nonporous. You can have a white quartz countertop and when someone spills a glass of red wine, it's not going to stain. She likes to offer newer more durable products are man-made, such as a high-

end waterproof vinyl flooring product engineered to look like wood, and porcelain floors. “I like to use porcelain tile rather than ceramic tiles for durability,” Tamera says. “Their reticulated edges resist the chipping that can happen with ceramics.”

Tamera also likes a new upgraded cabinet design by Wellborne Forest which includes a soft close drawer. It is available in a new color palette of Moonlight, Tiffany, and Malibu, which is a beautiful soft navy blue. The cabinet is offered with a brushed glaze finish, which adds another level of tonal variation that is very unique.

Room-by-Room Design Decisions

Below, you will read a few more specific considerations on the design side. These have to do with the business of VRP, and how good design can boost marketing, customer enjoyment and in the end, revenue.

While you undertake this design process, pay attention to how your VRP will look in a photograph. Making your home’s interior functional and pleasing to the eye will photograph well and make your vacation rental property stand out online and on social media platforms. It is important to think about how your design scheme is going to photograph, so consider all the different angles a photographer will use to capture your home.

Place yourself in the shoes of your customer “persona” that we discussed on the business plan. Carefully walk through the use of the home as that guest and think through the following items:

Kitchen Design

- A kitchen that functions with multiple cooks is ideal for VRP guests.
- A separate beverage fridge is a nice bonus item.
- Guests like a lot of floor space in the kitchen.
- A big island or peninsula countertop with seating on one side is popular with vacationers.
- Multiple or large pantry areas are ideal.
- Open concept layouts that include the kitchen, dining, and living space are also popular.
- Things will spill, so install lots of towel racks.
- Make sure the trash and recycling containers are large and easy for each guest to find.

Bedrooms

- Bedrooms that are functional create higher retention rates and lower marketing costs.
- Bedrooms need a lot of floor space for luggage and for kids who will sleep on air mattresses on the floor.
- Room darkening curtains or shades are a must, especially during the summer when it doesn't get dark until late (and for those wonderful and much-needed vacation naps).
- Plan for lamps and side tables next to each bed.
- Locate electrical outlets to make plugging in charger cables easier.
- A sleeping loft or other extra space works well with two twin or even queen-sized beds.
- Put an extra drying rack for damp clothing in the closet.

- Consider adding a space in the closets specifically for luggage storage, or better yet, a luggage storage room for your guests.

Bathrooms

- Bathrooms can be the biggest source of problems in a VRP. Do not scrimp on the plumbing; commercial grade is the best.
- Ensure that you have at least one bathtub and a hand shower for bathing a toddler. A stand-up shower stall in the upstairs bath is fine for adults and older kids, but remember that families often travel with small children. Changing tables are also a plus.
- Bath vanities should be big with lit mirrors, lots of outlets, and multiple drawers.
- Hooks and towel bars are helpful in keeping towels dry. You may want to include an extra drying rack as well.
- If your VRP will have multiple people sharing a bathroom, invest in towel sets in several colors so each person can find their towel.

Outdoor Spaces and Living Rooms

"Outdoor spaces are an extension of the indoor living experience—the lines are blurred," Tamera says. "Lanais with plenty of room for dining and living furniture are sought-after, as are pools that have wide areas for lounge chairs. Bubble shelves for laying out during the day are popular, as well as hot tubs for late night lounging. Fire features, putt-putt golf, outdoor games, and summer kitchens are all desired features."

Here are a few more tips for these spaces:

- Porches and patios are excellent places to get children out of the home and away from the TV.
- A play-friendly covered porch and yard are good for kiddos.
- Having two separate doors from house to the porch is helpful for traffic flow, particularly if your VRP has a high bedroom count, and thus more total guests at one time.
- Provide enough seating for your guests in every living area, both indoor and outdoor.
- Make sure your outdoor furniture and living room furniture is stain resistant and tough yet comfortable.
- Any coffee table should be movable and made of a durable material with rounded corners (not glass).
- Ensure your entertainment equipment is easy to use.
- Design flooring and furniture with accidents at the top of your mind. Tile floors can be particularly harmful to a falling child. Wood provides a bit more flex and will reduce injury from falls.
- One more thing to mention about furniture: put felt pads on chair and table legs. When your guests move the furniture, having pads on the legs will prevent damage to your floors. Inspect and replace the pads regularly.

Reviews online can be an excellent contributor to a successful VRP business. When guests arrive at their vacation destination and it is exactly as described online, the furniture is in good shape, and the interior is well put together, they are more likely to leave a positive review after check-out. These reviews play a crucial part in future bookings because almost all potential renters will read them before reserving a vacation rental property.

When renters see a great property online and they are pleased with the interior design, the photographs, and the reviews, it is very likely

that they will book the property, yielding you more money. The statistics are clear that great interior design will make your property more competitive, ultimately earning you more rental reservations.

"You've got to really understand the game," Tamera summarizes. "If you're going to go into this, do your research, study the community and the rental management sites. Know what the latest finishes are. The design world shifts very rapidly and you want the community to reflect that newness."
Tamera also notes that VRP buyers who have some personal bond with a home, meaning they're going to experience it as a renter would, three, four, five times per year, tend to make decisions based upon how they want to feel in their homes...and they usually make wiser decisions than the strictly investment buyer who comes in and makes every decision in a bare-bones manner—meaning they want to get in at the lowest price and do everything base, so they cut back on their furniture presentation, their finishes, their pool upgrades—they end up with a home that shows and photographs poorly. They don't have a successful experience as VRP owners. They didn't realize, or take into account, that all their neighbors played a different game.

Photos Are Everything

Your guests will choose your VRP based on the photos you present online. I've asked another friend of mine, architect and designer Janine Hoskins of Zero Latitude, Inc., to share her advice on the design choices you, the VRP owner, should make to ensure your photos are stellar and your guests keep coming back.

"It's all a question of how many bedrooms and what amenities the house has," Janine says. "It's also all about how something catches a person's eye when they are click-click-clicking through images online. There are so many vacation properties. You have to be the

one where people say, 'I want to go *there.'* If you have a million-dollar picture, you'll do better than everybody else. If you're going to do a luxury home, do it right—you are selling a dream."

To sell the dream, Janine says the most important things are the kitchen, the master bedroom, and the pool. Ten years ago, people were asking for a Mediterranean-style homes with the big columns. Today, it's all modern. In kitchens, everyone wants white quartz, white shaker cabinets, and white subway tile. However, to Janine, that doesn't shout "luxury" anymore: "Sometimes, when I do high-end houses, I say, 'let's go for a really nice piece of granite,' because granite is like a jewel. If you have a nice piece of granite, it's going to be timeless because it has its own life, and there isn't another piece like it."

Janine says that a vacation rental home has to be better than your own home if you want it to succeed in attracting customers: "You want people to be able to brag to their friends!" She also reminds prospective VRP owners to think about who is going to rent their home. Having kids as guests is different than having young adults. Families will probably take better care of your house.

Here are some current VRP design trends Janine is seeing:

- Having an ADA accessible bedroom downstairs (a bedroom for a person who uses a wheelchair) is becoming popular.
- Seating is important—if you have a high bedroom count, you need a large dining room table. You have to seat a lot of people, because your guests will be renting for Thanksgiving, for Christmas, and they'll want to have everyone around the table.
- When it comes to bathrooms, it's all about the en suite. No one wants to share.
- People like pretty lighting and bubblers in the pool. Have a lounge area inside the pool where people can relax.

- A really nice master bedroom is a good idea. The person who is paying the bill should feel special. Always think about that person.
- Kids' bedrooms with a secret room attached right now are popular as VRP owners are trying to extend the Disney feeling into their homes.

Keep in mind, there are two markets in VRP: regular rentals and luxury. For the regular rental market, your customers rent from you because your property is cheaper than hotels. In this market, it's all about the bedroom count.

For the luxury market, it's a completely different world. You want to offer something that people *remember*. Doing so, right from the start, cuts down on the luxury owner's marketing expenses. For example, Janine just finished a house with a two-story kids' room featuring a big treehouse with bunk beds on each side. "It was 25' by 50', 16' high," she says. "It was a whole experience; the kids never wanted to leave the room. This room was very unique, it was an example of thinking a little outside the box, not doing the usual bedroom. Now, everyone is going to copy it because this house will be very memorable to guests." The individual who owns this home is able to rent the property for $30k per week—think about it. That's crazy, but her home is highly unique.

For the luxury market, it makes sense to invest in a double lot, to do the arcade, do the secret room, do the basketball court, do the spa.

Design Mistakes

1. Overspending on appliances and accessories: People go for the high-end brands like Sub Zero, Wolf, but it's better to get appliances

that are nice but not super high-end. Again, it's a rental. So, people are going to the Jenn-Aire level, which works just fine.

"I have clients that get so involved with their homes and want the best of the best," Janine says. "So, they'll put down a $6,000 rug where a $600 one would do just fine. Why? It looks exactly the same, and when it gets trashed, you'll have to throw it away. That's a mistake, when people get super-personal with their homes." Remember, your VRP is a rental. It has to look nice, but you have to be able to throw away some things over time. It's a hotel, don't overdo it. More is not always better. Another example of this mistake is over-theming every room. "Go ahead and theme the kids' bedrooms, theme your movie room. But have your master bedroom and your main bedrooms done in an elegant way," Janine cautions. "People will remember the house that had an amazing kid's room that was Spiderman themed. They won't remember, or want to return to, a house that has 10,000 things all over and feels over-done."

Everybody is doing kids' bedrooms with a secret room attached right now; they're trying to extend the Disney feeling into their homes, with various levels of success.

2. Forgetting about safety issues: People ask for a lazy river, but the lazy river concept presents some safety issues, because bigger kids can jump from one side to the other and can get hurt. When you own a VRP, you have to think of everything in terms of safety and security.

3. Neglecting to plan for parking: Sometimes people put 10- or 12-bedroom homes on tiny lots, but then parking is a problem, and your house is just like every other one nearby. "You have so many vacation property owners trying to convert their garages to something else, like a gym," Janine notes. "Then, everyone is trying to park on the street. Keep the garage! It's not going to make a difference. At the

end of the day, people really won't use a gym but people *will* like parking their cars in a garage."

4.5 VRP Construction

In your pursuit of the product line for your business of VRP, it is important that you have at least a cursory understanding of construction types and materials. The best building method to use for your new VRP is an important discussion to have with your builder and your architect, if you've hired one to create a custom home plan.

While most new homes in the U.S. are framed onsite using conventional lumber (traditional stick framing), there are other ways to build a new home, including using light-gauge steel, modular homes that are built indoors, homes built with structural insulated panels, and homes built with concrete.

This is another point at which I want you to have the benefit of insights from an industry expert. When it comes to pricing a new construction VRP, Kraig Miller is the best I've worked with in 25 years. There are over 10,000 price-able components in a custom home, and it takes a special person to know the ins and outs of every single one of them in terms of sourcing. Kraig works with all the contractors in our region and makes sure that no one is screwing anyone. He has a deep well of contacts and channels to get everything a developer needs priced and delivered on time. When it comes to VRP construction, you want to talk to the guy who knows where everything comes from, with a hand on every single step of the process. That's Kraig. He is currently the Purchasing Manager for Encore Resort Homes. Before that, he spent many years in upper management in timeshare vacation ownership and ran his own construction company.

As someone who has worked in both residential construction and vacation rental properties, Kraig says he has noticed owners tend to choose what they like instead of choosing the best product for a particular application: “Sometimes a particular material might cost more, which is why they don’t want to use it,” he says. “But long-term, it would definitely benefit them. One example of this is open cell spray foam, which is an insulation material. It costs a little bit more to install at the beginning, but the energy savings you get and the comfort of the house is at a much higher level.”

What the building code requires is the minimum standard. For example, all builders use the same grade of paint; they don’t use long-lasting options. As a result, the VRP owner will have to paint the property more often. So, be willing to ask for (and pay for) better paint right from the start.

Kraig also advises VRP owners to choose quality materials that will still be relevant ten years from now. He points to cabinets to illustrate this point: “When I first got into the business,” he says, “everybody wanted white cabinets. Five years later you have all these builders putting in white cabinets as your stock or your main color and the world changes what it likes. Then, you’ve got to shift gears and find out what people are buying. A lot of times, it can be the best cabinet in the world, but if it’s the wrong color, it turns people off.”

When you select countertops, plumbing fixtures, and a/c equipment, make sure you have a reputable, nationally- recognized brand that has a warranty and stands behind its products. “Everybody likes quartz,” Kraig notes as an example. “But quartz is a man-made product. It looks beautiful, but it costs more and there are warranty issues you wouldn’t necessarily expect. With granite, you can put a scalding pot on top of it and it’s not going to damage the surface whatsoever. With quartz, a hot pot will scar it or stain it and you’ll have to replace it. Also, quartz isn’t usually designed for outdoor use;

UV rays can damage it. A lot of people use it outdoors without knowing this."

A few manufacturers will warranty their product better than others, so ask questions before you buy. Find out: "If I have an issue, will they come out and deal directly with me and take care of it?"

Optimal Construction Styles and Materials for VRP

There are some construction styles that are better for VRP than others, but if you are buying new construction, you're at the mercy of the developer. You can't go in and dictate to that developer, "I want tilt-up cement buildings." Or "I want frame construction," or "I want block construction downstairs and metal frame upstairs."

Again, if you're within their community and you're buying one of their homes, you're going to be at the mercy of what they build. However, *that's how you pick the community* in the first place. So, if you're in Florida, for example, and you've got one community that is building the whole thing out of sticks (frame construction), it's going to be a lower quality of experience inside that home than a community offering block construction.

I grew up in frame construction in the Midwest and it's wonderful, but you hear every creak. You've got a lot of wind in Florida and a lot of weather. Yet when you sit inside of a block-constructed building, it's silent…absolutely silent. If you've got the right kind of materials in the floors and the right kind of foam insulation in the walls, it has a sound-dampening effect, too. The difference is huge. When your emotions are running high during the VRP purchasing process, take a pause and notice things like construction materials. The experience of being inside of a frame-constructed home and a block-constructed

home is completely different—both for your family and for the people who will rent your property.

Begin by visiting a community that's in the area that you already love. Near Walt Disney World in Orlando, for example, you've got a pretty wide range of communities to choose from, and one of your considerations in looking at all of those communities should be how they build their homes. I don't care if they've got water parks, and tennis courts, and golf courses, or if they're rated this and rated that. These things are important, but so is construction style and materials. It is also significant what hotel flag a particular VRP is associated with, because the hotel flag will designate certain standards to the residential builder trading on their name, like Four Seasons.

If you walk into any one of those and they say, "We build our buildings with a slab," keep paying close attention. Is it as thick as it should be? Are they only offering wood-frame construction on top of that slab? Look very closely at what they're charging for those homes. Most certainly part of the value comes from the amenities, and the location, and the brand name, and all those things, but again, a big part of the whole equation is "What is the actual structure made of?"

As the VRP industry has exploded, we've lost some of the focus on these fundamentals. So, pay attention. We've gone from a world where it mattered what you put into a structure to one in which people pay more attention to whose name is on it. You won't care whose name is on your property five years after you buy when the wear and tear on that home or condo is causing expensive problems.

You will care about construction materials when you can't get the rental number that you want because your property is just too noisy, or it just doesn't feel solid. Because people won't return to it year after year if the fundamentals are off.

Again, quality construction drives retention. If that home is noisy and creaky, and no one feels good about it, and it's not a great experience inside, they'll find something else, no matter how attractively you have your home decorated, or how close it is to the pool. The building type makes a difference.

If you're doing something outside of a community, of course, you can have an architect put it together. You get a general contractor to come in and he'll ask you, "What do you want me to build it out of?" Great. Tell them what you want to build it out of. Learn what to say by talking to rental management companies. Find out what people like in the area where you are building. For instance, they don't like block up in the mountains. They like to hear the wind outside, I guess. They have log cabins in these areas that rent for $3,000 a night. In Colorado they love that stuff, but I wouldn't build a log cabin in Florida. That would be weird and no one would like it. So, part of it is geographic. Think about, *where am I building?*

Consider what is popular, both style-wise and construction materials-wise, in your area. A brick home in a resort community in Florida would look odd and it wouldn't rent well because people wouldn't feel comfortable in it. They come to Florida to stay in a Florida-style home. If they want to stay in a brick home, they're going to go to New York City. Blend in as far as styles go.

I got specific about architectural styles in this chapter because I want people to understand that there are so many, and they should be able to identify them when they come into a community, or at least be cognizant of what the predominant styles are. You don't have to take the most popular but certainly use one that has a precedent in a particular area.

Below is an overview of the most common methods of new-home construction. Equipped with this information, you and your builder will be ready to decide which method of construction is the best

approach for your new home. Let's review some of the construction types:

Traditional Stick Framing

The most common home construction type is called "stick framing." Construction workers assemble the wall studs, floor and ceiling joists, and roof trusses or rafters using lumber usually on the jobsite. Lumber is cut to various sizes, the most common of which is the 2x4, which has dimensions of roughly two inches by four inches. Workers build the first-floor platform on the house's foundation. Then, they frame the first-story walls, adding the second-floor platform. Finally, they build the second story walls and the roof framing.

Sometimes, wall panels are stick-built of wood but assembled in a manufacturing plant and then trucked to the building site and assembled there. This is called the panelization system. Proponents of this building approach like that entire walls can be constructed in a factory, where they are protected from weather.

In any case, the mechanicals, including pipes, wires, and ducts, are put in place through walls and floors next. Insulation is then packed between the framing of exterior walls. Inside walls are typically covered with drywall after an inspection. The exterior of the home then is covered with a weather-resistant material. It could be stucco, siding, or a brick veneer.

This system of building has been the standard for many years, and more than 90 percent of all new homes built in the nation each year are stick-built.[31] As a result, there is a large building material supply chain across the country to support this method of new home

[31] According to the National Association of Home Builders (NAHB) Research Center via https://www.newhomesource.com/guide/articles/what-is-the-right-method-of-construction-for-your-new-home Accessed May 23, 2019.

construction. In addition, everyone working in construction is intimately familiar with it. But this doesn't mean that stick-built homes are always the best answer for the VRP investor.

Depending on the climate, framing lumber can become too moist, then shrink and warp as it dries. This can cause drywall cracks. This is one reason many homes in humid climates such as Florida feature block construction on the first level. The many spaces between framing joists can be difficult to insulate and air seal correctly, leading to a creaky house. Again, in some parts of the country, including coastal or tropical regions, block construction may be a better option.

"Here in Florida, it's all about perceived value and perceived strength because we have hurricanes every year," says Kraig Miller. "We build either concrete block walls or we use wood framing. We used to stucco over the wood framing, but there's been so many lawsuits because the stucco would crack and the water would get inside and start to rot out the wood."

Stick framing can now be done with a manufactured wood product out now that has a 50-year warranty on it. Or, there are hardy planks, which has more of a siding look. "When I was working as a contractor for seven years and had my own company, my big thing was to build with wood," Kraig says. "Since wood and concrete ultimately performed the same in terms of wind resistance, I chose wood because it is half the thickness of concrete block."

Thickness matters in terms of total indoor living space. When you take a 2,000 square foot home and only have four inches around the outside instead of eight inches around the outside, elbow square footage is close to 150 square feet more open area in a wood-framed house than in a block-constructed house. Four inches doesn't seem like a lot, but it's a 10 by 15-foot room.

Block Construction

Concrete block has been used as a building material for more than a hundred years, frequently used in home construction in warmer and more humid climates. Concrete blocks are fabricated using products such as Portland cement, aggregates such as stone or quartz, and water. Concrete block homes don't necessarily look like they're made out of concrete block. External facings or coverings vary widely.[32]

"In terms of hurricane strength, with a concrete block wall, you've got rebar in it and concrete is poured into the down cells," Kraig explains. "The perceived value is that it's ten times stronger than wood that's just nailed together, but in actuality, they're both designed for the same conditions. One is not better than the other in terms of strength or durability. It's cheaper to do block one story than it is to do black and a frame on the second story, because stucco over block is cheap and stucco over wood is expensive."

Concrete block is sometimes referred to as a concrete masonry unit, or CMU. The majority of CMUs measure 16 inches long by 8 inches wide by 8 inches high and can be solid or hollow, with two or three cores or voids, and come in a range of standard shapes. They are lightweight, durable and fireproof. Ideal for foundations and basement walls because they're stronger than poured concrete, concrete block is also good for first floors and partition walls in any home. Their cores can be filled with steel reinforcing rods and concrete for additional strength.[33]

The blocks' thermal mass slows the transfer of heat. As a result, the inside of the VRP stays cooler on hot days—a nice benefit. Not surprisingly, they're most popular in the South and especially in

[32] https://homeguides.sfgate.com/pros-cons-concrete-block-house-construction-65954.html Accessed July 3, 2019.
[33] https://homeguides.sfgate.com/pros-cons-concrete-block-house-construction-65954.html Accessed July 3, 2019.

Florida, where CMU homes are priced competitively with wood framing. Autoclave Aerated Concrete (AAC) block is a variation on the concrete masonry unit. AAC is a mix of Portland cement, aluminum, fly ash (a waste product from coal power plants), and other additives. Chemical reactions between the materials form microscopic air bubbles that act as insulation. Costs will be higher for this option than for standard CMUs.

Concrete block is unaffected by termites, extreme temperatures, and most hurricane-force winds. Another benefit for VRP is this building material is virtually soundproof, depending on construction quality. Concrete blocks provide insulation against cold and heat and may reduce a home's energy usage. You can see why can be a good option for VRP.

Steel

It is possible to have a stick-built home with the sticks made of metal. Steel won't burn, shrink, rot, or provide food for termites. It can be stronger than a wood frame when it is correctly engineered. Steel doesn't shrink or warp, which means no drywall cracks. Light-gauge steel is often used in commercial buildings for interior partitions. One thing to note is steel home costs more to build (around 3% more, although your mileage may vary). Also, not many residential builders are experienced in steel construction because it's just not the industry norm.

Steel studs also pose unique challenges for plumbers and electricians because steel conducts heat, and the insulator has to wrap the home with rigid foam insulation.

Modular

A modular home, which is not a mobile home, must satisfy the same building codes as a site-built home and hold the same value. (A mobile home is a depreciating asset built on a steel chassis.) The parts of a modular home are built in a factory and finished on the inside. They are then trucked to the site and set in place with a crane. The local builder puts them together and adds decks. Modular homes come in all quality levels and prices.

The idea behind this method of construction is that the factory environment offers better control over everything from the framing to the insulation. In reality, the product varies. The quality can equal site-built homes, but it depends on the builder. Some firms have designed “green” homes using the very latest engineered materials. Other modular builders have been known to cut corners, offering homes with thin interior walls that offer little privacy from noise.

VRP buyer beware: ask lots of questions, get references, and scrutinize the product specs as carefully as you would with any home if you are interested in this type of construction. As with anything in life, expect higher quality to carry a higher price tag.

Structural Panels

A Structural Insulated Panel is a layer of rigid foam insulation between oriented strand board (OSB). This building material comes with pre-cut window and door openings. It also has conduit for electrical wiring. They can be used to create nearly any home design. Specially trained crews assemble them on the jobsite. They can be used to cover a traditional timber frame, or can also be self-

supporting.[34] This type of VRP is constructed to be well insulated and draft free, so it usually needs less energy to heat and cool than a typical stick frame.

Concrete

Concrete is probably the world's most-used building material. However, aside from foundations, you will only see it in a minority of U.S. single-family homes. In homes that do use it, walls are built from either the concrete masonry units (CMUs) that I described above, or insulated concrete forms (ICFs). Wood framing is used for floors, ceilings, interior walls, and roofs. Insulated concrete forms are rigid foam forms or Lego-like blocks that are assembled on site and then filled with steel reinforcing rods and concrete. The forms stay in place to serve as the home's insulation, which makes them a good fit for any climate.[35]

According to the Portland Cement Association, costs are at least 2% to 5% more than a wood framed home of similar design. The actual price depends on the local market and could be much higher. ICF homes are massive. Concrete stands up well to high winds, so ICF manufacturers and builders market this system as a good choice in hurricane-prone coastal areas. (But remember that, in most cases, hurricane damage starts with roof uplift, and the home still has a wood framed roof.) The heavy walls also deaden street noise. With quality windows and doors, a concrete VRP should be quieter than a stick-frame property.

[34] https://www.newhomesource.com/guide/articles/what-is-the-right-method-of-construction-for-your-new-home Accessed July 3, 2019.
[35] https://www.newhomesource.com/guide/articles/what-is-the-right-method-of-construction-for-your-new-home Accessed July 3, 2019.

Now What?

As a next step, discuss the construction method above that interests you with your builder. If you decide to use a method other than stick-building, make sure that your builder and his trade contractors have strong experience in the type of construction you choose. If you're working with an architect, make sure your architect is also experienced in the type of construction that you prefer.

What's the common element of each of the construction methods above? In the hands of an experienced builder, architect and team of trade contractors, each will provide you with a high quality, energy-efficient and durable new home that's ready for many years of enjoyment.

Construction Upgrades That Pay Off in VRP

I asked Kraig to list some decisions you can make during the building process that are worthwhile. Here is his valuable advice:

- Put your money and your focus in items that can weather the storm, items that offer longevity, like a good granite. Put granite in the bathroom and kitchen countertops rather than quartz, just to account for that one renter who might set a hot pot down.
- Appliances get used more during a one-week vacation than you normally would use them. So, you need to choose quality.
- Flooring: Do not put in the most expensive flooring, especially when it comes to carpet, because carpet is only good for a certain number of footsteps. Use a flooring that has a track record for longevity.
- Use a roofing material that you won't have to replace as often, such as a tile or a metal roof.

- Use spray foam insulation. That's one of the things a renter won't see, but they'll feel. Spray foam gets into all the nooks and crannies of a home so you have no air getting out and greater HVAC efficiency.
- Look at materials in terms of function. I like aluminum soffits and facia. They have multiple colors you can use and you never have to paint it. Once you put it up, it's there forever.
- Engineered wood products for flooring are a nice choice as they tend to come with a long warranty and are hard to damage. Go with what's been proven in the industry to work.
- As far as air conditioning units, Carrier is really the big name. If someone has to come service it down the road, most of the vendors know that brand.
- For lighting, stick to LED.
- For faucets, choose Delta—or something you can easily get replacement parts for.
- Drywall: Avoid a slick finish. If there's any dents or dings in it—and there will be—you'll have to resurface the whole wall.
- Use a better paint. In the Florida sun, the UV rays ensure lesser quality paints don't last.
- Anything you can do to save energy or decrease your bills is a good thing. If there is natural gas in the community, use it. Or liquid propane.
- Tankless water heaters offer a lot of cost savings. The regular 50- or 60-gallon hot water heater, you're keeping that water hot all the time. With tankless, they might cost a little more at the beginning, but they'll save you.
- Build your property large enough so there's an openness to it. Give up a little more in focal features for space inside the house. People like a lot of room.

Turnkey VRP Investments

Many investors shy away from building a brand new VRP because they think the process will be too hard. Turnkey house and land packages might be best for you. Turnkey means that the house is finished and ready for a tenant to just turn the key and move in at completion. The contract includes everything from carpets to fencing, curtains, landscaping and a television satellite on the roof. Interior design elements are also included and done by experienced design teams to suit the demographic and lifestyle demands of a particular area or location. So, for a busy investor who wants to grow their portfolio with a brand-new house, turnkey packages provide the perfect stress-free solution.

You buy a package of land with a house already designed for that lot. From there, your turnkey VRP will be built for you at a fixed price contract over a period of six to 10 months. This can be a painless and easy process. It is not a home you are going to live in, so you do not need to be emotionally involved. The bank pays the builder at each stage. Council approves the plans and building inspectors make sure the house is built to specifications. Good builders, your Realtor, or the builder's sales executive should send you progress photos at each stage, which is very exciting. This option opens up being able to invest in markets that happen to be far away from where your primary home, where there may be stronger drivers for growth and better rental returns than in your own region. Diversity in location is the key to a good VRP investment portfolio.

Building a new investment property where you can maximize the tax benefits gives you peace of mind, as you can anticipate holding costs. This means no unfortunate surprises, as there will be no maintenance costs. This is possible because everything in or on the property is under warranty. As it is a new property, you can claim all expenses *and* depreciation on the building and its contents. This is

equal to $13,000 in year one. This tax benefit will give you a cashflow positive outcome.

Check out the builder. Many home builders have been in the business for years and produce a quality product. However, a few do not. Check review sites, state licensing boards, and the local court records to see whether the builder you're considering has run into any trouble, including lawsuits, complaints with licensing agencies, or disciplinary actions by state and local agencies. This is also a good time to talk to previous customers.

Choose square footage and location over upgrades. Think about how you want to spend your limited budget. You can never change your home's location, for example, but you can upgrade your flooring in a few years. Apply that logic to other choices as well. If you're choosing between a fourth bedroom and granite countertops, you probably should choose the extra bedroom, which is much more expensive to add later. In the first VRP that you buy, buy as much as you can, but don't do the upgrades.

Chapter 5: Location (Location, Location!)

As with any real estate investment, the location of your VRP will be a large factor in its success or failure. Always consider the areas that you personally enjoy visiting first.

"Best" Versus Popular

A quick Google search of "Rental Homes Natural Attractions" will pull up page after page of "Best Places." These information "directories" will give their ten best, 20 best, 100 best, and so on. In reality, after deeper review, these are simply lists that are curated from online services that are crafted to place or advertise locations that are in their own directories. Be they local, regional, statewide or national, they all have their own agenda: to drive traffic to specific listings within their listing services.

Do not be fooled. Take the time to study these locations. Gather information with one eye focused on the purpose and source of the data. Look for objective information. Again, a good source is the Vacation Rental Management Association (VRMA.org). Even some of the large national and international VRP online listing and booking services will provide a broader, and in most cases more accurate, picture of the areas of attractions.

Here is what I mean: a "Best of" listed in Google may turn out to be the "Best of Wisconsin Dells." As such, it will not be an appropriate source of information nationally, or even state wide. Your best bet are national visitor statistics. This will give you direct data on the

level of traffic into the area you are considering for your VRP. Later, you can segment this data into demographic profiles and analyze for the best price levels for your VRP search.

Another consideration is that the "best" location, such as beach, attraction, or other, might not be the best measurement for the purposes of your VRP business. The best ski resort could be, for instance, the best snow, or most challenging slopes, or best instruction, nightlife or any number of specific categories. What we are looking for then, is not necessarily the "best," but the "most popular" in terms of sheer visitor numbers. This search will give you the statistical rating that you need to select the highest potential for hitting your occupancy and average daily rate numbers. Remember, you are not in the business of marketing to attract more visitors to your location. You are in the business of capturing the *highest paying* vacationers to your VRP.

So, with a focus on "Most Popular," let's look at some of the best natural attractions where a VRP may be a good investment. Remember, *always consider the areas that you personally enjoy visiting first*.

A few years back, I was asked to consult on a hotel chain's attempt to enter the residential business. These were homes being built around a resort community in Southern California. The properties were priced in the $1 million to $10 million range, and the hotel had created its own in-house rental management company to serve the vacation market.

My role was to advise on the types of homes and interiors the hotel should build, as well as advise on the planning and deployment of the marketing and sales processes. This entailed utilizing the hotel's own booking system and customer database, and determining the type of customer that already existed as a regular hotel visitor. It was my job to help create the right product, then bridging

customers to the sales team. In this role, I also enjoyed the opportunity to create the sales process, and train the sales team. This is a pretty normal set up for the consulting gigs that I have had over the years; it is the same in many industries.

What makes this role special is the day to day experience in the VRP industry. Here's what I mean: I was fortunate enough to be able to stay in La Jolla for my work, one of my favorite places in the U.S. Beautiful coast, close to everything, with the most incredible local restaurants, and beautiful scenery everywhere you look.

My day would start with meeting the Director of Development on the beach with our long boards at around 7am. We would paddle out into the cove, beyond the breakers, and just float around and discuss what we were going to accomplish that day. *That* was our morning meeting...no desk, no stuffy office. Just the Pacific Ocean, the freshness of the morning, and the smell of the ocean. It was magnificent. Joining us in these meetings were all types of ocean creatures, from dolphins to seals to even a few whales in the near distance.

After our meeting we would paddle in, getting the added benefit of the exercise, and move through the day. Most days were capped with a meal on the rooftop of the hotel. The stellar Pacific-facing restaurant is part of the allure at George's at the Cove. This award-winning seafood establishment, George's Ocean Terrace, offers envious views of the ocean while captivating cocktails and plates keep you company. There, we ended each day watching the sun dip into the ocean while briefing each other of the day's challenges and solutions over delectable seafood. The amazing Long Island ice tea and black bean chicken soup made me weak tasting it.

I also had the opportunity with this group to take up paragliding. We trained and became licensed at Torrey Pines. Our weekends consisted of gatherings to fly the cliffs above Blacks Beach and over

Torrey Pines golf course. It was breathtaking. There were gulls flying alongside as we enjoyed views of the Pacific so wide we thought we could see the curvature of the earth. It was one of my favorite consulting experiences for a developer.

This may seem like pure fun, and it was! But that fun wasn't without a purpose. Living and working in this manner allowed me to experience the location. Doing so was absolutely necessary so that I could communicate the experience through our marketing and in the sales training to the sales team. It provided substance to our message. Today, I make it a point to spend the days *living* the life that each of these locations has to offer. As a VRP owner, I encourage you to do the same.

Though this was a shorter gig of only six months as the project sold out very quickly, it remains in my memory as one many of my favorite "work" assignments in VRP.

Back to our discussion of the best locations for VRP. I have divided these into categories that may be helpful as you add to your portfolio of VRP. Diversification can lower your risk financially and increase your family's enjoyment. This will guide you to both forms of profit: financial and personal enrichment.

5.1 National and Natural Attractions

The United States is a gorgeous country featuring spectacular biodiversity. Between the Atlantic and Pacific Oceans, you can find deserts and plateaus, mountain ranges, glaciers, grasslands, tropical rain forests, active volcanic zones, and frigid tundra. Our country shines most of all, perhaps, in its prized national parks. Many of the country's most magnificent natural wonders are protected today by

the National Park Service (NPS), which celebrated its centennial in 2016.

These protected places also provide safe haven for a stunning array of wildlife. Visit these parks to meet tiny eyeless fish living in the dark haunts of Mammoth Cave or giant grizzly bears inside Denali National Park.

All of these natural wonders have communities surrounding them that contain VRP. You may live close, or travel to them often. You may have stayed in resorts or hotels in the area. You also may have actually stayed in a VRP close to one of these natural amenities. If so, how many times? Did or do you look to stay in the same Vacation Home each year? If so, take a good look at why you always return to that same home, and integrate that into your thinking while searching for your VRP purchase in that area.

Here is a quick overview of some of the most remarkable natural attractions in the United States:

- **Grand Canyon National Park:** The Grand Canyon is one mile deep, up to 18 miles wide at some points and more than 275 miles long. Some people enjoy the experience of simply looking over the edge of this natural wonder. In my opinion, to really appreciate the canyon's sites, you must hike all the way down inside it to the rushing Colorado River—as long as you are in good shape.

- **Yosemite National Park**: John Muir, the famed conservationist and wilderness writer, called Yosemite nature's temple. It features incredible granite monoliths such as El Capitan and Yosemite Falls, North America's highest waterfall. Yosemite also sustains a variety of rare wildlife inhabiting California's Sierra Nevada

mountain range. It was declared a UNESCO World Heritage Site for its unique geological features carved by glaciers.

- **Redwood National & State Parks**: The world's tallest trees grow on the often-foggy Northern California coast. Redwoods can reach a height of 379 feet and live for up to two thousand years. About half of all the old-growth redwood trees remaining that have never been logged are protected by the chain of Redwood National and State parks.

- **Niagara Falls:** Three waterfalls that flow along the US-Canada boundary between New York and Ontario are found here. They are Horseshoe Falls, American Falls and Bridal Veil Falls. These three aren't the country's tallest waterfalls, but they have a bigger water flow than any others.

- **Denali National Park:** The word Denali means "the high one," in the indigenous Koyukon Athabaskan language. Located in Alaska, Denali is North America's highest peak at 20,310 feet. It is actually taller than Mount Everest when measured from its base. More than a thousand people attempt to climb Denali—which was once called Mount McKinley—every year.

- **Hawaii's Kilauea Volcano**: On the Big Island of Hawaii, Kilauea Volcano has been active since 1983. It is one of the world's longest continuous volcano eruptions. You can explore Hawaiʻi Volcanoes National Park and see new land being created. According to Hawaiian tradition, the lava lake in Halemaʻumaʻu Carter is the home of Pele, goddess of fire and volcanoes.

- **Yellowstone National Park:** This is the oldest national park in the United States. Located mainly in the state of Wyoming, Yellowstone offers so much unique geology and

wildlife. Visitors can see geysers and hydrothermal features, including hot springs, boiling mud pots and steaming fumaroles. Herds of bison roam along the park's main roads.

- **Mammoth Cave** is the world's longest cave system, consisting of almost 400 miles of underground passageways in the state of Kentucky, sculpted by subterranean rivers. Enjoy the sight of otherworldly stalactites, stalagmites, and other eye-catching formations. A lantern-lit cave tour is a good idea for visitors.

- **Monument Valley:** The landscapes you see in classic Hollywood Westerns were mostly shot in Monument Valley on the Arizona-Utah border. Sandstone formations rise up to 1000 feet above the desert floor. A Navajo tribal park, Monument offers visitors guided horseback tours.

- **Acadia National Park:** On the wind-blown Maine coast, Acadia is home to Cadillac Mountain, the tallest peak on the Atlantic seaboard at over 1500 feet. You can be the first person in the country to see the sunrise from its summit. This is also a good spot to appreciate the changing leaves during the fall season.

5.2 Mountains and Ski Slopes

Mountain ranges and ski areas have long been in the VRP industry. Early on, these tended to be more remote with difficult terrain, making them ideal for single homes with very high Average Daily Rates. Today, this beautiful territory has a wide range of VRP offerings including some of the first fully integrated developed and managed vacation rental communities in the United States. Let's take a look at some of the most visited ski resorts in the country:

1. Vail Mountain, Colorado (1,634,250 annual visitors): Vail is the nation's most-visited ski resort and also its largest, at 5,289 acres. Half of Vail's 193 trails are for beginners and intermediates. However, the mountain is more famous for its Back Bowls: seven

open expanses of mostly black diamond-rated slopes. Vail will celebrate its 60th anniversary during the 2022–23 season.[36]

2. Breckenridge Ski Resort, Colorado (1,600,750 annual visitors): Less than 20 miles from its sister resort of Vail, Breckenridge vies closely for the No. 1 most-visited spot and sometimes takes the lead. It features a cute and historic downtown, North America's highest-elevation chairlift, and 2,358 acres spanning five mountains.

3. Mammoth Mountain Ski Area, California (1,128,500 annual visitors): Mammoth features the highest peak elevation of any California ski area (11,053 feet) and an average of more than 400 inches of snowfall each year. The resort also consistently earns top honors for its terrain park, where there is an Olympic-size, 22-foot-tall half-pipe. It is one of only a handful in the country.[37]

4. Keystone Resort, Colorado (1,036,000 annual visitors): Keystone is large at 3,148 acres, and its lifts keep turning after sundown. Nine night-skiing trails are open beneath lights on selected evenings throughout the season.

5. Steamboat Ski & Resort, Colorado (923,576 annual visitors): Steamboat averages nearly 7,000 skiers per day and is a favorite tree skiers.[38]

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[36] *Source: Vail Resorts via* https://www.travelandleisure.com/slideshows/americas-most-visited-ski-resorts?slide=135474#135474 *Accessed May 23, 2019.*
[37] *Source: Mammoth Mountain Ski Area via* https://www.travelandleisure.com/slideshows/americas-most-visited-ski-resorts?slide=135474#135474 *Accessed May 23 2019.*
[38] *Source: Steamboat Ski & Resort Corp. 2011 Master Development Plan Amendment steamboat.com*

The list of popular ski destinations in the U.S. certainly continues and includes:

- Winter Park Resort, CO
- Beaver Creek, CO
- Heavenly Mountain Resort, CA/NV
- Copper Mountain Resort, CO
- Park City Mountain Resort, UT
- Northstar California Resort, CA
- Snowmass, CO
- Squaw Valley, CA
- Killington Resort, VT
- Okemo Mountain Resort, VT
- Snow Summit, CA
- The Summit at Snoqualmie, WA
- Holiday Valley Resort, NY
- Canyons Resort, UT
- Deer Valley Resort, UT

If any of these resorts or mountains tops your personal list of favorites, start researching. Find out annual visitor numbers to start, then talk to other VRP investors in the area to learn more about what you can expect in the area. You cannot over-research a location.

5.3 Beaches

Dominating the natural wonders sector are the beaches of the United States. Up and down the West and East coasts, there is a huge number of beach communities in our country. As in the mountain and ski sector, beaches were the one of the first VRP growth sectors with small rental cottages littering beaches everywhere, early on. Again, the big developer with in-house rental management methodology is the next wave washing into these areas, with massive communities dedicated to the VRP buyer and guests.

Here is a list of the most promising locations for your beach VRP in the United States. Annual visitor numbers were sourced from Business Insider magazine:

1. Venice Beach, California (16,000,000 annual visitors): Venice welcomes sunbathers, fortune-tellers, artists, vendors, and

assorted street life. Visitors surf the Venice Breakwater, play basketball, people-watch, and explore the boardwalk.[39]

2. South Beach, Miami, Florida (13,268,841 annual visitors) South Beach has a popular party atmosphere. Keep in mind there are 15 other beaches in the area, including Bal Harbour and Sunny Isles, if you'd like a more peaceful beach-going experience.[40]

3. Coney Island, Brooklyn, New York (11,164,975 annual visitors): Coney Island first became popular in the 1830s. Amusement rides both new (Luna Park's Scream Zone) and old (Cyclone roller coaster), Nathan's Hot Dogs, and Cyclones baseball games all make Coney Island unique and popular.

4. Newport Beach, California (9,446,850 annual visitors): The Pacific Electric Railway started bringing beachgoers to this area in 1905. This beautiful locale includes the strands of Corona del Mar State Beach, Crystal Cove State Park, Newport Pier, and the Santa Ana River.

5. Daytona Beach, Florida (8,000,000 annual visitors): NASCAR is headquartered here, which is perhaps why this beach permits cars and has been a popular location for motor sports for years.[41]

The list continues:

- Huntington Beach, CA (7,936,526)

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[39] *L.A. Beaches & Harbors via* https://www.businessinsider.com.au/most-overcrowded-beaches-in-america-2012-7#no-1-venice-beach-ca-1
[40] *U.S. Lifesaving Association via* https://www.businessinsider.com.au/most-overcrowded-beaches-in-america-2012-7#no-1-venice-beach-ca-1
[41] *Source: Daytona Beach Area Convention & Visitors Bureau via* https://www.businessinsider.com.au/most-overcrowded-beaches-in-america-2012-7#no-1-venice-beach-ca-1

- Hollywood, FL (7,727,987)
- Waikiki Beach, HI (7,535,000)
- Jones Beach, NY (5,100,000)
- Brevard County, FL (4,776,993)
- Ocean City, MD (4,500,000)
- Laguna Beach, CA (4,315,450)
- Jacksonville, FL (4,200,000)
- Oceanside, CA (4,012,800)
- Santa Rosa Island, FL (4,000,000)
- Virginia Beach, VA (3,697,500)
- Rockaway Beach, NY (3,656,000)
- Coronado, CA (3,550,000)
- Pinellas County, FL (3,510,299)
- Clearwater, FL (3,500,000)
- North Myrtle Beach, SC (3,500,000)
- Palm Beach County, FL (3,417,301)
- Belmar, NJ (2,992,694)
- Ala Moana, Oahu, HI (2,637,353)
- San Clemente, CA (2,232,600)

5.4 Bright Lights, Big City

You may or may not live near a massively popular metropolis, but if you do—or dwell nearby in one of its suburbs—you are in luck. Big cities are prime locations for VRP. Be aware that in most of these locations, you will be on your own with no organized full-service vacation rental management company near you. However, if you are living within an hour of metropolitan vacation hotspot, running your own VRP is a good way to start in this business. You can operate one or more VRP units and grow your business close to home, all while preparing to diversify to distant locations and into resorts—where the big profits and family benefits happen.

Below is a list of the most visited American cities by vacationing families. If you live near one of these massive metropolitan locales, with access to the attractions like sports stadiums, theaters, historic monuments, et cetera, *you are in a prime location for VRP*. The numbers of tourists coming to your area has a direct impact on the viability of an operating VRP.

Without further ado, here are some of the most visited cities in the US. Annual visitor numbers were sourced from WorldAtlas.com:

1. New York, New York (59.7 million annual visitors): Of course, the Big Apple is number one on the list. Located on the east coast by the New York Harbor, where the Hudson River drains into the New York Bay and on to the Atlantic Ocean, NYC features the Empire State Building, the Statue of Liberty, Central Park, the Metropolitan Museum of Art, and Broadway theater productions near Times Square in Manhattan.[42]

2. Chicago, Illinois (54.1 million annual visitors): Located on the shores of Lake Michigan, the "Windy City" offers an excellent arts scene, unique architecture, and lots of shopping along Michigan Avenue and beyond. City attractions include Grant Park, the Museum of Science and Industry, Shedd Aquarium, the Art Institute, the John Hancock Center, Tribune Tower, the Wrigley Building, and Navy Pier.

3. Atlanta, Georgia (51 million annual visitors): A major urban center of the southeastern region of the country, Atlanta's main tourist attractions include the Georgia Aquarium, CNN headquarters, and the World of Coca-Cola. Visitors also enjoy the Atlanta History Center and the Michael C. Carlos Museum,

[42] https://www.worldatlas.com/articles/the-most-visited-cities-in-the-us.html Accessed May 24, 2019.

featuring ancient Egyptian, Greek, and Roman art in the southeastern region.

4. Anaheim/Orange County, California (48.2 million annual visitors): Most of the visitors to this region are there for Disneyland, the first amusement park by Walt Disney. In addition, Anaheim offers tourists day trips to nearby Catalina Island, whale watching tours, and Knott's Berry Farm amusement park.

5. Orlando, Florida (48 million annual visitors): Located in central Florida, Orlando welcomes its tourists mainly to Walt Disney World, which includes Animal Kingdom, Hollywood Studios, Epcot, and Magic Kingdom. Universal is another popular attraction in Orlando that now features hugely popular Wizarding World of Harry Potter. Kennedy Space Center is about an hour away and features a NASA visitor area and space mission launch site.

6. Los Angeles, California (47.3 million annual visitors): Home to world-famous neighborhoods such as Beverly Hills and Hollywood, Los Angeles is also famous for its beaches, including Venice Beach and Santa Monica. Studio tours are another popular option for visitors.

7. Las Vegas, Nevada (42.9 million annual visitors): Located in the Mojave Desert, Las Vegas is famous for gambling, shopping, entertainment, nightlife, and dining. The Strip is a 2.5-mile long stretch lined with luxury hotels including the Bellagio, the 1,149-foot Stratosphere, the Venetian Hotel, and Caesar's Palace.

8. Philadelphia, Pennsylvania (42 million annual visitors): A historic city that played an important part in the founding of the United States, Philadelphia is found along the Delaware and Schuylkill Rivers. Some of the most historic sites in the city include the Liberty Bell and Independence Hall, where the Declaration of Independence and the US Constitution were signed. The Reading

Terminal Market is the oldest farmer's market in the nation; Longwood Gardens offers over a thousand acres of beautiful horticulture.

9. San Diego, California (34.9 million annual visitors): Warm and sunny all year, visitors here enjoy the San Diego Zoo, SeaWorld, the Maritime Museum, and the USS Midway Museum.

10. San Francisco, California (25 million visitors) Famous today for being a technology epicenter, San Francisco is also well known for its steep hills, foggy cool climate, pastel Victorian homes, eclectic food scene, and artistic culture. Visitors enjoy Fisherman's Wharf the glorious Golden Gate Bridge.

5.5 Theme Parks

I saved the best for last! The titan of traffic, the vortex of VRP: theme parks of the United States. No other single attraction manmade or natural has more potential for a successful VRP business than theme park areas. In fact, many of the newest evolution of developer/vacation management companies in the industry are purchasing land and building communities near theme parks specifically for the private VRP investors and their guests.

These communities cater directly to vacationing families, groups, corporate meetings, sports organizations, and entire international guest channels visiting for the theme parks. Shuttle services, concierge, and community amenities are all created specifically for these guests. Vacation Rental marketing plans with sizeable budgets are deployed to attract a share of the massive visitor travel coming to these areas as theme park attendance has risen steadily in the past few years. This trend isn't expected to change; just look at the

number of dollars entertainment conglomerates are pouring into their theme park divisions.

More than 146 million people visited the top 20 amusement parks in North America last year, up 5.9% from the previous year, according to the annual-attendance report from Themed Entertainment Association and AECOM.[43]

Disney continues to dominate the list, with its parks taking the top five spots. Magic Kingdom draws the most visitors by a large margin, consistently ranking as not only the most popular theme park in North America but in the rest of the world as well. In total, seven of the top 10 amusement parks are located in Florida. While ticket prices tend to increase in the peak summer season, they are usually lower if purchased ahead of time and online.[44]

VRP businesses near theme park locations are ideal for those who live in these areas, those who vacation annually, or those VRP business owners looking for fertile ground for additional investment consideration. Here, we will review the top 20 theme parks in North America, with attendance numbers from Business Insider magazine.[45] Note: this section is an overview. Please conduct your own research. Annual attendance numbers provided are approximate.

These are the places where your VRP investment has the highest probability of success:

1. Magic Kingdom in Lake Buena Vista, Florida (annual attendance: 20.49 million): The most famous part of Walt Disney World, Magic Kingdom is the most popular theme park on Earth.

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[43] http://www.teaconnect.org/images/files/TEA_160_611852_160525.pdf Accessed May 24, 2019.
[44] https://www.businessinsider.com/disney-world-hacks-2015-5 Accessed May 24, 2019.
[45] https://www.businessinsider.com/these-are-the-20-most-popular-amusement-parks-in-north-america-2016-6 Accessed May 28, 2019.

Like its sister park Disneyland, MK features iconic rides like Space Mountain and the Haunted Mansion. Every night at Cinderella Castle in the middle of the park, glowing fireworks and a flying Tinkerbell charm all the visitors.

2. Disneyland in Anaheim, California (annual attendance: 18.28 million): From the Haunted Mansion to Pirates of the Caribbean to Space Mountain to Peter Pan's Flight to It's a Small World, Disneyland features rides that are known and beloved throughout the world.

3. Epcot in Lake Buena Vista, Florida (annual attendance: 11.8 million): Celebrating technological innovation and international culture with its two sections, Future World and World Showcase, Epcot is one of the most unique theme parks in the world. Mission: Space lets visitors simulate floating like an astronaut; Test Track allows visitors to experience high speeds in an automobile-efficiency-test simulation. World Showcase is reminiscent of a world's fair with 11 sections representing the culture and cuisine of 11 different countries.

4. Disney's Animal Kingdom in Lake Buena Vista, Florida (annual attendance: 10.92 million): Themed around nature, animals, and conservation, Animal Kingdom is the largest amusement park in the world, with 580 acres of land. The park's newest section, Pandora, is based on the world in the popular James Cameron movie "Avatar."

5. Disney's Hollywood Studios in Lake Buena Vista, Florida (annual attendance: 10.2 million): Featuring the Tower of Terror on its Sunset Boulevard, this park is inspired by the Golden Age of Hollywood and features attractions that focus on "Star Wars," "Indiana Jones," "Toy Story," and "The Muppets." Star Wars Land opened in August of 2019; Toy Story Land opened in late 2018.

6. Universal Studios Florida in Orlando, Florida (annual attendance: 9.59 million): Home to the very popular Wizarding World of Harry Potter — Diagon Alley, this park's attendance recently soared after it opened. Other popular sections of the park include live shows and immersive experiences. Two of these are Transformers: The Ride — 3D and Despicable Me Minion Mayhem.

7. Disney California Adventure in Anaheim, California (annual attendance: 9.38 million): Themed after the history and culture of California, this park has seven districts and new attractions like Cars Land and Buena Vista Street. Its Hollywood Land is a popular district inspired by the Golden Age of Hollywood, the 1930s.

8. Universal's Islands of Adventure in Orlando, Florida (annual attendance: 8.79 million): With seven islands themed in different ways including Toon Lagoon, Seuss Landing, and Marvel Super Hero Island, this popular park is right next door to Universal Studios Orlando. The future looks bright for this park as it is also home to part of the staggeringly popular Wizarding World of Harry Potter.

9. Universal Studios Hollywood in Los Angeles, California (annual attendance: 7.1 million): Tours of the studio lots to visitors in 1964 grew over time into a fully operational theme park with rides, shows, and live character appearances. The Wizarding World of Harry Potter opened here after its huge success in the Orlando Universal parks. The park also features rides themed after "Jurassic Park," "Transformers," and "Despicable Me."

10. SeaWorld Orlando in Orlando, Florida (annual attendance: 4.78 million): With killer-whale shows and cutting-edge rides, SeaWorld holds its own in Orlando. Its TurtleTrek exhibit opened in 2012 and includes a 360-degree, 3D dome theater for a movie. In 2013, its Antarctica: Empire of the Penguin pavilion opened with

the nation's first trackless dark ride system. The park opened Sesame Street area in early 2019.

11. Busch Gardens Tampa Bay in Tampa, Florida (annual attendance: 4.25 million): Themed after 19th-century Africa, this park is known for its tropical landscapes, exotic animals, thrilling rides, and holiday celebrations. During Christmas, the entire park is filled with twinkling lights and real snow.

12. Knott's Berry Farm in Buena Park, California (annual attendance: 3.87 million): With four themed sections, Ghost Town, Fiesta Village, The Boardwalk, and Camp Snoopy, this theme park can trace its roots back to 1940. There are 40 rides including roller coasters, family- and kid-friendly rides, and historical rides that showcase California frontier history.

13. Canada's Wonderland in Maple, Ontario (annual attendance: 3.62 million): The first and largest amusement park in Canada, this park is open from May to September and features International Street, Medieval Faire, Action Zone, and Planet Snoopy. Its adjacent water park, Splash Works, has the largest outdoor wave pool in the country.

14. SeaWorld San Diego in San Diego, California (annual attendance: 3.53 million): Founded in 1964 as a marine zoological park, SeaWorld shows famously feature killer whales, dolphins, and sea lions.

15. Cedar Point in Sandusky, Ohio (annual attendance: 3.51 million): The second-oldest operating theme park in the country, Cedar Point can trace its roots back to 1870 and is famous for its extreme rides. The park has 18 roller coasters and over 71 rides in total. Its newest roller coaster, Valravn, has a 223-foot drop with speeds of up to 75 mph; it’s the fastest dive coaster in the world.

16. Kings Island in Kings Island, Ohio (annual attendance: 3.34 million): Only open from early spring until Labor Day (and for a few weekends surrounding Halloween), this theme park located near Cincinnati is famous for its 14 roller coasters and 33-acre water park.

17. Hersheypark in Hershey, Pennsylvania (annual attendance: 3.28 million): This park has a unique background—it was built for the employees of Hershey Chocolate Company. A family-oriented theme park with dozens of kid-friendly rides and 13 roller coasters, visitors can enjoy factory themed tour-ride of Hershey's Chocolate World.

18. Six Flags Magic Mountain in Valencia, California (annual park attendance: 3.1 million): This theme park holds the world record for most roller coasters in an amusement park—
19. Samsung Gear VR makes The New Revolution roller coaster extra unique for guests.

19. Six Flags Great Adventure in Jackson, New Jersey (Annual park attendance: 3.05 million): Featuring 11 themed sections, this theme park is known for family-friendly rides and Fright Fest during October.

20. Busch Gardens Williamsburg in Williamsburg, Virginia (annual park attendance: 2.78 million): Modeled after nine different European cities, this park features the Parisian streets of France and the Oktoberfest celebrations of Germany. It is also known for roller coasters and wild-animal attractions.

5.6 VRP Positioning

Within any geographical area, you can purchase the right VRP in the wrong location. You can change the structure, remodel it, or alter the home's layout. But generally, you cannot move it, as it's attached to the land. The most desirable locations with the highest VRP occupancy and ADR values are those in prime spots.

Locations near the ocean, rivers, lakes, or parks hold their value because of the location, providing they are not in the path of a possible natural hazard. People want to be near water or visually appealing settings. Some VRP locations bring top dollar because they provide sweeping panoramic views of the cityscapes, but even a glimpse of the ocean from one window is enough to drive even more demand for your vacation home. Other sought-after views include mountains, greenbelts, or golf courses.

Entertainment and shopping areas are prime locations for VRP. In many cities, you will find VRP developments that are located within short distances to theme parks, sports stadiums, theaters, retail, restaurants, and specialty boutiques. These properties are more expensive than those located further outside of town. Remember, people on vacation would rather not drive if they can walk to nightlife.

Conforming areas where similar properties are grouped together thematically or through a certain design aesthetic can be a good place for a VPR investment. People tend to gravitate toward others who share similar values—and their homes (and vacation homes) reflect it. VRP guests mostly prefer to be surrounded by similar types of properties in age and construction, where people just like them vacation.

Which Phase?

If you are looking at buying a property in a large community with two to five phases, proceed with caution. Anything with more than two phases, I'd avoid unless the property is in the last phase. Here's why: By the time you're in your home and you have two years of rental history, this is the year when you could conceivably sell that investment. Or, your income has started to come up. Then, along comes a third phase with brand new homes. So, if you want to sell that this point, get in line. You're going to have to drop your price. Or, if you want to keep renting your property to vacationers, you're now competing with properties being marketed as brand-new homes. Yours is three years old.

Go with a property in a development that only has two phases, and try to buy in that second phase. Look at 100-200-unit projects. You typically won't have as many amenities at this size, but it's good to be in a smaller community. Your average daily rate will be more secure.

The second non-obvious location consideration I want to address is the fringe area in a given development. When buyers are in the process of purchasing in a large master community, that community might have an area around the periphery. You'll hear things like, "You may be able to put up a pool, if..." That's a red flag—the developer is trying to move inventory when the future isn't absolutely clear. The worst-case scenario is, the new owner ultimately *can't* put a pool in. While everyone waits for an answer, closings are put off, sometimes weeks, sometimes months. Lenders get cold feet and pull out, and this uncertainty can cause a snowball effect.

Don't buy a property if there are open questions about easements, sewer lines, power lines causing brain cancer, or changing zoning. All of these types of considerations need to be addressed before you

select a home to invest in. You want to be where everyone else is already, and you need to be a little bit of your own expert. You need to consider Murphy's Law: what *can* go wrong *will* go wrong.

If I'm looking at a neighborhood and the whole thing is flat, but it falls off on the sides and there's a row of homes down that side, and they haven't sold yet, and I'm told, "Well, you know what? We may have to put a retaining wall up but it'll all be fine."

No, thanks.

Even if the engineers have assured you everything is going to be just fine, I wouldn't take a chance. I'd rather go a couple blocks in where everything's selling really well and have a perfectly flat piece of land with homes all around me. Nothing's happening to *them*.

Don't take the bait on a property that's giving you doubts. Maybe they even offer a discount. Who cares? If there are 150 homes in this development and there's a street selling slower than all the rest, *something ain't right*. Whether you see it or not, somebody has seen it so stay away.

Consider the positioning of your product within all the rest. Location is one thing—that's where your development is and what's around it. Positioning of the hard asset is where the property is situated within the development. Find out: Is there a shuttle service? Is my VRP close to that drop-off spot? How close to the water park is it? Could you walk a block to the water? That's huge. Is there a golf course and a club house? Is it close to that? Is it clear out in the middle of nowhere on the very edge? What they'll try to sell you is you'll have no neighbors: "Look at that view!" You're looking over a fence into a vacant area. That's not what you want to buy.

To be successful, VRP must be located in economically stable areas. Neighborhoods that stood the test of time and weathered economic downfalls are more likely to attract buyers who want to maintain value in their homes. These are people who expect pride of ownership to be evident.

Again, pay special attention, within the community and street, to where your VRP is located. It is better to be positioned in the center of the street**.** Sure, some renters prefer corner locations, but most vacation renters want to be in the middle of the street, because this makes them feel less vulnerable.

Areas to Avoid

This should not need to be mentioned, but let me touch on it briefly: bad areas. It's almost easier to talk about what constitutes a bad location than to discuss good locations for VRP. That's because the qualities that make a good location desirable can vary, depending on whether you're looking in the city, the country, or the mountains. Bad locations, by their general nature, are easier to pinpoint.

Unless you live downtown, commercial buildings on your block diminish VRP values. Part of the reason is because homeowners cannot control loitering. Homes next to gas stations or shopping centers are undesirable because of the noise factor, and nobody really wants to listen to truck engines idling at night or during early morning hours.

Stay away from railroad tracks, freeways, or areas directly below flight paths. While some city dwellers have homes close to railroad tracks and endure rumbling and other noise 24-hours a day, excessive noise will kill your guest retention, even when such homes are located in otherwise desirable areas.

Do your research and stay FAR away from high crime areas. People want to feel safe when they are on vacation. When cars come and go throughout the night, and the police visit a neighborhood often, visitors will assume that the area may have a crime problem. This makes renters wary of ever returning to that vacation home.

No one wants to vacation in an economically depressed area. Nor do they want to travel through that area on the way to their vacation home. Check the routes to the VRP you are thinking about purchasing from airports, highways, etc. If the route travels through areas where owners show no pride of ownership in their homes, (as evidenced by lack of maintenance, poor landscaping, and junk in the yard), stay away. Do not invest. Of course, some areas like this are at the center of proposed rehabilitation projects and could thus be intriguing. Remember, however, that rehabilitation is never a guarantee. A great VRP home in close proximity to a depressed area is not a good call.

Finally, never, ever invest close to hazards. People don't want to vacation next door to nuclear power plants. Few vacationers want a transformer in their yard either. High voltage power lines overhead? Move on! If the neighborhood you're considering was built on a landfill or was recently swampland, pass. Always order a natural hazard report when buying a VRP.

When Circumstances Change

Even when you do find a home in a desirable location at what seems like the right price, it never hurts to look at additional factors such as any new construction close by, or vacant land that could be developed in the future into something that impacts the value of your potential new VRP.

Sometimes, in new resort developments, zoning and building plans change. For example, a buyer purchases in a home allowing for short term rental without studying the current trends and objections to it in the municipality. Then, the local government changed the zoning, outlawing short term or vacation rental in the area, killing any potential for the investor to do business.

New apartment buildings can also change the whole landscape. A VRP investor's formerly appealing nature views are now obstructed. Later in the year, a seller a few doors down tries to sell an identical square-footage VRP and finds that he cannot get nearly the price he would have gotten if he had sold before the apartments were built. The presence of the apartment buildings can significantly affect a home's value.

For the startup VRP entrepreneur, entering the industry may be a bit intimidating. Even in this book, which attempts only to touch on the necessary disciplines and knowledge, the amount of information can be overwhelming. Searching one topic can result in an avalanche of options, information, opinions, etc. While I understand the problem, I still advise you to spend your time understanding the business. Take a close look at the critical components of analysis and revenue forecasting in an area close to you. The big picture of diversification of your portfolio of VRP can be accomplished when you are actually able to build a portfolio.

Take your time. Be methodical and disciplined. Remember, you are playing the long game in this business. It will take several years to build up the portfolio that allows you to engage full time, but I can assure you it is well worth the time and effort!

5.7 Resorts with VRP

Now, let's take a look at one of the fastest growing sectors in the VRP industry: the move by resorts to add single family homes, townhomes, and condominiums (primarily for private owners to purchase) as investments into their hotel inventory. These communities will typically have interior attractions and all the hotel amenities for the VRP guests to use, and several dominant management companies to select that will handle all the Vacation Rental Management and booking for the investors. You'll learn more about this in Chapter 9.

Your VRP business will center around the developments in some of the most amazing locations on the planet. You will need to have a clear understanding of both residential and resort developments, their attractions and amenities, and the various types of VRP that are available in them.

Destination and All-Inclusive Resorts

Most of these types of homes can be found in communities that are also resort-driven, with mixed amenities. They provide most of a vacationer's wants, such as food, drink, sports, entertainment, and shopping, right on the premises. A hotel is frequently a central feature of such a resort, but some are condominium complexes that are timeshares, owed fractionally, or wholly owned.

A destination resort is a resort that itself contains the necessary guest attractions including food, drink, lodging, sports, entertainment, and shopping within the facility so that guests have no need to leave the facility throughout their stay. In other words, this type of resort does not need to be near a destination such as a particular town, historic site, natural attraction or theme park to attract its patrons.

Some examples are:

- Atlantis in the Bahamas
- Walt Disney World Resort near Orlando, Florida
- Port Aventura World near Barcelona on the Costa Daurada in Spain
- Costa do Sauípe in Northeastern Brazil
- Laguna Phuket, Thailand
- Sun City, near Johannesburg, South Africa

An all-inclusive resort charges a fixed price that includes most or all items. Most inclusive resorts include lodging, unlimited food, drink, sports activities, and entertainment for the fixed price. The number of resorts in the United States offering all-inclusive amenities has decreased in recent years, although cruise vacations (which are generally all-inclusive) have become more popular. We mention these here because many of these resorts are adding VRP offerings and many of the new all-inclusives are integrating VRP into their development plans.

Many resorts now have integrated large, well-organized residential areas into their masterplans. These are VRP offerings that include for the homeowner, and the homeowner's guests renting the home, access to all of the amenities in the resort. Also included are typical hospitality-type services like housekeeping, concierge, shuttle services as well as private chefs and private in-home spa services.

This industry trend has dovetailed with resorts moving to more specialization and including theme park-like attractions inside their gates. Ever since waterparks came indoors and attached themselves to hotels, the hotel waterpark resort industry has continued to grow at an accelerating pace.[46] And the average size of these waterpark resorts is getting bigger. In 2004, only one indoor waterpark over 50,000 square feet in size opened. In 2005, three opened. Eight indoor waterparks over 50,000 sf opened in 2006, and another eight opened in 2007. As of March 2019, the United States and Canada had a total of 1,158 waterparks. Thirty-three waterparks opened in 2018.[47]

These numbers do not include the Crystal Lagoons model of residential vacation home development. Currently, there are over 50 of these amazing water themed communities either already built, being built, or in the planning stage in the United States. This presents a very strong opportunity for the VRP investor.

The Future of Resort Development and Vacations

As a VRP investor, it is smart to be aware of trends. Lodging, recreation, and entertainment concepts have merged into one. In

[46] https://www.hotel-online.com/press_releases/release/waterparks-growth-trends-in-2019/ Accessed June 10, 2019.
[47] https://www.hotel-online.com/press_releases/release/waterparks-growth-trends-in-2019/ Accessed June 10, 2019.

urban areas, we now see hotels, recreation, entertainment, sporting activities, shopping, convention centers, and large-scale attractions being combined in mixed-use resort destination developments. In more rural settings, hotels, and indoor-outdoor waterparks are being combined with golf courses, ski hills, conference centers, medical centers, casinos, and residential projects as well as second home, vacation home, and resort retirement communities.

Long weekends are replacing long vacations for Americans. A recent NPR story reported that the two-week vacation is disappearing. Instead, employees are using their vacation days to extend weekends and take shorter breaks from the office.[48] Mounting pressure for workers to be available to clients around the clock, and more dual income couples, means it can be tough to coordinate vacation schedules due to work demands. More than half of all vacationers will take several short weekend getaways instead of the traditional long summer retreat.

This trend helps explain the popularity of drive-to regional resorts and the rapid growth of indoor waterparks as part of hotels and resorts. Dissatisfaction with the airlines and demand for shorter getaways all contribute to the success of regional drive-to resorts. Multi-generational family gatherings are also more popular. Unlike the typical vacations of the past that involved just the nuclear family, older and younger generations are traveling together more today. In a nation in which families often live in separate states, sharing a vacation is a way for grandparents, parents, and children to book some quality time and make memories.

Several waterpark resorts with large villas (sleeping 12 to 20 people) have reported that these popular units sell out first. As a result of *togethering*, as it is called, indoor waterparks are being designed

[48] https://www.npr.org/sections/health-shots/2018/08/20/639551037/vacation-days-piling-up-heres-how-to-get-the-most-out-of-a-short-vacation Accessed June 10, 2019.

for all ages and resorts are responding with packages to please all ages. Indoor waterpark projects are getting bigger. The average size of a hotel indoor waterpark has been steadily getting bigger each year. More and more hotel waterparks are adding meeting space to attract different types of customers during certain low periods throughout the year. And more hotel waterparks are part of larger mixed-use resort projects. In the hotel waterpark resort industry, bigger is better. To encourage families with young children to drive up to 200 miles and spend more than $200 a night for a family suite, these resorts offer high entertainment value.

Finally, the savvy VRP owner knows that adventure sports are going mainstream—and from natural to man-made facilities. Activities under this umbrella include surfing, skiing, boarding, paddling, rafting, kayaking, rock-climbing, rope-walking and skydiving. While enthusiasts want the real thing, it isn't always available. As a result, golf simulator technology and the artificial rock wall have become popular. Every natural setting has a made-man artificial version; today, every outdoor sport has an indoor version located closer to home.

Chapter 6: Purchasing Your VRP

6.1 Build Your Team: Realtor, Attorney, Accountant, Lender

A great leader surrounds herself with great advisors. You should run your business no differently. Have high standards and discipline like any other great business leader. It is important to put away your ego. It is not weak to utilize experts in each area. In this chapter, I will walk you through the "Mission Critical Four" of your VRP team. Keep in mind there are also other experts you should reach out to with questions. These include designers, construction contractors, rental management companies, insurance experts, marketing people, IT, and suppliers of all things for the home.

For this discussion about the actual sales experience, let me relay a short story about a formative engagement I had some years ago. I was between projects and decided to take a gig with a major brand in Fort Lauderdale. This project, though a moderate level golf resort, truly did not have a lot going for it. It was not on the beach, nor did it carry a big-name celebrity brand. Instead, it was located in a minor resort area and the buildings were not new.

However, what it did have was an amazing team of sales professionals. In my 30 years in the industry, I have encountered many different types as I will discuss in this section of the book. Most fall into the narcissistic and apathetic behavior range; some can be quite toxic. I have heard the discussions of these ridiculous caricatures of sales people, the self-proclaimed "closers." Truly, they are a comical crew, most of them. Comments like, "I tricked him into buying," or "I buried that guy," are an unfortunate component

of the industry, coming as they do from these parasitic sales people. (I do not consider them professionals.)

These people may have some short-term success, but are not a good business decision for developers as they typically will have a host of other issues (drugs, customer complaints, etc.). If you encounter one, immediately ask the company for another salesperson.

At this community, it was different. Somehow, this location had assembled a diverse group of professionals who "clicked" together. These were empathetic, understanding, and collaborative professionals who made each other better every day. For Frank, Daniel, Danny, Bridgette, Janine, and the rest of the crew, if you are reading this, I carry with me what I learned from you to this day. After this engagement, in fact, I actually selected and trained all of my teams in the process and manner that was conducted in this group, and it works. This group had nicknames like "The Doctor," "Nuke," "El Presidente," "The Nurse," "Carlito," etc. This wonderful group came to be officially named "Textbook" due to my observational and systematic approach.

I tend to take a student's approach to any new endeavor, and in this place, there were plenty of teachers. "The Doctor" spent his time talking to customer couples about their relationship. He had the unique ability to uncover issues and root causes in their marriage. "Nuke" was all about exposing the unhappiness in their lives and how to solve it. "The Nurse" provided counseling to her clients and they were so very grateful. "El Presidente" had vast travel experience, ran in political circles, and used storytelling to paint the most amazing mental masterpieces of places he had been. Most importantly, however, all of these professionals had true compassion for their clients and approached the presentations as helping someone.

During this engagement, we were all “working” in a resort, near Fort Lauderdale. The mornings were spent talking with clients and walking around a golf resort.

The afternoons? Well, it was Fort Lauderdale, and on that white sand beach are amazing beachfront restaurants, entertainment options, and for me, kite surfing! I spent many, many afternoons skimming across the water kite looping upward and downward in a figure eight pattern. I loved the exhilarating moments in the sun followed by wicked splashdowns tumbling into the crystal-clear blue water—after which I surfaced, coughing and spitting water, only to pull myself together and take off again.

The evenings we would meet and dine and drink on that beautiful beach vacation spot. *This* is living and working on a permanent vacation. It’s waiting for anyone with the discipline to learn the VRP business.

6.2 Be Realtor Ready

We all feel that we are blessed or have worked with certain innate talent and learned skills. We also all feel that we have good sense of judgment. However, this is your business, and as a business person, you need to utilize experts. The process of purchasing a property, particularly a VRP, is filled with micro-skills that can trip you up. Coming from the inside of the development business, one of the best pieces of advice I can give is PURCHASE. DON'T BE SOLD! Your Realtor can assist with this, but ultimately it is up to you to employ tactics that protect your business.

I'd like to give you a few notes about the salespeople you will encounter at sales centers of the VRP home communities. There are sales professionals working for the developer who can honestly and expertly showcase their property opportunities and provide wonderful customer care. These pros are in the business of what they can do "for" the client, not what they can do "to" the client. As in all businesses, there are also inept and idiotic "heat merchant" sales people who will say anything, or use every offensive and insulting tactic out there to goad you into purchasing. They will high pressure "sell" you, using the takeaway: "We have sold out other phases in months" they will tell you. Or, "We only have a few homes left. They are selling fast," or other irrelevant jabbering.

These are the sales people who sacrifice product and industry knowledge for pressure. They consider themselves, and proclaim they are "closers" and are kept around the sales office just to bolster numbers, no other reason. If you encounter such a sales dog, just walk away. Go back to the sales office and ask for another sales person. Or possibly, inform the developer that you will not buy his product because of tactics utilized by this sales person.

Don't be easy. Don't listen to anything. Do all of your own assessment.

When you walk into that sales center and you're given the person who happens to be in rotation, the first thing I want to know is, "Who am I speaking with?" It only costs you $19.95 to do a background check. Got their name, find out where they live, and go to Truthfinders and pull one on them.

They're selling you something. They're selling you something worth $100,000, $200,000, $300,000, a million dollars. You're spending a lot of money based upon the time they spend with you, so you'll want to know who they are.

Go to that sales center and ask for the names of three salespersons. Then, research those three. Find the one who doesn't have any red flags. Do due diligence on the person selling to you, then go back in and ask specifically for that sales person. That's the first step because criminals – conmen – can be attracted to sales, and they're very, very good. They're the guys who will take you out there on the fringe because the manager put a special bonus on that iffy street, and they'll sell you that property. Someone with integrity would not. That's a big difference.

Salespeople with integrity make more money than the conmen, yet these guys still exist. So again, the very first step is you need to know who's selling to you, and don't be afraid to ask.

Once you've established this information, everything gets easier because you can have a little bit of trust with the person you're working with now. You feel a little more confident and comfortable when it comes to asking the right questions. They will pace themselves with you; they won't try to run you over. And they will make sure that you have everything you need. They're not afraid to let you go and walk away that day because they've created a relationship with you that is long term.

I've got people who bought from me two years after we first met because I stayed in touch with them. They weren't ready when we met. And if I would have tried to rush them, I wouldn't have a relationship with them. The reason I can reach out to people regardless of where I go and have buyers immediately or referrals immediately is because of the relationships that I've created with people over time. That's what I teach sales people.

The second piece is this: During that property tour, ask as many questions as you can. Put their feet to the fire, press them, and press them, and press them, and watch how they react—not just what they say but how they react.

I wouldn't ever have anybody buy anything within a month. Even if I loved a particular property and they told me it's going to go fast, okay. It goes fast then, because I'm not going to make a decision on a purchase this large that fast. If I miss out, I miss out.

Instead of rushing, schedule a meeting with the salesperson in 30 days. Watch their reaction. The ones with integrity will say, "That's very wise; I support that; I'll keep in touch with you to let you know what's going on; I will tell you if it sells." That's just a courtesy.

The buying process should *never* be urgent. Never allow a salesperson to push you into making that decision.

Also, if you get yourself a really good strong Realtor, then they step in the middle of the process and advocate for you. They are positioned in the middle. They're a transaction broker, and that's what you want. You don't have to pay them but they're bound by a transaction broker's status, which means they have to advocate for you. And they won't let these people push them. They'll tell you, "I've been in this office. I know who to get and I know who not to." That's excellent.

Your Realtor could, and should, protect you. This is one of the MANY things a good Realtor on your team will do for you. Other benefits, according to Realtor.com, include the following:

1. They have expertise. Real estate has its own language, full of acronyms and jargon, and a Realtor is trained to speak that language fluently. In addition, buying or selling a home usually requires dozens of forms, reports, disclosures, and other technical documents. Realtors have the expertise to help you prepare a good deal while avoiding delays or costly mistakes. Today's purchase agreements run ten pages or more.

2. They have additional searching power. Yes, you can find up-to-date home listings on your own. But Realtors have access to *more* listings. Sometimes properties are available but not actively advertised. Plus, a good local Realtor is going to know the search area better than you ever could.

3. They have negotiating skills. You can expect competition, cutthroat tactics, all-cash offers, and sometimes even bidding wars. It helps to have a savvy and professional negotiator on your side to seal the best deal for you.

Top producing agents negotiate well because they can remove themselves from the emotional aspects of the transaction. Good agents are not messengers; they are professionals who are trained to present your offer in the best light and agree to hold client information confidential from competing interests.

4. They are connected. Realtors get to know the people in a particular area who can help in the process of buying or selling a home. Mortgage brokers, real estate attorneys, home inspectors, home stagers, interior designers will be in your Realtor's network. They know which vendors have a reputation for efficiency, competency, and competitive pricing. They can give you a list of

references with whom they have worked and provide background information to help you make a wise selection.

5. They adhere to a strict code of ethics. A Realtor is a licensed real estate salesperson who belongs to the National Association of Realtors®, the largest trade group in the country, and as such, follows a code of standards set by the group.

6. They are your researcher and your adviser. For example, Realtors research comps to make sure you're getting the best deal. You may know that a home down the street was on the market for $450,000. An agent will know it sold at $370,000 after 180 days on the market.

7. They save you time and future headaches. Even transactions that close without complications can come back to haunt you in the future. Many questions can pop up that were overlooked in the excitement of closing. Good agents stand by ready to assist and can prevent problems in the first place.

A Realtor's success and continued career in real estate is built on referrals. This emphasis gives agents strong incentives to make sure you, the client, is happy and satisfied.

6.3 Lawyer Up

I highly recommend engaging a good real estate attorney as an advisor on your VRP team. Buying a vacation property will probably be the second largest purchase you will make in your life. Issues will come up that you won't be familiar with—but an experienced attorney absolutely will be.

The VRP seller should likewise have the advice and guidance of an attorney with respect to a VRP purchase agreement. Even if the agreement is a standard form, its terms should be explained to the seller. Then, they can be revised if necessary. An attorney should also determine if the agreement was properly signed.

Even if a lawyer is not needed during the course of negotiations, the buyer and seller each may have to consult with a lawyer before closing to answer important questions, such as the tax consequences of the transaction.

Purchase Agreements

The purchase agreement is the single most important document in the VRP purchase transaction. Although standard forms can be useful, a lawyer is helpful in explaining the forms and making changes and additions to reflect the buyer's and the seller's wishes. There are many issues that may need to be addressed in the purchase agreement. Here are some common ones:

- If the VRP has been altered or there has been an addition to the property, was it permitted?
- If the VRP buyer has plans to change the property, what is planned?
- What happens if a buyer has an engineer or architect inspect the property and finds issues?
- What are the legal consequences if the closing does not take place? What happens to the down payment or earnest money?

Finally, an attorney can help review the title search and explain the title exceptions as to what is not insured. He or she will also

determine whether the legal description of the VRP is correct and whether there are problems with adjoining owners or prior owners. Please note that the title search does not tell you, the buyer, anything about existing and prospective zoning of the property in question. A lawyer can explain whether existing zoning prohibits a two-family home, short-term vacation rentals, or whether planned improvements violate zoning ordinances. This is crucial information for you to have well in advance of any VRP purchase.

The Closing

The closing is the most important event in the purchase and sale transaction of your VRP. The deed and other closing papers must be prepared. Title passes from seller to buyer, who pays the balance of the purchase price. This balance is often paid in part using mortgage loan. A closing statement should be prepared prior to the closing indicating the debits and credits to the buyer and seller. An attorney is helpful in explaining all closing costs. The deed and mortgage instruments are signed, and your lawyer will see to it that these documents are appropriately executed and explained.

The closing process can be confusing. If you are the only person there without a lawyer, your rights may be at risk. If you want peace of mind when making one of the biggest purchases of your lifetime, you should consider speaking with an experienced real estate attorney.

Jason Eisner, J.D., is the owner of Imperial Title LLC based in Boca Raton, Florida. Recruited out of the University of Wisconsin-Madison in 2002 to work for a property development firm in Florida, Jason attended law school at Nova Southeastern University and received his J.D. in 2011. From there, his close relationships with premier property developers around the state of Florida lead

him to create a niche in the vacation property market. With his title company, Jason has done more closings with VRP then virtually any other attorney in the state. He is the go-to for all of the Encore Club closings in Reunion, and for good reason. His first piece of advice for finding a good attorney? Engage someone seasoned in real estate transactions, who handles buyer representation regularly or handles the title and closing side on a regular basis.

Jason cautions that there's a big difference between transactional attorneys and litigators: "Litigators, they're fighting back and forth," he says. "Transactional attorneys typically, unless something goes awry, are trying to make everything go smoothly so everyone's happy and they close.

"Buyers shouldn't use their wills and estate attorney, or their attorney who did probate for them, or the attorney who handled their traffic ticket. None of that. These lawyers might say they can do it, but if you're really looking for the right person, it's got to be a real estate attorney."

Be Aware of Property Restrictions

There are some key differences between buying a primary residence and buying a vacation home that you want to rent out. Jason says that when you're buying a vacation home, it is so important to understand the rules regarding frequency of rentals: "I can't emphasize this enough. Because it could be seasonal, monthly, two rentals a year. Buyers must understand the community's allowances for frequency of rentals."

When a buyer engages an attorney, the attorney should help them understand all the limitations and restrictions that go into owning that rental property. The only way to understand this is for the

attorney to request, from the closing agent or the title agent, all of the documentation in connection with the title.

"When a purchaser buys," he explains, "in contracts it typically will state that the closing agent will provide a closing commitment to the buyer within a certain period of time. When that commitment is provided, it will list what we call the B2 exceptions. The B2 exceptions are documents of record that will affect your ownership. For example, a declaration that has to do with the HOA. Or a declaration that has to do with a club. Those are the big ones because they explain the various rules and regulations that have to be abided by in a community."

To get the use out of the VRP that you intend, you have to understand what's in those documents.

"I've had people come to me after a closing where they wanted to rent out a property seasonally," Jason explains, "and the HOA told them that they were unable to do so. When they purchased the property, they didn't have an attorney, which was a mistake. When I went back and looked, I pointed out that the documents clearly stated that the only rentals allowed were annual. So, these particular buyers didn't do their due diligence to find out if their intended purpose—renting out the property seasonally—would be viable. In this case, it wasn't."

Here is another thing a lawyer can look at for you, the VRP buyer: oftentimes, a VRP is located within a PLAT or a PUD, or planned unit development. There are ordinances about trash, about shrubbery, about different things you can and cannot do with your property. Buyers have to understand those rules as well. For instance, you can trim trees and shrubs but you may only be allowed to place them on the curb for pickup at certain times in a month.

Ask your real estate attorney about special taxes as well. "A lot of these communities are called community development districts," Jason says. "It's where the development of a certain project and its 800 homes is going to have a severe economic impact on the surrounding areas. So, they create a special taxing district, and figure out what the debt will be, attributable to each unit—as well as the operating and maintenance side of it.

"The reason they have this is because when you build 800 homes, it's going to have an impact on the sewer systems, the water systems, the schools, the libraries, the lights, the intersections. The local government knows they'll have to expand those services, so they tax the new development's units. For instance, at Encore there is a special non-ad valorem tax of roughly $3500 going on the bill for the next 30 years. That's another big thing—an important factor in understanding your overall carrying costs."

Another consideration is easements. "Let's say you have a community that has 100 units and the power company is FPL," Jason explains. "FPL will have documents in there that state easements are running right in front of the property, or behind. They have the ability to go in and fix things on your property if there is an issue. Does it happen all the time? No. *Does* it happen? Yes. Same thing with your water company, your sewer company, your gas company, AT&T, Comcast. All of these different companies will have agreements where they can enter the property and fix things that may threaten their services being provided to the community. So, those are important to review."

Prepare for Closing

If you work with a seasoned attorney, as you should, that attorney is going to guide you along the way and ask for various things.

It's a good idea to know, from the onset, how you want to take title to the property. Have the contract drafted such that the way you want to be on title is what's on the contract.

"So, what that means," Jason explains, "is if John Smith is purchasing a vacation property in Bear's Den and he wants to be on the title individually, with his wife Jane, the way they should draft the contract is 'John and Jane Smith.' Not just John Smith, because then the contract would have to be changed. If he wants to take title in a corporation, an LLC, or a partnership, then he should know that ahead of time and have those documents in place and set up.

"That way they know, going in, that they have the documentation in place for their company, if that's the way they want it. If they want to put it in a trust, then the trust should be set up in advance. Sometimes there are restrictions on how you can take title, which is another thing that would show up in the declaration.

"The next thing they have to understand is, are they going to pay cash, or are they going to get financing? If they pay cash, then they can usually take title however they want. If they're going to get financing, it's a little trickier because various lenders have various requirements about how you take title. Some lenders will not allow you to take title in a corporation or LLC. They'll only allow you to take title as an individual or perhaps in a trust."

Jason advises VRP buyers to stay in communication with the title agent ahead of closing. Respond to requests for documents or ID in a timely manner. If you're going to be in a different state and hope to do the closing remotely, communicating that is very important. It's helpful if all questions are asked and answered before you get to the closing table.

Finally, it's important that buyers request a full copy package of *all* of the executed documents at closing. "I know that sounds

elementary," he says, "but I can't tell you how many times people have to come to me and said, 'Oh, I didn't get a copy of my documents.' Some people assume they're going to get it, and then they don't and time passes. The list would be, in order of importance, the deed, the warranty deed, your settlement statement, your title policy, any affidavits that were executed at closing, any agreements that were executed at closing, a copy of your land survey of the property. All of these things are very important to have, for documenting their file should they want to do some refinancing in the future or for when they want to sell."

6.4 Accountant Alliance

Running your VRP business, particularly if you are a Do-It-Yourself operator instead of utilizing a third-party Vacation Rental Management company, will take an enormous amount of your time. Adding the burden of proper accounting procedures is not only difficult, it can be downright negligent.

All good businesses have a Chief Financial Officer, a CFO. This individual at the top of the corporate food chain directly oversees all things financial in the company. You would be doing your own VRP company a disservice if you did not enlist an accountant with specific disciplines in the real estate tax and short-term rental fields. In this section, I will review just a few of the elements that you need to understand regarding this aspect of your business. Even armed with this information, you should definitely bring in the expertise of an experienced accountant as a key member of your VRB team.

Short-term online rental marketplaces have made it easy for homeowners and property managers to market their rental property, yet experienced VRP owners know that in order to

succeed, they need to treat their short-term rental or rentals like a business. The IRS, in fact, insists that they do so.

Fortunately, you also get business deductions when income tax time comes. VRP operators are allowed to deduct expenses related to their business. There are many deduction opportunities for your vacation rental business, but they might not all be obvious. Do a little research and work with an accountant to make sure you aren't missing out on the deductions you could claim. VRP owners should especially pay attention to new Tax Cuts and Jobs Act deductions, most of which became available starting with the 2018 tax year.

Income Taxes vs. Lodging Taxes

VRP business expense deductions relate to federal income tax. It's important to understand the difference between income tax, which you pay to the government based on your income, versus lodging taxes. The lodging tax is a tax your guests pay on the cost of renting short-term accommodations from you. You, the VRP owner, don't actually pay lodging taxes. However, you are responsible for collecting the tax and passing it on to the appropriate state and local tax authorities.[49]

The 14-Day Rule

Your VRP must be classified as a full-time rental business to maximize your tax deductions. That means it's used by you for your personal stays for less than 14 days or fewer, or 10 percent or less of

[49] https://www.avalara.com/mylodgetax/en/blog/2018/03/10-easily-overlooked-tax-deductions-airbnb-hosts-can-claim.html Accessed June 10, 2019.

total annual rental days, whichever is greater. Days spent repairing or maintaining the property don't count toward personal use days.

You're only allowed to make deductions in proportion to the amount of time the property is being rented by guests if you use your VRP for personal use for more than 14 days a year. If your VRP is a full-time rental business, you may be able to deduct up to $25,000 in losses each year, depending on your income.[50]

VRP Tax Deductions

Here are some key tax deductions that are easy for new VRP owners to miss:

1. There is a new pass-through business tax deduction. Under the new Tax Cuts and Jobs Act that went into effect January 1, 2018, landlords (including VRP owners) who own their rental property through "pass-through" entities including sole proprietorships, limited liability companies, or partnerships may be eligible to deduct an amount equal to 20 percent of their net rental income. This is a personal deduction that can be taken even if you don't itemize.

2. There is a new deduction for major improvements. Changes to Section 179 of the tax code now allow VRP owners to write off the costs of certain personal property used in a business. For example, some vacation rental operators can write off the cost of fire systems, security systems, roofs, and HVACs. The amount that can be deducted for personal property under Section 179 was raised to $1

[50] https://www.thestreet.com/personal-finance/taxes/how-is-rental-income-taxed-14816849 Accessed June 10, 2019.

million starting in 2018. This rule is applicable only to property used for rental more than 50 percent of the time.

3. Check the new bonus depreciation deduction. Under the old tax law, business owners could only deduct 50 percent of the cost of personal property used for the business each year. Now it is 100 percent. This means you can deduct the full cost of property such as appliances and furniture all in one year.

4. Mortgage interest: You used to be able to take a deduction on interest on up to $1 million in newly acquired debt; the new law changes that amount to $750,000. However, *these limits do not apply to rental businesses*. You can deduct all mortgage interest on VRP as a business expense.

5. Credit card and loan interest. If you use credit cards or personal loans to pay for VRP business expenses, you can deduct the cost of interest payments on those accounts.

6. Property taxes. The Tax Cuts and Jobs Act also lowered the amount that can be taken as a personal deduction for property taxes to $10,000; however, the limit does not apply to properties operated as rental businesses. VRP owners can take the full amount of property taxes paid each year as business deductions.

7. Insurance. You can deduct the cost of any insurance that covers your VRP as well as for private mortgage insurance premiums on rental property for the year they were paid.

8. DIY rental marketplace fees. Online listing sites connecting vacation renters and VRP owners generally charge a “host service fee” of 3 percent of the cost of each reservation or an annual subscription fee. These fees are deductible.

9. Travel and transportation expenses. You can deduct expenses such as airfare, accommodations, mileage, meals, and other travel expenses when you travel overnight for business related to your VRP. This could include activities such as traveling to your rental property to do repairs or maintenance, education opportunities related to your rental, such as classes, seminars, conventions, or trade shows. You can also deduct mileage for travel to visit your property.

10. Home office. If you manage your rental business from a home office, you may be able to deduct expenses related to the office, including equipment, supplies, and a percentage of many of the costs of running your home.[51]

Many tax deductions for your rental business could seem small. But they can really add up. Make sure to record your expenses as you go along. Keeping detailed records of any expenses related to your rental makes things much easier when it comes time to file your taxes. This is also important in case the IRS has questions in the future.

Knowing what you can deduct and keeping good track of those expenses can help you take maximum advantage of tax savings on your rental property. Again, work with an accountant who is experienced in VRP, and many of these headaches will be handled for you.

[51] https://www.avalara.com/mylodgetax/en/blog/2018/03/10-easily-overlooked-tax-deductions-airbnb-hosts-can-claim.html Accessed June 10, 2019.

6.5 Lean on Your Lender

Your lender is your leverage into the VRP business. Very rarely will an investor be able to purchase the asset of their business with all cash. So, there are a couple ways to proceed. First of all, you can deal directly with your bank. If you have a longstanding relationship, and your bank has a policy that is friendly toward investment property, (and specifically to VRP), that is definitely the way to go.

If not, you will want to look into the many mortgage brokers in your area, interview them, get references, and select a couple with whom to work. A mortgage broker finds loans on behalf of individuals or businesses. Mortgage brokers find a bank or a direct lender willing to make the specific loan an individual is seeking. Many mortgage brokers are regulated to assure compliance with banking and finance laws in the jurisdiction of the consumer.

Duties of a Mortgage Broker

The nature and scope of a mortgage broker's activities varies. Typically, their duties include:

- Assessment of the borrower's circumstances: this may include assessment of credit history and income documentation
- Finding a mortgage product that fits the client's needs
- Gathering all needed documents including pay stubs, tax returns, bank statements, etc.
- Completing a lender application form
- Explaining the legal disclosures to the client
- Submitting all material to the lender
- Offering best advice for the clients' circumstances

A mortgage broker is normally registered with the state, and is personally liable for fraud for the life of a loan. A loan officer works under the umbrella license of an institution, typically a bank or direct lender. Both positions have legal, moral, and professional responsibilities and obligations to prevent fraud and to fully disclose loan terms to both consumer and lender.

Mortgage brokers must also be licensed through the Nationwide Multi-State Licensing System and Registry (NMLS). The purpose of the NMLS is to improve and enhance mortgage industry supervision, create better communication from state to state, and to create consistency in licensing requirements and automate the licensing process to the greatest degree possible.

Remember: Even though your Realtor-Attorney-Accountant-Lender team may seem to have all the answers and the necessary expertise, YOU are ultimately responsible as the President and CEO of your VRP business. Thus, YOU need to understand the ins and outs of financing a property, specifically mortgages. A mortgage is a weapon in your arsenal, perhaps the biggest one, which will allow you to go forward into battle in your pursuit of building your VRP business.

The Lending Landscape for VRP by Financing Expert Oscar Mendez

Oscar Mendez has been in the financial services industry for 25+ years, specializing in banking, underwriting, lending, mortgage and management services. He served as a mortgage professor for Florida's premier state accredited mortgage school, Compliance Consulting Corporation, where he taught mortgage regulation, compliance, and practices to attorneys, bankers, investors, real estate and mortgage professionals. Oscar now serves as the

Director of Corporate Development for Columbus Capital Lending, LLC, where he is responsible for strategic alliances, recruiting, lender portfolio assembly, and public relations.

Each property—each asset—is underwritten differently. One of the biggest challenges for property developers looking to accelerate sales of their offerings is finding the right lending program(s). What I do for big developers all around the state of Florida is set up a lending portfolio that offers options to walks of buyers (i.e. US citizens, Foreign Nationals, Construction to Perm, etc.) In Florida, we have about three to five hundred banks, and you have to know the appetite for each of the banks. By providing a developer a lender portfolio for all types of folks—people whether it be full doc loans, bank statements or light doc programs, A borrowers, foreign national income, private equity financing—we are able to place every prospect.

In South Florida, you have cap rates to consider when acquiring investment properties. Cap rates used to be really higher than today's highly competitive market; anything over 10 percent was great. Now, in South Florida, people are grateful for six or eight percent. It's a thin margin to work with for real estate, especially with real estate cycles going up and down, mistakes in real estate can prove costly if you don't consult with top professionals that have proven records and quality research.

Opportunities are different with vacation rental properties, particularly in Central Florida right now. For example, in Reunion, Florida specifically, a strong cap scenario would be leveraging the minimum investment possible into a deal, 20 percent down, then your mortgage payment with a respectable current market interest rate is going to be about $9,500-$10,000 per month, and that includes everything (Principal, interest, taxes, insurance). If we round it off, we could plan on a payment of $10k, and these properties are bringing in up to $40k per month. With a 60 percent

occupancy, the return would be $25k per month. So, you're more than doubling your money based on a conservative income model.

They don't even believe me, in South Florida, when I tell them these numbers. I show them the numbers and say, "You need to present your investors the opportunities in Central Florida, specifically Orlando where the park attractions, transportation, infrastructure, tourism is among the best in the world."

Trends in Florida Real Estate Investment

I've been primarily in South Florida for the entirety of my career, but I recognize the value of Orlando. Even if you go lower with your rental projections, at 50 percent occupancy, you're doubling your money. That's a cap rate that doesn't exist elsewhere. They are impressed at these numbers in South Florida, and South Florida is a blooming real estate market.

The other important consideration regarding Florida real estate investment is the sea level. In Miami, it has been controversial but more and more evident as time passes. After the last hurricane, some areas were eight to nine feet under water. That didn't happen ten-twenty years ago; there is definitely a problem. With all of the coastlines now being targeted by the credit agencies if they don't remedy and mitigate, they are being downgraded. This has all kinds of implications on real estate valuations and finances.

So, Central Florida, because it has the infrastructure, the energy, the conference centers, the airport, the employment, the transportation, is becoming a most interesting market of opportunities.

Central Florida will also benefit from the Bright Line/Virgin Train, which will connect Central and South Florida, and the fact that we

are now the third most populated state in the country. We have 900-1,002 new residents registering in Florida—daily. That's up to 365,000 people a year, and they're coming to South Florida and Central Florida. The prices in Central Florida are, in many instances, significantly less of what they are in South Florida, for very attractive and strategic land. The people who are coming have a lot of money; they're from California and New York. Miami is the second-largest banking capital in the country behind New York, so many highly recognized hedge funds and financial institutions are moving here as well.

When you read all these articles in the newspapers that are doom and gloom and negative, I don't know where they're getting their data. Because there is more money—and more people— here than there is inventory. Everybody is doing well.

Requirements for Obtaining a Loan on VRP

First of all, as it relates to investment property, acquisitions banks want to know that you own a primary home before they'll offer you a loan on a vacation home. A lot of people will take an investment property and call it their primary home because they want a lower interest…that's rampant in the industry. It's called mortgage fraud. Again, if you're going to buy a vacation home, the bank wants to know that you own a primary. That's one of the major guidelines.

The second thing is they want to make sure you have reserves in case of a down market—at least six months of reserves for all of your housing expenses. So, if you have $20,000 in mortgage payments due each month between three properties, they want to see at least $120,000 in the bank. Evidencing stable income, assets, credit, and employment all play a major role as well.

For your A borrower, based on current rates, you'll be in the mid-fours to the mid-fives…and that's where almost everyone is going to fall. Then you have the investor class that doesn't want to get a thorough underwrite on their financials, so they'll get "stated income aka light doc loans." Those loans range from the six to the seven percent range.

Finally, for the people who want no questions asked whatsoever—they just want to close—they'll need to put 30-35 percent down, and they're going to get a rate between eight and 10 percent. With the returns we are seeing on a lot of VRP, the property still pays for itself. So, those are the three classifications of vacation property loans: A+ borrowers, stated income borrowers, and the no-questions-asked borrowers. These three loan types are for finished products, homes that are already built as well as construction.

I also have loans for land, for people who either just want to sit on the land and eventually flip it, or for people who want to take their time with designers and architects. Then, we have lenders for land and construction. Most people pay for the land then get a construction loan, but we can facilitate both. Typically, we give those folks, depending on their credit, between 70 and 75 percent of the loan-to-cost. What I mean by that is if a property is going to cost $1 M to build, we'll give you 70- 75 percent of that money.

The problem in these types of transactions is that there are lenders for land, and there are lenders for construction, then perm loans. Very few can handle all three in one to make the process easier for the investors.

Fortunately, I have a bank that will underwrite one file—your land, your construction, *and* your perm—with just a single underwrite, one closing. When you're talking a million dollars, that saves you a lot of money in the acquisition of the property. So, we have a pretty diverse portfolio for every type of scenario. We can even provide

private equity financing for overseas buyers during the construction phase. Then I can get them into a really good perm loan. Almost everybody who walks in can get a loan.

Tips for Finding a Good Mortgage Broker

I served as an accredited mortgage instructor for the state of Florida, and taught all types of people. In Florida, it takes one year of school to become a hairdresser, and three days of school to become a mortgage broker. It's shocking given the history of our housing crisis events in the recent past.

To become a stock broker or an insurance agent, you have to go through a lot of schooling to write a simple insurance policy, or to transact a thousand-dollar investment. Yet you have people purchasing a million dollars' worth of property and putting big money at stake, and there might be someone involved with only *24 hours* of education. It's disappointing and risky. Housing professionals of all forms should have extensive credentials that require thorough schooling and education.

If a couple comes in, loves a property, and puts down, say, $200,000 and someone inexperienced takes their loan application, important matters must be considered. For example: That inexperienced broker begins shopping the loan yet doesn't consider the contractual milestones and deadlines such as a mortgage commitment deadline. That money, that down payment or deposit, could become non-refundable because the buyer took that property off the market and the seller could've sold to someone else with a loan already in order during that time.

Under the law, the seller can legally claim that deposit. As a result, you now have a couple whose life savings is at risk. That's how

quickly you can endanger the public in this business. You need to have your lending in place immediately when you put in an offer, within 10 to 20 days at most. As a mortgage broker, you need to understand the type of property, the client, the bank, and perform on a consistent basis. A mortgage broker needs to know the business inside and out, and contracts, and make sure people are protected. It is our job to keep the expectations real and provide education. People may *think* they deserve a four percent rate, for example, when they're actually going to get a 5.5. Proper due diligence, research and disclosures are crucial in this business.

So, to determine if you've met a good mortgage broker, you really need to do a credentials search. Is there a publication that lists the best broker in the industry? No. You need to vet the experience of the person. Make sure they have long-term experience in this field, that they have recognizable clients for the long-term. Once you see that they've worked with big builders and have good references, you probably have somebody good. They are few and far between.

Valuing VRP

For all investment properties of any classification, they're going to look at the rental ROI track record; they never want to hear about how blue the skies are going to be tomorrow. Under the Dodd Frank regulation, there is a federal model for how appraisals are done. It's the HVCC.

For new construction, they'll use comparable properties that have already been built in the area and see what the average return is going to be. They're going to use something called a 1005 Rental Analysis, which is a Fannie Mae standard for determining rental value. They're going to take data from comparable properties that have been built in the area, and they're going to see what the

average rental rate has been for the last two or three years. They'll look at 60 percent occupancy. They'll also get data from management companies that manage all the other properties nearby. It's very mathematical, there's not much guessing or speculation. So, the HVCC and the appraisals and the local market will really give you a good indication of where everything stands.

Look at the macro picture, the market in your area. Then, fine tune it to a particular home, to specific numbers. Once you do that, it makes the decision to buy easy.

Advice for Someone Who Wants to Get Into VRP

First, you have to own your home and do extensive due diligence. Second, you have to consider whether you will be comfortable through both the good times and variable market cycles. To qualify for a home, there's four legs to the table: income/credit, employment, assets, and your housing history. Those are things that someone needs to qualify. Of course, everyone is a first-time investor at some point. But having some history helps.

Understand the market. Look at the economy, the good the bad, and be prepared for every type of market. Look at your mortgage broker's experience, look at their clientele. You need to dig deep. Do your research, read everything. Have a real estate attorney and make sure they have strong credentials. Get an attorney to review all of your mortgage documentation. Study all the players that are going to go in to a transaction including the attorney. Vet them.

Once you have the legal piece and the financing piece in order, make sure you get good insurance. If something happens in the future, the fine print in an insurance policy could ruin your life. Insurance should be very well explained and reviewed. Finally, the

management company that's going to run your rentals is very important. In Florida, it's a very competitive market and only the strong survive. But you've got to vet them, too.

Extensive vetting of every individual and entity in your process is really, really important.

Chapter 7: Your Purchase Process

7.1 New vs. Existing Construction Redux

We touched on this before, but it's such a key decision for your VRP business that I want to discuss new construction versus existing homes briefly again. One of the advantages of an existing VRP is that it may have a rental history that can be used in your evaluation. In particular, homes that have been professionally managed and booked by a third-party management company *should* have excellent records. These records should include a full expense report covering all income and expenses, maintenance and repair, and up-to-date insurance, taxes, utilities, HOA, special assessments and membership fees paid. Also, either from the owner or from a good full service VRP management company, you will have full booking records and income/expense of rental and fees paid for marketing services.

If there is solid data that you can apply to your analysis, you then need to be *very* thorough in your physical analysis, including and most importantly, home inspection.

If you cannot find a home with credible short-term rental history for analysis, the advantage of knowing ahead of time the performance of a particular home disappears. In this case, you are better off with new VRP construction in an established VRP community. Most of the communities that are building homes for VRP have intertwined departments or contractors that can assist you in all of the needs of a VRP home. With that said, I want to remind you again: *you are the President and CEO of your VRP business*.

It is critical that you have a solid understanding of all the component parts that make up your physical product.

Furniture, Fixtures and Equipment

The FF&E portion of your business budget considers the furniture, fixtures, and equipment that outfit your business location, and should be set before your VRP purchase. FF&E will be a big expense. As such, a separate section of your budget should address this category. Sadly, many of the new VRP communities still "sell" their homes as regular residential properties and use emotional pitches about colors and other. There is no balance between the family fulfilment aspect of the purchase, and the business consideration, which is simply the question of whether the numbers work long-term to make the property a good investment. Be sure you strike this balance.

Ask questions about FF&E durability and resistance to wear and tear, stains, chips, etc. Remember, buying a VRP is also a business decision so approach it from that perspective as well.

In the case of a hotel, FF&E budget categories can include hotel room furnishings and decorative items, common area furnishings, restaurant, bar, and conference room furnishings, and equipment, office furnishings, storage equipment, computers, projectors and other items relating to technology. Many of these may be very similar for your VRP, so be sure that you are familiar with these components.

This budget takes a great deal of planning, preparation, and walking that line between function and comfort. The first step of the process is determining general cost estimates for your VRP. Be sure to include a reserve, either in the initial budget or in a separate budget,

of about three to five percent of annual revenues. Because the reserve handles asset renovation or replacement costs, the amount you place in this category often increases as the age of assets increases—up to the fourth year—and then remains steady. For example, when equipment or furnishings are new, you may choose to allot two percent to your reserve, increasing this to three, four, and five percent in the next three consecutive years. This way, when it is time to renovate or replace, you will have the necessary funds.

Incorporating a preliminary FF&E budget during new construction planning is an essential cost control measure. You may find that without it, FF&E can easily equal or exceed the cost of construction. A preliminary budget can help you determine whether your ideas fit within your dollar limits. Thinking about FF&E needs during the planning stages can also help you create a shopping list—which may even be fun.

7.2 VRP Financial Projections

To make a reasonable financial projection for your VRP, start with home sales data in vacation markets throughout the country. Then, look at actual performance data from all of the VRP markets in which you have interest (the places that you have an interest in traveling to and vacationing in). You can spend as much or as little time on this initial analysis as you wish, but it *will* impact your business performance.

You will be creating your own vacation rental investment guide that is both informed by local experts and confirmed by comprehensive data. Make use of local Realtors and vacation management companies.

A few steps to remember:

- First, analyze historical home sales in your market of high-density vacation rental sales.
- Next, factor the average gross rental incomes less typical operating costs for vacation rental properties in your region.
- Finally, compare each of your market's net operating income with the cost of buying a vacation property. This will you a capitalization rate (cap rate), the rate of return on a real estate investment.
- Cap rate does not consider the impact of mortgage financing. Look at whether it is above or below the interest rate. If the cap rate is greater than the interest rate, you'll likely come out ahead.

How to Calculate Cap Rate

The formula for calculating cap rate is simple: income, less expenses, divided by the purchase price. To estimate income for a vacation rental, there are websites that offer vacation rental income calculators that analyze millions of data points about the market and specific vacation home you're considering. You can compare a particular home to similar properties with similar appeal to create a custom income estimate—an idea of how much the home could earn as a vacation rental. After estimating your earning potential, the next step in figuring cap rate is to subtract your anticipated annual rental expenses and operating costs.

Cash Flow Analysis: A Sample Cap Rate Calculation for VRP

A home with low expenses and operating costs in a high-demand market is likely to have a good cap rate. Expenses and operating costs will vary depending on location, the type of property you buy, and the method of property management you choose.

Don't forget to factor in seasonal services that the property may require. For example, a four-bedroom beach house on the Florida coast may require additional maintenance due to wind, sand, and salt. A four-bedroom cabin in Vail, Colorado, may need regular snow shoveling or fallen tree removal. Take the time to figure utilities and taxes for each property when determining your expenses in vacation rental markets. Look for homes in lower-tax neighborhoods if you can.

Factor in wear and tear, or about 5–10 percent of your net rental income to cover updates. Add in your mortgage expense and your property management expenses. If you plan to self-manage, you will need to account for everything from cleaning, maintenance, supplies, and marketing to guest support, accounting, and insurance.

Is a higher or lower cap rate better? Bigger is generally better when it comes to cap rate—but it's not everything. Cap rate doesn't include things like potential equity growth or emotional value such as locking in a dream home for your retirement. Sometimes a home with a slightly lower cap rate is a better fit for you and your family.

Note that cap rate doesn't consider the benefits of potential appreciation. You can add the anticipated appreciation to your cap rate to estimate your total return. A 5 percent cap rate and 5 percent appreciation rate together provide you with a total return of 10 percent.

Imagine that a family wants to buy a four-bedroom vacation rental property near the beach. After speaking to experts in the area, they determined the average operating cost for two four-bedroom townhomes in the neighborhood they want to buy. The analysis is done by gathering similar homes in the area and calculating the average.

As an example, VRP #1 is beachfront but in poor condition and will need investment of about $100,000 into the home to make it vacation-rental ready. The home is on the market for $540,000 and it is expected to generate $40,000/year after operating costs. That's a cap rate of 6.2 percent ($40,000/$640,000).

VRP #2 is two blocks from the beach but features modern design and a hot tub. It costs $553,000 and is expected to generate $40,000 after operating costs. That's a cap rate of 7.2 percent.

Comparing cap rates alone, even though VRP #2 is more expensive, it could provide them a better return on investment. But that isn't the only consideration. The family could point to the work that house #1 needs to negotiate a better price. For example, they could negotiate the price of the sale down $100,000 to account for the $100,000 of upgrades needed. With the home price now at $440,000, the cap rate jumps to 7.4 percent ($40,000/$540,000), which is much closer to the earning potential of VRP #2.

To improve the cap rate for VRP #1 even further, the buyers could transform the unfinished garage or bonus space into another bedroom for $10,000, bringing the earning potential of the home up from $40,000/year to $60,000/year. Accounting for the additional construction cost for the new room into the home price means investing a total of $550,000. But with the increased earning potential, the cap rate becomes 10.9 percent ($60,000/$550,000)—a nice jump.

If they are unable to negotiate, they will need to figure value beyond cap rate. For example, does owning beachfront property where they may someday retire make it worth it to buy a home with slightly lower earning potential on the rental market?

Knowing what a cap rate is and why it's important will help you make a more informed decision when buying a vacation rental.

Cash-On-Cash Return

Cash-on-cash return is a related metric that considers mortgage financing. This metric compares cash flows, less financing expenses, with the down payment. As cash-on-cash returns just consider the difference between the income and the mortgage against the down payment, they can be sensitive to variations in performance.

For example, for a property with a $600,000 purchase price, a $100,000 down payment, and a $1,800 monthly mortgage payment, the cash-on-cash return is only 2.4% when income after expenses is $24k in one year. It jumps to 20.4% when income after expenses is $42k. The difference in cap rate between those two examples? Only three percent.

7.3 The Negotiation

Now the fun begins! As my mentor in real estate once said, "Don't fall in love with bricks and mortar." This is great advice for your VRP business. You will see many existing vacation homes, and likely fall in love over and over. You will be immersed in beautiful renderings, aerial views, 3D walkthroughs, and have finished

samples of countertops, floors, tile, and paint color set before you until you feel you might drown.

Stop and take a breath. All of this is fine but you need to observe and not make judgments, on every little detail. Remember, your business and your future enjoyment depend upon your ability to maintain the balance between personal enrichment and financial profit. This will take some discipline as homes, certainly for me, take on their own life. I feel an empty home seems to be sad, for example. It's a beautiful sentiment, but I put that thought away when analyzing potential VRP purchases.

Once you do find a VRP that you think fits your needs and you want to buy, you may be ready to bid full asking price or even more to beat out any competitors out there. This is where emotions can sometimes outweigh logic, so before you jump in with an offer way above asking price, it's good to take a moment to consider if the house is also a wise investment.

Even in today's hot real estate market (in most parts of the country), it's not often that a seller isn't willing to negotiate…if not on the price, then on other matters such as the closing date, or including certain items like the barbecue grill, the washer and dryer, etc.

If you're in a market that isn't warm right now, you could end up being the only buyer making an offer. If that's the case, there is a good chance you could end up buying for lower than the listing price. Your Realtor should understand your market well enough to help guide your initial offer.

It's not often that a seller puts his or her house on the market just to see what kind of offers come in. Sellers generally want to sell, yet some sellers are more motivated. Perhaps they've already made an offer on another VRP, or their personal situation has changed.

That's why it's a good idea to ask their agent why they're selling. You may not get an answer, but it doesn't hurt to ask.

Nothing is accomplished by going in with a low-ball offer (except sometimes in the cases of foreclosures or when a home is significantly overpriced and has been on the market a long time). If you go in too low, you're going to insult the seller. If your research shows that the property is fairly priced, or your trusted agent is telling you it is, make an offer you feel comfortable with and that your agent believes is reasonable.

If your offer does not elicit a meaningful counter-offer from the seller, you know you went in too low. So, try again. Once the seller believes you're capable of arriving at a price that is agreeable to them, they'll be willing to negotiate. If you can't put together a deal on the first property you like, don't worry. There will be many more homes for sale. It is VERY common to lose out to another buyer in today's market. But it's just as common to end up finding a home a week or even a month later that you like even more than the first. Not getting that first home might be a blessing in disguise.

Today's real estate market is really moving in a lot of areas, so the days of being coy about whether you like the house or not are over for now. In fact, in some markets, sellers are looking for offer letters along with your bid. They want to know your personal story to help them decide between multiple offers. You want the buyer to know how much you love their home, but you don't want to be overcome by emotions. You've done your homework. You know what the VRP values are in the area you're searching, and you know how much vacation home you can afford, so don't allow yourself to get boxed into a price that is above your comfort zone. If you have chosen your agent well, this won't happen.

When you make your offer, there will be a space for putting a time limit on how long it's valid. Make this a very short period, for

example, 24 hours. Having a longer period just invites competing offers.

If the seller seems emotionally tied to a certain price on the property, ask for certain concessions, such as repairs, instead of a lower price. The owner could contribute to the closing costs, or leave the washer and dryer, the patio furniture, etc. You can also negotiate after the home inspection. Ask the sellers for a cash-back credit at the close of escrow, which can help you complete needed improvement or repair projects yourself. You can also ask the seller for a credit to fix certain issues in the interest of offsetting closing costs.

The Purchase Offer

Your purchase offer is a written contract that you sign and submit to the seller. It is accompanied by a certain amount of earnest money, a small good faith deposit to show you are serious about buying the home. The written purchase offer indicates the amount you are willing to give the seller for his or her property. An experienced real estate agent will typically provide a standard purchase offer form you can complete, sign, and then hand over to the seller to sign. If you are not working with a Realtor, be sure you are aware of state laws regarding the information the offer should include.

There are some important details you should be sure to talk through with your agent and make sure are accurately included on your purchase offer, such as:

- The amount you are offering for the VRP
- How you will pay the seller (cash, check, wired funds, etc.)

- Contingencies to protect you if your financing falls through, or if the inspection unearths major problems with the home (inspection happens after you make an offer)
- Conveyances, such as whether the home will come furnished or unfurnished
- An expiration date, by which the seller must respond before your offer expires
- Concessions, such as any closing costs or other costs which you would like the seller to pay
- The amount of earnest money you want to offer (often 1-2 percent of the offer price, though it can range from about $500 to 5% of the value of the home, depending on where you are interested in buying, and the state of the market). Your earnest money is typically put towards your closing costs; however, if you enter into a contract with the seller and then breach that contract, you could stand to lose this money.
- The size of your down payment

Once you make a purchase offer, sign it and submit it to the seller along with your earnest money, the seller has the right to either sign your offer as is, make a counteroffer or reject your offer outright. If the seller accepts your purchase offer, the offer becomes a contract, and you are on your way to owning the VRP. If the seller counters your offer, you may choose to reject it or walk away.

7.4 Closing the Transaction

There are unlimited methods to making an offer. In my 25 years of real estate experience across 11 countries, each and every

transaction is different and many of the variables are different. Let's begin with the asking price. As you have already gathered statistics of the marketplace, looked at comparable data, and created your projections within your business plan, you should have a good "feel" as where to start. Fortunately, there are sellers who will price the VRP in a logical range. If this is the case, then this process will be quite painless. It may well be that the seller has priced the property close to or lower than similar properties that have recently sold in or close to the property location. This is not a bad seller strategy as it generates substantial immediate interest. In many cases, this approach may lead to offers higher than asking price and perhaps more importantly a quick sale. When you identify such properties, you have to move quickly, after careful analysis, with your offer.

The amount of time the property has been on the market is also an important variable. If the VRP has been on the market for less than 60 days, the seller may not be willing to accept a lower offer. In some cases, the seller may not even make a counter offer. The seller's strategy most likely will be to offer the property slightly higher than they expect, hoping they find buyers willing to pay a premium for their property. Therefore, sellers may be unwilling to accept a lower offer until they have given the sale a reasonable time to develop. If you make what the seller considers a "low ball" offer, and the VRP has not been on the market long, you have a very low chance of success.

Because a seller has listed a property for sale does not necessarily mean they are anxious to sell, especially at a lower price than they believe their property is worth. Property owners may have the attitude that if they get the number that they are looking for they will sell, but if not, they are quite willing to hold out until they do. This is especially pertinent to property that is in an established rental program in a VRP community and is generating revenue for the owner on a monthly basis. If you were generating a good

return each month from your property and you had no immediate need to have to sell, would you sell it for less? Probably not.

Your offer strategy may well depend on how important securing a particular property is to you. You may well spend months researching locations and property and all aspects of owning and renting a property and finally the exact property that fits your criteria comes on the market.

A large part in brokering a deal can be consolidated when you have two good agents working together to create a framework for a successful offer. Many times, agents can work together to reach a mutually agreeable offer price that works for both parties prior to an offer being officially delivered. This should be one of the most important aspects in your decision to work with a seasoned professional who has an excellent reputation within the industry and who can lobby your interest in a property and your ability to complete the sale.

One of the biggest questions a seller has is whether you, the buyer, will be able to close. You must be able to show that you are a solid buyer—a better alternative to complete the sale than perhaps a higher offer. There is little a seller fears more than a buyer who cannot complete a deal after they have taken the property off the market and turned down other offers. This can be a vital component to securing you the VRP. There is a lot more to the offer strategy than taking some money off the listing price and making an offer. This is another area where a Realtor can make all the difference.

Once you have successfully found a property and negotiated terms, you need to begin the process of getting the property to close. Your offer will include an Earnest Money Deposit (EMD) that, most likely, will need to be made within the next couple of days. Your Realtor, or possibly the title company, will send you

the wiring instructions to give to your financial institution or FX account so they can transfer this sum. When you have a receipt from the transfer, send the confirmation to your Realtor so they can follow up with the title company to make sure it has been received.

Home Inspection

From there, one of your first priorities should be to have your home professionally inspected. You will also need an inspection prior to closing if you are purchasing a home from a foreign national. Ask your Realtor for a referral. A qualified home inspector will look at the condition of a VRP's:

- Roof
- Foundation
- Heating and cooling systems
- Plumbing
- Electrical work
- Water and sewage components
- Fire and safety elements
- Evidence of insect, water or fire damage, or any other issue that may affect the value of the property

Potential home buyers generally hire home inspectors to comb over the property and provide them with a written report that details its condition. This report will include an assessment of necessary or recommended repairs, maintenance concerns, and any other potentially costly issues.

A home inspection is different than a home appraisal, which determines the value of the property.

This inspection should be conducted as soon as possible after a contract has been agreed to allow time for the inspector to conduct the inspection and make and deliver a detailed report to the buyer.

Hopefully the inspection report will show no major issues. Resold properties will generally have a range of odds and ends that could use some work. You should expect to spend about 1% of the sale price and hire a good handyman to cover these issues. If an item is discovered above the 1%, then it becomes something that will have to be addressed with the seller. In most cases, the item can be addressed by negotiating the sale price. Or, the seller may offer to resolve or contribute to the repair.

If the issue cannot be resolved through negotiation then the buyer has the option to withdraw from the sale at no penalty, providing the inspection is not officially completed and acknowledged. Generally, the inspection period is 10-14 days which provides plenty of time to conduct the inspection and negotiate any items that require addressing.

The language used in an inspection report does tend to offer little in the way of comfort. The most common term is impression of excellence. It is the standard verbiage used and should only be taken as such and not considered a negative. When you build a house in Central Florida, for example, you are building mainly on a sand base. In the first couple of years, the house will settle, causing hairline settlement cracks on the walls of the house. These are easily repaired with some calk and paint; however, if they come up during the inspection, they may become an issue with property insurance. Insurance companies like to have these cracks cleaned up prior to issuing home insurance. Try to have

the seller repair them prior to close. If they are not, have them addressed as soon as possible. This is relatively inexpensive.

Air conditioning is one of the main items that should be examined in a VRP inspection. The AC unit is responsible for keeping the house cool and will very likely require a service to keep it in prime condition. Having an HVAC expert inspect, clean, and service your system is a very good idea and something that will most likely be recommended to you by your home inspector.

The inspection report is one of your most important tools and checks on the condition of the property. It can be used to get an inside look at the current condition of the VRP and has the additional benefit of letting you know what odd jobs will need to attend to after you purchase. The majority of the homes you look at will be relatively new homes. Very rarely should you see any major issues. But your home inspector—and their expert eye review of your investment on your behalf—is your best friend. You're spending a lot of money. Look under the hood.

Remember: new homes definitely need be inspected, also. When delivered, the builder is obligated to address any items that need to be resolved at no charge. In many cases, you may not visit the home for many weeks after it is completed, so an expert eye to make sure all items are picked up and resolved is a small price to pay for your investment.

The Seller's Disclosure

The Seller's Disclosure puts the responsibility on the seller to note all known defects that affect the value of a property and it is

an important step to help protect the buyer. It is, however, a slightly different situation with vacation homes.

Take a buyer, for example, who purchased a property in 2017. They decided to sell their property in 2018 and had never visited the property they purchased…yet they had to sell. Therein lies the problem with vacation homes. Many owners might have not been in the property they are selling in months or years—or never at all. You may find either incomplete or unanswered parts of the disclosure.

I mention this not to take away from the importance of the disclosure, but to allow you to understand that the seller might not know the answers to many of the questions and to see the document from that perspective. Your main protection in the discovery is, therefore, that home inspection. Any additional information you can gain from the disclosure is simply a bonus.

Next Steps

Depending on your property type, you will need to get property, content, and liability insurance. This is something you should do prior to closing. Talk to an insurance agent and get the process started.

If you have decided to rent your property, you will need to look at your property management options next. Your Realtor can help with giving you some recommendations. VRP management is a complex part of the process, so take some time to address it as soon as possible during your VRP purchase process. If the property is in an existing Vacation Management Company, your Realtor should gather the necessary information regarding the

current program and assess if it is a viable option moving forward.

If you are a cash buyer, you should begin the process of making arrangements to transfer your funds for closing to the title company several days before scheduled closing. If you are an international buyer, you should set up a foreign exchange account to maximize your funds for foreign exchange. If you are financing, you should begin the process of getting your loan package finalized. You have a date on the signifies your financing contingency period. If you are unable to show you will be able to finance by this period, the seller has the right to withdraw from the sale. You have to be cognizant of this time frame from the beginning of the purchase process.

Be aware of the closing date on the contract, the date the seller can retain the property and claim your deposit should your funds not come through. *It is very important that your means to fund are available prior to this date*. Take into consideration transfer times for wiring. You do not want to be late to fund for closing. It would be very wise to have the money there at least one or preferably two days prior. If you think for any reason you will not be able to make the closing date, let your Realtor know as soon as possible so they can file for an extension. Although very rare, a seller has the right to cancel a sale and keep your deposit if you break the date. You do not want to put yourself in that position. Write the date in your calendar!

As you reach the closing phase of the buying process, let's go through what you can expect and what needs to be prepared so you can ensure a smooth and efficient closing.

You should check to make sure the water, phone, electric, alarm system and any other items have been prepared to transfer to your name. If you have not received information on this, you

should contact the transaction coordinator to ensure this process has been started. As the new VRP owner, you are responsible for the utilities being transferred, but the transaction coordinator can help by supplying the information and contacts.

Normally, a buyer will instruct the property management company to do this for them, but if you have not chosen or are planning on changing the Vacation Rental Management company, then you may want to make the connection yourself. They may ask for a copy of your closing statement to be provided as proof of purchase if available. A copy of this statement should also be sent to your management company if they are making the transfer for you.

If all has gone well with the title company, you should expect to receive a settlement statement. This is the document that gives you an estimate of the closing costs for the sale of the property. This is not the final document, but in some cases, it may be if the title company has been able to satisfy all of the requirements to deliver a clear title. In some cases, they may still be waiting for a return of some information and they will let you know what is missing from the document. When you receive the settlement statement, you should check that your name and address is correct. They will use this information to register the deed.

You will most likely have already received the escrow account information for the title company when you sent it in. If not, ask the transaction coordinator for it. You can pre-fund the escrow account any time after you receive the settlement statement. It is advisable to do this as soon as you know the final settlement amount.

In many cases, the title company may not even be in your area, as mail away is generally international or out of state buyers so there is no need for local office. All the documents and the funds are

correlated, the final paperwork is processed, and the deed registered with the county. At this point, the sale will be officially completed and you will be the owner of the property. If there are any keys or items to be delivered, your Vacation Home Specialist will make sure they are sent to you directly or to your Vacation Rental Management Company.

As much as the buyer, seller, the Realtors involved and the title company want to sale to go through on time, a closing can be delayed. This can occur for many reasons but you should realize that this is a possibility and that any arrangements you make regarding the property should be made with this in mind. You should not arrange to stay in the property until after closing, for example, nor should you make any arrangements to have work carried out or clients scheduled to visit on or around the closing date.

If prepared well, the closing can be surprisingly uneventful. Most buyers are surprised (and relieved) that the day passes and that they receive only a phone call to let them know they are now the new owners. There can, of course, be last minute issues so make yourself available should any final items need to be addressed. But if you have prepared properly, expect a call or email from your Realtor informing you VRP purchase is now complete.

If you are working with a property management company, they will be responsible to help you run your new VRP business and will become your point of contact for your new home. Finally, make sure you have your property manager change the locks. Congrats on your VRP purchase!

Chapter 8: Operating Your VRP

8.1 Guest Experience

While marketing is the first step in creating a strong booking pipeline, I want to cover guest experience first. Why? Because the guest experience is far and above the most important aspect of your business. Location, amenities, construction and design, decorating, responsiveness, repair and maintenance, and housekeeping all impact the guest experience.

There are four major areas of guest experience that should be managed, reviewed, and improved where needed. These are:

- Preparation of customer expectations
- Overall experience fulfillment
- Responsiveness
- After stay engagement

To help create comfortable, reliable stays for guests, all homes and hosts must meet these four basic requirements. A fast response when guests contact you shows that you're attentive and that you care about them. How quickly you respond to booking inquiries is important. It is critical that you respond to these types of messages within 24 hours.

No guest likes to have to send four or five requests to find an available place. Potential guests expect that if your calendar shows you're free, you accept most requests. Make sure your listing's calendar reflects the days you're able to host. This way, you're more likely to get reservation requests that you can actually accommodate. You can use your availability settings to block time

off between bookings, or to prevent requests for same-day reservations or reservations too far in the future.

Online DIY rental service providers or third-party management companies take cancellations seriously and ask all hosts to avoid cancelling on guests—their travel plans depend on it. You'll face financial penalties if you cancel a confirmed booking.

Guests expect a consistent level of quality. At the end of each stay, guests will review their experience with you, which is one of the ways other potential guests evaluate you as a host. Your rating is your average review score from all the guests you've welcomed and served. Guest reviews are extremely important to your VRP business.

As a host, you'll have an opportunity to rate guests too—on their cleanliness, courteousness, and communication. Your feedback helps ensure that guests are treating the homes they stay in as if they were their own. Guests who are consistently flagged by hosts may be subject to penalties on the DIY online rental sites.

Essential Amenities

I would recommend all VRP owners provide the following essential amenities so guests have what they need to be comfortable and have a good night's rest:

- Toilet paper
- Soap
- Linens/sheets
- At least one towel per booked guest (two is better)
- At least one pillow per booked guest (two is better)

As a DIY vacation home owner, you will need to wear all hats. That means that though you may have a cleaning crew, *you* will need to stay on top of the cleaning process. Your ability to inspect the cleaning will insure your newly checked-in guests will have a great first impression.

Here is a short list of the items that you will need to inspect after a check-out deep cleaning process:

Kitchen

- Load, run and empty the dishwasher
- Clean and sanitize all surfaces including countertops, tables, cabinets, etc.
- Clean and sanitize all appliances including phone, toaster and coffee maker
- Clean and sanitize the inside and outside of the microwave
- Remove all food left in the refrigerator, clean and sanitize
- Replenish supplies including soap, dish detergent, trash bags, and paper towels
- Sweep and mop floors
- Remove trash; clean and sanitize trash can
- Clean and polish windows and windowsills, if needed q Replace any burned-out light bulbs

Living Areas

- Dust all surfaces including end-tables, coffee tables, television and shelves
- Dust all appliances and knick-knacks, including lamps, ceiling fans, blinds and picture frames
- Sweep, mop, or vacuum floors

- Remove trash; clean and sanitize trash can, if needed
- Clean and polish windows and windowsills, if needed
- Make sure the washer and dryer are empty and remove lint from dryer
- Replenish amenities, including laundry detergent and softener sheets
- Sweep, mop, or vacuum floors
- Remove trash; clean and sanitize trash can
- Replace light bulbs as needed

Bedrooms

- Dust and clean all surfaces, including dresser, bedside table, headboard, computer screen, and television
- Dust all appliances and knick-knacks, including lamps, ceiling fans, blinds and picture frames
- Wash and change linens
- Sweep, mop, or vacuum floors, including underneath the beds
- Remove trash; clean and sanitize trash can
- Clean and polish windows and windowsills
- Replace any burned-out light bulbs

Bathrooms

- Clean and sanitize all surfaces, including countertops, sinks, and faucets
- Clean and sanitize the toilet
- Clean and polish the mirror
- Wash and change towels
- Replenish amenities, including soap, shampoo and conditioner
- Sweep and mop the floor

- Remove trash; clean and sanitize trash can
- Clean and polish windows and windowsills
- Replace any burned-out light bulbs

Exteriors

- Wipe down and clean patio furniture including chairs, tables and BBQ
- Sweep entrances and deck
- Replace any burned-out light bulbs
- Pool Cleaning
- Exteriors of windows
- Clean and trim all yard and landscaped areas

Next, you will need to inventory and do a full supply and re-supply. The following are the most common items that you will need to check, replace, or replenish:

Bedrooms

- Bed linens: at least two sets of sheets, pillows and blankets for each bed
- Iron/ironing board
- Pack-n-play
- Alarm clock
- Hangers

Kitchen

- Cookware: Basic items such as pots, pans, knives and ovenware should be provided

- Plates, bowls, glasses, and flatware
- Additional kitchenware: Large serving bowls and plates for family-style meals, ice trays
- Coffee pot
- Can opener
- Wine bottle opener
- Wine glasses
- Kitchen linens
- Seasonings and spices
- Coffee, teas, and hot cocoa
- Paper towels and trash bags
- Fire extinguisher (Check function or replace date)
- Dish soap and sponge
- Sippy cups, children's dinnerware, and a high-chair will be helpful for families traveling with little ones.

Outside Amenities

- BBQ grill with detailed instructions
- Pool or beach toys
- Snow shovel if your VRP is in a location that gets snow

Living Areas

- TV, DVD player and stereo. Be sure to include instructions for TV remotes, etc.
- Cable, satellite, or a Netflix subscription
- High-speed internet with Wi-Fi is recommended! If you have a password, make sure it is easy to find.
- Collection of books, magazines, music, DVDs, and board games.
- Doormat and coat rack at the VRP entrance
- Fans (if you don't have ceiling fans)

- Emergency kit: include at least a standard first-aid kit and a flashlight with extra batteries.
- Phone book or list of important contact numbers for local maintenance, medical clinics, emergency services, etc.
- Local maps with nearby attractions
- Welcome book: this should include important property information in one central location

Bathrooms

- Bath linens: At least two bath towels, one hand towel and one wash cloth per guest
- Hand soap, body wash, shampoo, and conditioner
- Cleaning supplies
- Toilet plunger
- Toilet paper and tissues
- Hair dryer
- Sunscreen: Whether your home is near a beach, lake or ski mountain, providing guests with sunscreen is a nice touch

8.2 Marketing

DIY marketing for your VRP business has become the process of managing the online presence provided by various vacation home online service providers. Over the last five to ten years, the expectations of guests and owners have changed dramatically thanks to technology. Online booking is now the norm for travelers. Most mobile devices to book a vacation rental. Many of these DIY sites have excellent tutorials and programs that walk you step by step through the process of customer care, home presentation, and general marketing.

VRP Online Site Comparisons

DIY online booking sites today are vastly different from the ones we saw a couple years ago. There have been substantial changes to all of the vacation rental listing sites, from the way they charge homeowners to the amount they charge guests, to the way they rank properties in search results. All these variables are leaving VRP owners wondering which one is superior, and/or which one (or combination of several) will best fit their needs.

I have spent the time comparing the biggest players in the DIY market to give you a starting point from which to do your own analysis and experimentation. First, let's take a look at fee structures. In this section, you'll find a cross-platform comparison of the fees you'll have to pay to promote your property on each major listing site, including pay-per-booking fees, subscription costs, and credit card processing fees.

Let's use a nice round number and say $25,000 is what the average VRP owner grosses per year across all sizes and types of homes. So, for our discussion, we will use this number to compare the different online listing platforms' performance.

With the subscription plan on two of the major DIY sites, you pay $499 per year for the subscription and a 3% credit card processing fee ($750 if you make $25,000). So, $23,751 is what you'll earn in gross annual income.

Platforms that offer subscriptions are a great choice over the pay-per-booking model for VRO owners who rent out their property for over six weeks of the year. However, if your bookings fall short of this threshold, the pay-per-booking option might be a better deal for you.

With the pay-per-booking plan on some DIY sites, you pay a 5% booking fee ($1,250 if you make $25,000) and a 3% credit card processing fee ($750 if you make $25,000). So, $23,000 is what you'll earn in gross annual income.

The pay-per-booking model leaves you with less income than the subscription model. Again, the pay-per-booking plan only works out in your favor if you're making less than about $7,000 in rental income per year. Any more than that, and the subscription plan is the better choice.

Some DIY sites *only* operate on a pay-per-booking model. To list your property on the site, you pay a 3% booking fee ($750 per year if you make $25,000). $24,250 is what you'll earn in gross annual income under this structure. With these low fees, this model is a great platform for homeowners who want to rent out anything from a private room to an entire house, and is most popular for short stays and weekend trips rather than week- or month-long reservations.

Another DIY site operates on a pay-per-booking model and charges nothing to travelers, which is great for attracting guests. To list your property on the site, you pay a 3% credit card processing fee ($750 if you make $25,000) and a 15% booking fee ($3,750 if you make $25,000). As a result, $20,500 is what you'll earn in gross annual income.

When comparing prices on different distributions sites, you can't just look at how much you will be charged. One of the most important factors to consider is how much the guest is charged as it can greatly impact your booking performance on any site. Four of the five DIY listing options include a traveler service fee, which is calculated based on the total nightly rate and fees of the property they are booking. The higher traveler fee could make your vacation rental less attractive; thus, you may receive fewer bookings. That

said, travelers have been booking consistently on all of the major DIY sites for years, so the traveler service fee doesn't need to be a reason to reject a listing site.[52]

Site Popularity

Taking traffic into consideration is also important, meaning you should be aware of how many travelers use each of these DIY sites when searching for their vacation rental property. In theory, you want to advertise your rental property on a website that receives a lot of visitors, because more visitors = more bookings.

You also need to determine which site is attracting the most visitors who will be interested in booking *your* property. The adage "quality over quantity" definitely applies. You want views from the people in your target market, whether that's families, singles, business travelers, or large groups.

The Best Listing Site for Your Property

Remember to go where *your* guests are searching. While I disagree that luxury homes can't get booked on the DIY sites famous for room rentals, or that city center condos won't perform well on a site often featuring lake cabins, it's true that travelers looking for a particular vacation home experience tend to use specific websites.

Do your research to find out which platforms are a good fit for traditional resort destinations. Travelers searching for vacation

[52] https://blog.evolvevacationrental.com/homeaway-vs-vrbo-vs-airbnb-vs-flipkey-vs-tripadvisor-vs-booking/ Accessed July 8, 2019.

rentals in a resort destination often go to sites known for having a large amount of inventory in beach, mountain, and desert locations. If you have a vacation home that primarily attracts families or groups looking for a week-long vacation, you should strongly consider listing your VRP on these websites.

A different DIY site, on the other hand, is ideal for urban destinations and last-minute bookings. It is also is the go-to site for millennials and travelers looking for properties in urban destinations. Since it arrived on the scene, this Silicon Valley darling has grown. It now features all types and sizes of properties in urban and rural locales. However, its audience still skews toward younger travelers and is the place to be for VRP in a city or trendy vacation destination. This site's users are generally booking short stays. So, this platform can be a nice way to fill in gaps in your guest calendar.

If you have to choose one listing site to advertise your VRP, pick the one that makes the most sense for your vacation rental. At the end of the day, however, the best listing site for online marketing of your VRP is simply *as many as you can possibly manage*. The difference between the big five in terms of cost is small, especially when you factor in all the components above. This is why I think it's better to prioritize getting your properties in front of as many travelers as possible.

If you really want to make more money, your focus shouldn't be on picking the platform that saves you a few hundred dollars. It should be on getting more bookings overall.

8.3 VRP Pricing Strategies and Other Operations Tasks

A lot of vacation rental owners have pricing strategies that are outdated and ineffective, but they have no idea how much they're

losing as a result. Some charge under the market average, happy to scoop up bookings and fill their calendar. Some charge way too much, believing that high rates are padding the bottom line while they're actually losing valuable bookings all along.

Let's look closely at the impact of a few common VRP industry pricing strategies:

One Rate: The price is the same no matter the season. It's an easy approach to vacation rental pricing as it takes just a moment to set up. That's great if you don't have a lot of time, but you will not maximize earnings for your VRP business. With one rate, you're only going to book during peak season days. Your prices are too high during the rest of the year, so potential guests won't pay your standard rate during the low season. They also won't book your property for longer stays as nearby properties comparable to yours have lower rates.

Here is another issue with this approach: during periods of peak demand, your rate is *below what guests are willing to pay* and what other properties in your area are charging, so you're not making nearly as much income as you could using this pricing approach. I do not recommend this to VRP owners.

Two Rates: This strategy is a bit better. You offer one price for peak season VRP nights and one for off-peak. Setting two rates increases your chances of getting bookings during high season as well as shoulder season (periods of lower demand). However, the two-rate approach still falls short of fully maximizing your VRP earnings. You could earn more with the same number of bookings if your pricing strategy had just a few more rate periods to respond to fluctuations in demand.

Low Rate: This approach is the one in which you use pricing to undercut the rest of the VRP market in your area and book as many nights as possible. I can understand why it is tempting to offer very competitive rates from the beginning as well as additional discounts to fill in gaps in your VRP bookings. After all, you get something out of the deal: a high occupancy rate. This strategy *makes it seem* like you're beating out the market. But when you look at annual revenue totals, you're actually losing money with these rates because you're charging *less* than what travelers are willing to pay and killing the cap rate on your property.

Again, holidays and other times of peak rental demand are when this strategy falls short.

High Rate: The High Rate strategy uses aggressive pricing that is well above what other VRP owners in your area charge. When owners take this approach, their properties do not get booked very often. For them, it isn't worth it to accept a reservation for any less than their high rate. This approach sees VRP owners setting their pricing based on emotional value ("My home is special!") rather than on actual market value.

With this approach, you'll only get a few bookings for your VRP per year—during peak holiday weekends when demand is high enough for people to pay your rate. You are making more money on a per-booking basis but you're earning less overall.

Flexible Value-Driven Pricing: The Flexible Pricing strategy is the most sophisticated approach I see among VRP owners.
It involves five to 15 different rates throughout the year based on competitive analysis of your specific market. With this approach, you update your rates continuously to match changes in demand—just like any resort or hotel.

This strategy is a strong one for the VRP owner. You'll enjoy a high level of occupancy during peak period and you'll book at higher rates, which also matters a good deal in terms of your overall business success. Because this approach includes multiple rate periods, you also secure bookings during shoulder season, as well as when demand is ramping up and down around peak occupancy windows.

Be aware that even with this savvy approach, sometimes your off-peak rates are too low. However, this strategy is the best to maximize your rental income and is the one used by the biggest players in the VRP market.[53]

A final word on pricing: Make sure your VRP matches the price you set. A premium price point may lead travelers to expect that your listing is more high-end than it actually is. This could lead to problematic reviews, and those will hurt your business. If you need help, most online listing services have built-in pricing guides.

[53] https://blog.evolvevacationrental.com/how-to-price-your-vacation-rental-pros-and-cons-of-common-strategies/ Accessed June 27, 2019.

Listing Details and Check-In

Setting the right expectations before a trip will create a better experience for both you and your guests. You can help travelers decide if your space meets their needs by providing clear information about your property and must-know details like whether you allow pets. A detailed listing and profile help attract the guests who are looking for a place just like yours.

Be sure to include an accurate and up-to-date address (this will be shared only after guest has booked). Check that bedroom and bathroom privacy details are accurate. Listing photos should fairly represent the condition and layout of your space. Double check that your amenities are as advertised, present and functional. For example, if you say you have a hot tub, it better be hot and working when your guests arrive.

Best Practices:

- Use a variety of high-quality photos with captions in your online listings.
- Write a detailed description of the space.
- Provide a House Guide that address situations that will matter to your guests. Clearly explain things you don't allow, like smoking, pets, or additional visitors.
- Mention areas that are off-limits, like a garage, attic, or owner's quarters.
- Be honest about unusual things that will impact someone's stay, like nearby construction projects, road closures, or a lot of steps to access your VRP.
- Provide for an easy check-in by creating a Check-in Guide for your listings and share it with your guests 24 hours before arrival, so they have everything they need.

- Coordinate a check-in time in advance if you plan to meet guests in person. If you offer self check-in, add those details in the Guest Guide section of your listing's online tools.
- Explain to guests how to contact you (or your third-party management company) if they have a travel delay or last-minute questions.
- Provide directions for getting to the VRP.

Supporting Guests During Their Stay

It's important that you, or your third-party rental management company, remain available throughout their stay. Your guests will rate your communication and responsiveness to issues at the end of their stay. The average of these guest ratings will appear on your listing page on the DIY site you use.

Best Practices:

- Communicate early to coordinate arrival plans with your guests. Send them a message at their check-in time to make sure everything went smoothly.
- If something about your listing changes after a booking, tell your guests well in advance of their arrival so they can make alternate plans if needed.
- Download all the online listing apps for ease of communication.
- If you won't be in the area during their stay, give your guests a local point of contact.

Reviews Rule

A review may be a few simple words complimenting you, or it can be a lengthy essay of complaints. Both have the ability to influence a potential guest as they decide whether to book with you or not. According to TripAdvisor, 72% of travelers said they wouldn't book a vacation rental without reviews.[54] In other words, reviews are everything. They're a key part in the traveler's decision-making process, and nearly as important as word-of-mouth marketing. They're great testimonials about the properties, published in a public space, and by others not affiliated to the business. By most travelers (your potential guests), they're considered candid and trustworthy sources of information.

There's more value in guest reviews than any copy you can create or photos you can take. Guests want to hear what stands out and what's special, from people who have actually stayed there. Reviews put potential guests at ease.

VRP hosts who get great reviews tend to focus on five things: cleanliness, essential amenities, accurate listing details, a smooth check-in, and proactive communication.

How clean, orderly and prepared your home is for your guests is a major reason they will return, give you good ratings, and refer your home to others. Guests will expect the clean, attractive space they see in your listing photos. As such, it is essential you (or your management company) has enough time to clean between guests, especially when there are back-to-back bookings. Guests will have the opportunity to rate the cleanliness of your space, and the average of your ratings will appear on your listing page on the various DIY platforms. If you consistently receive low cleanliness

[54] https://www.tripadvisor.com/RentalInsights/vacation-rental-marketing/the-vacation-rental-world-in-2018-so-far Accessed June 11, 2019.

ratings, you may be subject to penalties from your listing service, lose current guest business, and hurt your future bookings.

Best Practices:

- Stagger your bookings to give yourself more time to prep between guests. A night or two before reservations can make all the difference in quality.
- Charge a cleaning fee. Use the money to hire a professional cleaning service.
- Leave cleaning supplies in your space so your guests can take care of spills and accidental messes.

Providing Experiences

Differentiating yourself from resorts and other VRP operators is more difficult than it was in the recent past. With owners and property managers upping their game and providing ever-higher standards, sometimes it's no longer enough to rely on luxury finishes and crowd-pleasing amenities. Going beyond the norm and providing your guests with interesting things to do while on their trip will help your business succeed.

Your rental property is a very important part of your guest's trip, but it's not the only part. Inspire your guests with ideas of the best things to do in your area. This will help you stand out from other lodging options, deliver excellent customer service, and ensure your guests get the most out of their vacation. There may be an opportunity to earn a commission or affiliate income on the activities they purchase.

Tailor your guest's experience specifically to them by getting to know them a little. Then, think about what they might enjoy doing

based on their ages, stated interests, or reason for visiting. The more you know, the more relevant your suggestions and the better their experience will ultimately be.

Best Practices:

- Leave information about local attractions at your rental such as pamphlets or flyers for seasonal events
- Tell your guests which attractions are popular and if they need to book ahead
- Tell them how/where to buy tickets and the best way to get there
- Send an email with your recommendations and ask if you can help with info about local attractions

Remember, as a DIY VRP owner, you will need to wear all hats. That means, for example, that while you may have a cleaning crew, you will need to regularly monitor the cleaning process. Your ability to inspect the cleaning will insure your newly checked-in guests will have a great first impression.

8.4 Repair and Maintenance

You will need to plan and implement a regular and ongoing process for administering VRP maintenance. This plan should include solid record keeping with documentary evidence of work performed, as well as materials, parts, and new equipment purchases. This will not only provide records for tax preparation, but build a full report for a future purchase when and if you decide to sell your property.

When you purchase a VRP, you will have inspections performed that may reveal environmental hazards such as radon gas in the basement or water supply, the presence of asbestos materials,

peeling or disturbed lead paint, in-ground heating oil tanks that may contaminate groundwater, or mold. Typically,
the mortgage lender will require these conditions to be repaired before allowing the purchase to close.

From there, the basic types of maintenance that are necessary for your VRP business are preventative, corrective, and predictive.

- Preventive maintenance is everything in terms of a successful VRP operation. It is when equipment or facilities are inspected, maintained, and protected before break down or other problems occur. This is maintenance performed with the intent of avoiding failures, safety violations, unnecessary production costs and losses. It is also done to conserve original materials.

- Corrective maintenance is done when building and equipment is repaired or replaced after wear, malfunction, or break down. This type of maintenance is often the most expensive. Worn equipment damage other parts and cause multiple damage. The repair and replacement costs (and loss of revenues due to down time) can be a huge problem, particularly for a newer VRP owner.

- Predictive maintenance uses sensor data to monitor a system, then continuously evaluates it against historical trends to predict failure before it occurs. This strategy allows maintenance to be performed more efficiently, since up-to-date data is obtained about how close a product is to failure.

Repair is not the same as improvement, although many improvements can result from repairs or maintenance. Sometimes, the costs of larger repairs will justify an investment in full-scale improvements. It may make just as much sense to upgrade a home system with an improved option as to repair it or incur ever-more-

frequent and expensive maintenance for an inefficient, obsolete or dying system.

Here are some common repairs and maintenance tasks to plan on for your VRP:

- Replace used components such as burnt out light bulbs, worn out batteries, and full vacuum cleaner bags.
- Restore or replace common household tools or utensils, leaky faucet washers, cleaning out plumbing traps, rain gutters, or overflowing sinks.
- Fix broken windows, appliances, or furniture.
- Do small repairs such as patching holes.
  in plaster and drywall, cleaning stains, repairing cracked windows and their screens, or replacing a broken electrical switch or outlet.
- Complete urgent repairs, such as a broken water pipes, broken doors, latches or windows, or a leaky roof or water tank, or overflowing toilet.
- Test alarm systems, HVAC, replace water
  treatment components or air-handling filters, purge heating radiators and water tanks.
- Defrost the freezer, touch up worn house paint and weather seals, and clean chimney flues.
- Repaint or stain outdoor wood or metal.
- Clean out septic systems.
- Replace washing machine hoses (put in stainless steel hoses as they are less likely to burst and cause a flood).
- Replace obsolete or ageing systems such as water heaters, pumps, shingles and siding.
- Power wash the siding, driveway, and sidewalk.

Do not skimp on VRP maintenance. Doing so will cost more in the long run. Yes, it requires discipline to repair and maintain your

VRP. Be aware of the conditions that could result in larger problems down the road, and take remedial action before damage or injury occurs. Be curious about unusual noises or smells. These can point to issues with mechanical, electrical or plumbing systems. Do not overload systems. Instead, upgrade.

Address small leaks before they cause structural damage. Take steps to exterminate termites and other wood-damaging insects.

8.5 Customer Service

Providing good customer service is another key to the success of your VRP. Despite your best efforts to make sure everything with your vacation rental runs smoothly, problems will occasionally arise during a traveler's stay. First of all, listen to the problem. Sometimes all a traveler wants is to be heard. Listen to their complaints and make sure you fully understand the issue before you respond. Remember, you need to listen to *understand.* Be thoughtful and methodical with complaints, and you will retain the customer and possibly avoid a terrible review. Next, put yourself in the traveler's shoes. Vacations are meant to be a time of peacefulness and relaxation, and when this isn't the case, anyone can get annoyed.

It's hard to not take things personally when hearing from an unhappy traveler, but it's part of running a business. To avoid saying something you'll regret, make sure you're thinking clearly and objectively before you respond. When you do respond, be calm and keep it positive. Express gratitude to the traveler for informing you of the issue and assure them that you are working to fix it. Communicate to your guest exactly what you are doing to fix the issue. This shows them that their concerns were heard and taken seriously. In the case of serious issues, it can be especially helpful to

offer your VRP guest something for their trouble. Offering to buy dinner at a nearby restaurant or extending a discount on a future stay shows your guests that the quality of their stay is important to you.

8.6 Resources for DIY Management

A rental contract is essential for a successful VRP business. This document outlines expectations for your renter, just as a long-term lease agreement does. You can use online forms to create this document, and have your guests sign electronically. Once your contract is created, you can use Google Forms or Adobe to transmit it and collect signatures.

Here are some other online tools that may help your VRP business:

- Gmail: This free email service lets you create an address just for your business operations and communication.
- Boomerang: This platform allows you to send scheduled emails to your guests.
- Wordpress: This is a useful tool for creating your own website to showcase your property. Other options for building a website include Wix, Futurestay, and Squarespace.
- Buffer: Schedule social media posts in advance.

Additional Resources

Many small pieces will add up to make a successful vacation rental property. The tech behind the management of your property is one key aspect of your business. Other types of resources enhance to

your VRP's atmosphere and guest experience. These things can positively impact your VRP business in terms of bottom line:

- Warehouse store membership: A Costco membership, for example, will help you save on essentials like cleaning supplies and toilet paper.
- Video streaming memberships: Your guests will appreciate the ability to watch Netflix, Hulu, HBO or other streaming services during their stay. But offering a lot of viewing options, you are more likely to see returning guests and good reviews.
- Online forums for VRP owners will help you to stay on top of what's going on in your area and in the industry as a whole: HomeAway is the largest vacation rental forum, Vacation Rental Owners is a Facebook page, and NextDoor.com is an app that lets you connect with your vacation rental's neighborhood and community.

8.7 DIY v. Third-Party Management

Imagine for a moment that you've just purchased a little cabin on a lake. There's no resort nearby, no option to be part of a bigger branded marketing entity. It's just you and your cabin, and you want to rent it out to other vacationers. A lot of VRP owners get their start this way, and they do it by using DIY websites. These sites help owners find renters. But it can be a tough road, the DIY route. It's kind of like having a neighborhood where you have no zoning laws whatsoever, where a slaughterhouse can be put up right next to your home. There's just no control; there's no uniformity.

This approach works okay for properties that exist outside of created communities, where there is really no other option. What I

mean by this is if you've got a home in a suburb just outside of New York City, a DIY listing is the way to go. If you've got room in that home, and need to connect with people who want to visit New York City and avoid Manhattan hotel room prices, that's okay. As the owner, you'll need to put your room up on a DIY site.

If you buy a condo or a home inside of a development that has a very good, exceptional third-party rental company in place—or one of the new hybrids that has a developer with their own rental management company—and insist upon doing your own management and using a DIY website, however, that's not a great idea. You'll have a dozen other owners in the community doing the same thing and you will all try to undercut one another. The first thing everyone does in this situation is lower their prices, and then the others lower in response, and you have a big mess.

The other issue with the DIY website placement approach is the goal with these sites is to try to get your property to 100 percent occupancy. Occupancy is pushed very hard, but it doesn't make good business sense to be at 100 percent. It makes good business sense, instead, to be 70 percent with a high average daily rate. From an economic standpoint, you will make more money, net, if you're at 70 percent with a very high average daily rate than you will at 100 percent battling it out for the lowest rate.

Why? Because your home gets trashed at 100 percent occupancy. It will get damaged.

This extremely high occupancy approach can prove to be a bad business decision if it makes your investment deteriorate—and not just physically. As you lower your daily rates to compete with others, you're lowering your net income for the year as well. Run that out for two years, and *that's* where you get your cap rate on the sale of your home as one of the considerations of value. So, just by DIY renting and battling it out with your competitors on price,

you've lowered the value of your property when you go to sell it.

I'm more inclined—and so are the really good vacation rental management companies—to get enough scale (enough units) that they can put VRP on platforms like Expedia. Why not be side-by-side with hotels and hotel rooms? This is a better model because respected travel sites strive for uniformity. No one is undercutting one another. The value is what the value is.

At the end of the day, I can embrace the DIY approach. It definitely does have its place. But I see it as a very complicated and very difficult way of going about succeeding in VRP.

When you buy in to a structured community with a good vacation rental management company running it, things get a lot easier. You don't even have to *think* about pricing. They have a scale and the money to do the analysis on appropriate pricing models throughout the year, just like a hotel chain does.

I would rather buy a hotel room in the Four Seasons and just give it to them to manage, than buy a really nice hotel room at Four Seasons and try to manage it myself. That's really what we are talking about here. Imagine this: Four Seasons offers one of their hotel rooms for people to buy. And I go in and see that even though Four Seasons could manage this thing and keep their rates nice and high, and do a really good job, and do everything: housekeeping, and maintenance, and all that, I say, "Yeah, I want to buy mine. But guess what: *I'm* going to do the maintenance, and *I'm* going to do the marketing on it." True, I can't call it Four Seasons anymore, but I'm going to undercut you on price.

What sense does this make? None.

One more note on this topic: the way the zoning laws are going now is another consideration. Cities are imposing prohibitively high

taxes on DIY operators. However, in the vacation communities where they're not using the DIY sites, counties and cities often give them a tax *break*. It's one of the advantages of the new model where the professionally and centrally managed rental communities say, "Look, we'll actually benefit hospitality because we'll pay the hospitality tax. You don't need to raise taxes with us because we are virtually the same thing as a horizontal hotel. Don't penalize us." The hotel lobby is very strong politically, but the hotel lobby is participating in VRP when it's done this way. They're not fighting it. Instead, they are fighting the DIY sites because those are all about lowering prices. You're not going to see prices inside of these communities lower than the hotel price. They're standardized.

Third-party management is well-suited to the more sophisticated investor who wants to build a portfolio of VRPs and is looking into locations that have large VRP profiles. In most resort areas today, there are many fine Vacation Rental Management companies. Most are local, have their own strengths and weaknesses. It is best to interview the largest, most well-established firms. These provide not only Vacation Rental Management, but also home management, purchase consulting, even personal chef and concierge services for the luxury homes under their management.

The coming trend is the all-in-one solution of VRP developments with their own management services. This is what we'll cover in detail in Chapter 9.

Third-party VRP management is an excellent way to cover all the daily, weekly and monthly needs of your VRP business and allows you to concentrate on your next investments (and enjoy all the free time you will have!). These management companies range from small local "mom and pop" companies, to local developments with their own VRP management.

The industry has now grown even this level. National development firms with multiple brands spread across the globe with their own VRP management imbedded into each location. These development/management companies command massive marketing budgets, build their own amenities like clubhouses, hotels, waterparks, golf courses, ski lodges, beaches, even their own private lakes and lagoons.

These companies are a one-stop-shop to do your investing into a home, with a system already in place to keep the home in perfect condition, keep it occupied, and continually manage your investment so that it provides the highest return, with the fewest headaches to the investor.

Steve Gulotta is the Director of Sales for LRR at Encore Resort in Reunion, Florida. He has over 19 years of experience in residential new home sales and green building techniques, and I asked him to share a few of his experiences on the front lines of VRP. For example, Steve recently handled an unfortunate situation in his community involving a wedding and an unauthorized third-party rental management company, so I wanted him to explain what happened:

"We had a rental party coming in to the Encore Resort community to celebrate a wedding, and unfortunately, they did not use an authorized management company to handle their event," Steve said. "Because of this decision, everything went sideways. The catering was a disaster; the reception was supposed to be under a tent in the backyard, but this isn't allowed by the homeowner's association here.

"The food that was supposed to arrive for the wedding was late and some of it was undercooked. There were issues with the home, one of the pipes was leaking, the toilet was clogged. The wedding party called the management company they had contracted, and the

company never returned the calls or sent anyone out to fix the things that were wrong with the home. There were bigger repairs required later on as a result.

"The bride was understandably very upset. She was expecting to have personal concierge service while she was getting ready for the ceremony and the only people who were there were the caterers—who arrived late! She didn't have anything she needed. So, she went to the community clubhouse and complained to our people, saying, 'This is ridiculous! I'm going to leave bad reviews.' Unfortunately, because the wedding party did not make any purchases through the community itself, or use authorized vendors, there was not much we could do to remedy the situation. The property manager they had hired didn't even show up until the next day, and by then it was too late to save the event."

This situation happened because the wedding party had gone online and found a home in Encore that was listed below market rate. They believed their guests would automatically have access to the community's waterpark, but this was not the case. As Steve's team dug a little bit deeper into what had happened, they found pricing quotes outstanding. This customer decided not to use LRR because it would've cost them more than they wanted to pay. That decision resulted in a nightmare scenario.

"We try to do as much as we can in the moment to help when things go sideways like this," Steve explained, "because people don't know about all the different property management companies out there, and we always have a concierge onsite. We do as much as we can for guests while they are in front of us, but there's only so much we can do if people are bringing in outside caterers or vendors.

"We are sometimes caught in a pickle by these rogue management companies that say they have the services and they have the staff to provide the level of support guest expect when in actuality, they

don't. This is why they are able to charge so little—you get what you pay for."

I asked Steve for his advice for a VRP owner choosing a third-party rental management company. Here is what he shared with me:

- Make sure your home is being operated by a company that is approved by your community to operate there. You also want to research ahead of time what kind of staffing and support a particular company is able to provide. Look at the growth they have and their plans for future growth.

- Find out how many people a rental management company has on staff. What are the hours the staff is available? What if something happens at 3 AM? Will someone answer the phone? If someone *does* answer the phone, how quick is the response time? When can they actually get to your property to address a problem? Response time and a quick recovery for a guest are essential for running a successful VRP business. It's is all about the guest experience. If a guest has to wait, that becomes a big problem. It can ruin a vacation.

- If you're a VRP owner interviewing a property management company, do spot checks to evaluate their service. See what their logistics look like. Understand their operations. If you find that a property manager has a lackadaisical attitude or is on the arrogant side, run for the hills. Make sure that the property manager understands it's not about them, it's about maintaining the brand standards of the community, the reputation. This is going to build higher occupancy rates and a higher average daily rate for an owner.

- Focus on how much you are getting per night—that's where you're making your money. When you're evaluating a company, be sure that company is looking at it as a

partnership. Some managers make money on a house whether they actually rent it or not, by charging a flat management fee. Be wary of that. You want a manager that is proactively out there seeking business for you and working to keep both the occupancy rate and ADR up.

- As a prospective VRP owner, make sure there is a bigger picture in the resort community you are considering—and that you are part of that bigger picture. At LRR, we are in this business to provide great vacation and make great memories, not to provide a cheap service. We want people to be over-the-top excited about their experience. We want people to post and blog about what an amazing time they're having. We are providing resort-level services and it's a new way to operate in the short-term vacation home world.

Chapter 9: The Future of VRP

What you have mainly read about up to this point is the long, hard road to VRP success. It takes discipline to wear all hats and have at least a cursory knowledge of all the areas we have covered. Extremely time consuming? You bet it is. The operational management on the Vacation Rental Property business is absolutely a 24/7 gig with no days off, and no vacations. In fact, DIY management is probably the slowest possible method for growing your business. Why? Because if you are spending the time and effort required to provide excellent management services to your renter, you will not have time to pursue any growth strategy involving new property acquisitions.

Until very recently, VRP owners had just two choices when it came to running their rentals: do it themselves, or hire a local third-party management company. These firms can be found in the thousands and fulfill the smaller investor needs in communities where the competition is not a significant impact. They will manage the home for you, keep all the appliances and utilities running, pay your homeowner bills, and do some advertising. They will normally greet the guests and be on call for problems. The service is typically limited to the minimal level to keep the guests and the investor happy.

Today, there's an additional option.

It's the next generation of vacation property development combined with a unique management model. In this chapter, we're going to take a close look at this new paradigm. Learning more about this topic will allow you, the VRP owner/investor, to see the future of the

industry as this method of operating vacation properties gains traction.

The new model of vacation property operation is all about great service for travelers and great returns for owners. It's not a new kind of rental management company; rather, it is a new age of vacation home branded resort with every detail considered, right from the point of a resort's initial conception by a property developer. By creating vacation home resort brands with a strong identity, this new model represents and takes care of both an owner's vacation home as well as the entire resort experience for their renters.

The rental management operation and the resort brand marketing to consumer is separate under this model, but operates hand-in-hand to the benefit of VRP owners. This type of company doesn't own property—it's a completely standalone entity focusing on providing premier services to VRP owners and their renters. By providing a consistent level of service to guests, owners are able to achieve both higher occupancy rates throughout the year and higher average daily rates (ADRs) on their vacation homes.

But before we dive into these details, I want to share another story from the front lines of VRP ownership to reinforce how *fun* it can be.

The Father and Son Team Embracing the Potential of VRP

The best thing about participating in the exploding Vacation Rental Property industry is that it's not really "work" in any traditional sense of the word. It's golf. It's meeting people. It's talking about the always-on-vacation lifestyle. For example, I recently met a father and son on the driving range at 7 am. They were in Florida from

Canada and I happened to get into a conversation with them while we were hitting balls. The kid was a really good golfer, like a three or four handicap. The dad was clearly very proud of his son. We got to talking about Vacation Rental Property and they told me an incredible story.

When the kid was in high school, he played golf tournaments around North America, including a tournament in 2013 hosted by a major resort in South Florida. During this event, his dad walked the course for four days and started to notice all the land and the homes going up nearby. He'd heard that because of the fallout from the financial crisis, there were still a lot of bank-owned lots available, and many people trying to sell. So, at the end of the third round, the two went out to look at some of the land.

It was clearly a beautiful development and the crisis had passed, for the most part. Yet this property was just sitting there at ten or twenty cents on the dollar. Sometimes, you find opportunities like this, even when there is no recession. Maybe there's a developer who is a little undercapitalized, for example, or perhaps you learn of an individual owner who let a lot go back to the bank. Maybe the individual got in a little over his head, couldn't make his payments, couldn't build a home. There are often pockets of opportunity like that in these resorts. It doesn't need to be the middle of a financial crisis for you to find deals.

Back to the story: after the kid finished the tournament (he didn't win), the two began doing their research in earnest. They stayed in Florida for an extra week and started looking around more seriously. They ended up purchasing three lots from the bank that week. They got excellent deals on all of them. On those lots, they ultimately built three vacation homes and put them all into a rental pool. Those three homes started yielding very good returns—so good, in fact, that the duo took the returns and re-invested them into additional lot purchases.

The next year, they bought five more lots. Then six more. It just kept going.

These savvy individuals entered the VRP industry not by purchasing a finished home, but by instead getting a great deal on lots, and by then getting construction financing. Their rental revenue covered the debt and created a lot of income, which they parlayed into additional investments.

Here's what is interesting about their approach: *they didn't just go out and buy every lot they liked.* They were very disciplined. They bought a portion of their lots in an area of the development that had homes in the $500k range. They bought some in neighborhoods with homes in the $1 to $2 million range. Then, they bought about 15 lots in the $2 to $5 million neighborhoods. They were *very* strategic. After looking at five lots, they'd buy one. As a result, what they've ended up with is an extremely nice array of potential vacation rental property.

Fast forward to 2019. This father and son have 52 lots in addition to the five homes they own. They got great deals on all of them. Their initial plan was simply to resell the lots and net maybe $3 or $4 million after all the debt and taxes were paid off. But now, after learning more about the VRP industry and where it is headed, they have a better plan. They're going to develop those lots with VRP Equity.

VRP Equity will take the lots, bring in a developer, get the financing, and build luxury homes with an average price between $2 and $5 million. These large homes, with 12 to 15 bedrooms, will rent for $5,000 per night or more. These are the vacation properties with laser tag rooms, basketball courts, and towers where Rapunzel would feel right at home. They're completely themed out and will be marketed as Entertainment Homes. The other type of vacation homes VRP Equity will develop for this pair are right on the

fairways. They will be marketed to golfers and their families—four-bedroom or eight-bedroom homes specifically designed for use by one or two foursomes of golfers.

After all is said and done, this father and son team will go from making $3 million on their savvy investments to much more than that.

This whole package will ultimately be worth $60 or $70 million in built out real estate, and will create cashflow for them that is way above what they would get for just flipping their lots. They'll end up with a substantial piece of 50 homes as a direct result of buying that first lot in 2013. They were smart enough to see the industry growing, to go out and do their due diligence, find out what the revenue streams were like, and then build three vacation rental homes. That's what allowed them to go out and put together a really nice portfolio of lots. Today, they're set. For life.

I love that I get to meet folks like this on the golf course. And the same thing can happen on a ski slope, in fishing lodges, hunting lodges, places like Las Vegas, New York. What better industry to participate in than this one? It's filled with people who are living life as a vacation. Ready to join their ranks?

9. 1 Infrastructure

The infrastructure of this next generation management company is extensive. First, there is an owner sales relationship team that helps those interested in purchasing VRP get into the program. This team explains how everything works, and VRP owners can call at any time with questions.

There is a sizeable operations team in place at every resort this new type of company services. It generally includes a Corporate Facilities Director and internal maintenance team with dispatch that takes care of property maintenance onsite. There is a Corporate Purchasing Director who helps achieve cost savings for every VRP owner via bulk buy and scalability across properties. Front desk teams, night audit teams, teams to inspect units, guest service call teams, and a 24-hour manned line are also part of the operations infrastructure. Finally, a housekeeping team is in charge of inventorying units after each guest stay and maintaining standards and quality.

The next piece of this new generation model is perhaps the most important: marketing.

In the past, revenue management of vacation rental properties had been nonexistent—VRP owners never had the option of maximizing their rental rates via forecasting or sophisticated analysis. This next generation rental management model is changing all of that to reach the best bottom line for each individual VRP owner. With a regional director of revenue who handles rate management, and an in-house call center staffed by people who know the vacation product inside and out, revenue is maximized. Data analysts go through reporting and find trends to optimize rates.

One of the things that one of the next-generation management companies did is they hired the former revenue director for Ritz Carlton to set pricing for all units they oversee. Her goal is to achieve a high average daily rate (ADR) for each property owner. It's so effective for owners.

Also on the marking side is a marketing manager who manages the CRM system to remarket to past renters, dialogue with them after a stay, and respond to reviews online to create ongoing relationships with consumers.

As you're starting to see, this new generation of third-party VRP management is much, much more sophisticated than anything that's come before in this industry. It provides VRP owners with a level of service unparalleled in the history of vacation home rental. Because the pioneers of this new model deeply understand the impact of a comprehensive approach to marketing, they also employ full-time creative designers who oversee professional photography and videography of the properties they manage to create content for myriad marketing channels and build and manage websites, newsletters, and display ads. This team can respond to travel trends to better engage with consumers. An in-house SEO expert, in-house social media person, and digital marketing expert manage online content as well as pay-per-click video and ads.

Next, a group and wholesale marketing team reaches out to different corners of the travel market, including domestic, international, family groups, military, religious groups, while a wholesale manager is a key part of the model as well. Finally, this new generation of VRP management works with consultants who specialize in sports tourism, which is a growing part of the overall global travel marketing.

It's important to note that this new generation of VRP management and operations only works with resort-branded communities. Because the infrastructure of this type of company is so extensive, they will never pick up five units here or there. Instead, they manage hundreds of units in each resort where they choose to have a presence.

Again, by focusing on providing the very best in service to renters, this model ensures guests return year after year, maximizing returns for VRP owners.

9.2 Operations

Guest-facing operations under this model are very similar to what travelers would experience at any luxury resort. For example, there is a 24-hour front desk experience unique to a particular resort. At Margaritaville Orlando, for instance, a guest will experience the energy and fun of Jimmy Buffett immediately upon arrival thanks to carefully chosen, upbeat music and a welcoming cocktail. A guest's first impression is so key to their overall vacation. A bellmen team will give guests a tour of the resort and escort them to their cottage, ensuring a pleasant and memorable welcome. Check out is exactly like it is at a hotel; guests can go to the front desk or just leave. The front desk staff keeps a card on file for damages.

Owner-facing operations are separate but just as detail-oriented under this next-generation management model. An owners' portal allows the VRP owner to go in, see what's been booked, and instantly see reports and information about your property. Every unit is cleaned daily, but owners can put a PRIVACY PLEASE notice on their doors if they want the service skipped while they are living in their vacation home.

Owners pay a 30 percent commission on their rental income, and there is a five percent commission reduction for owner-sourced bookings—down to 25 percent. There is no management fee above and beyond that commission, although there are some additional fees that pay for things like linen replacement (this is generally a fixed cap cost based on an algorithm). An R&M fee covers houseware replacements such as dishes, small appliances, and minor repairs like paint touchup, A/C line cleaning, lightbulbs, filters, and drywall gouges. The pool heat fee passes through to the VRP owner.

Under this model, no minimum reserves are required and owner stays are unlimited. However, it is good if owners know their

blackout dates ahead of time. The further out an owner know their plans for their vacation home, the better because this allows for a longer booking window to improve returns. As long as a guest is not reserved, the owner can stay in their unit. If an owner wants to stay at a peak time, however, that decision will affect the investment return, as those are the days with the highest ADRs. This type of VRP management company follows the same accounting guidelines a hotel would under chapter 509 of the tax code.

The Next Generation of VRP

The continuous evolution of this business is exciting for those who are educated about where it is today and where it is going. The next logical step in our industry is a Total Solution Development/Management community. This is where the major growth is occurring, and where some of the best opportunities for investors can be found.

These VRP management operations and marketing companies are typically partnered with very well-funded real estate developers who have made the business decision to enter solidly into the VRP world. As you just read, they create the developments from the ground up based upon a Vacation Rental Homeowner model and have their own or associated Vacation Rental Management firms.

The services included with this model are vast and include, but are not limited to:

- Specialized new construction communities with sales and support staff educated and experienced in working specifically with the VRP Investor. These homes are built with the vacation renter in mind and include special features

like in-home movie theaters, game rooms, themed bedrooms, outdoor kitchens, and much more.

- Top-notch locations: Developments are close to major natural amenities like beaches or ski slopes, or manmade amenities like theme parks and golf courses. Built in community amenities that include multiple pools, spas, fitness centers, water parks, golf, tennis, skiing, boating, whatever is popular in the area, you will typically find in these communities.

- On-site teams dedicated to each community that includes housekeeping, concierge, room service, maintenance, shuttles to local attractions

- Guest check-in in their own clubhouse or other community building

- Multi-million-dollar marketing budgets with multiple marketing organizations working international and domestic markets

- Partnerships with the biggest OTA/travel groups in the world

- Group sales department, international group sales managers, sports tourism specialists

- Yield Management specialists

- Revenue Management specialists

- Re-Marketing Management

- Local/on-site call center open 7 days a week. On-line chat 24 hours

9.3 Branded Community

Investing in a vacation home in a branded vacation resort may be one of the most powerful choices you can make in your VRP investment strategy. As we all know, branding sells. In the VRP business, it can be the gorilla in the room (or geographical area). These branded communities are machine-like in their ability to build the right size and style vacation home, and marry it to the right experience for renters. What does that mean for you, the VRP owner? Renter retention and a higher average daily rate. This translates directly into higher profits.

Ever more sophisticated, these branded communities include some of the biggest names in hospitality, sports, and entertainment. Four Seasons, Jack Nicklaus (Bear's Den), and Jimmy Buffet (Margaritaville) are some of the most noteworthy in the branded VRP world. The investors in VRP in these communities have the dual benefit of high profits and an incredible lifestyle. They buy where they play!

Some of the more comprehensive and sophisticated benefits in this sector are:

- **R & M programs:** This program is for light repairs and maintenance and is to maintain the home in new condition. Some items that would be covered would be paint touch up to the walls because of scuffs or chips in the drywall. Light bulbs, air filters, batteries in the smoke detectors and front door would all be covered under this program. Light carpet stains would also be taken care of. Heavy staining and full

carpet clean are not included. Also included is all approved housewares which include the replenishment all plates, silverware, cups, bowls, saucers, mugs, kitchen utensils, small appliances, kitchen towels, plungers, trash cans. If anything wears out or gets scratched, broken, chipped or missing, it is replaced within minutes because of our on-site warehouse. The management company under this model maintains 125% of all kitchen inventory in the home, which is required by RWRS and health codes. Both the houseware and linen program eliminate any replacement costs that occur due to wear and tear of the materials.

- **Linen programs:** Since this type of next generation management company runs each home like a mini hotel, it requires all homes to have its linens. They are commercial grade, soft and durable linens like you would find in a major hotel brand. As a matter of fact, the linens are from an international chain hotel. When a guest checks out, staff removes all the linens and towels from the home to an off-site professional cleaning facility. There, the linens are washed and cleaned, pressed and inspected. If any linen is worn, torn or stained, the linen is replaced. If a towel is missing from the set, it is replaced. All this service is part of the monthly capped cost. The linen package consists of three pairs of each sheet, pillows, mattress encasement, comforters, two pairs of the three towel sizes and bath mats. This program also eliminates the need to re-purchase linens every 1-2 years.

- **No additional fees for servicing the home:**
    - Complete web-site management
    - Monthly bills are paid from previous month's profit and all sales tax to local and state agencies is remitted automatically
    - Full marketing of your home

  - Warranty issues and renter issues handled
  - Payment and management for all systems and management programs for the home rental process

- **Resort Services:**
  - Fully staffed Front Desk 7 days a week
  - Full concierge desk offering Resort concierge service to our guests.
  - Free transportation to all major theme parks. Guests are able to purchase theme park tickets, order in-home services, etc.
  - Staffed food room service to the home 7 days a week for guests. Catering team available upon guest requests
  - Oversight and management of HOA services

Now that you have an overview of this new management model, I want you to hear from one of its pioneers and leaders, Nick Falcone. Nick is the President of Luxury Rental Resorts.

9.4 The Next Evolution of VRP Management by LRR President Nick Falcone

To learn about the growing short-term vacation property industry in Orlando, Florida, I visited my first vacation rental several years ago. I booked it online and didn't really know what to expect. I went to the address listed on the confirmation email from the rental management company, which brought me directly to the home itself.

When I got there, there were a lot of strange things about the whole thing. For example, there was no check-in experience, and there were no instructions whatsoever on how to get to the actual home. I didn't know what to do, so I called the number on the confirmation. A gentleman answered the phone and said, "Hey, Nick. We've been awaiting your arrival. I just went out to lunch at McDonald's. I'll be back in 15 minutes with your key."

I thought, *that's kind of odd*. There was nowhere to check in, and I was just supposed to wait for the guy for my key to get into the unit. He eventually arrived. I walked up to the unit to go inside, and there were three garbage bags outside the entryway, most likely from the previous stay. This was, of course, another weird moment. Usually, when you go to a hotel, they're going to clear out all the garbage and make the room nice and clean ahead of your arrival.

I was learning pretty quickly that the standards of vacation home rentals were *a lot* different than the standards of a hotel.

Next, I got into the unit and went to the bathroom. I walked in and the tub in the bathroom was *covered in blood*. It looked like an animal was massacred or something; I don't even want to know what had happened in there. You can imagine how I felt in that moment. It was shocking.

If the first two things weren't enough, this was the straw that broke the camel's back. Luckily, my wife wasn't there at the time, she was driving up in a separate car. I called her and said, "Honey, I know we were going to experience this vacation rental thing this weekend, but I need you to call the Marriott. Let's book a room because I don't want to you coming here. This place isn't suitable for renters."

That was my first experience renting a vacation home.

I understand, of course, that not all vacation homes are like that one. Vacation home renters have all different levels of experience. You may have something really great, from a hospitality perspective. You're also going to have some that aren't so great.

My point is, renting a vacation home tends to be extremely variable across the board, depending who you rent from or what property management company you happen to encounter. You will get varying levels of service and quality, and not just in different properties or different communities, but in the same community. You could go to a house right next door and you're going to have a different experience.

Starting Luxury Rental Resorts (LRR)

That same day I checked into a Marriott, I started thinking, *there's a real opportunity here*. I wondered if the experience I had was widespread. I started learning a lot of really interesting information.

I found out, for example, that most vacation rental property management companies all work the same way. They're all very Mom-and-Pop, and most of them spend virtually no money to market the units they manage, because there isn't an identity behind the properties.

I'll elaborate: If you have one property in a community or if you have various properties spread out throughout a community at different standards and different levels of upkeep, you don't have an identity behind your product. You aren't doing direct marketing to try to drive people to come to your product directly. Instead, travelers are using OTAs, online travel agencies.

I was blown away by all of this research. It was clear to me that the vacation home market had a few issues: Not a great product. Not great distribution. Virtually no marketing. I knew that we could do something completely different, something at a much higher level for owner-investors and for consumers. So, we started brainstorming. This was the genesis of our whole company.

A New Travel Paradigm

I don't look at LRR as a vacation home company, and I don't look at us as a hotel management company. Our product is something completely new: a branded vacation home resort.

What is a branded vacation home resort? First, a branded vacation home resort has an identity. If I said to you *Ritz Carlton,* you would think, "Okay, that's a higher price point with great services and amenities. I know what I'm going to get when I go there. I more or less know the look and feel of a Ritz Carlton." Then, if I said, compare that to a Marriott Courtyard, you're going to think, "Okay, that would be at a different, lower price point."

We know what these brands represent, we know what they stand for. We've been to them before or seen them online; we know what they look like. We know what to expect when we go to these places.

If I said to you, "Name a branded vacation home," you would not be able to tell me what you picture in your mind. You would not be able to tell me what you expect, or what the price point is going to be, or what type of consumer it appeals to. Because it doesn't exist. So, that's what we're creating. Number One is brand identity. Each one of our brands—and we have six brands right now including Margaritaville and Encore Resort at Reunion—have a different identity. Each one appeals to a different consumer.

It's no different than if you went to the Marriott website. They're going to have luxury; they're going to have the mid-level products, and they sell economy products. They have all these different offerings because they're appealing to different consumers and engaging with different consumers. That's what our brands are going to do, from an identity perspective.

Standardization and Distribution

Another key factor to the success of our branded vacation home resorts is their standardization. From the minute these homes are even conceived of by a developer, everything is standardized—the architecture, the materials going into building the units, the way they're furnished, the uniforms that people wear, the soap in the bathrooms, the sheets on the bed. It is just like it would be in any resort backed by a recognizable brand like Ritz Carlton or Four Seasons.

There are a lot of benefits to this level of standardization. When you are marketing to a consumer, that consumer is going to want to

know what they're going to get. They want to know their experience will be consistent. They want to know it's being handled by a professional company with dedicated team members. They want to know a property is secure and safe, just like it is in a branded hotel.

The result of all this attention to detail is the consumer is never saying, "Oh man, I hope my host is good. I hope they're upkeeping the house." People know what they're going to get when they go to one of our brands because it's consistent.

Because our units are standardized and consistent, it's no different, again, than if you rent a king suite at a hotel. Whichever unit or home you end up with, you're going to be satisfied. They're all the same.

Control and Convenience

Another aspect of the branded vacation home resort that makes us very unique is our control. If we want to maintain high standards, and we want to make sure we're creating a strong brand identity, we can't have inconsistency. The thing that hurts consistency with professional management companies is a lack of control. A professional management company could say to a vacation home owner, "You have to follow these standards if you want to partner with us. You need a specific brand of furnishings; you must provide high quality linens." However, most of them don't do it. A professional vacation home company typically does not and cannot mandate certain standards to an owner. LRR is different.

I'll give three examples of what I mean:

1. **We pay the bills.** That's right—we won't allow our owners to pay their own bills. No other vacation home company in

the world will do this because of the cash flow factor. I have to know that I have enough cash from my accounts to pay every single owner's bills. Why? Because if I have a renter who comes into my house and the lights go off while they're there (after the owner forgot to pay), that means that the overall brand is going to suffer. We can't have that. So, LRR pays the bills for our owners.

2. **We schedule owner stays in advance.** Typically, a vacation home owner who wants to stay in their home calls their rental management company. The company says, "Okay, come in." We say you have to let us know a year in advance. If your house is already booked, you've got to give us a different date. LRR is running a resort and booking it as such, so we need the availability. The payoff for the owner comes in the form of higher occupancy rates and much higher average daily rental rates.

3. **We fix things in the unit immediately**. Things break in a vacation home, and traditionally, it's been up to the owner if or when they want to fix these things. The property management company has to call the owner, get permission, get payment, *then* get it fixed. We do not wait. We will literally fix whatever breaks—in some cases, on the same day—no matter what. We don't have to call the owner; we don't have to get permission. We go in and we fix the problem immediately because if one unit is down, it's a loss of inventory on a rental hold. We don't want that. A loss of inventory means we all make less money. After a fix, we just bill the owner in a statement when the next month comes. Again, we're footing the bill upfront, which most management companies would not do. We go out of our way to do those types of things to keep brand consistency.

Of course, I have to convince an owner that these very high standards are acceptable. I'm can do this because we are able to get better returns. I'm able to convince owners that we do things different from a traditional company, and everyone benefits because of it.

Marketing and Sales

The other thing that's very unique about our branded vacation home resorts is we have a full in-house marketing team. We do our creative in house, we build our brand websites in house. We do our photography, videography in house, our CRM. Every aspect of marketing is done in-house and highly controlled to maintain brand voice and a brand consistency.

We have an in-house call center that's unique for this type of product. They're answering the phones with a brand voice. If someone calls from a Margaritaville initiative, they're answering, "Thank you for calling Margaritaville Resort Orlando." It's very tailored to the product that people are interested in. Or if we're doing more of an umbrella brand campaign.

We also have dedicated sales team for group and wholesale. In essence, we're building a platform that will not only support the properties we actually own and manage internally, but we're also setting up a platform we could franchise. It's no different than a Marriott. Marriott doesn't actually own any of their hotels. They get fees, and they provide a platform that helps book. You know when you sign up with Marriott, you're going to get a 75 percent occupancy at a certain rate, and it's very secure. You're going to pay them for that.

Well, it's the same concept here. We're building our brand so we could expand operations very rapidly. We could bring in partners who see the value of what our platform brings. It all goes back to that marketing and sales platform.

Finally, the branded vacation home resort concept means that we don't just have one property. We are taking our properties, like the Encore Resorts brand, and putting dots on the map—replicating that brand all over the world. Eventually, there will be 50 Encore resorts. Again, you have consistency from property to property, so when you go to an Encore Resort in Florida or you go to an Encore Resort in California you know what to expect and what you're going to get.

So, that's what we do.

Performance Always Wins

When we signed up with Encore Resort to manage rentals for owners, there were two other property management companies already signed up for that project. In essence, they became our direct competition. One of these companies is among the top two largest property managers in the world. It's a very large company that's highly regarded in this industry. The other one has won Property Manager of the Year for the last two years in Kissimmee, and Kissimmee, Florida is the vacation home capital of the world. I would consider both of those companies two of the top in the industry.

Despite these formidable competitors, LRR is pulling ahead. The biggest objection we heard from owners deciding which management company to partner with was, of course, "These guys

have been doing this forever. You haven't done it before. How are you going to differentiate?"

Obviously, that's a hard sell when you have companies with hundreds or thousands of units that you're competing against, that have been offering the service for many years. Yet performance always wins.

We're competing head-to-head with the largest worldwide travel brands in the world, and we're at four times the occupancy at approximately one and a half times the average daily rental rate.

If you were to take an eight-bedroom home in Kissimmee that would be comparable to our Encore product, the average daily rate (ADR) is about $220 a night at about a 38 percent annual average occupancy rate. This year, we're projecting to run at an approximately 50 percent occupancy rate at Encore. It's looking like it's going to be about 65 percent at Margaritaville. In addition, our average daily rate is north of $450 a night, which is more than $200 more than the average in the market.

When you factor those two numbers together, it shows the impact that we're creating.

Our marketing platform is creating a much higher line, and as we continue to strengthen it and bring those occupancy averages up to 70, 80 percent, that'll allow us to draw a higher ADR. If you're a homeowner, the investment is so much stronger with our platform than with any other option. I think that is the reason we are going to be able to grow our brands quickly through word of mouth. From there, we will show developers the impact that we can make.

If I'm able to create a much better ROI, a developer is then able to get great word of mouth from people that have bought their units. Their sales velocity is going to go up as a result. Developers get a big

benefit when they partner with this platform because, again, it allows them to sell homes at a higher velocity. So now they're happier, owners are happier because they're making much more money, and we're happier because we're growing our brands. It's a very synergistic approach. Owners, the property management company, and the developer are all very much aligned for the right reasons.

While we do caution owners regarding how much debt to carry on a particular vacation home, the returns are extremely strong. We've actually had some institutional investors who are coming to the table. Seeing the investment returns that are possible with this product, we've had interest in potential buyouts of some of our new communities. I do think what we're doing alleviates some concerns regarding putting a lot of leverage on a property.

ADR v. Occupancy

Owners are definitely tuned in regarding the occupancy rates we are able to achieve—as they should be. However, as someone in the hospitality industry, if I had to weigh ADR and occupancy against each other, I'm always looking for more ADR.

It's a lot harder to drive up the ADR than the occupancy rate, but when an owner sees a 70 percent occupancy, they feel good. I think there's an expectation that over time you're going to be able to ramp up the ADRs. This is true to an extent but we're always conscious about both and managing both at the same time so that we get those great returns. This helps our buyers get a lot more profit on their properties.

If you do the simple math of $450 a night while the rest of the market is at $240, we're almost competing with those people at 100

percent occupancy at their rate when we're at 50. So, our whole thing is if we can move our occupancies up and keep our rate the same, we're untouchable.

It also goes back to the OTA component. If I'm relying on the OTAs for business, and 90 percent of my business comes from there, I need them. Property management companies on these sites really price-gouge each other because that's the best way to compete on an OTA.

The fact that we're driving so much of our business direct means we're able to generate a lot more experience points, and value adds, and things that really explain to the consumer they're not just getting a house. You're getting great water parks, great restaurants. You're getting 24/7 service. We can bring a chef to your house, a bartender to your house, we'll do all-inclusive packages with food. I could go on and on forever, but the key is, I'm able to paint a picture to a consumer via our direct marketing that we're offering so much more.

We're not getting price-gouged by the OTAs and we're able to create a much better value proposition in our marketing. We're going after a consumer who's used to spending more. When they see our prices, they say, "This is the best value I've ever seen." These people are probably never going to go on a DIY rental site because that's not where they shop.

All of these factors really allow us to generate a much higher rate and get a much higher exposure, which helps in a big way.

General Advice for the VRP Owner

I'm a little bit of a skeptic when it comes to any companies outside of LRR because I've seen how they perform. I've worked with what would be considered the best of the best, and our standards are higher. I would be very careful, in general, when it comes to selecting a third-party property management company. With that said, here are the key things that I would be asking as an owner evaluating a particular property or property management company:

1. **What are you doing for marketing?** What are you doing to get exposure on the property? How are you unique with your distribution?

2. **How do you ensure that you're operating the property successfully?** Do you have dedicated teams at each property or are you doing a shared team? With all of our branded resorts, we have dedicated teams. It's no different than if you go to a hotel. You're not taking people from one hotel and moving them to five other ones. You're keeping them at a place where they're trained, and they know the processes and procedures.

   Many vacation home property companies share employees over tons of properties, so owners are not really getting the attention to detail they should expect. The renter isn't getting that feeling they're being taken care of properly.

3. **What product is the developer concerned about?** Do they have products in their inventory that are not selling? Are certain sizes of homes or certain looks of homes proving to be unpopular? Are there certain features that they're finding are selling better? If you're in the vacation home industry the way it typically is, you're competing on a house-

to-house basis. So, if your house is not unique, you're not going to get that additional exposure on an OTA.

4. **What is this company's financial situation?** Management companies often go out of business. The homeowners are then stuck regarding revenue that wasn't paid out to them. Cash flow issues could mean you will not get paid on time on a monthly basis. So, I'd be doing as much research as possible and asking as many questions as possible about the health and finances of the company. Be sure your management partner is taking care of your investment and that you're not going to have any surprises pop up.

The Future of LRR

We're looking all around the country and even a little bit internationally. The success for our business and our vision going forward is putting dots on the map. In the future, people are going to have two options when it comes to vacation homes. There is the Airbnb option, where you don't know what you're going to get, or you have the branded vacation home resort, where you know exactly what you're going to get. You know you're going to have great services, amenities, and value.

The only thing that might stop us from being extremely successful is if we don't have enough destinations for people to visit. So, our goal for the future is to ramp up our performance just slightly so that no other vacation home company can touch us. From there, we have every contact of every developer in the world as well as tremendous finance partners. We are currently looking to partner with a lot of these individuals to bring us new deals and help us expand the platform quickly.

Specifically, we are looking at key tourism destinations. We're looking at Miami. We're looking at a couple other areas on the beaches in Florida. We're looking in the Carolinas, the Myrtle Beach area. We're looking in the New York area, the Boston area. We're looking in Maine. In some of these areas, we already have projects underway.

Chapter 10: Income Producing Residence Club Membership in Vacation Rental Property

The last topic I want to cover in this book is perhaps the most exciting one of all for today's VRP owner. It's an entirely new product offering, an innovation that I'm excited to see developing at the forefront of the vacation property industry. Let's get into it.

First, some background: people tend to confuse fractional property ownership, timeshare, and other vacation rental property products. Fractional investment actually *is* investment in a hard asset and has been available on the VRP market for years. Here is how it works: you take a vacation home and divide it into fractions and have multiple owners. Everyone has to schedule how they will use the home every year. Or, they can take their weeks and rent them out to others and make money. It provides you with a fraction of home ownership backed by a hard asset.

I am much more positive on fractional ownership as a concept than on timeshare, but it does still have some issues. If the developer is not trying to price-gouge on converting a single home to a fractional model, and is reasonable about the profit that they are pulling out, fractional ownership situations are a very potent use of the best of everything. You have a hard asset that does appreciate as the value

of the home appreciates. It can be rented out for income, and it can be used.

Depending upon the ownership entity, whether it is a trust or some other legal agreement, there are some limitations regarding who you can sell it to and how you sell it. As with any VRP, it requires due diligence. But if it's done right, fractional is a portion of ownership of a piece of property that you can use, rent, or sell to anybody you want. However, as I mentioned, there are some issues with both fractional ownership shares and timeshares.

The two biggest problems faced by timeshare owners and fractional owners:

1. Paying something *every single month* just for the right to have a cheaper vacation once or twice per year. The value isn't there.
2. You can't resell. If you do, it'll be at a deep discount.

Fortunately, there is now a new and better option. The innovators behind Income Producing Residence Clubs wanted to make a new kind of vacation product: one in which the product is profitably liquid.

10. 1 The Residence Club: A New Model for VRP

As I explained above, the fractional product, as a vacation property option, has been out there for years. It's a product that offers you usage time of a property, somewhat similar to the timeshare model. Traditionally, the developer takes a condo or a home and divides it into 10 or 12 fractions. The family that buys the fraction gets 2-4 weeks of use time per year in some sort of rotating system. One

year, the family may get Christmas, but then for the next 11 years, they don't get it. Sometimes they can enter an exchange program and enjoy those weeks someplace else. There are all kinds of formulas for putting together the use of these vacation home fractions.

To the developer, it's a great model. A developer makes a lot of money offering fractional ownership. If you've built a $500,000 condo and charge ten fractional owners $75,000, you get $750,000.

There is a fairly substantial benefit to the fractional purchaser as well. After all, you wouldn't want to spend $500,000 on a condo you're only planning to use one month out of the year. There are no headaches, and then there is an incredible reduction in what you would have to pay on an overnight basis. As an example, for a fractional ownership stake located at a ski hill, the owner's costs to enjoy the property, with all expenses paid, works out to about $100 per night. The rack rate on that property during peak season would likely be $650/night.

So, although the revenue for the factional owner may not have been great traditionally, the value of the volume of use time an owner had access to has always been real, and much more substantial than that of a timeshare owner.

With that said, by and large this historical fractional model has been as much of a loss, financially, as a timeshare. While it is deeded ownership and you can resell a fractional, there's not a big market for it. So, what you've got in the world of fractional property ownership is the same issue you have in the world of timeshare. It's completely an emotional purchase; it's not really an investment. You don't generally make money on it because even though it's deeded ownership, it's highly illiquid.

That's the history of this product offering.

Today, developers of vacation property want to reach a bigger marketplace. Instead of only serving a family who can spend $1.5 million, developers want to reach those interested in vacation rental property who can spend $200,000 or $300,000—because there are a thousand of those families for every $1.5 million investor.

On the buyer side of the equation, for every one person or family who is willing to spend $200,000 for a purely emotional reasons, there are ten who are more open to spending the money if it were logical—if there were some real financial gain involved in owning a fractional product. These individuals would be much more apt to participate.

Until now, however, a vacation property product that made sense in this logical way just didn't exist.

Then, along comes the exploding short-term vacation rental market offering a new income stream to vacation home buyers—including fractional owners and residence club members. If you can take a membership share in a property and tie it to developer financing, you have a viable product for a lot more buyers.

Thus, the entirely new Residence Club model was born.

Jack Nicklaus

The Jack Nicklaus Residence Club is the pioneer of this new model. It exists for all the right reasons—because it offers an exceptional experience at an incredible price point to families around the globe. The product is good and fair for members as it is financially sustainable for the long term.

Jack Nicklaus, widely considered to be one of the greatest golfers of all time, built his reputation on excellence. He is a visionary who is known for his character and commitment to family values. His communities around the globe are synonymous with luxury and were created to showcase the very best in golf, dining, and top-tier vacation amenities.

In addition, the Jack Nicklaus Club automatically aligns its members with the Jack Nicklaus Children's Health Care Foundation, which supports the Nicklaus Children's Hospital as well as programs focused on the diagnosis, treatment, and prevention of childhood illnesses. A percentage of every membership purchase is donated to this charity on behalf of the member.

An Innovative Income Stream

Members of the new Jack Nicklaus Residence Club will enjoy all the luxury, quality, and service that has long been associated with the Jack Nicklaus brand as well as the completely innovative Income Producing nature of the Residence Club Membership. This is a new development in the industry and differentiates the product from anything that has come before. It represents a leap forward.

Here's an example how this works: you get two or three months of control of a property in a Residence Club membership agreement. One month of that is your family's usage time. The other time is given to the rental management company. Remember, at 60 percent occupancy, these homes in rental pools throw off about a 10 percent capitalization rate. What you've got, now, is a product where owners are getting a nice chunk of usage time, as well as a return on investment. At just 30 percent occupancy, bills are covered.

Now, let's add a piece to that: at the end of 25 years, there is a membership buyback program. You will be able to sell your Residence Club member back to the developer.

What we're always trying to do as developers is balance an offering to people between the emotional side and the logical, pragmatic side.

We are completely out of whack in this industry, in the vacation world. Everything is always weighted on emotion. The salespeople pitch hot and heavy on family time and memories and don't offer any information regarding the actual economics of the investment. They do everything but say, "Yeah, you're going to lose money on this, but your kids will be so happy." They get people in the heat of the moment and they make the sale.

This new Residence Club membership model is one in which people can take their dollars and really consider what they're getting. Timeshare is sold in 90-minute sales pitches because they have to pitch so hot and heavy, so emotionally. When people walk away from an emotional sale, they're like, "What just happened?"

Emotion buys, logic keeps. The Residence Club membership innovators at VRP Equity—of which I am a partner—created a product here that offers both. Yes, there is an emotional side to it. But there is a logical reason to participate as well.

A Virtual Reality Showcase

The other differentiator of the Residence Club model is how we showcase and sell the memberships. For the first time, people around the country and the world can preview our luxury properties in 360 using VR technology via a collaboration with

LifeStylesIn360, the first virtual reality brokerage in the country. Founder Yasmine P. Clarke founded the company in 2010 and then partnered with Google to bring her unique platform to consumers.

Not only is the Residence Club membership product innovative, the way we're *delivering* it is innovative. There are no more salespeople or realtors hovering. Membership in these luxury homes sell themselves, because people can take their time looking around and actually experiencing them.

Offering a full platform for e-commerce in VR, the showcase technology allows users to tour a home and enables them to fully experience the entire resort community. For example, visitors can walk into any store on the property right from their couch—or take a few minutes to check out the pool, the golf course, the restaurants, the clubhouses. They can actually go shopping right inside the Jack Nicklaus Golf Pro shop. With this platform, visitors can pick out equipment *before their vacation*. You can also use the technology to go into restaurant kitchens, see menus, and even make a reservation.

As you read in previous chapters, the name of the game for years in vacation rentals was photos. Meaning, you'll never attract renters to the property you control unless you have excellent, professional photos of your home. But now, things are changing. With this technology, you're not just seeing photos of an amazing luxury home, you are *there*. The average user stays on for 8 minutes because it's such an engaging and immersive experience. LifeStylesIn360 is the best of the best when it comes to the VR space, a pioneer in the field with partnerships in tech and retail as well as a charitable arm that provides internships and on-the-job technical training to young professionals and veterans.

Furthermore, the minute someone enters an experience, we can see what they look at, what they click on. We can tell you what items

people are interested in in a store. In the next 5-10 years, this technology is going to be standard, but right now, the Residence Club membership model is an early adopter. It's a tribute to Jack Nicklaus and his visionary nature that he sees the potential.

10.2 A Pragmatic Approach to VRP

In every family, there is that one person—the one who's got it all figured out. Think of the uncle you turn to for financial advice. The cousin who hooks you up with the best vacation experience of your life. The niece who knows *exactly* who to call to get the ultimate dinner reservation—two hours before you want to eat. Today, you are that person because you are the first to learn about the Residence Clubs vacation ownership product.

As you no doubt understand, when you invest in a timeshare, you receive very little for your money and you can't get out of it. You own nothing; you control nothing.

Incoming Producing Residence Clubs are a whole new ball game. Instead of getting locked into a timeshare that gives you nothing back, or a fraction of a vacation property deed with very little flexibility or value, a Residence Club membership is the best of everything…the best balance between family fulfillment and financial fulfillment, at a price point that makes actual sense. This model has never been done before, because it's never been *possible* before.

The Income Producing Residence Club is an entirely new product offering. It provides rental income generated by a vacation home with downside protection in internationally branded, resort communities in top vacation locations. Members can also enjoy the use of luxury properties in over 200 locations around the world and

enjoy hands-off third-party resort style rental management of their homes.

This product is a way to enjoy a luxury property and create an additional income stream for individuals and families to build wealth. The innovative Income Producing Residence Club program is being utilized by major brands worldwide while the Jack Nicklaus Residence Club expands internationally.

Professionally managed by one of the top hospitality management companies in the world, the Income Producing Residence Club program is the perfect balance between family enjoyment and smart economics for its members. VRP Equity is bringing projects in the Bahamas, Belize, Puerto Rico, and the Cayman Islands into its unique Residence Club model into the next 12 months, as well as properties for those who like to ski and fish in Colorado, Maine, and in Canada.

The Uber of VRP

It's a vacation product for the new decade, for the new millennium. It's a vacation membership that provides a young and growing family with fun usage of a luxury property for multiple weeks per year. It provides solid and continuous cash flow, *and* the ability to exchange your membership for stays all over the world. When you purchase an Income Producing Residence Club membership, you're stepping into a new world of vacations and of possibilities.

The innovators behind Income Producing Residence Clubs wanted to make a new kind of vacation product: one in which the product is profitably liquid. By giving Income Producing Residence Club Members the option to rent out a property on a short-term basis when they are not using it, Residence Clubs are able to show profitability—rental income—over time.

The properties in the membership pool are part of a premier hospitality group's booking and marketing system, so finding short term renters is never the member's concern. Unlike other investors in short term vacation rental properties, you're never going to have one home in your membership pool undercutting others on price. For this reason, you can evaluate a Residence Club membership in the same way you'd look at a piece of commercial property.

None of the existing vacation products on the market today open you up to the opportunity to earn any kind of real income from short-term renters, because your usage is only 2-4 weeks. It's difficult to make revenue that way.

Residence Club members are entitled to up to 10 weeks of control over one home under a very strong brand name. For example, the first Residence Club is under the Jack Nicklaus brand. Your home is maintained and managed by the very finest luxury hospitality management company, the same company that manages Margaritaville, Encore, and other premier vacation destinations around the globe.

Most families enjoy a 10-week membership. They vacation for three of those weeks, and choose to place seven of the weeks they control into the Residence Club rental program.
At a level of 20-30% occupancy, all the bills get paid. So, owners get usage of the property each year without expenses. What happens when your membership time is rented at just 50% occupancy? That's when the income generation for your family can be achieved.

The Income Producing Residence Club membership is a significant improvement upon, and hybrid of, all the best vacation property products that have come before it.

Sophisticated investors have known for years that it's not necessarily ownership of a resource that makes profit; it's *control*. And the good news for those who understand this concept is that control can be gained for a lot less of an upfront investment than owning. Everything is headed this way. In fact, you can buy a subscription to a BMW, a Volvo, or a Land Rover right now. And this kind of model is only going to become more and more common as the decade unfolds. You are no longer stuck with timeshare or fractional ownership when it comes to designing the best vacations for your family.

Comparing Residence Clubs to Timeshare

Timeshare is basically the right to purchase some weeks at a discounted rate, along with the option to stay other places around the globe on a discounted basis through exchange programs. It's really no more than that.

A Residence Club is similarly priced, but it's a much more equitable, fair, and honorable way of doing things than your traditional timeshare offering.

I'm not saying timeshare is a bad deal. I'm just saying it's not a good deal. Again, it's essentially the right to buy discounted use time of a larger hotel room.

Residence Club membership is not about the underlying value of the real estate. Whether or not you buy real estate is going to depend on its price for the income it's going to generate. Right now, the income is relatively high in Central Florida versus what you're actually paying. Using that metric, this market is offering a depressed purchase price.

Why do I say that? Well, in New York City, your cap rate is three percent on a residential real estate product. Up here where I am, a cap rate of a commercial building is seven and a half. In Central Florida, you're talking about a cap rate of 11 percent.

This new vacation home product doesn't even factor in the underlying appreciation value of the real estate. If a property devalues—if the market drops or there's a correction in the market—Residence Club members just keep renting and enjoying usage time. We are covering cash and making a positive rate of return. Again, these things break even at around 30 percent occupancy.

Residence Clubs: Born in Florida

There are 75 million tourists visiting Central Florida each year; the overnight rental market there is one of the strongest in the United States. The Disney corridor is immune to off seasons, it chugs along 12 months of the year in some capacity. It's a good market to establish your first foray into this type of thing as its rental market is, and has been, very stable.

This Residence Club product is just a pragmatic approach to vacation rental property investment. Very simply, it's a small segment real property participation product that cash flows. Personal usage is there as well. You can take a percentage of your portfolio, tie it up, get an attractive rate of return on it, and have some fun with it.

The intent is to make it investor-driven rather than usage-driven. You want the mentality to be, "Let's drive the rental income of this thing first." Because that's going to ensure that your bills are paid. Forever.

The Final Word on the Residence Club Innovation

This innovative Income Generating Residence Club model allows residents and their families to vacation in ultra-luxury homes with stellar amenities, located in the most popular vacation areas around the globe. It is also smart in terms of family finance. The first Residence Club, the Jack Nicklaus Residence Club, is opening on Jack Nicklaus golf courses across the globe, providing families and golf groups many beautiful, exciting, and exotic locations to explore.

Conclusion

To wrap up this book, I'd like to tell you the quick story of how I ended up here, as a champion for VRP. I want to explain my background, because chances are, we have a few things in common. Twenty years ago, I was in Minnesota, living in a condo downtown connected by a skywalk system to the Dain Bosworth tower. I was working on the 36th floor, and for several months out of the year, I almost never went outside. I just walked right from my condo through the skywalk system to work because it was so cold.

During those cold snaps, I basically only went outside to check out a property, to take pictures of a snow-covered field for our next development, so I could submit them to the bank with a financing package. It was miserable. I hated it. Like so many talented people I speak with today, I had pictures inside of my office of tropical beaches, just so I could stay sane. I would sit back, stare at these pictures of beaches with palm trees swaying in a tropical breeze, and I would dream.

The next property we were going to do that year—1999—was in the Dakotas, so I had to drive north to check it out. It was mid-January. As I drove, the temperature began dropping significantly and it was soon 38 degrees below zero. I had to drive for three hours to take a photo of a farm field and drive back. I was in a suit. Nevertheless, I drove up there and couldn't even keep my windows clear.

I got to the address, I grabbed my camera, jumped out of the car and I was immediately struck by how cold and windy it was. I ran to the fence line and I started snapping pictures. I could feel myself slowing down. I took maybe the fourth photo and the shutter freezes. The button won't push anymore, and I could feel my fingers

going numb. So, I turned around and went back to the car. You can go down in a minute in that kind of cold, and I barely made it back. Then, I couldn't get the door open. As I struggled with the door, the numbness in my fingers spreading to my arms in the life-threatening cold, I thought to myself, "I am done, they will find me frozen solid standing here gripping this door handle."

Luckily, I did get it open and I had kept the car running. I sat in that car for probably an hour and half, shivering. This was a life-changing experience for me, an awakening to the reality that something had to change.

After a couple weeks, this particular development had run its course and my part was nearly over. I had a friend call me from a hotel in Central America. One of my skills is a particular kind of diplomacy when working with local government, municipalities, to get construction projects moving. I had never done this outside of the U.S. at the time; the only time I had been outside of the country was in the military, and that was three countries in Europe. But I had always dreamed about tropical locations (office wall pictures), and this guy was calling me because he had gotten himself in trouble. They weren't letting him move forward with his development, they had locked everything down and frozen his bank accounts because he had offended somebody in the government.

I thought, "You know what? I've got time coming to me, and a tropical climate sounds pretty good."

Two weeks after the life-threatening incident in North Dakota, I found myself landing in Belize, which happens to have an indoor/outdoor airport. You get off the plane and just walk right across the runway and through the airport. The palm trees were blowing in the wind and there was this incredible feeling of comfort immediately upon my arrival.

I spent the next two weeks with hat in hand, working with the local government and getting to know this small country's leadership. I got project moving forward again. I loved it.

To me, it wasn't work. It was a morning spent in meetings and then an afternoon out snapper fishing or laying on the beach. Pure paradise. On the weekends, I was able to explore beautiful islands located twenty minutes off the coast.

Then, it was time for me to return to Minnesota; I was all finished. I had to return to Minneapolis in mid-February, and that is right in the teeth of the worst cold in the upper-Midwest. February is just brutal; it's like the last stand of winter. The winter's not leaving without kicking and screaming.

Sitting in the airport in Belize, I remembered that I had parked my car in the Minneapolis airport ramp. Have you ever parked your car in the Minneapolis airport ramp in January or February? If you've ever done that, you know what I mean when I say I was *not* happy to realize I'd soon be dealing with that scene. Talk about a 20-below wind tunnel of cement. Anyway, I was sitting in the airport waiting for my flight, having a cold Belikin beer, and I turned to the back page of the *USA Today*. It featured a color weather map of the U.S. I could see that down in Florida, it was orange and red, and below that was where I was, in the 90s. I looked up, saw Minnesota, and noticed it wasn't even blue. It was white. It was so cold where I lived that we couldn't even have a color. It said the weather up there was 28 below zero.

I'll never forget that moment, because it was when I said to myself, "That's it. I'm not going to do this. I'm not going to toil away my life in a place with no color." The decision was made.

My friend had said, "If you want to stay, I'll let you just finish this project. Take it over." Of course, that stuck in my head. But I was

still hung up on my "responsibilities" back home, my condo, my fishing boat, etc. So, I got back to Minnesota and immediately started divesting myself of all of my things, getting out of my partnership, doing all the little chores I needed to do almost subconsciously. I wasn't even actually thinking, "I'm going back to Belize." But when I got most of my work done, I did call the guy up a month later. It was March; it was still freezing cold.

The last thing that made the decision for me was a snowstorm—I think we got about a foot of snow—followed by another round of brutal freezing cold. I walked out on my porch that March to pick up the Sunday paper and I slipped on the ice. When you slip on the ice and land on cement, you feel like you're shattering.

That was the last straw. I picked myself up, went inside, and started making real preparations to leave. That was 20 years ago.

I've not been up north since then. So, that series of events was my entry into this world of vacations and vacation rental property development and ownership. The Central American development I worked on got a hotel going with a bunch of homes around it called Clover Leaf Park. I bought two of those homes and turned them over to the hotel for rental. Back then, they didn't do a great job at it, but I still made enough to pay all my bills. I still own one of those homes to this day. So, I got started in the VRP market before anyone really knew it was a thing.

Two or three years later, I was in Costa Rica meeting the couple I told you about earlier in this book. I slowly realized, "This is a real business. People are doing this and building a great lifestyle." From California to Arizona, from NYC to the Midwest, from South and Central Florida to Antigua, Belize, Costa Rica, Panama, Mexico, and many more incredible locations, this business has proven to me that it is possible to have a "LIFE, as a Vacation."

I can't help but share some of what I've learned with you, because I want everyone to enjoy a good life. I want you to be able to escape from the cold if the beach is calling to you.

It's never too late to design your life…as a vacation.

About the Author

Craig Shawn Williamson has been involved in the vacation home industry since 2003. Today, he is the Managing Partner of VRP Equity, Income Producing Vacation Homes. Prior to this, Williamson led the complete sellout—in under 24 months—of the industry-leading Residential Communities at The Bear's Den, a Jack Nicklaus-inspired brand in Reunion, Florida as well as the Four Seasons Peninsula Papagayo development. His VRP Developer Plan sells out projects in under two years at market price or higher.

Williamson has developed over 6,000 condominiums and apartments as well as several resorts and their vacation residential components. With an international real estate career spanning 30 years, he has trained and managed thousands of staff members and overseen countless transactions in locations around the United States and the world. He has lived and worked in 14 countries, handled hundreds of individual transactions, and has spoken in front of thousands of buyers in groups and individual sessions.

A former executive in the real estate division of the Four Seasons, Williamson has acted as the international real estate investment

adviser for many institutional real estate investment firms, governmental agencies, major corporations, and high net worth private investors. He has literally lived and worked for most of his professional life, as a vacation.

Prior to beginning his real estate development and luxury vacation home journey, Williamson served as an Intelligence and Operations specialist in the U.S. Army. A military trained strategist, he served in Western Europe, assigned to the 1st Armored Division Intelligence and Security unit in Germany. His team was tasked with the protection of the area closest to the then East/West German border.

Today, Williamson is an avid golfer and athlete who devotes much of his spare time helping others enter their Life as a Vacation. An advocate for the environment, he is a Founding Board Member of the Costa Rica Green Building Council and has worked closely with the World Green Building Council.

To learn more about everything in this book, please visit lifeasavacation.com and VRPequity.com.