HOW TO START A VACATION RENTAL BUSINESS: A STEP BY STEP GUIDE

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In the recent past, the concept of owning vacation rentals has become increasingly popular. This is for a good reason. The good performance of the economy coupled up with the emergence of the private accommodation industry has made it easier for families and travelers to go on vacations by themselves.

More and more people have disposable income because of the economy. As such, going on vacation is no longer a preserve of the rich.

These are some of the factors that have made the vacation rental business lucrative.

However, owning vacation rentals is not the same as traditional rental investing. Before you start thinking of how to start a vacation rental business, you need to understand the local market well and have [return on investment (ROI)](https://www.mashvisor.com/blog/realistic-return-on-investment/) projections. Why is this?

With traditional real estate investing, you can buy and hold the property for however long you want. You can also find tenants for the property during this period. With vacation rentals, however, you want a property to lease out in the short term. If you’re not careful, you may buy a property that risks staying vacant all year long.

Here’s a step-by-step guide on how to start a vacation rental business and what you need to know before you embark on the process of getting one.

What Is a Vacation Rental Business?

The vacation rental business is quite self-explanatory. It involves investing in property for short-term renting. These short-term rentals are alternatives to hotels and travelers love them since they offer more advantages, such as kitchen areas, more privacy, and access to the locality.

Vacation rental properties don’t have to necessarily be limited to traditional real estate styles. They can range from villas, cottages, apartments, condos, beach houses, and many more. They can also be pocket-friendly or luxurious depending on the location.

As an investor, you can choose to buy one and slowly [diversify your real estate portfolio](https://www.mashvisor.com/blog/diversified-real-estate-portfolio/) by having several. You can rent them out outright or sublet some extra rooms in your primary residence.

It’s common to find a homeowner who’s a full-time host in their vacation rental property. You can also be a part-time host running the business on the side for passive income.

Are Vacation Rentals Profitable?

Owing vacation rentals is a lucrative way of generating [passive income](https://www.mashvisor.com/blog/best-passive-income-generating-assets/). However, is it actually profitable? If so, how profitable is it?

The answer is yes. Vacation rentals can be profitable since they’ve become common with people renting out for a short period. A recent survey showed that short-term rental property owners make [$924 per month](https://www.cnbc.com/2019/07/03/is-running-an-airbnb-profitable-heres-what-you-need-to-know.html) on average.

The main factor primarily affecting vacation rentals’ profitability is the location. Your location determines occupancy rates, competition, demand, and rental rates. The more strategic the location, the higher the chances of the vacation rental being profitable.

In addition, short-term rentals have the potential to earn you more rental income than traditional rental properties.

How to Make Money Through Short-Term Rentals

There are basically two main strategies you can follow when starting a vacation rental business. They are:

* Buy a property: With this strategy, you buy a property that you could use as your second home then rent it out as a vacation rental. If you’re following this strategy, ensure you carry out research on how to start a vacation rental business beforehand so that you can invest in a location that assures you a steady flow of short-term tenants. Since you own the property outright, you don’t want to remain stuck with a non-profitable investment for the long term.
* Rental arbitrage: This strategy involves renting a property for the long-term then subleasing it for the short-term, as long as the landlord allows it. This is a smart strategy as you can earn money from a property without owning it.

If you’re wondering how to start a vacation rental business and find a short-term rental property that will actually make you money, use the [Mashvisor Property Finder](https://www.mashvisor.com/product/property-finder). This tool uses Artificial Intelligence (AI) and Machine Learning algorithms to help you find the most suitable rental investment opportunities for you.

The results you get from using the [Property Finder](https://www.mashvisor.com/blog/property-finder-tool-mashvisor/) suit you since they’re based on your search history and other personalized factors. The results will match your search criteria and you’ll find the most profitable investment opportunities at the top of the search results.

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What Do You Require to Start a Vacation Rental Business?

As we’ve stated, the vacation rental business is not just something you dive into haphazardly. You need to do your due diligence on how to start a vacation rental business. Part of this process involves getting your documents in order and setting up a few strategies.

This is what you need to start a short term rental business:

Legal Documentation and Licenses

You need to consider vacation rental property regulations and laws before you start the business. These laws regulate the industry in every city and state.

Firstly, you need to establish whether vacation rentals are legal in your city. You don’t want to buy or rent property to use a short-term rental only to find out that the city laws don’t allow it.

After that, find out which [zoning laws](https://www.investopedia.com/terms/z/zoning.asp) apply to the location you want to start the vacation rental business. Once you get approval to proceed, you’ll have to get all the necessary licenses needed to operate this type of business. You may find that you have to get both the general business license and a vacation rental property license.

If you’re unsure about the legal documents and licenses, consult with a [real estate attorney](https://www.mashvisor.com/blog/when-to-hire-a-real-estate-attorney/) in your location. This will also help you determine which taxes you’ll have to pay to run this business.

Short Term Rental Business Plan

Like any other business, you need to take your time to draft a comprehensive business plan for your vacation rental business to succeed. A detailed business plan is like a car engine. It can help you identify any shortcomings, strengths, and business risks.

To start writing your business plan, you need to first identify your business goals. Ask yourself the following questions:

* How much money do you want to make?
* How much business growth do you project annually?
* How long do you want to take to hit your targets?

The tip is to be realistic when setting your goals and timeframes. Business success doesn’t happen overnight.

Your business plan should also include your [Unique Selling Points (USPs)](https://www.entrepreneur.com/encyclopedia/unique-selling-proposition-usp). Identify what gives you an advantage over your competitors and list it in your business plan.

Property Management Strategy

One mistake many potential investors make is failing to plan how they’re going to oversee and manage the rental property. [Property management](https://www.mashvisor.com/blog/18-property-management-basics/) is an essential aspect of owning vacation rental property.

Ask yourself the following questions:

* How much time are you willing to dedicate to property management?
* How will you handle requests or queries that come outside your working hours?
* Are you willing to handle the property management or outsource it?
* What tools will you implement to increase property management efficiency?

Once you answer these questions, your vacation rental property management strategy will begin to take shape.

Pricing Strategy

A pricing strategy is important when creating a business plan. Your business won’t go far without one. This will help you establish your expected monthly revenue and compare it to the expenses. You can also determine the potential ROI.

Don’t forget to factor in the management and maintenance fees, seasonality, your competition, and taxes. After this, you can set a suitable nightly rate.

You can also increase your rental income by offering weekend discounts and seasonal offers. Another strategy is to switch to long-term rentals during slow seasons.

How to Start a Vacation Rental Business

As you can already tell, you need to go through a special set of strategies to know how to start a vacation rental business. Fortunately, the short term rental business model is not as complicated as many people would think.

We’ve broken it down into the following straightforward steps:

Carry Out Comprehensive Market Analysis

Location is very important in a vacation rental business as it determines its profitability. Once you’ve come up with a few potential locations suitable for investment, you should closely examine each market separately.

Ask yourself questions like:

* Would you like to vacation in that specific area yourself?
* Are there any attractions nearby?
* How popular are the attractions?
* Is the demand for short-term rentals sustainable?
* How much appeal is there in all seasons of the year?

These are some of the factors that determine the suitability of vacation property investments in every market.

After considering these factors, also look at what specific types of properties you’d like to buy and what the local market demands. Of course, you want to meet the local market’s demands, not satisfy your needs.

Again, [Mashvisor Property Finder](https://www.mashvisor.com/product/property-finder) is the perfect tool to help you run a market analysis.

Acquire the Property

After researching how to start a vacation rental business and finding the most suitable investment property, it’s now time to acquire it. Depending on the market, it might be an apartment, condo, cottage, or something else.

As we’ve seen vacation property investment strategies, you can buy the property outright, which may be a bit limiting if you don’t have a lot of capital. This is where [rental arbitrage](https://www.mashvisor.com/blog/rental-arbitrage-business/) comes in.

After that, you’ll have to set up the home and make it presentable for guests. If the property is unfurnished, you’ll have to buy decent furniture. If it’s already furnished, you may also have to buy modern furniture and equip the house with kitchenware, towels, and linens.

Remember, you also want to add more utilities to use as selling points. This means you may have to buy WiFi or a data plan and connection cables.

Market Your Property

It’s now time to actually advertise your property to potential short-term tenants. The benefit of living in the technology age is that there are many platforms to do this. In fact, most guests nowadays book vacation rentals online.

Because you want to place yourself where your guests are, it’s prudent to use sites such as [Airbnb](https://www.mashvisor.com/blog/airbnb-tips/), Booking.com, Vrbo, VacationRentals.com, Expedia, and TripAdvisor.

If your target audience is a certain demographic or category of travelers, you may use some niche channels to market your rental. For example, Rent Like a Champion is suitable if the home is located in a college town or a rural town that hosts annual events, like the Indianapolis 500.

You need to follow these steps when posting your property online:

* Take high-quality pictures. Invest in quality lighting and include pictures of the bathroom and exterior
* Write a remarkable description. Ensure it’s informative enough
* Set competitive prices
* List the property on various platforms

You don’t always have to rely on other websites to generate leads for you. You can also be innovative and have your own website that’s dedicated to providing detailed information about your property. You can even go a step further and shoot property videos.

The advantage of owning your website is that if you grow your portfolio, you can list all your properties on one platform. You can also have its links on other platforms and social media channels.

Leverage Customer Reviews

Once you start getting bookings, it’s now up to you to provide outstanding customer service. The first few guests are crucial since they’ll determine the direction your online reputation takes. If the first few customer reviews are negative, you might never get bookings from that platform. On the other hand, positive reviews encourage more guests to book with you.

Also, take each review seriously. A review can suggest ways you can improve guests’ stay. You can resolve some problems and equip your property to enhance the guest experience in the future.

For example, if the guest complains of some light getting into the room through the windows at night, you can get bigger curtains to block the light. Ensure you list each addition to the description.

Key Takeaways

This guide on how to start a short term rental business shows that it’s one of the best ways to break into earning passive income. However, you shouldn’t invest blindly, else you’ll get your fingers burnt in the process. Always carry out thorough research on how to start a vacation rental business so that you can understand what you’re getting into.

Getting your legal documents and licenses ready is one of the first steps to starting your vacation rental business. Have a comprehensive business strategy that’ll drive your business to success. Also, establish how you’ll do the property management and whether you’ll do it yourself or outsource to a property management agency.

Before identifying potential investment opportunities, carry out in-depth market research since you want to invest in a profitable location. After that, get your property and set it up for hosting guests.