



The Creation of Vacation Rental 3.0

Where have we been? Where are we going?

When you listen to the news about the internet, you will often hear the term web 2.0 used as a buzz word to describe the second generation of internet technology. The internet started with Web 1.0 as the first generation of basic web pages and E-commerce sites. Even in its basic form this web 1.0 technology changed the world in which we live. Web 2.0 technology took this basic platform to a new level of service that changed our lives and created many powerful brand names including Google, MySpace, Facebook, Craigslist and You Tube. Basically, web 2.0 is the next generation of the internet and it transformed the way we do business and connect with each other. Web 2.0 also describes some of the core technology that has allowed these new interactive sites to place more content and information at our fingertips. Just 3 or 4 years ago, many of these web 2.0 companies could not exist because the technology had not yet been invented to create their systems.

When you think about the Vacation Rental Industry, you can apply the same buzz words to describe the 3 versions of Vacation Rental Management systems as they have progressed over time.

In the beginning, this industry started with Vacation Rental 1.0, this initial business model started back in the late 1950's and remained largely unchanged for more than 40 years. This system involved an agent on location near the rental unit and this on-site property manager would mark your arrival date on a calendar, accept your payment when you arrived and give you a key to your rental unit. This version 1.0 of the Vacation Rental Management Business is still available today and is still quite popular but in many ways this on-site model has become costly, inefficient and less effective at producing income from your vacation rental property.

Compare pros and cons to V 1.0

Not long after Web 1.0 or the first version of the internet came to be, Vacation Rental 2.0 was born.

Vacation Rental 2.0 is quite simply Property Owners just like you, using the power of the internet to manage the booking of your own rental property. The idea behind this system is a good one. Use the power of the internet to reach the consumers searching the web for vacation rental properties and lower the high commissions that the on-site companies charge.

At first blush, this seems to be the perfect marriage, you are taking control of your property and putting the high commissions in your pocket as additional income.

For many Vacation Property owners, the honeymoon with Vacation Rental 2.0 is soon over as they quickly learn that managing the phone calls, emails, contracts, check ins, check outs, cleaning crews, emergency repairs, maintenance, bank deposits, sales and bed taxes etc. starts to look a lot like work! When they honestly evaluate the time they spend on this business that they created they soon begin to wonder if it is worth it after all but when they look at the high commissions that the on-site (Version 1.0) companies are charging, they continue to do the work themselves.

Take a Look at the Pros and Cons to V. 2.0

As you can see, both of these systems have their strengths and weaknesses. For many Vacation Property Owners, one of these two systems may be the perfect fit for their properties. We usually find that most Vacation Rental Property Owners would really like to have it both ways, sort of have their cake and eat it too. They are attracted by the lower commissions and utilizing the power of the internet to increase their occupancy rates but would also like to spend more quality time with their families and less hours working on their own rental management business. We also find that many property owners may not have the skill sets or proper equipment needed to compete with professional rental management companies in today's competitive market.

This wanting to have our cake and eat it too became the motivation to create a better system, enter Vacation Rental 3.0.

One of the founders of iTrip, Steve Presley has owned vacation rental properties for more than 17 years. Steve has bought, sold, rented and managed properties in the Gulf Coast market during this time frame and has tried just about every rental management system he could find. Steve has also tried his hand at renting his own units.

In September of 2007 Steve and several of his Real Estate Customers were closing on Vacation Properties and had a decision to make, how can we maximize our rental income from the properties we are acquiring?

Do we put them in the hands of the on-site management company? Do we manage the rentals on our own? What is our best option?

When they analyzed the pros and cons, there were several items that left them feeling less than comfortable about placing their properties with the on-site company.

First and foremost was the typical rotation system that is employed by most on-site rental management companies. This Rotation system places the last property rented at the bottom of the list and that property does not get rented again until all of the other properties in the system have been rented. This system seems fair enough, as it gives everyone equal billing but it is not quite that simple. What if you go to the beach or mountains and stay a few nights in your rental unit? How does that affect your rotation status? Well in most systems, your personal stay will place you at the bottom of the list... Waiting for 100 or more properties to rent before you get chance at yours being rented.

What if you have taken the time and spent the money to have a 5 Star Rental Property, one that is in the top 10% of your complex? Don't you think that you would have an advantage over the property owner that furnished their unit on a budget with plain jane furnishings?

Well, unfortunately, in a rotation rental system, you have no advantage over the less than stellar competing units in the program. The only thing that matters to the system is which property has gone the longest without a rental. Even though the guest that is renting the unit would much prefer your nicer unit to the below average one, they will not get the opportunity to make this choice because the rotation system will select the property for them.

What if you have a friend from work that discovered you have a beach condo for rent? Given the fact that the traditional advertising that the on-site company is using has not been performing very well, you decide to help the situation out and send the willing and able rental guest to your management company. You do this, so you can reap the benefits of a booking in your unit. You would think that since you located the customer and sold them on your unit, then handed the customer with credit card in hand to your management company, effectively closing the deal, that you would get some sort of reward? Well, in most cases, all you will get is a thank you and the full commission taken out of your earnings.

These are some of the issues that rubbed Steve and his friends the wrong way over the years and they searched for another option.

Renting the units themselves did not seem to be the best idea. They were busy professionals, they did not have the time to manage another business. Even if they wanted to rent their own units, they did not possess the intense focus and professional skill set required to compete with the best marketing minds in the rental business. Their time was very valuable, that is why they were able to afford a vacation rental property in the first place.

Steve looked at the math and the time involved to manage his own unit..

On average, Steve spent 2 hours per day working on some aspect of his small rental management business. This included bookkeeping, updating listing pages on the internet, placing ads in the paper, answering phone calls, managing cleaning and maintenance crews, answering email inquiries, managing check ins, check outs, rental contracts and bank deposits etc.

That works out to 14 Hours per Week or 730 hours per year.

Since Steve had years of experience and seems to be a hard working and disciplined self starter, he decided to pay himself \$10 per hour.

730 Hours X \$10.00 = \$7,300 per year

Well, you are not going to get rich on that but it is not bad, remember, Steve is only working part time....

The problem is, the part of the time you are working happens to fall when your family is eating dinner or your friends are eating lunch. It happens to be the time you are focused on a large deal with your primary business... It is just part time but Murphy's Law finds a way to make the part time, a very valuable part of the time you have available.

It is valuable time but you are earning \$7,300 per year!

That makes the sacrifice worth every penny right?

Let's look at the Math and find out!

If you have a property that is averaging \$35,000 per year in Gross Rentals, you are saving \$10,500 per year by renting it yourself when compared to the typical on-site company that charges a 30% commission.

That is not too bad, when you subtract the \$7,300 per year for your time from the \$10,500 commissions that the on-site company charges, you have a handsome \$3,200 profit to show for your efforts.

I would say that as long as you enjoy this process and you are effective at maintaining comparable rental and occupancy rates in your rental unit then you are doing fine.

Steve and his friends however had experienced the issues with cleaning crews dropping the ball, the phone calls at midnight about the plumbing problem and the phone calls in the middle of dinner.

They analyzed the pros and cons of Version 1.0 (on-site management) and version 2.0 (owner managed on the internet) and tried to form a plan that combined the best qualities of each system while eliminating the issues that they had discovered with these systems.

They really liked the idea of a full time rental property manager that would bring skills, focus, attention to detail and personal attention to their rental properties but the cost associated with this level of service seemed too high.

They thought about the cost associated with on-site rental management. When you look at the enormous overhead of a rental office located in an exclusive vacation market and the employees needed to man the office it is easy to see where a lot of the money is going. It is this overhead that forces the on-site companies to charge the high commissions that eat into your profit.

According to the calculations that Steve made, he determined that a full 15% of the 30% fee that the on-site companies charge is needed to support that fancy rental office and the staff needed to man the office.

Steve thought, I have successfully managed my own rental business over the internet without the expense of a local rental office, why can't this system work on a larger scale?

When you think about it, if you have local staff on board including managers, cleaning crews and maintenance staff, why do you need the office?

Most people would say that you need the office for handling the checkins but Steve had discovered digital locks that could be controlled over the internet, he managed his checkins by email and over the phone.

What if there is a problem with one of the locks? What if the air conditioning goes out? What will happen then?

Well, the truth of the matter is that the managers sitting in those local rental offices have these problems as well...

What do they do when these problems arise? Do they leave the fancy office and fix the lock or air conditioner themselves?

Of course not, they pick up the telephone and call a locksmith or HVAC repair company and dispatch them to the rental unit.

Steve thought about this for a moment... Why did the telephone have to be located inside a fancy rental office down the street from the property?

Why could he not use the phone in his home office to make that call?

What if this system could be created and save the rental property owner the 15% overhead of the fancy local office?

What would the numbers look like with this savings taken into affect?

If your rental property averaged \$35,000 per year in gross rentals and the new system allowed the management company to charge you a low 15% commission, how much would you save?

Let's do the math and find out!

$\$35,000 \times 15\% = \$5,250$ in Commissions

That is \$5,250 less than the on-site companies

Wow!! That is a savings of 50% for simply taking the fancy office out of the picture.

That seems pretty good but why would you pay even 15% when you can do the work yourself?

That is a good question, let's take a look at the math and find out.

We have already determined that if you pay yourself \$10 per hour, the time spent managing your property yourself will cost you \$7,300

How does this compare to the 15% commission model?

If you take the \$7,300 you pay yourself for your time and subtract it from the \$5250 that you would pay the new internet based rental management company you would find that the answer is **Negative \$2,050**

That means not only are you only making \$10 per hour your for your time, you are \$2,050 behind on paying yourself!

This means that you are actually making less than \$7.20 per hour for your valuable time. This is just over minimum wage!!

When you consider that the average vacation rental property owner does not have the benefits of a larger company with professional talent on staff for photography, video production, marketing, writing keyword descriptions, Search Engine Optimization, managing market rates and managing local contractors, you realize that you are going into war with a B.B. Gun.

So, it stands to reason that with the increased Internet Marketing Exposure and professional staff on board, this new company would likely even increase your occupancy rate and gross rental income.

If this new rental management system is able to increase your Gross Rental Income just 15% to \$40,000 and the commission is a low 15%, look what happens to the math.

$\$40,000 \text{ Gross Rental Minus } 15\% \text{ commission} = \$34,000$

This is incredible!

You will find that the effective cost for allowing the new company to manage your property compared to you managing the property yourself is now only \$1,000 per year!

You may not want to hear the next part of the math but this places you earning \$1.37 per hour for your time!

After looking at these numbers, Steve and his partners decided to create this unique internet based rental management system and began calling the system Vacation Rental Management 3.0.

In addition to the cost savings provided by the lower commission, They wanted to do away with the annoying rotation system and the other policies that penalized property owners for staying in their own units or referring friends to the rental management company.

They created a system that advertises each property on an individual basis, so if you have an extra nice unit, the rental customers shopping for a property will clearly see the advantage of selecting your property. Also, because of the large inventory of properties in this internet system, there is an opportunity to book multiple units at one time to large groups and when an inquiry comes in on a similar property that is already booked, you get the booking on your unit as overage.

When further defining Vacation Rental 3.0 they decided that they would place no restrictions on the number of days an owner can stay in their own unit and if the owner sends a referral that books their unit, the commission is cut in half to 7.5%.

In order to keep the system running at full speed and the property owners happy, they also decided that in this Vacation Rental 3.0 model, they will not accept more than 10% of a building, complex or area into the program. By being selective and offering only the best properties in the market, the 3.0 model can that combines only the Finest Vacation Properties with World Class Service.

In short, they created a system built from a Property Owners perspective that creates a Paradigm shift in the industry. The vacation rental 3.0 model truly allows the vacation property owner to have their cake and eat it too..