

(SEO)

Overview

This new page will act as a child page for the real estate investing section of the site but will also be a hub for short-term rental strategy information and resources.

URL Structure

- /real-estate-investing/short-term-rental-strategy

TPR Recommended Links:

Metadata

- **Page title: Investing in Short-term Rental Properties: Beginners Guide & Getting Started**

H1 Investing in Short-Term Rental Properties: A Beginner's Guide & How to Get Started

Short-term rental properties are as popular as ever. Between vacation rentals and short-term rental sites like Airbnb, property owners are enjoying a heyday in the short-term rental market.

By the data and research gathered by [IPropertyManagement](#):

- The U.S. vacation rental industry is valued at \$15.1 billion, or 20% of the global market
- The vacation rental market value increased 22.76% from 2020 to 2021.
- 86% of consumers say they will book a vacation rental in 2022.
- The vacation rental market is expected to enjoy a compound annual growth rate of 8.49% in the next five years.

However, owning a vacation rental property isn't all sandals and sunscreen. Turning your short-term rental into an amazing real estate investment requires local market knowledge and the right property management.

In this guide, we'll tell you everything you need to know to start as a short-term property investor, including:

- [What is a short-term rental](#)
- [Are short-term rentals profitable](#)

- [The pros of short-term rental investments](#)
- [The cons of short-term rentals](#)
- [How to calculate your return on a short-term rental](#)
- [How to start a short-term rental business](#)
- [Running a short-term rental business or Airbnb](#)
- [Other short-term rental options](#)

Feel free to jump down to any section you'd like!

Let's get started...

H2 What is a Short-Term Rental?

Much like a hotel, short-term rentals are properties that are rented out to guests on a nightly basis, rather than via a monthly or annual lease. Also like a hotel, short-term rental properties are fully furnished and equipped with everything guests may need during their stay. In most states, guests must stay for 30 days or fewer for it to be considered a "short-term" stay.

Owners often buy short-term rentals as a secondary or vacation home, not with the intention of living in them. Since the creation of sites like [Airbnb](#) and VRBO, real estate investors are realizing the true potential of a short-term rental property. What used to be considered a side-gig for property owners looking to make passive income is now a booming industry with high-profit potential.

H2 Are Short-Term Rentals Profitable?

Short answer: yes.

However, if you want to enjoy high-profit margins, you've got to put in the work! You have to consider:

- The right location to own a short-term rental
- Upfront costs, such as renovations and repairs
- Rules about short-term rentals in your state/county
- Maintenance services

Short-term rentals can also be more profitable than long-term rentals, if you're marketing and maintaining them well.

For example, let's say Andrea and Michael both own identical one-bedroom apartments in the city. Andrea has a long-term tenant who pays \$1,600/mo, while Michael rents his apartment for \$150/night on weekdays and \$200/night on weekends. Michael also works with a property management company that maintains the unit for 20%. If Michael is housing tourists for 20 days out of the month (8 weekend days and 12 weekdays), here's what his profit looks like:

$$(8 \text{ days} \times \$200 + 12 \text{ days} \times \$150) / 20\% = \$2,720$$

Even though Michael's rental is vacant one-third of the month, he's still making \$1,120 in rental income more than Andrea, and that's with a property management company maintaining the rental.

In 2019, the average [Airbnb host](#) made about \$924/mo, with a median monthly income of \$440/mo.

According to Avery Carl's book, [Short-Term Rental Long-Term Wealth](#), "a property can generate upwards of three to five times more cash flow as a short-term rental than a traditional long-term rental," depending on the property type and location.

H2 The Pros of Short-Term Rental Properties

The potential for higher income is just one of the many reasons that owning a short-term rental property is worth it. Here are a few more:

H3 They Can Be Less Maintenance

This may sound counterintuitive, but a short-term rental can be easier to maintain than a long-term rental in several ways:

- If you hire a property manager, they'll tidy up your rental and make sure it's ready for your next guests.
- Many vacation property companies include a cleaning fee, so even if you're doing the cleaning yourself, the fee can pay for future maintenance needs.
- Since your renters are staying for shorter periods, you can clean more frequently and detect potential issues before they become problems.

H3 You Manage the Schedule

You control your vacation home's calendar, which means you can decide when you want to rent it out and when you want to stay there. If you want to spend a week in your summer beach house or take two weeks to redo your porch, you can do so with the click of a button.

H3 You Can Optimize Your Pricing

You can alter the price of your rental as you see fit. If your rental property is in the middle of a popular ski destination, increase the price in winter. It's also common to raise rates on weekends and holidays, so don't miss out on easy opportunities to increase your cash flow.

Sometimes, it may be to your benefit to reduce your pricing to remain competitive. Michael from the earlier example can offer a special rate for someone looking to stay in his rental home for a month. Instead of paying a monthly rate for all 30 days, which is \$4,900, can he price it at \$4,000 for the month. He'll still make more money than if he rented it out for just 20 days, and he'll remain competitive. Plus, he knows he's less likely to get guests who only want to stay a couple days during the middle of the week, anyway.

H3 They're Great for New Investors

Short-term rentals are amazing for first-time investors who don't have much capital and aren't looking to flip houses or try the BRRRR method. Unless you're buying a distressed property, you can apply for a conventional loan and use borrowed funds to generate extra income. Once you figure out who to manage a short-term rental and efficiently use debt, you can build wealth quickly.

H3 They Appreciate in Value

Your short-term rental should increase in value year-over-year. The longer you own and maintain it, the more valuable it'll become. Homes worth \$100,000 in 1967 are worth over [\\$960,000 in 2022](#). Your rental may not experience the same housing inflation, but it's highly likely that it'll appreciate in value.

H3 Tax Benefits of Short-Term Rentals

Short-term rental properties are teeming with tax advantages! Here are just a few:

- **Maximize your deductions:** All your marketing, management, upkeep, and insurance costs are deductible. This also includes business meals, educational expenses, and an eligible home office.
- **Track your trips:** If you're making frequent trips to and from your rental to set up and manage the property, you can deduct travel time. Also, if you buy a vehicle you're using primarily to rehab, stage, and manage your short-term rental, you can deduct its entire purchase price. If you write off \$24,000 on your car, you can save close to \$8,000 in taxes!
- **Appreciate depreciation:** If you spend \$7,500 on furniture, appliances, and entertainment for your rental, you can deduct that money immediately during the first tax season. Just be sure to keep an itemized receipt.

Are you reaping all the tax benefits from your short-term rental? If your answer isn't immediately, "yes!" read [Reduce Your Taxes with Short-Term Rental Properties](#).

H2 The Cons of Short-Term Rentals

No investment strategy is without flaws, including short-term rentals. Here are the main downsides of owning a short-term rental property:

H3 They Can Be High Maintenance

If you don't have a property manager, running a short-term rental can become a full-time job. You may end up in charge of:

- Scheduling bookings
- Screening renters
- Collecting payments
- Maintaining the property
- Doing all the marketing.

If you're not great at customer service and marketing, there's also a steep learning curve to managing a rental. You'll learn a lot, but it may be more effort than you want to put in.

H3 There's a Lack of Steady Cash Flow

It's not uncommon for short-term rentals to make two or three times more than their long-term counterparts. However, they lack the predictability investors of long-term properties enjoy. When the pandemic started, demand for vacation properties plummeted, and many companies went out of business.

Although the pandemic is an extreme example, last-minute cancellations and seasonal vacancies are common. Also, there may be months where you're booked for thirty days straight, and others where you could struggle to book a single weekend.

H3 Less Thorough Screening Processes

For long-term rentals, landlords and property managers usually run prospective tenants through a rigorous screening process that may include:

- Rental history
- Background check
- Credit check
- Proof of income
- Proof of income
- Verifiable references

Short-term rentals lack this luxury. Sometimes, the only information you have to go on are their online reviews. Also, since you'll have more traffic coming through your vacation rental, you're assuming greater risk.

H3 You're Paying the Bills

In general, long-term tenants pay your utility bills because they're the ones using them. Short-term renters don't, so water/sewage/garbage, electric, and internet all come out of your pocket.

H3 Your Neighbors May Not Approve

People usually want to live in a comfortable, quiet environment where they feel safe—especially if they have kids. If there's a new cast of characters living next door each week, your neighbors may get frustrated with you.

Let's be realistic: not everyone renting from you will be an ideal houseguest. They may be loud or throw parties, or do something else your neighbors won't approve of.

H3 You May Be Subject to Strict Guidelines

If your neighborhood has an HOA with special rules for short-term rental properties, or may prohibit them altogether. Research your neighborhood and read HOA bylaws before purchasing property. If you violate their rules, the HOA can sue you.

H2 How to Calculate Your Return on a Short-Term Rental

You have to [run the numbers](#) before you buy. If you don't, you won't know if you're making a good ROI. In this section, we'll show you how to estimate:

- **Gross income:** The total income earned from a year's worth of bookings
- **Net income:** The money earned in a year after subtracting operating expenses from your gross income.
- **Cash flow:** Your net annual income minus your annual mortgage, taxes, and insurance escrowed.
- **Cash-on-cash return:** The annual rate of return made on your short-term rental (quantified as a percentage). Ideally, you want your cash-on-cash return to be around 20% or higher.

Figuring out all these equations to know five numbers:

- Purchase price
- Cash invested (your down payment plus rehab costs)
- Gross annual income
- Total operating expenses
- Total annual mortgage, taxes, and insurance escrowed:

Let's assume you've figured out each of these numbers based on your end-of-year calculations:

- Purchase price: \$500,000
- Cash invested: \$120,000
- Gross annual income: \$80,000

- Total operating expenses: \$24,000
- Total annual mortgage, taxes, and insurance escrowed: \$20,000

You already know your gross annual income, so the next number to find is your net operating income.

$$\begin{aligned}\text{Net operating income} &= \text{gross income} - \text{operating expenses} \\ \text{Net operating income} &= \$80,000 - \$24,000 \\ \text{Net operating income} &= \$56,000\end{aligned}$$

Next, solve for cash flow:

$$\begin{aligned}\text{Cash flow} &= \text{net operating income} - \text{annual mortgage, taxes, and insurance escrowed} \\ \text{Cash flow} &= \$56,000 - 20,000 \\ \text{Cash flow} &= \$36,000\end{aligned}$$

Finally, you're ready to find your cash-on-cash return:

$$\begin{aligned}\text{Cash-on-cash return} &= (\text{cash flow} / \text{cash invested}) \\ \text{Cash-on-cash return} &= (\$36,000 / \$120,000) \\ \text{Cash-on-cash return} &= 0.3, \text{ or } 30\%\end{aligned}$$

If you can maintain a 30% cash-on-cash return, you'll recoup your investment in 3.33 years. That's a pretty great ROI!

H2 How to Start a Short-Term Rental Business

Buying a vacation property is a huge investment, so do your research and be prepared before purchasing:

H3 Understand Daily Rates and Fees

You can't predict the future, but studying average daily rates (ADR) and occupancy rates can give you an estimated guess of what your gross monthly income may be.

ADRs can vary greatly from rental to rental, even in the same neighborhood! Even the same property on Airbnb may be \$300 one night, and \$400 the next. Luckily, there are several data sites you can use to hone in on an estimated ADR. These include:

- [AirDNA](#)
- [AllTheRooms](#)
- [Mashvisor](#)
- [data.rabbu.com](#)

These sites also provide valuable information on occupancy rates, such as the average occupancy rate for an area and even the occupancy rates for individual properties (usually you'll have to pay for this feature).

Unfortunately, information on occupancy rates is harder to calculate, because their numbers may be skewed by a number of factors:

- Blackout dates
- Owners listing their properties on multiple sites
- How far out in advance are bookings available?
- How long has the property been available?

Check the property's booking schedule and compare it to the occupancy rates listed on the above sites. If it's consistent, it's likely a reliable source.

H4 One-Time Fees: Furnishing and Rehab Costs

We'll dive deeper into [furnishing your short-term rental or Airbnb later on](#), but for now you need to estimate how much it will cost to furnish your rental. Pricing varies greatly depending on the size of your home and what items you're including as furnishings.

In general, for mid-grade, budget-friendly items, you can expect to pay:

- \$5,000 - \$10,000 for 1-2 bedrooms
- \$12,000 - \$20,000 for 3-4 bedrooms

Rehab fees also vary, depending on the condition of the property and what renovations and repairs you're looking to put into it.

H4 Your On-going Operating Expenses

A long-term rental's operating expenses are comparable to a primary residence. Short-term rentals have a few more expenses to consider. Create a spreadsheet with this list, and based on the size and location of your vacation property, estimate what each item will cost:

- Booking fees
- Cleaning fees
- Occupancy tax
- Property taxes
- Insurance
- Management fees
- Maintenance fees
- Cable and internet
- Electric/gas
- Water/sewer/garbage
- Supplies/inventory
- Unique features, such as security, pools, hot tubs, etc.

Update your operating expenses spreadsheet regularly. Your estimates will become more accurate over time.

H3 Research Common Laws and Regulations

Never buy a short-term rental without first knowing the law and regulations of your city and neighborhood. If a city has licensing requirements, you can find them on the planning and zoning of your city's website. Since they're common, there's usually a link or section that outlines the ordinances and regulation requirements for short-term rentals.

It's common for cities with regulations to require you or the property manager to obtain a license to run a vacation rental. You'll also likely need a tax/business ID.

While laws and regulations vary from city to city, here are the most common requirements you'll encounter:

- **Primary residence requirements** - Many cities are adopting policies that require your short-term rental to also be a primary residence. In some cases, a property can be used as a short-term rental while the homeowner is away. In others, you can only rent portions of your home, such as an accessory dwelling unit (ADU), basement, or bedroom.

- **Property requirements** - Some cities require your lot to be a specific size or have multiple off-street parking spots available.
- **Operation limits** - Cities can limit the number of days you can rent out your home. 240-day maximums (approximately 20 days a month) are common, but sometimes they're even less.
- **License fees** - These fees are pretty standard and reasonable. For example, a one-year licensing fee in [Seattle](#) is \$75. However, some destinations charge hundreds—or more—in licensing fees.
- **Lodgers tax** - Certain cities and states require property owners and managers to pay a lodger's tax for renting out a room or property. The tax rate varies from [state to state](#).
- **Zoning laws** - You must meet the zoning requirements of your city.

H3 Build Your Power Team

Entrepreneurs rarely operate alone. Running a short-term rental is a team effort, so even if you're planning on doing most of the heavy lifting, you're still going to be outsourcing some of the work.

Here are a few key players in your power team:

H4 Investor-friendly Real Estate Agent

Find an agent who specializes in short-term rental properties. The right agent will save you a lot of the work and is well worth their commission. Your agent should know the short-term rental laws and regulations in your city and state, have keen knowledge of your local market, have connections to property management companies, and know the process from start to finish.

H4 Property Manager or Management Team

The right property manager can turn your high-stress rental into a low-maintenance breeze. Depending on how you work with, your property manager may do some or all of the following:

- Furnish your property or provide you with an itemized checklist
- Market your property on Airbnb/VRBO platforms
- Manage scheduling and customer service relations
- Manage invoicing and payment processing
- Schedule cleaners, landscapers, and other maintenance professionals as needs
- Set up licensing and tax IDs for your rental

In some cases, all you need to do is buy a property and get it ready to rent. The property manager handles the rest.

Depending on your needs, the industry average for property managers is [25% - 30%](#) of your gross rental income, depending on their fee structure. Airbnb property managers tend to charge between [25% - 50%](#), depending on where the rental is located and what services they're offering.

H4 Maintenance Crew

Reliable handymen/handywomen and other vendors must be available to address functional issues with your property on short notice, should they arise. If your hot tub isn't working or your heater malfunctions, speedy repairs can help you maintain a high property and experience ratings.

H4 Cleaning Crew

Reliable cleaners are in high demand and well worth their fee. You can find reliable short-term rental cleaners like [TurnoverBNB](#). Even better, these cleaners can gain immediate access to your booking calendar, so they know exactly when they need to "turn" your rental.

High-quality cleaners may also:

- Restock supplies
- Order/replace items and invoice you
- Wash and change linens
- Inform you if something is missing or broken

H3: How to Choose the Best Locations for a Short-Term Rental

There are three main short-term rental markets:

- Metro markets
- National fly-to vacation markets
- Regional drive-to vacation and leisure markets

Each of these markets have varying degrees of stability or volatility, attract different types of renters, and specific rules and regulations.

H4 Metro Markets

Metro markets attract many visitors, but aren't dependent on tourism. You may experience busier or slower times, but it's usually desirable year-round, as opposed to a beach house or ski resort. Short-term rentals in metro markets are a great alternative to hotels, especially for those staying more than a few days. Metro rentals tend to attract professionals on business trips, traveling medical professionals, and locals taking a "staycation."

The metro market is high risk, high reward. Metro markets are very rewarding in terms of cash flow, but they're also more regulated. In these markets, you're also dealing with disgruntled neighbors, building or HOA rules, hotel lobbyists looking to limit zones where short-term rentals are allowed, and a lack of affordable housing due to Airbnb investors.

H4 National Vacation Markets

National vacation markets depend on tourists, like Aspen or Hawaii. Short-term rentals are part of the very fabric of these markets, but some areas still experience pushback from permanent residents.

The national vacation market can be lucrative, but it's also often tied to the economy. If there's a recession, you may have a more difficult time getting renters. If there's a boom, you can be booked out for months!

H4 Regional Vacation Markets

Regional vacation markets also depend on tourists, and they're easier to drive to, like Big Bear Lake, California or Branson, Missouri. These markets are often smaller towns and more affordable than national markets, so they're not as dependent on the economy as their national counterparts. They also usually have fewer permanent residents or others looking to make running a short-term rental difficult.

In short:

- Metro markets - potentially highest return, high risk
- National vacation markets - potentially high return, medium risk
- Regional vacation markets - modest return, low risk

H2 Common Challenges for Short-Term Rental and Airbnb Owners

Congratulations! You're now ready to run your business. Here are many of the common challenges you'll face when running a rental or Airbnb, and how to address them:

H3 Choosing the Right Price

Finding the optimal value of your rental property is always a challenge. For example, Milo just started renting his property on Airbnb. Here are his numbers for the first four months. For simplicity's sake, let's assume these are the only costs that matter:

Month #	Price	Days Booked	Gross Income
1	\$100	30	\$3,000
2	\$125	24	\$3,000
3	\$150	22	\$3,300
4	\$200	10	\$2,000

\$150/night is his current optimal value. Pricing his rental at \$200 scared potential renters away, while pricing it at \$100 and \$125 kept the property booked, but not at its best value.

Some owners will start renting their property at a lower price to get more bookings and reviews. Once they have a few dozen reviews, then slowly raise their rates. However, be mindful of additional circumstances, like the economy and changing seasons.

H3 Cancellation Policies

Guest cancellations can greatly impact your operating income. Unfortunately, cancellations are an inevitable component of owning a vacation property. Luckily, there are plenty of cancellation policies you can include in the fine print of your booking. You just have to find the right one for you. If they're too strict, you risk getting negative reviews. If they're too relaxed, you could lose money.

Here are a few common policies short-term rental owners should consider. [Airbnb's cancellation policies](#) are very similar:

	Flexible	Moderate	Strict
Notice amount	24 hours	5 days	14 days
Canceling before the deadline	Full refund	Full refund	Full refund
Canceling after the deadline	Guest is charged the full amount for the first night	Guest is charged the full amount for the first night and refunded 50% for the remaining nights	If canceled between 7 and 14 days before arrival, the guest is refunded 50% for the booking Within 7 days, no refund is given
Canceling after check-in	Guest is charged the full amount of each night stayed plus one additional night	Guest is charged the full amount of each night stayed plus one additional night, and refunded 50% for the remaining nights	No refund is given.

Usually the flexible or moderate policies work best, but that depends on your location, season, and types of travelers you're looking for.

H3 Making the Right Renovations

The trick for short-term rental and Airbnb renovations is to make budget-friendly upgrades that add value. Kitchen makeovers and bathroom upgrades can get pricey, but when done well, they'll make your rental worth every penny.

Here are a few other renovations to consider:

- Paint your kitchen cabinets
- Install new flooring
- Add extra storage space
- Put in a coffee nook
- Freshen up your walls
- Install crown molding
- Add an accent wall
- Give the place some personality

H3 Furnishing Your Rental

Furnishing a rental or Airbnb is tricky: you've got to provide everything your guest may need without blowing your budget.

Here's our four step guide for furnishing your rental:

H4 1. Who is Staying There?

A couple's romantic beach house getaway and a cabin for a family of eight will require very different items. Think about who's going to use the space, and what types of furnishings will compel them to hit the 'reserve' button.

H4 2. Create a checklist

What does each room already have, and what does it need? For your inspiration, we started a list, but ideally, you'll want to create a spreadsheet:

Room	Item	Desired Qualities
Bedroom	Bedframe	<ul style="list-style-type: none">• Sturdy• Storage options• Can survive wear and tear
Bedroom	Mattress	<ul style="list-style-type: none">• Memory foam• At least 8 inches in height
Bedroom	Mirror	<ul style="list-style-type: none">• Full length
Kitchen	Coffee maker	<ul style="list-style-type: none">• Keurig
Kitchen	Serveware	<ul style="list-style-type: none">• Matching set of plates and bowls
Living Room	Sofa	<ul style="list-style-type: none">• Seats 6 comfortably
Dining Room	Table	<ul style="list-style-type: none">• Wooden table, 6 chairs
Bathroom	Bath and hand towels	<ul style="list-style-type: none">• Matching set

H4 3. Create a Budget

Research each of the items listed on your checklist, and write down their estimated costs. Once you add everything up, you should roughly know how much getting everything will cost. If it's more than you've budgeted for, consider using cheaper alternatives, at least for your first bookings. There's nothing wrong with browsing Facebook marketplace or [Craigslist](#) to find items to furnish your property.

H4 4. Listen to Guest's Feedback

Ask your guests how they enjoyed their stay, and if there's anything they'd like to see change. If you start getting complaints about certain items, switch them out.

Also, don't forget that you're in the hospitality business now. Thank them for their input!

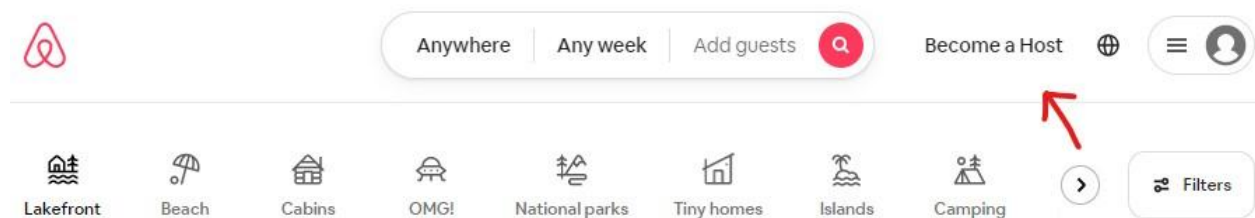
H3 Marketing Your Rental

Before you do anything, hire a photographer to take high-quality photos. In the vacation rental world, visuals are *everything*. If your high-resolution photos make your rental look like \$1,000,000, you can get away with charging a premium. If the photos look like they were taken with an iPhone 3, most prospective renters will scroll right past it.

Here are a few more tips for short-term rentals:

- Build a website
- Post photos and videos on social media
- Reach out to your local tourism board
- Join an online short-term rental group
- Respond to reviews—especially the bad ones

Marketing on Airbnb:



- Start by selecting "Become a Host" on the home page, then follow all the basic setup instructions and enter information about your location, home type, number of guests, etc.
- Next, upload your high-quality photos. The first 3 are the most important.
- Write short, quick descriptions. Bullet points go a long way.

- Fill out your booking setting and set up your calendar
- Consider using Airbnb's Smart Pricing tool, at least to get yourself started. You may want to reduce your price a little to get bookings started.

H2 Other Short-Term Rental Options

If you don't want to go fully independent, but don't feel like depending on Airbnb either, here are a few other sites to check out:

- [VRBO](#) - VRBO's (vacation rental by owner) tagline is "the most popular vacation rental site in the US." They specialize in private apartments and houses, not shared spaces.
- [Booking.com](#) - Booking.com has grown its number of vacation rentals in the last few years. You can list your property for free, but must pay a 15% booking commission.
- [Homestay.com](#) - Homestay.com has vacation rentals and private room rentals in over 160 countries, and specializes in private rooms and solo traveler accommodations.

Are you ready to become a short-term rental property owner? Check out some of our other helpful resources below!

Main Keyword: short term rentals

Sub Keywords: short term rental properties, vacation rentals, short term rental, short term rental property, rental property, vacation rental property, vacation rental market, short term rental business, vacation property, vacation home, long term rental, rental income, real estate investment, term rental property

Meta: Short-term rentals are as popular as ever. Between vacation rentals & sites like Airbnb, owners are enjoying a long-term heyday in the short-term rental market