THE ULTIMATE GUIDE TO SHORT-TERM RENTAL INVESTING

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Short-term rentals (STRs) have gotten a lot of attention over the past decade with the rise of Airbnb, VRBO, and other companies. And, during the COVID-19 pandemic, STRs turned out to be a good bet for real estate investors. Data suggests that revenue per room was only down about 4.5% in the first half of 2020—despite a 65% decrease for hotels and an estimated loss of $1.3 trillion for the tourism industry as a whole.

If you're thinking about dipping your toes into the world of short-term rental investing and need advice, look no further than this guide.

What is a short-term rental?

An STR is a property that is rented out for a short period of time. Typically, any rental contract longer than six months is considered "long-term," so a short-term rental can be rented out for periods as short as one day or as long as a few months.

Typically, we see STRs used for vacationing and stand as formidable alternatives to hotels.

Why purchase a short-term rental property?

Very lucrative

First things first—short-term rentals are highly lucrative.

Because of the nature of STRs, you can earn more money per month than a traditional rental—provided you've done your homework and landed a great property in a popular area.

Just think about it. If you charge $300/night for a property that's booked for 18 nights out of the month, then you can gross $5,400/month for a property that's booked, on average, about 60% of the time.

You'll have to calculate in the property's rental-related expenses—which we'll talk about later—but let's say it costs $2,500/month to pay the taxes and the mortgage, maintain the property, and cover other expenses. When we consider that the average three-bedroom home in the United States is rented out at nearly $1,300/month, you're still way ahead by opting for a short-term rental.

High demand

If you can nab a property in a sought-after tourist destination at a reasonable price, then you've hit the short-term rental jackpot.

Vacation rental demand is through the roof, and platforms like Airbnb and VRBO have made huge strides against the hotel industry, so properties in these areas are typically an excellent investment. As long as you conduct your research and find a property that checks the boxes, you won't have a hard time finding occupants.

More growth to come

Properties in prime vacation spots also tend to appreciate relatively well. It's not a bad gamble to purchase something in an area that's experiencing a lot of growth. Plus, since short-term rentals offer more flexibility in the rates you can charge, you'll be able to take advantage of price appreciations happening market-wide immediately rather than waiting for the end of a lease agreement to hike the rates.

How to find a good property

Before making any investment, quality research is key.

When it comes to short-term rentals, you may have to explore outside of your local market to find the right properties. Areas with a strong tourism sector tend to yield the best results, as the demand from vacationers will be higher.

Finding deals can be a challenge, but let's go over how you should conduct research to put yourself in a position for the best results possible. This includes:

1. Evaluating the market
Before you begin looking for actual properties, you need to determine whether the market you're attempting to enter is worth your time.

Off the top of our heads, we can think of tons of popular tourist destinations in the United States: Austin, New York, and Charleston, just to name a few. But just because we know that these markets boast strong tourism industries doesn't mean you should invest in them.

Competition for STRs is fierce in many of these areas, which helps to drive prices up. As such, finding a deal is hard, and when you do find something, it might need more improvements and repairs than you bargained for.

It would be smart to start by evaluating the number of visitors to the market over the past year. Most of this data is published online so it's easy to find. Some areas might require you to dig deep to find the values, but typically a Google search for "Charleston tourism stats" will provide you the type of information you need. In fact, cities will often publish their tourism data in an effort to garner more interest from investors and tourists.

Once you have these numbers, take a close look at year-over-year growth. Are more visitors arriving each year? If so, that's a good indication that the real estate market will continue to appreciate, adding to your equity margins. Plus, you can use this information to help avoid vacancy woes later down the line.

You also want to see what the area's local economy has been up to. The best way to approach this is through qualitative means. You can do that by looking up local news articles or reading local government websites for announcements. You're looking for information on new developments like hotels, clubs, restaurants, sports venues, concerts, or anything that brings in tourists.

If you see a lot of news about recent development and attractions, it's likely that this area is making an effort to invest in its tourism infrastructure. That gives you a good reason to purchase an STR in the area.

Overall, you're looking for local economic and tourism growth. The more strength in this arena, the more likely it is that your investment will pay off.

2. Evaluating seasonality
Another major factor in short-term rental investing is the seasonality of the market you're looking to purchase in.

In many areas, tourism only occurs at certain times of the year. For example, tourism to beaches tends to lag in the winter months while the flow of visitors to mountain cabin retreats remains steady throughout the year.

Or, some markets may experience brutal winters that create a lot of snowfall, which can push away tourists. However, that same market could have an amazing autumn season with sharp leaf colors, causing a huge tourism boom.

Taking a deeper look at the market's monthly data for tourism while studying weather patterns, geographical factors, and geological features is critical to finding a strong year-round tourist season.

A prime example is Asheville, North Carolina. Asheville is a strong tourist city nestled in the Blue Ridge Mountains and hosts a robust summer and fall tourism season. By winter, tourism slows down—although not completely. Because the mountains are a unique geological feature, the cabin and chalet rentals remain steady despite the cold weather. This also means ski resorts are open, making tourism a year-round industry in Asheville despite the inclement weather.

In other cities, you might have flat terrain that cannot support skiing or picturesque cabin scenes in the winter. In turn, you would see a visible drop in tourism when cold weather strikes—which would mean that tourism in these areas follows different trends than in areas like Asheville.

Finding a year-round tourism market is ideal. That said, if you were to invest in markets with robust seasonality, then your investment could still be worth it.

3. Evaluating demand
Demand ties into the local economy and tourism. You'll want to find data on the occupancy rates of the area you're looking to buy in. You can find this information on websites like AirDNA, which provides information on lots of useful metrics.
Your target occupancy rate is completely up to you. While you may like to see 100% occupancy, that's not a realistic goal. Markets with occupancy rates higher than 65% are generally seen as strong markets. An occupancy rate of 50% is about average, and anything below that becomes undesirable. Aim for a minimum to ensure your numbers work.

4. Recession resistance
In real estate, nothing is "recession-proof"—no matter what you do. However, some properties are better at resisting economic pressures than others. Once again, whether or not a property is more recession-proof than normal will depend on the local economy, the strength and makeup of the tourism industry, and the demand in that region.

As we've seen in recent years, tourism can get bludgeoned badly when there's a downturn. Because of this, it's extremely important to realize the risks when picking a certain market and property type.

For example, established tourism markets with strong year-round attractions, like Walt Disney World or other theme parks, might be more resistant to recessions when compared to small markets with tourist draws related to art, history, and culture.

While the latter has a solid pull in normal conditions, traveling to these types of destinations might get put on the back burner when a recession occurs. On the other hand, many tourists will still go to Disney World because of how strong the pull is.

5. Local regulations
Some markets will have tighter short-term rental regulations than others. For example, some counties have outright banned short-term rentals, while others have imposed licensing and permit processes that cost both time and money.

Before you start your search for properties, make sure you read up on the local laws affecting short-term rentals in your target market. The best way to do this is to simply search for a term like "short-term rental laws in [market]." When possible, always prioritize the search results for government websites to make sure you get accurate, updated information.

Analyzing a short-term rental property

Once you've zeroed in on a market—all the research has been conducted and you may have found a property that could bode well for you—you need to make an analysis of the quality of the property and how much revenue it can generate.

Calculating revenue
Calculating revenue for an STR isn't as straightforward as it is with traditional real estate investing. When it comes to traditional rentals, you make the same amount of money each month, as long as you have an occupant. With STRs, you're constantly fighting for new guests. That's one of the biggest tradeoffs of going the STR route. But that's also why it's so lucrative.

To calculate your potential revenue with an STR, you need two things: the occupancy rate and the average price. This type of data can be found on STR statistic websites like AirDNA. You can pull either the occupancy rate of the entire market or close in on the exact location in which you're trying to buy.

Once you have that information, you need to determine what you'll charge each guest per night. This number should be based on the property itself, your competitors, and any added value, such as amenities. Just be careful to not overprice, and try to stay within the realm of your competitors. When you have those numbers, input them into this equation:

Occupancy Rate * Nightly Rate * 30 days = Monthly Revenue

Here's an example: 75% occupancy * $300 per night * 30 days = $6,750/month

Isn't that attractive?

But this is just revenue, of course—not profit. There are fees, maintenance, taxes, and other costs associated with managing an STR, but that number is a great start!

You can also adjust this equation as needed. For instance, if I were trying to compare two months in two separate seasons, I might reduce the occupancy rate or the price to better reflect the conditions.

The other half of estimating revenue is determining whether or not you'll charge cleaning fees. These are separate charges that you tack onto the night's stay to cover the expense of cleaning.

Some hosts charge cleaning fees and some don't. Whether you choose to or not is entirely at your discretion. Just make sure to support your decision with data from the market. If your competitors don't charge cleaning fees but you do, you might lose out on some guests.

If you do decide to charge cleaning fees, you need to figure out whether you'll clean the property yourself or have a cleaning company handle it for you. Finding their rates is as easy as looking it up online or calling around.

Once you have a rate, add it to your revenue by taking the total number of days in the month and dividing it by your minimum length of stay requirement. Multiply the result by the dollar amount of the fee you charge and add it to your revenue.

Here's an example:

30 days / 2 night minimum = 15 total guests

15 guests * $75 = $1,125/month

You will almost certainly have a different number of guests from month to month, so these numbers are far from concrete. Still, it's a good estimate of what you could earn in a month, and you can always adjust the numbers if you want a more conservative estimate.

Estimating expenses

When it comes to estimating expenses for short-term rental properties, there is not too much deviation from traditional investing. In other words, PITI (principle, interest, taxes, and insurance) still dominates the expense category, but we'll talk about a few other expenses as well. These include:

Mortgage
First and foremost, we need to account for the monthly mortgage payment if you're leveraging the property. Let's say you bought a $350,000 property with 20% down. Your terms are 30 years at 3% interest with a fixed-rate loan.

Your monthly payment, excluding taxes or insurance, would be about $1,200 per month. Once we start accounting for private mortgage insurance, which is typically required on homes with less than 20% equity, and property taxes, this number could climb up to $1,500 per month or more.

Insurance
You will also need to calculate in the costs of insurance for your short-term rental. To get an accurate estimate for your insurance costs, you should call different brokers and browse different websites to get quotes.

Be aware, though, that STRs might have varying rates that are more expensive than traditional insurance. For example, some insurance companies offer coverage for damage to furniture and other items in the home. This type of policy can be useful when a rowdy tenant leaves your property in shambles.

Property management
The vast majority of short-term rental properties are self-managed you can manage the rental yourself, and for good reason: the high cost of property management.

While the services of a property management (PM) company can be enticing, STR property managers can be very pricey and STR rates are higher than normal rental pricing. Expect to pay upward of 35% of the gross revenue, which will eat into most of the positive cash flow the property generates.

It is typically not worth the money to hire a property manager, as the real money in STR is remote self-managing. Everything can be done from a smartphone with a few short-term rental management tools to streamline it. That said, if you're going to use a property management company for your short-term rental, you should calculate in the costs.

Taxes, permits, and licensing
It's also important to take a close look at whether the local government charges tax levies on STRs. In some cases, STR owners must pay occupancy taxes or be required to get permits and licensing, which should be accounted for in your expense category.

Repairs and maintenance
Expect to appropriate 5-10% of revenue toward repairs and maintenance. Keep in mind that your guests are most likely on vacation and are staying at your place to have a good time. Because of that, it's more likely that things will break, wear and tear will accelerate faster than normal, and costs will mount up.

Utilities
Unlike traditional rentals in which the tenant typically takes care of utilities, the costs for utilities are your responsibility with an STR. You'll have to dig up some research on your market's average utility cost, but assume that your costs will be on the higher end of the spectrum.

That's because guests on vacation tend to throw environmental sustainability out the window. They leave TVs on, run the hot tub, blast the speakers, run every appliance at the same time, and forget to turn off the lights.

Listing fees
If you decide to list your STR on a platform like Airbnb or VRBO, then you should account for the commission fee you pay when a guest books a room. These prices vary across platforms and destinations, but they're typically a small percentage of the total booking price.

Figuring out your return

Add in other variable expenses as they come, but you shouldn't have much more than what we already covered. With that in mind, you simply subtract your expenses from your revenue to get your net income.

Let's say we calculate expenses and they add up to $4,300 per month and we're doing the math based on our projected revenue of $6,750 per month. Note that we're not charging a cleaning fee in this equation.

The equation would be: $6,750 – $4,300 = $2,450/month

With that information, you can determine whether the investment is worth your time or not. Based on those numbers, however, that's a pretty solid return.

Buying a short-term rental

So, you've done all the research and now you're ready to pull the trigger on a property. Where do you start?

Well, it's the same as any other real estate transaction. You find an agent, tour the property, make an offer, line up financing, run through any inspections, and close.

Finding an agent
Getting in touch with a quality real estate agent who specializes in or has experience with short-term rental transactions is often the best route to take. If you're purchasing a property in an outside market, you'll need to do some online research to see if there are any brokers who are prominent in the area for STRs if you don't know anyone already. A great place to start your search is the [BiggerPockets Agent Finder]() that matches you with an investor-friendly agent in any market in 2 minutes or less.

Touring the property
Touring the home can be a logistical challenge if the property is outside of your local market. However, it's always recommended that you tour the property in person before ever signing an offer. Pictures don't always do a home justice and descriptions can't give you a clear enough idea of the property either. Getting a hands-on look at a home will reveal all of its pros and cons.

If you can't get to the property, however, ask your agent to tour the home for you and give you their own feedback. You can also ask them to video call you during their visit. Or, ask about a virtual tour instead. Many properties have 3D tours set up so that any buyer can complete a virtual visit from their computer screen.

Do what you have to do, but make sure you examine the home closely. You want to take the time to discover any problems, get a feel for the space, imagine it as a vacation spot, and make a decision.

Making an offer
When the market is hot, there is less flexibility on offers. Sellers are getting bombarded by offers, many of which are above the asking price.

An easy way to know how much leverage you have on an offer is to see how many days the property has been listed on the market. If it's been listed for a month or more, you'll likely be able to talk the seller down —even if it's a hot market.

You can also figure out how flexible or motivated a seller is by looking at the number of times they've lowered the price—and by how much they've dropped it. Less price fluctuation and higher days on market will often mean the seller is either unmotivated or inflexible.

If the seller has been dropping the price significantly, it typically means the opposite. They want to sell and may be willing to take any realistic offer at this point.

Lining up financing
Sellers like to know that you'll be able to buy the house, so sending a pre-qualification letter with your offer is a good start. If the seller decides to accept your offer and you're using a mortgage loan to purchase the home, it's time to start the full approval process.

Work with your lender to submit the proper documentation and make the underwriting process clean and easy. The mortgage loan process doesn't typically deviate significantly when purchasing an STR, but keep in mind that you won't be able to get an FHA loan or other government-backed loans since this will be considered an investment property or your second home.

Due diligence and the road to closing
After your offer is accepted, there is a short window of time, called the due diligence period, in which you can pull out of the deal without sacrificing your earnest money deposit. This is the best time to get the ball rolling on inspections.

General home inspections should do the trick when buying an STR, but if you think you need further inspections, be sure to line those up as well

Closing
Closing is the process in which you sign the paperwork, complete the purchase, transfer titles, and get the house keys.

The closing process may vary significantly depending on the state you're purchasing in. In many states, the buyer brings the attorney. In others, it may be quite different. How this process looks really just depends on where you are.

Once the closing process is complete, it's time to start making money.

Listing, marketing, and managing your short-term rental

At this point, you should have figured out whether you'll be using a property management company. If you are, it's a good time to engage with them and start setting up shop.

Just because you have the property open for booking doesn't mean it will fill itself. You need to market it. Luckily, platforms like Airbnb and VRBO make this easy to do. The process of listing, marketing, and managing your STR includes:

Preparing and furnishing the property

Before you create the listing, you need to furnish the space and make it livable. And, ideally, you will make it more than livable. Make it a destination.

Remember to include enough beds, set up a living room space, and decorate. You can choose any direction with your design, but clean and fresh is the safest bet. You should also make sure to tailor the interior design to the types of guests you want to attract.

For example, if you have a cabin rental in the mountains, a rustic, outdoor feel is an ideal theme. If the property is in the Hamptons, however, you likely wouldn't opt for the same style.

Creating a listing

You need to fill your listing with descriptions, professional photos, and important information—which is quite similar to creating a listing for a home you are selling. This includes the maximum occupancy, minimum stays, and any other details the guest should know.

Note that your list of amenities can also be the key determining factor for getting bookings. Most guests expect you to offer free Wi-Fi, clean laundry, kitchen cutlery, TV access, and other amenities.

Marketing your listing

Having your listing up on Airbnb and supported by a range of accurate, professional pictures, a detailed description, and a long list of amenities is enough to get some bookings. However, if you really wanted to ramp up your marketing, you could run online ads on Facebook, Instagram, or Google with links to your listing. You could also make landing pages and websites with a sales funnel.

Just note that one of the best ways to keep a constant stream of guests coming to your property is by receiving 5-star reviews from former guests. This provides social proof, enhances your profile, and gives you better odds of securing more bookings. Regardless of your marketing strategy, make sure advertising costs are accounted for and always ask for reviews from guests.

Managing your STR

We have already touched on property management companies and what they can offer. Whether you decide to work with one or not is fully up to you. While they can be expensive, they can lift a huge burden off your shoulders.

Furthermore, a PM might be necessary if you live outside of the market.

If you choose to not work with a PM, however, you should expect to provide cleaning services, restock, communicate with guests, keep the books, and do a whole array of miscellaneous activities.

Final thoughts on STR investment properties

Congratulations! You now know what it takes to scope out, buy, and manage a short-term rental!

The next step is to scale your business over time. But for now, get started with your first property and learn the ropes.

This is the perfect time to get your toes wet. STRs are only gaining in popularity and demand is through the roof. If you can find a great property in a great location now, it's hard to imagine that you'll regret your decision in a few years.

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