

BLACK ORCHID MANAGEMENT, LTD.

UNDERSTANDING THE VACATION RENTAL MARKET

By Lucinda L. Turley, Certified Property Manager

Whatever vacation property you're marketing – Villas, condominiums, townhouses, duplexes, homes, or apartments – chances are they are pretty similar to the projects that somebody else is marketing next door, down the block, across the street, or in a neighboring geographical area. Of course, there are some differences: your vacation rental may be larger, your competitors may be newer, while somebody else's property is closer to town, has a restaurant-night club, or is further away from social activities.

Maybe the differentiating factors between one competing property over another, are more what we call "intangible". What does that mean? Intangible products can be your customer service, your maintenance response times, the condition and presentation of your amenities, the cleanliness of your property, your curb appeal, your first impression, your niche in the market, why your resort is different. They are intangible, because we often do not place a value on these items or areas of our properties.

Maybe your reservation staff is especially friendly and helpful; they love their jobs, and it shows. Could be your maintenance team works morning and evening shifts so they can be available when your guests need them. Perhaps they go out of their way to be helpful, even asking residents if they need help with anything. Possibly, you have better curb appeal than your competitor, your hallways are spotless, and your common areas are immaculately clean. Do you see your properties intangible products as having value? If you've got great customer service, immaculate grounds, beautiful amenities, communicate their value to your potential customers. If you can do this, you're way ahead on the "vacation rental" game.

But before you can put together a marketing strategy and design a marketing campaign for your vacation rental property, you will need to understand the environment in which it will compete for guests, tourists, and extended stay customers.

DEFINING YOUR MARKET

For many vacation resort owners, simply getting your property up and running is a task in of itself. Leaving you little time to focus on the marketing aspects and how you will want to achieve them. This need will soon become apparent, after the property nears construction completion – when many developers find themselves with completed rooms, but no guests to fill them.

For this reason, many resort owners find themselves seeking the services of a marketing agent to help them achieve their financial goals, projected for their properties.

They expect their marketing agents to be familiar with demographic trends and economic developments that will determine whether sales and leasing projects will be achieved. This

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expectation requires the marketer to conduct some baseline research to establish the geographic spread and quality of the potential market for your particular "vacation rental" project.

Armed with this information, the marketer will have the necessary background to evaluate and leverage the competitive position of the property within a prescribed market area.

Conditions in a global market will drive not only the short term goals, but the long term goals as to performance of the vacation rental industry as a whole. For this reason, it is important that developers and owners of vacation resort properties, understand their market niche and to whom they are appealing to.

The overall stability and economy of targeted markets, the financial strength of local and foreign employers, population growth, transportation (airlines) ease, education, cultural activities – even climate conditions and recreational opportunities – all contribute to the strength of the vacation rental market.

COUNTRIES, REGIONS & AREAS

Particular areas may offer specific features, which make them desirable places to vacation. Because of this, it affects the success of residential properties that operate within that particular area. It's essential to know, in a general sense, whether that area is economically viable and if it's likely to remain so. In the vacation rental housing industry, the market for a particular project is defined broadly in terms of its region and, more specifically, its immediate area.

For the purposes of this article, the term region is the geographic area within which changes in economic conditions (for example, employment, population, and income) potentially influence the success of a particular vacation housing project. By contrast, the term area, is a segment of the region within which vacation housing projects actively competing with one another for prospective buyers, tourists, guests, and extended stay residents.

The analysis of the vitality of regions and neighborhood areas, is the indispensable foundation from which information is taken on the vacation housing market. This investigation enables us not only to define the position of a particular project in its market, but also to gauge the scope and intensity of the advertising campaign that will be required to attract owners, residents and guests. None-the-less, there are foundational elements of a strategic marketing program. You need to know who your prospects buyers, and guests will be, where they will most likely come from, how much they can afford to pay for their vacation or extended stay, and when they are planning to come. The answers to these questions may be found in statistical information.

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We'll begin by considering the differences between regions (or districts) and areas and their respective importance in characterizing a property's vacation housing market.

THE REGION

For the vacation housing marketing purposes, a region can be defined as the physical area of an indeterminate size, that has distinctive features, as well as, economical conditions that determine its health – meaning, the financial performance of properties located within.

This concept of a region can be understood by looking at travel patterns for specific regions and areas. For example, the number of United States and Canadian citizens traveling to a particular region, when analyzed and interpreted, can lead to useful conclusions about regional growth.

When patterns are examined, characteristics about people, their behavior as consumers and their preferences for vacation destinations can be more easily understood. The most frequently dissected demographic factors are age, sex, race, marital status, secular choices, and income. Household size and composition (i.e. number of children and their ages) are other areas that directly impact factors being analyzed. As new and old data is reviewed, trends start to immerge. These trends then become critical in understanding the vacation housing market.

UNDERSTANDING VACATION DESTINATION TRENDS

Travel destination data can be presented in a variety of ways. Among the most useful are counts, rates, ratios, proportions, and periodic measures. We'll discuss these in the following paragraphs using hypothetical examples.

THE COUNT - A count is the absolute number (statistic) of any group of people traveling to a particular area during a specific time period. Count data, is often raw numbers that support a variety of other statistical refinements or characteristics. The number of travelers and their destination, among age, income, and other groupings are typically expressed as a count.

Count data is useful when analyzed because they illustrate whether a particular demographic factor (i.e. sex, place of origin, purpose, employment, income – is growing or declining.) This leads the evaluator to explore causal factors. If, for example, a comparison in travel data between Year One and Year Five shows a substantial decline, the evaluator might conclude that the vacation market is unfavorable, which could suggest the vacation housing absorption rate (that is the number of guests filling our rooms) will be negatively affected. This would encourage the evaluator to look for external circumstances that might have affected these numbers, such as the beginning of a recession period that could have repercussions for the entire region.

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RATES – Vacation rental rates can reflect market trends for a specified time period. Data of this type is useful in comparing one vacation rental property against another vacation rental property. Things to take into consideration when calculating your vacation rental rates are: property amenities, room amenities, age of the property, travel expenses (i.e. getting to and from your property from the local airport or airstrip), your surrounding competition, and the distance your property is to activities. This can be a property amenity like a dive shop, a swimming pool, a neighborhood business (i.e. gift shops, ice cream stores, restaurants, etc.), a facility (i.e. a meeting center, convention center), and a local community (i.e. town center, grocery stores, medical facilities, etc.).

An examination of rental rate data, might reveal that older vacation rentals – more than 15 years old – comprises nearly one-half of the vacation rental market in an urban area. This fact may support the conclusion that additional vacation housing may be needed or that existing older vacation housing may need renovation and/or demolition.

RATIOS - A ratio is the relation of one area to another area with the same demographic features. Analysis by means of ratios is helpful when a demographic sector is being evaluated against a larger demographic sector, as in a comparison of the number of one bedroom condos vs. three bedroom condos, against the total number of vacation rentals in a geographical area.

Here's an example of the use of ratio data: Assume that you've collected information to compare one villa vacation rental in one area, to another villa vacation rental in another area. In general, rental rates will be higher, the closer you are to town, the more amenities, attractions, and activities that you offer, as compared to villa rental rates in rural, or isolated areas, that offer very little to do.

Which means, that in order to keep your rental rates up, the more amenities and activities that you can offer your guests, the higher your rental rate ratio will be.

PROPORTIONS - Proportions express the relationship between one particular vacation rental - resort and the rest of the demographic area – i.e. the vacation rental is divided by the entire group. Proportions are helpful in evaluating the strengths one vacation rental has within an entire area. This would apply to age, number of rooms, common area amenities, activities, so on and so forth.

Your vacation rental may lead when it comes to your particular neighborhood area, but fails miserably when it comes to your particular regional area. This is where proportion analysis comes in.

PERIODIC MEASURES - Periodic measures evaluate events (travel trends) involving one period of time. These can then be compared with the same field at a different time, and the magnitude of any change can be measured.

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Changes in the number of visitors, starting destination, ending destination, age, race, sex, marital status are examples. Periodic measures facilitate an analysis of such things, and can help to identify the existence of trends affecting the travel industry.

While these hypothetical examples demonstrate how various types of data are relevant to the vacation rental market, it's also necessary to pay attention to when the data was collected. Specific numbers lose their relevance over time because of changes in the marketplace.

In conclusion, I sincerely hope that this short article on "Understanding Your Vacation Market" was informative and helpful.

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