



## 2009: The Year of the Vacation Rental?

*How Vacation Rentals Are Poised For Growth Even In An Economic Downturn*



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# INTRODUCTION

In early 2009, the travel industry- like many industries- finds itself at a crossroads. The past year was filled with challenges and volatility for consumer travel lodging of all types, and while many are bracing for a similar 2009, there is a sense of cautious optimism for those in the vacation rental industry. Even as other parts of the travel industry are projecting a slow 2009, the vacation rental industry – worth \$24 billion - is poised for growth, even during the slow economic conditions that we are experiencing in the US and world-wide.

So what is driving this trend? The current real estate market plays a role, as many second home owners are trying to earn additional revenue from their properties, dramatically increasing the supply of vacation rental units, particularly in high-value areas. However, the most significant operating factors influencing the success of vacation rentals – and those that are generating optimism within the industry- are the increased adoption of management technology, and the continued improvement of distribution, marketing and booking tools available to property managers and owners.

At Bookt, we work with vacation rental unit owners and property management companies to increase the online visibility of their properties, we have identified the following key trends in the vacation rental industry going into 2009:

1. Greater Online Presence
2. Social/peer Reviews And Other Emerging Distribution Tactics
3. Changes In Demand
4. Changes In Supply
5. Changes In Offering
6. Pricing And Revenue Management
7. More Consolidation

## 1. GREATER ONLINE PRESENCE

Of all the factors affecting the vacation rental industry, the continuing rise of the internet as a marketing, distribution and revenue development channel is perhaps the most important. Because of the decentralized nature of the vacation rental segment, there are few companies that can easily disseminate technology and standardize processes, like a large hotel chain can, so most have yet to fully capitalize on its online capabilities. This is changing. While ownership consolidation has not yet swept the industry, technology and third-party service providers have closed the gap, making it possible for both the single-unit proprietor and the 1000-unit corporations to develop an effective, comprehensive online presence that meets their strategic goals.

Search engine optimization (SEO), is the foundation of any online marketing strategy; a website not engaged in any SEO is almost certainly missing out on free website traffic and leads from Google and other search engines. Online distribution beyond the property website (with other channel partners, often travel sites like hotels.com), synched automatically with a property management system is another, more developed strategy. Look for both of these online tactics to continue flourishing throughout the industry this year, fostering greater distribution of vacation rental units.

## 2. SOCIAL/PEER REVIEWS AND OTHER EMERGING DISTRIBUTION TACTICS

Peer review travel sites are becoming more favored by consumers, who appreciate the 'real' expectations and advice they can get from these reviews. More than three-quarters of review users reported that a review had a significant influence on their purchase, with lodging ranking the highest (87 percent). 97 percent of review users who said they made a purchase based on an online review found the review to be accurate, noting that reviews generated by fellow consumers had a greater influence than those generated by professionals. These sites are important distribution and marketing tools for 2009 (and beyond). The same is true for other web 2.0 marketing tools, like Facebook widgets (where a consumer can search out the marketer, rather than the traditional marketing relationship) and dynamic display ads (which embed an actual bookable property with photos, rates, and a call-to-action to book on other sites and search engines).

## 3. CHANGES IN DEMAND

The global recession has affected- and will continue to affect- leisure travel demand in 2008 and 2009. The good news is, this softening of demand has not been as catastrophic as it might be, particularly in the US; rather than cancelling travel plans altogether, it seems American travelers are trading down and increasingly looking for a "good value". Three quarters (76%) of travelers "expect to book a packaged vacation to save money" and six out of ten (58%) "plan to comparison shop for prices and rates specifically on the Internet." Seven out of ten (67%) travelers "plan to stay fewer nights" and a comparable percentage expects to "spend less on food, beverages and entertainment" when traveling<sup>1</sup>.

This trend bodes well for vacation rentals as compared to other lodging options. The percentage of U.S. online leisure travelers who consider themselves brand-loyal has plunged by 19%, from 31% in 2006 to 25% this year, according to a Forrester's Benchmark Survey conducted in the 3<sup>rd</sup> quarter of 2008. If brand loyalty is not as important, than the segmented, largely brand-less vacation rental industry can compete more effectively with traditional lodging.

1. VRMA.com <<http://www.vrma.com/a/public/ShowNews.asp?id=32&return=/a/public/index.asp>>.

## 4. CHANGES IN SUPPLY

While the flush years of 1991-2001 and 2003-2007 encouraged investment in second homes and vacation properties, the current recession demands that owners realize some immediate return on those investments. In other words – today's vacation units need to become income-generating machines, not just static assets whose chief value is derived from appreciation. This shift in the use of existing units has also contributed to the increasing and diverse supply of vacation rental properties available.

The increase in the number of available units has spurred the adoption of more efficient distribution systems, just as the same supply increase is encouraging consolidations between vacation rental companies. And as property values continue to slide or stagnate, even in high-demand areas, the need to rent units will not subside but continue to increase.

## 5. CHANGES IN OFFERING

In 2009, the ability to better promote specials and deals through online marketing coupled with the availability of revenue management systems has also enabled vacation rentals to compete more directly with hotels. In a recessionary environment in particular, as loyalty gives way to price considerations, the unit owner and property manager can actively leverage the value proposition of their units compared to their hotel competitors.

As vacation rental operations become less defined by single ownership and casual operations, the uniformity of contracts becomes necessary to streamline payment and protection. It also facilitates speed, which in turn allows for flexibility on rental periods, which makes a vacation rental more competitive. And the name of the game in 2009, as the industry grows faster from the supply side, is competitive advantage.

## 6. PRICING AND REVENUE MANAGEMENT

No conversation about competitive advantage is complete without a discussion of pricing and revenue management. Technology has enabled both the management company and the individual property owner to maximize revenues in the same way hotels do: by setting rates based dynamically on demand rather than on static seasonal listings. With an online presence and a savvy operator, these tools become easier to use, much more affordable and accessible (with the rise in number of third-party agents available to implement revenue and property management systems) for the vacation rental owner. This is one of the most important trends to watch in 2009, and is one of the main reasons the industry will continue to see growth amidst an ongoing economic crisis.

In 2009, an increase in professional property managers (versus single-unit owners) will also correspond with an industry-wide trend toward hotel-like services. Maid services, concierge, strategic partnerships for upgrades and ancillary service sales, and other perks are commonplace among hotel chains, but not among vacation rentals. This should start to change in the New Year as vacation rentals compete more directly with hotels.

Also, look for unit owners and property managers to realize the value of ancillary revenue opportunities, including equipment rental, spa services, tours and theme park tickets. As the website becomes more of a booking portal, the potential for additional sales grows proportionally. Other companies such as hotels, retailers and (notably this year) airlines, have acknowledged the power of ancillaries: many resort hotels derive more than a half of their total revenues from sales of something other than the renting of rooms. That ratio may not be attainable for many vacation rentals, but partnership offerings can certainly contribute a significant amount of revenue.

## 7. MORE CONSOLIDATION

Recessions and downturns can spark waves of consolidations in any industry, and the vacation rental segment is no exception. This year, look for 100+ unit property management companies to become 500+ units. Those companies doing the buying will be those with stronger technological and operational competencies, as they will have the competitive advantage (and the bigger margins) in the New Year. It should be noted that this trend in consolidation will apply only to property managers until the residential real estate market stabilizes; we do not anticipate a wave of ownership consolidation until at least a bottom is found in property prices. Whether that will happen next year is anyone's guess.

## VACATION RENTALS – THE FUTURE OF THE CONSUMER LODGING INDUSTRY

Clearly, technology is a key driver for successful vacation rental managers and owners around the world, though changes in strategy and basic supply and demand are making a clear mark on the industry. Owners and operators that can effectively leverage their online presence, reservation and CRM systems, marketing endeavors, and relevant emerging technologies will be well-positioned for success in 2009 and the years to come. Bucking current economic trends- and barring outright collapse- the vacation rental industry will expand exponentially over the next few years to become the new trend in leisure travel. Facilitated by innovators, web architects and trusted strategy advisors, the vacation rental industry has nowhere to go but up.



*Dear Reader,*

*Thank you for taking the time to read our report. Despite the current economic climate, I think we will see more, not less travel in the near future. Vacation Rentals have some unique advantages and some of the traditional problems are quickly dissipating through the help of technology and more efficient business practices.*

*As president of Bookt, I am very excited to be a part of the Vacation Rental industry and being an innovator in this rapidly expanding travel segment.*

*Best Regards,*

*Rob Käll*

*President - Bookt LLC*

## ABOUT ROB KÄLL AND BOOKT

Rob Käll, President of Bookt LLC, is a technopreneur at heart. Bookt is a comprehensive web services provider to the global vacation rental industry, delivering seamless integration and turn-key web solutions. The company provides a complete range of services for vacation rental managers, tour operators, developers and larger travel organizations, from sophisticated website development, online marketing services, search engine optimization and CRM strategies.

Rob founded Bookt in 2008 to fill a large void in the global vacation rental industry, drawing upon his 12+ years of experience in developing and implementing some of the most sophisticated (and visited) real estate and property websites in the world. He is an expert in emerging web technologies, especially as they are applied to the travel industry, as well as behavioral targeting and engagement, deciphering marketing trends into widgets and applications, and online distribution hubs beyond the GDS.

For more information, please visit [www.bookt.com](http://www.bookt.com).



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