

# Renting a Property? The Long and the Short of It



## A comparison between short and long term rentals

While many of our customers buy properties as holiday or retirement homes, many others look to the property to provide rental income.

Florida is an international vacation destination, and for those looking to invest in property that will provide a rental income, the question inevitably arises – should I buy a property for short or long term rental? A short term rental is a furnished house or condo that may be rented for short periods to visiting tourists and winter residents. A long term rental will typically be unfurnished, and may be rented to a variety of tenants including students, families, working professionals and retirees. Long term tenants may stay at the property for several years depending upon their personal circumstances.

A house that can be rented weekly or monthly to visiting tourists may seem a compelling proposition, especially in the Orlando or coastal areas, where demand for such property can be high, but what are some of the things to consider before deciding upon the kind of rental that will work for you?

- **Initial cost and capital outlay.** A property that is rented for vacations must be fully furnished to a high standard, and this can add a substantial amount to the cost of the property itself.
- **Ongoing costs.** The costs associated with running a short term rental can be considerable. The landlord is responsible for all utility bills, whereas the tenant in a long term rental would normally be responsible for these.
- **Property management.** Successful management of a vacation rental property requires a lot of time and effort, and this is reflected in the higher management fees that are typically associated with this kind of rental.
- **Personal use of the home.** If you intend to use the property yourself for part of the year, then you *must* buy a property suited to short term rentals.
- **Wear and tear on the property.** There are two schools of thought on this. The short term renter may actually spend very little time in the home, preferring to be on the golf course or the beach, or exploring the local theme parks. However, they may treat the property and the

furniture with less respect as it is not their long term home. A tenant who rents a property annually may spend more time at the house, but may treat it more respectfully, as it is his long term home, and the furnishings will usually be the personal property of the tenant.

- **Property zoning and community rules.** While most local authorities and home owners associations allow long term leases, many of them do not allow short term rentals. Check local and community rules.
  - **Vacancy rate.** This indicates how much of the time your house is unoccupied. For a long term rental, this will normally be the time between annual leases, and in our current market conditions you can expect this to be about 30 days. However, many tenants stay in properties for several years, renewing their annual lease, so the 30 days vacancy can be spread over several years. For short term rentals, the vacancy rate will depend upon a number of factors including: supply and demand, general economic conditions that impact tourist traffic, how aggressively you market the home, how well the home is furnished and how easily accessible local tourist amenities are – how close is the house to beaches, theme parks etc.
  - **Cost of advertising and finding tenants.** For a long term rental, these costs are limited to the time between leases only. To secure vacation rentals, these costs are ongoing and can be significant. As a minimum, short term rentals should be advertised year round on several leading vacation rental websites, and owners will find themselves answering lengthy email enquiries which may not lead to rentals, as prospective tenants shop these multiple web sites and the hundreds/thousands of properties available on them.
  - **Exit strategy.** If this is an investment, you should always consider the circumstances that may arise when you choose to sell the property. If the home is located in an area or subdivision that is exclusively short term rental, then the prospective purchaser must be looking for that kind of property. If the home is in a mixed community, then your options for finding a buyer will be expanded.
  - **Non-payment of rent.** Many landlords have a preference for short term rentals as the full rent is often collected in advance, so there is no opportunity for a tenant to get into rent arrears. However, under
- Continued overleaf...*

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Florida Law, a long term tenant who does not pay his rent has very few rights, and eviction can take place quickly and cost effectively from the landlord's point of view, as long as an appropriate lease is in place.

### Which kind of home will produce the highest income?

A long term rental will usually be more profitable than a short term rental, primarily due to lower running costs and vacancy rates. This is illustrated in the table below.

### Using the property for your own vacations

Some people look to purchase a property for their personal use during vacations, and to rent it out to generate income when they are not using it themselves. These two objectives can often be in conflict. The home best suited to short term rentals may not be the ideal home or location for

your personal use, or you may be unsure how long you will be happy to spend holidays in the same place. Inevitably there will be some element of compromise in making a decision to purchase a particular home that will combine your own enjoyment with an investment income.

### The best of both worlds

Consider this strategy, used by an increasing number of our customers, which enables them to enjoy their vacations while benefiting from rental income. Purchase a property to be used for long term rentals. Choose the property that will maximize your income as well as potential capital gains in the future. Use the profits this property will generate to fund your holidays and allow you to vary the location and type of holiday. You may purchase a home close to the Florida beaches, but choose to holiday in Orlando one year, Barbados the next, Florida beach location the next, and so on.

	Short Term	Long Term
<b>Rental Income*:</b>		
Potential Annual Income	\$31,100	\$21,600
Less Vacancy Allowance %	38.5	5
Effective Gross Income	\$19,126	\$20,520
<b>Expenses:</b>		
Property Tax	\$2,500	\$2,500
Insurance	\$1,400	\$1,400
Electricity	\$1,930	\$-
Water/Sewer	\$924	\$-
Lawn and Landscape	\$960	\$960
Pool Maintenance	\$900	\$-
HOA Fees	\$400	\$400
Management Fee %	35	17.5
Management Fees	\$6,694	\$3,591
<b>Total Expenses</b>	<b>\$15,743</b>	<b>\$8,868</b>
<b>Net Operating Income:</b>	<b>\$3,383</b>	<b>\$11,651</b>

This table illustrates the differences in running costs and potential income between short and long term rentals. The short term figures used are based on actual costs for a house with 3 bedrooms, 2 bathrooms and a pool. The long term rental figures are projections for the same home rented, unfurnished, on an annual lease, where the tenant is responsible for pool maintenance, but the landlord maintains the lawn and landscape.

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