WALT FLOOD REALTY (DBA: WAIKIKI VACATION RENTALS)

Questions & Answers. Property Management:

1. **What is a "VACATION RENTAL", a "SHORT TERM RENTAL", and a 'LONG TERM RENTAL"?**

A **"VACATION RENTAL"** is any condo unit that is rented daily, weekly, monthly, or for any period of less than 180 days (6 months).

Typically, these units are completely furnished, with all the linens and towels, kitchen stuff: pot 'n pans, coffee maker, toaster, microwave; a color TV set, telephone service, a vacuum cleaner, an iron & ironing board, and whatever else it takes to allow the guest to "just bring your toothbrush".

A **"SHORT TERM RENTAL"** may, or may not be completely furnished. It is generally rented on a month-to-month basis, or for periods of from 1-3 months.

A **"LONG TERM RENTAL"** may, or may not be completely furnished, partially furnished, or not furnished at all, but generally has all the major appliances. It is most often rented for six months or longer on a "Rental Agreement" or "lease".

There are two significant distinctions between a vacation rental unit and the other two types.

First, with a vacation rental unit, reservations may be made for immediate occupancy and/or for periods in the future, with rates fixed at the time the reservation is confirmed. If the unit is on the market "For Sale", then reservations are generally not confirmed for periods more than 90 days away.

Second, a reservation/security deposit is required and the rent is paid PRIOR to occupancy - for the full period. A fee is imposed if the reservation is cancelled within 30-90 days of occupancy.

2. How do the total incomes, expenses, and proceeds to the Owners, vary between the three types of rental units?

“VACATION RENTALS” Daily, weekly and monthly rental rates are higher, along with expenses, commissions and fees, but net proceeds to Owners should be from 20%-30% higher.

Note: It’s important to point out that there may be periods of high vacancy (reduced or no income) with any one or more of our vacation rental units. Anywhere from a few weeks to a month, or more. Especially during the major “off-season” periods (Sept. 15th to Nov. 15th and Apr. 15th to June 15th, a total of four months).

At the same time, the rental rates during the peak periods are substantially higher (as much as double the off-season rates). The Owner should look at the projected, or actual annual net proceeds for a realistic evaluation of whether or not to put his/her property into a “vacation rental” program.

Operating expenses for vacation rental properties (i.e. sales and hotel room taxes, commissions/fees, VISA discounts, utilities, advertising, maintenance & repairs) generally run from 25%-50% of the gross revenues.

In addition, the Owner is responsible for the condo Association common element maintenance fees, lease rent (if any), real property taxes, special AOAO assessments, and mortgage payments (if any).

Plus, the Owner can expect to incur a periodic expense to replace/repair the appliances, plumbing & electrical fixtures, and furnishings (towels/linens and kitchen stuff).

Finally, the wear and tear on the apartment, the furniture, furnishings, and appliances can be more pronounced with vacation rental units. Except that, in many cases the “guests” never cook in the apartment, and spend most of their time out “touring the islands”, with very little use of the apartment and appliances.

SHORT TERM RENTALS: Rates are higher than with long term, but vacancy factors are also higher. Some vacation rental units are put into our short-term program, right after the “peak” season, to keep earning revenue, while we continue to make reservations for the next “season” or as soon as the current guest vacates.

Operating expenses are similar, because, surprisingly, wear and tear on the units is HIGHER than with both vacation rental and long-term rentals. As mentioned, “Tourists”, unlike “residents”, don’t spend much time in the apartments and are generally better “guests”.

LONG TERM RENTALS: There is currently a shortage of long term rentals in Honolulu & Waikiki (6 month or longer leases), but at the end of the High Season (April 1st), there will be a deluge of units.

Historically, residents in Waikiki don’t seem to stay longer than six months, so the timing of when leases terminate becomes very critical in optimizing the rental income to the property.

Operating expenses are obviously lower than with both the other two types, but in many cases the long term properties require periodic major capitol outlays, because these buildings are older (i.e. Atkinson Towers is 40 years old, Four Paddle is 24 years old), Washer/dryers, hot water heaters, dish washers, air conditioning units, etc. have to be replaced every 5-10 years.

3. Why are rental revenues so low, or vacancies so high, with vacation rentals during the “off-season” periods? Why not just lower the rates and increase the occupancy factor?

Two part answer: One, the large condominium projects, like the Waikiki Banyan (874 units), the Island Colony (740 units) and the Inn on the Park (238 units) have major “hotel operators” (Colony Resorts, Aston, Marc Suites, etc), which market their units (that portion of the building that is in their “hotel pool”) to tourists from all over the world. More importantly, they offer “package deals” (air fare, room & car) at very low rates during the “off season” periods.

Hotel pool operators will consign to tour companies large blocks of rooms in these hotel/condo projects, which will in turn sell “tours” to tourists from Japan, Canada and California.

We don’t currently offer special “group rates”, or deals on air fares, car rentals, or island tours. Therefore, during the “off season” periods our occupancy rate is lower, and correspondingly, revenues are lower.

Second part to the answer: We get lots of calls for vacation and/or short term rentals from “locals”, from military personnel on leave, from cruise ship employees, and unfortunately, at times, from “undesirables”, but we make a concerted effort NOT to rent to these types, unless they can “prove” that there are responsible.

We have even gone so far as to advertise a minimum stay of seven days and to require a major credit card if we can't verify the credit worthiness and/or character of the "guest". We turn down "locals" (usually, service industry types) and students who want to rent a condo for a weekend or a couple of weeks. We get calls all the time from young females who want to rent "week-to-week", "daily" (waitresses, bar hostesses, etc.), and military guys who say their girlfriends are coming into town from the Mainland for a visit. Hotels will/may take these folks, but we generally don't book these "visitors".

We sometimes offer lower rates to Canadian, Australian, Japanese, and other foreign visitors, by advertising in their local newspapers, magazines and sending flyers to their travel agents.

We will also continue to reach the business traveler from California and the Mainland, with special rates for condo units, as an alternative to staying in a hotel. Note: We now have a few businessmen who stay with us, on a regular basis. We expect this new business to expand and increase over the coming months/years, because of referrals and repeats.

Again, it may be meaningful to point out that even though our net proceeds may be lower during the "off-season" periods, the proceeds during "peak" periods should be higher and bring up the "averages" for the year.

Furthermore, expenses, fees, and commissions with the "hotel pool" operators (i.e. Aston) can be as high as 40%-60% of the unit's gross revenues. Thus, the annual net proceeds to **their** Clients are apt to be lower than with our program.

Plus, Aston has restrictions with Owners' use of their property and the property management contract cancellation clause may not allow for a quick closing, if you sell your condo.

5. What about Owner's use of his/her condo, and family/friends of the Owner staying in the unit?

One of the advantages of having a property management firm handle your vacation rental unit is that we don't have any restrictions or prohibitions against Owners using their condos.

Obviously, Owners realize that their use during the “peak” season will dramatically impact their annual net/revenues. And, reserving their unit for a week or for a few days, right in the middle of any month, could affect our success in renting your unit prior to your stay and immediately afterwards.

If your unit has already been booked and you want to stay in the condo during that time, we will make every effort to relocate the “Guest” to another vacation rental unit. If the Guest objects, we’ll try and find you comparable accommodations in another one of our units.

Friends of Owners: We highly recommend that you have your friends call us for a reservation, and at your instruction, we’ll extend any type of “discount” that you decide is appropriate.

We encourage Owners to make their reservations as far in advance as possible, and re-confirm the dates again within thirty (30) days of your scheduled arrival.

6. What about State of Hawaii General Excise (GET) and Transient Accommodations (TAT) taxes?

The **Owner** has a requirement to apply for a General Excise License and to pay to the State of Hawaii the General Excise Tax (GET). It’s currently computed at 4% of the gross revenue. This tax is due on all rental properties of 180 days (6 months) or longer.

Furthermore, if the property is a short term rental and/or a vacation rental unit, the Owner is required to complete and submit to the Department of Taxation an “Operator’s Registration For Transient Accommodations Tax. And, pay to the State of Hawaii 7% of the gross revenue, **plus** the gross excise tax of 4%. We charge the Guest at 4.16% for GET, plus 7.25% for TAT, for a combined tax of 11.41%.

Call our office, or drop us a note, if you need these forms.

7. Monthly Property Management Statements and rent proceeds checks – when can Owners expect to have them sent to their office/home?

We attempt to get out statements and checks for Long Term rentals within the first two weeks of the month. Statements and proceeds checks for Vacation Rental units take longer, because of the additional paperwork: preparing income reports, paying utility bills, refunding security deposits and making deductions (if any) and compiling receipts. The checks should be out within two weeks of the following month. For example: Rental period: Jan 1-31. Checks sent out from March 1-14th.

8. Please explain the various items on your Monthly Property Management Statement.

RENTAL INCOME: This figure includes all the rent and parking fees, if additional, collected from the guest, for the period.

OTHER INCOME: This figure includes extras, for example: taxes, parking and prepayment of utilities, if not included in the rent.

REAL ESTATE AGENCY EXPENSES:

Real Estate Commission: The commission (either 10%, or 20%/25% on vacation rentals) is charged on the “Total Income” collected. The commission is 25% on the FIRST month’s rental, or 30 days from occupancy.

Management/Administration Fee: $25.00 per month. This helps to defray the fixed expenses of operating the business, for those months were the income is negligible or low.

Hawaii Gross Excise Tax: We pass on the GET that we have to pay to the State of Hawaii, by charging the Owners 4.167% on the commission and management fee.

OPERATING EXPENSES:

Apartment cleaning and materials: We charge the guests a fee for checkout and cleaning ($85.00 for a 1-bedroom unit). If the cleaning crew takes longer than 3 hours (including travel time), we charge the guest for the extra time & materials at $25/hour (infrequent), or pass it on to the Owner.

Carpets, drapes, and/or furniture cleaning: Every three to six months or so, we have the carpets cleaned, and the furniture, if necessary. It costs from $85.00 for a one-bedroom unit.

Maintenance and repairs: If the garbage disposal or toilet clogs up and we have to call in Clean-N-Rooter and accompany them to the apartment, we charge a "service call" charge. Periodically, our crew will go to the apartments and check over all the electrical and plumbing fixtures and the Owners will be charged for any minor repairs.

Pest control and/or extermination: Some of the buildings have a regular scheduled program and the charge is included in the Owner's Association fee. In other buildings, we try to keep the roach problem under control during our cleaning, but occasionally have to take extra measures.

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Oceanic Cablevision service (basic): We have "basic cable" installed in most of our vacation rentals, and the monthly charge is deducted from the rental income (Note: it may be included in the Association maintenance fees for the Island Colony, La Casa, etc. If the guests want pay channels or movies, they are responsible for making the arrangements and paying any extra costs.

Hawaiian Electric Company: Electric service at the Waikiki Banyan, Four Paddle, and others, is included in the Association of Apartment Owners' monthly maintenance fee.

Hawaiian Telephone Company (Verizon): All the vacation rental condos have basic telephone service. Most of the apartments have a phone service that prevents the guests from making long distance calls, but if the guest has a major credit card, they can use their credit card to make long distance calls.

Furnishings inventory replacement: Towels, sheets, kitchen stuff, and the like have to be replaced periodically. We try and purchase in bulk, or at least when the items are on sale, and pass the savings on to the Owners.

Apartment and/or security/building/garage cards/keys: If the guest loses a security key or parking garage card/genie, we deduct that cost from his security deposit. Plus, if the guest loses an apartment key(s), we have to change the locks, that charge is also passed on to the guest.

Travel Agencies and Booking Agents: We deduct this "fee" on the Owner's statement, under "Travel agent/broker commission. This is in addition to the real estate commission that is assessed on the gross revenue. Typically we "discount" the rent to the booking agent, as a "net" rent, such that the Owner doesn't get hit by a double commission, or higher tax expense.

Other: Advertising: We ran ads in the two local Honolulu newspapers, at a cost of $15.00/day ($450.00/month). Plus, we ran ads in two Canadian newspapers, twice a week in the San Francisco papers ($300.00/month), once a week in the Seattle Times, and in a number of "travel" directories ($250.00/month). The cost of advertising on the "Net", including website server, maintenance and updating, will be about $200.00/month.

Note: Walt Flood Realty does not currently pass along this advertising expense on a pro rata basis. Each Owner is "charged" for any advertising expense related to his/her particular unit.

.C:\Walt Flood Realty\Q&A'S.Oct 2002)