



PhoCusWright's Vacation Rental Marketplace: Poised for Change

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Introduction & Overview

The vacation rental marketplace has long been considered the last frontier of the hospitality and lodging industry. It’s large, fragmented, relatively unregulated and, from a travel distribution perspective, effectively uncharted. But “large,” “fragmented” and “uncharted” also suggest significant opportunity. And indeed, many within the vacation rental industry—as well as the broader travel industry—are moving to capitalize on that opportunity.

At the intersection of hospitality and real estate, the vacation rental segment is making significant inroads into the broader travel industry and the global travel distribution ecosystem. It’s gaining increased attention from travelers, the travel media, new startups, established travel companies and investors. Consider a sampling of some of the recent headlines that have captivated this space: HomeAway, the largest online ¹ aggregator of vacation rental properties, has received more than \$450 million in venture funding since its founding in 2005, including a November 2008 placement of a staggering US\$250 million. The company has embarked on a major buying binge of some of the leading vacation rental Web sites, including VRBO, vacationrentals.com, CyberRentals and A1vacations.

² Orbitz, a leading online travel agency (OTA), has launched a vacation rental site with category startup Zonder to offer vacation rental properties as another lodging option to its

travelers.

... VacationRoost.com launched as a vacation rental portal for professionally managed vacation homes, condos, villas, cottages and cabins.

... Consumer review site TripAdvisor acquired a majority stake in FlipKey, which has developed a guest review platform for the vacation rental industry.

... Wyndham launched Endless Vacation Rentals, its online vacation rental portal, featuring its global portfolio of Group RCI vacation rental products.

... LeisureLink, an electronic distribution platform for vacation rental management companies, closed a series B round of \$8.1 million.

This (by no means exhaustive) list of major business activity is indicative of the surging interest and confidence in the vacation rental category. Already a \$24.3 billion opportunity in the U.S. alone, vacation rentals account for more than one fifth of the U.S. lodging industry (based on room revenue) and 8% of the total U.S. travel market.¹

Demand for vacation rentals is growing, but the majority of bookings are still done the old-fashioned way (in contrast to the nearly \$100 billion in leisure travel booked online in 2008). Only 12% of all vacation rental transactions are currently booked online, far behind other travel categories such as air, hotel and vacation packages.²

¹PhoCusWright's Online Travel Overview Eighth Edition

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This discrepancy suggests that there are numerous unmet needs across the category and significant room to redefine approaches to marketing and distribution. Property managers and vacation homeowners may have been slow to tap a major market opportunity, but a range of new business models, technologies and services are now aiming to do just that.

The vacation rental industry is poised for great change. Rapid advancement is altering the competitive landscape, enabling property management companies to run their rental operations with greater savvy and sophistication,

empowering individual homeowners to market and rent their vacation homes directly to travelers and improving the shopping and booking experience. In short, this is a segment to study—carefully—because change is afoot, and it’s happening fast.

What Is a Vacation Rental?

Any complex and fragmented marketplace is also bound to have plenty of grey areas, category confusion and segmentation overlap.

This is certainly true of vacation rentals. To make matters even more complicated, vacation rentals are typically grouped into a broader category known as “alternative” (or “specialty”) lodging products. These are lodging accommodations that differ from the traditional hotel/motel model, such as bed and breakfasts, inns, small independents and even hostels.

For this study, PhoCusWright defines a vacation rental as a privately owned home rented on a nightly, weekly, or monthly basis for vacation and leisure purposes. **Property types include homes (single-family and townhomes), condominiums, villas, condo hotels, cabins, timeshare units, and fractional ownership properties.** These properties may be managed by a vacation rental management company (VRMC), and in some cases they may be owned by the management company as well. They may also be managed (that is, marketed and rented out) by the homeowners themselves. The vacation home cannot be a primary residence of the homeowner.

A vacation rental unit is a home with kitchen facilities made available for rental (with the exchange of money) to someone other than the owner. PhoCusWright excludes owner occupancy and occupancy by non-paying guests (e.g., family members and friends) for market sizing purposes. This definition also excludes extended-stay hotels, short-term housing, corporate housing, member-only vacation clubs, exchanges, and timeshares and fractional ownership properties used only by their owners.

About This Study

Convinced that this travel category is large,

complex, long understudied, underestimated, and on the cusp of significant change, PhoCusWright undertook in 2008 a comprehensive study of the U.S. vacation rental marketplace. The key objectives of the project were as follows:

1. Understand the vacation rental industry landscape and ecosystem (Who are the key players and what are the defining dynamics?)
2. Size the U.S. vacation rental market in terms of supply, demand and other key segments, including rental by owner (RBO), professionally managed (VRMC) and vacation style (beach, ski, urban, etc.)
3. Identify and size major distribution channels (online and offline)

²ibid.

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Section One: Introduction & Overview

4. Project market size and distribution trends through 2010
5. Identify key technology challenges, opportunities and trends for the reservation lifecycle
6. Understand key consumer demographics, behavior and attitudes related to travelers who both do and do not book vacation rentals

Methodology

To ensure the study captured all stakeholder perspectives, PhoCusWright employed a 360-degree approach (see Figure 1), conducting a mix of surveys and in-depth interviews with consumers, vacation rental management companies (VRMCs), homeowners, technology providers, and travel intermediaries (vacation rental Web sites, online travel agencies, traditional travel agencies (and wholesalers).....(WE NEED TO Have TA section)

PhoCusWright also partnered with leading Web analytics firm Compete Inc. to conduct Web site traffic and pattern analysis.

Surveys

PhoCusWright conducted four extensive surveys, including two consumer surveys and one survey each of vacation homeowners and VRMCs. The online survey tool used for all surveys was zTelligence from MarketTools. Details on each survey are presented below.

Consumer Survey 1

- Population: consumers who used vacation rental properties as a renter within the past two years (defined as “Vacation Rental Guests,” or VRGs)
- Rental properties include homes, condos, villas, cottages, timeshares (as used by renter, not owner)
- Source: GMI (Global Market Insite Inc.), a leading online panel company, used to target
Source: PhoCusWright's Vacation Rental Marketplace: Poised for Change ©2009 PhoCusWright Inc. All Rights Reserved.

Figure 1

Research Overview and 360-Degree View of the U.S. Vacation Rental Market Space

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1,000 survey respondents; GMI provided 1,060 qualified responses between June 24-July 5, 2008

- The collected sample reflects the general U.S. adult Internet-using population who stayed in a vacation rental over the past two years

Consumer Survey 2

- Population: consumers who used the Internet to search for at least one leisure trip in the past 12 months (conducted in conjunction with The PhoCusWright Consumer Technology Survey Second Edition)
- Purpose was to identify incidence of vacation rental consideration and booking among the general online travel population and identify barriers to consideration and booking among “non-vacation-rental guests”
- Source: GMI (Global Market Insite Inc.), a leading online panel company, targeted 800 survey respondents

VRMCs

- Population: vacation rental management companies
- Surveys were distributed by Vacation Rental Managers Association (VRMA), LeisureLink and Zonder during the period of June 18-Aug. 5, 2008
- PhoCusWright collected 113 qualified VRMC responses

Homeowners

- Population: owners of at least one vacation

rental unit (where the unit is not a primary residence and is rented out to paying guests); timeshares and/or fractional ownerships were excluded

- Surveys were fielded with three vacation rental homeowner populations:
 - GMI provided 308 qualified homeowners from a national, unbiased sample during June 24-June 30, 2008
 - VRMA members who took a complementary property manager survey were encouraged to invite client homeowners, of whom 66 responded during the period of June 17-July 21, 2008
 - 351 qualified homeowner members of HomeAway, a leading network of vacation rental Web sites, took the survey July 26-Aug. 4, 2008

Market Sizing

PhoCusWright designed a multifaceted approach to market sizing by supply, occupancy and revenue. All sizing data were derived from at least two distinct sources and methods (see Figure 2).

There are three components to vacation rental sizing:

1. Supply: vacation rental units and available unit nights located in the U.S.
2. Demand: nights occupied of those units
3. Value: rental revenue generated from those units

PhoCusWright generated sizing estimates from surveys, company interviews and a comprehensive review of company reports and available third-party data sources, including the U.S. Census, the National Association of Realtors, Ernst & Young and others.

Where possible, this report presents segmentation of the market by several key areas:

- Unit type (home versus condo).....(needs to be in our sort)
- Vacation style (beach/ocean, mountain, golf, ski, etc.)
- Management method (VRMC versus RBO)
- Booking method (online/offline)

Figure 2 Market Sizing Methods

Compete Inc. Web Analytics

PhoCusWright and Compete jointly evaluated more than 140 Web sites in the vacation rental marketplace and identified the largest 25 sites to create an online vacation rental category.

The 25 sites were selected based upon:

1. Suitability within PhoCusWright's definition of vacation rental (e.g., sites and site traffic pertaining to timeshares, vacation ownership, etc. were excluded)
2. Unique visitor traffic (as identified through Compete's analytics)
3. Inclusion of online travel agencies only where they had a discernible vacation rental search and booking pathway

Compete conducted analysis of this segment through its proprietary data methodology:

- Two million active panelists aggregated from 10+ unique data sources (proprietary panels, plus ISP and ASP partnerships)
- Usage, demographic and geographic weighting to match RDD (random direct dial) survey
- Extrapolation, to be representative of U.S. Internet population
- Triangulation across sources to identify and rebalance for bias

Key Findings

Size of the Market

Vacation rentals represented just more than \$25 billion in rental revenue in 2008, accounting for more than one fifth of all hotel room revenue and 8% of the total U.S. travel market. The market is projected to grow just under 2% in 2009 due to the broad downturn in the economy.

Source: PhoCusWright's Vacation Rental Marketplace: Poised for Change
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The rental by owner (RBO) market is slightly larger than the professionally managed (VRMC) market in terms of inventory supply and rental revenue. RBOs (homeowners who rent directly to vacation rental guests) as a segment have more single-family homes

than condos, and thus have higher average daily rates (ADRs). VRMCs, by comparison, have lower (market-based) ADRs, higher occupancy, more condos and competitive “hotel-like” business practices.

„„There is a large, less visible, casual RBO market that principally derives rental business through “personal” contacts rather than deliberate marketing. Fewer than three in 10 RBOs list their property online.

„„Beach/ocean is by far the largest vacation style segment; Florida is by far the largest market.

„„Online bookings, at \$2.8 billion in 2007, represent just 12% of vacation rental revenue and are completed almost entirely through VRMCs. This is projected to grow to 22%, or \$4.6 billion, by 2010 as VRMCs, vacation rental Web sites and other technology players invest in technology to drive online distribution. Most RBO sites (vacation rental Web sites focusing on RBO properties) do not offer online booking.

Consumer Perceptions & Behavior

„„Just 10% of U.S. adults have stayed in a vacation rental over the past 10 years. The biggest challenge to consumer consideration and booking of vacation rentals is a broad lack of category awareness.

„„Most consumers do not even consider vacation rentals when shopping for leisure travel accommodations and hold significant preconceptions about vacation rental products that inhibit consideration and purchase: e.g., vacation rentals are more expensive, are only useful for large families or groups and longer vacations and do not offer on-property amenities... comparable to hotels.

we need to emphasize cost person.nite verse hotels, cost saving on food bills, amenities such as food deliveries ala car and that we have full concierge services available.

„„The vacation rental guest population represents an extremely attractive traveler population.

VRGs are more affluent, more educated, and travel much more than the typical online traveler. Might this be a consideration for us to consider a threshold of what price point we offer or a cut off on the LQA like I have at 78???

„„The online vacation rental buyer is very different

from the typical vacation rental guest, and behaves more like an online hotel shopper and buyer. The online buyer tends to book closer to departure, book a shorter trip, spend less, and travel with a smaller party.

Distribution Challenges

„„The VRMC market has at least 5,000 companies operating vacation rental properties, but the majority have fewer than 100 units under management.

„„Fewer than half of all VRMCs have bookable Web sites or distribute via online intermediaries.

There are two main barriers to this challenge:

- The distribution costs of third-party Web sites (for example, the merchant hotel programs of OTAs) are at odds with the economics of VRMCs, who have less margin to offer because they hand over a substantial portion of rental revenue to property owners.
- The industry is challenged to effectively merchandise vacation rental product in the hotel-centric distribution landscape.

Key Terms & Definitions

ADR—Average daily rate, a lodging metric describing the average nightly lodging rental revenue earned per unit.

Occupancy Rate—A lodging measure used to describe what percentage of the time total inventory (rooms) is rented by guests. Because vacation rental units are not always available for rent, occupancy must be looked at differently and take into account the amount of time units are available for rent and actually occupied by rent-paying guests. Sometimes the term “utilization rate” is used instead.

Online Traveler—A U.S. adult who has taken a commercial flight and stayed in paid accommodation in the past year and used the Internet within the past month. This is the population of The PhoCusWright Consumer Travel Trends Survey Tenth Edition, and is referred to for comparative purposes in this

study.

OTA—Online travel agency (e.g., Expedia, Travelocity, Orbitz).

Property—This refers to both multi-unit complexes and single-family homes. It can also refer to a single unit managed individually.

RBO—Rental by owner, the model for vacation homeowners who manage the marketing and booking of their vacation home themselves rather than using a vacation rental management company or professional management service.

SNAD—Significantly not as described. This refers to a common fear/complaint of vacation rental guests—that what they expected based on information found on the Internet (and shared by homeowners and property managers) does not match up with their actual experience after arriving at and seeing the rental unit.

Unit Type—The physical type of a vacation rental unit; for example, a condo, home, villa, cottage, cabin, or town house.

Unit Night—This refers to a “rentable” night for a vacation rental unit. Examples: “available unit night” and “occupied unit night.”

Utilization Rate—A measure of usage or occupancy based upon the amount of time a unit is available to be rented. See “occupancy rate.”

VRG—Vacation rental guest, an adult who has stayed in a paid vacation rental over the past two years.

VRMC—Vacation rental management company.

Vacation Style—This refers to the theme or attributes of the vacation rental unit and its destination, such as beach/ocean, ski, golf, urban, etc.

From the perspective of the travel industry and conventional travel distribution, the vacation rental landscape is a chaotic, uncharted territory. A sprawling conglomeration of large hotel and resort companies, mom-and-pop property management companies, timeshare

operators, millions of individual vacation homeowners and a healthy dose of real estate agencies, this segment of the lodging industry has long been understudied and misunderstood, and certainly underestimated.

It is a market of extremes. There are many large—and not so large—vacation rental management companies (VRMCs) running sophisticated operations on par with hotel industry leaders. Then there are legions of individual homeowners who rent their properties directly, many just a few weeks or months out of the year and only to people they know and trust. The industry is strikingly seasonal. Some destinations can burst at the seams for a few months in the year, and then return to near hibernation with occupancy rates at almost zero for other seasons.

From a regulatory perspective, the picture is plenty fuzzy. Several states treat the industry as part of real estate, rather than tourism or hospitality, which compels homeowners and “tenants” to structure temporary leases and creates structural barriers to participation in electronic distribution and online reservations. North Carolina is one such state. Other states, known as “hotel states” (e.g., Colorado) follow a more traditional hotel booking model, which is less complex and more conducive to online booking.

Vacation Rentals: An Industry Background

There are nearly 1.3 million vacation rental units in the marketplace, yet only 10% of the U.S. adult population has booked a vacation rental in the past two years. The low penetration rate signifies enormous market potential, but also an incredible challenge to the industry. Consumers hold clear preconceptions—in many cases, misconceptions—that inhibit consideration and booking of the category. Many assume vacation rentals are more costly than a traditional hotel, that their rental unit will not meet their expectations, that vacation rentals are only for long trips, large families or groups,

and that these rentals do not provide valued services and amenities of hotels, such as on-site maintenance, pools and activities, cleaning, etc.

In many cases such assumptions may hold true, but increasingly they do not, as vacation rental providers adapt their business models to cater to the growing online traveler population.

Many are becoming increasingly competitive with hotels on pricing, introducing flexible length-of-stay requirements and check-in/check-out policies, developing alternatives to hefty upfront damage deposits and adding onsite...we should consider looking into the \$69 ins that is paid directly to us to cover the first \$1500 and self insure instead of a deposit.

services to compete with hotels and provide customer peace of mind.

But the vacation rental industry still has a long way to go. The industry is large, complex, extremely fragmented, and non-standardized (see Figure 3). The path to the seamless, well-accepted online shopping and booking processes that have become standard across air, hotel and car rental is far from clear in the vacation rental category. Shopping online and

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offline is typically followed by multiple inquiries via phone and email to finalize all of the details for one's trip. Questions abound regarding

product unknowns: Is the owner trustworthy? **WE MUST MAXIMIZE THE LQA IN EVERY WAY POSSIBLE IN THE VAIL WEBSITE TO HELP CREATE THE STANDARD AND EXPRESS THIS TO THE END USER AND CREATE A WAY FOR THE END USER TO BECOME FAMILIAR WITH A WAY OF HOW THE PROGRAM WORKS. THAT WILL CARR THRU INTO BRECK AND ASPEN. WHICH MEANS WE HAVE SOME RESEARCH TO DO AND SEE IF THERE IS ANY SIMILAR CONCEPT IN EXISTENNCE OR DO WE NEED TO START WORK ON THAT ASAP.**

Is the product as described and clean? Are

Figure 3

Characteristics of the Vacation Rental Sector

Market

Characteristic

High fragmentation

among VRMCs and RBOs

Extreme seasonality and

inconsistent inventory supply

Heterogeneity and complexity

of products and operating practices

Implications • Few strong brands

• Lack of product and service

standards

- Low utilization rates
- Uneven supply/demand balance
- Lack of market-based pricing
- Suboptimal pricing and revenue
- Lack of industry-wide product standards
- Lack of distribution standards

Impact and

Challenges to
the Industry

- Lack of consumer awareness and trust
- Lack of travel agent awareness and trust
- Market misperceptions
- Market misperceptions
- Weak online merchandising
- Subpar economics impede electronic distribution
- Lack of consumer trust
- Missed market opportunity (low online and offline take-up)
- Impediments to scale

Source: *PhoCusWright's Vacation Rental Marketplace: Poised for Change*
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Figure 4

**Vacation Rental Reaches
a Major Tipping Point**

*BYOB&B: "Bring your own bed linens and bathroom tissue."

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linens and cookware provided? How do I get the key? Whom do I call if there is a problem?

Traditionally, the vacation rental segment has been dominated by small, regional mom-and-pop operators managing from one to 75 properties with a largely manual set of procedures, limited scalability and old-school tactics.

But today, this segment is evolving and being aggregated with new entrants and larger companies—even traditional hotel companies—

entering the space. The added attention and introduction of larger and known entities is lending greater credibility to the segment and attracting more interest in it. As a result, the business is in a state of transition (see Figure

WE ANSWER MOST ALLOF THESE ISSUES AS WE ARE THE LOCAL EXPEDIA IN EACH AND EVERY LOCAL

4).

As the vacation rental business matures, it is becoming more professional and moving from largely manual, phone-based reservations to online transactions. This transition is changing

the competitive stakes, requiring an increased focus on the disciplines of marketing and revenue

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Section Two: Vacation Rentals: An Industry Background

revenue management, the addition of hospitality services and amenities, and the ability to achieve operational efficiencies and economies of scale. Business is no longer just about real estate and a simple property rental transaction; it is about hospitality and the creation of unique, memorable guest experiences. **And this is one more reason why concierge at a local level is so important**

Technology, new players, and new business models are helping to make vacation rental more scalable and bringing much-needed change to the vacation rental space, thus reducing many of the segment's complexities and eliminating consumer barriers to booking (namely, lack of information). Today, real-time rates and availability, interactive maps **<sure wish we could have this** and floor plans, **,and this** photographs, virtual tours **,and this will come** and consumer testimonies **„<flipkey** give consumers more confidence about their potential lodgings.

Leisure Hotel Market in the Crosshairs

The immediate challenges to players in the space are to grow market awareness, increase first-time usage among non-vacation rental guests and convert these guests into long-lasting loyal patrons. But the industry's traditional marketing methods are no longer sufficient: New, multi-channel, online initiatives will be needed to bring new travelers into the vacation rental fold, and shifts in operational practices are necessary to make the segment appeal to the typical leisure hotel guest.

If the vacation rental industry is serious about targeting the \$100 billion hotel marketplace, it will also have to determine how to compete in a very hotel-centric distribution ecosystem. This will be no easy feat, given the significant differences between vacation rental products and the conventional hotel/motel world (see Figure 5).

As Figure 5 makes clear, vacation rental units

defy competitive comparison with each other, let alone with hotels. Marketing vacation rentals in a hotel distribution landscape is a bit like trying to put a square peg into a round hole.

Figure 5

Comparing Hotels to Vacation Rentals

Hotels Vacation Rentals

Industry Dominated by major brands

Fragmented: mostly unbranded, small companies

Product Consistency; rooms can easily be interchanged

Unique; units cannot easily be substituted

Average Length of Stay

1–3 nights 6 nights/1 week

ADR \$100 \$215

Booking

Process

Simple transaction, easily completed online in one session
Complex transaction, multiple interactions, high-touch, information-intensive

Bookings Flexible Rigid, rules-based

Distribution

Broadly distributed, highly automated
Limited distribution and online availability; backend fulfillment lacking

Targeted

Guests

Individuals, couples, groups
Multigenerational families and groups

Appeal Mass appeal Niche focus

Customer

Base

Some loyalty but willing to substitute products/brands
Highly loyal

Barriers to Purchase

Price and location Price, trust, fear of unknown

Source: *PhoCusWright's Vacation Rental Marketplace: Poised for Change*
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The vacation rental sale is much more information-intensive, and the product is much more of an unknown quantity than standard hotels. But it can also offer advantages in cost for longer stays and larger travel parties, as well as in home-like experience and amenities (e.g., kitchen facilities, more space). The challenge to the industry is participating on the broader travel distribution arena without diminishing the unique benefits of vacation rentals (and while allaying first-timer concerns). Many new entrants have emerged in recent years to take on this challenge for vacation rental providers and travel distributors.

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PhoCusWright's Vacation Rental Marketplace: Poised for Change

PhoCusWright sizes the vacation rental marketplace in three ways:

1. Supply: vacation rental units and available unit nights located in the U.S.
2. Demand: nights occupied of those units
3. Value: rental revenue generated from those units

Supply, Demand & Value

Supply

There were at least 1.26 million vacation rental units available for rent in 2007, including condos, single-family homes, villas, cottages, rentable timeshare units and other types of vacation homes. These units generated more than 333 available unit nights in 2007.

Available unit night is probably a far more accurate measurement of supply than the number of physical units, because most units are taken off the market at various times during the year, whether for owner use, maintenance, winterization (in some markets) or other reasons. RBO homeowners (vacation homeowners

who rent their property directly to consumers) take their properties off the market for personal use an average of 11.2 weeks a year. And many RBO homeowners only make their units available for rent for just a few months or weeks in the year.

Size of the Market Demand

In 2007 travelers consumed over 115 million nights, for an average cumulative utilization rate of 35%. This is well below the average national occupancy rate for the hotel industry, which for the last several years has hovered at about 60%. Current forecasts suggest occupancy levels may dip below 60% in 2009.³

This relatively low utilization rate does not reflect actual vacation rental market dynamics, which are extremely local and seasonal.

Demand in many major destinations across Florida, the Carolinas, and major ski destinations in the mountain states, for example, far outstrips supply in peak season, while off-season utilization can drop to near zero. It is not uncommon for homeowners and VRMCs alike to winterize properties (take them off the market entirely) during the off-season to reduce maintenance costs.

Figure 6 Size of Vacation Rental Supply and Demand, 2007

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3Smith Travel Research, PKF Consulting

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Value

Those 115 million nights occupied generated some \$24.3 billion in rental revenue in 2007. The U.S. vacation rental marketplace equates to approximately 22% of all hotel room revenue and 8% of the total U.S. travel market⁴ (see Figure 7).

The sizing projections presented here may be conservative, since a significant portion of the vacation rental market falls within the “Long Tail”⁵—that segment of a market represented by many small players, whether VRMCs or

RBOs, that do a small amount of business. The Long Tail of vacation rentals in aggregate is substantial, and may be larger than the volume of business activity captured in this study. Such factors increase the complexities in aggregating both the entire market's supply and the

Figure 7

Vacation Rentals and the Total U.S. Travel Market, 2007

Source: PhoCusWright's *Vacation Rental Marketplace: Poised for Change*
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duration inventory is available for rent on the open market, especially as it is not uncommon for vacation homes to be rented “off the books” to friends and family.

Management Method, Region & Vacation Style

VRMCs vs. RBOs

The RBO segment is slightly larger than the professionally managed, or VRMC, segment, across all three sizing measurements. RBOs contributed 56% of total vacation rental supply and 57% of revenue (value). This \$3.6 billion difference in revenue—\$13.9 billion for RBOs versus \$10.3 billion for VRMCs—is significant, and is explained at least in part by key differences in the two vacation rental segments.

4PhoCusWright's *Online Travel Overview Eighth Edition* measures the total U.S. travel market by all supplier revenue for airlines, hotels, car rentals, tour operators, cruise lines and rail. It does not include vacation rentals. Vacation rentals in this report (Figure 7) are included in the total market sizing.
5Anderson, Chris (Oct. 2004). "The Long Tail," *Wired Magazine*.

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Section Three: Size of the Market

The RBO category tends to have larger units (vacation homes instead of condos), longer average lengths of stay and higher ADRs. Although PhoCusWright has not tracked vacation rental market trends before 2007, the RBO segment almost certainly experienced a surge in growth over the preceding several years with the emergence of vacation rental Web sites focusing on RBOs (most notably industry heavyweight HomeAway) and the “eBay effect,” which empowers consumers to find value in buying products from other individuals. Without question, the Internet has been a powerful enabler for vacation homeowners seeking to rent their homes.

The VRMC category may trail in supply and

value; however, it closes the gap in demand, accounting for 48% of occupied unit nights. In contrast to RBOs, VRMCs operate a higher percentage of condos, have a shorter average length of stay and a lower ADR. With multiple units under management and often in competition with hotels in their local markets, VRMCs are far more able to engage in com-

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Figure 8

Vacation Rental Market Size by Management Method, 2007

petitive, market-based pricing, offer flexible lengths of stay and deliver hotel-like services (in-room cleaning, maintenance, and on-property amenities such as pools). In short, they may not have the distribution and revenue management capabilities of the largest hotel chains, but they do operate more like hotels and are better able to drive demand than RBOs, especially in the off-season.

U.S. Region

Florida is by far the largest vacation rental market in the U.S., accounting for more than one fifth of all vacation rental trips and units. In fact, the state is a larger market than all of the U.S. Census regions except the Southeast (excluding Florida). Other top markets are the Carolinas, California and Hawaii (see Figure 9).

International Stays

Although this report focuses on the U.S. marketplace, consumer demand for vacation rentPage

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Figure 9

Top State Markets by Percent of Consumer Trips, 2007

Source: PhoCusWright's Vacation Rental Marketplace: Poised for Change ©2009 PhoCusWright Inc. All Rights Reserved.

als when traveling internationally is significant. Ten percent of vacation rental trips in the past year were to destinations outside the 50 U.S. states. The top destinations were, in order of incidence, Mexico, Europe (Western Europe in aggregate) and the Caribbean (in aggregate, excluding Mexico Caribbean). Only 6% of homeowners surveyed reported owning rental properties abroad.

Vacation Style

PhoCusWright also segmented the market by major vacation rental styles, such as beach/ocean, urban, ski, and lake/river. Not surprisingly, beach/ocean is the predominant vacation style, far outpacing all other categories and accounting for nearly half of all supply and almost two thirds of vacation rental sales (see Figure 10). This is consistent with regional sizing (discussed previously), which showed states such as Florida, the Carolinas and Hawaii to be the largest markets by state.

The beach/ocean category also has a much longer average length of stay (seven nights) and higher average trip spend (\$1,550) relative to other categories. This contrasts sharply with the average three-night stay for mountain-style trips, which have an average spend of just \$830.

The lake/river category shows a significant excess of supply relative to demand, especially in the Northeast and Midwest and principally

Note: Percentages exceed 100% due to category overlap; multiple responses were allowed.
Source: PhoCusWright's Vacation Rental Marketplace: Poised for Change
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Figure 10 **Market Size by Vacation Style, 2007**

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Section Three: Size of the Market

among RBO homeowners, for whom demand is generally limited to short high seasons (see Figure 10).

Online Market & Forecasts

Online penetration for vacation rental lags behind the travel industry overall. Online vacation rental sales in 2007 were \$2.8 billion, representing just 12% of all vacation rental revenue. This puts vacation rental penetration well behind the leisure hotel market (41%), vacation packages (34%) and just a hair ahead of cruise (currently with the lowest penetration at just 8% in 2007).

Online vacation rental bookings are almost exclusively offered by VRMCs, principally through their own Web sites but also through some third-party intermediaries such as major online travel agencies and a few vacation rental

sites. While fewer than half of all VRMCs even offered online booking in 2007 and almost no RBO sites did, electronic distribution is

Figure 11

Total Vacation Rental Market and Online Share, 2007–2010 (US\$M and Percent Change)

Source: PhoCusWright's Vacation Rental Marketplace: Poised for Change ©2009 PhoCusWright Inc. All Rights Reserved.

sweeping through the industry at a breakneck pace. VRMCs have overwhelmingly indicated online marketing and distribution as their top strategic priority in 2008 and beyond, and the online RBO segment is becoming increasingly Internet-savvy. PhoCusWright projects online vacation rental sales will nearly double to \$4.6 billion by 2010, when online penetration will reach 17%.

In the wake of a broad recessionary trend and economic volatility in 2008 that could last well into 2009, PhoCusWright projects very restrained growth through 2010 for the total vacation rental market, at just under 2% in 2009. Drive markets will fare much better than fly markets as cost-conscious vacationers stay closer to home.

The full impact of the weak real estate market in 2008 and 2009 remains to be seen. Cost pressures could drive more homeowners to put their homes on the vacation rental market to earn extra income, and timeshare operations

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will place more emphasis on the rental business as the market for timeshare sales slows.

PhoCusWright expects a net decline in vacation rental inventory in 2009. Several VRMCs have reported foreclosures among their homeowners.

Given the substantial surplus of supply, this is unlikely to affect rental rates, and continued weakness in consumer demand is likely to continue to put downward pressure on rates across the entire lodging industry.

One impact of the recession has been increased demand among VRMCs for online distribution partners. Online vacation rental distributors are reporting an uptick in supplier

contracts as VRMCs seek out new sources of demand under current soft market conditions. Over the long term, this could accelerate

online penetration of the vacation rental market.

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PhoCusWright's Vacation Rental Marketplace: Poised for Change

The Vacation Rental Guest

A Small but Attractive Population

Approximately 21.5 million people booked vacation rentals over the past two years, according to the PhoCusWright Vacation Rental Consumer Survey. At about 10% of the adult U.S. population age 21 and over, this segment represents a relatively small portion of all leisure travelers, but is still very attractive to travel marketers:

- Vacation rental guests, or VRGs, are relatively affluent and educated: One third have a household income of at least \$100K, and more than six in 10 have a college degree or higher.
- They are also extremely well traveled: Nine in 10 take at least two leisure trips a year,

The Players: Renters, Owners & Managers

Figure 12

Guest Satisfaction and Intention to Rent Again and Recommend

Source: PhoCusWright's Vacation Rental Marketplace: Poised for Change
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and on average stay in hotels four times annually.

- VRGs use the Internet a lot: Three in four are online for at least one hour a day. VRGs are also extremely satisfied consumers of vacation rentals. As depicted in Figure 12, nearly nine out of 10 would rent again and recommend the rental to family and friends. Indeed, repeat business represents a significant share of bookings for both VRMCs and RBO homeowners—many reported that well over half of their business is, in fact, repeat and referral.

Why Vacation Rentals? Longer Trip, Bigger Group

The reasons travelers look for vacation rentals clearly have to do with length of stay and

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travel party size. **When asked to indicate why**

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they booked their last trip in a vacation rental, the reasons most cited were the availability of home-like amenities such as kitchen facilities and washer/dryer, and more room and accommodation for a family or group. With an average length of stay for a vacation rental trip at six nights (versus 2-3 nights for a typical hotel stay) and four in 10 rental trips accommodating at least five people, this lodging category clearly skews toward longer trips and group and family travel.

But these common drivers for vacation rental demand are also a double-edged sword. As discussed in the following section, consumers think of vacation rentals for certain types of trips (longer stays, families and groups). These preconceptions discourage consumers from considering vacation rentals for leisure travel of shorter duration or smaller party size. As vacation rental providers become increasingly competitive with hotels, this is a missed opportunity for the traveler, especially when vacation rentals could offer still more advantages—such as more rooms, home-like amenities, ability to eat in (and save money)—over hotels. As the vacation rental industry adapts its product and marketing to go head to head with hotels, it also has to change consumer attitudes as well.

The Non-Vacation Rental Guest

The characteristics of the VRG population, from affluence to travel incidence, make for a very attractive market segment indeed, but of even greater interest to the vacation rental industry is the much larger population of travelers who have not booked a vacation rental.

PhoCusWright's Consumer Travel Trends Survey Tenth Edition revealed that only 19% of online travelers (approximately 55 million adults) booked a vacation rental last year. That means nearly 45 million online travelers did not book a vacation rental.

What is keeping so many online travelers from booking a vacation rental? There are two principal drivers: The first is category awareness, or the overwhelming lack thereof. Of those non-

Source: PhoCusWright's Vacation Rental Marketplace: Poised for Change ©2009 PhoCusWright Inc. All Rights Reserved.

Figure 13 Common Reasons Why Consumers Don't Consider Vacation Rentals

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Section Four: The Players: Renters, Owners & Managers
VRGs, nearly six in 10 did not ever consider a vacation rental when shopping for leisure accommodations. The second driver is traveler preconceptions about the category. **Online travelers may not consider vacation rentals because they are perceived as more expensive than hotels and to lack hotel amenities and services (see Figure 13).**

Rental Preconceptions: Only for Certain Types of Trips

PhoCusWright surveyed VRGs about their last hotel stay to identify if they considered a vacation rental, and if not, what some of their reasons were.

Nearly half of VRGs, while extremely loyal and satisfied with vacation rentals, did not even consider a vacation rental for their last leisure hotel stay, and more than two thirds said that their lodging preferences are determined by the purpose and nature of the trip. Vacation rentals, while attractive, are not always appropriate for their vacation needs (such as for short weekend getaways).

The most cited reason among VRGs for not considering a vacation rental is short trip duration.

The next biggest inhibitors are lack of hotel services and amenities and no need for extra space (see Figure 14). The latter implies that travelers assume vacation rentals are more expensive than hotels, because they would not want to pay for the extra space (when traveling for leisure, who would not want extra space?).

While these preconceptions are accurate for many vacation rental providers, the industry as a whole is changing. More VRMCs are offering more flexible lengths of stay and on-property amenities comparable with local hotels.

They are also becoming increasingly sophisticated in revenue management to compete on pricing with local competition—both vacation rental and hotels alike. To capture some of the much larger leisure hotel market, vacation

rental providers—and perhaps the industry as a whole—must tackle these consumer preconceptions head-on.

Figure 14

Why Vacation Rental Guests Did Not Consider a Vacation Rental for Their Last Leisure Stay in a Hotel

Source: PhoCusWright's Vacation Rental Marketplace: Poised for Change ©2009 PhoCusWright Inc. All Rights Reserved.

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The Vacation Homeowner⁶

The vast majority of owners of the approximately 1.26 million vacation rental units own just one vacation home. Most bought the property for personal use and enjoyment, rather than as an investment and income-generating vehicle. Renting the property is a means

to help cover the carrying costs (e.g., taxes, Very important for work and travel, insurance, and mortgage). A minority (approximately

four in 10) purchased the home with the exclusive objective of rental income.

Homeowners generally have a choice of renting their homes directly to travelers (RBO model) or hiring a professional management firm, or VRMC. More than two thirds (67%) of vacation homeowners surveyed indicated that they are RBOs, while 45% use a VRMC (12% of homeowners do both). The primary motivations for self-management are increased control and lower costs. Many homeowners do not want just anybody staying in their home, but prefer to self-screen guests. VRMCs also typically impose availability requirements on homeowners that restrict the owner's ability to use the property himself during high season. Another issue, of course, is cost. Using a VRMC to manage a vacation home means paying management fees and sharing a significant portion of rental revenue, costs that many homeowners seek to avoid by managing and renting the property themselves. The growth of software tools and Internet services to market and manage rental properties is contributing to the growth and popularity of the RBO model.

It is increasingly easy for RBO homeowners to attract guests, track availability and bookings, account for rental revenues, and even

establish preventative maintenance programs. Smart-home technologies such as Internet-programmable thermostats, door locks, and security systems are even enabling remote property management.

Vacation Rental Management Companies

The VRMC industry represents an extraordinarily diverse group of companies, from large global companies such as Wyndham (whose Group RCI is one of the largest vacation rental and timeshare operators worldwide) to small, mom-and-pop enterprises managing a handful of properties in a single location. Most VRMCs fall somewhere in the middle, starting with a single property and then growing into full-service, professional management companies. Today there are over 5,000 VRMCs managing more than 550,000 units. Most are small to medium-sized companies managing fewer than 100 units in a single destination or region. Two thirds of all VRMCs surveyed reported operating properties within a single destination.⁷ The preponderance of VRMC properties are beach/ocean condos, followed by golf and ski locations.

Marketing and rental income is only one of the reasons—and not the most important—why homeowners use VRMCs to manage their properties. More than six out of 10 homeowners who use a VRMC do so because the VRMC “handles everything.” Maintenance, security and rental revenue are all part of the mix of services.

Low Technology Adoption

VRMCs lag the hotel industry in the adoption of technology to drive marketing and distribution and run their operations. PhoCusWright’s survey of VRMCs revealed that only three in

⁶Data cited in this subsection sourced from PhoCusWright’s Vacation Homeowner Survey. ⁷PhoCusWright Vacation Rental Management Company Survey

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Section Four: The Players: Renters, Owners & Managers
four VRMCs use a property management system, or PMS. While 75% may seem high, it is actually quite low. A PMS is a standard tool

almost universally adopted in the hotel industry to manage inventory, bookings and guests. In addition, fewer than half of all VRMCs have a booking engine on their Web site, and only one in five use revenue management tools to optimize pricing (see Figure 15). Such tools, by comparison, are standard in the industry and are the foundation for electronic, multichannel distribution.

Consolidation or Aggregation?

As a large, fragmented marketplace, the VRMC world may seem a strong candidate for consolidation, but past roll-up efforts have met with mixed results. Unlike hotels, the vacation rental business is characterized by vast differences across companies, markets and even individual units. The national dispersion of properties and pervasive lack of product and service standards—as well as operating practices—has proven difficult to manage and scale. This difficulty is exacerbated by differences in legal requirements (e.g., some states place regulation of the industry within the purview of real estate, as opposed to hospitality and tourism) as well as the challenge of managing hundreds, perhaps thousands, of individual owners. The entrance of traditional hotel and resort companies into this space could help VRMCs overcome these barriers. The sophisticated management and distribution practices, loyal consumer bases, and trusted brands of larger hospitality companies could certainly impact current industry dynamics and become catalysts for industry change. This management could help raise awareness and increase legitimacy in the eyes of consumers, just as it did in the timeshare industry almost two decades ago. Another approach, however—which may have more traction across the industry currently—is aggregation. There are several relatively new efforts to aggregate VMRC content under a single marketing and distribution umbrella. Companies such as

<http://www.discovervacationhomes.com/>

<http://www.leisurelink.com/>,

<http://www.pickpackgo.com/family>,

<http://twitter.com/VacationRoost> ,
<http://www.smartertravel.com/travel-advice/vacationroost-new-site-for-vacation-rentals.html?id=2758351> and

<http://www.zonder.com/> market and distribute only VRMC inventory. Online aggregation is less capitalintense than acquisition and provides more breathing room to an important attribute of vacation rental—the high degree of distinc-

Figure 15

VRMC Use of Key Lodging Technologies

Source: PhoCusWright's *Vacation Rental Marketplace: Poised for Change*
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tiveness among properties, managers and even individual units.

VRMCs & the Rise of RBO

The popularity of eBay, Craigslist and the Amazon seller marketplace—the “anybody can be a retailer online” mindset—has clearly spilled over into the vacation rental category, fundamentally changing the complexion of the marketplace. The now-defunct real estate boom of the preceding several years, as well as the growth of businesses such as Home Depot and Lowe’s, have further fueled the do-it-yourself attitude. Consumers are willing to purchase high-ticket items from perfect strangers in online market exchanges, and homeowners feel empowered to manage and maintain their properties. While this report covers the market beginning in 2007, the RBO category has certainly experienced extraordinary growth over the last several years and now represents a larger share of the total market in both supplier and rental revenue.

The rise of RBO has given homeowners a credible alternative to the professionally managed approach and good reason to question the value and cost of working with VRMCs.

Vacation homeowners can now find guests online for a small listing fee, challenging the justification for paying approximately half of their rental revenue to a property manager.

Indeed, even among homeowners who use a VRMC, only one in five feel that they are getting good value, and more than nine in 10 believe they could market their property themselves

if they had to (Source: Vacation Rental Consumer Survey). The primary reasons for renting through VRMCs are about convenience. For example, homeowners may live too far away or not have the time or inclination to maintain the property themselves. These trends present a significant challenge to VRMCs, as the RBO segment competes for not only rental guests, but homeowners as well. Understandably, property managers initially viewed these developments with great hostility. But the value proposition to homeowners keen to manage their own properties and the extraordinary growth of the category—to now more than half of the vacation rental market—makes clear that the RBO model has a major and lasting role to play. It also exacerbates the already highly fragmented nature of the market with uneven product and service standards. Hundreds of thousands of homeowners are now independent travel suppliers. But the rise of RBO has also been a powerful impetus for change. It has increased the profile of the industry and drawn interest from homeowners, travelers, major travel companies, the investment community and the media. And it has challenged core industry assumptions on distribution, marketing and economics. VRMCs are under pressure to reevaluate their value propositions and the services they provide to their owners and guests. Many have lowered fees or bundled additional services within their existing fee structures. Some proactive VRMCs are placing more emphasis on owner relations and taking a more consultative approach with their owners to improve profits. <http://www.resortquest.com/>, for example, has >>we need to research what the fee structure is all about for our VRBO model.....and possibly for our concierge services created a menu of services and fee structures to enable owners interested in using an RBO model to pay a lower fee for bookings they generate themselves. This lets owners market themselves while ensuring their guests access to the services and amenities available on-site from the VRMC. This provides more options to the homeowner, a better guest experience,

and incremental revenue to the VRMC.

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Section Four: The Players: Renters, Owners & Managers

The rise in RBO has also motivated many

VRMCs, as well as some aggregators, to improve their service offerings and communicate

those services aggressively in their marketing:

professional, hotel-quality management is

now a key point of differentiation. VRMCs are

touting the fact that their facilities have 24/7

maintenance and > once we have LQA- we could add this and make this part of the program

concierge service, >> we can offer daily concierge service especially if we are charging for the service

daily maid service, .. >>. we can offer daily maid service on any property with a charge

n-property food and beverage ...>> we could partner with alacar and offer food deliver

and other services.>>> what other services should we be looking at??? What does the consumer want??

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PhoCusWright's Vacation Rental Marketplace: Poised for Change

Distribution & the Online Vacation Rental Market

For many years, marketing and distribution in the vacation rental industry meant expensive brochures and print advertising, with reservations handled over the phone and via the mail. But the industry is undergoing rapid change. Although only 12% of rental revenue was booked online in 2007 and fewer than half of VRMCs have any kind of real-time electronic distribution capability, these statistics have increased significantly within the last two years and are projected to continue to rise rapidly through 2010 and beyond. With half of all travel now booked online and nearly two thirds (64%) of VRGs researching online, the Internet is playing a central role in the vacation rental marketplace.

Sizing: Traffic & Transactions

The online vacation rental market is emerging rapidly from the nascent stages of static, "brochure ware" Web sites to a hotbed of activity for vacation rental companies, intermediaries,

and service providers. Traffic to the <http://www.phocuswright.com/library/fyi/582> averaged three million monthly unique visitors from July 2007 to August 2008, with traffic up year-to-date through August by 13% (see Figure 16). Vacation rental traffic represents approximately one fifth of traffic to the hotel supplier category and a little more than a quarter of average traffic to the online travel agency hotel category.⁹

Source: PhoCusWright's *Vacation Rental Marketplace: Poised for Change*
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Figure 16

A Sampling of Internet Sites Serving the Vacation Rental Sector

⁸PhoCusWright's *Online Travel Overview Eighth Edition*

⁹ Hotel supplier and online travel agency hotel categories as defined by Compete. OTA hotel categories represent unique visitor traffic to the hotel sections of OTAs.

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RBO Web sites dominate category traffic. They account for approximately 80% of the traffic and at least seven of the 10 largest URLs (Web addresses). The online vacation rental segment is both highly concentrated and fragmented, with very Long Tails in both the VRMC and RBO segments. The top 10 URLs have as much as 80% of the traffic, most of which are rolled up under industry behemoth <http://www.homeaway.com/>. However, more than 70 sites outside the top 10 track monthly unique visitors in the thousands or tens of thousands. Many are sites of small VRMCs and even of some individual homeowners.

Transactions, however, tell a very different story. Nearly 100% of the \$2.8 billion in online vacation rental sales were through VRMCs. RBO Web sites are primarily listing sites and do not support real-time availability and reservations. While some RBO sites are experimenting with transactional capabilities and some homeowners have PayPal or similar

Figure 17

Online Penetration of Vacation Rental, Leisure Hotel Sales and Total Travel Market, 2007

Source: PhoCusWright's *Vacation Rental Marketplace: Poised for Change*
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online payment services on their Web sites, booking online directly with owners is still in its infancy. Of the 25 major sites included in the PhoCusWright-Compete Online Vacation Rental Category, 12, or 40%, are transactional (accept payment for reservations). All of those

sites focus on VRMC inventory.

Penetration, Peace of Mind & Travel 2.0

Online penetration of bookings may still be relatively low, but the opportunity remains substantial. Two thirds of vacation rental guests researched online for their last rental stay, even if only 12% booked online. By comparison, nearly 50% of all travel and 41% of all leisure hotel sales were booked online in 2007 (see Figure 17).

The Internet—and advances in Travel 2.0 technology in particular—is well suited to address some of the key conversion challenges

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Section Five: Distribution & the Online Vacation Rental Market
for the vacation rental industry. Low category awareness, high product complexity, and lack of established, well-known brands create concern for the traveler about what to expect.

Quality of the property and rooms and the availability of on-site service and maintenance are among the biggest concerns for prospective vacation rental bookers.¹⁰ Rich online content including photos, video, traveler reviews, supplemental destination information and service level guarantees will be critical to overcoming those objections. Not surprisingly, VRGs who booked online were far less likely to have any concerns than offline bookers.

Even though guest satisfaction remains high, overcoming consumer concerns and conveying peace of mind is critical for vacation rental providers, especially for the much larger market of prospective travelers yet to experience a vacation rental. Introducing consumer safeguards will be critical to growing not only the online vacation rental market, but the total market overall. Providers who forge tight product integration with travel insurance providers and offer a customer bill of rights and service level guarantees will have a powerful advantage over the competition. HomeAway introduced in 2008 its <http://guarantee.homeaway.com/>

program, which provides up to \$5,000 of payment >> **we should look into this for our VRBO program and also consider this for our pmvr program**

protection for travelers for illegitimate listings found through one of the HomeAway sites. <http://www.pickpackgo.com/> promises a Security Blanket Guarantee, and Endless Vacation Rentals by Wyndham offers a 24/7 phone concierge to provide destination guidance and support if a guest has a problem.

Types of Web Sites Shopped

The 64% of vacation rental guests who researched their last stay online visited a range

Source: PhoCusWright's Vacation Rental Marketplace: Poised for Change
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Figure 18

Types of Web Sites Used by Vacation Rental Guests Who Research Online

10PhoCusWright Vacation Rental Consumer Survey
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of different types of Web sites. Major search engines are the most frequently cited, with half of online researchers using a search engine, followed by VRMC Web sites, vacation rental Web sites (which include RBO listing sites and VRMC aggregators), destination sites and OTAs.

VRGs who research online are shopping across multiple Web site categories, including vacation rental Web sites (see Figure 18). Over a third of all referrals to the vacation rental category comes from search engines and portals, another third from online services such as ad networks and Web-based email services, and 20% comes from other vacation rental Web sites.¹¹ Online marketing strategies in the category must be multi-pronged and address search engines, ad networks and vacation rental category Web sites.

Supplier Web Sites vs.

Intermediaries

The majority of online vacation rental book-

Figure 19

Online Vacation Rental Booking Transactions: VRMCs and Intermediaries

Source: PhoCusWright's Vacation Rental Marketplace: Poised for Change
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ings are taking place directly on VRMC Web sites. Vacation rental guests booked approximately \$2.1 billion (75% of all online bookings)

in vacation rentals directly on VRMC sites and the remaining 25% via online intermediaries (see Figure 19). Intermediaries include the major OTAs, vacation rental switch <http://www.leisurelink.com/> (which aggregates content and distributes through OTAs and the GDSs) and some dedicated vacation rental Web sites such as

<http://www.clearstay.com/Default.aspx>

<http://www.pickpackgo.com/>

<http://www.vacationroost.com/>

<http://www.zonder.com/>

and others.

The major OTAs have all dabbled with vacation rentals, but the results have been mixed.

Hotels.com

was one of the first movers with its launch <http://www.hotels.com/condos.do>

in 2000, and today

Hotels.com is the only major OTA with a tab on its home page dedicated to vacation rentals.

Travelocity and Orbitz have both partnered with LeisureLink, and more recently, Orbitz signed on Zonder to gain access to the vacation rental segment. Category PMS vendors

such as <http://www.instantsoftware.com/>

, <http://www.escapia.com/>

and others

have developed connectivity to enable distribution from their reservation systems to third-

11PhoCusWright-Compete Vacation Rental Category referral analysis.

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Section Five: Distribution & the Online Vacation Rental Market
party Web sites. But beyond such partnerships and a handful of direct merchant deals with select vacation rental companies, OTAs have done little to engage in the space.

The principal challenge is simple: The OTA business model is driven by volume. This works well for hotels, but less well for vacation rentals, which suffer from a “last mile” problem.

Essentially, the volume of business is not at a threshold high enough to capture greater interest. Vacation rentals represent a small portion of hotel booking sales and, because of the complexity and “unknown” factor for consumers, are harder to merchandise and convert online. As a result, vacation rentals take a back seat to hotels and other areas, such as international expansion, that drive OTAs’ top-line growth.

The message from OTAs to vacation rental providers is clear: If you want to be represented, you must adapt your models to look and act more like hotels. Several young companies are working aggressively to address this very issue, using various innovations in technology, marketing and distribution to package vacation rentals into a hotel-centric distribution landscape.

The real challenge is doing this without diluting the core differentiating characteristics of vacation rentals that distinguish them from conventional hotels.

.... THIS IS WHERE OUR FRACTIONAL PRODUCT CAN MAKE A DIFFERENCE

In the meantime, OTAs are likely to remain casual (and in some cases downright cool) partners in vacation rental distribution. This is an understandable but nevertheless missed opportunity. There are several major secondary destinations where the premium lodging inventory is vacation rental, and it is extremely difficult to come by in high season. The vacation rental industry also offers some compelling, differentiated product that can, with some adjustments, merchandise effectively relative to hotels. And the strong brand strength of the major OTAs, with the right positioning, could address consumers’ concerns.

Traditional Travel Agencies & Tour Operators

Traditional travel agencies, much like consumers, generally lack awareness of the vacation rental category and, concerned first and foremost about client satisfaction, are reluctant to book clients in accommodations of an unknown, unbranded supplier. Understandably, only 5% of VRGs booked

their last vacation rental through a travel agent. This too is a missed opportunity for both VRMCs and travel agents. The travel agent channel has declined significantly over the past several years, but that decline has largely been in “simple” leisure and personal travel (single component purchases of air, hotel and car rental). Travel agents continue to retain a significant share of the complex leisure travel market. They may have lost a lot of their less complex air and hotel business to online channels, but they still account for 73% of packaged vacations and 77% of cruise.¹²

Vacation rentals are a relatively complex product with benefits and attributes over hotels that are not immediately apparent. Travel agents who educate themselves on the category and identify suppliers they are comfortable working with have an opportunity to offer a unique product to their leisure clients. Given the strong satisfaction rates of VRGs, travel agents who advise clients on vacation rentals are likely to gain very satisfied customers.

Several major vacation rental suppliers and aggregators have travel agent programs, including Endless Vacation Rentals by Wyndham,

<http://www.wyndham-vacations.com/>

¹²PhoCusWright's Online Travel Overview Eighth Edition

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LeisureLink, <http://www.leisurelink.com/>
ResortQuest, <http://www.resortquest.com/>

VacationRoost , <http://www.vacationroost.com/>

and many others, with commission and incentive programs on par with hotels. But, like consumers, travel agents have concerns that need assuaging. They want to know their clients will have a great experience, that their commission will be paid in full and on time and that the supplier will not then try to market directly to the travel agent's clients.

Distribution Outlook: VRMCs

PhoCusWright projects strong growth for the

online vacation rental marketplace, but not without significant change—and some pain—across the vacation rental industry. Several major structural issues stand between the industry and broad distribution, but there are positive indications that change is afoot:

1. Technology Adoption

One in four VRMCs do not use a PMS, a crucial building block to managing inventory and reservations and enabling electronic distribution. Many that do use a PMS rely on outdated technology that is ill-equipped for the demands of large scale distribution partners. Fewer than half of VRMCs have online booking capability on their Web sites. Broader adoption of current information technology for reservations, inventory and pricing is a critical step, and it is taking place. VRMCs cited technology, in particular for Web sites and online booking capability, as their top strategic investment priority for 2008 and beyond. Technology and distribution providers such as

Escapia, <http://www.escapia.com/>

LeisureLink, <http://www.leisurelink.com/>

LiveRez, <http://www.liverez.com/>

Instant

Software <http://www.instantsoftware.com/>

and others are actively working to make this transformation happen.

2. Flexible Operating Models

The standard industry operating procedures of old, such as seven-night minimum stay, check-in/checkout restrictions and limited on property service and support, must give way to models more in line with the expectations of hotel guests. That means more flexible lengths of stay, fewer restrictions around check-in days or times, and on-site service if there's a problem or even if guests are looking for some advice ("Can you recommend a great seafood restaurant?").

Length-of-stay requirements represent a key area where the industry must adapt. Although the average trip duration for vacation rental guests is six nights, in fact, 60% of vacation rental trips are for less than a week. VRMCs and RBOs that only rent out on a weekly basis are missing more than half of the market before they even get started. And of course, the average hotel stay is far less (under three nights). VRMCs looking to go after the leisure hotel market, especially through online channels, must be extremely flexible. (It's no surprise that the typical online vacation rental booker has a shorter length of stay than the typical VRG.) If the vast majority of online hotel searches are for two to three nights, vacation rental product that does not accommodate such lengths of stay will never even appear in the search result listings.

3. Online Merchandising

This is perhaps the single biggest challenge to vacation rental providers—how to fit the square peg of vacation rentals into the round hole of online (hotel-driven) lodging distribution. In short, many vacation rentals offer great advantages over hotels that may not translate well in a hotel shopping engine. Likewise, they may lack some basics of hotel services that could disqualify them from key star-rating categories.

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For example, a two-bedroom condo may be more expensive than a room at a comparable hotel (and thus display lower in search results), but it may offer a better value to a family of four looking to book two rooms (as well as several other advantages, such as a full kitchen, washer/dryer, and more square footage). And even the very top-of-the-line vacation rental properties may be five-star in nearly all respects, except that they cannot qualify as even a three-star hotel if they don't offer 24/7 front desk check-in or concierge.

4. Third-Party Economics

Online hotel distribution across intermediaries is dominated by the merchant model, whereby the large OTAs command discounts of 20-30% off of rack retail rates. This creates a major financial challenge for VRMCs, who must also hand over upwards of half of their rental revenue to homeowners. A 30% cut off the top gives VRMCs far less to work with, and with the RBO model beckoning their owners, VRMCs are understandably reluctant to make homeowners bear a part of that cost. But there is a role for this channel to play, and VRMCs who adapt to its dynamics and begin engaging in even rudimentary revenue management techniques can leverage online channels to move distressed inventory and drive demand, especially in soft markets. OTAs have historically received a countercyclical lift during weak times (opaque OTAs Priceline and Hotwire have fared best in the 2008 downturn).

5. The “Peace of Mind” Factor

Will the property really be OK? What happens if I miss my check-in window? Whom can I call if the air conditioner goes out on Saturday? These are the questions running through the minds of prospective guests, and delivering confidence and peace of mind is a key challenge facing the industry across all points-of-sale (online and off). Vacation rental providers—whether VRMC or RBO—must aggressively address these issues through service level commitments, rich online content and ...>>>we have work here to convey this to our guest that we can and will be here to take care of their needs be locals, friendly knowledgeable travel insurance offers. As discussed previously, several sites offer guarantees against bookings with listings that do not present as advertised, while VRMCs and online aggregators alike are introducing service-level commitments and emphasizing professional management services of the properties they offer.

Independent, third-party validation through traveler reviews is also a significant opportunity

to address the “peace of mind” factor. The success of TripAdvisor and pervasive adoption >>>> this is also key and we have already discussed of guest reviews across many travel Web sites makes clear the value of such a service in the hotel arena. One startup, FlipKey, is tackling this issue head-on with an online guest review platform targeted specifically at professionally managed vacation rentals. TripAdvisor took a majority position in the company in 2008.

Distribution Outlook: RBO

It is certainly interesting, and perhaps a little ironic, that the RBO segment, whose growth has been fueled by the Internet and which now leads in traffic share over VRMCs by a sizable margin, accounts for a negligible portion of actual online bookings. While vacation rental sites listing RBO properties have proliferated across the Internet, the model continues to resemble that of a classified listing site, requiring the consumer to contact the owner directly for more information and to ultimately complete the transaction offline.

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Some RBO sites are experimenting with online payment, and even some individual homeowner Web sites are offering PayPal or similar online payment services. But the challenge of implementing an online reservation, payment and fulfillment operation spanning thousands or hundreds of thousands of individual homeowners may outweigh the benefits, especially when there are several elements of the RBO transaction that almost force an offline exchange between buyer and seller. The standard practice of rental contracts and deposits against property damage means the rental guest must print, sign and mail (or fax) a paper contract. In addition, the complexity of the decision process for customers, as well as questions and concerns about the property and the homeowner, compels many guests to have phone conversations—often several—before making the final decision to book.

A significant portion of the RBO market, however, remains decidedly offline. In fact, only 27% of all RBO homeowners list their property online, and of those who do, on average only 20% of their inquiries and bookings are generated from online sources. In fact, the vast majority of leads and bookings come from more personal, less proactive marketing methods: friends and family, referrals and repeat customers. This indicates that there is a much larger offline population of RBO homeowners who are less interested in maximizing rental revenue and unwilling to rent out to strangers, but instead prefer to limit their rentals to people they know and trust (see Figure 20).

Some increase in online booking for the RBO segment is certainly expected, but it is unlikely to have the same growth potential as the VRMC category. Instead, the key areas of innovation will be services and functionality that increase lead generation and offline conversion on RBO sites. This will take two forms. The first will be new services aimed at addressing traveler concerns and improving confidence. HomeAway's Rental Guarantee program is just such an example. Other examples could include guest reviews and perhaps

a homeowner rating system similar to eBay or .>>.we need to research how this compares to our LQA the Amazon seller marketplace.

The second major area of online innovation in the RBO segment will be functional innovations to improve qualified lead generation.

Among the most important are availability and rate calendars, which some sites already offer.

Rich destination content, robust mapping tools, and sophisticated search capabilities will be increasingly important.

But consumer-oriented functions and content are only half the battle. The other is homeowners, who need to be guided, motivated and managed just like any customer set. Many sites already have availability calendars, but they only add value to the customer shopping experience if homeowners keep them up to date. RBO sites must innovate in functionality that is easy for homeowners to use, enables

them to effectively merchandise their property online, and ultimately delivers results. This

Figure 20

Sources of Leads for RBO Homeowners

Note: Total may not add to 100% due to rounding

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means tools to gauge appropriate market pricing and policies (e.g., minimum length of stay, check-in procedures, etc.), guidance on photos and video, and support for writing an attractive description of the home. Homeowners may be motivated to list and rent, but that may not make them skilled photographers or copywriters.

And then there is truth in advertising. RBO sites are understandably limited in their ability to verify the claims of hundreds of thousands of individual homeowners, but they must have processes in place to ferret out bogus claims, illegitimate listings and deceptive homeowners. A customer complaint process with timely follow-up with both homeowner and consumer will be essential for credibility of the online business and the industry as a whole.

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PhoCusWright's *Vacation Rental Marketplace: Poised for Change*

The vacation rental marketplace may be fragmented and complex, but it is ripe with opportunity and poised for substantial change. There are two significant opportunities to grow the market for the vacation rental industry:

1. Converting more leisure hotel travel by VRGs into vacation rental bookings. VRGs are highly satisfied with their vacation rental experiences but still stay in hotels at a much higher frequency (averaging four hotel stays annually). Converting the “other travel” of existing clientele is the industry’s low-hanging fruit.
2. Tapping the much larger market of non-VRGs and targeting the \$60 billion leisure hotel marketplace.

Realizing these opportunities, however, means addressing three major challenges facing the industry:

1. Preconceptions and lack of awareness and among consumers and travel agents
2. Operational flexibility to make room for the demands of a larger accommodation marketplace
3. Adoption of technology to broaden distribution and improve competitiveness

Opportunities & Recommendations

Generating Awareness & Vacation Rental Preconceptions

The best place to start with stimulating category awareness is to tackle the widely held perceptions about vacation rentals that inhibit consideration and booking among VRGs and the broader traveler population alike. There are four broad preconceptions :

1. Vacation rentals are more expensive than hotels.

Vacation rental providers must step up efforts to offer competitive, market-based pricing. This means monitoring competitor pricing in the marketplace and, especially for larger and medium-sized VRMCs with at least 30–50 units under management, implementing some revenue management strategies to optimize margins and move distressed inventory. RBO listing sites should provide strategic pricing guidance to their homeowners, such as tools that enable homeowners to identify pricing for comparable units in their local markets to help them improve their search results and, ultimately, lead generation and conversion.

Competitive pricing does not necessarily mean lower pricing, but rather, pricing that conveys the true value of the product relative to other lodging product in the marketplace. Vacation rental marketers must deliver the message loud and clear that their product offers a better overall value on a square footage basis relative to hotels, provides more space and amenities,

family travel or groups. While among many VRMCs and RBOs this may indeed be true with regard to length of stay, it is changing. Vacation rental providers should 1) adjust their operational practices to support shorter lengths of stay (where it makes sense) and 2) get the word out to existing customers and the broader marketplace. Vacation rental suppliers with lengthy stay requirements are missing more than half of the vacation rental market and a vast majority of the leisure hotel opportunity.

4. Vacation rentals lack hotel-like amenities and services.

Leisure travelers largely assume that standard hotel services such as daily maid, concierge, on-site amenities (pool, hot tub, tennis courts), food and beverage, 24/7 maintenance, etc. are not available with vacation rentals. Vacation rental providers that offer such services must emphasize them in their marketing. Vacation rental providers that do not should consider doing so. >>>been discussed

Operational Flexibility to Compete in an Online (and Hotel-Centric) World

Of course, to address many of these traveler preconceptions, many VRMCs, RBOs and distributors of their products must consider significant operational changes. Adding rental guarantees and on-site services and amenities, changing length-of-stay and check-in/check-out policies, enhancing online tools and content on Web sites—all of this requires not only an investment of resources but a commitment to significant operational and cultural change. To capture a piece of the leisure hotel market, vacation rental providers must think and operate a bit more like hotels and get into the heads of consumers shopping for hotels and resorts.

In the online travel arena, this also means adapting to a merchandising model that is fundamentally hotel-centric—designed by and for hotels. The major challenge to the vacation rental industry is how to participate effectively in the hotel-centric distribution landscape without diluting the key value proposition of the vacation rental product.

Technology: Barriers to Distribution and Online Penetration

Implementing market-based, revenue-managed pricing, more flexible operational procedures, and more competitive online merchandising capability also means investing in technology. There are two broad areas of the business where technology investment and implementation will be critical in the increasingly dynamic years to come:

1. The “Back of the House”

The vacation rental category lags the broader lodging industry in enabling real-time availability of inventory and rates, electronic connectivity to online distributors and revenue management tools to optimize margin and merchandising through direct and third-party channels. Several software vendors have targeted the market with vacation rental management systems that also enable direct connects to external distribution systems. Investing in such tools is the first—and necessary—step for any VRMC committed to expanding its distribution reach. While some vacation rental systems may offer revenue management capability, larger VRMCs with hundreds of units under management and a multi-channel distribution strategy should consider investing in dedicated revenue management systems.

2. The Front Lines

Vacation rentals are a relatively complex travel purchase; the selling process is informationintensive.

Consumers enter the shopping process with preconceptions and concerns but an unbranded, uncertain product. Vacation rental providers must invest in online tools and content to overcome key barriers and enable a complex online merchandising process. Guest reviews, images and video, amenities-based search, and complementary destination content and tools will be essential elements of online vacation rental distribution. There will always be a need for offline customer support and fulfillment for vacation rentals, but with nearly two thirds of VRGs researching on the Web and online bookings accelerating, Travel 2.0 tools will play a powerful, market-defining role for the online vacation rental marketplace.

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Industry Partners

Compete, a unit of TNS Media,
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delivers digital intelligence that helps the world's top brands improve their marketing based on the online behavior of millions of consumers. TNS Compete's products and services are fueled by the largest integrated online consumer behavior and survey panel in the industry. Digital insights are interpreted by analytical experts in the automotive, financial services, media, mobile, online, retail, telecom and travel markets to deliver data and recommendations to create effective online experiences and highly profitable advertising campaigns.

The Vacation Rental Managers Association (VRMA), www.VRMA.com, is the professional trade association dedicated to improving the service and performance of the vacation rental industry. Its members represent the leading professionally managed vacation rental companies in North America. VRMA member companies average 18 years in business and, as a group, manage 150,000 vacation rentals valued at over \$75 billion. The organization was founded in 1985.

Sponsors

American Express Company is a diversified worldwide travel, financial and network services company founded in 1850. American Express entered the travel agency business in 1915 and today is the world's largest travel service network. The company has more than 2,200 Travel and Foreign Exchange Services locations worldwide in more than 140 countries.

Bluegreen Vacation Rentals offers a host of family-friendly resorts in some of the nation's most desirable vacation destinations – from Orlando and Myrtle Beach to Las Vegas and the Smoky Mountains. Families and couples can choose from a variety of accommodations including two-bedroom/two-bathroom suites with full kitchens and enjoy resort amenities like indoor/outdoor pools, on-site restaurants, game rooms, and kids' activities. Please visit www.bluegreenrentals.com <http://www.bluegreenrentals.com/> for more information.

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Sponsor Company Information

Coldwell Banker Residential Brokerage is the largest provider of vacation rental properties in the Maryland and Delaware resort areas. CBRB offers a wide range of choices, from efficiencies to luxury seven-bedroom homes, with great locations from the Bay to the Ocean. Owned and operated by NRT, LLC. East West Resorts – Beaver Creek: Beaver Creek's finest selection of vacation accommodations. East West Resorts offers intimate studios to spacious, seven-bedroom condominiums and private homes. Locations include ski-in/ski-out, village core, and shuttle to the lift. All properties offer a full kitchen, fireplace, balcony/deck, hot tub, pool, concierge, and access to the Allegria Spa.

Endless Vacation Rentals®, one of the Wyndham Worldwide family of brands (NYSE: WYN), provides access to one of the largest collection of global vacation rental accommodations in the industry, allowing travelers to browse from over 200,000 vacation rental accommodations in 100 countries. At

www.EVRentals.com, it's as easy and convenient to search and book vacation rentals as booking typical hotel accommodations online. For more information, visit www.EVRentals.com or call 1-877-STAY-EVR (1-877-782-9387).

Escapia, Inc. is leading the Internet revolution in the \$24 billion vacation rental industry. EscapiaONE is a comprehensive platform for vacation rental companies embracing the Internet to reach new customers and manage their properties more effectively. EscapiaNET is the leading online distribution network for professional vacation rental managers and includes ClearStay.com, the company's own consumer vacation rental Web site.

FlipKey™

<http://www.flipkey.com/>

s a vacation rental service featuring the world's largest collection of verified vacation rental guest reviews. FlipKey believes reputation, trust and feedback from past guests are the best resources to ensure consumers find the ideal vacation home. FlipKey is majority owned by TripAdvisor, LLC

<http://www.tripadvisor.com/>

, and is a member

of the TripAdvisor Media Network, attracting more than 32 million unique monthly visitors across 12 popular travel brands. FlipKey is available at <http://www.flipkey.com>.

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HomeAway, Inc. operates 10 global vacation rental sites including:

- HomeAway.com,
- VRBO.com,
- VacationRentals.com,
- Holiday-Rentals.co.uk,
- OwnersDirect.co.uk,
- FeWo-direkt.de and
- Abritel.fr.

The company, which features 309,000+ homes across its sites, guest reviews and the added protection of the HomeAway Rental Guarantee, is committed to making it easier and safer than

ever for travelers to find vacation rental properties.

Since its inception in 2005, HomeAway has raised more than \$400 million in private financing, including a record \$250 million in 2008. The company is headquartered in Austin, Texas and has offices in England, Germany and France.

Intrawest is a world leader in experiential destination resorts. The company and its affiliates have interests in 10 resorts at North America's most popular mountain destinations including Whistler Blackcomb, a host venue for the 2010 Olympic and Paralympic Winter Games. The Intrawest network also includes Canadian Mountain Holidays, the largest heli-skiing operation in the world, Sandestin Golf and Beach Resort in Florida and Club Intrawest—a private resort club with exclusive locations around the world. In addition, Intrawest develops real estate at its resorts and at other locations across North America and in Europe. Intrawest is headquartered in Vancouver, British Columbia. For more information, visit www.intrawest.com.

<http://www.intrawest.com/index.htm>

LeisureLink powers global distribution and demand for the vacation rental and specialty lodging industry. Our distribution platform and proprietary Demand Management System™ enable property managers to increase bookings and optimize revenue across thousands of distribution channels.

ResortQuest is one of the largest marketing and management companies of vacation condominiums and home rentals in the U.S., based on a portfolio of nearly 10,000 vacation rental properties. With the inclusion of Partner Affiliates in North America and Europe, ResortQuest now offers over 50,000 vacation rental choices in over 100 destinations worldwide. With over a billion in sales, ResortQuest Real Estate is one of the nation's leading real estate companies focusing exclusively on resort properties, offering brokerage services in the country's premier beach, ski and golf destinations. For more information visit www.resortquest.com.

com or call 1-800-GoRelax.

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Sponsor Company Information

USDM.net® is a leader in the travel industry, specifically within the destination marketing, hotel and hospitality and vacation rental marketing industries. The company provides digital consulting + strategy + branding + creative + technology + marketing + media to clients in the public and private sectors. The client base is made up of DMOs, hotels, resorts, vacation rental management companies, airlines, resort real estate and others in the global travel industry.

VacationRoost.com is building the online travel agency for the vacation rental industry. With more than 100,000 vacation rental units in 84 locations across North America, VacationRoost.com offers the largest selection of professionally managed vacation rentals available on the Web. Travelers can search, shop and book their vacation properties online, or work with an experienced travel specialist to find the perfect home for their vacation. VacationRoost.com was founded by a team with decades of experience in the online travel and vacation rental industry that is dedicated to making renting vacation homes as easy as booking a hotel online.

With Zonder, you can finally book vacation rentals in real-time online or over the phone using a credit card, just like you would a hotel. Zonder gives you the tools you need to find the perfect vacation rental for your trip. Zonder has thousands of rentals all over North America, Central America and the Caribbean. We have everything from private homes on the beach in Mexico, to private condos in downtown New York City.

