

# Practical Guide to Starting a Vacation Rental or Homestay Business in India

This guide is designed for two kinds of people: (1) homeowners or second-home buyers who want to earn income from a vacation rental or homestay, and (2) operators who want to run an arbitrage model by leasing properties long-term and subletting them as short-term rentals. It walks you from basics to advanced topics so you can take informed decisions and avoid common mistakes.

## 1. Understanding the Vacation Rental / Homestay Business

A vacation rental or homestay is a residential property (apartment, villa, farmhouse, independent house, or room) that is rented on a short-term basis to travelers instead of traditional hotels. Platforms like Airbnb, Homeyhuts, Booking.com, MakeMyTrip, Goibibo, Agoda and others act as online travel agencies (OTAs) to attract guests and process bookings.

In India, this market is driven by domestic tourism, weekend getaways, remote work stays, and niche experiences like heritage homes, farmstays, eco-stays or city apartments near business hubs. The business can be highly profitable if you choose the right location, operate professionally, and manage costs and guest experience well.

## 2. Business Models: Owner vs Arbitrage vs Manager

### 2.1 Owner Model

You own the property (or are buying a second home) and operate it as a vacation rental. Your main costs are loan EMI (if any), maintenance, furnishings, utilities, staff and OTA commissions. This model is capital intensive but gives long-term asset appreciation plus rental income.

### 2.2 Arbitrage / Lease Model

You do not own the property. Instead, you sign a long-term lease (usually 3–9 years) with the owner at a fixed rent or on a revenue-share model, and then list and operate the property as a vacation rental. Your main costs are rent, furnishing, operations and marketing. This model needs lower capital than buying but has higher operational risk.

### 2.3 Management / Revenue-Share Model

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You act as a property manager. The owner invests in the property and furnishings, and you manage everything: listings, pricing, guest communication, check-in, housekeeping, maintenance coordination and accounts. You charge either a fixed management fee or a percentage of monthly revenue. This model is asset-light and scalable but needs strong operations and trust with owners.

In India, the management model is gaining traction as more property owners seek professional operators rather than managing guest stays themselves. Platforms like [Homeyhuts](#) are purpose-built for this model and provide the operational framework that makes revenue-sharing arrangements work smoothly for both sides.

### **3. Self-Assessment: Is This Business Right for You?**

Before committing money or signing any lease, honestly assess your fit for this business. It is not a passive income machine in the early years; it needs time, systems and patience.

- Time: Can you give dedicated time daily/weekly for guest messages, pricing, vendor coordination and issue resolution?
- People skills: Are you comfortable dealing with guests, neighbors, owners, staff and service providers?
- Tech comfort: Are you comfortable using OTA extranets, pricing tools, WhatsApp Business, basic Excel/Sheets and email?
- Risk appetite: Are you okay with variable income, seasonality and the possibility of slow months?
- Capital: Do you have enough buffer for 6–12 months of expenses even if bookings are slow initially?

### **4. Market and Location Analysis**

Location is the single largest driver of occupancy and pricing. Even a beautifully designed property will struggle in a weak micro-location. Do not rush into buying or leasing before doing basic data-driven analysis.

#### **4.1 Macro location (city / region)**

- Tourism demand: Is the place already known as a leisure, spiritual, adventure, heritage or business destination?
- Connectivity: How easy is access by road, rail and air? Are there regular buses, cabs and flights?
- Seasonality: Identify peak, shoulder and low seasons. Check weather (heat, monsoon), festivals, long weekends and events.

- Competition: How many active listings exist on major OTAs in that area and what are their approximate tariffs and reviews?

#### **4.2 Micro location (neighbourhood)**

- Distance to key demand drivers: beach, lake, hill viewpoint, temple, business hub, tourist market, hospital, campus, etc.
- Road access and parking: Can a car reach the property easily? Is there safe parking?
- Safety and surroundings: Lighting at night, perception of safety for families and solo travelers.
- Noise and nuisance: Bars, traffic, construction, religious loudspeakers, train tracks nearby can impact reviews.

#### **5. Regulatory and Legal Checks in India**

Regulations for homestays and short-term rentals in India vary by state and city and are still evolving. Before you sign any agreement or spend on interiors, understand what is legally allowed in your specific location.

- State tourism department norms: Many states have homestay registration schemes that provide basic guidelines and benefits.
- Municipal / panchayat rules: Some cities require trade licenses, lodging house registration or occupancy limits.
- Society / RWA / housing association bye-laws: Check if short-term rentals, paying guests or commercial use are restricted.
- Fire safety and building compliance: For larger units and apartments, ensure building approvals, fire exits and safety norms.
- Police intimation / tenant verification: In some jurisdictions, guest identity records and police intimation are mandatory.
- GST and taxation: Understand when GST registration is needed and how rental income will be taxed for you and/or the owner.

#### **6. Property Selection and Evaluation**

##### **6.1 Type of property**

- Apartments: Good for city stays; easier to maintain but may have society restrictions.
- Independent houses / villas: Higher privacy and premium pricing potential; higher maintenance and staffing needs.
- Farmhouses / countryside homes: Experience-driven; dependent on access, security and weather.

- Shared homes / private rooms: Lower investment; works well in tourist towns and host-led experiences.

## 6.2 Furnished vs unfurnished

An unfurnished property will usually have lower rent but needs significant upfront investment in furniture, appliances, linen and decor. A fully furnished property may cost more in rent but allows faster go-live with lower immediate capital.

- Estimate the total furnishing cost (beds, mattresses, sofas, dining, wardrobes, curtains, lights, kitchen, ACs, TV, Wi-Fi).
- Compare higher rent for furnished vs EMI or opportunity cost on furnishing investment.
- Check quality and durability of existing furniture if you are taking over a furnished unit.

## 6.3 Property condition and layout

- Natural light and ventilation.
- Number of usable bedrooms and bathrooms.
- Water supply and backup (borewell, tanker, municipal).
- Power backup (inverter, generator).
- Lift access for higher floors.
- Balcony, view and outdoor space.
- Scope for basic improvements: painting, lights, minor civil work.

## 7. Financial Feasibility and Unit Economics

Treat this as a serious business from day one. Build a simple Excel model before you sign a lease or buy the property. Your goal is to understand how occupancy, pricing, rent and operating costs interact and what margin is realistically possible.

### 7.1 Key revenue drivers

- Average daily rate (ADR): The average price per night that guests pay.
- Occupancy rate: Percentage of nights booked in a month (e.g., 60 % means 18 nights booked in a 30-day month).
- Length of stay: Longer stays reduce cleaning and coordination cost per night.
- Seasonality: Higher ADR and occupancy in peak months, lower in off-season; plan your annual average, not just peak.

### 7.2 Typical cost buckets

- Rent or EMI (for owner model, you may use an imputed rent / EMI for analysis).
- Utilities: electricity, water, gas, internet, DTH, society charges.
- Housekeeping and laundry: staff salaries or per-clean costs, linen washing, cleaning supplies.
- Repairs and maintenance: plumbing, electrical, appliances, painting, pest control.
- Amenities and consumables: toiletries, tea/coffee, water bottles, welcome snacks, kitchen consumables.
- OTA commissions and payment gateway charges.
- Local transport or on-call staff (if you provide it).
- Insurance and professional services (CA, legal, software tools).

### **7.3 Simple thumb rule for split: Rent vs Opex vs Profit**

As a starting guideline for an arbitrage or lease model, you can aim for an approximate monthly split like:

- 30 % of gross booking revenue to base rent for the owner.
- 30 % to operating expenses (utilities, housekeeping, maintenance, consumables, OTA commission).
- 40 % as your gross operating profit before income tax and reinvestments.

This 30 : 30 : 40 split will vary by city, property type and how efficiently you operate, but it is a useful framework to quickly identify deals that are impossible to make profitable (for example, when expected rent alone is above 50–55 % of realistic gross revenue).

### **7.4 Payback period for furnishing and deposit**

- Calculate total initial outflow: security deposit, advance rent, brokerage, furnishing, basic stock of linen and consumables.
- Estimate realistic monthly profit after all costs (not optimistic peak-season profit).
- Payback period = total initial outflow divided by average monthly profit (in months).
- If payback period is more than 24–30 months in an arbitrage model, re-evaluate the deal or negotiate better terms.

## **8. Setting Up the Property and Guest Experience**

### **8.1 Interiors and design**

- Keep design simple, durable and easy to maintain; avoid overly fragile or high-maintenance items.
- Provide comfortable beds, blackout curtains, working fans/ACs and sufficient lighting.

- Focus on 4–5 Instagram-friendly corners (art, plants, lighting) rather than overspending everywhere.
- Provide functional work-from-home setup in city or long-stay locations (desk, chair, good Wi-Fi, sockets).

## 8.2 Amenities checklist (minimum)

- Clean linen and extra sets of bedsheets and towels.
- Basic toiletries: soap, shampoo, toilet paper.
- Equipped kitchen (if applicable): utensils, gas/induction, basic spices, plates, glasses.
- Fast and reliable Wi-Fi.
- Safe drinking water provision.
- Inverter or at least emergency lights and fans.
- Dustbins, cleaning tools, basic first-aid kit and fire extinguisher.

## 8.3 House rules and policies

- Define check-in and check-out times, smoking policy, pet policy, visitor rules, noise timings and use of common areas.
- Clarify rules on parties, alcohol, and number of guests to avoid surprises.
- Put these rules clearly on OTA listings and in a digital/printed house manual inside the property.

## 9. OTAs, Technology and Pricing Strategy

### 9.1 OTA platforms to consider

- Airbnb: Strong for experiential stays, international guests and metro/tourist markets.
- Booking.com and Agoda: Good for high-volume bookings, especially in tourist and business cities.
- MakeMyTrip / Goibibo and other Indian OTAs: Strong domestic demand; good for drive-to locations and popular tourist towns.
- Niche and direct: Consider Google My Business, Instagram, WhatsApp Business and your own website as you grow.

Beyond the major OTAs, India-specific platforms are worth considering as your listing matures. [Homeyhuts](#), for instance, focuses specifically on the Indian homestay market and caters to domestic travelers seeking curated, host-managed stays, a guest segment that large global OTAs do not always serve as effectively. Listing on such platforms can complement your existing OTA presence and bring in a more targeted audience without added complexity.

## 9.2 Basic tech stack for beginners

- A channel manager / PMS once you are managing more than 2–3 listings across multiple OTAs.
- Google Sheets or Excel for tracking bookings, payouts, expenses and owner settlements.
- WhatsApp Business for guest communication templates and quick replies.
- A simple CRM or task management tool (Trello, Notion, Asana) to track housekeeping, maintenance and owner updates.

## 9.3 Pricing strategy basics

- Start slightly below top comparable listings in your area to build reviews, then gradually increase ADR.
- Use higher rates on weekends, long weekends, festivals and local event dates; reduce slightly for weekdays and off-season.
- Set minimum stay for peak dates to reduce frequent turnovers and cleaning.
- Review competition rates frequently and adjust based on demand instead of keeping a flat rate all year.

## 10. Day-to-Day Operations and Staffing

- Standard operating procedures (SOPs) for cleaning, check-in/check-out, linen change, inventory checks and handovers.
- Reliable housekeeping (in-house or outsourced) with clear per-clean rates or fixed salary and expectations.
- Local caretaker or point of contact for guest check-ins, minor repairs and emergency handling.
- Vendor list for plumbing, electrical, appliances, pest control, water delivery, deep cleaning, etc.
- Simple system for key management (lockbox, smart lock, caretaker, reception desk).

## 11. Risk Management and Common Mistakes to Avoid

- Signing an expensive lease based only on optimistic projections without realistic occupancy assumptions.
- Ignoring society or RWA rules and facing complaints or legal notices after investing in interiors.
- Underestimating operating expenses like housekeeping, linen, consumables and maintenance.

- Over-promising in listings and then receiving poor reviews due to mismatch in expectations.
- Depending on one OTA only; aim to diversify over time and build direct repeat business.
- Not keeping financial records separate, leading to confusion in profitability and owner settlements.

## **12. Scaling from One Property to a Portfolio**

- First, stabilise 1–2 properties with consistent occupancy, strong reviews and clear SOPs before rapid expansion.
- Document every process (checklists, templates, handover notes) so new staff and properties can be onboarded faster.
- Standardise your furnishing and amenity package to get economies of scale in purchases and maintenance.
- Negotiate better deals with owners by showing transparent reporting and performance of existing units.
- Invest in better tech (PMS, channel manager, pricing tools) as your inventory grows.
- Consider separate brands or sub-brands for budget, mid-market and premium properties.

As you grow from one property to a multi-property portfolio, aligning with the right platforms and partners becomes as important as the properties themselves. Managed listing platforms like [Homeyhuts](#) are worth exploring at this stage, particularly because they offer a set of advance tools to manage all OTA platforms and whole vacation rental business from one single mobile app.

## **13. Action Checklist Before You Commit**

- Shortlist 2–3 target locations and study demand, competition and seasonality on major OTAs.
- Visit shortlisted neighbourhoods at different times of day to assess access, safety and surroundings.
- Validate that society / RWA / building management allows homestays or short-term rentals in writing or via lease terms.
- Create a simple financial model for each shortlisted property with conservative assumptions.
- Decide your business model: owner, arbitrage or management, and define your expected return or fee structure.
- Plan your furnishing budget, house rules, amenity standards and operations plan before going live.

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- Keep 6–12 months of expense buffer and be prepared for an initial ramp-up period while you build reviews.

Important Links:

- <https://tourism.gov.in/schemes-and-guidelines/guidelines/incredible-india-bed-breakfast-guidelines>
- <https://nidhi.tourism.gov.in/uploads/gallery/1659456723.pdf>
- <https://nidhi.tourism.gov.in/home/>

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