FREE REPORT

YOUR GUIDE TO ACQUIRING THE ULTIMATE PROPERTIES FOR SHORT-TERM RENTALS AND EARNING MAXIMUM RETURNS

PREPARED BY

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GOAL:

Locate an existing cash flowing property with the ability to convert to short-term rentals and dramatically increase cash flows without increasing work-load and with minimal risk.

For the purposes of this article we will be focusing on properties in markets that will appeal to both business travelers and leisure travelers.

- Providing accommodations to both leisure travelers and business travelers will help ensure higher occupancies.

Please note this report will also be focused on locating markets in the USA but the principles of investing (primarily supply & demand) apply on a global level.

OVERVIEW OF SHORT-TERM RENTAL MARKET

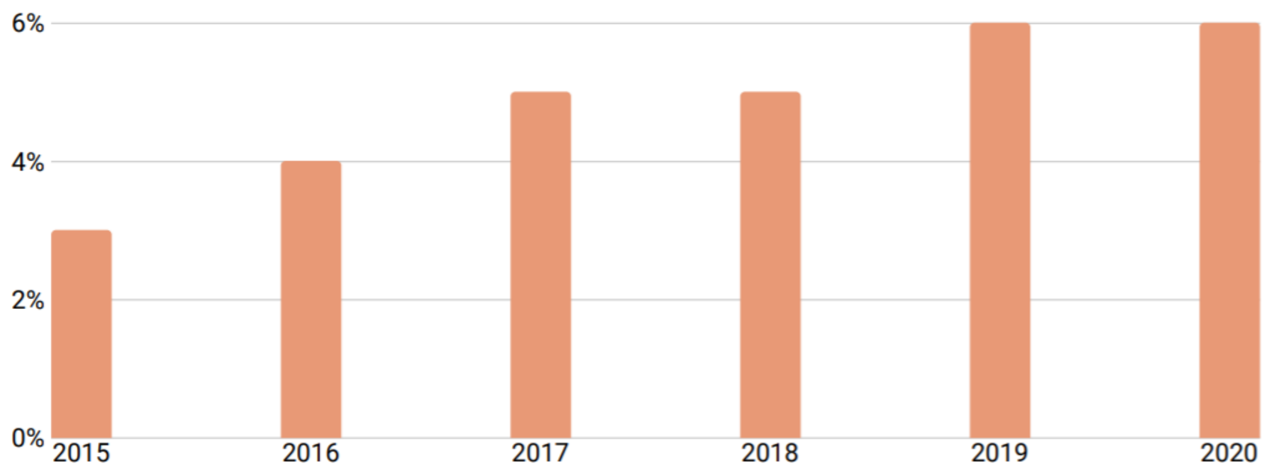
The short-term rental industry has been booming over the last decade. Since Airbnb started in 2008 each year millions of new people are trying alternatives to hotels for their work trips, family visits, and vacations and they're liking it. Why? When you rent a short-term rental you get more than just a room; you get an experience and a sense of belonging.

What started as a way to rent out a personal residence or even just a spare room in your house has now caught the eyes of investors and venture capital from all over the world and emerged as a very lucrative real estate investment sector. New software systems, businesses, conferences, and professional management companies are popping up all over. Netflix even has their own series "Stay Here" and "Instant Hotel" which interview short-term rental operators and dissect their individual listings to determine what they're doing right and what they're doing wrong.

DEMAND AND CONCERNS FOR THE FUTURE:

I know what you may be thinking... Everyone is doing it now! There's too much competition! It's on Netflix now for god's sake. I understand the concern but the reality is demand is growing MUCH faster than supply. Travelers all across the world are trying short-term rental accommodations over hotels for the first time and loving it. And there isn't just one target market or avatar, we are seeing travelers of all types, old, young, foreign, domestic, black, white, it doesn't matter. As the industry grows business travelers are becoming a large source of revenue as they learn that short-term rentals can be consistent and are switching from typical hotel accommodations. Short-term rentals are here to stay because the people are demanding them. Aside from that, according to a report by Morgan-Stanley Airbnbs still only equate to 6% of the entire hotel industry.

AIRBNB'S SHARE OF HOTEL DEMAND IN THE UNITED STATES AND EUROPE FROM 2015-2020



Source:
Morgan Stanley
(c) Statista 2018

Additional information: North America; Europe; France; Germany; United Kingdom; United States; Morgan Stanley

That said, in terms of Investment, not all markets are created equal and there are LOTS of fundamentals to take into consideration.

SO WHAT MAKES A GOOD SHORT-TERM RENTAL MARKET?

Before we can determine what makes a property, or even a sub-market, a good fit for short-term rentals we need to first identify which markets make sense for real estate investment in general. In other words, which markets have the most opportunities for investors to purchase properties that earn positive cash flow and are also in a market with a promising future.

You need to find a property that makes sense the day you buy it. The conversion to short-term rentals will only dramatically increase the rents (I have personally experienced gross gains as much as 8x) but by purchasing a property with positive cash flow from day one you will protect yourself from changing market conditions in regard to things like an increased supply of short-term rentals or changing regulations. If you are planning on using financing most lenders will also want to see the rental income from long-term leases and you will have a hard time finding financing for a property that does not have positive cash flow (or a solid action plan and proforma on increasing the existing rents).

In this report, we will focus on finding great potential markets to acquire either residential (1-4 units) and or multi-family property (5+ units) with the intention of converting them into short-term rentals (rentals of 30 days or less).

I will provide the framework and the important points that should be considered.

STEP 1:
FINDING THE RIGHT MARKET

Most professional investors invest where the numbers make sense and don't limit themselves to their own backyard because there are often greater returns and more promising investments in other areas; investing in short-term rentals should be no different.

With the advance of technology and tools currently available to the real estate investor today it's easier than ever to invest across the country (or even across the world) so don't let the thought of investing in an area far from your home intimidate you.

When it comes to the search for a BROAD market or city, believe it or not, a lot of the work has already been done for you! So no need to waste precious time at this step and reinvent the wheel. There is plenty of credible data on the web to uncover if you follow the "Turnkey" providers.

The term "Turnkey" has become very popular among real estate investors in recent years to define properties available for purchase that are ready to rent or already rented and professionally managed where the investor can simply purchase the property, sit back, and have the provider's management team handle the whole thing.

This is perfect for the investor that wants to be as hands-off as possible and earn great returns. Now, while that is not our exact game-plan, what we can use from these providers is the fact that they are often operating in markets that make sense. They are typically operating in markets that exhibit strong fundamentals in the following areas:

- Strong employment with multiple industries represented
- Typically a reasonably sized population (1 million+)
- Strong population growth
- Landlord friendliness
  An added benefit to short-term rentals is that tenants often do not have tenant laws when renting less than 30 days so you can use authorities immediately to evict them if an issue arises.
- Low cost of living
- High rent desirability
- High rent-to-value ratios (Rent-to-value = amount of rent you get per $1 invested. ie. a $100,000 property earning $1,000/month in rent has a 1% RTV ratio)

By starting with these markets you can eliminate a lot of markets that won't make sense financially and narrow your search down to areas that have a promising future. Areas that offer the best returns, have the best outlook, and have the strongest growth potential.

Now, along your journey you may find yourself on google just googling. “Where are the best real estate investment markets?” “What markets have the best returns??” You’re likely to see a few names pop up over and over - some of which are also recommended by the TurnKey providers and some of them are included in this list from an Airdna Study “Best Places to Invest: Up and coming Markets.” BUT we have to be careful; some of these markets are DEFINITELY NOT ripe for a short- term rental strategy. I’ll direct you in the right direction as to WHY some of these are no-go zones in the next steps.

Airdna: Best Places to Invest

City	State	Active Properties	Annual Rev. Potential	Revenue Growth	Rental Demand	Investability	Investor Score
Castroville	California	27	$113,934	98	91	100	97.2
Slade	Kentucky	39	$39,124	95	92	100	96.6
Cherry Log	Georgia	97	$41,399	100	85	100	96.2
Shenandoah	Virginia	32	$44,426	87	94	100	95.2
Athens	New York	31	$39,870	100	74	100	93.4
Apollo Beach	Florida	54	$48,101	89	84	100	93.3
Stanton	Kentucky	92	$34,231	98	75	100	93.2
Kerhonkson	New York	93	$41,160	91	78	100	92.3
Two Harbors	Minnesota	60	$32,355	93	86	94	91.9
Gerton	North Carolina	27	$51,858	100	67	100	91.8
Rileyville	Virginia	36	$46,144	73	93	100	91.4
Whitwell	Tennessee	31	$35,116	83	82	100	91.4
Nevis	Minnesota	27	$30,297	93	83	94	91.4
Cleveland	Georgia	85	$36,701	99	65	100	91.1
Rockbridge	Ohio	39	$45,447	93	70	100	90.9
Manistee	Michigan	99	$50,459	98	64	100	90.6
Manchester	California	26	$62,403	76	85	100	90.4
Lakehead	California	71	$66,359	99	61	100	90.0
Lutsen	Minnesota	64	$62,635	64	96	100	89.8
Pocono Summit	Pennsylvania	46	$55,023	93	66	100	89.8

Source:
Airdna 2021
Best Places to Invest: Up-and-Coming Markets

STEP 2:
FINDING THE RIGHT SUBMARKET

Real estate is often defined as if it's one market but it's actually much more granular than that. Both the macro-economic and the micro-economic variables need to be considered as it's easy to wind up with a bad property in a city with good fundamentals if you're not careful. In this section will cover some tips to hone in on a strong potential submarket.

This is where the search will start to differ from that of the "turnkey" markets.

You will most likely be sacrificing part of you returns in exchange for a property in a more desirable area. Turnkey properties are typically in suburbs where you will find less tourism and less business travel - OUR TWO MAIN TARGET MARKETS.

Typically the better the area the higher the property prices. BUT this also generally means more desirability to rent both short-term and long-term whether that's because of nearby employment, tourism, entertainment, or because of a central location. More desirable areas with the right supply and demand components will also see stronger rent and property appreciation.

In my experience, midtown areas can be a great submarket (hence the name of my company 😊 "Midtown Stays." These areas are often characterized as a mix of residential and commercial zoning and are located midway between the downtown of a city and the suburbs. Since the fall of the last real estate cycle the nation has seen a huge gentrification of urban areas as the millennial demographic has outgrown the baby boomers and like living in and visiting walkable areas and near restaurants and entertainment.

Keep in mind that urban areas will most likely be older. After all, SUB-urban always comes after urban. With older properties you may have more "character" as they're normally not your typical cookie-cutter type developments that short-term renters are less fond of but you will often find that the properties can require more work so you will need to budget for renovations accordingly.

Other things to consider are the "walkability" of the submarket. Can guests and travelers get around easily? Is there a public transportation system? Uber? Lyft?

Are you near special tourism points of interest? How many people visit and where are they currently staying?

Are there new hotels going in the submarket you are considering? You can find all of this information for free online in public records also known as "construction starts." The bright side to a hotel going in your area is that that hotel chain has RECOGNIZED the need for more short-term rentals in your area. It's not always a bad idea to play follow the leader, after all, they've probably done extensive research before spending millions on a new development.

You think you've found the right submarkets? Time to check the stats.

- Is the population or demand increasing in that area?
- What does new supply and development look like?
- Are there colleges nearby where families will visit their kids?
- Make sure you're not in a heavy crime area (especially violent crimes): remember most of your guests will be coming from far away and a bad first impression can lead to a bad stay and a bad review.

In terms of demographics, the baby boomer generation is the second largest demographic behind the millennials and are reaching retirement age and seeking areas with warmer climates and lower cost of living. What would be a good market to accommodate them and the growing economies to support them? HINT: an area or region with warmer weather and low cost of living.

STEP 3: CHOOSING THE RIGHT PROPERTY WITHIN THE RIGHT SUBMARKET

Now that you have picked a market (or several for research) and honed in on submarkets it's time to get down to the nitty gritty. Whereas most long-term rents will be comparable to other rentals of similar size and amenities, the revenue a short-term rental earns can vary greatly between the property that's located right next door.

Warning!

Make sure to check the regulations in the specific city you are searching for property in. Most often laws are implemented on a city by city basis; so you could have a county with 4 cities and 4 completely different laws. Cities that have housing shortages are more prone to short-term rental regulations (New York and San Francisco for example have some of the most strict regulations in the nation.)

Luckily this is easy to research, just call the city planner and ask for the planner of the day followed by three questions:

1. Do they have any rules currently on Airbnb or VRBO? If they say yes, ask them to email you the written documentation.
2. If no, ask them if they have a limitation on rentals that are thirty days or less
3. If the answer to that is also no, ask if they have a limitation on utilizing properties in ways not shown in the use code and ask them about compliance.

If you are diligent in this process, you will quickly find yourself eliminating many of the "Airdna Best Places to Invest" markets.

You'll most likely find more regulations in areas that have had more media around short-term rentals. Their tends to be a regulation cycle; short term rentals enter a market, supply of short-term rentals increases, cities want TOT (transient occupancy tax), then regulations or restrictions are put in place (vary depending on urban/suburban). Some other states are also following suit.

Now this doesn't mean that regulations are necessarily bad. Arizona for example, recently passed a law prohibiting the "banning" of short-term rentals in any city in the state.

The surest way of protecting yourself from potentially threatening future regulations is to either buy a property that is already zoned commercially with a transient occupancy use or to change the zoning of your existing property by petitioning with the city.

Ok so now you have chosen a market, a sub-market, and have honed down on a specific neighborhood that has no regulations in place or has laws in place permitting short-term rentals. Now it's time to do some due diligence.

For the purposes of this letter we will not go into all of the "normal" physical and financial due diligence that you do when purchasing a property (i.e property inspections, verifying utility bills and existing contracts, lease audits etc.) There are lots of resources available online for that.

What you will want to make certain in your research however, is that your specific market is not oversupplied and that your short-term rents will earn at least 2x more than the current long term rents. It might sound like a huge, exorbitant, untouchable expectation to double the income but in reality there are plenty of markets where you can easily achieve 3x, 4x, or even 8x the long-term rents! (Remember I actually do this and I've personally earned these returns in multiple markets).

By making sure you are at least doubling your rental income you will be able to more than account for the increased variable costs you will incur when you convert the rental to a short-term rental (housekeeping, utilities, taxes, consumables).

There are quite a few resources now that you can use to pull a report specifically on a short-term rental in a specific zip code and discover their average occupancy and daily rates, including Airdna.com who provided the report from above.

An alternative, free, way is to simply search the most popular short-term rentals websites and see what's currently available in the specific areas you are researching. You can also check their occupancy by opening the calendar for the rental and see how many days are blocked. The amount of reviews for a property will also give you some insight into how long that property has been available.

LASTLY, go stay in neighboring short-term rentals! What other industry lets you get right inside the inner workings of your competition? Book a stay and take note of everything you like and don't like. If it's your first time visiting the town you will be experiencing exactly what most of your future guests will experience. Take note of the costs, location, host recommendations and references, negatives, positives, furnishing etc. If you can, talk with the owner or host.

When you're all done with that - run your numbers again. Remember you're not buying on speculation, you're buying a property that cash flows with long term tenants but you're going to drive the income through the roof shortly after.

Oh and one more thing, have fun! Unlike traditional long term rentals where we usually use the same paint, flooring, counters etc. to gain some economies of scale, short-term rentals let you be creative and explore your imagination.

SUMMARY: WE JUST COVERED QUITE A BIT THERE SO LET'S DO A LITTLE RECAP

STEP 1: FINDING THE RIGHT MARKET

- Follow the turnkey markets
- Look for strong market fundamentals
    - Strong job growth
    - Strong population growth and favorable trends
        - Large enough population that's not reliant on one employment industry
        - Larger population will also bring more business travel
    - Landlord friendliness
    - Strong rent to value ratios (how much rent do you get per dollar spent on the property purchase)
- Low cost of living

STEP 2: FINDING THE RIGHT SUBMARKET

- Look for areas that attract both leisure and business travelers
- How is the local transportation? Is it a walkable area?
- Are their nearby tourism points of interest that could bring in even more guests?
- How quickly is the supply and demand changing? Are there new hotels going?
- Remember your return on properties in these areas will most likely be lower than suburbs (with long term rents) but once you convert to short-term they will skyrocket!

STEP 3: CHOOSING THE RIGHT PROPERTY

- How much work do you want to put in to it?
- Check your proximity to neighbors that could have an issue with guests coming in and out (it's always best to talk to them in advance)
- REGULATIONS: Check your local city laws for any existing or upcoming regulations
    - The ultimate goal would be to obtain a hotel license and to prevent ANY future regulation of your property
- RUN THE NUMBERS: Find comps for comparable short-term rents
    - How much money will you need to get it converted?
    - Account for your increased variable costs: extra utilities, extra taxes, housekeeping, consumables
    - Factor in furniture to your returns
    - Will you be at least doubling your long-term rents?
- STAY IN NEIGHBORING PROPERTIES!
- MOST IMPORTANTLY make sure that the property makes sense financially with long-term tenants when you buy it - that way you always have a plan B.

SPECIAL NOTE ON THE IMPACTS OF COVID-19

You might be thinking "I'd have to be crazy to jump into an industry so heavily impacted by Covid-19!" And you might be right if you were planning on investing in markets that had poor investment fundamentals to begin with. In fact, I would argue that if you choose your markets wisely that there has never been more opportunity with short-term rentals than there is now! I've selected the five most commonly asked questions and topics in this brief, special section to clear up the fog (this comes from my own personal experience with my own properties that were all operating during the worst of the worst).

1

Which markets, properties, and operators were affected the most?

I think it's quite clear now that the most densely populated areas had the most difficult time throughout the pandemic. In terms of the toughest lock downs, the most cases and unfortunately casualties, and the most net migration loss in terms of population. All of these things had a large impact on short-term rentals (STR's) and ultimately created a lot of hardships. With that said, the markets with the dense populations have not been the markets we have recommended investing in to begin with. Not always, but most often because the numbers just don't make since as an investment. The more densely populated areas also have a much higher correlation with strict STR regulations.

2

Which areas actually IMPROVED because of Covid-19? Why?

It's true! Many markets and properties actually did BETTER as a direct result of Covid-19 than they did before the pandemic. These were primarily drive-to destinations outside of dense urban areas, many of which saw huge increases in demand and thus huge increases in revenue. At the same time however, many traditional vacation rentals fared very well as families sought quiet spaces less impacted by quarantines. Many also sought out places to quarantine individually away from family or to gain more workspace from their new "work from home" environment.

3

Hotels Vs. Short-term Rentals (the unfair advantage)

Throughout the pandemic many hotels got crushed. When the gov't stepped in they prohibited many from operating (from dense urban areas of New York to the Strip of Las Vegas). STR's on the other hand had an unfair advantage because many of the available properties are smaller, contain fewer common areas, and have less publicity in general, they were able to escape harsh shut-down regulations and in turn many people who would have stayed in hotels stayed in STR's for the first time. And guess what? As we've seen with the astronomical growth in the industry, many guests had excellent stays and will consider STR's as a viable travel option in the future where they may have not previously.

4

Upcoming Opportunities

Believe it or not, many of the impacts of Covid-19 have led to very bullish trends in the short-term rental industry. More people using STR's vs. Hotels, the largest amount of people working remotely in our lifetime and that are staying in properties longer (staycations). Lower supply in many areas where rental operators exited due to regulations or in fear or long-term regulations. Many of the markets where we recommend STR's did well and still far out earned what they would have as long term rentals. So, there's one main simple question we have to ask ourselves and that is "if short-term rentals did very well (depending on the market) WITHOUT any guests travelling far distances or internationally, than what will demand look like when all travel restrictions are lifted? I think you know the answer.

SPECIAL NOTE ON INTERNATIONAL INVESTING

Are you looking outside the US? The beautiful thing about this industry is that it's growing exponentially around the WORLD. I just purchased my second international property in a market that makes sense for a lot of the same reasons we just covered, however, international investing can be much riskier and there are some basic considerations you will want to make in addition to what we covered.

Most of the preliminary research will be readily available online, just run a google search. You'll often find brokers that specialize in helping foreigners purchase property and they will be more than happy to assist you. They will also often have documents or a quick summary of the whole process since they get asked the same things over and over.

1 Can you own property in your name as a foreigner?

If you're interested in investing in a country outside of your home country you'll first want to make sure that you can invest there and hold title to the property as a foreign resident.

2 How is the government? Is it stable, improving? The economy?

Is the foreign currency stable, does it have a stable history, is the exchange rate in your favor? Currency brings in a whole new dynamic to your investing strategy and while its good to diversify and you can greatly benefit, please note that currency valuations change often. They are based off countless variables in the economy that are often difficult to anticipate and so you should proceed with caution.

3 Foreign tax consequences and compliance

What are the tax laws in the market you're researching. You'll be required to file taxes if you're earning money so double check the tax rates and filing requirements and make sure it's something you are comfortable with.

4 Is there financing available as a foreigner? (typically no)

Leverage makes the USA one of the most enticing markets to invest in, especially with historically low interest rates. But as a foreigner investing in another country you are often limited to cash transactions unless you have already established credit with that country. Markets outside of the US also often have totally different loan schedules, rates and requirements than you may be used to so make sure to keep that in mind.

5 Are the resources and tools you'll be using for your US short-term rentals available in your chosen country?

This industry is exploding but at the same time tools and resources that you may want to use (or are already using) may not be available across borders. Make sure to consider this if you're planning on expanding your existing operation.

What does the long-term rental market look like? REMEMBER you always want an exit strategy and if your property is appealing to long-term renters as well it will be a much safer investment if the short-term industry changes.

STEP 4:
NEXT STEPS

So you've found a market you like, honed in on a submarket and purchased a property that makes since. Now it's time to set up the unit(s) and set up operations for maximum income with minimal effort.

IN FUTURE COMMUNICATIONS WE'LL COVER EVERYTHING FROM:

- Preparing and renovating the rental
- Furnishing
- Finding a team
- Listing your property and standing out from the competition
- Automating your communications as you grow
- Resources to fine-tune your business

If you are ready to build wealth and passive income like a pro through investing in short-term rentals subscribe to our newsletter at **www.RESTmethods.com**!

Cheers,

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airbnb superhost

P.S. Don't forget to check out our industry-leading podcast! You can find the "**Short Term Rental Riches**" podcast on all the latest platforms, including Spotify, Apple Itunes, YouTube, Stitcher, and many more. It's packed with bite-sized actionable items to help you along your short-term rental investment journey. Listen to the podcast at **www.strriches.com**!

TIM HUBBARD

Tim is originally from California and started his career in real estate as an investment broker selling multi-family and commercial properties in Northern California. He worked with a small team of five who completed cumulatively over $2 billion in transactions. He has been personally investing in real estate for over a decade and has since acquired a multi- million dollar portfolio comprised primarily of small multi-family properties in multiple markets.

He has traveled extensively throughout the world in over 70 countries and stayed in hundreds of different short-term rental accommodations. About 6 years ago he realized the high returns that could be made from converting properties in to furnished short-term rentals and renting them by the night. Through trial and error he has figured out how to set up operations so that the business could be passive and has since successfully accommodated over 15,000 guests from around the world with excellent reviews.

He continues to expand with the help of his teams and manages everything remotely from his homes in Medellin, Colombia or Balneario Camboriu, Brazil. He also teaches others to do the same and shows them how they can successfully increase their income 3,4, or even 8x by implementing the right strategies to convert existing long term rentals in to nightly rentals. He holds a degree in International business from the California State University, Long Beach and an MBA from the University California of Davis.