Information you can use to enhance your investments

6 Ways Vacation Rental Investments CAN ENHANCE your PORTFOLIO

Stephen T Sorenson

HOW THIS ALTERNATIVE INVESTMENT CAN INCREASE YOUR WEALTH

Here are 6 Ways Vacation Rental Investments Can Enhance Your Portfolio

If you are looking for investment opportunities, you should consider a particular kind of real estate – Short-Term, or Vacation Rentals.

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Introduction

Thank you for downloading this E-Book! Although it is short, it packs a good deal of important information. There are certainly MORE than 6 ways investments in vacation rental properties can enhance your portfolio, but the most important are covered here. Anybody who is working towards a fully funded retirement, or simply trying to grow their wealth will benefit if they can enhance the value of their portfolio, reduce risk in it, and increase the rate of return they are getting.

You can invest in vacation rental property by purchasing, developing, and managing it yourself, or you can invest with a seasoned developer and operator, and get both their experience, and an above-market return. Either way, this book is a short introduction to the most important ways in which vacation rental property can have a positive effect on your investment portfolio, provide cash flow, and safety through diversification.

Here you will find six ways in which a particular kind of investment can have a beneficial influence on your investment portfolio. Each way includes a bit of explanatory information about the how or the why. After you finish it, if you want a more in-depth look at any of the topics, or about this kind of investment in general, follow the links in the Bio to learn more.

The First Way!

You can bring single-family rental real estate into your portfolio *with* high returns despite the recent run-up in prices. If you have been paying recent attention to the real estate markets, you know they are hot. For example, Fix & Flips. How many other investment categories have so many TV shows dedicated to them? Likewise, single-family rentals are HOT right now. Investors are having a hard time finding ways to make money on them with prices being bid up and returns coming down. But short-term and vacation rentals utilize these same assets differently. Properly developed and managed, they provide much higher returns.

Here's how. Imagine a modern, or well renovated, three-bedroom, two bath home with 1200-1400 square feet, located in a nice area. Depending on where you live, that will rent for somewhere between $900 and $1800 a month. If you wanted to purchase that house today, again, depending on the market, you'd pay between $150,000 and $350,000. For an investor to buy a property and rent it, the numbers are getting very hard. Now that same house, located in the right place, decorated, marketed and managed the right way, might fetch between $250 and $400 *per night*. While there are other expenses involved, they are more than made up for by the difference in monthly income.

Operating a vacation rental is not the same as operating a full time rental. It takes a different set of skills and needs a different team of people. The nice thing about the growth in the vacation rental market, is that there are plenty of people with those qualifications now, with plenty of supporting businesses to take care of management, marketing and repair.

The Second way is…Diversification

Diversification - if you aren't invested in real estate, it should be part of your portfolio. If your portfolio doesn't include real estate, why not? Real Estate provides many strong options for a portfolio. Diversification is a powerful protection against adverse market moves. Because Real Estate tends not to move in quite the same direction and at the same time as other classes of investment, it makes an excellent addition to your portfolio. The challenge, of course, is that real estate investment tends to be very labor intensive and requires a highly specific set of skills and knowledge. So, look for passive options where you can invest with a short-term rental developer or operator with a track record. Make an investment like that, and it's much more like purchasing funds or equities as it doesn't require anything from you, day-to-day.

Imagine your 401k taking a big hit when the economy trends down. If all your eggs are in that basket, then, well, it hurts. But if part of your portfolio is in performing real estate assets, then you stand a good chance of only losing ground in one portion of your portfolio. Real estate assets which are performing, which are cash flowing, are a hedge against losses in your portfolio. Even if the prices of properties dip temporarily, you wouldn't care unless you were trying to sell. If it were cash flowing, why would you want to sell?

Cash Flow – The Third Way

Investments in vacation rentals can provide quarterly cash flow in addition to appreciation. Since investments in short-term rentals tend to take the form of private placements or an interest in a fund, they will often provide for returns in multiple ways. Similar to dividend stocks, these investments provide for quarterly cash flow, either via a preferential payment, profit sharing, or both. If you have investments in stocks, bonds, mutual funds, ETFs, etc., for the most part, you are looking for gains from appreciation as prices change over time. Short-term rentals will provide appreciation gains as well, but quarterly cash returns set them apart as a different kind of option.

When you calculate your return on an investment, it will include appreciation after the sale of the asset, or the sale of your investment. You'll also likely get some tax benefits you'll need to count, more on those below. And you'll get some kind of cash flow with most investments in real estate. All of these add up over time. Cash on a quarterly basis is really nice.

The fourth way – Counter Cyclical Investments

Short-Term Rentals can be Counter-Cyclical. In the last downturn, the short-term rental market actually improved, and it may again the next time the market takes a bear turn. When the real estate market tanked in the last downturn, investors in many classes of real estate took a bath if they were overextended or didn't have enough safety margin in the deals they were working on, like fix and flips. Many people who were counting on home prices to continue their meteoric rise were taken by surprise when the market topped out and crashed.

As a result, many non-cash flowing assets got sold off in a hurry at a discount. These then were picked up by other investors looking for ways to rehabilitate them or make them cash flow. In fact, many investors turned to short-term rentals to try to find a way to improve their returns. This was smart because they recognized two things. 1 – the vacation rental market continued to grow despite the downturn, and 2 – though the traveling public's spending behavior changed, the net effect was that there was MORE money spent on travel rather than less. The short-term rental market grew in the midst of the downturn.

The Fifth Way, High Growth Vehicles

Add high investment in high-growth vehicles. Vacation Rentals are a High Growth market segment. The number of vacation rentals has soared over the last decade, (8.5% compound annual growth) as demand for them has exceeded even that growth. This is a new segment, a whole new market made possible by internet technology. Prior to online booking sites, vacation rentals were a small portion of the lodging available to travelers. Mostly marketed via travel agents and newspaper ads, they were difficult to find and book by comparison to what you can do today. Things are different now.

According to the HomeAway Vacation Rental Trends report, just 10% of travelers have tried vacation rental properties for their travel lodging. But, of those people, over 50% report they now prefer vacation rentals to hotels. The growth of the entire market has been explosive over the past 10 years, and it's only accelerating. Being part of a market that is experiencing this kind of growth, yet has only penetrated 10% of the market sounds like a winning strategy. Take a look at your investments…do you have part of your portfolio in a high growth category?

It's common for your choices of investment to include high potential return options, but they generally have an asterisk denoting higher risk. That's the way of the stock market. But real estate is different. It's been said that unlike stocks, real estate can't go to zero. And it's true. That said, there are risks in every market. Investments in real estate simply have a different set. Make sure if you invest in vacation rentals, whether on your own, or passively through a fund or a private placement, that you are investing with people who know what they are doing, and have a track record of success. That's the surest way to be certain things are being run properly, not over-leveraged, and with the best assurance of continued profitability.

Tax Advantages, The Sixth Way

Tax Advantages. If you make equity investments in vacation rentals, you can expect a set of tax benefits as well. These factor into your total return, and can be a nice addition to the normal appreciation and cash flows from this kind of investment.

These tax benefits come in three flavors. First, a portion of mortgage interest deduction will accrue to you if the property is partly financed with mortgage debt. In most cases, the equity investments will be aggregated with mortgage debt to complete the financing of a property. Because of this, all the equity investors share in the mortgage interest deduction on investment property. Second, in most cases, if you have an equity interest, you'll also get a portion of the depreciation expense. If you aren't familiar with this one, here's how it works. When a productive asset is placed into service, it's expected to "wear out" over time. The value of the asset "depreciates." While land doesn't depreciate, the structure does. And so do things which are permanently affixed like a dishwasher, an oven, a water heater, etc. The accountant will keep track of the different periods over which this depreciation can be expensed for tax purposes. Each year, there is a total depreciation "expense" that gets counted for tax purposes. Equity owners are entitled to a portion of this, which offsets some of the income from the property, resulting in a lower bill at tax time, or a larger refund. Then, there are new federal tax laws allowing deductions of up to 20 percent of rental income. Again, if you have an equity interest in a piece of property which is rented out, then you may also be entitled to some of this deduction. Of course, to be certain of which of these tax benefits you can take advantage of you need the services of both your CPA and the CPA who is taking care of the accounting for the property. Normally, at tax time, the entity who which owns the property, often an LLC, files taxes, and supplemental forms are distributed to equity unit holders so they can use them as they file their taxes.

In the end, you add this tax benefit to your cash flow and appreciation to determine the total return of your investment.

All of these are ways in which a vacation rental property investment can enhance your investment portfolio.

Bio

Steve Sorenson is the principal of VRI Management LLC, an investment management company which arranges funding for investments in Vacation Rental properties operated by Classy Cabins AZ.

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More information can be had about investments in vacation rental properties at the VRI Management website at https://VRIManagementLLC.com.
Please visit our showcase of previously developed superior vacation rentals at https://ClassyCabinsAZ.com.
For a recent history of vacation rentals and how they've changed real estate investing, visit this post on our blog: https://vrimanagementllc.com/new-investment-options-in-real-estate/