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# Eyes On The Goal

WHEN ENGELO RUMORA SETS  
HIS SIGHT ON SOMETHING,  
THERE'S NO STOPPING HIM.

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CORPORATE HOUSING IS GAINING RECOGNITION—AND DISCIPLES—AS A LUCRATIVE INVESTMENT NICHE ANSWERING THE NEEDS OF A MOBILE WORKFORCE AND OTHERS SEEKING SHORT-TERM RENTALS.

# The Sleeping Giant Is Stirring

**T**ypically, when one thinks of individual real estate investing, single-family properties or smaller multifamily properties—like duplexes to fourplexes—come to mind. But another lucrative sector is short-term rentals or corporate housing. In this One-to-One interview, PREI Editor-in-Chief Linda Wienandt discusses the emergence of this niche with Kimberly Smith, founder (with her husband, Eric) and CEO of AvenueWest Managed Corporate Housing and Corporate Housing By Owner. She is a former chairman of the board of the Corporate Housing Providers Association.

## LINDA WIENANDT

Let's start by defining what "corporate housing" is.

## KIMBERLY SMITH

In its simplest definition, it's furnished monthly or short-term rentals.

The largest segment is the extended-stay lodging, with an average stay of about seven days. Then there are serviced apartments, with a typical 80-day stay. In an AvenueWest property, people are on average staying 100 days; it's much more residential and

command much, much higher rents than a typical unfurnished apartment or property.

**This is much different from—and goes way beyond—vacation rentals ...**

Yes, corporate housing could be used for insurance claims—if a family had their



**I'D MUCH RATHER HAVE A STRONG COMPETITOR THAN NO COMPETITOR AT ALL, AND AIRBNB HAS BEEN THAT FOR US.**

not transient in nature. And then there's the "by owner" segment, where you have primary residences of all sizes, and those tenancies may be for a year or longer. And these can

house burned in a fire and needs housing while it's being rebuilt—or companies that are relocating employees and providing them a place to live while they find their own new,

primary residences. There are thousands of traveling nurses who need this type housing for six, nine, 12 months at a time. You've also got people "test-driving" a neighborhood to make sure they like that area before they buy. And people just being flexible with their own residences—say, they take a job overseas for six months and choose to rent out their home here for the duration.

I recently sold an investment property in San Francisco. I bought it in 1997 for \$173,000, and I rented it as corporate housing the whole time. And the people who bought that condo, for almost \$600,000, bought it because they want to retire there in five or 10 years and they're afraid that the prices will only continue to go up. So sometimes people are buying their retirement homes now—especially since interest rates are the lowest they're going to be for the rest of your lifetime—so why not invest in your retirement home now and rent it out for the next five or 10 years until you're ready?

**Corporate housing really is kind of coming into its own, gaining recognition and also gaining investors who see the revenue potential. What has driven that?**

In other words, how did we become a mainstream product? I've always said I'd much rather have a strong competitor than no competitor at all, and Airbnb has been that driving force for us.

Airbnb brought to the forefront the value, the fun, the



excitement, even the “sex appeal” of what it means to immerse yourself in a community and how much more rewarding that can be in a lot of different ways. But even though Airbnb has all these great portals, they are missing the hands-on quality control at the end.

#### And your industry—corporate housing—has been quietly working away ...

Yes, for 30 or 40 years, we’ve been developing these standards and systems and meet-and-greets and ways to count your knives and forks and measure the size of your TVs and figure out how your Internet should work ...

And so the customer says, “Oh, I want this, oh, but by the way, I need these additional services,” and corporate housing is able to say, “We’ve got all of that, and we’re here.”

One of the reasons our business has boomed so much is that we have this incredible opportunity of providing increased revenues to property owners as well as providing diverse product to the renters.

#### What is the outlook for growth of the industry?

We’re still below the \$3 billion mark in annual revenue, but closing in. Pre-recession, we had some \$2.9 billion years, so we have an opportunity to grow. I think the industry will grow utilizing this product of private real estate versus growing with apartment complexes.

Some of the large corporate housing providers now

are bulk-buying their own multifamily buildings. So there is a lack of inventory right now, making it a little bit harder for us to grow from a traditional standpoint, but that gives us so much more space to grow from a private real estate standpoint.

#### Are more individuals getting into this space?

They are, absolutely, and for a lot of different reasons.

Again, it’s better to have a strong competitor than no competitor at all. As communities try

to regulate the out-of-control Airbnb phenomenon, the rules are changing, and private owners, in order to comply with their local ordinances, are converting to corporate housing, so Corporate Housing By Owner has had record months in the last few quarter or so, consistently, of private owners who say, “The pain-per-dollar of the vacation rentals is just too much work. I just want four tenants a year. I don’t want 52 rentals a year,” or they’re saying, “It’s no longer legal for me to do what I have been doing.”

#### What kind of return on investment can an investor in this space expect?

That is the puzzle question of the century. And there are a lot of moving parts, and each market is completely different.

In a market like Fort Collins, Colo., which you normally would consider a quieter

market, you might be able to buy a two-bedroom condo for \$175,000 and then you may be able to turn around and rent that property as corporate housing for \$3,500 a month, where if you were renting it unfurnished, you might be able to get only \$700 or \$800 a month for it.

When I’m talking to investors, I really like to have them think of corporate housing as portfolio diversification.

If you are a full-time investor and this is all you do and you watch your properties 100 percent of the time, then sure, make your whole portfolio corporate housing, if that’s something that’s interesting to you.

But normally, you see it as: If you have 10 units, take seven of them, rent them unfurnished, get consistent rent on them, understand what that is, and then use three properties for corporate housing as your high growth assets, just as you would buy Internet stocks or technology stocks.

#### So much goes into calculating ROI in real estate, with all its variables ...

True, with any real estate, ROIs are something that people don’t really understand.

We don’t talk about ROI from our perspective. We challenge the investor to consider, “What’s important to me? Do I need more cash now? Am I trying to invest in more property, as many properties as

possible right now? Or is this really a tool for when my kids go to college or I retire? How do I expect to use this in my investment portfolio?”

#### Another aspect of corporate housing that investors need to be aware of is the up-front costs, the “outfitting” of the rental property. Can you quantify that?

It’s generally going to cost between \$10,000 and \$15,000 to furnish a corporate rental if you’re doing it completely from scratch and putting everything in there.

That includes furniture—couch and chairs, bed, tables, desk, for example. TV, DVD player, audio system, lamps. Appliances—big ones like washer and dryer, refrigerator and stove as well as things like a coffeemaker, toaster, mixer, etc. Sheets, towels, silverware ... most everything you would expect to have on hand if it were your own home.

But you’d be surprised at how many people we deal with already have a fully furnished unit to start with—probably about 50 percent of them do.

#### You alluded earlier to changing regulations around this space. What are some of the specific regulatory challenges and tax implications of this particular type of investing?

Every state is different in how it applies lodging taxes, so the first thing you would want to figure out—whether you’re doing vacation rentals or corporate housing—is understanding your tax laws. There are a lot of great services



Kimberly Smith

out there that will do that for you, such as mylodgetax.com, where you literally just put in your information and they'll tell you what your lodging tax is, based on your ZIP code, when do you need to charge it, when do you not need to charge it, and then they'll take care of submitting all the forms on your behalf.

In most states, if you rent for 30 days or longer, there is no lodging tax. There are exceptions, though, so you really need to consult with someone knowledgeable about that.

As far as regulations, cities that have more vacation rentals and rentals in general will have more sophisticated laws. Then there are cities where there are a lot of rules on the books, but not everybody follows them. So cities are passing laws, but sometimes struggling on enforcement.

**The industry does have a unified voice and is taking a proactive stand, correct?**

Yes, the Corporate Housing Providers Association, from an industry standpoint, is working with a lobbyist and making sure that the legislatures, before they just pass these laws randomly, appreciate how corporate housing really benefits good business growth and how the businesses need that.

For example, if I'm relocating my company from New York to Denver and I'm moving 600 people, I'm going to need that level of corporate housing to make that possible. So if your city or state wants my business there, you're going to need to allow me to get corporate

nation is a wonderful tool for the consumer to have instantaneous recognition that this person at least knows what he or she is doing within this industry. There are a number of centers around the country that offer the test, and it is pretty comprehensive. It covers



## I COULD TELL YOU I'M A REAL ESTATE GURU, OR GET MY REAL ESTATE LICENSE, BUT HOW DOES THE CONSUMER MAKE EDUCATED CHOICES?

housing. So there's a whole lobbying effort to protect those corporate housing owners.

**Again, from an industry standpoint, there is a certification process. Can you explain what the CCHP certification is and how it sets a corporate housing provider apart?**

Anybody who's in real estate knows that there are very few barriers to entry. I could tell you I'm a real estate guru, or get my real estate license, but how does the consumer make educated choices?

So the Certified Corporate Housing Professional designa-

tion is a wonderful tool for the consumer to have instantaneous recognition that this person at least knows what he or she is doing within this industry. There are a number of centers around the country that offer the test, and it is pretty comprehensive. It covers everything from lodging, Fair Housing rules, to business practices—how do you handle a security deposit to how do you take care of the property—so if you see somebody with that designation, you know that they've gone through quite a bit to get there.

The industry also is working on a new certification that should be out within the next 12 months that would be a corporate certification.

**Besides CHBO and CHPA, where else can investors get help in learning about this niche?**

Even though it's not corporate housing-specific, NARPM (National Association of Residential Property Managers) is an excellent one. Membership is very cost-effective with its breadth of resources available to you at any level of property management. I always recommend them.

There are a number of organizations that we connect into—one of them is Worldwide ERC (Employee Relocation Council). Anything that has to do with relocation is relevant, since 43 percent of corporate housing's \$2.73 billion in revenue last year came from relocation.

CHPA has regional conferences each year that you can attend as a nonmember. It's a great opportunity to pop in and see who some of these people are and learn some of the best practices. And I also really recommend CHPA's regional, all-day networking events that feature panel discussions, idea sessions and the opportunity to meet other people who are already functioning in the industry. ●

**BY LINDA WIENANDT**

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