

Unlocking New Revenue: Short-Term Rental Analysis



Presented by Bill Waltenbaugh and Chris Seymour

Introductions



Chris Seymour
VP, Sales
Moderator



Bill Waltenbaugh
Chief Appraiser
Presenter

Are you open to completing short-term rental analysis assignments?

- Yes
- No

*Type your answer in the Teams chat window.

Agenda

In today's webinar, we will explore several key topics related to short-term rentals.

- Rent analysis of short-term rentals: which clients request these and why?
- Why short-term rental income shouldn't be used to estimate the market value of real property.
- Is a short-term rental analysis an appraisal assignment, and can a residential appraiser complete a short-term rental analysis?
- A proposed short-term rental analysis solution.

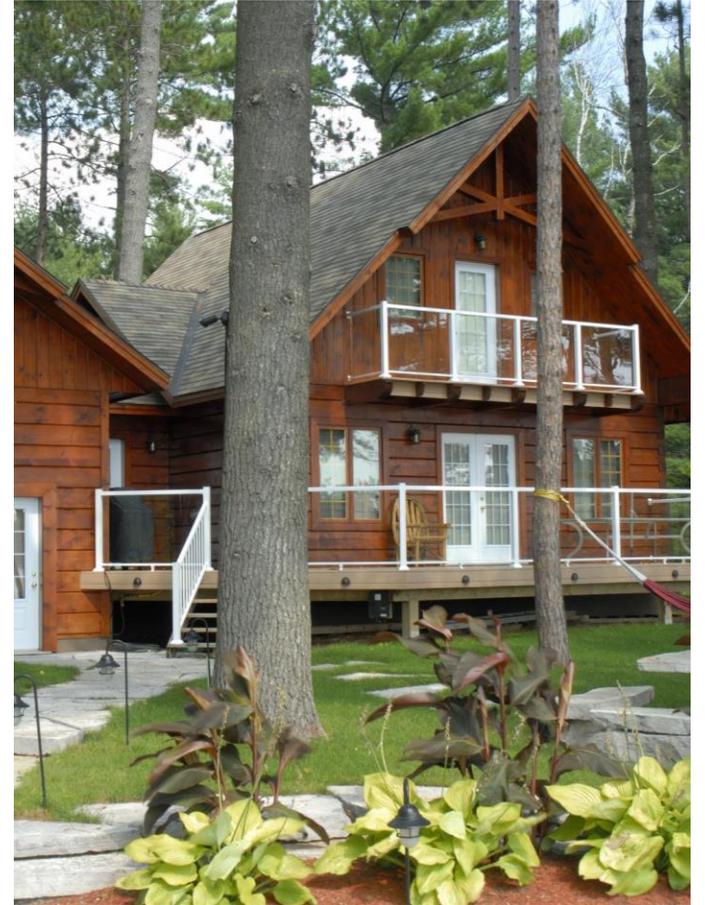
Short-Term Rental Analysis

Rent analysis of short-term rentals: which clients request these and why?



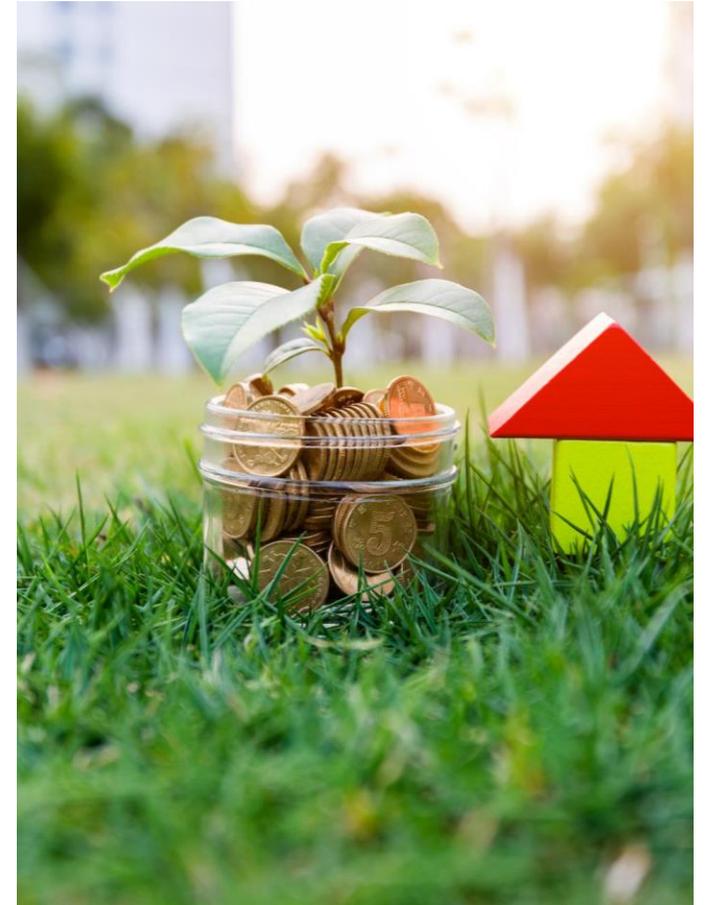
Fannie Mae's stance on Short-Term Rental (STR) Analysis

- Fannie Mae does not want to receive an analysis of the short-term rent of a property.
- Selling Guide provisions apply to underwriting business income if the lender treats short-term rental income as business income.



Which Lenders Order Short-Term Rental Analysis?

- Non-Qualified Mortgage (Non-QM) Lenders
- Portfolio Lenders
- Private Money Lenders



Non-Qualified Mortgage (Non-QM) Lenders

- Non-QM lenders provide loans outside the standard guidelines set by Fannie Mae and Freddie Mac.
- Non-QM lenders may order short-term rental analysis for a more complete picture of the borrower's financial situation.
- Non-QM lenders may have more flexible underwriting criteria and are willing to consider short-term rental income when approving loans.



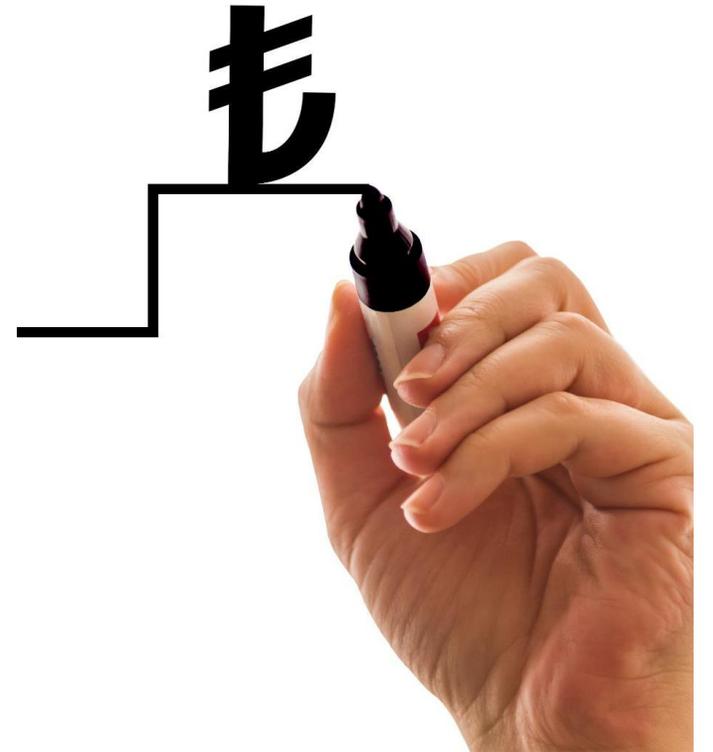
Portfolio Lenders

- Portfolio lenders keep loans in-house rather than selling them on the secondary market.
- Portfolio lenders may order short-term rental analysis to determine a borrower's ability to repay the loan.
- Portfolio lenders may have more flexible underwriting criteria and may be willing to consider short-term rental income when approving loans.



Private Money Lenders

- Private Money Lenders may have more flexible underwriting criteria and are willing to consider short-term rental income.
- Private or Alternative Lenders may order short-term rental analysis to assess risk and determine a borrower's ability to repay the loan.



How Short-Term Rental Analysis Helps

- Short-term rental analysis helps evaluate the potential income a property can generate from short-term rentals.
- Short-term rental analysis helps borrowers qualify by including projected rental income in debt-to-income (DTI) calculations.
- Short-term rental analysis helps assess the property's ability to cover mortgage payments.



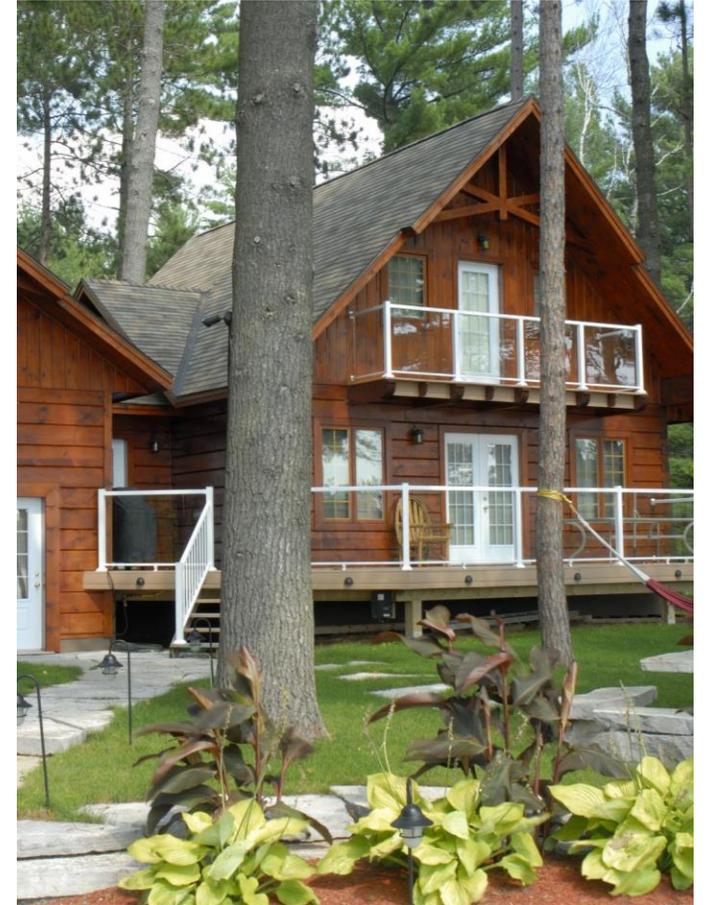
Why Lenders Want Both Real Property Value and Short-Term Rental Income Analysis

- Collateral Security: The real property value represents the tangible asset that secures the loan.
- Debt Service Coverage Ratio (DSCR): Lenders evaluate the property's income relative to its debt obligations. A strong DSCR, bolstered by short-term rental income, can make the borrower a more attractive candidate.



Why a Short-Term Rental Analysis Solution is Needed

- The 1007 form is not designed to analyze and report short-term rentals.
- Multiplying the nightly short-term rental fee by 30 is not acceptable.
- Appraisers need a standardized process to complete short-term rental analysis.
- If appraisers don't provide this service, who will?



Short-Term Rental Analysis

Why short-term rental income shouldn't be used to estimate the market value of real property.



Challenges with using short-term rental income for real property valuation

- Estimating real property value involves considering various factors.
- The income approach is a common method to assess value based on income.
- Short-term rentals operate like small businesses with hospitality services and personal property.
- Mixing these elements with real property valuation will inflate property values and be misleading.



Short-Term Rental Analysis

Is a short-term rental analysis an appraisal assignment, and can a residential appraiser complete a short-term rental analysis?



Can a Residential Appraiser Complete a Short-Term Rental Analysis?

- USPAP does not preclude residential appraisers from completing short-term rental analyses.
- However, appraisers should have the knowledge, skills, and competency to complete a short-term rental analysis.
- They should also ensure they are following USPAP guidelines when completing such an analysis.



← VALUATION SERVICES →

Appraisal Practice Valuation services performed by an individual acting as an appraiser		
Appraisal and Appraisal Review (Development and Reporting)		
All Rules apply. Standards apply. Which ones apply varies by assignment.	Other valuation services when acting as an appraiser	Valuation services when not acting as an appraiser
	Three Rules apply: ETHICS RULE COMPETENCY RULE JURISDICTIONAL EXCEPTION RULE	
	No Standards apply in these assignments.	
	Compliance with the RECORD KEEPING RULE and SCOPE OF WORK RULE is not required in these assignments.	When performing these services, do not misrepresent your role: i.e., clearly communicate that you are not acting as an appraiser.

Examples

Appraisal and Appraisal Review (Development and Reporting)	Other valuation services when acting as an appraiser	Valuation services when not acting as an appraiser
Appraisal with Appraisal Report	Researching market data (when acting as appraiser)	Brokerage
Appraisal with Restricted Appraisal Report	Teaching appraisal courses	Consulting (when acting as an advocate)
Appraisal with oral appraisal report	Analyzing specific elements of value (e.g., reproduction cost of functional utility)	Ad valorem tax consulting (when acting as an advocate)
Expert witness testimony	Consulting (when acting as an appraiser)	Auctioning
Appraisal Review with report	Mechanical computation	Litigation support (when acting as an advocate)
Selecting comparable sales data	Developing educational texts	Property management
*Calculation engagement	Ad valorem tax consulting (when acting as an appraiser)	Mortgage underwriting
*Limited scope appraisal	Providing raw sales data	Leasing (agent)
*Evaluation	Litigation support (when acting as an appraiser)	
Purchase price allocation		
Valuation engagement		

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- Acting as an appraiser, the assignment is considered Appraisal Practice.
- Since the assignment isn't an appraisal or appraisal review, an appraiser is performing a valuation service.

← VALUATION SERVICES →

<p>Appraisal Practice Valuation services performed by an individual acting as an appraiser</p> <p>Appraisal and Appraisal Review (Development and Reporting)</p>	<p>Other valuation services when acting as an appraiser</p> <p>Three Rules apply: ETHICS RULE COMPETENCY RULE JURISDICTIONAL EXCEPTION RULE</p> <p>No Standards apply in these assignments.</p> <p>Compliance with the RECORD KEEPING RULE and SCOPE OF WORK RULE is not required in these assignments.</p>	<p>Valuation services when not acting as an appraiser</p> <p>When performing these services, do not misrepresent your role: i.e., clearly communicate that you are not acting as an appraiser.</p>
<p>All Rules apply.</p> <p>Standards apply. Which ones apply varies by assignment.</p>		

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“Other Valuation Service”

Three Rules Apply

1. Ethics Rule
 2. Competency Rule
 3. Jurisdictional Exception Rule
- No Standards (1 or 2) apply to these assignments.
 - The Record Keeping Rule and Scope of Work Rule are not required but are a good idea.

Are you now open to completing a short-term rental analysis assignment as a Valuation Service?

- Yes. I've changed my mind.
- Yes. Nothing changed for me.
- No. Residential appraisers can't complete these assignments.

*Type your answer in the Teams chat window.

Short-Term Rental Analysis

Proposed short-term rental
analysis solution.



Proposed Letter of Engagement and Scope of Work

Assignment Disclosure:

This assignment has been prepared in response to a request for a Short-Term Rental (STR) income analysis. This analysis is considered a valuation service defined by the Uniform Standards of Professional Appraisal Practice (USPAP). However, it is not an appraisal assignment intended to estimate the value of the real property.

Scope of Work and Professional Capacity:

This analysis is intended to estimate the short-term rental income for the subject property, including considerations of tangible and intangible components such as operating income, seasonality, furnishings, fixtures, equipment (FFE), and services like cleaning or property management.

USPAP Compliance:

The appraiser has conducted this valuation service in compliance with the Ethics Rule and Competency Rule of USPAP, ensuring impartiality, objectivity, independence, and competency in developing this report. Since this is not an appraisal or appraisal review assignment, Standard Rules 1 and 2 do not apply.

Intended Use and Users:

This analysis is intended solely for the client for informational purposes to assess the subject property's short-term rental income potential for borrower qualification purposes. It should not be relied upon for any purpose requiring a formal appraisal or any purpose related to real property valuation.

Proposed Letter of Engagement and Scope of Work

Limitations:

Any conclusions, data, or results presented in this report are not intended to replace or substitute a formal real property appraisal that would require a different scope of work. Users of this report should not interpret the findings as an assessment of the property's market value or as a guarantee of income.

Appraiser's Certification

I certify that, to the best of my knowledge and belief:

1. I have conducted this assignment per the Ethics and Competency Rules of USPAP.
2. I have impartially, objectively, and independently performed this Short-Term Rental (STR) income analysis.
3. I have no bias concerning the subject property or the parties involved in this assignment.
4. I have no present or prospective interest in the subject property.
5. My compensation for completing this assignment is not contingent upon developing or reporting predetermined results or opinions.
6. There are no conditions that might influence my independent judgment in this assignment.
7. I have respected the confidentiality of the client relationship and will not disclose any confidential information or assignment results to unauthorized parties.
8. I have performed this assignment in compliance with all applicable local, state, and federal laws, regulations, and guidelines.
9. I possess the necessary knowledge and experience to complete this assignment competently.
10. I (have/have not) _____ performed other services regarding the subject property within the three years preceding the agreement to complete this assignment.

Possible Template for a Narrative Report

- Describe the subject property and disclose the information source.
- Report the subject's condition and amenities that make it attractive to short-term renters.
- Discuss any local STR approval, permitting, or regulatory risks.
- Describe STR market trends that drive rental demand (e.g., proximity to tourist attractions, corporate hubs, or seasonal events).
- Identify and discuss the management structure (professional / owner).
- Summarize and analyze supplied rent rolls. Include seasonal variations.

Short-Term Rental Analysis

A look at the analysis



Do you think you have the skill set to complete a STR analysis competently?

- Yes. I do this every day.
- No. I would need more training.
- No. I would need a higher license level.

*Type your answer in the Teams chat window.

Short-Term Rental Analysis

Questions?

