Jerry: [crosstalk 00:00:05] Hey, Jim. How are you? This is Jerry. I just jumped on, there was trouble getting into the call, so I apologize for that. Welcome everybody to the Q and A calls here at LuxHomePro. Why don't you just state your name, and I know Jim's here with us, who else has joined us?

David Crown: Hi there. This is David Crown.

Jerry: Hey David. Thanks for being with us. You can just state your name and where you're from.

David Crown: I'm from Portland, Oregon.

Jerry: Nice. I've got a good friend that lives up there. All right, who else is on the call? I can see you. All right, we've got some quiet folks out there. Dave, are you with us?

Dave: Yes, I am, Jerry.

Jerry: All right. Awesome. Okay, cool. So we've got a small call. There's a handful of us on the call right now, and we've got some time here for you guys to answer some questions. I'm going to go into my emails real quick, because I've seen a few that were submitted. Let me just take a look here. I've got a couple. Jim, did you have a specific question, while I'm looking this up?

Jim: I'm sorry, were you talking to me, Jerry?

Jerry: Yeah, this is Jerry. Did you have a question, or Dave?

Jim: [crosstalk 00:01:49] No, I don't, but somebody else does, it looks like.

Jerry: Yeah, exactly. Hold on one second, I've got some really good ones coming up here. Okay, Dave are you ready for some questions?

Dave: I'm ready, Jerry.

Jerry: All right. Sounds good. So, Lynn has a question. Lynn's asking a question here, she said, "With your training, we talked about the fact that we can operate a property way better than Vacasa or iTrip, or other property management companies." She says that she has an owner who has a home, and it's managed by iTrip. They want her to take it over. Her question is, how do we get it transferred to her as a host on the different platform? I think she's particularly speaking about the ads, Dave. Predominantly AirBnb and HomeAway, so I can manage it as a host. Dave what's your comment there?

Dave: All right. Well first of all, if you're going to take it over, if it's an iTrip listing, they're probably going to have a tough time getting it taken over. They're going to want to end the relationship, so you would probably end up just starting your own AirBnb listing. Because this is something that more and more people are doing, right now they don't have a great way to do all the calendar integrations, so you're going to have to do a lot of this stuff manually. But getting started is the easy part, because at least you've got the roadmap already set up. Now you're going to create some better content, because you're going to be coming into the season. If you're going into the season or you're going out of the season, you're going to be able to set up your own listing, which gets predominantly a lot more views. Because anything new, both VRBO and AirBnb actually promote it heavily, because they want to get you jump-started.

Dave: So if you go ahead and set it up properly, which we go into great detail on the sales call and also on our marketing call, you want to then go ahead and make sure it's all ready to go before it's actually listed itself. Don't try to short change yourself. Make sure you've got it really dialed in, and then launch it. Once you're ready to launch, then everything is in unison. You've got your calendar all synced up, you've blocked out the dates based on what iTrip already has pre-booked. This way, you can make your transition smoothly. Make sure your pricing is all set. Once everything is set and ready to go, you should be in great order.

Jerry: Yeah. The challenge with any listing, if there's a property management company that's promoting that particular property, and they have advanced bookings on it, they're their bookings. You can't get those bookings unless they authorize the transfer of those bookings. And I just don't know if they're going to be willing to do that. Is that correct, Dave? They're not going to transfer those bookings [crosstalk 00:05:22].

Dave: Well, here's what happens. If they have a lot of bookings, you're going to end up finding what the company is all about. Most companies that do the marketing and do all the work, they're going to want to get paid if they've actually booked that property. The fact is, they won't be managing the property, you'll be utilizing them as a marketing company. And you may be able to reduce down the actual cost, because you're going to be the one now that's going to be managing the property and making sure everything is running smooth. That's a situation that the homeowner will have to work at directly with the management company and make sure that everyone's on the same page.

Dave: The worst thing to do is to go in there and cancel every one of those bookings, because now you end up getting a lot of upset people, and you don't want to do that. There's some nice people booking nice homes, and it gives people a bad taste in their mouths if, all of the sudden, they start getting all of the listings or bookings that were already implemented and paid for, now are canceled. So be careful about doing it. Have a little tact. Be willing to bend a little bit. Be willing to work with the property owner and the previous manager.

Jerry: Yeah. Great advice on that. That's perfect. Awesome. Who else has a question for Dave?

David Crown: Oh, hey there. This is David in Portland.

Jerry: Hey, David.

David Crown: [crosstalk 00:07:15] I have a property owner... I sell real estate, and he's buying a house, and it's actually in a jurisdiction that doesn't allow renting out for fewer than 30 days at a time. I was wondering if there are strategic ways to make that work?

Dave: Well, strategically, there are a lot of ways to try to make it work, but in the end, it really comes down to what the homeowner's looking to achieve, and setting up the right expectations. Because once you start going over the 30 day threshold, you may or may not be able to get the occupancy rates at the level that the homeowner is looking for. So you've got to let them know, and be prepared, because it is 30 plus days, it's going to be longer. I certainly wouldn't be signing a lease with a property owner in that capacity, because it's an unknown. What you really want to do is work directly with the claims department, corporate reloads, and work with the different real estate companies that do a lot of relocation, and let them know that you have this property, that it's fully furnished, and you're doing 30, 60, 90 day rentals, right? This way, you have a lot of eyeballs coming your way and looking at the property, and that's the way you can quickly get it filled up. Now, there's no guarantees on that, you know. What I try to do is add that in conjunction with short-term rentals, because it really can help explode your business. But in the end, you may go a month or two without any booking.

David Crown: Mm-hmm (affirmative). Yeah. He's only going to be here four times a year, for a week.

Dave: Yeah. Then I would set it up that way, and just let them know the expectations, what we're trying to do. We're going to be getting above-average rents for the month that it is rented, because it is fully-furnished, if he's doing it fully-furnished. We're going to include utilities on this. And the average person that's going to rent it is going to take care of it, because it's going to be a family or a corporate executive.

David Crown: Mm-hmm (affirmative). I take a percentage?

Dave: Yeah. Absolutely.

David Crown: Like 30%, or more than 30%?

Dave: Well, that's totally up to you, but you have to understand you're going to be doing a lot less work, because you're only going to be responding to inquiries. Now, if you earn your keep and you go out and develop these relationships, which can be a full-time business in itself, now you're worth 30%. If you were to go out there and bring on these different organizations and companies that catered to bringing in long-term renters for insurance claims, and corporate reloads, and working with maybe a wellness retreat center that gave them 30, 60 days for their wellness getaways, stuff like that, that's going outside the box, and it's worth more. It all depends on how much you're willing to put into it.

David Crown: Mm-hmm (affirmative). Okay.

Jim: I have a question, Dave... Well, for both Daves. This is Jim. This is primarily being rented out as a 30, 60, 90 day rental, is that what I'm hearing?

David Crown: It's not rented out yet, because it's a brand new one.

Jim: Okay, but that's what they want to do, the 30, 60, 90 days, not short-term rental for vacation rental?

David Crown: [crosstalk 00:11:24] Well, the jurisdiction doesn't allow for that.

Jim: Okay. Did they know that going in, or did they think that they could use it as short-term rental?

David Crown: That's what he wants to do, he just doesn't fully understand what's going on yet.

Jim: Okay. I've got two things to say in regard to both those things. One, I wanted to do short-term rental in Coronado here in San Diego, which is the island on the San Diego Bay. I'll make the story real short. I went in three different times, spaced my visits a week or two apart, talked to three different people, and asked about short-term rentals in Coronado. Each time, I was told that they've got an ordinance that you can't rent for less than 28 days at a time.

Jim: I did more research and I find out that, I said, "Well, how do they police that?" Because that city hall happens to be across the street from 10-15 story buildings, all condos, right? And a lot of them are vacation rentals. I asked and they said, "We used to have somebody that policed it, but we did away with that position about three years ago." I said, "So how do you police it now?" And they said, "Well, we don't. The only time it ever comes up is if somebody complains." So essentially what they're doing is they're turning a blind eye to it, because too many of the real estate property owners... And this is high-end property on this island, by the way, too many of the high-end real estate owners don't like being told they can't rent their house out for vacation rental when they want to. So number one, I would find out how they handle this. If they don't do much about it, you can probably get away with it. Number two, what was number two now... I forgot the second thing I was going to say. It will probably come back to me after I...

Dave: [crosstalk 00:13:36] Number one, I would certainly get them to sign something, if you're going to take it over, that you went over and told them that it was against the rules and regs, so in case anything does come up, they don't come back to you and say, "Look, you're the one that did it. You're the one that told me we could do it." You know, to be held harmless. Most of the time, they just say to stop, or don't do that again, or don't have somebody call us again. They really don't... The point is, the city doesn't really care. They're trying to make everybody happy, and that's how they do it.

Jim: Oh, that was the other thing. Another thing, I have been experimenting with a site, Corporate Housing by Owner, and it is a place that people go to when they want to find transitionally housing, and they're renting for one, two, or three months at a time. Occasionally a little more than that, but that's what they're doing. If you want to look into Corporate Housing by Owner as a place to actually go get this place listed, and you'll be talking to your exact market. I get requests for my property at least once a week or more.

David Crown: Mm-hmm (affirmative). Sounds great, thanks.

Jerry: Hey, I've got a question from Joe. Joe's asking you a question, Dave, and he's basically saying that he's very excited to get his first luxury rental up and listed within the first 30 to 40 days. He wanted to get some advice on designing a website, and he was curious, based on taking the Proper Formula course, should he create that website to market directly to the homeowner, or to the renter, or to both?

Dave: Okay, well a that's a great question. He really needs to... If you're going to go after the homeowner, you craft a webpage that really speaks to the homeowner about what you do. On the other hand, if you're going to be marketing your property, you certainly want to be able to set up your business listing and incorporate that directly with your listing that you have on AirBnb, VRBO, and Booking.com. And you want to give the people ability to search [inaudible 00:16:12], because if you do it properly, you'll have more and more people that come to book your home direct, and you'll save them a lot of fees. You won't be in competition with all these other properties that are off AirBnb. They're going to see the real value in coming to you, and saving $500, $600 on their booking fees. I hope that makes sense.

Dave: There's a lot of places to get your websites built. You could go on Fiverr, there's a lot of... You can just Google vacation rental websites, and there's just so many different options these days. You could have a really killer looking website ready to go in less than two weeks. You just have to fill in the content.

Jerry: Okay. That's great Dave. Just for the record, we're recording this call, we here at LuxHomePro don't advise any illegal behavior in any way whatsoever. We try to stick to the rules. [inaudible 00:17:29] About 10,000 listings on AirBnb in the Las Vegas, Nevada area that are illegal publishings, and people view what [inaudible 00:17:40], and they don't really care, and they just go ahead and rent something out, but they hopefully don't get caught. We don't endorse that behavior at any level, due to the fact that we are creatures of this space, and we don't advise on that, particularly, to do anything illegal. Just for the record.

Jerry: Okay, cool. I have a question here from Dennis, but Dave, you may have answered this question on a previous call, because it's a pretty long question, in relationship to purchasing versus leasing. He's got an investor that wants to buy a property. Do you remember that, because that was back in September?

Dave: [crosstalk 00:18:19] I would have to be refreshed.

Jerry: I have a property, I'm looking here, on the outskirts of Seattle, Washington. It would be a turn-key property and I'm working on an offer for a lease option agreement. They're trying to sell the property and it has been about 240 days. He's looking at a lease option agreement, [inaudible 00:18:42], for 22, and is asking 1.3 million. Do you remember that question?

Dave: Vaguely.

Jerry: Okay. You may have answered it, because it was a while ago. But I just found it. It's too long for me to read it, because it's like a book. Anyway, if you could give some general advice on purchasing versus doing a lease option.

Dave: Sure. The difference between a lease option or purchase... I always go in and talk to the homeowner about a purchase, and let them know what their purchase would look like if a realtor came in and offered them 95%, 94%, each percent 85% on the dollar on the property, would they take it? Once I get the read on what they would accept, minus the real estate fees, that really gives you the bottom-line price on what they would be willing to take. At that point, instead of getting really focused in on a price and trying to put [inaudible 00:19:56], I'd let them know exactly how we buy real estate. We go ahead and turn it into a cash-performing property, and then we have our investors come and purchase the property, and we'd lease it back from them for a period of three to five years. This gives our investor a great return on investment. It then pays the homeowner off and gets them out, and the whole process is 12 to 18 months.

Dave: So when you look at it, do I sit there and keep lowering my price, or do I accept something from LuxHomePro or from you? The answer is whatever fits your needs, okay? Only you know or the homeowner knows exactly what they're going through, that's why it's really critical that you identify what their problem is and how to correct it. Because if I can go and show you how to put an extra five, ten grand in your pocket, cover all your expenses and have a long-term plan to take you out, now that makes really good sense. Make sure you go through the whole process with them, educate them on the process, go over exactly what their options are, and then present them with an offer. I think you'll close more deals that way, and everyone will understand 100% on exactly what you're trying to put together.

Jerry: Yeah. That's really good. Dennis also says, "When purchasing a turn-key property, what percentage of the existing business do you feel will stay, and how much will leave because of new ownership, management change, et cetera?" When purchasing a turn-key property, what percentage of the existing business do you feel would stay, and how much would leave because of the new ownership change, et cetera?

Dave: Well, I'm not sure I perfectly understand the question, but I'm thinking what they're meaning is when you go to sell, okay, the investor that's coming in to buy, all that income that's coming in, what they're buying is the return on investment, right? And they want to get a cut, right? So if you know that this property is bringing in, let's call it a 10 or 11 percent cap rate, right? On a million dollar property, that equates to, let's call it $110,000 a year, right, at 11%, on a million dollars, right? And you know that you can attract investors at a 7% cap, now you're looking at a spread of about $40,000, but you also have to factor in your insurance and taxes on that as well. So now, maybe you're making about $20,000 a year on that property, right? Because you have to add in the taxes and insurance that you have to pay on that cap rate. So now, you might be paying out eight and a half percent, and you're keeping 11 or 12, so now you're making a two and a half percent cap rate on that property, year in and year out, the next three, four, five years.

Dave: I hope that answered the question. It works really, really well on high-performing properties, the ones that are generating $250,000, $300,000, because your 7% cap rate barely cost you $140,000 a year. And now you're able to go ahead and pay the $140,000 a year, you're bringing in about $250,000, so you're able to still profit about $100,000, $110,000 a year in profit. Those are the ones you're really looking for, because you don't need many to really give you a nice comfortable income.

Jerry: Yeah. We're working on a deal right now that's very similar to that, where this investor wants to buy this particular property, and the cap rate would be 6.8%, or at least that's what we're willing to pay her based on what that rate looks like on this particular house. It's about a $9200 monthly payment for us. But we think we could do really well on this particular property, so $9200 may sound like a lot, but if you think you could do 20k on average per month throughout the year, and bring in $240,000, it's not a bad deal. We're in that deal now. Right now, we're trying to get this particular property purchased for this investor so that we can do that deal.

Jerry: And that leads us right to Richard's question, which is the same thing, have you worked with any investors on purchasing a home outright, and then operate the home for the investor? Yes, the answer is yes. We have an investor who would like this approach on this, and I see the online calculator has a purchase option, how do the numbers work out? Well, Rich, it's all depending on the deal, what the deal looks like and what the cap rate is going to be, in that sense. [crosstalk 00:25:42]

Dave: No, that's a good point, Jerry. It's easier once you've got the income coming in to go ahead and determine what you can afford to pay. So let's say, I'm currently working with one of the [inaudible 00:25:58] properties, they're probably going to average around... They started in May, right, and they've got an option on the home at 2.2, and they're currently... I think they have generated around $250,000 to $260,000 in revenue since May. I think for the year they'll be about $350,000. They're looking at moving the house, at six and a half, seven percent cap rate, and by doing that, they're guaranteeing the investor roughly about $190,000 a year, for the nature of everything. They'll be doing about $340,000 to $350,000, so they've got a nice spread in between, so it's a great deal for the investor and a great deal for them, as well.

Jerry: Yeah. Okay, let's open it up. Anybody have any questions for Dave or myself?

Don: Hey Dave, Aaron, have you guys got a question yet?

Jerry: Yeah, is this Aaron?

Don: Oh, this is Don here, from LA.

Jerry: Oh. Oh, okay. Cool.

Don: I wanted to jump on here real quick.

Jerry: Sure.

Don: [inaudible 00:27:26]. So I was just wondering... I'm talking to realtors right now, and some of them see the value of potentially selling a home that's going to be worth more, in the long run. Obviously, some of them are just going to want to make quick sales on that home. I was wondering about what's your wholesaling model. If you're working with a realtor, are you going to really have room to wholesale that house? And if you're not as comfortable with the contracts, if you're not as knowledgeable, you can avoid that to avoid getting a lawsuit, or to avoid getting in a situation you don't want to be in. Also, with the cap rates, if you've got a two million dollar home, a 1.5 million dollar home, is the source of rental income going to really influence the price of the house a lot, and give you more incentive for the realtors to make more commission? So that's my whole question.

Dave: No. Here's what goes on. Let's say you're currently renting a property, and it's still at $300,000 a year, right? You now are taking that property, and you're reaching out to investors and saying that you're willing to do a lease stamp on it. Then you'll lease back the property at a six and a half, seven percent cap rate, right? So you are the one that's actually signing a lease with the investor, if they buy the home. Then you're going to go ahead and [inaudible 00:28:56] manage it, and then the contract, you're going to have right in there that they are allowing you to sublease the property and run it as a short-term rental, right? So you're the actual one that's going to be signing a lease directly with the investor once they come in and purchase the home. Does that make sense?

Don: Oh, okay. Yeah. You're going to wholesale the property first, cause...

Dave: Well, you're just bringing in investors if they're looking for a nice property and want a steady rate of return. They don't have to worry about taxes, insurance, everything is paid for. All they have to do is buy the home. Then you'll sign a three to five year lease agreement with them, and you'll make the monthly payments every single month, take care of the house, et cetera, et cetera. They've already got it running as a short-term rental. It's already turning, and all you're doing is now running it in short-term rental, making the payments, you've got cash flow, you've got bookings. You're not worried about making the $10,000 a month payments, because you've already got $100,000 to $150,000 in bookings before you even start.

Don: Right. Uh-huh.

Dave: Right? Now this is the way that you can go after other properties. And you go and have meetings with realtors, and let them know this is the way they can sell more property. You can do analysis on a home, and let their investor know that, hey, you can come in and manage it and take care of it, through a [inaudible 00:30:37] agreement, and this is the type of revenue that you can generate off of a home. That makes the home more attractive. Just be confident in your numbers before you start doing that. I would never start in an area that you don't know. I would never start doing this until you have actually done it yourself, and had proven out your business model with the property.

Don: Mm-hmm (affirmative). So you would start with the master lease first, and then [crosstalk 00:31:06], before talking to realtors?

Dave: Absolutely. You've got to prove out your model, prove out that you can do it. Because the last thing in the world you want to do is get yourself in a fix where you can't perform, it just doesn't work well. Jerry and I always say start with something you can afford. Start off with a smaller property. Get your feet wet. Understand exactly how the business works. Understand how to put your listings up. Understand how to properly get all of your handy men, your maid, and organize that stuff, and get it turn-key so everything's running smooth. Once you're able to do that, now you can go after the million dollar property.

Don: Mm-hmm (affirmative). So yeah, start small and work your way up, before you really take a jump.

Dave: Start small and have it all. Yep. Absolutely.

Don: I'm the kind of guy... I see you doing these big homes. I want to get a piece of that, but everyone's got to start somewhere, right?

Dave: You've got to start somewhere. As much as I would love to say, "Hey, everyone, let's jump into two million dollar homes," you've got to have a little bit of history behind you before you really jump into it, because you could really get yourself in trouble, because you're not bringing enough revenue in, you don't know how to manage a crew. Even though it's not that hard once you really get it dialed in, you have to have that experience to get there.

Don: Yeah. Mm-hmm (affirmative). Okay. Yeah. Perfect, Dave. Thank you very much. I'm going to go [crosstalk 00:32:49] somebody else.

Dave: Good luck. Perfect.

Jerry: Good luck, man.

Dave: Thanks, you too.

Jerry: All right. All right. So any other questions for Dave and I, before we wrap up the call?

Jerry: Dave, I'm not sure if you answered this one. This one is from Adam. He said, "Do you provide home warranties, appliances, et cetera, and if so, please explain the details."

Dave: Totally up to you, okay. Everyone's a little bit different. Every homeowner, every deal that you put together is totally unique. Some homeowners will want you to pay for it, and some homeowners will say, "You know what? I'll have all that stuff covered because I want to make sure that if anything goes wrong, it's all fully covered under the warranty." So understand, it's all part of your negotiations. If you do negotiate, the home warranty policy should run you between $400 and $700 for the year, all depending on how many appliances you have, what type of appliances, and are you insuring the pool equipment or not, right? So understand that you're just going to have to make a few phone calls. You can Google home warranty in your area and try some really good ones, and make a few phone calls and find out what the costs are. In every area, the costs are a little bit different.

Jerry: Cool. We have another question here, from Dennis. He's basically saying, "What do you feel is a good advertising percentage or budget, based on gross revenue for the property? How much gross revenue do you feel you should go for advertising and marketing?"

Dave: Well, I've always been big in putting back into your business. You should always... I think 10% to 20% always goes back into the business. The more you put in, the bigger you grow, and the more successful you become. If you're really stingy with your ad spend and really just trying to develop your business, I think you end up getting hurt in the long run. So definitely be prepared to go ahead and use your money wisely. Don't spend it foolishly just because you have it, but spend it on things that are going to help you grow.

Jerry: Yeah. And what you're talking about Dave, even outside of the advertising you're getting from AirBnb and VRBO, which will be about 85% of your direct revenue, the 15% outside of those platforms are really going to come from your efforts through social media efforts, SEO efforts, and also all your other booking engines, like Booking.com, Hotels.com, or TripAdvisor. [crosstalk 00:36:01] the next 15%.

Dave: Well, if you're doing it correctly, the numbers your first year... Jerry's absolutely right, most of it's going to come in from the booking engines. But after your second year and your third year, you should be going more into your self-generation where more and more people will know who you are. They'll be coming back. They'll be repeat customers. You're going to have friends referring friends, and you're going to start seeing a shift where 40, 50, as high as even 60 or 70 percent of your bookings are coming from direct sources. So if you do it right, and you spend the money, and you really take care of the customers, you're going to see a dramatic shift. Once that happens, you're in control of your business, instead of having AirBnb and VRBO be in control of your business.

Jerry: Exactly. Well said. All right. Anybody have any last questions for Dave or myself?

Jerry: All right. Hey, just a quick announcement. Many of you were planning on maybe coming out to Destin, Florida for our next LuxBnb bootcamp in December, that's on December 9th through the 12th. They've actually visited the area a few weeks back and determined that it's not the best area for our bus tour, specifically because of the luxury element to what we do. And Dave, if you want to speak about Destin, Florida a little bit, you're more than welcome to do so. But we found that it wasn't maybe the most appropriate place for the luxury model, just knowing on the pricing schedule and the way that things are done there.

Jerry: So we decided to look at a new market to move the conference to, which was the Henderson area of Nevada. As you guys know, Las Vegas, Nevada is probably one of the most difficult places for the short-term rental industry, simply because of the hotel industry there, right? Because casinos and hotels are really against it, because they see it as a direct threat to their bottom line. However, Henderson recently opened up and we've done some classes on Henderson, but there's not a lot of data to go by. You know Dave's a big fan of not trying to reinvent the wheel in a market or create a market. He's really more of a fan of looking at what markets are working, and how we can tap into that market and benefit from it, just based on our own expertise.

Jerry: The Henderson market just doesn't have enough data to understand if it's a good market, an untapped market, or a really bad market. So it's kind of risky. So we decided to bring the event back to Scottsdale, which is going into the high season right now, so if you're thinking about picking up a property, there probably is no better place in the country than Scottsdale, knowing that you're coming into the high season in December, January, February, March, April, and a little bit of May.

Jerry: We're going to be back here at the McCormick Ranch, one of our favorite hotels, beautiful four-star plus hotel here in the McCormick Ranch area, which is right down the street from our headquarters. Our office is here in Scottsdale. So it's going to be December 9th through the 12th. We hope some of you guys can reach out and make it. It'll be fun. It'll be the last event of the year, and it's going to be awesome. I thought I could share that with anybody that may be thinking about coming to the next boot camp, make sure you're not going to Destin or Vegas, but that you're coming to Scottsdale.

Jerry: So with that, is there any final questions? If not, we'll just wrap up the call. All right, Dave, great job.

Dave: Perfect. Thanks, Jerry. Thanks, everybody.

Jerry: All right. Take care everybody and we'll see you on the next Q and A call. [crosstalk 00:40:19]

David Crown: Thanks so much. Bye Bye.