

STR ARBITRAGE

Executive Summary



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FUNDING REQUIREMENTS
\$15 USD | Equity

USE OF FUNDS
Acquisition of properties.
Small rehabs.

PROJECTED RETURNS:
IR 15%

INVESTMENT TERMS
Flexible

LOCATION:
USA

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SUMMARY: RState is designed to capture and corner the market in the lucrative short-term rental (STR) arbitrage space. The fund makes accessible investor monies used to acquire residential assets in the United States. The primary fund/business function is to work with independent SR agents, who commit to guaranteed, long-term leases with RState (RS). RS finances the acquisition of properties, which are subject to an extensive review process, that are then converted and managed as STRs by these arbitrageurs.

MARKET CONSIDERATION: Airbnb/VRBO arbitrage is defined as “a business model that focuses on leveraging other people’s properties through sub-lease agreements and renting those properties on platforms like Airbnb, VRBO, or Homeaway.”. Experts anticipate the vacation home market to eclipse \$100b by 2030. Despite this growth, arbitrageurs are challenged with finding landlords and/or homeowners who are willing to allow the subletting out of their property as an STR. Therefore, although demand is high for such a model, supply (willing property owners) is extremely low, creating a massive opportunity in this space. RS would act as a necessary property supplier in the STR arbitrage model.

BUSINESS PLAN: RState has pioneered a system, which includes key relationships, to ensure the success of this fund. Namely, RS will work with nationally recognized Airbnb professionals to market and provide a pipeline of successful/proven STR agents interested in arbitrage. In addition to our own evaluations, each arbitrageur is given the freedom to locate and evaluate SFR/MFR (single family/multi family) properties before presenting them to RS. Once property addresses are received, RS will conduct its own due diligence before deciding to bid on a property. All the normal diligence in a home buying process will be done by RS and its network of agents, including acquiring necessary licenses to run STRs in certain towns and cities.

RS and the arbitrageur agent are engaged in a mutually beneficial business relationship in the following way: the arbitrageur will sign and abide by a long-term (leasing) agreement that commits said individual(s) to payments equal to PITI plus minimum cash flow targets (listed below) OR the fair market value of rent (according to rentometer) plus 50% of the remaining monthly STR rental revenue (less property management fees; less rent). Any additional revenue beyond PITI is considered profit for RS and its investors. In this model, the minimum target profit is \$3,000 USD, per STR unit, with additional upside in appreciation.

When a property is officially closed on, an STR agent takes over the property as an STR host. Meaning, from closing on, the arbitrageur takes responsibility for furnishing, stocking, cleaning, and advertising the listing on an STR marketplace within 30 days.

KEY PARTNERSHIPS: RS will work alongside market leading firms, such as Turnkey (owned by Vacasa) and financial institutions/lenders that specialize in “cash offer” mortgages (e.g. FlyHomes, Redfin, etc.). Cash offers allow RS to remain competitive in a hot real estate market when bidding on properties. Additionally, RS will leverage national portfolio/llc lenders such as Visio and LendingOne. Working alongside experienced STR property management groups allows our properties (managed by arbitrageurs) to have access to a full suite of services. Our model allows RS and its partners to maximize revenue and minimize risks through their existing automated and full-service approach.



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Existing full service offerings include: auto price adjustments, professional photography, maintenance, housekeeping, and customer services.

INDUSTRY: According to Hospitality.net, the STR market is expected to see another double digit growth year in 2022, with pre pandemic rates hovering around 10% YOY and climbing to 14.1% during the pandemic. Also, short-term rentals saw a 26% increase in revenue during the pandemic as guests fled from traditional hotels.

As travel returns to its normal, pre pandemic state, travel and hospitality experts (see AirDNA) anticipate increases in STR bookings, globally. In 2022 the forecasted demand for STR is expected to increase by double digits (as a percentage).

FINANCIAL ASSUMPTIONS: In our financial model, we've meticulously detailed the expected revenue(s) and accounted for factors such as: seasonality, regulation, events, market demand, etc. Based on calculations made stemming from historical STR data, our conservative portfolio cap rate target is 21.33%. This cap rate target assumes a monthly average revenue amount of \$8,000 and average home purchase price of \$450,000. We also assume a 7% (interest) rate on 30-year fixed conventional mortgages with a 25% down payment.

EXIT STRATEGIES: Due to the fact homes will be purchased in areas with historically healthy property value growth rates, one course of action could be to offload assets in a traditional home sale. Another strategy is to convert homes into long-term rentals and capture additional cash flow with interest only payments. This mitigates any challenges related to changes in STR legislation.