



Get Real Podcast Episode: 046

“Vacation Rentals - Asset or liability”

Hosts: Ron Phillips & Angela Thomas

Welcome to The Get Real Podcast, your high-octane boost and in the trenches tell-it-like-it-is reality therapy for personal, business and real estate investing success with your hosts, power-preneurs Angela and Ron. It's time to get real!

Angela Thomas: Hey everyone, welcome to another episode of the Get Real podcast, where we get real about everything. And try not to piss off too many people.

Ron Phillips: Whoa, everything?

Angela Thomas: No, I'm just kidding. Where we get real about real estate.

Ron Phillips: We're gonna get real about everything today.

Angela Thomas: Mostly business and real estate, but you know, occasionally some other stuff.

Ron Phillips: I just flipped over to the other show notes, Angela, but I guess I gotta flip back now?

Angela Thomas: Yeah, flip back. I don't know what you were going to talk about. So today we are going to tackle a topic that you see everywhere: vacation rentals. They're pretty hot right now. And why wouldn't you want a vacation rental? You know, you're like, well, it's somewhere I want to hang out usually.

Ron Phillips: It's beautiful there. We went on vacation and we just decided to look at some real estate and whammo bammo vacation home rental.

Angela Thomas: And I understand this. I mean, I'm like, I go to Southern California a few times a year. Why wouldn't I want a vacation home there? I mean, vacation home near Disney land or out in Bellavista?

Ron Phillips: It makes so much sense, Angela. Before we start talking about that, I'm just going to bless everyone who's not friends with me on Facebook because... It's really cool. Most mornings I go to the beach because it's my happy place. So I have this picture and you know, I don't know how technically you can do this, but probably there's a technological way we could get this picture in there. Anyway, I'll send it over to our, our, our guy who cuts all this stuff up for us. Maybe he can put it in here for us. But anyway, there's this picture. I took this picture at the beach and I want you to just imagine this in your mind. You're looking at the water and this particular morning, the beach is so calm. I mean, the waves are like, I don't know, four or five inches. It's just, it looks like glass

out there. It's beautiful. I'm telling ya. And the sun's begin ready to come up. And I took a picture of this sign that is on this particular beach and it's huge. The sign is like, I don't know, five foot by seven foot. It's huge. And it says deadly currents. No swimming, no waiting. They don't even want you wading.

Angela Thomas: They don't even want you to touch your toe in the water, huh?

Ron Phillips: If you're running down there, you better run back before the water hits your feet. Stay out of the water. \$1,040 fine.

Angela Thomas: Whoa.

Ron Phillips: They're serious business. Not one thousand; one thousand forty dollars.

Angela Thomas: The thousand wasn't enough, I guess.

Ron Phillips: Right next to that it says: several drownings, don't be next. So I'm going to post this on Facebook and I'm gonna, you know, do a little write up on it. But how many times in our lives have we walked right past a, you know, figurative sign just like this. Because everything looks so beautiful, only to get into the water and be, you know, swept away by a deadly current that you can't see. But there's a freaking sign right there.

Angela Thomas: Yeah, a lot of times. Oh man, that sign is usually like somebody else's experience or you know, usually have some kind of warning.

Ron Phillips: It's not like, I mean this particular beach is on Sullivan's Island and you know, Sullivan's Island makes a lot of its revenue from tourists. I mean, it's a tourist place, right? It's not like they don't want you to enjoy the beach. They didn't put the sign up there so that, you know, cause they don't want you in their water because you stink and it's going to stink or something. Right. This is for your good.

Ron Phillips: Now there's stuff like this all the time in our lives. So my point to this is next time, just take a second look at the sign and go, Oh, maybe I should enjoy the view and not go swimming in that beautiful water right there. Or head down the beach a ways where there are not deadly currents that are going to kill me... Slowly, I might add, as they drag you out to see and you can't get back.

Angela Thomas: Oh man. No, I think that's a great, I think that that's an awesome metaphor for kind of what we're talking about today.

Ron Phillips: It may be perfect for vacation rental since this is a beach.

Angela Thomas: Yes. Because I saw the picture if for any of you who didn't and it looked really inviting: the water, the beach, it was gorgeous. And rental property or a vacation renta they're so much sexier than the boring ass rentals that we sell out in Indianapolis.

Ron Phillips: Oh gosh. Well, I thought Indianapolis and other places in Indiana were vacation places.

Angela Thomas: Oh, really? Is that where you go? No. No. I don't think we sell any vacation destinations. I would not go on vacation to any of the places that we sell.

Ron Phillips: Not even Kansas City?

Angela Thomas: No, I've heard about the ice storms, man. I'm not going in there. So yeah, these are so much sexier. We kind of mentioned at the beginning. So first we want to go through why they're so sexy. And you probably already know, you've probably seen this everywhere online and you, I don't know, you may have bought one or thought about buying one. I know I have, and I know Ron has, so.

Ron Phillips: Like every time I go... Bobby Joe and I will go on vacation somewhere, like we're going out of the Bahamas and we will spend half a day or a day of our vacation looking at real estate. It's a sickness that I have.

Angela Thomas: Really? Did you guys do it in Italy? Just the other last week.

Ron Phillips: So here's the thing in America, I just pull up, you know, realtor.com and that's where I'm at. Yeah, it shows me the stuff. I was a little pissed off that realtor.com was not available in Italy. But Google is available in Italy and you better believe I looked up in most of where I was, I was looking up, you know, most of it are going to be flats over there, you know their houses in the cities. But yes, I looked them up, try to figure out what, and I tried to figure what the rental was and then I was talking to the guides over there. You know, that we, that we had our tour guides and I was just asking them, cause one of them in Siena lived in the city.

Angela Thomas: Oh, you were in Siena. Oh I want to go there.

Ron Phillips: So beautiful. Don't get me started. There's other pictures I could show.

Angela Thomas: If I had had a girl, her name was gonna be Siena with one N like the town in Italy and I need to go there. Oh my gosh, I've seen pictures. Anyway.

Ron Phillips: This guide lived in city center in Siena. And I was just asking her, you know, like how much did these things cost if I was to buy a place? And it was like half a million bucks to buy a place. So, I mean, not bad for, well that was a studio. So I

mean kind of bad but, but not bad for Siena because that area is pretty, pretty happening spot. Right. So rent that place, it's like 600 to 700 bucks a month.

Angela Thomas: Wow.

Ron Phillips: I mean, just let that sink in for a second. It in no way does that work financially.

Angela Thomas: No.

Ron Phillips: I don't even know how the hell, I don't know why anyone would rent it. It's almost as good to just leave it sitting there for the however many weeks you go on vacation there. It makes zero sense to buy that for any kind of investment. So to your point, yes I do. I have a sickness and everywhere I go I try to figure out what the, you know, what the market is.

Angela Thomas: Yeah. And that's because you like to visit that place. So the first, the most obvious pro of a, you know, investment or vacation rental is that it's dual use. You're thinking, all right, I can make money with it and I can go on vacation there and use it myself. Right.

Ron Phillips: And this, you know, you have the two angels, this devil angel, the red one. This is the one talking to you right now because he is trying to, or she, I mean there, there is some strong evidence...

Angela Thomas: No, my devil actually has an Australian man's voice. I don't know why. It's like Siri. It's weird. So yeah.

Ron Phillips: Anyway, I mean it's sitting there going, oh, you know what you could do with this, you could use it. And it doesn't matter what the numbers are because you're using it.

Angela Thomas: You're using it and maybe you'll recoup some of your money at the same time! Win win!

Ron Phillips: It's the devil.

Angela Thomas: Yeah, but it is tempting, right?

Ron Phillips: Look at them when you're on vacation because then you can write your vacation off. I'm not an accountant. Don't take that as tax advice, but you know, really cool, right? Because if you're in a real estate business, then you can do that.

Angela Thomas: Hey Ron, your audio is all over the place just so you know. You're kind of like backing up and forward. Sometimes we can hear you great, but you get excited

and then you like get away from the mic and no one can hear you. But it's all right.

Ron Phillips: Full on amateur. It's only our, what, 40th episode. You would think I would figure this out by now.

Angela Thomas: Eventually. Okay. So number two, you're like, not only can I stay there when I'm on vacation, but it pays more per day. More rental income than any other rental you'll find. Right? At least most do.

Ron Phillips: It's true. No question.

Angela Thomas: Yeah. You're like, how much did I... Because I looked actually when I was out in California, I stayed in this three bedroom condo thing and the guy was charging what? Like it was like 400 a night or whatever. And you know, if I were to rent it out, it probably, well we were in California, so it wouldn't have been anywhere near that. It probably would've been, you know, I don't want to guess... 22, to 2,500 a month, something like that.

Ron Phillips: So if you rent a beach house on the beach and it's like \$10,000 for the week. I mean that's really good. That's 40 grand or a little bit more than, you know, 40 grand a month, right? Yeah. I mean that works fantastic until its winter and nobody comes to the beach. So you've got to make sure, you know, again, it is sexy. It's something that will lure you in. Right. But you can't let that sex appeal get to you. So, yeah, I mean if you're hell-bent on buying a property on the beach, you're going to do it, then it's kind of irrelevant. Because you're willing to do it anyway and so that's fine.

Angela Thomas: And if you are looking for reasons to buy a vacation rental, you'll find them. There's quite a few.

Ron Phillips: I would suggest, as I have in previous episodes, that you run the math on owning a vacation home when you could just rent one whenever you want one. Then you're not tied down to the place. You can go rent one anywhere you want to. That's what we do. And you don't have to own one.

Angela Thomas: Yeah, I was going to say, it's probably good to mention that that's exactly what you do. Ron looks at, you know, vacation rentals everywhere you go, but you don't actually buy them. You figured out it makes more sense to have investment properties and just...

Ron Phillips: Not gonna lie though, I've been tempted many times.

Angela Thomas: Who hasn't?

Ron Phillips: Oh, the Bahamas tempted me so hard.

Angela Thomas: Especially, I mean those days, everyone, I mean I keep hearing people say, well, it's so much easier than it used to be, which is true with all the websites, HomeAway, Airbnb, VRVO, et cetera. It does make it easier, but it's also super dependent on your reviews and you do still have to manage it or pay someone a lot of money to manage it for you.

Ron Phillips: Okay. So that's a good, that's a good segue into... Look, if you're, if you're going to do that, obviously we are biased against vacation rentals.

Angela Thomas: Yeah. If you didn't figure that out already we should have told you.

Ron Phillips: Just generally speaking, a little biased against vacation rentals. Okay. That doesn't mean you didn't own one. And it doesn't mean that if you own one now, there aren't ways to increase your revenue, decrease your expenses, manage it better, and turn it into something that could potentially at least cover itself and then you can go use it. Right. And this is not the same thing as Airbnb in places that are not necessarily, you know, the beach. Because I know I have a lot of friends who do Airbnbs in places like, you know, downtown Kansas City, places like that. Where business people come and they don't want to stay in a hotel. They would prefer to stay in a condo and the thing is full all the time and they can charge way more rent.

Angela Thomas: See, that's a year round rental.

Ron Phillips: Whole different ball game than what we're talking about here now. It's not that the things that they do to keep their properties full are not different than the things that you need to do to keep your property full at the beach or Disneyland or wherever it is. Right. But it's a little bit different because it's not as Angela so eloquently put it earlier: Kansas City is not a vacation destination. But there are plenty of Airbnb properties there. Okay. So I want to make sure that we draw a line because you put them on a lot of the same sites. VRVO, HomeAway, Airbnb, you put them on those same sites, different type of property that we're talking about here. I just want to make that clear and in the event that you guys care and want to learn about Airbnb, I can have one of my buddies who's actually really, really good at it, because I am not, come on here and talk to you guys about.

Angela Thomas: Oh we should. That'd be great. Yeah. Let us know if you want to hear about that. Yeah, that'd be great.

Ron Phillips: And if you don't let us know, we'll probably do it anyway. So.

Angela Thomas: Yeah, because I think it sounds interesting. So.

Ron Phillips: And we do what we want around here. If we're getting real, Angela and I do whatever we want, basically, sorry. Getting back to that, you've got to have... One of the things that will kill you faster than anything else is just reviews. So if you get into this and you suck it up at the beginning, you're never going anywhere. But man, that's a big, big hill to climb though to overcome horrible reviews.

Angela Thomas: And can I just say that real quick? Because I've used Airbnbs and I've stayed in a couple that were, that had some issues. And I experienced a couple of owners that instead of you know, instead of making sure the issue was resolved and, you know, saying thanks for letting me know... Because I let them know first before I left a review because I wanted to give them a chance to fix it. But a couple of them got really defensive kinda like you do when you're selling your personal home. You know, how dare you say there's anything wrong with this property that I own and got kind of upset and defensive about it. Which made me like, well, why am I trying to help you out? You know, I'm just going to go leave an honest review so other people don't accidentally stay here and make the same mistake and waste their money.

Angela Thomas: So, so it's really important. And you know, a good property manager would know how to handle that and have good customer service, but it's easy to get defensive if you're the one that owns the property. So.

Ron Phillips: And you... So here's the thing I think happens because I have stayed, I don't stay in Airbnb. I actually kinda hate Airbnb because when they first started out, they punked me pretty hardcore on a last minute, whoever the Airbnb person was just decided to take the property that I had already reserved off. And I was at the airport with my family with nowhere to stay in Florida. And when I actually reached out to Airbnb about it, they were like, Oh sorry. And that's pretty much it. So I don't use them anymore and I'm a little bit of a hater because of that. But people go out and they decorate houses or they do things to places because that's what they like. And if, if that's what you're doing, you're going to get into trouble because odds are not everybody likes what you like.

Ron Phillips: All right? So if you decorate your place with a whole bunch of little fishies around and it looks stupid but you like fishies...

Angela Thomas: I love that you call them fishes.

Ron Phillips: That's like a little theme. And the theme is like, you know, it's a beach house, so let's put fishies all over the place. Anyway.

Angela Thomas: Because you called them fishies I'm picturing like cartoon fish, but you know, whatever.

Ron Phillips: It pretty much is cartoon fish. Right? And so, there's a way to decorate and if you suck at it, and even if you think you're good at it, but you probably suck at it, you maybe should get a second opinion.

Angela Thomas: Or if you love to sleep with the windows all open and don't believe in air conditioning and you're like, Oh, my house is in Tahoe, who needs air conditioning? And then, you know, say that you have air conditioning, but it's actually a little unit out in your garage. You got to expect people to not be happy about that. So I mean...

Ron Phillips: Put on there, his is a green house. We have no electricity.

Angela Thomas: Be honest. That's the biggest thing, right? Yeah. Just be honest about exactly what you have. And don't assume people like the same things you do. Like Ron said.

Ron Phillips: Absolutely. So it's really, really important. There are some really cool things that you can do to make the experience better. You know, linens, towels, things like that, that are kind of upgraded. It seems stupid. But for me, it's a big deal. The bed is a big freaking deal. If you cheap out on the bed... I'm not a guy who reviews, I just will never ever stay in your place again. But Angela will review you.

Angela Thomas: I want to give you a chance to fix it so that more people will stay there. But if you won't fix it, then I gotta warn people. Right?

Ron Phillips: We may have beat that up, but look. You guys have all stayed in hotels. Some of them were nice and you know what was good, and some of them sucked for what the price was. You don't want to be the people who suck. Just make sure that you've done it really, really nice. Top notch. If people have a great experience, they're going to leave you a good review and if they leave you a good review, you're going to get more and more people.

Angela Thomas: Yup. All right, so we're done on that. But kind of on the same note, you are probably managing this yourself with the help of, you know, a HomeAway or Airbnb or whatever. And I love that one of the things people say as a pro for these is that you, you gain a lot of property management experience very quickly because of the high turnover. And you will get experienced with it real quick whether you want to or not. I'm not sure if that's a pro or con. You'll have to you know, you know our feelings on property management if you've listened to any of these. So I don't actually want to be a property manager, but if you want to learn how to be a property manager, you will learn real quick with a vacation rental because it's turning over constantly. And then you'll learn how to do it better for the next person.

Ron Phillips: And you better learn quick because you get bad reviews. And that's really, again, it's a big hill to climb back over. So.

Angela Thomas: Yup. And if you know, if you don't want to do that, you can hire professional property management, but because of the high turnover, they do charge more than they would for a typical rental property.

Ron Phillips: Okay. So Angela, I actually had a 10:31 exchange and as you know, I'm going to move to the beach. So in my brain I'm thinking, same thing, right? We talked about earlier, I'm thinking, well, I'll just 10:31 my money into a beach house. I'll use that as a rental for a few years. And then, you know, maybe I'll move into it or maybe I'll move in close to it or, you know what, I don't know what I was thinking.

Ron Phillips: Anyway, I went down there and I'm looking at beach houses and I'm looking at them going, okay A, this is a cool house. B, it's already a rental. So it already has, you know, financials. I can look at the financials and see what these things are. And so I go down there with a realtor and, you know, people are saying, look, this property has fantastic financials. It rents for a ton of money. It's a solid, solid house. And I'm excited, I'm thinking, okay, that's cool because you know, yeah, this is what I want right in the house. It really was. It was really cool.

Angela Thomas: So here we have a five point \$6 million house on the beach, gorgeous home. And I go in there and we, you know, Bobby Joe and I walk around the house. I think I actually had Ashley with us too and we walked around. The house is pretty pimp. I mean from every single floor sick views. It was, it was a remarkable place. Okay. Then I go downstairs and I'm super excited because it's got good financials right. I go down there and I look and it had like a 200... I can't remember if it was 250 or \$300,000 regardless. The income on this property sucked.

Angela Thomas: What happened to the good financials?

Ron Phillips: Right. But for beach homes, it was really, really good for these beach homes. So I'm looking at one of the better properties down there. And the problem is that it was managed and what I learned was the property management for these is not eight to 10%. It's 20 to 25%. And the reason why, and of course it is because like you said earlier, Angela, there's a ton of turnover. There's a lot of work in addition, these people are there for a week and they're a little bit demanding when they spend \$10,000 in a week, you know, they want everything, right? And it has to be right. So it's really involved. Well, you take a quarter of the income away from already a pretty low income. And I'm sitting there talking to the, to the agent because it was an open house.

Ron Phillips: So I went down there without my current agent down here just to check it out, right? And they're like, yeah, the financial, this is fantastic. Right? And I said you know, if I were to buy an apartment building in the Midwest for five point, whatever, \$6million bucks my income on that property would be somewhere North of a million. And he just is like... I said, yeah, the numbers on this suck. Horrible.

Angela Thomas: He's like you're not supposed to compare it to that, come on.

Ron Phillips: I'm just like, I can't, there's no way I could even possibly think about buying this property because, I mean, not for, not for vacation rental because the numbers sucked so bad. It was so bad. I would never do that. Anyway, so I completely quit looking for them. Because the numbers are horrendous on them. So I asked around, I'm like, well, so who owns this? What's the story on this deal? Well, it's like what we talked about earlier, Angela, it was a dude who lives up in New York. He comes down like once a year and it just, he just wants it to pay for itself, which it must barely do. I don't even know how I could possibly cover itself. But anyway, man, I just, that was my experience trying to go and hire a management company and buy a vacation rental. It just, it just not good. Not good.

Angela Thomas: That's the kind of situation you need to be in to afford one of those, you know, some wealthy wall street guy who's got, you know, it seems like...

Ron Phillips: Maybe put 50% down?

Angela Thomas: Yeah. And just hope that it pays for itself and you go there sometimes, you know? Yeah. If you can do that and it's for fun and it's not to increase your wealth, then that's great.

Ron Phillips: I guess there is, you know, maybe we should probably do a show on that too, Angela. The folly of just parking money when you can park money and make money. I will never understand why people just park money places where it makes no money. That does, that is so foreign to everything I believe in. I just can't fathom why anyone would do it.

Angela Thomas: No, I can't either. But apparently people do it. So

Ron Phillips: Maybe there's somebody listening right now who knows why a human being would do this. Well, I mean I can't think of the reason, but...

Angela Thomas: But if you know, let us know because we're curious.

Ron Phillips: Yeah. I mean maybe I'm missing something really, really special here, Angela, and that I should be parking money in places that lose me money. But I can't think of why anyone would want to do that.

Angela Thomas: I can only think that it's because they can. Otherwise it doesn't make any sense. I mean, if you're to create wealth it makes no sense.

Ron Phillips: I get maybe that... You know, once you have so much money.

Angela Thomas: Too much money and you don't care.

Ron Phillips: I just don't know anybody like that though. Who is it that... Why would you still not care? I don't know.

Angela Thomas: I don't either.

Ron Phillips: I don't know. And if they don't care, if any of you are listening who are so rich that you don't care let me care for you. I'm volunteering. I'll take a small cut. You won't know the difference because you're used to losing money and we'll do that together. Or hey, bonus, we can buy an apartment building that'll actually pay for the beach house and we can have two at the same time and we'll just split it. Yeah, I think it's a great, I mean, all 25%, I'll only take 25%. No big deal. Come on. I think that's a great offer.

Angela Thomas: Ah, okay. So real quick to kind of wrap this up, I... There's a quote from Patrick King who's a financial planner. And he said, "vacation homes tend to be the kiss of death for most people's financial plans". I mean, yeah, basically the point of this podcast for us if we're getting real, is that most people that we talk to that are interested in vacation homes, they don't want to hear the cons. They don't want to hear the logic. Because they want a vacation home. So, you know, we just want to make sure people are being honest with themselves about what it is they're buying

Ron Phillips: And before that be honest with yourself about what you're wanting.

Angela Thomas: Yeah, thank you.

Ron Phillips: Because Bobby Joe and I really wanted a house in the Bahamas, when we sat down and said, why do we want a house in the Bahamas? It's because we love the Bahamas, but I can love the Bahamas just fine renting a house down there for \$6,000 a week, a really nice house for \$6,000 a week. I don't live down there, therefore I don't need a home down there. But I can stay for two, three weeks and then I can leave and someone else has to clean up all this stuff and I don't have to deal with any of the mess or any of the repairs or anything else and...

Angela Thomas: Or lose 25% of income on it.

Ron Phillips: And look, I lost \$18,000 and the owner of the place probably did too. But I enjoyed my \$18,000 loss and they didn't.

Angela Thomas: Yeah. Great point. Great point. So yeah, I mean like Ron was saying with that house on the beach, if, you know, if you're barely covering your mortgage and breaking even the littlest thing can make you actually lose money. You know, if there's, you have to replace a roof or a kitchen remodel or whatever you end up losing money on the deal.

Ron Phillips: Plus you just feel obligated to go there. So if you want to go to Siena, or we are actually in a Tuscan Villa up on top of the Hill looking, I mean it was beautiful.

Angela Thomas: Sounds pretty.

Ron Phillips: If I want to go there, I'm going to feel bad the whole time because I should be using that piece of crap vacation house in the Bahamas that's costing me a fortune.

Angela Thomas: Exactly.

Ron Phillips: Unless you're like one of those dudes you were talking about earlier, which you should still call me.

Angela Thomas: Yeah. All right. There you go. You have an offer from Ron. So that's it guys. That's our, that's our honest opinion on vacation rentals. If you want to argue with us or have comments about what we said or anything we didn't think of, please let us know.

Ron Phillips: Don't get on there and say some about Airbnb because we did a disclaimer already.

Angela Thomas: I know. Yeah, Airbnb is great, right?

Ron Phillips: Somebody's gonna... I have an Airbnb in Kansas City and it rocks. Okay,

Angela Thomas: Awesome. No, but we really would love to hear from you. You can comment on our Facebook, it's at Get Real Podcast or you can go to get realestatesuccess.com and comment there. Let us know any topics you guys want to hear about or comments on anything we've done thus far. Any questions you have, we'd love to hear from you and yeah, we'll see you next time. Thanks Ron.

Ron Phillips: See you.

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