

Changes in Annual Cash Flow for One Individual Property

Property Information	2 Bedroom	San Diego,
Watershed ID: 198	Apartment	California

	No Change	Conversion to Short-Term	Short-term - stable state	Short-term - stable state
	Year 1	Year 2	Year 3	Year 4
Net changes to CASH FLOW				
Long Term Rental				
1.1 Total Rental Payments - CASH IN	\$30,357	\$30,357	\$30,357	\$30,357
Short Term Rental				
1.2 Total Rental Payments - CASH IN	\$30,357	\$72,102	\$72,102	\$72,102
Change to CASH IN for short-term rental conversion	\$0	\$41,745	\$41,745	\$41,745
Change in CASH OUT for short-term rental				
1.3 Conversion Expense (Capital Expenditure)	\$0	\$25,000	\$0	\$0
1.4 Replacement Costs (Fixed Cost)	\$0	\$0	\$4,800	\$4,800
1.5 Utility Costs (Fixed Cost)	\$0	\$3,600	\$3,600	\$3,600
1.6 Per-Stay Service Costs (Variable Cost)	\$0	\$9,381	\$9,381	\$9,381
Total	\$0	\$37,981	\$17,781	\$17,781
Net Change to Cash Flow for Short-Term Conversion	\$0	\$3,764	\$23,964	\$23,964

Inputs for the Table Above				
Long-Term Rental - 1 Property	Monthly Rent	Occupancy Rate	Cash In (monthly)	Cash In (yearly)
	\$2,600	97.3%	\$2,530	\$30,356.76

Short-Term Rental - Same Property	Optimal Nightly Rent	Occupancy Rate	Cash In (monthly) after fees	Cash In (yearly)
	\$366	77%	\$6,009	\$72,102.01

Average Nights per Stay	Average Nights /month	Transaction Fees*	CAPEX (renovations) - YR 2	Annual Replacements (fixed)
3	30.4	30%	\$25,000	\$4,800

Black - numbers given in financial assumptions

Blue - numbers optimized from forecasting

Red - expense costs

Green - cash flow outputs

Utilities - Annual (fixed)	Variable Costs (per Stay)	Forecasted Stays per Year	Annual Variable Cost
\$3,600	\$100	93.8	\$9,380.95

*Transaction fees include the amounts paid to third-party services for facilitating the transaction, and hotel taxes or other occupancy fees and regulatory requirements

Financial Assumptions & Details	
1.1 Long-Term Rental Payments	Calculated as: monthly rent for that property type and location (zip code), multiplied by average occupancy rate of .5. Occupancy rate for long-term rentals is given and fixed, based on the assumption units are rented for 36 months out of the year.
1.2 Short-Term Rental Payments	Calculated as nightly rent for that property type and location, multiplied 30.4 average days per month $[365.25/12]$, multiplied by occupancy rate. Occupancy rates for short-term rentals will be an estimate from predictive model that you will develop, specific to the location. Note further that your model's short-term occupancy rate for each type of unit and location will be needed in order to calculate short-term rental payments.
1.3 Capital Expenditure for Conversion to Short-Term Rental (Furniture, Kitchen Equipment, Linens, etc.)	This is assumed to be \$30,000 . Cash out is assumed to occur in the first month that a unit is rented short-term. For example, if January of Year 1 is the first month a unit is rented short-term, then the cash out occurs in January of Year 1.
1.4 Fixed Cost - Annual Replacement of Furniture, Kitchenware, Linens, etc as they wear out.	Assumed to be \$6,000 per year - and begins after Year 1. Note that the cost of goods that wear out in a year or less is a fixed cost.
1.5 Additional Fixed Costs - Monthly Utility Bills for Water, electricity, gas, garbage pickup, internet connectivity, etc)	assumed to be \$300 per month or \$3600 per year for all units.
1.6 Variable Costs per short-term rental.	\$100 per guest stay is assumed to be the cost of providing cleaning and new linens to each guest and meeting them at the beginning of their stay. Note that Variable costs are not per night, but per each unique guest. It is therefore necessary to estimate the average length of each guest stay. For example, a unit with 66% occupancy rate for a variable cost of $20 * \$100$ or \$2,000 per month, or 5 guests who each stayed for an average of 4 nights, for $4 * \$100$ or \$400 per month. Assume here that the average length of stay for short-term rentals is 3 nights. Therefore the correct formula for estimating variable costs per short-term rental is $\text{Average Length of Stay} * \100 .
1.7 Straight-Line Depreciation of Capital Expenditure	The \$30,000 cost of furniture and equipment for conversion is allocated at the rate of \$6,000 per year using a simple straight-line depreciation method.

Black - numbers given in problem financial assumptions
Blue - numbers you must input to optimize your model
Green - outputs

All items are rounded to the nearest dollar.

The following are **not** shown in the Cash Flow calculations, and can be ignored in solving this problem, because they are assumed to be **unchanged** between Long-term and Short-term rental. Construction, purchase, or lease of the building itself. Repairs and Routine Maintenance expenses that are unchanged between long-term and short-term rental. Insurance, Property Taxes, and General and Administrative expenses such as bookkeeping for both Watershed and property owners.

*Transaction fees include the amounts paid to third-party services for facilitating the transaction, and hotel taxes or other occupancy fees and regulatory requirements

multiplied by average occupancy rate, and subtracting a **30%** fee for third-party processing, taxes and regulatory compliance

