Technical Details of Recommendation to Enter the Short-Term-Rental Market

I recommend that Watershed Properties should enter the short-term-rental (STR) market in 3 phases[1]. In phase-1, Watershed Properties will initially enter the STR market with 16 properties. These are the top-tier, the high-yielding, and the most profitable properties located in Miami, Austin, San Diego, Palo Alto, and New York. Based upon the outcomes of this initial phase, Watershed may convert more properties[2] and expand to other cities included in the analysis in the next phase next year. Listed in order of profitability, the Watershed Property IDs of those 16 phase-1 properties are:

Rank	Property ID	Location	Property Type	Optimal $ Rent/Night	Occupancy Rate (Forecast)	Annual Change in Profit after Conversion Year Forecast[3]
1	W156	Miami	house	$1595	45%	$124,582
2	W155	Miami	house	$1247	47%	$104,004
3	W164	Miami	house	$949	53%	$78,366
4	W163	Miami	house	$687	60%	$64,397
5	W107	Austin	house	$845	45%	$54,972
6	W120	Austin	house	$498	70%	$46,575
7	W108	Austin	house	$908	44%	$44,503
8	W67	Palo Alto	house	$767	59%	$40,184
9	W190	San Diego	apartment	$605	47%	$39,008
10	W152	Miami	house	$429	70%	$30,533
11	W66	Palo Alto	house	$737	48%	$29,980
12	W110	Austin	apartment	$539	46%	$27,082
13	W160	Miami	house	$376	77%	$26,949
14	W46	New York	house	$771	43%	$26,916
15	W192	San Diego	house	$512	51%	$26,513
16	W114	Austin	apartment	$458	52%	$24,723

The analysis that serves as the basis of my recommendation indicates that Watershed Properties and its client would benefit from *$885,287* of increased profits during the first year, and yearly profits of *$789,287* every year thereafter if phase-1 recommendation is enacted and no action is taken to implement phase-2 and phase-3 recommendation. The initial capital investment needed to implement phase-1 recommendation would be *($480,000)*. This analysis is based on financial assumptions that were confirmed by company and industry experts, but sensitivity analysis indicate that Watershed should enter the short-term-rental market with their client, even if these initial assumptions need to be revised. Below, I describe the analysis I used to arrive at my conclusion, and report the results of my sensitivity analysis that assesses how expected profits and needed capital expenditure would change if my assumptions are modified.

Analysis Summary

I modeled the relationship between nightly rental price and occupancy rate for short-term-rental properties using data from current short-term-rentals managed by other companies and owners. I used this model to predict the short-term rental price that would maximize profits from each of Watershed's client's properties if it were managed as a short-term-rental property. The metrics I report are based on the sum of the forecasted profits that would be gained and the forecasted capital investment that would be needed if my recommendation is followed, after the following are taken into account: (1) initial furnishing costs, (2) upkeep costs, (3) internet service fees, (4) regulatory fees, (5) hospitality charges (including key service and cleaning), (6) typical duration of stay, and (7) utilities. The details of the assumptions I used are provided below (Table 1), followed by a description of the results of my sensitivity analysis.

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[1] see Page 4 Table 4

[2] see Page 5 Table 5

[3] based upon original agreed financial assumption specified in Page 2 Table 1

Analysis Assumptions and Sensitivity Analysis Ranges

Table 1

Consideration	Assumed Value	Source of Original Assumed Value	Minimum Value Tested (Best Case)	Maximum Value Tested (Worst Case)	Rationale for Range of Values Tested
Additional profit needed for a property to be considered "more profitable as a short-term-rental"	$6,000	Watershed Financial Department	$5,100	$9,000	-15% / +50% of original assumed value
Cost to convert property to short-term-rental (includes furnishing and decorating)	$30,000	Watershed Marketing Department	$25,500	$45,000	-15% / +50% of original assumed value
Years to depreciate capital expenditures	5	Watershed Financial Department	7	3	+2 years / -2 years expectation of wear and tear
Yearly upkeep costs per property	$6,000	Watershed Marketing Department	$5,100	$9,000	-15% / +50% of original assumed value
Service fees to short-term stay website (e.g. Airbnb)	20%	Watershed Marketing Department	17%	30%	-15% / +50% of original assumed value
Regulatory fees (taxes and potential legal fees)	10%	Watershed Financial Department	8.5%	15%	-15% / +50% of original assumed value
Hospitality charges (key service, cleaning, re-stocking)	$100	Watershed Financial Department	$85	$150	-15% / +50% of original assumed value
Typical stay duration (days)	3	Watershed Marketing Department	7	1	One full week to minimum possible stay
Yearly utilities costs per property	$3,600	Watershed Financial Department	$3,060	$5,400	-15% / +50% of original assumed value

As agreed upon at the beginning of the project, some issues were NOT incorporated into the analysis, but could be incorporated in the future to help optimize short-term-rental rates or to further refine projected profits (Table 2):

Table 2

Factor not included in analysis	Reason for exclusion from analysis
Weekly or seasonal changes in rental prices/occupancy rates	Instructions from Project Manager
Promotions, coupons, or special events	Instructions from Project Manager
Loss in rental income while property is converted	Instructions from Project Manager
Differences in utility rates across properties	Instructions from Watershed Financial Department

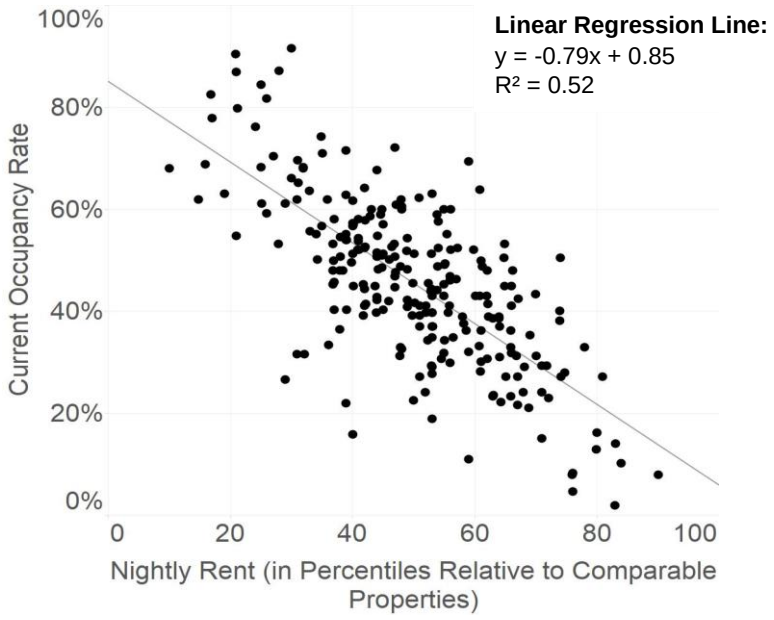
A dashboard has been created to illustrate the effects of changing these assumptions on predicted profits and required capital investment that is available to anybody on the team by request. **If phase-1 recommendation is enacted and no action is taken to implement phase-2 and phase-3 recommendation as shown in Page 9 Table 6 and Page 9 Table 7, the minimum additional profits Watershed could earn when the assumptions were modified within the ranges described above was *$104,993***, if all the properties that are "more profitable" as a short-term-rental are converted. **The maximum additional profits Watershed could earn when the assumptions were modified within the ranges described above was *$1,077,477*** if all the properties that are "more profitable" as a short-term-rental are converted. The modified set of parameters associated with this minimum and maximum value are provided below (Table 3). Overall, the parameter that affected profits most was Service and Regulatory Fees.

Table 3

Consideration	Value in Assumption Set that led to Minimum Profits	Value in Assumption Set that led to Maximum Profits
Additional profit needed for a property to be considered "more profitable as a short-term-rental"	$9,000	$5,100
Cost to convert property to short-term-rental (includes furnishing and decorating)	$45,000	$25,500
Years to depreciate capital expenditures	3	7
Yearly upkeep costs per property	$9,000	$5,100
Service fees to short-term stay website (e.g. Airbnb)	30%	17%
Regulatory fees (taxes and potential legal fees)	15%	8.5%
Hospitality charges (key service, cleaning, re-stocking)	$150	$85
Typical stay duration (days)	1	7
Yearly utilities costs per property	$5,400	$3,060

Predictive Modeling Details

I was provided with four types of information about short-term-rentals of the same type (number of bedrooms, apartment or house, kitchen availability, unshared property) and in the same location as Watershed's client's 244 properties: a typical short-term nightly rental rate, the corresponding occupancy rate for the property with that rental rate, the 10th percentile nightly rental rate, and the 90th percentile nightly rental rate. When the typical rental prices were expressed in terms of percentiles relative to properties of the same type and in the same location—but not when they were analyzed as raw dollar values—they correlated linearly with occupancy rates:



I used the parameters of the regression line and Excel's Solver optimization function to find the rental price and occupancy rate that would maximize the profits expected from each of Watershed's client's 244 properties. Any optimized price below the 10th percentile rate was replaced with the 10th percentile rate, and any optimized price above the 90th percentile rate was replaced with the 90th percentile rate, in order to account for lack of data outside of these ranges in the linear model. These optimized rental rates were entered into a financial cash flow and profit model that computed the expected revenue from each property based on its projected occupancy rate, and the expected costs according to the financial assumptions described above.

Appendix 1A - Implementation Strategy – Original Condition

Based on an initial investment of $500,000 and original agreed financial assumption obtained during the elicitation process, Watershed Properties is suggested to enter short-term-rental market in 3 phases until all profitable properties above the given threshold are converted into short-term-rental properties as illustrated bellow (Table 4):

Table 4

Phase-1 Year-1	Phase-2 Year-2	Phase-3 Year-3
• Selected properties for STR conversion : rank 1-16 properties • Total number of properties converted : 16 properties • Cash needed to convert : $480,000 • Cash needed to maintain : $153,600 per year after conversion year	• Selected properties for STR conversion : rank 17-32 properties • Total number of properties converted : 32 properties • Cash needed to convert : $480,000 • Cash needed to maintain : $307,200 per year after conversion year	• Selected properties for STR conversion : rank 33-41 properties • Total number of properties converted : 41 properties • Cash needed to convert : $270,000 • Cash needed to maintain : $393,600 per year after conversion year

The selected properties for phase-1, phase-2, and phase-3 short-term-rental conversion are chosen in regard to the rank of their profitability from the most profitable to the least profitable properties, from the highest-yielding properties to the lowest-yielding properties, regardless of their type, number of bedroom, and location. The idea is to maximize cash inflows generated during the first conversion year in order to minimize additional investment needed for converting number of properties to STR properties in the following years, thus minimizing the amount of risk. The number of properties converted in each phase varies with regard to the amount of the initial investment as well as the initial furnishing costs described by the formula below:

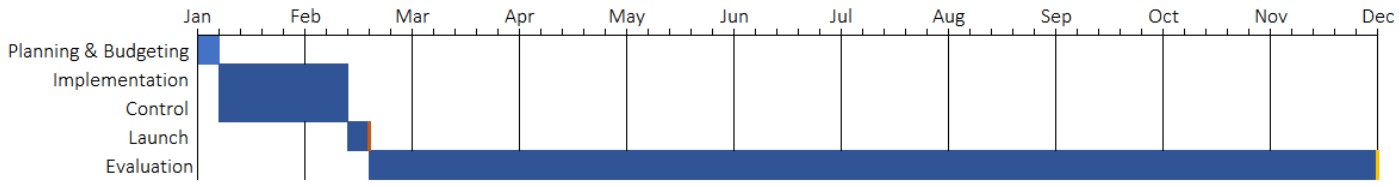
$$\text{Number of Properties Converted} = \frac{\text{Initial Investment}}{\text{Initial Furnishing Costs}}$$

The value for cash needed to convert as well as the value for cash needed to maintain per year after conversion year in each phase in each year are calculated based on the formula below:

$$\text{Cash Needed to Convert} = \text{Number of Properties Converted x Initial Furnishing Costs}$$

$$\text{Cash Needed to Maintain} = \text{Number of Properties Converted x (Upkeep Costs + Utilities Fee)}$$

From phase-2 onward, the properties selected for STR conversion may differ from the illustration shown in Table 4 above with respect to the previous phase performance and changing financial assumption. If the discrepancy between forecast and actual financial parameters are high, an amendment to the list of properties selected for STR conversion may be needed with regard to the latest financial assumption in order to maximize potential revenues generated for Watershed Properties before entering the subsequent conversion phase. The proposed timeline for properties conversion for period of one phase is shown below:



Milestone-1 : succesfuly launch numbers of assigned properties onto the short-term-rental market
Milestone-2 : begin the next iteration for the subsequent conversion phase

Appendix 1B - Profitable Properties – Original Condition

Based upon original agreed financial assumption obtained during the elicitation process, there are 41 profitable properties with after conversion year annual change in profit are above the profitability threshold of $6,000. Listed in order of profitability, the Watershed Property IDs of those 41 profitable properties are (Table 5):

Table 5

Rank	Property ID	City	Property Type	Optimal $ Rent/Night	Occupancy Rate Forecast	Annual Change in Profit After Conversion Year Forecast
1	W156	Miami	house	$1,595	45%	$124,582
2	W155	Miami	house	$1,247	47%	$104,004
3	W164	Miami	house	$949	53%	$78,366
4	W163	Miami	house	$687	60%	$64,397
5	W107	Austin	house	$846	45%	$54,972
6	W120	Austin	house	$499	70%	$46,575
7	W108	Austin	house	$908	44%	$44,503
8	W67	Palo Alto	house	$767	59%	$40,184
9	W190	San Diego	apartment	$605	47%	$39,008
10	W152	Miami	house	$429	70%	$30,533
11	W66	Palo Alto	house	$737	48%	$29,980
12	W110	Austin	apartment	$539	46%	$27,082
13	W160	Miami	house	$376	77%	$26,949
14	W46	New York	house	$771	43%	$26,916
15	W192	San Diego	house	$512	51%	$26,513
16	W114	Austin	apartment	$458	52%	$24,723
17	W112	Austin	house	$501	51%	$24,573
18	W119	Austin	house	$498	50%	$24,551
19	W111	Austin	house	$486	45%	$20,256
20	W188	San Diego	house	$500	50%	$19,866
21	W144	Denver	house	$335	77%	$18,866
22	W116	Austin	house	$348	60%	$17,377
23	W157	Miami	apartment	$291	77%	$17,198
24	W115	Austin	house	$306	66%	$17,163
25	W198	San Diego	apartment	$366	77%	$16,804
26	W159	Miami	house	$287	77%	$15,242
27	W47	New York	house	$599	50%	$13,573
28	W118	Austin	apartment	$317	66%	$13,289
29	W199	San Diego	house	$369	70%	$12,917
30	W50	New York	house	$619	43%	$12,462
31	W143	Denver	house	$269	75%	$11,916
32	W196	San Diego	house	$535	45%	$11,531
33	W103	Austin	house	$371	53%	$9,555
34	W123	Bentonville	house	$215	77%	$9,222
35	W28	Chicago	house	$441	48%	$8,229
36	W179	Omaha	house	$263	60%	$7,896
37	W168	Miami	house	$285	77%	$7,843
38	W194	San Diego	apartment	$464	44%	$7,439
39	W54	New York	house	$517	43%	$6,996
40	W109	Austin	apartment	$320	49%	$6,945
41	W130	Denver	apartment	$253	70%	$6,095

Appendix 1C.1 – Summary of Converted Properties at Phase 1 Conversion – Original Condition

Converted properties by type:

Type	Total Number	Number of Converted Properties	% of Converted Properties
1 BR Apartment	62	-	-
2 BR Apartment	62	3	5%
1 BR House	60	5	8%
2 BR House	60	8	13%

Converted properties by state:

State	Total Number	Number of Converted Properties	% of Converted Properties
AR	8	-	-
CA	60	4	7%
CO	20	-	-
FL	20	6	30%
IL	20	-	-
NC	16	-	-
NE	16	-	-
NY	24	1	4%
OH	12	-	-
SC	12	-	-
TX	20	5	25%
VA	16	-	-

Appendix 1C.2 – Summary of Converted Properties at Phase 1-3 Conversion - Original Condition

Converted properties by type:

Type	Total Number	Number of Converted Properties	% of Converted Properties
1 BR Apartment	62	2	3%
2 BR Apartment	62	7	11%
1 BR House	60	16	27%
2 BR House	60	16	27%

Converted properties by state:

State	Total Number	Number of Converted Properties	% of Converted Properties
AR	8	1	13%
CA	60	9	15%
CO	20	3	15%
FL	20	9	45%
IL	20	1	5%
NC	16	-	-
NE	16	1	6%
NY	24	4	17%
OH	12	-	-
SC	12	-	-
TX	20	13	65%
VA	16	-	-

Appendix 1D.1 – Projected Net Change in Cash-Flow for Phase-1 Conversion - Original Condition[1]

	Unchanged	Phase-1	Stable Year	Stable Year	Stable Year
Cash Inflows	Year-0	Year-1	Year-2	Year-3	Year-4
Long Term Rental					
1.1 Total Rental Payments (presented as Opportunity Costs)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)
Short Term Rental (STR)					
1.2 Total Rental Payments	$ 927,048.65	$ 2,070,292.93	$ 2,070,292.93	$ 2,070,292.93	$ 2,070,292.93
Change in Cash Inflows for STR conversion	$ -	$ 1,143,244.28	$ 1,143,244.28	$ 1,143,244.28	$ 1,143,244.28
Cash Outflows					
Capital Expenditure					
1.3 Initial Furnishing Costs	$ -	$ (480,000.00)	$ -	$ -	$ -
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (96,000.00)	$ (96,000.00)	$ (96,000.00)
1.5 Utilities Costs	$ -	$ (57,600.00)	$ (57,600.00)	$ (57,600.00)	$ (57,600.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (104,357.02)	$ (104,357.02)	$ (104,357.02)	$ (104,357.02)
Change in Cash Outflows for STR conversion	$ -	$ (641,957.02)	$ (257,957.02)	$ (257,957.02)	$ (257,957.02)
Net Change in Cash Flow for STR conversion	$ -	$ 501,287.26	$ 885,287.26	$ 885,287.26	$ 885,287.26

Appendix 1D.2 – Projected Net Change in Profit for Phase-1 Conversion - Original Condition[2]

	Unchanged	Phase-1	Stable Year	Stable Year	Stable Year
Profit and Loss	Year-0	Year-1	Year-2	Year-3	Year-4
Long Term Rental					
1.1 Total Rental Revenues (presented as Opportunity Loss)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)
Short Term Rental (STR)					
1.2 Total Rental Revenues	$ 927,048.65	$ 2,070,292.93	$ 2,070,292.93	$ 2,070,292.93	$ 2,070,292.93
Change in Revenues for STR conversion	$ -	$ 1,143,244.28	$ 1,143,244.28	$ 1,143,244.28	$ 1,143,244.28
Allocated Expenses					
Capital Expenditure					
1.7 Capital Expenditure Straight-Line Depreciation	$ -	$ (96,000.00)	$ (96,000.00)	$ (96,000.00)	$ (96,000.00)
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (96,000.00)	$ (96,000.00)	$ (96,000.00)
1.5 Utilities Costs	$ -	$ (57,600.00)	$ (57,600.00)	$ (57,600.00)	$ (57,600.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (104,357.02)	$ (104,357.02)	$ (104,357.02)	$ (104,357.02)
Change in Expenses for STR conversion	$ -	$ (257,957.02)	$ (353,957.02)	$ (353,957.02)	$ (353,957.02)
Net Change in Profit/(Loss) for STR conversion	$ -	$ 885,287.26	$ 789,287.26	$ 789,287.26	$ 789,287.26

[1 and 2] based upon original agreed financial assumption specified in Page 2 Table 1 and implementation strategy illustrated in Page 4 Table 4

Appendix 1D.3 – Projected Net Change in Cash-Flow for Phase 1-3 Conversion - Original Condition[1]

Cash Inflows	Unchanged Year-0	Phase-1 Year-1	Phase-2 Year-2	Phase-3 Year-3	Stable Year Year-4
Long Term Rental					
1.1 Total Rental Payments (presented as Opportunity Costs)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)
Short Term Rental (STR)					
1.2 Total Rental Payments	$ 927,048.65	$ 2,070,292.93	$ 2,706,580.32	$ 2,980,614.92	$ 2,980,614.92
Change in Cash Inflows for STR conversion	$ -	$ 1,143,244.28	$ 1,779,531.67	$ 2,053,566.27	$ 2,053,566.27
Cash Outflows					
Capital Expenditure					
1.3 Initial Furnishing Costs	$ -	$ (480,000.00)	$ (480,000.00)	$ (270,000.00)	$ -
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (96,000.00)	$ (192,000.00)	$ (246,000.00)
1.5 Utilities Costs	$ -	$ (57,600.00)	$ (115,200.00)	$ (147,600.00)	$ (147,600.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (104,357.02)	$ (223,458.52)	$ (286,874.09)	$ (286,874.09)
Change in Cash Outflows for STR conversion	$ -	$ (641,957.02)	$ (914,658.52)	$ (896,474.09)	$ (680,474.09)
Net Change in Cash Flow for STR conversion	$ -	$ 501,287.26	$ 864,873.16	$ 1,157,092.17	$ 1,373,092.17

Appendix 1D.4 – Projected Net Change in Profit for Phase 1-3 Conversion - Original Condition[2]

Profit and Loss	Unchanged Year-0	Phase-1 Year-1	Phase-2 Year-2	Phase-3 Year-3	Stable Year Year-4
Long Term Rental					
1.1 Total Rental Revenues (presented as Opportunity Loss)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)
Short Term Rental (STR)					
1.2 Total Rental Revenues	$ 927,048.65	$ 2,070,292.93	$ 2,706,580.32	$ 2,980,614.92	$ 2,980,614.92
Change in Revenues for STR conversion	$ -	$ 1,143,244.28	$ 1,779,531.67	$ 2,053,566.27	$ 2,053,566.27
Allocated Expenses					
Capital Expenditure					
1.7 Capital Expenditure Straight-Line Depreciation	$ -	$ (96,000.00)	$ (192,000.00)	$ (246,000.00)	$ (246,000.00)
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (96,000.00)	$ (192,000.00)	$ (246,000.00)
1.5 Utilities Costs	$ -	$ (57,600.00)	$ (115,200.00)	$ (147,600.00)	$ (147,600.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (104,357.02)	$ (223,458.52)	$ (286,874.09)	$ (286,874.09)
Change in Expenses for STR conversion	$ -	$ (257,957.02)	$ (626,658.52)	$ (872,474.09)	$ (926,474.09)
Net Change in Profit/(Loss) for STR conversion	$ -	$ 885,287.26	$ 1,152,873.16	$ 1,181,092.17	$ 1,127,092.17

[1 and 2] based upon original agreed financial assumption specified in Page 2 Table 1 and implementation strategy illustrated in Page 4 Table 4

Appendix 2A – Implementation Strategy - Unfavorable Condition

Implementation Strategy in an unfavorable condition which financial parameters are based upon worst case financial assumption specified in Page 3 Table 3 that led to minimum profits is shown in Table 6 below:

Table 6

Phase-1
Year-1
• Selected properties for STR conversion : rank 1-3 properties • Total number of properties converted : 3 properties • Cash needed to convert : $135,000 • Cash needed to maintain : $43,200 per year after conversion year

Appendix 2B – Profitable Properties - Unfavorable Condition

Based upon unfavorable financial assumption, there are 3 profitable properties with after conversion year annual change in profit are above the profitability threshold of $9,000. Listed in order of profitability, the Watershed Property IDs of those 3 profitable properties are (Table 7):

Table 7

Rank	Property ID	City	Property Type	Optimal $ Rent/Night	Occupancy Rate Forecast	Annual Change in Profit After Conversion Year Forecast
1	W156	Miami	house	$1,595	45%	$52,441
2	W155	Miami	house	$1,247	47%	$38,071
3	W164	Miami	house	$949	53%	$14,481

Appendix 2C – Summary of Converted Properties at Phase 1 Conversion - Unfavorable Condition

Converted properties by type:

Type	Total Number	Number of Converted Properties	% of Converted Properties
1 BR Apartment	62	-	-
2 BR Apartment	62	-	-
1 BR House	60	1	1%
2 BR House	60	2	3%

Converted properties by state:

State	Total Number	Number of Converted Properties	% of Converted Properties
AR	8	-	-
CA	60	-	-
CO	20	-	-
FL	20	3	15%
IL	20	-	-
NC	16	-	-
NE	16	-	-
NY	24	-	-
OH	12	-	-
SC	12	-	-
TX	20	-	-
VA	16	-	-

Appendix 2D.1 – Projected Net Change in Cash-Flow for Phase-1 Conversion - Unfavorable Condition[1]

	Unchanged	Phase-1	Stable Year	Stable Year	Replacement Year
Cash Inflows	Year-0	Year-1	Year-2	Year-3	Year-4
Long Term Rental					
1.1 Total Rental Payments (presented as Opportunity Costs)	$ (89,902.70)	$ (89,902.70)	$ (89,902.70)	$ (89,902.70)	$ (89,902.70)
Short Term Rental (STR)					
1.2 Total Rental Payments	$ 89,902.70	$ 362,439.60	$ 362,439.60	$ 362,439.60	$ 362,439.60
Change in Cash Inflows for STR conversion	$ -	$ 272,536.90	$ 272,536.90	$ 272,536.90	$ 272,536.90
Cash Outflows					
Capital Expenditure					
1.3 Initial Furnishing Costs	$ -	$ (135,000.00)	$ -	$ -	$ (135,000.00)
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (27,000.00)	$ (27,000.00)	
1.5 Utilities Costs	$ -	$ (16,200.00)	$ (16,200.00)	$ (16,200.00)	$ (16,200.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (79,343.97)	$ (79,343.97)	$ (79,343.97)	$ (79,343.97)
Change in Cash Outflows for STR conversion	$ -	$ (230,543.97)	$ (122,543.97)	$ (122,543.97)	$ (230,543.97)
Net Change in Cash Flow for STR conversion	$ -	$ 41,992.93	$ 149,992.93	$ 149,992.93	$ 41,992.93

Appendix 2D.2 – Projected Net Change in Profit for Phase-1 Conversion - Unfavorable Condition[2]

	Unchanged	Phase-1	Stable Year	Stable Year	Replacement Year
Profit and Loss	Year-0	Year-1	Year-2	Year-3	Year-4
Long Term Rental					
1.1 Total Rental Revenues (presented as Opportunity Loss)	$ (89,902.70)	$ (89,902.70)	$ (89,902.70)	$ (89,902.70)	$ (89,902.70)
Short Term Rental (STR)					
1.2 Total Rental Revenues	$ 89,902.70	$ 362,439.60	$ 362,439.60	$ 362,439.60	$ 362,439.60
Change in Revenues for STR conversion	$ -	$ 272,536.90	$ 272,536.90	$ 272,536.90	$ 272,536.90
Allocated Expenses					
Capital Expenditure					
1.7 Capital Expenditure Straight-Line Depreciation	$ -	$ (45,000.00)	$ (45,000.00)	$ (45,000.00)	$ (45,000.00)
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (27,000.00)	$ (27,000.00)	$ -
1.5 Utilities Costs	$ -	$ (16,200.00)	$ (16,200.00)	$ (16,200.00)	$ (16,200.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (79,343.97)	$ (79,343.97)	$ (79,343.97)	$ (79,343.97)
Change in Expenses for STR conversion	$ -	$ (140,543.97)	$ (167,543.97)	$ (167,543.97)	$ (140,543.97)
Net Change in Profit/(Loss) for STR conversion	$ -	$ 131,992.93	$ 104,992.93	$ 104,992.93	$ 131,992.93

[1 and 2] based upon value in assumption set that led to minimum profits specified in Page 3 Table 3 and implementation strategy illustrated in Page 9 Table 6

Appendix 3A – Implementation Strategy - Favorable Condition

Implementation Strategy in a favorable condition which financial parameters are based upon best case financial assumption specified in Page 3 Table 3 that led to maximum profits is shown in Table 8 below:

Table 8

Phase-1 Year-1	Phase-2 Year-2	Phase-3 Year-3
• Selected properties for STR conversion : rank 1-18 properties • Total number of properties converted : 18 properties • Cash needed to convert : $459,000 • Cash needed to maintain : $146,880 per year after conversion year	• Selected properties for STR conversion : rank 19-36 properties • Total number of properties converted : 36 properties • Cash needed to convert : $459,000 • Cash needed to maintain : $293,760 per year after conversion year	• Selected properties for STR conversion : rank 37-46 properties • Total number of properties converted : 46 properties • Cash needed to convert : $255,000 • Cash needed to maintain : $375,360 per year after conversion year

To anticipate the changing financial condition, the number of properties converted in each phase and the selected properties for STR conversion in the above illustration are adjusted with regard to the amount of cash needed to convert for each phase specified in Table 4 which values are presented as follows: $480,000 for Phase-1, $480,000 for Phase-2, and $270,000 for Phase 3.

Substantively, there would be 112 out of 244 properties that would become profitable in a favorable condition, a more than 150 % increase from 41 properties qualified as profitable based upon original agreed financial assumption. In addition, converting all of those 112 properties in a favorable condition in one year would require an initial investment of $2,856,000 and would affect Watershed Properties financial as follows (Table 9):

Table 9

Conversion Year		Every Year Thereafter	
Δ Profit	Δ Cash	Δ Profit	Δ Cash
$2,975,024	$527,024	$2,403,824	$2,811,824

However, due to unforeseen future circumstances and changing financial condition, it is not recommended to convert all of those 112 properties to short-term-rental properties. With regard to minimize risk, it is highly suggested to follow Page 11 Table 8 recommendation.

Appendix 3B – Profitable Properties - Favorable Condition

Based upon favorable financial assumption, there are 112 profitable properties with after conversion year annual change in profit are above the profitability threshold of $5,100. Listed in order of profitability, the Watershed Property IDs of those 112 profitable properties are (Table 10):

Table 10

Rank	Property ID	City	Property Type	Optimal $ Rent/Night	Occupancy Rate Forecast	Annual Change in Profit After Conversion Year Forecast
1	W156	Miami	house	$1,595	45%	$142,311
2	W155	Miami	house	$1,247	47%	$120,000
3	W164	Miami	house	$949	53%	$93,600
4	W163	Miami	house	$687	60%	$78,798
5	W107	Austin	house	$846	45%	$67,790
6	W120	Austin	house	$499	70%	$60,908
7	W108	Austin	house	$908	44%	$57,608

8	W67	Palo Alto	house	$767	59%	$55,140
9	W190	San Diego	apartment	$605	47%	$50,655
10	W152	Miami	house	$429	70%	$44,149
11	W66	Palo Alto	house	$737	48%	$42,608
13	W160	Miami	house	$376	77%	$40,949
13	W46	New York	house	$771	43%	$38,919
14	W192	San Diego	house	$512	51%	$38,103
12	W110	Austin	apartment	$539	46%	$38,067
16	W112	Austin	house	$501	51%	$36,015
16	W114	Austin	apartment	$458	52%	$35,993
18	W119	Austin	house	$498	50%	$35,866
19	W144	Denver	house	$335	77%	$32,405
20	W188	San Diego	house	$500	50%	$31,165
21	W198	San Diego	apartment	$366	77%	$30,692
22	W111	Austin	house	$486	45%	$30,657
23	W157	Miami	apartment	$291	77%	$30,241
24	W115	Austin	house	$306	66%	$28,965
25	W116	Austin	house	$348	60%	$28,819
26	W159	Miami	house	$287	77%	$28,240
27	W199	San Diego	house	$369	70%	$25,942
28	W47	New York	house	$599	50%	$25,561
29	W118	Austin	apartment	$317	66%	$25,216
30	W143	Denver	house	$269	75%	$24,511
31	W50	New York	house	$619	43%	$23,507
32	W196	San Diego	house	$535	45%	$22,362
33	W123	Bentonville	house	$215	77%	$21,409
34	W168	Miami	house	$285	77%	$20,817
35	W103	Austin	house	$371	53%	$20,323
36	W28	Chicago	house	$441	48%	$18,846
37	W179	Omaha	house	$263	60%	$18,601
38	W81	San Francisco	apartment	$454	61%	$18,047
39	W130	Denver	apartment	$253	70%	$17,909
40	W180	Omaha	house	$209	77%	$17,823
41	W194	San Diego	apartment	$464	44%	$17,563
42	W54	New York	house	$517	43%	$17,396
43	W109	Austin	apartment	$320	49%	$16,844
44	W177	Omaha	apartment	$192	77%	$16,616
45	W175	Omaha	house	$261	61%	$16,566
46	W19	Chicago	house	$482	48%	$16,031
47	W102	Austin	apartment	$352	56%	$15,786
48	W72	Palo Alto	house	$549	59%	$15,720
49	W167	Miami	house	$226	77%	$15,528
50	W187	San Diego	house	$363	45%	$15,480
51	W31	Chicago	house	$473	48%	$15,448
52	W124	Bentonville	house	$206	76%	$15,272
53	W189	San Diego	apartment	$249	60%	$15,154
54	W151	Miami	house	$222	77%	$14,694
55	W35	Chicago	house	$484	48%	$14,527

56	W202	San Diego	apartment	$253	70%	$14,380
57	W101	Austin	apartment	$305	54%	$14,331
58	W117	Austin	apartment	$260	58%	$14,313
59	W176	Omaha	house	$228	70%	$14,238
60	W195	San Diego	house	$356	50%	$14,184
61	W27	Chicago	house	$289	54%	$13,677
62	W178	Omaha	apartment	$196	75%	$13,210
63	W243	Charleston	house	$225	77%	$12,984
64	W186	San Diego	apartment	$331	48%	$12,983
65	W182	Omaha	apartment	$313	45%	$12,902
66	W200	San Diego	house	$343	76%	$12,869
67	W23	Chicago	house	$493	48%	$12,715
68	W34	Chicago	house	$344	54%	$12,324
69	W220	Richmond	house	$231	74%	$12,190
70	W219	Richmond	house	$211	76%	$12,023
71	W234	Charleston	apartment	$220	77%	$11,650
72	W184	Omaha	house	$330	44%	$11,519
73	W95	San Francisco	house	$522	51%	$11,374
74	W171	Omaha	house	$284	53%	$11,362
75	W154	Miami	apartment	$401	49%	$11,308
76	W71	Palo Alto	house	$600	48%	$10,992
77	W183	Omaha	house	$288	45%	$10,939
78	W191	San Diego	house	$270	54%	$10,250
79	W80	Palo Alto	house	$462	59%	$10,037
80	W126	Bentonville	apartment	$288	44%	$9,826
81	W51	New York	house	$516	50%	$9,696
82	W122	Bentonville	apartment	$190	66%	$9,676
83	W105	Austin	apartment	$278	49%	$9,650
84	W55	New York	house	$437	50%	$9,555
85	W61	Palo Alto	apartment	$296	70%	$9,487
86	W63	Palo Alto	house	$442	59%	$9,340
87	W42	New York	apartment	$526	45%	$9,288
88	W201	San Diego	apartment	$222	63%	$9,263
89	W58	New York	house	$476	43%	$9,090
90	W128	Bentonville	house	$287	48%	$8,945
91	W129	Denver	apartment	$249	54%	$8,333
92	W236	Charleston	house	$224	77%	$8,164
93	W139	Denver	house	$181	77%	$7,318
94	W148	Denver	house	$266	58%	$7,250
95	W158	Miami	apartment	$203	77%	$7,232
96	W197	San Diego	apartment	$241	66%	$7,063
97	W70	Palo Alto	apartment	$302	70%	$6,977
98	W215	Columbus	house	$187	63%	$6,952
99	W65	Palo Alto	apartment	$301	70%	$6,951
100	W22	Chicago	house	$361	54%	$6,532
101	W174	Omaha	apartment	$157	76%	$6,449
102	W207	Columbus	house	$166	71%	$6,444
103	W138	Denver	apartment	$266	53%	$6,394

104	W170	Omaha	apartment	$220	62%	$6,198
105	W208	Columbus	house	$205	67%	$6,138
106	W232	Richmond	house	$209	69%	$6,092
107	W125	Bentonville	apartment	$207	50%	$5,675
108	W104	Austin	house	$368	53%	$5,502
109	W18	Chicago	house	$338	54%	$5,477
110	W203	San Diego	house	$155	77%	$5,402
111	W121	Bentonville	apartment	$132	77%	$5,280
112	W224	Richmond	house	$195	77%	$5,273

Appendix 3C.1 – Summary of Converted Properties at Phase 1 Conversion in Favorable Condition

Converted properties by type (null rows are removed):

Type	Total Number	Number of Converted Properties	% of Converted Properties
2 BR Apartment	62	3	5%
1 BR House	60	6	10%
2 BR House	60	9	15%

Converted properties by state (null rows are removed):

State	Total Number	Number of Converted Properties	% of Converted Properties
CA	60	4	7%
FL	20	6	30%
NY	24	1	4%
TX	20	7	35%

Appendix 3C.1 – Summary of Converted Properties at Phase 1-3 Conversion in Favorable Condition

Converted properties by type:

Type	Total Number	Number of Converted Properties	% of Converted Properties
1 BR Apartment	62	3	5%
2 BR Apartment	62	8	13%
1 BR House	60	17	28%
2 BR House	60	18	30%

Converted properties by state:

State	Total Number	Number of Converted Properties	% of Converted Properties
AR	8	1	13%
CA	60	11	18%
CO	20	3	15%
FL	20	8	40%
IL	20	2	10%
NC	16	-	-
NE	16	4	25%
NY	24	4	17%
OH	12	-	-
SC	12	-	-
TX	20	13	65%
VA	16	-	-

Appendix 3D.1 – Projected Net Change in Cash-Flow for Phase-1 Conversion - Favorable Condition[1]

	Unchanged	Phase-1	Stable Year	Stable Year	Stable Year
Cash Inflows	Year-0	Year-1	Year-2	Year-3	Year-4
Long Term Rental					
1.1 Total Rental Payments (presented as Opportunity Costs)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)
Short Term Rental (STR)					
1.2 Total Rental Payments	$ 2,506,417.30	$ 3,838,832.26	$ 3,838,832.26	$ 3,838,832.26	$ 3,838,832.26
Change in Cash Inflows for STR conversion	$ -	$ 1,332,414.96	$ 1,332,414.96	$ 1,332,414.96	$ 1,332,414.96
Cash Outflows					
Capital Expenditure					
1.3 Initial Furnishing Costs	$ -	$ (459,000.00)	$ -	$ -	$ -
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (91,800.00)	$ (91,800.00)	$ (91,800.00)
1.5 Utilities Costs	$ -	$ (55,080.00)	$ (55,080.00)	$ (55,080.00)	$ (55,080.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (42,486.71)	$ (42,486.71)	$ (42,486.71)	$ (42,486.71)
Change in Cash Outflows for STR conversion	$ -	$ (556,566.71)	$ (189,366.71)	$ (189,366.71)	$ (189,366.71)
Net Change in Cash Flow for STR conversion	$ -	$ 775,848.26	$ 1,143,048.26	$ 1,143,048.26	$ 1,143,048.26

Appendix 3D.2 – Projected Net Change in Profit for Phase-1 Conversion - Favorable Condition[2]

	Unchanged	Phase-1	Stable Year	Stable Year	Stable Year
Profit and Loss	Year-0	Year-1	Year-2	Year-3	Year-4
Long Term Rental					
1.1 Total Rental Revenues (presented as Opportunity Loss)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)
Short Term Rental (STR)					
1.2 Total Rental Revenues	$ 2,506,417.30	$ 3,838,832.26	$ 3,838,832.26	$ 3,838,832.26	$ 3,838,832.26
Change in Revenues for STR conversion	$ -	$ 1,332,414.96	$ 1,332,414.96	$ 1,332,414.96	$ 1,332,414.96
Allocated Expenses					
Capital Expenditure					
1.7 Capital Expenditure Straight-Line Depreciation	$ -	$ (65,571.43)	$ (65,571.43)	$ (65,571.43)	$ (65,571.43)
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (91,800.00)	$ (91,800.00)	$ (91,800.00)
1.5 Utilities Costs	$ -	$ (55,080.00)	$ (55,080.00)	$ (55,080.00)	$ (55,080.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (42,486.71)	$ (42,486.71)	$ (42,486.71)	$ (42,486.71)
Change in Expenses for STR conversion	$ -	$ (163,138.13)	$ (254,938.13)	$ (254,938.13)	$ (254,938.13)
Net Change in Profit/(Loss) for STR conversion	$ -	$ 1,169,276.83	$ 1,077,476.83	$ 1,077,476.83	$ 1,077,476.83

[1 and 2] based upon value in assumption set that led to maximum profits specified in Page 3 Table 3 and implementation strategy illustrated in Page 11 Table 8

Appendix 3D.3 – Projected Net Change in Cash-Flow for Phase 1-3 Conversion - Favorable Condition[1]

	Unchanged	Phase-1	Phase-2	Phase-3	Stable Year
Cash Inflows	Year-0	Year-1	Year-2	Year-3	Year-4
Long Term Rental					
1.1 Total Rental Payments (presented as Opportunity Costs)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)
Short Term Rental (STR)					
1.2 Total Rental Payments	$ 2,506,417.30	$ 3,838,832.26	$ 4,571,197.08	$ 4,888,757.07	$ 4,888,757.07
Change in Cash Inflows for STR conversion	$ -	$ 1,332,414.96	$ 2,064,779.78	$ 2,382,339.77	$ 2,382,339.77
Cash Outflows					
Capital Expenditure					
1.3 Initial Furnishing Costs	$ -	$ (459,000.00)	$ (459,000.00)	$ (255,000.00)	$ -
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (91,800.00)	$ (183,600.00)	$ (234,600.00)
1.5 Utilities Costs	$ -	$ (55,080.00)	$ (110,160.00)	$ (140,760.00)	$ (140,760.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (42,486.71)	$ (92,723.39)	$ (118,860.28)	$ (118,860.28)
Change in Cash Outflows for STR conversion	$ -	$ (556,566.71)	$ (753,683.39)	$ (698,220.28)	$ (494,220.28)
Net Change in Cash Flow for STR conversion	$ -	$ 775,848.26	$ 1,311,096.39	$ 1,684,119.50	$ 1,888,119.50

Appendix 3D.4 – Projected Net Change in Profit for Phase 1-3 Conversion - Favorable Condition[2]

	Unchanged	Phase-1	Phase-2	Phase-3	Stable Year
Profit and Loss	Year-0	Year-1	Year-2	Year-3	Year-4
Long Term Rental					
1.1 Total Rental Revenues (presented as Opportunity Loss)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)	$ (2,506,417.30)
Short Term Rental (STR)					
1.2 Total Rental Revenues	$ 2,506,417.30	$ 3,838,832.26	$ 4,571,197.08	$ 4,888,757.07	$ 4,888,757.07
Change in Revenues for STR conversion	$ -	$ 1,332,414.96	$ 2,064,779.78	$ 2,382,339.77	$ 2,382,339.77
Allocated Expenses					
Capital Expenditure					
1.7 Capital Expenditure Straight-Line Depreciation	$ -	$ (65,571.43)	$ (131,142.86)	$ (167,571.43)	$ (167,571.43)
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (91,800.00)	$ (183,600.00)	$ (234,600.00)
1.5 Utilities Costs	$ -	$ (55,080.00)	$ (110,160.00)	$ (140,760.00)	$ (140,760.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (42,486.71)	$ (92,723.39)	$ (118,860.28)	$ (118,860.28)
Change in Expenses for STR conversion	$ -	$ (163,138.13)	$ (425,826.25)	$ (610,791.70)	$ (661,791.70)
Net Change in Profit/(Loss) for STR conversion	$ -	$ 1,169,276.83	$ 1,638,953.53	$ 1,771,548.07	$ 1,720,548.07

[1 and 2] based upon value in assumption set that led to maximum profits specified in Page 3 Table 3 and implementation strategy illustrated in Page 11 Table 8

Appendix 4A.1 – Projected Net Change in Cash-Flow for 16 Selected Property IDs - Unfavorable Condition[1]

Cash Inflows	Unchanged Year-0	Phase-1 Year-1	Stable Year Year-2	Stable Year Year-3	Replacement Year Year-4
Long Term Rental					
1.1 Total Rental Payments (presented as Opportunity Costs)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)
Short Term Rental (STR)					
1.2 Total Rental Payments	$ 927,048.65	$ 1,735,742.90	$ 1,735,742.90	$ 1,735,742.90	$ 1,735,742.90
Change in Cash Inflows for STR conversion	$ -	$ 808,694.25	$ 808,694.25	$ 808,694.25	$ 808,694.25
Cash Outflows					
Capital Expenditure					
1.3 Initial Furnishing Costs	$ -	$ (720,000.00)	-	-	$ (720,000.00)
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (144,000.00)	$ (144,000.00)	
1.5 Utilities Costs	$ -	$ (86,400.00)	$ (86,400.00)	$ (86,400.00)	$ (86,400.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (469,606.58)	$ (469,606.58)	$ (469,606.58)	$ (469,606.58)
Change in Cash Outflows for STR conversion	$ -	$ (1,276,006.58)	$ (700,006.58)	$ (700,006.58)	$ (1,276,006.58)
Net Change in Cash Flow for STR conversion	$ -	$ (467,312.33)	$ 108,687.67	$ 108,687.67	$ (467,312.33)

Appendix 4A.2 – Projected Net Change in Profit for 16 Selected Property IDs - Unfavorable Condition[2]

Profit and Loss	Unchanged Year-0	Phase-1 Year-1	Stable Year Year-2	Stable Year Year-3	Replacement Year Year-4
Long Term Rental					
1.1 Total Rental Revenues (presented as Opportunity Loss)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)
Short Term Rental (STR)					
1.2 Total Rental Revenues	$ 927,048.65	$ 1,735,742.90	$ 1,735,742.90	$ 1,735,742.90	$ 1,735,742.90
Change in Revenues for STR conversion	$ -	$ 808,694.25	$ 808,694.25	$ 808,694.25	$ 808,694.25
Allocated Expenses					
Capital Expenditure					
1.7 Capital Expenditure Straight-Line Depreciation	$ -	$ (240,000.00)	$ (240,000.00)	$ (240,000.00)	$ (240,000.00)
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (144,000.00)	$ (144,000.00)	$ -
1.5 Utilities Costs	$ -	$ (86,400.00)	$ (86,400.00)	$ (86,400.00)	$ (86,400.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (469,606.58)	$ (469,606.58)	$ (469,606.58)	$ (469,606.58)
Change in Expenses for STR conversion	$ -	$ (796,006.58)	$ (940,006.58)	$ (940,006.58)	$ (796,006.58)
Net Change in Profit/(Loss) for STR conversion	$ -	$ 12,687.67	$ (131,312.33)	$ (131,312.33)	$ 12,687.67

[1 and 2] calculation based upon value in assumption set that led to minimum profits specified in Page 3 Table 3 for 16 selected property IDs listed in Page 5 Table 5

Appendix 4B.1 – Projected Net Change in Cash-Flow for 16 Selected Property IDs - Favorable Condition[1]

	Unchanged	Phase-1	Stable Year	Stable Year	Stable Year
Cash Inflows	Year-0	Year-1	Year-2	Year-3	Year-4
Long Term Rental					
1.1 Total Rental Payments (presented as Opportunity Costs)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)
Short Term Rental (STR)					
1.2 Total Rental Payments	$ 927,048.65	$ 2,159,506.27	$ 2,159,506.27	$ 2,159,506.27	$ 2,159,506.27
Change in Cash Inflows for STR conversion	$ -	$ 1,232,457.62	$ 1,232,457.62	$ 1,232,457.62	$ 1,232,457.62
Cash Outflows					
Capital Expenditure					
1.3 Initial Furnishing Costs	$ -	$ (408,000.00)	$ -	$ -	$ -
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (81,600.00)	$ (81,600.00)	$ (81,600.00)
1.5 Utilities Costs	$ -	$ (48,960.00)	$ (48,960.00)	$ (48,960.00)	$ (48,960.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (38,015.77)	$ (38,015.77)	$ (38,015.77)	$ (38,015.77)
Change in Cash Outflows for STR conversion	$ -	$ (494,975.77)	$ (168,575.77)	$ (168,575.77)	$ (168,575.77)
Net Change in Cash Flow for STR conversion	$ -	$ 737,481.85	$ 1,063,881.85	$ 1,063,881.85	$ 1,063,881.85

Appendix 4B.2 – Projected Net Change in Profit for 16 Selected Property IDs - Favorable Condition[2]

	Unchanged	Phase-1	Stable Year	Stable Year	Stable Year
Profit and Loss	Year-0	Year-1	Year-2	Year-3	Year-4
Long Term Rental					
1.1 Total Rental Revenues (presented as Opportunity Loss)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)	$ (927,048.65)
Short Term Rental (STR)					
1.2 Total Rental Revenues	$ 927,048.65	$ 2,159,506.27	$ 2,159,506.27	$ 2,159,506.27	$ 2,159,506.27
Change in Revenues for STR conversion	$ -	$ 1,232,457.62	$ 1,232,457.62	$ 1,232,457.62	$ 1,232,457.62
Allocated Expenses					
Capital Expenditure					
1.7 Capital Expenditure Straight-Line Depreciation	$ -	$ (58,285.71)	$ (58,285.71)	$ (58,285.71)	$ (58,285.71)
Fixed Costs					
1.4 Upkeep Costs	$ -	$ -	$ (81,600.00)	$ (81,600.00)	$ (81,600.00)
1.5 Utilities Costs	$ -	$ (48,960.00)	$ (48,960.00)	$ (48,960.00)	$ (48,960.00)
Variable Costs					
1.6 Hospitality Costs	$ -	$ (38,015.77)	$ (38,015.77)	$ (38,015.77)	$ (38,015.77)
Change in Expenses for STR conversion	$ -	$ (145,261.49)	$ (226,861.49)	$ (226,861.49)	$ (226,861.49)
Net Change in Profit/(Loss) for STR conversion	$ -	$ 1,087,196.14	$ 1,005,596.14	$ 1,005,596.14	$ 1,005,596.14

[1 and 2] calculation based upon value in assumption set that led to maximum profits specified in Page 3 Table 3 for 16 selected property IDs listed in Page 5 Table 5

Appendix 5 - Details of Original Financial Assumption

1.1 Long-term rental payments : calculated as monthly rent for each property type and location (zip code), multiplied by average occupancy rate of 97.3 %. Occupancy rate for long-term rentals is given and fixed, based on the assumption units are rented for 36 months out of every 37, or 97.3 % of the time.

1.2 Short-term rental payments : calculated as nightly rent for each property type and location, multiplied by 30.4 average days per month (365/12), multiplied by average occupancy rate, and subtracting a 30 % fee for third-party processing, taxes, and regulatory compliance. Occupancy rates for short-term rentals are based on an estimate from linear regression predictive model specific to that type of unit in each property location at an optimized nightly rent.

1.3 Initial Furnishing costs : furniture, kitchen equipment, linens, etc. for short-term rental conversion which value is assumed to be $30,000. Cash out is assumed to occur in the first month where short-term conversion happens.

1.4 Upkeep costs : annual replacement for furniture, kitchen equipment, linens, etc. as they wear out which value is assumed to be $6,000 per year and begins after Year-1.

1.5 Utilities costs : monthly utility bills for water, electricity, gas, garbage pickup, internet connectivity, etc. which value is assumed to be $3,600 per year for each property in all locations.

1.6 Hospitality costs : the cost of providing key service and room service to each guest per visit which value is calculated by the Hospitality Costs formula as shown bellow

$$\text{Hospitality Costs} : \text{Occupancy Rate x } \frac{365}{\text{Average Length of Stay}} \text{ x Hospitality Fee}$$

Where average length of stay is assumed to be 3 nights and hospitality fee is assumed to be $100 per guest visit for each property in all locations.

1.7 Depreciation of CAPEX : the $30,000 cost of furniture and equipment for short-term-rental conversion is allocated at the rate of $6,000 per year using a simple straight-line 5 year depreciation.

Appendix 6 – Rationale of the Recommendation

Preliminary background that underlies my recommendation:

1. Airbnb and The Rise of Millennial Travel
   https://www.airbnbcitizen.com/wp-content/uploads/2016/08/MillennialReport.pdf

2. Global hospitality insights
   http://www.ey.com/Publication/vwLUAssets/EY-global-hospitality-insights/$FILE/EY-global-hospitality-insights-2016.pdf

3. How the sharing economy can make its case
   http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-the-sharing-economy-can-make-its-case

4. Short-Term Rentals and L.A.'s Lost Housing
   http://www.laane.org/wp-content/uploads/2015/08/Short-Term_RentalsLAs-Lost_Housing.pdf

5. Long-term profits seen in short-term stays
   https://therealdeal.com/issues_articles/long-term-profits-seen-in-short-term-stays/