Man 1: Welcome to the REI Diamonds Show with Dan Breslin, your source for real estate investment, jewels of wisdom.

Dan Breslin: Welcome to the REI Diamonds show. I'm your host, Dan Breslin, and this is episode 212 on how to unlock passive wealth with real estate and innovation with Johnny Wolff. If you're in the building wealth through real estate investing, you are in the right place. My goal is to identify high-caliber real estate investors and other industry service providers, invite them on the show, and then draw out the jewels of wisdom, those tactics, mindsets, and methods used to create millions of dollars or more in the business of real estate.

Johnny Wolff is the founder and CEO of HomeRoom Coliving. HomeRoom is a YC, that's Y-Combinator funded real estate management and investment company that has built the technology and team in several well-selected real estate markets throughout the US to allow investors to amplify their real estate rental returns while minimizing vacancy. This can also be done at a distance which we will discuss on the show today. We are also welcoming Johnny back to the show as he was a guest on episode 194, and a lot has happened in that year and a half or so since he's been on the show.

Today, we're going to discuss how to get high return on investment with co-living rentals. We also dive deep on how important market selection and deal size can be in generating long-term investment returns and wealth. And we're going to dive deep on how he and I both think about market selection as well as deal selection. Let's jump right in. Welcome back to the REI Diamonds Show, Johnny. How are you doing today?

Johnny Wolff: I'm doing really good, Daniel. Nice to see you again.

Dan: Yeah, for sure. So, for listeners who have been around a while, I can't remember and I will link to the show notes. I think it was about a year and a half ago maybe that we talked. For anyone who maybe didn't check that episode out yet, why don't we begin with the quick elevator pitch of business model, if you will, for HomeRoom in the context of the real estate investor audience and why that might be important to them.

Johnny: So, just a really quick two-sentence description is, we help investors purchase homes remotely and rent out each room separately. And the benefits for investors that are going to rent out each room separately and investment property that they buy, is that rents can be substantially higher because you're chunking down the space, creating additional services for the for the tenants. And so, we've seen an average of between 30 and 60% more rent for investors using this model.

Dan: Okay. So, the first thing, I know we did touch on this last time, but the first knee-jerk reaction any investor probably is listening to if they rent properties is, “Oh, my God. I'm not going to rent out rooms.” There's anti-brothel laws in the city of Philadelphia, right? So, how do you get around staying legal, right? Even the Airbnb thing, Johnny. I'm in Florida for the winter, I'm in an Airbnb, and the neighbors will leave notes on our car if we park in the street because all the people who own park in the driveway and a lot of places in Florida. The whole town is starting to outlaw Airbnb, so they're not liking this creative use of real estate, let's say, to get more rent out of the property. So how are you setting that up in a way that does not cause major blowback for the investors who are buying these properties and then having them rent out by the room?

Johnny: That's a really good question. We have an affordable housing crisis right in the United States. We love Airbnb. My co-founder, he's from Airbnb, and I'm staying in one this weekend. But it does take some residential housing supply off the market. There's other models that are similar where it's converting a residential home for long-term use into a different functionality, maybe corporate housing, short term, or a vacation rental. So many laws are coming into place against that because of affordable housing, inventory constraints, all these reasons, but we haven't seen is laws against allowing for long-term room rentals, right? And so, there are different coding and Zoning laws, but very few of them don't define a family as a number of unrelated individuals. And a number of unrelated individuals, which is equals a family in the eyes of the law, is legal in every jurisdiction we're in.

Two points I rambled a little bit about. One is that, we're creating long-term affordable housing which everyone wants, so less of a pushback generally. And secondly, most cities have statutes in place that allow for unrelated people to live long term and that they define that as a family. So, it definitely works in the cities we're in. We work very hard to make sure that we're aware of those laws working with cities and managing those issues.

Dan: Okay. So, from an investment house selection criteria, we were talking a little bit before we hopped on, we were talking about maybe the model. So maybe the model is, Kansas City works well for you, and I'm going to pretend for the sake of the example. I have a house in Kansas City already that I own, I did the renovation, I rented it out. The tenant is moving out this month, I'm listening to the podcast, and I'm like, "Hmm, I can do the math. I know that if I rented my house out by the room, it would be a big hassle for me to manage that," right? And then the other piece is, let's say it's a four-bedroom, two-bath house and I'm like, "You know what, I would like to do the math and I think Johnny has this technology or this management, if you will, maybe I should reach out." And maybe part of that, we should set the context up of what that management looks like, for me, the four-bedroom, two-bath Kansas City rental property owner because I don't want to have to swing by there collecting the rent. So, I do for the guy I know who does that kind of model and I questioned his sanity for doing it. Big question [inaudible]

Johnny: Yeah. I think we'll start with the question of Sandy. Yeah, we get that a lot. I like you. You sure you want to do this? Yeah. The room rental concept is definitely a more complicated system than a single family because just by nature of it, you have multiple tenants, you have interactions with each of them. But I think every complicated system, like a car engine which is in my mind, if all the engineers were gone and it was up to me, I'd never be able to build a car again, right? It's just not possible. But have been able to do these complicate things by building one piece at a time and then putting them together and then it becomes systematized and normal, right?

And so, that's sort of how we've looked at room rentals is we built technology to attract roommates, help them understand what they're getting. We build processes that make it much easier for the roommates, we do maid service every month, we do yard care to make sure that the city is happy. We have doorbell video cameras to make sure everything's going well, nothing's going crazy out front. So, we're doing all these checks and balances as well as we do maid grades to review the cleanliness of the house. So, there's a lot of things that help us not go insane, right? So, it is really important there. But if you're the investor, you don't have to do much, right? You just say, “Johnny's built this system that that sounds complicated, simple for his team, and then you put it on our platform and we'll set it, we’ll put it on. It will start to lease out the rooms individually and we'll start to pass rent to you.” So, it works a lot like Airbnb in that way where you’d come to us, put it on the platform, rent comes to you, we take a cut just like Airbnb does, and then you get your check every month.

Dan: Yeah, and I think it's probably important to remind everybody. Again, this is like an Airbnb app, right? There is this community, there's the technology. You guys have a special marketing plan to attract and vet these tenants. We got pretty deep into that, I believe, last time talking about trying to make sure this tenant doesn't hate this tenant and calls major problems, which can be an issue for people who have rented out rooms and probably becomes an issue. But if I have the app, in the example for roommates, “Would that work?” I guess, is the first question roommates who’d be acceptable, “Is there a number?” “If I have a fourteen-bedroom house, is that going to cause a problem with the Kansas City local zoning issues?

Johnny: They're probably going to get up there, and fourteen definitely. Let me tackle the inner roommate thing. We handle that completely, right? We have an app, a HomeRoom app, and they can reach out to us. We have escalation pass for inner roommate conflicts. The agreement they sign is a lease legally, but it also has a number of roommate rules which they have to comply with, which is if things [inaudible], that situation will escalate to a counselor that we have on retainer. So, there's a lot of ways to solve that. It's become routine. We've had a few thousand tenants now, so it's like, “Oh yeah, we have a fight between roommates.” Put them through this three-step process and have someone transfer if it doesn't work.

Four-bedroom house should work. Yeah, in Kansas City, it would work. They allow for five separate roommates is the maximum for a family in Kansas City. So, you can go up to 5. So, if you have 4, we may say, “Hey, maybe we can add a bedroom here to increase your revenue even further” In terms of those occupancy laws, and that's the definition of family is under zone use and occupancy laws, you can also push the boundary of what is technically allowed in a lot of cases and that's really up to each owner. I don't think we would probably say it's okay to do 14, but if you said, “Hey, I want to do 7 even though 5 [inaudible]” we review and we have a legal team.” Hey, this is the risk here. The city will come, will eventually cite you, and then potentially two people have to move out. So do you want to do that?” It’s is really up to each owner. But the cool thing about having a long-term rental is you default down to a lower amount of tenants, and your fine is not like they're going to shut you down like a short-term rental would do.

Dan: So, you've had, I should say, a year and a half worth of data, a larger number of tenants in the pool. What type of major issues have you had to deal with, right? What would be my worst-case scenario as a 4-bedroom homeowner who's turning my property over to HomeRoom to explore this new living situation in this income stream, right? What are the worst-case scenarios that you dealt with and maybe how have you solved those issues?

Johnny: Yeah. This kind of reminds me of the question and interview is like, “What's your biggest weakness?’ You're like, ”Ha.” What do I say in this situation? It's I work too hard and I'm too intense about my job. So first, I want to talk about one of the worst-case scenarios with single-family rentals that you avoid with the roommate house. This has happened to me. Most people that have been in single-family rentals long enough will encounter it. It's like the family with five younger kids, they break their lease. It doesn't have to be a kid, but they've somehow destroyed all the walls and all the flooring, and so you're spending $5000, $7000. The [inaudible] turn takes 60 days for whatever reason because of the damages. And so, now you're down two months rents and $5,000 plus to get the house back up and running, and now you're renting it again and you just lost a massive amount of rent, right?

And so, that does not happen in coliving homes because it’s evergreen, like an apartment complex essentially. Usually, we don't have any HomeRoom property that don't have a roommate, they all have revenue coming in, right? They all are paying off their maintenance expenses. So that's a really nice advantage compared to the single-family home. The rent will oscillate up and down more than a single-family home, but it will never oscillate all the way down to 0 and then negative $5,000 for maintenance, you have to pay out of pocket. So that's a huge advantage. I think the biggest negatives are, if you pick a house in an area that doesn't have adequate roommate demand and a lot of times it will like counsel against us, we’ll say, “Hey man, the density of population in this home that you're looking at is 2,000 per square mile. We like to see homes that are in 3,000 to 5,000 per square mile or denser areas. And we also see net migration into this micro zip or neighborhood block is low.” So, the number of people moving is much lower here and so you may face vacancy, it's not quite as low as we're used to, right? Historically, HomeRoom’s occupancy has been stabilized. You can see for a long time, it was 93% to 95%. But if you end up being in the [inaudible] or looking for roommates, then maybe you're not going to make as much money. Or we're able to list your home and see the lead quantity in advance, though. So, that's actually an option that we recommend for people looking on aboard the platform.

But that, I would say, is the worst-case scenario. You get a home, you end up having three roommates on average all the time. And so, then you may make less than a single-family rental. You'll still get the advantage of not having the big vacancy dip and make-ready expense because we'll be in there every month with our maids, we’ll make sure that the house is in great shape. But that could be a negative because you're like, “I could make $18000 in a single-family rental. I'm making $1600,” and that's not great, right? And so, that’s when we try to steer people away from if they're in these really dense rural-ish areas we find out to be a problem.

Dan: So, it starts on the lease breaking side. Honestly, it's an eviction, right? So, our evictions in Chicago can take a year sometimes. How do you deal [inaudible] in your platform? Is that something that has to happen on occasion where someone truly digs their heels in and doesn't leave?

Johnny: It does. I mean, evictions, it's part of all real estate. We made it all the way through 2021, we had had no evictions. We were faced with a few more evictions than we had historically 2022, I think that was sort of industry-wide. But we file as soon as legally allowed and we are on a federal platform part that we can file for $250. Today, our markets are all located where evictions are relatively quick, where you can file the eviction within two weeks and the court date would typically happen in a few weeks after that. So, it's not a massive expense and it ends up being relatively quick. We're also very big into cash for keys like pay them to leave so you don't have to wait, you don't have to worry about the court date, all that stuff.

Dan: So, you will evict one out of the three tenants in the way the lease is written allows you to do that? It's like an interesting mind for an investor like me who doesn't do it this way to evict one room tenant.

Johnny: Yeah. I mean, each roommate has their own member agreement, which is a sublease essentially. And so, you evict the tenant and [inaudible] and the judges, we went every time, right? So, we haven't had any issues. Most of the time, the tenants won't show up to court, I think it's pretty typical. And even when they do, we will. Our member agreement has been reviewed by a number of lawyers and now at this point, judges.

Dan: I think one of the critical pieces we didn't touch on and we may have last time and we may have touched [inaudible] last time, but it's different now year and a half later, is there a list of markets? Is that list too long to mention on the podcast here or is this a question you can kind of take live of areas that work with the model now, right? Where you guys are located and up and running?

Johnny: Yeah. So, we're in Kansas City. We're in all four major Texas metros, Dallas, Austin, San Antonio, and Houston. We're in Atlanta, we're in Tampa, Charlotte, Indianapolis. So those are the main ones we're going to be. We will be expanding the next 18 months into a number of more expensive markets like Miami, we're looking at LA, and Denver. So, there's a number of more markets that we're eyeing for our next phase of growth. But today, if your return key investor like [inaudible], the ones I mentioned previously are the big focus and we look at them as different flavors of investment. You have your Austin that has a big appreciation potential, granted it just got completely clobbered the appreciation side. It was one of the big 7 that got clobbered during the last 6 to 9 months. But the unit fundamentals of an Austin in terms of population growth and income growth are really outstanding. So, in the short-term big tip but still long-term, we see it as an outperform for appreciation.

And then you got your more stable cash flow markets like Atlanta or Kansas City where the appreciation will likely never accelerate, but it will be stable, it will be strong, and it will deliver you really nice cash flow returns.

Dan: I think when we talked last time, you were a little more active in the property selection for the investor. So, an investor would listen to the podcast, pick the phone up, called and said, "Hey guys, I'm looking. Where should I buy?" And you were doing some of the concierge hand-holding. What does the onboarding look like if somebody's listening now? I mean, what's the ideal path to be able to put money to work in this concept?

Johnny: There's two paths. Today is similar to previously where you come to us, you have 75 grand, and you say, "Hey, I want to invest in a property and I want to set it up as a room-by-room rental," and we'll say, "Great. What kind of returns are you looking for? Do you want to maximize your appreciation potential or do you want to maximize cash yield and just a stable appreciation?" So, then we'll pick a market, and our data science team will find properties that will work for you in that market and then you'll pick one, make an offer within a partner agent, and then purchase it. We have construction arms in each city, we'll will set up the home and prepare it for room-by-room rentals and then we'll manage it. We do the whole life cycle, right, sourcing, setting up, and managing as well as if you want to sell, we'll help you sell it through our platform as well.

The other option is, and that's been our flagship product since day one, the other option is we're beginning to expand more into people that have homes today in those markets. So, if you have a really nice home in Austin downtown, like, "This could be a great room rental and I can make more money." We have a tool that will help you estimate what the rent would be and you can come to us and list it on the platform. We either set up for you or we can give you the steps to set it up yourself that match our parameters and then it'll be put on the platform and you'll have a room rental. So, two ways. One, if you have a house, one if you have money, and you can work with us either way.

Dan: What is the churn rate, right? So have you had some people, let's say in 2020, who bought, ran the house for a period of time and said, "Hey, I'm done. I want to get out," or maybe they're just completely get out of platform and then re-rent the property themselves or maybe there's some that come to you and say, "Hey, I want to sell and maybe you have a buyer for that asset that's sort of already stable up and running or maybe there's other options I don't even have the foresight to think about in those situations," when people no longer want to do this for one reason or another?

Johnny: Yeah. The churn is really low. It's single-digit percentage. I think it's 2% to 3% per year tops. Most of our investors stick with us. The small churn percentage we've had, usually its liquidity. One of our investors sold because he wanted to buy a condo for his daughter who is going away to college, and he was like the capital he had. It was the only rental home he had and so, he sold it, made a good return, and then bought that condo. We're actually able to help him sell it to another rent-by-the-room investor. So, the investor churned, but the house stayed on the platform. So, a vast majority of the time, that's what happens is another investor is like, "Oh, there's a house that's already set up for this. I'll buy that one," which is, in a lot of ways, it works really well. There's a very rare case that's less than 1% where the home does not perform as we expected, right? And it's a new model.

So, there are some risks to that, right? It's like, "Okay, we felt like there's enough demand here and it looks like the net migration numbers were good, but we just didn't have enough demand." And that happens rarely, but it does happen in some cases. A lot of time when the investor's trying to get the highest end of the yield spectrum, like, "I really want to get 13% or 14%," we'll say, "Hey, you can go with this one, but you're on the edge. The price is lower and you're on the edge of the map that we'd recommend. And so, in this case, if you do it, you may get 14% cash yield, but you also may not have enough volume of demand in 50 miles outside of downtown Kansas City to fill up the rooms on an ongoing basis." So those are kind of the two cases and the one where people are trying to get liquidity is the bigger one, but both combines still very, very small.

Dan: When you say 13%, 14%, is that a cash-on-cash for the down payment and the construction, I assume?

Johnny: Yeah, that's the very high end of the range. When people are targeting that, we're like, “Okay, we can, but you're starting to push the bounds there.” Every time you go up and yield, it's just like bonds, I don't know [inaudible] but you're trying to get really high aggressive rates. And so usually, there's risk associated with that, or we do our best to be transparent with those risk if someone's looking to do that. It can work. We see people that are just raking in cash as well. So, it's just like, “Do you want to take that risk or do you want to be someone that's a little bit more down the middle with 8% cash-on-cash return?” That's what we would recommend. Someone wants to be aggressive with their yield, then we'll work with them as well as share the rest while they're making that decision.

Dan: So, we pull on the yield string there, the 8% to 13%. Am I correct in assuming maybe the purchase price of the house might be [inaudible] maybe the lower end of the spectrum [inaudible] and then I'm probably buying a more quality asset in a much more desirable location and neighborhood. And the purchase price is higher to be at the lower end. Can you give me an example of maybe some of those purchase prices and which cities where that sort of [inaudible] out?

Johnny: Yeah. An example of it working out tremendously well is, we had someone in Tampa near the bay, they found this small house that actually worked for room rentals. It had two public bathrooms and they bought it for $220. I think they were getting 16% cash-on-cash. But when they showed us those numbers, what they're trying to do are, like, “Hmm, this house is very low quality. It needs a lot of work. Not a lot of square footage per person. There's some risk factors here.” We were concerned, they went for it, they're crushing it, right? So, that $220 price point, the example would be that house right there where you have very low square footage, not a very nice home, and very low price point to begin with.

Until I can get you those crazy yield numbers, we have a bit more risk. And the people per square mile in that location, it wasn't super dense. Super dense is wrong. It was in the yellow zone for us. Another example would be somewhere relatively Central Arlington, good density, above 4000 per square mile. We know that there's good net migration in that city. The price point on those homes can be in the 3s, right below 3s, 315, 320, they've come down barely at all. A lot of the markets we’re in have not really come down much like 5%, 10% sometimes, and so you're spending quite a bit more and the rent is basically the same as that Tampa house that was bought for $220. You're taking a little bit more of a risky bet with that $220 house. It definitely can't pay off. Yeah, it definitely can't pay off.

Dan: We have a big audience in Atlanta because we have an office in Atlanta. So, do you have a few Atlanta example price points and maybe towns where that shook out there?

Johnny: Yeah. Yes, we do, though there's a number of different areas in Atlanta that we've seen that the price points have been really aggressive, and whether we've seen the rent prices in the

$500 to $600 range without utilities, and that's really good. And so, as people have seen that, they began to push further out to Decatur. The suburban areas are fine, but if you're on the edge of suburban areas, that's when it gets risky. And so, we've seen price points in the $230, $240 at the edge of Suburbia and further out in the Atlanta Metro. We've actually had some issues recently where the numbers could be the potential, it's come down, right? And the adjudicator's coming in at $478, not that $568 that we saw deeper into the city core.

We have a map of all the homes. We have all the data and tracking all of them and then we have heat scores and occupancy rates. We're really into this data set to make sure that we're making the best guess possible. We have a data set that has millions of room record, price records in it, but at the end of the day, when you go into a new zone away from other homes in HomeRoom portfolio, especially if you're going less dense, the risk increases because room rentals are not like Zillow can just be like, "Oh, room rental in a room like this equals X," there's a lot more pieces. Is the room upstairs, downstairs? Does it have a private bath? How nice is the neighborhood? How close is it to other pieces? Our data science team does a lot there. But in a completely new zone with less density, the risk goes up by quite a bit.

Dan: Yeah, it's interesting. The price points, are they generally probably $350,000 and less? I mean, does this work in other people at an $800,000, $900,000 room level, and you're in a $500,000 house? So, the examples were mostly in that $200,000 to $300,000 range. And I imagine some of these areas, especially Atlanta, you probably could have gotten things 3 or 4 years ago, and that $300 range now that neighborhood's probably 4, 4 and a half? And I think probably the model starts to break down as the purchase price goes up especially with the 7% interest rates that we've dealt with recently, right?

Johnny: Yeah. The room market is completely different than the home market, right? And the way a roommate looks to get a place to live is so different than much [inaudible] a person that's getting a studio apartment as well. And so, I would say that there's cross sections that exist still today in Atlanta at the $400,000, $450,000 price point that would work. There's some areas of Atlanta that allow for up to twelve unrelateds in a single home. So, it's sweet. That would work, right? There's rooms that rent in San Francisco for $15,000. So, the rent range for our room can go up to 2 grand. The question is like, "Where is the sweet spot for the home?" And then this is what we do with every property, right? We put it in, we stress test the assumptions for the rent price, and then we look at the city regulations and then we say, "Okay. Is this going to work and then what's the degree of risk?" Right? And so, you're going to need some sort of premium because you have a bit more risk, a bit more unknown, just in general. Yeah. I would say that there probably are 400,000 homes in Atlanta that would still work today. They're just probably more rare than I used to be.

Dan: Yeah. And I think some of the attraction or some of the mindset inline of questioning comes from my own gravitation toward higher quality assets in general over time. So, the first rentals I bought in the city of Philadelphia, I think I paid $55,000 and $65,000 and they were tenanted. And as they turn it over, I'll put 35, 40, 50 grand into them to bring them up to the market rent, but I'm still in there for $150,000 and less. And I think the buy, rent, refinance, and refurbish model that so many people know about, and operate, and build their portfolios on rely on lower priced housing units in the rental portfolio, but having a strategy of this nature may allow you to consider if you're going to buy one or two assets. And you could be anywhere in the country listening to the podcast, you're going to buy one or two assets, I think, considering the metrics not just your backyard which is how I bought when I bought in Philly and how most investors buy, but the ability to choose the best performing real estate markets potentially out of the entire country, by remotely, which is probably extremely scary for the person who's going to buy one or two of these assets. But then to select something that isn't a $350,000 range, no one I know is buying rental property in that price point, putting 20% down and just letting that thing cook for a while, but here's a chance to do that with the potential to actually get some cash flow and not being a break-even situation.

Do it in a way that doesn't have the same level of vacancy and turnover risk that you’ve mentioned earlier, and then a set-it-and-forget-it kind of a real estate purchase model for the higher quality, higher price asset to begin with, in this city, that might have better population growth over the long haul, and therefore, potentially more appreciation over the long haul, and then you're paying down the mortgage on a property, that's better. So, the more I've grown in my own investment, I like larger mortgages. I like higher rents. This is why I buy 10-unit buildings are not commercial property, things of that nature, because I like the idea of paying down a $750,000 mortgage, it's a lot more effective for my long-term strategy over 25 or 30 years than paying down $85,000 on that Philadelphia example that I had, right? Maybe some of the multi families have more tenants, so there's more aggravation. But there's some scale that comes in borrowing more money and maximizing every dollar. It's really capitalize on that leverage and I think that the model here you described allows that. It gives you an option to do that while at the same time, addressing some of these historically low vacancy rates and extremely high home ownership occupancy rates that we've seen develop over the last 5 to 7 years or so, and really exacerbated post-COVID. So, have you given thought to the solution, I guess? I guess a part of what you are doing is some attempt at solving some of this housing shortage kind of stuff, I think you had mentioned maybe San Francisco earlier in the call. Atlanta is the same way, right? We're dealing with housing shortages across the country.

Johnny: Yeah, I think that's one of the things that me and my team believe fundamentally about what we're doing. And there is enough housing supply. It's not a housing. It's not really a housing problem, it's a lack of flexibility problem, I think. We have about a thousand square footage per person in the United States in residential real estate, but it's just not utilized, right, as efficiently as it could be. We're deploying units onto the market every time we add one of these homes, right? Here's a home, the rent for a bedroom is 60% of a studio apartment, and so if you're looking to save money to buy your first house so you can get out of renting, this is a great opportunity for you to do that. If you're looking to move in to a new city and not working connect with other people, it's also a great opportunity for that.

We're working with cities and communicating with them about this problem because most cities have an affordable housing challenge, right? And our point to them is, what you need is a solution for a long-range affordable housing, correct? Is that not what's being discussed over and over again? Well, we have a pretty elegant solution here that means the yard gets really well taken care of, high quality tenants are in the neighborhoods that are long-term tenants, say, 18 months on average with HomeRoom. We're going to make the neighborhood more interesting and better. And we can add as many inventory units. And so, if you allow us to define family as more people, we can do this more, right? Because more houses would work. And so that's something that we're continuing to discuss with cities and hopefully discuss that at a federal level over time.

Dan: Nice. So, shifting gears a bit, I know we talked right before the call, you are accepted in and went through the successful seed round through YC, Y Combinator. And I think some of the audience might recognize it, some may not. Maybe you have the better definition to tell listeners what that is if they haven't heard about that. And then maybe what the future plan or the benefit even to the investors who are investing in these houses of the scale that you expect to build and that the Y Combinator organization, if you will, accepted you in as you talked about that vision. So how does scale help, but start with what is Y Combinator and why that's pretty cool.

Johnny: Sure. So, Y Combinator is a startup accelerator. It's considered by a lot of people to be the most prestigious startup accelerator on the world. It funded Airbnb, Coinbase, DoorDash, Instacart, Dropbox. Those are just the list of the companies that's pretty staggering. And so, it's really an honor to be accepted into it as a company. They train you on how to be a better startup founder, and they train you about how to raise funds for venture capital, and then how to change the world, dream big, and they want you to go global with your product. That's what they're laying you in because they believe that that's possible. And so, we raised a seed round in about 9 months ago. And so now, we are in grind-it-out mode. And so, the goal for HomeRoom is to eventually be in every city that would support roommate living at scale in the United States.

And so, that involves you to buy homes, and put on our platform like they do today, or have homes in San Francisco and say, "Hey, I'd like to list this for rent and runs out by the room." So that's our dream. We love real estate investing, we're very focused on that, and it will always be a core of what we do. But over time, we'd love to see our platform grow and have tens and even hundreds of thousands of rooms available to rent throughout the country and all of North America.

Dan: Yeah, it's pretty cool. And one of the things I think I've seen a lot of money going to Airbnb's, and it became this cult investment strategy now. And people are teaching it. I also know some people who bought a few of them that don't work out. They didn't pencil. They took really, really large commitments on in the form of loans, the mortgages, the capital they put in there and then the Airbnb is not really generating the kind of revenue they saw. I had an Airbnb a few years ago. It did not bear out the revenue and so, I was never really a big fan of trying to scale that strategy due to my very limited not-so-successful experience with that, but I think a lot more people did it. And I think that 2020 and 2021 were bubble banner years, right, that worked well when there's a lot of stimulus and people revenge traveling, they couldn't wait to get back out. They thought, "Hey, I got to do it now or never going to do it." And I guess the question that maybe I asked of the marketplace is, "Is that sustainable? Do we see revenues drop off if the economy does deteriorate in its metrics and these layoffs continue to cycle through in the spending does contract? How much does that affect the Airbnb revenue streams and calls sort of issues in the marketplace?" whether that's in Florida where there's a ton of them, whether that's in the hills of Tennessee where there's a ton and not that HomeRoom will be a solution for the hills of Tennessee because of the lack of population there, probably for the demand, but do you see any opportunity and reconverted Airbnb's that are well located coming onto your platform if their revenues are not really working out well in the vacation space? Are there, perhaps in Tampa, Florida, Airbnb's that should probably consider be in [inaudible] at some point?

Johnny: Yeah. Yeah, it's on a deck that I presented to my sales team at the end of last year. It's like, "We're going after some Airbnb's, so don't tell Brian Chesky, although I think he's doing pretty good. My co-founder worked at Airbnb. We emailed him to invest at HomeRoom, he's like, "I don't and I'm not angel investing any longer," because I think he just doesn't need to invest money in [inaudible] assets at this time. So, we really love Airbnb, got a soft spot for him. Everything is nuanced, right, and investing all the time. So, there's no one strategy with fitness or with anything in life and it's the same for a real estate. I think Airbnb is the best strategy for certain homes in certain markets at certain times. I think single-family rentals are better investments at other times. And I think rent by the room is better for certain homes.

A very typical investment concept is that, and I talked about a little earlier about these higher-yield homes on our platform or people trying to push for the highest yields. More risk, more volatility with higher returns and that's what the short-term rental's offering. We're going to get way more returns while entire management expenses. If you're doing, it's really a lot of work, but I think you will have a higher upside in certain homes. And then in other homes, I think the rent-by-the-room strategy is the best, right? And so, we can tell you which ones we think it is and then other homes, neither of those strategies will work and you should stay on the short-term rental. Sorry. Just a single-family home rental. And so, I would just say, the ideal way, in my opinion, of investing in property today is looking at all 3 saying, which is the best model for this home, and then going with that one. And if you can do that, I think your returns will be the most diversified, you have the most upside potential, but you also have the most stability.

Dan: Yeah. I mean, I think I'm going to recap that with, again, my own experience. So, I think I've owned rentals for 9 years, give or take. I've been in the business since 2006, so flipping has been kind of our predominant thing, right? Buying and selling houses for a profit has always been the thing. What I shudder to think of the lack of market selection that went into that first rental and I had a little better market selection when I bought the next 6 and I think what you're talking about with the Airbnb, I mean, the home selection process, it's like picking a stock at just a right time, buying it at the right price. Time is the market. The thing's got to be well located, and I think there's benefits of finding somebody who can think about that kind of thing in a really high level. And it sounds like you guys are doing that when it comes to the rent-by-the-room model, you have to think about that at a high level, have access to ideally multi-city data like you have to build a make that right selection versus running out and say, "No, I found a 7-bedroom house. I'm going to buy that and then I'm going to call Johnny and see if they'll," and it's in the wrong location, right? So, it all comes down to the asset selection. I think I'd probably caution myself 9 years ago if I could share things I know now would be the asset selection process and I'm sure I'll look back down in 5 years and the stuff I'm looking out buying and we'll own 5 years from now. I'll be questioning my own asset selection process from now just like I am from a few years ago and luckily, they worked out well but I think, to your point, finding the expert and doing a lot of homework.

This is real estate, it's not easy to sell. You're going to have large capital outlays, you're going to have to do capital improvement projects, you're going to be married to every property that you purchased, in a sense, for some probably extended period of time especially in a market right now where it can be tough to sell and get out for some of those failed Airbnb's, if you will. Guys are gals, owners are in trouble with some of these things and they're not going to be able to get out without a massive loss. And had they had the opportunity to find the right person who really help select those versus just making the decision on the pro forma numbers of the return that was supposed to be there. Man, it's a shame but that's the reality of the market right now.

Johnny: Yeah, yeah. I mean the Airbnb, it's a saturating market, right? It's like, "Oh, you can make 3 X?" A lot of people are going to do it, right? There's a finite supply of people on vacation needing short-term rentals, so prices will inevitably go down. And so, that's one of the challenges with the Airbnb approaches the liquidity of supply. Yeah. I think there's probably hundreds, thousands, maybe tens of thousands of Airbnb's that if they converted to roommate rentals today would perform better. They would definitely be less stressful and they would definitely be more stable. And they're already furnished. If you're [inaudible] on the short-term rental, maybe room rentals, talk to us. We may say, "Nope, single-family home, just standard rental, this property. We're sorry for your troubles or sorry that invested so much money and furnishings." But there's a good chance, especially in some of the better areas, that will say, "Wow rents per bedroom are going to be $750, $800. We can get 6 bedrooms here, keep the furnishing, you don't have to do anything." And so now, you're netting to maybe a very stable 4 or 5 grand versus the pro forma Airbnb 7, but it never hit that number and it was highly volatile based on seasonality and have risk of the economy.

So, I think retreating to our model is a great option for Airbnb's that are underperforming, or at least take a strong hard look at it, for sure.

Dan: Yeah, I think it's a solid secondary option that probably someone's listening to that might be in that situation, might be able to find a little bit of a safe landing for that property. As we kind of get close to the close here, Johnny, is there anything I forgot to ask that you feel like you would want to mention to the listeners here?

Johnny: Sure. We actually have a special this year that our platform fees for the first year are 66% off. We found that there is this portion that someone joined the platform, they bought a home, and they set it up, you have to get the marketing pictures. It all took some time more than a standard single-family rental. And the interest rates were really crazy. So, we wanted to make that first year a bit more profitable for our owners and a bit less risky. So, we've done that first 12 months from kind of join the platform, you get that discounted rate, then it goes to the normal rate. But by then, your home should be fully stabilized, although it should be stabilized way sooner than that. But then also rent start to go up. we generally increase rents with renewals. So, we wanted to find a good spot for investors to feel happy from day one and not get antsy about the set-up time and getting it, just make sure we're getting it right. So, that's something we're just doing this year and we've seen a lot of interest in that pretty massive uptick and investors purchasing starting in January.

Dan: Nice. And where can listeners get more information about that?

Johnny: livehomeroom.com/invest or you can email me at johnny@livehomeroom.com, but you can set up a time with one of our investment specialist. They have CFA's, their own real estate portfolio is really cool or really educated group of guys that are there to help you select your first rent-by-the-room property.

Dan: So, two more questions. One have, you read or listened to anything interesting recently that might be worth a mention?

Johnny: I've been deep down the AI rabbit hole. So, CEO of Microsoft talking about AI, that's YouTube video interview. I think it's at the World Economic Forum, I think it's kind of cliche at this point even though it's only been out there for a month and a half, but just starting to think about how the transition to these language models and AI models are going to change the way properties are managed and advertised, and also how they're going to provide overseas staff, almost US-based skills because a lot of the language barriers are going to be nullified because you're going to have an English tutor on demand. So, it's been very interesting for us. There's definitely more that we haven't even scratched the surface on but that's something that our team is looking at really closely, how do we leverage this because at the end of the day, investors want the most money. How do we lower our costs by utilizing these new tools to minimize that so that the most money gets to our investors? I like that. I really like him talking about. Wow, in 3 to 5 years, it's going to be a very different game.

Dan: Nice. So, my final question, I'm going to swipe from Patrick O'Shaughnessy and I'm going to ask, what is the kindest thing anyone has ever done for you?

Johnny: So, my current girlfriend, I went through some health issues, it's a little bit personal, so I want to talk about it and give her the credit and she'll also be super happy and I can share it on Valentine's. So, there's a lot of things I get here at this answer. I said, "Hey, I have to go through this surgery," this is a while back, and we had just started dating and like, "it's going to be hell. What if we just pick it up on the other end, right?" And she's a nurse she's like, "I researched the recovery, it's terrible, but I want to stick it out with you." And I think for me, for someone, I was, at that point, almost a stranger. We had just really been seeing each other for a brief period of time. I thought I was the kindest thing and she's like, "And if there's other things in your future like this, I'm there for you." So, it was a beautiful moment. I was like, "Okay, cool." And so, that was really special and indicated her character which she continues to exhibit every day.

Dan: Fantastic. Well, I assume you're okay from that. I assume that worked out well and things are going good. So glad to hear that.

Johnny: Thanks.

Dan: Yeah. All right, cool. Hey again, thank you for the second visit here. It's been really cool getting an update. I think the HomeRoom model, I think the room rental model, there's alternative use of real estate is interesting to us as real estate investors and I really appreciate you taking the time and sharing all this with, and I think you're doing some cool stuff there, so keep it up.

Johnny: Yeah, thanks, Dan. I'm really privileged to be on again and someone investing since

2006, you're just like, “Yeah.” It's cool to talk to someone that has such experience and really gets the nuances of over indexing on that first deal. That sounds awesome in the wrong market and learning that. And I think what you said about iterating on choice of purchases is the number one thing to learn because that ends up being so much more important than anything else over time. It's really difficult to turn a bad purchase around. You can optimize it. So, learning how to select homes and markets that you touch on very lightly in this call, I think is one of the biggest learnings that any investor can learn and something that clearly you talk about on your podcast. So that's very cool.

Dan: Yeah, appreciate it. We'll have to maybe schedule a third in another 6, 8 months. Maybe the market will have shifted and we could probably go a whole session on market selection here for a third topic, so [inaudible]

Johnny: Yeah. I would love to talk about that. Yeah, I'd love to be back. Thank you so much for having me.

Dan: Cool. Thanks, Johnny.

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Man 2: Thank you for listening to this episode of the REI Diamonds Show with Dan Breslin. To receive email notifications of new weekly episodes, sign up at www.reidiamonds.com.

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