

eFinancialModels

FINANCIAL MODEL CASE STUDY

Airbnb Building Acquisition Financial Model Case Study

How we built a monthly financial model for a developer weighing the acquisition of a building for Airbnb rentals

Before the first guest arrives, a short-term rental building has cost more than its purchase price: purchase costs, renovation, furnishing and a calendar that takes time to fill. The model shows the developer what that full cost earns, how deep the cash falls before income starts, and what is left if Airbnb underdelivers.

KEY TAKEAWAYS

- The decision: does the full cost of the building, not only its price, earn enough, and when does the cash come back?
- The outcome: long-term letting sets the floor if Airbnb underdelivers; base and upside cases follow on Airbnb.
- Why one model: seasons, funding, financing and the downside affect each other, so they are read on one monthly logic before money is committed.
- The turning point: gross yield is a useful first screen; the decision rests on the return on all-in cost and on when the cash arrives.

At a glance

INDUSTRY	Real estate, short-term rental
CLIENT	Developer; one building with several apartments
PURPOSE	Substantiate the investment analysis: projected returns, risk and upside
MODEL SCOPE	Monthly model: revenue by unit, costs by driver, acquisition and renovation phasing, exit, financing options, investor profit sharing, scenario offsets, sensitivities
DELIVERABLES	Financial model with a results dashboard for the acquisition decision

The situation

A developer was weighing the acquisition of one building with several apartments, to be renovated, furnished and rented out on Airbnb. The developer wanted a financial model to substantiate the investment analysis: projected returns, risk and upside. The model also covers how cash would be shared if investors join, and what each would receive. It compares financing options with an equity-only case and reads every result against a long-term letting downside, a base case and an upside case.

What was at stake: The developer's questions

What does the full cost of the building earn, and how wide is the range between downside, base and upside? How deep does cash fall before the first income, and when does it come back? Do the low months still cover fixed costs and the loan? If investors join, what would each receive?

How a short-term rental building is assessed: two phases before the first guest

The developer first acquires the building, then renovates and furnishes it. Only then do guests arrive, and the building is later sold. Each step becomes a line of monthly cash flow in the model.

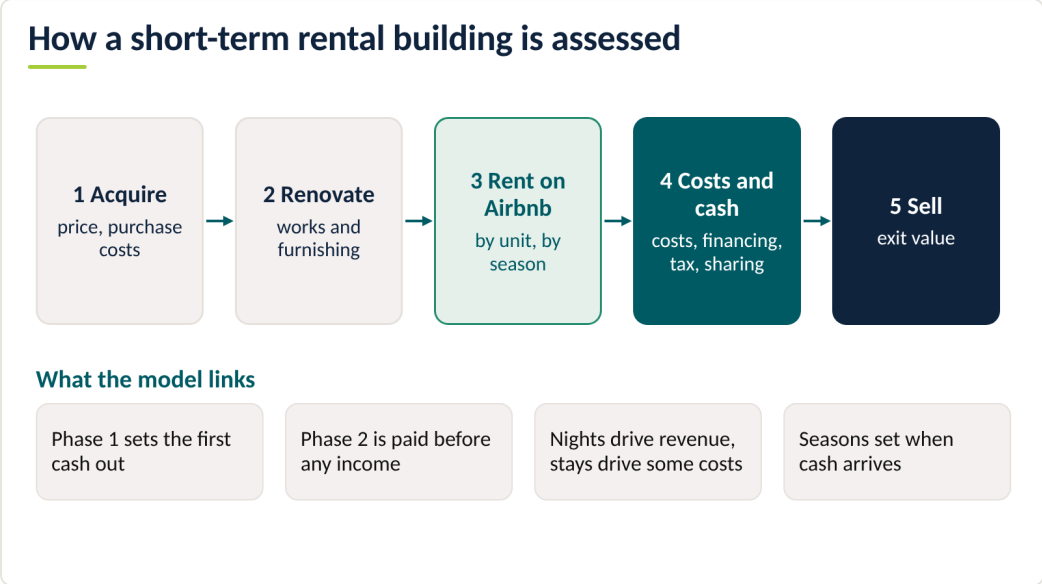
1 Acquire
Phase 1: price and purchase costs are paid, and the financing is chosen.

2 Renovate
Phase 2: works and furnishing are paid before the first guest and set the funding need.

3 Rent on Airbnb
Each unit rents nights at a rate that follows the calendar; costs follow revenue, stays or the year.

4 Pay costs, share cash
Cash after costs, financing and tax goes to the developer and, if investors join, is shared under agreed terms.

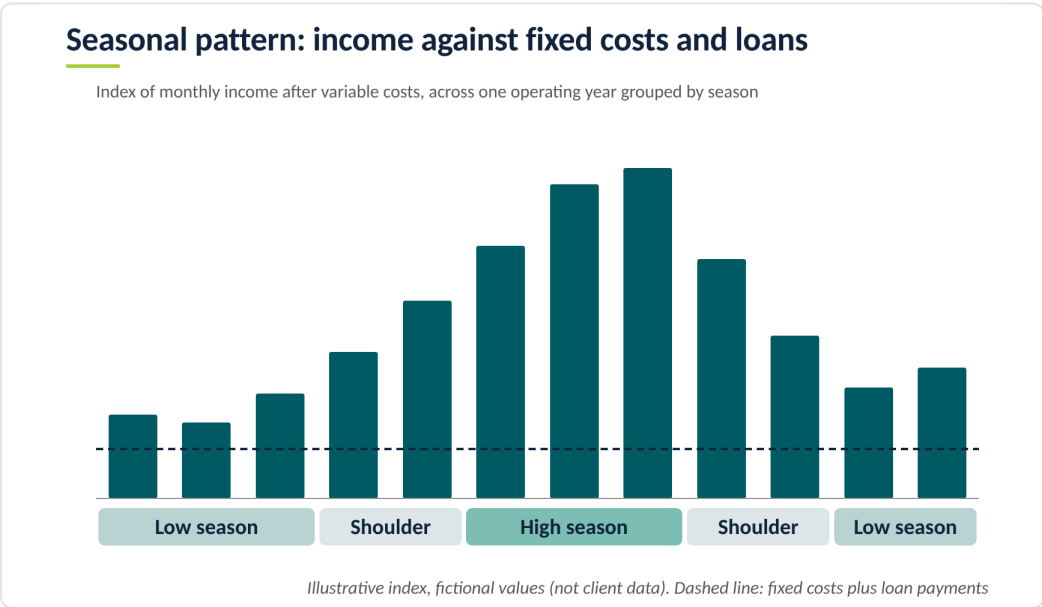
5 Sell the building
Exit value comes from forward earnings and a yield; selling costs and tax reduce it.



Illustrative schematic: the two phases before the first guest, then renting and exit (no client figures).

What drives the value?

Income rises and falls with the season, while fixed costs and loan payments stay constant. Every month covers fixed costs and loan payments; the thin low months set the size of the cash reserve. Income, profit, cash flow and loan cover are therefore read month by month, not from an annual total.



Illustrative seasonal pattern, fictional index: income after variable costs stays above fixed costs plus loan payments and is thinnest in low season.

What made it hard to model?

1 Downside first: long-term letting

DIFFICULTY "If Airbnb income falls short, what does the building still earn?" Nightly pricing and occupancy are the least certain part of the plan. We always run long-term letting as the downside case, so the range of returns has a floor.

OUR SOLUTION We put three cases on one cost and financing logic: long-term letting as the downside, then base and upside as offsets on occupancy, nightly rate and length of stay, with sensitivity tables and a driver ranking.

2 Seasons: income, costs, cash, loan

DIFFICULTY "How thin do the low months get?" Income follows the season, while fixed costs and loan payments run all year. An annual average hides how little the weakest months leave.

OUR SOLUTION We indexed occupancy and rate by month and unit, tied each cost to its driver and followed cash after loan payments month by month, so the margin of every month is visible.

3 Cash before any income

DIFFICULTY "How much cash is needed, and when is the low point?" Price, purchase costs, renovation and furnishing are paid before the first guest, and bookings need time to build. A later opening or an overrun deepens the low point.

OUR SOLUTION We phased each renovation item across the works, itemised furnishing per unit type and added an operation-start switch, so sources and uses and the peak funding need follow.

4 Operating margin after per-stay costs

DIFFICULTY "Is this an operating margin or a gross yield?" Cleaning and other turnover costs are paid per stay, while revenue follows nights, so nights alone overstate the margin.

OUR SOLUTION We derived stays from nights and average length of stay, then linked per-stay costs to stays, revenue-based costs to revenue and fixed costs to annual cost increases.

5 The building versus the financing

DIFFICULTY "How much of the equity return comes from the building, and how much from debt?" Answering needs two comparable cases, with tax recomputed without interest.

OUR SOLUTION We built unlevered and levered cash-flow blocks side by side, with a separate unlevered tax calculation, so both stay comparable year by year.

6 What each investor would receive

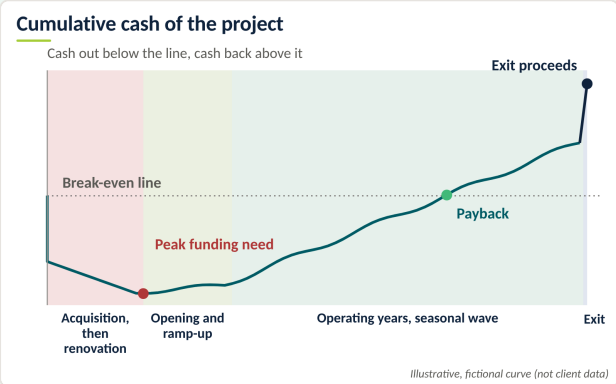
DIFFICULTY "If investors join, what does each get?" Profit goes to the developer and, if investors join, is shared under agreed terms, and every payout must reconcile.

OUR SOLUTION We built the profit-sharing waterfall with a return per investor, and check rows rolled into a master check, so everyone reads the same numbers.

THE TURNING POINT

Gross yield is the first screen, not the decision

Gross yield on the purchase price is a useful first screen: it ranks buildings quickly. But the investment costs more than the price: purchase costs, renovation, furnishing and ramp-up. The decision rests on the expected return on that all-in cost and on when the cash arrives. Fictional yield index (gross yield on the price = 100): the same annual revenue is 81 as a yield on the all-in cost, and the income after operating costs is 46. The same revenue is a clearly higher yield on the price than on the all-in cost.



Illustrative cumulative cash curve, fictional (not client data): acquisition, renovation, opening and ramp-up, seasonal operating years and exit.

What the three cases show

Downside case: long-term letting
The floor: long-term letting runs first, so the range of returns is clear before the Airbnb plan is judged.

Base case
The Airbnb plan: occupancy and nightly rates follow the season; return, low point of cash and loan cover are shown month by month.

Upside case
Stronger rate, occupancy or length of stay on the Airbnb plan: a higher return, with the drivers ranked by impact.

Described without client values. Scenarios show how the case could work out; they do not prove the assumptions.

What we built

INPUTS

- Unit plan and seasonality
- Acquisition and renovation budget
- Operating cost drivers
- Financing and investor terms
- Exit assumptions

→

CALCULATION MODULES

- Revenue by unit and month
- Costs by driver
- Renovation phasing and assets
- Financing and tax
- Investor profit-sharing waterfall

→

OUTPUTS

- Returns on all-in cost, with and without financing
- Funding need and monthly cash after debt service
- Returns per investor
- Downside, base and upside cases; driver ranking

How we worked together

Step 1

Analysis and discussion

We analysed the investment case and led the discussion with the developer on the questions the model must answer: returns, risk, upside, funding and distributions.

Step 2

Plan

We planned the model structure and the cases (long-term letting as downside, base and upside) and researched the market parameters that serve as inputs.

Step 3

Build

We built the monthly model: acquisition, renovation, revenue by unit, costs, financing, investor profit sharing, scenarios and sensitivities.

Step 4

Review and handover

We reviewed results and assumptions with the developer and handed over the model with its results dashboard.

What came out of it?

The model lets the developer compare the cases, read cash and loan cover month by month, size the equity and, if investors join, show what each would receive.

- Downside, base and upside returns side by side, with and without financing.
- A ranking of drivers by impact on returns, tested while the base case stays intact.
- Monthly cash after loan payments, so the thin low months and the low point before income starts are visible.
- A return on all-in cost and an operating margin after all cost drivers, instead of a gross yield alone.

Lessons for short-term rental investors

1. Run long-term letting first; it gives the range of returns a floor.
2. Judge the building on its all-in cost and on when the cash arrives. Gross yield is the first screen, not the decision.
3. Follow cash month by month, and count stays as well as nights.

Questions your model must answer

1. What does the full cost of the building earn, and how wide is the range between downside, base and upside?
2. If Airbnb falls short, what does long-term letting still earn?
3. How do low and high seasons affect income, costs, profit and cash flow?
4. Do the low months still cover fixed costs and loan payments, and how thin is the margin?
5. How much equity is needed in total, and how deep is the cash low point before income starts?
6. Which assumption, if wrong, hurts the return most?
7. How much of the return comes from the building and how much from the financing?
8. If investors join, what does each receive under the agreed terms, and when is the equity paid back?

Client details are anonymised to protect confidentiality. Charts, schematics and worked examples are illustrative and contain no client data.

Planning a short-term rental project?

Explore our real estate financial models or request a custom financial model.

hello@efinancialmodels.com