Americans Are Building Vacation-Home Empires With Easy-Money Loans

June 14, 2022

by Prashant Gopal

Brenna Carles drives along a winding country road in the Great Smoky Mountains, a get-rich real estate podcast playing on the speakers of her brand-new Lincoln SUV. Not long ago, Carles was belting out tunes at Nashville honky-tonks as she struggled to make it as a country singer. Now, at 32, she's one of the region's most successful mortgage brokers specializing in loans for vacation home rentals.

Carles, who started her company less than a year ago, says she's embarrassed to admit how much she's clearing these days: $100,000 a month, give or take, on track to earn $1 million this year. "People ask how much I make a year, I try to lie now, because I think people wouldn't believe it," she says.

For as long as the market allows, brokers, lenders, and investors are cashing in on the real estate boom in America's prime vacation spots. They include Carles's turf, near Dollywood theme park in Pigeon Forge, Tenn., as well as the areas around Disney parks, Colorado ski resorts, and Gulf of Mexico beaches in Texas and Alabama. It's a fast-growing and potentially risky business, especially now, as the real estate market cools because of higher interest rates.

Landlords have assembled mini empires, managing them from afar using smartphone apps. Software engineers, middle managers, teachers, military personnel—even TikTok influencers—flood social media with stories of newfound wealth. They're snapping up properties, often sight unseen from out of state, at once unheard-of prices. Some longtime residents complain that these investors are changing the character of their communities and making their housing unaffordable.

A special kind of business loan is fueling the boom. It lets borrowers, including the self-employed, qualify based not on their salaries but on the projected future income of the property they're buying. In industry jargon, they're known as "debt service coverage ratio" loans, referring to the way that rents must be at least enough to cover monthly mortgage payments. Last year investment-property loans without taxpayer backing totaled $9.9 billion, an eightfold increase since 2018, according to industry publication Inside Mortgage Finance's analysis of mortgage bond offerings. The vast majority qualified because of rental income.

Regular-paying tenants on long-term leases support most of these loans, industry executives and analysts say. But, over the past year, more lenders have started letting borrowers qualify based on what they expect to charge per night for stays booked on sites such as Airbnb and Vrbo, a unit of travel company Expedia Group Inc. Real estate buyers can generate much more income renting a property out for hundreds of dollars a night than they could through a lease to a long-term tenant, at least for now. So would-be owners, some of whom are young and just getting started, can afford increasingly expensive property.

Chelsey Jones, a 29-year-old former grocery store manager in Columbus, Ohio, bought four rentals in the Smokies, three with Carles's help. In all, Jones has borrowed $1.1 million over the past year for properties such as Big Bear Lookout, a four-bedroom cabin in Gatlinburg, Tenn., with shuffleboard, a hot tub, and an arcade.

At first it's hard to imagine how Jones could afford Big Bear. The monthly mortgage payment is $2,600; rent from a steady, long-term tenant would barely cover it, let alone repairs and maintenance. But Jones can rent out the property for an average of $350 a night on Airbnb. That way, she can earn about $6,000 a month, more than twice her loan payment.

Jones expects to make a $150,000 profit this year from her rental properties: her Smokies homes, along with one in Ohio and two more under construction in Florida. That's almost four times more than she earned in her grocery job, which she quit in 2019. "What a dream come true to be able to work from home, be my own boss, and make that kind of money," says Jones, who now also works as a real estate agent.

Visio Lending in Austin, which call itself the "nation's leader in rental loans," financed Jones's mortgage. One of its rivals is HomeXpress Mortgage Corp., based in Santa Ana, Calif., and owned by New York hedge fund Seer Capital Management. HomeXpress is trawling for more brokers to sell this kind of loan. "No income verification, no job listed," Christopher Berrey, one of its account executives, posted on his LinkedIn profile. "AirBNB and VRBO are ACCEPTABLE!!!" In an interview, Berrey says the loans' simplicity makes them popular. "There's less underwriting," he says. "Less of pretty much everything."

Another company, Hometown Equity Mortgage LLC, which does business as TheLender, is promoting its "Non Owner No Income," or "NONI," loans to mortgage brokers. Its acronym is also Italian slang for "grandmother." A Facebook ad features a gray-haired woman in a red bathing suit, a straw hat, and red heart-shaped sunglasses who floats in a pool, a martini glass in hand: "Our NONI likes to Airbnb. The NONI program allows borrowers to use income from vacation rentals, like Airbnb and VRBO … Results without the B.S."

Over the past year, Wall Street firms such as Credit Suisse Group AG and Barclays Plc have helped package and market hundreds of millions of dollars in mortgage-backed securities sold to institutional investors that included loans from these three companies. Some were rated investment grade; others, below. Credit Suisse and Barclays declined to comment. It's unclear how many of the Airbnb-style loans are making their way into these offerings—or even how many have been sold overall—because no one has a full accounting. But reports from rating companies note that the securities include mortgages on properties either without leases or with those shorter than 90 days. HomeXpress, TheLender, and Visio, which all securitize their mortgages, say they each expect to do hundreds of millions in the rental-based loans this year. TheLender estimates that 60% will qualify because of income from short-term stays; Visio, half; and HomeExpress, 15%.

Such deals are alarming longtime observers of the real estate market. In a weak economy, borrowers who qualified based on rental income are likely to default at as much as three times the rate of those with conventional mortgages, according to Court Lake, an analyst with Fitch Ratings. Patricia McCoy, a former assistant director at the US Consumer Financial Protection Bureau, sees a parallel with the mid-2000s boom in subprime mortgages made with little income documentation; Wall Street also repackaged those loans and sold them to investors. In 2008 the mortgages' collapse helped spur the global financial crisis, though they represented a far bigger share of the market than today's rental loans.

Inexperienced landlords may not be accounting for volatile rents or the cushion they'll need for unexpected repairs, says McCoy, who oversaw mortgages at the federal agency and now teaches law at Boston College. "The influx of the starry-eyed inexperienced investors is artificially boosting demand and causing the rental market to be overheated," she says. "This whole class of loan and, in particular, some of these underwriting practices are a sign of market euphoria. That rarely turns out well."

Industry executives say these loans, which require high credit scores, are quite different from the subprime mortgages that were made to borrowers with a poor history of repaying their bills. The US housing shortage ensures demand for rentals, and these are loans to businesses, not homeowners, they note; lenders can more easily foreclose on companies than consumers, making it easier to recoup losses from defaults

Lenders say they underwrite these loans with great care. HomeXpress generally requires borrowers to have a one-year history of per-night rentals, though buyers with some short-term rental experience can qualify with appraisals that consider comparable properties, says David Grider, a senior vice president. TheLender will only approve borrowers for loans based on per-day rentals if they have either a one-year track record as Airbnb-style hosts or two years renting out a property long-term, and they must be in strong real estate markets, according to Chris Ledwidge, president of the company's retail division.

Like executives at other companies, Jeff Ball, co-founder of Visio Lending, notes that borrowers must make down payments—at his company, often 30%; they are also required to have the equivalent of six months' worth of mortgage bills in reserve at the bank, as was the case with Jones, the former grocery manager in Ohio. "The loans perform extremely well, flawlessly," Ball says. "People with good credit have good credit because they have a history of paying their obligations in good times and bad times."

What happens if, as is typical, families cut back on travel during a recession? Could there be trouble? Perhaps, he acknowledges. "It's an interesting question," he says.

Long before Carles set up her mortgage business in the Smokies, she had deep affinities for the region. Her maiden name is Maples, so common here that she remembers a woman running up to her after a concert to announce she was kin. She grew up in a small Southern town, the child of a truck driver and a hairstylist in rural Farmville, Va. She waited tables and tried her hand as a Nashville singer-songwriter. She sang backup for East Tennessee's favorite daughter, Dolly Parton. Carles is even the same height as the entertainer: 5 feet, "if I stand real straight," she tells me in her soft drawl, as she lifts up her chin.

When I visit her in May, we meet over plates of eggs and bacon at a restaurant that looks like a 1920s general store. She tells me why she sees more potential in country homes than country music. It's largely because the region has been popular with travelers for generations. About 14 million people last year visited

Great Smoky Mountains National Park, more than the Grand Canyon, Yellowstone, or any other federal nature preserve. The 800 square miles of Appalachian wilderness is famed for sweeping vistas and streams teeming with trout. Straddling eastern Tennessee and western North Carolina, it's an easy drive for much of the South, making it an ideal locale for vacation rentals.

Kitschy attractions are magnets for families. Pigeon Forge has the Hollywood Wax Museum with its giant King Kong; the Hatfield & McCoy Dinner Feud, an auditorium that reenacts the famed Appalachian family conflict (also the site of Carles's best-paying singing gig); and, of course, Dollywood, with its old-time coal-fired steam engine, Amazing Flying Elephants Ride, and the Chasing Rainbows Museum of Parton memorabilia.

Near Sevierville, Tenn., where a statue of Parton holding a guitar stands before the courthouse, Carles rents a small brick house on a mountainside with her husband, Drew, a forest firefighter. They share a dimly lit, closetlike office, which has a shelf packed with how-to books: *Who Not How: The Formula to Achieve Bigger Goals Through Accelerating Teamwork* and *The Definitive Guide to Ranking #1 in Airbnb Search.*

Carles opened her company, the Mortgage Shop, in August after working for four years as a top-performing loan officer for U.S. Bancorp. At U.S. Bank, she says, it could take three weeks to review a conventional loan, because of all the paperwork and stringent standards. That process can get done in just several days for a vacation-property loan. Borrowers typically pay about 2 percentage points more than they would for a conventional home loan on a primary residence with similar terms.

So far this year, Carles says, her company has done 90 loans, worth a total of $60 million, for investor-owned vacation property. With a commission of 2%, her business has generated $1.65 million in profit since its founding, she says. She used to make loans herself but now relies on 10 loan officers operating in kitchens and spare rooms in Tennessee and across the US.

Late one Wednesday morning in May, Carles leads a Zoom question-and-answer session for about 30 prospective clients and employees. Dressed in jeans and a flowered blouse tied at the bottom, she leans into the microphone, a ring light brightening her straight brown hair, a green screen transforming her drab background into a beach with palm trees and a rising sun.

One prospect asks, If I can borrow $1 million, should I buy a bunch of properties or concentrate my bets?

"I would do the larger property because you're going to make a bigger rate of return," Carles replies. "You'll get more bookings."

A woman, eyeing retirement with her husband, has already bought one home to rent out by the day and is scouting others with the hope of creating an inheritance for her millennial children. "You're my favorite call," Carles says. "You're going to live a long life, and you're going to be partying it up, because you're going to make a lot of money on these rentals."

This kind of talk is common on real-estate-themed social media, as well as podcasts from BiggerPockets LLC, an online company for property-buying enthusiasts that counts more than 2 million members. One of its shows, called Real Estate Rookie, features stories of first-time investors striking it rich: single mothers, soldiers, teenagers—even a star of racy videos on the adult website OnlyFans. Its co-host, Tony Robinson, is one of Carles's customers. She appeared last year on his YouTube channel, answering questions inside a cabin she helped him purchase. (BiggerPockets CEO Scott Trench says the company warns of risks, and rookie investors tend to use conventional mortgages.)

After the Q&A in her home, Carles introduces me via Zoom to Megan Winterberg, a client from California who owns three million-dollar properties in the Smokies. In a crazy market, Winterberg and her husband bid on more than 50 houses before buying their first property. Renting it out on Airbnb, it brought in $135,000 in revenue in the first 10 months. "We caught the bug," she says.

The couple has yet to set foot in Tennessee. They expect their three Smokies homes to generate $100,000 in profit this year. One day they hope to earn enough to cover their living expenses in Arroyo Grande, Calif., while also generating seed capital to buy more houses. In January, Winterberg quit her job as a manager at a radiology imaging company to become a broker at the Mortgage Shop, using her experience to evangelize and sell. "I get to help people literally do what I do," she says. "It's like, 'Hey, let me tell you how you can make money and leave corporate America.' It's awesome."

Carles is part of an interrelated East Tennessee economy of brokers and investors, who are often one and the same, united in their dreams of Airbnb rental fortunes. The Mortgage Shop, Carles's company, gets referrals from a real estate agency called the Short Term Shop. Its owner, Avery Carl, who's a co-founder of the Mortgage Shop, shares a similar last name and backstory. She's also a musician who once toured as a punk rock guitarist and now lives in Destin, Fla., another popular vacation spot.

Tim Grillot, a 42-year-old car enthusiast, followed the trajectory of many here who fell hard for real estate after working in other fields. He lived in a five-bedroom house on 20 acres in Kentucky, where he was an engineering executive at a high-performance automotive parts company.

In January 2021, Grillot sold his house, using the proceeds to go all-in on property investing. Ten months later he and his wife moved to the Smokies and now share a 250-square-footAirstream trailer with a 15-year-old BMW Z3 sports car parked out front. While also working as an agent for the Short Term Shop, he's assembled quite an empire of his own: six properties supported by $2.8 million in mortgages—two of which he qualified for based on short-term rental income. "My net worth is skyrocketing even though I don't have a primary home," Grillot tells me. "I like to say I'm a homeless millionaire."

In his favored look these days, bib overalls and a goatee, he gives me a tour of his pride and joy, a former commercial building that looks like a saloon. He's turning it into a six-bedroom home with a liquor theme. There will be whiskey barrels and a room dedicated to famous bootleggers, maybe even an authentic still. He plans to call it Moonshine Mansion and rent it out for $625 a night.

Such deluxe rentals are changing the region's character. Once it was known mostly for rural cabins, the kind immortalized in the Parton hit My Tennessee Mountain Home. They were easily affordable for a middle-class family's getaway. Now they're giving way to woodsy quasi-mansions, row upon row carved into formerly pristine hills.

In the Thunder Mountain subdivision of the spectacular Wears Valley sits a stone-and-wood "cabin" with a movie theater, a game room, an indoor pool, a sauna, and a stuffed bear in the living room. In April, Johnny Duray, a pilot, and his wife, Ashley, a pediatrician—both in the Air Force and living in Florida—bought the house for $1.5 million and rent it for as much as $1,500 a day. "Three or four years ago, you didn't see many of these," says Julie McCoy, the Short Term Shop agent who sold the house. "But they're big income generators." The Durays used a more traditional jumbo loan, but they're looking to buy more property using a mortgage supported by short-term rental income. McCoy, a 41-year-old former Hollywood assistant director, is herself investing in a similar house under construction nearby.

A few miles away, Lauren Madewell sits on a rocking chair in front of her family business, Auntie Belham's Cabin Rentals, chatting with her sister, Mallorie. The Madewells, both in their 30s, lost 30 properties because owners sold to out-of-town investors renting them by the night. Costs are skyrocketing, edging out locals and forcing them to commute 45 minutes to work. "It's investors who see dollar signs," says Mallorie, who's wearing a "What Would Dolly Do?" T-shirt. "I wish they were selling to people who were really interested in investing in the local area."

The Madewells are part of a growing backlash against Airbnb rentals over claims they price out year-round residents; some cities, including Nashville, are considering or initiating restrictions. This possible crackdown poses a risk to those relying on per-night rents to sell or pay off mortgages. Airbnb Inc. says it's working with governments to find solutions to the US affordable housing crisis; the company cites studies showing that its short-term rentals create thousands of jobs in rural Tennessee and millions in state and local tax revenue. People here wonder how it will all end. There have been booms and busts before. Wildfires are a perennial threat here. Rising gas prices could cause many people to question whether to make long drives to go camping and fishing.

After her morning Zoom presentation, Carles brushes away such concerns, saying her mortgage company and its customers are sure to keep thriving because of the enduring popularity of the Smokies. In her $80,000 SUV, she's negotiating a tricky turn on a mountain road, still listening to the BiggerPockets hosts and their guests' tales of real estate riches. "Even if the economy goes to crap, people will still vacation here," she says. "No matter if your family is in debt, most people have to have a vacation so they don't go insane. They'll put it on a credit card."