Is a Recreational Vehicle a Good Investment?

A mini-ebook detailing a pretty neat numerical method as how you might find out if the RV is a good investment.

by Marlan Winter

Special thanks to Thor Motor Coach who graciously allowed me access to pictures of their RV's and permission to use in my ebook. Thanks Thor!

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Introduction

I can guess that you are spending a few minutes reading this ebook because you :
• just bought an RV and really want to “post justify” the decision
- or -
• are thinking about buying an RV and really just want some reassurance.

I’ll give you the short answer right now, but if you read further you’ll find that there are a great deal of factors, most of which cannot be factored into a math equation. But the short answer is...

...wait for it...

...it depends.

I’m sorry, but that is the truth.

But if you read this ebook, I will do a calculation for you, and you might be VERY surprised at the results.

Before I show you the calculations though, you have to consider what goes into the calculations and what things CAN’T go into the calculation. After considering all those things together, then I think you’ll find that this ebook helps your decision process.

Here are some very difficult questions that “inform” a decision on whether or not an RV is a good investment - while some of these variables might also defy numerical observation.

Do you need to be co-located to a work location that is far from your home?
Or are you an adventurer and have a way to sustain your lifestyle financially?

Are you a lone wolf, married, or part of a family?

Do you place more value on experience or quantifiable things? Do you believe that life is to be adventured, or endured?

These are factors which truly affect your “personal value measure” of the worth of an RV. Only you know your personal worldview and that can have a profound impact on the merits on owning an RV.

But I have put a pen, paper, and Excel to some of these ideas and can give you some potential reassurance that maybe owning an RV isn't just a money pit.

Differing Lifestyles

The RVIA (Recreational Vehicle Industry Association) is a trade group that is responsible for the RV industry self regulating itself. It provides a great many benefits to consumers as well like a set of quality standards required to get the RVIA "seal". RV's aren't known for excessive quality, but without the seal, I shudder to think. At least this seal provides a minimum level of "something".

One of the functions of the RVIA is to provide an industry wide set of statistics.

One statistic that stands out is that the average RV owner will own approximately four different RV's in that owners lifetime.

We can all speculate as to why this might be, but at least ONE factor is that during a lifetime, your lifestyles and needs change too.

For example, early on, you might buy a pop-up camper for fun little trips. As you get into young adulthood with a wife, you might buy a little travel trailer. As children enter the picture a larger fifth wheel, perhaps with a bunkhouse might be in order. Finally, as your house is an empty nest again, you might finally get yourself a Class A, B, or C RV and tour the continent.

Ignoring your life phases for a moment, your relationship to your work also has a very large impact on the viability of an RV.

For example, if your work is "site dependent", such as construction sites, energy creation sites, disaster relief, concert touring, or similar, you might find that having a house is impractical and that having a house on wheels is a more economical solution for you - reducing many costs and worries of having to care for something where you cannot be. Factoring in a family can make this extremely complex psychologically.

If your work is "geography independent" will also have a large impact on the viability of an RV. Geography independent work simply means that you don't have to be any one place.

For this type of work, if you don't have to be someplace, you can be anywhere. And if you are an adventurer, then an RV could be a good fit for you.

I don't think there is a "final answer" to the lifestyle question. I wanted to point out that your lifestyle is a really big factor to getting all the value out of an RV you want.

I think though, one final idea around the RV is pretty important - Is the RV an added expense because it is your second residence, or are you able to simply get rid of your main place to live and use the RV instead. For a calculation I do later, that is the primary driver of the calculation.

To summarize the ideas you must consider for lifestyle they are :

- Your season in your life
- Your penchant for adventure and discovery
- Your relationship to your work (site-dependent, geography-independent)
- Do you have a first or primary home

RV Costs of Ownership

RVs are not maintenance or expense free. Whenever you start calculating if you can afford to have an RV, you have to consider the daily costs of ownership.

RV's depreciate! Surprise! If you buy an RV brand new, you can expect a significant "drive/tow off" decline in value immediately. I would estimate this to be at least 30-40% off of the list price for sure. You probably won't pay list, but pricing with RV dealers is very difficult and they have an immense information advantage. To be conservative, assume that you'll lose 30% of what you paid immediately. A reasonable number thereafter would be a 5% depreciation in value until the unit loses about 90% of its value. RV's seem to have some form of "value floor". For the calculation, I'll pick a "new" RV of moderate value and depreciate accordingly.

RV's MUST be **located** somewhere. For many of you, that might be an RV park, which I would estimate to be approximately 30-50% of the area's prevailing rents. In Austin TX, you can expect to find an RV park from $300/month to around $600/month based on amenities at the park. If you are not using your RV, storage will cost you about 10-20% of the areas prevailing rent. I can park an RV in Austin for about $75/month. Ok, yes, for a time period when the RV is on the road, you escape some of those fees, but you replace them with others like fuel. But I'm trying to outline considerations here, not necessarily get into every nit picky detail.

Utilities are sometimes a factor. In Austin, because of the very hot summers, expect an energy surcharge or simply to pay an electric bill. In 2010, I paid around $0.14/Kilowatt hour (expensive) for energy at an RV

park. I think, wisely, you should factor in around $120/month for utilities in the season that will drive your expenses. That will allow for furnace operation and propane gas to be used too so this is my catchall for that. For the purposes of a comparison calculation I think utilities are a wash because everyone pays them everywhere. Technically, an RV is a little cheaper due to the small size.

Interest on your note. Not everyone will have this, but most homeowners have a note so I thought it fair to compare the two.

Maintenance is important. For the first couple of years, a decent warranty will tide you over. But RV's require maintenance. Example are air conditioning repair, furnace repair, tires, wheel bearing greasing, washing, adding gadgetry (like an undersink reverse osmosis), broken fawcets and so forth. I'd budget at least $100/month to be safe. I won't show this in the calculation, because homes have maintenance too so I'll consider it to be a wash.

Mobility it an expense. Mobility is a funny way of saying it, but if your RV moves quite a bit, you have to have a way to move it. With Class A/B/C RVs, they have engines and those engines cost more than a towable. If you have a towable, then you have to pay for the tow vehicle. Furthermore, you have additional fuel costs over normal driving without a towing experience. I did not factor this into my calculation for a number of reasons, but the primary reason is that mobility is the one expense that ties into the lifestyle you want to live so rather than have it color the calculations. In other words, take out the one thing that is an expense that you were willing to pay above and beyond to get to an adventurer lifestyle. You DO have to factor it in, but think of it like the plane tickets or the bus pass. Furthermore, there are some (like Sheri and I) who live in an RV because it is part of a life philosophy - we don't have a tow vehicle and rent one only when we need it. So it really is not part of our calculation.

Insurance is noticeable. We pay around $100/month in RV insurance. I don't calculate it into our calculation below either because you have insurance on a house as well. Technically you should have renter's insurance too, but I think lots of people don't get renters insurance. So while you need to factor it into your lifestyle, you have to pay it no matter where you live, so it doesn't provide a meaningful basis for any comparison.

Of course there are other expenses which are part of living, but I think that would bore you here. I will say that some of the really nice parks actually have extras that make your daily living more economical - For example La Hacienda RV Park in Austin Texas had a workout center AND provided a free gym membership as well. We felt that was worth about $25/month for sure.

In summary, these are the costs we'll be examining and comparing later on. I won't write about these later in great detail since I did it here.

Ideas around “Investment”

At the risk of having Robert Kiyosaki (Rich Dad, Poor Dad) call me down and give me a lecture, I will say that I could roughly call anything an investment that actually will appreciate in value. He says it has to generate cash flow. I like his viewpoint, but it requires a religious argument with most people. So I’m not going there.

I could EVEN modify this whole notion and say that I’m only going to look at the items that “store value” even if they go up or down in value over the years. You have to consider this since the essence of my comparison calculation is to look at beginning value and terminal value of all “assets” (or items that store value regardless of going up or down in value) and add them up.

Savings. For the purpose of my calculation, I assume everyone starts with a savings account with enough money to purchase an RV outright, but not a home. I think this represents many people situationally. For all savings calculations, I utilized a constant savings rate.

RV Value. Using my depreciation concept earlier, I look at the RV’s “floor” value at the end of its life and that is the terminal value. The RV, any RV, will have a terminal value so this is not unreasonable. Few of you will give yours away for free unless it is to a family member.

Home Value. One of the few assets that SHOULD go up in value, assuming you ignore 2008 or later in the United States. I’ve used a number that I’ve heard repeated many times : “Home prices, on average, go up about 1% per year over the long run.” I don’t know if this is true or not, but I did use this number. It would be a big swing number if it was more or less.

Ability to generate monthly income. For the purpose of my calculation I’ll assume that there is $1,400 of monthly income that can be spent either on an apartment, a house, or an RV. Not directly an “asset” - one could argue there had to be an asset to generate the money, but it could simply be part of a wage earner income. For my calculation to make sense, your monthly income was something that I held “constant” and it forms a basis for my calculation.

Now you have most of the key concepts in my calculation.

RV’s and Taxation

If you are lucky enough (or unlucky enough) to live in a state where the primary taxation is “sales tax”, the pain of the purchase of an RV will be partially offset by the sales tax deduction from your federal taxes. I live in Texas, so I was able to deduct the sales tax without any guilt. I won’t go through the different states, but it is something you can check. I did NOT utilize this in my calculation.

Line 7

Personal Property Taxes

Enter the state and local personal property taxes you paid, but only if the taxes were based on value alone and were imposed on a yearly basis.

Example. You paid a yearly fee for the registration of your car. Part of the fee was based on the car's value and part was based on its weight. You can deduct only the part of the fee that was based on the car's value.

Next, if you live in a state that taxes you on the VALUE of the RV, then you will get a yearly break on the federal taxes for the state taxation of your RV's value. In Texas, this isn't the case - in Texas you pay a mostly fixed amount of tax every year. But worthwhile to investigate for the rest of you.

There were some incentives to purchase RV's by giving tax breaks during the 2009/2010 stimulus plans. I won't detail them here, but I'm trying to make a case that RV's DO have a role in your taxes and the US economy, so you should check these things out. We purchased our RV too late for the stimulus incentive.

Finally, and this is the most interesting tax note is that you should check with your accountant around the idea of RV's and writing off interest, if you have any, on your federal income taxes. I know I do this. Here is why.

I do think it is useful to note that the IRS allows you to deduct interest on any "dwelling" that has the defining characteristics which I've included from the IRS.go 1040 Schedule A instructions. Look at the graphics called Lines 10 and 11 "Home Mortgage Interest"

Lines 10 and 11

Home Mortgage Interest

TIP *If you are a homeowner who received assistance under a State Housing Finance Agency Hardest Hit Fund program or an Emergency Homeowners' Loan program, see Pub. 530 for the amount you can deduct on line 10 or 11.*

A home mortgage is any loan that is secured by your main home or second home. It includes first and second mortgages, home equity loans, and refinanced mortgages.

A home can be a house, condominium, cooperative, mobile home, boat, or similar property. It must provide basic living accommodations including sleeping space, toilet, and cooking facilities.

A method for answering "Is an RV a Good Investment"

So now lets get onto brass tacks.

To find some numerical answer about whether or not an RV is a good investment, I think you have to approach the problem as a comparison between options.

The options would be renting, owning a house (with a mortgage) and buying an RV. Since the RV costs less than a house, the RV was purchased using cash from the savings.

Renting -

Step 1, is to calculate the net worth of a renter at the end of an arbitrary period of time. For our calculation I picked 13 years. Just an arbitrary number. I probably should have gone at least 12 or 14 to avoid bad luck, but what the heck, eh?

Savings Only
$75,000
$76,500
$78,030
$79,591
$81,182
$82,806
$84,462
$86,151
$87,874
$89,632
$91,425
$93,253
$95,118
$97,020

I assume my renter has $75,000 in the bank, and a rent of $1,400. I did not adjust rent up, as does happen, so you could argue that my calculation is a bit generous to the renter. I also gave the renter 2% return (I did for everyone) on the savings. Again, arguable, but I was fair across the board.

So at the end of 13 years, the ONLY asset the renter would have left for this calculation where I keep everything still is the final value or terminal value of the $75,000 in savings. As you can see the renter's 13 year end value is $97K. Not too bad.

Owning a home -

To calculate the homeowner's end values (after 13 years), I took the $75K and put down 20% of that on a house. I then took out a mortgage for the balance at 6% and also figured in a little tax break as well - I used a 3% property tax.

So after I performed the calculation, taking the $1,400 I was spending on rent, paying the mortgage, and then depositing the rest in an account, I came up with a terminal value for the home owner.

The terminal value is equal to (the value of the house) LESS (the remaining mortgage) PLUS (the savings less the downpayment plus interest) PLUS (the $1,400 less the mortgage payment savings plus interest).

What was the total end amount of the total net worth of a home owner? $220,139! This is more than DOUBLE the renter!

House						
house money	Savings	House App %	House Appr	Remaining Note	Total Payment	Savings
$76,959	$47,000	0.0%	$140,000	$112,000	$1,237	$1,959
$85,347	$47,940	0.5%	$140,700	$107,249	$1,237	$3,956
$94,091	$48,899	0.5%	$141,404	$102,206	$1,237	$5,994
$103,209	$49,877	0.5%	$142,111	$96,851	$1,237	$8,072
$112,722	$50,874	0.5%	$142,821	$91,166	$1,237	$10,192
$122,652	$51,892	0.5%	$143,535	$85,130	$1,237	$12,355
$133,021	$52,930	0.5%	$144,253	$78,722	$1,237	$14,561
$143,854	$53,988	0.5%	$144,974	$71,919	$1,237	$16,810
$155,176	$55,068	0.5%	$145,699	$64,696	$1,237	$19,105
$167,015	$56,169	0.5%	$146,427	$57,028	$1,237	$21,446
$179,399	$57,293	0.5%	$147,160	$48,887	$1,237	$23,833
$192,359	$58,439	0.5%	$147,895	$40,243	$1,237	$26,268
$205,928	$59,607	0.5%	$148,635	$31,067	$1,237	$28,752
$220,139	$60,800	0.5%	$149,378	$21,325	$1,237	$31,286

How was this accomplished? Primarily it was through "interest recapture" - in other words, the fact that SOME of your monthly "rent" actually goes to building equity is the

key. Then add to it the interest on the remaining savings, interest on savings because the mortgage was less than rent (minor), and then finally, a 1% per year increase in home value.

Clearly, clearly, clearly - home ownership is a better deal than rent. The important thing is to make sure your mortgage isn't so big that you can't always pay it.

Owning an RV -

I personally had no idea how this calculation would turn out. But you might be surprised.

First I purchased the RV from the $75K in savings. The RV I picked would be a mid-level fifth wheel RV. I assumed you already own a tow vehicle or could rent one and that the RV would be mostly stationary.

Then I depreciated the RV aggressively over 13 years to a terminal value that was 10% of the units cost. I then "put" the RV onto an RV park's site, which is rented.

From that I was able to get a comparative calculation. I figured in no tax savings or much other advantage for the RV. I wanted this to be a conservative calculation.

What was the end value of the total asset value of the RV owner? It was $215,000!

		RV			
Savings	RV Dep Char	Value of RV	PAD/month	Savings	rv money
$29,000	30%	$32,200	$500	$10,800	$72,000
$29,580	35%	$29,900	$500	$21,816	$81,296
$30,172	40%	$27,600	$500	$33,052	$90,824
$30,775	45%	$25,300	$500	$44,513	$100,588
$31,391	50%	$23,000	$500	$56,204	$110,594
$32,018	55%	$20,700	$500	$68,128	$120,846
$32,659	60%	$18,400	$500	$80,290	$131,349
$33,312	65%	$16,100	$500	$92,696	$142,108
$33,978	70%	$13,800	$500	$105,350	$153,128
$34,658	75%	$11,500	$500	$118,257	$164,415
$35,351	80%	$9,200	$500	$131,422	$175,973
$36,058	85%	$6,900	$500	$144,851	$187,808
$36,779	90%	$4,600	$500	$158,548	$199,927
$37,515	90%	$4,600	$500	$172,519	$214,633

Honestly, I thought it would be akin to or much worse than a renter's end asset value. But it wasn't it was almost 2x the renters and wasn't far from a homeowners.

Why? The primary driver of the RV owners increase in value is the recapture of value due to the SAVINGS around the "monthly" costs. I believe with a homeowner that

owning a home would eventually outpace RV ownership substantially, but ONLY after the home is completely paid off.

By the way, for the RV park site, I paid “upscale” prices for Austin Texas, just like I paid “upscale” prices for the apartment. For the house, I kept the house price lower because I wanted a mortgage payment about the same as rent payment.

Conclusion

I hope you are surprised as I was!

So, if you can’t afford a home, then buying an RV and living VERY economically might be the next best thing. Certainly, renting, particularly if your tastes are fancy may be your single worst option.

RESOURCES

My RV blog and resource site : http://www.rv52.com

If you want to know more about me : http://www.rv52.com/about

Thor Motor Coaches because they allowed me to use photographs : http://thormotorcoach.com

How I created this ebook :
- I used Apple’s Pages program
- I gathered photographs from Thor and my own.
- I actually did the complete calculation myself
- Calculations were done using LibreOffice
- Graphics were transferred using Apple GRAB
- The decision to use “an RV” instead of “a RV” was aided by a University of Texas English Master’s degree recipient. The official answer was “ the choice of “a” or “an” is dictated by pronunciation and is the dealers choice.” So I’m not taking the fall because I actually asked an expert. By the way, he’s been requesting that I read the book “Eats, Shoots and Leaves” sometime soon.