

Prime time... houses at Wategos Beach, Byron Bay, command top rents.

# Holiday bonus

If managed properly, the family getaway can be a nice little earner

STORY NICOLA FIELD

**T**HE IDEA OF OWNING a holiday home is very appealing. The trouble is that high property prices make them an expensive luxury.

The solution can be to rent a vacation home to holidaymakers. Across the nation, vacation properties are commanding rents as high as \$3000 a night – potentially more in peak seasons.

Sally Godfrey, marketing specialist at holiday rental site HomeAway.com.au, says around 18,000 holiday homes across Australia are listed for rent. “In the last five years we have seen a shift in the way people regard holiday homes,” she says. “There is much more awareness now that these properties can deliver healthy returns.”

Geelong-based Glenn Benson owns several holiday homes in Victoria and another in Port Douglas. “Without holiday letting we simply wouldn’t be able to afford to keep our holiday homes,” he admits. But he highlights the potential of these properties to earn impressive returns.

“Done well, a holiday home can generate a rental return of 7% to 8% (after costs but before interest). That’s far higher than the 2% to 3% I could earn if my properties were tenanted full time.”

There are no hard and fast rules about the type of property best suited for holiday letting. Godfrey says almost half (49%) the properties listed on HomeAway.com.au are houses and 35% are apartments. The remainder are a mix of villas, chalets and cabins and there’s even a castle with its own helipad.

Some homes are pet friendly, others are ideally suited for families. The big factor that can shape rent returns is location. Benson says his properties were selected chiefly on where his family wanted to holiday, though within any location he looks for sites in walking distance of key attractions.

“We tend to associate driving with work, and people want to be able to forget the car and walk with their family to most attractions when they’re on holiday,” he says. He concedes these prime locations will cost more but the pay-off is higher rents.

### Yours – for \$7500 a night

The “Hot destinations” table shows the range of rents holiday homes can earn for

a single night at Australia’s top holiday destinations. In many cases it can far outweigh the average weekly rent for a full-time tenancy in the same location – and these prices don’t reflect peak season tariffs, which can be much higher. Godfrey says one 10-bedroom Byron Bay home she has listed can pull in peak period rent of \$7500 a night – more than 10 times the town’s average weekly rent.

### Occupancy rates

The amount of time the property is open for bookings will affect overall rental income. “Most homes are available to rent for about 43 weeks a year, with the owners reserving the remaining nine or 10 weeks for private use,” Godfrey says. She says homes are usually booked out for about half that available period – around 23 weeks each year.

The daily rent will impact on occupancy rates, and it’s essential to research what’s being charged for similar types of accommodation in the area. Setting the rent too high can mean extended vacancy periods; however, charging below market rates is generally regarded as counterproductive. “Significant discounting below the going rate is the least effective marketing tool in the long run,” says Benson.

### Managing the costs

Like all properties, a holiday home comes with ongoing costs and your budget needs to be able to cope with these even during periods of low occupancy. Benson estimates that regular expenses such as cleaning, rates and insurances typically amount to around 20% of the property’s rental income.

He adds that another 20% of rent returns can be taken up by property management fees. It’s a cost that can be reduced considerably if owners manage their own bookings and marketing.

Benson runs his own website (www.serenityaccommodation.com.au) to promote and market his properties, but he also uses independent listing services. “Holiday home rental sites either charge commission for each night the property is rented or an annual fee. The annual fee system offers better value as long as the site adequately covers your target market.”

As a guide to listing fees, HomeAway.com.au charges \$99 annually, which gives owners access to other resources including templates of written rental agreements.

Michelle Hutchison, money expert at com-



parison site finder.com.au, agrees that holiday homes have the potential to be a productive investment. However, she stresses the importance of choosing the underlying mortgage with care, saying: “The loan interest rate can make a big difference to returns on a holiday rental property.”

Traditional landlords often opt for an interest-only loan as this lowers the monthly repayments but “without any repayment of the principal, the loan is not being paid off”, Hutchison notes. At some stage it makes sense to revert to principal plus interest repayments if the property is a long-term investment.

“While lenders may take the holiday rental income into account when determining your borrowing capacity, it’s also important to be aware that many favourite holiday spots can have very seasonal occupancy. This can create a higher level of risk, so avoid overexposing yourself by taking out a loan you cannot comfortably service.”

### Family and friends

Pooling resources with family or friends can make a holiday home more affordable, but Angus Raine, CEO of the Raine & Horne property group, recommends establishing what he calls “the rules of engagement”.

“Agree to an accommodation schedule from the outset, which diarises when the property is occupied and by whom,” says Raine.

“Some weeks are more valuable than others, such as Christmas and Easter, but by taking a commonsense approach it’s feasible to develop an accommodation schedule which is suitable to all parties.” He also recommends coming to a firm agreement on how

### HOT DESTINATIONS

HOLIDAY SPOT (POSTCODE)	MEDIAN HOUSE PRICE	AVG RENT (PW)	HOLIDAY RENT FOR POSTCODE <sup>1</sup> (PER NIGHT)
1. Hobart (7000)	\$483,000	\$430	\$150-\$590
2. Byron Bay (2481)	\$701,000	\$640	\$87-\$3000
3. Adelaide (5000)	\$514,500	\$460	\$172-\$643
4. Perth (6000)	\$812,000	\$695	\$100-\$1000
5. Cairns (4870)	\$691,000	\$585	\$30-\$529
6. Port Douglas (4877)	\$503,000	\$365	\$80-\$1400
7. Brisbane (4000)	\$947,500	\$700	\$150-\$785
8. Sydney (2000)	\$1,860,000	\$1190	\$129-\$1143
9. Surfers Paradise (4217)	\$940,000	\$615	\$79-\$1500
10. Melbourne (3000)	\$905,000	\$545	\$84-\$1200

Source: finder.com.au, from Tripadvisor’s Travellers’ Choice 2013 top 10 holiday destinations ranked by yield (prices and rents from Residex at onthehouse.com.au); and HomeAway (www.homeaway.com.au) for holiday rent ranges.

costs such as repairs and maintenance are funded. “One method is to contribute to a sinking fund not unlike those used in strata arrangements, where all owners contribute an amount, which is calculated on how often they use the property.”

GETTY IMAGES





Labour of love ...  
Baerami Pines Retreat  
in the Hunter Valley.

## COUNTRY RETREAT HAS ITS REWARDS

**S**ydneysider Walter Barda, 57, and his partner Tom O'Neal, 50, shared a long-term dream of converting a church into a country getaway. When a rundown church came on the market eight years ago, the couple seized the opportunity to make their fantasy a reality. These days, their Baerami Pines Retreat ([www.baerami-pinesretreat.com.au](http://www.baerami-pinesretreat.com.au)) in the Hunter Valley of NSW is proving to be the ideal blend of personal haven and healthy investment.

"We were looking for a rural property that could generate additional income when we retire," Tom says. "While the church required a lot of work to bring it up to a very high standard, it is located in an area that features the sort of attractions that appeal to our target market."

Baerami Pines Retreat is surrounded by horse studs, wineries and artisan food

producers – attractions that bring in holiday-makers and, Walter discovered, businesses that require accommodation for their own corporate clients.

As an architect, it was a labour of love for Walter to restore the church and its grounds, which date back to 1936. The result is a unique three-bedroom holiday home that commands tariffs of \$600 a night.

For the owners, one of the more challenging aspects of the project has been the emotional element of making the property available to the paying public.

"There is always a sense that this is a home and it's a very special place," Tom says. "But it's a matter of moving to a business framework – and along with financial rewards, it's good to know other people have the opportunity to enjoy the property as much as we do."

## Keep good records

A holiday home may be seen as a lifestyle asset, but the tax man will take a keen interest in the place as well. It is critical to keep written records of all costs and outgoings plus rental income.

"If a holiday home is never rented out, and just used for pleasure by the owners, the only tax issue likely to arise is capital gains tax if the property is sold at a profit," says Rod Thompson, principal of Sydney-based certified practising accountants BPI. "If the property has been held for longer than 12 months, the owner is normally entitled to a 50% discount on the taxable capital gain."

It's possible to reduce any capital gains tax further. "The annual outgoings on the property that represent the cost of maintaining the place like rates, improvements, repairs and maintenance can be added to the property's cost base to potentially reduce any taxable capital gain," Thompson says.

If a holiday home is rented out, these ongoing expenses plus loan interest can be offset against the rental income and claimed on tax, though only in proportion to the number of days the property was available to rent. The private-use component of expenses cannot be claimed on tax. Thompson explains: "If the property was available to rent 200 days a year, the owner can claim a pro-rata deduction of 200/365 of the total expenses."

Where a property is owned by a group of friends or family members, Thompson says: "The losses or profits should be divided in proportions that reflect each owner's individual capital contributions."

A common stumbling block for holiday home owners is the belief that the cost of travelling to the property will be tax deductible. "The cost of travel to the property can only be claimed on tax where the primary purpose of the trip is to inspect the property," Thompson cautions. "As a rule of thumb, two inspections annually is regarded as reasonable."

It's worth noting that holiday homes are on the tax man's radar. Thompson says: "Each year the tax office publishes its hit list of areas for compliance activity and holiday homes are always on that list." That makes it important to keep good records and seek expert tax advice.

Note too, Thompson says, that holiday homes held within a self-managed superannuation fund cannot normally be used for personal enjoyment. **M**