

Investing in a holiday home: How to mix business with pleasure

by [JoeyJ](#) | 09/11/2010

Investing in a holiday home can be the ultimate battle between the head and the heart. [Your Investment Property](#) gets expert tips to help your holiday property make money as well as memories

You've spent a week sprawled out on the sand and you're wishing the holiday never had to end. Then you see a pretty little beachside shack for sale and alongside the price tag is the promise of up to \$1000 a week in holiday letting income. An investment property and a free annual holiday all rolled into a single postcard-perfect package? It's a dream come true.

Or is it? When you get back home finance friends shake their heads and say you got too much sun, the initial maintenance bill arrives and talk of an airline strike makes you wonder if you've invested in property or tourism.

There is no easy answer. A holiday home can be a property investor's best friend, with high annual returns, extra tax benefits, excellent capital gains and an affordable annual vacation. But it can also be your worst nightmare, with gross returns halved by management fees, months of no income and few appealing escape routes. Fortunately, packing the right strategies alongside the sunscreen when you embark on holiday home investment can ensure you don't get burnt.

Facts in figures

The first holiday letting rule of thumb is that there are no hard and fast rules on returns. From the studio on the Gold Coast to the character shack on the remote WA coast, there is huge variation in weekly rents, occupancy rates and purchase prices. Yet founder and managing director of [rentahome.com.au](#), Justin Butterworth suggests the largest predictor of a property's holiday letting yield is the owner's investment plan.

"Some people might like the idea of being able to pop down to Mollymook on the weekends and if they can earn \$10,000 and pay the land tax, then that is great. Whereas others may be getting \$50,000 to \$60,000 per annum and pulling in a cracker return, but with a good level of involvement also, cleaning the property after tenants have left, dropping off the keys for the new tenants etc. So it really does depend on whether people want to maximise their financial returns or they're looking for lifestyle," he says.

There is no doubt that short-term rental rates are better than permanent ones on a weekly basis. "As a general guide, if you have a one bedroom property in Sydney CBD and your unfurnished rental return is \$400 per week, you'd probably get \$800 a week as a furnished short term rental, less a 20% management fee," Butterworth explains.

But how often you get top rates can have a big impact on the bottom line. "To give general indications, in a metro area you'd be looking at around 90% occupancy. That is much lower, maybe 20-40% in a regional area," he continues.

Butterworth was also right to mention management fees, a significant cost associated with holiday letting. Property managers in some of the nation's key holiday letting destinations quote different figures, from 16% plus up to \$90 cleaning per rental in Victor Harbor SA, to 20-30% in Byron Bay, NSW, to 40% near Port Douglas, QLD and as high as 50% of gross takings on the Gold Coast, QLD.

Kevin Harry of Beachside Properties Coolangatta, on the Gold Coast says buyers often underestimate the outgoings. "A lot of people go in with starry eyes, thinking about two free weeks of holiday a year but, generally, over the past 30 years, I've found that the holiday market is flooded with high body corporate and management fees and cleaning costs. In the low season managers can drop the rent, which keeps the manager and cleaner in wages and still quote 60% occupancy rates but the owner is not getting the income they expect," he warns.

Liz Sterzel, managing director of Property Wizards buyer's agency in WA, agrees. "If your objective is cash flow, check the real net cash flow and don't be dazzled by the high rental figures. Holiday homes can sit vacant for weeks on end and you still have to pay your mortgage with no rental coming in. Equally, management fees and maintenance costs can eat into your gross income, leaving you with little or no cash flow," she advises.

However, there's evidence holiday letting can be more profitable than permanent tenancies in some cases. Even given industry specific costs such as low season specials, consistent advertising, regular property maintenance and linen hire, holiday letting cashflow can be surprisingly good. Laurel Guymer looks after several holiday let properties, including her own, in Lorne, Victoria and says returns for a five-bedroom home can be as high as \$75,000pa. Based on the current purchase price of a similar home in Lorne, that equates to a gross yield of 6.9%, well above the current 5.5% permanent rental yield listed by Australian Property Monitors for July 2009.

Buyer's agent from Guardian Property Services in Sydney, Roy Halabi, confirms holiday homes have potential to generate immediate positive cashflow and outperform permanent rentals but says stacking the figures on holiday letting does not stop there. "Key issues start with lending from the banks as holiday let properties are seen as higher risk therefore investors may need to contribute more towards the initial deposit as they may not be able to get maximum LVR on the property," he points out.

Income tax break is another crucial component of holiday home calculations. There may be additional depreciation benefits and more regular income tax deductions related to furnishing the property. However, again this is highly dependent on personal strategy. Australian Tax Office guidelines indicate that deductible property expenses and outgoings may be apportioned only according to the amount of time the property is occupied by paying tenants or genuinely available for commercial rental. Similarly, travel expenses are only deductible if related to genuine maintenance, not personal stays.

The ideal destination

Capital growth is often where low-yield holiday properties come into their own. Often set in idyllic beachside locations, popular holiday home areas have benefited enormously from the sea change phenomenon and property owners in key localities have scooped up excellent capital gains over the past decade.

A small slice of paradise without enough employment to sustain a large permanent population but with more than enough charm to encourage holiday-makers back year after year could be just the recipe for excellent long-term gains and holiday letting could provide the income you need to jump in before the boom. Kay Black's holiday home in just such a town on NSW north coast struggled to pay its way in letting fees but its value has risen by \$320,000 in the past eight years. Meanwhile, on top of strong returns, Guymer estimates her holiday home asset in quiet Lorne has increased in value by up to 30% since late 2006.

Even buying at today's prices, Real Estate Institute of Queensland managing director Dan Molloy says there is still plenty of room for growth in the right places. "Prime locations such as beachfront are always in strong demand so have the ability to realise capital growth over the long-term," he says. "Even in the current economic climate some areas have experienced healthy median price growth over the past year possibly driven by their unique locations."

But relying on the holiday market is a risky strategy, most appropriate for an investor capable of covering costs in slow seasons and content to negative gear. Molloy qualifies his comments by saying infrastructure and amenities are key to long term capital growth in holiday homes and, similarly, Sterzel recommends aiming for an established town or city home to 30,000 people or more for increased security of regular returns.

"The best bet is an area that's got more going for it than just a few resorts," she says. "For example, a holiday apartment in Mandurah, which has many other drawcards, could be marketed to business stays and conferences outside of peak holiday season, whereas the same apartment at a small remote beach would be totally reliant on holidaymakers."

Neither is strong capital growth potential restricted to little-known towns. Bill Morris, author of the Midwood Queensland Investment Report, says there are currently great beachfront bargains up for grabs on the Gold Coast. "Quite a few developers have gone into receivership and are selling new apartment stock at heavily discounted prices which is diluting the market quite a lot," he says. "At the moment there are many absolute beachfront apartments, in older buildings, maybe 30 years old, that you can buy for \$250,000 to \$300,000. That is an absolute steal."

However, Morris says using them as holiday homes would still equate to a lifestyle investment with a focus on long term gains. "The gross returns are still well under 3% on value, you might need to spend money renovating and there can be high body corporate fees, up to \$100 a week in some places," he says. "But if you want the lifestyle you can't get much better than that and if you hold onto it long enough, say 10 years, the capital gains are 10 per cent per annum which is higher than general housing and some of the better apartment blocks are getting more than that."

To access optimal gains, Harry recommends buying self-contained one or two bedroom units in order to open the door to more potential buyers and the option of moving in permanently down the track, as opposed to traditional motel rooms which are often reliant on other holiday investors for resale. Take care to check council zonings as well. Bylaws governing some complexes restrict anyone from residing in the units for longer than three months, eliminating permanent rental or owner-occupier options.

If it all sounds more complicated than your initial beachside daydream, it's because it is. You may be able to reap record returns from your holiday home but you may need to be an adept marketer and property manager to do so. Or you may be able to enjoy your weekends in the sun and the privilege of owning a property in an elite location, but you may have to be prepared to cover a large portion of the running costs personally. It seems a holiday home investment, like the holiday itself, is only what you make it.

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