



is this the
**FUTURE OF
 RENTALS?**

CAROLINE JAMES

BREAKING THE MOULD

It's the catch cry for any would-be tech billionaire to assert that their idea will flip the social norms and unbalance entrenched business models.

Many claim to be a disruptor, but few can actually back it up.

There are recognised businesses that even those of us outside the tech-sphere can name – Wikipedia, Uber, Spotify, Dropbox, Pinterest, Snapchat – but in the world of investment property, the revolution revolves around short-stay peer-to-peer platforms, and the market leader Airbnb.

By their nature, disruptors plough on into the zeitgeist, ignoring conventional wisdom and dealing with most obstacles by just doing what they do and waiting for the rest of us to cotton on, living by the creed “it's easier to ask for forgiveness than permission”.

The Airbnb model has created a way for property owners to manufacture income streams through short-stay guests, but it has its challenges.

In this special report, we ask experts how much more you can make through short-stay rentals.

They also provide their take on what sort of property types and locations benefit most from the short-stay market.

In addition, we meet an incredible Australian couple at the forefront of the wave who've created a lucrative business in Tokyo that's a signpost of the possibilities for our Australian market.

We also provide a comprehensive guide on the existing rules and regulations surrounding this new world of property rental.

Mind you – things move fast, so keep an eye on API.

TESTING THE WATERS

Industry sources tell us a growing number of property investors are using online accommodation websites to lease out their properties.

There are various platforms among this space, but Airbnb provides the most comprehensive example when tracking the seismic shift towards this letting strategy.

According to Airbnb, it currently has 70,000-plus Australian property "hosts". If findings by a recent US study into affordable housing in New York City are anything to go by, Australia's established rental rolls are under threat from the digital disruptor.

More than 8000 NYC apartments have been taken off the rental market and placed into the Airbnb letting pool. According to a Housing Conservation Coordinators MFY Legal Services study, the 8058 apartments, listed for three- or six-month Airbnb rental, equate to 10 per cent of the city's vacant long-term apartment market.

Short-stay accommodation can return more than double the profit of a conventional six-month lease. However, short-term letting does come with downsides if your property is ill suited or you want a passive investment.

Empty short-stay rentals can quickly hurt unprepared landlords who find themselves with heavily negatively geared assets, and without the safety nets of landlord's insurance policies or property managers.

Ben Kingsley, from Property Investment Professionals of Australia, says the approach is in its early stages in our country.

"It's starting from a very low base, but these share accommodation technology platforms make it easier for landlords to test the water and get a gauge as to whether there's a market for them.

"It's not a decision to take lightly as they'll need to fit out the property with the furniture required and so on, but in some inner-city locations the numbers could work," he says.

Amy Mylius, a buyers' agent at Cate Bakos Property, says investors who have bought properties but haven't seen strong growth due to a compromised

feature such as no parking, high-density block, undesirable zoning or a compact floor plan, may find their property is perfectly suited for Airbnb.

She adds, however: "It can sometimes be a challenge finding a property which is both suited to a strong Airbnb cash flow and which also has good capital growth prospects – there's typically a trade-off here."

Property lecturer Peter Kouliouzis identifies self-contained properties, granny flats, units or small houses as those property types best suited to Airbnb.

“Australia's established rental rolls are under threat from the digital disruptor.”

"So far as income is concerned, you have the potential to make much more money than a long-term rental and it also has its tax benefits as all the furniture, fixtures and fittings can be depreciated and, providing you make the property available for rent all year round at a market rate, you can claim a full year's worth of tax deductions."

Mylius says investors must do their research and calculations first.

"If the property is empty, there's a significant lump sum cost at the beginning to furnish the property, which means not only beds, couches and TVs but also all of the cutlery, linen, cookware, basic food items and so forth, and this cost might not be recouped for some time," she says.

"Conservative vacancy rates need to be factored into cash flow calculations and will be dependent on the demand for that type of property.

"Research also needs to be done into the right price for the property per night, factoring in weekends/peak periods and ensuring it's competitive based on what else is available in the area."

Australia's best suited Airbnb properties will generally be modern, well located, well presented online and off, and close to transport and amenities.

It's common to find Airbnb nightly rates in the inner suburbs of Sydney and Melbourne more than 50 per cent higher (pro rata) than the comparative weekly rent achieved via a six-month lease.

There are other considerations, too, as legislative bodies try to keep up with the trend – and not penalise existing operators in the holiday rental industry.

Kingsley says Spain recently introduced a fine of up to €15,000 if a host is found using Airbnb to let residential properties.

He says it has adopted the ban to help local hotel businesses survive economic downturn.

"Would I be making a major investment decision purely on the basis of a share platform, particularly given governments worldwide are increasingly seeing it as an unregulated area affecting state revenue? Probably not," Kingsley says.

But, for now, the final – and more upbeat – words go to Kouliouzis.

He hasn't seen long-term investors list on Airbnb "on a large scale" but does know one property lecturer who has made his home available.

"His property is in the leafy eastern suburbs of Adelaide and he has to move out when people move in as it is his private residence," Kouliouzis says.

"One of my students has also made available her apartment in the Melbourne CBD.

"Both of them think that Airbnb is the best thing since sliced bread!"



SHORT-STAY IN AUSTRALIA

If your investment property is located close to the inner-city action or beachfront, you stand to win using short-stay instead of traditional long-term leasing. But rental properties in our capitals' middle and outer suburbs, as well as regional non-beachfront towns, may struggle to return more, according to feedback from agents across Australia.

Number crunching by API has produced a table snapshot of gross returns for short-term lets via Airbnb and compares them to numbers generated by Australian Property Monitors. The table also includes expected gross weekly rent on a selection of suburbs based on local property managers' opinions. All figures are based on three-bedroom, two-bathroom detached houses unless otherwise stated, and all lease figures are based on six-month minimum leases.

Suburbs neighbouring their respective CBD, such as Richmond in Melbourne, or located in a beachfront suburb such as Sandy Bay in Hobart, are most likely to produce stronger returns from short-term letting than longer-term leasing,

assuming the property is Airbnb let for a minimum of two to three nights a week for the entire year. Conversely, agents say landlords in middle or outer metro suburbs would struggle to attract short-stay occupancies returning comparable earnings to a long-term lease.

■ METROPOLITAN CENTRES

Mike Harris, director of Elders Belconnen, says landlords with self-contained apartments in or next to Canberra's CBD are the national capital's best Airbnb prospects.

"They may make sense [letting via Airbnb] because you're appealing to visitors who fly in and out for business or for short city break stays," Harris says.

"The same principle would apply in any major metropolitan centre – Melbourne, Sydney, Brisbane – but I can't see how you'd make a comparable amount from Airbnb if your rental house was in a suburb like Gungahlin, a newish suburb further out of town."

According to Tasmanian agent Teresa Banks, business development officer of residential asset management for Knight

Frank Hobart, there is "enormous opportunity" this year for Apple Isle landlords to make solid returns from long-term leasing, due to foreign investment and development works across the city.

"We manage many properties in Sandy Bay with three bedrooms and two bathrooms and the price range is from \$450 to \$850 per week unfurnished."

On the flipside, a night in a three-bedroom two-bathroom house in the upmarket beachside suburb booked via Airbnb will cost \$401 on average, based on the 19 listings offered as of June 27.

Banks says such properties are earning \$1000 per week on a 12-month lease; one property even recently achieved \$1500 per week on a three-month lease.

Based on those figures, you would need to get up to five nights' bookings per week via Airbnb to compete.

Meanwhile, Frank DeMaria of LJ Hooker Henley Beach says some investors in regional South Australia are using their beachside rental properties for family holidays and letting them via Airbnb the rest of the year.

AIRBNB LETTING VS TRADITIONAL LETTING					
Location	AIRBNB (AB)		TRADITIONAL LEASE (TL)		VIATION
	Avg rent/night	Avg rental/week (3 days' occupancy)	Agent-assessed approx rent/week (unfurnished)	Med house rent/week ¹	Weekly variation (AB vs TL)
Whole of Sydney	\$572	\$1716		\$530	\$1186
Avalon Beach, Sydney	\$694	\$2082	\$1000-\$1300 (Belle Property Avalon)	\$950	\$1132
Whole of Melbourne	\$350	\$1050		\$400	\$650
Richmond, Melbourne	\$445	\$1335	Up to \$1000 if fully renovated (Jellis Craig Richmond)	\$800	\$735
Whole of Brisbane	\$244	\$732		\$410	\$322
Red Hill, Brisbane	\$240	\$720	High \$500s to high \$700s (Paddington Real Estate)	\$550	\$170
Whole of Adelaide	\$205	\$798		\$300	\$438
Grange, Adelaide	\$266	\$798	\$450 to \$500 (LJ Hooker Henley Beach)	\$440	\$358
Whole of Perth	\$257	\$771		\$400	\$371
Scarborough, Perth	\$239	\$717	\$525 to \$600 (Abel McGrath Property Group)	\$490	\$227
Whole of Hobart	\$287	\$861		\$350	\$511
Sandy Bay, Hobart	\$401	\$1203	\$450 to \$850 (Knight Frank Hobart)	\$450	\$753
Whole of Canberra	\$247	\$741		\$470	\$271
Gungahlin, Canberra	\$251	\$753	\$450 to \$470 (Elders Belconnen)	\$488	\$265
Whole of Darwin	\$267	\$801		\$550	\$251
Cullen Bay, Darwin	\$265	\$795	\$1500 to \$1600 (Habitat Real Estate Fannie Bay)	N/A	N/A

All figures based on 3-bed 2-bath houses except where noted. All data collection June 27 2016 except where noted. ¹Figures based on 4-bed 2-bath houses. ²Australian Property Monitors data as at May 11 2016 including all lease data.