



Property Investing in a holiday home isn't all fun in the sun, writes Michael Bleby.

Tom Pikusa and his wife, Sara Hinchey, both barristers, bought a beach house five years ago. For the self-employed couple in their early 40s, the four-bedroom house on a large block of land in Rye on Victoria's Mornington Peninsula offered a source of retirement income.

"We thought we needed to think about how we want to transition out of being barristers at some point," says Pikusa.

It helped that they were familiar with the area and knew there was a strong demand for rental beach house accommodation. In fact, Hinchey had bought a small house in neighbouring Blairgowrie early on in their relationship after getting frustrated at how much it cost to rent in the area.

Pikusa and Hinchey paid just under \$700,000 in 2009 for the Rye property. It was a good call. Isabelle, as the house is named, last year brought in revenue of \$75,000 – three times what it would make in long-term rental income. After (quite considerable) expenses, the net revenue is about twice the long-term rent they would otherwise get.

"It's an amazing return," says Pikusa.

Theirs is an unusual strategy. The beach house – a source of holiday memories for successive generations of Australian families – has never featured strongly as a commercial investment proposition and most owners, such as Sydney retirees Jim and Jolijne Meynink, keep it that way.

The Meyninks bought a shack at Tuross

Head on the NSW South Coast in 2011. They use it throughout the year, but rent it out over summer.

"It is a double block which we are subsidising [by renting out] to build on so we can accommodate a growing family and grandchildren," Meynink says. He doesn't plan to sell the house but wants to pass it on to his children.

Making money out of a beach house is a tough business and price growth alone shows why.

To look at one example, the median value of an apartment in Surfers Paradise on Queensland's Gold Coast – the best generic indicator of beach-location investment dwelling stock – has dropped more than

16 per cent over the six years to September, Domain Group figures show. In the past 30 years, the median unit price on the Gold Coast has risen nearly 3½ times from \$97,000 to \$335,000, not much more than the near-tripling of the consumer price index over the same period.

Not only do beach houses offer the prospect of a worse capital gain than urban residential property, the associated costs are higher. Property managers tend to cost more. Custom can be patchy. And the market can be fickle, especially when there is a large supply of similar product competing for business. "As a general rule beach houses aren't a good investment because they gen-

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erally have higher vacancy rates and are higher risk," says Sydney buyers' agent Rich Harvey. "As a general rule, beach houses are not something we recommend ... You can get better yields and capital gains from other areas."

Pikusa and Hinchey, who have made the beach house game work for them, treat the house as a business. It's a commitment that takes up a lot of time. They have an agent who oversees all the online bookings and money but, even so, one of them checks out the house after each visitor has departed. They don't use Isabelle themselves.

"We've never stayed at the house," Pikusa says. "It's just part of the commercial property business. It's like an investment."

Their lessons are instructive.

Location

The beach homes most in demand are the ones close to big population centres. These are also the ones that show the best price performance because they benefit from the spreading residential growth of the cities, says Andrew Wilson, senior economist at Fairfax-owned Domain.

Know what the market wants

"We knew the market, so we bought [at the right price] and the return has been fantastic for us," Pikusa says.

The couple looked at between 50 and 60 houses and bought during the global financial crisis, when prices were "a bit soft", Pikusa says. "You need to be very focused on what will provide you with the best return. It seems to be 12 people and having a pool. People want luxury and indulgence."

Hens' weekends, golf-playing groups of guys and extended family get-togethers provide their main customers. Owning in a location with other attractions and facilities that make the house fun and usable in bad weather is also necessary.

"The spa and fireplace give you year-round appeal. If it's too cold to swim, people can pop out and have a spa. And they do!" he says.

Isabelle, a 1960s weatherboard house, rents out for \$5400 a week and \$1680 for a weekend between November and Easter, and \$3880 a week and \$1490 a weekend in off-peak periods.



Remember time investment

While the beach house is a financial investment – Pikusa estimates it cost about \$50,000 to \$80,000 to prepare the property for rental after they bought it – it also costs time, and this wasn't something he was prepared for. Pikusa learned that lesson in the early days after not checking the house for a couple of weekends.

"Things were not cleaned. The beds were not being done properly. There was damage to the outdoor furniture."

Being self-employed, he can organise his time to visit the house after each booking – which means five or six times over summer and after the 40 weekend bookings throughout the year.

"I had to make the decision to commit to running it properly," he says. "It does mean having somebody on site who can check –

Accommodation for 12 people with a pool seems to be the beach house sweet spot, says Tom Pikusa.

PHOTO:
WAYNE TAYLOR

usually the cleaner – but from time to time you've got to go yourself. You have to have trades who can respond quickly and fix things, and really excellent cleaners."

That's a very different level of upkeep compared to what many beach house owners want.

Don Rankin, the chairman of accounting firm Pitcher Partners, owns two beach houses in Victoria's Point Lonsdale, on the other side of Port Phillip Bay from Portsea. He bought the second one because it had a tennis court, which the first property lacked. He doesn't rent either out.

"You've got to have a house that you can walk in, it's there, and you can tidy it in five minutes," Rankin says.

"You don't need to have cleaners and people looking after it. You just come in and go."

Tax benefits

Negative gearing is a benefit, but it requires scrupulous record-keeping of income and expenses.

"To maximise the tax effect, it has to be available for use by tenants 100 per cent of the time," Pikusa says.

Beach houses rented out part-time by owners who also use them for personal use can claim the same benefits, but only in proportion to the commercial use.

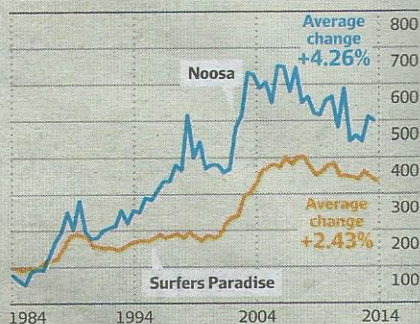
Capital gains tax also applies on the sale of beach houses – as it does on all investment property acquired after September 1985.

Rankin, who paid \$45,000 for the first house he bought in 1984, could make quite a tax-free gain as he now estimates it is worth between \$500,000 and \$600,000.

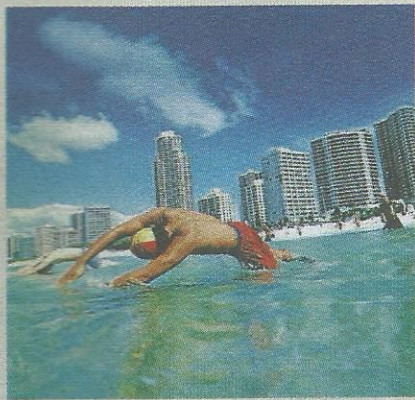
He intends to bequeath it to his children.

Patchy growth

Median property prices (\$'000s)



SOURCE: DOMAIN GROUP



Depreciation

Rental holiday homes – like all rental properties – can benefit from tax deductions due to depreciation of the furniture, fittings and the building itself. For this, owners need to know the cost (to them) of the home's fitout and also the original construction cost of the home. The older the property, the harder this is to do.

Land tax

Primary residences are exempt from land taxes and when rising markets push the value of a beach property higher than that of an owner's city house, people who make the beach house their primary residence can save money. Rates schedules vary by state, but reach as high as 2 per cent of the land value in NSW, 2.25 per cent in Victoria and 2.67 per cent in WA.

There is no minimum threshold of days lived in a dwelling to determine primary residence, but state revenue authorities will use evidence-based tests – such as mailing address, water and utility usage, electoral roll registration and even community involvement – to decide whether an owner is legitimately claiming primary residency.

"It is always something of interest to the revenue offices and is something they can pick up without too much difficulty," says Pitcher Partners head of indirect tax Craig Whatman.

It can also be a double-edged sword. In the upmarket Sydney suburb of Palm Beach, where rates are levied on values determined

by the last property audit (in July 2012), some residents say they are being charged too much as values have fallen since then. The next three-yearly audit is scheduled for 2016.

Tightening approval regimes

Unregulated short-term letting of beach houses that puts rowdy visitors in residential areas has long been an issue in beach towns and the issue has become greater in an Airbnb age.

Byron Shire Council, which oversees the northern NSW town of Byron Bay, is taking submissions on a proposed new system that would require registration of all holiday properties with signs at the front advising contact details for complaints and an approval regime for any property let out for less than 90 days.

In Queensland, the City of Gold Coast is applying to take advantage of new state laws to crack down on so-called party houses.

How to make it work

Rental income aside, Pikusa estimates Isabelle has risen between 30 per cent and 40 per cent in value since they bought it. He and Hinchey are now out to repeat the trick and have just bought a second rental property, this time in Portsea. They paid \$800,000 for the house they have named Laurent. It sleeps eight, but they intend to renovate so it can accommodate the magical number of 12. He's already planning for the third. "In a few years' time we'll get one more and that will just about do us."

Victoria: hot at both ends

Melburnians tend to stick to "their" side of the bay. To the east is the peninsula, where villages such as Portsea, Sorrento, Flinders and Rye have been the boltholes for eastern suburb families for generations.

Melbourne's residential market had a strong run in



around Mount Martha and Safety Beach priced from \$350,000 to \$500,000 are selling well.

Peninsula Link, the new road connecting the city to the sea, has been open for a year. Jensen says the faster trip has encouraged semi-retirees to relocate to the

How to keep your money goals

Family finances



Debra Cleveland

What money "cobwebs" or financial issues have you got hanging over you that you want sorted in 2015?

I don't know about you but when I read lists of worthy financial new year resolutions, it's hard to get enthusiastic about any of them. They're too general and don't necessarily talk to my particular situation. It's much more helpful to pick a few areas you know will make a big difference to your finances, and set some goals around them.

So what do you need to work on? Is it about working out exactly how much you're spending on meals out, getting to grips with the asset allocation in your superannuation fund or refinancing your mortgage to get a better deal?

It could be as basic as better budgeting to free up money for savings or investment. Or making sure your household has common goals – which, of course, makes it much easier to cut back where needed because you all know the end game is worth it.

Whatever you pick, how you set goals around them is vital. Adrian Raftery, tax author and senior lecturer in financial planning at Deakin University, says: "The worst part about setting new year's resolutions is not following through with them. A note in your diary (or Outlook calendar) to review your goals every three months can set you back on track if you have been slack."

He suggests the following six rules for making sure you follow through:

Write down your goals – by putting your goals to paper you develop a challenge for yourself to try to achieve.

Be specific – don't just say you're going to save. Put down an exact figure, he says, whether it's \$325 a month into a savings account, \$500 more a month into your mortgage or an extra \$1000 a month into super.

Be realistic – "you are not [necessarily] going to make a million dollars so it is a waste of time putting that down," Raftery says. "You want to set goals that are challenging yet attainable if you put in the hard yards. Dangle the carrot sufficiently in view by not making them easy either." **Set time frames** – don't leave your goals open-ended. "Set a date that they must be achieved by. For example, pay off your