

FUTURE OF RENTALS

CAROLINE JAMES



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.

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 MPY 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 Koulizos 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 Koulizos.

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," Koulizos 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!"



Bonus content

Scan this QR code or visit apimag.me/187p038 for even more information about the short-stay revolution.

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)		VARIATION
	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)	\$600	\$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	\$266	\$798		\$360	\$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 collated on June 27, 2016 except where noted. *Figures based on 4-bed 2-bath houses. ¹Australian Property Monitors data as at May 11, 2016 including all hours stock

IN JAPAN

Tracey Northcott and Ash Thredgold have stumbled upon a unique property business model that earned them \$160,000 in rent last year – without owning a single property.

Head it all before, right? Not so fast. If you think this is a typical dirt-renovation-development-riches yarn, think again.

Former Queenslander Tracey Northcott – who farewelled Brisbane for Tokyo in 2000 to help her brother build mobile phone apps – is creating serious property wealth in collaboration with her husband, Ash Thredgold, via some quintessentially 21st century rental tools – and all without holding a title.

In doing so, the former chemist is earning a unique and robust income stream from other people's real estate.

The overriding question is: Can Tracey's strategy work for Aussie-based investors?

Before we hunt down an answer, let's first learn how this novel property venture works.

Like many genius ideas, Tracey's was born out of frustration.

"Our Airbnb story began because we were taking a trip to Seoul with our child, my parents and brother, and found that nothing was big enough, or it was five-star hotel style accommodation –

with five-star price tags – and that just didn't suit our needs," Tracey recounts.

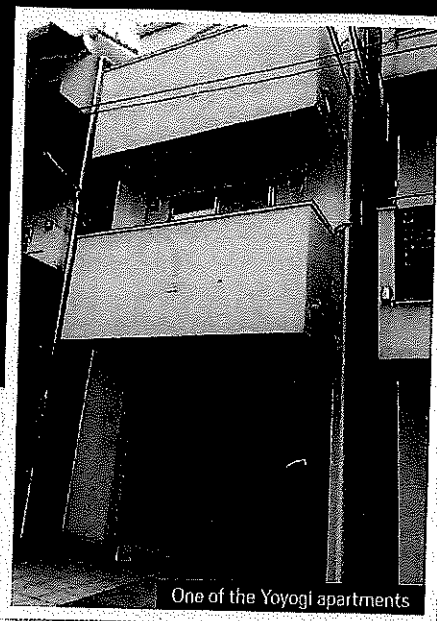
"Then someone suggested we try Airbnb, so we gave it a go and found some excellent accommodation, just a simple house in a very convenient location. I started telling friends and our extended family about it and then Mum and Dad started using it [Airbnb] whenever they came to visit us in Tokyo and we became fans."

■ LIGHT BULB MOMENT

Soon after her parents' positive experience – after all, Tokyo is one of the most expensive cities in the world to buy or rent property – Tracey had her life-changing thought: maybe she could make a regular income by helping friends with investments in Japan find short-term tenants for their properties?

"In Japan it is either five-star hotels or tiny business hotels for business travellers like travelling sales reps, so any more than one person is not comfortable," Tracey says.

"They are small, smelly and mostly all in Japanese.



One of the Yoyogi apartments

"[They're] not family-friendly, so there's this huge gap in the market."

Before long Tracey started using Airbnb to sublet a small unit for someone she knew.

While she didn't live in the property herself, she lived nearby, which meant she and her husband were available to welcome guests to the property, clean between stays, answer questions and manage the property's online listing and bookings on behalf of her absent friend.

Within weeks she could see a solid income stream flowing, and growing.

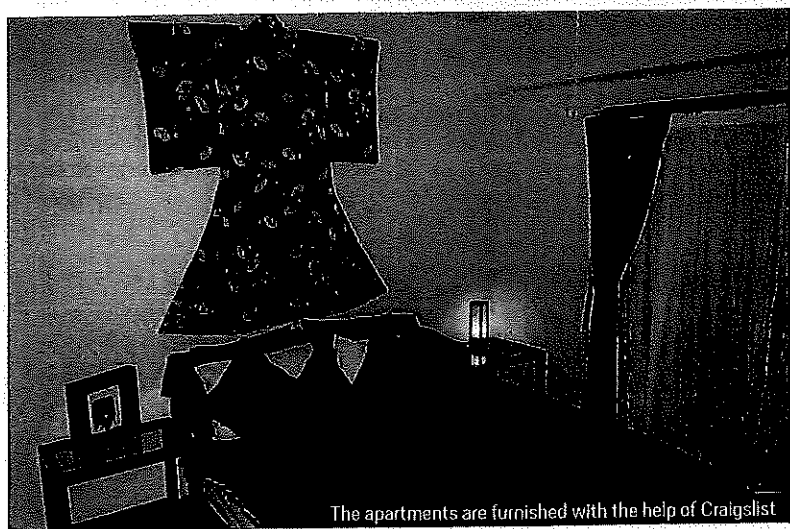
"In Tokyo, it's possible to rent a property as a 'second house,'" she explains.

"I said to its owners 'Look, I'm not going to be living in this, it's going to be different people coming in and out including my parents whenever they are visiting and in return they will pay you a fee per night and I will manage the occupancy and deal with any management issues here in Tokyo,' and they thought it was a good idea. So I started managing its occupancy using Airbnb and other share platforms, but mostly Airbnb.

"I picked up the furniture second-hand via Craigslist, which is like Gumtree.

"I picked up the fridge, lounge suite and a few other big items, and took some photos and posted a listing online.

"Within three hours we had our first booking come in, which far surpassed our expectations and got us thinking maybe our pricing was too low – it



The apartments are furnished with the help of Craigslist

“Where you run into trouble is when you try to be all things to all people – it shows.”

TRACEY NORTHCOTT

was basically just enough to cover our friend's costs – so we started edging up the rent to where I felt the value was but I have to stress we are not about price gouging; we just want to offer families who visit Tokyo an accommodation experience that meets and exceeds their needs and is rich with value.

“It has gone so well – I still have that property in my management today.”

It didn't take long for Tracey and Ash to realise they had hit upon a lucrative, albeit unheard-of, investment strategy.

Bookings and inquiries sky-rocketed; of course, with just the one rental property, they couldn't meet all demand.

“From there it just got so busy, so I thought ‘let's do it again and do it for profit’ – so we did.”

Tracey drafted a business proposition, which she circulated to her social circle to see if anyone would like her and Ash to property-manage short-term leases of their existing or future Tokyo dwellings.

Occupants would be found via online share accommodation platforms – primarily Airbnb.

The couple would commit to furnishing each property with appropriate furniture, linen, toiletries and kitchenware and personally greet each occupant at the start of each short-term stay.

They would ensure each property was maintained to a high quality and they would prepare and distribute relevant destination information on local transport, shops, attractions and shopping to each guest.

LOCAL KNOWLEDGE

Tracey and Ash are making fantastic progress with their innovative approach to maximising rental returns creating a lucrative business far from Oz.

But before jumping on the next flight to Mount Fuji-sized riches, there are a few important things to know about the residential rental market in Japan.

Like Australia, Japan is working out how it will regulate property owners and tenants' use of peer-to-peer accommodation platforms, most notably chief disruptor Airbnb.

“It is very much a grey area.”

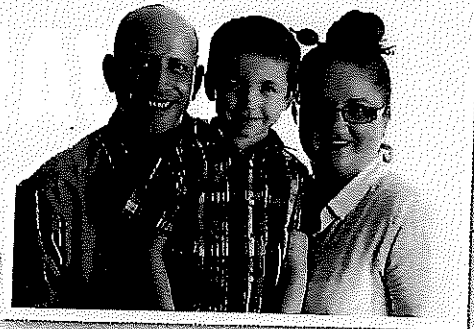
Tracey reports.

“They're in the middle of doing their review of existing regulations and so, for now, the federal government in Japan has said it is up to each individual city to decide its own regulations around Airbnb and we are really looking forward to it clarifying the rules because it will weed out the opportunists and give professional hosts more surety.”

“Having some uniform standards and clear rules will only benefit everybody.”

“At the moment the only thing is we will have to formally tell the neighbours.”

“In Tokyo, many properties are in multi-unit blocks and if there is any opposition within a block from other owners that may have implications.”



“Also, Japan doesn't have a standard rental contract. It's individually negotiated with the landlord but there's also a body corporate contract and some of them are currently rewriting their contracts to ban short-term rentals but I do think that, in time, that will settle down.”

When Tracey spoke to API in May, she was in the process of discussing public liability cover with insurers “just in case someone has an accident while staying at one of our properties”.

It's compulsory for tenants to have a current fire risk insurance policy, which Tracey holds for all of her leased properties.

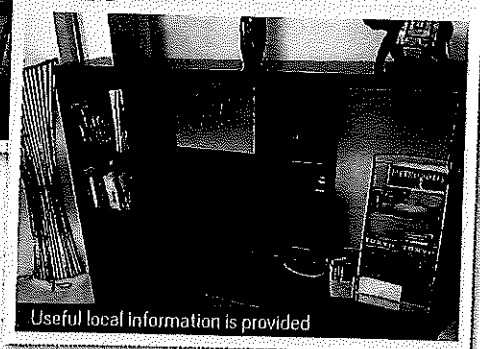
“It's about \$200 for two years and covers fire risk, but I'm finding insurers and regulators are all playing catch up right now regarding the implications of Airbnb.”

While she acknowledges that doing what she and Ash are doing is about making money, she says that's not all it is.

“More importantly it's about working with your neighbours and promoting your local neighbourhood, because you're really a tourism ambassador, and hopefully this is recognised as this emerging market matures.”



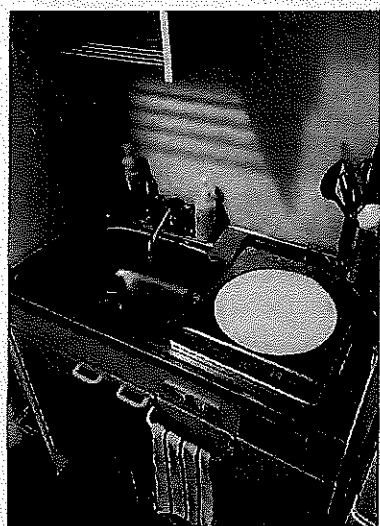
House in Shinjuku



Useful local information is provided



Compact but neat defines these rentals



In return, each property owner would either get a profit share payment or a fixed amount payment per month.

Tracey and Ash keep a record of profit and outgoings each month and, as in-country booking, maintenance and leasing managers, keep whatever funds are left as their net return.

Their unorthodox property proposal was on the money and less than three years later they oversee the short-term leasing of eight residential properties across central Tokyo, solidly occupied thanks to peer-to-peer platforms.

"We have since had a lot of friends and family invest in residential property in Tokyo because they can see the financial and management benefits," Tracey says.

"Some have especially bought a small block (of apartments) to rent short-term in this way... we're working to a variety of business models for our properties' owners, most of whom live outside Japan in Australia, the US or Hong Kong."

Ash has a hospitality background and recently began working full-time on the couple's growing management portfolio.

Tracey helps wherever she can, particularly when setting up a new property before it's listed online.

"I come in and set it up with furniture and decor, cutlery and everything that's needed to make the guest's stay self-sufficient," she explains.

"We stock the property with tea, coffee, and ensure it has internet, portable wifi and Apple TV connections.

"I spend about \$5000 for a typical two- to three-bedroom place and buy all the big items and whitegoods.

"I try to buy secondhand unless I don't have time to scour the listings and then I make a final trip to IKEA to buy all the dishes and curtains and linen and towels.

"I want to exceed expectations and make it as comfortable as possible as I think they [competitors] just put in a table and chairs, four coffee cups and think it's all their guests want... we know from our own experiences of travelling with a family it's all about the little details and we know what our target market wants and needs because our target market is families like us."

■ THE NEWNESS FACTOR

Asked why her landlords prefer to put their properties in the short-term rental market instead of securing long-term tenancies, Tracey says in Tokyo it's difficult to attract long-term tenants once a property goes from being brand new into the "secondhand" arena.

One colleague/landlord, who owns three apartments in a block of 20, was struggling with vacancies before agreeing to place his properties in her growing rental pool.

"This man, my business colleague, had these one-bedroom units in an older building close to a lovely river, ideal for viewing cherry trees and in a super trendy area with lots of shops and restaurants but was unable

THE NUMBERS | TRACEY AND ASH

Location	Property description	Rent per night (\$AUS)	Approx gross rental income	Approx outgoings	Property owner receives	Net profit Tracey/Ash made in past 12 months
Nakameguro – Meguro-ku, Tokyo	3x1-bed, 1-bath maisonette-style apartments in an older-style block of 20 apartments	\$101-\$152 per apartment	Totals across all 3 rentals: \$6332-\$7587 (per month); \$75,984-\$91,044 (per annum)	Totals across all 3 rentals: \$2529 (per month); \$30,348 (per annum)	Agreement between each owner and Tracey/Ash (as primary lease holders and sub-letting managers) is a 50% profit share	New listing so full 12-month data not available, however based on available data Tracey/Ash estimate \$22,747 total for the 3 rentals
Shinjuku West, Tokyo	"Shinjuku House"; unusually thin 3-bed, 1-bath house on 2.5m-wide block	\$252-\$379	\$116,347 (per annum)	\$58,881 (per annum)	\$30,341 (per annum)	\$59,411 (per annum)
Shinsen Shibuya, Tokyo	"Shinsen Apartment"; 1-bath studio	\$88-\$101	\$45,477 (per annum)	\$16,417 (per annum)	\$16,417 (per annum)	\$12,629 (per annum)
Yayoicho (near West Shinjuku), Tokyo	"West Shinjuku House"; new listing, 3-bed, 1-bath	\$202-\$253	No data available yet because listing had just been secured as API went to press	No data available	Fixed fee agreement of \$2529 (per month); \$30,348 (per annum)	No data available
Yoyogi, Tokyo	Yoyogi 1; 3-bed, 1-bath, 2-toilet apartment	\$240-\$353	\$97,193 (per annum)	\$56,801 (per annum)	\$29,031 (per annum)	\$40,377 (per annum)
Yoyogi (close to Sangubashi), Tokyo	Yoyogi 4; 1-bed, 1-bath apartment	\$151-\$189	\$46,680 (per annum)	\$21,448 (per annum)	\$15,140 (per annum)	\$23,972 (per annum)
TOTALS		\$1236-\$1731	\$381,681-\$396,709 p/a	\$190,216 p/a		\$159,136 p/a

Figures calculated on June 7, 2016 using an exchange rate of 1 JPY=0.0125720AUD & 1AUD=79.2582 JPY

to find tenants for two months – his investments were empty – so he is rapt with this situation because it's an ideal area for tourist stays and he is now making double what he was making when they were long-term tenancies."

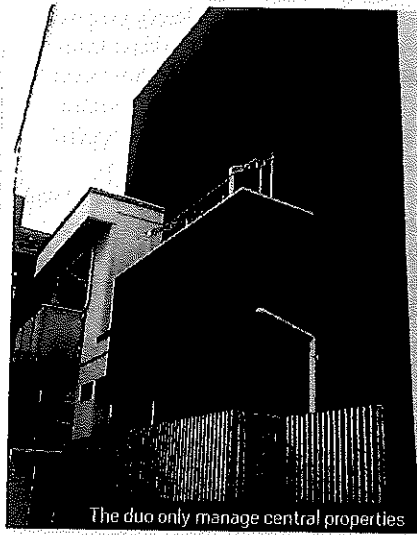
Asked to explain the financial side of her strategy, Tracey says the rule is they must start making a net return after 10 days' occupancy per property per month.

She is currently making gross turnover of \$30,000 to \$40,000 each month and only manages properties in central locations she knows will appeal to her target demographic, i.e. families.

"When I do my budget I want all my costs covered by seven to 10 days into the month, including paying the landlord's expenses from the rent, and all ongoing costs including utilities, heating, electricity and then the rest of the month is our profit, so it is highly profitable if you go looking for properties that you know will present in an attractive manner."

Each of Tracey's sublet rental properties is vacant, on average, two or three days a month, with peak times booked six to 12 months in advance.

Overall, her properties are fully booked three months in advance.



The duo only manage central properties

"It's seasonal. Chinese New Year, during cherry blossoms, it's just insane."

"I'm already taking bookings for cherry blossoms next March and Christmas is almost all booked... we do tend to put up our rates a bit but then you can do that at that time of the year, whereas February is a bit quieter."

The nice thing about leasing via Airbnb, Tracey says, is that you can really customise your listing.

"It may be designer travellers. It may be the fashionistas, it may be LGTB, but my advice to others is you really do need to know your market and tailor your listing and the property to that market."

"Where you run into trouble is when you try to be all things to all people – it shows."

"It's something we really love doing and are committed to doing and I really think that [attention to detail] is a very big part of our business... if you think it's all about putting up some curtains, you're wrong."

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