

# Buying and renting out a vacation home for fun (and maybe profit)

Can the Airbnb economy make it possible to afford a second home?



DAVID DORAN FOR THE BOSTON GLOBE

**By Jon Gorey** JULY 20, 2016

If you've ever rented a vacation house with your family or friends — scrambling to find a week that works, then forking over thousands of dollars for it — you've probably entertained a certain daydream: *What if I were the one collecting all this money? If we owned a vacation home, we could pick any weeks we wanted and rent it out the rest of the summer. Heck, you*

think, *maybe we'd even make money*. When you're back home, you chalk up the daydream to sun exposure.

But was it really just the time off talking? The average vacation rental owner surveyed by HomeAway, the online rental marketplace, grossed \$28,000 in income last year — and three-quarters of them earned enough to cover more than half of their mortgage.

To be sure, the math looks enticing. The median home price on Cape Cod is now \$340,000, according to the Warren Group, which means mortgage payments could run you about \$1,300 a month (before taxes and insurance). Meanwhile, Homeaway says the average Cape summer rental fetches \$1,720 a week.

But before we get carried away, know that vacation renters aren't always satisfied with an "average" home — nobody's plunking down \$1,700 to stay in a fixer-upper overlooking a parking lot — and rental prices plummet in the offseason. Joanne Logie and Sonnie Hall, co-owners of [New England Vacation Rentals](#) in Chatham and Harwich, say that as home prices have climbed, it's become harder for new owners to break even on rentals. "Back years ago, the rental income was enough to cover the mortgage," says Logie. "But now with the higher price of homes, we tell potential owners that it's best to think of it as kind of a contribution to a retirement plan: You get paid half and you contribute half."

*Hey, the daydreamer thinks, I can live with half.* So if renting out a vacation home sounds like your kind of retirement plan, here's what you should know before signing on the dotted line.

The first thing to consider about a second home, of course, is whether you can really afford to buy one. We're talking here about territory traditionally trod by the affluent: The median household income of vacation-home buyers was \$103,700 in 2015, according to the National Association of Realtors, 27

percent higher than those purchasing a primary residence. However, vacation homes tend to be much smaller (and cheaper) than primary residences, says Jessica Lautz, the association's managing director of survey research and communications. That's partly because they're more likely to be condos or town houses. "There's less maintenance on those properties, so if you're not there as often, that's important," Lautz says. Vacation-home buyers are also more likely to pay cash. "And when they do finance, they're putting down quite a large down payment," she says.

But most people will need to take out a mortgage, and that's doable, too. "Second homes are a big part of our business down here," says David Brennan, senior vice president of residential lending at Cape Cod Five Cents Saving Bank. Brennan says getting a mortgage on a vacation home is in most respects no different from financing your primary residence. Lenders look at all the same criteria, including whether your income can support two mortgages. "All of that has to work and max out at the same level as if they're buying their first home," he says. If it does — and you're actually spending some time in your second home yourself — "we can finance up to 90 percent of the home's value."

Next, consider where you can afford to buy. On the Cape, you can expect homes to get more expensive the farther out you go, says Dick Martin, owner of ERA Cape Real Estate. "Chatham, Orleans, down Cape in general all the way to Provincetown tends to be more expensive," he says, as are the islands. "Mid-Cape and Upper Cape towns tend to have a mixture of summer cottages and working-class housing and huge estates."

It also makes sense to consider what potential renters are looking for if you're hoping to make money renting the house out, even just a few weeks a year. "Many people want to be off any busy road," says Claudia Laslie, owner of Berkshire Rental Properties in Great Barrington. "They want cell service

and a good Internet connection — which can be an issue here in underserved Western Massachusetts.” A three-bedroom house can sometimes be oddly difficult to rent, she adds. “They’re perceived as too big for a couple or too small for a family who wants friends or guests to visit.”

On the Cape, Logie agrees that no one wants to spend their vacation dodging out-of-town drivers. “The only homes we don’t [represent for owners] are directly on a main road,” she says. But in the peak summer season, “as long as the house has air conditioning, Internet, the desired casual coastal decor, and it’s priced right, it will book,” Logie says.

And what, exactly, is the right price? That will depend on a number of factors, including the home’s location, size, and condition. “Do some competitor research,” recommends Laurel Greatrix, associate director of communications at Tripadvisor Vacation Rentals. “Search for properties similar to your own, look at what they’re charging, and see how full their calendars are.” Logie and Hall do this legwork for their clients, providing them with a competitive rental market analysis. Airbnb users can take advantage of the home-sharing site’s Smart Pricing feature, which can recommend an appropriate price point for your listing and automatically adjust your rate according to supply and demand.

That brings us to another decision: where to list your rental. In places like Cape Cod or the Berkshires, local property management services can handle all the booking, cleaning, emergency house calls, and maintenance issues for a set fee or a percentage of the rent. That’s a must if you live far away. “We have some homeowners who never come — we just take care of everything,” says Logie. The advertising and on-the-ground presence of these services can also lead to more bookings at higher rates. But that turnkey service comes at a fairly steep price: Commissions can eat up 17 percent or more of your rental income.

But home-sharing and short-term rental sites such as AirBnB and HomeAway have changed the industry dramatically, allowing owners to take a more hands-on approach — and keep a larger share of the rent — if they choose. On Airbnb, it's free to list your property (or even just a bed within it), and the site will charge you 3 percent of each booking, on top of a guest fee that ranges from 6 percent to 12 percent. HomeAway (which also operates VRBO, or Vacation Rentals by Owner) offers two price structures, depending on how often you rent, and now charges guests a service fee that averages about 6 percent. TripAdvisor Vacation Rentals, which operates Flipkey and other rental sites, charges owners a 3 percent commission, while guests pay a 5 percent to 15 percent fee.

No matter which online site you choose, great photos and an accurate, charismatic description will improve your listing. “Encourage your potential guests’ wanderlust — sell them a vacation rather than a home,” says Greatrix. And while it’s important to include a clear description of your home, you don’t need to go overboard. “There’s no need to go into the layout and room dimensions,” she says. “Don’t talk about your toaster, washing machine, and dishwasher — that’s what the amenities tick boxes are for.”

A word of advice if you take the DIY route: Don’t underestimate how much work you’ll face. College students and twentysomethings looking for a place to crash in Boston are one thing; vacation renters are another. “They’re looking for their dream vacation,” says Laslie. Good guest reviews are crucial on home-sharing sites, so the little things count. Your house should be hotel-ready, she says, deep-cleaned and decluttered down to the drawers and closets, with everything from appliances to screen doors in working order before guests arrive.

Deb Bernardini and her husband, Tony Margherita, live in Northampton and rent out a four-bedroom house in the Berkshires through HomeAway.

Bernardini, who charges \$2,500 a week during July and August, stresses the same points. “Remove clutter and make every inch of your house very, very clean,” she says, plus find and fix problems before they arise. “We try to stay in the house for at least one night every few months. It’s the best way to figure out what needs attention.”

There’s an art to guest relations as well. “Communicate frequently with your guest before their arrival, but leave them alone once they’re there,” Bernardini says. If they have questions or problems, though, respond right away.

Stuart Chase, president and CEO of History Miami, has been renting out his small house in the Berkshires for more than 10 years. He used HomeAway at first but grew frustrated by the high fees that came with renting it out only a few times a year. He started using Airbnb when he moved to Florida in 2012, he says, “and we’ve had the best results we’ve ever had.”

Chase is able to manage the rental remotely with some local help. “We have a caretaker, and her group just comes in and they open up the house, change all the sheets and everything,” he says. “I charge [guests] \$100 for a cleaning fee, and I give her \$100.” He handles all the bookings and communications with prospective guests himself through Airbnb’s app. “It’s mostly texting, so it’s quite simple,” Chase says. And what if there’s a leaky pipe or the furnace breaks? “The contractor who helped us with the house lives 10 minutes away, so if there’s a big problem, he can fix it and just send us a bill.”

And make no mistake, there will be problems. Bernardini remembers one Thanksgiving when a freak storm knocked out the power just as renters arrived to cook a holiday feast. “They wound up calling me every 30 minutes or so for several hours on Thanksgiving Day,” Bernardini says. “I was trying to

get an elaborate dinner on the table — and had already consumed a few glasses of wine — while having to explain things like pouring water into the toilet tank to get it to flush or how to make a fire in the wood stove.” In the end, she refunded their money and later installed a generator.

(There will also be headaches for less sympathetic reasons. Guests once complained to Sonnie Hall about the light coming into their window at night and asked to have it turned off. “They were talking about the Chatham Lighthouse,” Hall says.)

The Web is awash in Airbnb horror stories that could turn your daydream into a nightmare, from stolen paintings to a drug-fueled orgy that destroyed one New York host’s apartment. Such incidents, though rare, illustrate the need to examine your insurance coverage before attempting to rent out any home, says Peter MacDonald, owner at [Murray & MacDonald Insurance Services](#) in Falmouth and Bourne. “Homeowners insurance has some gaps when you’re being compensated to rent out your property,” though some policies allow you to rent out a home up to four weeks a year. MacDonald suggests asking your insurance agent about a dwelling policy, which may cost about 10 percent more than typical homeowners insurance but is better suited to short-term rentals. Also keep in mind that many properties on the Cape (if they’re financed) require flood insurance, which can be more expensive on second homes. Meanwhile, Airbnb now offers US hosts \$1 million in damage and liability protection at no cost, while HomeAway offers a custom homeowners policy through specialty insurer CBIZ.

Paperwork and local regulations can also complicate matters. Some condo or homeowner associations don’t allow short-term rentals at all, and even if they do, they could change the rules on you at any time. Likewise, some town zoning laws restrict short-term rentals, and legislators all over the country are grappling with how and whether to regulate the industry now that Airbnb and

HomeAway have become such big players. Massachusetts lawmakers are [considering a new bill](#) that would extend state and local hotel taxes to short-term rentals, a step that both Airbnb and the hotel industry support and that would bring as much as \$20 million in annual revenue to the state. The rental industry's growing pains are sure to continue — and with them some looming uncertainty.

*Whoa, man, the vacation-home daydreamer may say at this point, you're kind of a downer.*

Yes, if you were hoping to rake in vacation-rental income to fund your second home or retirement, these logistics and legalities may seem like forbidding storm clouds. And for good reason: Renting out a vacation home is unlikely to be the money-minting machine of your midsummer reveries. But while it requires some more realistic expectations, it doesn't mean you have to give up on the idea.

Chase, for one, still finds the process rewarding on at least two levels. "It sure helps to pay the taxes and the upkeep on the house," he says. "And I don't mind sharing this house that I love with other people."

*Jon Gorey is a frequent contributor to the Globe Magazine.*