

EARN AN EXTRA \$25,000 EVERY YEAR

IF THE IDEA OF TURNING YOUR HOME into a cash cow appeals to you, then this is a cover story you don't want to miss. Money has come up with a number of ways to earn a regular income by using your home. They include renting out a room (p31), building a granny flat to rent out (p33), using the equity in your home to invest (p35), turning your home into an investment property (p36) subdividing (p37) and turning your home into a "zone home" (p39). These strategies have the potential to make you an extra \$13,000 to \$44,000 a year. But we have settled for a figure close to the middle: \$25,000.

We tracked down the inside view from people who have used some of these strategies to make extra money from their home or investment property to give you insight into how they have worked for them. Any tax implications are addressed by Mark Chapman from Taxpayers Australia.

If you want to earn a "quick buck", then you could consider hiring out your home for advertisements and movies (p33) or swapping homes (p35).



Unlock your inner innkeeper



Renting a room to a visiting student or traveller can be an enriching experience, writes SUSAN HELY

RENT OUT A ROOM

IF YOU HAVE A SPARE ROOM, a granny flat or a studio, why not put it to work? Perhaps your home feels empty after the children have moved out or there's a room full of stuff you no longer need. The spare room is a cashbox and it is a way to rev up your savings or pay off your mortgage faster.

It has never been easier to unlock an income from your unused rooms. The internet has helped foster a new, vibrant "sharing economy".

Who would have thought that the idea of renting a room to a perfect stranger would catch on? But it has. Increasingly I come across micro entrepreneurs who are renting rooms to students, backpackers or travelling baby boomers. Or they have moved in with friends or family, listing their former home or apartment on short-term accommodation websites such as Stayz.com.au. The trend is spreading and I am on the verge of giving it a go.

All around the world people are renting out space. Take Airbnb, which lets travellers book beds, rooms, houses, boats, treehouses and even castles on a nightly basis. The service lists around 500,000 properties, operated by 350,000 hosts in 192 countries.

Sydneyiders earned \$214 million from Airbnb guests over the 12 months to July 2013, according to a study by BIS Shrapnel for Airbnb. Some 46% of Airbnb hosts earn amounts up to Sydney's median household

income, 48% say Airbnb helped them stay in their homes and 60% use Airbnb income to pay their rent or mortgage. BIS Shrapnel found that while most Airbnb Sydney hosts are employed, many struggle to make ends meet.

While people rent out space primarily for income, they also like the interaction with travellers. Brian Chesky, a co-founder of Airbnb, recently told *The New York Times*: "There is a whole generation of people that don't want everything mass-produced. They want things that are unique and personal."

There is a huge incentive to provide a welcoming experience: travellers staying in short-term rental accommodation can be brutal in their online rating and feedback if they don't enjoy their stay.

Foreign students want an authentic experience too. Many prefer to stay with a family – it helps them learn English faster and they want to interact with locals. "We are always on the lookout for host families," says Ross Sands, director of student services and experience at Navitas.

There were 526,932 full fee-paying international students on student visas at the end of 2013, according to the Australian government. Some 124,603 were learning English.

Navitas placed 1900 homestays in 2013. It visits the family and inspects the property. Hosts must pass a security check and can be singles, families or retirees. Navitas matches up the hosts with the students' requests. Some hosts specify gender while some students request no pets or small children. The maximum space you can rent is three rooms in a house. All you need is a spare room with a bed, wardrobe, desk and lamp; you provide breakfast and dinners as well as lunches on the weekend. "As much as possible we like the student to be with the family," says Sands. Families are expected to show them around and explain public transport.

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COVER STORY

Student homestays typically don't charge fees. But Airbnb charges around 12% commission (3% from the host and 6% to 12% from the traveller). It takes photos of your space and runs the bookings and website. It provides insurance cover of \$900,000. The money is paid within 24 hours of your guest checking in.

▶▶▶ TAX ISSUES

If you are renting out a room, the income will usually be taxable. You should be able to claim a tax deduction for costs such as insurance and depreciation of furniture and fittings in the rented rooms, as well as making a claim for part of your utilities, rates and water bills.

The family home is generally exempt from capital gains tax but, if you rent out a room, part of any profit on the sale of the property may be liable to CGT, payable on a pro-rata basis for the percentage of floor space rented.

A good tip is to get the property valued before you rent out the room, since CGT will only be due for the period the room is used to produce income.

Letting a room for student accommodation can be non-taxable provided you are only covering your costs rather than making a profit. These arrangements are usually made through an educational institution for foreign students, with the amount paid set by the institution to cover food, laundry and other costs.

The tax office describes these arrangements as "non-economic rentals", but hosts are advised to get some sort of agreement in writing from the ATO to give certainty to their position, since issues can arise where it regards the level of board as excessive.

If you're letting out a room for bed and breakfast, your tax treatment will depend on factors including what you charge, what services you provide, where you advertise and the regularity of income. If the B&B is designed to make a profit, income tax will be payable. Again, CGT on the sale of the property will be an issue because the residence exemption won't apply to the part that is rented, but if you are running a commercial venture you may be able to claim small-business CGT concessions.

Commerciality is assessed on such things as regularity of bookings, the number of rooms available and length of time they are let, but this is a complex area and getting professional advice is a good idea. MARK CHAPMAN

▶▶▶ CHECKLIST

● Do you have public liability insurance? You need to cover your liability if you are found to



Home away from home ... visiting student Christina Kettner with host Jo.

Students sample our way of life

There is a huge demand from foreign students for homestays with Australian families. German student Christina Kettner says: "I prefer the homestay to experience the Australian way of life." It is the 25-year-old nurse's first trip outside Europe and she is here for three months to learn English.

For the first six weeks she is studying at Navitas English at Bondi Junction in Sydney for five hours a day, five days a week. Navitas has organised a homestay with one of its families, who have been hosting students since one of their children left his room empty when he moved overseas.

That was four years ago and host Jo loves the vibrancy of having students staying from all over the globe - Europe, South America and Asia. She says they have had many memorable experiences and formed friendships. Many students keep in touch via Facebook after they leave.

"We've never had a bad student," she says. "They all love Sydney and it's really interesting listening to them talk about their families and lives. It is an interesting dynamic in the household."

Jo says it is remarkable how quickly their English improves.

Christina could have stayed in a backpacker hostel or shared accommodation but she wanted a safe, secure and private place to concentrate on her studies. Also, with Sydney's high short-term rental prices, she says it is cost effective. She pays \$265 a week.

In the case of Navitas, a host can earn \$250 to \$300 a week for a single student or \$460 to \$560 for a couple.

Jo admits she has never done the sums to work out how much it costs to host students. She provides breakfast and dinner seven days and lunch at the weekends. She is cooking for her own family so it doesn't feel like much extra trouble, she says. If she is going out, she leaves them food to heat up. Jo provides a bedroom with a bed, desk, lamp and cupboard.

Navitas screens the students based on whether they like pets, younger children and other criteria. It takes care of all the administration and does not charge any fees. Jo says it is great to have Navitas as support, running the business side.

be legally responsible for personal injury or damage to their property.

- Does your council have a policy about short-term rentals?
- Does your body corporate allow short-term rentals? Some apartment blocks don't.
- Do the sums. How much will it cost to set up your space for rent? Estimate the cost of

utilities such as air-conditioning, hot water and heating. If you provide meals, how much do you spend?

- Organise back-up to help with cleaning, cooking, driving and co-ordinating with the guest on when to pick up the key.
- Be prepared for higher maintenance bills when your home is used more intensively.