

Rent Your Vacation House to Raise Cash



The author rents her vacation home in Wisconsin.

TWO YEARS AGO, my husband, Tim, and I finished work on a four-bedroom log cabin overlooking a lake in northern Wisconsin. We intended to use it solely for vacation and retirement—that is, until the economic downturn forced us to switch course. With other income sources declining, we decided that the monthly \$1,500 in mortgage, taxes and utilities were more than we could handle easily. We decided to rent out our dream house.

Of course, there were butterflies in our bellies just thinking about having strangers stay in our home. But the experience so far has been surprisingly fun and, more important, profitable. Since October 2010, we have rented the cabin to ten groups and have 35 bookings through October 2011. At this rate, we will gross about \$30,000 a year, which is about \$12,000 above our monthly expenses. Not bad for rookies.

Our anticipated gross is close to the average, according to HomeAway.com, an online vacation-rental Web site. “If you have a loan on your second home, renting it only seventeen weeks will usually cover your house payments for an entire year,” says Christine Karpinski, director of HomeAway.com’s owner community and author of *How to Rent Vacation Properties by Owner* (Kinney Pollack, \$26).

This number only works, however, if you can find renters. Although hotel bookings dropped during the recession, vacation-home rentals stayed steady, says Karpinski. Vacation rentals offer a better value to travelers than hotels, particularly for larger groups.

Before Tim and I embarked on our new venture as landlords, I researched everything that goes into renting out vacation property. When it comes to insurance, vacation rentals do not fit into conventional categories. They are neither second homes, nor investment properties, but a hybrid. Consequently, some homeowners have trouble finding an insurer when they begin renting out their vacation homes.

Most insurance companies choose coverage based on how the house is used, says Andrew McCabe, the owner of an insurance agency in Shorewood, Wis. “If the house is primarily used as a secondary house, keeping the policy as a homeowners’ policy would be OK,” says McCabe, who is our agent. But if it is rented the majority of the time, he says, you will need a landlord policy. Our cabin is considered a secondary house because we rent it only for a limited amount of time. Our family tries to block out a weekend a month and major holidays to enjoy the place ourselves.

Make sure your policy provides adequate liability coverage. You’ll have strangers in your home so you want to be covered for any accident, such as a fall down the front steps. Also, the policy should provide rental coverage in case you lose rental income due to events such as floods or fires.

If an insurer asks you if someone watches over the property, you can say yes if a housekeeper or maintenance person keeps tabs on the house. To hire a property manager, ask for a recommendation from local real-estate agencies, the Chamber of Commerce or other homeowners who rent out their properties.

However, Karpinski recommends self-management. She says the management company keeps 50% to 60% of the gross profit once you calculate commissions, fees for certain services and inflated costs for common items such as light bulbs.

The tax rules regarding rental property are complex, so speak with your accountant before renting out your vacation home. Generally, the IRS allows you to rent out your vacation home for up to 14 days a year without paying taxes on the rental income, but you can’t deduct expenses either. “The number of days that you or your family use your vacation home and the number of days that you rent your vacation home to others determines how you can allocate the expenses,” says Kevin Hablewitz, a certified public accountant

with Hau & Associates, in Milwaukee.

You also need to comply with state, county and local rental laws. For example, I charge guests a 5.5% sales tax and submit reports to the state government.

Keep track of all income and expenses. Also maintain a record of the numbers of days that you and your family use your vacation home as well as the number of days it's rented. For more details, read IRS Publication 527, *Residential Rental Property (Including Rental of Vacation Homes)*, at www.irs.gov.

Finding Responsible Renters

To market my property, I joined Vacation Rental By Owners and HomeAway.com (see my ad at www.homeaway.com/346936). I have had a steady stream of queries ever since. I also joined the local Chamber of Commerce and created a brochure that the Chamber displays. HomeAway.com's owner community channel provides tips on renting a vacation home.

I put a lot of care into writing the description of our log cabin so viewers could understand what is special about it. My husband, with a little help from me, family and friends, built this 2,200-foot cabin near Black River Falls, Wis.

I reply personally to queries, and I try to make the visit so memorable that people will want to return. Everyone gets a loaf of homemade bread, a chocolate mint on their pillow and high-quality sheets.

It's essential to screen guests. Although I communicate by e-mail with most of my guests, I always talk to them at least once on the phone. I also collect the date of birth on the rental agreement of the responsible adults staying at our cabin, so I can do criminal searches. The dates of birth are also useful if I want to send a postcard reminding guests that they could celebrate their birthdays at the cabin. I collect a \$200 refundable damage deposit. My housekeeper checks out the cabin after everyone leaves and lets me know if there is any damage or missing items.

As with any e-commerce, scammers are bound to find you. HomeAway.com provides advice on screening guests and spotting scams.

So far, our guests have been wonderful and have appreciated the love and care we put into designing, building and decorating the cabin. We experienced only two minor problems. Someone broke a drinking glass and told us about it. No big deal. Then, a chocoholic guest raided our private cupboard and ate a whole box of chocolate mints. I never thought I would have to lock up the candy. **K** —**LEAH DOBKIN**