



Buying Vacation Rentals In Southwest Hotspots

By **JULIE BENNETT**

Pat Bone sits in her kitchen in San Diego and talks about the vacation home she and her husband, Bob, purchased in Taos, N.M., in 2003. The 3,300-square-foot house has gorgeous views, proximity to ski trails and, best of all, an agent who has rented it out 17 times in the past six months.

The short-term rental market is booming in resort areas like Santa Fe, Taos and Ruidoso, a picturesque community tucked into the Sacramento Mountains. While private-home rental has been a staple of beachfront areas like Cape Cod and the Hamptons for decades, unique forces are driving the phenomenon in New Mexico. Foremost is the surprising shortage of new houses. Although the state's total population, of 1.8 million, makes it seem undeveloped, many communities have imposed strict "no growth" policies. "To call yourself a real-estate developer in Taos is akin to being a leper," says Evan Blish, of Pinon Investments, who has been a Realtor there since 1979.

As in most Southwest states, the scarcity of water restricts new construction in some communities where it would otherwise be welcomed. Vast swaths of New Mexico's mountains and forests are controlled by American Indian tribes or the federal Bureau of Land Management and can't be developed at all.

But it is the communities of Santa Fe and Taos, rich with their histories of Pueblo-dwelling Indians, Spanish settlers and 19th century artists, that draw thousands of tourists who want to share in that mystique, no matter what the cost. A couple who visits from New York and can't afford to buy a house on Canyon Road, Santa Fe's exclusive, gallery-lined neighborhood, will happily pay \$700 to \$1,500 a night to stay there, says Neil Lyon, an associate broker with French & French Sotheby's International Realty in Santa Fe.

High-Style Settings

While frugal New Englanders strip their Cape Cod cottages of valuables before rental season, New Mexico vacation homeowners tend to lay on the luxuries. "I recently sold a house to clients from California who paid just under \$1 million and are furnishing it beautifully, to make it available for short-term rental," Mr. Lyon says. "Some rental homes have half a million dollars' worth of art on the walls."

In fact, rental agents like Marilyn Proctor, leasing agent for The Management Group, Santa Fe say they'll turn down homeowners who want to rent out their houses "if the furnishings are marginal."

It's hard to quantify just how many well-appointed homes are available for rental in the area. According to the U.S. Census Bureau, New Mexico had 32,000 vacation homes in 2000. At least 2,000 of them are rented out by the seven property-management firms that are members of the Vacation Rental Managers Association in Santa Cruz, Calif. But Rosemary Sarka, administrator of the trade group, says her organization has no statistics on firms that are not among VRMA's 600 North American members. Some homeowners, like New York attorney Leslie Lewis, rent out their New Mexico homes on their own, via Web sites and classified ads. And many posh Santa Fe homes have casitas, or guest houses, on their property that owners may also rent out, says Mr. Lyon. "I'd guess the number of short-term rental homes in Santa Fe alone is somewhere between 300 and the thousands," he says.

Despite the demand, rental rates have risen by only about 10% in the past five years, says Ms. Proctor. "About 75% of our business is previous tenants and friends of previous tenants, and our philosophy is we like them to keep coming back and referring friends and family," she says. The median price of single-family detached homes sold in the last quarter of 2004 was \$375,000; the median price in 2003 was \$280,000, and in 2002 it was \$182,800, amounting to a 51% increase in less than three years, according to the Santa Fe Association of Realtors.

You'll Need a Property Manager

There's less guesswork about why owners rent their houses. A Midwest businessman, who asked not to be named, says he paid \$500,000 for a house in Taos where he spends about six weeks every year. "Why not recover most, if not all, of my expenses by renting it the rest of the time?" he asks. Mrs. Bone says that turning her house over to a property manager provides a great level of security when she and her husband aren't around, plus enough income to defray about half their expenses.

Homeowners pay for that security. Ms. Proctor, whose Management Group acts as an agent for 80 Santa Fe-area houses, says homeowners pay her firm a 25% commission on all rental income. In exchange, "we're on duty 24/7," she says, "to book guests and check them in and out, to see that the windows are washed and snow is shoveled, and to call in a repairman when the roof leaks or the dishwasher breaks."

And to smooth over glitches. Cindi Clayton-Davis, president of Condotel Corp. in Ruidoso, a 13-person agency that oversees the rental of 175 privately owned houses, cabins and condos, says one renter entered a house recently and discovered that the confused homeowner was also there. "We always have a back-up," she says, "and moved the client to another unit."

Interest in investing in vacation rentals has grown so much, says Ms. Clayton-Davis, that house hunters often come into her office with a listing sheet and ask, "How much can I make from this property?" before they buy it. "I tell them that we rent out the average house for 100 nights, but that certain ones are rented up to 220 nights," she says. "Of course, it depends on whether homeowners want to come here during prime time themselves and if the house has wonderful amenities, like hot tubs

and cappuccino machines. Our most fabulous property is a four-bedroom four-bath home with spectacular mountain views and a path that leads to a gazebo with a fireplace in its own woods."

That house sleeps eight and rents for \$250 to \$500 a night, depending on the season. Two-bedroom Ruidoso condos start at \$100 a night, and all Condotel rentals require two-night minimums. In Santa Fe, where rents are higher and tourists must stay for a minimum of three nights, homeowners can expect to gross \$20,000 to \$80,000 a year by renting, says Ms. Proctor.

Some Caveats

But there are no guarantees, and Ms. Clayton-Davis tells those house hunters to buy a vacation property only "if they find it appealing and can afford it without renting it for a single night." All property managers warn vacation house hunters to steer clear of condo developments whose main selling point is their "great income potential for short-term rentals."

There are other drawbacks. Renting your house to someone you've never met is daunting and "it takes a real leap of faith for an owner to depend on a rental agent's ability to screen the quality of tenants," says Mr. Lyon. Your house will endure more wear and tear than if it stays empty. So far, the Midwest businessman says he's had very few problems in renting his Taos vacation home. "Only a few broken glasses. We did invest in high-end smoke detectors and an alarm system and must pay for rental-property insurance."

The tax rules governing the income you earn by renting out a vacation home are so complicated that it's important to talk to an accountant before shopping for a rental agent. And because the hot rental markets are during the winter holidays and spring-break weeks, you'll have to switch your own vacations to less desirable times. Paulette Steensen-Jacobs, the owner of Premiere Properties, a Taos management company, says that Taos Hacienda, one of the 98 homes she manages, "is so beautiful that it's rented out all year, at \$400 to \$900 a night. Since the owners couldn't stay in their own home, they bought another place."

But Ms. Proctor says such hardships are outweighed by the glamour of renting your house to one of the famous people who vacation in New Mexico. "Imagine telling your friends that 'Melanie Griffith, Meg Ryan or Billy Bob Thornton slept in my bed,'" she says.

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