

WHY HOLIDAY HOMES ARE THE NEW BUY TO LET

The new taxes on buy to let don't touch holiday lets, plus the income is higher and you can use one for your own holiday too

BY JOANNE CHRISTIE

LAST YEAR saw some nasty, unexpected surprises for the country's estimated two million landlords. In July, the government announced plans to curb mortgage interest relief for landlords and to scrap the wear and tear allowance, and then in November it announced a 3% stamp duty surcharge for anyone buying a second property.

The changes have left many wondering if property investment is still worthwhile, but there's one area of the market that has escaped the worst of the changes, and even provides some extra tax benefits – the holiday let market.

It's little wonder, then, says Michael Wright, director at property accountancy firm RITA 4 Rent, that there has been a surge in interest in investing in holiday lets. "There's been lots of interest generally about all the different avenues to explore to mitigate the fact the mortgage interest relief changes will be starting from next year. Furnished holiday lets is one area that is growing in popularity," he says.

HOW THE TAX ADVANTAGE WORKS

Holiday lets are viewed by HMRC as a trade, not an investment, so not only will all mortgage interest costs remain deductible from any income, but there are also capital allowances available that are more generous than the wear-and-tear allowance on buy-to-let properties ever was. Plus, there's the opportunity to roll over any capital gains – if you sell

a holiday let and buy another commercial property, any gain from the first can be deferred until you sell the second.

From a tax perspective, you'll only be able to make use of the more favourable tax rules above if you purchase a property in the UK or European Economic Area, says Mr Wright. However, if you buy in the UK the 3% stamp duty surcharge applies to holiday let purchases if you own any other property. Outside the UK, the stamp duty rules of the country you're buying in will come into play, but be aware that while the UK government can't make you pay the additional stamp duty on the purchase of a property abroad, it can make you pay an extra 3% when you buy your first home in the UK if you already own a property abroad.

But there are strict criteria you need to meet to have a property treated as a holiday let by HMRC and if you don't, you'll have to pay tax as if your property is a standard let, regardless of what you use it for, says Mr Wright.

"A lot of people don't fully understand what makes a property able to be classed as a holiday let," he says. "There are three conditions that you have to meet. It has to be available for at least 210 days per year, it has to be actually let for at least 105 days and you can't have any periods of longer-term accommodation – 31 days at a time – that add up to more than 155 days. It is trying to stop people getting around the system by renting it out more like a standard buy to let, but calling it a holiday let."



Unlike buy-to-let
properties, holiday lets
are not viewed by HMRC
as an investment





Above left: Vanessa Warwick, landlord and founder of Propertytribes.com

GOOD LITTLE EARNERS

Tax changes may have provided the recent impetus, but some landlords recognised the potential of holiday lets long before this. Vanessa Warwick, a Guildford-based landlord and founder of landlord property forum PropertyTribes, is among them. She bought her first holiday let property in Camber Sands in East Sussex eight years ago and also owns another on the Isle of Portland in Dorset.

"We decided to get into holiday lets because we'd already established quite a significant portfolio of single occupancy buy-to-lets and we felt it was a good time to diversify away from that to mitigate risk. We also predicted that the Great British seaside holiday would come back into vogue and that holiday lets would be a growing area," she says.

"Typically, whatever rent you can get for a single occupancy property for one month, you can get the same amount for a holiday property for one week, so if you get your occupancy levels very high you can certainly deliver very nice cash flow."

But Ms Warwick says it takes more money to set up a holiday let and longer for it to become established than a standard residential property. "Many standard buy to lets are unfurnished, but with holiday lets you have to buy everything down to the last teaspoon."

"Initially, it can take a while to get traction in the marketplace because people are looking for things like TripAdvisor ratings. But over time our occupancy has improved. We are pretty much fully booked from May to October, and then we get Christmas and New Year and bank holiday bookings as well."

Brian Sceats, who worked in financial services marketing before retiring, bought his first holiday let in Marbella, in southern Spain, before purchasing properties in Antigua and Yorkshire.

"Initially we bought them as holiday places for us to visit, but because we didn't have time to use them

"With holiday lets, owners have to buy everything down to the teaspoon"



Brian Sceats, property owner

How to market your holiday let

Once you've found a property, you'll need to decide how you'll rent it out. You could set up your own website and self-manage your property, use an agency, or use a platform for holiday let owners, such as HomeAway or Airbnb.

Airbnb charges a 3% commission, while HomeAway charges 8%. Both also charge fees to guests, however, so this could limit the amount you're able to charge.

If you'd prefer to use an agency, there are lots of companies that will take over management of your property for a commission of about 20% to 30%. While that may sound steep compared to the DIY options, many holiday let owners feel they couldn't achieve the same level of bookings without agencies.

"If you find the right agent, they are worth their weight in gold," says Vanessa Warwick. "Unless you are living within five minutes of your property I would think you would have to have it fully managed. Ours are a long way from us, so it would be unrealistic for us to manage those properties."

Brian Sceats agrees but says outside the UK, good agencies can be harder to find, which is one reason he has leased his Antigua property back to the company he bought it from in a guaranteed rent deal. For his Yorkshire property he uses agency Sykes Cottages, which typically charges owners a commission of about 20% of each booking, but in Spain he hasn't been able to find an agency he's confident can gather the same level of bookings.

"One of the benefits of using an agency is that you haven't got the hassle of dealing with enquiries and people phoning up

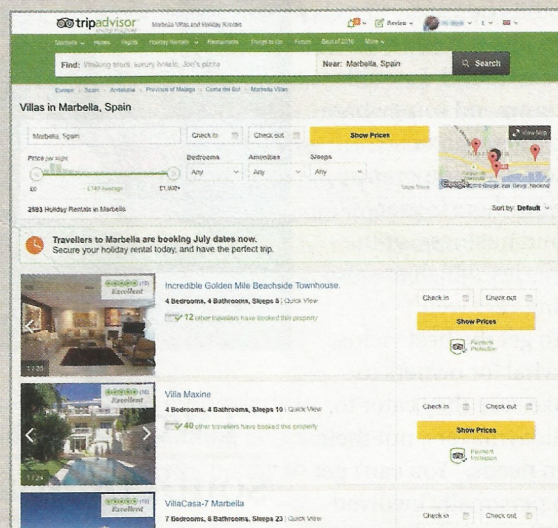


and saying 'what's your best price, can you reduce it?' as they tend to do with the Spanish one," he says. "If there was an option for me to

use something like Sykes in Marbella I would do it, but while there are lots of little companies out there that say they can do the same thing, they haven't got the internet presence, which is really important now. So we do a combination of things: we have our own website, which we don't get much through, we use TripAdvisor, which does get some enquiries because it is a massive company, and we are also registered with a couple of small local companies over there as well."

Ms Warwick says the multi-pronged approach is the best way to get good returns from a holiday let: "Choose a diverse number of channels to distribute. A lot of owners will

just go with one local agent and one big platform, whereas it is better to try to diversify that exposure and get as many different ones going even though you may only want to fill 13 weeks a year. A local agency will be very focused on the local market and you want people coming from as many different areas as possible."



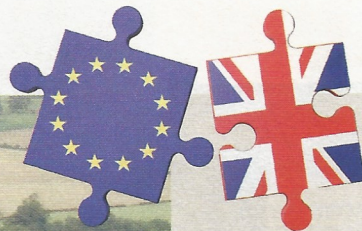
as much as we ought to we decided to utilise the assets and start renting them out," he says. Brian has previously owned buy-to-let properties and student lets, but decided to sell his other properties several years ago.

"You hear all sorts of horror stories on television at the moment – you get people not paying the rent, trashing properties and using the law to try to get out of it. We did have some problem tenants with student lets so that's why we decided to get out of that. With holiday lets you always get the money upfront and while there is more work to do, the yield is generally higher."

BEST WAYS TO BOOST YOUR BOOKINGS

To increase your chances of getting year-round bookings, Ms Warwick advises choosing an area with weekend break potential. "My advice would be to buy somewhere within a one-and-a-half hour drive of a major city so you get the long weekends market, meaning people can be on the patio drinking a glass of wine within an hour and a half of leaving the office," she says.

Adam Walsh, commercial manager at Interhome, a holiday let property platform, has similar advice. "Most holiday destinations are quite seasonal – that may well suit an investor because when it is



WILL BREXIT

BY HANNAH NEMETH

It is unclear how the Brexit outcome of the EU referendum will affect property investors considering buying in the EU. However, the initial reaction from companies that specialise in marketing properties abroad is that little will change – except for a weaker sterling making it more expensive to buy overseas.

Andy Bridge, managing director of A Place in the Sun, is confident that Brits will continue to buy homes in EU countries. He says: “Those who are looking to purchase a holiday home overseas, after an initial hiatus, are likely to see that owning a property in the EU will only be marginally more complex than it is currently.

“Residents of the US, Canada, Russia and many other nationalities own properties throughout Europe, so while it may become slightly more complex for Brits, clearly we won’t be prevented from owning property in Europe.”

Recent research by A Place in the Sun found that nearly half (48%) of those currently considering a purchase abroad would continue with their search if we were to leave the EU. “It is expected that this number will be much higher after the first few months and Brits reignite their desire to own a property overseas,” says Mr Bridge.

TWO YEARS TO COMPLETE PURCHASES

Buyers looking for a property in the EU have two years to complete their purchases while a Brexit strategy is planned. Branson Atterbury, marketing director at Kristall Spaces, which specialises in developing and selling ski apartments in Austria, says: “If Article 50 is triggered, we predict no change for the following two years as we negotiate our exit and trading relationship with the EU. Purchases before conclusion of the exit will not be affected retrospectively.”

empty they may plan to use the property. But somebody who wants to buy a holiday property as a pure investment should choose an area where business is year-round. I would recommend somewhere like the south of Spain, where the temperature means there is year-round business, or the Canaries, which are also doing very well.”

To get the best yields, it’s vital for owners to make sure they cater to holidaymakers, not their own needs. “You can’t get too personally involved in the property,” says Ms Warwick. “You have to design the inside and kit it out as a mini hotel as opposed to a family home. If you want to live there yourselves in a few years, you can kit it out as a home then, but for now you need to think of holidaymakers.”

HOW TO FUND YOUR HOLIDAY LET

You’ll need a similar level of deposit, about 25%, to buy a holiday property as you would a standard buy to let, but the number of lenders offering holiday let mortgages is smaller and other requirements can be more stringent, says Simon Collins, product technical manager at

“I would recommend the south of Spain, where the temperature means there is year-round business”

mortgage broker John Charcol. “The rental calculation does tend to be higher.”

He says that an average debt-service coverage ratio (which shows the proportion of income to the cost of servicing the mortgage debt) for a holiday let will probably be about 130%. The mortgage debt used for the calculation is based upon standard variable rate plus 1%.

“There are not a huge amount of lenders doing holiday lets, but there are a reasonable amount,” he says. “There are none of the really big names – probably about the biggest name in holiday lets is Leeds Building Society.”

Leeds’ product offers specially designed mortgages for holiday homes in England, Scotland and Wales.

Another complicating factor for those planning to use their holiday property themselves is that many holiday let mortgages don’t actually allow owners to



AFFECT BRITS BUYING HOMES IN THE EU?



He advises: "UK buyers should always consider the sterling/euro exchange rate to ensure they negotiate a good deal when converting their currency, but there are many outside factors which affect the exchange rate and we predict sterling will strengthen once the uncertainty has been removed.

"Non-EU citizens are already buying our Austrian properties: should a UK buyer's status in Austria change once we have left the EU, non-EU citizens may buy Austrian properties through limited companies with a registered office inside the EU and there is no requirement for the shareholder to be a European citizen.

"Furthermore, with 1.2 million UK citizens living in EU member states and 2.9 million EU citizens living inside the UK, we predict both the EU and UK governments will agree a fair deal for both sides without delay."

John May, director and co-founder of

"Always consider the sterling/euro exchange rate"

Sell4LessSpain.com, says: "After a shock result in the European referendum UK property owners in Spain will now be worried about their investment and whether they will be able to sell in the short to medium term.

"We expect prices to fall across the board, but there will probably be a slight correction with the expected increase in the strength of the euro against a decrease in the value of the pound."

DIVERSIFY YOUR PORTFOLIO

Erna Low Property, French Alpine property specialist, says that buyers must resist the urge to panic, as there will be no change to buyers' conditions right now. Its director, Francois Marchand, says: "We are sure that there will be no change in buying costs for those looking to buy property in France, and there are no planned changes in taxations for the income made from property rentals, as well as no difference in capital gain tax – as of 1 January 2015, a single rate was applied for EU and non-EU members."

He adds: "In time, UK residents might be limited regarding the amount of GBP investments and the amount of wealth that can be sent abroad when a new government is in. A safe investment risk strategy has always been to diversify your portfolio.

"It will make no difference for our clients investing in a French property – whether they have bought, are planning to buy, or are currently in the process of buying a property in France. The mountains were there before the EU existed, and they will be there tomorrow to welcome any international property investors, part of the EU or not."

stay in the properties. Market Harbourough Building Society, however, has a 'second home' mortgage that lets owners stay in the property themselves and rent it out for up to 24 weeks a year.

CAN YOU TURN YOUR BUY TO LET INTO A HOLIDAY LET?

With the tax advantages of holiday lets becoming increasingly clear and the popularity of websites such as Airbnb seeing more tourists opting to stay in apartments rather than hotels while visiting city centres, some landlords have been toying with the idea of converting a rented property into a holiday let.

But it may not be easy to change your mortgage, says Mr Collins. "Lenders will be a bit wary if somebody is trying to claim a one-bedroom flat in Peckham is a holiday let."

There are other hurdles if you own a flat, as your lease may prohibit any form of letting other than

assured shorthold tenancies. And particularly in London, some councils require planning permission to change the use of a property permanently to a holiday let.

But there are circumstances where changing the use could work, says Mr Wright. "Somewhere like Edinburgh, where there are lots of tourist attractions, there could potentially be a holiday let market there."

Whether you're considering purchasing a holiday let or changing an existing property into one, it's vital to do your homework on the area, the demand and the competition. And since it could be argued a few short breaks are the best way to research this, you may well find that due diligence suddenly seems a lot more appealing than it has for other investments. ■

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